



Public Affairs in China

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Today's presentation

- **Situation introduction**
- **Some public affairs considerations in China**
- **General recommendations**
- **Thoughts on conducting China public affairs amid U.S.-China tensions**

MNCs in China are facing toughening **geopolitical headwinds**, a **tightening regulatory environment** and **shifting stakeholder expectations**

- China remains an unfair playing field in most industries
 - Companies that have been in China for decades are now losing market share and facing an increasingly hostile environment
 - Yet, companies are wary of voicing their grievances for fear of being singled out
- National security has emerged as a central issue
 - Technology decoupling will continue at pace increasing regulatory and operational burdens on global business
- Inconsistent interpretations of some laws makes the Chinese business landscape difficult to navigate

It's not about who you know, it's about **how you fit** into China's web of social, economic and political objectives

- The 2008 financial crisis marked a significant reconfiguration in the relationship between the Chinese government and MNCs
 - The days of 'connections' are long over
 - The Chinese government believes MNCs need China more than vice-versa
- Market access is not a gift
 - Multinationals are expected to actively contribute to government priorities and align with development initiatives.
- You must figure out where you can help achieve China's goals

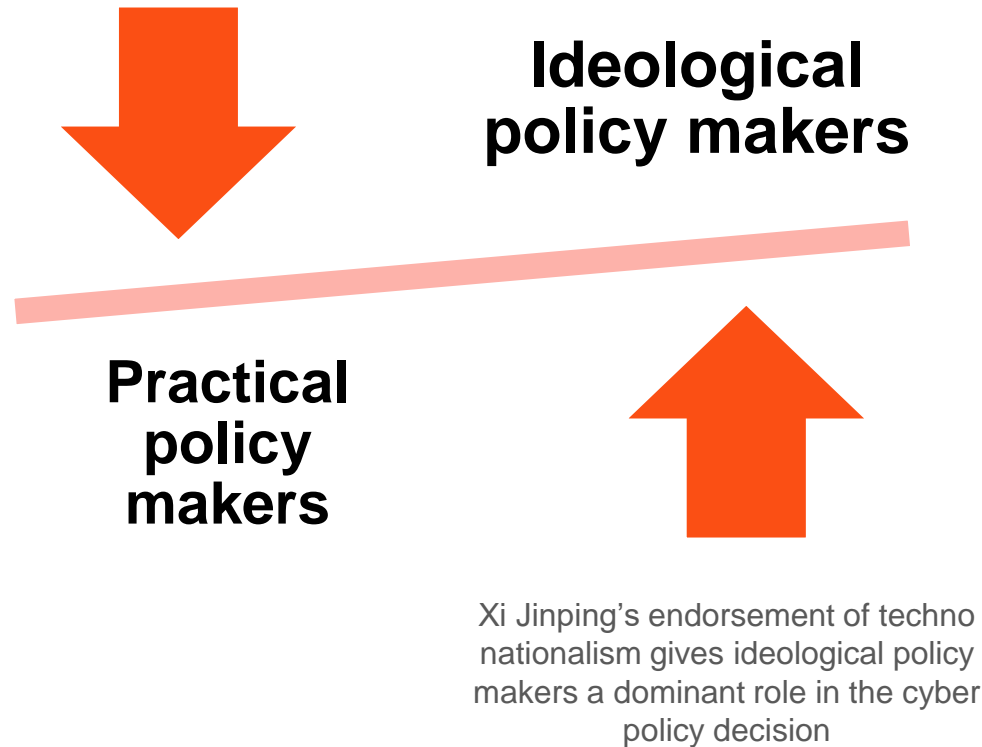
Challenges in China often depend on a sector's **strategic importance** and the presence of a **viable domestic competitor**

Stages of development in China's tech markets

Stage 1 Welcoming	Stage 2 Problematic	Stage 3 Difficult	Stage 4 Hostile
New or emerging tech sector	Local champions emerge	Sector identified as "strategic"	Viable local competitor
Favorable gov't incentives, subsidies	Pricing pressure	High level of gov't investment	Increased gov't oversight (raids, fines)
Limited or no local competition	Increased scrutiny concerns	National security	Removed from gov't procurement lists
China lacks IP	Legal disputes (IPR etc.)	Localization requirements	No licenses granted
	Consumer complaints	Forced partnerships	Access blocked
	Content controls	Technology transfer	Negotiated exit

Source: Caroline Pan, *Foreign Tech Companies: Alive In The Bitter Sea*, Gavekal Economics

Ideological decision makers and practical decision makers have significantly different views of MNCs and objectives



Factions	Agencies	View
Ideological policy makers	Part-led organizations such as the Department of Propaganda and CAC leading the operation of the cybersecurity working group.	Only domestic products and Chinese content are safe. Foreign products, technology and content should be limited.
Practical policy makers	Industry regulators often narrowly prioritize developing their sector. They are also the most familiar and immediate regulator for foreign companies. Examples include the Ministry of Industry and Information Technology (MIIT) and the Ministry of Commerce (MOFCOM)	Companies should be evaluated in their ability to serve the industry. Foreign products and technology are not necessarily less secure than domestic products.

General recommendations

- Be clear-eyed about your contributions to China's market
 - Don't preemptively give away more than needed
- Make incremental investments/partnerships based on an assessment of your industry position in China vis-à-vis the domestic competitors
 - Chinese officials are hard pressed to deliver results amid an increasingly difficult external environment
- Stay close and relevant to the Chinese market
 - The voice of the domestic industry is a fundamental factor in the formulation of China's industrial policies
- Build institutional relationships
- Build and leveraging third-party allies
 - Establishing relationships with third-parties, such as academic institutions, think tanks and industry associations, provides another channel for advocacy with government regulators

Navigating U.S.-China tensions

- Consider your public affairs in the context of U.S.-China – “What happens in China, doesn’t stay in China”
- Nationalism and different interpretations of U.S.-China relationships creates misunderstanding between teams
- Avoiding geo-politically sensitive issues is increasingly difficult as conflicting pressure mounts from consumers, government and activists

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