Lonnie Frisby: Welcome back to Navigating Business. I'm Lonnie Frisby, Head of Communications for Commercial Banking in Asia Pacific and continuing on from the last episode, I'm again joined by Sandeep Uppal, our global co-head of international subsidiary banking.

Today we'll be looking at the impact of the current pandemic and the predicted changes in global investment and how this is driving businesses to reshape their global strategies. To share his insights on how this will impact the way international businesses operate, I'm delighted to welcome Sandeep.

Lonnie Frisby: Now, Sandeep, your focus is on working with these multinational corporations. Are you seeing a growing trend of businesses reshaping their global strategies? And I guess if so, what are the motives behind this decision, and can you share some examples?

Sandeep Uppal: So Lonnie, for any business, changes in the business environment, economic environment, political environment is a good spot to review and change global strategies. So we are seeing that play out across boardrooms for the multinationals. So if I take as an example, Asia would be a good one because for most multinationals, that is a very key focus.

And if we look at Asia, I am sure we come across and the audience would have come across the phrase, "Pivot to Asia." Now that's increasingly quite catchy, but we must remember that many multinationals have been investing in Asia for decades. Having said that, the difference is that this time around Asia is no longer the factory of the world, but it is increasingly the mall of the world. Now that's a huge shift because they're looking at Asia not just for production, but also as an attractive market.

So when MNCs produced in Asia, it was operationally important, but now that they sell in Asia, it has become strategically important. That has led to many changes. One is that really at a board level, Asia is a huge factor. Secondly, we have experienced that rather than, let's call it the operations managers being based in Asia, now we've got senior leadership of multinationals based in Asia because that's the growing market.

And we're seeing great examples of it around Asia. What's been in the media recently was Tesla's factory in Shanghai. Now, that's a great example of a US company looking at the Chinese market, the attractiveness of the Chinese market and instead of doing outright exports would say that we'll set up operations, set up shop, and produce cars in China for China.

Now this poses an interesting question for some of the traditional Western multinationals as they both produce and sell in Asia. So overtime, do they become an Asian company?

Now it's not easy to answer it today, but another trend may help us answer it in the years to come when some of these companies start to list and raise equity in Asia. It would then become quite difficult to put a passport to these multinationals. Now for some of them, it may not be a bad thing because it allows them to navigate some of the geopolitics by being citizens of the world. In 2019, as an example we saw a large UK multinational appliance company who had always produced all their production in Asia, increasingly half the sales are in Asia and guess what, they moved the headquarter from UK to Asia. So that's a great example that do we call that a UK company or an Asian company?

Next few years would be a good one to see how this trend plays out.

Lonnie Frisby: It's an interesting question indeed. At the heart of globalisation, it really has been a greater independence between firms and nations. But that's also made them more vulnerable to unexpected shocks. How do you think the pandemic is really changing this notion of interdependency?

Sandeep Uppal: So Lonnie, if you look at it along with globalisation, another buzz word which was being used by multinationals is scale. And because of the word scale, that led to too many multinationals putting all their eggs into one basket. Now that was not a risk then but is a risk now. This not just applies to production, but at times, certain multinationals were too heavily dependent on one market for the sales as well.

Now multinationals were complacent in the past and concentration risk was not that much of an issue. This is no longer true. COVID has exposed that but so have the political tensions. So what we find is that multinationals are looking much more to diversify markets as a hedge to these risks which are emerging.

Now we spoke about earlier, geopolitical tensions, trade tensions, etc, number of multinationals have also adopted what we've seen and what they call as the China Plus One policy.

Lonnie Frisby: Can you explain what that China One Plus policy is?

Sandeep Uppal: So if we step back and again I go back to the stock of FDI which I referred to, if we look at multinationals over the course of history, cumulatively they have invested over US$1.6 trillion into China. Now those are productive assets already sitting in China. So while they adopt a China Plus One policy to diversify their production or sales, they still need to sweat those assets on the ground. So one of the implications we're seeing is that while we are seeing some manufacturing move into newer markets across Asia, Vietnam is a great example given the size and the platform they provide, but at the same time what we're finding is that multinationals are also using their assets, their investments in China for what they call in China for China, which is they're producing increasingly products in China for the Chinese consumers and not necessary for exports only.

It also puts in question the multinationals model, which they follow traditionally over history, and that was that they would first export to a market**,** they would test and learn and then they would make that investment of coming onshore to produce goods locally.

Now increasingly with protectionism, countries are saying we welcome your FDI, but not your imports. What they've been challenged to do for multinationals is which is a higher risk strategy is that they no longer have the luxury of exporting goods testing the market learning but they have to go headlong by setting up production in that market. This obviously is testing their skills, testing their risk management, but we believe there is no turning back, and we will see that trend continue.

Lonnie Frisby: So I want to pick up on that with you a little more because these disruptions to global supply chains have really prompted many businesses to rethink their offshore manufacturing and business partnerships. As a result, do you see new opportunities for regionalisation or localisation in the post-COVID-19 era? And what do you think will be the most likely outcome?

Sandeep Uppal: Short answer is I see all of them. Just to elaborate while this would be a product trend, implications at a regional level, country level, company level could vary depending on the priorities for the region, country, or the market. At the same time, we should expect these trends which go a bit against globalisation to be shorter-term in nature. I see that as equivalent to a correction in the stock market, so we could see the stock fall, but globalisation and these trends will reverse out over the longer term.

In support, I again highlight that multinationals are too heavily invested globally, the US$32 trillion dollars of investments will ensure that while some of these trends are short term, over the longer-term, globalisation will march on. My interaction with multinationals as with many businesses does suggest that they have the business smarts. They ensure that FDI flows like water. End of the day they are entrepreneurs, they're looking for where the higher returns are. Cross borders at best is a business bump along the way. It can slow the flow, but it can't stop it.

I would compare it to trade. Theoretically, come 2021, trade could fall to zero. Every country could decide we're not exporting or importing and trade comes to zero. We can't see the same thing for investments because they're already made, so the US$32 trillion exists, we can't wish it away, that won't go away. And that is what will ensure that globalization continues and marches on.

Lonnie Frisby: So there is a lot for businesses to think about. Sandeep, what advice do you have for them as they really start to think about some of these pressing decisions?

Sandeep Uppal: As any environment which is disrupted would provide, I believe it's a really good time. Firstly, for every business especially the multinational to retest the business model to ensure it works, and it works well not just in their home market but works for them globally. The reason for that is there is no room for error. A weak global business model will eventually fall by the wayside.

Secondly, all multinationals need to ensure that they have sufficient resources to really back them up globally. We have seen and COVID has exposed that the cost of cross border business has only increased, and what we've been seeing as a trend is that cost of entering markets has increased. Thus, a global company needs to have all the resources, both financial and non-financial to make a mark in the world.

Thirdly, I would say look out for local competition. In most market it is formidable. It is formidable, not just for the brands they have locally but also the product capability.

So just because you're a global multinational, do not assume that you can capture a market solely on that basis. It is hard work. Multinationals should also digitalize the global operations, as that would make them both resilient as well as efficient.

Additionally multinationals need to be aware of the new risk classes, as I call them. One is rising geopolitical tensions, and that would require businesses to acquire new skills, which will allow them to maneuver these geopolitical tensions. Clearly there's increasing protectionism. How do you ensure that your company can get around those? Physical distance as the new management challenge is out there. How do you ensure that your strategy is able to account for this as a real risk to the business?

Having said all these, I would say that for a multinational it is really important to be optimistic because when you're looking at the world, one has to remember it's a population of 7 billion people who are largely young and growing and most importantly consuming, so go and sell to them.

Lonnie Frisby: Thank you Sandeep. Clearly there's a lot to consider. Thank you very much for joining us today and sharing your insight. In the next episode, we'll sit down with Ajay Sharma, our regional head of Global Trade and Receivables Finance here in Asia Pacific. We'll discuss the future of trade from supply chains and risk mitigation to the emergence of new technologies and sectors.

But in the meantime, for more insights from HSBC or to listen to this series, please visit business.hsbc.com.

Thank you very much for listening.