

COVID-19 Private Sector Group



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普华永道

COVID-19 Private Sector Group

Newsletter of the second meeting on 24 March 2020



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With the impact of the novel coronavirus outbreak on the economy and the society at large extending from the short-term shock to mid and long-term ramifications, and as the disease has begun to change people's values, thinking and behaviours with regards to life and consumption, social activities and their work, and drive the creation of a series of new technologies, new business formats and new industries, it is poised to, in due course, change the whole industrial ecosystems, or even the interrelationships between the supplies of goods, trade interactions and economic activities on a global scale. On 24 March, the COVID-19 Private Sector Group (CPSG) met again to discuss the global economic development trends, 5G opportunities and strategic transformation during the outbreak, focusing on the "Strategic Reinvention and Transformation of Business Enterprises under the Attack of the COVID-19 Outbreak". PwC, serving as the secretariat of CPSG, hosted the meeting and has compiled the key points and insights of the guests as follows:

I. The Economic Development Trends

(1) There is strong evidence of economic recession that calls for collective efforts from all countries around the globe to prevent depression

As COVID-19 become pandemic, about 50 countries have declared a national emergency, and these countries (including China) account for 50% of the global GDP. With international trade hindered, big businesses suspending their productions, and huge numbers of employees facing unemployment or temporary unemployment, the major economies around the world are more or less repeating the experience of China in January and February in their growth trends. The financial markets worldwide have experienced huge fluctuations, with a spiking VIX – the fear index. Although the governments have responded with fiscal and monetary policies one after the other, and international organizations, including the G20 and IMF, have launched joint response actions, the market concerns have been deepening in fear of a global economic recession. The IMF, Goldman Sachs, Bank of America and IIF, among other institutions, have lowered their expectations of the global economic growth, with many anticipating a negative growth in the global economy.

The discussions in this session have come to the conclusion that if the outbreak eases and the governments' policies have been properly implemented and proven effective, the global economy will begin to recover in the fourth quarter, but a global recession is all but unavoidable (with a growth rate of less than 2%), and

a top priority for countries around the world right now is working together to prevent a great depression (an aggregate decline of 40% over the years), which demands a greater level of government interventions and cooperation among international organizations.

(2) The Chinese economy is striving to get back on track, with export critical in shaping the economic growth

The outbreak severely dented the economic growth in China in February and March, but with the help of a wide range of policies, work and production have been returning to their routines in a solid and orderly manner across the country, and the economy looks set to pick up. According to the statistics of the Ministry of Industry and Information Technology, more than 90% of the industrial enterprises in leading industrial provinces have resumed their production, with more than 95% in Guangdong, Zhejiang, Shandong and Jiangsu. The implementation of the New Infrastructure initiative is an effective solution in response to the outbreak and economic downturn and to facilitate reforms and innovations, and it serves to illuminate the future path of the Chinese economy and provide a huge boost of confidence to all parties concerned.

A major point of view in the discussions is that in consideration of the impact of economic recessions in major economies around the world, external impacts are expected to be the major challenges facing China in the upcoming months. On the one hand, serious efforts should be stepped up to control imported cases, especially to prevent the secondary contagion that may be caused by the imported cases and may lead to a repetition of massive downtime in work and production. On the other hand, some businesses across the country have experienced declines in overseas orders, piling up of export goods that cannot be delivered, and receivables that cannot be collected. As the situation outside China can hardly recover in a short time, the restrictions on export shall continue into the second and third quarters, and export shall become a major factor in shaping the economic growth.





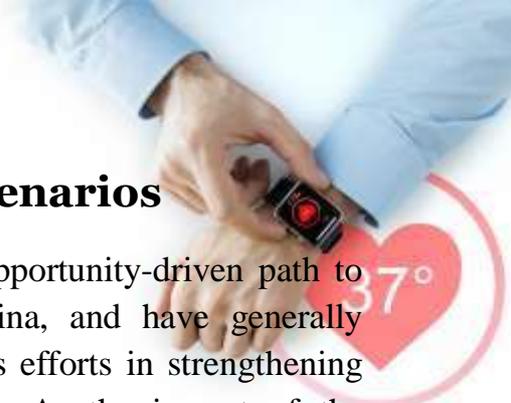
II. Strategic Transformation during the outbreak

The COVID-19 outbreak presents not only challenges to the business enterprises, but also countless potential opportunities for change and development. All business enterprises, regardless of which industry they are in, should make effective use of the regrouping time and market opportunities by virtue of the outbreak, realign their thinking with the new “strategic scenarios”, and embark on the second curve of development by re-inventing themselves.

(1) The outbreak can serve as an accelerator to facilitate business enterprises’ initiation of the second curve of innovation-driven new development

Looking within, the slowing down of the market development has offered the much needed time and space for business enterprises to reexamine their core values and strategic development directions, and address the weak areas that are part of the way of their doing business but do not measure up to development needs. The businesses need to do some gut check on their core values and missions right now without waiting for the external environment to fully return to normal, and dig deep to identify the drivers that will underpin their long-term sustainable development.

With respect to market opportunities, the general course of economic growth in China remains the same, and following the advances in technologies and changes in business models, new market space and new tracks will continue to emerge. The businesses in traditional industries may consider M&A opportunities to achieve strategic targets, including vertical integration, global expansions, conversion of products into services and vice versa, and synergies between online and offline businesses. For emerging industries, the technology-driven New Infrastructure initiative holds tremendous opportunities under favorable policies, and is set to bring about changes in industries fundamental to the people’s lives, including AI-empowered industries, AI-empowered agriculture, digitized public health, social governance, and education.



(2) Align your thinking to your strategic scenarios

In recent years, many Chinese enterprises have followed an opportunity-driven path to piggyback on the high-speed economic development of China, and have generally adopted a capability-centered strategic system that emphasizes efforts in strengthening their operating models, value chains, products and channels. As the impact of the outbreak extends to the medium and long term, the outbreak no longer represents a single event, but a series of changes in the survival scenarios of the business enterprises, and this requires the enterprises to adopt a strategic system based on scenario shifts.

Scenario 1: The enterprises need to take serious notice of the restructuring of the international industrial ecosystem to shift from a global strategy to a glocal one. In the past, people had been discussing how to go global and achieve optimal allocation of resources on a global scale. The COVID-19 outbreak has seriously challenged the cross-regional allocation of resources, and underscored the role a culture of a particular country or region may play in its management and development. In the latest round of strategic assessment, a more glocal strategy may be considered to more effectively diversify the risk. Many global enterprises, including Apple and Samsung, are making the shift from a more geopolitical perspective to a greater emphasis on the global synergy and resilience of their supply chains. In the revisiting of their strategies, many Chinese enterprises need to combine their innovative and technological strength with how they can optimize their global resources and advantages. One critical factor to consider is to reshape their supply chains to increase the weight of domestic supply chains and reduce their dependence on overseas supply chains.

Scenario 2: Chinese enterprises have a major task at hand in that they need to make diligent and unflinching efforts to promote innovation to help China evolve from Made in China to Innovated in China. The drop of 17.2% in export in January and February 2020 as compared with the same period last year was without doubt affected by the outbreak, but beneath the surface, a deeper cause should be pursued in relation to China's competitiveness in innovation behind the Made in China brand. The more complicated and challenging the market environment becomes, the more able the enterprises shall be to adapt and survive if they possess proprietary cutting-edge technologies and are able to continuously deliver innovations. Businesses engaged in simple and preliminary processing and manufacturing, such as the production of garments, are hit the hardest, while those producing high-tech products, such as AI-powered medicine-delivery robots, continue to receive orders. In responding to the prospect of a new global economic recession and the new challenges imposed by the outbreak on the sales and operations of the business enterprises, innovations, be they in manufacturing technologies, business models, operating formats or methods and processes, should be at the core when businesses redefine their strategy and implement transformation.

Scenario 3: The businesses should fully embrace the digital world as a twin of the real world to achieve full integration between their offline presence and online services. Those who had taken earlier actions to become digital and build their online presence before the outbreak have clearly suffered less in the outbreak. The future is without doubt a digital world, and digital technologies have not only changed the sales channels, but also the business scenarios and competition elements, and even the norms of the industries and societies. It calls for every enterprise and every industry to think and evaluate thoroughly how they can incorporate and make the best use of the latest IT and AI technologies, and webcasting, VR presentations, flexibility/agility should all be included as key components in their strategic upgrade.

III. The 5G Changes and Opportunities

As a critical component in the New Infrastructure initiatives of the state, 5G applications will bring about changes and opportunities that no enterprise can afford not to consider in their strategic repositioning. If 4G changed our lives, 5G shall change the very society we live in and will trigger changes in every industry and sector. As clearly stated in the Circular concerning the Acceleration of 5G Development issued on 24 March by the Information and Communications Department of the Ministry of Industry and Information Technology, efforts shall be stepped up to quicken the pace of 5G development geared to empowering the industries, increase diversified 5G application scenarios, and create new 5G+-enabled economic formats.

Opportunity 1: The New Infrastructure initiatives, championed by 5G, shall usher in new waves of infrastructure investments and constructions, and create significant market opportunities for the information and communications industries, especially telecom equipment enterprises. It's estimated that the 4G base stations and services in China account for 50% in the world, and China's 5G base stations will also account for about 40% in the world. According to the latest data released by China Mobile, it will invest RMB 179.8 billion in 2020 to build 300 thousand base stations in this year, and work to ensure 5G coverage of basically all urban areas in cities above the prefecture level across China. As discussed in this session, the construction of 5G base stations alone will enable the upper stream and lower stream of the industry chain to attract about RMB 500 billion investments, which will provide tremendous fuel to facilitate the growth of small and medium-sized enterprises as well as new entrants in the ecosystem.





Opportunity 2: The vertical industries of 5G and the derivative new business formats and applications shall become new economic growth points. Vertical applications of 5G will push the enterprises to upgrade themselves to become more web-based and IT-driven. It's estimated that investments to upgrade networking capabilities in the next five years alone shall exceed RMB 500 billion. The combination of the control system on the cloud end and the robots on the ground will greatly reduce the costs of enterprises in their 5G applications and tremendously speed up the 5G commercial applications. Real-time control of assembly robots makes it possible to achieve flexible or agile manufacturing to not only improve production efficiency, but be able to adapt the manufacturing methods to better meet the needs for personalization and customization, and it's getting real fast too, as the 5G factory of Mercedes-Benz is getting ready to go live. There have already been a host of applications that are breathing new life into various industries and sectors, such as the intensive deployment of unmanned operations in ports and similar places, stronger haptic and visual capabilities providing double safeguards to deliver more precise remote medical services, remote control of vehicles offering a new solution to mining and similar high-risk industries, and drone-based high-voltage line maintenance systems that may reduce the cost of operators by 30%.

Opportunity 3: The post-outbreak accelerated building of AI-enabled society will provide a bigger arena for the information and communication industries. The online-only economy, no-contact services, and automation economy that have quickly taken shape due to the COVID-19 outbreak, will also provide huge space for expansion to the lower stream of the information industry. VR provides a popular way for people to enjoy a panoramic view of the blooming sakura in Wuhan without having to step out of the door during the outbreak; in Korea, there are 1 million users who take advantage of the 5G technology to meet their favorite stars at home; and VR has been widely applied in education, with remote education becoming increasingly available and popular. In the future, there will be a lot more 5G applications in our society and lives, and smart agriculture, smart medical services, smart education, and smart city management, among other AI-enabled applications, will open up new markets, new tracks and new territories for the expansion of the enterprises.

The meeting calls for every business to look for opportunities from this crisis situation, and in doing so, embrace 5G in their strategies, piggyback on the new technologies and innovations, and further their strategic transformation and upgrade.

IV. Strategic Planning for AI

(1) From the lab into real life, AI breaks the bottlenecks in industrial development

Over time, many AI technologies have made the transition from the development environment into live environment in various industries, and have made huge contributions to businesses in improving efficiency and resolving difficulties in their development. The CPSG members share the stories of how smart driving technologies and systems have brought about amazing changes to the logistics industry. The logistics industry has long been facing some obstacles in their evolvement, including the heavy dependence on drivers, low efficiency in the fleet, and accident rates. By applying AI technologies to their accumulated knowledge in critical skills and operator experience and through iterative development, a new-generation smart logistic management has been developed. So far, the first smart trucks using full AI technologies and designed specifically for container shipping have been deployed at Tianjin Port, and have proved highly efficient in addressing a series of difficult issues facing the port in its transportation management, including the continued increase in labour costs and fuel costs and the inability to improve transportation safety and efficiency. Driverless trucks are estimated to be able to save 40% in fuel costs, which means a huge increase for the logistic industry with an average net profit of only 6%. As the lack of labour intensifies due to the outbreak, logistics-intensive sectors, including ports and logistics parks, are making earnest efforts to explore and adopt AI-enabled driving solutions.

All parties attending the meeting agreed that following the extensive applications of AI technologies, technology-enabled innovations shall become an increasingly important means to help tackle industrial development obstacles, improve efficiencies and unleash productivity.



(2) Create an inclusive corporate culture and embrace tech talents

Technological innovations are in essence the results of human creativity. Technological innovation teams are getting younger and younger, and enterprises should cultivate an inclusive culture to embrace these innovation-minded talents and create a favorable environment to allow them better unleash their creativity. A CPSG member shared its story about an engineering team with an average age of 27. Firstly, the engineers are a group of proud and hard-charging people, and a people-centered approach and a culture that respects creativity will be necessary and effective in motivating the engineers to scale one technical height after another. A leadership-driven approach may do a disservice in promoting innovations, as “leadership” implies that responsibilities are on the leaders, and this may lead to a “follow orders” mentality, which can hardly inspire the engineers to be creative. Secondly, the corporate culture for innovative talents should be geared to the needs of the enterprise. A “you can count on me” culture that promotes professionalism and accountability can make a difference, whether during general R&Ds and communications, or in responding to the COVID-19 outbreak and helping the enterprise to overcome the hard time. A robust corporate culture is the bedrock during a crisis, such as this COVID-19 outbreak, that inspire the people to be creative and help the enterprise to pull through the crisis.

The meeting calls out to every business to create a better cultural environment, to fire up the creativity of the technological talents, and deploy new technologies quickly. Technology is like a fast incoming train which seems far away you can hear its coming, but as you question its viability and hesitate as what to do, it thunders past you in a blink.

We express special thanks to the following special guests and representatives of the CPSG member organizations who shared their insights in the second meeting:

Professor ZHANG Liqing, Chief Economist,

PwC China Tiger SHAN, Strategy& China

Leader, PwC

ZHANG Tianlei, President, Trunk Tech

WEI Ming, Executive Vice President, Ericsson China

