

Reorientations of firms in China, in the pandemic era

24th Annual Global CEO Survey China Report



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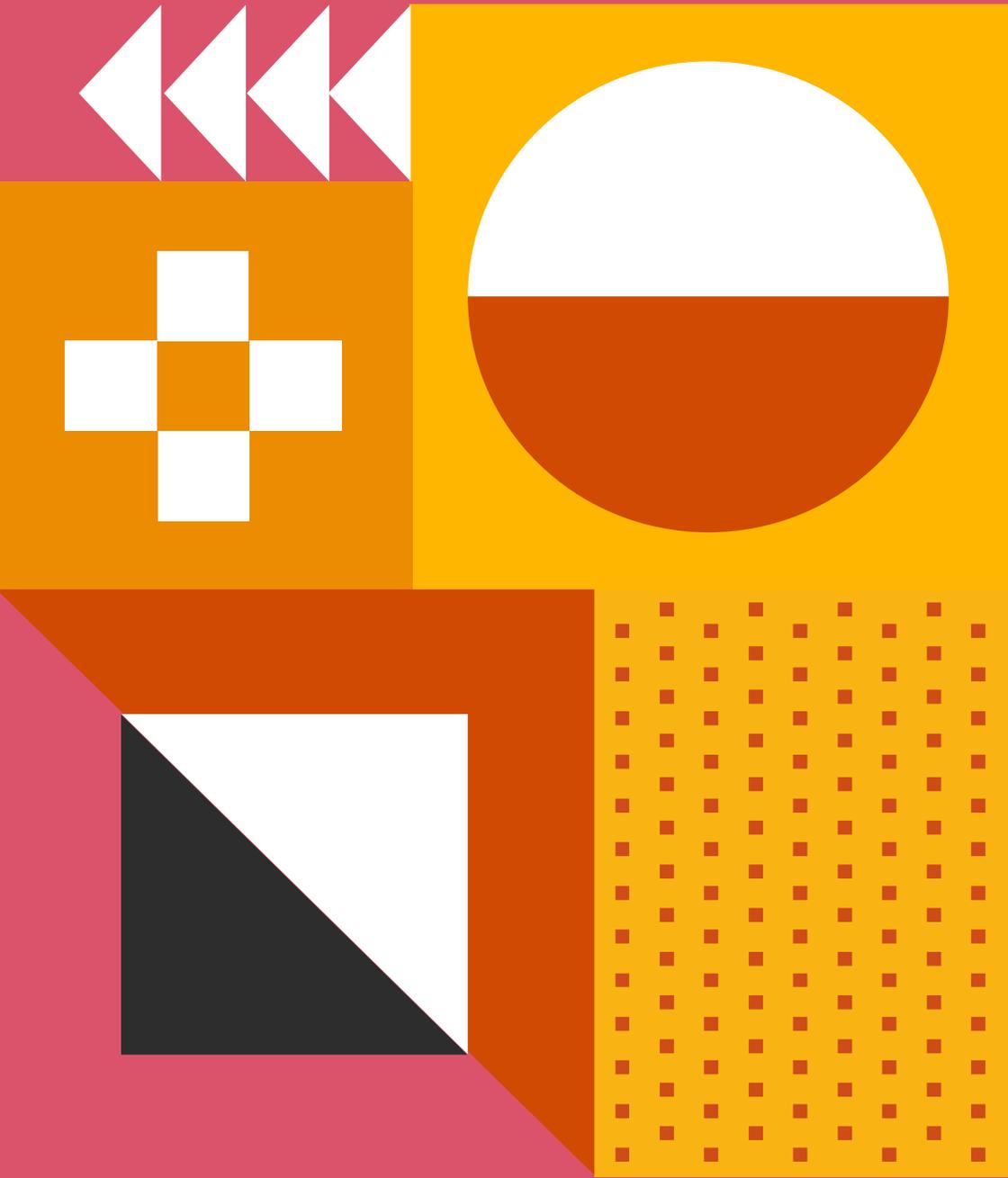
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Executive Summary

The COVID-19 pandemic has created an extraordinary year of challenges in 2020. Apart from the heavy toll exacted on human lives, the profound disruptions caused by the health crisis have been unprecedented. Global growth was estimated to have contracted by 3.5% in 2020, marking the worst recession for the world economy since the Great Depression, and is expected to grow by 5.5% in 2021.¹ Businesses are grappling with staying afloat, protecting their workforce, managing extreme supply and demand shocks and accelerating their own digital transformation.

The impact of the pandemic has prompted CEOs in China and globally to re-evaluate their decisions and reinvent their companies to mitigate disruptions to ensure sustainable growth of their business operations. PwC's 24th Annual Global CEO Survey, conducted in January and February 2021, sheds light on how executives are re-orienting their organisations in this challenging environment, managing risk and their future priorities.



The survey results find that:

CEOs in China are optimistic about global growth in the next 12 months, despite contraction in world economy in 2020 due to pandemic

With regards to their outlook for global economic growth in the next 12 months, the majority (71%) of executives in Mainland China expect global growth to improve; A record high of 76% of CEOs in Hong Kong and globally also expect global economic growth to improve.

Modest share of executives in Mainland China are “very confident” of their company’s revenue growth prospects despite global economic slowdown, supported by favourable policy measures

31% of executives in Mainland China are “very confident” in their company’s prospects for revenue growth over a 12-month timeframe (2020: 45%). A higher proportion (49%) feel this way for a three-year period (2020: 55%). This sentiment is being supported by favourable policy measures that will help to boost economic activity in the medium-term.

A similar proportion (31%) of executives in Hong Kong are “very confident” in their firms’ prospects for revenue growth over the 12-month timeframe and 29% feel the same way over a three-year period. Hong Kong’s economy saw a sharp year-on-year contraction of 6.1% in 2020 as a consequence of the pandemic. Consumption and tourism-related industries have been particularly hard hit.

Executives in China turn to Japan, Germany, and USA for overseas growth opportunities

The three countries (apart from China) that executives in Mainland China consider as most important to their organisation’s overall growth prospects over the next 12 months are Japan (33%), Germany and the US (31%).

CEOs based in Hong Kong view Mainland China (69%), the US (36%) as well as India, Indonesia and Japan (14%) as the main markets that are important for their overall growth prospects, while executives globally still prioritise the US (35%), Mainland China (28%) and Germany (17%).

In China, pandemic threat overshadows concerns over trade tensions and policy uncertainty as key business threats

In terms of top business threats to organisation’s growth prospects, for executives in Mainland China, the threat of the global health crisis overshadowed (China: 83%; Global: 91%) concerns over US-China trade tensions which dropped to second place on the list (China: 78%; Global: 66%) followed by policy uncertainty which ranked third.

Globally, the top three business threats cited by executives were pandemics (91%), cyberthreats (85%) and over-regulation (83%).



Threats explicitly factored into strategic risk management activities

Pandemics, trade tensions and availability of key skills are the top three threats that executives in China factored into their strategic risk management activities whereas their global peers are focused on pandemics, cyberthreats and speed of technological change as the strategic risk management activities.

Action on climate change is trailing as only 24% of CEOs in China and 40% of global CEOs have explicitly factored this threat into their risk management activities and this is of concern as exposure to climate change can cause business disruption and economic losses.



Cross-border investment is being directed to Asia-Pacific, Belt and Road countries or regions and the European Union

When asked about the regions that are CEOs' priority for outbound investments, CEOs in Mainland China opted for Asia Pacific (65%), countries or regions along the Belt and Road (57%) followed by EU (49%). Hong Kong based CEOs on the other hand targeted the Asia Pacific region (68%) and ASEAN countries more specifically (37%).

Firms are driving revenue growth in the next 12 months by building operational efficiencies, launching a new product or service, and pursuing organic growth. Entering into a new strategic alliance/joint venture does not appear to be a priority for executives in Mainland China as well as globally

To drive revenue growth in the next 12 months, CEOs primarily plan to seek operational efficiencies (Mainland China: 59%; Hong Kong: 52%; Global: 72%), pursue organic growth (Mainland China: 56%; Hong Kong: 60%; Global: 73%) or launch a new product or service (Mainland China: 58%; Hong Kong: 48%; Global: 56%).

Survey results found that fewer respondents plan on engaging in external activities such as M&A (Mainland China: 21%; Hong Kong: 29%; Global: 38%) or forming strategic alliances or joint ventures (Mainland China: 35%; Hong Kong: 40%; Global: 35%).

Long-term investments in the next three years focus on R&D and new product innovation, digital transformation and realising cost efficiencies

Prompted by the COVID-19 public health crisis, organisations are rethinking their long-term investments in the next three years. Investing in R&D and new product innovations (Mainland China: 70%, Global: 58%) was cited by a substantial proportion of executives in Mainland China, followed by digital transformations (Mainland China: 68%, Global: 83%), realising cost efficiencies (Mainland China: 65%; Global: 76%), and seeking organic growth (Mainland China: 65%; Global: 63%).

Increasing spend on cybersecurity and data privacy (Mainland China: 64%; Global: 72%) and increasing resource allocation to sustainability and ESG initiatives (Mainland China: 60%; Global: 60%) in the next three years were cited by a sizeable majority of executives in Mainland China but figured less prominently as a priority.

Innovation, workforce practices, purpose and values were the top three areas of impact to be measured and reported on

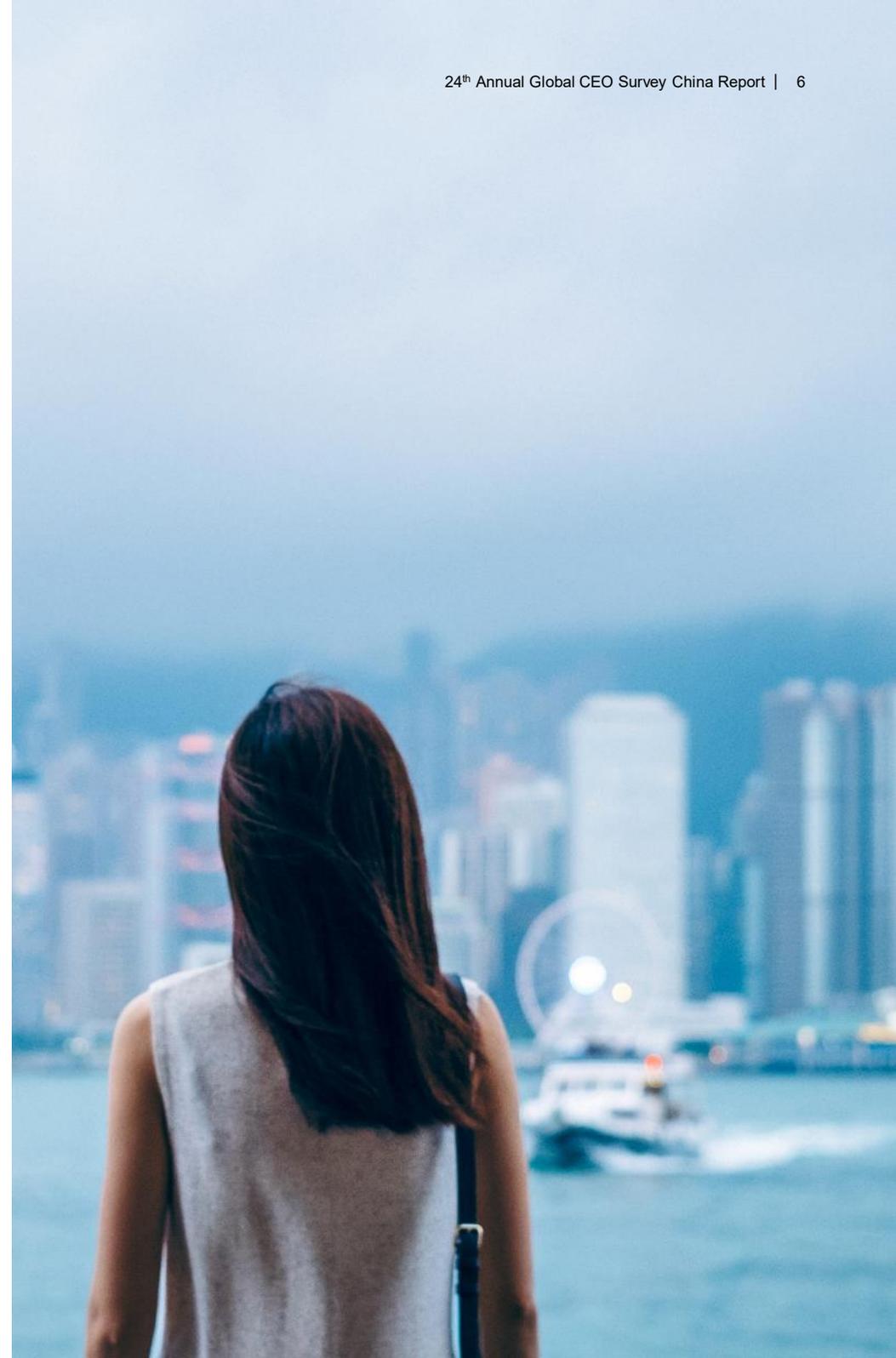
There seems to be a growing recognition of the importance of measuring what matters outside profits and traditional financial statements. In China, innovation, workforce practices, purpose and values were the top three areas of impact to be measured and reported on.

While 42% of executives in Mainland China are of the view that more measurement is required around “organisational purpose and values” paradoxically, only a third of CEOs in Mainland China seem to think that impact on communities and environmental impact should be an area of increased measurement and reporting; only 13% of executives in Mainland China are making an effort on workplace culture and behaviours, 15% of executives in Mainland China are changing their company’s reputation as ethically and socially responsible employers and only 18% are engaged in communicating and engaging with their workforce.

Executives in Mainland China were of the view that “greater income equality”, “the good health and well-being of the workforce” and “a diverse and inclusive workforce” were the top three outcomes that should be the priorities for business to help deliver

38% of executives in Mainland China responded that “greater income equality”, “the good health and well-being of the workforce” and “a diverse and inclusive workforce” were the top three outcomes that should be the priorities for business to help deliver.

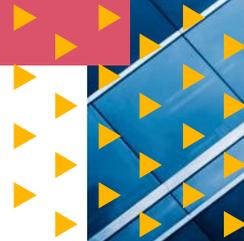
In Hong Kong, 64% of executives thought that “a skilled, educated and adaptable workforce” should be a top business priority compared to 35% of their peers in Mainland China; and 52% of CEOs based in Hong Kong thought that “the good health and well-being of the workforce” should be a top business priority compared to 38% of their peers in Mainland China.



Introduction to the Survey

The COVID-19 pandemic has accelerated the need for businesses to rethink and reconfigure¹ how they operate in order to remain viable amidst the challenging global landscape.² The survey covers CEOs' expectations for global growth as well as their firm's own financial performance in the short and medium-term. It looks at how CEOs are managing risk and shaping their long-term strategy and corporate purpose in light of the pandemic. The study also covers CEOs' views on the pivotal role of government and business in advocating for sustainable growth. It was conducted between January and February 2021 and interviewed 1,779 executives from 100 countries or territories and a range of sectors.

This is the China report which presents the views of 186 executives based in Mainland China and Hong Kong S.A.R. (Hong Kong). For the purposes of this report, "China" refers to the People's Republic of China, including Hong Kong survey respondents. Where there is a statistically significant difference in the survey results between Hong Kong and Mainland China, results are presented separately.



¹Refers to PwC's "Acceleration of ADAPT" diagram (Repair, Rethink, Reconfigure, Report). The ADAPT framework (Asymmetry, Disruption, Age, Polarisation, and Trust) was released in 2017 and refers to a set of urgent, interdependent, and accelerating challenges confronting the world.



Chapter 1:

Growth amid the “new normal”



CEOs in Mainland China are cautiously optimistic in the short-term

Given the public health crisis worldwide, economic growth across most major territories sharply contracted in 2020. Mainland China, the only major economy to report growth, recorded a GDP growth rate of 2.3% in 2020 as a result of the COVID-19 pandemic and subsequent control measures (relative to 6.5% in 2019).³ For the first quarter of 2021, China's economy grew by 18.3% compared with a year earlier, the National Bureau of Statistics (NBS) announced in April. Hong Kong's GDP shrank by 6.1% in 2020 (marking the sharpest contraction since 1985)⁴ before rebounding to a growth of 7.9% in the first quarter of 2021, according to the Census and Statistics Department on 14 May 2021.⁵ Towards the end of 2020, global sentiments were boosted on the back of progress relating to multiple vaccine approvals and rollouts, additional fiscal support measures in the US and Japan, and the adoption of regulation for the European Union's recovery fund (NextGenerationEU). These

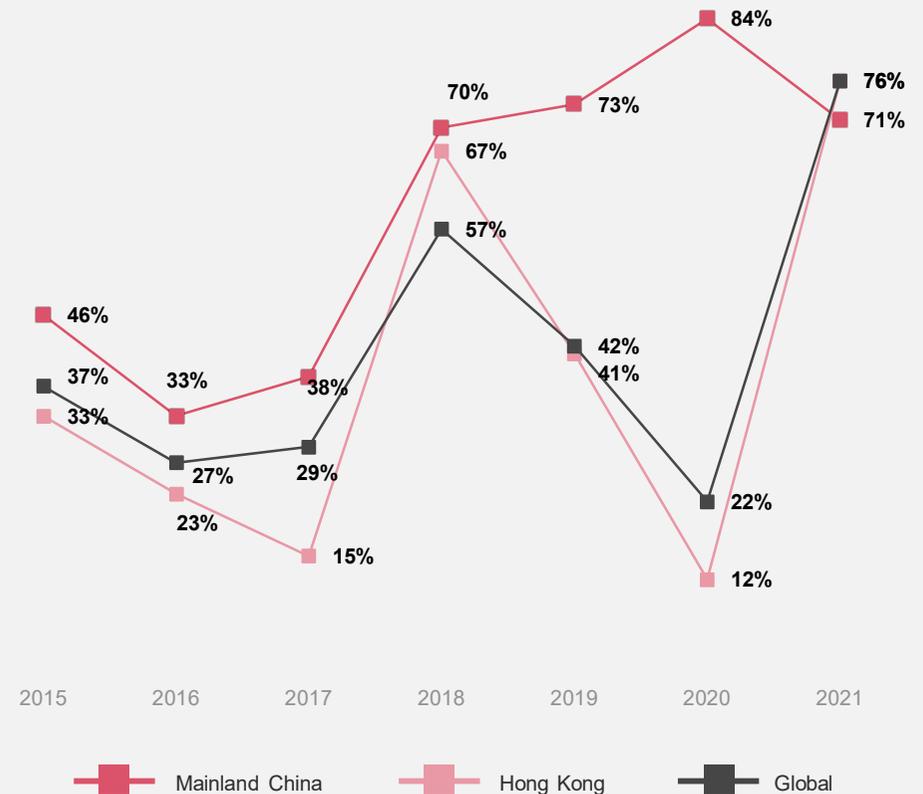
policy measures are expected to help to lift global economic activity in 2021.

With regards to their outlook for global economic growth in the next 12 months, the majority of CEOs (71%) based in Mainland China expect global growth to improve. This level of optimism has no doubt been tempered by recent events as 84% of mainland respondents had the same expectations in the 2020 survey (conducted in late 2019, before the onset of the pandemic).

Relative to last year's survey, Hong Kong and global CEOs' expectations of global economic growth have rebounded significantly. A record high of 76% of CEOs in Hong Kong and globally expect global economic growth to improve. Given the extreme contraction in the world economy in 2020, this is not surprising, however the rate and extent of global recovery still remains to be seen.

Figure 1

CEOs that predict global economic growth will improve over the next 12 months

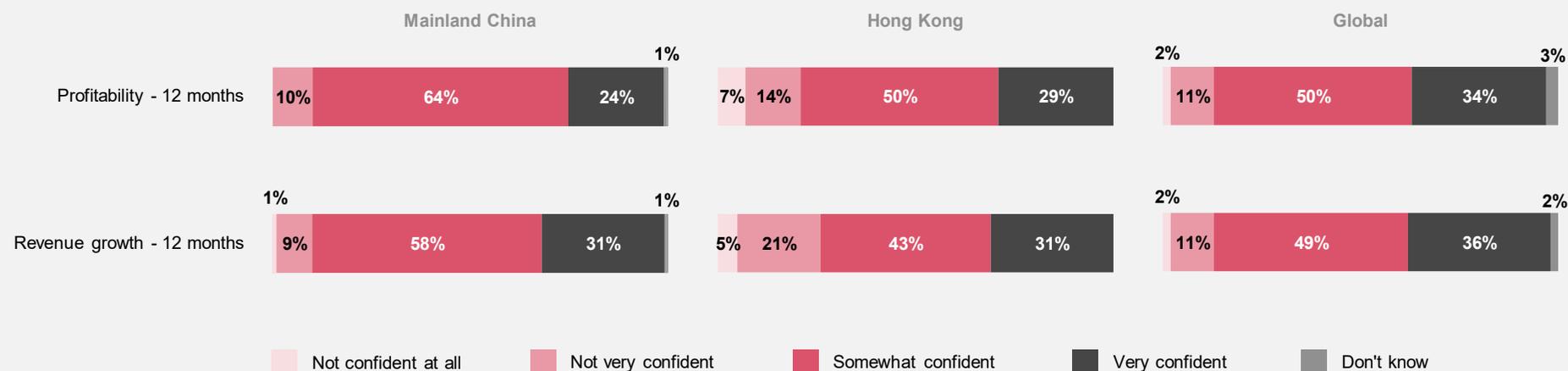


Regarding their outlook on profitability, 24% of CEOs in Mainland China are “very confident” about their firm’s prospects for profitability in the next 12 months. This figure lags behind the 29% of Hong Kong based CEOs and 34% of global CEOs who expect to be profitable in the coming year. The lack of assurance may stem from the fact that 33% of CEOs are from the industrial manufacturing sector, which has been significantly impacted by the pandemicⁱⁱ. Survey results also show that in the previous 12 months of the pandemic, 43% of the sample respondents reported a reduction in headcount, 17% reported an increase in headcount and in the remaining sample there was no change.

The contribution of the secondary industry to national GDP dropped by almost 3 percentage points in the first quarter of last year (relative to the same period in 2019).⁶ In particular, as the country-wide movements of goods and people was largely suspended in February 2020 (when the pandemic was at its worst), the manufacturing PMIⁱⁱⁱ dropped to a record low of 35.7%.⁷ This statistic has rebounded in subsequent months, however there is no doubt that demand for Chinese goods has taken a hit since the pandemic started. Particularly as many of the country’s major global trading partners are still early in their own recovery process.

Figure 2

CEOs’ level of confidence regarding organisations’ prospects for profitability and revenue growth over the next 12 months



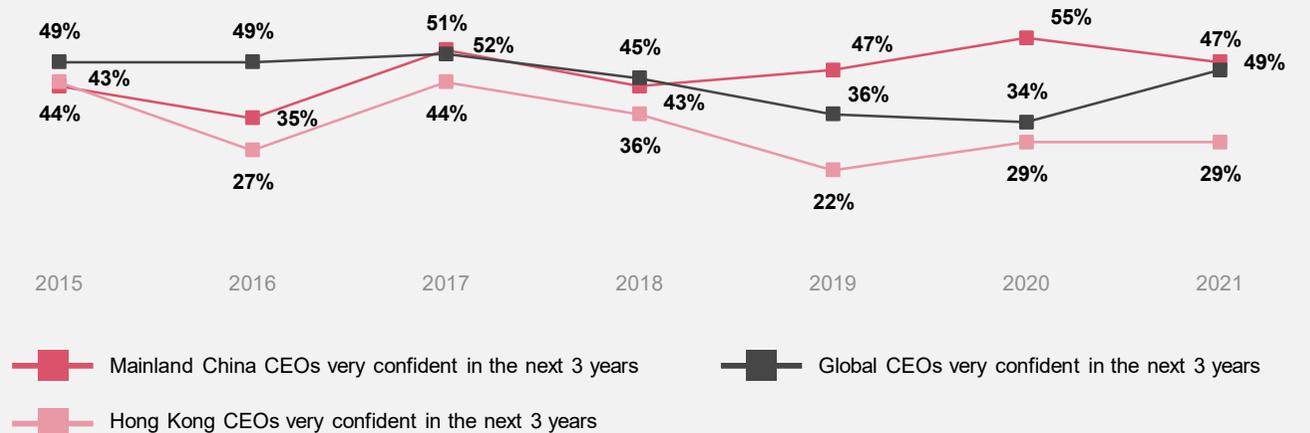
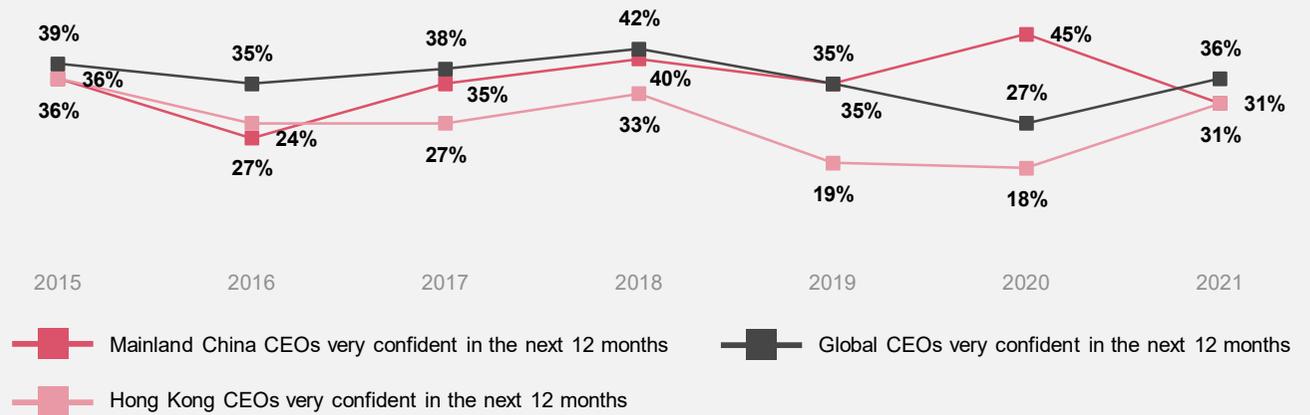
ⁱ While all industrial manufacturing firms have suffered, private firms (which account for 68% of onshore CEOs surveyed) have disproportionately felt this burden. According to the National Bureau of Statistics of China (NBS), the value added of state-controlled industrial enterprises contracted by 6% in 2020 while that of private registered industrial enterprises fell by 11.3%, nearly double this amount.

ⁱⁱⁱ The official manufacturing Purchasing Managers’ Index (PMI) in Mainland China is an indicator of industrial activity. The 50% threshold separates growth from contraction.

In terms of their organisation's prospects for revenue growth, 31% of CEOs in Mainland China are "very confident" over a 12-month timeframe (2020: 45%), while 49% feel this way for a three-year period (2020: 55%). While firms are still dealing with the impacts of the COVID-19 pandemic on their operations in the short-run, they are being supported by favourable policy measures that will help to boost economic activity in the medium-term. Survey results show that 78% of executives in Mainland China expect headcount to increase "greatly or moderately" in the next 3 years compared to 67% of their global peers.

Figure 3

CEOs who are "very confident" on the company's revenue growth prospects



The Chinese government cut taxes and fees to the tune of 2.5 trillion yuan (roughly US\$386 billion) in 2020, and preferential tax policies are expected to continue in 2021.⁸ On the lending front, banks enabled corporates to save 1.5 trillion yuan during 2020 by deferring principal and interest loan repayments, as well as reducing bank charges. Furthermore, outstanding inclusive loans to small and micro businesses reached 15.1 trillion yuan and increased by 30% during the 2020. Similar measures are likely to be adopted by the People's Bank of China with regards to monetary policy for at least the first half of 2021.⁹

Furthermore, during the annual Two Sessions political conference, the *14th Five-Year Plan (2021-2025)* and the *Long-Range Objectives Through the Year 2035* were confirmed. The key objectives in the plan includes the pursuit of a “dual-circulation economic model” which involves enhancing the

country's reliance on their domestic market (while still continuing to support international export markets).¹⁰ Other objectives include replacing high-speed with high-quality growth, enhancing supply-side structural reforms, driving innovation and technological advancement and promoting intelligent green production.¹¹

Hong Kong's economy saw a sharp year-on-year contraction of 6.1% in 2020 as a consequence of the pandemic. Survey results show that in the previous 12 months of the pandemic, 24% of the sample reduced headcount whereas 29% increased headcount. Consumption and tourism-related industries have been particularly hard hit.¹² The ongoing pandemic aside, Hong Kong's competitive advantages have been questioned in recent years due social unrest, policy uncertainty, rising competition from the Greater Bay Area and its rapidly ageing population.¹³

Despite the challenges of the past year, a similar proportion of Hong Kong based executives (31%) are “very confident” in their firms' prospects for revenue growth in the next 12 months. While 29% of executives in Hong Kong are “very confident” in their firms' prospects for revenue growth in the next 3 years, survey results also show that 71% of executives in Hong Kong expect headcount to increase “greatly or moderately” in the next 3 years.

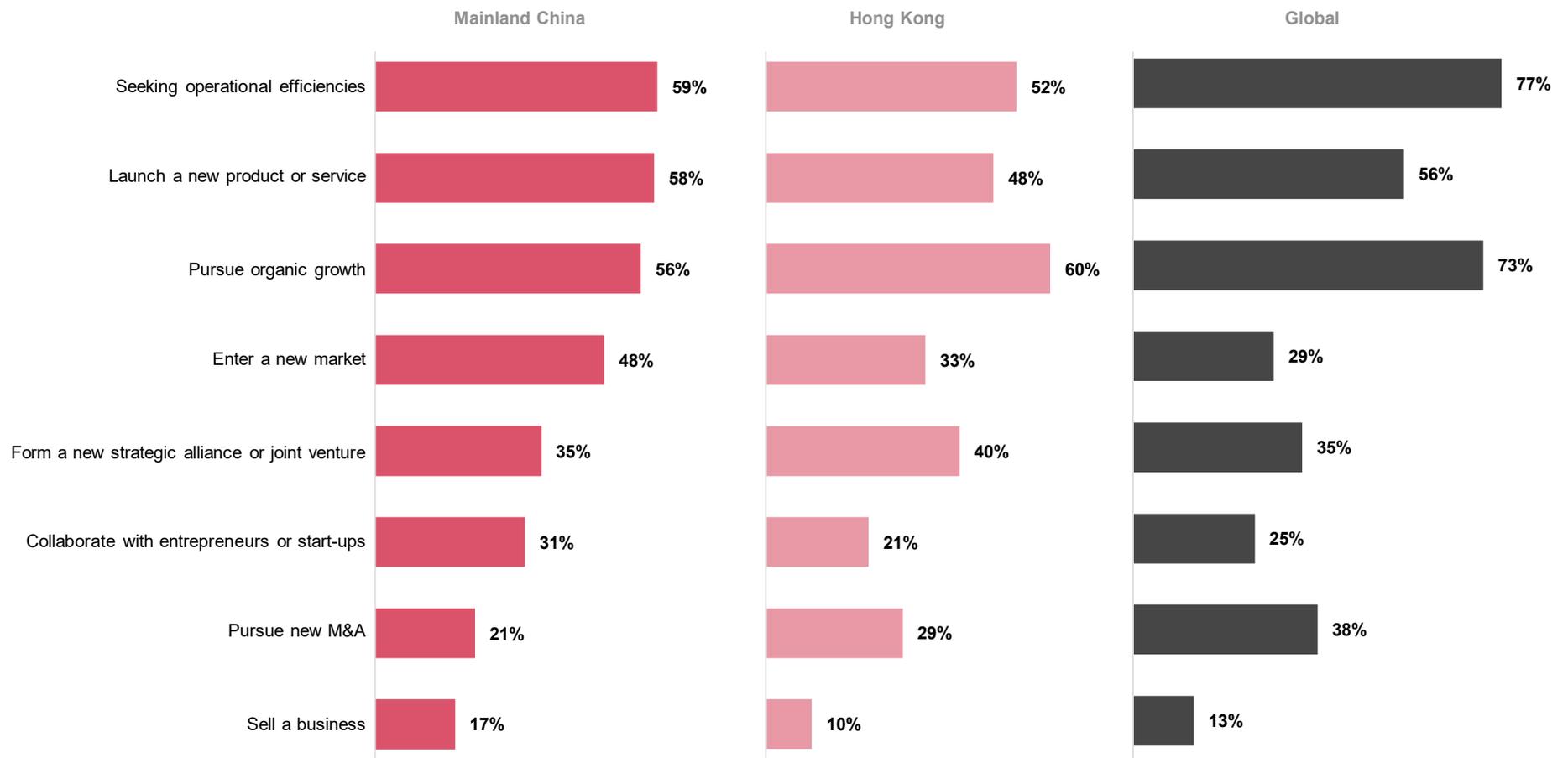
Although survival is the need of the hour amidst the prevailing pandemic, executives are also looking at how they can grow their operations in the near future. In order to drive revenue growth in the next 12 months, CEOs primarily plan to seek operational efficiencies (Mainland China: 59%; Hong Kong: 52%; Global: 72%), pursue organic growth (Mainland China: 56%; Hong Kong: 60%; Global: 73%) or launch a new product or service (Mainland China: 58%; Hong Kong: 48%; Global: 56%).





Figure 4

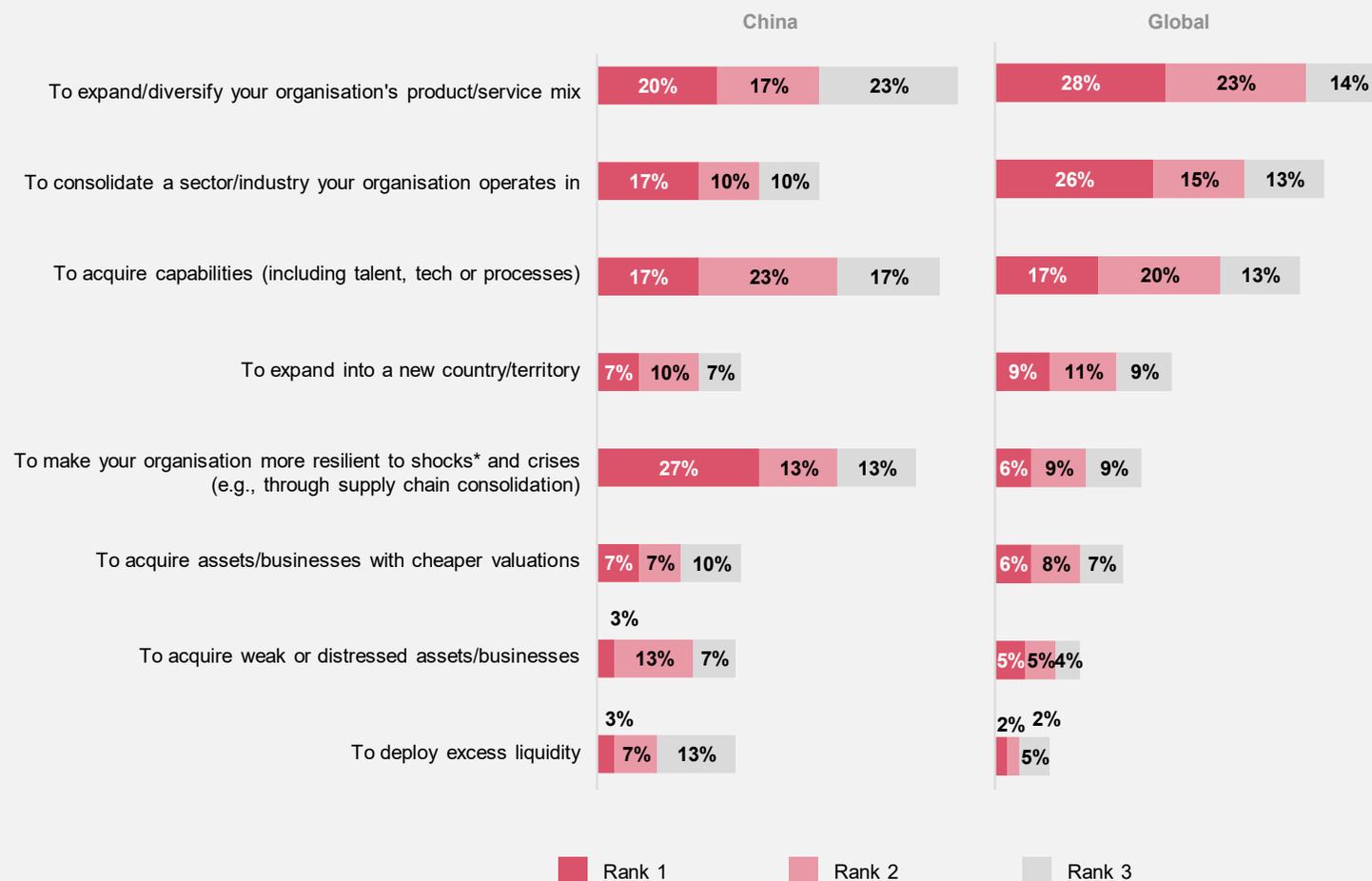
Activities to drive revenue growth in the next 12 months



Fewer respondents plan on engaging in external activities such as M&A (Mainland China: 21%; Hong Kong: 29%; Global: 38%) or forming strategic alliances or joint ventures (Mainland China: 35%; Hong Kong: 40%; Global: 35%). Deal volume generated by Mainland Chinese privately-owned enterprises engaging in outbound M&A^{iv} dropped by 34% in 2020 (relative to 2019).¹⁴ For Mainland Chinese CEOs^v that are pursuing M&A, over one-quarter (27%) stated that their primary motivation is to make their organisation resilient to shocks and crises (Global: 6%). One-fifth (20%) ranked diversification of the firm's product/service mix as the main driver (Global: 28%).

Figure 5

Primary motivations to pursue new M&A



^{iv} "Outbound" refers to Mainland Chinese companies engaging in acquisitions abroad.

^v There is no statistically significant data for Hong Kong respondents given that the sample size of CEOs that responded to this conditional question was less than 30 respondents.

Executives in Mainland China prioritise major global economies for growth prospects

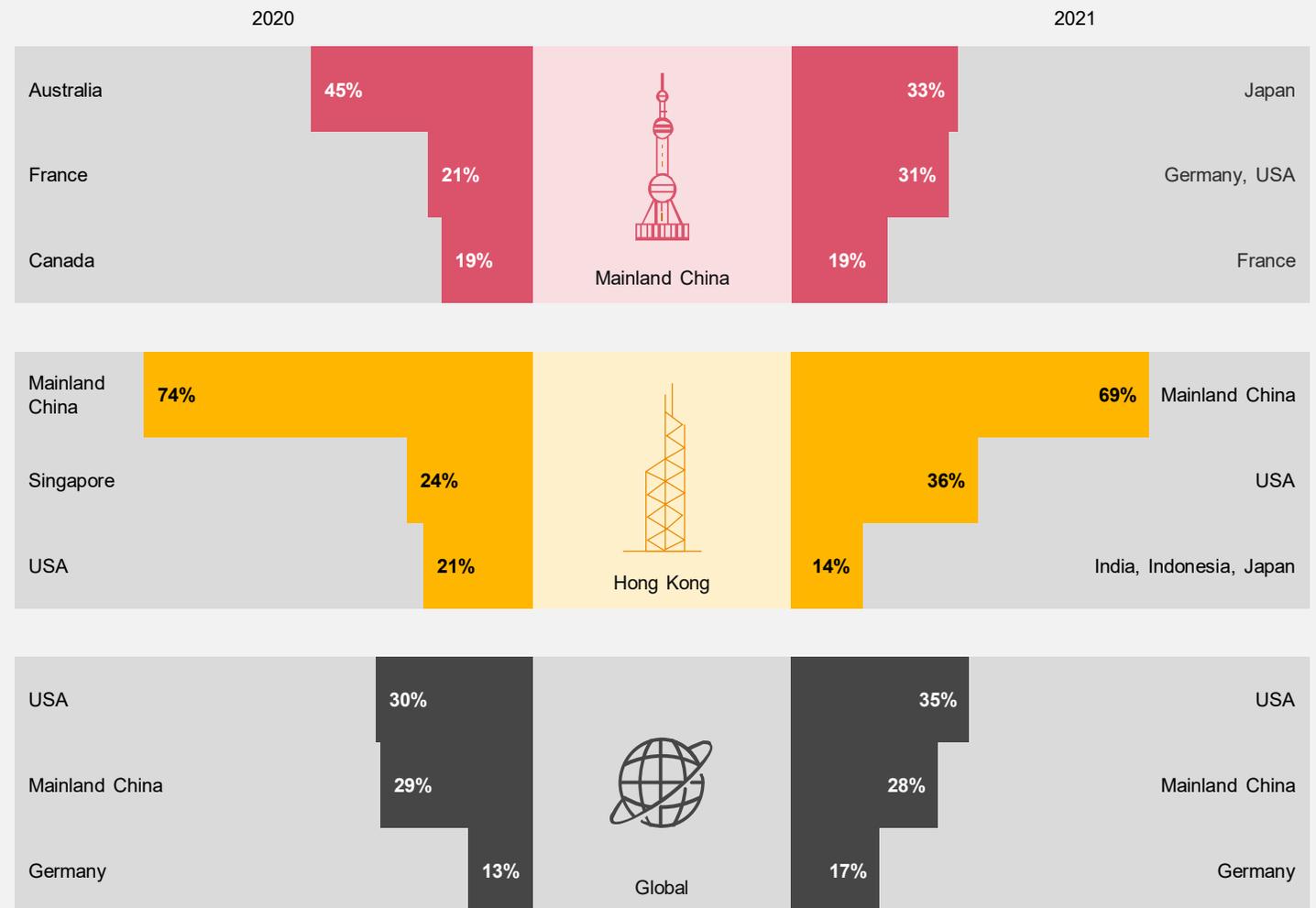
Nearly half of all CEOs based in Mainland China (48%; Hong Kong: 33%; Global: 29%) plan to enter a new market in order to fuel revenue growth in the next year. The top territories they view as important for their overall growth prospects over the next 12 months include Japan (33%), Germany and the US (31%), and France (19%). During 2020, the total value of exports and imports with Japan, the European Union (EU) and the US rose by 1.2%, 5.3% and 8.8% respectively from the year prior.¹⁵ The significant increase in foreign trade in goods with the US is likely due to the execution of the US-China phase one trade deal.¹⁶

48%

of CEOs in Mainland China plan to enter a new market in order to fuel revenue growth in the next year (Hong Kong: 33%; Global: 29%).

Figure 6

Top three territories that are important for overall growth prospects over the next 12 months



China's trade relationships with major economies have been strengthened as a result of the country's recent participation in landmark trade and investment agreements. The Regional Comprehensive Economic Partnership Agreement (RCEP) was signed in mid-November 2020 and is expected to boost China's trade with major partners including Japan, South Korea and the Association of South East Asian Nations (ASEAN) countries.¹⁷ Also as of December last year, China advanced negotiations with the EU for a Comprehensive Agreement on Investment (CAI) which aims to help EU businesses to operate on the mainland,¹⁸ although recent events have led to a temporary halt on the agreement.

While the US-China trade tensions caused the proportion of CEOs in Mainland China looking to the US for growth prospects to drop over the past two years, this figure rebounded in 2021 (2019: 17%; 2020: 11%; 2021: 31%). Given that the survey was conducted earlier this year, soon after the US presidential election was concluded, this optimism was probably the result of widespread expectations that President Biden will pursue a more conventional^{vi} trade policy.¹⁹

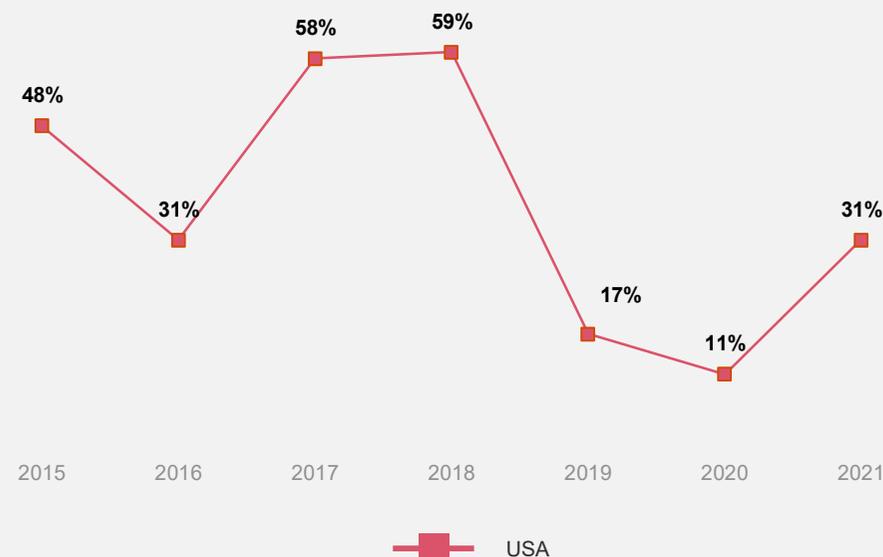
CEOs based in Hong Kong view Mainland China (69%), the US (36%) as well as India, Indonesia and Japan (14%) as the main markets that are important for their overall growth prospects, while executives globally still prioritise the US (35%), Mainland China (28%) and Germany (17%). It is worth noting however that 17% of CEOs globally also couldn't choose a territory^{vii} (the same proportion as those opting for Germany) (2020: 18%). This may suggest that many chief executives across the globe are focussing on their domestic operations rather than looking at external markets to fuel their growth.

^{vi} After four years of an America First trade policy under the Trump administration, a broader, more multilateral trade policy is expected under the Biden administration.

^{vii} When asked "Which three countries/territories, excluding the country/territory in which you are based, do you consider most important for your organisation's overall growth prospects over the next 12 months?", 17% of CEOs globally chose "None".

Figure 7

Popularity of USA as top market for Mainland Chinese CEOs





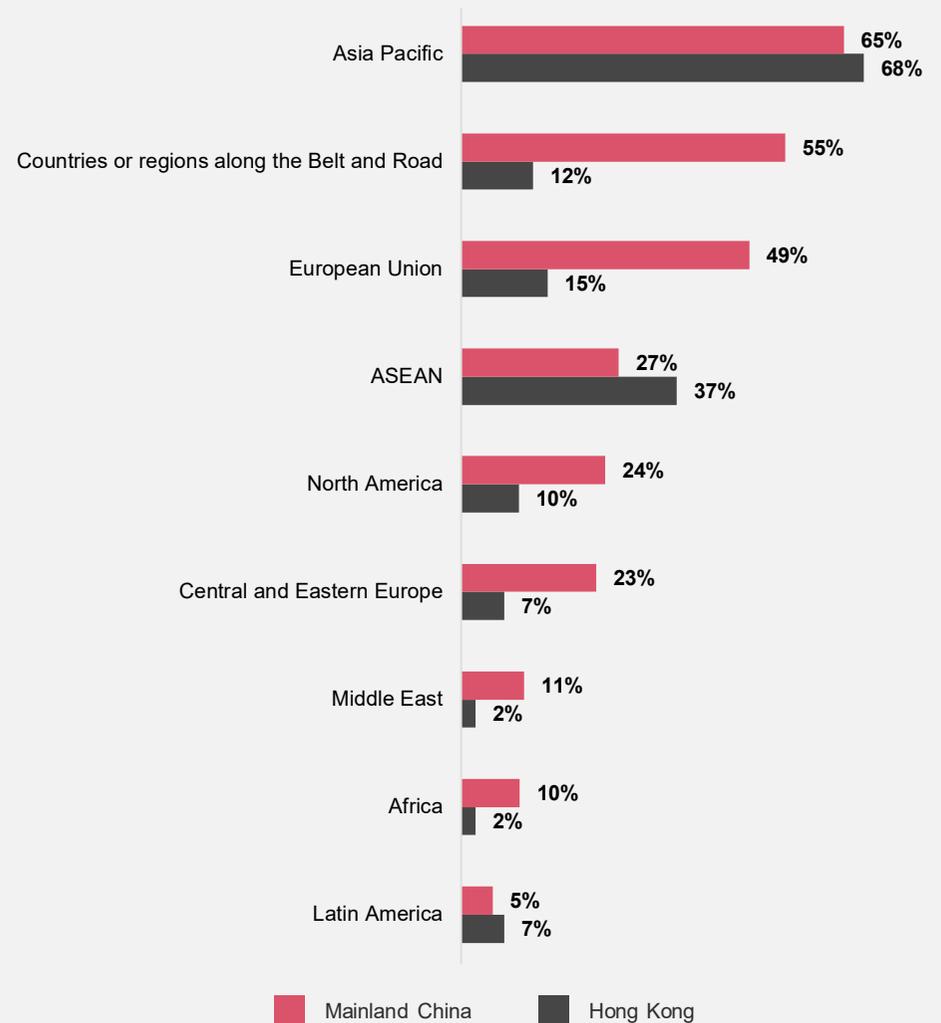
Although protectionism had already been on the rise prior to the COVID-19 pandemic, the health crisis has brought economic nationalism to the forefront. Countries have needed to reconfigure their supply chains almost overnight to increase domestic production and use lean manufacturing strategies to reduce their reliance on overseas inventory. In the post-COVID-19 era, this is likely to continue to be a priority for countries or regions facing greater pressures to compete and rebuild their economies as well as to grow their domestic employment. Low-probability, high-impact events that can destabilise supply chains are also becoming more commonplace.

Favoured geographic areas for outbound investments and motivations to enter new markets

When asked about the favoured regions for outbound investments in the next 12 months, executives in Mainland China opted for Asia Pacific (65%), countries or regions along the Belt and Road (57%) and the European Union (49%). Hong Kong based CEOs on the other hand targeted the Asia Pacific region (68%) and ASEAN countries more specifically (37%).

Figure 8

Geographic regions that are CEOs' priority for outbound investments



CEOs' operations abroad are motivated by market-specific opportunities or expansion of their customer base

Respondents in Mainland China and Hong Kong that do aim to conduct business abroad were asked about their motivations for doing so and the specific markets they are considering. The top reasons for Chinese CEOs to venture abroad are to pursue opportunities unique to targeted markets (Mainland China: 65%; Hong Kong: 49%) and to expand the market/customer base for existing products/services (Mainland China: 57%; Hong Kong: 76%).

Figure 9

Key motivations for Chinese executives to enter into or continue operations in overseas market(s)



Chapter 2:

Risk management in a post COVID-19 world



Pandemic threat overshadows concerns over trade tensions and policy uncertainty

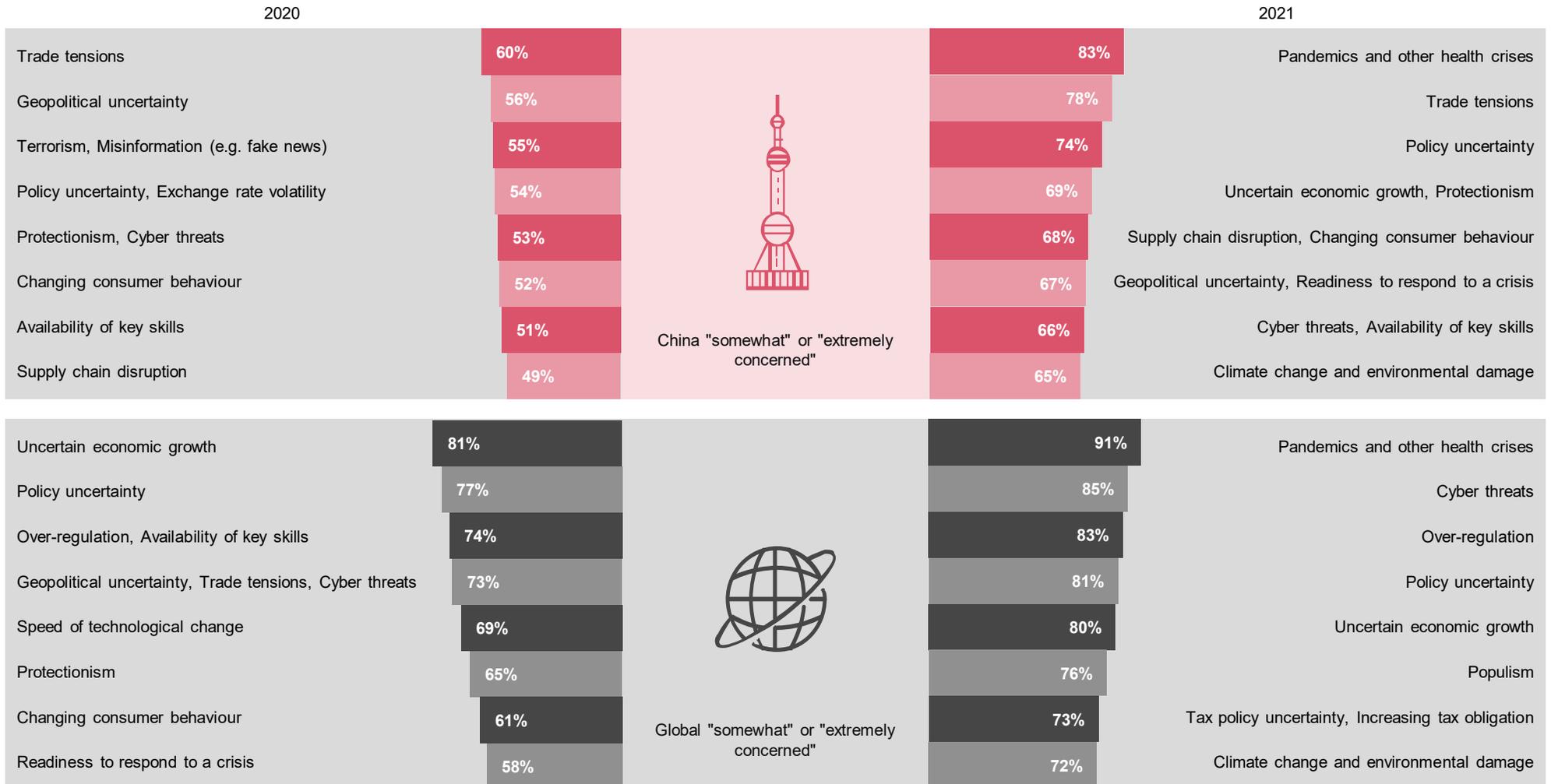
CEOs faced several threats to their growth prospects in 2021 on the business, economic, policy, social and environmental front^{viii}, though none was as significant as the COVID-19 pandemic itself (China: 83%; Global: 91%). The threat of 'Pandemics and other health crises' was last included as an option in the 18th Annual Global CEO Survey conducted during the fourth quarter of 2014. For China based CEOs, the threat of the global health crisis overshadowed concerns over US-China trade tensions which dropped to second place on the list (China: 78%; Global: 66%). Policy uncertainty ranked third and was cited as a threat by 74% of executives in China in 2021 (Global: 81%).

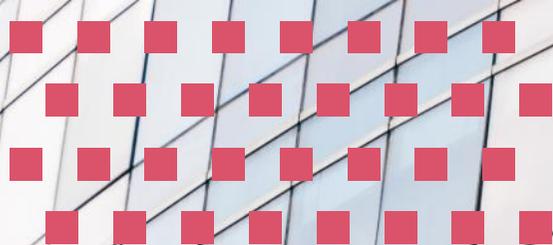
^{viii} Unlike in 2020 and previous years where CEOs were asked about **economic, policy, social and environmental threats** and business threats in two separate questions (each with their own option sets), this year the questions (and corresponding options) have been combined. The eight most popular options are shown in Figure 10.



Figure 10

Top business, economic, policy, social and environmental threats to organisations' growth prospects





Cyber threats rank seventh on the list of concerns for China based CEOs while it is second for CEOs globally (China: 66%; Global: 85%). Enhancing the digital economy has been a national priority for China in recent years^{ix} and this effort has been accelerated dramatically in light of the COVID-19 pandemic. Apart from the technologies used in pandemic tracing and relief efforts, the global health crisis has meant that online education, use of mobile apps for food delivery, retail e-commerce, online entertainment and remote working have become an essential part of daily life.²¹ As everyday activities have become digital, the potential for cyber risks has also increased. Yet in 2020, regulatory measures to strengthen cybersecurity in Mainland China have also been substantial. Efforts have been made to further enhance technical standards with regards to the country's Multi-level Protection Scheme (MLPS), with authorities taking a more active approach in

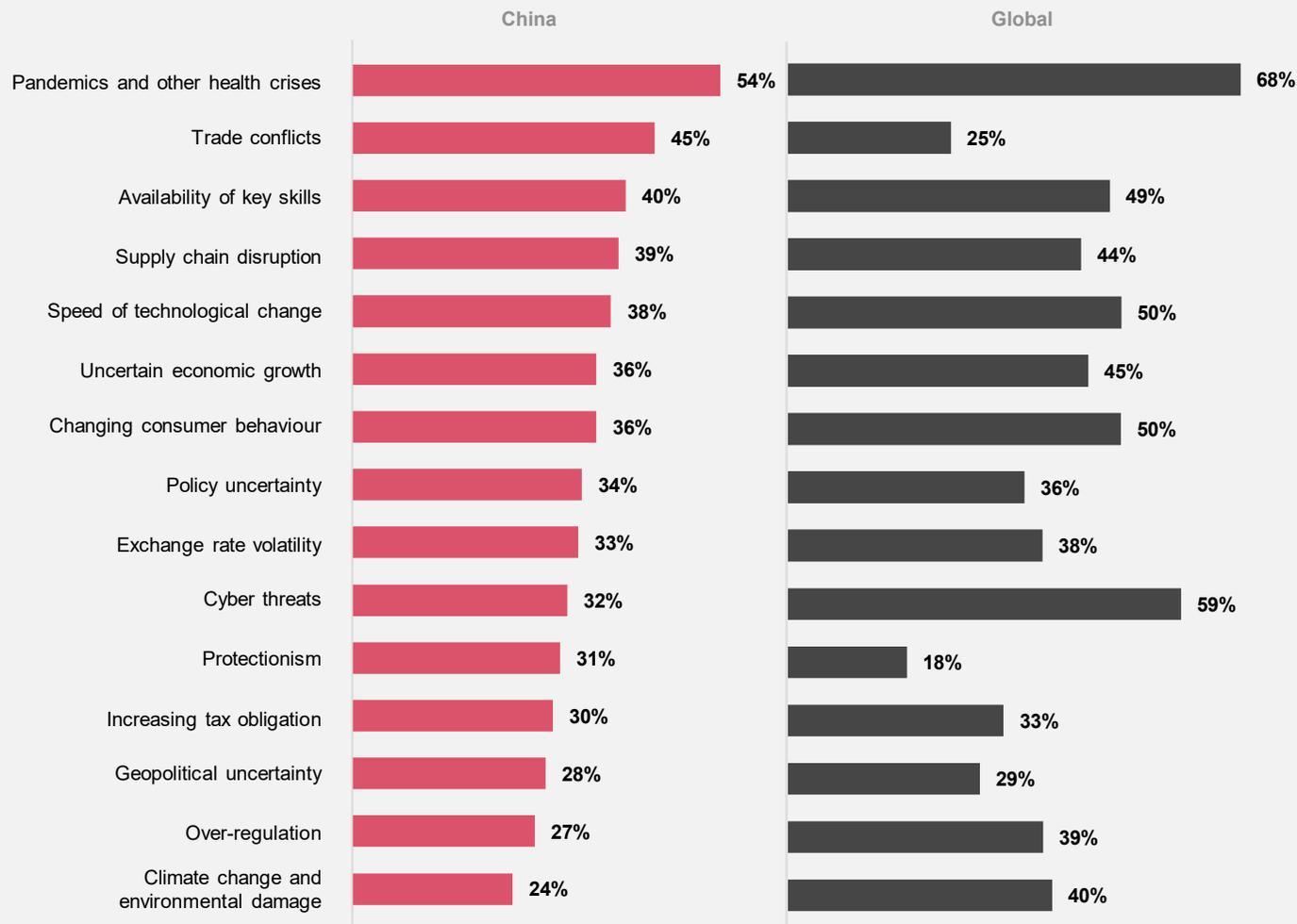
policing compliance. Additionally, the Personal Information Protection Law and Data Security Law have progressed through the legislative process and important standards on personal information protection and risk assessment have been updated or released.²²

In Hong Kong, given the rapid development of technologies such as artificial intelligence, big data and Internet of Things (IoT), the Office of the Government Chief Information Officer (OGCIO) began a new round of review of the 'Government IT Security Policy and Guidelines' in August 2019 focussing on information security and cyber security as well as smart city development.²³ Additionally, the Hong Kong Monetary Authority (HKMA) announced the launch of an upgraded Cybersecurity Fortification Initiative (CFI) 2.0, targeted at protecting the cybersecurity of the city's banking system, in early November of last year.²⁴

^{ix} According to a 2020 white paper published by the China Academy of Information and Communications Technology (CAICT), the digital economy contributed to around 67.7% of China's GDP growth rate in 2019.

Figure 11

Threats that are explicitly factored into strategic risk management activities

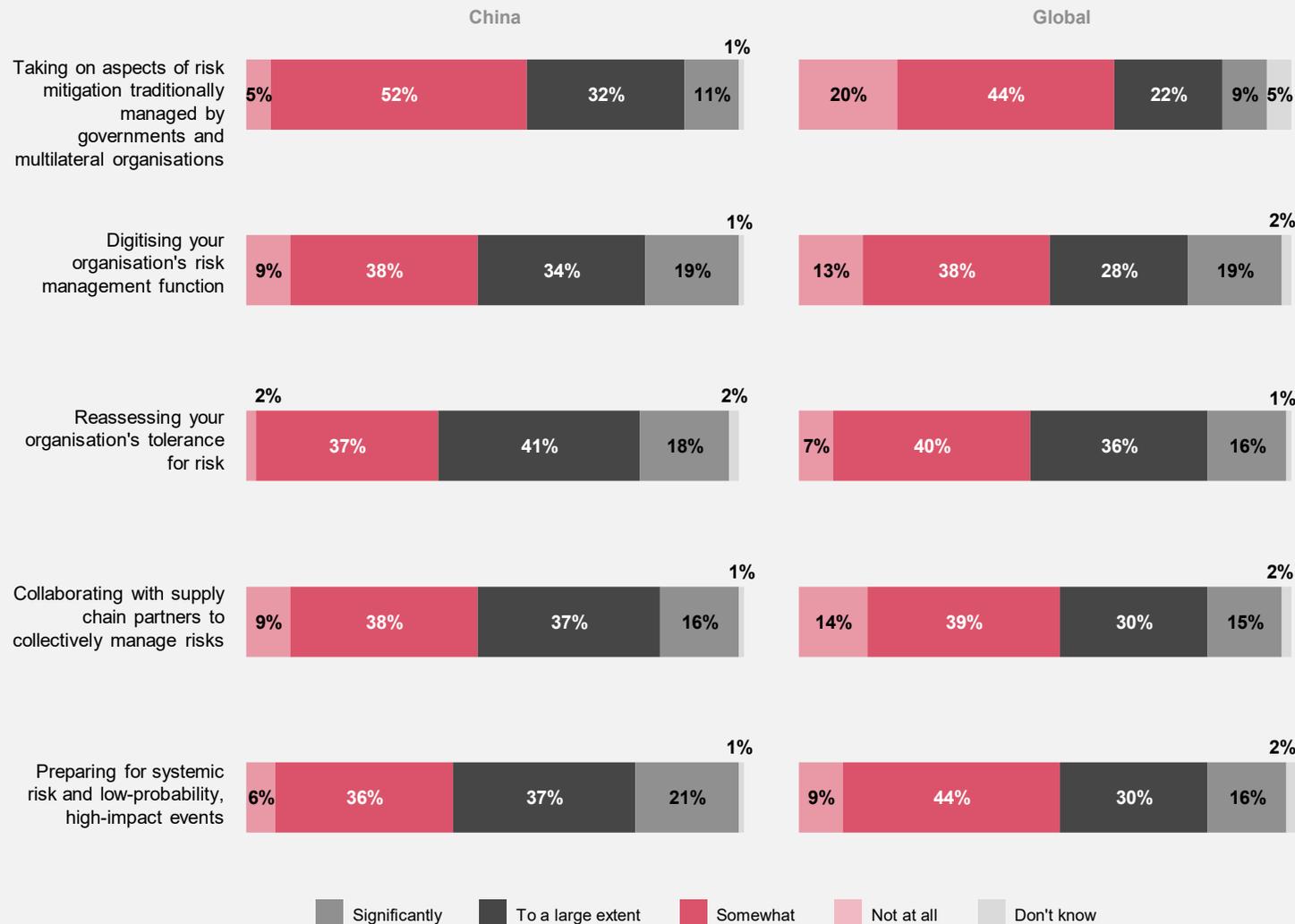


Climate change and environmental damage concerned 65% of China based CEOs and 72% of CEOs globally (2020 China: 46%; 2020 Global: 64%). However less than one-quarter (24%) of China based CEOs and 40% of their global peers have explicitly factored this threat into their risk management activities. Moreover, only 21% of executives in China are significantly increasing their focus on preparing for systemic risk and low-probability, high-impact events as a result of the COVID-19 crisis (Global: 16%).

These statistics are worrying given that the threat of climate events has grown exponentially in the past two decades with the implication that CEOs that do not factor climate events or other low-probability, high-impact events into their risk management process, run the risk of significant business disruption and economic losses as evidenced by the fallout of the recent pandemic. The Global Climate Risk Index 2021 finds that between 2000 and 2019 over 475,000 people lost their lives as a direct result of more than 11,000 extreme weather events globally and losses amounted to around US\$ 2.56 trillion (in purchasing power parities).²⁵

Figure 12

Extent to which focus is being increased on the following areas as a result of the COVID-19 crisis



During the initial days of the pandemic in 2020, supply chain shocks started to unfold all over the world. In our survey, CEOs were asked where their area of focus might have increased as a response to the COVID-19 crisis. Proportion of Mainland China based CEOs who increased focus in the following areas are: Reassessing organisation's tolerance for risk (61%; Global: 52%), preparing for systemic risk and low-probability, high-impact events (58%; Global: 46%) and Collaborating with supply chain partners to collectively manage risks (57%; Global: 44%).

Chapter 3:

Re-evaluating purpose and areas of impact



Purpose

When asked about the “purpose of their organisation today”, answers that were frequently cited were realizing cost efficiencies, improving competitiveness, and satisfying customers through innovative products and services. Very few responses were framed as “building for future generations, serving society, working for the benefit of mankind, protecting the environment.”

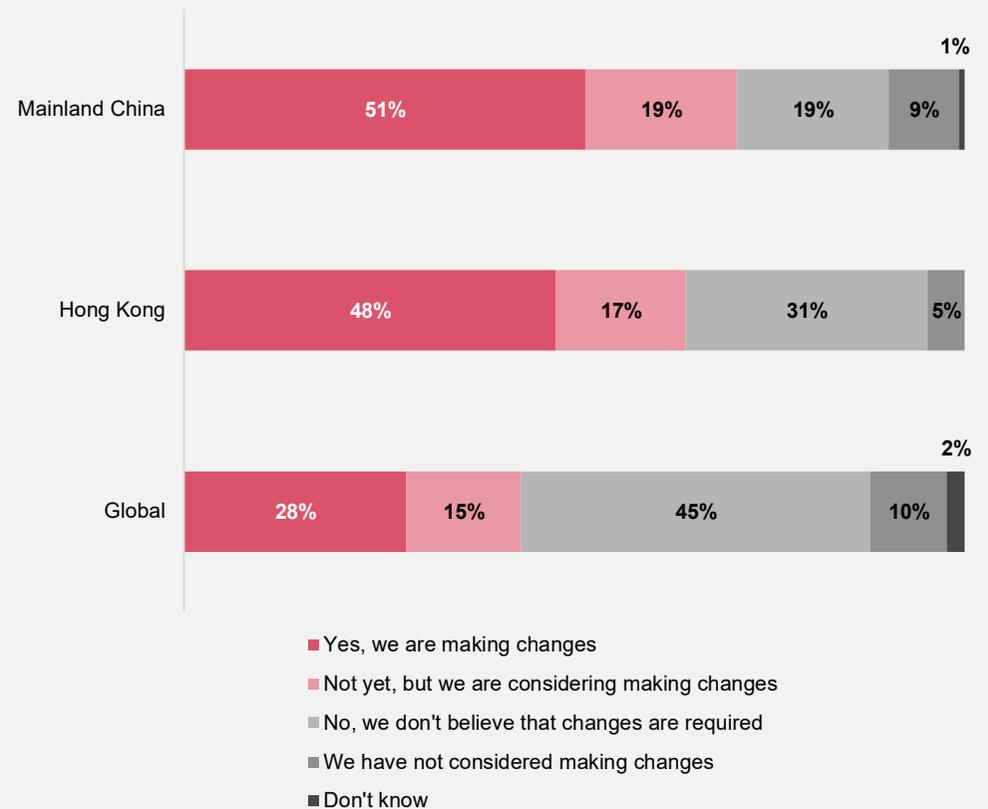
In a post-Covid world, re-evaluating purpose and having better clarity around the company value proposition that is aligned with protection of the environment, people, societies, and communities would be imperative so as not to constrain future business growth.

It is interesting to note though that over half of the business leaders in China (compared to 28% of their global counterparts) said they are making changes to their purpose in response to the pandemic. At a period of time in history, when there is prolonged and widespread pandemic-induced suffering in all sections of society, the data seems to reflect that there is a collective recognition that “making changes to organisational purpose” that is aligned with society’s expectations would be the way forward.



Figure 13

Whether or not changes are being made to organisational purpose as a result of the COVID-19 crisis to better reflect the role your organisation plays in society



Rethinking long-term investments in the next 3 years

Executives in Mainland China focus on long-term investments in the next three years are on R&D and new product innovation, digital transformation and realising cost efficiencies

Prompted by the COVID-19 public health crisis, organisations are rethinking their long-term investments in the next three years as they look to reinvent themselves in the post-pandemic era. Investing in R&D and new product innovations (Mainland China: 70%, Global: 58%) was cited

by a substantial proportion of executives in Mainland China, followed by digital transformations (Mainland China: 68%, Global: 83%), realising cost efficiencies (Mainland China: 65%; Global: 76%), and seeking organic growth (Mainland China: 65%; Global: 63%). Increasing spend on cybersecurity and data privacy (Mainland China: 64%; Global: 72%) and increasing resource allocation to sustainability and ESG initiatives (Mainland China: 60%; Global: 60%) in the next three years were cited by majority of executives in Mainland China but figured less prominently as a priority.

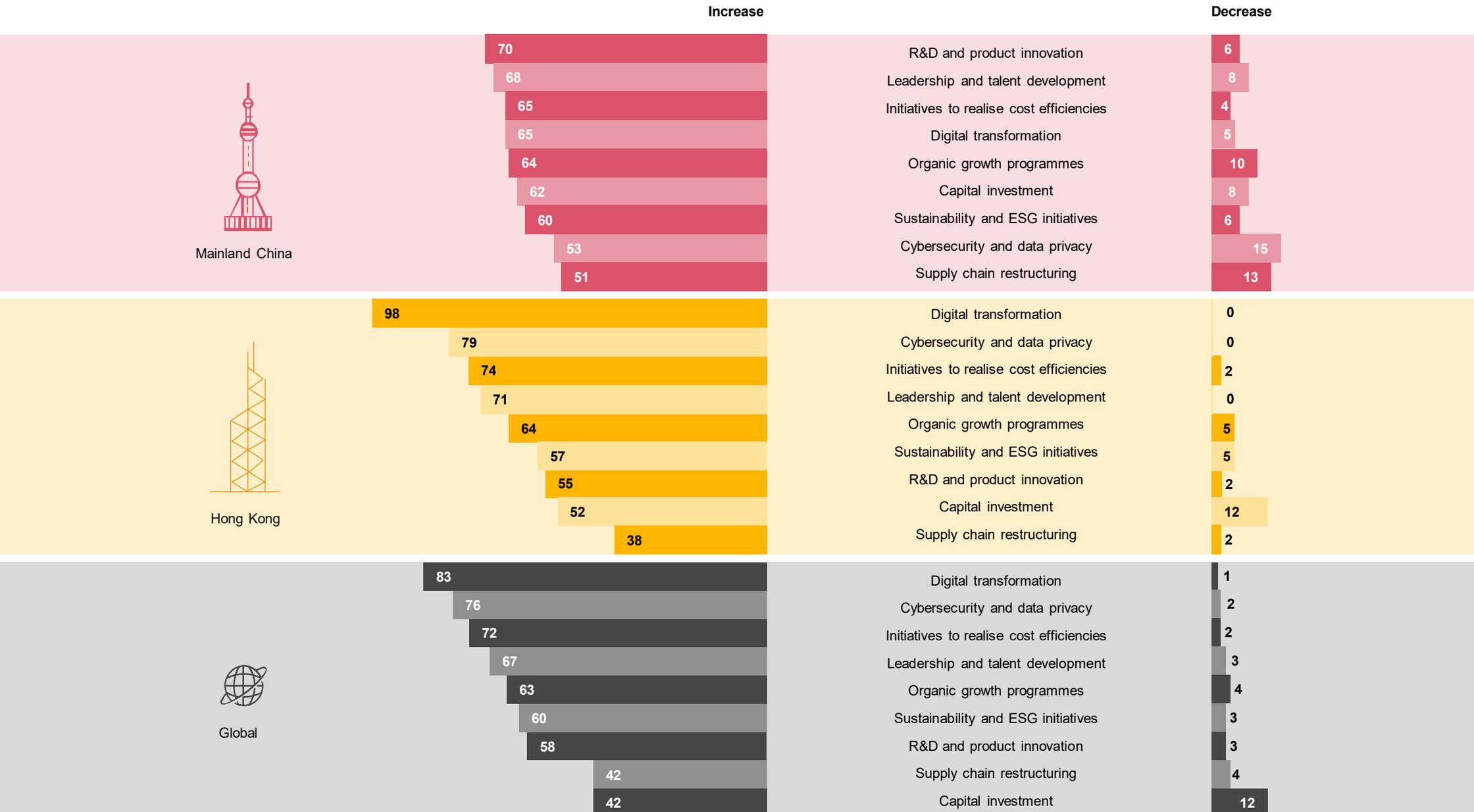
70%

of Mainland Chinese executives will increase their investment in R&D and new product innovations in the next 3 years (Global: 58%).



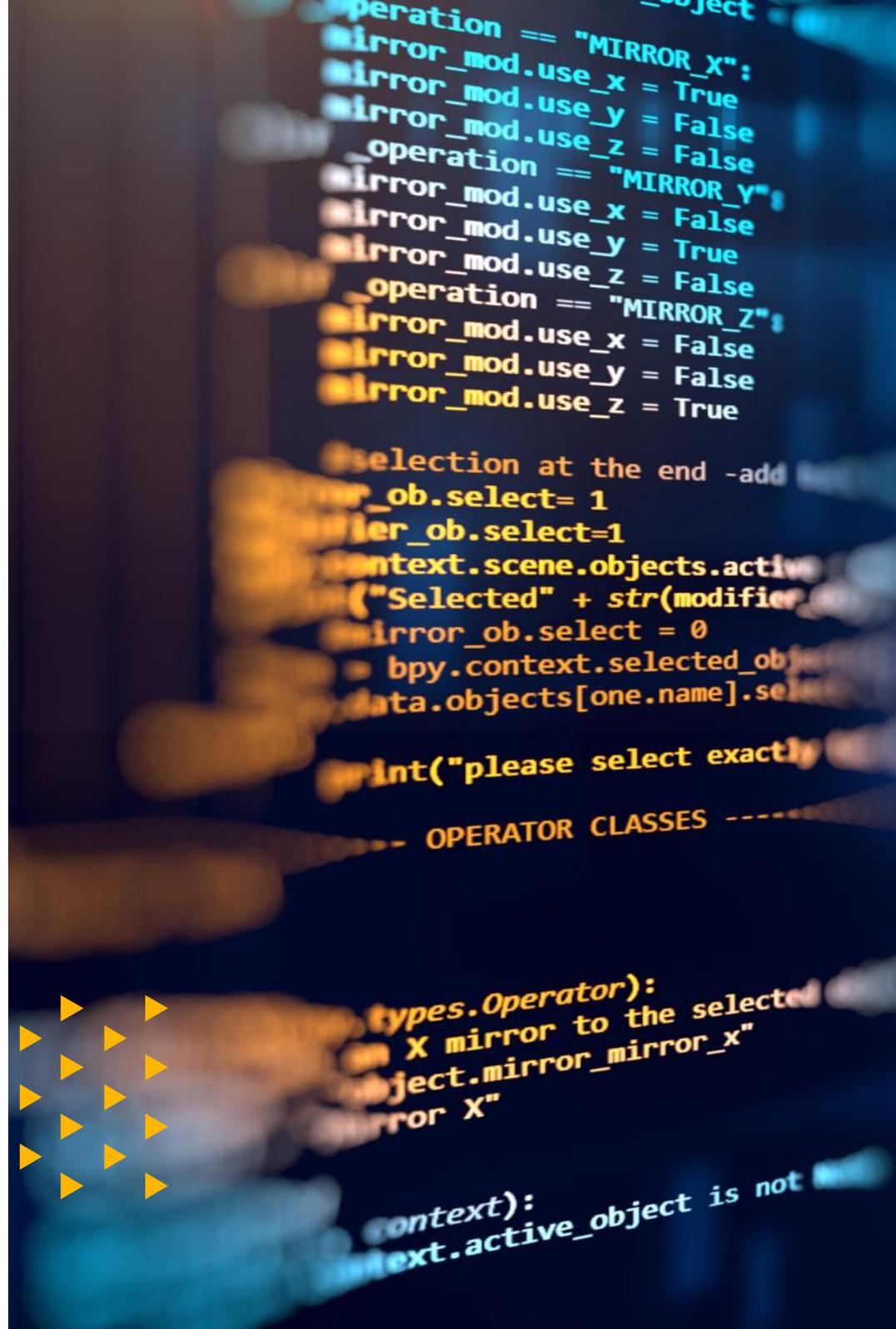
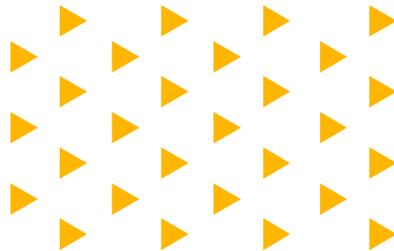
Figure 14

Proportion of respondents who are changing their long-term investments in the next 3 years



The importance of innovation in product development cannot be overstated, as in the last decade, the Chinese government had outlined “innovation” as one of the growth engines to secure more sustainable economic growth in its 13th and 14th five-year plans. Also, while Mainland China and Hong Kong are relatively advanced in terms of cyber resilience and data privacy policies, the focus on cybersecurity and data privacy in Mainland China and Hong Kong is not unfounded. The Hong Kong Computer Emergency Response Team Coordination Centre (“HKCERT”) still handled a total of 8,827 cybersecurity incidents in the first 11 months of 2019 alone.²⁶ Cyber-attacks on organisations across the globe will only grow in scale and complexity particularly given the rising demand for IoT devices and recent rollout of 5G networks.²⁷

Survey results reveal that, as an area of investment in the next three years, companies are prioritising cost efficiencies and organic growth over Sustainability and ESG Environmental initiatives. This is of concern as not adequately factoring in ESG into strategic investments might lead to business disruptions, economic losses and will inevitably constrain business growth in the future, as illustrated by the pandemic.



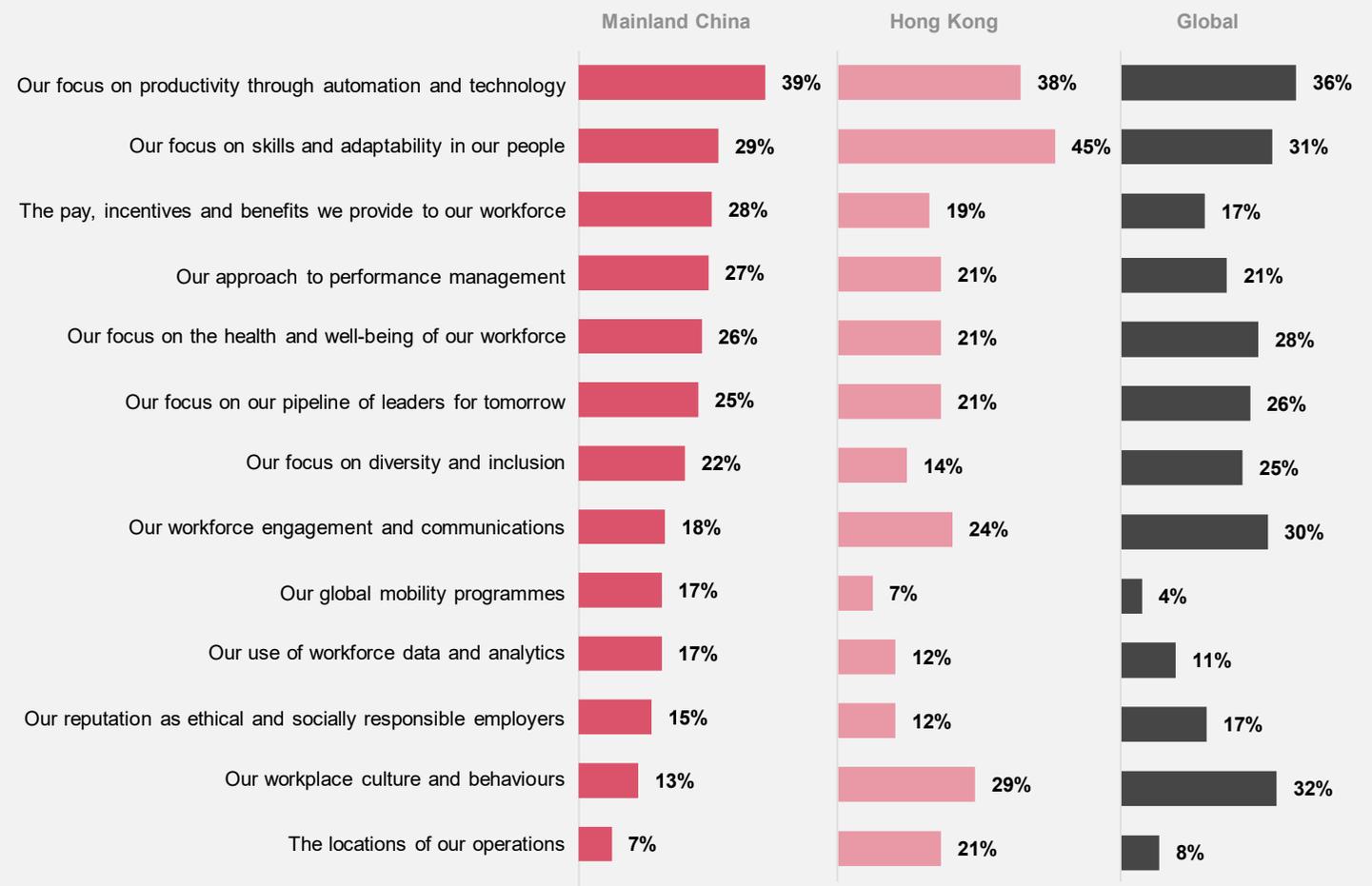
Unsurprisingly, survey results show that CEOs in China are prioritising productivity through automation and technology just like their global counterparts. The existing capacities of the digital infrastructures in Mainland China and Hong Kong SAR which are strong and advanced allowed rapid and smooth transition to work-from-home mode at the onset of the pandemic.

In terms of focus on workforce strategy that can make the greatest impact on the organisation's competitiveness, survey results also indicated that executives in Mainland China (28%) have a more heightened sense of concern about "pay, benefits and incentives" about their workforce relative to their global counterparts (17%).

In a rapidly shifting pandemic environment, executives in Mainland China also expressed strong sentiment for skills and adaptability of workforce to support its competitiveness and the benefits and relevance of this workforce strategy came into sharp focus during the swift pivoting that was necessitated by the pandemic.

Figure 15

Aspects of CEOs' workforce strategy that are being changed to make the greatest impact on organisations' competitiveness



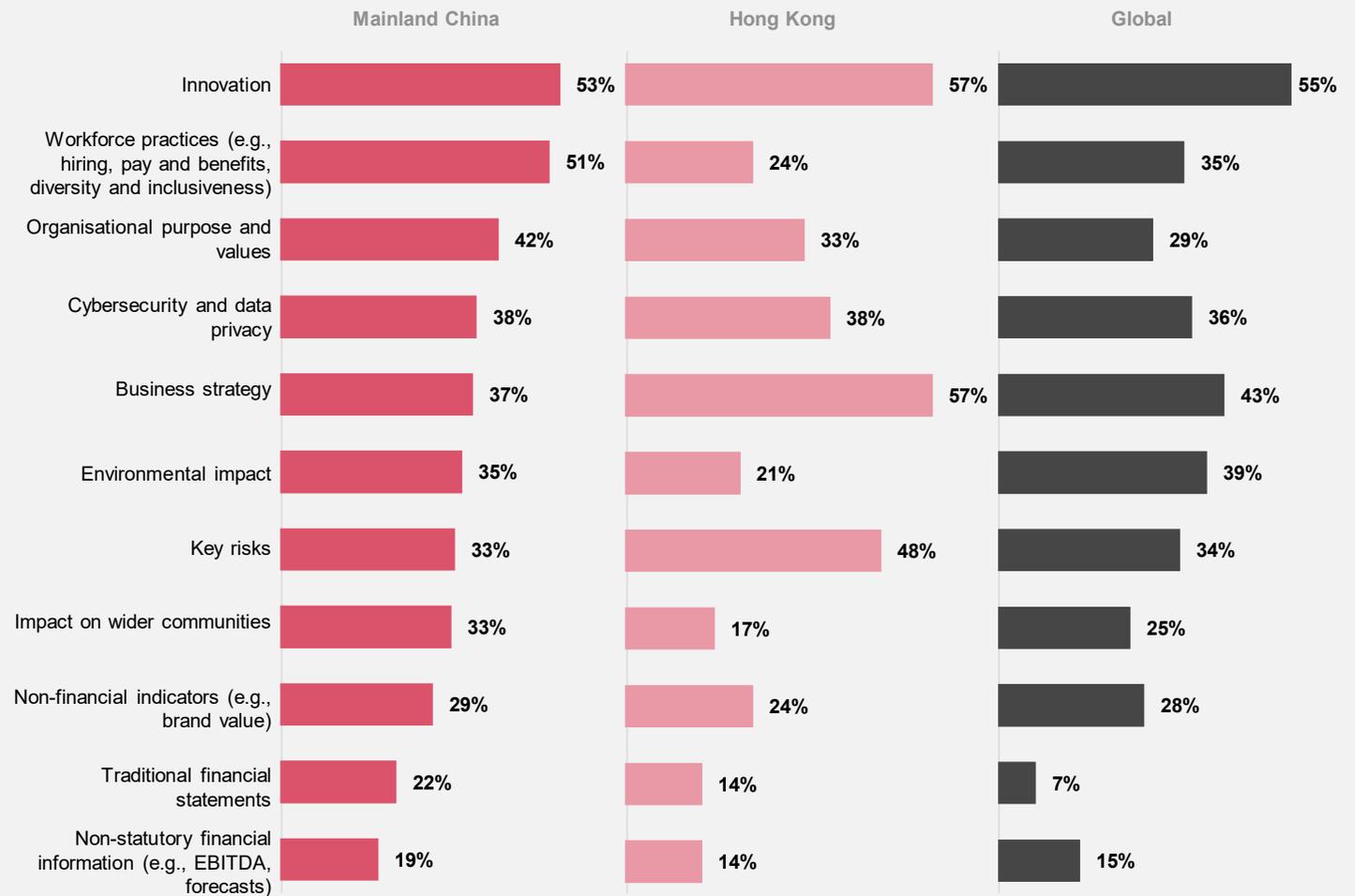
Survey results revealed that there is a growing recognition of the importance of measuring what matters outside profits and traditional financial statements. In Mainland China, innovation, workforce practices, purpose and values were the top three areas of impact to be measured and reported on.

While 42% of executives in Mainland China are of the view that more measurement is required around “organisational purpose and values” paradoxically, only a third seem to think that impact on communities and environmental impact should be an area of increased measurement and reporting.

However, firms in China may be missing a larger opportunity to differentiate themselves from their competitors in attracting talent, capital and customers by not fully demonstrating and communicating organisational purpose and values. Only 13% of executives in Mainland China are making an effort on workplace culture and behaviours, 15% of executives in Mainland China are changing their company’s reputation as ethically and socially responsible employers and only 18% are engaged in communicating and engaging with their workforce.

Figure 16

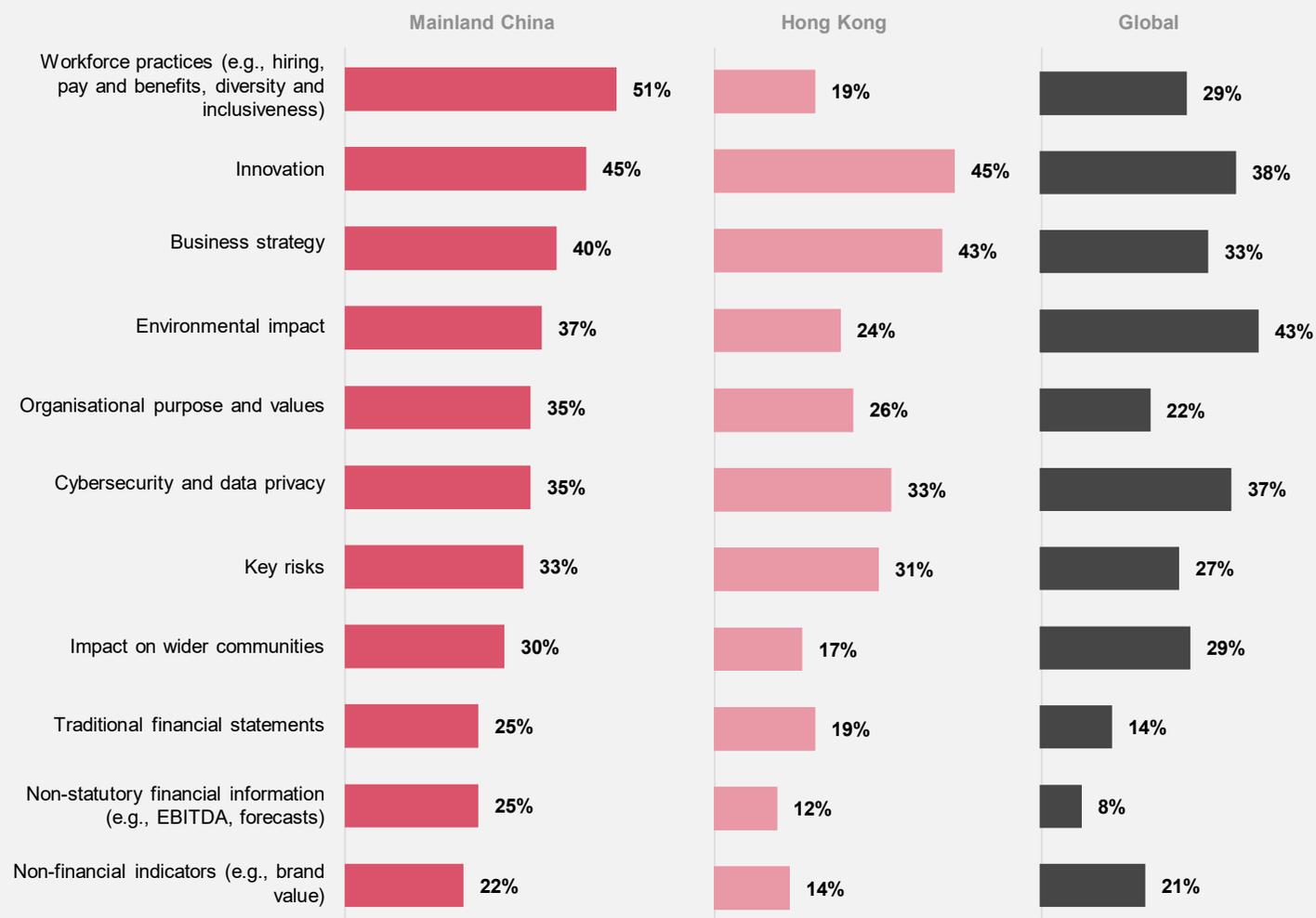
Key areas of impact and value CEOs believe their organisation should be doing more to measure



The notably higher difference in proportion of executives in China who rated innovation and workforce practices as top areas of measurement and reporting compared to a lower proportion who rated environmental impact and impact on communities possibly suggests a misalignment in two interests: company's interest and broader societal interests. This misalignment could potentially have real business consequences, in terms of attracting capital, talent and customers and in terms of failing to differentiate itself from its competitors. However, one way to bridge the gap could be through revisiting and re-framing organisational purpose, matching actions with rhetoric, reporting and communicating on purpose and values and ensuring that ESG actions are embedded in decision making at all levels.

Figure 17

Key areas of impact and value CEOs believe their organisation should be doing more to report on



Chapter 4:

Delivering sustainable outcomes



In terms of outcomes that should be government priorities, 40% of the executives in Mainland China (Global: 52%; HK: 48%) were of the view that “a skilled, educated and adaptable workforce” is an outcome that should be a government priority. 40% of the respondents in Mainland China (Global: 25%; Hong Kong: 36%) also thought that “the good health and well-being of the workforce” should be the purview of the government followed by 39% of the executives in Mainland China (Global: 50% ; Hong Kong: 46%) who thought that adequate physical and digital infrastructure should be the responsibility of the government.

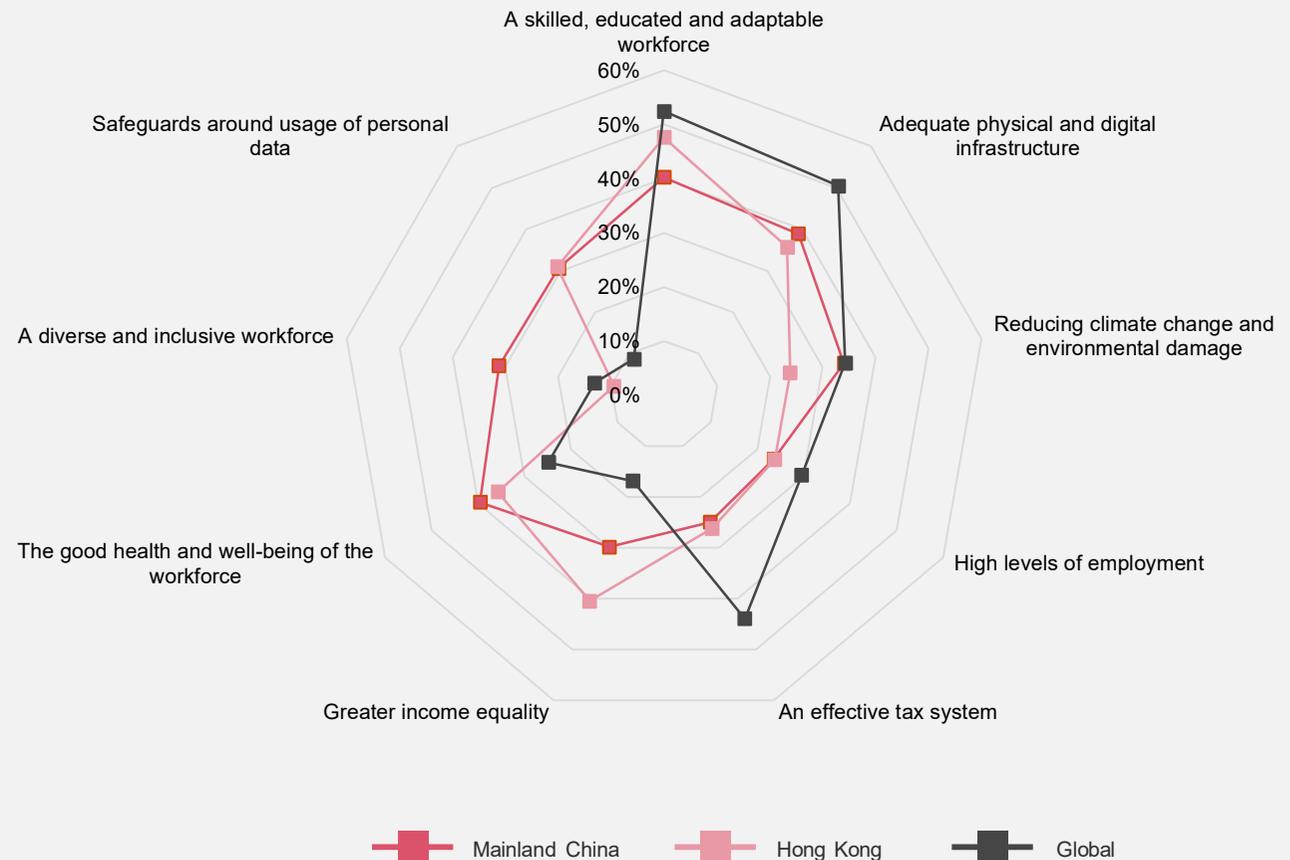
It is interesting to note that 40% of Hong Kong executives, 30% of Mainland Chinese executives and only 17% of global peers were of the view that “Greater income equality” should be a strategic outcome of the government priorities.

40%

of the executives in Mainland China were of the view that “a skilled, educated and adaptable workforce” is an outcome that should be a government priority (Global: 52%; HK: 48%).

Figure 18

Outcomes that company executives believe should be government priorities

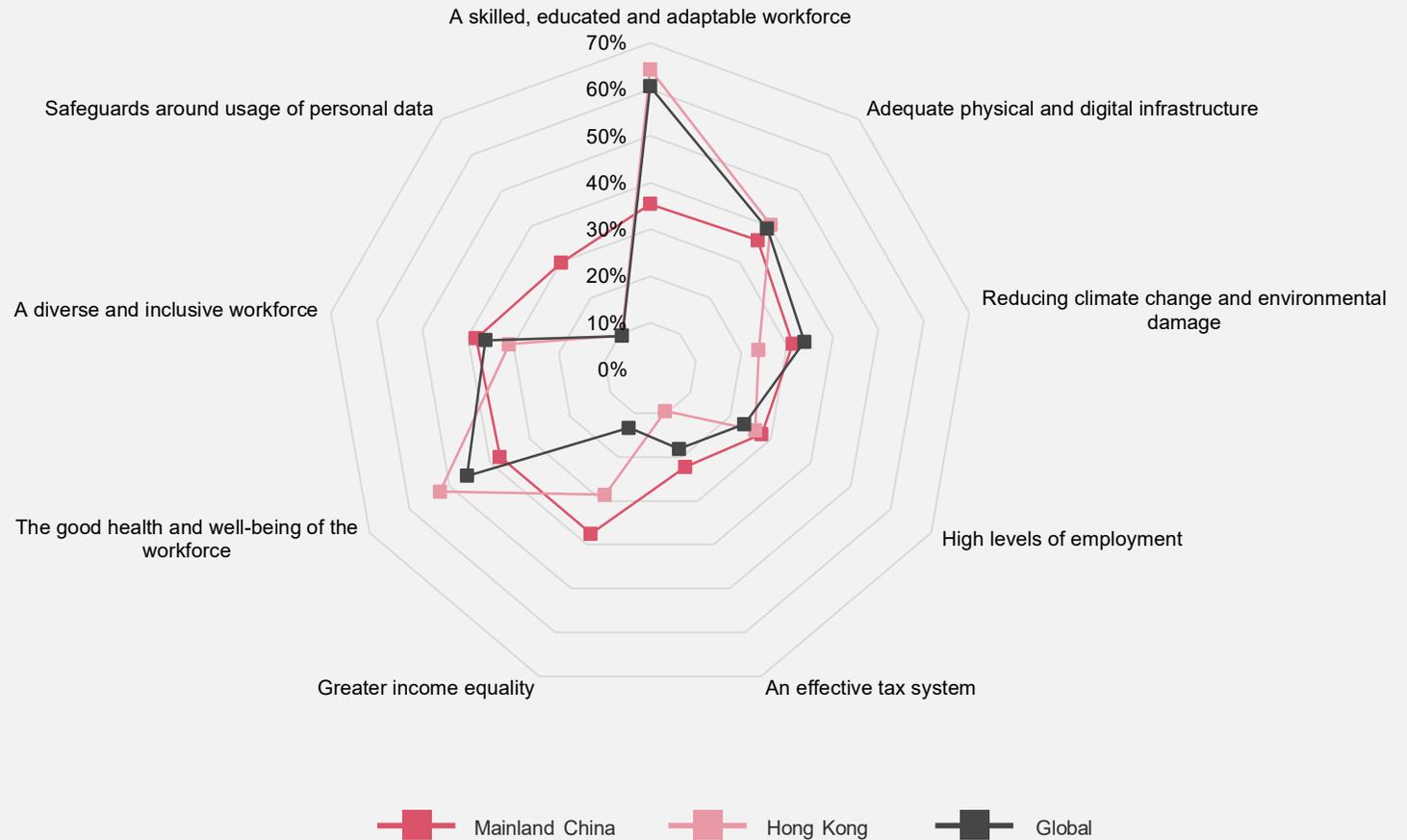


In terms of the top three outcomes that should be the priorities for business to help deliver: 38% of executives in Mainland China responded “greater income equality”, “the good health and well-being of the workforce” and “a diverse and inclusive workforce”. In Hong Kong, 64% of executives thought that “a skilled, educated and adaptable workforce” should be a top business priority compared to 35% of their peers in Mainland China; and 52% of Hong Kong based executives thought that “the good health and well-being of the workforce” should be a top business priority compared to 38% of their peers in Mainland China.

The pandemic has reminded us that economic pursuit must be accompanied by management of resources for a sustainable future. Only 31% of executives in Mainland China (Global: 35%; Hong Kong: 24%) are addressing the implications of environmental damage and climate change in the context of their business. In 2016, when PwC asked this same question, the survey found that 74% of executives in China were making changes in how they minimise social and environmental impacts of their business operations. Approximately, 34% of executives in Mainland China (Global: 34%; Hong Kong: 24%) are of the view that it is the government’s priority to reduce environmental damage and climate change.

Figure 19

Outcomes that company executives believe should be priorities for business to help deliver

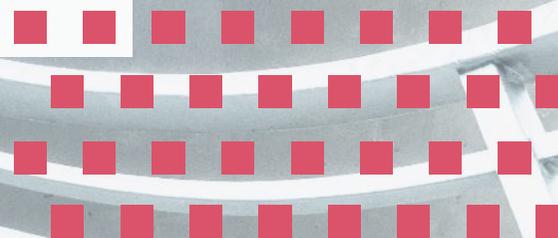


These findings illuminate the difference in understanding of government's role versus business' role in society in terms of equalizing outcomes for its populations versus relying on a market-based approach to equalize outcomes.

There seems to be a divergence of views between executives in China and globally on the topic of income equality. Survey results suggest that the private sector in China (compared to their global peers) takes more of an ownership of income equality/pay equity which is encouraging. Short of legislative responses, the lead taken by the private sector to achieve pay equity and therefore income equality is a positive confirmation.

When asked about how tax policy changes to address rising government debt levels will impact CEO's organisations, in Mainland China 48% of executives agreed that it will increase its company's tax obligations (Globally: 60%; Hong Kong: 40%). In Mainland China, 69% of executives (Globally: 57%; Hong Kong: 40%) also agreed that this increased tax burden might impact their organisation's decision-making and planning.

In Mainland China, a higher proportion of executives (79%) were optimistic about the likelihood that the government's recovery plan (in respective territory) will effectively balance short-term economic needs with long-term environmental goals. Globally and in Hong Kong, the corresponding proportion was 45% respectively.



Conclusion

The COVID-19 pandemic has radically impacted the world in 2020. By the first quarter of 2021, given relatively successful containment efforts in Mainland China and Hong Kong, the social, economic and business recovery process, while uneven, is underway with the aid of fiscal stimulus and policy support measures.

The following are some reflections and business implications arising from the survey findings in Mainland China and Hong Kong:

- In order to mitigate the effects of future adverse events and address vulnerabilities, there is a necessity to prioritise resilience, agility and preparedness over cost efficiencies
- While the need of the hour is survival in many sectors, once the situation stabilises, it is imperative not to lose sight of long-term goals

to continue to invest in Sustainability and ESG actions where every decision and action is viewed through a ESG lens. Not adequately factoring in ESG into strategic investments will inevitably constrain business growth in the future as illustrated by the pandemic.

- Human capital training to prepare a skilled workforce with high emotional intelligence is crucial so that societal and environmental well-being, organisational and economic growth is not constrained by unskilled human capital^x.
- Innovations must be used not only to build capital, new products and services but also to scale positive social impacts to solve the multi-dimensional challenges confronting China and the world^{xi}.



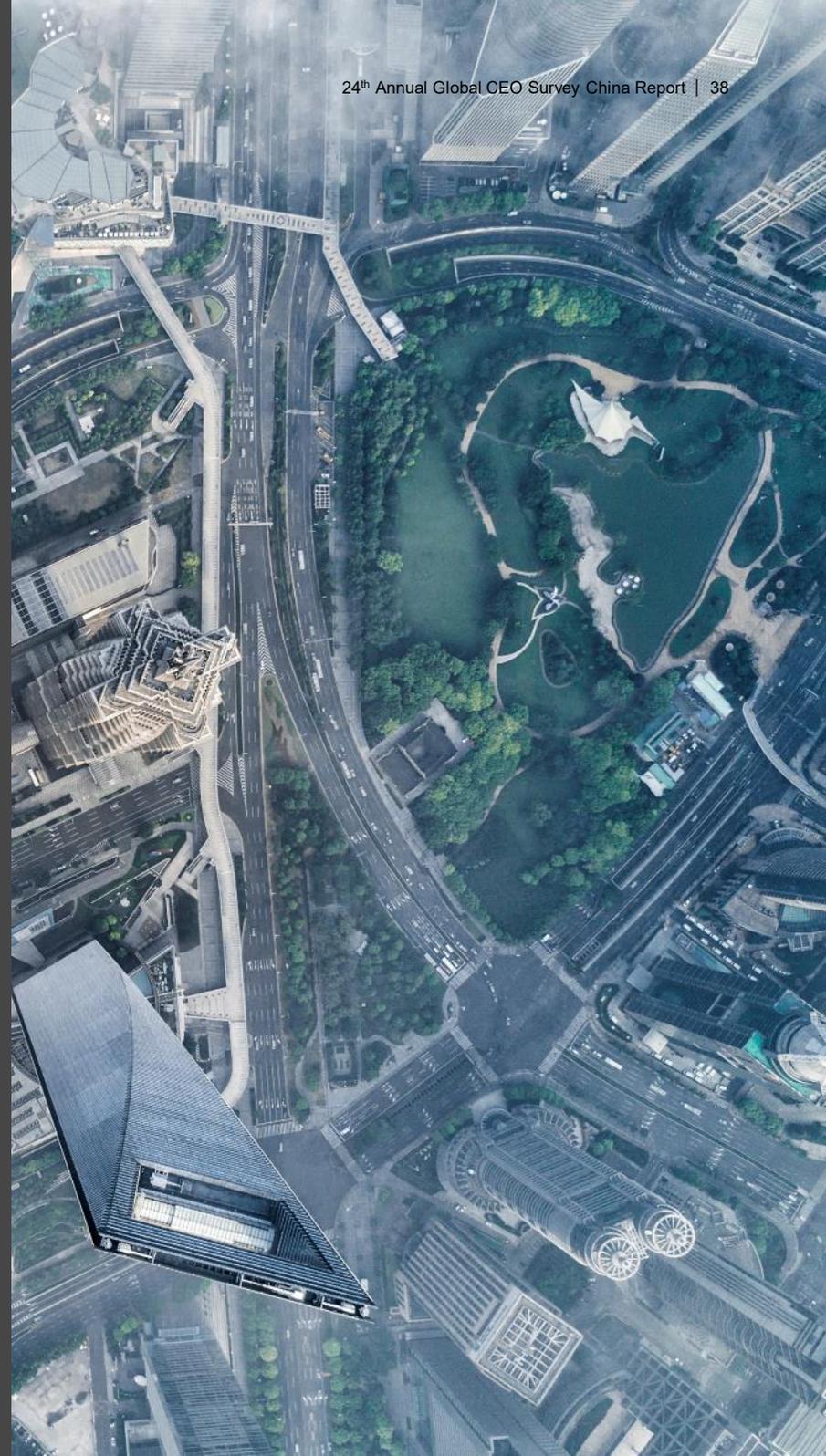
While recovery from the pandemic is a collective effort by all stakeholders of society, in order to deliver benefits to a wider group of stakeholders, business leaders face the challenge of re-evaluating their purpose while maintaining pandemic recovery momentum while ensuring that environmental and social concerns are being reflected in their strategic thinking. Pursuing business growth is not mutually exclusive to integrating ESG factors in operations. In fact, it is a business risk and can constrain business growth and needs to be treated as a business imperative.

Overall, PwC's Global CEO survey results indicate that executives in China are sombre about the challenges ahead of them. The worst public health crisis in recent memory, has radically changed the world. With looming risks on the horizon such as climate change, environmental degradation, persistent inequalities, operating in complex realities means that executives will need to put greater effort into re-evaluating purpose, re-thinking strategy, taking ownership of challenges and reconsidering impact on the environment and on societies.

The lessons of the past year have shown us that the pursuit of business growth and creation of jobs have to be balanced with environmental and social well-being that accounts for systemic-impacts. In order to have sustainable growth, it is the responsibility of business leaders to think strategically and critically to align business interests with environmental and societal interests, to prioritise long-term investments in people, processes and environment and have decision making grounded in data and analytics: the good news is that the survey results suggest this is increasingly the lens that Chinese executives' use to view the world.

^x Leading through disruption- PwC 20th Global CEO Survey – PwC China cut report

^{xi} Leading through disruption - PwC 20th Global CEO Survey – PwC China cut report



Research Methodology

The top three sectors in the Mainland China sample were Manufacturing (33%), Technology (10%) and Engineering and Construction (8%), whereas the top three sectors in the Hong Kong sample were Asset and Wealth Management (17%), Manufacturing (14%) and Insurance (10%).

Sample composition in the aggregated sample were primarily distributed among three main sectors: Industrial Manufacturing and Automotive^{xii} (41% of total executives), Financial Services (17% of total executives) and Technology, Communications, Entertainment and Media (15% of total executives). Segmenting firms by revenue: 19% of the sample firms post annual revenue up to US\$100 million, 32% of the sample is constituted of firms that post annual revenue between US\$101 to 999 million; 27% of the sample firms post annual revenues between US\$1 to 10 billion, 11% of the sample companies have revenues of between US\$ 10 billion to US\$25 billion, and 2% of the sample companies have revenues of US\$ 25 billion or more.

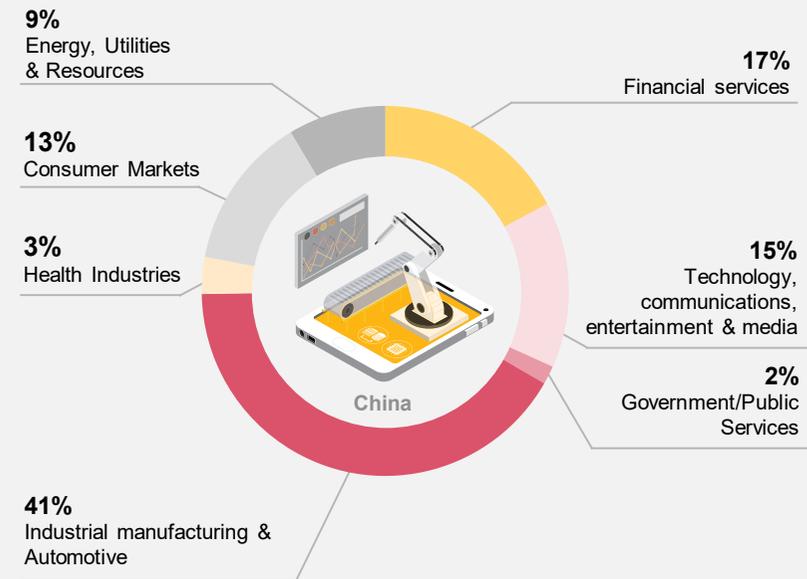
The aggregate sector composition shown in the data this year defines IM&A as one unit that includes: Automotive, Aerospace & Defence, Manufacturing, Engineering & Construction, Business Services.

(Worth noting that in the last two years, the sector aggregation used by our team locally follows that of the 21st AGCS China Report, which counted Industrial Manufacturing as separate to the following: Automotive, Aerospace & Defence, Engineering & Construction, Business Services).

In terms of the composition of firms in the sample, 28% of the executives in Mainland China surveyed represented publicly listed firms, compared to 24% in the Hong Kong sample and 40% in the global sample. In terms of the POE and SOE^{xiii} composition, firms with some level of government ownership or backing account for 30% of the Mainland China sample, compared to only 12% of the Hong Kong sample and 13% of the global sample.^{xiv}

Figure 20

Distribution of sample by sector



^{xii} The aggregate sector composition shown in the data this year defines IM&A as one unit that includes: Automotive, Aerospace & Defence, Manufacturing, Engineering & Construction, Business Services. Worth noting that in the last two years, the sector aggregation used locally follows that of the 21st AGCS China Report, which counted Industrial Manufacturing as separate to the following: Automotive, Aerospace & Defence, Engineering & Construction, Business Services.

^{xiii} POE refers to privately-owned enterprises and SOE refers to state-owned enterprises

^{xiv} Please note that there could be an overlap between privately-owned companies and companies with some level of government ownership, and hence the total of the two compositions is not 100%.

Figure 21

Distribution of sample by revenue

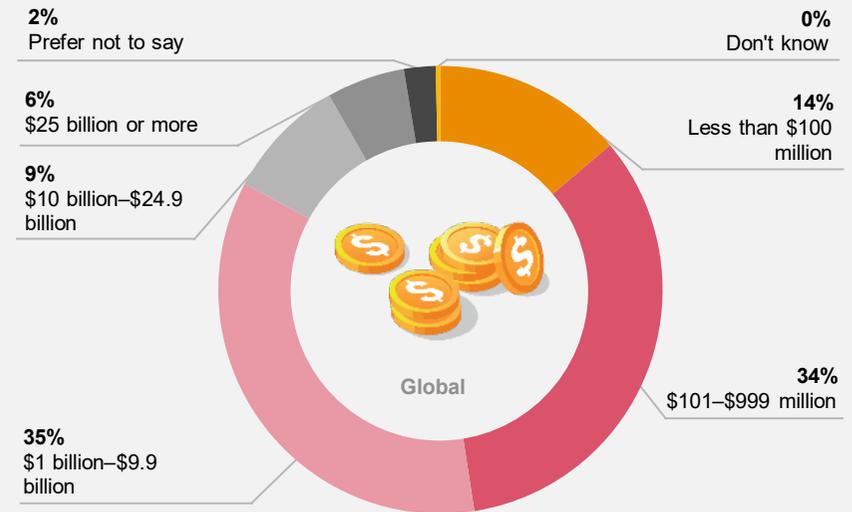
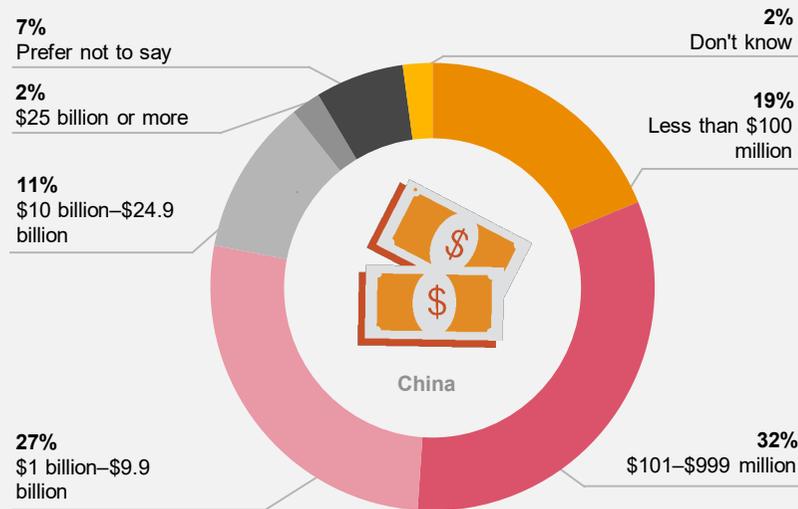


Figure 22

Distribution of sample by ownership

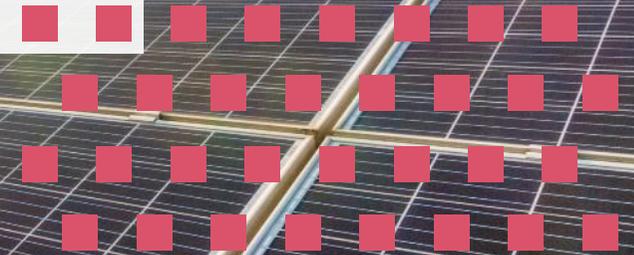
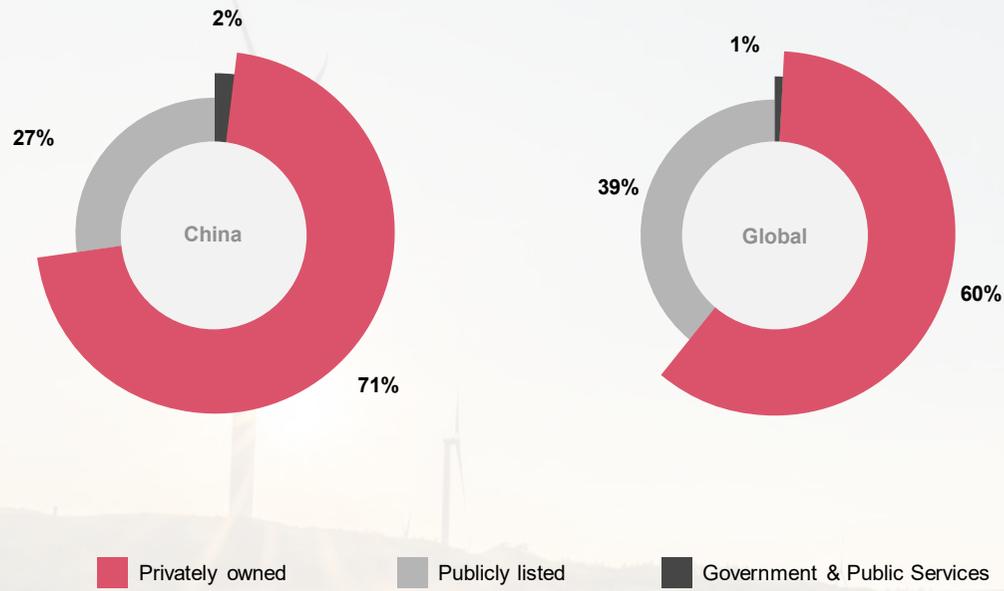


Figure 23

Distribution of sample by private ownership

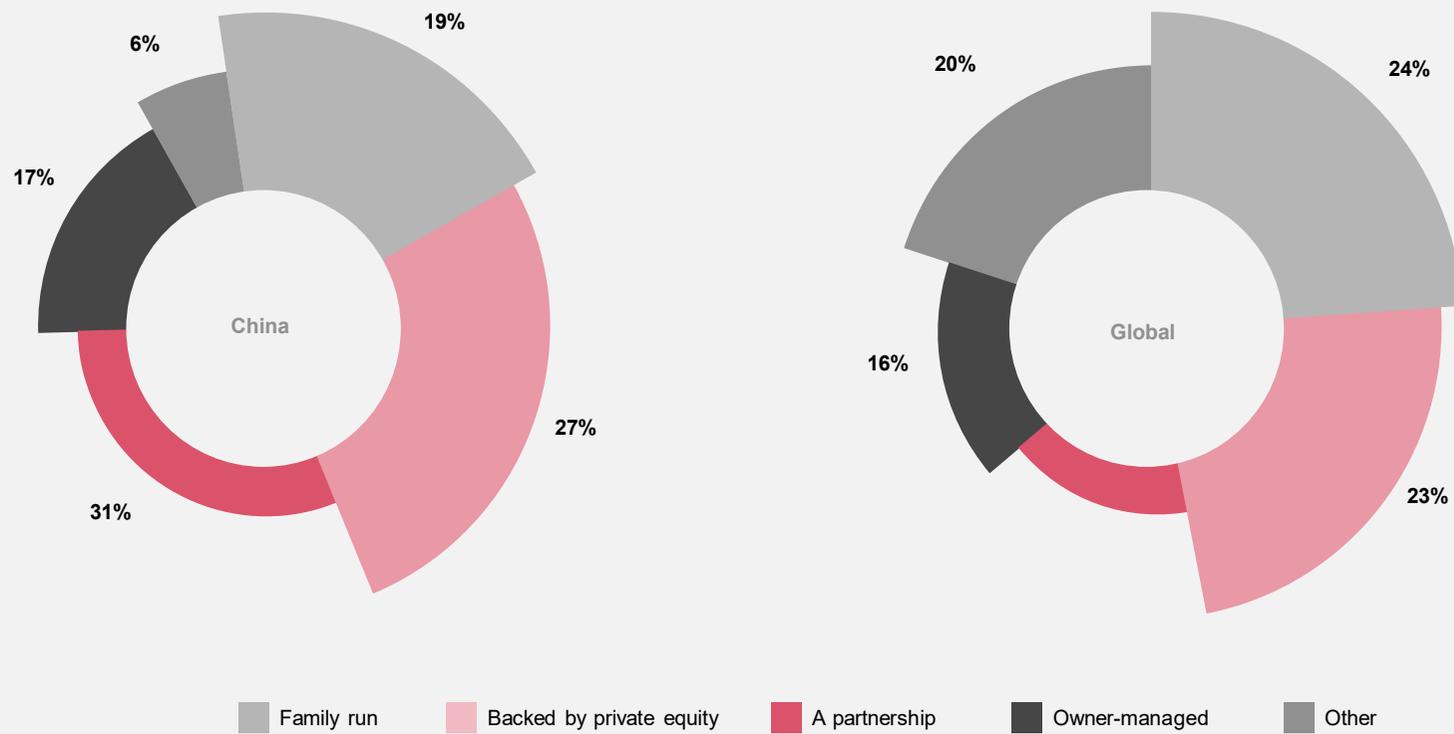
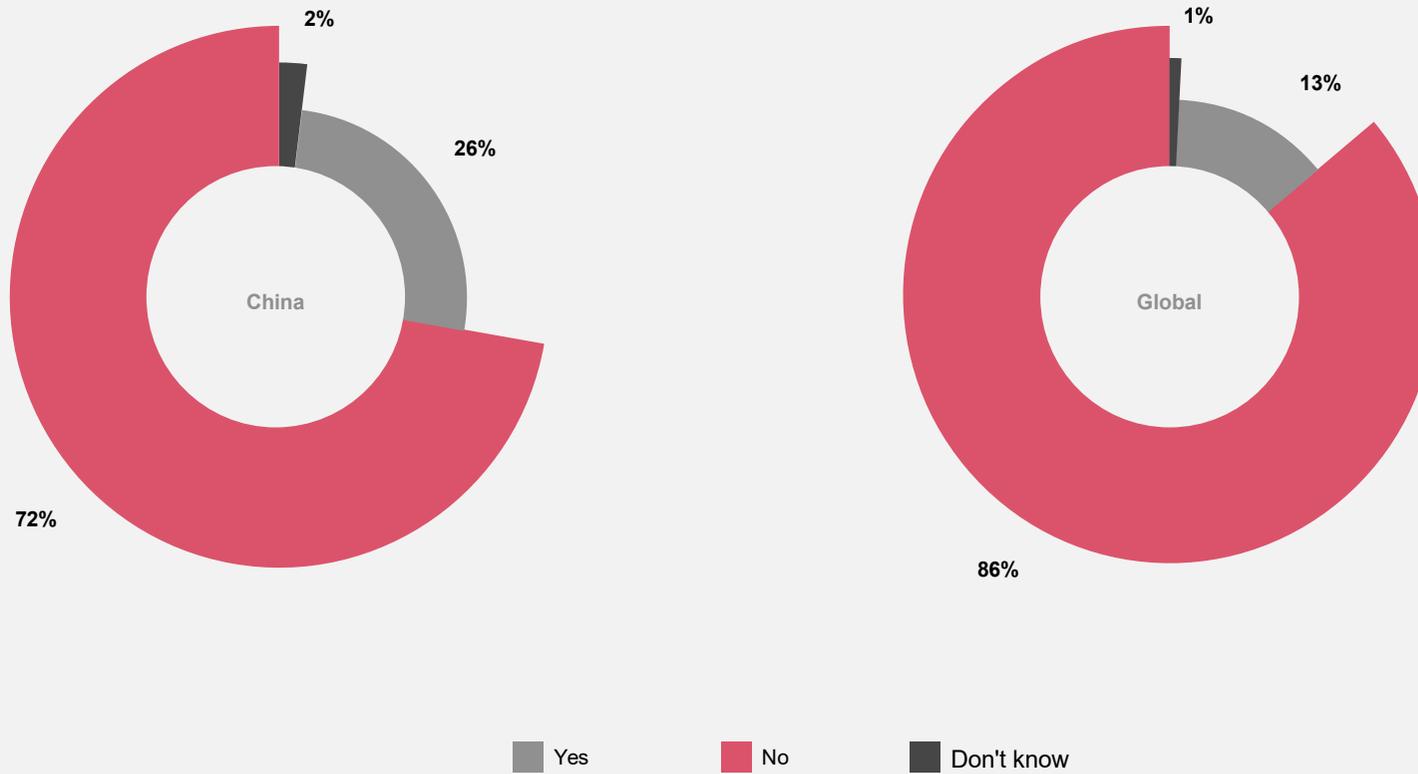


Figure 24

Distribution of sample by government involvement



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