27th Annual Global CEO Survey China Report

Stewarding business reinvention for high-quality growth

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Introduction

PwC's Annual Global CEO Survey, now in its 27th edition, offers valuable insights into the current macroeconomic trends through the lens of thousands of CEOs across the globe. This year's survey, the largest to date, encompasses the insights of : 4,702 CEOs, including 215 from Chinese mainland and Hong Kong SAR.

Against the backdrop of China's ongoing recovery from the past three years and the country's green transition to meet its climate pledges, the China report explores how CEOs are recognising the pressing need for business reinvention and starting to embrace innovative solutions, such as generative AI, to transform their business models in the face of profound changes in the market. This coincides with China's ongoing commitment to modernising its industrial system and developing 'new quality productive forces', as outlined in the latest Government Work Report.

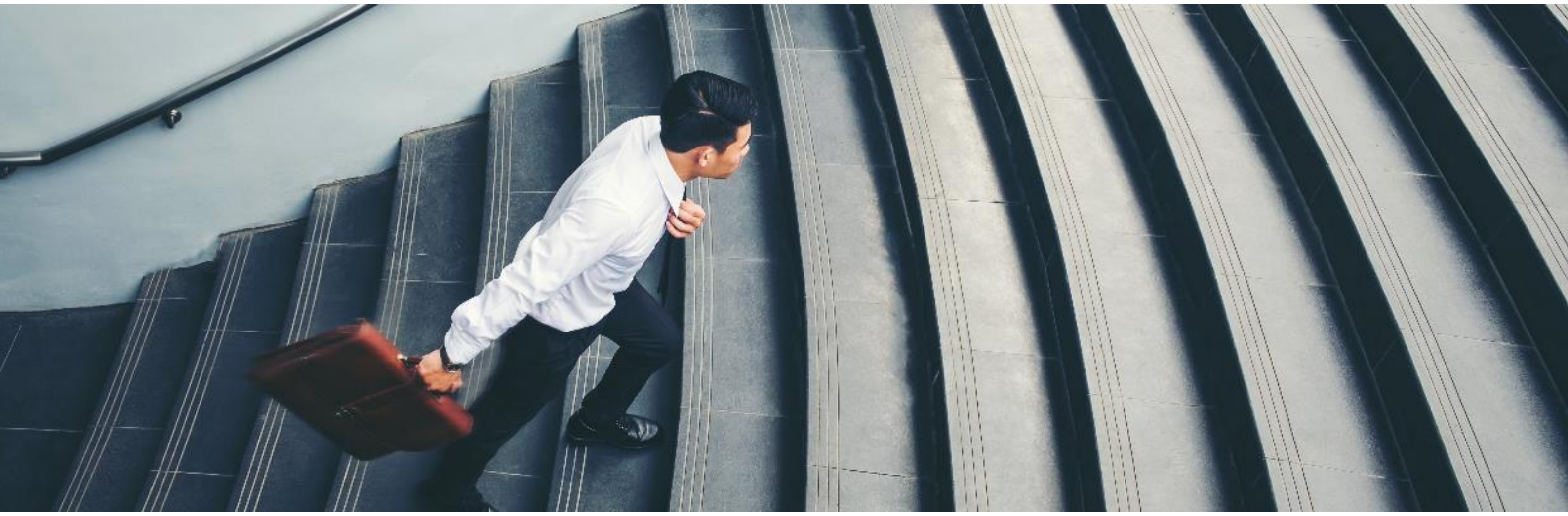
This report examines how the evolving business environment is shaping the decisions of Chinese CEOs. Despite a degree of uncertainty regarding China's economic growth, economic indicators in the first two months of 2024 pointed to continued recovery in exports, retail, and industrial outputs, as the government proactively rolls out new economic policies aimed at buoying market confidence and attracting foreign investments. We also see the continued importance of US, Germany and Japan as major growth markets for Chinese companies, as well as a growing interest in regional economies. This opens new expansion avenues for Chinese firms seeking to invest abroad and present attractive diversification options for those already operating internationally.

The theme of reinvention resonates strongly in this year's global report and Chinese companies are no exception to this global trend. In fact, our findings suggest that more than ever Chinese businesses are in need to re-evaluate their business model in order to remain relevant over the next decade. This imperative for transformation is underscored by government regulations, shifting consumer habits, and technological innovation, while structural changes in demographics and climate related issues are gaining importance in how Chinese CEOs weigh their business options. This report delves into the various actions taken by Chinese companies to reinvent themselves and the main barriers they encounter in the process. We also explore the roles played by the government in supporting the transformation journey of Chinese businesses through the implementation of new policies and regulations.

Despite the urgent need for climate action as evidenced by increased occurrence of extreme weather events, Chinese companies are lagging behind in their progress to address the impending climate crisis. Our survey highlights the disparity between the acknowledgement of climate issues by Chinese companies and the implementation of corresponding climate actions. With China's new reforms to incentivise public and private sector investment in sustainable practices, the awareness-investment disparity is bound to narrow as many industries are poised to benefit in the global climate race as the country continues to make strides in becoming a global powerhouse in sustainable energy.

Finally, we discuss the future of generative AI technology in China, exploring its current adoption level and prospects. While Chinese CEOs express optimism about the potential of generative AI, widespread adoption has been limited primarily due to funding constraints. Nonetheless, the strong drive among Chinese CEOs to reinvent their business models through various measures, especially tech-related solutions, has fuelled their interest in the application of generative AI technology. Meanwhile, the Chinese government is cultivating a conducive environment for generative AI adoption by establishing a clear regulatory framework. While Chinese CEOs acknowledge that embracing AI transformation would necessitate many operational changes within their company and the industry, there may be a tendency to overlook the potential risks and challenges associated with generative AI, underestimating the inherent complexities of this technology.

For the purposes of this report, 'China' refers to Chinese mainland and Hong Kong SAR. Where there is a statistically significant difference in the survey results between Chinese mainland and Hong Kong SAR (also referred to as 'Hong Kong') results are presented separately.



Theme 1

In search of growth prospects in China's fast-changing environment

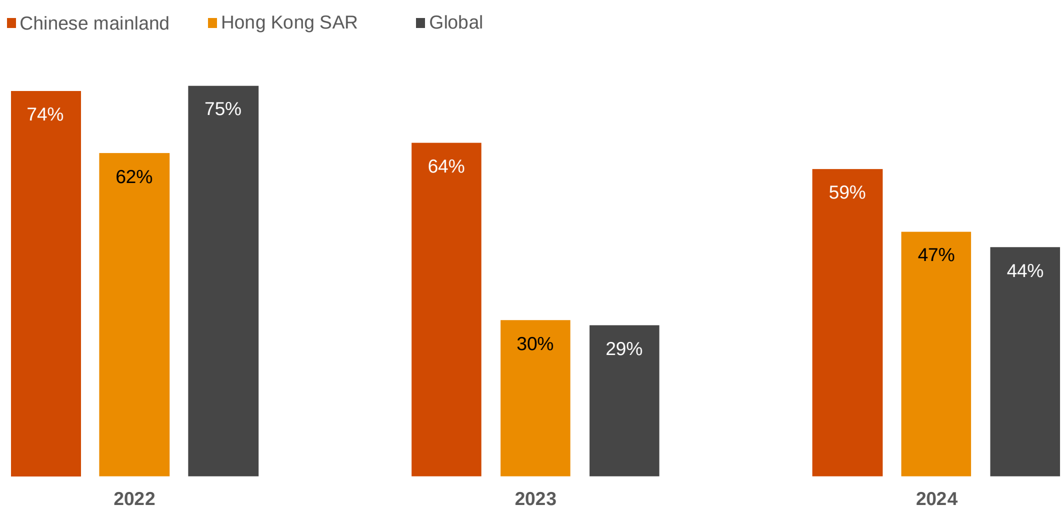
Chinese CEOs are cautiously optimistic about the future despite subdued confidence on business growth prospect

Despite the ongoing economic headwinds and weaker corporate growth, Chinese CEOs have expressed greater confidence in territory economic growth in the next 12 months, with 59% of Chinese mainland respondents and 47% of Hong Kong SAR respondents indicating optimism, compared with the global average of 44%. This sentiment echoed with the International Monetary Fund (IMF)'s recent forecast of China's GDP growth – which has been revised upward to 5.2% for 2023 and 4.6% in 2024, citing strength in the country's planned issuance of sovereign bond and various measures to support the economy.

Figure 1

CEO confidence the economy of their territory will grow in the next 12 months

How do you believe economic growth (i.e., gross domestic product) will change, if at all, over the next 12 months in your territory? (Showing only 'improve' responses)



With the aim of strengthening the momentum of economic recovery and achieving steady and long-term economic development, Chinese authorities are strategically planning measures to solidify the growth trajectory of the domestic economy in 2024. . China's "Two Sessions", concluded on 11 March 2024, set into motion a clear trajectory to achieving an annual growth rate of 5% and high-quality development, with emphasis on reform measures that expand domestic demand, optimise economic structures, boost confidence, ensure people's livelihoods, and prevent and defuse risks. This followed the comprehensive 25-point policy package, announced on 27 November 2023 by eight financial regulators and business chambers, aimed at facilitating increased and more accessible funding for private businesses. [1]

In addition to promoting the development of the private economy, boosting sci-tech innovation, expanding domestic demand, advancing green and low-carbon economy, the pursuit of high-level opening up is also a crucial priority set by China's Central Economic Work Conference in charting the country's path towards high-quality development in 2024.

As some businesses explore alternative investment options and to rebalance their supply chains, China aims to attract foreign investment back to the country. China released a 24-point plan in August 2023, pledging to improve the business environment to attract FDI. These measures, including easier visa policies, tax incentives, and data transferring rules, seemed to comfort foreign firms in continuing to invest in China. A PwC Study published in October 2023, titled Opportunities and Challenges for Brand Growth, revealed that 70% of multi-national corporations in China said they are not considering moving their production and sourcing operations out of the country, suggesting China continues to be attractive to foreign companies in the global supply chain ecosystem.

[1] The policy package pledged to increase the proportion of loans for private enterprises and proactively tailor financial services to the needs of the industrial and supply chains. It also stressed on ensuring "continuous funding services" for private enterprises, warning against "blindly stopping, suppressing, withdrawing or cutting off loans". Private businesses encountering difficulties but with competitive products, projects or technologies would also be provided with more advanced funding. In particular, private developers are assured of "stable credit and funding channels, including loans and bonds".

However, Chinese CEOs' assurance about the country's economic prospects is yet to translate into confidence for their own business. Our survey, conducted prior to the announcement of recent supportive policies, shows that Chinese CEOs are indeed less "highly confident" (Chinese mainland: 25%; Hong Kong SAR: 29%; Global: 37%) for their revenue growth over the next 12 months than their global counterparts. On the upside, only 2% of Chinese mainland CEOs are "not confident" about their company's revenue growth over the next year, compared with the global average of 10%.

In comparison to the short-term outlook, Chinese CEOs exhibit a slightly higher level of confidence in their own company's prospects for revenue growth over the next three years, although still shy of the global average.

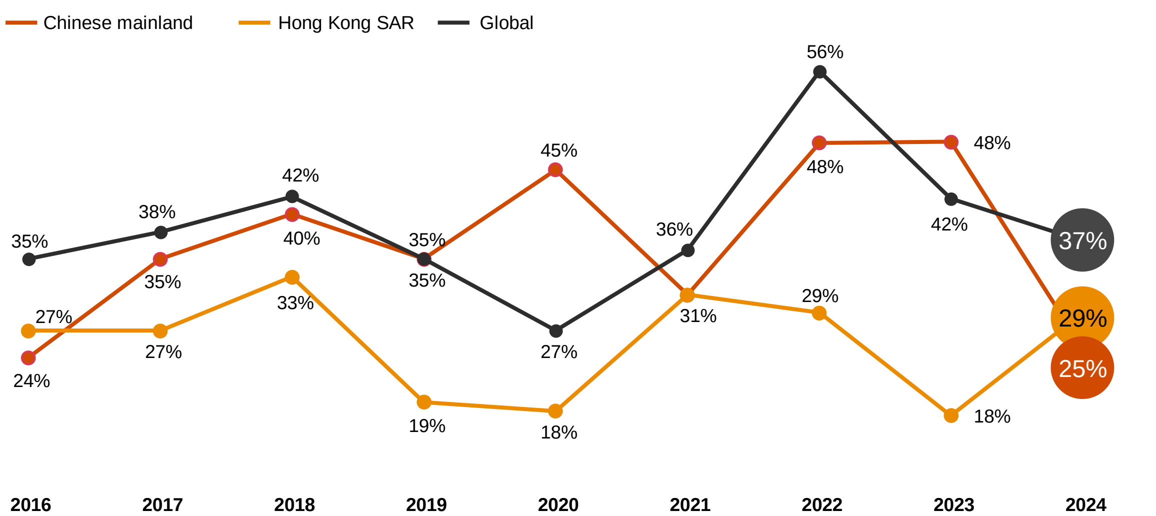
Hong Kong, the "super connector" bridging Chinese mainland and the global markets, is poised to regain market vitality and further solidify its position as an international financial centre in 2024. The recently unveiled 2024/25 Hong Kong Budget has been an impetus to drive the next phase of growth with the lifting of all curbs on the city's housing market and other measures to strengthen market confidence. PwC anticipates the value of initial public offerings in Hong Kong to double in 2024, reaching more than HKD100bn, which could put the city back into the world's top three fundraising hubs. Moreover, there is an expected rise in the number of newly listed companies in Hong Kong on the back of recovering valuation, substantial demand for corporate development financing, and the inflow of capital back to Asia.

Figure 2

CEO confidence in company's revenue growth in the short-term

How confident are you about your company's prospects for revenue growth over the next 12 months? (Showing only 'very confident' responses)

*2022, 2023 and 2024 data includes 'very confident' and 'extremely confident' responses

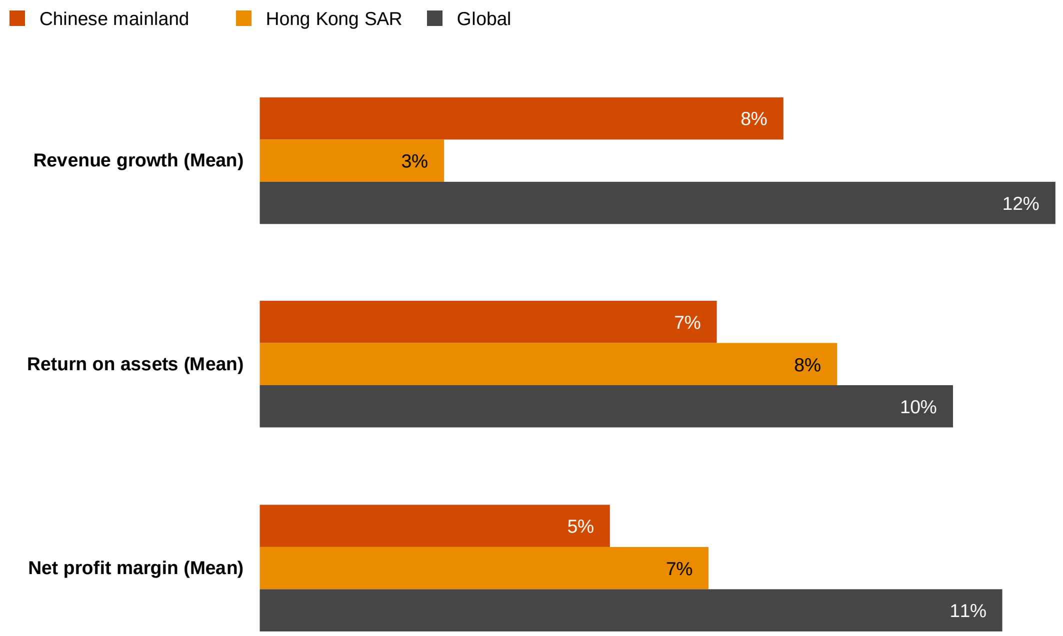


This cautious sentiment can be partly explained by lower confidence levels exhibited by Chinese CEOs on their company's revenue growth (Chinese mainland: 8%; Hong Kong SAR: 3%; Global: 12%), profit margins (Chinese mainland: 5%; Hong Kong SAR: 7%; Global: 11%), and return on assets (ROA) growth (Chinese mainland: 7%; Hong Kong SAR: 8%; Global: 10%) over the course of the most recently completed fiscal year.

Figure 3

CEOs' company performance during the last fiscal year

What was your company's revenue growth / net profit / ROA for the most recently completed fiscal year?



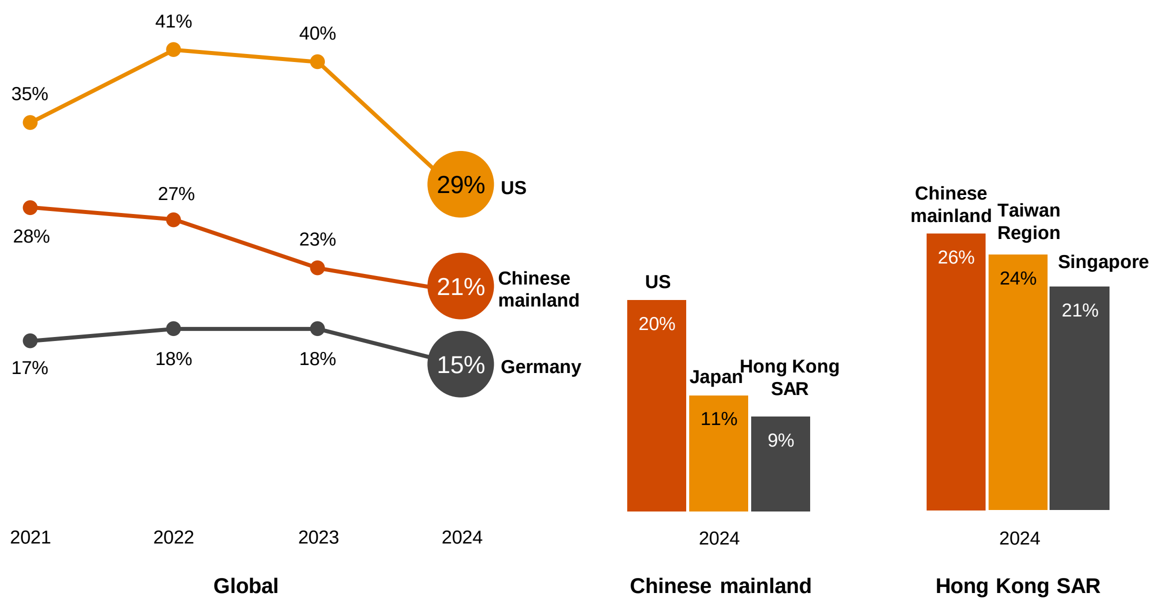
Chinese companies to diversify their overseas exposures eyeing RCEP and BRI opportunities

Looking at overseas market opportunities, Chinese mainland CEOs identified the United States (20%), Japan (11%), Hong Kong SAR (9%), Germany (8%) as the most important overseas markets for their companies' prospects for revenue growth in the next 12 months. Meanwhile, Hong Kong SAR CEOs consider Chinese mainland (26%), Taiwan region (24%), Singapore (21%), Malaysia (18%) and US (18%) as critical for their growth prospects in 2024. Chinese mainland remains the second most important external market for revenue growth for Global CEOs and came first in the ranking for Hong Kong-based companies. Similarly, the significance of the Hong Kong market to the mainland has experienced a notable increase in recent years, particularly thanks to deeper development of and cooperation within the GBA.

Figure 4

Most important external markets for growth

Which three countries/regions, excluding the country/region in which you are based, do you consider most important for your company's prospects for revenue growth over the next 12 months?



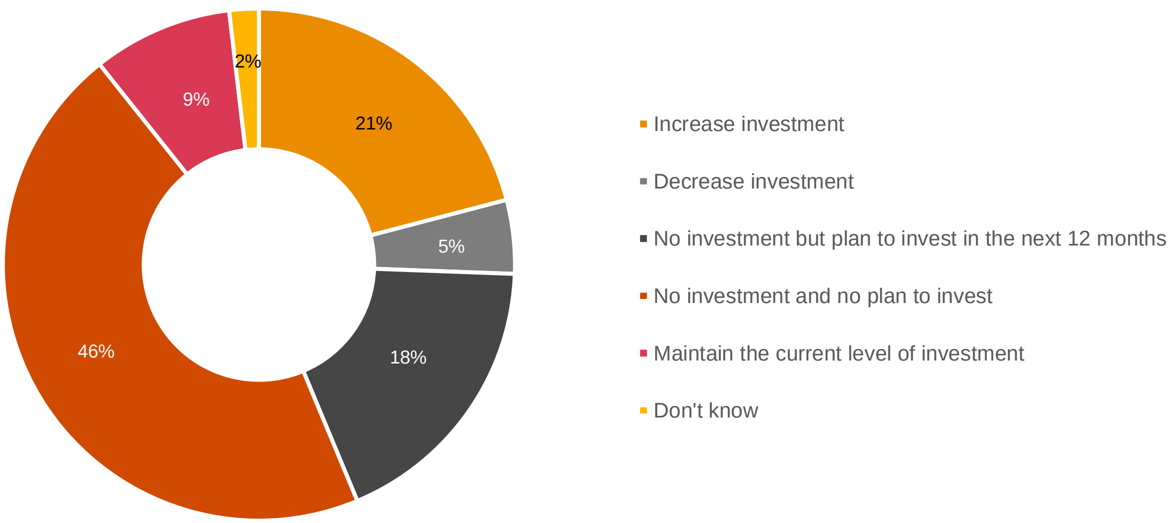
Although US, Japan, and Germany remain major trade partners for China, there is a noticeable trend of Chinese companies pivoting towards investing regionally in the member states of Regional Comprehensive Economic Partnership (RCEP), and to a lesser extent, in the Belt and Road Initiative (BRI) countries and regions. Trade between China and the 14 other RCEP member countries amounted to 12.6 trillion yuan (USD1.77tn) in 2023, an increase of 5.3% compared to the period before the agreement came into effect in 2021. The same year, China's exports to RCEP member countries reached 6.41 trillion yuan, constituting 27% of its total exports, a 1.1 percent increase from 2021.

China also saw a rise in non-financial investment, with a total of USD17.96 bn invested in other RCEP member countries in 2022, up 18.9% while attracting USD23.53bn of direct investment from these countries, up 23.1%. In light of this uptrend in commerce and investment, it is not surprising to see that 48% of Chinese respondents expressed their intention to either increase (21%) or maintain (9%) their investments or start investing (18%) in RCEP member countries.

Figure 5

Investments plans of Chinese CEOs in RCEP countries

With regards to your global footprint in the next 12 months, what are your investment plans in countries participating in the Regional Comprehensive Economic Partnership (RCEP) agreement?



Meanwhile, trade and investment flow via the BRI initiative have experienced robust growth over the past decade: In 2023, China's trade with countries participating in the BRI climbed 2.8% year on year to 19.47 trillion yuan, accounting for 46.6% of China's total foreign trade, representing an increase of 1.2 percentage points from last year. From 2013 to 2022, cumulative two-way investment between China and partner countries and regions surpassed USD380bn, including over USD240bn from China.

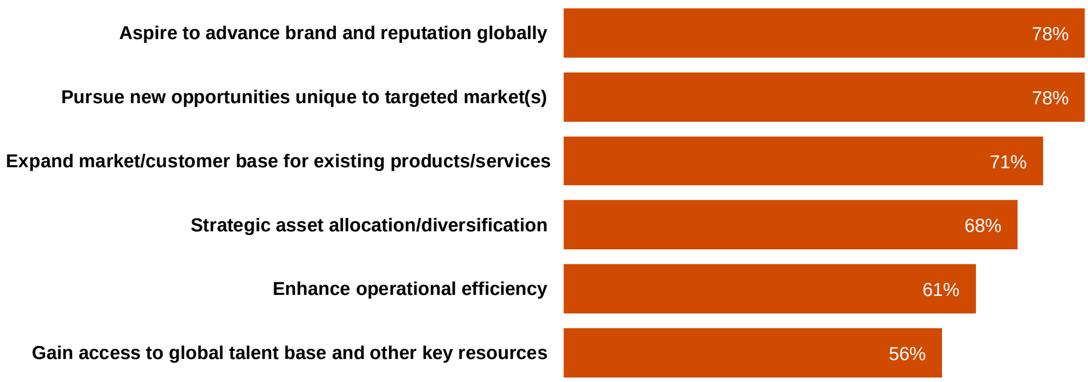
Similarly, according to PwC's Unicorn CEO Survey 2023, RCEP and BRI markets are also considered top choices for international expansion (17%) by Chinese unicorn companies, only shy of Asia-Pacific region (36%) and North America (32%) on their list of preference. In addition, 67% expressed their intention to maintain or increase their plans for international expansion, a significant increase from the 41% reported three years ago. Government policies have also been instrumental in incentivising more trade and investment within the region. This provides untapped opportunities for Chinese firms looking to invest abroad and present attractive diversification options for those already operating internationally.

In terms of primary motivations for entering or continuing operations abroad, a majority of Chinese CEOs cited a desire to further their brand reputation (78%), seek new market opportunities (78%), and expand their customer base (71%). Notably, for companies with international footprints, there is a clear propensity for market expansion and seeking to capture market shares abroad over a will to cut costs (61%) or seek new talents and resources (56%).

Figure 6

Chinese CEOs' motivations to pursue operations

What are your key motivations, if any, to enter into or continue operations in overseas market(s)?



Chinese companies' overseas brand building and expansion has been a continuing trend that has gathered pace in recent years. Chinese brands have gained growing recognition among overseas consumers as they pursued market expansion while focusing on high-quality growth characterised by innovation and localisation.[2]

While Chinese companies are expanding into the international arena, China, through its commitment to "high-level opening up," is equally attracting foreign investment into the country. The country saw the establishment of 41,947 new foreign-invested firms within its borders during the first 10 months of 2023, increasing 32.1% from the same period a year earlier. Meanwhile, foreign direct investment (FDI) in the Chinese mainland in actual use was about 137.6 billion U.S. dollars, down 9.4% year on year.

The government has been taking steps to restore the confidence of foreign investors through the easing of market access for foreign companies as per recent policy changes: China will continue to relax market access and provide a level playing field for foreign investors. To further stabilise investment confidence, China's Ministry of Commerce in November 2023 asked local governments to clear "unreasonable differential treatment" facing foreign companies.

Additionally, China is stepping up policy support for major projects funded by foreign companies, with coordinated efforts to address issues concerning land use, environmental assessment and energy consumption. The China Securities Regulatory Commission (CSRC) has green-lighted the establishment of seven foreign-controlled or wholly foreign-owned securities, futures and fund companies in 2023. The combined figure since 2020 has grown to 20.[3]

[2] According to the 2023 Chinese Global Brand Builders report, compiled by Kantar and Google, revealed that a minimum of 70% of surveyed global consumers expressed willingness to consider more than 90% of the 234 Chinese brands included in the research. Among the top 50 Chinese global brands named in the report were China's smartphone maker Xiaomi, home appliance company Haier and electric vehicle manufacturer BYD, who were widely recognised for their global impact and success.

[3] An examples of China's institutional opening-up in the financial service sector is that Mastercard has received approval, after American Express in 2020, from the People's Bank of China to operate a bank-card clearing institution in the country, enabling the issuance of yuan-denominated credit cards. This development ends years of waiting and allows domestic banks to offer Mastercard-branded cards in China. Also, Standard Chartered Bank (Hong Kong) got the nod to set up a securities firm in the Chinese mainland in 2023.

Theme 2

Business model reinvention is a new race for relevance

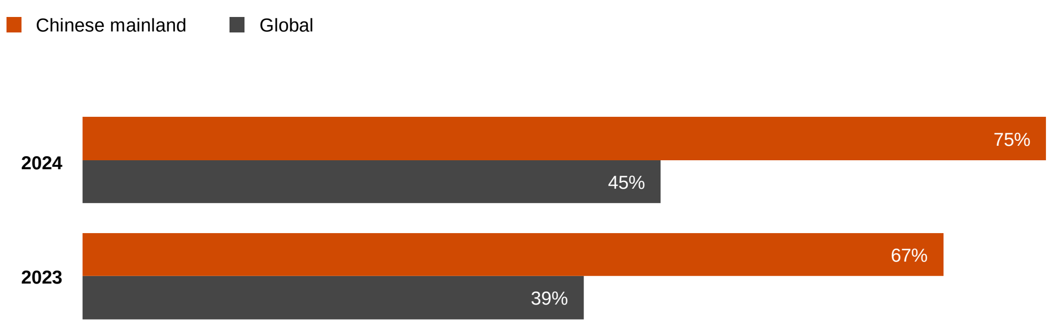
Chinese businesses face strong urge to reinvent themselves to stay relevant in the next decade

In a tumultuous world characterised by abrupt changes, both socially and economically, and the imminent effects of transformative technologies, it is not surprising to observe a pressing demand for change in the business environment. The majority of Chinese CEOs (China: 74%; Global: 45%) think their business model, if left unchanged, will not be viable in a decade, and most of them place their "viability expiry date" at 7-10 years (China: 54%; Global: 18%). This is a continuation of a trend observed in last year's survey where 67% of Chinese respondents declared that their current business model would be only viable for less than ten years.

Figure 7

Share of CEO surveyed that think their business model will not be viable in ten years or less

f your company continues running on its current path, for how long do you think your business will be economically viable? Show response for "in a decade or less".



The concern of Chinese CEOs regarding economic viability is underscored by the unprecedented and drastic transformative trends they are currently facing. As the Chinese economy transitions towards high-quality development, businesses need to courageously adjust to the business environment and reinvent themselves in order to survive and thrive. Additionally, as a major industrial hub for the world's economy, China finds itself more exposed to international headwinds as its manufacturing base could face waning demand in times of global economic downturns. This, combined with an ever-changing domestic environment, creates a dynamic in which Chinese businesses must be quick to adapt their strategy.

Globally, inflation, macroeconomic volatility, and cyber risks topped the risk radar for CEOs in the next 12 months. The primary risk exposure faced by Chinese mainland and Hong Kong SAR businesses, as measured by the proportion of "at least moderately exposed", revolves around macroeconomic volatility, and to a lesser extent, geopolitical conflict, cyber risks and climate change.

Figure 8

Perceived level of exposure for key threats in the next 12 months

How exposed do you believe your company will be to the following key threats in the next 12 months?

Note: Aggregate values of moderately + highly + extremely exposed

	Chinese mainland	Hong Kong SAR	Global
Health risks (including pandemics, chronic illness, strains on mental health	44%	53%	36%
Inflation (increase in prices and decrease in the purchasing value of money	43%	42%	66%
Climate change (including physical risks and transition risks such as risks in policy and legal, markets, technology and reputation)	39%	42%	39%
Macroeconomic volatility (including in GDP and economic cycle, unemployment)	39%	68%	66%
Geopolitical conflict (including resource and trade disputes, terrorism, interstate violence)	36%	58%	53%
Cyber risks (including hacking, surveillance, disinformation)	35%	63%	59%
Social inequality (including inequality stemming from income, gender, race and ethnicity)	28%	45%	24%

In particular, cyber risks are recognised as one of the most significant threats for global and Hong Kong CEOs. Since the implementation of the Cybersecurity Law in 2017, China has been consistently enhancing its legal framework in relation to cybersecurity and data privacy, including a timely update to its Personal Information Protection Law (PIPL) regulations in August 2023.

While inflation concerns some of our Chinese respondents, the proportion of them worrying about it is significantly lower than the global average (China: 43%; Global: 65%). Global inflation reached its highest in July 2022 since the mid-1990s, and since then has been subsiding but still remains significantly above the pre-pandemic average. OECD's projected annual headline inflation is expected to fall gradually to 5.2% in 2024, from 7.0% in 2023. Meanwhile, China is only experiencing relatively moderate inflationary pressures, with the average CPI showing a mere year-on-year increase of 0.2% in 2023.

The most influential factors determining the viability of Chinese companies' business models are technological changes (43%), government regulations (39%), and change in customer preferences (39%). These risk factors have had a significant impact on Chinese companies' operations, surpassing the effects of climate change (30%) and demographic shifts (27%).

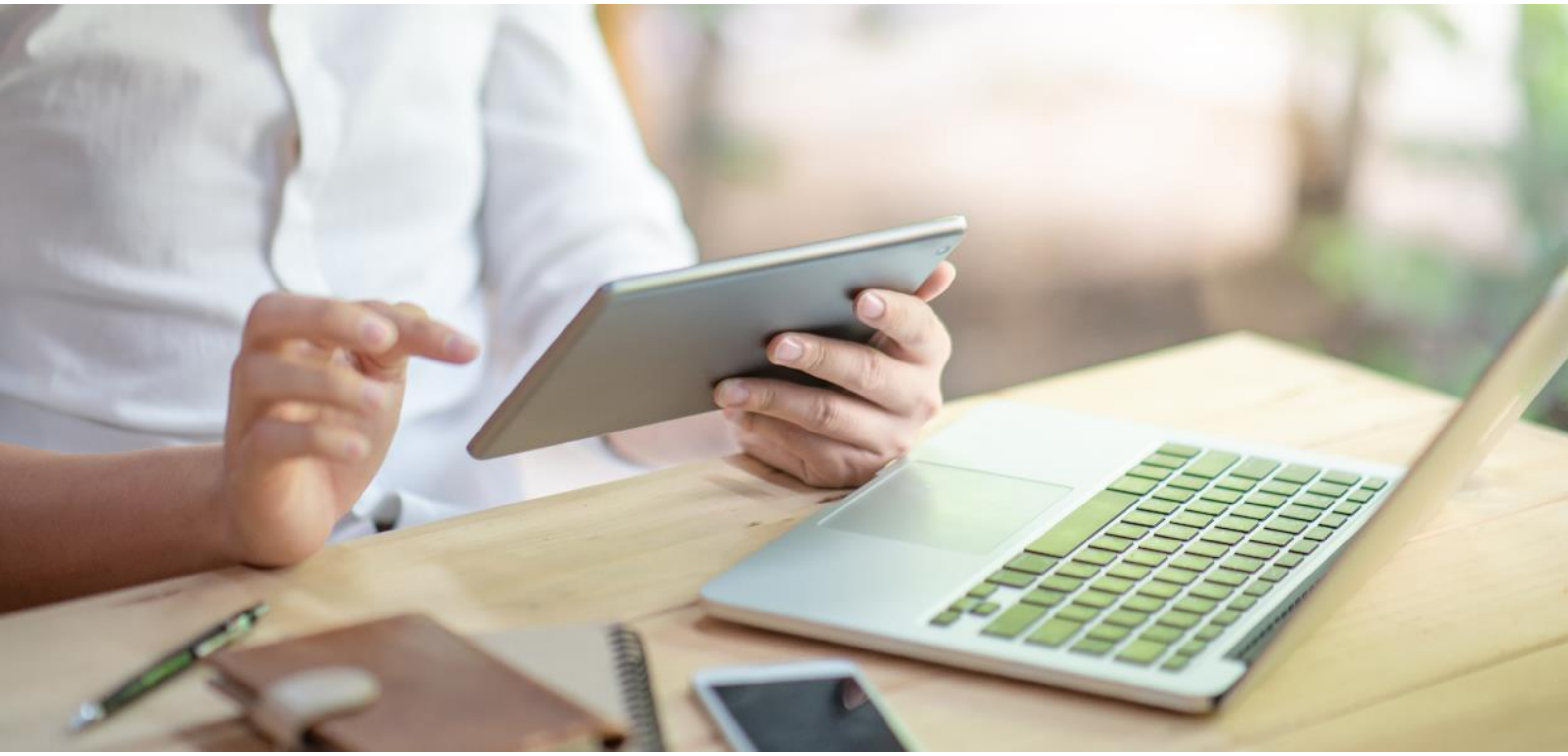


Figure 9

Driving factors for operational changes in businesses for the past five years

Please indicate the extent to which the following factors have driven changes to the way your company creates, delivers and captures value in the last five years? Showing combined responses of “to a large extent” and “to a very large extent”

0%-9% | 10%-19% | 20%-29% | 30%-39% | 40%-50%

	Chinese mainland	Hong Kong SAR	Global
Technological change	44%	39%	46%
Changes in customer preferences	41%	32%	42%
Government regulation	41%	29%	42%
Competitor actions	36%	29%	32%
Climate change	32%	18%	22%
Supply chain instability	29%	21%	31%
Demographic shifts	28%	18%	19%

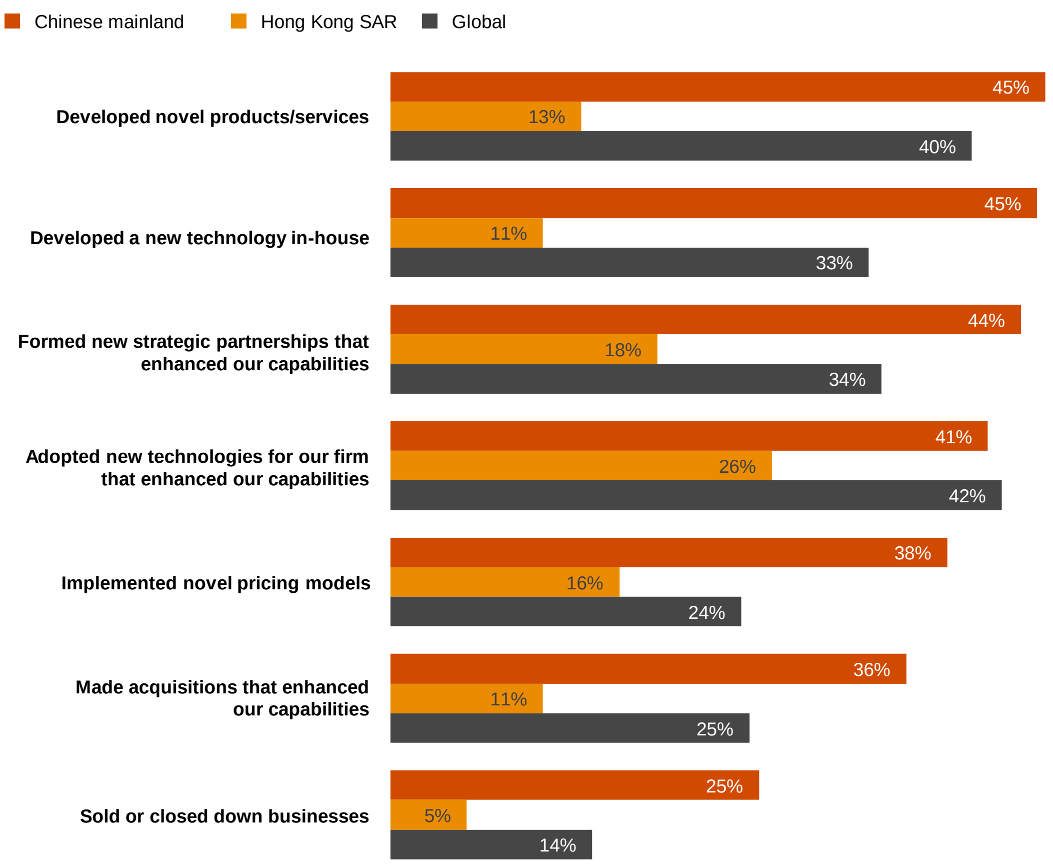
Chinese CEOs are taking proactive actions to transform their business model through new partnerships, price and product innovation, and technology enablement

With acute awareness to rising risk levels, Chinese mainland companies distinguish themselves by actively pursuing opportunities for business reinvention, engaging in various strategies that positively impact value creation, such as developing new technologies in-house (45%), innovating with novel products and services (45%) and forming new partnerships (44%).

Figure 10

Strategic actions impacting companies' business model over the last five years

To what extent have the following strategic actions impacted the way your company creates, delivers and captures value over the last five years?
Showing combined responses of "to a large extent" and "to a very large extent"



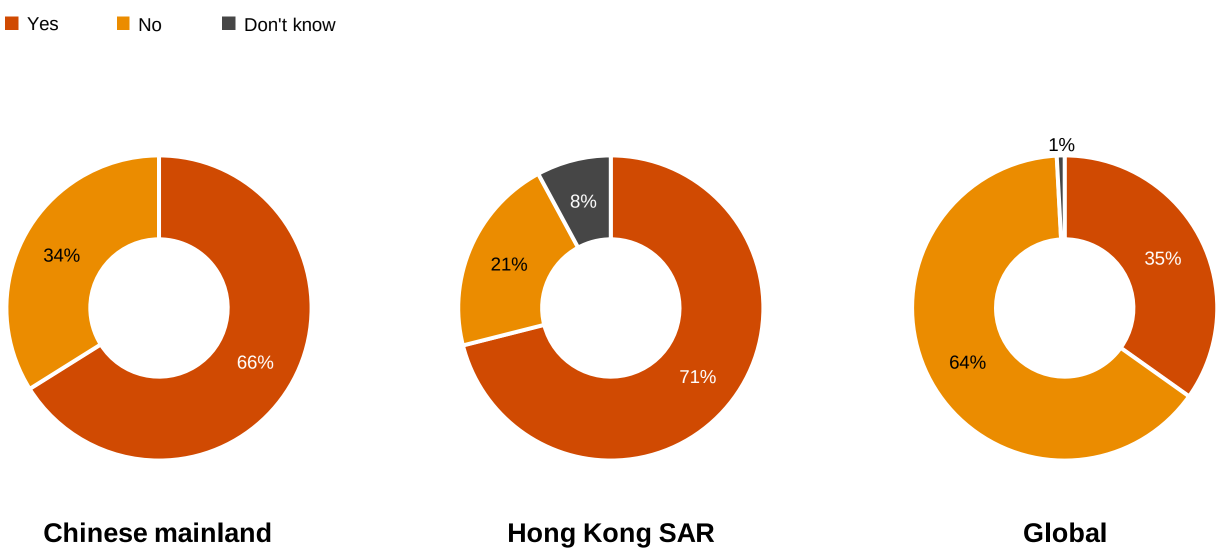
These companies recognise the importance of collaboration and have embraced the power of partnerships to drive growth and expand their reach. Innovation plays a crucial role in the strategies of Chinese companies, with a focus on enhancing their competitive edge. They are actively investing in research and development to innovate in both pricing and product offerings, ensuring they meet evolving customer demands and stay ahead in the market. Furthermore, Chinese companies are keenly aware of the transformative potential of technology. They are actively adopting new technologies to streamline operations, improve efficiency, and enhance customer experiences.

Additionally, Chinese CEOs reported a greater willingness than their global peers to explore new opportunities and acquire new capabilities through acquisitions, both inbound and outbound. Compared to organic growth methods, acquisitions allow companies with stronger cash position to act more swiftly to market changes, by gaining access to skilled talent, new markets, intellectual property, research pipelines and so on.

Figure 11

Share of companies having made large acquisitions in the past three years

Has your company made a major acquisition (more than 10% of assets) in the last three years?



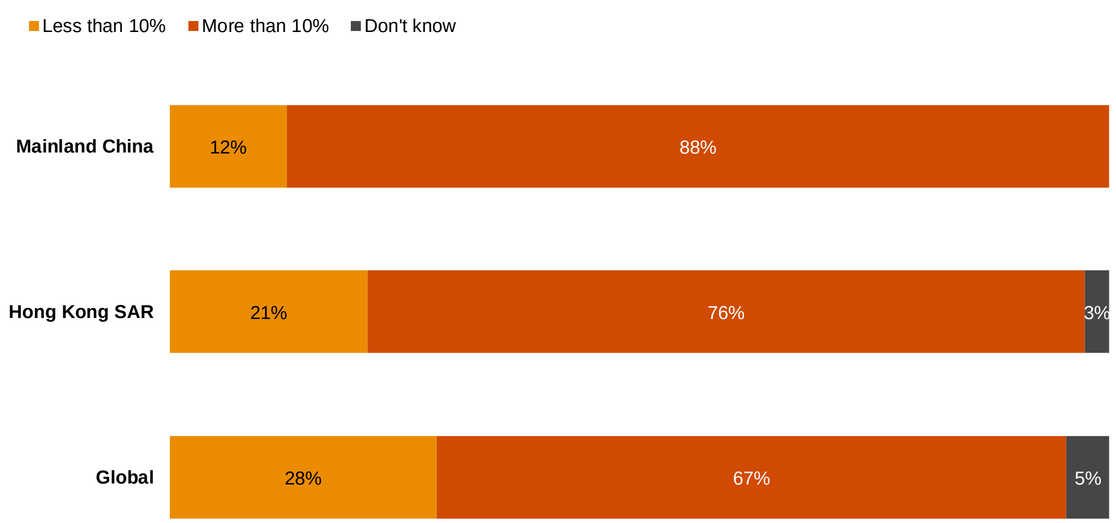
Despite a slow year in M&A deal-making and depressed valuations, MNCs still value highly their China-based operations while some see the current situation as a bargain-hunting opportunity to acquire high-quality assets. Unlike in past cycles, where growth deals constituted a significant portion of transaction volumes, there is a shift towards control deals as driven by market maturity and a greater openness among sellers to M&A exits.

Finally, in line with their pursuit of reinvention and adaptation, Chinese companies also demonstrate a notable trend of reallocating large portions of their budget more frequently. This strategic approach enables them to allocate resources in alignment with their evolving business priorities and growth strategies. Our survey reveals that Chinese companies tend to re-allocate larger parts of their budget on a yearly basis (Chinese mainland: 88%; Hong Kong SAR: 76%; Global: 67%). A higher percentage of Chinese companies (Chinese mainland: 19%; Hong Kong SAR: 29%; Global: 8%) are observed to be re-allocating 30%-40% of their resources yearly.

Figure 12

Share of companies having their resources (financial and human) reallocated from year to year

What share of your company's resources (financial and human) do you and your management team reallocate across your businesses from year to year?



Chinese businesses pivot towards regional strategies in the face of supply chain disruptions and trade challenges

Despite a strong urge to reinvent their business model amid a rapidly changing business environment, there are still major barriers that hinder the transformation of Chinese companies. Chinese mainland CEOs consider supply chain issues (33%), infrastructure challenges (31%), and regulatory environment challenges (30%) as the most crucial factors inhibiting their company from changing the way it creates, delivers and captures value. For Hong Kong CEOs, major obstacles are regulatory environment challenges (50%), competing operational priorities (24%), and lack of support from internal stakeholders (24%).

Figure 13

Factors inhibiting companies from changing their business model

To what extent, if at all, are the following factors inhibiting your company from changing the way it creates, delivers and captures value? (only showing 'To a large extent' & 'to a very large extent' responses)

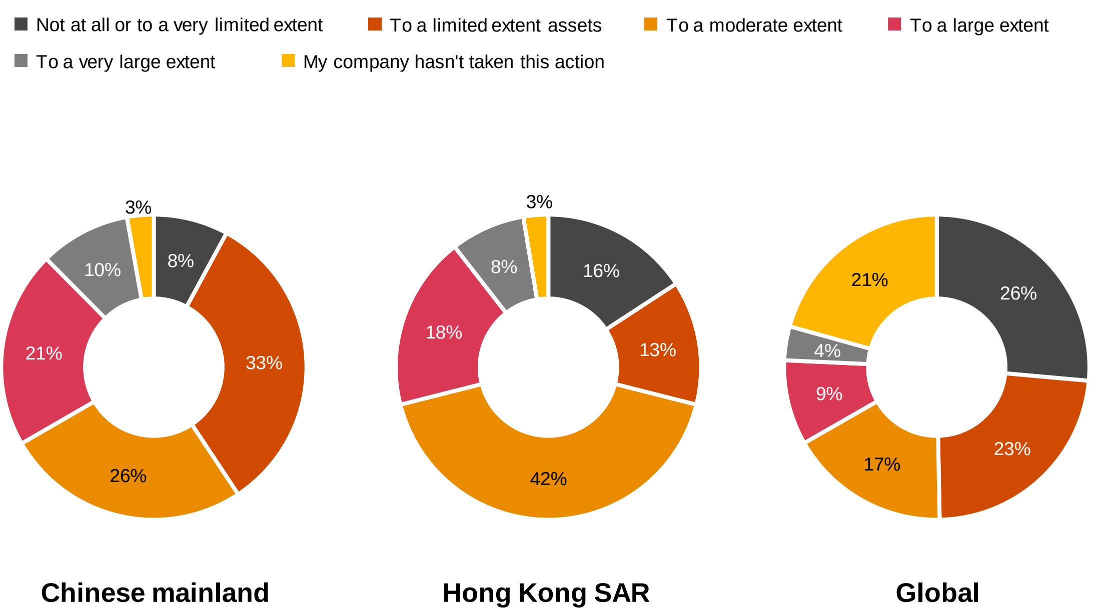
	Chinese mainland	Hong Kong SAR	Global
Supply chain instability	33%	18%	18%
Infrastructure challenges (e.g., power grid capacity, connectivity limitations)	31%	13%	16%
Regulatory environment	30%	50%	36%
Competing operational priorities	22%	24%	24%
Lack of support from internal stakeholders (e.g., my management team, workforce)	21%	24%	13%

Supply chain issues, in particular, have gained attention as China seeks to invest proactively into a tech-led supply chain transformation amid a more restrictive trade environment, particularly in the realm of microchip imports and other advanced tech products. The vast majority of the US-imposed tariffs initiated in 2018 are still in effect today prompting major trade shifts in the region. Nonetheless, the shift from a global supply chain model to a more regional one is particularly marked in China, with only 3% of surveyed Chinese companies (Global: 21%) declaring they did not undertake such action in the past 5 years and 31% of Chinese mainland and 26% of Hong Kong SAR respondents (Global: 13%) saying it affected their business model to a large or very large extent.

Figure 14

Impact of shifting to a regional supply chain model on companies

To what extent has the shift from a global supply chain model to a regional one impacted the way your company creates, delivers and captures value over the last five years



This shift toward a regional system is highlighted by the aforementioned growth in trade relations between China and RCEP member countries, but also by Chinese outbound investment trends. Asia indeed remains the main destination for Chinese M&A both in volume and value with USD10.8bn worth of deals made in 2022 in the region. This movement towards heightened regional ties is also characterised by an increase in bilateral cooperation between China and other countries in the region. Vietnam has, for example, recently joined China's "community with a shared future" initiative, signing 36 bilateral cooperation documents in the process including various memoranda of initiative, protocols, and agreements on a wide range of topics.

Theme 3

Taking climate actions into the boardroom

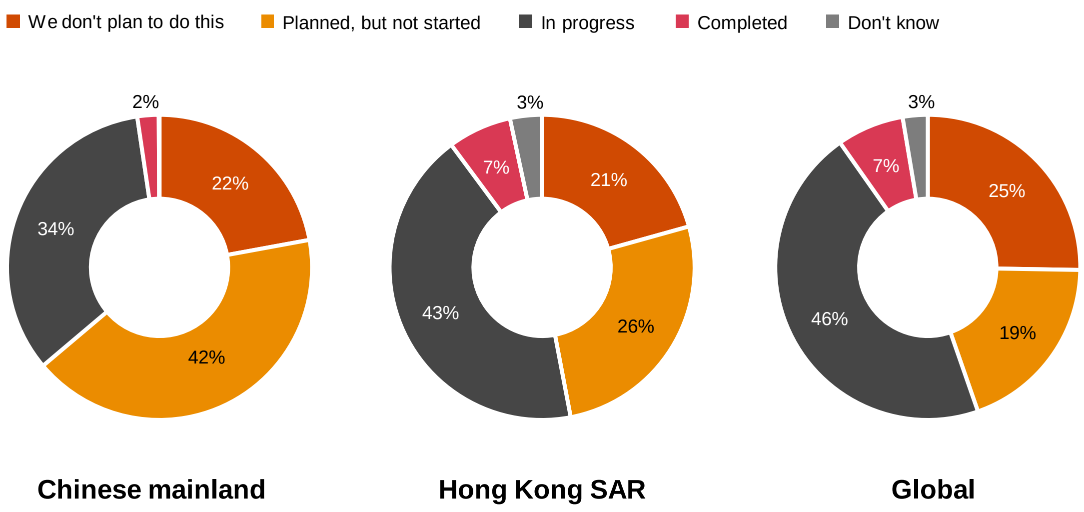
Chinese CEOs redirect resources to address imminent challenges while long-term climate commitments remain intact on the back of government policies and incentives

Chinese companies appear to be trailing behind their global counterparts in the implementation of climate change actions. Our survey indicates that, while Chinese CEOs have at large initiated plans for a range of climate-related initiatives, only a small percentage have completed their planned climate actions so far. Additionally, the proportion of Chinese CEOs reporting ongoing climate actions also fell short of their global counterparts.

Figure 15

Progress on implementing climate-friendly actions

Which of the following best describes your company's overall level of progress on implementing climate-friendly actions?



A company's decision-making process regarding climate investments is a complex one, often impacted by macroeconomic policy, industry dynamics, and their unique circumstances. In particular, dented corporate growth and profit margins experienced by Chinese companies might be one cause for slower-than-expected climate progress, as financial resources are redirected to address imminent challenges in the short term, in some cases at the expense of climate actions.

This echoes with the downtrend of total global venture and private equity investment, which fell by 50.2% in 2023. Even though the impact on green finance was relatively less severe, private market equity and grant funding to climate-tech startup still shrank by 40.5% globally. While China has taken a global leadership role in developing its clean energy industry, especially in wind and solar, many traditional sectors still seem to be at the planning stage of their climate action journey.

To incentivise private sector investment in climate solutions and enhance climate change resilience, China has launched an extensive range of measures from climate change mitigation efforts to supportive local government policies and corporate initiatives. The country's willingness to tackle climate change was reaffirmed through a joint statement issued by the US and China, which outlined 25 points of agreement on jointly tackling the climate crisis.[4]

China has also pledged to consistently advance green development in sectors such as green infrastructure, green energy, and green transportation, aimed at supporting the high-quality Belt and Road cooperation. The country unveiled a new partnership during the 3rd Belt and Road Forum, focused on assisting developing nations in identifying and implementing green projects.

The green economy has generated tremendous business opportunities for China's green and low-carbon industries. In 2023, China's export value of electric vehicles, lithium batteries, and solar cells soared by 30% to reach a record high of RMB1.06tn, surpassing the one-trillion-yuan mark for the first time. As green development continues to gain traction in China, it is expected that an increasing number of Chinese companies will prioritise long-term sustainability, ethical considerations, and regulatory requirements over short-term financial gains.

[4] The statement, published on November 27th 2023, included joint commitments to implement the Paris Agreement, triple renewable energy capacity globally by 2030, implement technologies and measures to control greenhouse gas (GHG) emissions and air pollutants and support climate cooperation between states, provinces, and cities in each country.

Speaking of factors impacting Chinese companies' abilities to decarbonise their business model, Chinese respondents reported the lesser return on investment for climate-friendly investments (Chinese mainland: 26%; Hong Kong; 23%; Global: 23%), a general lack of demand from external stakeholders (Chinese mainland: 22%; Hong Kong: 11%; Global: 21%), lack of climate-friendly technologies in certain industries (Chinese mainland: 19%; Hong Kong: 14%; Global: 21%), as well as insufficient buy-in from management team or board members (Chinese mainland: 16%; Hong Kong: 6%; Global: 7%).

Figure 16

Factors inhibiting companies, ability to decarbonise their business model

To what extent, if at all, are the following factors inhibiting your company's ability to decarbonise its business model? （Only showing 'To a large extent' & 'to a very large extent' responses）

0%-8% 9%-16% 17%-25% 26%-32%

	Chinese mainland	Hong Kong SAR	Global
Lower returns for climate-friendly investments	26%	23%	23%
Lack of demand from external stakeholders (e.g., customers, investors)	22%	11%	21%
Lack of climate-friendly technologies for my sector (e.g., green jet fuel)	19%	14%	21%
Lack of buy-in from my management team or the board	16%	6%	7%

On top of the aforementioned policies aiming at incentivising companies to pursue sustainable practices, Chinese regulators are also working on a framework for ESG disclosures for firms listed in China. This important measure will be instrumental to tackling the perceived complexity of China's climate-regulations, which Chinese CEOs identified as the largest barrier to decarbonising their business model. State-owned enterprises (SOEs) are taking the lead in ESG disclosure as all publicly listed central SOEs in China had to disclose ESG information by the end of 2023.

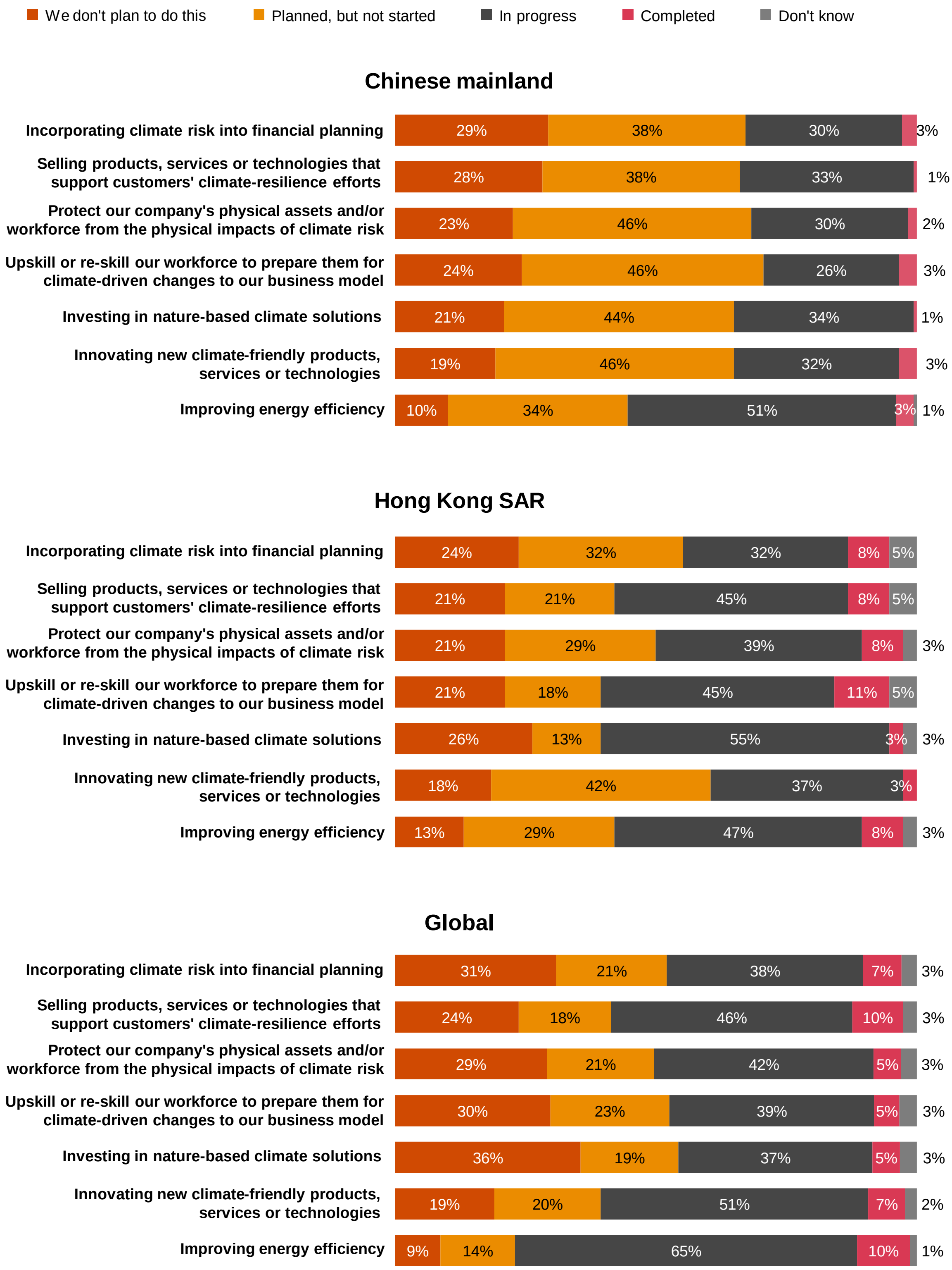
Energy efficiency and product innovations are keys to tackling climate change

The top two frequently used strategies for tackling climate change among both Chinese and global respondents are improving energy efficiency (Chinese mainland: 88%; Hong Kong SAR: 84%; Global: 89%), as well as pursuing climate-friendly product innovation (Chinese mainland: 81%; Hong Kong SAR: 82%; Global: 78%). Nature-based solutions, which aim at reducing emissions through the enhancement of ecosystems' ability to sequester carbon dioxide, are ranking third among methods selected by Chinese mainland CEOs. This option is significantly more popular compared to the global average (Chinese mainland: 79%; Hong Kong SAR: 71%; Global: 61%).

Figure 17

Companies' progress on implementing climate-friendly actions

To what extent, if at all, are the following factors inhibiting your company's ability to decarbonise its business model? (only showing 'To a large extent' & 'to a very large extent' responses)



In January 2021, China's Ministry of Ecology and Environment released "Guiding Opinions on Integrating and Strengthening Efforts in Climate Actions and Ecological and Environmental Protection", which prioritises nature-based holistic governance approaches to "integrating, coordinating and strengthening climate and ecological and environmental conservation." It resonates with a paper the ministry released in 2019 called "China's policies and actions for Addressing Climate Change" which also covers in detail this kind of solutions.

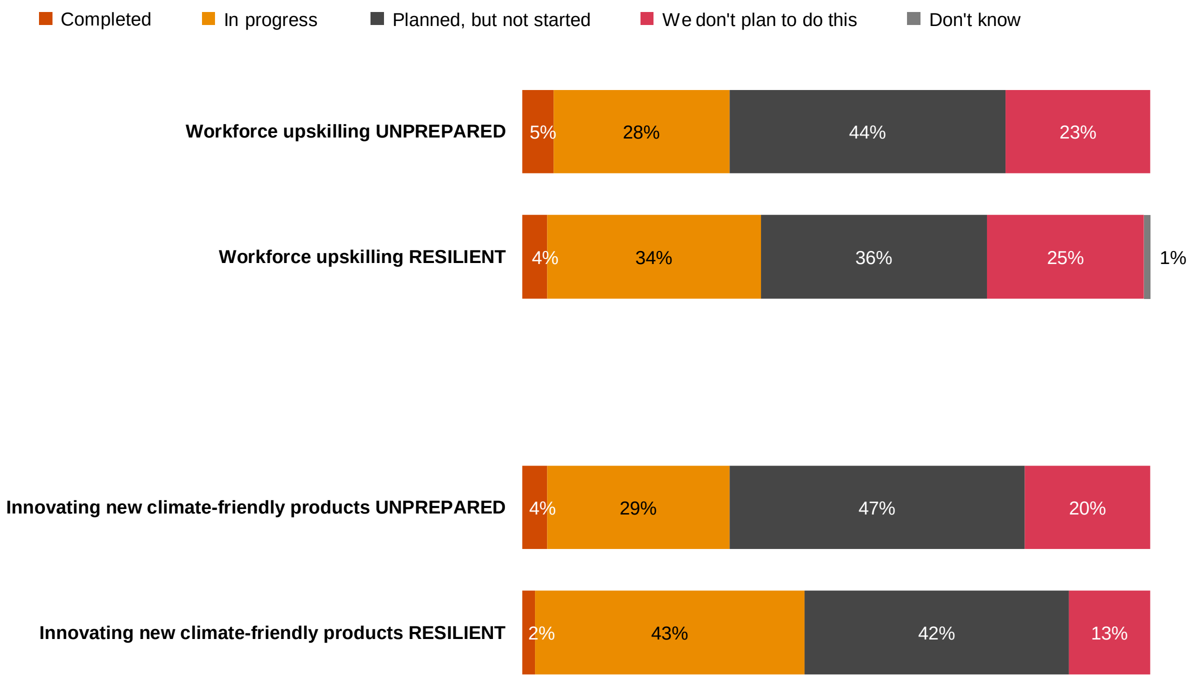
Companies taking early climate actions are also among the most resilient ones. Indeed, Chinese respondents that see their business model surviving longer than 10 years have started to develop climate-friendly products and to upskill their workforce on a much higher basis than those that do not (43% & 34% v 29% & 28% respectively).

Figure 18

Progress of implementation of climate-friendly actions for unprepared and resilient companies in China

Which of the following best describes your company's level of progress on each of these actions?

Resilient: businesses who's model is set to survive the next 10 years
Unprepared: Businesses who's model will need reinvention in less than a decade.



While it is obvious that forward-thinking companies would display better preparedness for future changes, this is doubly true when it comes to climate measures, especially in China. Indeed, higher-than-average climate exposure and a fast-evolving regulatory landscape make it vital for Chinese firms to future-proof their climate policy or incur the risk of paying a hefty price.

Furthermore, as more and more countries are increasingly taking pledges to reduce their greenhouse gas emissions, they are starting to adopt carbon reduction or net-zero policies. These policies, such as the European Union's Carbon Adjustment Mechanism, will have a significant direct or indirect impact on carbon emissions in the near future. These hidden costs could prove to be massive for specific industries in many countries, including China. For example, a PwC study, titled the Hidden Cost of Carbon, found that China's chemicals sector could see a 50-fold increase in the cost of carbon under the scenario proposed by the International Energy Agency for reaching net-zero emissions by 2050.

Theme 4

Scouting the next growth frontier of GenAI

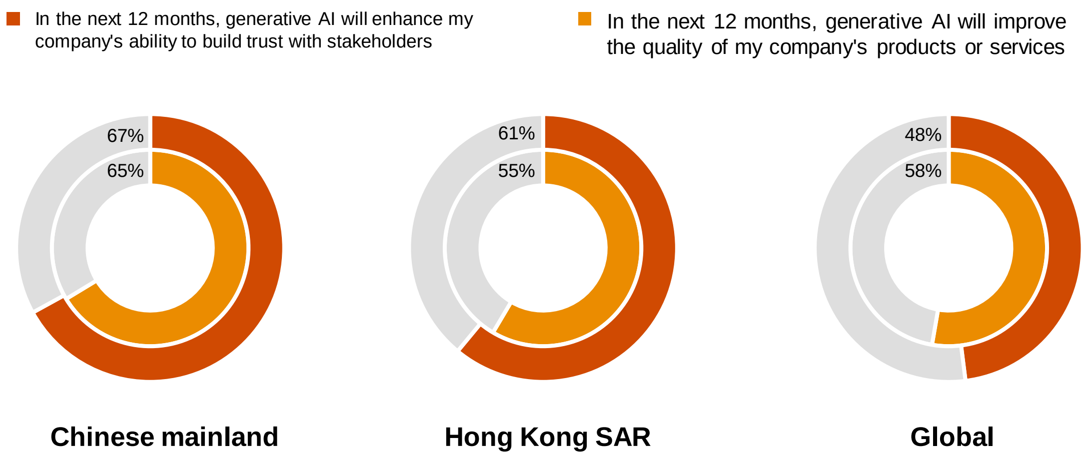
Chinese companies are hopeful about the transformational capabilities of GenAI in reinventing their business model

Chinese CEOs are relatively bullish on the potential of GenAI across a wide range of metrics, recognising its transformative nature and the associated benefits. Chinese respondents attached higher significance to the ability of GenAI to build stakeholder trust (Chinese mainland: 67%; Hong Kong SAR: 61%; Global: 48%) and agreed that AI-driven transformation will help improve their product/services (Chinese mainland: 65%; Hong Kong SAR: 55%; Global: 58%).

Figure 19

Do you agree or disagree with the following statements about generative AI?

To what extent do you agree or disagree with the following statements about generative AI? (showing only 'agree' responses)



In addition to the imperative for Chinese businesses to reinvent themselves, their enthusiasm for generative AI is also bolstered by the Chinese government's proactive efforts to spearheading regulations on GenAI in order to foster a conducive market environment, further fuelling the optimism surrounding GenAI among Chinese businesses.

In July, 2023, Chinese regulators implemented new comprehensive measures for the management of generative AI services. These measures encourage platform construction, independent innovation, international exchange, and the development of GenAI technology for various applications while subjecting it to reasonable supervision.

On the international stage, China has agreed to work with 27 other countries including the US and UK to ensure artificial intelligence is used in a "human-centric, trustworthy and responsible" way, in the first global commitment of its kind.[5] China also launched the Global AI Governance Initiative in October, drawing up blueprints for relevant international discussions and rulemaking. China's call for a "people-centred approach" suggests all countries should have "equal rights" on AI development.

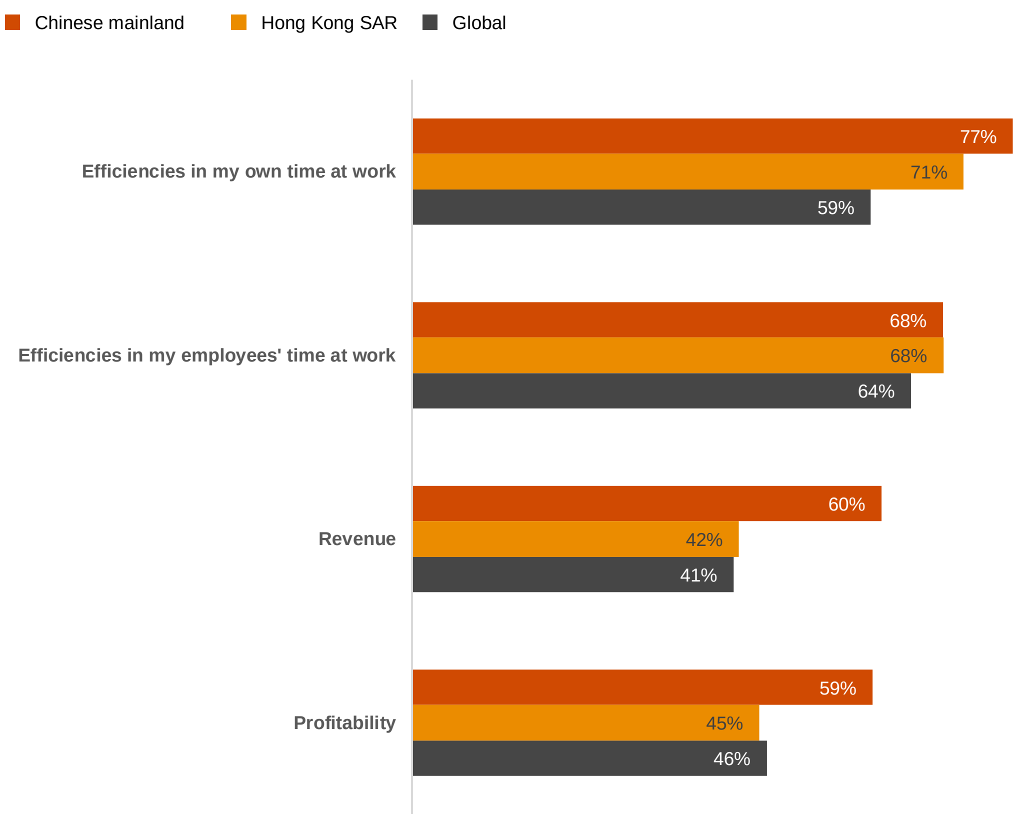
Bolstered by the prospects of an encouraging regulatory environment, Chinese mainland CEOs also indicated that generative AI would increase their own work efficiency (Chinese mainland: 77%; Hong Kong SAR: 71%; Global: 59%), revenue (Chinese mainland: 60%; Hong Kong SAR: 42%; Global: 41%), and profitability (Chinese mainland: 59%; Hong Kong SAR:45%; Global: 46%) to a greater extent than their global counterparts.

[5]Through the Bletchley Declaration, the signatories recognised risks of advanced AI models, and agreed to address them through international co-operation.

Figure 20

Will generative AI increase the following in your company in the next 12 months?

To what extent will generative AI increase or decrease the following in your company in the next 12 months? (showing only increase)



As GenAI technology develops further, new opportunities arise from the latest AI advancements with AI-powered tools seeing further integration potential across vast swathes of industries. Chinese businesses have barely started to embark on their AI adoption journey, but those that have taken their first steps are already seeing efficiency gains. Indeed, a recent PwC pulse survey conducted jointly with HKTDC highlighted that financial services firms in Hong Kong that had implemented generative AI tools had already seen great efficiency gains in different areas such as fraud detection, claims processing, virtual assets trading platforms, biometric authentication, and virtual assistants.

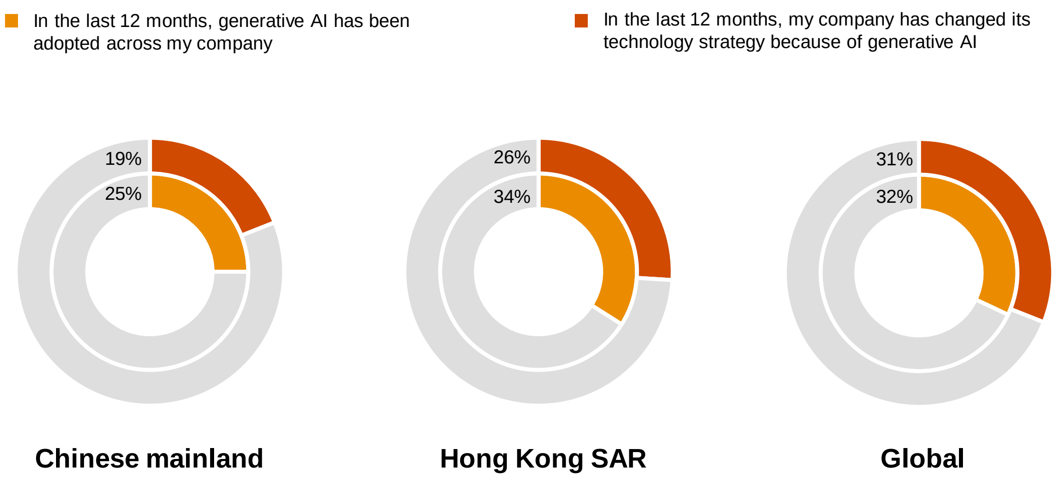
Chinese CEOs demonstrate willingness to act on their GenAI transformation, albeit in a slower pace than Global

Recognising the promise of the game-changing technology, Chinese mainland CEOs reportedly took measures in the last twelve months to change their technology strategy to incorporate GenAI (Chinese mainland: 19%; Hong Kong SAR: 26%; Global: 31%) and that they have adopted GenAI across their company's operations (Chinese mainland: 25%; Hong Kong SAR: 34%; Global: 32%) to a lesser extent than the global average. On the other hand, less than 40% of Chinese respondents indicated that they had not taken any measures related to GenAI in the past year, lower than the global average of around 50% for their counterparts.

Figure 21

Do you agree or disagree with the following statements about generative AI?

To what extent do you agree or disagree with the following statements about generative AI? (showing only 'agree' responses)



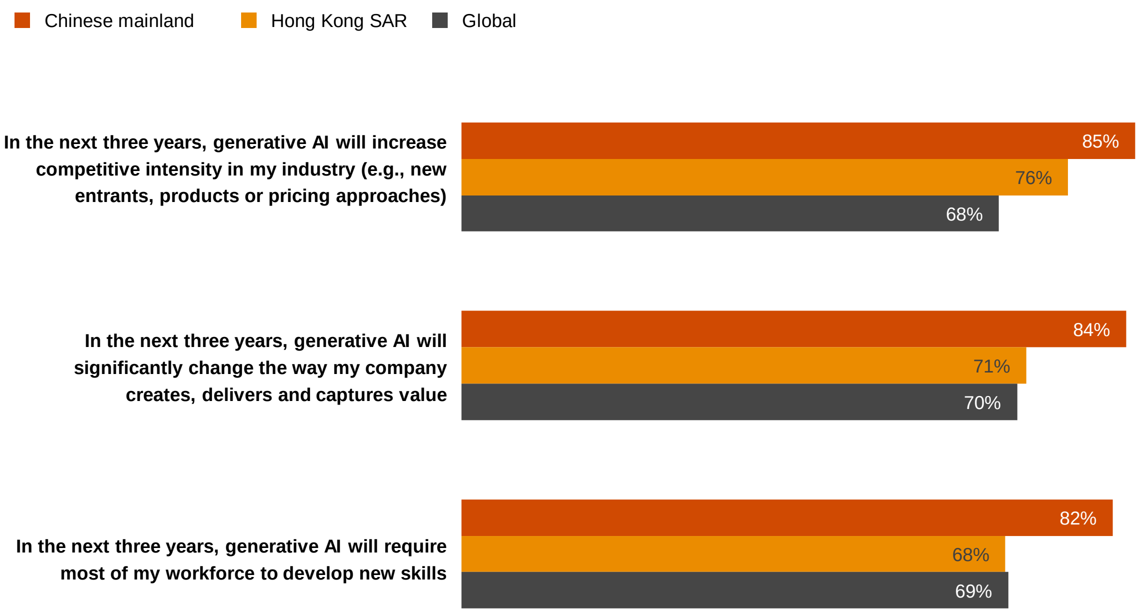
Although many Chinese companies, especially those in traditional sectors, are currently in the early stages of integrating GenAI into their business operations, tech giants are actively shaping China's indigenous ecosystem for GenAI by swiftly introducing AI chatbots or products similar to ChatGPT. Examples include Baidu's 'Ernie Bot', Alibaba's 'Tongyi Qianwen' and Tencent's 'Hunyuan'. Data from IDC shows that the total investment in artificial intelligence in China was US$128.8 billion in 2022, and is expected to increase to US$423.6 billion by 2027, with a five-year CAGR of approximately 26.9%.

Over a three-year horizon, the vast majority of Chinese companies agree that generative AI will impose drastic changes on how their business generate value (Chinese mainland: 84%; Hong Kong SAR: 71%; Global: 70%), require upskilling their workforce (Chinese mainland: 82%; Hong Kong SAR: 68%; Global: 69%), and increase competitive intensity in their industry (Chinese mainland: 85%; Hong Kong SAR: 76%; Global: 68%).

Figure 22

Do you agree with the following statements about generative AI?

To what extent do you agree or disagree with the following statements about generative AI? (showing only 'agree' responses)



In fact, the implementation of any new transformative technology implies bringing about drastic changes to a company's operating capabilities and business model. Operational processes must be reinvented to accommodate automation while the workforce have to go through an upskilling process to be enabled in wielding new AI tools. New AI-based roles will then emerge within the workforce, such as prompt engineers, which will require further organisational changes. GenAI implementation also requires a modernisation of the company's data and application infrastructure as it will fundamentally change the way cloud-based applications are built and operate. These operational changes require companies to stay on their toes and CEOs to be vigilant about the structural implications of GenAI implementation. Nonetheless, Chinese CEOs have remained optimistic about the prospects of AI integration.

The fact that Chinese CEOs are seemingly more sold on the benefits of GenAI is aligned with their lower sensitivity to related risks. Indeed, a notably smaller proportion of Chinese CEOs said the use of GenAI will increase bias towards certain groups (Chinese mainland: 23%; Hong Kong SAR: 32%; Global: 34%), create cybersecurity risks (Chinese mainland: 26%; Hong Kong SAR: 32%; Global: 64%), spread misinformation (Chinese mainland: 25%; Hong Kong SAR: 32%; Global: 52%), and create legal liabilities or reputational risks (Chinese mainland: 22%; Hong Kong SAR: 32%; Global: 46%).

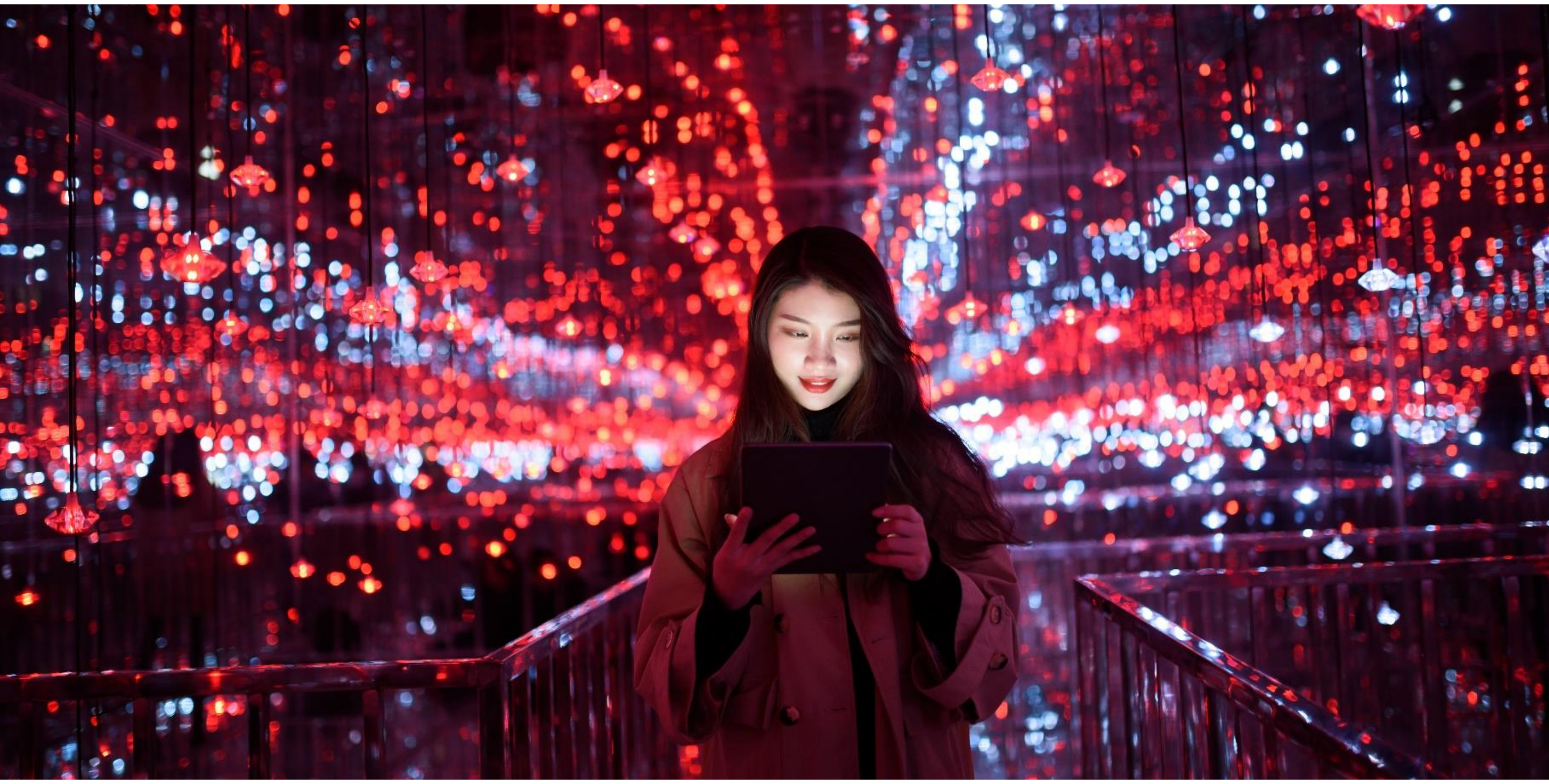
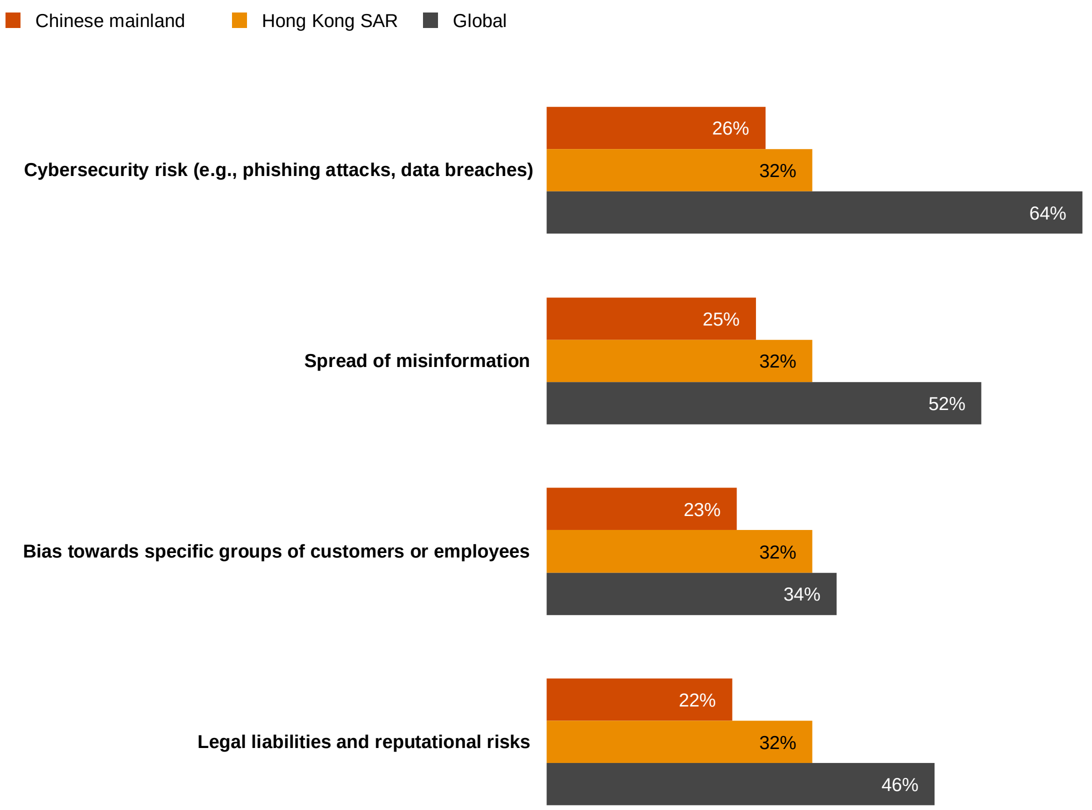


Figure 23

Share of CEOs agreeing that AI will increase risk in the next 12 months for the following categories

To what extent do you agree or disagree that generative AI is likely to increase the following risks in your company in the next 12 months? (showing only 'agree' responses)



Considering the inherent complexities of GenAI, it is crucial to avoid overlooking the potential risks associated with this powerful technology. Therefore, it is crucial for policymakers, industry experts, and regulatory bodies to collaborate in establishing robust frameworks that mitigate risks. In response to rapid development of generative GenAI, the 'Measures for the Administration of Generative AI Services', released by the Cyberspace Administration of China, came into effect in August 2023. The Measures, consisting of 24 articles, addresses the regulatory principles and specific requirements pertaining to AIGC products and services. It is anticipated that the new regulations will draw a line for the healthy growth of the industry.

Concluding remarks

As the Chinese economy continues to tread on the path of recovery, Chinese companies need more than ever to reinvent their business model if they are to survive and thrive in the next decade. This transformation imperative is a complex endeavour, requiring to allocate limited resources in an economic recovery context while at the same time navigating new risks characterised by the advent of AI technology, a shifting regulatory landscape, the impending climate crisis, and heightened international tensions.

Looking forward, Chinese CEOs will have to navigate these challenges by adopting a forward-thinking attitude and a proactive strategy, revising their business model to adapt to the shifting technological and regulatory landscape. This includes but not limited to the following measures:

Our survey showed that Chinese businesses keep looking at foreign countries as vectors for growth and brand building. Countries and regions within the RCEP and BRI are becoming increasingly popular destinations for both trade and investment for China. As Chinese businesses have to navigate an ever-tenser geopolitical theatre, a diversification of foreign investment destinations seems to be the smart choice to continue to seek new market shares and build their brand in a sustainable manner.

Chinese companies are facing an imperative to reshape their business model or risk not being viable in under a decade. Despite the government's undertakings to address the current conjunctural issues slowing down China's economic recovery, it is crucial for businesses to keep a proactive approach to remain relevant. While there is no one-size-fits-all solution, situations varying greatly from one industry or even form one company to another, there are avenues for change that Chinese companies seem to have taken such as product and services innovation or new technology adoption. It will be the role of CEOs to chart a course on what will the best path for their enterprise to reinvent itself.

One key barrier standing between Chinese companies and the changes they must undertake is supply chain instability. As domestic supply chains are modernising, incurring substantial investments, and international ones are regularly and increasingly disturbed by external factors. These factors mandate Chinese CEOs to take proactive measures in order address the issue by bolstering their supply chains and thus future-proofing their business model. Here again, diversifying international presence and adopting a more regional model seem to be an optimal solution chosen by Chinese CEOs.

Challenges at home and abroad seem to have dented Chinese companies sustainability ambitions for the short term. Although the diminishing trend in green investment is a global one, Chinese CEOs should not lose their focus on making their operations more environmentally friendly. Our data shows that businesses taking climate actions are the ones with the most enduring business models, making their company more sustainable in every sense of the word. In the meantime, Chinese CEOs can take smaller-scale initiatives, like the tried and tested nature based solutions advocated by local policies, but more comprehensive measures should also be considered to secure the environmental perennity of their companies.

As business applications of GenAI are becoming increasingly mainstream, companies across the world need to adapt to the many changes at operational and industry level the introduction of such groundbreaking technology entices. This need is fitting into a broader transformational imperative spurred by the challenges of a slowing down international economy that CEOs must address in order to future-proof their enterprises for the years to come.

A multitude of opportunities emerge as an increasing number of companies take proactive steps towards energy efficiency and embrace the power of AI. The integration of AI with ESG initiatives holds the potential to become a powerful catalyst for positive change. AI technologies can play a significant role in promoting environmental sustainability by optimising energy consumption, minimising waste, and facilitating the advancement of clean technologies. By incorporating AI into their ESG strategies, companies can harness data-driven insights to make informed decisions and manage risks effectively, which ultimately enhances overall efficiency while reducing costs.

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