21st Global CEO Survey China Cut

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Chinese firms seek growth through technology and trust

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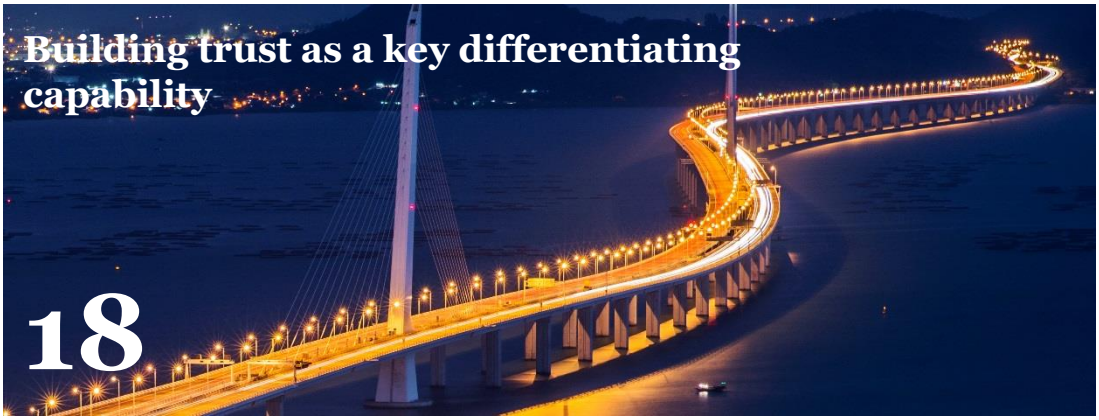

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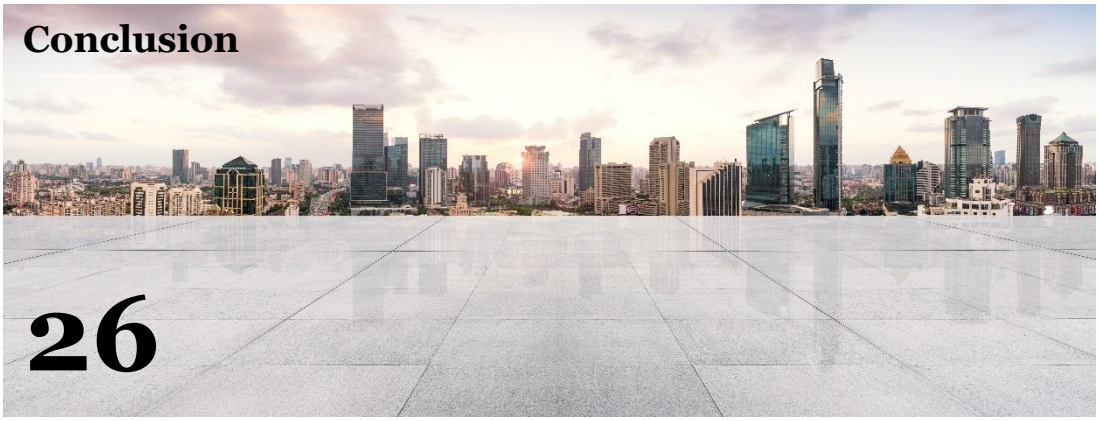

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Chairman's Message

Raymund Chao
PwC Asia Pacific and
Greater China Chairman

Globalisation and technological advancement over the past few decades has instigated tremendous economic transformation in China. Whilst these trends have boosted the fortunes of many, economic and social inequalities combined with the impact of megatrends such as climate change, urbanisation and demographic change are powerful reminders that the prevailing financial and economic systems have to be adjusted. Recognising the unbalanced and inadequate economic development of the country, President Xi, at the 19th Party Congress in October 2017 stated that underserved regions, sectors and populations will be targeted for development by the leadership of the Party.

State directed goals regarding national targets set for medium and long term economic development are welcome as is the commitment to reduce prevalent inequalities. However, we cannot discount the role of market forces and private enterprise as the stimulator of employment, growth, value creation, income distribution and in the efficient allocation of resources.

In last year's 20th CEO Survey China report, I had posited that business leaders face the challenge of maximizing shareholder value while ensuring environmental and social concerns are being reflected in their strategic thinking and actions. In this edition of the 21st CEO Survey, I posit that **businesses can enhance leadership by playing a catalytic role in three crucial areas**: improve shared prosperity, foster required skill sets for the foreseeable future, measure and report progress on responsible business practices and value creation.

- **Promote shared prosperity**. The role of the private sector as the engine of wealth creation will continue. Beyond providing value for customers and seeking market share, businesses can significantly influence the transparency and fairness of business practices around drivers of inclusive growth such as transparency around their people strategy and fair compensation. Our findings suggest that 55% of executives are creating transparency around their compensation strategy and 62% are creating transparency around their people strategy. This is instrumental to reducing inequalities and biases and boosting prosperity for different sections of society.

- **Contribute to skill development**. By collaborating with educational institutions, businesses can help to create an agile workforce that is capable of responding to current challenges. Availability of digital skills amongst the workforce has become a concern for 91% of executives in China (Global: 72%), with 24% of them currently reporting difficulty in attracting digital talents. Since no single actor, whether educational institutions or businesses alone can solve the skill development necessary to leverage the technology-enabled transformations, the most effective way forward would be to augment each other's efforts and co-create the way forward to address this challenge. Such an approach is likely to lead to higher value-add through adaptive learning from artificial intelligence (AI) and robotics.
- **Measure and report progress on value creation.** In addition to mission statements and financial statements, companies must start to hold themselves accountable for measuring their environmental and social impacts. Companies are increasingly facing demands from investors, regulators, customers and also employees to be transparent about their business practices, to consider environmental and social implications of all business decisions and to strengthen accountability.

Reporting on such progress would sustain confidence and trust amongst stakeholders. Survey results found that 51% of executives are investing heavily in cyber security to boost trust with consumers. Further, 41% of the executives surveyed in China claimed that their organisation is building trust with its workforce by creating transparency regarding the impacts of automation and AI on the workforce. Contributing to combating environmental issues was reported by 45% of executives in China. It is heartening to see that a notable proportion of executives understand that a broader definition of success is required in the 21st century as 63% of CEOs in China stated that measuring prosperity through multifaceted metrics (rather than financial) is needed.

Business leaders today find themselves having to lead through complex realities requiring them to account for non-financial impacts and stakeholder and shareholder expectations. Additionally, they are conscious that **sustaining trust is an essential factor of production equal to talent and technology**.

The good news is that in this part of the world political support on such matters exist and survey results show higher levels of engagement on these indicators compared to the global average. Maintaining this momentum and understanding the emerging awareness, expertise and tools, the private sector can leverage its ability to influence and speed of execution to be a compelling and uplifting positive force.

I would like to thank the 195 company leaders from China and Hong Kong who have taken the time to share their views with us. We greatly appreciate the willingness of our respondents in sharing their views on business challenges, concerns and opportunities. These insights shed light on how executives in China are navigating complex realities and updating their own mind sets to deliver returns across the financial, social and environmental spectrums.

Introduction to the Survey

The forces of globalisation took a new turn in the last year. While prevalence of digital technologies continued to blur geographic boundaries, domestic distractions made western economic giants, such as the US and the European Union (EU), increase border control and review their global commitments. This, along with other aggressive initiatives such as Belt and Road international trade and infrastructure initiative, has advanced China's influence in the global arena. However, China still lags behind the US as the most attractive market for growth prospects. It was during this transition in the world order that PwC conducted its 21st Annual CEO Survey to gauge the sentiments of executives all over the world.

The survey built around the themes of Trade and Globalisation, Trust and Tenure, and Technology and Talent was conducted between September and November 2017. We interviewed over 1,293 executives from 85 countries across a range of industries.

This is the China report which presents the views of 195 executives based in Mainland China and 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 statistically significant difference in the survey results between Hong Kong and Mainland China, results are presented separately.

01 Optimism in global economic and domestic growth

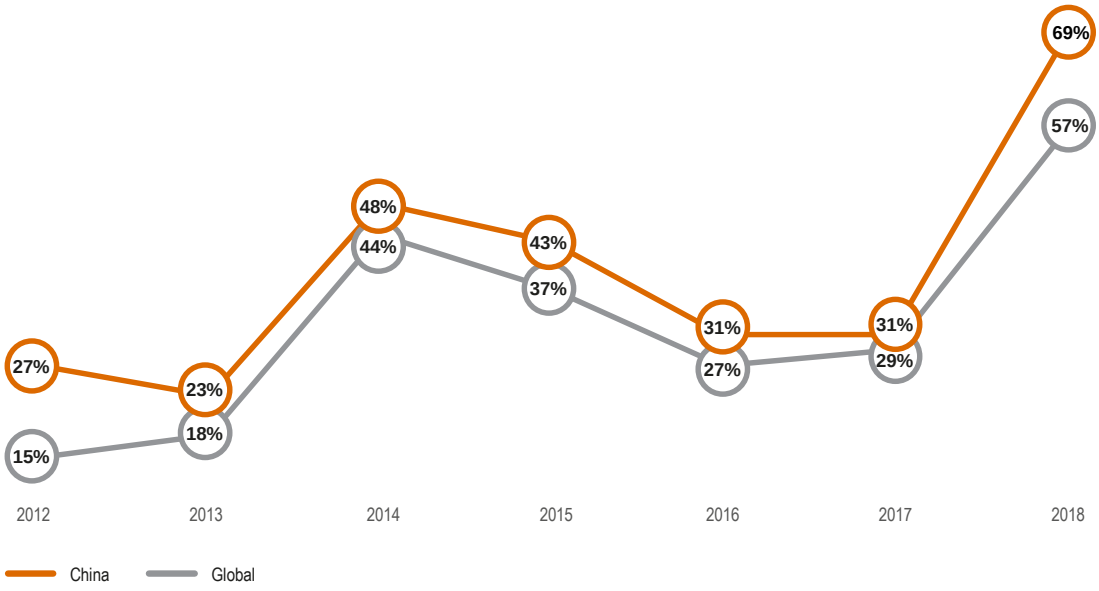
The world economy is witnessing its best run and fastest growth since being hit by recession in 2010. According to the IMF World Economic Outlook in January 2018, the world economy is estimated to have expanded 3.7% in 2017 and is likely to grow 3.9% in 2018. Higher household incomes due to low inflation across nations (Global average of consumer price index has remained at a historic low level of 1.6% per annum), together with liberal monetary policies and end of fiscal austerity in many countries is expected to push this global growth.[1]

Domestically, at the 19th Party Congress in October 2017, President Xi Jinping announced that China has "entered a new era" and it is time to "take centre stage in the world and to make a greater contribution to humankind".[2] As the country shifts focus from being export and investment led to consumer spending, innovation and services driven, the IMF raised its forecast for China's GDP growth for 2018 to 6.6% in January 2018, up from 6.5% prediction in October 2017. This upward revision is primarily due to the investment driven growth agenda and rapid pace of domestic consumption in China.[3]

PwC's 21st CEO Survey results (See Figure 1) found that globally a record proportion (57%) of executives believe global economic growth will improve over the next 12 months and in the China context, 69% shared the same optimism about global economic growth.

Figure 1

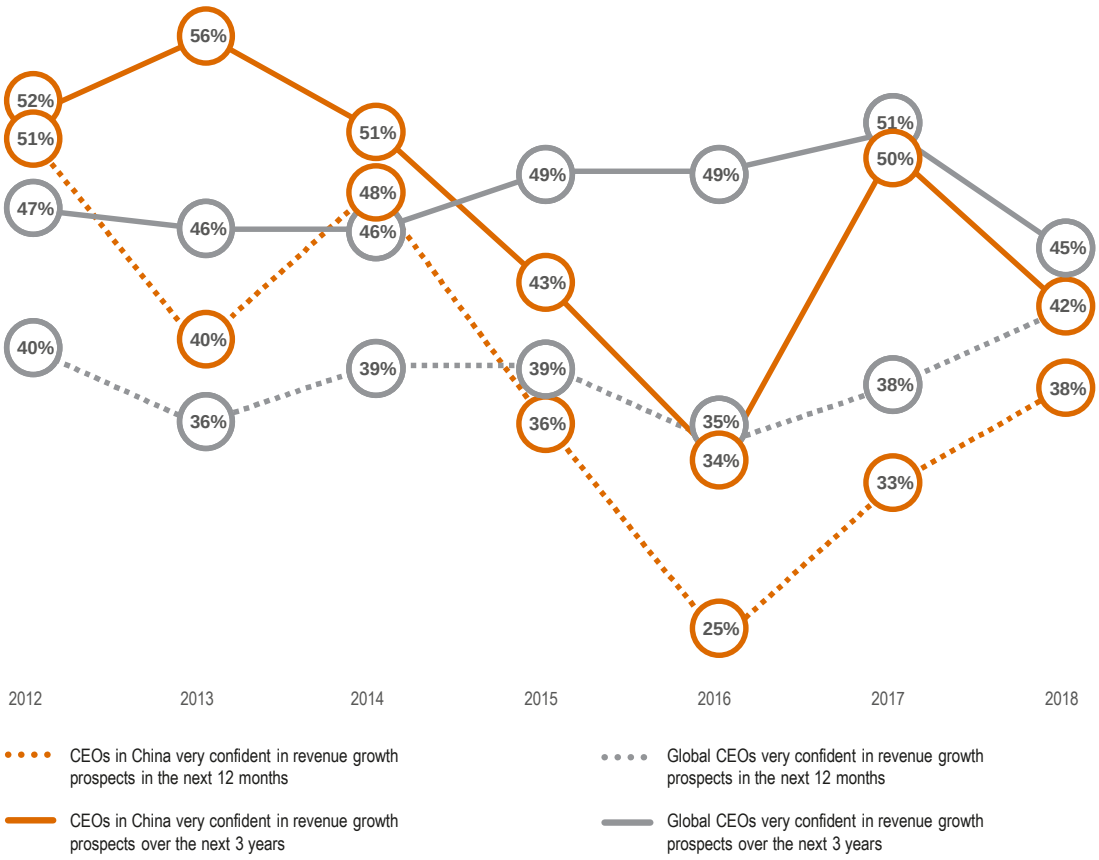
Significant jump in CEO optimism regarding global growth in the next 12 months



As far as executive's outlook for revenue growth over the next 12 months is concerned, 38% of executives surveyed in China are "very confident" as compared to 33% in 2017. However, the proportion of executives in China who are "very confident" about their revenue growth prospects in the next three years has dropped to 42% as compared to 50% in 2017. **This is in line with the global sentiment that while business confidence rises over the 12 month timeframe, it is lower over the 3 year time frame.** (See Figure 2).

Figure 2

Executives in China are optimistic about their revenue growth in the short term



In terms of ranking economies (apart from their own) that executives consider as being most important to their organisation's overall growth prospects over the next 12 months, at the global level, ***there is no change from last year in the ranking of attractiveness of countries as the US, China and Germany maintained their rankings.*** There is no doubt of China's global allure as it continues to be the second most important country in the world for overall growth prospects over the next 12 months.

From the perspective of executives in Mainland China, the USA and Hong Kong continue to be the top two growth markets while Germany has been replaced by Japan as the third most attractive territory for growth prospects. From the perspective of executives in Hong Kong, Mainland China and the USA remain the top two growth markets in the next 12 months while Japan and Singapore have risen since last year to be equally attractive as UK.

Figure 3

Proportion of executives who view the following destinations as being attractive for growth prospects

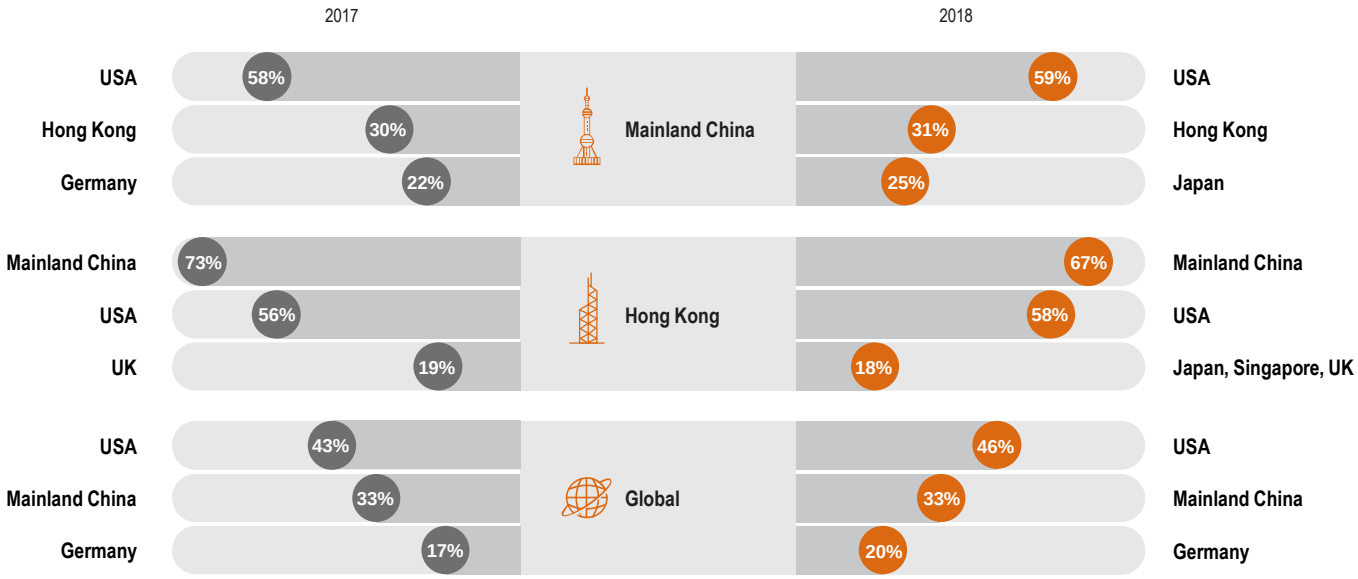
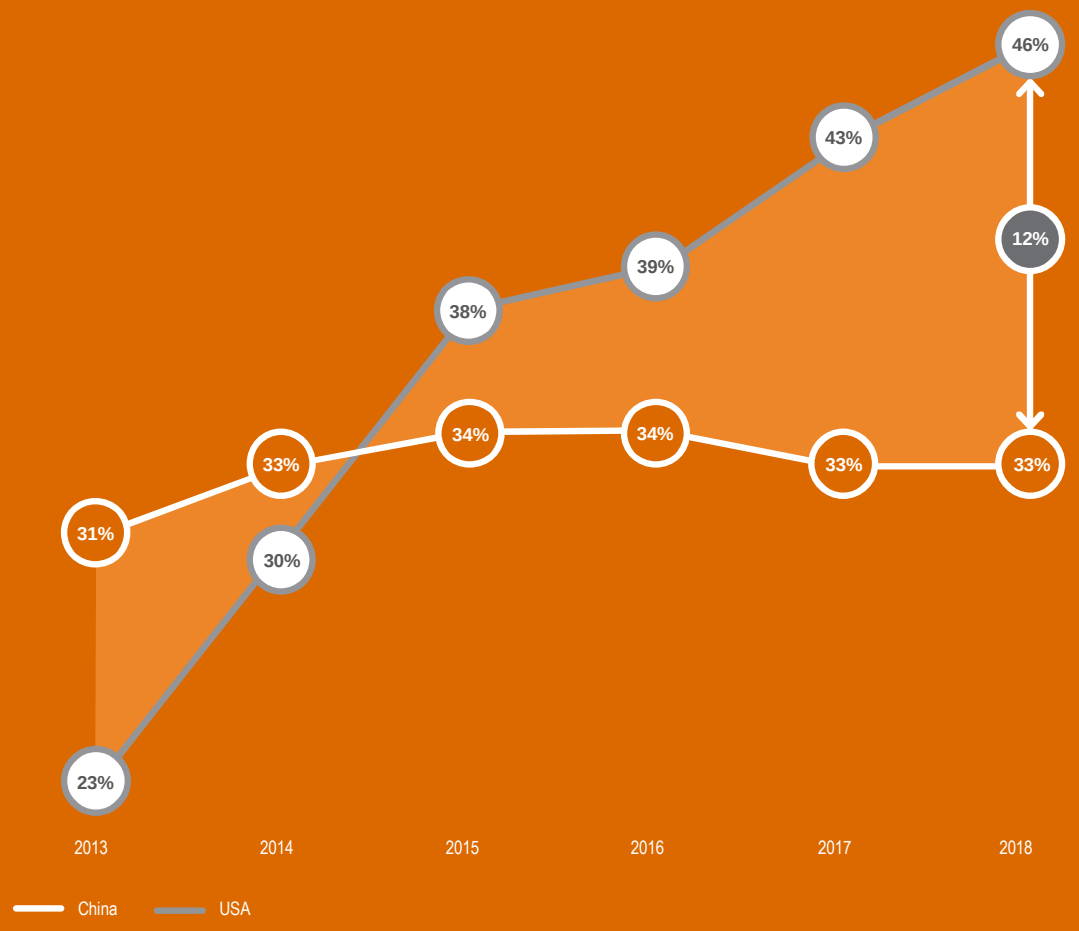


Figure 4

Gap between the popularity of USA and Mainland China as top countries for growth prospects continues to increase



In the ranking of the US and China as being attractive markets for growth, a noteworthy point is that the trend shows that the attractiveness of the US as the top destination is rising while the attractiveness of China is stable.

The trend line shows that the gap between their attractiveness has expanded since 2014 when Mainland China held the top position. This may be explained by the recent US $1.5-trillion tax reform driven by the "American First" strategy which has sparked a global tax competition which is expected to alter global capital and investment flow and increase the attractiveness of the US as an investment destination.

The macroeconomic data support our survey findings as foreign direct investments (FDI) in Mainland China rose by 4.1% in 2016 compared to 2015, but declined by 2.7% in the January to October 2017 period compared to the same period last year.

Mainland China also lags behind US in ease of doing business as The World Bank ranks Mainland China 78th out of 190 economies, while US is ranked 6th and Hong Kong 5th. Under these circumstances, it will be difficult for Mainland China to surpass USA as the top destination for foreign investments in the short term.

Fortunately, Mainland China acknowledges the need for action to attract foreign investments and introduced 20 measures in early 2017 to step up efforts. These measures include drastically reducing restrictions on foreign investment in services, manufacturing, mining and other sectors while encouraging foreign investors to invest in high-end manufacturing, smart manufacturing, green manufacturing, and infrastructure development through franchise route. In fact, China has recently announced a temporary tax reprieve for foreign companies who re-invest their profits.

Trend in world views

PwC surveyed executives' views on political, economic models, beliefs and values. Compared to two years ago, survey results show that this year:

- 81% of executives in China believe that the world is moving towards "regional trading blocs as opposed to a single global marketplace compared to 84% who stated the same sentiment in 2016; This view is consistent with global sentiment.
- 69% of executives in China believe the world is moving towards "multiple beliefs and value systems" as opposed to common global beliefs and value systems which is an appreciable decline from 89% in 2016; Globally, this view has held steady;
- 60% of executives in China this year are of the opinion that the world is moving towards greater fragmentation (example: Catalan, Scotland) compared to political union which is a rise from 39% in 2016; This view is consistent with global sentiment.
- 85% of executives in China this year believe the world is moving towards free and open access to the internet as opposed to restricted access compared to 69% in 2016; This view is consistent with global sentiment.

In a world that is reconfiguring, it appears that executives in China (as well as globally) believe that the world is moving towards fragmentation, regional trading blocs and open access to internet, yet there is recognition of common ground in global belief and value systems. Why should it matter to business and what might be the implications of these in the longer term?

This year we surveyed new indicators and found that:

- 93% of executives in China (compared to global average of 76%) are of the opinion that the world is moving towards corporate integration (e.g. organisations getting bigger and more influential) compared to 6% of executives in China (global average: 20%) who believe the world is headed towards corporate fragmentation;
- 68% of executives in China (compared to global average of 48%) believe that widespread economic growth is benefiting more people whereas only 23% in China (compared to global average of 46%) believe that concentrated economic growth is benefiting fewer people; In the China context, the governments' recognition of the inequality has propelled them to announce social safety net measures to deliver social assistance and increase inclusion to amend the imbalance.
- 70% of executives in Mainland China (compared to the global overage of 41% and Hong Kong average of 30%) think the world is moving towards harmonisation of global tax rules compared to 30% of executives in Mainland China (global average of 54% and Hong Kong average of 61%) who think the world is moving towards increasing use of tax competition;

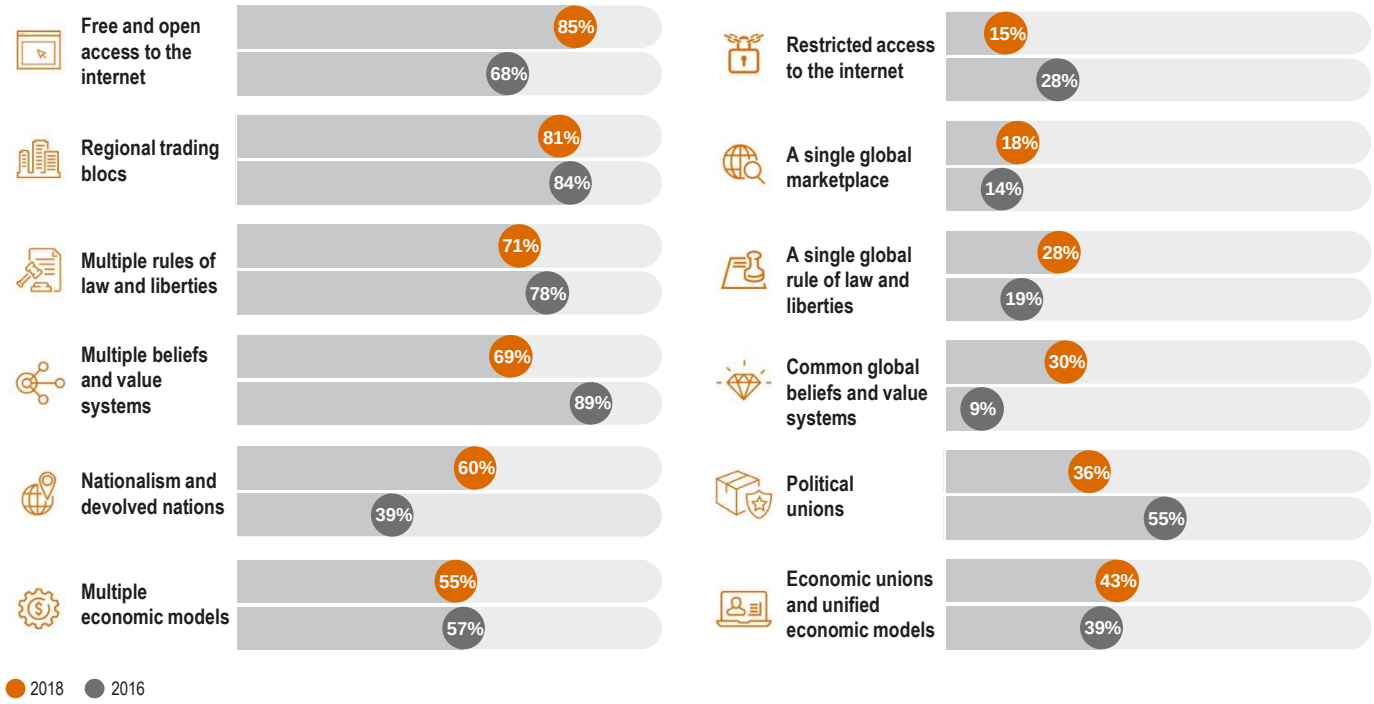
A possible interpretation of the difference in views between Mainland China and Hong Kong executives could be first the fact that one of Hong Kong's competitive advantages being its favourable tax structure means that it is attractive to foreign investments by making her tax regime up to date and competitive. On the other hand, in Mainland China, the Government has clarified that Mainland China believes the global tax rules deserve new order to be more harmonised, in particular between developed and developing economies. China is proactive to take part in the global tax rule making process (e.g. BEPS backed up by G20), instead of being a follower as before.

- 63% of executives in China (global average: 66%) believe that the world is moving towards measuring prosperity through multifaceted metrics (including quality-of-life indices) compared to 27% (global average: 28%) of the executives who think the world is moving towards measuring prosperity primarily through financial measures (e.g. GDP).

In terms of the other indicators, from the perspective of executives in Mainland China we see that they are of the opinion that the world is moving towards corporate integration, harmonisation of global tax rules, widespread economic growth benefiting more people and the importance of multi-faceted metrics to measure prosperity.

Figure 5

Chinese executive views on where the world is moving more towards

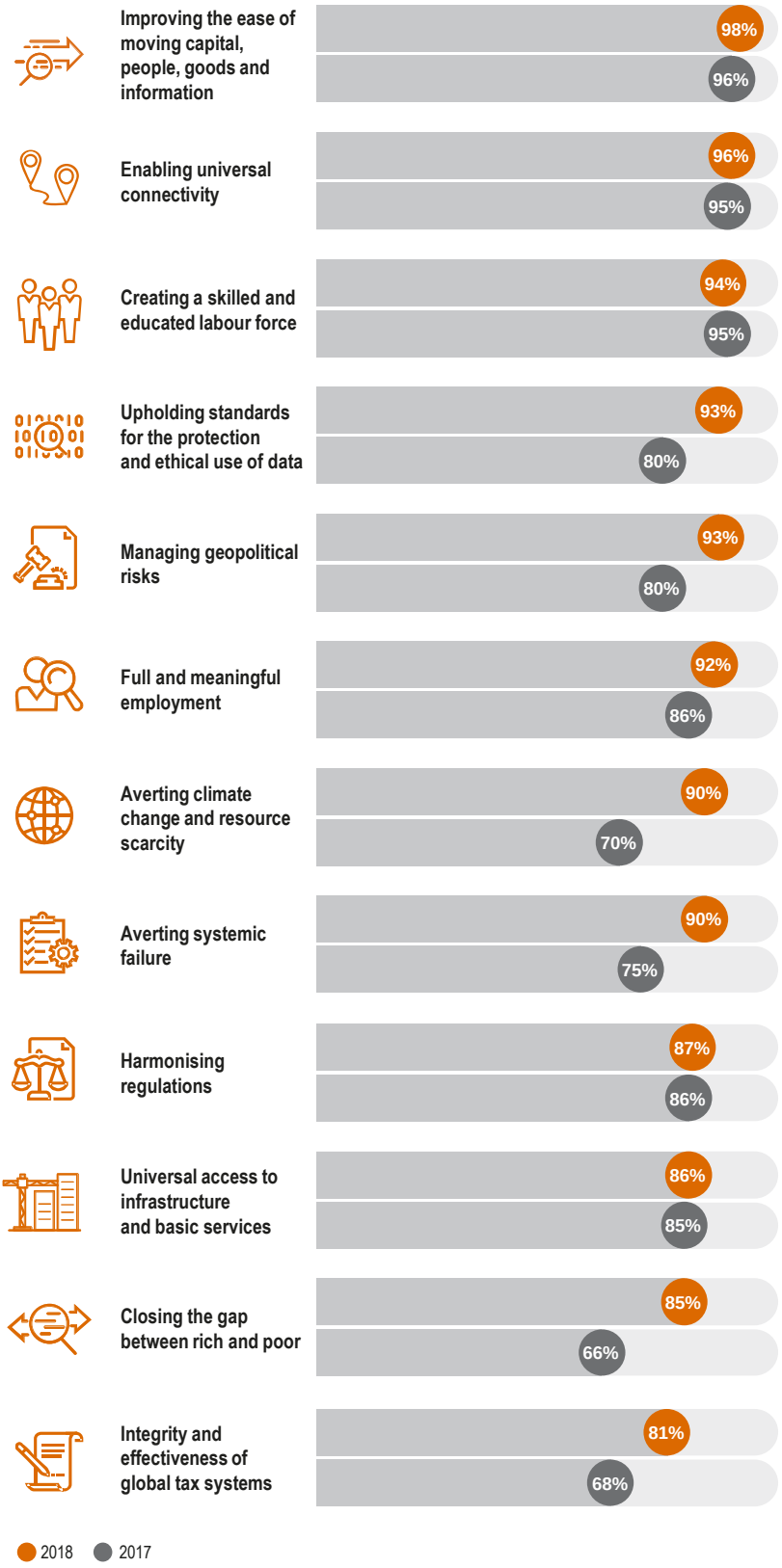


Regarding the role of globalisation, the views of executives in China has held steady in terms of "improving the ease of moving capital, people, goods and information (98%), enabling universal connectivity (96%), and creating a skilled and educated labour force (94%)."

We see upward trends in the perceived benefits of globalisation in upholding standards for the protection and ethical use of data (an increase of 13%), managing geopolitical risk (an increase of 13%), on full and meaningful employment (an increase of 6%) and averting climate change and resource scarcity (an increase of 20%). This jump in optimism of executives surveyed in China indicate the confidence in China taking a larger role on the world stage.

Figure 6

Chinese executive views on the benefits of globalisation



Tough questions to ask:

- How can your business take advantage of the opening up of China economy?
- How are you prepared to battle increased competition arising from entry of foreign companies in China?
- Which countries are most important for your business' growth prospects in the next three years?
- How are you planning to navigate risk and regulatory complexity, for instance, due to "America First" tax reforms in the US?

02 Diverse business and political concerns and strategies to achieve growth

While businesses confidence is high, executives in China shared their views on diverse business and political concerns. On the business side, the top threats identified by 90% of the executives in China (i.e. Mainland China and Hong Kong) were cyber threats, speed of technological changes, availability of key skills and changing consumer behaviour. (See Figure 7).

The structure of the economy in Mainland China being different from the structure of the Hong Kong economy, implies that the nature of the concerns might be different. Hence, on a dis-aggregated basis, availability of key skills was rated as the top business threat this year by executives surveyed in Mainland China, followed by readiness to respond to a crisis, new market entrants, speed of technological change, and cyber threats. As the nation moves towards digital and technology driven economy, availability of right skill-set will be key to its growth.

The top business threats identified by executives in Hong Kong were changing consumer behaviour, speed of technological change, lack of trust in business, cyber threats and rising employee benefits and pension costs.

Cyber threat was also identified as the top business threat by executives surveyed globally. According to PwC's "The Global State of Information Security® Survey 2018", at US$ 6.3 million, companies in China are spending almost 25% more than the global average on information security.

Figure 7

Top business threats to organisation's growth prospects

Compared to the last two years, the core business threats, globally, as well as in China and Hong Kong remain the same, only the rankings have slightly changed. Noteworthy is that this year, cyber threat has risen in importance as a substantial business threat.

In terms of top economic, policy, social and environmental threats to organisation's growth prospects in China, this year's CEO survey found that the top three threats in China were over-regulation, geopolitical uncertainty and social instability.

In the Mainland China context, top three concerns were increasing tax burden[i] (93%), geo-political uncertainly (91%), over-regulation (90%) amongst others. Responding to the tax burden, the Chinese State Administration of Taxation (SAT) has set the goal of establishing a modern tax administration system by 2020, including changes ranging from re-structuring the tax system, to the technology used by both taxpayers and the SAT, and to the culture of the SAT. These changes have helped to reduce the time to comply by 75% from 832 hours in 2004 to 207 hours in 2016.[4]

Geopolitical undercurrents such as Korean peninsula, Brexit and less predictability in US foreign policy may be leading to investment hesitation. However, these geopolitical undercurrents may have relatively limited impact on financial markets as MSCI AC world equity index remained immune from political events during the year.[5]

In the Hong Kong context, top three concerns were social instability (94%), over-regulation (91%) and tax burden (89%).

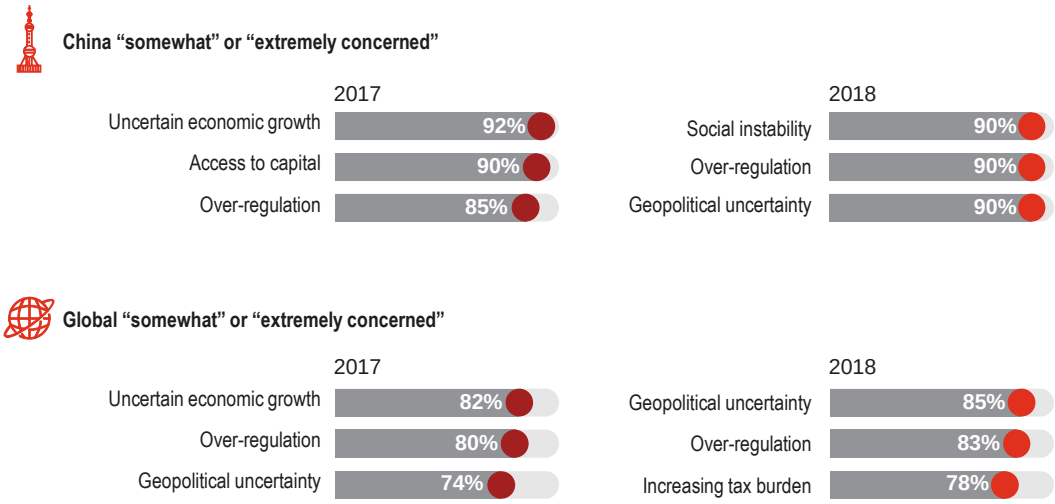
Social instability has gained prominence as the third biggest concern for executives surveyed in China as this year 90% of them (compared to 69% last year) are concerned it would constrain their organisation's growth prospect through the likelihood of economic nationalism. While concern about social instability has increased, income inequality in China has registered a decline.[ii] Recognising the inequality in growth and development, at the 19th Party Congress, President Xi has pledged to deliver welfare to under-served citizens through education, health, housing, elderly care, childcare and social assistance.

In terms of the over-regulation cited in both economies, adequate regulation that protects consumers and investors and also doesn't stifle innovation would be welcome. **The question is what is the right level of regulation? This can perhaps be better answered with mutual discussion between all stakeholders, regulators, consumers, investors and industry.**

Compared to the last two years, the core economic, policy and social threats in China and Hong Kong of over-regulation and increasing tax burden remain the same, only the ranking has slightly changed. And geopolitical uncertainty and social instability have risen in prominence.

Figure 8

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



i. The World Bank's 'Doing Business' rankings positioned Mainland China at 130th place out of 190 nations in the category of "Paying Taxes". This means Mainland China is ranked behind India (119), Mexico (115), Philippines (105), Vietnam (86), Russia (52), South Africa (46), USA (36), UK (23), Singapore (7) and Hong Kong (3).

ii. As measured by the Gini which has improved to 46.5 in 2016 from a high of 49.1 in 2008. For Hong Kong, the Gini coefficient for economically active households also registered a decline to 48.2 in 2016, lower than 48.9 in 2011.

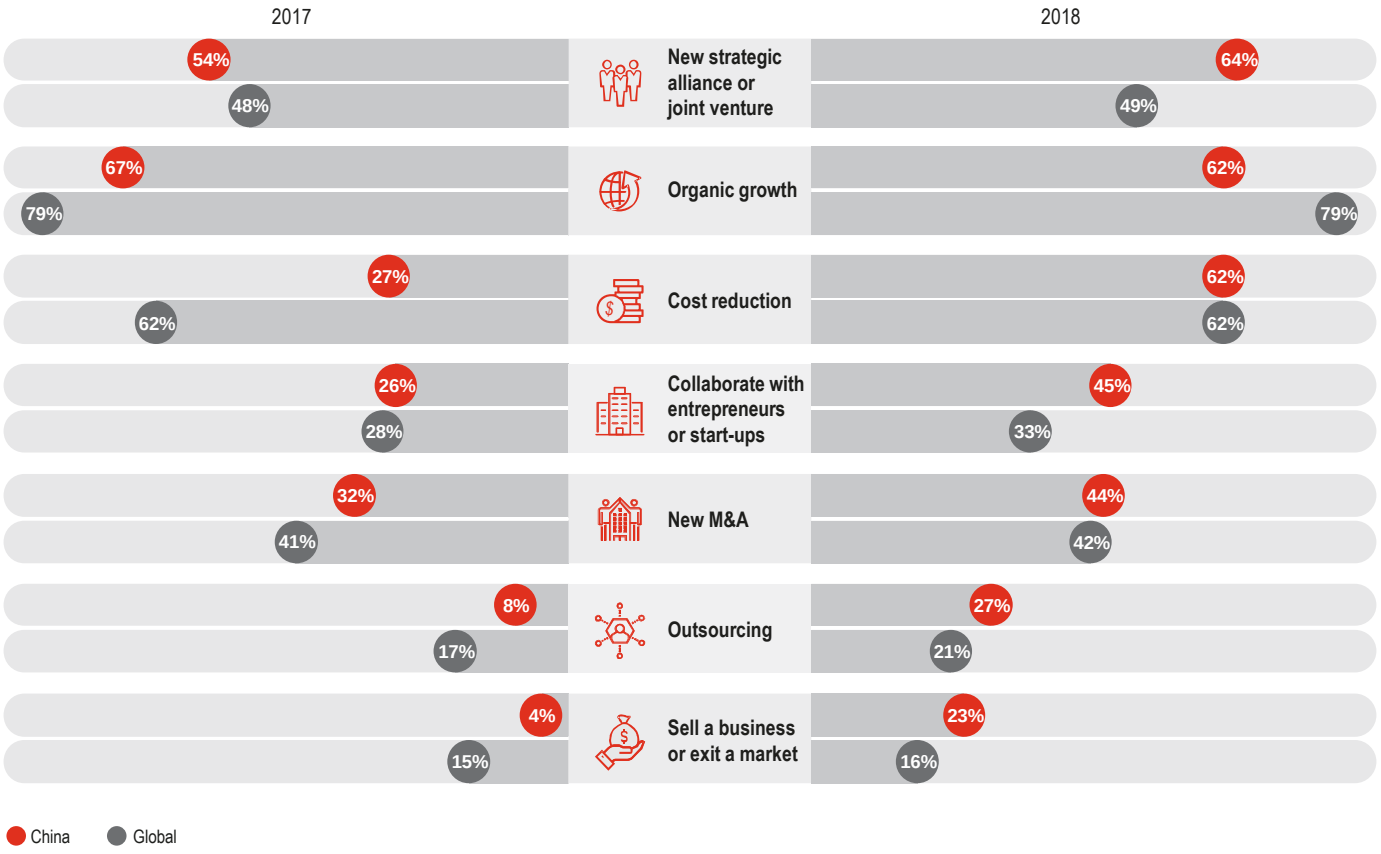
Strategies to respond to diverse concerns and opportunities

In order to drive corporate growth/profitability in the complex and divergent business environment, 64% of executives in China cited new strategic alliance or joint venture as a top strategy for the next 12 months. (See Figure 9). Organic growth and cost reduction were cited as top strategies by 62% of executives.

It is worth noting that there has been a sizeable increase in the proportion of executives in China (27%) who are looking to drive corporate growth and profitability (up 19 percentage points from a year ago) through the use of outsourcing and by collaborating with entrepreneurs and start-ups (which has risen from 26% in 2017 to 45% in 2018). China has a thriving entrepreneurial culture as it is a strategic national priority for the country and technology-based start-ups are prospering as they power the real economy. For example, China's unicorns account for 53% of the global total and 66% in terms of valuation.[6]

Figure 9

Top strategies to drive corporate growth or profitability in the next 12 months



Other key business expansion strategies are anchored around the national strategic initiatives. Our latest survey found that almost 89% of the executives surveyed in Mainland China are anchoring their investment strategy to Beijing-Tianjin-Hebei City Cluster, Belt and Road Initiative (BRI) and Greater Bay Area. In 2017, 58% of executives surveyed in China saw investment opportunities emanating from BRI.

In addition, 91% of the executives surveyed in Mainland China identified 'Made in China 2025' as a driver of opportunities for their company. Clearly, there is enthusiasm in the business community over these initiatives driven by the government.

Tough questions to ask:

- How are the current business and economic threats hindering your business growth?
- How are you aligning costs with your business strategy?
- How is your business overcoming the current threats and challenges?
- How does your business plan to take advantage of the policy initiatives such as BRI and Made in China 2025?

03 Building trust as a key differentiating capability

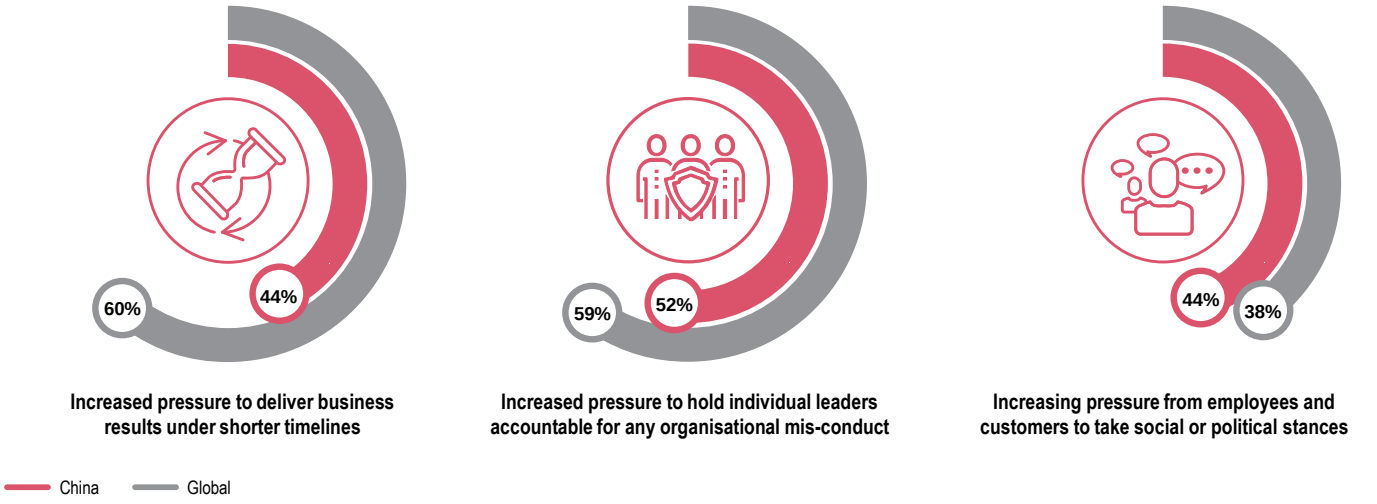
The issue of trust is complicated by the varying degree of business pressures that executives in China are facing driven by differences in stakeholder expectations. PwC's 21st CEO survey found that companies in China recognise this imperative and hence, 84% of the executives surveyed in China said they measure trust between their workforce and their organisation's senior leadership while 88% said they measure trust between the organisation and its customers.

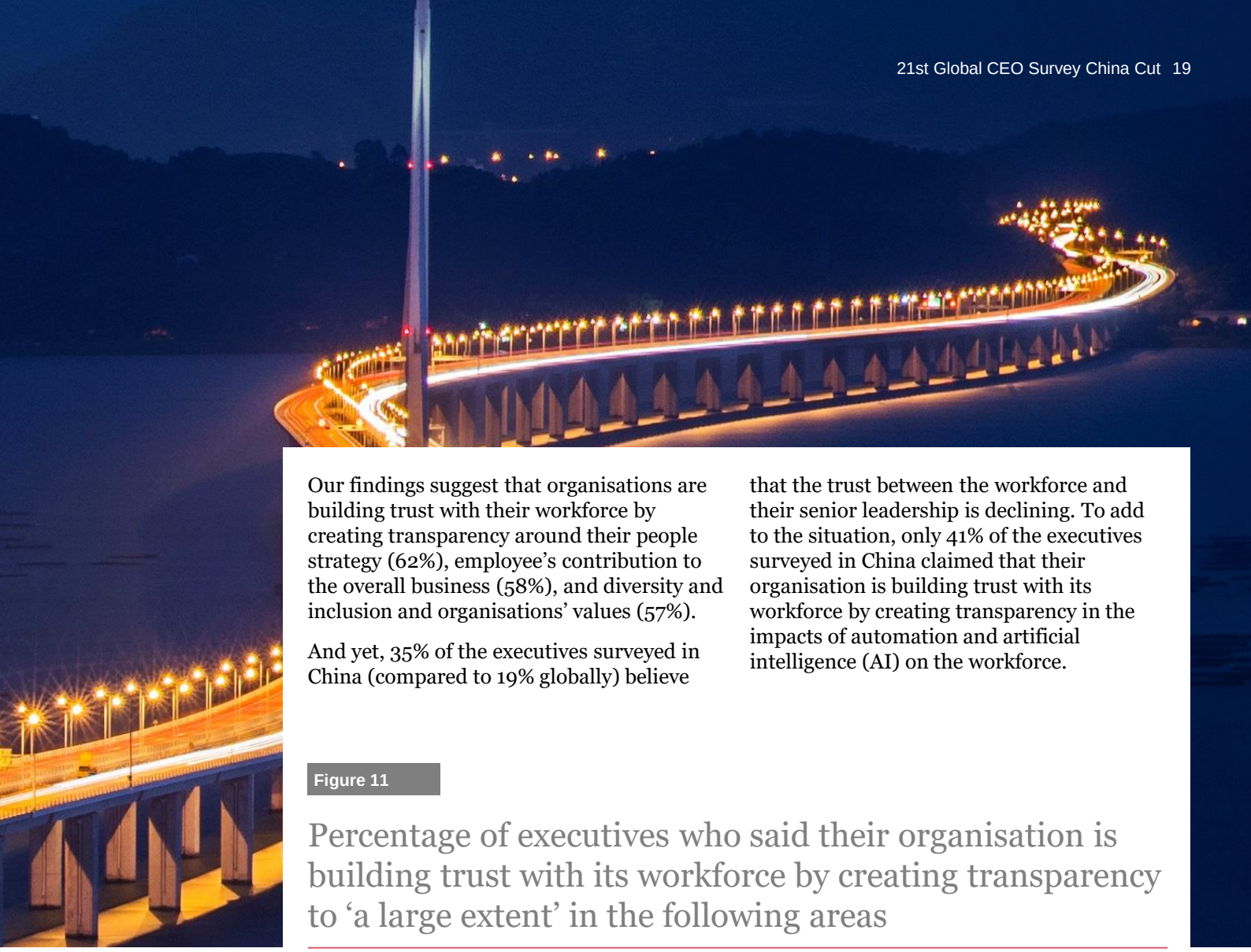
In China, only 44% of executives reported increasing pressure for their organisation to deliver business results under shorter timelines, compared to a global average of 60%. Meanwhile, 44% of Chinese companies (compared to 38% globally) are more likely to experience pressure from employees and customers to take social or political stances – a sign that wider stakeholder groups are asking for demonstration of trust - worthiness and companies are feeling compelled to show that.

This is illustrating that companies are recognising that driving shareholder value is no longer enough and that responsible business practices are essential as a license to operate.

Figure 10

Percentage of executives who 'agree' or 'strongly agree' with the following challenges



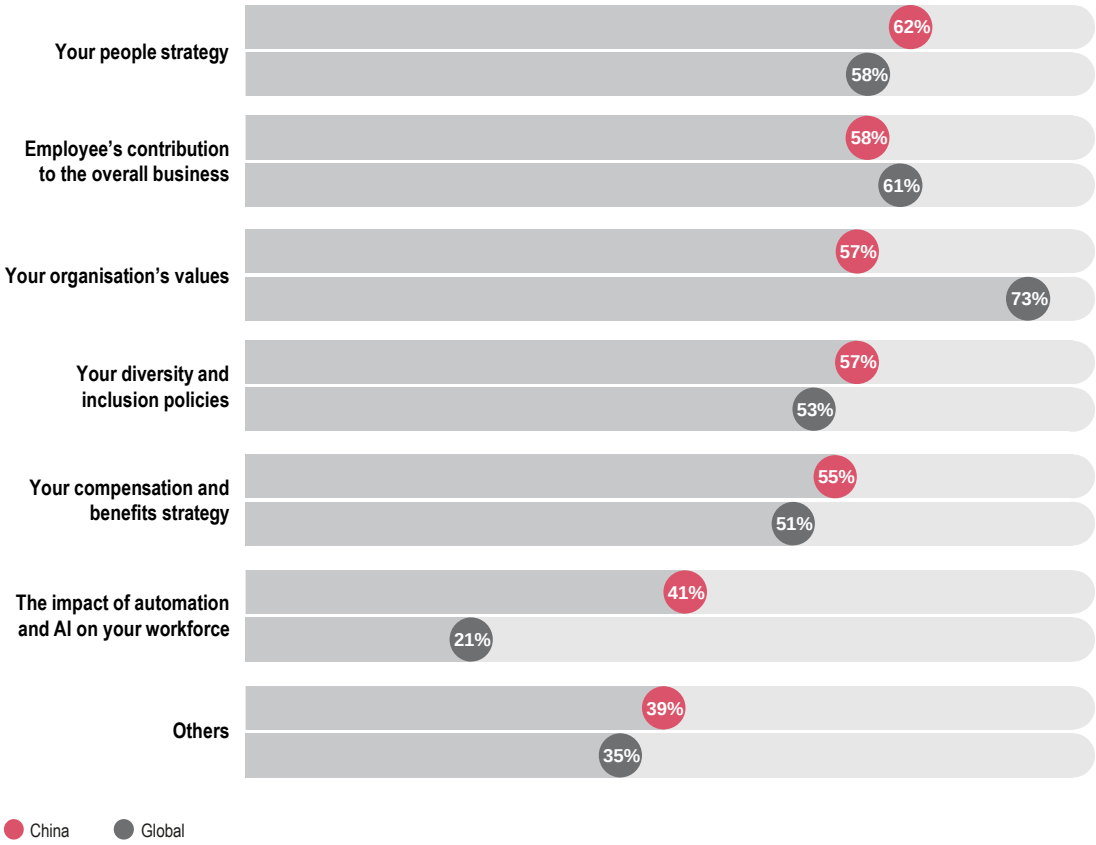


Our findings suggest that organisations are building trust with their workforce by creating transparency around their people strategy (62%), employee's contribution to the overall business (58%), and diversity and inclusion and organisations' values (57%).

And yet, 35% of the executives surveyed in China (compared to 19% globally) believe that the trust between the workforce and their senior leadership is declining. To add to the situation, only 41% of the executives surveyed in China claimed that their organisation is building trust with its workforce by creating transparency in the impacts of automation and artificial intelligence (AI) on the workforce.

Figure 11

Percentage of executives who said their organisation is building trust with its workforce by creating transparency to 'a large extent' in the following areas

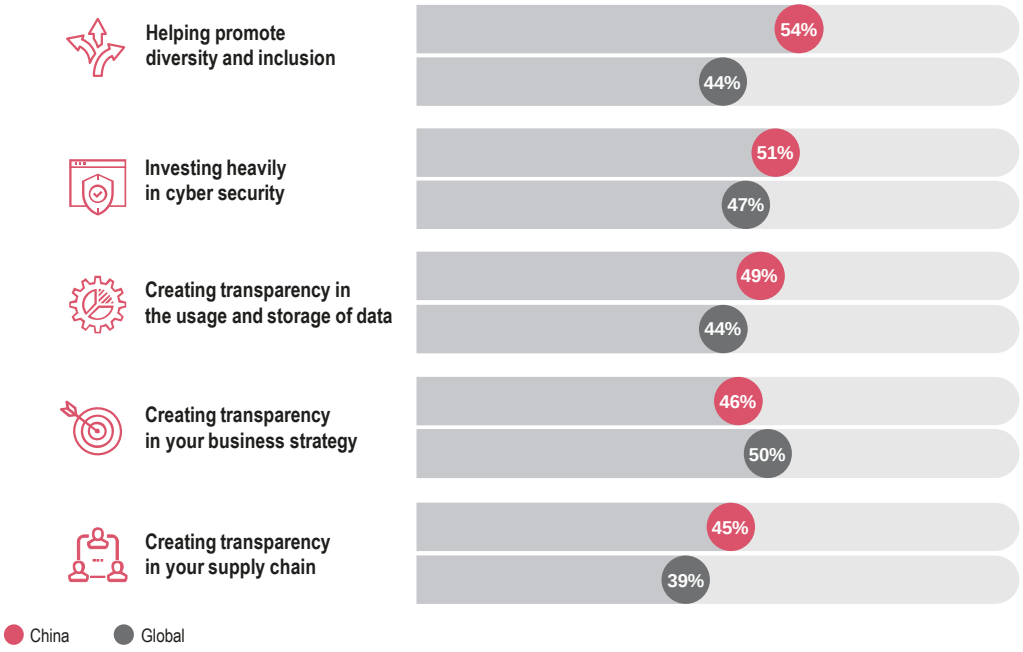


The story is similar when it comes to building trust with customers. While 88% of the executives surveyed in China claimed to measure trust between their organisation and customers, 34% 'agree' or 'strongly agree' that they are experiencing declining trust from their customers.[iii] Only 18% of the global counterparts reported to be experiencing the same.

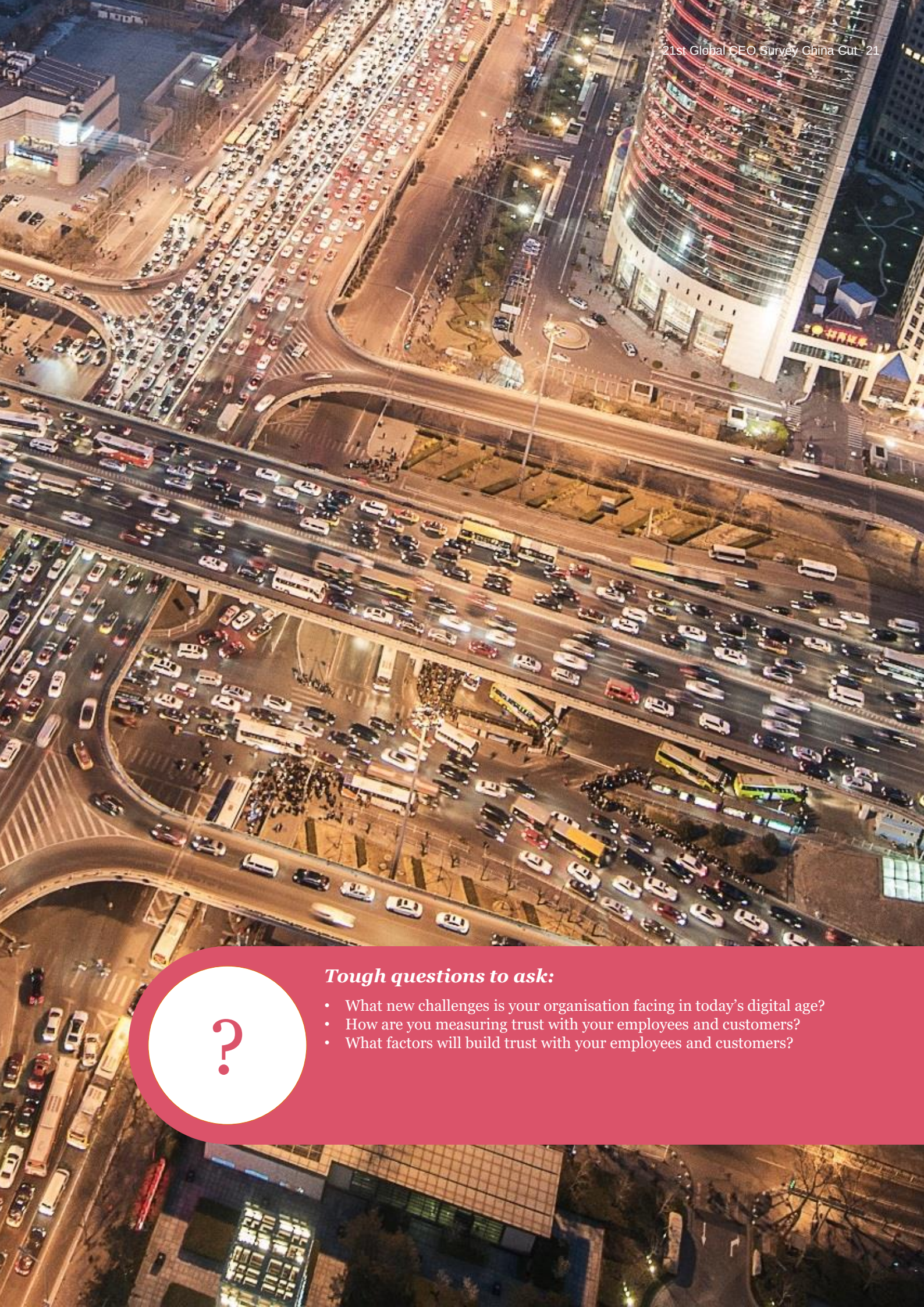
However, companies in China are making concerted effort to build trust with their customers. Helping to promote diversity and inclusion, and investing heavily in cyber security were identified as the top two strategies by our respondents in China for organisations to build trust with customers. (See Figure 12).

Figure 12

Percentage of executives who are using the following strategies to 'a large extent' to build trust with customers



iii. According to the 2017 Edelman Trust Barometer, 44% of the respondents in China rated CEOs of companies as credible voices, 13% lower than 2016.



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Tough questions to ask:

- What new challenges is your organisation facing in today's digital age?
- How are you measuring trust with your employees and customers?
- What factors will build trust with your employees and customers?

04 Skill development must keep pace with technological progress

China is now shifting to an innovative, technology driven economic growth model. According to research by the Institute of Population and Labour Economics at the Chinese Academy of Social Sciences (CASS), China's internet based "new economy" including businesses ranging from e-commerce to car-hailing services, expanded at an average annual rate of 16.1% in the 10 year period between 2007 and 2016. This rate is 1.9 times faster than overall GDP growth.

This technology driven growth is endorsed by the government. According to the 13th Five-Year Plan (2016-2020), China aims to become an "innovation nation" by 2020, an international leader in innovation by 2030, and a global powerhouse in scientific and technological innovation by 2050.

Emergence of large technology companies in China such as Tencent, Alibaba and Baidu paved the way for start-ups. China now dominates the world in technology areas such as mobile payments, internet finance, drone manufacturing, social media and artificial intelligence.

So what do these trends mean for skill development of the workforce? Our survey found that a higher proportion of businesses in China (84%), compared to the global average of 67%, are working towards retraining and skill development of the workforce impacted by automation.

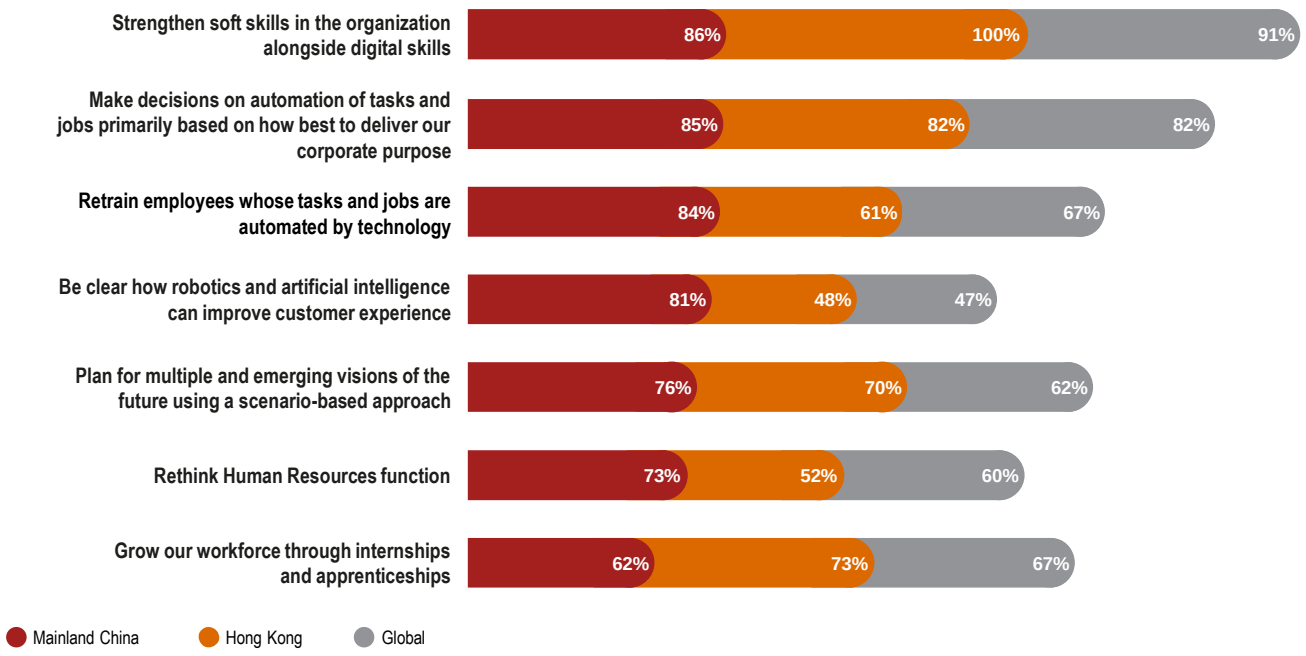
While there is concern about the loss of jobs due to automation, survey found that only 24% of the executives in China believe that the headcount will decrease to 'a large extent', as result of automation and other technologies. The nature of production is bound to change with AI and robotics enabling limitless customisation. However, **technological job displacement is only meant to replace certain repetitive and structured tasks and not whole professions** and in the new economy, new jobs will be gained that we are unable to foresee.

Given the optimistic growth prospects worldwide and in China, survey found that 70% of the executives in China expect the headcount at their organisations to increase over the next 12 months so **skill development that keeps pace with technological development is vital.**

Organisations realise that the jobs in the digital age and the jobs of the future will also require other skills to complement their digital skills. PwC's 21st CEO Survey found that 86% of the executives surveyed in Mainland China and 100% of the executives surveyed in Hong Kong agreed that the need to strengthen soft skills, such as teamwork and communication in their organisation alongside digital skills is their top people strategy for the digital age. (See Figure 13).

Figure 13

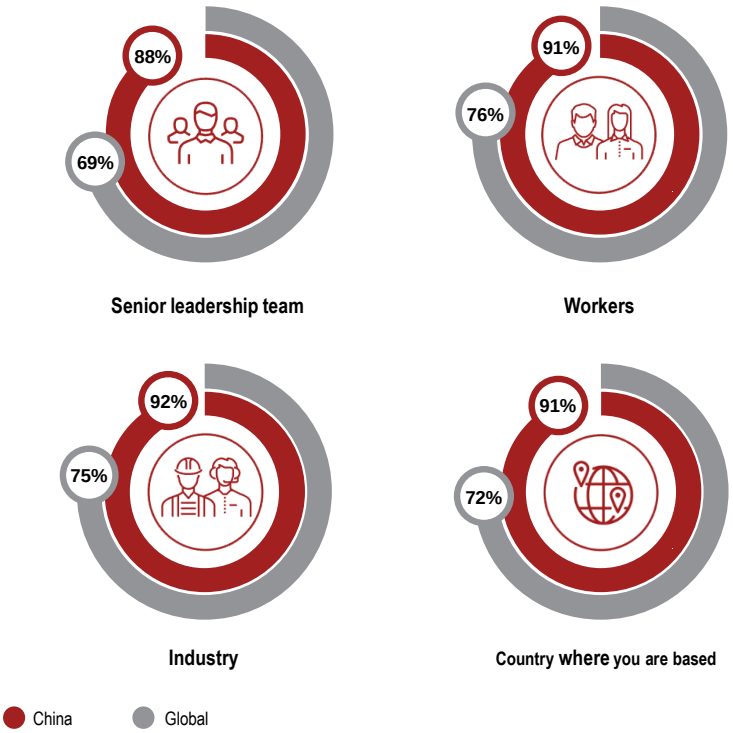
Percentage of executives who 'agree' or 'strongly agree' with the following about their people strategy



Regarding the availability of digital skills, 88% of executives in China are concerned about the availability of digital skills amongst their senior leadership team compared to 69% globally (See Figure 14).

Figure 14

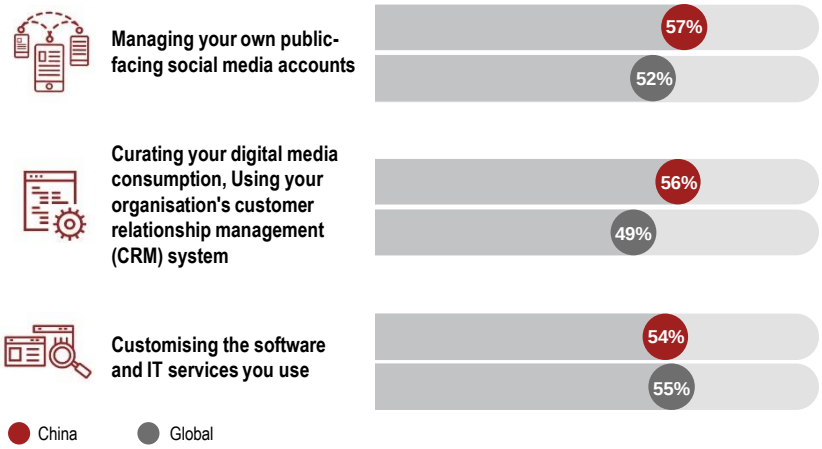
Percentage of executives who are 'somewhat' or 'extremely concerned' about the availability of digital skills amongst the following



We asked the executives surveyed if they are personally undertaking any activities to develop their digital skills. Majority of the executives in China claimed to manage their own public-facing social media accounts while global executives reported customising the software and IT services for their use as the most popular activity (See Figure 15).

Figure 15

Top activities personally undertaken by executives to develop their digital skills

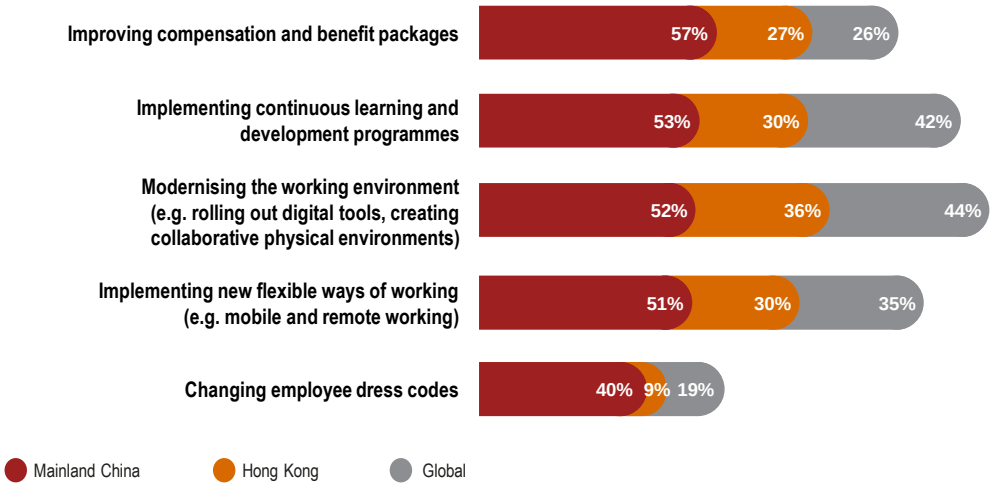


The bigger question is how can the labour market develop and attract a talent pipeline fit for the "new economy". Our futures are being redefined and it is as much the challenge of educational institutions as businesses' challenge to ensure that the skill development is fit for the future. No single actor, whether educational institutions or businesses alone can solve the skill development necessary to leverage the technology-enabled transformations impacting our lives. The most effective way forward would be to collaborate and augment each other's efforts which would lead to higher value add through adaptive learning from artificial intelligence (AI) and robotics.

In terms of strategy to attract or develop digital skills, CEO Survey found that 57% of the executives surveyed in Mainland China identified improving compensation and benefit packages. In addition to traditional people strategies such as learning and development programmes, flexible working arrangements such as mobile and remote working were identified as other popular ways companies are looking to attract digital talent.

Figure 16

Top strategies to attract or develop digital skills



Tough questions to ask:

- How difficult is it for you to find digital talent?
- What is your talent strategy for the digital age?
- Is your senior leadership equipped with digital skills?

Conclusion

The Chinese government's pursuit of supply side structural reforms while transitioning to a new growth model is expected to transform China into a socialist modern prosperous society with higher quality and more balanced growth in the long term. China's assertiveness on the world stage, its appetite for trade and investment and technology driven transformation is offering an alternative to the Western led dominance.

Domestically businesses and entrepreneurs in China have considerable support from the government to redirect growth to other economic regions (Beijing-Tianjin-Hebei City Cluster, Belt and Road Initiative (BRI) and Greater Bay Area) and cultivate new sectors and industries (Made in China 2025).

In terms of Chinese executives view of the world and in the context of **a world that is reconfiguring, results suggest that executives in China (as well as globally) believe that the world is moving towards fragmentation, regional trading blocs and yet there is recognition of common ground in global belief and value systems. Why should it matter to business and what might be the implications of these in the longer term?**

Executives in China are devising strategies to drive future growth that account for the shift from a monolithic, globalising world to a multi-polar one. While executives in China are concerned about cybersecurity, the speed of technological advancement and changing consumer preferences, they are adapting via strategic alliances, joint ventures, partnerships, M&A, and use of technologies to deliver on their propositions. Business executives are also conscious that skill development must keep pace with technological progress and **sustaining trust is an essential factor of production equal to talent and technology.**

Building and sustaining trust seems to be a prevalent theme. While trust gives the legitimacy, technology intensive developments powered by AI and big data are expected to deliver financial returns. China's scale of investment in AI, big data and super-computing probably explains its extending influence in the private sector. Those businesses who can leverage the government's financing in technology and innovations and prioritise skill development and ensure that cyber security and data privacy are strictly adhered to will benefit.

While there is political stability in China, social instability is high. Wisely, recognising this might be a risk, at the 19th Party Congress, it was announced that the unbalanced and inadequate economic development of the country will be corrected by the leadership of the party and the party has to deliver welfare to citizens through education, health, housing, elderly care, childcare and social assistance.

China is addressing other challenges such as persistent industrial overcapacity, high levels of pollution, property bubbles and high debt levels. Debt being mainly domestic debt rather than external, can be rationally managed by the government through reduced lending. Additional policy initiatives such as protection of consumers, rebalancing consumption, and continued rationalisation of State-owned enterprises (SOE) is expected to enhance efficiencies and the quality of economic growth in China. Given the gradual adjustments and careful management of the economy, business confidence and the market outlook is optimistic.

Research Methodology

The top three sectors in the Mainland China sample were Industrial Manufacturing (33%), Communications (14%) and Financial Services (9.5%), whereas the top three sectors in the Hong Kong sample were Financial Services (40%), Business Services (20%) and Retail and Consumer Goods (13%). Sample survey respondents in the aggregate sample were primarily distributed among four main sectors: Financial Services (23% of total respondents), Consumer Goods & Retail (14% of total respondents) and Industrial Manufacturing (14% of total respondents). Segmenting firms by revenue: 18% of the sample firms post annual revenue up to US$100 million, 35% of the sample is constituted of firms that post annual revenue between US$101 – 999 million; 32% of the sample firms post annual revenues between US$1 -10 billion and 8% of the sample companies have revenues more than US$ 10 billion.

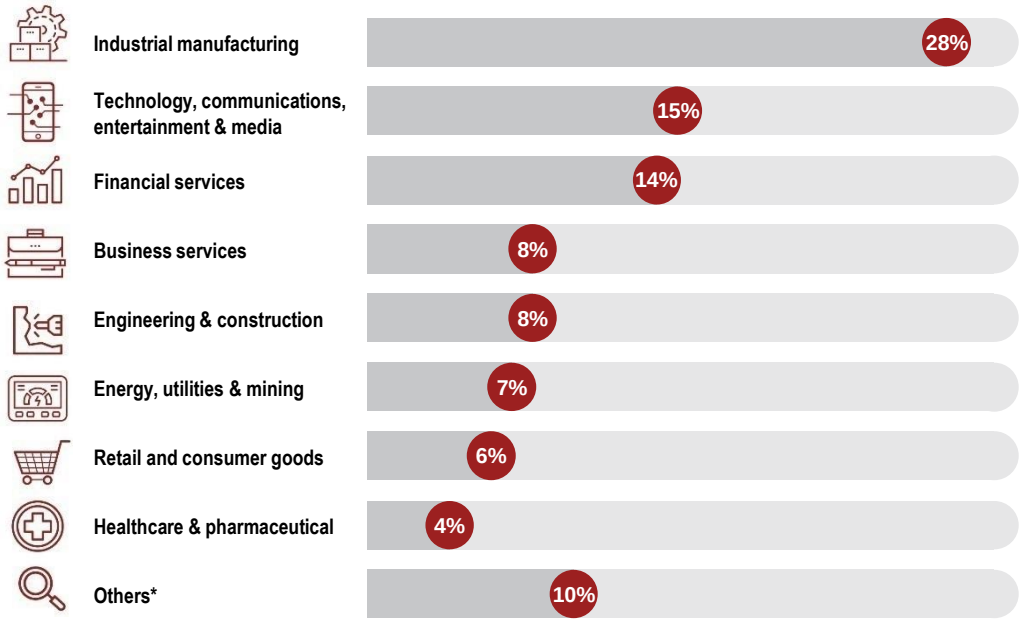
In terms of the composition of firms in the sample, a majority of the firms in the Mainland China and Hong Kong sample were privately-owned: 62% of the executives in Mainland China surveyed represented private firms, compared to 70% in the Hong Kong sample and 56% in the global sample. Second, among privately-owned firms, partnerships represented 25% of Mainland China's sample and 4% of Hong Kong sample, compared to 13% of the global sample; owner-managed firms represented 13% of Mainland China's sample and 52% of Hong Kong sample, compared to only 20% of the global sample; family run represented 14% of Mainland China's sample and 22% of the Hong Kong sample compared to 23% of the global sample. Finally, firms with some level of government ownership or backing accounted for 49% of Mainland China's sample and 15% of the Hong Kong sample, compared to only 16% of the global sample.[iv]

This leads to the inference that Mainland China and Hong Kong sample is represented by privately-owned firms which are more partnerships in Mainland China but more owner-managed in Hong Kong. They are likely to have a more concentrated leadership structure than their global peers.

iv. 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 segments in the sample compositions is not 100%.

Figure 17

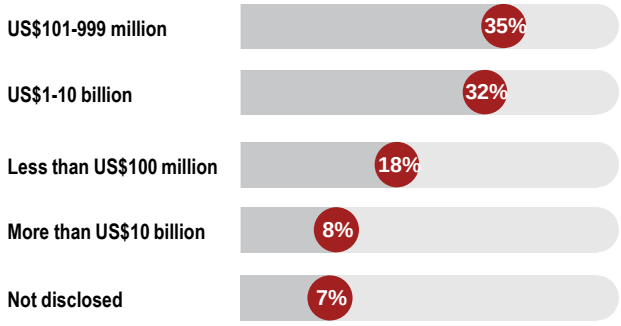
Distribution of overall China sample by sector, 2018



(Others include automotive, forest, paper & packaging, transportation & logistics, hospitality & leisure and government & public services)

Figure 18

Distribution of overall China sample by revenue, 2018



Endnotes

1. World Bank data and “IMF upbeat as global economy enjoys a growth spurt”, Financial Times, October 2017
2. “Xi Jinping: 'Time for China to take centre stage'”, BBC, October 2017
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