



PwC's 2017 APEC CEO Survey – China Report / *P.2 Executive Summary* / *P.5 Chapter 1: Advantage China in global trade* / *P.8 Chapter 2: Business confidence is recovering in China* / *P.12 Chapter 3: Growth driven by intra-regional trade undermined by trade barriers* / *P.16 Chapter 4: Digital transition in the workplace*

Chinese firms seek growth through trade



普华永道



Executive Summary



81% of executives surveyed in China reported being “more confident or just as confident” than a year ago about launching new products or services or entering a new line of business

57% of executives consider developing new products and services for domestic market as a top strategy

The global business and trade environment is in flux. The US and Britain have disrupted long held free trade agreements and this rising economic nationalism is affecting business strategies and opportunities globally.

In light of global developments such as US's exit from Trans-Pacific Partnership (TPP) and its plans to renegotiate NAFTA, China has emerged as the new leader for global trade and the voice of inclusive globalisation. After taking over from US as the world's largest trading nation in 2013¹, China is now taking on a more prominent role in facilitating a new economic world order. This has led to several initiatives to open up new markets through infrastructure development that deepens economic integration, trade and investment; for example, the Belt and Road Initiative (BRI), alternative trading blocs such as China-ASEAN free trade zone and Regional Comprehensive Economic partnership (RCEP) arrangements.

As Chinese companies become more prominent globally, they are pursuing innovation and technological advancement due to an increasingly competitive domestic and international landscape. China is not only leading the world now in e-commerce and mobile adoption but it is also outspending and out-innovating the rest of the world in many of the technologies related to smart grid, smart cities, IoT applications, robotics and others.

The combination of government supported targeting of key industries, an enormous domestic market that is semi-protected and profitable, and pursuit of strategic trade policies puts China's aspirations to further raise average national living standards within reach. CEOs in China are facing a new set of calculations and trade-offs as emerging technologies and innovations seek to advance across sectors, geographies and alternative trading blocs in search of economies of scale.

With these evolving realities, PwC's 2017 APEC CEO Survey asked executives in mainland China and Hong Kong about their perception of trade trends, how businesses are organising themselves, their operational challenges, and their outlook and expectations of new trade orientations.

Overall, PwC's survey results indicate that Chinese executives are responding positively to the policy and structural shifts in the Chinese economy as 39% of the executives in China reported being “very confident” about their company's prospects for revenue growth in the next 12 months compared to 24% in 2016 and 25% in 2015.

As the world looks at China in innovative areas such as payments, drone manufacturing and artificial intelligence, PwC's 2017 APEC CEO Survey reflected that **81% of executives surveyed in China reported being “more confident or just as confident” than a year ago about launching new products or services or entering a new line of business, and 57% of executives considered developing new products and services for domestic market as a top strategy** for their organisation to undertake over the next three years.

Fast pace of technology adoption is also indicated in the survey results as the percentage of Chinese executives “automating certain functions in their organisation” will increase from 64% today to 83% in three years. Business executives in China also recognise the importance of impact on the workforce as survey results found that the percentage of executives in China willing to invest in training of workforce in ways to use data will increase from 34% today to 62% in three years. In addition, 51% of executives surveyed in China will move to new structures of employment including more ‘gig’ talent and outsourced labour in three years compared to 31% of the executives today.

1. <https://www.ft.com/content/7c2dbd70-79a6-11e3-b381-00144feabd0>



Percentage of executives “automating certain functions in their organisation” will increase from 64% today to 83% in three years.

Investment in training of workforce in ways to use data will increase from 34% today to 62% in three years.



In terms of new trade orientations and the BRI initiative starting to take root, survey results found that **74% of the executives in China feel “more confident or just as confident” in expanding their existing operations in Asia Pacific economies outside of China.** Moreover, of the 55% of executives surveyed in China planning to increase their global investments in the next 12 months, 70% planned to allocate this increased investment to APEC economies.

The increasing business confidence might indicate that despite navigating distortions in the domestic economy such as over-capacity, debt, and declining productivity, focusing on increasing market share, services value-addition and leveraging China’s agenda for globalisation to both domestic and external advantages, is making the CEOs optimistic.

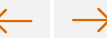
China’s intentions to expand foreign trade, lower entry barriers for foreign companies, spur innovation driven growth was further clarified at the 19th Party Congress in October 2017. Given China’s catalytic role in APEC to deepen trade integration and given the global lead of Chinese firms in payment solutions, e-commerce, some key questions worth considering are:

What are the implications of Chinese firms investing in APEC economies? Which APEC economies would be able to capitalise on digital transformations? What impact will larger Chinese firms have on key policy questions in APEC economies such as cybersecurity, crypto currency, data security and privacy? What are the far-reaching implications of the rise of Chinese firms and the impacts of digital transformation in APEC economies for firms, governments, regulators and policymakers?



Chapter 1: Advantage China in global trade





Chapter 1: Advantage China in global trade

Shift in global trade environment

China's enthusiasm in global trade is apparent. China has been the largest trading partner for ASEAN for many years now, with total trade reaching US\$ 452.2 billion in 2016.² China is now the second-biggest trading partner of the EU behind only US, and the EU is China's biggest trading partner.³ China and EU launched negotiations for an investment agreement in November 2013 which could pave the way for an EU-China free trade agreement.⁴ China is leading an effort to unite 16 Asian economies (10 ASEAN economies and six other Asia Pacific economies including Australia, Japan and India) in a new trading arrangement through Regional Comprehensive Economic partnership (RCEP). And recently, China hosted the BRICS summit in Xiamen in September 2017 which is another example of the country's expanding sphere of influence economically.

This aligns well with China's statement in the 13th Five Year Plan (FYP) to promote overseas collaboration and Chinese outbound investment to promote greater use of Chinese equipment, technology, standards and services in the international markets and help Chinese manufacturing brands gain wider international recognition.

In terms of the estimated exchange rate movement of the RMB versus US dollar over the next 12 months, 51% of executives surveyed in China (APEC: 37%) think the RMB will depreciate, out of which 39% think it will undergo a mild depreciation of less than 5%. RMB depreciation will benefit Chinese exports and strengthen China's position in global trade.

PwC's 2017 APEC CEO Survey found that Mainland China was the second popular choice to increase cross-border investments for 46% of the APEC executives surveyed. This intention can be operationalised as President Xi Jinping's address at the 19th Party Congress announced easing market access, expansion of foreign trade, lowering entry barriers for foreign companies and protecting the legitimate rights and interests of foreign investors treating all businesses registered in China equally.

In terms of other destinations favoured for increase in cross-border investments by APEC executives, Vietnam is the top choice for 47% of the APEC executives, and other economies such as Indonesia, US and Thailand were favoured by 45%, 44% and 36% of the APEC executives respectively.

2. The State Council Information Office of the People's Republic of China, China, ASEAN deepen economic, trade cooperation

3. <http://ec.europa.eu/trade/policy/countries-and-regions/countries/china/>

4. http://news.xinhuanet.com/english/2017-06/02/c_136332689.htm

Figure 1: Higher proportion of executives in China are optimistic about trade progress in Asia Pacific, while there is no change in proportion of executives who feel that progress has been slow

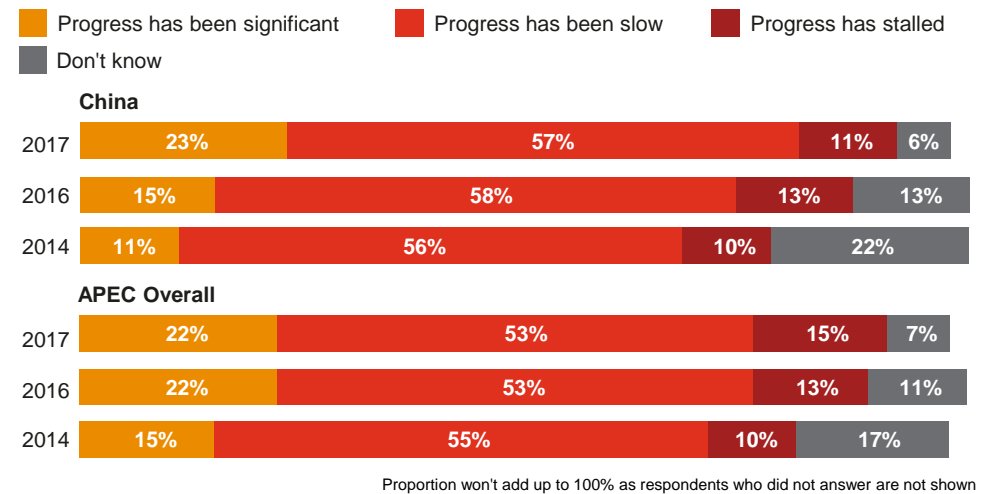
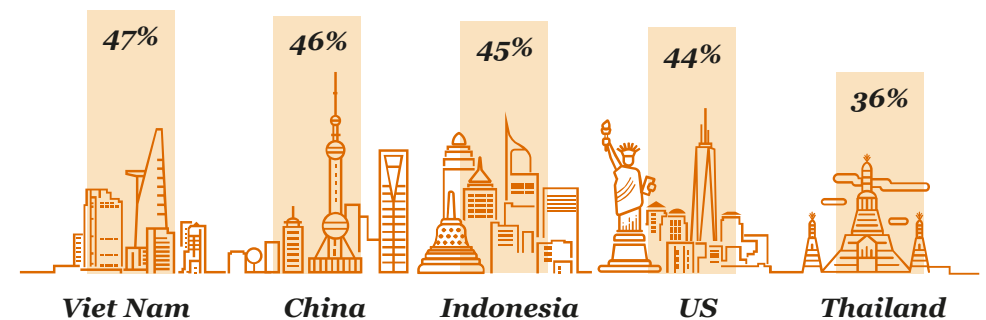


Figure 2: Top 5 APEC economies to receive increased cross-border investment over the next 12 months





China's growing role in APEC

Six of the top 10 economies with investments in Mainland China from January to August 2017 are from APEC – Hong Kong (US\$ 59.7 billion), Chinese Taipei (US\$ 3.6 billion), Singapore (US\$ 3.2 billion), Japan (US\$ 2.04 billion), United States (US\$ 2 billion), Republic of Korea (US\$ 1.98 billion), Netherlands (US\$ 1.6 billion), Germany (US\$ 1.3 billion), UK (US\$ 960 million) and France (US\$ 690 million).⁵ Also, many APEC economies such as Hong Kong, US, Singapore and Australia are among the top beneficiaries of China's outward investments.⁶ However, inward direct investment into China declined by 1.4% to reach US\$ 133.7 billion in 2016.⁷ Lower return on assets together with higher labour costs has pushed foreign enterprises, particularly manufacturers, to other Southeast Asian countries.⁸

China's role in APEC is going to get more prominent as opportunities for exports and fixed asset investments emerge from the BRI initiatives. The BRI will pass through 11 APEC economies and once the vision is realised, the increased market access and connectivity will be a game changer.

The vitality of trade in the region is clear. Through their participation, Chinese companies will have an opportunity to gain market share and build up their presence further in the region. For companies in APEC, access to technology, services and equipment would be beneficial.

Figure 3: Percentage of executives who expect APEC to play a leading or facilitating role in the following areas

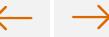


5. Invest in China

6. Ministry of Commerce, China (MOFCOM)

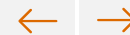
7. UNCTAD

8. CKGSB Knowledge, Navigating FDI in China as the Economy Slows, May 2017



Chapter 2: Business confidence is recovering in China



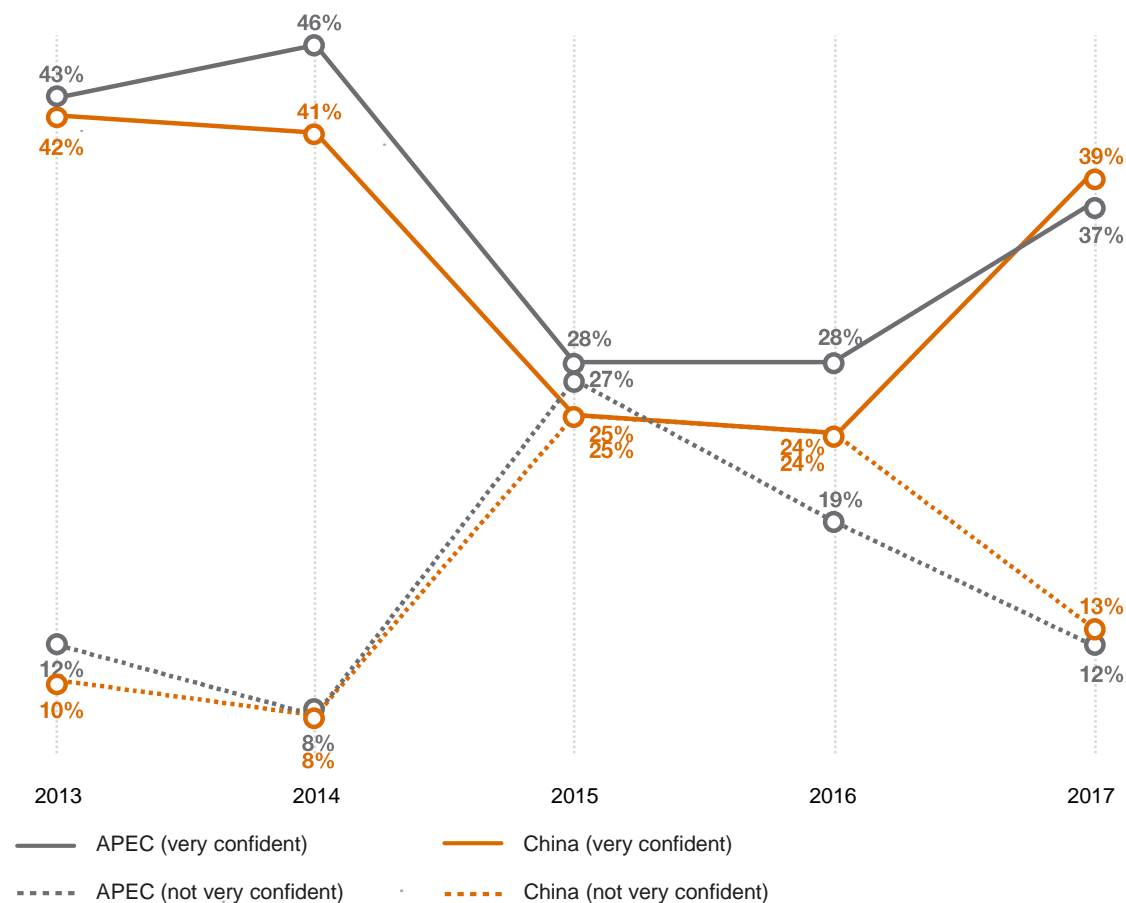


Chapter 2: Business confidence is recovering in China

PwC's 2017 APEC CEO Survey found that 39% of the executives in China are “very confident” about their company's prospects for revenue growth in the next 12 months. There is a sizeable increase in the proportion of executives in China who are “very confident” this year as compared to the last couple of years (24% in 2016 and 25% in 2015).

For overall APEC as well, 37% of the executives surveyed in 2017 said they were “very confident” about their company's prospects for revenue growth in the next 12 months (28% in both 2016 and 2015).

Figure 4: Percentage of executives who are “very confident” about their company's prospects for revenue growth in the next 12 months





To drive their growth strategy, 81% of executives in China were “just as confident or more confident” about launching a new product or service or entering a new line of business, 74% were confident about expanding operations in Asia Pacific economies and 67% were confident about securing the talent and skills needed to perform globally.

However, there was a decline in the proportion of executives in China feeling “very confident” about forecasting compliance costs and tax liabilities which had fallen considerably from 22% in 2014 to 13% in 2017. Similarly, there has been a decline in proportion of executives in China feeling “very confident” in increasing profit margins in international operations which fell from 43% in 2014 to 19% in 2017.

Policy and regulatory unpredictability and currency risk may explain the declining proportion of executives who reported being “very confident” about increasing profit margins.

Figure 5: Percentage of executives who compared to a year ago are “just as confident or more confident” about the following

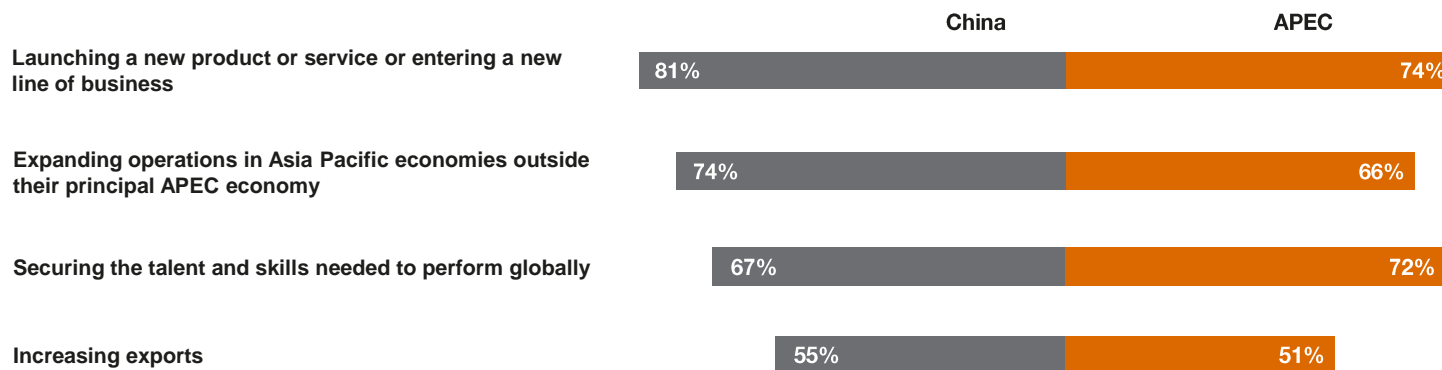
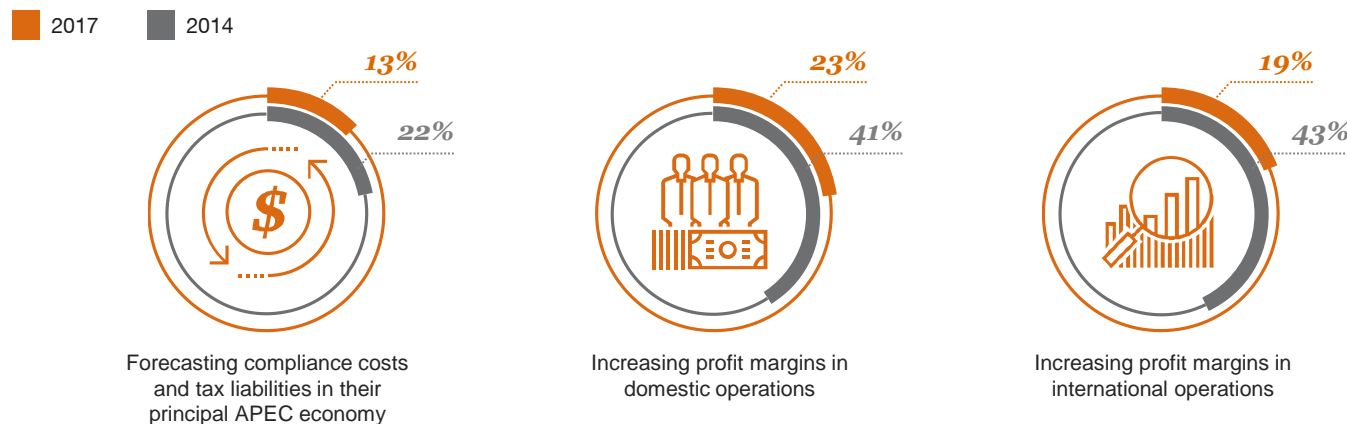


Figure 6: Percentage of executives in China who are “very confident” about the following - 2014 vs 2017

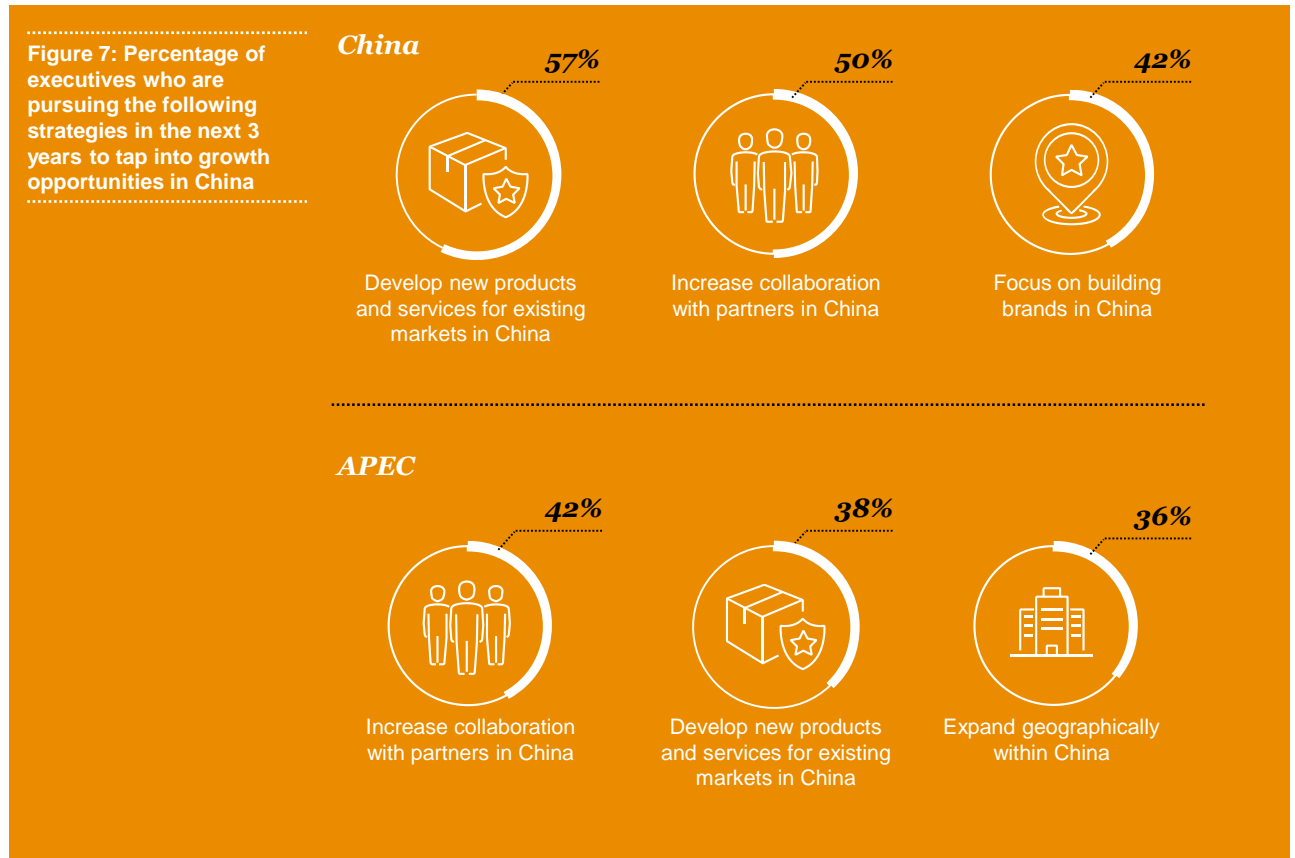


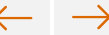


So how are business executives in China tapping into these growth opportunities?

To capitalise on new opportunities, 57% of executives in China consider developing new products and services for existing markets in China as a top strategy for their organisation to undertake over the next three years. Increasing collaboration with partners is being considered as a growth strategy by 50% of the executives surveyed in China; and 42% considered building their brand in China as a top strategy.

When considering to enter into a strategic partnership/joint venture, the most important attributes that executives in China are looking for are: product / service quality and price (68%; APEC: 62%), followed by managerial talent (65%; APEC: 53%) and transparent governance and operations (64%; APEC: 60%).





Chapter 3: Growth driven by intra- regional trade undermined by trade barriers





Chapter 3:

Growth driven by intra-regional trade undermined by trade barriers

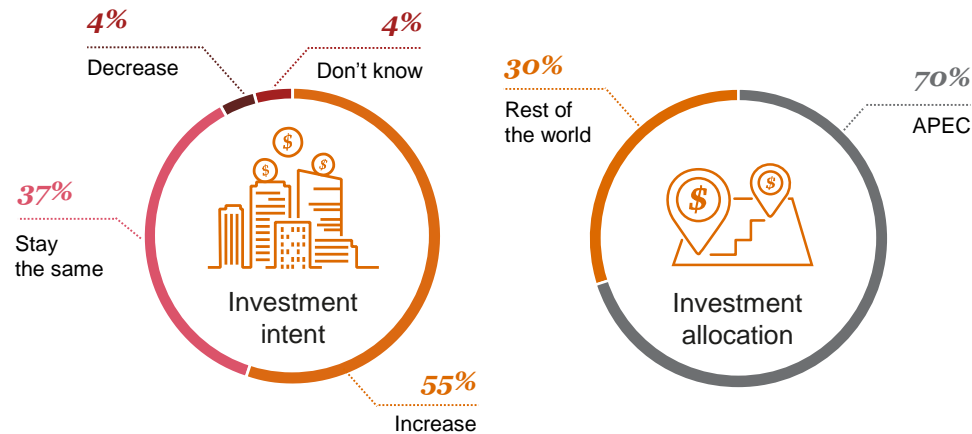
Cross-border investments key to growth

Global investment intentions of businesses in China continue to remain strong for the next 12 months with APEC economies attracting a significant share of that new investment. While 55% of executives surveyed in China in 2017 plan to increase their global investments in the next 12 months, 52% of the executives showed similar intent in 2016 and 61% in 2015.

Majority of executives in China (70%) want to direct this new investment in the coming year in APEC economies. Executives surveyed in other APEC economies also have similar investment intent (71% to invest in APEC and 29% in rest of the world) indicating a strong regional investment sentiment.

Moreover, 75% of the executives surveyed in Hong Kong are inclined to make their new investments in APEC as compared to 65% by their mainland counterparts.

Figure 8: Future investment intents and allocation of investment increase to APEC and Rest of the World, by Chinese executives

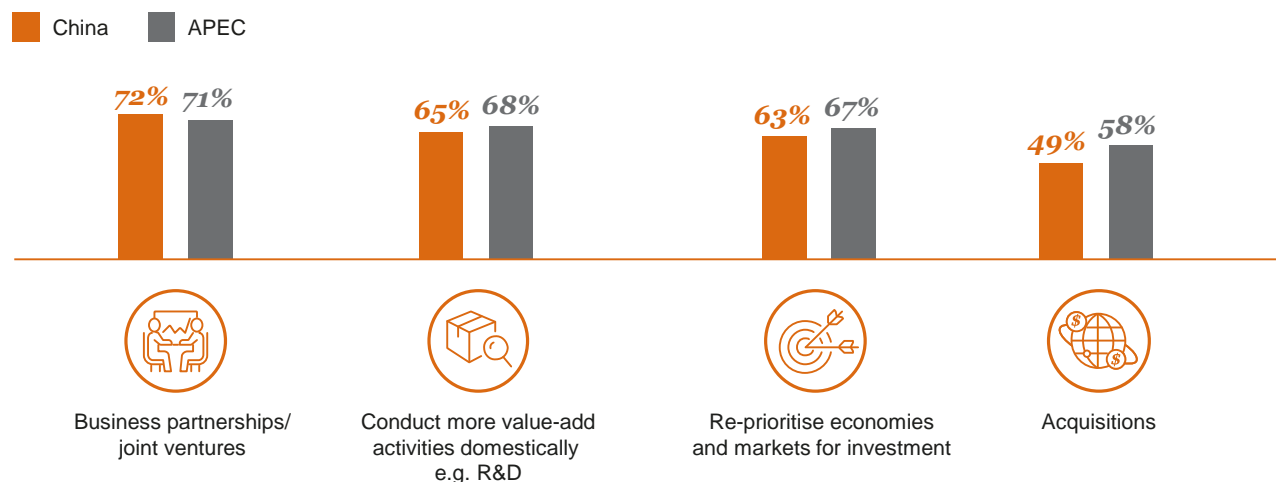




To drive their overseas growth ambitions, 72% of executives surveyed in China (as compared to 71% executives in APEC) said they rely, to a “great extent” or “some extent”, on business partnerships/joint ventures to secure growth in overseas markets; 65% of the executives in China (compared to 68% of APEC counterparts) said they conduct, to a “great extent” or “some extent” more value-add activities domestically such as R&D to secure growth in overseas markets; Moreover, 63% of the executives in China said they re-prioritise, to a “great extent” or “some extent” economies and markets for investment to secure growth in overseas markets, while 67% of their APEC counterparts said the same.

While 58% of the executives surveyed in APEC rely more on acquisitions to a “great extent” or “some extent” to secure growth in overseas markets, only 49% of executives surveyed in China had the same response. Similarly, 22% of executives in China in the last 12 months said that they encountered increased constraints on FDI and M&A to invest in another economy compared to 19% of their APEC counterparts. Part of this can be explained by the Chinese government’s directive to curb “irrational” offshore investment in overheated sectors such as luxury, entertainment, and real estate as a means to restrict capital outflow. Although, overseas investments by firms in China are being encouraged and supported in 'Belt and Road' countries. While we don't have trend data to compare acquisitions year on year, this interpretation is likely.

Figure 9: Percentage of executives who will rely, to some or a great extent, on the following strategies to secure growth in overseas markets





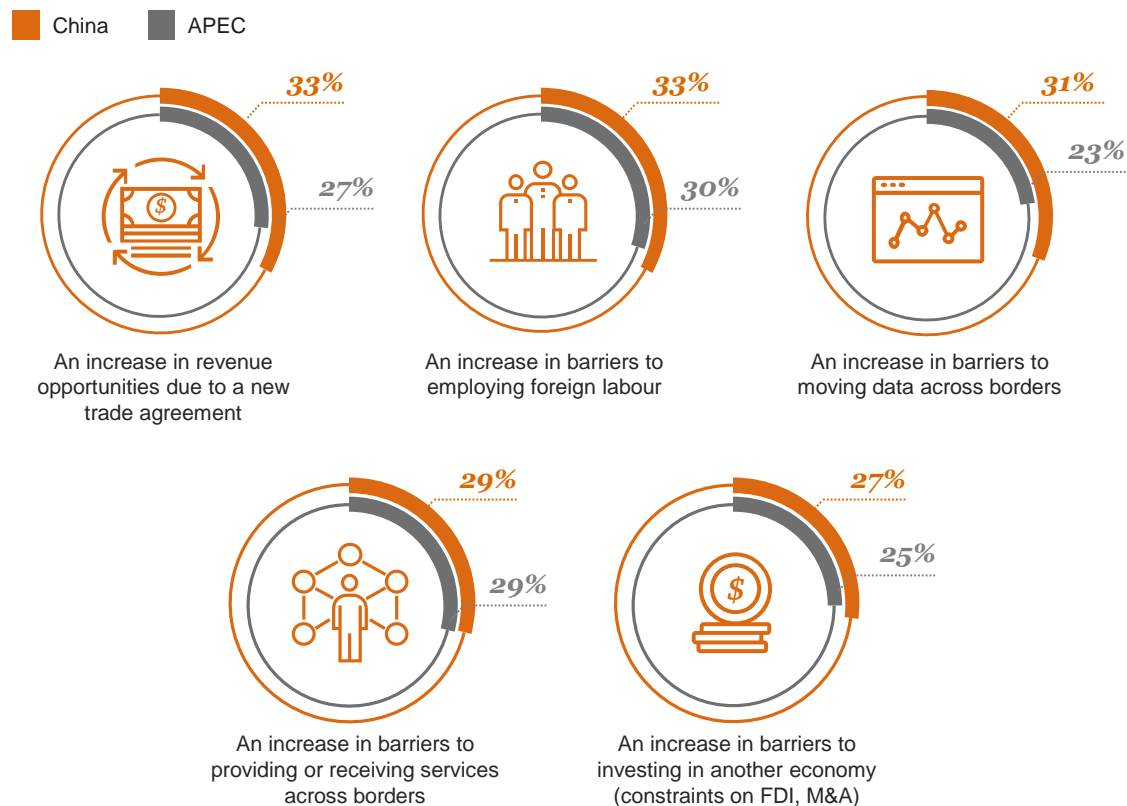
In terms of barriers arising in global trade environment, 33% of executives in China expect an increase in barriers to employ foreign labour in the coming year as compared to 24% of the executives perceiving this barrier in the last 12 months.

The second barrier of moving data across borders was identified by 31% of the executives in China for the next 12 months as compared to the 24% acknowledging the same last year. This was felt much less by APEC economies as only 23% of the executives across APEC identified it as a barrier for the coming year. An increase in barriers to providing or receiving services across borders (19% last 12 months vs 29% in the next 12 months) and an increase in barriers to invest in another economy (22% last 12 months vs 27% in the next 12 months) were the other barriers cited by the executives surveyed in China.

In the global trade environment, China has been negotiating a bilateral trade agreement with the EU, which is unlikely to yield results soon and 19 other FTA's which might explain the expectation of increased barriers.⁹

The recently secured TPP 11 in Da Nang in Vietnam at the APEC Summit will result in lowering of trade barriers amongst the 11 economies. Similarly, the China led RCEP is also expected to announce increasing market access amongst 16 economies which is a cause for optimism for Chinese executives.

Figure 10: Percentage of executives in China who expect to experience the following in the global trade environment in the next 12 months

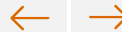


9. <http://fta.mofcom.gov.cn/english/>



Chapter 4: Digital transition in the workplace





Chapter 4: Digital transition in the workplace



China's emergence as a global technology and innovation powerhouse is evident as it climbed up the Global Innovation Index¹⁰ rankings from 25 in 2016 to 22 in 2017 in the space of one year. It was the first ever middle-income economy to be featured in the top 25. Meanwhile, in 2017, Hong Kong is at 16th position¹¹. This is a welcome endorsement for China as it moves away from its “copycat” image to dominate areas of technology and innovation such as payments, drone manufacturing and artificial intelligence.¹²

China has also made focused efforts to create a robust start-up ecosystem and it is steadily climbing up league tables. According to the global start-up ecosystem ranking by Silicon Valley based Startup Genome, Beijing and Shanghai ranked 4 and 8 respectively in 2017 when none of the Chinese cities featured in the top 10 in 2016. As a result, China's unicorns account for 53% of the global total and 66% in terms of valuation.¹³

AI, robotics, and automation are not only changing products and services but also transforming the workplace. Cases of industrial automation are most evident in Chinese cities with traditionally labour-intensive manufacturing activities. For example, Changying Precision Technology Company, a mobile phone producer in Dongguan city, has recently replaced up to 90% of its human workforce with machines and robots, and reported a staggering 250% improvement in productivity and a significant 80% drop in defects.¹⁴

Meanwhile, companies are adopting technologies for service delivery in remote areas as well in emergency situations. In June 2017, the Chinese leading courier company SF Express became the first in the country to be granted approval to use drones for logistics purposes.¹⁵ Also, Chinese education authorities used camera-equipped drones to help combat cheating during the annual university entrance exams.¹⁶

10. Global Innovation Index is co-published by Cornell University, INSEAD, and the World Intellectual Property Organization (WIPO, an agency of the United Nations).

11. The Global Innovation Index

12. <https://www.cnbc.com/2017/07/18/china-emerging-as-a-tech-and-innovation-powerhouse.html>

13. <https://www.weforum.org/agenda/2017/07/its-the-age-of-unicorns-and-heres-how-china-is-ranking>

14. <http://www.techrepublic.com/article/chinese-factory-replaces-90-of-humans-with-robots-production-soars/>

15. <https://www.ft.com/content/ac01e16e-5d66-11e7-9bc8-8055f264aa8b>

16. <https://www.reuters.com/article/us-china-exam/chinese-exam-authorities-use-facial-recognition-drones-to-catch-cheats-idUSKBN18Z150>



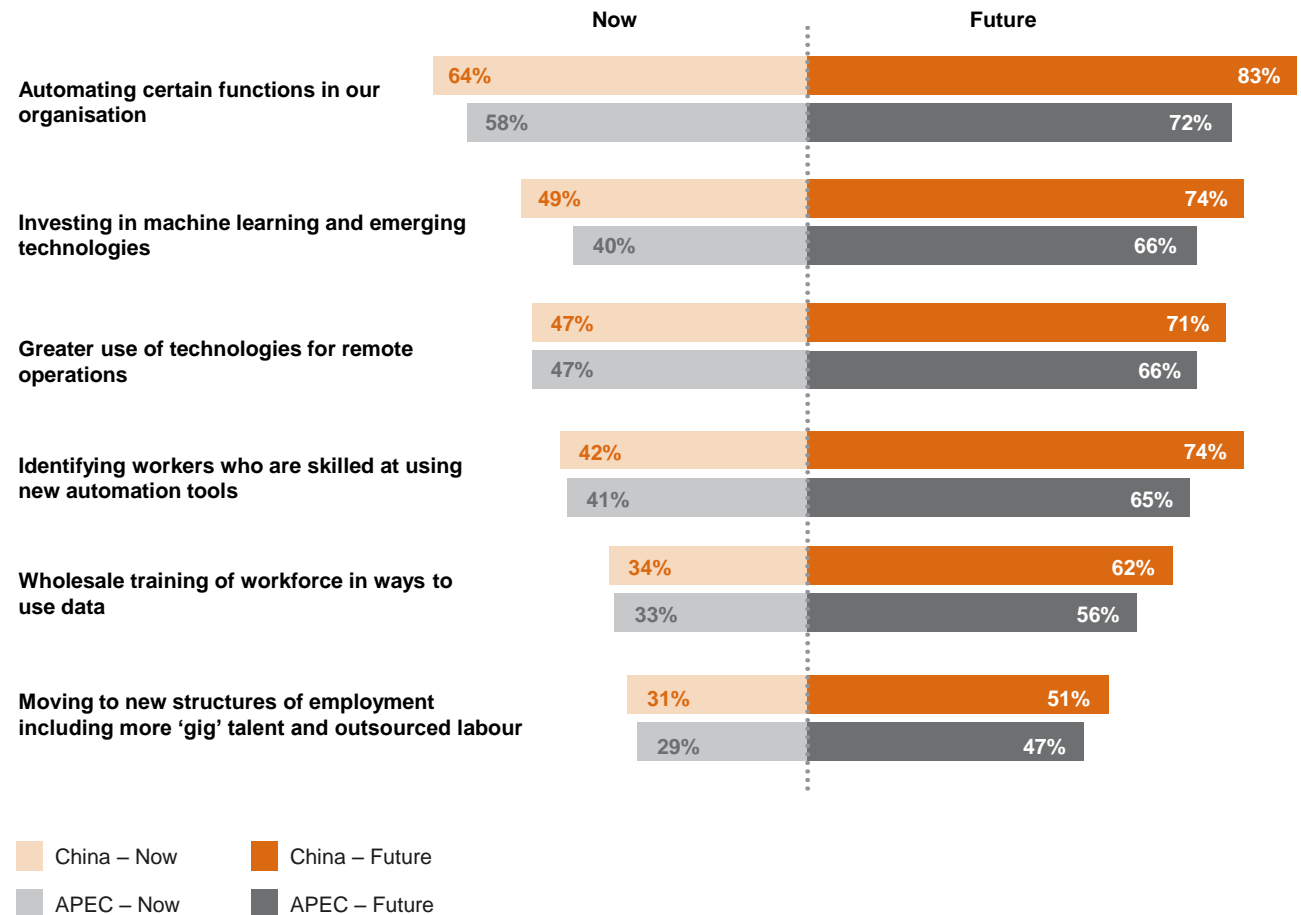
According to PwC's 2017 APEC CEO Survey, the percentage of executives in China “automating certain functions in their organisation” will increase from 64% today to 83% in three years (APEC: 58% today vs 72% in three years). Currently, 49% of executives in China (APEC: 40%) are “investing in machine learning and emerging technologies” and in the next three years, that proportion will rise to 74% (APEC: 66%).

The proportion of executives in China “identifying workers who are skilled at using new automation tools” is expected to increase from 42% today to 74% in three years. While 47% of the executives surveyed in China are adopting “greater use of technologies for remote operations” today, 71% of these executives will be adopting these in three years.

As is evident, emerging technologies are impacting the workforce as some jobs have been displaced while many new employment opportunities have also been created. Executives are also exploring new employment structures. About 51% of executives in China expect to move to new structures of employment including more ‘gig’ talent and outsourced labour in three years from 31% of the executives today.

The growth in the proportion of executives willing to invest in the training of the workforce in the next three years, is higher in China than in APEC economies. For example, the percentage of executives in China willing to invest in wholesale training of workforce in ways to use data will increase from 34% (APEC 33%) today to 62% (APEC: 56%) in three years.

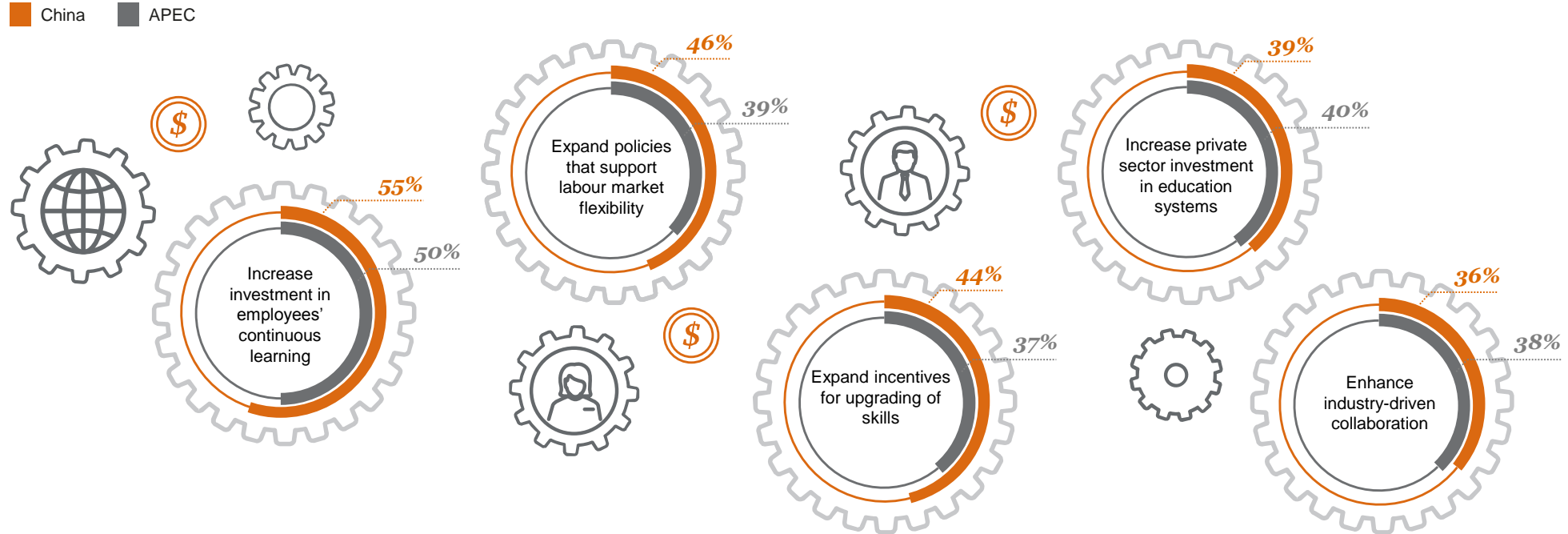
Figure 11: Percentage of executives in China who will adjust their workforce strategies in the next 3 years to adapt to and profit in the digital age





Increasing business investment in employees' continuous learning (50%), increasing private sector investment in education system (40%) and expanding policies that support labour market flexibility (39%) are the top three ways APEC executives plan to help workers adapt to an era of greater automation and jobs rebalancing. In China, 55% of the executives recognise that increasing business investment in employees' continuous learning is the most effective way to help workers adapt to an era of greater automation and jobs rebalancing. Expanding policies that support labour market flexibility (46%) and expanding incentives for individual-directed upgrading of skills (44%) are the other ways that can help workers to retool and reskill, according to executives surveyed in China.

Figure 12: Jobs reskilling, continuous learning, and new employment structures are key to developing the workforce of the future





Conclusion

The 19th Party Congress highlighted that prospects are bright while challenges are formidable. There is a chance that with the reforms announced, and with better implementation, there will be real improvement in the business climate for companies. What are the implications of these survey findings for businesses and policy makers? The results suggest that:

For Business

- (a) While firms in China are enthusiastic about expanding their business presence through intra-regional trade and investment in APEC, they are encountering increased trade barriers such as restricted mobility in labour, goods, services and data. Trade restrictions are expected to be eased as announced by China's leadership last month.
- (b) As long as firms in China are able to navigate the distortions in the domestic economy such as over-capacity, debt, and declining productivity, and focus on increasing market share, services value-addition and leverage China's agenda for globalisation to both domestic and external advantages, they should be fine. President Xi announced deepening supply-side structural reforms, cutting over capacity and excess inventory to improve allocation of resources; these new measures should bring relief to the private sector.
- (c) Business confidence is recovering. The announcement last month highlighted fostering new drivers of growth in medium high end consumption, innovation-driven development, green and low-carbon economy, sharing economy, services sector, modern supply chains and human capital services.
- (d) Technology enabled transformations is leading to growth for companies in China. The implication of this is that demand for tech talent – engineers, data scientists etc. – is increasing at a fast pace. HR

transformation, leading to the development of technological talent in-house, is now an imperative. Instead of thinking about jobs lost to automation, companies should be actively investing in workers so that jobs are gained from automation.

- (e) The partnership between the private sector and educational institutions becomes critical to redefine education and training so that new value is created through worker retraining and reskilling so that societies are able to thrive in an AI driven world.

For policy makers:

- (a) Given the recognition of the vitality of regional trade, the trade barriers and operational constraints faced are holding back companies. Consequently, executives in China expect APEC governments and institutions to play a larger role in facilitating economic growth and cooperation for the region.
- (b) Whether the digital transformations/innovations are transformative or disruptive is the responsibility of many stakeholders such as business leaders, regulators and governments to manage risks through appropriate governance frameworks. All stakeholders have an opportunity and responsibility to lead through the technological innovations by exercising long term vision and governance to balance competing interests (privacy versus safety).
- (c) In terms of China's increased engagement in APEC economies, beyond challenging industry leaders they might influence new rules of engagement in key public policies in APEC economies ranging from innovation policy, crypto currency, cybersecurity, food supply to waste management.

There is positive business and investor sentiment in China and the future prospects look bright.





Survey Methodology

The eighth edition of PwC's 2017 APEC CEO Survey explores the theme of "A World in Transition".

We surveyed more than 1,400 business leaders between May and July 2017 for the PwC's 2017 APEC CEO Survey.

This report is based on the views of 202 business leaders from 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.

The main sectors in the Mainland China sample were Industrial Products (40%), Consumer and Retail (23%), Financial Services (17%), Technology (11%) and Professional Services (4%). The main sectors in the Hong Kong sample were Financial Services (28%), Industrial Products (26%), Consumer and Retail (19%), Professional Services (12%) and Technology (10%).

In terms of the composition of firms in the sample by ownership structure, 45% of the firms in the mainland China and Hong Kong sample were privately-owned; firms with more than 50% public ownership represented 27% of the overall sample; firms with 50% government-ownership represented 6% of the overall sample, and 12% of sample firms were owned by a financial institution.

In terms of revenue composition, 23% of the overall sample companies earned up to USD 100 million; 22% of the overall sample firms earned between USD 100 million – USD 500 million; 10% of the overall sample earned between USD 500 million – USD 1 billion; 31% of the overall sample earned between USD 1 billion – USD 10 billion; 16% of the overall sample firms earned greater than USD 10 billion.

This leads to the inference that the sample is represented by privately owned firms with revenues in excess of USD 1 billion.

Figure 13: Distribution of respondents, in the overall sample, by sector, 2017

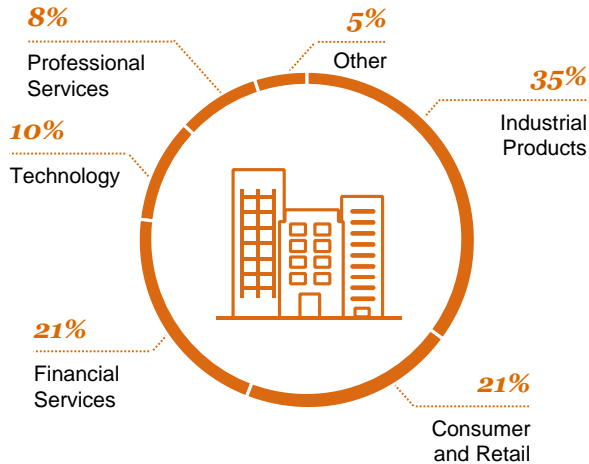


Figure 14: Distribution of respondents, in the overall sample, by firm revenue, 2017

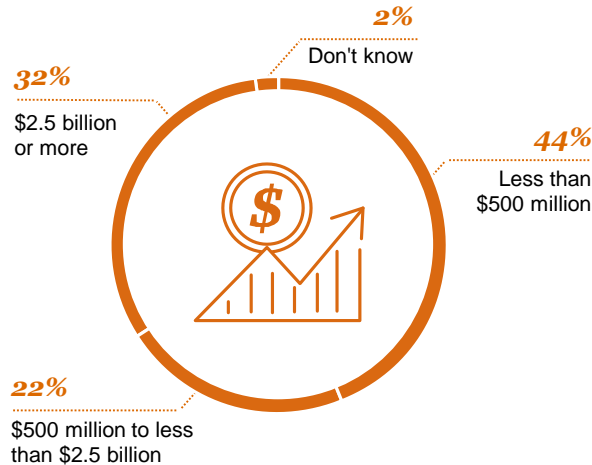
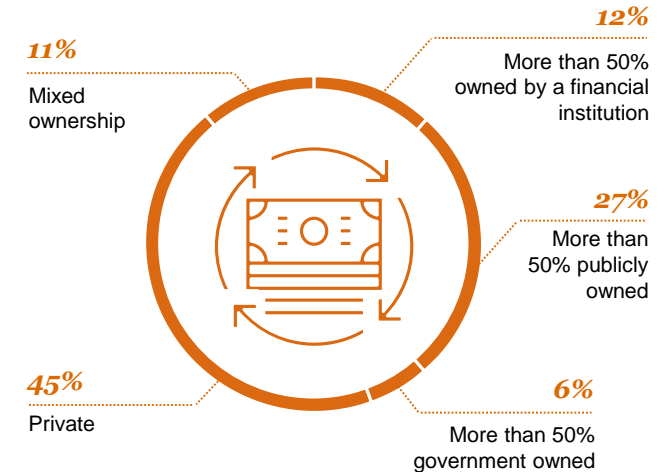


Figure 15: Distribution of respondents, in the overall sample, by ownership, 2017





Acknowledgement and thanks to reviewers

Special thanks to Allan Zhang and Frank Lyn for their contributions to the report

Editorial and Writing

Sanjukta Mukherjee

Smriti Mathur

Terrance KF Lui

Project Management

Terrance KF Lui

Lan Lan

Shan Liang

Design team

Stephen Chow

Artin Lin

Mandy Chan

Contact

Frank Lyn

PwC China & Hong Kong Markets Leader

+86 (10) 6533 2388

frank.lynn@cn.pwc.com

