

Navigator 2020

Mainland China



Together we thrive

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Introduction

Mainland China's economy has rebounded faster than expected. Government investment in infrastructure has led the way, and we expect this sector, along with property, to keep driving growth in 2021. Export growth in pandemic-friendly products rose steeply in August (one month before our 2020 Navigator survey went live) and will stay resilient as big trade partners return to life. But recovery among domestic private businesses will depend on consumer spending picking up. And any escalation in geopolitical tensions will weigh heavily on business mood and investment.

1. Overview

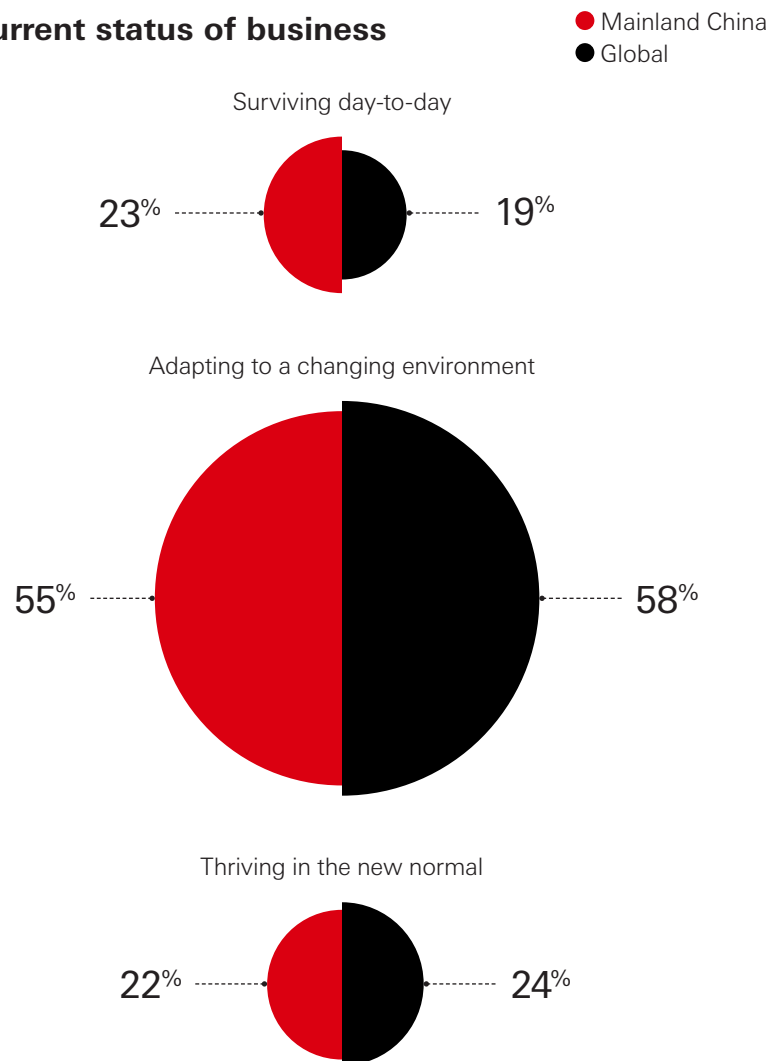
Our 2020 Navigator survey results suggest **cautious optimism** from businesses in mainland China

On a par with global findings, over half of businesses in mainland China are adapting to a changing environment; the remaining proportions are equally split between surviving day-to-day and thriving. Expectations of sales growth in the next year are also in line with global views.

When it comes to international trade, though, Chinese companies are more positive about the outlook for the next 1-2 years than businesses globally or in APAC. Nonetheless, the majority think that international trade has become more difficult and see further challenges in the next year.

Chinese companies are tackling their challenges by strengthening intra-regional trade, investing appropriately, bolstering their supply chains and placing a greater focus on sustainability.

Current status of business



2. Business outlook

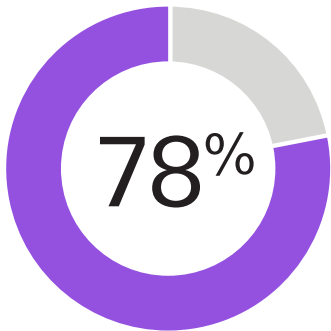


Chinese businesses **remain stable** despite COVID-19 threat to recovery

The proportion of Chinese companies expecting sales to grow in the next year has declined sharply from 86% in 2019 to 62% in 2020. But even this steep drop puts mainland China on a par with businesses in APAC and globally (60% and 64%). Companies in mainland China also expect to recover slightly faster than their peers globally.

This relative stability is reflected in the fact that more than half of businesses expect sales growth to stay the same in the coming year (55%, the highest of any market). Only 17% are more pessimistic about growth than last year, compared with 32% globally.

A resurgence of COVID-19 is the primary threat to growth/recovery, along with an uncertain geopolitical environment. Interestingly, and uniquely to mainland China, businesses don't see workforce morale as a threat. And cutting costs – the most frequently cited strategy globally – is mentioned by only a quarter of businesses.



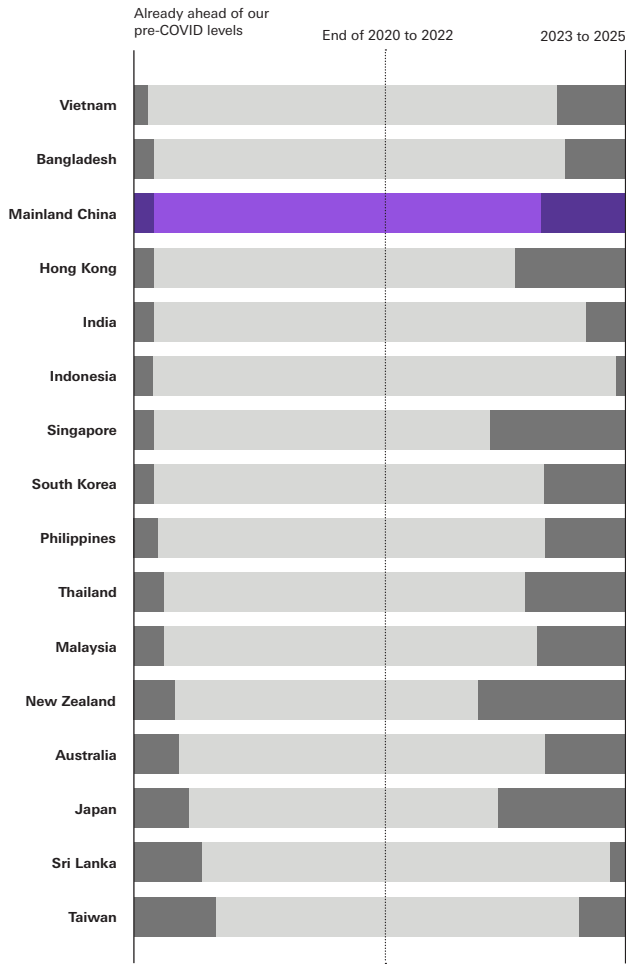
of businesses expect to return to pre-COVID profitability levels by the end of 2022

Top 3 drivers of business growth



When businesses expect to return to pre-COVID levels of profitability

%

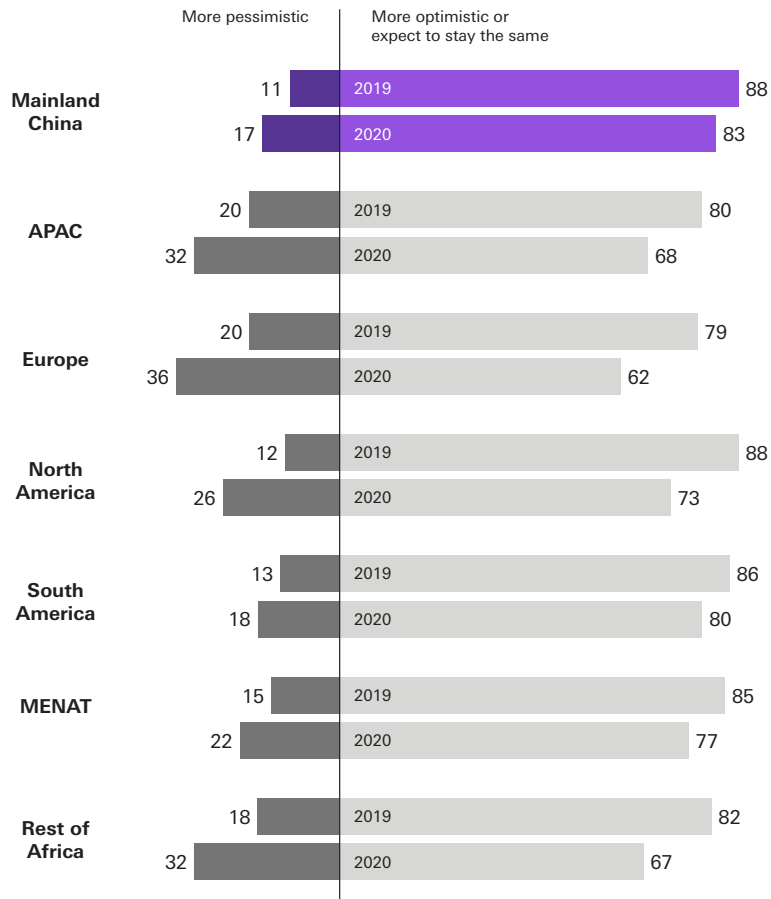


2. Business outlook (continued)



How business outlook has changed in the last 12 months*

%



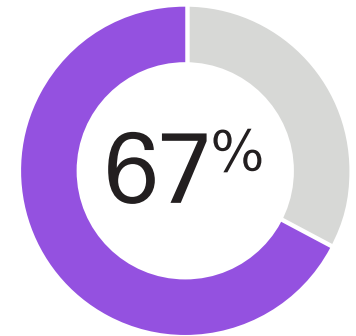
*Excludes businesses answering 'Don't know'

Investing to grow

The events of 2020 haven't dampened the inclination of most companies in mainland China towards investing to grow. Their planned levels of investment match global findings and are 2% higher than APAC.

Immediate investment priorities for 2021 are expansion into new markets, product innovation and sales channels. Compared with globally, Chinese businesses are more likely to focus on future, rather than immediate, priorities.

More than four in five companies are either increasing or maintaining investment across different technologies. They plan to focus particularly on technologies that facilitate product and service innovation, target new customers and improve speed to market.



of Chinese businesses intend to increase investment in their business in the next year, despite the challenging environment

Strategies of Chinese businesses to benefit from growth drivers and address threats



3. Future strategy



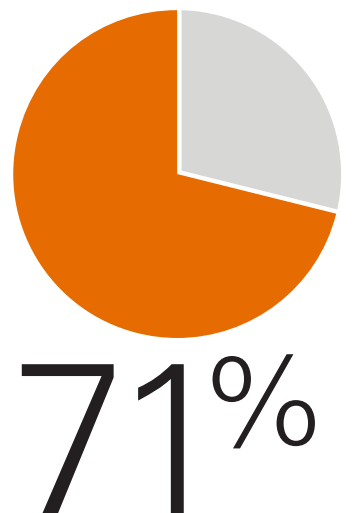
Short-term changes

will support post-COVID economic recovery in mainland China

Similar to globally, the majority of businesses in mainland China have undergone changes over the last 12 months. Of those, almost two-thirds think the changes will be short term versus 53% in APAC. Fewer than one in ten believes they will be long term.

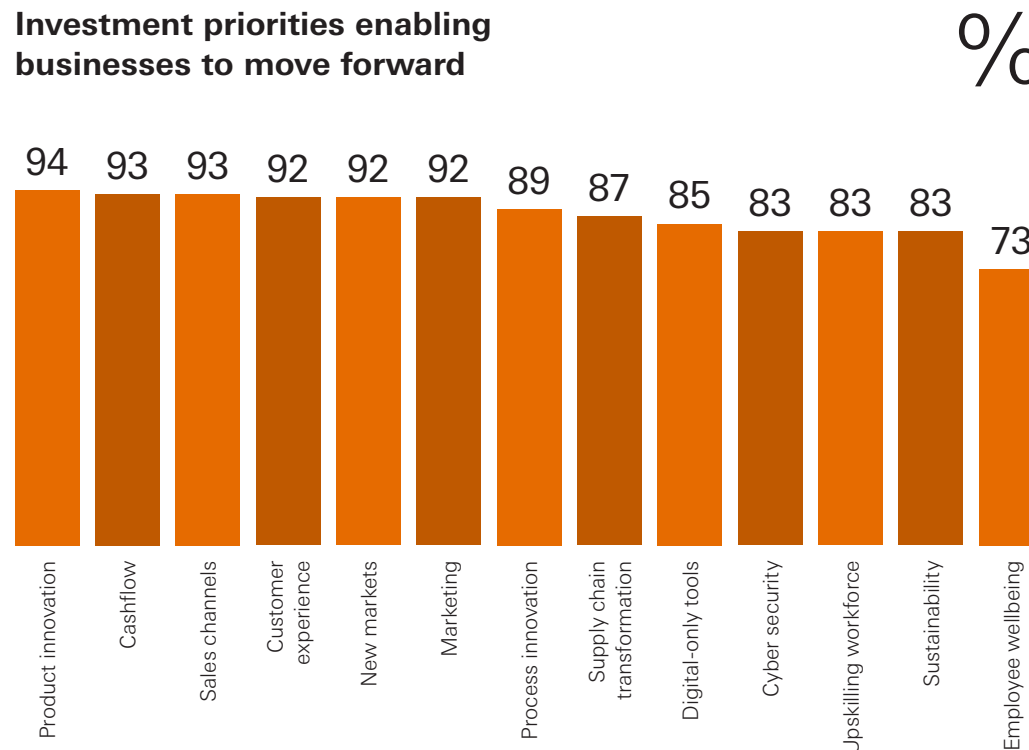
The big drivers of these changes have been advances in digitisation, along with a desire to enhance sustainability and increase collaboration. Compared with the global view, fewer companies in mainland China cite the need to reduce costs or make changes in ways of working.

Looking to the future, companies in mainland China believe successful businesses will be well-rounded, with innovation, resilience to market changes/shocks and social responsibility at their core. This aligns with findings globally and in APAC.



of businesses have undergone changes in the last 12 months

Investment priorities enabling businesses to move forward



Top 5 facets of a successful entrepreneurial business



4. International trade



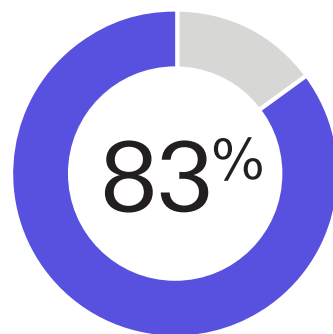
Despite current challenges, Chinese businesses **remain buoyant** over international trade

Chinese companies have a positive outlook (83% compared with 71% in APAC) for international trade over the next 1-2 years. Six in ten international operators (59%) have neither stopped nor reduced trading in any market in the past two years, and around two-thirds intend to continue trading internationally.

However, most businesses see international trade as becoming more difficult, with challenges still to come in the year ahead.

Intra-regional trade has intensified for companies in mainland China, and they expect it to strengthen further. Meanwhile, Japan has just overtaken the US in importance: 26% of companies rate it as a top three trading partner, compared with 24% for the US.

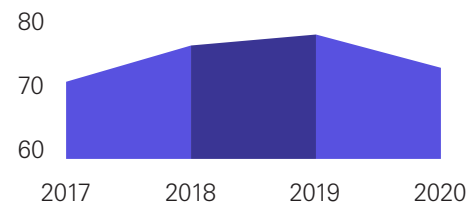
Chinese companies are expanding to other markets where there's a culture of innovation and customer demand. They also favour markets whose products and services do not currently measure up to theirs.



of companies expect their international trade prospects over the next 1-2 years to be positive

Protectionism

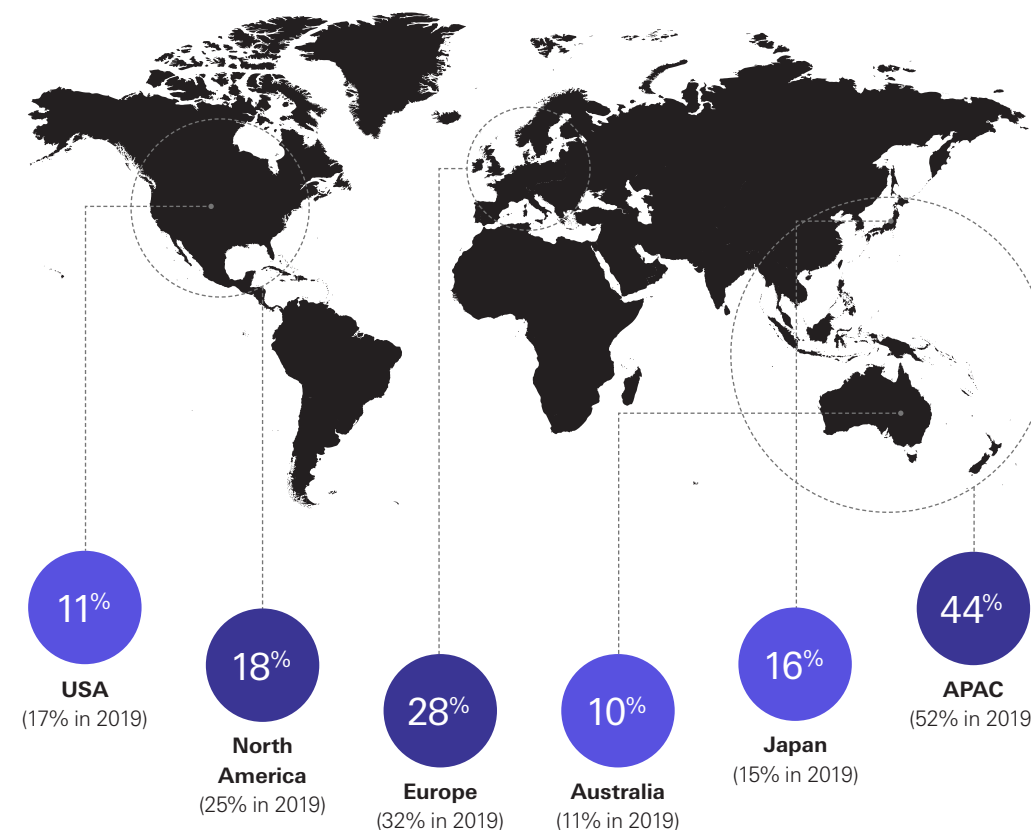
Percentage of businesses that think that countries/territories/governments are becoming more protective of their domestic businesses



Priorities for expansion in the next 3-5 years

Markets, territories and regions in which Chinese businesses are looking to expand their trading

● Markets & territories ● Regions



5. Reshaping supply chains

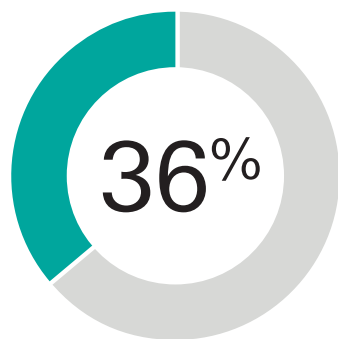


Chinese businesses are changing supply chains for improved **security** and **sustainability** outcomes

Supply chains are a universal concern for Chinese companies. The biggest concerns are supply chain stability, suppliers that are too distant from businesses or their customers, and increasing costs.

To alleviate these concerns, 99% of companies (96% globally and in APAC) have made changes to their supply chain over the last year. Chief among them are supply chain diversification, increased digitisation and improved transparency. Strikingly, there's a ratio of almost three to one in favour of supply chain diversification rather than reduction (38% compared with 13%).

Globally, cost reduction is the most common benefit that businesses expect from reshaping their supply chains (41%). But fewer than three in ten Chinese companies (29%) cite it as a benefit – the lowest proportion across all markets surveyed.



of businesses expect that reshaping their supply chain will enhance security and reduce risk

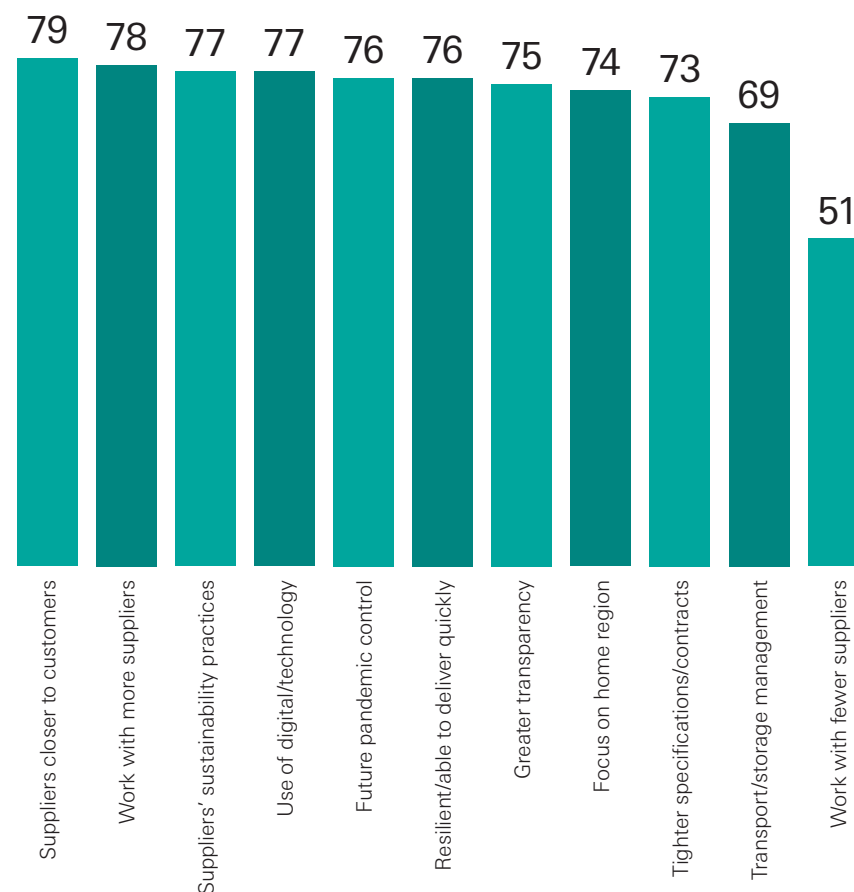
Top 3 benefits of reshaping the supply chain



Priorities for the supply chain

(Priorities immediately in 2021 and beyond)

%



6. Sustainability



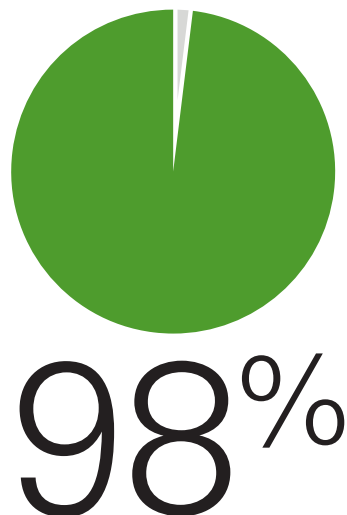
Chinese companies are **improving sustainability** to meet shareholder and consumer demands

Approximately three-quarters of companies in mainland China have set targets for a broad range of environmental, social and governance-related (ESG) issues. Between 30% and 42% have annual targets in place and a further 30% to 34% have set targets for 2025.

Compared with 2019, more companies are measuring environmental sustainability. The proportion measuring social aspects is more consistent with 2019, while those measuring governance has reduced.

Looking ahead, companies in mainland China believe that supply chain partners and shareholders/owners/investors, as well as consumers, are the most likely to increase the pressure on businesses to become more sustainable over the next year.

Almost all companies think that becoming more sustainable offers multiple opportunities, most notably in promoting employee wellbeing, increasing customer demand and contributing to positive climate change.



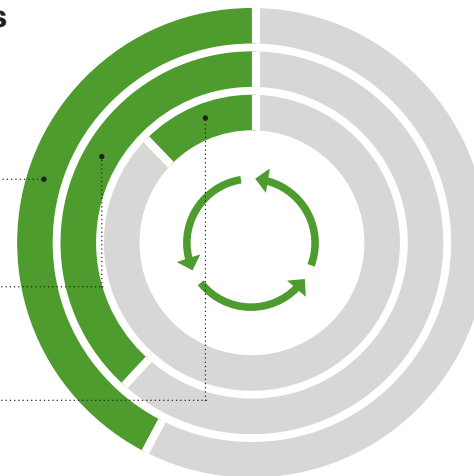
of companies in mainland China think there are multiple opportunities for their businesses from improving environmental and ethical sustainability

Companies believe a greater focus on sustainability will drive growth

42% expect modest growth of up to 5%

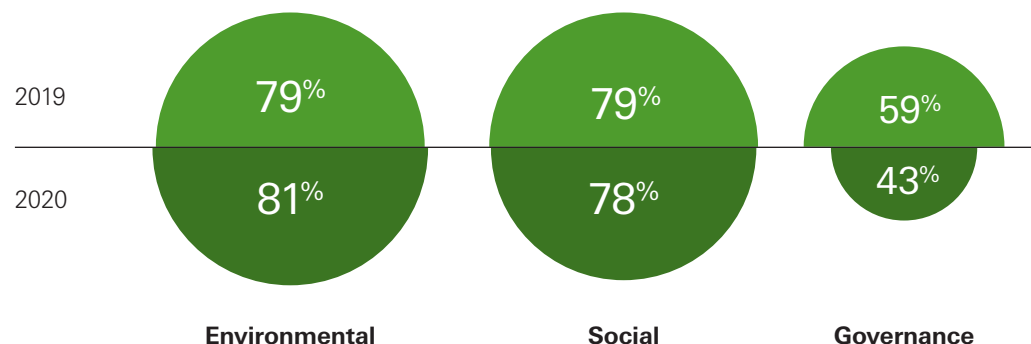
38% expect growth of between 6% and 9%

12% expect growth of 10% or more



Measuring sustainability

More Chinese companies have been measuring environmental aspects compared with 2019



About HSBC Navigator Mainland China

The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar. The study gauges sentiment and expectations of businesses in the near to mid-term future on topics including: business outlook, future strategy, international trade, supply chains and sustainability. It is compiled from responses by decision-makers at 10,368 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 39 markets.

Sample sizes for each market were chosen to ensure the statistical accuracy of results, with 1,000 businesses surveyed in mainland China. Global results are based on an average of the 39 markets (using weights based on each market's share of world trade). The survey was conducted between 11th September and 7th October 2020. Interviewees were polled on a range of questions including how COVID-19 has affected their business and potential for growth. The survey represents a timely source of information on the fast-evolving international business environment.

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www.business.hsbc.com/navigator/china

Note

There may be a slight discrepancy between the sum of individual items and the total as shown in the tables due to rounding.

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