

# Navigator

Now, next and how for business

Mainland China



Together we thrive

# Overview

## China remains calm and collected

Trade disputes between China and the US may grab the headlines, but Chinese businesses are quietly confident. Most firms in China are expecting to grow next year – 86% versus 79% globally.

# State of play

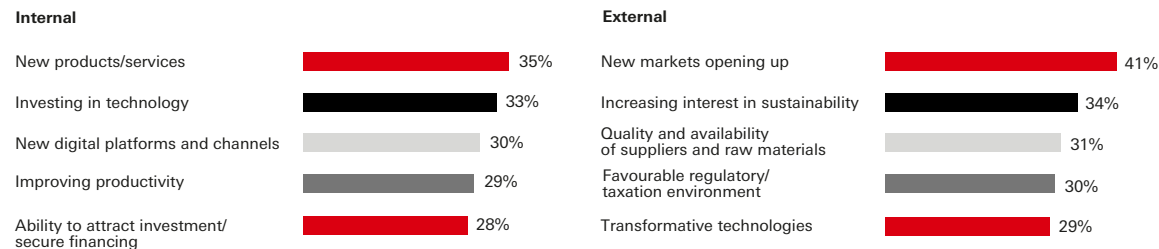
## Modest growth ahead

Chinese companies are more optimistic about the future than they were a year ago, but less bullish about their anticipated growth targets. 16% of businesses believe they can increase sales by 15% or more in the next year, compared to a global average of 22% and an average of 19% across Asia-Pacific (APAC).

Sentiment does vary, however, by location and sector. Firms in northern and western China and in the Greater Bay Area (GBA) are most bullish about growth over the next five years. Service sector and international operators (both 26%) are more optimistic than manufacturers or domestic businesses (goods 20%, domestic 16%).

Firms in China are also increasingly prioritising sustainable production and focusing on employee wellbeing and safety.

### Key contributors to expectations of sales growth over the next year



## What you need to know

- 1 Within the next five years, 90% of Chinese businesses are projecting growth compared to a global average of 82%.
- 2 Growth over the next year is fuelled both internally and externally, with new markets (41%) and new products or services (35%) topping the polls.
- 3 Nearly half (46%) of Chinese firms also believe that their business will change substantially or totally in the next five years.

## What your business can do



Make supply chains more sustainable. Firms are increasingly looking to optimise their supply chains by increasing their focus on strategic suppliers (26%) and selecting suppliers based on sustainability practices (25%).



Minimise risk in your supply chain. Chinese firms that are changing their supply chains by expanding into new markets and increasing focus on strategic suppliers expect to benefit from reduced risks.

# Trade outlook

## Localising international trade

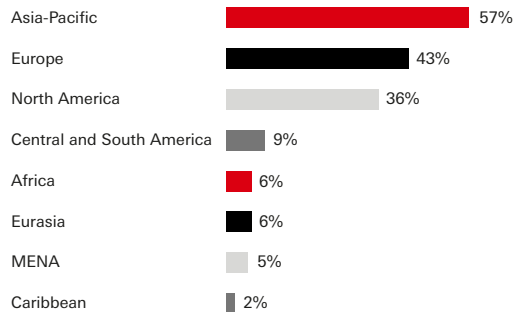
On par with global counterparts, businesses in China are prioritising trade with regional partners. Over half of Chinese firms identify APAC as a top region for expansion in the next three to five years (52%). And the feeling is mutual, with China sitting just behind the US as one of the top three markets for APAC companies to expand into.

The US remains an important trading partner, according to 31% of Chinese businesses. In the next three to five years, 17% of Chinese companies plan to expand to the US, seeing it as a country with proven customer demand where Chinese firms can offer a product superior to domestic offerings.

Global businesses are more optimistic about trade as a force for good than those in China. Chinese businesses see international trade as a vehicle to drive innovation (92%), improve efficiency (91%) and provide new business opportunities (90%).

### Current top trading partners

#### By region



#### Rank by market – top performers

1. United States	31%
2. Japan	18%
3. Germany	14%
4. Hong Kong SAR	13%
5. France	12%
6. Australia	10%
7. Singapore	8%
8. India	8%
9. United Kingdom	7%
10. Malaysia	7%
11. Thailand	7%



### What you need to know

1

Beyond APAC, Chinese businesses say Europe (43%) is the next most important trade partner followed by North America (36%).

2

Chinese businesses view APAC (52%), Europe (32%) and North America (25%) as the top three regions for expansion in the next three to five years.

3

92% of companies regard international trade as beneficial in terms of driving innovation.

### What your business can do



Appeal to target customer populations. Proven customer demand is the top attraction in Japan, the US and Canada.



Focus on your environmental, social and governance (ESG) efforts. ESG is a top priority for companies in China.



Facilitate global trade. 26% of businesses worldwide are attracted to China as a gateway to the APAC region.

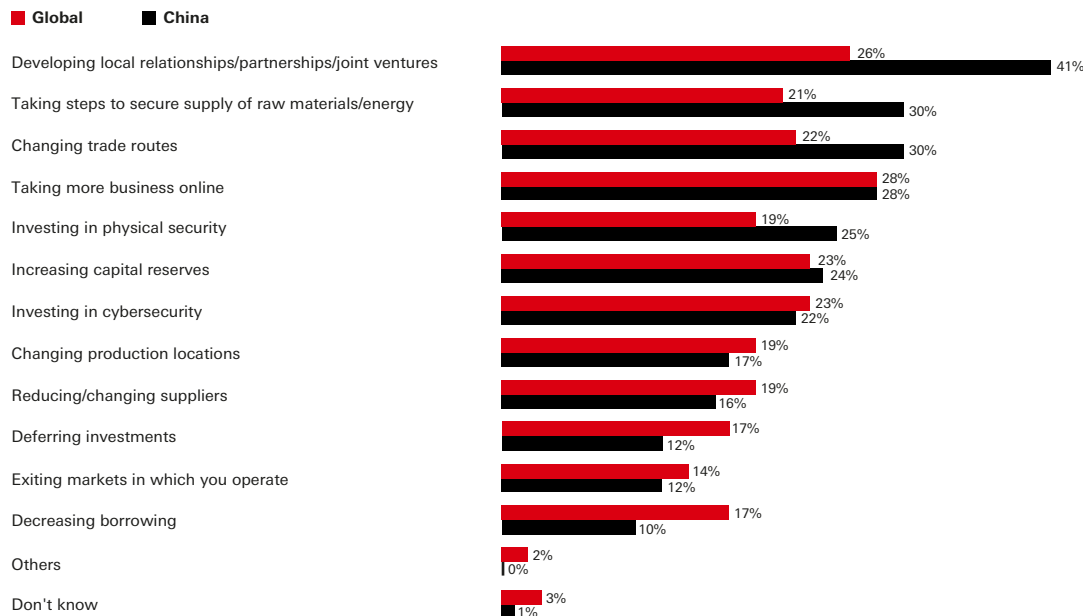
# Protectionism and geopolitics

## Tighter policies give domestic companies a competitive edge

78% of businesses in China believe governments in their key trading markets are becoming more protective of their domestic businesses. That sentiment has been rising steadily over the last three years, rather unsurprisingly, and is higher than the global (65%) or APAC (71%) averages.

While companies in other countries are prioritising cost reductions to mitigate the risk of trade tensions, Chinese firms are pursuing a different strategy. Over a third are changing their offerings in these markets, by entering into joint ventures with local companies or digitising their sales platforms. Businesses in China are less downtrodden by the impact of protectionism than their global peers. For Chinese companies, the impact of geopolitics is felt less strongly than the impact of protectionism in markets they are expanding into.


### Ways in which businesses are coping with geopolitics



### What you need to know

- 1 The majority of Chinese businesses (78%) believe protectionism in overseas markets is growing.
- 2 The positive impacts of protectionism are increased competitiveness (38%) and reduced cost of doing business (23%).
- 3 The negative impacts of protectionism are tariffs that add to the cost of doing business (34%) and controls on moving money out of the overseas markets where they operate (25%).

### What your business can do

-  If you're in services, focus on digital channels. This strategy is used by around 40% of Chinese businesses.
-  Explore partnerships with local businesses. 41% of companies in China are taking this approach.

# The sustainable future

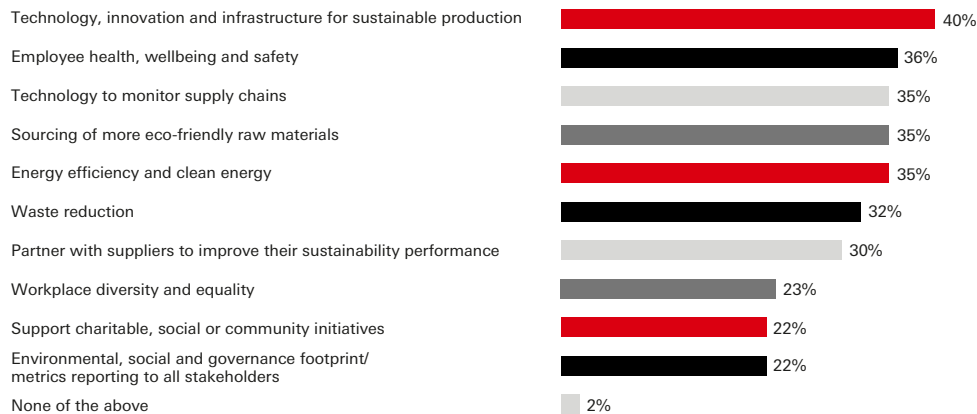
## Focusing on a sustainable supply chain

Sustainability is a key trend for China. Firms are increasingly focused on becoming sustainable, both to satisfy demand from customers and to further strengthen the country's position as supply chain to the world. More businesses in China view sustainability as essential to their long-term viability than the global average (30% versus 21%).

As a nation of suppliers, Chinese businesses are also looking to sustainability to improve operational efficiency, transparency, traceability and their reputation – measuring their product safety, fair treatment of employees and workplace safety. Similar to global peers, they also want to improve energy usage, efficiency and raw material sourcing.

An obstacle to sustainable change, unique to businesses in China and Bangladesh, is being unable to adopt new technologies – 38% of Chinese businesses say this will be an issue for them in the next five years.

### Sustainable investment priorities over the next five years



### What you need to know

- 1 78% of firms in China think they have a role to play in delivering the UN's Sustainable Development Goals (SDGs), considerably higher than global counterparts (63%).
- 2 The most relevant SDG to Chinese businesses is investment in industry, innovation and infrastructure.
- 3 The top metrics being monitored in China are product safety and quality, executive compensation, fair treatment of employees and energy usage.

### What your business can do



Invest in technology and innovation to improve sustainable production.



Promote employee wellbeing to gain a stable, loyal workforce, cut costs and enhance skillsets.



Prioritise sustainability. Chinese companies are facing the most pressure from competitors to become sustainable over the next five years.

# Breakthrough tech

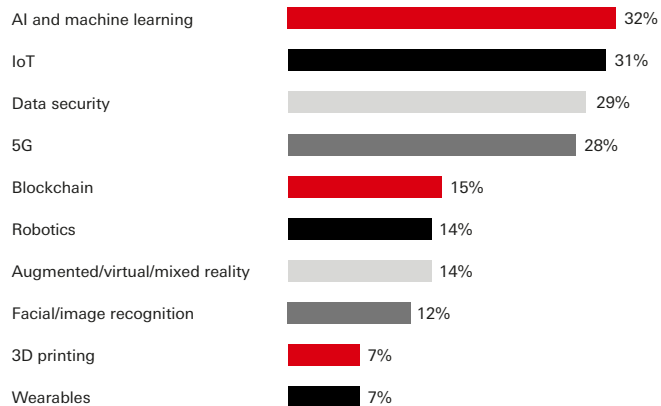
## Artificial intelligence and 5G seen as key to productivity

Globally, China is viewed as one of the leading technology hubs. Chinese businesses are well aware of the potential benefits of tech innovations for their future success.

Artificial intelligence (AI) and machine learning (32%), the Internet of Things (IoT) (31%), data security technology (29%) and 5G technology (28%) are identified by approximately one-third of businesses in China as the most impactful technologies over the next five years.

Outside of China, cost reduction tends to be the main advantage expected from harnessing technology. In China, however, the emphasis is on business improvement. Improved productivity, higher product or service quality, better supply chain management and enhanced customer experience are the other key benefits.

### Technologies businesses think will be important over the next five years



### What you need to know



AI (32%), IoT (31%) and data security are the most important technologies for companies in China.



52% of firms say that IoT has the potential to help supply chain management and 49% say 5G will likely improve productivity.



Globally, 30% of businesses see China as the most advanced hub for AI and 31% for 5G, trailing closely behind the US.

### What your business can do



Look at what flourishing businesses are doing. AI is regarded as more important to those expecting growth of 15% or more in the next year.



Data security is top-of-mind. 29% of Chinese firms see it as an important technology to integrate in the next five years.

## About HSBC Navigator 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, international trade, geopolitics, sustainability, technology and wellbeing. It is compiled from responses by decision-makers at 9,131 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 35 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, with 504 businesses surveyed in China. Global results are based on an average of the 35 markets (using weights based on each market's share of world trade). The survey was conducted between August and September 2019. Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

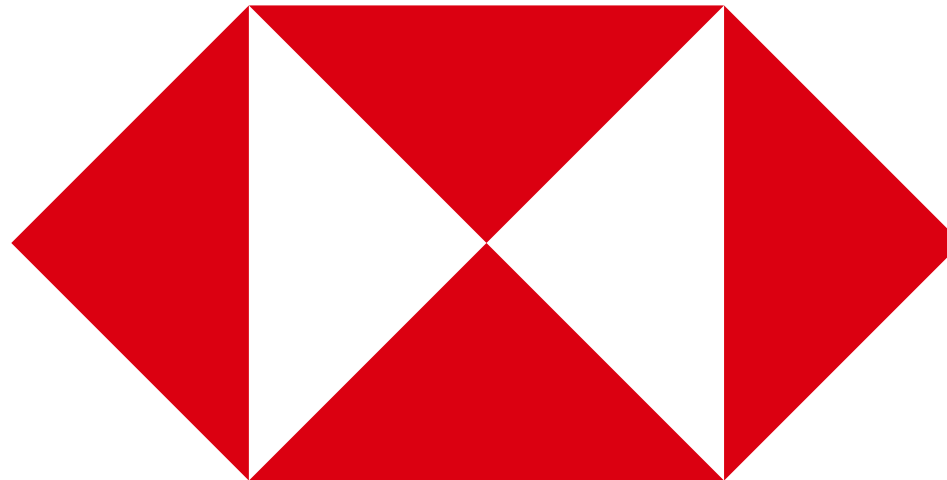
Data visualisations based on the following:

Page 2: companies who expect their sales to grow in the next year. n=434

Page 3: international operators. n=335

Page 4: companies who are impacted by geopolitics. n=8629/476

Page 5 & 6: all companies. n=504



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