

# Connecting to China

Digitalisation & sustainability drives future growth

November 2023



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# Executive summary

Now in its sixth year, the China International Import Expo (CIIE) is the largest import expo in China, drawing hundreds of thousands of attendees. Every year ahead of CIIE, HSBC conducts a survey with thousands of international companies doing business with China or intending to in the future.

This is our sixth annual CIIE survey – the first to be conducted since Covid restrictions in China were lifted, with participation from more than 3,300 companies in 16 major economies.

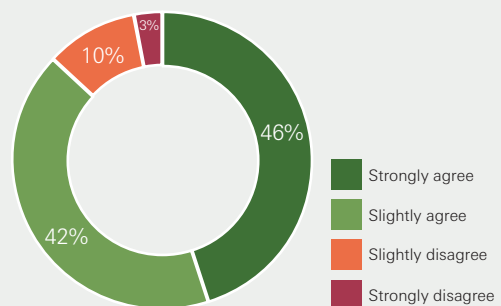
It reveals a nuanced picture in terms of firms' evolving relationship with China as it emerges from the pandemic and faces into macro-economic headwinds, while combining long-standing fundamental strengths with growing expertise in sectors of the new economy.

Unsurprisingly, China's reopening has encouraged a majority (87%) of respondents to increase their business in the country. In a weak environment for global growth, China's economic prospects also remain attractive to many firms, even though GDP forecasts have been revised down. 61% of respondents believe the general economic

situation in China is better than in other markets, up from 52% last year.

China's rapidly rising digital economy, which was already booming even before the pandemic, reached RMB50.2 trillion (USD7.25 trillion) in 2022, growing by 10.3% year-on-year according to official data. As a result, a significant majority (88%) of respondents agree that China's digital economy is opening up new investment opportunities (*Figure 1*).

**China's rapidly rising digital economy is opening up new opportunities to invest in China:**



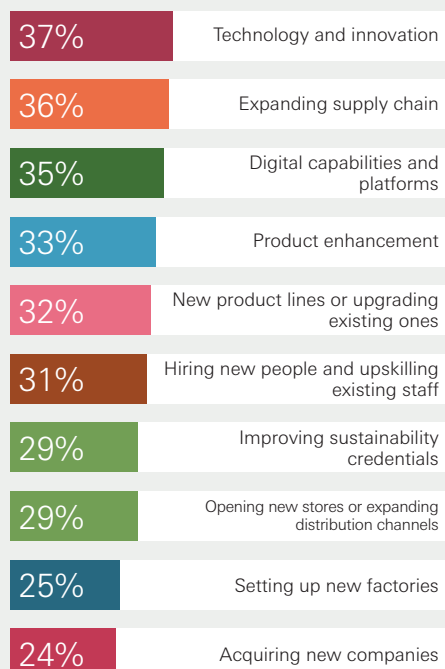
*Figure 1*



Other highlights from our sixth annual CIIE survey include:

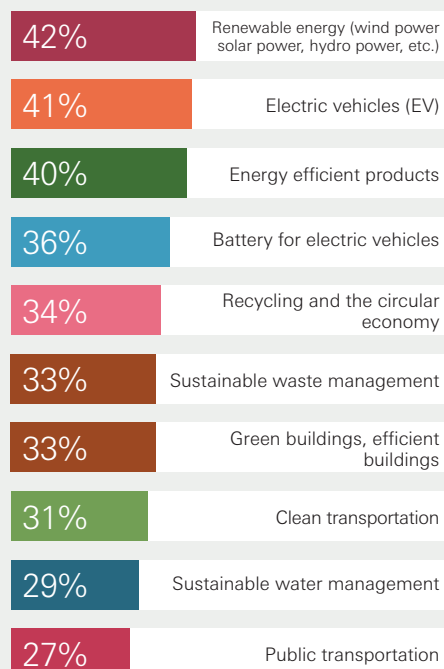
- ▶ China retains a central position in global supply chains despite trade tensions
  - Nearly 3 in 4 (73%) respondents expect to increase their supply chain footprint in China over the next three years
  - One quarter expect to “significantly increase” their supply chain footprint
- ▶ Digitalisation remains a focus for international businesses in China: technology and platforms represent two of the top three investment priorities (*Figure 2*)
  - 37% plan to invest in technology and innovation
  - 35% plan to invest in digital capabilities and platforms
- ▶ When asked about sustainability opportunities, international businesses think renewable energy and electric vehicles have the highest growth potential in China (*Figure 3*)
  - Over half (55%) plan to offer greener products to help their businesses in China become more sustainable.

**The top investment priorities for businesses over the next 12 months:**



*Figure 2*

**The sectors with the greatest growth potential amid China’s low-carbon transition:**



*Figure 3*

# Opportunities and expectations

# 2

## A constant in global supply chains

Our survey suggests that many of China's long-standing fundamentals, including its deeply integrated supply chain networks, continue to attract international firms. The ease of managing supply chains is the second-biggest reason firms are expanding in China, chosen by 28%.

That said, the proportion of respondents attracted by China's supply chain ease has decreased by 4 points from 32% in 2022, even though Covid-19 restrictions have been removed since last year's survey. This reflects the growing complexity of global supply chains, with businesses pushing to diversify and localise their networks and regulators imposing tariffs and restrictions on strategically important goods.

Our survey still shows, however, that a significant majority of international businesses expect their supply chain footprint in China to increase in the years ahead. Over the next three years, 73% expect an increase, and a quarter expect it to increase significantly. Of all the markets taking part in the survey, UK businesses are most likely to say that increasing their supply chain footprint is their top activity.

Southeast Asian businesses are especially interested in expanding their supplier networks in China: 92% of Indonesian businesses, 87% of companies from the Philippines, and 89% of those

from Vietnam are expecting supply chain growth in China over this period (*Figure 4*). Overall, 45% of firms expect to expand their supply chain in China over the next year.

Companies working in the manufacturing industry are particularly interested in growing their supply chain. 74% of them said they are likely to increase it over the next 3 years of which 27% said they are planning on significantly increasing it in China. Within the manufacturing industry, those working in food products and beverages are more likely to increase their supply chain footprint, 86% said they would do this over the next 3 years, compared to companies in the computer and electronics manufacturing industry (71%).

Companies working in the services, mining/oil, construction and wholesale/retail trading are also likely to increase their supply chain, with over 7 in ten (72%) businesses in each of these industries planning to increase their supply chain footprint in China over the next 3 years.

These expectations underline China's continued importance in global supply chains and the resilience of international networks in a challenging economic environment.

Nonetheless, supply chains are evolving. The digitalisation of supply chain management processes is a priority for 28% of international businesses to help overcome challenges over the next three years, while 27% of businesses expect to move their supply chains to new locations. Some consolidation is also on the cards: over a quarter (26%) expect to place more focus on strategic suppliers within their supply chains.



Change in markets' supply chain footprint in China over the next 3 years:

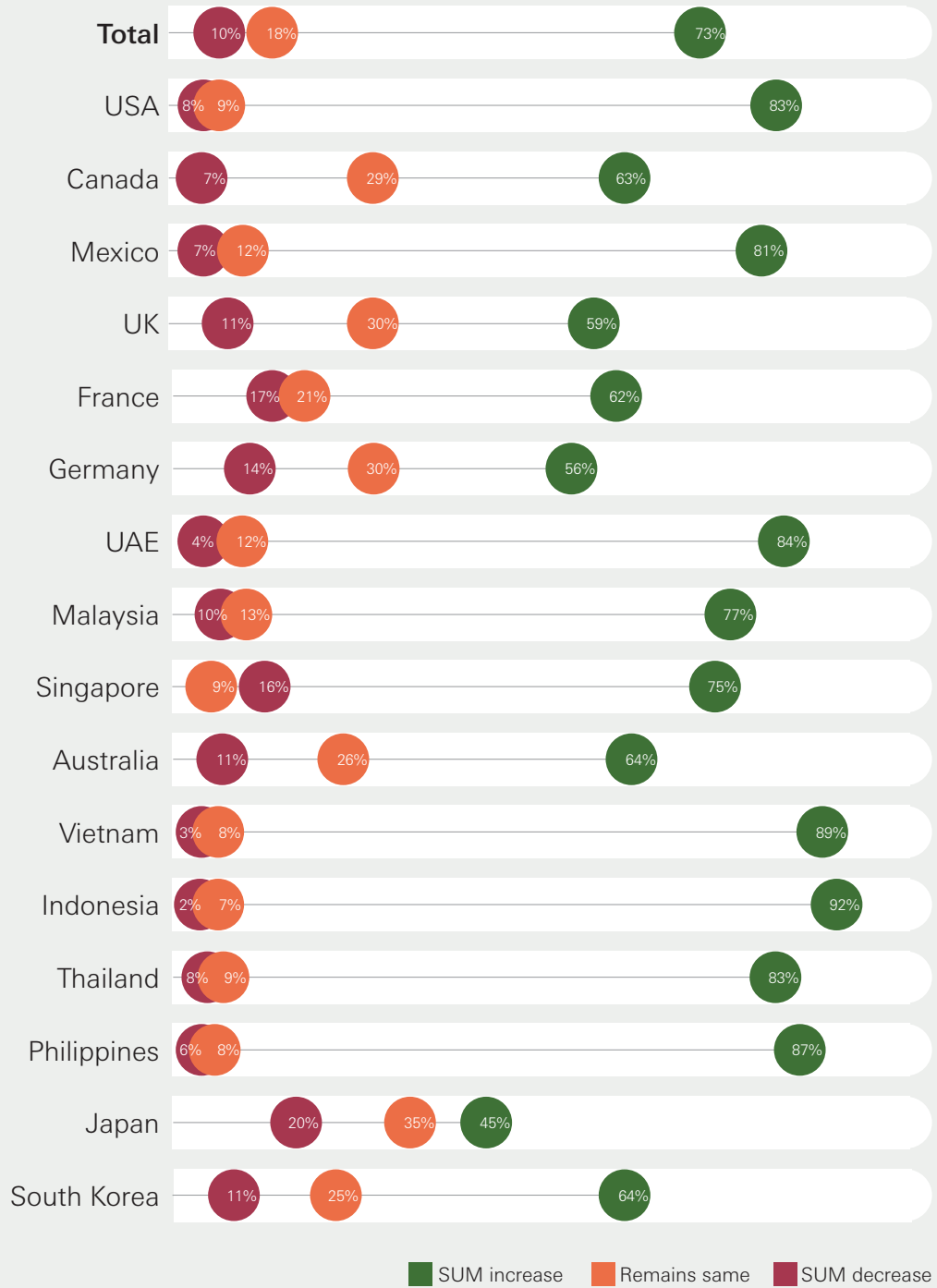


Figure 4

## The post-pandemic consumer

The pandemic has also changed the business environment in China, accelerating digitalisation and reshaping consumer behaviour.

The international businesses in our survey have taken note of these trends. One in three say Chinese consumers are showing an increasing preference for digital purchases, while the same percentage have noticed a greater emphasis on quality among Chinese consumers over the past three years. Three in 10 companies believe Chinese consumers are putting a greater emphasis on green and low-carbon consumption, and over a quarter of firms (26%) have noticed a greater emphasis on brands and prestige compared to pre-pandemic behaviour.

Living through a public health crisis has naturally led many people to think more about their own wellbeing. Three in 10 international firms believe Chinese consumers are prioritising health and wellness more than they did three years ago (*Figure 5*).

**Changes in consumer behaviour compared to 3 years ago (pre-pandemic)**



*Figure 5*



## Leading in e-commerce, AI and digital payments

International businesses recognise the strength of China's technology sector. 33% state China leads in e-commerce, 32% regard it as a leader in AI & machine learning, and 31% believe China leads in digital payments (Figure 6).

Australian and Canadian respondents are the most likely to consider that China has a leading role in robotic process automation. 28% of Australian firms and 26% of Canadian firms said that China has a leading role in this technology. Nearly half of all Malaysian companies (48%) believe that China has a leading position in 5G technologies.

## A hub for new technologies

For many multinational businesses, China represents an attractive place within which to develop and test out new technologies and products. 39% of decision makers at international firms say that they are attracted to the country as a product testing location due to its sizable market in which to scale. China's digital infrastructure is an attraction for 37%, and its skilled workforce appeals to 36% of respondents.

### Top 5 technologies China leads in

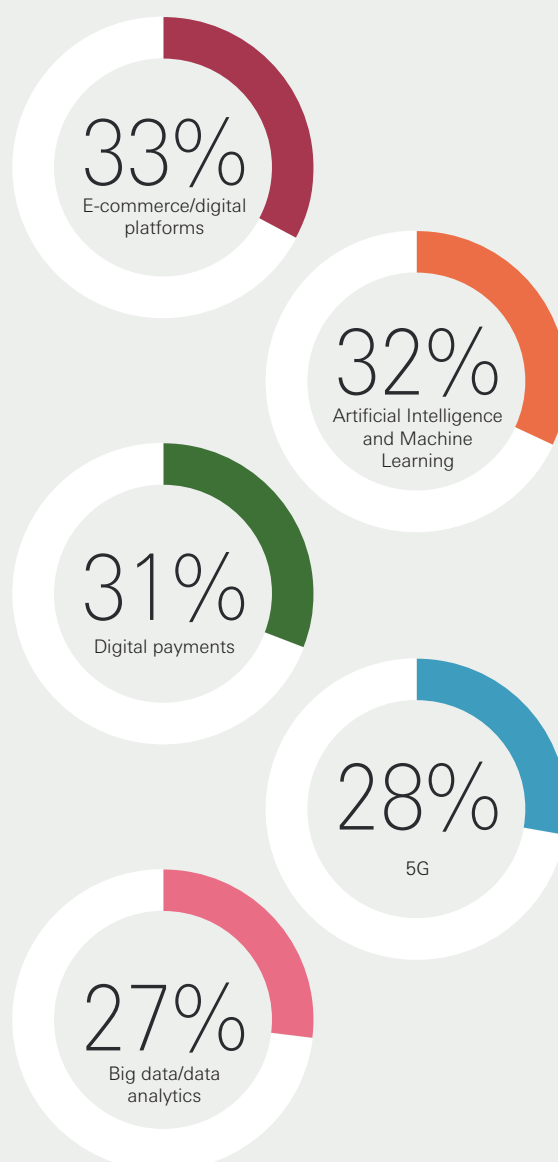


Figure 6





## Investments in digital transformation

China's growing digital economy holds widespread appeal. Almost nine out of 10 (87%) respondents agree that the country's rapidly rising digital economy is opening up new investment opportunities. On average, companies report plans to invest 8% of their global operating profit on technology and digitisation for their Chinese operations. US firms are especially bullish in their prioritisation of technology investments: over half (52%) plan to invest 10% or more of their operating profit in their Chinese operations.

Digital transformation and tooling are the top priorities for Australian and German firms. 29% of Australian companies plan to expand in China through digital transformation, and 26% of German companies are looking to expand through investment in digital channels and platforms.

A third of international businesses in China plan to digitise their sales function over the next 12 months, making it the business function most likely to see short-term digital transformation. Supply chain management, specifically around the access and management of resources, is also a primary target for digitisation, with 31% of businesses reporting plans to digitise this function over the next 12 months. A further 31% plan to digitise their research and innovation function over this timeframe, and 31% of companies state they have plans to work with partners who have higher digital capacities (*Figure 7*).

### Business operations to be digitised over the next 12 months

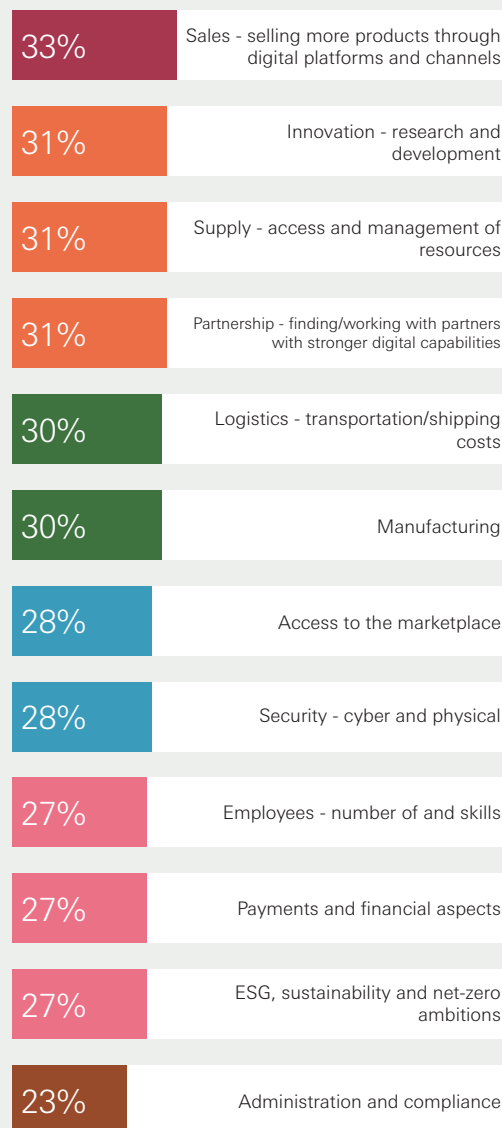
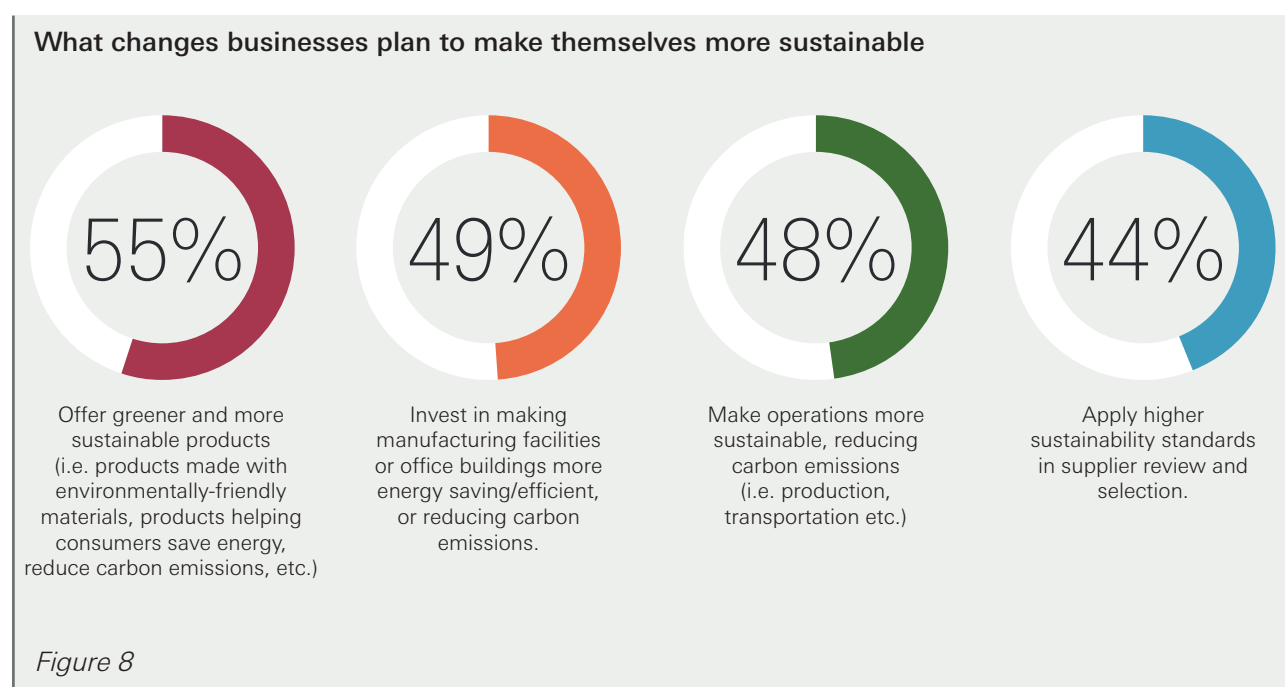


Figure 7

## A focus on renewables, EVs and energy efficiency

The global energy transition offers many opportunities to businesses operating in China. Chief among these for our respondents are the production of energy, green mobility, and energy efficiency. According to international businesses operating in the country, the sustainability theme with the greatest growth potential is renewable energy, identified by 42% of businesses. Electric vehicles are similarly regarded as likely to generate growth, with 41% of businesses saying this sector has the greatest growth potential. Given the policy focus on reducing energy consumption, it is unsurprising that four in 10 (40%) of the companies in our survey also see energy efficient products as having a great growth potential.

French businesses, however, are most likely to say that sustainable waste management and clean transportation offer the greatest potential in China's low-carbon transition; three in 10 French companies respectively point to each of these sectors.



## Introducing more sustainable products, processes, and operations

When asked what changes they would make in order to make their Chinese operations more sustainable, 55% of international companies in China report that they plan to offer greener and more sustainable products. 49% plan to make their manufacturing hubs or office buildings more energy efficient, while 48% plan to make their operations more sustainable (*Figure 8*).

Over the next 12 months, 52% of respondents say that their businesses will be offering environmentally-friendly and energy-saving products, while 45% plan to offer recyclable products. The sustainability of raw materials is also a focus in the near term: 44% cite this as a priority over the next 12 months (*Figure 9*). Notably, over half of all manufacturing companies (51%) intend to focus on offering products made from sustainable raw materials.

The use of sustainable raw materials and the promotion of energy-saving and recyclable products rank among the top near-term sustainability priorities for companies from 14

of the 16 markets in our survey. Companies in the US and Germany, meanwhile, are especially likely to focus on influencing consumer behaviour: 62% of US firms and 40% of those from Germany plan to offer incentives for customers who seek to buy green products and services.

### What green products/services businesses plan on offering China over the next 12 months

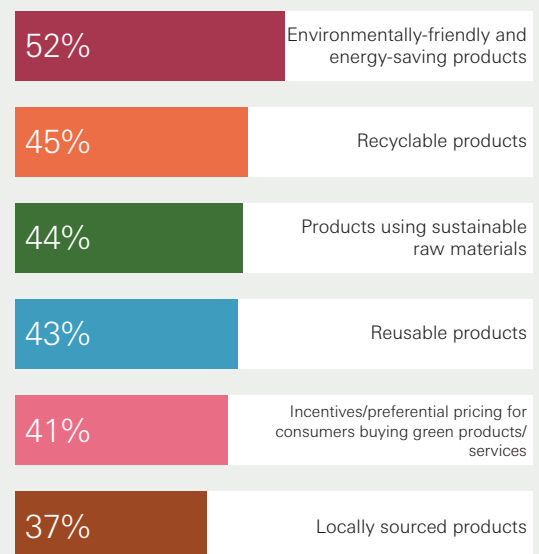


Figure 9



# Conclusion

Our survey shows that international businesses are confident of their prospects in China and are continuing to invest in the country. Despite macro-economic headwinds and trade tensions, China remains an essential part of global trade networks and offers an attractive, growing consumer market. The findings reflect the improvement in sentiment after the end of Covid-19 restrictions and suggest that international companies continue to see China as a long-term partner and a dependable source of growth.

Although the post-pandemic boost to the economy has yet to result in a sustained economic recovery, China's digital infrastructure and growing focus on sustainability, combined with its long-established fundamentals as a large consumer market and deeply integrated supply chains continue to command the attention of international firms.

## Methodology

The survey was commissioned by HSBC and conducted by FTI Consulting online from 8–15 September 2023 with 3,326 respondents who are involved in or influence the strategic direction of their company and are currently doing business with China or intending to in the future. They represent companies with a total sum of over US\$2 trillion in annual turnover. Research was conducted across 16 markets: US, Canada, Mexico, UK, France, Germany, UAE, Malaysia, Singapore, Australia, Vietnam, Indonesia, Thailand, Philippines, Japan, and South Korea. The results were weighted to ensure each market is equally represented with 208 respondents. Please note that the answers to some questions may not add up to 100% due to rounding.





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