

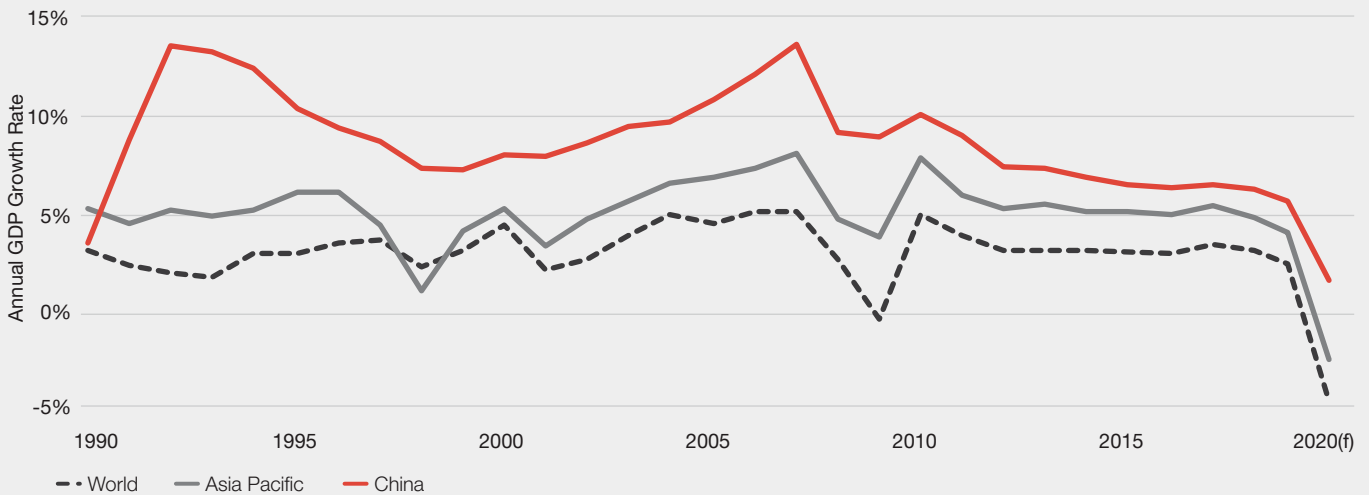


Time to Act China

A nation on the move

China has been a leading contributor to Asia Pacific's rise into global prominence, with market-oriented reforms and rapid industrialisation playing a key role in generating robust economic growth for the country since the 1980s. As a manufacturing powerhouse and a major consumption hub, China today represents the largest economy in Asia Pacific, and features among leading nations worldwide in terms of Foreign Direct Investment (FDI) and trade flows. Besides economic advancement, China has also strengthened its human capital by lifting more than 750 million people out of poverty over the past four decades. Technology adoption has become a new growth driver in recent years – marked by fast growing presence of digitally savvy consumers and increasing focus amongst government and business stakeholders to boost innovation. These factors are also proving crucial to the country's COVID-19 response, enabling China to feature amongst few global economies expected to register positive economic growth in 2020.¹

Economic growth trends for China, compared to regional and global averages



Source: International Monetary Fund (October 2020)

Economic and Human Development Index (HDI) performance of key Asia Pacific markets



Source: International Monetary Fund (October 2020); United Nations



The need for change

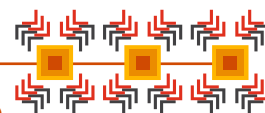
While China has made significant progress in the past few decades, economic growth has slowed down in recent years – led by sluggish global demand impacting trade and China's transitional efforts to shift from being a manufacturing-led economy towards becoming more consumer-oriented. With the advent of the global COVID-19 crisis, overcoming key growth challenges needs to be of utmost priority as China seeks to revive growth and design a stronger future trajectory – creating an urgency to act now.

Evolving demographics: China faces the issue of an ageing demographic, with old-age dependency ratio for the country projected to reach 25 per cent by 2030, surpassing the world average of 18 per cent. The figure is projected to continue rising further to touch 44 per cent by 2050, presenting a growing economic challenge in the form of slower growth in labour productivity and rising healthcare and retirement costs.²

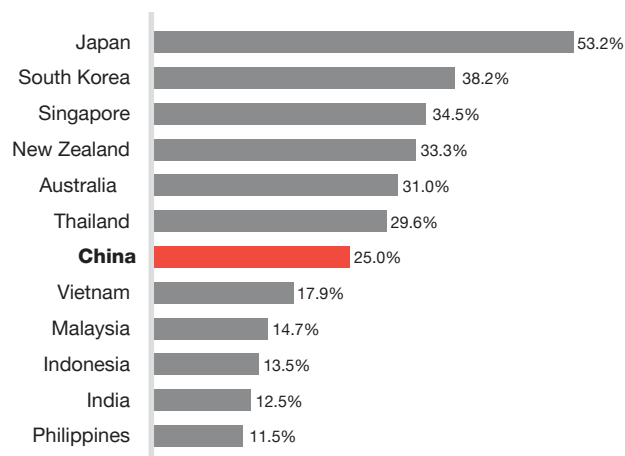
Infrastructure needs: China's large and growing population and rapidly increasing urbanisation also requires significant infrastructure support in the future. China is estimated to need US\$28 trillion in infrastructure investments over 2016 to 2040, accounting for more than 50 per cent of Asia Pacific's requirements. More than two-thirds of this investment is required in the energy and transport sectors.³

Environmental sustainability: Warming temperatures, rising sea levels and fast changing weather patterns make climate-change a key emerging challenge for China. Taking cognizance of this, the government has recently announced China's target of becoming a net-zero (or carbon neutral) economy by 2060 – and more focus will now be required on adopting effective monitoring and implementation mechanisms that can deliver impact. Growing consumption and urbanisation have also increased food security and waste management concerns. As per PwC estimates, almost half of agritech investment needed in Asia Pacific will be required to address food sustainability concerns in China by 2030.⁴

Global uncertainties: Rising uncertainties in global trade pose new growth risks to export-oriented production centres such as China. COVID-19 disruptions have also sharply impacted merchandise trade and expectations of increasing economic protectionism could further restrict trade growth in the immediate future. These trends have already prompted the Chinese government to consider a "dual circulation strategy", balancing its reliance on external markets with more inward-looking options such as boosting regional trade cooperation and initiating domestic market reforms to enable growth.⁵

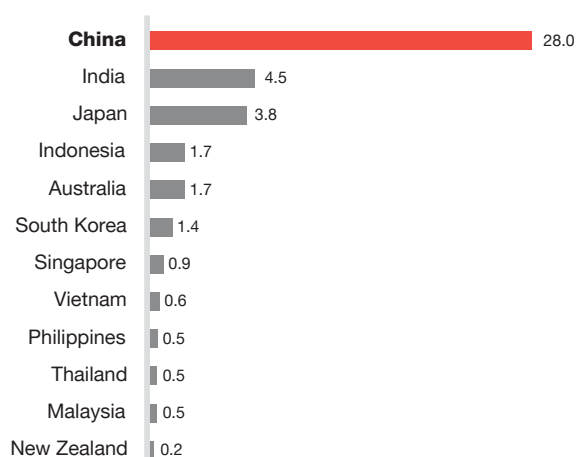


Old-age dependency ratio, 2030



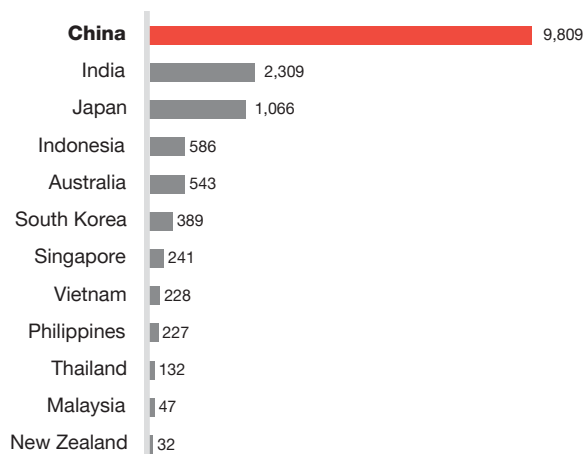
Source: International Labour Organization

Infra investment needs, US\$ trillion, 2016-2040



Source: Global Infrastructure Hub

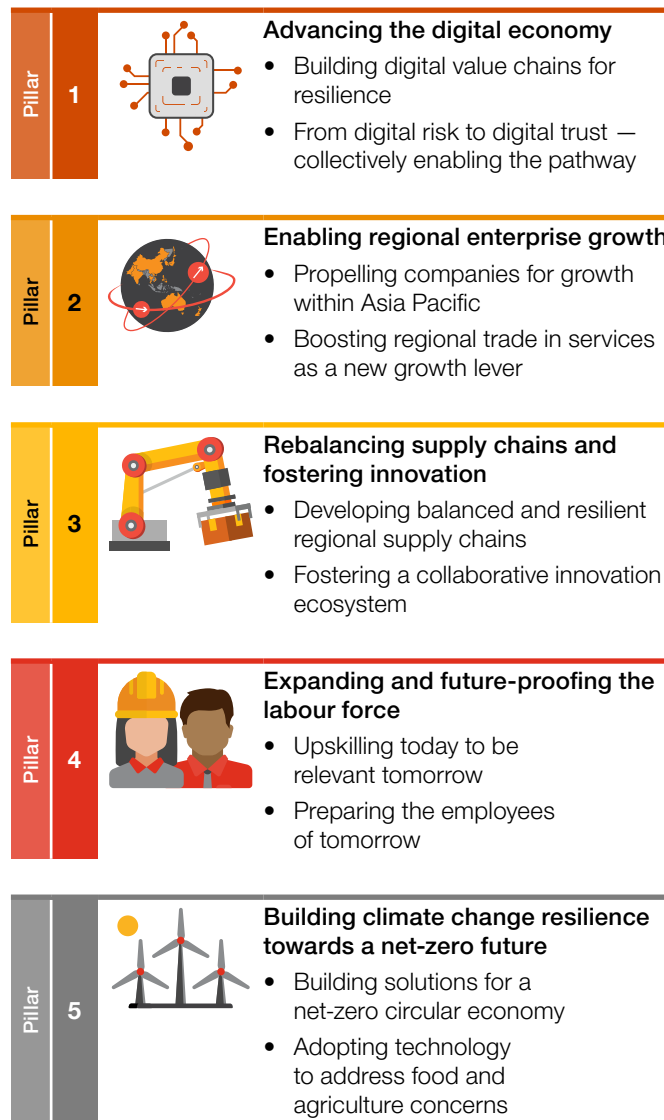
CO₂ emissions, million tonnes, 2019



Source: International Energy Agency

Building a new future

Tackling these growth challenges has become necessary to repair, redesign and rebuild China's economy for a post-COVID-19 future – while enabling a more socially inclusive and environmentally sustainable growth trajectory. This requires all stakeholders (the government, businesses and the society) to shift from old conventional growth models and build new growth pillars for the future.



1

Pillar 1 - Advancing the digital economy

Digitalisation has been a growing trend in China, marked with rising mobile internet penetration, increasing e-commerce sales and the emergence of next-generation technology start-ups. However, pushed by an ageing demographic and the onset of COVID-19, there remains a growing need for digital adoption to further help improve productivity and address efficiency gaps. Besides improvements to physical infrastructure, channelling investments towards strengthening the digital backbone of the country have now become necessary – requiring large telecom and technology infrastructure firms to play an important role in improving the scale and quality of digital connectivity. Digital adoption has become even more vital in the future, with COVID-19 related disruptions making resilience a key priority. Businesses now need to focus on digital adoption at the right points across their value chains while becoming more cyber resilient. Accelerated digitalisation brought about by COVID-19 will also intensify cyber risks, making this a focus area for both the government and businesses. The government in particular is required to extend greater support to transform small and medium-sized enterprises (SMEs) and take steps to strengthen trust in digital systems, to establish an advanced and efficient digital economy.⁶

2

Pillar 2 - Enabling regional enterprise growth

Moving outside domestic shores has become crucial for business growth, prioritising expansion within Asia Pacific. Chinese businesses will need to localise and stay agile in new regional markets, while exploring alliances and acquisitions to lower entry barriers and growth risks. The services sector can also become a new growth lever for China, accounting for more than 50 per cent of gross domestic product (by value-added) but only 10 per cent of exports (below the world average of 25%) at present. Sectors of competitive strength such as information and communications technologies (ICT) and construction services could lead the way in enhancing regional presence for Chinese businesses. Traditional manufacturers can also explore strategies such as shifting to a product-as-a-service model for growth.⁷

3

Pillar 3 - Rebalancing supply chains and fostering innovation

Leading Chinese manufacturers with global footprints need to rebalance their fragmented operations with more integrated regional networks to improve resilience. Led by a growing need for transparency and visibility over the supply chain, businesses need to establish a regional control tower or hub, connected in real-time with different elements of the supply chain through emerging digital solutions.

Large businesses also need to take a lead in fostering agile innovation – working with the government, funding bodies and educational institutions to build specialised ecosystems suited to China's and the broader region's fast changing requirements. Local Chinese suppliers need to become future-ready as well, building differentiated propositions (e.g. engineering excellence or technology leadership) and participating in innovation initiatives to become preferred partners for firms building regional supply chains in Asia Pacific.⁸

4

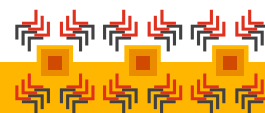
Pillar 4 - Expanding and future-proofing the labour force

Aligned with China's changing growth requirements, its workforce also needs to be equipped to foster digitalisation and drive higher value addition. The government needs to take a lead in this regard, highlighting its growth vision and driving more targeted engagement with other ecosystem participants, all across the “education journey”. Businesses need to build a more focused and agile talent development plan, in line with their industry's growth trajectory and the evolution of specific roles – while helping SMEs in their supply chains to bridge key capability gaps. China's government has already initiated steps in this direction – with quality education and workforce reskilling featuring as major focus areas within proposals to formulate the country's 14th Five-Year Plan, governing growth priorities over the period spanning 2021 to 2025.⁹

5

Pillar 5 - Building climate change resilience towards a net-zero future

Facing a growing sustainability risk in the form of more extreme weather changes and frequent natural disasters, China needs to prioritise action on minimising the economic and social costs of climate-change. Plans to build a circular economy need to be better designed for more visible impact – creating incentives to form a tri-entity partnership between governments, businesses and communities for large scale adoption. Businesses in China also need to prioritise the sustainability agenda to remain relevant to a more environmentally conscious consumer, adopting new growth strategies and operations models to move to a net-zero climate impact. Policymakers in China have started moving in this direction, focusing on environmental protection and green development as part of proposals made to China's upcoming 14th Five-Year Plan.¹⁰



The way forward

There is now an urgent need for action. The government needs to become more proactive in enabling change, businesses need to take a lead in driving new solutions and the society needs to become a more active collaborator to sustain long term impact. Larger and more mature economies such as China also have a major role to play in making the entire region more resilient and future-ready – leading efforts to enhance innovation capabilities and develop future-ready talent for the rest of the region. China in particular can also help address infrastructure gaps in Asia Pacific by encouraging regional collaboration through large-scale initiatives such as its Belt and Road programme – creating opportunities not only for large-scale infrastructure developers but also for smaller businesses operating lower down the value chain.¹¹

Much needs to be done. It's now the **'Time to Act'** and move together towards a cohesive, shared future.

Endnotes

1. Asian Development Bank, Asia's Journey to Prosperity, January 2020; United Nations Development Programme, 'What changes after China defeats poverty?', December 2019; International Monetary Fund, World Economic Outlook Update, October 2020
2. International Labour Organization, ILO Modelled Estimates, 2020; United Nations, Department of Economic and Social Affairs, World Population Prospects 2019
3. Global Infrastructure Hub – A G20 Initiative, Global Infrastructure Outlook, July 2017; Global Infrastructure Hub Website, 2020
4. Bloomberg, 'China Is Heating Up Faster Than The Global Average, Data Shows', August 2020; China Meteorological Administration, 'The Blue Paper of Climate Change 2019 in China is released', April 2019; CGTN, 'China says it will achieve carbon neutrality by 2060, how it will get there?', October 2020; PwC, The Asia Food Challenge: Harvesting the Future, November 2019
5. World Trade Organization, 'Report shows trade restrictions by WTO members at historically high levels', December 2019; World Trade Organization, 'Trade set to plunge as COVID-19 pandemic upends global economy', April 2020; South China Morning Post, 'China's new economic strategy to rely on domestic market is not a closed-door policy, Beijing advisers say', August 2020
6. World Economic Forum, 'China's digital economy is a world leader, but it still faces challenges', January 2018; PwC discussions with subject-matter specialists
7. ITC Trade Map, Trade Statistics, 2020; World Bank, Statistics on services value added, 2020; PwC discussions with subject-matter specialists
8. PwC discussions with subject-matter specialists
9. PwC discussions with subject-matter specialists; CGTN, 'Education for quality growth in 14th Five-Year Plan', November 2020
10. PwC discussions with subject-matter specialists; CGTN, 'China unveils blueprint to become global leader in innovation', November 2020; CGTN, 'China calls for global green revolution in the post-COVID era', September 2020
11. PwC discussions with subject-matter specialists



Contacts

China

Raymund Chao

PwC Asia Pacific Chairman
Chairman, PwC China
raymund.chao@cn.pwc.com

Thomas Leung

Markets Leader, PwC China
thomas.w.leung@cn.pwc.com

David Brown

PwC Asia Pacific Deals Leader
d.brown@hk.pwc.com

Calum Davidson

PwC Asia Pacific Transformation Leader
calum.davidson@hk.pwc.com

Damon Hickey

PwC Asia Pacific Alignment Leader
damon.hickey@hk.pwc.com

Peter Ng

PwC Asia Pacific Tax Leader
peter.ng@cn.pwc.com

Asia Pacific

Raymund Chao

PwC Asia Pacific Chairman
Chairman, PwC China
raymund.chao@cn.pwc.com

Christopher Kelkar

PwC Asia Pacific Vice Chairman, Operations
Global Alignment Leader
christopher.s.kelkar@pwc.com

Sridharan Nair

PwC Asia Pacific Vice Chairman, Markets
sridharan.nair@pwc.com

David Wijeratne

Growth Markets Practice Leader, PwC Singapore
david.wijeratne@pwc.com

www.pwc.com/asiapacific

© 2020 PwC. All rights reserved.

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details. This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

At PwC our purpose is to build trust in society and solve important problems. PwC is a network of firms in 155 countries with over 284,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

127079159