2021 China CEO Outlook

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Foreword

The COVID-19 pandemic has significantly impacted the global economy and business operations. How do corporate leaders see the recovery from the pandemic? What are the key risks in an uncertain and rapidly changing environment? What growth avenues have they identified for their organisations? Those are important questions to understand the future direction of the global economy and are the focus of our annual CEO Outlook survey among the world's business leaders.

For this research, we surveyed more than 1,300 CEOs from 11 major economies, including many from China. The 2021 China CEO Outlook report focuses on the responses of corporate leaders from China to gain a better understanding of the business environment in the country. As the world's second-largest economy, China was the only major economy to achieve positive growth in 2020.

The survey highlights a number of interesting findings. Firstly, despite the global recovery remaining uncertain due to the spread of new COVID-19 variants, China CEOs are optimistic about the country's economic growth as well as their organisation's development. Their confidence levels have surpassed the pre-pandemic levels. Meanwhile, confidence in the global economy has also risen significantly in our global survey: nearly two-thirds of global CEOs expressed strong confidence in global economic growth over the next three years, representing an increase of 18 percentage points compared with the previous survey at the height of the pandemic.

Secondly, business leaders in China are paying increased attention to innovation. Innovation ranks as the top strategy for future growth and is at the core of the country's high-quality development. An increasing number of China CEOs regard organic expansion through innovation, R&D and new products as the most important strategy to achieve their growth objectives over the next three years. At the same time, the Chinese government is also stepping up efforts to boost innovation capabilities, such as offering tax incentives to companies engaged in basic research and launching the Beijing Stock Exchange to provide more funding support to innovative small and medium-sized enterprises.

Third, Environmental, Social, and Governance (ESG) factors have become a greater priority for chief executives in China. More and more business leaders believe that corporate social responsibility (CSR) should be an integral part of their organisation's purpose. As China aims to achieve its carbon emission goals (peak carbon emissions before 2030 and carbon neutrality before 2060), China CEOs are embedding ESG into their corporate strategy and linking their digitalisation strategy with green transformations.

The pandemic has caused disruption to the economy and the society. However, it also provides an opportunity to pause and re-think our future direction. The next few years will be a critical period for China's economic development. It is encouraging to see the rebound in confidence among senior business leaders. My hope is that CEOs will use that confidence to lead their organizations to a smarter, greener, and more inclusive future.

Honson To
Chairman for KPMG Asia Pacific and China

Contents

Key findings

Economic outlook

Although the global economic recovery is uncertain due to the ongoing COVID-19 pandemic, China CEOs are confident in China's future economic growth and enterprise development. With the Chinese economy facing headwinds from higher commodity prices, tightening regulatory changes and sporadic virus cases, China CEOs' confidence moderated in H2, but is still above pre-pandemic levels. Meanwhile, with the vaccination campaign accelerating around the world, CEOs' confidence in the global economy has risen significantly.

Technological innovation

China CEOs are paying more attention to their organisation's innovative research and development (R&D). A third (34 percent) of China CEOs state that they are looking to expand organically — through innovation, R&D, capital investments, new products and recruitment — to achieve their organisation's growth objectives. Specifically, most China CEOs plan to invest in the detection of disruption, innovative processes and to join industry consortia that focus on developing innovative technologies. Over half (54 percent) are choosing to set up accelerators or incubators for start-ups. This rate is much higher than the global average, underlining the strong emphasis that Chinese enterprises place on entrepreneurial technologies. Meanwhile, M&As have drawn more attention from China CEOs.

Major risks

As CEOs look to drive growth, they also face significant risks during a time of great uncertainty. China CEOs identified three areas they see as the main threats to growth: reputational/brand risk, environmental/climate change risk and supply chain risk. While global CEOs consider cyber security risk, environmental/climate change risk and supply chain risk to be equally important. In addition, international tax reform making tax regulation as a significant concern for CEOs.

Social responsibility

An increasing number of CEOs view social responsibility as an integral part of their organisation's purpose. A total of 61 percent say that their principal objective is to embed purpose into everything they do to create long-term value for all stakeholders, including customers, employees, investors and communities. This number has increased significantly compared with the survey in early 2020, indicating that enterprises are paying more attention to the overall social impact that they have. Nearly one in three China CEOs plan to invest more than 10 percent of their revenues towards sustainability measures and programmes over the next three years.

Key findings
Economic outlook
Technological innovation
Major risks
Social responsibility
ESG
Supply chain
International tax reform
Way of working
About this survey

ESG

In the context of a growing focus on ESG, there is increased demand from regulators and investors for extensive reporting on ESG issues. An ESG report has become an important tool for organisations to communicate with key stakeholders. Yet, more than a third of China CEOs feel that their companies are struggling to tell a compelling ESG story. In addition, 22 percent of China CEOs worry that they may face challenges in accessing capital markets should they fail to meet expectations from stakeholders on climate change.

Supply chain

Nearly 60 percent of China CEOs say that their supply chain has come under increased stress over the past 18 months, slightly higher than the global average. This is especially the case for certain industries that are deeply entrenched in the global supply chain, such as the retail, manufacturing, and automotive sectors. To make their supply chains more resilient, China CEOs are adopting strategies such as closer monitoring, diversifying their sourcing options and employing strategic planning, such as hedging and longer term contracts.

International tax reform

At the G20 meeting in mid-July 2021, the major economies reached a consensus on a series of significant international tax reform issues. International tax reforms such as BEPS 2.0 will have a profound and lasting impact on MNCs' international investment and operation strategies. Around three-quarters of China CEOs agree that the proposed global minimum tax regime is of significant concern to their company's growth goals.

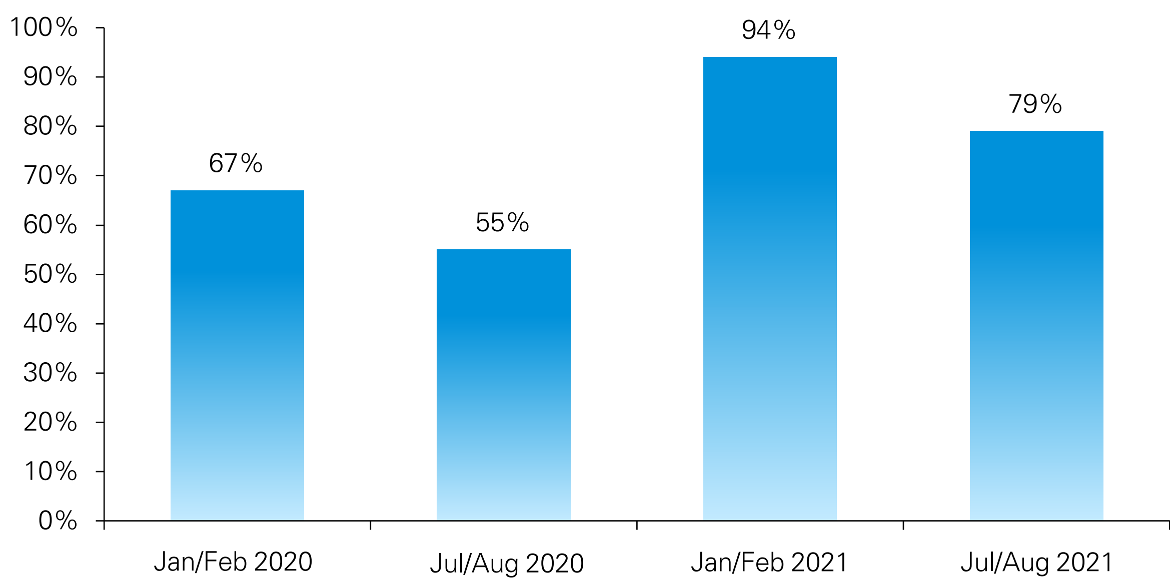
The future of work

26 percent of China CEOs plan to downsize or have already downsized their physical footprint or office space – markedly down from 80 percent in the middle of 2020. Work-from-home policies have played an important role in maintaining business operations during the pandemic, as well as reducing business trip expenses and time. However, executives have also noted that working in offices is crucial to build corporate culture, enhance employee communication and gain social trust. CEOs are prioritising flexibility for their workforce. Over half of all China CEOs are looking to invest in shared office spaces to allow for increased flexibility.

Rebounding confidence, surpassing pre-pandemic levels

China has continued its economic recovery in 2021, with strong exports and industrial production, as well as improving consumption. According to KPMG's *2021 China CEO Outlook*, China CEOs' confidence in the local economy has risen significantly, now exceeding pre-pandemic levels. About 80 percent of China CEOs indicate that they have confidence in China's economic growth in the next three years, 24 percentage points higher than when the previous survey was conducted during the midst of the pandemic (July/August 2020) and 12 percentage points higher than the figure recorded before the pandemic (January/February 2020) (see Figure 1). With the Chinese economy facing headwinds from higher commodity prices, tightening regulatory changes and sporadic virus cases, China CEOs' confidence moderated in H2, but is still above pre-pandemic levels.

Fig 1 **China CEOs' confidence in the country's economic growth, %**

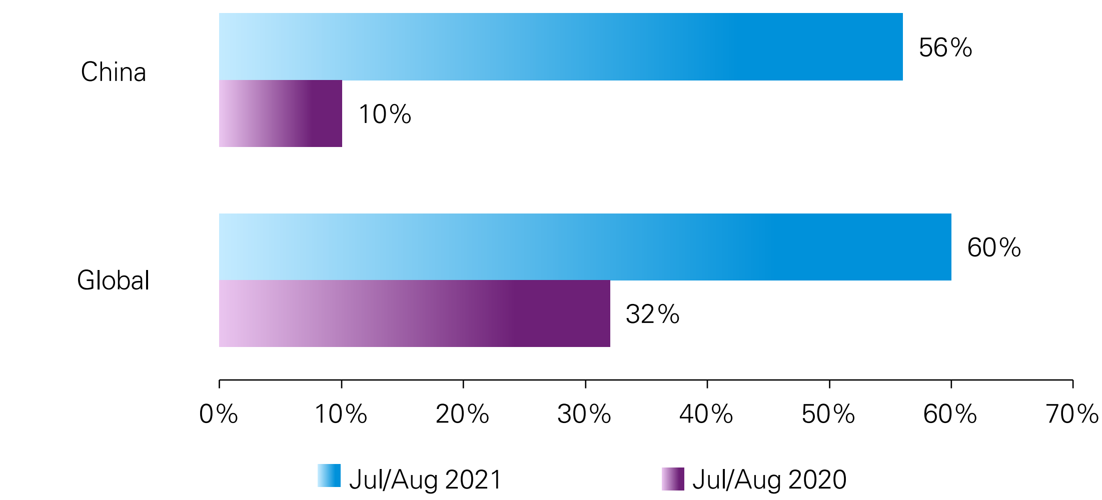


Source: KPMG 2021 China CEO Outlook

Key findings
Economic outlook
Technological innovation
Major risks
Social responsibility
ESG
Supply chain
International tax reform
Way of working
About this survey

Despite the spread of the Delta variant slowing the global economic recovery, CEOs' confidence in the global economy has risen significantly as the vaccination campaign is accelerating around the world. This survey shows that the percentage of China CEOs' confidence in global economic growth over the next three years has risen to 56 percent – up from 52 percent last year (see Figure 2). Comparatively, global CEOs are more confident about the global economic outlook, with 60 percent harbouring strong confidence, an increase of 18 percentage points from when the survey was conducted during the height of the pandemic last year.

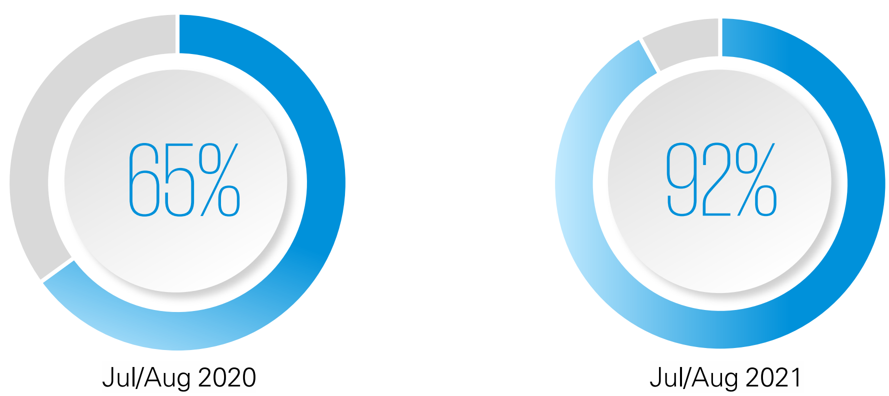
Fig 2 **CEOs' confidence in the global economy, %**



Source: KPMG 2021 China CEO Outlook

The percentage of China CEOs who are confident about the growth outlook for their respective industries and companies has increased from 60 percent in July/August 2020 to above 80 percent, which is significantly higher than before the pandemic. Among them, 92 percent expect their companies to sustain growth in the next three years – a marked increase over the 65 percent recorded in 2020 (see Figure 3).

Fig 3 **China CEOs expect their companies to sustain growth, %**



Source: KPMG 2021 China CEO Outlook

Key findings
Economic outlook
Technological innovation
Major risks
Social responsibility
ESG
Supply chain
International tax reform
Way of working
About this survey

Increased investment in innovation

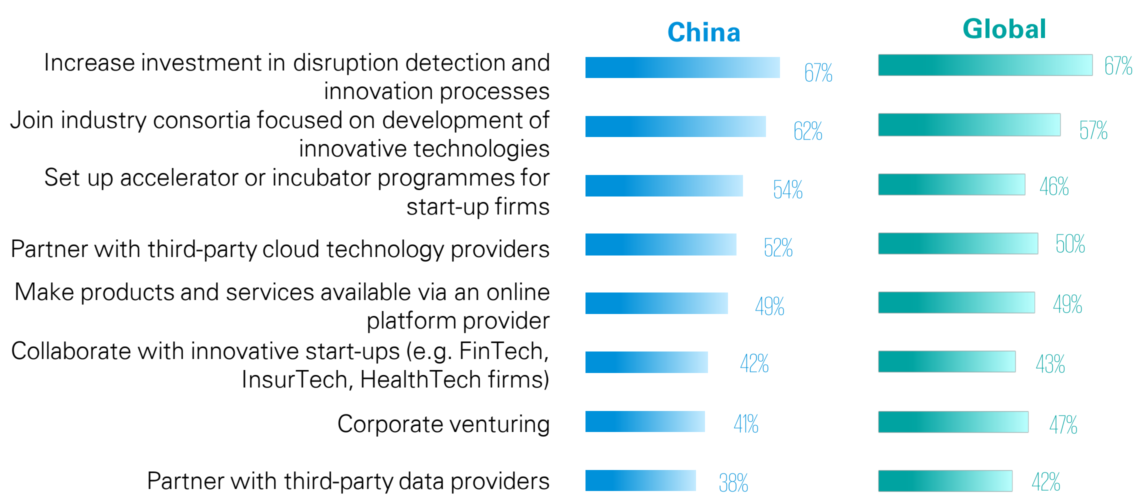
Innovation has always been a key focus of China CEOs and the proportion who consider disruptive technology to provide them with an essential competitive edge has been rising since the outbreak of the COVID-19 pandemic. Around four in five China CEOs (79 percent) surveyed believe technological disruption will lead to more opportunities than threats – much higher than the survey result of 65 percent in early 2020. Rather than waiting for disruption from competitors, more than 70 percent of the China CEOs surveyed believe their organisation is actively disrupting the sector in which they operate, compared with 67 percent in early 2020.

The survey shows that just over a third of China CEOs regard organic growth through innovation, R&D, new products and recruitment as the most important strategy to achieve their corporate growth objectives over the next three years. Similar to the global CEOs surveyed, two-thirds of China CEOs plan to invest more in disruption detection and innovation processes, while 62 percent plan to join industry consortia that focus on developing innovative technologies and 54 percent are setting up accelerators or incubators for start-ups. This rate is much higher than that of the global average, indicating the strong emphasis that Chinese enterprises place on entrepreneurial technologies (see Figure 4).

54%

54 percent are setting up accelerators or incubators for start-ups

Fig 4 **CEOs intend to undertake the following actions to pursue growth objectives, %**



Source: KPMG 2021 China CEO Outlook

At the same time, the Chinese government is stepping up efforts to boost the technological innovation capabilities of companies. The 14th Five-Year Plan calls for consolidating enterprises' position as innovators, strengthening the role of entrepreneurs in technological innovation, encouraging businesses to increase R&D investments and offering tax incentives to companies engaged in basic research. The goal is to turn small and medium-sized enterprises into an important source of innovation.

At the China International Fair for Trade in Services in early September 2021, President Xi Jinping announced the launch of the Beijing Stock Exchange, which will benefit the innovation efforts and business development of small and medium-sized enterprises. The Beijing Stock Exchange will adopt all the basic policies of the National Equities Exchange and Quotations (NEEQ) board's 'select tier' with respect to public offering and listing, trading, board transfers and delisting. This will result in a bottom-up market structure composed of the NEEQ's base tier, the NEEQ's innovation tier and the Beijing Stock Exchange.

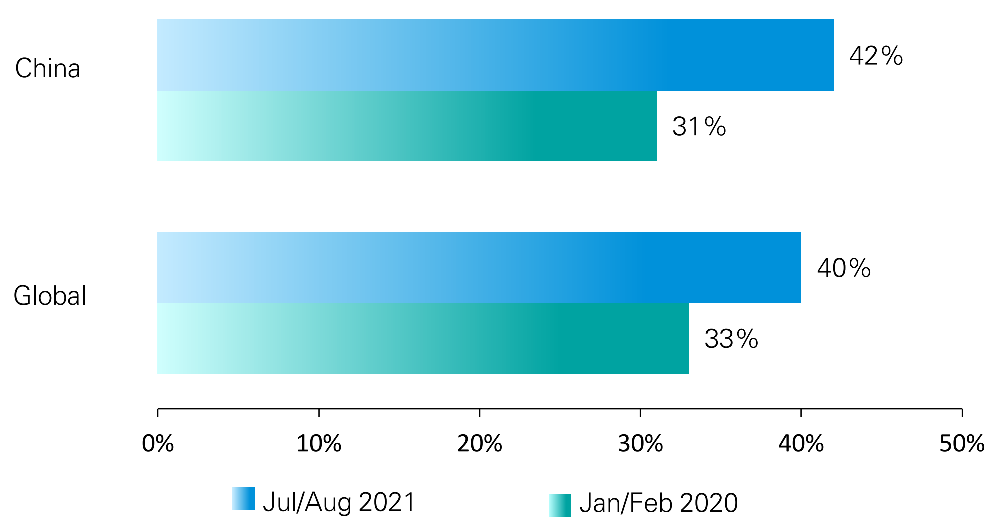
Key findings
Economic outlook
Technological innovation
Major risks
Social responsibility
ESG
Supply chain
International tax reform
Way of working
About this survey

The Beijing Stock Exchange will target innovative small and medium-sized enterprises, with the goal of cultivating a range of enterprises that are 'specialised and innovative' as well as small-scale competitive enterprises. In general, the Beijing Stock Exchange is designed to direct more capital market funds to technological innovation fields that urgently need financing. From an overall perspective, the Beijing Stock Exchange, Shanghai Stock Exchange, Shenzhen Stock Exchange and regional equity markets will be connected and supplement each other, which will help reshape the country's capital markets.

Talent is fundamental to innovation. This survey indicates that China CEOs are focusing more on their talent strategies and continuing to invest in and develop innovative talent. About 42 percent of China CEOs say they will invest more in employee skills and capabilities to facilitate business growth and transformation, which is higher than the global average and 11 percentage points higher than the figure recorded before the outbreak of the COVID-19 pandemic (see Figure 5). Also, in order to improve their organisational capabilities, a fifth of China CEOs say that they will prioritise talent recruitment and staff performance appraisals, while 18 percent say that they will provide more training to their employees.

The China Securities Regulatory Commission (CSRC) recently revised its Guidelines for the Evaluation of Sci-Tech Innovation Attributes (for Trial Implementation). According to the revision, the regulator will consider the proportion of R&D personnel employed by companies seeking to IPO on the Sci-Tech Innovation Board – in addition to their R&D investment, utility patents and revenue growth. This change underlines the role that talent plays in technological innovation and echoes the 14th Five-Year Plan, which calls for an increased focus on the development of scientific research talent and increased investment in talent to fully leverage companies' innovation capabilities.

Fig 5 **Share of CEOs who are placing more capital investment in developing skills and capabilities of their workforce, %**



Source: KPMG 2021 China CEO Outlook

In addition to improving enterprise competitiveness in organic ways such as innovation and R&D, China CEOs are also keeping an eye on inorganic strategies (such as M&As, strategic alliances with third parties and joint ventures), with two-thirds seeing these as their major growth strategies in the post-pandemic era. Since the outbreak of the pandemic, M&As have drawn more attention from China CEOs and the vast majority (85%) plan to engage in M&As to realise business growth and transformation in the next three years. Among these, 44 percent say that they are actively pursuing M&A projects that will significantly improve their business – slightly higher than before the pandemic.

44%

44 percent say that they are actively pursuing M&A projects in the next 3 years which will have a significant impact on their business

Key findings
Economic outlook
Technological innovation
Major risks
Social responsibility
ESG
Supply chain
International tax reform
Way of working
About this survey

Reputation, climate change and supply chain seen as key risks

As CEOs look to drive growth, they also face significant risks during a period of great uncertainty. The annual survey conducted ahead of the pandemic (January/February 2020) indicated that global CEOs were the most concerned about climate change risk. In this year's edition, however, global and Chinese executives have identified several risks that are of concern (see Table 1). Cybersecurity risk, environmental/climate change risk and supply chain risk pose the greatest risks for global CEOs in equal measure. Meanwhile, their Chinese counterparts have put reputational/brand risk, environmental/climate change risk and supply chain risk at the top of the agenda. In addition, international tax reform has also been marked as a significant concern for CEOs.

Table 1 CEOs' view on the greatest threat to business growth, %

China	
Reputational/Brand risk	15%
Environmental/Climate change risk	14%
Supply chain risk	13%
Regulatory risk	12%
Tax risk	10%
Emerging/Disruptive technology risk	10%
Operational risk	10%
Cyber security risk	8%

Global	
Cyber security risk	12%
Supply chain risk	12%
Environmental/Climate change risk	12%
Emerging/Disruptive technology risk	11%
Regulatory risk	11%
Operational risk	11%
Reputational/Brand risk	10%
Tax risk	10%

Source: KPMG 2021 China CEO Outlook

- Intangible assets such as reputation and brand image have become critical assets for modern enterprises to help increase their capital and market competitiveness. In the current complex and volatile market environment, a company's brand value is built on a number of important components, including product quality, culture, employee benefits and public image. Employees, customers and investors are increasingly concerned about whether an enterprise's brand reputation is conducive to long-term business growth. They also place significant emphasis on corporate culture and expect a workplace that values equality, inclusion and diversity. In the context of a fast-developing digital society, corporate leaders need to balance these various demands from stakeholders in order to maintain a solid brand reputation and public image of their organisations.

- As global warming and pollution issues intensify, climate change has come under the spotlight for global leaders in recent years. According to recent annual surveys, environmental/climate change risk has always been a major issue in the eyes of executives. They have realised that business growth that comes at the expense of the environment will not be allowed to continue for long, and therefore they are restructuring their business models to make them more sustainable.

- The COVID-19 pandemic has made more CEOs aware of the importance of stable supply chains. KPMG's special survey in July/August 2020 revealed that most global executives surveyed included supply chain risk among the major risks and challenges to be tackled following the outbreak of the pandemic. One year later, with the Delta variant spreading across the world alongside the uneven distribution of vaccines, the global pandemic is not yet over and prevention and control measures are continuing to hold back supply of raw material and production in some emerging markets and economies. Overall, supply chain risk remains a major concern for enterprise executives.

Key findings
Economic outlook
Technological innovation
Major risks
Social responsibility
ESG
Supply chain
International tax reform
Way of working
About this survey

Embedding social responsibility into corporate purpose

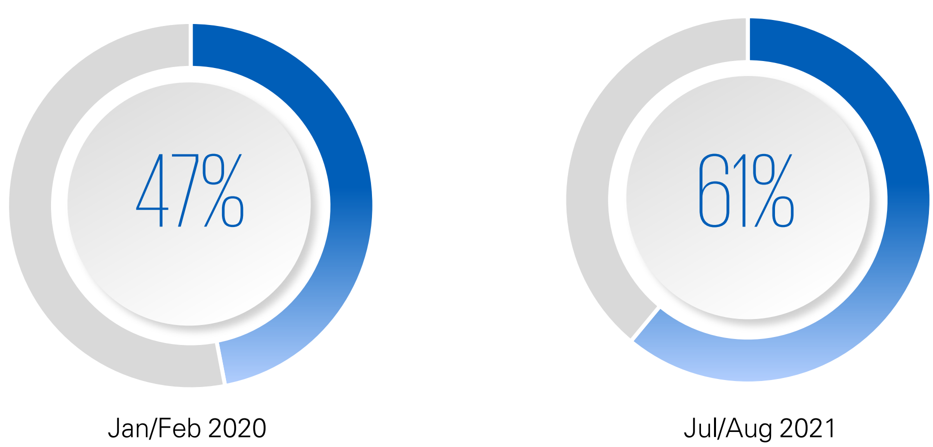
More CEOs view social responsibility as an integral part of their organisation's corporate purpose. A total of 61 percent say that their principal objective is to embed purpose into everything their organisation does to create long-term value for all stakeholders, including customers, employees, investors and communities. This number increased significantly compared with the survey in early 2020, indicating that businesses are paying more attention to the comprehensive social benefits they can create.

By embedding CSR goals into business operations, companies are able to improve production safety, product quality and employee benefits, creating a more equal and inclusive work environment, as well as better utilise ecological resources for sustainable development. Most of the China CEOs surveyed (86 percent) also believe that corporate purpose has an important impact on brand reputation. Promoting the coordinated development of enterprises and society has become an important part of the purpose of corporations.

86%

believe that corporate purpose has an important impact on brand reputation

Fig 6 **China CEOs' principal objective is to embed corporate purpose into everything their organisations do to create long-term value for all stakeholders, %**



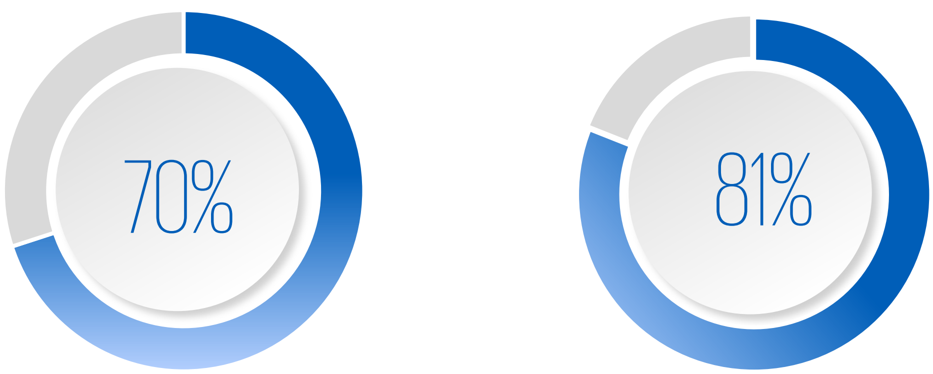
Source: KPMG 2021 China CEO Outlook

Key findings
Economic outlook
Technological innovation
Major risks
Social responsibility
ESG
Supply chain
International tax reform
Way of working
About this survey

29% say they plan to invest more than 10% of their revenues toward sustainability measures and programmes

According to this survey, 81 percent of China CEOs state that the pandemic has shifted their focus towards the social component of their ESG program, up by 11 percentage points from previous year's survey (see Figure 7). Among them, three-quarters believe that large enterprises have the financial and human resources to help governments find solutions to pressing global challenges, and nearly 30 percent plan to invest more than a tenth of their revenues in their sustainability programmes. In recent government meetings, China policy-makers have stressed the pursuit of common prosperity along with high-quality development. This includes the establishment of fundamental policies for primary, secondary and tertiary distribution to increase the size of the middle-income population, raise earnings of the low-income population, and properly regulate the high-income population. Some large technology companies have already set up common prosperity funds, made donations or engaged in other efforts to rejuvenate the rural economy, improve the basic-level healthcare system, promote the coordinated development of education, and contribute more to social welfare.

Fig 7 China CEOs say that the pandemic has increased their focus on the social component of their ESG program, %



Jul/Aug 2020 Jul/Aug 2021

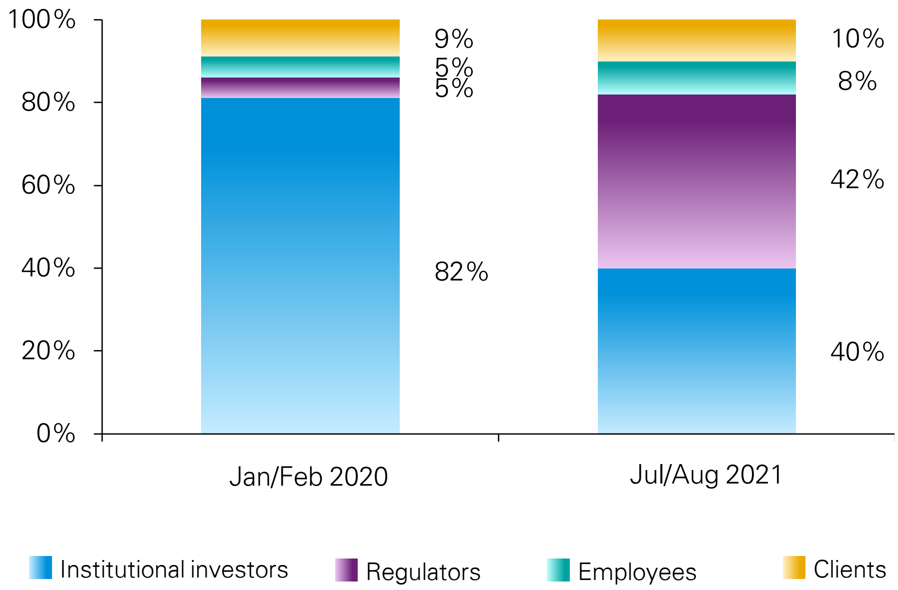
Source: KPMG 2021 China CEO Outlook

Key findings
Economic outlook
Technological innovation
Major risks
Social responsibility
ESG
Supply chain
International tax reform
Way of working
About this survey

Greater focus on ESG

In the context of a growing focus on ESG, there are increased demands from regulators and investors for more extensive reporting on ESG issues. As China recently announced its ‘dual carbon’ target (peak carbon emissions before 2030 and carbon neutrality before 2060), it is tightening regulation in this area. Some local governments have also released administrative documents requiring companies to disclose information on their greenhouse gas emissions. Our survey shows that 42 percent of China CEOs acknowledge that domestic regulators have significantly increased demands for the disclosure of ESG information – higher than the global average (29 percent) and up from just 5 percent in the survey conducted in early 2020 (see Figure 8).

Fig 8 **China CEOs’ view on where they see the biggest demand on ESG transparency comes from, %**



Source: KPMG 2021 China CEO Outlook

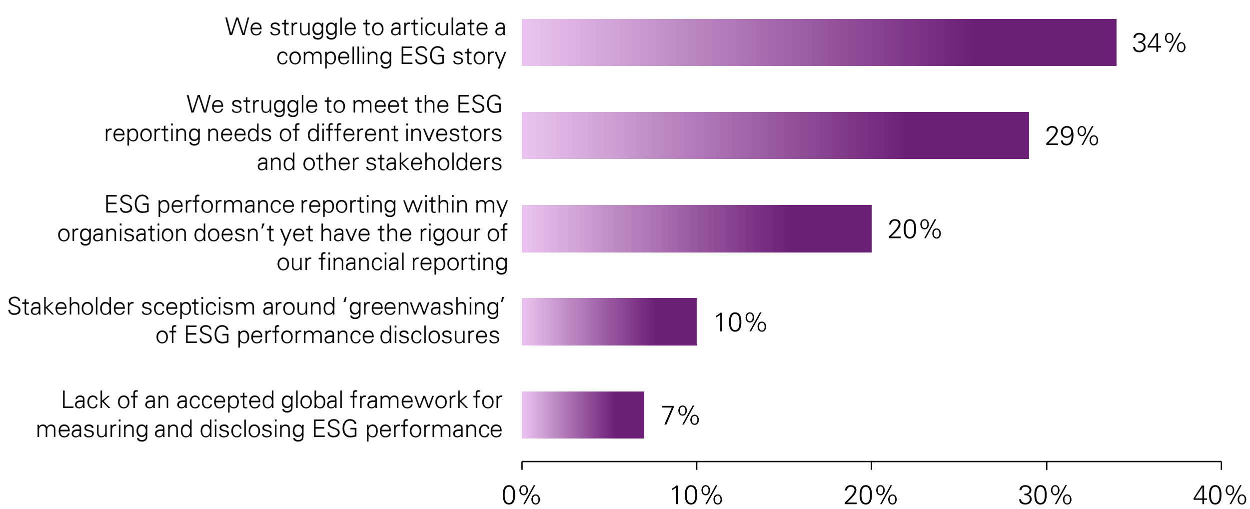
ESG reports have become an important tool for corporates to communicate with key stakeholders. A compelling ESG report not only benefits an company's corporate governance, but also enables stakeholders to understand the organisation's vision for sustainable development, which is essential when accessing funds from the capital market. However, enterprises are stumbling in their efforts to communicate ESG information. Over a third of China CEOs say they are struggling to articulate a compelling ESG story (see Figure 9). Besides that, corporate leaders need to find a way for their financial reporting to meet the needs of different stakeholders and make their ESG reports as rigorous as their financial reports. In addition, 22 percent of China CEOs are concerned that they may face challenges in accessing capital markets should they fail to meet expectations from stakeholders on climate change.

ESG information disclosure requirements in China are still insufficient and unified disclosure standards have not yet been introduced. China should continue improving its requirements and align those Chinese characteristics requirements with international standards to facilitate its economic development. Regarding requirements and standards, regulators should clarify the types of and criteria for greenhouse gas emissions, waste discharge amounts, proportions of renewable resources used, etc. In addition, ESG databases should be set up to improve data accessibility. Meanwhile, regulators may improve their incentive and restriction mechanisms to encourage enterprises to proactively disclose ESG information and improve their ESG reports.

22%

22 percent of China CEOs are concerned that they might face challenges in accessing capital markets if they fail to meet expectations from stakeholders on climate change

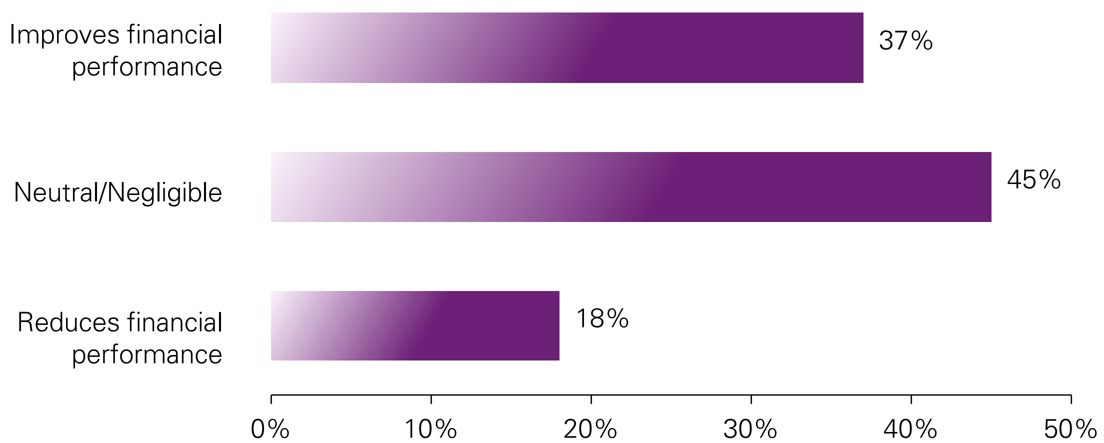
Fig 9 **China CEOs' view on the key challenges in communicating their ESG performance to relevant stakeholders, %**



Source: KPMG 2021 China CEO Outlook

While CEOs believe that social and environmental priorities are key, they are less convinced about making the connection between ESG programmes and business performance. About a third (37 percent) of China CEOs believe that their ESG programmes will improve financial performance, but 45 percent see negligible improvement. It will be important to connect the ESG strategy with financial returns. Meanwhile, green transformation and digital transformation should be inextricably linked to the future development of businesses.

Fig 10 **China CEOs' view on the impact of their ESG programmes on the financial performance, %**



Source: KPMG 2021 China CEO Outlook

According to the survey, 75 percent of the China CEOs think that their organisation's digital and ESG strategic investments are inextricably linked. We believe that green transformation and digital transformation supplement each other. For example, the use of digital technologies such as artificial intelligence (AI), Big Data, Internet of Things (IoT) and distributed ledgers, have greatly accelerated the development of renewable energies. An example of this is the use of AI in China's wind power industry, which faces challenges in dealing with varying weather conditions and the oversupply of electricity compared with local demand (abandonment). By using AI, China's abandonment rate of wind power dropped from around 20 percent in 2016 to 3 percent in 2020, a significant improvement.

75%

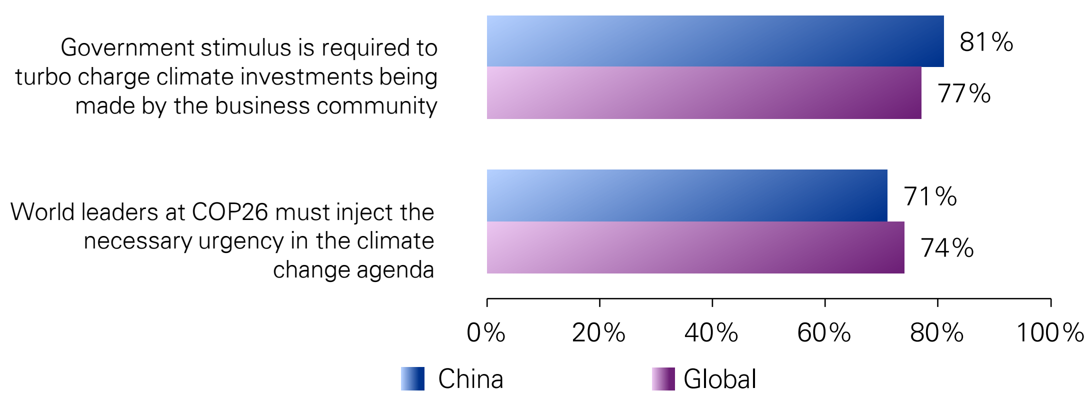
say that their digital and ESG investments are inextricably linked

Meanwhile, the rapid development of digital technology also means growing consumption of power. Electricity consumption of data centres in China reached 60-70 billion kWh in 2019, accounting for nearly 1% of the country's total power usage. With the deepening of the information age, it is estimated that the power usage of data centres will double by 2030 and represent about 1.5%-2% of China's electricity consumption[1]. Renewable energy clearly has an important role to play in reducing carbon emissions from the increased use of digital technologies.

1 Report on the Development of Renewable Energy Applications in Chinese Data Centres (2020), Chinese Institute of Electronics, December 2020

Addressing global warming and achieving net zero CO_2 emissions by the middle of the century requires not only effort from enterprises, but also strong government support and international cooperation. According to this survey, over 80 percent of China CEOs believe that support from the government is critical in order for businesses to achieve net zero CO_2 emissions (see Figure 10). Furthermore, most of the CEOs identified COP26 as a pivotal moment that has injected urgency into the climate change agenda. A report from the United Nations Environment Programme (UNEP) shows that 127 countries and regions are considering, have announced or are implementing carbon neutrality commitments[2]. As there has been limited progress for some countries, global collaboration is needed in climate governance. At the general debate of the UN General Assembly on 21 September, President Xi Jinping said that China will no longer engage in coal power generator projects abroad and will offer stronger support for the development of green and low-carbon energy projects in developing countries. China will also continue to support renewable energy projects, such as hydroelectric, wind and solar power projects, in countries that are participating in the Belt and Road Initiative. As a result, green investment is expected to continue rising in the future.

Fig 11 **CEOs believe that government support and international cooperation are critical to realising carbon neutrality, %**



Source: KPMG 2021 China CEO Outlook

2 Emissions Gap Report 2020, UNEP, December 2020, https://www.unep.org/emissions-gap-report-2020


238.38
651.32

Supply chain pressure to remain in the post-pandemic era

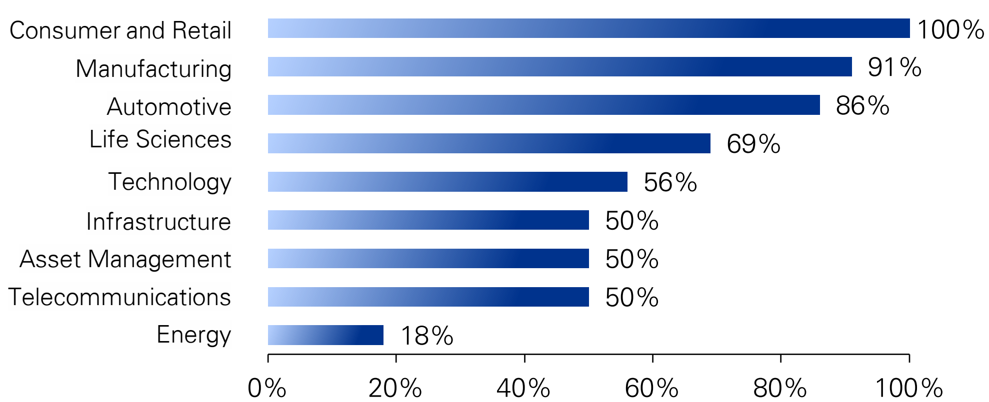
As trade in intermediate goods accounts for more than half of all international trade, global supply chains have become closely intertwined. According to the survey, nearly 60 percent of China CEOs believe that their supply chain has experienced increased stress over the last 18 months, slightly higher than the global average. So far, the global economic recovery has been uneven due to the different levels of quarantine measures and vaccination progress. Some emerging markets and low-income countries in particular are still imposing transportation and mobility restrictions. These restrictions have interrupted production and also impacted the highly interconnected global supply chains. Meanwhile, factors such as a lack of containers, jammed ports and soaring shipping costs have put additional pressure on the global supply chains of companies.

According to industrial analysis, supply chain pressure has been particularly acute for industries that are deeply engaged in the global supply chain, such as the retail/consumer, manufacturing and automotive sectors (see Figure 12). For example, Chile, which is the world's leading copper producer, announced in April 2021 that it would close its borders for 30 days to contain the pandemic. As raw material supplies were unable to meet the demands of certain advanced economies, prices of many metal commodities continued to rise around the world, imposing a greater cost burden on middle and downstream manufacturers. Malaysia, which is a major global producer of automotive chips, continues to suffer from the delta variant – despite strict quarantine measures it enacted in June. These measures have limited the country’s production capacity for automotive chips, which in turn has contributed to the moderation in global vehicle manufacturing. China’s vehicle output declined year-on-year for four consecutive months between May and August 2021. Besides that, supply shortages have caused US consumer goods prices to remain at a higher level and retailers may face even greater challenges when consumption peaks during the year-end holidays.

58%

China CEOs believe that their supply chain has experienced increased stress over the last 18 months

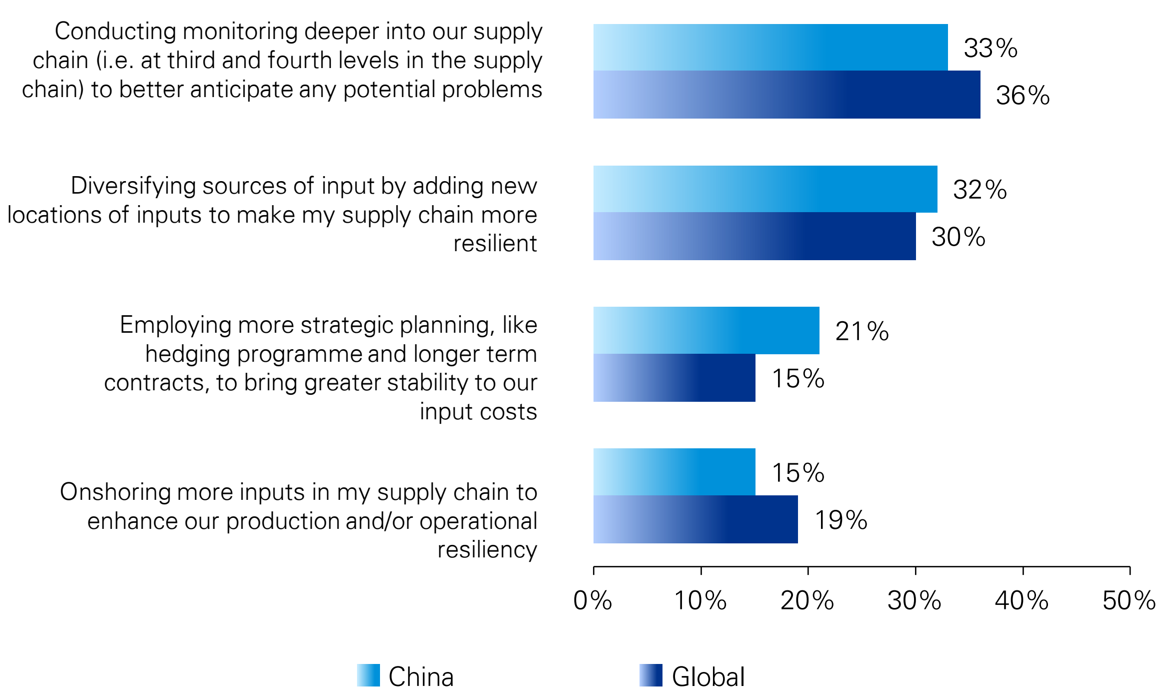
Fig 12 **China CEOs who believe that their supply chain has experienced increased pressure over the last 18 months, by industry, %**



Source: KPMG 2021 China CEO Outlook

To mitigate these supply chain pressures, China CEOs plan to implement a range of measures that include closer supply chain monitoring (33 percent), diversifying their sourcing (32 percent) and engaging in hedging or long-term contracts to stabilise costs (21 percent) (see Figure 13). In addition, 15 percent of China CEOs plan to onshore more inputs to improve the resilience of their supply chains. Undoubtedly, reshaping a highly specialised global supply chain is a complex process that requires a significant investment of capital and time. Each organisation needs to carefully consider this process based on its own development strategy, with a particular focus on factors including market, cost and completeness of the industrial chain. China's rapidly developing consumer market, efficient productivity and well-established industrial chains have made the country an attractive investment destination for multinational companies.

Fig 13 CEOs' view on the top strategy to mitigate supply chain pressure, %



Source: KPMG 2021 China CEO Outlook

Attention on the impact of international tax reforms

Tax regulation has become a key concern for global CEOs. About 10 percent of the China CEOs surveyed believe that tax risk is a major threat to corporate growth – significantly higher than in the previous survey result. At the G20 meeting in mid-July 2021, major economies reached a consensus on a series of major international tax reform issues, such as BEPS 2.0. If implemented, this reform could represent the biggest change in the international tax regime over the past century.

The outcome of the negotiations on tax reform was coordinated by the OECD and G20 for much of the last decade. It consists of two critical 'pillars' that will be used to rebuild the existing international tax rules that have been in effect for nearly a century. It aims to add much-needed certainty and stability to the international tax system. The reform is expected to take effect in 2023.

Pillar 1

Multinational companies with global sales of over EUR 20 billion (around RMB 150 billion) and a profit margin (i.e. pre-tax profit/income) higher than 10% will re-allocate some taxing rights from their home countries to the markets where they have business activities and earn profits, regardless of whether firms have a physical presence there.

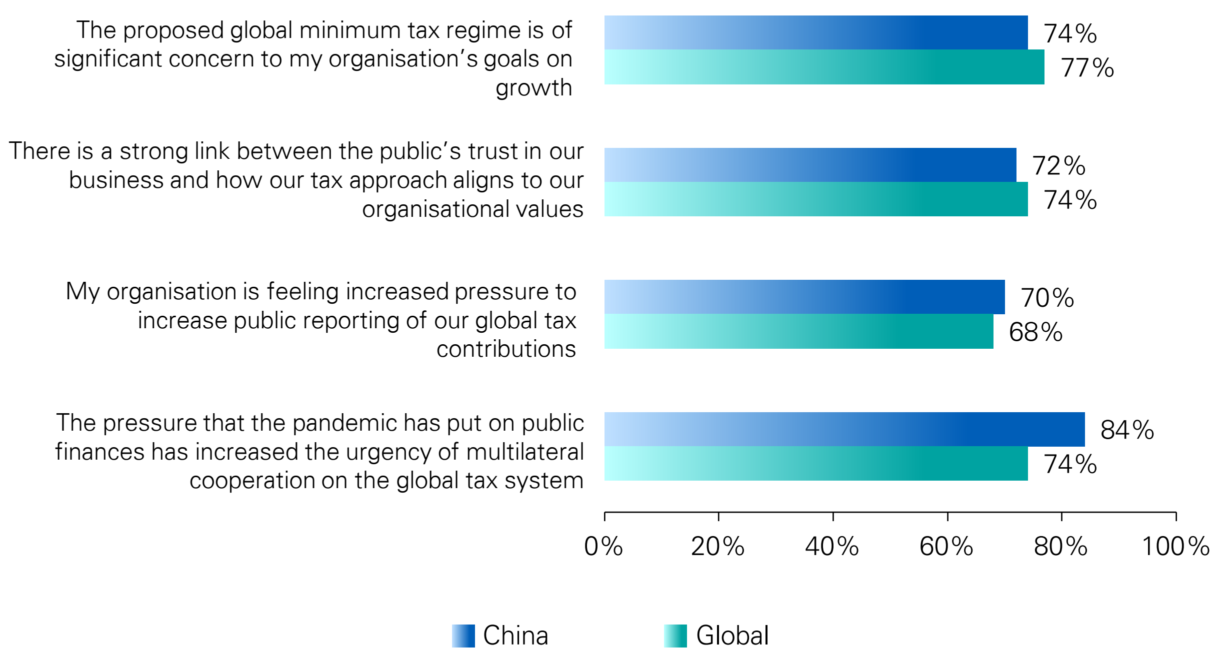
Pillar 2

Multinational companies with a global income of over EUR 750 million (around RMB 5 billion) will be obliged to pay a global minimum tax rate of 15% or higher.

Key findings
Economic outlook
Technological innovation
Major risks
Social responsibility
ESG
Supply chain
International tax reform
Way of working
About this survey

The OECD expects that under Pillar One, taxing rights on more than USD 100 billion of profit are expected to be reallocated to market jurisdictions each year, and that if the global minimum tax rate is set at no less than 15%, it is estimated to generate around USD 150 billion in additional global tax revenues annually[3]. Clearly, this international tax reform will have a profound and lasting impact on MNCs' international investment and operation strategy. Around three-quarters of China CEOs agree that the proposed global minimum tax regime is of significant concern to their company's goals on growth (see Figure 14). KPMG's Tax team estimates that more than 20 Chinese enterprises will be subject to Pillar One by 2023, which will result in a significant increase in their overseas compliance costs and tax burdens[4].

Fig 14 CEOs' view on the impact of international tax reform, %



Source: KPMG 2021 China CEO Outlook

3 https://www.oecd.org/newsroom/130-countries-and-jurisdictions-join-bold-new-framework-for-international-tax-reform.htm
4 Statement on the OECD/G20 Inclusive Framework Agreement on BEPS 2.0 — A Serious Imminent Impact on Chinese Enterprises, KPMG China, July 2021 https://mp.weixin.qq.com/s/LI_LLTK923Yo1SXUweBtEA

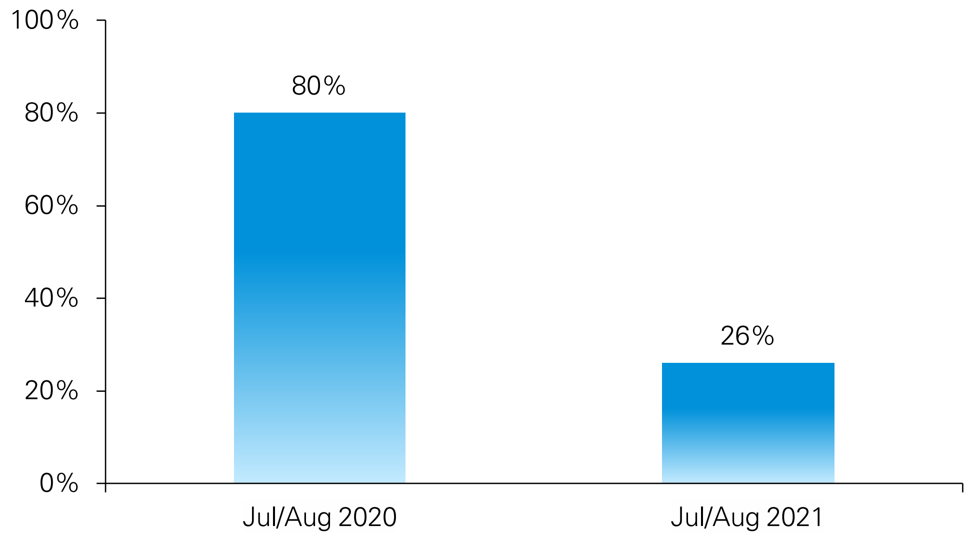
Key findings
Economic outlook
Technological innovation
Major risks
Social responsibility
ESG
Supply chain
International tax reform
Way of working
About this survey

In addition, 72 percent of the China CEOs recognise that the public's trust in their businesses depends heavily on how their tax approach aligns to their organisational values. As businesses aim to rebuild better, 70 percent of China CEOs feel that they are under increased pressure to publicly disclose their organisation's global tax contributions. The majority (84 percent) of China CEOs believe that the pressure put on public finances during the pandemic has increased the urgent need for multilateral cooperation in the global tax system. As most economies implement minimum corporate income tax rules, some regions will have limited space to attract multinational companies with low tax rates and companies will be much less willing to transfer their profits to these regions. On the other hand, national governments levying more taxes on multinational companies overall may reduce the financial burdens that governments incurred during the pandemic. In this context, governments can capitalise on their tax mechanisms for economic restructuring to promote growth.

More flexibility in the future of work

The COVID-19 pandemic forced some businesses to implement remote working arrangements. Our survey in Jul/Aug 2020 showed that 80 percent of China CEOs planned to downsize their office space. However, as pandemic prevention and control measures have been gradually reduced, companies are steadily returning to normal production. As a result, the abovementioned figure declined significantly this year, with only 26 percent of China CEOs saying that they have downsized or plan to downsize their office space (see Figure 15). The work-from-home policies adopted by most companies when the pandemic was more widespread played an important role in maintaining their business operations and also helped reduce business trip expenses and time costs. However, executives have noted that working in offices is crucial to build corporate culture, enhance employee communication and gain social trust.

Fig 15 **China CEOs that are downsizing or have downsized their organisation's physical footprint, %**



Source: KPMG 2021 China CEO Outlook

The macro business environment is likely to be characterised by significant uncertainty in the future – whether due to the pandemic, natural disasters or other changes in the external environment. Businesses need to implement more flexible operating models to swiftly respond and adapt in this ever-changing environment. According to KPMG, the future of work will focus on greater flexibility and resilience. This survey shows that over 50 percent of China CEOs want to invest in shared office spaces to enable increased flexibility – a significant increase of 36 percentage points compared with earlier in 2021.

About the survey

The KPMG 2021 CEO Outlook provides an in-depth three-year outlook from 1,325 global chief executives of major organizations on enterprise and economic growth, including 125 from Chinese companies.

This latest research is part of the KPMG CEO Outlook series, which offers a unique perspective on the mindset shift of global CEOs over the lifetime of the COVID-19 pandemic and looking forward to post-pandemic recovery. As well as this survey, which took place in July and early August 2021, KPMG also conducted a CEO Outlook pulse survey of 500 chief executives in January and February of 2021, including 50 from Chinese companies. This allows us to examine how CEO thinking has evolved over the course of this year. CEOs are drawn from companies with annual revenue of over US$500 million. A third of the companies surveyed have more than US$10 billion in annual revenue, while there were no responses from companies with revenues of under US$500 million.

The July/August 2021 survey included leaders from 11 key markets (Australia, Canada, China, France, Germany, India, Italy, Japan, Spain, the UK and the US) and 11 key industry sectors (asset management, automotive, banking, consumer and retail, energy, infrastructure, insurance, life sciences, manufacturing, technology and telecommunications).

NOTE: Some figures may not add up to 100 percent due to rounding.

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