2024 China CEO Outlook

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KPMG CHINA RESEARCH CENTRE

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Foreword

2024 marks the 75th anniversary of the founding of the People's Republic of China. It is also a crucial year for the 14th Five-Year Plan. Currently, the world is experiencing profound changes of an unprecedented scale, and the domestic and global landscapes are becoming increasingly complex and uncertain. With a new round of technological revolution and industrial transformation in full swing, domestic economic restructuring and the transition from old to new growth drivers have entered a critical stage that will have a significant impact on China's economic recovery and growth. As a global leader in professional services, KPMG continues to focus on how business leaders view future development, as well as the opportunities and challenges they will face in terms of business strategy and operations.

This is the tenth year that KPMG has launched the Global CEO Outlook. The report provides in-depth insights to global business executives on business and economic development in the next three years from a medium and long-term perspective. In order to provide better insights into the priorities and strategic vision of China's entrepreneurs, we have further expanded the survey sample of Chinese enterprises in this year's edition, and focused on their short-term views on economic development, business operations and strategic adjustments, to provide readers with a broader perspective.

In this year's survey of Chinese CEOs, I am most impressed by how they view the growth prospects of the economy and adjustments to business strategies. We see that many business leaders believe that China's economy is at a critical stage of restructuring and transformation, with certain challenges arising due to cyclical and structural issues. At the same time, business leaders remain confident in the growth prospects of China's economy in the next three to five years, and they are actively pursuing the development opportunities brought by the latest industrial transformation.

In the face of the complex domestic and global environments and ever-changing market landscape, business leaders are actively adjusting strategies and seeking growth by taking measures to enhance the resilience and agility of their organisations. In this regard, we are seeing three major trends.

First, Chinese enterprises are stepping up their global strategic deployment, and going global has become an inevitable trend. Due to changes in the domestic consumer market, disruptions in global supply chains and increasingly complex geopolitical relationships, going global has become a critical strategy for Chinese enterprises to expand their markets and hedge risks, and setting up localised business operations is a key step for success.

Foreword

Second, the rise of artificial intelligence (AI) will empower enterprises' development of new quality productive forces, helping them transform their digitalisation initiatives into intelligence-oriented strategies. Since the beginning of 2024, China's AI industry has been going strong, adding new momentum to economic and social development. Business leaders believe that AI, especially generative AI, is disrupting existing business models and creating new opportunities that will transform industry and business landscapes. They also say that talent and data are key for the adoption of AI. Many business managers say that they will strengthen their scientific AI talent training systems and establish robust data governance frameworks, while also maintaining ethical practices and effective privacy protection, to help their enterprises and employees gain competitive advantages in the AI era.

Third, the environmental, social and governance (ESG) agenda has become a key component of the sustainable development strategy of business organisations. We have observed that, amid strong policy support, the green and low-carbon transformation has become a major trend for Chinese enterprises. Business leaders have increasingly realised that the implementation of ESG strategies can bring about many long-term benefits to their business, and they say that they will continue to promote ESG investment to improve the sustainability of their enterprises. Going forward, the key to the successful implementation of ESG strategies is to better integrate ESG into core business strategies, so as to generate momentum that will drive sustainable development.

As the saying goes, "Follow the path, and work even harder once you make it halfway through, as the mountain peak is already in sight." As China's economy pursues high-quality development, strategic opportunities and challenges have emerged at the same time. With tenacity, keen insight and bold actions, China's entrepreneurs will be able to navigate the complexities and challenges and lead their organisations to a successful future. We hope that this survey report helps readers better understand the concerns and strategic visions of China's entrepreneurs. In the coming years, KPMG looks forward to working with enterprises and other stakeholders to forge ahead and open a new chapter for the high-quality development of China's economy.

Honson To
Chairman, KPMG Asia Pacific
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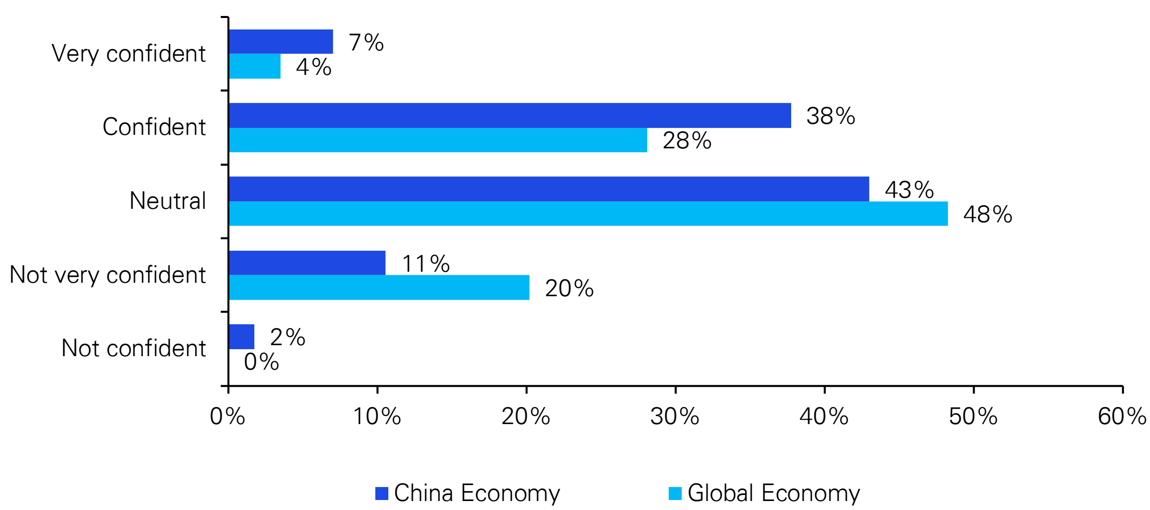
Content

Short-term economic growth is expected to slow down amid the structural transition

Following the pandemic, from 2020 to 2022, China's economy entered a new development stage. In 2024, with the rebound of global manufacturing and the beginning of the interest rate cut cycle in developed economies, China's export demand has rebounded significantly, and industrial production and manufacturing investment remain robust thanks to booming external demand. In addition, China's investment in high-tech industries has maintained steady growth this year with the acceleration of new quality productive forces, contributing to economic stability and recovery. However, in the process of cultivating new economic drivers, traditional growth sectors have steadily declined since 2021. As the problem of insufficient domestic effective demand gradually crystallises and commodity prices deflate, the income and profit expectations of residents, enterprises and the government have declined, which has hindered consumption and investment.

It is clear that the domestic economy is at a critical stage of restructuring and transformation, with certain challenges arising due to cyclical and structural issues. In this year's Government Work Report, the government set an economic growth target of "around 5%," which is lower than the economic growth of 5.2% that was recorded in 2023, as well as the annual average economic growth of 6% prior to the pandemic. KPMG China's 2024 China CEO Outlook shows that 45% of the surveyed CEOs are confident in the growth prospects of the economy in the coming year, while 13% are less confident (Figure 1).

Figure 1 Chinese CEOs' confidence in the growth prospects of China's economy and the global economy over the next year, %



Source: KPMG 2024 China CEO Outlook

The global environment remains complex and fast-changing, with increasing risks and challenges. In the first half of 2024, the global economy began to stabilise and recover, stimulating trade activity and export performance in the Asia Pacific region. However, with the pace of normalisation of policy interest rates in developed economies slowing, geopolitical conflicts emerging frequently, trade protectionism intensifying, and uncertainty around economic policies arising in the election year, global economic growth is expected to suffer further setbacks.

According to the World Economic Outlook report updated by the International Monetary Fund (IMF) in October 2024, the forecast for global economic growth in 2024 is 3.2%, a 0.1% decrease compared to 2023. In 2024, developed economies are expected to grow by 1.8%, while emerging markets and developing economies is forecast to grow by 4.2%, both below the historical average growth rate in the decade before the pandemic, i.e. from 2010 to 2019 (Figure 2). In this year’s survey, Chinese CEOs say they have weak expectations for the global economy. 32% of the respondents are confident about the global economy over the next year, lower than those who have confidence in China's economic growth. On the other hand, 20% of the surveyed CEOs are less confident about the growth prospects of the global economy over the next year. Against this backdrop, most respondents’ top concern is to survive current hardships instead of developing and expanding.

Figure 2 The IMF's forecast of global economic growth, %

Region	2023	2024E	2025E
World	3.3	3.2	3.2
Advanced Economies	1.7	1.8	1.8
United States	2.9	2.8	2.2
Euro Area	0.4	0.8	1.2
United Kingdom	0.3	1.1	1.5
Japan	1.7	0.3	1.1
Emerging Market and Developing Economies	4.4	4.2	4.2
China	5.2	4.8	4.5
India	8.2	7	6.5
Russia	3.6	3.6	1.3
Mexico	3.2	1.5	1.3
Saudi Arabia	-0.8	1.5	4.6

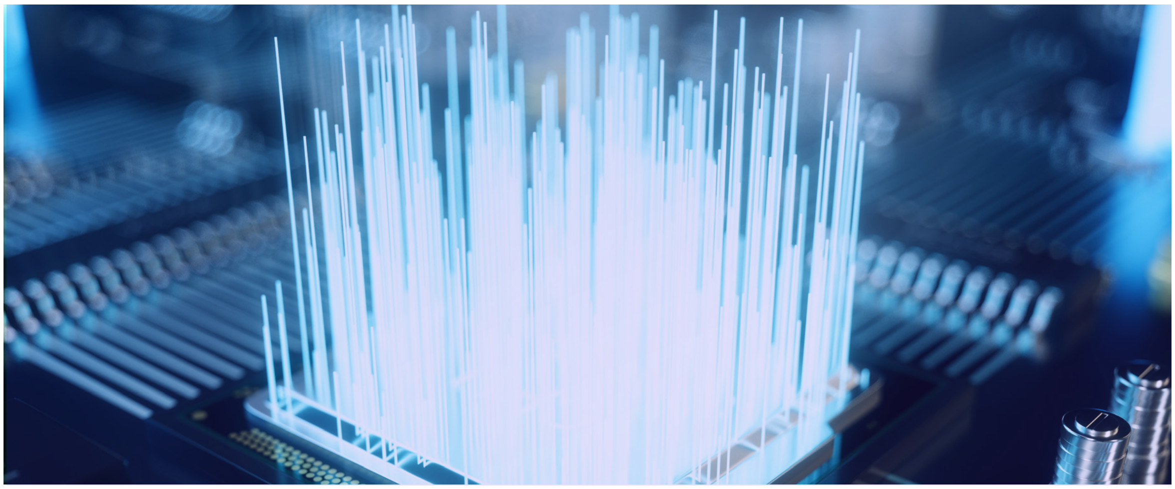
Source: World Economic Outlook, IMF, October 2024, KPMG Analysis

Despite the current slowdown in macroeconomic growth and other challenges, many industries have been ushering in unprecedented development opportunities, and business leaders in certain industries remain optimistic about future revenue growth.

Our survey shows that CEOs who are confident about revenue prospects in 2024 are mostly from the industrial manufacturing and technology sectors. Particularly, more than 90% of industrial manufacturing CEOs expect to maintain positive revenue growth this year. The revenue of the industrial manufacturing sector has remained stable in 2024, partly due to the country's strong export performance this year. China's export growth rate in the first three quarters of this year rose to 4.3%, compared to -4.7% for 2023 as a whole. Industries with high export dependence, such as the computer, communication and other electronic equipment manufacturing industry and the shipping industry, are experiencing a boom in production. The other contributing factor is that the government has accelerated the roll-out of equipment renewal policies at a large scale since the beginning of this year. From January to September 2024, investment growth in the equipment manufacturing sector rose to 16.4%, and demand in upstream manufacturing industries such as non-ferrous metal smelting has also rebounded.

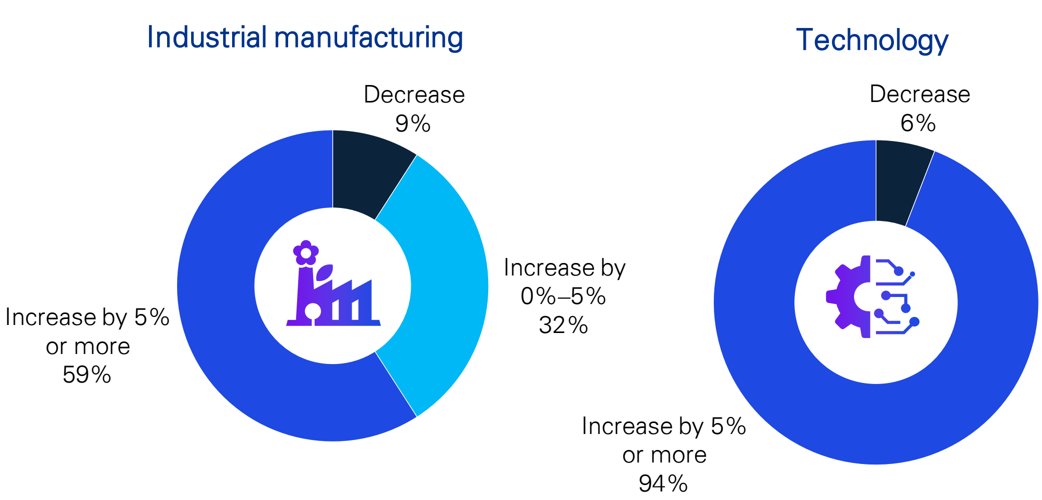
CEOs in the technology sector also express confidence in revenue growth for this year. In this year's survey, 94% of CEOs are confident that they will see operating revenue growth of over 5% over the next year (Figure 3). For the purposes of this survey, the technology sector mainly covers consumer electronics, electronic equipment (semiconductors), software, AI, and other subsectors.

The revival of the technology sector's revenue prospects is in part driven by the recovery of the global semiconductor industry. The industrial cycle for the semiconductor sector is generally three to five years, in line with the operating model of the inventory cycle. In the fourth quarter of 2023, global semiconductor sales bottomed out compared with the same period in the prior year, and revenue has since been steadily climbing.



In addition, domestic policies have also provided tremendous support for the technology sector. In September 2023, President Xi Jinping visited Heilongjiang and first proposed the concept of "new quality productive forces." New quality productive forces mainly include strategic emerging industries such as information technology, AI, and quantum computing. At the beginning of 2024, the Government Work Report further clarified the task of "vigorously promoting the construction of a modern industrial system and accelerating the development of new quality productive forces," and ranked this task first on the list of the top 10 annual tasks. Since the beginning of 2024, both monetary and fiscal policies have been strengthened to promote the development of new quality productive forces. Financial policy support for new quality productive forces mainly involves five areas: strengthening top-level design, loans supporting the technology sector, broadening financing channels, promoting cross-border financing, and construction of technological and innovative financial reform pilot zones. Fiscal policy support focuses on financial support, fiscally subsidised interest rates, and tax and fee reductions, among other areas. Under these favourable policies, cumulative investment in high-tech manufacturing in the first three quarters of 2024 increased by 9.4% year-on-year, and the purchasing managers' index (PMI) of high-tech manufacturing continued to rise throughout the year, remaining above the average level of all manufacturing subsectors. As of September 2024, the production index and new order index for the computer, communication and electronic equipment industry and other sectors are on the rise, with product demand quickly climbing, pushing up the revenue expectations of related enterprises.

Figure 3 Chinese CEOs' outlook for revenue growth over the next year by sector, %

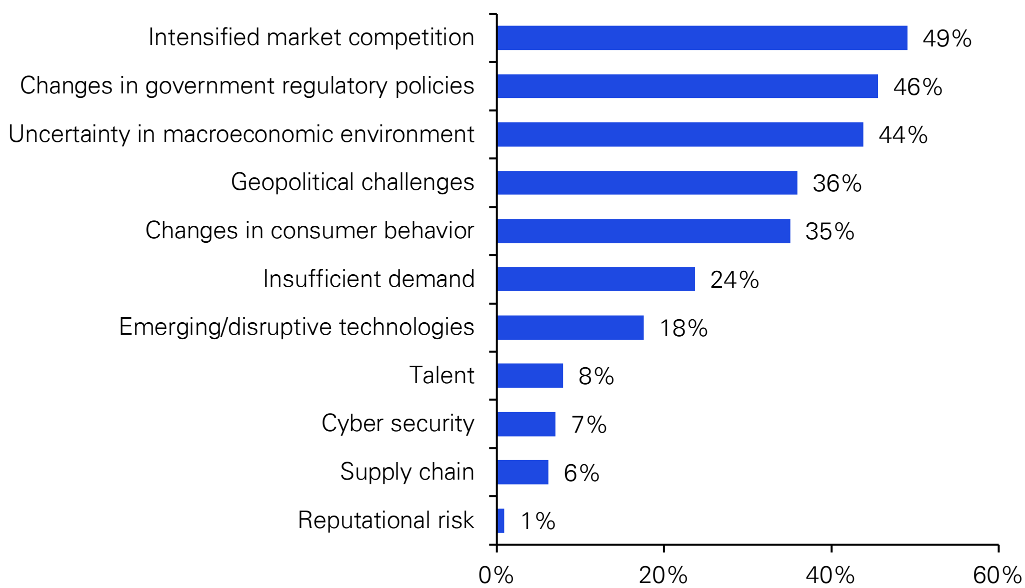


Source: KPMG 2024 China CEO Outlook

Intensifying domestic competition hinders business development

Due to the lack of effective domestic demand, certain industries in China have been facing the problem of overcapacity since the beginning of 2024. In the first half of the year, the utilisation rate of nation-wide industrial capacity fell to 74.3%, the lowest since the pandemic. In order to consume the existing capacity, certain industries adopted a low-price strategy to boost sales volumes, which led to a "rat race" competition. In our survey, 49% of the surveyed CEOs say that intensified market competition has a significant impact on their enterprises' short-term development (Figure 4). For example, as a result of the imbalance in supply and demand in the photovoltaic industry, pricing along the main photovoltaic industry chain continued to fall in the first half of 2024. Certain products were even priced well below their production costs, reflecting that the industry had been dominated by ruthless competition. To address this issue, the China Photovoltaic Industry Association recently called on enterprises to strengthen industrial self-discipline, engage in market competition in accordance with laws and regulations, and not to sell products or place bids at prices that are well below costs, with a view to promoting the healthy development of the industry.

Figure 4 External factors that will have the greatest impact on enterprises' growth over the next year, %



Source: KPMG 2024 China CEO Outlook

In addition, our survey also shows that 45.6% of surveyed CEOs think that changes in regulatory policies also pose challenges to their enterprises' short-term development. If we divide macro policies into two categories—sustaining growth and risk prevention—then, since 2021, China's macro policies have been focused on risk prevention. During this period, the government has steadily advanced risk prevention and mitigation efforts in three key areas—real estate, local government debts, and risks of small and medium-sized financial institutions—with the aim of preventing the emergence of systemic risk events and ensuring economic and financial stability. Against this backdrop of risk prevention and mitigation, credit and investment expansion by local governments and the real estate industry has slowed down. In addition, since 2021, the Chinese government has successively increased the supervision and regulation of the education and training industry, Internet platforms, the financial industry, and energy-intensive industries, among others. In 2024, the China Securities Regulatory Commission (CSRC) has continued to promote the implementation of the new " National Nine Articles" and the "1+N" policy for the capital market to strengthen the supervision of the domestic capital market. The introduction of these regulatory policies is conducive to resolving hidden risks and relieving societal pressure, while also promoting the healthy development of related industries. However, the decision-making of enterprises has been affected to some degree due to uncertainties in the timing and strength of enforcement of these regulatory policies during the implementation process.

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Reducing costs and raising efficiency are regarded as short-term operational priorities

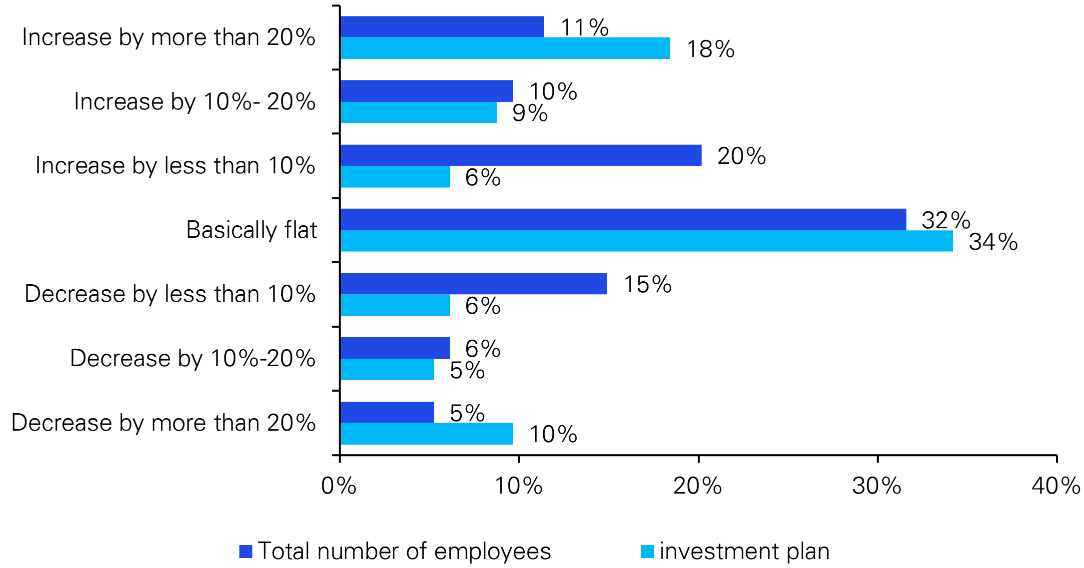
In the face of the slowdown in macroeconomic growth and intensified market competition, business leaders' operational priorities have shifted to cost control, R&D and innovation, and product and service optimisation, with a view on gaining more market share.

Specifically, in the short term, enterprises aim to manage and control operating costs by reducing production costs and new investments and improving production efficiency. Our survey shows that 51.8% of CEOs are most concerned about controlling production costs over the next year, including raw material and labour costs (Figure 5). Since May 2024, the purchase price index of main raw materials for manufacturing enterprises has continued to decline. In July, the index dropped below the 50-point mark, reflecting efforts by certain enterprises to squeeze costs. In addition, according to the China Business Conditions Index (BCI) published by the Cheung Kong Graduate School of Business, the index for prospective labour costs has continued to fall since 2022, reaching 58.6 in September 2024, about one-third lower than the peak of 86.7 in August 2021. According to our survey, 26% of the surveyed CEOs say they have plans to reduce headcounts this year (Figure 6).

Figure 5 Top operational priorities of Chinese CEOs over the next year, %

Source: KPMG 2024 China CEO Outlook

Figure 6 Corporate investment plan and total headcount over the next year, %



Source: KPMG 2024 China CEO Outlook

In addition to reducing existing costs, business leaders also have plans to reduce the scale of their new investments, with 21% of the surveyed CEOs intending to do so within a year. For example, due to the current decline in housing demand in China, the liquidity of real estate enterprises is relatively tight, affecting their investment activities. Since April 2022, China's real estate investments have been declining for 30 consecutive months. As the real estate industry chain spans multiple sectors, the slowdown in real estate investment has also affected investment in machinery, household appliances, and other related industries.

It is worth noting that, despite feeling more pressure in respect of the survival of their enterprises, the surveyed CEOs still maintain a positive attitude towards R&D and innovation. 49% of them consider the development of new quality productive forces through R&D and innovation to be their top operational priority for achieving their growth objectives. According to data from the Organization for Economic Co-operation and Development (OECD), from 2012 to 2021, the basic research funds of Chinese enterprises grew from USD 200 million annually to USD 3.98 billion, an increase of nearly 20 times in just 10 years. However, the basic research funds of Chinese enterprises as a percentage of their overall research expenditure are still insufficient. In 2021, the basic research funds of Chinese enterprises as a share of their total R&D expenditure was only 0.8%; meanwhile, the basic research funds of American enterprises amounted to USD 41.71 billion, accounting for 6.7% of their total R&D expenditure; and in Japan, the basic research expenditure of enterprises reached USD 10.48 billion, accounting for 7.5% of their total R&D expenditure.

Compared with other major innovative powers in the world, there is still much room for improvement in the basic research investment of Chinese enterprises. The 20th National Congress of the Communist Party of China clearly pointed out that the country should "strengthen basic research, encourage originality and uphold freedom in exploration," while also "strengthening the dominant position of enterprises in technological innovation, and enabling 'technological backbone' enterprises to lead and support technological innovation." In recent years, the government has also increased policy support for business enterprises' R&D investment. For example, in September 2022, the Ministry of Finance provided tax incentives for business enterprises' investments in basic research. Amid intensified external competition and policy support, enterprises are increasingly eager to engage in R&D and innovation activities, which should further accelerate the development of new quality productive forces.

Finally, in order to effectively respond to intensifying domestic competition, 45.6% of business leaders are choosing to optimise products and services and improve output quality, with the aim of gaining market share. Currently, enterprises are optimising products and services mainly through three approaches. First, products and services are being actively transformed through customised production and service-oriented processes. Customised production emphasises engaging in production based on the specific needs of the market to achieve a high degree of personalisation and differentiation of products; service-oriented transformation means that the provision of product-related value-added services such as lifecycle management and after-sales services has become increasingly important. Second, enterprises are actively using emerging technologies such as AI and cloud computing to empower products and improve their technical capabilities. In recent years, the upgrading and iteration of AI technology has accelerated, and the continuous development of this technology has expanded the scope of intelligent manufacturing, with people leveraging AI technology to excavate market needs for more products. Third, green and low-carbon transformation has become a key task for the development of intelligent manufacturing. At the policy level, China has proposed the task of "striving to increase the production value of green factories so that they account for more than 40% of the total production value of the manufacturing industry by 2030." To reach this goal, manufacturers will need to actively embed green concepts and green technologies into their products to promote green and low-carbon sustainable development.

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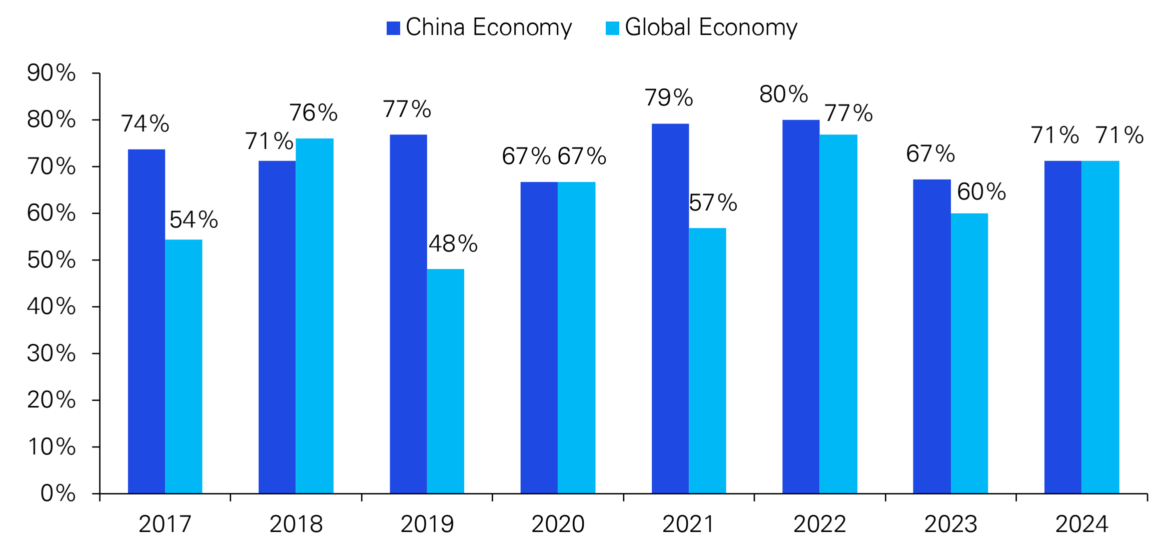
Prospects for medium-term economic growth rebound with the emergence of new growth momentum

While the economy faces certain risks and challenges in the short term, as the impact of the contraction of growth momentum from traditional sectors fades, prospects for medium and long-term economic growth are trending upwards. Our survey shows that 71% of surveyed CEOs are confident about China's economic growth over the next three years, higher than the confidence seen in 2023. In late September 2024, in order to address new economic challenges, China further strengthened its macro policies. With the dissolution of existing local government debts and the interest rate cut for existing housing loans, consumption and government investment should again become major sources of demand going forward, which may support for medium and long-term economic growth alongside the continuous development of new quality productive forces.

In addition, as the world gradually enters an interest rate cut cycle, the constraints of monetary policies on the economy will ease, and global economic growth in the medium and long term should stabilise and recover from its current low point. According to the IMF's forecast, global economic growth in 2025 will be the same as in 2024: 3.2%. In 2024, the surveyed CEOs' confidence in the global economy's medium and long-term growth prospects markedly improved, with 71% expressing confidence compared to 60% in 2023 (Figure 7).

Figure 7 Chinese CEOs' confidence in economic growth over the next three years, %



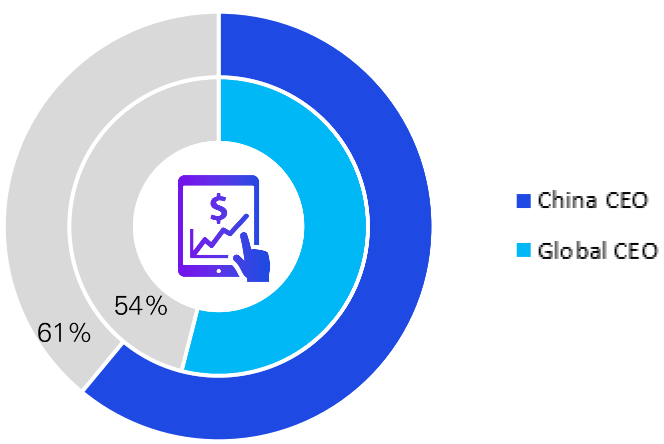
Source: KPMG 2024 Global CEO Outlook

> **61%** of surveyed CEOs expect their earnings to grow at 2.5% or more over the next three years, higher than the global average.

Chinese CEOs' optimism about medium and long-term economic growth is also reflected in their earnings outlook. 61% of surveyed CEOs expect their earnings to grow at 2.5% or more over the next three years, higher than the global average (Figure 8).

From a historical perspective, this year's outlook for earnings over the next three years is a significant improvement compared to 2023, and just below the historical highs seen in 2017 and 2022 (Figure 9). The improvement in the earnings outlook is in part due to the gradual clearance of excess production capacity. From 2015 to 2017, China cut production capacity for energy-intensive industries, and these efforts were accompanied by a restoration in earnings capacity. For example, although the number of coal mines in China decreased by 1,072 in 2017, the profits of coal companies above the designated size increased by 290.5% year-on-year. Currently, certain industries in China are in the process of clearing production capacity. As this excess capacity is gradually cleared, the medium and long-term earnings outlook will improve. The other contributor to the improvement in the earnings outlook is policy support. For example, in the middle of 2022, the government issued the Package of Policies and Measures for Effectively Stabilising the Economy, which proposed 33 specific measures across six areas, including fiscal, monetary, consumption and investment, to drive the recovery of enterprises' confidence. At the beginning of 2024, the two sessions of the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC) approved the issuance of RMB 1 trillion in ultra-long special treasury bonds, and these funds will be used to support investment in the "implementation of major national strategies" and "security capacity-building in key areas," while supporting consumption and investment in equipment upgrading. With the continued strengthening of demand-side policies, the earnings outlook of enterprises has been largely restored.

Figure 8 CEOs who are confident about achieving earnings growth of 2.5% or above over the next three years, %



Source: KPMG 2024 Global CEO Outlook

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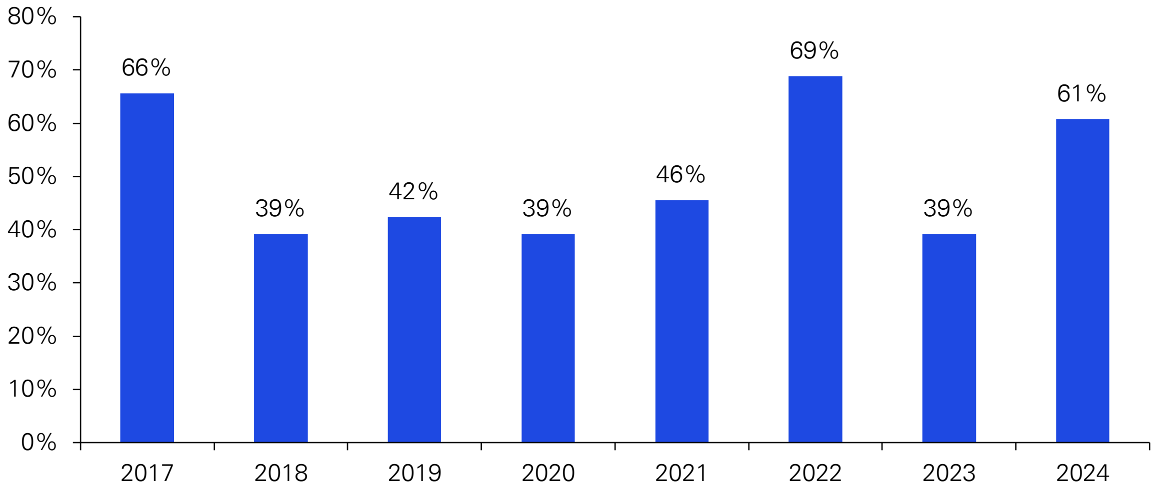
Figure 9 Chinese CEOs who are confident about achieving earnings growth of 2.5% or above over the next three years, 2017-2024, %

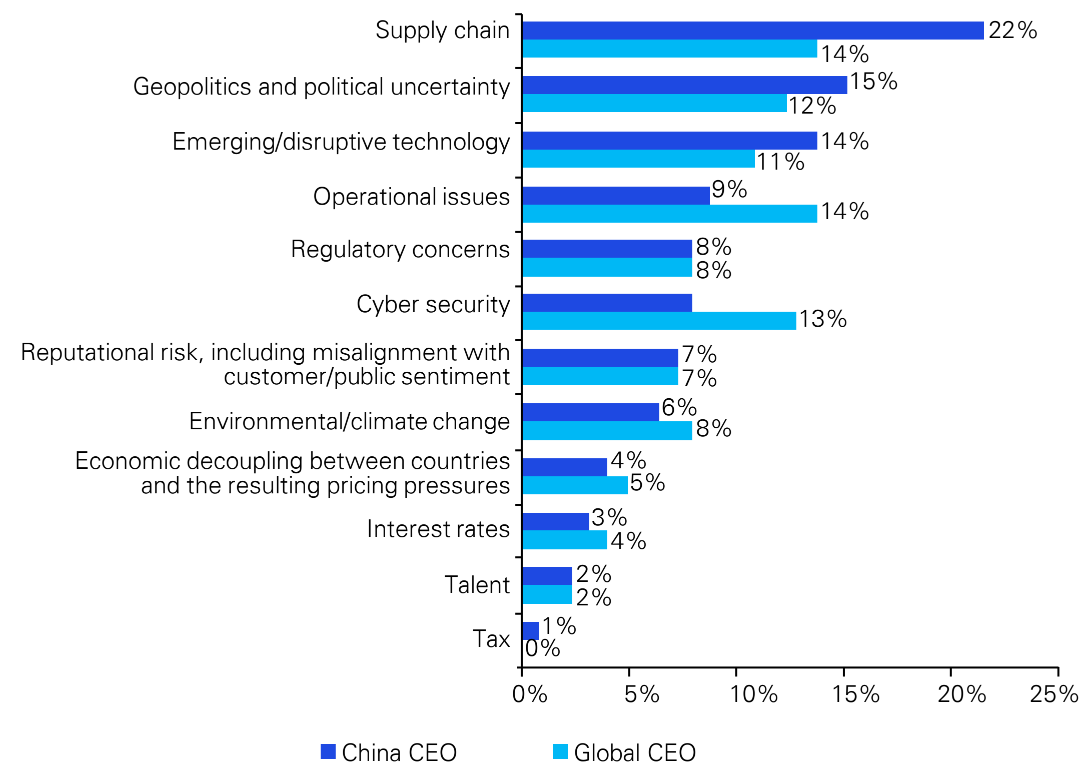


Source: KPMG 2024 China CEO Outlook
Note: 2017-2020 shows the proportion of CEOs who were confident about achieving earnings growth of 2% or above.

Supply chain disruptions, geopolitical uncertainty and technological changes will become the main challenges in the medium term

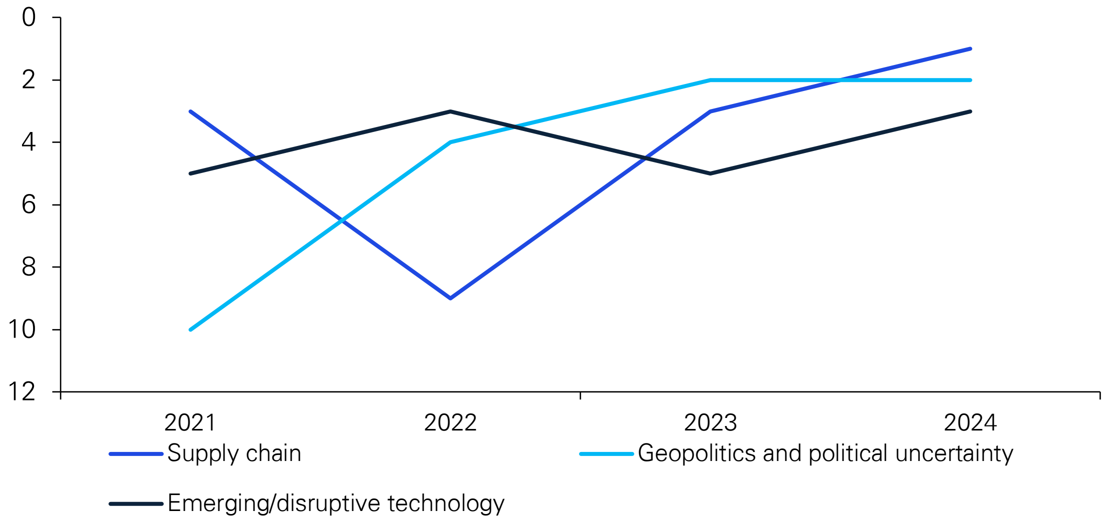
In the short term, challenges faced by enterprises mainly include intense domestic competition and changes in regulatory policies, while in the medium and longer term, challenges are more related to the external environment. The surveyed Chinese CEOs say that supply chain issues (22%), geopolitical risks (15%) and emerging/disruptive technology (14%) are the top threats to their enterprises' growth over the next three years, significantly higher than the global average (Figure 10). In particular, the proportion of Chinese CEOs concerned about the supply chain has reached the highest level since the COVID-19 outbreak in 2020 (Figure 11).

Figure 10 Threats to enterprises' growth over the next three years, %



Source: KPMG 2024 Global CEO Outlook

Figure 11 Chinese CEOs' ranking of threats to organisations' growth over the next three years, 2021-2024



Source: KPMG 2024 Global CEO Outlook

From a supply chain perspective, enterprises are mainly concerned about three areas. First, global industry chains are being reshaped, and domestic production and manufacturing facilities are relocating overseas. Since 2018, as part of the tide of rising trade protectionism, the United States (US) has been trying to shorten the geographic distance among the links in its industry chains through "nearshoring," "friendshoring", and other means. Globalised industry chains have shifted nearby, with some of China's import share gradually being transited through Mexico and Vietnam. Other countries have followed suit and relocated parts of their industry chains to Southeast Asia and other emerging markets to mitigate pressure from geopolitical tensions, among other considerations. Since the second quarter of 2024, the US, Canada, the European Union (EU), Mexico, and other economies have successively imposed additional tariffs on some of China's industrial products, which has weakened China's price advantages and may accelerate the relocation of production chains. These relocations will significantly reduce the demand for products manufactured by relevant domestic foreign trade enterprises if they fail to open up overseas markets in a relatively short period of time.

Second, imports of core technologies and key equipment have been restricted. To fend off risks in key areas, from October 2018, the US began to adopt a "small yard, high fence" strategy against China, attempting to comprehensively block the country's import of cutting-edge technologies, especially integrated circuits, so as to suppress the development of China's high-tech industries. According to the Critical and Emerging Technologies List Update released by the National Science and Technology Council in February 2024, the scope of the "small yard" covers 19 major technologies, including advanced computing and engineering materials, among others. Technical bottlenecks that exist in the above fields may restrict the next phase of the construction and development of China's new quality productive forces.

Third, since 2022, with the outbreak of conflicts in Europe and the Middle East, global geopolitical risks have risen sharply, leading to violent fluctuations in commodity prices and potential supply interruptions of key strategic resources such as energy, grain, and key minerals, which threatens the production and operations of enterprises.

Geopolitical tensions not only disrupt supply chains, but also exert an adverse impact on national foreign exchange reserves, the overseas assets of enterprises and the security of the global cross-border settlement system. For example, sanctions have been routinely used by many countries as a non-military weapon since 2022. As of 1 May 2024, the US State Department and Treasury Department had imposed sanctions on more than 280 entities and individuals. Specifically, 22 entities and individuals in the Chinese Mainland and Hong Kong SAR have been added to the Specially Designated Nationals and Blocked Persons list (SDN List), with any assets they hold under US jurisdiction frozen, which may hamper the further development of these organisations.

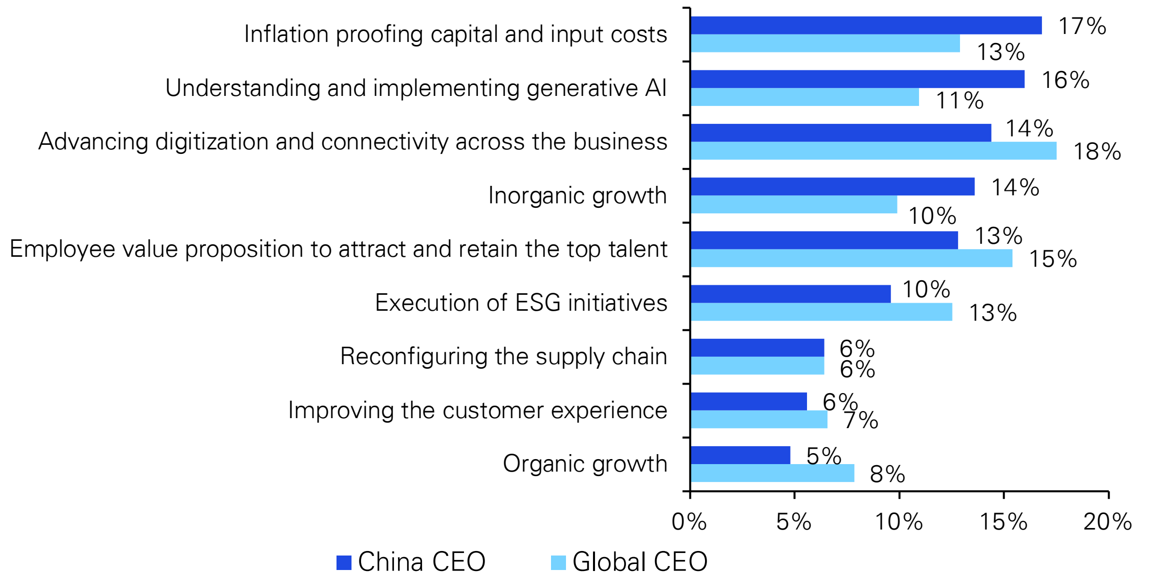
As for emerging technologies, in addition to worries about technological blockades imposed by developed economies on certain domestic industries, rapidly evolving technologies such as AI are also bringing challenges to enterprises. In recent years, the commercialisation of AI has been significantly accelerated amid the evolution of AI technologies and the expansion of application scenarios. At present, generative AI is being used to expand market demand and improve production efficiency. It is clear that AI is an increasingly important tool for enterprises that aim to reduce costs and boost efficiency. As the technology matures and its application scenarios expand, enterprises that fail to apply AI in their manufacturing and operating activities will find it hard to maintain market competitiveness and achieve stable development.

Medium-term business strategies focus on global deployment, technological innovation, and mergers and acquisitions

Due to rising supply chain risks, enterprises are prioritising cost management and competitive pricing when devising their medium and long-term business strategies. 17% of Chinese CEOs surveyed say that controlling manufacturing costs will be their top operational priority over the next three years, which is higher than the global average of 13% (Figure 12). Going forward, China's population is expected to continue ageing, and labour and land costs will rise. As a result, expanding overseas is becoming an attractive option for enterprises that aim to control costs.

To address challenges around technological reform, 16% of CEOs say they will attach great importance to the application of generative AI over the next three years. In 2023, 15% of Chinese enterprises adopted generative AI. However, according to McKinsey's Global AI Survey report, only 9% of them have achieved more than 10% revenue growth through AI enablement, much lower than the figure of 19% reported in leading countries. In other words, there is still ample space for Chinese enterprises to use AI to increase revenue and drive profits. Going forward, CEOs will actively use generative AI to improve their enterprises' profitability and market competitiveness. Digitalisation is also being prioritised as the bedrock of AI development. Through digital transformation, enterprises can improve data connectivity, optimise processes, and raise decision-making efficiency, thus laying a solid foundation for AI applications. 14% of CEOs say that a higher level of digitalisation is their top operational priority to achieve their revenue objectives.

Figure 12 Top five operational priorities to achieve growth objectives over the next three years, %

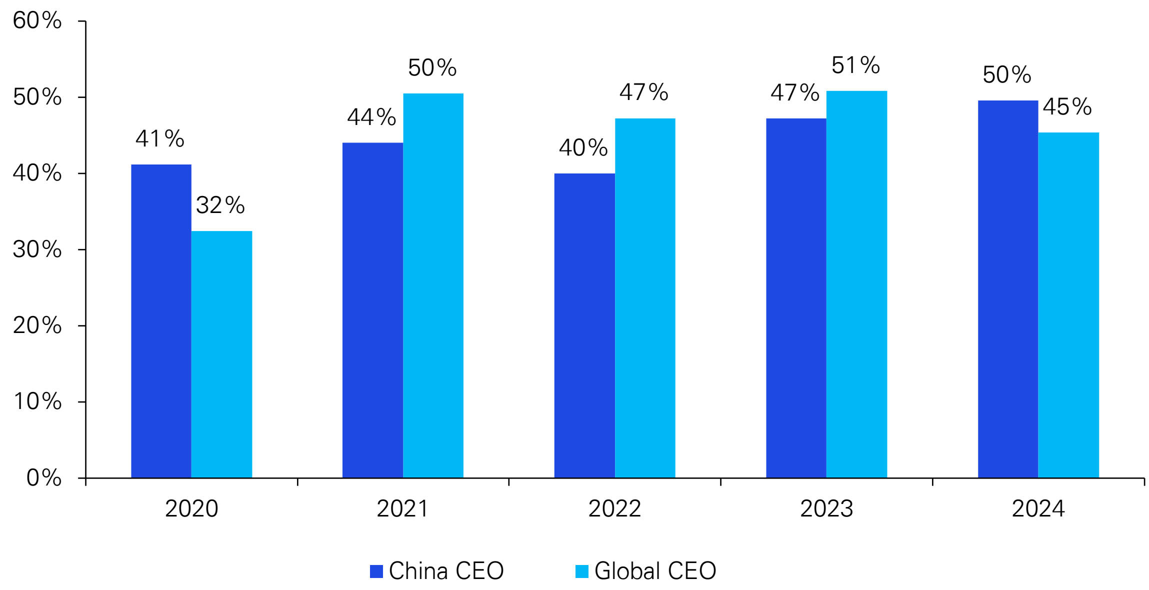


Source: KPMG 2024 Global CEO Outlook

It is worth noting that 14% of Chinese CEOs surveyed regard inorganic growth strategies as their operational priority, which is higher than the average among global CEOs. In addition, over the next three years, 50% of Chinese CEOs may seek to merge with or acquire businesses that will have a significant impact on their company's operations, higher than that of global CEOs, and the highest among Chinese CEOs since 2020 (Figure 13). The main factor driving this rise is that, in recent years, China's state-owned enterprises have taken further measures to strengthen their market value management, and they are focussing more on merger and restructuring opportunities.

Earlier in 2024, the State-owned Assets Supervision and Administration Commission (SASAC) announced that it would further explore the incorporation of market value management into the performance assessment for leaders of central enterprises. Afterwards, the CSRC announced that it would promote the implementation of this practice. Mergers and acquisitions and restructuring are essential tools for listed companies to optimise resource deployment, refine business structures and manage market value in a sound manner. As of mid-September, 147 companies (de-duplicated) had disclosed the latest progress of their major restructuring projects, exceeding the totals in 2022 and 2023, and state-owned enterprises (including local state-owned enterprises and central enterprises) accounted for the largest share of the total at 44%. On 24 September, the CSRC stated that it would solicit public opinions on the newly drafted Regulatory Guidelines for Listed Companies No. 10 - Market Value Management (Exposure Draft) (the "Guidelines"). The Guidelines clearly state that listed companies should, with a focus on their main business, improve their operational efficiency and profitability, and promote their investment value using compliant mergers and acquisitions and equity incentives that reflect their actual circumstances. In light of this policy support, more state-owned enterprises may make mergers and acquisitions a strategic priority for future growth.

Figure 13 Percentage of Chinese CEOs seeking for mergers and acquisitions projects that have a significant impact on their organisations over the next three years, %



Source: KPMG 2024 Global CEO Outlook

Expanding overseas is an imperative

According to our survey, going overseas has become an imperative for Chinese enterprises seeking further development, whether for the short-term purpose of alleviating competitive pressure by accessing new markets, or to guard against exposure to supply chain disruptions and geopolitical tensions in the medium and long-term.

Over the past two decades, Chinese enterprises have expanded overseas in two waves. The first one was sparked by the acceleration of global trade and globalisation after 2008, when Chinese enterprises began opening up to overseas markets. The global share of Chinese enterprises' outward FDI stock rose from 1.2% to 5.5% in 2017, with household appliances and other dominant industries taking the lead. As certain domestic industries matured and labour costs rose, and amid pressure from rising protectionism, Chinese enterprises started the second round of expansion overseas in 2018, which mainly involved the establishment of manufacturing facilities abroad. From 2017 to 2023, the global share of Chinese enterprises' outward FDI stock rose from 5.5% to 6.6%. According to our survey, 35% of Chinese CEOs say their enterprises have already expanded overseas and are currently engaging in localisation efforts, and 29% are planning to go global and are currently assessing markets and risks. Meanwhile, 21% of Chinese CEOs have not made plans to go global but are still paying attention to overseas markets (Figure 14).

67% of surveyed Chinese CEOs regard strategic resource deployment as a significant factor driving enterprises to go global (Figure 15). By relocating certain manufacturing facilities abroad, such as in Southeast Asia and Latin America, enterprises can hedge supply chain risks from the rise in global trade protectionism. 41% of Chinese CEOs say that overseas branding is one of the main factors driving enterprises to go global, mainly in relation to the rising global demand for new energy and online consumer products following the pandemic, which relevant domestic enterprises have seized as an opportunity to engage in overseas branding. For example, as consumer shopping habits shifted after the pandemic, certain domestic cross-border e-commerce platforms seized the opportunity to rapidly expand internationally, gaining large market shares in Europe and the US. In addition, 33% of the CEOs identify the sluggish domestic market as a significant factor driving their expansion overseas. In 2024, some industries have experienced excess capacity due to inadequate effective demand. As a countermeasure, they have had to actively explore overseas markets. According to the semi-annual reports of listed enterprises in 2024, the proportion of their overseas revenue has reached 11%, 1.4 percentage points higher than that for the same period in 2023.

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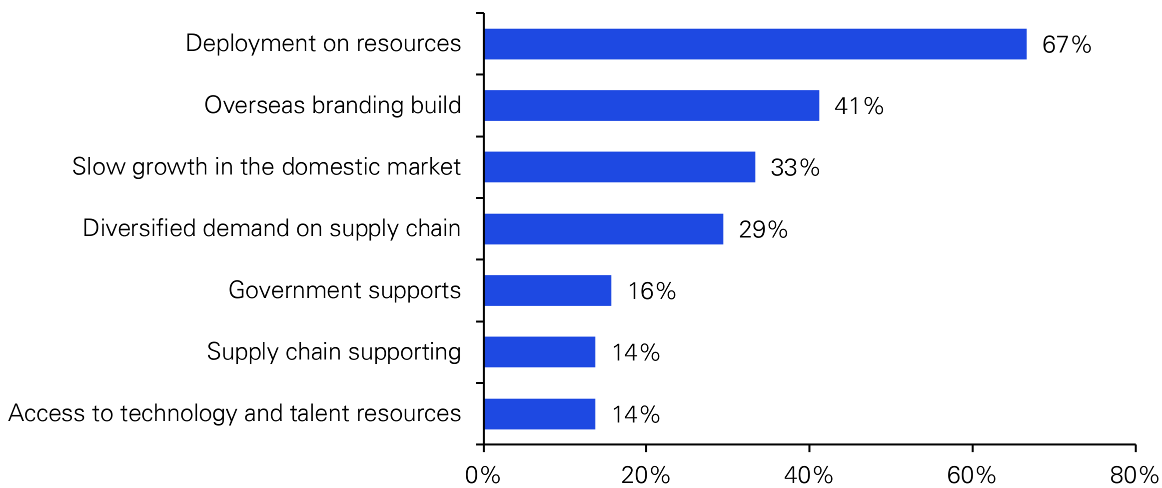
Figure 14 Chinese enterprises' choices for going overseas, %

Source: KPMG 2024 China CEO Outlook

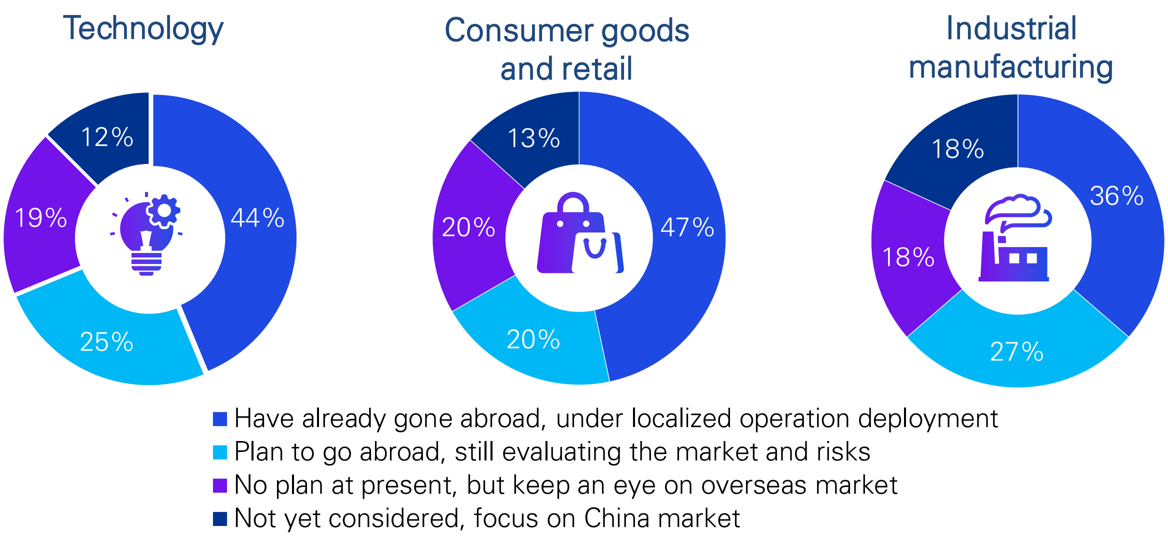
Figure 15 Factors driving Chinese enterprises to go global, %



Source: KPMG 2024 China CEO Outlook

Since 2018, China's outward FDI growth has mainly been driven by two industries—the manufacturing industry and the wholesale and retail industry—with their proportion of FDI stock in 2023 reaching 9.6% and 4.3%, respectively, which was 1.4 and 1.3 percentage points higher than in 2018. According to the survey, 69% of the Chinese CEOs of technology enterprises who were interviewed have expanded overseas or have plans to do so, while 67% of CEOs in the consumer goods and retail sector and 64% of CEOs in industrial manufacturing do. (Figure 16).

Figure 16 Current overseas expansion status of major industries, %



Source: KPMG 2024 China CEO Outlook

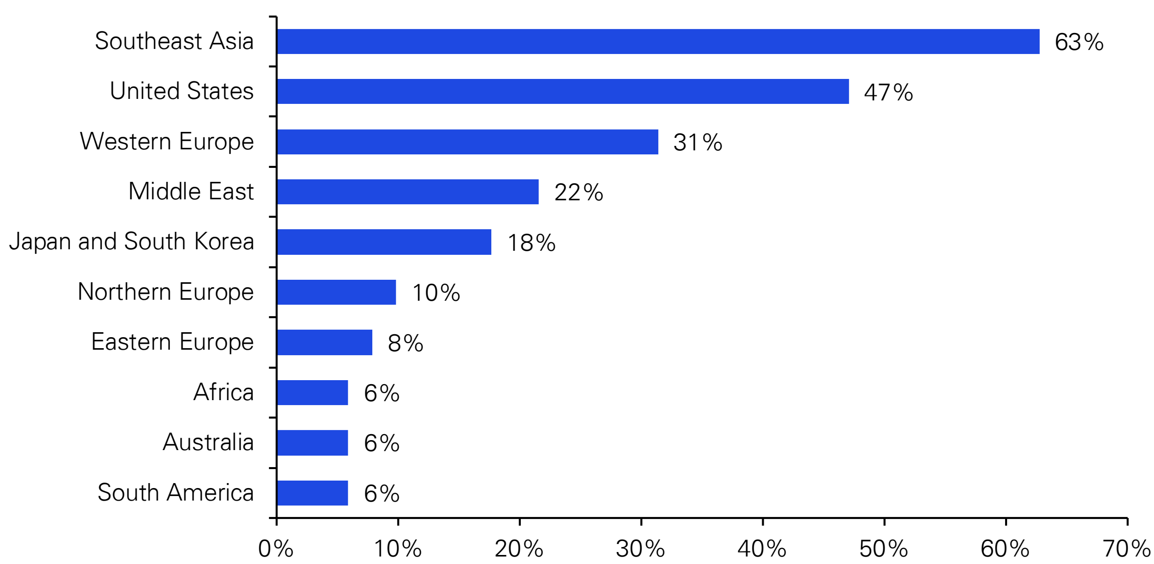
Cross-border e-commerce is developing rapidly and driving increasing investment in the wholesale and retail sector. As overseas shopping habits shifted after the pandemic, certain experienced domestic e-commerce platforms began to expand into overseas markets, and some emerging cross-border e-commerce platforms also developed rapidly. Over the past five years, the scale of China's cross-border e-commerce trade has grown more than tenfold. According to local preliminary statistics, there are more than 120,000 domestic cross-border e-commerce entities, over 1,000 cross-border e-commerce industrial parks, and over 2,500 overseas warehouses that cover a total area of more than 30 million square metres. In the first half of 2024, China's cross-border e-commerce trade stood at RMB 1.22 trillion, up 10.5% year-on-year, and 4.4 percentage points higher than the growth of China's overall foreign trade in the same period. According to the semi-annual reports of listed enterprises for 2024, overseas revenue from cross-border e-commerce platforms as a share of the total overseas revenue of the Internet and wholesale and retail industries increased by 9 percentage points to 34.5% compared with the same period in 2023.

The proportion of outward FDI in China's manufacturing industry has continued to climb for four consecutive years. In 2023, outward FDI in China's manufacturing industry reached USD 27.34 billion, accounting for 15.4% of China's total outward FDI, reflecting an increase of 3.2 percentage points over 2018. According to the financials of listed companies in recent years, within the overseas revenue of the manufacturing sector, the share accounted for by the information technology segment (which includes consumer electronics and semiconductors) and the consumer discretionary segment (which includes automobiles) rose significantly from 2018 to 2023.

This growth in the manufacturing industry's outward FDI has been driven by multiple factors. First, from 2008, the pace of the global green transformation accelerated, driving the rapid expansion of demand for clean energy products; and China's early planning in the photovoltaic, lithium battery and new energy vehicle fields had already laid the groundwork for domestic enterprises to expand capacity overseas. Since May 2024, the US, the EU, Canada, and other economies have successively imposed tariffs on China's exports of new energy vehicles, which is expected to hasten the overseas expansion of China's new energy vehicle industry chain. Second, due to the expansionary fiscal policies enacted in Europe and the US during the pandemic, the demand for household consumer durable goods in developed countries expanded rapidly. Meanwhile, since 2020, to mitigate risks from the tariffs imposed by the US on most of China's mechanical and electrical products, the country's semiconductor and consumer electronics industries, among others, began to accelerate their overseas expansions. According to semi-annual reports for 2024, the global semiconductor industry is experiencing a recovery this year. In the first half of 2024, the overseas revenue of the semiconductor and consumer electronics industries has maintained strong growth momentum; and overseas revenue as a share of the information technology industry's total revenue stood at about 30%, making the industry a current and future leader in overseas expansion.

According to our survey, 63% of the surveyed CEOs plan to explore new markets in Southeast Asia, which is more than the share of those looking to explore US markets (47%), markets in Western Europe (31%) and other traditional overseas markets. In addition, the surveyed CEOs also show a degree of interest in emerging markets such as the Middle East (22%) and Africa (6%) (Figure 17).

Figure 17 Major overseas markets considered by Chinese enterprises, %



Source: KPMG 2024 China CEO Outlook

From 2008 to 2018, the overseas markets that Chinese enterprises chose to pursue were mainly developed economies such as Europe and the US. According to FDI stock statistics, the US (3.8%), Singapore (2.5%) and Australia (1.9%) had the largest shares of China's outward FDI in 2018 (not including Hong Kong SAR). Back then, Chinese enterprises went overseas mainly to promote advantageous products to overseas markets. With higher per capita income and stronger purchasing power, developed economies were the main overseas markets for domestic products.

Since 2018, against the backdrop of rising global trade protectionism and increasing domestic labour costs, emerging markets have become attractive destinations for domestic investments due to their abundant and low-cost labour and well-developed light manufacturing capabilities. During the period from 2018 to 2023, the proportion of China's investments in the US, the EU, Canada, Australia, and other developed economies declined marginally, while the proportion of China's outward FDI stock in the Association of Southeast Asian Nations (ASEAN) region rose 0.7 percentage points, making ASEAN the most popular region for enterprises' overseas expansion during the period.

As for the methods of overseas expansion, the survey shows that more than half of the interviewed enterprises choose to cooperate with local overseas agents, while 29% of them completed the entire overseas expansion process on their own (Figure 18).

During the first wave of overseas expansion that began in 2008, Chinese enterprises mainly engaged in cross-border mergers and acquisitions to obtain the sales channels and supply chains of acquirees, and they would then use the acquirees' product strength and brand influence to gain market share overseas. For example, during that time, enterprises in the automobile and household appliance industries, among others, opened up market segments in Europe and the US by acquiring high-end foreign brands.

Since 2018, many countries enacted regulations to raise the threshold for cross-border mergers and acquisitions. For example, in early 2019, Germany introduced the toughest foreign investment review act in history, lowering the review "red line" for non-EU investors from 25% to 10% in infrastructure and core technology fields that are critical to national security. Meanwhile, Southeast Asia, Latin America, and Africa began to demonstrate advantages in labour, resources, and other production factors while China's domestic market exhibited slower demand, in sharp contrast to the high consumption potential of overseas markets. Since then, an increasing number of enterprises have chosen to go global through greenfield investments, with a view to reducing production costs and exploring overseas markets in the long term.

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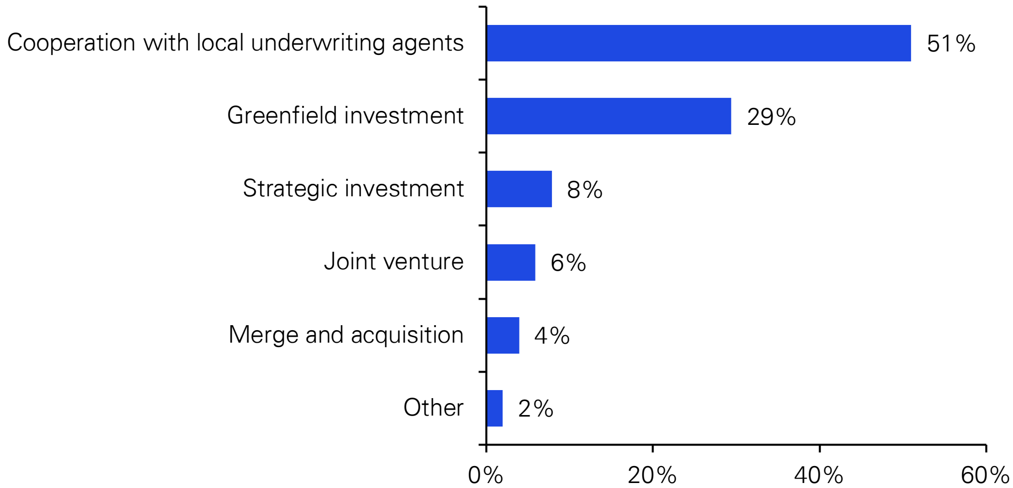
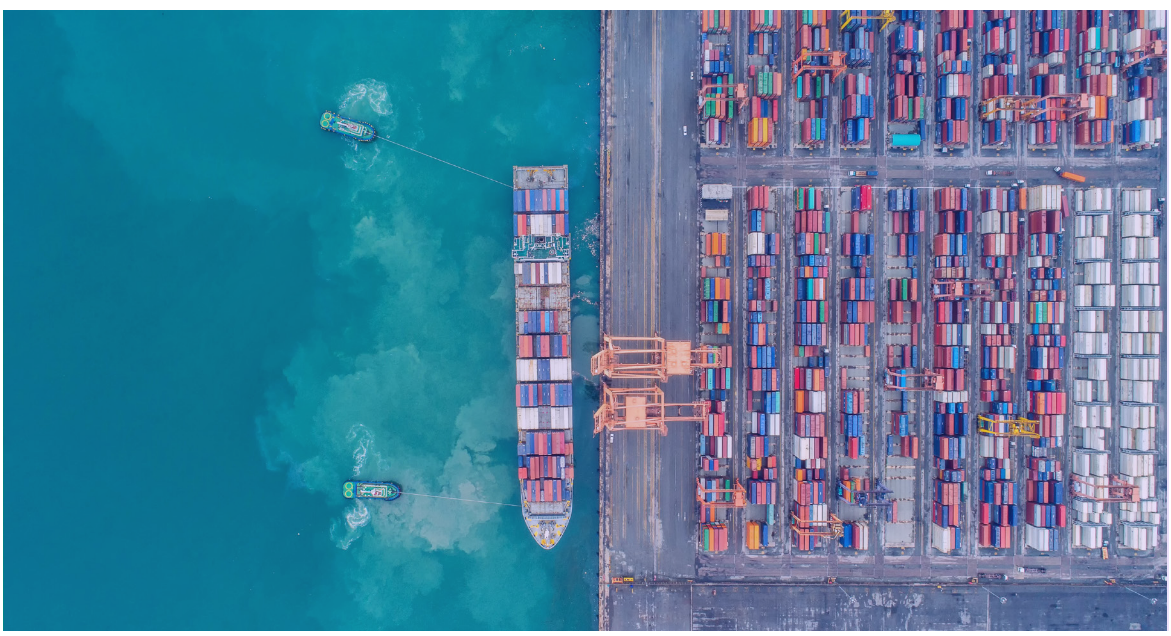
Recently, it has become clear that greenfield investments are the main approach being used by Chinese enterprises to go global. However, newly built greenfield sole proprietorship projects still face many risks and challenges, such as higher initial investment costs and uncertainties in adapting to the business environment of the host country. Therefore, Chinese enterprises are more inclined to invest in greenfield projects by establishing joint ventures with local partners, which enables them to use the marketing, sales, and network resources of local channel providers, dealers, and government-related platforms, while also lowering risks by reducing the capital and time consumed by direct investments. With this approach, they are able to effectively share resources, risks, and benefits in a win-win relationship.

Figure 18 Pathways adopted by Chinese enterprises for expanding overseas, %



Source: KPMG 2024 China CEO Outlook



When expanding into overseas markets, enterprises face many complex challenges in planning, operations, strategy, and compliance. To bridge cultural gaps and overcome transnational barriers, enterprises often achieve localisation by working with upstream and downstream partners in the industry chain to form an ecosystem. The survey results show that the current challenges faced by enterprises going overseas mainly arise in relation to identifying suitable local partners, establishing brand awareness, and managing overseas talent and building teams (Figure 19). Professional service organisations can often provide them with customised solutions for these issues.

For example, many CEOs say that professional service organisations can help them develop detailed due diligence and systematic market surveys to gain insight into partners' actual operations and the characteristics of target markets, enabling them to achieve localisation by combining production and distribution links and improving supply chain resilience. In addition, CEOs mention that multinational professional service organisations have extensive service experience in the field of talent management and international team building. By refining and cultivating talent echelons that are able to adapt to globalisation strategies, professional service providers can help enterprises carry out full-lifecycle talent management and risk compliance management while supporting their global marketing and business expansion initiatives. Going forward, transnational professional service organisations will play a vital role throughout the entire overseas expansion process of Chinese enterprises.

Figure 19 Challenges faced by Chinese enterprises when expanding overseas, %

Source: KPMG 2024 China CEO Outlook

Embracing AI has become a reality

Technological improvements in the new generation of AI have dramatically expanded the ways it can be applied in recent years. By empowering industries and creating new business models and scenarios, AI has profoundly changed production activities and people's lifestyles, injecting new momentum into economic and social development. Since 2017, the focus of China's AI policies has gradually shifted from the technology itself to its integration and the real economy, resulting in a boom in the AI industry. According to statistics from the Ministry of Industry and Information Technology (MIIT), at the end of 2023, the scale of China's core AI industry reached RMB 578.4 billion, 1.6 times higher than the RMB 221.3 billion figure recorded in 2018, demonstrating a clear trend towards clustering. The number of AI enterprises exceeds 4,500, accounting for about 1/7 of the global total, with the total scale of computational capability ranking second globally. In 2024, the annual Government Work Report proposed for the first time to carry out the "AI Plus" action plan. AI has become the main force driving a new scientific and technological revolution and the next round of industrial transformation. As a result, embracing AI has become a reality for enterprises.

Our survey shows that almost all Chinese CEOs (97%) believe that AI, especially generative AI, will have a transformative effect on industries and enterprises, and two-thirds of them believe that transformation will take place within three years (Figure 20). As a frontier area of AI application, the technology industry is likely to take the lead in embracing this transformation, and science and technology enterprises are focussing on the development and application of AI technologies in their strategic deployment. They are using AI technologies to improve the intelligence of their products and services, optimise user experience, and explore new business models and market opportunities. In addition, our survey shows that private enterprises and small and medium-sized enterprises have responded quickly to seize the opportunities brought by AI. Thanks to their short decision-making chain, flexible market positioning and higher sensitivity to new technologies, small and medium-sized private enterprises are often able to respond to market changes and emerging new technologies by quickly adjusting their strategies and rapidly iterating their products and services. Over the past two years, China's small and medium-sized private enterprises have been facing fierce market competition and cost control pressure. They are eager to gain competitive advantages and reduce costs through technological innovation and automated processes, and therefore, they are more willing to try and adopt emerging technologies such as AI.

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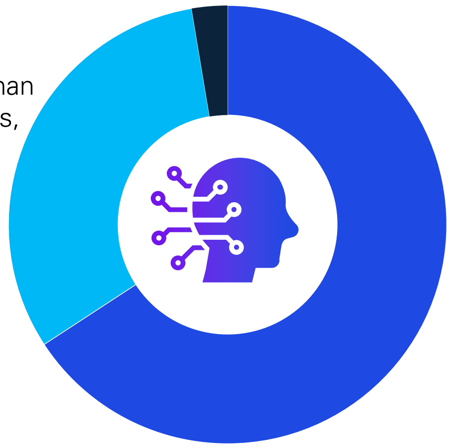
Figure 20 Chinese CEOs' expectations about when AI, especially generative AI, will drive significant changes in enterprises and industries, %



Source: KPMG 2024 China CEO Outlook

> despite softer economic conditions, **57%** of Chinese CEOs still regard generative AI as the top investment priority.

Although AI has a long development history, it is still a new field, and many enterprises are still learning and gaining an understanding of it. As AI efficiency improves and costs fall, we have seen an increasing number of enterprises shift from a wait-and-see approach to taking action, leading to a significant expansion in application. Our survey shows that more than 80% of Chinese CEOs have a clear understanding of how generative AI will disrupt enterprises' current business models and create new opportunities, which is higher than the global figure of 76% (Figure 21). In addition, despite softer economic conditions, more than half (57%) of Chinese CEOs still regard generative AI as the top investment priority.

According to statistics from the MIIT, in 2023, the proportion of Chinese enterprises adopting generative AI reached 15%, representing a market scale of about RMB 14.4 trillion. Recently, the development of the "AI plus service" model has accelerated, with industries like technology, finance, health care, and consumer retail pioneering the application of AI. For example, in the financial industry, AI is being used for credit assessments, fraud detection and market trend predictions to improve risk management; in the medical and health industry, AI is being used to perform auxiliary diagnoses and patient monitoring, among other processes; and e-commerce and content platforms are using AI to analyse user behaviour, provide automated customer services and personalised recommendations, and enhance user experience. While the "AI plus industry" model is still in the preliminary exploratory stage, some cutting-edge application scenarios and concepts have already been developed and put into practice. For example, the "Lighthouse Factory" initiative put forward by the World Economic Forum is promoting these explorations, showcasing how AI, big data, the Internet of Things, and automation technology can be used to significantly improve production efficiency and promote innovative operating models.

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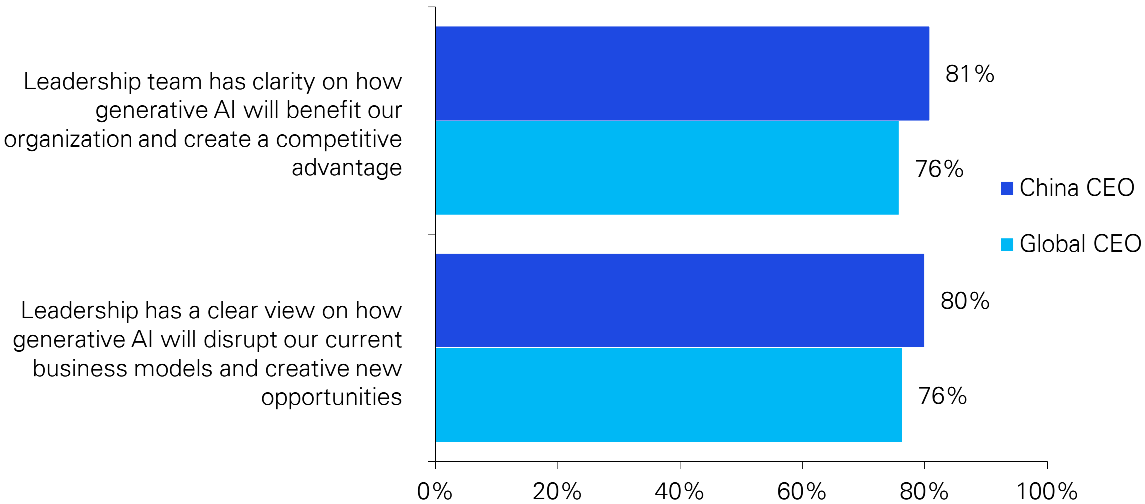
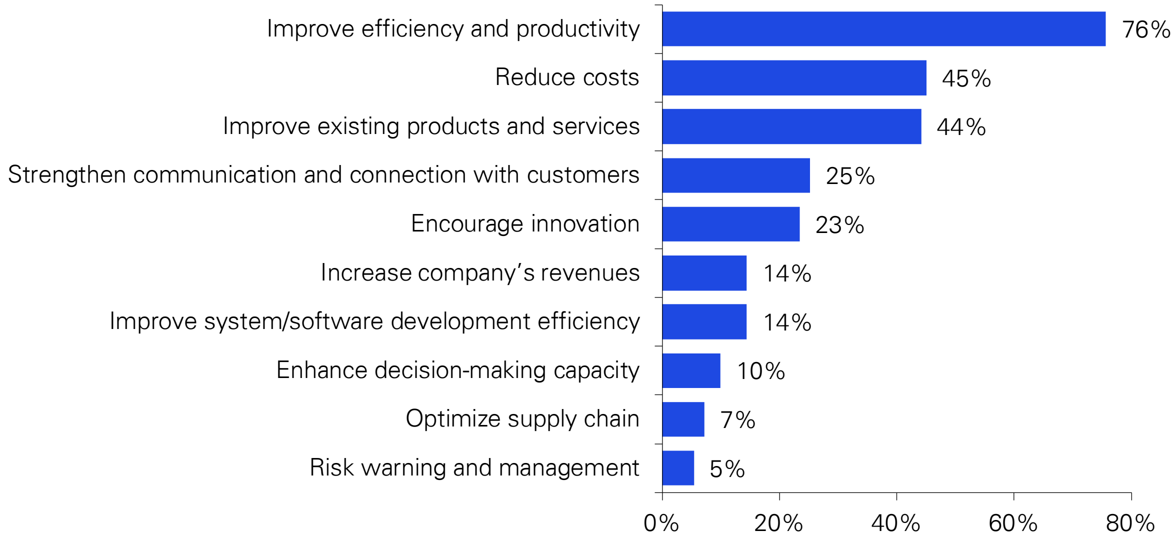
Figure 21 How enterprises perceive generative AI according to CEOs, %



Source: KPMG 2024 Global CEO Outlook

According to our survey, 81% of Chinese CEOs believe that the leadership of their enterprises understands how generative AI will benefit the organisation and support the development of competitive advantages (Figure 21). Enterprises expect generative AI to produce a return on investment in five main areas: efficiency improvements, cost savings, service optimisation, innovation, and business growth. AI is an increasingly important tool for enterprises that aim to continuously transform their business and improve their management capabilities. More than three-quarters of Chinese CEOs have high expectations for how AI-enabled enterprises will improve efficiency and productivity (Figure 22). Generative AI can automate repetitive tasks, which helps improve workflow efficiency, lower error rates, reduce labour costs and optimise resource deployment. These tools also help reduce equipment failures and operating costs through predictive maintenance. Generative AI is particularly useful for scenarios requiring creative output, such as content creation, scheme design and code generation, which helps improve enterprises' productivity through enhanced innovation and efficiency. In addition, enterprises can use generative AI to collect and analyse feedback from users, understand user preferences, and provide customised products and services to meet individual needs.

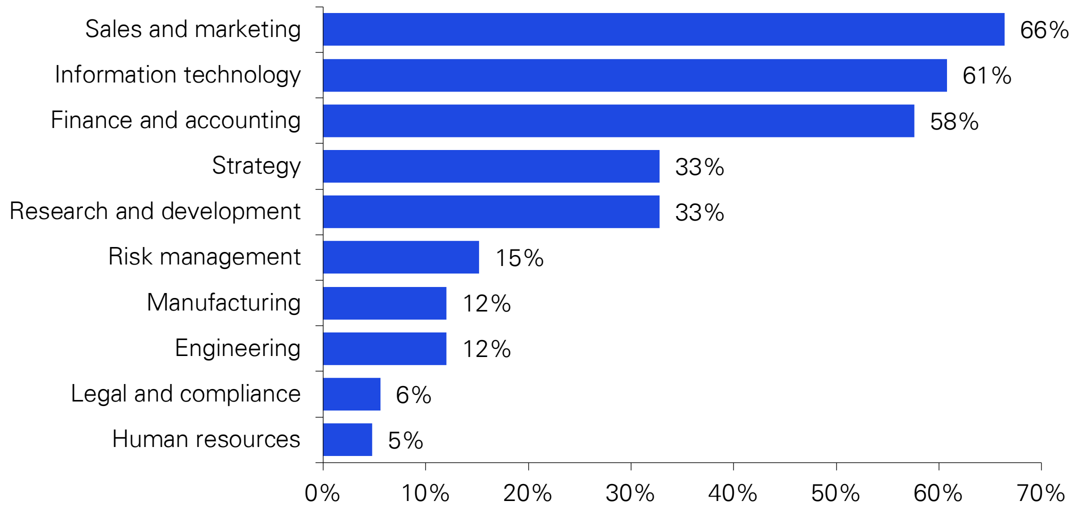
Figure 22 Chinese CEOs' expectations regarding the benefits of generative AI to enterprises, %



Source: KPMG 2024 China CEO Outlook

When investing in generative AI, Chinese CEOs prioritise areas that can bring significant benefits and competitive advantages to their enterprises, such as sales and marketing, information technology, and finance and accounting (Figure 23). For sales and marketing, generative AI can process and analyse massive amounts of data to gain insight into consumer behaviour, predict market trends, optimise sales strategies, and improve inquiry-to-sales rates. In addition, generative AI is changing the customer service model. For example, AI chat robots and virtual assistants can provide 24/7 automated customer support, personalised recommendations, and instant feedback. In terms of information technology, the application of generative AI in software development, testing, and operations and maintenance will change the way teams work, while also significantly improving productivity, quality, and security. In finance and accounting, generative AI is being used to conduct intelligent report generation, automated audit procedures, and intelligent financial analysis. Using these tools, finance and accounting personnel can improve work efficiency and data accuracy while integrating and extensively harvesting financial, operational, and commercial data to deliver more accurate financial forecasting and decision-making support for companies.

Figure 23 Key functional areas attracting generative AI investments over the next three years, %



Source: KPMG 2024 Global CEO Outlook

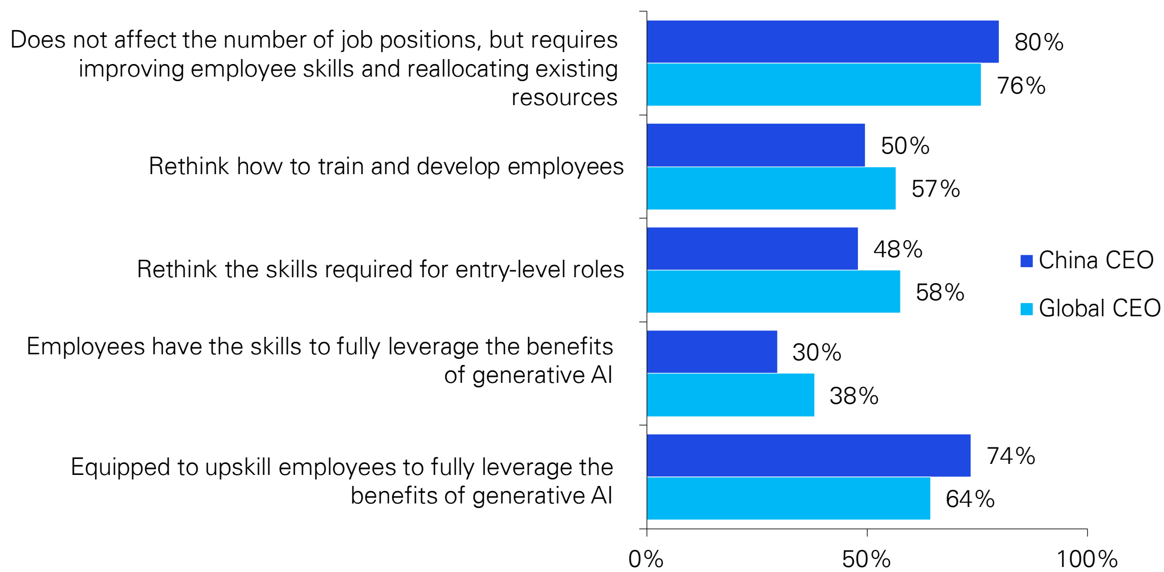
> **48%** of the Chinese CEOs surveyed believe that the biggest challenge for corporate AI operations is the lack of professionals with AI knowledge and skills.

We have observed that while the wide application of AI has brought significant progress and convenience to our work and daily lives, it has also created new problems and challenges. For example, how can AI better assist humans? How can enterprises recruit more AI professionals to meet their needs? Our survey shows that almost half of the Chinese CEOs surveyed believe that the biggest challenge for corporate AI operations is the lack of professionals with AI knowledge and skills. The widespread application of AI has triggered a huge demand for AI professionals.

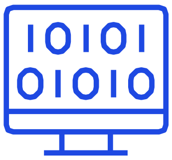
According to a report released by the Ministry of Human Resources and Social Security, the AI talent gap in China exceeds 5 million employees, and the supply and demand ratio is 1:10. Generally, enterprises do not lack experts in singular fields—they are in need of high-level professionals with interdisciplinary knowledge and capabilities, which poses great challenges to recruitment and talent cultivation. To attract and retain talent, enterprises need to implement diversified talent strategies and provide competitive salaries, career development opportunities and innovative work environments. Enterprises can also reach out to universities and research institutions to jointly incubate the AI professionals that are needed, and launch internship programmes, training opportunities and other projects to cultivate a pool of professionals and lay the foundation for future development.

Chinese CEOs believe that integrated generative AI enables enterprises to rethink how they train and develop employees and the skills that are required for entry-level positions. It is worth noting that only 30% of Chinese CEOs believe that their employees have the skills needed to fully leverage the advantages of generative AI, which is lower than 38% of global CEOs. However, 74% of Chinese CEOs believe that their enterprises have the ability to improve their employees' generative AI skills, higher than 64% of global CEOs. Moreover, due to the ethical and privacy issues that arise in the process of applying AI, enterprises need to provide additional training to their employees that covers ethical, legal and data security issues, among other topics; and they also need to provide training to improve their personnel's technical literacy and ability to identify risks.

Figure 24 Impact of generative AI on the workforce dynamics of organisations, %



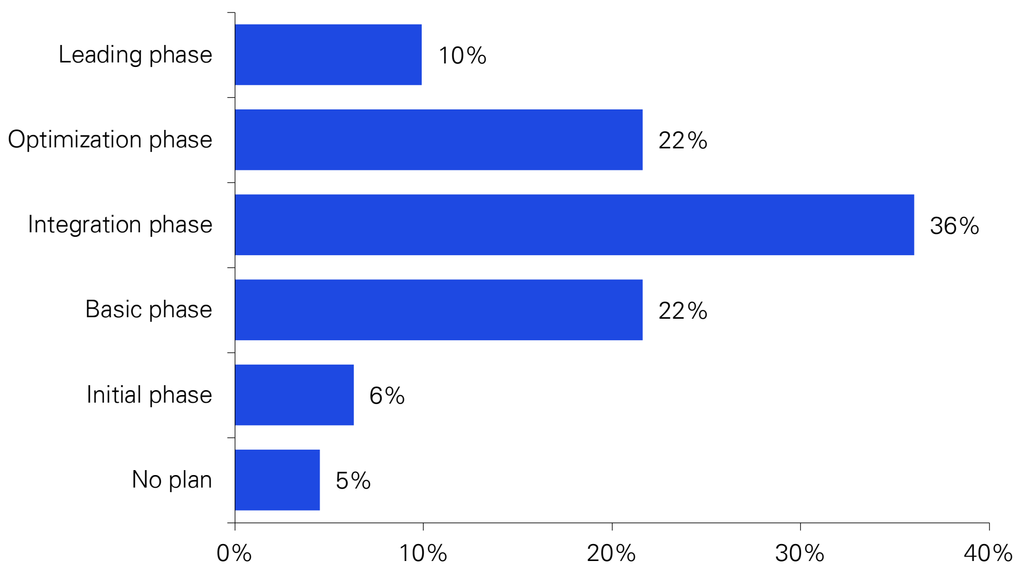
Source: KPMG 2024 Global CEO Outlook



Leveraging the value of data elements to enable digital intelligence

The digital economy has become one of the fastest growing and most innovative and influential sectors in China, and it is an important engine for cultivating new quality productive forces. In 2023, the scale of China's digital economy reached RMB 53.9 trillion, 3.8 times higher than in 2012 (RMB 11.2 trillion). The vigorous development of the digital economy is promoting the steady deepening of corporate digitalisation. In recent years, governments at all levels have formulated digital transformation action plans for key industries and sectors, and they have been encouraging enterprises to innovate and accelerate the pace of their digital transformation by providing financial and technical support, digital financial services, platforms, and training programmes and constructing industrial parks, among other measures. This year's survey shows that more than two-thirds of Chinese CEOs have completed digitisation for key business processes, and system integration and data connectivity have been achieved to a certain degree (Figure 25). State-owned enterprises and multinational companies usually have more resources and funding, as well as more mature digital transformation strategies, which allow them to carry out digitalisation faster and complete their digital transformations sooner. From an industry perspective, the technology and financial sectors inherently rely on data and technology and are at the forefront of digital transformation, especially in respect of cloud computing, big data analysis, mobile payment, online banking, and other fields.

Figure 25 Current digital transformation stage, %

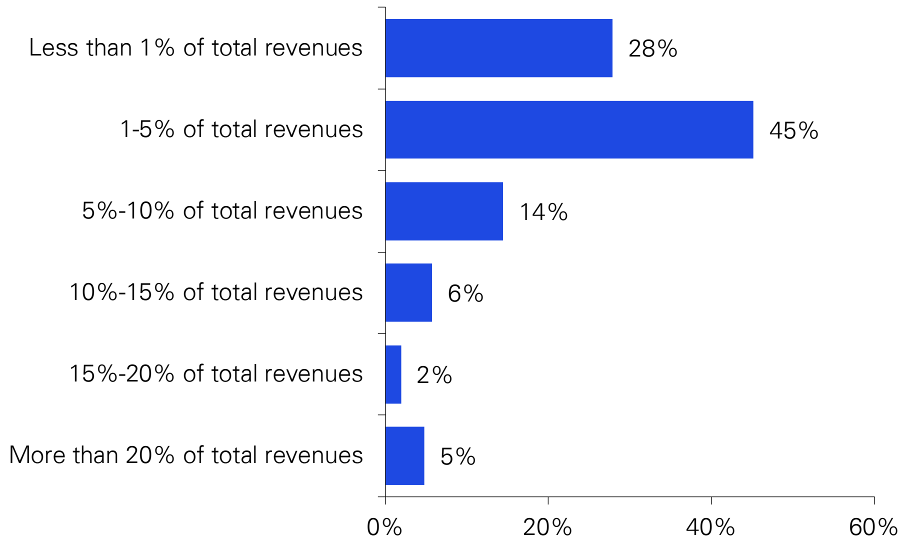


Source: KPMG 2024 China CEO Outlook

> **50%** of CEOs plan to invest more in digital transformation this year to maintain their competitiveness

An enterprise's profitability and cash flow directly affect its investment in digital transformation. In the current economy, enterprises are adopting a more conservative approach when investing in digital transformation. Our survey shows that 73% of Chinese CEOs currently invest less than 5% of their enterprises' annual operating income in digital transformation (Figure 26). Uncertainties in the economic outlook and fluctuations in financial performance in 2024 have caused companies to be more cautious when evaluating investments, especially for digital projects with insignificant short-term returns. In 2024, 48% of enterprises have chosen to keep their budgets for digital transformation at the same amount as in the prior year because the economic recovery was less than expected and profits declined. However, digital transformation has become a must for most companies. 50% of enterprises plan to invest more in digital transformation this year to maintain their competitiveness, especially those in consumer goods, finance, automobiles and the Internet, where competition is fierce, and success is highly dependent on information technology.

Figure 26 Annual investment in digital transformation projects, %

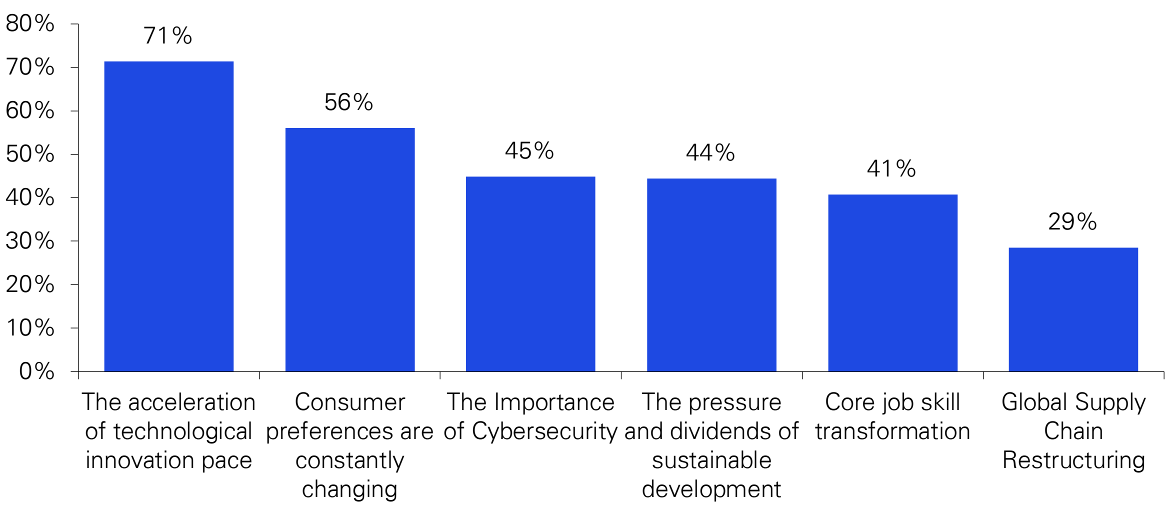


Source: KPMG 2024 China CEO Outlook

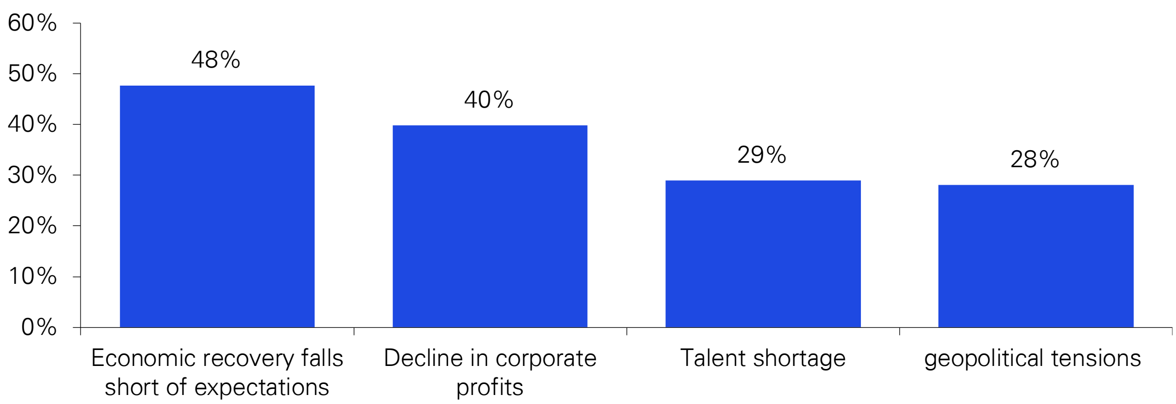
New technologies and changes in consumer preferences are the biggest drivers of corporate digital transformation. Our survey shows that technological innovation, changes in consumer preferences, network security, and public expectations around sustainable development have pushed enterprises to accelerate digital transformation and adopt the latest digital solutions to maintain or sharpen their competitiveness (Figure 27). The restructuring of global supply chains is requiring enterprises to use digital technologies to improve the resilience and flexibility of their supply chains and better manage risks. Moreover, changes in the labour market, such as changes in core skills and rising labour costs, may prompt companies to implement digital talent strategies. However, talent shortages, especially in key positions such as data engineers, data architects and machine learning engineers, may hinder enterprises' digital transformation process.

Figure 27 External factors impacting organisations' digital strategies/ transformation projects, %

Factors accelerating corporate digitalisation



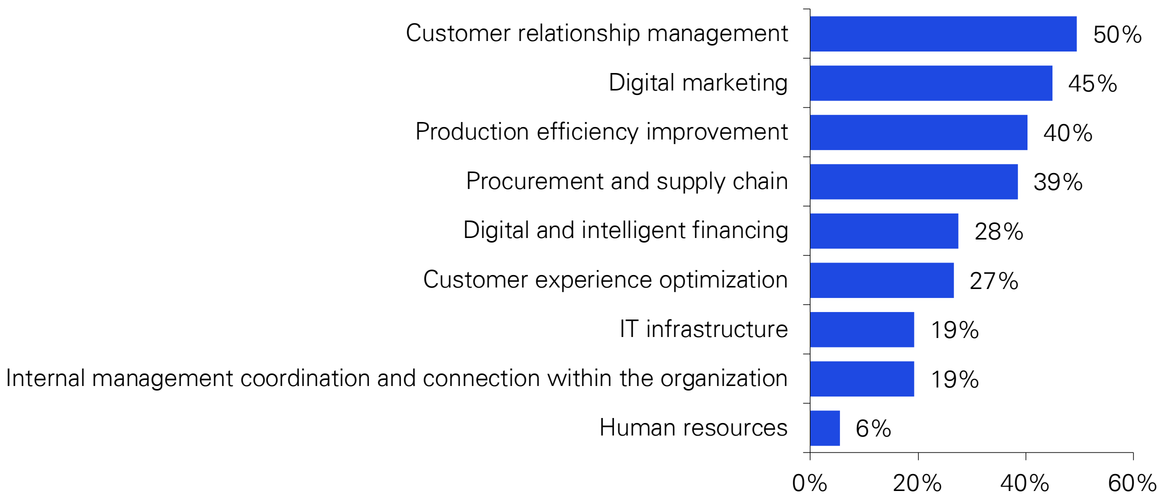
Factors slowing down corporate digitalisation



Source: KPMG 2024 China CEO Outlook

Boosting performance and efficiency are the key aims of corporate digital transformation. Our survey shows that about 50% of Chinese CEOs are focussing on customer relationship management and digital marketing in their enterprises' digital transformations (Figure 28). Companies are analysing customer behaviour, improving customer interaction, and engaging in multi-channel marketing through digital platforms and tools, which are proving crucial for effectively managing customer relationships, enhancing market responsiveness, and driving performance. In addition, nearly 40% of Chinese CEOs are improving the efficiency of their procurement, supply chain management and production operations using digital solutions, such as supply chain visualisation tools, inventory management systems and automated quality inspection systems, enabling them to improve productivity, reduce costs and enhance the overall competitiveness of their enterprises.

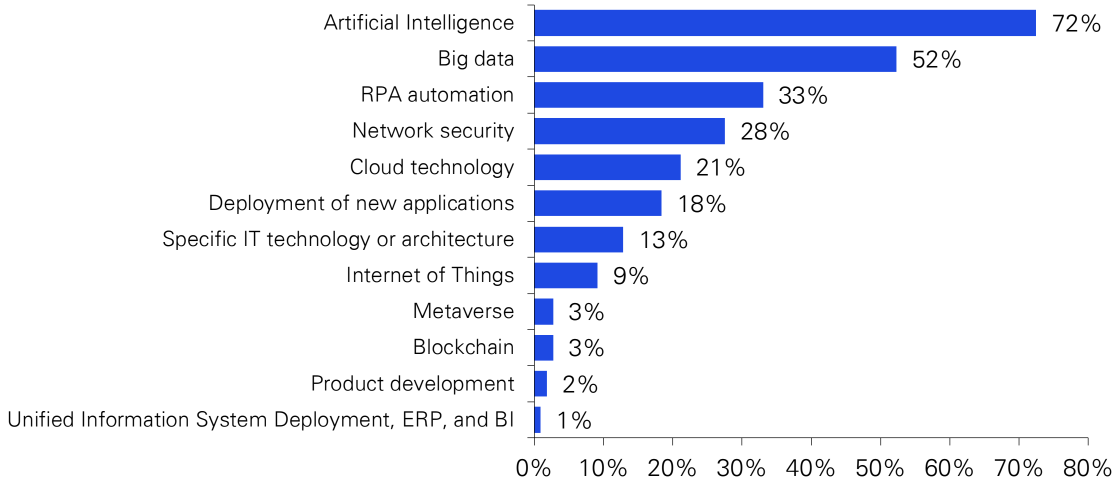
Figure 28 Priorities in organisations' digital transformation, %



Source: KPMG 2024 China CEO Outlook

From the perspective of technology, following the launch of the "AI Plus" and "Data Element X" initiatives, the digital transformation of Chinese enterprises has entered a new stage. Our survey shows that AI and big data will be the key focuses of Chinese enterprises' digital technology investments in the next one to two years, marking the transition of companies from "digitalisation" to "digital intelligence" and from efficiency-boosting to decision-making (Figure 29). Compared with traditional automatic process technology, AI technology not only reduces costs and increases efficiency, but also demonstrates unique value in supporting decision-making and promoting business change. In the next one to two years, the digital transformation investment of enterprises will be guided by data and AI and shift from technical support to creating value, optimising business insight, expanding into new markets and helping leaders make decisions. In addition, enterprises will also integrate robotic process automation (RPA) into their operations to improve productivity and efficiency and invest in advanced network security solutions to protect their assets and customer data.

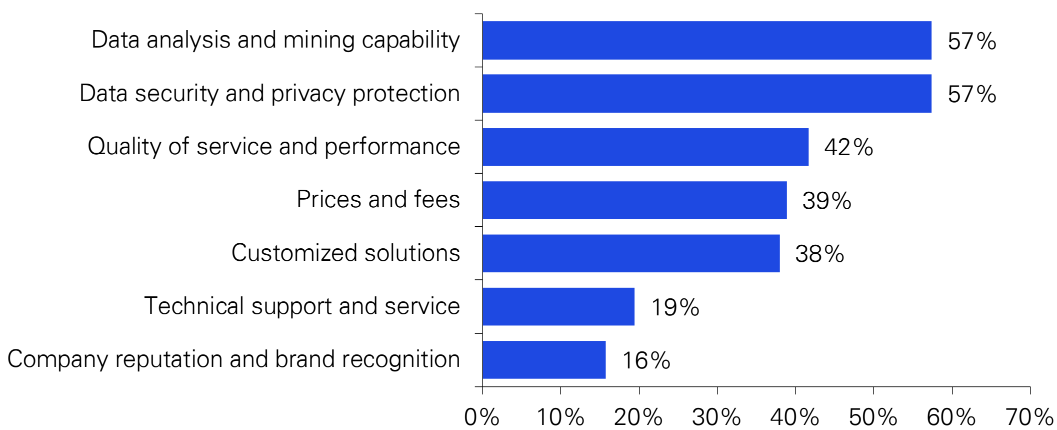
Figure 29 Technologies that are attracting investments in the next one to two years, %



Source: KPMG 2024 China CEO Outlook

With the development of new technologies such as AI and big data, many CEOs identify data as a key production factor. Fully leveraging the multiplier effect of data elements and generating value from them have become important drivers for the digital transformation of enterprises. According to our survey, 57% of Chinese CEOs believe that strong data analysis and mining capabilities are the basis for carrying out data business (Figure 30), which is not only an important means for companies to strengthen customer relationship management, improve production efficiency and conduct corporate operations health testing, but also a key basis for high-level decision-making. At the same time, 57% of Chinese CEOs believe that data security and privacy compliance are red lines for data business, representing an integral aspect of enterprises' social responsibility, as well as an important means for protecting their corporate reputation and gaining customer trust. With the growing need for the circulation, development and use of data resources, corporate demand for data security risk assessments and customised data processing services will grow in the future.

Figure 30 Factors contributing to organisations' launch of data operations, %

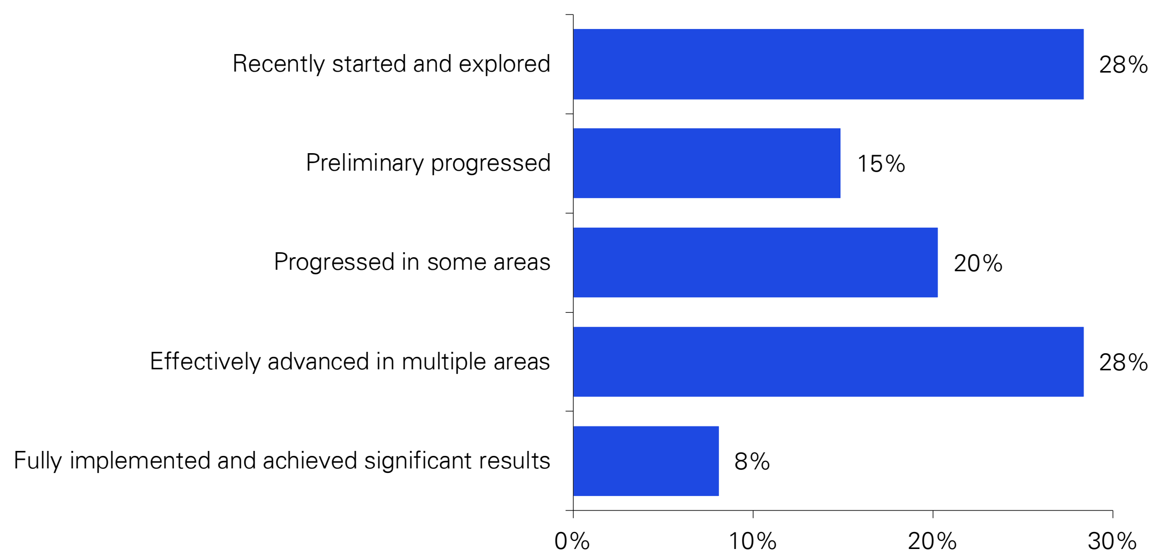


Source: KPMG 2024 China CEO Outlook

Boosting ESG investment to achieve sustainable development

With the global emphasis on sustainable development and environmental protection, investors are paying more attention to ESG factors when making decisions relating to investment. The ESG concept has gradually become an important standard to measure corporate social responsibility and long-term value. While ESG had a late start in China compared with Europe and North America, there are early signs that ESG is becoming mainstream in the country. Our survey shows that 56% of Chinese companies have adopted green and low-carbon transformation measures and achieved some results, among which 28% have effectively promoted green and low-carbon transformation in multiple areas (Figure 31). In recent years, the Chinese government has been actively promoting carbon emission peaking and carbon neutrality, as well as the green and low-carbon economy. Enterprises, investors, regulators, and other segments of society have been increasingly focussing on sustainable development. In the Global Sustainable Competitiveness Index 2023 released by SolAbility, Sweden (score: 59.8) continued to rank first on the list, while China (score: 51.1) ranked 30th, well above the global average score of 43.4. China also scored higher than the US (score: 50.9), which ranked 32nd, marking the first time that China has received a higher ranking than the US since the index was launched in 2012.

Figure 31 Progress of organisations' green and low carbon transformation, %



Source: KPMG 2024 China CEO Outlook

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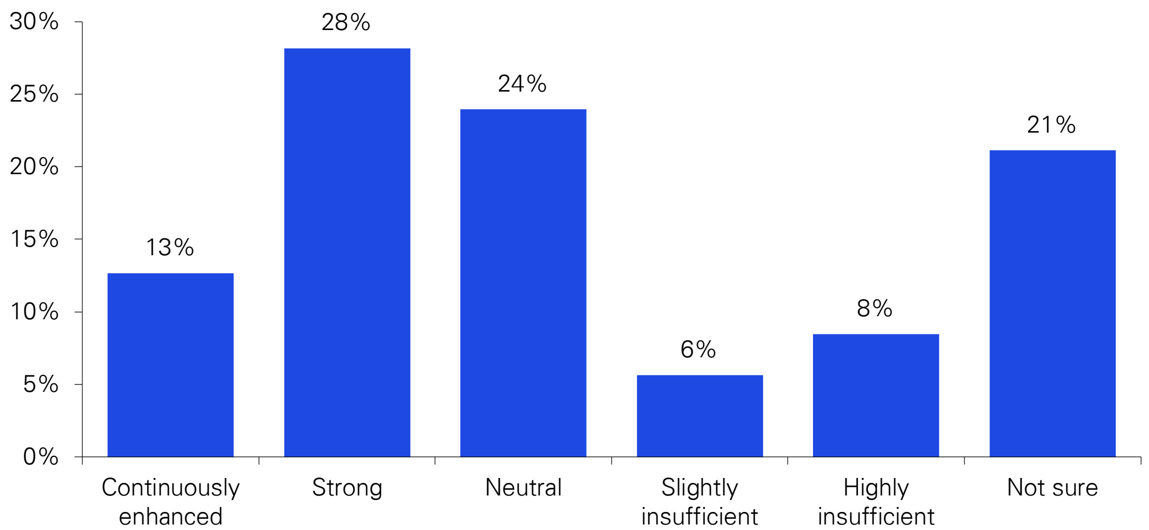
More than 40% of surveyed Chinese CEOs believe that their local governments have provided robust support to green and low-carbon strategies, using tax incentives, green finance, and other policies to encourage market participants to transition towards green and low-carbon development (Figure 32). Various actors and policies have encouraged the reduction of energy consumption and promoted green and low-carbon development practices. For instance, the People's Bank of China recently launched the first carbon emissions reduction support tools in the country, and the CSRC increased financing support for green and low-carbon industries. Moreover, China has built and continuously improved its standardised carbon emissions statistical accounting system. Meanwhile, the country also has officially launched online trading in the national carbon market, becoming the world's largest carbon market.

Figure 32 Policy support provided by local governments for green and low carbon transformation, %

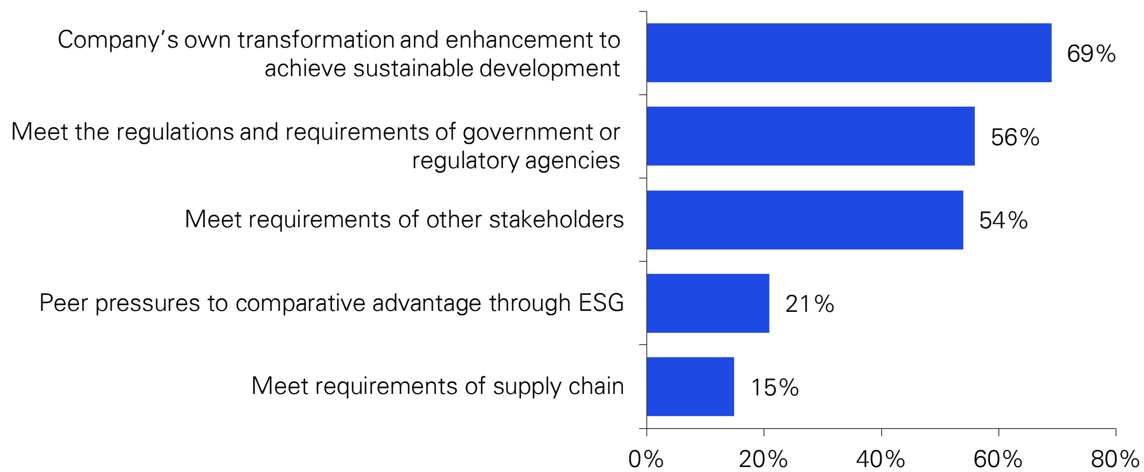


Source: KPMG 2024 China CEO Outlook

ESG investment is a key component of an enterprise's sustainable development strategy. This survey shows that, for 69% of surveyed Chinese CEOs, the biggest factor affecting investment in ESG relates to the transformation of their enterprises and the improvements they need to make to achieve sustainable development (Figure 33). More and more CEOs are realising that ESG investment focuses more on long-term value creation than short-term returns. 73% of Chinese CEOs believe that the return cycle of ESG investment exceeds three years. By integrating ESG factors, enterprises can reduce operational risk, improve brand value, optimise operational efficiency, attract investment, and boost innovation. In this way, they will be able to promote their long-term stable development both economically and in terms of their social and environmental impacts, and ultimately ensure their long-term competitiveness and meet their social responsibility.

In addition, more than half of CEOs surveyed believe that meeting regulations and governmental requirements, as well as the requirements of other stakeholders such as investors, consumers and employees, are also major factors for ESG investment. 74% of Chinese CEOs say that their enterprises have improved their communication methods to meet the evolving requirements of stakeholders, which is higher than 69% of global CEOs. For example, companies prefer to use general terms such as "sustainable development" rather than all-inclusive terms such as "ESG." In 2024, China has introduced a series of ESG-related policies in a short period of time. The Guidelines for the Sustainable Development Reporting of Listed Companies issued in April 2024 standardises the disclosure framework for information relating to the sustainable development of listed companies, with a view to guiding listed companies to practise the concept of sustainable development and encouraging Chinese companies to better integrate into the global green and low-carbon industry chain.

Figure 33 Key ESG investment drivers, %



Source: KPMG 2024 China CEO Outlook

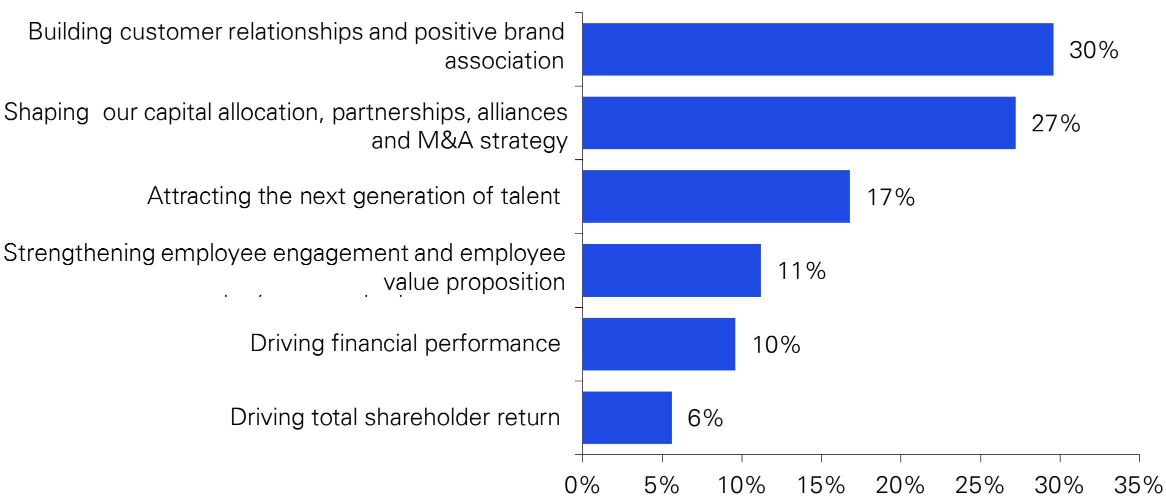
We are pleased to see that more and more CEOs believe that the implementation of ESG strategies has brought many benefits to their enterprises. First, 69% of Chinese CEOs say that implementing ESG practices has enhanced the attractiveness and influence of their enterprises' brands (Figure 34). As consumers and investors become more inclined to choose companies with good ESG performance, companies can actively fulfil their ESG responsibilities to establish a good brand image and reputation in the eyes of the public and stakeholders, establish differentiated competitive advantages, and improve customer loyalty and satisfaction. Second, 35% of Chinese CEOs say that implementing ESG practices has reduced their enterprises' operating costs. ESG efforts usually focus on energy conservation, emissions reduction and efficient use of resources. An enterprise can improve efficiency, reduce waste and lower long-term operating costs by adopting renewable energy and energy-saving technologies and optimising resource allocation. Strong ESG performance can also help enterprises obtain financial support and reduce financing costs.

Figure 34 Benefits of ESG projects, %

Source: KPMG 2024 China CEO Outlook

Going forward, CEOs need to integrate ESG strategy into the long-term operations and investment strategy of their companies. This survey shows that 30% of Chinese CEOs believe that ESG strategies will help enterprises build customer relationships and positive brand associations; and 27% believe that ESG strategies will reshape enterprises' capital allocations, partnerships, alliances, and M&A strategies (Figure 35).

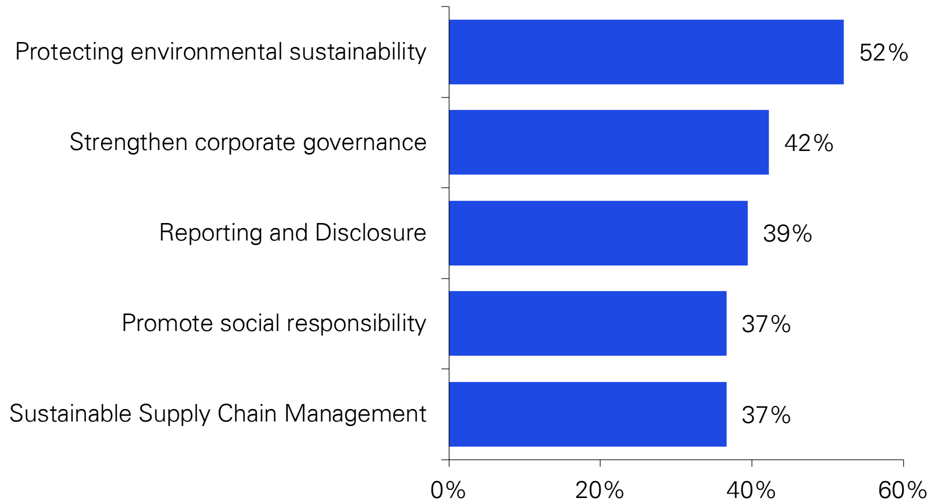
Figure 35 Major impact of ESG strategies on organisations over the next three years, %



Source: KPMG 2024 Global CEO Outlook

In terms of specific measures, more than half of Chinese CEOs say their enterprises will increase investment in environmental protection and sustainability (Figure 36). With the continuous strengthening of global climate action, companies are steadily increasing their investment in decarbonisation, climate risk, energy efficiency, pollution treatment and other areas and demonstrating their commitment and sense of responsibility for environmental protection. These efforts will help improve their corporate image and brand value and enable them to enter the international market more easily and engage in international cooperation. In addition, about 40% of Chinese CEOs say that their enterprises will increase investment in ESG reporting and disclosure in the next year. On one hand, they are making this investment in reporting and disclosure to meet increasingly stringent global ESG information disclosure requirements, better integrate into the global green supply chain and enhance their competitiveness. On the other hand, by preparing ESG reports and authenticating relevant information, enterprises can better identify and manage ESG risks within their systems, enhance corporate transparency, and improve governance capabilities. In this year's global survey, 74% of Chinese CEOs say that their companies are capable of meeting the new reporting standards.

Figure 36 Areas of ESG attracting increased investments in the next year, %



Source: KPMG 2024 China CEO Outlook

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About the Survey

KPMG 2024 Global CEO Outlook

This is the tenth time that KPMG has conducted the KPMG CEO Outlook survey globally. This report, which is based on a survey of 1,325 CEOs from major institutions around the world from July to August 2024, aims to provide global CEOs with in-depth insights into enterprises and economic growth over the next three years. Among the CEOs participating in the survey, 125 were from Chinese companies.

The average annual income of the responding enterprises is over USD 500 million, and one-third of them have an annual income of more than USD 10 billion. Interviewees include leaders from 11 major industries (asset management, automobiles, banking, consumer and retail, energy, infrastructure, insurance, life sciences, manufacturing, technology, and telecommunications) in 11 markets (Australia, Canada, China, France, Germany, India, Italy, Japan, Spain, the United Kingdom and the United States).

Note: Some figures may not add up to 100% due to rounding.

KPMG 2024 China CEO Outlook

This is the first time KPMG has expanded the sample quantity and key topics of the KPMG CEO Outlook Survey in China. Based on a survey of 114 CEOs from April to May 2024, this year's report adopts a unique perspective to analyse how Chinese CEOs view the future development of their enterprises and transformation strategies in the context of profound and complex changes in domestic and international conditions.

Participating companies include state-owned, foreign-owned and privately-owned companies. Interviewees include leaders from 14 major industries (asset management, automobiles, banking, private equity, consumer and retail, energy, insurance, life sciences, health care, manufacturing, real estate, transportation, technology, and media).

Note: Some figures may not add up to 100% due to rounding.

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In 1992, KPMG became the first international accounting network to be granted a joint venture license in the Chinese Mainland. KPMG was also the first among the Big Four in the Chinese Mainland to convert from a joint venture to a special general partnership, as of 1 August 2012. Additionally, the Hong Kong firm can trace its origins to 1945. This early commitment to this market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in KPMG's appointment for multidisciplinary services (including audit, tax and advisory) by some of China's most prestigious companies.

About KPMG China Research Centre

KPMG China Research Centre (KRC) brings together forces from various fields to demonstrate leading research momentum, with four core competencies: data as the foundation, information as the support, knowledge as the core, and insights as the creation of value. Its capabilities progress layer by layer, and value is infinitely released.

KRC has gathered the research strength of KPMG in macro, industry, and sub sectors, and efficiently completed various research work by combining KPMG's global network resources. It demonstrates KPMG's comprehensive and forward-looking research capabilities, and is committed to providing fact based profound insights and analysis on crucial economic and business issues, thereby providing decision support for enterprises and institutions, existing and potential customers, policy makers, and the public, promoting KPMG's business development, and helping all partners maintain competitiveness in the constantly changing market environment.

KPMG China Research Centre has multi-level, multi-dimensional, and multi angle research products, with an international perspective, timely response to domestic and foreign policy points, providing timely and in-depth industry research analysis, assisting clients in understanding the changes and trends of high potential industries in the forefront macro environment, and gaining insights into market development opportunities and prospects. The types of reports include but are not limited to: global and domestic macro and industry development trends, China and world business development and investment, industry outlook and flagship reports, policy research and interpretation, questionnaires, interviews and research reports, national and various levels of special topic research, etc.

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