

# Navigator

Now, next and how for business

China



# China

## As one door shuts, another opens: Chinese firms look closer to home as US trade dispute intensifies

Chinese firms remain optimistic about the global trading environment, despite tensions with the US, China's largest trade partner. A recent escalation in the "trade war" will likely dampen this enthusiasm, but the wider global economy should remain supportive of trade growth in the near term. Domestic policy will help to offset some of the fallout at home.

### What is happening now

#### Tensions with the US likely to dampen trade sentiment

After a strong start to the year, economic growth in China is expected to gradually ease over the remainder of 2018 and into 2019. Externally, the escalation in the trade war with the US—following the recent announcement of further import tariffs—will hit Chinese exports, even though global demand has retained solid momentum this year. Authorities have responded in kind with a partial easing in macro policy, although large scale stimulus is unlikely, given an increasing focus on the quality and sustainability of future growth.

Almost four in five businesses in China retain a positive outlook on global trade, in line with the global benchmark. While nearly 90% of firms remain confident they can succeed in the current environment. This positive sentiment is underpinned by the general strength of both the domestic and global economy. Concerns around the rising trend of protectionism—particularly focused on the deterioration of the relationship with the US—is by far the biggest stumbling block. Although the US is still the country most commonly identified by respondents as a key growth market, businesses are increasingly shifting their focus towards other markets, most notably Japan (Fig. 1)<sup>1</sup>.

**Fig. 1: Which are the top 3 markets where your business will look to expand in the next 3-5 years? (Share of respondents identifying each market)**



Source: TNS Kantar

#### How your business can respond

- ◆ Firms need to monitor trade policy developments and develop strategies to mitigate potential additional costs and navigate new barriers.
- ◆ Ensure continued investment in productivity enhancing business practises to retain a competitive edge against the emergence of new low-cost production centres.

1. Note that the global Navigator survey was conducted in August 2018 before the announcement of additional import tariffs covering \$200 billion of Chinese imports by US President Trump in September 2018.



# Policy Developments

## Businesses acutely aware of escalating trade war with the US

Tensions with the US ratcheted up in September as the US imposed further import tariffs on Chinese goods covering \$200 billion of trade. China retaliated in kind with its own tariffs on \$60 billion of US goods imports. Prospects for a de-escalation in the short term are low, reflecting a significant difference in opinion amid entrenched views. So, things may get worse before they get better, although prospects for compromise will grow as the economic impact starts to bite both in the US and China.

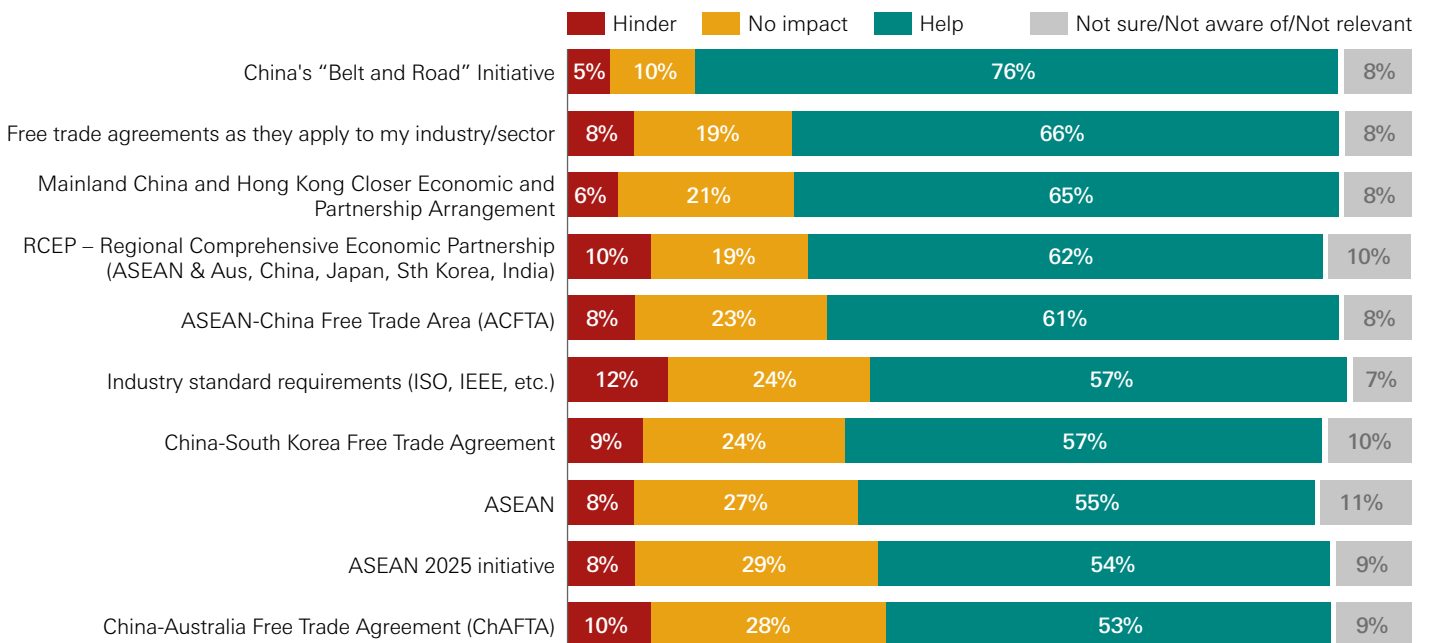
Unsurprisingly, nearly three-quarters of all respondents in China agree that governments are becoming more protective. More than 10 percentage points above the global average.

With the deterioration in the US relationship, businesses in China are more focused on developments closer to home in terms of potential impact over the next three years (Fig. 2). These include the Belt and Road Initiative and regional FTAs including the Regional Comprehensive Economic Partnership (RCEP), the ASEAN-China Free Trade Area (ACFTA), and the Closer Economic Partnership Arrangement between mainland China and Hong Kong.

## How your business can respond

- ◆ Firms should assess their exposure to a potentially long and drawn-out trade war with the US. Map the complete, end-to-end supply chain to fully understand the extent of products impacted.
- ◆ Business leaders need to remain aware of government policy and be ready to shift strategies in response to changes.

**Fig. 2: Relevance and impact of policy developments in the next 3 years**



Source: TNS Kantar

\*May not total 100% due to rounding

# What is happening next for business strategy

## Productivity and skills development key to maintaining competitive edge

China’s continued movement up the “value-chain” in production will be supported by the strategic objectives of domestic firms. Nearly two in five businesses are increasing their emphasis on productivity and skills development, while more than one-third are focused on becoming more entrepreneurial (Fig. 3). Both strategies should make firms more competitive internationally.

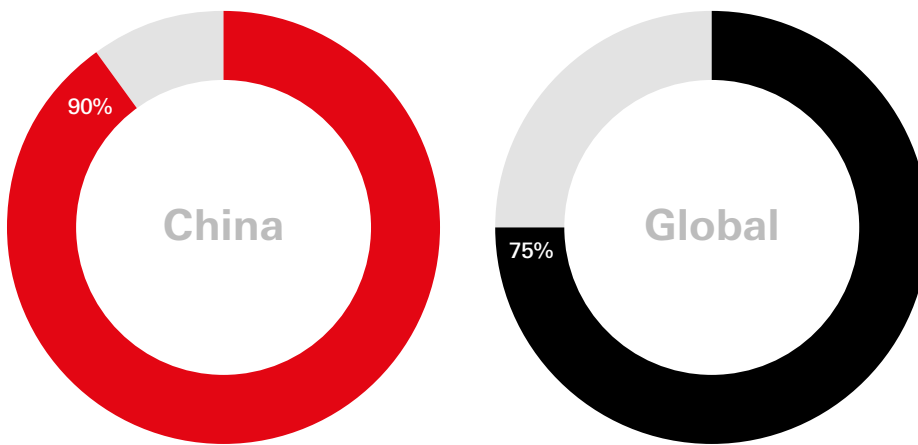
Data is a key component of this process, with 90% of businesses using data to optimise performance, well above the global average (Fig. 4). More than half note the use of operational data, market data and transactional data, with the primary objective of increasing overall operational efficiency. Two of the top three opportunities identified relate to the adoption of efficient or smart manufacturing techniques, complementing the wider strategic objectives in the manufacturing sector of retaining a competitive edge.

Fig. 3: Top 3 actions for future company direction

- 1 Increasing emphasis on productivity/skills development
- 2 Increasing emphasis on international markets
- 3 Becoming more entrepreneurial and agile

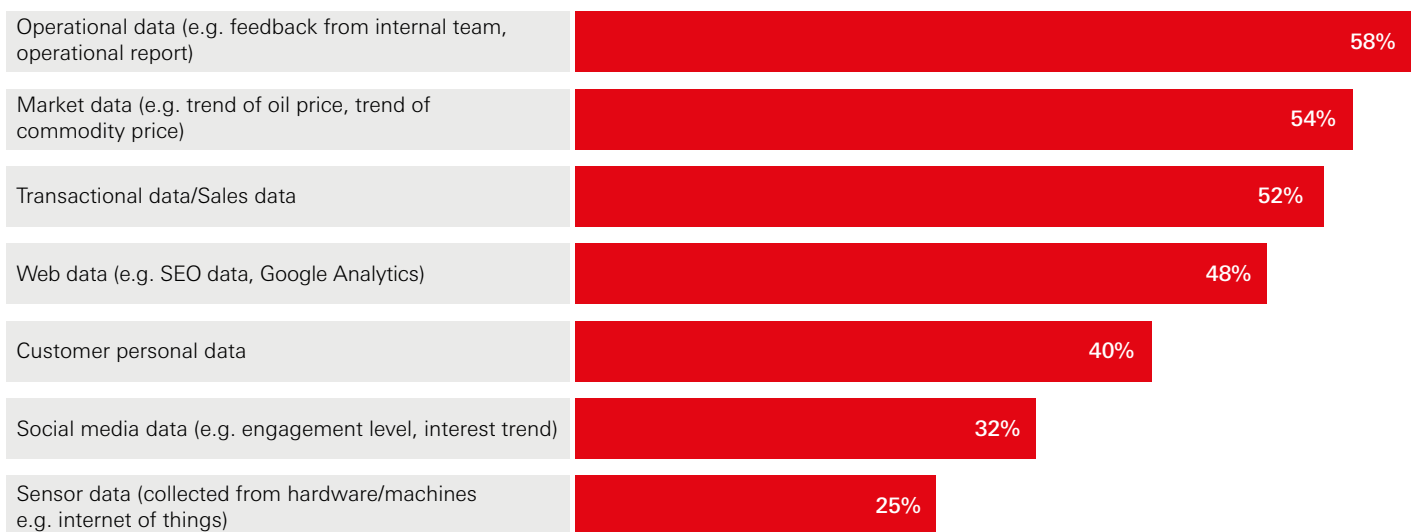
Fig. 4: Using data in business

Share of respondent firms using data to optimise performance



Source: TNS Kantar

## Data sets currently being used



Source: TNS Kantar

### Sustainability is a core component of supply chain management

One area where Chinese firms anticipate exploiting the use of data is in supply chain management for goods. One-third of businesses plan to increase their use of technology in sourcing goods over the next three years (Fig. 5). Exploring new markets is the second most widely referenced change anticipated by businesses, a move that will likely help achieve the objective of diversifying exposure and reducing risk in light of ongoing trade disputes. Increasing profit/revenue remains the primary objective of supply chain management, although Chinese firms also report a stronger focus on sustainability in comparison with global peers.

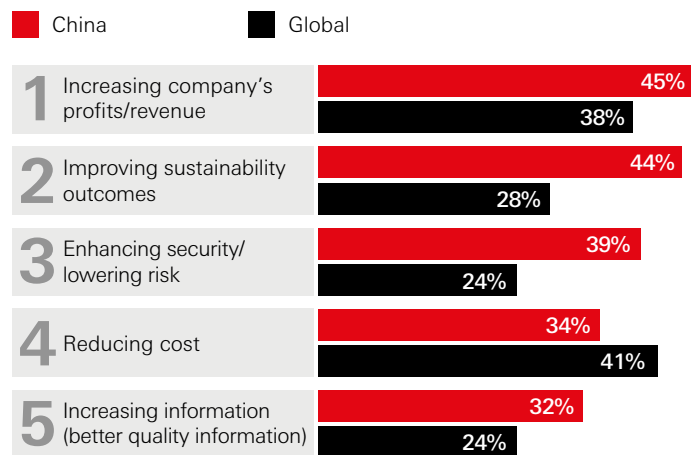
Fig. 5: Supply chain changes for goods

#### Top 5 planned supply chain changes in the next 3 years



Source: TNS Kantar

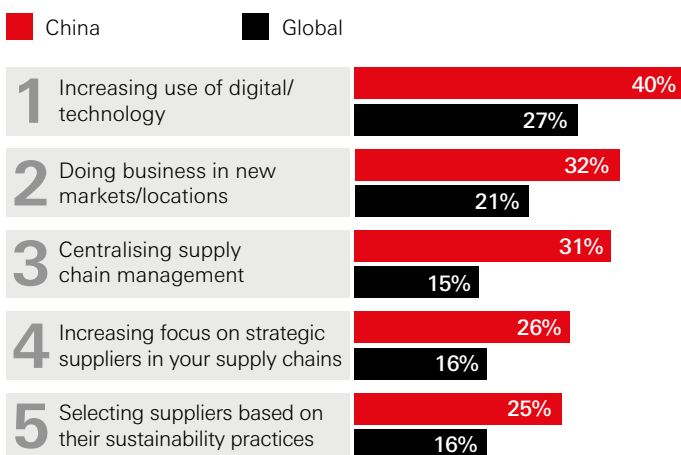
#### Top 5 objectives behind the changes



Businesses are expecting a very similar set of changes to impact their supply chain for services as they do for goods over the next three years. Increasing the use of digital/technology is again important (even more so than for goods), as is the expansion into new markets (Fig. 6). Notably, improving sustainability was identified by a higher share of respondents as an important objective than profit/revenue growth.

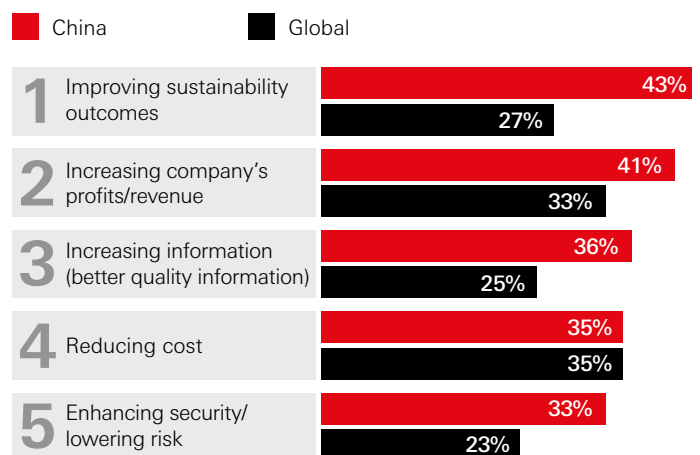
Fig. 6: Supply chain changes for services

#### Top 5 planned supply chain changes in the next 3 years



Source: TNS Kantar

#### Top 5 objectives behind the changes



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## About HSBC Navigator China

The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar TNS. It is compiled from responses by decision-makers at over 8,650 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 34 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, 500 businesses were surveyed in China. Global results are based on an average of the 34 markets (using weights based on each market's share of world trade). The survey was conducted over a six week period from July to September 2018.

Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

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