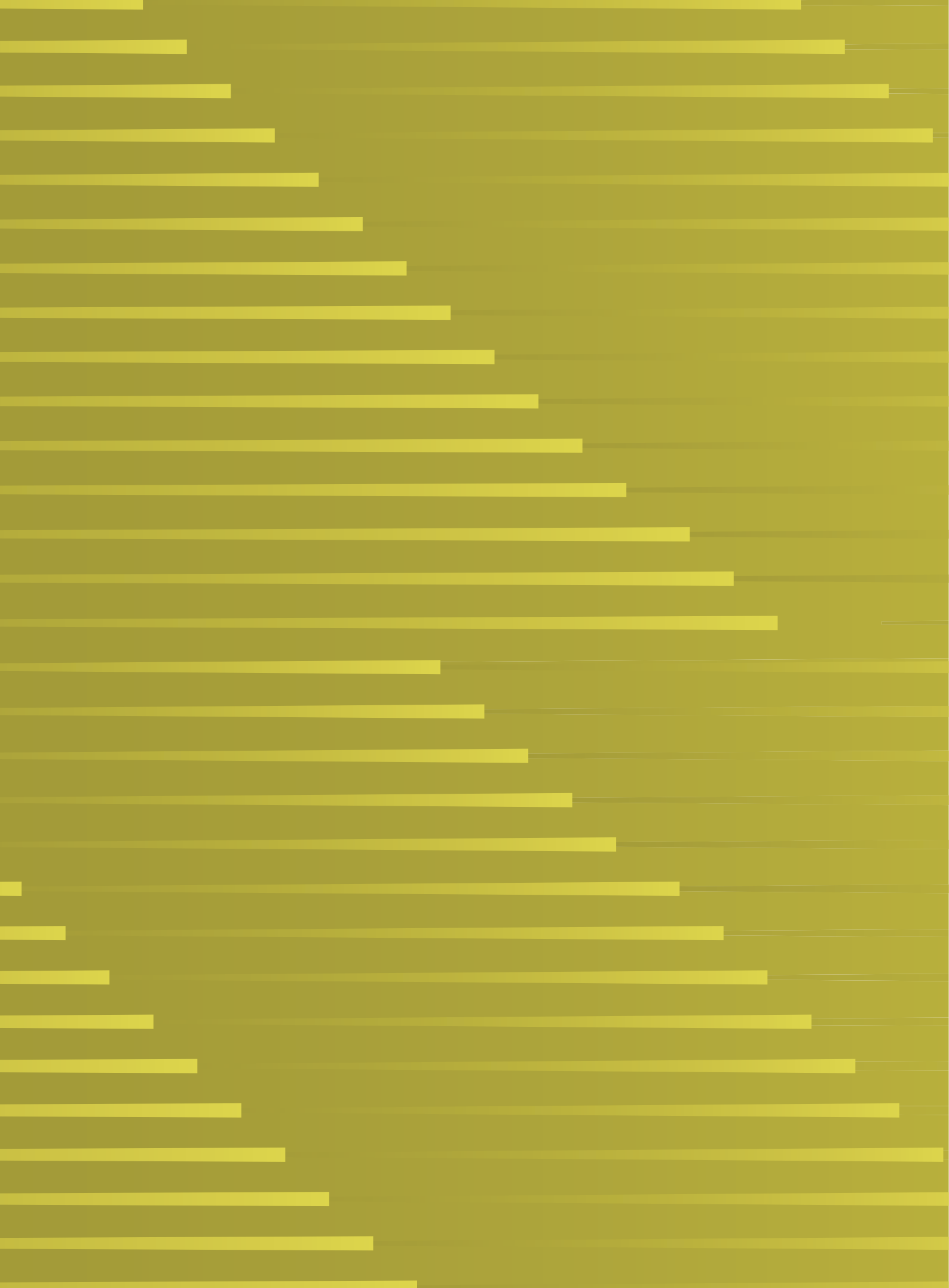


Foresight 2026



Roland Berger China
Annual Trends Report

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PREFACE

The Art of Balance: Unleashing China's Potential in a New World Order

2025 a critical milestone

The year 2025 marks the conclusion of China's 14th Five-Year Plan and the preparatory phase for the 15th Five-Year Plan, representing a critical transition in the nation's development trajectory. This period signals China's strategic pivot towards high-quality growth and sustainable modernisation amid evolving global dynamics.

China's economy maintained solid expansion during the 14th Five-Year Plan period and has become a significant contributor to global growth, accounting for around 30 percent of worldwide economic expansion annually. Meanwhile, the country emerged as a global frontrunner in many technologies and one of the world's fastest-improving innovators, not only in EV, battery, solar and wind, but increasingly in AI, quantum computing, space, biotech, humanoid robots, etc.

China's commitment to industrial modernisation yielded substantial returns. China accounts for nearly 30 percent of the total global manufacturing output, maintaining its position as the world's largest manufacturing powerhouse. However, it also highlights the need for more efficient planning for resource allocation and regional coordination to address the issues such as industrial overcapacity and involution.

Forging the future: Same but different

As China turns the page, it faces a new global and domestic reality that is shaping its priorities for the next five years.

While China's GDP growth remains stable, there has been a massive economic transformation beneath this surface. Industrial modernisation and technology innovation are becoming key growth engines for Chinese economy, which are expected to feature prominently in China's 15th Five-Year Plan. Despite China still facing the deflation pressure and domestic competition, or "involution", we are also seeing the upside of such a situation: resilience, speed, agility and the fighting spirits of the Chinese companies. More and more private sector companies are rising as global champions. Looking ahead, more breakthroughs are expected across a diverse range of sectors, from semiconductors and AI to biotech, humanoid robots, hydrogen energy, advanced ICT, as indicated by the massive application and broad distribution of its patent applications. With improved productivity and more added value, it will eventually translate into higher GDP per capita therefore higher disposal income, to help lift up the domestic consumption.

This is yet a long journey, and the external context is rapidly changing - the global economy faces mounting volatility and uncertainty.

The economic world order has become even more transactional and less predictable.

It is not universal anymore (e.g. WTO rules), and may not even have the ambition to be universal and to serve the general interest of growing the world economy and reducing inequalities. Partial interests might co-exist with the remnants of the previous world order. On October 30, 2025, the Trump-Xi meeting in Busan led to 10 percent US tariff cut on China and suspension of rare earth export control and port fees, which was considered as a breakthrough after months of trade tension and tariff increases. However, this truce was not a strategic shift but a tactical truce without lasting guarantees. The tariffs imposed on Chinese imports to the US will still be as high as 47 percent, the rare earth export controls has a limit of 1 year, and the lack of US concessions on advanced chips will keep the bottlenecks for Chinese manufacturers. Meanwhile, the new conditions for exporting rare earth materials from China creates uncertainty, not only in the US, but globally. The EU, South Korea, Japan and other countries have expressed concerns about supply disruptions and are seeking alternative sources.

Globalisation, as we know it, is not dead. It is transforming with new national and sovereign objectives around security of supply, national security, local content and jobs, and sustainability; And also a new shape: legacy industrial nations are challenged by new ones, thanks to technology, that creates a new level playing field in manufacturing; added value and technology leadership is contested. There should be more benefits to the Global South too, particularly around regional supply hubs, in Asia, but also increasingly in the Middle East, in Africa, etc. Part of this is powered by investment of Chinese companies, adjusting to the new shape of globalisation. We have seen more and more Chinese companies proactively transitioning from a traditional export model towards a glocalisation model, with more local footprint in destination markets, as well as connector countries.

There are rising uncertainty, ambiguity and complexity in Europe.

Europe is trapped in a structural bind. Industrially, it relies on cost-efficient Chinese supply chains, yet suffers as Chinese rivals erode local profit margins. In the technology sector, particularly semiconductors, Europe is torn between US-led R&D and China-based manufacturing, paralysing its pursuit of "technology sovereignty". For Chinese companies, this landscape is increasingly volatile. While they are deepening their integration into Europe, their corporate governance vulnerabilities are now magnified by geopolitical scrutiny, adding a new layer of uncertainty to their operations.

Eight paradoxes in China's reality

In China's next chapter, high-quality development is framed not as an ambition but as a necessity to achieve growth with new engines and ultimately reach the mid-century modernisation goals. To achieve these objectives, there are eight paradoxes emerging in China's current reality to be well addressed and balanced.

1. The Capacity Paradox: Modernisation drive vs. additional capacity

China has built world-leading, hyper-efficient manufacturing capacity in strategic sectors, yet this success also creates massive domestic overcapacity. It not only creates intense competition in domestic market, but also forces firms to export at low prices, sparking global trade tensions.

2. The Dual-Circulation Paradox: Self-reliance vs. deepening global engagement

In the past few years, we have witnessed that China achieved significant success in production and technological self-reliance, but it was perceived as a threat by many countries in the world and provoked external trade barriers, creating challenges for Chinese companies or products going global. With the self-sufficiency drive, China has little need to import manufactured goods from

the rest of the world, except for commodities. Consequently, partners see limited economic benefit from the trade and face industrial erosion, the "bad solution" of large-scale protectionism becomes increasingly likely. China's future success will depend on a delicate balance of interests – not only advancing its own technological capabilities but also ensuring its growth model offers reciprocal benefits to maintain its access to global markets.

3. The Growth Paradox: Economic resilience vs. weak confidence

Although China has shown robust economic resilience amid mounting challenges and notable technological breakthroughs across sectors, there has been no significant recovery in the domestic demand. On the micro-level, the confidence of Chinese consumers remains relatively weak, especially on employment, demonstrated by the volatile consumption.

4. The Restructuring Paradox: "No hard landing" vs. the "long, slow grind"

Since the bursting of China's real-estate bubble in mid-2021 and the surge in local debt, the risk of uncontrolled debt has grown acute in local governments. The central government repeatedly intervened with debt restructuring initiatives by providing liquidity support and offering selective bailouts to prevent widespread defaults. China has successfully avoided the "hard landing", yet over-leveraged local governments and some inefficient SOEs are sustained, which slows the reallocation of capital to more productive sectors. This results in a slower restructuring, prolonging the economic transition.

5. The Demographic Paradox: Ageing population vs. high youth unemployment

China is confronting a challenge in demographic and labour market: a rapidly ageing population coincides with persistently high youth unemployment. The core lies in a structural mismatch: While the Chinese economy is shifting

from a model driven by manufacturing and property towards high-tech and services, there's a disconnect between the qualifications of young job seekers and the needs of emerging industries. Meanwhile, the development of AI and automation technologies is expected to intensify the existing paradox by exacerbating structural unemployment and skills mismatches.

6. The Creative Destruction Paradox: Technology disruption vs. disorderly involution

China faces a critical economic paradox in the suppression of "creative destruction". Economic Darwinism with Chinese characteristics does not allow entities to fail, and the "cannot fail" mantra becomes an excuse not to innovate. In the absence of dynamic creative destruction, the economy becomes prone to "disorder involution", where businesses are trapped in a cycle of zero-sum, internal competition over saturated markets and diminishing returns, rather than generating breakthrough innovations.

7. The Innovation Paradox: State-led direction vs. private-led disruption

While technology and innovation are prioritised for China's development trajectory, with SOEs retaining a vital role, more potentials need to be further unleashed from the private sector. Earlier 2025, DeepSeek stunned the world and demonstrated the disruptive power of the private sector, which accounts for over 90 percent of high-tech enterprises and contributes over 70 percent of the technological innovation. However, challenges persist on financing constraints, regulatory hurdles and economic uncertainties. While China's total R&D spending grew 8.3 percent exceeding 3.6 trillion yuan in 2024, growth among top 1000 private firms was only 2.8 percent, alongside a concerning decline in venture capital funding to USD 33 billion in 2024. This divergence highlights the structural barriers to fully harness China's innovation potential.

8. The AI Adoption Paradox: AI revolution vs. slow adoption in manufacturing

While China is quickly catching up and rising as a global leader in AI technologies, the adoption of this technology within its massive manufacturing sector is progressing much more slowly. A combination of data structural, technical (e.g. "black box"), organisational and financial challenges are hindering the widespread adoption of AI.

China's path to high-quality development represents a deliberate and necessary transformation. It requires continuous efforts and patience as the nation carefully balances its complex economic paradoxes without triggering a hard landing. The solution lies in a comprehensive strategy that shifts from volume to value through increasing productivity and moving up the global value chain, embracing AI to overcome productivity barriers, while simultaneously boosting domestic consumption by strengthening the social safety net to unlock household confidence.

This must be coupled with unleashing private sector innovation through better capital allocation, and pursuing sophisticated globalisation strategies where Chinese companies create tangible local value abroad to mitigate geopolitical tensions. Ultimately, resolving these interconnected challenges – from managing overcapacity and local debt to addressing demographic imbalances and innovation models – requires a synchronised approach where progress in one area reinforces others, making the successful navigation of these paradoxes fundamental to achieving China's long-term modernisation goals.

Implications

Chinese companies

For Chinese companies navigating this new paradigm, the imperative is clear: Technology and innovation must become the non-negotiable core of their competitive identity. This goes beyond

incremental improvement to foundational R&D and breakthrough applications, ensuring the leading position of global trends. Simultaneously, achieving operational excellence through rigorous performance measures and the full integration of AI and digital tools is critical for boosting productivity and margins in an increasingly competitive landscape.

The international competitive advantage cannot be simply duplicated from what has made Chinese EV or consumer electronics products successful at home. It has to be reinvented in the local markets. This is calling for localisation to serve the destination market with the right products, marketing and branding, channels and sales, through investment in local R&D, tech transfer, creating jobs and meaningful value in destination countries. As companies are navigating a more transactional and volatile world economy, new playbooks have to be invented. Some strategies will be ambiguous to match the complex environment. Regulatory constraints and political frictions should not conceal the more fundamental need for market intimacy, proximity and social license required to succeed.

Multinational companies

For multinational companies (MNCs), the current landscape demands a strategic pivot towards building resilient and adaptable operations to navigate rising uncertainties and geopolitical tensions. A clear trend has emerged in recent years: an acceleration of localisation, driven by the dual objectives of enhancing competitiveness and mitigating risks. Faced with increasing competition with the Chinese companies, MNCs should strengthen partnerships in China and invest in R&D, meanwhile, build up China independent supply chains, increase local R&D and have more "Chinese skin in the game" through local financing, local decision making and local ownership.

China remains a critical market for many MNCs. However, China's push for technological self-

reliance and its drive up the value chain towards premiumisation mean that Chinese companies are becoming more formidable competitors for MNCs, both within China and globally.

Consequently, a presence in China for MNCs is not only because China is too big to be missed, but increasingly about harnessing Chinese innovation, technology and product development to strengthen global competitiveness to turn the China challenge into a strategic advantage across the worldwide operations. The race is undoubtedly getting tougher, but to compete, one must first remain in the arena.

Competitive collaboration between Chinese and European companies might be the next stage of the route for both. Different markets and different segments might see Chinese and European companies compete or collaborate with each other, in China and in other markets. New type of joint ventures will materialise that "coopetition" with more mergers and acquisitions to realise localisation and integration.

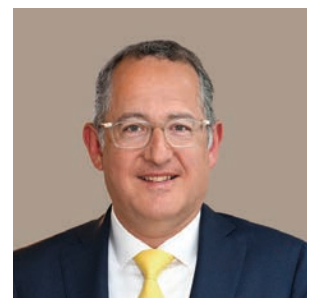
Government

Steering the deep transformation of such a massive economy, compounded with mounting challenges in the global environment, is incredibly difficult – it requires strong determination, a meticulously balanced and systematic approach to governance, as well as patience. The value of a long-term strategic view and pragmatism with agility provides China stability and clarity.

With China further strengthening its self-reliance on technology and innovation, the innovation potential of the private sector has to be genuinely unleashed through clearer rules and support, allowing bottom-up entrepreneurship to flourish alongside national projects. Simultaneously, China needs to ensure that the push for technological self-reliance and domestic resilience does not inadvertently isolate China from global collaboration. A crucial element in this endeavour involves strategically enhancing

China's soft power through the global promotion of its contemporary cultural assets, media narratives and educational exchanges.

By cultivating a more compelling and relatable national story that extends beyond economic achievements, China can build greater international trust and understanding, ultimately creating a more favourable environment for its peaceful development and global engagement.



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Hot Topic

AI in Asia – Quo vadis?

The landscape of artificial intelligence (AI) in Asia is rapidly evolving, with 2025 marking a turning point due to the rise of Chinese language models. While Asia has been somewhat quieter in the AI arena over the past few years, significant advancements are now emerging. Beyond China, most Asian economies are technology takers, and very pragmatically adopting relevant use cases, with an over-emphasis on digital marketing applications. While there has been a massive increase in interest in AI, especially Generative AI (GenAI), it is only starting to make its way into the industry. The next wave of transformation is the integration of AI into core operations such as R&D, manufacturing, and supply chain management.

In this article, we will highlight 10 points regarding the current state and future trajectory of AI in Asia.

Why is 2025 a turning point for AI in Asia?

Historically, Language Models (LM) development has been dominated by the United States. This area was powered by the established tech giants such as Microsoft and Google, and groundbreaking research from start-ups like OpenAI. According to Stanford HAI, in 2024, US-based institutions produced 40 notable AI models, compared to China's 15 and Europe's (or France's) three. Previously, most of the AI-driven gains in China

came from the traditional AI technologies/ models, such as traditional machine learning, deep learning, computer vision, and automation. With China's industrial modernisation drive, AI-powered automation has been embedded in Chinese industry. Autonomous robots and AI-optimised production lines are common in large-scale manufacturing and logistics.

2025 marks a significant shift in the global AI/LM landscape, driven by China. China begins to seize the lead with a new generation of homegrown advanced AI models such as DeepSeek. It released a large language model that not only rivalled the performance of OpenAI's GPT-4 but was also developed with remarkable efficiency, reportedly at a fraction of the computational cost – leveraging previous developments, in a typical Chinese fashion. China's AI ascent is no longer just about relying on Western giants but is increasingly driven by domestic models with a vibrant and decentralised ecosystem of innovators.

The rise of homegrown Chinese models drives two phenomena: Chinese companies, in particular the tech giants, are testing, adopting and implementing at blazing speed. Other Asian companies start to manage the best of both worlds, with Chinese and other LM in a hybrid set-up.

What fuels China's AI acceleration?

China's advantages in AI are multifaceted. The country benefits from:

- **Rapid adoption:** Chinese AI space's move towards open-sourced models will further accelerate AI adoption and innovation. Key players such as DeepSeek, Baidu, Alibaba, Tencent lean heavily towards open-source LLMs in a strategic response, which fosters collaborative growth and customisation, especially for specialised use cases. Meanwhile, open-source AI has an advantage in affordability. Startups, corporates or universities operating on limited budgets are able to download and run these models on more affordable infrastructure. The swift integration of AI models into existing products pushes rapid adoption, particularly in the B2C market.
- **Data scale:** China has built a highly digitised ecosystem that provides vast amounts of data, facilitating accelerated AI deployment. In 2023, China's digital economy accounted for 42.8 percent of its GDP, creating an unparalleled data-rich environment.
- **Vertical integration:** As of now, China has reported over 30,000 basic-level smart factories, over 1200 advanced-level smart factories, and over 230 excellent-level smart factories established nationwide, covering 80 percent of the manufacturing industries. The synergy of digital technologies, particularly AI with the Internet of Things (IoT) in sectors like manufacturing and retail is greatly enhancing operational efficiency.
- **Export channels:** As the "factory of the world", China can embed AI into products like machine tools and electric vehicles, ensuring widespread global presence, especially in developing nations. Most notably, EV leaders like BYD are exporting vehicles packed with AI-driven

features, from autonomous driving suites to intelligent battery management systems.

What hurdles hinder China's AI ambitions?

China's path to global AI leadership is fraught with significant and structural hurdles.

One significant challenge is limited access to certain technologies due to US export restrictions. These restrictions highlighted China's vulnerability and made self-reliance a top national priority. Accordingly, the Chinese government launched massive plan for high-tech sectors, with a significant portion dedicated to semiconductors. Companies like Huawei, SMIC, and Alibaba rapidly developed proprietary chips. Despite progress, China still faces challenges in the most advanced chips, especially in advanced process nodes and advanced packaging which requires fab equipment and critical ingredients subjected to the US pressure to restrain advanced exports. These hurdles can significantly increase research and development costs for Chinese firms reliant on these technologies.

Additionally, compliance with data privacy regulations poses another challenge. Regulations are strengthened to restrict the cross-border flow of data, making it difficult for companies to access diverse, global datasets needed for training advanced AI models. At the same time, concerns about censorship, data privacy, and government intervention could make Western companies and regulators cautious about adopting or integrating Chinese AI technologies.

Moreover, language optimisation for Chinese models presents additional challenges for global deployment. Chinese language structure is fundamentally different from most Western languages. Idioms, cultural references, and context in Chinese are often hard to render accurately in other languages, leading to loss of meaning or nuance. Meanwhile, many Chinese

AI models are primarily trained on Chinese and English data, with less coverage for other languages. It requires significant additional data, engineering, and validation for global deployment. Language disparity can create barriers for Chinese technologies seeking to penetrate global markets where language diversity is a key factor.

How are other Asian countries navigating their AI path?

While China leads, other Asian powers are making their mark by adopting a hybrid approach, blending the Western, Chinese and local AI models.

- **Nations such as Japan and South Korea are focusing on practical use cases tailored to specific industries.** With long-standing expertise in robotics, industrial automation and semiconductors, companies like Nissan, Hyundai, and Samsung are leveraging AI to enhance manufacturing quality and efficiency. Japan has focused more on hardware-driven AI like human-robot interaction, rather than software-based models like LLMs, therefore it has been more reliant on foundational models from foreign players in this territory. While Korea has been emphasising more on AI sovereignty by building their homegrown foundational models from leading players such as Naver and Kakao, Korean companies are also partnering with Western tech giants on building AI chips and ecosystems (e.g. Intel, Dell, Nvidia).
- **Southeast Asia is emerging as a significant hub for AI investments, and it has become a testbed for US and China AI models.** Despite that this market is highly fragmented with high linguistic diversity, the region is experiencing rapid growth in AI adoption, mainly focusing on fintech, e-commerce and logistics. Singapore leads in AI adoption and investment accounting for 75 percent of total AI venture capital investment in the region. E-commerce platforms like Lazada

are employing AI for logistics and customer interactions. Notably, the region is becoming a testbed for a hybrid solution of both Chinese and US LLMs. Chinese AI companies like DeepSeek, Alibaba's Qwen, and Tencent's Hunyuan focus on open-source models, while US tech giants such as OpenAI, Google, Microsoft, and Anthropic mainly offer closed models via APIs. Companies and governments are adopting both types of models for different purposes. For example, Singapore's OCBC Bank uses over 30 internal tools powered by open-source AI, incl. Google's Gemma for document summaries, Qwen for coding, and DeepSeek for market analysis, supporting operations across both developed and emerging Asian markets.

- **Compared to global leaders, India is a latecomer in AI but now rapidly accelerating its efforts through national strategy.** India's AI development is characterised by strong government backing, rapid market growth, and a vibrant startup ecosystem. The cornerstone of this push is the IndiaAI Mission, launched in 2024 with the explicit goal to "Make AI in India and Make AI Work for India". This flagship initiative is backed by approximately USD 1.24 billion budget, focusing on constructing substantial computing power and deploying AI solutions for critical sectors like healthcare, agriculture, governance, climate and education.

How is Asia building its AI sovereignty?

"AI sovereignty" is rapidly rising as a strategic goal for major Asian nations. Economic sovereignty is not new in China, and it has been further emphasised as the nation's top priority in China's 15th Five-Year Plan. Meanwhile, more and more countries now are viewing control over their technology, especially data and AI models, as a matter of national security and economic independence.

In 2025, the Japanese government announced to prioritise home-grown AI technology in its new national strategy, aiming to strengthen national security and reduce dependence on foreign systems; South Korea promoted its most ambitious sovereign AI initiative, with 15 flagship projects to combine AI with strategic industries across five regional hubs, to cut reliance on foreign AI technologies; Singapore led and launched the home-grown LLM, Sea-Lion, adapting to the local context and languages across Southeast Asian countries aiming to be a regional leader in AI, fintech, and digital services; India is also fully committed to the LLM race with ambitions to build home-grown models.

The strategic pursuit of "AI sovereignty" across major Asian nations is reshaping the market environment for global business. It leads to higher barriers to entry, stringent compliance reviews on technology sources and data flows, and higher cost to localise.

What are the economic implications?

The economic implications of "AI sovereignty" are substantial. Developing domestic AI capabilities not only supports local tech ecosystems, creates jobs, and fosters innovation tailored to national needs, but also attracts substantial investment in computing power and the supporting energy infrastructure.

In China, AI-driven innovations have been shown to enhance total factor productivity at a rate 40 times greater than ordinary patents. According to Morgan Stanley, during the next two to three years, AI may add an additional 0.2 to 0.3 percentage point to China's annual growth. It could also create USD 930 billion in equivalent labour value, or 4.7 percent of the country's 2024 GDP. China's AI investment emphasises on data centre construction and supporting energy infrastructure. According to the BofA report, copper and power

equipment demand will experience compound annual growth rates of nearly 20 percent in volume from 2024 to 2030.

In countries like South Korea and Japan, where semiconductor industry contributes significantly to GDP, AI is central to advancing their key industries such as automotive, electronics, and industrial manufacturing, and to maintaining export competitiveness. The South Korean government projects that successful AI integration could increase GDP growth by between 4.2 percent and 12.6 percent over time. To achieve its AI ambition, South Korea is set to build one of the world's largest AI data centres by 2028, with a planned capacity of 3 gigawatts (GW) and a total project value reaching USD 35 billion. It could create over 10,000 jobs across energy supply, renewable energy production, equipment supply, and R&D.

As AI adoption grows, emerging economies are also witnessing GDP contributions from AI and rising foreign investment. By 2030, the development and adoption of AI across key sectors is expected to boost GDP by 13 percent in Southeast Asia (East Ventures). India is also emerging as a key destination for AI infrastructure investment. The country's low data costs and rapidly growing internet user base have made it a hub for cloud and AI expansion for tech giants. Recently in 2025, Google's parent company Alphabet announced to invest USD 15 billion to build an AI data hub in Southern India, which is the largest AI hub project Google has invested outside the US.

What are the growing opportunities across sectors?

Across Asia, the rapid evolution of AI is unlocking a new wave of opportunities that extend far beyond traditional digital marketing and automation – AI now is accelerating innovation in R&D, design and engineering across sectors.

- **Healthcare & biotech:** AI holds tremendous promise for biotechnology. Scientists are now leveraging AI to forecast protein structures, simulate how diseases develop, and conduct virtual biological experiments on computers before committing resources to expensive laboratory testing. In the future, GenAI enables highly personalised medical care by analysing each patient's specific genetic makeup, physical traits, lifestyle factors, and medical history to create customised treatment plans. It leads to the next-generation of treatments.
- **Food and ingredients:** AI can rapidly analyse vast datasets of molecular structures, sensory profiles, and biological functions to discover ingredients and predict their interactions. AI's value doesn't end with product formulation. It also helps R&D and marketing teams better understand what consumers want. Recently, researchers at Hong Kong University of Science and Technology created an AI-powered system that integrates extrusion-based 3D printing with infrared heating to cook complex starch-based foods in real time. The system is supported by AI-assisted design using generative algorithms and Python scripts for food pattern design, making advanced food creation accessible even to users without technical expertise. By utilising AI's capabilities, the design process can integrate user feedback in real time, enabling continuous, iterative enhancements that address individual preferences and requirements.

Amid rising global uncertainties and volatilities that expose companies to uncontrollable supply chain bottlenecks, building operational resilience has become a business imperative. In response, AI is powering a new wave of use cases designed specifically to enhance this resilience. These systems can model various disruption scenarios – from geopolitical tensions to logistical delays – enabling companies to proactively adjust their sourcing, manufacturing, and inventory

strategies. The future developments are heading to autonomous supply chains and enhanced collaboration through shared, real-time data platforms.

- **Supply chain disruptions:** Extreme weather event is becoming more common and more intense, causing disruption of port operations and cargo delay. When a typhoon is approaching a port city, the system powered by AI tech can automatically redirect shipments to avoid delays. This has resulted in delivery times dropping by 10 to 20 percent in different sectors, with substantial savings on fuel and logistics costs. Real-time visibility is further enhanced by combining AI with IoT sensors and digital twins. This means that companies can monitor production, logistics, and asset utilisation as it happens, allowing them to respond to disruptions within hours rather than days. For example, if a shipment of semiconductors is delayed, the system can automatically reallocate inventory from another warehouse to keep production running.
- **Compliance issue:** EU carbon emission tracing regulations are driving the integrating of AI with blockchain technology. This combination allows for end-to-end traceability of products, from raw materials to finished goods and even recycling. For example, electric vehicle manufacturers use blockchain to track the origin and lifecycle of batteries, ensuring compliance with EU carbon regulations.

Decentralised AI (DeAI) is taking shape. As industries and businesses increasingly depend on AI models to drive innovation, the need for high-quality training data is set to surge. Traditional centralised data collection faces major challenges, including geopolitical restrictions, data privacy regulations, and limited data diversity. Platforms like the Shenzhen Data Exchange (SDEX) have emerged to address data shortages

and regulatory obstacles. SDEX stands as the largest national data trading platform in China, supporting data commercialisation and cross-border flow within the digital economy. Although there are pilot initiatives and some successful data-sharing deals, the goal of a fully open, decentralised, and cross-border industrial AI data ecosystem remains a work in progress. DeAI is expected to dismantle data silos and foster collaborative AI development, but most organisations are still in the early phases of adoption.

How is AI reshaping globalisation?

Today, globalisation is shaped by the ever-growing complexity of international relationships. China's ascent has sparked a growing rivalry with the United States, marked by escalating trade tariffs, investment restrictions, and fierce technological competition, all of which intensify the dynamics of US-China relations. This competition is evident in a series of escalating trade tariffs, tighter investment screening, and restrictions on technology transfers, particularly in sectors such as semiconductors, artificial intelligence, and telecommunications.

AI is mirroring the new globalisation pattern with a world gradually splitting into competing technological spheres. In response to US export controls that restrict access to advanced semiconductors, China is forging its own path. The rise of powerful domestic models like DeepSeek – which rivals leading global models while being developed at a fraction of the cost – proves this strategy is gaining traction. This divergence is not limited to technical standards or hardware – it extends to the underlying values, governance models, and long-term visions that shape how AI is developed and deployed. As a result, the global AI landscape is becoming increasingly fragmented, with each camp advancing its own approach to data governance, security, and the

societal role of AI, deepening both technological and ideological divides.

What is the geopolitical implication of an AI divide?

With China gaining influence in the Global South economically and politically, China is also exporting its technological influence through this channel. Companies like BYD and Sany Heavy Industry are shipping EVs and construction machinery globally with built-in Chinese AI for autonomous driving and predictive maintenance. This digital export strategy is coupled with deep economic integration. Through initiatives like the Belt and Road Initiative (BRI), China is financing and building the digital infrastructure of the future (e.g. data centres, ports) in these regions. This creates "soft power" and locks in long-term technological influence, making it economically and politically costly for these countries to switch to alternative systems later.

What is the new reality for companies?

The strategic integration of AI is becoming a fundamental imperative for competitiveness. AI adoption in Asia is shifting from digital marketing to deep integration in core operations from R&D, manufacturing to supply chain. Companies that leverage AI technologies can unlock significant growth opportunities, tap into new business models, and stay competitive as AI drives major productivity gains and economic value across the region.

Low to medium maturity in data integration is one of the main challenges for most companies and will significantly slow AI adoption. To fully adopt and unleash the potential of AI, companies should start by systematically identifying and classifying their data, ensuring that all relevant information – especially sensitive or regulated content – is clearly labelled and organised. Companies should

focus on robust data integration, connecting data from various sources and departments to create a unified, accessible foundation for AI models. It calls for the investment in data governance, cross-departmental data teams, or standardised data platforms. Meanwhile, protecting the data is essential. Companies should implement strong security measures. Private cloud infrastructure allows organisations to securely store, process, and analyse large volumes of data, providing the scalability and control needed for advanced AI applications while maintaining data sovereignty and confidentiality.

Small Language Models (SLMs) and specialised AI systems are more promising within companies.

Although LLMs captured the world's attention, the SLMs are now recognised as a key breakthrough technology due to their superior efficiency, lower cost, and enhanced privacy in agentic systems. This makes them a more strategic and lower-risk investment for driving immediate productivity and innovation within a company. It is even more critical for regulated sectors such as finance and healthcare, as specialised systems can avoid sending data to third-party cloud APIs. Consequently, the future points toward a hybrid AI ecosystem, where powerful but costly LLMs handle complex, creative reasoning, while efficient, specialised SLMs and specialised AI systems manage the vast majority of specific, high-volume tasks, balancing capability with economic and operational viability.

To navigate this shift, companies need to commit to a comprehensive, organisation-wide transformation. This begins with identifying high-impact use cases that deliver tangible value, followed by the development of a robust AI strategy and a supportive technological environment. Next, it requires a fundamental reshaping of the business operating model and a commitment to rebuilding workforce capabilities for an AI-augmented future. A robust change

management approach helps organisations define new workflows, set clear roles, and address concerns about accountability and trust, which clarify and optimise the interactions between human operators, AI agents, and management.

Finally, thriving in this new paradigm depends on proactively identifying and expanding both internal and external relationships, forging partnerships that provide access to critical data, talent, and innovation.

Meanwhile, there is a new order where technological sovereignty defines economic and strategic power.

This fracturing of the global tech landscape creates much complexity for multinational companies, not only creating rising compliance and R&D costs and operational inefficiencies, but also limiting the end markets and clients. Companies face increased operational complexity and the need for specialised legal and technical expertise in each market. Multinational companies must build resilient, regionally diversified supply chains, invest in local partnerships, and proactively manage regulatory and technological divergence to remain competitive and mitigate risks.



Hot Topic

The ‘Go Global’ Journey of Chinese Companies: From Scale Expansion to High-Quality Globalisation

- **High-quality globalisation requires companies to elevate their operational and managerial capabilities to a new level.**
- **Building a truly "global company" demands focus on six key elements for success: 1) Full leverage of strategic endowments and advantages; 2) Optimised utilisation of global advantageous resources; 3) Localisation of products and services; 4) Industry-leading and globally consistent management and rule systems; 5) Customised management and control models across regions; 6) Agile decision-making capabilities to swiftly respond to frontline market demands**

The trend of globalisation has deeply penetrated China’s core industrial sectors: the electronics and electrical industry has established a comprehensive global network; the automotive sector’s export scale has risen to the largest in the world; China’s unique retail formats are rapidly expanding into emerging markets such as Southeast Asia; and domestic beauty brands have successfully entered Paris and other leading international hubs. The year 2026, marking the launch of the "15th Five-Year Plan," is neither the starting point nor the end of Chinese companies’ "Go Global" journey. Rather, it represents a critical

juncture at which various industries as a whole are shifting from large-scale overseas expansion to high-quality globalisation.

Top companies have taken the lead in completing strategic upgrades, shifting from the traditional model of "In China, For Global" to a "Born Global" native approach with an inherently global ambition and planning. The evolution path of Chinese companies’ global competitiveness is clear: They are moving beyond the initial stages of exporting capacity, products and services, towards a breakthrough leap into the higher form of brand globalisation. Their core objective is transforming from simply "going abroad" to firmly "taking root" in overseas markets.

Current Core Challenges and Strategic Directions for Chinese Companies: Advancing Deeper and More Refined International Operations

After reaping the initial benefits of high growth and profitability brought by overseas expansion, Chinese companies are now facing core challenges as they shift towards more sophisticated and refined operations:

1. How to break through the bottleneck of scale expansion and achieve high-quality international development;

2. How to respond to policy, trade, geopolitics and other uncertainties in international markets; how to build an effective risk prevention and control system;
3. How to manage differences in culture, consumer behaviour and compliance across overseas markets to achieve differentiated governance that adapts to local market needs;
4. How to balance China’s domestic operating style of "rapid iteration, high innovation and intense competition" with the international market’s emphasis on long-term strategy and local compliance.

Six Key Elements to Achieve Success in Globalisation

Most Chinese enterprises have reached a core consensus: globalisation is by no means a short-term, one-off effort, but rather a systemic undertaking requiring sustained long-term investment. Companies urgently need to build systematic capabilities to overcome current development bottlenecks, so that globalisation can truly be forged into their second growth engine and drive them to a new stage of development.

In the face of these challenges, Roland Berger has identified six key elements for Chinese companies to achieve success in globalisation:

1. Full Leverage of Strategic Endowments and Advantages

Chinese companies have built differentiated advantages with global competitiveness in areas such as "China speed," supply chain resilience, cost efficiency, engineering talent and continuously strengthening innovation capabilities. These strengths are the key factors behind their success in the domestic market.

To sustain competitiveness abroad, companies must reinvent organisational and governance

mechanisms to ensure these advantages can be effectively transferred while flexibly adapting to the specific demands of overseas markets, achieving alignment between local endowments and global needs. Key priorities include:

- Define headquarters’ functional control boundary: Define which core functions are centrally managed by headquarters to maintain consistency in competitiveness.
- Develop regional "receiver" mechanism: Strengthen regional teams’ ability to localise headquarters’ strategies and resources.
- Integrate regional demands into decision-making workflow: Systematically embed real-time feedback and strategic insights from regional markets into headquarters’ decision chain.

Moreover, whether in alcohol, beverages, retail or manufacturing, long-term success in global markets requires further projection of Chinese culture and Chinese lifestyle, overcoming barriers in distribution channels and consumer perception. In the process of globalisation, Chinese companies must deeply analyse their own DNA and brand culture, as well as shape their brands across diverse global markets with long-term commitment and investment. This remains a task of critical importance.

2. Optimised utilisation of global advantageous resources

Traditional Chinese firms have typically drawn their competitive edge from local resources. By contrast, mature globalised companies are defined by their ability to put global resources to work: locating manufacturing bases in low-cost regions to optimise production costs; establishing R&D centres in technological hubs (e.g. Europe and North America), design centres (e.g. Italy and France) and industry clusters to access cutting-edge technologies as well as build a

coordinated, synergistic supply chain. They would also deploy operational capability centres by time zone within common-language regions (e.g. Spanish- or Arabic-speaking markets) to provide 24-hour coverage. For example, Huawei has set up design centres in France, contract-negotiation and software R&D centres in India, finance shared-service centres in Mauritius and China, and a bid-management centre in Malaysia.

When developing capabilities to localise and restructure global resources, Chinese companies need to balance three core objectives:

- Optimal resource utilisation: Leverage global footprints to complement strengths and weaknesses, thereby reinforcing core competitiveness;
- Highest operational efficiency: Establish a highly efficient operating system spanning multiple time zones, languages and cultures;
- Local interest alignment: Respect and integrate into host countries' economic and social development frameworks to achieve sustainable localisation.

Localisation of products and services

Significant regional differences exist across global markets, such as regulatory requirements (e.g. EU CE certification and US FDA standards), customer preferences (e.g. Southeast Asia's focus on cost-effectiveness and the premiumisation trend in Europe and North America), language and cultural factors (e.g. localisation of marketing content), and competitive landscapes (including barriers posed by strong local brands). All these factors mean that Chinese companies must deliver products and services tailored to local demands.

- Balancing global hero products and regional special editions: Global hero products usually account for the core share of corporate revenue (typically over 60 percent). From the outset of

R&D, they must be designed with global market needs in mind and adopt a model of "integrated development + multi-interface adaptation" (for example, reserving modules to meet regional regulatory compliance).

- Establishing localised regional R&D, sales & service teams: For large regional markets (e.g. Europe), companies should establish fully deputised local R&D teams to develop regional special edition products to enhance market penetration. At the same time, sales and service for consumer-facing businesses must be thoroughly localised. Chinese companies must avoid shortcuts but instead build genuine local teams to engage directly with end-users. By the end of 2024, MINISO's overseas employees accounted for 60.8 percent of its global workforce, while all store managers are local employees in Vietnam and other direct-operation markets. MINISO's global employee structure is highly diversified.

Industry-leading and globally consistent management and rule systems

Differences in economic development, talent density, industrial maturity and regulatory frameworks across regions create the risk of fragmented management standards. Roland Berger believes that globalised companies must first ensure consistencies of brand image as well as product and service delivery standards, while at the same time build a unified yet flexible global management rule system.

- Headquarters to establish global baseline management rules: Covering core areas such as quality control, product standards, supply chain security and compliance risk management, to ensure that business operations worldwide never cross the red lines;
- Regions to add customised requirements and unlock local teams' ownership: Based on local



regulations, competitive environment and cultural characteristics, each region may add regional specific requirements (e.g. localised environmental standards) on top of the baseline rules. However, to protect global brand reputation, lowering standards through so-called regional exceptions should be prohibited. In the process of localising management rules, the initiative of local teams should be fully harnessed.

At the same time, leading Chinese companies have already established efficiency advantages by implementing advanced organisational processes and management tools (such as digital operating systems), enabling the exporting of mature domestic management capabilities. They must now refine specialised processes (e.g. cross-border logistics control and international compliance reviews) in light of the complexity of international operations, mitigate risks unique to global business (such as geopolitical and exchange-rate risks), and enhance the overall efficiency of international business management.

Customised management and control models across regions

Globalisation has intensified the complexity of corporate management. The core challenges include overcoming the limitations of so-called "domestic headquarters mindset". They need to establish mechanisms at headquarters to empower international operations, define clear boundaries of control between global headquarters and regions and determine the appropriate depth of control across different functions. Overall, the following measures are required:

Upgrading headquarters capability: Global headquarters must upgrade their "globalisation awareness" across the full value chain, building overseas enablement capabilities through global field research and the development of an international talent pool.

Establishing customised control models for specific functions (based on strategic importance and collaboration needs):

- Leading functions (e.g. strategy, brand): Strictly controlled by global headquarters to ensure global alignment
- Collaboration functions (e.g. product, R&D): Clear division of responsibilities between global headquarters and regions, jointly advancing
- Capability functions (e.g. supply chain, manufacturing): Co-developed by global headquarters and regions to optimise resources
- Enablement functions (e.g. HR, finance): Global headquarters set standards and support regional operations
- Local functions (e.g. sales, service): Regions take the lead to ensure agile frontline decision-making.

Agile decision-making capabilities to swiftly respond to frontline market demands

Against the backdrop of intensifying global market competition, rapid response capability has become a core source of competitiveness. Chinese companies must embrace the management principle of "let those who hear the gunfire command the battle", while striking a balance between empowered agility and risk management.

- Establish clear governance and control mechanisms: Define decision-making boundaries between global headquarters and regions through a management checklist, and grant frontline regional teams the necessary authority via an authorisation system;

- Build a global intelligence network: Beyond the "central brain" (strategic decision centre), global headquarters should strengthen the regional teams' role of "market sensors" and establish real-time information transmission mechanisms (e.g. promptly notifying the global headquarters of changes in regional policies and regulations, or adjustments in competitors' strategies).
- Optimise performance evaluation mechanisms: Incorporate "timeliness of market information transmission" and "efficiency of frontline demand response" into the KPIs of regional entities, rewarding proactive feedback on market dynamics and enabling headquarters to make timely decisions on major issues (such as significant investments or new product launches).

Entering a New Stage of Becoming Truly Global Companies

The globalisation of Chinese companies has advanced from "business expansion abroad" to a new stage of "capability globalisation". As more Chinese firms go overseas, the early-mover advantage of "going first and moving fast" will quickly diminish. The companies that succeed in the future will be those who effectively integrate China's strengths with global resources, strike the right balance between unified control and regional flexibility, and build global organisational systems that are capable of continuous learning and rapid evolution.



Hot Topic

Turning the Corner: Value Reconfiguration Fuels China's Next M&A Leap

► Domestic M&A and Consolidation Regain Momentum Amid Industrial Upgrading

► Adjustments to MNCs' China Operations Create Carve-Out Opportunities

► Chinese Companies' Accelerated Overseas Expansion Drives New Investment and Capital Partnerships

In 2025, China's investment and M&A market experienced a rapid recovery and underwent a profound structural transformation. In the first half of the year, the total value of M&A transactions exceeded US 170 billion, marking a year-on-year surge of 45 percent and demonstrating a positive market response. This growth reflects not only a rebound in volume, but also the increasing dominance of strategic M&A underpinned by deep industrial logic. Strategic transactions initiated by real economy companies in partnership with long-term capital became increasingly prominent. These deals focus on technology integration, industry chain security and market leadership, accounting for a significantly higher proportion than previous years.

Similarly, the exit side also witnessed a pivotal shift. Hong Kong's IPO market experienced a banner year, while the A-share market showed

steady improvement. Together, they provided smooth exit channels for earlier investments and helped restore confidence in the "investment – exit – reinvestment" cycle.

Notably, private equity funds saw a marked increase in both the number of IPO exits and the level of returns, signalling a substantial improvement in capital liquidity. This year, the market presented a clear transition from broad scale-oriented expansion to a development path focusing on quality enhancement and structural optimisation, with industrial upgrading at its core.

Looking ahead to 2026, as China's economy gradually recovers, asset valuation adjustment will continue, momentum in Hong Kong IPOs is expected to remain strong, while positive market sentiment is set to persist. We have also identified four key investment and M&A themes worth sustained attention in the year ahead.

Integration Wave Fuelled by Industrial Upgrade

In 2025, as the macroeconomy stabilised and began to recover, China's M&A market experienced a structural rebound. Among the key drivers was the wave of integration opportunities arising from ongoing industrial upgrading. Listed companies played a leading role in this

resurgence, with their share of transaction volume and value continuing to rise. Their strategic intent to achieve industrial integration and extend capabilities through M&A became increasingly evident, significantly contributing to the current market recovery.

As the market rebounds, investment logic is also undergoing a profound transformation. The previously mainstream model of short-term arbitrage supported by financial leverage is being phased out, giving way to a more prudent approach around long-term value and strategic synergy. Buyers are placing greater emphasis on targets' potential value to be unlocked through integration in areas such as technology, industry chain coordination, and sustainable development. This trend is particularly apparent in sectors aligned with China's long-term strategic priorities, including "hard technologies", green transition, high-end manufacturing, and digitalisation.

These sectors not only benefit from policy support but are also emerging as key focal points for strategic M&A, driving capital to migrate from traditional industries towards high value-added segments. Strategic M&A is expected to remain a key growth engine through 2026, with further evolution aligning with the direction of industrial upgrading and national strategic priorities.

Value Opportunities Created by Foreign Carve-out

The strategic retrenchment and asset carve-outs of foreign businesses in China are creating unique structural investment opportunities. Since 2024, under the dual pressures of geopolitical tensions and strategic realignment decisions from global headquarters, some MNCs have begun reassessing their China operations. This has led to a wave of carve-out-ready assets, particularly in consumer goods, technology, and industrial manufacturing, which possess solid operational foundations and strong market positions.

This trend presents a rare acquisition window for Chinese companies and domestic private equity funds with localisation capabilities and capital strength. Such assets typically have mature supply chains, highly recognised brands, and loyal customer bases. However, they are often undervalued due to extended management oversight from global headquarters, ineffective localised decision-making mechanism, or misaligned global resource allocation. Upon acquisition, Chinese buyers can materialise their potential value through deep localisation efforts, including further optimising supply chains, restructuring digital channels, as well as customising product portfolios and marketing strategies to serve domestic preferences.

Overseas Investment Driven by C-Company Globalisation

As Chinese companies continue to accelerate their globalisation efforts, outbound mergers and acquisitions have become a key pillar of China's M&A activity. In the first half of 2025, the total value of overseas M&A transactions by Chinese companies reached US\$19.6 billion, marking a year-on-year increase of 79 percent. A significant proportion of these deals were executed through consortium-led transactions, where strategic buyers partnered with investment funds to jointly expand into overseas markets. This collaborative model has emerged in response to the challenges Chinese companies face in outbound expansion, including capital constraints, resource gaps, and cultural integration. Consortium structures help mitigate risks and improve the likelihood of successful deal execution.

Cross-border mergers and acquisitions are becoming a mainstream strategy for Chinese companies, particularly in advanced manufacturing and consumer goods sectors. These transactions not only enable Chinese companies to secure additional market share

but also strengthen their global competitiveness through resource integration and technological enhancement. The growing diversity and cross-regional nature of outbound M&A activity are expected to embed Chinese firms deeper into global value chains and accelerate their globalisation efforts.

The rise of consortium-led deals and collaborative acquisition models offers Chinese companies greater access to global opportunities, while helping to mitigate the risks associated with undertaking foreign expansion alone.

Value Creation Powered by China Market Expertise

Over the past several years, multiple industries in China have achieved leapfrog development banking on the rise of artificial intelligence and digitalisation. Chinese companies have pioneered innovations in business models, omnichannel operations and management digitalisation. In parallel, they have developed systematic methodologies to enhance operational efficiency, particularly in areas such as intelligent manufacturing and supply chain coordination.

These "China practices", tested and refined through intense domestic market competition, offer significant strategic guidance for emerging markets such as Southeast Asia, the Middle East, and Latin America, where digital transformation is still in its early stages.

For investors engaged in cross-border M&A, the value of "China experience" still matters. Even if the target company has no direct business link to China or involvement with Chinese teams, proven "China practices" can serve as a strategic resource for post-investment value creation.

Following acquisition, investors can actively introduce digital operating models, agile organisational structures, or AI-driven solutions

validated in corresponding industries in China. Through localisation and systematic integration, these approaches can help reconfigure core business processes and boost operational efficiencies within the portfolio company.

This post-M&A integration strategy by leveraging market-tested expertise in China is increasingly recognised as a key pathway to enhancing asset value and driving synergistic growth in cross-border transactions.

In 2026, the recovery of China's investment market is expected to continue, with domestic value reset likely to drive further activity in mergers and acquisitions. For private equity funds and corporate investors alike, the coming year presents a pivotal window of opportunity—whether in capturing structural opportunities within the domestic market or supporting outbound capital needs of Chinese companies.

We look forward to working alongside investors to seize these new value creation opportunities emerging in China's dynamic M&A market.



Hot Topic

Change Management Cultivates New Quality Productive Forces: The Winning Strategy for Navigating Business Cycles

- **Companies Pursue Transformation Through New Quality Productive Forces, Few Succeed**
- **Scientific Transformation Approach Key to Overcoming Complexity and Driving Effective Change**
- **Danaher Business System Emerges as Global Paradigm for Sustained Growth and Change Management**
- **Change Management Office at Core of Transformation, Backed by Organisation, Mechanism and Talent**

Recently, China's export control over rare earth materials has drawn global attention to its manufacturing prowess. China accounts for 55 percent of global steel output, 60 percent of aluminium, 80 percent of tungsten, 40 percent of copper and 70 percent of cement. While this scale confers a significant advantage in manufacturing, it also exposes overcapacity and other challenges when demand or exports falter. In 2024, the total profit of China's industrial enterprises above the designated scale for statistics reporting fell by

3.3 percent year-on-year. Within this, the profit of ferrous metal smelting and rolling industry recorded a sharp 54.6 percent decline, while the petroleum, coal and other fuel processing sector shifted from profitability to loss.¹ Industries generally face survival challenges due to weak demand growth.

Amid pressure for survival and fierce over-competitions within industries – also known as neijuan or "involution" – many sectors are striving for renewal through transformation, guided by the concept of "new quality productive forces" and driven by innovations in technology, product and management. Yet the number of companies that truly succeed in revitalising themselves through such changes remains a clear minority.

1. Product upgrades and industry chain extension: Some companies fully recognise that the era of "product is king" and "service is king" has arrived. They are proactively upgrading equipment, extending into downstream activities and strengthening service capabilities. Yet the actual outcome of the implementation often falls short: Higher spending on equipment depreciation and services has not translated

into meaningful improvements in product quality or pricing, leaving companies trapped in a dilemma.

2. M&A synergy: Leading companies across several industries have pursued mergers, acquisitions and consolidation. But the expected synergy has largely failed to materialise. While their original operations remain industry leaders, the acquired businesses continue to generate losses. Extending and replicating management capabilities or best practices has proved far more difficult than originally envisaged.
3. Global expansion: Companies with product export experience have begun establishing manufacturing operations overseas. However, during the process, they encounter significant constraints, such as quality of the local workforce, the overseas business environment and the adaptability of expatriate managers from China. As a result, domestic advantages are difficult to replicate, and established best practices are frequently challenged in the overseas markets.
4. Digital transformation: Buzzwords such as "digitalisation", "intelligent transformation" and "intelligent transformation and digital upgrading" are frequently cited at industry forums. Many companies, drawn by the superficial external appeals of "large screens" and similar visualisation gimmicks, roll out comprehensive IT suites, MES, ERP, CRM and more. But in practice, operations often run on dual tracks, with paper-based processes continuing alongside the so-called AI systems. The result is limited business improvement, heavier operational burdens and digital outcomes that fall short of expectations.

The common thread running through the transformation setbacks outlined above is that companies underestimated the difficulty and complexity of change management and lacked

a rigorous implementation roadmap. Roland Berger's experience indicates that 70 percent of transformation projects have failed. By examining the composition of personnel types involved in these projects, we can clearly see that all transformations begin with a small number of advocates leading the charge alongside a core group of key staff members. Only when the results of change gradually become visible will more followers join in, echoing the maxim: "Some people see because they believe, but the majority believe because they see". The choice of transformation path, the rapid demonstration of tangible results, and effective internal communication are the essential safeguards for ensuring that change is sustained over the long term.

Companies that master the change capability are able to adapt rapidly to market shifts and sustain a growth momentum. In the realm of change management, the Danaher Business System (DBS) stands out as a global benchmark, a paradigm that turn the change capability into concrete systems and tangible products.

Competition among modern companies is no longer confined to individual products or technologies; it has become a rivalry defined by the effectiveness of entire operational systems. In this arena of commercial "system-based warfare", Danaher stands out as the most prominent exemplar.

In today's rapidly evolving global market, companies must actively manage change to navigate shifting economic cycles. The rise of Danaher offers a compelling case study. Its success lies not only in exceptional investment acumen but also in the creation of the distinctive Danaher Business System (DBS), a framework comparable to a modern military's "integrated combat system". By internalising this capacity to respond to change and drive growth, DBS has become the company's defining competitive advantage.

¹ Source: State Statistics Bureau

To begin with, Danaher exemplifies continuous transformation. Since 1969, through more than 400 global integrations and ongoing strategic upgrades, the company has shifted its focus from REITs and industrial products to become a global leader in the life sciences sector. Its history is defined by successful M&As and consistent value creation. Unlike many companies that falter during integration, each Danaher acquisition represents more than financial consolidation – it is a successful "implantation of the company's management and operating system". This illustrates how change management capability enables companies to overcome diverse business and cultural barriers, driving improvements in performance and operating systems at acquired entities.

Secondly, the DBS represents the company's core competitive strength in this "system-based warfare". It is a scientific methodology, replicable and verifiable, built upon three mutually reinforcing modules at its core.

1. Growth: Like precision guidance system, this module is dedicated to driving revenue. It employs rigorous tools to pinpoint market opportunities and optimise product portfolio.
2. Lean management: This module safeguards efficiency across logistics and equipment, placing customer value at the centre. It drives continuous elimination of waste throughout the entire process chain.
3. Leadership: This module is devoted to cultivating outstanding leaders, using the DBS as the vehicle for their development. Its purpose is to ensure the philosophy is passed on accurately and consistently throughout the organisation.

The implementation of the DBS follows a rigorous, scientific path. Its expert team acts as coaches, applying a mature process of diagnosis, planning, implementation and sustainment to guide

new businesses through the "hand-by-hand" implantation of the DBS mindset. This ensures the methodology is replicated consistently and systematically across diverse operating units. At the same time, it encourages self-motivation among the units, delivering improvement from the mindset of "being told to do it" to "wanting to do it". In this way, the approach effectively addresses complex challenges such as the "dual-track operation" often seen in digital transformation.

The core insight offered by Danaher is that effective change management capability is a manageable, replicable and measurable business process. Transformation is not an "art" reliant on individual heroics, but a "science" that can be embedded within the organisational structure. Through systematic enablement, successful implementation can be assured and sustained.

While many companies continue to struggle with the pitfalls of transformation, Danaher, through its systematic DBS and supportive organisational structure, has succeeded in embedding the ability to "master change" as a standardised operating system. Drawing on years of practical experience in long-term change management with clients, Roland Berger recommends that companies seeking to build their own "Danaher Business System" to embrace the new quality productive force transformation should begin with three priorities: establishing a dedicated Change Management Office, streamlining processes and mechanisms, and cultivating talent through real-world challenges.

At the organisational level, it is essential to establish a Change Management Office which is positioned as the central force to drive transformation. The office carries the critical responsibility of elevating performance through transformation and overseeing the entire journeys from identification, design to deployment at both corporate strategy and tactic levels. The office must introduce

advanced methodologies and ensure that the change process follows a rigorous roadmap. Meanwhile, it is also responsible for supervising the implementation, optimising the path forward as well as securing and promoting the achievements.

1. Comparatively, traditional President's Office typically relies on the "Project Management Office" approach to monitor the transformation progress, while the implementing units have the freedom to select and execute the detailed plans and methodologies by themselves. At the same time, many companies' lean production offices collect projects from the bottom up, often leading to weak alignment between project goals and overall strategy. By contrast, the Change Management Office is purposefully built to drive the rigorous implementation of company strategy, ensuring that tactical initiatives are designed and executed in line with strategic objectives.

2. During implementation, the Change Management Office acts more like a coach and mentor. It empowers project teams to deliver the desired results, while placing greater emphasis on consistency, scientific rigour and replicability of the methodology itself.

At the mechanism level, change management demands the meticulous design of the entire process across the whole process from initiative identification, design, implementation and final verification. The reward framework for these initiatives, the career development path for core leaders, and even the change management meeting mechanism (including topics, frequency, attendees, and summaries) must all be clearly defined and carefully planned in advance. These deliberate actions gradually build commitment and a shared focus from both top management and frontline execution teams. Moreover, once transformation results begin to materialise, well-planned internal communication helps the change culture take root and flourish.



At the talent development level, the objective is to cultivate "generals" who are both willing to take on difficult challenges and capable of delivering victories. Leaders are tempered through real-world challenges, and the Change Management Office provides the arena for their development. As a result, high-performing change management leaders are high-potential candidates for future top management positions.

1. Talent selection: The first step in talent cultivation is rigorous screening. Candidates for transformation project leadership in the Change Management Office must pass rigorous interviews conducted by management team members and secure their endorsement. Candidates should be assessed particularly on willingness to drive change, conflict management skills and professional expertise, thereby ensuring the quality of candidates is assured from the very beginning.
2. Talent cultivation method: The development approach emphasises "real-world challenges" rather than sitting through training workshops. Change projects are explicitly positioned as the testing ground for high-potential talent. Their ability to successfully complete complex projects serves as the most powerful evidence of their readiness to assume higher management responsibilities.
3. Tools for talent: The complexity of transformation projects demands that change leaders continuously sharpen their abilities in areas such as logical thinking, problem decomposition and quantitative analysis. Companies should equip them with essential data and analytical tools, including issue trees, end-to-end value stream analysis and big-data attribution analysis. This reinforces the principle that complex problems must be addressed through a logical, scientific approach, discouraging any heavy reliance on experience alone.

4. Guidance from top management team: The company's top management team must take responsibility for providing regular feedback, mentoring and guidance to core project leaders. The objective is to elevate their strategic perspective, enabling them to frame and address problems from a broader, big-picture level.

The year 2026 marks the commencement of the 15th Five-Year Plan, with many companies already initiating transformation by harnessing new quality productive forces. Confronted with a complex and evolving domestic and international landscape, every business leader must maintain strategic resolve while fully utilising organisational change structures and tools, advancing through a "small-trial, fast-paced" approach. At the same time, continuous iteration and upgrading are essential to identify and refine the optimal path for breakthrough in the real world. We expect that, through your commitment to change, all business leaders will achieve stronger business performance, a more robust organisation and a growing talent pool.



Hot Topic

Advancing Sustainability: Policy Guidance, Company-Level Innovation, and a New Global Landscape for ESG Compliance

- **National Policy Sets the Direction for Sustainability Drive with Detailed Dual Carbon Targets and Measures**
- **Green Technology Innovation by Leading Firms Boosts Long-Term Economic Competitiveness**
- **Chinese Firms Upgrade ESG Systems and Green Governance to Build Global Trust and Competitiveness**

National Policy Sets the Direction and Builds a Solid Base for Sustainable Development

The white paper Carbon Peaking and Carbon Neutrality China's Plans and Solutions, released at the end of 2025, offers a comprehensive overview of China's phased objectives and implementation roadmap for sustainable development, along with an evolving policy framework structured around top-level design, key sector initiatives and regional action plans. A mix of targeted fiscal incentives, green finance levers and binding standards is driving the effective implementation of green transition.

Specifically, the clean energy sector will remain a top priority, supporting ongoing

technological innovation and the shift towards green manufacturing. More detailed emissions requirements for manufacturing, construction and other energy-intensive industries will be introduced to drive low-carbon transformation at the production stage. Together, these measures are turning sustainability aspirations into mandatory requirements, channelling resources towards sustainable development and creating a solid institutional foundation for China's medium- and long-term growth.

Leading Companies Break New Ground, Boosting Reputation and Competitiveness to New Heights

Across industries, top Chinese companies are advancing in-depth green transition focusing on technological innovation and value reinvention, helping to shape distinctive China stories from the ESG perspective.

On the technology front, China's green equipment manufacturing sectors – highlighted by the "new three", namely photovoltaics, lithium-ion batteries and new energy vehicles – are strengthening their global leadership. They are doing so through optimised product design, more intelligent systems, lower lifecycle costs and a comprehensive offering that integrates

technology transfer, product supply and supporting services.

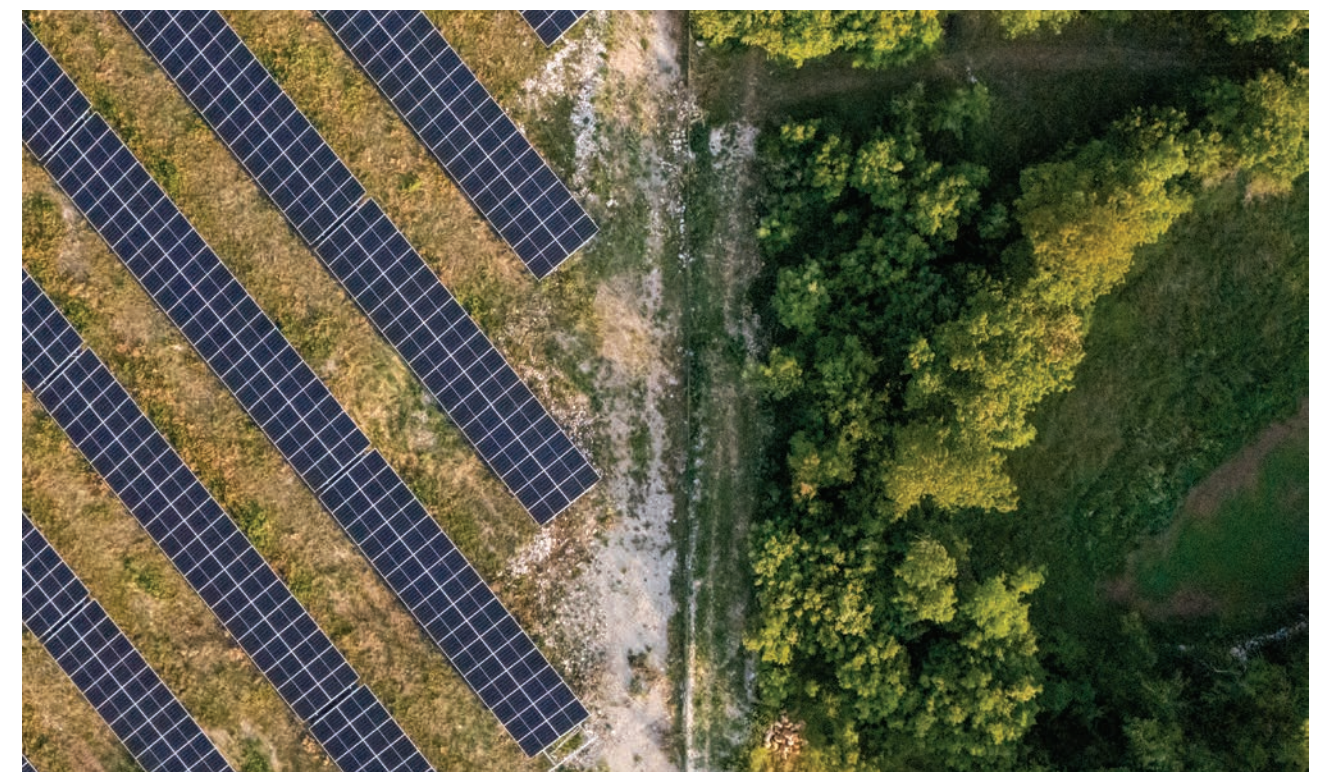
In terms of ESG practice, efforts to promote rural vitalisation and common prosperity have become a distinctive hallmark for Chinese companies. Companies are integrating business objectives with social impact through initiatives spanning industrial support, philanthropy and job creation. In doing so, they gain wider recognition for approaches rooted in local realities and aligned with global expectations.

ESG Becomes Prerequisite for Overseas Market Access and Defines Compliance Standards

For Chinese companies going global, ESG has shifted from a nice-to-have consideration to a must-have requirement. Sustainability regulations are tightening worldwide, and more countries now mandate ESG disclosures and scrutiny of

environmental and social impacts across supply chains. In this context, multinational corporations are embedding ESG standards into supplier eligibility criteria, and investors increasingly favour partners with strong ESG performance.

Facing various compliance requirements across different regions, Chinese companies are proactively adapting to local rules by building internal ESG management systems, improving the accuracy and transparency of disclosures, and reinforcing green governance throughout the entire supply chain. These measures are becoming essential for building trust in international markets. In practice, ESG has proven to be more than a compliance "firewall". It enhances talent attraction, fosters organisational cohesion and is emerging as a critical driver of building long-term competitiveness and winning trust on the global stage.



Industry Trends

Automotive



At the beginning of 2025, Roland Berger's automotive team introduced the key theme of the year: "Automotive Industry Consolidation Accelerates: How to Survive, and How to Win", emphasising that while the automotive industry transformation is seemingly a "marathon" in the long run, addressing the short-term uncertainties of 2025 has become a pressing imperative for every business leader.

However, the short-term challenges and uncertainties in 2025 have exceeded expectations. In the domestic market, they began with a price war early in the year and followed by new disruptions brought by affordable models with advanced driver assistance systems. March saw intensive "anti-involution" discussions within the industry, followed by frequent autonomous driving safety incidents around mid-year. In overseas markets, it is from the escalation of tariff barriers in April, a series of newly issued policies by foreign countries, to another wave of global semiconductor supply disruptions in October.

Management teams in China's automotive industry have faced considerable shocks in both domestic operations and overseas expansion. They responded with ongoing adjustments throughout a year that proved both challenging and rewarding.

Fortunately, under the guidance and policy direction of the government, China's automotive industry has maintained steady development amid intense competition. It has gradually shifted from price competition to quality competition. After passing several significant milestones last year, the thriving Chinese automotive industry kept its development momentum in 2025: passenger vehicles' monthly production and sales have exceeded 3 million units for the first time in history, the monthly penetration rate of NEV once approached 60 percent, and Chinese brands' market share has stabilised above 60 percent, with its vehicle export volume continuing to rise. From the flourishing Shanghai Auto Show in April, to the stellar appearance of Chinese brands at the Munich Motor Show in September, and the forward-looking technology showcased at the China International Import Expo in November—China's automotive industry continues to make strides in technological innovation and brand upgrading, raising the bar for the global intelligent electric era.

China's automotive industry is advancing steadily with its development, transformation, and upgrades, along with accelerating structural optimisation and consolidation. In this marathon of transformation, we expect to see the continuation and progression of many changes in 2026, accumulating transformative energy for the industry in the long run. Looking ahead to 2026, we have summarised six key evolving themes that will profoundly impact every participant in the automotive industry value chain.

Trend 01

Play-Off Heats Up as Weaker Players Accelerate Exit

The "play-off" consolidation for OEMs is accelerating, but the process may be prolonged:

Early signs of market concentration by the leading players have begun to emerge, and the industry concentration metrics of CR3/10 have also increased slightly. However, the competition under the surface among leading players is far more intense than the concentration metrics suggest.

From a competitive landscape perspective, the market share of new startup EV brands has risen from 3.6 percent in 2023 to 8.8 percent in 2025. That of privately owned OEMs has also increased from 24.6 percent to 33.1 percent. Their growth came at the expense of foreign brands who have seen a sharp decline in share. However, this trajectory is unlikely to continue. As joint venture OEMs strengthen their collaboration with domestic supply chain partners, their shortcomings in intelligent systems are expected to narrow, allowing their market share to stabilise. At the same time, several state-owned OEMs with support from local resources are actively introducing smart solutions from Huawei and other domestic vendors, creating a regional force that cannot be overlooked.

The shifting balance among these players suggests a definitive competitive outcome is unlikely in the near term. Compared with mature markets where the CR10 typically exceeds 90 percent, China's automotive market still retains a substantial room for consolidation. While the pace of OEM consolidation has been steadily picking up pace, continuous strategic adjustment and capability building across different camps suggest a protracted competitive contest ahead.

A diversified competition is unfolding across the components sector, with the elimination of legacy players accelerating: The industry is experiencing an intense disruption as traditional suppliers are rapidly transforming, OEMs are extending upstream, and a new wave of tech-driven component entrants is making a foray from adjacent industries into the automotive sector.

As software-defined vehicles (SDVs) and domain control architectures reach broader adoption, many traditional component suppliers are facing value-chain marginalisation from the OEMs. Some are even exploring transitions towards contract-manufacturing models. Meanwhile, numerous consumer electronics and home appliance companies are leveraging their strengths in hardware and intelligent systems to enter the space, further complicating the competitive landscape.

Within this melee, two types of companies are likely to face pressure first. The first group is players that lack long-term strategic focus. For example, some foreign suppliers have opted to divest and exit the market under capital market pressures. The second group includes small-scale suppliers with limited financing capacity, which have difficulties in sustaining high R&D investments and withstanding price competition. We have observed that in several technology-intensive sub-segments,

Trend 02

the consolidation has already triggered a massive structural shift. Coupled with rising M&A activities, the sector consolidation continues to accelerate.

For dealer groups, only the fittest can survive, while a wave of structural retreat has emerged. As one of the structurally weaker links in the automotive value chain, dealers have been hit hard by this transformation wave and only the fittest can survive. Under sustained inventory pressure from OEMs, continuous price wars, and ongoing shifts in channel models, a large number of dealers are clinging to survival.

In 2024, more than 4,400 authorised dealerships exited their sales network, which is equivalent to an average of 12 closures per day, 93 percent of which belonging to traditional ICE brands. The wave of closure has continued into the first half of 2025.

In the face of this industry-wide change, national multi-brand dealer groups face heightened challenges due to organisational complexity and overly stretched management radius. By contrast, some mid-sized regional dealers with prime locations and relatively high levels of brand concentration have leveraged their flexibility and local advantages to carve out space for survival amid volatility, demonstrating greater resilience.

Transformation Moves Into a Critical Phase, With Value Chain Capability Deciding the Winners

Although recent "anti-involution" policies are guiding the industry towards healthier competition, the impact will still take time to materialise. At the same time, the transition towards new energy and intelligent vehicles still requires sustained and high intensity investment, indicating that sector-wide profitability pressure is unlikely to ease in the short- to mid-term. Industry competition has entered a phase driven by value and efficiency. Against this backdrop, neither OEMs nor component suppliers can rely on a single product or technology to maximise returns. The focus of competition is shifting towards the full value chain capability which includes R&D, manufacturing, supply chain, delivery, user operations, digital asset management and capital efficiency.

R&D capability breakthrough: from rapid iteration to high-quality development and ecosystem co-creation: For years, China's automotive market has been led by rapid iteration with new model development cycle compressed to under 18 months and even shorter. However, as competition intensifies, systemic issues such as quality stability, value allocation along the supply chain, and the construction of innovation ecosystems have surfaced.

We proposed that future R&D must insist on an "agility with quality" approach, guided by real user needs and reinforced through closed-loop tests and validation process to ensure reliability and safety. Also, leading players are moving away from closed-door R&D models and building cross-industry collaborative ecosystems. By connecting

with partners in fields such as chip, software, energy, and cloud-computing, they are jointly defining China's independent innovation and intelligent manufacturing standards for the NEV era.

Delivery model innovation: capacity collaboration and intelligent manufacturing becoming two engines. Given the misaligned pace between different companies' business development and investment agenda, the industry faces a structural challenge of uneven capacity growth. As Chinese automobile companies' global expansion enters a new stage, enhancing capacity collaboration between companies has become critical for optimising global resource allocation.

At the same time, manufacturing systems are speeding up their intelligent upgrading. Data-driven predictiveness, digital-twin applications, and AI-enabled quality control systems are becoming key pathways to improving productivity and enhancing flexible response capabilities. By integrating real-time data flows between manufacturing and R&D, companies are progressively establishing a unified "R&D to manufacturing" loop, creating a systemic delivery advantage built around intelligent manufacturing.

Reshaping capital operation capability: advancing through value-oriented and efficiency-centric governance. As the industry enters a phase of rational growth, capital usage efficiency has become a key indicator for solidifying the core business and expanding into new domains. The role of capital operation is shifting from "increasing input" to "precise allocating". Leading companies are operating through refined portfolio management, while leveraging inorganic growth to support defensive strategies and business expansions.

Capital efficiency at its core is not a matter of financial technique but of value-oriented strategic resource allocation, directing funds towards domains that can strengthen technological accumulation and build competitive advantages. High capital efficiency means that companies are able to pursue global expansion with lower debt and stronger returns.

With system as the foundation, capability as the core, the success of this round of transformation ultimately depends on the robustness and maturity of the business' full value chain capabilities. Competition has shifted from isolated advantages to a sustained contest of end-to-end capabilities. Only through in-depth value-chain-wide reformation, and by building resilient operational foundations, can companies secure a leading position in the long-term transformation ahead.

Trend 03

Globalisation Push Deepens as Chinese Companies Make Decisive Moves

After a period of favourable conditions that supported Chinese automotive industry's globalisation drive, the industry is now entering a stage marked by multiple structural shifts. The low-hanging fruits of early expansion have been mostly depleted and the competition intensity now elevates to an unseen level. The rising geopolitical frictions are driving a wave of localised manufacturing. The logic of competition is evolving from product export to full value-chain export.

Under such context, short-term growth may encounter bottlenecks. Nonetheless, Roland Berger believes that the globalisation of China's automotive industry remains an irreversible trajectory. Over the long term, Chinese players are still poised to compete for global leadership and will ultimately reach 10 million-level of overseas sales volumes.

The year 2026 will be pivotal for this transformation, as leading companies must reinforce internal capabilities and transition from export-oriented firms to genuinely multinational companies. It is also a decisive year for them to achieve market share breakthrough in strategic high-ground markets. Eventually, the strength of a company's global operating capability will become the anchor underpinning its position in the global competitive landscape.

The pursuit of global competitiveness is more than just a slogan - it demands concrete action. Chinese companies must transition from merely "running overseas businesses from China" to "operating with a global vision". This requires upgrading the organisation model from a "China headquarters + overseas branches" structure to an integrated system with a global headquarters and key regions as its strategic pillars.

On a systematic level, the competitive dimensions have expanded beyond product and pricing to include the entire value chain, including R&D, manufacturing, supply chain, branding, channels, services, financial ecosystems, as well as strategy, organisation, compliance, digitalisation, financing and investment. In the "second half" of global competition, success is not just about scale, but also about speed, quality and resilience. Globalisation should not be a result of "spillover of involution". Rather, it should be a systematic global export of China's comparative advantages in its talent, quality, efficiency and invention.

To build this set of systematic competitiveness at the global stage, Chinese companies across the automotive value chain must advance coordinatively along five strategic dimensions:

- **Realignment of mission and vision:** Start with the ambition to become a world-class enterprise. Recalibrate the corporate mission and vision to align with global user pain points and employee value identification. Ensure the mission and vision can support its globalisation strategy and trigger cultural engagement. Through effective communication and activation mechanisms, let these core values take root deeply across all markets.

Trend 04

- **Organisational and process evolution:** Transition from the HQ for China to the HQ for global. Build an organisation capability that is "born global". This vision requires a revamping of existing functions and business processes. It also requires an in-depth, fundamental transformation in employee mindset and way of working, pushing all functions to "operate in China, serve the global market". Innovation capabilities honed in the Chinese market should be applied to win the global competition. Overseas teams must serve as hubs within a two-way information highway network-acting not only as the sensors passing on business and market needs, but also as end-to-end business operation entities with full accountability.
- **System-standard upgrading:** As globalisation enters deeper waters, Chinese companies will face carbon emissions, data compliance, safety certification and other market entry requirements in key markets that are significantly higher than domestic benchmarks. Businesses must establish a unified, transferable global operating framework at the headquarters level, while authorising overseas teams to adapt flexibly to local regulations and needs. This set-up can help Chinese companies keep their strategic coherence and operational resilience in the increasingly complex global environment.
- **Global resource allocation:** Companies must shift from a China-centric mindset to a globalised vision for resource allocation. Proactively identify areas with technology, cost and value chain advantages to achieve the optimal globalised allocation of factors such as R&D, supply chain, manufacturing and talent.
- **Talent team integration:** As globalised operations deepen, talent structures become increasingly diverse. Business must balance external recruitment with internal incubation and build integrated teams across cultures and geographies. Through mechanism building, training, talent development, and culture nurturing, companies can attract global talent. These efforts also ensure integration and effective talent allocation, ultimately forming a unified, globally coordinated organisational ecosystem.

Technology Competition Determines Outcomes While Breakthroughs Secure Commanding Heights

As the automotive industry continues to evolve, technological leadership is becoming increasingly crucial to the strategic positioning of both OEMs and component suppliers. It not only determines product competitiveness, but also shapes the pathway for brand upgrading, influencing the future landscape of industry competition.

At the same time, continuous accumulation of innovation capabilities is enabling Chinese OEMs and suppliers to secure new strategic positions in the global competition. Gradually realising a transition from followers to leaders, Chinese players are driving

the global automotive industry transformation through technology innovations, defining the future benchmarks for the industry with Chinese standards.

In the field of three electric systems, 2026 will be a key year for small-batch production and vehicle testing of solid-state batteries. Multiple battery companies have already outlined their installation plans for 2026–2027. The technological race has expanded from semi-solid to full solid-state, driven both by competitive anxiety as mainstream battery routes become clearer, and also by the national emphasis placed on solid-state batteries as a strategic technology. Notably, solid-state batteries hold promise not only for transportation, but also in key sectors such as aerospace, robotics, biomedicine and national defence.

In the intelligent field, AI and embodied-intelligence technologies are now "spilling over in reverse" into the automotive sector, systematically enabling core functionalities such as multimodal interaction, semantic understanding and immersive in-car experiences. The smart-cockpit and autonomous-driving domains are further converged not only through functional coordination but also driving the evolution of vehicles into "AI-powered intelligent agents" through foundational alignments at hardware and software dimensions.

In the autonomous-driving domain, the competitive landscape is being restructured and is expected to undergo an accelerated reshuffling by 2026. Roland Berger anticipates that the market may eventually converge towards an end-game landscape of "four to five leading suppliers plus a small number of OEMs with in-house development capabilities". Full-stack suppliers, solution providers, robotaxi tech companies, technology-licensing parties and hardware platform providers will all participate in the competition within this high-value market.

In the broader mobility sector, technologies such as low-altitude economy/eVTOL and intelligent traffic management are advancing rapidly. As 2026 marks the first year of the 15th Five-Year Plan, it will also become a key stage for state-owned transportation groups with core assets such as transport hubs, bus networks and logistics infrastructure to increase their investments in these technologies. Implementation forms may include airspace-management platforms, transportation data middle platforms and urban information systems. It should be noted that while these technologies have relatively limited engineering barriers, they rely heavily on the underlying infrastructure and digitalised foundations.

In the new materials domain, driven by combined requirements for decarbonisation, environmental protection, weight reduction and range extension, the adoptions of new materials such as thermal-management materials, solid-/semi-solid-state electrolyte precursors and semiconductor substrates are picking up speed. The performance and maturity of these materials will directly determine the core competitiveness of the next generation EVs in areas such as safety, range and energy efficiency.

Trend 05

Capital Race Intensifies, Driving M&A to Reshape the Industry Landscape

Profitability across the automotive value chain remains under pressure. Although performance varies across sub-segments, through an overview of 2025, even high-growth sectors such as Intelligent Connected Vehicles failed to reach ideal profitability level, with many companies continuing to operate at a loss. By 2026, we anticipate that capital will become the central arena of competition within the industry. Competition will no longer be limited to technology, products and clients, but will extend further into capital strength, cash flow management and M&A integration efficiency.

In the context of periodic adjustments and an accelerating industry reshuffling, capital liquidity and allocation efficiency will directly determine the survival and development space of businesses. They will become the critical variables reshaping the industry landscape in 2026.

The importance of net working capital and free cash flow has risen to unprecedented levels in the current industry reshuffling. Confronted with multiple funding pressures from intensive R&D investment, production capacity expansion, and market development, both OEMs and component suppliers face increasing financial strain. To respond, they must optimise their supply chains, improve inventory turnover, and strengthen cost control to enhance working-capital efficiency. At the same time, maintaining stable free cash flow is essential to support long-term innovation and withstand short-term operational volatility.

Over the past year, several small and mid-sized companies have fallen into operational distress due to tight working capital and insufficient free cash flow, including a number of European "behind-the-scenes champions" in the component sector. With the combined impact of raw-material price volatility, increasing client concentration and relentless technological iteration, some companies are now facing systemic risks. Meanwhile, China's dealer groups are also under significant pressure, and more regional dealers are expected to exit the market in 2026 as their liquidity dries up and cash flow falters.

Under such circumstances, the industry's consolidation process is accelerating, and M&A consolidation is emerging as the new commanding heights in the "capital race".

Strategic investors and industrial capital are actively seizing structural acquisition opportunities created by the industry participants' financial pressure. Some large traditional component suppliers, under the pressure of transformation, are preparing to sell their core businesses or assets, which are ideal targets for leading OEMs and multinational groups seeking to upgrade and complete their premium supply chain. Foreign component suppliers are frequently divesting or carving out their China operations as part of their global strategic adjustments, which creates openings for domestic industrial capital to enter.

Moreover, several major OEM groups are restructuring their businesses and optimising assets to enhance resource allocation efficiency and strengthen risk resilience, further driving ecosystem consolidation toward the leading players. Looking ahead, the M&A market in 2026 is expected to place greater emphasis on companies' cash flow quality and strategic synergies, driving integration pathways towards higher quality consolidation and deeper operational convergence.

Overall, the capital race and M&A will jointly drive a fundamental reshaping of the automotive industry landscape in 2026. Cash flow management capability is becoming a core competitive advantage, as industry resources are concentrating around leading players and innovative entities. For industry participants and investors alike, only by proactively seizing the strategic window for capital operations and M&A integration can they gain first-mover advantages in the next wave of industrial transformation, achieving sustainable, high-quality growth.

Trend 06

AI Transition Will Make or Break the Future as Integration Becomes the Only Path Forward

Artificial intelligence has become the central force driving the next wave of technological and industrial transformation. The strategic importance of "automotive + AI" has risen to an unprecedented level, with clear policy direction injecting strong momentum and confidence into the industry. Over the past year, Generative AI (GenAI) has demonstrated its commercial potential. With data and computing infrastructure steadily improving, the industry has identified multiple high-value scenarios for GenAI, delivering significant cost reduction and efficiency improvement. Based on Roland Berger's project experience, GenAI has already achieved 30 percent to 50 percent efficiency improvements in certain scenarios.

2026 will be the key year for scaling these applications and validating their commercial models. In this race of efficiency, the players that achieve large-scale AI deployment first will secure a strategic advantage in cost. AI is transforming the automotive industry in ways that extend far beyond isolated improvements – it will unleash a full value chain transformation that reshapes product development, manufacturing, marketing, and internal management.

- In R&D, AI is playing a dual-engine role in driving innovation. On one hand, it accelerates functional upgrades such as intelligent chassis and advanced autonomous driving; on the other hand, it is reshaping the R&D process itself. Text processing scenarios have already been widely powered by AI, including assisted code generation, automated creation and translation of technical documentation, which have delivered notable efficiency gains. AI applications in 2D image recognition and generation are rapidly advancing, while those for 3D and CAD model generation and optimisation are now being adopted in pilot cases. Looking into the future, natural language-based component design is expected to become possible, which will fundamentally disrupt traditional R&D paradigms.

- In production and manufacturing, AI is the core engine driving the leap towards intelligent manufacturing. Vision-based AI quality check systems have achieved detection rates above 99.9 percent while reduced costs by more than 70 percent. Predictive maintenance applications have cut unplanned downtime by 30 percent to 50 percent and lowered maintenance expenses by over 15 percent. Intelligent scheduling algorithms have improved overall equipment effectiveness (OEE) by 5 to 10 percent, creating flexible, efficient and responsive manufacturing systems.
- In marketing and services, AI is the well-rounded advisor that creates superior user experiences and realises higher conversion rates. From uncovering potential customers to sales conversion, AI supports user profiling and personalised engagement. AI-powered customer service agents provide 24/7 professional support. During vehicle usage, in-cabin voice systems and recommendation systems continuously learn user habits to deliver fully personalised experiences. Predictive maintenance models are also being extended to the user side, proactively notifying users of potential malfunctions and reshaping the aftermarket model.
- In internal management, AI is the intelligent command centre that enhances organisational effectiveness. AI is evolving from an efficiency tool into a decision-making partner, unlocking employee potential in tasks such as coding, meeting-minutes drafting and report generation. At the same time, AI is expanding into strategic analysis, market forecasting and investment decision-making sectors, supporting a shift from experience-driven approaches to data – and intelligence-driven models.

The full-scale deployment of AI is not just solely the responsibility of the technology department, but a CEO-led movement that concerns the whole organisation. It requires strong, top-down leadership from senior management, with clear AI strategic objectives that are implemented through internal value chain optimisation, intelligent applications of vehicle products, and the investment and development of certain parts of the AI value chain. At the same time, companies must establish a multi-dimensional support system encompassing governance mechanisms, execution teams and technical infrastructure. This is to ensure that the AI strategy is implemented effectively and an organisation level core capability will be developed through its execution.

AI is not optional, but a "compulsory course" for future survival and growth. The early pilots and explorations undertaken in 2025 have generated valuable experience for the industry, in which both the successful trials and the missteps have become important assets for the industry. These lessons have made one thing clear: there is no turning back in AI-led digital transformation. Only by embracing AI proactively can businesses avoid being left behind by the times. Accordingly, 2026 should not be a year of hesitation or observation, but a year of full acceleration: a year of "AI Charge" powered by full-speed implementation and scaled-up investment.

Looking ahead to 2026, transformation across the automotive industry will continue, the pace of consolidation will accelerate, and competitive pressures will intensify. The dimensions of competition for automotive companies are also becoming increasingly diverse and multifaceted. In this ongoing wave of change, every participant in the industry must act with greater determination and greater speed, embracing change proactively and driving transformation forward.

We look forward to working closely with stakeholders across the industry to jointly explore breakthrough pathways across critical "battlefields", including transformation, globalisation, technology, capital race and the AI transition, and to seize new opportunities emerging from the restructuring of the automotive industry landscape.



Industry Trends

Civil Economics



The year 2026 marks the beginning of China's 15th Five-Year Plan period and serves as a pivotal starting point for demonstrating the country's development certainty amid a globally uncertain environment. On one hand, it continues the strategic direction and policy momentum established in the latter half of the 14th Five-Year Plan, seeking progress while maintaining stability. On the other, it highlights a series of new development priority shifts: a transformation in urban development models, a transition from the growth of strategic emerging industries towards the construction of a modern industrial system, and a deepening evolution from technological innovation to industrial innovation. Together, these shifts reflect a clear prioritisation and a comprehensively coordinated, system-oriented approach to national development.

Trend
01

The Era of Existing Urban Areas Development Ushers in New Growth Models

Urban development has entered a new phase focusing on enhancing the quality of existing assets, marking a profound transformation in development models. City fiscal strategies are shifting from "investment-led balance sheet expansion" towards "operations-driven profit optimisation". This transition unveils significant opportunities in the renewal of existing urban assets. Cities can unlock greater spatial value and upgrade functional quality by focusing on the regeneration of existing assets and the activation of underutilised spaces.

Urban operations will increasingly be led by local state-owned investment platforms, with a focus on generating sustainable revenue, driving asset appreciation, improving urban operational efficiency, and enhancing the quality of services provided to new urban residents.

Trend
02

Government Investment Resumes Leadership in Urban Renewal

As the property market continues to decline, traditional models of urban renewal have become increasingly unsustainable. It is anticipated that governments will once again take the lead as the principal investors in urban renewal initiatives. This shift not only ensures that renewal efforts remain aligned with public welfare objectives, but also compensates for the shortfall in private capital investment.

In the coming years, areas such as affordable housing, urban village redevelopment, and the revitalisation of existing urban assets are expected to receive greater support through dedicated bonds and targeted lending instruments. Concurrently, as the real estate sector increasingly becomes recognised as part of the broader public welfare landscape, cities will seek to increase the value of existing land assets during the renewal process. Through comprehensive land consolidation and restructuring, urban authorities will aim to provide land resources to support a diverse range of residential, commercial, and office development needs.

Trend
03

Urban Operational Service Systems Advance Towards Greater Integration

Urban operational service models are evolving from fragmented functional management towards a more integrated and governance-oriented approach. The consolidation of municipal infrastructure with urban property management helps to enhance overall liveability, convenience, safety and resilience in city environments. The integration of resident services with public services which is organised at the sub-district level will improve service delivery efficiency and strengthen grassroots urban governance.

Furthermore, aligning urban operations with urban governance enables more effective coordination of city-wide resources and lays a solid foundation for digitalised governance.

Trend
04

Service Consumption To Become the Engine of Urban Growth

The national agenda has identified the vigorous promotion of domestic consumption and a marked increase in the household consumption rate as core priorities for economic development over the next five years. Among these, service consumption is receiving particular attention due to its strong capacity to support stable employment.

In the cultural and tourism sectors, cities are gradually moving away from reliance on projects requiring heavy capital investment, shifting instead towards experience-based consumption formats, such as exhibitions, performances, events, and sports. Public welfare provision is also expected to generate new consumption demand, thereby serving as a vital platform for government investment to draw in private capital.

Technological innovation will play a key role in driving consumption upgrades as well. Digital technologies will be widely adopted across cultural, commercial, and tourism-related sectors, driving the upgrading of consumption formats.

Trend
05

Systematic Industrial Development Anchored in 'Root Industries'

The prevailing trend in the new era is a shift from prioritising the growth of strategic emerging industries towards the comprehensive and systematic development of a modern industrial system. Within this context, "root industries" refers to general-purpose new technologies, advanced equipment and components, and novel materials. These industries are poised to benefit from significant growth opportunities.

"Root industries" not only generate new momentum through their own development, but also serve as catalysts for upgrading traditional sectors. Cross-industry and interdisciplinary innovation within "root industries" will enhance the effectiveness of related technology platforms and the capacity for technological transformation, thereby becoming powerful drivers of industrial innovation.

Trend
06

Producer Services Emerging as the New Focal Point of Industrial Growth

Producer services are emerging as a key accelerator for the high-quality development of regional real economies. In regions with strong industrial foundations, producer services should be leveraged to extend the value chains of leading manufacturing sectors both upstream and downstream, while also facilitating these chains' own transition towards higher-end capabilities and fostering a new wave of horizontal clustering.

Central cities can harness the concentration of producer services to convert China's strengths as a global manufacturing hub into greater influence and discourse power across international industry chains. Moreover, producer services serve as an important platform for high-quality employment, playing a vital role in attracting talent and retaining younger populations in major urban centres.

Trend
07

Industrial Platform Investment To Drive Cluster Formation

Local governments should place strong emphasis on the pivotal role of "chain-leading enterprises" in driving industrial cluster development. The strategy of investing in leading companies to build industrial platforms has become an increasingly prominent trend. Authorities must formulate clear investment roadmaps to identify priority companies and seize major investment opportunities. Through investment banking-style mergers and acquisitions, governments can establish new leading giants and shape the core of industrial clusters.

Industry chain investment should be more precisely targeted. By co-investing with leading companies, and tailoring the extension, reinforcement, and innovation of industry chains according to local industrial parks' strengths, the local governments can accelerate the formation of industrial clusters. The lifespan of investment funds should also be extended to reflect the nature of "patient capital". In parallel, fault-tolerant mechanisms should be strengthened, and differentiated management approaches should be adopted to support the long-term development of enterprises.

Trend
08

Regional Industrial Structures and National Industrial Asset Allocation Undergo Strategic Rebalancing

Following the implementation of the Regulation on Fair Competition Review, industrial development in inland regions faces new challenges, but also stands to benefit from a fresh wave of industrial asset allocation rebalancing across the country. On one hand, sustained investment in energy and multimodal logistics infrastructure in recent years has laid a solid foundation for relocating coastal industrial facilities to inland areas. At the same time, national policy has placed greater emphasis on domestic circulation and introduced further measures to expand domestic consumption demand, which will lead to a structural shift in China's consumption patterns.

Trend
09

Integrated Industrial Green Infrastructure Set for Scaled Deployment Across Industrial Parks

With the growing capacity of new energy supply and the advancement of technologies such as virtual power plants, the model of delivering integrated green energy through industrial parks has matured. Pilot programmes for zero-carbon parks are now being launched and promoted.

Industrial parks should provide comprehensive green energy services, energy management services, and green building systems to meet companies' holistic carbon reduction needs. The continued development of technologies such as integrated photovoltaic-storage-charging systems and intelligent microgrid coordination will help reduce energy costs for businesses while enhancing the stability of energy supply.

By adopting circular economy practices, industrial parks can further identify and mitigate carbon emission points across various operational scenarios.

Trend
10

Industry Alliances To Function as Core Hubs of Technological Innovation

In key sectors, resources across the whole industry chain have been mobilised to achieve decisive breakthroughs in critical technologies. This reflects a shift in innovation focus towards the collaborative needs of companies across the industry chain. Against this backdrop, the development of tailored industry alliances has become a strategic priority.

These alliances should be anchored by chain-leading companies, working in partnership with local upstream and downstream SMEs to define joint innovation directions and pathways. They must also establish horizontal linkages with scientific research resources. Local governments should provide customised support by equipping these alliances with public technology platforms, key laboratories, and other enabling infrastructure to facilitate broader sharing of innovation resources.

Furthermore, industry innovative alliances should enrich the science and technology service ecosystem, with a strong emphasis on their roles for research collaboration and technical services. Particular focuses should be placed on concept verification and technology transfer within specialised domains.

Industry Trends

Consumer Goods & Retail



As the traffic dividend reaches its ceiling and the demographic structure approaches its inflection point, China's consumer goods and retail industry is entering a profound "gearshift moment". The growth logic once driven by scale expansion, channel coverage and population growth has gradually lost its efficacy. Collectively, we are stepping into the deep waters of value creation, which requires more patience and refined operations.

Against this backdrop, the focus of industry competition has shifted from fighting for market share to creating meaning, from reaching audiences to managing user lifetime value. Consumers are no longer satisfied with products alone – they seek emotional resonance, identity affirmation and lifestyle solutions. Brands that remain confined to functional competition will inevitably fall into the downward spiral of "involution", which in today's China means excessive zero-sum competition where companies invest ever-greater resources without generating growth. At the same time, channel fragmentation, e-commerce platform diversification and the rise of experience-centric offline stores have formed a structural transformation for retail channels. It is reshaping the way people, products and places connect, driving companies to evolve from a sales mindset towards a user-centric operating mindset.

We have identified 10 key trends that will shape the trajectory of the industry over the next three to five years. These trends do not exist in isolation; together they point to a central question: How, in an era of "fixed-size market competition", can companies continuously create irreplaceable value for users through product innovation, organisational restructuring and ecosystem collaboration? This is both an evolutionary challenge for survival and a journey back to the essence of business. Let us now open the door to these trends.

Trend 01

Domestic Demand Upgrading: From Scale Expansion to Emotional Resonance – Value Reconstruction in China's Consumer 4.0 Era

China's consumption structure is rapidly shifting from survival-oriented to development- and experience-oriented. The government has elevated the expansion of domestic demand to a strategic priority, launching initiatives such as the "Year of Consumption Promotion". At its core, these measures encourage a leap from quantitative satisfaction to qualitative enrichment, using consumption upgrading to drive supply-side innovation and power high-quality economic growth.

At present, China's consumer market is undergoing a macro transition from material fulfilment to spiritual satisfaction. Unlike Japan's mature-stage focus on "healing and companionship" or Korea's evolutionary phase of "circle-based socialising", China is still at the early stage of the emotional economy. Consumer behaviour is strongly oriented towards self-pleasing, emphasising spiritual satisfaction and individual expression. This transformation is shifting the focus of brand competition from product functionality to emotional resonance. It is manifested in the rise of products

symbolising emotional attachment, such as trendy blind boxes and "guochao" (Chinese chic) cultural creative products, as well as sports brands differentiating themselves through spiritual symbols of professional excellence and outdoor aspirations.

Chinese consumers are no longer satisfied with standardised product transactions; their expectations have upgraded towards emotional experiences and customised services. Below are five major trends:

- From product-centric to consumer satisfaction
- From product transactions to emotional experience
- From large-scale industrialised production to customised services for individuals
- From anonymous consumption to community engagement
- From purchasing behaviour to identity recognition

This stratification of demand has given rise to emerging consumption scenarios such as "pet therapy", "purchasing partners" and the "Spiritual/Xuanxue economy". At the same time, brand building is increasingly advancing through the dual tracks of "beauty" and "trendiness". Research shows that across four leading categories – including durable essentials, food and beverage, beauty and personal care – consumer recognition of "beauty" brands is significantly higher than of those defined by "trendiness". Echoing the industry principle that "future consumption and life require content", many brands are innovating their communication strategies by upgrading brand essence, strengthening integrated marketing, extending content-driven campaigns and engaging in cross-sector collaborations. Through these efforts, they are constructing a more multidimensional "brand persona".

Therefore, the future consumer retail ecosystem will be reconstructed around four dimensions – mindset, mood, community, and co-creation:

As consumers' mindsets are increasingly being formed through fragmented processes, brands must engage in multidimensional communication campaigns;

Omnichannel integration must deliver a light-hearted and enjoyable shopping journey;

Value resonance will drive brands and consumers to co-create emotion-oriented communities;

Customised co-creation will become the key for consumers to express uniqueness.

At the same time, retail channels will evolve in parallel through both large-scale experiential spaces and small, refined instant-purchase venues. By combining art and commerce as well as upgrading the value of outlets shopping malls through integrated formats, offline retail channel will ultimately complete its transformation from physical operating spaces to venues delivering truly satisfying consumer experiences.

Trend 02

User Asset Management in the New Demographic Normal: A Systematic Approach to Lifecycle Management Capabilities

China's demographic structure is undergoing profound transformation: The national population has already entered a stage of negative growth, with declining birth rates and continued ageing, a rising proportion of single-person households, and increasing potential in lower-tier markets. Against this macro backdrop, the traditional "population dividend era", in which business expansion was driven by population growth, is gradually coming to an end. For consumer goods companies, extensive growth is no longer sustainable; instead, shifting to a consumer-centred approach and cultivating user value across the full lifecycle has become an inevitable choice.

Companies must move beyond the past pursuit of traffic scale and focus on continuously developing the value of "people", building their systematic capability to manage the consumer lifecycle. This requires identifying and responding to the differentiated needs of consumers at different life stages and across generations, with precise product strategies, communication methods and service systems, thereby transforming from one-off transactions to long-term user retention.

To achieve this goal, companies can leverage up-to-date insight tools such as demand-space research, social listening, channel data analytics and AI applications to gain a deeper understanding of consumer needs, scenario preferences and social attributes across groups. By aligning products with consumer profiles, they can more agilely drive product innovation, optimise product portfolios and establish long-term connections with consumers through the right channels in the right ways, ultimately unlocking sustainable user value in a fixed-size market.

Trend 03

Beyond Value for Money: Chinese Consumer Brands Traverse the Innovation Gap to Redefine the Market

China's consumer goods industry is undergoing a fundamental shift from scale expansion to value creation. As the population dividend fades and traffic costs rise, companies must build core competitiveness through original technology. Data shows that enterprises with R&D investment exceeding 5 percent of revenue enjoy new-product gross margins more than 15 percentage points higher than the industry average. This requires a departure from the past "follower strategy" of benchmarking against international brands, towards breakthrough innovation underpinned by basic research. Whether through the application of biosynthesis in food manufacturing or advances in smart materials for wearable devices, forward-looking investment in frontier technologies is essential. The true moat no longer lies in channel monopolies or marketing bombardment, but in the control of core technology patents.

The advent of the era of consumer sovereignty has fundamentally altered the logic of innovation. Today's users are not only consumers but also co-creators, with user-generated content increasingly feeding back into and driving product iteration.

Trend 04

From Involution to Evolution: In a Fragmented Era, FMCG Channel Competition Focus Shifts From Market Share to Value Co-Creation

Against the backdrop of intensifying competition in the consumer goods industry, channel structures are becoming increasingly diversified and fragmented. As the market shifts from incremental growth to the stage of limited growth, consumer purchasing power is approaching saturation, and the battle for market share across channels has grown fiercer, further exacerbating involution-style competition.

Both traditional offline grocery channels and modern supermarkets/hypermarkets have seen significant declines in market share, as emerging channels continue to carve out portions of demand. Among them, the fierce competition among food-delivery platforms has persistently disrupted offline sales of bottled beverages and pre-packaged foods. At the same time, new channels are rising rapidly: Bulk snack stores, warehouse membership clubs, instant retail/flash warehouses, hard-discount stores and refurbished supermarkets all demonstrate strong growth momentum.

Amidst the ongoing reshaping and intensified restructuring of channels, the cooperation between FMCG companies and channel partners is deepening. As channel clients increasingly demand product co-creation and customised development, more brands are launching channel-exclusive and co-branded customised products to build closer partnerships and help capture emerging

Leading companies that have built user co-development platforms have reduced product failure rates by around 40 percent and shortened R&D cycles by 30 percent. This demands that enterprises establish so-called "neural endings" capable of sensing consumer needs in real time, transforming social media insights, experiential data and other unstructured information into sources of innovation. From precision seeding to private-domain operations, from scenario co-creation to emotional connection, brands must construct ecosystems that evolve together with their users.

Supporting this transformation requires a fundamental revamping of organisational capabilities. Traditional pyramid structures are being replaced by cross-functional agile teams, achieving end-to-end collaboration through the "product + technology + operations" triangle model. One consumer product company, after introducing project-based incentives, shortened the time-to-market for innovation projects by 60 percent and achieved labour efficiency three times the industry average. This transformation calls for breaking down departmental silos, closely linking income distribution mechanisms to innovation outcomes, and fostering a culture that tolerates rapid trial and error. Over the next decade, competition will essentially be a contest of organisational efficiency and innovation density – those enterprises that continue to operate with an industrial-era mindset will inevitably be eliminated in the new wave of industry upgrading.

Trend 05

channel markets more effectively. At the same time, companies are actively advancing differentiated product portfolios which are segmenting by flavour, format and packaging to align with the consumption characteristics of each channel. In parallel, they are safeguarding brand value and stabilising pricing structure across the omnichannel landscape.

Therefore, in an environment of highly involutionary channel competition, businesses must develop precise insights into channel shifts. While consolidating shares in existing markets, they should actively invest in emerging channels, deepen collaboration and drive product differentiation. Ultimately, they can build competitive advantage and achieve sustainable growth.

DTC 3.0: Beyond Direct Sales, Building an Integrated Omnichannel Retail Ecosystem

The marketing systems and retail channels of China's consumer industry are shifting from traditional distribution towards a DTC-driven advanced retail system. Under intensifying competition and deeper digital penetration, DTC is evolving beyond "direct-to-consumer" into a user-value-centred ecosystem. Its essence lies in omnichannel collaboration that strengthens brand control, consolidates consumer connections and enables agile market responses. This transformation requires retailers to change their mindsets from merely achieving sales targets to building superior retail channels. In this highly saturated market, they must establish differentiated competitiveness.

There are three core trends in marketing system transformation:

1. Data-driven consumer insights are becoming the cornerstones of marketing strategy, precisely capturing needs through analysing user databases.
2. Omnichannel integration reshapes the consumer journey, with online and offline touchpoints collaborating to create a seamless shopping experience.
3. Content marketing and brand community building are employed to enhance consumer stickiness, shifting relationships from transactional exchanges to emotional connections.

However, transformation also faces real challenges. The slowdown of DTC growth in the US highlights single-channel limitations. Consumers' price sensitivity and demand for convenience expose shortcomings in offline experiences. Channel conflicts and unbalanced resource allocation require systemic solutions.

Retail channels show diversified evolution, as three main models are emerging. The DTC direct sales model strengthens terminal control through brand-owned stores. The regional direct model balances expansion speed and service quality via a "direct + franchise" system. The co-building regional model upgrades services through

collaboration with distributors. In successful cases which manifest ideal model-industry alignments, a sports brand doubled revenue in four years through mixed operations, while a consumer electronics company achieved 78 percent revenue growth in five years using a three-tier store system. These practices highlight the core of channel innovation: digital tools enable precise "people-goods-place" matching and build flexible channel networks.

The future success of marketing and retail lies in building a three-dimensional "Body-Heart-Intelligence" collaborative system.

Body - Connect end-to-end data to optimise operational efficiency.

Heart - Leverage authentic consumer needs to guide product innovation and scenario design.

Intelligence - Upgrade management decisions by relying on data-driven insights.

Excellence in retail is an evolution of traditional channel ecosystems, not their disruption. The ultimate goal is to build sustainable competitive advantages through direct consumer interaction, agile market response, and value chain collaboration in this uncertain environment. This enables the strategic leap from a product supplier to a consumer operator.

Trend 06

New Store Economics Amid Divergence and Restructuring: Enhancing Efficiency and Experience Through Format Innovation

Offline retail is undergoing profound transformation, entering a new stage of simultaneous divergence and restructuring. Macroeconomic volatility, declining consumer confidence and e-commerce diversion have pressured the overall traffic growth in physical stores. Shopper footfalls are being redistributed. While leading commercial districts continue to attract more buyers, emerging districts rise quickly and start to challenge traditional hubs. Meanwhile, operating costs continue to climb, placing severe pressure on store profitability.

Consumer structures and needs are evolving simultaneously, showing clear stratification. Pragmatic, self-indulgent and functional consumption coexist, with diverse demands for store formats and experiences. On one hand, some consumers enter stores with clear purchasing tasks, prioritising efficiency and convenience. On the other hand, more consumers focus on leisure, socialising and exploration, valuing novelty and experience during store visits. Experience-driven behaviour has become the mainstream trend. Experiencing products, engaging in interaction and sensing brand atmosphere increasingly replace simple transactions as the core motivations for store visits.

To navigate market shifts, leading retail brands are actively redefining the role of physical stores, transforming them from sales channels into centres for new products,

brand building, consumer experiences and community engagement operations. They continue to optimise store scale and network layout, selecting locations based on district characteristics, traffic volume and consumer profiles. The focus is on operational efficiency to avoid wasteful expansion.

Store concepts are constantly innovating and diversifying. Beyond standard formats and flagship stores, new formats such as designer concept stores and sustainability-focused shops are emerging. These formats not only meet diverse consumer needs but also extend brand equity. On the operational side, omnichannel collaboration is deepening, which is reflected in the integration of membership systems across channels, coordination between product assortments and inventory, and the establishment of store-based livestreaming matrices.

Excellence in operations relies on digital tools to precisely manage workforce efficiency, inventory, supply chains and marketing activities. This continuous improvement enhances per-store productivity and operational agility, ensuring profitability and customer satisfaction even in complex market environments.

Looking ahead, offline brand competition will increasingly focus on the deep integration of network optimisation, format innovation, channel collaboration and superior retail operations. Companies must continuously monitor shifts in consumer demand, flexibly adjust store networks and format layouts and drive fully integrated omnichannel operations. Only by doing so can they seize new growth opportunities during cycles of divergence and restructuring, achieve sustainable brand growth and secure market leadership.

Trend 07

E-commerce Retail: Cross-Platform Strategy and Refined Operations in the Era of Fixed-Size Market Competition

A new landscape of e-commerce platforms is emerging. Market concentration level continues to decline, which reflects the weakening of leading platforms' oligopoly over traffic and market share. The e-commerce landscape is accelerating towards diversification and becoming increasingly fragmented. The rise of emerging platforms has introduced new consumption scenarios driven by content, livestreaming and social interaction. These developments have significantly diverted users and transaction volumes away from traditional platforms.

At the same time, consumer demand is becoming more diverse and shopping paths more dispersed. Shoppers care about price, but they also value content experiences and community interaction. This trend is driving the coexistence of different types of platforms. As traffic dividends gradually evaporate, the overall growth of the e-commerce user base has slowed. The industry is transiting from the era of scale expansion to the phase of competition over a fixed market size, intensifying the battle among platforms for users and merchant resources. Manufacturers now face more complex challenges in acquiring traffic and managing operations.

Meanwhile, the overall momentum of major e-commerce festival promotions is losing steam, with growth drivers slowing significantly. As promotion periods extend and discounting becomes a long-standing practice, consumers are losing interest and less willing to participate in major sales festivals. Their shopping behaviours are becoming more rational, with less stockpiling and impulse buying. The marginal effect of price war is diminishing, and the impact of promotions on overall sales is steadily weakening. Some categories have even stopped growing.

At the same time, competition among platforms is also intensifying, and traffic has become fragmented. Brands and merchants can no longer rely on a handful of blockbuster promotional events to sustain long-term growth. If manufacturers and brands fail to quickly adjust their operating schedule and management systems to adapt to the new normal, they risk becoming stuck in growth bottlenecks and facing declining investment returns.

Facing a complex new landscape, manufacturers must adapt to changes in the e-commerce platform landscape by redefining cross-platform plans and clarifying the positioning of each platform as well as developing differentiated platform operating strategies.

For mature platforms, manufacturers need to shift focus from traffic management to user management, placing consumer operations at the core. This means concentrating on existing customers and members, boosting repeat purchases, and using data insights to improve users' efficiency in finding their goods on these platforms, thereby increasing their chance of growth. At the same time, they should leverage platform ecosystems' traffic cooperation mechanisms to connect internal and external channels.

For emerging platforms, manufacturers should build multi-account matrices to precisely reach segmented consumer groups. By relying on high-quality content, they can enhance the efficiency for their products to reach targeted audiences and quickly capture the new wave of traffic dividends.

By clarifying strategic planning and platform positioning, companies must strengthen refined operations. This involves aligning with customer shopping habits and preferences while dynamically adjusting product launches, inventory management and marketing plans. At the same time, brands should establish a dedicated e-commerce operating schedule. In doing so, they can precisely meet the differentiated needs of diverse consumer groups, achieve efficient conversion and sustain growth.

Trend 08

Reshaping of Luxury Brand Communication and the Rise of Eastern Aesthetics

China's luxury industry is undergoing a profound transformation, shifting from rapid expansion to more rational development. Over the past two decades, this sector has undergone three major phases of development: the growth of digital penetration, the rise towards casual taste and the deepening of sustainability concepts. During this process, the Chinese luxury market has gradually evolved from being a mere "cash reservoir" into a key arena for value co-creation.

However, in the industry's "second half", multiple shockwaves are emerging, including high-tariff policies, geopolitical frictions and the return of consumer's rational thinking - all challenging traditional growth models. Global geopolitical crises and tariff conflicts have already eroded consumer confidence, becoming long-term Sword of Damocles.

Amid external environmental changes, luxury retail channels are undergoing accelerated restructuring. Consumers are shifting from blind following to cultural identification and value justification, driving channels to upgrade from a simple sales function towards a venue offering premium experiences. This transformation is reflected through three major trends:

- Discreet luxury as a new orientation - Consumers are moving away from eye-catching logo-driven purchases towards the pursuit of exceptional craftsmanship and uniqueness. For example, one brand has won favour among professional women with "intelligent design" and high-quality, logo-free products.
- Deepening of the experience economy - Brands are competing with each other to create immersive retail spaces through art-curated stores. Many are also venturing into adjacent consumer categories, extending the luxury concept into lifestyle scenarios.
- Acceleration of value chain integration - Leading luxury groups are acquiring upstream suppliers to secure quality control and cost advantages.

It is worth noting that Eastern aesthetics are emerging as a critical breakthrough. Japanese brands have successfully entered international markets with refined, elegant styles, while Chinese brands are advocating philosophies such as "harmony between man and nature" or building differentiated identity through natural and geological aesthetics.

Through cultural storytelling and aesthetic innovation, these brands are carving out a new path within the Western-dominated luxury landscape. Several leading Chinese brands have established themed stores to transform Eastern ambience into spatial language and localising the expression of their brand values.

The future development of luxury retail will depend on whether brands can build resilience amid uncertainty. This requires companies to balance short-term actions with long-

Trend 09

term planning. They should raise prices to offset tariff shocks, while also needing to deepen local cultural insights, strengthen supply chain control and innovate experiential scenarios.

Ultimately, the winning brands will be those that organically combine the essence of Eastern aesthetics with global operational capabilities, positioning themselves as explorers and striking a balance between value communication and commercial conversion.

Building Organisational Resilience Under a Multi-Brand Strategy

A multi-brand operating strategy has become an important pathway for consumer goods companies to break through growth bottlenecks. By constructing a differentiated brand portfolio that comprehensively covers diverse market segments, firms can both effectively disperse the risks of relying on a single business and generate multiple growth drivers.

Successful companies typically adopt a combination of mergers and acquisitions, capital operations and in-house incubation to establish brand portfolios spanning the mass market, mid-to-high-end segments and specialised niches. Notably, acquiring brands globally has become a key strategic lever for leading players. Through international acquisitions, they gain access to technology, brand assets and overseas channels, while combining the scale advantages of their domestic markets with the management expertise of global brands, creating mutually reinforcing synergies.

The efficient operation of a brand matrix hinges on precise market positioning and a dynamic resource allocation mechanism. Companies need to establish a brand lifecycle management system and adopt differentiated strategies at each stage of development: in the early stage, prioritising investment in product R&D and brand building; during the growth stage, strengthening channel expansion and marketing promotion; and in the maturity stage, focusing on efficiency improvement and optimisation of profitability.

In terms of resource allocation, businesses should establish a regular evaluation mechanism to shift resources from underperforming brands to high-potential next-generation brands, ensuring that resource investment remains aligned with strategic priorities.

Achieving synergies requires building an open organisational capability system. In talent development, companies should emphasise an organic combination of internal cultivation and external recruitment: In-house talents possess deep expertise in corporate culture and processes and can continuously refine them, while external talents are expected to introduce innovative thinking and best practices of the industry.

On the supply chain side, firms should establish shared R&D platforms, procurement systems and logistics networks, while retaining flexibility for each brand in design and marketing. The construction of a digital middle platform is particularly critical. By unifying data systems to share consumer insights across brands, companies can simultaneously enhance operational efficiency.

The success of a multi-brand strategy requires companies to establish a strategically managed mechanism that can be dynamically adjusted over time. This marks a new stage in which consumer goods enterprises move beyond product-level competition towards ecosystem-level competition.

By effectively integrating internal and external resources, continuously building organisational capabilities and managing brand portfolios with scientific, evidence-based rigour, companies can establish sustainable competitive advantages in a complex and volatile market environment, ultimately maximising brand value.

Trend 10

Future-Oriented Transformation of Marketing Organisations

China's consumer goods market has entered an era of fixed-size market competition. With macroeconomic growth slowing, most companies are facing mounting pressure on profit growth, intensifying domestic competition and shifts in consumer groups and channels. In response to these external changes and challenges, consumer goods companies urgently need to drive systemic restructuring of their marketing organisations to strengthen overall resilience and adaptability. To this end, companies can draw on Roland Berger's "3D Organisational Transformation Framework" (Diagnose-Design-Deploy) to gradually build a future-proof marketing organisation system.

Diagnosis stage: In line with macro trends and industry shifts, organisations should assess their health across three dimensions - workforce productivity and labour costs, strategic alignment and organisational competitiveness. This enables precise identification of optimisation opportunities and capability gaps, helping enterprises avoid blind or misguided transformation.

Design stage: Focusing on the marketing function, four optimisation directions should be systematically planned:

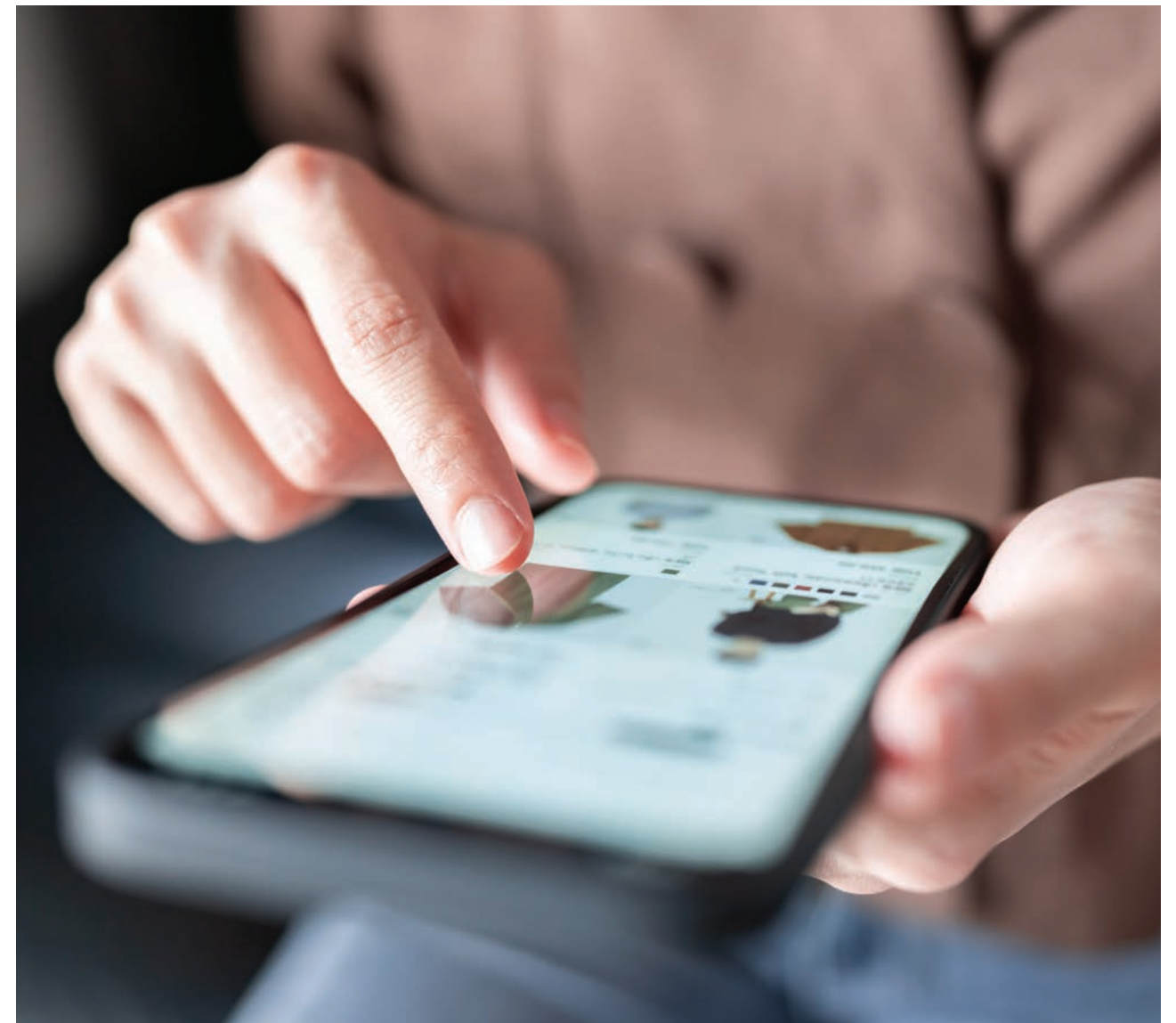
Cost efficiency - Drive organisational streamlining and workforce optimisation, reasonably adjust compensation structures and leverage external resources to enhance productivity.

New capability building - Strengthen consumer-centric operating capabilities (e.g. consumer insights, membership management), granular growth drivers (e.g. revenue growth management, category structure optimisation), precise channel execution (e.g. Go-To-Market optimisation, channel digitalisation) and AI applications (e.g. personalised marketing, intelligent store operations).

Mechanisms - Reconstruct decision-making pathways and collaboration models to improve organisational agility and alignment.

Commercial model change - Assess shifts in market importance and internal capability levels, select appropriate business models (e.g. start franchising, open to equity partnerships).

Deploy stage: With the goals of efficient execution and smooth transformation, implementation support is provided through phased, function-specific roadmaps. This includes anticipating performance fluctuations and organisational risks with proactive intervention, as well as offering change management support to ensure alignment across mindsets, mechanisms and capabilities.



Industry Trends

Health



Over the past several years, China's healthcare industry has entered deep waters shaped by structural reforms and cyclical forces. Amid far-reaching policy adjustments and fierce market competition, the sector has continued to move forward with resilience.

Looking ahead to 2026, a dual narrative is defining the industry's future landscape with unprecedented clarity. On one hand, the model of "greater standardisation, cost reduction and efficiency improvement, quality first" is becoming the bedrock for the industry's stable development. This demands that all participants operate within a compliant framework while pursuing the utmost operational efficiency and superior product quality. On the other hand, the shift towards a model that is "more stratified, value-oriented, as well as innovative and open" defines the transformative pathway for the industry's upward breakthrough. This direction is driving the differentiation and upgrading of the payment system, service models, product innovation and even health consumption mindset, thereby ushering in a new era of development centred on value creation and powered by innovation.

Trend 01

Policy Drives High-Quality Development of Healthcare System Reform

Looking ahead to 2026, policy will remain the central force shaping the future of China's healthcare industry. The Recommendations of the Central Committee of the Communist Party of China for Formulating the 15th Five-Year Plan for National Economic and Social Development highlight the need to "implement a health-first strategy, refine the framework of policies and institutions for promoting people's health... and improve the mechanisms for coordinated development and governance of medical services, medical insurance, and pharmaceuticals". As the opening year of the 15th Five-Year Plan, the Chinese government's healthcare policies will continue to follow the overarching theme of "high-quality development". Reform of the healthcare system will be further deepened, balancing cost control with efficiency enhancement and innovation with assured supply quality. Standardised and compliant development has become imperative.

Cost control and efficiency improvement have become the enduring themes in the optimisation of the Chinese healthcare system. Centred on DRG/DIP (Diagnosis-Related Groups/ Diagnosis-Intervention Packet), China's medical insurance payment reform will move into a new stage of deeper application and refined management after achieving nationwide coverage across coordinated regions in 2025. In August 2025, the National Healthcare Security Administration issued the Interim Measures for Disease-Based Payment Management, further standardising total budget management, grouping scheme design, core elements and supporting measures.

Through a standardised payment system, DRG/DIP compels medical institutions to optimise cost structures and improve service efficiency. Its impact extends to upstream pharmaceutical and medical device companies, encouraging more

rational product pricing and driving enterprises to shift from pure sales-driven models towards real value creation.

Innovation-driven growth and supply assurance sustain equilibrium through continuous adjustments. While policy continues to emphasise the stable supply of essential medicines and medical devices, it also places strong focus on fostering innovation-driven growth in the healthcare industry. The Recommendations for the 15th Five-Year Plan explicitly call for "optimising volume-based procurement policies" and "supporting the development of innovative drugs and medical devices".

On the one hand, for generics and mature products, Volume-based Procurement (VBP) will remain an institutionalised tool. However, price reductions are expected to become more moderate and predictable, with the aim of ensuring stable clinical supply and maintaining reasonable profit margins for enterprises. On the other hand, a range of measures, including continued preference for innovative drugs in reimbursement negotiations, accelerated review and approval processes through green channels, and support for the growth of commercial health insurance, will create a favourable market access environment for innovative products. By 2026, the share of incremental sales revenue contributed by new innovative products is expected to further increase within the industry's overall revenue growth.

Trend 02

Stratified Demand Catalyses a New Paradigm of Proactive Health Management

As we look ahead to 2026, Chinese healthcare consumers' demand patterns will be characterised by two main trends: proactive health management and market stratification. Demographic shifts, including rapid ageing and lower birth rates, are creating a "silver wave", making consumers increasingly attuned to the importance of proactive health management. Simultaneously, the middle class and younger cohorts, motivated by an aspiration for a higher quality of life, are creating strong demand for personalised and premium healthcare offerings.

This two-pronged development in demand is driving healthcare services to transition from the conventional "disease treatment" model into a new paradigm of proactive health management that spans the entire healthcare continuum—from prevention and diagnosis to treatment, rehabilitation and wellness.

The market potential of the "silver economy" and chronic disease management is gradually being unleashed. China is entering a deeply ageing society at an unprecedented pace. By 2025, the population aged 65 and above is expected to reach 210 million, accounting for 15.0 percent of the total population, and by 2035 this proportion will rise to 22.3 percent. The healthcare market driven by ageing is forecast to exceed 5 trillion yuan.

Ageing not only implies higher demand for medical services but is also directly linked to the continued rise in the prevalence of chronic diseases, such as cardiovascular disease and diabetes. Innovative therapies and health management tools targeting common and frequently occurring conditions among the elderly are set to enter an important window of development opportunity.

The rise of health consumerism is creating demand for personalised and preventive medical services. Concurrently, rising health literacy is transforming the new generation of consumers from passive "patients" into proactive "health managers". No longer satisfied with standardised treatment after an illness, they are now seeking personalised, life-cycle solutions that encompass everything from early screening, precision prevention and functional wellness to rehabilitation, mental health and anti-ageing care. When selecting treatment options, patients are increasingly weighing factors like quality of life and long-term outcomes. This fundamental shift is pushing healthcare services towards models that embody greater humanistic care and individual adaptability.

Trend 03

Payment System Restructuring Spurs Precision Management and Diversification

Looking ahead to 2026, payers in China's healthcare sector are expected to evolve towards greater precision and diversification. Guided by the strategic goal of the national healthcare security fund to "ensure basic coverage", reimbursement through pooled accounts will move towards a more refined management approach. A diversified payment system, comprising basic medical insurance, commercial health insurance and out-of-pocket spending, will become increasingly mature. Supplementary, innovative and self-funded payment mechanisms will work in tandem to provide precise coverage for healthcare needs across different segments.

Basic medical insurance: gradually shift from cost control to value purchasing. As the ballast of China's healthcare payment system, the national healthcare security fund will focus in 2026 on transitioning from pure cost containment to value purchasing, while ensuring the fund's safety and sustainability. The deepening reform of DRG/DIP payment mechanisms will not only curb unreasonable cost growth but also incentivise medical institutions to proactively select more cost-effective treatment pathways and medical products. Innovative therapies and devices that deliver equal or better clinical outcomes at lower cost will gain a distinct advantage in reimbursement access and clinical adoption.

In addition, dynamic adjustments to the reimbursement list as well as improvements to "dual channel" mechanism and other policies will further enhance the accessibility of innovative drugs and devices, ensuring that the insurance funds are spent where they matter most.

Trend 04

Commercial health insurance: evolving role from supplement to integrator. As healthcare needs become increasingly diverse and personalised, commercial health insurance is poised to play a more prominent role, shifting from a mere supplement to basic medical insurance towards an integrator of healthcare services. On one hand, inclusive products like government-backed "Huiminbao" (city-level supplementary health insurance) will continue to expand coverage at the grassroots level. On the other, offerings targeting mid- to high- income groups, such as high coverage (1 million yuan) medical insurance, critical illness insurance and long-term care insurance, will become more diversified and closely linked to designated healthcare networks and health management services, embedding themselves deeper into the innovation chain of pharmaceuticals and medical services.

For example, insurers may collaborate with pharmaceutical companies to pilot pay-for-performance models or provide dedicated coverage for innovative drugs targeting specific biomarkers and high-end medical devices. These approaches not only lower the financial barriers for patients but also offer critical funding support for the clinical adoption and commercialisation of cutting-edge technologies, ultimately fostering a closed-loop ecosystem that connects healthcare, pharmaceuticals and insurance.

'Innovated by China' Defines Globalisation 2.0 of Product Innovation

Looking ahead to 2026, product innovation in China is entering the new chapter of Globalisation 2.0 - a stage where breakthroughs extend far beyond simple product or capacity exports. Anchored by strong domestic R&D and manufacturing capabilities, China is set to deepen its integration into and even reshape the global pharmaceutical innovation landscape through increasingly sophisticated global clinical development strategies and unprecedented BD deals-defined as transactions and partnerships focused on new molecular entities and drug candidates, such as license-out deals, joint ventures and equity investments. Chinese medical product manufacturers are making a decisive shift from "importing innovation" to "exporting innovation", establishing themselves as an indispensable force in the international market.

Innovative drugs: from "fast-follow" to "first-in-class", a new era of Globalisation 2.0. After more than a decade of steady progress, China's innovative drug R&D has advanced beyond early "fast-follow" and "best-in-class" approaches to now pursue truly groundbreaking "first-in-class" innovation. The year 2025 marked a turning point for "BD deals" in the sector: in the first half, Chinese biopharma companies achieved license-out deals totalling USD 63.55 billion, surpassing the full-year total of 2024. This included 16 blockbuster transactions, each valued at over USD 1 billion. Notably, Innovent Biologics' USD 11.4 billion global strategic partnership with Takeda for an ADC therapy set a new record for a single BD transaction by a Chinese pharmaceutical

company. These landmark deals underscore that Chinese pharmaceutical innovations are now capable of competing head-to-head with multinational giants in mainstream global markets.

Medical devices: from "domestic substitution" to "global leadership" – the rise of homegrown champions. Much like the pharmaceutical sector, China's medical devices industry is undergoing a profound transformation, moving beyond domestic substitution to secure a leadership position on the global stage. In areas such as patient monitoring, medical imaging and in-vitro diagnostics, Chinese companies have already achieved internationally competitive technologies and market presence. United Imaging's PET/CT systems, Mindray's patient monitors, Snibe Diagnostic's chemiluminescence immunoassay analyser and other flagship products have gained significant traction worldwide, particularly across Belt and Road markets thanks to their strong performance and cost advantages.

Looking ahead, in fast-growing fields such as surgical robotics, cardiovascular intervention and neuroscience, Chinese companies are well positioned to leverage their abundant engineering talent pool and rapid iteration capabilities to challenge entrenched multinational incumbents, establishing themselves as important players in the evolving global healthcare landscape.

Trend 05

Data Has Emerged as a Key Driver While Smart Healthcare Progresses Into the Value Creation Phase

Looking ahead to 2026, if policy, demand, payment, services and products are considered the five visible forces shaping the healthcare industry, then data represents the underlying "sixth element" – the most promising driver of transformation. As the Digital China and Healthy China initiatives become deeply integrated, healthcare data is no longer just a by-product of medical activities. It has emerged as a core production factor that drives innovation, enhances efficiency and optimises services. Smart healthcare is truly entering a phase marked by value creation and practical application.

Smart healthcare enters the "3.0 Era" as it is applied in more scenarios. China's healthcare informatisation is progressing from "Phase 1.0", focused on hospital information system construction, and "Phase 2.0", marked by electronic medical records and internet hospitals, into "Phase 3.0-Smart Era", defined by data sharing and deep AI integration. Looking ahead to 2026, this transformation will be comprehensively deepened in three major application scenarios:

1. Empowering product R&D: Artificial intelligence (AI) is poised to play an increasingly pivotal role in new drug development. From target discovery and compound screening to clinical trial design, the application of AI can significantly shorten R&D cycles and reduce the risk of failure, signalling that AI for Science will become a key tool for pharmaceutical companies to enhance R&D efficiency.

2. Enhancing medical service efficiency: Within hospitals, AI-assisted diagnostic systems – including advanced image recognition and pathological analysis – will be more widely adopted, enabling physicians to improve diagnostic accuracy and streamline clinical workflows. At the same time, the evolution of smart hospitals will place greater emphasis on intelligent operational management. By harnessing data analytics to optimise bed utilisation, medication inventories and staff scheduling, hospitals can achieve organisation-wide cost reductions and significant efficiency gains.

3. Serving patient needs: By harnessing wearable devices, IoT technologies and big data platforms, health management at both an individual and population level will become increasingly precise and proactive. The analysis of vast health data sets will enable earlier disease warnings and more effective interventions in the progression of chronic conditions, driving a fundamental shift in healthcare's focus – from reactive treatment to proactive prevention.

Data governance and value realisation are emerging as the industry's core challenges. Data's immense potential comes hand in hand with equally great challenges. The healthcare industry must now grapple with two central issues: governance and value realisation.

At the heart of data governance is the dismantling of entrenched "data silos" to achieve true interoperability and standardisation across hospitals, regions and even at the national level, all while ensuring uncompromising security and privacy protection. This calls for strong government leadership to establish unified standards, robust security protocols and a clear legal framework.

Value realisation, meanwhile, hinges on the development of sustainable business models. Smart healthcare services continue to face hurdles in pricing, payment mechanisms and liability definition. To overcome these, the industry must actively explore a diversified payment system involving the government, insurance companies, healthcare enterprises and individual patients/consumers. It must also formulate more detailed pricing strategies to drive the scaled application of digital therapeutics and smart healthcare services that truly possess clinical and economic value.

Trend 06

Refined Services and Value Positioning Reshape a New Landscape for Medical Services

Under the dual pressures of payment system restructuring and the stratification of patient needs, healthcare service providers will have to embrace a profound "self-revolution". The prior extensive growth model reliant on scale expansion and patient concentration in large hospitals is no longer sustainable. It is being replaced by lean operations focused on cost reduction and efficiency gains, along with differentiated value propositions based on their unique resource endowments. This shift signals that China's healthcare service system is accelerating its evolution from a relatively homogeneous pyramid structure towards a well-defined, collaborative and efficient integrated healthcare network.

Public hospitals: embracing lean management as the way forward. As the backbone of China's healthcare system, large public hospitals are increasingly compelled to navigate the delicate balance between cost, efficiency and quality, often referred to as the healthcare sector's "impossible trinity". Meeting this challenge requires hospital leaders to embed lean management principles across every facet of operations: refining clinical pathways, optimising medical supply selection, strengthening departmental performance metrics, and streamlining logistical support. The focus has moved beyond merely expanding service volume towards strengthening core capabilities, delivering greater value to patients through smarter cost structures, while upholding uncompromising standards of care and patient safety.

Private hospitals: seeking structural opportunities with differentiated strength. Amid the entrenched dominance of public hospitals in general healthcare, private institutions are carving out distinct niches to secure sustainable growth. The most successful providers are no longer imitating the public model; instead, they are emerging as specialist champions in specialised domains – from clinical areas such as oncology, rehabilitation and mental health to demographic-focused services in gynaecology, paediatrics and geriatric care, as well as premium offerings including advanced health screenings, medical aesthetics and dentistry. By delivering more personalised, experience-driven care and achieving superior operational efficiency, these institutions are addressing gaps left by the public system and establishing themselves as indispensable players within an increasingly stratified healthcare ecosystem.

China's healthcare industry stands at a pivotal juncture in 2026. A robust foundation of regulation, efficiency and quality underpins its steady long-term development, while its ongoing transformation, oriented towards stratification, value creation and innovation, will unlock vast potential for upward breakthroughs. These are not two separate narratives, but rather interdependent forces that are mutually reinforcing, driving progress as part of an integrated whole.

The top-level policy design has charted a clear course for high-quality development. Meanwhile, the stratified patient needs have created a vast market for precision services. The restructuring of the payment system provides the fundamental impetus for a return to value, while the leaner, more precise delivery of services offers a viable path to greater efficiency. Furthermore, the globalisation of product innovation has secured a global arena for "Innovated by China", and the surge of data as a production force injects the most exciting possibilities for the future.

For every decision-maker navigating this landscape, 2026 will be a year of challenge and opportunity. The challenge lies in the risk that past successes may become constraints on future progress, demanding a fundamental re-evaluation of strategy, structure and capabilities. The opportunity stems from profound structural shifts that are unlocking unprecedented possibilities. Only those companies that can anticipate trends, embrace change and translate "value creation" into decisive action will be able to ride the waves of this transformative era and chart a course towards lasting success.

Industry Trends

Energy, Water & Environment



As the 14th Five-Year Plan approaches its conclusion, the blueprint for the 15th Five-Year Energy Plan is gradually unfolding. The year 2026 will mark a pivotal juncture in China's energy transition and its journey to address climate change. The "Dual Carbon" targets have moved beyond broad strategic declarations into a phase of detailed, market-oriented and deep-level implementation.

At the United Nations Climate Change Summit in September 2025, Chinese President Xi Jinping announced a new round of Nationally Determined Contributions, including the goal that by 2035, the combined installed capacity of wind and solar power will exceed six times that of 2020, striving to reach 3.6 billion kilowatts. This signals the beginning of a new chapter for the industry.

Policies, technologies and market mechanisms are now working in concert with unprecedented force to reshape the entire energy ecosystem in China. Roland Berger has systematically identified six critical trends and variables for 2026 to help Chinese energy companies navigate the industry cycle, seize first-mover opportunities, rebuild their competitive advantages, and stage a strong comeback.

Trend 01

New Energy Generation: Prioritising Consumption to Tackle Post-Market-Entry Competition and Challenges

The full integration of new energy power into the national grid in 2025 marks a turning point in China's energy development history. Following the surge of capacity installations in the first half of the year, the pace of domestic market expansion will stabilise. With prices across the industry chain remaining under sustained downward pressure, the profit focus will shift from manufacturing and construction towards a value chain built on the integration of operations, maintenance, financial consolidation and technological innovation.

In particular, the implementation of the Notice Regarding Deepening the Market-Oriented New Energy Feed-In Tariff Reform and Promoting the High-Quality Development of New Energy (the "Document 136") and the Notice of Improving the Price Mechanism and Promoting the Local Consumption of New Energy Power Generation (the "Document 1192") has introduced a new set of rules for the industry. Going forward, high-quality consumption will be the decisive factor, and leading enterprises can break through by pursuing the "five-fold integration" strategy.

- **Power and market integration - green electricity trading becomes a value amplifier.** By developing a deep understanding of clients' energy profiles, enterprises can provide green electricity trading and Green Electricity Certificate services to companies with carbon neutrality needs. At the same time, by leveraging flexibility resources, they can participate in markets for ancillary services such as peak regulation and frequency regulation to secure additional revenue.

- **Power and storage integration - building the "new energy + storage" advantage.** Volatile renewable energy must be paired with regulation capacity. Self-built, jointly constructed or leased storage facilities will become standard components for new energy power plants. Enterprises capable of optimising the combined operation of wind, solar and storage will gain a significant competitive edge.
- **Power and service integration - from power generator to integrated energy service provider.** The single business model of selling pure electricity faces rising risks and increasing uncertainty in returns. Companies must extend their value chain into distributed energy, actively investing in and operating industrial and commercial distributed photovoltaics, distributed heating and other solutions to serve end users directly.
- **Power and computing integration - building a new ecosystem around Artificial Intelligence Data Centres (AIDC).** New national policies require that 80 percent of the energy used by newly built data centres at national hub nodes must come from green electricity. Guided by this target, the future "storage + renewable energy" collaborative model will become the standard set-up for green data centres, helping to resolve the core contradiction between AIDC's exponential energy consumption growth, carbon neutrality goals and economic viability.
- **Power and intelligence integration - precision operations and digital transformation.** By using big data and AI algorithms to accurately forecast load curves, generation output and market prices, enterprises can optimise their trading strategies. Through drone inspections, intelligent diagnostics and other tools, they can reduce operation and maintenance costs and enhance efficiency across the full lifecycle.

Trend 02

City Gas: Prioritising Clients to Address the Challenge of Slowing Growth

Amid the wave of electrification, the incremental market for new urban gas connections has reached its ceiling, making it difficult for gas companies to sustain their traditional expansion model of seeking growth through extensively enclosing markets. Nevertheless, opportunities for gas development remain. The key lies in transforming their positioning: shifting from the traditional role of pipeline gas supplier to becoming a client-centric low-carbon integrated energy service partner. Their focus can be directed towards the following areas:

- **Unlocking residential value potential:** Expand value-added services around existing residential gas users, with a focus on property insurance, kitchenware sales, home renovation and e-commerce. Tailor strategies to local conditions by developing both online and offline channels, gradually broadening the range of offerings to enhance customer loyalty and increase average transaction value.

- **Driving gas-power integration:** Gas-power integration is expected to become a key incremental engine for gas sales and one of the most important sources of customer growth. Over the next two years, before long-duration storage technologies become widespread, natural gas power generation will remain the most practical and reliable option to cope with summer electricity peaks and winter cold waves. When required by the grid, gas-fired units can start and stop quickly, providing peak regulation support for wind and solar generation.
- **Deepening energy services and digitalisation:** Shift from "selling gas" to "selling services" by offering industrial users value-added solutions, such as energy efficiency retrofits, smart heating and carbon management. Use digital platforms to optimise pipeline scheduling, reduce transmission losses and enhance operational safety.
- **Exploring emerging green hydrogen sector:** Leverage existing pipeline infrastructure to steadily increase the proportion of hydrogen blended into natural gas transmission. Strategically invest in key links of the hydrogen industry chain covering production, storage, transmission and utilisation. At the same time, explore domestic substitution and export opportunities for green methanol, green ammonia and sustainable aviation fuel.

Trend 03

Integrated Energy Services: Prioritising Solutions to Usher in the Zero-Carbon Park Era

The Notice Regarding Launching the Construction of Zero-Carbon Parks (2025) has created significant opportunities for the application of integrated energy services. In addition, the "Document 136" has expanded demand for related green electricity services. On the technology front, large-scale application is accelerating. Technologies such as IoT, AI foundation models and digital twins are becoming increasingly mature in integrated energy service applications, with pathways to profitability starting to open up. These new developments present three major opportunities for integrated energy services:

- **Demand release:** The zero-carbon park policy explicitly supports integrated energy service providers in participating in park construction, requiring that a high proportion of park energy supply come from renewable sources. This creates demand for services, such as multi-energy complementarity, storage configuration and smart management.
- **Market allocation:** The full market entry of new energy compels enterprises to improve operational efficiency, driving demand for specialised services such as electricity trading, load forecasting and storage optimisation. The share of market-based electricity trading is expected to rise sharply to over 80 percent.

- **Model upgrading:** The Guiding Opinions on Accelerating the Development of Virtual Power Plants encourages distributed resource aggregators to participate in the electricity market, increases the diversity of market players and offers integrated energy service providers entirely new profit models.

The core role of industry practitioners is shifting from "investment operator" to "solution innovator", switching from an upstream perspective to a downstream perspective, and competing across four key dimensions:

- **Technology solution upgrading:** Focus on deploying AI algorithms, digital twins, virtual power plants and other frontier technologies to improve the accuracy of energy supply-demand forecasting and optimise outcomes;
- **Service solution expansion:** Extend beyond traditional energy-saving services into emerging areas, such as zero-carbon parks, new energy consumption and electricity trading. Provide full-cycle services covering planning and design, investment and construction, as well as operation and maintenance, all of which should be delivered in an intelligent and open manner;
- **Business solution innovation:** Transition from traditional contract energy management to a model of "energy cost management + value-added services". Move from single-fee structures to diversified charging models, actively participate in carbon trading and Green Electricity Certificate trading, and build a sustainable closed-loop business model;
- **Organisational solution restructuring:** Develop cross-disciplinary talent pool (spanning electricity, heat, carbon and digital), establish agile organisational structures and governance models, and respond quickly to market demand while serve a diverse client base.

Trend 04

Environmental Industry: Prioritising Technology to Drive Innovation and Transformation

China's "Dual Carbon" targets have expanded the scope of the environmental industry, upgrading its mission from traditional "pollution control" to "resource recycling" and "carbon reduction". The boundaries between the environmental and energy sectors are becoming increasingly blurred, as technological innovation has emerged as the key lever for the transformation of the environmental industry.

Transforming waste into energy resources: The carbon reduction attribute of waste-to-energy incineration means it will deliver greater environmental benefits. Projects such as anaerobic digestion of food waste and sludge to produce biogas (biomethane) and the application of sustainable aviation fuel technologies are maturing rapidly. These initiatives simultaneously address waste treatment and green energy generation, thereby amplifying value on two fronts.

Trend 05

Energy saving in water treatment: Wastewater treatment is a major energy consumer. Upgrading processes and adopting energy-efficient equipment can lower energy use. New measures have become new growth drivers for the industry, such as recovering phosphorus and other scarce resources from wastewater, and applying wastewater-source heat pump technology. They also form the technological foundation for China's future modern water network development and the sector's progress towards "water neutrality".

Pilot applications of CCUS (Carbon Capture, Utilisation and Storage) technologies: Although still at an early stage, emission reduction pressures in high-emission industries are creating demand for CCUS technologies, particularly as steel, cement and aluminium smelting industries are incorporated into carbon trading markets. Environmental enterprises can seek engineering and service opportunities across the capture, transport and storage sectors.

Rapid Maturation of the Circular Economy Industry Chain: Driven by supportive policies and industrial maturity, recycling and cascade utilisation systems for retired power batteries, photovoltaic panels and wind turbine blades are quickly taking shape. This highly fragmented industry will gradually consolidate, with companies possessing technological capabilities and distribution channels beginning to show clear advantages, ultimately forming a vast emerging market on a global scale.

Energy Manufacturing Going Global: Prioritising Systems to Build Global Supply Chain Ecosystems

China has already established world-leading manufacturing capabilities and cost advantages in photovoltaics, wind power, energy storage and power electronics equipment (such as inverters). However, the path to global expansion has now entered deep waters and faces severe challenges:

- **Persistent trade barriers:** Carbon tariffs, anti-circumvention investigations and local production ratio requirements in Europe and the United States are raising entry thresholds for overseas markets. Supply chain security has been elevated to unprecedented importance, with "de-risking" becoming the policy orientation of major economies.
- **Intensifying competition from local companies:** Overseas domestic enterprises are rising under policy support, while many foreign governments are introducing rigid local protection requirements. As a result, Chinese companies' cost advantages will face increasing challenges. How to draw on the century-long globalisation experience of European and American firms has become a common strategic issue for leading Chinese companies. At the same time, enhancing both globalisation and localisation of production and supply chains is now a shared priority.

Trend 06

- **Brands and channels:** Transitioning from OEM/ODM to independent brand operations requires robust localised marketing and service networks. Highly customised products and services also place higher demands on the quality and efficiency of after-sales systems.

The future path to breaking through lies in upgrading localisation system capabilities: moving from simply "selling products" to "providing integrated solutions," and, further still, helping host countries establish local industrial chains, thereby achieving a three-level leap in value creation. Investing in overseas manufacturing plants to realise localised production is the first critical step. Building an efficient, flexible and transparent global end-to-end system – covering marketing, procurement, logistics, warehousing, production operations and after-sales services – provides the necessary foundation. Together, these measures form the essential route to move from globalisation to localisation, overcome trade barriers and enable the global expansion of Chinese companies.

Energy Technology Innovation: Prioritising Innovation to Accelerate the Arrival of the Commercialisation Turning Point

Energy technology is the fundamental driving force of the energy revolution. In 2026, key innovations will centre on the system integration and value reconstruction of five major domains – electricity, heat, storage, hydrogen and computing – deserving close attention.

Electricity: Wind and solar power are shifting from supplementary energy sources to becoming primary energy. The focus of development is moving from capacity expansion to efficient consumption and system coordination through intelligent and market-based mechanisms, such as virtual power plants and high-frequency trading. The "Western Power for Western Use" model – for example, building green data centres and electrolytic metallurgy projects in western regions – opens new pathways for local consumption.

Heat: Industrial heating accounts for about half of China's total carbon emissions, making its zero-carbon transition a top priority. The opportunity lies in replacing traditional boilers with low-carbon heat sources, with heat pump technology standing out. Its application temperature has already surpassed previous limits, meeting more industrial needs, while "large temperature-difference, long-distance heat transmission" technology enables efficient utilisation of industrial waste heat. In the building sector, combined with large-scale equipment renewal policies, heat pump is entering a window of massive growth.

Storage: New energy storage is evolving from being a supporting facility to becoming an independent market participant. The core opportunity lies in achieving large-scale, high-quality applications through technological progress and business model innovation, such as participation in multiple electricity markets. For example, sodium-

ion batteries are expected to reach commercial scale in 2026. With lower costs than lithium batteries and higher safety, they will first see sales growth in scenarios with lower energy density requirements, such as low-speed electric vehicles, base station backup power and user-side storage systems.

Hydrogen: The industry focus is on building an integrated "electricity-hydrogen-ammonia-methanol" system, positioning green hydrogen as a crucial carrier for long-duration storage of large-scale renewable electricity as well as deep decarbonisation in hard-to-tackle industrial sectors. This will drive integration between the energy industry and chemicals, metallurgy and other industries.

Computing: The convergence of AI and energy is creating "neural centres" of the new power system. By enabling precise forecasting, intelligent scheduling and optimal control of massive data across generation, grid, load and storage, the convergence enhances system efficiency and safety. At the same time, it creates new business models of power-computing collaboration. By 2026, virtual power plant technologies that aggregate distributed photovoltaics, manage user-side storage and coordinate flexible loads will mature and begin participating in spot and ancillary service markets. AI will become a standard capability for power generators, electricity retailers and large users.



Industry Trends

Electronics & Electrical/ Semiconductor



At present, the electronics and electrical market is accelerating towards higher performance, greater integration and enhanced intelligence. These trends are driving the dual transformation in the global semiconductor industry: a shift in technological paradigms and a restructuring of supply chain systems. The semiconductor industry has become the "industrial grain" underpinning strategic sectors such as the digital economy, artificial intelligence and new energy vehicles. Hence, its technology iteration and supply chain security have become decisive factors shaping the global economic landscape and influencing national strategic autonomy.

On one hand, Moore's Law is approaching its physical limits, with process nodes at 2nm and below facing quantum tunnelling, thermal dissipation and other bottlenecks. On the other, the rapid emergence of applications including generative AI and autonomous driving is fuelling exponential growth in computing power demand, propelling the industry from a process-driven model to one powered jointly by new architecture and packaging technologies.

Meanwhile, the traditional ecosystem of global collaboration is being disrupted by geopolitical tensions. Technology blockades and resource export countermeasures are compelling enterprises to strike a delicate balance between efficiency and security.

Against this backdrop, the development paradigm of semiconductor enterprises has fundamentally shifted: To achieve sustainable growth, companies need to position the surge of AI computing power as their central growth engine and advanced packaging as the critical pathway, build a resilient ecosystem through developing proprietary technologies and establishing globalised supply chains, as well as leverage lean intelligent manufacturing processes.

The following sections examine five core trends, analysing the direction of industry transformation in 2026 and outlining corporate response strategies.

Trend 01

AI Ushers the Semiconductor Industry Into a New Cycle

The long-term growth of the semiconductor industry has consistently been driven by innovations in downstream applications – PCs spurred demand for CPUs, while the rise of mobile internet fuelled the boom in smartphone chips. Today, the industry is entering a new cycle powered comprehensively by AI. Generative AI, AI agents and physical intelligence have emerged as three new major waves, stimulating chip demand across consumer markets (AI PCs and smartphones), enterprise markets (AI servers) and industrial applications (autonomous driving). In 2024, global AI server shipments grew by more than 80 percent year-on-year. According to the World Semiconductor Trade Statistics (WSTS), the global semiconductor market is projected to exceed USD 1 trillion by 2030, nearly doubling its size compared with 2023.

The core shift in demand structure lies in high-performance computing chips (CPUs, GPUs, AI accelerators) and high-bandwidth memory (HBM), which have

become the backbone of next-generation digital infrastructure. NVIDIA's GPU data centre business posted revenue growth of over 200 percent year-on-year in 2024. Meanwhile, the supply gap in the HBM market continues to widen, with market size expanding by more than 300 percent year-on-year in 2024. At the same time, the technological iteration pattern has evolved from "simply following Moore's Law" to "innovating intelligent computing architectures". Technologies such as chiplets and 3D chip stacking have become critical to overcoming bottlenecks in computing power and energy efficiency, signalling the industry's formal entry into a new stage of intelligent computing in the post-Moore era.

Trend 02

Packaging Technology Achieves Breakthroughs in the Post-Moore Era

Advanced process technology (such as producing chips at 2nm and below) was once the long-term core pathway for performance improvement. Yet as specifications approach the 1nm level and below, challenges such as quantum tunnelling and heat dissipation become increasingly difficult to overcome. Moreover, the cost of building a 2nm wafer fabrication plant exceeds USD 20 billion – more than three times that of a 14nm facility. Against this backdrop, advanced packaging technology has risen from a supporting role to a core pathway, forming a dual driving force for chip performance enhancement alongside advanced process nodes.

Key directions in packaging technology development include 3D chip stacking, Chip-on-Wafer-on-Substrate (CoWoS) and heterogeneous integration. 3D stacking, by vertically layering multiple wafers, can boost data transfer speeds by more than fivefold. CoWoS has become the mainstream packaging solution for AI chips, with global capacity shortfalls exceeding 40 percent in 2024. TSMC and Samsung are accelerating capacity expansion to meet demand. Heterogeneous integration enables the combination of different functional chip devices to achieve on-demand integration. AMD's MI300X integrates 12 chiplets, delivering computing power three times greater than its predecessor.

Advanced packaging not only sustains performance growth but also adapts to diverse application scenarios, including edge computing (compact size and low power consumption), automotive electronics (high reliability) and data centres (high computing power and low latency). Furthermore, it has become a critical means for Chinese companies to compensate for limitations in advanced process nodes, enabling "asymmetric breakthroughs" and advancing domestic substitution.

Trend 03

Dual-Circulation Strategy Amid US-China Tensions

1. Geopolitics is profoundly reshaping the semiconductor supply chain

Technology restrictions and countermeasures have entered a prolonged contest: The United States continues to tighten its semiconductor technology blockade against

China, resulting in a closed-loop dynamic across the global industry characterised by "decoupling of technology-reshaping of industry landscape-redrafting the rules". In 2024, the United States, Japan and the Netherlands took a series of coordinated parallel actions to restrict the export of advanced semiconductor manufacturing and technologies to China, extending restrictions to equipment for processes below 14nm. This has slowed down the capacity expansion in Chinese wafer fabs, with growth in sub-14nm capacity declining significantly.

In response, China introduced Regulation on the Administration of Rare Earth in October 2024 to impose export controls (China accounts for more than 80 percent of global rare earth production) and launched the third phase of the China Integrated Circuit Industry Investment Fund, with a scale exceeding 300 billion yuan, to support the development of mature process semiconductor manufacturing equipment. This long-term "countermeasure vs. restriction" pattern is forcing semiconductor enterprises to establish a dual safeguard system of "technological autonomy + supply chain security".

2. Breakthroughs and challenges in domestic substitution

Domestic substitution has made progress in mature areas of the semiconductor sector: Shanghai Micro Electronics Equipment (Group) has achieved mass production of 28nm DUV lithography machines, while SMIC has stabilised yields at the 14nm process. In 2024, its localisation rate of equipment for mature processes (28nm and above) reached 35 percent.

However, the technological challenges remain formidable. The manufacturing of chips using processes below 7nm still relies on TSMC; the markets for extreme ultraviolet (EUV) lithography machines and advanced electronic design automation (EDA) software are highly concentrated and heavily dependent on external suppliers; and although Cambricon and other Chinese AI chip companies have enhanced computing power through chiplet technology, the manufacturing stage still requires collaboration with leading international wafer fabs.

3. Semiconductor industry companies' 'dual-circulation' strategy

Overseas integrated device manufacturers (IDMs) have adopted a "China for China" (aka "in China, for China") strategy: Infineon has established a smart factory in Wuxi to localise production of insulated-gate bipolar transistor (IGBT) power modules, making it one of the company's largest IGBT manufacturing bases worldwide. NXP has set up a research and development centre in Shanghai focused on automotive chip design. STMicroelectronics has partnered with SMIC to co-develop BCD (bipolar-CMOS-DMOS) processes, enabling localisation of power devices. This model of "technology localisation + capacity localisation" both mitigates the risks of technology restrictions and meets domestic market demand.

By contrast, outsourced semiconductor assembly and test (OSAT) companies are pursuing a global presence. China's largest OSAT company JCET has acquired STATS ChipPAC to gain global packaging and testing capacity, establishing

production bases in South Korea and Singapore to form a "domestic R&D + overseas manufacturing" collaborative system. Tongfu Microelectronics, in partnership with AMD, is developing 3D packaging technology and has built an advanced packaging line in Penang, Malaysia, achieving the dual objectives of technological iteration and capacity expansion.

Trend 04

Building a Secure and Sustainable Supply Chain Ecosystem

Geopolitical pressures and supply-demand imbalances are forcing semiconductor companies to shift the focus of supply chain management from "low cost" to "risk control", requiring enterprises to establish a full-chain ecosystem of "assessment-procurement-collaboration".

1. Enhancing supply chain stability assessment: By establishing technology demand and risk models, semiconductor companies can develop roadmap-driven demand forecasting models. Through incorporating key technology nodes such as 5nm/3nm advanced processes and chiplet packaging, these models can create quantifiable estimates of material and equipment shortfalls over the next three to five years. At the same time, by introducing a Geopolitical Risk Index (GPR Index), companies can assign political stability scores to supplier countries of critical equipment (e.g. EUV lithography machines) and materials (e.g. high-purity silicon wafers), thereby identifying single-point failure risks.

In addition, through dynamic assessment mechanisms, enterprises can build supply chain digital twin systems that integrate real-time logistics data, supplier capacity utilisation rates and inventory turnover ratios, achieving automated risk alerts. Companies should conduct quarterly stress tests to simulate extreme scenarios and evaluate the feasibility of alternative solutions.

2. Clearly defining metrics and procurement strategies: Enterprises need to establish clear core KPIs for strategic procurement actions, including supply security (at least three suppliers for critical materials), cost control (annual cost-reduction rate for strategic materials), sustainability (proportion of green suppliers) and responsiveness (delivery cycle for urgent orders). A differentiated procurement strategy should be developed for different types of materials:

- Strategic materials (such as photoresists) should follow a "long-term agreement + technology collaboration" model, with joint R&D mechanisms established alongside companies such as JSR and Shin-Etsu Chemical;
- Leverage materials (such as packaging substrates) should adopt "regional procurement + futures contracts" to secure production capacity in Southeast Asia;
- For bottleneck materials (such as neon gas), enterprises should maintain a six-month safety stock and sign priority supply agreements with suppliers in Ukraine and Russia.

Trend 05

3. Strengthening strategic procurement functions: Enterprises should optimise organisational structures by establishing a three-tier strategic procurement team: a decision-making layer (CPO + CTO) responsible for aligning technology roadmaps with procurement strategies; an execution layer (category managers) divided into vertical domains of materials, equipment and services; and a support layer (data analysts) tasked with developing supply chain risk prediction algorithms.

Capability building is essential. Companies should introduce the role of "Technology Procurement Officer" (TPO), who should possess a semiconductor process background (e.g. understanding FinFET/GAA technologies) and participate in evaluating suppliers' technology roadmaps. In parallel, a supplier technology capability evaluation matrix should be established to assess critical indicators, including R&D progress and yield improvement curves for sub-7nm process equipment.

Furthermore, enterprises should focus on ecosystem collaboration by leading the formation of industry collaboration bodies, such as proposing to establish a "Semiconductor Supply Chain Innovation Alliance". They should join hands with firms such as SMIC and Yangtze Memory to build a shared spare-parts repository and reduce equipment maintenance costs. Finally, partnerships with universities should be forged to launch targeted training programmes in semiconductor supply chain security, ensuring a steady pipeline of multidisciplinary semiconductor talent for enterprises each year.

Lean Intelligent Manufacturing Drives Cost Reduction and Efficiency Gains

Semiconductor enterprises should implement lean intelligent manufacturing practices across the entire process, achieving a transformation from "experience-driven" to "data-driven". The core pathway comprises three key dimensions:

1. End-to-end cost management system (TCL method)

- Establish a full-process cost model covering R&D, procurement, production, logistics and after-sales, incorporating dynamic costs, and quantifying cost fluctuation drivers at each stage, such as material loss rates, overall equipment effectiveness (OEE) and yield variations. Introduce the "cost penetration" tool from the TCL method to trace data and quickly identify cost anomalies (e.g. using statistical process control (SPC) analysis to assess the impact of key process parameters on costs).
- Create cross-departmental collaboration mechanisms by forming a cost management committee comprising finance, R&D, production and supply chain teams. Hold regular cost review meetings to drive optimisation projects. Use digital dashboards (e.g. Power BI) to monitor cost indicators in real time, ensuring transparent decision-making.

- Collaborate with suppliers to reduce costs. Establish joint cost improvement teams with key suppliers and apply Value Analysis and Value Engineering (VAVE) to optimise material design – for example, adopting alternative materials or processes to lower bill of materials costs.

2. Optimising the New Product Introduction (NPI) process:

Parallel advancement of engineering and Design for Manufacturability (DFM): Embed manufacturing teams into the R&D stage and use DFM tools (e.g. Mentor DFM) to identify process bottlenecks early, reducing engineering change orders during pilot production. Establish a modular design platform to reuse validated IP modules and shorten design cycles.

Rapid capacity ramp-up strategy: Adopt a "small-batch, fast-iteration" model, using Design of Experiments (DOE) to optimise process parameters and shorten ramp-up cycles by more than 30 percent. Deploy digital twin technology to simulate production line operations, validating equipment configurations and process stability in advance.

Optimised Time-to-Market (TTM) control: Implement a stage-gate review mechanism for NPI, setting deliverable standards at key milestones (e.g. Engineering Validation Test/Design Validation Test/Production Validation Test). Delays or overruns trigger escalation protocols. Introduce agile project management tools (e.g. Jira) to dynamically track task progress and automatically flag risks.

3. Building lean manufacturing demonstration benchmarks

First, focus on selecting benchmark factories and designing performance indicators. Choose factories with transformation potential and concentrate on core metrics such as "unit manufacturing cost reduction rate", "overall equipment effectiveness (OEE) improvement rate", and "first-pass yield". Referencing SEMI standards, establish an intelligent factory evaluation system to ensure quantifiability and replicability.

Second, emphasise technology enablement and process optimisation. Deploy industrial internet of things (IIoT) platforms to collect equipment data in real time, and apply AI analytics (e.g. predictive maintenance to reduce downtime). Use digital twin technology to optimise production line layouts, improving logistics efficiency through simulation (e.g. reducing material handling distances).

Finally, pursue continuous improvement and wider adoption. Establish a rapid replication mechanism for "copying benchmark factories to other factories", promoting best practices through standardised operating procedures (SOPs) and staff rotation training. Hold regular lean manufacturing case competitions to encourage employee participation in improvement proposals (e.g. Toyota A3 report model).

Through these measures, enterprises can achieve sustained improvements in cost, efficiency and quality, thereby building a durable cost-competitiveness advantage.

Industry Trends

Industrial Products



In 2025, China's industrial products and equipment sector is entering a deep transformation phase characterised by electrification, AI transformation and systematisation. Driven by the joint influence of electrification and China's strategy of technology self-reliance, the focus of competition is shifting from capacity expansion to technological accumulation and full value chain collaboration. The reshaping of the global supply chain landscape is also accelerating the process of domestic substitution. Migration towards the higher end of the value chain, service-oriented transformation and decarbonisation have become the core dimensions for companies to build their competitiveness in the new era.

Against this backdrop, Chinese companies are guided by the strategic principle of "navigating deep waters with dual engines" to steadily build sustainable competitive barriers. "Navigating deep waters" signifies that the industry has entered a stage requiring intensive breakthroughs. Enterprises must achieve solid progress in the "deep-water zones" which calls for core technology advancement, cost efficiency improvement and supply chain resilience. Businesses need to leverage systemic capabilities to adapt to an increasingly complex competitive environment. Meanwhile, "dual engines" emphasises technology upgrading and operational optimisation as the twin drivers jointly propelling the industry's migration towards the higher end of the value chain.

On the one hand, new technologies such as electrification, automation and AI transformation are reshaping product architecture and industrial ecosystems, opening up fresh growth opportunities. On the other hand, amid intensifying competition in the market with limited growth, refined operational capabilities—including full life-cycle cost control, flexible supply chain development and enhanced organisational resilience – will be the critical pillars enabling companies to ride out cycles. The old growth model reliant on resource input and economies of scale is no longer sustainable. Companies urgently need to leverage digital tools to improve transparency in internal management, harness data and AI to boost operational efficiency and decision-making capability, and complete systemic upgrades in governance mechanisms, organisational collaboration and resource allocation.

Looking ahead to 2026, as domestic substitution continues to deepen, electrification accelerates and AI applications move from pilot projects to large-scale deployment phase, Chinese industrial products and equipment companies are expected to occupy a more commanding position in the new global industrial landscape. This leap from "quantity" to "quality" will not only provide a comprehensive test of their technological and managerial capabilities, but also demonstrate that China's industrial sector has embarked on a path of high-quality growth.

Trend 01

Industrial Products & Services: Electrification Opens a New Chapter of Industry Growth

Against the backdrop of accelerating global electrification, the industrial sector is undergoing an energy-efficiency revolution, shifting from "single-point equipment substitution" to "deep electrification across the entire system". The continuous improvement of the new energy ecosystem has laid a solid foundation for the new round of development in power generation, energy storage, transmission and distribution sectors. Yet the true release of electrification's value hinges on achieving critical breakthroughs at the industrial application end—specifically in power density, system integration and operational reliability.

In this process, four core trends are reshaping the competitive landscape in the next stage:

- 1. Thermal management has risen from a supporting function to become the critical bottleneck of industrial system performance.** As equipment power density continues to climb, efficient heat dissipation directly determines the limits of system performance and product lifespan, as well as will decide whether electrification solutions can be deployed at scale.
- 2. Materials innovation is driving the leap in power system efficiency.** Breakthroughs in silicon carbide, gallium nitride and other wide-bandgap semiconductor materials, together with advances in superconducting materials, high-performance magnetic materials and advanced insulation materials, are collectively enabling step-change improvements in efficiency, power density and voltage tolerance of electrical systems.
- 3. Reliability standards must meet the demands of extreme environments.** The application scenarios of electrical equipment are expanding beyond ideal operating conditions to high-temperature, high-humidity and highly corrosive environments. The ability of equipment to remain stable under such extreme conditions not only demonstrates a company's technological strength, but also plays a decisive role in opening up new growth markets.
- 4. The dimension of competition is shifting from component performance to system-level solutions.** Companies' value propositions are no longer confined to single pieces of equipment but are being upgraded to encompass full life-cycle service capabilities across design, integration and operations. Delivering end-to-end solutions that are efficient, reliable and superior in total cost of ownership (TCO) is becoming the new competitive barrier.

The deepening of electrification has gone beyond simple energy substitution, triggering a comprehensive restructuring in the industrial sector around thermal management, materials, reliability and system integration. Building on these four dimensions, companies and investors can precisely capture the new wave of growth

Trend 02

opportunities unleashed by the electrification trend across energy, construction, manufacturing and transportation industries.

Industrial Equipment: Shifting from Capacity Rivalry to Cost Efficiency Dominance

Driven by investment policies, downstream sectors such as consumer electronics and new energy vehicles once experienced rapid capacity expansions. However, according to data from China's Ministry of Industry and Information Technology, by 2025 capacity utilisation rate in some industries is expected to fall below 75 percent across the board, placing significant structural adjustment pressure on industrial equipment companies, including those in machine tools and packaging machinery. At the same time, under the combined squeeze of rising raw material costs and tightening environmental requirements, downstream clients' focus on TCO of industrial equipment is increasing exponentially.

This shift is driving a fundamental change in the logic of industry competition: from the traditional focus on single-machine performance parameters to integrated cost-efficiency competition spanning the entire value chain of R&D, production, operations and services. To respond to this trend, industrial equipment companies must concentrate on the following four strategic pillars to rebuild systemic capabilities.

- 1. From equipment performance to system efficiency: reshaping value assessment standards.** Traditional competition has largely focused on indicators such as single-machine precision and speed. By contrast, the TCO perspective requires companies to evaluate from the standpoint of customers' overall production efficiency, incorporating energy consumption, maintenance costs and equipment availability into the assessment framework, thereby redefining the core competitiveness of their products.
- 2. From reactive maintenance to predictive maintenance: extending service boundaries by leveraging data.** By leveraging on-site data, using AI-enabled analytical tools to monitor and control equipment status and processing parameters in real time, service models are being upgraded from "repair after failure" to "maintenance guided by early warning". This approach can significantly reduce customers' unplanned downtime, directly improve yield rates, tolerance precision and quality consistency, and elevate the value of maintenance services from "ensuring stability" to "enhancing performance".
- 3. From one-off transactions to scenario-based operations: innovating business models.** The "Equipment-as-a-Service" (EaaS) model is rapidly penetrating multiple niche sectors. By adopting flexible billing methods based on usage duration or processing volume, companies can ease customers' upfront investment burden and build a long-term, win-win collaborative ecosystem.

Trend 03

4. From domestic substitution to global bidding: expanding the competitive dimension.

While consolidating their share in the domestic market, Chinese companies with TCO advantages are poised to enter high-end competition in the international market. By combining cost-control capabilities with a global service network, they can achieve the leap from local leadership to global breakthrough.

TCO competition in the industrial equipment sector is by no means a low-level price war. Instead, it is driving companies to shift their R&D focus from functions to scenarios, to build flexible and customised capabilities in production, and to establish digital and globalised support systems in services. Looking ahead, companies that can deeply integrate and optimise equipment efficiency, energy management and service responsiveness will carve out new growth pathways amid intensifying competition in the market with limited growth.

Transformation of the Construction Equipment Industry: Reshaping Business Models in the Replacement Market

At present, China's construction equipment industry has entered a critical stage of transition-shifting from incremental expansion to existing equipment replacement. Taking the elevator market as an example, unlike newly built projects, the replacement market operates on a typical B2B2C model, whose decision-making process involves multiple stakeholders, such as property owners, management companies and owners' committees. This means longer decision chains and more customised demands.

In response to this shift, companies need to focus on enhancing and refining sales channel operations and building brand equity. Clients in the replacement market are not only highly sensitive to total life-cycle costs but also demand shorter delivery cycles and more flexible service responsiveness – placing significantly higher requirements on companies' operational efficiency.

To this end, industrial companies need to drive organisational transformation towards greater agility, breaking down departmental silos to achieve end-to-end collaboration from demand insight to service delivery. At the same time, they should adopt the "platform-plus-modular" model for R&D and product strategies, using a hybrid MTS (Make to Stock) +MTO (Make to Order) production approach to balance the cost advantages of scale with the responsiveness of customisation.

In addition, the continuous tightening of building energy-efficiency standards is creating new market opportunities. Under the guidance of green and low-carbon policies, China is gradually raising building energy-consumption requirements. This is not only accelerating the replacement of old, high energy-consuming equipment, but also driving new projects to adopt energy-saving solutions meeting higher standards on a broad scale. In the future, high-efficiency product lines will provide companies with sustained competitive advantage.

Trend 04

From a long-term development perspective, the key to winning in the replacement market lies in building an ecosystem of efficient collaboration across "products + services + supply chain". By using digital tools to enhance equipment early-warning and maintenance responsiveness, and by establishing localised fast-responding service networks, companies will be well positioned to secure industry leadership in the new competitive landscape that will emerge after 2026.

Core Components: Import Substitution Drives China's High-End Equipment Industry into a New Stage of Systemic Restructuring

Driven by the joint influence of pursuing supply-chain security and technological self-reliance, the localisation of China's industrial equipment manufacturing has extended beyond whole-machine assembly. It now encompasses the development of full-chain capability spanning key components, core materials and high-end equipment. This process is gradually shaping a more autonomous and controllable industrial ecosystem. At present, the wave of import substitution shows three structural trends:

- 1. The substitution pathway continues to deepen into critical upstream segments.** In the machine tool industry, core functional components such as computer numerical control systems, precision bearings and ball/lead screws still offer significant room for localisation. In the field of industrial automation where domestic enterprises accumulate increasingly mature technologies, more Chinese players are accelerating their entry into niche markets for high-precision, high-reliability core components.
- 2. High reliability and adaptability to extreme operating conditions have become the keys to breakthrough.** From main shaft bearing of wind turbines to guide rails of semiconductor equipment, product lifespan and precision stability have emerged as the core benchmarks for determining whether domestic components can penetrate high-end applications.
- 3. The substitution process is advancing in waves.** In sectors such as machine tools and robotics, localisation rates are expected to rise steadily over the next three years, creating a virtuous cycle of mutual reinforcement and coordinated development between basic components and complete equipment.

Looking ahead to 2026, the technological iteration of core components in humanoid robots, new energy equipment and other emerging fields will accelerate. The deep integration of technologies including the industrial internet and digital twins will further contribute to the advances in the entire R&D and manufacturing process. This evolution not only strengthens the resilience of industry chains but also propels China's high-end equipment from being merely "usable" to becoming "easy-to-use and durable", gradually building a new industrial ecosystem with independent innovation at its core.



Trend 05

Industrial Products and Equipment: AI Applications Enter a Critical Turning Point From Pilot Exploration to System-wide Implementation

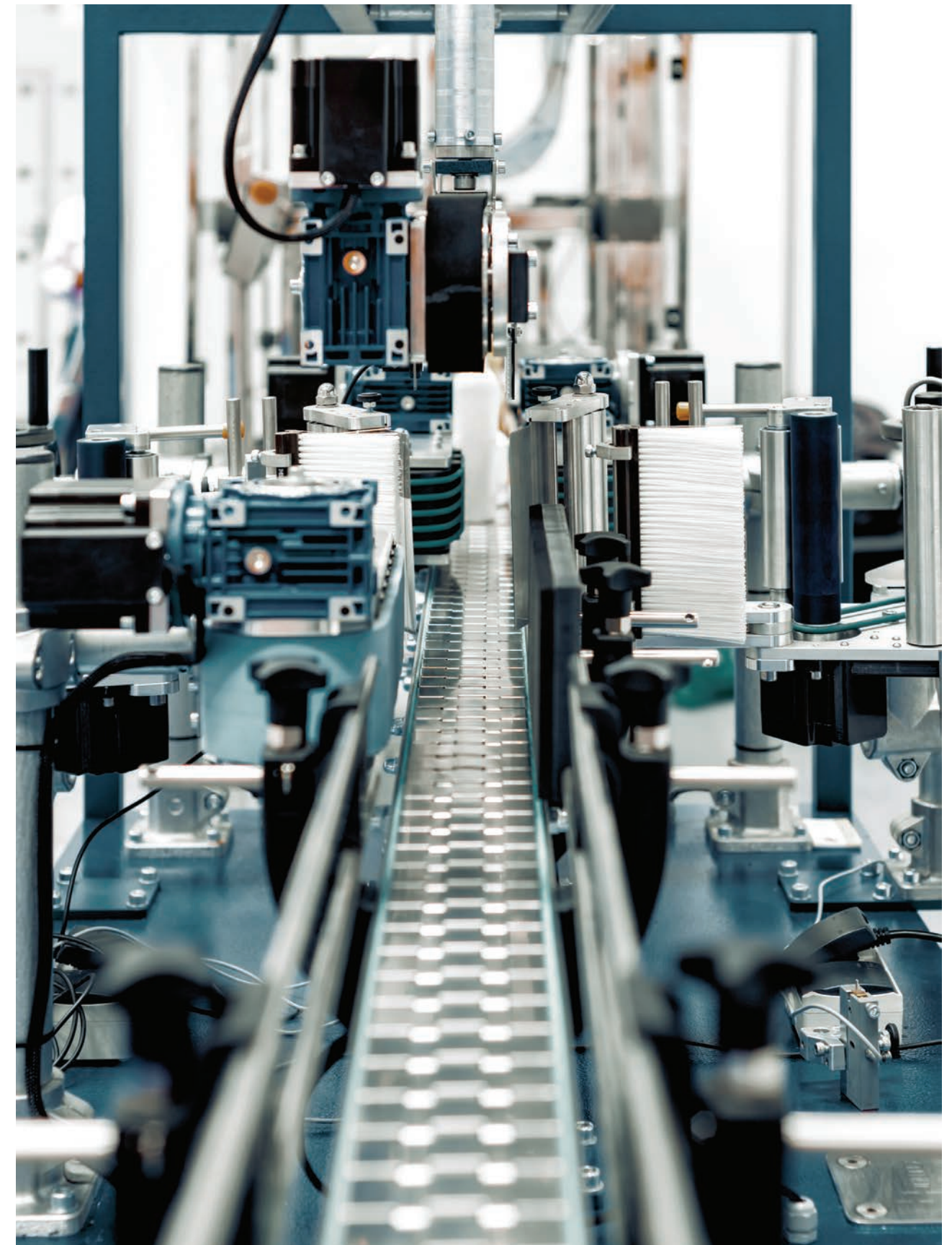
At present, the global industrial products and equipment sector is at a strategic turning point, as AI applications move from proof-of-concept stage towards large-scale deployment phase. Europe, as a leading region in industrial AI, is facing the dual pressures of labour shortages and efficiency enhancement. As a result, manufacturing enterprises are actively driving a substantive leap from exploratory pilots to full implementation of AI. Data show that more than 57 percent of European business executives have identified AI as a core investment priority for the next 12 to 18 months. As AI continues to penetrate manufacturing, the pace of deployment and the robustness of governance framework have become focal concerns at the CEO level as they will directly shape companies' future competitive advantage.

European manufacturing enterprises are deeply integrating AI across the entire operational process, marking a transition from experimental exploration to systemic deployment. In terms of efficiency gains, AI helps companies optimise costs, strengthen supply-chain resilience, and ensure stable profitability even under complex economic conditions. Significant progress has been made in industrial automation, where the convergence of machine-to-machine communication,

autonomous decision-making and hardware-agnostic software is driving collaborative innovation across the value chain. Supported by favourable policies and localisation trends, process automation is accelerating in chemicals, energy and other industries. AI agents with multi-step execution capabilities are rapidly spreading across scenarios including expense approvals, inventory monitoring and R&D management. Currently, 14 percent of companies have completed large-scale deployment, and within three years 58 percent of companies are expected to incorporate them into daily operations. Some leading equipment manufacturers which are leveraging generative design, predictive simulation and other AI tools have set ambitious targets to reduce R&D and product-management costs by half and cut operating expenditure by more than 30 percent by 2028. They expect these measures will significantly lift overall decision-making efficiency.

By contrast, AI adoption in China is highly active on the consumer side yet lags on the industrial side. The user base of generative AI in China has already reached 515 million, with office applications' adoption rates ranking among the highest globally. However, systematic AI capabilities in R&D, procurement, production and other core industrial functions remain relatively weak. Despite the Chinese government's "AI + Manufacturing" initiative, most companies still lack integrated end-to-end AI frameworks and the necessary data set foundations.

Looking ahead to 2026, China's industrial equipment enterprises urgently need to shift AI application from isolated pilots to organisation-wide deployment. On one hand, they should deepen AI embedding and re-engineer processes across key stages such as R&D, production and supply chains. They can also use generative design to shorten development cycles, and leverage AI agents to optimise operational decisions. On the other hand, they must simultaneously build AI governance systems, data standards and talent pipelines, ensuring safe, compliant and reliable system capabilities to support large-scale AI adoption and shape a new type of industrial competitiveness.



Industry Trends

Material & Process



Trend
01

Ongoing shifts in the global economy and technology are profoundly reshaping the development landscape of the mining, metals, chemicals and advanced materials industries. Geopolitical dynamics, industrial upgrading and the green transition are interwoven, reconstructing value chains and driving breakthrough innovation.

As resource-rich countries seek greater localisation of their industry chains, Chinese companies are accelerating the evolution of their overseas expansion models. For mining companies, navigating high-price cycles and pursuing lean management have become critical levers to strengthen their competitiveness.

Meanwhile, the rise of emerging industries is elevating the structure of materials demand. Client-centric model and "glocalisation" strategies are increasingly decisive factors for success. At the same time, ESG principles and circular economy concepts are propelling the rapid roll-out of renewable materials value chains.

Looking ahead to 2026, faced with new opportunities and challenges, companies in the materials and process industries must proactively embrace transformation, build systematic capabilities, and achieve sustainable, high-quality development.

Mining Industry

Value Reconstruction – Chinese Mining Companies Embrace New Paradigms of Global Expansion

The global value landscape of critical minerals is undergoing profound restructuring. The traditional "centre-periphery" system long dominated by developed countries is no longer sustainable, while resource-rich but more geographically dispersed countries of the Global South are actively seeking change. Dissatisfied with persistently suppressed raw material prices and constrained capital accumulation, they are pressing strongly to raise their level of domestic industrialisation. Seizing the window of a new round of economic transformation, these resource nations are leveraging their mineral endowment to demand support from international capital in building local industry chains, starting with processing capacity.

To this end, resource-rich countries in Africa and South America are advancing mining reforms along two main pathways: first, by systematically overhauling domestic mining legislation and enhancing transparency to attract foreign investment (as in Nigeria); and second, by strengthening mechanisms of benefit redistribution and national control. For example, Mali has taken measures to increase state ownership share and tighten tax audits to secure higher revenues.

For Chinese mining companies, the overseas strategy during the 15th Five-Year Plan period must move beyond opportunism. It requires a systematic assessment of risks, the establishment of robust localised operating capabilities in foreign markets,

Trend
02

and the genuine implementation of ESG principles. Only by doing so can they seize opportunities in the new wave of partnerships centred on "co-building industrial ecosystems".

Harnessing the Window of Opportunity – Making Right Decisions in the High-Price Cycle

During the 15th Five-Year Plan period, key minerals are certain to enter a high-price window. Taking gold as an example, a combination of factors—including policy uncertainty in the United States, risks to the dollar's credibility and ongoing geopolitical tensions—pushed the gold price above USD 4,000 per ounce in 2025, after which it has continued to fluctuate at elevated levels. It is expected to remain high for three to five years, placing gold mining companies at a pivotal stage for leapfrog development.

History shows that periods of high gold prices often trigger waves of industry mergers and acquisitions. Leading players such as Barrick Mining and Newmont Corp have used such opportunities to optimise asset portfolios and investment returns, while second-and third-tier companies have sought to expand scale through acquisitions.

For Chinese companies, the 15th Five-Year Plan period demands clear answers to a series of critical questions: What are the development objectives under conditions of heightened volatility? Is there a need for external growth through M&A? Chinese companies must also prioritise building the necessary capital operation capabilities and globalised teams, so that they can establish lasting scale and competitiveness within this relatively short high-price window.

Trend
03

Lean Production as the Foundation – Unlocking Profit Potential in the 'Last Mile'

Confronted with common global challenges such as the absence of new large-scale mineral deposits, declining ore grades in existing mines and rising extraction costs, lean production has become the lifeline of sustainable development for the mining industry. At its core, this means strengthening lean management control across equipment, processes and workforce operations, while integrating innovations in digitalisation and automation to exploit the fullest commercial return from existing resources and reduce costs.

Taking gold mining as an example, between 2019 and 2023 the global average total cash cost of mined gold fell by 12 percent, largely thanks to technological advances and lean management enabling more efficient use of energy and labour. By contrast, due to the relatively high proportion of underground mining, mines in China have continued to see rising costs compared with overseas peers.

Trend
04

This gap clearly points to the endogenous development pathway for Chinese mining companies during the 15th Five-Year Plan period: They must deeply integrate technological innovation with lean production principles, systematically manage the entire mining and beneficiation process, and turn management capability into a new source of cost advantage and profitability leverage. For companies whose primary resource base lies within China, this is virtually the only viable path forward.

Winning Through Systematic Capability – Driving a New Journey of Scaled-up Growth

The 15th Five-Year Plan period will be a critical stage for Chinese mining enterprises to achieve scaled-up growth. They must address two core questions: Where will incremental growth come from? How can it be effectively managed? Overseas mergers and acquisitions represent the most feasible path to scale, but success hinges on whether Chinese companies can establish a closed management loop of "acquisition – integration – operation".

One mining company has already provided a successful demonstration. It developed the "Five-Process-in-One Ore Flow" engineering management method, aligning exploration, mining, beneficiation, metallurgy and environmental protection processes along the trajectory of ore flow with full-process control. Together with its headquarters-based mine management model, this forms a replicable capability across projects and regions.

History offers no shortage of failed cases of "successful acquisition but disastrous management". Chinese mining enterprises must therefore commit to institutionalising and standardising best practices, building strong organisational and managerial capacity to underpin their global ambitions.

Metal, Chemical and New Material Industries

Trend
01

Emerging Industries Propel the Materials Industry to a Leap Forward

The rapid rise of emerging industries such as artificial intelligence, robotics and the low-altitude economy is reshaping demand structure in the materials industry. For example, the stringent requirements of AI data centres for high-voltage current transmission and heat dissipation have fuelled strong demand for specialised copper products, including high-purity copper and silver-plated oxygen-free copper stranded wire. The growing flexibility and complexity of humanoid robots have likewise driven surging demand for key materials such as enamelled copper wire and high-precision NdFeB permanent magnets. Meanwhile, the expansion of dominant industries such as new energy vehicles continues to create market opportunities for lightweight materials, display materials and heat-resistant materials.

Trend
02

These application areas not only broaden the market space for materials but also accelerate the shift in product structures towards high performance and customisation, injecting sustained momentum into industry growth.

Building Client-Centric Business Models to Reshape End-to-End Service Value

Facing the dual challenges of downstream industry consolidation and accelerated product iteration, materials companies urgently need to build a new customer-centric service system. Direct-to-key-account sales models are becoming mainstream, requiring technology and marketing teams to deliver one-stop solutions that cover demand analysis, material selection and application support. The stringent requirements of end customers for shortened development cycles are driving companies to establish full-chain collaboration mechanisms across R&D, production and service.

This deep integration not only enhances customer stickiness but also compels companies to make service capability a core competitive strength, achieving a strategic transformation from product supplier to solutions partner.

Trend
03

The Wave of Glocalisation Creates a New Landscape for Chinese Companies to Go Global

The global geopolitical landscape is becoming increasingly volatile, with new paradigms of trade and commerce gradually taking shape. Global supply chains are evolving towards regionalisation, and China's role within the international system is shifting. Chinese companies, represented by sectors such as new energy vehicles, air conditioning and smart devices, are accelerating the expansion of their overseas industry chains.

Taking power batteries as an example, Chinese companies have already established their foundational overseas value chains. "Connector countries" such as Hungary and Morocco have become critical hubs for battery companies. These nations not only supply European and Middle Eastern markets for Chinese new energy vehicle manufacturers but also provide support for battery material companies to expand into regional markets.

In this process, the combined model of "export + regionalisation + localisation" is emerging as the target form of global expansion. It requires companies to develop flexible regionalisation strategies, follow downstream clients in their overseas expansions, and achieve a transformation from pure export model to localised operations.

Trend 04

Establishing localised overseas presence, however, brings new challenges, including managing local relationships, infrastructure and supply chains, as well as customer development. At the same time, flexible satellite factories and deeply integrated large-scale production capacities are key strategic choices for companies to make when planning overseas capacities.

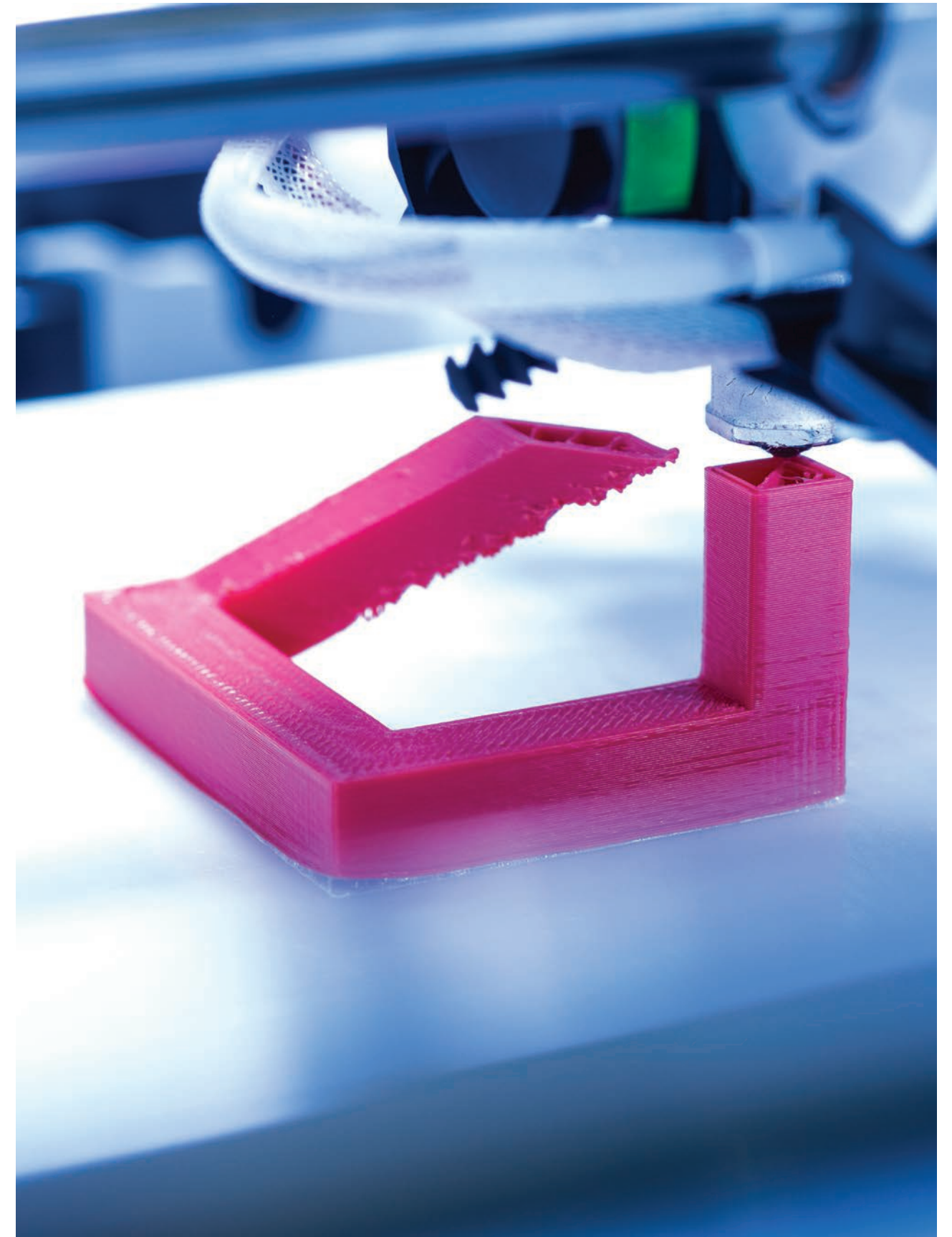
Circular Transformation Builds Competitiveness in Renewable Materials

Under the combined influence of ESG imperatives, geopolitical tensions and the pursuit of supply chain security, building renewable material value chains has become a core arena of competition in the materials industry.

The recycling of materials such as copper and rare earths is not only a matter of cost efficiency, but also a critical capability for companies to compete in global markets. For example, a leading copper producer has in recent years accelerated the expansion of its global waste-copper recycling network, establishing centres in Europe and the United States. Through acquisitions, it has gained smelting and e-waste recycling capabilities, while further partnering with major upstream collection sites to provide downstream customers with integrated recycling solutions.

In the chemicals industry, three green product pathways—degradable, bio-based and renewable materials—continue to advance, though each faces distinct challenges. Among them, renewable materials are steadily maturing in terms of technological breakthroughs and business model innovation. The creation of a complete upstream-downstream ecosystem is emerging as the decisive factor for success.

Looking ahead, metal and chemical materials companies must proactively plan their recycling strategies to secure long-term advantage in a circular economy future. By strengthening systems and upgrading technologies, they can build sustainable green competitiveness.



Industry Trends

Steel & Metal



With the advancement of human technology and society, demand for materials will continue to grow. By the middle of this century, global material consumption is projected to double compared with 2015, reaching approximately 190 billion tonnes, of which metal materials will account for 20 billion tonnes. The generation of solid waste is expected to rise by 70 percent compared with today, while greenhouse gas emissions from the materials sector will represent 66 percent of global emissions.

Consequently, the importance of topics such as the circular economy, decarbonisation applications and long-life materials will continue to increase. Within the broader trajectory of the materials industry, ferrous and non-ferrous metals, which are key components of the sector, are facing unprecedented challenges. Building on the foundations of traditional metal smelting and processing, we have identified five major trends shaping the future of the metals industry. These trends aim to help companies better anticipate industry developments, navigate cyclical shifts, and seize opportunities to recreate values, re-enhance capabilities and ultimately achieve the re-transformation of "turning stone into gold" under the new normal.

Trend 01

Unchanging Theme: Continuous Improvement in Operational Efficiency

As participants in a traditional manufacturing industry, metal materials companies have long regarded the improvement of operational efficiency as one of the foundations of their core competitiveness. Cost control, quality stability and delivery reliability remain enduring themes across the sector.

In the ferrous metals sector, demand in China's steel industry has stabilised, while relatively abundant supply has become a widely recognised trend. Intensifying market competition is placing immense survival pressure on enterprises at the lower end of the cost curve, and the forces of industry consolidation and restructuring are expected to persist. Within an increasingly homogenised competitive environment, steelmakers find it difficult to sustain high profitability; even a cost difference of around USD 15 per tonne of steel may mark the dividing line between profit and loss.

At the same time, as customers impose stricter requirements on quality and delivery, companies can stand out from the competition by developing the critical capability to optimise supply chain operations, especially in coordinating production and supply, balancing cost and quality, managing lead time alongside inventory.

In the non-ferrous metals sector, enterprises producing traditional bulk materials such as copper and aluminium are facing significant challenges of market volatility and fluctuating downstream demand. Producers of new energy materials—including nickel, cobalt and lithium – face pressures from rapid technological upgrades, shifting market structures and the sudden transformation of "blue oceans" into "red oceans".

Trend 02

The Engine of Growth: Product and Service Upgrades Driven by Technological Innovation

Marked by industrial modernisation and energy transformation, the Fourth Technological Revolution is sweeping across the globe. China is accelerating its industrial modernisation, building new competitiveness and productivity driven by technological innovation. Today, China produces one-third of the world's goods, and the application density of industrial robots has quadrupled over the past decade, placing the country among the global top three.

In the field of energy transformation, driven by the aspiration for solutions that are safe, economical and sustainable, humanity is gradually moving away from reliance on unevenly distributed fossil resources to realise the ultimate goal of securing a high-density, low-carbon electricity source that is available anytime and anywhere. Over the next 30 years, the global energy mix is expected to undergo continuous transformation, with the share of non-fossil energy in primary energy rising to around 70 percent by 2050.

Against the backdrop of this Fourth Technological Revolution, the metals industry faces new requirements for adjustments in demand structure, upgrades in clients' quality expectations and innovations in application fields. In response, metal materials enterprises must drive technological innovation and adopt new approaches to continuously enhance the level of their products and services.

Taking the steel industry as an example: Traditional steel-consuming sectors such as real estate and infrastructure are gradually contracting, while future downstream demand will be driven by growth in energy and automotive industries. This shift

Trend 03

places higher requirements on steel products, including greater strength, durability and performance.

Against this backdrop, many steel companies have embarked on product-upgrade initiatives, exploring the path of "from general to premium, from premium to specialised, and from specialised to refined". Yet the road of product upgrading is fraught with obstacles. For most enterprises, efforts remain superficial and are often reduced to simple "follow-the-trend" moves, limited to piecemeal development of varieties and specifications. They fall short in customer-oriented innovation and in establishing comprehensive, systematic innovation management. As a result, their innovation initiatives lack a clear value anchor and risk devolving into "innovation for innovation's sake".

To address this challenge, metals enterprises are increasingly embracing downstream trends and positioning ahead in frontier technologies, following the example of leading peers at home and abroad. They should align external trends with their own strengths in areas such as materials applications, green development, zero-carbon energy and digital intelligence. To achieve genuine breakthroughs and build the engine for the next cycle of spiral growth, they must establish clear innovation frameworks and collaborative mechanisms, cultivate talent and strengthen the commercialisation of scientific and technological achievements.

The Power of Expertise: Thinking and Model Transformations in Commercial Areas

In the metals industry, production functions often feature numerous experts, such as process, equipment, and energy efficiency specialists. Yet in domains like procurement, marketing and sales, the role of experts is frequently underestimated.

This stems partly from the belief that engineering skills apply mainly to manufacturing, and partly because the traditional arrangements for marketing and procurement organisations and mechanisms are often structured by raw materials and product categories, pushing personnel skills towards breadth rather than depth.

In reality, managerial functions also demand specialised expertise. Developing such capabilities and nurturing experts can transform business thinking and models, thereby strengthening overall operational performance.

For example, in procurement, tasks such as product selection, sourcing, negotiation, delivery, and ongoing supplier management require specialised capabilities in market analysis, supply assessment and supplier relation management.

The same is true for marketing functions, which call for expertise in market analysis, pricing management, volume allocation and customer relations to ensure effectiveness.

Trend 04

Yet in the metals industry, procurement and sales models remain traditional, lacking environments and opportunities for cultivating specialised capabilities.

Even when establishing marketing departments and separating "marketing" from "sales", the absence of effective cross-departmental collaboration often fragments professional and operational functions, preventing the full value of expertise from being realised.

Thinking further, specialised capabilities at the procurement and marketing domains can be further distilled. Companies should integrate this expertise with general professional competencies, such as market analysis and commercial rules, to build the "Macro Operations" concept and mechanisms.

Under this model, operational leadership will be replaced by professional leadership, and process inputs and outputs will be aligned more closely with professional department structures. This transformation can help break down department silos, enabling holistic, cross-functional collaboration and performance uplift.

The Opportunities for Growth: Expanding Global Footprint

As the global influence of "Made in China" continues to grow, the global expansion of Chinese companies has become an increasingly prominent topic. Looking across their globalisation journey, firms have progressed from initial "product exports", to small-scale "production line exports", and ultimately to comprehensive "manufacturing capacity export". Through this evolution, many companies have accumulated substantial experience and developed a uniquely Chinese strategy of "going global together".

Focusing on the metals industry, many world-leading companies have long pursued globalisation. Take steel as an example: nearly a century ago, European and American firms leveraged capital and technology, seizing the era's dividends to aggressively expand their global presence.

By the 1990s, emerging economies such as Japan and South Korea capitalised on downstream industry advantages established by companies from their home countries. Through models like "following the automakers" and "following the ship builders", Japanese and South Korean steelmakers secured global market positions and built giants such as Nippon Steel and POSCO.

Entering the 21st century, especially after 2010, Chinese steel enterprises also began their globalisation journey. Despite a more complex trade environment and crowded competition, with support from Belt and Road Initiative policies and strong competitiveness, Chinese firms established solid foundations in Southeast Asia, the Middle East, Africa and mature European markets.

Trend 05

Although China's domestic steel demand has peaked, global demand is expected to rise steadily with annual growth of around 1.0 percent to 1.5 percent, driven by strategic reserve upgrades, the rise of green energy, and technological progress. Therefore, the globalisation of Chinese steelmakers is not only an effective way to break free from domestic over-competition, but also a major opportunity to export their deep technological expertise, best management practices and mature industry chains with many sophisticated suppliers.

At the same time, we have observed that as global trade patterns shift under the WTO framework, globalisation and localisation must be more organically integrated. For Chinese companies expanding abroad, they must not only make smart plans for regions, products and business formats, but also choose suitable partners.

More critically, they must embed themselves into local societies, cultures and work environments to build a more stable and sustainable business footprint. This process can help cultivate global vision and skills among Chinese personnel as well as identify and select outstanding international talent on a broader scale. In doing so, enterprises can achieve balanced development across three key globalisation indicators: overseas revenue, overseas assets and overseas talent.

The Leap Enabled by Digital Intelligence: From Digitalisation to AI Transformation

Information technology is advancing at a rapid pace. Over the past decade, Chinese enterprises have evolved from the integration of informatisation and automation, to digital transformation represented by big data analytics, and now to hotly pursued intelligent applications driven by artificial intelligence, large models, embodied robotics and other emerging technologies.

This technological trajectory reflects both continuity and leaps. To seize opportunities, Chinese companies must keep pace with the times, ensuring that technology supports and drives their business.

From a national policy perspective, China's 14th Five-Year Plan focused on "Industrial Internet+" and selective AI applications, while the 15th Five-Year Plan will emphasise "AI+" to upgrade end-to-end business value chains. In its guidance on deepening the implementation of "AI+", the National Development and Reform Commission highlighted the need to integrate AI technologies to drive revolutionary leaps in productivity and profound transformations in production relations, with the goal of achieving a 90 percent adoption rate by 2030.

Across industries, the scale and quality of data, together with alignment to business needs, determine the pace of large-model adoption. According to industry statistics, the steel sector ranks third and the non-ferrous sector ninth in terms of large-model deployment, making them among the early beneficiaries.

Yet the number of large models in the metals industry still lags significantly behind digital use cases, leaving vast potential for intelligent applications. The sector faces persistent challenges: opaque "black-box" process control, extensive "3D" jobs (dangerous, dirty and difficult), quality stability issues and environmental protection challenges.

This means the integration of AI with the metals industry still holds abundant opportunities and considerable room for imagination.

Looking ahead to an intelligent world in 2030, the integration of AI and metals industry will evolve into industrial intelligent agents that unify application scenarios, data algorithms and solutions, achieving holistic fusion across application, technology and ecosystem levels.

At the same time, new technological transformation does not mean discarding proven traditional practices: principles, tools and methods of lean production remain effective, while informatisation, automation and digitalisation use cases continue to be important.

On this foundation, the metals industry can drive the wave of transformation and capitalise on new opportunities by mastering intelligent trends and applying AI tools to achieve breakthroughs in key areas.

Industry Trends

Technology



The global technology industry now stands at a critical crossroads as growth drivers shift and structures are being reshaped. Geopolitical landscapes are undergoing profound adjustments, technological revolutions are accelerating in their iterations, and global economic recovery is becoming increasingly uneven. These three macro trends are resonating and intertwining, propelling industries to move beyond traditional development paths and enter a new stage of "reconstructing order and reshaping value".

- At the technological level, the core logic of development has shifted from conceptual exploration to pragmatic implementation. Purely scale-driven expansion and speculative hype are fading into the background, while technology adaptation and value transformation serving genuine demand have become the future direction recognised across the industry.
- At the industrial level, supply-chain systems are experiencing systemic restructuring, moving from a paradigm of "efficiency first" to "balancing security and efficiency". Regional collaboration and ecosystem co-creation are emerging as critical pillars to withstand uncertainty.
- At the market level, the dual drivers of consumer demand upgrading and industrial structural optimisation are reinforcing each other. The integration of new and traditional industries is accelerating. Cross-sector competition coexists with collaborative innovation. These trends will give rise to entirely new industrial ecosystems and competitive landscapes.

In this era defined by transformation and opportunity, grasping macro trends and staying firm on core directions will become the critical prerequisite for businesses to navigate cycles and achieve sustainable development.

Trend 01

AI Industry Moves From 'Model Worship' To 'Value Creation'

In 2026, the AI industry will bid farewell to the phase of "parameter races" and "conceptual hype" and enter the deep waters of value creation with engineering implementation at its core. The once-celebrated "hundred-billion-parameter large models" will no longer be the Holy Grail pursued by companies. Instead, composite AI systems capable of addressing real business pain points and delivering measurable ROI will take centre stage. This transformation is not merely an adjustment in technological pathways, but a fundamental reconfiguration of competitive logic: Those who can swiftly complete AI applications' proof-of-concept stage and rapidly embed them into the value chain will gain a decisive edge. By replicating these solutions at scale across different businesses and regions, they will seize the advantage in the digitalisation wave.

The limitations of single models will become increasingly evident in 2026, when composite AI systems that integrate generative, predictive and prescriptive

capabilities will emerge as the mainstream. It is expected that most companies will adopt a "large model + small model" hybrid architecture, in which large models provide generalisation capacity while industry-specific small models ensure scenario precision.

We believe that only 10 percent of AI transformation success is determined by the models themselves, while the remaining 90 percent depend on robust data-governance processes, clearly defined AI functions and operating models, as well as employee teams capable of driving the transformation. Successfully implementing AI application in a specific scenario is not difficult; however, if companies wish to replicate high-value applications across business units and regions to generate scalable value, human factors are more critical than technological ones. Therefore, designing an operating model ideally suited to AI is of paramount importance.

- **Strategic level: Anchor on high-value scenarios and avoid "boiling the ocean" by scattering resources everywhere.** Companies must abandon the blind pursuit of "AI for AI's sake" and instead focus on high-value scenarios closely tied to their core businesses. Priority should be given to areas with strong data foundations, standardised processes and quantifiable ROIs, such as predictive maintenance in manufacturing, supply-chain optimisation in retail and risk control in financial services.
- **Technological level: Build lightweight platforms and balance in-house development with outsourcing.** There is no need to blindly construct full-stack AI capabilities. A hybrid model of "self-developed core modules + outsourced non-core modules" can be adopted. Foundational computing power and general models can be quickly accessed through public-cloud MaaS (Model-as-a-Service) offerings, while companies should concentrate their efforts on industry data governance, scenario-specific model fine-tuning and system integration.
- **Organisational level: Restructure cross functional teams and break down departmental silos.** The essence of AI engineering transformation lies in organisational changes. Companies therefore need to establish cross functional teams that combine business, technology and data expertise, while also strengthening talent pipelines. Particular emphasis should be placed on cultivating composite talent with "AI + industry" knowledge and skills.
- **Governance level: Establish a dynamic ROI evaluation model and strengthen risk management.**
 - Build a multi-dimensional ROI assessment model that incorporates direct benefits, implicit benefits, fixed costs and dynamic costs, using machine learning tools to capture the evolving value of AI.

- Conduct regular audits of AI projects, promptly terminating those without value and reallocating resources to high return areas.
- Establish fault tolerance mechanisms to provide AI projects with room for trial and error, avoiding innovation stagnation caused by short-term return pressures.
- Improve data governance and security compliance systems by applying Retrieval-Augmented Generation (RAG) technology to integrate structured and unstructured data, ensuring data is "available, usable and reliable".
- Introduce a dual confirmation mechanism combining AI and human oversight, with tiered authorisation for AI decisions in critical business scenarios, to prevent risks arising from decisions made solely by AI.

Looking ahead to 2026, AI adoption will no longer be a contest of model parameters, but a test of engineering capabilities. Only by breaking free from the trap of "model worship" and focusing on business value creation – through strategic focus, technological adaptation, organisational restructuring and governance upgrading – can companies truly transform AI advantages into their core competitive strength.

Trend 02

Amid Geopolitical Competition, Technology Companies Face the Dual Challenge of Supply-Chain Restructuring and Technological Sovereignty

The global technology industry is currently caught in a wave of supply-chain restructuring driven by geopolitical considerations. The traditional global division of labour based on "efficiency first" is rapidly shifting towards a model that "balances security with efficiency". Technological sovereignty has become a core strategic priority for many nations, with policy tools such as export controls, industrial subsidies and regionalised layouts being intensively deployed. As a result, both hardware and software technology companies are under unprecedented pressure from supply-chain restructuring and technological competition, while the rules of industrial competition are being redefined.

The greatest shockwave of geopolitical tensions lies not in "strict controls" but in "uncertainty" – a single policy shift can render medium- to long-term planning ineffective. For technology companies, it is therefore especially important to strengthen operational resilience against geopolitical risks. This requires enhanced monitoring of regional developments, better design of scenario-simulation contingency plans, and the planning of redundancies to manage risk as far as possible.

- Strategic level: Implement regionalised supply-chain allocation. Keep pace with the global trend towards supply-chain regionalisation by building localised production and service capabilities in core markets such as Europe and Asia-Pacific, reconciling preferential policy benefits with operational cost management. Adopt a "nearshoring + local procurement" model to mitigate geopolitical risks by not

concentrating operations in a single region. At the same time, while continuing to diversify supply and technology systems, increase investment in core R&D and actively participate in the development of technical standards in Europe and other leading regions, thereby strengthening influence in the shaping of global rules.

- Operational level: Establish dynamic risk control mechanisms. Set up specialised compliance teams to monitor changes in national policies on export controls and data security in real time. Conduct risk screening across all stages of the supply-chain. Use contractual clauses to clarify supplier compliance responsibilities, avoiding business risks triggered by third-party violations. In addition, run scenario simulations for varying degrees of potential export restrictions and prepare contingency strategies to address extreme situations.

In today's environment of complex geopolitical shifts and increasingly fragmented markets, technology companies should place greater emphasis on strengthening and integrating into industrial ecosystems. They should actively collaborate with regional partners to contribute across multiple dimensions – from local R&D, talent development, production to the cultivation of high-potential enterprises.

Trend 03

Humanoid Robots Move Beyond Showmanship as Mass Production Begins

The year 2025 marks the first year of mass production for humanoid robots, with the industry shifting from technical validation to the threshold of commercial viability. Sales in China are expected to reach 20,000 units. From the pricing perspective, domestic brands are set to reduce consumer-grade products to the tens-of-thousands-of-yuan range. The industry is projected to enter a period of large-scale expansion, with reports from Goldman Sachs indicating that core suppliers have already begun "jumping the gun", preparing capacity with extremely optimistic estimates as they anticipate mass production to start in the second half of 2026.

On the technological front, embodied intelligence large models are expected to be deeply integrated with AI large models, extending applications into scenarios such as automotive manufacturing, supermarket services and household companionship, while average prices are projected to continue falling. Humanoid robots are poised to soon experience their "iPhone moment": their prices will plummet, the number of applications will rise significantly, and manufacturing capacity will soar to meet the surging demand. These breakthroughs will happen simultaneously to propel the industry from the "technical validation stage" into the "scaled commercialisation stage". Humanoid robots have the potential to become the next general-purpose platform after smartphones and new-energy vehicles.

Trend 04

Quantum Computing Reaches Cost-Reduction Inflection Point as Leading Players Rush to Occupy Commanding Heights

The global quantum-computing industry is now at a critical turning point, rapidly moving from scientific exploration to commercial application. The United Nations has designated 2025 as the "International Year of Quantum Science and Technology", underscoring the worldwide importance attached to this field. IBM and AMD have collaborated to use commercial field-programmable gate array (FPGA) chips, demonstrating that with hardware costing only a few thousand US dollars, error-correction costs can be reduced by 99 percent. This breakthrough lowers the barriers to entry and validates a pragmatic path towards quantum-computing commercialisation.

Commercial hardware from the mature semiconductor supply-chain is fully capable of meeting the high-precision requirements of quantum computing, opening the door for more companies to participate in the ecosystem. IBM's fault-tolerant quantum computer Starling, originally scheduled for release in 2029, has now been brought forward to an expected 2028 delivery - a clear signal of its confidence in the pace of commercialisation.

In China, the Zuchongzhi-3 superconducting quantum prototype computer has broken the world record for quantum supremacy, with its quantum-computing cloud platform now surpassing 120,000 users. The platform has been applied in collaborations with the Industrial and Commercial Bank of China to develop a quantum-encrypted payment system, and with the Chinese Academy of Sciences to advance molecular-simulation applications in biomedicine. The first cold-atom commercial quantum computer, Hanyuan No.1, has achieved localisation of its core components and secured orders worth more than 40 million yuan. Quantum-computing commercialisation has moved beyond the "conceptual" stage and entered a critical phase of technological implementation and scenario validation.

Trend 05

Low-Altitude Economy Breaks the Ice on Airspace Reform as Three-Dimensional Transport Infrastructure Begins to Take Off

As a strategic emerging industry, the low-altitude economy is at a critical turning point, moving rapidly from its initial stage into accelerated commercialisation. According to forecasts by the Civil Aviation Administration of China, the market size of China's low-altitude economy could reach 3.5 trillion yuan by 2035.

On the technology and industry-upgrade front, electric vertical take-off and landing aircraft (eVTOL) have become the fastest growing segment. Companies in this sector are focusing on breakthroughs in batteries, electric drives, flight control and other core technologies to enhance safety.

In terms of policy and management innovation, the low-altitude economy has been included in the central government's work report for two consecutive years, with national-level guidance emphasising "safe and regulated development". The National Development and Reform Commission has established a dedicated department to support the development of low-altitude economy and advance the airspace reform.

Six pilot cities have been authorised to use airspace below 600 metres. In pilot cities such as Shenzhen and Hangzhou, drone delivery coverage has already reached 15 percent. In Shenzhen, Meituan drones have maintained a fulfilment rate of over 98 percent, with a 15-minute delivery radius covering hundreds of thousands of residents. Looking ahead, drone-based logistic service coverage is expected to expand rapidly, while 5G-A, BeiDou, AI and other technologies will speed up their deep integration with the low-altitude industry.

Overall, the technology industry trends of 2026 reflect a dual return to "pragmatic implementation" and "long-term value". The engineering transformation of AI, the strengthening of supply-chain resilience, and the commercial breakthroughs of future industries all point towards a development logic anchored in value and grounded in capability.

Businesses must move beyond conceptual hype and focus on core business pain points. By sharpening strategic focus, adapting technologies, restructuring organisations and strengthening risk management, they can translate emerging trends into tangible competitive advantage.

At the same time, companies can embrace regionalised supply-chain allocation and ecosystem co-creation to fortify security in the contest over technological sovereignty and seize first-mover advantage in emerging industries and sectors.

This transformation has no definitive roadmap, but those who remain committed to pragmatic innovation and balance speed with quality will ultimately secure leadership in the intelligent era and ride the wave of new industries.

About Foresight

As part of our long-standing tradition, we are delighted to introduce our latest annual flagship report "Foresight 2026: Roland Berger China Annual Trends Report" (hereafter referred to as "Report") at the beginning of 2026. Based on our long-term observations and extensive research conducted by our experts across various sectors, this report provides trend analysis and in-depth insights into key industries, such as Automotive, Civil Economics, Consumer Goods and Retail, Health, Energy, Industrial Products and Services, and Technology. Additionally, this year's report delves into several major hot topics, including China's potential unleashed in a new world order, artificial intelligence, Chinese companies' international expansion, transaction and investor services, new quality productive forces, and sustainability, aiming to stimulate thought and provide valuable insights to industry stakeholders.

We have been releasing this annual report since 2020, which has consistently aroused significant interest and positive feedback from industry experts. Looking forward to 2026, we are committed to delivering professional insights and practical solutions to senior executives, opinion leaders, policymakers, and other industry stakeholders. We help businesses thrive in the ever-changing market by providing essential tools and knowledge to identify opportunities, cope with challenges, and stand out from the competition.

2020



2021



2022



2023



2024



2025



About Us

ROLAND BERGER is one of the world's leading strategy consultancies with a wide-ranging service portfolio for all relevant industries and business functions. Founded in 1967, Roland Berger is headquartered in Munich. Renowned for its expertise in transformation, innovation across all industries and performance improvement, the consultancy has set itself the goal of embedding sustainability in all its projects. Roland Berger revenues stood at more than 1 billion euros in 2023.

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The background of the page is an abstract composition of numerous thin, intersecting lines in shades of green and yellow. These lines are punctuated by small, glowing dots of the same colors, creating a sense of depth and movement, reminiscent of a complex network or a microscopic view of a material.

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