



European Chamber
中国欧盟商会

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European Business In China

Business Confidence Survey 2018

Roland
Berger



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EXECUTIVE SUMMARY

After years of decline, 2016 was the year in which European companies' optimism about growth in China rebounded. Sustained by China's increasingly sophisticated market, this optimism endured in 2017. However, as its economy matures, the longstanding inefficiencies in China's business environment are rendered all the more glaring. According to the *Business Confidence Survey 2018*, half of European Chamber members believe the regulatory environment will worsen over the next five years, making the need to address this issue more pressing than ever before.

Domestic enterprises are evolving to meet greater consumer demand, particularly that of the rising middle class for high-quality goods and services, and European companies see them as increasingly challenging competitors.¹ This year's survey saw for the first time a majority of respondents (61%) report that they perceive Chinese companies to be equally or more innovative than European firms, an increase of 14 percentage points year-on-year (y-o-y). Most notable is the pronounced increase in domestic firms' capability for product/service innovation, which is catching up with their capacity for go-to-market and business model innovation.

Despite fiercer competition and other challenges such as rising labour and living costs, European businesses delivered strong financial results in 2017, with y-o-y revenues improving for 66% of respondents. Among them, the medical devices, pharmaceuticals and automotive sectors reported particularly robust sales. However, for some sectors regulatory issues hit them in the pocket. For example, the proportion of companies in the information technology (IT) and telecoms sector reporting an increase in revenue of 5% or more, decreased by 25% y-o-y. Some of the reasons for this decline can be found in certain parts of the Cybersecurity Law, such as unclear requirements for "secure and trustworthy" technology, the Cybersecurity Multi-level Protection Scheme and the Critical Information Infrastructure Protection Scheme.²

This year marked the highest percentage of companies reporting positive earnings before interest and tax (EBIT) since 2005. Industries such as automotive, transportation, logistics and distribution, and chemicals and petroleum did particularly well. Some factors that have contributed to these results are members' ongoing prudence and general efficiency. These practices are set to continue, with 46% of respondents saying they plan to cut costs in China in 2018.

Continued cost cutting is driven in part by a more subdued outlook on future profitability, which is a result of the increasingly difficult business environment and growing competition from domestic firms. Emerging markets in Southeast Asia are increasingly catching investors' attention, where overheads such as labour costs are now much lower than in China. As China turns its focus towards advanced manufacturing, countries like Malaysia, India, Thailand, Indonesia and Vietnam are becoming more attractive destinations for low-cost operations.³ However, in general, European businesses remain committed to China, which remains a top-three destination for present and future investment for 59% of member companies.

China has made some visible progress in key areas of concern for European firms such as intellectual property rights (IPR) protection, equal enforcement of environmental laws and support for innovation. Perceptions about the implementation of IPR regulations have steadily improved, with more than double the share of respondents reporting enforcement as adequate or excellent compared with 2013. This can be understood in the context of IPR protection now moving to the top of the Chinese authorities' agenda, as more domestic enterprises rely on technology innovation to fuel their growth and profitability.

As the domestic environment becomes more innovation driven, overall provisions for research and development (R&D) have also improved. Compared to 2016, European companies are now twice as likely to see China's R&D environment as more favourable than the worldwide average.

¹ *The China Effect on Global Innovation*, McKinsey Global Institute, October 2015, p. 54, viewed 9th May 2016, <https://www.mckinsey.com/~media/McKinsey/Global%20Themes/Innovation/Gauging%20the%20strength%20of%20Chinese%20innovation/MGI%20China%20Effect_Full%20report_October_2015.ashx>

² *The Cybersecurity Law of the People's Republic of China*, National People's Congress, 7th November 2016, viewed 29th May 2018, <http://www.npc.gov.cn/npc/xinwen/2016-11/07/content_2001605.htm>

³ Lomas, Matthias, *Which Asian Country Will Replace China as the 'World's Factory'?*, *The Diplomat*, 18th February 2017, viewed 15th May 2018, <<https://thediplomat.com/2017/02/which-asian-country-will-replace-china-as-the-worlds-factory/>>

There is an increase in the number of companies that believe environmental regulations are being imposed more stringently – 45% of members now report that environmental protection measures are strong, up 23 percentage points from 2017. Moreover, there has been a gradual evening out of how environmental laws are perceived to be applied to European and Chinese entities, which seems to be part of a general trend towards stricter law enforcement for all. While overall discrimination against FIEs has by no means been resolved, the share of respondents who believe they are treated equally with local firms has increased 11 percentage points since 2016.

However, while European enterprises welcome these positive developments, for people running daily operations on the ground persistent regulatory barriers carry a heavy burden. Half of respondents say that doing business in China has become more difficult over the past year, with challenges particularly pronounced in Beijing, Tianjin and Shanghai. Ambiguous rules and regulations are perceived to be the second greatest challenge in conducting future business in China, ranking as the number one regulatory obstacle (according to 48% of respondents). Other major regulatory hurdles include:

- administrative issues (35%);
- discretionary enforcement of rules and regulations (30%);
- market access barriers and investment restrictions (27%); and
- licensing requirements/registration processes for products (25%).

These barriers come at a real cost, with 46% of respondents saying that they missed out on business opportunities as a result of regulatory barriers and limited market access. The industries most affected were pharmaceuticals, legal services and financial services (including insurance). Again, members located in Beijing, Tianjin and Shanghai were most likely to miss out on opportunities.

China's restrictive regulatory environment in some ways damages its ambitions to become a global leader in knowledge and innovation. Internet restrictions are a case in point, with a majority of respondents stating they have had a negative impact on their business. For instance, 23% of respondents are unable to properly search for information and engage in research. The Cybersecurity Law has also raised significant doubts among members and may become a barrier to future investment for fear of non-compliance.⁴

Even the popular cause of environmental protection has been accompanied by some negative consequences. For example, as part of the campaign against pollution there were instances where regulations were interpreted and applied with a heavy hand, resulting in forced relocations, disruption and increased costs for perfectly compliant companies. Some businesses that were affected are now exploring the possibility of relocating parts of their supply chains to other countries to meet demand.⁵

Small and medium-sized enterprises (SMEs) are most heavily impacted by inefficiencies in the business environment as they do not have the resources to help them deal with ambiguous regulations and cumbersome administrative processes. Although the government has recognised SMEs' need for additional support in recent policies, such as the SME Promotion Law, many are either applicable only to domestic firms or are difficult for FIEs to benefit from.⁶ These restrictions are preventing many European SMEs from scaling up and fulfilling their potential for contributing more to innovation, tax revenue and employment.

Any progress that has been made in regulatory enforcement does not mask the fact that 51% of respondents still believe FIEs are treated unfavourably, although this perception varies depending on both the industry and location of the company. In 8 out of 14 industries, more than 50% of respondents perceive they are treated unfairly, citing administrative issues and market access as areas where they are most likely to face discrimination. Additionally, despite improvements to China's R&D environment, FIEs are not always able to access funds for innovation that are available to Chinese enterprises. Furthermore, due to persistent issues, such as unfair technology transfers, the number of members opening R&D centres has stalled since 2017.

⁴ *Cybersecurity Law, Related Regulations: Unpacking the Second Draft for Public Comment of the Assessment Guidelines for Cross-Border Data Transfers*, Zhonglun, 22nd September 2017, viewed 16th May 2018, <<http://www.zhonglun.com/Content/2017/09-22/1521375229.html>>

⁵ *China's Pollution Curbs May Start Slowing Growth Within Months*, Bloomberg, 2nd October 2017, viewed 21st May 2018, <<https://www.bloomberg.com/news/articles/2017-10-02/china-s-pollution-curbs-to-slow-growth-lift-prices-socgen-says>>

⁶ *Law of the People's Republic of China on the Promotion of Small and Medium-sized Enterprises*, National People's Congress, 2017, viewed on 18th April 2018 <http://www.npc.gov.cn/npc/xinwen/2017-09/01/content_2027929.htm>

It may seem somewhat anomalous that these kind of issues persist while China's overall IPR environment appears to be strengthening. However, once it is understood that many of the improvements are a result of China's need to protect the development of its domestic core technologies and expansion overseas, it makes more sense.⁷ China's intentions in this respect were further underlined in early 2018 with the release of the *External Transfer of Intellectual Property Rights Measures* (for trial implementation), which placed increased scrutiny on exports of Chinese IPR.⁸

Significant concerns that industrial policies like China Manufacturing 2025 (CM2025) are tilting the playing field in favour of Chinese players remain, with 43% of respondents stating that they have seen increased discrimination under the plan. That being said, some European Chamber members have seen opportunities in CM2025, particularly in sectors where European firms hold a comparative advantage, such as automobiles and machinery. The onus is now on China to further expand CM2025 opportunities for FIEs to clearly demonstrate that it is not just aimed at achieving domestic dominance in the 10 key industries identified by the plan.

The European Chamber urges China to follow through on its promises of reform and opening up that have been repeatedly stated since President Xi Jinping's speech to the World Economic Forum in January 2017.⁹ While some of these pledges have been written into legislation, European companies have yet to see much real concrete implementation. To illustrate this point, only 6% of respondents reported significant results in market opening y-o-y.

The Chinese Government underwent a recent, large-scale restructuring in March 2018, with the aim of streamlining administrative functions by removing overlapping responsibilities between different ministries.¹⁰ This presents a real opportunity for China to address many of the regulatory problems that continue to plague its business environment. However, this can only be done effectively through deep, structural reform.

Lack of reciprocity in investment relations between the European Union (EU) and China remains a major concern for European businesses. This year's survey shows 62% of respondents feel that Chinese firms enjoy better market access in Europe than European enterprises do in China. Indeed, China is found to be one of the most restrictive economies in the world, far below that of developed nations and even most emerging markets.¹¹

Although the EU is China's largest trading partner, and China is the EU's second largest, the lack of investment reciprocity is leading to noticeable imbalances in EU-China foreign direct investment (FDI) flows. Annual Chinese FDI in Europe was euro (EUR) 30 billion in 2017, the second highest year on record, while FDI from the EU to China stagnated at around EUR 10 billion between 2010 and 2015, and further declined in 2016 and 2017 to EUR 8 billion.¹³ This contrasts with Europe investing approximately EUR 149 billion in the United States in 2017.^{14&15}

Broader and more tangible market opening would go a long way to unleashing the investment potential of European businesses, with 57% of respondents likely to increase investment in China if greater market access were to be granted. A successfully negotiated EU-China Comprehensive Agreement on Investment (CAI) would directly address a number of market access issues and other key concerns, while also helping to diffuse rising political tensions. Both the EU and China should therefore now take the opportunity to move forward with meaningful dialogue to reach a deeper, more mutually beneficial understanding.

7 Carson, John and Schwaab, Andrew, *China applying for more patents than ever before as companies push to innovate, protect brands*, *South China Morning Post*, 16th June 2017, viewed 21st May 2018, <<http://www.scmp.com/business/companies/article/2098724/china-applying-more-patents-ever-companies-push-innovate-protect>>

8 *China issues new rules tightening up on overseas transfers of intellectual property rights*, Hogan Lovells, April 2018, viewed 22nd May 2018, <<https://www.limegreenipnews.com/files/2018/04/CN-overseas-IPR-transfers.pdf>>

9 *President Xi's speech to Davos in full*, World Economic Forum, 17th January 2017, viewed 14th April 2017, <<https://www.weforum.org/agenda/2017/01/full-text-of-xi-jinping-keynote-at-the-world-economic-forum>>

10 *State Council Institutional Reform Plan*, State Council, 17th March 2018, viewed 16th May 2018, <http://www.gov.cn/guowuyuan/2018-03/17/content_5275116.htm>

11 *FDI Regulatory Restrictiveness Index*, OECD, 2016, viewed 20th April 2018, <<http://www.oecd.org/investment/fdiindex.htm>>

12 Hanemann, Thilo and Huotari, Mikko, *EU-China FDI: Working towards reciprocity in investment relations*, Rhodium Group (RHG) and the Mercator Institute for China Studies (MERICS), 17th April 2018, viewed 22nd May 2018, <<https://www.merics.org/en/papers-on-china/reciprocity>>

13 Ibid.

14 Hamilton, David and Quinlan, Joseph, *The Transatlantic Economy 2018: Annual Survey of Jobs, Trade and Investment Between the United States and Europe*, Center for Transatlantic Relations at Johns Hopkins University and the American Chamber of Commerce to the European Union, 2017, viewed 22nd May 2018, p. viii, <https://transatlanticrelations.org/wp-content/uploads/2018/03/TA2018_FullStudy.pdf>

15 The average exchange rate of USD 1.1293 per EUR was used based on: *Average Foreign Exchange Rates*, Credit Suisse, December 2017, viewed 22nd May 2018, <<https://www.credit-suisse.com/media/assets/private-banking/docs/ch/unternehmen/kmugrossunternehmen/devisendurchschnittskurse-2017.pdf>>

ABOUT THE SURVEY MOTIVATION AND DESIGN

The purpose of the European Chamber's *European Business in China Business Confidence Survey* is to take an annual snapshot of European companies' successes and challenges in China. Published since 2004, the survey has enabled the European Chamber to build a rich data set to serve as a broad indicator of how European companies judge the business environment in China, both now and in the future.

The European Chamber invited its members to take part in the 2018 survey over a three-week period during February and March 2018. The survey was conducted in cooperation with Roland Berger and was published in June 2018. There were 1,195 eligible entities. With 532 respondents completing the survey, the 2018 survey achieved a response rate of 44.5%.

In order to obtain a high response rate, which is an essential feature for high-quality results, the survey was condensed as much as possible, while keeping the appropriate questions to make comparisons over time. An online and password-required survey platform was set up for European Chamber member companies. The survey comprised 54 questions, grouped under three key themes:

- Company Profile and Financial Performance;
- Outlook on the Chinese Business Environment; and
- Outlook on Company Strategy.

A chapter-specific section was also added as of 2015, but these questions are not included in this report. Consistency was one of the key factors that guided the design of the questionnaire and data analysis. We gathered similar data from previous years so that we could trace and understand the development of company strategies and perceptions. We focused on capturing the key issues for European companies operating in China and designed up-to-date questions that are in line with typical 2017/2018 issues that European companies faced in China.

1 CHINESE FIRMS SERVE UP STIFFER COMPETITION

China is transitioning from an investment- to a consumer-driven economy, with consumption accounting for 58.8% of gross domestic product (GDP) growth in 2017, an increase of 7 percentage points from 2012.^{1&2} As more households join the middle class, consumers are demanding more innovative products and Chinese firms are stepping up to meet this new demand. In doing so, they are giving foreign companies a run for their money.

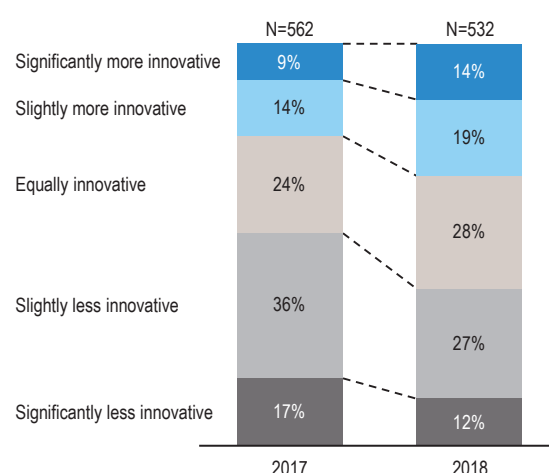
Meanwhile, the service sector is becoming an increasingly important driver, having contributed 58.8% to GDP growth in 2017, up 7 percentage points from 2012,^{3&4} with traditional industries seeing a relative decrease in their share of the economy.^{5&6}

1.1 European businesses must sharpen their innovative tools

Having entered the market as forerunners in cutting-edge goods and services, an increased number of European enterprises now perceive domestic enterprises to be catching up with them. This year's survey shows for the first time that a majority of respondents feel that Chinese firms are equally or more innovative.

Figure 1: Majority see Chinese companies as equally or more innovative

Within your industry, how innovative do you feel Chinese firms are compared to European firms?



1 Trade (% of GDP), World Bank, 2016, viewed 7th May 2018, <<https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS?locations=CN>>

2 Gross capital formation (% of GDP), World Bank, 2016, viewed 7th May 2018, <<https://data.worldbank.org/indicator/NE.GDI.TOTL.ZS?locations=CN>>

3 Service Sector Makes Significant Contribution to National Economy in 2017, National Development and Reform Commission, 2nd February 2018, viewed 9th May 2018, <http://www.ndrc.gov.cn/fzggz/gfyz/fwyfz/201802/t20180202_876614.html>

4 National Bureau of Statistics: Final Consumption Expenditure Accounts for 51.8% of GDP Growth in 2012, Sina, 22nd February 2013, viewed 7th May 2018, <<http://finance.sina.com.cn/china/hgjj/20130222/100614617043.shtml>>

5 Agriculture, value added (% of GDP), World Bank, 2016, viewed 7th May 2018, <<https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?view=chart>>

6 Manufacturing, value added (% of GDP), World Bank, 2015, viewed 7th May 2018, <<https://data.worldbank.org/indicator/NV.IND.MANF.ZS?view=chart>>

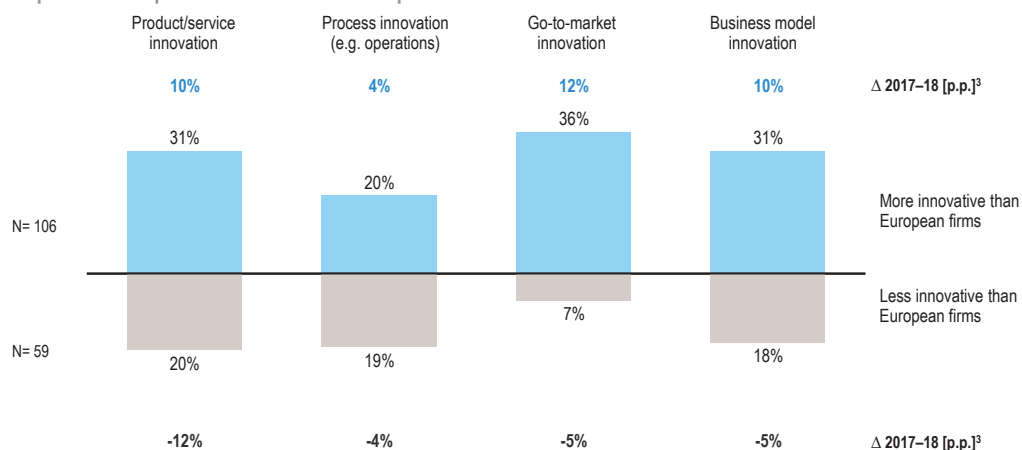
Opinions about China's innovation capacity in professional services and consumer goods and services have become more positive across the board. Respondents were at least 10% more likely than they were in 2017 to regard Chinese companies as more innovative in go-to-market and business model innovation.

Figure 2: Chinese companies reach new heights in professional services

In which areas are Chinese firms more innovative than European firms?¹

In which areas are Chinese firms less innovative than European firms?²

Responses from professional services enterprises



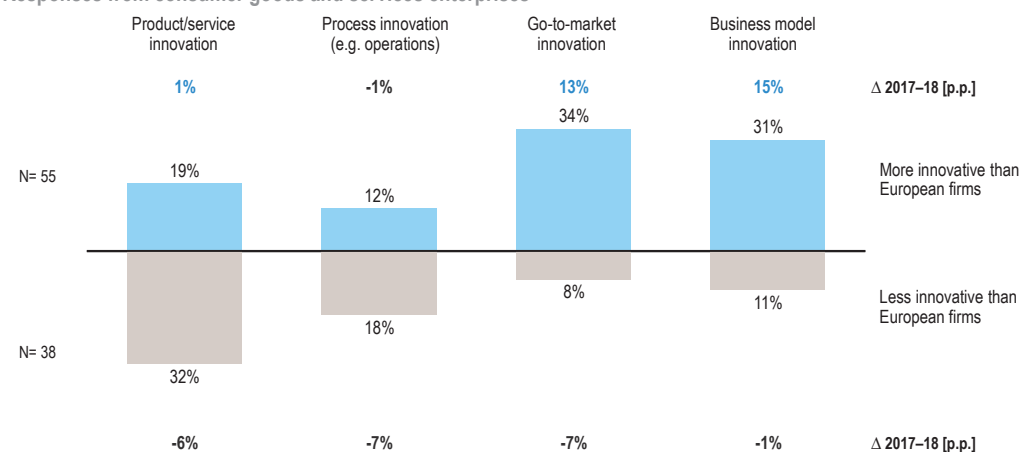
1. Multiple answers are possible; % represents total share of sector-specific respondents that believe Chinese firms are either more innovative or significantly more innovative than European firms.
 2. Multiple answers are possible; % represents total share of sector-specific respondents that believe Chinese firms are either less innovative or significantly less innovative than European firms.
 3. Percentage point [p.p.]

Figure 3: Chinese consumer goods and services are catching up

In which areas are Chinese firms more innovative than European firms?¹

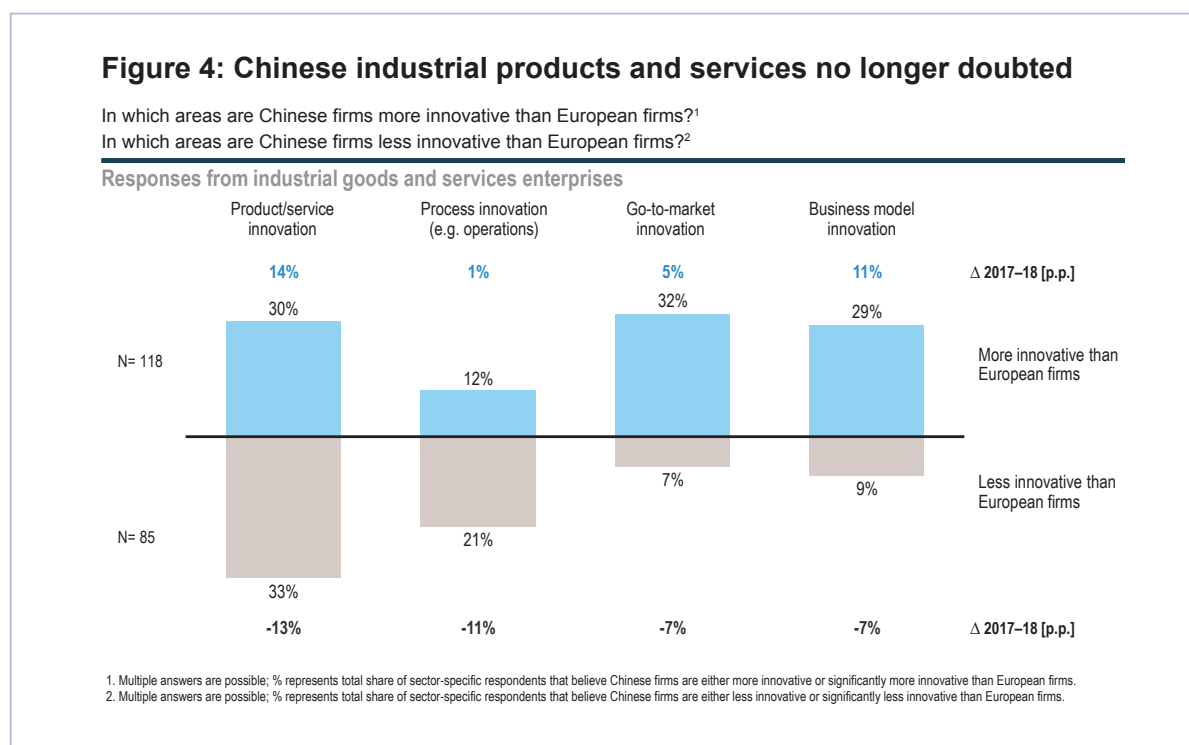
In which areas are Chinese firms less innovative than European firms?²

Responses from consumer goods and services enterprises



1. Multiple answers are possible; % represents total share of sector-specific respondents that believe Chinese firms are either more innovative or significantly more innovative than European firms.
 2. Multiple answers are possible; % represents total share of sector-specific respondents that believe Chinese firms are either less innovative or significantly less innovative than European firms.

Although European industrial goods and services firms have been relatively sceptical about Chinese innovation capacity in the past, their perceptions drastically changed over the past year. Nearly double the share of respondents in this sector said that local firms are more innovative in products/services compared to 2017.



The increase in Chinese firms' capacity for innovation is linked to the maturing economy.

A growing proportion of the labour force has been freed up to pursue innovation as the economy becomes more productive. In addition, more students are studying abroad and bringing skills and knowledge back home with them.⁷

Chinese companies are benefitting from exposure to international markets, and as they scale up they are able to devote more of their budgets to research and development (R&D). The private sector spent more than Chinese yuan (CNY) 1.37 trillion on R&D in 2017, up 13.1% from 2016.⁸

The government also has more resources to dedicate to R&D, for which national spending accounted for 2.1% of GDP in 2017, up from 1.2% in 2012.⁹ This shows a convergence with spending levels in developed nations: the United States, for example, allocates 2.8% of its GDP to R&D spending and Germany allocates 2.9%.^{10&11}

While Chinese companies are performing well in some types of innovation, largely by serving domestic demand, China has yet to take the lead in more challenging forms of innovation, such as scientific discovery and engineering.¹²

7 China sees biggest wave of overseas returnees, Center for China and Globalization, 17th August 2017, viewed 9th May 2018, <<http://en.ccg.org.cn/china-sees-biggest-wave-of-overseas-returnees/>>

8 China's R&D spending up 11.6% in 2017, Xinhua, 13th February 2018, viewed 9th May 2018, <<http://www.chinadaily.com.cn/a/201802/13/WS5a827f5ea3106e7dcc13c829.html>>

9 China spends \$279 bln on R&D in 2017: science minister, Reuters, 27th February 2018, viewed 28th April 2018, <<https://www.reuters.com/article/us-china-economy-r-d/china-spends-279-bln-on-rd-in-2017-science-minister-idUSKCN1GB018>>

10 Ibid.

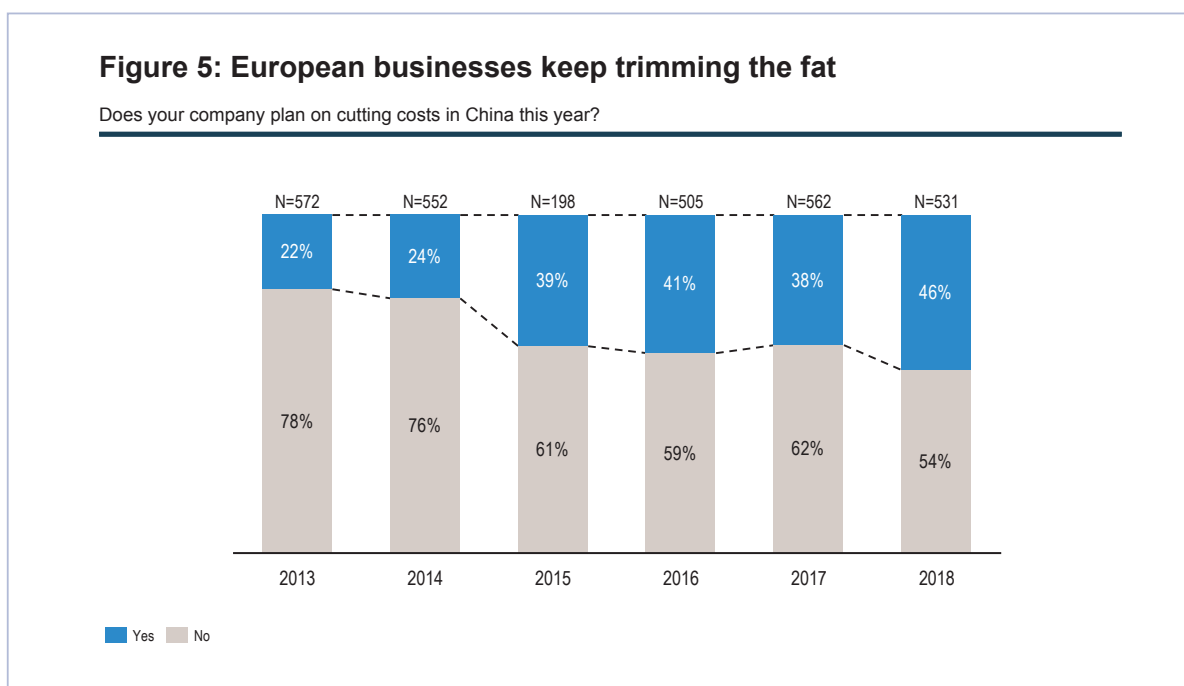
11 R&D expenditure in the EU remained stable in 2016 at just over 2% of GDP, Eurostat News Release, 1st December 2017, viewed 28th April 2018, <<http://ec.europa.eu/eurostat/documents/2995521/8493770/9-01122017-AP-EN.pdf/94cc03d5-693b-4c1d-b5ca-8d32703591e7>>

12 The China Effect on Global Innovation, McKinsey Global Institute, October 2015, p. 52, viewed 9th May 2016, <https://www.mckinsey.com/~media/McKinsey/Global%20Themes/Innovation/Gauging%20the%20strength%20of%20Chinese%20innovation/MGI%20China%20Effect_Full%20report_October_2015.ashx>

2 EUROPEAN BUSINESS STEPS UP TO THE CHALLENGE

2.1 Lean and efficient practices continue

Competition from local players and rising labour costs mean that European businesses will continue to exercise prudence. In this year's survey an all-time high of 46% of respondents state they are planning to cut costs in 2018, an 8 percentage point increase over 2017.



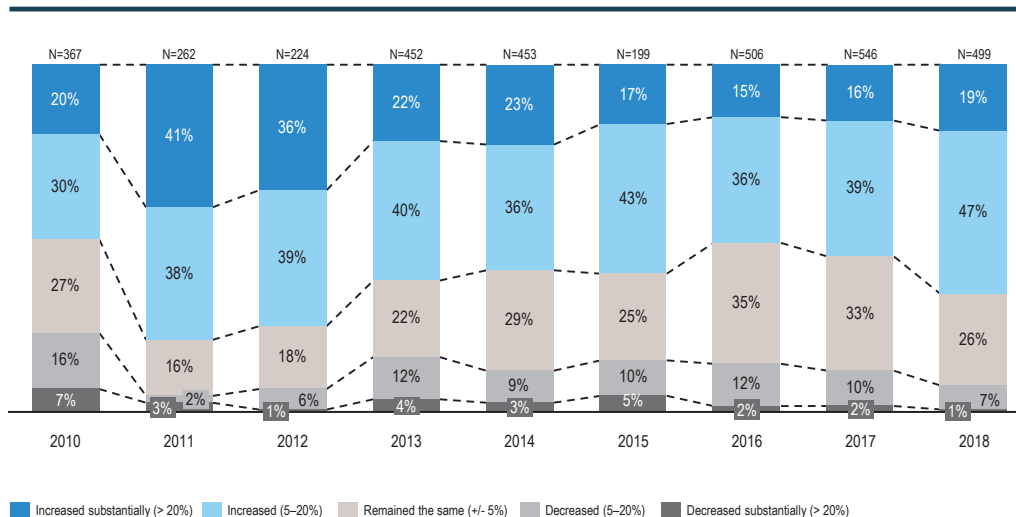
2.2 Revenue and margins improve significantly in China's maturing market

In 2017, European businesses reported their highest share of increased revenue since 2013. Growth in consumer spending is a contributing factor, as many European businesses are still market leaders in high-quality goods and services, for which there is an increasing demand from China's growing middle class. China also saw resilient macroeconomic growth in 2017, which at 6.9% year-on-year (y-o-y) was the first annual acceleration of economic growth since 2010.¹³

¹³ Wildau, Gabriel, and Hornby, Lucy, *China's 2017 economic growth fastest in two years*, *Financial Times*, 18th January 2018, viewed 1st June 2018, <<https://www.ft.com/content/9bf532a8-66de-37bf-b515-03589957ada4>>

Figure 6: Respondents report climbing revenues

How did your business's total 2017 revenue in Mainland China evolve compared to 2016?



Driven by the growing middle class, spending on private healthcare is soaring.¹⁴ China's rapidly ageing population has also stimulated demand for elderly care making 2017 a particularly positive year for the medical devices and pharmaceutical (pharma) industries.

Information technology (IT) and telecoms, and the environment were the only two sectors to report a decrease in revenue of more than 10% in 2017. IT and telecoms was severely impacted by the release of the Cybersecurity Law, which stifled growth with its requirements for IT products and services to be "secure and trustworthy".

The positive growth enjoyed by the environment sector in 2016 slowed in 2017 as environment enterprises reached their limit in terms of capacity and struggled to sustain momentum. Demand for their services had surged following the introduction of the Environmental Protection Law in 2015, and the subsequent Environmental Protection Tax Law in 2018, as companies sought compliance with the new regulations.^{15&16}

¹⁴ Le Deu, Franck, Parekh, Rajesh, Zhang, Fangning, and Zhou, Gaobo, *Health care in China: Entering 'uncharted waters'*, McKinsey & Company, November 2012, viewed 28th April 2018, <<https://www.mckinsey.com/industries/healthcare-systems-and-services/our-insights/health-care-in-china-entering-uncharted-waters>>

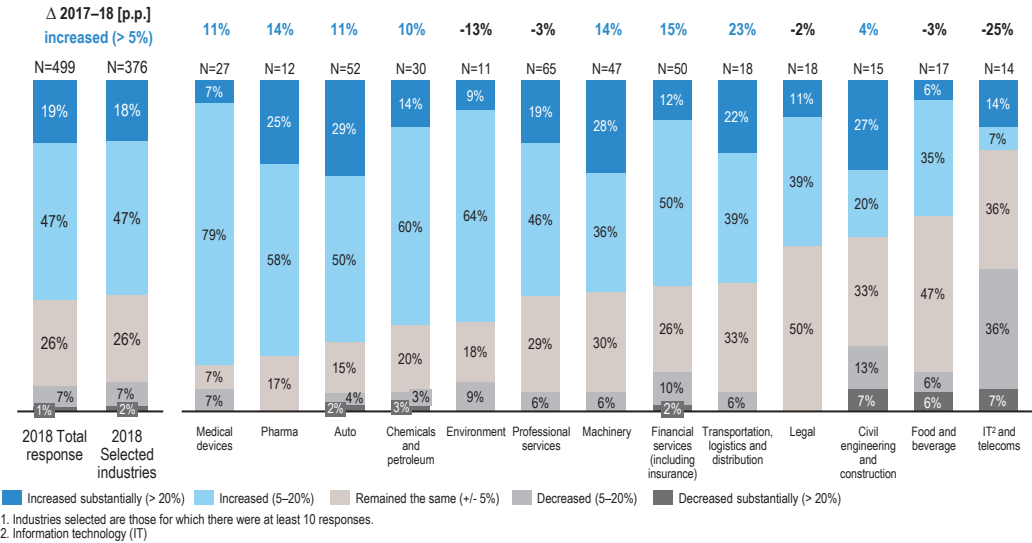
¹⁵ *The Environmental Protection Law of the People's Republic of China*, National People's Congress, 25th April 2014, viewed 4th May 2018, <http://www.gov.cn/zhengce/2014-04/25/content_2666434.htm>

¹⁶ *The Environmental Protection Tax Law of the People's Republic of China*, National People's Congress, 25th December 2016, viewed 31st May 2018, <http://www.npc.gov.cn/npc/xinwen/2016-12/25/content_2004993.htm>

Figure 7: Mainland China revenue 2017 compared to 2016 by industry

How did your company's total 2017 revenue in Mainland China evolve compared to 2016?

Comparison by industry¹



Positive revenues and effective cost management meant that European businesses declared their highest results for earnings before interest and tax (EBIT) since 2005.

Figure 8: Largest share of companies with positive EBIT since BCS 2005

Please describe your company's earnings before interest and tax (EBIT) in Mainland China in 2017

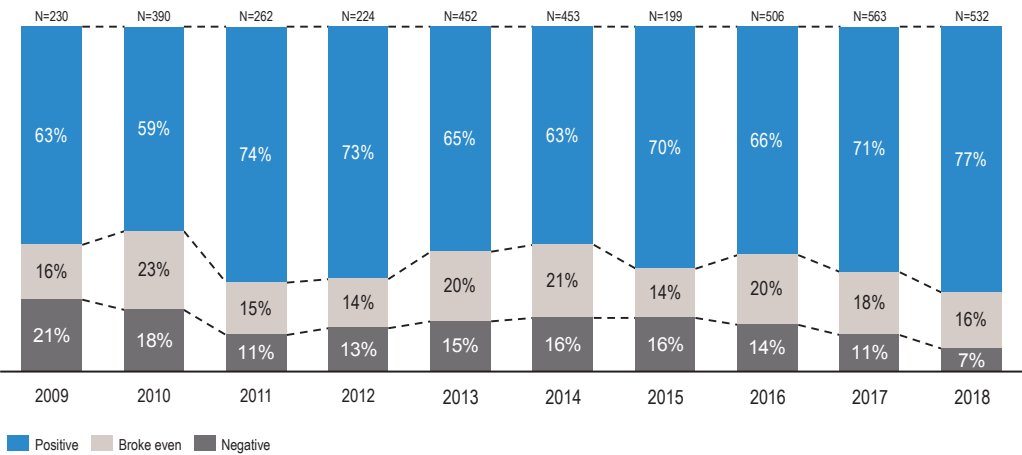
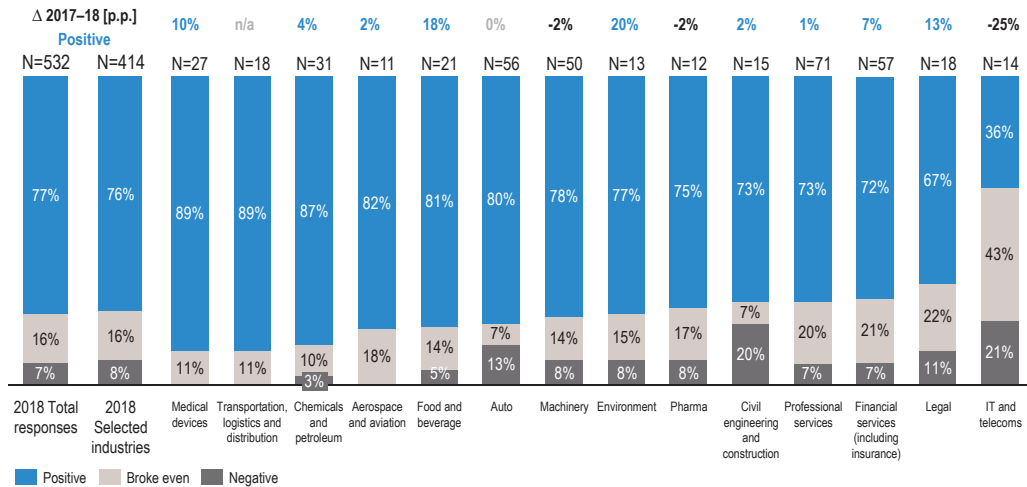


Figure 9: EBIT in Mainland China in 2017 by industry

Please describe your company's EBIT in Mainland China in 2017

Comparison by industry¹

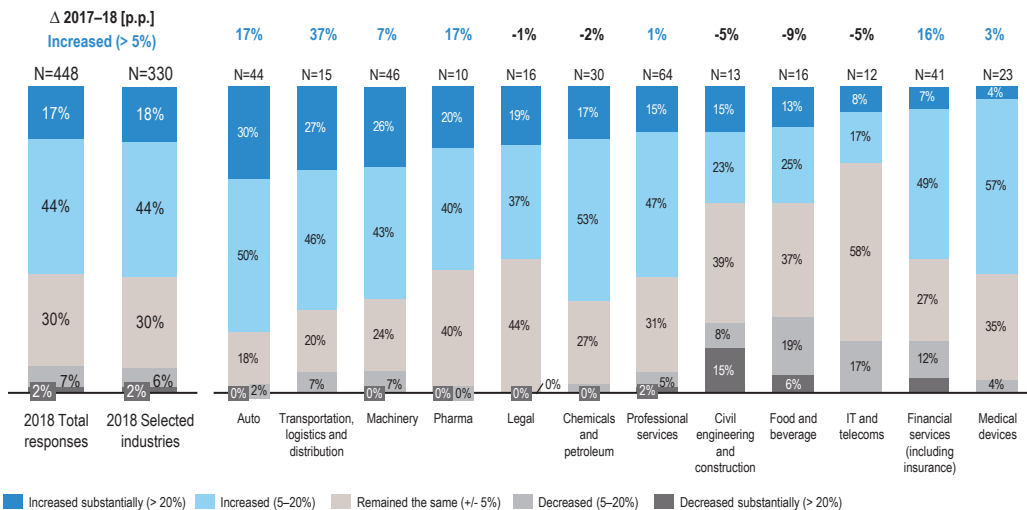


1. Industries selected are those for which there were at least 10 responses.

Figure 10: EBIT in Mainland China 2017 compared to 2016 by industry

How did your company's 2017 EBIT in Mainland China evolve compared to 2016?

Comparison by industry¹



1. Industries selected are those for which there were at least 10 responses.

2.3 European companies are confident about growth, less so in other areas

Strong financial performance in 2017 has resulted in a renewed sense of optimism about future growth. Although respondents indicate that Chinese firms are becoming increasingly innovative, they are still confident in their own ability to compete.

Figure 11: Short-term economic outlook continues to rebound

How would you describe the business outlook for your sector in China over the next two years?

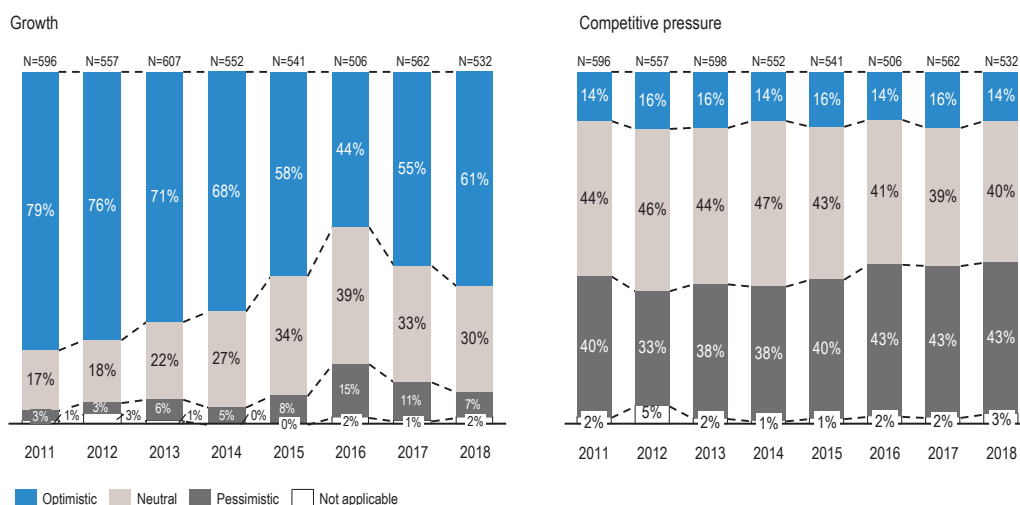
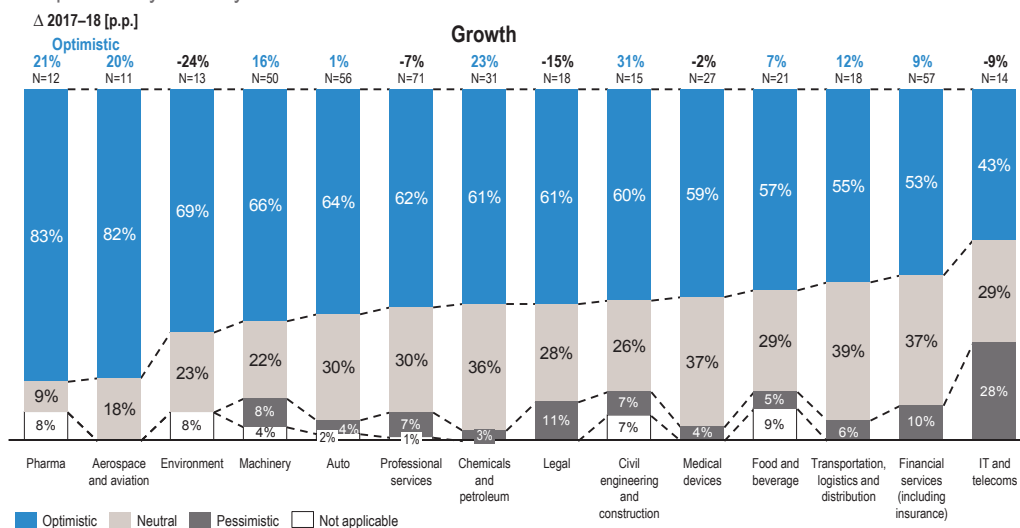


Figure 12: Short-term outlook for growth by industry

How would you describe the business outlook for your sector in China over the next two years?

Comparison by industry¹

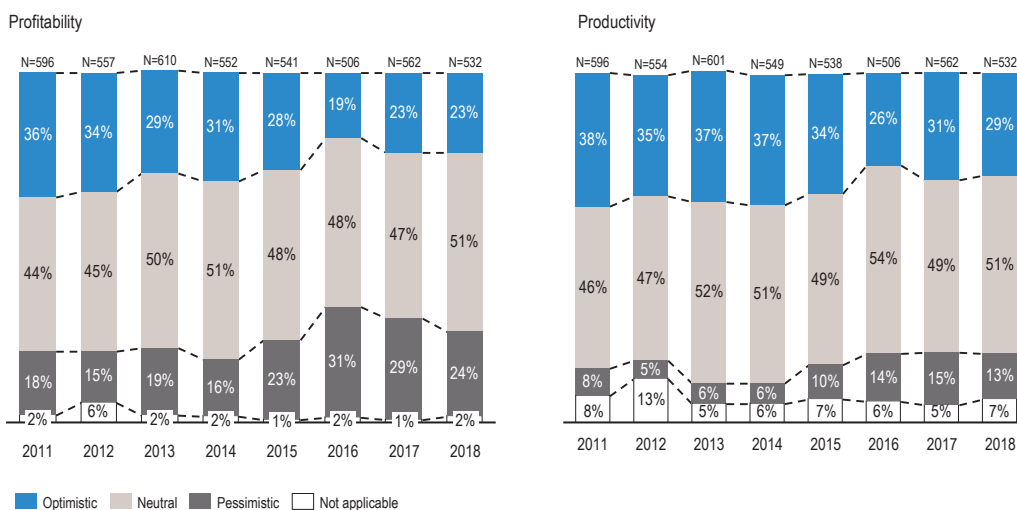


1. Industries selected are those for which there were at least 10 responses.

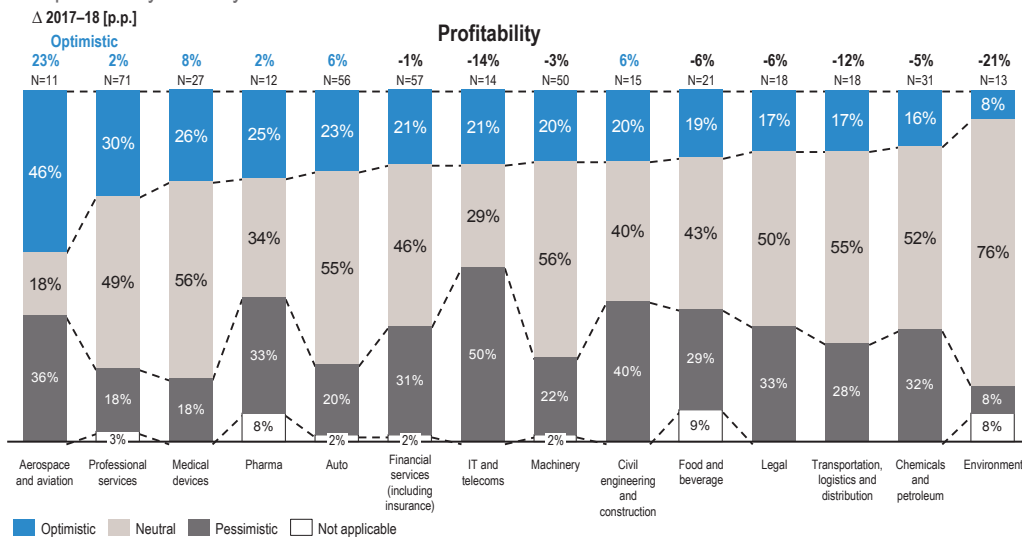
However, sentiments about profitability are far less positive, as maintaining growth in a more competitive marketplace may result in European companies having to reduce margins.

Figure 13: Short-term outlook on profitability and productivity

How would you describe the business outlook for your sector in China over the next two years?

**Figure 14: Short-term outlook on profitability by industry**

How would you describe the business outlook for your sector in China over the next two years?

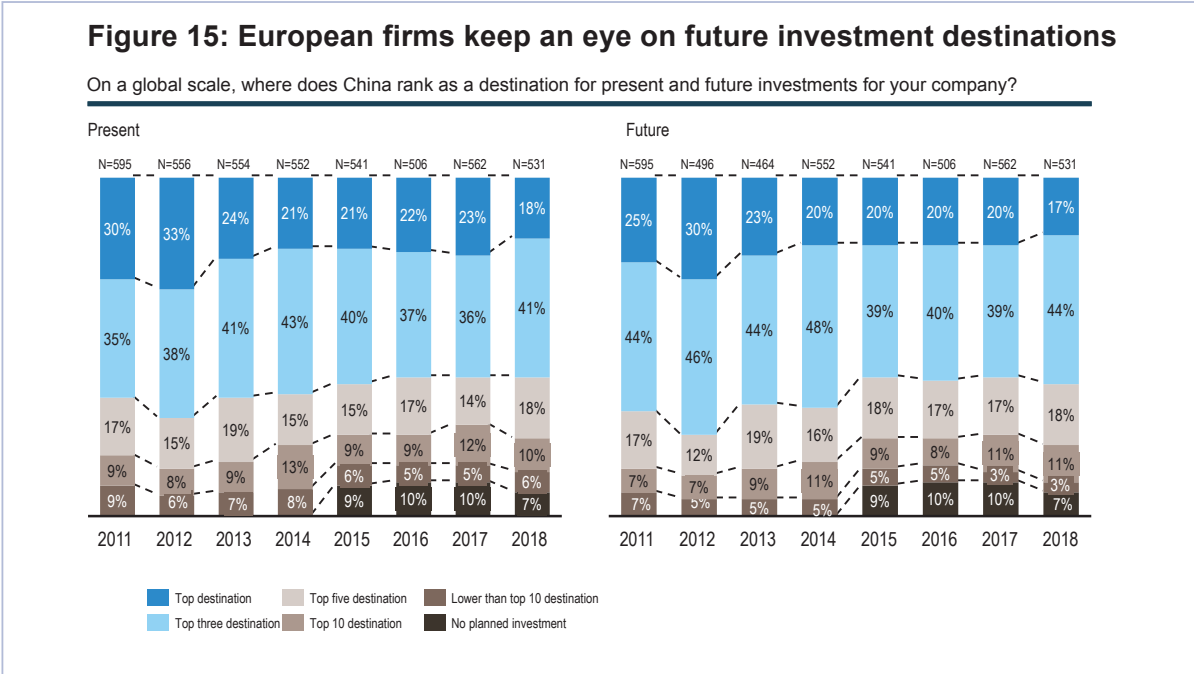
Comparison by industry¹

1. Industries selected are those for which there were at least 10 responses.

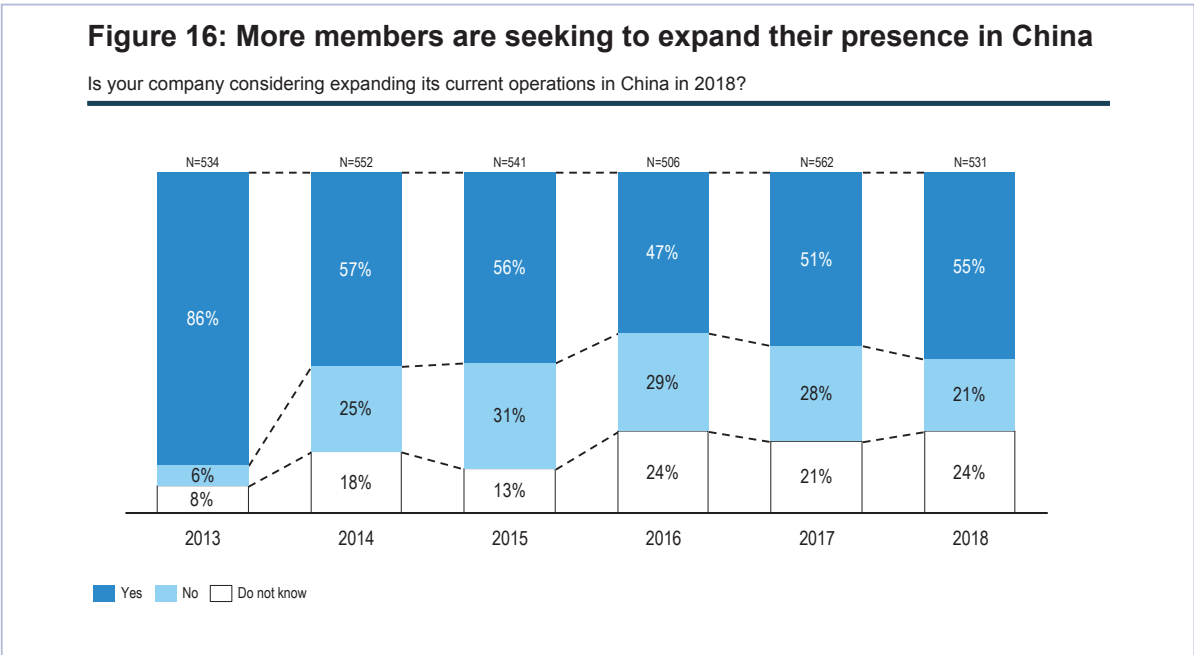
2.4 China loses some lustre as an investment destination

China continues to be an important current destination for investment, but its position as a top future destination is being eroded. The share of respondents stating that China is their top choice for future investment has decreased from 20% in 2017 to 17% in 2018. Some of the main reasons for this include concerns over the predictability of capital controls, rising labour costs, continued administrative inefficiencies and other longstanding concerns over market access restrictions and unequal treatment.

Growth in emerging markets and the need to diversify investments are also driving European businesses to consider other destinations such as Southeast Asia (34%), East Asia (18%) and Europe (17%). However, European businesses remain committed to the market, with 61% of respondents still ranking China as a top-three destination for future investment.



The number of European firms considering expansion of their current operations in China has seen a slight y-o-y increase of 4 percentage points.



3 SOME PROGRESS MADE IN PRIORITISED AREAS

China has now placed greater priority on safeguarding intellectual property rights (IPR), the R&D environment and environmental protection. This has led to some positive developments that help gradually level the playing field for European businesses in these areas.

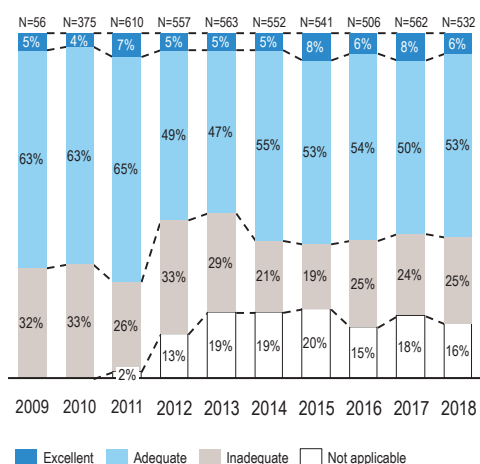
3.1 As domestic research and innovation capacity improves, so does IPR protection

As Chinese firms expand their international operations and strengthen their technological capacity, pressure has increased on the government to provide more effective IPR protection.¹⁷ Concerns have been addressed to some extent by legal reforms and specialist IP courts being established in Beijing, Shanghai and Guangzhou at the end of 2014, followed by the establishment of 15 IP tribunals across the country since 2017.¹⁸

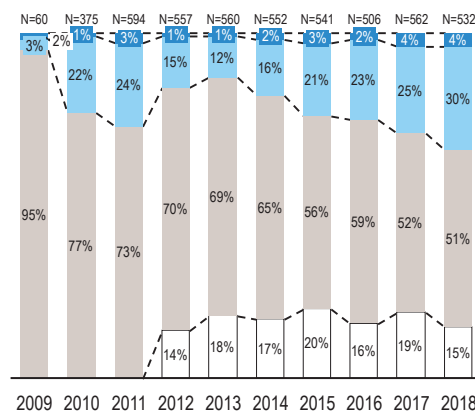
In light of this, European businesses' sentiments about IPR enforcement have shown a steady improvement in recent years, with the proportion of respondents who view IPR enforcement as adequate or excellent rising from 13% to 34% between 2009 and 2018. There is still progress to be made, however, with 29% of respondents reported having suffered significant damage as a result of IPR infringement.

Figure 17: IPR protection gradually improves but much work remains

How does your company rate the effectiveness of China's written IPR laws and regulations?



How do you rate the enforcement of China's IPR laws and regulations?



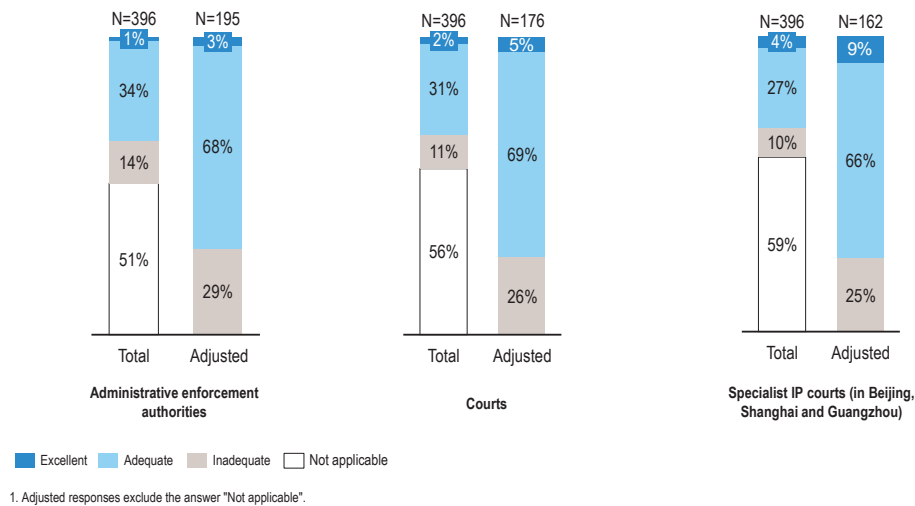
¹⁷ Weightman, William, *China's Progress on Intellectual Property Rights (Yes, Really)*, *The Diplomat*, 20th January 2018, viewed 4th May 2018, <<https://thediplomat.com/2018/01/chinas-progress-on-intellectual-property-rights-yes-really/>>

¹⁸ *Establishing 15 IP Tribunals Nationwide, Chinese Courts Further Concentrate Jurisdiction over IP Matters*, Covington, 15th March 2018, viewed 9th May 2018, <https://www.cov.com/-/media/files/corporate/publications/2018/03/establishing_15_ip_tribunals_nationwide_chinese_courts_further_concentrate_jurisdiction_over_ip_matters.pdf>

Although the majority of respondents view specialist IP courts as adequate, 25% are dissatisfied with response times. This is due to high caseloads as plaintiffs prefer specialist IP courts that are able to adjudicate on technically complex issues.

Figure 18: Respondents recognise specialist IP courts

How would you rate the following authorities' response to your IP infringement and/or trade secret misappropriation compared to previous years?¹

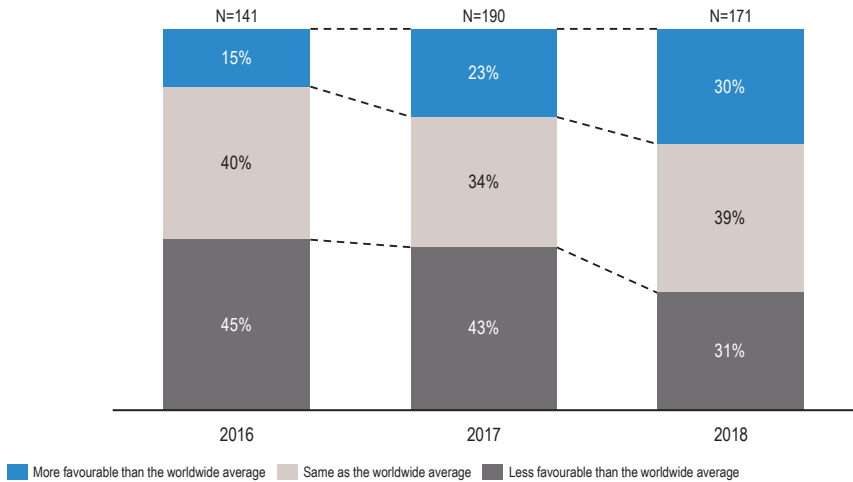


3.2 R&D environment is increasingly attractive

Respondents recognise China's efforts to improve the R&D environment, which 30% of respondents now see as more favourable than the worldwide average, double the share of respondents from two years ago.

Figure 19: China's R&D environment is increasingly attractive

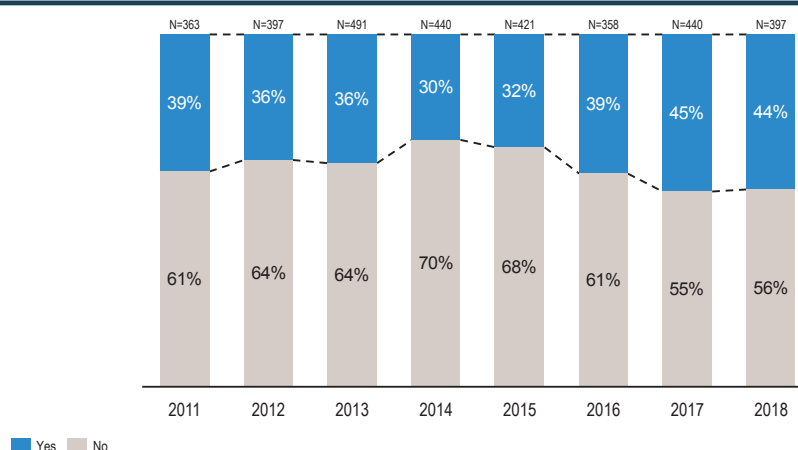
How do you consider China's innovation and research and development (R&D) environment compared to the worldwide average?



At the same time, further steps can be taken to make the R&D investment environment even more attractive. The percentage of respondents with an R&D centre in China has stagnated, with a slight y-o-y decrease from 45% to 44%. One reason may be that there is a limit to the number of member companies who have the need or means to establish R&D facilities in China. Another reason is that despite the aforementioned improvements, there remains a lack of public awareness regarding the value of intellectual property (IP) and effective enforcement at the local level.¹⁹ In addition, the generally negative international perception of IPR in China persists resulting in many European companies still being reluctant to bring their core technologies to China for fear of infringement.²⁰

Figure 20: Number of European R&D centres levels out

Does your company have an R&D centre in Mainland China?¹



1. Excludes the answer "Not applicable".

3.3 Environmental law enforcement slowly evening out

As China moves towards more quality-driven growth, environmental protection is becoming increasingly important. This is highlighted by new environment-linked targets for authorities.²¹ In addition, the then Ministry of Environmental Protection was conferred with more authority in 2017, which enabled it to launch an intense, year-long environmental law enforcement campaign.²²

Following the campaign, perceptions of environmental law enforcement have significantly improved, with 45% of respondents reporting the government's environmental protection measures as strong, a y-o-y increase of 23 percentage points.

¹⁹ *Promoting IPR Policy and Enforcement in China: Summary Of OECD-China Dialogues on Intellectual Property Rights Policy and Enforcement*, OECD, 2005, p. 11 & 24, viewed 9th May 2018, <<https://www.oecd.org/sti/sci-tech/34954053.pdf>>

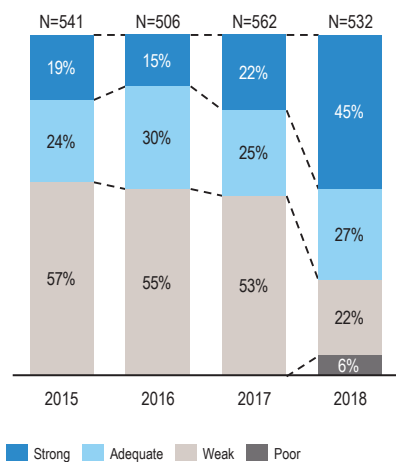
²⁰ Ren, Daniel, *Why American companies refuse to make China their main innovation hub*, *South China Morning Post*, 19th April 2018, viewed 4th May 2018, <<http://www.scmp.com/business/companies/article/2142473/why-american-companies-refuse-make-china-their-main-innovation>>

²¹ Wildau, Gabriel, *Small Chinese cities steer away from GDP as measure of success*, *Financial Times*, 13th August 2014, viewed 4th May 2018, <<https://www.ft.com/content/a0288bd4-22b0-11e4-8dae-00144feabdc0>>

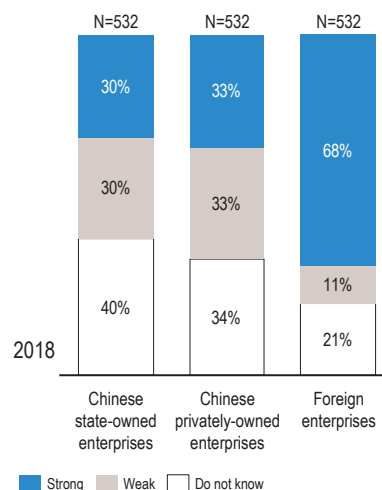
²² Jinran, Zhang, *Inspections expose mass environmental violations*, *China Daily*, 6th April 2017, viewed 16th March 2018, <http://www.chinadaily.com.cn/china/2017-04/06/content_28810653.htm>

Figure 21: Prioritising the environment has had a clear impact

How does your company rate the government's environmental protection measures over the past year?



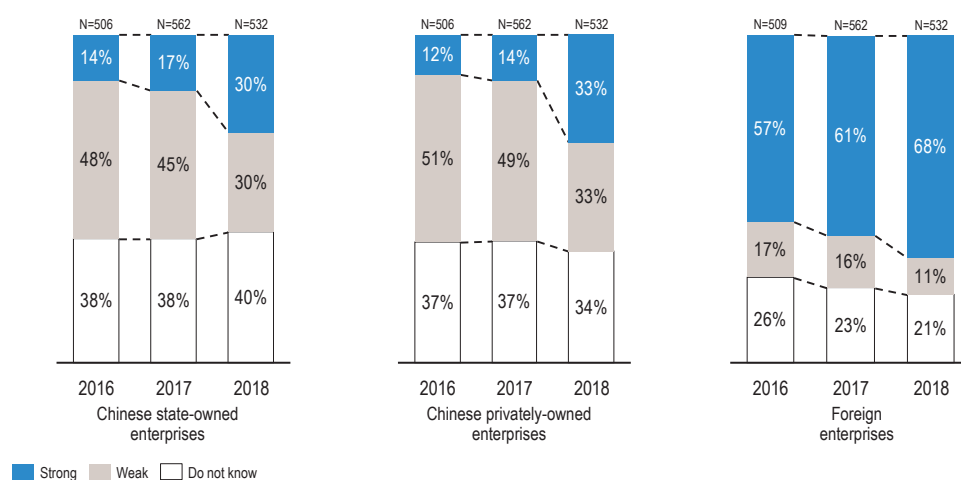
How does your company assess the enforcement of environmental regulations in China on different types of enterprises?



The number of respondents who believe that environmental enforcement is being more evenly applied to domestic and foreign companies has increased significantly compared with previous years. However, there is need for further progress, as European companies still believe that environmental regulations are more stringently enforced against them when compared to their Chinese counterparts, especially state-owned enterprises (SOEs).

Figure 22: Environmental enforcement starts to even out

How does your company assess the enforcement of environmental regulations in China on different types of enterprises?



4 POSITIVE DEVELOPMENTS FAIL TO MASK UNDERLYING ISSUES

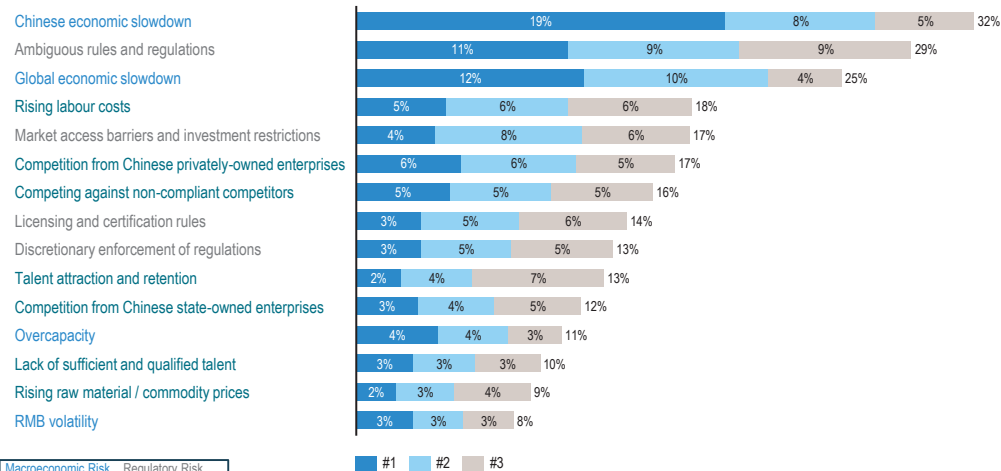
4.1 New challenges compound perennial difficulties

In 2017 and early 2018, the Chinese Government made a number of highly significant pledges to rectify inequalities in market access. With these longstanding problems now in the process of being addressed, regulatory and administrative issues are moving up the list of concerns for European businesses.

The pressure is now on China to further develop its institutions or risk current inefficiencies rendering any market opening meaningless. In short, maturing markets demand mature regulatory environments.

Figure 23: Solvable regulatory issues take precedence

Please rank the top 10 challenges your company perceives as having the greatest impact on future business in Mainland China¹
N=532



1. Only the top 15 responses are included.

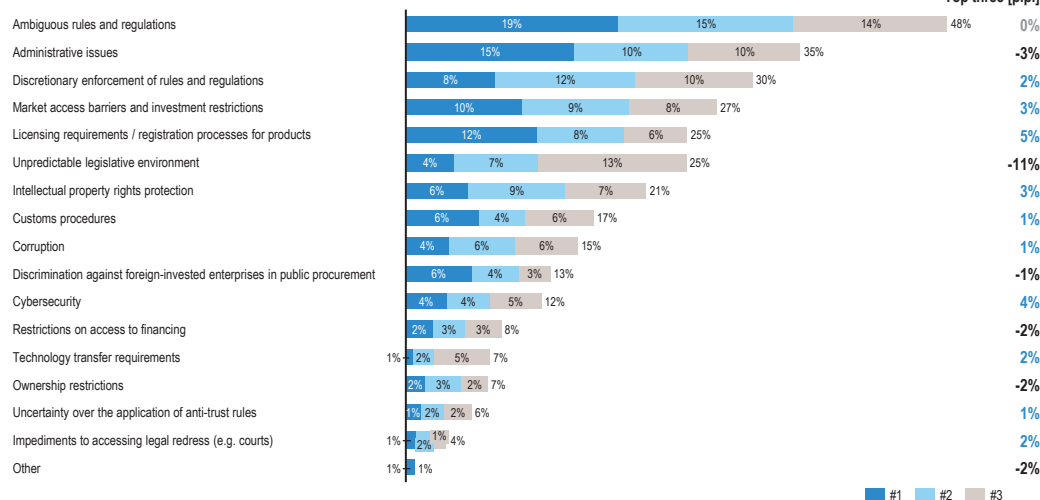
Figure 24: Top regulatory obstacles remain largely unchanged

Which are the top three most significant regulatory obstacles for your company when doing business in Mainland China?

N=532

Δ 2017-18

Top three [p.p.]

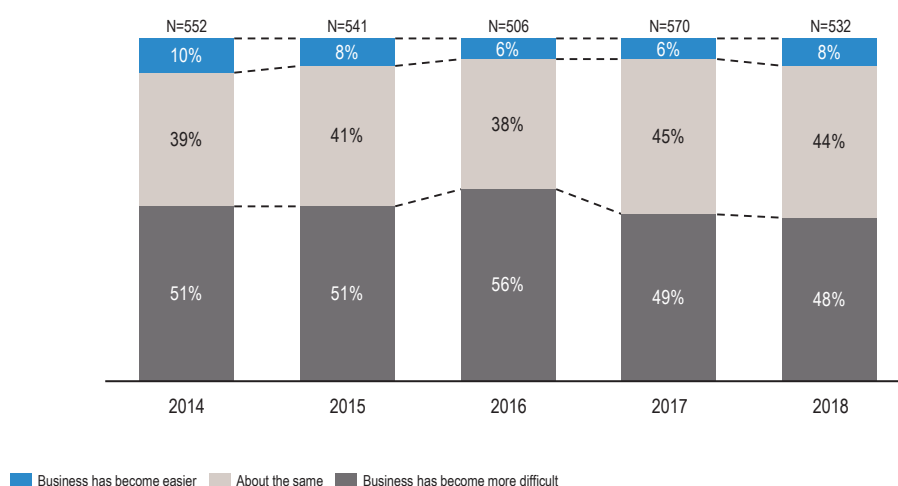


4.2 Business environment is becoming harder to navigate, and it could get worse

Roughly half of respondents report that business became more difficult in 2017 compared to the previous year.

Figure 25: Doing business in China is getting more difficult

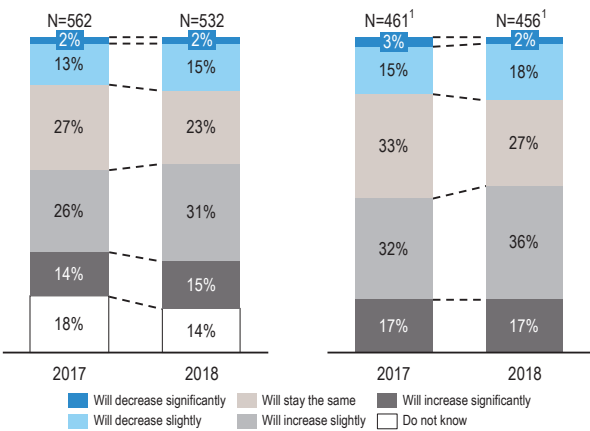
How has your company's business in China developed in the last year?



Worryingly, respondents expect operating in China to become even more challenging in the next five years, with 46% anticipating regulatory obstacles to worsen during this period.

Figure 26: Members expect the regulatory environment to get worse

How do you expect the number of regulatory obstacles facing your company in Mainland China to change over the next five years?¹



1. Excludes the answer "Do not know".

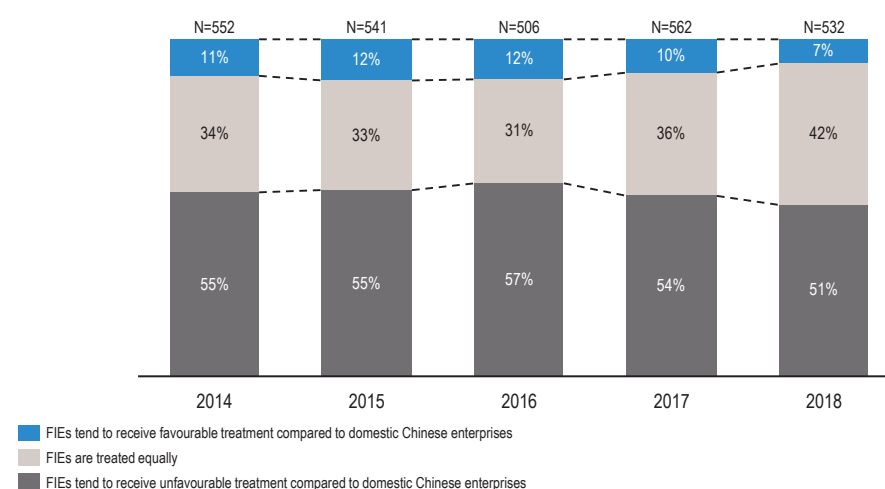
4.3 Unequal treatment and lack of reciprocity remain major concerns

There has been an increase of 11 percentage points since 2016 in the share of respondents who believe foreign-invested enterprises (FIEs) are treated equally with local firms. While the European Chamber welcomes this positive development, the figure does not hide the fact that 51% of respondents still believe FIEs are treated unfavourably.

Receiving preferential treatment will ultimately limit the potential of some Chinese enterprises who would otherwise become international contenders if they were exposed to a fair and open market with robust competition.²³ Until China creates these conditions, founded on an efficient regulatory environment, it will struggle to propel itself beyond the middle-income trap.²⁴

Figure 27: Some progress is being made but unequal treatment remains

How does your company perceive foreign-invested enterprises' (FIEs') treatment by the Chinese Government in your industry compared to that of domestic Chinese enterprises?



In 8 out of 14 industries, more than 50% of respondents perceive they are treated unfairly. A staggering 78% of respondents in the legal industry state this to be the case, which is to be expected given the numerous constraints on their activities in China compared to local law firms.

The situation for pharma and medical devices is more surprising: respectively 75% and 67% of respondents in each sector report unequal treatment for FIEs and a pessimistic outlook in terms of profitability, despite strong financial performance and optimism about growth. This is largely due to unofficial support for the procurement of local devices and drugs.

²³ Godfrey, Nick, *Why Is Competition Important for Growth and Poverty Reduction? Section 1.3: Competition Policy*, OECD Global Forum on Investment, March 2008, p. 4, viewed 4th May 2018, <<http://www.oecd.org/investment/globalforum/40315399.pdf>>

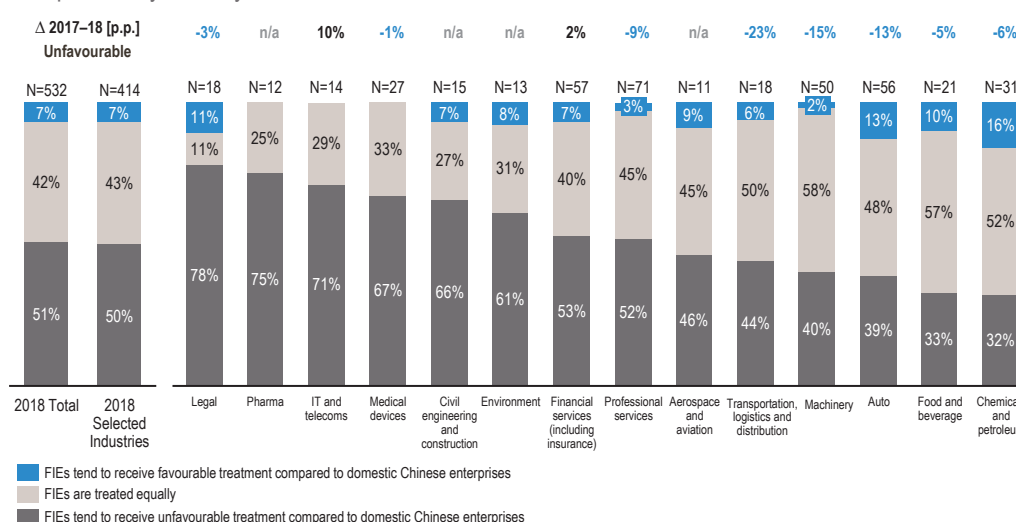
²⁴ Kharas, Homi, *Developing Asia and the Middle-Income Trap*, Brookings Institute, 5th August 2013, viewed 4th May 2018, <<https://www.brookings.edu/opinions/developing-asia-and-the-middle-income-trap/>>

Since the then National Health and Family Planning Commission (NHFPC) capped healthcare expenditure growth in 2017, many hospitals have chosen to buy cheaper local medical devices to cut costs.²⁵ However, lower-quality medical devices carry greater expense in the long term, as they have to be replaced more frequently and tend to result in less positive healthcare outcomes. The NHFPC went on to publish a notice urging local health authorities to be more flexible in controlling budgets, yet European manufacturers are still concerned that the practice of purchasing cheaper local products may continue.²⁶

Figure 28: Unfavourable treatment by industry

How does your company perceive FIEs' treatment by the Chinese Government in your industry compared to that of domestic Chinese enterprises?

Comparison by industry¹



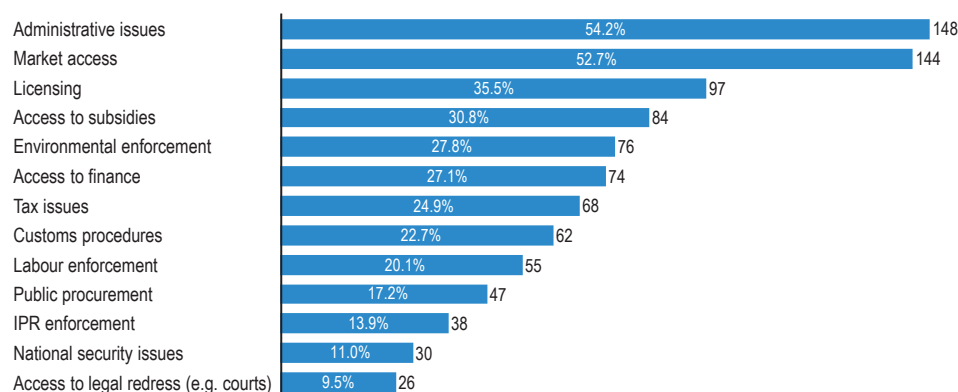
1. Industries selected are those for which there were at least 10 responses.

Respondents were more likely to report having received differentiated treatment in administrative issues, market access and licensing.

Figure 29: Breakdown of unfavourable treatment

In which areas have you experienced differentiated treatment?¹

N=273



1. Multiple answers are possible.

²⁵ National Health and Family Planning Commission: The total expenses of public hospitals shall be capped at 10%, CNR, 11th May 2017, viewed 13th March 2018, <http://china.cnr.cn/NewsFeeds/20170511/t20170511_523750712.shtml>

²⁶ Notification on Medical Service During the Time of International New Year and Spring Festival, Guaranteeing the Quality of Medical Service, National Health and Family Planning Commission, 22nd December 2017, viewed 13th March 2018, <<http://www.nhfpc.gov.cn/tigs/pqt/201712/7532098f01f34354afb580ff69e88490.shtml>>

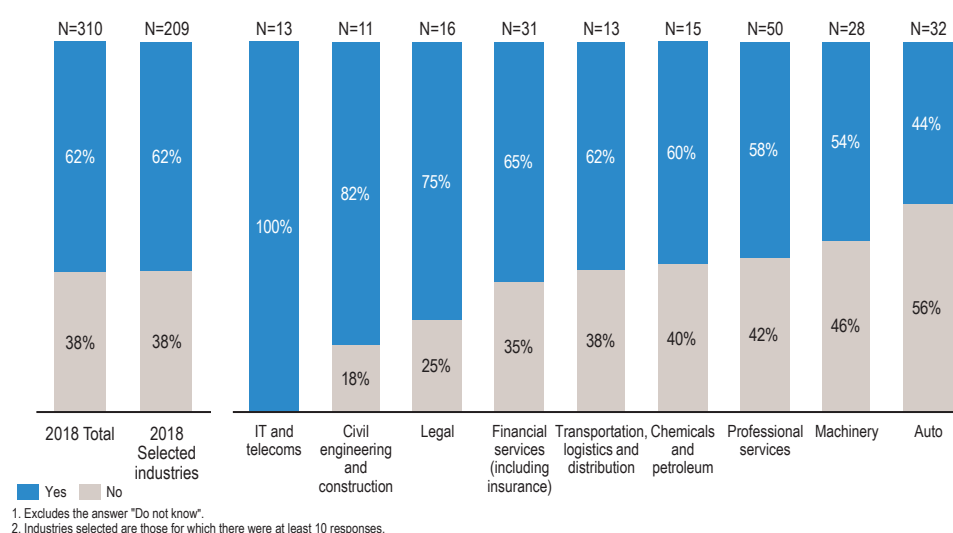
A growing concern is the lack of reciprocity in EU-China investment relations.²⁷ This is felt particularly strongly by sectors that see few, if any, limitations on Chinese firms investing in the same industries in Europe, including IT and telecoms, construction, legal, financial services and logistics.

According to the Organization for Economic Cooperation and Development's (OECD's) *FDI Regulatory Restrictiveness Index*, Chinese FDI restrictions are higher than the European Union's (EU's) in every sector except real estate.²⁸

Figure 30: Gulf in market access reciprocity remains

Do you feel that Chinese companies in your sector enjoy better market access in Europe than European companies enjoy in China?¹

Comparison by industry²



4.4 Internet and cybersecurity issues cast a dark shadow

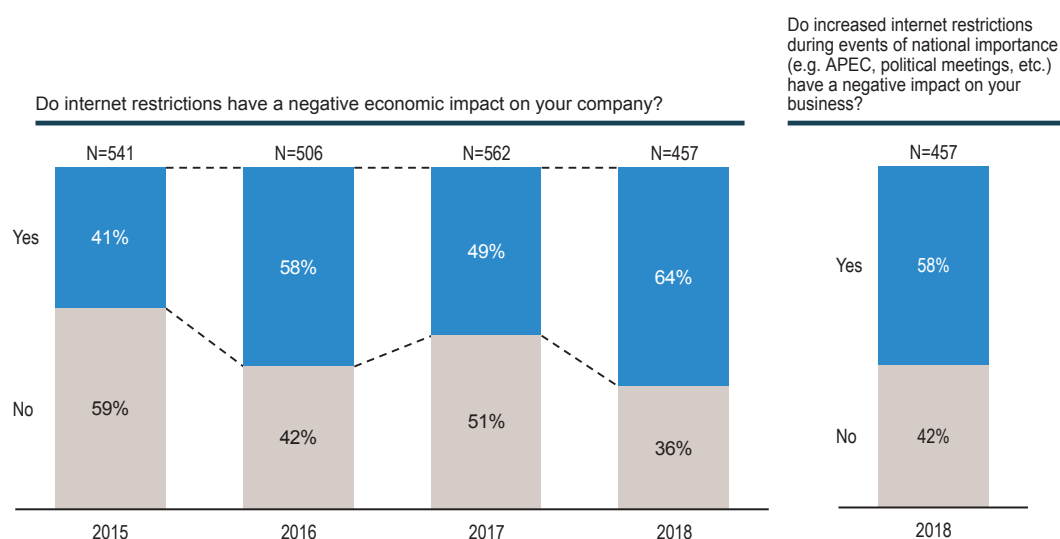
Internet access is another persistent concern, with 64% of respondents stating that restrictions have had a negative impact on their business. This is especially the case during events of national importance, such as visits by foreign heads of state and political meetings like the 19th National Party Congress held in October 2017, when internet controls are tightened even further.

Moreover, the current lack of transparency over the implementation of the Cybersecurity Law is generating significant uncertainties among foreign firms. The law may place serious limitations on the cross-border flow of data, which would be extremely detrimental to China's aspirations to become a global centre for knowledge and innovation.²⁹ Restricting internet access also deters the kind of talent that China desperately needs to fulfil its ambitions in this respect and is damaging to companies' R&D activities.

²⁷ Hanemann, Thilo and Huotari, Mikko, *EU-China FDI: Working towards reciprocity in investment relations*, Rhodium Group (RHG) and the Mercator Institute for China Studies (MERICS), 17th April 2018, viewed 22nd May 2018, <<https://www.merics.org/en/papers-on-china/reciprocity>>

²⁸ *FDI Regulatory Restrictiveness Index*, OECD, 2016, viewed 20th April 2018, <<http://www.oecd.org/investment/fdiindex.htm>>

²⁹ Mitter, Rana, *Why China hurts itself more than others with censorship?*, *South China Morning Post*, 26th August 2017, viewed on 24th April 2018, <<http://www.scmp.com/week-asia/opinion/article/2108337/why-china-hurts-itself-more-others-censorship>>

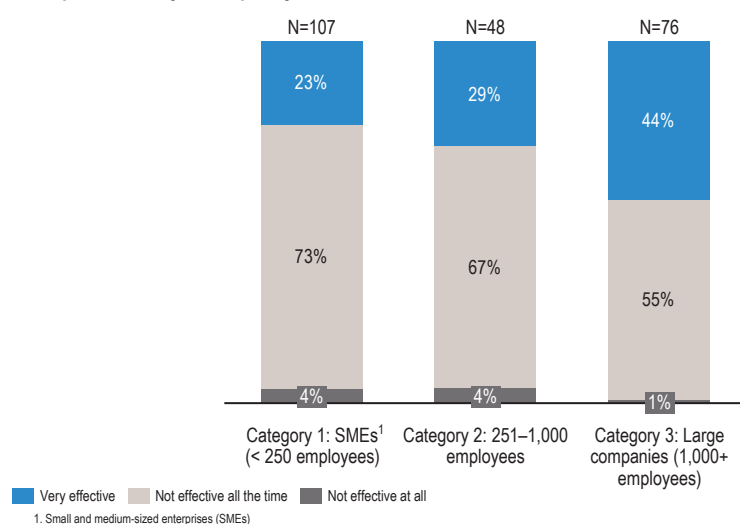
Figure 31: Internet restrictions carry a real cost

There is also great concern about the restrictions placed on the usage of virtual private networks (VPNs) and access to internationally renowned databases.³⁰ Only state-sanctioned VPN services are permitted for business use, which are very expensive. This impacts small and medium-sized enterprises (SMEs) in particular, as they are much more vulnerable to any cost increases. On top of this, there are significant data security concerns due to the control Chinese authorities exercise over approved VPN services. Unless positively addressed, this could become a real deterrent to foreign investment.³¹

Figure 32: VPN restrictions hit SMEs the hardest

Please indicate how effective your government-approved virtual private network (VPN) service has been?

Comparison by company size



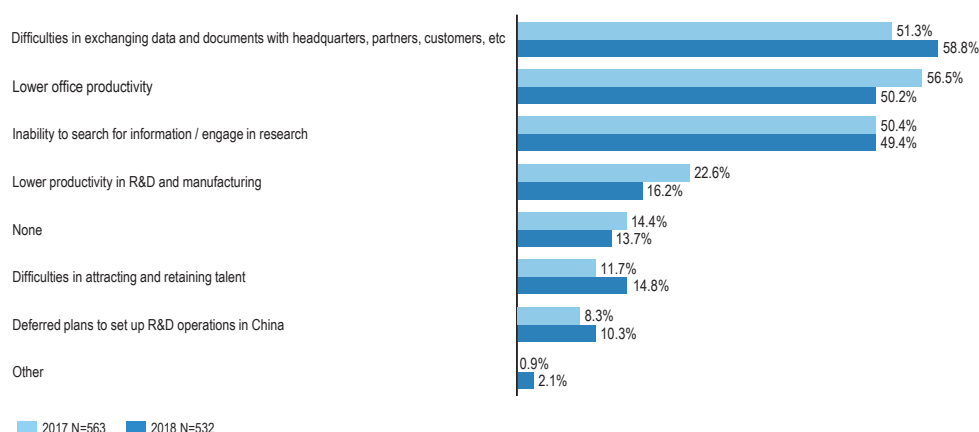
³⁰ Ruwitch, John, *Blunt instrument? What a list of banned articles says about China's censors*, Reuters, 23rd August 2017, <<https://www.reuters.com/article/us-china-censorship-articles/blunt-instrument-what-a-list-of-banned-articles-says-about-chinas-censors-idUSKCN1B30WG>>

³¹ Nakamura, Yu, *China's war on VPNs creates havoc at foreign companies*, Nikkei Asian Review, 17th December 2017, viewed 24th April 2018, <<https://asia.nikkei.com/Politics/China-s-war-on-VPNs-creates-havoc-at-foreign-companies2>>

European companies state that unstable connections, slow internet speeds and restricted access have seriously impacted their business. Difficulties in exchanging data and documents with their headquarters, partners and customers are reported by 27% of respondents, 23% report lower productivity in the office and 23% are unable to properly search for information and engage in research.

Figure 33: Negative impact of internet restrictions is far reaching

What is the impact of internet instability, slowness or access restrictions on your company in China?¹



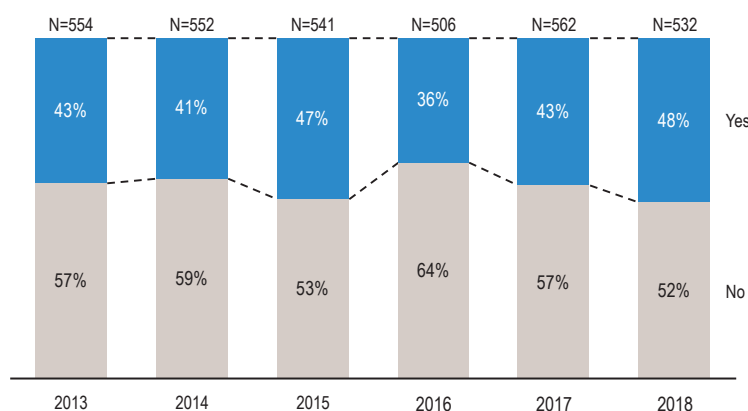
1. Multiple answers are possible.

4.5 Talent attraction and retention still major challenges

The 48% of respondents facing difficulties in attracting talent represents an increase of five percentage points from 2017. Human resources (HR) issues are being exacerbated by demographic changes that are resulting in a shrinking labour pool. The working-age population decreased from 67.6% in 2013 to 64.9% in 2017, with the retired population having risen from 9.7% to 11.4% over the same period.³²

Figure 34: Increasing difficulties in retaining talent

Is your company currently facing any challenges when it comes to retaining the right talent in China?



³² Statistical Communique on National Economic and Social Development in 2013, National Bureau of Statistics, 24th February 2014, viewed 20th April 2018, <http://www.stats.gov.cn/tjsj/zxfb/201402/t20140224_514970.html>; Statistical Communique on National Economic and Social Development in 2017, National Bureau of Statistics, 28th February 2018, viewed 20th April 2018, <http://www.stats.gov.cn/tjsj/zxfb/201802/t20180228_1585631.html>

Some of the top challenges to hiring local talent, such as high expectations about career opportunities, could be mitigated by firms themselves adopting better HR policies. It is more sustainable to hire candidates that can be trained and integrated into a company rather than high-flyers who are likely to be snapped up by the highest bidder.

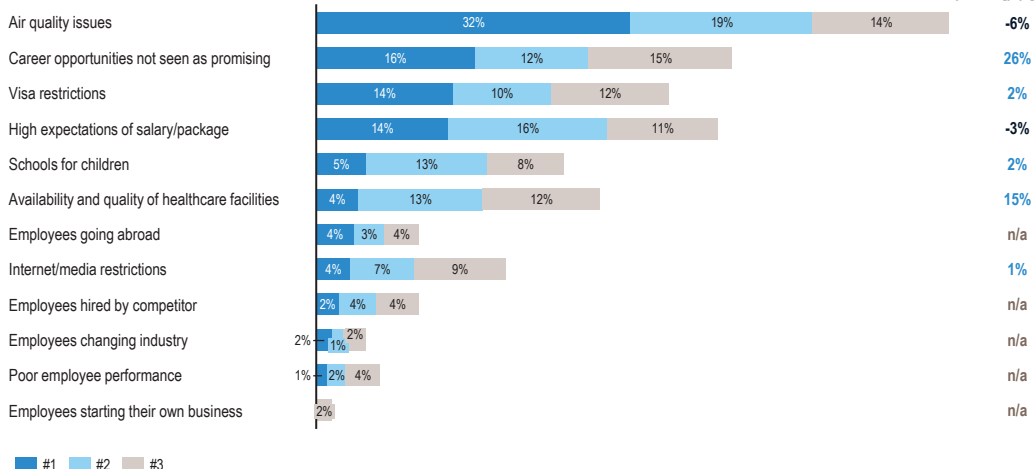
However, a number of HR-related challenges are simply out of their hands. For instance, air quality remains the number one challenge for attracting foreign talent, despite widespread recognition that air quality, especially in Beijing, has improved over the last year. Only positive action by the government can help to resolve this problem.

Figure 35: Challenges to attracting international talent

Please list the top three challenges in attracting the right talent in China

N=257

Internationals



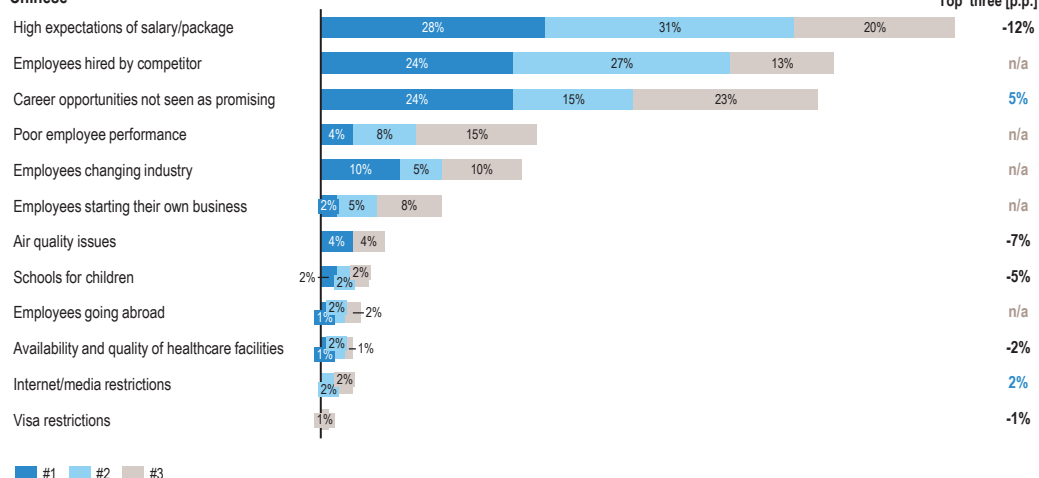
■ #1 ■ #2 ■ #3

Figure 36: Challenges to attracting Chinese talent

Please list the top three challenges in attracting the right talent in China

N=257

Chinese



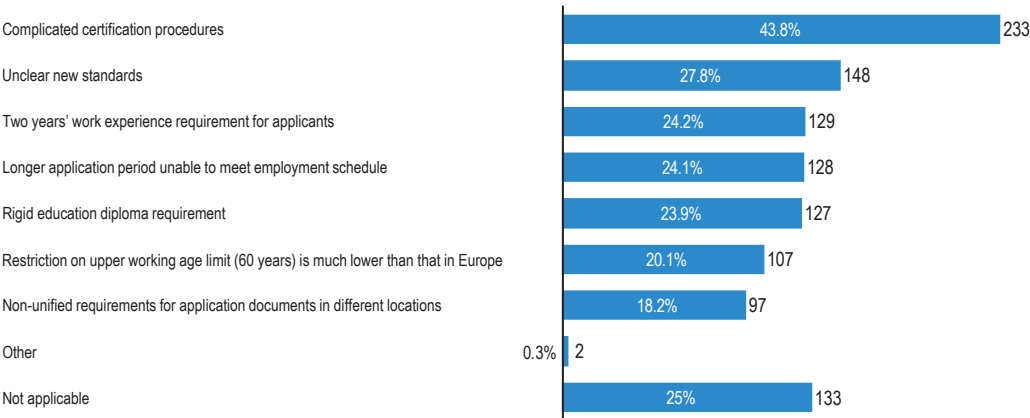
■ #1 ■ #2 ■ #3

Government action is also needed to tackle emerging visa and work permit issues. A new work permit application system for foreigners was introduced in 2017,³³ but 43% of respondents say the system has not helped attract foreign talent.

Figure 37: Work permit procedures are a barrier to talent attraction

What are the challenges faced by your company when applying for work permits for foreigners? Please tick all that apply.

N=532



³³ Notification on Publishing the Implementation Measures of the Visa System for Foreign Talent, State Administration of Foreign Experts, Ministry of Foreign Affairs and Ministry of Public Security, 28th November 2017, viewed 9th May 2018, <http://fwp.safea.gov.cn/attached/file/20180302/20180302095441_436.pdf>

BUSINESS CONFIDENCE SURVEY 2018 FINDINGS

CHINESE BUSINESSES ARE BECOMING STRONGER COMPETITORS

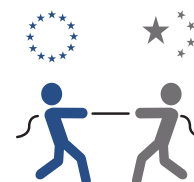
61%

of respondents perceive Chinese companies to be equally or more innovative than European firms (+15 pts vs 2017)



43%

of respondents are concerned about competitive pressure over the next two years



IN AN INCREASINGLY SOPHISTICATED ECONOMY, EUROPEAN BUSINESSES ARE STAYING LEAN, EFFICIENT AND OPTIMISTIC ABOUT GROWTH

46%

of respondents plan to cut costs in China this year (+8 pts vs 2017)



66%

of respondents report revenue growth in FY 2017 (+11 pts vs FY 2016)



77%

of respondents report positive EBIT for FY 2017 (+6 pts vs FY 2016 and highest since 2005)



61%

of respondents are optimistic about growth (+6 pts vs 2017)



RESPONDENTS ARE POSITIVE ABOUT AREAS CHINA HAS PRIORITISED

34%

of respondents view the enforcement of IPR regulations as adequate or excellent (+5 pts vs 2017)



30%

of respondents think that China's R&D environment is more favourable than the worldwide average (+7 pts vs 2017)



72%

of respondents view enforcement of environmental regulations as either strong or adequate (+25 pts vs 2017)



YET DOING BUSINESS IS GETTING HARDER AND IS COSTING EUROPEAN BUSINESSES

48%

of respondents say that doing business has become more difficult over the past year



46%

of respondents state that they had missed out on opportunities in China as a result of market access restrictions and regulatory barriers (+1 pt vs 2017)



17%

and... of European SMEs say that missed opportunities as a result of market access restrictions or regulatory barriers cost them over 25% of their annual revenue in China (+11 pts vs large companies)

THIS TALL TO ENTER



64%

of respondents state that internet access restrictions have a negative economic impact on their business



48%

of respondents say they face challenges in attracting the right talent in China



46%

of respondents believe that regulatory barriers will increase over the next five years



BUSINESS CONFIDENCE SURVEY 2018 FINDINGS

INDUSTRIAL POLICIES ARE A SOURCE OF DISCONTENT

European businesses report low participation in the BRI:

67%

say the plan has low relevance to their own industry/business model



33%

say the plan lacks suitable projects

16%

say there is insufficient information available on potential projects

19%

of respondents have felt compelled to transfer technology in order to maintain market access

NO YES



29%

of respondents say they are aware of subsidies that have been offered to Chinese firms in the last two years that foreign firms cannot access

MARKET ACCESS AND UNEQUAL TREATMENT REMAIN MAJOR CHALLENGES

51%

of respondents believe that FIEs receive unfavourable treatment compared to Chinese firms



62%

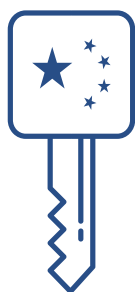
of respondents believe Chinese companies in their sector enjoy greater market access in Europe than European companies enjoy in China

57%

of European SMEs state FIEs tend to receive unfavourable treatment compared to Chinese firms (+10 pts vs large companies)



MARKET OPENING DOES NOT MATCH COMMITMENTS MADE IN STATE COUNCIL DOCUMENTS NO. 5 AND NO. 39



52%

of respondents do not feel market access has changed in their industry y-o-y

11%

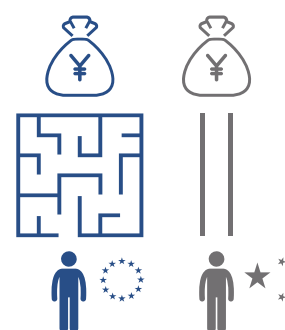
and... report some market closing

25%

of respondents do not expect to ever see meaningful market opening

28%

of respondents do not expect to ever see a level playing field



A SUCCESSFUL CAI CAN UNLOCK INVESTMENT POTENTIAL

95%

of respondents who are aware of the CAI said that it should continue to be a priority for the EU



57%

of respondents would be more likely to increase investment in China if greater market access were granted to foreign companies in their industry



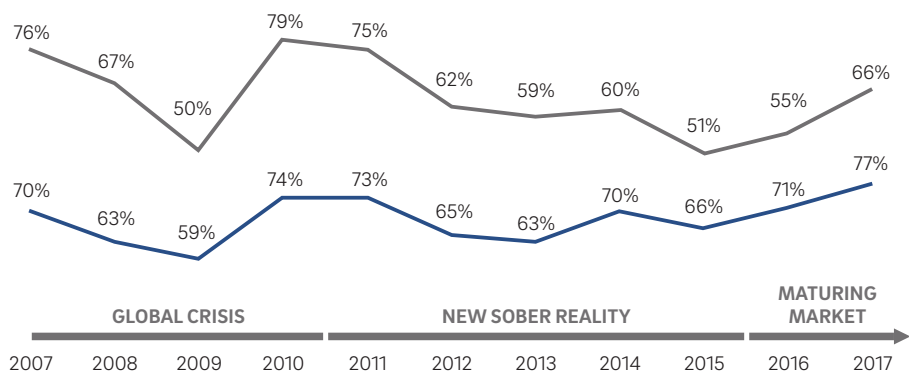
BUSINESS CONFIDENCE SURVEY 2018 FINDINGS

FINANCIAL PERFORMANCE

(Financial year)

Increased revenues

Profitable companies

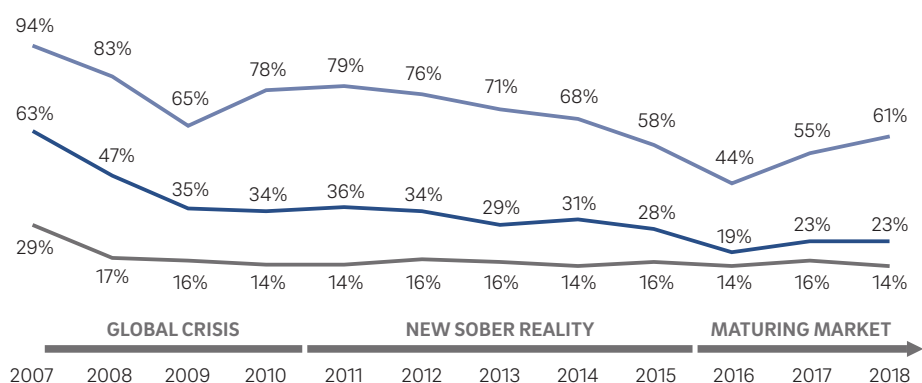


OPTIMISM

Optimistic about growth

Optimistic about profitability

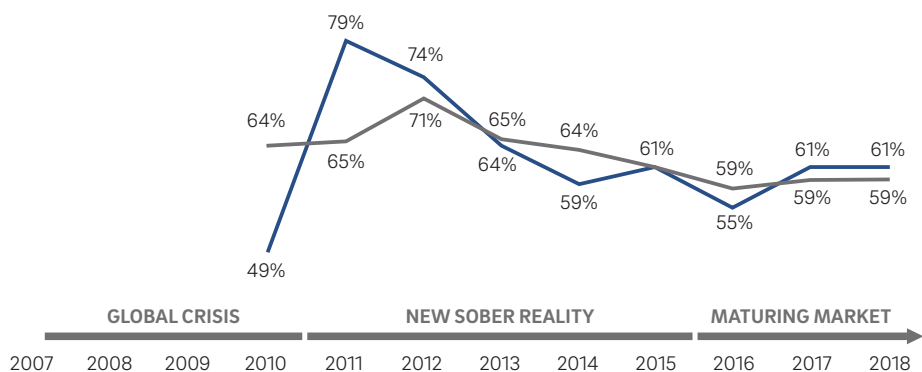
Optimistic about competitive pressure



IN CHINA TO STAY

Rank China among the top three destinations for new investments

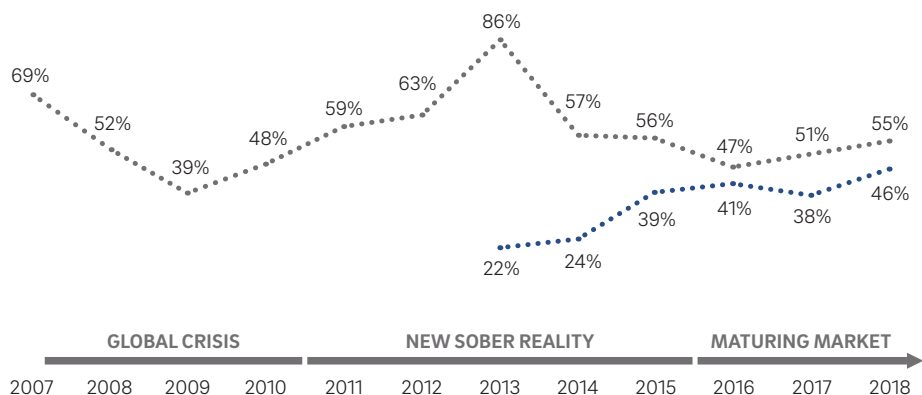
Reported China as increasingly important in their global strategy



STRATEGY ADAPTATION

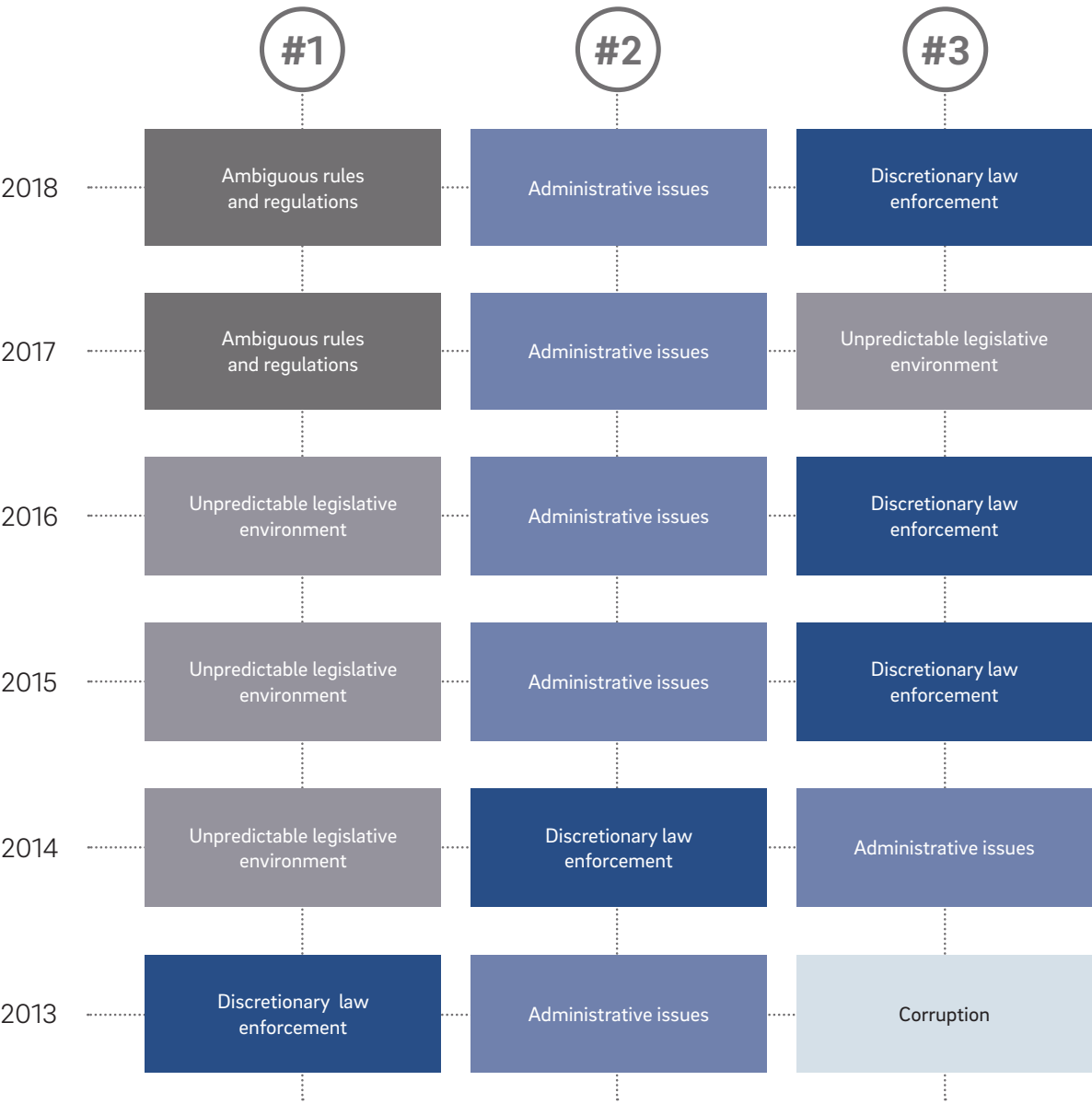
Considering expanding their China operations

Plan on cutting costs



TOP-RATED REGULATORY OBSTACLES

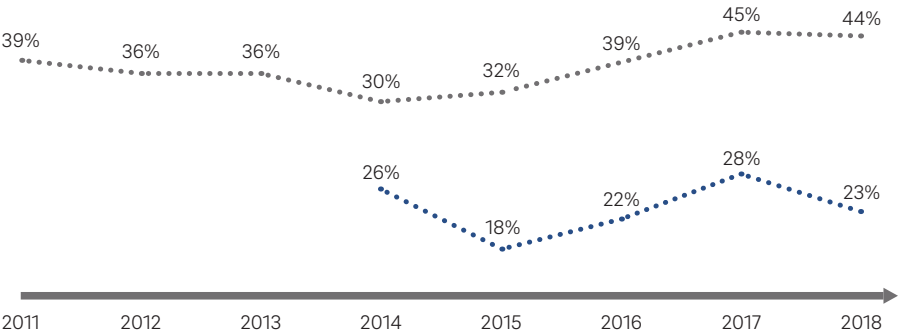
The reform process has stalled and regulatory obstacles persist



R&D IN CHINA

Companies with R&D centres in China

Companies that believe that China R&D still lags behind regional/global level



5 INDUSTRIAL POLICIES REMAIN A SOURCE OF DISCONTENT

The Chinese Government continues to prioritise state prerogatives, using industrial policy as a means to boost indigenous innovation, move up the value-added production chain and engage in international standard setting. Policies requiring heavy state involvement, such as China Manufacturing 2025 (CM2025) and the Belt and Road Initiative (BRI), have produced mixed feelings among European businesses. Such policies often favour larger players at the expense of some of the more fundamental changes needed to foster a fair business environment where all players can compete on a level playing field.

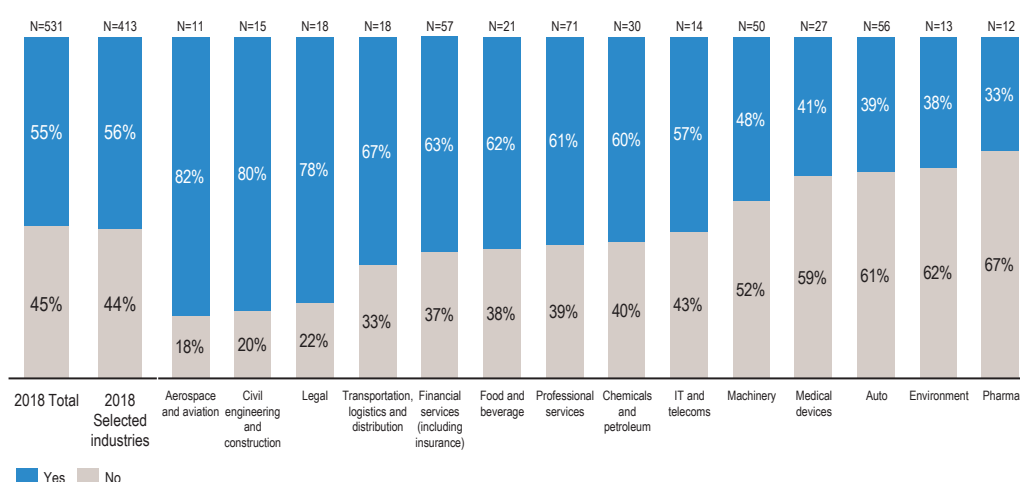
5.1 Uncertainties surround the BRI

More than half of respondents see opportunities in the BRI. The initiative commits to increasing connectivity between member nations, where it will construct and modernise transport infrastructure.³⁴ As a result, sectors such as civil engineering and construction see strong opportunities. The financing, structuring and insuring of BRI projects has seen active participation from European financial sector participants.³⁵ Legal firms are also optimistic about BRI opportunities, as their expertise in foreign jurisdictions may facilitate cross-border deals and help resolve contract disputes.³⁶

Figure 38: More BRI opportunities for transport and legal industries

Do you see any opportunities for your company in the Belt and Road Initiative (BRI)?

Comparison by industry¹



1. Industries selected are those for which there were at least 10 responses.

34 Mapping out industries affected by or involved in the BRI, Economist Intelligence Unit, 24th January 2018, viewed 28th April 2018, <<http://www.business.hsbc.com/china-growth/mapping-out-industries-affected-by-or-involved-in-the-bri>>

35 Ibid.

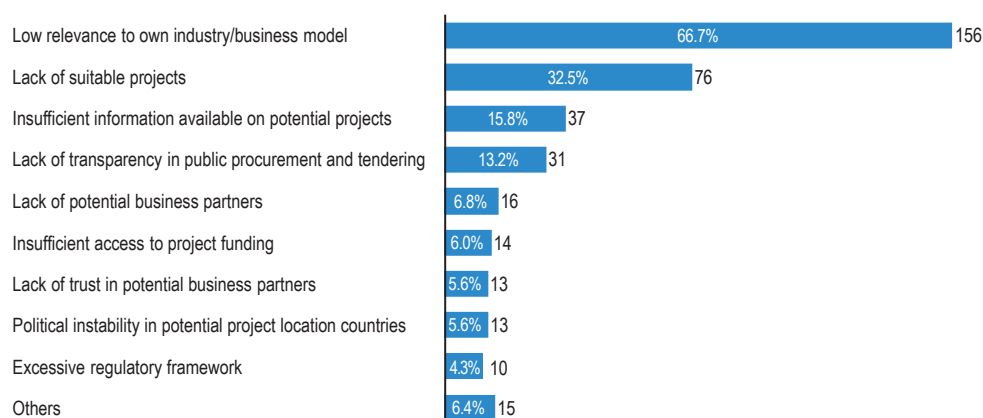
36 Groffman, Nicholas, *Why English Law Could Rule on China's Belt and Road Disputes*, South China Morning Post, 6th March 2018, viewed 28th April 2018, <<http://www.scmp.com/week-asia/opinion/article/2135329/why-english-law-could-rule-chinas-belt-and-road-disputes>>

However, there are a number of concerns that are currently holding back increased participation of European businesses in this project. These include a need for increased transparency and better access to relevant project information and funding.

Figure 39: Factors holding back BRI participation

What are the main reasons for the low participation in BRI affiliated projects?¹

N=234



1. Multiple answers are possible.

5.2 Unfair Technology transfers and subsidies still damaging China's reputation

It is concerning that 19% of respondents have felt compelled to transfer technology in exchange for market access. Up until now, China has pursued an implicit strategy of trading domestic market share for new foreign technology in order to improve its technological capacity.³⁷ However, some local players may choose to rely on transfers rather than invest in R&D, a strategy that would have a limited effect on improving domestic innovation capacity. Some have also argued that it conflicts with China's World Trade Organization (WTO) agreements.^{38&39} As China looks to become a global leader in innovation, it should rely less on technology transfers and generate more domestic R&D in order to achieve sustainable economic development.

³⁷ Yu, Xielin, and Cheng, Peng, *Is China's Innovation Strategy Compatible with Globalisation?*, East West Center, 2011, p. 9, viewed 27th April 2018, <<https://www.eastwestcenter.org/sites/default/files/private/ps061.pdf>>

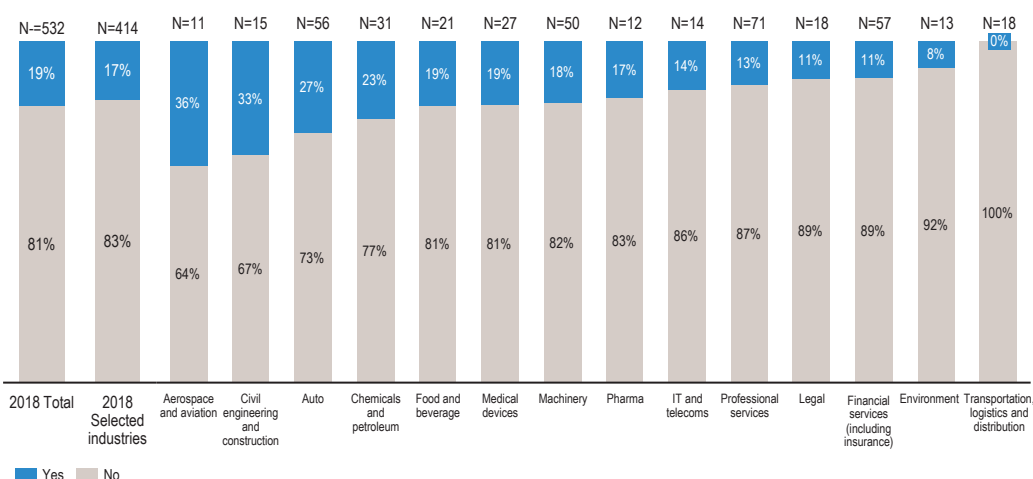
³⁸ *Ibid*, p.xi.

³⁹ *Ibid*, p. 11.

Figure 40: Unfair technology transfers continue despite government assurances

Has your company felt compelled to transfer technology in order to maintain market access?

Comparison by industry¹



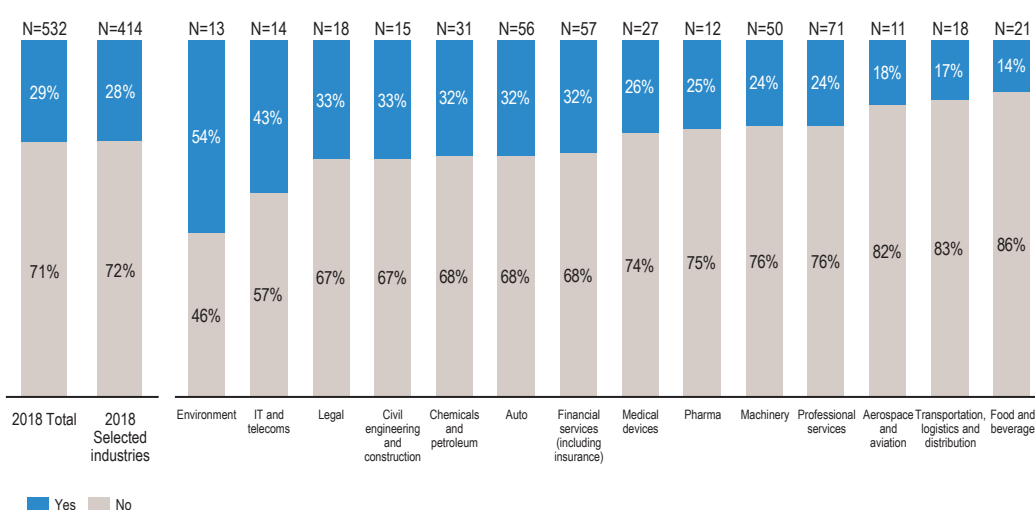
1. Industries selected are those for which there were at least 10 responses.

State-led support for indigenous innovation has also resulted in unequal access to subsidies. This is preventing European companies from sharing valuable expertise and know-how. One study has revealed that China's current subsidy approach is unsustainable, with renewable energy subsidies often wasted.⁴⁰ This goes to show that protectionism through the promotion of domestic firms may be hindering the social goals of environmental protection.

Figure 41: Unequal access to subsidies persists

Are you aware of any subsidies offered to Chinese firms in the last two years which foreign firms cannot access?

Comparison by industry¹



1. Industries selected are those for which there were at least 10 responses.

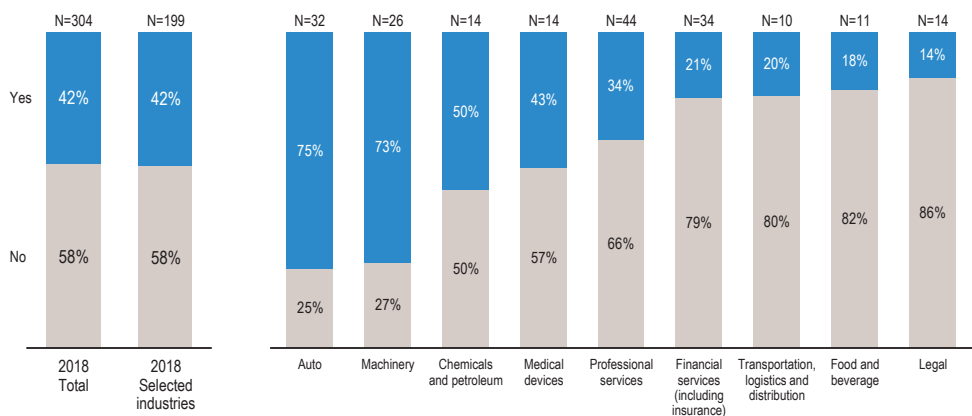
⁴⁰ Review finds China's renewable energy subsidies are unsustainable, Environment for Development, 28th April 2018, viewed 24th April 2018, <<http://www.efdiinitiative.org/our-work/policy-interactions/review-finds-chinas-renewable-energy-subsidies-are-unsustainable>>

Despite this, some larger European companies report that they have experienced improved access to CM2025 subsidies in 2018. The auto and machinery sectors enjoyed better access than other industries, and some machinery firms have reported that orders for parts and tools have increased due to growing demand under CM2025.

Figure 42: CM2025 participation higher in areas where foreign expertise is required

Comparison by industry

Are you able to participate in China Manufacturing 2025 (CM2025)?^{1&2}

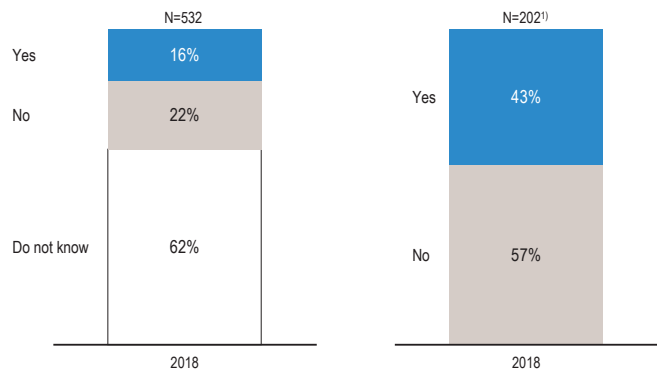


1. Excludes the answer "Do not know".
2. Industries selected are those for which there were at least 10 responses.

Yet with 43% of respondents stating that they have seen increased discrimination under the initiative, the perception remains that CM2025 is an industrial policy that ultimately promotes domestic firms.⁴¹

Figure 43: CM2025 still seen to discriminate

Are you seeing increased discrimination against foreign companies compared to Chinese companies under China Manufacturing 2025?¹



1. Excludes answer "Do not know".

41 China Manufacturing 2025: Putting Industrial Policy Ahead of Market Force, European Union Chamber of Commerce in China, 7th March 2017, p. 11, viewed 4th May 2018, <http://www.europeanchamber.com.cn/en/publications-archive/473/China_Manufacturing_2025_Putting_Industrial_Policy_Ahead_of_Market_Force>

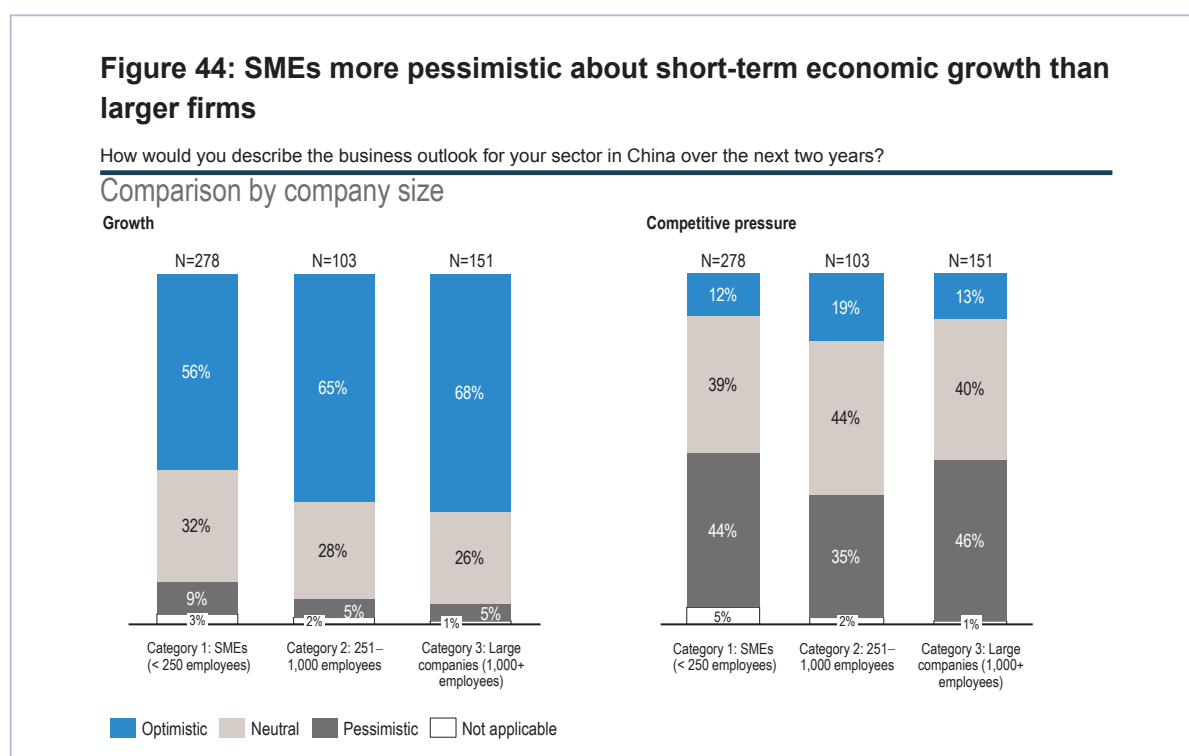
6 SMES ARE STILL HIT HARDEST

Small and medium-sized enterprises (SMEs) are the foundation of a well-functioning economy and a driving force for innovation.⁴² Multinational corporations (MNCs) are also dependent on the SME ecosystem, which makes up crucial parts of their supply chains and supporting industries.⁴³

SMEs represent 99.6% of China's companies and comprise more than 60% of its GDP.⁴⁴ They also create more than 80% of jobs, hold more than 70% of patents and contribute more than 50% of taxes.⁴⁵ Yet much of SMEs' potential remains untapped, as they are disproportionately affected by unfair treatment and inefficiencies in the business environment.

6.1 SMEs fail to share larger players' optimism

This is highlighted by European SMEs' outlook on short-term growth, productivity and profitability in their respective sectors compared to larger firms.



⁴² According to the European Chamber's methodology for this survey, an SME is an enterprise that employs less than 250 people.

⁴³ Mills, Karen, *The 4 Types of Small Businesses, and Why Each One Matters*, *Harvard Business Review*, 30th April 2015, viewed 4th May 2018, <<https://hbr.org/2015/04/the-4-types-of-small-businesses-and-why-each-one-matters>>

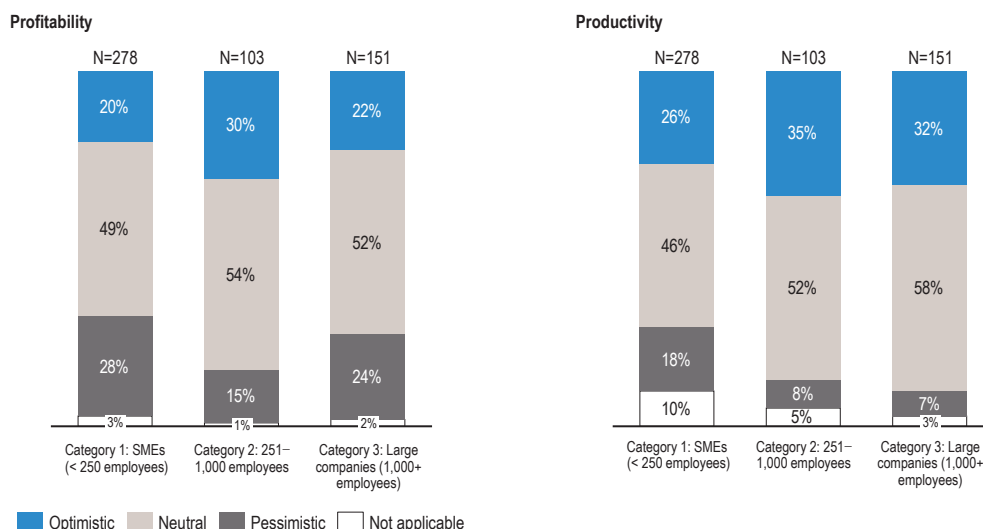
⁴⁴ Guo, Linmao, and Ma, Xianghui, *People's Republic of China Small and Medium-sized Enterprises Promotion Law: Guidebook*, China Democracy and Legal System Publishing House, Beijing, 2017. pp. 15–19.

⁴⁵ Ibid.

Figure 45: SMEs hold doubts across the board

How would you describe the business outlook for your sector in China over the next two years?

Comparison by company size



6.2 Unfair treatment leaves SMEs out in the cold

China has recognised the faltering development of SMEs in recent policies. The SME Promotion Law, for example, aims to create special public funds, provide access to direct financing and public procurement, and simplify administrative procedures for SMEs.⁴⁶ Other policies have sought to increase SME involvement with the BRI.^{47&48} However, many improvements only apply to domestic firms or are difficult for FIEs to benefit from.

Efforts made at the policy level are undermined by a preference for big brands and conglomerates that are easier to manage and are preceded by their reputations. As a result, a larger share of SMEs state they receive unfavourable treatment compared to MNCs.

46 *Law of the People's Republic of China on the Promotion of Small and Medium-sized Enterprises*, National People's Congress, 2017, viewed on 18th April 2018, <http://www.npc.gov.cn/npc/xinwen/2017-09/01/content_2027929.htm>

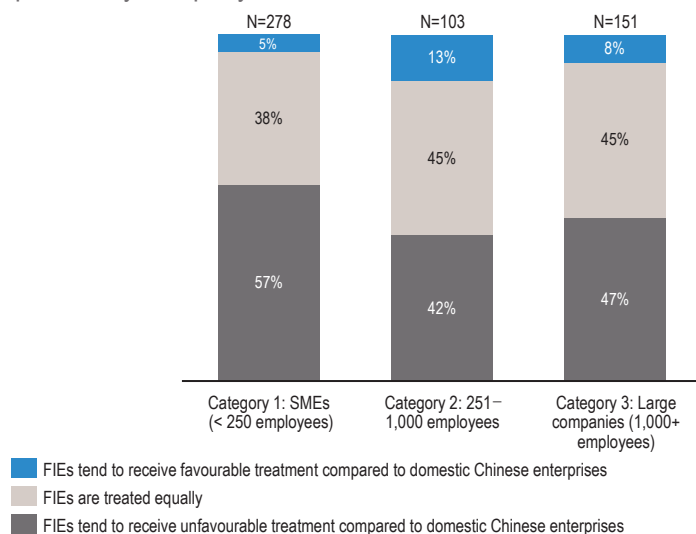
47 *Five-Year Action Plan for Promoting the International Development of SMEs (2016-2020)*, Ministry of Industry and Information Technology, 1st August 2016, viewed 20th May 2017, <<http://www.miit.gov.cn/n1146295/n1652858/n1652930/n3757016/c5180691/content.html>>

48 *Notice of the Two Departments on Carrying out the Special Action for Supporting the Participation of SMEs in the Belt and Road Initiative*, Ministry of Industry and Information Technology and China Council for the Promotion of International Trade, 27th July 2017, viewed 18th April 2018, <<http://www.miit.gov.cn/n1146295/n1652858/n1652930/n3757016/c5755651/content.html>>

Figure 46: SMEs most likely to receive unfavourable treatment

How does your company perceive FIEs' treatment by the Chinese Government in your industry compared to that of domestic Chinese enterprises?

Comparison by company size

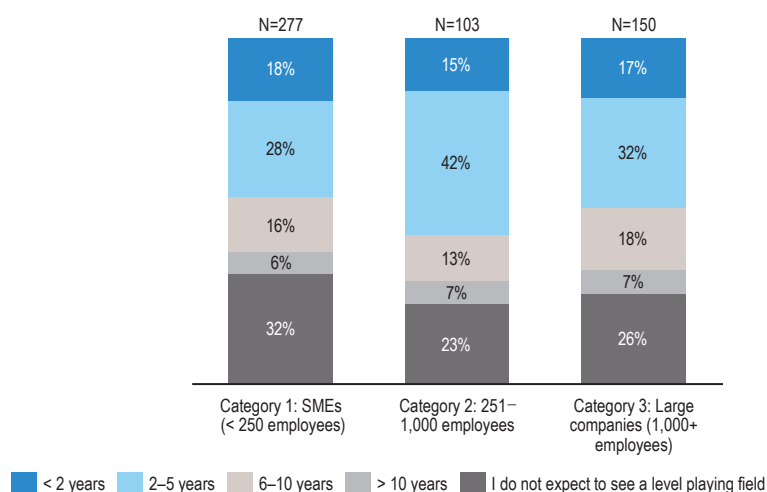


European SMEs believe they will remain at a disadvantage for the foreseeable future, with 32% expecting that they will never be on a level playing field with Chinese companies.

Figure 47: One third of SMES do not believe a level playing field will ever exist

When do you expect to see a level playing field for foreign and Chinese companies through the provision of national treatment in your industry?

Comparison by company size



Obtaining financing is another longstanding issue for both European and Chinese SMEs, despite recent efforts to address this concern by the 13th Five-Year Plan, CM2025 and the SME Promotion Law. In practice, SMEs are generally considered high-risk, low-return clients. In addition, bank loans for FIEs must be obtained against guarantees from banks outside of China, which requires further risk assessment by European headquarters.

The banking industry also typically favours lending to SOEs under the assumption they have implicit government guarantees. In fact, SOEs receive 30% of all loans, despite the fact their return on assets was 2.9% in 2016, compared to 10.2% in the private sector.

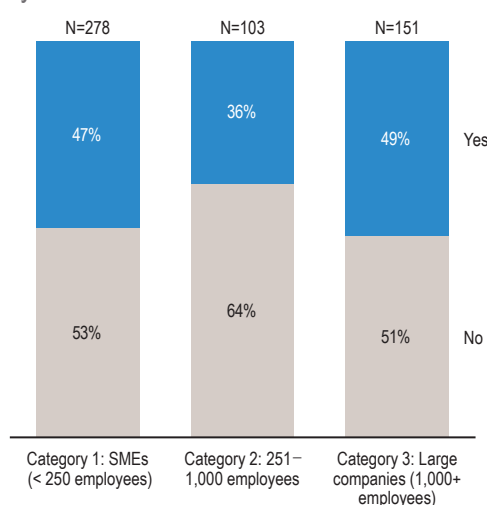
6.3 The true costs of regulatory barriers

SMEs do not have the resources to invest in professional services to access information that would help mitigate regulatory costs. A number of European SMEs report that they only have one member of staff to take care of HR, finance and legal issues. As a result, inefficiencies in the regulatory environment that affect all companies have a disproportionately negative impact on smaller ones.

Figure 48: Half of SMEs miss opportunities due to regulatory barriers

Has your company missed out on business opportunities in China as a result of market access restrictions or regulatory barriers?

Comparison by company size



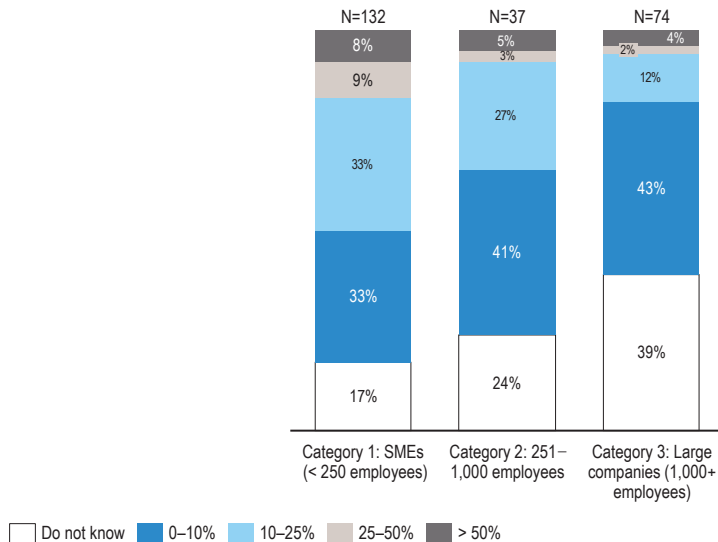
49 Balding, Christopher, *China Takes on State-Owned Firms*, Bloomberg, 11th August 2017, viewed 4th May 2018, <<https://www.bloomberg.com/view/articles/2017-08-10/china-takes-on-state-owned-firms>>

For 8% of SMEs, regulatory obstacles cost them more than half their revenue in 2017, which could be significant enough to prevent them from scaling up and contributing to innovation, job creation and tax revenue.

Figure 49: SMEs are most heavily affected by missed opportunities

What percentage of your company's annual revenue in China do these missed opportunities represent?

Comparison by company size



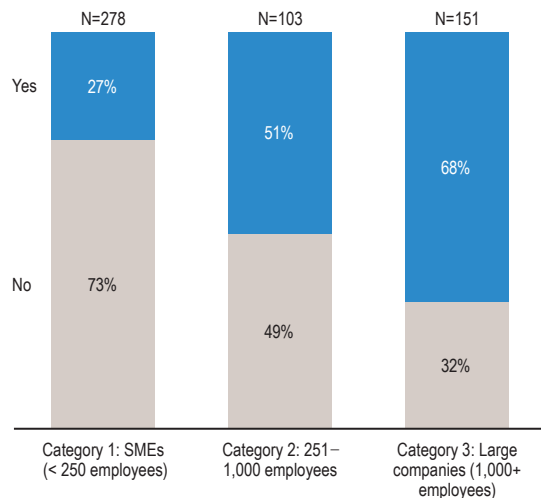
6.4 SMEs’ potential to innovate remains untapped

European SMEs are over 50% less likely to benefit from subsidies than MNCs. This is not only due to unequal access, but the lack of dedicated resources SMEs have to seek subsidies out.

Figure 50: SMEs are least likely to access subsidies

Has your company benefitted from any subsidies in China?

Comparison by company size

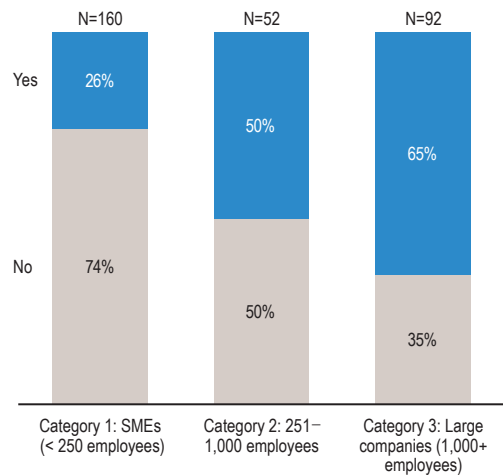


Less than a third of European SMEs report being able to take part in CM2025. However, the EU SME Centre reports there has been a proliferation of incubators and accelerators in the increasingly pro-innovation environment, many of which are interested in attracting European start-ups and SMEs that have technologies related to this industrial policy initiative.

Figure 51: CM2025 overlooks value of SMEs

Are you able to participate in China Manufacturing 2025?¹

Comparison by company size



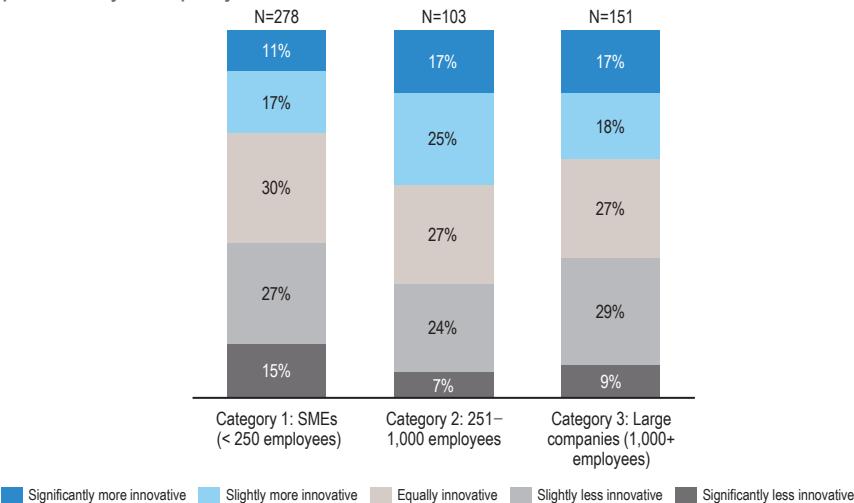
1. Excludes the answer "Do not know".

European SMEs are less likely to regard their Chinese counterparts as more innovative in their industry than MNCs. This makes the case for equal treatment even more pressing, as European SMEs may be able to contribute to the economy in ways their Chinese counterparts are not yet able to.

Figure 52: Chinese SMEs perceived to be less innovative than larger counterparts

Within your industry, how innovative do you feel Chinese firms are compared to European firms?

Comparison by company size



7 THE NEED FOR ENGAGEMENT IS GREATER THAN EVER

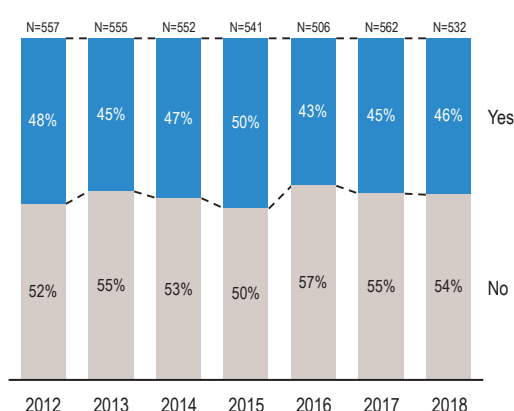
With China's regulatory environment an ever-increasing concern for European businesses—and with many of the issues they face shared by Chinese firms—there is a lot of room for improvement and a clear need for deeper EU-China dialogue.

7.1 Market access and regulatory barriers more than a mere headache

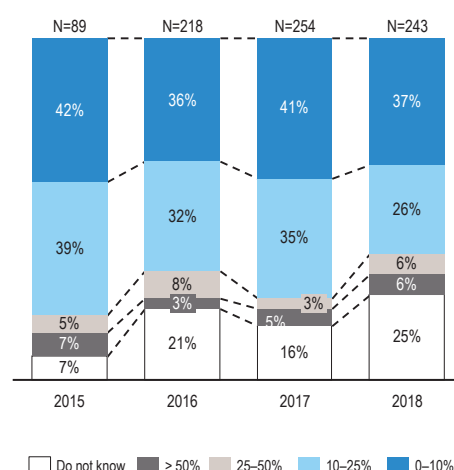
Market access barriers and regulatory burdens are resulting in significant costs for European businesses – 46% of respondents reported they missed out on business opportunities as a result, and 12% stated that these obstacles cost them more than a quarter of their annual revenue, which has serious implications for profitability.

Figure 53: Regulatory barriers carry costs for all European businesses

Has your company missed out on business opportunities in China as a result of market access restrictions or regulatory barriers?



What percentage of your company's annual revenue in China do these missed opportunities represent?



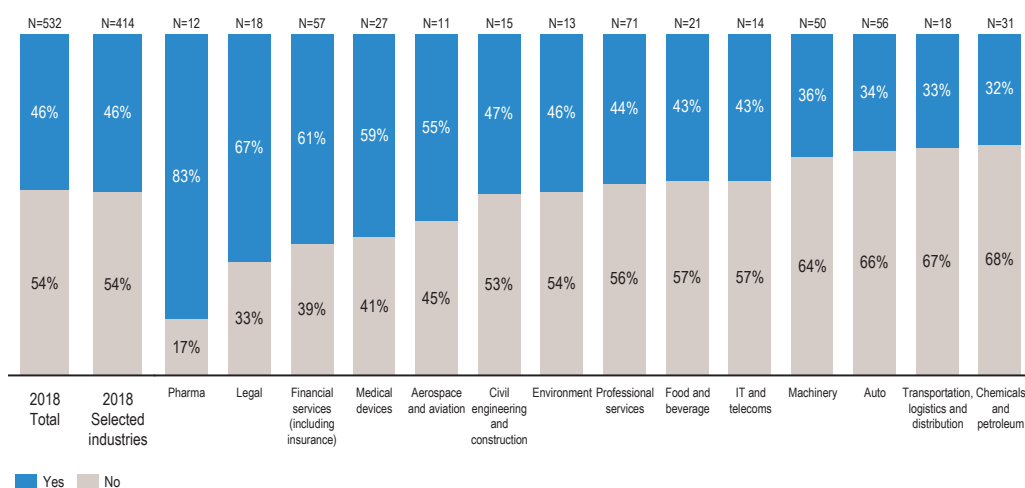
Legal and financial services continue to report significant missed opportunities, which is par for the course given the severe market access restrictions in these industries.

Missed opportunities in the pharma and medical devices sectors can be attributed to the fact that products produced by FIEs are put at a disadvantage in bids for public procurement tenders and the slow pace of drug approvals.⁵⁰

⁵⁰ China Manufacturing 2025: Putting Industrial Policy Ahead of Market Forces, European Union Chamber of Commerce in China, 7th March 2017, p. 45 & 47, viewed 9th May 2018, <<http://www.europeanchamber.com.cn/en/china-manufacturing-2025>>

Figure 54: Missed opportunities by industry

Has your company missed out on business opportunities in China as a result of market access restrictions or regulatory barriers?

Comparison by industry¹

7.2 Market opening is no longer sufficient in itself

European businesses indicate they would be more likely to increase their investment in China if they were granted better market access. However, following recent announcements of opening in the financial services, shipbuilding, aircraft manufacturing and auto sectors, the response from European industry leaders has not been as positive as some may have imagined.

The changes come at a time when competition from domestic players in the financial services sector will make it difficult for foreign companies to gain market share. Meanwhile, foreign auto firms say that their major concerns have not been addressed. For example, subsidies are only available to electric vehicle manufacturers that use Chinese batteries, a situation that has resulted in carmakers having to move their supply networks to China.

As a result, plans for increased investment may only be implemented if broader actions are taken to improve market access. In addition, further opening will only be meaningful if commensurate reforms to the regulatory environment are made a priority.

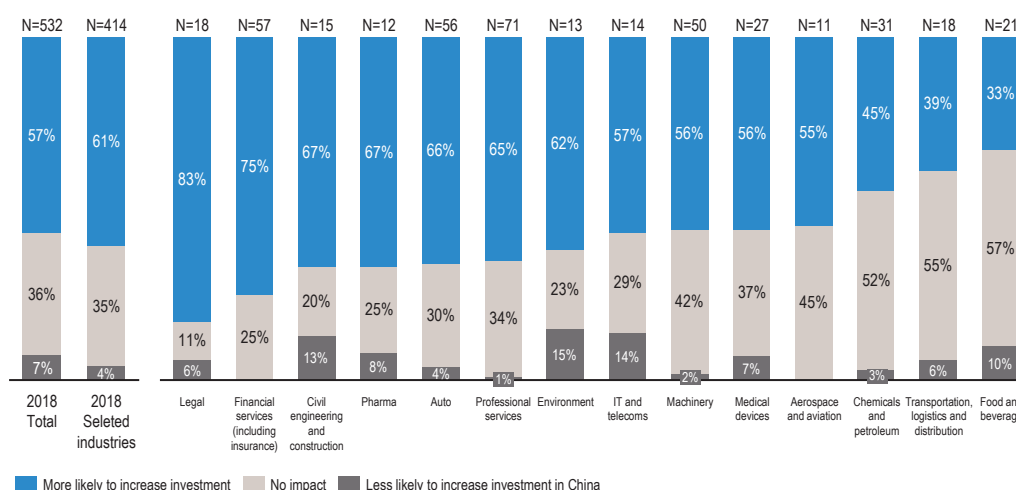
⁵¹ Taplin, Nathaniel, *China's Finance-sector Opening would be Great News – if you Could Make Money*, *The Wall Street Journal*, 10th November 2017, viewed 9th April 2018, <<https://www.wsj.com/articles/chinas-finance-sector-opening-would-be-great-news-if-you-could-make-money-1510306798>>

⁵² Bradsher, Keith, *China Is Opening Its Car Market. But Not Enough, Say Auto Companies*, *The New York Times*, 25th April 2018, viewed 9th May 2018, <<https://www.nytimes.com/2018/04/25/business/china-auto-trade.html>>

Figure 55: Market access informs investment decisions

If greater market access were granted to foreign companies in your industry, how would this impact your company's investment decisions in China?

Comparison by industry¹



1. Industries selected are those for which there were at least 10 responses.

7.3 Some hope on reform

China needs to fulfil its high-level reform and opening up promises that have been continuously made since President Xi Jinping's speech to the World Economic Forum in January 2017.⁵³ These pledges were reiterated in State Council documents No. 5 and No. 39, which laid out China's plan to expand market access with the creation of a national negative list and create a level playing field for foreign enterprises in China through the provision of national treatment.^{54&55}

Implementation of these pledges is perceived to be too slow in many areas that are of concern to EU companies in China. Only 6% of respondents report significant results in market opening. Of greater concern is that 11% of respondents report that they have observed market closure to some degree.

53 President Xi's speech to Davos in full, World Economic Forum, 17th January 2017, viewed 14th April 2017, <<https://www.weforum.org/agenda/2017/01/full-text-of-xi-jinping-keynote-at-the-world-economic-forum>>

54 Notice of the State Council on Several Measures on Promoting Further Openness and Active Utilisation of Foreign Investment, State Council, 17th January 2017, viewed 14th April 2017, <http://www.gov.cn/jzhengce/content/2017-01/17/content_5160624.htm>

55 Circular of the State Council on Several Measures for Promotion of Growth of Foreign Investment, State Council, 8th August 2017, viewed 14th March 2018, <http://www.gov.cn/jzhengce/content/2017-08/16/content_5218057.htm>

Figure 56: China’s opening-up promises yet to be realised

Has there been any market opening in your industry in Mainland China for foreign companies (year-on-year)?

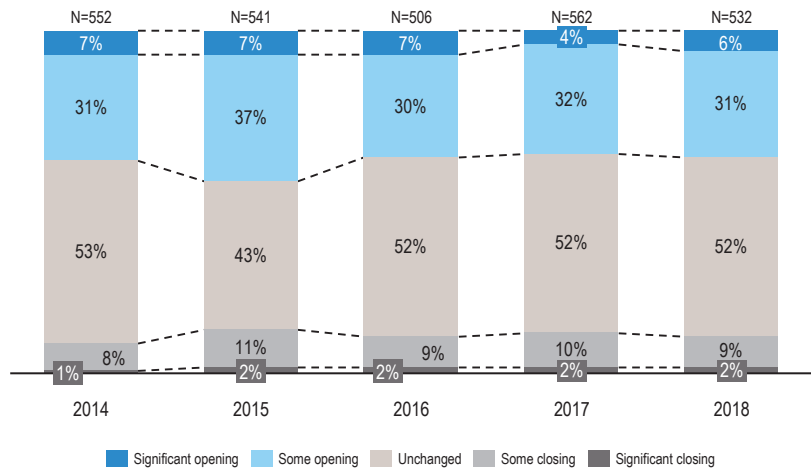
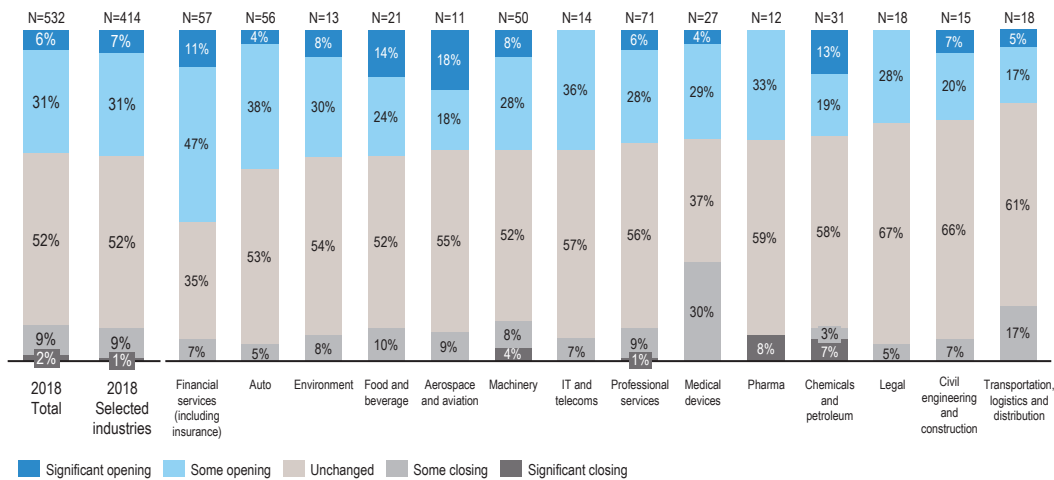


Figure 57: Market opening in Mainland China by industry

Has there been any market opening in your industry in Mainland China for foreign companies (year-on-year)?

Comparison by industry¹



1. Industries selected are those for which there were at least 10 responses.

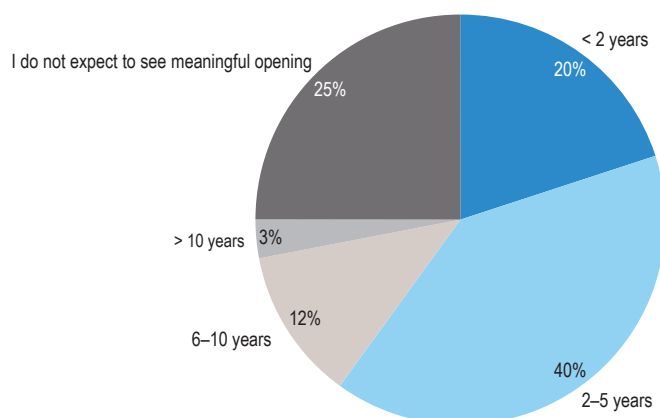
7.4 High expectations for a level playing field and market access, but many are giving up

Around half of respondents expect to see meaningful opening and a level playing field for foreign and Chinese companies in their industry in the next five years as a result of State Council documents No. 5 and No. 39, with the other half believing it will take longer. The ball is now in China's court to decide how long it will wait before it follows through on its reform promises.

Figure 58: Members are divided about outlook on meaningful opening

When do you expect to see meaningful opening in your industry as a result of these commitments?¹

N=530

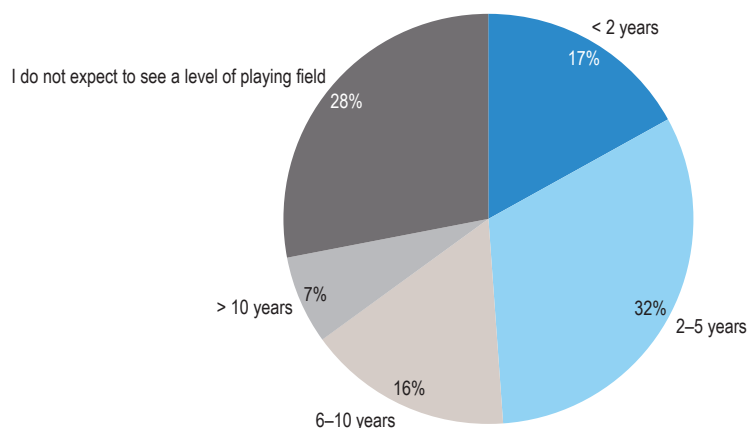


1. In 2017, State Council documents No. 5 and No. 39 set out to broadly expand market access through the issuance of a negative list for outside investment and create a level playing field for foreign enterprises in China through the provision of national treatment.

Figure 59: Members are also divided about possibility of level playing field

When do you expect to see a level playing field for foreign and Chinese companies through the provision of national treatment in your industry?

N=530



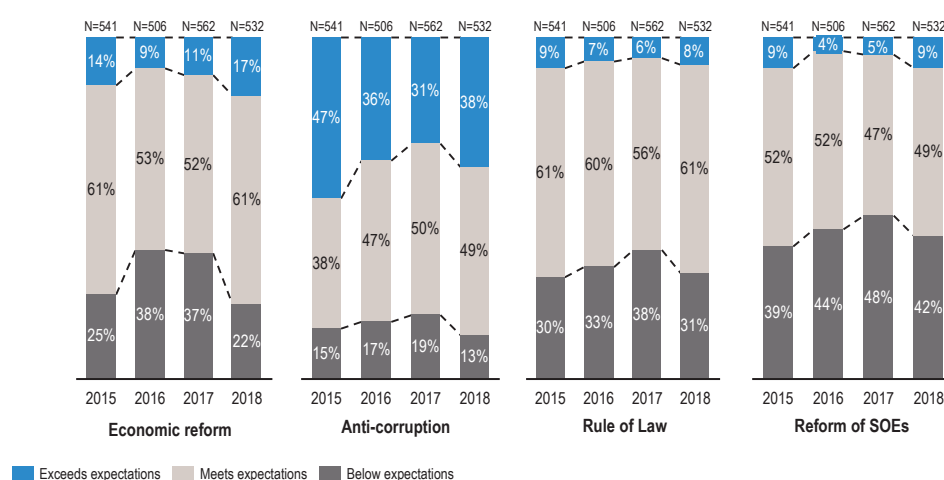
7.5 Government restructuring comes at an opportune moment

Respondents' assessment of the reform agenda is more positive compared to previous years, although there is plenty of room for more progress. Perceptions of economic reform showed pronounced improvement in line with the government's pledge to ease ownership limits for foreign firms in the financial sector in November 2017.⁵⁶

A plan for significant government restructuring was announced during the 2018 'Two Sessions'. China should now seize this opportunity to increase regulatory efficiency, with European businesses standing ready to offer their recommendations and expertise to this end.

Figure 60: Perceptions of Chinese administration's efforts are improving

How does your company rate the efforts of the Chinese Government over the past three years in the following areas?



⁵⁶ *Opening up China's financial sector*, KPMG, 20th December 2017, viewed 28th April 2018, <<https://home.kpmg.com/cn/en/home/insights/2017/12/opening-up-china-s-financial-sector.html>>

7.6 The CAI must remain a priority

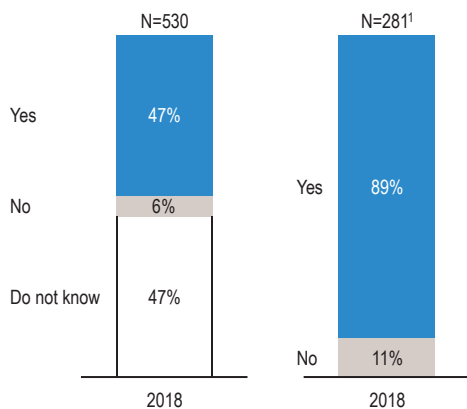
The EU-China Comprehensive Agreement on Investment (CAI) urgently needs to be completed. This would demonstrate China's commitment to addressing many of the key challenges in its business environment and would give European enterprises more confidence to increase their investments.

It is also extremely important to further educate European businesses on the existence of the CAI and the benefits of its successful conclusion, as evidenced by the high percentage of respondents who "do not know" whether it should continue to be a priority for the EU. If this group is removed from the analysis, the percentage of respondents who believe the CAI should continue to be a priority jumps to 95%.

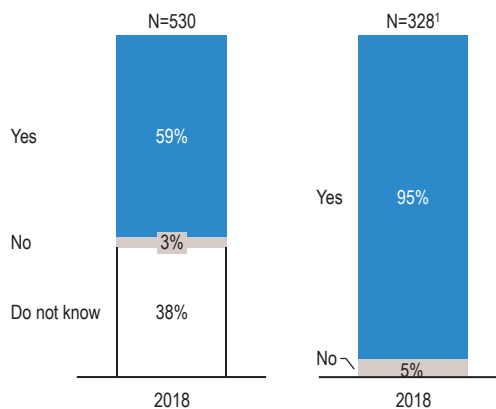
The EU-China relationship is now at a critical juncture, and the time for increased dialogue and cooperation has arrived.

Figure 61: European businesses see CAI as a priority

Do you think a successfully concluded EU-China Comprehensive Agreement on Investment (CAI) would be beneficial for your business?



Do you think the EU-China CAI should continue to be a priority for the EU?



1. Excludes the answer "Do not know".

8 ANNEX

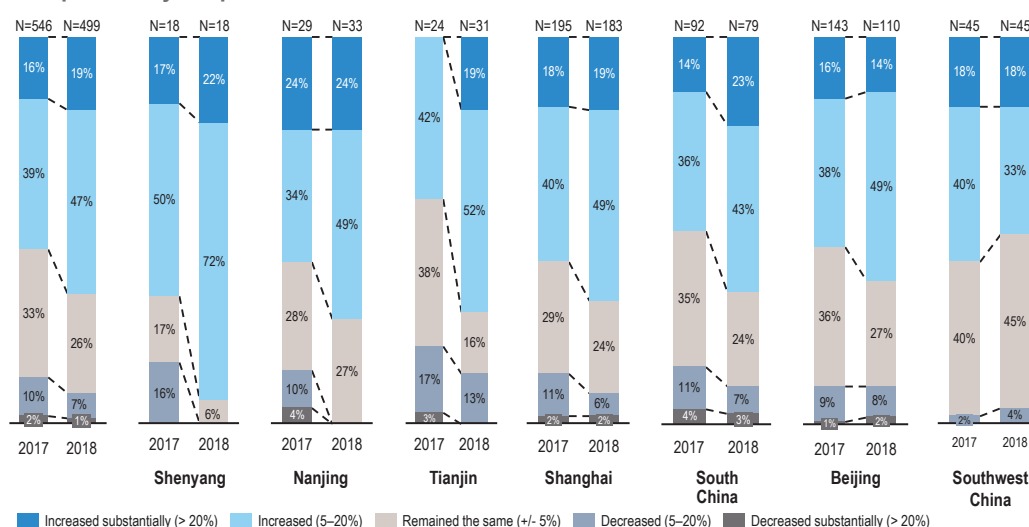
8.1 Revenue and profitability by chapter

Strong revenue and EBIT performance were enjoyed by a large number of member companies across all chapters in 2017, with more than half reporting growth compared to 2016. This largely resulted from strong national macroeconomic growth and increased consumer spending. Southwest China bucked the overall trend, with almost half of its members reporting either that 2017 revenues remained the same or decreased. This is due in part to natural gas shortages.⁵⁷ The gas-rich region sent supplies to the north following the overzealous implementation of the 'coal-to-gas' programme, leaving many natural-gas-reliant producers in southwest China with no choice but to shut down for the winter.⁵⁸

Figure 62: Revenue surges across the board

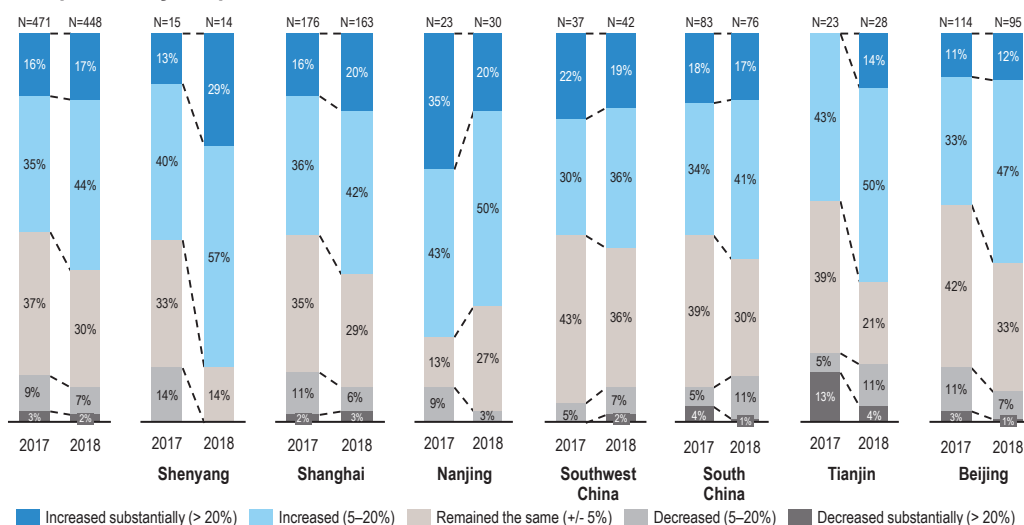
How did your company's total 2017 revenue in Mainland China evolve compared to 2016?¹

Comparison by chapter



⁵⁷ As China gas crisis deepens, factories, homes lose supply, Reuters, 13th December 2017, viewed 11th May 2018, <<https://www.reuters.com/article/us-china-pollution-gas/as-china-gas-crisis-deepens-factories-homes-lose-supply-idUSKBN1E714C>>

⁵⁸ Ng, Eric, Beijing's pollution crackdown is boosting natural gas use but stoking shortage, price rise, South China Morning Post, 24th October 2017, viewed 11th May 2018, <<http://www.scmp.com/business/companies/article/2116684/beijings-pollution-crackdown-boosting-natural-gas-use-stoking>>

Figure 63: EBIT margin in China year-on-year by chapterHow did your company's 2017 EBIT in Mainland China evolve compared to 2016?¹**Comparison by chapter**

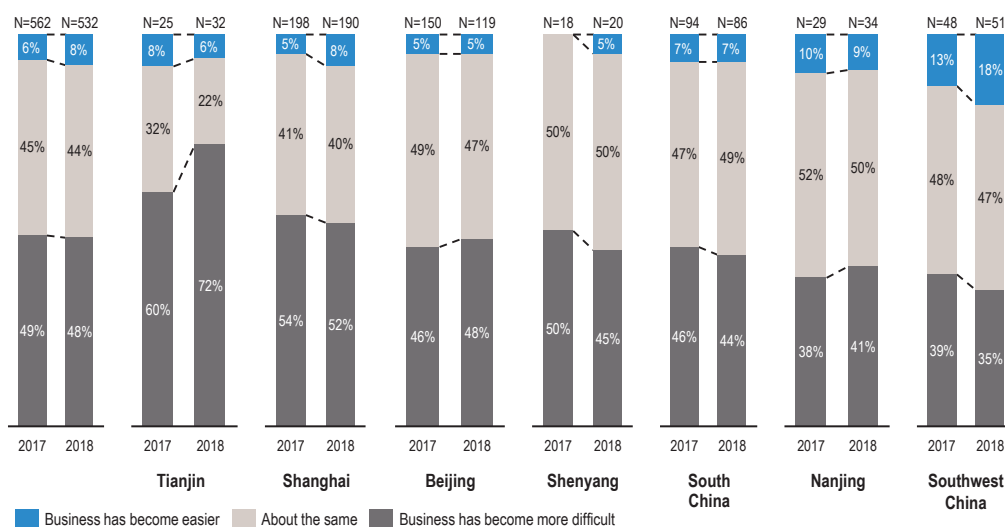
1. Excludes respondents who were unable to answer.

8.2 Ease of doing business by chapter

The majority of respondents state that business has become more difficult in Tianjin and Shanghai, while the situation is comparatively better in Southwest China and Nanjing. With orders from the State Council to improve local business environments at the beginning of 2018, this will be a critical year for local governments to make progress in this area.⁵⁹

Figure 64: Some regions are more business friendly than others

How has doing business in China for your company developed in the last year?

Comparison by chapter

⁵⁹ First Meeting of the State Council: Further Optimise the Business Environment!, State Council, 5th January 2018, viewed 10th May 2018, <http://www.gov.cn/xinwen/2018-01/05/content_5253697.htm>

When looking at talent, respondents are generally satisfied with the quality of recent graduates from local universities and vocational schools, particularly so in China's traditional educational centre of Nanjing.

Figure 65: China delivers on education

Are you satisfied with the quality of recent graduates from local universities?¹

Comparison by chapter

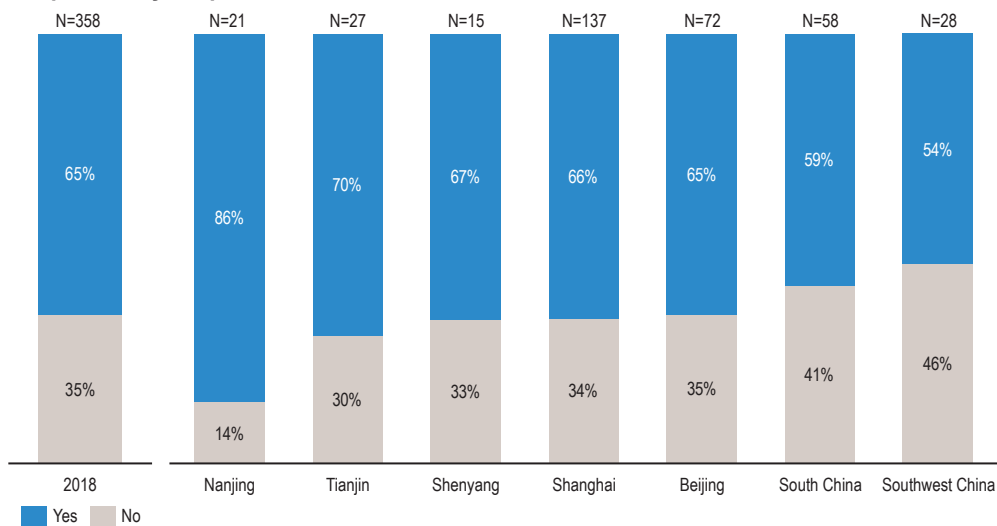
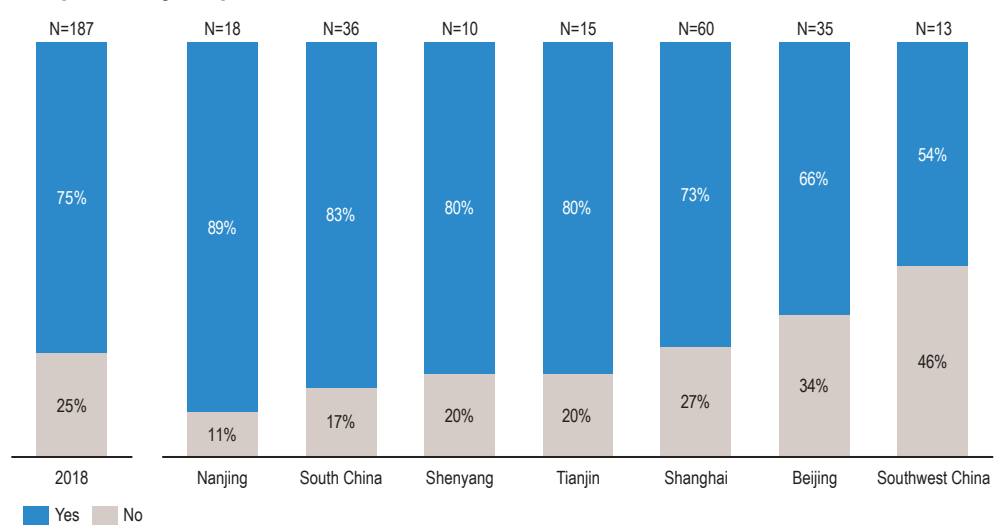


Figure 66: Nanjing leads in vocational programmes

Are you satisfied with the quality of recent graduates from local vocational schools?¹

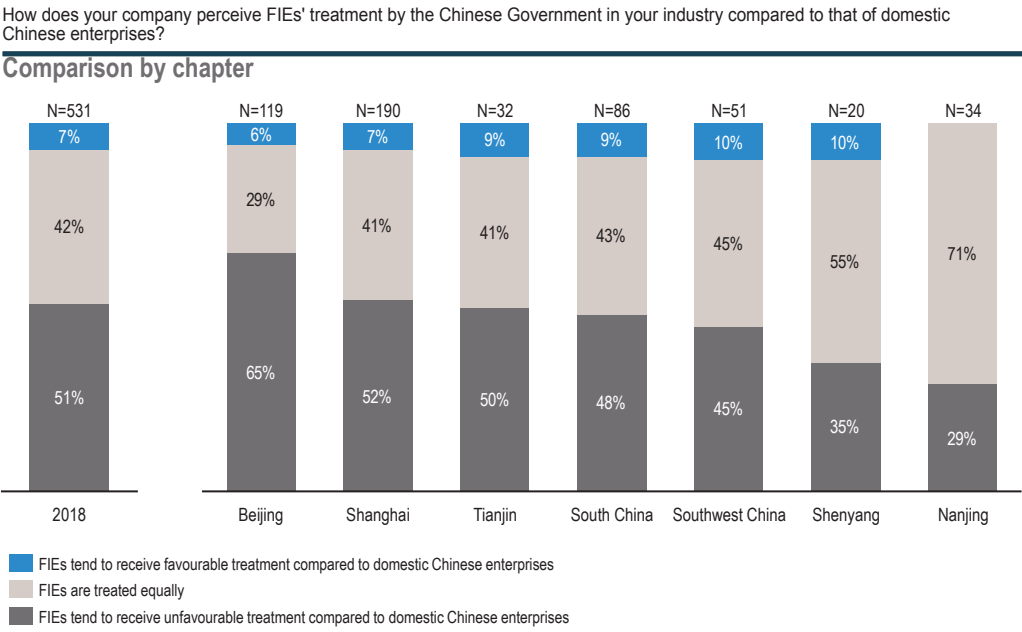
Comparison by chapter



8.3 Unfavourable treatment by chapter

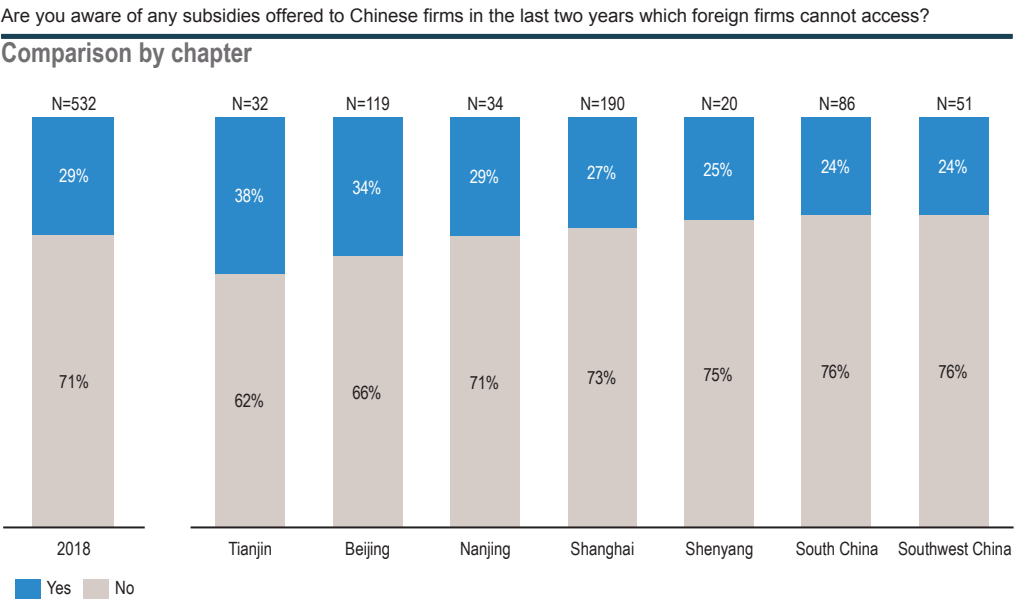
Perceptions about equal treatment are the most positive in Nanjing, Shenyang and Southwest China, which have all made efforts to attract and retain foreign investment over the past year to stimulate growth. European businesses are most likely to face unfavourable treatment in Beijing and Shanghai. These regions are the most developed and therefore do not have the same incentive to attract foreign investment. This suggests that European businesses may find themselves increasingly less welcome as other regions attain higher levels of development.

Figure 67: China’s leading cities are least hospitable



Respondents in Tianjin and Beijing were the most likely to report unequal access to subsidies compared to Chinese companies.

Figure 68: Domestic favouritism most pronounced in Beijing and Tianjin

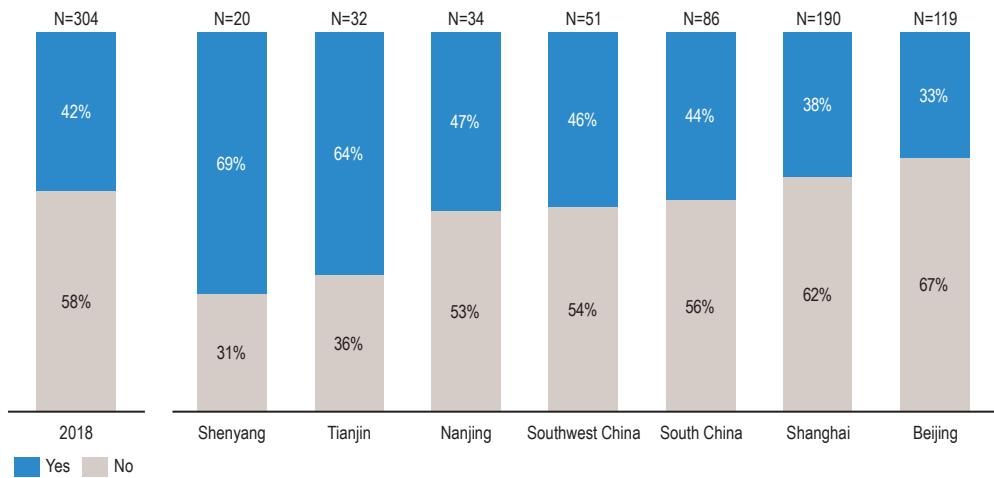


Areas where there is a concentration of industries directly related to CM2025 correspond with higher levels of participation from European businesses. For instance, Shenyang has a strong focus on the automobile industry, Tianjin has a high number of manufacturing firms, and many members in Nanjing and Southwest China are chemical companies and upstream suppliers. Shanghai and Beijing, on the other hand, are increasingly dominated by the service sector which is less relevant to the initiative.

Figure 69: Manufacturing-dominated regions benefit most from CM2025

Are you able to participate in CM2025¹

Comparison by chapter



1. Excludes the answer "Do not know".

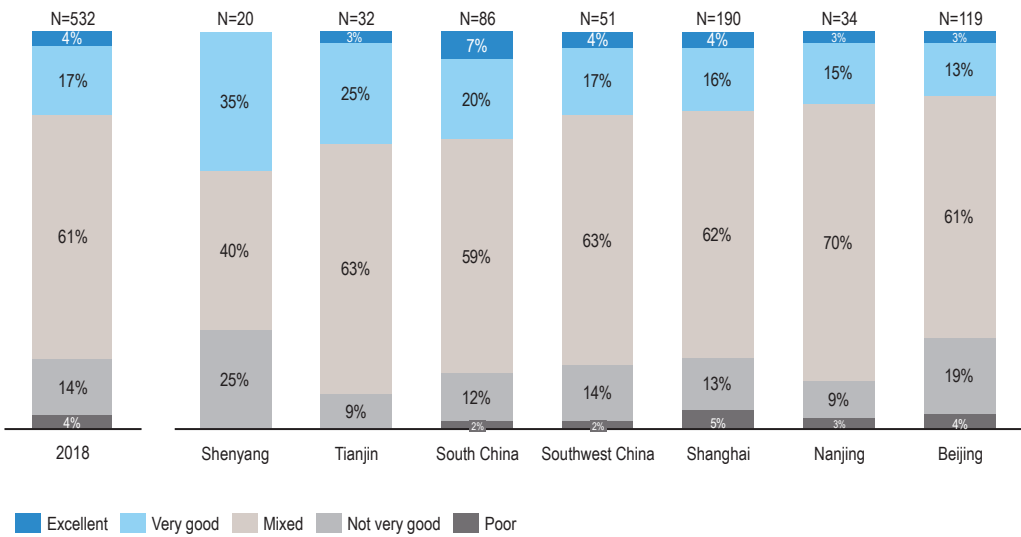
8.4 SME opportunities by chapter

The majority of respondents in all chapters say there are mixed opportunities for SMEs in their sector over the next five years. Beijing, Nanjing and Shanghai are areas where respondents are more likely to say that the outlook for SMEs is negative. While much of this has to do with the regulatory environment, macroeconomic factors also contribute to this outlook. For example, these are the regions where European businesses are most concerned about competitive pressure.

Figure 70: Outlook for SMEs: it's complicated

What do you think of the opportunities for European SMEs in your sector over the next five years?

Comparison by chapter



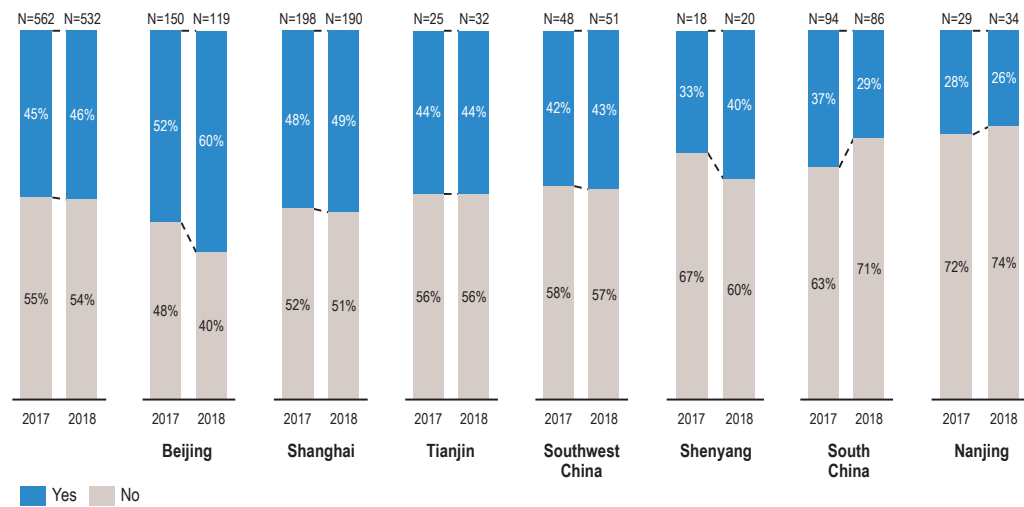
8.5 Missed opportunities by chapter

There has been a significant drop in missed opportunities in South China and Nanjing, with both making significant efforts to improve their local business environments. Other chapters remain stagnant, with no real improvement since 2016. Beijing reported a significant increase in missed opportunities, an unfortunate reflection of the unequal treatment experienced by European firms in the capital.

Figure 71: Opportunities in Beijing are increasingly bleak

Has your company missed out on business opportunities in China as a result of market access restrictions or regulatory barriers?

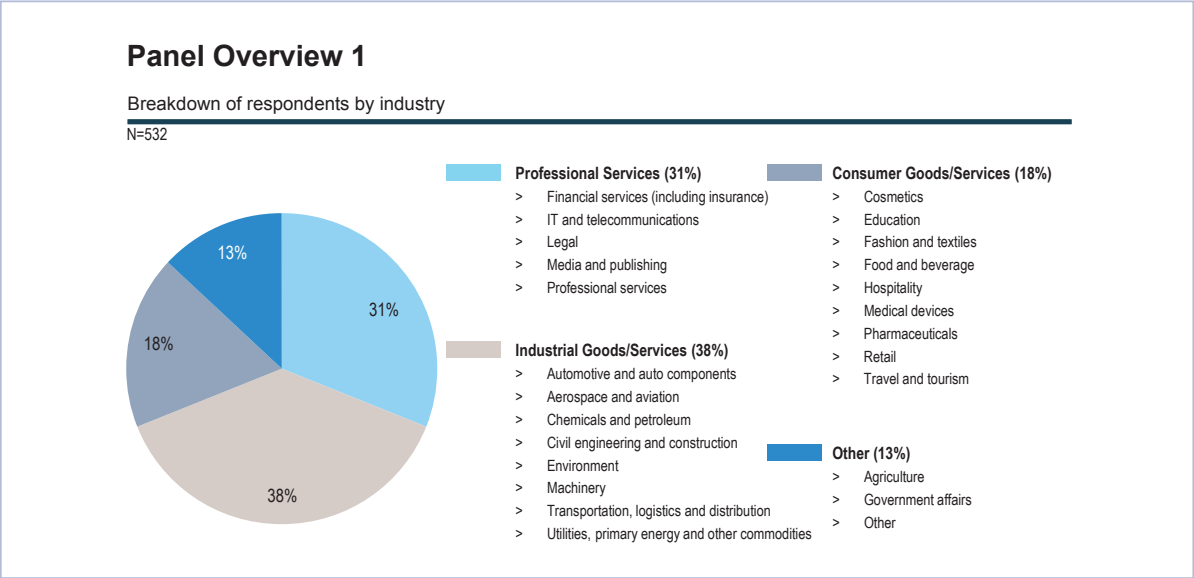
Comparison by chapter



9 PANEL OVERVIEW

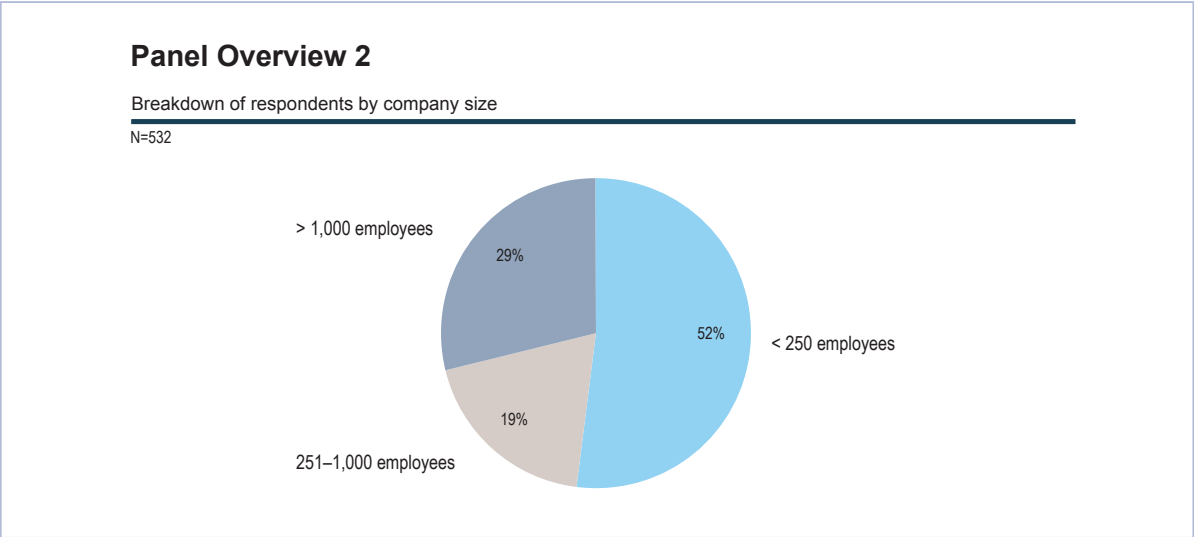
9.1 Industry

Companies from a wide cross section of industries were represented in the 2018 survey, with 31% of respondents operating in the professional services sector, 38% in the industrial goods/services sector and 18% in the consumer goods/services sector. Companies in other sectors represented the remaining 13% of respondents. This adds to the quality and representativeness of the data set collected this year. This year's industry breakdown figures are similar to last year's, which were 35%, 35%, 18% and 12% respectively.



9.2 Size and time in China

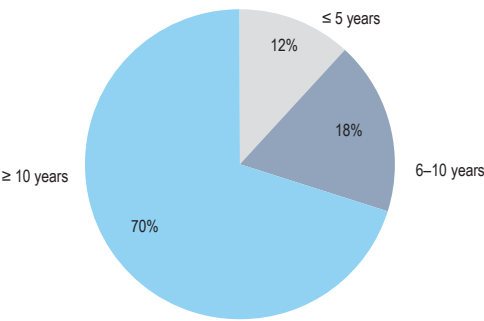
In terms of company size, 52% of respondents were SMEs with fewer than 250 employees, 19% were companies with 251–1,000 employees and 29% were large companies with more than 1,000 employees.



In the 2018 survey, 12% of respondents have operated in China for five years or less; 18% for 6 to 10 years; and 70% for more than 10 years. These figures are slightly different from last year's, which were 14%, 20% and 66% respectively.

Panel Overview 3

Breakdown of respondents by time in Mainland China
N= 532



10 ABOUT ROLAND BERGER

Roland Berger is an independent company, solely owned by our partners, who are responsible for overall corporate performance and business success. Founded in 1967, Roland Berger remains the only leading global consultancy firm with non-Anglo-Saxon roots. We are German by origin, European by nature and global by ambition, including a strong footprint in Asia and other geographies where we feel that we can truly make an impact.

We have always strived to provide a different perspective in the field of consulting and business, and today we continue to constructively challenge standard patterns of thought and provide clients with new solutions to manage disruption and transformation.

Our entrepreneurial spirit has shaped our growth and fuelled our outstanding achievements since the early days of the firm. In short, being a game changer is in our DNA. With nearly 50 years of continuous growth behind us and 2,400 employees working in 34 countries, we are one of the leading players in global top-management consulting and have successful operations in all major international markets.

Through mutual trust and sustainable value added for our clients, we have become a longstanding advisor of major international industry and service companies as well as public institutions worldwide.

11 ABOUT THE EUROPEAN UNION CHAMBER OF COMMERCE IN CHINA

The European Union Chamber of Commerce in China (European Chamber) was founded in 2000 by 51 member companies that shared a goal of establishing a common voice for the various business sectors of the EU and European businesses operating in China. It is a member-driven, non-profit, fee-based organisation with a core structure of 31 working groups and fora representing European business in China.

The European Chamber has more than 1,600 member companies in seven chapters operating in nine cities: Beijing, Nanjing, Shanghai, Shenyang, South China (Guangzhou and Shenzhen), Southwest China (Chengdu and Chongqing) and Tianjin. Each chapter is managed at the local level by local boards reporting directly to the Executive Committee.

The European Chamber is recognised by the European Commission and the Chinese authorities as the official voice of European business in China. It is also recognised as a foreign chamber of commerce by the Ministry of Civil Affairs. The European Chamber is part of the growing network of European Business Organisations (EBO), which connects European business associations and chambers of commerce from 37 non-EU countries around the world.

Principles

- We are an independent, non-profit organisation governed by our members.
- We work for the benefit of European business as a whole.
- We operate as a single, networked organisation across Mainland China.
- We maintain close, constructive relations with the Chinese and European authorities, while retaining our independence.
- We seek the broadest possible representation of European business in China within our membership: small, medium and large enterprises from all business sectors and European Member States throughout China.
- We operate in accordance with Chinese laws and regulations.
- We treat all of our members, business partners and employees with fairness and integrity.



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