



European Chamber  
中国欧盟商会

# Business Confidence Survey 2017

European Business In China

South China Launch

Shenzhen, 13<sup>th</sup> June, 2017

European Business In China

## Business Confidence Survey



2017

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## A. Methodology and respondents' profile

# European Business In China Business Confidence Survey



Roland  
Berger

2017

# In 2017, the BCS achieved a 44% response rate while maintaining a stable dataset

## Methodology

### Survey Design

- > **57 questions** on **3 core themes**:
  - Company profile & financial performance
  - Outlook on Chinese business environment
  - Outlook on company strategy
- > A sector-specific and a chapter-specific section
- > Special attention paid in survey design to ensure **consistency** for year-on-year **comparability**, with some new questions to cover recent developments and topical issues

**44%**  
Response Rate

### Survey Execution

- > **3-week** answering period during February and March 2017
- > **44% response rate** among eligible entities
- > **Almost equal representation of companies across sectors**
  - Professional services
  - Industrial goods and services
  - Consumer goods and services

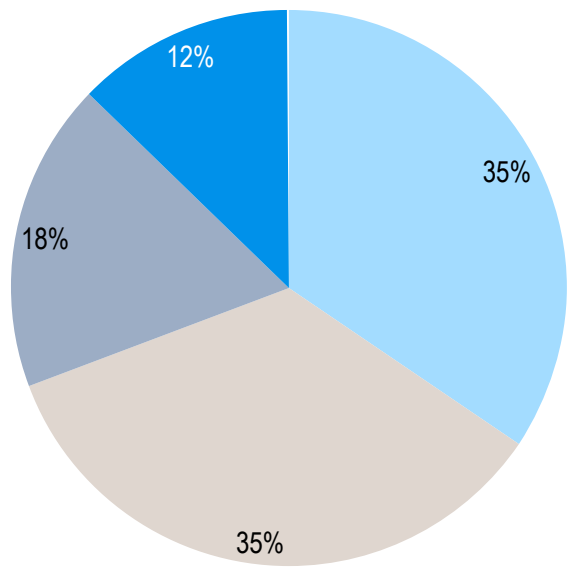
NEW

# Respondents are evenly distributed across industries

## Breakdown of respondents by industry [2017]

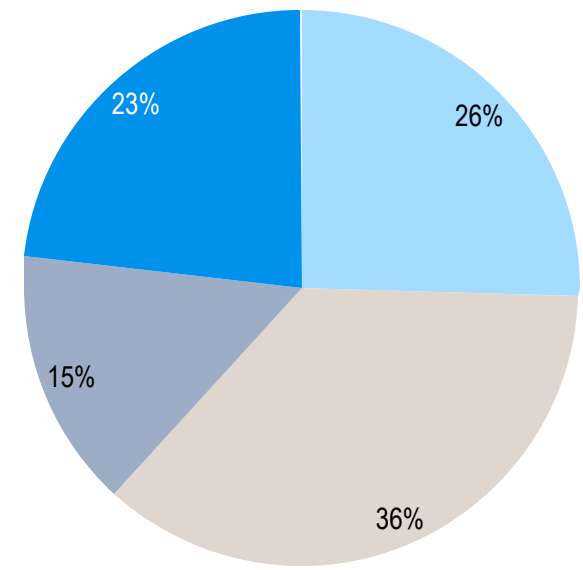
Please indicate the main sector of your company.

N= 562



2017 Total

N= 94



2017 South China

Professional Services    Industrial Goods/Services    Consumer Goods/Services    Other

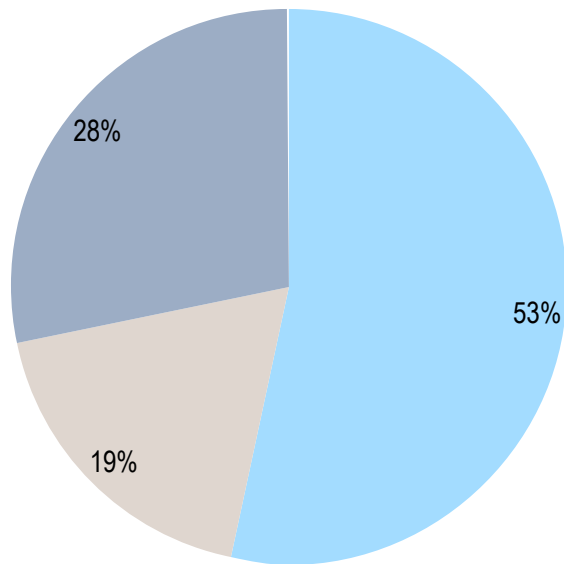
# The panel represents companies of various sizes

## Breakdown of respondents by company size [2017]

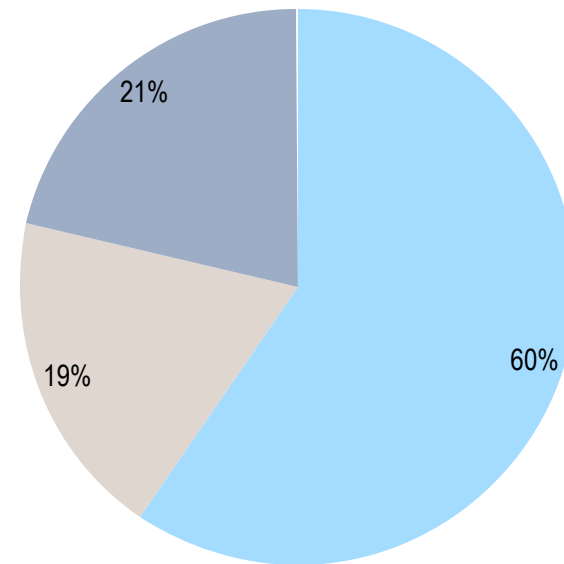
How many employees does your company have in Mainland China?

N= 562




N= 94



2017 Total



2017 South China

 <250 employees  251 - 1,000 employees  >1,000 employees

NEW

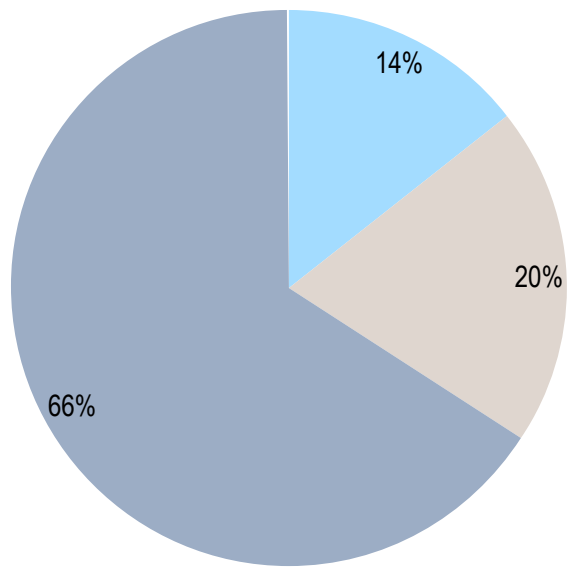
# A large majority of respondents have been operating in China for over a decade

## Breakdown of respondents by time in Mainland China [2017]

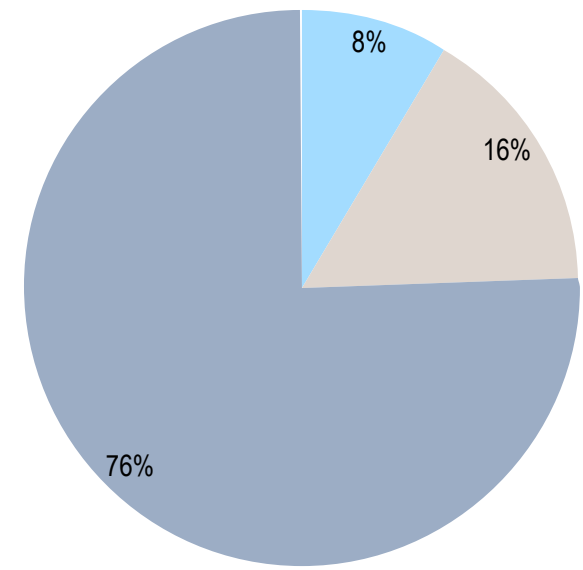
How long has your company been operating in Mainland China?

N= 562

N= 94



2017 Total



2017 South China

< 5 years   6-10 years   > 10 years



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## B. Key findings

# European Business In China Business Confidence Survey



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# Do Chinese officials hear our voice? Is the media conveying our messages?

**MOC's response to our BCS:** Ministry of Commerce's (MOC's) press conference on 8<sup>th</sup> June, the MOC spokesperson, Sun Jiwen, responded to a question from the media about the concerns that European companies have about China's business environment, with reference to the Chamber's *Business Confidence Survey 2017*.

He was quoted by *Xinhua* as saying: "China always welcomes EU investment. However, China and EU differ in development stage and industrial structure. In terms of opening up, they are varied on key areas, intensity and pace. It is unadvisable to make simple comparisons and demand reciprocal access. It is important to make balanced interests."

Sun also responded: "Those figures [of the BCS publication regarding the revenues increase] show EU businesses' confidence and profitability have been strengthened in China, not on the contrary."

---

**Media:** The BCS has received at least 53 news mentions from both international and domestic media.

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# Key takeaways from the BCS 2017

1.



European business reports improved financials thanks to a) cost control and b) topline growth partly thanks to the stimulus unleashed during the first half of 2016

2.



While the impact of the anti-corruption drive is a bright spot, in most areas the disconnect between stated reform commitments and actions taken is both pronounced and highly concerning

3.



European investment would increase substantially if market access barriers were removed and the regulatory framework improved.

4.



Respondents perceive that the capacity for innovation by private Chinese companies is continuing to strengthen, a trend that European business needs to follow carefully.

5.



An EU-China Comprehensive Agreement on Investment needs to be completed soon to confirm that China is serious about opening up and offering reciprocity.



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B1. European business has benefitted from 2016 stimulus, but it isn't sustainable

European Business In China

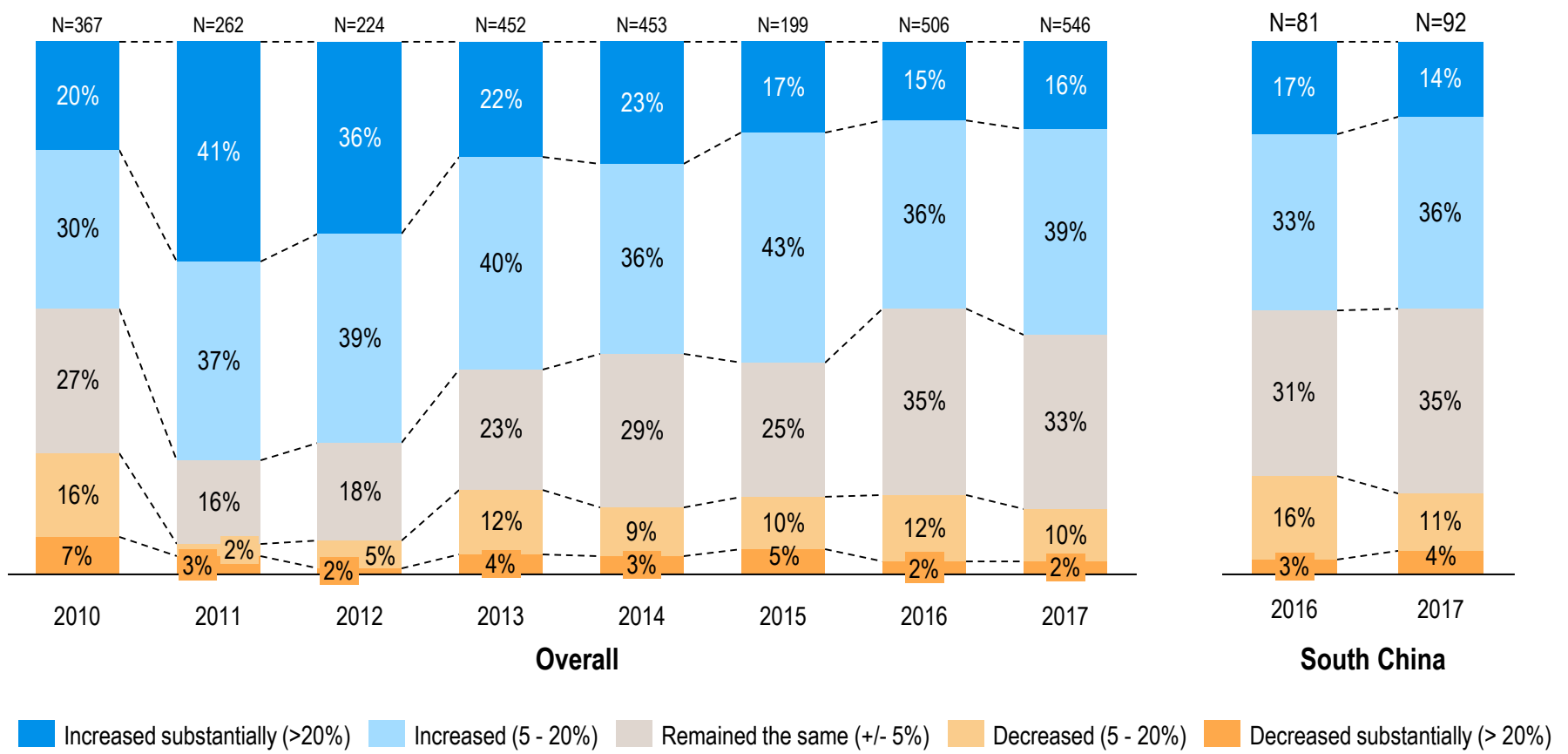
# Business Confidence Survey



2017

# The economic rebound contributes to increased revenues...

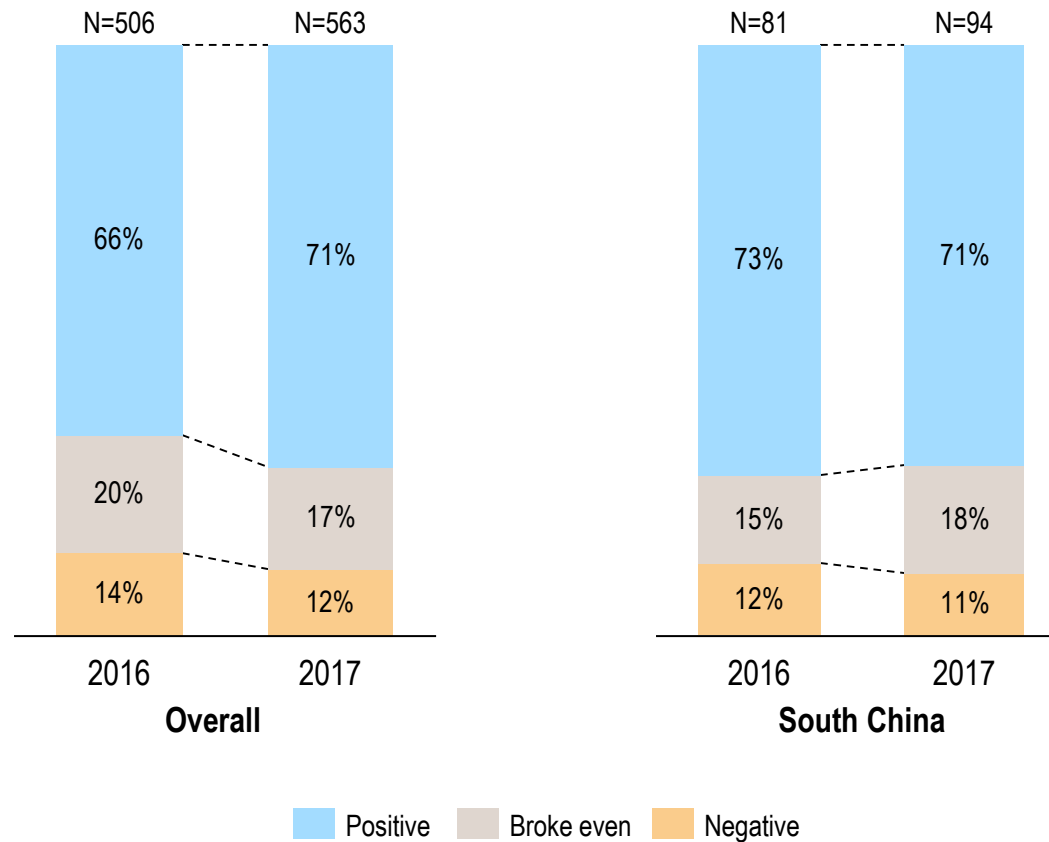
How did your company's total Mainland China revenue for 2016 compare to 2015? <sup>1)</sup>



1) Excluded "Not Applicable"

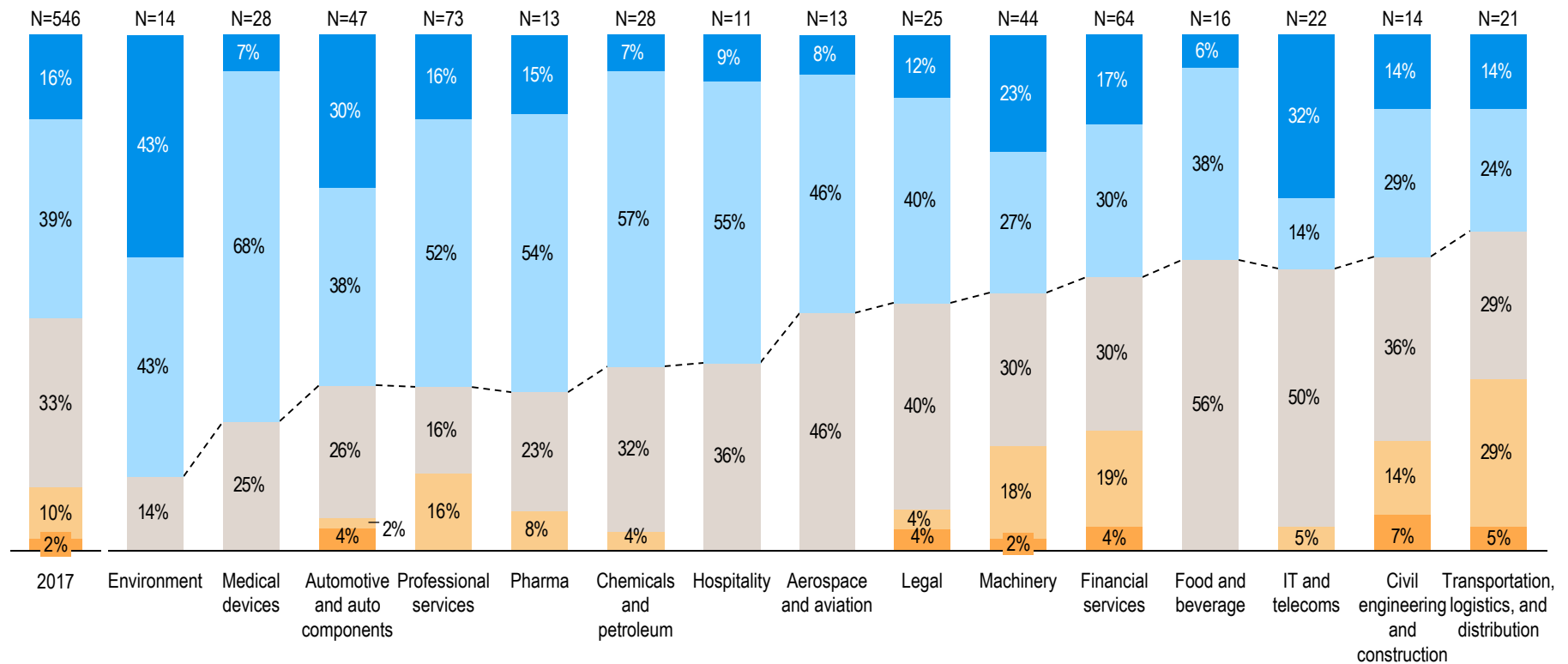
# Companies remain largely profitable...

Please characterise your company's earnings before interest and tax (EBIT) in Mainland China in 2016.



# ...but some industries continue to do better than others

How did your company's total Mainland China revenue for 2016 compare to 2015? <sup>1) 2)</sup>



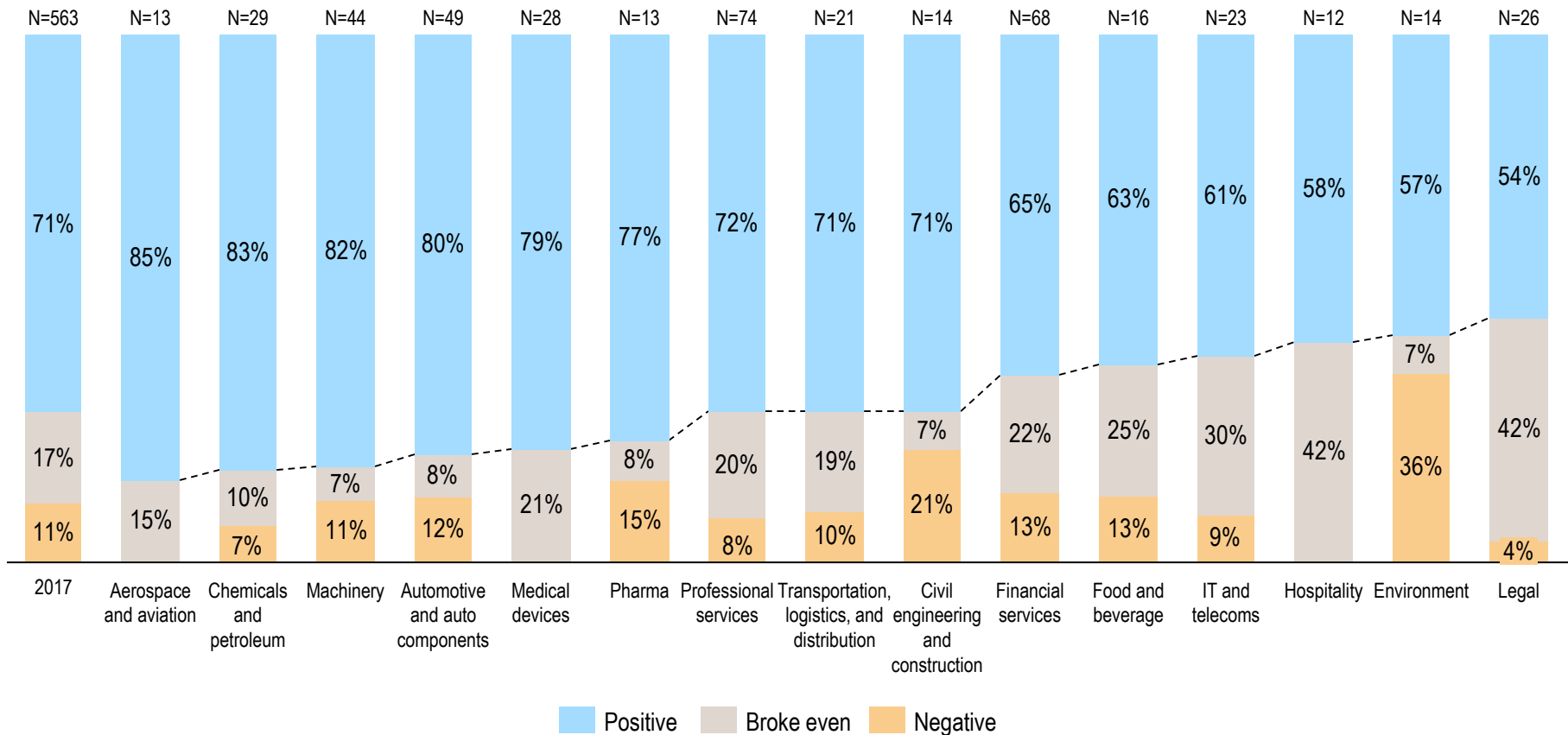
■ Increased substantially (>20%) 
 ■ Increased (5 - 20%) 
 ■ Remained the same (+/- 5%) 
 ■ Decreased (5 - 20%) 
 ■ Decreased substantially (> 20%)

1) Excluded "Not Applicable"

2) Selected industries only

# Companies remain largely profitable, but with significant variation across industries

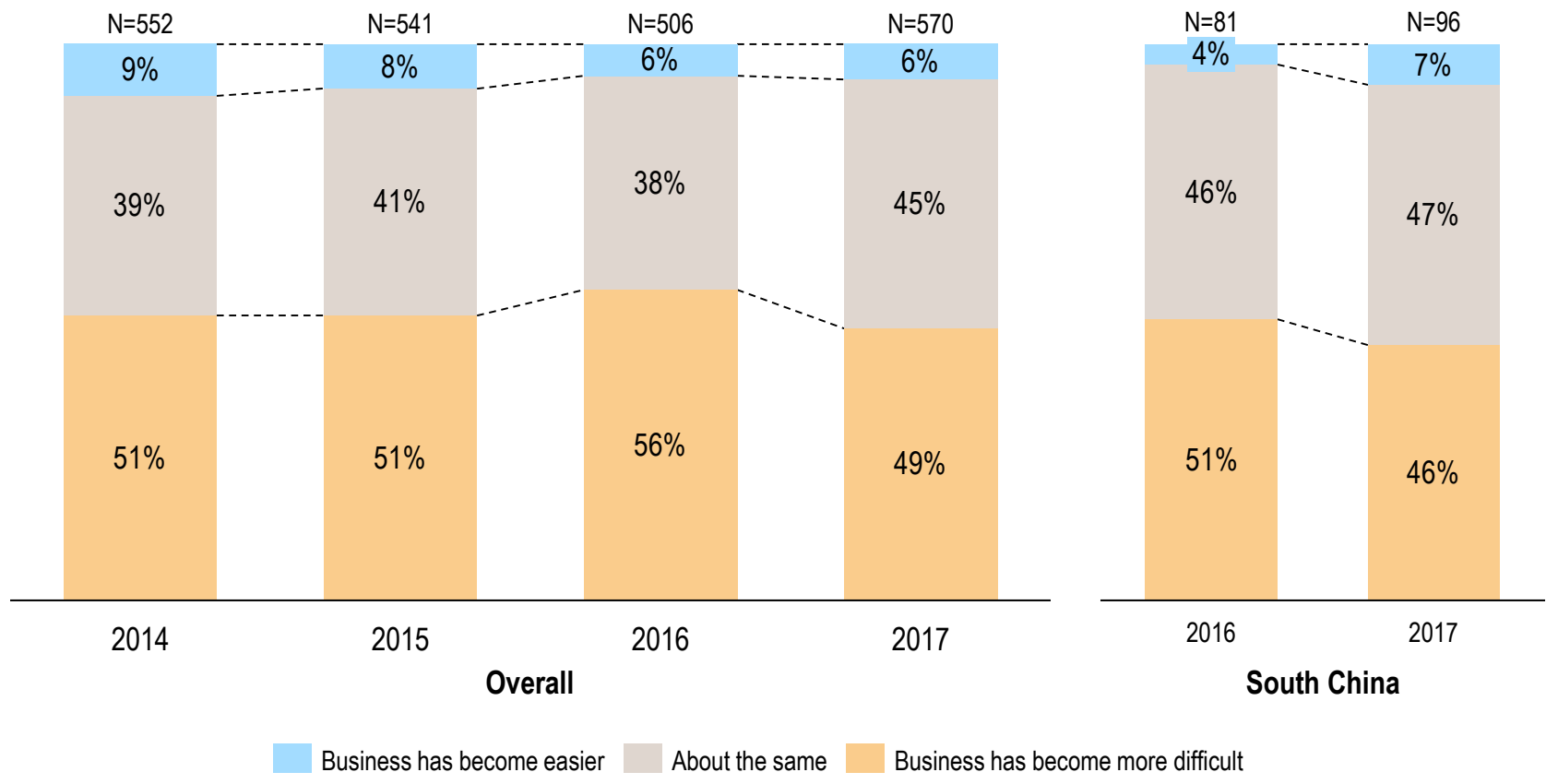
Please characterise your company's earnings before interest and tax (EBIT) in Mainland China in 2016.<sup>1)</sup>



1) Selected industries only

# Conducting business in China has become more challenging...

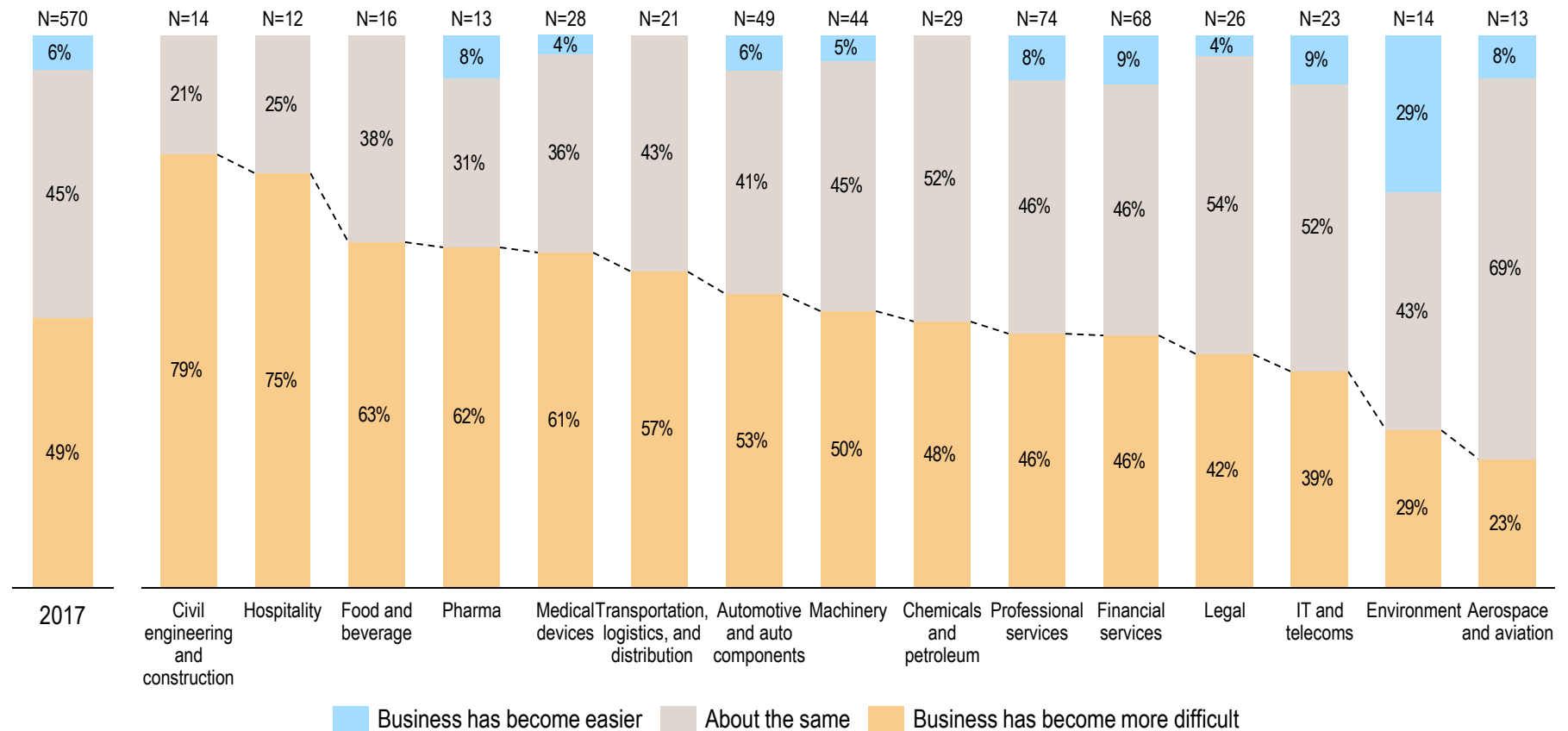
How has doing business in China for your company developed in the last year?





...and this is especially true in some sectors

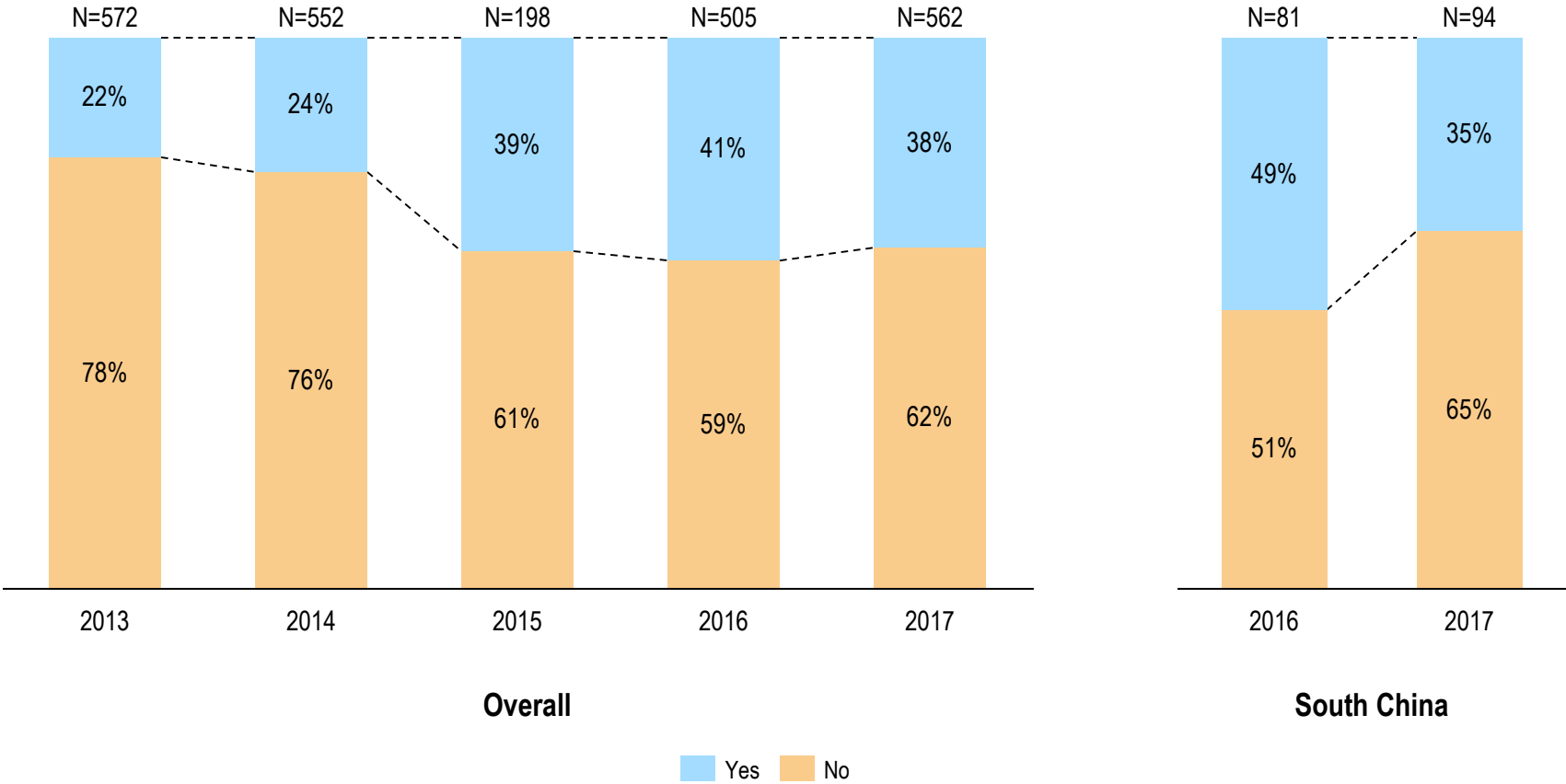
How has doing business in China for your company developed in the last year? <sup>1)</sup>



1) Selected industries only

# European companies work to stay nimble

Does your company plan on cutting costs in China this year?





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B2. Lack of progress on the reform agenda continues to disappoint

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Berger

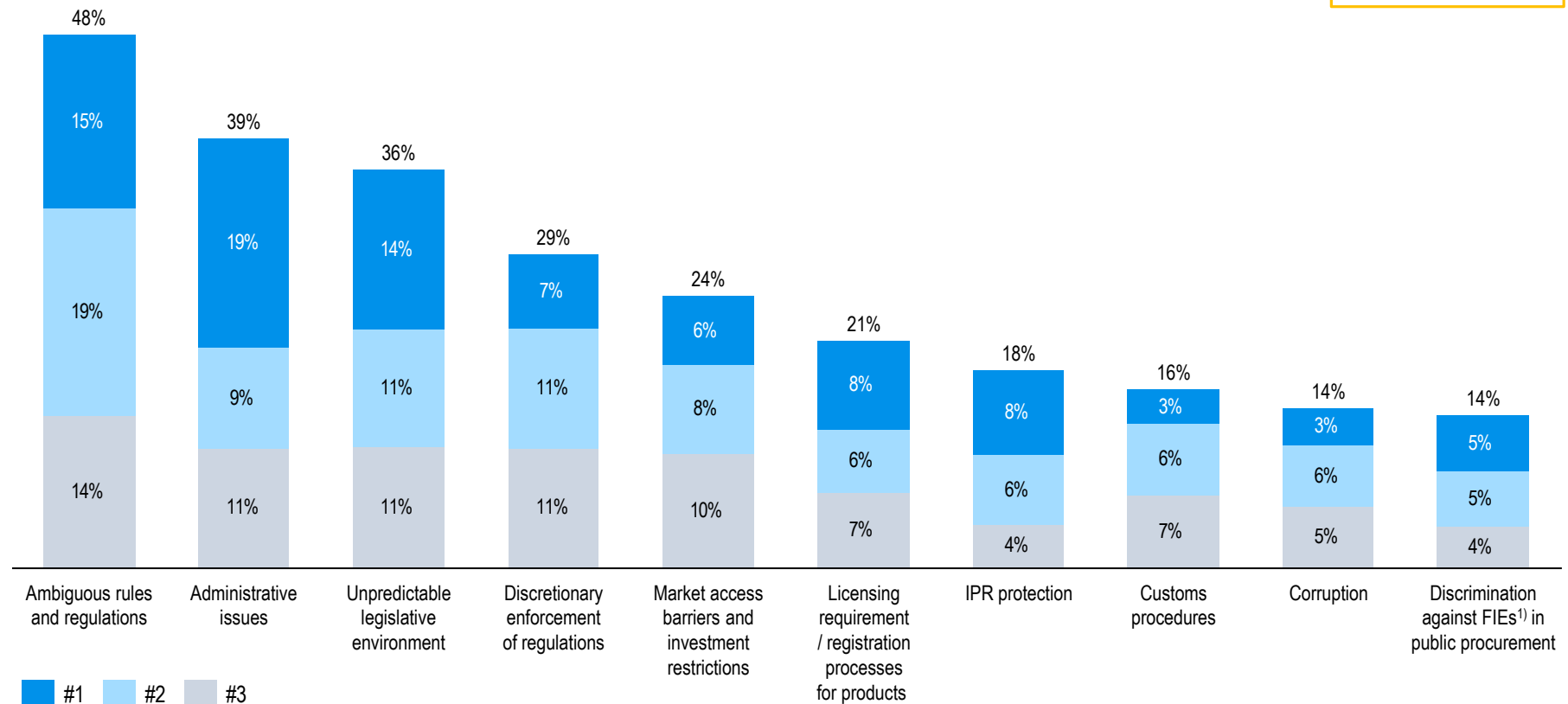
2017

# The anti-corruption drive is a bright spot, but more efforts are needed to reduce regulatory burdens

Which are the top 3 most significant regulatory obstacles for your company when doing business in Mainland China?

N=569

2017 Total



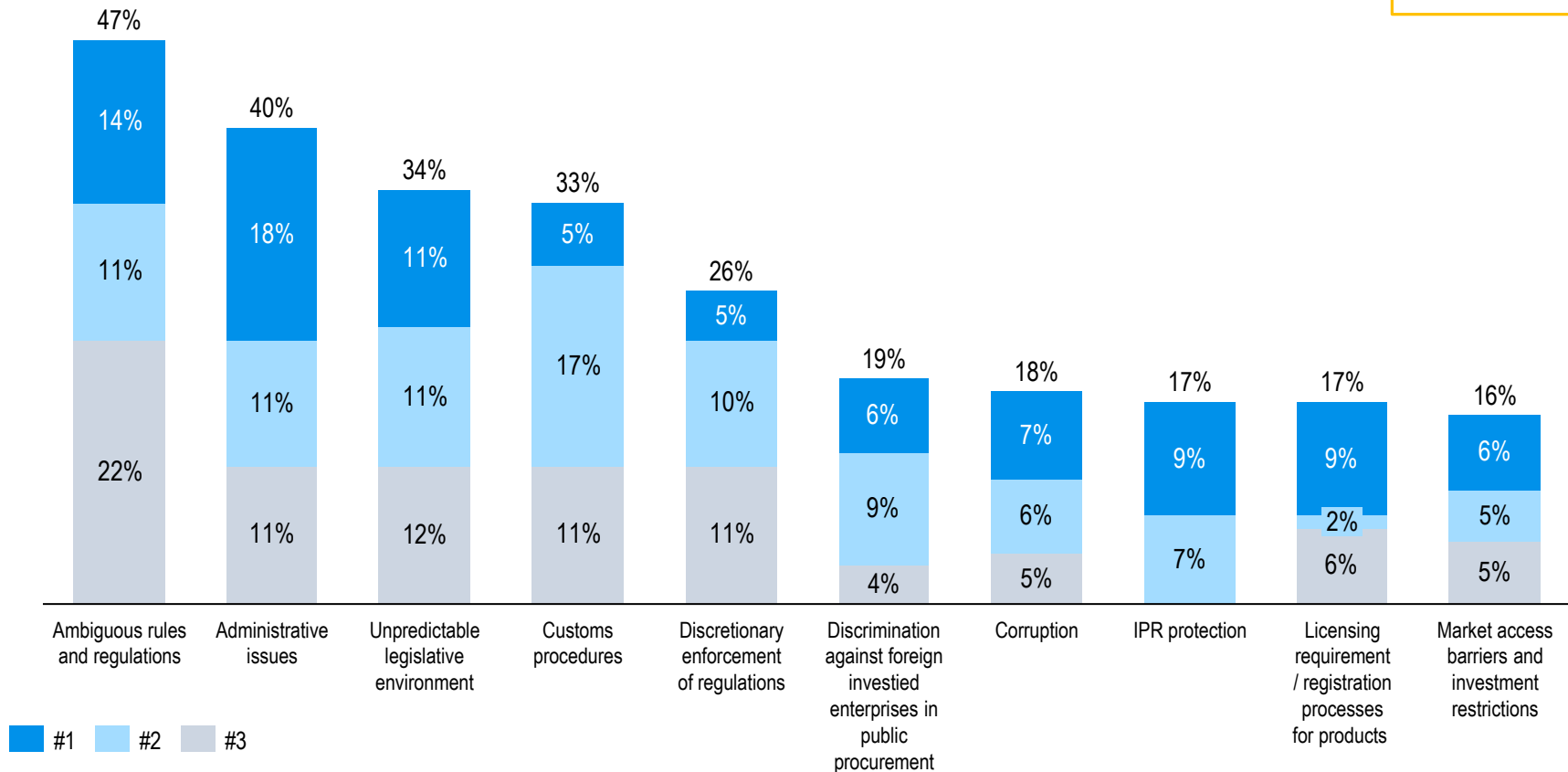
1) FIEs: Foreign Invested Enterprises

# The anti-corruption drive is a bright spot, but more efforts needed to reduce regulatory burdens

Which are the top 3 most significant regulatory obstacles for your company when doing business in Mainland China?

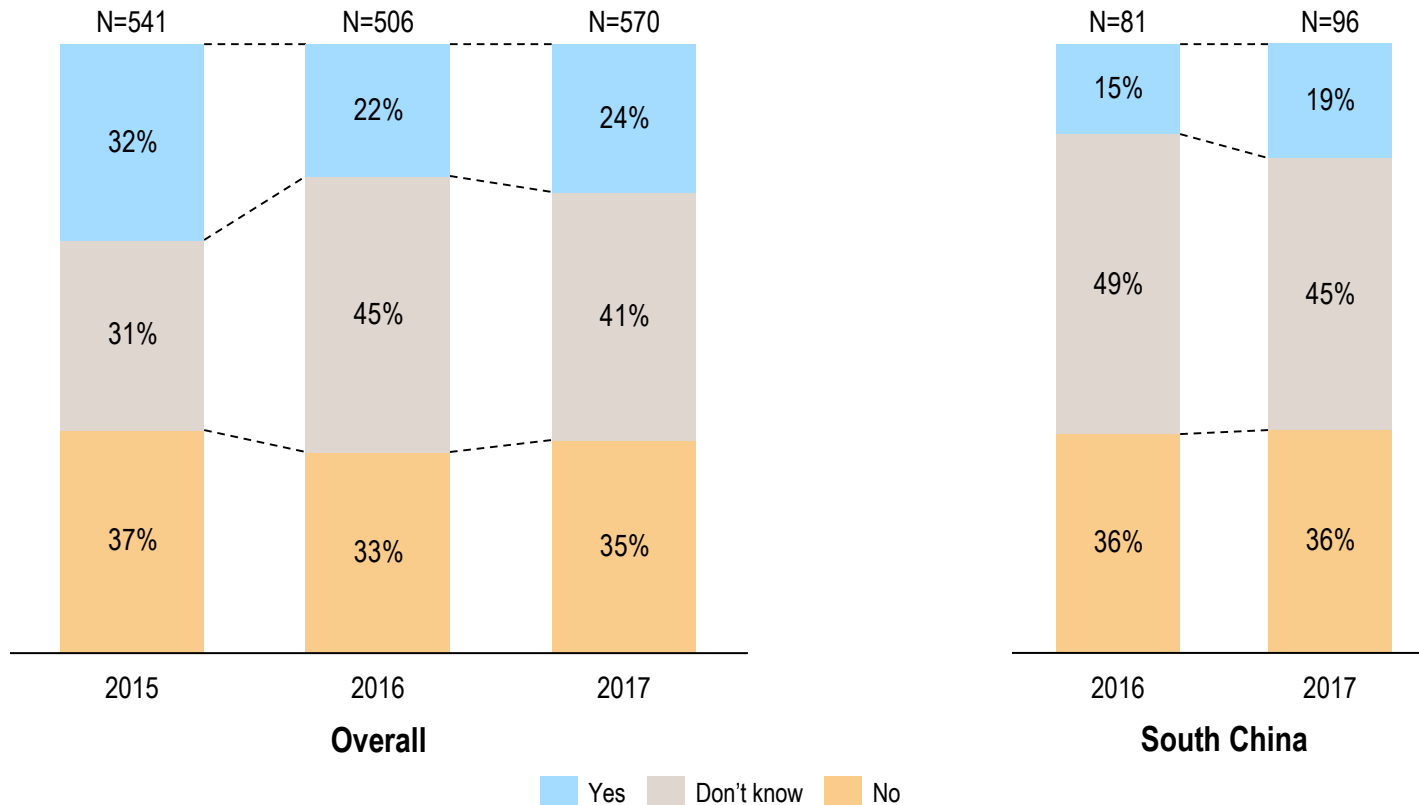
N= 96

South China



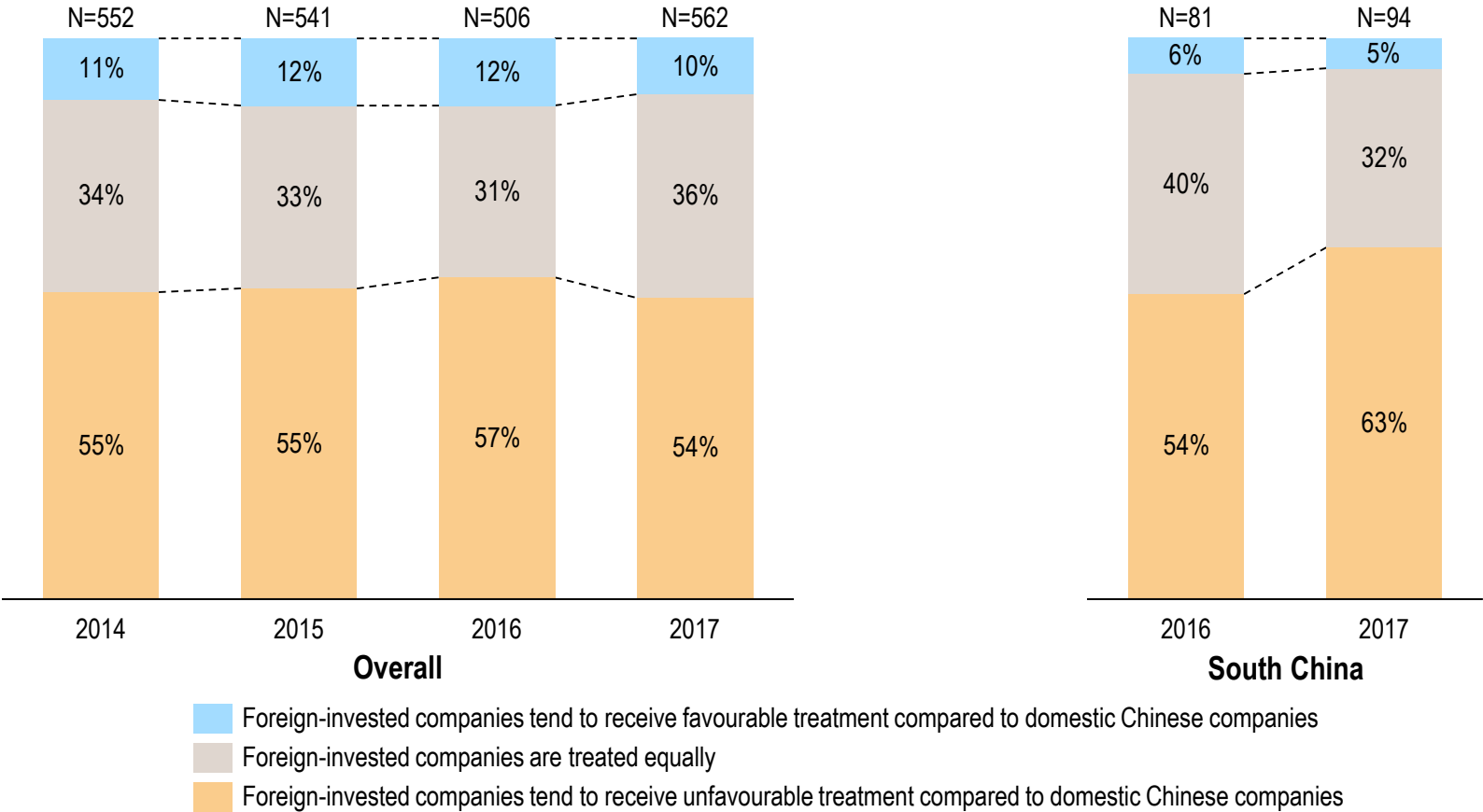
# The reform agenda of the Third Plenum has failed to create an even playing field

Has the reform agenda of the 3<sup>rd</sup> Plenum over the past three years helped to create an even playing field for foreign investors in China?



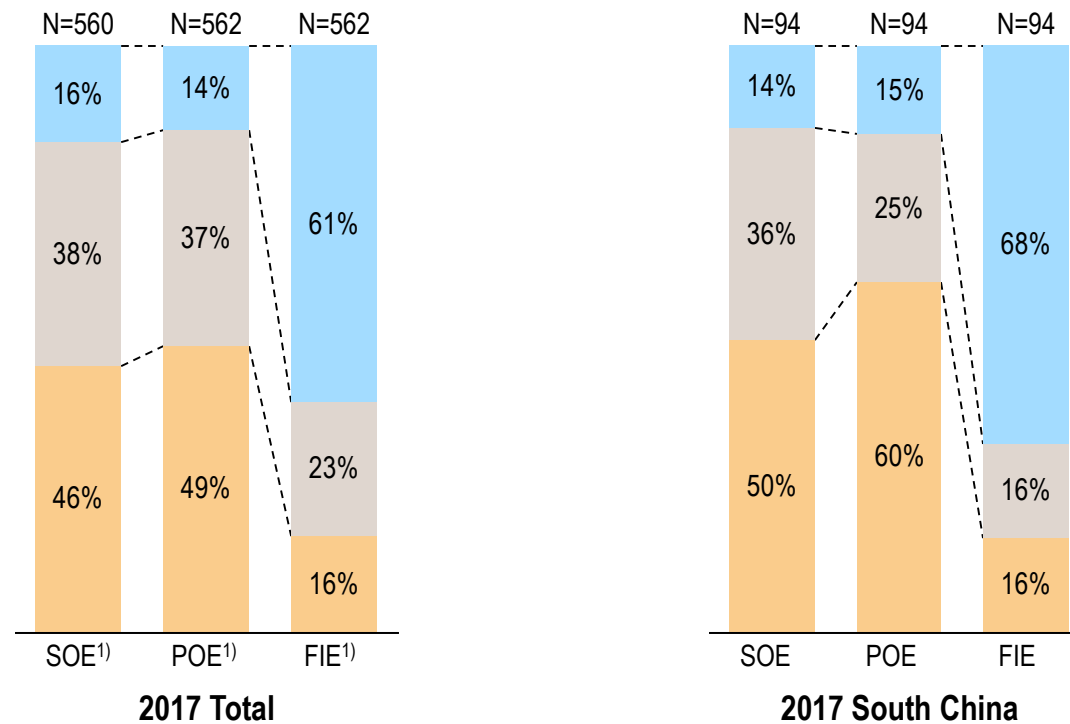
# FIEs still aren't treated equally...

How does your company perceive foreign-invested companies' treatment by the Chinese government in your industry compared to that of domestic Chinese companies?



# ... especially in the enforcement of environmental legislation

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



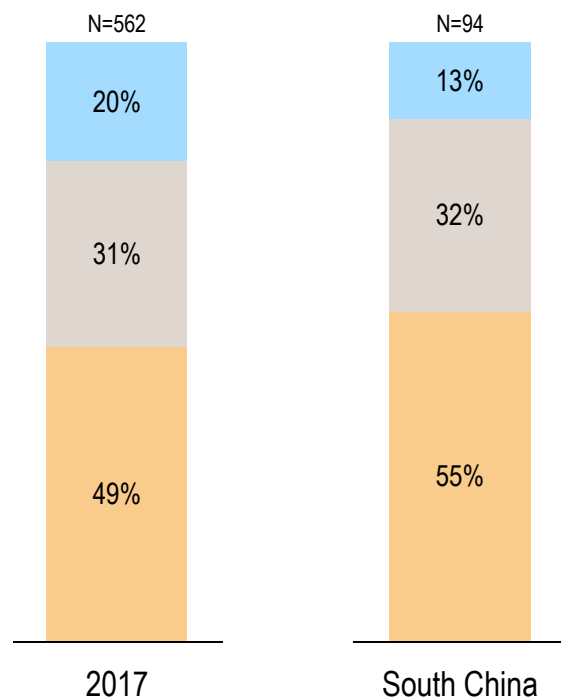
Strong Don't know Weak

1) State-owned Enterprise (Chinese), Privately owned Enterprises (Chinese), Foreign Invested Enterprise



# The size of the welcome mat varies by chapter

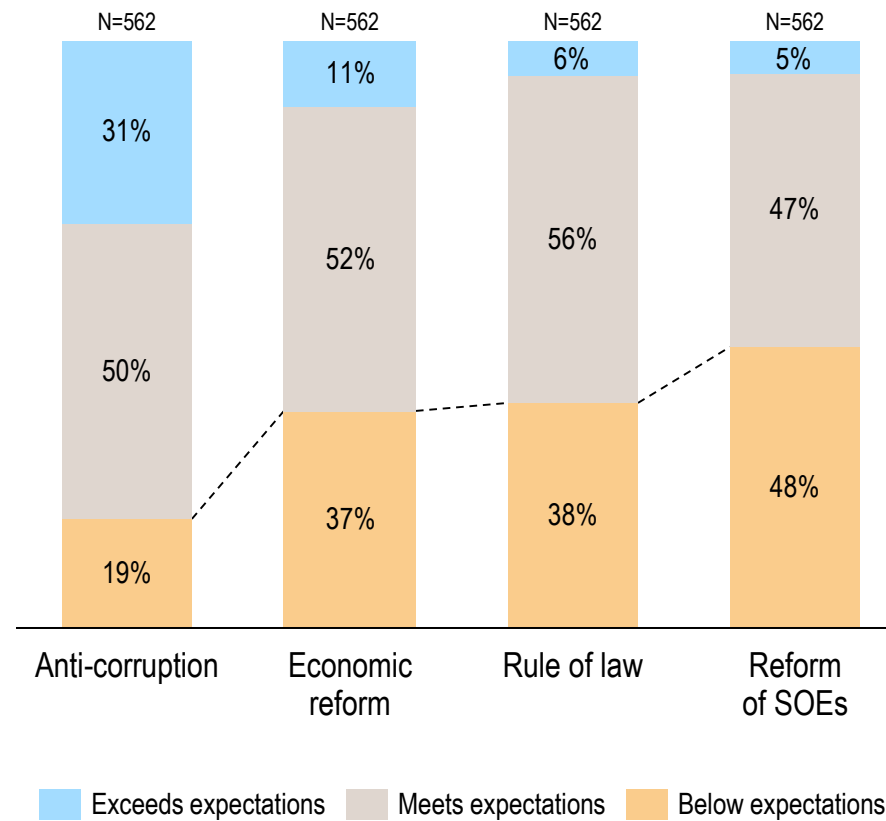
As a foreign investor in China, do you feel:



More welcome than when you first entered the Chinese market No change Less welcome than when you entered the Chinese market

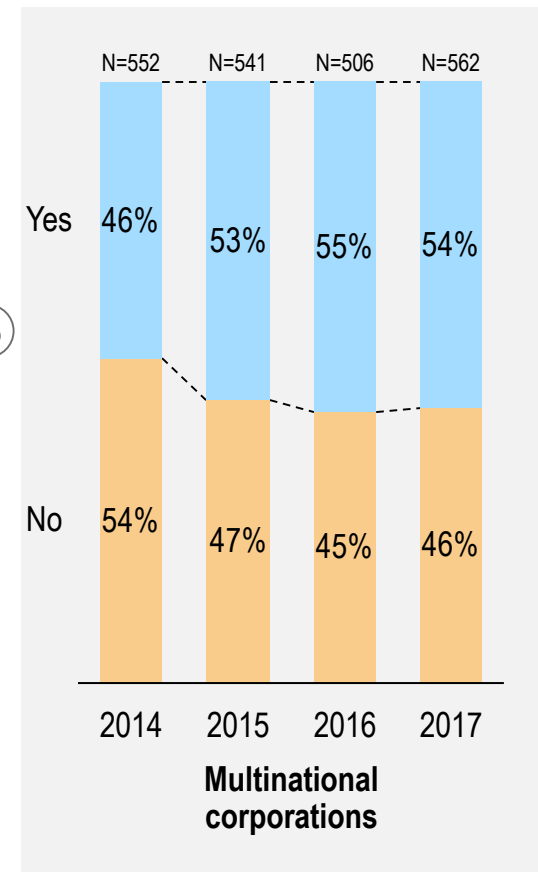
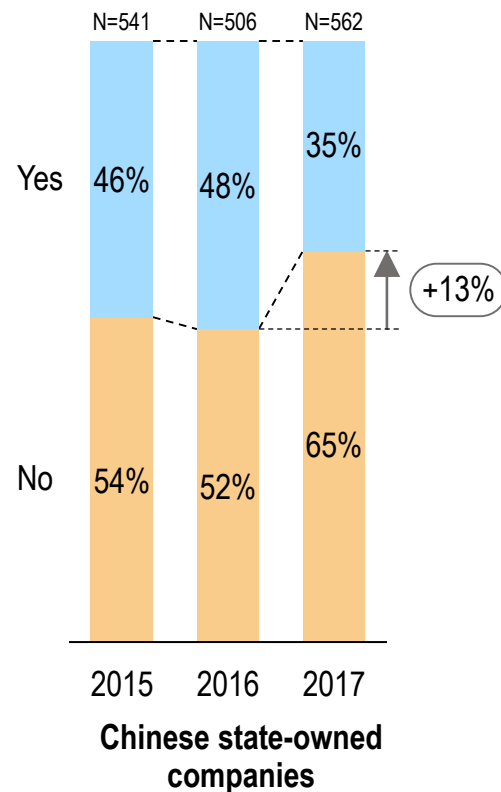
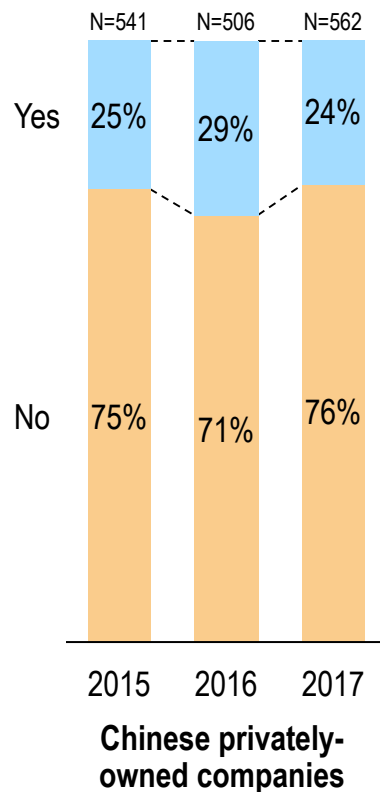
# A mixed report card for the Chinese authorities

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



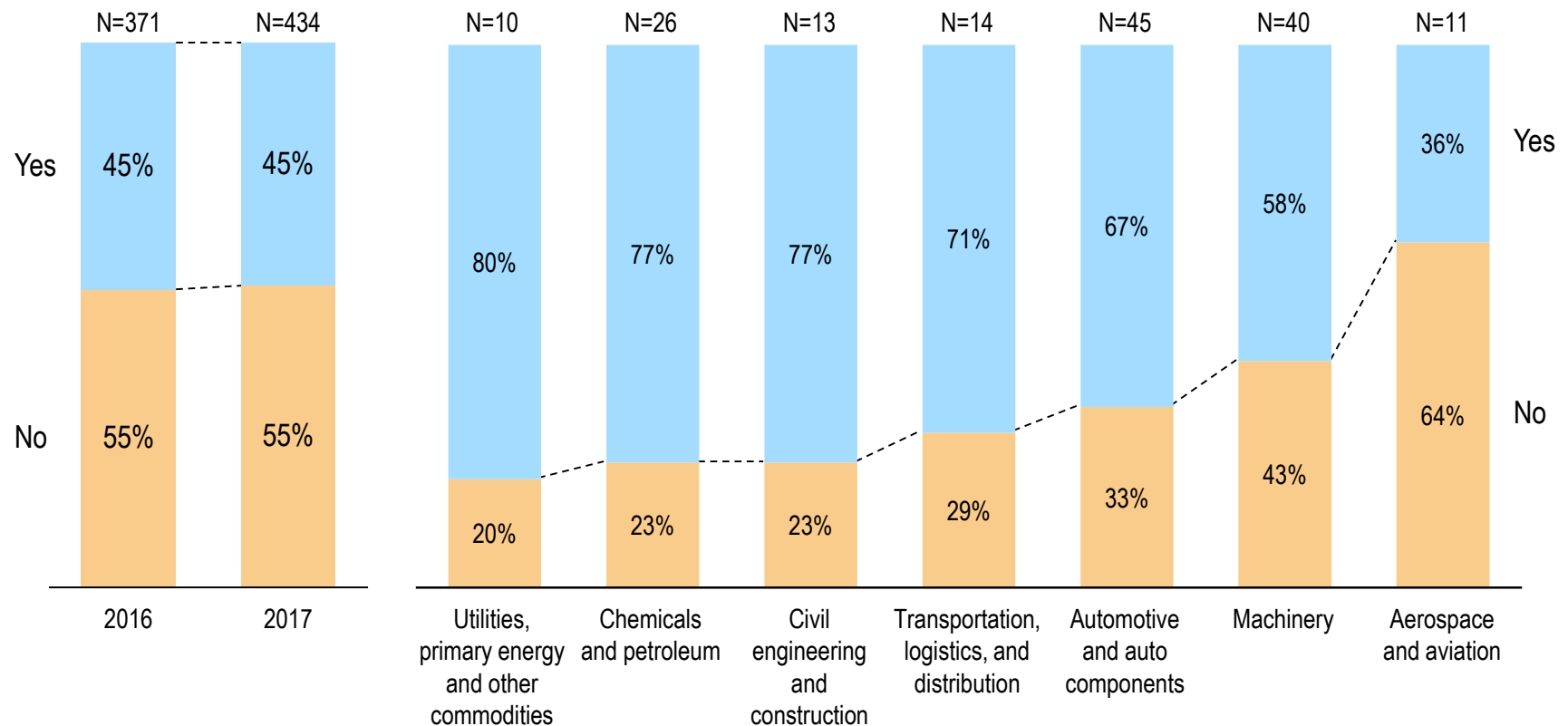
# The SOE comeback story

Do you believe that the 'golden age' in China is over for the following entities?



# Overcapacity still a major challenge

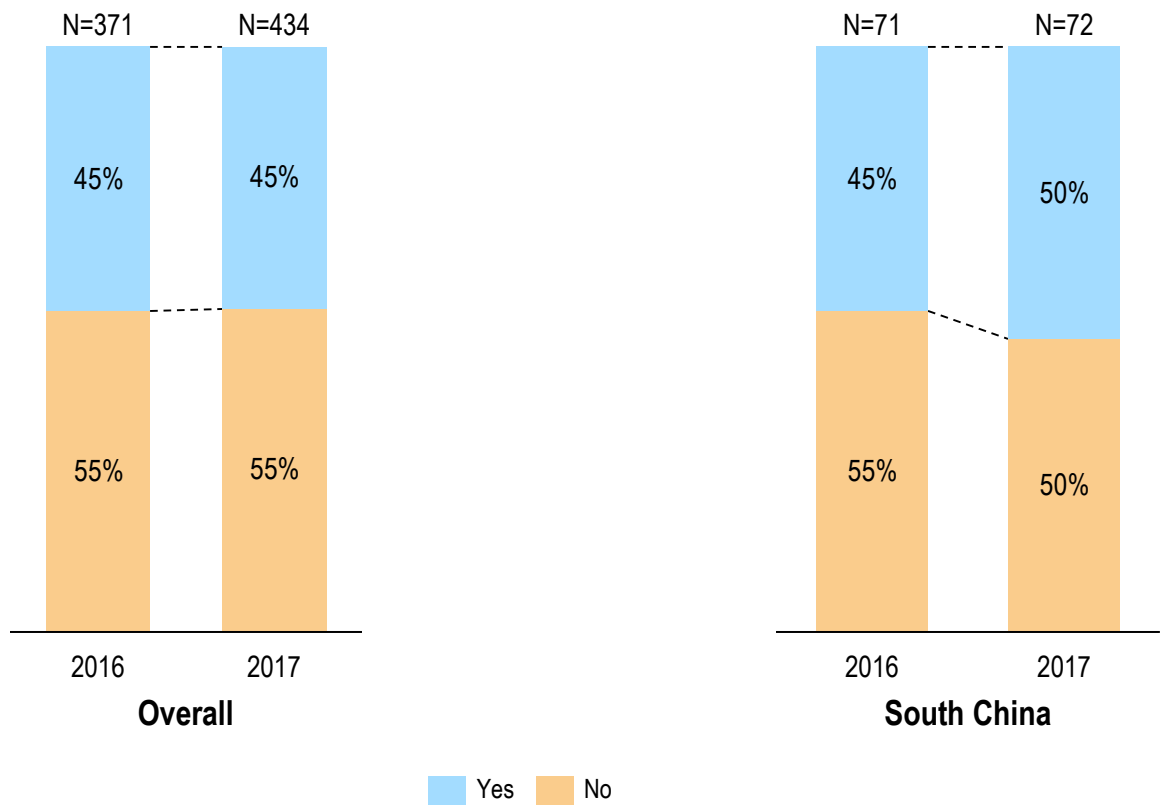
Is there overcapacity in your industry sector? <sup>1) 2)</sup>



1) Excluded "Not Applicable"  
2) Selected industries only

# Overcapacity still a major challenge

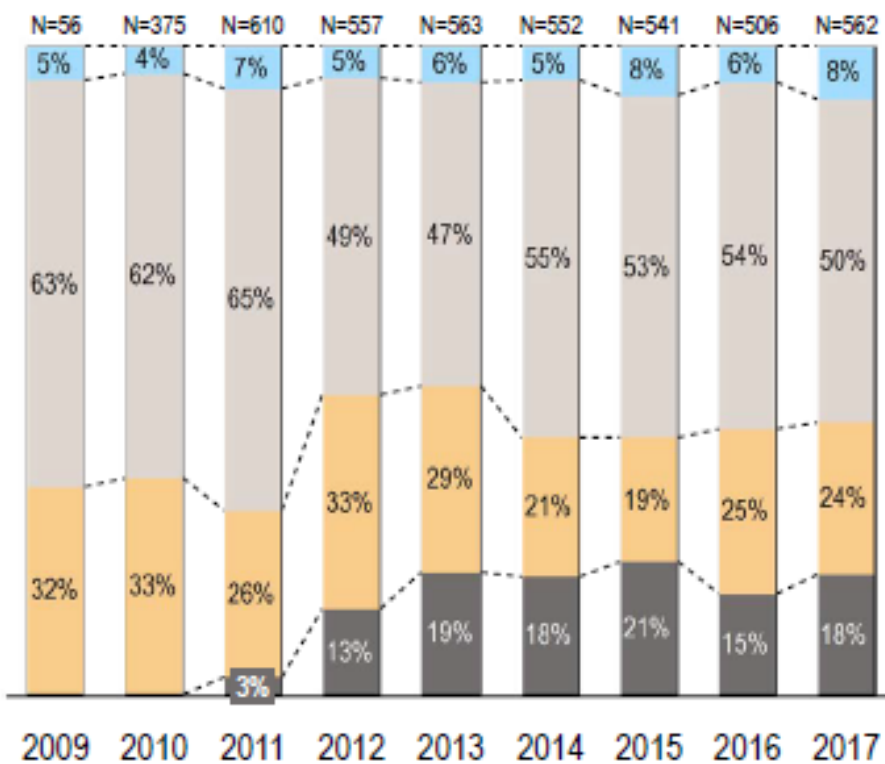
Is there overcapacity in your industry sector? <sup>1)</sup>



1) Excluded "Not Applicable"

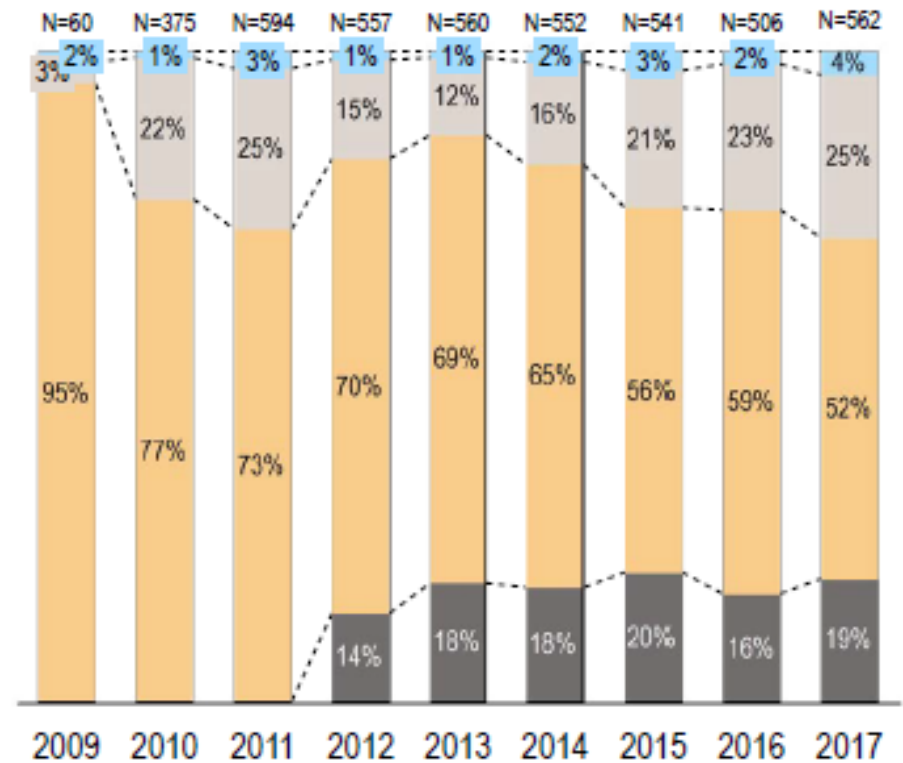
# IPR protection: a strong framework, weak delivery

您如何评价中国的知识产权成文法和法规？



出色 差强人意 不如人意 不适用

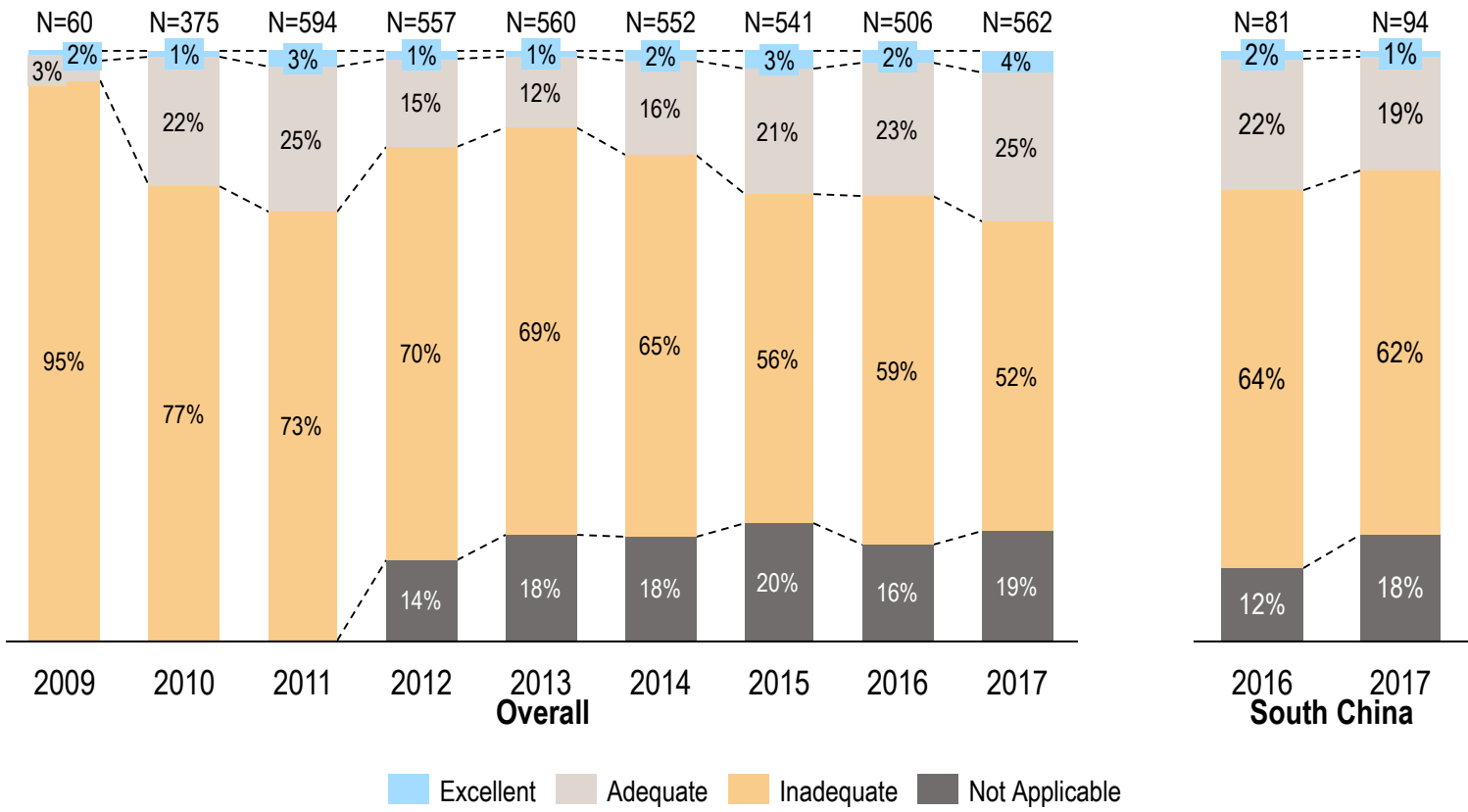
您如何评价中国知识产权法律和法规的执行情况？



出色 差强人意 不如人意 不适用

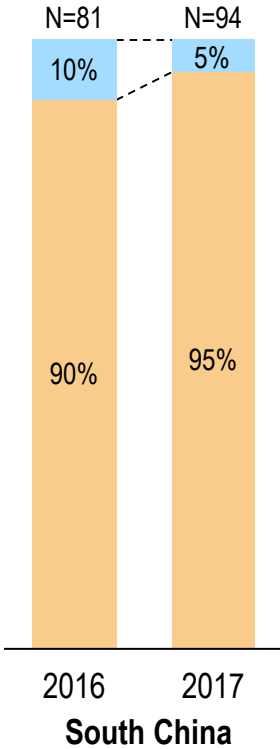
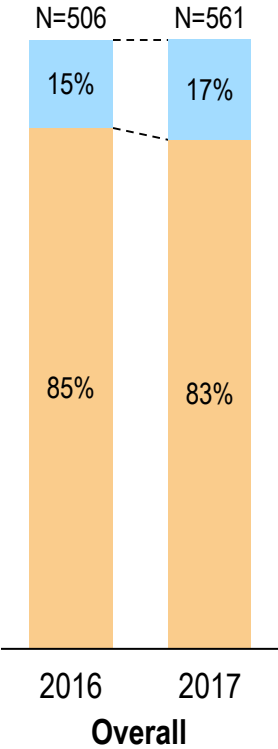
# IPR protection: a strong framework, weak delivery

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

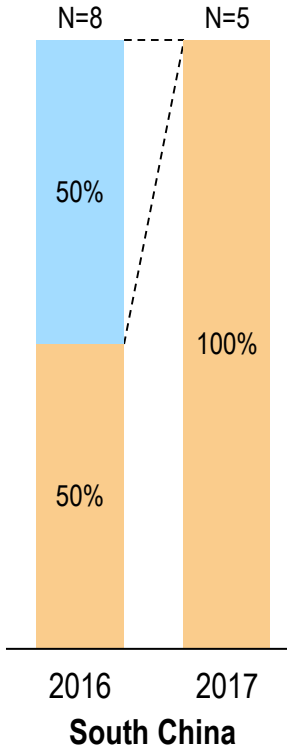
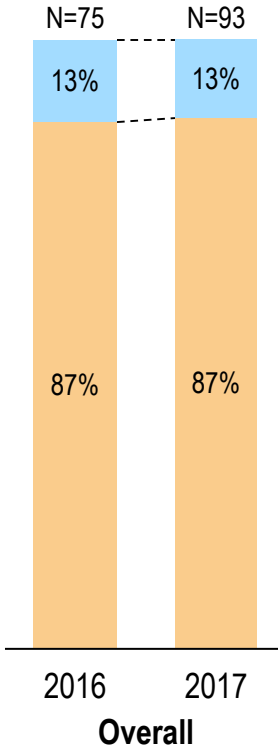


# FTZs continue to underwhelm

Has your company already established a presence in any of the China Pilot Free Trade Zones (CPFTZ)?



Does your company plan to set up a presence in another CPFTZ in the next two years?<sup>1)</sup>



Yes No

1) Asked only the answer to question 16A "Has your company already established a presence in any of the China Pilot Free Trade Zones (CPFTZ)?" is "Yes"





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B3. Reciprocal market access is still needed

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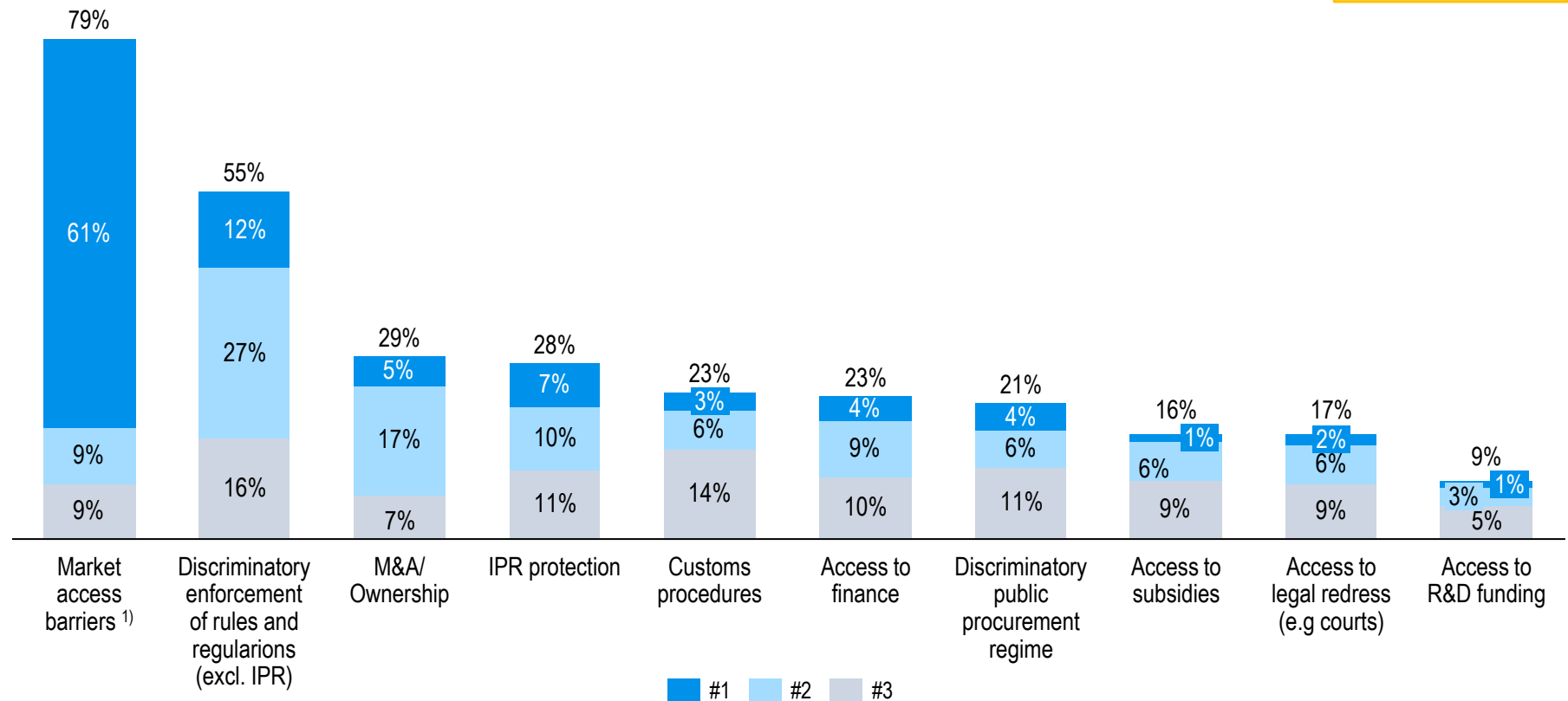
2017

# Lack of reciprocity – time for a short and clear negative list

In which areas do you feel the lack of reciprocity has the most significant impact on European companies operating in China?  
(Please rank the top three areas).

N=187

2017 Total



1) Market access barriers includes both direct restrictions like the "negative list" and indirect restrictions like licensing requirements

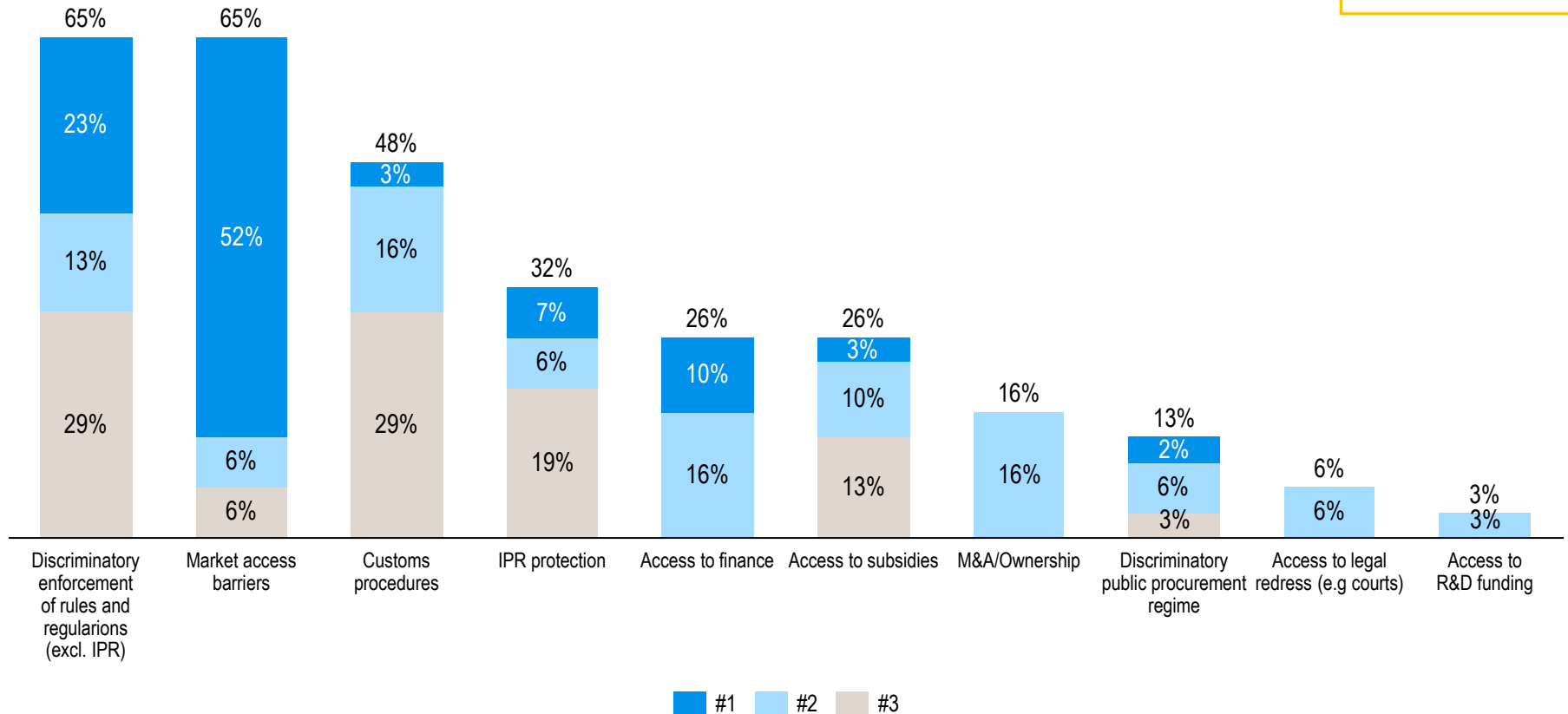
2) Asked only if the answer to Q23 "As a European company operating in China, have you experienced any lack of reciprocity compared to Chinese companies operating in Europe?" is Yes

# Lack of reciprocity – time for a short and clear negative list

In which areas do you feel the lack of reciprocity has the most significant impact on European companies operating in China?  
(Please rank the top three areas).

N=31

South China

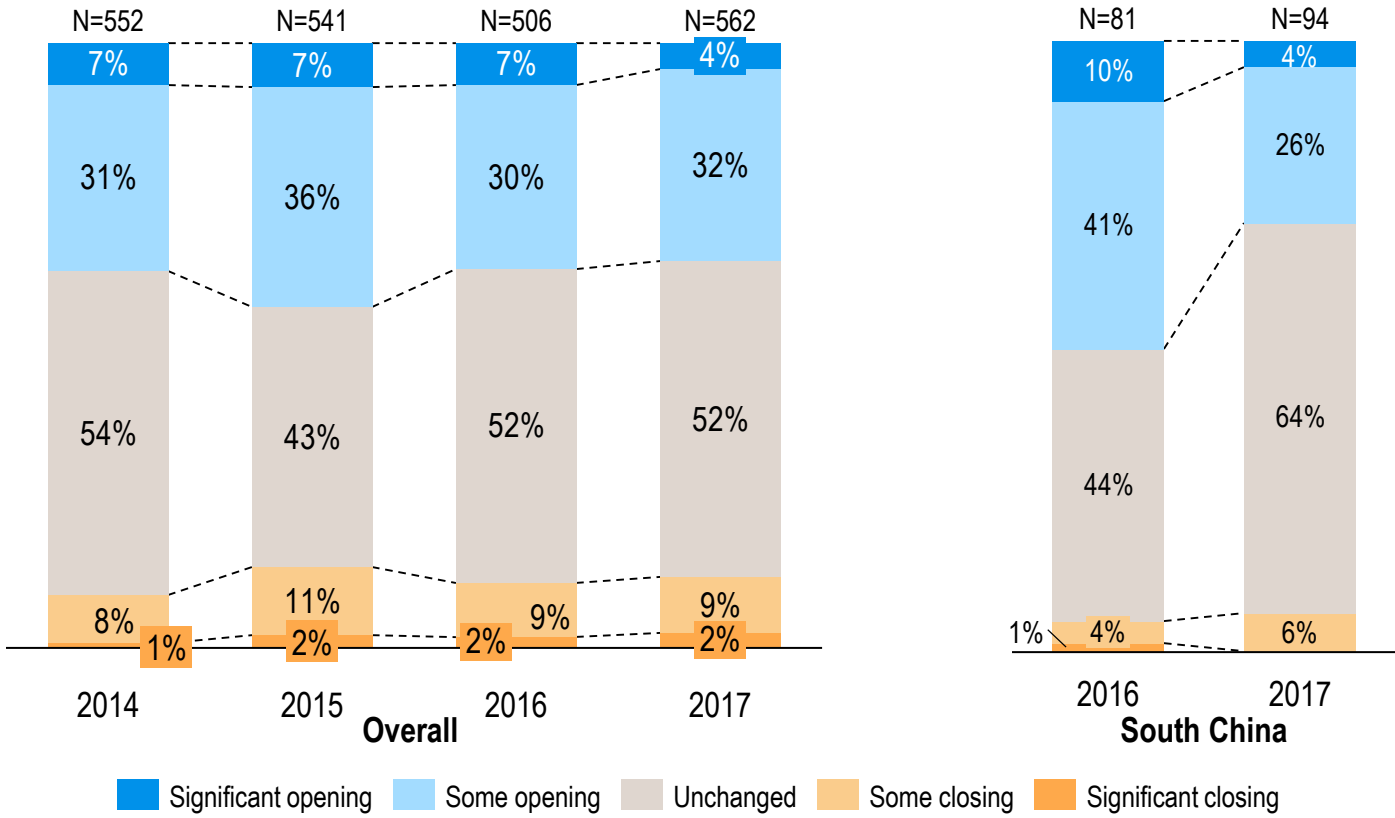


1) Market access barriers includes both direct restrictions like the "negative list" and indirect restrictions like licensing requirements

2) Asked only if the answer to Q23 "As a European company operating in China, have you experienced any lack of reciprocity compared to Chinese companies operating in Europe?" is Yes

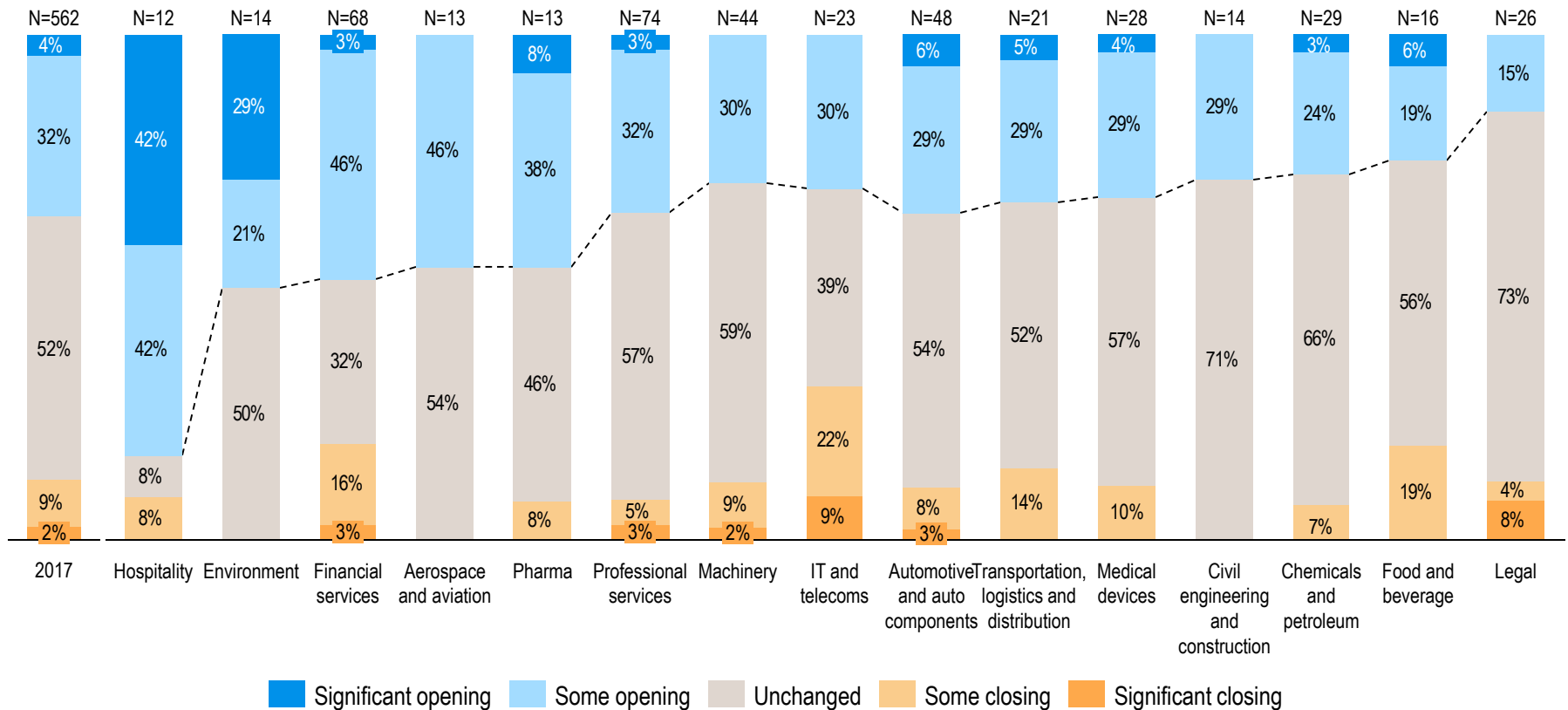
# Market opening rhetoric fails to deliver results

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



# Market status, a mixed picture by industry

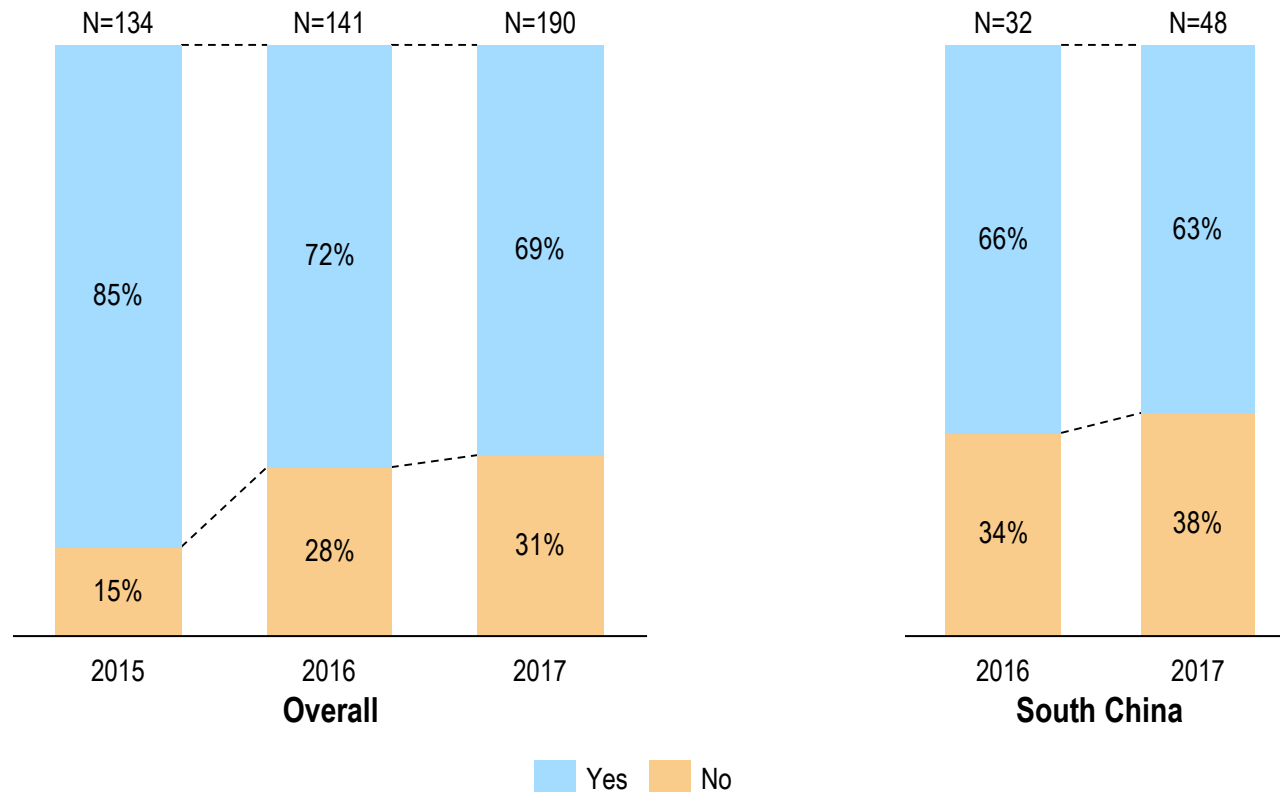
Has there been any market opening in your industry in China for foreign companies year on year?<sup>1)</sup>



1) Selected Industries Only

# European business still contributes significantly to China R&D, but not as much as it could

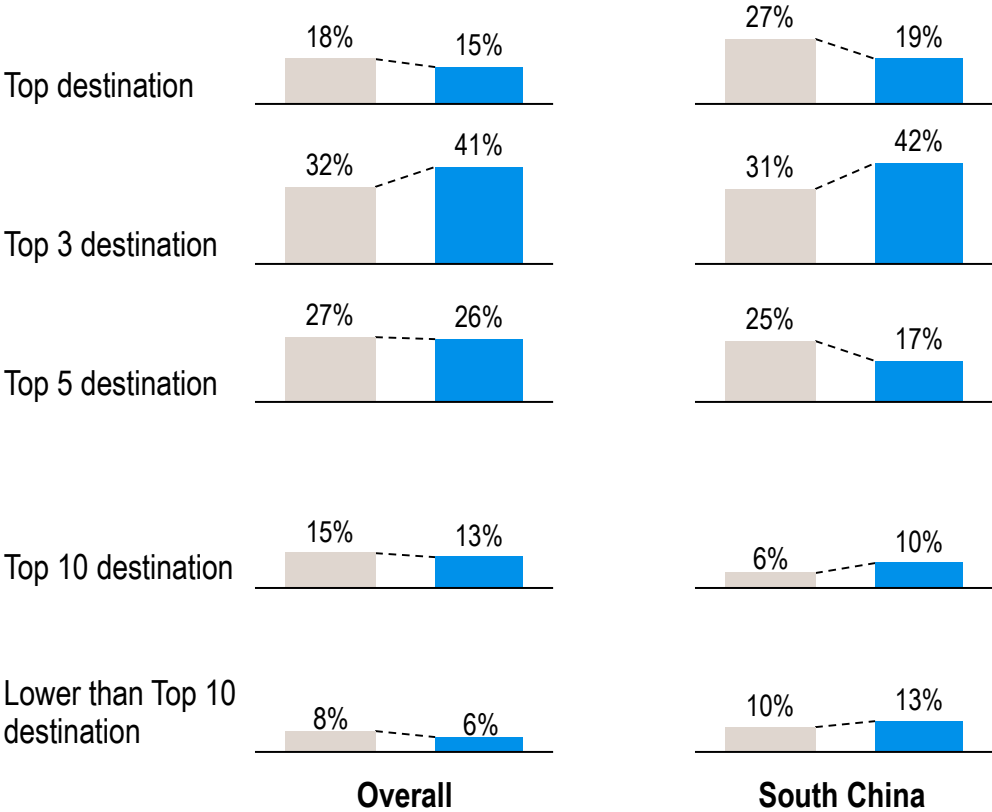
Is your company likely to increase R&D investments or R&D operations in Mainland China in the near future? <sup>1)</sup>



1) Asked only if the answer to Q48A "Does your company have an R&D centre in Mainland China?" is Yes

# European business still contributes significantly to China R&D, but not as much as it could

On a global scale, where does China rank as a destination for your company's present and future R&D investments? <sup>1)</sup>



■ Present ■ Future

1) Asked only if the answer to Q48A "Does your company have an R&D centre in Mainland China?" is Yes



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B4. A new challenge: more innovation by private Chinese competitors

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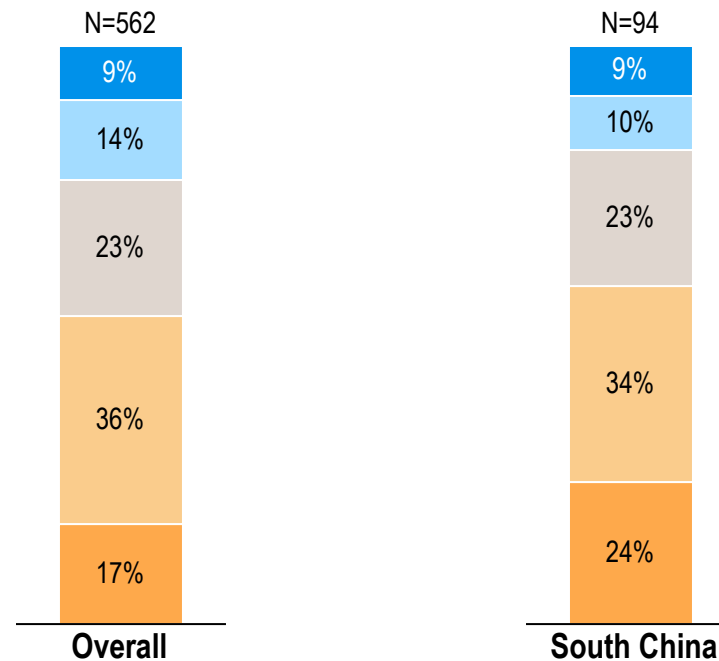
Roland  
Berger

2017



# European business cannot afford to be complacent about Chinese innovation

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

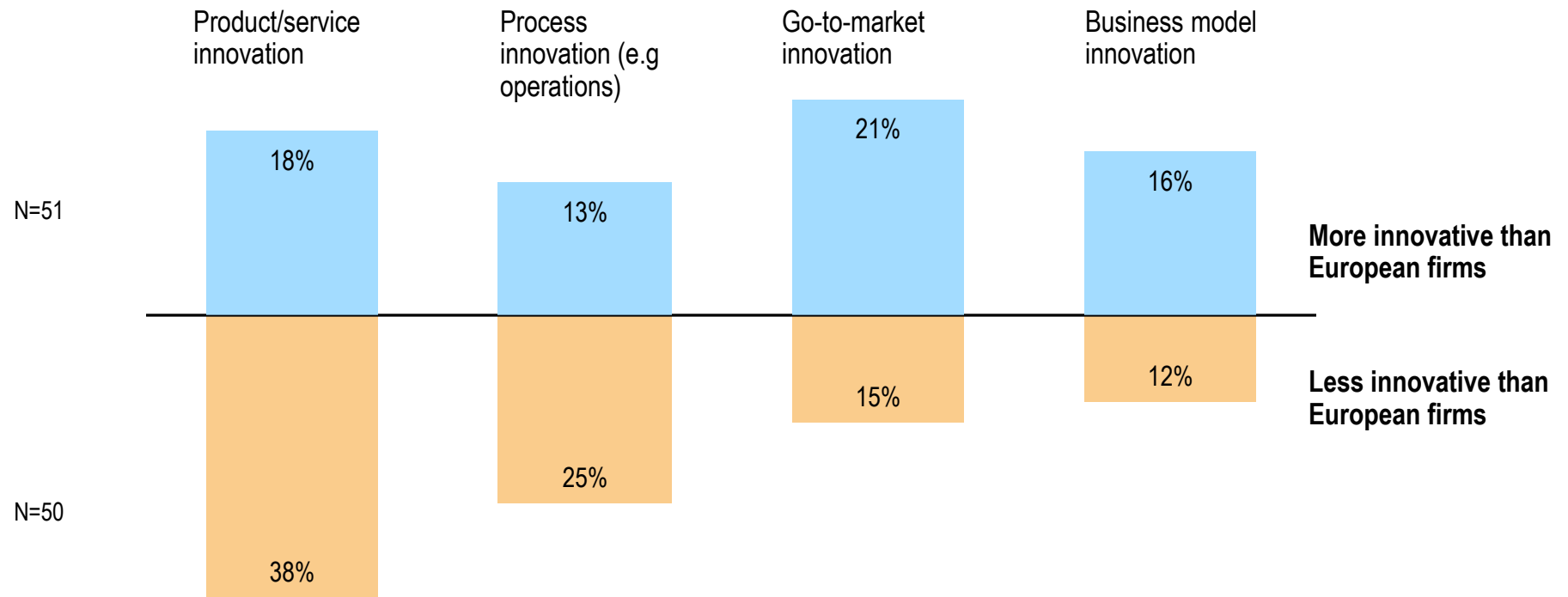


Significantly more innovative Slightly more innovative Equally innovative Slightly less innovative Significantly less innovative

# Innovation strengthens consumer industry, especially in go-to-market and business model innovation

In which areas are Chinese firms more innovative than European firms?<sup>1)</sup>  
In which areas are Chinese firms less innovative than European firms?<sup>1)</sup>

Consumer goods and services

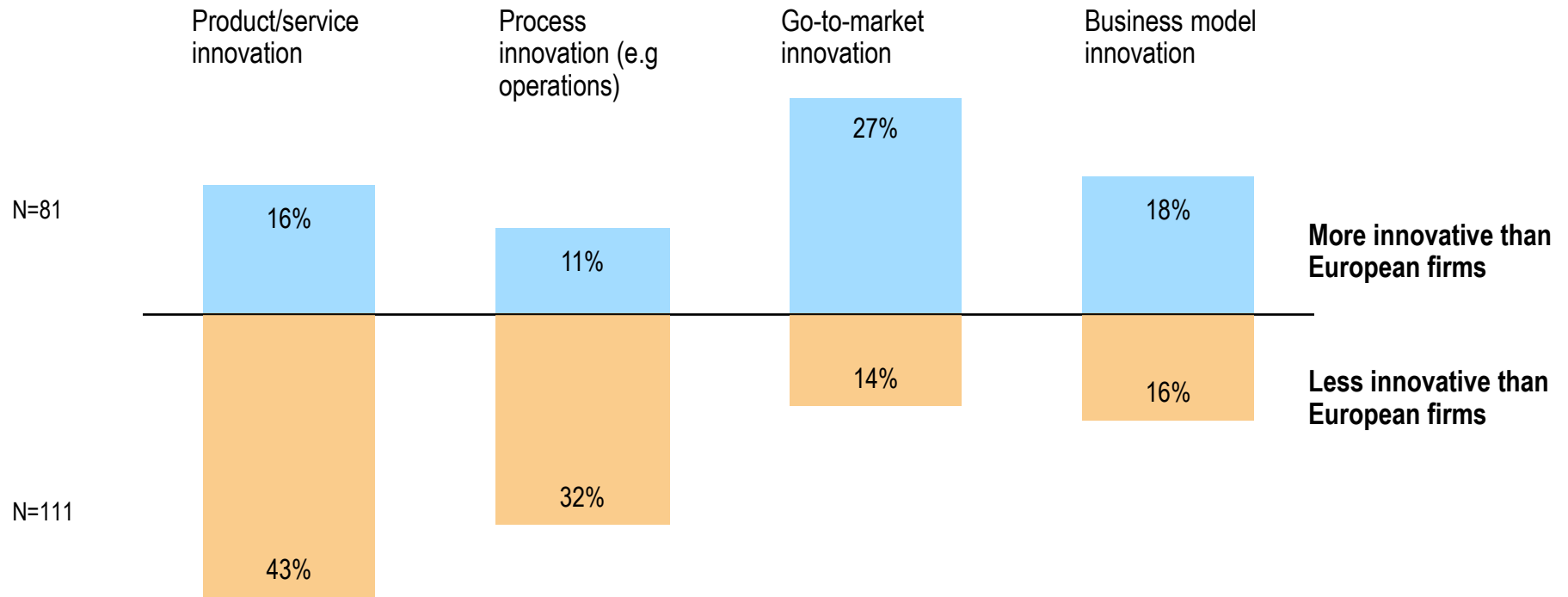


1) Multiple answers possible; % represent the total share of sector-specific respondents who agreed with a statement

# But far less so in industrial goods

In which areas are Chinese firms more innovative than European firms?<sup>1)</sup>  
 In which areas are Chinese firms less innovative than European firms?<sup>1)</sup>

Industrial goods and services



1) Multiple answers possible; % represent the total share of sector-specific respondents who agreed with a statement



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B5. CAI: the opportunity  
that needs  
to be seized

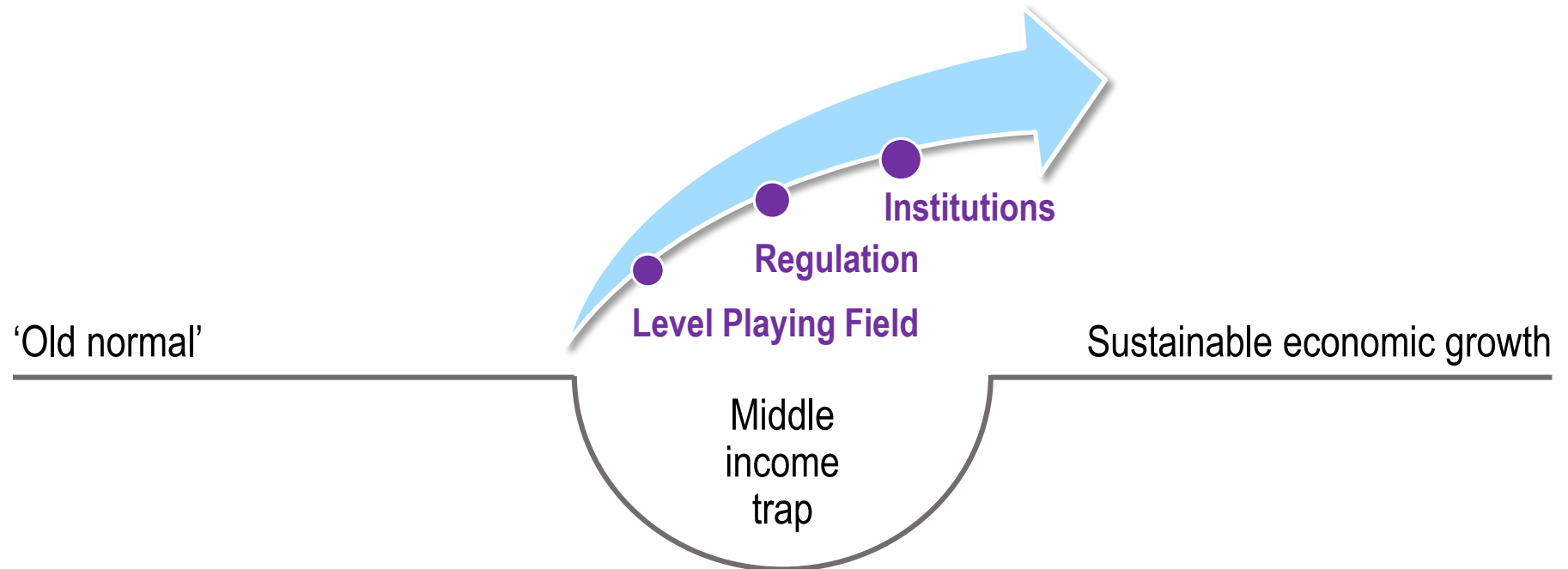
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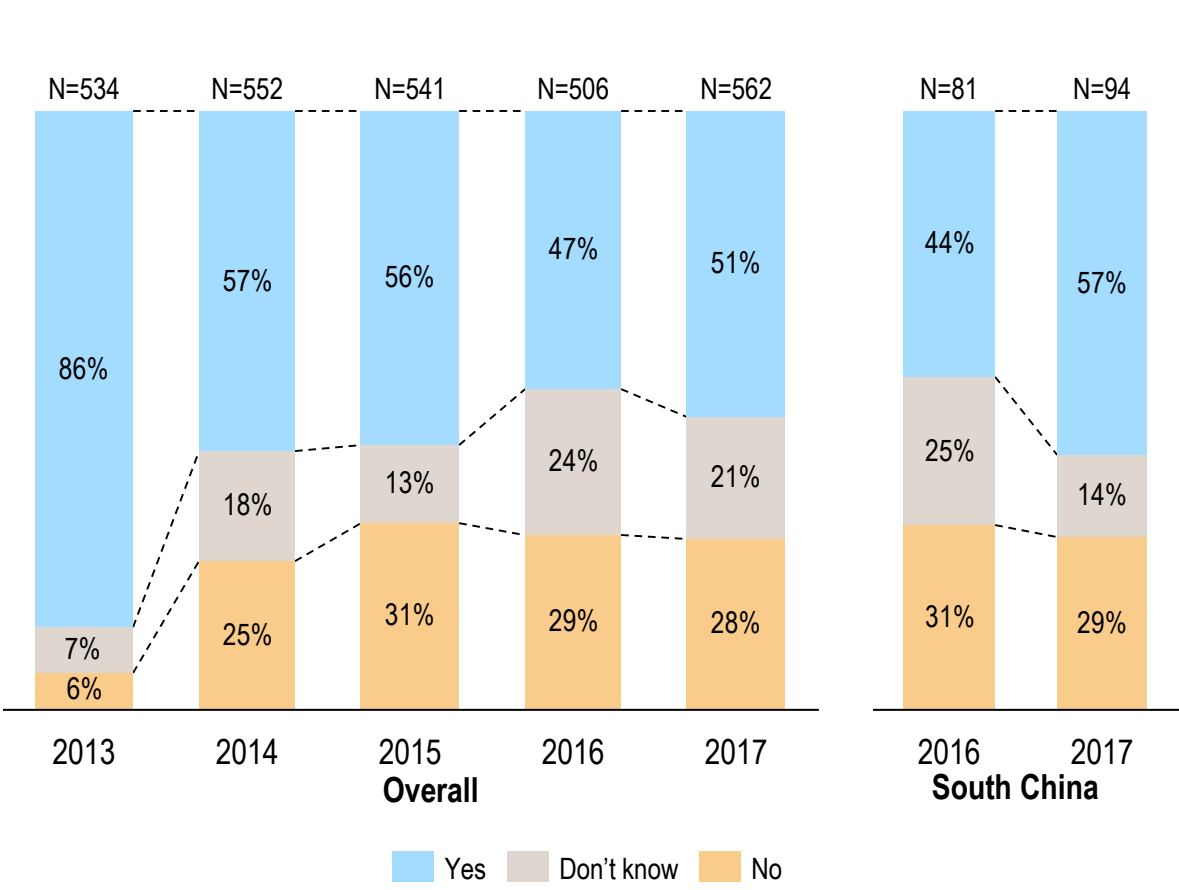
2017

# Moving forward with reform is as good for European companies as it is for China

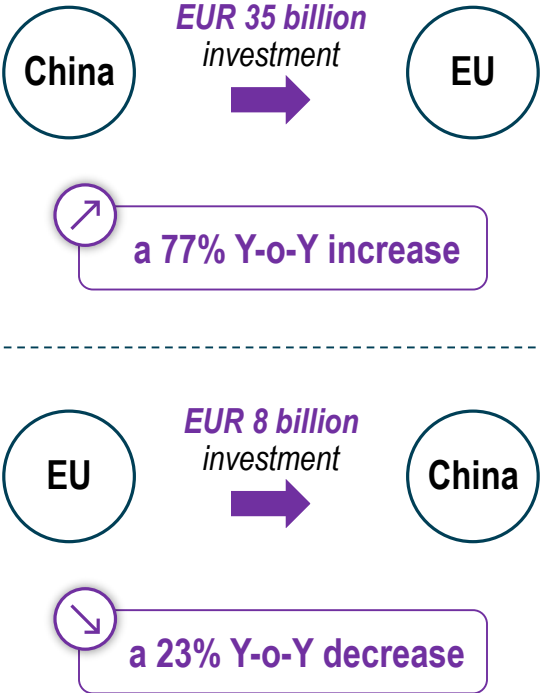


# European companies remain cautious about future investment

Is your company considering expanding current China operations in 2017?

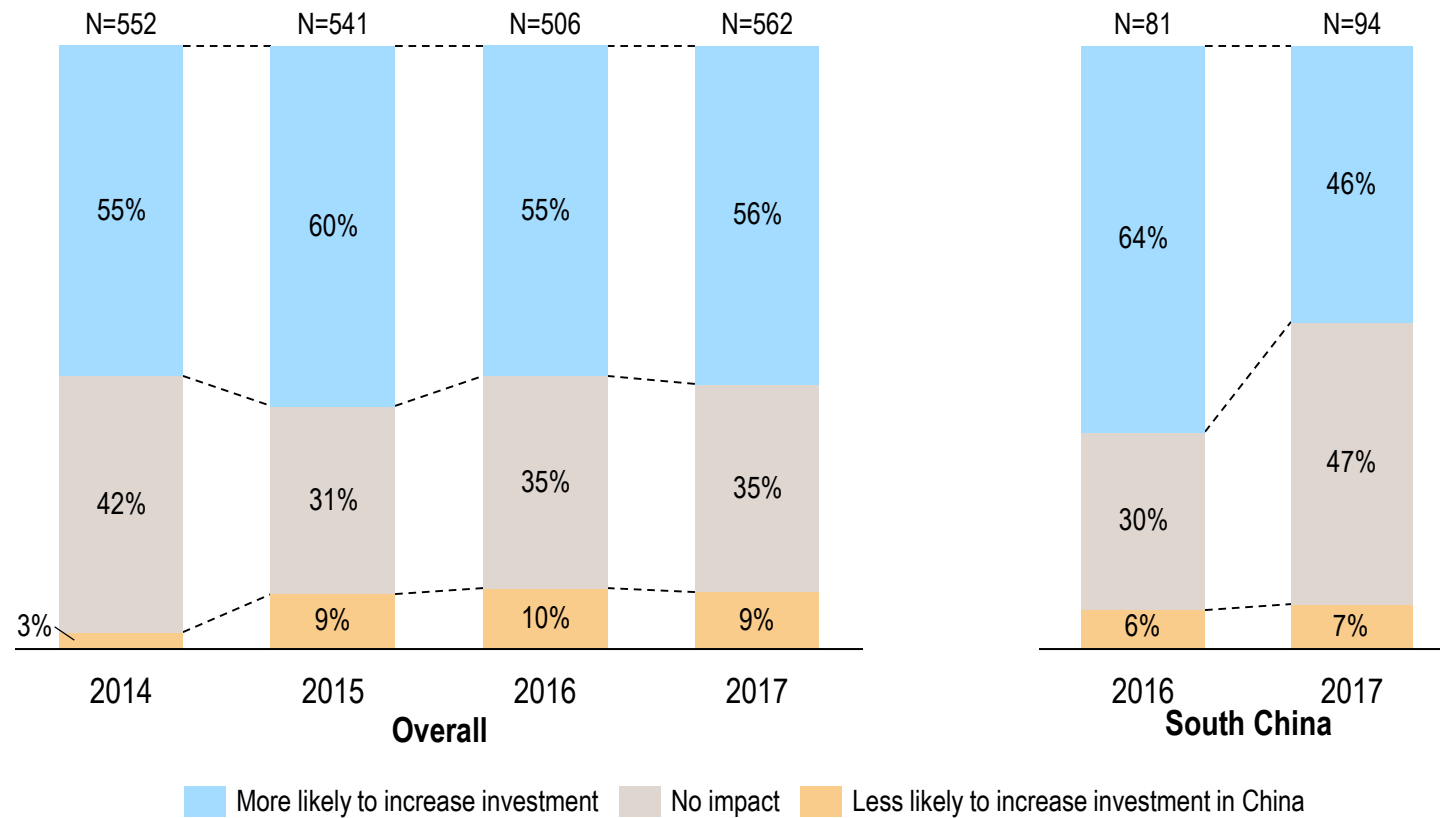


2016



# An open market would attract more European investment

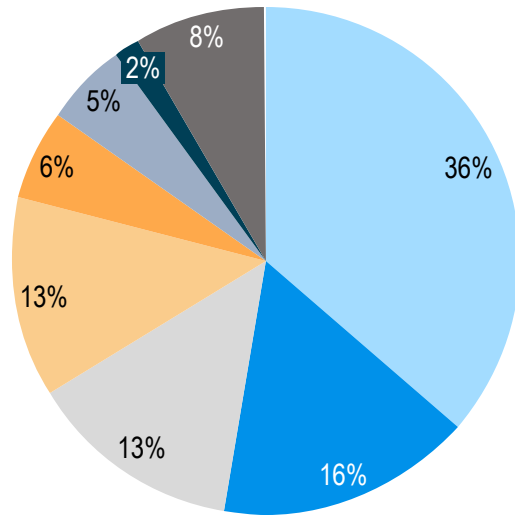
If greater market access were granted to foreign companies in your industry, how would this impact your company's investment decisions in China?



# A strong CAI would be a game changer for Sino-European investment flows

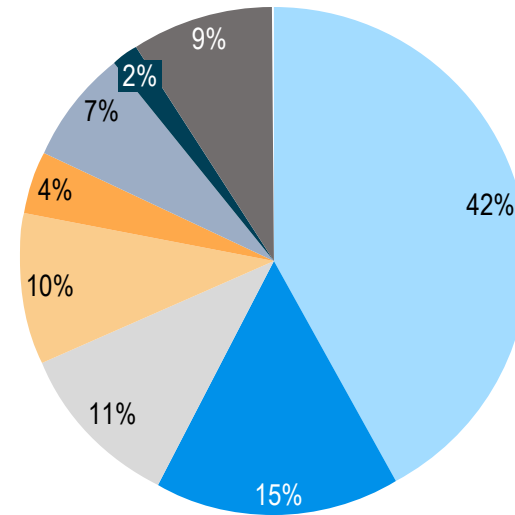
Which are the major issues you would like to be addressed by the EU-China Comprehensive Agreement on investment?<sup>1)</sup>

N=1024



Overall

N=155



South China

- Reduce the general complexity of the regulatory environment in China
- Allow your company to enter new business areas or product segments
- Make it easier for your company to undertake strategic acquisitions in China
- Enable your company to take greater control of its China operations/ reduce the need for a local business partner or joint-venture
- Reduce the need for your company to transfer technology to Chinese partners
- Have more Chinese investment partners in Europe
- Other
- Don't know

1) Multiple answers possible





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## C. Appendix: Chapter specific questions

European Business In China

# Business Confidence Survey



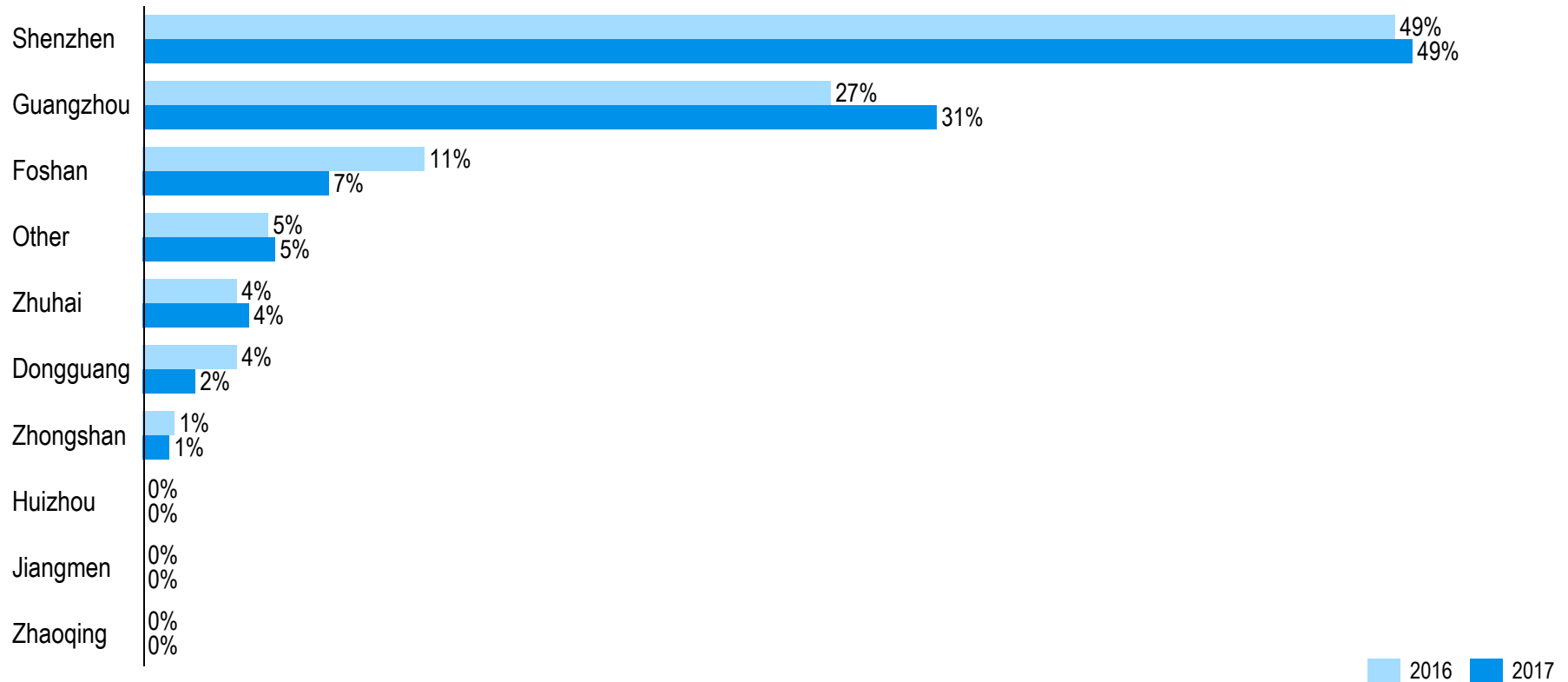
Roland  
Berger

2017

# Shenzhen remains the most transparent business environment for foreign firms; Guangzhou has improved at the expense of Foshan

In your perception, which South China city has the most comprehensive and transparent business environment and transparent regulations for foreign company operations? <sup>1)</sup>

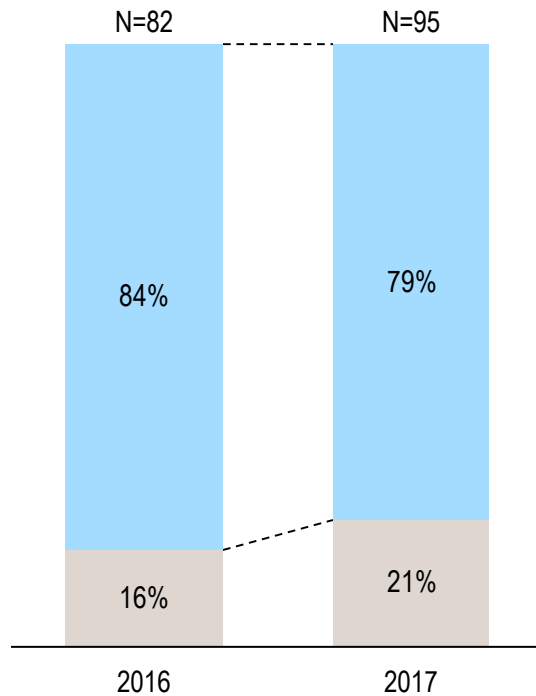
N=97



1) Asked only if the respondent is a member of South China chapter

# Nearly 80% of members would choose to remain in South China if expanding their business (slightly fewer than in 2016)

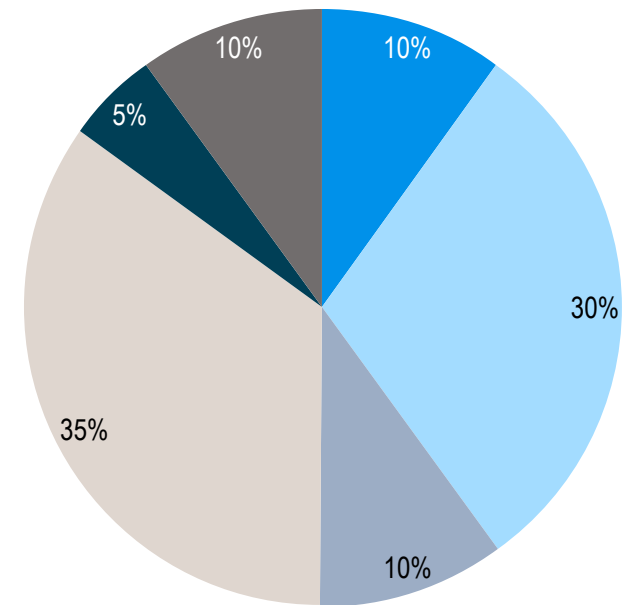
If you were to expand your activity in the same business you are currently doing, would you still chose South China? <sup>1)</sup>



Yes No

If not, where would you go? <sup>1)2)</sup>

N=20



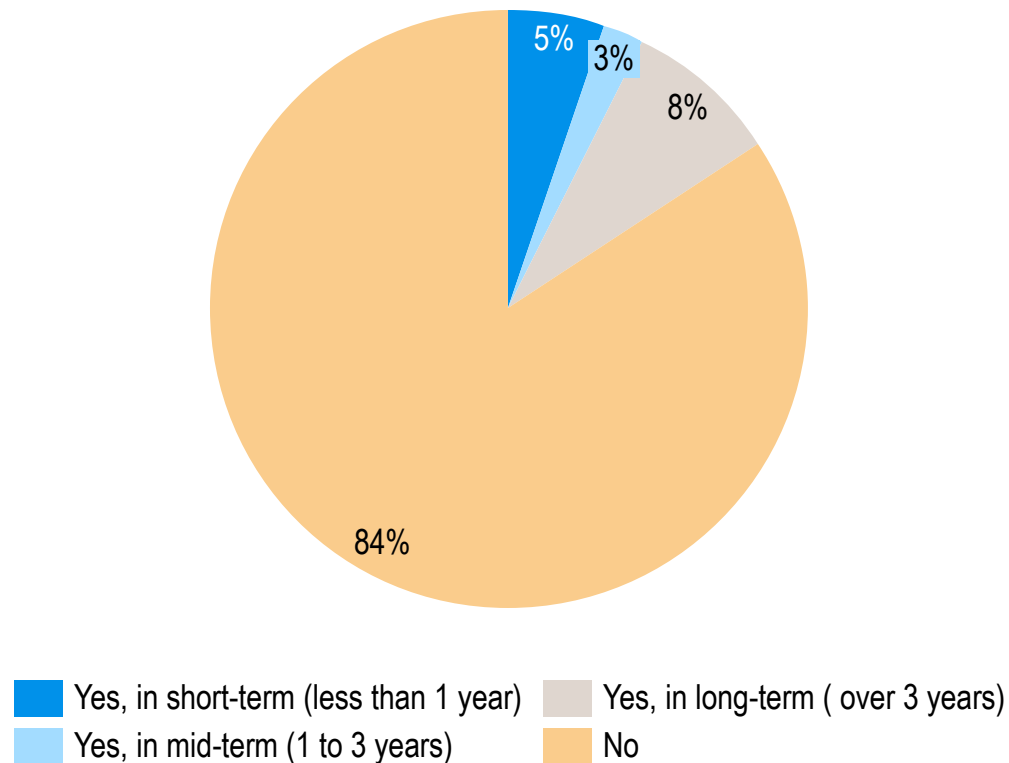
Western China Northern China Europe  
Eastern China Another Asian Country Other

1) Asked only if the respondent is from South China chapter 2) Only asked if the answer to the previous question is "No"

# Less than one in five respondents plan to relocate their business outside of South China

Do you have a plan to relocate your company to somewhere else outside of South China? <sup>1)</sup>

N=95

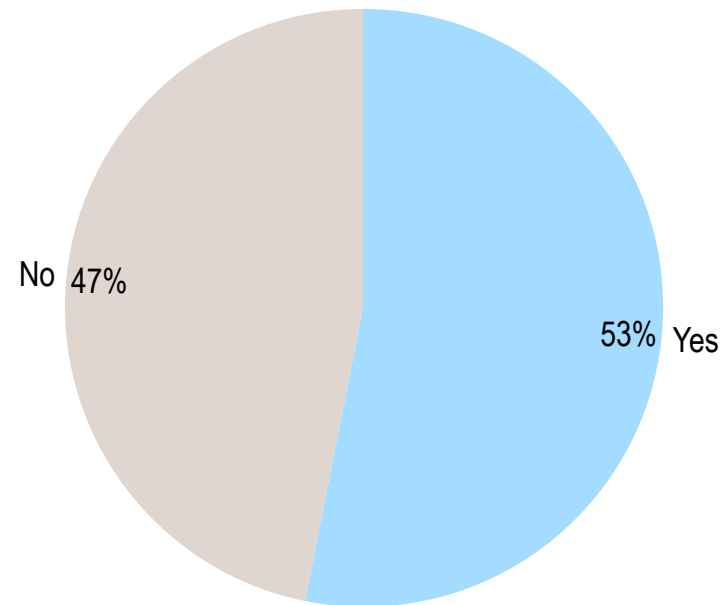


1) Asked only if the respondent is a member of South China chapter

# Respondents are almost equally divided on whether customs procedures have improved in South China

Have customs procedures improved in South China in term of clearance lead times and the transparency of procedures?<sup>1)</sup>

N=94

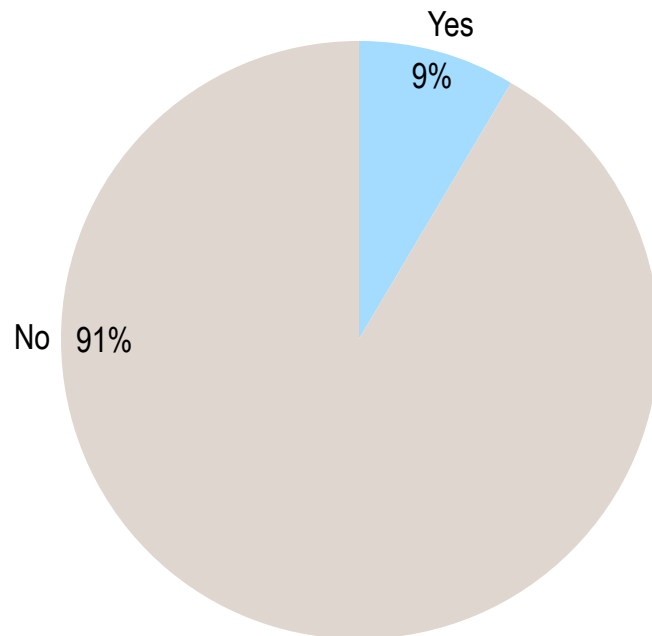


1) Asked only if the respondent is a member of South China chapter

# Less than 10% of the firms have joined, or plan to join, a Guangdong FTZ<sup>3)</sup>; for those who have, customs clearance is the main benefit

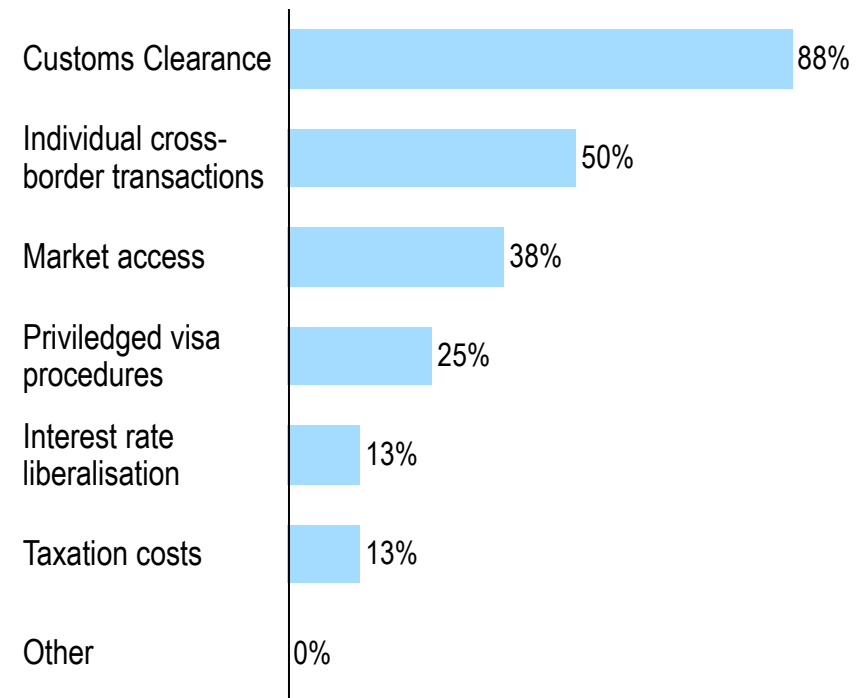
Has your company already established or does it plan to establish a presence in any of the Guangdong Free Trade Zones (Nansha/Qianhai/Hengqin) in 2017?<sup>1)</sup>

N=94



Please specify in which areas the Guangdong Free Trade Zone has benefitted or will benefit your business<sup>1)2)</sup>

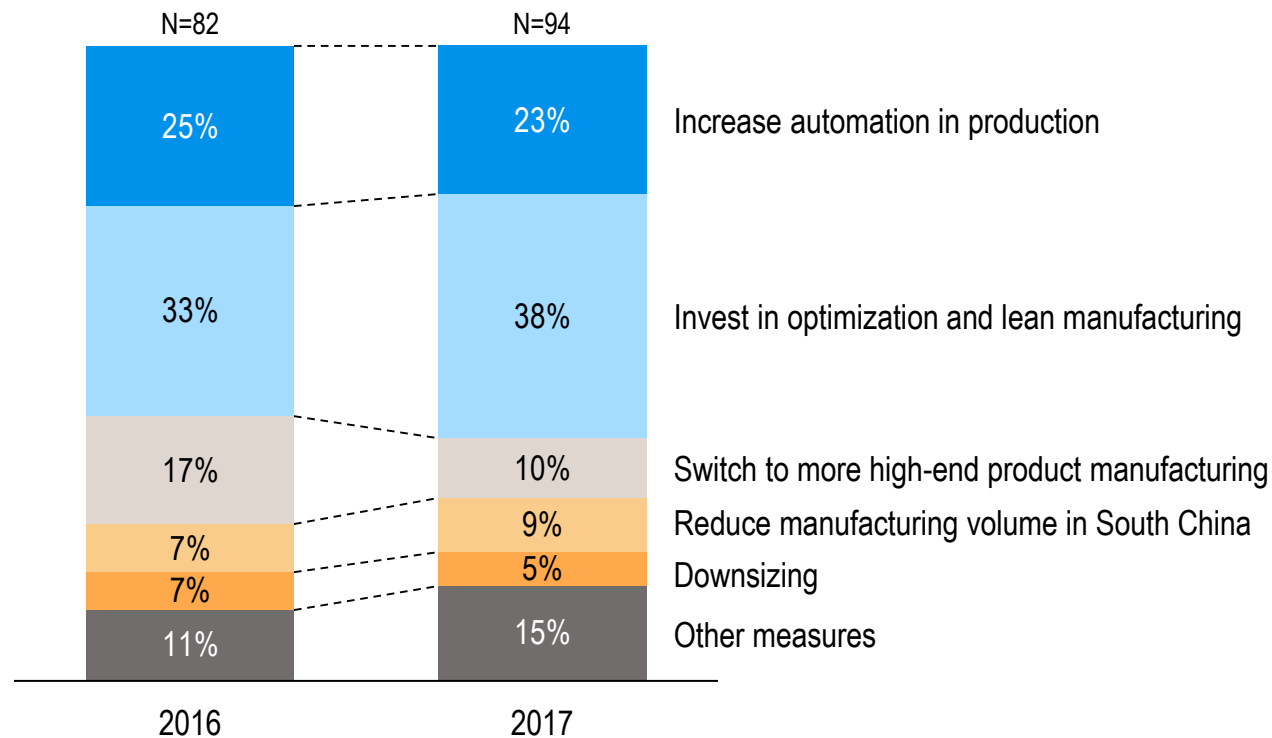
N=8



1) Asked only if the respondent is a member from South China chapter 2) Answered only if the answer in Q5 is "Yes", Multiple answers possible 3) FTZ: Free Trade Zone

# To offset rising manufacturing costs, respondents have stepped up their investments in optimisation and lean manufacturing

What measures is your company taking to deal with the increasing cost of manufacturing in South China? <sup>1)</sup>

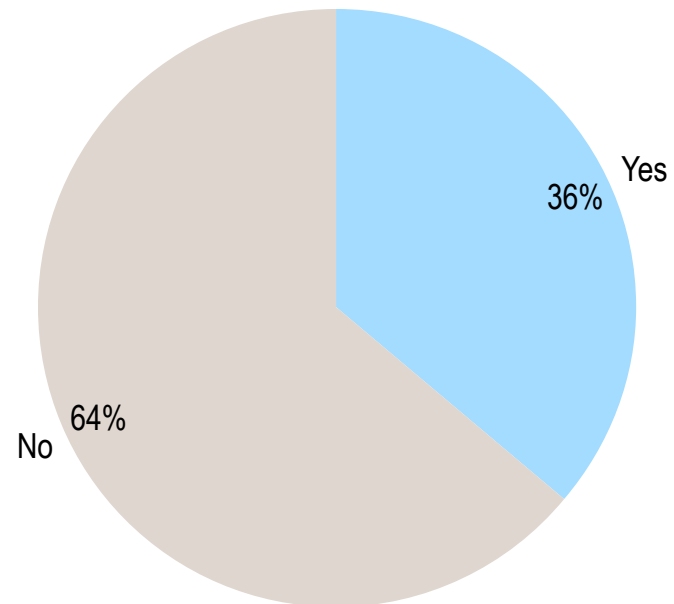


1) Asked only if the respondent is a member of South China chapter

# One third of companies would hire more foreign nationals if visa restrictions were relaxed

If visa restrictions were more relaxed, would your company hire more foreign nationals in South China?<sup>1)</sup>

N=94



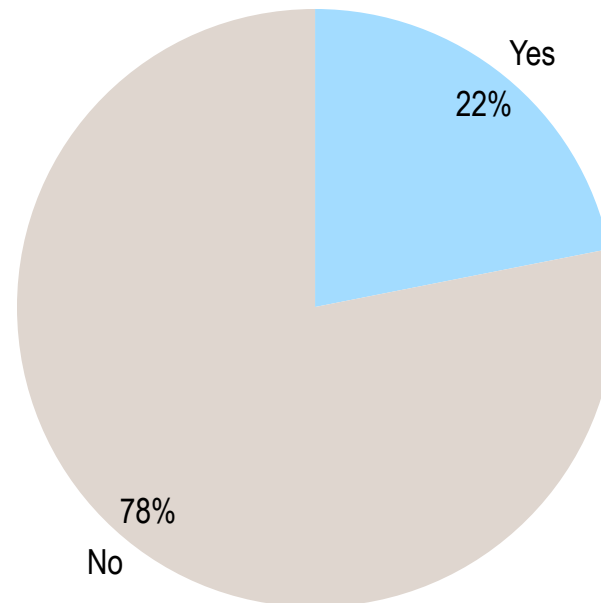
1) Asked only if the respondent is a member of South China chapter



# However, only one fifth of firms' foreign employees currently qualify and benefit from visa incentives offered to high-level experts

Do your company's foreign employees qualify and benefit from visa incentives offered to high-level foreign experts in South China?<sup>1)</sup>

N=94

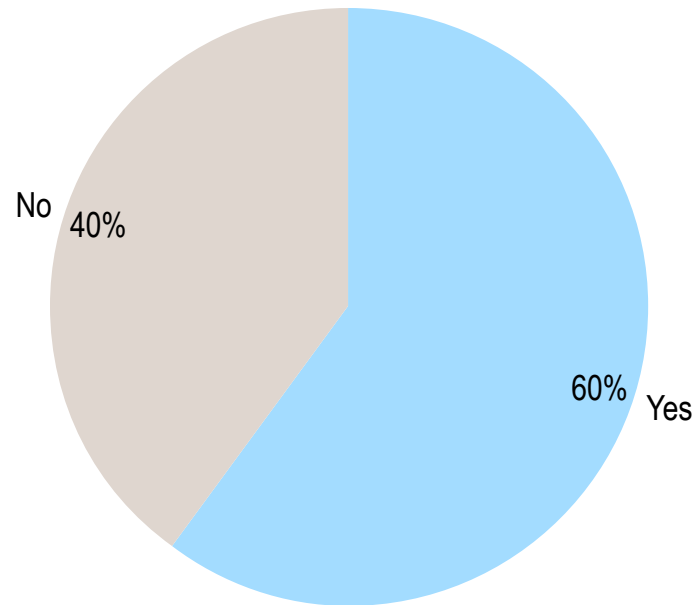


1) Asked only if the respondent is a member of South China chapter

# Respondents generally feel that the local government supports them

In your view, is the local government in South China supportive of your company?<sup>1)</sup>

N=94



1) Asked only if the respondent is a member of South China chapter



European Chamber  
中国欧盟商会

# Business Confidence Survey 2017

European Business In China

South China Launch

Shenzhen, 13<sup>th</sup> June, 2017

European Business In China

## Business Confidence Survey



Roland Berger  
B

2017