



**European Chamber**  
中国欧盟商会

# Business Confidence Survey 2015 South China

## 2015 华南地区商业信心调查

**Guangzhou**  
**2<sup>nd</sup> July, 2015**



# OUTLINE

---

- 1** Methodology and Respondents' Profile
- 2** Chasing the 'New Normal'
- 3** Climbing up the Value Chain
- 4** Rating the Reform
- 5** Q&A

# I. Methodology and Respondents' Profile



European Chamber  
中国欧盟商会

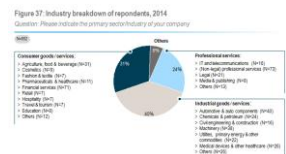
# The China Business Confidence Survey (BCS) monitors business trends and outlook over time, across a wide range of industries

## China Business Confidence Survey - 2015 Edition

### SCOPE OF SURVEY AND KEY DATAPOINTS



**49 questions**, covering company profiles business outlooks, human resources and financial metrics



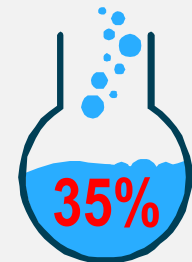
**541 EUCCC member companies across 3 primary sectors with almost equal representation**

An **annual survey** that tracks changes in business trends and outlook over time



### South China-chaptered companies

- > Covers a wide range of European companies chaptered in SC, from small and medium firms, to international leaders



COVERAGE<sup>1)</sup>

- > 94 SC companies participated in the 2015 edition of the survey, more than one third of European Chamber's SC membership
- > Respondents are primarily at the senior management level (President, CEO, General Manager...)

1) Scope of the inquiry covers 94 of 268 SC-chaptered companies in the European Chamber of Commerce

The BCS provides insight, but isn't the whole story –  
We look forward to your insights to help complete the picture

Boundaries of the BCS

## BCS IS NOT...

---



*An exhaustive look at all companies or views in industry*



*A useful tool for gaining insight into companies' thoughts and concerns*

*A crystal-ball forecast of future developments in industries*



*A starting point to guide further discussion or investigation*

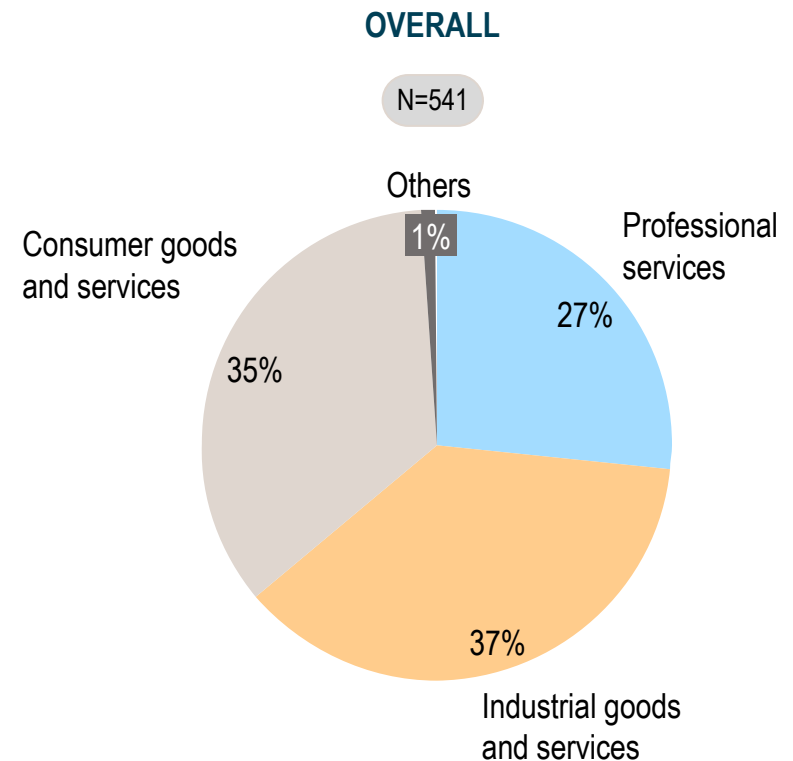
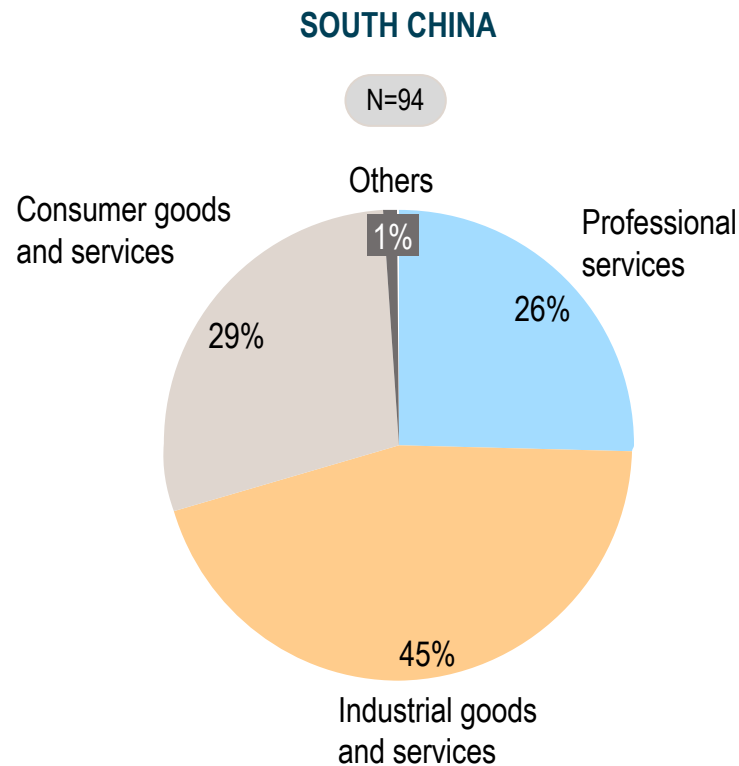


---

**...BUT BCS IS**

# The 94 companies based in South China from the overall survey pool, are evenly distributed across industries

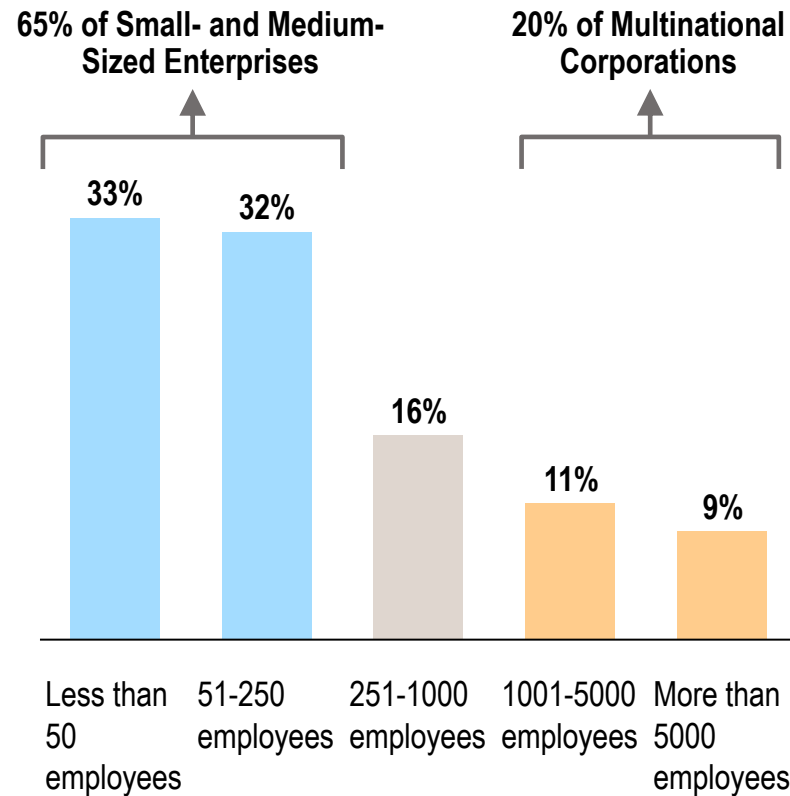
Breakdown of respondents by industry (2015)



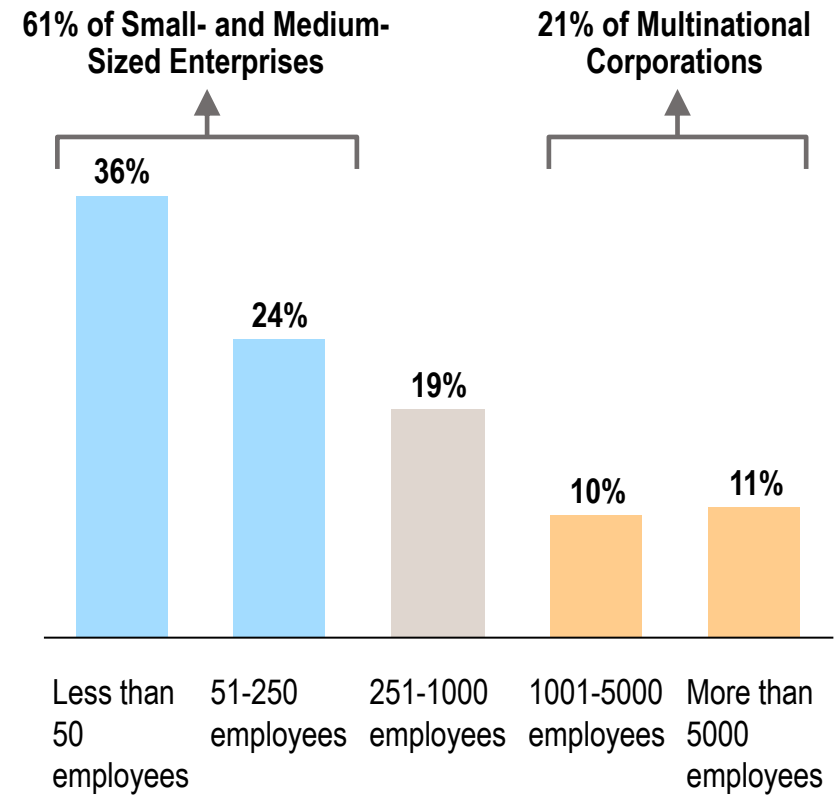
# The panel represents companies of various sizes

## Breakdown of respondents by company size (2015)

### SOUTH CHINA

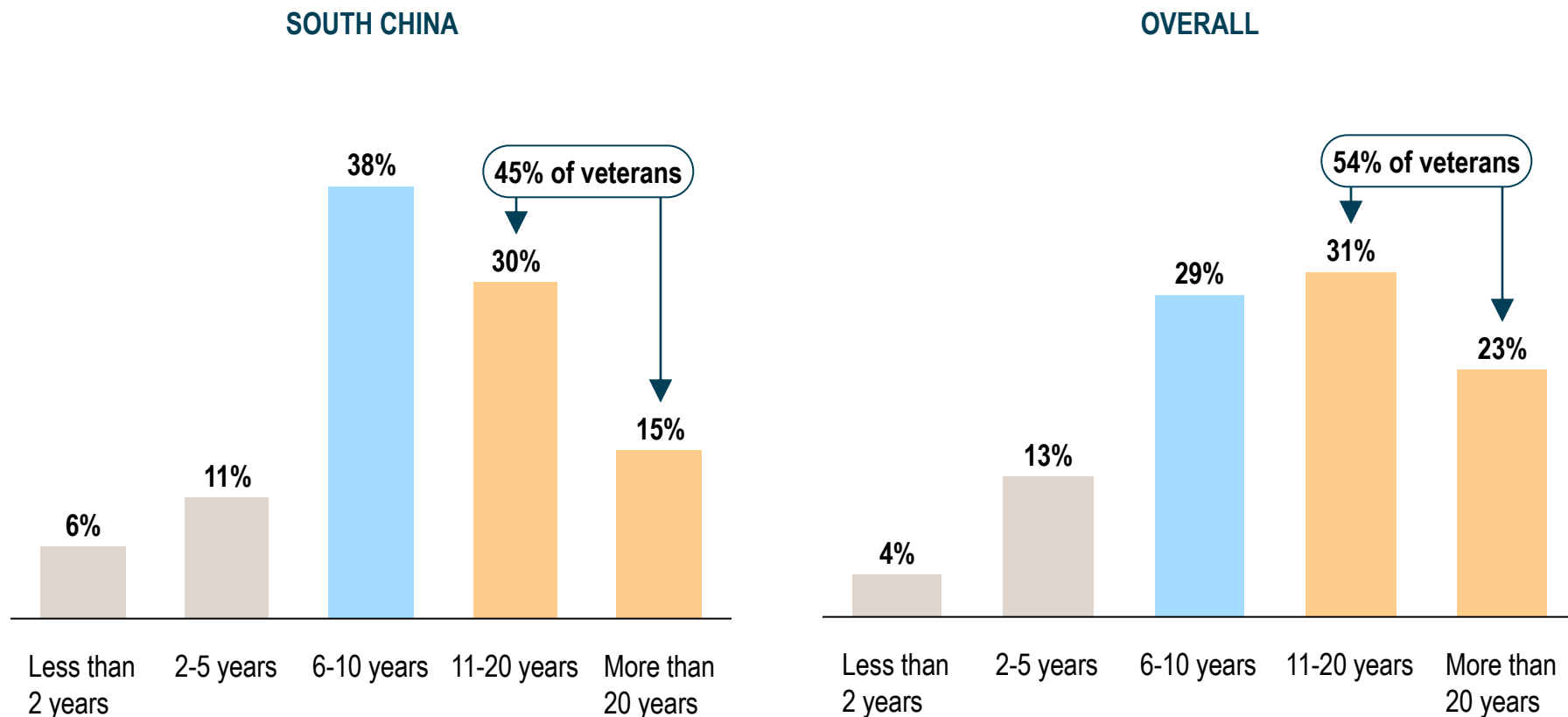


### OVERALL



# Most of respondents in SC have been operating in China for over a decade

## Breakdown of respondents by time in China (2015)





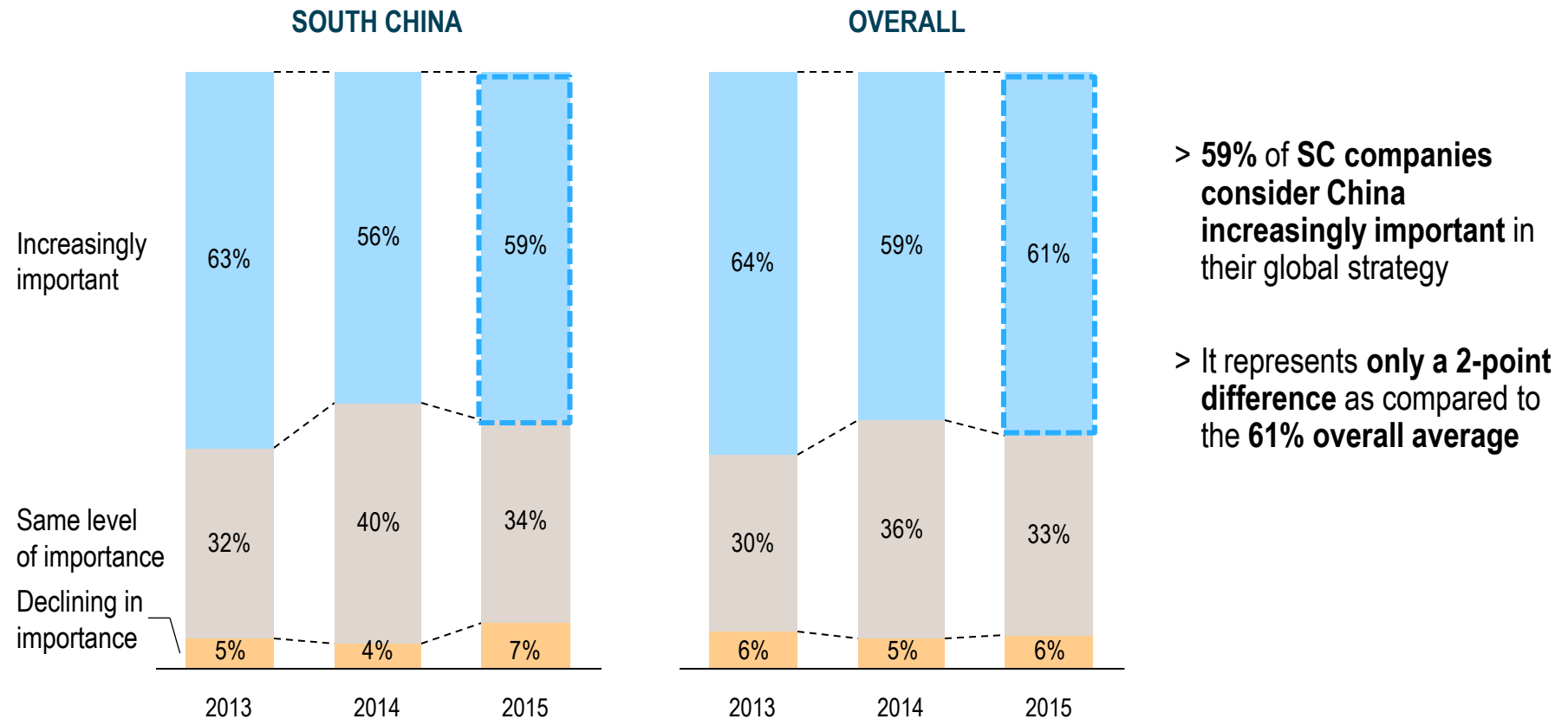
## II. Chasing the ‘New Normal’



European Chamber  
中国欧盟商会

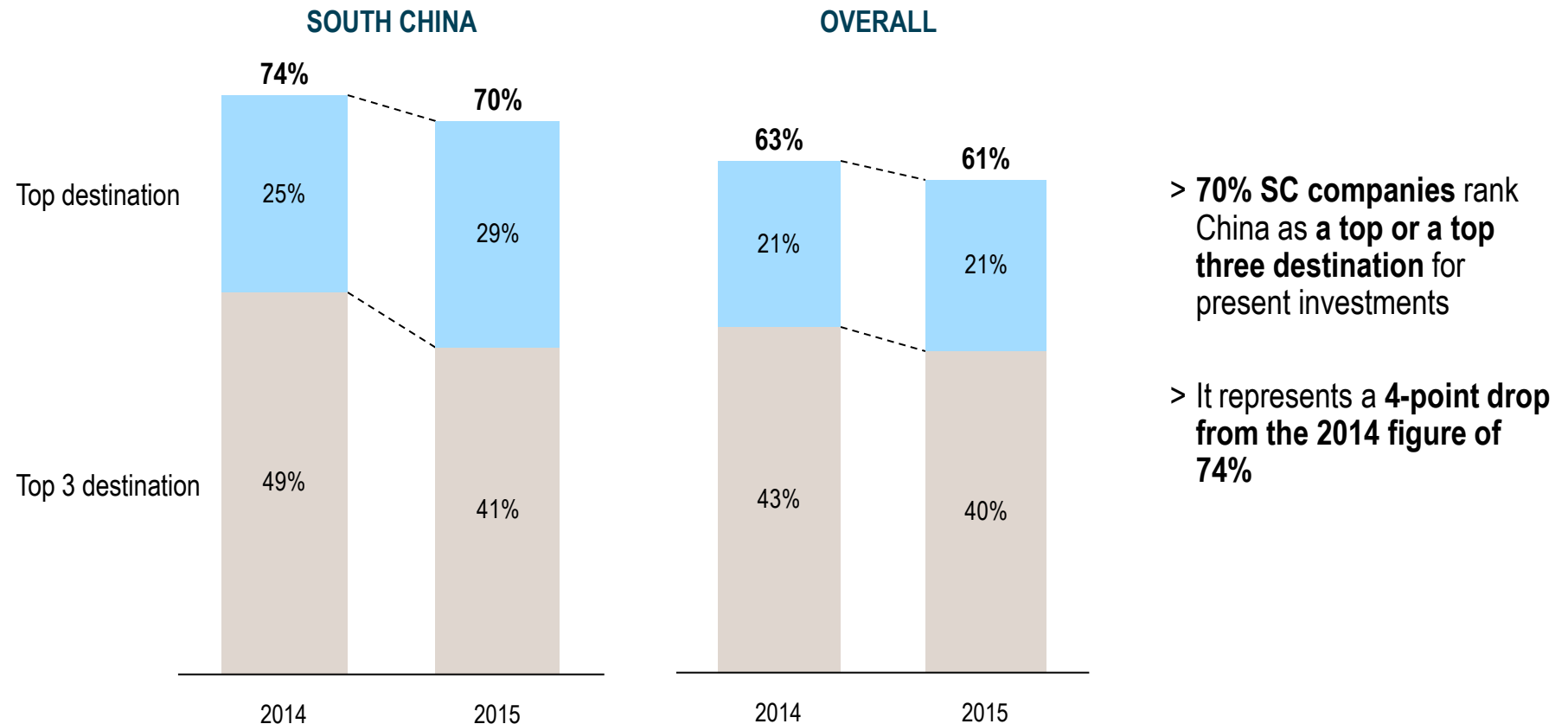
# SC companies are aligned with the overall average when they consider China as increasingly important in their global strategy

Importance of China in overall global strategy (2013-2015)



# More SC companies rank China as a priority in terms of investments compared to the overall average

China's rank as destination for present investment (2014-2015)



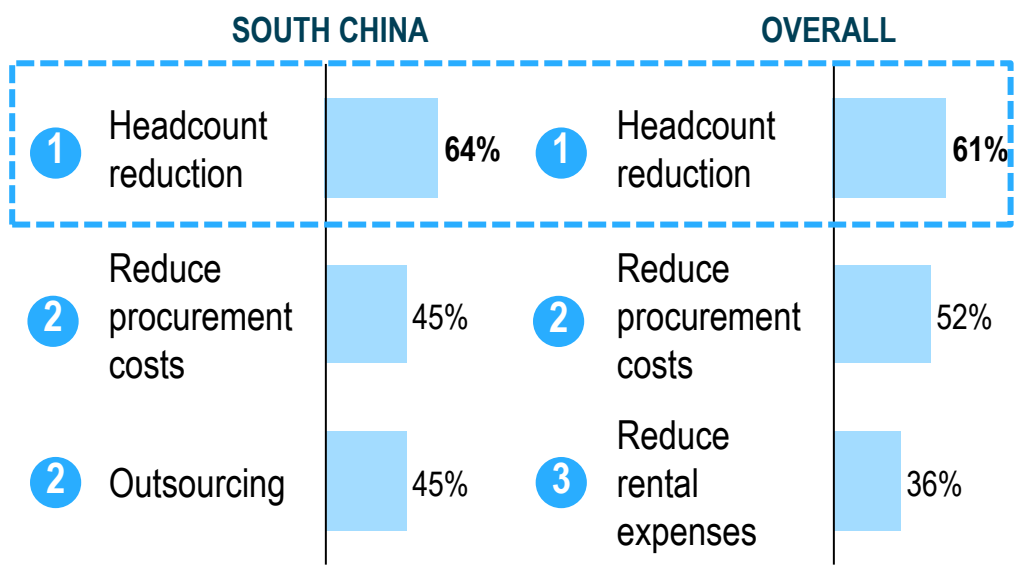
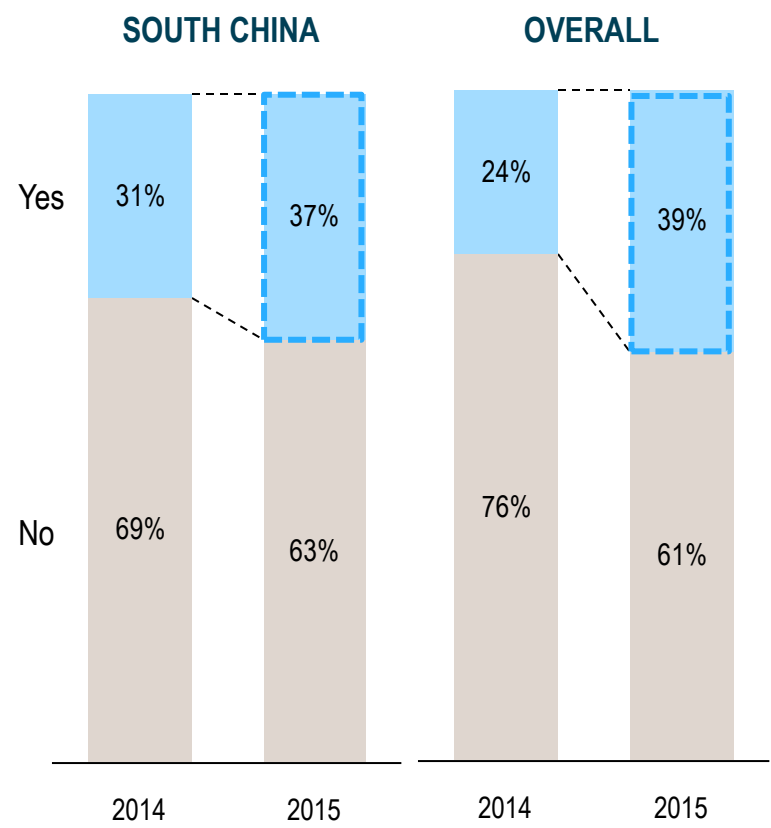
> **70% SC companies** rank China as a **top or a top three destination** for present investments

> It represents a **4-point drop** from the **2014 figure of 74%**

Note: The percentages of respondents who selected the options, 'Top 5 destination', 'Top 10 destination', 'Lower than top 10 destination' and 'Not applicable' are not shown

# A similar level of SC companies engage in cost reduction programmes as compared to the overall average

Cost reduction plans in China (2014-2015) and first affected areas (2015)



> A record high **37% of SC companies are planning to engage in cost reduction programmes in 2015**, a 6-point increase compared to 2014

> **64%** of them will do it through **headcount reduction**

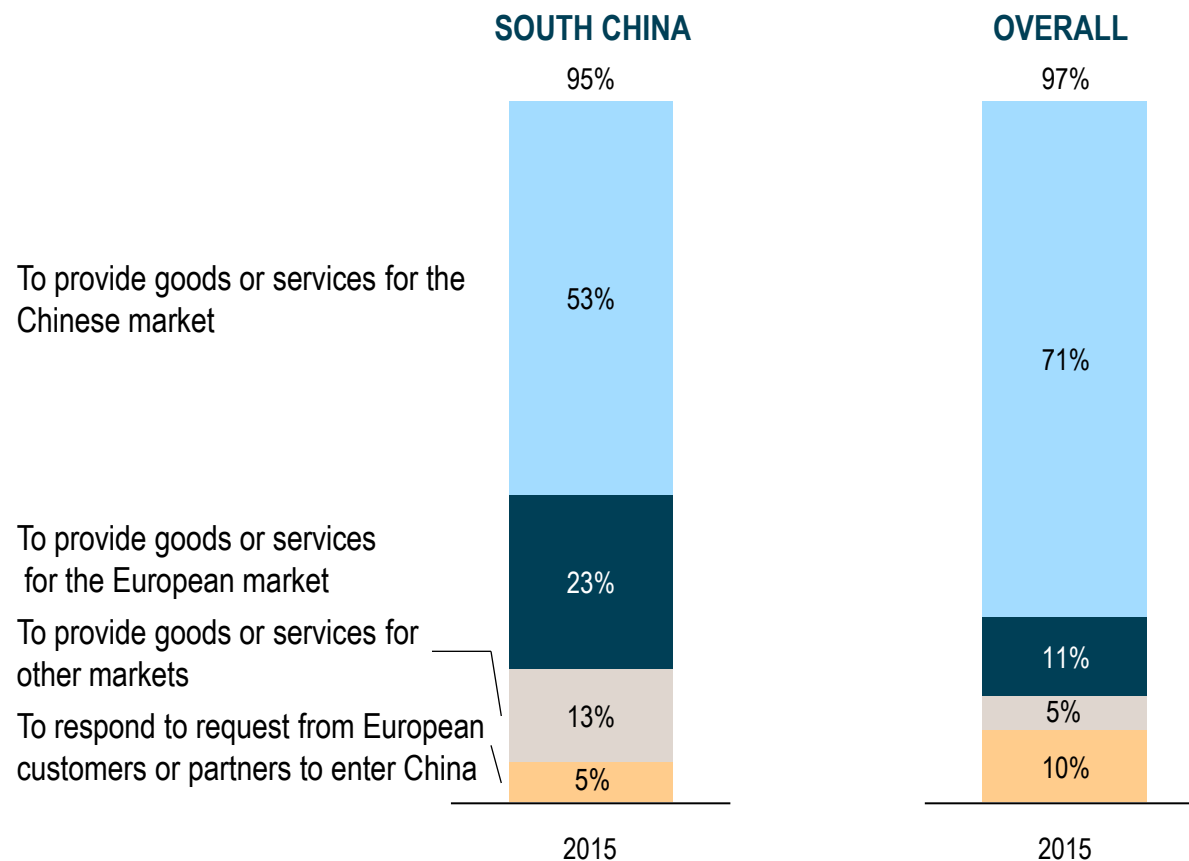
# III. Climbing up the Value Chain



European Chamber  
中国欧盟商会

# As compared to the overall average, more SC companies are in China to serve external markets

## Strategic reasons to operate in China (2015)

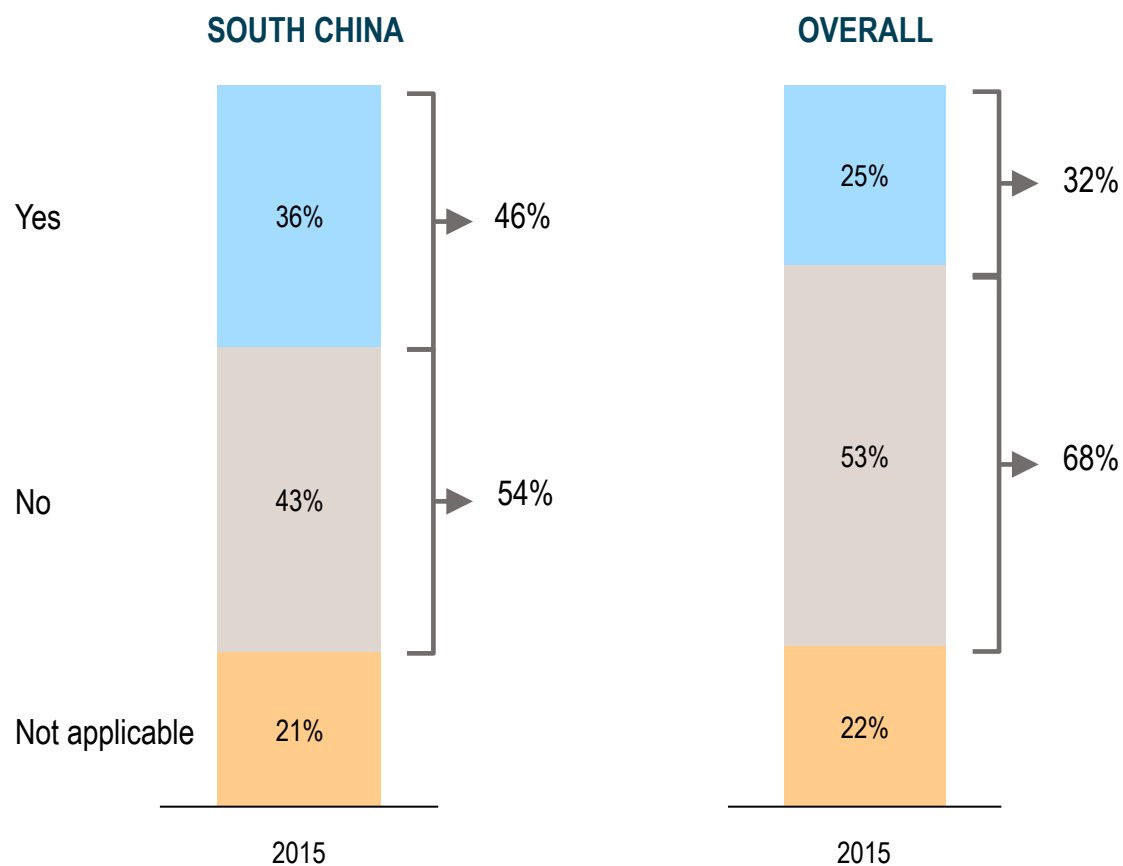


> More than half of SC companies (53%) report that their **primary strategic reason for operating in China is to provide goods and services to the Chinese market**

> At the same time a solid **36% produce goods in China but sell them abroad** vs. 16% only for the overall average

# More SC companies engage in R&D in China than the overall average

## R&D centres in China (2015)

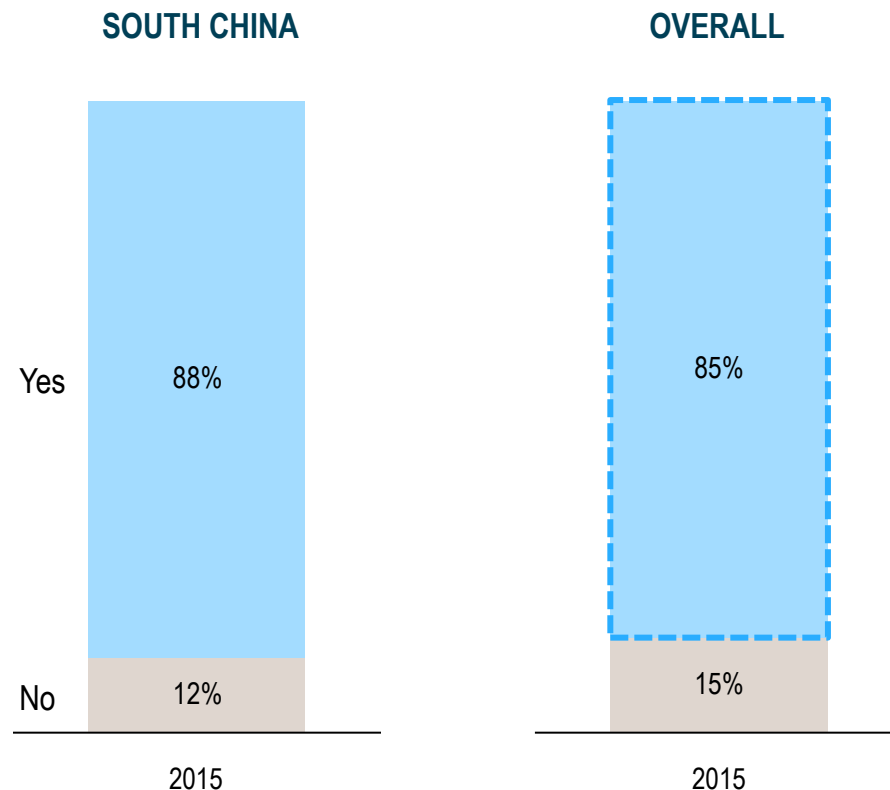


> More than one third (36%) of SC-chaptered companies have a R&D centre in China

> If we only take in account companies that undertake R&D globally, almost half of SC-chaptered (46%) have a R&D presence in China vs. only 32% overall

# In line with the overall average, SC companies that established a R&D centre in China, are very likely to keep investing in innovation

Future R&D Investments or Operations in Mainland China for companies that already have a R&D centre (2015)



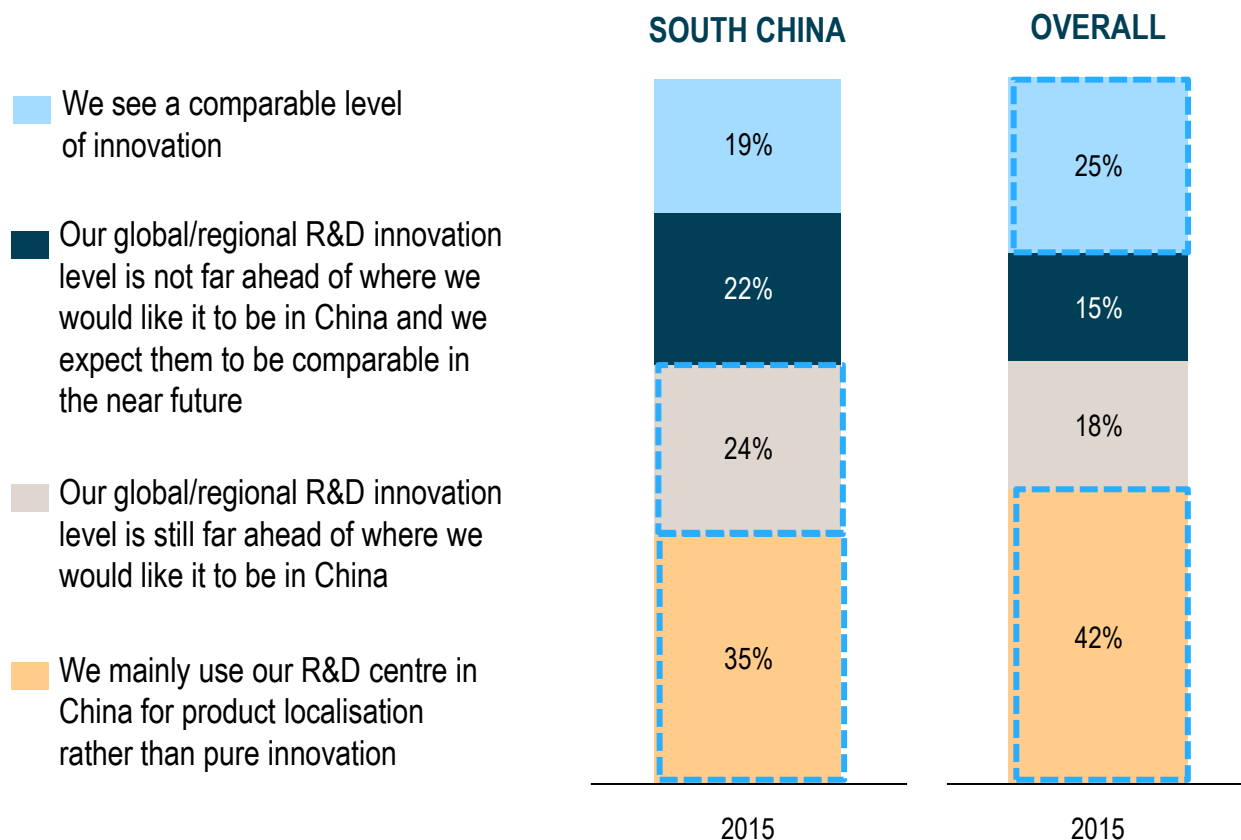
- > Of the 36% of SC-chaptered companies that have a China-based R&D centre, **88% of them are likely to increase investments** in Mainland China vs. 85% of the overall average
- > European companies retain their eagerness to contribute more to innovation **following improvements in regulation**

Note: The question was asked only if the participant had an R&D centre in Mainland China



# SC companies are more divided when asked about the innovation level of their Chinese R&D centres

## Innovation levels of China R&D centres (2015)



> **41%** of responses in **SC** cite that their **China R&D innovation level is either not far behind or comparable** to their global or regional centres, vs. 40% of the overall average

> More answers in SC (**24%** vs. 18%) report that **Chinese R&D centres are less innovative** than global or regional centres

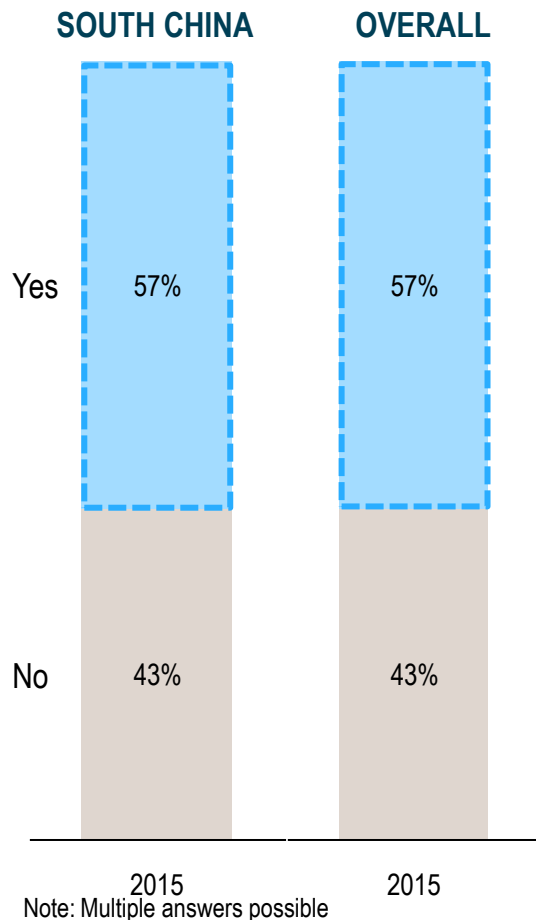
> Only **35%** of responses in **SC** mention that **European companies use their R&D facilities in China for product localisation** vs. 42% of the overall average

Note: Asked only to the companies that have an R&D centre in China. Multiple answers were possible

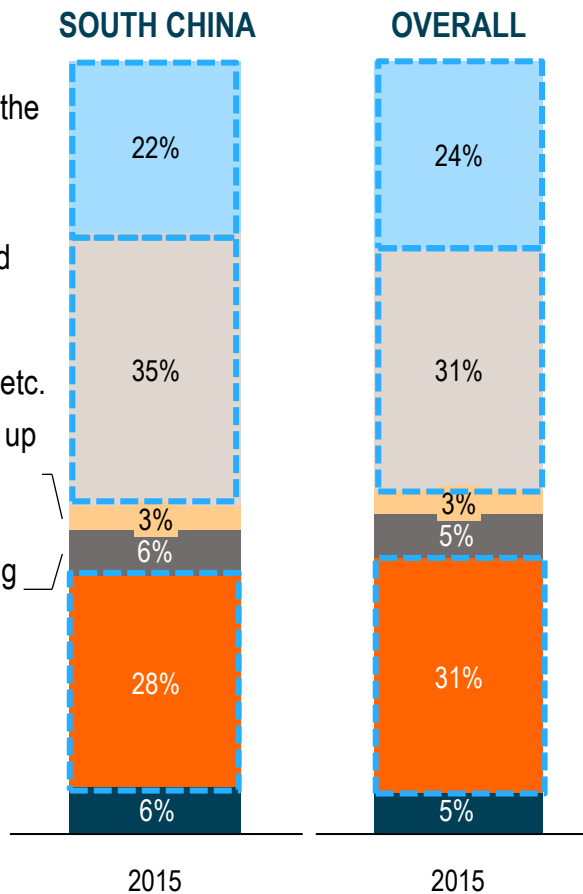


# SC companies are fully aligned with the panel average when asked about the impact of restriction to Internet access

## Impact of China's internet speed and censorship on business (2015)



- Lower productivity in the office, R&D and manufacturing
- Difficulties in data and document exchange with headquarters, partners, customers, etc.
- Deferred plans to set up R&D operations in China
- Difficulties in attracting and retaining talent
- Inability to search for information and engage in research
- Other

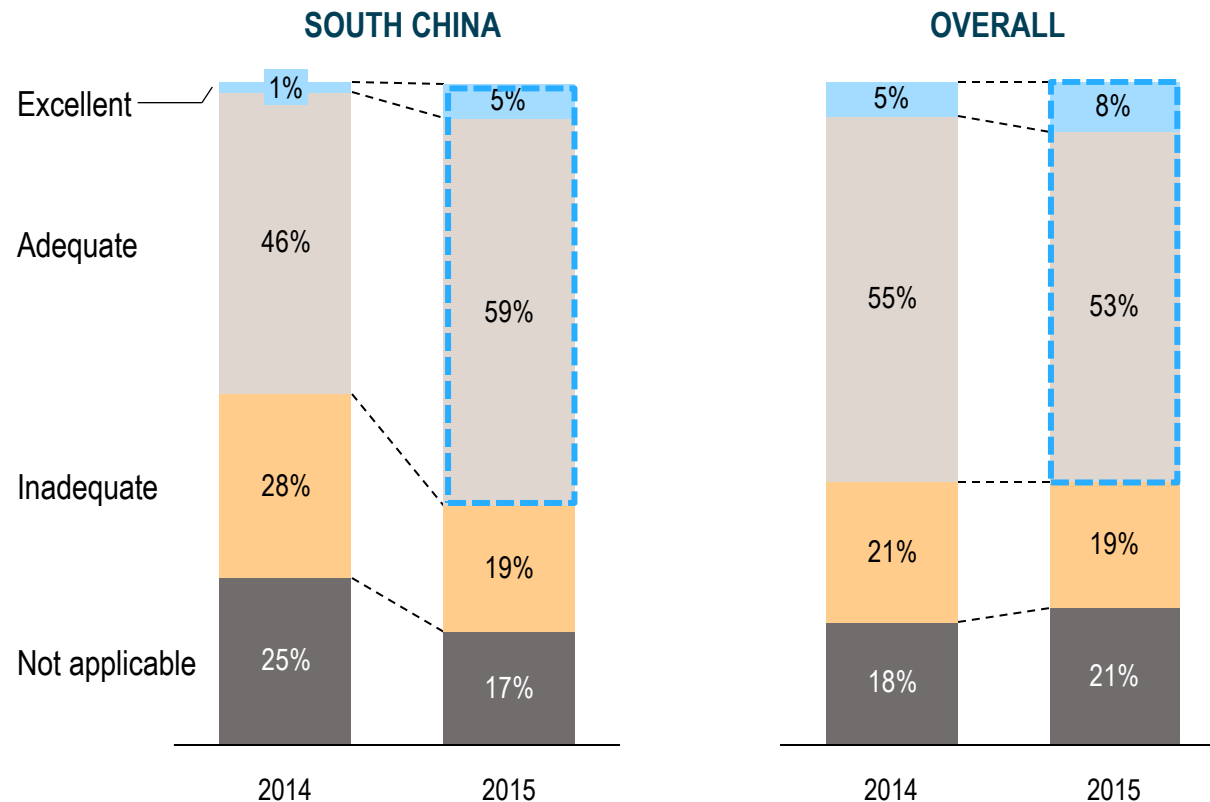


> **57%** of SC companies report their **inability to access certain websites** has a **negative impact** on their business

> The main consequences cited by SC-chaptered companies are the **difficulties in searching and sharing information** followed by the **loss of productivity**

# A similar percentage of SC companies judge written IPR laws as adequate or excellent

Written IPR laws' effectiveness (2014-2015)

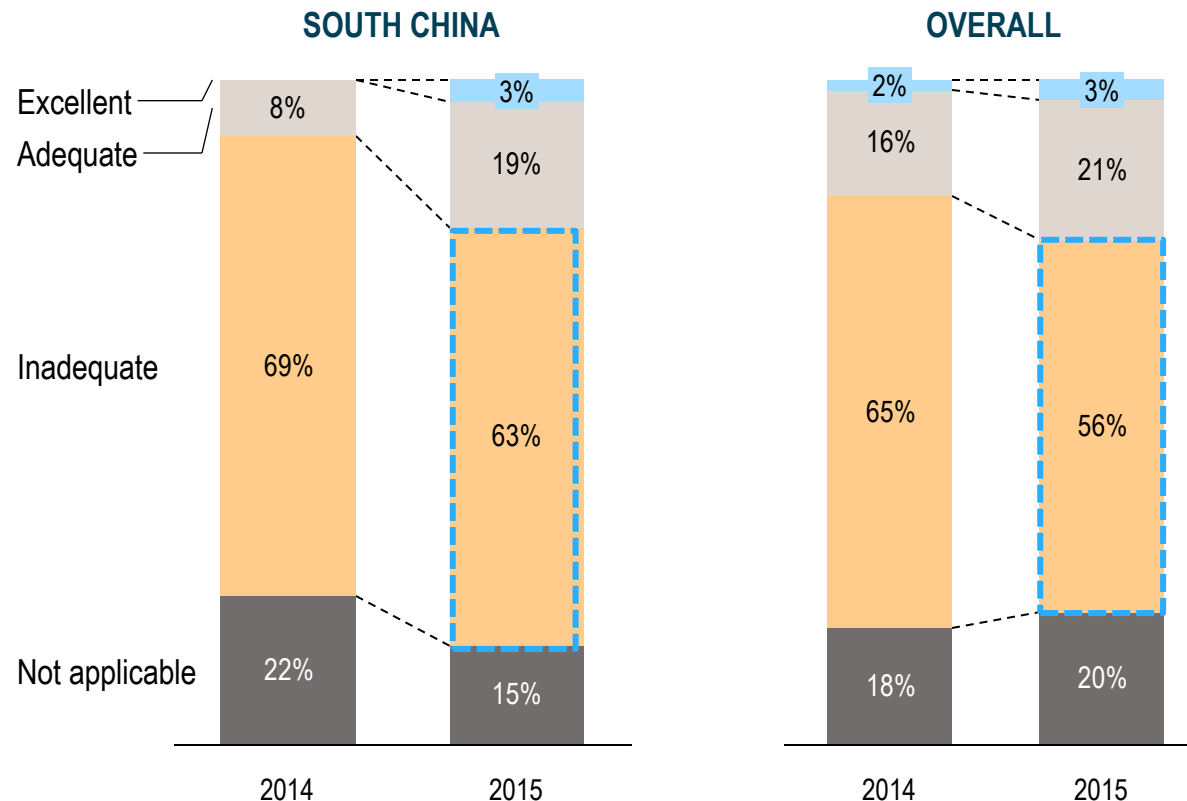


> **64%** of SC-chaptered companies judge **written IPR laws as adequate or excellent** vs. 61% last year

> This represents a **17-point increase** from **47%** in 2014 in SC

# More SC chaptered companies are dissatisfied by the level of protection guaranteed by IPR laws' enforcement in China

Written IPR laws' enforcement (2014-2015)



> **63%** of European companies judge IPR laws' enforcement as inadequate

> This represents a **6-point drop** from 2014 vs. a 9-point drop in the overall panel

# IV. Rating the Reform

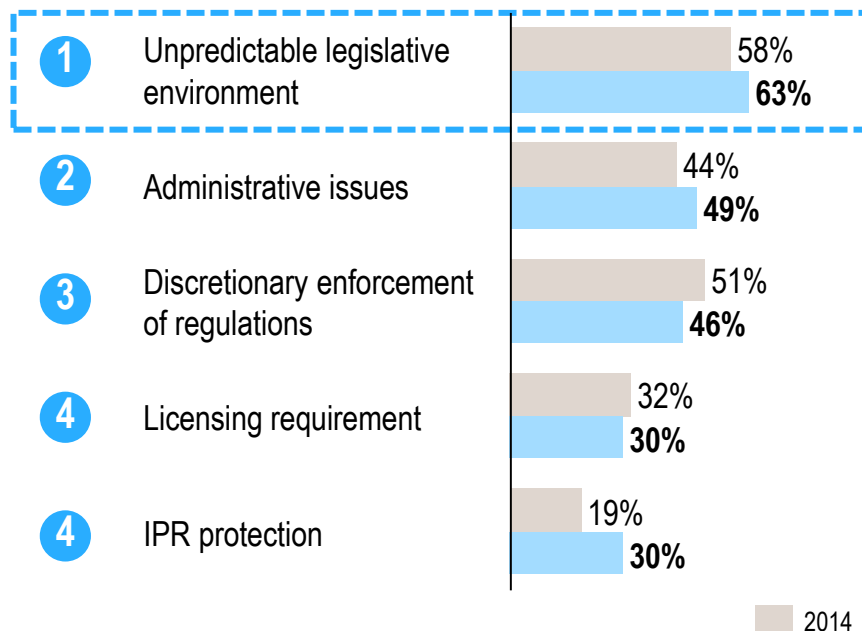


European Chamber  
中国欧盟商会

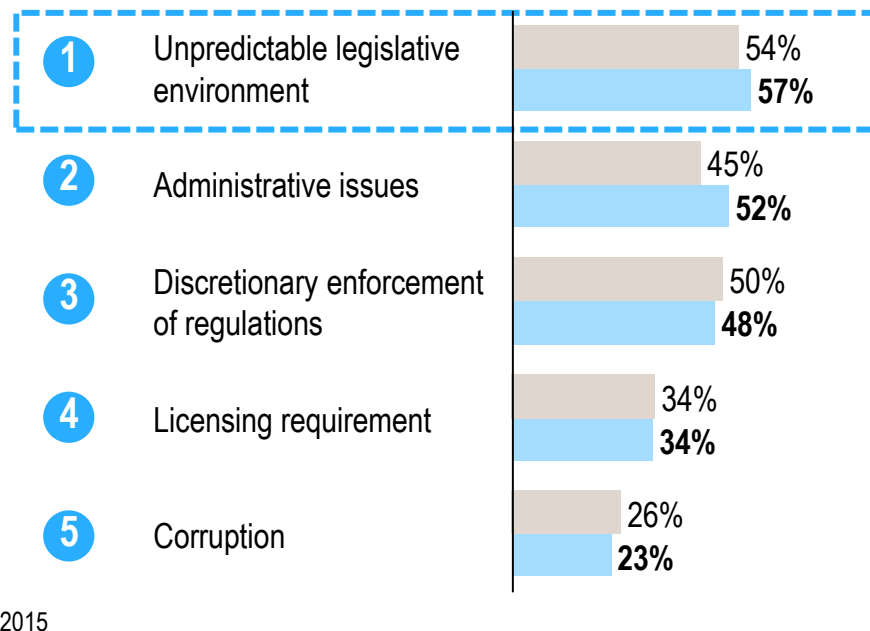
# According to SC companies, the same regulatory obstacles hamper economic performance in China

## Regulatory obstacles to doing business in China (2014-2015)

### SOUTH CHINA - TOP 5 CHALLENGES



### OVERALL - TOP 5 CHALLENGES



> **Unpredictable legislative environment** remains the most significant regulatory obstacle with **63% of SC companies mentioning it in their top 3 obstacles**, a 5-point increase compared to 2014

1) FIEs: Foreign-Invested Enterprises

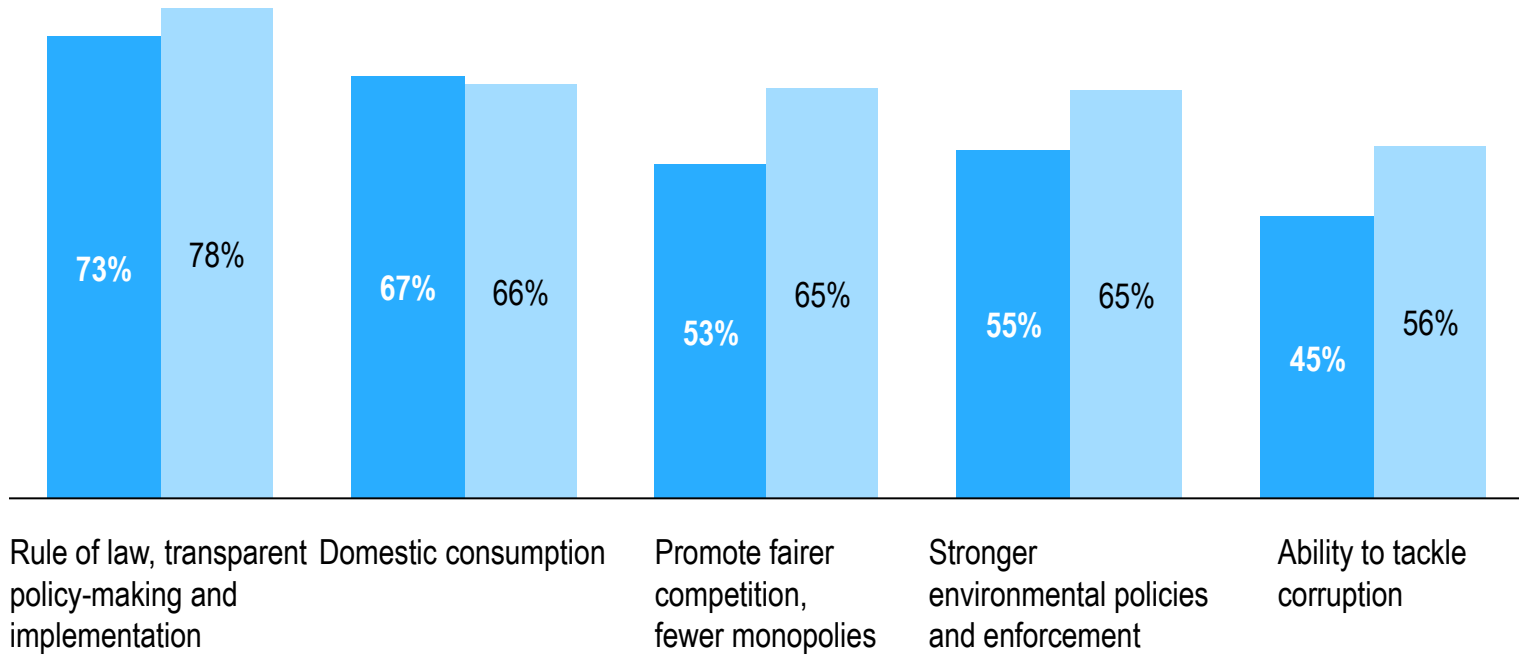
Note: The percentages shown are the sum of the top 1, 2 and 3.

Source: BCS 2015, Roland Berger analysis

# Rule of law is also perceived as the main driver of future economic growth in China by SC companies

Drivers for China's economic performance (2015)

## TOP 5 DRIVERS



> **73%** of SC-chaptered companies acknowledge the importance of the **Fourth Plenum's central theme of rule of law**, vs. 78% of the overall average

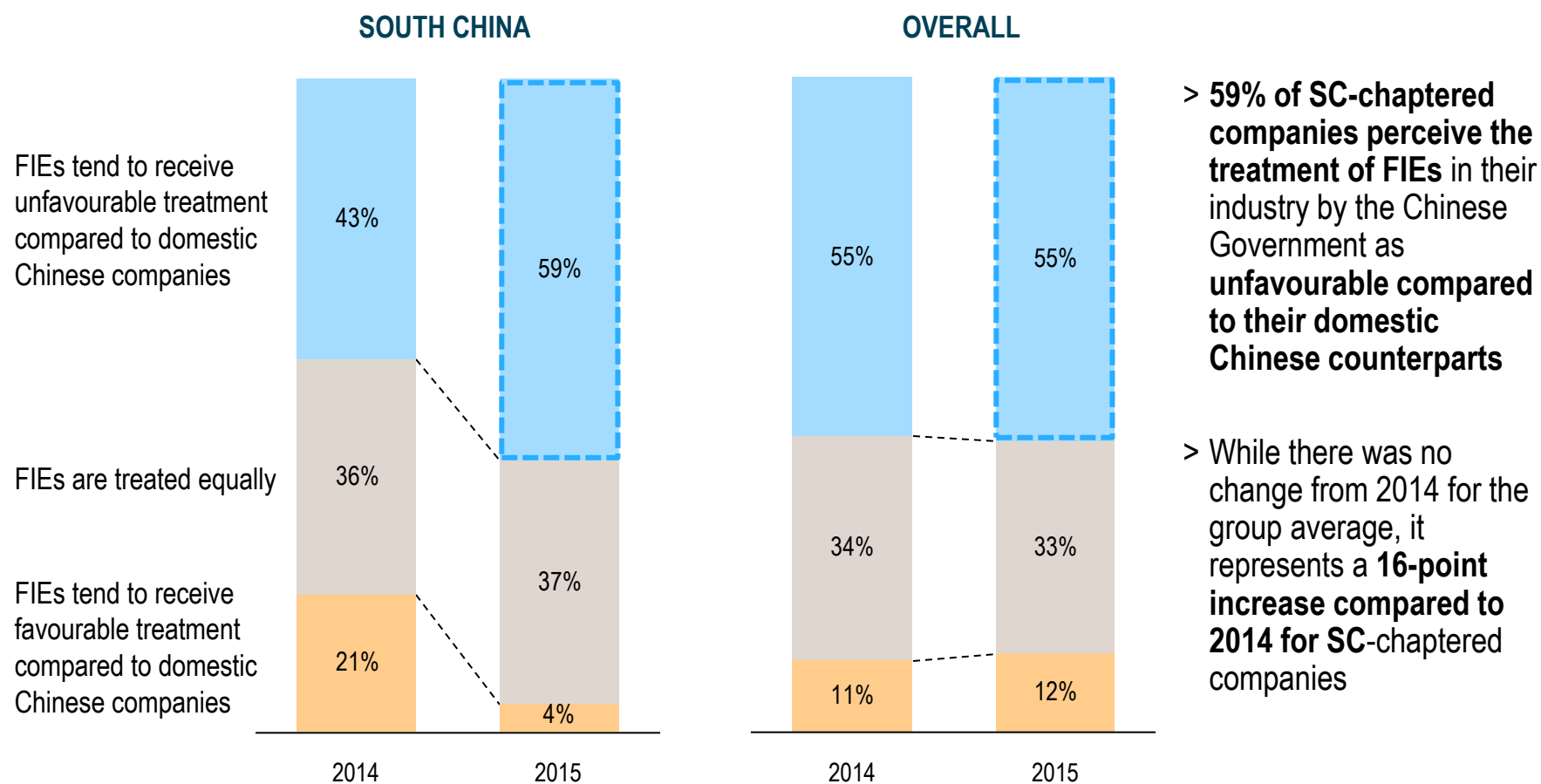
■ South China ■ Overall

Note: Only the percentage of respondents who selected "Significant" is shown

Source: BCS 2015, Roland Berger analysis

# More SC companies than the group average perceive unfavourable treatment compared to domestic Chinese companies

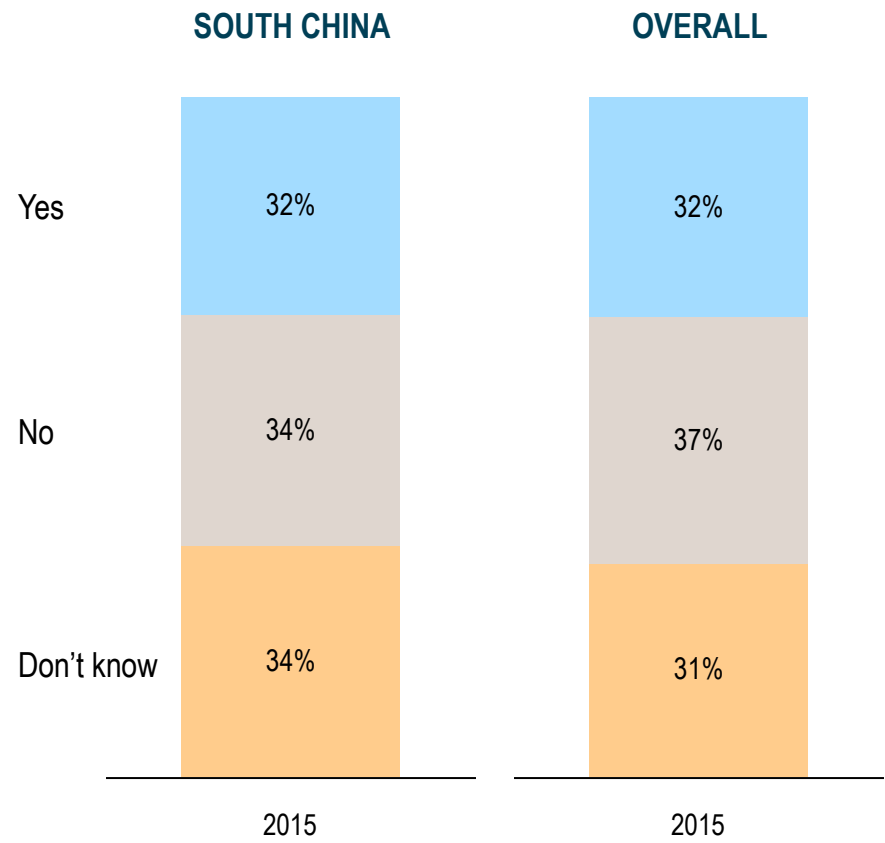
Perception of discrimination against foreign companies (2014-2015)





# SC companies seem as divided on the reform agenda's efficiency to create a fairer economic environment as the panel average

Assessment of reforms to create a level playing field for foreign investors in China (2015)

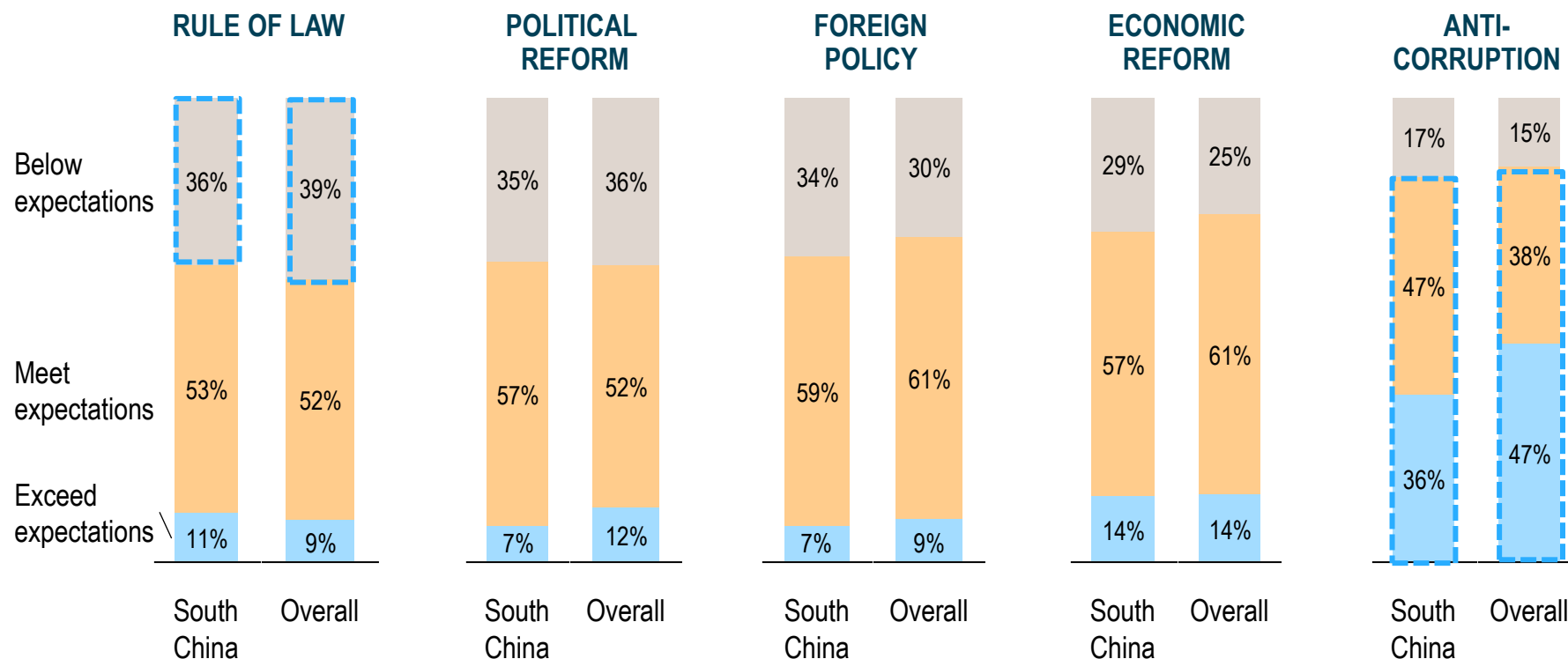


> **SC companies** are fairly divided between the "Yes" (32%), "No" (34%) and "Don't know" (34)% camps



# Similarly to the rest of the panel, SC companies expect more efforts from the Chinese Government to improve rule of law

## Rating of current Chinese administration's efforts (2015)

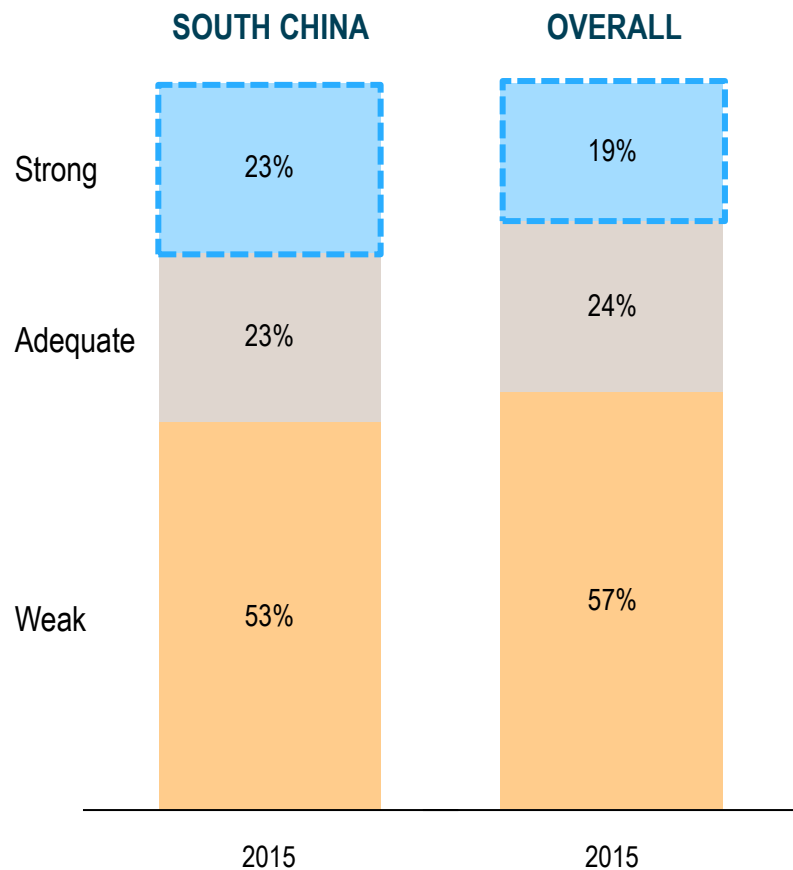


> **Rule of law** measures are **below expectations** for **36%** of SC companies

> Conversely, **SC companies applaud the anti-corruption** measures with **83%** of them reporting that the administration's initiatives **meet or exceed their expectations**

# In line with the average of the panel, SC companies perceive the environmental protection measures in China as weak

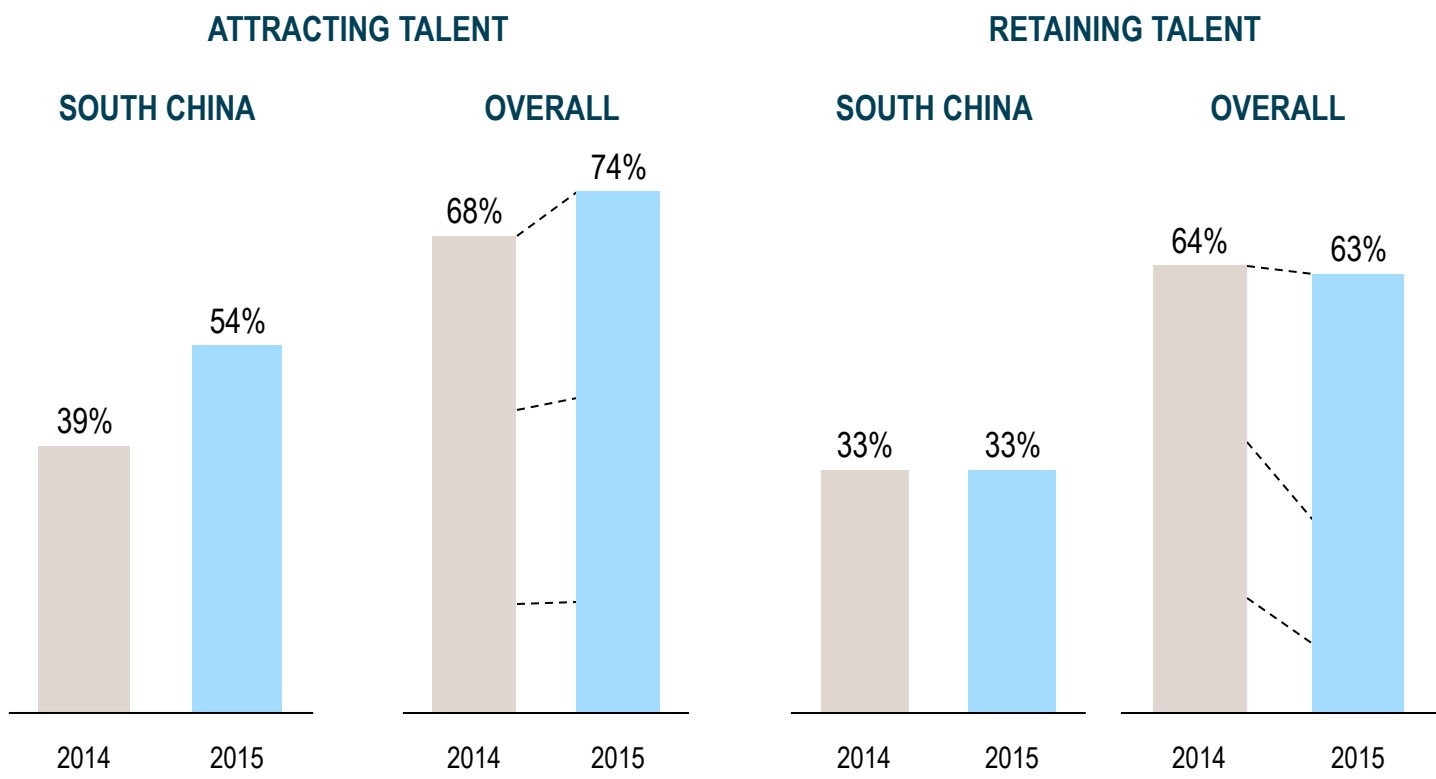
## Rating of China's environmental protection measures (2015)



- > Only **23%** of SC companies rated the **Chinese Government's environmental protection measures as strong** vs. 19% of the overall panel
- > European companies lack of confidence in the current state of environmental protection in China

# SC companies' human resources are less impacted by air pollution than the overall average

Air pollution remains a top HR challenge to attract and retain talent (2014-2015)



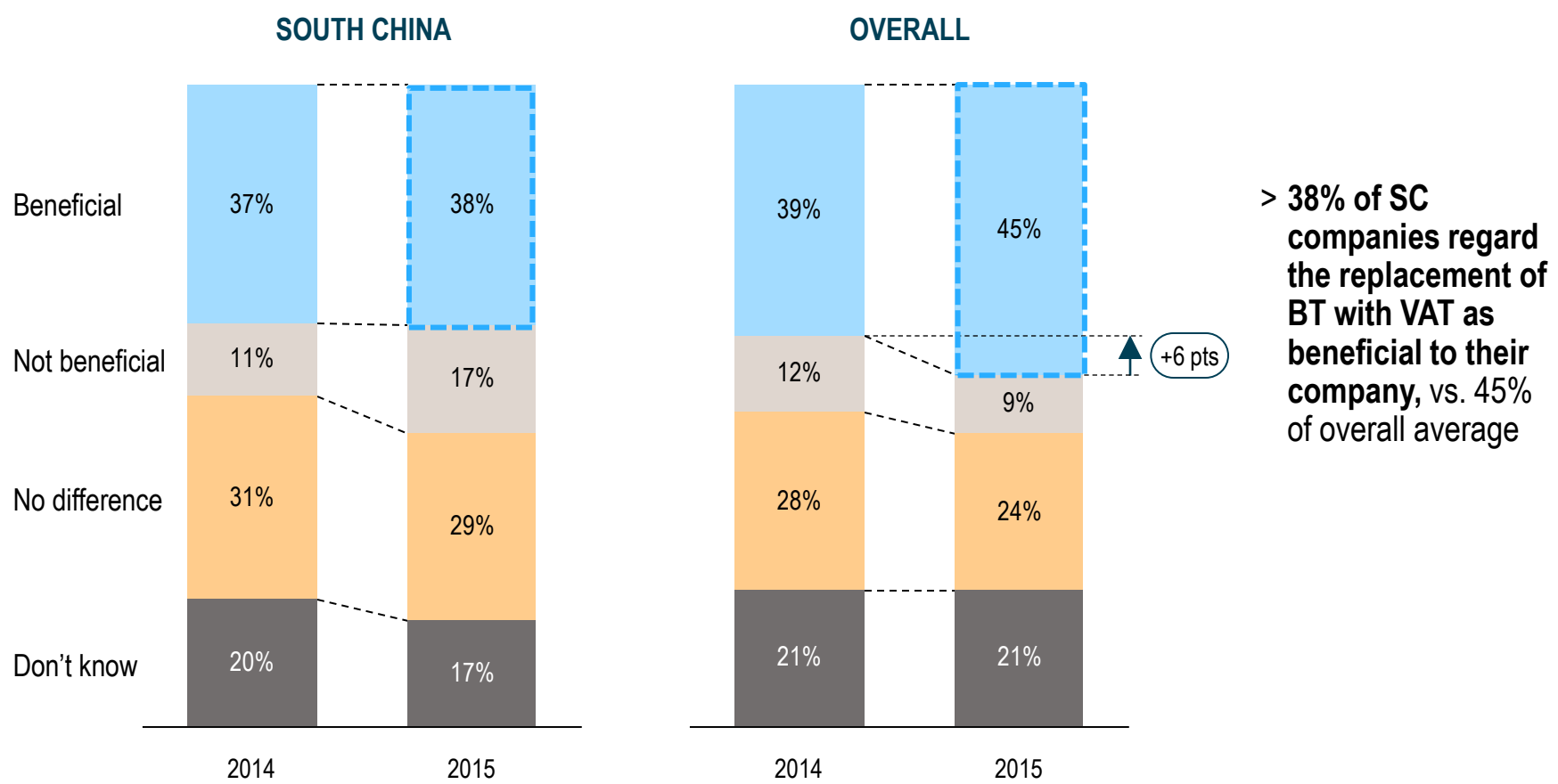
> **54%** cite air quality issues among their top three challenges to attracting foreign talent to China, an impressive 15-point increase from 2014

> **Only 33%** of SC companies list air quality issues among their top three challenges to retaining foreign talent vs. 63% of overall average

Note: The percentages shown are the sum of the top 1, 2 and 3 challenges.

# SC companies are less convinced by the Chinese tax system reform as compared with the overall average

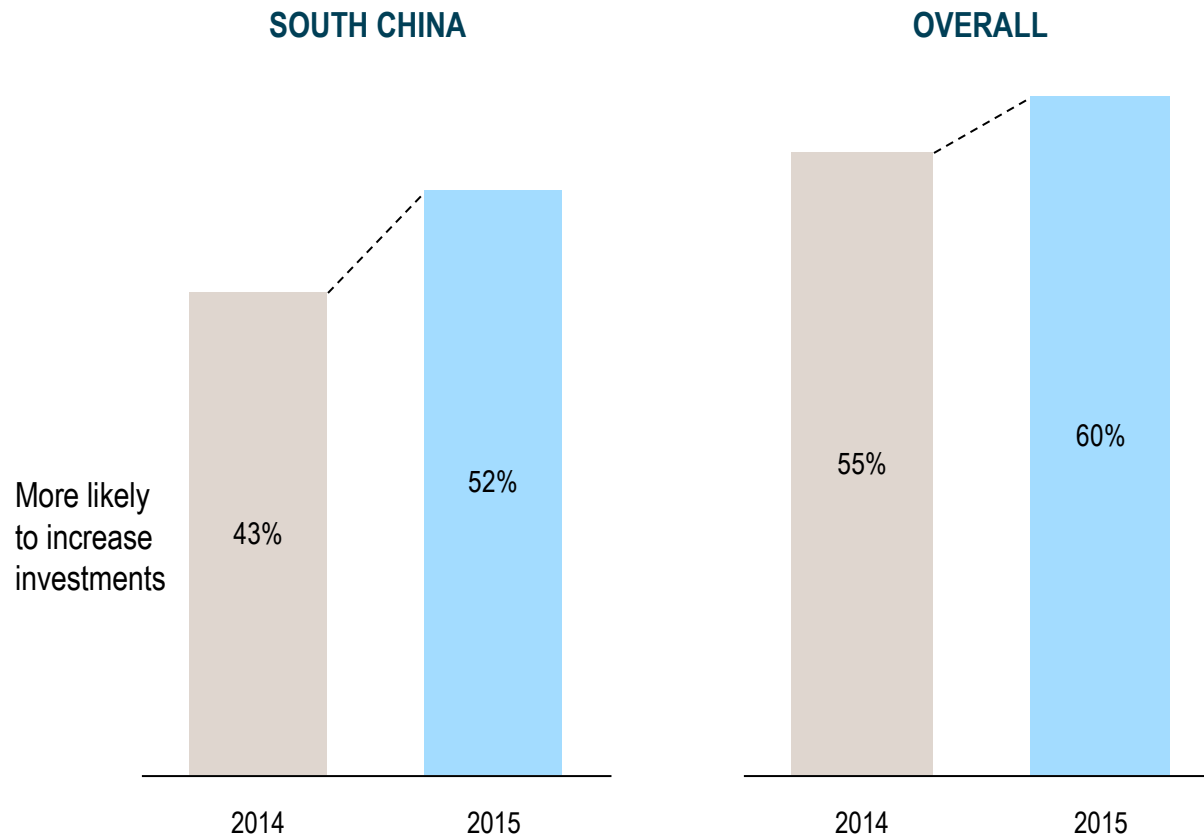
Impact of replacement of Business Tax (BT) with Value-Added Tax (VAT) (2014-2015)



1) Asked only if the participant answered in the previous question

# If greater market access were granted, fewer SC companies than the overall average would increase their investments

Impact of greater market access on foreign investment (2014-2015)



> **52%** of SC-chaptered companies indicate that they would be **more likely to increase investment in China if greater market access were granted** to foreign companies in their industry, vs. 60% of overall results

> This represents a **9-point increase** from 2014

# V. Q&A



**European Chamber**  
中国欧盟商会

The background features a light teal color with large, faint, stylized Chinese characters. At the bottom, there is a line-art illustration of a city skyline, including traditional Chinese architecture on the left and modern skyscrapers on the right. A semi-circle of yellow stars is positioned above the text.

**Thank You**  
谢谢