European Chamber
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European Business in China

Business Confidence Survey

2012

In partnership with

Roland Berger
Strategy Consultants

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Disclaimer: There may be minor discrepancies for those figures where percentages should total 100%. This is owing to rounding percentages to the nearest whole number.

EXECUTIVE SUMMARY

Reflecting China's economic importance as the largest contributor to current global growth, the results of the European Business in China Confidence Survey 2012 show that China's strategic importance for European companies has increased to unparalleled levels as European companies continue to see increased revenues and profits. This appears to coincide with a general maturation of China's increasingly costly and competitive business environment, with indications that large numbers of companies are looking to increase efficiency and productivity in order to maintain profit growth even amidst high revenue forecasts. Following years of stalled reform, the maturity of the regulatory environment still lags behind. As companies take measures to respond to apparent constrictions in the marketplace, there is a sense of growing frustration that the reforms of the 12th Five-Year Plan are not being carried out and that the regulatory environment will continue to discriminate against foreign companies. As many companies also perceive significant missed opportunities due to this, the Business Confidence Survey reveals that nearly a quarter of member companies are considering shifting investments away from China.

While the global economy continued to struggle over the past 12 months, China's economic performance remained strong and it contributed the most in real terms to global economic growth for the sixth consecutive year. European companies have benefited from this growth, with increased revenues and higher average profit margins in China compared to company performances being reported globally. With optimism about continued growth, China's strategic importance has correspondingly increased for most European companies, as has the strategic intention to serve the domestic market through their China operations. This is reflected in the plans of many companies to make further investments, increase the number of permanent staff positions and develop marketing and sales activities as companies increasingly see boosting domestic consumption as important to China's growth.

Evidence from the survey suggests a general maturation of the Chinese marketplace to which European companies are trying to adjust. Private Chinese companies are becoming more competitive in traditional business aspects, state-owned companies are deemed to be yet still improving in their government relations, and rapidly rising labour costs are impacting business plans. As indicators suggest that some market areas are becoming constricted or even saturated, the upshot is that companies' optimism for revenue growth is not echoed in their profit projections. European companies are increasingly turning to reducing costs to stave off pricing pressures and, although companies increasingly want greater access to more sectors, investment plans indicate that much effort is being exerted to maintain current market share.

Unfortunately, the development of the regulatory environment is not in step with the development of the market. Despite high-level pronouncements regarding the importance of foreign investment and equal treatment for all companies registered in China, the regulatory environment for foreign enterprises conversely appears to have worsened. European companies state that reform of the regulatory environment will be the most important driver of future Chinese growth. Yet although the 12th Five-Year Plan is still generally regarded as positive, the fact that it is increasingly viewed as having little impact on companies' business prospects is reflective of a lack of optimism regarding reform. The importance of increased competition in spurring innovation and in moving towards a more value-added and balanced economic growth model has been widely recognised in China, yet the perception that the regulatory environment will continue to deteriorate for European enterprises suggests that companies remain pessimistic that vested interests in China will stymie reform.

As a direct result of market access and regulatory barriers, European companies report missing out on considerable business opportunities worth a significant share of their revenue in China. European companies hope to compete in new areas and contribute to the development of a knowledge-based and green economy in China. However, as companies become increasingly aware of asymmetries and unfairness caused by the stalled regulatory reform in China, coupled with the increasing maturity of the marketplace, a significant proportion of European companies state that current trends are causing them to consider shifting investments from China to other markets.

China's ever increasing strategic importance for European companies

The importance of the Chinese market for European companies is continually underlined by the answers given in this survey. European companies are looking to increase investments, create jobs and better serve the domestic market:

- China revenue comprises more than 10% of worldwide revenue for half of the respondent companies, representing an increase of 50% since 2009
- Three-quarters regard China as a top three destination globally and it continues to increase in importance
- New investments in China are planned by 63% of respondents, with more than half looking at entering new provinces
- 61% increased the number of permanent staff positions in 2011 and nearly three-quarters plan to hire more people in the next two years

A maturing market

Various indicators suggest that the market in China is becoming more competitive with private and state-owned Chinese enterprises, offering distinct challenges and rising labour costs impacting strategy:

- Chinese private enterprises are increasingly competitive in terms of pricing, branding and sales
- Chinese state-owned companies are seen as improving, particularly in terms of governmental relations
- Cost reduction is becoming a more frequently used strategy by European companies to maintain their competitiveness and the top three areas for future investment are branding, marketing and sales, and HR, indicating that more European companies are having to fight to maintain their current market position
- Rising labour costs are regarded as a significant concern by 63% of respondents

Stalling regulatory reform

The regulatory environment is not developing in accordance with the needs of the market and long-standing issues in this area remain of significant concern:

- 40% report that Chinese government policies towards foreign enterprises are less fair than they were two years ago
- The discretionary enforcement of regulations by government is seen as the most significant obstacle to doing business in China
- The development of the rule of law and more transparent policy making and implementation is rated as the most important driver for future Chinese economic growth

Barriers resulting in significant missed opportunities

European companies state they continue to miss out on business opportunities in China because of market access and regulatory barriers. The value of these out-of-bounds opportunities is significant and underlines that this is the most significant issue being faced by European companies in China today:

- Half of companies report missed opportunities due to market access barriers, with two-thirds of these estimating the value of these missed opportunities at 10-50% of revenues
- Nearly a quarter of respondent companies are considering moving existing investments out of China

1 CHINA'S INCREASING IMPORTANCE

China has long been a strategically important market for European companies but the sustained growth of the Chinese economy, combined with the faltering recovery in Europe and elsewhere in the world, make it an ever more crucial market.

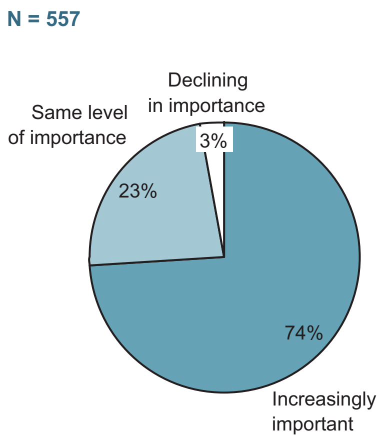
1.1 Increasing importance of China

European companies overwhelmingly perceive China as a driver of their global business: 97% of the respondent companies stated that China is either becoming increasingly important in their company's overall global strategy (74%) or is as important as it was last year (23%).

Two key reasons commonly cited by respondent companies for China's increasing importance to their overall global strategy are the optimism in the market's continued growth and expanding domestic demand.

Figure 1: **Importance of China in companies' overall global strategy, 2012**

Question: How would you currently characterise the importance of China in your company's overall global strategy?



Thoughts from companies about the reasons China is *increasingly important* in their overall global strategy

1 Optimism for growth

- "We believe in the long - term economic development of China, its market potential and access to the neighboring countries"
- "China's market is growing fast and the importance will increase."

2 Increasing domestic consumption

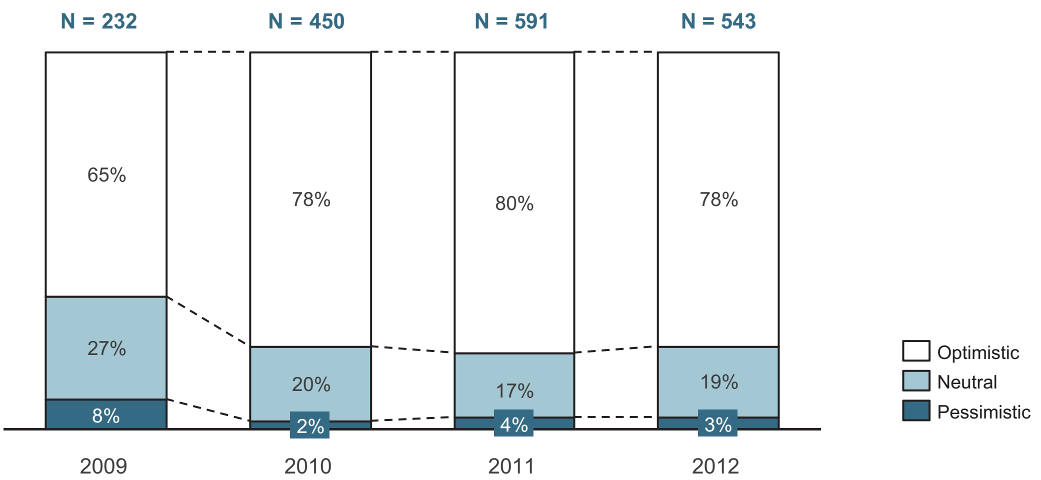
- "Our global clients are increasingly focused on China and our ability to support them in this market is critical to our global positioning "
- "Before, China was mainly the world workshop, today and tomorrow China will be end users of our products"

1.2 Optimistic about growth

Supporting the information above, 78% of respondent companies stated they are optimistic about growth potential in China over the next two years, with a further 19% neutral about it. Only 3% of companies are pessimistic. Almost without exception, European companies are bullish about their sector's growth prospects in China.

Figure 2: **Business outlook for growth in China within the next two years, 2011-2012**

Question: How would you describe the business outlook for growth in your sector in China within the next two years?

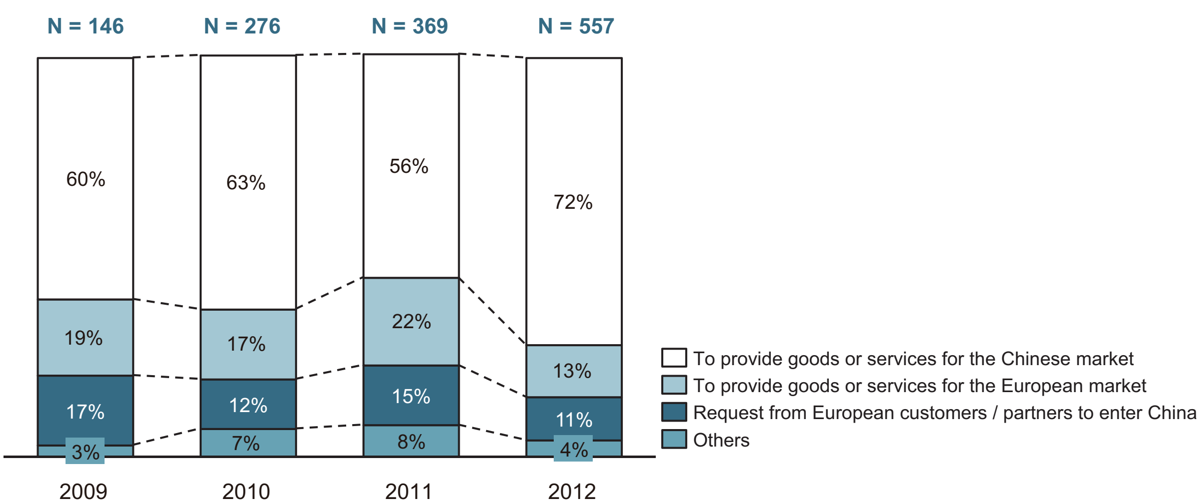


1.3 In China, for China

For the majority of companies surveyed, providing goods and services for the Chinese market is the number one reason for doing business in China. This was the top strategic reason for 72% of respondents in 2012, up from 56% a year ago.

Figure 3: **Providing goods and services for the Chinese market as the top strategic reason for operating business in China, 2009-2012**

Question: What are the strategic reasons for your company operating its business in China?



Providing goods and services for the European market (13%) and requests from European customers/partners entering China (11%) round out respondent companies' top three reasons for doing business in China among respondent companies. This greater shift towards providing goods and services for the Chinese market further supports the thesis that companies are in China to do business in China. More and more European companies are looking to capitalise on the Chinese government's ambition to make domestic consumption a greater driver of the economy so as to lessen its reliance on foreign exports and investment.

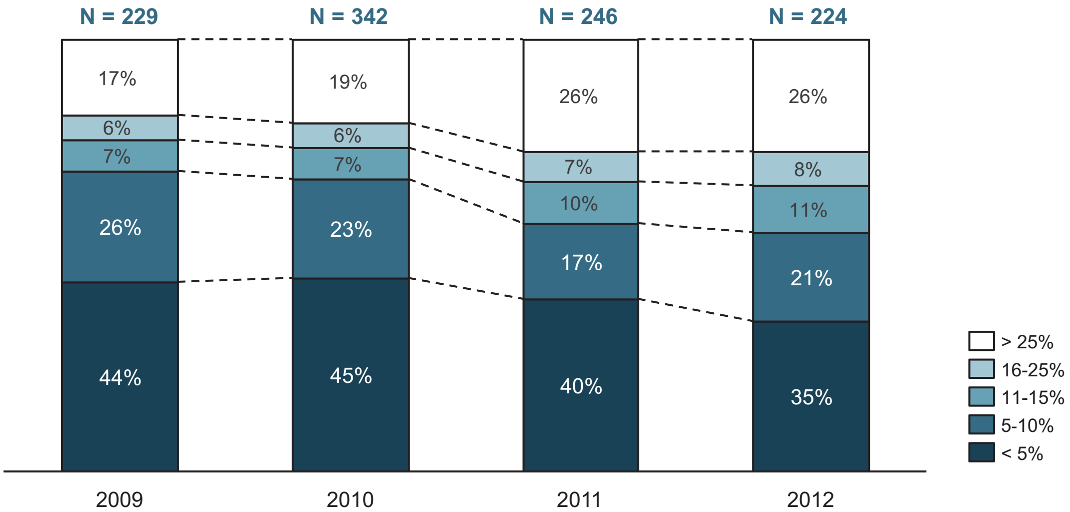
1.4 Rising China-generated revenue

The proportion of companies' global revenue generated in China shows a clear increase since 2009, with 45% of the companies surveyed reporting that the percentage of total global revenue generated in China exceeded 10% this year. In 2009, less than a third said this.

At the higher end, 26% of companies said that more than a quarter of their global revenue was generated in China in 2012 compared to only 17% of respondent companies in 2009.

***Figure 4:* Proportion of companies' global revenue generated in China, 2009 - 2012**

Question: What proportion of your global revenue was generated in China this past year?



1.5 Profitability

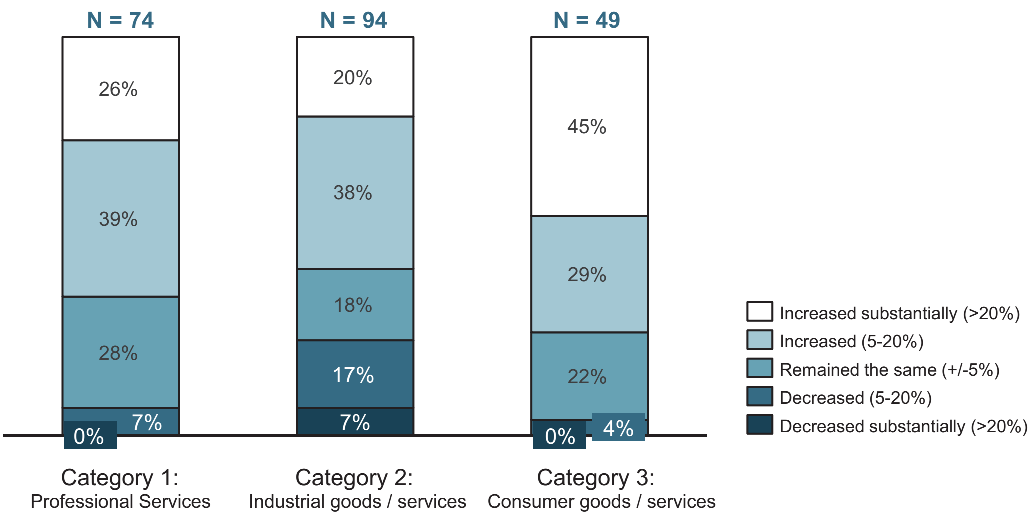
Respondent companies' overall profitability from China operations has continued to be positive. Bearing in mind that the European-crisis reached a peak during 2011, some 64% of companies said their EBIT in China had increased compared to the previous year.

A more varied picture emerges when results are broken down by sector. Whereas 45% of consumer goods/services companies said their profitability in China had increased substantially (i.e. by more than 20%), this was true for only 26% of professional services companies and for only 20% of industrial goods/services companies.

Companies in the industrial goods/services sector were the most likely to suffer from lower profitability in China, with 24% of them reporting a decrease. Only 7% of professional services companies and 4% of consumer goods/services companies said that profitability had declined in the period surveyed.

Figure 5: **China operations profitability development between 2010 and 2011 by industry, 2012**

Question: How did your company's EBIT in China for 2011 develop compared to 2010 results?



Note: 22 "Others" are taken out of categories of sector industries

In terms of EBIT margins, an increasing number of respondent companies said that the results of their China operations are better than company global averages. However, comparative results over the past three years show little variation and nearly one third still report that margins from their China operations are lower than company average.

Figure 6: **EBIT margins of China operations compared to worldwide margins, 2010-2012**

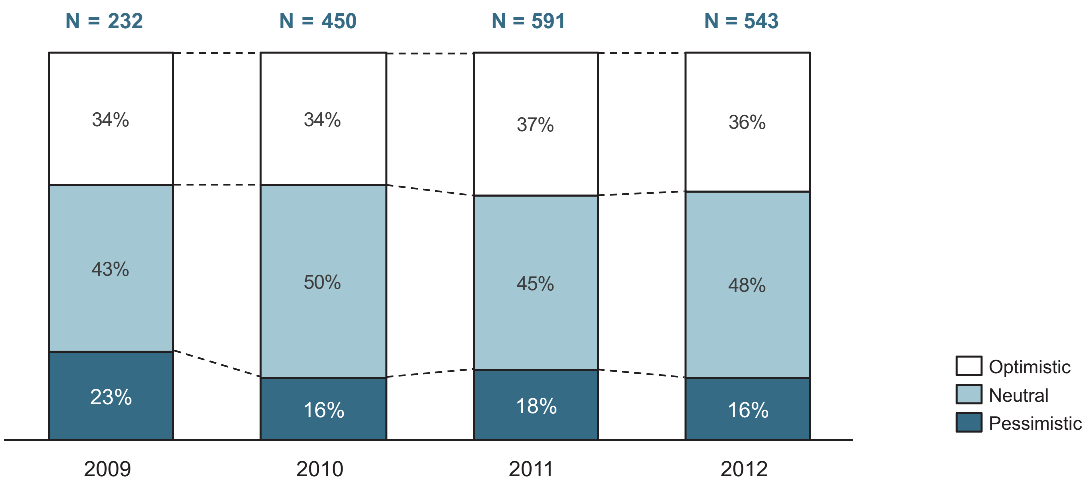
Question: How did the EBIT margin of your Mainland China operations compare to your company's worldwide margins this past year?

Answers	Respondents		
	N = 389 2010	N = 262 2011	N = 224 2012
Better than company average worldwide	37%	33%	42%
Same as company average worldwide	29%	37%	29%
Lower than company average worldwide	34%	30%	29%

While survey respondents are highly optimistic about their growth prospects in China, they are more reserved in their business outlook vis-à-vis profits. There has been little change in the outlook for profitability over the past four years.

Figure 7: **Business outlook for profitability in China within the next two years, 2011-2012**

Question: How would you describe the business outlook for profitability in your sector in China within the next two years?

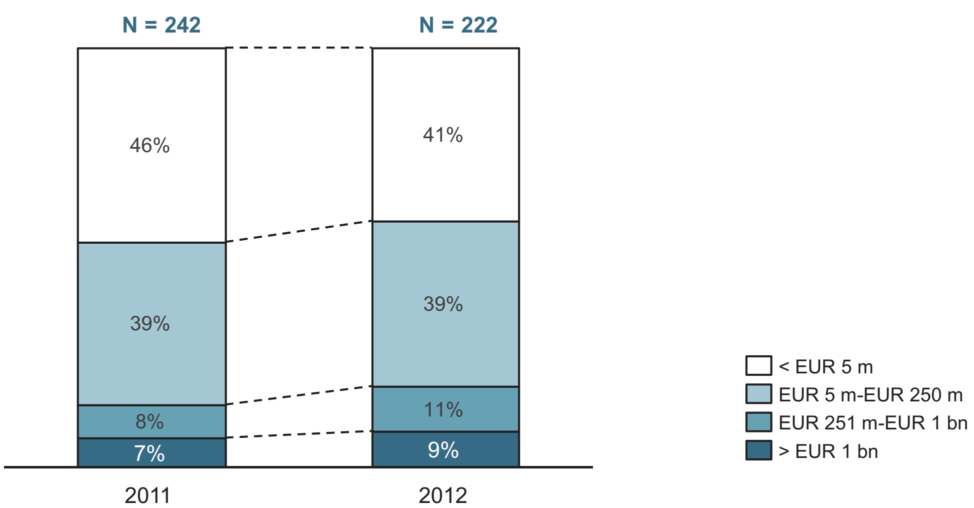


1.6 Investment

The accumulated investment of European companies in China continues to rise. The percentage of companies that invested more than EUR 250 million increased from 15% in 2011 to 20% in 2012.

Figure 8: **Total accumulated amount of investment companies have made in China, 2011 - 2012**

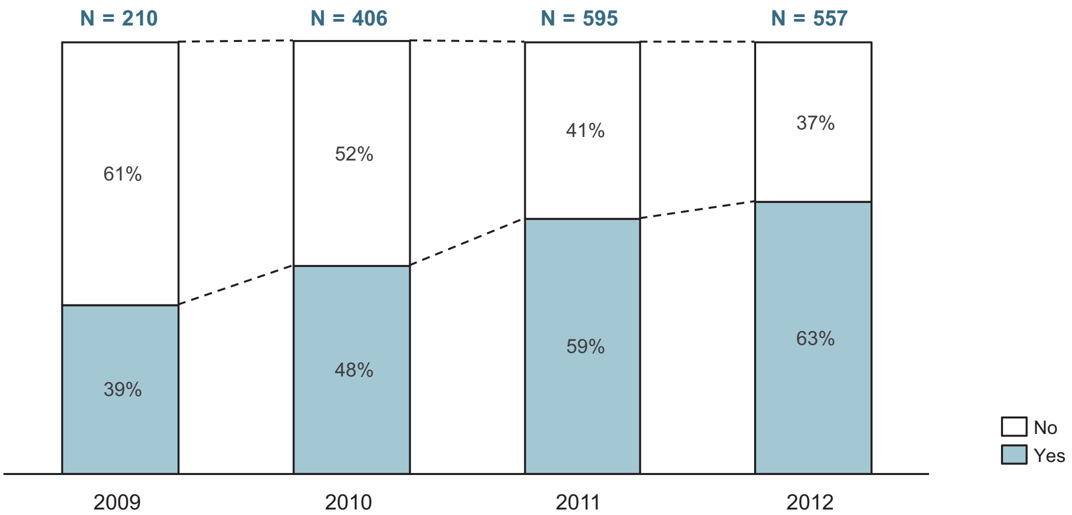
Question: What is the total amount of investment that your company has made in Mainland China this past year?



Looking ahead, 63% of respondents are considering new investments in 2012, compared to 39% in 2009. These investment plans show an increasing commitment in China in the years to come. It also suggests that companies are more positive about their business prospects in China than in other regions of the world.

Figure 9: **Companies contemplating new investments in China, 2009 - 2012**

Question: Is your company considering any major new investments in Mainland China in the next two years?



European companies with operations in China not only consider the country to be a top investment destination now, but also view it that way for the future. Three-quarters of respondents view China as being one of the world's top three destinations for new investments in the future.

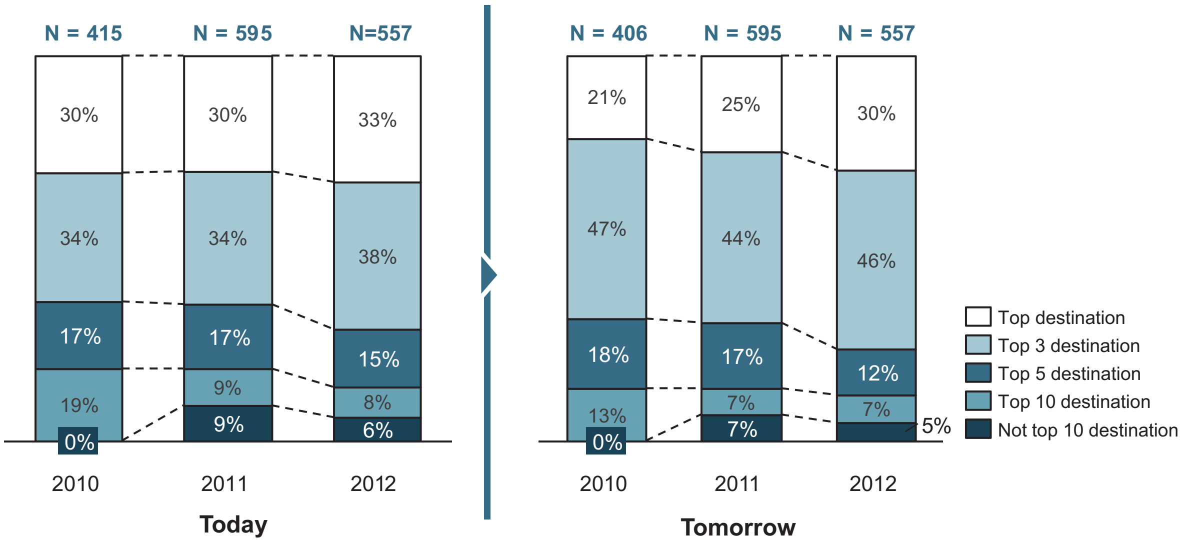
Interesting patterns emerge when this blanket figure is examined more closely. While 72% of professional services and 77% of industrial goods/services companies consider China to be a top three destination for new investments today, this is the case for only 59% of consumer goods/services companies. A similar pattern can be detected when respondent companies answered the same question projected into the future. This time around, 76% of professional services, 80% of industrial goods/services and 68% of consumer goods/services companies consider China as a top three destination.

These results indicate the level of competition faced in the consumer goods industry and also reveal the scope for development still available in the professional services and industrial goods sectors.

Some 79% of companies operating in China for less than five years see China as one of their top three destinations for new investments today. The proportion of companies operating in China for more than 10 years that share this view is smaller (66%). Those with a longer tenure in China have likely already invested heavily and are continuing to operate and grow based on existing investments. Companies new to China still need to invest in order to gain market share. These results could also be an indication of increased saturation of markets in which foreign companies are allowed to compete and the lack of new areas opening up.

Figure 10: **China's rank as a destination for new investments, 2010-2012**

Question: On a global basis, where does China rank as a destination for new investments for your company?



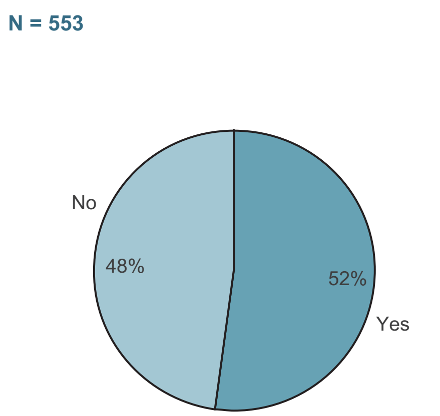
1.7 Expanding across China

In addition to new investments, a majority (52%) of European companies' said they are planning to expand to other Chinese provinces in the coming years. This is fairly consistent across industries, with respondent companies from all sectors planning to venture into other provinces within the next few years.

These expansion plans suggest that the Chinese government's endeavours to encourage investment in the western regions of China are paying off. But without question, European companies are also expanding across China as a direct consequence of rising costs (including labour) in regions such as the Pearl River Delta, a traditional low-end manufacturing base.

Figure 11: **Analysis of plans to expand to other PRC provinces, 2012**

Question: Are you considering expanding to other PRC provinces?



Thoughts from companies about the reasons motivating a shift in their investments to other PRC provinces

1 Business expansion

- *"Chongqing, Tianjin: Growing markets for foreign investment"*
- *"Central part of China for business expansion"*

2 Lower operating costs

- *"Central China (Jiangxi and other inner provinces) / lower operations costs"*
- *"Middle and West China thanks to their huge market potential and relatively low labour cost"*

3 Government incentives

- *"Anhui, Hubei, Gansu, Hainan, etc, due to our company grant government loan"*
- *"In the western provinces, because of government development incentives allocated there"*

Underscoring the commitment to China seen by companies' increased investment and investment plans, 38% of companies surveyed this year already have a Global Business Unit headquartered in China.

Figure 12: **Proportion of companies having a Global Business Unit headquartered in China, 2012**

Question: Does your company have any Global Business Unit headquartered in Mainland China?

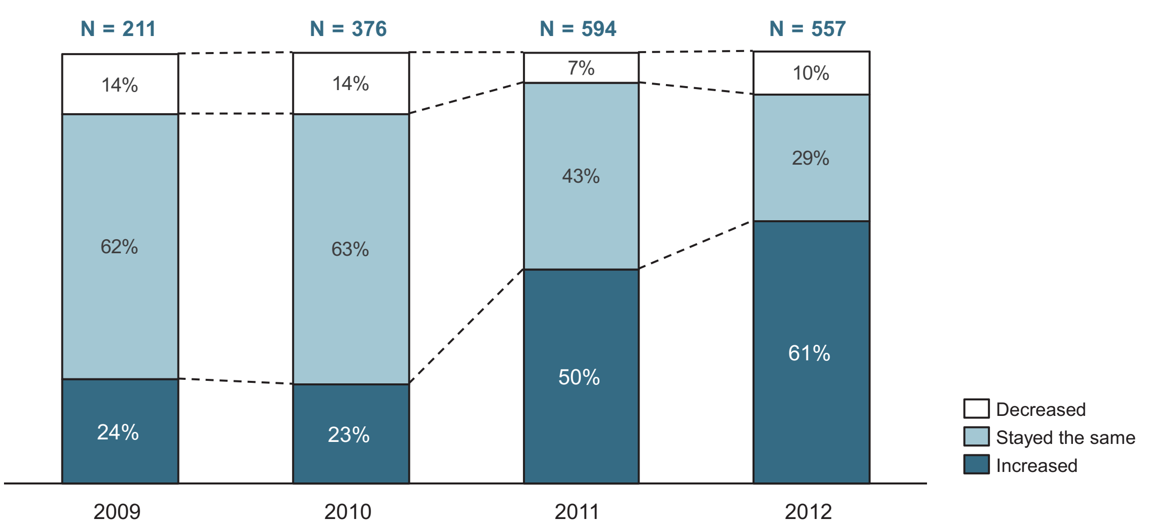
1.8 Creating jobs in China

Some 61% of European companies surveyed said they had increased the number of total permanent positions over the past year. This was true for only 24% of respondents in 2009, perfectly reflecting companies' fears during the global financial crisis.

Over the past four years there has been a dramatic decline in the number of companies in which total headcount has remained the same. While the percentage of companies reporting headcount increases during the past year has increased almost three-fold since 2009, the percentage keeping staff numbers at the same level has been cut in half.

Figure 13: **Number of permanent positions in China compared to previous year, 2009 - 2012**

Question: What has happened to the number of permanent positions in China since last year?

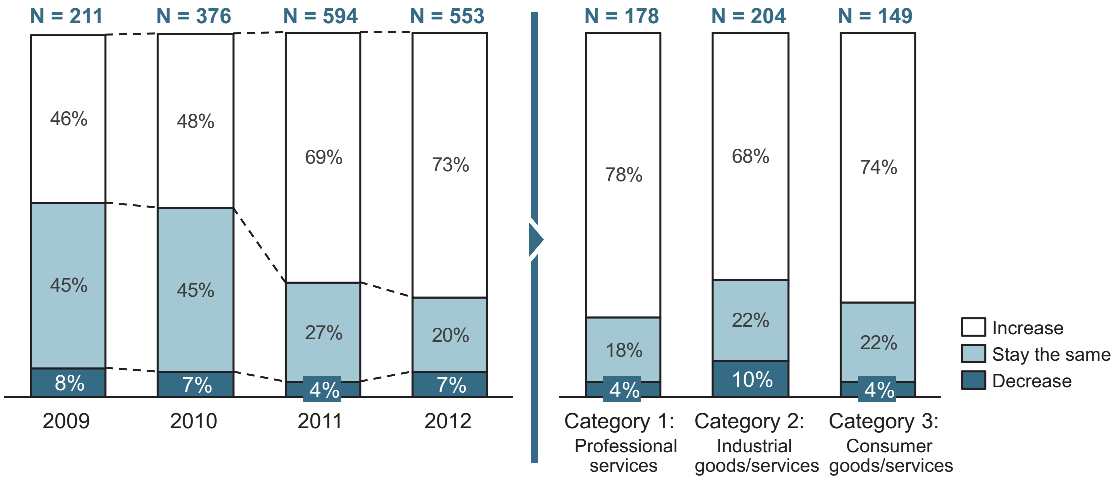


Over 70% of European companies said they expect the number of permanent positions in China to increase over the next two years. This reflects companies' confidence in the general business outlook for China and for their own business prospects. This figure contrasts starkly with the 46% of companies that expected an increase in permanent positions in 2009. It represents an almost 60% increase over four years.

Professional services companies seem more inclined to hire new talent, with 78% expecting an increase in total headcount in the next two years, compared to 68% for industrial goods/services companies.

Figure 14: **Number of permanent positions in China over the next two years, 2009 - 2012, and breakdown by industry in 2012**

Question: How would you expect the number of permanent positions in China to develop over the next two years?



Note: 22 "Others" are taken out of categories of sector industries

2 A MATURING MARKET

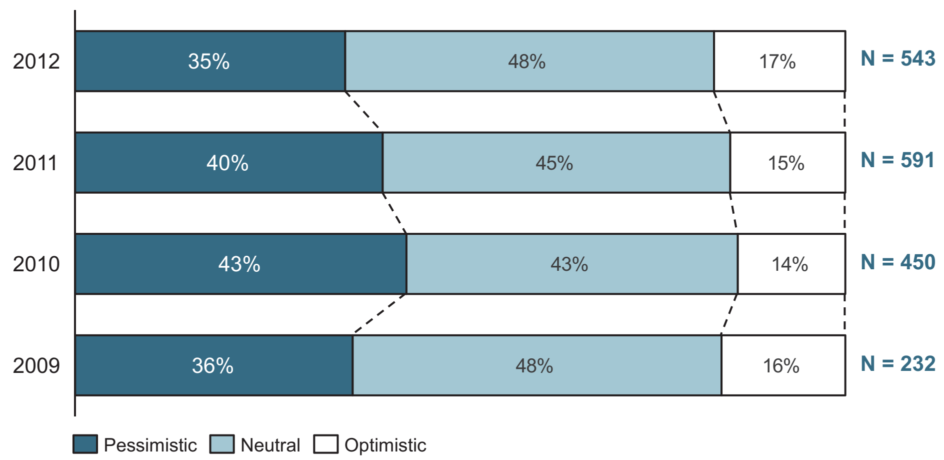
There are signs that the market is maturing, at least in the sectors in which foreign and private enterprises are able to participate. European companies are facing increasing competitive pressure from private Chinese enterprises and profitability is being dented by rising costs. European companies are responding by reducing costs and taking other steps to maintain their market position.

2.1 A more competitive market

Increasing competitive pressure is a major factor affecting European companies' business outlook, albeit to a slightly lesser degree than last year. Some 35% of this year's respondents stated they were pessimistic about the effect of competitive pressure on their business outlook in their sector, compared with 40% last year.

Figure 15: **Business outlook for competitive pressure in China, 2011- 2012**

Question: How would you describe the business outlook for your sector in China within the next two years in terms of competitive pressure?



Note: N/A answer was taken out of 2011 and 2012 for comparability purposes

2.2 State-owned and private competition

When asked about the areas in which domestic competitors have improved the most in the past two years, European companies said privately owned enterprises (POEs) have improved the most in marketing and sales. They also said that state-owned enterprises (SOEs) and POEs alike have improved in other market-oriented fields such as brand recognition and pricing.

Respondents from all industries think that SOEs will continue to focus on improving their governmental relations, one of their traditional strengths. Very few respondents believe that SOEs have developed in terms of product quality and pricing. This has implications for the economy as a whole. To varying degrees across sectors, POEs are regarded as having made improvements in market-oriented fields such as brand recognition, marketing and sales, and pricing.

Figure 16: Top area in which domestic competitors improved the most in the past two years, 2011 - 2012

Question: Where have domestic competitors improved the most in the past two years?

Respondents: [Category 1: Professional services]	2011	2012 SOEs	2012 POEs
Governmental relations	11%	31%	19%
Brand recognition	19%	16%	14%
Marketing and sales	8%	9%	16%
Pricing	5%	6%	14%
Product quality	12%	3%	3%

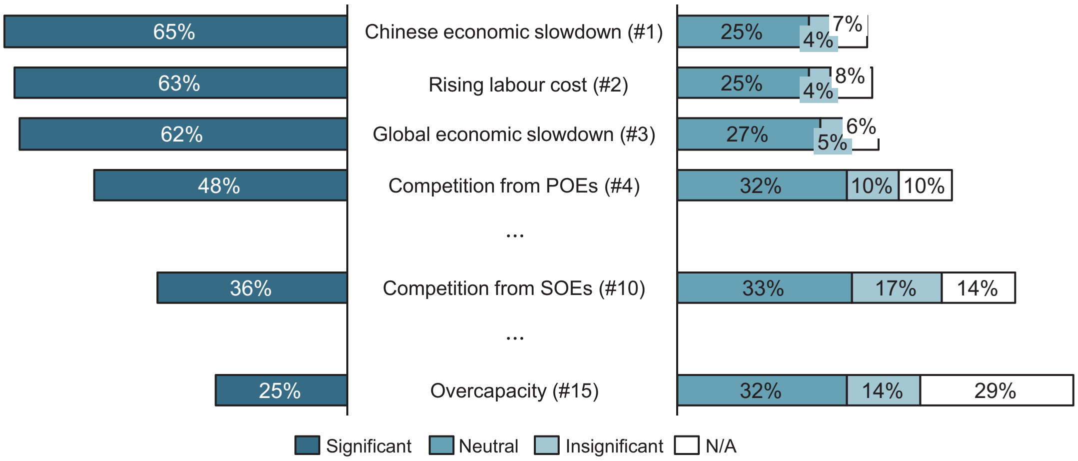
Respondents: [Category 2: Consumer goods / services]	2011	2012 SOEs	2012 POEs
Governmental relations	9%	28%	7%
Brand recognition	11%	6%	10%
Marketing and sales	11%	12%	16%
Pricing	8%	13%	20%
Product quality	9%	8%	13%

Respondents: [Category 3: Industrial goods / services]	2011	2012 SOEs	2012 POEs
Governmental relations	4%	33%	18%
Brand recognition	13%	16%	22%
Marketing and sales	12%	12%	15%
Pricing	11%	5%	14%
Product quality	9%	3%	7%

There is a marked distinction in how significant European companies perceive certain risks to be, especially with respect to domestic competition from SOEs and POEs. Whereas 48% of respondents said competition from POEs was a significant risk to doing business in China, only 36% said this about competition from SOEs. The fact that most foreign companies do not operate in sectors in which SOEs occupy monopoly positions partly explains this result. The view of survey respondents that POEs form a significant risk to business makes clear that POEs are developing. Competing in the marketplace has made them more efficient and competitive. This should have implications for economic reform and how Chinese companies compete internationally in the future.

Figure 17: **POEs presenting rising competition, 2012**

Question: Indicate how significant the following risks are to your business in Mainland China



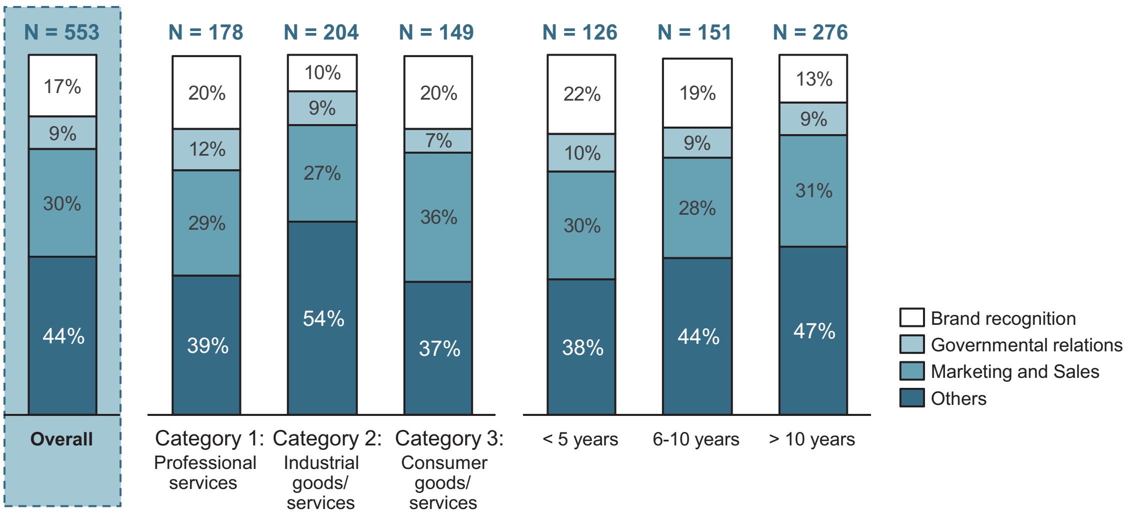
European companies are responding to the changing competitive environment by focusing on the areas of marketing & sales (30%), brand recognition (17%) and governmental relations (9%). Access to financing (3%) and subsidies (1%), on the other hand, are not regarded as high priorities for improvement.

Across sectors, survey respondents overwhelmingly ranked marketing and sales as their top priority for development or improvement in the years to come. This was the first priority for 36% of consumer goods/services companies, 29% of professional services companies, and 27% of industrial goods/services companies.

Brand recognition is more important for companies if they have been operating in China for a shorter length of time. Some 22% of companies operating in China for fewer than five years ranked brand recognition as their number one choice for improvement in the years to come, compared to 13% of companies operating in China for more than 10 years.

Figure 18: **Companies' priority for development/improvement over the next two years, 2012**

Question: Which of the following areas are your company's priority for development/improvement over the next two years?



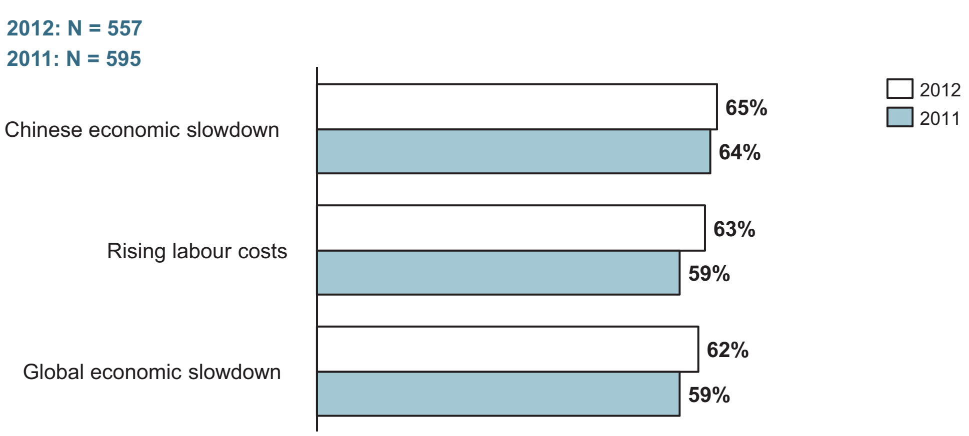
Note: 22 "Others" are taken out of categories of sector industries

2.3 High labour costs and the competition for talent

Rising labour costs are now perceived as the second most significant risk to doing business in China, with 63% of respondents stating that they perceive this risk as significant. Moreover, the proportion of respondents who perceive rising labour costs as being a risk has increased year-on-year (59% in 2011). Similarly, fewer companies are neutral about labour costs now. The issue of rising labour costs even ranks higher than a global economic slowdown, indicating the extent of this threat on business activities in China.

Figure 19: **Top 3 significant risks to future business in China, 2011- 2012**

Question: Indicate how significant the following risks are to your business in Mainland (proportion stating "significant" to the following items as potential risks)

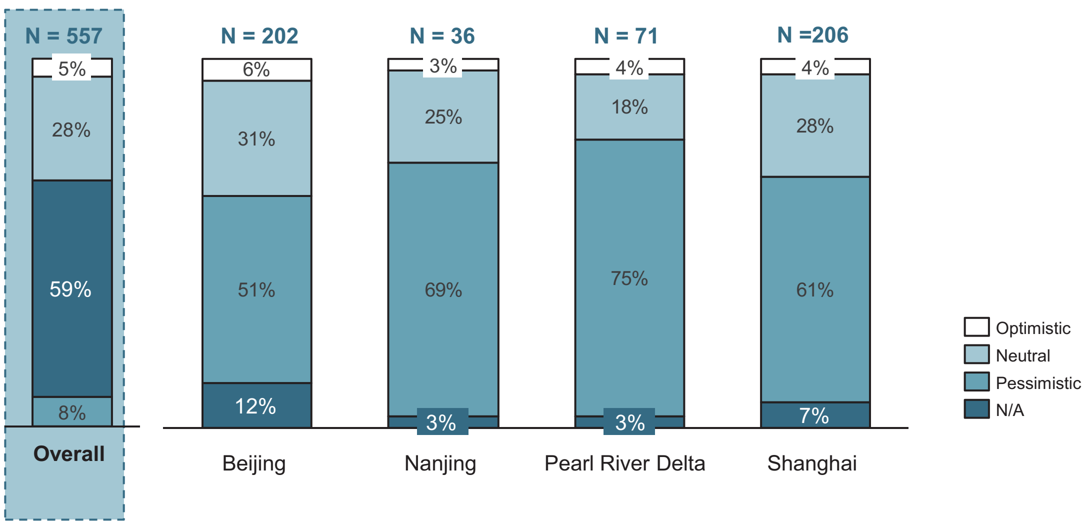


In the same vein, 59% of respondents stated they were pessimistic about how labour costs would develop over the next two years; 28% were optimistic. Rising labour costs are an unequivocal sign of a maturing economy.

Pearl River Delta, Nanjing and Shanghai-based companies are more pessimistic about labour costs in the years to come than their peers in other areas such as Beijing. While 75% of the Pearl River Delta-based companies and 61% of Shanghai-based companies stated they were pessimistic about labour costs, this was true for only 59% of respondents on average. Only 51% of Beijing-based companies said they were pessimistic about labour costs. Since the Pearl River Delta is a traditional labour-intensive manufacturing base, it has been hit strongly by these rising costs.

Figure 20: **Business outlook for labour costs in China, 2012**

Question: How would you describe the business outlook for your sector in China within the next two years in terms of labour costs?



Note: Chengdu, Tianjin and Shenyang-chaptered companies were taken out because sample is not significant

In addition to rising labour costs, European companies face challenges in attracting and retaining local and international talent. Roughly half of respondents listed 'too high expectations on salary' as being their top challenge when attracting and retaining local talent in China. Last year, this figure was just 21%.

European companies also face similar issues in attracting and retaining non-Chinese talent in China, with high expectations on salary being the greatest challenge for 36% of companies. The living environment in China is also a significant issue, with 27% of companies listing it as the number one challenge when trying to retain expatriate workers in China.

Figure 21: **Top challenges companies face in attracting and retaining talent in China, 2011 - 2012**

Question: What are the biggest challenges you face in attracting/retaining the right talent in China?

Question	Answer	N=554 Locals
What is the biggest challenge you face in *attracting* the right talent to China?	Too high expectations on salary/package	52%
	Our brand name is not well known	15%
	Career opportunities not seen as promising	13%
What is the biggest challenge you face in *retaining* the right talent in China?	High expectations in pay/benefits	49%
	Career opportunities not seen as promising	14%
	Poor employee performance	14%

Question	Answer	N=552 Expats
What is the biggest challenge you face in *attracting* the right talent to China?	Lack of willingness to be assigned to China	39%
	Too high expectations on salary/package	36%
	Career opportunities not seen as promising	8%
What is the biggest challenge you face in *retaining* the right talent in China?	Living environment	27%
	High expectations for expat packages	26%
	High expectations in pay/benefits	21%

2.4 Indications of a maturing market

Beyond rising wages, we see other indications of a maturing market in three main areas:

1. Investments in traditional business functions
2. Improvements in profitability
3. More cost cutting envisaged than in past years

When asked about the top three investment areas for future business in China, European companies stated marketing and sales as being the most important (55% declared it would “definitely” be an area of investment), followed by HR management and access to top talent (49%) and brand recognition (43%). These are traditional business levers that European companies accentuate in their home markets. In past years, areas such as governmental relations, or access to financing appeared as top motivations and top areas for future investments. In 2011, for example, access to financing was the number two area (55%) and governmental relations was the number three (53%) area for improvement in the next 12 months.

Figure 22: **Top 3 investment areas for future business in China, 2012**

Question: In which areas does your company plan to invest in the next two years?

Finally, 14% of this year's respondent companies stated they would focus more on their costs than their revenue in order to increase profitability in the year to come. Although these companies still form a minority, their proportion has increased from last year, when only 8% said their focus would shift to costs rather than revenue.

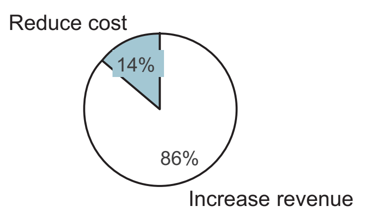
A greater number of European companies plan to use "traditional" levers to lower their costs. For instance, 19% of them said reducing procurement costs was a priority and 15% said reducing total headcount was their top priority. This hints at the increased pressure European companies are facing in certain competitive sectors.

Large companies that have been operating in China for a longer time are more likely to be employing cost cutting as a tool than newcomers. For example, 16% of the companies that have been operating in China for more than 10 years said they would be turning the spotlight on cutting costs rather than focusing on increasing revenues. For companies operating in China for fewer than five years, only 10% said cost cutting was a greater priority than increasing revenue.

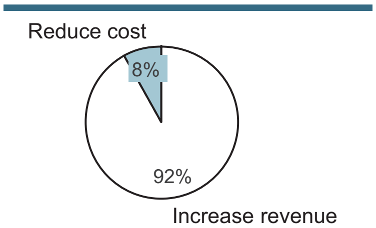
Figure 23: **Companies' priority to increase profitability, 2011 - 2012**

Question: What is your company's priority for the next twelve months?

2012 strategic focus



2011 strategic focus



2012 planned measures

To realise cost reduction objectives

19%	Reduce procurement costs
15%	Reduce headcount
15%	Reduce rental expenses
10%	Subcontracting and outsourcing

To realise revenue increase objectives

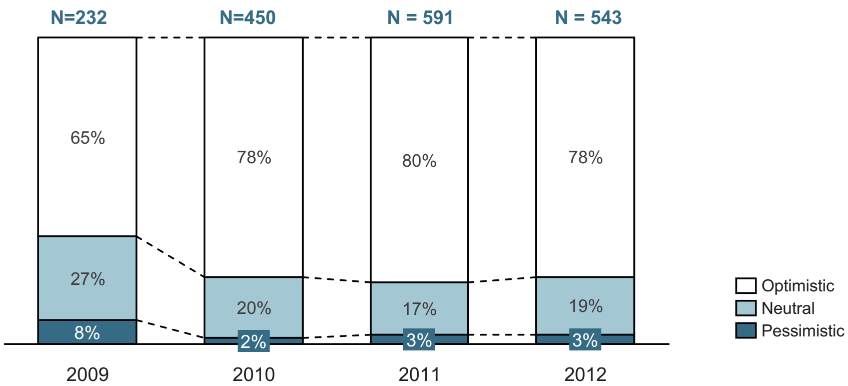
25%	Increase sales activities
22%	Acquire new customers
21%	Increase marketing
16%	Offer new services

OVERVIEW

CHINA'S INCREASING STRATEGIC IMPORTANCE AND MARKET DEVELOPMENT

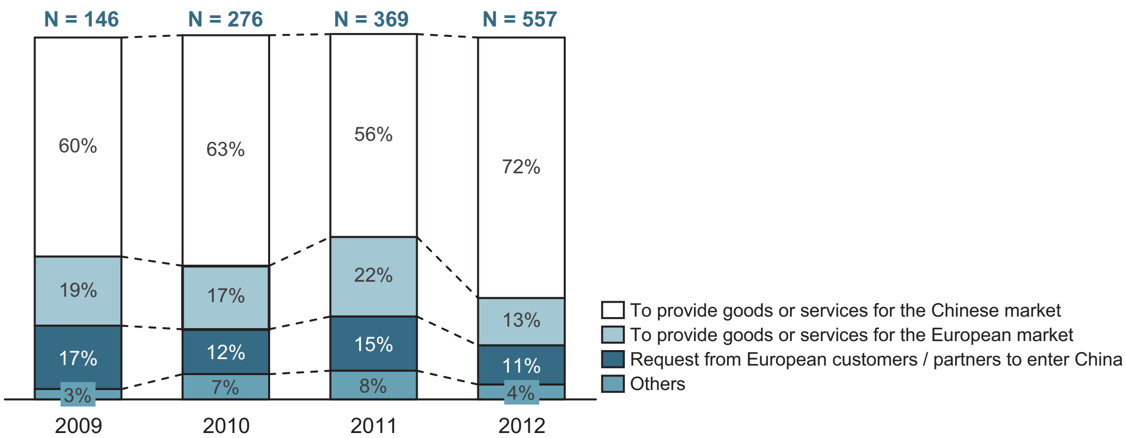
Business outlook for growth in China within the next two years, 2011-2012

Question: How would you describe the business outlook for growth in your sector in China within the next two years?



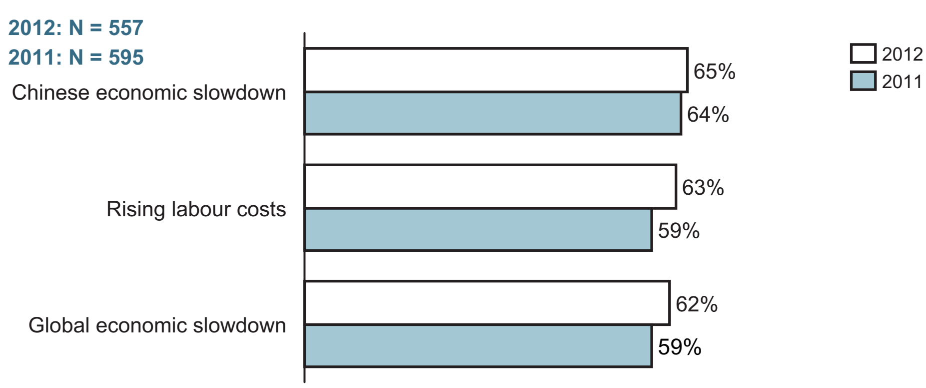
In China, for China.

Question: What are the strategic reasons for your company operating its business in Mainland China?



Top 3 significant risks to future business in China, 2011-2012

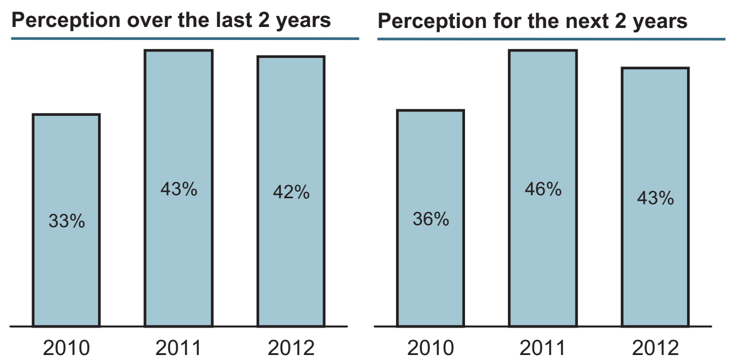
Question: Indicate how significant the following risks are to your business in Mainland China – Proportion stating "significant" to the following items as potential risks



STALLING REGULATORY REFORM AND MARKET ACCESS BARRIERS

Perception of government policies affecting business environment for FIEs today and tomorrow, 2011-2012

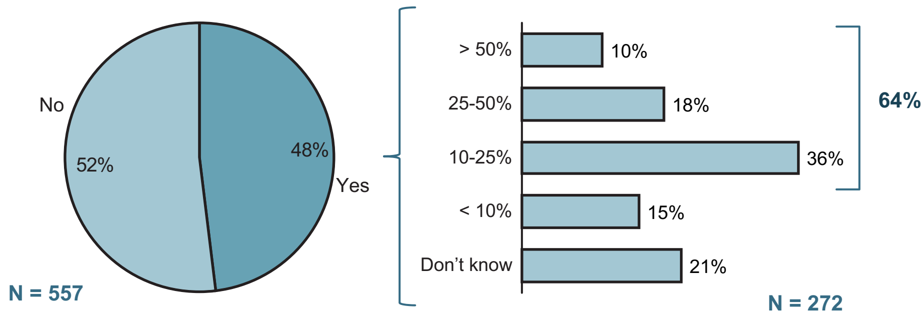
Question: How have/will government policies affecting the business environment for FIEs changed/change over the past/next two years? Proportion stating governmental policies discriminate against FIEs



Existence of missed opportunities due to regulatory barriers, 2012

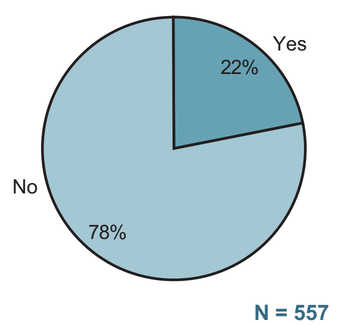
Question: Do you feel that your company misses out on business opportunities due to market access and/or regulatory barriers in China

Question: What percentage of lost revenue do these missed opportunities represent?



Companies considering moving investments to markets outside China, 2012

Question: Are you considering moving investments to other markets outside PRC?



Thoughts from companies about the reasons motivating a shift in their investments outside PRC

1 Uncertainty and ambiguity of regulations when doing business in China
- *" Lower taxation, simpler legal framework, more incentives and flexibility for foreign investments, less ambiguous laws and regulations"*

2 Lower labour costs in other Asian-Pacific countries
- *"Vietnam, lower labour costs"*
- *"Because of labour shortage and increasing labour costs and uncertain regulations"*

3 Attractive emerging markets
- *"South America, easier access to market and fair treatment"*
- *"South East Asia, India, South America"*

3 STALLING REGULATORY REFORM

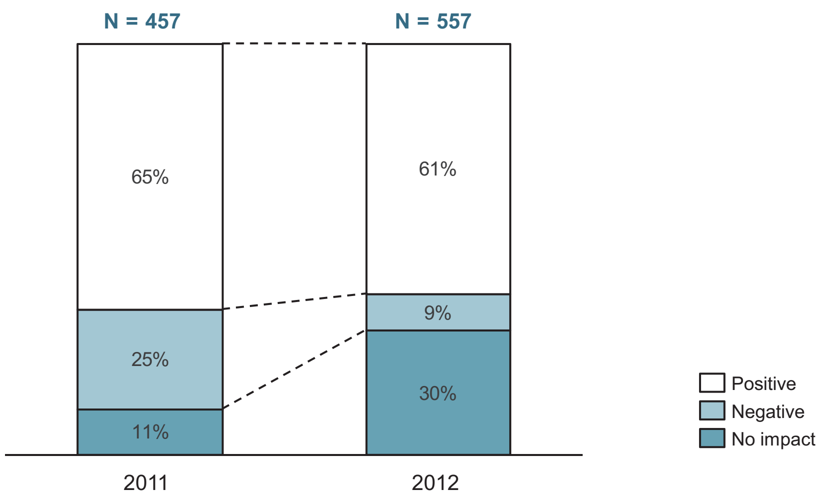
Indicators suggesting that the Chinese market is maturing are becoming more pronounced. Unfortunately, the same cannot be said of the regulatory environment. There is an overwhelming lack of optimism among survey respondents for future positive reform, with many companies perceiving regulatory reform to have stalled.

3.1 The 12th Five-Year Plan

Respondents are largely upbeat in their interpretation of the Chinese government's 12th Five-Year Plan and the goals set within it. Some 61% of surveyed companies stated they expected the plan to have a positive effect on their business prospects within their industry in China. However, a much larger number of respondents this year said that the Plan would have no impact on their business, swelling to 30% from 11% last year. This indicates that respondents have seen little positive reform despite the document's positive rhetoric in this direction.

Figure 24: **Perceived impact on business prospects of the 12th Five-Year Plan, 2011 - 2012**

Question: What impact do you perceive the 12th Five-Year Plan to have on your business prospects in China?



3.2 Government policies widely perceived as unfair towards Foreign Invested Enterprises (FIEs)

Governmental policies concerning FIEs are still of grave concern to European companies doing business in China. Indeed, 42% of respondents continue to believe these policies are less fair now than they were two years ago, a figure in line with last year (43%). Only 13% said they perceive policies to be fairer today than they were two years ago. The outlook for the future is not positive either: 43% of respondent companies believe that government policies affecting the business environment will be even less fair for FIEs over the next two years. Only 17% are confident that these will be fairer towards FIEs within two years.

This is concerning, particularly because the need for a reform agenda has been officially recognised and many government officials proclaim that all companies registered in China should be treated as Chinese companies.

Despite China's great economic performance and overall improvement, a strong feeling of frustration pervades the international business community. FIEs operating in China continue to feel unfairly treated.

Figure 25: **Perception of government policies affecting business environment for FIEs today and tomorrow, 2011 - 2012**

Question: How have/will government policies affecting the business environment for FIEs changed/change over the past/next two years?

Respondents 2011	Respondents 2012	Answers: Over the past two years, government policies…	
9%	12%	have increasingly discriminated against FIEs	42%
11%	10%	are generally much less fair now than they were two years ago	
23%	20%	are somewhat less fair now than they were two years ago	
21%	18%	are as fair now as they were two years ago	
7%	10%	are somewhat more fair now than they were two years ago	
3%	3%	are generally much more fair now than they were two years ago	
1%	0%	have increasingly discriminated in favour of FIEs	
26%	27%	No opinion	

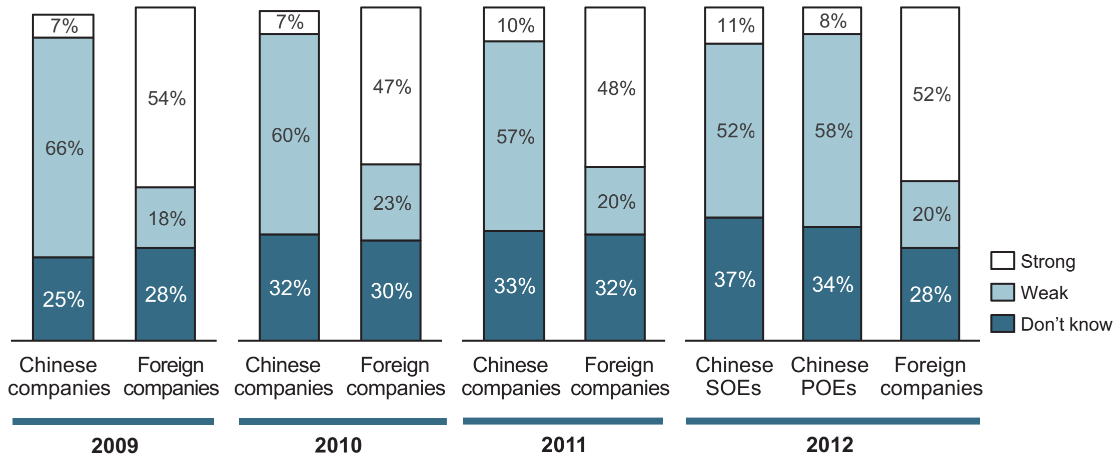
Respondents 2011	Respondents 2012	Answers: In the next two years, government policies…	
9%	13%	will increasingly discriminate against FIEs	43%
12%	13%	will generally be much less fair	
25%	17%	will somewhat be less fair	
17%	16%	will be as fair as now	
2%	3%	will somewhat be more fair	
10%	13%	will generally be much more fair	
1%	1%	will increasingly discriminate in favour of FIEs	
23%	24%	No opinion	

When asked about the enforcement of environmental regulations in China, 52% of respondent companies believe it to be strongly enforced on foreign companies. In contrast, only 11% perceive it to be strongly enforced on SOEs and a mere 8% on POEs. In line with this result, only 20% perceive the enforcement of environmental regulations in China to be weak on foreign companies, compared to 52% and 58% for SOEs and POEs respectively.

Ultimately, the weak enforcement of environmental rules and regulations represents hidden subsidies to noncompliant companies. These companies have no incentive to make their manufacturing operations more environmentally friendly to the detriment not only of the environment but also to the health of China's population.

Figure 26: **Perception of enforcement of environmental regulations in China on companies, 2012**

Question: How do you assess the enforcement of environmental regulations in China on companies?



3.3 Uneven regulatory treatment

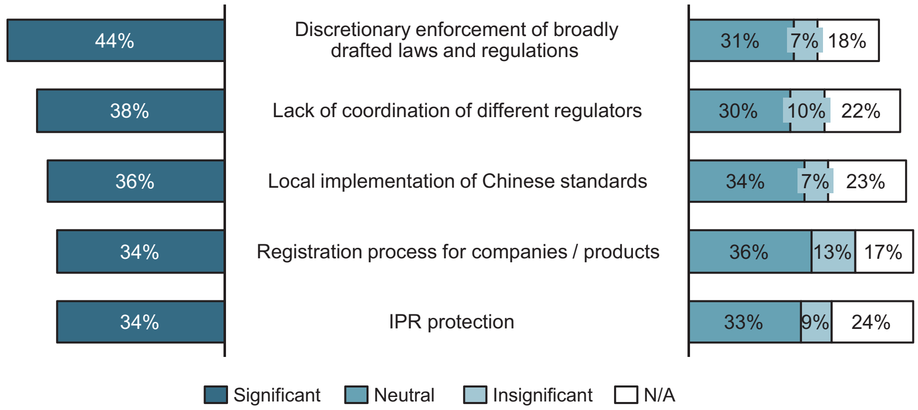
The efficiency and reliability of the regulatory market in China has a direct impact on both domestic and foreign businesses in China. European companies consider, however, the discretionary enforcement of broadly drafted laws and regulations as being the most significant regulatory obstacle. Given the perception among survey respondents of unfair treatment of FIEs in China, this obstacle takes on an even greater weight, seriously impacting foreign businesses' operations.

The lack of coordination among different regulators is also considered a serious issue. To compete in a tighter market with Chinese SOEs and POEs, European companies doing business in China feel they have no other option but to work on improving their relations with government at all levels.

Two other obstacles were also rated as significant among respondents: the local implementation of Chinese standards and the registration process for companies and products. This hints at how the complexity and inefficiencies of the regulatory environment can result in a *de facto* barrier to market access, holding back much needed competition from entering the market.

Figure 27: **Top 5 regulatory obstacles encountered when doing business in China, 2012**

Question: How significant are the following regulatory obstacles to you when doing business in Mainland China?

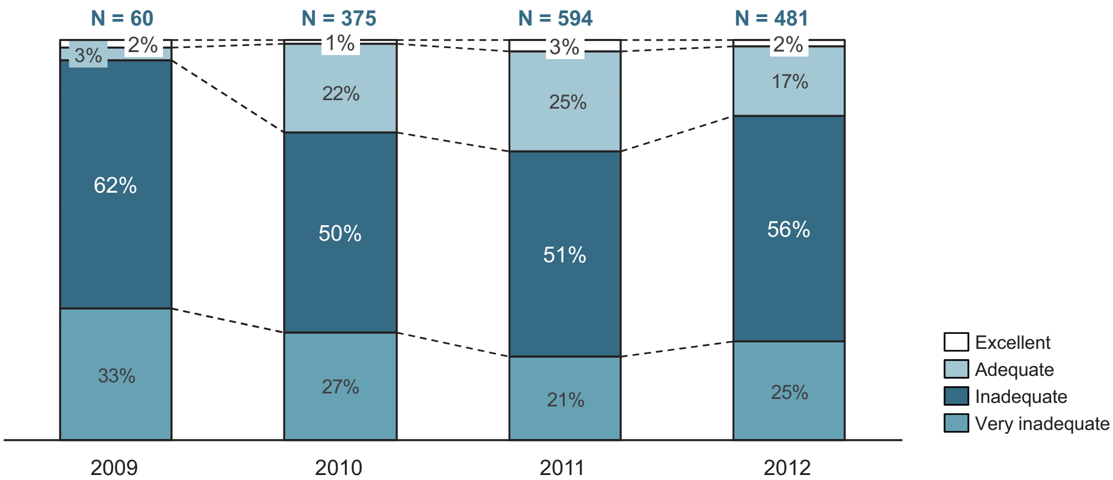


IPR protection is rated as the fifth most significant obstacle. The lack of transparent policy-making and implementation is perceived in IPR enforcement also. In 2012, as in years past, a high proportion of European companies (70%) rated China's enforcement of IPR laws and regulations as inadequate or very inadequate. Only 16% of them assessed them as being excellent or adequate.

This is, however, one field in which improvements have been made over past years. In 2009, 95% of survey respondents stated that the enforcement of IPR laws and regulations was inadequate or very inadequate. This encouraging development can likely be explained by the improved performance of courts in major cities and the increased awareness of the issue resulting from the greater visibility of domestic Chinese brands.

Figure 28: **Effectiveness of China's enforcement of IPR laws and regulations, 2009-2012**

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



Note: Answer N/A in 2012 was not taken into account for comparability purposes. Per reference, N=76

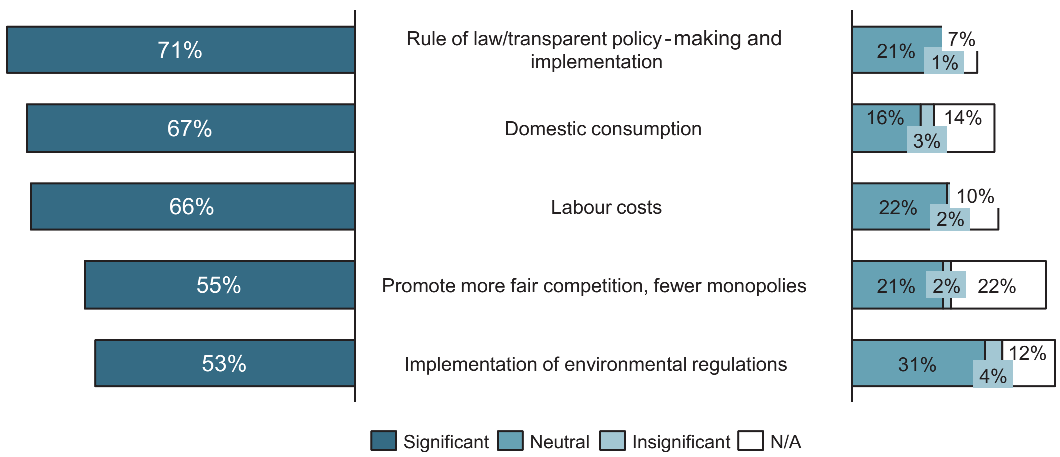
3.4 Importance of regulatory drivers for the business outlook in China

This year's survey again asked European companies what they believe will be the drivers of China's economic performance and what particular subjects will have to be addressed for China to succeed. As in 2011, three out of the top five drivers that were chosen as most significant in the years to come are regulatory in nature:

- Rule of law/transparent policy-making and implementation (71%)
- Promotion of fairer competition (55%)
- Fewer monopolies and implementation of environmental regulations (53%)

Figure 29: **Top 5 drivers for China's economic performance in the coming years, 2012**

Question: How important do you consider the following drivers for China's economic performance in the coming years?



European companies consider transparent policy-making and implementation to be a more important driver for China's economic performance in coming years than increased domestic consumption. This view sheds light on how important this issue of transparent policy-making and implementation is for European companies in China. China's business regulatory environment needs to develop more in step with the overall economy in order to accomplish the sort of efficiency and innovation that are the stated goals of the country's 12th Five-Year Plan.

4 MISSED OPPORTUNITIES

European companies report that they miss out on numerous business opportunities because of market access and regulatory barriers. A significant proportion of surveyed companies report that the current environment is cause for them to consider moving existing investments from China to other markets.

4.1 Strong perception of market access and regulatory barriers

Nearly half (48%) of this year's survey respondents said they had missed out on business opportunities in China because of regulatory barriers in the economy.

Out of the 48% who stated they had missed out on business opportunities because of regulatory barriers, 64% of them claimed these missed opportunities represented more than 10% of their annual revenue; and 10% of this set felt an impact of more than 50% of revenue. These figures show not only the significance of this issue, but also how much more European companies could contribute to China in terms of taxes, hiring and innovation given the chance.

Figure 30: **Existence of missed opportunities due to regulatory barriers, 2012**

Question: Do you feel that your company misses out on business opportunities due to market access and/or regulatory barriers in China?

N = 557

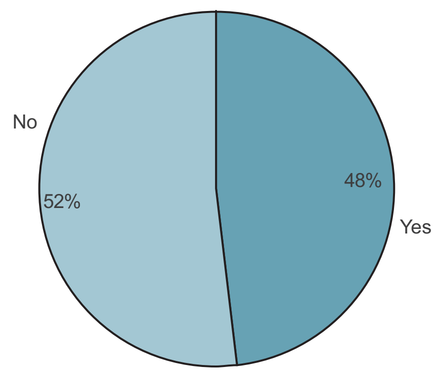
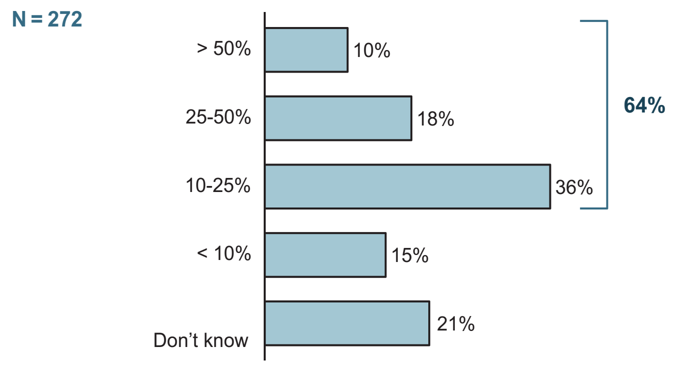


Figure 31: **Assessment of missed opportunities due to regulatory barriers, 2012**

Question: What percentage of revenue would you estimate these missed opportunities to represent in your annual revenue?



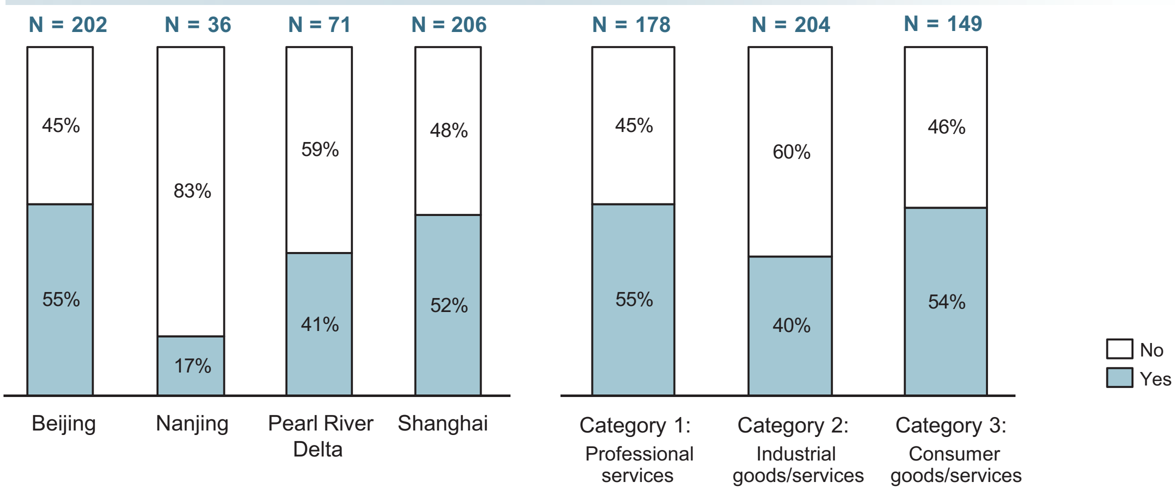
When examined by sector, missed opportunities were most apparent for professional services and consumer goods/services companies: ~ 55% of these companies claimed they had missed out on potential revenue. For industrial goods/services companies 40% perceived missed opportunities.

Developing a professional goods and services sector is a stated goal of the Chinese government. The results of this year's survey make it apparent that there is a need to further open up this area to foreign competition for the ultimate good of the Chinese market.

Beijing and Shanghai-based companies are the most concerned about missed opportunities due to regulatory barriers. More than half of Beijing- and Shanghai-based companies claim they have missed significant business opportunities because of regulatory barriers (55% and 52% respectively), slightly above the average of 48%. Given the greater development of these cities, these figures underscore the impact of barriers in the professional goods and services sector.

Figure 32: **Breakdown analysis of missed opportunities due to regulatory barriers, 2012**

Question: Do you feel that your company misses out on business opportunities due to market access and/or regulatory barriers in China?



Note: Chengdu, Tianjin and Shenyang - chaptered companies were taken out because sample is not significant
22 "Others" were taken out of categories of sector industries

4.2 A quarter of companies considering shifting investments outside China

Almost a quarter (22%) of respondent companies said they were considering moving investments to markets outside of China. When asked about the motivations for this consideration, two main factors were prominent in the responses:

• Rising costs (including labour)
• Relative ease of doing business in other developing economies

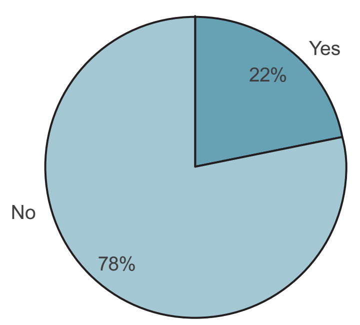
These two reasons are mutually supportive. Previous concerns about doing business in China were largely offset by the country's low cost advantages. However, as China moves up the value chain and its domestic workforce becomes more educated, demanding higher salaries, other developing economies such as those in South-East Asia and South America become relatively more attractive, particularly because of the comparative ease of doing business there.

This could seriously undermine the Chinese government's goal of stimulating investment in the less developed western regions. Survey results suggest that a previously reliable stream of FDI is now looking more closely at other destinations. This has implications for China's growth and its aspiration to make its development more stable and inclusive.

***Figure 33:* Companies considering moving investments to markets outside China , 2012**

Question: Are you considering moving investments to other markets outside PRC?

N = 557



Thoughts from companies about the reasons motivating a shift in their investments outside PRC

1 Uncertainty and ambiguity of regulations when doing business in China
- *"Lower taxation, simpler legal framework, more incentives and flexibility for foreign investments, less ambiguous laws and regulations"*

2 Lower labour costs in other Asia-Pacific countries
- *"Vietnam, lower labour costs"*
- *"Because of labour shortage and increasing labour costs and uncertain regulations"*

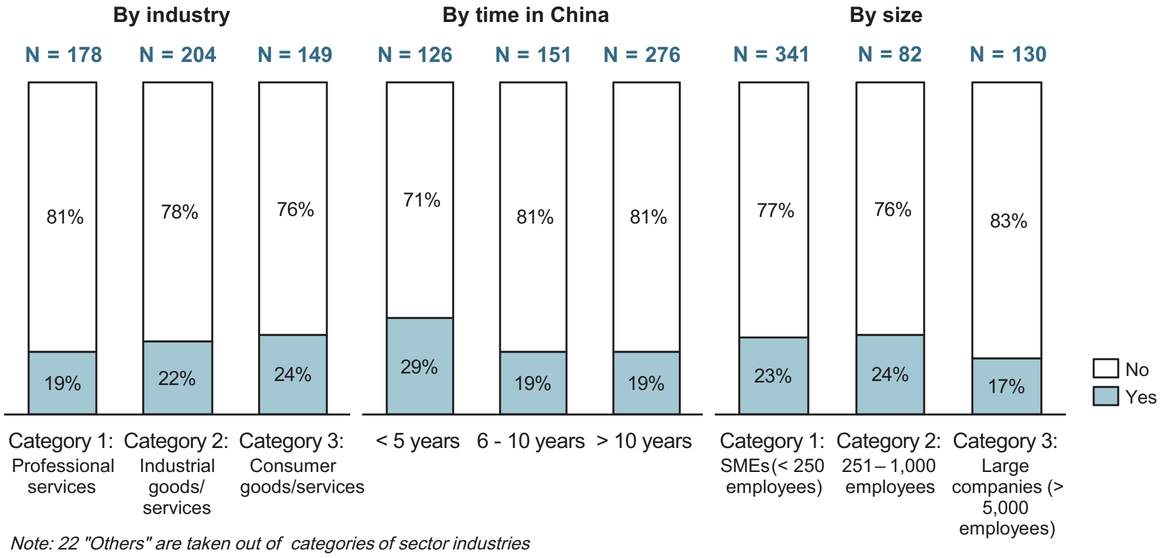
3 Attractive emerging markets
- *"South America, easier access to market and fair treatment"*
- *"South East Asia, India, South America"*

When analysing these answers by sector, consumer goods and services companies are more likely than other industries to shift investments to markets outside China, with 24% of respondents stating they are considering such a move. This is a further indication of how saturated this section of the market has become.

Interestingly, companies that have been operating in China for a shorter time are more likely than their more established peers to consider moving investments to markets outside China. Some 29% of companies with fewer than five years of experience in China stated they considered shifting investments compared with 19% of companies that have been operating in China for more than five years. Smaller companies are also more likely to contemplate a move: 23% of SMEs (fewer than 250 employees) declared they were thinking about shifting investments compared with 17% of large companies (over 1,000 employees).

Figure 34: **Companies considering moving investments to markets outside China, breakdown analysis, 2012**

Question: Are you considering moving investments to other markets outside PRC?

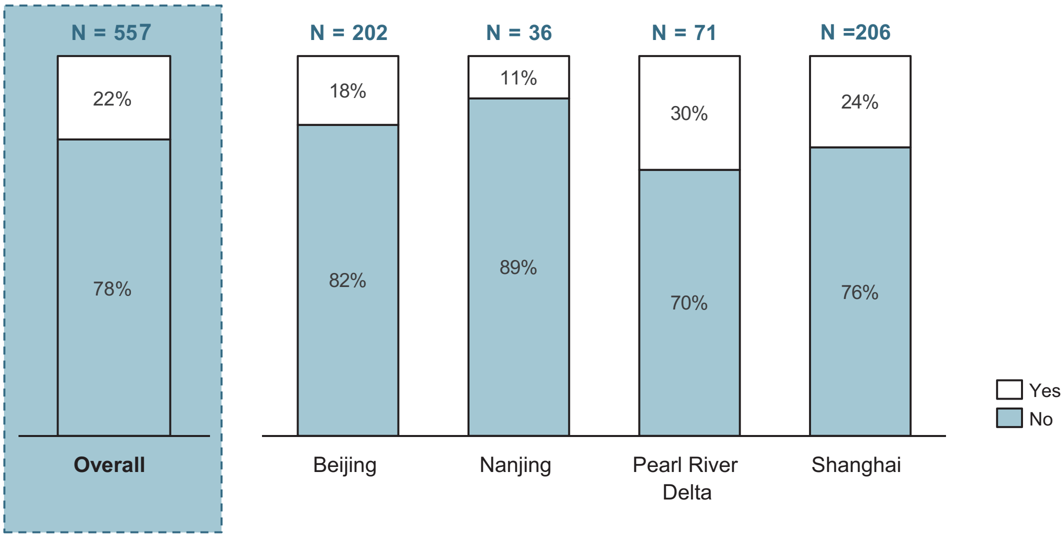


Note: 22 "Others" are taken out of categories of sector industries

Geographically, 30% of Pearl River Delta-based companies stated they were considering moving investments outside China. The main reasons for this relatively high figure are the rising labour costs and regulations in the Pearl River Delta that make it less attractive for European companies to operate there. With a large proportion of companies engaged in manufacturing in the PRC, it is only logical that they would look to lower-cost countries to stay competitive.

Figure 35: **Companies considering moving investments to markets outside China, breakdown analysis, 2012**

Question: Are you considering moving investments to other markets outside PRC?



Note: Chengdu, Tianjin and Shenyang-chaptered companies were taken out because sample is not significant

4.3 Differing standards result in missed opportunities

Almost a third of European companies in China (31%) report that they have missed out on business opportunities due to internal company guidelines on matters such as anti-corruption. Of the companies reporting missed opportunities, 44% state that these amount to more than 10% of revenues.

For multinational companies with global compliance standards there is clearly a *de facto* barrier to doing business in China. Moreover, since this is a period in which policy-making officials espouse increased fairness and transparency, these figures form a grave critique of the business environment in China.

Figure 36: **Existence of missed opportunities due to company guidelines such as anti-corruption, 2012**

Question: Has your company missed out on business opportunities in China because of your overall company compliance policies,e.g. anti-corruption guidelines?

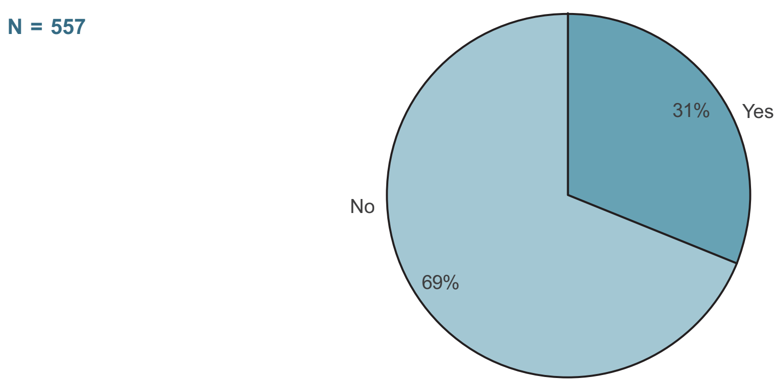
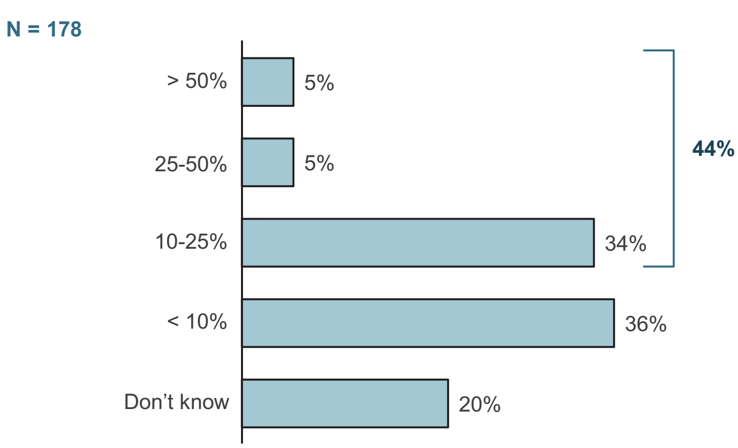


Figure 37: **Assessment of these missed opportunities due to company guidelines such as anti-corruption, 2012**

Question: What percentage would you estimate these missed opportunities to represent in your annual revenue?



Although the goals of the 12th Five-Year plan are in-line with European business strengths – service provision, green technologies, innovation and high-tech – it is apparent that few companies believe the necessary changes are being made in the business environment to enable them to properly compete in it.

While it is only a minority of companies that are considering moving investments from China to other countries, it is a significant minority. Disinvestment has implications on China's plans to rebalance its economy and to shift the drivers of growth.

Based on the results of survey respondents, the Chinese government's desire to reform its business environment is not being translated into action. European companies are frustrated at missing out on considerable business opportunities because of market access barriers.

5 ABOUT THE SURVEY

Survey motivation and design

The purpose of the European Business in China Confidence Survey is to take an annual snapshot of European companies' successes and challenges in China. Published since 2002, the survey has enabled the European Union Chamber of Commerce in China to build a rich data set to serve as a broad indicator for how European companies judge the business environment in China, both now and in the future.

The European Union Chamber of Commerce in China invited its members to take part in the 2012 Business Confidence Survey over a two-week period during February 2012. The survey was conducted in cooperation with Roland Berger Strategy Consultants and was published in May 2012. There were 1,447 eligible entities. With 557 respondents completing the survey, the 2012 BCS achieved a response rate of 39%. Of those respondents, 59% participated in last year's survey. This number has increased each year, suggesting an increasing stability in the data set. This also enabled year-on-year comparisons, coupled with new insights identified by first-time participants. To obtain a high response rate, which is an essential feature of 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 to address the member companies of the European Union Chamber of Commerce in China. The survey comprised 58 questions, grouped under five key themes:

- Company Profile and Statistics
- Company Strategy
- Regulatory Environment
- Human Resources
- Financial Performance

Consistency was one of the motives that guided the design of the questionnaire and the data analysis. We gathered similar data from the previous years so that we could trace and understand the development in 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 2011 issues European companies faced in China.

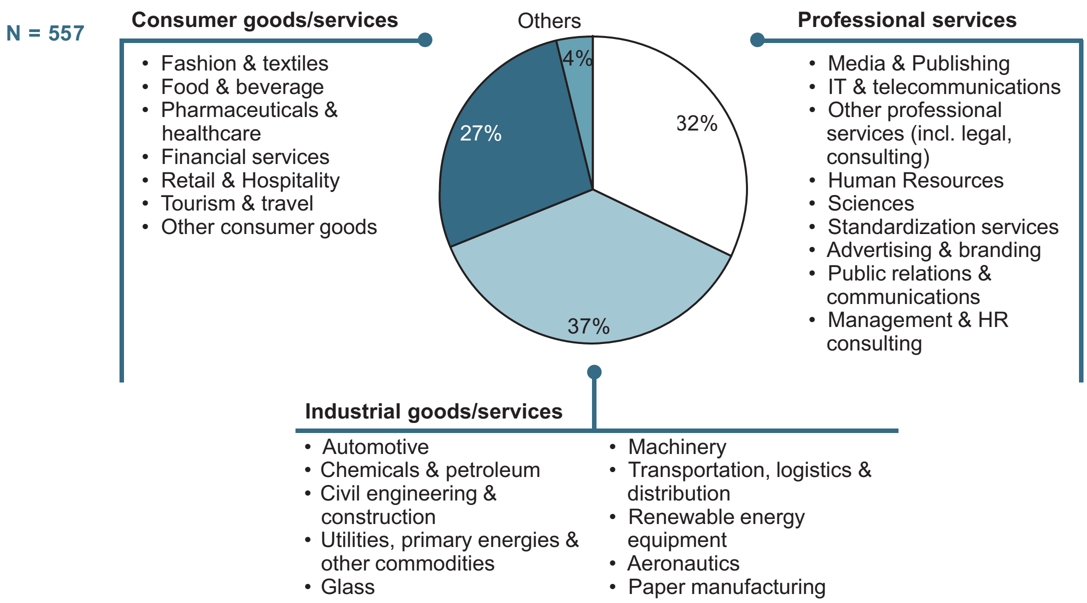
6 PANEL OVERVIEW

6.1 Industry

The various industries were represented almost equally in the 2012 Business Confidence Survey, with 32% of respondents operating in the Professional Services sector, 37% in the Industrial Goods and Services sector, and 27% in the Consumer Goods and Services sector. This adds to the quality and representativeness of the data set collected this year. Moreover, 2012 industry breakdown figures are very close to last year's, which were 33%, 35% and 27% respectively.

Figure 38: **Industry breakdown of respondents, 2012**

Question: Please indicate the primary sector / industry of your company

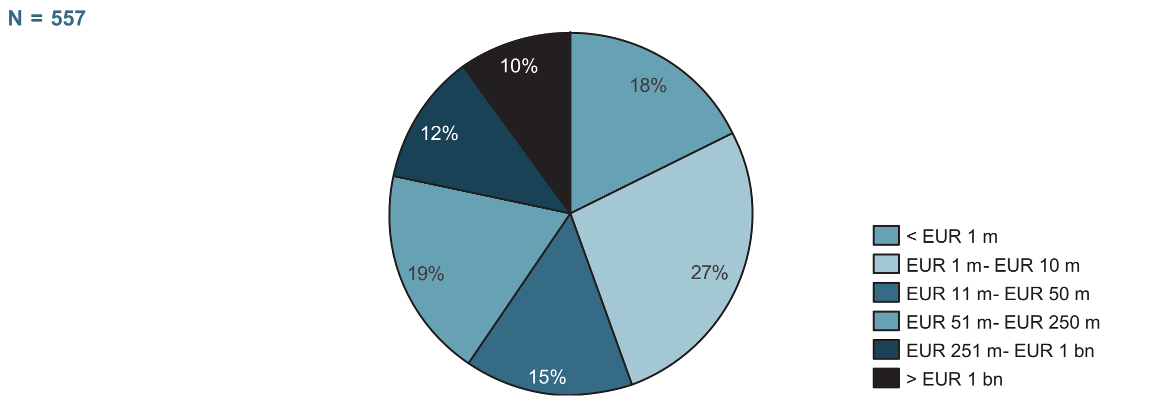


6.2 Revenue, size and time in China

Some 22% of European companies stated they had generated more than EUR 250 million in revenues in China, compared to 19% in the 2011 BCS survey.

***Figure 39:* Breakdown of respondents' total revenue in China, 2012**

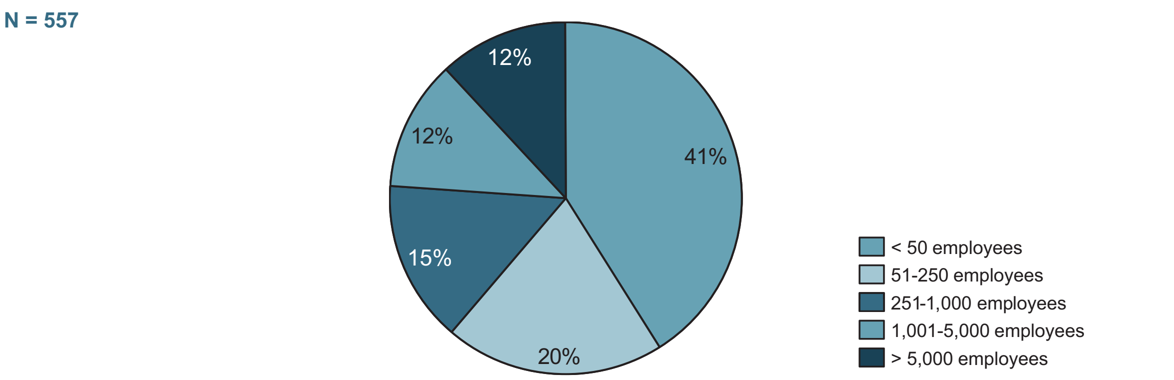
Question: What was the 2011 total revenue of your company in Mainland China, to the nearest million EUR?



In terms of employees in China, the data set is quite balanced: 61% of the 2012 respondents are SMEs (less than 250 employees) compared to 65% last year.

***Figure 40:* Breakdown of respondents' total employees in China, 2012**

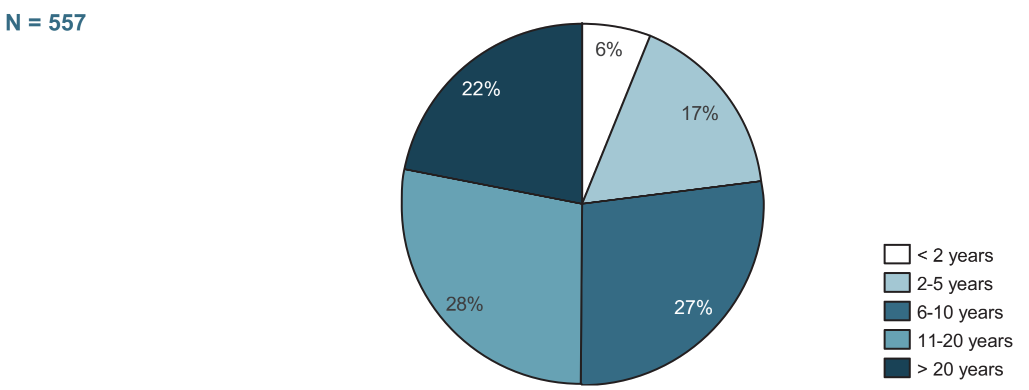
Question: How many employees do you have in Mainland China?



In 2012, 23% stated they had been operating in China for five years or less, 27% between six and 10 years, and 50% for more than 10 years. These figures are similar to last year's (they were 27%, 25% and 48% respectively), although a slight increase towards longer presence in China can be observed.

Figure 41: Years of respondents' operational presence in China, 2012

Question: How long has your company been operating in Mainland China?

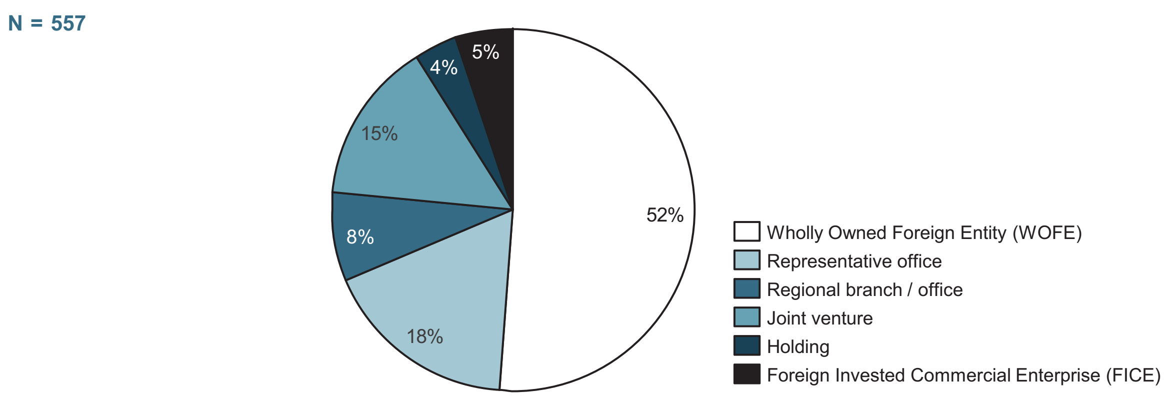


6.3 Legal entities

As was the case last year, the WOFE legal entity is the most common for European companies operating in China.

Figure 42: Legal entities of respondents, 2012

Question: Under what legal entity or entities is your company registered in Mainland China?



7 FINDINGS BY INDUSTRY SECTOR, SIZE AND TIME IN CHINA

The following groups are analysed below:

Firstly by sector:
• Professional services companies
• Industrial goods and services companies
• Consumer goods and services companies

Secondly by company size:
• Small and medium sized companies (SMEs)
• Large companies

Thirdly by length of time in China:
• Companies operating in China for less than five years
• Companies operating in China for more than five years

7.1 Industry sector

Findings by industry sector – Professional services

Number of professional services companies: N=179

- 31% state that more than 25% of their global total revenue was generated from their business in China
- 66% declare their top reason for operating in China is to provide goods and services for the Chinese market
- 35% said revenue generated in China in 2011 has increased by more than 20% compared to 2010
- 72% consider China as one of their top three destinations for new investments today
- 36% believe the Euro-crisis to be negatively affecting their business in China
- 19% consider moving investments to markets outside PRC
- 36% state they are optimistic about their business outlook in China in terms of profitability, and 59% are pessimistic in terms of labour costs
- 31% consider the top area in which domestic SOEs have improved over the last two years is governmental relations, and 12% consider that same area to be their top priority for improvement within the next two years
- 47% judge government policies concerning FIEs to be less fair today than they were two years ago, compared to 12% judging them more fair
- 55% feel they have missed out on business opportunities in China because of regulatory matters; 30% of which state this represented more than 25% of their annual revenue

Findings by industry sector – Industrial goods and services

Number of industrial goods and services companies: N=205

- 27% state that more than 25% of their global revenue stems from their business in China
- 76% said their top motivation for operating in China is to provide goods and services to the Chinese market
- 46% assess their China EBIT margin to be better than their worldwide one, and 26% assess it to be lower than their worldwide EBIT margin
- 80% consider PRC as one of their top three destinations for future investments
- 67% plan on making new investments in China over the next year
- 26% state they are pessimistic when it comes to their industry's business outlook in terms of profitability in China, and the same proportion state they are optimistic
- 68% state they are pessimistic concerning the development of labour costs in their industry in China, and 51% state so concerning the development of raw material prices
- 20% believe domestic POEs improved the most in pricing, although only 6% consider this area as their top priority for improvement in the next two years, compared to 27% for marketing and sales
- 40% judge government policies towards FIEs to be less fair today than they were two years ago, compared to 9% judging them more fair
- 40% feel they missed out on business opportunities in China because of regulatory matters, and 21% of those declared these missed opportunities to represent more than 25% of their annual revenue

Findings by industry sector – Consumer goods and services

Number of consumer goods and services companies: N=151

- 16% state that over 25% of their global revenue was generated in China
- 45% declare that the total number of employees in China increased by more than 20% since last year
- 53% said their EBIT margin in China is better than company worldwide
- 59% rank China among one of their top three destinations for new investments today
- 64% are considering new investments in China within the next two years
- 81% state China's importance in their global strategy is increasing
- 24% are considering moving investments to markets outside PRC
- 75% feel optimistic about the business outlook for their sector in China in terms of growth, and 42% feel the same way in terms of profitability
- 52% feel pessimistic about the business outlook for their sector in terms of labour costs
- 22% state brand recognition is the top area in which domestic POEs have improved over the last two years and 20% assess this same area to be their priority for improvement over the next two years
- 38% feel government policies towards FIEs are less fair now than they were two years ago
- 74% plan to increase total headcount in China within the next two years

7.2 Size

Findings for SMEs – Less than 250 employees in China

Number of SMEs: N=344

- The majority of the 2012 survey respondents are SMEs: 62% this year compared to 65% last year
- 33% state that their Chinese revenue accounted for more than 25% of their global revenue, and 42% for less than 5%
- 39% saw their China revenue increase substantially (> 20%) compared to last year
- 71% consider China as one of their top three destinations for new investments today
- 55% plan on making new investments in China over the next two years
- 23% consider shifting investments to markets outside PRC
- 88% declare their top priority for improving their profitability margin over the next twelve months is to increase revenue rather than to decrease costs
- 42% state discretionary enforcement of broadly drafted laws as being a significant regulatory obstacle when doing business in China, and 32% state local implementation of Chinese standards to be significant
- 41% feel government policies towards FIEs are less fair now than they were two years ago, and 11% feel they are more fair
- 42% state high expectations on salary is the top challenge they face in attracting expats, and 54% feel this is the top challenge when it comes to attracting local employees

Findings for large companies – More than 1,000 employees in China

Number of large companies: N=131

- 24% of respondents are from large companies this year, compared to 20% last year
- 17% declared their revenue from operations in China represented more than 25% of their global revenue
- 28% said their revenue generated in China increased by more than 20% from last year
- 74% consider China as one of their top three destinations for new investments today
- 84% plan on making new investments in PRC within the next two years, and 17% plan on moving investments to markets outside China
- 83% consider increasing revenue to be more of a priority than decreasing costs
- 52% assess discretionary enforcement of broadly drafted laws as a significant regulatory obstacle to doing business in China
- 40% state government policies towards FIEs are less fair today than they were two years ago, and 18% state they are more fair today
- 43% feel company name infringement is a significant issue for their company
- 49% state their top challenge in attracting expats is the lack of willingness to be assigned to China

7.3 Time in China

Findings by time in China

Number of companies operating for less than 5 years: N=159
Number of companies operating for more than 10 years: N=286

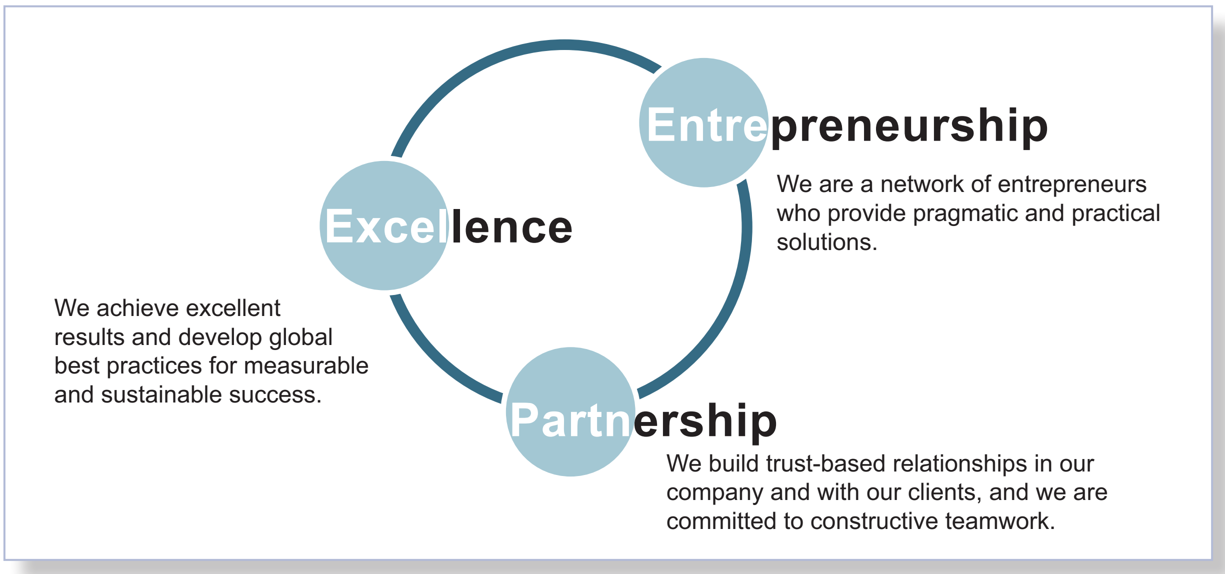
- 23% of respondents have been operating in China for less than 5 years and 50% have been operating for more than 10 years
- 31% of companies that have been operating in China for less than 5 years stated their Chinese revenue represented more than 25% of their global revenue compared to 22% for companies that have been operating for more than 10 years
- 55% of companies that have been operating in China for less than 5 years declared their China revenue increased by more than 20% compared to last year, compared to 33% for companies that have been operating for more than 10 years
- 23% of companies that have been operating in China for less than 5 years assess their profitability margin in China to be better than company worldwide compared to 50% for companies that have been operating for more than 10 years
- 43% of companies that have been operating in China for less than 5 years feel optimistic about their business outlook in China in terms of profitability for their sector compared to 28% for companies that have been operating for more than 10 years
- 47% of companies that have been operating in China for less than 5 years feel pessimistic about their business outlook in China in terms of labour costs for their sector compared to 64% for companies that have been operating for more than 10 years
- 22% of companies that have been operating in China for less than 5 years consider brand recognition as their top improvement measure for the next two years compared to 13% for companies that have been operating for more than 10 years
- 56% of companies that have been operating in China for less than 5 years said their total headcount in China had increased since last year compared to 66% for companies that have been operating for more than 10 years

8 ABOUT ROLAND BERGER STRATEGY CONSULTANTS

Background

Roland Berger Strategy Consultants, founded in 1967, is one of the world's leading strategy consultancies. With over 2,500 employees working in 49 offices in 35 countries worldwide, it has successful operations in all major international markets. The strategy consultancy is an independent partnership exclusively owned by about 220 Partners. The Chinese market is a key pillar of its international expansion. Since its entry into the China market in the 1980s, the consultancy has grown rapidly: The five Chinese offices (Shanghai, Beijing, Hong Kong, Taipei and Guangzhou) now have nearly 300 consultants dedicated to working extensively with both leading Chinese and international companies.

Roland Berger Strategy Consultants is committed to three core values:



Since entering China, Roland Berger Strategy Consultants has been committed to providing high-quality consultancy services for Chinese clients, including large and mid-sized state-owned enterprises, joint ventures, private companies and government institutions. Roland Berger Strategy Consultancy's core competencies range from strategy development through to restructuring and marketing management. Based on this market knowledge, it helps multinational corporations, investment funds and international organisations understand Chinese market development trends, design global business operations, formulate market entry strategies and product and service positioning, and implement sourcing strategies. These capabilities help its clients to improve their global competitiveness and obtain better development opportunities in China.

9 ABOUT THE EUROPEAN UNION CHAMBER OF COMMERCE IN CHINA

Purpose

As the independent voice of European business in China, we seek greater market access and improved operating conditions for European companies

Services

- We provide European business with an effective communication and lobbying channel to the European and Chinese authorities, business associations and media
- We ensure our key recommendations and lobbying strategies are shaped by business through our members' Working Groups
- We monitor China's compliance with the World Trade Organization and other international commitments which impact on doing business in China
- We support companies by providing a platform for the exchange of information on business and market conditions in China
- We help companies expand their networks of European and Chinese business contacts
- We promote sharing of knowledge and experience between European and Chinese business

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 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: large, medium and small enterprises from all business sectors and European Member States throughout China
- We operate in accordance with Chinese law and regulations
- We treat all our members, business partners and employees with fairness and integrity

General Background

The European Union Chamber of Commerce in China was originally founded by 51 member companies based in China on 19th October 2000. The rationale for the establishment of the Chamber was based on the need of the European Union and local European businesses to find a common voice for the various business sectors. The European Chamber has a total of more than 1600 members in seven chapters: Beijing, Chengdu, Nanjing, Pearl River Delta (Guangzhou and Shenzhen), Shanghai, Shenyang and Tianjin. The Chamber is recognised by the European Commission and the Chinese authorities as the official voice of European business in China.

The European Chamber is an independent member-driven, non-profit, fee-based organisation with a core structure of more than 30 Working Groups and Forums representing European business in China. The Chamber is directed by a President and an Executive Committee elected each year by and from its members.

www.europeanchamber.com.cn

European Chamber
中国欧盟商会

Beijing
Tel: +86 (10) 6462 2066
Fax: +86 (10) 6462 2067
Email: euccc@euccc.com.cn

Pearl River Delta - Shenzhen
Tel: +86 (755) 8632 9114
Fax: +86 (755) 8632 9785
Email: prd@euccc.com.cn

Chengdu
Tel: +86 (28) 8529 3447
Fax: +86 (28) 8529 3447
Email: chengdu@euccc.com.cn

Shanghai
Tel: +86 (21) 6385 2023
Fax: +86 (21) 6385 2381
Email: shanghai@euccc.com.cn

Nanjing
Tel: +86 (25) 8362 7330 / 8362 7331
Fax: +86 (25) 8362 7332
Email: nanjing@euccc.com.cn

Shenyang
Tel: +86 (24) 2334 2428
Fax: +86 (24) 2334 2428
Email: shenyang@euccc.com.cn

Pearl River Delta - Guangzhou
Tel: +86 (20) 3801 0269
Fax: +86 (20) 3801 0275
Email: prd@euccc.com.cn

Tianjin
Tel: +86 (22) 2374 1122
Fax: +86 (22) 2374 1122
Email: tianjin@euccc.com.cn