

European Union Chamber of Commerce in China 中 国 欧 盟 商 会

European Business in China BUSINESS CONFIDENCE SURVEY 2021



JUNE 2021 | Beijing, China

In 2021, the BCS achieved a 46.7% response rate, slightly lower than 2020, but still 2nd highest ever



European Chambe

Survey design 66 questions on 3 core themes:

-Company profile & financial performance -Outlook on Chinese business environment -Outlook on company strategy

And 5 thematic issues:

- -Supply Chains
- -SOE reform
- -Politicisation of business
- -Digital and Data
- -Environment

Also a chapter-specific section



Survey execution

4-week answering period during February 2021

46.7% response rate among eligible entities

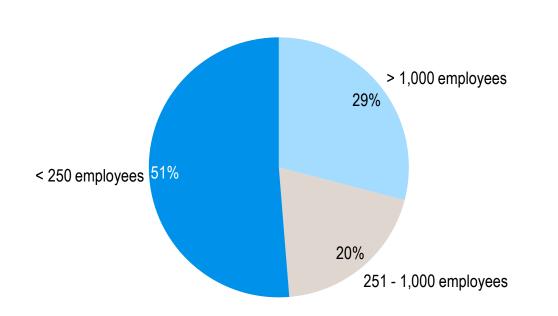
Almost equal representation of companies across sectors

Professional servicesIndustrial goods and servicesConsumer goods and services



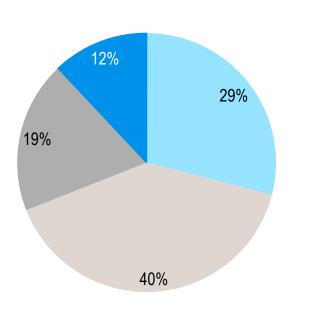
Breakdown of respondents by company size

N=585



Breakdown of respondents by industry

N=585



Professional Services (29%)

- > Financial services (including insurance)
- > IT and telecommunications
- > Legal
- > Media and publishing
- > Professional services

Industrial Goods / Services (40%)

- > Automotive and auto components
- > Aerospace and aviation
- > Chemicals and petroleum
- > Civil engineering and construction
- > Environment
- > Machinery
- > Transportation, logistics and distribution
- > Utilities, primary energy and other commodities

Consumer Goods / Services (19%)

- > Cosmetics
- > Education
- > Fashion and textile
- > Food and beverage
- > Hospitality
- > Medical devices
- > Pharmaceuticals
- > Retail
- > Travel and tourism

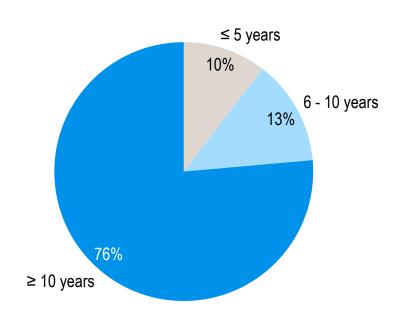
Other (12%)

- > Agriculture
- > Government affairs
- > Other



Breakdown of respondents by time in Mainland China

N=585



Key Findings

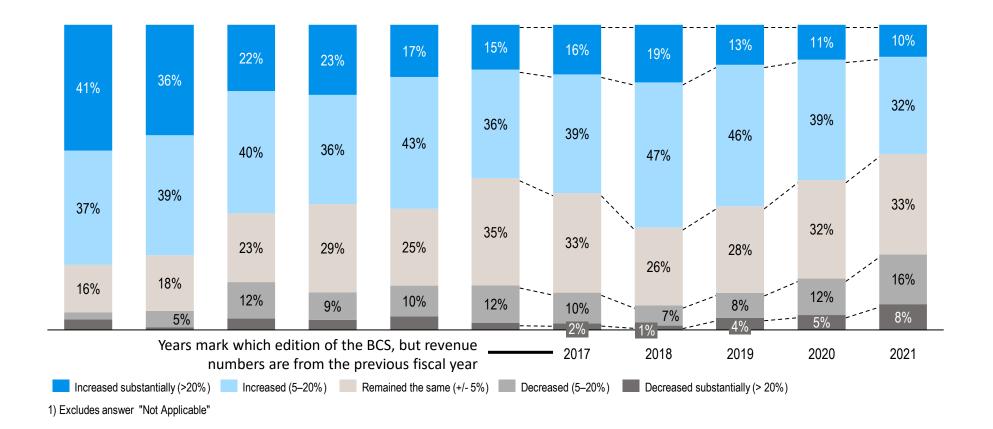
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- Navigating in the dark... and through an unprecedentedly challenging year
- Decoupling: not exactly what we saw a year ago
- Accelerating the reform agenda: a must in an increasingly difficult business environment



Revenue takes a hit, but not as much as expected

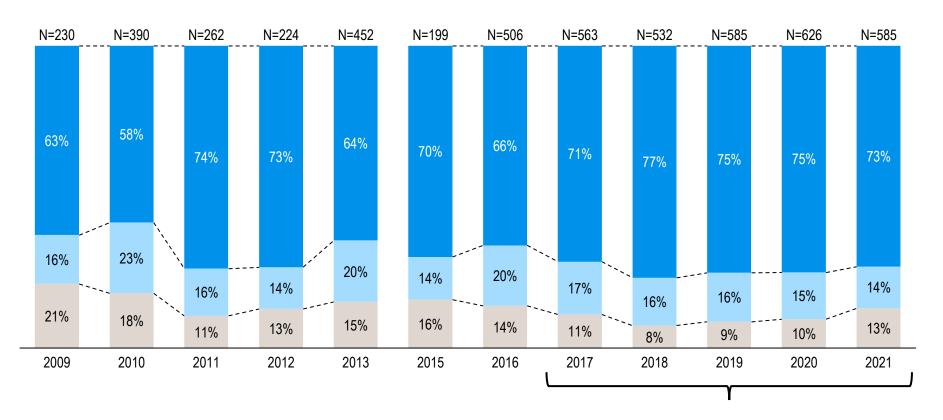
How did your company's total 2020 revenue in Mainland China evolve compared to 2019?¹⁾





Steady EBIT as companies adapted to new realities

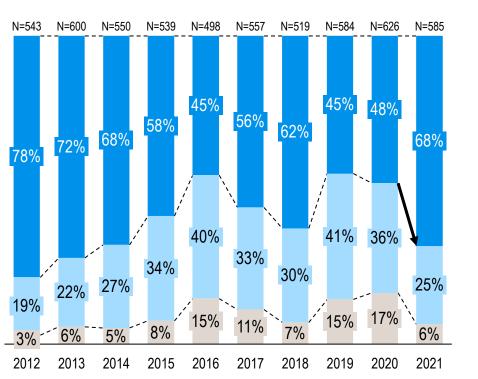
Please describe your company's earnings before interest and tax (EBIT) in Mainland China in 2020.



EBIT holds fast

Optimism on growth surges, other outlooks hold steady

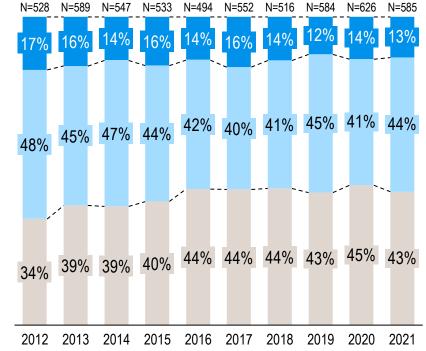
How would you describe the business outlook for your sector in China over the next two years? (1/3)



Growth

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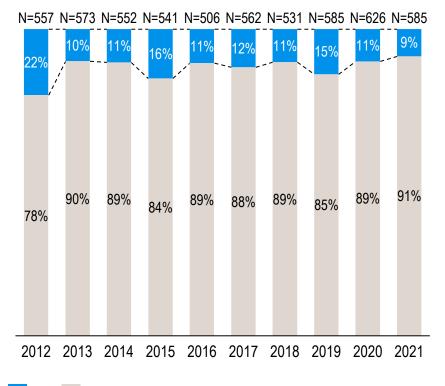


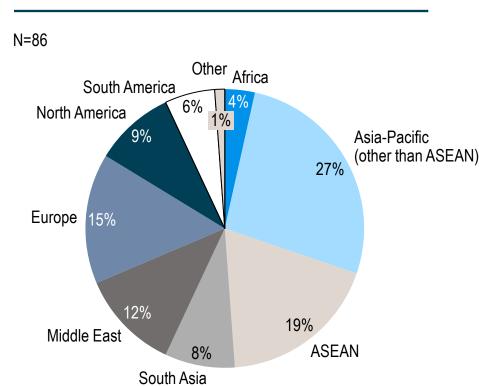
Competitive pressure



Lowest desire to leave the market on record

Is your company considering shifting current or planned investments in China to other markets?





Where to? 1) 2)

Yes No

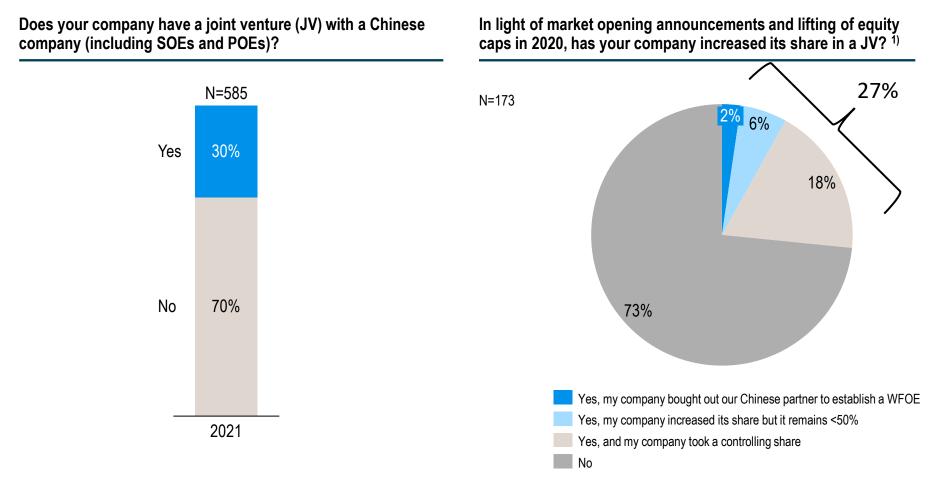
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Asked only if answer to "Is your company considering shifting current or planned investments in China to other markets?" is "Yes"
Multiple answers possible, percentage divided by number of respondents



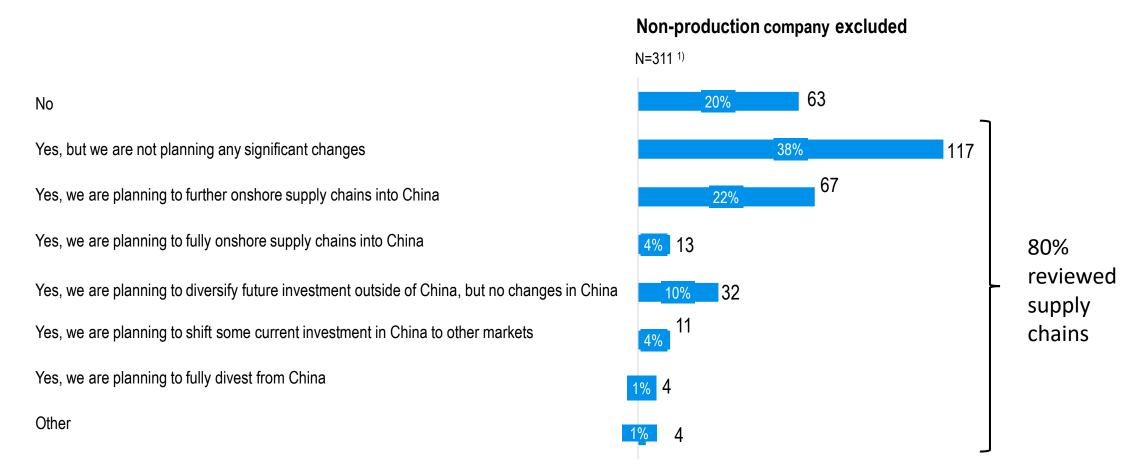
JV positions strengthened as European players batten down the hatches



1) Asked only when the answer "Does your company have a joint venture (JV) with a Chinese company (including SOEs and POEs)? is "Yes"

Five times as many onshoring as offshoring

Has your company reviewed its supply chain strategies in the last two years?



1) Excluded respondents who chose "Non-production company" in Q52s

A third of manufacturers exposed to critical input disruptions

Does your company import any equipment or components from abroad for which it cannot find comparable replacements, or for which finding alternatives would mean accepting lower quality, higher costs or compatibility issues? ¹⁾

N=311²⁾

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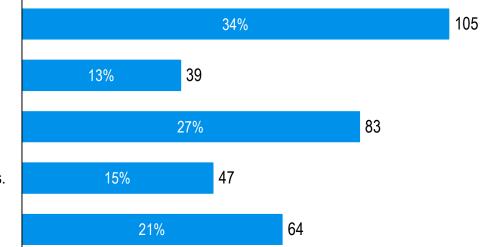
Yes, and there are no viable alternatives

Yes, but there are alternatives at a higher cost

Yes, but there are alternatives at lower quality

Yes, but there are alternatives that will have compatibility issues.

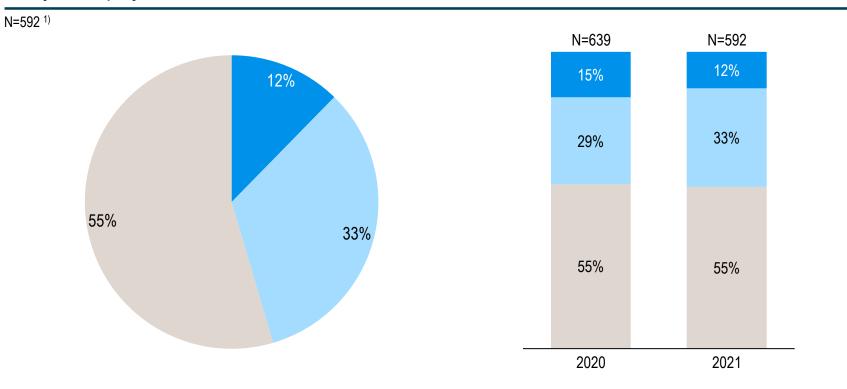
No, we have no such components or equipment





Indirect market access barriers three times as common as direct ones

Does your company face market access restrictions in China?¹⁾



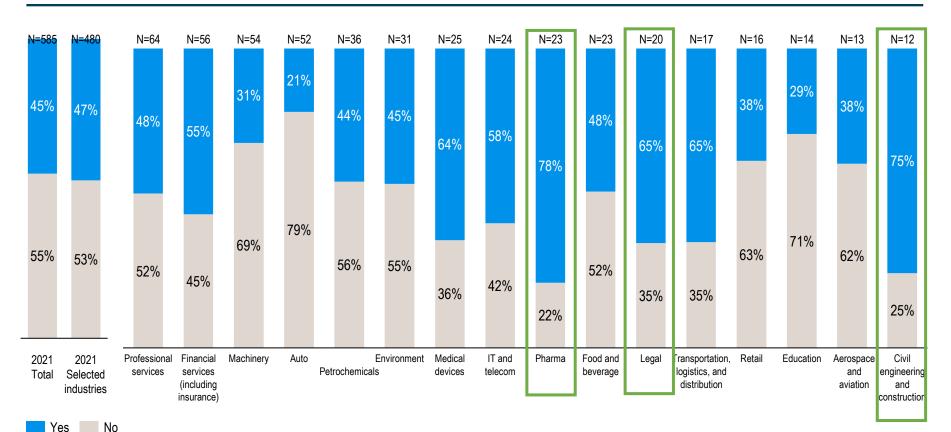
Yes, and they are direct market access restrictions (e.g.. Your sector is restricted or prohibited on the national negative list, or other direct restrictions exist)

Yes, but they are indirect market access barriers (e.g.. Your company has encountered difficulties obtaining licences or certification, due to policy issues, or other indirect barriers)

Pharma, construction and legal missed out the most due to market access restrictions and regulatory barriers

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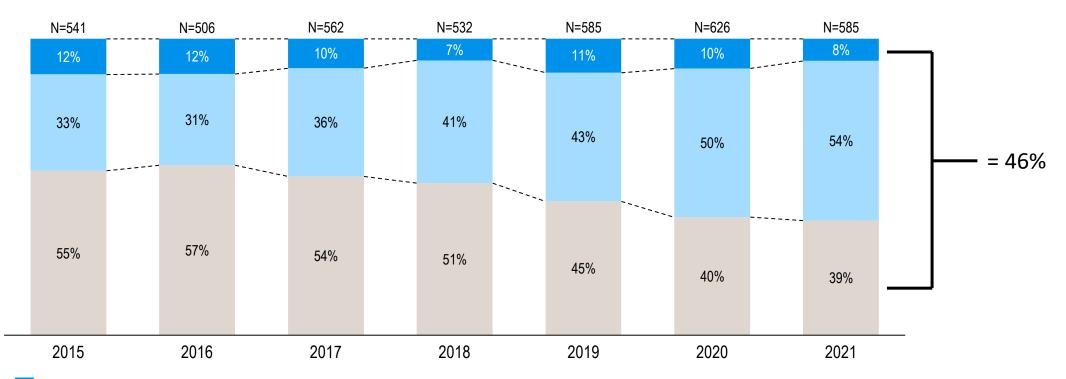
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Has your company missed out on business opportunities in China as a result of market access restrictions or regulatory barriers?

Equal treatment progresses, but 46% still see unlevel playing field

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



Foreign-invested enterprises tend to receive favourable treatment compared to domestic Chinese companies

Foreign-invested companies are treated equally

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Foreign-invested enterprises tend to receive unfavourable treatment compared to domestic Chinese companies

The state advances (again), the private sector retreats (again)

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What best describes your outlook on the relationship between private business and the state-owned sector in China over the next two years?

	N=585	N=626	N=585	
Private business will gain opportunities at the expense of the state-owned sector	20%	16%	15%	
Private business and the state-owned sector will experience equal opportunities	39%	35%	37%	
The state-owned sector will gain more opportunities at the expense of the private sector	41%	48%	48%	
	2019	2020	2021	

Regulatory obstacles change little Y-o-Y

Which are the top three most significant regulatory obstacles for your company when doing business in Mainland China? ^(1) 2)

N=585

Cybersecurity

Corruption

Other

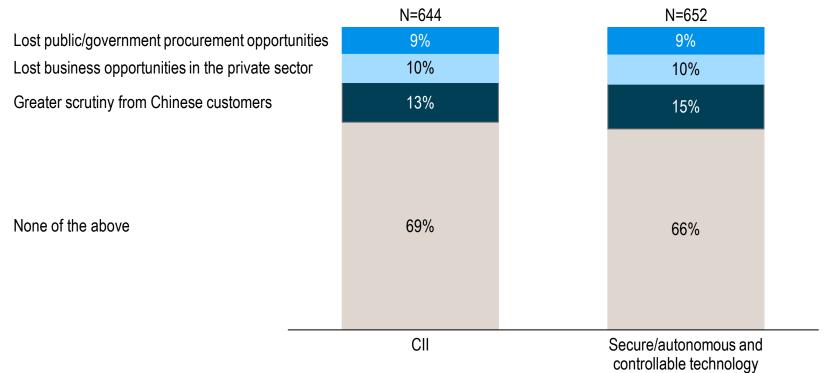
Ambiguous rules and regulations 47% 16% 17% 13% 1% Market access barriers and investment restrictions 9% 29% 7% 3% 13% Unpredictable legislative environment 29% 10% 8% -5% Discretionary enforcement of rules and regulations 9% 10% 27% 8% 0% Licensing requirements/registration processes for products 9% 7% 25% 9% 1% Administrative issues (e.g. tax-related matters, corporate banking, etc.) 20% 6% 9% -6% 6% Customs procedures 7% 20% 6% 7% 3% Intellectual property rights protection 5% 17% 6% 6% -1% Discrimination against foreign-invested enterprises in public procurement 5% 16% 1% 6% Data protection requirements 7% 16% 3% 4% 5% 5% 13% -1% 6% Restrictions on access to financing 4% 12% 2% 4% 4% 3% 10% 0% Technology transfer requirements 3% 3% 3% 9% 0% <mark>-2%</mark> 3% 6% Uncertainty over the application of anti-trust rules 0% <u>,</u>2% 3% Impediments to accessing legal redress (e.g. courts) 0% 2% 4% 1% #2 #3

1) Figures represent the proportion of respondents who rated each issue their #1-3 most significant regulatory obstacles; 2) percentages divided by number of respondents

∆ 2020 - 21 [p.p.]

Growing concern mounts over tech localization push

Which of the following challenges do you expect your company will face due to China's requirements/guidelines for CII and 'secure/autonomous and controllable' technologies? ¹⁾



1) Multiple answers possible

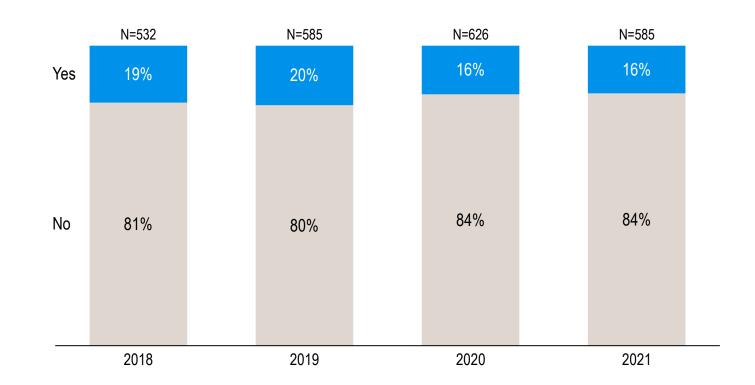
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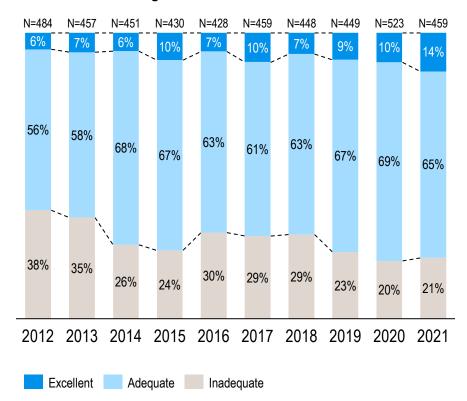
Foreign Investment Law fails to stop compelled tech transfers

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



For first time, half of respondents find IPR enforcement to be excellent or adequate

How does your company rate the effectiveness of China's written intellectual property (IP) protection laws and regulations? ¹⁾



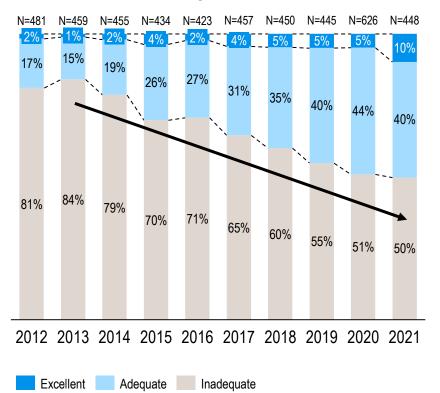
Written laws and regulations

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How do you rate the enforcement of China's IPR laws and regulations? ¹⁾

Enforcement of laws and regulations

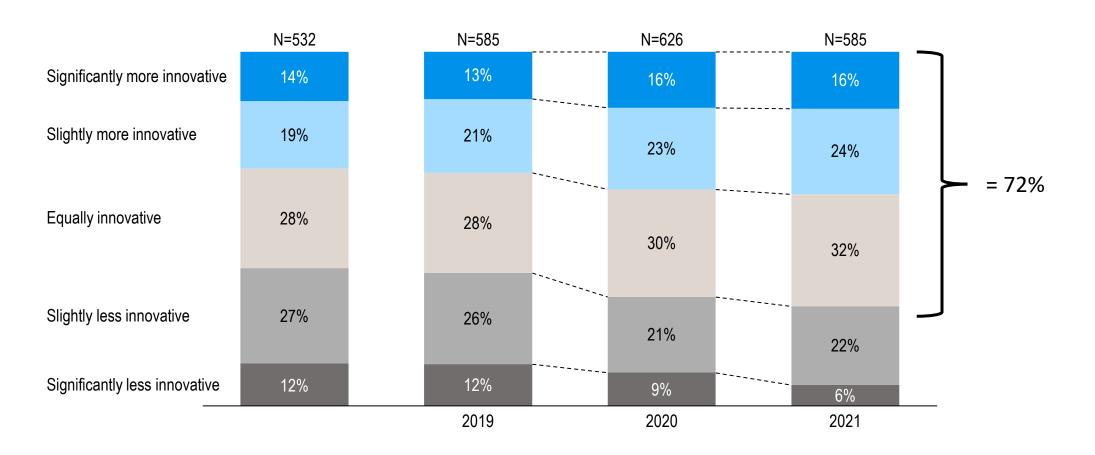


1) "Not applicable" excluded

Wind Berger Business confidence Survey 2021

72% see Chinese firms as equally or more innovative than European ones

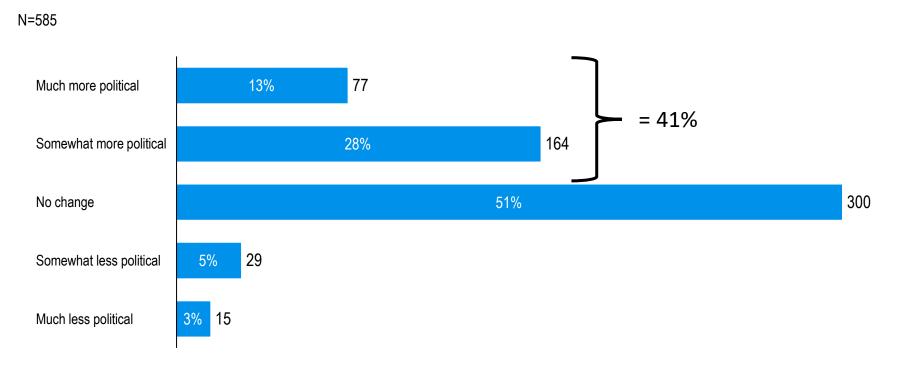
Within your industry, how innovative do you feel Chinese firms are compared to European firms?





Business becomes more political (again)





Foreign worker numbers nosediving

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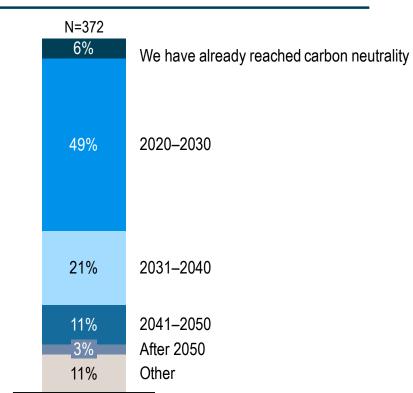
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> N=626 Increased by >50% 14 2% Increased by 26–50% 10 = 18% saw an increase 82 Increased by 0–25% 14% Remained the same 237 41% 123 Decreased by 0–25% 21% 47 = 35% saw a decrease Decreased by 26–50% 8% Decreased by >50% 36 6% We have no foreign nationals woking for our company 6% 36

Has your company increased or decreased the number of foreign employees in the past five years?



European companies do the heavy lifting on decarbonisation

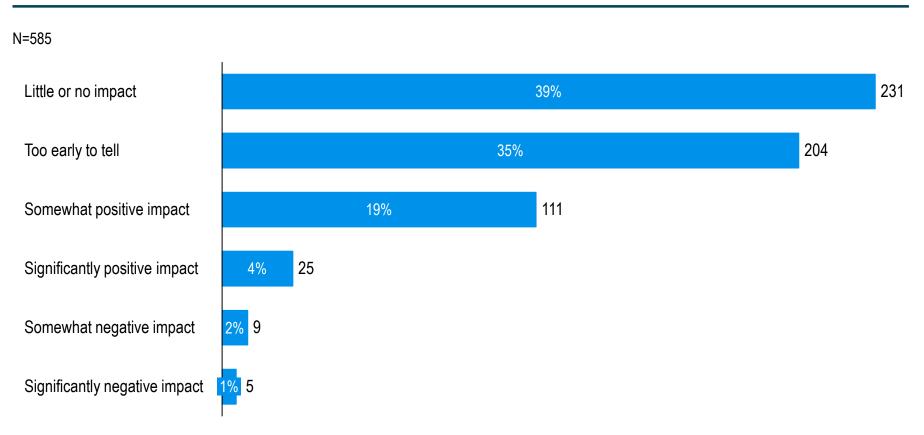


When does your company aim to reach carbon neutrality? ¹⁾



RCEP moves China operations towards being part of regional strategy

What is the expected impact of the RCEP on your business?





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Thank you

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