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European Chamber
中国欧盟商会

European Business in China

BUSINESS CONFIDENCE SURVEY 2021

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European Union Chamber of Commerce in China

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EXECUTIVE SUMMARY

The *European Business in China Business Confidence Survey (BCS) 2020* reported that European companies were "navigating in the dark". Amidst the plethora of standard concerns over market access, level playing field and regulatory reform, the COVID-19 pandemic upended economic norms. In a separate February 2020 joint survey of members of the European and German chambers of commerce in China, half of respondents reported expectations for a year-on-year (y-o-y) decrease in revenue, with a paltry 0.5% expecting any increase. Companies spoke extensively of making their global supply chains resilient and diversifying into other markets.

Contrary to those expectations, European companies in China found themselves in a resurgent market after production went back online far quicker than had been initially anticipated. Though y-o-y revenue shifts were the worst in a decade, 42% of respondents actually saw revenues increase in 2020, with the biggest surges in business-to-consumer (B2C) industries like retail and automotive. This was largely thanks to Chinese customers who, unable to travel, used more of their disposable income to purchase cars, cosmetics and clothing instead. At the same time, a quarter of respondents saw revenues decrease, with the worst hit in service industries like legal and aviation.

Yet, despite the notable downward shift in y-o-y revenues, three out of four companies ended the year with positive earnings before interest and tax (EBIT), the same share as have been profitable for the last five years. China became a critical pillar in the global operations of many European multinationals, with 51% of companies reporting that their EBIT margins in China were higher than their worldwide average, a 13-percentage point increase from the previous year. Looking forward, 68% of European companies in China are now optimistic about growth, a 20-percentage point increase y-o-y.

Unfortunately, the pandemic took a dramatic toll on the foreign employees of European companies in China. COVID-related travel restrictions negatively impacted 73% of respondents, a large number of whom still have foreign experts stranded outside of the country. Worryingly, the European Chamber has heard from members that many of these stranded experts are simply giving up on returning to their lives here, electing to settle down elsewhere instead. This presents a long-term challenge to companies, as years of China-expertise are being lost that may not be recoverable.

Having successfully navigated those dark times, European companies are keeping one eye on the horizon, and preparing to shift strategies to address the coming storms. Contrary to the plans that members spoke about in the first quarter of 2020, to build resilience *outside of China* and into their global supply chains and to diversify into other markets, many now report that they are building resilience *in China* to secure their market position.

Over a quarter of manufacturers are onshoring their supply chains, five times as many as are offshoring. Meanwhile, 27% of companies in a joint venture (JV) increased their positions, with 18% taking a controlling share and 2% buying their partner out to form a wholly foreign-owned enterprise (WFOE). Importantly, this is not just chasing the growth potential of China's economic recovery, this is long-term thinking on how to remain in and build scale in this critical market.

To be successful, European companies will need to chart a precarious course between a growing number of obstacles and challenges. More and more, those stem from the increasingly politicised business environment, as reported by 41% of survey respondents. Significantly, as this was before the mid-March 2021 EU-China sanctions and the coordinated social media attack of European clothing brands, it is reasonable to assume that the percentage of members reporting this may well have increased.

As political tensions rise, European companies are attempting to gauge their exposure to decoupling and technology divergence, but many simply cannot. A worrying third of manufacturers report that they have at least one imported component or piece of equipment for which there are no viable alternatives, and about half note that alternatives will come with higher costs, lower quality and/or compatibility issues. Despite their best efforts, it is highly probable that a fully onshored supply chain will remain elusive for most.

As they batten down the hatches, European companies note that many of the obstacles ahead of them are long-standing.

- **Market access** continues to improve, but only marginally. Barriers are reported by 45% of members, with 12% saying that these are direct, like the negative lists, and 33% reporting that they are indirect, like opaque licensing procedures and administrative approvals.
- **Unequal treatment** persists for 44% of respondents. A small share of members believe that foreign companies receive better treatment than local firms – a problem that must be dealt with as urgently as favouritism towards local players. Looking forward, a third of respondents never expect a level playing field to materialise in China.
- **State-owned enterprise (SOE) 'reform'** continued to disappoint. Only 15% of respondents expect that the private sector will gain opportunities at the expense of the state-owned sector, with 48% expecting the opposite.
- **Compelled technology transfers** persisted for 16% of respondents, the same number as last year despite the Foreign Investment Law prohibiting the use of administrative measures to force technology transfer. This is unsurprising to European companies, as they have long argued that it is China's market access regime forcing them into JVs which sees them being compelled to transfer their technology.
- **Regulatory reform** stagnated overall, and some emerging rules and guidelines constitute growing challenges. A third of respondents have been negatively impacted by the regulatory requirements surrounding the vague and broadly-defined concepts of 'critical information infrastructure' (CII) and 'autonomous and controllable technology'.
- **Intellectual property right (IPR)** infringements are slightly more common than in the last two years, but remain lower than historical averages. However, IPR enforcement continues to steadily progress, and 2021 marks the first time that a majority of respondents found this to be adequate or excellent.

Meanwhile, European companies are exploring new opportunities. China's commitment to be carbon neutral by 2060 is welcomed, and European companies are already ahead of the curve, with 55% of respondents expecting to reach carbon neutrality by 2030 or earlier. The Regional Comprehensive Economic Partnership (RCEP) is expected to result in a reshuffling of some supply chains, with 38% of respondents noting that either some suppliers or customers had relocated out of China. While most expect no impact from the RCEP or state that it is too early to say, 23% expect a positive impact compared to a mere 3% that anticipate a negative one.

The journey ahead will be precarious, and European companies are bracing for more challenges. While the importance of the China market has perhaps never been clearer, it is going to become increasingly difficult for companies to manage the long-standing, internal regulatory challenges of doing business within the strict boundaries of China's state-directed economy alongside the external risks emanating from unwanted political confrontations. As the voyage becomes riskier, the end-rewards must grow commensurately. This would be best achieved through a resurgent reform agenda that completes China's market-opening story and provides European companies with a level playing field.

1 DARKNESS NAVIGATED

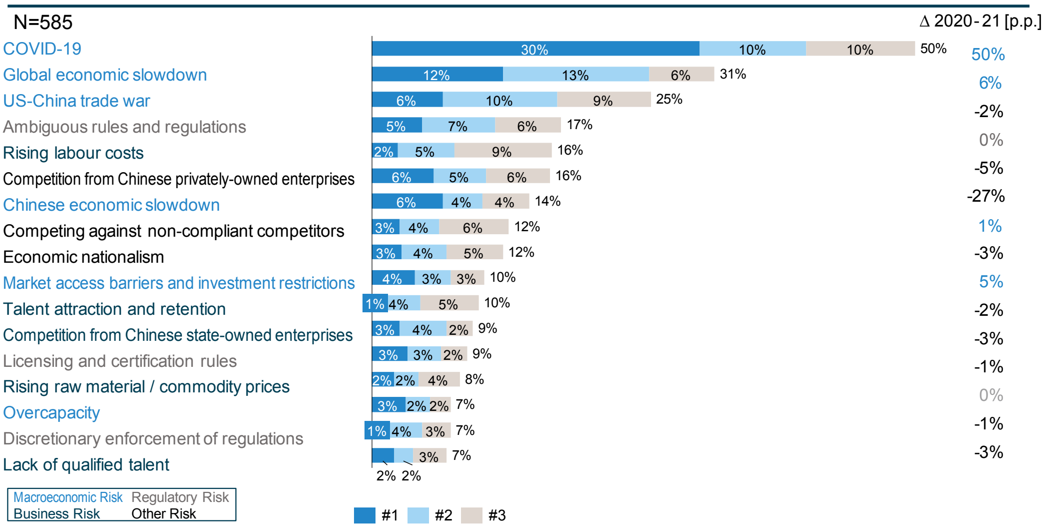
As 2020 progressed, the resilience of China's market provided much-needed shelter for European companies amidst the storm of the COVID-19 pandemic.[1] Revenue trended only slightly downward, with 75% of respondents either maintaining or increasing revenue y-o-y, and profitability remained steady. On that foundation, optimism about near-term growth in China surged by 20 percentage points, and the number of European companies either expanding or looking to expand their business in China has increased.

1.1 COVID-19 brings unprecedented challenges to European business

The COVID-19 pandemic utterly dominated the list of challenges faced by European companies during 2020. The staggering drop (-27 percentage points) in the share of respondents that listed the Chinese economic slowdown as a significant challenge to doing business indicates just how strong China's resurgence was relative to most other major economies over the past year.

Figure 1: COVID-19 dominates challenges

Please rank the top three business challenges that you selected as significant above [1)]



1) *Asked to rank the top three challenges selected for the previous question: "Please choose at least three challenges your company perceives as having the greatest impact on future business in Mainland China."*

1 Wu, Jin and Hancock, Tom, *China's Covid Rebound Edges It Closer to Overtaking US Economy, Bloomberg*, 30th March 2021, viewed 26th April 2021, <https://www.bloomberg.com/graphics/2021-china-accelerated-growth/>

European companies in China were most negatively impacted by business travel restrictions, both cross-border and within Mainland China.[2] The impact of even small numbers of foreign workers stranded outside of China was acutely felt, largely because the relatively small number of foreigners employed by European companies tend to be in critical positions that require special skills. Cross-border travel impacted three out of every four companies, while the on/off nature of domestic travel restrictions impacted six out of ten.

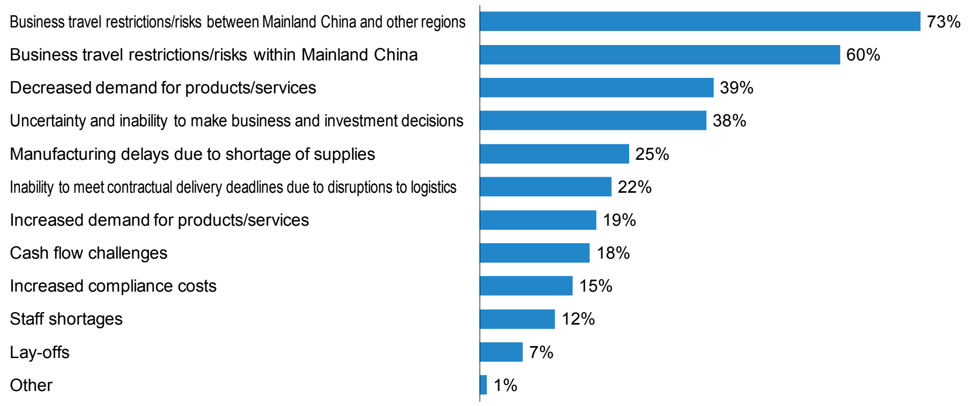
That being said, the effectiveness of restrictions played a large role in managing the pandemic and allowing business to otherwise return to normal quicker than many had expected, which in turn saw China operations propping up group revenue and global business.[3] However, more than a year after the border was closed to all but a trickle of returnees, the European business community in China is not clear why more efficient solutions cannot be implemented that would allow all foreign residents to return, provided they undergo necessary quarantine procedures.

Many European Chamber members have reported that some of their stranded foreign talent is steadily giving up on returning to their lives in China. This presents immediate concerns, as finding replacement foreign expertise is extremely difficult, and, even if it can be found, bringing in new staff remains nearly impossible under the prevailing restrictions. More importantly, this will have a long-term impact on China's development. Many of those giving up on returning have deep knowledge of conducting business in China, something that replacements will take years to develop.

Figure 2: COVID-related business travel restrictions top concerns

Please specify how your business in China was affected by the coronavirus outbreak in 2020? [1)]

N=585



1) Multiple answers possible; percentages divided by number of respondents

1.2 Revenue numbers down but better than forecasts overall

The y-o-y change in revenue was the worst in the last decade of the BCS. However, considering many European companies in China were effectively shuttered for at least two months, with those in Wuhan/Hubei or in cities that experienced subsequent outbreaks seeing longer shutdowns (Wuhan was on full lockdown for 76 days), these results were not unexpected.[4]

2 Wee, Sui Lee and Bradsher, Keith, *Think Covid's Messed Up Your Plans? Try Getting into China, The New York Times*, 21st March 2021, viewed 26th April 2021, <https://www.nytimes.com/2021/03/21/business/international/china-coronavirus-borders.html>

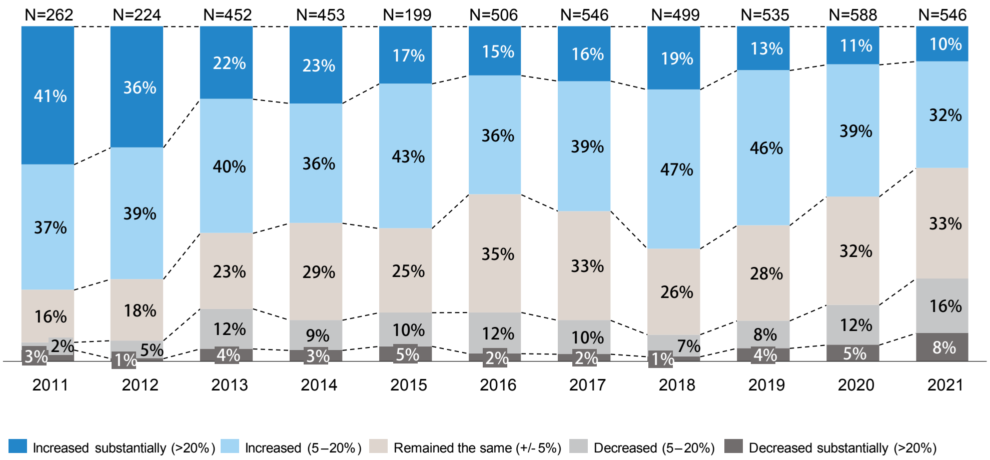
3 Burki, Talha, *China's successful control of COVID-19, The Lancet,* 8th October 2020, viewed 25th April 2021, <https://www.thelancet.com/journals/laninf/article/PIIS1473-3099(20)30800-8/fulltext>

4 Ibid.

In a joint survey conducted in mid-February 2020, many members of the European Chamber and the German Chamber projected outcomes that were far more negative than the actual results subsequently turned out to be.[5] Half of all respondents had anticipated revenue decreases of greater than 10%, and a quarter expected declines of more than 20%. With China effectively managing to bring the virus under control after the initial outbreak, its economy began to recover much quicker than other markets, and demand for many European goods and services grew. As a result, although only 0.5% of respondents to the February 2020 survey had expected revenue to increase, an impressive 42% of respondents to the BCS 2021 reported this to be the case.

Figure 3: 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)]



1) Excludes answer "Not Applicable"

In terms of revenue growth, the best performing industries tended to be those in B2C sectors. The stronger-than-expected economic recovery that resulted from China's ultimately successful management of the COVID-19 outbreak led to a strong resurgence in consumer spending. Significantly, members report that with many of their potential customers no longer spending disposable income on travel and recreation due to pandemic restrictions, they opened their wallets for alternative purchases.[6] Over a third of retailers reported revenue jumps greater than 20%, indicating that Chinese middle-class consumers retained an appetite for high-quality European goods, including some who engaged in 'revenge spending', the result of pent-up demand.[7] For instance, the automotive sector saw some of its highest sales in years, despite the crippling semiconductor shortage that emerged at the end of 2020.[8]

The industry most negatively impacted was aerospace and aviation, for obvious reasons – international airlines were lucky to have one flight per week to/from China for most of 2020.

Legal services also took a considerable hit. One reason for this is that many firms that engaged in inbound and outbound merger and acquisition (M&A) deals were impacted by COVID-19-related travel restrictions. Getting M&A projects off the ground tends to require face-to-face meetings, and this became extremely difficult, if not impossible, throughout 2020.

5 *COVID-19 Severely Impacting Business: Trade Association Call for Proportionate Measures to Get Real Economy Back on Track*, European Union Chamber of Commerce in China, 27th February 2020, viewed 25th April 2021, <http://europeanchamber.com.cn/en/press-releases/3161/covid_19_severely_impacting_business_trade_associations_call_for_proportionate_measures_to_get_real_economy_back_on_track>

6 Bao, Anniek and Shen, Xinyue, *China's Revenge Spending Offsets Plunge in Luxury Goods Revenue, Caixin Global*, 29th July 2020, viewed 25th April 2021, <https://www.caixinglobal.com/2020-07-29/china-revenge-spending-offsets-plunge-in-luxury-goods-revenue-101586109.html>

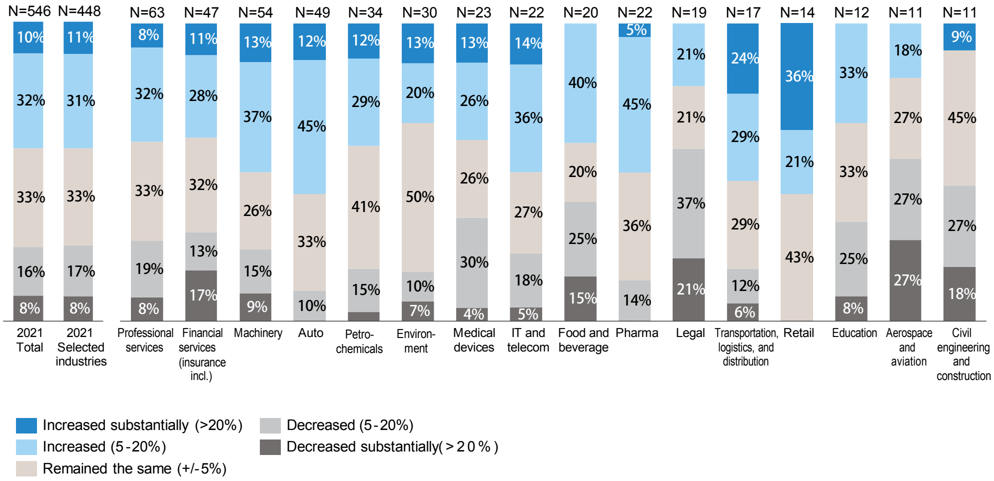
7 Ibid.

8 *China auto sales head for rebound this year from 2% fall in 2020, Reuters*, 13th January 2021, viewed 25th April 2021, <https://www.reuters.com/world/china/china-auto-sales-head-rebound-this-year-2-fall-2020-2021-01-13/>

Civil engineering and construction service providers also took a significant blow, as their opportunities for doing business in China—already limited to mostly consulting and sub-contracting—were even scarcer, as the kind of high-end projects they tend to work on dried up.[9]

Figure 4: Revenue by industry – winners and losers 1)

How did your company's total 2020 revenue in Mainland China evolve compared to 2019? 2)



1) Industries selected are those for which there were at least 10 responses; 2) Excludes answer "Not Applicable"

In general, revenue swings tended to be sharper for small and medium-sized enterprises (SMEs) and more moderate for multinational companies (MNCs). Unsurprisingly, SMEs providing goods and services that were still viable under pandemic conditions thrived, whereas those in industries more exposed to the challenges, such as tourism, tended to experience bigger drops in revenue. According to the China Association for SMEs (CASME) SME Development Index, the sector that saw the most SMEs affected by the pandemic and with the slowest recovery from the first quarter of 2020 to the first quarter of 2021 was hospitality and catering.[10]

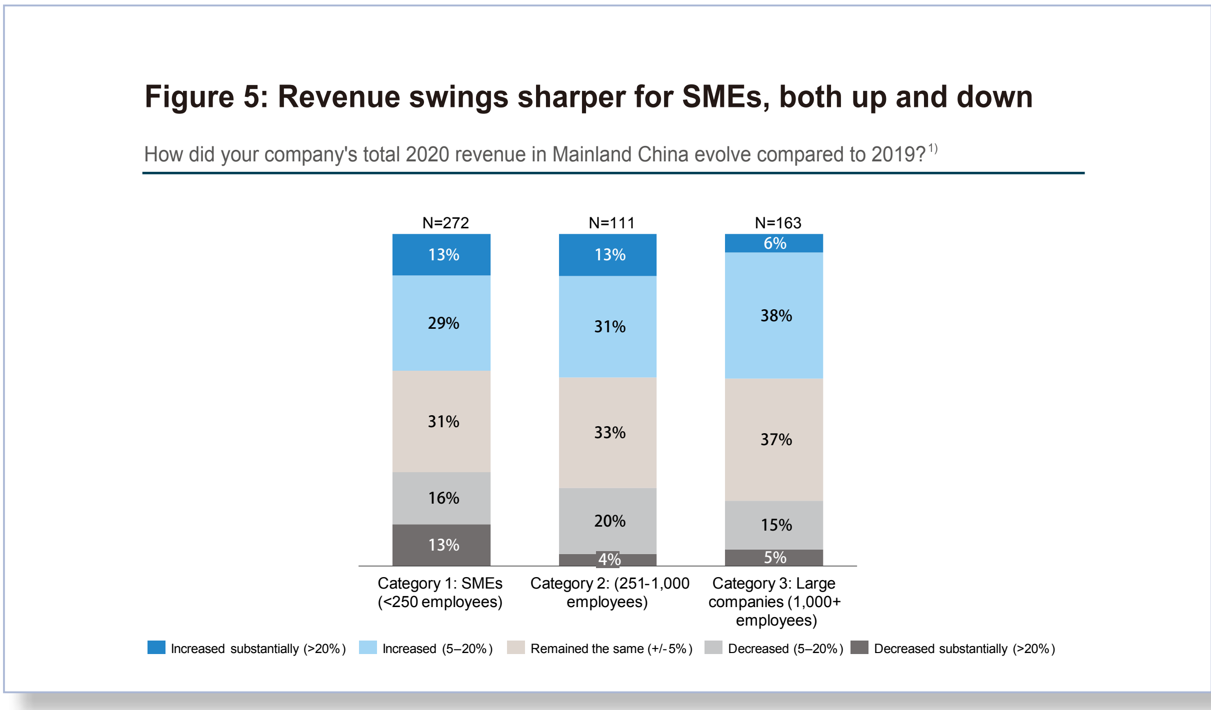
Another factor that influenced the success or failure of SMEs over the past year was the flexibility of their operational plans and supply chains. In the case of a European manufacturing SME in South China, the fact that they had already anticipated a lull over Chinese New Year and had stockpiled in advance played in their favour when the pandemic hit. This forethought combined with a swift re-organisation of operations under pandemic conditions meant it was able to deliver on time to its customers.

Similarly, a European SME that organises trade fairs was able to keep afloat by demonstrating operational flexibility, by first moving their services online when the pandemic took hold, and later developing a hybrid fair model once the situation in China improved. Some European SMEs in the food and beverage industry followed a similar path, transitioning from offline sales to restaurants and hospitality establishments to sales via e-commerce platforms.

Travel restrictions also impacted SMEs more negatively, in large part because they have a disproportionately greater reliance on their pool of key foreign experts, many of whom were stuck outside of China for an extended period, if they made it back at all.

9 *European Business in China Construction Working Group Position Paper 2021/22*, European Union Chamber of Commerce in China, 10th September 2020, pp. 303–312, <http://www.europeanchamber.com.cn/en/publications-archive/855/Construction_Working_Group_Position_Paper_2020_2021>

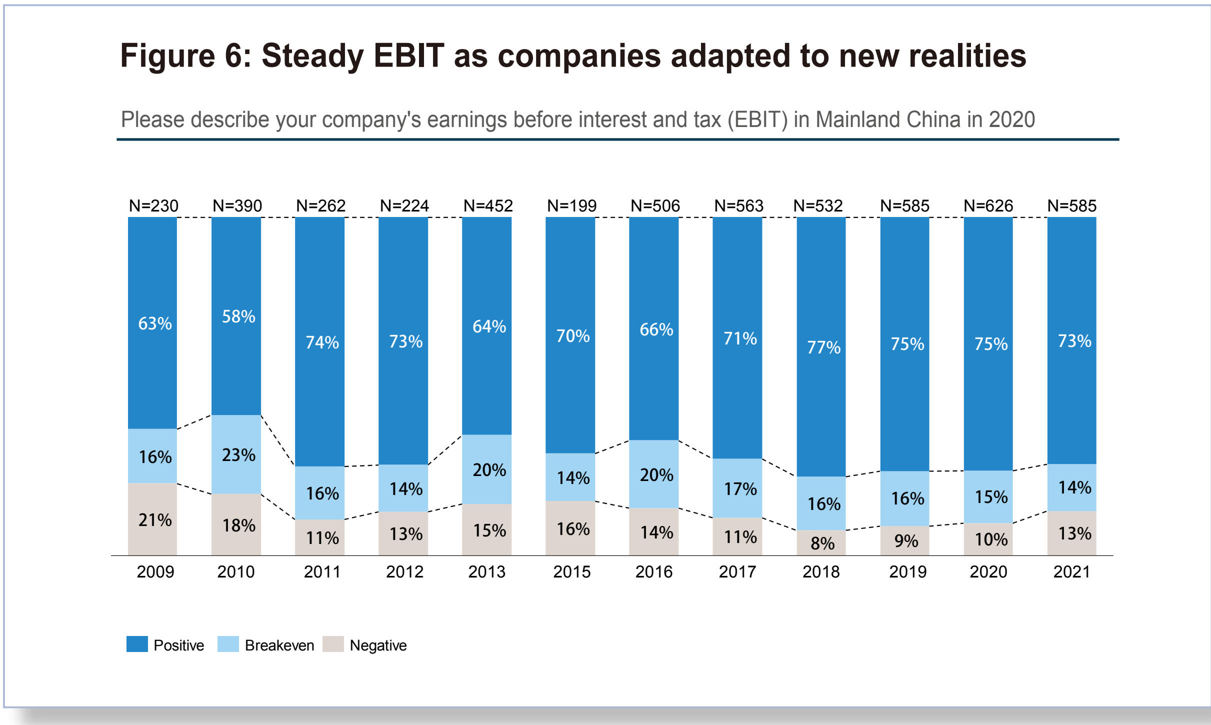
10 *SME Development Index*, CASME, viewed 28th April 2021, <http://www.ca-sme.org/category/Category/list/cid/364>



1) *Excludes answer "Not applicable"*

1.3 Despite blow to revenue, profitability holds steady

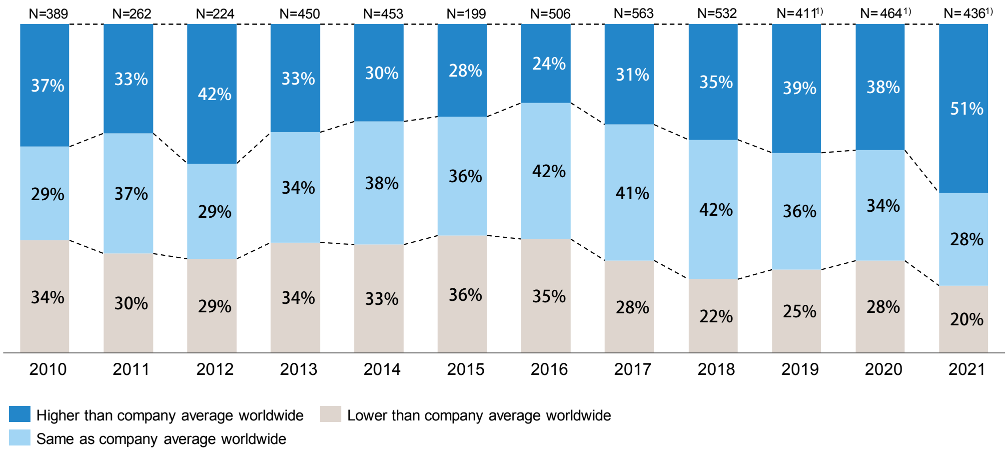
Despite the considerable drop in revenue numbers in 2020, European companies remained steady in terms of generating profit. Roughly three in four companies still reported positive earnings before interest and tax (EBIT), with another 14% breaking even and only 13% going into the red. These numbers are comparable to survey results of the last five years, showing that even when under unprecedented pressure, European companies remain pragmatic, flexible and savvy enough to maintain profitability.



The scale of the damage caused by the pandemic in other markets and the strength of the economic resurgence in China is clearly demonstrated by the sharp jump in EBIT margins compared to worldwide averages. For the first time in over a decade, EBIT margins were higher in China than elsewhere for a small majority of respondents. Again, this is testament to the effectiveness of public health measures that in turn allowed the economy to get back on track.[11] European Chamber members from a wide range of industries have indicated that their strong performance in China was critically important to their global operations, as the Chinese market was one of the few in which revenue and profit could be consistently found.[12]

Figure 7: EBIT margins strong compared to rest of world

How did your company's 2020 EBIT margin in Mainland China evolve compared to 2019?



1) Excludes answer "Not Applicable"

11 Shih, Gerry, *China pulls ahead among major economies in pandemic recovery, The Washington Post,* 19th October 2020, viewed 26th April 2021, <https://www.washingtonpost.com/world/asia_pacific/china-economy-recovery-covid/2020/10/19/d574d08c-1204-11eb-a258-614acf2b906d_story.html>

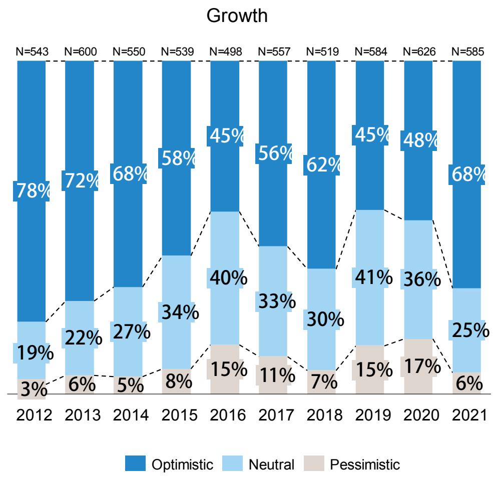
12 Cheng, Emily, *US companies with China operations look to the Asian giant for growth, CNBC*, 16th November 2020, viewed 25th April 2021, <https://www.cnbc.com/2020/11/17/china-important-for-us-businesses-hit-by-the-coronavirus-pandemic.html>

1.4 Future outlook brightens considerably

After two of the most pessimistic years recorded in the BCS, respondents to the 2021 survey were overwhelmingly optimistic about growth outlook for the coming two years, with two thirds reporting optimism, the highest since 2014 and a 20 percentage point increase y-o-y. This reflects the confidence in the local market, but also suggests that, as vaccine rollouts progress around the world, global demand will recover and could spur even stronger growth in China.

Figure 8: Optimism on growth surges

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

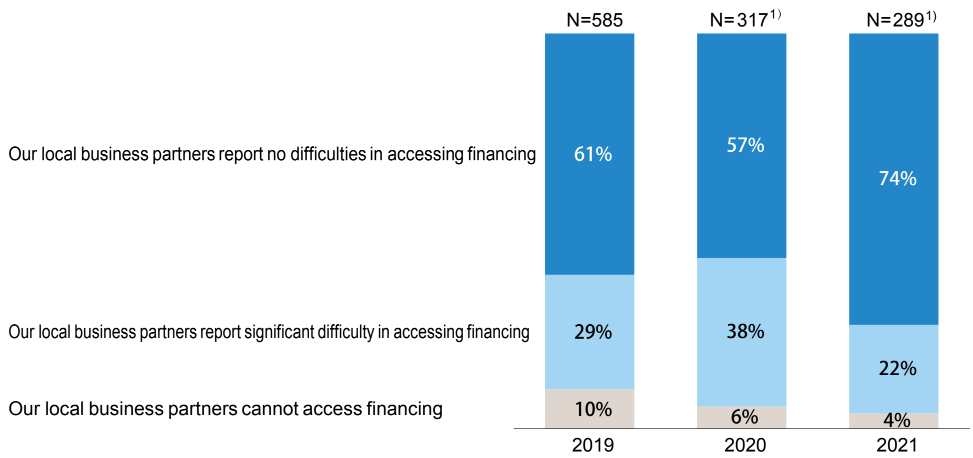


1.5 Stimulus temporarily alleviates financing woes

China's long-standing challenge of getting sufficient financing to private Chinese firms seems to have been partially resolved in 2020, with a 17-percentage point increase in respondents noting that their local business partners reported no difficulties in accessing financing. In the past, most partners that were adequately financed were state-owned enterprises (SOEs) or China's larger private companies. Although this is certainly positive news, the increase likely includes many Chinese SMEs that were able to access sufficient financing through the government's COVID relief measures.[13] Therefore this improvement may not be permanent, as the root of the problem—that China's state-led financial sector tends to make safe bets on dominant and guaranteed SOEs—remains unresolved.

Figure 9: COVID stimulus measurably improves access to financing

Please select all applicable choices regarding access to financing for local business partners



1) Excludes answer "Not applicable"

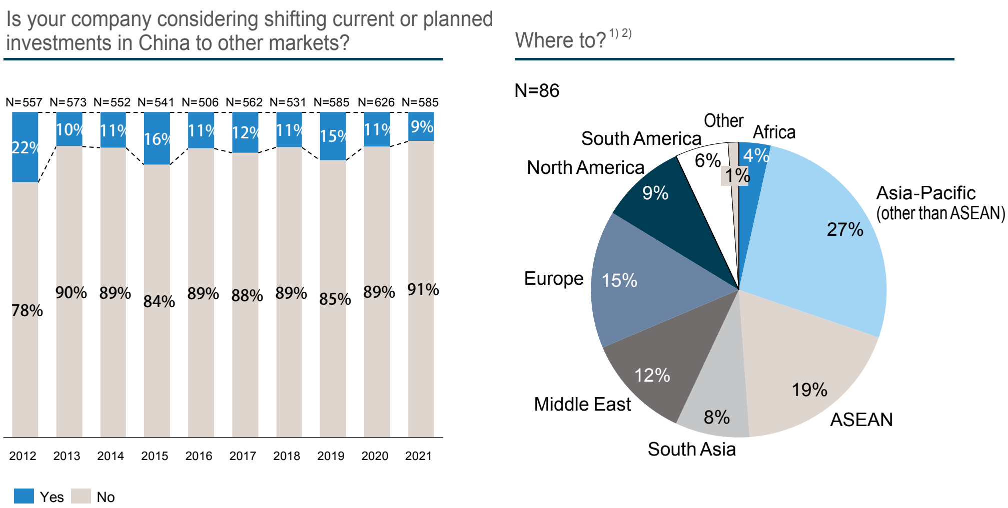
13 Cheng, Emily, *China extends stimulus measures for small businesses- a sign the recovery is not yet complete, CNBC*, 23rd December 2020, viewed 25th April 2021, <https://www.cnbc.com/2020/12/23/china-extends-stimulus-programs-for-small-businesses.html>

2 INVESTORS ONSHORING, STRENGTHENING POSITIONS

A mere 9% of European companies are considering moving any current or planned investment out of China, the lowest level on record. Instead, companies are strengthening their positions in JVs, onshoring supply chains and increasing spending to secure market share. The ambition not only to stay but also to expand their China footprint is more than just capital flooding in due to optimism about growth. Companies are taking action to secure their operations in China and mitigate exposure to geopolitical trends in order to have a better chance of navigating a future that looks to be fraught with risk, at least in the near- to medium-term.

2.1 European companies committed to the China market now more than ever

Figure 10: Lowest desire to leave the market on record



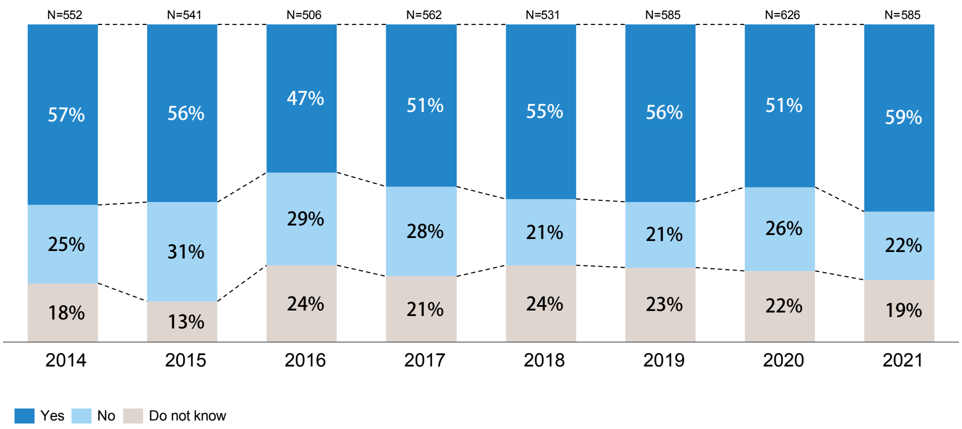
1) Asked only if answer to "Is your company considering shifting current or planned investments in China to other markets?" is "Yes"

2) Multiple answers possible, percentage divided by number of respondents

Six out of ten respondents indicated that they are considering expanding their current China operations in 2021, an eight-percentage point increase y-o-y.

Figure 11: Sizeable bump in those eager to invest more in China

Is your company considering expanding current China operations in 2021?



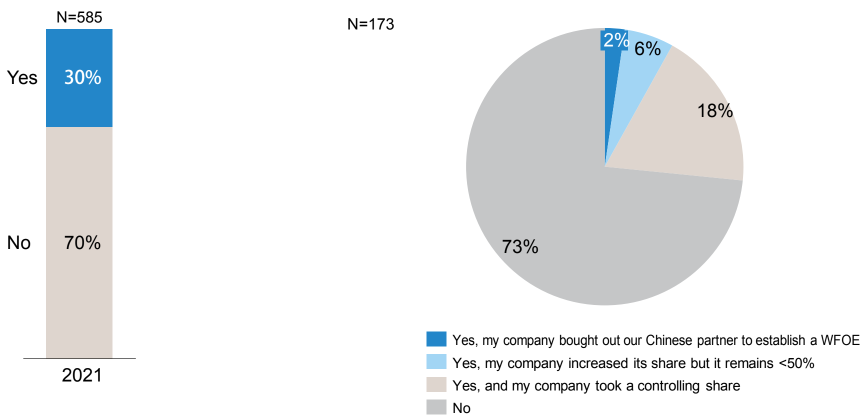
2.2 European firms seize opportunities to increase JV shares

Of the 30% of respondents that have a JV with a Chinese partner, a quarter chose to increase their shares in 2020. Of those, roughly four out of five took a controlling share or bought out their partner entirely. Much of this is driven by market openings in certain industries following their removal from the *Negative List for Foreign Investment* in recent years,[14] but it also underlines the global importance of China's market that a significant number of European companies used what capital they could find to strengthen their positions during such a challenging year.

Figure 12: JV positions strengthened as European players batten down the hatches

Does your company have a joint venture (JV) with a Chinese company (including SOEs and POEs)?

In light of market-opening announcements and lifting of equity caps in 2020, has your company increased its share in a JV?[1)]



1) *Asked only when the answer "Does your company have a JV with a Chinese company (including SOEs and privately-owned enterprises (POEs))? is "Yes"*

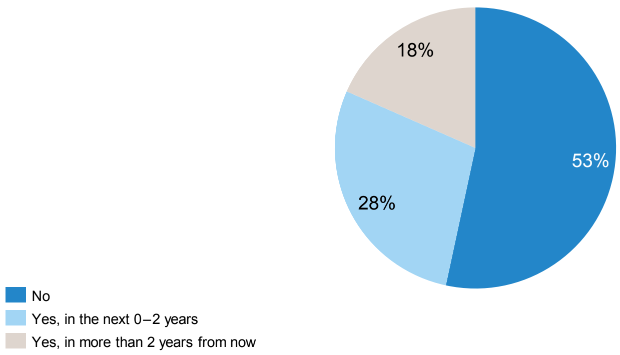
14 *Special Administrative Measures for Foreign Investment Access*, NDRC, 23rd June, viewed 25th April 2021, <https://www.ndrc.gov.cn/xxgk/zcfb/fzggwl/202006/P020200624549035288187.pdf>

Of the respondents that did not take full control of their JVs, roughly half are interested in doing so in the coming years if given the opportunity. The other half seem to be content in their partnerships. Some members of the European Chamber report that many JV relationships persist not because of regulatory pressure, but because of market forces. A good local partner can bring more than just capital, and China's private companies in particular often come with expertise, better ability to navigate the market and government and, increasingly, technology and know-how.

Figure 13: Some happy with JVs, others looking to expand shares

Is your company interested in expanding your share in a JV in the future?[1)]

N=163



1) *Asked only when the answer to "In light of market-opening announcements and lifting of equity caps in 2020, has your company increased its share in a JV?" is not "Yes, my company bought out our Chinese partner to establish a WFOE"*

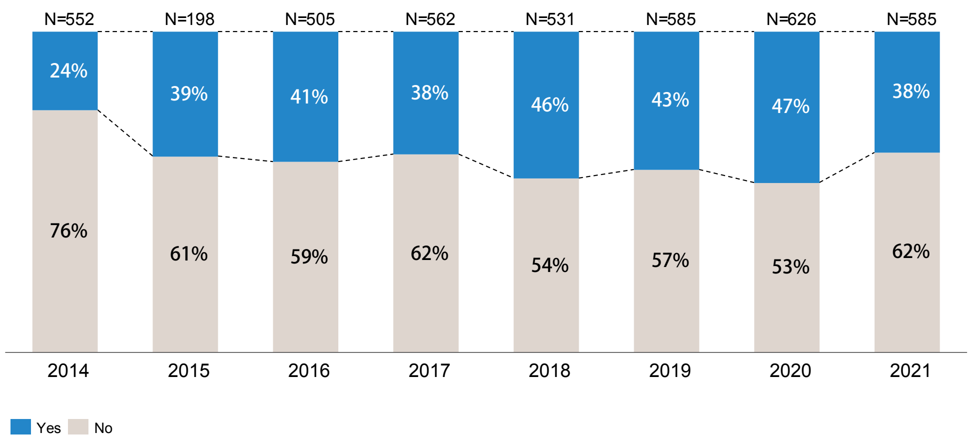
2.3 China's comparatively stronger bounce-back sees cost cutting trend downwards

In the BCS 2020, roughly half of respondents indicated that they planned to cut costs in China. That number has dropped to 38% in 2021, further reflecting the increased importance of the market to global operations. For the European companies in China benefitting from revenue, EBIT and margins results that are stronger than their operations elsewhere, it makes little sense for them to cut costs, particularly with strong optimism on future growth. Furthermore, as political tensions between China and the United States (US), and increasingly China and Europe, grew in 2020 and early 2021, European companies have recognised that the window for solidifying their positions in China may not be open forever.[15]

15 *Decoupling: Severed Ties and Patchwork Globalisation*, European Union Chamber of Commerce in China and the Mercator Institute for China Studies (MERICS), 14th January 2021, pp 20-26, <http://europeanchamber.com.cn/en/publications-decoupling>

Figure 14: China provides safe harbour for many

Does your company plan on cutting costs in China in 2021?



2.4 Little divestment, but plenty of supply chain onshoring

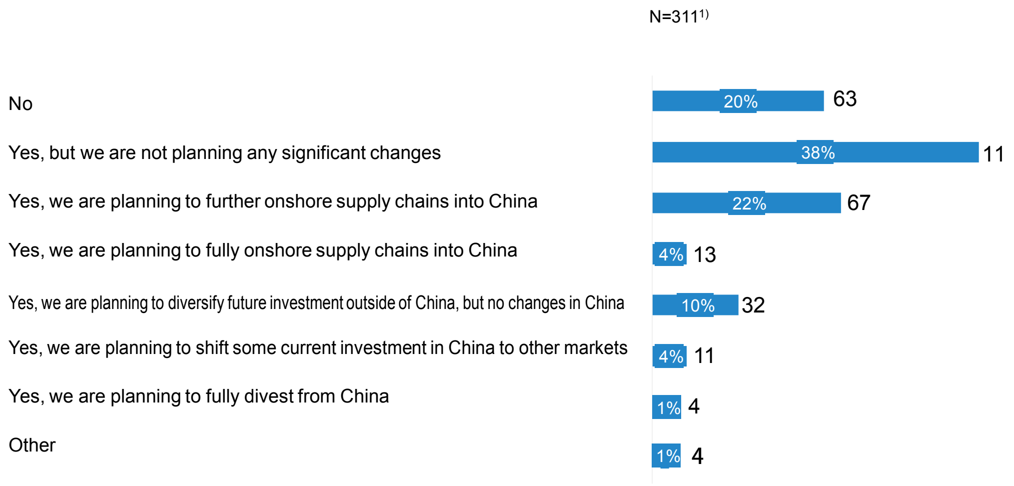
When examining only respondents engaged in production, a mere 20% have not reviewed their supply chain strategies in the last two years. Just under half of the remainder (38%) have done so but are not planning significant changes at the moment, while the remaining 42% are planning to adjust in some way. A quarter of manufacturers intend to further onshore at least some of their supply chains into China, with 4% attempting to fully onshore. One in 10 are diversifying future investment into other markets, but will leave their operations in China untouched. Finally, of respondents engaged in production, a mere 4% are planning to shift some current investment out of China, with 1% intending to fully divest. In other words, five times as many companies are onshoring as there are offshoring.

This is unsurprising to the European business community, which has steadily come to the conclusion that a company cannot be globally competitive without a strong presence in China. If, as found in the European Chamber's joint report with the Mercator Institute for China Studies (MERICS) on decoupling, the US and China proceed down the path of trade conflicts and technological divergence, then it is imperative that exposure be minimised.[16] For many European companies in China, that means onshoring as much as possible.

16 *Decoupling: Severed Ties and Patchwork Globalisation*, European Union Chamber of Commerce in China and MERICS, 14th January 2021, <http://www.europeanchamber.com.cn/en/publications-decoupling>

Figure 15: Five times as many onshoring as offshoring

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



1) Excluded respondents in "non-production industries"

2.5 Critical inputs a real threat to many

A significant number of European manufacturers import critical equipment and components into China. A total of 34% of respondents involved in production indicated that for certain components or equipment they use there are simply no viable alternatives. Others report being able to find domestic alternatives but only at higher cost, lower quality and/or with compatibility issues. These critical inputs are playing a central role in the current decoupling story, as most clearly illustrated between the US and China with regard to semiconductors. Therefore, any European companies in China that produce high-end products that require cutting-edge inputs (particularly those that must be sourced from abroad) are heavily exposed to any market disruptions.[17]

Such turmoil arrived in late 2020 in the automotive industry, when low levels of supply from semiconductor producers were met with resurgent demand from China.[18] The ensuing dearth of chips resulted in automotive manufacturers in China shutting down entire production lines, and at time of writing in April 2021, demand still outstrips supply.[19] Whether a consequence of the pandemic or an intentional cutting-off of access to foreign semiconductors, as happened to Huawei, the European business community has received a wake-up call to take this potential threat seriously.

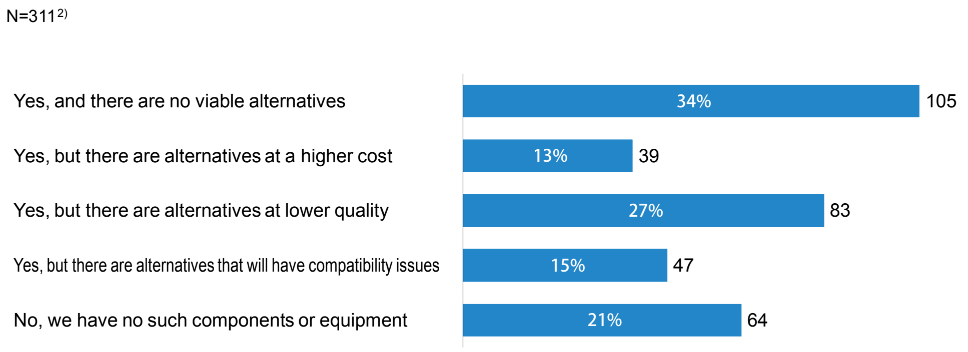
17 *Semiconductors and the US-China Innovation Race, Foreign Policy*, 16th February 2021, viewed 26th April 2021, <https://foreignpolicy.com/2021/02/16/semiconductors-us-china-taiwan-technology-innovation-competition/>

18 Zheng, Lichun and Lu, Yutong, *Chip Shortage Will Continue to Disrupt Auto Production in China, Industry Warns, Caixin Global*, 14th January 2021, viewed 25th April 2021, <https://www.caixinglobal.com/2021-01-14/chip-shortage-will-continue-to-disrupt-auto-production-in-china-industry-warns-101650847.html>

19 *Auto chip shortage casts shadow over China's auto industry recovery, Reuters*, 18th April 2021, viewed 25th April 2021, <https://www.reuters.com/world/china/autoshow-chip-shortage-casts-shadow-chinas-auto-industry-recovery-2021-04-18/>

Figure 16: 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]



1) Multiple answers possible; percentage divided by number of respondents

2) "Non-production company" answers excluded

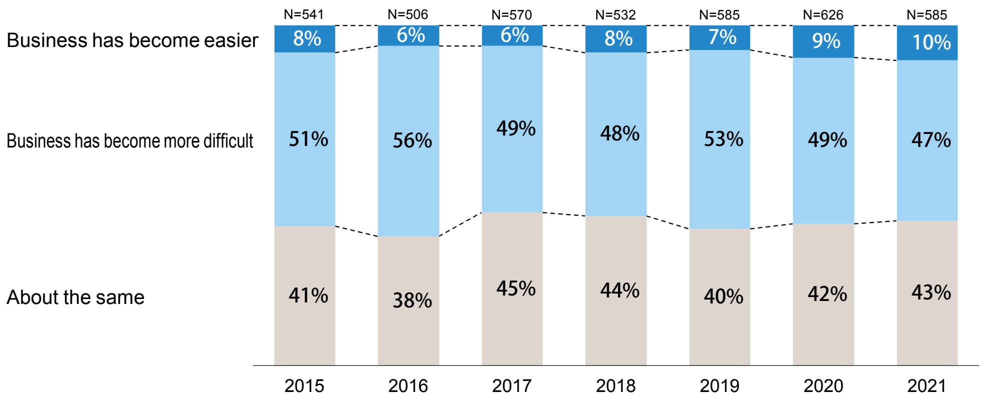
3 REFORM EFFORTS LAGGED

In an attempt to avoid being impacted by decoupling trends, European companies in China are deepening their positions, at least in the industries in which they are permitted to do so. Market access issues aside, the business environment is still suffering from unequal treatment, stalled SOE reform and compelled technology transfers, while overall governance needs strengthening.

It is therefore no surprise that, although European Chamber member companies in some sectors feel that the business environment is now more accessible, a significant 90% of companies reported that the ease of doing business in China either did not improve or became more difficult in 2020. While some of that may be due to increasingly competitive local players, the bulk of the challenges facing European companies in China are the result of regulatory issues and the political economy established by China's state-planners.

Figure 17: Doing business not getting any easier

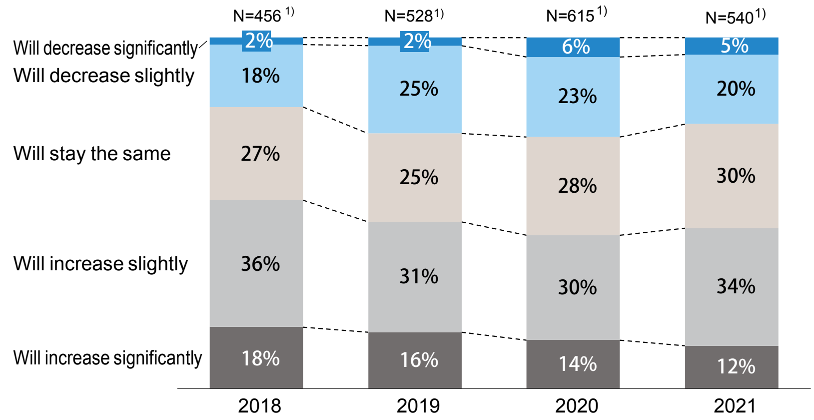
How has doing business in China for your company developed in the last year?



Against this backdrop, it is now necessary for China to refocus on its reform agenda if it is to meet its often-stated goal of attracting more foreign investment, particularly considering that 46% of respondents predict an increase of regulatory obstacles in China over the next five years.

Figure 18: Number of hurdles expected to rise

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



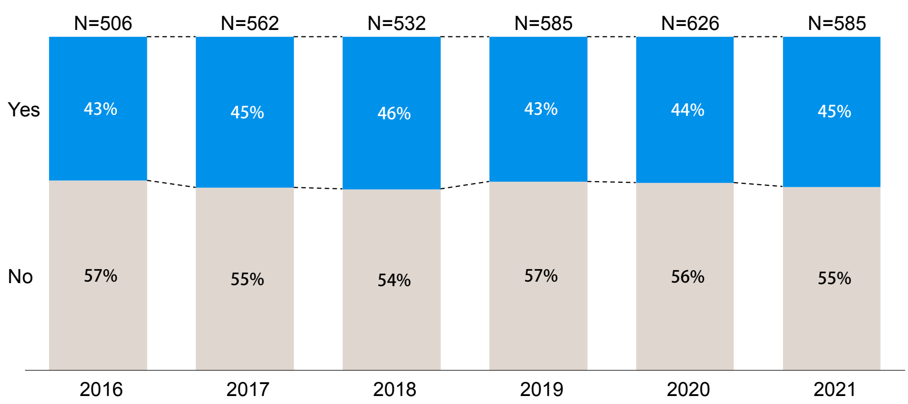
1) *Excludes answer "Do not know"*

3.1 Market access

Market access restrictions and regulatory barriers resulted in missed business opportunities in 2020 for 45% of overall survey respondents. That this figure has remained almost exactly the same over the last six years suggests that any market access or regulatory improvements that have been made have been offset by deterioration in other areas, or that improvements have not been effective in meaningfully opening the market.

Figure 19: Business opportunities missed due to restrictions

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

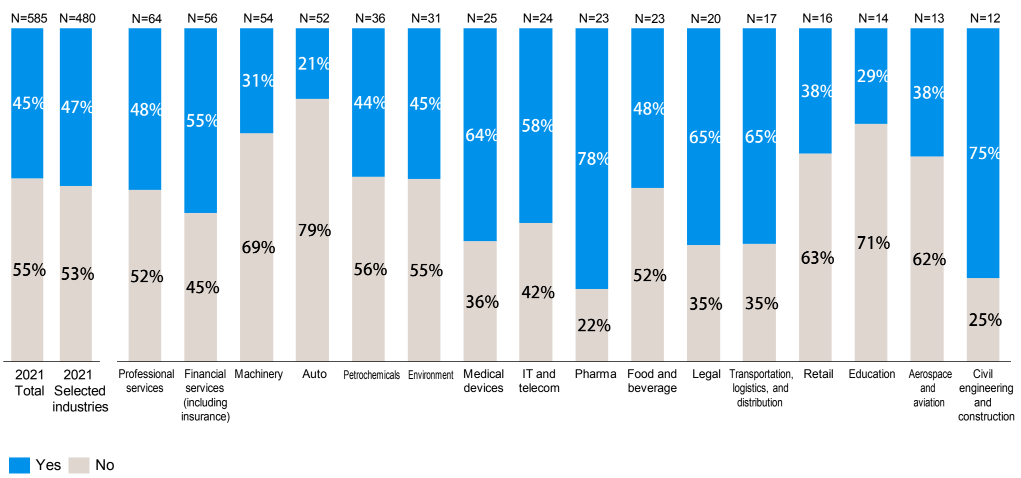


Even in areas where nominal market access is granted, indirect barriers can effectively block access to certain business opportunities. For example, 78% of respondents in the pharmaceutical sector report that they missed out on business opportunities due to market access barriers in 2020. This is in part due to the recently introduced volume-based procurement (VBP) system, and in part to slower drug review and approval processes. In the VBP pilot policy, which has been running for the last three to four years, winning bulk purchase bids on generic drugs means securing a sizeable chunk of the Chinese pharmaceutical market and being able to save on marketing outlays. However, the aggressive price-cutting that is required to win such bids puts a huge strain on profits. Essentially, it is resulting in a race to the bottom on pricing.[20]

The slower processing of drug review and approvals for pharmaceuticals developed abroad compared with the relatively expedient process applied to domestic companies has resulted in some foreign companies feeling that they have missed out on business opportunities. China has given priority to innovative dugs produced domestically and has localised testing requirements for biologics and the quality of imported ingredients.[21] This is costly for foreign producers and delays the release of innovative drugs developed overseas.

Figure 20: Pharma, construction, legal and logistics missed the most

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



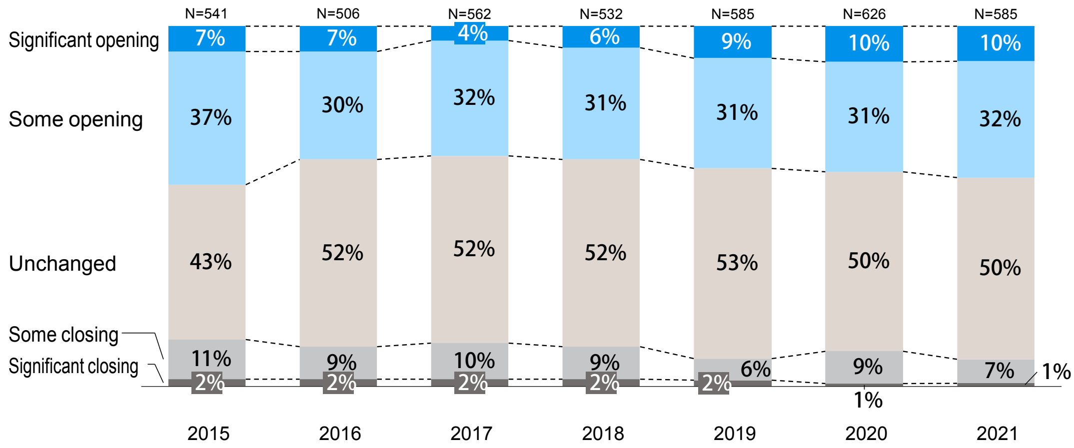
Half of respondents reported no change in market opening during 2020, with some even seeing closing in their industry. Importantly, even though 42% saw at least some opening, they report that it remains incomplete and insufficient. China's state-planners' approach of inching open the market is noted by respondents, but the impact has yet to lead to meaningful changes for most, though not all. This dynamic can be seen, for example, with the recent 'opening' of the manufacturing sector.

20 *Foreign Drug Giants Undercut by up to 95% in China Bidding War, Bloomberg*, 20th August 2020, viewed 20th April, <https://www.bloomberg.com/news/articles/2020-08-20/foreign-drug-giants-undercut-by-up-to-95-in-china-bidding-war>

21 Atkinson, Robert D., *The Impact of China's Policies on Global Biopharmaceutical Industry Innovation*, Information Technology and Innovation Foundation (ITIF), 8th September 2020, viewed 21st April 2021, <https://itif.org/publications/2020/09/08/impact-chinas-policies-global-biopharmaceutical-industry-innovation>

Figure 21: Market access continues to inch open

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



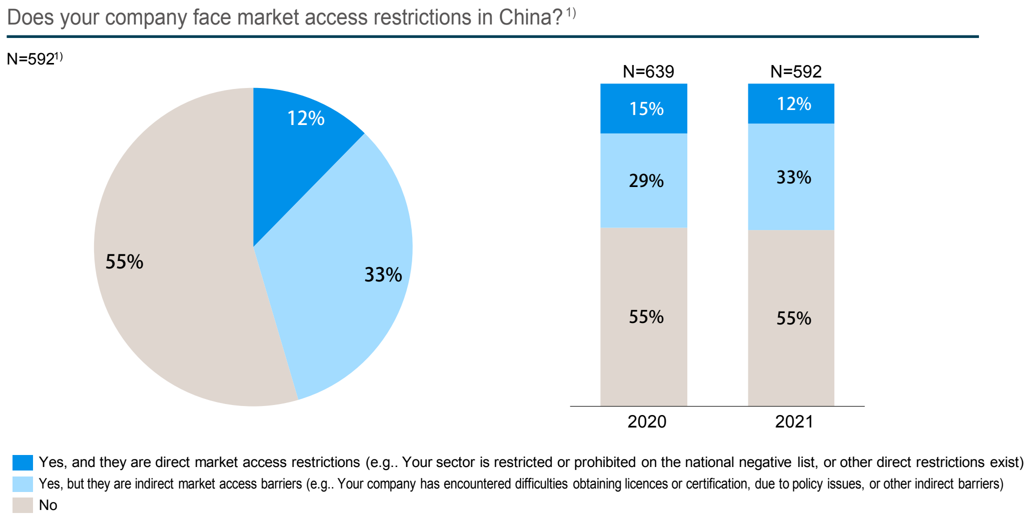
Case study: Market opening in the automotive and shipbuilding sectors

In the automotive sector, equity caps on foreign investment in special vehicle and new electric vehicle (NEV) JVs were scrapped in 2018, commercial vehicles saw the same in 2020, and passenger vehicles are set to open up in 2022. Many foreign automotive manufacturers have already initiated investments to make the most of this, while many others are waiting to be permitted to start the same process with passenger vehicles. In this case, companies were given the green light, and meaningful investment opportunities have materialised as a result.

By comparison, in maritime manufacturing (shipbuilding), equity caps on foreign investors were also scrapped in 2018, including for design, manufacturing and repair. However, as no implementation guidelines have followed, the removal of direct restrictions on foreign investment in the sector remains incomplete. In addition, the openings did not put an end to certain distortive practices such as subsidies, tax benefits and preferential treatment of SOEs. At the end of 2019, the merger of the two main national shipbuilding champions—the China State Shipbuilding Corporation and the China Shipbuilding Industry Corporation—saw the creation of the China Shipbuilding Group, an industrial behemoth that dwarfs any competitors in China. Therefore, despite the removal of equity caps from the *Negative List for Foreign Investment*, foreign participation in maritime manufacturing remains limited to the design of ships.

Almost half of survey respondents report that they face either direct barriers, such as the negative list, or indirect barriers, such as complex and time-consuming administrative approval requirements, and *de facto* barriers to obtaining operating licences. Interestingly, the number of survey respondents reporting that they face direct barriers fell slightly in 2020, while the number facing indirect ones rose. This again points to the trend that nominal opening is not necessarily translating into *de facto* opening – having one door opened for you only to find another locked one behind it does not get you inside.

Figure 22: Indirect market access barriers three times as common as direct ones



1) Multiple answers possible, percentage calculated by number of respondents

Case study: Indirect barriers hinder foreign financial institutions

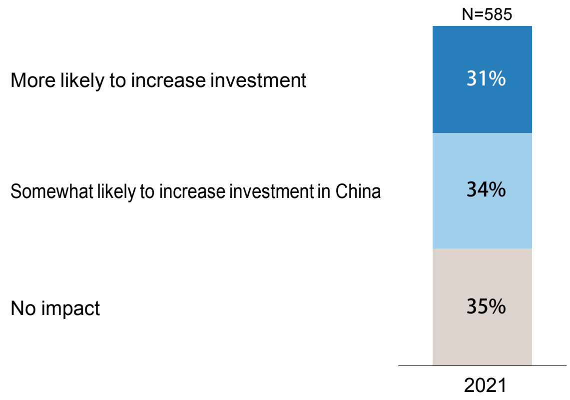
The financial services sector encapsulates the problem with indirect barriers to the Chinese market. Equity caps for foreign banks and insurance companies were removed, starting in 2018. Yet, foreign banks and insurers still face a number of difficulties in planning and resource management due to complex, and often unnecessary, regulations. These include licensing requirements that only allow a financial institution to apply for approval in one province at a time, with a lengthy process that can take up to a year. In addition, Chinese banking and insurance markets are saturated by large domestic players that had already established branch networks before these rules were imposed. In 2020, the combined market share of China's four biggest insurance companies—Ping An, China Life, People's Insurance Company of China and China Pacific—stood at 60%, against the combined 7.8% share of foreign-invested insurers. In the banking sector, the market share of foreign banks in China, in terms of total assets, stood at 1.2 %. This is significantly lower than in similar economies.

Such established domestic dominance is a significant disincentive for new market entrants, especially insurance providers, which are facing a ten-year waiting period just to be able to cover less than one third of all Chinese provinces. Many foreign insurers have tried to overcome this long-standing barrier by forming JVs with a Chinese SOE and taking advantage of their existing network and resources. However, so far, these partnerships have generated few successful cases. This has led to the common perception that the opening-up of China's financial sector is 'too little, too late'.

One of the most important reasons for China to continue market opening and regulatory reform is to ensure that its market reaches its full potential: 65% of respondents are likely to increase investment if market access barriers were to be removed. European companies have already begun increasing their investments in industries where market access has been expanded and operating conditions have improved.

Figure 23: Possible wave of investment waiting at the closed gates

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

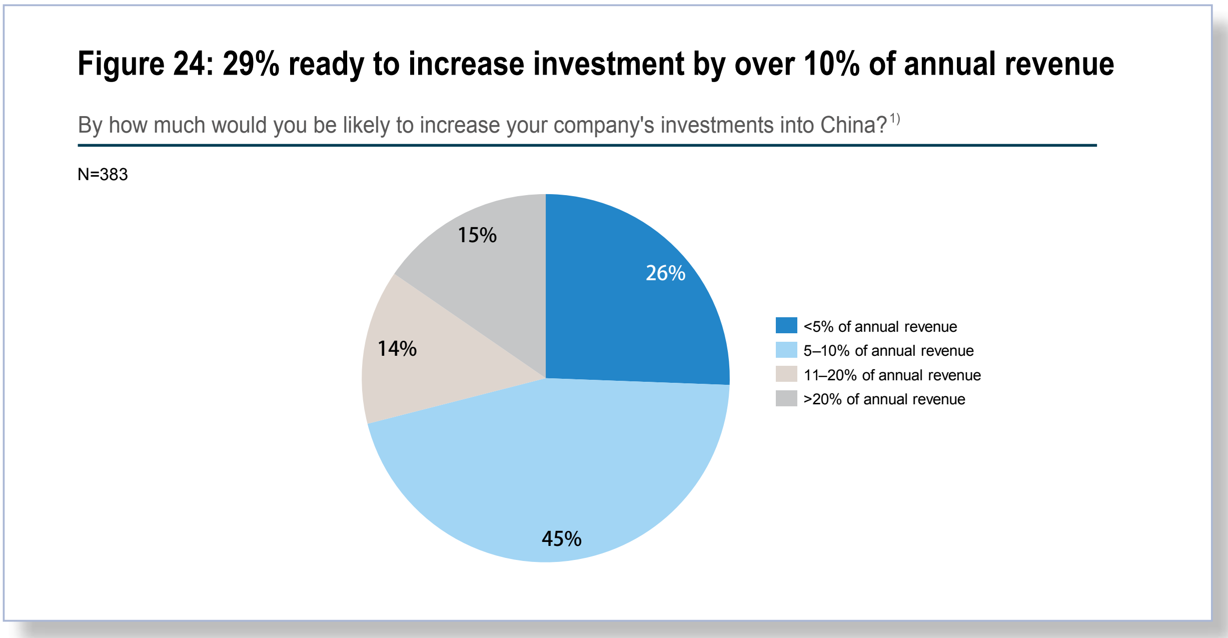


Case study: Petrochemicals companies given green light, invest heavily

While the petrochemicals sector had been nominally open for 100% foreign ownership for some time, an additional barrier prevented the formation of WFOEs; China still reserves the right to approve any investment over the US dollar (USD) 1 billion threshold. Historically, this meant that European chemical producers were almost always pushed into a JV with a local partner, usually an SOE. As a result, foreign chemical producers refused to bring their most cutting-edge products to China, to avoid training a JV partner that was also a competitor on their trade secrets.

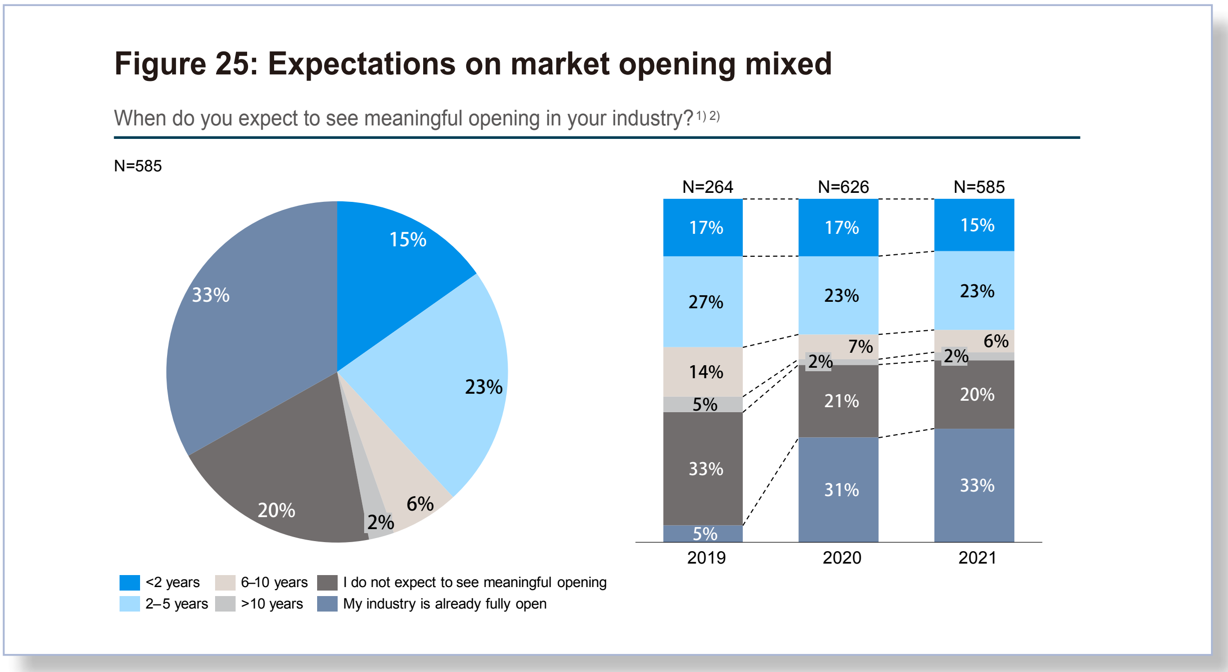
In recent years, several foreign chemicals companies have received approval for large investments as WFOEs. They were able to make the Chinese Government understand that onshoring the production of high-end chemicals is essential for achieving self-reliance. As Chinese companies upgrade their production, they need access to higher quality inputs, including chemicals. Once the government was convinced, approvals for WFOEs were forthcoming. This example underlines just how much potential investment lies in wait for the removal of direct and indirect market access barriers.

A significant 45% of respondents indicating that they are willing to increase their investments would do so by 5% to 10% of their annual revenue, and 15% are willing to invest more than 20% of their annual revenue. This represents a sizeable potential increase in foreign direct investment into China.



1) *Asked only if answer to "If greater market access were granted to foreign companies in your industry, how would this impact your company's investment decisions in China?" is not "No impact"*

Expectations for meaningful market opening vary across industries. Only a third of respondents reported that their industry is fully open, a worrying response considering that China is currently in its fifth decade of reform and opening up. It is expected by 38% of respondents that full opening will take place in the next five years, with 8% believing it will take even longer. Finally, 20% simply expect that their industry will never become fully open. It is up to China's policymakers to determine whether the optimists or the pessimists are correct.



1) *In the survey of 2019, only asked question if did not answer "No" to "Does your company face market access restrictions in China?"*

DARKNESS NAVIGATED, THOUGH NOT WITHOUT LOSS

PANDEMIC WOES

COVID-19 a top three challenge for

50%

COVID travel restrictions affected

73% for international travel,

60% for domestic travel

FINANCIAL OUTCOMES BRIGHTER THAN EXPECTATIONS

In 2020, **64%** expected a y-o-y revenue drop...

...but only **24%** experienced this

In 2020, only

0.5% expected increased revenue, but...

42% actually saw revenues rise

73%
still turned a profit

68%
optimistic about growth in 2021, a 20pp increase y-o-y

PREPARING FOR THE CHALLENGING VOYAGE AHEAD

IN CHINA, FOR CHINA

9% considering shifting some investment out of China – lowest number on record

A mere **1%** plan to fully divest out of China

26% of manufacturers are onshoring their suppliers into China

26% of companies in JVs increased their shares and half want to increase shares further

CRITICAL INPUT EXPOSURE

34% of manufacturers use equipment or components for which there are no viable alternatives

13% report alternatives have higher costs

27% report alternatives are of lower quality

15% report alternatives have compatibility issues

MORE PERILOUS WATERS LIE IN WAIT FOR EUROPEAN COMPANIES IN CHINA

TECH TROUBLES

16% report being compelled to transfer technology

31% and **33%** expect negative impacts from 'Critical Information Infrastructure' and 'Autonomous and Controllable' requirements respectively

MARKET ACCESS

46% expect number of obstacles to increase

20% never expect to see market opening

45% missed out on business due to barriers

HUMAN RESOURCES

68% view COVID travel restrictions as a top three obstacle to attracting international talent

35% have decreased the number of their foreign staff in the last five years

POLITICISATION OF BUSINESS

41% report that business became more political

50% report pressure from the Chinese Government

39% from Chinese media

28% from international media

SOE 'REFORM'

48%
expect the state-owned sector to gain at the expense of the private sector

LEVEL PLAYING FIELD

46%
do not view Chinese and foreign companies as receiving equal treatment

31%
never expect to see a level playing field

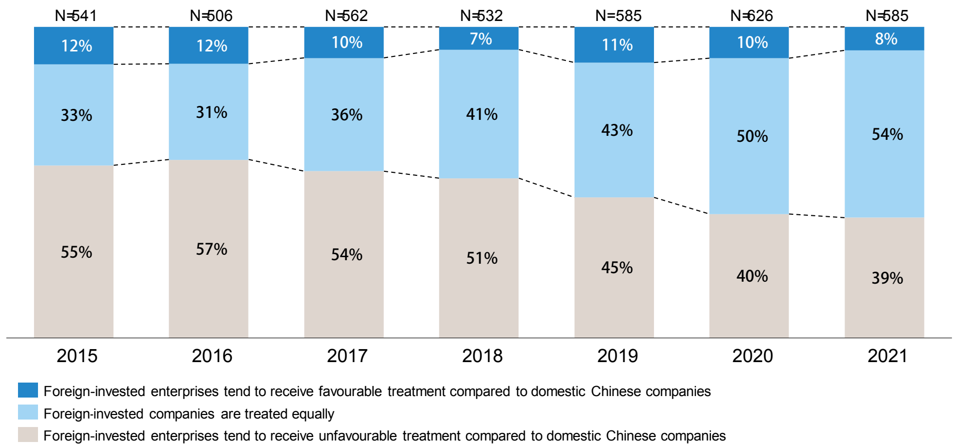
3.2 Unequal treatment

Beyond market access restrictions, European companies report only a marginal improvement in terms of equal treatment. This small but steady improvement is appreciated, but 47% of respondents still view the playing field as tilted against them.

The 8% of respondents that report that foreign companies receive more favourable treatment is as much of a problem as the 39% that report that Chinese companies receive preferential treatment. Full implementation of the rule of law is needed to ensure that all companies enjoy fair competition.

Figure 26: Equal treatment progresses, but 47% 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?

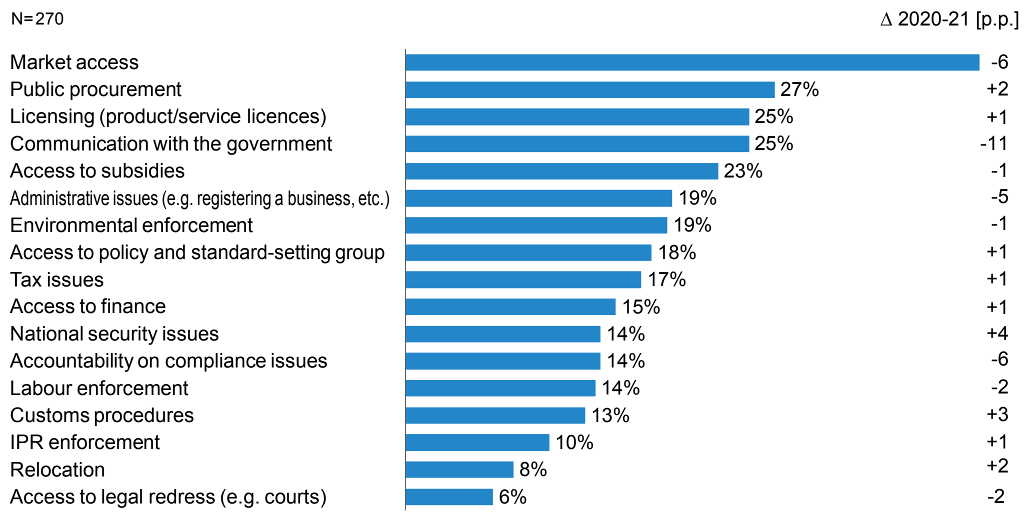


European companies report a wide range of areas in which they experience differentiated treatment. While market access (41%) and licensing (25%) echo previous findings, public procurement (27%) in China is becoming more of an issue. It is a common instrument through which indigenous champions are favoured, often through closed bids or extremely short periods between posting a procurement tender and the deadline for bid submission; members often report to the European Chamber that their local competition is given the details ahead of time, allowing them to assemble a highly competitive bid by the submission deadline.

Further down the list of differentiated treatment, but a growing challenge covered at length in the European Chamber's joint report with MERICS, *Decoupling: Severed Ties and Patchwork Globalisation*, is access to policy and standard-setting groups (18%). European companies are eager to play a role in shaping the standards they will operate under in China, but report restrictions on their ability to do so, especially in the digital and the information and communication technology (ICT) sectors.

Figure 27: What unequal treatment tangibly looks like

In which areas have you experienced differentiated treatment?[1) 2)]

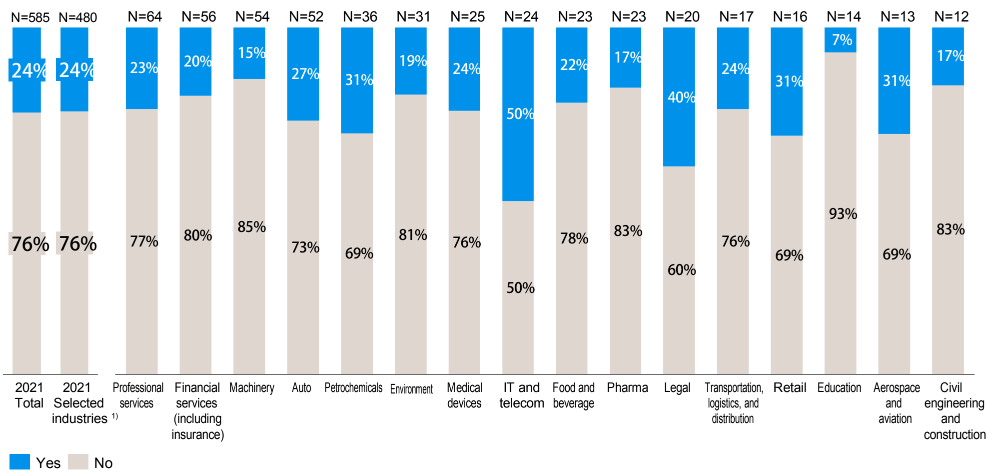


1) *Asked only if answer to "How does your company perceive foreign-invested companies' treatment by the Chinese Government in your industry compared to that of domestic Chinese companies?" was not "treated equally";*

2) *Multiple answers possible; percentages divided by number of respondents*

Figure 28: State-aid for local firms pronounced in ICT, chemicals and aerospace and aviation

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

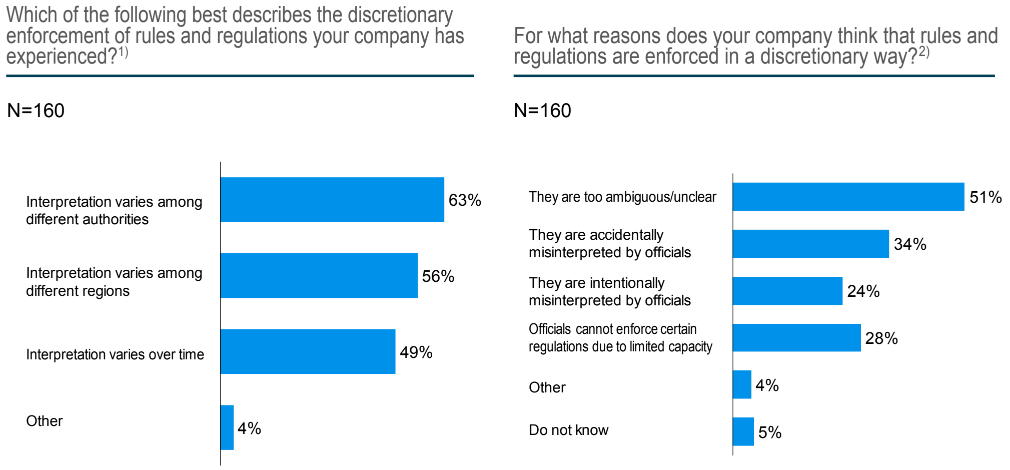


1) *Industries selected are those for which there were at least 10 responses*

Another notable area of unequal treatment is in access to subsidies. Half of respondents from the ICT industry cannot access subsidies that are available to domestic companies, a result of extensive state support being extended to national champions. Chinese players in areas dominated by local SOEs also tend to have preferential access to subsidies, such as in aerospace and aviation (COMAC has received billions over the years), petrochemicals and maritime manufacturing.[22&23]

Almost two thirds of respondents report varying interpretation of rules and regulations by different authorities, while 56% report that interpretation varies among different regions. Members of the European Chamber's chapters also often experience significantly different enforcement of the same rules, which 51% of survey respondents report is due to some rules being too ambiguous to be implemented in a uniform way. For 24% of respondents, these rules are intentionally misinterpreted by officials in an attempt to disadvantage foreign companies in favour of local champions. However, 34% of respondents believe the ambiguity of many regulations in China can also lead otherwise well-meaning officials to accidental misinterpretations, while other officials may simply lack the capacity to enforce them correctly, as often happens in places that are understaffed or in regions in which training is insufficient.

Figure 29: Sources of discretionary enforcement varies



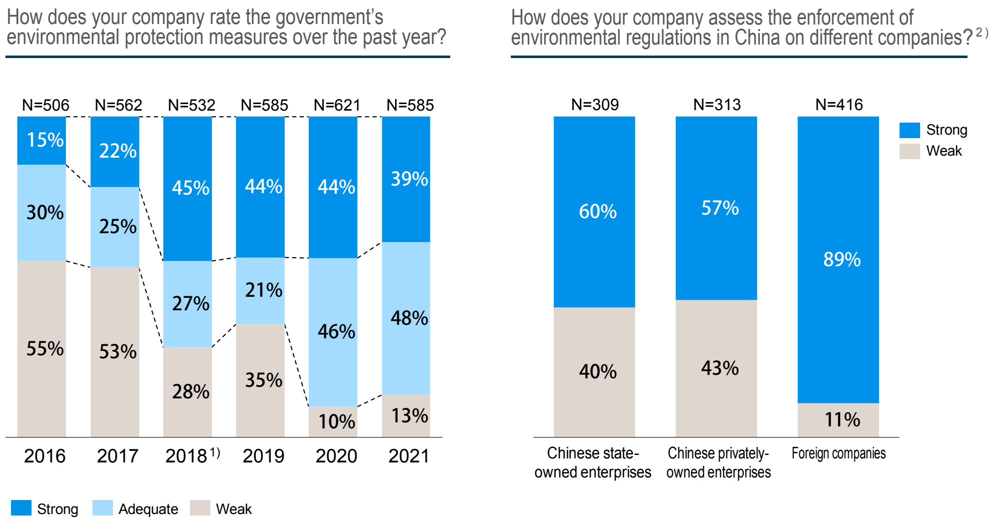
1) Asked only when answer to "Which are the top three most significant regulatory obstacles for your company when doing business in Mainland China?" is 'Discretionary enforcement of rules and regulations'; 2) multiple answers possible, percentages calculated by the number of respondents

Discretionary implementation is especially pronounced in environmental enforcement. In recent years, pollution controls have changed quickly and often, and are as difficult for companies to adjust to as they are for local officials. Part of this is due to capacity issues, as regulators sometimes lack the time, resources or know-how to do their jobs properly. Chamber members frequently report being subjected to far more environmental checks than their domestic competitors, in large part because officials have inspection quotas. Members say that, as European companies are reliably up to or above standards—both for local compliance reasons and the fact that many European companies have high standards globally—officials can complete their checks quickly. Meanwhile, inspecting more obvious culprits will take longer and limit the number of inspections that can be performed. However, members also report that some of this tighter enforcement is a result of intentional efforts to disadvantage foreign competitors.

22 *China's COMAC: An Aerospace Minor Leaguer*, Center for Strategic & International Studies, 7th December 2020, viewed 26th April 2021, <https://www.csis.org/blogs/trustee-china-hand/chinas-comac-aerospace-minor-leaguer>

23 Watanabe, Shin, *Top Chinese shipbuilders CSSC and CSIC win approval for merger, Nikkei Asia*, 26th October 2019, viewed 26th April 2021, <https://asia.nikkei.com/Business/Transportation/Top-Chinese-shipbuilders-CSSC-and-CSIC-win-approval-for-merger>

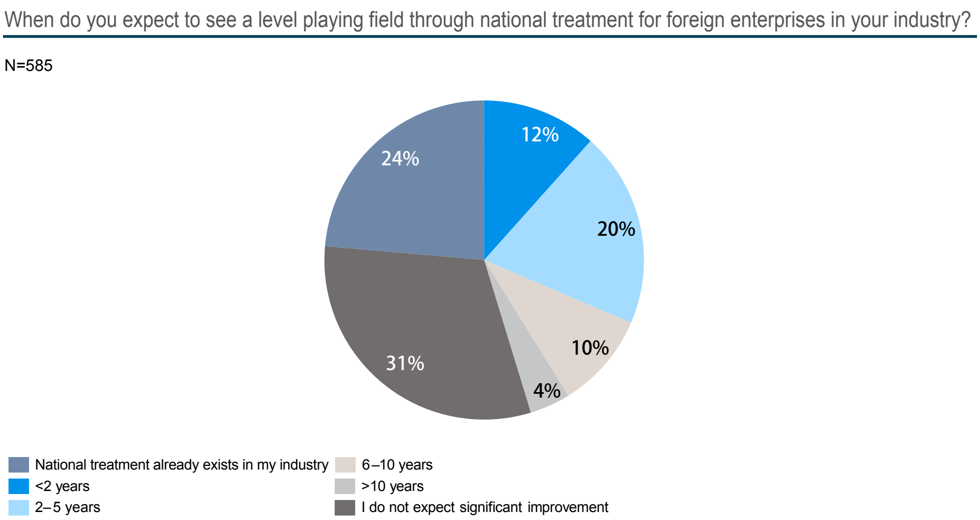
Figure 30: Environmental regulations enforced more strictly on foreign firms than local ones



1) Answers "Weak" and "Poor" added in 2018; 2) Excludes answer "Do not know"

Looking forward, European companies are less optimistic about the development of a level playing field than they are about future market access. While 20% never anticipate a fully open market for their industries, 31% do not expect to ever see a level playing field. Again, state planners will ultimately determine whether the pessimists will be proved right or wrong.

Figure 31: A third of respondents never expect a level playing field

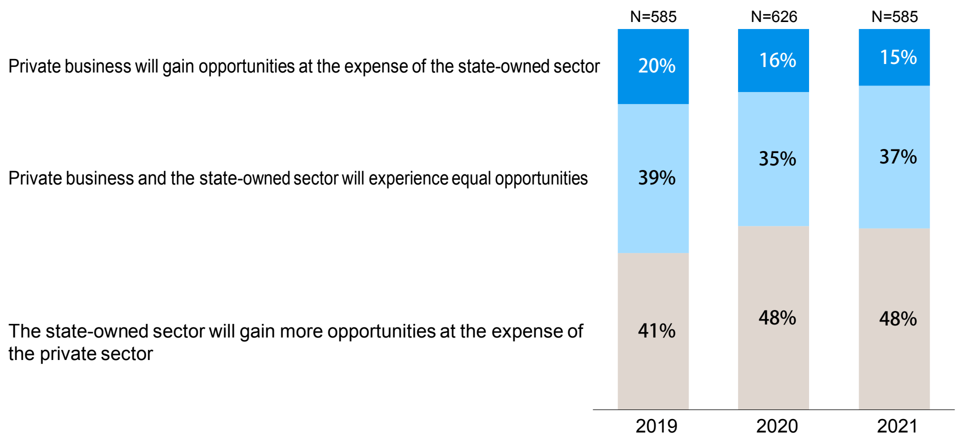


3.3 SOE 'reform'

Members also see no improvement with regard to SOEs gaining opportunities at the expense of the private sector. Over the course of just two years, the number of respondents expecting the private sector to make advances on the state sector has dropped to just 15%. Rhetorically, this aligns with President Xi's long-standing ambition to make SOEs "better, stronger, bigger". Tangibly, this is reflected by the heavy emphasis placed on SOEs to advance certain goals. The 14th Five-year Plan explicitly calls on SOEs to lead China's 2060 decarbonisation goal, as well as the innovation and self-reliance campaign in core technologies like semiconductors.[24&25]

Figure 32: The state advances (again), the private sector retreats (again)

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



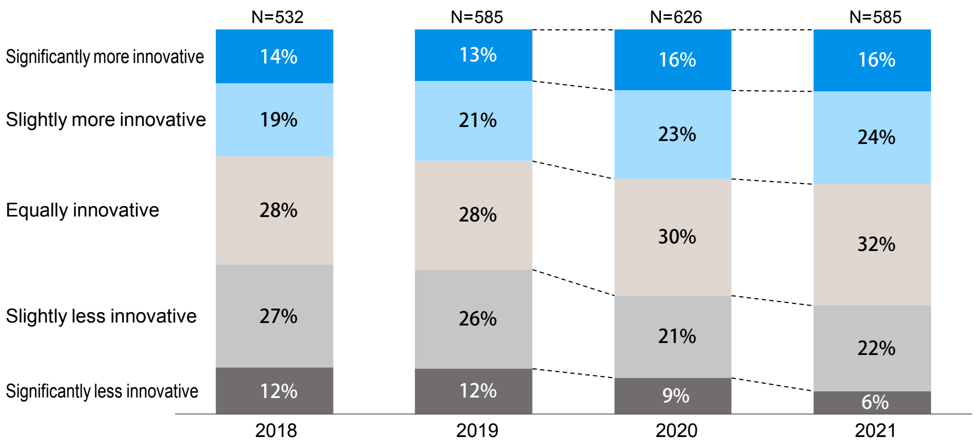
Ironically, China's SOEs have lagged the private sector in both decarbonisation and innovation. They are predominant sources of pollution and carbon output, as their protected position means they feel less pressure to build efficiencies and become environmentally sound. Meanwhile, China's innovative firms continued to progress, with 72% of respondents finding them to be as or more innovative than their European counterparts.

24 Tan, C.K., *China Inc. publicly embraces Xi's 2060 'zero carbon' goal, Nikkei Asia*, 3rd March 2021, viewed 26th April 2021, <https://asia.nikkei.com/Politics/China-People-s-Congress/China-Inc.-publicly-embraces-Xi-s-2060-zero-carbon-goal>

25 Tang, Frank, *China approves plan to boost prominence of state firms, despite complaints from trade partners, South China Morning Post*, 8th July 2020, viewed 26th April 2021, <https://www.scmp.com/economy/china-economy/article/3092339/china-approves-plan-boost-prominence-state-firms-despite>

Figure 33: 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?



While China has spent decades pumping money into state-owned automotive manufacturers, its private industry players like Geely have outperformed in terms of innovation and in contributing to decarbonisation through their competitive NEV offerings. Likewise, after decades pouring subsidies and cheap loans into CAMCO, the aspiring aerospace giant remains a champion of the future and is likely to remain that way.[26] As covered by foreign experts like Scott Kennedy and local experts at the Development Research Centre of Shanghai, the bulk of CAMCO planes' components are imported, while their fully constructed planes are chiefly purchased by China's state-owned airlines.[27]

The signals from the government are clear: SOE champions are set to receive a surge in state aid to achieve China's decarbonisation and self-sufficiency goals. However, this support comes with a steep cost in opportunities. Every Chinese yuan (CNY) in subsidies and cheap loans that goes to prop up an SOE is one less available to finance China's highly innovative and efficient private companies. At a time when SOEs are in need of market discipline, these signals indicate that they are going to get the opposite. In the interests of developing a sustainable economy, the European Chamber believes that Chinese entrepreneurs should be given room to do what they do best: compete, innovate and build efficiencies.

3.4 Compelled technology transfers

It remains of significant concern that European companies are still being compelled to transfer technology in order to maintain market access, even after the Foreign Investment Law (FIL)—which expressly prohibits unfair technology transfers—took effect on 1st January 2020. While the FIL has banned administrative tools to compel technology transfers,[28] this does not address the core problem. Modern transfers are compelled not through administrative means, but by market access requirements. Being in a JV inherently demands a transfer of technology and know-how with the local partner in order to produce a competitive good or service. As a result, the banning of administrative forced transfers has had no impact on the number of affected companies – only through market access expansion and the elimination of equity caps can this issue be solved.

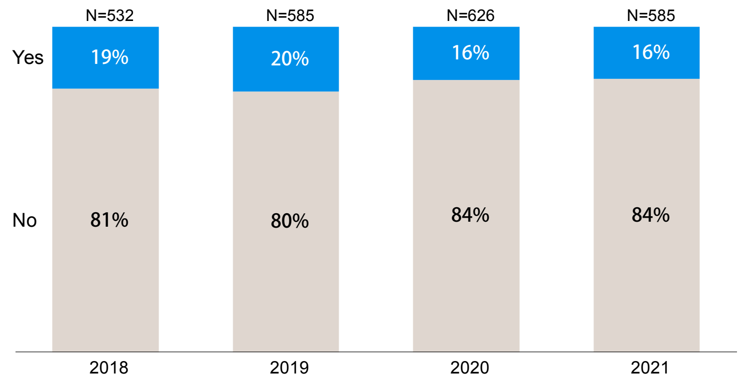
26 *China's COMAC: An Aerospace Minor Leaguer*, Center for Strategic & International Studies, 7th December 2020, viewed 26th April 2021, <https://www.csis.org/blogs/trustee-china-hand/chinas-comac-aerospace-minor-leaguer>

27 Lee, Amanda, *China's aviation capabilities stuck at 'low-end' as military-civil fusion weights on innovation: official report, South China Morning Post*, 16th April 2021, viewed 21st April 2021, <https://www.scmp.com/economy/article/3129674/chinas-aviation-capabilities-stuck-low-end-military-civil-fusion-weighs?utm_source=Twitter&utm_medium=share_widget&utm_campaign=3129674>

28 *Foreign Investment Law of the People's Republic of China*, SAMR, 29th August 2019, viewed 25th April 2021, <http://gkml.samr.gov.cn/nsjg/fgs/201908/t20190829_306349.html>

Figure 34: Foreign Investment Law fails to stop compelled technology transfers

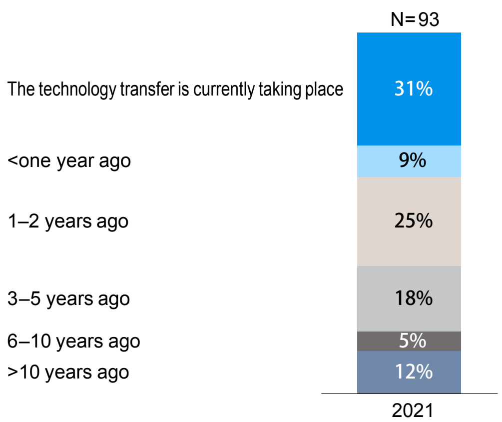
Has your company felt compelled to transfer technology in order to maintain market access?



Of the 16% of respondents that reported being compelled to transfer technology, 65% say that it took place in within the last two years and 31% reported that the transfer was still taking place at the time this survey was being conducted.

Figure 35: 40% of compelled technology transfers happened in a post-FIL environment

How long ago did the compelled transfer take place? [1)]



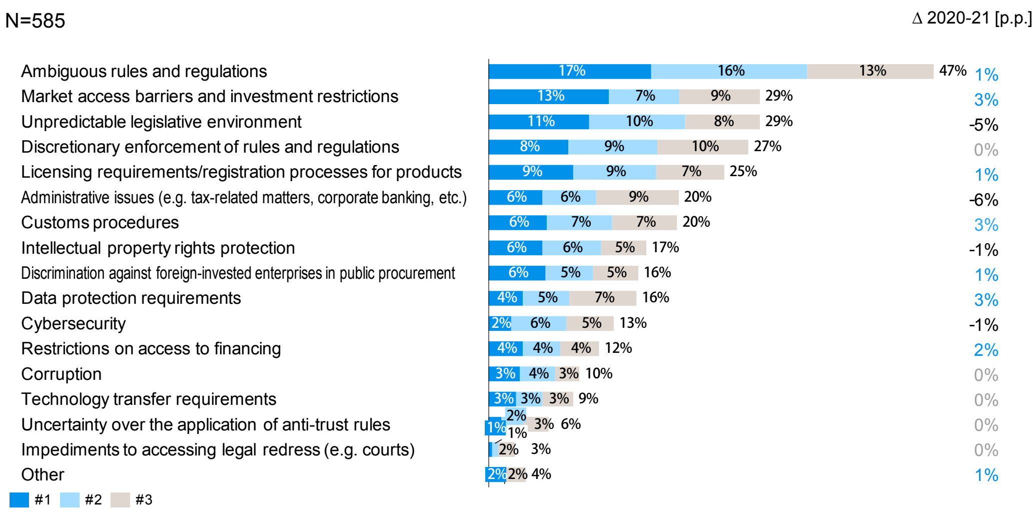
1) Asked only if answer to "Has your company felt compelled to transfer technology in order to maintain market access?" is "Yes"

3.5 Regulatory reform

For the fifth year running, ambiguity in rules and regulations is ranked by European Chamber member companies as the most significant regulatory obstacle to doing business in China, highlighting once again the need for regulatory reform, as well as improved communication between government and industry. Interestingly, despite some liberalisation having taken place in industries such as petrochemicals, financial services and automotive, 'market access barriers and investment restrictions' has climbed four places and is now ranked as the second most significant regulatory obstacle to doing business in China.

Figure 36: 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)



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*

Overall, European companies expect the evolving Cybersecurity Law, the Data Security Law and the Personal Information Protection Law to have a sizeable negative impact on their company in the next five years. Although two fifths of respondents expect a neutral impact, 33% expect a negative impact. The challenges brought by these rules are varied. Rigorous demands on cybersecurity impose significant costs as companies are expected to align with certain standards, some of which deviate from the standard corporate practices of European companies. In terms of data, the challenge is two-fold: first, data localisation requirements necessitate integrating with a local partner and also demand that companies establish specific procedures that are unique to China. Second, data transfer rules are currently vague in terms of defining different types of information, and push European companies to adopt highly conservative stances on cross-border transfers, often meaning that they simply do not send data to be aggregated at HQ.

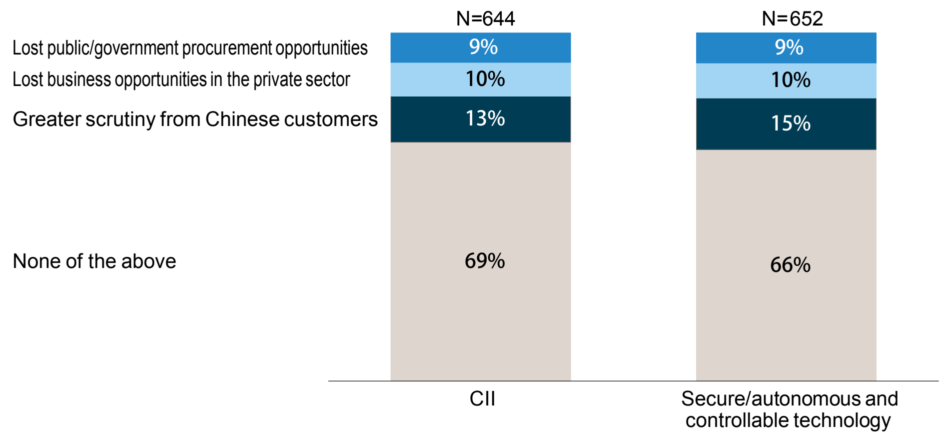
These rules are especially challenging in the financial services sector. European banks—only recently allowed to invest in the Chinese market without a JV—are most competitive in cross-border services that require the use of their global networks. China's data localisation and transfer requirements can sever these ties and make business significantly harder.

Critical information infrastructure (CII) and "autonomous and controllable" guidelines are further major challenges for certain European companies. CII requirements apply across a broad definition of technologies but are especially damaging to ICT and financial service companies. ICT firms—of which only 21% said they will not be negatively impacted by these rules—often find themselves blocked from procurement for telecommunications and network infrastructure as their technology is not deemed 'secure' until a security review is completed. This adds a considerable operational burden, while the lack of public, detailed standards makes the security review process frustratingly uncertain. The security issue is also affecting foreign ICT companies' relationships with their private local customers, who are now scrutinising foreign technology more closely. This sometimes results in customers choosing a local provider because of concerns that the foreign option they choose today may fall under the national security umbrella or self-reliance campaign tomorrow.

Financial service providers and their technology also frequently fall under the CII definitions, which increasingly pushes them to adopt local solutions rather than those they use globally. Combined with the above-mentioned data and cybersecurity issues, the net result is the need for extensive localisation that is incredibly expensive. As found in the European Chamber's joint report with MERICS on decoupling, all but the largest of European banks find these localisation requirements to be prohibitive. As European banks in China will never be able to build sufficient scale in an already-saturated market that has only just opened up, many of the smaller ones simply cannot justify the costs and will be forced to leave the market. This outcome would not only diminish China's goal of building a more competitive and international financial system but would also seriously impact European companies that prefer to work with these European banks.[29]

Figure 37: Growing concern mounts over technology localisation 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

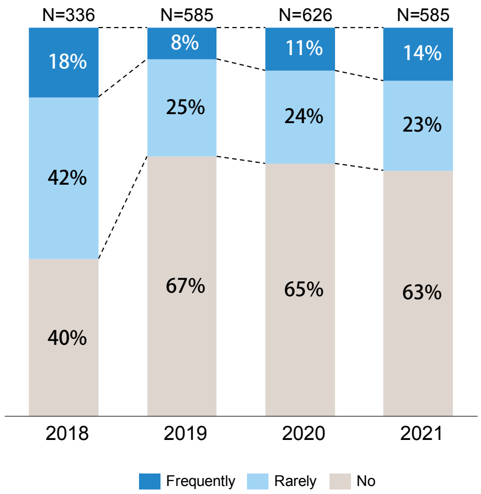
3.6 IPR protection

European companies have noted a small but steady increase in IPR infringements over the last three years (37%), albeit this number of respondents remains lower than prior to this period. While frustrating, the number of infringements is not under the control of regulators, however IPR protection rules and their enforcement are, and that is what matters most.

29 *Decoupling: Severed Ties and Patchwork Globalisation*, European Union Chamber of Commerce in China and MERICS, 14th January 2021, viewed 21st April 2021, <http://www.europeanchamber.com.cn/en/publications-decoupling>

Figure 38: IPR infringements rise slightly, still lower than in the past

Has your company suffered an infringement of IPR in China?

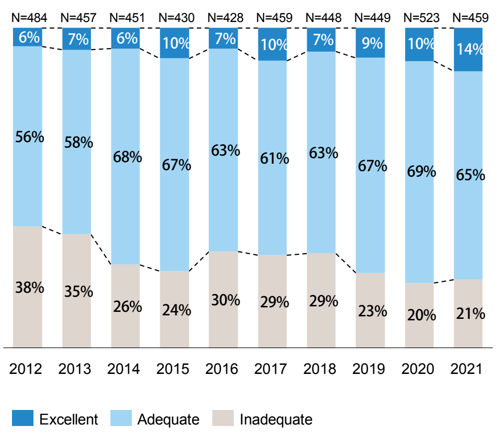


1) Asked only when the answer to "Has your company suffered an infringement of IPR in China?" is not "No"

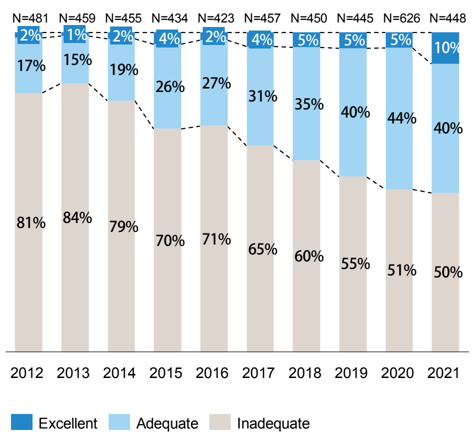
China's written laws and regulations around IPR protection have slowly improved over the years, and only 21% of respondents now view them as inadequate. However, proper enforcement lags behind the rules themselves, though satisfaction on this front has steadily grown for years. In 2020, for the first time, half of European companies view IPR enforcement as adequate or excellent. Nevertheless, China still has a long way to go in building a strong enforcement mechanism with the capacity to uphold the IPR protection system.

Figure 39: 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)]



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

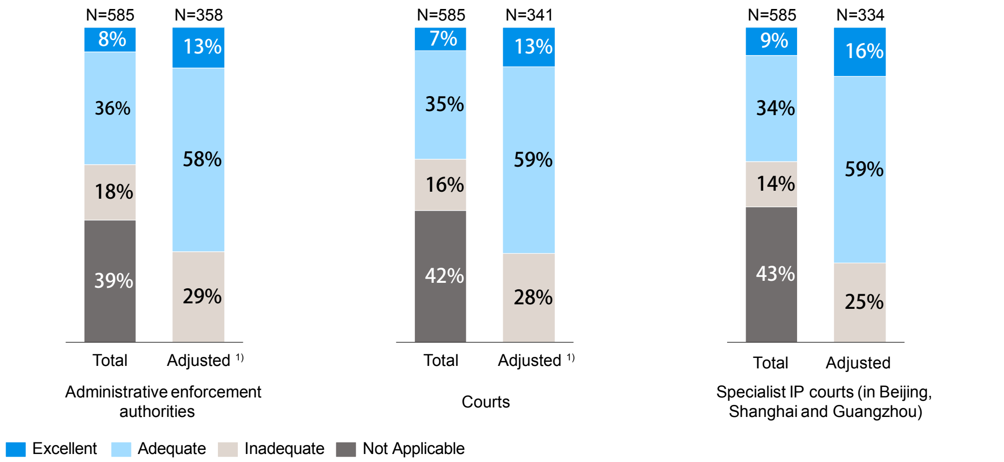


1) "Not applicable" excluded

European companies can currently turn to three main enforcers when they feel their IPR has been infringed upon: administrative authorities, the judiciary system and specialist IP courts. In previous years, the specialist IP courts—located in Beijing, Shanghai and Guangzhou—were significantly better rated than administrative authorities and normal courts. However, the gap has closed somewhat, likely a result of increases in manpower and training of the non-specialist enforcement authorities. In addition, there remains a gap in all three between those who view them as 'excellent' versus those who evaluate them as 'adequate'. The planned expansion of the specialist courts to other jurisdictions (Suzhou, Nanjing, Wuhan and Chengdu)[30] may help, as might ongoing IPR-awareness campaigns. However, more can be done to realise the overall rule of law, and additional training and oversight would go a long way towards boosting satisfaction with the system.

Figure 40: Specialist IP courts found slightly better than other means of recourse

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



1) Excludes answer "Not applicable"

30 *Updates on China's Specialised IP Courts and Tribunals*, AFD China Intellectual Property, 29th January 2019, viewed 21st April 2020, <https://www.afdip.com/index.php?ac=article&at=read&did=3327#>

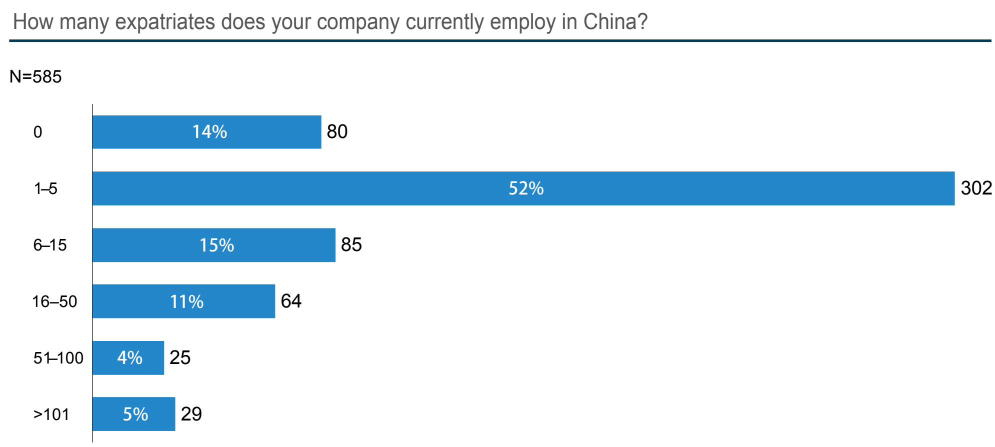
4 HR CHALLENGES SURGE AMID TRAVEL RESTRICTIONS

The COVID-19 pandemic has had a profoundly negative impact on companies' human resources (HR), particularly with regard to the return of foreign workers to China. But even before this, China had a history of being far more restrictive towards foreign talent than EU Member States, with the number of foreign workers in China standing at just under one million or 0.07% of the population.[31] Even Shanghai, China's 'international city', had a foreign workforce of just under 1% of the city's 24 million residents in 2019, or approximately 200,000 people.[32] By comparison, Japan has 1.66 million foreign workers, just over 1.3 per cent of their total population,[33] while South Korea has 884,000 foreign workers (almost equal to the total number in China), which is approximately 1.7 per cent of their total population.[34]

Meanwhile, the ending of exemptions on certain taxable benefits for expats, like education and housing, at the start of 2022 will constitute a major barrier to bringing in foreign talent, as HR costs will skyrocket as a result.

4.1 Foreign worker population depleted

Figure 41: Number of foreign workers already quite low



Staff localisation is a natural process, and China has a large pool of talent with a good spread of vocational skills and professional training to fulfil most HR needs. However, the European business community notes that the steady decrease in the number of foreign workers is increasingly worrying, chiefly in terms of corporate culture and the value of diverse views in decision-making processes. Over the last five years, 35% of respondents witnessed a decrease in the number of foreign workers at their company, while 18% had increased their foreign headcount. With COVID-related travel restrictions leaving many foreign residents stranded outside of China, while also making it extremely challenging for new talent to enter, the European Chamber anticipates that when this question is asked in the *BCS 2022*, these numbers will drop even further.

31 Xing, Yi, *Shanghai Home to Largest Foreign Worker Population, China Daily*, 16th January 2019, viewed 8th April 2021, <https://www.chinadaily.com.cn/a/201901/16/WS5c3ed0a9a3106c65c34e4d2a.html>

32 Ibid.

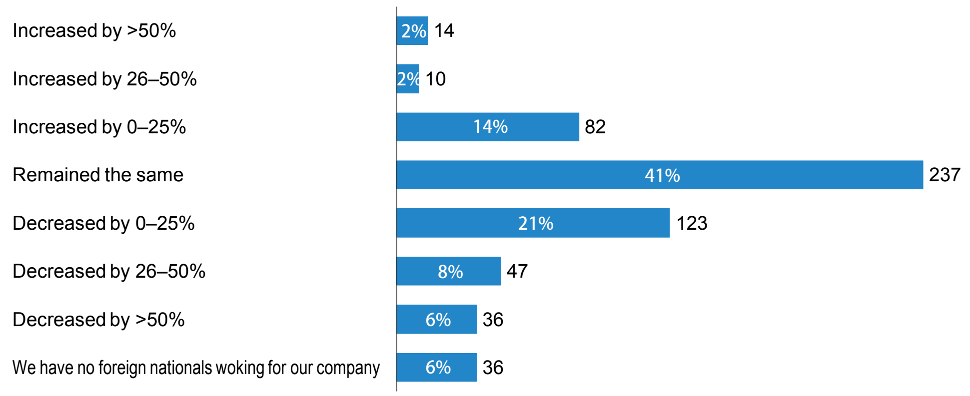
33 *Record 1.66 Million Foreign Workers in Japan in 2019, Nippon*, 30th March 2020, viewed 21st April 2021, <https://www.nippon.com/en/japan-data/h00676/record-1-66-million-foreign-workers-in-japan-in-2019.html>

34 *Expats Working in S. Korea Up Nearly 30% in 6 Years, KBS World,* 19th January 2019, viewed 21st April 2021, <http://world.kbs.co.kr/service/news_view.htm?lang=e&Seq_Code=142394>

Figure 42: Foreign worker numbers nosediving

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

N=626



4.2 Entry restrictions challenge foreign talent attraction and retention

Unsurprisingly, COVID-related entry restrictions topped the list of challenges to attracting international talent in 2020, with 68% of respondents ranking them as a top-three challenge. Arranging the necessary permits to allow foreign nationals to enter China became a long and arduous process. Rules and regulations were not aligned or consistently applied across the country and were often changed without warning. While some employees are still attempting to return, many have simply given up and moved on, and there is a concern that China's foreign talent pool may never fully recover. This is extremely discouraging for European companies.

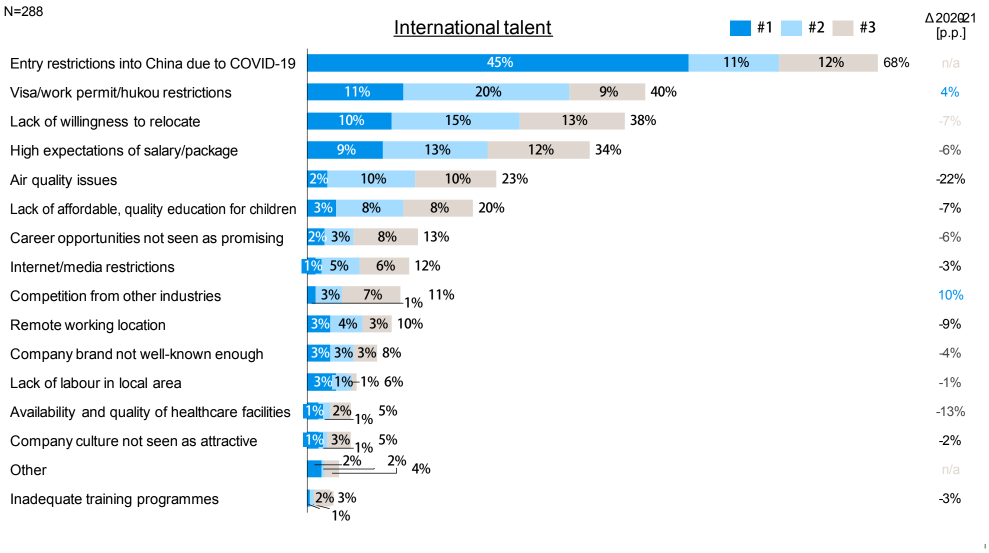
Members also report being concerned that a number of foreign employees in China will succumb to a kind of 'fatigue' after being unable to visit family and friends in other countries for such an extended period of time. There is some hope that returning to China will be easier if foreign workers take a vaccine approved by China's public health authorities. However, if there is not a predictable mechanism to facilitate foreign workers' return after visiting family abroad, European companies worry that some employees will simply leave in order to reunite with their loved ones. This is expected to be an acute problem during the summer and winter holiday seasons. To help alleviate this potential risk, it would be beneficial for the public health authorities to clearly establish the conditions that need to be met to allow these foreign workers to return to China after a much-needed reunion with their loved ones.

Entry restrictions into China due to COVID-19 also topped the list of challenges for *retaining* international talent. Many foreign nationals that managed to return to China during the pandemic, or that had remained here during that time, were separated from their families who were unable to get the relevant paper work to return.[35] The uncertainty and unhappiness that this created led to a number of those foreign nationals leaving China for good. For those that are still here with their families the uncertainty remains, as the same situation could arise again should they or their family members travel out of China in the future. For foreign nationals in China that are still separated from their families, the chances of them leaving increases every day that their loved ones are unable to return.

35 Liu, Ruoxi, *How Covid-19 Border Controls Split China's Transnational Families, Sixth Tone*, 28th September 2020, viewed 25th April, <https://www.sixthtone.com/news/1006231/how-covid-19-border-controls-split-chinas-transnational-families>

Figure 43: COVID travel restrictions pose biggest challenge to attracting international talent

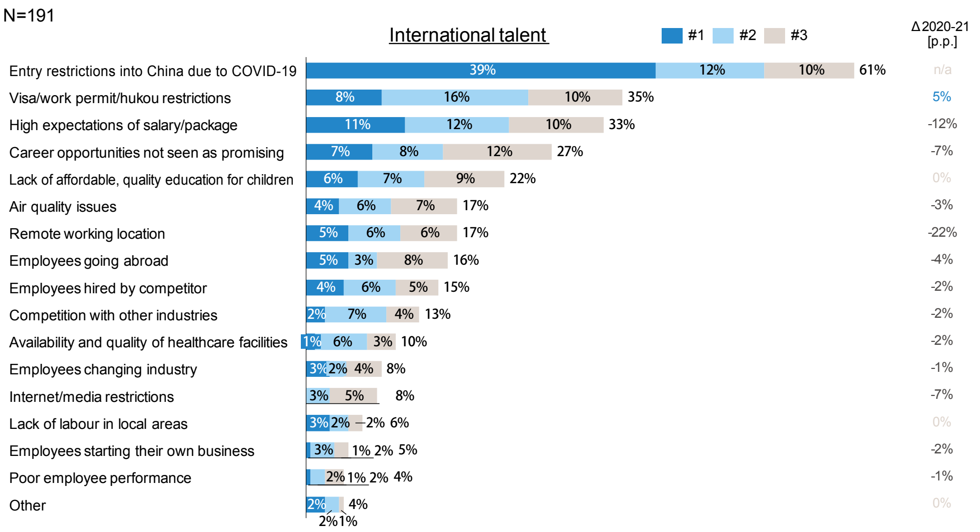
Please list the top three challenges in attracting the right talent in China [1)]



1) Asked only if answer to "Is your company currently facing any challenges in attracting the right talent in China?" was "Yes", some percentages may be rounded up or down

Figure 44: COVID restrictions a serious challenge to foreign talent retention

Please list the top three challenges in retaining the right talent in China [1)]



1) Asked only if answer to "Is your company currently facing any challenges in retaining the right talent in China?" was "Yes"

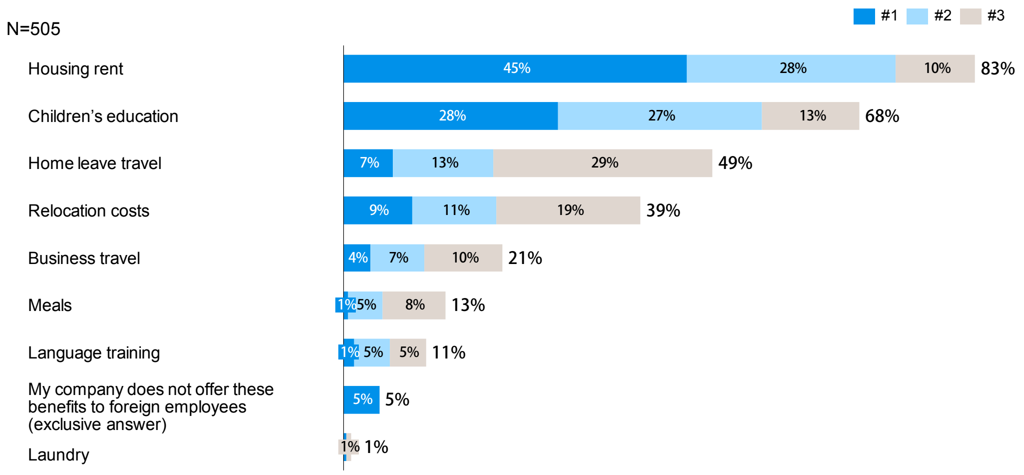
4.3 Individual Income Tax reform set to curtail number of foreign assignments

In 2018, China announced the individual income tax (IIT) reform. One part of this reform is the introduction of additional tax deductions for specific expenditures. Since then, subject to their salary package, foreign workers have been able to apply for such expenditure to be tax exempt (non-taxable benefits). This will no longer be possible after the IIT reforms come into play at the start of 2022.

European Chamber member companies view housing rental (45%) and children's education fees (28%) remaining non-taxable as the most significant benefits for attracting high-level talent to China. When such benefits become fully taxable in 2022, the taxable income of those foreign workers will dramatically increase, and either companies or individuals will be left to foot the bill.

Figure 45: Companies most reliant on housing exemption

Which of the following non-taxable allowances are most important to your foreign employees? 1)

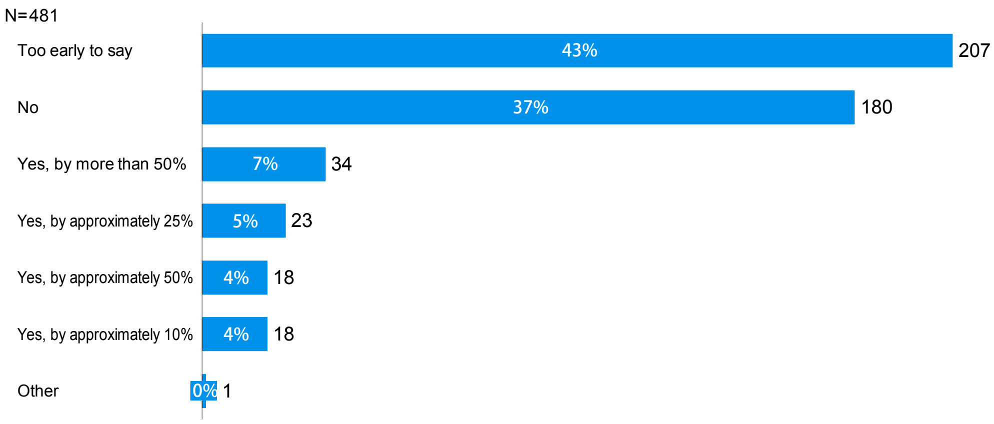


1) Asked only when answer to "How many expatriates does your company currently employ in China?" is not "0"; multiple answers possible, percentages calculated by number of respondents

A fifth of respondents already have plans to reduce the number of foreign assignments to China due to the ending of non-taxable benefits. As worrying, 43% of those surveyed state that it is too early to tell if they will reduce foreign assignments to China, suggesting that they are still unaware of the full extent of the changes and what the impact will be. A full 37% of respondents do not plan to adjust foreign headcount as a result.

Figure 46: High share report it is 'too early to say', despite changes being announced more than two years ago

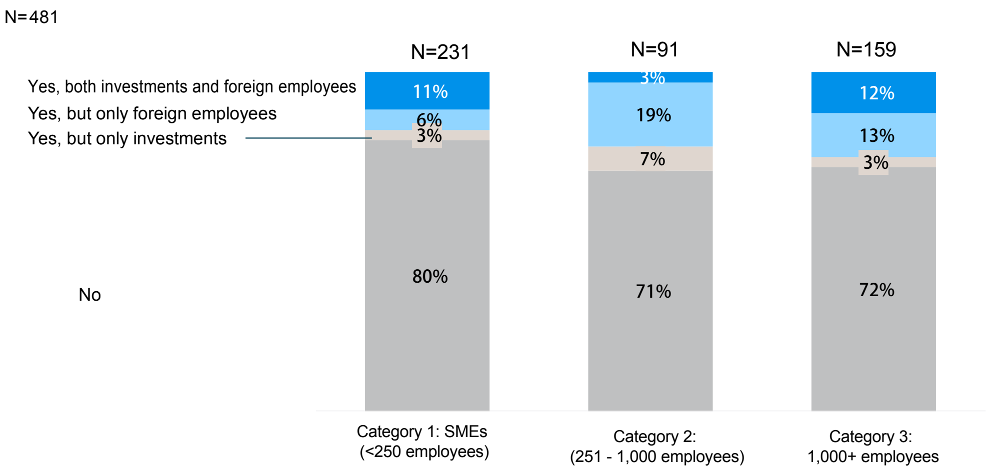
Is your company likely to reduce the number of foreign assignments to China due to these non-taxable allowances becoming fully taxable starting from January 2022? 1)



1) Asked only when answers to "Which of the following non-taxable allowances are most important to your foreign employees?" is not "My company does not offer these benefits to foreign employees"; figures may be rounded up or down to nearest percentage

Figure 47: 28% of MNCs plan to shift investment and/or foreign talent out of China

Will your company shift investments and/or foreign employees to markets outside of Mainland China due to non-taxable benefits becoming taxable? 1)



1) Asked only when answers to "Which of the following non-taxable allowances are most important to your foreign employees?" is not "My company does not offer these benefits to foreign employees"

Table 1: Impact of the upcoming 2022 IIT reform

	Treatment until 2021: Tuition fee as non-taxable benefit	Treatment starting from 2022: Tuition fee as taxable benefit, tax liability borne by employer
Annual tuition fee for three children borne by employer	CNY 750,000	CNY 750,000
Additional IIT burden borne by employer	-	CNY 613,636 (= taxable benefit CNY 1,363,636 x 45%)
Total cost burden for employer per year	CNY 750,000	CNY 1,363,636 (= CNY 750,000 / [1–45%])

Source: European Union Chamber of Commerce in China, Finance and Taxation Working Group Position Paper 2020/2021

In many cases, the IIT reform will severely curtail the number of foreign assignments to China, particularly those with children. As these assignments tend to be in mid- to high-level positions, their curtailment will lead in turn to a decrease in investments.

Headcount reduction is only part of the overall picture. Many European multinationals attest to the fact that the existing policy has helped them to attract and maintain foreign employees with the expertise necessary for strategic development of their operations in China. Once the taxable benefits are removed, Mainland China may no longer be such an attractive hub from which to build a regional presence, leading some companies to cancel or postpone their investment plans and look for alternatives like Hong Kong or Singapore.

5 POLITICISATION OF BUSINESS

There is no doubt that the business environment in China has become increasingly politicised. Although y-o-y the numbers pertaining to the politicisation of business remain generally steady, the BCS 2021 was conducted prior to the EU-China exchange of sanctions in March 2021 and the subsequent backlash against several foreign brands associated with the Better Cotton Initiative.[36]

There is growing concern in the European business community that tensions may further increase during 2021. As China observes the 100th anniversary of the founding of the Chinese Communist Party (CCP), some members have suggested nationalist sentiment could intensify and result in a severe backlash against perceived attacks on the Party or the nation.

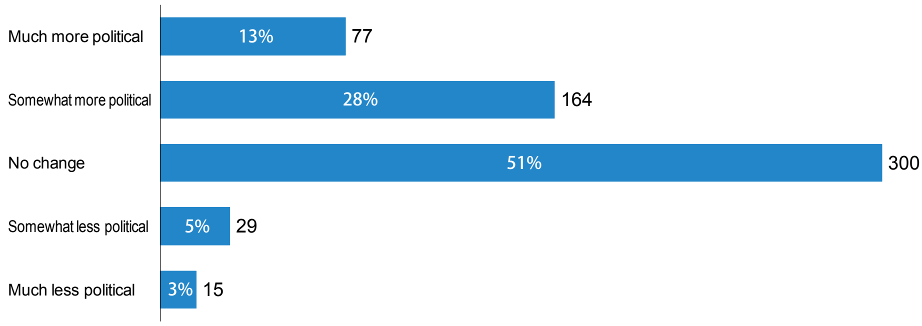
Political strife between the EU and China has already seriously damaged the possibility of the EU-China Comprehensive Agreement on Investment (CAI) being ratified any time soon.[37] Any further actions that heighten existing tensions will significantly affect the viability of the deal, and with it, business sentiment.

5.1 Between a rock and a hard place

Figure 48: Business becomes more political (again)

Has the business environment in China become more political in the last year?

N=585



An alarming 41% of respondents believe that business became more political over the last year. The European Chamber's joint report with MERICS, *Decoupling: Severed Ties and Patchwork Globalisation*, published in January 2021, includes a section on the growing politicisation of business and its implications for companies.[38] The report identified the potential for foreign brands to be highly exposed to political risk due to the situation in Xinjiang, specifically noting that demands to cut ties with the region will come from home markets, while demands to maintain ties would come from China. This came to pass in March 2021 in the clothing industry, which put foreign apparel companies, as the report predicted, "between a rock and a hard place: if [companies] stay, they risk backlash at home; if they leave, they risk damaging their position in the Chinese market."[39]

36 Woo, Ryan, Nike, *Adidas join brands feeling Chinese social media heat over Xinjiang, Reuters*, 25th March 2021, viewed 26th April 2021, <https://www.reuters.com/article/us-china-xinjiang-cotton-retailers-idUSKBN2BH0Q3>

37 Fromer, Jacob and Bermingham, Finbarr, *US, EU, UK, Canada launch sanctions against Chinese officials; Beijing hits back, South China Morning Post,* 22nd March 2021, viewed 26th April 2021, <https://www.scmp.com/news/china/diplomacy/article/3126487/xinjiang-eu-hits-china-first-sanctions-tiananmen-square>

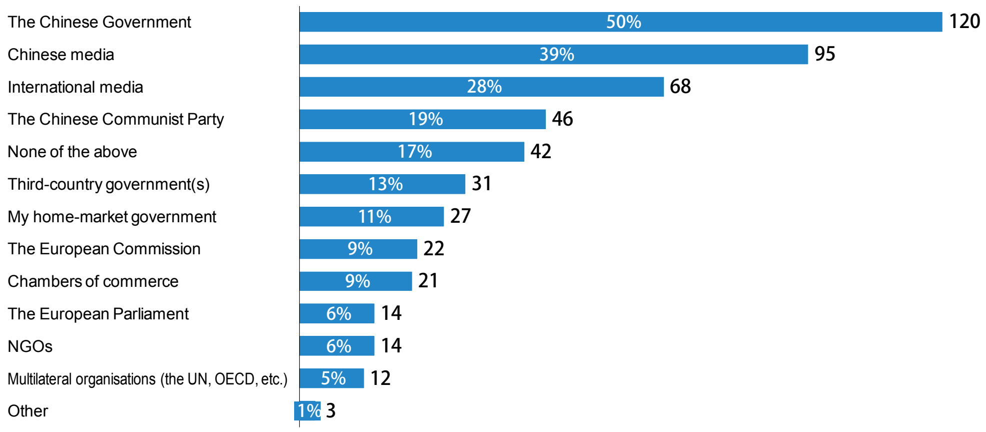
38 *Decoupling: Severed Ties and Patchwork Globalisation,* European Union Chamber of Commerce in China and MERICS, 14th January 2021, pp 20-26, <http://europeanchamber.com.cn/en/publications-decoupling>

39 Ibid.

Figure 49: Most politicisation driven by party/state sources, international media

From which of the following external and/or non-business sources has your company felt increased political pressure? [1) 2)]

N=241

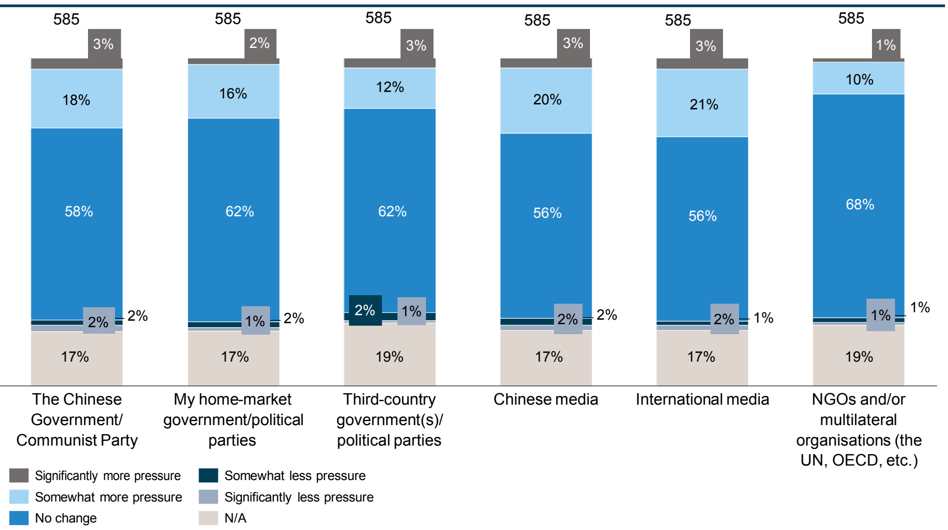


1) *Asked only when the answer to "Has the business environment in China become more political in the last year?" is "much more political" or "somewhat more political";*
2) *Multiple answers possible, percentages divided by number of respondents*

The chief source of politicisation reported by half of BCS respondents is the Chinese Government. The Chinese media, international media and the CCP were the other main sources. It stands to reason that these numbers would likely have been higher had the survey taken place after the EU-China sanctions exchange, as well as in the aftermath of the coordinated social media campaign aimed at stoking nationalist outrage at a European retailer for a decision it had made more than a year prior.[40]

Figure 50: Barely anyone expects political pressure to decrease over next year

Does your company expect to see its business operations put under more or less political pressure by the following over the next 12 months?

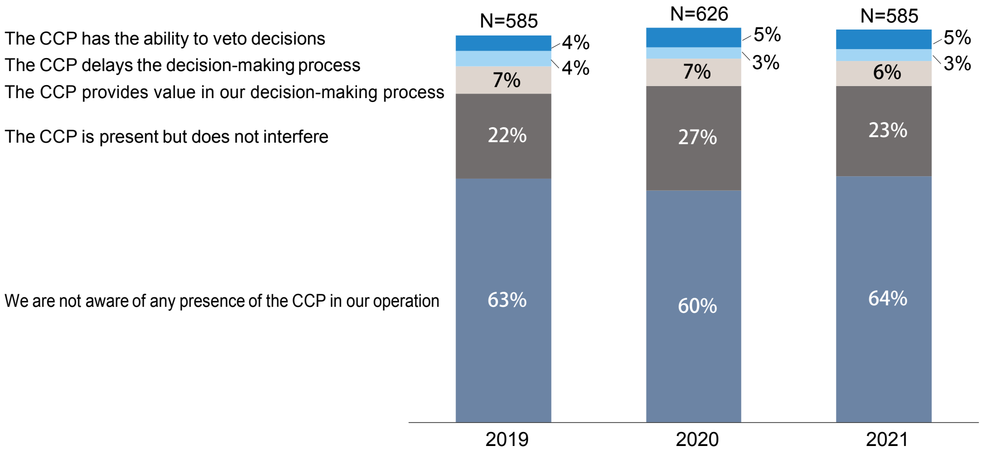


40 Zhong, Raymond and Mozur, Paul, *How China's Outrage Machine Kicked up a Storm Over H&M, The New York Times*, 29th March 2021, viewed 26th April 2021, <https://www.nytimes.com/2021/03/29/business/china-xinjiang-cotton-hm.html>

Survey respondents are much more likely to expect political pressure to increase than to decrease, although a small majority expect no change in political pressure from the various possible sources. As tensions continue to build between China and the EU, the US and other liberal market democracies, European companies anticipate being caught in the crossfire.

Figure 51: Role of the CCP stays the same

What role does the Chinese Communist Party (CCP) have in operational decision-making in your company? 1)



1) Multiple answers possible, percentages divided by number of respondents

There has been no meaningful shift over the past year regarding the presence of the CCP in member company operations. Of the 36% of companies that did report at least some presence of the CCP in their operations, almost two thirds noted that it does not interfere. This aligns with an important distinction that is often underappreciated in coverage of the role of the Party in companies.

Per the Company Law, businesses must provide time and space for a 'Party cell' if enough members are present and want to start one.[41] European companies report that Party cells tend to hold short meetings every few weeks, and that they generally function as study sessions for Party documents, speeches and other related information.

This differs very much from instances in which the Party has established a formal role in the governance structure of companies, such as in the 3% of respondents that note the Party delays the decision-making process, or the 5% that report the Party can even veto decisions. These cases tend to involve JVs, especially those with SOEs, and many are the product of a push that took place in mid-2017 to give the CCP a formal role in the decision-making processes of such enterprises.[42] The European Chamber is not aware of any wholly foreign-owned companies in which the Party plays an operational role.

41 *Company Law of the People's Republic of China*, Ministry of Justice, 16th January 2019, viewed 25th April 2021, http://www.moj.gov.cn/Department/content/2019-01/16/592_226957.html

42 Martina, Michael, *Exclusive: In China, the Party's push for influence inside foreign firms stirs fears, Reuters*, 24th August 2017, viewed 26th April 2021, <https://www.reuters.com/article/us-china-congress-companies-idUSKCN1B40JU>

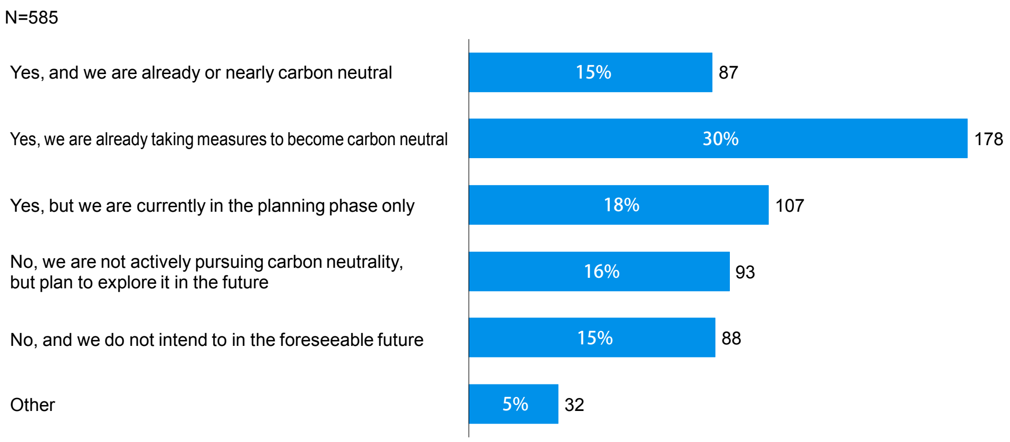
6 CARBON NEUTRALITY

In 2020, President Xi announced that China was committed to a 2060 decarbonisation goal. This has become a cornerstone of the 14th Five-year Plan, and environmental protection is expected to be back in sharp policy focus over the coming years.

For their part, European companies are well advanced with their carbon-neutrality strategies, with 15% of respondents already or nearly carbon neutral, and 30% in the process of becoming so. Many European companies universally apply high environmental protection standards across their global operations. With China announcing its intention to be carbon neutral by 2060, it will become increasingly important to leverage all of the expertise that it can. This should include bringing European companies to the table to discuss and become involved in formulating national decarbonisation strategies to help China achieve its ambitious goal.

Figure 52: European companies prioritise decarbonisation

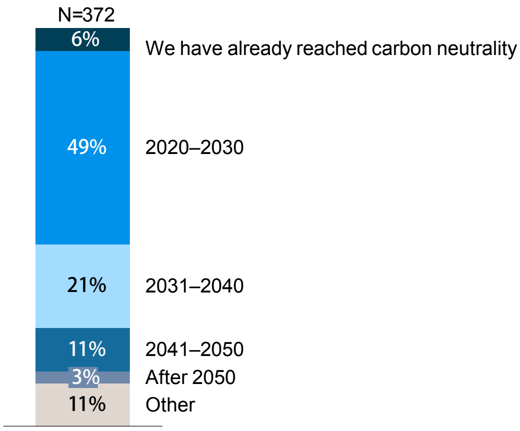
Is your company pursuing the idea of becoming carbon neutral?



China's decarbonisation plan could be further accelerated by opening up to increased investment from European companies that are aggressively pursuing carbon-neutral strategies. Such a move would crank up competitive pressure in the local business environment and spur local companies to redouble their own decarbonisation efforts.

Figure 53: European companies do the heavy lifting on decarbonisation

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

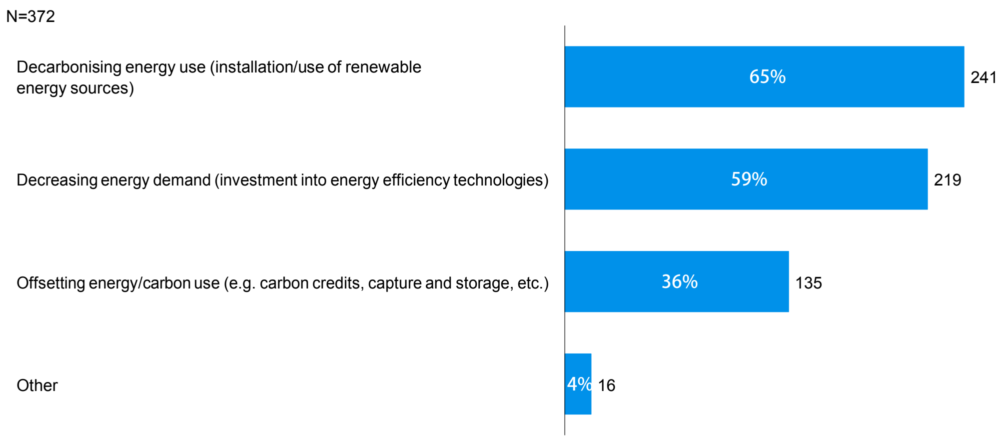


1) Asked only when answers for "Is your company pursuing the idea of becoming carbon neutral?" is "Yes"

Strategies employed by survey respondents to achieve carbon neutrality include decarbonising energy use through installation and use of renewable energy sources, decreasing energy demand by investing in energy-efficient technologies and obtaining credits to offset energy/carbon use. Interestingly, they are much more likely to pursue clean energy use (65%) and decrease energy demand (59%) than they are to just invest in offsetting strategies (36%).

Figure 54: Here's how they are doing it

What strategies are your company considering/applying to reach carbon neutrality? [1)]



1) Asked only when answers to "Is your company pursuing the idea of becoming carbon neutral?" is "Yes", multiple answers possible, percentages calculated by number of respondents

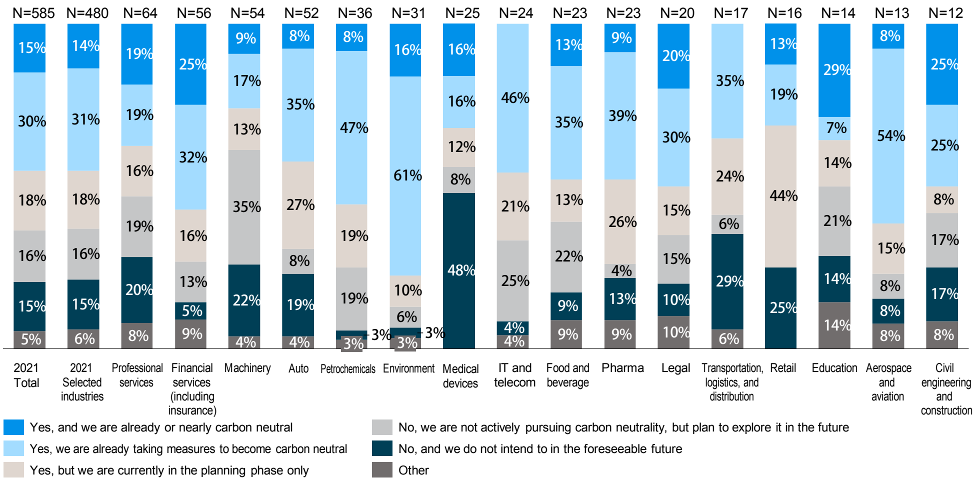
Member companies operating within the civil engineering and construction sector, the financial services sector and the education sector in China are leaders in greening their operations. Half of respondents within the civil engineering and construction sector have already taken measures to become carbon neutral. However, because the construction sector in China is largely closed to foreign construction service providers, most foreign companies operating in this sector are architects and service providers for certain niches, so they can reach carbon neutrality quite easily.

It is a similar story with education and financial services, neither of which have a large footprint in the first place. However, they also contribute to broader decarbonisation efforts. Educators help instil green habits and awareness of the climate crisis. Financial service providers are also going the extra mile by considering the environmental impact of who they lend to, as well as through 'green financing' to help support sustainable development.

Even in industries that have historically been major sources of pollution, a high proportion of European companies are already pursuing decarbonisation strategies, such as those in aerospace and aviation and those in petrochemicals, both of which have a majority of respondents reporting that they are already taking relevant measures.

Figure 55: Education, construction and finance lead in carbon neutrality Comparison by industry

Is your company pursuing the idea of becoming carbon neutral? 1)



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

7 RCEP RESHAPING REGIONAL STRATEGIES

On 15th November 2020, the 10 member states of the Association of Southeast Asian Nations (ASEAN), Japan, South Korea, Australia, New Zealand and China, signed the Regional Comprehensive Economic Partnership Agreement (RCEP).[44] Pending ratification by all signatories, it will be the largest free-trade agreement in the world, covering nearly one third of the global population.

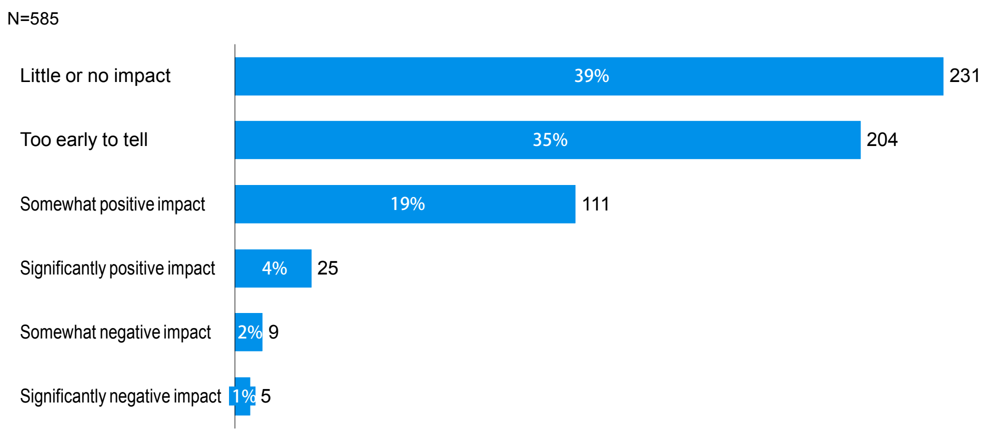
The RCEP is primed to nudge some companies, including European ones, towards integrating their China operations into a broader regional strategy. As more and more Chinese companies shift lower-cost production to Southeast Asia, European companies should anticipate some disruptions as suppliers and customers that were once within China's borders make their way across the logistically and administratively more complex border. The geopolitical situation may also prompt more due diligence of supply chains.

7.1 RCEP moves China operations towards being part of regional strategy for some

The overwhelming majority of survey respondents believe that the impact of the RCEP on their business is either very low or that it is too early to tell. Only 3% expect it to have a negative impact on their business, while 23% of respondents expect that it will have a positive impact. Under the RCEP, some companies are seeing an opportunity to integrate their China operations into a broader regional strategy. Time will tell if they are correct.

Figure 56: RCEP viewed positively by some, too early to say for many

What is the expected impact of RCEP on your business?

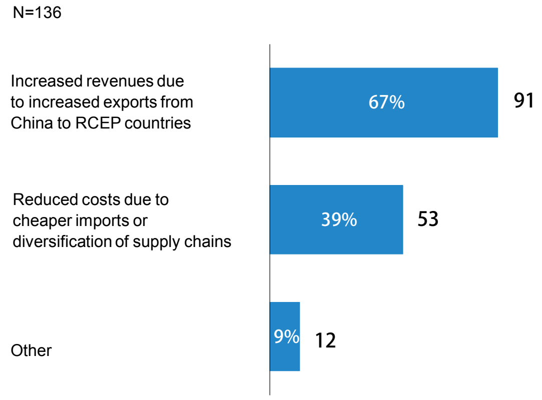


44 *RCEP: Asia-Pacific Countries Forms World's Largest Trading Bloc*, ASEAN Secretariat RCEP website, 26th November 2020, viewed 2nd April 2021, <https://rcepsec.org/2020/11/26/rcep-asia-pacific-countries-form-worlds-largest-trading-bloc/>

Out of those member companies that expect the RCEP to have a positive impact on their business, 67% expect an uptick in revenue due to increased exports from China to other RCEP countries, and 39% anticipate cost reductions as a result of cheaper imports or diversified supply chains. This is good news for companies, especially those that are well positioned to take their China operations to a larger, regional ecosystem.

Figure 57: Exports expected to rise, imports can help drive down costs

Why do you expect RCEP to have a positive impact on your business? 1)

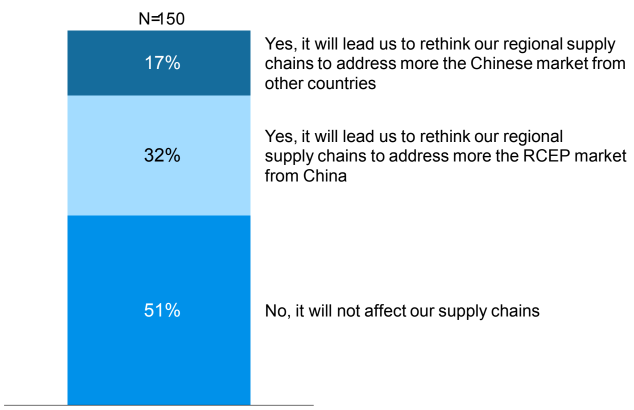


7.2 Rethinking regional supply chains

After filtering out those that the expect that RCEP will have little to no impact, or who argue that it is too early to say, respondents are split as to whether it will affect regional supply chains. While 51% of respondents do not expect that it will, 32% expect that it will lead them to rethink their regional supply chains to export more to RCEP countries from China, and 17% foresee the reverse. Companies are already seriously discussing the best strategy moving forward. For example, interviewed chemicals companies are currently evaluating whether they want to increase production in southern China with the aim of exporting to their customers in Southeast Asia, or if they should instead invest into those countries to supply their customers locally.

Figure 58: From 'in China, for China' to a more regional strategy

Is RCEP likely to impact your supply chains in the region? 1)

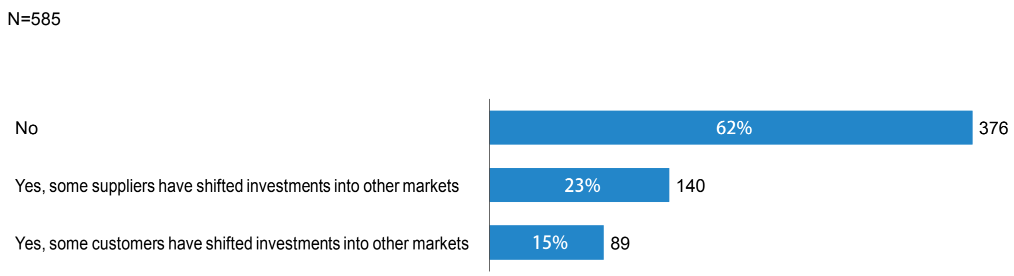


1) *Asked only if answers to "What is the expected impact of the RCEP on your business?" are not "Little or no impact" or "Too early to tell"*

Rising labour costs, automation, complex regulation, an increasingly unstable geopolitical situation and China's own interest in moving up the value chain have resulted in 38% of respondents observing their Chinese customers/suppliers moving operations into other markets in 2020. This trend is likely to proceed apace, and companies would do well to respond accordingly. One big advantage that European companies in China have benefitted from is the completeness of local industrial clusters and supply chains. European players that were accustomed to having local suppliers and customers in the same jurisdiction may need to adjust to cross-border business and the logistical challenges of shipping, as well as regulatory ones like customs.

Figure 59: Chinese customers/suppliers relocating nearby, companies should be ready to adjust

Has your company seen Chinese suppliers/customers moving operations out of China and into other markets, such as Southeast Asia or South Asia? [1)]



1) Multiple answers possible

8 ABOUT THE SURVEY MOTIVATION AND DESIGN

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

The European Chamber invited its members to take part in the 2020 survey over a four-week period during February 2021. The survey was conducted in cooperation with Roland Berger and was published in June 2021. There were 1,262 eligible entities. With 585 respondents completing the survey, the 2020 survey achieved a response rate of 46.4%.

In order to obtain a high response rate, which is an essential feature for high-quality results, the survey was condensed as much as possible, while keeping the appropriate questions to make comparisons over time. An online and password-required survey platform was set up for European Chamber members. The survey comprised 66 national questions and around a dozen questions for each local chapter of the European Chamber, grouped under three key themes:

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

A European Chamber chapter-specific section was also added as of 2015, but these questions are not included in this report.

Consistency was one of the key factors that guided the design of the questionnaire and data analysis. We gathered similar data from previous years so that we could trace and understand the development of company strategies and perceptions. We focussed on capturing the key issues for European companies operating in China and designed up-to-date questions that are in line with typical issues European companies faced in China in 2020 and 2021.

9 ABOUT ROLAND BERGER

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

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

Our entrepreneurial spirit has shaped our growth and fuelled our outstanding achievements since the early days of the firm. In short, being a game changer is in our DNA. With nearly 50 years of continuous growth behind us and 2,400 employees working in 35 countries, we are one of the leading players in global top-management consulting and have successful operations in all major international markets.

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

10 ABOUT THE EUROPEAN UNION CHAMBER OF COMMERCE IN CHINA

The European Union Chamber of Commerce in China (European Chamber) was founded in 2000 by 51 member companies that shared a goal of establishing a common voice for the various business sectors of the EU and European businesses operating in China. It is a member-driven, non-profit, fee-based organisation with a core structure of 34 working groups and fora representing European business in China.

The European Chamber now has more than 1,700 member companies in seven chapters operating in nine cities: Beijing, Nanjing, Shanghai, Shenyang, South China (Guangzhou and Shenzhen), Southwest China (Chengdu and Chongqing) and Tianjin. Each chapter is managed at the local level by local boards reporting directly to the Executive Committee.

The European Chamber is recognised by the European Commission and the Chinese authorities as the official voice of European business in China. It is also recognised as a foreign chamber of commerce by the Ministry of Civil Affairs. The European Chamber is part of the growing network of European Business Organisations (EBO), which connects European business associations and chambers of commerce from more than 40 non-EU countries around the world.

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

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