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European Chamber
中国欧盟商会

European Business In China

Business Confidence Survey

2013

In partnership with

Roland Berger
Strategy Consultants

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

EXECUTIVE SUMMARY

Tougher business conditions, both globally and in China, have led to a diminished financial performance for European companies in China in recent years. In 2012:

- Increased revenues were reported by only 62% of companies, versus 75% and 78% in preceding years;
- Profitability was only reported by 64% of companies, compared with 73% and 74% in preceding years.

Many market dynamics are contributing to this. Key factors having strong impacts on net profit margins include:

- Slower economic growth in European and Chinese markets named by 40% and 38% respectively;
- Labour costs cited by 52% of companies;
- Competition from privately-owned Chinese companies mentioned by 30% of companies.

The relatively poor financial results are further exacerbated by the regulatory environment.

Missed business opportunities owing to market access and regulatory barriers were reported by 45 per cent of all European companies. These challenging market dynamics, coupled with a difficult regulatory environment, show that significant economic reforms are needed more than ever before to ensure continued strong growth, mitigate cost increases, unlock market opportunities and create an overall well-functioning and efficient business environment. But as uncertainty still prevails, with 53 per cent deeming that market access issues will also continue to be a significant challenge, optimism is waning:

- Future revenue growth optimism has shrunk to a four-year low of just 71% of EU companies.
- An optimistic profitability outlook for the next two years has reached an all-time low of only 29% of companies.

Despite many of the lowest business confidence results since the onset of the global economic downturn, it is clear that China is still being perceived as the best of a challenging global situation. China continues to be a priority in global strategies and a mainstay for global revenue generation. European companies are resigning themselves to this reality and remain committed to the Chinese market:

- China is seen as increasingly important in global strategies by 64% of companies, albeit a decline from 74% in 2012.
- China is rated as a top-three country for future investments by 43% of companies.
- Further expansions to current China operations are considered by 86% of European companies.

Going forward, respondents are overwhelmingly united in their view of the key drivers for China's future economic performance:

- Rule of law and transparent policy-making was identified as a significant key driver by 76% of companies.
- The promotion of fairer competition and fewer monopolies was also regarded to be a potentially significant driver of China's future economic performance by 68% of companies.

1 DECREASED FINANCIAL PERFORMANCE AND LOWER OPTIMISM

China is becoming an increasingly challenging market for all companies, including European ones. The financial performance of European companies in 2012 deteriorated when compared with recent years:

- Fewer companies reported increased revenue.
- Fewer companies reported profits:
  - The ratio of companies reporting losses doubled.
  - The proportion of profitable SMEs decreased (52% vs 67% in 2011).
- Operating profit growth weakened:
  - domestically;
  - compared to global operations.

The level of optimism among European companies has fallen and as a result:

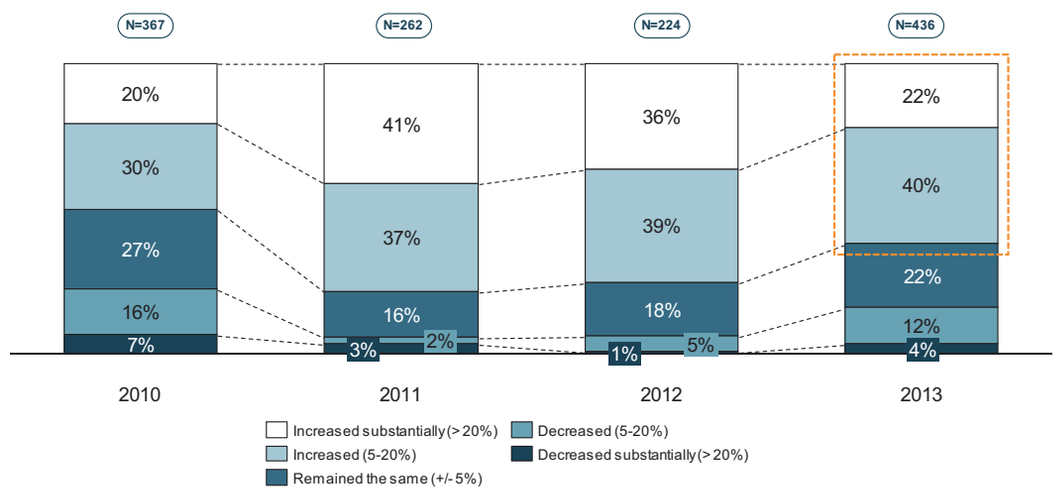
- The number of companies optimistic about growth over the next two years has decreased for the fourth straight year;
- The number of companies with an optimistic outlook on profitability potential over the next two years has decreased and is at an all-time low.

1.1 Decreased financial performance

Decreasing revenue growth

Although most European companies in China are still growing, the share of companies reporting an increase in revenue growth has been in decline for the past two years:

Figure 1: **Development of company revenue in China, 2010–2013**
Question: How did your Mainland China revenue evolve year-on-year?



Note: Where development of company revenue is reported for the years 2010, 2011, 2012 and 2013, the figures actually pertain to the previous year's revenue performance.

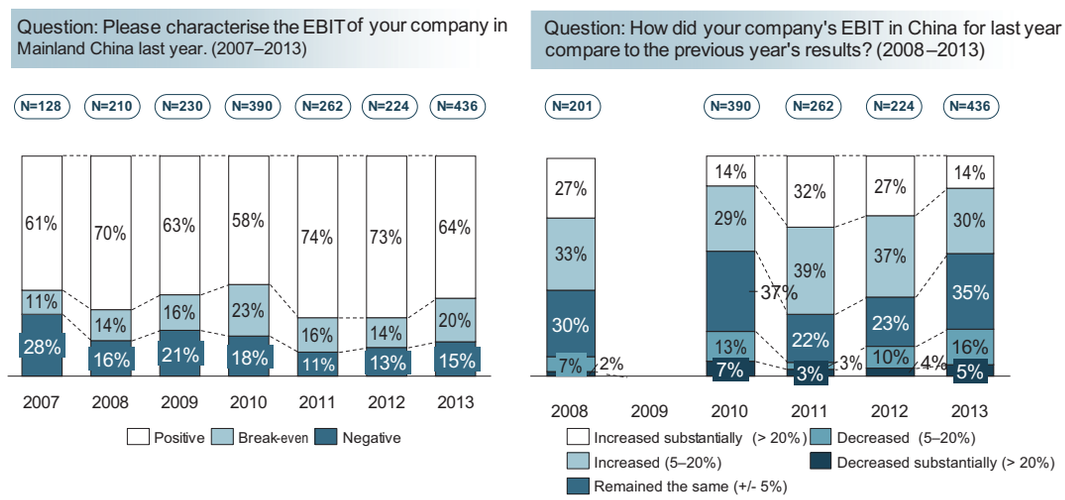
- Only 62% of companies reported an increase in revenues in 2012, compared with 75% and 78% in preceding years.
- Only 22% reported a significant increase in their revenues in 2012, compared with 36% in 2011 and 41% in 2010.
- A surprising 16% of respondents reported an actual decrease in their revenues, compared with just 6% in 2012. As section two describes in greater detail, this development is driven primarily by the difficult economic situation both globally and in China, higher domestic labour costs, increased competition and a sub-optimal regulatory environment.

Fewer profitable companies

The decreased revenue growth is also hitting companies' bottom lines:

- 64% made profits in 2012 which is, much lower than the 73% reported in 2011.

Figure 2: **EBIT of Mainland China operations**



Note 1: In 2009, the second question was not asked since the timing of the 2008 vs 2009 survey was too close for comparison. The 2008 survey was released in Q4 2008 and the 2009 survey was released in Q2.
Note 2: Where EBIT performance is reported for the years 2007, 2008, 2009, 2010, 2011, 2012 and 2013, the figures actually pertain to the previous year's EBIT performance.

Squeezed operating profits

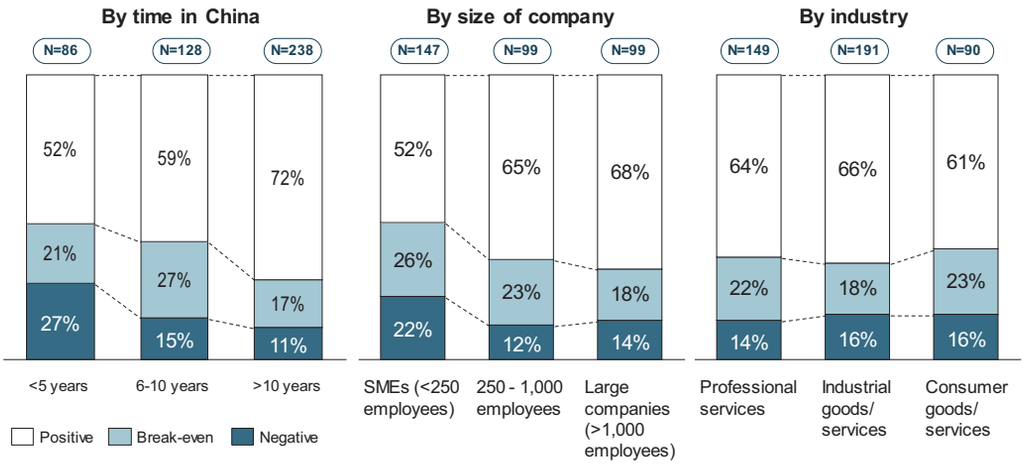
Company profit growth and margins are no longer expanding as much as they did in the 2010–2012 period. Less than half of surveyed companies posted an increase in EBIT and almost a quarter said EBIT had shrunk:

- Only 44% of respondents reported an increase in their EBIT in 2012, compared with 64% in 2011 and 71% in 2010.
- Furthermore, 21% noted that their EBIT had actually declined over the past year. In 2011, only 6% of European companies in China had year-on-year lower EBIT.

Larger companies with longer local presence more profitable

Figure 3: **EBIT performance of Mainland China operations by time in China, size of company and industry category for the previous financial year, 2013**

Question: Please characterise the EBIT of your company in Mainland China this year.



As in past years the data indicate that larger companies – and those who have been in China longer – are performing better than smaller companies and those new to China. For example:

- Companies operating in China for less than five years appear to be less profitable: 48% of respondents in this category reported unprofitable operations in 2012; 27% reported a negative EBIT; and 21% qualified it as break-even.
- SMEs (<250 employees) are also finding it more difficult to be profitable than their larger peers, as 48% said their bottom lines were either negative (22%) or at break-even (26%). For these companies, the situation seems to have worsened compared to last year when 33% of respondents in this category said they were not making profits in China.

In terms of EBIT margins, China operations are performing better than the company average worldwide for only one third of companies. Last year that figure was 42 per cent. Another third had EBIT margins in China on a par with company average; the remaining third said that their EBIT margins in China were lower than the company average worldwide.

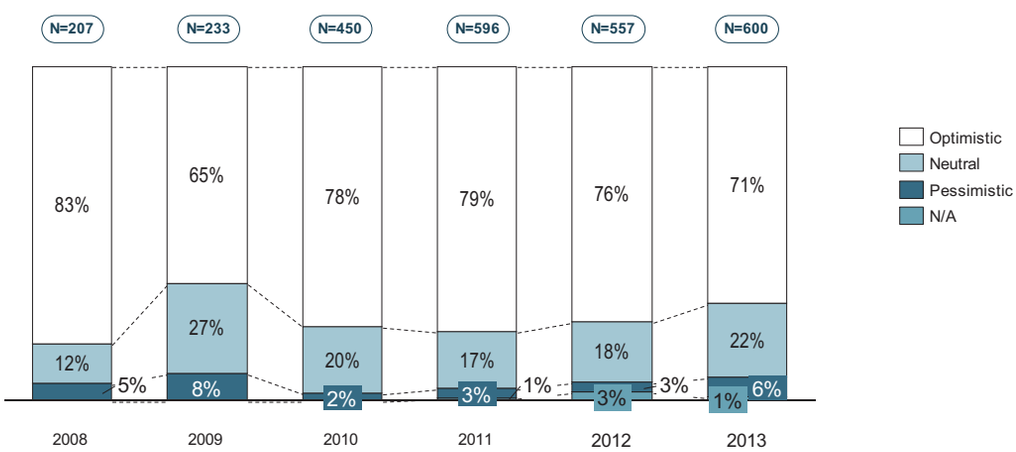
To put these findings into context: While China may be a continued source of growing revenue for European companies, profitability is on a clear downward slide and high margins may be increasingly a thing of the past.

Figure 4: **EBIT margins of Mainland China operations compared to worldwide margins, 2010–2013**
Question: How did the EBIT margin of your Mainland China operations compare to your company's worldwide margins this past year?

Answers	Results			
	N=389 2010	N=262 2011	N=224 2012	N=434 2013
Better than company average worldwide	37%	33%	42%	34%
Same as company average worldwide	29%	37%	29%	32%
Lower than company average worldwide	34%	30%	29%	34%

1.2. Lower optimism

Figure 5: **Perception of growth in China within the next two years, 2008–2013**
Question: How would you describe the business outlook for growth in your sector in China within the next two years?



Given the diminishing financial performance of European companies overall, it is not surprising that respondents are less optimistic than they have been in past years. Some 71 per cent of European companies said they are optimistic in terms of growth in their business sector in the next two years.

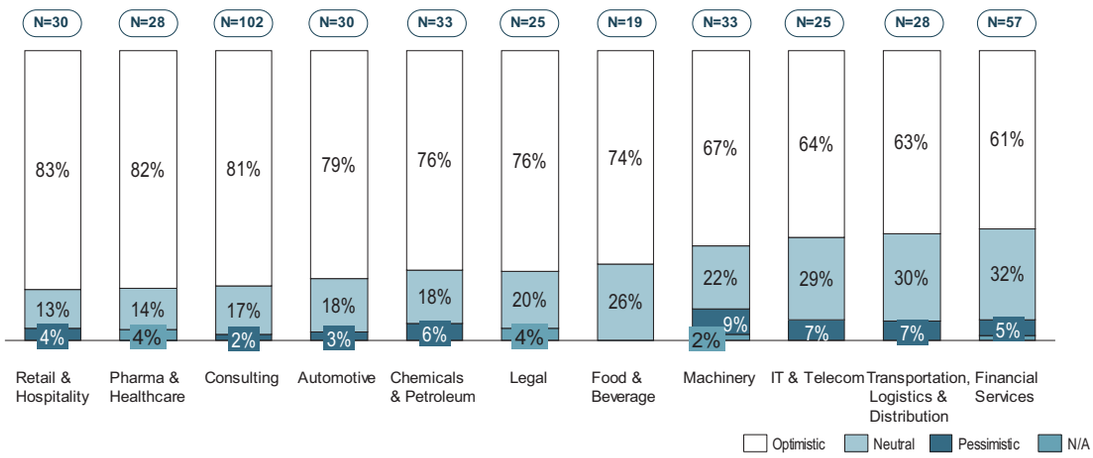
While this figure still signals strong confidence about the near future, it is relatively low compared with previous years. Moreover, it is the lowest level of optimism recorded on sector growth potential since 2009.

A closer look at specific sectors provides a more varied picture:

- Financial services companies, transportation companies and IT companies are below average in terms of optimism about growth – with just 61%, 63% and 64% respectively stating that they are optimistic.
- Consulting companies, automotive companies, pharmaceutical & healthcare companies, and retail & hospitality companies, however, are more optimistic than the overall average, with respective levels of optimism at 79%, 81%, 82% and 83%.

Figure 6: **Perception of growth in China within the next two years among sectors, 2013**

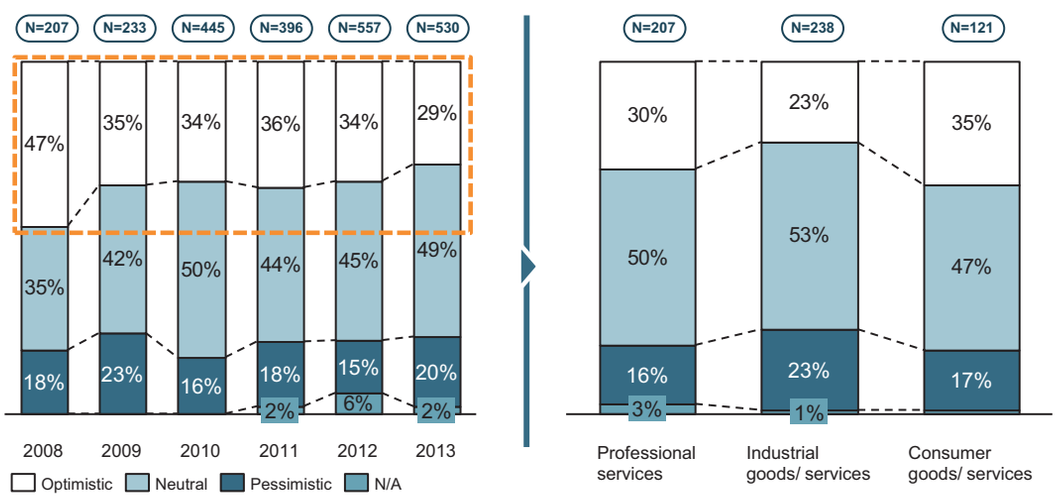
Question: How would you describe the business outlook for growth in your sector in China within the next two years?



Note: In some categories the number of respondents is below 30–the standard accepted minimum used for statistical significance in unbiased samples.

Figure 7: **Business outlook perception of profitability in China within the next two years, 2008–2013**

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



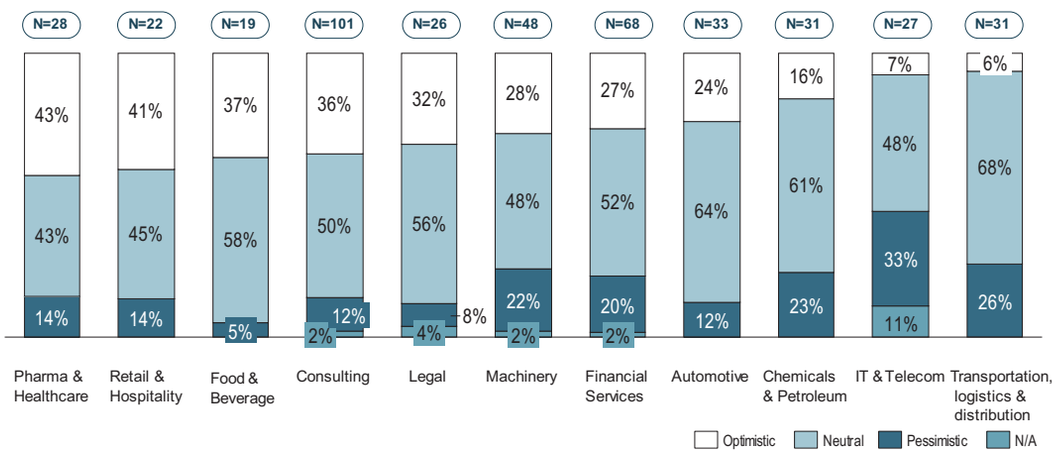
Companies are also becoming more neutral about their profitability prospects in China:

- 49% of respondents said they were neutral about their profitability outlook over the next two years, compared with 44% in 2011.
- More importantly, only 29% said they were optimistic.This is a significant drop from the relatively stable response range of 34-36% supplied over the previous four years. It is the lowest level of optimism for profitability in the history of this Business Confidence Survey.
- Industrial goods/services companies are below average in terms of optimism about profitability: 23% reported they are optimistic and 23% reported they are pessimistic.

Combined, these results indicate that companies are adopting a more balanced and cautious view about their profitability prospects in China.

Figure 8: **Perception of profitability in China within the next two years among sectors, 2013**

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



Some sectors are more pessimistic than others about their future profitability in China:

- Only 7% of IT & telecom and 6% of transportation companies are optimistic about the profitability of their respective sectors, whereas 43% of pharmaceutical & healthcare companies said they are optimistic.

Despite the overall decrease in financial performance and lower level of optimism, it needs to be noted that most companies are still growing (62 per cent), are profitable (64 per cent), and are optimistic about future revenue growth (71 per cent).

2 THE MARKET IS CHANGING; THE REGULATORY ENVIRONMENT LESS SO

European companies are feeling the effect of a more challenging business environment, both globally and in China. This is evident now in weaker financial performance and a more neutral outlook in China. The situation is exacerbated by other market forces and regulatory issues.

In addition to the slowdown in economic growth worldwide, European companies are also experiencing slower economic growth in China. Other market challenges exist in China too, including:

- Increased competition;
- Rising labour costs;
- Difficulty in retaining and developing talent.

What makes this increasingly challenging environment even harder are the persistent regulatory issues, which are largely unique to China. European companies continue to face pressure and uncertainty in the regulatory environment, and this negatively impacts their ability to perform to their full potential. Regulatory factors lead to lost revenue.

2.1 Market forces

Figure 9: **Top 10 factors affecting net profit margin, 2013**
Question: Please indicate the significance of the following factors in affecting your net profit margin.

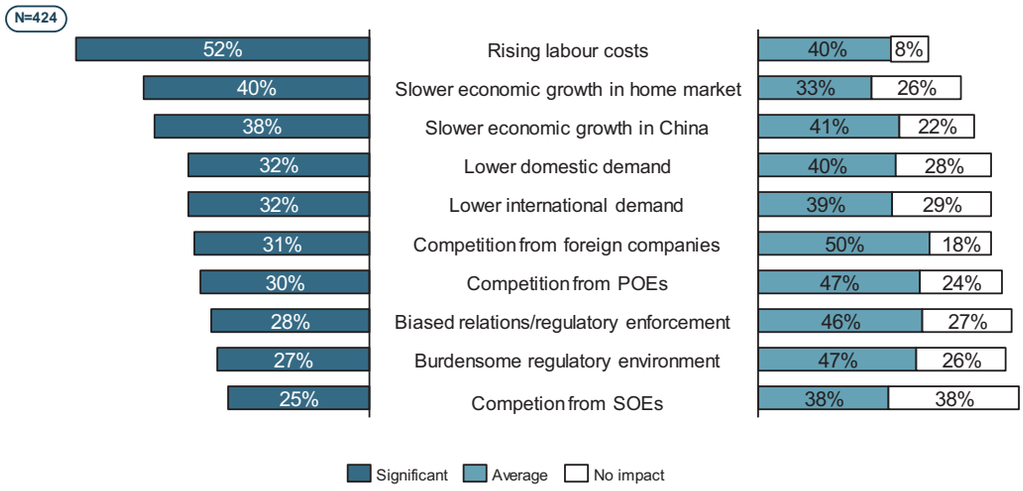
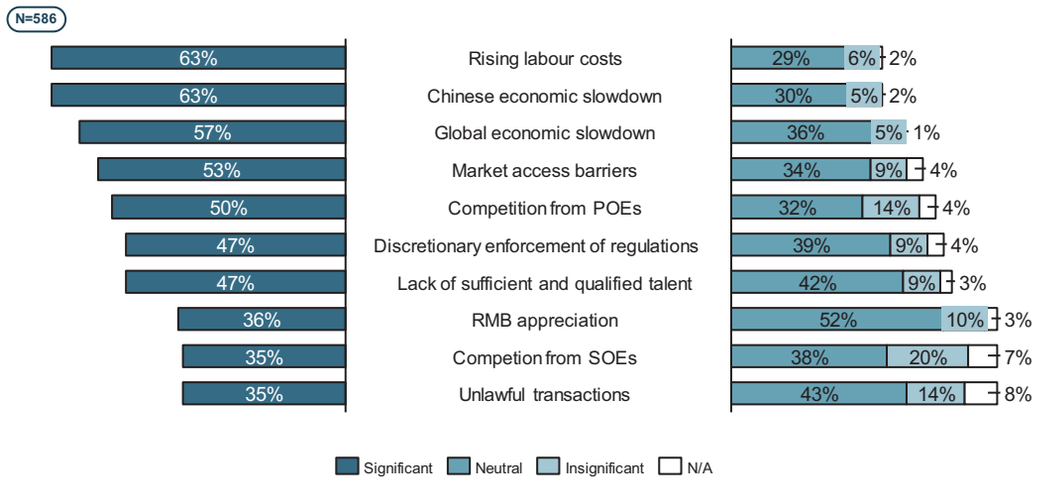


Figure 10: **Top 10 challenges to your future business in Mainland China, 2013**

Question: Please indicate how significant you perceive the following challenges to be to your future business in mainland China.



An economic slowdown

China's economic slowdown is impacting companies:

- 38% of European companies stated that "slower economic growth in China" is having a strong impact on their net profit margins.
- 32% of respondents believe "lower domestic demand" is having a strong impact on their net profit margins.
- 63% of companies regard China's economic slowdown as a major challenge to their future operations. This concern was on par with rising labour costs as the greatest challenge to future business.

Europe's and the rest of the world's economic slowdown is impacting companies:

- When asked which factors are impacting their net profit margin, 40% rated "slower economic growth in the home market" and 32% said "lower international demand". This highlights these companies' strong exposure to, and dependence upon, the global marketplace.
- 57% of respondents regarded the global economic slowdown as a significant future challenge.

However, more respondents than ever before said that the primary reason for being in China is to serve the domestic market (75 per cent, up from 72 per cent in 2012). Even though the global economic slowdown continues to impinge on overall performance, opportunities for growth still exist in China.

Tougher competitive landscape

Competition from domestic players is increasingly impacting the business performance and outlook of European firms. While foreign, privately-owned enterprises (POEs) are still ranked as the main competitors, the gap between foreign and Chinese POEs is closing:

- In 2012 "Competition from foreign POEs" was ranked as the third most important factor affecting company net profit margins in China, with "Competition from Chinese POEs" ranked as the ninth most important factor.
- In 2013 the gap closed. "Competition from foreign POEs" was only ranked as the sixth most important factor and "Competition from Chinese POEs" was ranked as the seventh most important factor.

Local players, particularly domestic privately-owned companies, have improved in areas in which European firms have traditionally been strong.

- In 2012, when asked about the areas in which domestic competitors have improved the most over the past two years, brand recognition and marketing and sales were ranked as the top two areas for both state-owned and privately-owned enterprises.
- Some 39% of respondents perceive domestic POEs to hold the competitive advantage in marketing and sales vs 35% for European companies, a marked difference from a few years ago.

Figure 11: **Competitive advantage in given areas, 2013**

Question: In each of the following areas, which type of company do you perceive holds the greatest competitive advantage?

N=445	SOE	Domestic POE	European Companies	N/A
Governmental relations	87%	7%	2%	4%
Brand recognition	14%	12%	69%	5%
Access to subsidies/tax incentives	69%	17%	3%	11%
Access to financing	71%	16%	6%	8%
Marketing and sales	18%	39%	35%	8%
Pricing	28%	56%	8%	8%
Product quality, variety and innovation	4%	9%	82%	5%
Economies of scale	46%	21%	20%	13%
HR management and ability to attract top talent	16%	13%	62%	9%

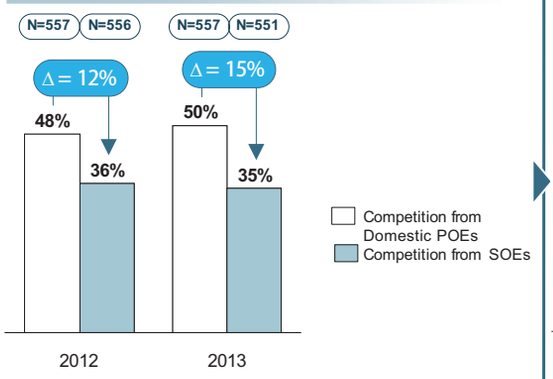
Respondents were also asked to state which type of company they believed posed the greatest competitive threat to their future business. Some 50 per cent of respondents regard competition from domestic POEs to be a significant challenge, and 35 per cent of respondents think the same of SOEs.

Domestic POEs are more widely perceived as being stronger competitors than SOEs. This is possibly due to the fact that they compete in more open markets, which has forced them to be more efficient and effective.There is another possible reason for this perception among European companies, however: European companies are more likely to be competing in these same open markets.

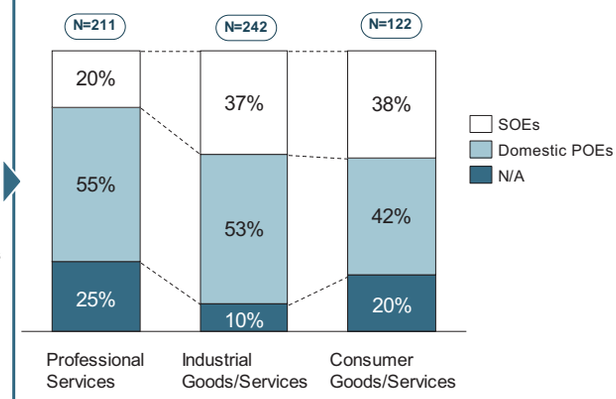
This view is particularly prominent in the professional services and industrial sectors where 55 per cent and 53 per cent of respondents respectively rated domestic POEs as their most significant competitors.

Figure 12: **Significance of local competition**

Question: Please indicate how significant you perceive the following challenges to be to your future business in Mainland China? (2012–2013)



Question: Which type of mainland companies do you see as your most significant competitors in China (by industry)?



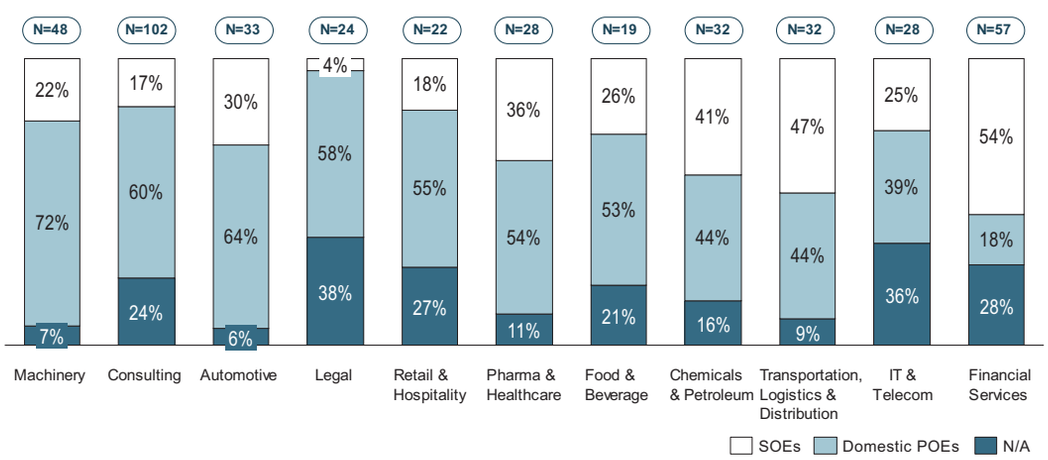
Note: 29 of "Others" were taken out in the breakdown per industry

Some sectors perceive competition from domestic POEs to be stronger than in others.

- Among professional services companies, 60% of consulting companies and 58% of legal companies said domestic POEs were their most significant competitors in China.
- Among industrial companies, 72% of machinery companies and 64% of automotive companies stated that domestic POEs were their most significant competitors in China.
- Among consumer goods companies, 54% of pharmaceutical companies, 55% of retail and hospitality companies, and 53% of food and beverage companies regard domestic POEs as their most significant competitors in China.

Figure 13: **Significance of local competition among sectors, 2013**

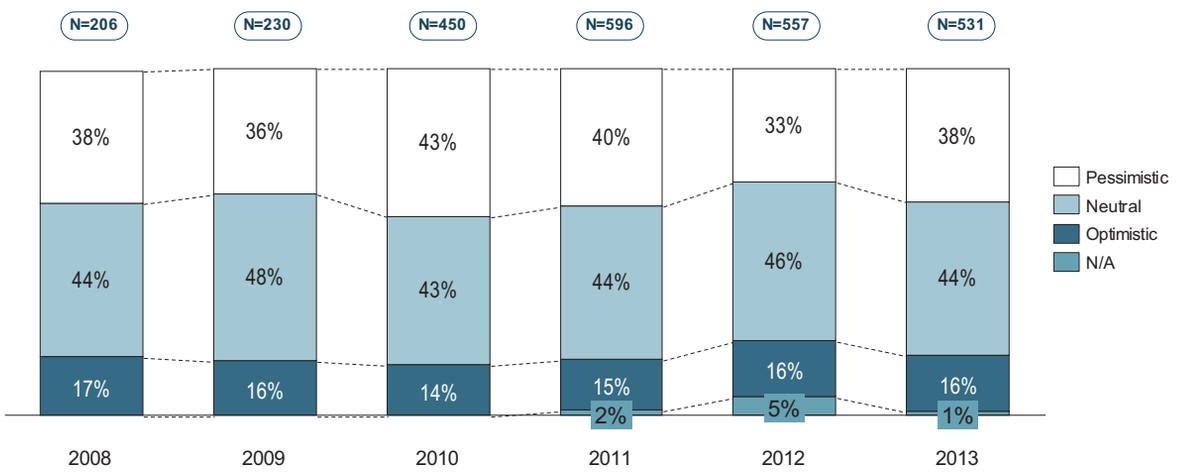
Question: Which type of mainland companies do you see as your most significant competitors in China?



The competitive landscape has certainly become tougher for European companies. Given the developments outlined here it is not surprising that the level of pessimism among European companies about competitive pressure has increased to 38 per cent in 2013 from 33 per cent in 2012. Current trends suggest that the level of competition will only intensify in the near future, highlighting the need for European companies to further invest in order to stay competitive.

Figure 14: **Outlook on competitive pressure, 2008–2013**

Question: How do you describe the business outlook in your sector in terms of competitive pressure?



Rising labour costs

China's attractiveness for European companies was largely driven in the past by the country's low labour costs. As China transitions away from a low-cost manufacturing economic model, European companies are feeling the full brunt of this shift. Urbanisation, rising standards of living, higher employee expectations and inflation have all contributed to increased labour costs.

This is reflected again in this year's results:

- 63% of companies rank rising labour costs as the most significant challenge that companies will face in their future business in China.
- 62% of companies are pessimistic about the business outlook for labour costs.

Most notably, more than half of European companies regard rising labour costs as a significant factor affecting net profit margins, substantially more than any other market or regulatory factor.

Figure 15: **Outlook on labour costs, 2008–2013**
Question: How do you describe the business outlook in your sector in terms of labour costs?

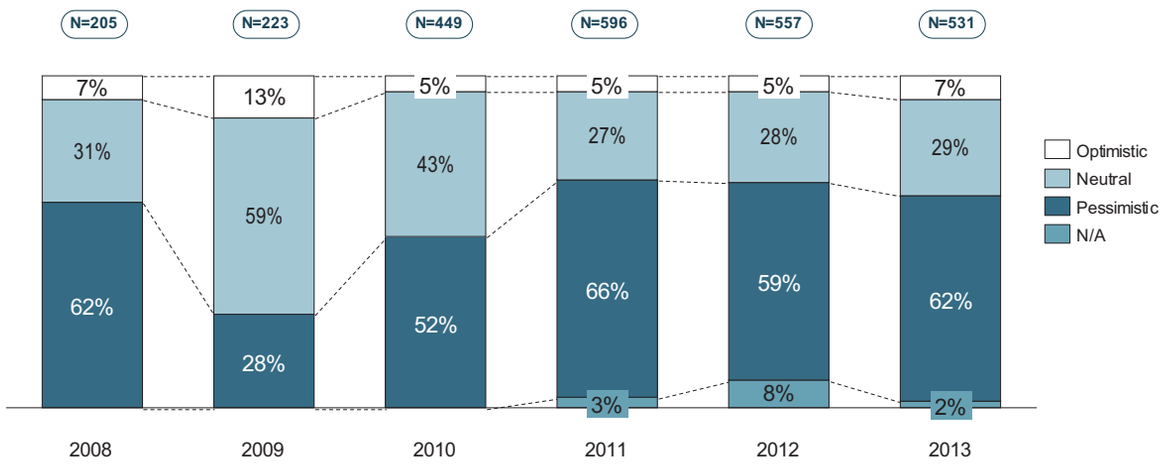
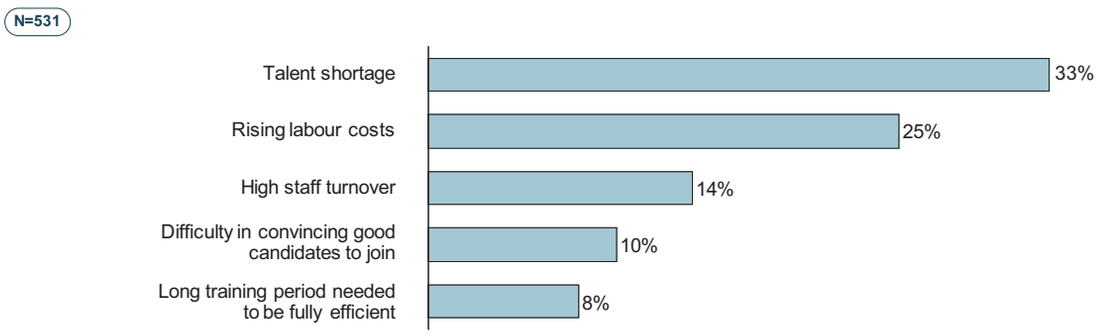


Figure 16: **Ranking of HR challenges, 2013**
Question: What is the top HR challenge you face? (Top 5)



Attracting and retaining top-of-the-class talent

As competition intensifies among local and European firms, greater emphasis is placed on securing the right talent to overcome challenges. While China may boast the largest workforce in the world, finding the right human capital to drive company growth has proven to be a challenge:

- 33% of respondents view a talent shortage as the primary HR challenge.
- 14% said that high staff turnover was the third most significant HR issue they currently face.

Figure 17: **Top challenges companies face in attracting talent in China, 2013**
Question: What are the biggest challenges you face in ATTRACTING the right talent in China?

	#1 choice (N=276) Locals	#1 choice (N=169) Expats	#2 choice (N=269) Locals	#2 choice (N=160) Expats	#3 choice (N=260) Locals	#3 choice (N=153) Expats	Cumulated top 3 Locals	Cumulated top 3 Expats
Lack of willingness to be assigned to China	3%	46%	4%	16%	3%	14%	10%	76%
Too-high expectations on salary/package	63%	37%	20%	28%	12%	14%	95%	79%
Inadequate training programme	7%	4%	16%	9%	16%	11%	39%	24%
Our brand name is not well known	14%	4%	23%	11%	17%	7%	54%	22%
Career opportunities not seen as promising	9%	5%	30%	22%	28%	28%	67%	55%
Culture of company not seen as attractive	2%	2%	3%	7%	11%	9%	16%	18%
Other	2%	4%	4%	7%	13%	17%	19%	28%

For **expatriate recruitment**, a lack of willingness to be relocated to China is ranked as the most significant challenge for attracting the right talent. This has been the number one challenge companies have faced over the past three years in expatriate recruitment (39 per cent in 2012 and 46 per cent in 2013).

Difficulties in sourcing the right **local talent**, however, largely relate to remuneration packages. Some 63 per cent of companies listed "too high expectations on salary/package" as their largest challenge in terms of local recruitment (vs 52 per cent in 2012), by far the most prominent factor.

Rising labour costs are a natural and desirable result of increased economic development. Yet some companies are finding it difficult to afford to hire staff and compete in the same way as they did in the past because salary expectations are expanding so quickly.

More than half of all respondents (58 per cent, up from 53 per cent in 2012) are either neutral or pessimistic about productivity increases in their business sector. Combined with the sentiment that a talent shortage exists, this may indicate that the pressure arising from rising wages is outstripping productivity growth. If this is the case, it presents strong evidence for the need to increase productivity and quickly move up the value chain in order for China to maintain its current levels of global competitiveness.

Figure 18: **Top challenges companies face in retaining talent in China, 2013**
Question: What are the biggest challenges you face in RETAINING the right talent in China?

	#1 choice (N=233) Locals	#1 choice (N=122) Expats	#2 choice (N=221) Locals	#2 choice (N=118) Expats	#3 choice (N=218) Locals	#3 choice (N=113) Expats	Cumulated top 3 Locals	Cumulated top 3 Expats
Poor employee performance	14%	7%	9%	3%	11%	5%	34%	15%
High expectations in pay/benefits	54%	24%	22%	11%	10%	11%	86%	46%
High expectations for expat packages	1%	23%	3%	18%	1%	8%	5%	49%
Living environment	2%	33%	7%	28%	4%	11%	13%	72%
Employees not seeing promising career opportunities	10%	7%	26%	13%	20%	14%	56%	34%
Employees going to competition	14%	1%	24%	9%	22%	18%	60%	28%
Employees going abroad	0%	1%	1%	8%	4%	12%	5%	21%
Employees changing industry	3%	1%	2%	5%	11%	6%	16%	12%
Employees starting their own business	0%	0%	5%	3%	9%	4%	14%	7%
Other	2%	3%	1%	2%	8%	11%	11%	16%

Remuneration packages are the main barrier in retaining local staff, while concerns over the living environment in China is the challenge for retaining foreign staff:

- 54% of respondents rate remuneration packages as their biggest challenge in retaining local staff.
- 72% of European companies rated the living environment as a top-three challenge in retaining and hiring foreign staff.
- 28% of European companies rate losing talent to competitors as a top-three challenge in the retention of expatriates, up from 17% last year.

Many of these market dynamics are not new. Indeed, they are largely in line with what companies have seen in the past few years. This suggests that European companies are becoming more accustomed to the barriers affecting their future business in China. Almost one third of the survey respondents this year rated "rising labour costs" as a neutral challenge, up from 25 per cent from last year. Similarly 36 per cent rated the "global economic slowdown" and 30 per cent rated the "Chinese economic slowdown" as neutral challenges, up from 27 per cent and 25 per cent respectively in 2012. As the business environment in China becomes more mature, navigating these sorts of challenging market forces is fast becoming part and parcel of doing business here.

In essence the market challenges for European company leaders are broad: macroeconomic growth is slowing, competition for customers is heating up and negotiating power is continuing to shift to employees. New approaches will be needed.

2.2 Stagnating regulatory reforms

Beyond the market forces outlined above, a stagnant regulatory environment makes operating in China even more demanding, particularly so for foreign-invested enterprises. There is a marked lack of optimism among survey respondents about future reforms to create an even playing field.

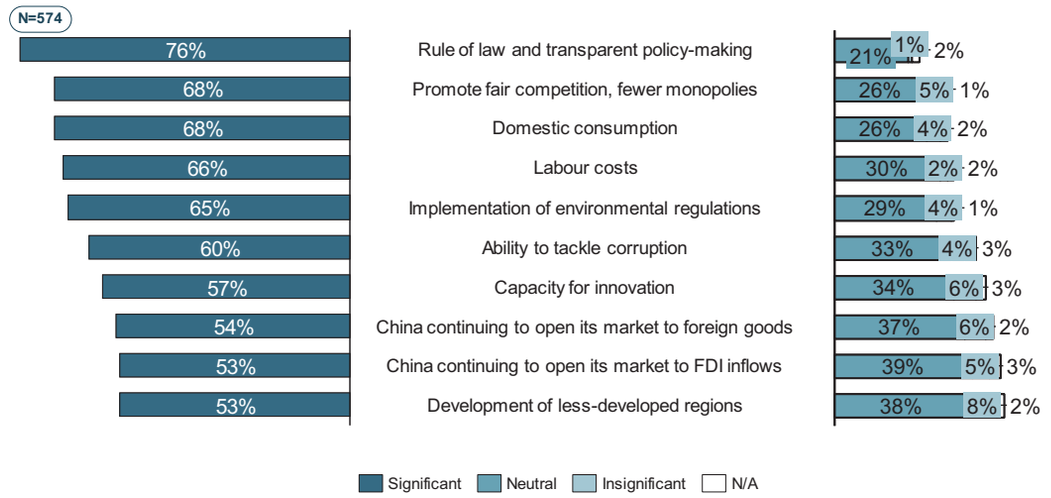
Government policies towards foreign-invested enterprises (FIEs) are widely recognised as a cause for concern. This year's survey again asked European companies to rate what they believe could be the most significant drivers of China's economic performance in the coming years.

- The most significant potential driver was “rule of law and transparent policy-making”. This was seen as the most significant potential driver by a substantial margin, with over three quarters of respondents identifying it as significant.
- The second most significant driver was the promotion of “fair competition, fewer monopolies”.

Both of these two drivers are regulatory in nature and clearly demonstrate the potential benefits European companies see in China’s economy, as long as market access and the operational playing fields for foreign companies are levelled.

Figure 19: **Top 10 significant drivers for China's economic performance, 2013**

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



From the perspective of European companies, the regulatory environment translates into key disadvantages in the market. This year, market access ranks as the top regulatory obstacle companies face while operating in China, highlighting the need for China to further liberalise its markets and to promote fair competition.

Administrative issues, such as regulatory reporting and guidelines are also considered as a major constraint for European companies in China. China's diverse geography, which has various jurisdictions and non-uniform regulations, is at the root of this problem. The discretionary enforcement of regulations, which was the biggest obstacle in last year's survey, rounds out the top three for this question. Again, these results underline the perception among European companies of uneven regulatory treatment.

Figure 20: **Top 10 regulatory obstacles in Mainland China, 2012–2013**
Question: How significant are the following regulatory obstacles to you when doing business in Mainland China?

N=530

ANSWER	2013	2012 rank as most significant
Market access difficulties	**53%**	**n/a**
Administrative issues	**41%**	**n/a**
Discretionary enforcement of regulations	**34%**	**1**
IPR protection	34%	4
Ownership restrictions	33%	9
Bureaucracy	27%	n/a
Restrictions on access to financing	23%	n/a
Registration processes for companies/products	23%	4
Unlawful transactions	21%	n/a
Discrimination against FIEs in public procurement	19%	17

European companies perceive surprisingly few advancements in the areas of regulatory uniformity and openness, although these are much-debated topics among politicians and business leaders in China. When asked how government policies affecting the business environment for FIEs have changed over the past two years, the overarching theme is stagnation:

- 30% of respondents stated that the situation has become less fair for FIEs compared to two years ago, compared with 42% the previous year.
- 13% believe that government policies have increasingly discriminated against FIEs and 17% believe that government policies are generally much less fair now than they were two years ago.

However, the proportion of respondents that perceive a continued worsening of the regulatory environment has declined:

- 28% of respondents perceive the situation to be the same as two years ago, compared with 18% in the previous year.

***Figure 21:* Perception of government policies affecting business environment for FIEs today, 2011–2013**

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

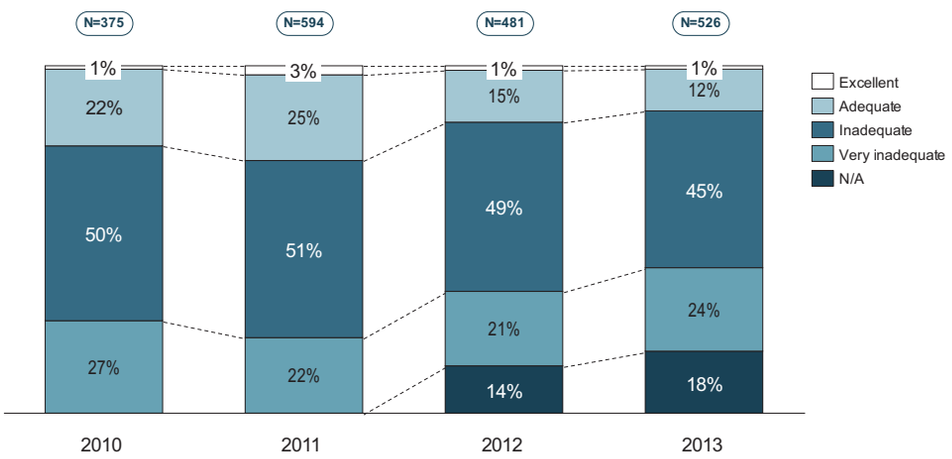
2011-2013 Evolution		N=596 2011	N=557 2012	N=530 2013
Have increasingly discriminated against FIEs	↑	9%	12%	13%
Are generally much less fair now than they were two years ago	↓	33%	30%	17%
Are as fair now as they were two years ago	↑	21%	18%	28%
Are generally much more fair now than they were two years ago	↓	10%	13%	11%
Have increasingly discriminated in favour of FIEs	↑	1%	0%	1%
No opinion	↑	26%	27%	30%

IPR protection has long been a major concern for European companies and has been identified as one of the top-five regulatory obstacles in China since 2008. However, when asked to rate the effectiveness of the enforcement of China's IPR laws and regulations, European companies do not report any signs of improvement:

- Fewer companies than in the past consider the enforcement of IPR policies to be effective (just 13% of companies rated it positively in 2013 compared to 16% in 2011).
- Nearly 70% of respondents continue to believe that the enforcement of IPR laws and regulations is inadequate (45%) or very inadequate (24%).

***Figure 22:* Focus on the effectiveness of the enforcement of China's IPR laws and regulations, 2010–2013**

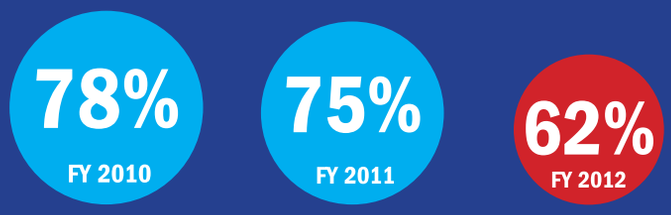
Question: How do you rate the effectiveness of the enforcement of China's IPR laws and regulations?



In practical terms, these regulatory barriers have significant negative financial consequences for European companies. Nearly half of European companies have observed missed business opportunities due to market access and regulatory constraints. A similar result was also recorded in last year's survey. Of these companies, 61 per cent have quantified their missed opportunities to be equivalent to over 10 per cent of their annual revenues; with nine per cent of these companies estimating that they have lost more than 50 per cent of their annual revenues.

DECREASED FINANCIAL PERFORMANCE

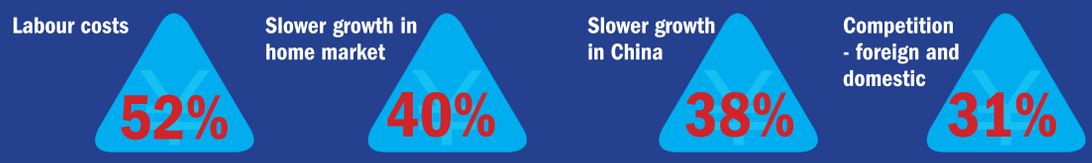
> Percentage of companies reporting an increase in revenues



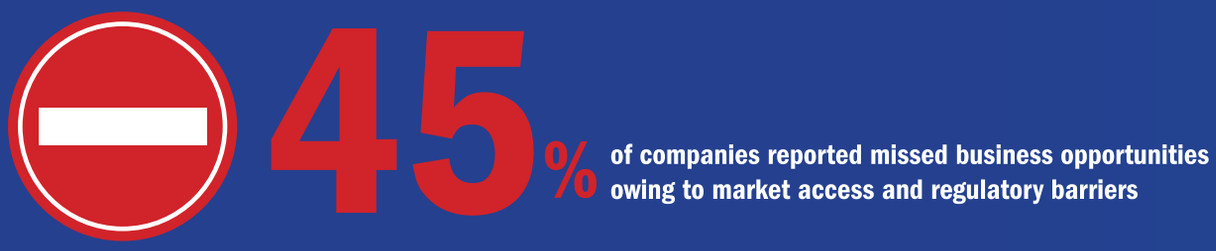
> Percentage of companies reporting a positive EBIT

CHALLENGING MARKET DYNAMICS & REGULATORY ENVIRONMENT IMPACTING PERFORMANCE

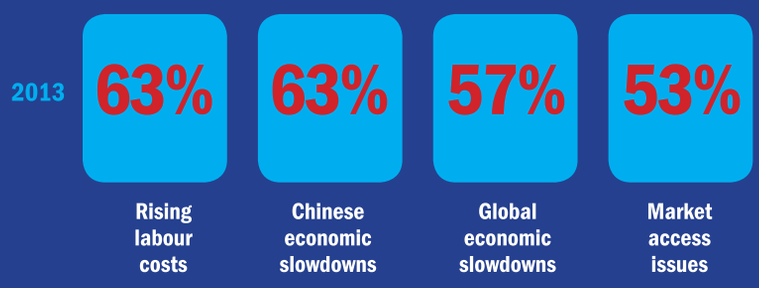
> Significance of market challenges affecting company net margins



> Regulatory environment further negatively impacting financial performance

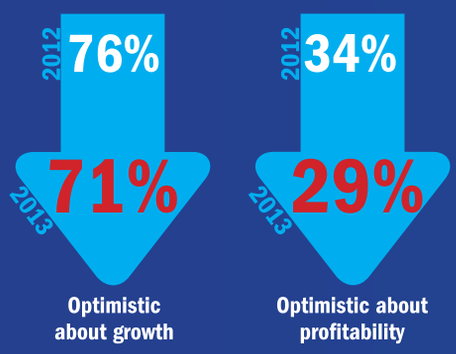


FUTURE CHALLENGES



Challenges to future business perceived to be significant (% in agreement)

LOWER EXPECTATIONS



WHAT ARE COMPANIES DOING TO REACT?

74% 2012

64% 2013

of companies see China as increasingly important in their company's global strategy

> China as a top-3 destination for future investment

43% of companies rank China as a top-3 destination for future investment

> Further expansion in Mainland China

86% of companies are considering further expanding their current operations in Mainland China

WHAT WILL DRIVE CHINA'S ECONOMY FORWARD?

> Need for reforms...

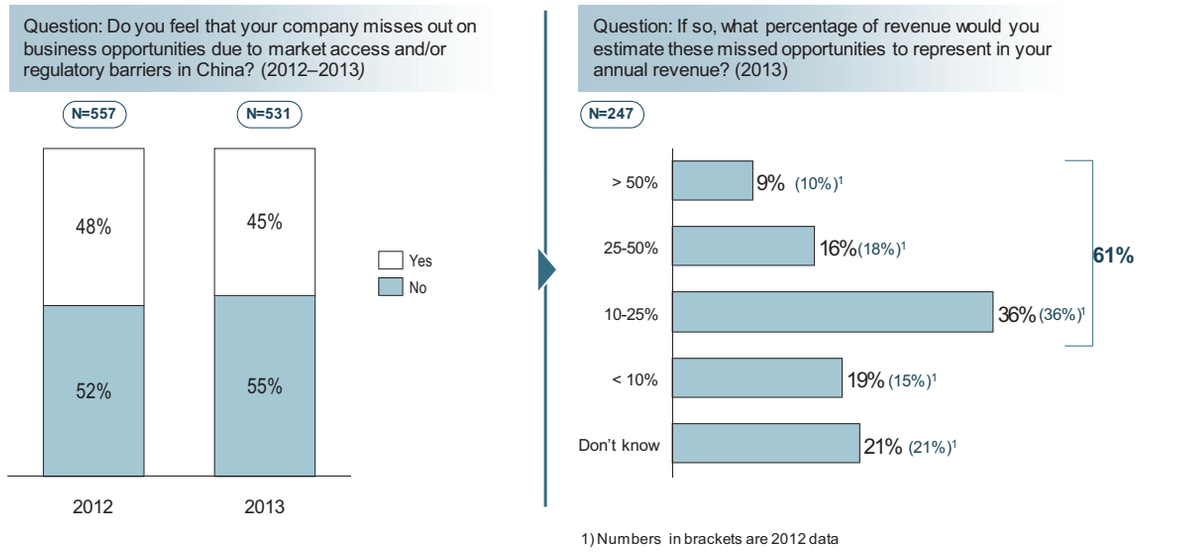
76% of companies identify rule-of-law & transparent policy making as a significant key driver of China's economic performance

68% of companies regard the promotion of fairer competition and fewer monopolies as a significant key driver of China's economic performance

> ... But unsure about the prospects for significant reforms

50% of respondents are unsure that China's leadership will address significant reforms

Figure 23: **Impact of regulatory barriers on European companies**

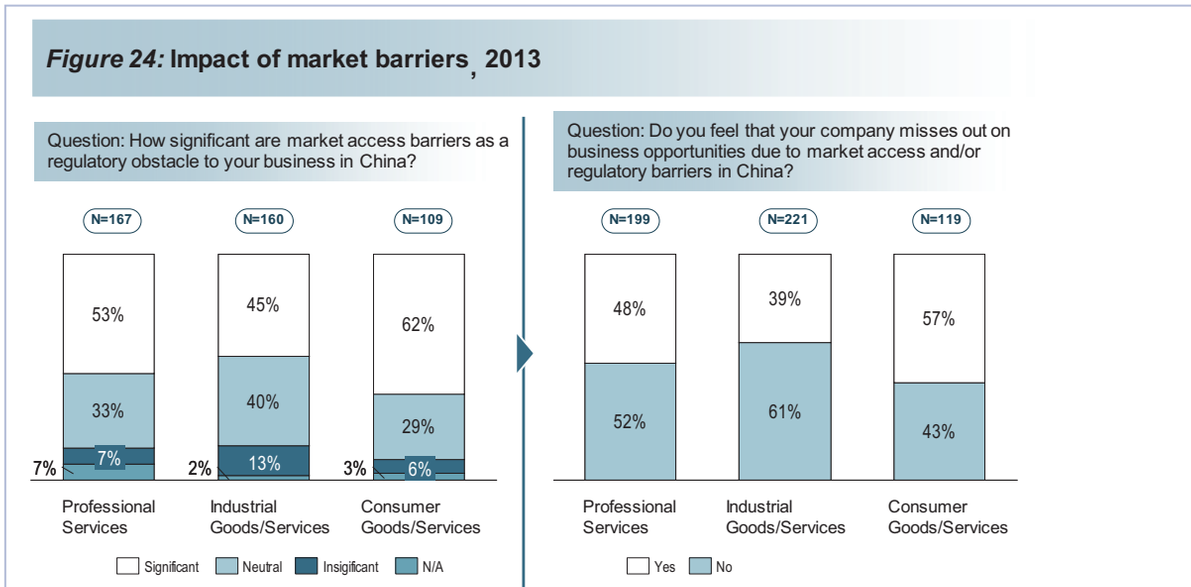


Consumer goods/services companies are impacted to a greater degree by these barriers than professional services and industrial goods/services firms:

- 62% of consumer goods companies rated regulatory barriers as significant (compared to an overall industry average of 53%).
- 57% of consumer goods companies identified missed business opportunities due to regulatory constraints, easily the highest among its peer industries.

This is a surprising result, and one that contradicts the widely-held opinion that the consumer goods sector faces fewer regulatory and market access barriers than other industries.

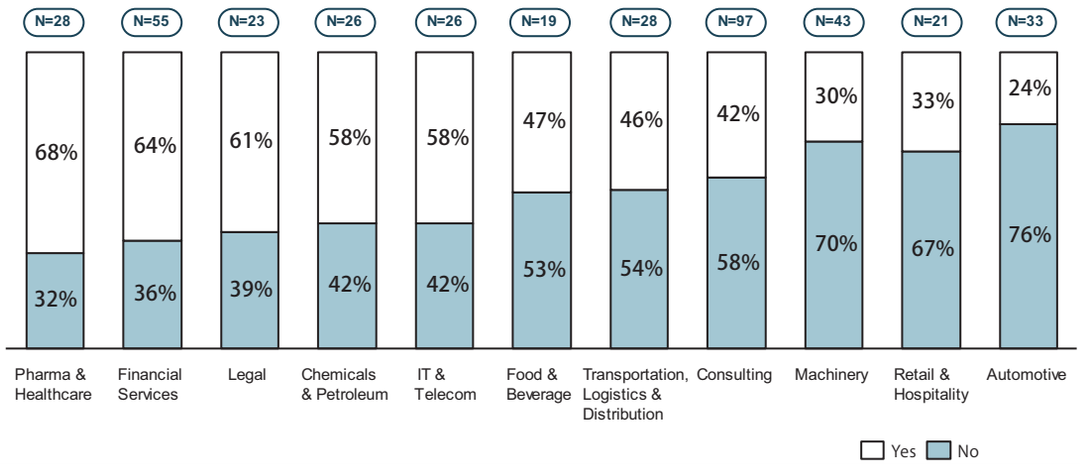
Figure 24: **Impact of market barriers, 2013**



However, it should be noted that of the 165 companies that are identified as consumer goods companies in this survey, most operate in the financial services or pharmaceutical & healthcare sectors.These are more heavily regulated than most other consumer goods sectors.

Figure 25: **Sentiment of missed opportunities among sectors, 2013**

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



In an effort by China to nurture its domestic financial institutions, market barriers within the financial services seem more pronounced than in other areas, although the pharmaceuticals & healthcare industries are hard hit too. Due to enhanced regulatory scrutiny and additional approvals required of foreign institutions, 64 per cent of respondents in the financial services and 68 per cent in the pharmaceuticals & healthcare sector stated that they have suffered missed business opportunities due to market access and/or regulatory barriers in China (compared to overall average of 62 per cent).

Figure 26: **Perception of government policies affecting business environment for FIEs tomorrow, 2011–2013**

Question: How will government policies affecting the business environment for FIEs change in the next two years?

2011-2013 Evolution		N=596 2011	N=557 2012	N=531 2013
Will increasingly discriminate against FIEs	↑	9%	13%	13%
Will generally be much less fair	↓	37%	30%	15%
Will be as fair as now	↑	17%	16%	25%
Will generally be much more fair	↑	12%	16%	21%
Will increasingly discriminate in favour of FIEs	↓	1%	4%	2%
No opinion	↑	23%	24%	24%

The share of companies that expect only limited improvements to regulatory barriers affecting FIEs is growing. For example, 25 per cent of respondents believe government policies two years from now will be as fair as they are now, compared with 16 per cent last year. Some 28 per cent believe that they will continue to discriminate further, 21 per cent think that they will become fairer and 24 per cent have no opinion. This view reflects a lack of hope and a pervasive uncertainty regarding further liberalisation amidst China's struggle to sustain its rapid economic growth.

3 CHINA REMAINS A KEY MARKET

China continues to be a key market for European companies and remains a crucial element in their global business strategy. However, in order to continue to operate successfully in China they are forced to adapt to changing market conditions.

3.1 China is a priority in companies' global strategies

While market conditions are changing and competition is increasing, China is still key in European companies' global strategies. This is supported by the fact that 94 per cent of respondents stated that China was either increasingly important in their global strategy or has the same level of importance as it did the previous year.

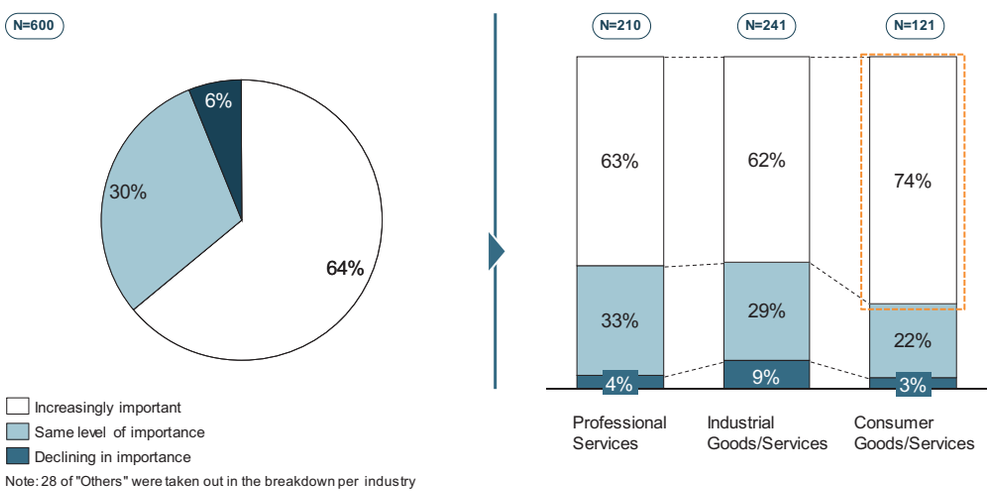
Reasons commonly cited as to why China is still largely important for companies' global strategies are the opportunities in the Chinese market:

"The Chinese market offers opportunities of which the other markets can only dream."

"China is seen as one of the most promising markets of strategic importance and has huge potential for growth."

Domestic consumption is key in driving Chinese GDP. The benefit of this is visible in the consumer goods and services industry where 74 per cent of companies consider China be an increasingly important market, compared to the average of 64 per cent.

Figure 27: **Importance of China in companies' overall global strategies, 2013**
Question: How would you currently characterise the importance of China in your company's overall global strategy?

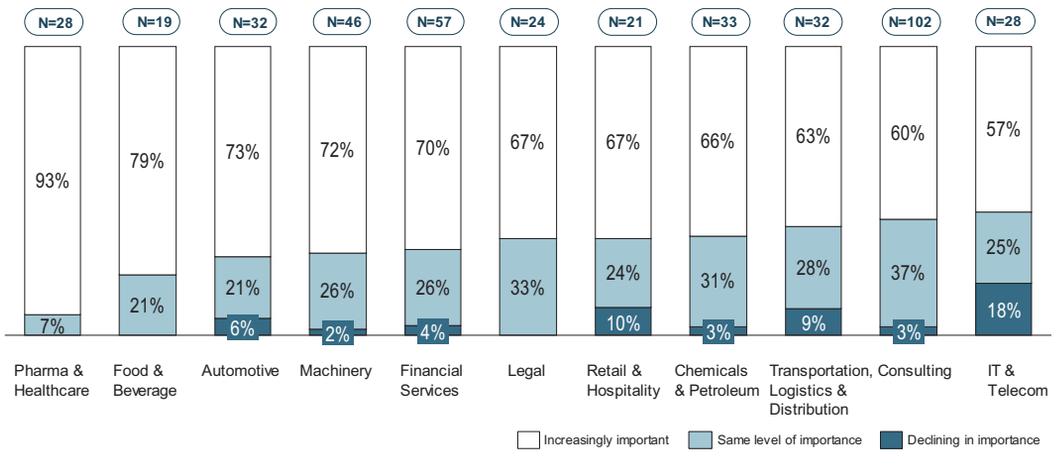


Note: 28 of "Others" were taken out in the breakdown per industry

Some sectors more than others perceive China to be increasingly important:

- Among industrial companies, 72% of machinery companies stated China was becoming increasingly important in their company strategies, and 73% of automotive companies.
- Among consumer goods companies, 70% of financial services stated China was becoming increasingly important in their company strategies, 93% of pharmaceutical companies, and 79% of food & beverage companies.

Figure 28: **Importance of China in companies' overall global strategies among sectors, 2013**
Question: How would you currently characterise the importance of China in your company's overall global strategy?

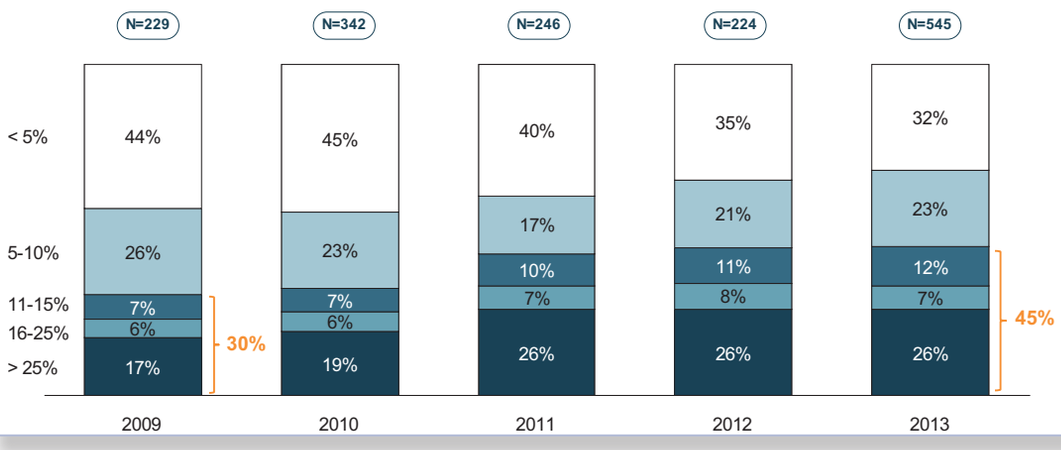


China is a pillar for generating global revenue

As the Chinese market grows, European companies' share of revenue from China continues to rise and continues to contribute significantly to the proportion of global sales:

- In 2009, less than a third of respondents reported a percentage of global revenue generated in China of higher than 10%; this year the number has reached 45%.

Figure 29: **Proportion of companies' global revenues generated in Mainland China, 2009–2013**
Question: What proportion of your global revenue was generated in Mainland China this past year?



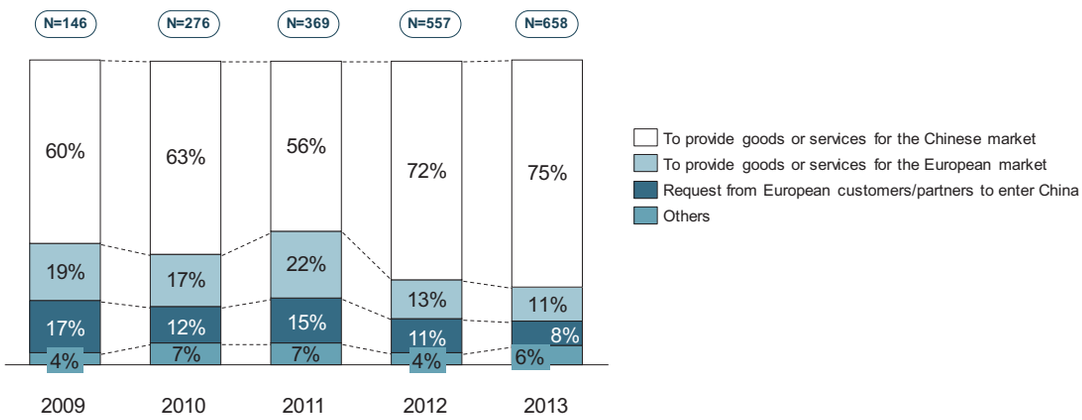
- More than a quarter of companies stated they were generating 25% or more of their global revenues in China, compared to 17% in 2009.

In China for China, betting on domestic consumption

It is evident that European companies are in China for China, particularly because they see great opportunities arising from domestic consumption. The number one reason for operating in China for three quarters of respondents was to provide goods or services for the Chinese market. Five years ago, only 60 per cent of companies listed that same reason as their top strategic reason for doing business in China.

Domestic consumption was identified as the joint second most significant driver of the Chinese economy. Sixty-eight per cent of companies indentified domestic consumption as being a significant potential driver.

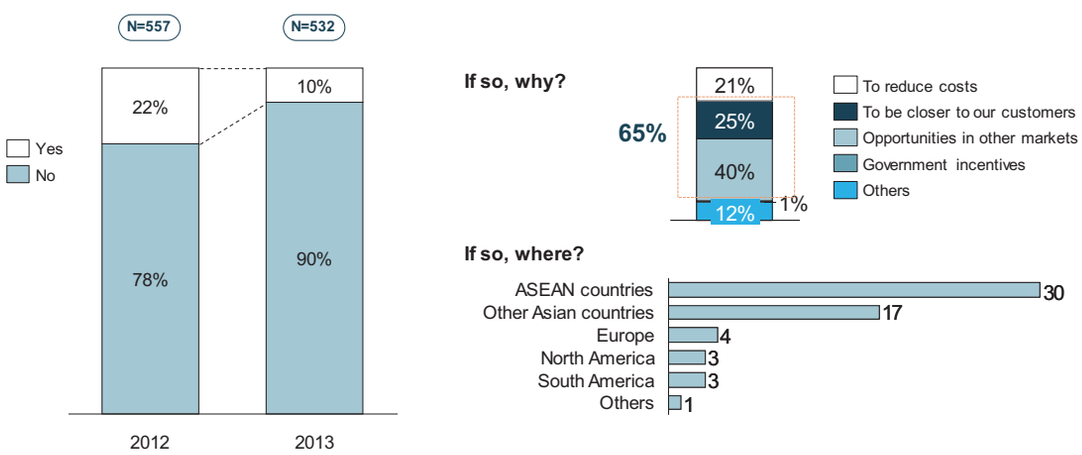
Figure 30: **Providing goods and services for the Chinese market as top strategic reason for operating business in Mainland China, 2009 – 2013**
Question: What are the strategic reasons for your company operating its business in Mainland China?



Staying committed to China

European companies are committed to the Chinese market and are planning to stay. In last year's survey, 22 per cent of companies considered moving current or planned investments in China outside PRC. In 2013, this has fallen to 10 per cent.

Figure 31: **Companies considering moving investments to markets outside PRC, 2013**
Question: Are you considering shifting current or planned investments in China to other markets?



Moreover, these 10 per cent are generally underperforming: Companies that saw their EBIT decrease substantially in 2012 (>20 per cent) are more likely to say they are planning to shift investments to other markets (21 per cent vs 10 per cent) than more profitable companies.

It also appears that these 10 per cent are more likely to lack confidence in the new leadership. Firms that are not confident in the new leadership's ability to address significant economic reforms are more likely to shift investments to other markets (15 per cent vs 10 per cent).

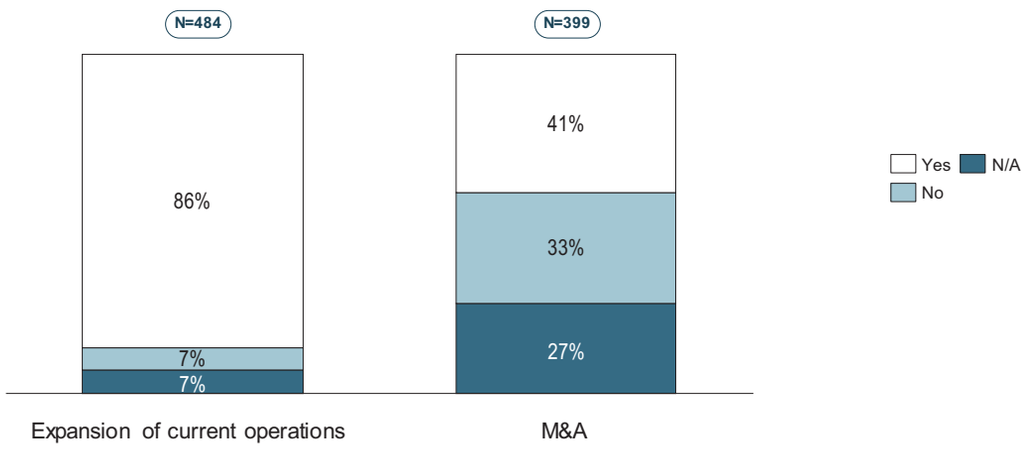
3.2 European companies respond to the changing market conditions in China

Expansion and investment

Companies see value in scale and plan to keep investing in China, betting on growing domestic consumption and a growing need to be closer to their market:

- 86% of respondents said they are considering expanding their current operations;
- 41% are considering mergers and acquisitions.

Figure 32: **Plans for investing in China, 2013**
Question: What form of investment are you considering?



Western China is of growing interest for European companies. Two of the top-three destinations for expansion are located in the Western PRC provinces: Sichuan placed as the top destination for planned expansions (85 companies), and Chongqing as number three (70 companies).

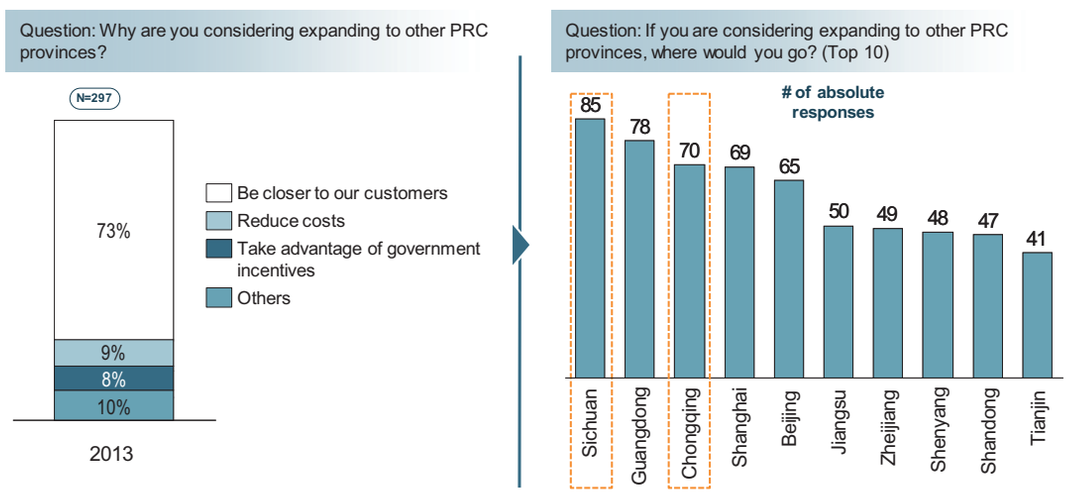
Coastal areas remain key markets for European companies, and a large number seem to be consolidating their presence by expanding in the more mature markets in the east. Indeed, the remaining eight destinations in the top ten are eastern provinces.

Some areas appear to be favoured by specific industries:

- In Guangdong, consumer goods firms make up for 38% of companies planning to expand in the area, in Shandong the figure is 40%.
- In Chongqing, industrial firms make up for 44%, 50% in Jiangsu, 57% in Zhejiang, 48% in Shenyang and 41% in Tianjin.

Of the companies considering expanding to other provinces, the majority (73 per cent) are expanding to other provinces to be closer to their customers.

Figure 33: **Where and why companies are considering expanding to other provinces, 2013**

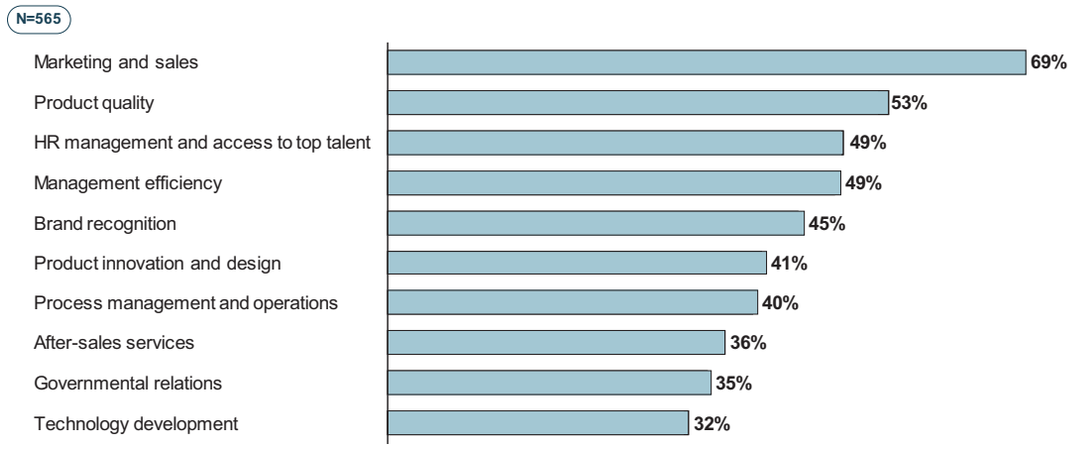


Investment to improve areas of strength

European companies plan on investing in areas where they have traditional strongholds to keep their edge over local competitors.

Figure 34: **Companies' priorities for development/improvement over the next two years, 2013**

Question: In which areas does your company plan to invest in the next two years? (top 10)



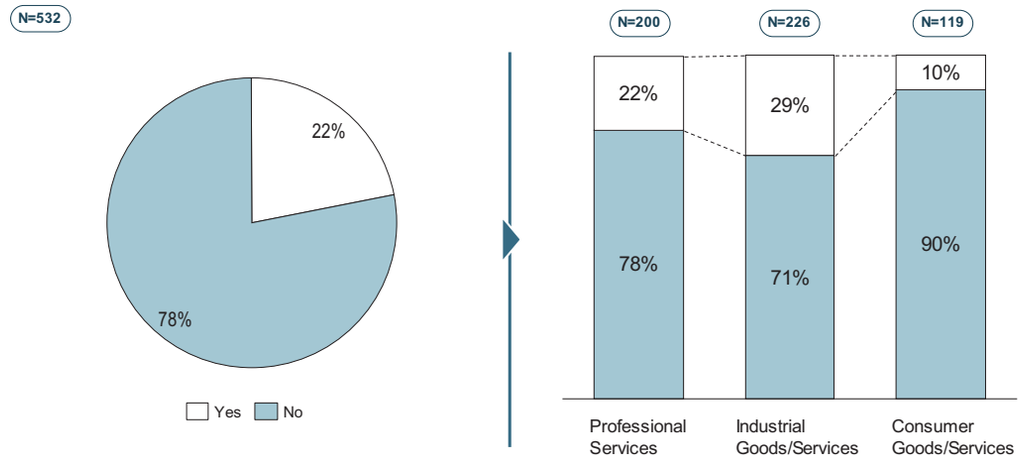
As Chinese companies become more experienced in marketing and sales, European companies are stepping up investment in these areas.This is indicated by 69 per cent of respondents choosing this as a high priority in terms of development.

In order to counteract price competition, European companies are investing in other areas of strength including product quality and brand recognition (second and fifth priorities for investment, respectively).

Efficiency is also becoming a significant concern for surveyed companies, with 49 per cent planning to invest in management efficiency and 40 per cent in process management and operations. This is a logical response to an environment of slower revenue growth and rising costs.

Rationalising costs in China

Figure 35: **Plans for cutting costs in China, 2013**
Question: Do you plan on making cost cuts in China this year?

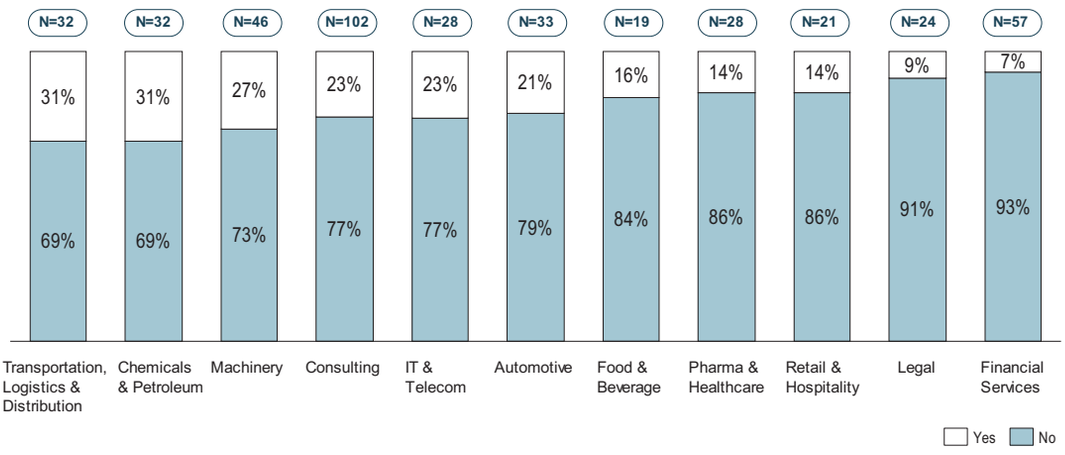


Note: 27 of "Others" were taken out in the breakdown per industry

This year, 22 per cent of respondents said they are planning on cutting costs in China. This number is higher than last year when just 14 per cent of respondents said they would prioritise decreasing costs over increasing revenues.

Results vary when breaking down the data among industries: industrial companies are much more likely to reduce costs (29 per cent answered "yes") while only 10 per cent of consumer goods firms plan on doing so as the domestic consumption outlook remains high on the agenda.

Figure 36: **Plans for cutting costs in China among sectors, 2013**
Question: Do you plan on making cost cuts in China this year?

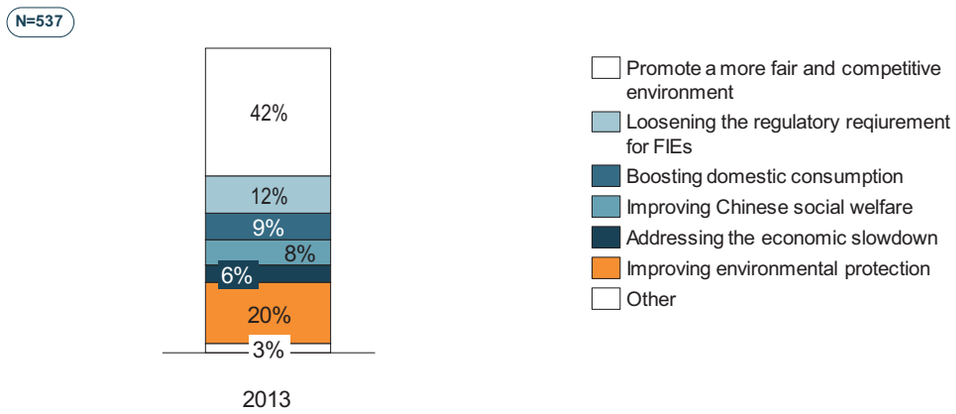


3.3 Expectations and uncertainty

Improve the regulatory environment and promote fairer competition

While companies clearly show a strong commitment to the Chinese market, they do so with certain expectations regarding regulatory reforms.

Figure 37: **Expectations of the TOP priority from the new leadership, 2013**
Question: What companies would you like to see as the TOP priority from the new leadership?



The most prominent expectation of European companies for the new leadership is improving the regulatory environment and the general attitude towards foreign companies. Some 42 per cent of respondents would like to see the promotion of a fairer and more competitive environment as a top priority from the new leadership.

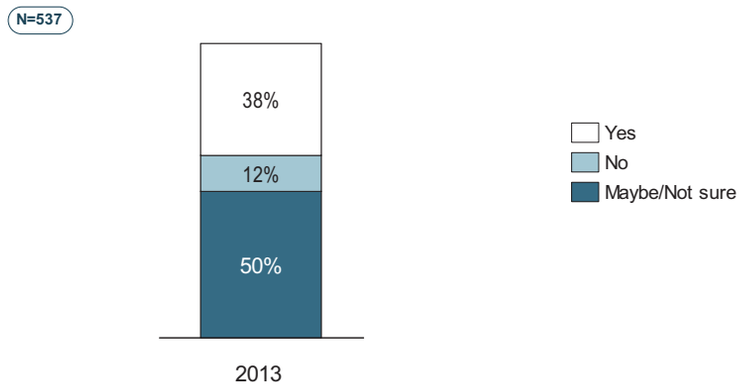
Environmental protection is clearly an important issue for European companies too. Twenty per cent chose improving environmental protection as their top expectation towards the new leadership, making it the second highest priority. At the same time, 65 per cent believe that the implementation of environmental regulations will be a significant driver for economic growth in the future (see Figure 19).

Uncertainties about the new leadership

It appears that European companies are not fully convinced of the new leadership's determination to introduce significant economic reforms. Only 38 per cent of respondents believe that the new leadership will implement significant economic reforms.[1]

Figure 38: **Confidence in the new leadership's resolve to address significant economic reforms, 2013**

Question: Are you confident the new leadership in Beijing will address significant economic reforms?



The results in section three clearly show the continued importance of China for European companies, with many companies earning a significant and growing share of their revenues in China.This makes the Chinese market increasingly important for European companies.

But the domestic Chinese outlook is not as bright as it used to be. Challenging market conditions in China are forcing many companies to react. Many are planning to expand to other provinces and to invest in areas of strength in order to better face competitors. A growing number are also planning to cut costs.

European companies face significant regulatory challenges and discriminatory regulations that put foreign players at a disadvantage over domestic competitors. Many companies hope that the new leadership will be able to push through economic reforms that ensure fair competition. However, most respondents are not yet convinced that this will happen.

1 2013 BCS Survey was conducted in March, no official announcements had yet been made by the new leadership

4 CONCLUSION

China has in large part picked up the slack since the onset of the global economic crisis, contributing substantially more to global growth than any other country since 2007. Nonetheless, China's economy is also slowing and business is getting tougher. European companies in China are not immune to these tougher times. Financial performance has seen a clear downturn overall as fewer European companies are reporting profitability and growth of revenues. While companies are still largely optimistic about the growth prospects for their business sectors in China, the optimism has dropped to its lowest level since 2009 and to substantially lower levels than pre-crisis years. Most tellingly, European companies are less optimistic about future profitability in China than ever before.

While the economic slowdown, both globally and now also in China, is certainly an important contributing factor, there are many domestic factors, such as increased competition and a talent war, in China's business environment that negatively impact financial performance and confidence of European companies. Local players are further improving in areas where foreign enterprises have long held dominance and there is little hope that the competitive landscape will stop getting tougher. The major factor negatively impacting profit margins is a rise in labour costs, although companies regard a talent shortage as the primary HR challenge. While the major difficulty in attracting foreign employees is a lack of willingness to be assigned to China and the major difficulty in retention the living environment, the foremost and highly conspicuous challenge for local talent is high expectations on pay and benefits. Combined with a sentiment that a talent shortage exists, this poses significant risks to the competitiveness of the Chinese market. This can only be countered if productivity growth can keep pace with wage increases.

These challenging market dynamics for European companies are aggravated by a regulatory environment that continues to be demanding. Market access is the key concern and has led to substantial missed business opportunities. Survey responses contradict the government's assertion that China has a level playing field, with European companies judging the policy environment to have continued to be unfair.

Improvements to the rule of law and the promotion of fairer competition and fewer monopolies, alongside promoting domestic consumption, continue to be seen by European companies as the major potential drivers of Chinese economic performance over the next few years. Yet, despite increasing rhetoric from senior Chinese leaders that efforts will be undertaken to transform and level the regulatory environment through allowing greater play to market forces, European companies remain largely unsure whether the new leadership will actually address the serious economic reforms that are necessary.

Despite the serious challenges, European companies are committed to serving the Chinese market and are planning further investments here. The major focus is given to expanding current operations and geographical reach to achieve greater economies of scale. Companies are intent on building upon current capabilities and strengthening in areas where they already hold advantages in order to maintain an edge over local competition. This commitment and the prioritisation of the Chinese marketplace in companies' global strategies will continue as long as China remains a pillar for global revenue generation. However, as China's economy loses some of its steam and wages continue to increase, the need for reform becomes more pressing. Only with implementation of the long-called-for economic reforms can cost increases be mitigated, market opportunities unlocked and a well-functioning and efficient business environment be created.

5 ABOUT THE SURVEY

Survey motivation and design

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

The European Union Chamber of Commerce in China invited its members to take part in the 2013 Business Confidence Survey (2013 BCS) over a two-week period during March 2013. The survey was conducted in cooperation with Roland Berger Strategy Consultants and was published in May 2013. There were 1,403 eligible entities. With 526 respondents completing the survey, the 2013 BCS achieved a response rate of 37 per cent. Of those respondents, 61 per cent participated in last year's survey. This number has increased each year, suggesting an increasing stability in the data set. This also enabled year-on-year comparisons, coupled with new insights identified by first-time participants. To obtain a high response rate, which is an essential feature of high-quality results, the survey was condensed as much as possible while keeping the appropriate questions to make comparisons over time.

An online and password-required survey platform was set up to address the member companies of the European Union Chamber of Commerce in China. The survey comprised 47 questions, grouped under four key themes:

- Company Profile and Statistics;
- Outlook on China, Competition, Company Strategy and Regulation;
- Human Resources;
- Financial Performance.

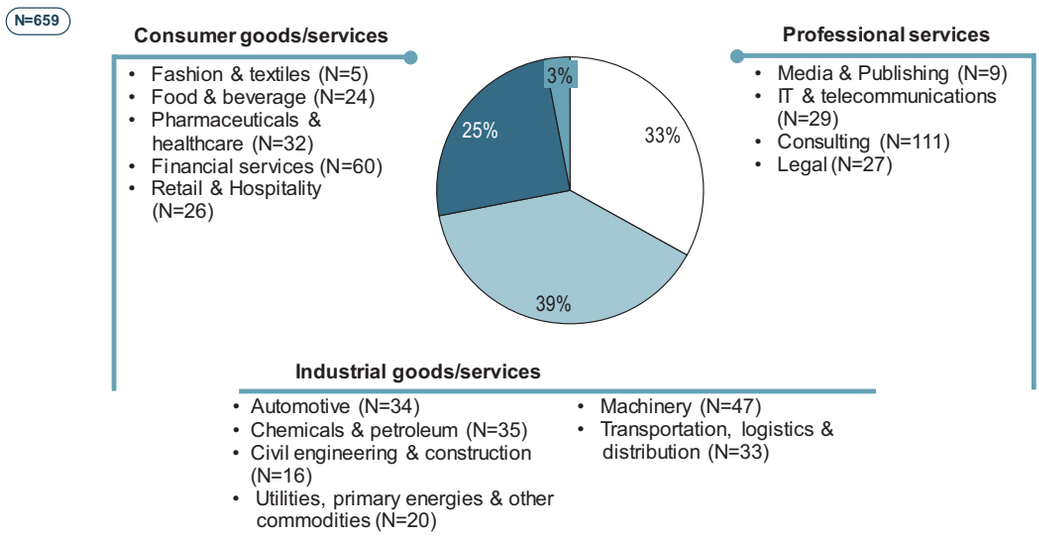
Consistency was one of the motives that guided the design of the questionnaire and the data analysis. We gathered similar data from the previous years so that we could trace and understand the development in strategies and perceptions. We focused on capturing the key issues for European companies operating in China and designed up-to-date questions that are in line with typical 2012 issues European companies faced in China.

6 PANEL OVERVIEW

6.1 Industry

The various industries were represented almost equally in the 2013 BCS, with 33 per cent of respondents operating in the Professional Services sector, 39 per cent in the Industrial Goods/Services sector, and 25 per cent in the Consumer Goods/Services sector. This adds to the quality and representativeness of the data set collected this year. Moreover, 2013 industry breakdown figures are very close to last year's, which were 32 per cent, 37 per cent and 27 per cent respectively.

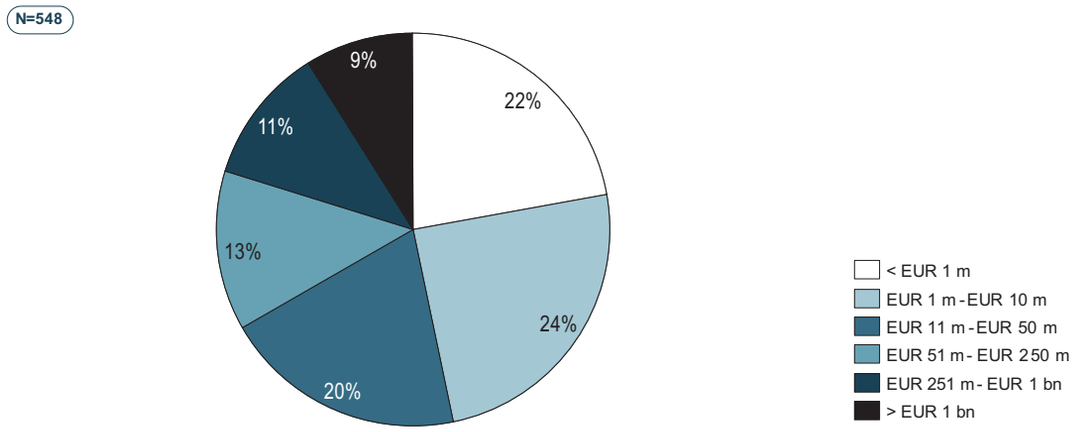
Figure 39: **Industry breakdown of respondents, 2013**
Question: Please indicate the primary sector/industry of your company.



6.2 Revenue, size and time in China

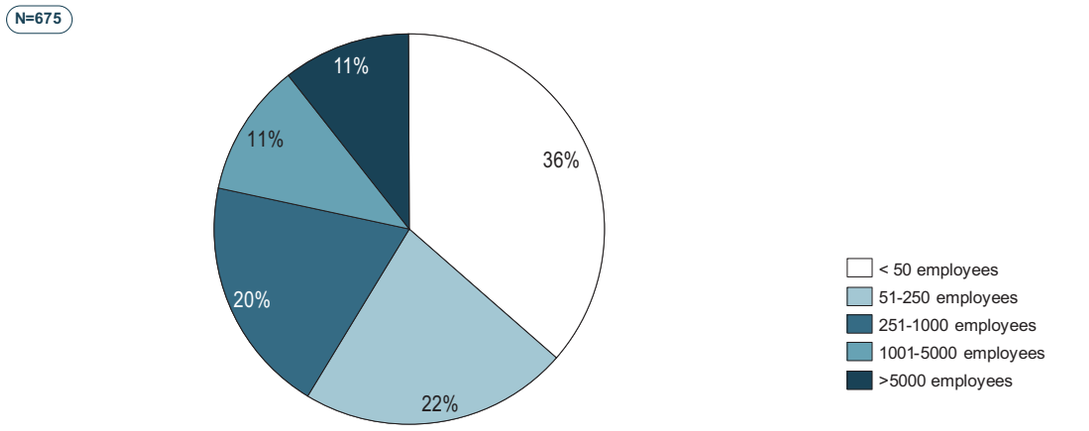
Some 20 per cent of European companies stated they had generated more than EUR 250 million in revenues in China, compared to 19 per cent in the 2012 BCS survey.

Figure 40: **Breakdown of respondents' total revenues in China, 2013**
Question: What was the 2012 total revenue of your company in Mainland China, to the nearest million EUR?



In terms of employees in China, the data set is quite balanced; 58 per cent of the 2013 respondents are SMEs (less than 250 employees) compared to 62 per cent last year.

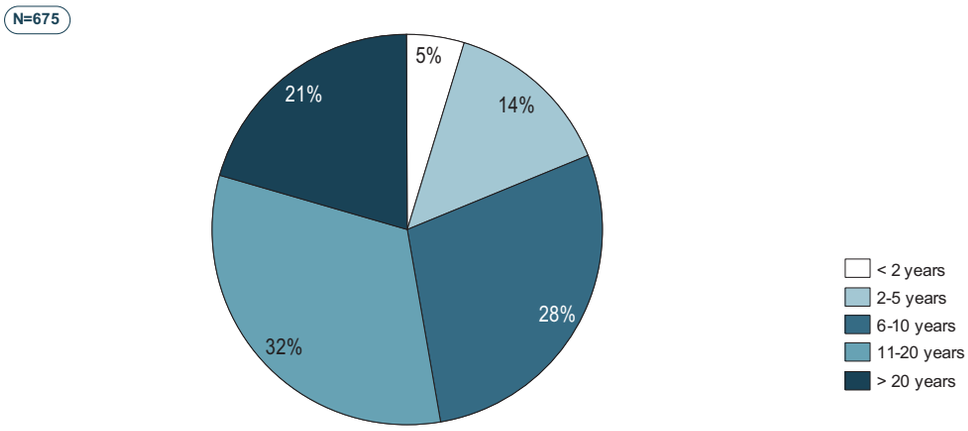
Figure 41: **Breakdown of respondents' total employees in China, 2013**
Question: How many employees do you have in Mainland China?



In 2013, 19 per cent stated they had been operating in China for five years or less, 28 per cent between six to 10 years, and 53 per cent for more than 10 years. These figures are similar to last year's (they were 23 per cent, 27 per cent and 50 per cent respectively) although a slight increase towards longer presence in China can be observed.

European Chamber

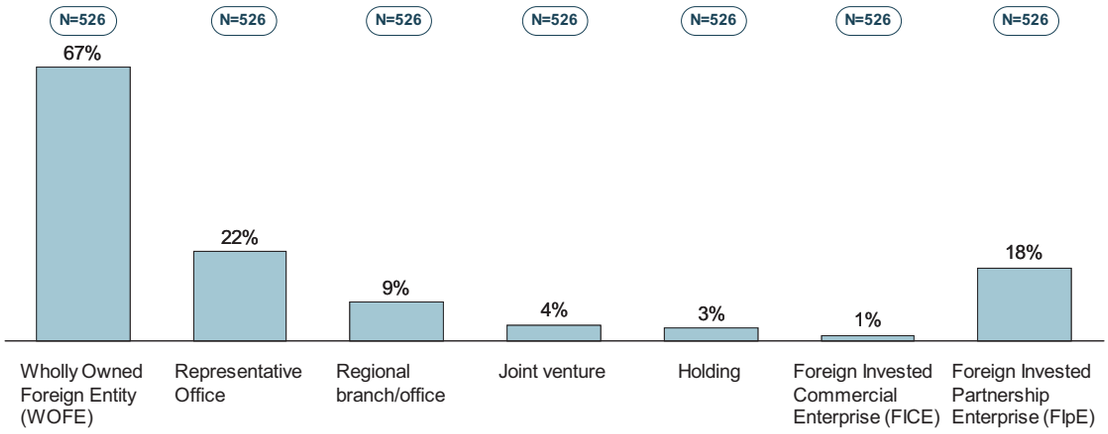
Figure 42: **Years of respondents' operational presence in China, 2013**
Question: How long has your company been operating in Mainland China?



6.3 Legal entities

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

Figure 43: **Legal entities of respondents, 2013**
Question: Under what legal entity or entities is your company registered in Mainland China?



European Chamber

7 FINDINGS BY INDUSTRY SECTOR, SIZE AND TIME IN CHINA

The following groups are analysed below:

Firstly by sector:
- Professional services companies
- Industrial goods/services companies
- Consumer goods/services companies

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

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

7.1 Industry sector

Findings by industry sector – Professional services
Number of professional services companies: N=219

- 36% stated that more than 25% of their global revenue was generated from their business in Mainland China.
- 70% declared their top reason for operating in China is to provide goods and services for the Chinese market.
- 70% reported that their largest customer segment in Mainland China was domestic POEs.
- 21% said revenue generated in China in 2012 has increased by more than 20% compared to last year, 48% mentioned an increase of 5–20%.
- 17% said EBIT generated in China in 2012 has increased by more than 20% compared to last year, 34% mentioned an increase of 5–20%.
- 29% of companies stated that their EBIT margin is lower than company average worldwide.
- 76% stated that they are optimistic about their business outlook in China in terms of growth; 65% are pessimistic in terms of labour costs and 16% are pessimistic in terms of profitability.
- 76% consider China as one of their top-three destinations for new investments today.
- 58% are considering expanding to other PRC provinces.
- 22% are considering cutting costs in 2013.
- 28% judged government policies concerning FIEs to be as fair today as they were two years ago, and 36% judged them to be less fair.
- 48% felt they have missed out on business opportunities in China, 29% of which stated this represented more than 25% of their annual revenues.

Findings by industry sector – Industrial goods/services

Number of industrial goods/services companies: N=255

- 22% stated that more than 25% of their global revenue was generated from their business in Mainland China.
- 81% declared their top reason for operating in China is to provide goods and services for the Chinese market.
- 7% said revenue generated in China in 2012 has decreased by more than 20% compared to last year, 15% mentioned a decrease of 5–20%.
- 9% said EBIT generated in China in 2012 has decreased by more than 20% compared to last year, 20% mentioned a decrease of 5–20%.
- 36% of companies stated that their EBIT margin is lower than company average worldwide.
- 66% stated that they are optimistic about their business outlook in China in terms of growth; 62% are pessimistic in terms of growth and 23% are pessimistic in terms of profitability.
- 63% consider China as one of their top-three destinations for new investments today.
- 44% are considering expanding to other PRC provinces.
- 29% are considering cost cutting in 2013.
- 28% judge government policies concerning FIEs to be as fair today as they were two years ago, and 30% judged them to be less fair.
- 39% feel they have missed out on business opportunities in China, 23% of which stated this represented more than 25% of their annual revenues.
- 23% considered they have suffered significant damage as a result of IPR infringement in China.

Findings by industry sector – Consumer goods/services

Number of consumer goods/services companies: N=161

- 16% stated that 25% of their global revenue was generated from their business in Mainland China.
- 75% declared their top reason for operating in China is to provide goods and services for the Chinese market.
- 33% said revenue generated in China in 2012 has increased by more than 20% compared to last year, 33% mentioned an increase of 5–20%.
- 18% said EBIT generated in China in 2012 has increasedby more than 20% compared to last year, 29% mentioned an increase of 5–20%.
- 36% of companies stated their EBIT margin is lower than company average worldwide.
- 73% stated that they are optimistic about their business outlook in China in terms of growth; 55% are pessimistic in terms of growth and 17% are pessimistic in terms of profitability.
- 48% consider China as one of their top-three destinations for new investments today, 57% for new investments tomorrow.
- 56% are considering expanding to other PRC provinces.
- 8% are considering shifting current or planned investments to other markets outside PRC.
- 10% are considering cutting costs in 2013.
- 31% judged government policies concerning FIEs to be as fair today as they were two years ago, and 28% judged them to be less fair.
- 57% felt they have missed out on business opportunities in China, 22% of which stated this represented more than 25% of their annual revenues.

7.2 Size

Findings for SMEs – Less than 250 employees in China

Number of SMEs: N=396

- The majority of the 2013 survey respondents are SMEs: 59% this year compared to 61% last year.
- 33% said that more than 25% of their global revenue was generated from their business in Mainland China, and 42% reported less than 5%.
- 26% said that revenue generated in China in 2012 has increased by more than 20% compared to last year, 36% mentioned an increase of 5–20%.
- 19% said that EBIT generated in China in 2012 has increased by more than 20% compared to last year, 24% mentioned an increase of 5–20%.
- 36% of companies said that their EBIT margin is lower than company average worldwide, 26% say it is better.
- 22% reported a negative EBIT.
- 68% consider China as one of their top-three destinations for new investments today.
- 52% are considering expanding to other PRC provinces.
- 12% are considering shifting current or planned investments to other markets outside PRC.
- 22% are considering cost cutting in 2013.
- 56% considered market barriers to be a significant challenge to their future business in China.
- 46% felt they have missed out on business opportunities in China, 36% of which stated this represented more than 25% of their annual revenues.
- 59% stated that "high expectations on salary" is the top challenge they face in attracting expats, and 52% felt it is the top challenge when it comes to attracting employees.

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

Number of large companies: N=147

- 21% stated that more than 25% of their global revenue was generated from their business in Mainland China
- 20% said revenue generated in China in 2012 has increased by more than 20% compared to last year, 46% mentioned an increase of 5–20%.
- 7% said EBIT generated in China in 2012 has increased by more than 20% compared to last year, 41% mentioned an increase of 5–20%.
- 32% of companies said that their EBIT margin is lower than company average worldwide, 34% say it is better.
- 58% consider China as one of their top-three destinations for new investments today, 64% for new investments tomorrow.
- 47% are considering expanding to other PRC provinces.
- 10% are considering cutting costs in 2013.
- 52% considered market barriers to be a significant challenge to their future business in China.
- 46% felt they have missed out on business opportunities in China, 15% of which stated this represented more than 25% of their annual revenues.
- 53% stated that a "lack of willingness to be assigned to China" is the top challenge they face in attracting expats, and 60% felt that "high expectations on salary" is the top challenge when it comes to attracting employees.

7.3 Time in China

Findings by time in China
Number of companies operating for less than five years: N=127
Number of companies operating for more than 10 years: N=356

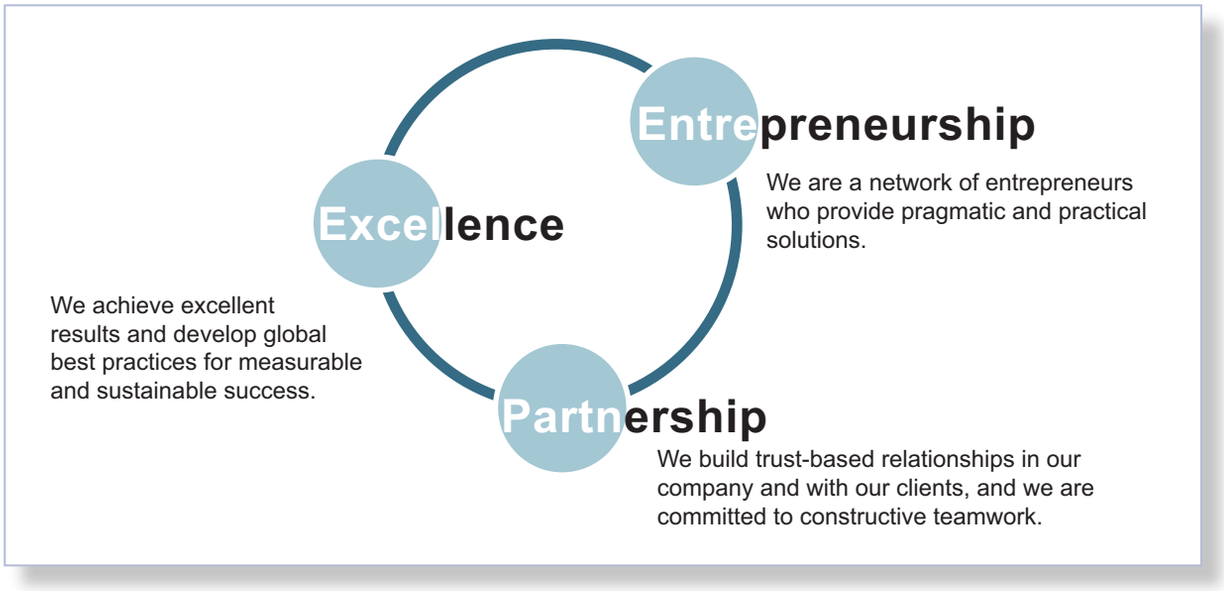
- 19% of respondents have been operating in China for less than five years and 53% have been operating for more than 10 years.
- 33% of companies that have been operating in China for less than five years said their Chinese revenue represented more than 25% of their global revenue, compared to 22% for companies that have been operating for more than 10 years.
- 34% of companies that have been operating in China for less than five years said their China revenue increased by more than 20% compared to last year, compared to 16% for companies that have been operating for more than 10 years.
- 26% of companies that have been operating in China for less than five years assessed their profitability margin in China to be better than company worldwide, compared to 38% for companies operating for more than 10 years.
- 52% of companies that have been operating in China for less than five years reported a positive EBIT, compared to 72% for companies operating for more than 10 years.
- 71% of companies that have been operating in China for less than five years consider China as one of their top-three destinations for new investments today, compared to 68% for companies operating for more than 10 years.
- 58% of companies that have been operating in China for less than five years are considering expanding to other PRC provinces, compared to 49% for companies operating for more than 10 years.
- 80% of companies that have been operating in China for less than five years are optimistic about their business outlook in China in terms of growth for their sector, compared to 70% for companies operating for more than 10 years.
- 35% of companies that have been operating in China for less than five years are optimistic about their business outlook in China in terms of profitability, compared to 28% for companies for more than 10 years.
- 50% of companies that have been operating in China for less than five years feel pessimistic about their business outlook in China in terms of labour costs for their sector, compared to 64% for companies operating for more than 10 years.
- 41% and 36% of companies that have been operating in China for less than five years and more than 10 years respectively stated "talent shortage" as their top HR challenge.

8 ABOUT ROLAND BERGER STRATEGY CONSULTANTS

Background

Roland Berger Strategy Consultants, founded in 1967, is one of the world's leading strategy consultancies. With over 2,700 employees working in 51 offices in 36 countries worldwide, it has successful operations in all major international markets. The strategy consultancy is an independent partnership exclusively owned by about 250 partners. The Chinese market is a key pillar of its international expansion. Since our first project in China in 1983, the consultancy has grown rapidly: The five Chinese offices (Shanghai, Beijing, Hong Kong, Taipei and Guangzhou) now have 360 consultants dedicated to working extensively with both leading Chinese and international companies.

Roland Berger Strategy Consultants is committed to three core values:



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

These capabilities help its clients to improve their global competitiveness and obtain better development opportunities in China.

9 ABOUT THE EUROPEAN UNION CHAMBER OF COMMERCE IN CHINA

Purpose

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

Services

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

Principles

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

General Background

The European Union Chamber of Commerce in China was originally founded by 51 member companies based in China on 19th October 2000. The rationale for the establishment of the Chamber was based on the need of the European Union and local European businesses to find a common voice for the various business sectors. The European Chamber has a total of more than 1,700 members in seven chapters, ten offices: Beijing, Southwest China (Chengdu and Chongqing), Nanjing, Pearl River Delta (Guangzhou, Shenzhen and Zhuhai), Shanghai, Shenyang and Tianjin. The Chamber is recognised by the European Commission and the Chinese authorities as the official voice of European business in China.

The European Chamber is an independent member-driven, non-profit, fee-based organisation with a core structure of more than 43 Working Groups and Fora representing European business in China. The Chamber is directed by a President and an Executive Committee elected each year by and from its members.

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