



European Chamber
中国欧盟商会

European Business In China Business Confidence Survey



Roland
Berger



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EXECUTIVE SUMMARY

China's economic slowdown continues to pose a significant challenge to both Chinese and European companies.¹ However, a business environment that is increasingly hostile combined with a playing field that is perpetually tilted in favour of domestic enterprises means the effects of the slowdown are intensified for European business. Beijing's failure to deliver on promises that foreign-invested enterprises (FIEs) will enjoy a more open, competitive market has triggered a fresh wave of pessimism, with 41% of European companies now re-evaluating their China operations and planning to cut costs, including through headcount reduction.

More than half of the respondents in the *Business Confidence Survey 2016* report that doing business in China is becoming more difficult year-on-year. Entrenched anti-competitive policies and a failure to enact tangible reforms in crucial areas such as rule of law, eliminating local protectionism, removing market access barriers, reigning in overcapacity and tackling high levels of domestic debt are just some of the key reasons. To date, the symbolism of the Third Plenum's *Decision*² has trumped substance.

Pessimism about the business outlook for China operations of European companies has reached an all-time high, with 31% of respondents bearish about their profitability – an eight-point increase over 2015 figures. Another 15% of respondents report concern about company growth, which is seven percentage points higher than last year. Anxiety over the increasing difficulties of conducting business in China is particularly pronounced in the information technology and telecommunications, machinery and chemicals sectors. Additional market access barriers account for the first two sectors, whereas as a continued worsening of overcapacity accounts for the latter.

After 35 years of dynamic economic development it is natural that the pace of growth should ease off in China, a process that is already well underway. Despite this, China remains a significant investment destination for European companies with 47% reporting that they plan to expand their operations. However, it is noteworthy that this represents a nine-point decrease from 2015. Furthermore, only three years ago a staggering 86% of European companies were intending to expand operations, which provides an even more sobering perspective.

In fact, European investment in China is down about 9% overall from 2014, to EUR 9.3 billion in 2015, suggesting that China is losing its privileged position in the investment portfolios of many European companies. This contrasts starkly with the staggering EUR 20 billion that China invested in Europe in 2015, a 44% leap from 2014.³ However, while the slowdown in economic growth is the primary reason that respondents are scaling back their investment plans, concerns over the nation's growing debt, slowing exports and dwindling returns on investment—particularly in sectors burdened by overcapacity⁴—make it clear that this is by no means the only reason.

As China looks to ease the transition of its economic model towards one based on qualitative growth, the government has repeatedly promised to enact reforms aimed at shifting the market to the heart of the nation's economy. But here too European firms have been disappointed with the resolve that has been demonstrated. In fact, it often seems that Beijing is moving in the opposite direction, promulgating vaguely-worded, security-related laws⁵ and strangling Internet access to the point of harming domestic as well as international businesses.

1 It is important to note that this slower growth is in part due to a higher economic base after three decades of breakneck development.

2 *Decision of the Central Committee of the Communist Party of China on Some Major Issues Concerning Comprehensively Deepening the Reform, (Decision)*, China.org.cn, 16th January, 2014, viewed 25th April, 2015, <http://www.china.org.cn/china/third_plenary_session/2014-01/16/content_31212602.htm>

3 *A New Record Year for Chinese Outbound Investment in Europe*, Rhodium Group, February, 2016, viewed 19th April, 2016, <http://rhg.com/wp-content/uploads/2016/02/A_New_Record_Year_for_Chinese_Outbound_Investment_in_Europe.pdf>

4 A highly significant 92% of respondents believe that a commitment to utilising market forces is necessary if overcapacity issues in China are to be successfully resolved.

5 Over the past year China has drafted or issued a slate of national-security-related legislation, such as the National Security Law, the Counter-terrorism Law, the Cyber Security Law and the *Trial Measures for the National Security Review of Foreign Investments in China's Pilot Free Trade Zones*. Common to these laws and regulations is vague wording and a broad scope, which combine to create a great deal of uncertainty for business. In a press release dated 3rd June, 2015, the European Chamber said that in sum these laws amount to a "massive national security overreach".

Yet in the face of these considerable challenges European companies have continued to post reasonable business performance overall, with more than half of the respondents reporting increased revenues for 2015. This is indicative of the tenacity of European companies and their experience in successfully navigating choppy economic waters. Most European firms also remain committed to China with only 11% of respondents saying they have made plans to shift investment to other markets, although 41% anticipate having to cut costs in response to the current business climate. As previously alluded to, headcount reduction is one of the primary methods that will be used to decrease overheads.

Although pronouncements made in the *Decision* committing to a market economy, and gradualist reform efforts such as the once-hailed pilot free trade zones initially piqued great interest among European companies, the absence of concrete developments has deepened their disillusionment in China's reform agenda, the extent of which can be seen from the following figures:

- 56% of respondents are of the view that doing business in China has become more difficult, a five-point increase from 2015.
- 57% report that foreign companies tend to receive unfavourable treatment compared to domestic Chinese companies.
- 57% of respondents believe that environmental regulations are strongly enforced against foreign companies, while only 14% think that they are strongly enforced against Chinese state-owned enterprises and only 12% think that this is the case with privately-owned Chinese companies.
- 58% of respondents state that the recent tightening of Internet controls and access restrictions has a negative impact on their business, a 17-point jump from 2015.
- 40% of respondents feel that foreign companies are being discriminated against through recently promulgated national-security-related legislation.
- 70% of respondents feel less welcome in China than they did 10 years ago.

These issues undermine China's efforts to foster the innovation it needs in order to develop more globally competitive companies and new strategic industries. A major area of concern for China is that European companies' investment in research and development (R&D) remains low: only 28% of respondents have a R&D centre in Mainland China, which is indicative of European distrust of China's vague and arbitrary legal system – effective enforcement of intellectual property rights throughout China's provinces is highly inconsistent. Nearly half of respondents report that China's R&D environment is less favourable than the worldwide average, which is reflected in a sharp drop in European companies willing to invest in R&D, from 85% in 2015 to 72% in 2016.

Looking ahead, European business hopes the 13th *Five-Year Plan* (FYP) will be used to guide and support the development of a fairer and more open Chinese marketplace, to the benefit of all. The European Chamber believes that only by creating such conditions will China successfully steer a course through these more economically challenging times. European business also still feels strongly about the Third Plenum's reform promises, though this survey clearly reflects that respondents hold doubts over whether these long-vowed and necessary reforms will ever take place.

European companies are also now counting on a successful conclusion to the EU-China Comprehensive Agreement on Investment negotiations, to improve the business environment and reduce market access barriers. Firms hope to be provided with a clear schedule outlining when they will be able to take greater control of their China-based operations, making it easier to undertake strategic acquisitions as well as allowing them to enter new business areas or product segments.

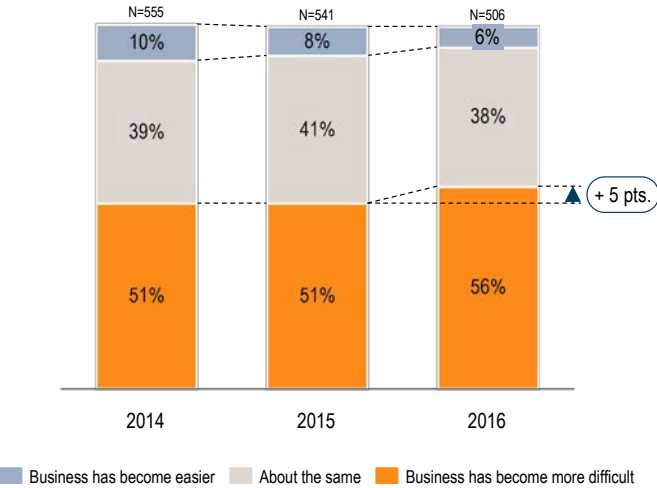
There is an important precedent for this. In 2001, China's accession to the World Trade Organisation (WTO) provided a roadmap and the legal framework that gave more European companies the assurances they needed to either enter the Chinese market or expand their existing operations, leading to a decade of unparalleled growth. We now need to see a new landmark development that will imbue European business with the confidence it needs to recommit to China's future development.

It is telling that the Organisation for Economic Cooperation and Development (OECD) ranked China last among the 58 countries it includes in its Foreign Direct Investment Regulatory Restrictiveness Index. This is not a mere stigma that China needs to shed, it is a very real problem that must be addressed in order to establish and maintain higher quality growth and boost innovation. The Chinese economy is facing increasingly stronger headwinds and needs to attract more high value-add investment from European companies. Substantial market reforms are therefore no longer an option, they are a necessity.

1 EUROPEAN BUSINESS REMAINS RESILIENT IN A CHALLENGING ECONOMY

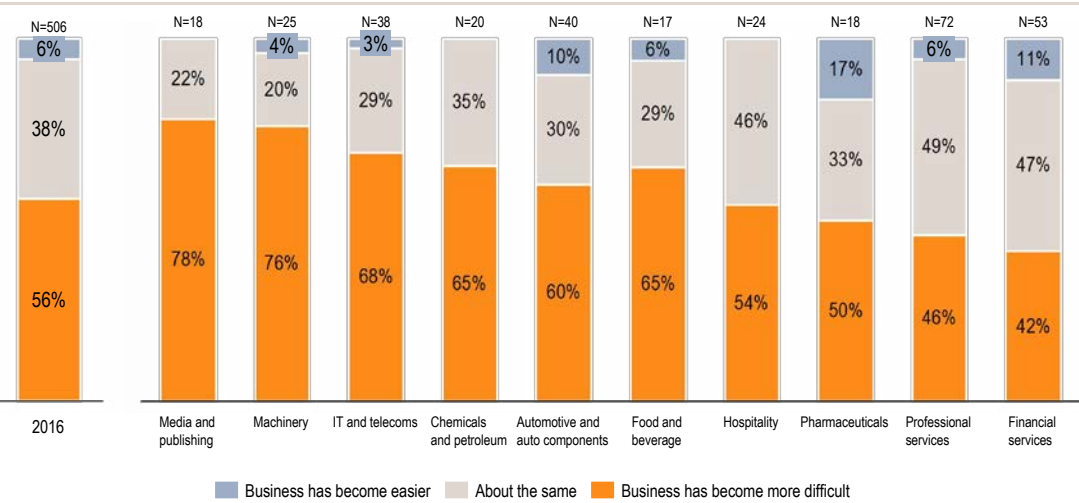
Doing business in China became more difficult for European companies over the course of 2015, representing the continuation of a three-year negative trend.

Figure 1: The difficulty of doing business in Mainland China
How has doing business in China for your company developed in the last year?



When looking at how individual sectors are coping, it is apparent that manufacturing as well as media and publishing—which is subject to limitations resulting from censorship—are suffering the most, while services, perhaps benefitting from the changing composition of China's economy, are faring better.

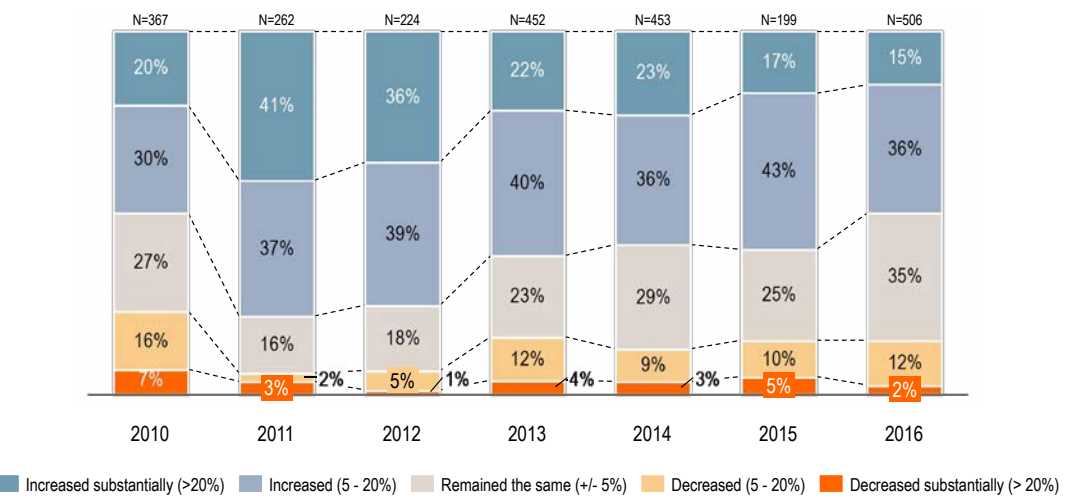
Figure 2: The difficulty of doing business in Mainland China by industry
How has doing business in China for your company developed in the last year?



Growth in revenue is limited

Nearly half of respondents recorded little to no (+/- 5%) or negative (-5% or lower) revenue growth versus the previous year, the highest figure since 2011. While the number of companies reporting a decrease in revenue remains in line with previous years, the number of companies reporting little to no growth in revenues has increased by 10 points since 2015. Furthermore, were it not for the enormous and unsustainable credit expansion in China's economy that took place last year, these numbers would have been worse.

Figure 3: Mainland China revenue 2015 compared to 2014
How did your company's total Mainland China revenue for 2015 compare to 2014?

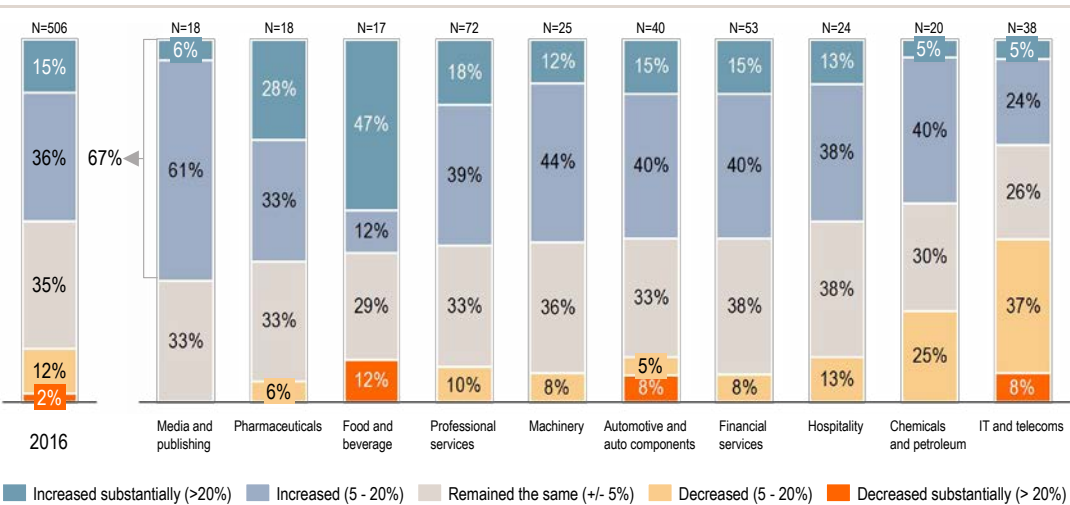


N.B. For all financial data reported by member companies in this survey, the x-axis indicates the year that the information was reported, i.e. 2016 refers to figures from financial year (FY)2015, 2015 refers to figures from FY2014, 2014 refers to figures from FY2013, etc.

This trend hits all industry sectors, but particularly IT and telecommunications, where nearly half of respondents reported a decrease. As this is one of a number of sectors that has been subject to increased restrictions over the past year, it raises concerns over whether this could be the beginning of a trend that will expand into additional industries.

Figure 4: Mainland China revenue 2015 compared to 2014 by industry

How did your company's total Mainland China revenue for 2015 compare to 2014?

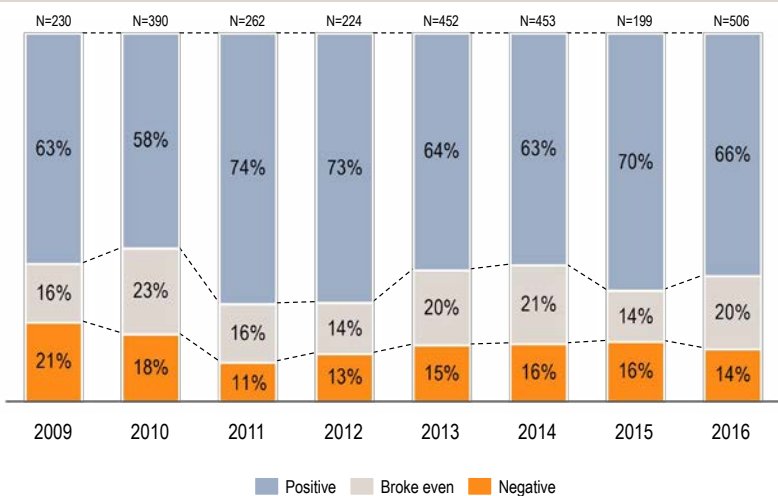


Fewer companies are profitable

In spite of the increasingly challenging economic landscape, two thirds of European companies in Mainland China were profitable in 2015, with an additional one fifth breaking even. This highlights the ability of European business to navigate the complexity of a permanent slowdown, even in the face of market access barriers.

Figure 5: EBIT in Mainland China 2015

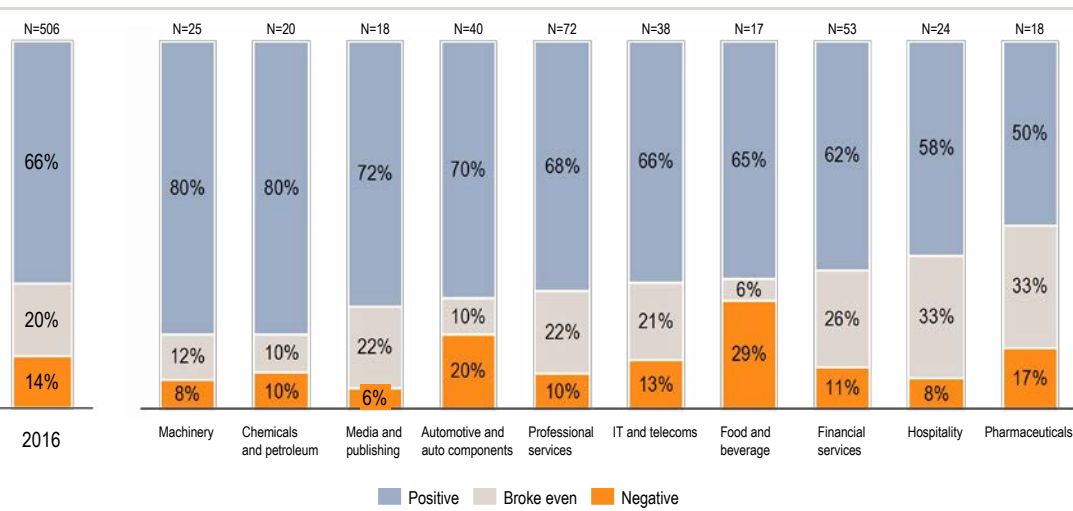
Please characterise your company's earnings before interest and tax (EBIT) in Mainland China in 2015.



The economic slowdown is impacting all industries to varying degrees, with some suffering more than others. Only half of companies in the pharmaceuticals sector had positive earnings before interest and tax (EBIT), an outcome that has been shaped by their inability to compete fairly in public procurements as a result of 'Buy China' policies. Companies in the hospitality industry reported the second-lowest positive figures, and this can in part be attributed to the success of the ongoing anti-corruption drive.

Figure 6: EBIT in Mainland China 2015 by industry

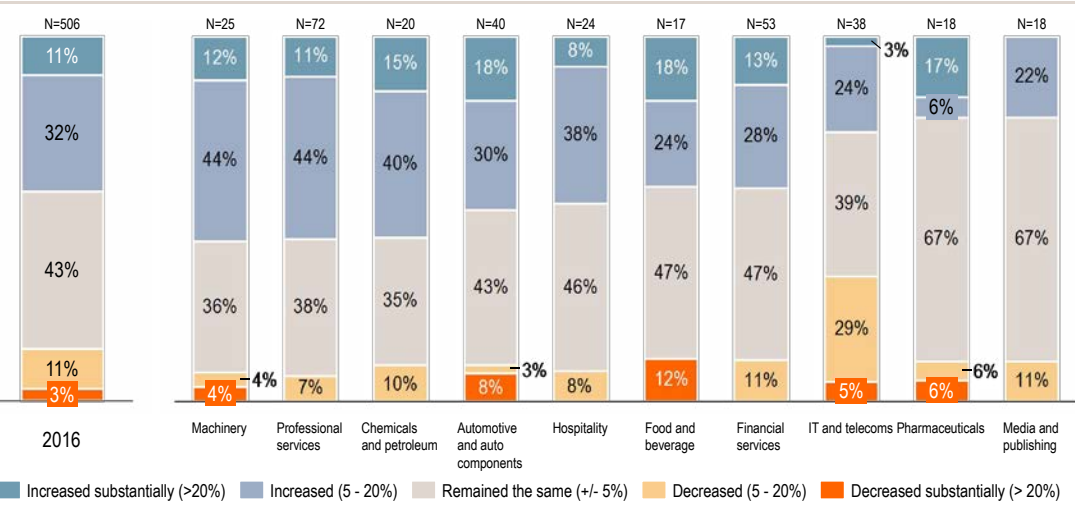
Please characterise your company's earnings before interest and tax (EBIT) in Mainland China in 2015.



EBIT and EBIT margin growth also varies from sector to sector. Nearly one fifth of companies in the automotive and auto components sectors display comparatively strong growth, reporting that their EBIT increased substantially, which can be attributed to China's growing middle class possessing more disposable income to spend on cars. Similarly, the food and beverage industry has benefited from China's middle class spending habits, combined with a greater awareness of food safety issues and an increasing trend towards buying imported food products

Meanwhile, two thirds of respondents from the pharmaceuticals and media and publishing industries report minimal to no growth, with the aforementioned 'Buy China' policies and increased restrictions due to censorship respectively coming into play.

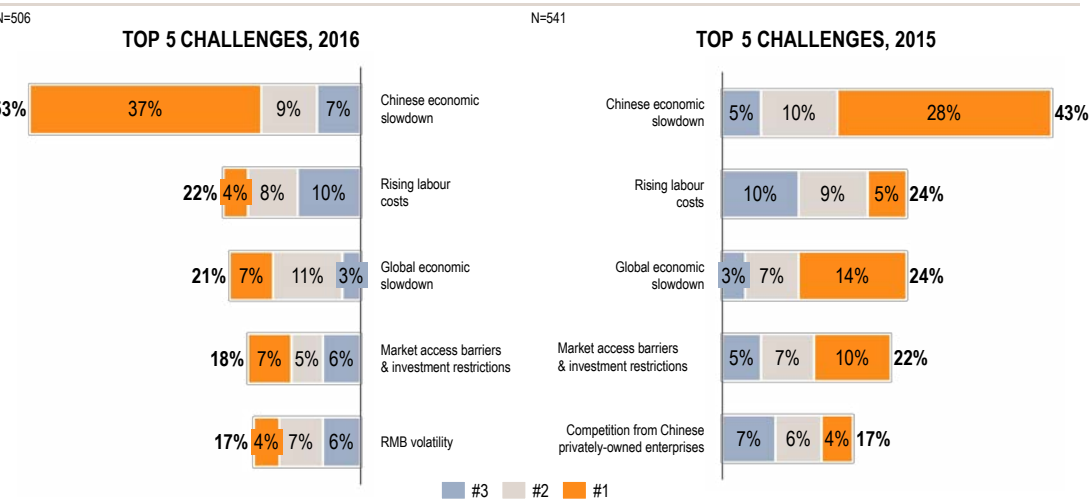
Figure 7: EBIT in Mainland China 2015 compared to 2014 by industry
How did your company's EBIT in China for 2015 compare to 2014?



2 A DIFFICULT ENVIRONMENT GOING FORWARD

The Chinese economic slowdown is the biggest challenge for European companies operating in China. While the slowdown also affects their Chinese counterparts, when combined with market access restrictions and unequal treatment—that to varying degrees their Chinese competitors are free from—the business environment has become far more challenging for European companies.

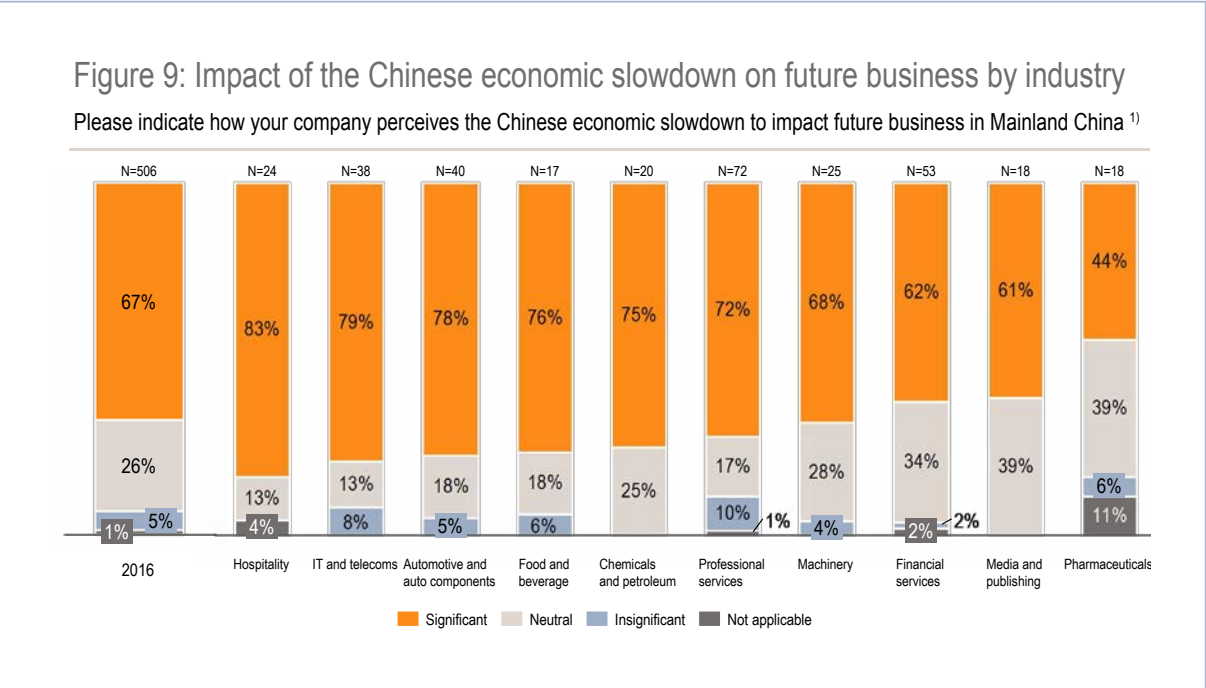
Figure 8: Top challenges impacting future business in Mainland China
Please rank the top three business challenges that you selected as "significant"



The current slowdown does not spare any sectors – a majority of respondents in virtually all industries anticipate that it will have a *significant* impact on future business in Mainland China. It is therefore expected that the worst is yet to come.

The pharmaceuticals industry is the least affected by this trend, with only 44% expecting it to have a significant impact on future business in China. This can be attributed once again to China's growing middle class as well as an ageing society that is increasingly concerned by health issues, some of which result from ongoing pollution problems.

In the hospitality industry, almost twice as many respondents see the economic slowdown as having a significant impact. This is unsurprising in an industry that has also been adversely affected by China's successful anti-corruption drive.

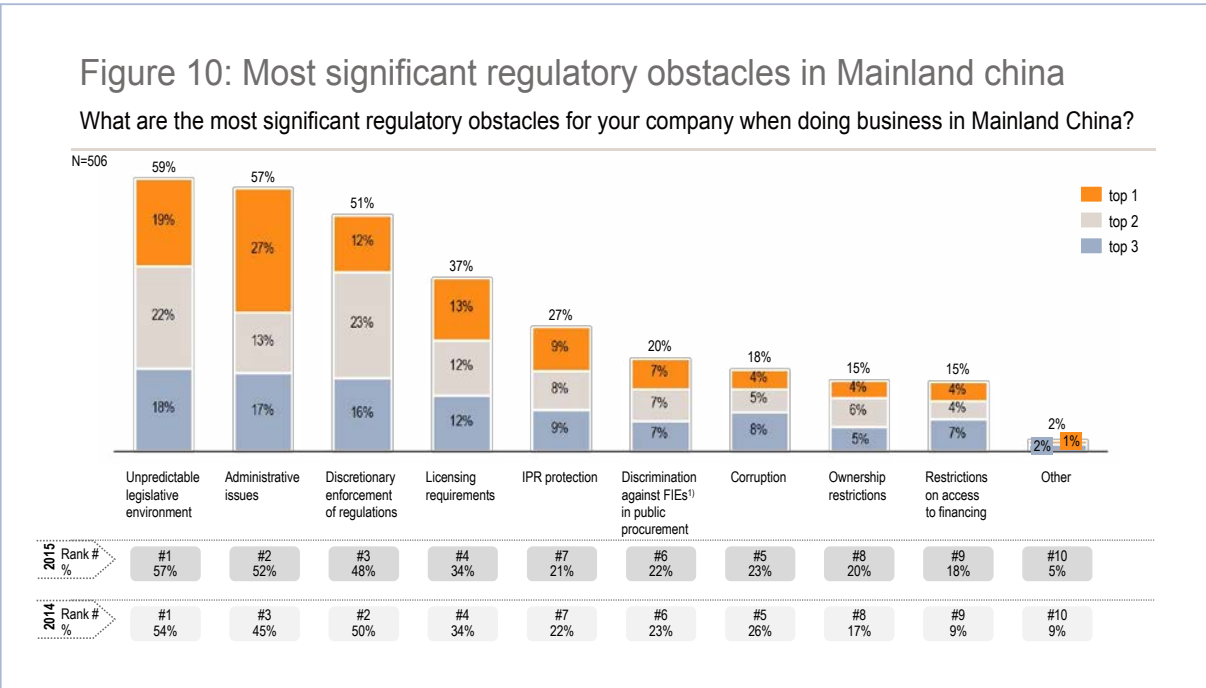


1) Original question was multiple choice: "Please indicate how your company perceives the following challenges to impact future business in Mainland China"

Third Plenum reforms remain stalled: still no level playing field

Year after year, European companies continue to face the same regulatory hurdles, leading them to conclude that reforms are not being implemented, with symbolism trumping substance instead. In fact, this year's top-four regulatory obstacles were exactly the same as those reported in the previous two years.

This remarkable stability of respondents' top concerns raises the question of whether reform efforts are only benefitting Chinese companies without having any positive outcomes for foreign businesses. However, the fact that corruption has fallen out of top five challenges is a welcome development that reflects the success of government measures that have been taken to address this problem.



1) FIEs: foreign-invested enterprises

European business still shackled by restrictions and barriers

Unfortunately, the number of respondents reporting that they have missed out on business opportunities as a result of government actions has also remained largely stable.

Figure 11: Missed business opportunities year-on-year

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

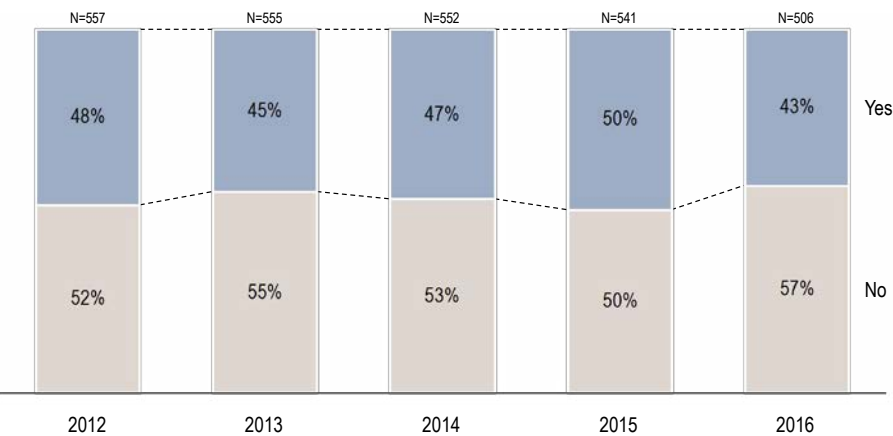
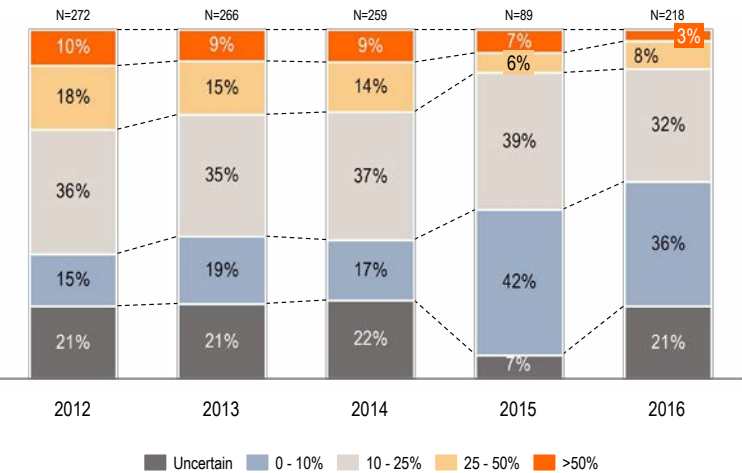


Figure 12: Financial impact of missed business opportunities year-on-year

What percentage of your company's annual revenue in China do these missed opportunities represent?



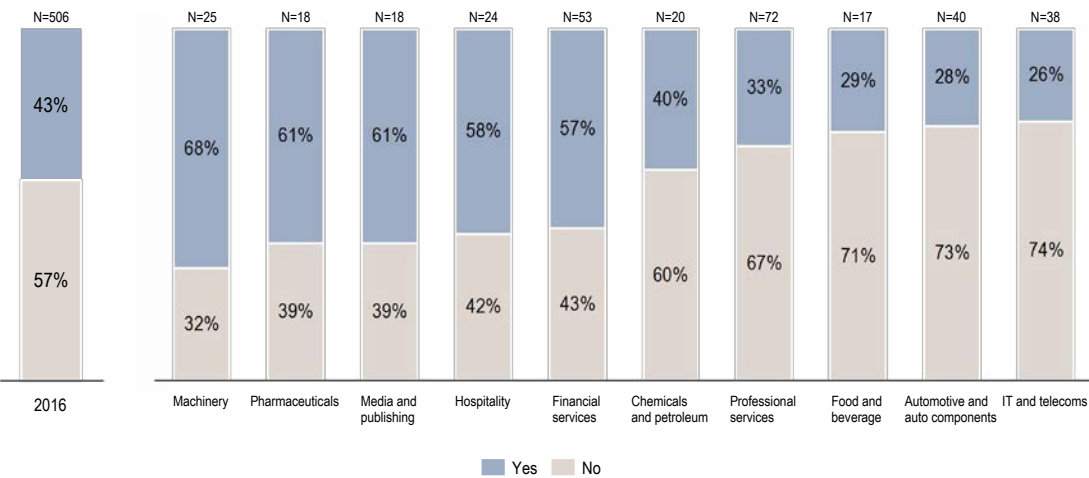
One third of European enterprises that have missed out on business opportunities state that they have represented up to a quarter of their annual revenue. This is highly significant – figures this high can determine whether or not a company is ultimately profitable.

Machinery, pharmaceuticals, and media and publishing missed out most on opportunities

Missed opportunities in the machinery industry can be attributed to industrial policies and increasingly competitive Chinese competitors. In pharmaceuticals, it is a result of 'Buy China' policies and limitations that have been placed on procurement of nongeneric drugs. For media and publishing, censorship is the clear culprit.

Figure 13: Missed business opportunities by industry

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

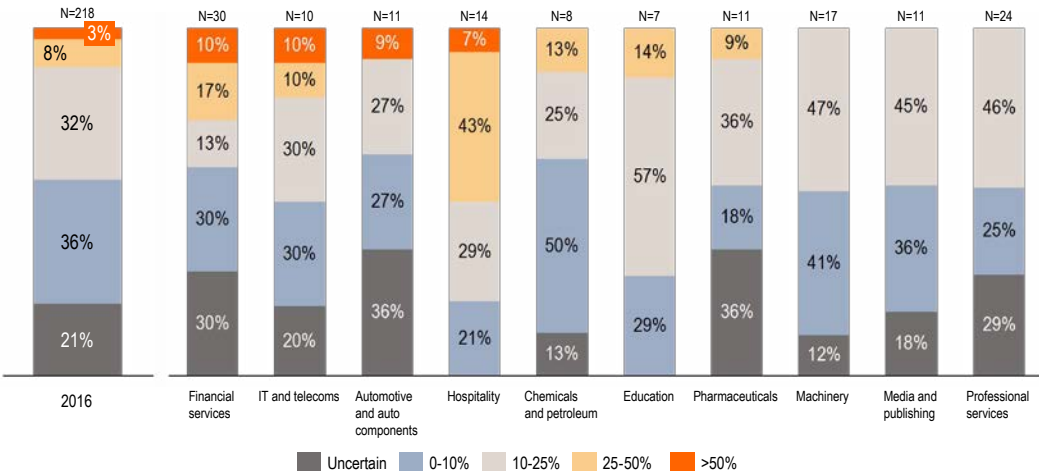


Almost half of respondents in the machinery sector estimate that these missed opportunities represented between one tenth and one quarter of their China-based annual revenue.

It is concerning that largest percentage of respondents reporting that they missed out on the equivalent of more than half of their China-based revenue are in the financial services, IT and telecommunications, and the automotive and auto components sectors. This is in stark contrast to ICBC and Huawei's restriction-free expansion into Europe's financial sector and telecommunications sector respectively. The acquisitions of MG Rover and Pirelli by Nanjing Automobile and ChemChina further highlight the lack of reciprocity that European companies face in the Chinese market.

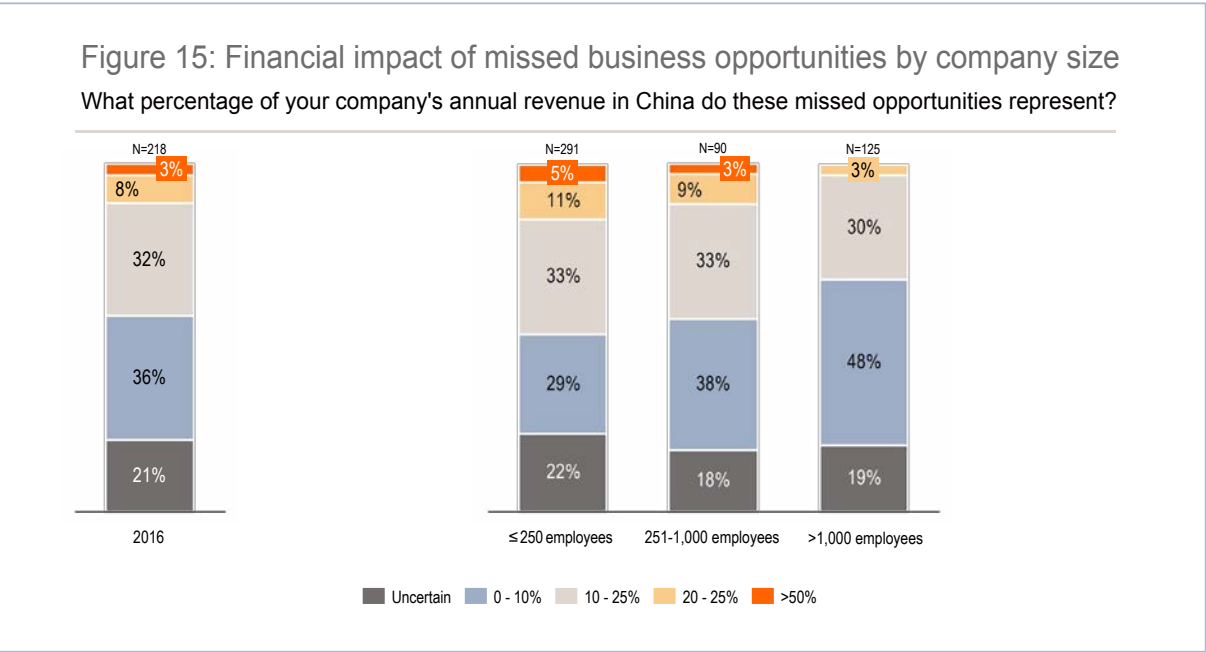
Figure 14: Financial impact of missed business opportunities year-on-year by industry

What percentage of your company's annual revenue in China do these missed opportunities represent?



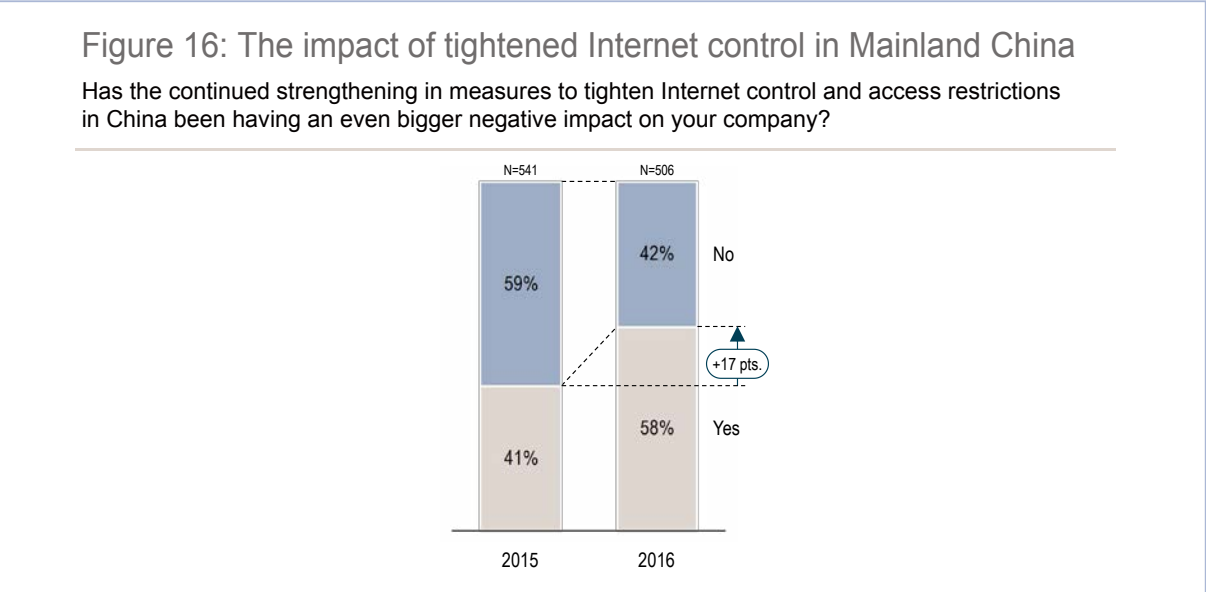
Small and medium-sized enterprises (SMEs) are the hardest-hit

It is not surprising that SMEs are hit hardest by missed opportunities, as, when compared to multinational corporations (MNCs), they possess comparatively modest resources to invest in government affairs and the kind of research and/or consultancy that would keep them fully abreast of market conditions. Because SMEs are often market leaders in the class of products, technologies and services that they offer, this represents a real cost for China's economy.



China is attempting to establish an intranet

Well over half of respondents state that the tightening of Internet controls and access restrictions are having an increasingly negative impact on their business, a jump of 17 percentage points from 2015. Instead of taking full advantage of the benefits that full connectivity would offer, China is locking its virtual doors.

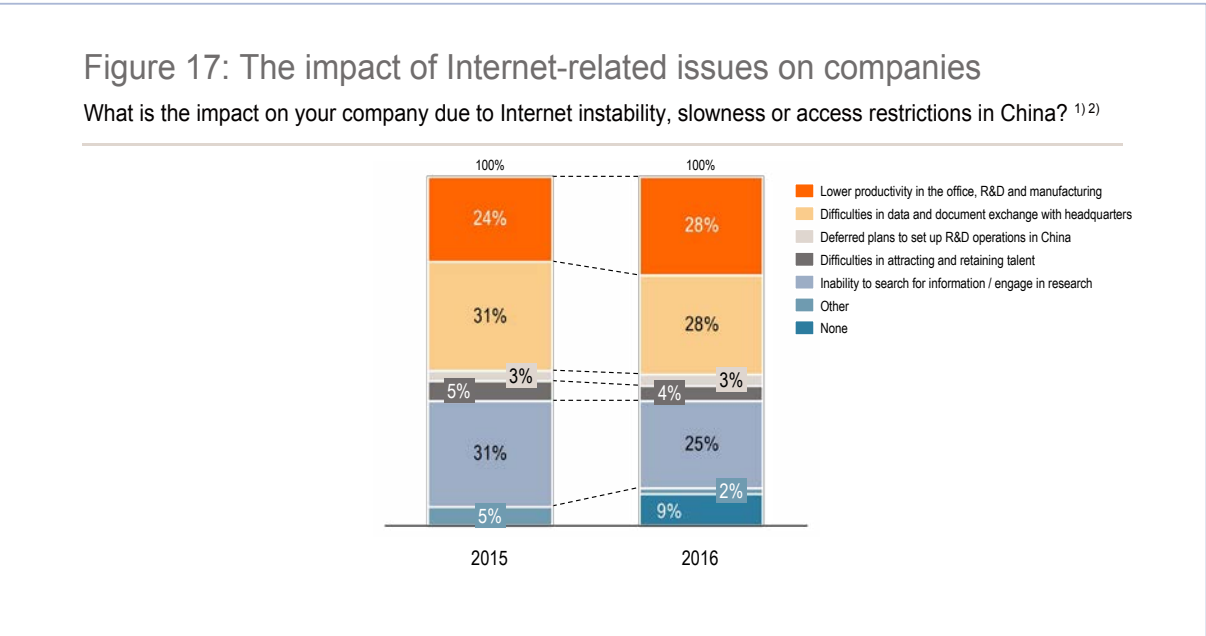


Internet issues stifle business productivity, research and free flow of data

European companies state that unstable connections, slow Internet speeds and restrictions on access have seriously impacted their business, particularly in the following ways:

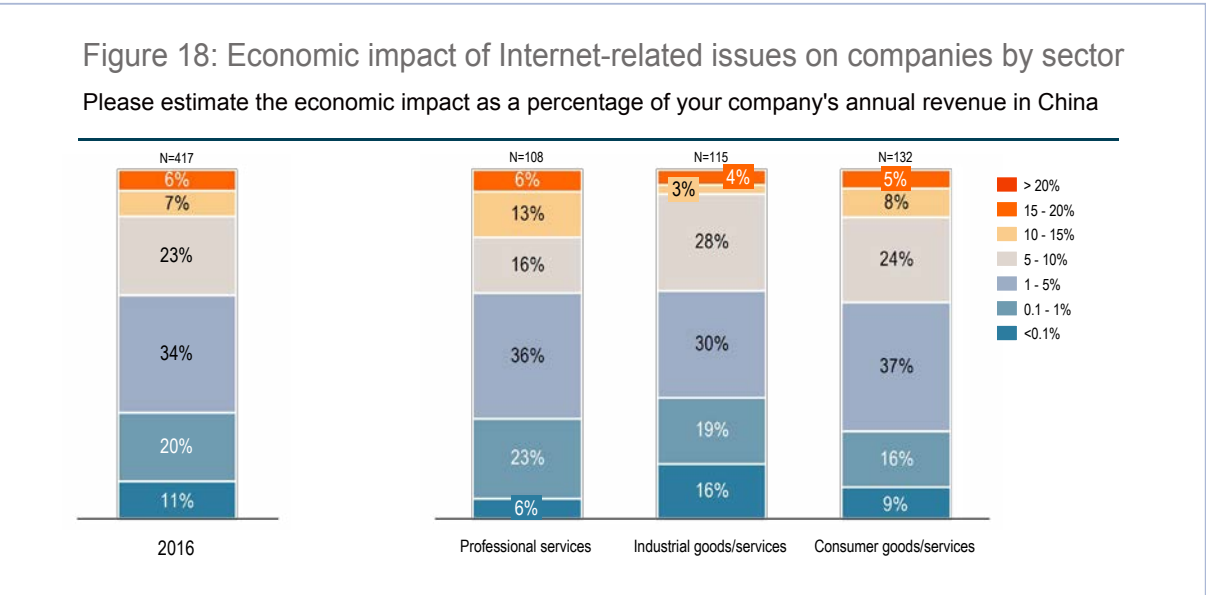
- Over one quarter of respondents report lower productivity in the office, R&D and manufacturing as a direct result of Internet restrictions – a four point increase year-on-year.
- Over one quarter also report difficulties in exchanging data and documents with their headquarters, partners and customers.
- Exactly one in four respondents highlight their inability to search for information and engage in research.

Challenges that European companies face in conducting R&D in China are discussed in further detail on pages 50–53.



1) Multiple answers possible
2) 'None' added in 2016

Professional services is most affected by Internet issues, with 13% of respondents in this sector reporting that the economic impact amounts to up to one sixth of their annual revenue in China. For a further 6%, this impact is as large as one fifth of annual revenue.



Note: Excluding others (N=62)

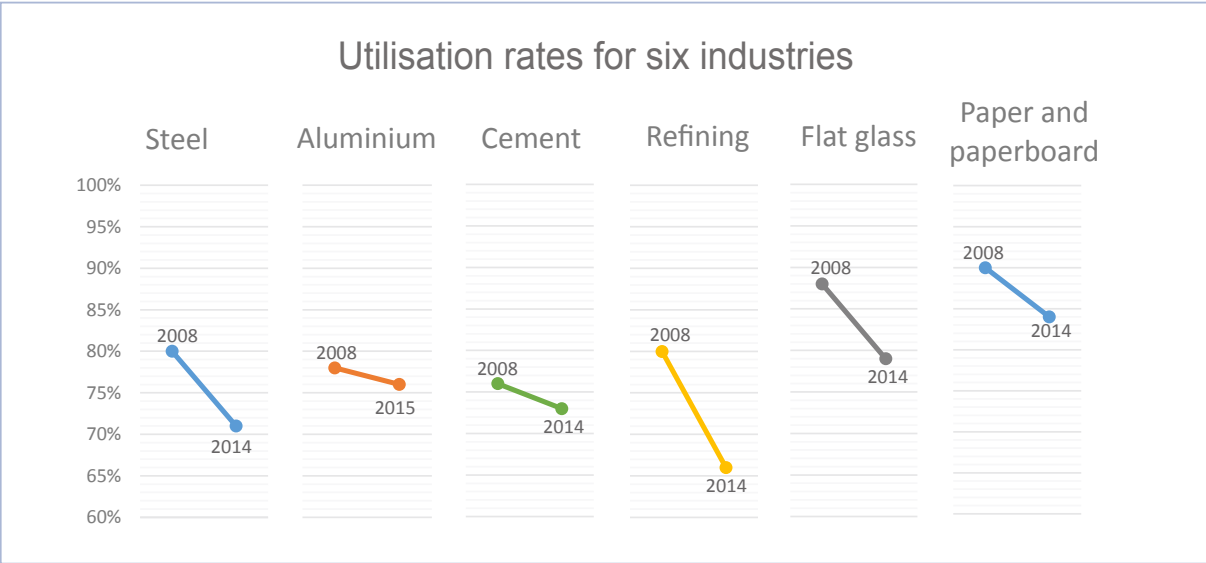
As they provide key support to companies across a numerous sectors, the problems faced by professional services firms also indirectly affect many other industries.

In many ways, the Chinese Government already recognises the importance of connectivity. In 2015, it announced the Internet Plus plan, which aims to develop a wide range of Internet-related industries. It also released the Made in China 2025 plan, which focuses on developing advanced manufacturing capabilities, something that is highly dependent on the free flow of information in a globalised world. This insular approach to the Internet is therefore completely self-defeating.

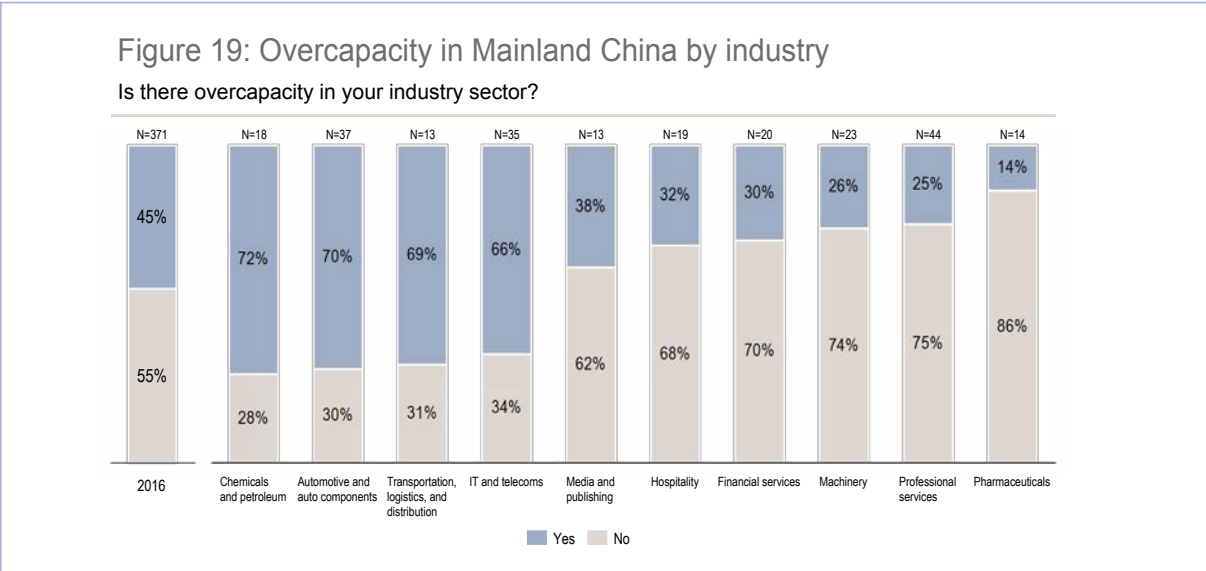
Overcapacity: a major drag on performance and hampers innovation

As outlined in the European Chamber's February 2016 report *Overcapacity in China: An Impediment to the Party's Reform Agenda*, China is faced with significant overcapacity in many sectors.⁶ Unfortunately, to date, and as outlined on page 15 of the Overcapacity report, the Chinese Government's means of addressing this problem has only stretched as far as positive rhetoric, it has not yet been matched with effective implementation of necessary reforms.

This conclusion is supported by the fact that 45% of respondents⁷ confirm that China faces major challenges with overcapacity in their industry. Utilisation rates for six of the eight industries included in the Chamber's report can be seen below:⁸



It is highly significant to note that respondents also report overcapacity in sectors that were not included in the Chamber's 2016 report. For example, seven out of every 10 respondents in both the automotive and transportation and logistics and distribution industries state this to be the case. So do two thirds of respondents in IT and telecommunications. Clearly this is a widespread problem.



Note: Excluding answers for 'not applicable'

⁶ *Overcapacity in China: An Impediment to the Party's Reform Agenda*, European Union Chamber of Commerce in China, 22nd February, 2016, viewed 19th April, 2016, <<http://www.europeanchamber.com.cn/en/publications-overcapacity-in-china>>
⁷ This figures does not include the percentage of respondents that answered 'not applicable'.
⁸ While the European Chamber's report also evaluated overcapacity in China's chemical and shipbuilding sectors, due to the complexity of calculating utilisation rates, they are not included in this graph.

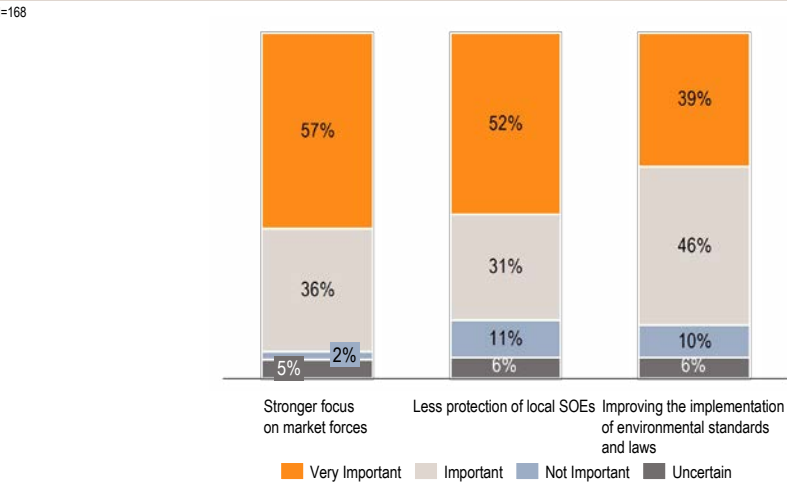
Overcapacity exerts a negative influence on companies' performance in a number of ways. The most serious impact among those reporting overcapacity as a problem in their sector is decreased profit margins, with 88% reporting this to be the case. The second most-cited consequence is that it hinders innovation. This is largely a result of the fact that the minimal profit margins in overcapacity-hit industries prevent companies from investing in R&D, thereby trapping them in a vicious cycle of perpetual low-end production.

While many factors could contribute to a resolution of the overcapacity problem, a stronger focus on market forces is seen as the key element. Giving less protection to local SOEs also ranks as highly significant. Ultimately, continuing to provide significant subsidies to unproductive sectors of the economy is counterintuitive and only delays the adjustments that are badly needed, especially when these funds could otherwise be invested in fostering industries with high value-add, as has been established as a priority by the Made in China 2025 initiative and the 13th FYP.

All of these issues are discussed in depth in the European Chamber's report on overcapacity, which presents 30 recommendations on how the problem can be addressed.

Figure 20: Key factors in addressing overcapacity

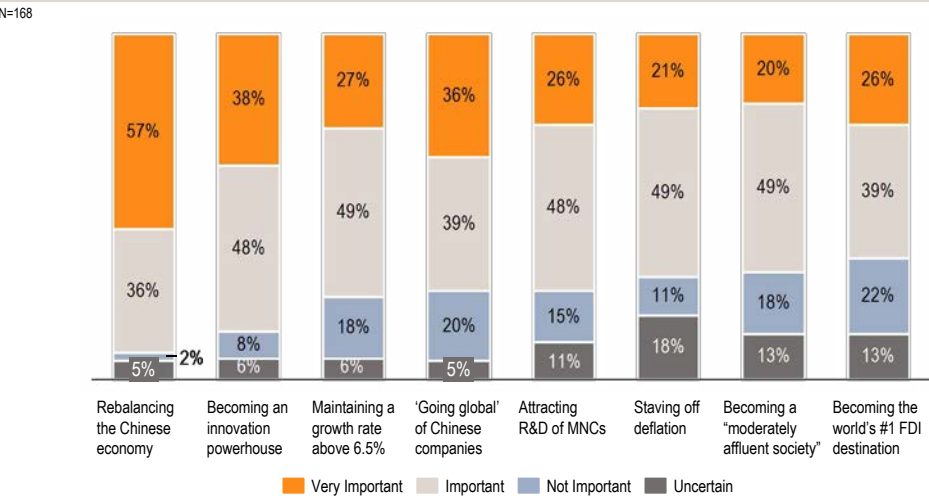
How important do you consider the following elements in solving China's overcapacity problem?



The main victim of China's industrial overcapacity problem is China itself. This is recognised by the vast majority of European companies, who consider the resolution of China's overcapacity issue to be important for China to achieve the high-quality and sustainable economic growth it so desperately seeks. This is only one of many of China's objectives that is constrained by overcapacity.

Figure 21: Importance of addressing overcapacity to achieving objectives

How important is it for China to address the issue of overcapacity if it wants to achieve the following objectives?



Rising labour costs and talent shortage plague European companies

In terms of HR challenges, European companies are still most concerned with rising labour costs and a shortage of talent:

- One third of respondents state that rising labour costs is their top HR challenge.
- One quarter report that a talent shortage is their second biggest HR challenge.

Figure 22: Top HR challenges

What is the top HR challenge that your company is faced with?

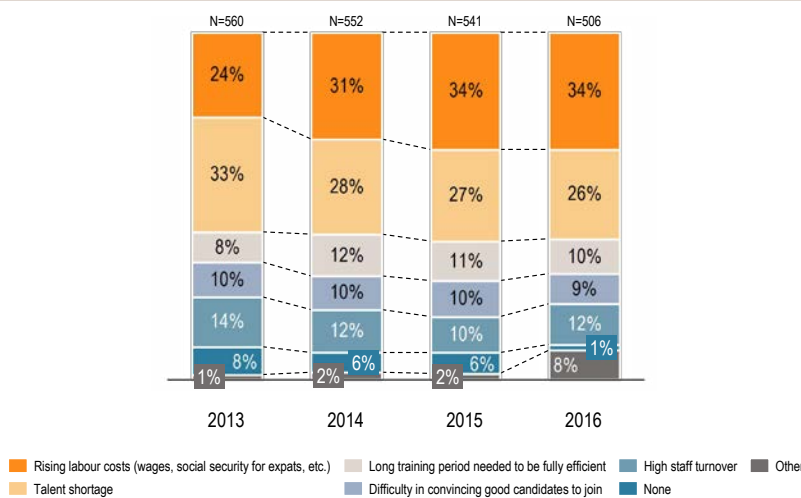
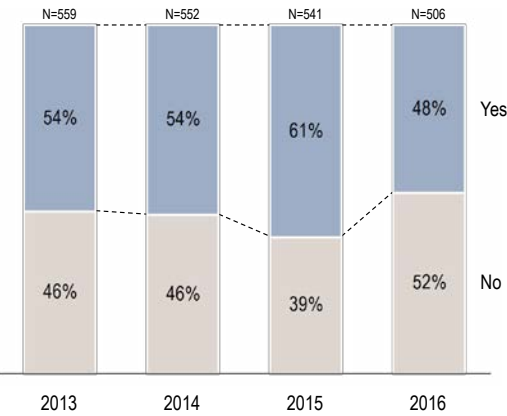


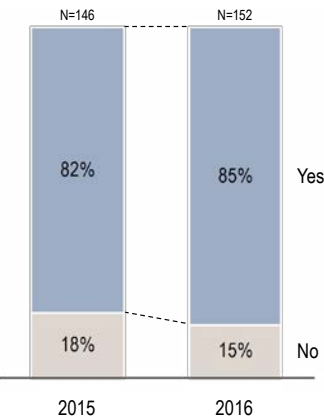
Figure 23: Challenges in attracting the right talent in Mainland China
Is your company currently facing any challenges in attracting the right talent in China?



Air pollution still aggravates HR issues

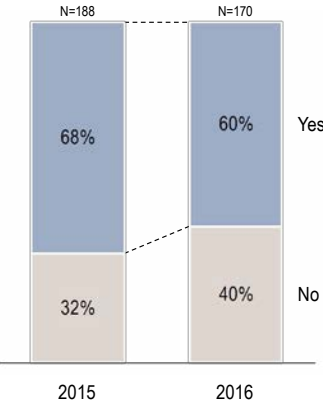
Unfortunately, pollution remains a thorny issue that makes talent attraction and retention even more challenging. The European Chamber recognises that Beijing has recently improved its capacity to monitor air pollution, has closed some heavily-polluting power plants and has started to issue 'red alerts' under certain conditions. Unfortunately, the city's attractiveness is still found to be at an all-time low, with 85% of Beijing-based respondents reporting that its regular hazardous levels of air pollution diminish its attractiveness for foreign investment.

Figure 24: The impact of Beijing's hazardous air pollution levels on foreign investment
Do Beijing's regularly hazardous air pollution levels decrease the city's attractiveness for foreign investors?



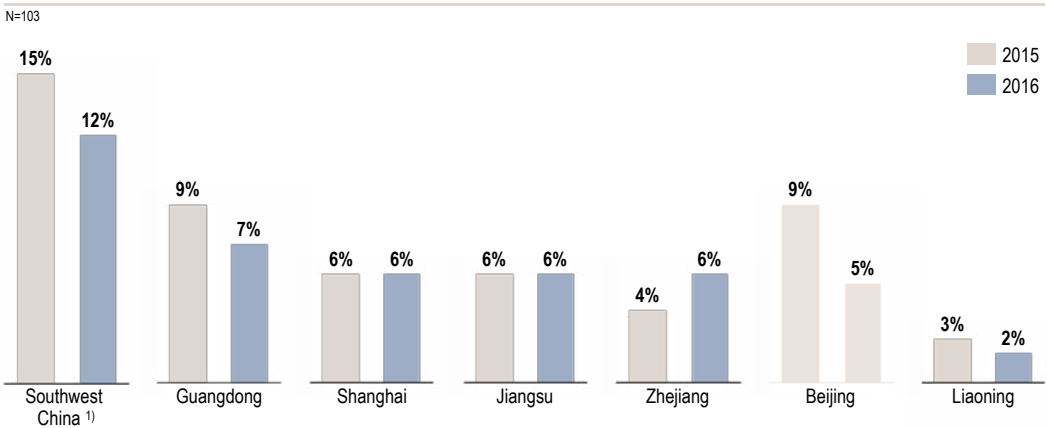
By contrast, it seems that Shanghai has made some improvements in this regard: the percentage of respondents that report that its air pollution levels decrease the city's attractiveness has decreased from 68% in 2015 to 60% in 2016.

Figure 25: The impact of Shanghai's hazardous air pollution levels on foreign investment
Do Shanghai's regularly hazardous air pollution levels decrease the city's attractiveness for foreign investors?



The Beijing authorities should be concerned that this translates directly into the loss of potential investment. With excellent infrastructure, connectivity and a local economy that is dominated by private enterprises, Shanghai's success is also spilling over into neighbouring Zhejiang Province.

Figure 26: Expansion to other Mainland China provinces
In which province are you considering expansion?



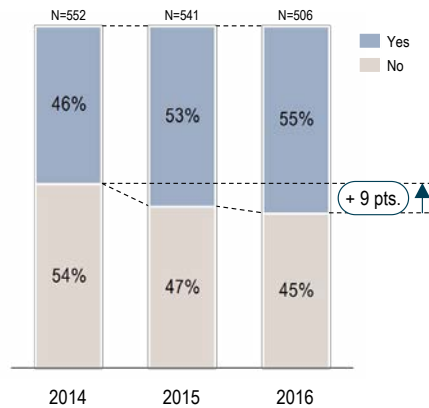
1) Includes Chongqing (7%, 6%) and Sichuan (8%, 6%)

3 OUTLOOK OF EUROPEAN COMPANIES

End of the 'golden age' now more evident

While the Chinese economic slowdown continues to be the main challenge for European companies in China, it is further exacerbated by significant market access and investment restrictions that their domestic competitors do not face. This has led to a significant shift in European companies' perception of the local business environment. When the European Chamber asked its members if they believed that the 'golden age' for MNCs is over for the first time in 2014, some found it to be provocative. Just two years later, and with well over half of respondents now reporting this to be the case, it is increasingly obvious that the 'golden age' for MNCs has indeed come to end.

Figure 27: 'Golden age' in China
Do you believe that the 'golden age' in China is over for multinational corporations?



1) Original question read 'Do you believe that the 'golden age' in China is over for the following entities?', answers included, privately-owned enterprises (POEs), state-owned enterprises (SOEs) and multinational corporations (MNCs).

Multinational companies count among those that have been in China the longest and have the deepest familiarity with the local market. In this respect they can be considered trendsetters, and collectively act as a barometer for measuring general market sentiment. They also offer the broadest range of products and services. Therefore, the common perception of their market circumstances may well be an early indication of the circumstances that their smaller counterparts may face in the future.

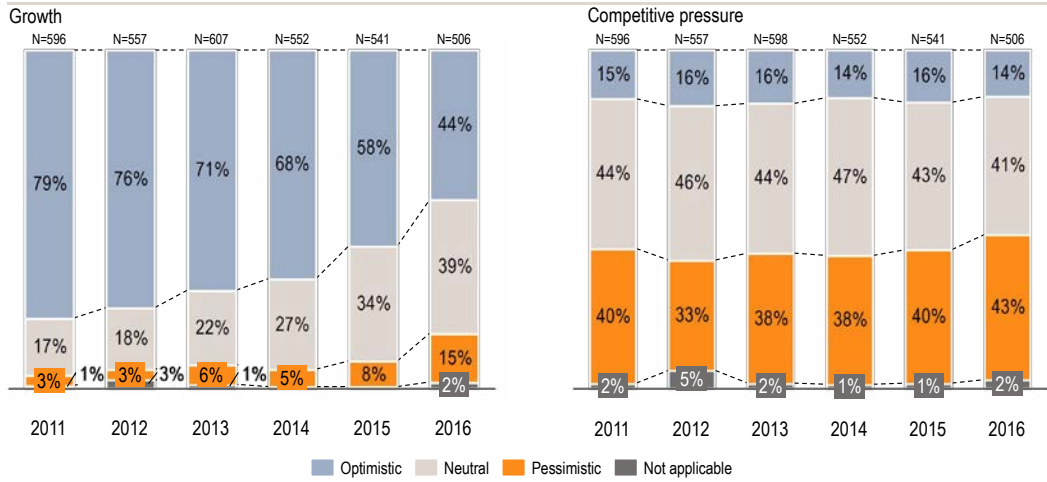
Outlook on the Chinese business environment

The degree to which European businesses are optimistic regarding near-term growth in their respective sectors has continued to decline steadily. In fact, this year saw the largest one-year drop, with only 44% stating that they are optimistic. Tellingly, pessimism about growth has nearly doubled year-on-year, jumping from 8% in 2015, to 15% in 2016.

In 2015, Chinese companies invested EUR 20 billion in the European Union (EU), a 44% leap compared to 2014's EUR 14 billion.⁹ By stark contrast, and firmly underscoring the lack of reciprocity, over the same period the annual value of EU foreign direct investment transactions into China fell to EUR 9.3 billion in 2015, a drop of about 9% from 2014.¹⁰ Due to its economic size, open markets and predictable legal system, Europe now appears to be a more attractive destination for business and investment.

Meanwhile, the outlook on competitive pressure has remained fairly stable underlining the fact that European businesses understand how to maintain their competitiveness during an economic slowdown.

Figure 28: The business outlook in Mainland China over the next two years
How would you describe the business outlook for your sector in China over the next two years?



9 A New Record Year for Chinese Outbound Investment in Europe, Rhodium Group, February, 2016, viewed 19th April, 2016, <http://rhg.com/wp-content/uploads/2016/02/A_New_Record_Year_for_Chinese_Outbound_Investment_in_Europe.pdf>
10 Rhodium EU China Investment Flash, Rhodium Group, 18th January, 2016.

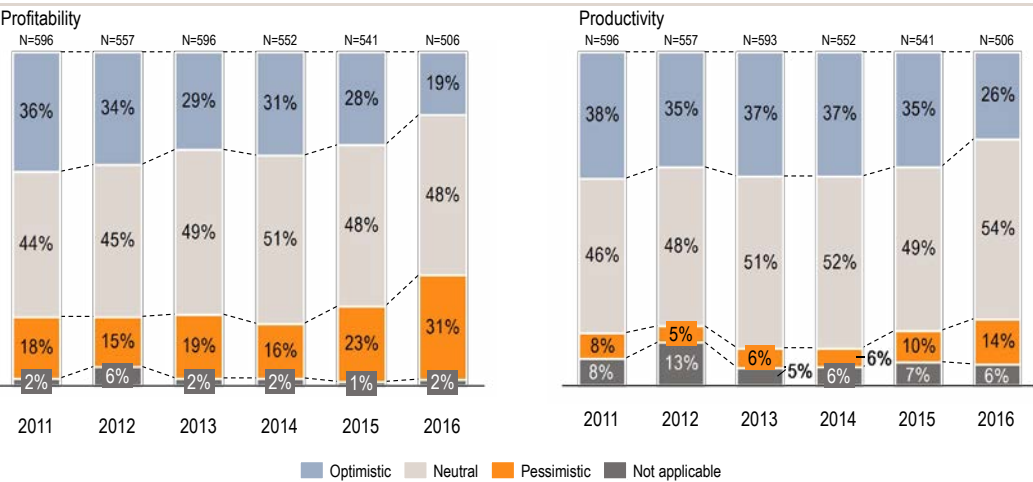
Looking toward the next two years, European business is less optimistic about the outlook on both profitability and productivity in their sector, as a result of the robust market access barriers that remain in place:

- Optimism about profitability has dropped to the lowest level since 2011.
- Optimism about productivity has also reached a new low and now sits at 26%.

Doubts expressed by European business over the future potential of China’s productive forces are partly due to the fact that China is losing its cost advantage to other emerging markets. In order to balance this, China will need to direct land, labour and capital toward the areas that will provide the most benefit to its economy and society.

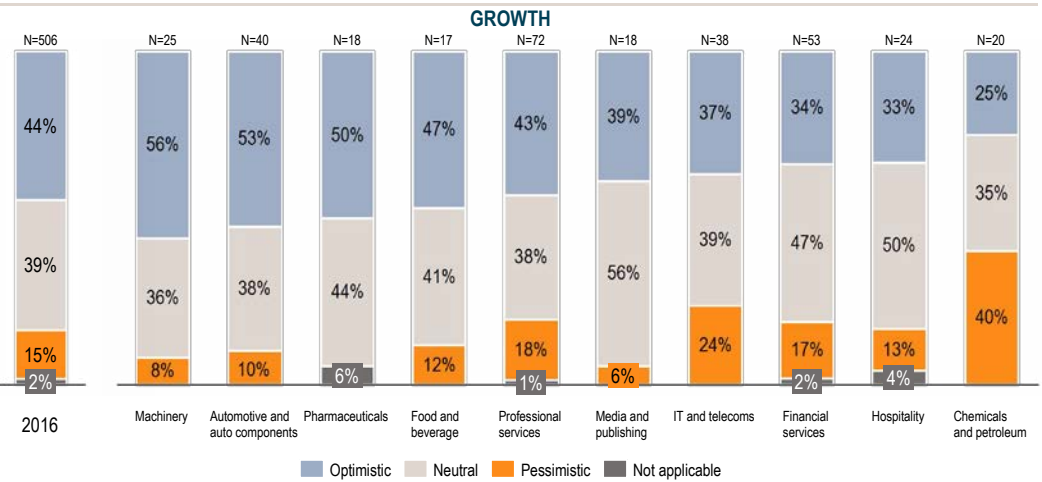
This will be extremely challenging until China can effectively deal with the islands of complacency that are so prevalent throughout the country: that is, the multitude of bureaucracies—provincial and municipal—that continue to demonstrate little willingness to enact centrally-planned reforms. This ultimately pulls down on economic growth, with local governments continuing to protect and financially prop up their key industries, including those that are inefficient, polluting, unprofitable or characterised by overcapacity.

Figure 29: The business outlook in Mainland China over the next two years
How would you describe the business outlook for your sector in China over the next two years?



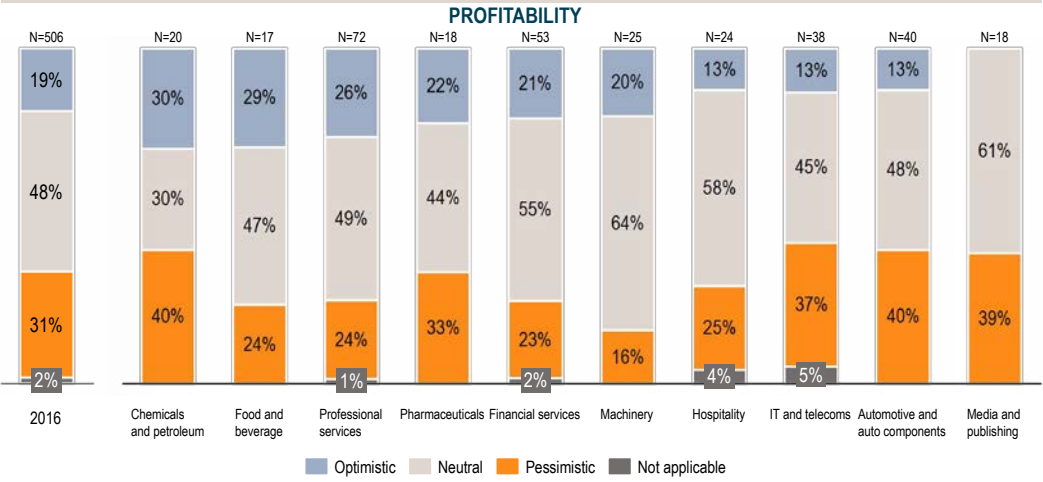
Again, we see a varied outlook depending on industry sector. In the automotive and auto components sector, where there is still ample room for rates of car ownership to rise, and the pharmaceuticals sector, which benefits from a growing middle class in an ageing society with health concerns, a majority of companies are still optimistic about volume growth.

Figure 30: The outlook on growth in Mainland China over the next two years by industry
How would you describe the business outlook for your sector in China over the next two years?



However, as a result of market access barriers that have effectively straightjacketed European companies, fewer respondents are optimistic about profitability in their sector in China over the next two years. The fact that pessimism about profitability is most pronounced in the chemicals and petroleum industry, and the automotive and auto components industry can be attributed to the problem of overcapacity, as outlined in Figure 19 on page 23.

Figure 31: The outlook on profitability in Mainland China over the next two years by industry
How would you describe the business outlook for your sector in China over the next two years?



BCS TRENDS

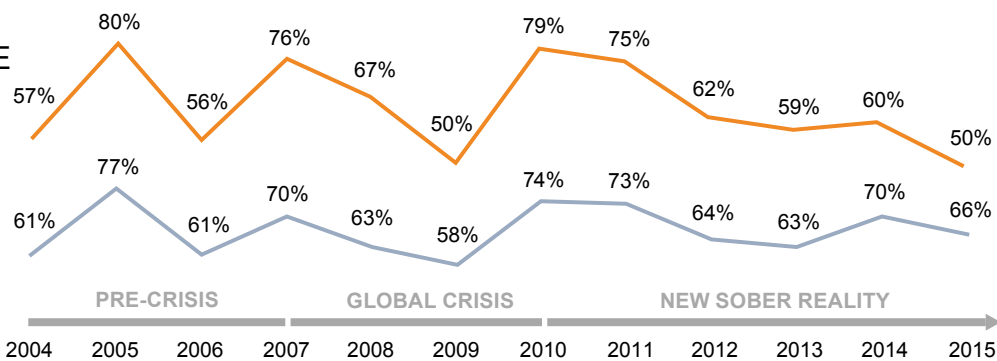
Waning performance and optimism are signs of a new sober reality

FINANCIAL PERFORMANCE

(Financial year)

Increased revenues

Profitable companies

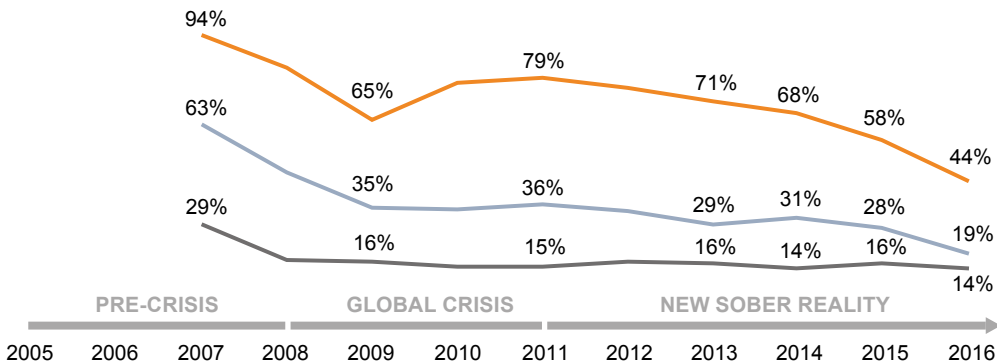


OPTIMISM

Optimistic about growth

Optimistic about profitability

Optimistic about competitive pressure



Evolution of strategy to adapt to the new sober reality

IN CHINA TO STAY

Rank China among the top three destinations for new investments

Reported China as increasingly important in their global strategy

In China for the Chinese market



STRATEGY ADAPTATION

Considering expanding their China operations

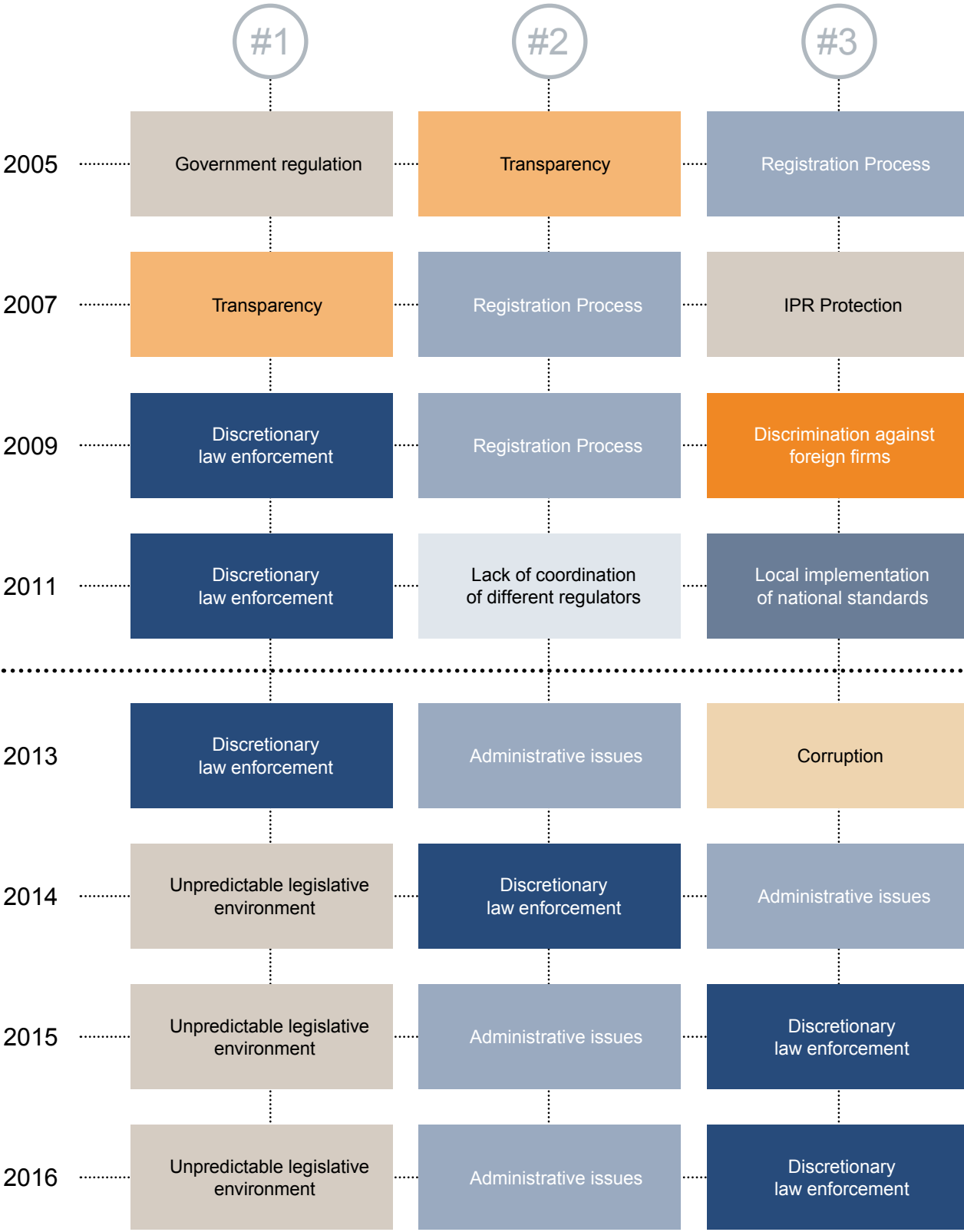
Plan on cutting costs



BCS TRENDS

Persistent regulatory challenges

KEY REGULATORY OBSTACLES TO DOING BUSINESS IN CHINA



EUROPEAN BUSINESS IS AFFECTED BY DETERIORATING FUNDAMENTALS

**56%**

of respondents report that business in China has become more difficult

**50%**

of companies reported revenue growth in FY 2015, down 10 pts. vs. 2014

OPTIMISM IS WANING...

**15%**

of respondents are pessimistic about growth (+ 7pts vs. 2015)

**31%**

of respondents are pessimistic about profitability (+ 8pts vs. 2015)

**55%**

of respondents believe that the 'golden age' in China is over for multinational corporations

EUROPEAN BUSINESS CONTINUES TO RECEIVE UNEQUAL TREATMENT...

**57%**

think that foreign companies tend to receive unfavourable treatment compared to domestic Chinese companies

**57%**

believe that environmental regulations are strongly enforced against foreign companies (vs. 14% for Chinese SOEs, and 12% for Chinese POEs)

58%

state that the recent tightening of internet control and access restrictions has a negative impact on their business (41% in 2014)

**40%**

feel that foreign companies are being discriminated against through recently promulgated national-security-related pieces of legislation



... AND AS A RESULT, EUROPEAN COMPANIES FEEL LESS WELCOME IN CHINA

**70%**

of companies feel less welcome in China than 10 years ago

THIRD PLENUM REFORM AGENDA REMAINS STALLED: STILL NO LEVEL PLAYING FIELD

Top 3 challenges remain the same as in 2015...

**51%**

Discretionary law enforcement

57%

Administrative issues

59%

Unpredictable legislative environment



...and only

22%

of respondents are convinced by the government's commitment to the reform drive

-10 pts vs. 2015

EUROPEAN COMPANIES ARE SCALING DOWN THEIR CHINA PLANS

11%

of respondents have made plans to shift current or planned investments in China to other markets, but...

41%

are planning to engage in cost-cutting programmes, a sharp 17-point increase vs. 2014

47%

2013

47%

2016

of European companies are planning to expand their operations in China

down from 86% in 2013

CHINA'S R&D ENVIRONMENT NEEDS TO IMPROVE

R&D

**28%**

of companies have a R&D centre in Mainland China

**43%**

of these companies use their R&D centre mainly for product localisation

**45%**

of respondents describe the Chinese R&D environment as less favourable than the worldwide average



2014



2015

72%

are willing to invest in R&D (85% in 2015)

EUROPEAN COMPANIES ARE NOW LOOKING TO THE 13TH FIVE-YEAR PLAN TO REIGNITE CHINA'S REFORM IMPETUS**76%**of companies view the 13th Five-Year Plan as important or somewhat important to their company

THE EU-CHINA COMPREHENSIVE AGREEMENT ON INVESTMENT (CAI) CAN BE A WTO 2.0

**39%**

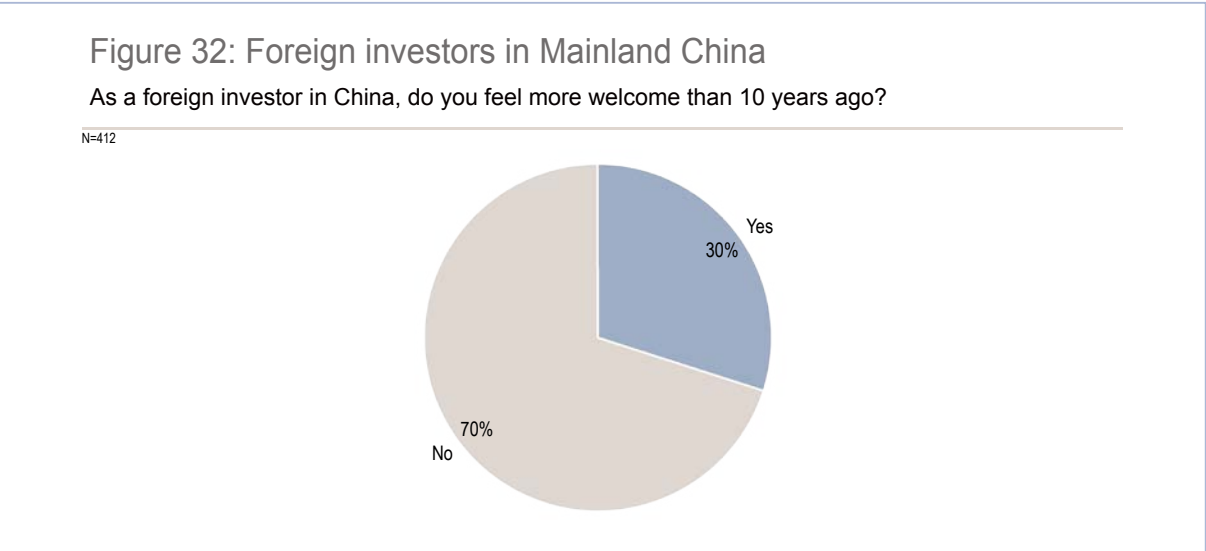
of respondents list a reduction of market access barriers as a major priority for the CAI

**55%**

of companies state that they would be more likely to increase investment in China if greater market access were to be granted

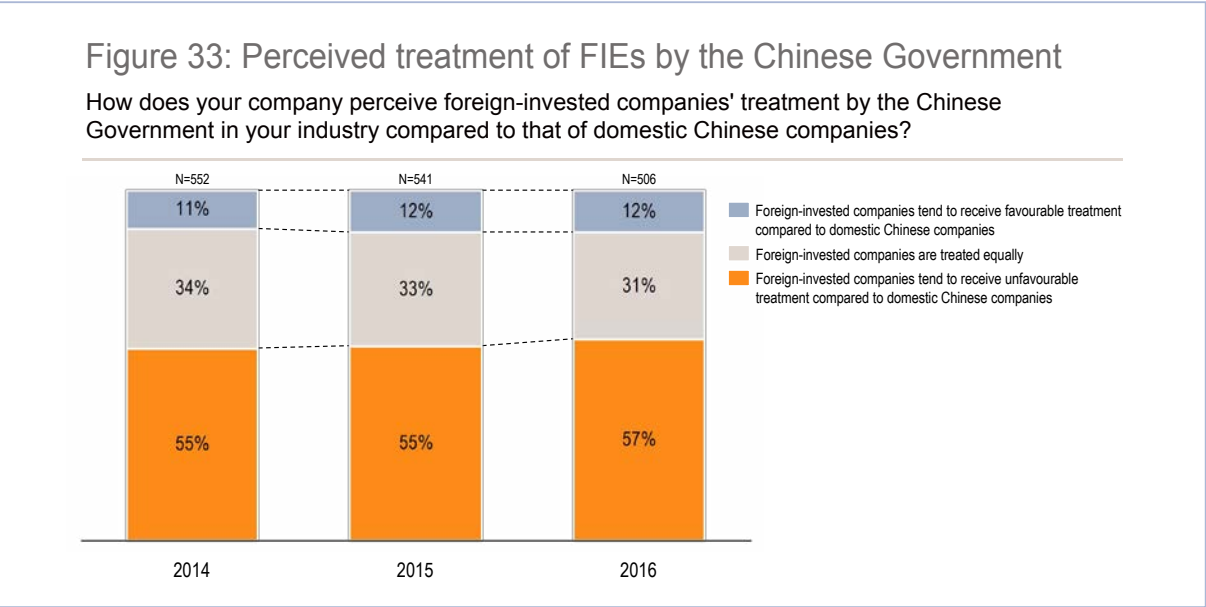
European companies feel significantly less welcome

Echoing the American Chamber of Commerce in China's (AmCham's) question from their 2016 Business Climate Survey,¹¹ for the first time we asked European companies that have been present in China for 10 years or longer if they feel more welcome than they did a decade ago: a staggering seven out of 10 respondents answered that they feel less welcome. This is roughly in line with the 77% of respondents to AmCham's survey who reported the same sentiment.



After years of promises, China is still not walking the walk

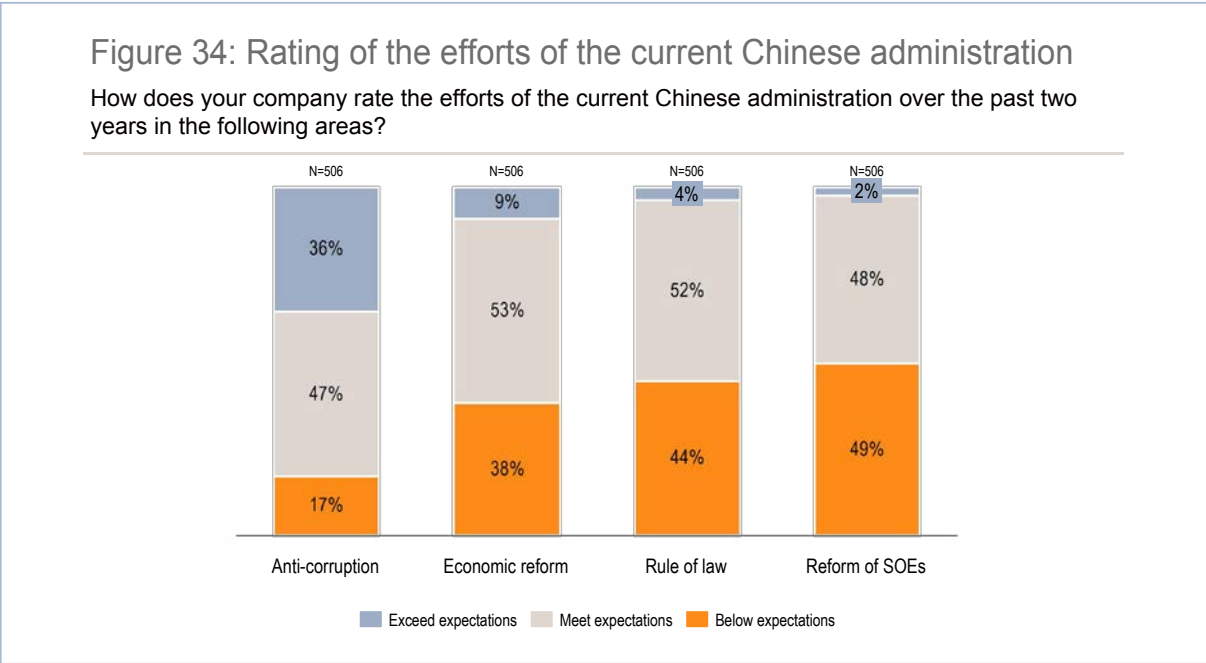
More than two years after promises of market reforms and equal treatment were made at the Third Plenum, which European business had welcomed as a potential breakthrough, European companies are still treated unfairly. When compared to domestic Chinese companies, 57% of respondents report that FIEs tend to be subjected to unfair treatment. As the *Decision* was a reform package that the Chinese authorities chose to publicly announce of their own free will, the lack of follow through has been particularly disappointing.



¹¹ 2016 Business Climate Survey, American Chamber of Commerce in China and Bain & Company, 20th January, 2016, viewed 19th April, 2016, <<http://www.amchamchina.org/policy-advocacy/business-climate-survey/>>

Lack of reforms continues to disappoint

In the *European Business in China Position Paper 2015/2016*,¹² industry leaders in our working groups used a traffic light system to evaluate the outcomes of reforms that were announced at the Third Plenum. Green lights were assigned to those that had been largely completed—or at least had a clear working plan—amber lights to those that were partially complete and red lights to those where there had been minimal progress or even backsliding. Ultimately, 10% were awarded green lights, 66% amber lights and 24% red lights.



Again, anti-corruption is found to be the shining light, with members noting the most progress in this area.

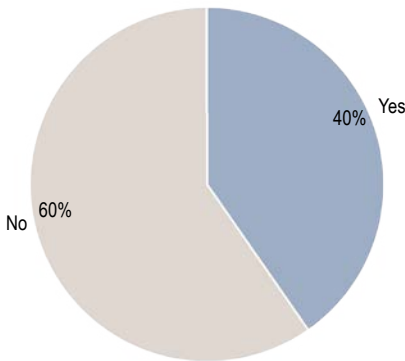
¹² *European Business in China – Position Paper 2015/2016*, European Union Chamber of Commerce in China, 2015, pp 12-21, <<http://www.europeanchamber.com.cn/en/publications-position-paper/>>

National-security-related laws reinforce unequal treatment

Two out of every five respondents report that foreign companies are being discriminated against through recently promulgated national-security-related legislation, such as the National Security Law, the Counter-terrorism Law and the Cyber Security Law. It is recognised that China, like EU Member States and other countries, has a legitimate right to ensure its national security. However, these pieces of legislation have gone far beyond essential national security concerns and risk shutting China off from many of the fundamental technologies and benefits that would otherwise be afforded to it by the international marketplace. The vague language used also creates a great deal of uncertainty for business, as it implicitly leaves the Chinese Government with the option of undermining foreign market access based on unclear and broad national security considerations. As a result, the sum of these laws amount to a massive national security overreach.

Figure 35: Discrimination through national-security-related legislation

Do you feel that foreign companies are being discriminated against through recently promulgated national-security-related pieces of legislation?



4 IMPLEMENTATION AND PAST PROMISES

IPR protection: reasonable laws, weak implementation

Innovation efforts need to be supported by China’s written IPR laws and regulations but, more importantly, these laws and regulations must be enforced effectively.

While a majority of European companies regard China’s written IPR laws as adequate, only 6% view them as excellent, a two-point drop from 2015. This is especially disappointing in light of the fact that China established dedicated IPR courts in Beijing, Shanghai and Guangzhou in 2014. Three out of five respondents still view the enforcement of IPR laws as inadequate—an increase of three points from last year—a response that seems incongruous in an era where grand plans like Internet Plus and Made in China 2025 are being announced. As noted on page 50, this is one of the reasons that China has yet to reach its full R&D potential.

Figure 36: The effectiveness of China's written IPR laws

How does your company rate the effectiveness of China's written Intellectual Property Rights (IPR) laws and regulations?

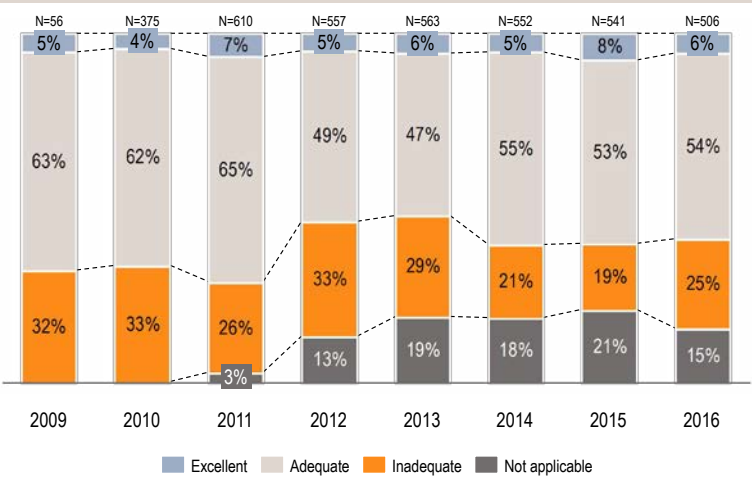
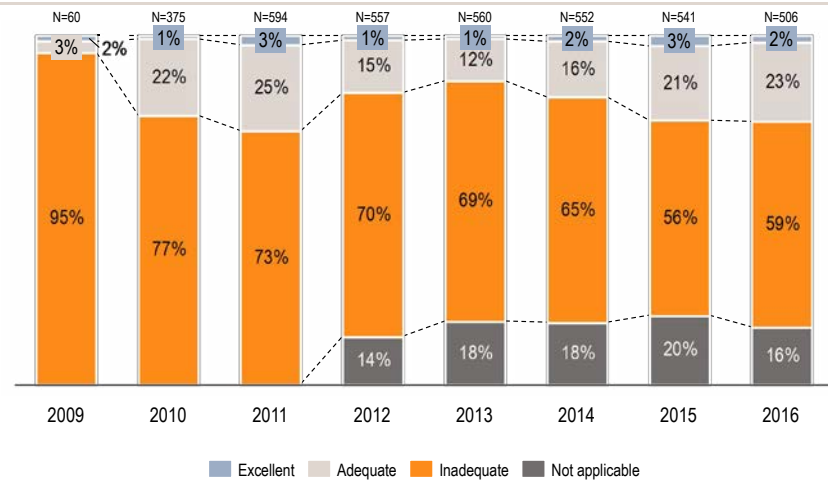


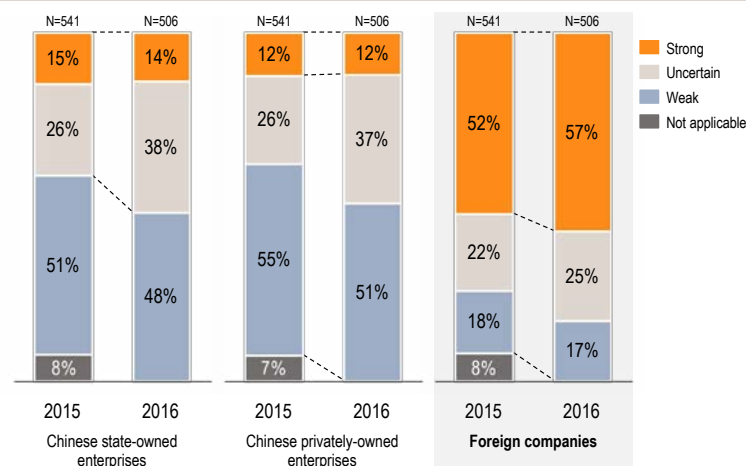
Figure 37: The enforcement of Mainland China's IPR laws and regulations
How do rate the enforcement of China's IPR laws and regulations?



Enforcement of environmental regulations is a source of discrimination

While a clear majority of respondents find that environmental regulations are strongly enforced against foreign companies, far fewer report that equal vigour is seen in their application where Chinese SOEs and privately-owned companies are concerned. Even in China's leading cities, where pollution is already a major social concern, the willingness to allow domestic companies more leeway to pollute undermines the credibility of city authorities in the eyes of European investors.

Figure 38: The enforcement of environmental regulations in Mainland China
How does your company assess the enforcement of environmental regulations in China on different companies?



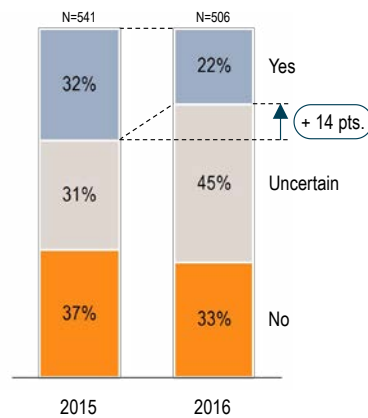
Third Plenum promises remain unfulfilled

The Third Plenum's reform impetus has long since faded without creating the level playing field that it promised to foreign investors:

- Only 22% of respondents are convinced by the Third Plenum reform drive, a 10-point drop versus 2015...
- ...while 45% of respondents are uncertain, a 14-point increase versus 2015.

Figure 39: Impact of the Third Plenum

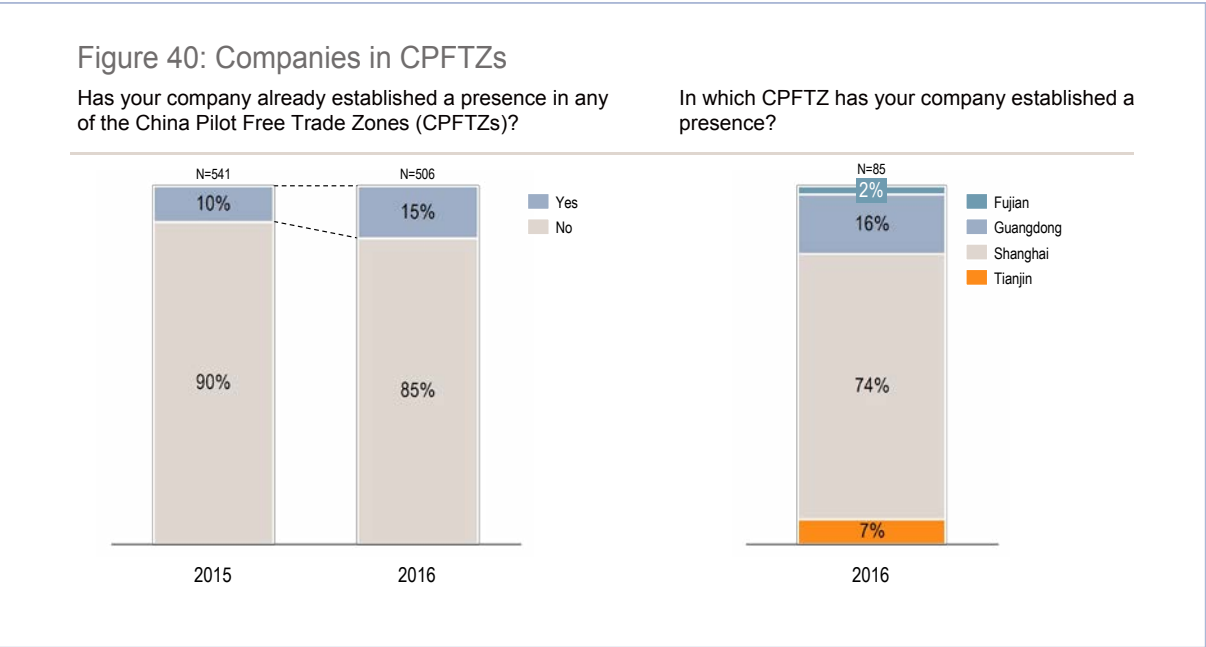
Has the reform agenda of the Third Plenum over the past three years helped to create an even playing field for foreign investors in China?



While European business is aware of the general sentiment and objectives of the Third Plenum's reform agenda, it is losing faith in the Chinese Government's resolve to undertake meaningful reforms.

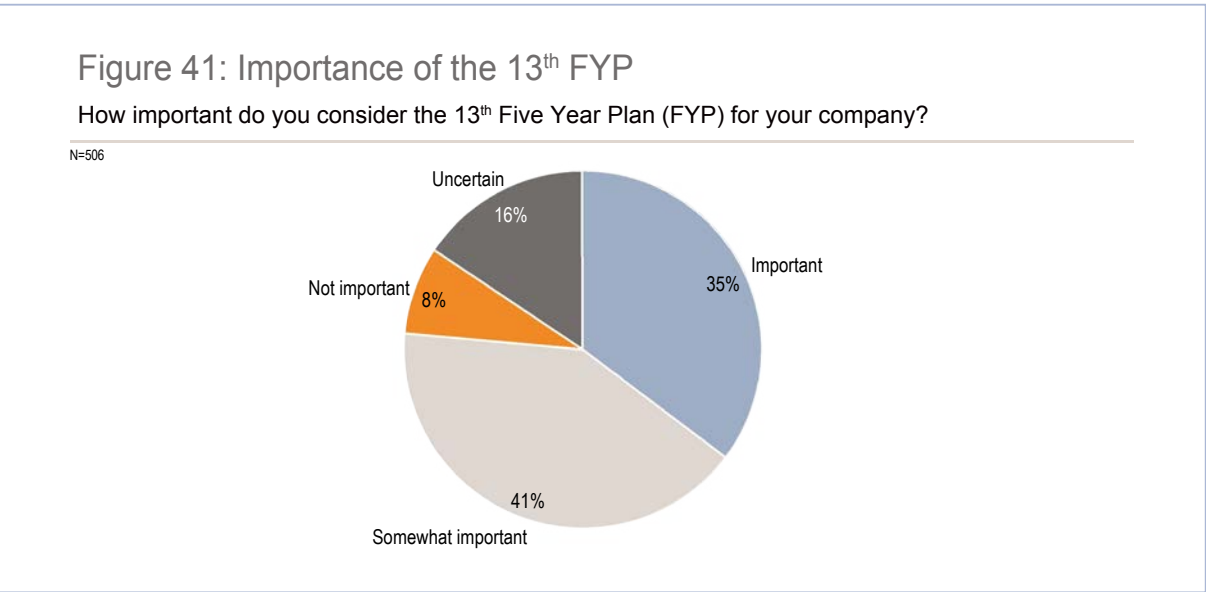
China pilot free trade zones (CPFTZs) have not lived up to their potential

An overwhelming majority of respondents has not yet established a presence in any of the CPFTZs. This clearly indicates that there is very limited interest in participating in the Chinese authorities' long-held preference for gradual reforms. A nationwide rollout of market-access reforms would be a far stronger indication that foreign investment is welcome.



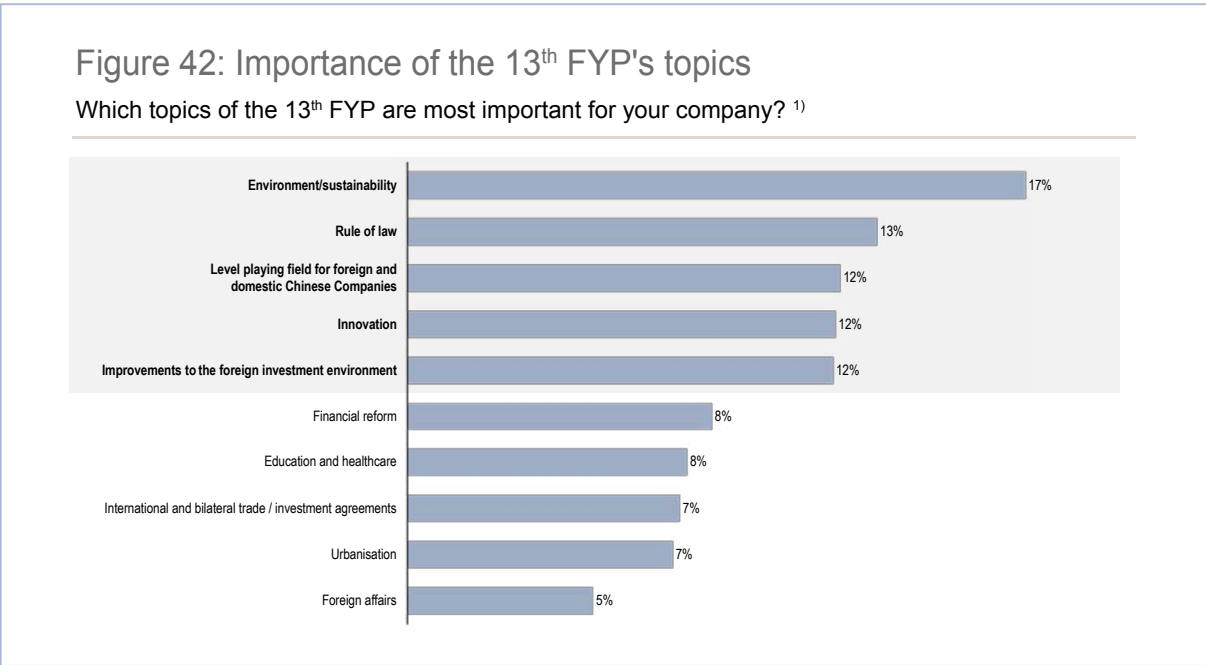
The 13th FYP needs to bring positive change

Economic planning really matters in China. It is therefore not surprising that over three quarters of respondents consider the economic masterplan that will be in effect through to the end of 2020 to be 'important' or 'somewhat important' for their company.



Top priorities for the 13th FYP include rule of law and market-access related topics

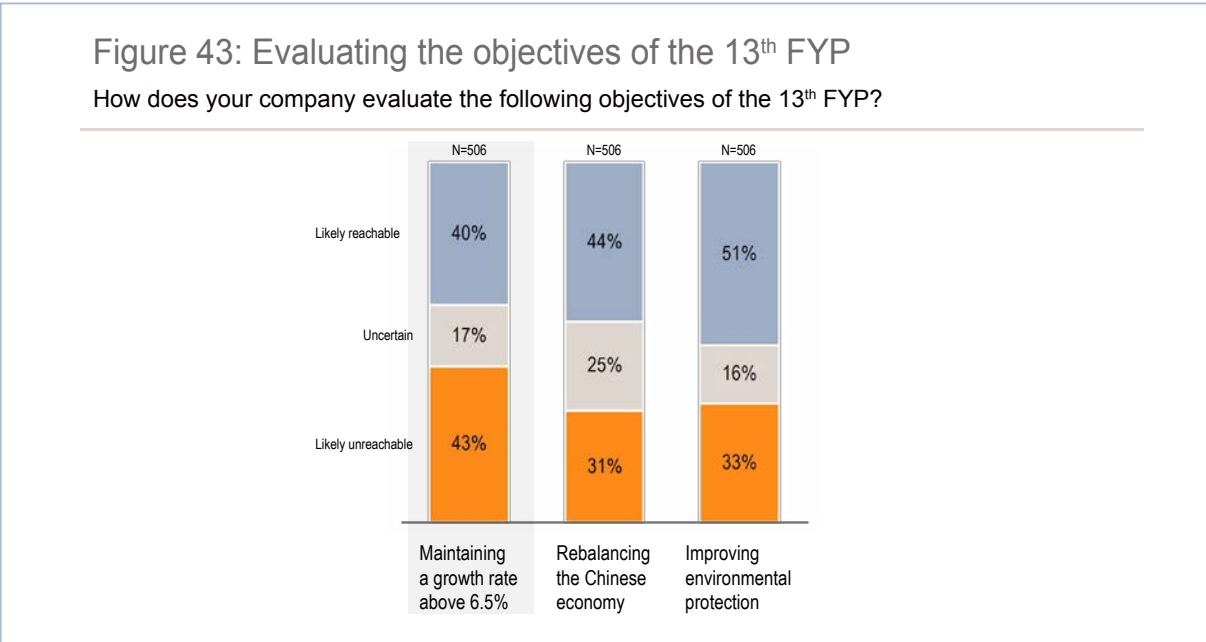
European companies reported that their top priorities for China's economic masterplan are topics related to sustainable development, rule of law, innovation and market access issues.



1) Answer options 'none' and 'others' removed (0% each)

Over-planning while under-delivering?

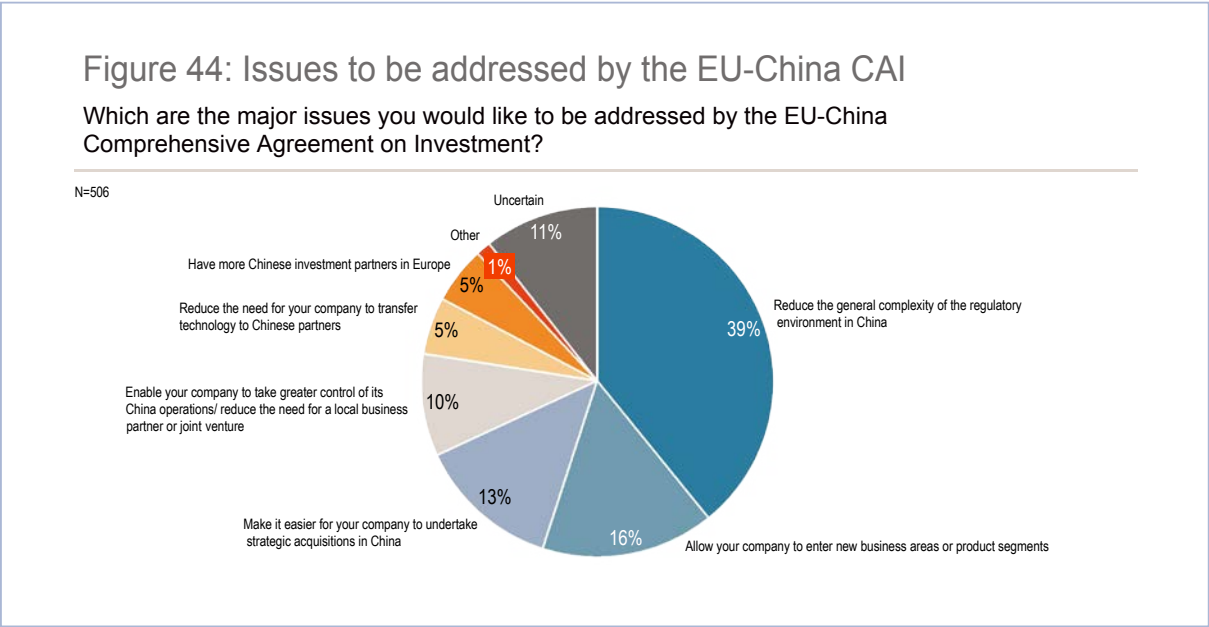
Although European companies generally consider the 13th FYP as important for their business, the ability of the government to deliver on the plan's objectives is being questioned.



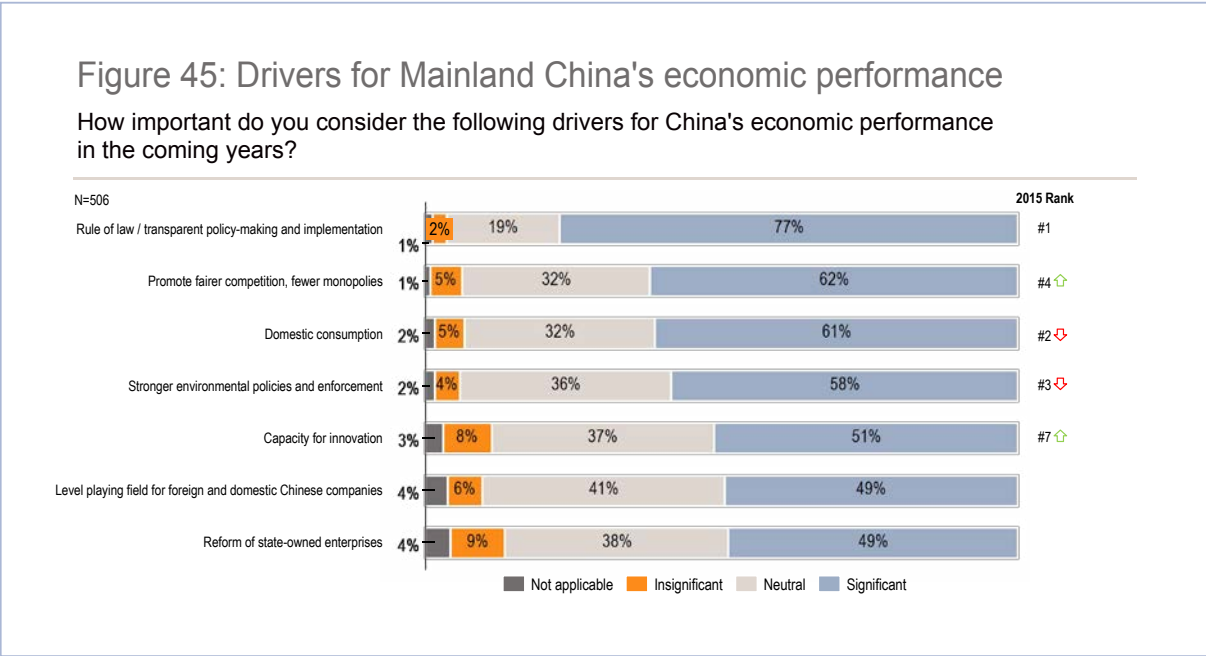
A WTO 2.0 effect is required

With European companies still facing significant regulatory challenges in China, while European investment into China is declining and growth through M&A remains severely restricted, the issue that they most want to see addressed by a successfully concluded EU-China Comprehensive Agreement on Investment (CAI) is a reduction in the general complexity of the regulatory environment.

Removal of market access barriers is also a prominent priority, including enabling companies to take greater control of their China-based operations, making it easier for them to undertake strategic acquisitions in China and allowing them to enter new business areas or product segments.



By creating an impetus for reforms, a successfully concluded EU-China CAI will help the Chinese leadership to resolve some systemic issues that currently still hinder necessary drivers of sustainable economic growth in China. The necessary development of capacity in government institutions that enacting such an agreement would require can also contribute to China's ability to making the changes that are necessary for it to avoid the middle-income trap.



There is an important precedent for this. In 2001, China's accession to the World Trade Organisation (WTO) provided a roadmap and the legal framework that gave more European companies the assurances they needed to either enter the Chinese market or expand their existing operations, leading to a decade of unparalleled growth. We now need to see a new landmark development with a clear schedule for improving market access that will imbue European business with the confidence it needs to recommit to China's future development.

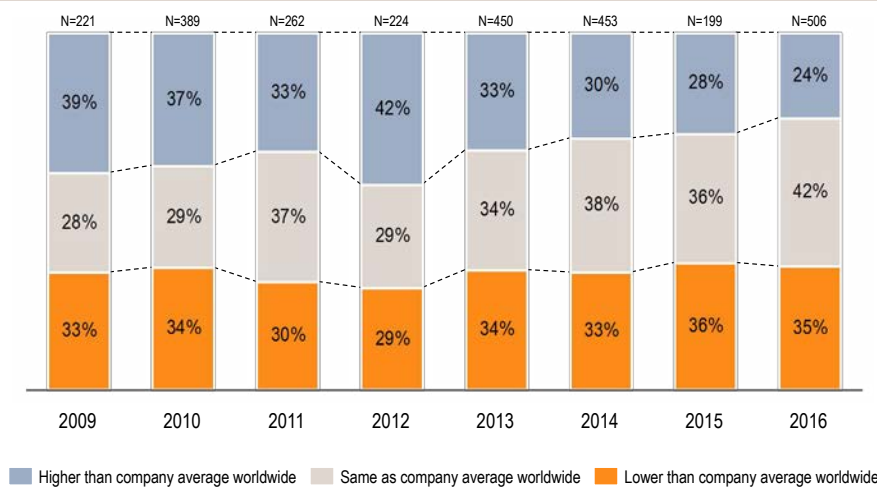
5 REACTIONS OF EUROPEAN BUSINESS

The 'new normal': EBIT margins tend to be higher outside of China

Only 24% of European companies reported China EBIT margins higher than their company average worldwide, down 18 points from 2012, and the lowest data-point since the question was introduced in 2009. China seems to have lost its privileged position in many companies' investment portfolios, with 42% of respondents reporting EBIT margins that are the same as their company's worldwide average, a six-point increase versus last year. The recent wave of outbound investment by Chinese companies indicates that they are attuned to this trend and are starting to proactively diversify their investment locations.

Figure 46: EBIT margins in Mainland China compared to worldwide average

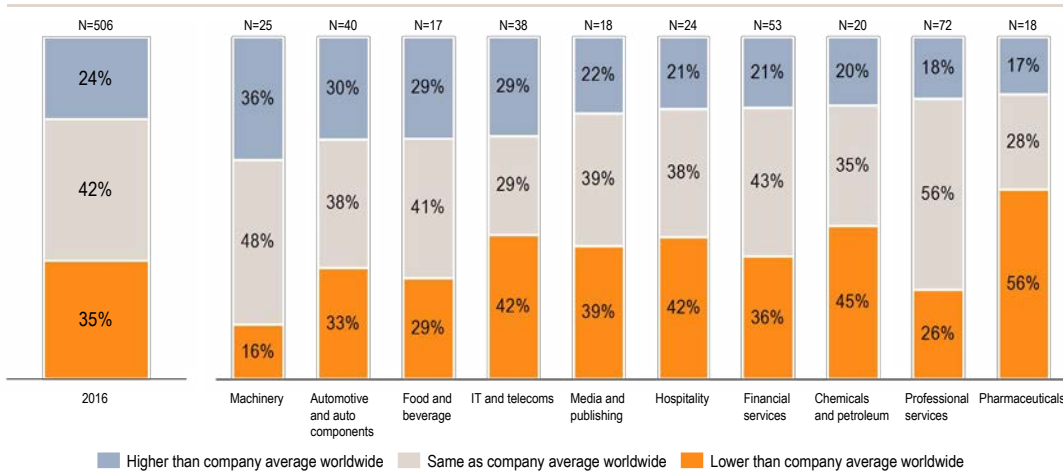
How did the EBIT margins of your company's Mainland China operations compare to your company's worldwide margins in 2015?



N.B. For all financial data reported by member companies in this survey, the x-axis indicates the year that the information was reported, i.e. 2016 refers to figures from FY2015, 2015 refers to figures from FY2014, 2014 refers to figures from FY2013, etc.

Figure 47: EBIT margins in Mainland China compared to worldwide average by industry

How did the EBIT margins of your company's Mainland China operations compare to your company's worldwide margins in 2015?

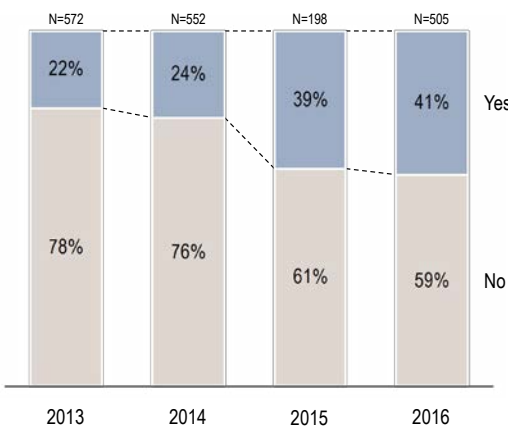


Record numbers experiencing economic headwinds

Partly as a result of the deteriorating economic conditions, European companies are increasingly looking to cut their operational costs in China. A record 41% of respondents are planning to do so in 2016, a two-point increase from 2015, and a sharp 19-point increase compared to 2013.

Figure 48: 2016 Cost cutting plans in Mainland China

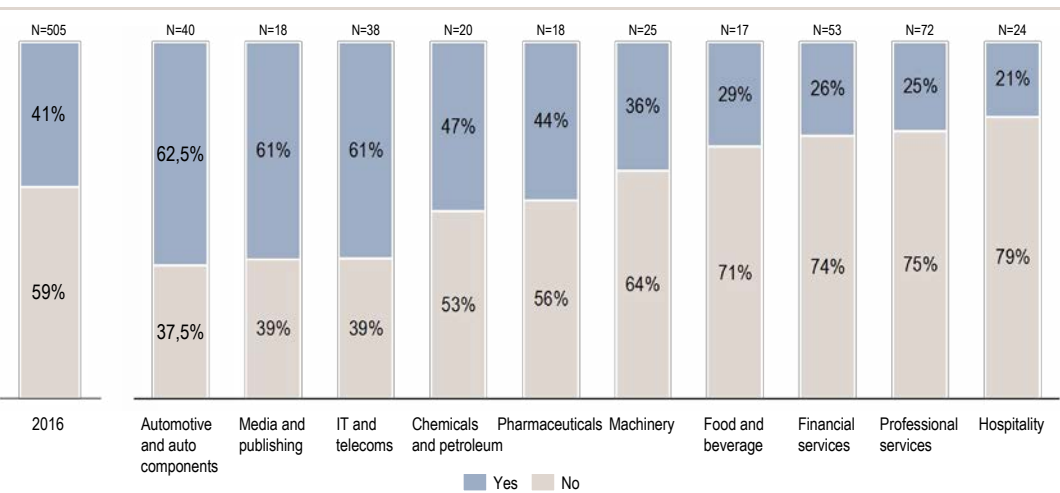
Does your company plan on cutting costs in China this year?



The automotive and auto components, media and publishing, and IT and telecommunications industries are all areas where the majority of respondents report that they are planning to engage in cost cutting measures in 2016. This will mainly be driven through reductions in procurement costs and headcount, which many companies intend to continue beyond financial year 2016.

Figure 49: 2016 Cost cutting plans in Mainland China by industry

Does your company plan on cutting costs in China this year?



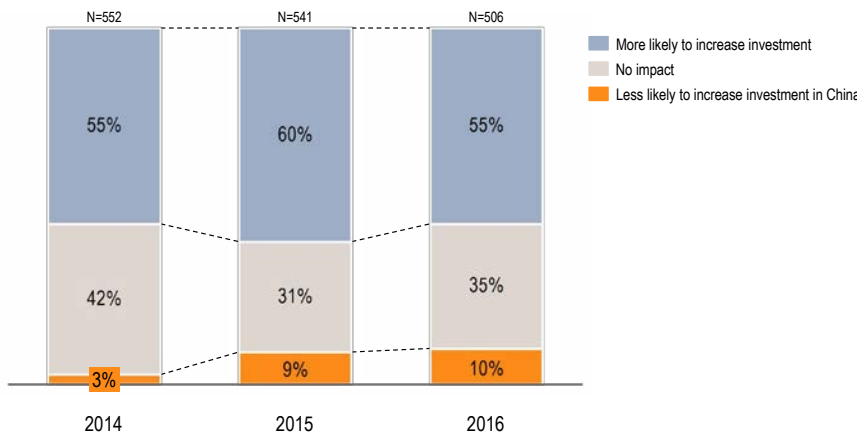
As can be seen in Figure 14 on page 19, these are also sectors that have missed out on significant business opportunities as a result of regulatory restrictions and barriers. It could therefore be assumed that improved market access in these industries would see them maintaining their current levels of investment and headcount in China.

Greater market access would lead to greater investments

Unsurprisingly, a clear majority of European companies would likely increase their investment if greater market access was afforded to them.

Figure 50: Effects of greater market access on investment decisions in Mainland China

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

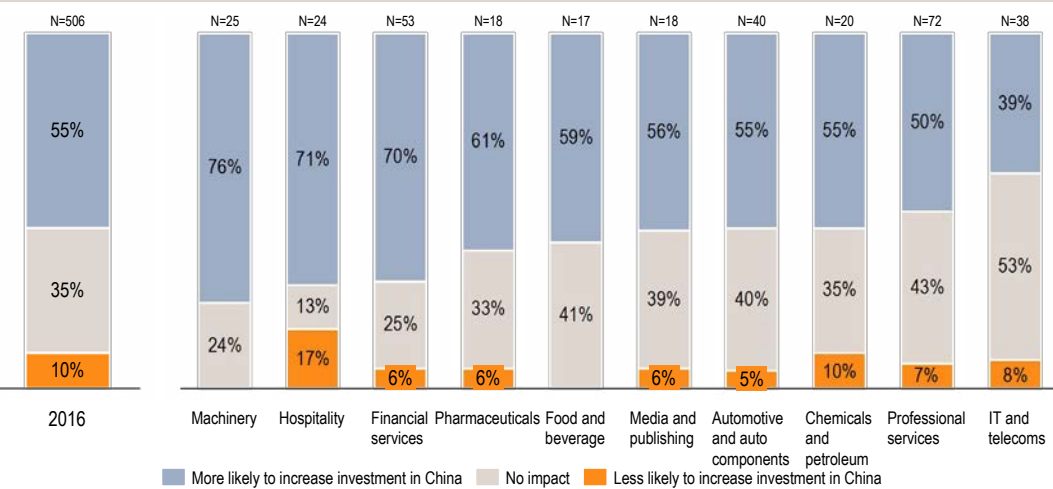


The willingness to increase investment if greater market access was afforded is especially strong within the machinery and financial services sectors. The former currently faces limitations in competing for public procurements, while the latter faces a near lockout with less than a 2% market share.

While one in ten respondents state that greater market access would actually make them less likely to increase their investment, this can be attributed to firms who do not welcome additional competition. As the Chinese economy would be the primary beneficiary of greater levels of competition, this is not a concern.

Figure 51: Effects of greater market access on investment decisions in China by industry

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



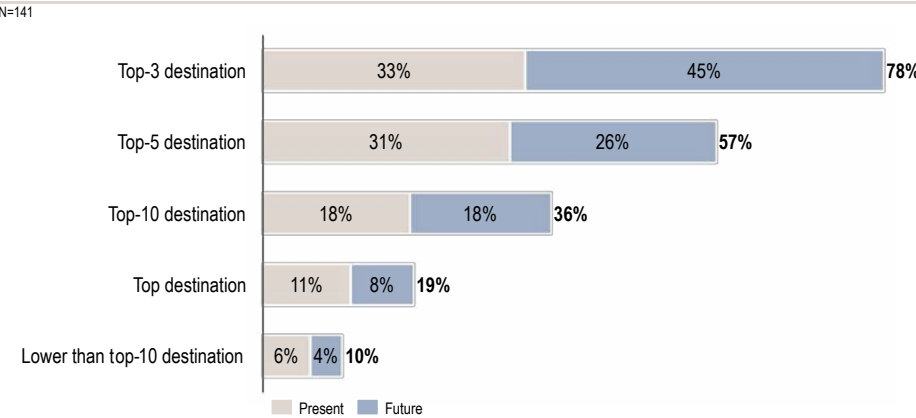
China-based R&D set to become more important

Respondents recognise the importance of innovation as a driver of China’s economy in the coming years, a conclusion shared by the drafters of the Made in China 2025 plan.

European companies are generally hopeful regarding China’s innovative potential, and thus see the country as an important location for future investment in R&D: whereas currently only a third of eligible companies see China as a top-three location, 45% regard it as such further down the line. However, its ability to live up to its potential is highly dependent on the enactment of government policies necessary for creating a more favourable R&D environment.

Figure 52: How Mainland China ranks as a destination for R&D investment

On a global scale, where does China rank as a destination for your company's present and future R&D investments?

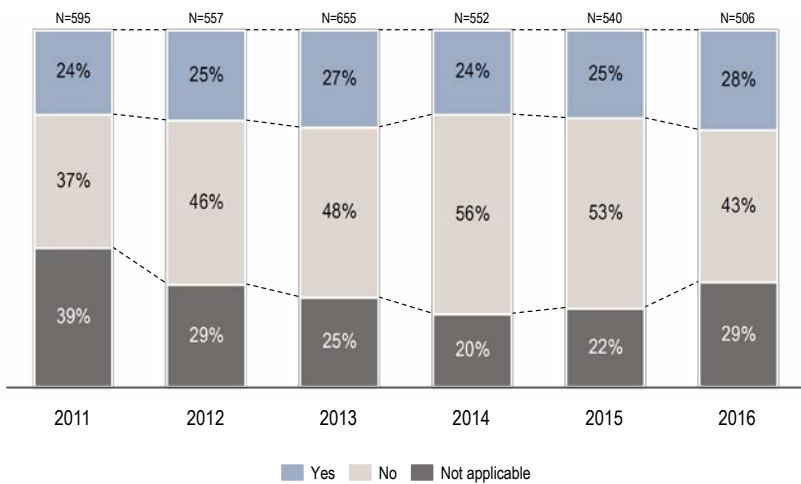


European investment in China R&D still low

Despite the obvious importance of innovation, the level of European companies’ R&D in China is still low. While it represents a three-point increase from 2015, only 28% of all respondents have a R&D centre in Mainland China. Notably, some companies’ R&D operations are more focused on localisation of products for the Chinese market as opposed to pure research.

Figure 53: R&D centres in Mainland China

Does your company have a R&D centre in Mainland China?

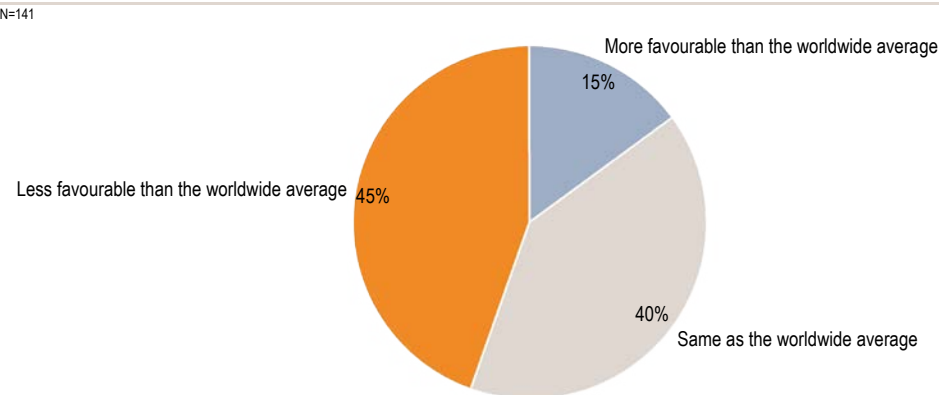


China’s innovation environment not up to global standards

China’s environment for innovation has great potential and has already improved a lot. However, with nearly half of respondents reporting that it is less favourable than the worldwide average, it can be considered that it falls short of global standards.

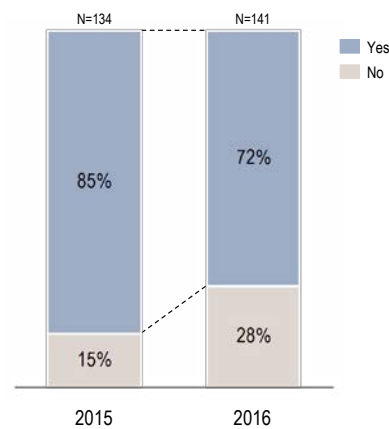
Figure 54: Mainland China's innovation and R&D environment compared to worldwide

How do you consider Mainland China's innovation and R&D environment compared to the worldwide average?



While willingness to invest in R&D remains strong at 72%, this represents a 13-point decrease versus 2015. One important reason for this are the numerous Internet-related issues that hinder research, which were outlined on page 21.

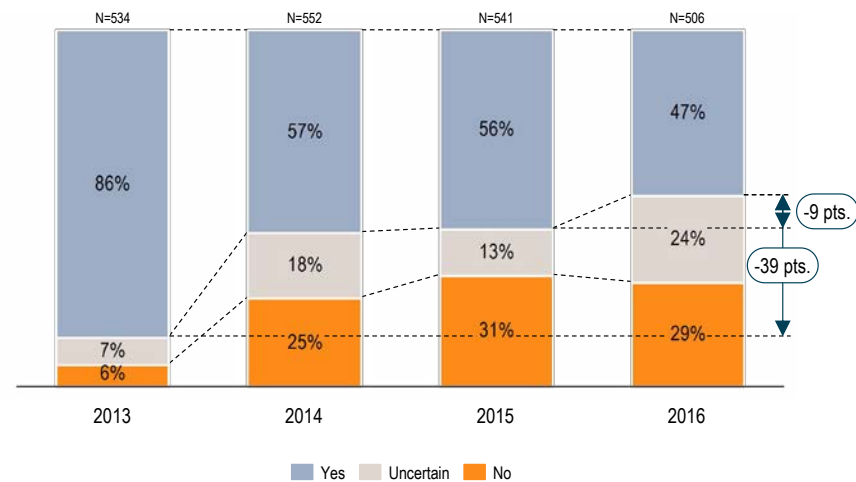
Figure 55: Likelihood of increasing R&D in Mainland China
Is your company likely to increase R&D investments or R&D operations in Mainland China in the near future?



Limited market access dissuades overall expansion in China

Market access barriers are limiting overall expansion in China, with only 47% of European companies planning to expand their operations, down nine points from 2015. This situation is fundamentally different from 2013, when 86% of European companies stated their intentions to expand, which amounts to a hugely significant 39-point dive in the space of just three years.

Figure 56: Expansion plans of Mainland China operations
Is your company considering expanding current China operations in 2016?



However, as very few markets can challenge China's appeal in terms of size and future potential, only a small minority (11%) of respondents have made plans to shift current or planned investments in China to other markets. The vast majority remain committed to China.

Breaking down the data into sub-regions, and as outlined in Figure 26 on page 27, respondents' views on the various jurisdictions where the European Chamber has a presence have remained largely consistent. The clear exception is Beijing, where, partially as a result of air pollution, a declining number of companies intend to expand. In contrast, Zhejiang Province, in addition to enjoying excellent connectivity with Shanghai and being home to numerous advanced industries, is also more progressive in terms of establishing a market economy and has become the object of growing interest of European business. As European enterprises are happy to follow the right opportunity, one region's loss can easily be another's gain.

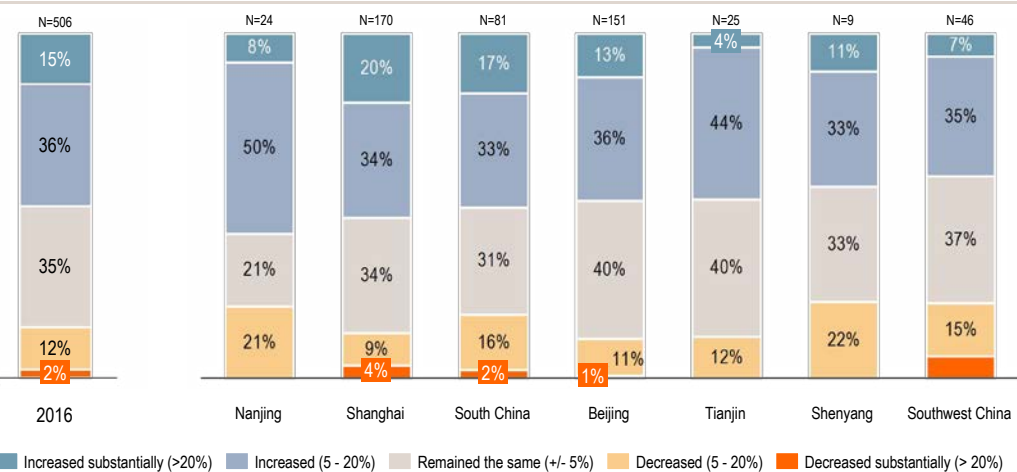
6 ANNEX

6.1 Multispeed China

Overall, growth is stagnating in China, with 35% of respondents reporting that their revenues remained the same in 2015 versus 2014. However, businesses in different regions seem to grow at different speeds, with some driving growth and others seeing significant decreases.

Figure 57: Revenue in Mainland China by chapter

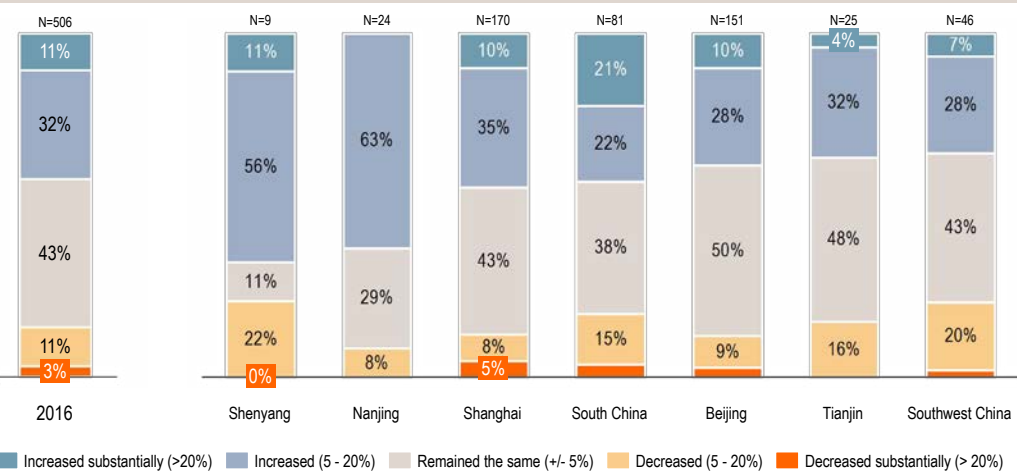
How did your company's total Mainland China revenue for 2015 compare to 2014?



The multispeed trend is also reflected in the evolution of companies' EBIT.

Figure 58: Evolution of EBIT in Mainland China by chapter

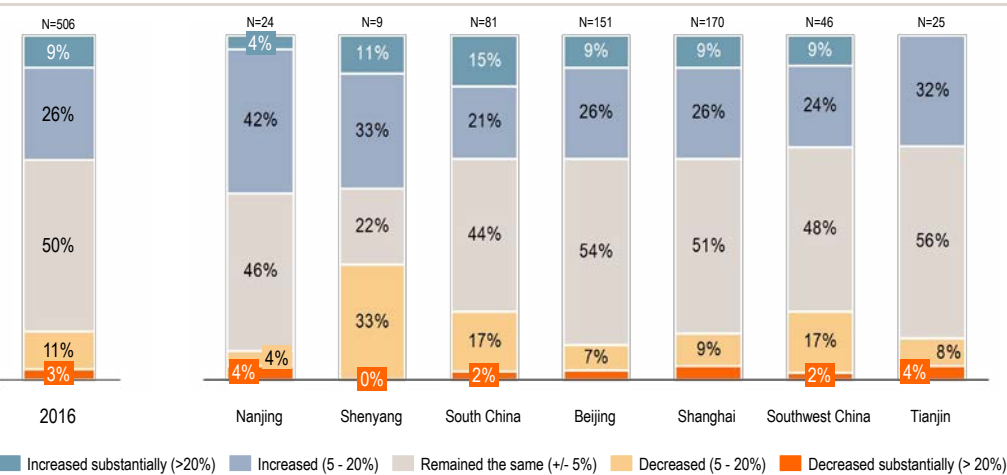
How did your company's EBIT in China for 2015 compare to 2014?



The multispeed EBIT growth is also reflected in the EBIT margins of European companies.

Figure 59: Evolution of EBIT margins in Mainland China by chapter

How did your company's EBIT margin in China for 2015 compare to 2014?

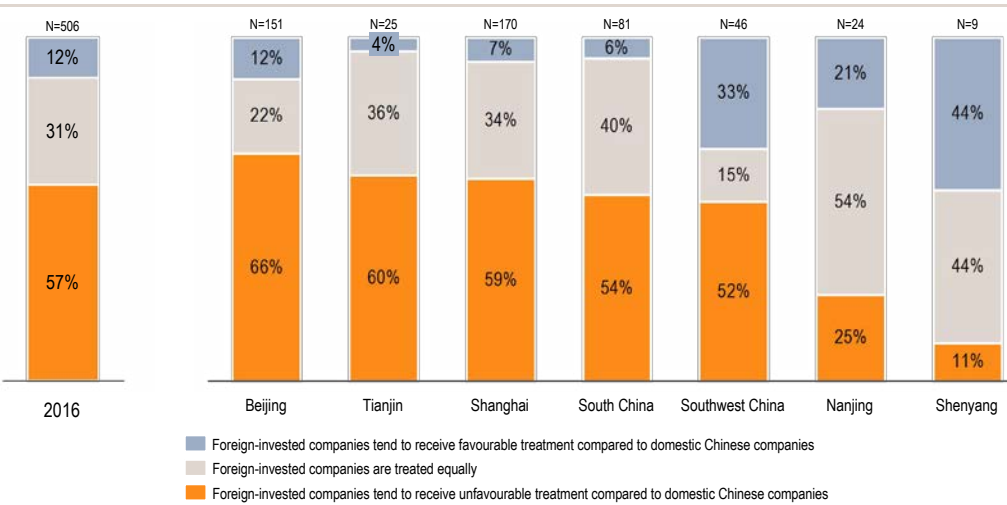


6.2 Inconsistent enforcement of regulations

In addition to the divergent growth rates, the Chamber's chapters also differ in their perceptions of the enforcement of regulations. It is noteworthy that in Nanjing, where respondents feel less discriminated against, growth is consistently the highest in terms of revenue, market share, EBIT and EBIT margin. By contrast, in Beijing and Tianjin, where respondents feel more discriminated against, growth has stagnated considerably.

Figure 60: Unfair treatment of foreign companies by chapter

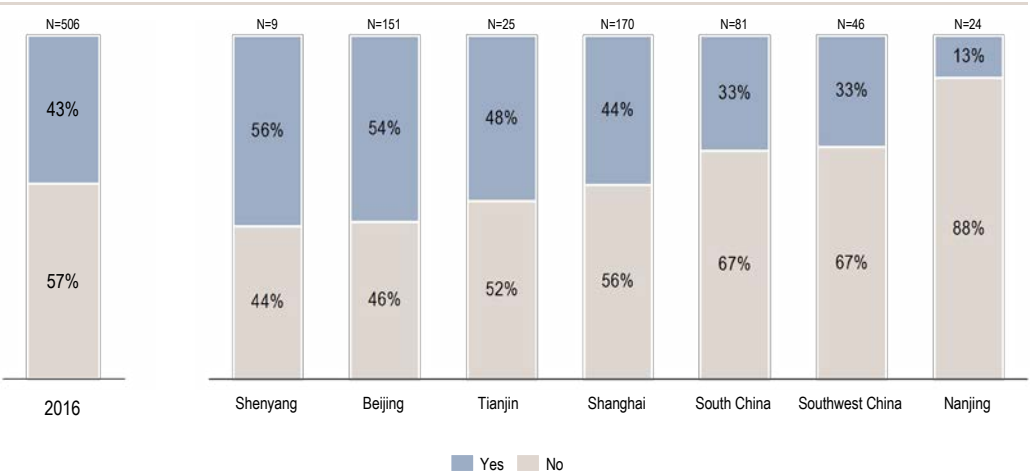
How does your company perceive foreign-invested companies' treatment by the Chinese Government in your industry compared to that of domestic Chinese companies?



This trend is also reflected in the loss of business opportunities because of regulatory barriers and market access restrictions; while 43% of respondents overall reported missed out business opportunities, this number was 56% in Beijing, where the feeling of discrimination against foreign companies is the highest. In Nanjing, the corresponding number was only 13%.

Figure 61: Missed business opportunities by chapter

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

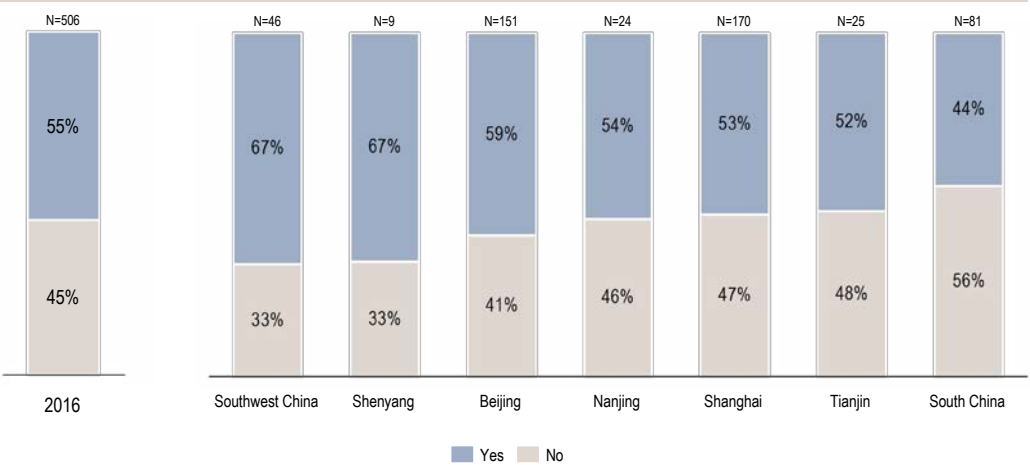


6.3 Outlook on the Chinese business environment by chapter

European companies in different regions of China vary in their outlook on the Chinese business environment. The majority of respondents in Shenyang and Southwest China are convinced that the 'golden age' in China for MNCs is over. Respondents in South China are more optimistic, with less than half answering 'yes' to the question. This is likely due to favourable policies in South China as well as the industrial composition there.

Figure 62: The 'golden age' in China by chapter

Do you believe that the 'golden age' in China is over for multinational corporations?

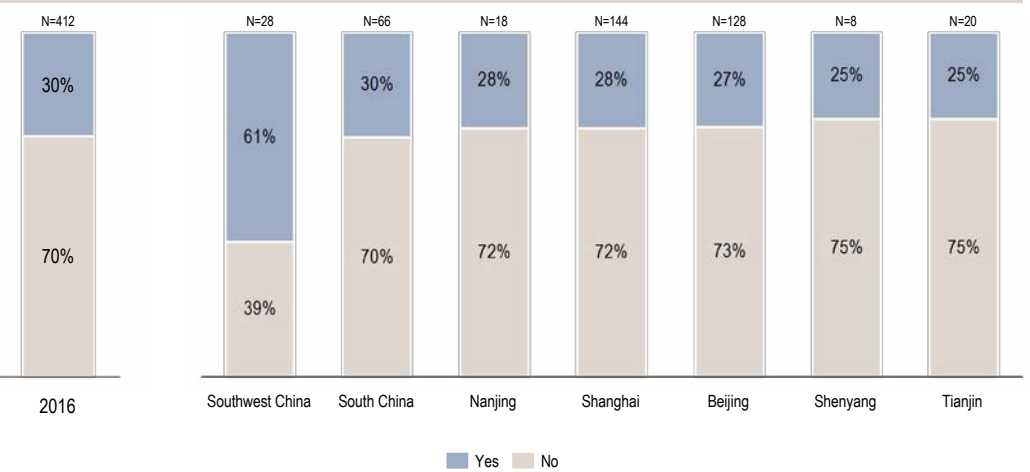


1) Original question read "Do you believe that the 'golden age' in China is over for the following entities?", answers included, privately-owned enterprises (POEs), state-owned enterprises (SOEs) and multinational corporations (MNCs).

In terms of how welcome members now feel in China compared to a decade ago, the results are remarkably consistent across all chapters with the exception of Southwest China. This is in part attributable to the fact that the China's western region began to develop later, and therefore has more room for growth. In addition, the goals that Chengdu set in 2014 and 2015, to become a major destination for international investment and an international gateway, and Chongqing's ambitions to develop into an international centre of business, for instance, has led to the implementation of policies that are comparatively more attractive to foreign investment. This is reflected in Figure 26 on page 27, with Southwest China being the most popular destination for companies that are considering expansion.

Figure 63: Foreign investors in Mainland China by chapter

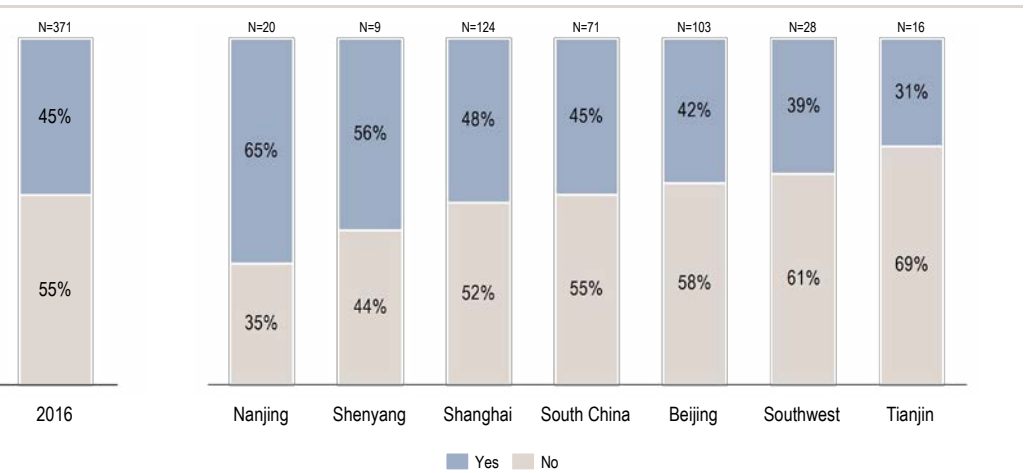
As a foreign investor in Mainland China, do you feel more welcome than 10 years ago?



European companies across the Chamber's chapters have quite varied ideas about the impact of overcapacity on future business in China.

Figure 64: The impact of overcapacity by chapter

Is there overcapacity in your industry sector?



Note: Excluding answers for 'not applicable'

7 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 since 2004, the survey has enabled the European Chamber 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 Chamber invited its members to take part in the 2016 survey over a four-week period during February and March 2016. The survey was conducted in cooperation with Roland Berger Strategy Consultants and was published in June 2016. There were 1,343 eligible entities. With 506 respondents completing the survey, the 2016 survey achieved a response rate of approximately 38%. 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 the member companies of the European Chamber. The survey comprised 54 questions, grouped under three key themes:

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

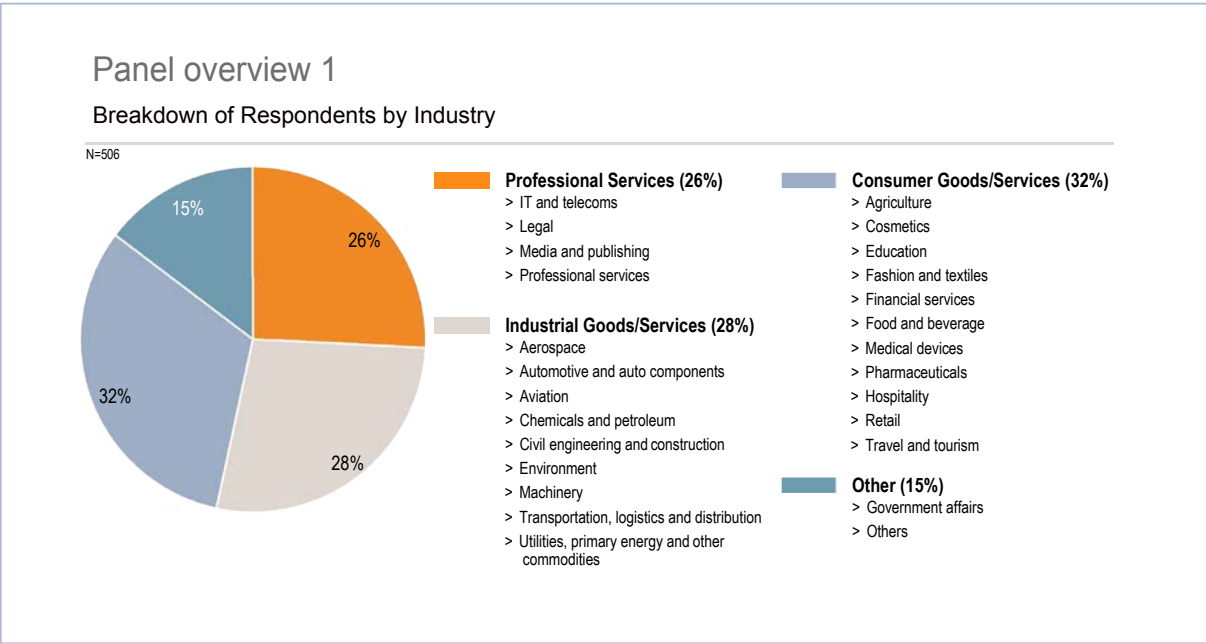
A sector-specific section and a chapter-specific section were also added as of 2015, but these questions are not included in this report.

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

8 PANEL OVERVIEW

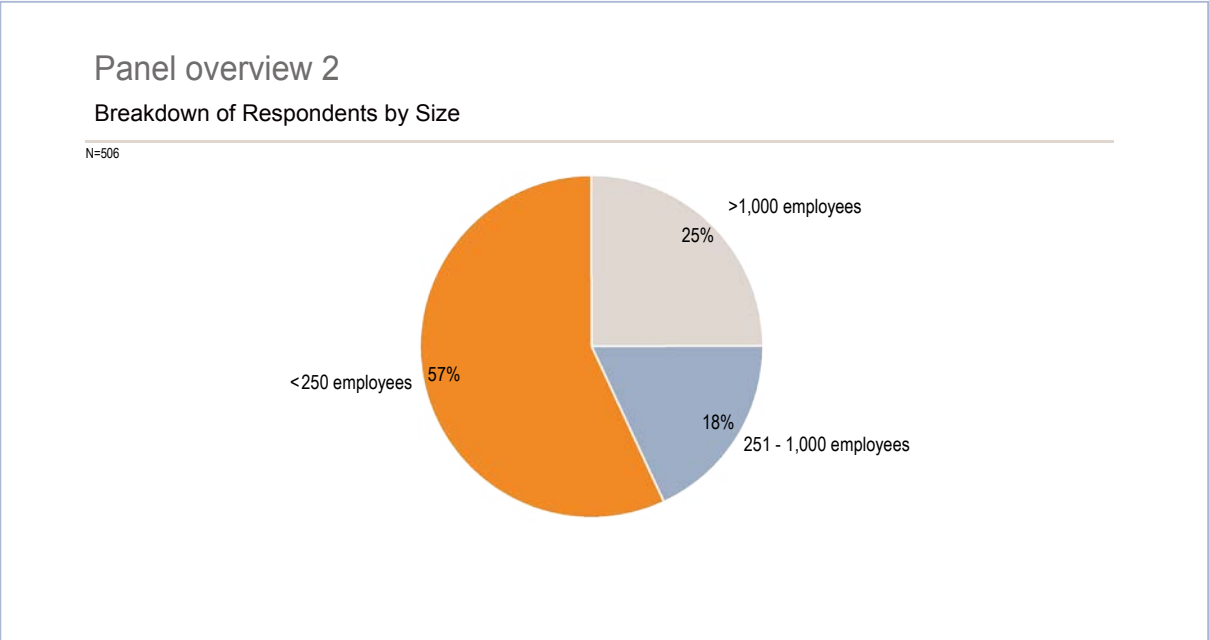
8.1 Industry

The various industries were represented almost equally in the 2016 survey, with 26% of respondents operating in the professional services sector, 28% in the industrial goods and services sector and 32% in the consumer goods and services sector. Companies in other sectors represented 15%. This adds to the quality and representativeness of the data set collected this year. The 2016 industry breakdown figures are similar to last year's, which were 27%, 37% and 35% respectively.

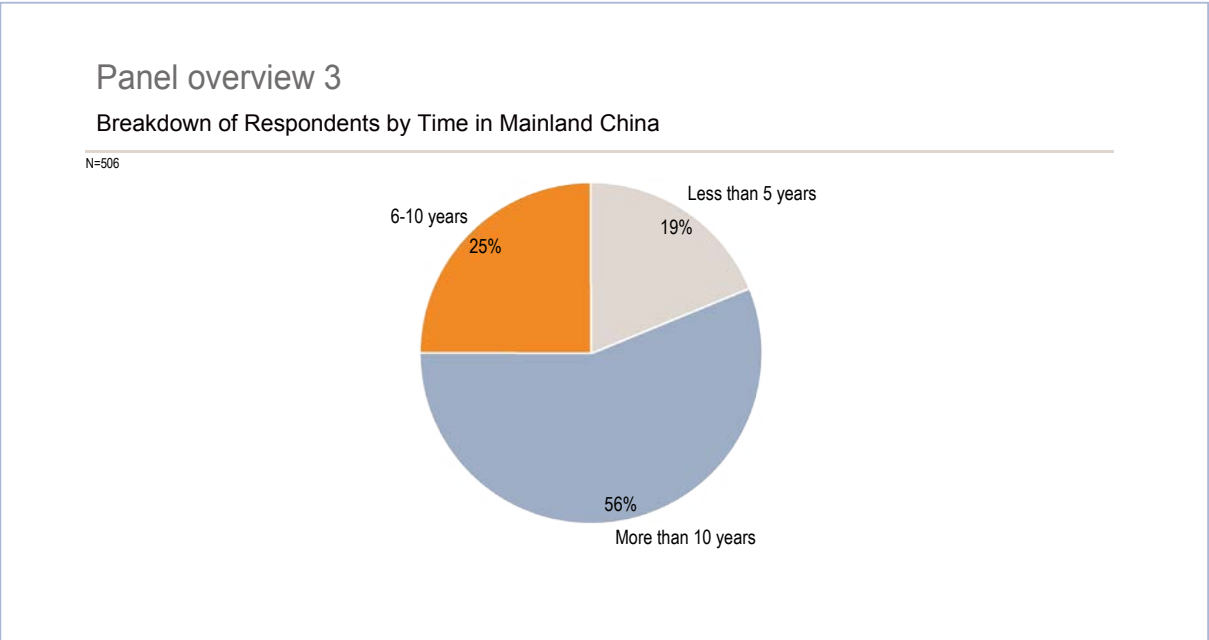


8.2 Size and time in China

In terms of company size, there was a greater number of smaller companies participating than there were large: 57% of respondents were small and medium-sized enterprises (with fewer than 250 employees), 18% were companies with 251–1,000 employees, and 25% were large companies with more than 1,000 employees.



In 2016, 19% of respondents have operated in China for less than five years; 25% from five to 10 years; and 56% for more than 10 years. These figures are similar to last year's of 17%, 29% and 54% respectively.



9 ABOUT ROLAND BERGER

Roland Berger, founded in 1967, is one of the world's leading strategy consultancies. With 50 offices in 36 countries and over 2,400 employees, the company has successful operations in all major international markets. The strategy consultancy is an independent partnership exclusively owned by about 220 Partners.

Roland Berger supports leading international corporations, non-profit organisations and public institutions in all management issues – ranging from strategic alignment and introducing new business models and processes to organisational structures and IT strategy. Roland Berger is based on global Competence Centres that are organised along functional and industry lines. This allows us to offer tailor-made solutions devised by our interdisciplinary teams of experts drawn from different Competence Centres.

At Roland Berger we develop customised, creative strategies together with our clients. Providing support in the implementation phase is particularly important to us. In doing so, we create value for our clients. That is why our approach is based on the entrepreneurial character and individuality of our consultants. All employees at Roland Berger strive to adhere to our three core values: entrepreneurship, excellence and empathy.

The Chinese market is a key pillar of Roland Berger's 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.

As the only consulting firm of European origin among the global Top 5, Roland Berger has built its expertise on its extensive experience working with clients on complex business cases for over 40 years. Outstanding strategic analysis and in-depth knowledge of implementation measures are the strengths of the company's consulting approach. Roland Berger consultants combine their analytical and strategic know-how within a diverse company setting to help clients in Greater China successfully master their unique challenges.

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 European Union and European businesses operating in China. It is a members-driven, non-profit, fee-based organisation with a core structure of 25 working groups and fora representing European business in China.

The European Chamber has more than 1,600 members 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 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). This network connects European business associations and chambers of commerce from 20 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: large, medium and small enterprises from all business sectors and European Member States, throughout China.
- We operate in accordance with Chinese laws and regulations.
- We treat all our members, business partners and employees with fairness and integrity.



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