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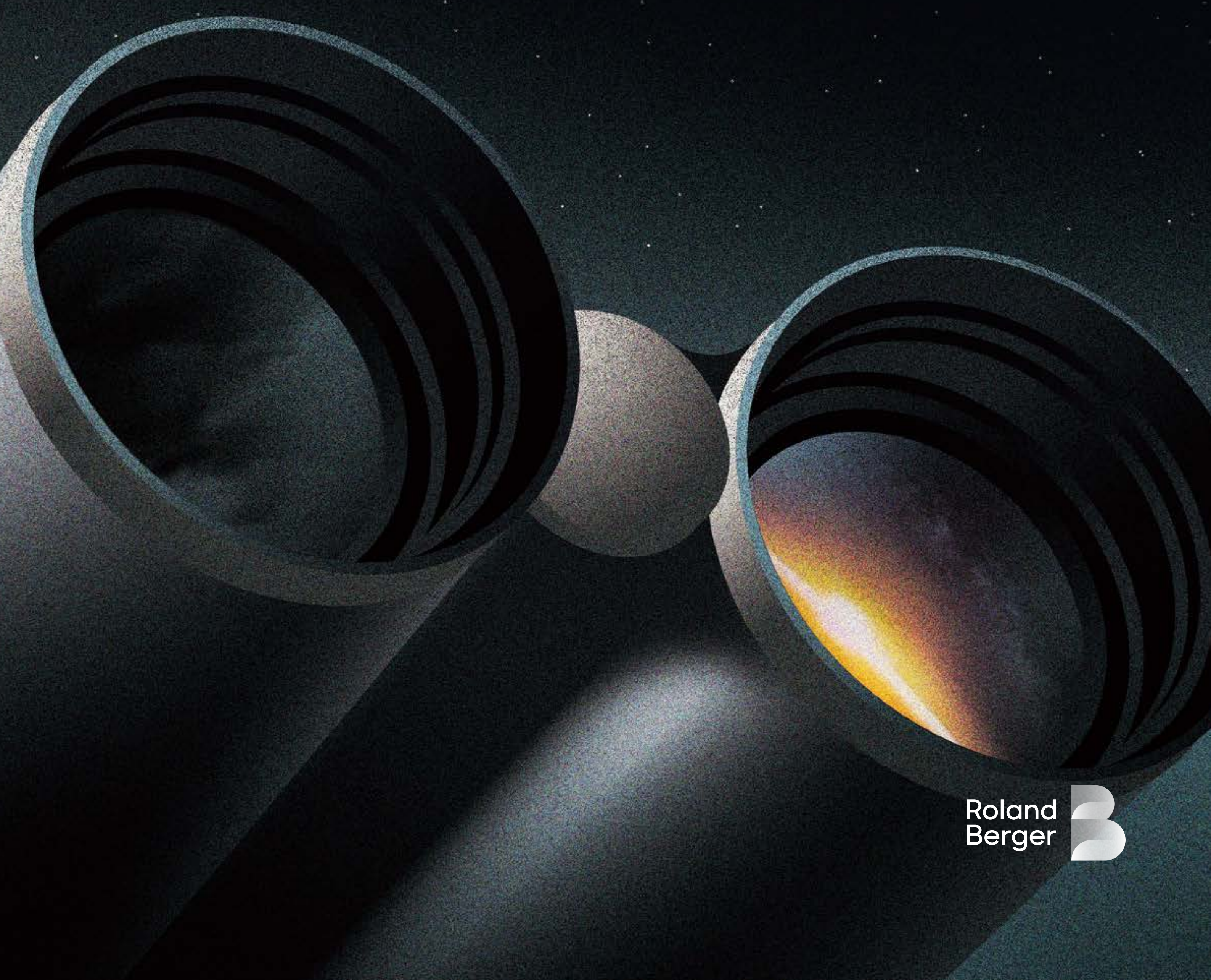
European Chamber
中国欧盟商会

European Business in China

BUSINESS CONFIDENCE SURVEY 2024



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EXECUTIVE SUMMARY

The first year of China's reopening, following its self-imposed isolation during COVID-19, turned into one of growing uncertainty for European businesses operating in the country. The lifting of pandemic-related control measures initially provided companies with a sense of optimism, in no small part due to the ability to travel again, which allowed for re-engagement with head offices in Europe. However, it soon became evident there would be no rapid recovery. China's deeper structural issues—including sluggish demand, high levels of local government debt and the continued challenges in the real estate sector—were going to continue affecting the prospects of both domestic and foreign companies, and the economy overall. Business confidence was further eroded due to the mixed messages coming from the Chinese Government, as it sought to balance the tightening of security-related regulations with economic development.

Although there has been a slight improvement in the overall sentiment about the politicisation of business—largely attributable to the abandonment of China's zero-COVID policy at the beginning of 2023—over half of respondents (55%, -4 percentage points (pp) year-on-year (y-o-y)) still feel the business environment became more political over the past year. With the European Union (EU), the United States (US) and China all continuing to build out their frameworks for risk management and strengthening economic security, businesses are facing increased pressure stemming from conflicting legal regimes and more politicised customer demands. While the increasing number of geopolitical risks businesses are having to deal with has seen a continuation of the trend of diversifying and siloing supply chains—both inside and outside China—many member companies are facing challenges trying to find alternative sources for certain components or equipment to make this possible.

The proportion of respondents that now rank China as a top destination for both present and future investments is currently the lowest on record (15% and 12% respectively). Companies are continuing to shift investments that were originally planned for China to alternative markets that are perceived to be more predictable, reliable and transparent. At the same time, the proportion of respondents planning to expand their current China operations in the year ahead fell to a record low level (42%, -6pp y-o-y). Many companies are also limiting reinvestment of their China profits, with 35% planning to reinvest less than their historical average in 2024. European companies are not the only ones voting with their feet: the percentage of respondents reporting that their Chinese suppliers or customers are moving their operations to other markets also increased (45%, +7pp y-o-y). As investment decisions are made in cycles and are not taken lightly, reversing them will not be possible overnight.

A positive finding in the survey is the notable increase in the proportion of respondents reporting market opening in their industry (45%, +9pp y-o-y). It is particularly encouraging that some of these developments are in areas where the European Chamber's working groups have been advocating for change. However, there has not been a corresponding uptick in the percentage of respondents likely to increase investments if they were to be granted greater market access. In fact, it dropped significantly (53%, -10pp y-o-y), an additional indication that investments may not be easily drawn back to China, even if certain issues are resolved.

Overall revenues took a hit, with just under two fifths of respondents (39%, -2pp y-o-y) reporting increases in 2023 – the lowest level on record. While over two thirds (69%) reported positive net profits, this proportion is unchanged from 2022, and thus represents the joint lowest since 2015. Net profit margins were adversely impacted by several challenges, with macroeconomic factors being the most cited (68%). In tandem, concerns over China's economic slowdown skyrocketed, with over half of respondents (55%, +19pp y-o-y) ranking it as a top-three challenge for business. While the persistence of weak demand weighed further on overall profitability, it also exacerbated the issue of overcapacity; over a third of respondents (36%) observed overcapacity in their respective industries in 2023, and two fifths (42%) reported deflation trends as a result.

While economic challenges have become more pronounced, regulatory obstacles remained largely unchanged in 2023, which has further negatively impacted the business outlook. Some concerns over specific issues, such as China's cyber and data regulations, or discrimination against foreign-invested enterprises in public procurement, were more pronounced depending on the industry. In general, however, European businesses highlighted ambiguous rules and regulations (46%, +1pp y-o-y) and China's unpredictable legislative environment (35%, -1pp y-o-y) as their primary regulatory challenges, with the former ranking as the top challenge for the eighth consecutive year. The lack of a resolution for such long-standing business challenges has contributed to a further decrease in the proportion of respondents who are optimistic that China's regulatory environment will improve. Only 16% expect to see the number of regulatory obstacles reduced – the lowest level on record. The business outlook is also the least positive since the Chamber's *Business Confidence Survey* (BCS) began, with over a quarter of respondents (26%, +17% y-o-y) pessimistic about their growth potential, and 44% (+18pp y-o-y) pessimistic about their profitability going forward.

Accordingly, European businesses are continuing to adjust their positions in the Chinese market. It is concerning that some of the strategies they are planning to adopt to tackle the continued economic slowdown have the potential to add to China's economic woes, setting a negative cycle in motion. Over half of respondents (52%, +11pp y-o-y) are planning to cut costs, with a quarter of those planning to do so by reducing headcount, which will further increase the pressure on an already strained job market.

A trend that needs to be closely monitored is that even when European companies' China operations see opportunities to expand, they are finding it increasingly difficult to get approval due to decoupling with their headquarters (HQs). Decoupling with HQs was reported by two fifths of respondents, and is manifesting itself in decreased communication and HQs having less understanding of on-the-ground realities, a dynamic that is being exacerbated by the fact that more and more restrictions are being placed on access to reliable information about China's economy. The European Chamber previously warned of the adverse impact that this kind of decoupling can have in terms of both mutual understanding and, more broadly, confidence in the China market.[1] It is of significant concern that the shifting of investments out of China may continue if meaningful improvements to the business environment are not made, and full access to legitimate and trustworthy sources of economic data is not restored. Without this, many CEOs will continue to feel they simply do not have the transparency and legal certainty they need to justify to their boards that there is a need to increase—or in some cases even maintain—their investments.

While 2023 was sobering for European business in China, it was also a year that opened up opportunities for renewed engagements. The Chinese Government expressed its intent to improve the business environment through a slew of pledges, most notably the *Opinions of the State Council on Further Optimising the Business Environment for Foreign Investment and Increasing the Attraction of Foreign Investment* and the *Letter on Removing Measures Concerning Unreasonable and Differential Treatment to Domestic and Foreign Investment* released by the Ministry of Commerce (MOFCOM).[2&3] The European Chamber is encouraged by these steps and will continue to use them as a foundation to proactively engage with relevant Chinese stakeholders, to advocate for meaningful changes to the business environment.

1 *European Business in China Business Confidence Survey 2023*, European Union Chamber of Commerce in China, 21st June 2023, viewed 25th March 2024, p.2, <https://www.europeanchamber.com.cn/en/publications-archive/1124/Business_Confidence_Survey_2023>

2 国务院关于进一步优化外商投资环境 加大吸引外商投资力度的意见 [*Opinions of the State Council on Further Optimising the Foreign Investment Environment and Increasing Efforts to Attract Foreign Investment*], State Council, 13th August 2023, viewed 25th March 2024, <https://www.gov.cn/zhengce/content/202308/content_6898048.htm>

3 商务部办公厅关于请做好内外资不合理 差别待遇专项清理工作的函 [*Letter on Removing Measures Concerning Unreasonable and Differential Treatment to Domestic and Foreign Investment*], Ministry of Commerce, 8th November 2023, viewed 25th March 2024, <http://wzs.mofcom.gov.cn/article/n/202311/20231103452139.shtml>

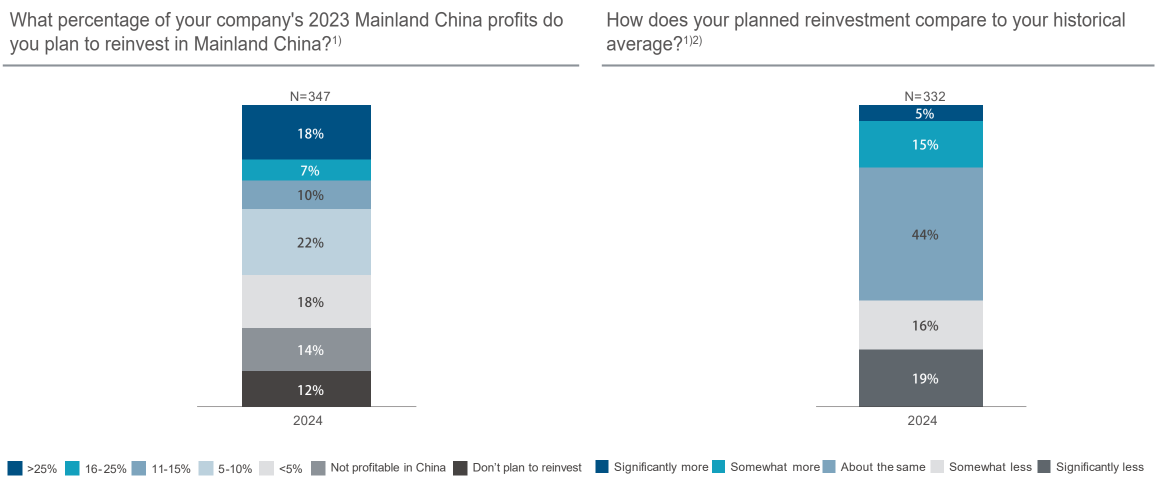
1 CONCERNS OVER ECONOMIC HEADWINDS INTENSIFY AS 2023 FALLS SHORT OF EXPECTATIONS

China's reopening at the beginning of 2023 sparked expectations for a rapid, consumption-driven economic rebound. However, confidence was quickly supplanted by uncertainty over the ability of China's economy to deliver. Mixed messaging from the Chinese Government, coupled with a lack of tangible action to boost the economy, diminished the appetite of foreign investors.[4] Spending and investment decisions were curtailed as a result, and China's official data on foreign direct investment (FDI) showed a corresponding stark decline.[5&6]

1.1 Value of reinvestments decreasing

Decreases in FDI are often—at least partially—attributed to the fact that rather than relying on capital injections from their overseas HQs, many foreign-invested enterprises (FIEs) reinvest their profits in China to fund new projects or expand or strengthen existing operations. Indeed, 75% of respondents are planning to reinvest some of their 2023 profits in China. However, over a third report they will reinvest less than their historical average.[7]

Figure 1: One in three plan to cut value of reinvestment



1) Excludes respondents that selected "Don't know" or "Other"
2) Respondents who selected "Don't know" when responding to the question "What percentage of your company's 2023 Mainland China profits do you plan to reinvest in Mainland China?'" were not given this question

4 *European Business in China Position Paper 2023/2024*, European Union Chamber of Commerce in China, 20th September 2023, viewed 26th March 2024, pp. 4–14, <https://www.europeanchamber.com.cn/en/publications-archive/1167/European_Business_in_China_Position_Paper_2023_2024>

5 According to revised data on China's balance of payments from the State Administration of Foreign Exchange (SAFE), net foreign direct investment into the country in 2023 dropped to the lowest level recorded in 23 years, and was less than a quarter of the 2022 figure. Qing, Na, *Foreign Direct Investment Into China Plummets to 23-Year Low, Caixin*, 1st April 2024, viewed 3rd April 2024, <https://www.caixinglobal.com/2024-04-01/foreign-direct-investment-into-china-plummets-to-23-year-low-102182062.html>

6 While somewhat more positive, data from China's Ministry of Commerce (MOFCOM) showed that the actual use of FDI in 2023 dropped 8% y-o-y. At Chinese yuan (CNY) 1.1 trillion, the new actually utilised FDI was still the third highest on record. However, the sharp drop a year after 2022, which was marked by lockdowns that caused grave disruptions to business operations, also indicated that investor confidence remained in decline despite China's reopening. *New Foreign Investment in China Drops to Three-Year Low, Bloomberg*, 19th January 2024, viewed 1st April 2024, <https://www.bloomberg.com/news/articles/2024-01-19/new-foreign-investment-into-china-drops-to-lowest-in-three-years>

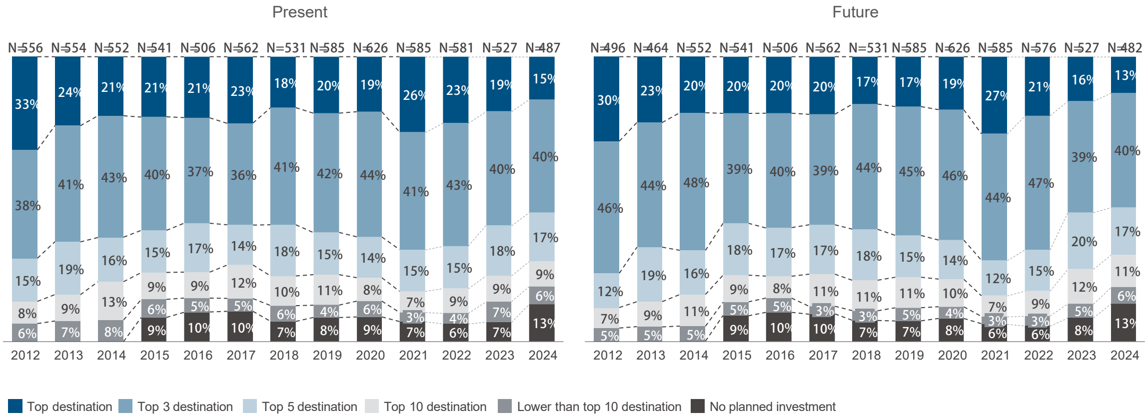
7 This is also reflected in the narrowing gap between the SAFE's balance of payments data and the MOFCOM's utilised FDI data. "This gap has been narrowing since 2016 […] as foreign firms have repatriated profits rather than reinvesting their earnings or withdrawing investment from China. The exception to this pattern was 2021 when the pandemic stopped international capital flows (including multinational corporations' profit repatriation), boosting the data gap." Lo, Chi, *Explaining the plunge in China's foreign direct investment*, BNP Paribas Asset Management, 8th December 2023, viewed 26th March 2024, <https://viewpoint.bnpparibas-am.com/explaining-the-plunge-in-chinas-foreign-direct-investment/>

1.2 China no longer the obvious choice for all

Only 15% of respondents report that China is a top destination for their company's present investments (-4pp y-o-y), the lowest proportion ever recorded;[8] and only 13% now rank China as a top destination for future investments (-3pp y-o-y) – another historic low. At the same time, 13% of respondents are not planning any further investment in China, which was the highest proportion on record.

Figure 2: China's ranking as a top destination for investments at record low

On a global scale, where does China rank as a destination for present and future investments for your company?[1)]



1) Excludes respondents that selected "Not applicable"

Respondents in information technology and telecommunications (ICT) are among the least willing or likely to make future investments in China, with 22% reporting they have no plan to do so, and only 28% ranking China as a top-three destination for future investments. This reflects the adverse impact of various factors—including geopolitical tensions, stricter regulations on data management and China's push for technological self-reliance—on those operating in the sector. While the proportion of those ranking China as at least a top-five investment destination was relatively low compared to other sectors, it was still more than half of respondents. This is attributable to the fact that certain ICT segments—for instance those supplying electronics to other industries, including the automotive sector—generally have a more positive outlook on their China business, as they face fewer barriers than those in more restricted areas such as 5G or cloud technology.

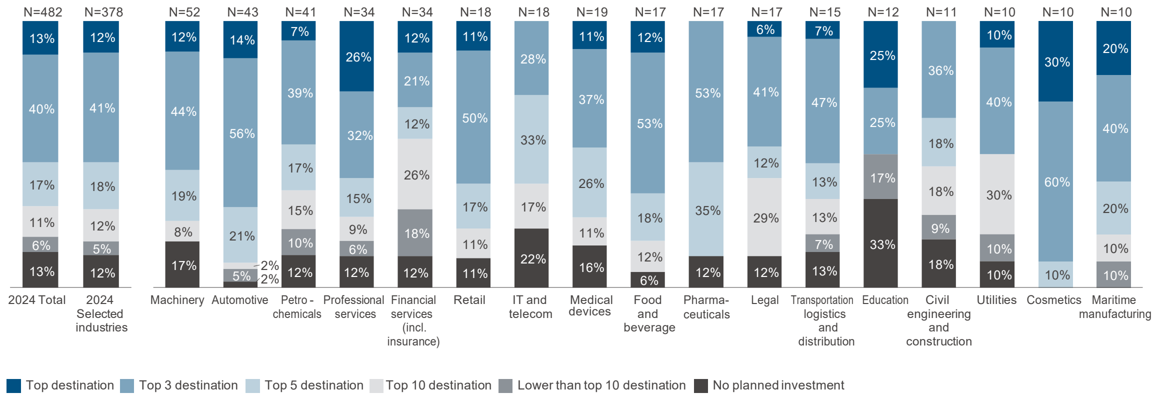
For members operating in the pharmaceutical industry, China's allure as a top investment destination has been undermined primarily by foreign investment restrictions and the lack of effective intellectual property (IP) protection mechanisms. E.g., China's Negative List for Foreign Investment restricts foreign investments in the fields of human stem cell and gene therapy;[9] meanwhile, European pharmaceutical companies are also concerned about the lack of effective patent term extensions and data protection for drugs that are new to the Chinese market.

8 This question first featured in the BCS in 2010 and has been asked annually since.

9 外商投资准入特别管理措施（负面清单）（2021年版）[*Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Edition)*], National Development and Reform Commission, 27th December 2021, viewed 26th March 2024, <https://zfxxgk.ndrc.gov.cn/web/iteminfo.jsp?id=18589>

Figure 3: Attractiveness of China as an investment destination varies by sector

On a global scale, where does China rank as a destination for future investments for your company?[1)]

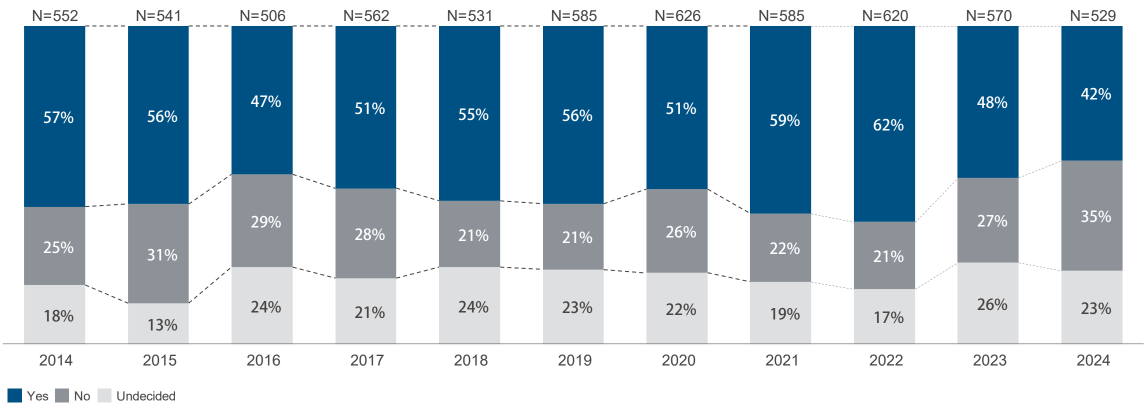


1) Industries selected are those for which there were at least 10 responses

Only 42% of respondents (-6pp y-o-y) are planning to expand their China operations in 2024, the lowest level on record.[10] At the same time, the proportion of respondents not considering expanding their operations in the coming year rose to the highest level on record, reaching 35% (+8pp y-o-y).

Figure 4: China expansion plans lowest on record

Is your company considering expanding current China operations in 2024?

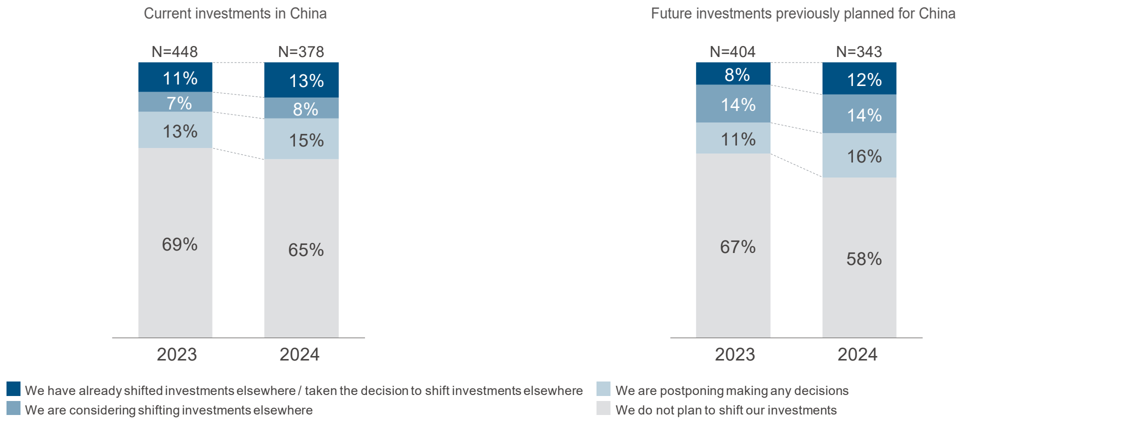


The survey shows an uptick in the proportion of respondents reporting they have already shifted, or taken the decision to shift, existing investments out of China. While 65% (-4pp y-o-y) are maintaining current investments in the country, this drops to 58% with regard to future investments. There is also a 4pp y-o-y increase in the proportion of respondents that have already shifted, or taken the decision to shift, future investments to other markets.

10 This question first featured in the BCS in 2012 and has been asked annually since.

Figure 5: Increase in investments moving out of China

Is your company considering shifting current or planned investments in China to other markets?[1)]

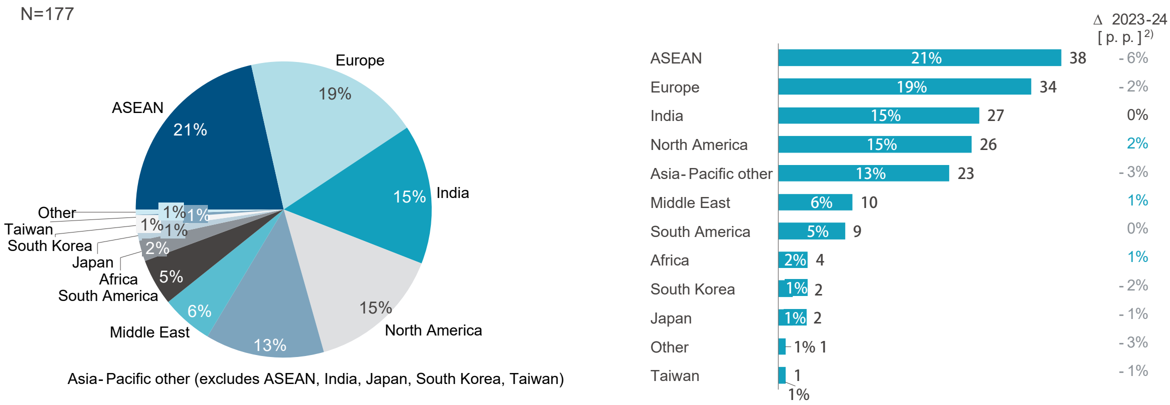


1) *Excludes respondents that selected "Don't know"*

For the second year in a row, the Association of Southeast Asian Nations (ASEAN) is the main beneficiary of China's fading appeal as a destination for foreign investment, with 21% of respondents having already moved, or reported they are considering moving, investments originally planned for China to the region. Europe is the second most selected alternative destination for shifted, or potentially shifting, investments (19%), followed by India (15%) and North America (15%).

Figure 6: Investments primarily rerouted towards ASEAN and Europe

Where have you shifted / are you considering shifting investments to?[1)2)]



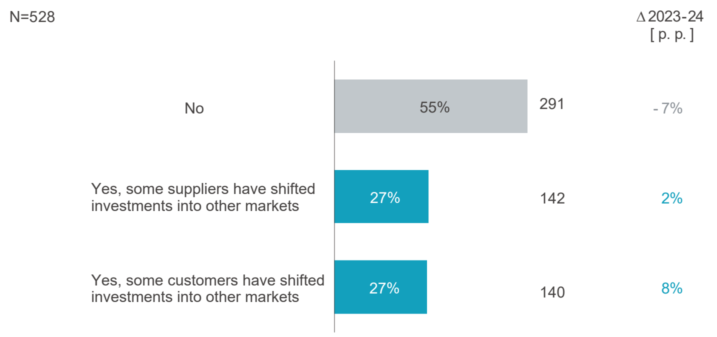
1) *Question only asked to respondents that reported that they have already shifted, or are considering shifting, China investments in response to question: Is your company shifting current or planned investments in China to other markets?*
2) *Multiple answers possible; percentages based on the total number of responses*

1.3 Domestic players also shifting some investments out of China

The percentage of respondents that say their Chinese partners are moving operations to other markets also increased in 2023. Over a quarter of respondents (+8pp y-o-y) report this to be the case for Chinese customers, while 27% (+2pp y-o-y) say the same for domestic suppliers.

Figure 7: Nearly half witnessed Chinese partners shift investments out of China

Has your company seen Chinese suppliers/customers moving their operations from China to other markets?[1)]



1) Multiple answers possible; percentages based on the total number of responses

2 WITH ZERO-COVID OVER, ECONOMIC ISSUES ARE NOW IN PLAIN SIGHT

Now China's stringent zero-COVID policy is a thing of the past, the impact that pandemic control measures exerted over business decisions has begun to fade. As the threat of sudden lockdowns or other disruptions to operations disappeared, other issues impeding businesses' development in the Chinese market have become more prominent.

2.1 Zero-COVID no longer to blame for everything

In the BCS 2023, 29% of respondents reported that they had shifted, or were considering shifting, investments because China's COVID-19 policies made business too challenging, with this factor ranking the fifth most popular reason.[11] To capture the lingering impact of China's pandemic-control measures on investment decisions, the BCS 2024 listed two options related to China's zero-COVID measures. It is clear that the impact of China's pandemic control measures has diminished significantly. The related option selected by most respondents ("We already shifted investments because of disruption to business operations resulting from China's COVID-19 measures"), only ranked eighth overall (13%); and only 8% report having shifted investments because their company's decision-makers were unable to visit China, ranking twelfth overall.

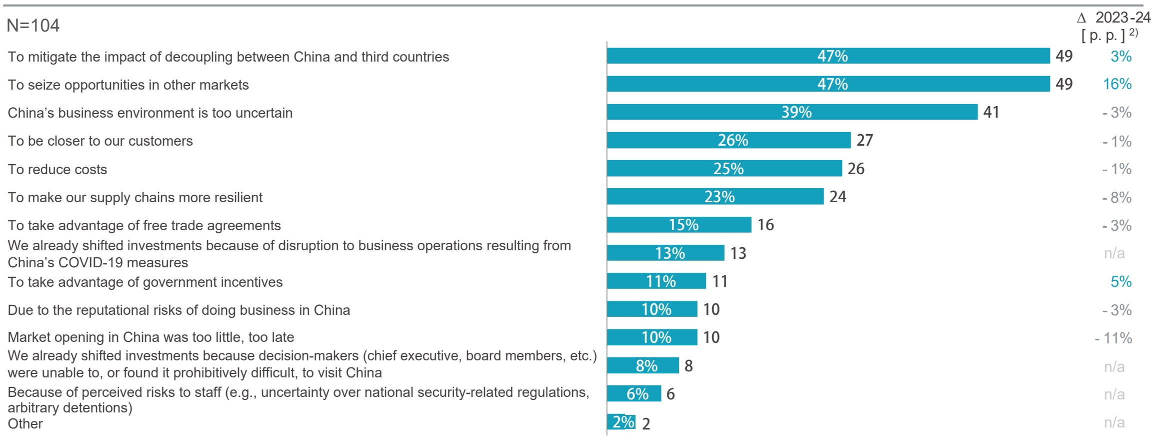
Mitigating the impact of decoupling between China and third countries remained a key factor behind decisions or plans to shift investments, with 47% of respondents selecting this option (+3pp y-o-y). At the same time, there was a significant uptick (+16pp y-o-y) in the percentage of those indicating that seizing opportunities in other markets is their primary motivation.

The 39% that have shifted, or are considering shifting, investments out of China because the business environment is too uncertain is further evidence that China's allure as a top investment destination is fading. Without meaningful improvements to the business environment, companies will continue to pursue opportunities in other markets that they perceive to offer more reliability, predictability and transparency.

11 *European Business in China Business Confidence Survey 2023*, European Union Chamber of Commerce in China, 21st June 2023, viewed 26th March 2024, pp. 10-11, <https://www.europeanchamber.com.cn/en/publications-archive/1124/Business_Confidence_Survey_2023>

Figure 8: The impact of COVID-related factors on investment decisions is fading

Why have you shifted / are you considering shifting current or planned investments in China to other markets?[1)2)3)]



1) *Question only asked to respondents that reported that they already have or are considering shifting China investments in response to the question: Is your company shifting current or planned investments in China to other markets?*
2) *Multiple answers possible; percentages based on the total number of responses*
3) *"n/a" refers to a new option or an option that is different from the previous year*

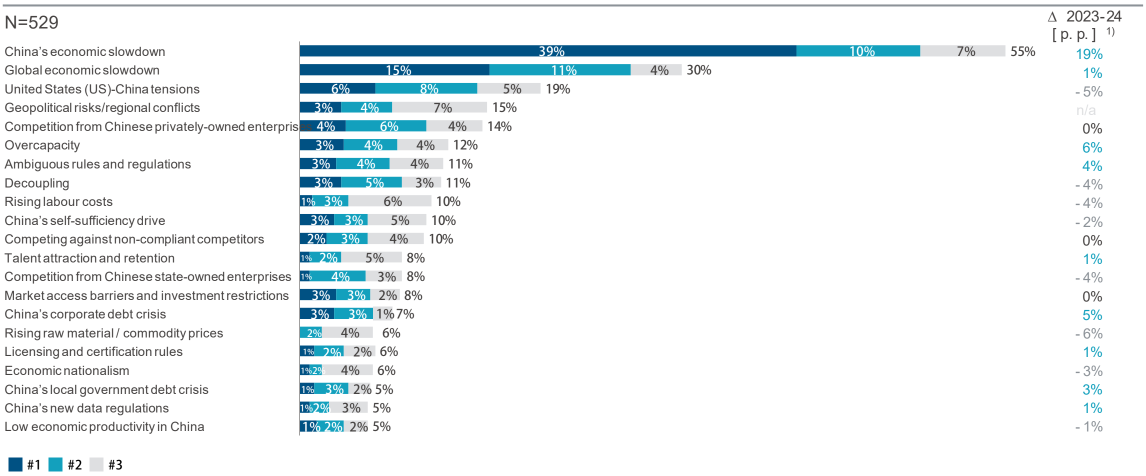
2.2 Concern increases over China's economic slowdown

The BCS 2024 shows a sharp rise (+19pp y-o-y) in the percentage of respondents that rank China's economic slowdown as a top-three challenge to their future business in China. Notably, the proportion of those selecting it as the greatest challenge shot up 20pp y-o-y, to 39% in this year's survey, reflecting just how quickly unease over the headwinds facing China's economy has spread.[12] This was followed by the global economic slowdown, ranked as a top-three concern by 30% (+1pp y-o-y), and US-China tensions, ranked in the top-three by 19% of respondents (-5pp y-o-y).

12 In the BCS 2023, 19% of respondents ranked China's economic slowdown as the top business challenge, 12% ranked it as top-two, and another 6% as top-three. *European Business in China Business Confidence Survey 2023*, European Union Chamber of Commerce, 21st June 2023, viewed 26th March 2024, p.9, <https://www.europeanchamber.com.cn/en/publications-archive/1124/Business_Confidence_Survey_2023>

Figure 9: China's economic slowdown the major business challenge by far

Please rank the top three business challenges that you selected as significant above1)2)



1) Respondents were asked to rank the top three challenges they had previously selected in response to the question "Please choose at least three challenges your company perceives as having the greatest impact on your future business in China."

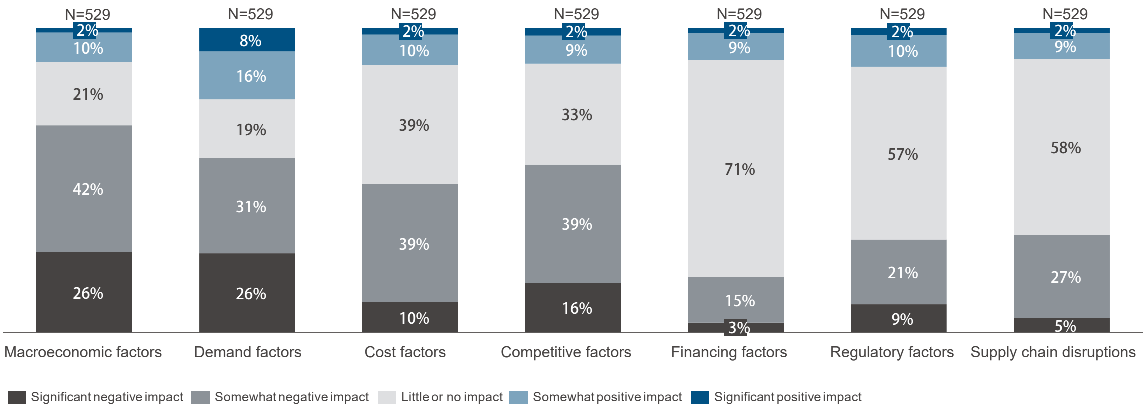
2) "n/a" refers to a new option or an option that is different from the previous year

2.3 Macroeconomic factors also weighing on profit margins

One key element behind the growing concerns over China's economic slowdown is the impact that macroeconomic factors are already having on companies' profitability, with a significant 68% of respondents reporting this to be the case. While the Chinese Government has already made pledges to improve weak domestic consumption,[13] there has not yet been any noticeable improvement for 57%, whose profitability is being negatively impacted by demand factors.

Figure 10: Macroeconomic factors having most significant adverse impact on profitability

Please indicate the significance of the following factors affecting your company's net profit margin in China in 2023



13 Tan, Clement, *China vows to 'restore and expand' consumption to boost growth, CNBC*, 18th July 2023, viewed 27th March 2024, <https://www.cnbc.com/2023/07/18/china-vows-to-restore-and-expand-consumption-to-boost-growth.html>

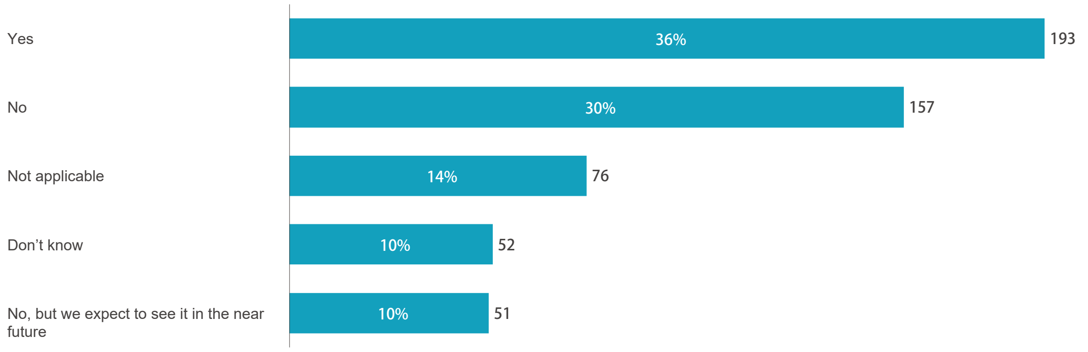
2.4 Persistent weak demand exacerbating overcapacity and competition

With domestic consumption slumping, overcapacity emerged as a more significant issue over the last year.[14] Overall, 36% of respondents observed overcapacity in their respective industry in 2023, and another 10% expect to see it in the near future.

Figure 11: Over a third observe overcapacity in their industry

Have you observed overcapacity in your industry over the past year?

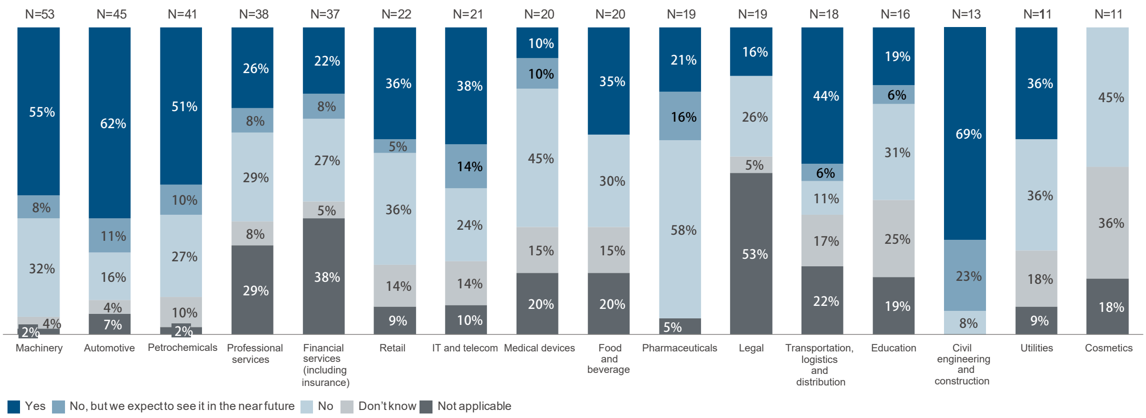
N=529



Overcapacity is reported by the highest proportion of respondents (69%) in civil engineering and construction. Members operating in the sector attribute this to China's real estate crash, which has resulted in a sharp decrease in new business. The automotive industry had the second highest proportion of respondents (62%) reporting overcapacity in their industry, which is in line with recent developments. In October 2023, the European Commission announced the launch of an anti-subsidy investigation into electric vehicle imports from China. It came amid concerns that an oversupply of electric vehicle (EV) batteries in China may have played a major part in lowering prices, thus artificially increasing the competitive edge of Chinese EVs in the EU.[15]

Figure 12: Overcapacity observed to varying degrees across different industries

Have you observed overcapacity in your industry over the past year?[1)]



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

14 Boullenois, Camille; Kratz, Agatha & Rosen, Daniel H., *Overcapacity at the Gate*, Rhodium Group, 26th March 2024, viewed 27th March 2024, <https://rhg.com/research/overcapacity-at-the-gate/>

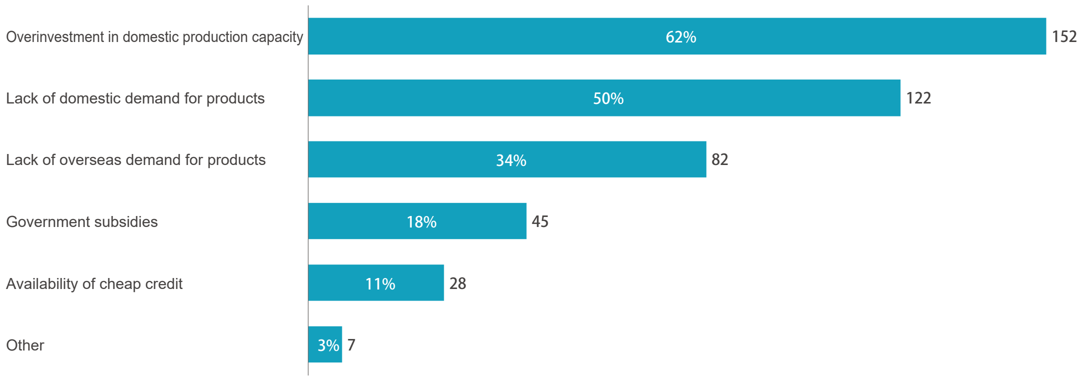
15 Grieger, Gisela, *EU anti-subsidy probe into electric vehicle imports from China*, Think Tank of the European Parliament, 18th October 2023, viewed 27th March 2024, <https://www.europarl.europa.eu/thinktank/en/document/EPRS_ATA(2023)754553>

Three fifths of respondents that report overcapacity in their sector identify overinvestment in domestic production capacity as the main driver; half of respondents attribute this to the lack of domestic demand; and at 34%, the lack of overseas demand is seen as the third most significant contributing factor.

Figure 13: Overinvestment in production capacity and weak demand the main drivers of overcapacity

What do you think are the main drivers of overcapacity in your industry in China?[1)2)]

N=244



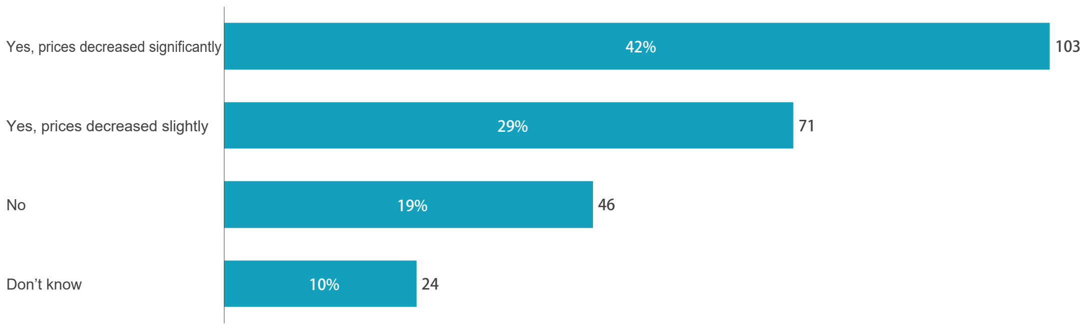
1) *Multiple answers possible; percentages based on the total number of responses*
2) *Question only asked to respondents that reported they have observed overcapacity in their industry in response to the question: Have you observed overcapacity in your industry over the past year?*

More than 70% of respondents that observe overcapacity in their industry have seen price decreases as a result, with 42% saying that prices dropped significantly.[16]

Figure 14: Almost three quarters report deflation trends as a result of overcapacity

Have you observed deflation trends in your industry as a result of overcapacity over the past year?[1)]

N=244



1) *Question only asked to respondents that reported that they have observed overcapacity in their industry in response to question: Have you observed overcapacity in your industry over the past year?*

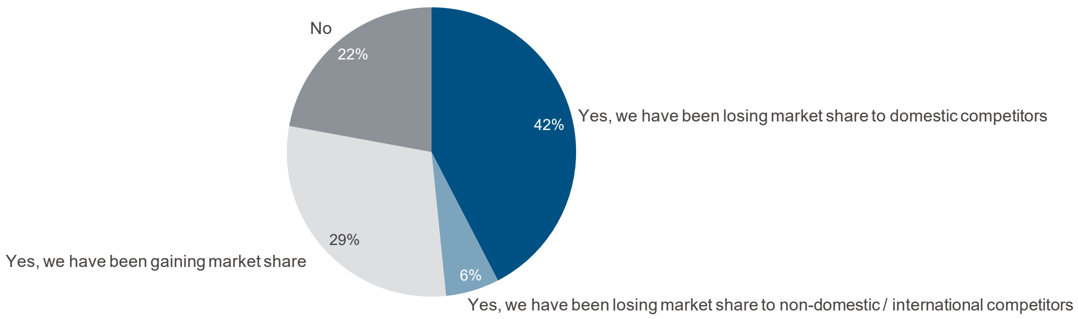
16 Data from the National Bureau of Statistics also indicates that producer prices for industrial products were in decline throughout 2023, decreasing 3% overall compared to the previous year. *Producer Price Index in the Industrial Sector for December 2023*, National Bureau of Statistics of China, 13th January 2024, viewed 27th March 2024, <https://www.stats.gov.cn/english/PressRelease/202401/t20240117_1946671.html>

With China's domestic champions developing rapidly in recent years, competition for market share has sharpened in many sectors.[17] Over 40% of respondents have already lost some market share to domestic competitors. If the interconnected issues of weak demand and overcapacity remain unaddressed, competitive pressure is likely to intensify further, which would be in line with the expectations of over 60% of respondents (see Figure 34).

Figure 15: Two fifths have lost market share to domestic competitors

Has your market share changed in the past five years?[1)]

N= 434



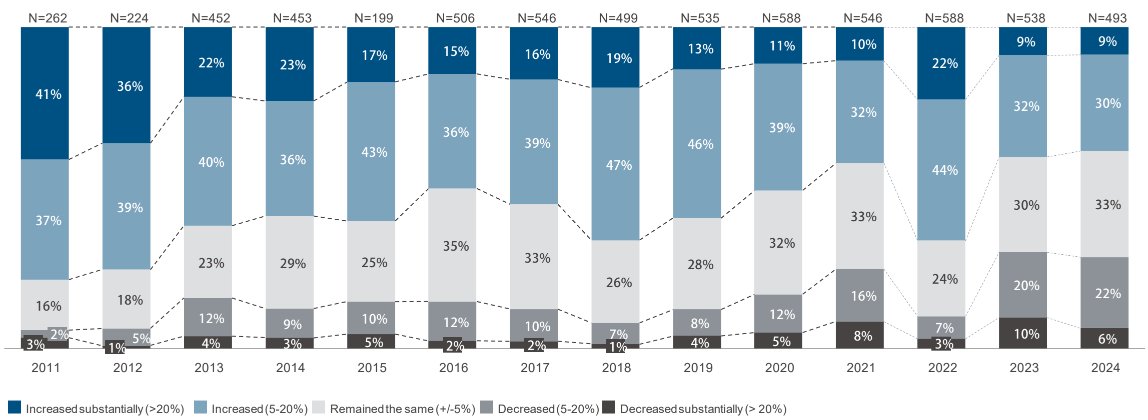
1) *Excludes respondents that selected "Don't know"*

2.5 Mild improvement in company revenues

Revenue increases were reported by 39% of respondents (-2pp y-o-y), the lowest level on record.[18] While the proportion of those reporting a drop in their revenue (28%) was 2pp lower than in the previous year, it is still the second highest on record.

Figure 16: More than a quarter report revenue decreases

How did your company's total 2023 revenue in Mainland China evolve compared to 2022?[1)]



1) *Excludes respondents that selected "Not applicable"*

17 For instance, in the automotive sector, "in the Chinese domestic market in 2023, and for the first time in decades, Chinese brands will surpass foreign brands (51%) and are predicted to reach a market share of 65% by 2030". *As the Global Automotive Market Recovers More Slowly Than Anticipated, China is Rapidly Emerging as an Industry Superpower*, AlixPartners, 27th June 2023, viewed 27th March 2024, <https://www.alixpartners.com/media-center/press-releases/uk-automotive-outlook-2023/>

18 This question first featured in the BCS in 2010 and has been asked annually since.

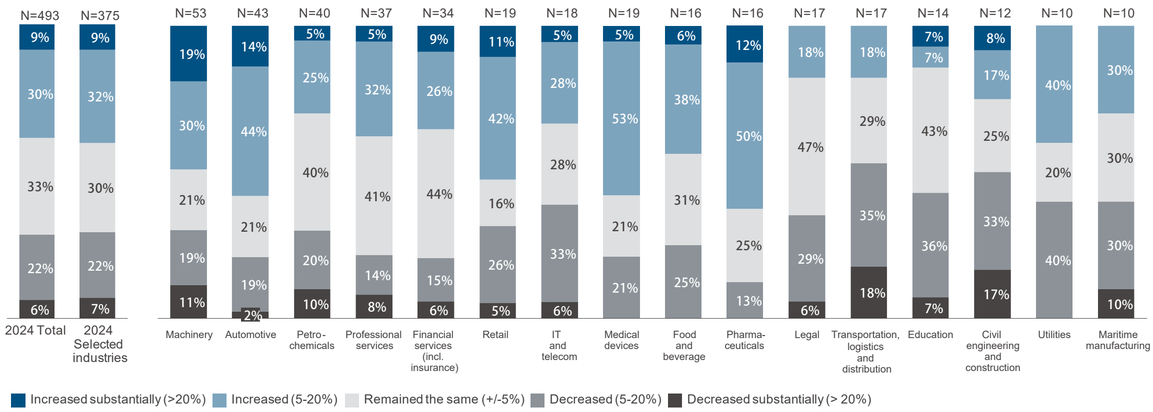
At the sectoral level, more respondents reported revenue decreases rather than increases in transportation, logistics and distribution, civil engineering and construction, maritime, education, legal and ICT.

Respondents in transportation, and logistics and distribution attributed the drop in their revenue primarily to a decline in foreign trade volumes in 2023,[19] highlighting that logistics providers are particularly susceptible to fluctuations in demand.

Revenues in the civil engineering and construction industry suffered due to an overall stagnation in construction, due to the dire state of the real estate industry.[20] Members operating in the sector also highlighted that as the Chinese construction market is largely dominated by state-owned players, accessing projects is becoming increasingly difficult.[21] For those directly in the business of construction or construction materials, a 2023 policy shift, which turned the focus away from the construction of new buildings towards high-quality renovation or repurposing of existing buildings—with the aim of making them greener, smarter and safer—also had a bearing on revenues.[22] There are also demand-side challenges, stemming primarily from a lack of understanding of the value of such upgrading projects, which makes it difficult to sell them to consumers at a higher price point, especially at a time when consumers are generally more cautious about their spending.

Figure 17: Revenue by industry: mixed results

How did your company's total 2023 revenue in Mainland China evolve compared to 2022?[1)]



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

2.6 Profitability takes a hit

Overall, European companies' profitability in China remained at the same level as 2022. Almost 70% recorded positive earnings before interest and tax (EBIT) with another 16% breaking even. The percentage of those in the red (15%) stayed at the highest level recorded since 2015 for the second consecutive year.

19 According to the World Trade Organization (WTO), the volume of global trade in goods fell 0.5% year-on-year in the first half of 2023. While it projected a slight uptick—0.8%—for the whole year, this forecast was partly explained by the low basis from Q4 in 2022, and the WTO highlighted that China's economic slowdown could negatively impact this projection. *Global Trade Outlook and Statistics (Update: October 2023)*, World Trade Organization, October 2023, viewed 27th March 2023, <https://www.wto.org/english/res_e/publications_e/gtos_updt_oct23_e.htm>

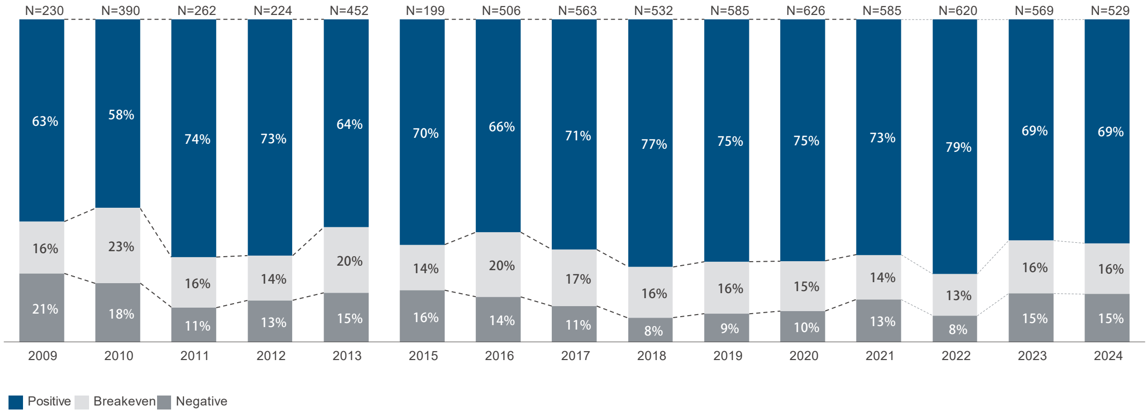
20 By 2023, real estate starts had fallen more than 60% below pre-pandemic levels, while sales had also fallen. Hoyle, Henry & Jain-Chandra, Sonali, *China's Real Estate Sector: Managing the Medium-Term Slowdown*, International Monetary Fund, 2nd February 2024, viewed 27th March 2024, <https://www.imf.org/en/News/Articles/2024/02/02/cf-chinas-real-estate-sector-managing-the-medium-term-slowdown>

21 In 2023, state-owned or state-backed developers occupied the top six rankings based on home sales. *China's state-owned developers dominate sales, land markets in 2023 – surveys, Reuters*, 2nd January 2024, viewed 27th March 2024, <https://www.reuters.com/world/china/chinas-state-owned-developers-dominate-sales-land-markets-2023-surveys-2024-01-02/>

22 Ji, Siqi, *China's new real estate model to be built on '3 major projects', with cheaper property for urban migrants and young adults, SCMP*, 13th November 2023, viewed 27th March 2024, <https://www.scmp.com/economy/china-economy/article/3241381/chinas-new-real-estate-model-be-built-3-major-projects-cheaper-property-urban-migrants-and-young>

Figure 18: Net profits unchanged from 2022

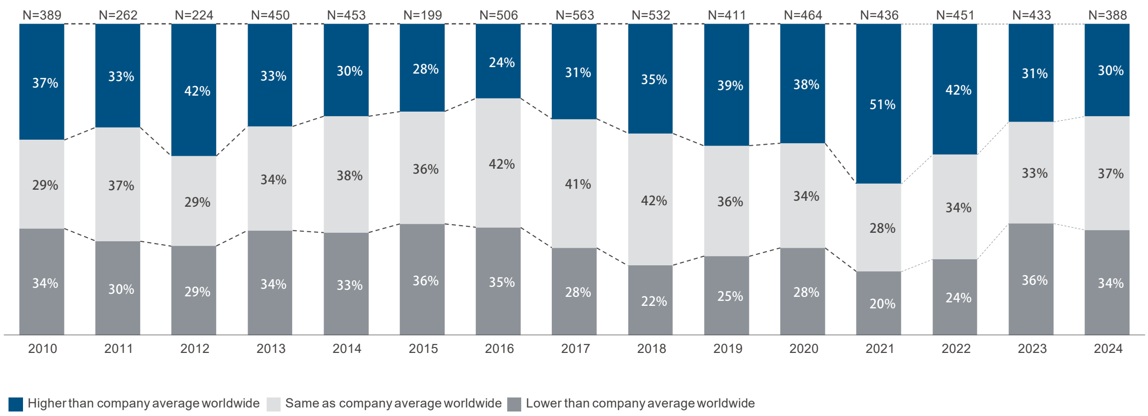
Please describe your company's earnings before interest and tax (EBIT) in Mainland China in 2023



When asked to assess the importance of their company's China operations to global profits, only 30% reported higher margins in China than their company's worldwide average – the lowest proportion in eight years. While there was a slight drop (34%, -2pp y-o-y) in the proportion of those reporting lower margins in China compared to their global average, it was still the second highest recorded since 2015. At the same time, 37% (+4pp y-o-y) said their China EBIT margins were in line with their profits worldwide.

Figure 19: Only three in 10 report higher EBIT margins in China relative to rest of the world

How did the EBIT margin of your company's Mainland China operations evolve compared to your company's worldwide average EBIT margin in 2023?[1)]



1) Excludes respondents that selected "Not applicable"

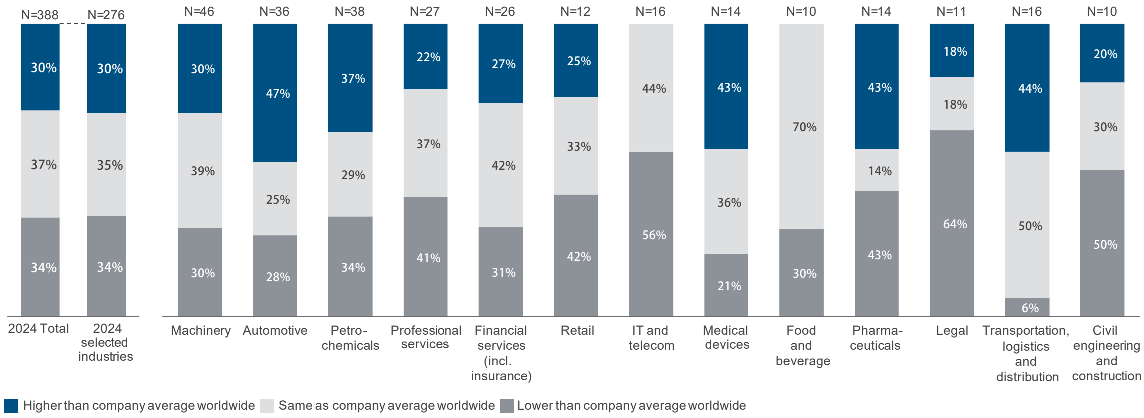
Almost two thirds of respondents in the legal industry reported that their China EBIT margins were lower than their company's worldwide average. This is in line with the finding about their revenues, with more respondents from the legal industry reporting decreases than increases in 2023 compared to 2022 (see Figure 17). This was especially the case for legal firms providing services related to initial public offerings (IPOs) in Hong Kong or the US, with the relatively low number of Chinese IPOs in these markets weighing on their China profits too.[23]

23 In 2023, 24 Chinese companies listed on US exchanges, raising United States dollar (USD) 656 million in total in IPOs. This was higher than the 14 IPOs from 2022 that totaled USD 468 million, but far below the USD 12.6 billion raised in 2021 through 34 Chinese IPOs. *Chinese Companies Listed on Major U.S. Stock Exchanges,* U.S.-China Economic and Security Review Commission, 8th January 2024, viewed 27th March 2024, <https://www.uscc.gov/research/chinese-companies-listed-major-us-stock-exchanges>; Yu, Yifan, *China's appetite for U.S. IPOs shows little sign of roaring back, Nikkei Asia,* 12th October 2023, viewed 27th March 2024, <https://asia.nikkei.com/Business/Markets/China-s-appetite-for-U.S.-IPOs-shows-little-sign-of-roaring-back>

Respondents in the ICT sector report that their 2023 China EBIT margins were at best in line with their global average; however, over half of respondents reported they were lower. Members attributed this to the combined impact of different factors, such as sharpening local competition, rising costs for labour and research and development, and the slower than expected economic growth in 2023.

Figure 20: Importance of China for global profits uneven across industries

How did the EBIT margin of your company's Mainland China operations evolve compared to your company's worldwide average EBIT margin in 2023?[1)]



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

A NEGATIVE CYCLE IN THE MAKING

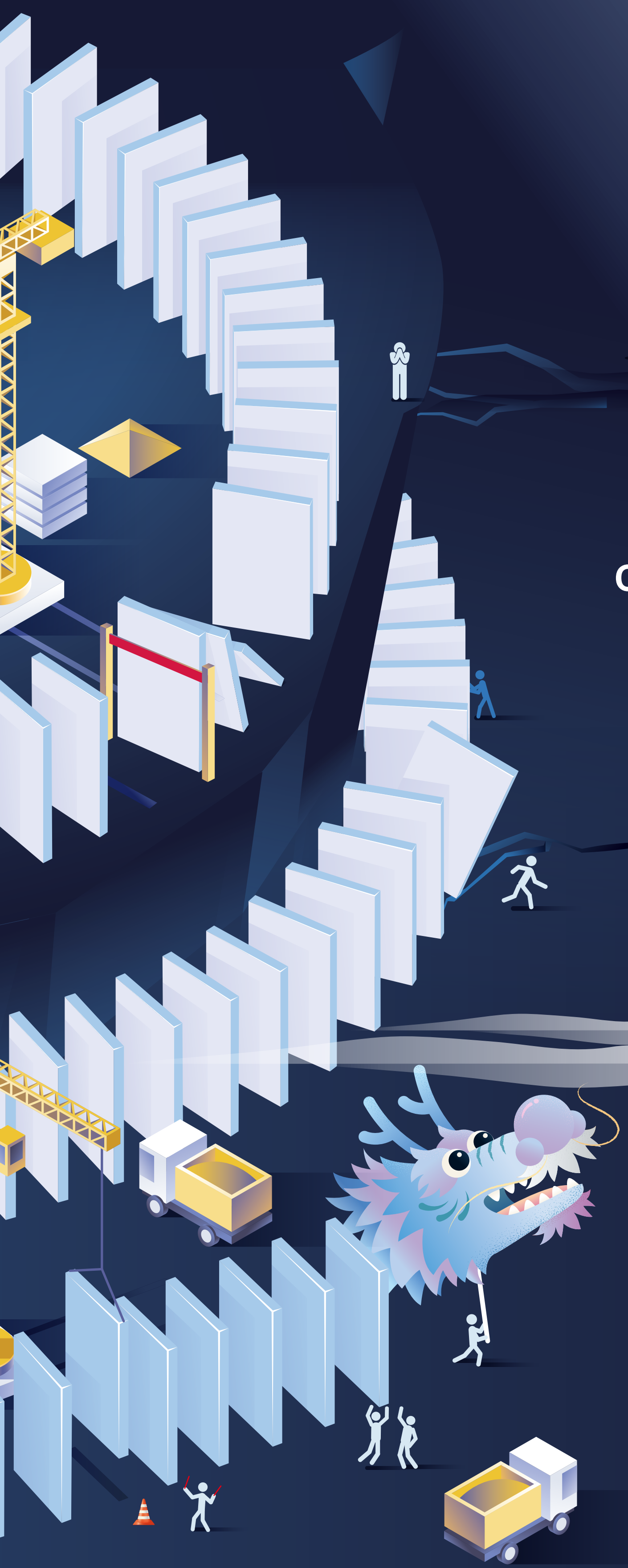
EUROPEAN BUSINESSES ARE INCREASINGLY WORRIED ABOUT THE CHINESE ECONOMY

55% marked China's economic slowdown as a top-three business challenge (+19pp y-o-y)

SENTIMENT ABOUT THE BUSINESS ENVIRONMENT FELL TO AN ALL TIME LOW, AS REGULATORY OBSTACLES REMAINED LARGELY UNRESOLVED IN 2023

68% reported that doing business had become more difficult – the highest percentage on record

58% reported having missed business opportunities as a result of market access / regulatory barriers



OPTIMISM ABOUT THE FUTURE IS FADING

Steep drop in proportion of respondents (**-23pp y-o-y**) that are positive about their growth prospects in China

44% expressed concerns about their profitability in China

COMPANIES' STRATEGIES TO ADJUST TO THESE REVISED EXPECTATIONS HAVE THE POTENTIAL TO ADD TO CHINA'S ECONOMIC CHALLENGES

52% are planning to cut costs

26% plan to do so by reducing their headcount

13% reported that they have already shifted, or taken the decision to shift, existing investments out of China

Businesses are toning down expansion plans:

42% said they are considering expanding their operations in China in 2024 – the lowest level on record

3. BUSINESSES REVISE EXPECTATIONS: A NEGATIVE CYCLE IN THE MAKING

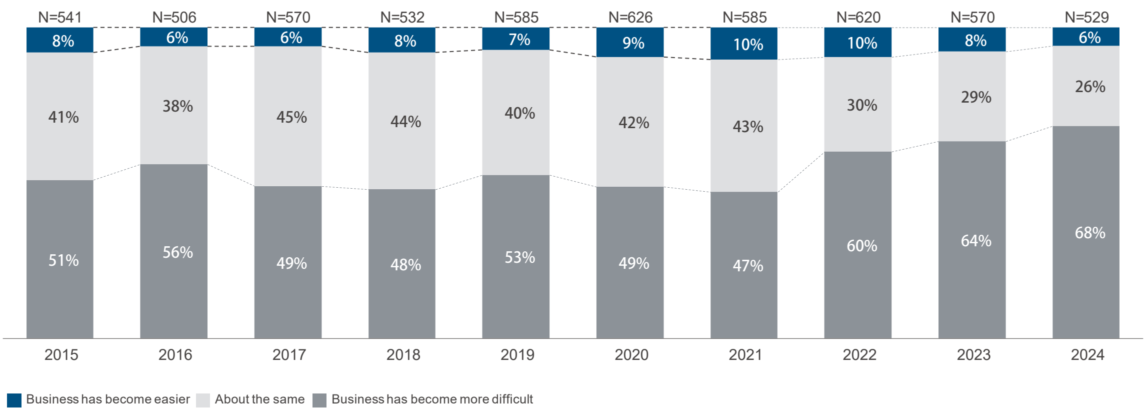
Rather than enjoying the anticipated rebound after a challenging 2022, many European firms found themselves struggling in 2023. With a host of long-standing regulatory obstacles still unresolved,[24] optimism about the prospect of China's regulatory environment improving hit a low point. The business outlook is the most pessimistic yet, with companies' expectations for growth and profitability taking a hit, and concerns about competition intensifying. European businesses are revising their expectations of the Chinese market, and the strategies they are planning to adopt to deal with the projected economic slowdown—such as cost-cutting—have the potential to add to China's economic challenges, setting a negative cycle in motion.

3.1 Record number report doing business in China became more difficult

Over two thirds of respondents (68%, +4pp y-o-y) report that doing business in China became more difficult in 2023, the highest proportion on record.[25] Conversely, only 6% of respondents indicate that doing business became easier compared to 2022, the lowest level since 2016.

Figure 21: More than two thirds report doing business in China became more difficult

How has your industry's business environment changed over the past year?



Members in the civil engineering and construction industry feel the playing field is now tilted even more in favour of domestic players, especially with competition increasing due to a decrease in construction activity amid China's property slump. The sector is already dominated by state-owned enterprises (SOEs) and foreign designers are further disadvantaged by their lack of access to state support, which for some is putting their survival in the Chinese market at risk. Notably, the construction industry had the highest proportion of respondents reporting overcapacity (see Figure 12) and the second highest reporting revenue decreases (see Figure 17).

24 The European Chamber's *Position Paper 2023/2024* contained a record-breaking 1,058 recommendations—many of which have been included in the paper for several years—on how to address specific issues encountered by European businesses operating in China. *European Business in China Position Paper 2023/2024*, European Union Chamber of Commerce in China, 20th September 2023, viewed 26th March 2024, <https://www.europeanchamber.com.cn/en/publications-archive/1167/European_Business_in_China_Position_Paper_2023_2024>

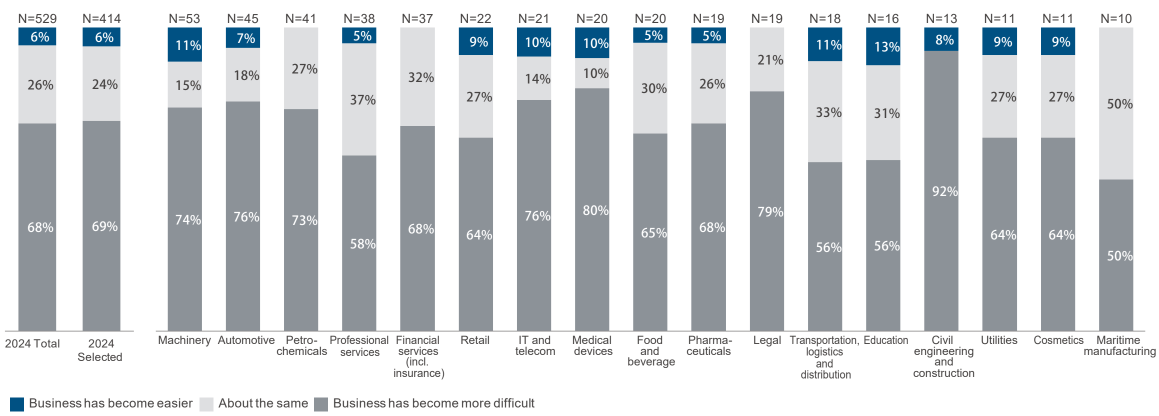
25 This question first featured in the BCS in 2014 and has been asked annually since.

Four in five respondents in the medical devices industry reported that doing business had become more difficult over the past year. According to members operating in the industry, one of the reasons for this is the lengthy registration process, which can make some product launches unfeasible in China.[26] Another concern for members is the frequency of volume-based procurement tenders, which put pressure on bidders to cut costs while maintaining the quality of their products and services. Moreover, in a few provinces and cities, the actual procurement volume did not meet the contractually agreed volume. In other cases, hospitals asked for additional discounts after the minimum price had already been agreed upon, or delayed payments.

Members in the legal industry report that compliance has increasingly become an issue for them. Foreign law firms are required to have two foreign representatives, which is difficult to maintain at a time when the stock of cross-border investments and other projects between the EU and China is declining. Firms in China with a primary focus on IPO-related services for Hong Kong or the US, also saw their new business—along with their revenues—decline. With fewer projects on the market, competition has become harder. Additionally, foreign law firms have had to adapt to comply with both EU and Chinese regulations on cross-border data flows, as their treatment of clients' personal data is now subject to two different regulatory frameworks.

Figure 22: Doing business became more difficult across the board

How has your industry's business environment changed over the past year?[1)]



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

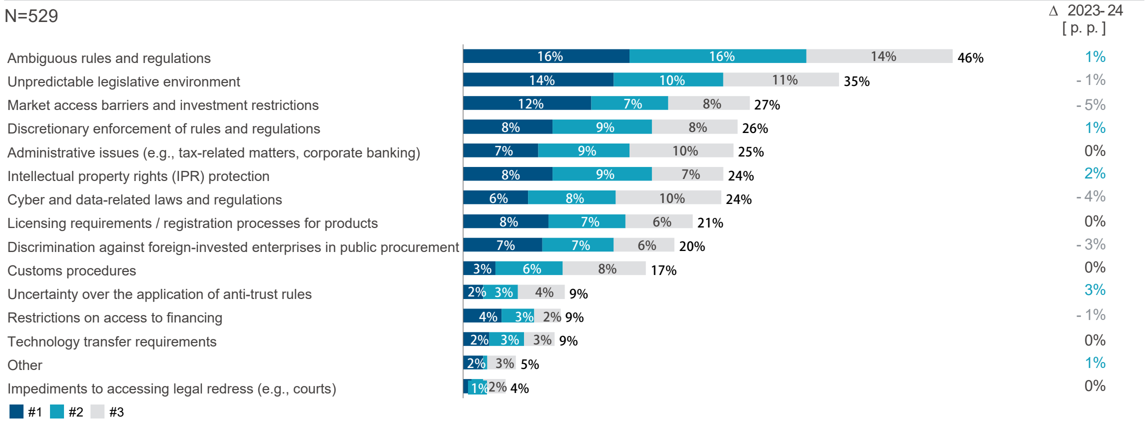
3.2 Regulatory obstacles remain unresolved

Ambiguous rules and regulations rank as the top regulatory obstacle members faced for the eighth consecutive year, with the option selected by almost half of all respondents (46%, +1pp y-o-y) as a top-three issue.

26 Most imported medical devices need to obtain market approval in their country of origin before qualifying for registration in China, delaying market access by at least one year. Additionally, when medical devices that have already been approved by the National Medical Products Administration (NMPA) are upgraded, companies need to apply for a registration modification. Unlike in most other economies, the NMPA has no separate, simplified pathway for modifying registrations. In fact, this procedure requires basically the same documentation and takes the same time as new registrations. *European Business in China Position Paper 2023/2024*, European Union Chamber of Commerce in China, 20th September 2023, viewed 25th March 2024, pp. 241–242, <https://www.europeanchamber.com.cn/en/publications-archive/1167/European_Business_in_China_Position_Paper_2023_2024>

Figure 23: Ambiguity and unpredictability are top issues of regulatory environment

Which are the top 3 most significant regulatory obstacles for your company when doing business in Mainland China?[1)]



1) Figures represent the proportion of respondents who rated each issue as their #1-3 most significant regulatory obstacle; percentages divided by the total respondents

While the significance of some challenges is almost universal—such as the persistence of ambiguous rules and regulations and market access constraints—others are sector-specific. For example, licensing requirements/registration processes are less of an issue for those in machinery, automotive or ICT, but are a significant problem for those in medical devices and cosmetics. Members from the medical devices industry report that one key challenge they face in this regard is that different industries have unique licensing requirements, which complicates their cross-function efforts. Furthermore, obtaining licences and completing registration are often time-consuming processes. For instance, receiving approval from the National Medical Products Administration (NMPA) for new products or changes to existing products often takes longer than planned, leading to delays in product launches that can hinder business operations and add significant costs.

While cyber and data-related laws and regulations may not stand out as a concern for all sectors, they still rank as a top-five regulatory challenge for utilities, automotive and ICT, and as a top challenge for financial services. Members from the financial services industry report that as they work with large amounts of data, they are disproportionately impacted by related regulations. At the same time, since the scope of 'important data' for the financial sector is yet to be defined by the National Financial Regulatory Administration, it makes it difficult for companies to determine which data must pass a security assessment, as well as to predict how stringent the security assessment requirements for the industry will be. Members also report concerns over a potential clash between data catalogues issued by different regulators, as some of the draft data catalogues—which at the time of writing had not been made public but had been shared confidentially with certain people in the industry—seem to show discrepancies. As foreign players in financial services tend to be relatively small in China, the administrative burdens caused by unclear regulations pose a significant obstacle that could even threaten operations.

Figure 24: Top regulatory issues vary by sector (part 1)

Which are the top 3 most significant regulatory obstacles for your company when doing business in Mainland China?[1)2)3)]

N=529	Machinery N=53	Automotive N=45	Petro-chemicals N=41	Professional services N=38	Financial services (incl. insurance) N=37	Retail N=22	IT and telecom N=21	Medical devices N=20
Ambiguous rules and regulations	1	1	1	1	2	2	5	3
Unpredictable legislative environment	2	2	2	3	4	4	8	9
Market access barriers and investment restrictions	6	5	6	2	5	8	6	2
Discretionary enforcement of rules and regulations	3	6	8	4	3	11	4	5
Administrative issues (e.g., tax-related matters, corporate banking)	8	7	3	5	7	1	8	13
Intellectual property rights (IPR) protection	3	3	5	10	11	4	3	7
Cyber and data-related laws and regulations	7	4	6	7	1	6	2	12
Licensing requirements / registration processes for products	13	11	4	10	5	7	11	1
Discrimination against foreign-invested enterprises in public procurement	5	9	13	5	9	8	1	3
Customs procedures	11	8	9	9	13	3	13	6
Uncertainty over the application of anti-trust rules	10	13	9	8	15	15	10	8
Restrictions on access to financing	15	12	12	10	8	10	7	13
Technology transfer requirements	11	10	11	13	14	14	15	9
Impediments to accessing legal redress (e.g., courts)	14	15	14	15	10	12	11	9

Figure 25: Top regulatory issues vary by sector (part 2)

Which are the top 3 most significant regulatory obstacles for your company when doing business in Mainland China?[1)2)3)]

N=529	Food and beverage N=20	Pharmaceuticals N=19	Legal N=19	Transportation, logistics and distribution N=18	Education N=16	Civil engineering and construction N=13	Utilities N=11	Cosmetics N=11	Maritime manufacturing N=10
Ambiguous rules and regulations	5	1	3	1	1	3	1	3	3
Unpredictable legislative environment	3	7	1	2	3	1	5	2	3
Market access barriers and investment restrictions	4	1	2	8	6	9	8	4	1
Discretionary enforcement of rules and regulations	5	12	4	2	3	7	2	8	10
Administrative issues (e.g., tax-related matters, corporate banking)	9	4	5	4	2	7	10	6	2
Intellectual property rights (IPR) protection	1	8	6	12	10	1	7	4	8
Cyber and data-related laws and regulations	12	8	6	9	12	9	5	9	10
Licensing requirements / registration processes for products	2	3	6	5	3	5	10	1	6
Discrimination against foreign-invested enterprises in public procurement	12	9	10	5	10	3	3	10	3
Customs procedures	7	4	12	10	14	15	3	6	13
Uncertainty over the application of anti-trust rules	8	10	11	12	9	9	13	10	10
Restrictions on access to financing	10	12	9	7	7	6	13	10	6
Technology transfer requirements	10	12	12	14	7	9	8	10	8
Impediments to accessing legal redress (e.g., courts)	15	15	12	10	13	13	13	10	13

1) *Numbers in the table give the relative ranking of each issue to the others for each sector. The importance of each issue is ranked by the weighted total*
2) *Not all challenges are listed*
3) *Industries selected are those for which there were at least 10 responses*

3.3 Complying with data regulations a concern for many

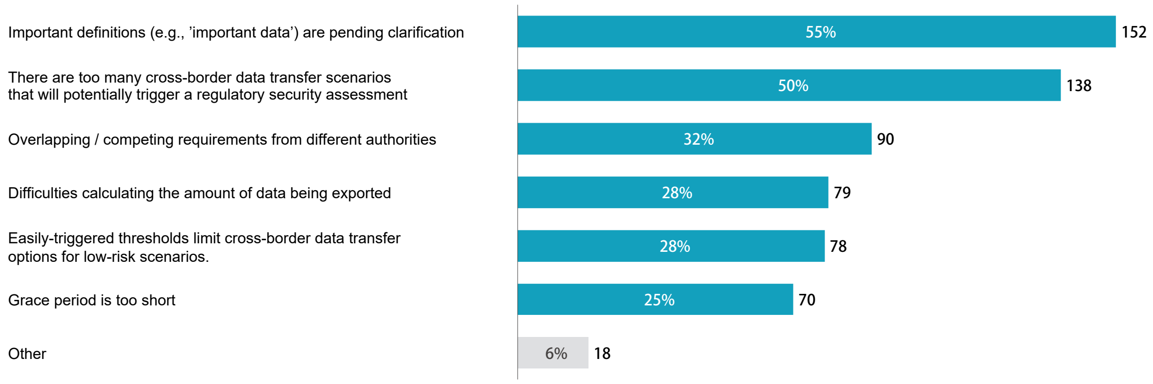
Across all sectors, over half of respondents (55%) report facing difficulties due to the lack of clarity on key definitions (e.g., 'important data') in China's data regulations, and half of respondents feel there are too many cross-border data transfer scenarios that could potentially trigger a regulatory security assessment. Since the BCS 2024 was conducted, the Cyberspace Administration of China released the final version of its *Provisions on Regulating and Promoting Cross-border Data Flows* (*Provisions*), which is expected to lessen the administrative burdens associated with cross-border data transfers.[27] However, it is notable that the definitions for key terms are still lacking at the time of writing.

27 The European Chamber had provided feedback on the draft version of the *Provisions*, and is pleased to see that some of our members' recommendations were taken into consideration for the final document. These include the increase of the triggering thresholds, from 10,000 to 100,000 people, for signing standard contracts or applying for certification, as well as the exemption in broader scenarios from related administrative requirements. 促进和规范数据跨境流动规定 [*Facilitation and Specification of Regulations for Cross-border Data Flows*], Cyberspace Administration of China, 22nd March 2024, viewed 27th March 2024, <https://www.cac.gov.cn/2024-03/22/c_1712776611775634.htm>

Figure 26: Lack of important definitions and easily-triggered security assessments seen as main challenges

What kind of compliance difficulties does your company face in relation to China's effective and binding data regulations?[1)2)]

N=278



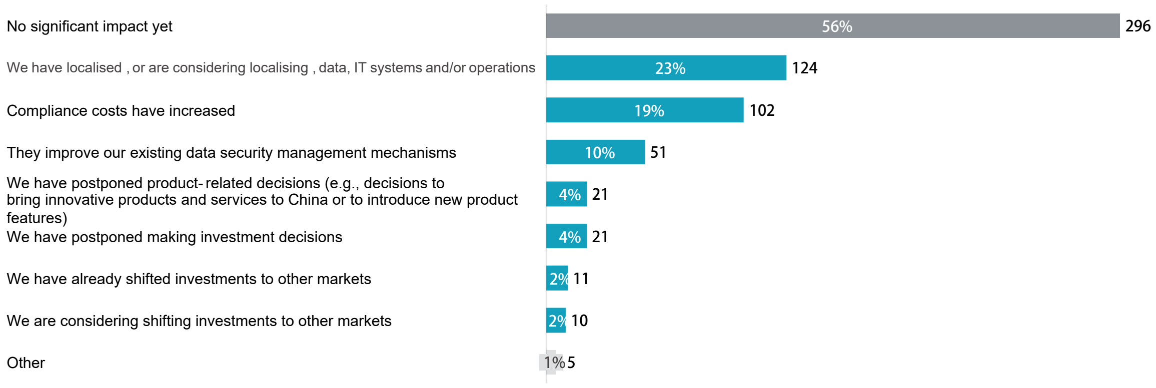
1) *Multiple answers possible; percentages based on the total number of responses*
2) *Excludes respondents that selected "Don't know"*

Almost a quarter of respondents (23%) have localised or are considering localising data, IT systems and/or operations to adapt to China's data regulations; and nearly a fifth report that their compliance costs have increased because of them.

Figure 27: Data regulations push localisation

How are the effective and binding data localisation and cross-border data transfer rules impacting your company's business and operational decisions?[1)]

N=528



1) *Multiple answers possible; percentages based on the total number of responses*

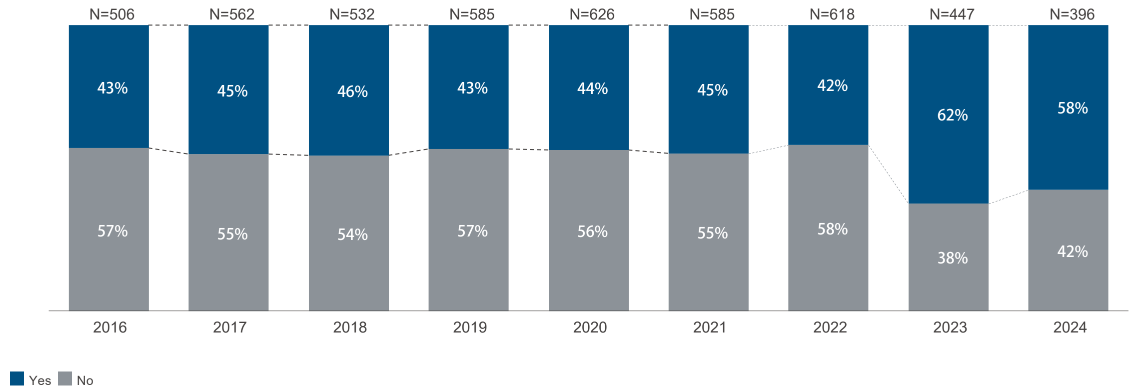
3.4 Lost business due to market access and regulatory barriers second highest on record

Over half of respondents (58%, -4pp y-o-y) missed business opportunities in China in 2023 as a result of market access or regulatory barriers. Although this is a slight improvement from 2022, which can be largely explained by the lifting of COVID-related restrictions, the proportion of those reporting lost business is still the second highest on record.[28]

28 This question first featured in the BCS in 2015 and has been asked annually since.

Figure 28: Over half miss business opportunities due to market access and regulatory barriers

Has your company missed business opportunities in Mainland China as a result of market access restrictions or regulatory barriers?[1)]



1) Excludes respondents that selected "Don't know"

Respondents in the pharmaceutical industry report the highest rate of missed business opportunities (93%). Members attributed this finding to three key factors. First, multinational companies (MNCs) face challenges when it comes to having their products included in the National Reimbursement Drug List (NRDL),[29] leading some foreign manufacturers to completely remove certain products from the market. Second, even if members' products are successfully included in the NRDL, they cannot get access to hospital listings in a timely manner.[30] This is a significant issue, as drug sales to hospitals make up a large proportion of the pharmaceutical market in China.[31] Access to the country's vaccines market is also limited.[32]

For MNCs operating in the medical devices industry, the key challenge is the lack of market access for imported medical equipment, with government procurement rules guiding hospitals to buy domestically-manufactured equipment.[33] Hospitals can only opt for imported medical devices if they apply for an exemption with a valid reason – for instance, citing the lack of a domestically-manufactured alternative. However, members report encountering problems selling their equipment, especially in second and third-tier cities.

29 The NRDL negotiation mechanism does not recognise the value of innovative drugs, especially those that cannot be adequately measured by traditional cost-effectiveness modelling or the incremental cost-effective ratio (ICER) threshold, such as for rare diseases (including rare tumours) or mental health conditions. It is therefore difficult for high-value drugs to be listed in the NRDL without compromising on price. *European Business in China Position Paper 2023/2024*, European Union Chamber of Commerce in China, 20th September 2023, viewed 27th March 2024, p. 277, <https://www.europeanchamber.com.cn/en/publications-archive/1167/European_Business_in_China_Position_Paper_2023_2024>

30 In May 2021, the National Healthcare Security Administration (NHSA) and the National Health Commission (NHC) jointly published guidance aimed at accelerating access to drug listings at both the hospital and the pharmacy level. However, as most hospitals do not hold Drug Committee Meetings regularly, the latest NRDL-listed drugs cannot be accessed by hospitals in a timely manner. Ibid; 国家医保局国家卫生健康委关于建立完善国家医保谈判药品"双通道"管理机制的指导意见 [*Guidance on Establishing and Improving the 'Dual Channel' Management Mechanism of NRDL Negotiation Drugs*], National Healthcare Safety Administration, 10th May 2021, viewed 27th March 2024, <http://www.nhsa.gov.cn/art/2021/5/10/art_37_5023.html>

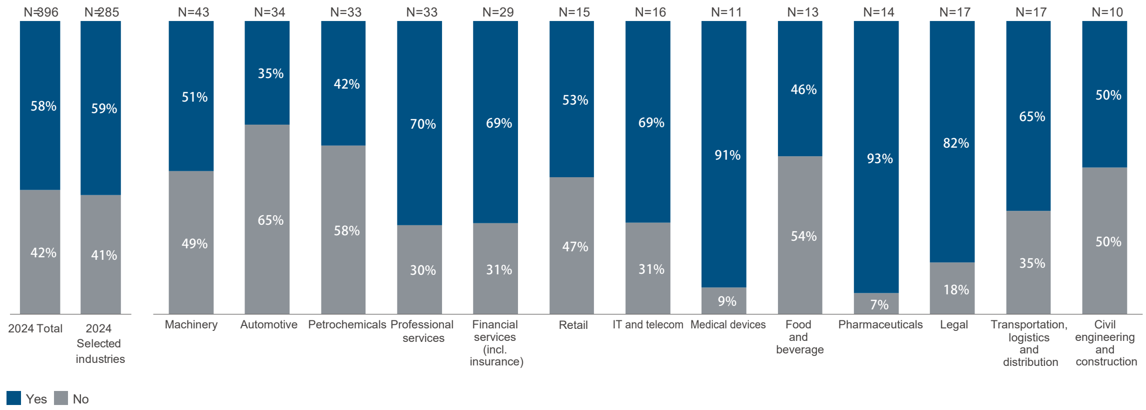
31 In the first half of 2023, drug sales in public hospitals accounted for 62.8% of the total sales of the three medical market terminals in China. Wang, Grace, *Retail Pharmacy Sales in China Experience Rapid Growth in H1 2023*, BaiPharm, 10th January 2024, viewed 28th March 2024, <https://baipharm.chemlinked.com/news/retail-pharmacy-sales-in-china-experience-rapid-growth-in-h1-2023>

32 For instance, procurement of vaccines for the National Immunisation Programmes is open to domestically-produced products only, excluding imported vaccines that are safe, urgently needed and affordable. *European Business in China Position Paper 2023/2024*, European Union Chamber of Commerce in China, 20th September 2023, viewed 27th March 2024, p.279, <https://www.europeanchamber.com.cn/en/publications-archive/1167/European_Business_in_China_Position_Paper_2023_2024>

33 The Ministry of Finance (MOF) has stated that public hospitals carrying out procurement within their regular budget—whatever the source of the budget—must apply government procurement rules, implying that public hospitals must preferably buy medical devices manufactured in China. *Reply of the MOF to Petition No. 8584 on the Fourth Session of the 13th National People's Congress*, Ministry of Finance, 10th August 2021, viewed 25th March 2024, <http://gks.mof.gov.cn/jytafwgk_8304/2021jytafwgk_1/rddbjyfwgk/202108/t20210810_3744263.htm>

Figure 29: Prevalence of market access and regulatory barriers varies by sector

Has your company missed business opportunities in Mainland China as a result of market access restrictions or regulatory barriers?[1)]

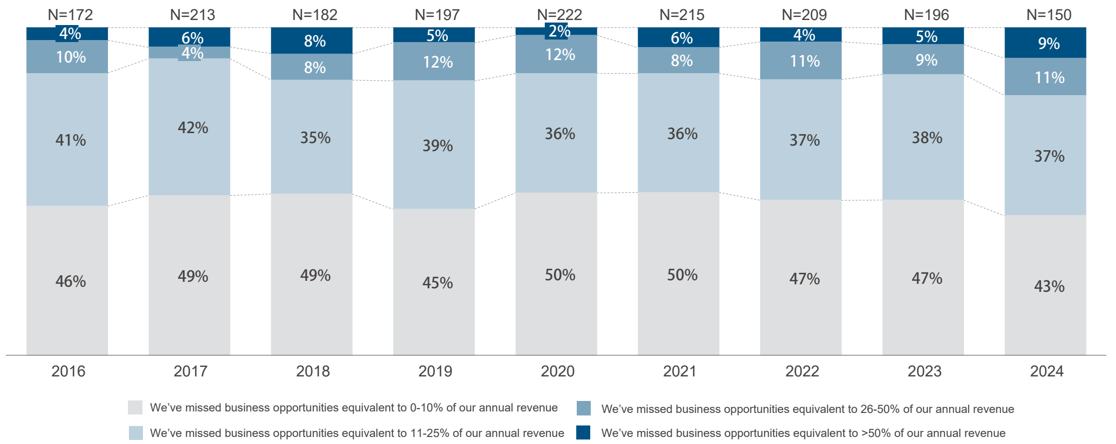


1) *Industries selected are those for which there were at least 10 responses*

A fifth of respondents that lost business opportunities as a result of market access or regulatory barriers report they would have been worth more than a quarter of their annual revenue. The proportion of those for whom lost opportunities would have been the equivalent of over half of their annual revenue was the highest on record (9%, +4pp y-o-y).[34]

Figure 30: Record number report missed opportunities equivalent to over half their annual revenue

Has your company missed business opportunities in Mainland China as a result of market access restrictions or regulatory barriers?[1)]



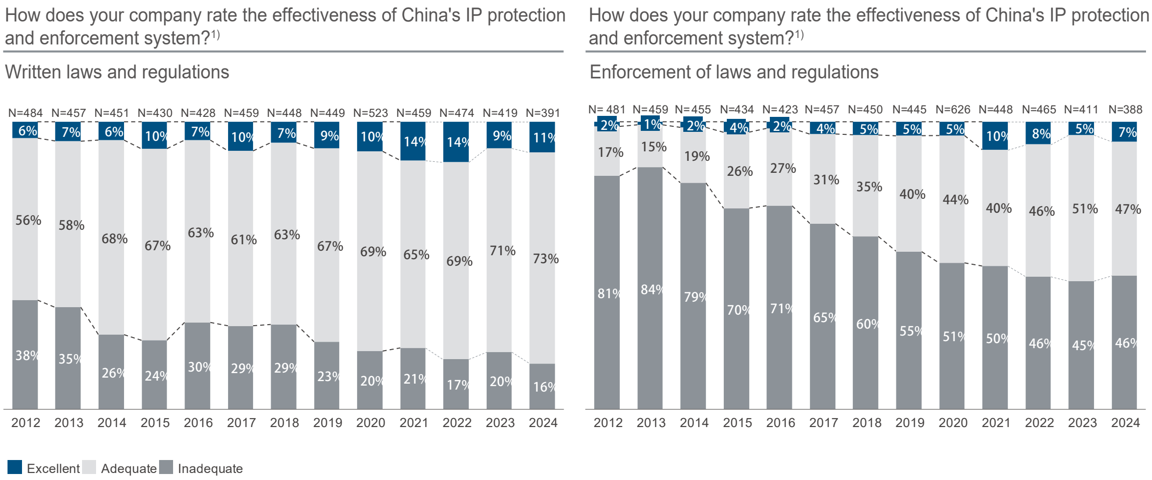
1) *Excludes respondents that selected "No" or "Don't know"*

3.5 Enforcement of intellectual property rights (IPR) laws and regulations remains a concern

While a significant majority of respondents (84%, +4pp y-o-y) find China's written laws and regulations to be adequate or excellent, nearly half (46%, +1pp y-o-y) believe that they are not adequately enforced.

34 This question first featured in the BCS in 2015 and has been asked annually since.

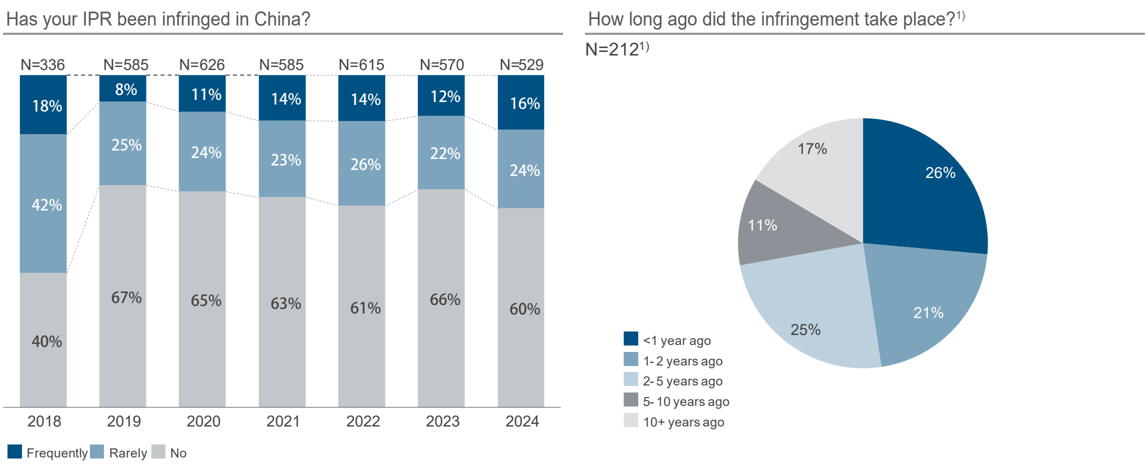
Figure 31: Almost half find enforcement of IPR laws and regulations inadequate



1) Excludes respondents that selected "Not applicable"

The 16% of members reporting IPR infringements represented an increase of 4pp y-o-y, and is the highest level recorded since 2017. At the same time, the proportion that did not have their IPR infringed (60%) represented a drop of 6pp from 2023, the lowest level in six years. Of those reporting infringements, over a quarter (26%) took place within the past year. IPR protection was ranked as a top-three regulatory challenge by 24% of respondents (see Figure 23), and was selected as the most significant regulatory challenge by respondents from the food and beverage, and civil engineering and construction industries (see Figure 25).

Figure 32: Uptick in IPR infringement



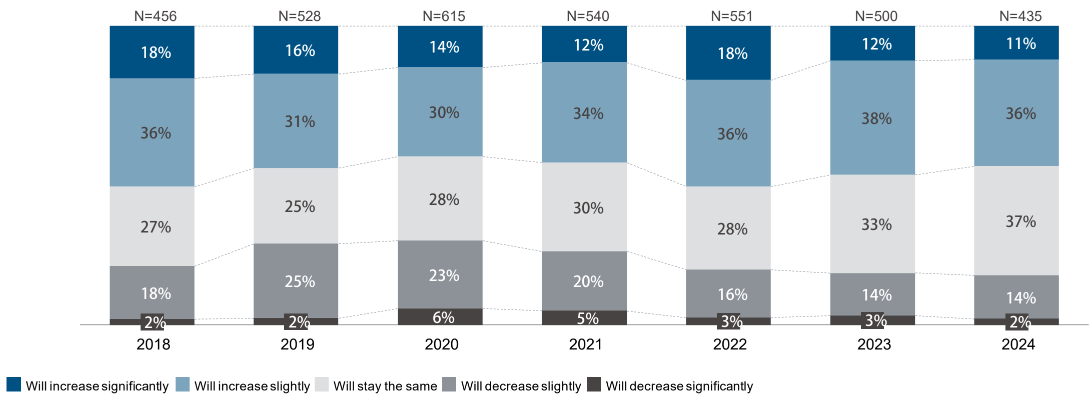
1) Question only asked to respondents that selected "frequently"or "rarely" in response to question: Has your IPR been infringed in China?

3.6 Fading optimism, negative outlook

The percentage of respondents expecting the number of regulatory obstacles to decrease sank to the lowest level on record (16%, -1pp y-o-y). Almost half of respondents (47%) anticipate an increase in regulatory obstacles, while 37% expect the situation to remain unchanged over the next five years.

Figure 33: Almost half expect more regulatory obstacles

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



1) Excludes respondents that selected "Don't know"

The proportion of respondents that are optimistic about their growth prospects in China over the coming two years (32%) dropped a significant 23pp from the previous year, with less than a third still positive – the lowest level on record.[35] Conversely, a record high proportion (26%, +17pp y-o-y) indicated that they were sceptical about their growth potential in China in the coming two years.

Three fifths of respondents expect competitive pressure to intensify, the highest level on record, with the proportion of those that are confident they will prevail against the competition sinking below 10% for the first time. The concern over increasing competition is borne out by the 42% of respondents that have lost market share to domestic players in the past five years (see Figure 15).

A record level of respondents (44%, +18pp y-o-y) have doubts about their profitability in China, while less than a third (28%, -3ppy-o-y) are optimistic about their sector's productivity in the coming two years.

35 This question first featured in the BCS in 2011 and has been asked annually since.

Figure 34: Business outlook increasingly gloomy (part 1)

How would you describe the business outlook for your sector in China over the next two years?[1)]

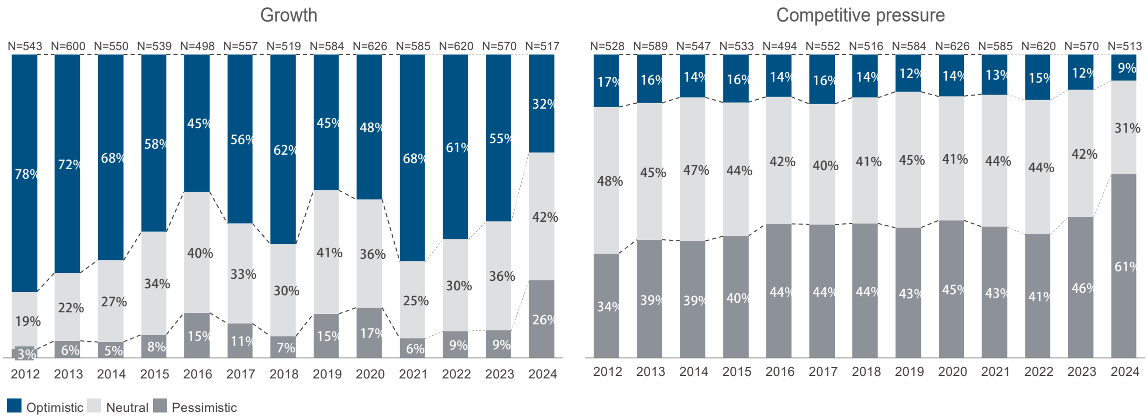
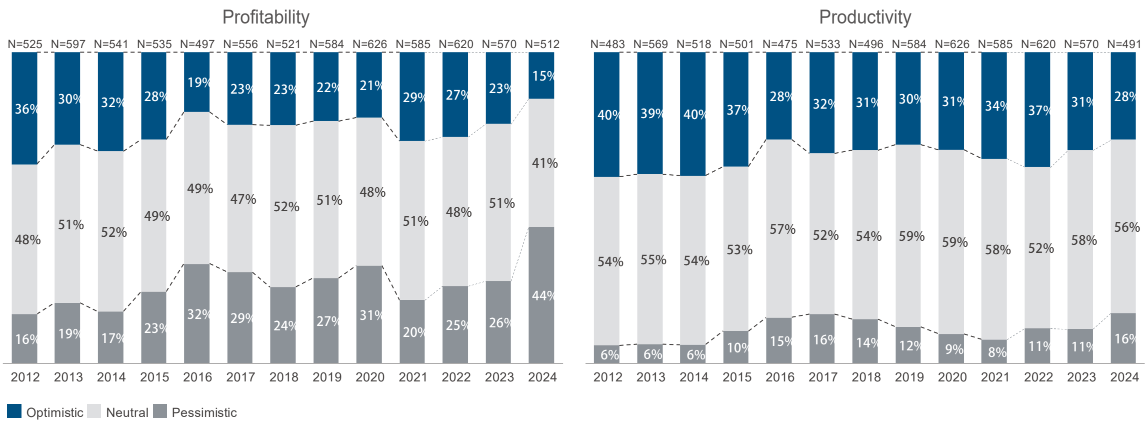


Figure 35: Business outlook increasingly gloomy (part 2)

How would you describe the business outlook for your sector in China over the next two years?[1)]



1) *Excludes respondents that selected "Not applicable"*

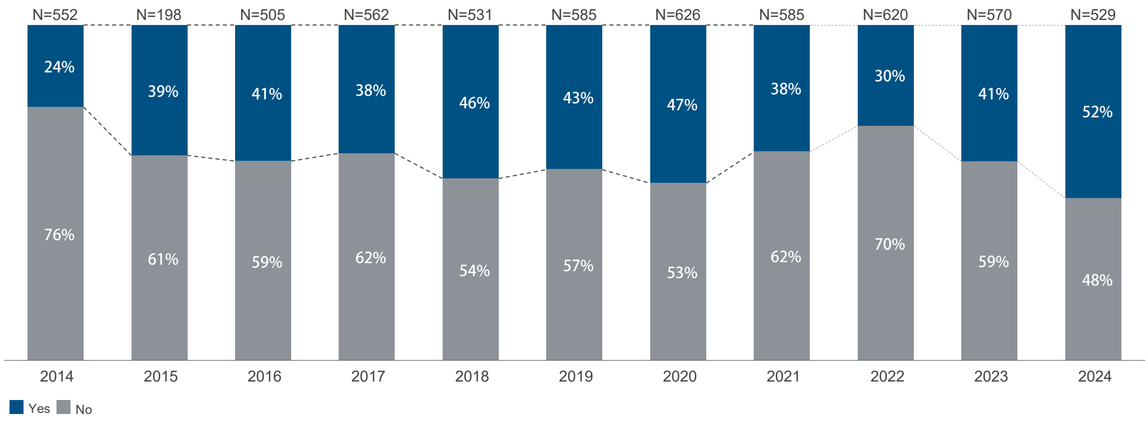
3.7 Companies' strategies to deal with slowing growth could add to China's economic woes

The proportion of respondents planning to cut costs in 2024 (52%) surged 11pp from last year, rising to the highest level on record.[36] Less than half of respondents (48%) said they had no such plans.

36 This question first featured in the BCS in 2013 and has been asked annually since.

Figure 36: Over half plan to cut costs

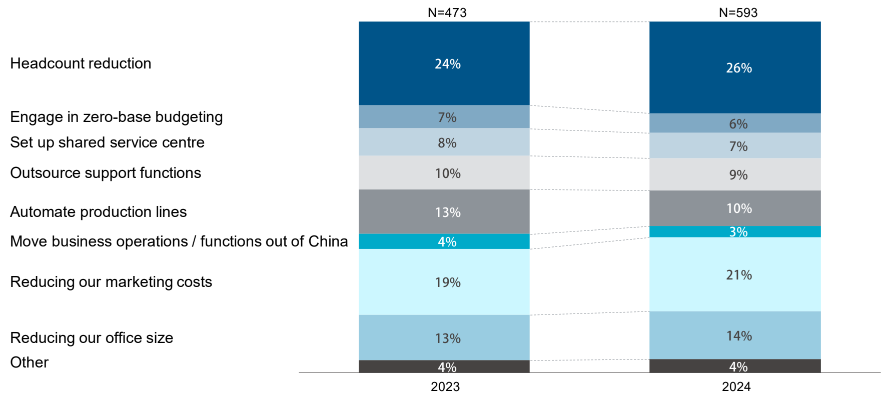
Does your company plan on cutting costs in China in 2024?



The most common means of planned cost-cutting is headcount reduction (26%, +2pp y-o-y), followed by the trimming of marketing budgets (21%, +2pp y-o-y) and shrinking office space (14%, +1pp y-o-y). By reducing their staffing levels, European companies would contribute to the growing pressure on China's job market.[37&38]

Figure 37: Over a quarter plan to cut costs by reducing headcount

How do you plan to reduce costs?[1)2)3)]



1) *Multiple answers possible; percentages based on the total number of responses*
2) *Question only asked to respondents that selected "Yes" in response to the question: Does your company plan on cutting costs in China in 2024?*
3) *"N" indicates the total number of responses*

37 In 2023, China's surveyed urban unemployment rate stood at 5.2% – 0.4% lower than in 2022. Despite the improvement, China's Ministry of Human Resources and Social Security acknowledged the headwinds facing China's job market and the need for more efforts to stabilise employment. Businesses were especially concerned about the urban youth unemployment data for the 16–24 age group, the monthly release of which was suspended by the National Bureau of Statistics (NBS) after it hit a record high of 21.3% in June 2023. The publication of the figure was resumed in December with an alteration of the calculation method, which now excludes students, and stood at 14.9%. *China adds 12.44 mln urban jobs in 2023, says more effort needed this year, Reuters*, 24th January 2024, viewed 28th March 2024, <https://www.reuters.com/world/china/china-adds-1244-mln-urban-jobs-2023says-more-effort-needed-this-year-2024-01-24/>

38 China's official purchasing managers indices—both for the manufacturing and the non-manufacturing sectors—showed that companies were reducing their staffing levels in every month of 2023, except February, when the subindices for employment indicated a slight expansion. *Purchasing Managers Index for December 2023*, National Bureau of Statistics, 1st January 2024, viewed 28th March 2024, <https://www.stats.gov.cn/english/PressRelease/202401/t20240115_1946561.html>

4. BUSINESSES INCREASINGLY HAVE TO NAVIGATE THE POLITICS OF ECONOMIC SECURITY

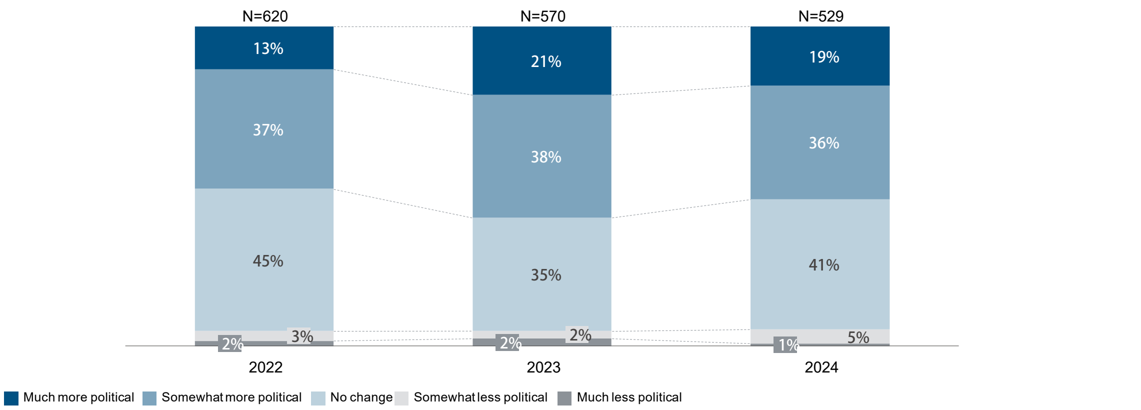
With the EU, the US and China all putting forward their own frameworks for managing risk and strengthening economic security,[39] businesses are facing increased political pressure stemming from conflicting legal regimes and more politicised consumer demands. While diversification and the siloing of supply chains are still being explored as ways to build operations that are more resilient to external shocks, many members struggle to find alternative sources for certain components or equipment, which raises questions about the timelines, as well as the increased costs, for such efforts.

4.1 Politicisation of business continues

The overall sentiment about the politicisation of business improved slightly compared to the previous year, when China's zero-COVID policy posed severe challenges to business operations. However, over half of respondents (55%, -4pp y-o-y) report that China's business environment became more politicised in 2023, with only 6% (+2pp y-o-y) saying it became less so.

Figure 38: Majority report increased politicisation in last 12 months

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



4.2 Businesses caught between conflicting legal regimes

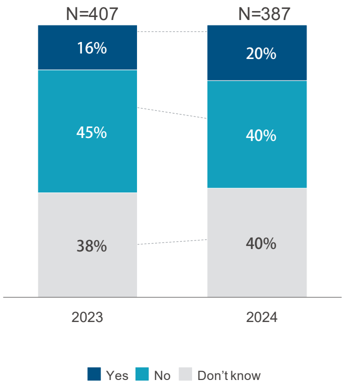
Companies are also facing the risk of being caught between conflicting legal regimes, as recently adopted and forthcoming legislation in the EU and China pose compliance challenges. The EU has recently rolled out laws to ensure that companies operating outside of its legal jurisdiction remain in line with its human rights and environmental

39 For a detailed analysis of the three different approaches, please refer to the European Chamber's report: *Riskful Thinking: Navigating the Politics of Economic Security*, European Union Chamber of Commerce in China and China Macro Group, 20th March 2024, viewed 1st April 2024, <https://www.europeanchamber.com.cn/en/riskful-thinking-report>

standards;[40&41] and the US already has legislation in place that requires importers to provide sufficient evidence that goods entering the country have not been produced using forced labour.[42] It is not clear how companies will be able to comply with such requirements, as independent, third-party audits that are required to certify that they are not using forced labour anywhere along their supply chains are difficult, and in some cases impossible, under current conditions in China. One fifth of respondents reported that they were concerned by this issue, 4pp more than in the previous year. A further 40% are unsure of whether they will be impacted, highlighting how much uncertainty surrounds the implementation of the new and forthcoming legislation.

Figure 39: One fifth concerned by lack of ability to conduct independent third-party audits

Are you concerned by the lack of ability to conduct independent third-party audits in China in light of new and forthcoming legislative requirements?[1)]



1) Excludes respondents that selected "Not applicable"

While the EU's Corporate Sustainability Reporting Directive (CSRD) came into effect at the beginning of 2023, its impact will only start to manifest in the financial year of 2024, when affected companies will need to prepare sustainability reports—including information on their sustainability policies, environmental protection policies and actions, social responsibility and treatment of employees and respect for human rights—for submission in 2025. The CSRD applies to all large European companies and listed companies (including small and medium-sized enterprises), as well as non-EU companies that have an annual net turnover of euro (EUR) 150 million in the EU and at least one EU-based subsidiary or branch.[43] A significant 46% of respondents (+2pp y-o-y) say the directive will affect their China operations, with 10% expecting the impact to be substantial. For legislation that is so far-reaching, it is concerning that 15% remain unware of it.

40 The EU's Corporate Sustainability Corporate Directive (CSRD) entered into force on 5th January 2023, requiring a broad set of companies to "disclose information on what they see as the risks and opportunities arising from social and environmental issues, and on the impact of their activities on people and the environment." *Corporate sustainability reporting*, European Commission, viewed 28th March 2024, <https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting>

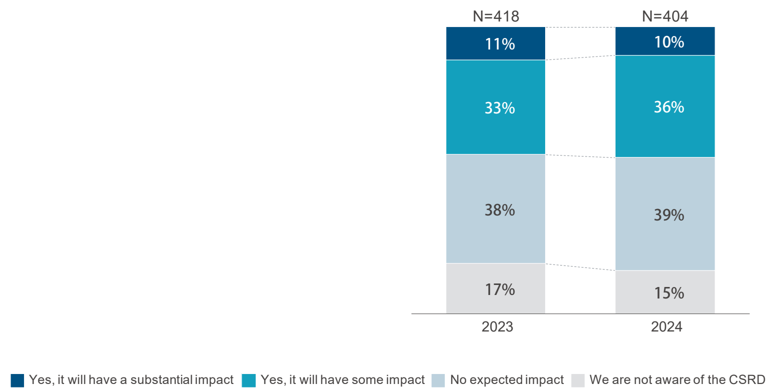
41 The Corporate Sustainability Due Diligence Directive (CSDDD) was proposed by the European Commission on 23rd February 2022. It will require certain EU-based companies to establish due diligence processes to ensure their entire operations—including subsidiaries, and up- and downstream suppliers—are in line with EU human rights and environmental standards.

42 The US Uyghur Forced Labor Prevention Act came into effect on 21st June 2022. *Implementation of the Uyghur Forced Labor Prevention Act,* US Department of State, 21st June 2022, viewed 28th March 2024, <https://www.state.gov/implementation-of-the-uyghur-forced-labor-prevention-act/>

43 *Corporate sustainability reporting*, European Commission, viewed 28th March 2024, <https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting>

Figure 40: Almost half expect EU's CSRD to impact China operations

Do you expect the EU's introduction of the Corporate Sustainability Reporting Directive (CSRD) to impact your China operations?[1)]



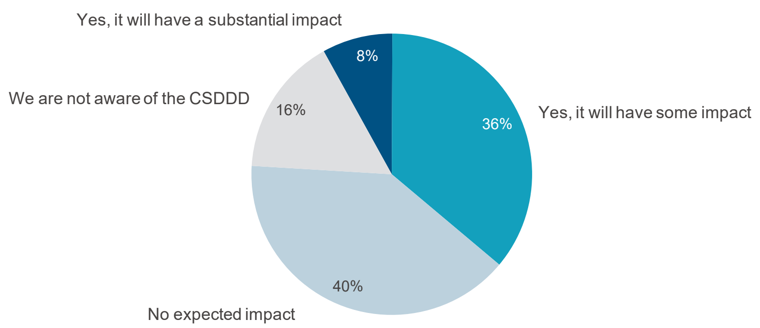
1) Excludes respondents that selected "Not applicable"

The Corporate Sustainability Due Diligence Directive (CSDDD) will apply to EU-based companies with more than 1000 employees and a worldwide annual net turnover over EUR 450 million, according to the latest wording of the directive approved by the European Parliament on 24th April 2024, requiring them to establish due diligence processes throughout their operations – both up- and downstream. More than 40% of respondents expect to be impacted by this legislation, 8% of them substantially. However, 16% are currently unaware of the CSDDD, which is concerning given the importance of the legislation.[44]

Figure 41: 44% expect EU's CSDDD to impact China operations

Do you expect the EU's introduction of the Corporate Sustainability Due Diligence Directive (CSDDD) to impact your China operations?[1)]

N=394



1) Excludes respondents that selected "Not applicable"

New and forthcoming US export control policies on advanced computing and semiconductor manufacturing are also set to impact a large proportion of EU companies operating in China.[45] Close to one quarter of respondents (23%, +2pp

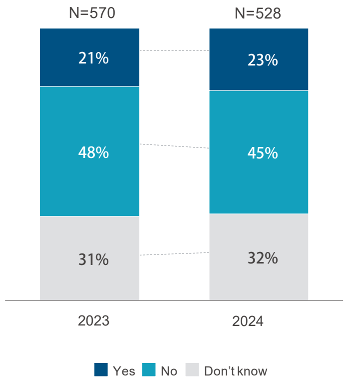
44 The BCS 2024 survey had taken place before the thresholds for companies that the directive will apply to were increased from the previously suggested thresholds of over 250 employees and a worldwide net turnover over EUR 40 million for EU companies, and a turnover higher than EUR 150 million with at least EUR 40 million generated in the EU for non-EU firms.

45 On 7th October 2022, the US Department of Commerce released new rules that prohibit American companies from exporting technology, software and equipment to China used in producing advanced computing chips and supercomputers. Under the rules, Americans are also barred from supporting certain China-based chip companies without a licence from the US Government. *Commerce Implements New Export Controls on Advanced Computing and Semiconductor Manufacturing Items to the People's Republic of China (PRC)*, US Department of Commerce: Bureau of Industry and Security, 7th October 2022, viewed 28th March 2024, <https://www.bis.doc.gov/index.php/documents/about-bis/%20newsroom/press-releases/3158-2022-10-07-bis-press-release-advanced-computing-and-semiconductor-manufacturing-controls-final/file>

y-o-y) expect consequences for their operations, while three in 10 do not yet know whether they will be impacted by the policies, highlighting again that much uncertainty remains over how the regulations will be implemented.

Figure 42: Close to one quarter expect to be impacted by US export control policies

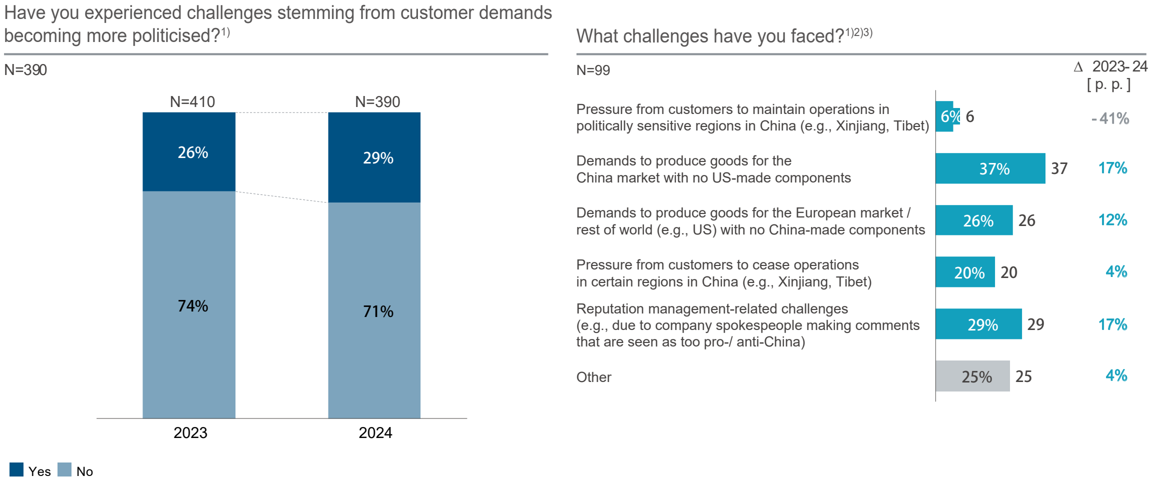
Have, or do you expect, your operations to be impacted by new and forthcoming US export control policies / regulations?



4.3 Challenges stemming from politicised consumer demands increase

The rate of respondents that report challenges as a result of consumer demands becoming more politicised has increased to 29% (+3pp y-o-y). Some businesses receive conflicting requests from Chinese and Western customers: over a third (37%) are being pressured to produce goods for the China market with no US-made components; and a quarter are being pushed to produce goods for the European or other markets with no China-made components.

Figure 43: Uptick in the rate of those reporting increasingly politicised consumer demands



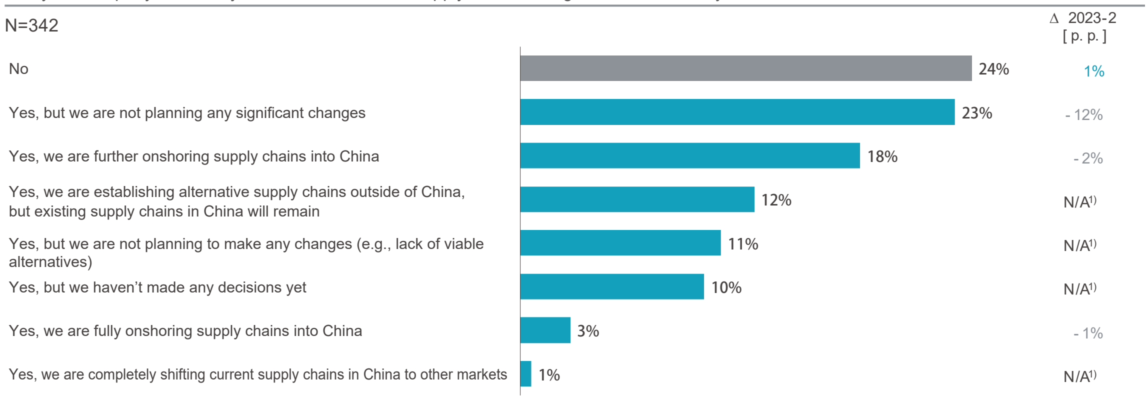
1) *Excludes respondents that selected "Don't know"*
2) *Multiple answers possible; percentages based on the total number of responses*
3) *Question only asked to respondents that selected "Yes" in response to the question: Have you experienced challenges stemming from customer demands becoming more politicised?*

4.4 Calls for diversification intensifying, but it cannot be achieved overnight

The EU is in the process of finetuning its de-risking strategy and member states are also putting forward their own supply chain legislation to increase their markets' resilience to potential shocks and 'black swan' events,[46] as well as to improve the protection of human rights and the environment. As a consequence, European companies operating in China are under increasing pressure to diversify their supply chains. Three quarters of respondents (76%) have already reviewed their supply chains over the past two years. Of those who are taking action, 18% are further onshoring supply chains into China, with an additional 3% fully onshoring to ward off the risk of external disruptions to their China operations. A further 12% are diversifying their supply chains by setting up alternative sourcing of supplies outside of China, while maintaining their existing supply chains in the country. Only 1% are fully shifting current supply chains from China to other markets. The primary beneficiaries of these diversification efforts are Europe (45%), India (36%) and ASEAN (36%) (see Figure 45).

Figure 44: Three quarters have reviewed their supply chains in the last two years

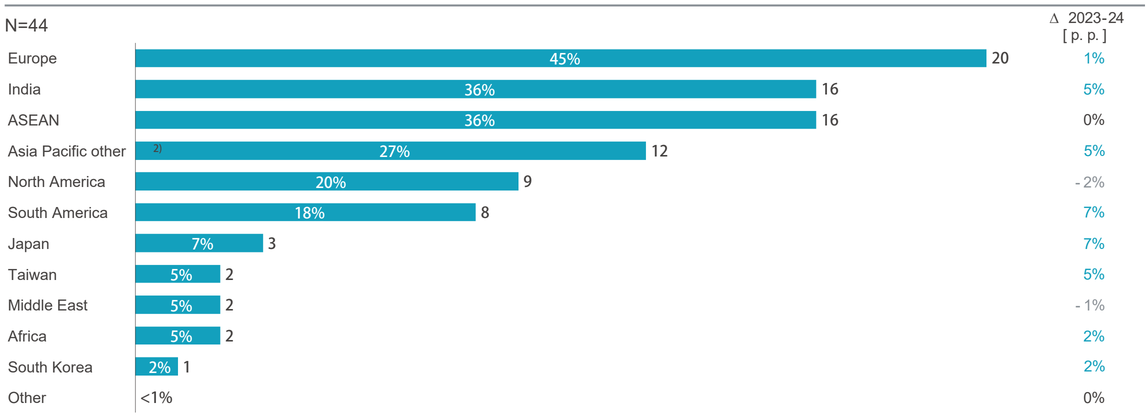
Has your company subsidiary in China reviewed its supply chain strategies in the last two years?[1)2)]



1) *Excludes respondents that selected "Not applicable"*
2) *"n/a" refers to a new option or an option that is different from the previous year*

Figure 45: Europe, India and ASEAN main beneficiaries of supply chain diversification

Where has your company relocated parts of its supply chain (whole or parts) to?[1)2)]



1) *Multiple answers possible; percentages based on the total number of responses*
2) *Excludes ASEAN, India, Japan, South Korea and Taiwan*

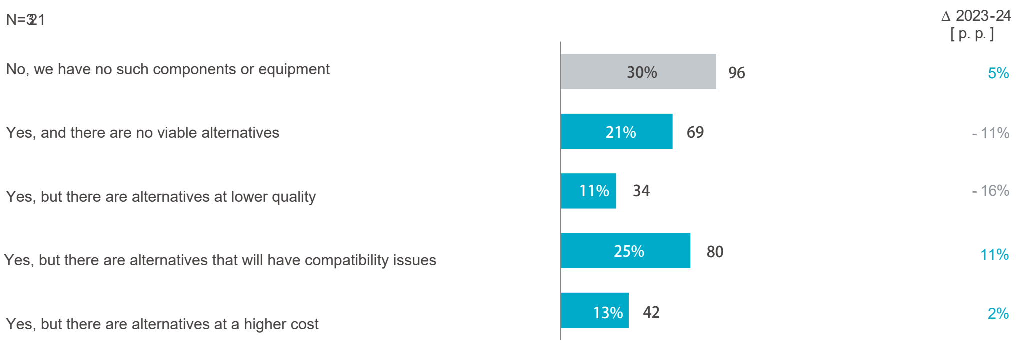
46 Germany's *Act on Corporate Due Diligence Obligations in Supply Chains* entered into force on 1st January 2023, requiring companies to assess risks in their supply chains as a first step, and take measures based on the results to prevent human rights violations or environmental damage. It also sets out regular reporting obligations for supply chain management. Throughout 2023, the law only applied to companies with at least 3,000 employees in Germany, but starting from 2024 it was extended to companies with at least 1,000 employees. *Supply Chain Act– Act on Corporate Due Diligence Obligations in Supply Chains*, Federal Ministry of Labour and Social Affairs, viewed 28th March 2024, <https://www.bmas.de/EN/Europe-and-the-World/International/Supply-Chain-Act/supply-chain-act.html>

Most companies that are exploring diversification of their supply chains face difficulties finding viable alternatives.[47] Less than a third of respondents (30%, +5pp y-o-y) do not import components or equipment into China that cannot be easily replaced in the event of a supply disruption, while just over a fifth (21%, -11pp y-o-y) import critical components for which they have no alternative sources.

A quarter (25%, +11pp y-o-y) are able to find alternative sources but report that the substitutes would have compatibility issues; another 13% (+2pp y-o-y) say such replacements come at a higher cost; while 11% (-16pp y-o-y) report that alternative products would be of lower quality.

Figure 46: Majority import critical components they cannot easily replace

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



1) Excludes respondents that selected "No, we are not a production company"

47 Members interviewed for the European Chamber's report on the topic of risk management and economic security reported this to be the case, particularly when it comes to the advanced technology or manufacturing equipment that is needed for running factory operations, which members often import from their home markets. *Riskful Thinking: Navigating the Politics of Economic Security*, European Union Chamber of Commerce in China and China Macro Group, 20th March 2024, viewed 28th March 2024, <https://www.europeanchamber.com.cn/en/riskful-thinking-report>

5. PROGRESS TAKES TIME AND EFFORT, AND STILL MIGHT NOT BE ENOUGH FOR SOME

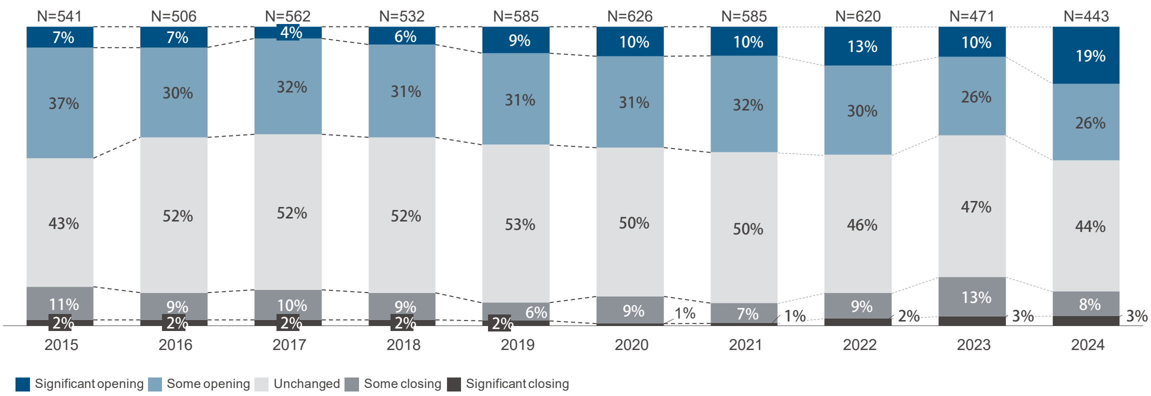
The BCS 2024 shows a significant improvement in perceptions about market opening, as recent policy developments in several industries contributed to an easing of access restrictions for foreign players. However, this improvement coincided with a notable drop in the likelihood of European companies increasing their investments in China if they were to be granted greater market access. This indicates that if China is to restore investor confidence and reverse the trend of companies diversifying their investments out of the country (see Figures 5 and 6), the need for meaningful progress is becoming increasingly urgent. This is especially the case as, while European companies' China operations might still see opportunities to expand their presence in China, they find it increasingly difficult to convince their HQs. Members report that a drop in the number of Europeans employed by their China operations has been a key factor behind the trend of decoupling between HQs and China operations, as it has led to a decrease in mutual understanding and trust.[48] Although COVID-related restrictions no longer pose a barrier, European companies still face challenges in attracting and retaining international talent in China. European businesses were therefore pleased to see some recent positive developments, including the four-year extension of the individual income tax (IIT) benefits for foreign nationals,[49] the extension of China's visa-free trial policy to several European countries,[50] and the introduction of policies aimed at addressing challenges faced by foreigners living in or visiting China.[51]

5.1 Improvement in perceptions about market opening

Rising 9pp y-o-y, the proportion of respondents that report market opening in their industry (19%) is the highest level recorded in nine years. At the same time, 11% report that foreign companies' market access has decreased in their respective industries.

Figure 47: Almost half reported some market opening

Has there been any market opening in your industry in Mainland China for foreign companies?[1)]



1) Excludes respondents that selected "Don't know" or "Not applicable"

48 The BCS 2023 showed that foreign nationals make up 10% or less of overall staff for 78% of respondent companies, while 16% of respondents employ no foreign nationals at all in China. *European Business in China Business Confidence Survey 2023*, European Union Chamber of Commerce in China, 21st June 2023, viewed 28th March 2024, p.16, <https://www.europeanchamber.com.cn/en/publications-archive/1124/Business_Confidence_Survey_2023>

49 *China's IIT Preferential Policy for Expatriates Extended to End of 2027: Key Points, China Briefing,* 31st August 2023, viewed 28th March 2024, <https://www.china-briefing.com/news/china-extends-iit-preferential-policy-foreigners-tax-exempt-fringe-benefits-end-of-2027/>

50 Chiappa, Claudia, *China to allow visa-free entry to citizens from 6 more European countries, Politico*, 7th March 2024, viewed 28th March 2024, <https://www.politico.eu/article/china-allow-visa-free-entry-citizens-europe-ireland-sweden-switzerland-hungary-austria-belgium-luxembourg/>

51 Zhou, Qian, *China Implements Five New Measures to Ease Entry for International Travelers, China Briefing*, 11th January 2024, viewed 28th March 2024, <https://www.china-briefing.com/news/china-implements-five-new-measures-to-ease-entry-for-international-travelers/>

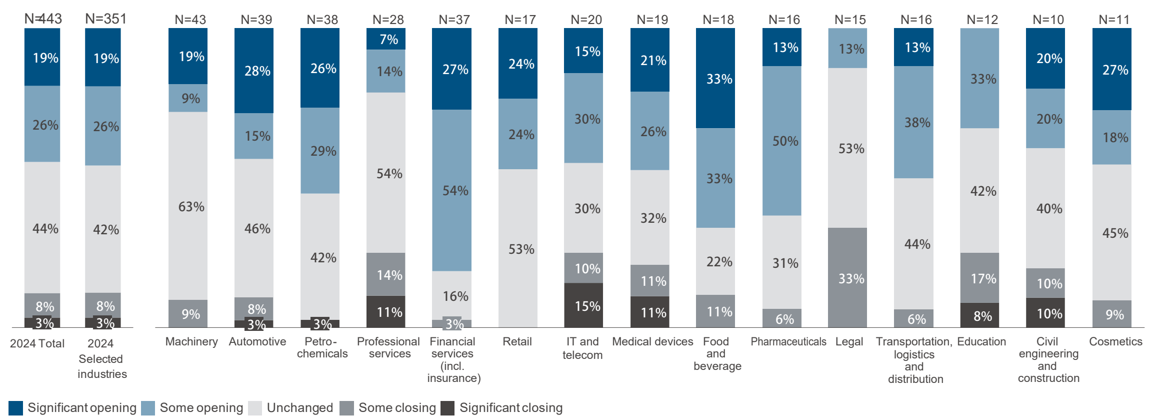
Respondents from the financial services industry were the most upbeat about market opening, with over 80% reporting some opening in their industry. Members highlighted the four-year extension of the IIT exemptions for foreign nationals working in China – something the European Chamber, and specifically its Finance and Taxation Working Group, has been actively advocating for.[52] Another development that had a positive impact on perceptions about market opening in the industry was that a handful of foreign firms were granted licences to conduct public fund management and securities business in 2023.[53]

The two thirds of respondents from the food and beverage sector that reported market opening attributed this partly to a clarification issued by China's customs authorities at the end of 2022, which ensured a consistent grace period for food produced in China and imported food to adapt to new standards.[54] The move was welcomed by foreign businesses operating in the industry, as it eliminated previously existing trade barriers that had caused significant material waste and production pressure for overseas producers. The Chamber's Agriculture, Food and Beverage Working Group and its sub-working groups had carried out advocacy on this issue, so it represents a real success for the Chamber and its members. Another positive development reported by some members in the industry was that they were finally able to complete the mandatory registration for overseas food producers, as required by the General Administration of Customs (GACC).[55] Given that 2023 was the first year that full registration was required to be completed, with most steps not yet clarified, both manufacturers and authorities faced a high level of uncertainty and pressure. To help prepare affected companies for the change in registration procedures, the European Chamber organised a series of training courses. The ability to complete registration was a relief to the industry, as the feared trade disruptions were avoided.

Members operating in the cosmetics industry highlighted the positive impact of increased engagement with regulators. A key result is that cosmetics companies have been granted more flexibility with regard to the submission of information on raw materials to be used in cosmetics formulas, something the Chamber's Cosmetics Working Group has been advocating for the past two years.[56]

Figure 48: Hard-earned progress on market access in some sectors

Has there been any market opening in your industry in Mainland China for foreign companies?[1)]



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

52 *European Business in China Position Paper 2023/2024,* European Union Chamber of Commerce in China, 20th September 2023, viewed 25th March 2024, p. 51, <https://www.europeanchamber.com.cn/en/publications-archive/1167/European_Business_in_China_Position_Paper_2023_2024>

53 *China boosts financial opening, as Standard Chartered, JPMorgan win approval, Global Times*, 20th January 2023, viewed 25th March 2024, <https://www.globaltimes.cn/page/202301/1284135.shtml>; *Schroders receives permission to establish wholly foreign-owned public fund management company in China*, Schroders, 13th January 2023, viewed 25th March 2024, <https://www.schroders.com/en/global/individual/media-centre/schroders-receives-permission-to-establish-wholly-foreign-owned-public-fund-management-company-in-china/>

54 海关总署公告2022年第136号MOF关于婴幼儿配方食品、再制干酪等产品进口执行食品安全国家标准检验相关要求的公告）[*Announcement 2022/No.136 of the General Administration Of Customs (Announcement on the Implementation of Relevant Requirements for the National Food Safety Standards Inspection of Imported Infant Formula, Processed Cheese and Other Products)*], General Administration of Customs, 30th December 2023, viewed 28th March 2024, <http://gdfs.customs.gov.cn/customs/302249/302266/302267/4767851/index.html>

55 The *Registration and Administration of Overseas Producers of Imported Food* (Decree 248) took effect in January 2022, requiring importers of 18 food categories to register through foreign authorities, which need to conduct inspections of the manufacturers and provide a recommendation letter and application materials to the GACC on their behalf. *European Business in China Position Paper 2023/2024*, European Union Chamber of Commerce in China, 20th September 2023, viewed 25th March 2024, pp. 147-148, <https://www.europeanchamber.com.cn/en/publications-archive/1167/European_Business_in_China_Position_Paper_2023_2024>

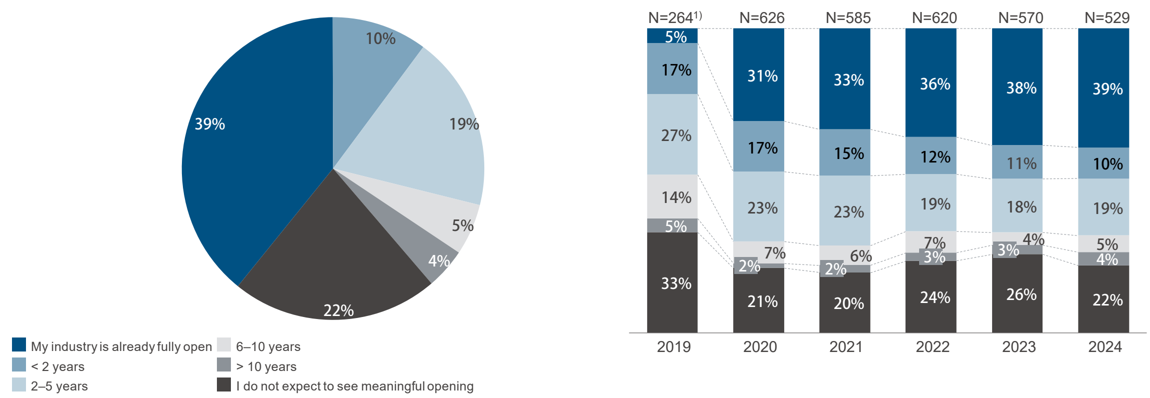
56 Ibid, pp. 192-193

With a slight year-on-year uptick, the proportion of respondents that report their industry is already fully open is now at the highest level on record (39%, +1pp y-o-y).[57] A further 10% expect to see meaningful opening take place within two years, while 19% think that it will happen in the next two to five years. At the same time, a relatively high rate of respondents (22%, -4pp y-o-y) do not expect to see meaningful opening at all.

Figure 49: Almost 40% perceive their industry to be fully open to foreign business

When do you expect to see meaningful opening in your industry?[1)]

N= 529



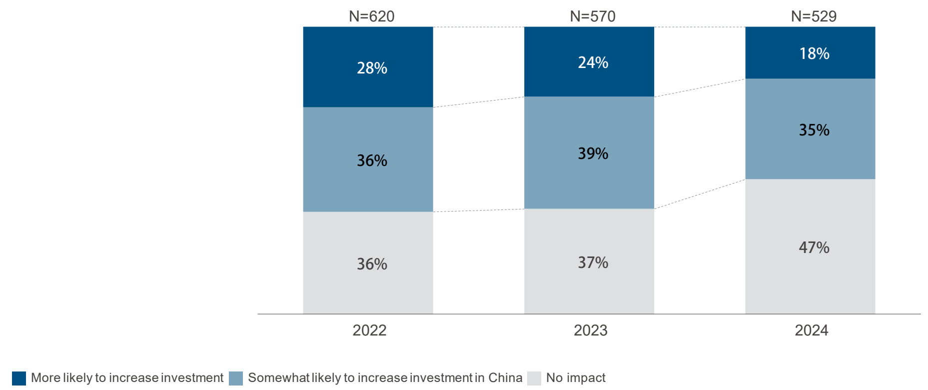
1) *Numbers from the BCS 2019 are not fully comparable, as the question was then only asked to respondents answering "No" to the question: Does your company face market access restrictions in China?*

5.2 Even with greater market opening, many will think twice before increasing investments

While over half of respondents (53%) would still likely increase their investments in China if they were to be granted greater market opening, this represents a significant 10pp drop from the previous year.

Figure 50: Y-o-y decrease in rate of those likely to increase investments if granted greater market access

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



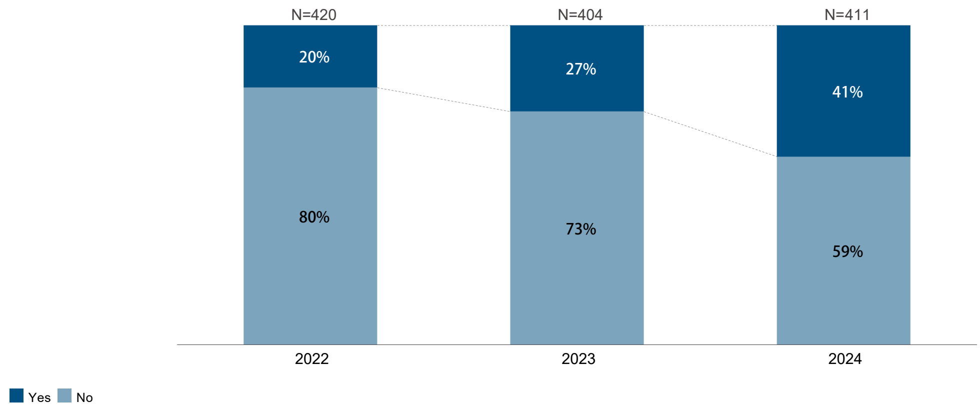
57 This question first featured in the BCS in 2018 and has been asked annually since.

5.3 Decoupling between HQs and China operations further reduces efficiency and investor confidence

The BCS 2024 records a significant increase (+14pp y-o-y) in the proportion of respondents that experienced some form of decoupling between their HQ and China operations in the past two years.

Figure 51: Four in 10 report decoupling

Has your company experienced any form of decoupling between your HQ and your China operations over the past two years?[1)]

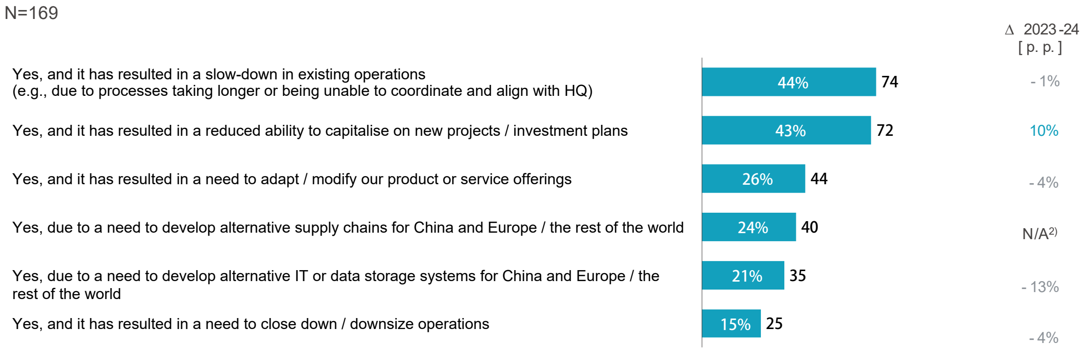


1) Excludes respondents that selected "Don't know" or "Other"

This most frequently results in a slowdown in existing operations (44%, -1pp y-o-y) and a reduced ability to capitalise on new projects or investment plans (43%, +10pp y-o-y). Around a quarter (26%) are having to adapt or modify products or services, while 24% say they need to develop alternative supply chains for China and Europe or third markets as a result.

Figure 52: HQ-China decoupling primarily impacts efficiency and investment plans

Has your company experienced any form of decoupling between your HQ and your China operations over the past two years?[1)2)3)]



1) Multiple answers possible; percentages based on the total number of responses

2) Excludes respondents that selected "Don't know"

3) "n/a" refers to a new option or an option that is different from the previous year

5.4 Fall in number of foreign employees an accelerant to decoupling

The drop in the number of foreign nationals employed at companies' China operations is one key factor behind the weakening of ties between HQs and China operations.[58] More than a third of respondents face challenges attracting or retaining international talent in China, with 70% identifying potential candidates' lack of willingness to relocate as the key issue (see Figure 54).

Figure 53: Nearly 40% struggle to attract or retain international talent

Is your company currently facing any challenges attracting / retaining international talent in China?

N= 529

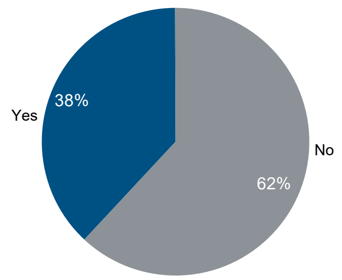
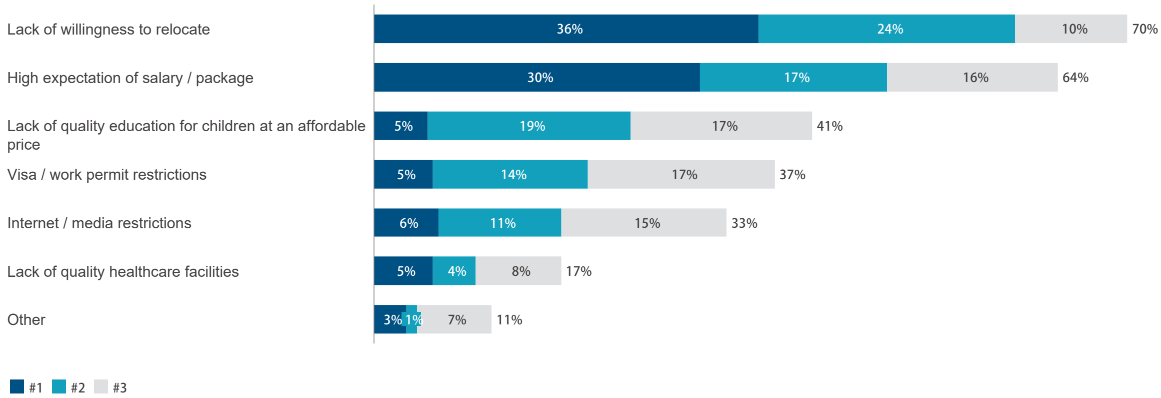


Figure 54: Lack of willingness to relocate seen as key issue for attracting foreign talent

Please list the top three challenges to attracting international talent [1)]

N=201



1) *Question only asked to respondents that selected "Yes" in response to the question: Is your company currently facing any challenges attracting/retaining international talent in China?*

58 For example, the foreign populations of Beijing and Shanghai—locations that have historically had a higher density of foreign nationals from developed economies relative to the rest of China—dropped from 107,445 to 62,812; and from 208,602 to 163,954 respectively from 2010 to 2021. The foreign populations provided for Shanghai and Beijing include residents of Hong Kong, Macau and Taiwan. *How many Foreigners live in China – the seventh national census in 2021*, Registration China, 15th May 2021, viewed 28th March 2024, <https://www.registrationchina.com/articles/how-many-foreigners-live-in-china/>

6 ANNEX

Carbon neutrality – an area ripe for EU-China cooperation

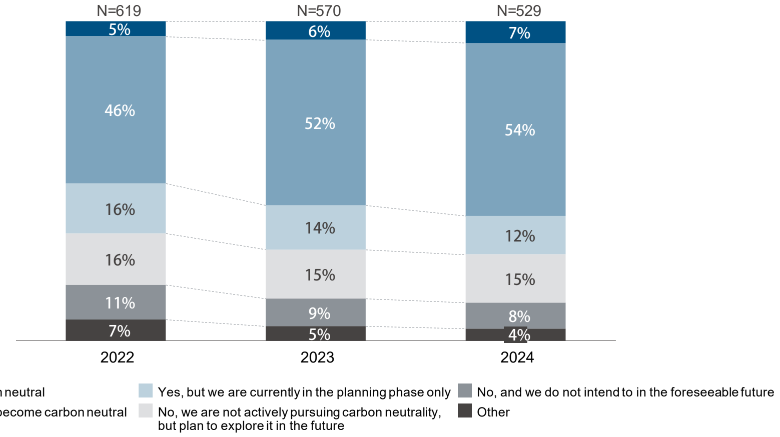
Decarbonisation is a key policy priority for the Chinese Government, which targets peaking carbon dioxide emissions before 2030 and achieving carbon neutrality by 2060 (30/60 Goals).[59] However, while China is making some progress towards 2060, European companies—the majority of which are also pursuing carbon neutrality—face barriers that could prevent them from both meeting their corporate pledges and contributing fully to China's 30/60 Goals. It is therefore very concerning that, despite companies facing pressure to decarbonise to meet global targets, comply with strict EU regulations and satisfy growing consumer demands for green products and services, members are revising their timelines and postponing their targets for decarbonisation.

European firms are revising their decarbonisation timelines

A growing proportion of respondents (54%, +2pp y-o-y) are actively taking measures to become carbon neutral, with an additional 7% (+1pp y-o-y) having already or nearly achieved carbon neutrality.

Figure 55: More than seven in 10 decarbonising China operations

Is your company pursuing the idea of becoming carbon neutral?

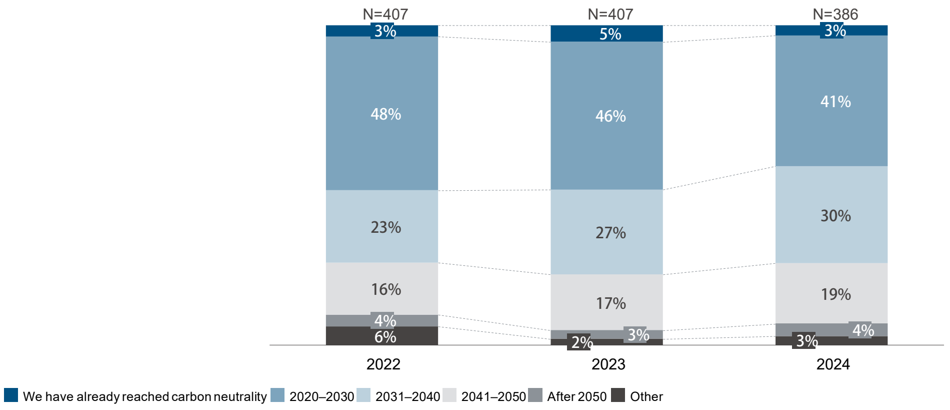


However, timelines for achieving carbon neutrality are being adjusted with target dates postponed. The BCS 2024 recorded a 5pp y-o-y drop in the proportion of respondents aiming to decarbonise by 2030, while the proportion of those targeting 2040 (30%, +3pp y-o-y) or 2050 (19%, +2pp y-o-y) increased.

59 Farand, Chloé & Darby, Megan, *Xi Jinping: China will aim for carbon neutrality by 2060*, Climate Home News, 22nd September 2020, viewed 19th March 2024, <https://www.climatechangenews.com/2020/09/22/xi-jinping-china-will-achieve-carbon-neutrality-2060/>

Figure 56: Over half aim to decarbonise after 2030

When does your company aim to reach carbon neutrality?



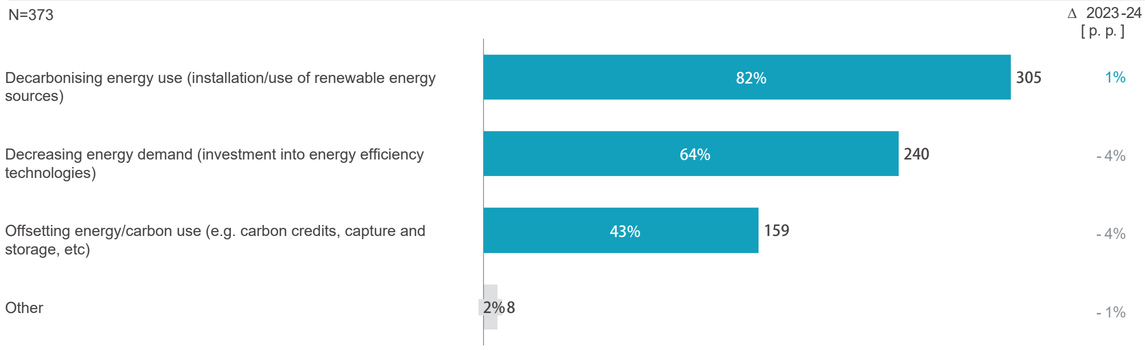
1) Question only asked to respondents that reported that they already have or nearly achieved carbon neutrality, are taking steps or are planning to decarbonise in response to question: Is your company pursuing the idea of becoming carbon neutral?

Limited access to green energy a key challenge

Most respondents (82%) are primarily decarbonising their energy use as a means to achieve carbon neutrality, making access to green energy an imperative. However, two fifths ranked limited access to renewable energy as the key challenge they face in their decarbonisation efforts, highlighting it as an area where urgent improvement is needed (see Figure 58).

Figure 57: Decarbonising energy use employed as top decarbonisation strategy

Which strategies is your company considering / applying to reach carbon neutrality?[1)2)]

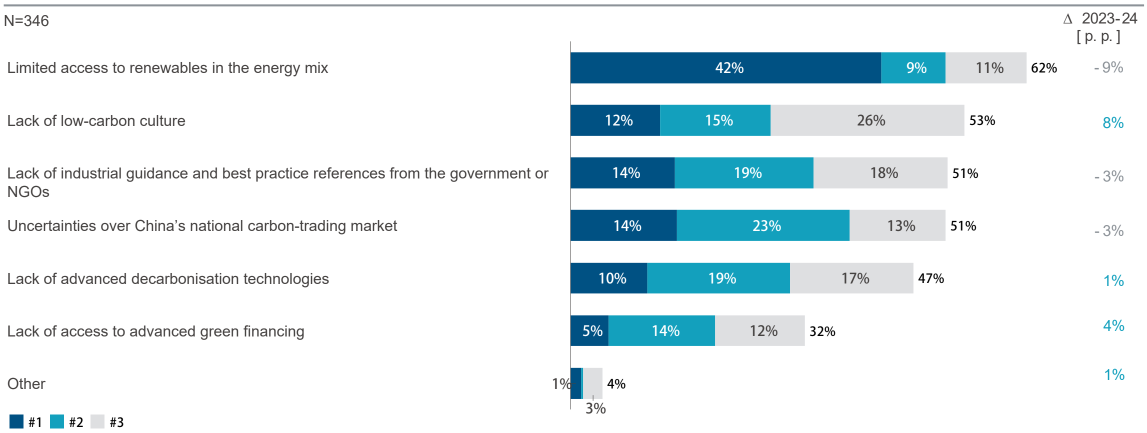


1) Question only asked to respondents that reported that they already have or nearly achieved carbon neutrality, are taking steps or are planning to decarbonise in response to question: Is your company pursuing the idea of becoming carbon neutral?

2) Multiple answers possible; percentages based on the total number of responses

Figure 58: Limited access to renewable energy stands out as top challenge

What are the top three issues / challenges that may prevent your company from achieving its decarbonisation goals in China?[1)]



1) *Excludes respondents that selected "Don't know"*

7 ABBREVIATIONS

30/60 Goals	China’s twin goals of peaking carbon dioxide emissions before 2030 and achieving carbon neutrality by 2060
ASEAN	Association of Southeast Asian Nations
BCS	Business Confidence Survey
CNY	Chinese Yuan
CSDDD	Corporate Sustainability Due Diligence Directive
CSRD	Corporate Sustainability Reporting Directive
EBIT	Earnings Before Interest and Tax
EU	European Union
EV	Electric Vehicle
FDI	Foreign Direct Investment
FIE	Foreign-invested Enterprise
GACC	General Administration of Customs
HQ	Headquarter
ICER	Incremental Cost-effective Ratio
ICT	Information and Communication Technology
IIT	Individual Income Tax
IP	Intellectual Property
IPO	Initial Public Offering
IPR	Intellectual Property Rights
MNC	Multinational Company
MOF	Ministry of Finance
MOFCOM	Ministry of Commerce
NBS	National Bureau of Statistics
NHSA	National Healthcare Security Administration
NMPA	National Medical Products Administration
NRDL	National Reimbursement Drug List
SAFE	State Administration of Foreign Exchange
SOE	State-owned Enterprise
US	United States
USD	United States Dollar
WTO	World Trade Organization

8 ABOUT THE SURVEY MOTIVATION AND DESIGN

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

The European Chamber invited eligible members—non-individual European Chamber members which are headquartered in Europe and resident in China—to take part in the 2024 survey over a four-week period during January and February 2024. The survey was conducted in cooperation with Roland Berger and published in May 2024. With 529 respondents completing the survey, the 2024 survey achieved a response rate of 44%.

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 individual password-required survey platform was set up for eligible European Chamber members.

Consistency was one of the key factors that guided the design of the questionnaire and data analysis, so that the development of company strategies and perceptions could be tracked and understood in relation to data gathered in previous years. The survey focussed on capturing the key, ongoing challenges and opportunities for European companies operating in China, and included questions on emerging topics that may have had a significant impact on European companies' China operations in the last three years.

The survey comprised 50 national questions and 10 unique questions for each European Chamber chapter. The national questions were grouped under three general and four thematic themes:

- Company Profile and Financial Performance
- Outlook on the Chinese Business Environment
- Outlook on Company Strategy
- Outlook on Supply Chains
- Outlook on the Politicisation of Business
- Outlook on Digital and Data
- Companies' Environmental Strategies
- Outlook on Overcapacity

This report highlights the survey results for selected questions of note. For simplicity and consistency, all results are rounded to the nearest whole number. As a result of this, the percentages contained in some bars and figures displayed in the report sum to 99% or 101%.

9 ABOUT ROLAND BERGER

Roland Berger is one of the world's leading strategy consultancies with a wide-ranging service portfolio for all relevant industries and business functions.

Founded in 1967, Roland Berger is headquartered in Munich.

Renowned for its expertise in transformation, innovation across all industries and performance improvement, the consultancy has set itself the goal of embedding sustainability in all its projects.

Roland Berger revenues stood at more than EUR one billion in 2023.

10 ABOUT THE EUROPEAN UNION CHAMBER OF COMMERCE IN CHINA

The European Union Chamber of Commerce in China (European Chamber) was founded in 2000 by 51 member companies that shared a goal of establishing a common voice for the various business sectors of the EU and European businesses operating in China. It is a member-driven, non-profit, fee-based organisation with a core structure of 26 working groups and nine fora representing European business in China.

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

The Chamber is recognised by the European Commission and the Chinese authorities as the official voice of European business in China. It is registered as a foreign chamber of commerce with the Ministry of Civil Affairs.

The European Chamber is part of the growing network of European Business Organisations. This network connects European business associations and chambers of commerce located in over 50 third markets around the world.

Principles:

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

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