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British Business in China Member Sentiment Survey

The British Chambers of Commerce in China

2018/2019

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Chairman
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We are delighted to be able to present the inaugural *British Business in China: Member Sentiment Survey*. The survey has been a combined effort of the four Chambers of Commerce in China: Beijing, Shanghai, Guangdong and Southwest – providing key insights into the sentiments of over 200 British member companies in market, representing over £3 billion (US\$3.8 billion) of revenue in China.

This survey could not be more timely. With an official trade review between the Department for International Trade (DIT) and the Ministry of Commerce of the People's Republic of China (MOFCOM) close to being concluded, the data presented in this survey will undoubtedly provide useful inputs into the ongoing process. At the same time, with the Brexit process continuing in the UK, the importance of the views of British business being carefully reflected here in China is more important than ever.

The survey reveals some very interesting findings. Although 65.0% of members are optimistic about the market going forward, 31.0% have found that doing business in China has become more difficult over the last year. Consistently raised market access challenges include cybersecurity and IT restrictions, difficulties obtaining licences and intellectual property right protection, although members also noted an improvement in the latter. As China celebrates the significant progress it has made since Reform and Opening Up began 40 years ago, the importance of China addressing imbalances for foreign business will be essential for the long term prosperity of the economy.

We have also taken the pulse of British member sentiment around Brexit and US-China trade tensions, which shows that 23.8% of companies believe a no deal Brexit would adversely impact their operations in China, while 13.5% of goods related businesses say they would consider moving production capacity out of China if US tariffs were raised from 10% to 25%.

This survey represents the new vision of the British Chamber of Commerce in China – to be the leading voice of British business in China. Over the last 18 months, the Chamber has led the [Business Environment and Market Access \(BEMA\) initiative](#) with all the other major British business organisations in China, including setting up roundtables and interviews across a number of sectors in order to understand the major issues for UK business in China.

The four British Chambers of Commerce in China will continue to work to represent member interests in China. On no small part due to the efforts of all the contributors to this survey, we are making significant progress and we hope you find the report useful and insightful.





Executive Summary

The *British Business in China: Member Sentiment Survey* is the British Chambers' of Commerce in China first comprehensive publicly released analysis of British member companies in China. The survey represents the views of 212 British member companies and professional organisations, geographically spread across the major markets, representing over £3 billion (US\$3.8 billion) of revenue in China. With questions covering their sentiments towards China's current business environment, market access issues and the impact of global affairs, the responses provide a breakdown of our members' outlook going into 2019.

The survey reveals that while businesses in a number of sectors, such as finance, education and aerospace, have acknowledged the efforts made in terms of opening up the market over the last 12 months, members would like to see some of these opening up efforts touch other sectors in order to facilitate market entry for British foreign invested enterprises (FIEs) and help them thrive in the Chinese economy.

The survey also reveals some significant challenges for FIEs in China. Approximately one in three respondents to the survey report that the business environment in China has become more difficult during the last 12 months, in part due to a challenging regulatory environment. Among 14 of the most critical market access barriers for British FIEs, the following three ranked as the most prohibitive across all sectors:

- Cybersecurity and internet restrictions.
- Inability to effectively protect Intellectual Property Rights (IPR).
- Licensing and certification restrictions.

For certain cross-cutting issues, particularly IPR, our members have noted continued improvement, although it remains an area of concern and requires continued attention for the benefit of both UK and Chinese companies.

At a time of great uncertainty in British politics, the Chamber has found that a significant portion of respondents feel relatively insulated from Brexit, with an average of 54.1% of companies expecting no impact on their China operations across three prospective Brexit scenario questions. US-China trade tensions are considered more likely to have an adverse impact on British businesses with a number of members, especially in the manufacturing and logistics sectors, citing a direct negative impact on their China operations.

While British company members remain optimistic about the opportunities to be found in the China market and are investing accordingly, a slowing economy coupled with market access barriers are limiting the ability of British companies to grow to their full potential. We hope that policy-makers on both sides can continue to work together to continue to improve the business environment for the benefit of both the UK and China.

Methodology

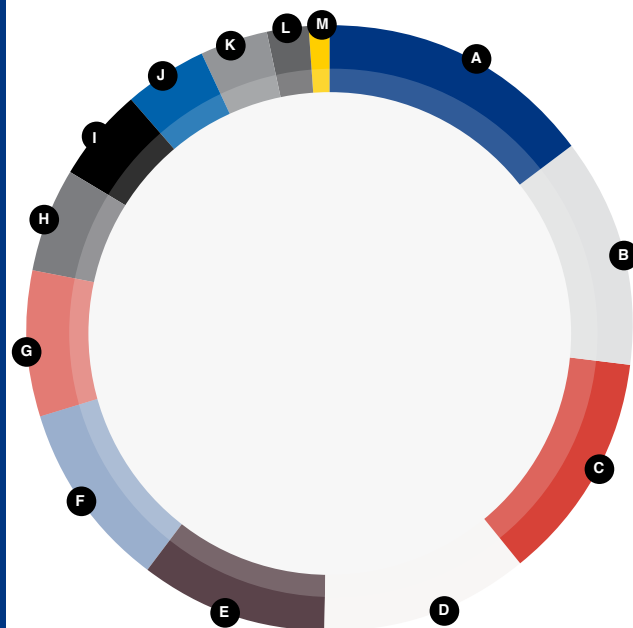
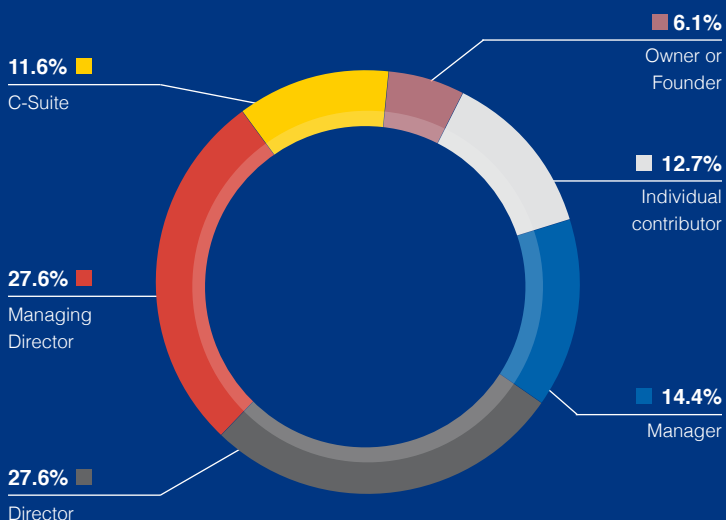
The *British Business in China: Member Sentiment Survey* was conducted by the British Chambers of Commerce in Beijing, Shanghai, Guangdong and the Southwest, with the goal of gauging the outlook of British business in China and the market access issues that they experience. The survey was conducted between the 14th and 30th November 2018 and sent out to 600 of our member companies across China, of which 212 took part. Respondents represent around £3 billion (US\$3.8 billion) of revenue in China. 27.6% of respondents were company directors, 27.6% were managing directors, 14.4% were managers, 11.6% were C-Suite individuals and 6.1% were the business owners.

Though this report is the inaugural annual survey of British business in China, it builds on the foundation laid by the Chamber's internal January 2018 survey for the Business Environment and Market Access initiative. The survey consisted of 25 questions and was split into five sections: Organisation Profile, Business Environment, Market Access Issues, Current Affairs and Recommendations. With the exception of Current Affairs, which asked questions in response to ongoing issues in global trade, questions were generally kept similar with the previous survey in order to chart changes in attitudes over time.

Potential respondents were notified about the survey by email and phone, as well as through social media channels and the Chambers' industry forums. The range of responses gathered collectively represent the full spread of corporate revenue profile, geographic location in China, sector type and experience in the China market. Respondents were required to provide the name of their business in the survey so as to guarantee that the responses speak for the views of British business in China and to prevent results being skewed by multiple responses from a single company or individual.

Analysis was conducted by cross-referencing information from different questions and filtering according to their various responses. Qualitative questions were posed alongside quantitative ones to enrich analysis, and some sectors were grouped together to mitigate against small sample sizes. Complete anonymity of all respondents, both in terms of organisation and individual, was maintained throughout the publication of information.

Job position of respondent



Breakdown of Survey Respondents

British companies in China are highly diversified, which is reflected in the survey sample. The largest sector is Professional Services (14.9%), followed by Advanced Manufacturing & Transportation (12.3%), Education (11.2%) and Financial Services (10.1%).

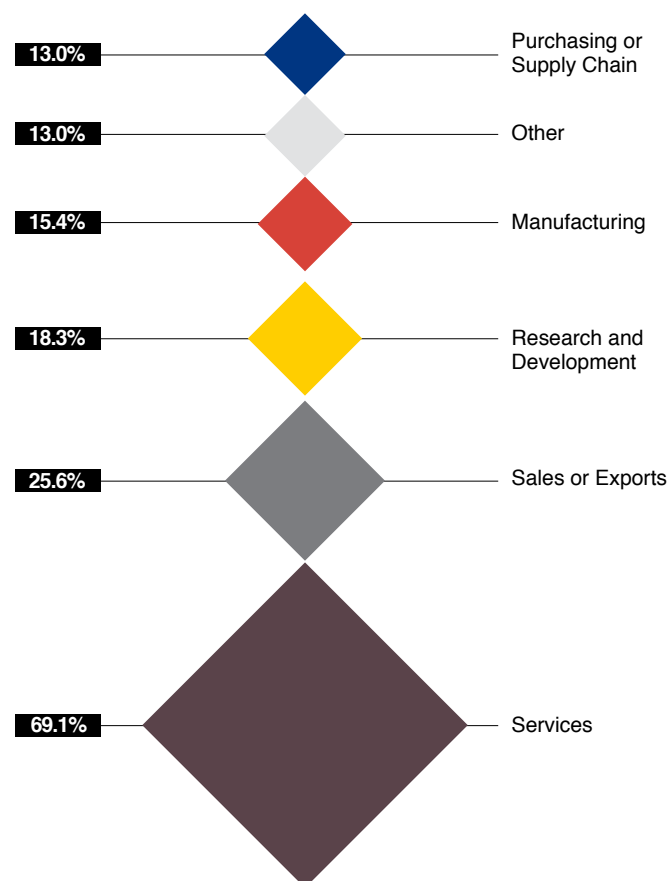
What sector(s) is your organisation involved in?

A	Professional Services	14.9%
B	Advanced Manufacturing & Transportation	12.3%
C	Other	12.0%
D	Education	11.2%
E	Financial Services	10.1%
F	Consumer & Retail	9.8%
G	Creative Industries	8.0%
H	Food, Beverage & Agriculture	5.4%
I	Hospitality, Tourism & Sport	5.1%
J	Built Environment Services	4.3%
K	Healthcare & Pharmaceuticals	3.6%
L	Energy	2.2%
M	IT	1.1%



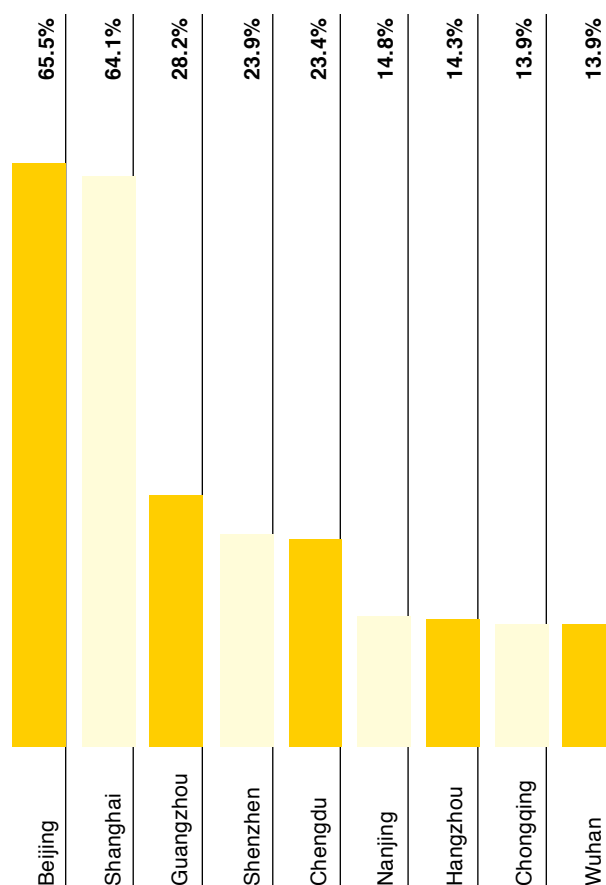
What is your business interest in China?

At 69.1%, most respondents are part of the services industry. The 'Sales or Exports' segment comprise the second largest classification at 25.6%. This roughly mirrors the status of UK economy as a service-based economy, which in 2016 comprised 79.6% of the domestic UK economy.¹

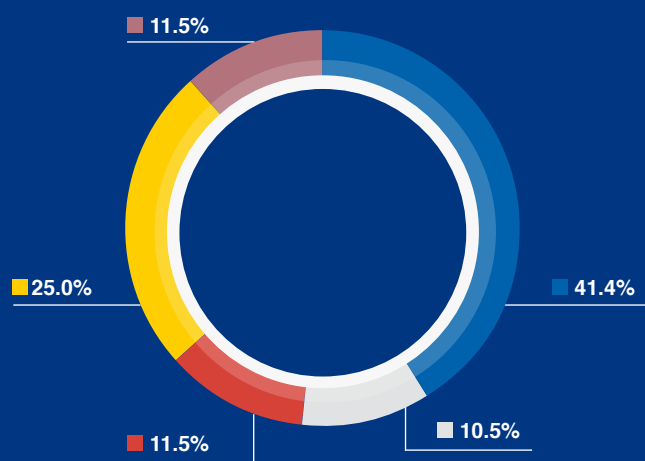


In which of the following cities do you have a physical presence?

As the two key economic, political and social hubs of China, Beijing and Shanghai are overwhelmingly the most popular destination cities for British FIEs, hosting the operations of 65.6% and 64.1% of respondents respectively. Other popular locations include Guangzhou, Shenzhen, Chengdu and Nanjing.



¹'Index of Services', Office of National Statistics, May 2018.



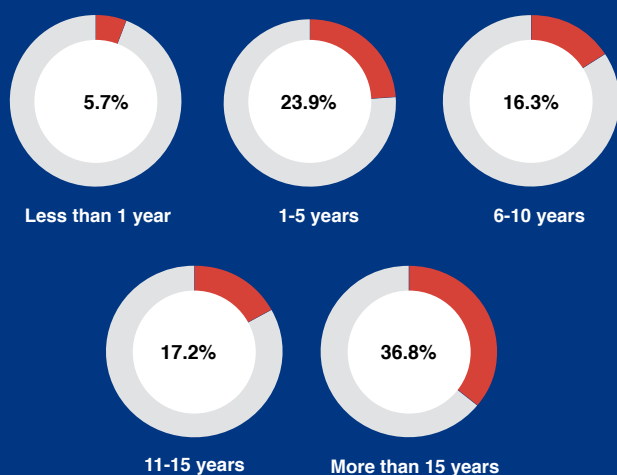
What is the corporate profile of your organisation? (Global turnover)

- Large**
More than £46.5 million (US\$58.3 million)
- Medium**
£8 million (US\$10.1 million) - £46.5 million (US\$58.3 million)
- Medium Small**
£2 million (US\$2.5 million) - £8 million (US\$10.1 million)
- Small**
Less than £2 million (US\$2.5 million)
- Don't know**

Respondents are most likely to be either a large multinational company, earning over £46 million (US\$58.3 million), that operate in China as part of its Asia-Pacific network (41.4%) or a small company, earning under £2 million (US\$2.5 million), that may only have one or two offices worldwide (25.0%).

How long has your organisation been engaged in business in China?

Many British companies are well-established in China and our sample reflects this, with 36.8% of respondents having had operations in China for more than 15 years. 29.7% of respondents have operated in China for 5 years or less, which points to sustained confidence in the Chinese economy.



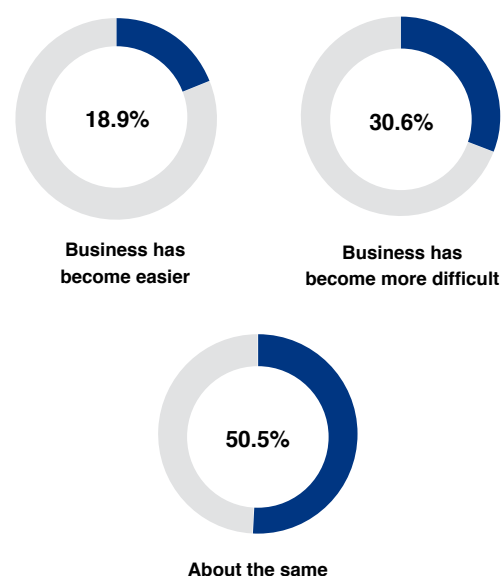
Business Environment and Outlook

The majority of respondents (50.5%) believe that the business environment has remained the same as last year, despite more members noting that business had become harder than easier.

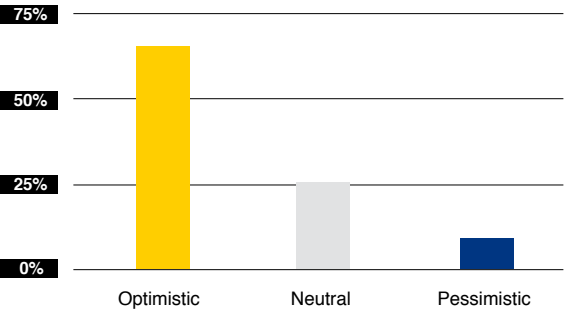
The Media & Publishing sector reported the highest levels of improvement at 40.0%, followed by Education (38.7%) and Aerospace (37.5%). One particular respondent in the Education sector mentioned that it has become easier to link and make partnerships with local companies, facilitating business promotion and provision of a higher quality service.

The three sectors that saw the most negative change are the Real Estate sector (60.0%), Logistics (57.1%) and Accountancy (54.5%). Licensing is a major barrier to these sectors; architects and engineers in particular have experienced difficulty obtaining design licenses for their projects. Logistics firms are largely concerned about the difficulty of competing with state-owned enterprises (SOEs), among other issues.

How has doing business in China for your organisation developed over the past year?

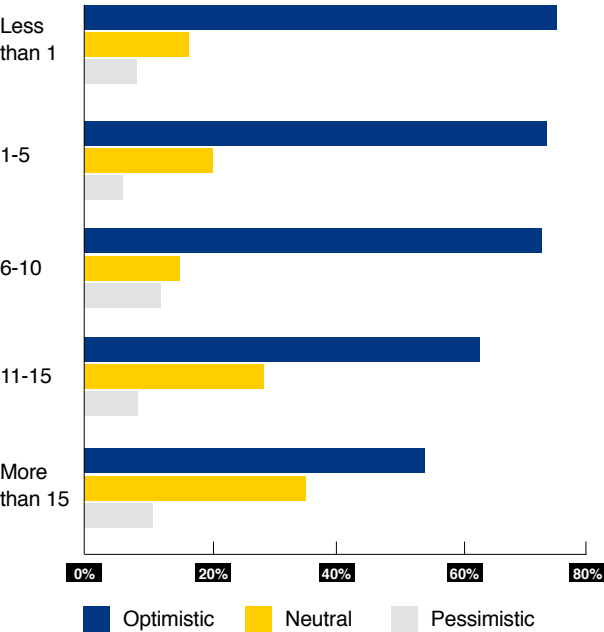


How would you describe the business outlook for your sector in China over the next two years?



65.1% of British businesses reported that they are optimistic about business prospects over the next two years while only 9.2% stated that they were pessimistic. This is likely due in part to the sustained growth of the Chinese market and references to further privatisation and internationalisation of Chinese markets by the top levels of the Chinese government. The highest rates of optimism were spread across all types of industries, from services including Education (87.1%) and Hospitality (83.3%), to goods sectors, such as Fashion and Textiles (80.0%), and mixed sectors such as Consumer Goods & Services (88.9%). On the other hand, there are significant sectors with pessimistic outlooks going forward. Logistics companies were three times more pessimistic than the average, with 28.6% pessimistic about business prospects going forward, largely due to difficulty competing with SOEs and companies with the means to circumvent legislation and standard operating procedures.

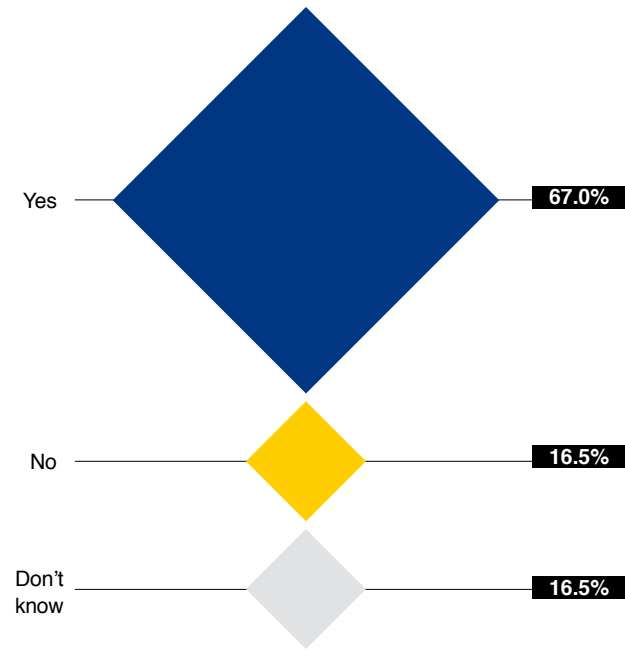
Business outlook over the next two years versus number of years spent in China.



Levels of optimism are highest among businesses that are relatively new to the market. 75.0% of respondents whose company has operated in China for less than a year are optimistic about the outlook for the next two years, as opposed to 54.1% of respondents whose company has operated in the market for more than 15 years. Despite the increasing trend towards a more tempered, neutral outlook among firms that have been in China for longer, the majority of firms nonetheless maintain a positive outlook.



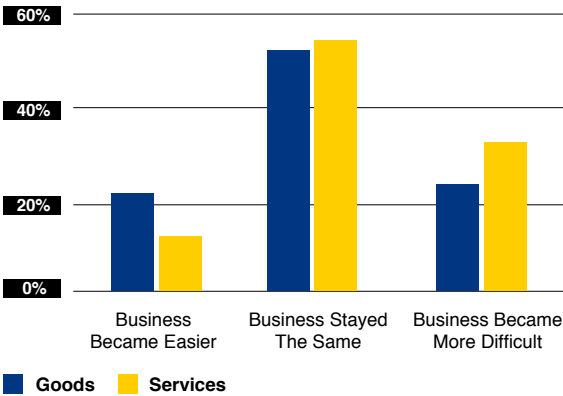
Is your organisation considering increasing investment in its China operations over the next year?



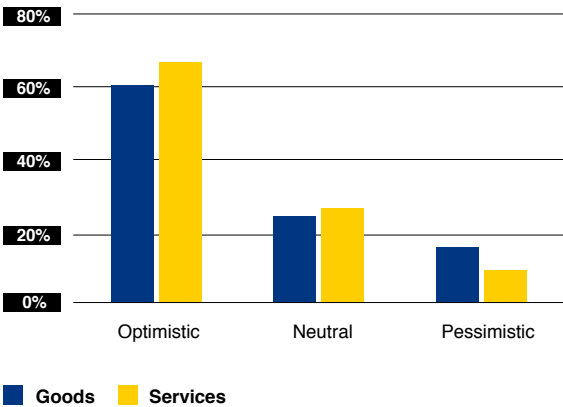
Two out of three companies plan to increase their investment in China over the coming year, highlighting continued interest and confidence in the China market. Even companies that reported a pessimistic outlook for the next two years are expanding their China operations, with the figures for pessimistic companies increasing and not increasing investment both standing at 44.4%. For comparison, 60.5% of companies with a neutral outlook and 78.5% of companies with a positive outlook are increasing investment next year.



How has doing business in China for your organisation developed over the past year?



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



Comparison of Goods and Services Industries

In this survey goods were defined as companies involved primarily in manufacture or supply chain operations, and services as industries providing intangible products, such as Legal or Marketing & Communications. The goods sector has seen more of an improvement to the business environment in the past year than services, with 22% of the goods industry reporting that business became easier to conduct last year, in contrast to 12.9% of the services industry. This tracks with improvements in IPR over the past year – the market access barrier that ranked as most severe for goods. According to respondents, inadequacies in the protection of IPR allows competitors to imitate their brand or products and thus undercut their sales. The second most severe market access issue for goods are compliance and business ethics issues.

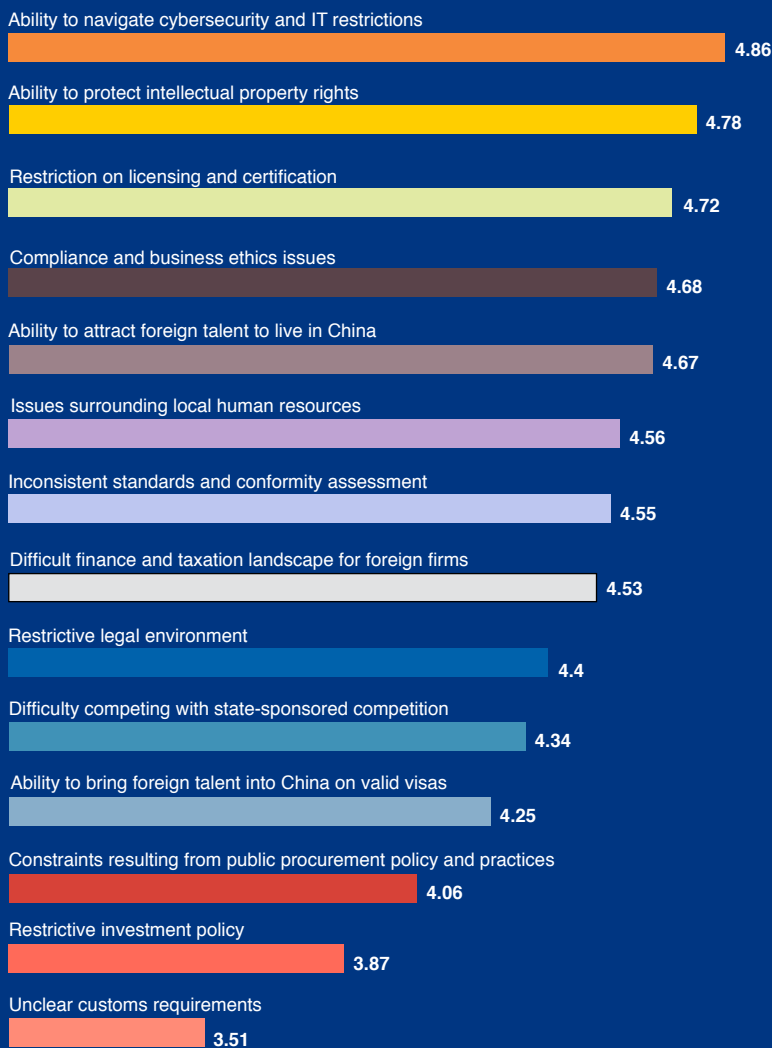
For companies in services, restrictions on licensing were considered the most severe market access barriers, limiting the range of services that they can provide. This was followed by IPR protections. Both goods and services highlighted an inability to navigate cybersecurity concerns and IT restrictions as one of their highest market access barriers, which could become a more significant inhibitor to growth as the global economy continues to digitalise.

Goods also plan to invest much more than services next year, with 75% of respondents in the goods industry increasing investment – as opposed to 66.7% of the service industry. However, the goods industry is also slightly more pessimistic (15%) than the services industry (9.2%) going into next year. This would seem at least in part due to market reactions to the ongoing uncertainty of Brexit and US-China trade tensions, as well as the slowdown of the Chinese economy.



Please assess the following issues in terms of how they limit your organisation's ability to do business in China.

(10 = leads to an inability to do business and 1 = no impact)



3 3.5 4 4.5 5
Average value according to severity of the market access issue across all industries

Cybersecurity and IT Restrictions

Most pressing to technology regulations are the new cybersecurity laws that came into place in June 2017, focusing on fundamental IT issues that affect all sectors. These issues include data storage, localisation, internet access and guidelines on content. The sectors reporting IT issues as the most limiting issue to their business were Financial Services, Media & Publishing, and Travel, Tourism & Sport. Commonly reported issues limiting business development and innovation include: the monopolisation of big data; internet access issues; difficulty running global cloud solutions; and complying with both the General Data Protection Regulation (GDPR) and Chinese laws.

Intellectual Property Rights

IPR protection is a high-profile obstacle to foreign business operation in China, and complaints against China's IP policies have reached as far as the World Trade Organisation (WTO)². However, this survey reveals that British businesses are cautiously optimistic about IPR in China. The vast majority of respondents stated that IPR had either improved (41.2%) or stayed the same (56.5%) this year. Sectors in which IPR is identified as the most pressing market access issue were Aerospace & Aviation, Fashion & Textiles, Healthcare, Legal, Industrial Goods & Services, and Manufacturing. One respondent stated that although the courts have improved, they are not consistently impartial in the localities and sometimes appear to be influenced by local interests. Currently ranking as the second highest priority issue across all sectors, British business in China see theft of IP as a major issue that is nevertheless starting to make progress. What is now required is a push from authorities to accelerate the process.

Licensing and Certification




Problems around licensing and certification have equally proved to be a key barrier to several sectors, not least Accountancy; Automotive; Environmental; Food, Beverage & Agriculture; and Professional Services. Certification regulation prevents firms from carrying out the range of services they are qualified for. There are limited, yet encouraging, examples of mutual membership agreements between British and Chinese accountancy organisations, which could develop into more comprehensive reciprocal agreements going forward. Healthcare respondents also note that the registration barrier and clinical trials for products are becoming tougher, as are restrictions for imported products. Licenses in this sector are also inflexible and limit the full scope of services that British FIEs can provide to Chinese consumers.

²United States files WTO complaint on China's protection of intellectual property rights', World Trade Organization, March 2018.

Top Three Issues and Ease of Doing Business Over the Last 12 Months

Legend



- IT** Ability to navigate cybersecurity and IT restrictions
- IP** Ability to protect intellectual property rights
- LC** Restriction on licensing and certification
- BE** Compliance and business ethics issues
- FR** Ability to attract foreign talent to live in China
- HR** Issues surrounding local human resources
- SC** Inconsistent standards and conformity assessment
- FT** Difficult finance and taxation landscape for foreign firms
- LE** Restrictive legal environment
- CS** Difficulty competing with state-sponsored competition
- FV** Ability to bring foreign talent into China on valid visas
- PP** Constraints resulting from public procurement policy and practices
- RI** Restrictive investment policy
- CR** Unclear customs requirements

-  Business has become easier
-  Business has stayed the same
-  Business has become harder

*Net balance of respondents to question: 'How has doing business in China for your organisation developed over the past year?'.



Built Environment

	Civil Engineering	Real Estate Development & Consultancy
First	CS	RI
Second	IP	FV
Third	LC	LC
Last 12 Months		




Education

First	FR
Second	FV
Third	BE
Last 12 Months	



IT

First	BE
Second	IT
Third	LC
Last 12 Months	



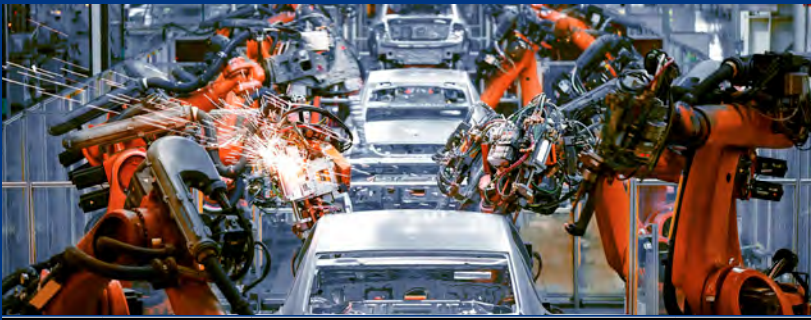
Hospitality, Tourism & Sport

	Hospitality	Travel, Tourism & Sport
First	HR	IT
Second	IT	FV
Third	LC	LC
Last 12 Months		



Healthcare & Pharmaceuticals

First	IP
Second	CS
Third	PP
Last 12 Months	



Advanced Manufacturing & Transportation

	Industrial goods or services	Manufacturing	Transportation, Logistics & Distribution	Automotive & Auto Components	Aerospace & Aviation
First	IP	IP	BE	LC	IP
Second	PP	CR	LC	CS	FR
Third	CS	IT	CS	BE	CS
Last 12 Months	↑	↑	↓	↓	↑



Energy

First	CS
Second	LC
Third	IP
Last 12 Months	→



Financial Services

	Financial Services	Accountancy
First	IT	LC
Second	SC	LE
Third	LC	CS
Last 12 Months	↓	↓



Professional Services

	Professional Services	Legal
First	LC	IP
Second	IT	LC
Third	FT	CS
Last 12 Months	→	→



Creative

	Media & Publishing	Marketing & Communications
First	IT	FT
Second	BE	HR
Third	CR	IT
Last 12 Months	↑	↓



Consumer & Retail

	Consumer Goods & Services	Fashion & Textiles	Retail
First	BE	IP	FR
Second	IT	HR	LC
Third	LE	BE	SC
Last 12 Months	↓	↓	→

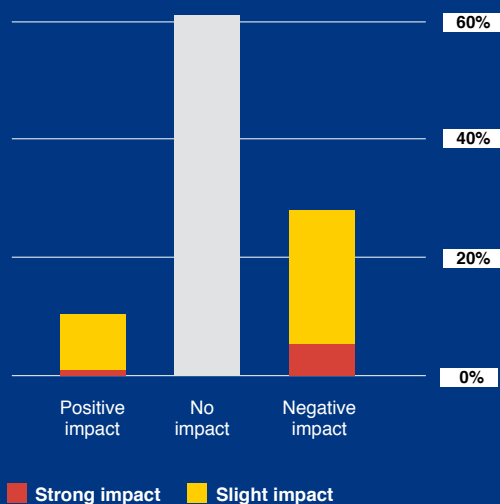


Food, Beverage & Agriculture

First	LC
Second	BE
Third	SC
Last 12 Months	↓



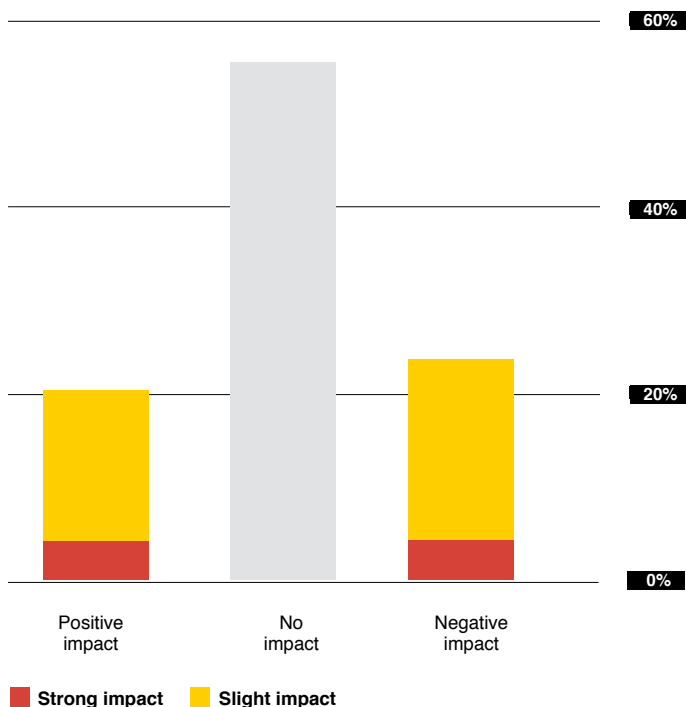
Brexit



What impact do you think continuing uncertainty over a future Brexit deal would have on your organisation's revenue in China?

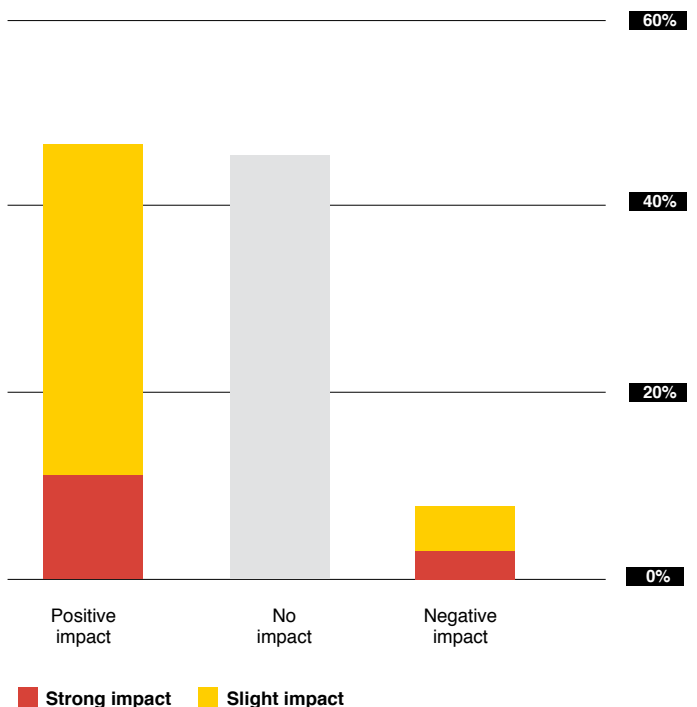
With discussion over the current Brexit deal continuing to ensue in the UK, the uncertainty surrounding a future Brexit deal remains significant. However, only 27.6% of British businesses believe that continuing uncertainty over Brexit would have a negative impact on their revenue in China, while 61.1% of businesses reported it would have no bearing on their revenue. 35.1% of the goods industry and 29.1% of the services industry report that the current uncertainty has a negative impact on their business.

What impact do you think a no-deal Brexit scenario would have on your organisation's revenue in China?



Official government analysis predicts that a no deal Brexit scenario could lead to a negative hit of 9.3% on the British domestic economy³. The survey results reveal however that 55.7% of member companies predict that a no deal Brexit will have no impact at all on their revenue in China, while 23.8% of businesses state that their China revenues will be negatively affected by a no deal Brexit adverse effect. Medium and medium-small size firms (annual revenues of between £2 million and £46.5 million or US\$2.5 million and US\$58.3 million) have stated that they are the most likely to be adversely affected, with 38.2% of business in this category believing that a no deal scenario will have a negative impact on their revenue in China. Such businesses are likely to be large enough to have major international connectivity and are hence vulnerable to global trade shocks, yet too small to be able to easily absorb any associated costs that arise. There seemed to be a general consensus among a small majority of goods and service providers (both at 54.0%) that a no deal Brexit will not have an impact on their China operations. However, 32.4% of goods providers believe that a no deal will negatively affect them, likely due to disruptions to supply chains and the complications of negotiating a new trade deal.

In a post-Brexit environment in which the UK is free to pursue its own trade agreements, what impact do you think this would have on business opportunities for your organisation in China?



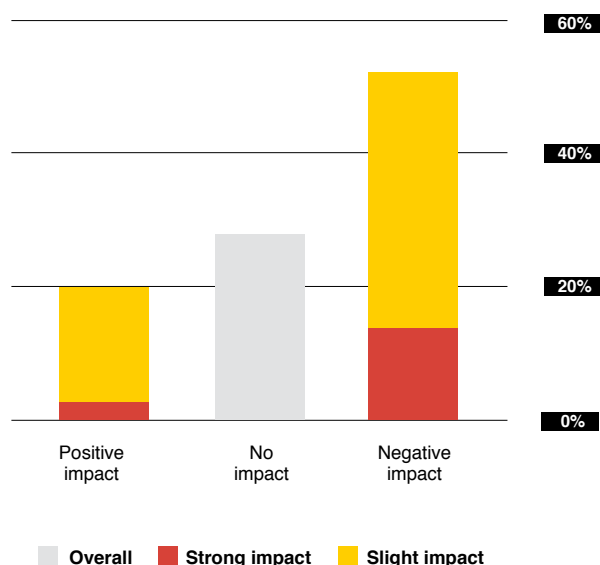
Following a departure from the European Union, the UK would have the ability to pursue its own trade agreements with other countries across the world. The prospect of signing such agreements with China is marginally viewed as favourable by British businesses, with 46.7% of respondents believing that this will have a positive impact on their business opportunities in China. The sectors most positive about the potential to negotiate Sino-UK trade agreements are Built Environment (77.8%) and Financial Services (58.3%). However, a similar percentage (45.7%) of respondents believe that the prospect of signing further trade agreements with China would have no impact on their business operations.

³ 'EU Exit: Long-term economic analysis', HM Government, November 2018.



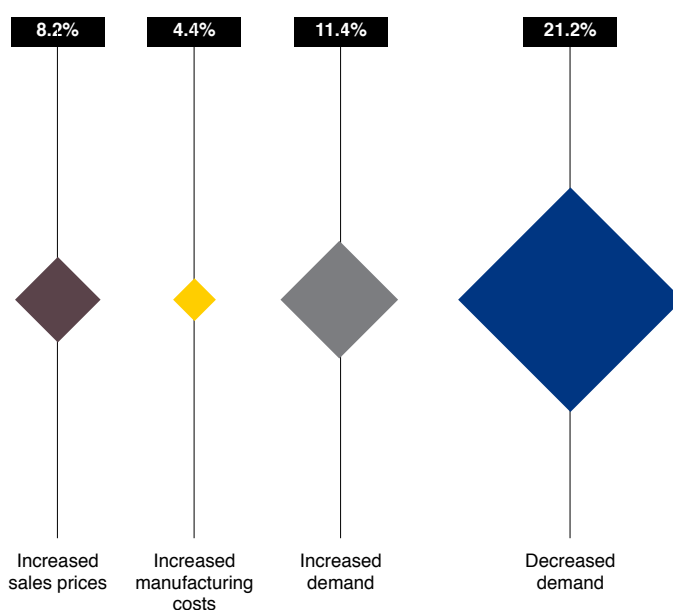
US-China Trade Tensions

How do you view the impact of current US-China trade tensions on your business operations in China?

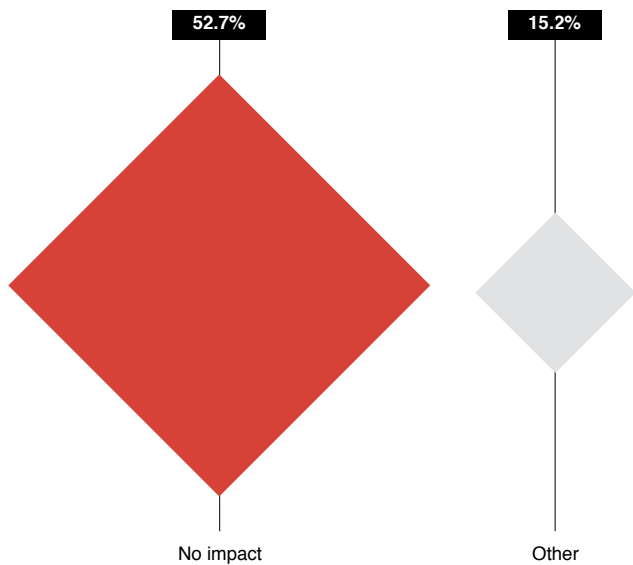


This question asked respondents about their attitude towards US-China trade tensions. The impact of the current US-China trade dispute has been felt beyond American and Chinese firms. A number of British businesses in China have to a varying extent experienced repercussions as a result of ongoing trade tensions between the world's two largest economies. 52.2% of respondents hold negative views towards US-China trade tensions, the strongest being among businesses in the sectors of Hospitality, Tourism & Sport (81.8%); Healthcare (70.0%); and Manufacturing & Logistics (67.9%). 67.6% of the goods industry reported a potential negative impact from trade tensions, but more interestingly, 55.0% of service industries also project a negative attitude towards an increase in US tariffs, reflecting wider concerns about the indirect effect trade tensions could have on market sentiment in China.

How have US-China trade tensions affected your business operations so far?

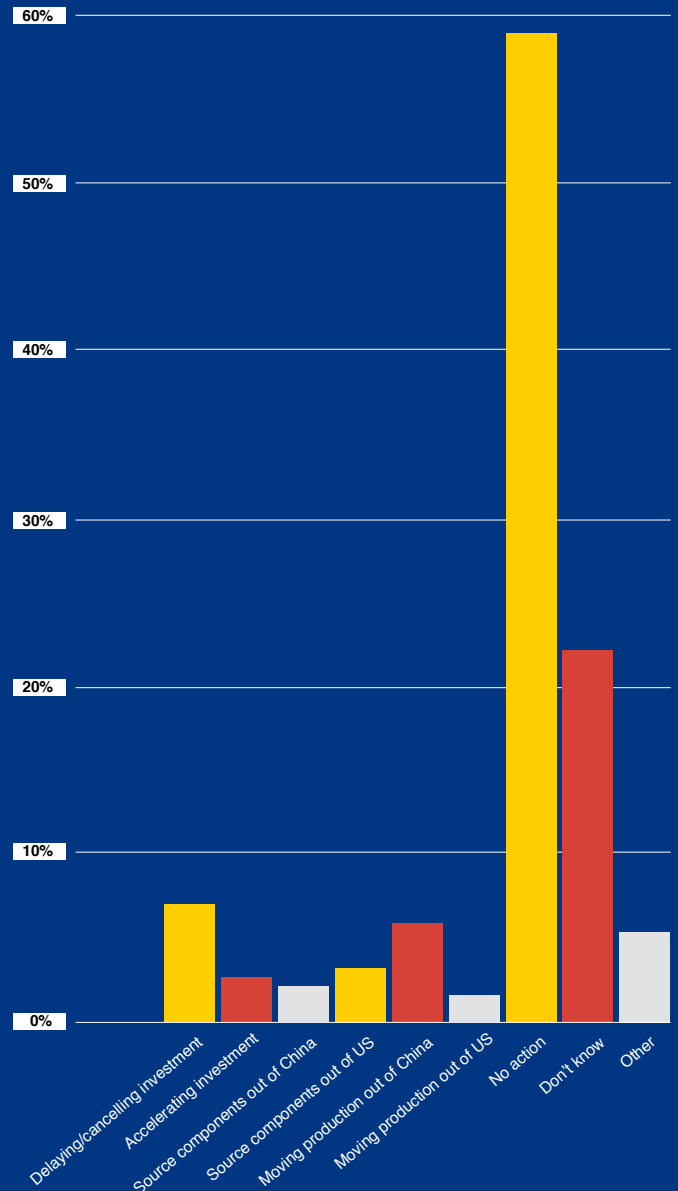


This question asked respondents what impact US-China trade tensions have already had on their China operations. The majority of respondents (52.7%) have so far not experienced any tangible impact from US-China trade tensions. However, 21.2% of businesses have stated that they have experienced a drop in demand for their products or services as a result. The Advanced Manufacturing & Transportation sector has been more affected than most by overall consequences of trade tensions, experiencing decreased demand for manufactured goods (28.6%) and increased sales prices (21.4%), as well as disruptions to supply chains as a consequence of their suppliers shifting capacity out of China.



A handful of businesses across multiple sectors referenced the potential impact of declining consumer confidence in China that can be partially attributed to US-China trade tensions. This is having an adverse effect on the operations of some businesses in China, with one educational institute for example reporting that their clients are now more reluctant to spend on expensive tuition fees as a result of ongoing trade tensions. Conversely, several British organisations offering communications, research and analysis in China have experienced an increase in demand for their services owing to a greater need for professional insights during a time of economic uncertainty.

The US has threatened to increase the tariff rate from 10% to 25% on most of the \$250 billion of Chinese exports to the US. If this happens, what actions would your organisation consider taking?



The current US administration has threatened to increase tariffs on Chinese imports unless China works to address the trade deficit, alleged intellectual property theft and forced transfer of technology, yet this appears not to have overly affected British businesses in China. 58.6% of businesses reported that they would take no action in response, rising to 73.8% for businesses in the services industry. There is some degree of uncertainty among businesses however, with 22.2% stating that they do not know what action their business would take if the tariff rate were increased, while 7.0% have stated that they would delay or cancel investment decisions. Significantly, 13.5% of goods-related businesses stated that they would be prepared to move production capacity out of China.

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