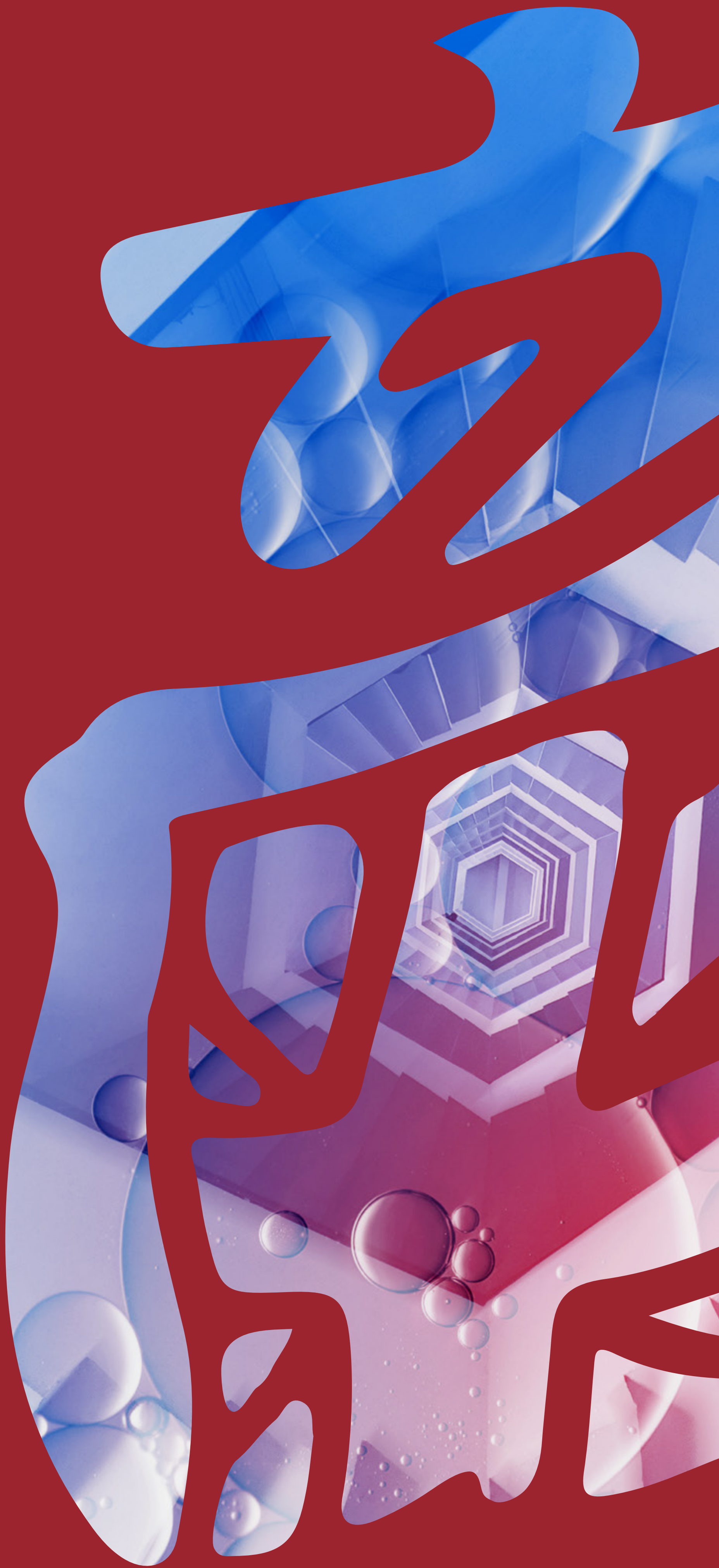
BRITISH CHAMBER OF COMMERCE IN CHINA
中 国 英 国 商 会

BRITISH BUSINESS IN CHINA: SENTIMENT SURVEY

2022–2023



CONTENTS

BRITISH CHAMBER OF COMMERCE IN CHINA
中国英国商会

BRITISH CHAMBER OF COMMERCE SOUTHWEST CHINA
中国西南英国商会

BRITISH CHAMBER OF COMMERCE GUANGDONG
广东英国商会

CHAIRS' FOREWORD

2022 has been a year of contrasts. For some, returning to the UK and reconnecting with colleagues and friends for the first time in three years, the contrast between living in China today and life in the UK could not be greater. This contrast has become more stark over the course of this year. It is perhaps unsurprising, therefore, that this year the sentiment of British business in China also contrasts sharply against sentiment a year ago in 2021. This, our fifth annual sentiment survey, provides the latest snapshot of the views of almost three hundred British businesses operating in China today. More companies responded than ever before and we are proud to be able to represent those views here. Our hope is that this survey, and the sentiment of British business that it conveys, provides a robust base of evidence for policymakers.

The British Chambers of Commerce in China are strong advocates of vibrant and productive business relations between the UK and China. Our work as the independent voice of British business in China is to support, share and advocate for our members. This year marks the 50th anniversary of UK-China ambassadorial relations. Against this backdrop we have the opportunity to reflect upon those past fifty years and remember that much of the strong cultural, educational and economic ties that have grown and flourished over the past fifty years stem from the resumption of government relations between the UK and China all those years ago.

This year our survey coincided with two significant but very contrasting political events: the 20th Party Congress in China, and the changes of leadership in the UK. We conclude from this survey that business optimism is shaped, in part, by the outlook for positive relations between our governments. It is no secret that those relations are strained. We venture to say that this, partly, is due to the extended period of isolation China is facing due to COVID-19. Video calls are no substitute for face-to-face meetings and our television screens show a world just in two-dimensions. Both lack perspective. As we publish this report, there are some signs that we are moving to a new phase of COVID management in China. UK businesses are wondering whether and when we may dispense with scanning, testing, lockdowns, quarantine and the disruption that is weighing heavily on the minds of British business. While the outlook for business in China remains uncertain, barriers to travelling into and from China are reducing. With that comes the prospect that 2023 could be a year for reconnecting and recalibrating perspectives.

2 December 2022

JULIAN MACCORMAC
British Chamber of Commerce in China

HARRIET SHEFFER
British Chamber of Commerce Southwest China

JEREMY SARGENT
British Chamber of Commerce Guangdong

1 EXECUTIVE SUMMARY

COVID-19 controls are hampering business operations and have had a significant, negative effect on the sentiment of British businesses operating in China in 2022. At the end of 2021, our annual sentiment survey showed that business was experiencing a 'fragile recovery', and we saw increased confidence returning. 70% of respondents were reporting expected earnings for 2021 to equal or exceed the year before. Fast-forward to this year's survey, and 89% of respondents now say business in China has become more difficult over the past 12 months. 62% of the 292 businesses responding to this annual survey now expect 2022 revenues to be equal to, or lower than, 2021. This swing in outlook and earnings over the period of just one year is a reflection of the challenging business environment, and most notably the uncertainty that stems from China's dynamic zero-COVID controls. Looking forward, the data now suggest a dampened outlook for the year ahead. Just 28% of businesses are now expressing optimism for the coming year (down from 52%). 42% of all respondents say they are fully pessimistic about their business outlook. This figure previously has always been below 10%.

COVID-19 ranks firmly as the primary challenge that British businesses are facing in 2022, specifically due to its impact on employing foreign staff, as well as uncertainty concerning the implementation of dynamic zero-COVID controls. Many companies report that 'in principle' changes to dynamic COVID-19 management over the past 12 months are not being implemented or interpreted consistently. Concerns over quarantine remain which, along with sustained uncertainty on the ability to travel and high costs related to doing so, are weighing down business sentiment. Businesses (particularly multinational companies) report that relationships between their global headquarters and China offices are suffering as talent recruitment and international travel get harder. Only 51% reported being able to recruit enough talent this year (local and/or international), and only 27% reported being able to recruit enough of the international talent that they needed.

British business continues to point to China's market potential, demand for British products, and the opportunity to provide unique product offerings as reasons underpinning their commitment to the China market. China's prospects for technological innovation continue to be seen as attractive, providing areas of opportunity for British companies operating in China. Progress on decarbonisation and the development of ESG standards are of continued interest to British business, presenting a myriad of opportunities for collaboration with China. However, more businesses today report greater constraints from market access barriers and some market closing over the past 12 months. This runs contrary to China's restated commitments to market opening. The majority (51%) of companies say they are not considering reviewing their investment strategy in China in the next five years. However, almost one fifth of businesses report that they are considering or planning to offshore some of their operations in the next five years, and a further 7% are considering or planning on leaving the China market entirely. The survey data show a significant shift in China's ranking as a priority investment destination for the coming year. For the first time since starting this annual survey, companies report that China's economic prospects are weighing heavily on business.

Heightened geopolitical tensions, most notably between China and the US, also appear to be spilling over into the business environment. Companies report increasing uncertainty around supply chains, and that less predictability around global trade policies is affecting demand from customers in China. 34% of those surveyed say they feel less welcome today in China than a year ago, attributing this to increased local protectionism, a lack of policy support for foreign businesses, and a lack of equal treatment with Chinese companies in general. Our survey coincided with the leadership transition in the UK and reveals a statistically significant correlation between the outlook for UK-China relations, business confidence and political leadership. Simply put: our leaders matter, and business sentiment is underpinned, in part, by the outlook of the UK-China relationship. British business need, and see immense value in,increased dialogue between the

Chinese and UK government, particularly with regards to addressing market access barriers.

Business sentiment feeds into decision making and action. The question for policy-makers is whether companies are able, and willing, to continue to be patient without a clear path to a more stable and predictable business environment. If the challenges and uncertainty that businesses are facing presently are not addressed, China's position as a priority investment market is at risk of diminishing over time. The immediate and overriding challenge that is dominating business sentiment in this, our fifth annual survey of British businesses operating in China, is the uncertainty and unpredictability companies face today due to dynamic COVID-19 controls. It is hard to overstate the extent to which business sentiment has coalesced around this one single and dominant factor. Perhaps the greatest opportunity now is to take clear steps to provide clarity and certainty for business, so that plans and decisions can be made for 2023 and the years to come based on more than business sentiment alone.

2

METHODOLOGY

The *British Business in China: Sentiment Survey 2022-2023,* published in December 2022, is the fifth national survey conducted by the British Chamber of Commerce in China. The survey captures the perspective and needs of British businesses operating on the ground across the Chinese mainland.

The survey gauges the overall outlook of British business in China, identifying the challenges they face and the opportunities they believe exist in the market. Invitations to complete the survey were sent to over 470 member companies of the chamber between the 12th October and the 4th November 2022. 292 companies responded, representing a 1.4% increase from last year's responses. Education and professional service companies were the most common respondent (20% respectively), followed by advanced manufacturing and transport ('AMT') (12%), creative industry (8%), healthcare (7%), hospitality, travel, tourism and leisure ('HTTL') (6%) and food, beverage and agriculture ('FBA') (6%).

Respondents were asked 56 questions, the majority of which are published in the report. These were grouped under the following key sections: 'Organisation Profile', 'Business Environment and Investment Outlook', 'Talent and International Travel', 'Regulatory Challenges', 'Political and Economic Trends', 'Localisation and Diversification', and 'Sustainability'.

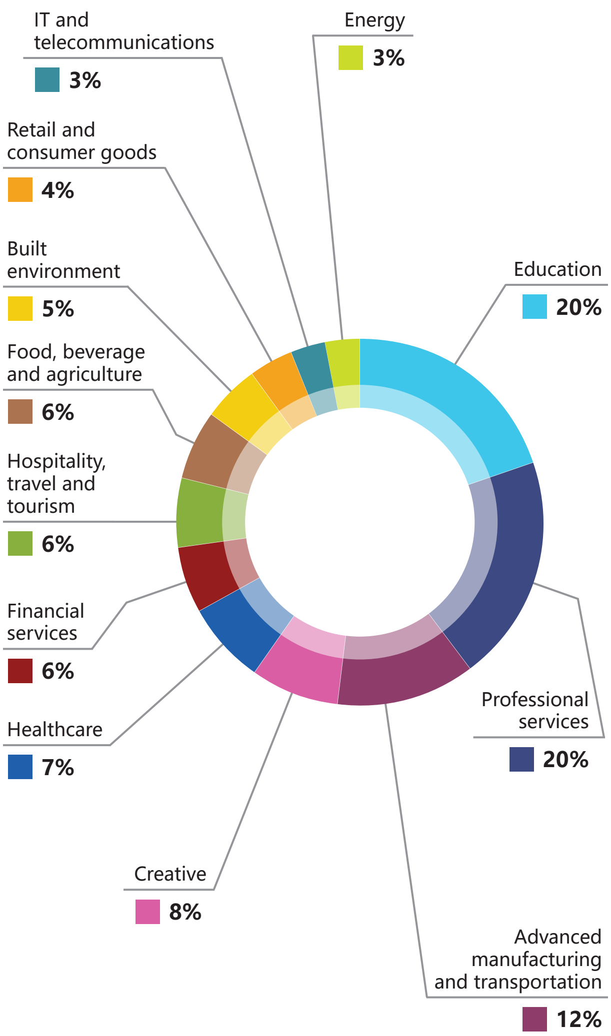
The sectors initially provided for respondents to identify their business under have been grouped into larger 'macro-sectors' for ease of analysis. Readers can find the grouping of these macro-sectors on pages 28-29.

Complete anonymity of all respondents, both in terms of organisations and individuals, has been maintained throughout the publication of this information.

3

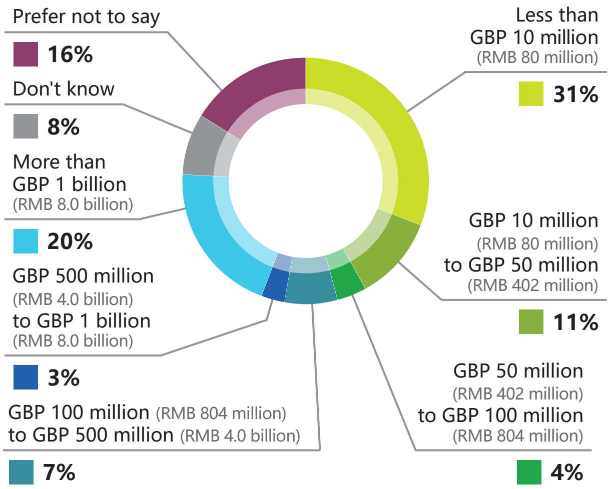
ORGANISATION PROFILE

WHICH SECTOR(S) IS YOUR ORGANISATION INVOLVED IN?



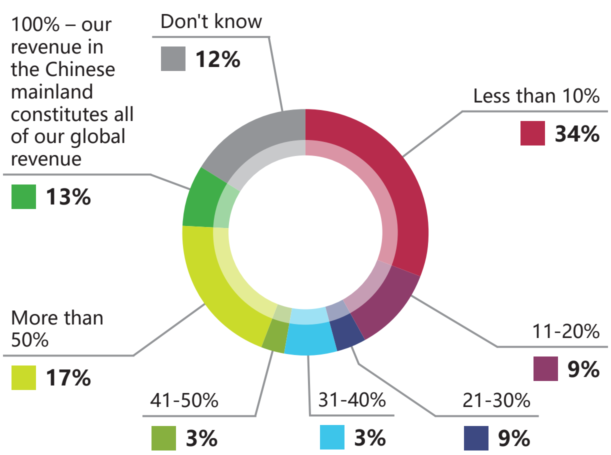
British businesses in China operate across a wide range of sectors. Consistent with previous years, the highest proportion of companies come from education (20%), professional services (20%) and AMT (12%). Other main sectors represented include the creative industry (8%), HTTL (6%), and FBA (6%).

WHAT IS YOUR ORGANISATION'S GLOBAL ANNUAL REVENUE?



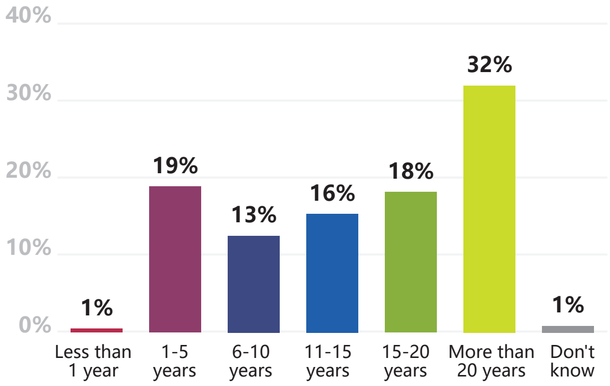
The representation of UK companies in China is balanced between small and medium-sized enterprises ('SMEs') and large multinational companies. Those with global earnings before interest and tax of more than GBP 500 million (RMB 4.2 billion) are defined as large multinationals, and account for 23% of the respondents, while those operating under this benchmark are classified as SMEs and represent 53% of the companies. 72% of respondents employ under 250 people in China, while 28% have a larger presence in China, with more than 250 employees.

WHAT PERCENTAGE DOES THE REVENUE GENERATED BY YOUR OPERATIONS IN THE CHINESE MAINLAND CONTRIBUTE TO YOUR ORGANISATION'S GLOBAL REVENUE?



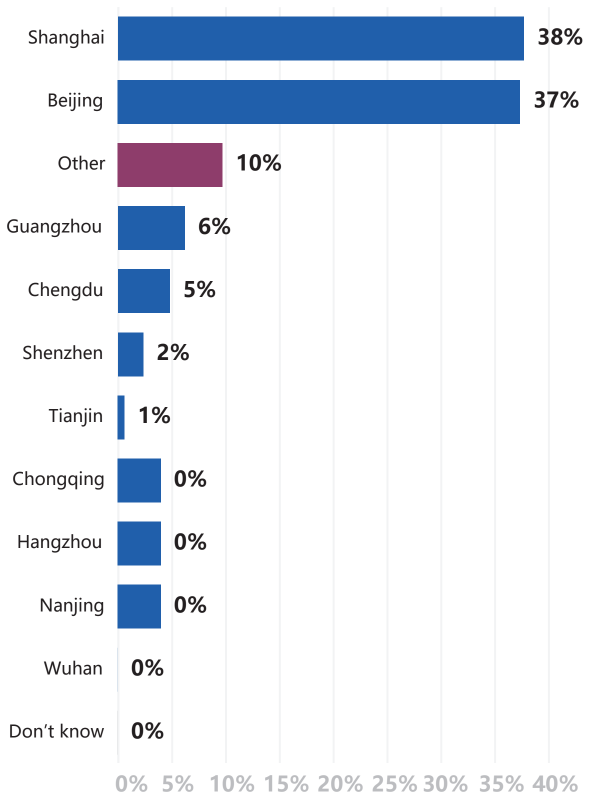
34% of UK companies in China derive less than 10% of their global revenue from their Chinese mainland operations, while 29% are much more dependent on the Chinese mainland market, generating more than 50% of their global revenue here.

HOW LONG HAS YOUR ORGANISATION HAD A PHYSICAL PRESENCE IN THE CHINESE MAINLAND?



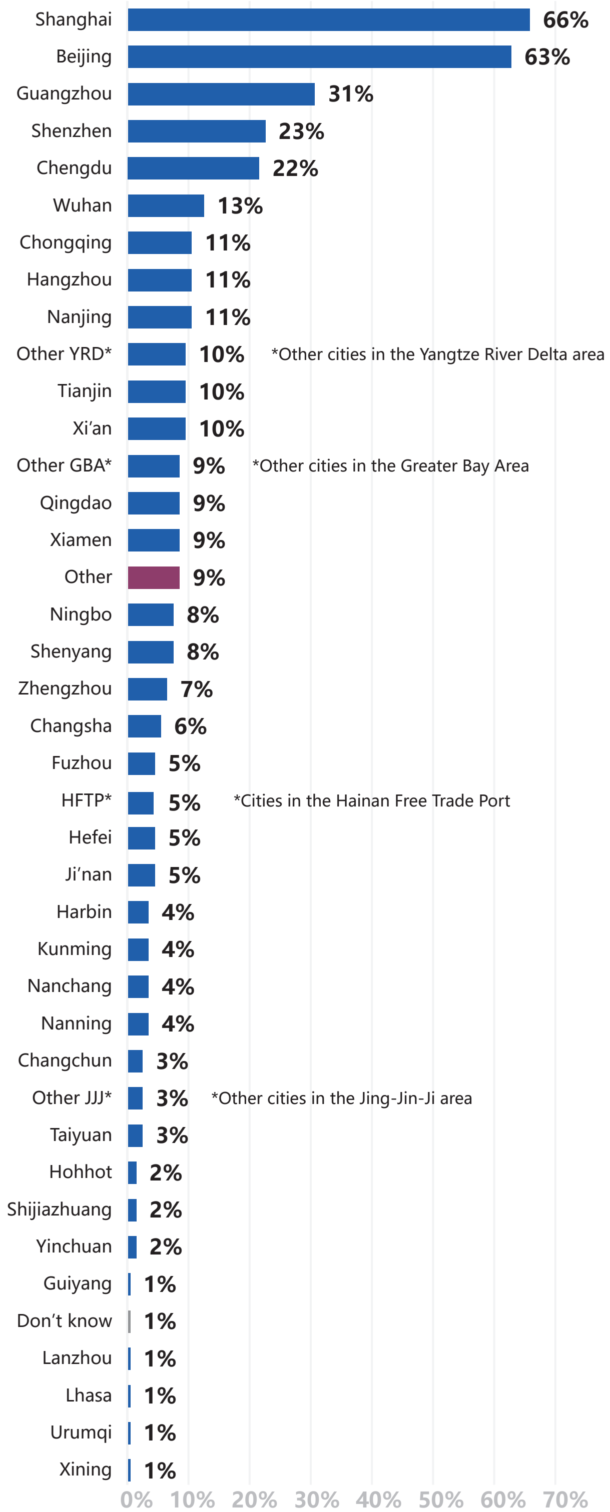
Over recent decades, there has been a steady stream of new British businesses entering the Chinese market. Half of the respondents have been in China for over 15 years. However, just 1% of businesses established a presence in the Chinese mainland within the past 12 months, a 2 percentage point decrease from 2021, reflecting the increased challenges businesses face entering China in 2022.

IN WHICH CHINESE MAINLAND IS YOUR PRINCIPAL OFFICE LOCATED?



The majority of British businesses in China have their principal offices located either in Shanghai (38%) or Beijing (37%), the country's commercial and political centres. This is followed by Guangzhou (6%) and Chengdu (5%). There has, however, been an uptick in the past five years of companies that have chosen to set up their main offices outside of Beijing and Shanghai. This is likely attributable to new local initiatives, such as the Guangdong-Hong Kong-Macao Great Bay Area, which highlight attractive new opportunities and preferential policies for foreign investment.

IN WHICH OF THE FOLLOWING CITIES IN THE CHINESE MAINLAND DOES YOUR ORGANISATION HAVE A PHYSICAL PRESENCE?

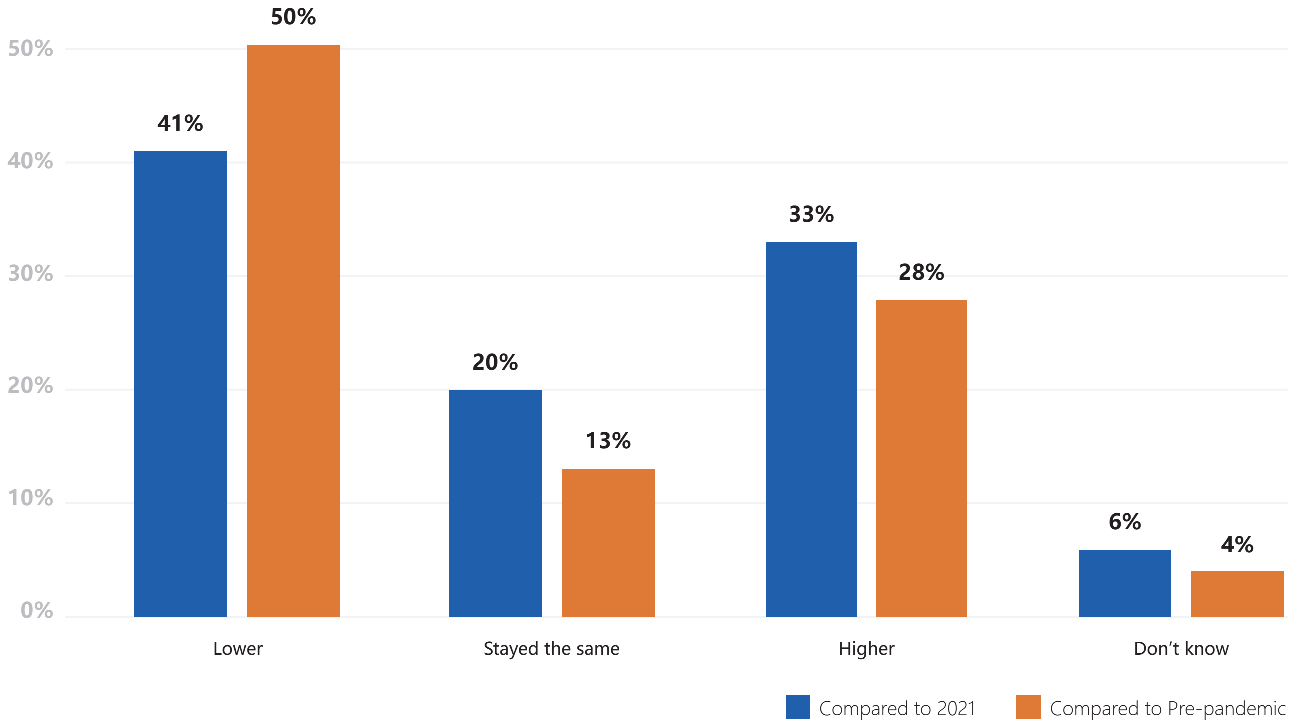


Shanghai and Beijing are also the two most popular destinations for British companies to set up a physical presence, with 66% and 63% of the respondents having presence in these two cities respectively. This is followed by Guangzhou (31%), Shenzhen (23%) and Chengdu (23%). Other major cities favoured by UK companies include those in central China and the Yangtze River Delta region.

4

BUSINESS ENVIRONMENT AND INVESTMENT OUTLOOK

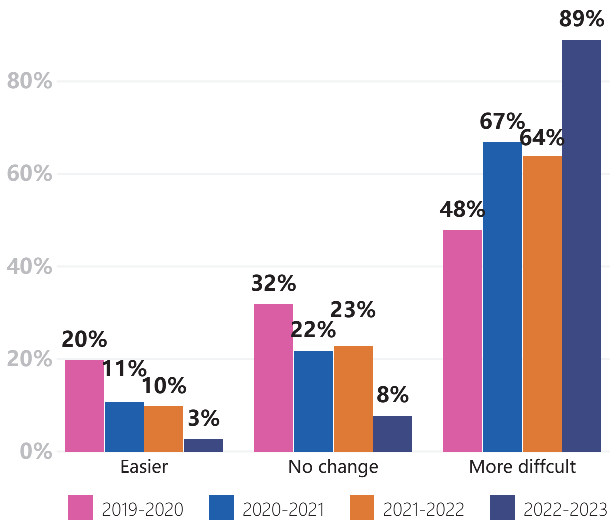
IS YOUR ORGANISATION'S PROJECTED REVENUE IN THE CHINESE MAINLAND IN 2022 HIGHER OR LOWER THAN THE PREVIOUS YEAR AND THE PRE-PANDEMIC LEVELS?



For more than half of companies, projected revenues for this year have either increased (33%) or remained on par with last year (20%). Of those which expect their revenue to be higher than last year, 57% also expect their 2022 revenues to be higher than pre-pandemic levels. However, for companies that expect their revenue to remain on par with last year, 40% of these report that this will be lower than pre-pandemic levels. Of the 41% of companies that expect their 2022 revenues to be down on last year, 82% expect their 2022 revenues to be lower than pre-pandemic levels. Interestingly, SMEs (57%) are more likely to expect revenue levels to stay the same or exceed 2021 revenues when compared to large multinationals (48%).

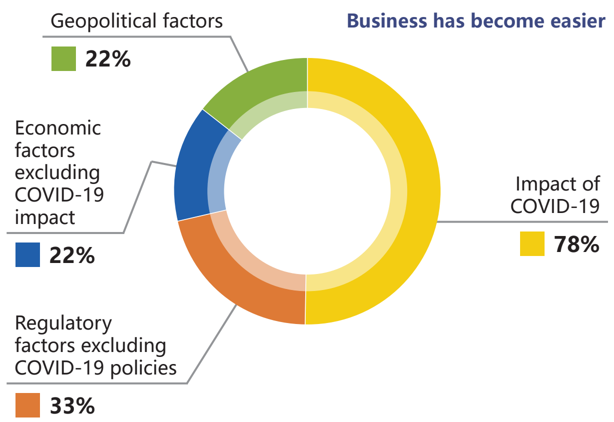
The information technology and telecommunications ('ITT') (44%), healthcare (39%) and financial services (36%) industries are ahead of other sectors in terms of surpassing pre-pandemic earnings, while no companies from the HTTL and built environment industries report their revenues in 2022 would exceed pre-pandemic earnings. This is a further decline on last year's survey findings where only 69% of companies in the HTTL sector, 43% of companies in the built environment sector, and 42% of companies in the creative sector reported decreased earnings compared to pre-pandemic levels.

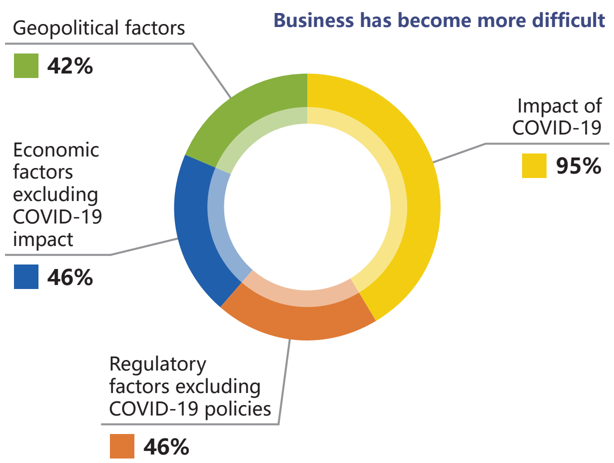
HAS DOING BUSINESS IN THE CHINESE MAINLAND BECOME EASIER OR MORE DIFFICULT OVER THE PAST 12 MONTHS?



Over the past year, 89% of British businesses in China have found doing business somewhat (45%) or much (44%) more difficult, up 25 percentage points from last year. In contrast, only 3% believe business has become somewhat easier, while the remaining 8% of companies report no change in their ability to do business over the past year. The HTTL (64%), retail and consumer goods (57%) and energy (50%) sectors have the highest rate of companies reporting that business has gotten much more difficult in 2022. By contrast, companies in the ITT (33%), energy (30%), and FBA (23%) sectors were the most likely to report that the ease of doing business had either not changed, or had in fact gotten easier. Unlike the previous two years, the majority of both SMEs (87%) and large multinationals (91%) both indicated that doing business had become more difficult over the past 12 months.

WHAT ARE THE KEY REASONS FOR A CHANGE IN YOUR ORGANISATION'S ABILITY TO DO BUSINESS IN THE CHINESE MAINLAND OVER THE PAST 12 MONTHS?



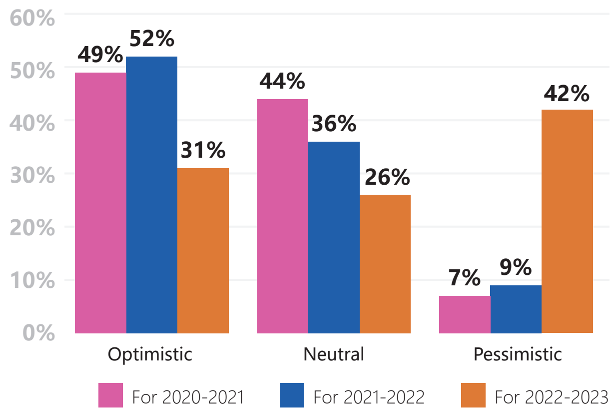


Among the 89% of businesses that found doing business harder, an overwhelming 96% of them attributed this to the impact of COVID-19. For all sectors, the impact of COVID-19 was attributed as the number one reason for a deterioration in the ease of doing business in China.

For companies in the HTTL, retail, and energy sectors, the sectors recording the highest rates of a deterioration in the ability to do business, responses varied as to the second key reason behind this change. For energy, it was geopolitical factors (63%), which is unsurprising given the impact that the war in Ukraine has had on energy prices, trade and commodities. For the retail sector, economic factors (excluding COVID-19 impact) was the second key reason, likely due to lower levels of consumer confidence in China. Finally, for the HTTL sector, regulatory factors (excluding COVID-19 policies) were cited as the second key reason.

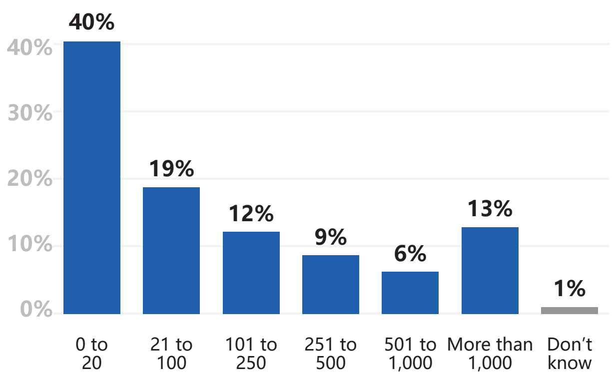
Economic factors are a significant secondary challenge after COVID-19 for doing business in some sectors, particularly in the ITT (50%), healthcare (50%), finance (50%) and built environment (67%) sectors. Meanwhile, geopolitical factors are most likely to be a significant secondary challenge after COVID-19 for the creative (52%), energy (63%), and finance (65%) sectors. Regulatory factors outside of COVID-19 policies are the second biggest challenge facing the education (62%) and HTTL (40%) sectors.

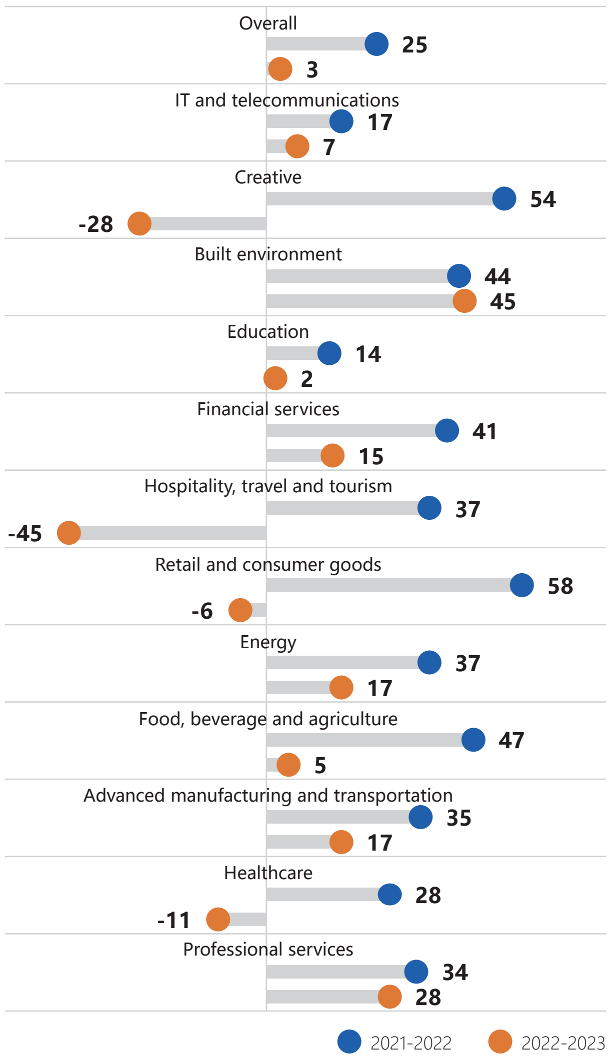
HOW WOULD YOU DESCRIBE YOUR ORGANISATION'S BUSINESS OUTLOOK FOR YOUR SECTOR IN THE CHINESE MAINLAND OVER THE NEXT YEAR?



Levels of pessimism among British companies in China have shot up over the past year. Currently 42% of businesses are pessimistic about their prospects for next year compared to just 9% in the previous survey. Interestingly, despite 89% of companies reporting that business had become more difficult over the past year, 28% nevertheless remain optimistic for 2023, and a further 26% report a neutral outlook. The ITT sector is both the most optimistic and most neutral sector (both 44%). The sectors most likely to report a pessimistic outlook are the creative (54%), built environment (53%), retail (50%) and FBA (50%) sectors. Interestingly, energy companies are more split with 40% holding a somewhat pessimistic outlook and with the same percentage reporting a somewhat optimistic outlook.

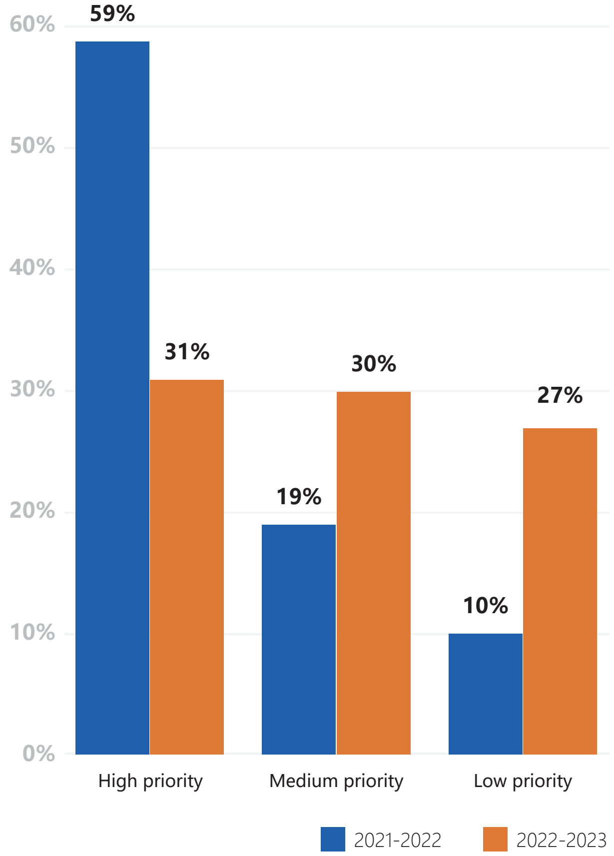
WHAT IS YOUR ORGANISATION'S HEADCOUNT IN CHINA (INCLUDING JOINT VENTURES)? IN ABSOLUTE FIGURES, BY HOW MUCH DO YOU ESTIMATE YOUR ORGANISATION WILL ADJUST ITS HEADCOUNT IN THE CHINESE MAINLAND OVER THE NEXT YEAR?





The majority of companies have a relatively small headcount in the Chinese mainland, with 40% of respondents employing less than 20 staff members, and 19% employing between 21 and 100 staff members. On average, British businesses plan to add only three new jobs each, a significant decline compared to last year at 25 on average. SMEs have seen a significant reversal in their hiring strategy compared to last year (+12), and are now expecting to reduce their headcount by 7 positions on average. This is understandable given that SMEs are more vulnerable to shocks and a slowing external business environment. However, the hiring strategy for large multinationals next year will also become more conservative, with an average expected increase in headcount of 22, down from 53 in the previous year. In 2021, companies across all industries will hire new employees, whereas this year the creative (-28), HTTL (-45), retail and customer goods (-6), and healthcare (-11) sectors are reporting a decrease in their headcount. Given that the HTTL sector is hard hit by domestic and international travel restrictions, the sizable decrease in headcount is understandable.

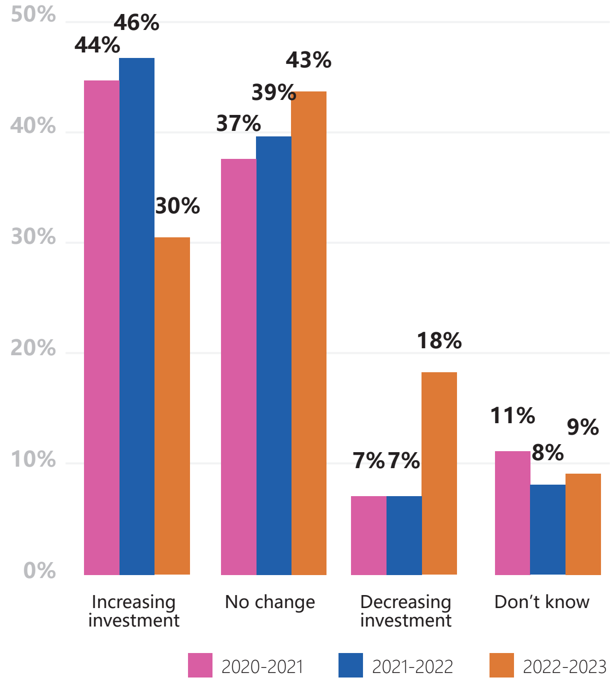
WHERE DOES THE CHINESE MAINLAND RANK AMONG YOUR ORGANISATION'S GLOBAL INVESTMENT PLANS FOR THE NEXT YEAR?



Over the past year, there has been a notable decline in the proportion of British companies regarding China as a key priority market for investment. 31% of businesses regard China as a high priority for the coming year, down from 59% last year, while 30% consider it a medium priority and 27% place it as a low priority, compared with19% and 10% last year respectively.

Only businesses in the creative (54%) and education (39%) industries most commonly placed China as a high priority for their global investment plans. While companies in the education industry are most likely to rank China as a high priority (39%), this is a further decline from last year where 46% ranked China as their top priority for 2021.. The healthcare (35%) and AMT (37%) sectors are most likely to view China as a low priority market for investment next year. Companies in the business of providing services more often indicated that China was a high priority market (35%), whilst those in the business of providing goods more often indicated that China was a medium priority market (31%) which may be a reflection of supply chain uncertainties having a bigger impact on goods businesses here in China.

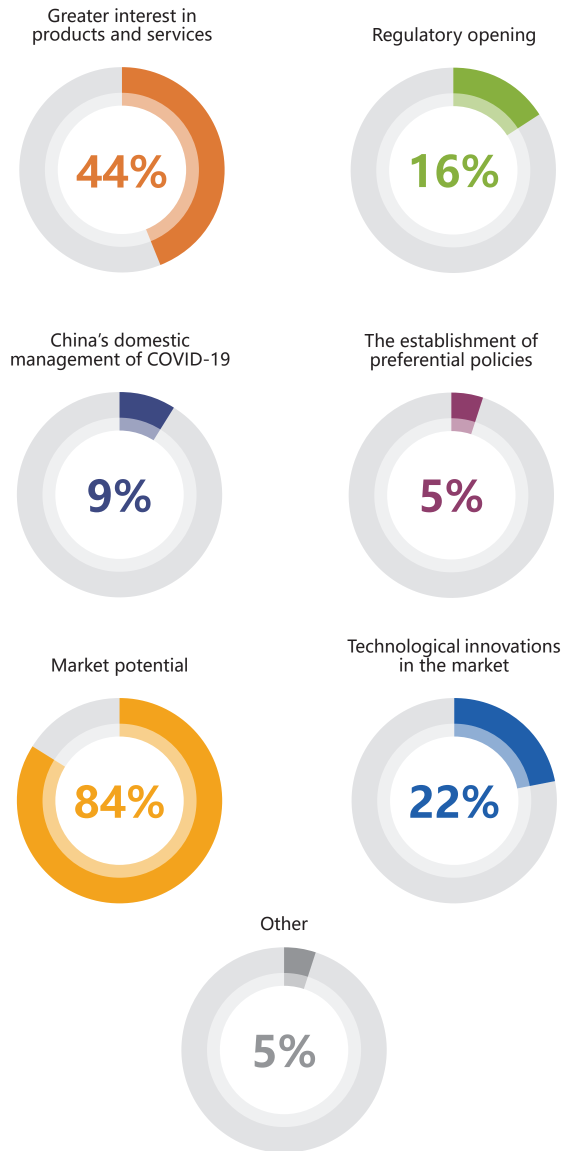
IS YOUR ORGANISATION CONSIDERING INCREASING OR DECREASING INVESTMENT IN ITS CHINESE MAINLAND OPERATIONS OVER THE NEXT YEAR?



Despite China's apparent drop as a priority destination for investment and the high levels of pessimism, the majority of British businesses report that they will be maintaining (43%) or increasing (30%) their investment in their Chinese mainland operations next year. However, the percentage of companies that are considering increasing their investment in China has dropped by 16 percentage points when compared to last year's figure of 46%. It appears that the largest proportion of businesses are adopting a "wait-and-see" approach, by maintaining current levels of investment in 2023, up 5 percentage points from last year. Yet it is concerning that 18% of British businesses will be decreasing investment in their Chinese mainland operations in 2023, a considerable increase in comparison to the previous two years at 7%.

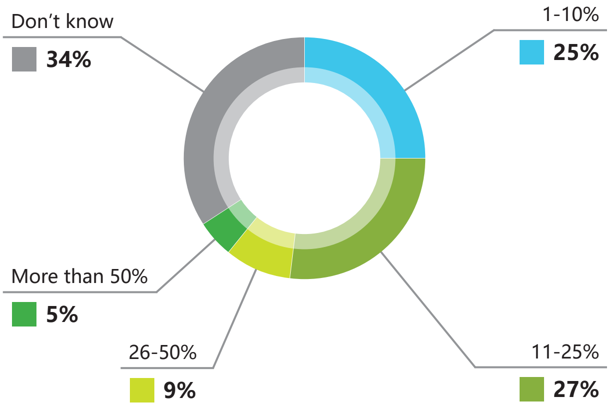
Coinciding with high levels of optimism in the ITT sector, 56% of companies in this industry are growing their investments over the next year, underlining their confidence in the market. Businesses in the healthcare (57%) and AMT (41%) industries are also more likely to report increasing investment. Despite higher levels of pessimism, less than a quarter of companies in the creative (25%), built environment (24%), FBA (24%) and retail (21%) sectors report that they are considering decreasing investments, with the majority indicating no change in their levels of investment for 2023.

WHY IS YOUR ORGANISATION INCREASING INVESTMENT IN ITS OPERATIONS IN THE CHINESE MAINLAND?

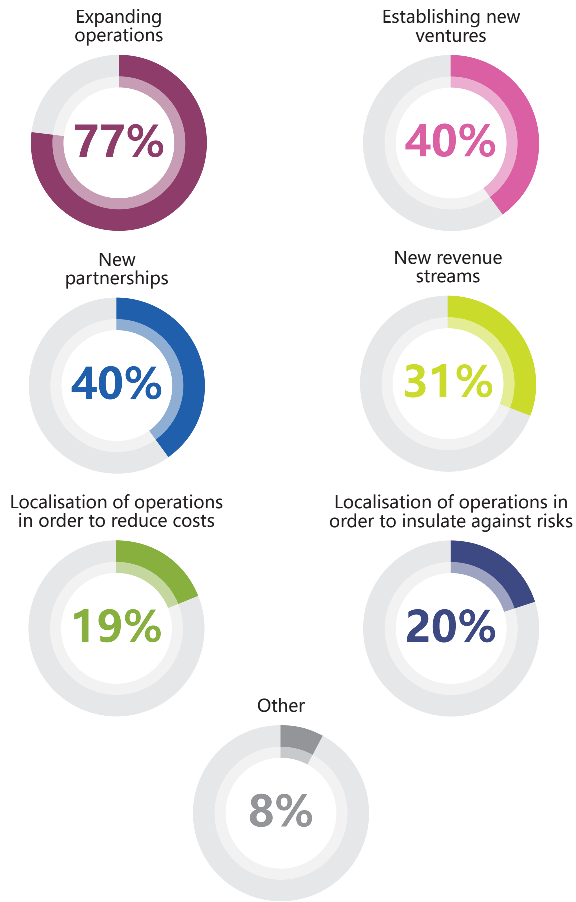


Overwhelmingly, companies who indicate that they will be increasing investment in their operations in the Chinese mainland are doing so due to market potential (84%). The second most cited reason for increasing investment (44%) was greater interest in their products and/or services, although this has fallen 12 percentage points compared to last year. Only businesses in the financial services sector place regulatory opening as their second key reason (55%) for increasing investment after market potential. However respondents in the financial sector also equally cite greater interest in products and services (55%). While 20% of respondents cite China's success in containing COVID-19 outbreaks domestically last year, only 9% continue to reference this as a reason for increasing investment this year.

BY HOW MUCH DO YOU ESTIMATE YOUR ORGANISATION WILL INCREASE ITS INVESTMENT IN ITS OPERATIONS IN THE CHINESE MAINLAND OVER THE NEXT YEAR?

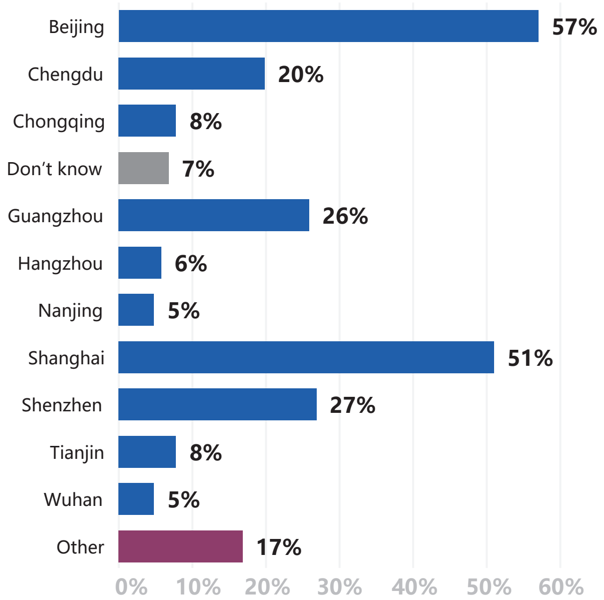


IN WHAT AREAS OF YOUR BUSINESS ARE YOU INCREASING INVESTMENT?



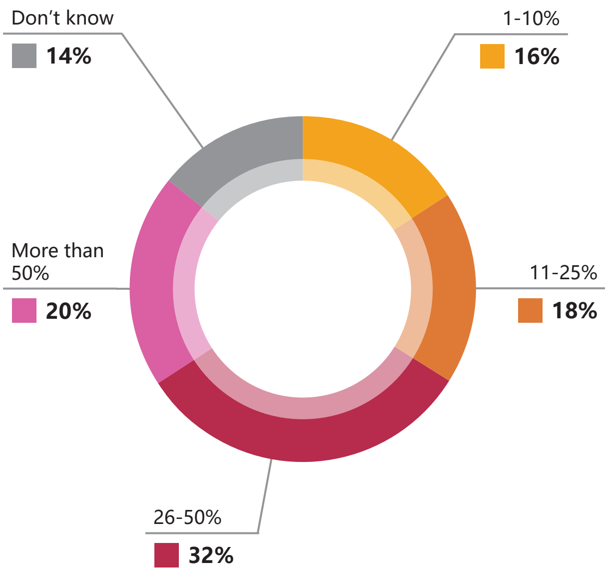
Over half of respondents (52%) estimate that they will be increasing their investment by 1-25%, with 77% of those respondents indicating that they would be investing in expanding their operations, and 40% of those respondents indicating that they would be investing in establishing new ventures and new partnerships respectively.

IN WHICH OF THE FOLLOWING CITIES WILL YOUR ORGANISATION BE INCREASING INVESTMENT IN THE CHINESE MAINLAND OVER THE NEXT YEAR?

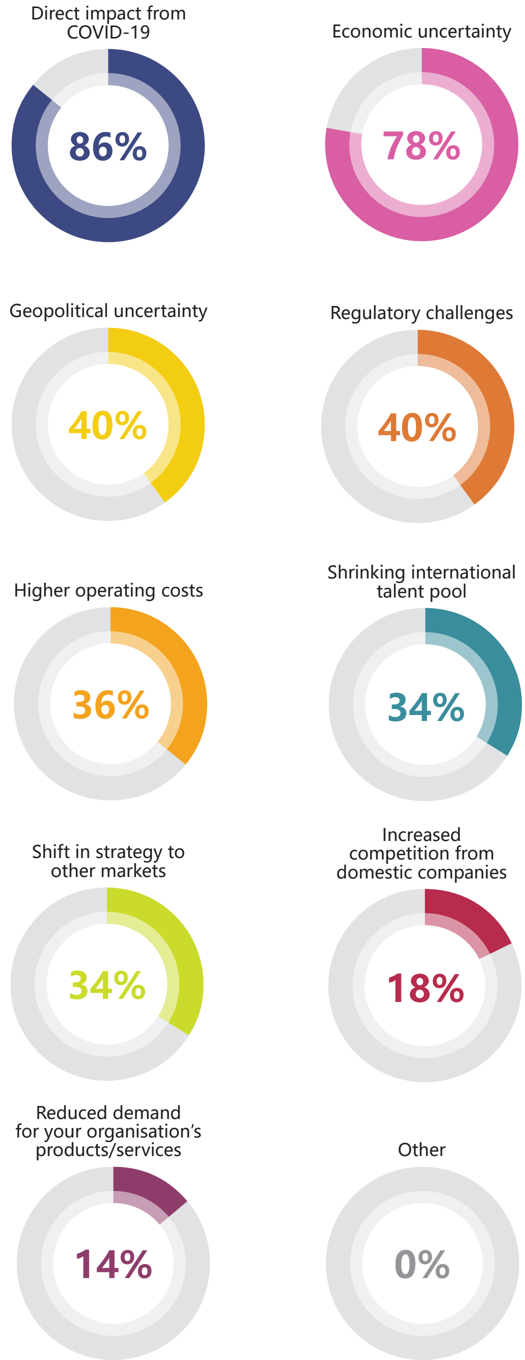


Beijing (57%) has overtaken Shanghai (51%) as the top destination for this investment, while Shenzhen (27%) will overtake Guangzhou (26%). However, SMEs are more likely to increase investment in Beijing (56%) than Shanghai (36%), while Shanghai (63%) is the preferred destination for larger multinationals, followed by Beijing (59%).

BY HOW MUCH DO YOU ESTIMATE YOUR ORGANISATION WILL DECREASE ITS INVESTMENT IN ITS OPERATIONS IN THE CHINESE MAINLAND OVER THE NEXT YEAR?

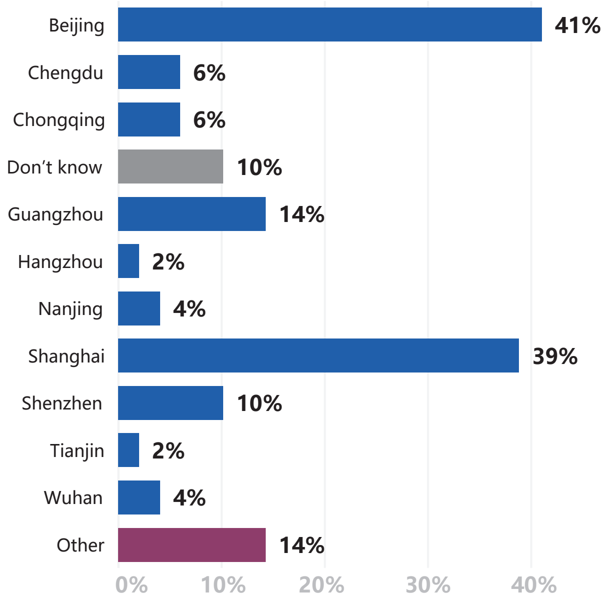


WHY IS YOUR ORGANISATION DECREASING INVESTMENT IN ITS OPERATIONS IN THE CHINESE MAINLAND?



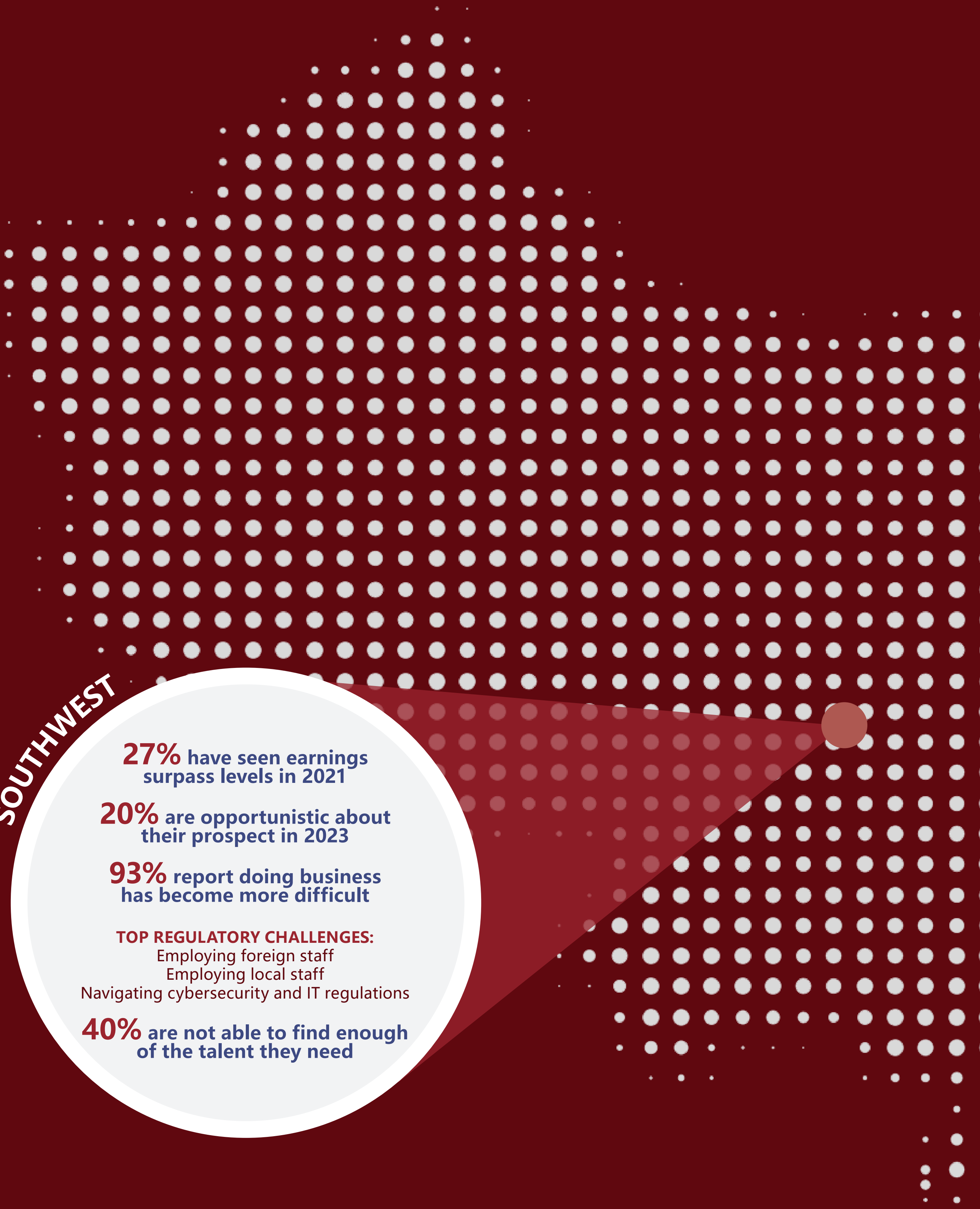
Less than one fifth of respondents (18%) indicate that they are decreasing investment in their Chinese mainland operations. However, of those, over half (52%) estimate that they will decrease their investment by more than 26%. The most common reasons for decreasing investment are direct impacts from COVID-19 (86%) and economic uncertainty (78%). Businesses in the HTTL industry are the most likely (36%) to report decreasing their investment, with those that expect to decrease their investment all expecting to do so by more than 26%, citing the direct impacts of COVID-19 (88%) as the major reason why .

IN WHICH OF THE FOLLOWING CITIES WILL YOUR ORGANISATION BE DECREASING INVESTMENT IN THE CHINESE MAINLAND OVER THE NEXT YEAR?



Despite Beijing (41%) and Shanghai (39%) being the top two destinations for investment, they also rank as the top two destinations for decreasing investment, alongwith Guangzhou (14%). When it comes to decreasing investment, large multinationals are also more likely to decrease their investment in Shanghai (70%) than Beijing (50%), while SMEs are more likely to decrease their investment in Beijing (38%) than Shanghai (25%).

REGIONAL BREAKDOWN



SOUTHWEST

27% have seen earnings surpass levels in 2021

20% are opportunistic about their prospect in 2023

93% report doing business has become more difficult

TOP REGULATORY CHALLENGES:
Employing foreign staff
Employing local staff
Navigating cybersecurity and IT regulations

40% are not able to find enough of the talent they need

BEIJING

35% have seen earnings surpass levels in 2021

36% are opportunistic about their prospect in 2023

85% report doing business has become more difficult

TOP REGULATORY CHALLENGES
Transparency of the business environment
Navigating cybersecurity and IT regulations
Employing foreign staff

29% are not able to find enough of the talent they need

SHANGHAI

29% have seen earnings surpass levels in 2021

25% are opportunistic about their prospect in 2023

92% report doing business has become more difficult

TOP REGULATORY CHALLENGES
Enforcement of laws and regulations
Navigating cybersecurity and IT regulations
Transparency of the business environment

32% are not able to find enough of the talent they need

GUANGDONG

40% have seen earnings surpass levels in 2021

40% are opportunistic about their prospect in 2023

88% report doing business has become more difficult

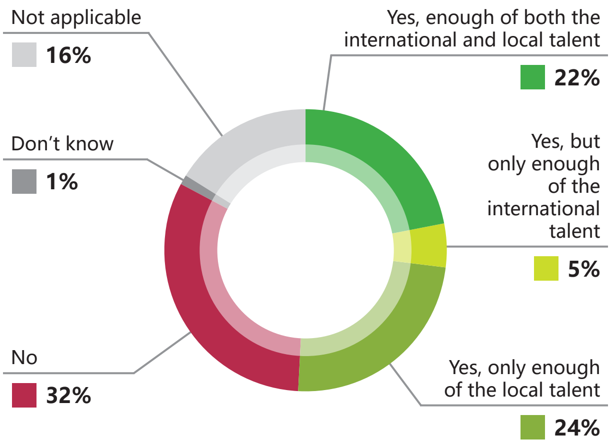
TOP REGULATORY CHALLENGES
Employing foreign staff
Obtaining business licences and certificates
Transparency of the business environment

32% are not able to find enough of the talent they need

5

TALENT AND INTERNATIONAL TRAVEL

HAVE YOU BEEN ABLE TO FIND ENOUGH OF THE TALENT YOU NEED TO OPERATE AND/OR GROW YOUR BUSINESS IN THE CHINESE MAINLAND OVER THE PAST 12 MONTHS?



There has been a considerable drop in the proportion of businesses which have been able to recruit the talent they need to operate and/or grow their business in the Chinese mainland in 2022 (51%) compared with last year (64%). Although half of businesses can still find necessary talent, only 22% had the privilege of finding both the international and local talent that they need, while 24% have only been able to find enough of the local talent and 5% have only been able to find enough of the international talent. This is undoubtedly influenced significantly by the dynamic zero-COVID policy. 32% of companies have not been able to hire either enough international or local talent. Companies from the education sector (41%) struggle the most compared to other sectors, and given their huge demand for talent and their vulnerability to COVID-induced disruptions, the sector might still have a tough year to come.

Both SMEs and larger multinationals have experienced more difficulty in finding enough talent. Compared to 56% last year, only 47% of SMEs reported positively about obtaining sufficient talent this year. The contrast is even starker for large multinationals, falling from 82% to 63%. These figures reflect the ongoing negative trend around recruitment for British businesses, especially in terms of foreign talent.

WHAT FACTORS HAVE LIMITED YOUR ORGANISATION'S ABILITY TO HIRE THE NECESSARY CHINESE TALENT?

During the past 12 months, 37% of companies have not been able to hire the necessary Chinese talent they need. The biggest challenge has been the lack of available talent with the required skills and qualifications (40%), coupled with the lack of available talent who can work competently in an international company (32%). Another limiting factor is Chinese employees' high salary and/or package expectations (35%). Given educating and training staff takes time and resources, the issue of finding suitable Chinese employees is expected to persist. The trend of Chinese companies gaining favour (25%) and foreign companies losing appeal (19%) when it comes to hiring Chinese talent will also contribute to this challenge.

WHAT FACTORS HAVE LIMITED YOUR ORGANISATION'S ABILITY TO HIRE THE NECESSARY INTERNATIONAL TALENT?

67%	Uncertainty around China's COVID-19 policies and their implementation
65%	International travel restrictions
37%	Job seekers' unwilling to relocate to China
36%	Increasing desire of international talent to relocate to other countries or return to/remain in their home countries
36%	Visa and/or work permit restrictions
25%	Geopolitical tensions
14%	High salary and/or package expectations
8%	Decreasing availability and quality of international services in the Chinese mainland (e.g. healthcare, education)

Similar to previous years, hiring the necessary international talent has been a big issue for businesses, with 56% of them reporting that they have not been able to do so. Considering the persistence of China' s international border restrictions and the absence of any roadmap to pivot away from the current approach towards the pandemic, it is not surprising to see that uncertainty around China' s COVID-19 policies and their implementation is the number one limiting factor (67%) for businesses when it comes to hiring international talent. 65% have reported international travel restrictions as a limiting factor, echoing last year' s findings where almost a third of companies said that booking suitable flights was the most challenging aspect when it came to new foreign employees entering China. Although direct flights between the UK and China have been resumed, international travel requirements remain a deterrent. As before, visa and/or work permit restrictions (36%) continue to constrain businesses' ability to hire international talent. This year, more companies are also reporting a greater unwillingness among foreign job seekers to relocate to China (37%) and geopolitical tensions (24%) as challenges inhibiting them from hiring the required international talent.

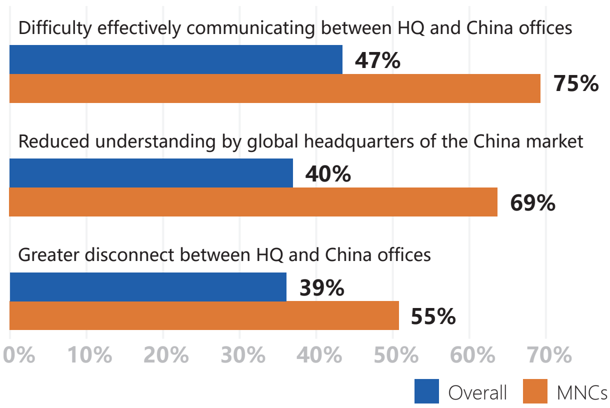
HOW HAS YOUR CHINA OPERATIONS' SITUATION CHANGED IN TERMS OF INTERNATIONAL TALENT OVER THE PAST 12 MONTHS?

30%	We employ foreign passport holders and have seen no real changes
27%	There has been a net decrease in foreign employees in our organisations
24%	We have received less interest in vacancies from potential foreign hires
16%	We do not employ any foreign passport holders
13%	Don't know
4%	Other
3%	There has been a net increase in foreign employees in our organisations
0%	We have received more interest in vacancies from potential foreign hires

It is alarming that 27% of companies report a net decrease in the overall number of foreign employees that they hire, 4 percentage points higher than last year. For companies in the built environment sector, as many as 63% report a net decrease in their numbers of foreign employees. For companies who have not been able to hire enough foreign talent, 36% experienced a net decrease in foreign staff and 35% report that there has been less interest in vacancies from potential foreign hires, higher than the average rate of 27% and 24% respectively.

WHAT IMPACT HAS CHINA'S INTERNATIONAL TRAVEL POLICIES HAD ON YOUR OPERATIONS SO FAR?

47%	Difficulty effectively communicating between HQ and China offices
40%	Reduced understanding by global headquarters of the China market
39%	Greater disconnect between HQ and China offices
31%	Reduced knowledge transfers
19%	Having to reduce or delay investment or close China operations
14%	Other
8%	Not applicable — my organisation does not require staff to travel internationally
5%	No impact
4%	Don't know
2%	Less cultural differences in China offices resulting in more effective teams
0%	Greater overall familiarity among employees towards the market and regulations



China's international travel policies have negatively affecteds a wide range of aspects of business operations, with the relationship between companies' global headquarters and their China offices being the most severely impacted. Companies have reported that China's international travel policies have increased the difficulty of effectively communicating between HQ and China offices (47%), reduced understanding by global headquarters of the China market (40%), and caused greater disconnect between HQ and China offices (39%). Understandably, given their company structure, this is particularly impacting large multinationals, with the numbers respectively being 75%, 69%, and 55%. Effective communication and good relationships between HQs and China offices are essential, and as communication worsens, the ability to provide feedback or the opportunity to share examples of best practice may lessen.

WHAT IMPACT DO YOU THINK THE RECENT EASING OF CHINA'S RESTRICTIONS ON INTERNATIONAL TRAVEL WILL HAVE ON YOUR EMPLOYEES' ABILITY AND/OR WILLINGNESS TO TRAVEL INTERNATIONALLY OVER THE COMING YEAR?

- **81%** Quarantine time is still a deterrent for international travel
- **71%** Continued uncertainty on the ability to travel to China (including flight cancellations, testing positive for COVID-19 prior to departure etc.) is still a deterrent for international travel
- **69%** High cost related to travelling to China is still a deterrent for international travel (including pre-flight testing requirements, quarantine costs, and flight costs)
- **63%** Lack of consistent direct flights continues to make international travel challenging
- **34%** Obtaining a visa continues to be challenging
- **26%** It has increased the willingness of employees to travel from China to other countries
- **24%** It has increased the willingness of employees to travel to China from other countries
- **16%** It has increased the willingness of international talent to work/remain working in China
- **3%** Not applicable
- **2%** Don't know
- **1%** Other

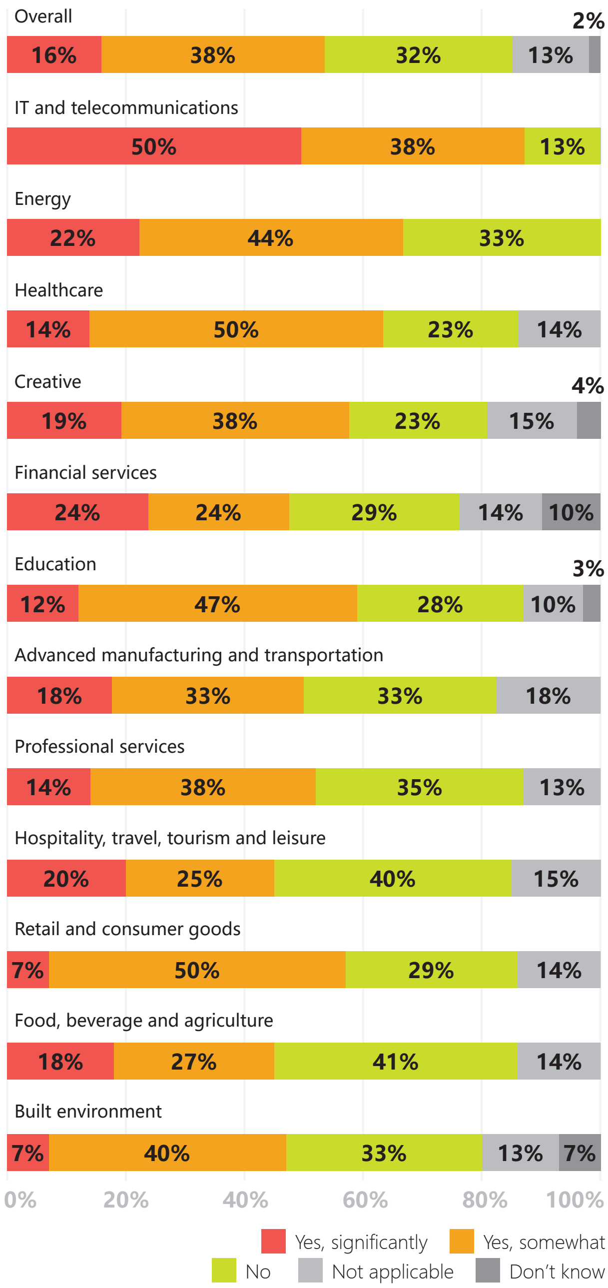
Despite some limited easing of China's restrictions on international travel, businesses at large continue to report decreased ability and/or willingness of their employees' to travel internationally over the coming year. 81% of companies believe that quarantine time is still a deterrent for international travel.[1] Besides from quarantine requirements, continued uncertainty on the ability to travel to China such as flight cancellations or testing positive for COVID-19 prior to departure (71%) and the high cost related to travelling to China including pre-flight testing requirements, quarantine costs, and flight costs (69%) are also considered persistent deterrents for international travel by British businesses and their employees. On top of that, 63% of businesses still find that the lack of consistent direct flights continues to make international travel challenging and 34% reported the same for obtaining a visa. These figures are a clear indication that despite in principle easings of pre-flight authorisation requirements, restoration of direct flights and decreased quarantine times, these changes have not gone far enough to significantly increase business personnel's willingness to travel internationally. Some of them have also not been consistently implemented on the ground and the experiences reported by businesses remain unchanged.

1 It should be noted that this data pertains to the period prior to the announcement of the adjusted "5+3" policy following the 20th Party Congress, and therefore, whether this would substantially impact responses is currently unclear

6

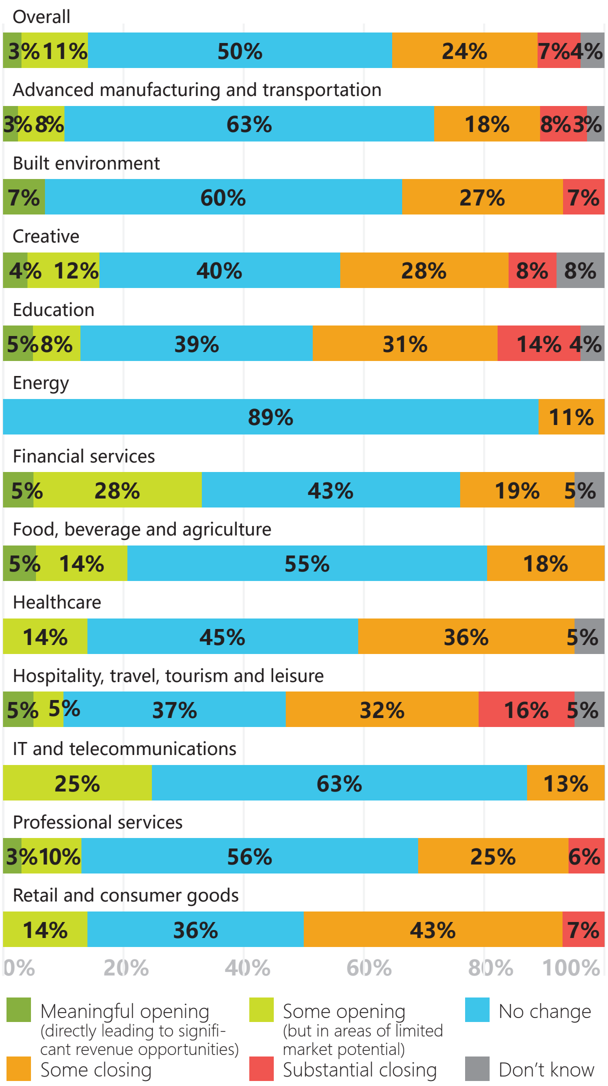
REGULATORY CHALLENGES

DO MARKET ACCESS BARRIERS LIMIT YOUR OPERATIONS IN THE CHINESE MAINLAND?



Close to half of British businesses in China report that their operations are limited by market access barriers, with 15% being significantly constrained and 38% to some degree. Overall, there has been a 9 percentage point increase in the number of businesses facing market access barriers over the past year. The ITT (88%), energy (66%), healthcare (64%), and education (59%) sectors are amongst the more restricted sectors. Fewer financial services (48%) and healthcare (64%) companies, however, report facing such barriers year-on-year (65% and 82% respectively in 2021). Market access barriers have become notably more severe over the past year in ITT (up 38 percentage points), creative (up 23 percentage points), retail and consumer goods (up 15 percentage points) and AMT (up 10 percentage points), with some businesses likely to have linked COVID regulations with the restrictiveness of the business environment.

HAVE THERE BEEN ANY MEANINGFUL MARKET OPENINGS OR CLOSINGS IN YOUR SECTOR IN THE PAST 12 MONTHS?



Fewer British companies (14%) report that their sectors have seen market opening in 2022 compared with previous years. Of these, the majority of market access openings have brought about limited market potential, with only 3% of companies overall believing that these openings could lead to significant revenue opportunities. Meanwhile, more companies seem to have experienced some form of market closing (31%) over the past year compared to 2021 (23%). Financial services (34%) and ITT (25%) companies nevertheless are more likely to report market openings in their sectors over the past year, indicating the positive impact certain policy changes have brought on businesses, such as allowing qualified overseas institutions to trade certain domestic futures and options instruments, and more clarity on cross-border data transfer requirements.

For the vast majority of energy companies (89%), there has been no real change to the openness of the market despite China's decarbonisation drive that should have, in theory, unlocked more new opportunities. More companies in education (45%), retail and consumer goods (43%) and HTTL (32%) industries report market closings year-on-year, likely due to the ongoing education reform and sporadic COVID-19 outbreaks affecting demand and business operations.

WHICH OF THE FOLLOWING REGULATORY ISSUES PRESENT CHALLENGES TO YOUR ORGANISATION'S OPERATION IN THE CHINESE MAINLAND?

(Please rank the top five.)

Overall

1	Employing foreign staff
2	Transparency of the business environment
3	Navigating cybersecurity and IT regulations
4	Enforcement of laws and regulations
5	Accessing or moving company finances

Professional services

Accounting | Business advisory and business services | Legal services

1	Employing foreign staff
2	Taxation landscape for foreign firms and employees
3	Transparency of the business environment
4	Accessing or moving company finances
5	Navigating cybersecurity and IT regulations

Education

Early years and K12 | Higher education | Other education business (edtech, vocational, materials etc.)

1	Employing foreign staff
2	Enforcement of laws and regulations
3	Transparency of the business environment
4	Obtaining business licences and certificates
5	Navigating cybersecurity and IT regulations

Food, beverage and agriculture

Food and Beverage | Agriculture

1	Customs procedures
2	Transparency of the business environment
3	Employing foreign staff
4	Intellectual property rights protectio
5	Accessing or moving company finances

Financial services

1	Navigating cybersecurity and IT regulations
2	Enforcement of laws and regulations
3	Transparency of the business environment
4	Obtaining business licences and certificates
5	Employing foreign staff

Creative

Culture and arts | Media and publishing | Marketing and communications

1	Employing foreign staff
2	Intellectual property rights protection
3	Employing local staff
4	Transparency of the business environment
5	Accessing or moving company finance

IT and Telecommunications

1	Navigating cybersecurity and IT regulations
2	Accessing or moving company finances
3	Transparency of the business environment
4	Competition with SOEs
5	Taxation landscape for foreign firms and employees

Retail and consumer goods

1	Customs procedures
2	Enforcement of laws and regulations
3	Obtaining business licences and certificates
4	Accessing or moving company finances
5	Navigating cybersecurity and IT regulations

Hospitality, travel, tourism and leisure

Hospitality | Travel, tourism, and leisure

1	Transparency of the business environment
2	Enforcement of laws and regulations
3	Obtaining business licences and certificates
4	Employing foreign staff
5	Intellectual property rights protection

Healthcare

Healthcare services | Medical devices | Pharmaceuticals

1	Navigating cybersecurity and IT regulations
2	Public procurement policy and practices
3	Intellectual property rights protection
4	Transparency of the business environment
5	Accessing or moving company finances

Energy

1	Transparency of the business environment
2	Competition with SOEs
3	Navigating cybersecurity and IT regulations
4	Accessing or moving company finances
5	Obtaining business licences and certificates

Built environment

Built environment services | Civil engineering and construction | Real estate development

1	Transparency of the business environment
2	Competition with SOEs
3	Standards-related challenges
4	Public procurement policy and practices
5	Recognition of professional qualifications

Advanced manufacturing and transportation

Automotive and auto components | Aerospace and aviation | Manufacturing | Transportation, logistics and distribution

1	Navigating cybersecurity and IT regulations
2	Transparency of the business environment
3	Customs procedures
4	Standards-related challenges
5	Enforcement of laws and regulations

Given the persistent difficulties travelling in and out of the country for the most part of 2022, employing foreign staff unsurprisingly continues to be the number one concern for British businesses in 2022. This data is however largely driven by SMEs; for large multinationals, hiring foreign staff is not ranked among their top five challenges.

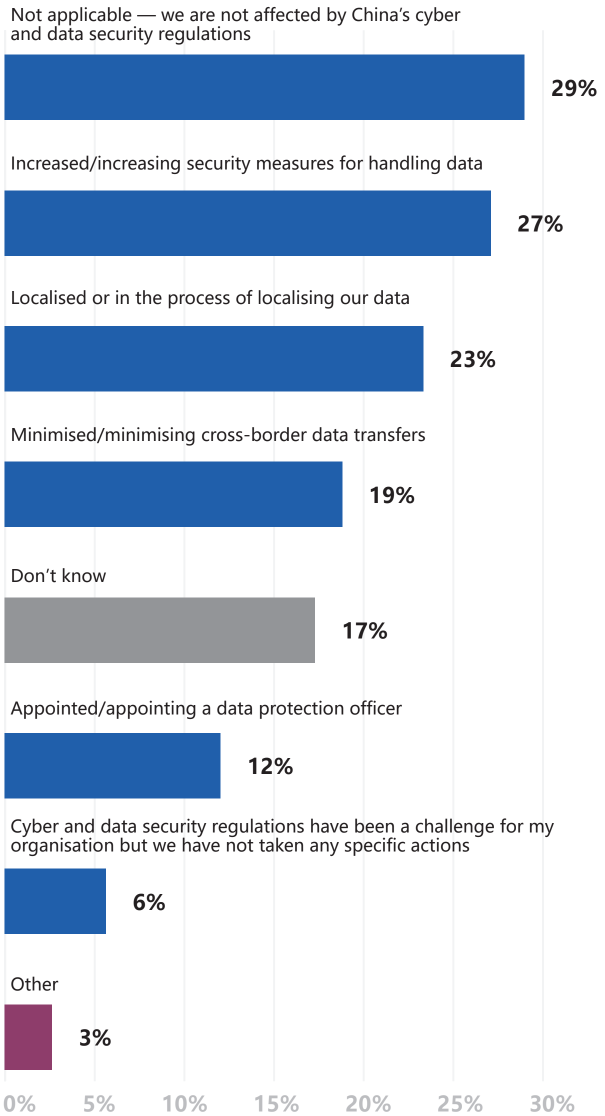
The impact this challenge has on businesses is also not felt equally across the board. While professional services, education, and creative industries all rank hiring foreign staff as their biggest challenge over the past year, other sectors such as HTTL, AMT, built environment, energy, and healthcare are less affected where the issue is not among their top three challenges, likely due to the high degree of localisation in these sectors.

Notably, transparency of the business environment has leapfrogged to be the second biggest concern for British businesses. This indicates a general drop in the clarity and fairness of the business environment as British businesses perceive. The issue has been manifested in various ways, ranging from the inconsistent application of COVID regulations to the lack of clarity over sectoral regulatory requirements. In fact, many British businesses report difficulties in complying with China's regulatory system where the release of implementation details surrounding new legislation and regulations is often delayed, causing uncertainty for businesses.

Navigating cybersecurity and IT regulations remains the third biggest challenge for British businesses in China this year, and the top concern for large multinationals. This is ranked as the most serious challenge for companies in financial services, healthcare, AMT, and ITT, given the amount of data and digital infrastructure these industries process and require due to increasing digitalisation.

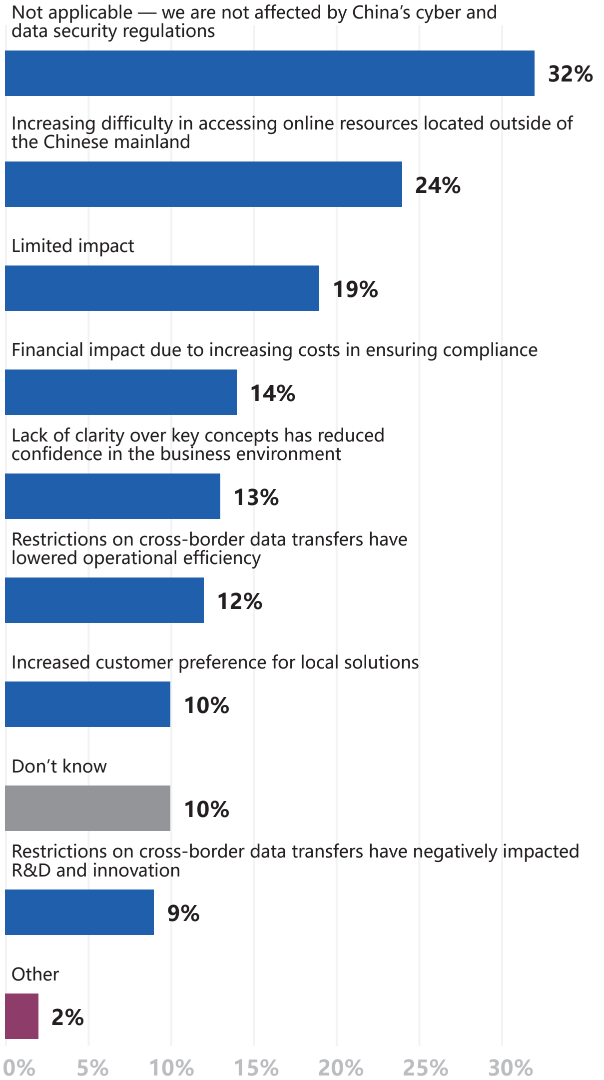
Enforcement of laws and regulations is ranked as the fourth most severe challenge, despite being ranked second last year. This is largely linked with the inconsistent implementation of rules and regulations on local levels, including COVID-19 restrictions. Unsurprisingly, given the disruptions COVID outbreaks have caused to logistics in the past year, customs procedures are ranked as the top challenge for companies in the FBA and retail industries.

WHAT ACTION IS YOUR ORGANISATION TAKING TO NAVIGATE CHINA'S EVOLVING CYBER AND DATA SECURITY REGULATIONS?



As China's cybersecurity landscape continues to develop, 48% of British businesses are taking action. In particular, companies in the energy (89%), ITT (87%), healthcare (68%), financial services (58%) and retail and consumer goods (57%) industries are most likely to be responding to the evolving regulations. While the most common action taken by British businesses is increasing security measures for handling data (27%), companies are also localising data (23%), minimising cross-border data transfers (19%) and appointing data protection officers (12%). Meanwhile, energy companies are most likely to have localised or be in the process of localising their data (56%) amongst all sectors.

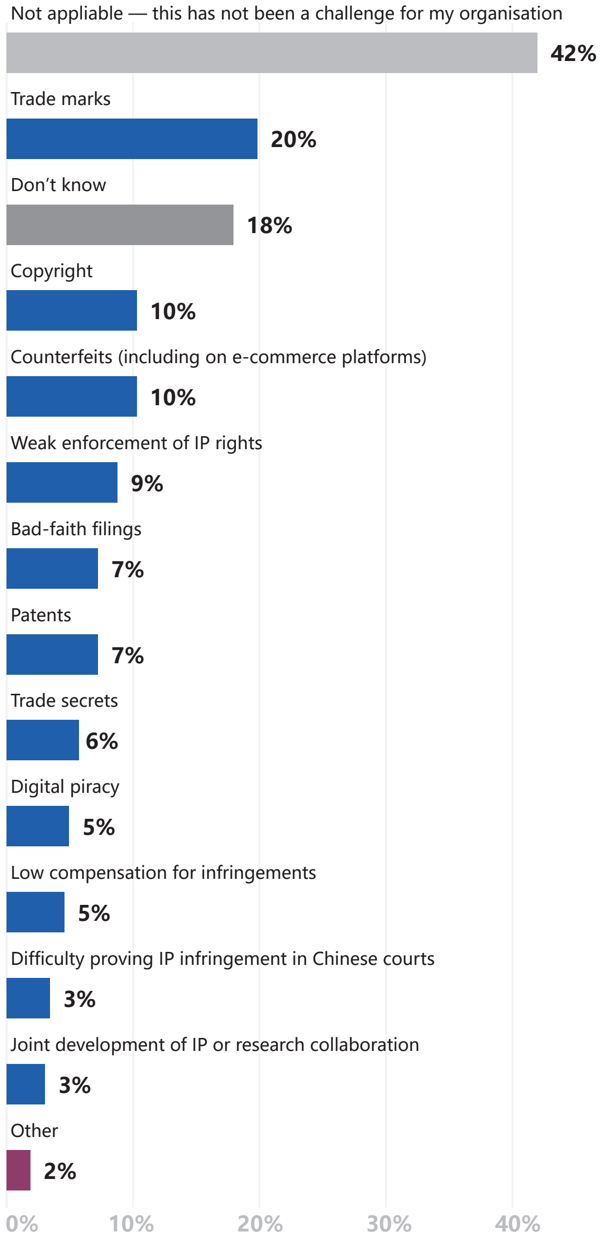
WHAT HAS BEEN THE IMPACT OF CHINA'S EVOLVING CYBER AND DATA SECURITY REGULATIONS ON YOUR ORGANISATION OVER THE PAST 12 MONTHS?



Around 40% of British businesses have been negatively impacted by China's cybersecurity and IT regulations. However, despite many British businesses reporting difficulty understanding requirements on cross-border data transfers over the past year, increasing difficulty in accessing online resources located outside the Chinese mainland is the most cited challenge (24%).

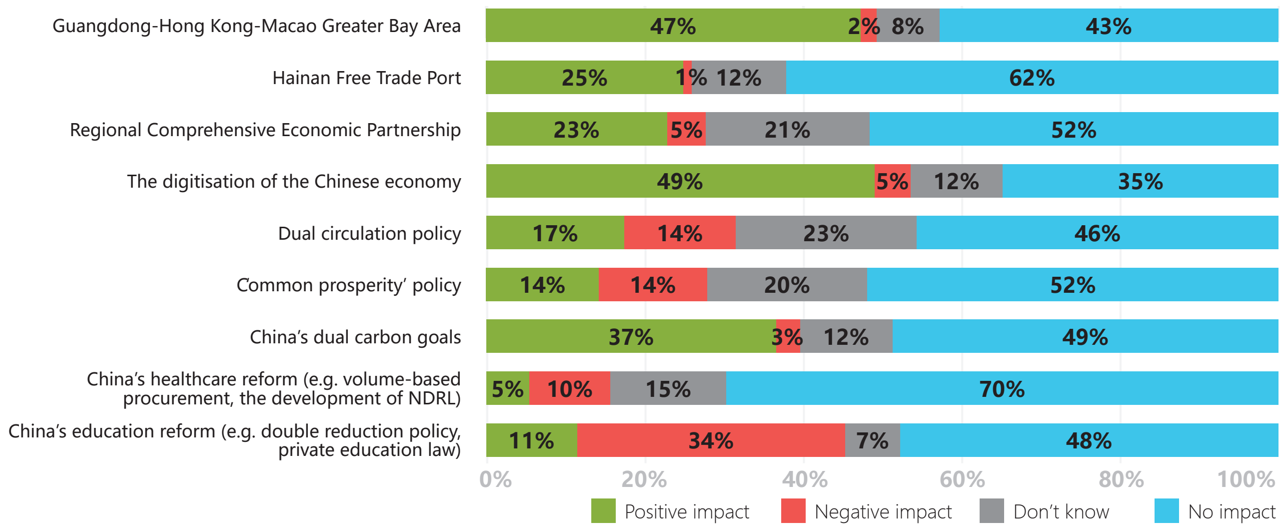
14% of companies report that the lack of clarity over key concepts such as important data and critical information infrastructure operators has reduced confidence in the business environment, while 13% cite negative financial impact due to increasing costs in ensuring compliance. Across different sectors, energy companies are most likely to view lack of clarity over key concepts (44%), and negative financial impact (44%) as the biggest challenges.

IN WHAT AREAS HAS YOUR ORGANISATION EXPERIENCED CHALLENGES IN PROTECTING YOUR INTELLECTUAL PROPERTY OVER THE PAST YEAR?



While China's protection of IP rights has improved markedly over the past few years, 40% of British businesses still experience challenges in the area, with the most affected sectors being healthcare (64%), retail and consumer goods (64%), creative (58%) and FBA (50%). Trademarks are the area of greatest challenge for British businesses, impacting 20% of companies and particularly those in retail and consumer goods (50%), FBA (41%), creative (38%), and healthcare (36%) most impacted. Violation of copyrights (10%), counterfeits (10%) and weak enforcement of IP rights (9%) are the other most common challenges experienced by British businesses when it comes to IP protection.

WHAT IMPACT HAS CHINA'S DEVELOPMENT OF THE FOLLOWING POLICIES OR INITIATIVES HAD ON YOUR ORGANISATION'S ABILITY TO MAINTAIN AND GROW YOUR BUSINESS IN THE CHINESE MAINLAND OVER THE PAST YEAR?

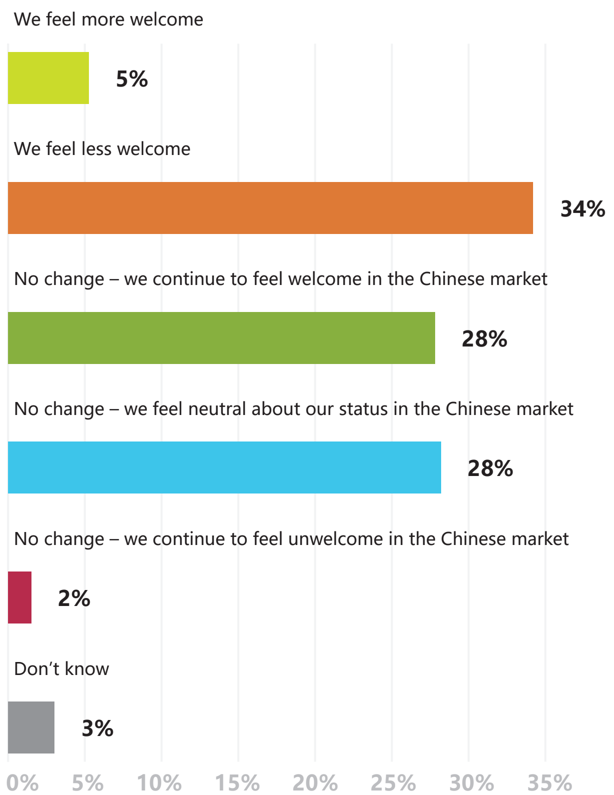


Among many of the initiatives that the Chinese government has been developing, the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) is viewed most positively by British businesses overall, followed by China's digitalisation drive and dual carbon goals. Companies in financial services, ITT, FBA and HTTL sectors are the most positive about digitalisation, while healthcare companies have benefited most from the GBA, and built environment and energy companies from dual carbon goals.

Interestingly, dual circulation and common prosperity policies that have raised concerns in the international media over the past year are regarded as positive overall by respondents. Companies from certain sectors, however, still largely view dual circulation negatively, especially those in the ITT, creative, built environment and healthcare sectors, likely driven by concerns that preference will be increasingly given to local companies under the new strategy. Sectors that are most likely to view the common prosperity campaign negatively are ITT, FBA and HTTL.

Meanwhile, retail and consumer goods companies are most likely to receive positive impact from the Regional Comprehensive Economic Partnership (RCEP). Healthcare companies are overall negatively impacted by China's healthcare reforms due to policies such as volume-based procurement and the development of China's National Reimbursement Drugs List. Education companies unsurprisingly are most concerned with China's education reform, with many worrying foreign businesses and organisations will be increasingly excluded from the market.

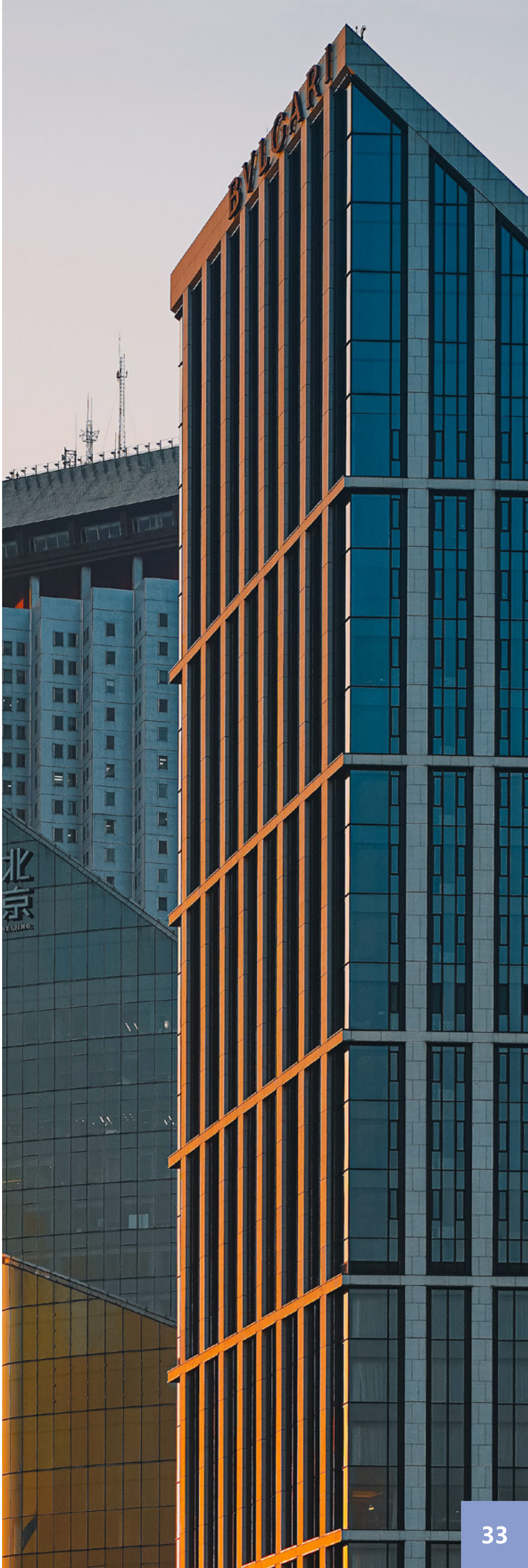
AS A FOREIGN BUSINESS IN THE CHINESE MAINLAND, HAVE YOU FELT MORE OR LESS WELCOME AND ENCOURAGED TO ENGAGE IN THE MARKET OVER THE PAST YEAR?



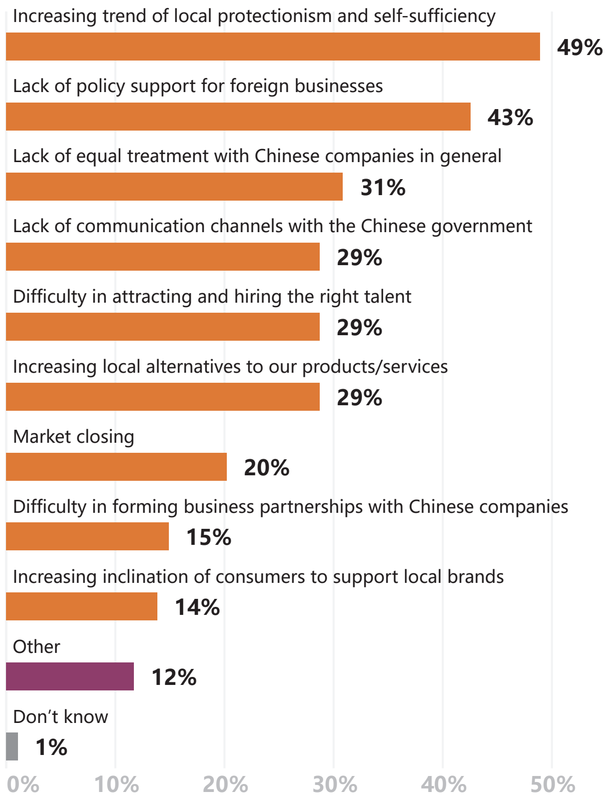
It is concerning that 34% of British businesses have felt less welcome in the Chinese market over the past year, while only 5% have felt more welcome. 28% of businesses report no change and continue to feel welcome, while the same portion have felt no change and are neutral about their status in the market. It is perhaps relatively reassuring that only 2% of businesses continue to report feeling unwelcome in the market.

Across different sectors, the education and creative industries are most likely to feel less welcome in the market, followed by built environment and HTTL companies, while no energy companies feel less welcome and have the highest rates of reporting no change and continuing to feel welcome (67%). Coinciding with financial services companies predicting a slightly better earnings performance over the past year, only 10% of them report feeling less welcome while over half are neutral and 33% continue to feel welcome.

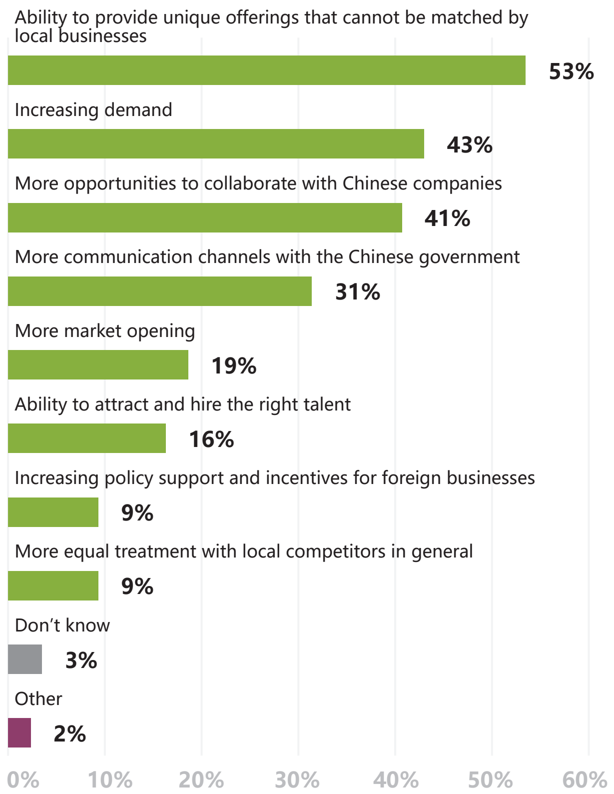
Meanwhile, SMEs are slightly more likely to feel less welcome (37%) as opposed to large multinationals (30%). A notably higher percentage of large multinationals (38%) also say they continue to feel welcome (SMEs, 24%).



WHY DOES YOUR ORGANISATION FEEL LESS WELCOME OR UNWELCOME AS A FOREIGN BUSINESS IN THE CHINESE MAINLAND?



WHY DOES YOUR ORGANISATION FEEL MORE WELCOME OR WELCOME AS A FOREIGN BUSINESS IN THE CHINESE MAINLAND?



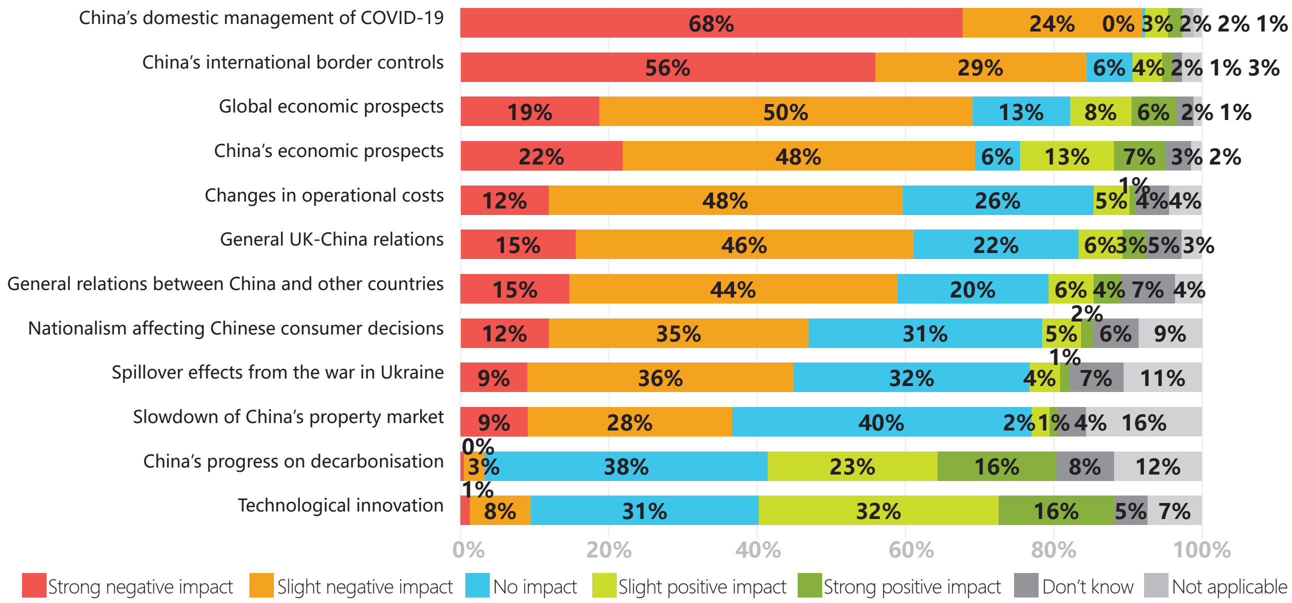
The increasing trend towards local protectionism and self-sufficiency (49%) is the biggest contributing factor to organisations feeling less welcome or unwelcome as foreign businesses in the market, while the lack of policy support for foreign businesses (43%), or equal treatment with Chinese companies (31%) are the second and third most cited reasons overall. 67% of HTTL companies that have felt less welcome attribute one of the reasons to market closing, while all the retail and consumer goods have cited the challenge of increasing local alternatives to their products.

The ability to provide unique offerings (53%), increasing demand for products and services (43%), and opportunities to collaborate with Chinese counterparts (41%), however, contribute to British companies feeling welcome in the market.

7

POLITICAL AND ECONOMIC TRENDS

WHAT IS THE IMPACT OF THE FOLLOWING POLICIES ON YOUR ORGANISATION'S PROSPECTS IN THE CHINESE MAINLAND OVER THE NEXT YEAR?

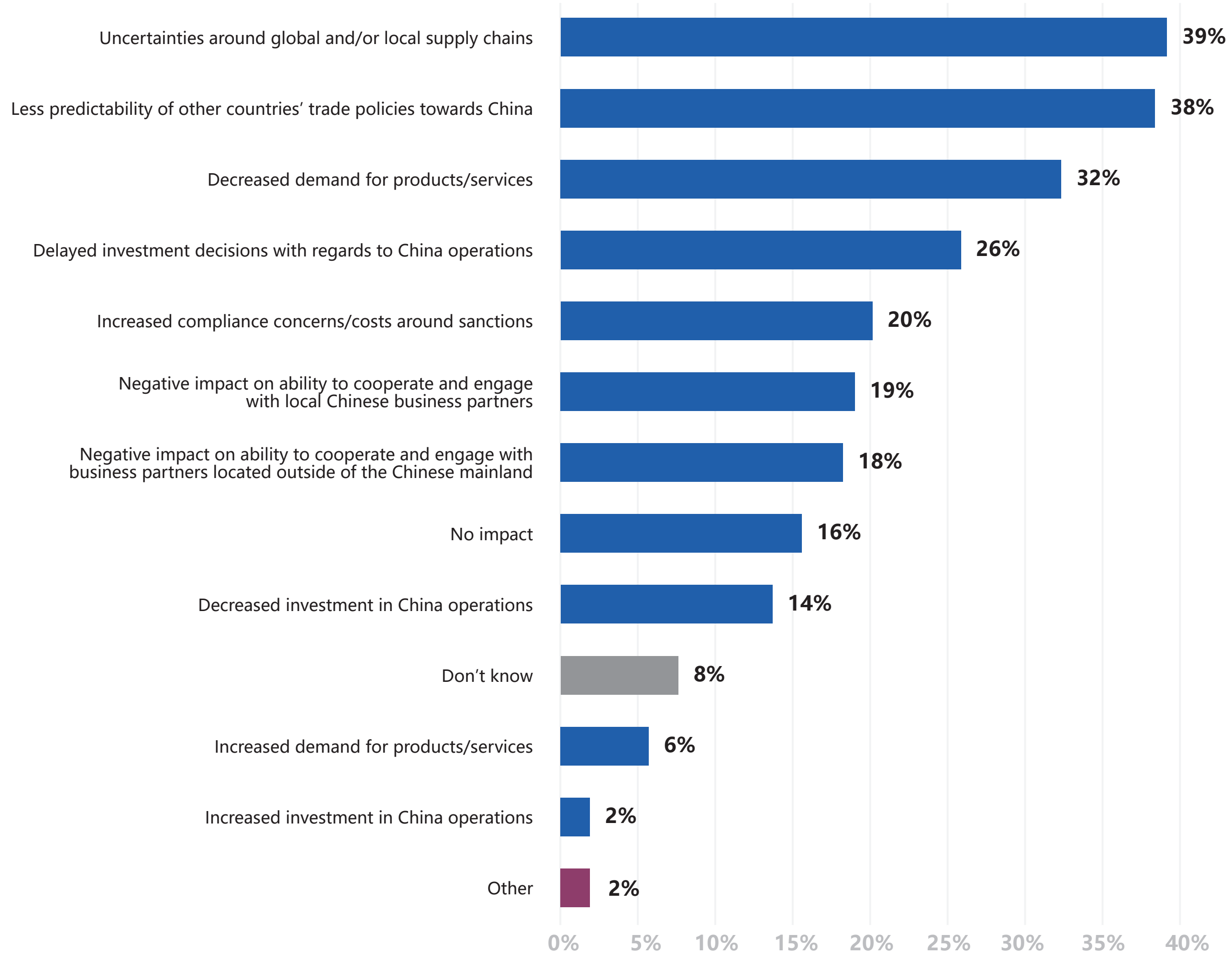


Nearly three years since the initial outbreak of the COVID-19 pandemic, China's handling of the virus is predicted to have by far and away the most damaging impact on the operations of British businesses in 2023. Lockdowns and containment measures in response to small outbreaks continue to severely disrupt business operations, with 68% of companies expecting a strong negative impact and a further 24% reporting a slight negative impact over the coming year. China's international border controls, a prominent feature of the dynamic zero-COVID policy, are similarly disrupting normal business activity and are expected to be the second most severe challenge heading into next year.

Whereas in previous years, the potential fallout from geopolitical tensions was higher on the minds of businesses, concern has recently shifted more towards economic challenges. As the world now increasingly faces a confluence of low growth and high inflation, it is understandable then that companies are more preoccupied about the health of the global and Chinese economy. Interestingly, one-fifth of companies still expect that China's economic prospects will be more favourable to their industry next year, although this is well below last year's rate of one-half of respondents. Finally, despite its impact on China's economic growth this year, the pronounced slowdown of the property sector is less of a direct concern for businesses, with 40% citing no impact, the highest among all categories. Unsurprisingly, the biggest exception here is for the built environment industry, where it is considered the principal challenge for next year.

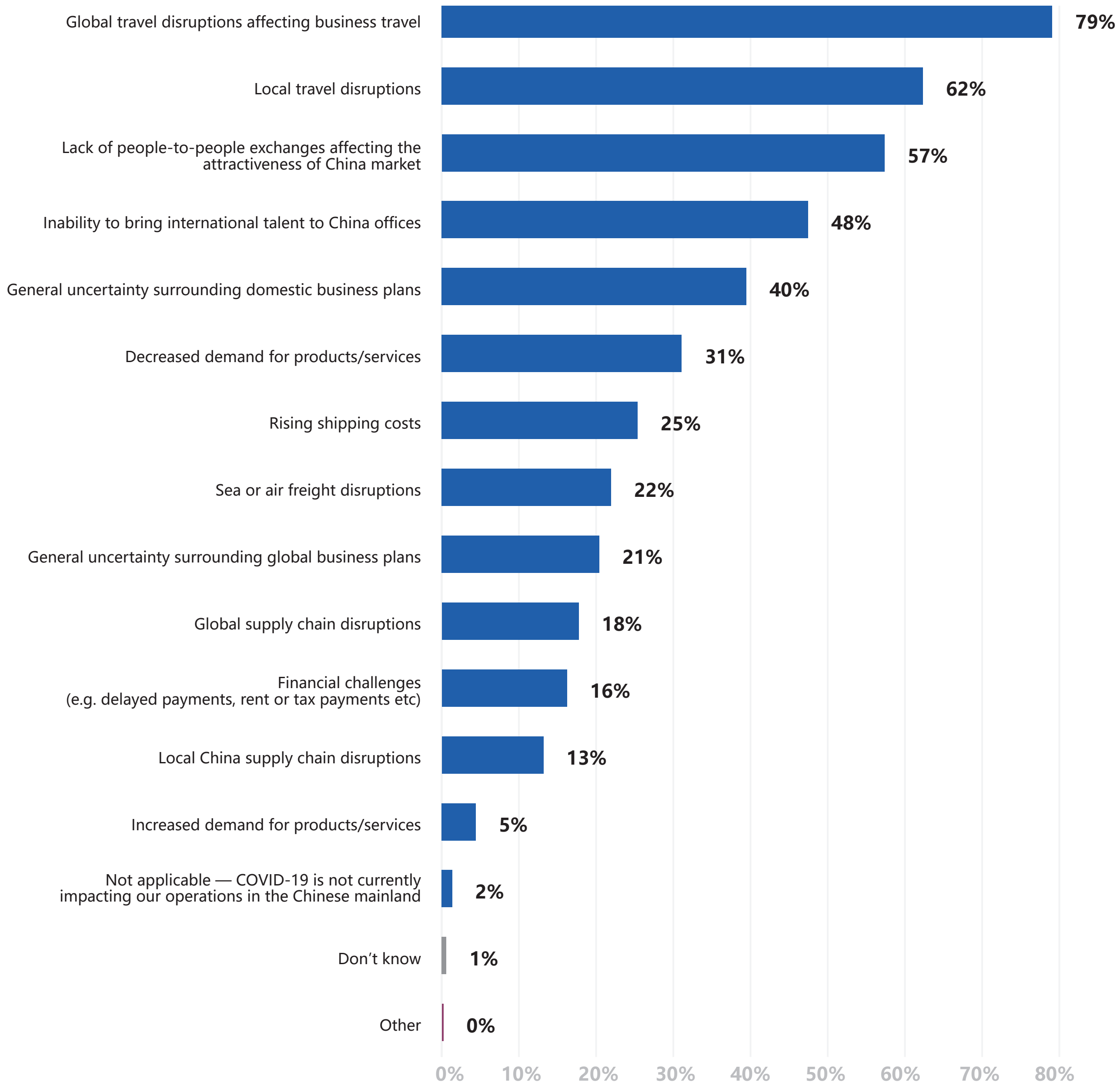
For the fourth consecutive year since this question was included in the survey, British businesses continue to view technological innovation as the area of greatest opportunity. Among all respondents, 48% see this as having a positive impact on their business next year, up slightly from 45% in the previous survey. China's progress on decarbonisation is similarly viewed highly favourably, but particularly among large multinationals which are more likely to have the resources and expertise to better tap into this long-term trend.

WHAT IMPACT HAVE GEOPOLITICAL TENSIONS INVOLVING CHINA HAD ON YOUR BUSINESS OPERATIONS WITHIN THE CHINESE MAINLAND OVER THE PAST YEAR?



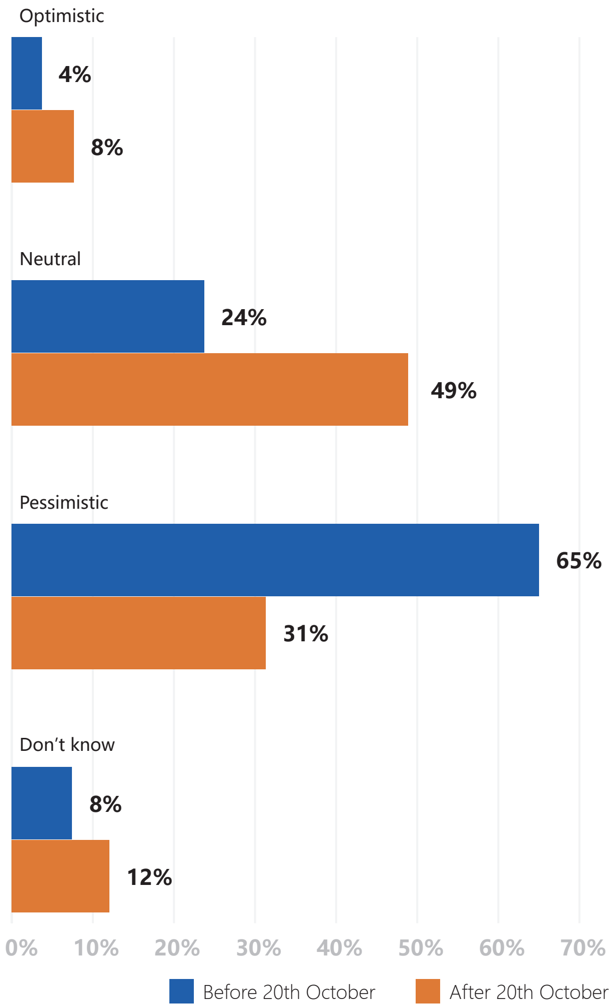
The specific challenges businesses face relating to geopolitical tensions with China are most significantly rooted in uncertainties around global and/or local supply chains (39%) and less predictability of other countries' trade policies towards China (38%). This is also having a knock-on impact on reducing demand (32%) and leading companies to postpone their investment decisions in China (26%). Goods businesses have been especially hit by supply chain disruptions relating to geopolitical tensions, most notably for companies in retail and consumer goods (79%), energy (78%) and AMT (75%). As the technology space has become the primary battleground between geopolitical competitors, for ITT companies, the lack of uncertainty around the trade policies of other countries is the most significant challenge, affecting 75% of businesses in the industry.

HOW IS COVID-19 CURRENTLY IMPACTING YOUR ORGANISATION'S OPERATIONS IN THE CHINESE MAINLAND?



Around four in five UK businesses in China are being impacted by global travel disruptions owing to the government's policies to contain the spread of COVID-19. The challenges this has brought about are severe for most businesses in all industries, and is slightly more pronounced for larger multinationals than SMEs (86% and 80% respectively). Given their greater dependence on the free flow of international talent and resources, larger multinationals are also more acutely impacted by the lack of people-to-people exchange that has affected China's attractiveness (67% compared with 50% for SMEs) and the inability to bring in international talent (57% compared with 43% for SMEs). Local travel disruptions are also a major challenge for 62% of businesses, with the exception of the ITT industry where only 38% of companies cite this as a challenge. Given its outsized role as a manufacturing hub and port city, Shanghai has been more greatly impacted by rising shipping costs (33%) than other cities such as Beijing (16%) for example.

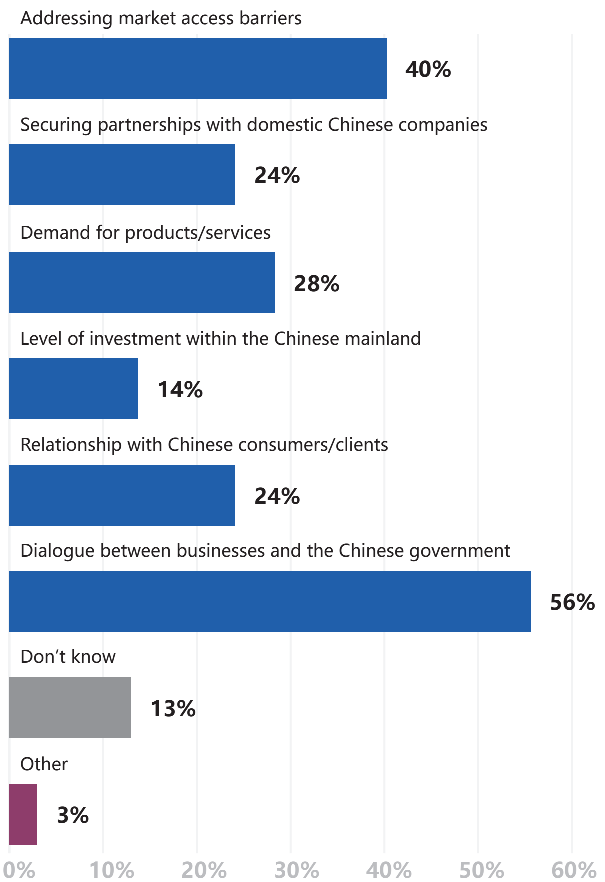
WHAT IS YOUR ORGANISATION'S OUTLOOK FOR UK-CHINA RELATIONS OVER THE NEXT YEAR UNDER THE NEW UK GOVERNMENT? [2]



The outlook of British businesses on UK-China relations shifted dramatically following the announcement on 20th October 2022 that Liz Truss would resign as Prime Minister. Prior to her resignation, 65% of companies were pessimistic on the state of bilateral relations heading into 2023, with just 24% neutral and 4% optimistic. While the survey remained open to responses at the time of Truss's resignation, much of that pessimism then shifted towards a more neutral position (49%) with Rishi Sunak as the early favourite to become the UK's new Prime Minister. Optimism also ticked up slightly from 4% to 8%, albeit remaining low, and uncertainty marginally increased from 8% reporting don't know to 12%.

2 Prior to the resignation of Liz Truss, the question read 'What is your organisation's outlook for UK-China relations over the next year under new UK Prime Minister Liz Truss?' The question was amended on 20th October following the Prime Minister's resignation to reflect the changing situation.

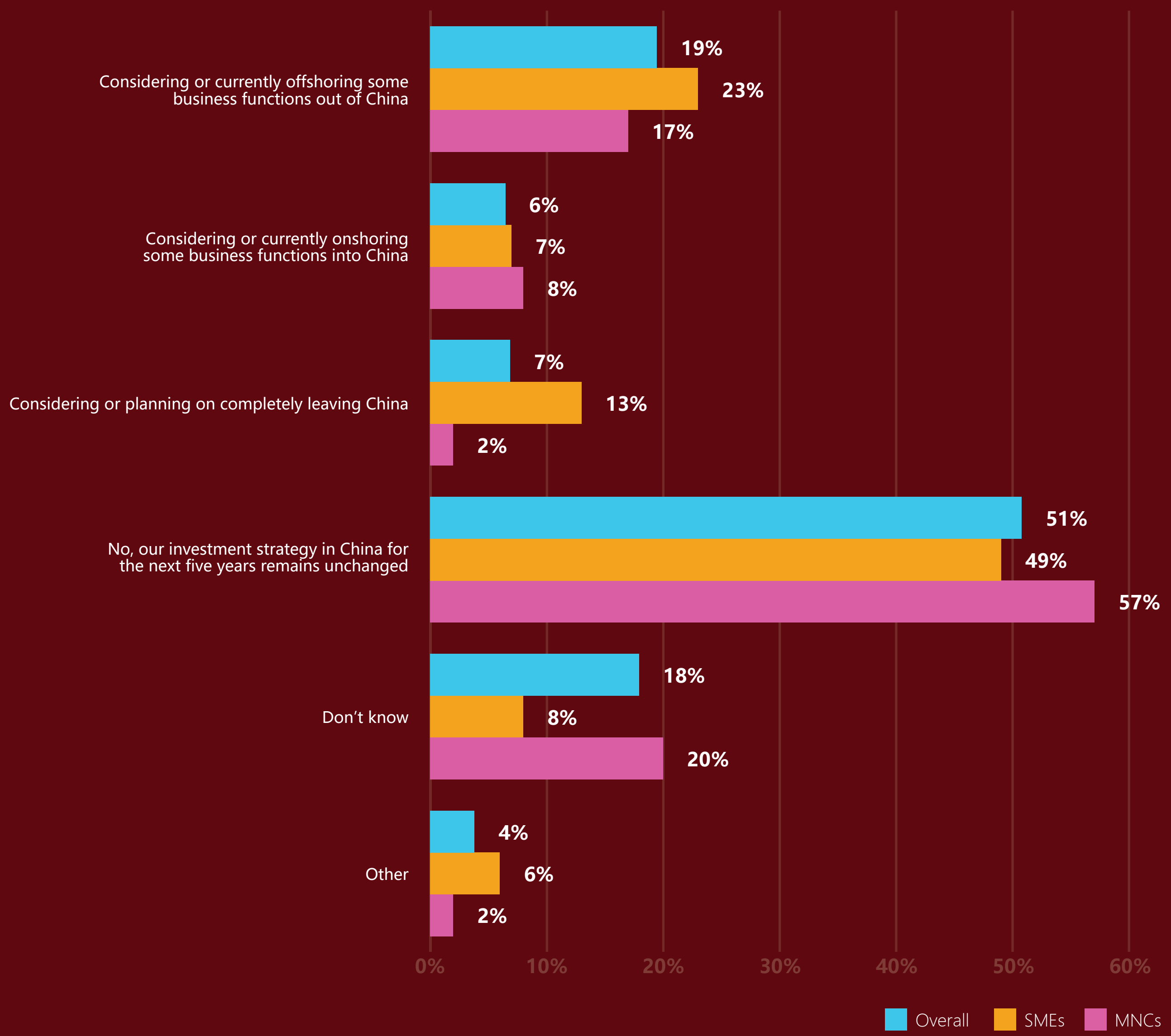
WHICH OF THE FOLLOWING AREAS DO YOU THINK UK-CHINA GOVERNMENT-TO-GOVERNMENT DIALOGUE CAN EXERT THE MOST INFLUENCE ON YOUR BUSINESS OPERATIONS IN THE CHINESE MAINLAND?



British companies see the immense value to their operations from dialogue between the British and Chinese governments. In terms of the areas in which it can bring tangible benefits, 56% respondents reported that the opportunity for increased dialogue between themselves and the Chinese government could exert the most influence, followed by the potential to address market access barriers as indicated by 40% of businesses. UK energy companies had the highest demand for both increased dialogue with the Chinese government (89%) and addressing market access barriers (78%). Given that 47% of companies in the built environment sector report facing market access barriers, it is surprising that only 29% of them believe that government-to-government dialogue can help address these long-term market access barriers. Increased dialogue with the Chinese government was also more favoured by larger multinationals than SMEs (66% and 51% respectively), possibly given that they have more sophisticated government relations resources which can be used to exert more influence.

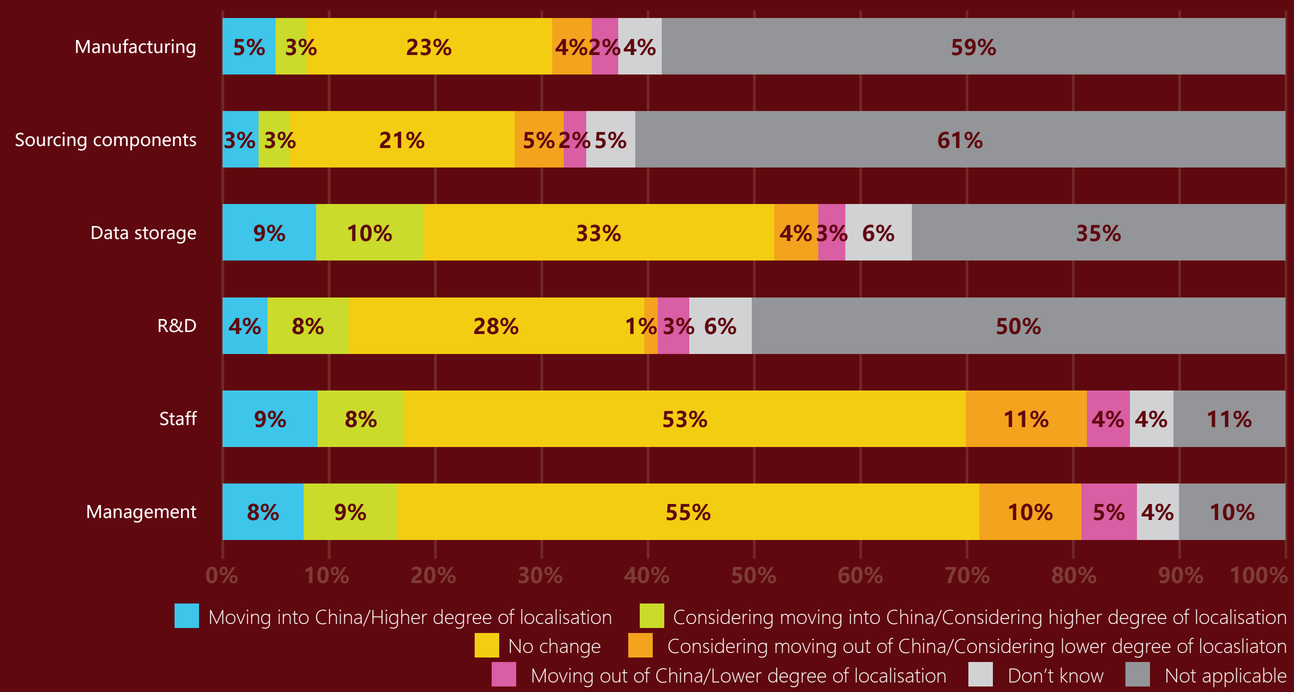
LOCALISATION AND DIVERSIFICATION

IS YOUR ORGANISATION CONSIDERING OR CURRENTLY REVIEWING ITS FUTURE INVESTMENT STRATEGY IN CHINA FOR THE NEXT 5 YEARS?



Despite the challenges and disruptions businesses are facing, both in China and across the global economy, a little over half of British companies will not be reviewing their investment plans in China for the next five years. This is highest among companies in the built environment (73%) and financial services (62%) sectors. Yet a significant 19% of companies will or are considering offshoring some business functions out of China, while another 7% are considering or preparing to exit the Chinese market entirely. An alarming 13% of SMEs are considering or planning to fully pull out of China, and another 23% could offshore functions away from the country, compared to larger multinationals at 2% and 17% respectively. Among industries, the highest proportion of companies that are considering leaving are from HTTL (15%), professional services (10%) and FBA (9%).

WHAT ARE YOUR ORGANISATION'S OVERALL PLANS FOR THE FOLLOWING BUSINESS FUNCTIONS OVER THE NEXT FEW YEARS?



The majority of companies will not be adjusting their plans for major business functions in the coming years, but for those that do, a complex process of both localisation and diversification is likely to take shape. The highest rates of localisation pertain to data storage, where, in line with the increasing number of new regulations on the protection and security of data in China, 19% of British companies will be moving or are considering moving data storage functions into China. The proportion of larger multinationals in the sample considering or currently localising data storage (32%) is significantly greater than that of SMEs (12%), and this applies to most other functions as well. Personnel is an area where there is a natural tendency for localisation to increase in step with the levels of diversification as businesses are having to rely less on international talent and instead focus on hiring local staff. Many education companies, for example, will be decreasing or considering decreasing degrees of localisation for their staff (21%) and management (13%), while more will be localising or looking to localise staff and management (both 23%). On manufacturing and supply chains, the trend line is also less clear cut. While 16% of AMT companies are considering, and a further 8% are already sourcing components from other markets outside of China, slightly more businesses in the industry will be localising or looking to localise manufacturing (16%) than diversify out of China (11%).

PLEASE RANK THE TOP THREE REASONS FOR THE CHANGE IN YOUR ORGANISATION'S FUTURE INVESTMENT STRATEGY IN THE CHINESE MAINLAND.

Considering or currently onshoring some business functions into China/ higher degree of localisation

RANKING	RESPONSE
1	China's economic prospects
2	China's domestic management of COVID-19
3	Changes in China's regulatory environment

Considering or currently offshoring some business functions out of China/ lower degree of localisation

RANKING	RESPONSE
1	China's domestic management of COVID-19
2	Geopolitical tensions
3	China's economic prospects

Considering or planning on completely leaving China

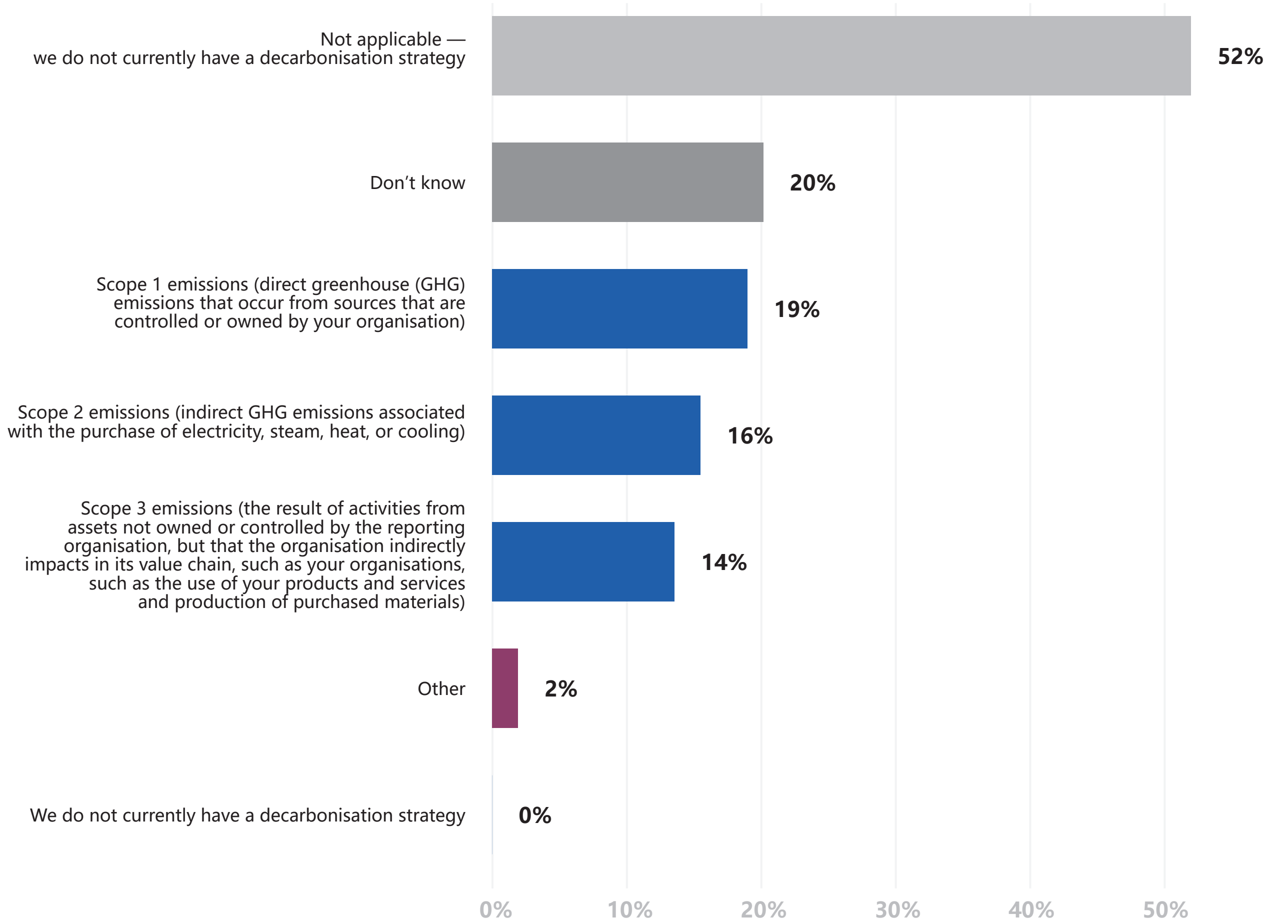
RANKING	RESPONSE
1	China's domestic management of COVID-19
2	Changes in China's regulatory environment
3	Other (please specify)

How China has and continues to handle COVID-19 is the driving force behind businesses' long-term plans and decisions with regard to their China operations. For businesses considering or already offshoring business functions and even leaving the market, China's management of COVID-19 is the most important reason for these decisions. Yet, for many others, it is also a factor leading businesses to increase their degree of localisation in the market, likely due to any disruption that may have arisen from certain business functions being outsourced internationally. China's economic prospects is the primary reason leading companies to onshore various business activities, indicating long-term faith among many businesses in the Chinese economy. Reactions among decision-makers to changes in China's regulatory environment have also been mixed, and is the second main reason behind companies leaving China and the third most important reason leading companies to increase their degree of localisation.

8

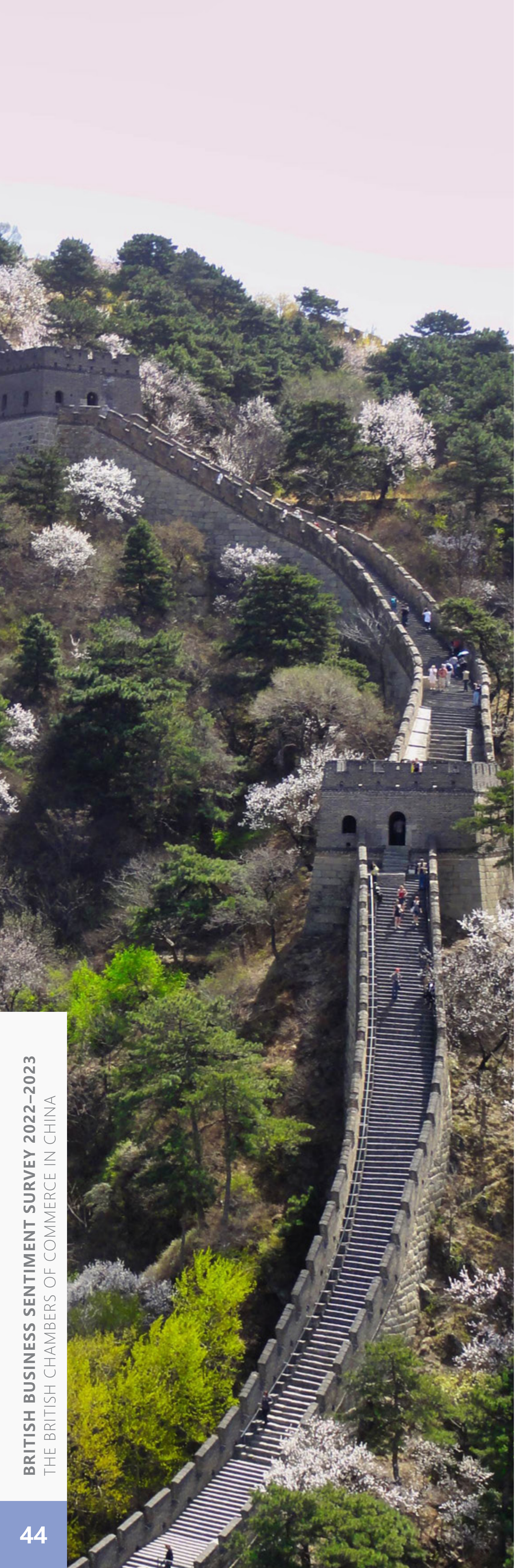
SUSTAINABILITY

WHAT TYPE OF EMISSIONS DOES YOUR ORGANISATION'S DECARBONISATION STRATEGY INCLUDE?

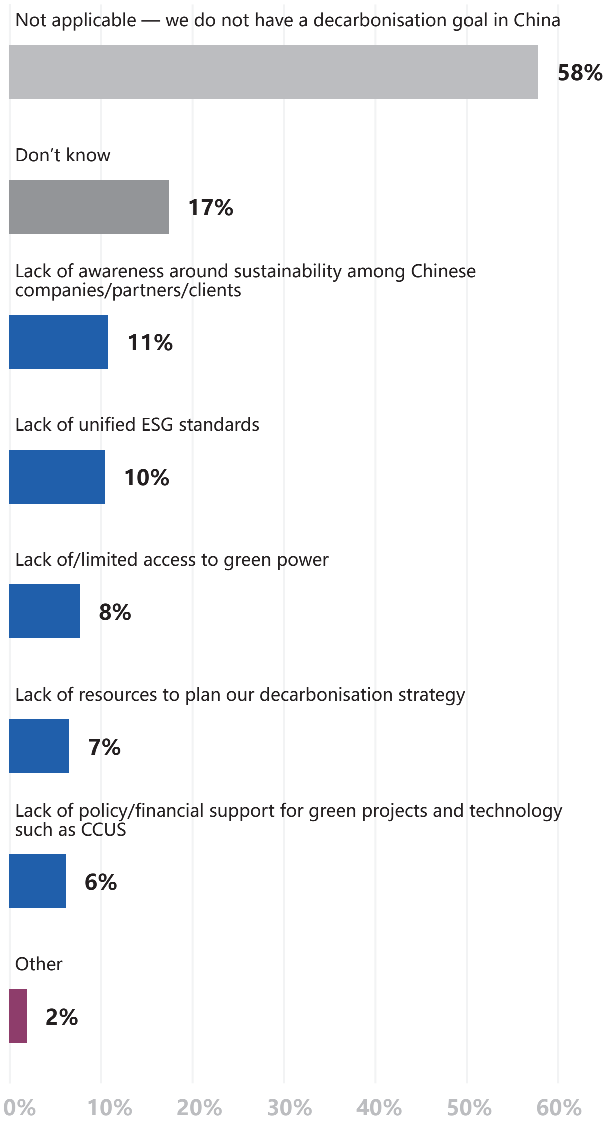


As China continues to accelerate towards its 30-60 net-zero target, companies are faced with drawing up a decarbonisation strategy. It is, however, disappointing that 52% of businesses do not currently have a decarbonisation plan in place, whilst 20% do not know about the types of emissions included in their decarbonisation plans. The services sectors have the biggest room for improvement as 22% of companies in these sectors have not formulated a strategy to cut down carbon emissions. In contrast, goods companies are much more likely to have already devised their decarbonisation strategy (44%).

Reducing Scope 1 emissions, which refers to direct greenhouse emissions controlled or owned by the business, is at the heart of most companies' decarbonisation plans. As expected, Scope 3 emissions are the least covered in British businesses' net-zero strategies given that they are the hardest type of emissions to reduce.

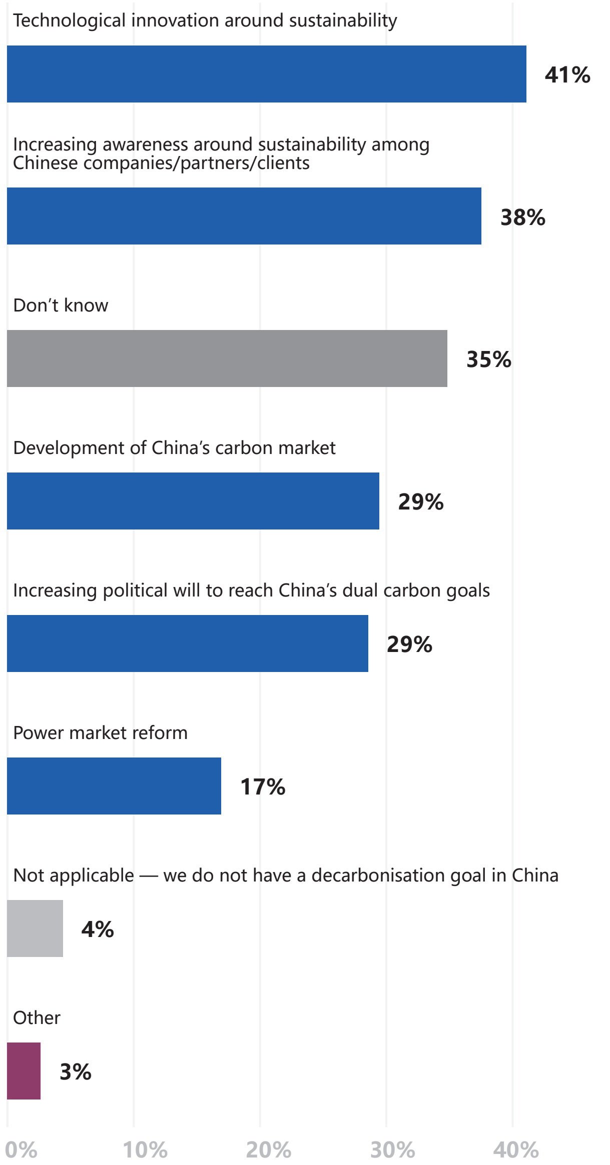


WHAT CHALLENGES DOES YOUR ORGANISATION CURRENTLY FACE IN TERMS OF REACHING YOUR DECAVRBONISATION GOALS IN CHINA?



The challenges British businesses face in reaching their decarbonisation goals in China vary considerably across sectors and with the size of their operations. Amongst companies that have already set their decarbonisation goals, they are most likely to consider the lack of awareness around sustainability among Chinese companies, clients and partners a major challenge to their decarbonisation processes (11% of all respondents, 44% of companies that have decarbonisation goals). This factor is especially concerning for businesses in the energy and AMT sectors, as well as for SMEs generally. It is followed closely by the concerns about the lack of unified ESG standards (10%), and limited access to green power (8%). Issues around ESG standards are especially pressing for large multinationals.

WHAT FACTORS DOES YOUR ORGANISATION SEE AS POSITIVELY IMPACTING YOUR ABILITY TO REACH YOUR DECARBONISATION GOALS?



While there is no one single factor that will accelerate all sectors' journey to net-zero across the board, technological innovation around sustainability is viewed most positively by British businesses in China. 41% of British companies that have set their decarbonisation targets believe that technological innovation has a positive impact on their decarbonisation processes. This is followed by their Chinese stakeholders' increasing awareness around sustainability (38%) and the development of China's carbon market (29%). For companies in the energy sector, the increasing political will to reach China's dual carbon goals and the power market reform are considered most positive for companies to reach their net-zero targets , above technological innovation and increasing awareness of their Chinese counterparts.


景华南街
JINGHUA South St

ABOUT THE BRITISH CHAMBER OF COMMERCE IN CHINA

The British Chambers of Commerce in China is a membership organisation in the Chinese mainland focused on providing advocacy, knowledge and community for British businesses in China. We operate as an independent, not-for-profit organisation with a strong and diverse membership. With decades' worth of business experience in China, we are the independent voice of British business in China, bringing the British business community together and helping them thrive in one of the world's fastest growing markets.

As the voice of British business in China, BritCham advocates on behalf of our members to both the British and Chinese governments for the purpose of better directing trade relations. The dialogues we foster raise the core concerns of our members, making their voice heard in government and the wider China business environment.

Our major policy initiatives are our annual Position Paper and Business Sentiment Survey, two authoritative overviews of the needs of British businesses in the China market. Both documents examine the impact of China's regulatory system on the ability of BritCham members to thrive and provide a full range of products or services to market, and provide both policy recommendations and an overview of opportunities for British business in China. Other reports provide more focused analysis on particular facets of China's regulatory landscape. Through our engagement with the British and Chinese government we aim to foster a strong, resilient UK-China trade relationship.

ACKNOWLEDGMENTS

AUTHORS

Alexandra Hirst
Sally Xu
Will Miller
Violet Si
Chengkai Xie

DESIGN

Boglárka Miriszlai

TRANSLATION

Practical Translations Ltd

The British chambers of commerce in China would like to thank all respondents for their participation in our annual surveys. We also thank Deloitte China for their support on survey design and analysis, and our Executive Committee for their guidance and insights.

advocacy@britishchamber.cn

BRITISH CHAMBER OF COMMERCE IN CHINA

中国英国商会