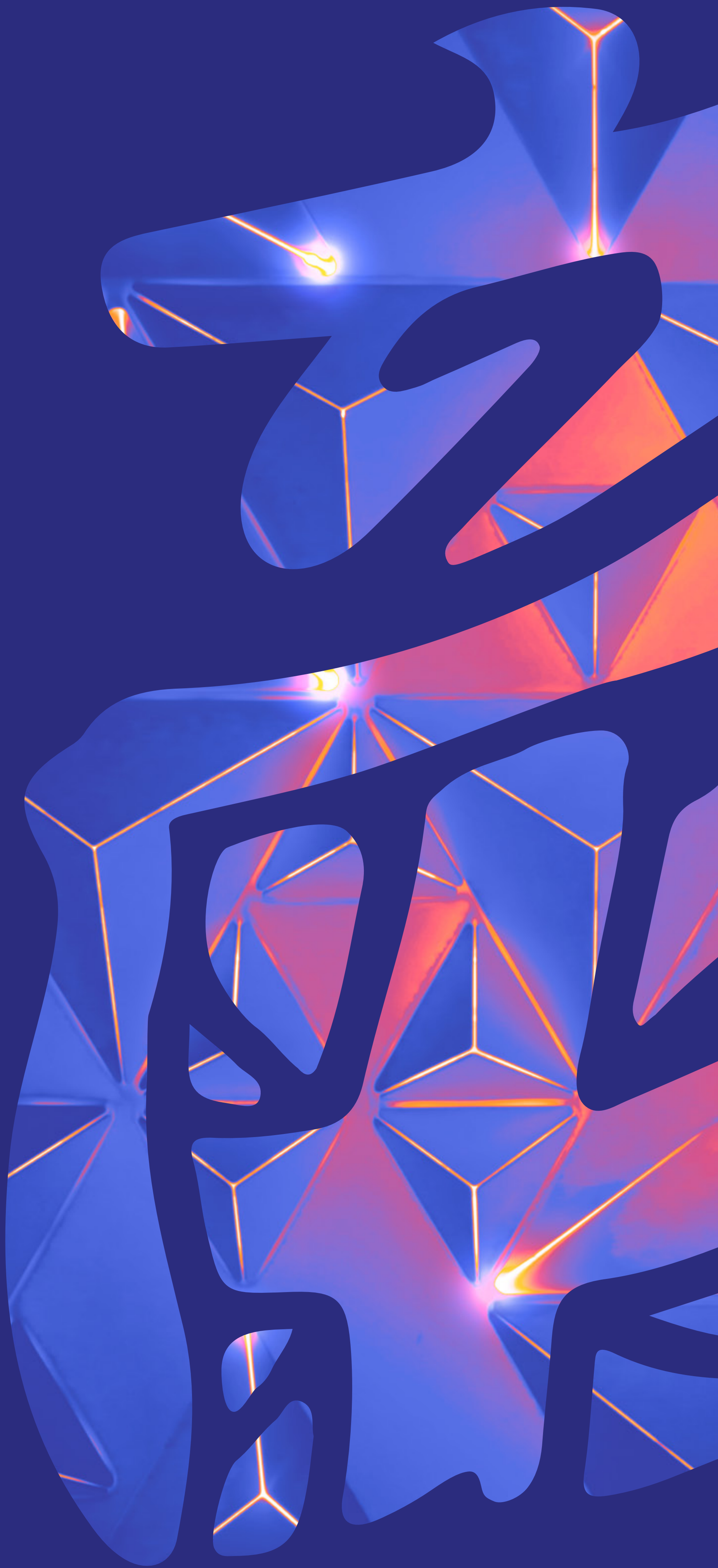
BRITISH CHAMBER OF COMMERCE IN CHINA
中 国 英 国 商 会

BRITISH BUSINESS IN CHINA: SENTIMENT SURVEY

2023–2024



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CHAIRS' FOREWORD

The sixth annual *British Business in China: Sentiment Survey* presents a truly comprehensive national overview of British business sentiment in China, with over 300 responses from across the country representing every business size, sector and situation.

Our aim is not to criticise or complain; it is to encourage constructive dialogue, ultimately contributing to the success of businesses in China. This data will drive future roundtables and discussions, culminating in our annual Position Paper in May that sets out specific challenges and suggestions to improve the business environment for all organisations.

Last year we hit a record high of 42% pessimism, with the survey conducted during the final months of zero-COVID, and while that number has now dropped to 29%, 60% report that doing business in China is more difficult than last year. The economic situation in China, ongoing challenges in the global economy, and increasing concerns about the geopolitical situation continue to create an uncertain business environment. This is particularly hitting the confidence of small and medium-sized British businesses in China.

There are bright spots though. Retail has bounced back, as have energy and healthcare – the three most optimistic sectors this year. Chinese industrial policy is attracting high levels of R&D, including in technology and healthcare. Additionally, new government initiatives and regulatory changes have been warmly welcomed by British businesses.

This final point highlights the positive outcomes of British Chamber advocacy and why it matters. Our continuous engagement, discussion and dialogue with a range of different ministries and bureaus has led to tangible change which helps businesses to succeed. This success subsequently translates into high-quality national development, increased employment, taxes for public services, and increased levels of investment.

The British Chamber of Commerce is the independent voice of British business in China. We want British businesses to keep talking, and we are thankful the Chinese government is listening.

JULIAN FISHER
British Chamber of Commerce
China

JOE WHITE
British Chamber of Commerce
Southwest China

JEREMY SARGENT
British Chamber of Commerce
Guangdong

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EXECUTIVE SUMMARY

With the Chinese business environment reopening post-COVID, the *British Business in China: Sentiment Survey 2023-24* categorises the challenges facing UK-China commerce at a critical juncture in the relationship between the two countries. More than 300 British companies took part in this year's survey, representing a wide range of different sizes, sectors and market experience.

As China reopens after three years of substantial pandemic-related disruption, external factors are still pushing British businesses to be hesitant towards the market. Companies in China are effectively treading water, with many delaying key decisions around investment and market entry.

Following the end of a period of "peak pessimism" seen through the pandemic, a slow Chinese economic recovery and an increasingly uncertain geopolitical landscape has left businesses unsure of prospects going into 2024 and beyond.

Despite this, British businesses are responding positively to a perceived increase in proactivity from the Chinese government to increase dialogue with business and address key regulatory concerns. This has resulted in many looking to increase spending on key areas of R&D including decarbonisation and technology.

If this dialogue can continue with newly proposed guidelines implemented effectively, this could drive investment and job creation, supporting Britain and China to boost their respective economies as both countries seek to recover following the pandemic.

THE BUSINESS OUTLOOK:

Shifting challenges:

While the uncertainties of COVID-19 are over, there are still challenges and uncertainties for British business in China. 60% of businesses saw 2023 as more difficult than 2022, down from 89% last year. Alongside this, businesses are showing a slow return to optimism, with 46% positive about 2024 prospects.

Treading water on investment:

Many companies are hesitant to increase investment in China, with the largest proportion of British businesses continuing to adopt a "wait-and-see" approach by maintaining current levels of investment for the coming year. MNCs are the least likely group to be increasing investment.

Size matters:

SMEs are bearing the brunt of knock-on effects in the Chinese economy, with SME respondents finding business more difficult and 46% still seeing revenue lower than pre-pandemic levels.

ISSUES DRIVING SENTIMENT:

A slowing economy:

After three years focusing on the pandemic and policies to combat it, China's reopening in 2023 has seen issues around the domestic and global economy reemerge as primary reasons for pessimism.

Geopolitical concerns remain prominent:

Uncertainty around the current political relationship between China and its Western peers continues to drive hesitation in businesses, with 42% of respondents suggesting that unpredictability of trade policies towards China had negatively impacted their operations over the past year.

A step change in talent and recruitment priorities:

With COVID-19 travel restrictions gone, attracting foreign talent has taken the backseat with companies seeking to hire from the Chinese talent pool. This has left businesses more concerned with finding workers with the requisite skills and qualifications.

A POSITIVE REACTION TO A CHANGED GOVERNMENT APPROACH:

Government-industry dialogue:

British businesses are positive about China's push to attract foreign investment, which has seen increased communication with businesses and trade bodies alongside the *24 Point Guidelines for Attracting Foreign Investment* which covers many regulatory challenges raised in previous editions of the Sentiment Survey.

Top three regulatory challenges all included in government policy:

The top issues of 2023 surround navigating cybersecurity and IT regulations; transparency of the business environment; and the enforcement of laws and regulations – all of which were included in the government's 24 Point Guidelines. With a framework in place to address these issues, businesses will likely be looking to the government to push forward with implementation, to ensure an attractive market to do business in.

R&D opportunities for British business in China:

Interest has been identified in R&D in areas such sustainability, AI and technological advancement, with many companies encouraged by China's growth objectives in such sectors.

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METHODOLOGY

The *British Business in China: Sentiment Survey 2023-24*, published in December 2023, is the sixth 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 566 member companies of the Chamber between the 9th October and the 8th November 2023. A record 301 companies responded, representing a 3% increase from last year. Education was the most common respondent (22%), followed by professional services (17%), advanced manufacturing and transport ('AMT') (12%), creative industry (11%), financial services (8%), built environment (7%), healthcare (5%), hospitality, travel, tourism and leisure ('HTTL') (5%) and food, beverage and agriculture ('FBA') (4%).

Respondents were asked 59 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', R&D and UK-China Cooperation" 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.

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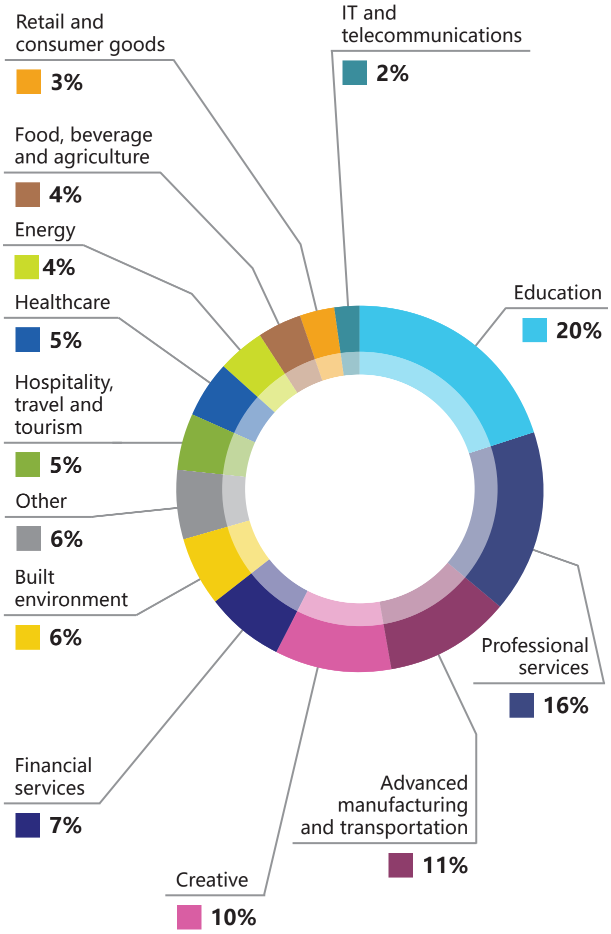
ORGANISATIONAL PROFILE

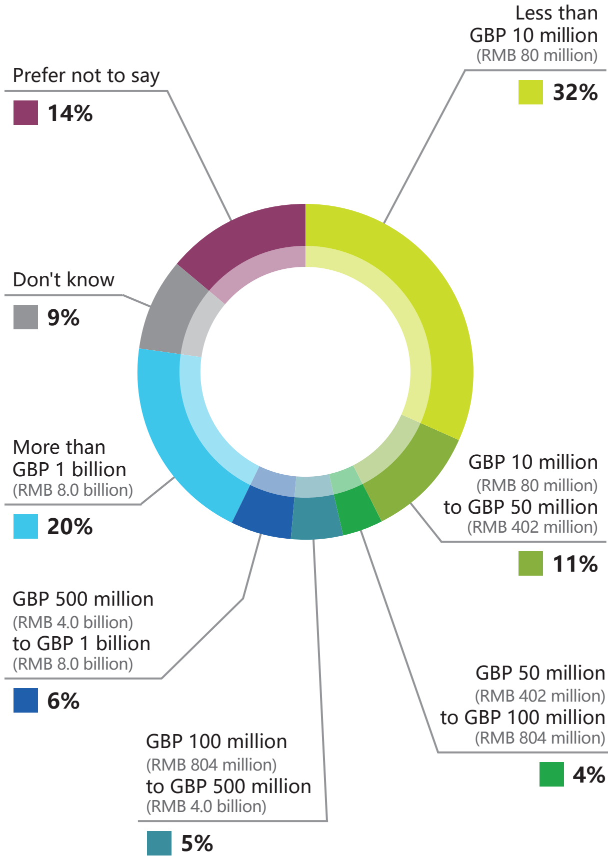
WHICH SECTOR(S) IS YOUR ORGANISATION INVOLVED IN?

Responents may choose more than one option



British businesses in China are active across a diverse range of sectors. In line with previous years, the highest proportion of companies represented by survey respondents come from education (21%), professional services (16%) and AMT (11%). Other sectors represented include the creative industry (10%), financial services (7%), built environment (6%), and HTTL (5%).

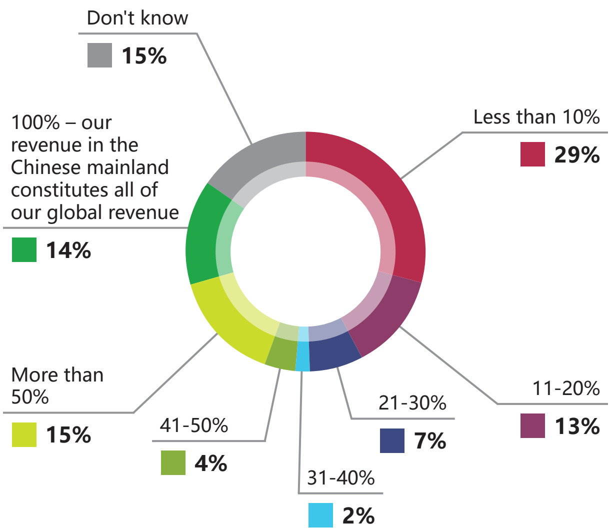
WHAT IS YOUR ORGANISATION'S GLOBAL ANNUAL REVENUE?



The representation of UK companies in China is balanced between small and medium-sized enterprises ('SMEs') and large multinational companies ('MNCs'). Those with global earnings of more than GBP 500 million (RMB 4.5 billion) are defined as large multinationals and account for 26% of the respondents, while those operating under this benchmark are classified as SMEs and represent 51% of the companies. 14% of respondents preferred not to disclose their global annual revenue information. Headcount is often also an element in defining whether a business is an SME or larger corporation, with the European Union defining an SME as an organisation with less than 250 employees.[1] 70% of respondents employ under 250 people in China, whilst 29% have a larger workforce in the China mainland with more than 250 employees.

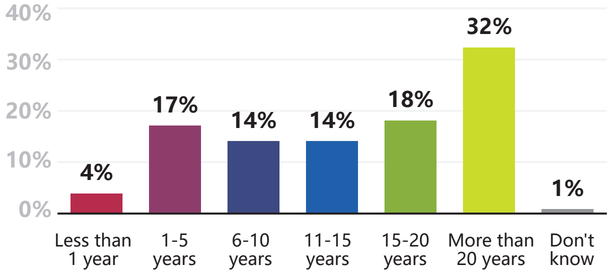
1 https://www.msadvisory.com/trends-and-growth-of-smes-china/

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



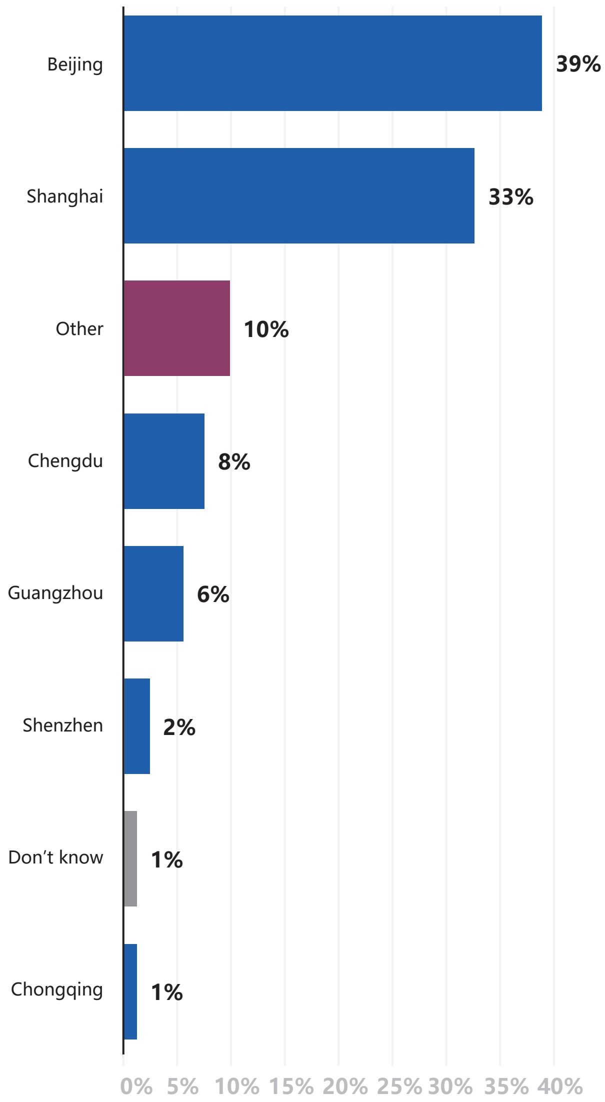
29% of UK companies in China derive less than 10% of their global revenue from their Chinese mainland operations. In contrast, an equal percentage of companies (29%) are much more reliant on the Chinese mainland market, deriving over 50% of their global revenue from their China operations.

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



British businesses have, over recent decades, shown continued interest in and commitment to the Chinese market. In keeping with last year's findings, half of the respondents have been in China for over 15 years. However, there has been a slight recovery in the number of businesses that have established a presence in the Chinese mainland within the past 12 months (4%), a 3 percentage point increase from 2022 and a 1 percentage point increase from 2021. This recovery in the number of businesses entering China in the past 12 months may be attributable to China's reopening post-COVID.

IN WHICH CHINESE MAINLAND CITY IS YOUR PRINCIPAL OFFICE LOCATED?

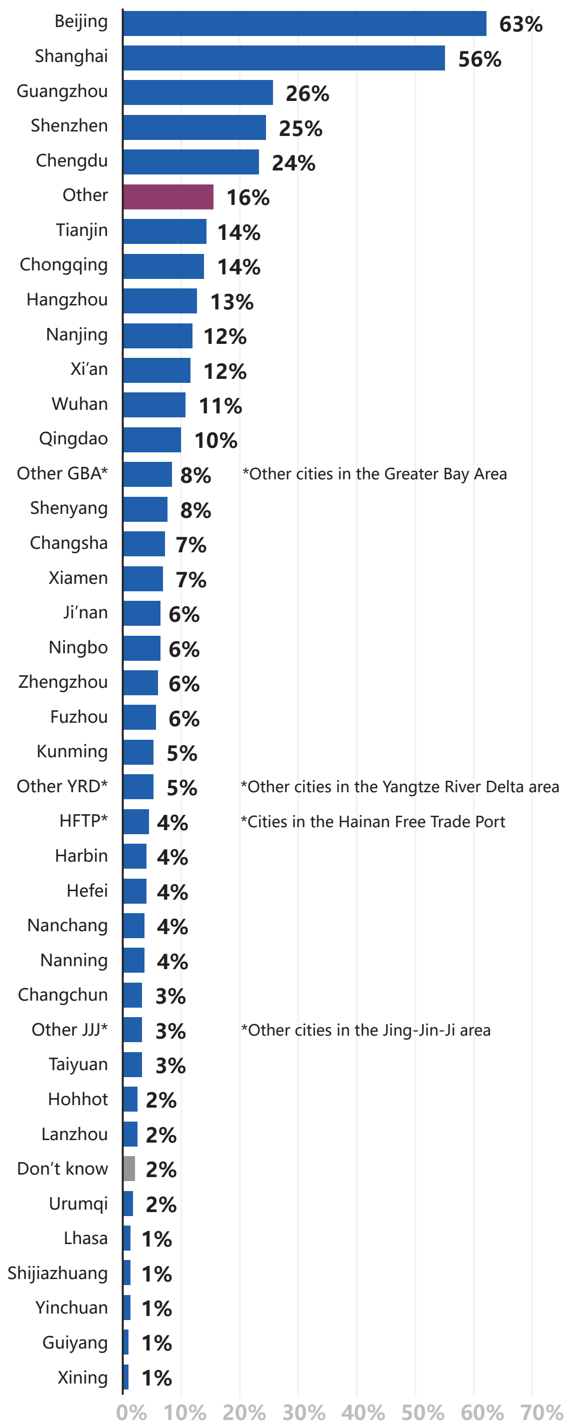


Most British businesses in China have established their primary offices predominantly in China's political and commercial hubs of Beijing (39%) and Shanghai (33%). Other locations include Chengdu (8%) and Guangzhou (6%).

There is an ongoing trend of companies opting for primary offices located outside of Beijing and Shanghai. For businesses that reported having established their presence in the Chinese mainland in the last 0-5 years, they were most likely to opt for Beijing (34%), followed by Shanghai (17%), Guangzhou (13%) and Chengdu (11%). Conversely, for businesses that reported having a presence in the Chinese mainland for over 15 years, their primary offices were most commonly in Shanghai (44%) or Beijing (39%). This shift may be linked to new local initiatives, such as the Guangdong-Hong Kong-Macao Great Bay Area, which serve to showcase attractive new opportunities and favourable policies for foreign investment.

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

Responents may choose more than one option



Beijing and Shanghai remain the two most popular destinations for British businesses to report a physical presence, with 64% and 56% of respondents having a presence in these two cities respectively. This is followed by Guangzhou (26%), Shenzhen (25%), and Chengdu (24%). Other major cities favoured by UK companies include those close in proximity to the aforementioned cities, such as Tianjin, Chongqing, and Hangzhou.

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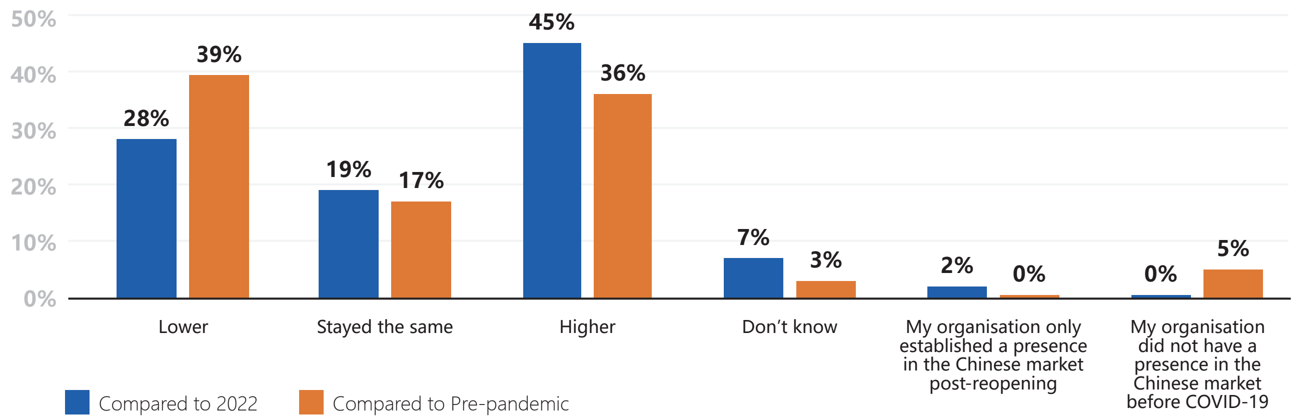
BUSINESS ENVIRONMENT AND INVESTMENT OUTLOOK

IS YOUR ORGANISATION'S PROJECTED REVENUE IN THE CHINESE MAINLAND IN 2023 HIGHER OR LOWER THAN THE PREVIOUS YEAR AND PRE-PANDEMIC LEVELS?



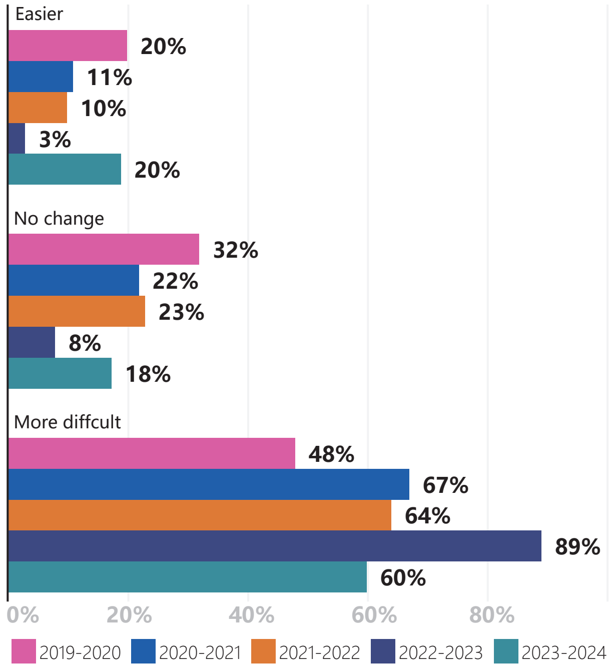
For almost two-thirds of companies, projected revenues for this year have either increased (45%, an increase of 12 percentage points) or remained on par with last year (19%, a decrease of 1 percentage point). Of those which expect their revenue to be higher than last year, 64% also expect their 2023 revenues to be higher than pre-pandemic levels. However, for companies that expect their revenue to remain on par with last year, 36% of these expect that this will be lower than pre-pandemic levels indicating a slow recovery post-reopening.

Of the 28% of companies that expect their 2023 revenues to be down on last year (a decrease of 13 percentage points), 83% expect their 2023 revenues to be lower than pre-pandemic levels. SMEs and MNCs alike are more likely to expect that revenue levels in 2023 exceed the previous year (both 45%). However, MNCs appear to be experiencing a quicker recovery to pre-pandemic levels, with the majority of respondents expecting 2023 revenues to be higher than pre-pandemic revenues (43%), compared to the majority of SMEs who except 2023 revenues to remain below pre-pandemic levels (46%).

In keeping with last year's findings, the healthcare (59%), information technology and telecommunications (ITT) (56%), and financial services (48%) sectors are ahead of other sectors in terms of surpassing pre-pandemic earnings. This is a further increase on last year's survey findings where 39%, 44% and 36% of those respective sectors reported that their 2022 revenues would exceed pre-pandemic earnings.

Despite reopening offering more opportunity for both domestic and international travel, 69% of respondents from the HTTL sector continue to expect that their 2023 revenue will be lower than pre-pandemic earnings. British businesses in the built environment also continue to report decreased earnings in comparison to pre-pandemic levels (61%), however there has been a slight recovery on last year's survey findings where 71% of companies in the built environment reported the same. 47% of professional services firms report decreased earnings, in keeping with last year, whilst companies in the creative sector have experienced a recovery of 16 percentage points from last year with 41% of companies in this sector expecting to record lower earnings than pre-pandemic levels.

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



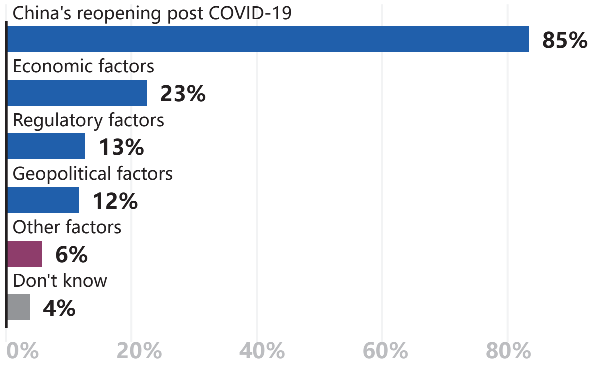
Over the past year, British businesses have reported a significant shift in their ability to do business in the Chinese mainland. 60% of British businesses in China have found doing business somewhat (40%) or much (20%) more difficult, down 29 percentage points from last year and the lowest number on record since the COVID-19 outbreak in early 2020. Similarly, there was a 17 percentage point increase in the number of businesses that believe business has become somewhat (14%) or much (6%) easier over the past year, a full recovery on pre-pandemic levels recorded in the 2019-2020 survey. 18% of companies reported no change in their ability to do business over the past year.

The financial (74%), professional services (74%), creative (66%), and AMT (57%) sectors have the highest rate of companies that report business has become much more difficult in 2023. By contrast, companies in the FBA (53%), retail (50%) and HTTL (48%) sectors were the most likely to report that the ease of doing business had either not changed, or had become easier. An equal percentage of retail (50%) and energy (48%) companies were likely to report that business had become easier or had not changed as they were to report that business had become more difficult. In keeping with the previous year, both SMEs (58%) and large multinationals (63%) both indicated that doing business had become more difficult over the past 12 months, albeit a decline on last year by 29 percentage points and 28 percentage points respectively.

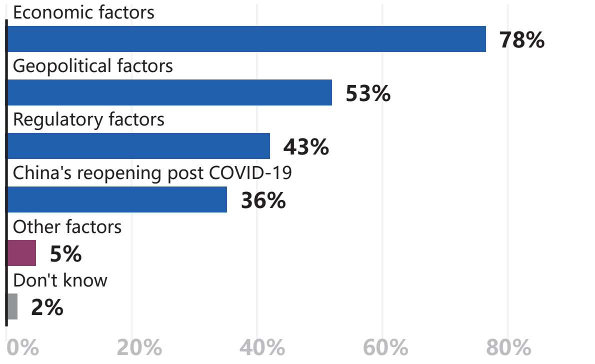
WHAT ARE THE KEY REASONS FOR A CHANGE IN YOUR ORGANISATION'S ABILITY TO DO BUSINESS IN THE CHINESE MAINLAND OVER THE PAST 12 MONTHS?

Responents may choose more than one option

Business has become easier or has not changed



Business has become more difficult



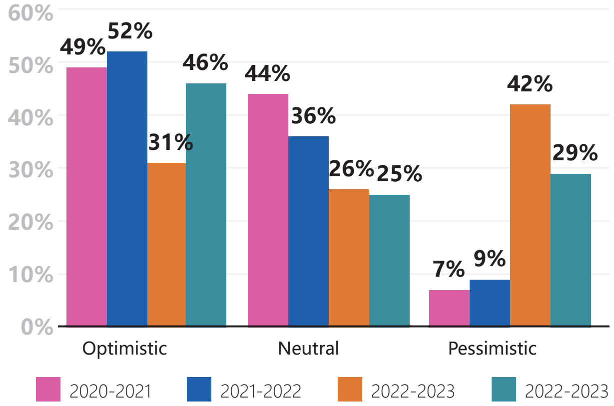
Among the 60% of businesses that found doing business harder, 78% of these attributed this increase in difficulty to economic factors.

For the majority of sectors, the impact of economic factors was attributed as the number one reason for a deterioration in the ease of doing business. This likely reflects the impact of both the slowdown of the global economy and China's weaker-than-expected economic recovery post reopening. The ITT sector was the only sector to report regulatory factors as the primary driver for increasing difficulty in doing business in China. For companies in the HTTL sector, increasing difficulty in doing business was jointly put down to economic factors and China's reopening post COVID-19. This may be attributable to lower consumer spending and/or increased outbound tourism with lower reciprocal inbound tourism following China's reopening. Similarly, respondents in the energy sector jointly attributed increasing difficulty in doing business to economic and geopolitical factors. This is unsurprising given the prioritisation of energy security and self-reliance in terms of energy supply following the Russia-Ukraine war as well as the US-China technology confrontation regarding the supply of semiconductors.

For companies in the professional services, creative and AMT sectors, some of the sectors recording the highest rates of deterioration in the ability to do business, the second key reason behind this change was geopolitical factors. However, for financial services, also impacted by the highest rate of deterioration in the ability to business, the second key reason was regulatory factors.

The FBA sector, which was the only sector that was more likely to report that the ability to do business in China had either become easier or had not changed in the past 12 months (53% versus 47% who said it had become more difficult), cited China's reopening post COVID-19 as the primary reason for this. This is unsurprising given that reopening relieved businesses in this sector from lockdowns, social distancing measures, and testing requirements for their customers.

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

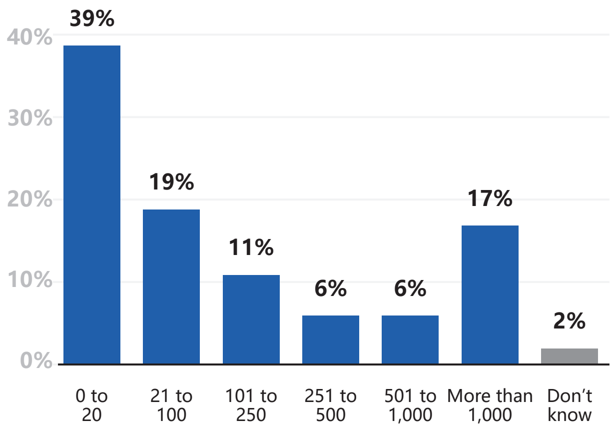


In 2022, British companies in China had record levels of pessimism with 42% of businesses pessimistic about their prospects for the coming year. Fast forward 12 months, and following China's re-opening and removal of COVID-19 restrictions, British businesses are experiencing a slow return in optimism. 46% of British businesses described their outlook for their sector in the Chinese mainland over the next year as somewhat (37%) or significantly (9%) optimistic, a 15 percentage point increase on last year. 26% remain neutral in their outlook, in line with last year's finding, whilst 29% are somewhat (22%) or significantly (7%) pessimistic, down 13 percentage points from last year.

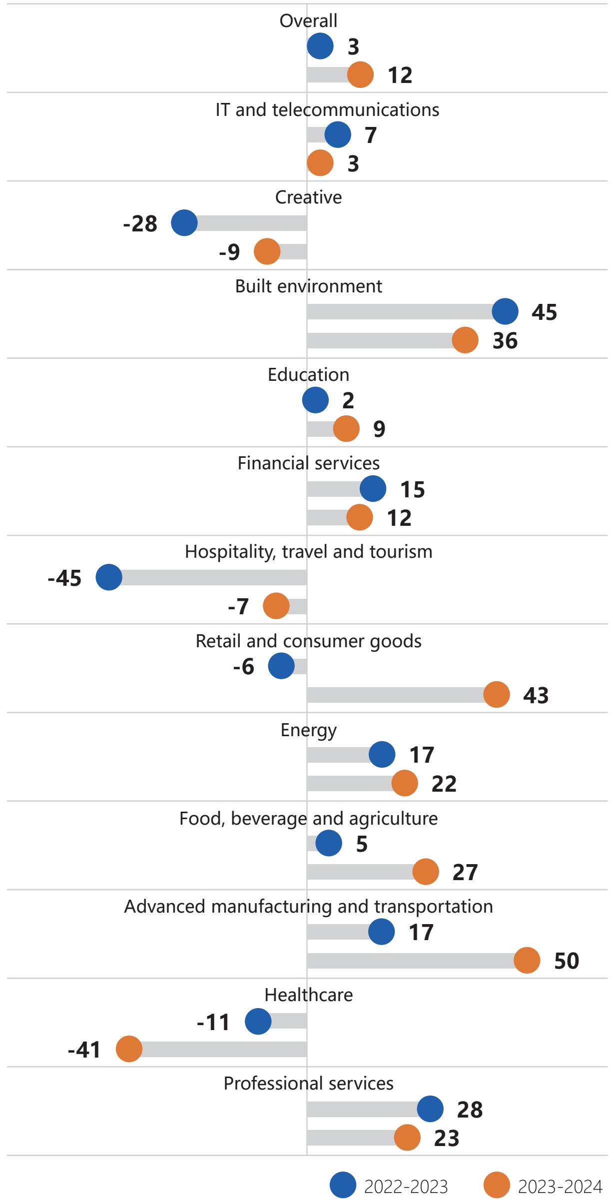
Both MNCs and SMEs were most likely to report being somewhat optimistic (42% and 34% respectively) in their outlook for the coming year. This is despite only 12% of MNCs and 22% of SMEs indicating that doing business in China had become easier over the past year.

Businesses in the retail (75%), FBA (65%), energy (60%), healthcare (59%), and creative (59%) sectors had the highest rates of optimism. Respondents in the education (50%), AMT (50%) and financial services (49%) sectors are also most likely to be optimistic in their outlook for the coming year. Retail and Financial services in particular had the highest number of respondents indicating being significantly optimistic (25% and 19% respectively) across all sectors. Interestingly, professional services firms are more split with 39% holding an optimistic outlook and with the same percentage reporting a pessimistic outlook. The built environment (44%) and HTTL (42%) sectors are the most likely to have a pessimistic outlook for the coming year.

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?



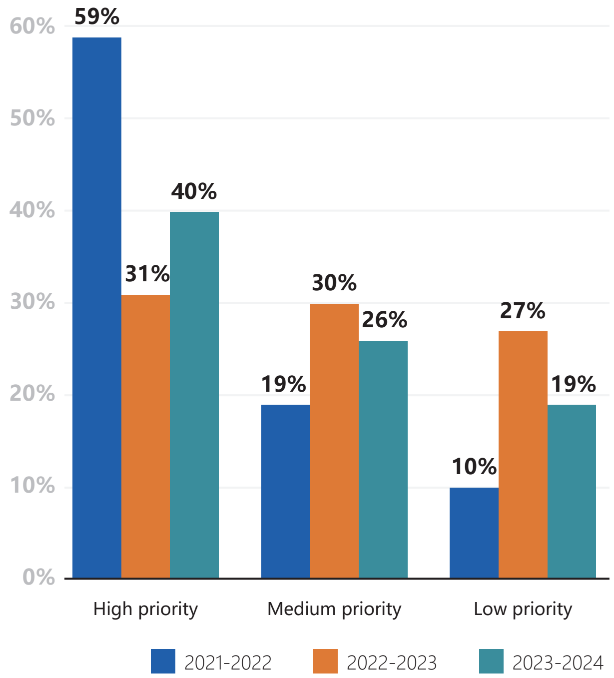
The majority of companies have a relatively modest headcount in the Chinese mainland, with 39% of respondents employing less than 20 staff members, and 19% employing between 21 and 100 staff members.

On average, British businesses estimate that they will increase headcount by 12 new positions each, a recovery compared to the previous year's average of 3. SMEs have seen a significant reversal in their hiring strategy compared to last year (-7), now seeking to increase their headcount by an average of 14 positions. This is an encouraging sign for growth in the China market, and demand for services provided by SME businesses. Conversely, the hiring strategy for large multinationals next year continues to become more conservative with an average expected increase in headcount of 18, down from 22 in the previous year and 53 the year before. This trend could be attributed to larger corporations reporting deprioritising China in their global investment plans and seeking to expand their presence in other markets.

In 2022, the creative, HTTL, retail and consumer goods, and healthcare sectors all reported a decrease in their headcount expectations for the coming year. Companies in the retail and consumer goods industry have experienced an impressive recovery, planning to increase headcounts this year by 43 (compared to -6 last year). Similarly, while companies in the HTTL and creative sectors still anticipate a reduction in headcount, they have seen a recovery in terms of the size of the change in headcount. HTTL companies expect to decrease headcount by 7 positions (compared to -45 last year), whilst creative companies expect to decrease headcount by 9 positions (compared to -28 last year). Meanwhile, companies in the healthcare industry are projecting a continued decrease in headcount by 41 (compared to -11 last year), possibly influenced by reduced staffing requirements following a slowdown in COVID-19 outbreaks as well as relaxation of associated controls and testing requirements.

Surprisingly, despite businesses in the built environment being most likely to report a pessimistic outlook for the coming year, they are looking to increase headcount by 40 positions on average over the coming year. Similarly, companies in the AMT industry, despite reporting increasing difficulties in doing business in China over the past 12 months, estimate an increase in their headcount in China by 50 positions over the coming year.

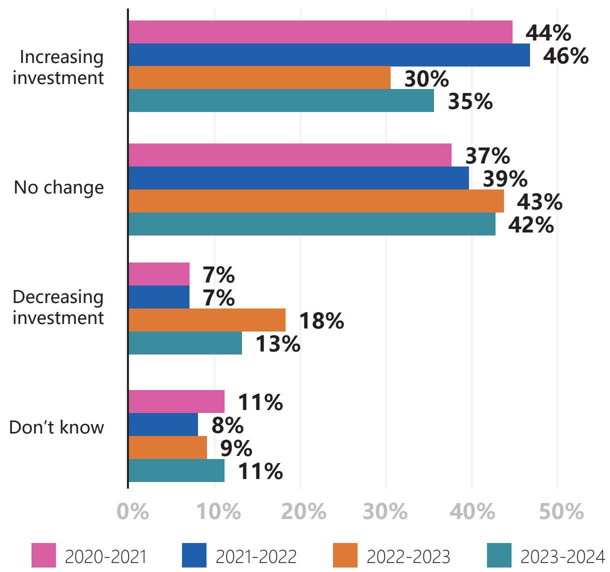
WHERE DOES THE CHINESE MAINLAND RANK AMONG YOUR ORGANISATION'S GLOBAL INVESTMENT PLANS FOR THE NEXT YEAR?



Last year, there was a notable decline in the proportion of British companies who placed China as a key priority market for investment with 31% of businesses regarding China as a high priority, down from 59% in 2021. Despite strong messaging from the Chinese government regarding increasing foreign direct investment, this trend appears to be stabilising (as opposed to fully recovering) with 40% of businesses now citing China as a top (16%) or high (24%) priority market for their global investment plans next year (up 9 percentage points). 26% consider China a medium priority market (down 4 percentage points from last year) and 19% place it as a low priority (down 8 percentage points).

Over half of MNCs reported that China was a medium (30%) or low (25%) priority investment market, while 48% of SMEs view China as a top (24%) or high (24%) priority investment market. Respondents from the HTTL (37%), FBA (29%), creative (25%) and healthcare (24%) industries most commonly placed China as a top priority for their global investment plans. The financial services (33%) and education (35%) sectors were most likely to consider China a high priority investment market. The built environment (39%) sector is the most likely to view China as a low priority market for investment next year, whilst respondents from the energy sector were split evenly across viewing China as a high, medium, or low priority market (27% each respectively).

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

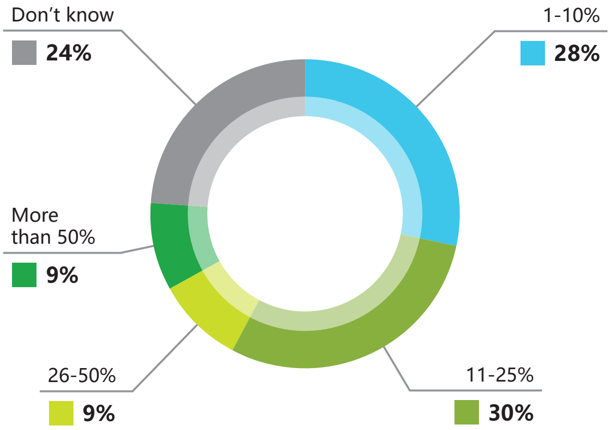


In keeping with last year, the majority of British businesses expect to either maintain (42%) or increase (35%) their investment in their Chinese mainland operations next year, a 1 percentage point decrease and 5 percentage point increase on last year respectively. Despite China's increased focus on FDI, with a spate of announcements of preferential policies towards foreign companies, it appears that the largest proportion of British businesses are continuing to adopt a "wait-and-see" approach by maintaining current levels of investment in 2024. Whilst the number of companies reporting that they will be decreasing their investment in their Chinese mainland operations in the coming year has decreased by 5 percentage points from last year (to 13%), it is concerning that this remains higher than in 2020-21 and 2021-22 (both 7%) where international borders were closed and COVID-19 was more actively hampering the market.

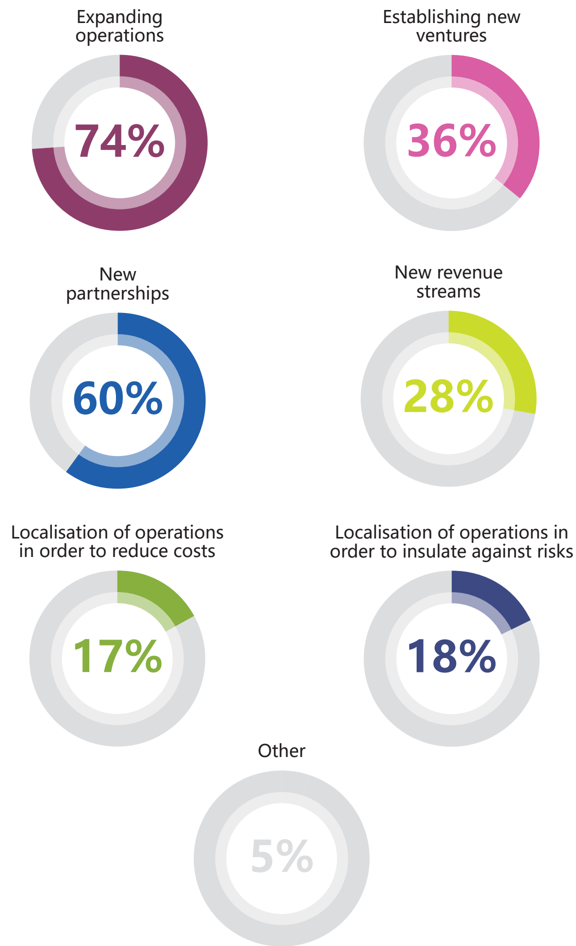
Coinciding with high levels of pessimism in the built environment sector, 72% of companies in this industry are either decreasing (22%) or maintaining (50%) their investments in the Chinese mainland over the next year. Similarly, given 47% of professional services firms reporting decreased earnings, it is unsurprising that 63% of respondents in that sector are looking to maintain (45%) or decrease (18%) their investments in China over the coming year. Unsurprisingly, given the high levels of optimism in both the energy and healthcare sector, no companies in either of these sectors reported considering decreasing investments.

The education sector is a mixed picture, with the majority of respondents indicating optimism for the coming year and over a third considering China a high priority market. Yet, 17% of respondents report that they are considering decreasing investment in their China operations over the coming year. Similarly, despite over half of respondents indicating pessimism for their outlook in the coming year, businesses in the ITT sector had the highest level of respondents indicating they were looking to increase investments next year (67%).

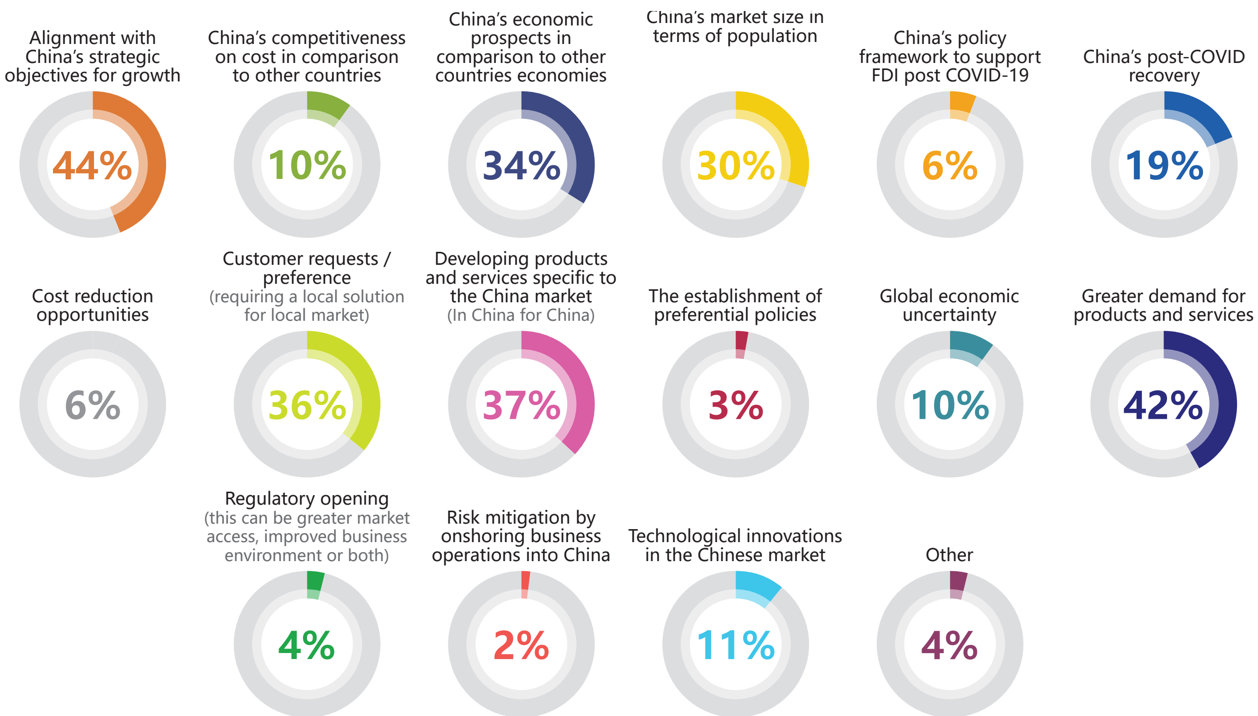
BY HOW MUCH DO YOU ESTIMATE YOUR ORGANISATION WILL INCREASE ITS INVESTMENT IN ITS OPERATIONS IN THE CHINESE MAINLAND OVER THE NEXT YEAR?



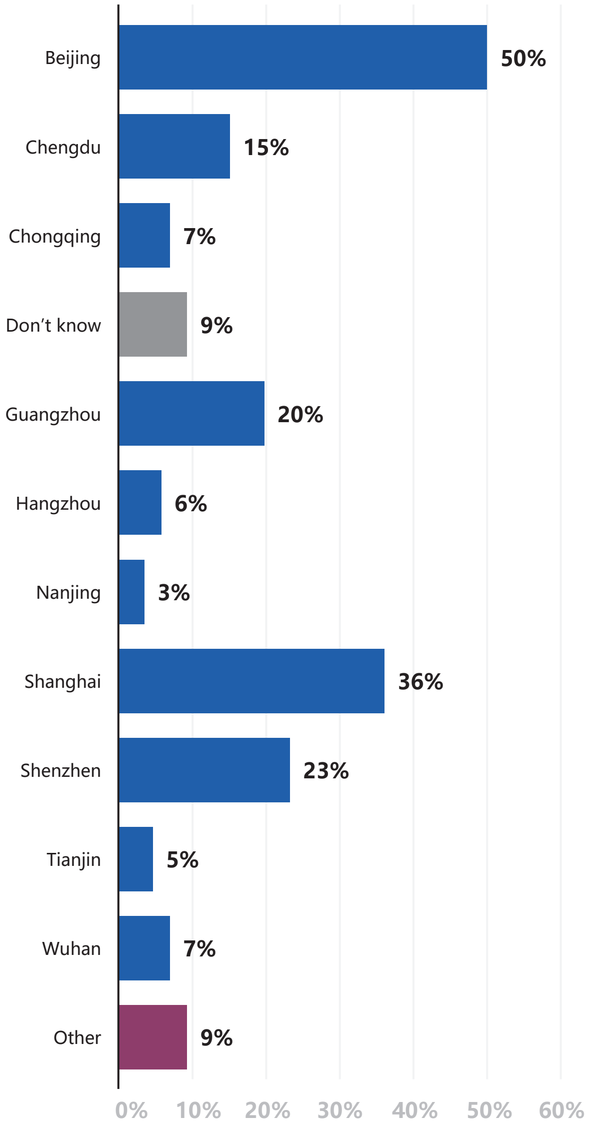
IN WHAT AREAS OF YOUR BUSINESS ARE YOU INCREASING INVESTMENT?



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



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

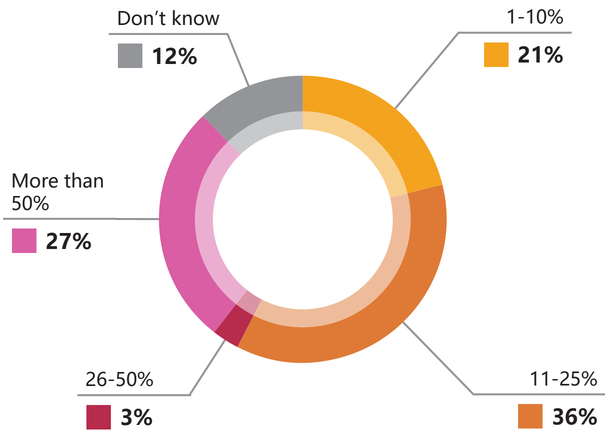


Companies who indicate that they will be increasing investment in their operations in the Chinese mainland are doing so due to their alignment with China's strategic objectives for growth (44%) and greater demand for their products and services (42%). Other commonly cited reasons for increasing investment included developing products and services specific to the China market (37%), as well as addressing customer requests for a local solution for the local market (36%), and China's economic prospects in comparison to other countries' economies (34%). Despite China's efforts to introduce preferential policies and a framework to support FDI post-COVID, only 3% and 6% of businesses indicated this as a reason driving their increased investment respectively.

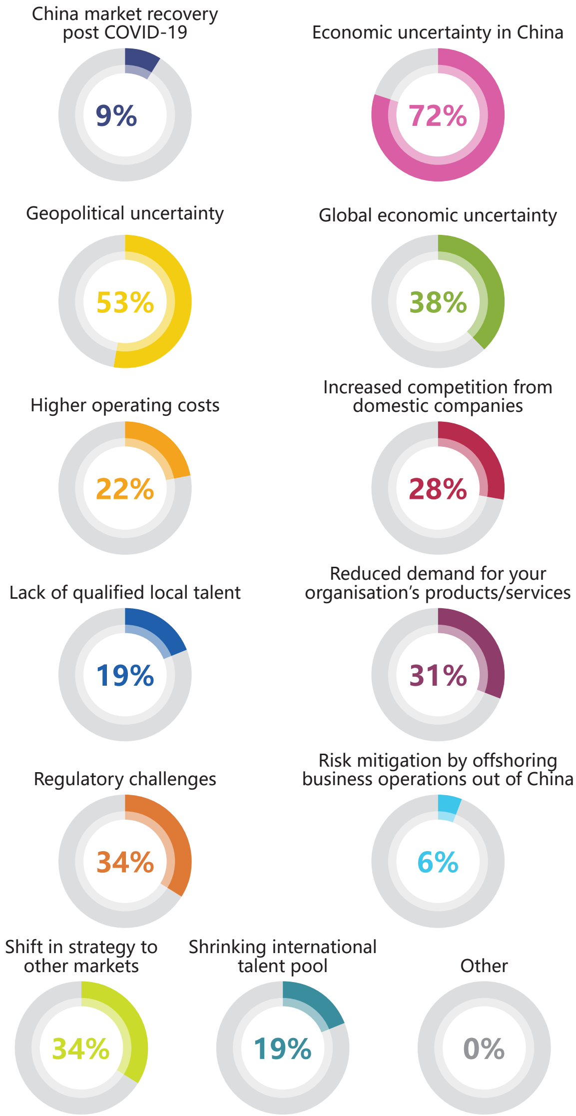
Over half of respondents (58%) increasing their investment will do so by 1-25%, with 67% of them indicating that they would be investing in expanding their operations, 55% indicating that they would invest in establishing new partnerships, and 39% planning to invest in new revenue streams.

Beijing (50%) remains the top destination for businesses looking to increase their investment, with Shanghai dropping 15 percentage points from last year to 36%, followed by Shenzhen (23%) and Guangzhou (20%). While SMEs remain more likely to increase investment in Beijing (46%) than Shanghai (29%), larger multinationals have also shifted their focus, with Beijing (64%) the preferred destination this year (up 8 percentage points) followed by Shanghai (50%, down 13 percentage points).

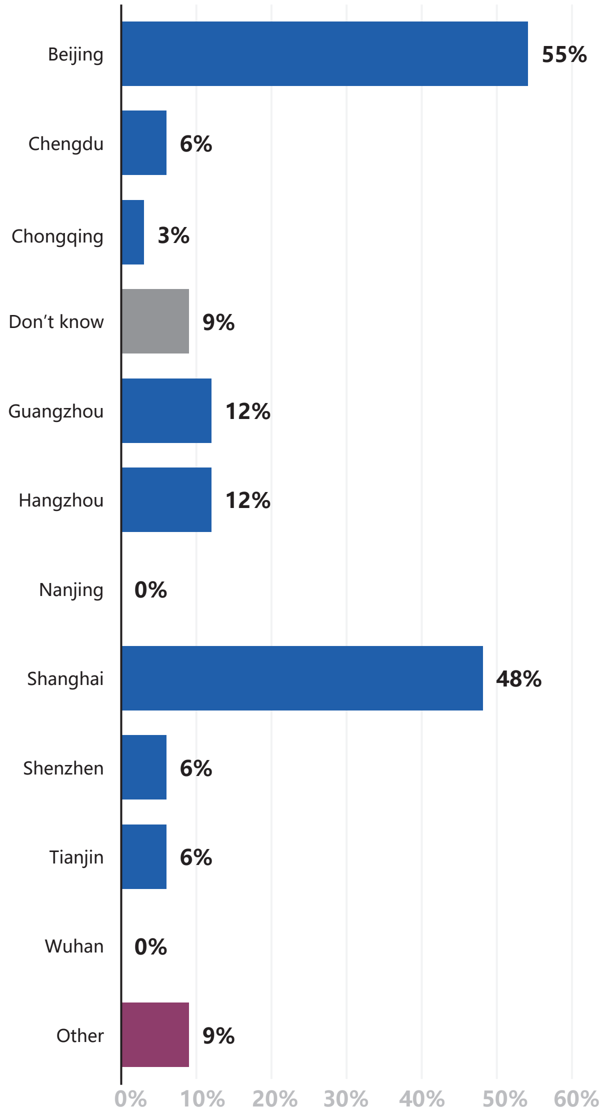
BY HOW MUCH DO YOU ESTIMATE YOUR ORGANISATION WILL DECREASE ITS INVESTMENT IN ITS OPERATIONS IN THE CHINESE MAINLAND OVER THE NEXT YEAR?



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



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

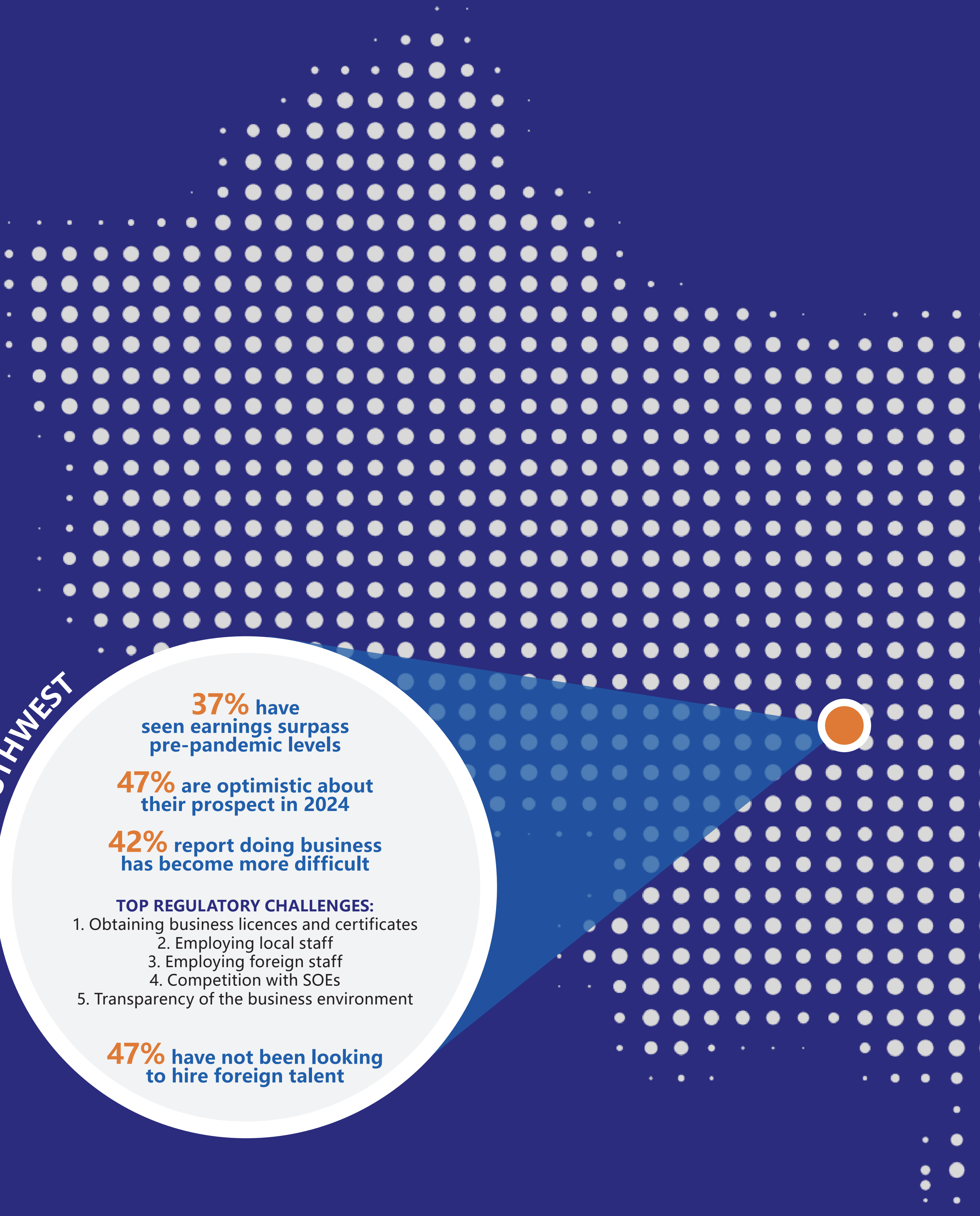


Just over one-tenth of respondents (13%) indicate that they are decreasing investment in their Chinese mainland operations. However, of those, 30% estimate that they will decrease their investment by more than 26%. The most common reasons for decreasing investment are economic uncertainty in China (72%) and geopolitical uncertainty (53%), whilst global economic uncertainty is also commonly cited (38%).

Despite Beijing (55%) and Shanghai (48%) being the top two destinations for investment, they also rank as the top two destinations for decreasing investment, along with Guangzhou (12%). For those that said they would decrease investment, large multinationals are also more likely to decrease their investment in Beijing (67%) than Shanghai (56%), while SMEs are equally likely to decrease their investment in Beijing (50%) or in Shanghai (50%).


光华桥
GUANGHUA Bridge
4m

REGIONAL BREAKDOWN



SOUTHWEST

37% have seen earnings surpass pre-pandemic levels

47% are optimistic about their prospect in 2024

42% report doing business has become more difficult

TOP REGULATORY CHALLENGES:

1. Obtaining business licences and certificates
2. Employing local staff
3. Employing foreign staff
4. Competition with SOEs
5. Transparency of the business environment

47% have not been looking to hire foreign talent

BEIJING

36% have seen earnings surpass pre-pandemic levels

47% are optimistic about their prospect in 2024

65% report doing business has become more difficult

TOP REGULATORY CHALLENGES

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

45% have not been looking to hire foreign talent

SHANGHAI

36% have seen earnings surpass pre-pandemic levels

45% are optimistic about their prospect in 2024

64% report doing business has become more difficult

TOP REGULATORY CHALLENGES

1. Navigating cybersecurity and IT regulations
2. Enforcement of laws and regulations
3. Transparency of the business environment
4. Competition with SOEs
5. Obtaining business licences and certificates
Recognition of professional qualifications

40% have not been looking to hire foreign talent

GUANGDONG

30% have seen earnings surpass pre-pandemic levels

50% are optimistic about their prospect in 2024

55% report doing business has become more difficult

TOP REGULATORY CHALLENGES

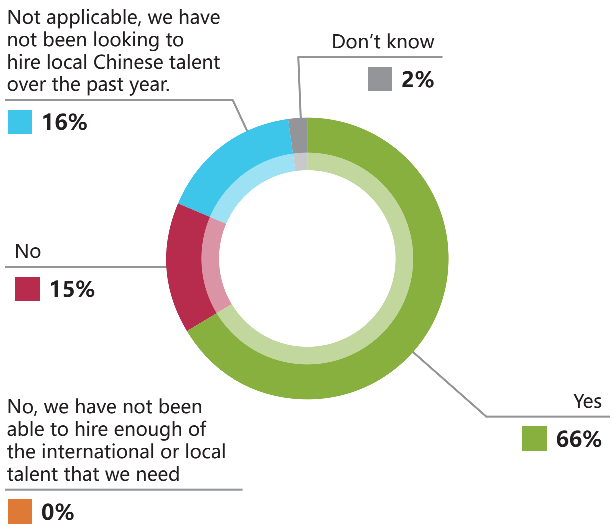
1. Enforcement of laws and regulations
2. Obtaining business licences and certificates
3. Employing foreign staff
4. Customs procedures
5. Employing local staff

50% have not been looking to hire foreign talent

5

TALENT AND INTERNATIONAL TRAVEL

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

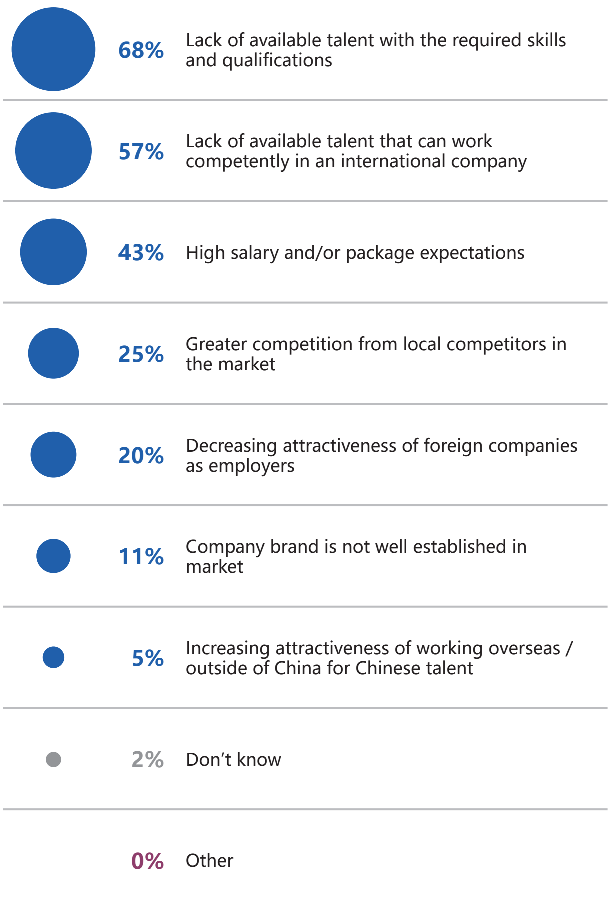


Regarding businesses' ability to find and/or retain the necessary local Chinese talent, the survey results reveal a relatively positive trend, with 66.4% of respondents affirming success in this area. This represents a 20% rise from the 46% recorded last year.

15.2% indicated challenges in this regard, which again marks a significant drop from the 37% documented last year. Such a marked improvement in the ability to find and/or retain local talent primarily reflects China's expanding talent pool. This trend follows China's easing of strict COVID measures, a surge in job seekers given prevailing economic uncertainty, and the return of Chinese nationals who had spent substantial time abroad.

However, this should not distract from the considerable number of companies (57%) who still reported difficulties in hiring talent with the necessary skills and qualifications.

WHICH OF THE FOLLOWING FACTORS HAVE IMPACTED YOUR ORGANISATION'S ABILITY TO HIRE AND/OR RETAIN THE NECESSARY CHINESE TALENT?



During the past twelve months, 15% of companies have been unable to hire the necessary Chinese talent they need. Whilst this represents a notable drop from the 37% recorded last year, it still points to certain areas of uncertainty. The main challenge cited is a lack of available talent with the required skills and qualifications (68%), followed closely by a lack of available talent that can work competently within an international company (57%). This represents a substantial increase from the 40% and

32% recorded last year, and points to a widening gap between the skills offered by the available workforce, and those demanded by British organisations. Upskilling and reskilling initiates may, therefore, be vital in overcoming this challenge.

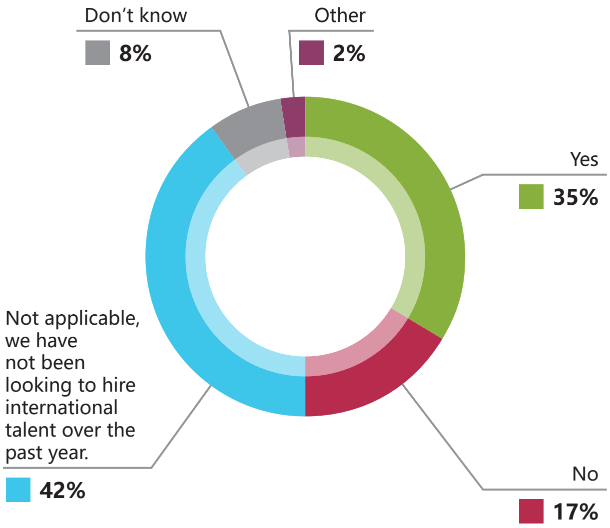
Another limiting factor identified is Chinese employees' high salary and/or package expectations (43%). This has risen from 35% last year and is perhaps indicative of employees' bolder salary expectations in the wake of COVID-19 and increased economic uncertainty. Finally, greater market competition from local firms (25%), coinciding with the decreased attractiveness of foreign companies as employers (20%), also represents a growing challenge. Foreign companies need to differentiate themselves by emphasising stability, career growth opportunities, and employee well-being to stand out in a competitive market.

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

32%	We employ foreign passport holders and have seen no real changes
20%	We do not employ any foreign passport holders
19%	There has been a net decrease in foreign employees in our organisations
15%	Don't know
14%	We have received less interest in vacancies from potential foreign hires
6%	There has been a net increase in foreign employees in our organisations
5%	We have received more interest in vacancies from potential foreign hires
3%	Other

Regarding how the situation has changed in terms of international talent over the past year, 20% of firms claim not to employ any foreign passport holders, 32% have observed no real change, 14% have received less interest in vacancies from potential foreign hires (compared to the 5% who have received more), and 19% have witnessed a net decrease in foreign employees working within their organisation. The results are less concerning than last year, pointing to a gradual shift among companies and individuals in their comfort levels concerning living and working in China. However, attitudes are clearly still tentative. The nearly one-fifth of companies which refrain from employing foreign passport holders suggests there are still barriers preventing international talent acquisition. This includes the many bureaucratic hurdles employees need to overcome, the need for language proficiency, or complexities in aligning foreign qualifications with local standards.

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



This year, 35% of respondents claimed to have found and/or retained enough of the necessary international talent to operate and/or grow their business in the Chinese mainland, a rise of around 6% from the 29% recorded last year. This is an encouraging statistic, reflecting companies' strategic agility and robustness in the face of challenges such as the economic aftermath of the pandemic. As alluded to previously, it also suggests a gradual, albeit slow, increase in China's attractiveness internationally. That being said, 17% reported that they had failed to find and/or retain enough international talent, whilst 41% had not been looking to hire at all. This reflects ongoing uncertainty, as well as potential shifts in strategic focuses within the companies surveyed.

WHICH OF THE FOLLOWING FACTORS HAVE IMPACTED YOUR ORGANISATION'S ABILITY TO HIRE AND/OR RETAIN THE NECESSARY INTERNATIONAL TALENT?

- 42% Not applicable, we have not been looking to hire international talent over the past year
- 24% Visa and/or work permit restrictions
- 22% Increasing desire of international talent to relocate to other countries or return to/remain in their home countries
- 20% Job seekers' unwilling to relocate to China
- 18% Geopolitical tensions
- 15% High salary and/or package expectations
- 13% Don't know
- 7% Decreasing availability and quality of international services in the Chinese mainland (e.g. healthcare, education)
- 2% Other

Of the factors impacting organisations' abilities to hire and/or retain the necessary international talent, visa and/or work permit restrictions were identified as the main challenge (24%), with an increasing desire to relocate to other countries or return home coming in a close second (22%). However, this figure is down significantly from last year, in which 36% of respondents reported problems, whilst it also shouldn't detract from the 26% of respondents who claimed the visa application process was straightforward. Other reasons listed include geopolitical tensions (18%), as well as high salary/package expectations (15%).

WHICH OF THE FOLLOWING ACCURATELY DESCRIBES YOUR EXPERIENCE WITH APPLYING FOR AND OBTAINING VISAS TO ENTER AND/OR WORK PERMITS TO RESIDE IN CHINA FOR FOREIGN PASSPORT HOLDERS IN YOUR ORGANISATION?

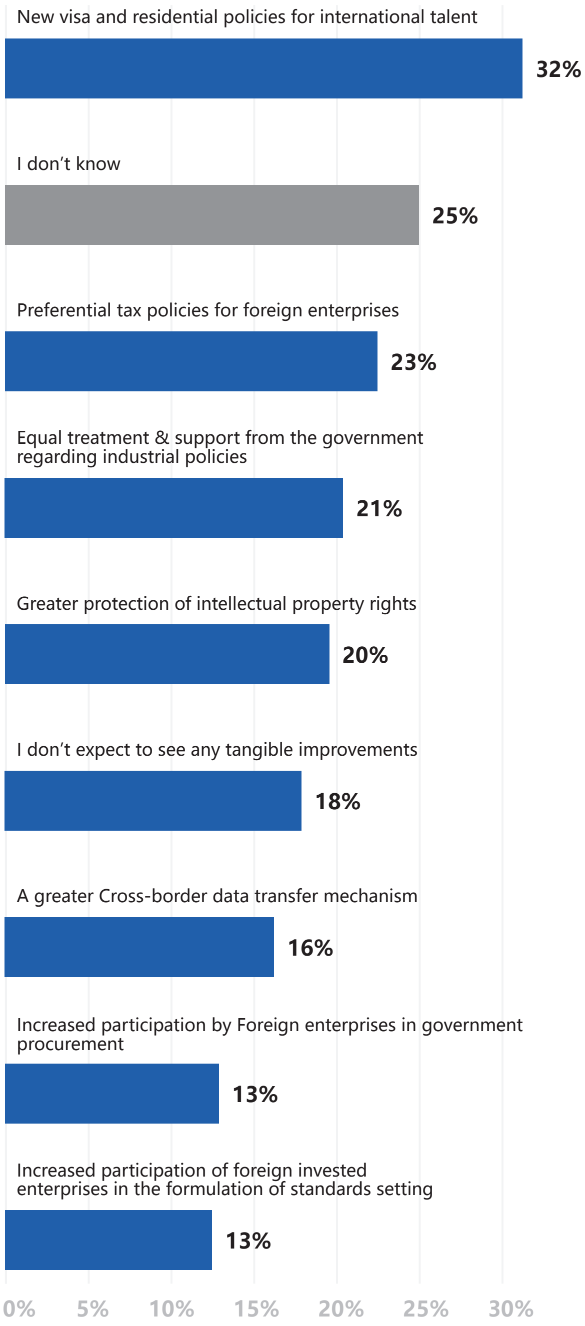
26%	Straightforward documentation requirements that were easy to navigate
26%	Not applicable (we have no experience in applying for visas to enter China for foreign passport holders)
24%	Slow preparation and processing time
21%	Complicated documentation requirements that were difficult to navigate
17%	Relatively quick preparation and processing time
17%	Clear deadlines and timeframes for approval processes
15%	Unclear deadlines and timeframes for approval processes
2%	Other

Regarding the application and approval process for a visa and/or work permit, the responses reveal a varied landscape. Approximately 26% of respondents reported a positive experience, noting straightforward documentation requirements that were easy to navigate. Conversely, 21% faced challenges with complicated documentation requirements that proved difficult to navigate. The timeframe and efficiency of the processes also demonstrated disparities, with 17% citing relatively quick preparation and processing times, whilst 24% reported slow processing times. Furthermore, 17% found clarity in the deadlines and timeframes for approval processes, whilst 15% encountered uncertainty in this regard. This data underscores a desire for policy considerations aimed at streamlining and clarifying visa application procedures to enhance efficiency and consistency for foreign passport holders seeking entry or work permits in China. There are clearly reservations about time, effort and procedural efficiency. The overall applicant experience is varied, indicating areas for improvement and greater consistency across the country in order to improve the ability for businesses to hire and retain the international talent that they need to operate effectively in the China market.

6

REGULATORY CHALLENGES

FOLLOWING THE CHINESE GOVERNMENT'S ANNOUNCEMENT OF THE 24-POINT GUIDELINES FOR ATTRACTING FOREIGN INVESTMENT THIS YEAR, IN WHICH AREAS DO YOU EXPECT TO SEE IMPROVEMENTS?



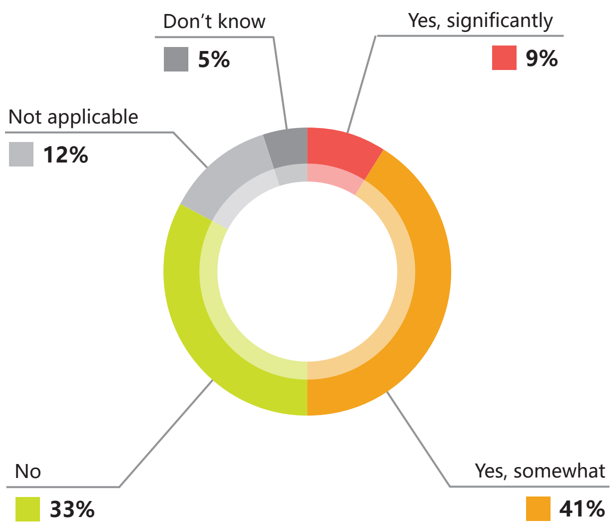
The regulatory outlook in China in 2023 has been characterised by the Chinese government being more proactive with its communication with foreign businesses in an attempt to encourage investment. August's *24 Point Guidelines for Attracting Foreign Investment* directly acknowledged a number of challenges for foreign businesses, many of which had been identified by British Business in previous Sentiment Surveys. The guidelines appear to have received encouraging responses from respondents, with 50% of them responding positively to the government's increased focus and priority on driving FDI in China.

Among the areas identified in the guidelines, visa and residential policies for international talent was identified by the highest number of respondents, with 32% selecting it. This comes as no surprise, with assistance employing foreign staff identified as the highest priority regulatory challenge in our 2022 Sentiment Survey.

A significant proportion also expect preferential tax policies for foreign enterprises (23%), highlighting the perceived importance of tax incentives. A desire for more equal treatment and support from the government regarding industrial policies was expressed by 21% of respondents, reflecting a call for fair and supportive regulatory frameworks. In addition, an expectation for greater protection of intellectual property rights was selected by 20% of respondents, underlining the importance of safeguarding innovation. Other top-five priorities from the 2022 Sentiment Survey appeared, including a notable percentage identifying increased participation by foreign enterprises in government procurement (13%) and standards setting (13%) as key priorities.

Despite this, 18% of respondents expressed a lack of optimism, with 25% admitting to not knowing what specific improvements to anticipate.

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

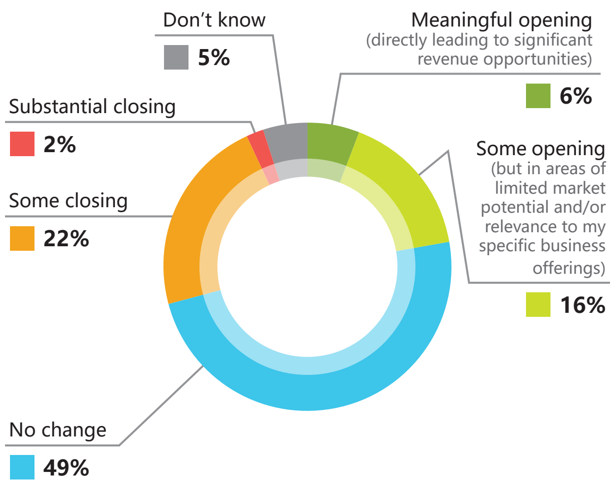


Almost half (41%) of British businesses operating in China indicate that market access barriers somewhat limit their operations in the Chinese mainland, while 9% report that these barriers significantly affect their operations. There has, however, been a decrease of 7 percentage points in the number of companies facing significant market access barriers. In line with last year's findings, one third (33%) of businesses also state that they do not encounter any limitations due to market access barriers. This reflects a relatively smooth business environment for a significant portion of respondents.

This positive trend could be attributed to enhanced government support and regulatory changes over the past 12 months, exemplified by initiatives like the *24-Point Guidelines*, creating a more favourable and supportive environment for foreign businesses. Additionally, increased collaboration through the establishment of new partnerships (which is a key driver for increased investment in the coming year, identified by 55% of companies), may be playing a role in helping companies overcome market access issues by allowing them to leverage shared strengths and resources.

Similar to last year, the ITT (77%), healthcare (53%), creative (50%), and built environment (50%) remain amongst the more restricted sectors, with the highest proportion of respondents indicating that market access barriers limit their operations in China. Meanwhile, the energy sector has seen a substantial decrease in the number of respondents reporting difficulties due to market access barriers compared to last year, dropping 26 percentage points from 66% to 40%.

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



Nearly half (49%) of British businesses reported no significant changes in terms of market openings or closings this year, further suggesting that an exit from COVID-19 has not yielded opportunities arising from such openings. Among those who did experience shifts, 22% observed some market closings with a smaller percentage (2%) facing substantial closings. On the positive side, 6% of companies reported meaningful market openings, leading to significant revenue opportunities, while 16% noted some openings of limited market potential.

All sectors reported increased market opening year-on-year, except for the ITT sector which saw a 3 percentage point decrease from 25% to 22% this year. The financial services (41%), HTTL (32%) and FBA (31%) sectors were the most likely to report market opening, likely attributable to China's reopening and increased focus on encouraging FDI and economic recovery. The retail and healthcare sectors had the lowest reports of market closing, 9% and 12% respectively, with no reports of substantial market closing. This is a substantial reversal from last year where 50% of retail businesses and 36% of healthcare businesses reported market closings, and is likely a contributing factor to high levels of optimism in these sectors. The energy sector also saw a significant increase in the number of companies reporting market opening (20%) compared to no companies reporting market opening last year. This may be attributable to China's decarbonisation drive and focus on energy security, and is likely a contributing factor to the respondents in this sector expecting higher revenues compared to pre-pandemic levels (47%) and last year (60%), and having an optimistic outlook (60%) for the year ahead.

ITT had the highest number of responses reporting market closing (44%), followed by the creative (39%), education (33%) and professional services (24%) sectors.

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

Overall

1. Navigating cybersecurity and IT regulations
2. Transparency of the business environment
3. Enforcement of laws and regulations
4. Accessing or moving company finances
5. Obtaining business licences and certificates

Healthcare

Healthcare services | Medical devices | Pharmaceuticals

1. Public procurement policy and practices
2. Navigating cybersecurity and IT regulations
3. Standards-related challenges
4. Other
5. Competition with SOEs
6. Employing local staff

HTTL

Hospitality | Travel, tourism, and leisure

1. Employing foreign staff
2. Enforcement of laws and regulations
3. Accessing or moving company finances
4. Obtaining business licences and certificates
5. Employing local staff

Energy

1. Standards-related challenges
2. Intellectual property rights protection
3. Enforcement of laws and regulations
4. Competition with SOEs
5. Navigating cybersecurity and IT regulations

Education

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

1. Enforcement of laws and regulations
2. Obtaining business licences and certificates
3. Employing foreign staff
4. Navigating cybersecurity and IT regulations
5. Standards-related challenges

Creative

Culture and arts | Media and publishing | Marketing and communications

1. Navigating cybersecurity and IT regulations
2. Transparency of the business environment
3. Intellectual property rights protection
4. Accessing or moving company finances
5. Employing local staff

Professional Services

Accounting | Business advisory and business services | Legal services

1. Navigating cybersecurity and IT regulations
2. Transparency of the business environment
3. Public procurement policy and practices
4. Taxation landscape for foreign firms and employees
5. Enforcement of laws and regulations

AMT

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

1. Enforcement of laws and regulations
2. Transparency of the business environment
3. Competition with SOEs
4. Standards-related challenges
5. Obtaining business licences and certificates

FBA

Food and Beverage	Agriculture

1. Accessing or moving company finances
2. Intellectual property rights and protection
3. Customs procedures
4. Standards-related challenges
5. Enforcement of laws and regulations

Built environment

Built environment services	Civil engineering and construction	Real estate development

1. Competition with SOEs
2. Transparency of the business environment
3. Navigating cybersecurity and IT regulations
4. Standards-related challenges
5. Public procurement policy and practices

Financial services

1. Navigating cybersecurity and IT regulations
2. Accessing or moving company finances
3. Transparency of the business environment
4. Obtaining business licences and certificates
5. Enforcement of laws and regulations

ITT

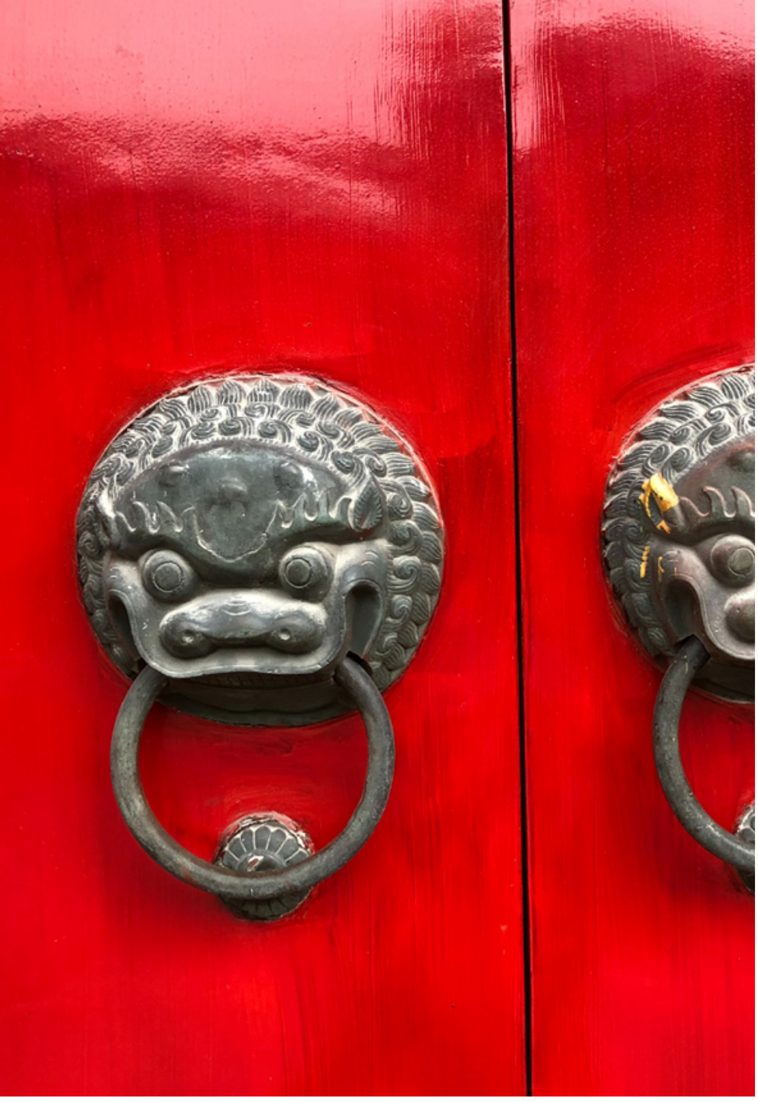
1. Enforcement of laws and regulations
2. Transparency of the business environment
3. Obtaining business licences and certificates
4. Navigating cybersecurity and IT regulations
5. Employing local staff

Retail and consumer

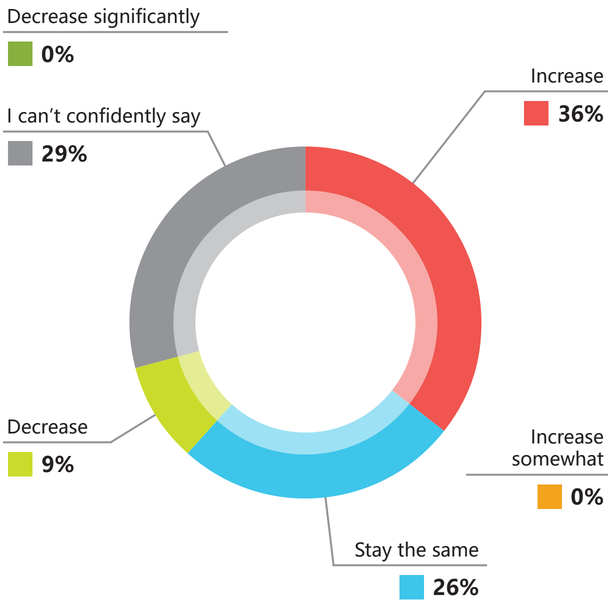
1. Navigating cybersecurity and IT regulations
2. Customs procedures
3. Obtaining business licences and certificates
4. Taxation landscape for foreign firms and employees
5. Enforcement of laws and regulations

With last year's major regulatory concerns headed by the difficulty in acquiring foreign talent amid lockdowns associated with COVID-19, there was an expectation for different responses across sectors this year. Navigating cybersecurity and IT regulations is now the top priority among British business respondents (rising two positions, from third last year), with retail & consumer, ITT, professional services and the creative sector all listing it as the number one priority. 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.

Transparency of the business environment remains the second biggest concern for British businesses. This indicates a continued concern regarding clarity and fairness in the business environment as British businesses perceive. This is despite transparency being listed in the *24 Point Guidelines for Attracting Foreign Investment.* It shows that this will be a core area of focus among British businesses in 2024, with consideration needed over the implementation of the new guidelines and how it may alleviate these concerns.



HOW DO YOU EXPECT THE NUMBER OF REGULATORY OBSTACLES YOUR COMPANY IS FACING IN THE CHINESE MAINLAND TO CHANGE OVER THE COMING 5 YEARS?



When asked about the longer term outlook for the regulatory landscape, the plurality of respondents (36%) anticipate an increase in regulatory obstacles over the next 5 years, with only 9% expecting a decrease. MNC respondents were more likely to expect facing increased regulatory obstacles in the coming 5 years, than SMEs (48% for MNCs, versus 35% for SMEs). This is perhaps unsurprising given that many regulations have stricter compliance processes that need to be followed in larger corporations, meaning that MNCs are more likely to face regulatory obstacles than SMEs.

From a sectoral perspective, the creative (59%) and ITT (56%) sectors were most likely to be pessimistic in their outlook, expecting an increase in regulatory obstacles over the next five years. This is unsurprising given these two sectors had both the highest proportion of respondents indicating that market access barriers limit their operations in China (50% creative, 77% ITT), and the highest number of responses reporting market closings over the past 12 months (39% creative, 44% ITT). Whilst financial services, FBA, and energy sectors are all more likely to expect regulatory obstacles to remain the same over the coming 5 years, companies in the built (47%) and retail (55%) sectors most commonly indicated that they were not in a position to confidently say. The complexity and, at times, volatile nature of the regulatory environment in China is no doubt a driving factor in the diverse range of outlooks for the next five years.

Enforcement of laws and regulations moves up one spot, as the third biggest challenge for British businesses in China this year. Whilst it is the second biggest challenge facing large multinationals, it is the fourth most severe challenge facing SMEs. It is also the most serious challenge for companies in education, AMT, and ITT, likely due to the increasing regulatory scrutiny that exists in these sectors.

Accessing or moving company finances is ranked as the fourth most severe challenge, moving up one spot from last year. It is the top challenge for companies in the FBA sector, and the third biggest challenge facing SMEs. This is likely linked, in part at least, to the financial impact of the COVID-19 pandemic and the need to move finances to respond to reopening.

Finally, obtaining business licences and certificates enters the top five challenges this year as the fifth most severe challenge facing British businesses in China. It is the second most severe challenge facing businesses in the education sector, likely due to the increasing scrutiny of international schooling and English language classes.

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

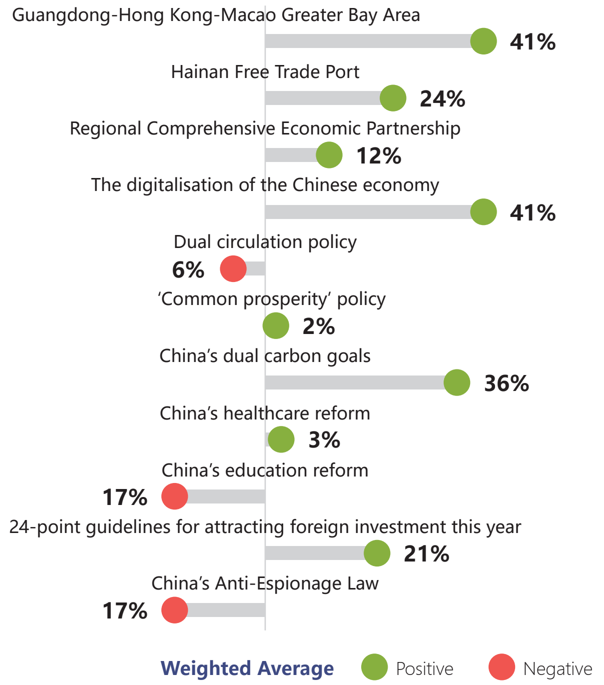
26%	Not applicable — we are not affected by China's cyber and data security regulations
18%	We have minimised or are minimising our cross-border data transfers and activity
17%	Restrictions on cross-border data transfers have lowered operational efficiency
15%	Lack of clarity over key concepts has reduced confidence in the business environment
15%	We are localising or in the process of localising our data in response to regulatory changes
15%	Increasing difficulty in accessing online resources located outside of the Chinese mainland
12%	We have more regulatory clarity and are able to implement processes and strategies to ensure compliance
11%	Limited impact
11%	Don't know
10%	Financial impact due to increasing costs in ensuring compliance
9%	Restrictions on cross-border data transfers have negatively impacted R&D and innovation
8%	Increased customer preference for local solutions
5%	We have more regulatory clarity and are now able to operate more efficiently
4%	Increased clarity over key concepts has increased confidence in the business environment
2%	Financial impact due to costs savings due to more clarity around compliance
1%	Other

A notable proportion of businesses (26%) report that China's cyber and data security regulations are not applicable to their operations, with companies in the FBA (47%) and HTTL (42%) sectors being most likely to report as such. Conversely, companies in the ITT sector, healthcare, and financial services were more likely to report being affected by these regulations. This is unsurprising considering the intensive collection and transfer of data prevalent in these sectors, such as clinical research activities in the healthcare sector.

For those affected by China's cyber and data security regulations, 12% have gained regulatory clarity in 2023, facilitating the implementation of processes for compliance. This is particularly notable for the built environment sector, where this was the second most common response, as well as the creative industries, where 17% respondents answered as such. Despite some reports of increased regulatory clarity, 18% of businesses report they are minimising cross-border data transfers, citing concerns over operational efficiency. This is particularly the case for those aforementioned sectors which reported being affected by these cyber regulations – ITT (44%) and healthcare (38%) – as well as the energy (33%) sector. 17% of the total state that restrictions on such data transfers have hampered operational efficiency. Localising data in response to regulatory changes is observed among 15% of respondents, and is higher than average among the professional services (25%), energy (20%) and AMT (20%) sectors. Challenges persist as a result of these evolving regulations, with 15% of British businesses expressing reduced confidence in the business environment due to a lack of clarity over key concepts.

Financially, 10% report a negative impact as a result of increased compliance costs – in particular firms from the energy sector (20%) – while 9% note adverse effects on R&D and innovation due to cross-border data transfer restrictions. However, it is important to highlight that each sector is distinct and therefore report facing its own particular challenges: for example, the education sector, where the most common response (19%) was that Chinese data regulations only posed a lĭmited impact' on operations in the past 12 months, saw roughly the same amount (18%) claiming that they were finding it harder to find online resources from outside the Chinese mainland. Thus, whilst this issue is dominated by data-intensive industries finding challenges with exporting Chinese data internationally, some also find issues with accessing international information from within China.

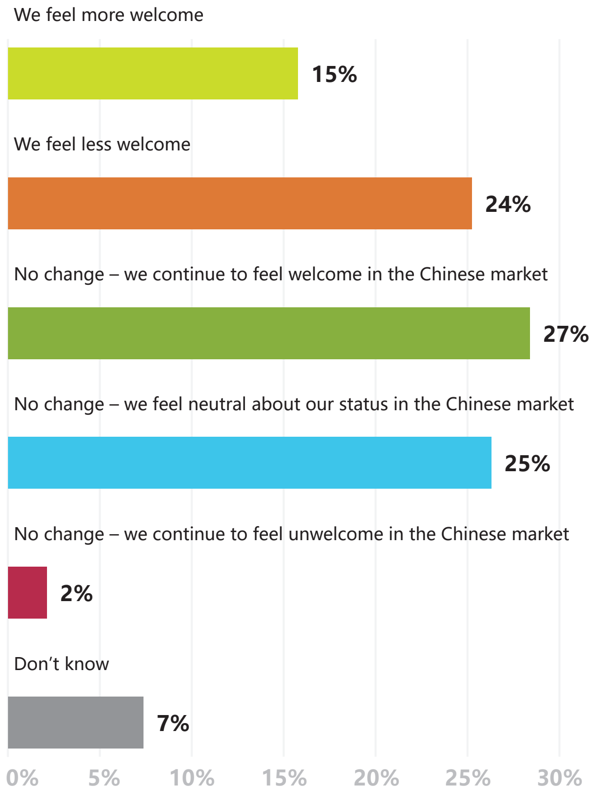
WHAT IMPACT HAS CHINA'S DEVELOPMENT OF THE FOLLOWING POLICIES OR INITIATIVES HAD ON YOUR ORGANISATION'S ABILITY TO MAINTAIN AND GROW YOUR BUSINESS IN THE CHINESE MAINLAND OVER THE PAST YEAR?



The Guangdong-Hong Kong-Macao Greater Bay Area continues to be viewed very positively by British businesses this year (44%), although this has been overtaken by China's digitalisation drive (45%) this year. Unsurprisingly, companies in the ITT (83%) and financial services (81%) sector are the most positive about the digitalisation of the Chinese economy, followed by companies in the energy (60%), FBA (56%), and professional services (55%) industries. Companies in the built environment (72%) and professional services (64%) sectors are most likely to view the Guangdong-Hong Kong-Macao Greater Bay Area positively, whilst companies in energy (70%) and built environment (69%) are most positive about China's dual carbon goals.

China's anti-espionage law, which has sparked discussion in international media over the past year, is viewed most negatively by companies in the ITT (50%), professional services (43%) and financial services (30%) sectors. This is unsurprising given the perceived enhancement of scrutiny of these sectors under that regulation. Responses to initiatives like RCEP and China's education reform are mixed, with 16% and 26% expressing positive and negative sentiments, respectively. Education companies (50%) and those in the creative sector (24%) are most concerned with China's education reform.

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?



Approximately 15% of respondents expressed feeling more welcome in the Chinese market over the past year, signalling a positive change in the overall business environment. A plurality of respondents (27%) reported continuing to feel welcome in the Chinese market, with the F&B (40%) and AMT (29%) sectors leading this positive attitude, whilst 25% took a neutral stance on their status within the Chinese market.

Perhaps more concerning, however, is that a large proportion of respondents (24%) reported feeling less welcome, suggesting clear concerns with regard to inclusivity and the fostering of an equitable and supportive business landscape. The situation seems especially acute for the ITT sector, with 44% of respondents feeling less welcome than the previous year, as well as for professional services, where one-third of respondents claimed to feel less welcome.

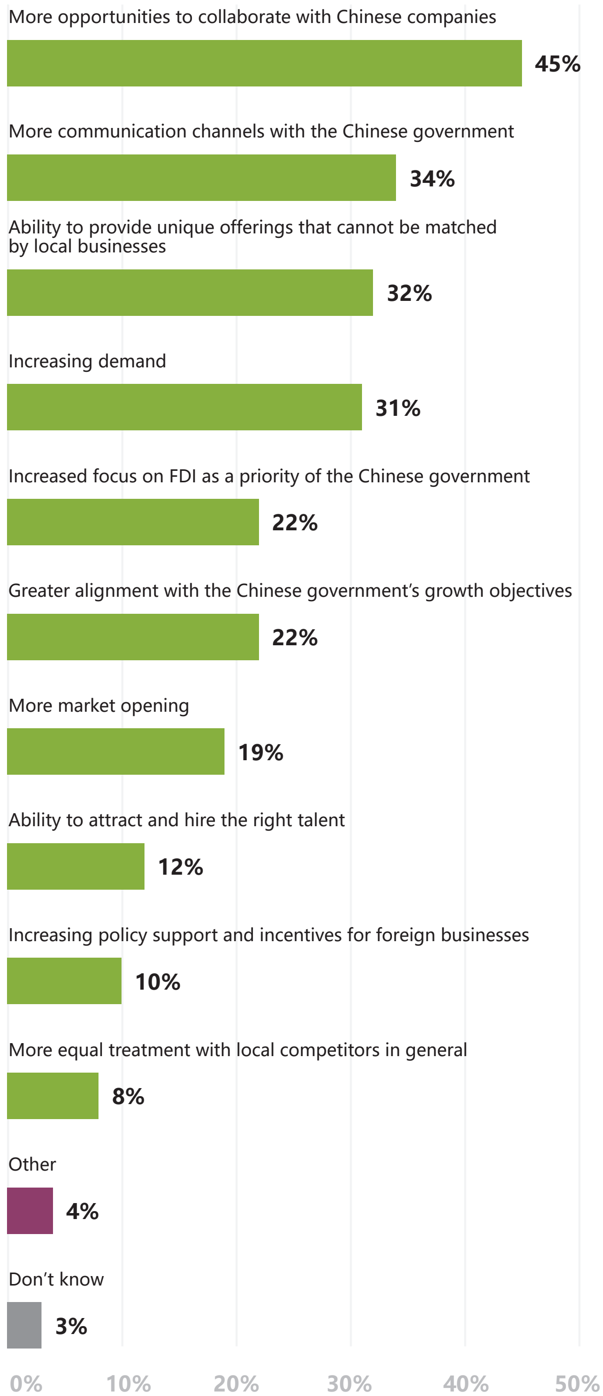
The data reflects a diverse range of experiences among foreign businesses. Whilst there is clearly a section of respondents who feel confident about the trajectory of the Chinese market, there are also significant prevailing concerns raised by those who feel less welcome.

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

The main factors cited for why organisations felt less welcome or unwelcome included a lack of policy support (47%), as well as an increasing trend towards local protectionism (47%). This suggests that, in addition to companies continuing to contend with regulatory challenges, there is an increasingly perceived shift towards favouring local businesses. Other concerns raised included difficulties in forming partnerships with Chinese companies (17%), challenges in talent acquisition (20%), and the rise of local alternatives (23%). Unequal treatment compared to Chinese companies in general (33%) and limited communication channels with the government (31%) also contributed to perceived unwelcomeness.

For energy and health companies, the driving factor behind feeling less welcome or unwelcome was attributed to an increasing number of local alternatives, suggesting the government is perhaps making headway with regards to indigenising these industries and reducing its reliance on foreign imports. This would align broadly with the goals of the 14th Five Year Plan, initiated in 2021 and running up until the end of 2025. Meanwhile, ITT and professional services companies earmarked a lack of policy support as their chief concern. This reiterates the point made above, that companies want rhetoric to be turned into concrete and actionable legislation. *The 24 Point Guidelines* announced earlier this year could be seen as a step in the right direction in this regard. Finally, companies from the financial services industry cited a lack of communication with the Chinese government as their primary issue.

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



Increased opportunities for collaboration with Chinese companies (45%), an improvement in communication channels with the government (34%), and unique offerings that could not be matched by local businesses (32%) are all primary factors for why businesses reported feeling more welcome or welcome in the Chinese mainland. Respondents also noted increased demand (31%), greater alignment with the government's growth objectives (22%), as well as a growing focus on FDI as a government priority (22%).

Increased opportunities for collaboration with Chinese companies signals recognition of the government's attempts to foster international partnerships and harness external expertise in the aftermath of COVID-19. Joint venture formations are cyclical: falling during economic downturns but growing during growth periods.[2] It is clear that businesses recognise a chance for collaboration now that restrictions have been lifted. Meanwhile, improved communication with the government, alongside greater alignment with its growth objectives, points to a potential shift in the way foreign businesses are perceived in China. The relationship is clearly becoming more symbiotic, with a willingness to understand and adapt to each other's priorities and objectives. This signifies a departure from previous paradigms where foreign businesses may have operated more independently or with less integration into China's broader economic strategy. There is now a discernible inclination toward mutual cooperation and a shared understanding of goals.

On a sector-by-sector level, AMT, financial services and professional services, as well as energy identified more opportunities to collaborate with Chinese companies as their primary explanation. Meanwhile, the food and beverage industry, alongside healthcare, labelled increased focus on prioritising FDI as their chief factor. This coincided with a general consensus throughout that communication channels with the government had improved.

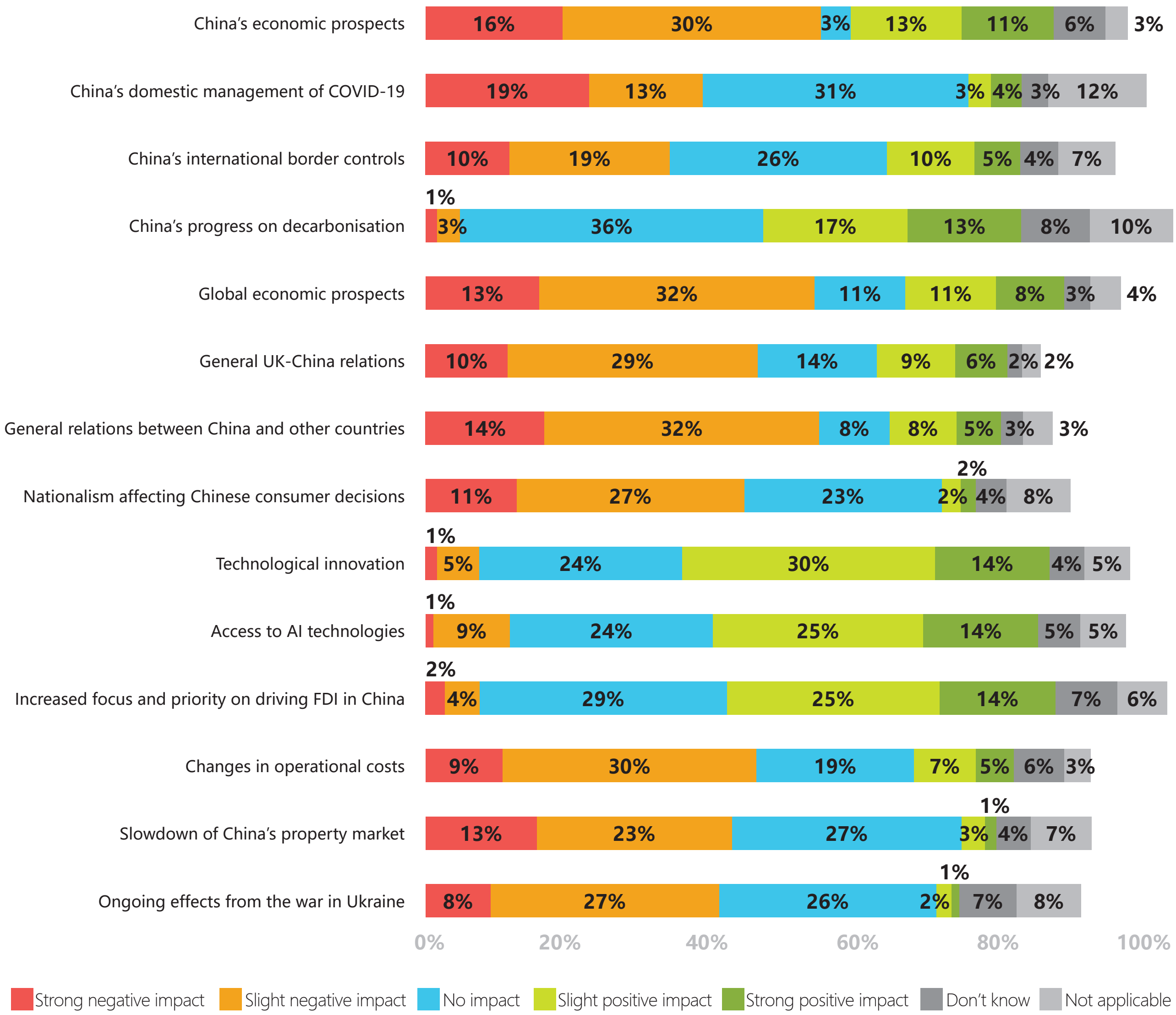
2 Deloitte, Sino-Foreign Joint Ventures after COVID-19: What to expect?


重庆你好
世界你好
中国平安
SOMERSET
WESTIN
洪崖洞

7

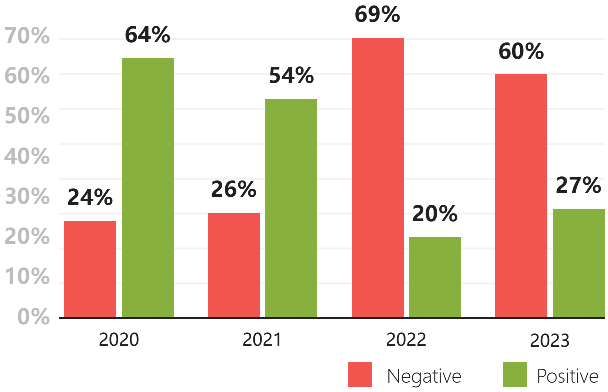
POLITICAL AND ECONOMIC TRENDS

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



This year saw a continuation of economic rather than geopolitical tensions being identified as the highest concern. Notably, China's economic prospects (16%), management of COVID-19 (19%) and global economic prospects (13%) were three of the four most impactful areas this year, with the inclusion of COVID-19 post-pandemic suggesting that many respondents are still facing issues recovering in 2023.

Despite China's reopening in 2023, British business showed a hesitancy towards the political and economic outlook facing the country. 60% of businesses were negative about the impact of the Chinese economy, which despite having decreased from last year's 69%, is still double that of both 2021 (26%) and 2020 (24%). This suggests that after three years of uncertainty surrounding the pandemic, British businesses are still negative around some of the key economic issues facing their China operation and there is yet to be a rebound towards the positivity seen in previous years. The impact of the slowdown in the Chinese property sector continues to be identified as a cause for concern, with 55% of respondents suggesting it has been either negatively impactful or that it is of concern.



On geopolitics, the hesitancy of respondents was also clearly apparent. There continues to be a sizable number of British businesses concerned with China's relationship with the UK and other countries, with 59% of respondents identifying the former as negative and 51% identifying the latter. Whilst these represent ongoing uncertainty among businesses, there has also been a notable increase in positivity surrounding both relationships, with 23% positive about UK-China relations and 21% positive about Chinese relations with other countries, both more than doubling on last year's figures. Additionally, as Russia's war in Ukraine enters its second year, respondents suggested that it is having an increasing impact on operations, with 55% answering negatively compared to 45% in 2022. This suggests that companies still see geopolitical issues as an inherent risk, but that there have been some positive reactions to a year where communications have restarted following the COVID-19 pandemic.

British businesses continue to see opportunity in the Chinese market in key innovative fields and have responded well to Chinese policies to attract foreign investment. 55% of respondents saw technological innovation as an area of opportunity, with 52% identifying AI and 39% listing decarbonisation. The Chinese government has been notably more focused on driving foreign direct investment this year, with British business responding well. 50% of businesses saw these moves as positive, with 63% of MNCs listing it as so. This figure seems particularly high when compared to the 2020 Foreign Investment Law, which was only viewed positively by 21% of respondents in our 2019-20 Sentiment Survey and 15% in our 2020-21 one.

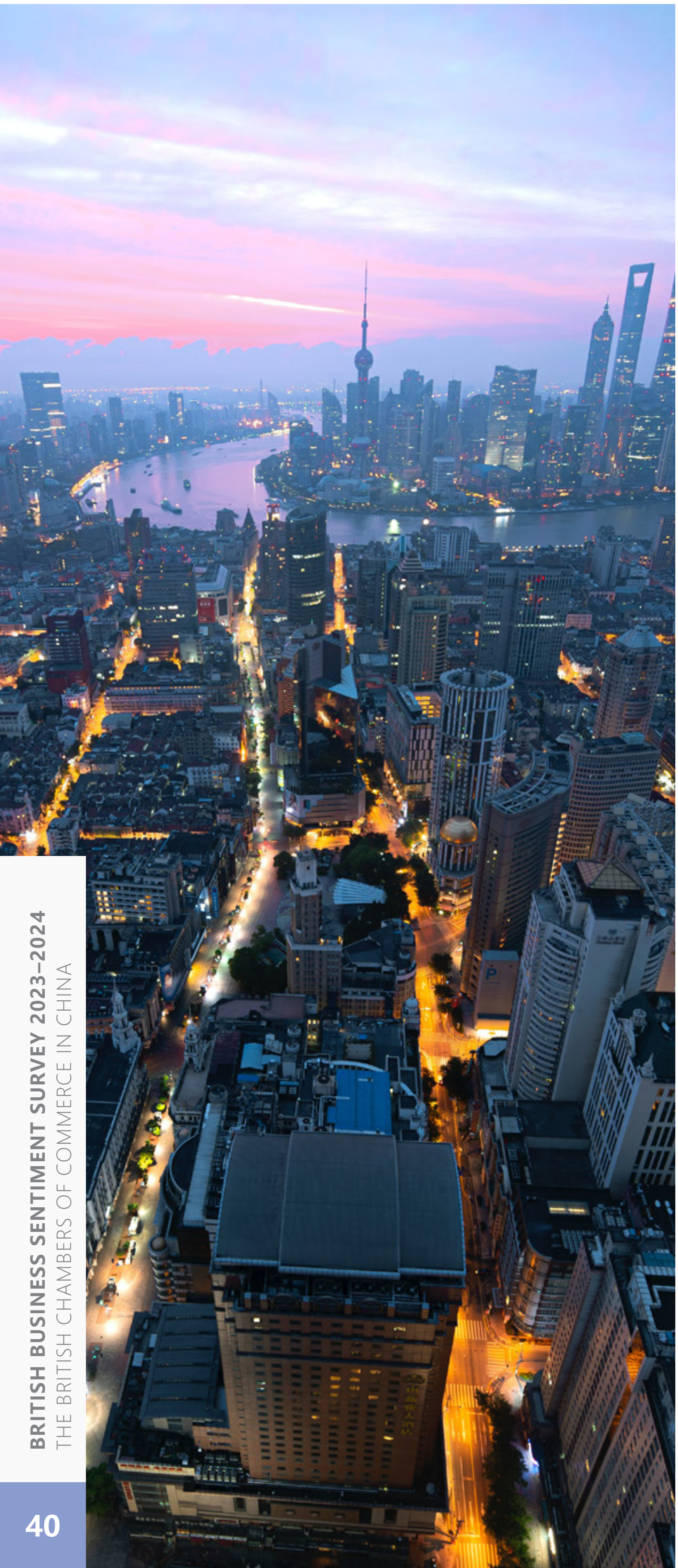
WHAT IMPACT HAVE GEOPOLITICAL TENSIONS INVOLVING CHINA HAD ON YOUR BUSINESS OPERATIONS WITHIN THE CHINESE MAINLAND OVER THE PAST YEAR?

Having established that British business is less willing to commit to new investments in the longer term, consideration for geopolitical influence as a core factor is necessary. Given this, the fact that geopolitical concerns identified by respondents focused on unpredictability surrounding trade policies, supply chains and the economy is telling for the current business outlook.

42% of respondents singled out the unpredictability of other countries' trade policies towards China as having impacted business operations, with 35% identifying uncertainties around global and/or local supply chains.

Related to this, concerns around compliance and costs relating to sanctions have also been identified as an issue by 22% of respondents. The impact of this uncertainty appears to lie in business operations, with 16% identifying difficulty communicating between global offices, 26% of respondents delaying investment decisions in China and 19% decreasing investment as a result.

Politics also continues to impact business in similar ways, but there were also increasing concerns from a consumer perspective. From a consumer perspective, there was also concern about a decreased demand for products and services, with 35% identifying this as a concern, including 42% of respondents in South East China, who selected it as the most important issue.



HOW HAS CHINA'S REOPENING POST COVID-19 IMPACTED YOUR ORGANISATION'S OPERATIONS IN THE CHINESE MAINLAND?

China's reopening this year has brought with it positivity for British business, after last year saw four in five UK businesses being impacted by global travel disruptions surrounding government policies to contain the spread of COVID-19. The majority of this positivity is rooted in increased travel and interaction, with 61% identifying increased global business travel, 53% identifying increased domestic business travel and 42% identifying increased people-to-people interactions as the main benefits. Interestingly, far fewer respondents identified more certainty around business plans or increased demand for products as key benefits, with only 25% of respondents identifying them respectively.

WHAT IS YOUR ORGANISATION'S OUTLOOK FOR UK-CHINA RELATIONS OVER THE NEXT YEAR UNDER THE NEW UK GOVERNMENT?[3]

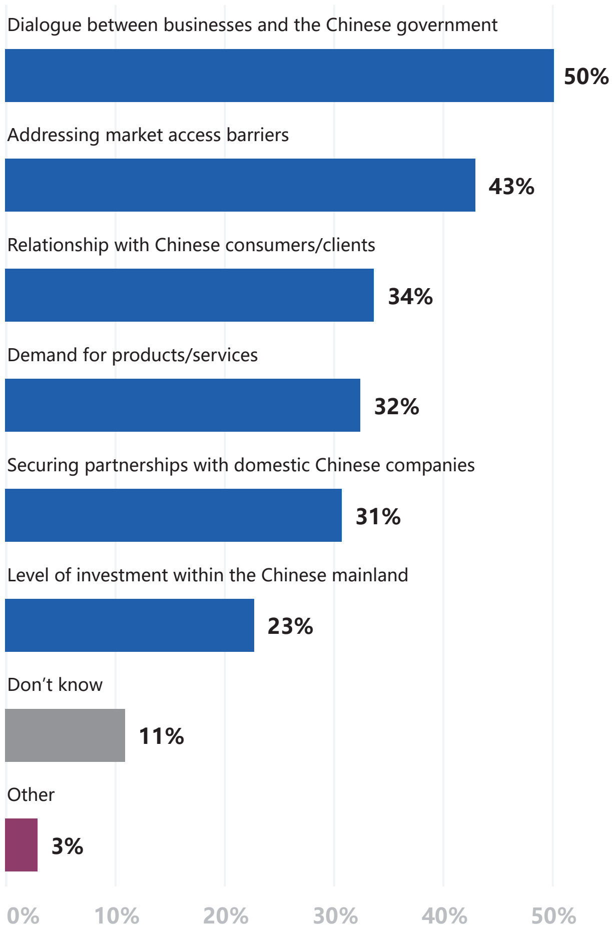
The outlook of British business on UK-China relations for the coming year continues the underlying trend of uncertainty alluded to in previous questions, with only 43% of respondents declaring a positive or negative opinion and the rest answering "neutral" or "don't know". This is consistent with the responses recorded last year following Liz Truss's resignation, showing that British businesses are still not clear on where Britain stands on China under the

3 In the 2022 Sentiment Survey, 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.

premiership of Rishi Sunak. With Sunak abruptly shifting the positions of two ministers who had visited China in 2023, Thérèse Coffey and James Cleverly, this uncertainty is likely to persist at least until the next election. Despite this, optimism has risen 13 percentage points since last year, with 21% now optimistic about the relationship rather than 8% last year.

2024 will likely be a pivotal year for relations between the West and China, with major elections likely in the United Kingdom, European Union and United States and political tensions potentially on the line. This is likely a key driver behind businesses "treading water", with many showing limited ambition and delaying key decisions on the Chinese market for the time being. With this in mind, it will be important that future administrations can provide clarity around respective China policies.

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?



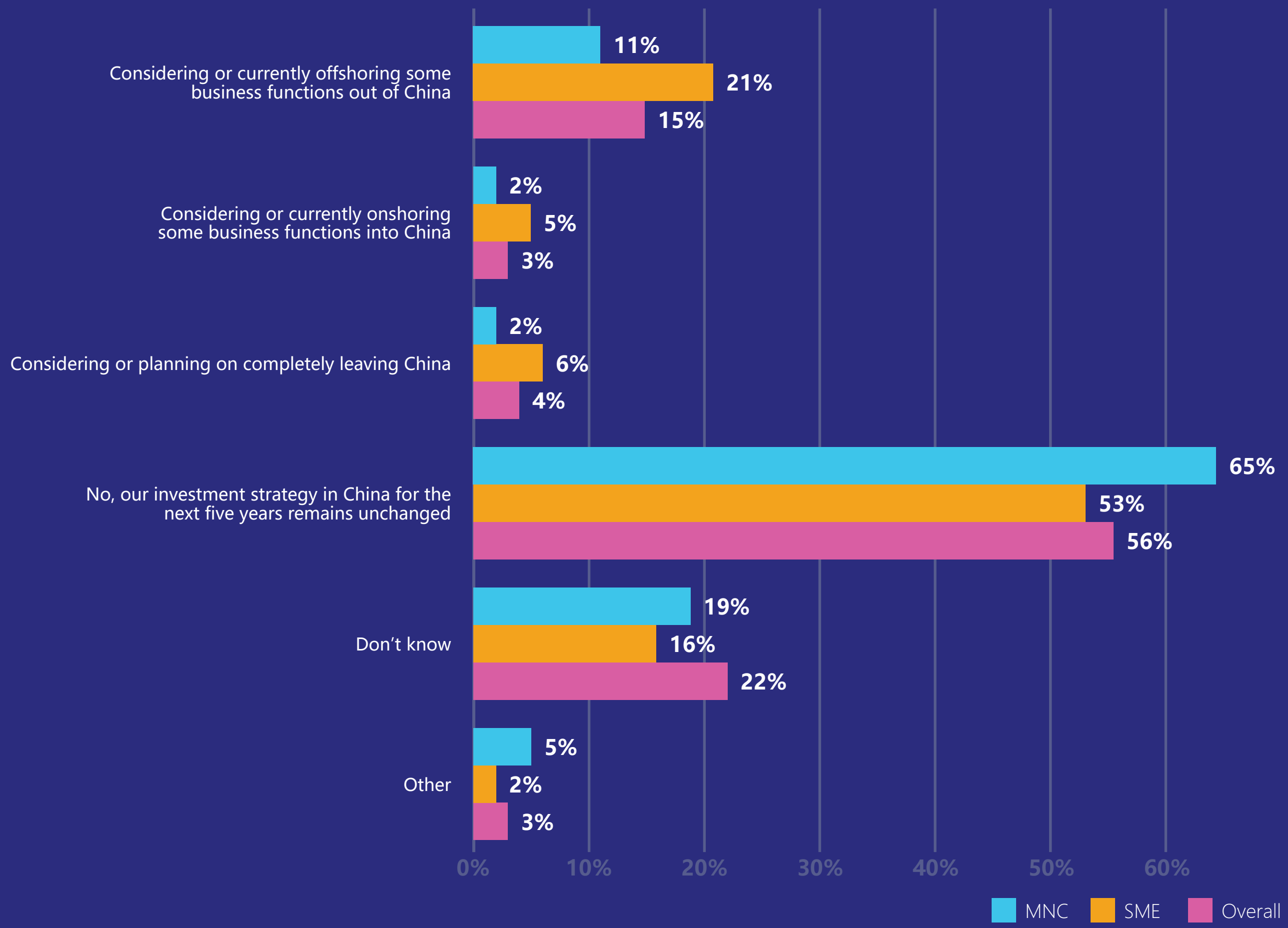
British companies continue to see interaction between businesses and the Chinese government as a key area that can be facilitated by UK-China government-to-government dialogue, with 50% of respondents indicating this as being the most influential for their business operations. The next biggest area was facilitating market access, which was identified by 43% of respondents. Understandably, the FBA sector suggested the relationship with Chinese consumers and customers as most important, with 53% of respondents noting it as important.

HAVE ANY EVENTS THAT TOOK PLACE IN THE UK IN THE PAST 12 MONTHS IMPACTED YOUR CHINA OPERATIONS AND/OR OUTLOOK?

When given a list of 2023 key UK events that may have impacted China operations, 55% of respondents said they did not have an impact on operations, with another 13% being unsure. Of those who responded, the majority identified former Foreign Secretary James Cleverly's visit to China, the UK's status as the country of honour at CIFTIS and Rishi Sunak's meeting with Premier Li Qiang as having been impactful. Of the negative areas of impact, most respondents referred to Rishi Sunak's definition of China as an epoch defining challenge as the most negative incident in the past 12 months.

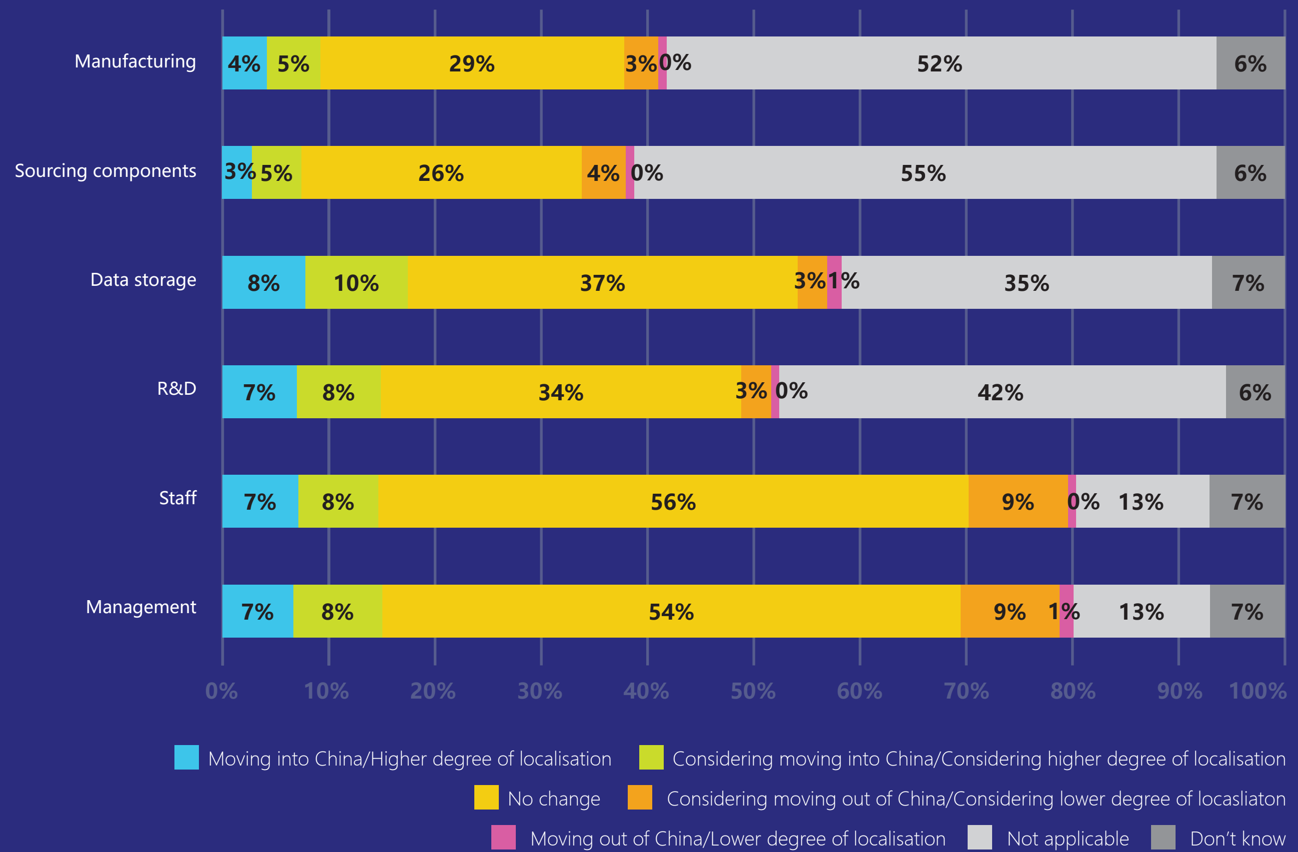
LOCALISATION AND DIVERSIFICATION

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



The majority of British companies (55%) remain committed to their existing investment strategies in China over the next five years, a four percentage point increase from last year. This is highest among companies in the healthcare (75%) and financial services (80%) sectors. A pandemic trend towards offshoring business functions out of China has decreased from last year, with only 15% of businesses considering or actively pursuing it, down from 19% in 2022. The number of businesses contemplating a complete withdrawal from the Chinese market has also reduced from 7% to 4%. However, an alarming 6% of SMEs are considering pulling out of China, with another 21% looking into offshoring functions away from the country. For MNCs, these figures stand at 2% and 11% respectively. The industries most likely to be considering leaving China are creative (27%), AMT (23%), and professional services (22%). Whilst offshoring out of China seems to be on the decline after the pandemic, it is noteworthy that onshoring into China also decreased by three percentage points from last year. The landscape is characterised by a notable portion of 22% who remain undecided about their future investment strategies, highlighting the complexities and uncertainties in decision-making processes.

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



The majority of companies are holding steady with their current plans for major business functions. However, those that are considering adjustments are navigating a complex interplay of localisation and diversification. Notably, a significant trend towards localisation of data storage has continued, with 17% of British businesses either moving or considering moving these functions into China. This is likely in response to the stringent data protection and security regulations in the country. The proportion of MNC respondents considering or currently localising data storage (17%) is significantly greater than that of SMEs (6%).

Chinese plans to attract investment in R&D appear to have been a success, with an increasing number of companies (8%) considering it. This is more prominent among companies in healthcare (25%), F&B and energy (20%), suggesting a rise of status of China as a R&D centre in those sectors. A strategic shift towards localising operations in manufacturing was observed, with 20% of businesses in energy and 26% of businesses in F&B either considering pressing forwards with high degrees of localisation into China.

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

The top three reasons for the change in your organisation' s future investment strategy in the Chinese mainland

RANKING	SME
1	China's economic prospects
2	Geopolitical tensions
3	Global economic prospects

RANKING	MNC
1	China's economic prospects
2	Global economic prospects
3	Geopolitical tensions

The top three reasons for considering or currently onshoring some business functions in China/ higher degree of localisation

RANKING	RESPONSE
1	Implementation of risk management strategy
2	China's economic prospects
3	China's move towards greater self-sufficiency

The top three reasons for considering or currently offshoring some business functions out of China/ lower degree of localisation

RANKING	RESPONSE
1	Geopolitical tensions
2	China's economic prospects
3	Changes in China's regulatory environment

The top three reasons for considering or currently planning on completely leaving China

RANKING	RESPONSE
1	Geopolitical tensions
2	China's economic prospects
3	China's move towards greater self-sufficiency

Whilst China's economic prospects are the main factor in determining long-term strategies for businesses in the country, geopolitical conditions are the main determinant of companies leaving. 73% of MNC respondents viewed China's economic prospects as the main factor in determining long-term strategies, with 40% also calling out global economic prospects as one. Despite this, among businesses that are either currently actively offshoring or leaving the Chinese market, geopolitical tensions is the most important reason. This shows that while economic concerns are driving long term decisions in China, geopolitical issues are still impacting decisions to shift processes out of the country.

Interestingly, an emphasis on risk management strategies has also been highlighted by 35% of respondents as the top reason for onshoring. This highlights that businesses may be focusing on economic rather than political risk when considering the implications of not being involved in the Chinese market.

There has also been a positive response to regulatory changes by the Chinese government. Financial services providers (75%) and healthcare businesses (50%) both cited changes in China's regulatory environment as a key influence for increasing investment.

The trend towards China's self-sufficiency acknowledged by 33% of energy companies further exemplifies the diverse array of considerations impacting business strategies in the Chinese market. Notably, China's move towards greater self-sufficiency was top drivers for both leaving and onshoring considerations, as businesses might have mixed expectations on their inclusion in the self-sufficiency movement.

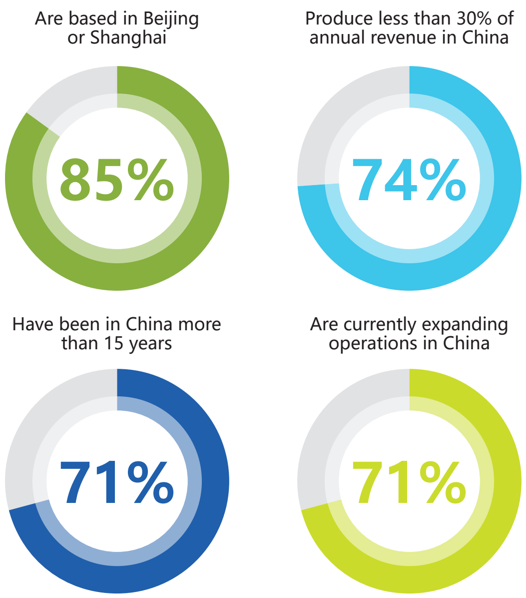
8

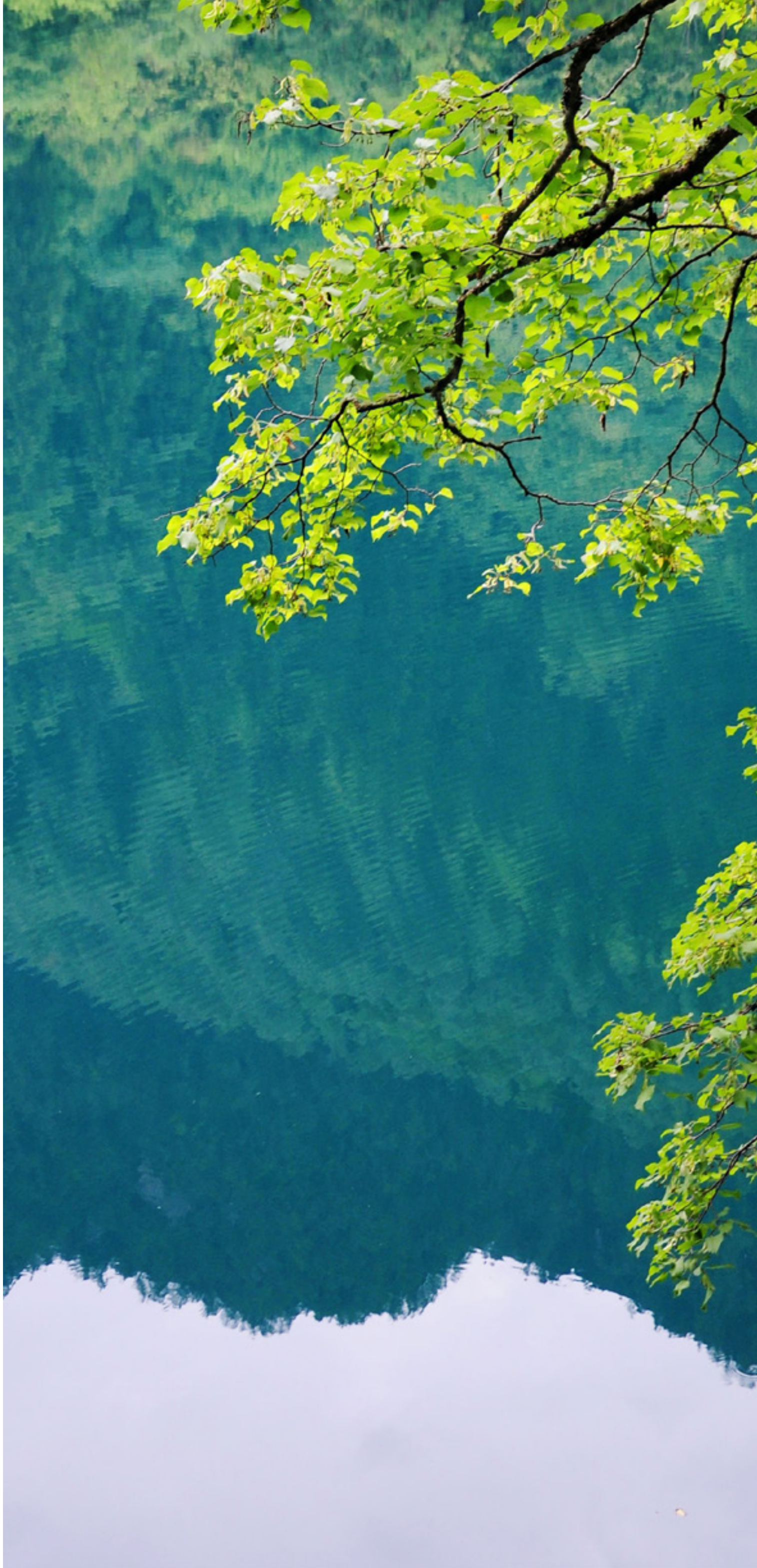
SUSTAINABILITY

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

On sustainability, responses point to a continued gradual increase in the number of businesses with a decarbonisation strategy. 30% of companies had decarbonisation strategies, up from 20% last year, with 42% still claiming not to have one. The data shows a strong divide based on organisational size: 60% of MNCs report having a decarbonisation strategy, in comparison to only 20% of SMEs. When looking at the average company with any type of emissions strategy, they would most likely: principally be located in Beijing or Shanghai (85%); produce less than 30% of their annual revenue in China (74%); have been in China for more than 15 years (71%); be currently expanding operations in China (71%); and be more concerned with geopolitical issues than economic ones. This is reflective of the fact that many SMEs have fewer resources to commit towards one.

OF ALL RESPONDENTS WHO HAVE A DECARBONISATION STRATEGY:





Business advisory, energy and manufacturing sectors made up the largest proportion of respondents with a decarbonisation strategy, with 80% of energy companies having a strategy. This comes as little surprise, with those industries under the most pressure internationally to reduce emissions as the global economy searches for less harmful and more sustainable energy sources and manufacturing methods. Businesses in the creative industries are the least likely to have devised a strategy to reduce carbon emissions, with 59% not having one.

9

R&D AND UK-CHINA COOPERATION

WHAT IS THE BIGGEST AREA OF OPPORTUNITY FOR CHINA IN TERMS OF DEVELOPING RESPONSIBLE SUPPLY CHAINS?

Regarding the development of responsible supply chains within China, the biggest areas of opportunity identified by British companies were the reduction of energy consumption and carbon emissions (27%), increased efficiency and reduced costs through emerging technologies like AI and the Internet of Things (IoT) (16%), promotion of a circular economy (13%), furthering of environmental protection efforts (6%), and the upholding of internationally recognised labour rights (3%).

The emphasis on reducing energy consumption and carbon emissions reflects an awareness and commitment among British companies to align with global sustainability goals. It is also a call for enhanced collaboration and collective action from the Chinese government at a time when carbon dioxide emissions have rebounded above the record levels seen in 2021.[4] Similarly, embracing circular economy principles involves designing products for durability, encouraging reuse, and minimising waste, whilst it also resonates with evolving customer preferences for sustainable and ethical products.

Meanwhile, a shift in focus to emerging technologies like AI and IoT suggests companies recognise the transformative potential of these technologies in optimising supply chain processes, both in enhancing efficiency and reducing costs. AI and IoT can be leveraged to optimise resource utilisation, track and reduce waste, and improve overall supply chain sustainability.

4 China Policy, Analysis: China's CO2 emissions in Q2 2023 rebound to 2021's record levels

WHAT IS YOUR PRIORITY AREA FOR R&D IN THE COMING 12 MONTHS?

Regarding priority areas for R&D in the coming 12 months, the biggest areas of potential were sustainability, clean energy, and renewable energy (12%), technological advancements (12%), AI technologies (11%), manufacturing processes (7%), and cloud computing (2%).

This reflects a broad recognition of the need to align business strategies with global sustainability goals, technological innovation, and efficiency optimisation. While the growing significance of AI and cloud computing is evident, companies' chief priority is still sustainability, adhering to global efforts to address climate change and reduce their ecological footprint. This is set against a backdrop of increasing pressure on industry to find more sustainable energy sources and manufacturing methods, coinciding with September's G20 Summit in New Delhi, where members pledged to 'encourage efforts to triple renewable energy capacity,' and announced a Green Development Pact.[5]

That being said, companies' highlighting of technological and AI advancements suggests they are increasingly seeking to leverage machine-learning for automation, predictive analytics, and enhanced decision-making processes.

5 British Foreign Policy Group, Key Takeaways from G20

IN THE PAST TWELVE (12) MONTHS, HAVE YOU ENTERED INTO ANY AGREEMENTS OR PARTNERSHIPS TO COLLABORATE WITH CHINESE ENTITIES?

In the past twelve months, respondents have established various collaborative arrangements with Chinese entities. These have come in the form of agreements (30%), partnerships (28%), and joint ventures (11%). For MNCs, 21% have established a joint venture, 29% an agreement, 32% a partnership, whilst 35% have had no collaboration at all. Meanwhile, for SMEs, 9% have established joint ventures, 30% an agreement, 29% a partnership, whilst 42% have had no collaboration at all. It is too early at this stage to draw conclusions from this data, particularly given the diverse nature of engagements among respondents and the relatively short timeframe. That being said, businesses have reiterated their desire for a predictable and transparent regulatory process in China, both with regards to intellectual property protection and fair competition practises, as well as in adherence to international standards.

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

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