BRITISH CHAMBER OF COMMERCE IN CHINA
中国英国商会

BRITISH BUSINESS IN CHINA: SENTIMENT SURVEY

2024–2025

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CHAIRS' FOREWORD

It is with great pride that the British Chambers of Commerce in China present the seventh annual Business Sentiment Survey, offering a comprehensive, nationwide perspective on British business sentiment in China.

China's global importance will not wane – the country is not only the world's second largest economy, but also the second largest population and the number one trading partner with over 120 countries. British business engagement with China, either directly, or through collaboration and competition in third countries, is a question of 'how' - not 'if.'

That being said, the Chinese economy is facing considerable headwinds. That, more than anything else raised in this survey, is the primary challenge facing British business in the Chinese market. UK companies are, however, hopeful around recent talk of government stimulus. The Chamber is encouraged to see the adoption of numerous recommendations from our *Position Paper* launched in May, including easing restrictions on foreign ownership of cloud services and easing the import of classic cars.

In addition, the recent high-level meetings between the UK and China are extremely well-received by British businesses. From a leaders' phone call to a visit by UK Foreign Secretary David Lammy to China, and most recently with a face-to-face meeting between UK Prime Minister Keir Starmer and Chinese President Xi Jinping at the G20 Summit in Brazil, these engagements impact sentiment – measured in real time by our survey data. Of our record-breaking 311 respondents, 38% completed the survey before Lammy's visit and 62% after, with the number of companies expressing optimism for UK-China bilateral relations increasing by two-thirds following the visit.

We welcome increased government engagement at all levels and look forward to welcoming UK representatives at British consulates, chambers, and companies when they visit China.

While this new focus on engagement provides greater certainty, the election of Donald Trump in the US will – if he stands by his proposed actions – create both rupture and opportunity for the UK. The number of UK companies seeing growth in supporting Chinese companies exporting to the UK, and other third countries, is one of the success stories of this year's survey, evidenced by greater activity from Chinese investors, students and business in the UK. Financial services, energy, business advisory, and creative services are just some of the key UK subsectors that are seeing both actual and predicted growth in supporting Chinese companies going global.

When we started producing the *Sentiment Survey* seven years ago, it was still the tail end of high-growth China. Next came three years of the pandemic, followed by two years of considerable uncertainty as businesses tried to understand their future in China, as well as China's future writ large.

Now, we must acknowledge a new normal. The era of boundless optimism, and investment simply because of 'market potential,' is over. British businesses, evidenced by the data in this year's survey, have entered a new phase in their engagement with China: pragmatism.

And what are some of the characteristics of this new pragmatic phase?

- COVID-19 accelerated the localisation of British companies in-market, with many foreigners leaving. Following this, opening up has yet to see British companies hiring more staff from the UK or overseas.
- Most British businesses operating in China are headquartered in the heart of major cities, suggesting business imperatives such as local clients, connectivity, and access to talent are still key drivers.

- Whilst the Chinese government has made plans to improve market access for foreign firms, most are still reporting that they either have not seen tangible improvements (40.7%) or that they are unaware of improvements (29.3%).

- While MNCs can afford to take a longer-term view, SMEs need sales to survive. With a highly competitive domestic market, and less consumer spending, fewer are attempting to enter the market.

- British businesses are localising where necessary, have offshored where suitable, and making strategic investments into the country as part of their growth plans in a world increasingly marred by trade disputes and geopolitical polarisation.

- While the IP environment has improved considerably over the past decade, the re-emergence of IP issues in the top five regulatory issues facing UK business this year – especially in AMT, energy and healthcare – hinders British businesses' ability to invest in and export new advances in research.

This pragmatic approach is both appropriate and sensible.

As the Chinese economy stabilises and charts a new path, British businesses should continue to remain open to ongoing and emergent opportunities in the country, particularly in areas where they remain uniquely competitive.

As British businesses adapt to this new era of pragmatic engagement, the British Chamber remains committed to fostering collaboration, driving innovation, and shaping a constructive UK-China relationship, ensuring our members thrive in an ever-changing global landscape.

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EXECUTIVE SUMMARY

RESTARTING UK ENGAGEMENT WITH A DIFFERENT CHINA.

The 2024-25 British Chamber of Commerce China Sentiment Survey comes at a critical juncture, with the UK looking to set a new path with the Chinese government whilst businesses grapple with an increasingly challenging economic environment in the country and globally.

The survey also coincides with increasing efforts by China to revitalise its economy, with various measures introduced during the course of the survey. The potential for a stronger UK-China relationship offers optimism for the future, with many hoping that improved dialogue can elevate some of the market access issues currently faced by business.

Following a period of limited engagement and post-COVID-19 transformation in China, the needs of the UK and Chinese economies have evolved. China's economic priorities now focus more on 'new quality productive forces,' aligning in part with the UK agenda for growth, which targets sectors such as advanced manufacturing, clean energy, and life sciences to drive its industrial strategy. These shifts mean that opportunities for collaboration will vary, requiring both sides to align strategies and identify areas for mutual benefit. Improved UK-China engagement could support the ambitions of both economies.

This year's report highlights three key points:

1. **The business environment in China has got harder every year for 5 years.**
2. **China's relationship with the UK faces many questions as the country considers a broader path with the US and EU.**
3. **China's role in major UK growth sectors continues to expand, with greater support for British business expected.**

THE BUSINESS ENVIRONMENT IN CHINA HAS GOT HARDER EVERY YEAR FOR 5 YEARS.

Concerns over the economy persist as new stimulus measures look set to follow.

Our survey shows that since 2019, a majority of British businesses have found it increasingly difficult to operate in China for five consecutive years, with 58% reporting so in 2024. Only 33% of companies anticipated that revenue would increase YoY in 2024, a decline from 45% in 2023. The survey also showed business optimism for 2025 reduce from 46% to 41%, with pessimism remaining at 29%. These figures are not surprising, given the lack of fiscal policy to stimulate the economy in the 12 months leading to the survey opening in September 2024.

Fewer companies reducing investment

This year's data highlight stable investment levels among British companies in the Chinese mainland, with 76% of respondents either maintaining or increasing their investment plans. Nearly half (45%) reported no change, while 31% plan to increase investment in 2025, down slightly from 35% last year. Meanwhile, only 8% indicated a reduction in investment, the lowest level since 2021 and a 5% decrease compared to last year. 16% selected 'don't know,' the highest recorded for this response.

A new stimulus and outlook for 2025

The Chinese government has acknowledged economic challenges and shifted its macroeconomic approach, announcing a wave of policies aimed at stabilising the economy and boosting confidence. Views on its potential impact vary, but 2025 could be pivotal as the next Five-Year Plan approaches. Businesses are closely monitoring these developments in the hope that this can rebuild confidence and drive sustainable growth.

A TURNING POINT FOR UK-CHINA RELATIONS

Renewed dialogue builds confidence

The Labour government's approach to UK-China relations, marked by Foreign Secretary David Lammy's October visit, has begun to restore confidence. In the first weeks of the survey, optimism in the bilateral relationship remained at 21%, the same as last year, but following David Lammy's visit, 35% of respondents expressed optimism - the highest ever recorded in our survey.

Restoring confidence still needs time

Whilst confidence in the UK government has improved, the turbulence of recent years has left a lasting impact on business sentiment. Lammy's pragmatic approach, which prioritises constructive dialogue with China and focuses on non-sensitive sectors, has been well received. However, there is still significant work needed to rebuild trust. Meanwhile, shaping a long-term plan for China will be difficult as the US embarks on another Trump presidency and the EU adopts an increasingly protectionist stance against China.

The role of structured engagement

Key initiatives, such as reopening structured dialogues like the Economic and Financial Dialogue (EFD) and Joint Economic and Trade Commission (JETCO), have the potential to rebuild trust and foster collaboration. Strengthened engagement at all levels can help address shared challenges and deepen ties. The Chamber encourages both sides to consider reintroducing the High Level People-to-People Dialogue[1] as a vital mechanism for fostering long-term understanding and collaboration.

CHINA'S GLOBAL STRATEGIC SHIFTS OFFER RISKS AND OPPORTUNITIES FOR THE UK.

Strategic shifts in China's economy

British companies have noted evolving market dynamics driven by China's efforts to bolster global connectivity. Businesses have reported that increased freight links between China and other countries, expanded shipping capacity and continued development of the Belt and Road Initiative are opening up new market opportunities. These initiatives have the potential to reshape trade flows, creating export pathways and shaping China's role as a global trade hub.

This year's data highlights how British companies are leveraging these trends. Many companies are using their China operations as a base for regional expansion into the ASEAN countries the Middle East and Africa, or to manufacture in China and export to other countries. The AMT (advanced manufacturing and transport) sector exemplifies this shift, with 62% of respondents citing these as key drivers of their China growth strategy.

British services firms are supporting Chinese companies going abroad

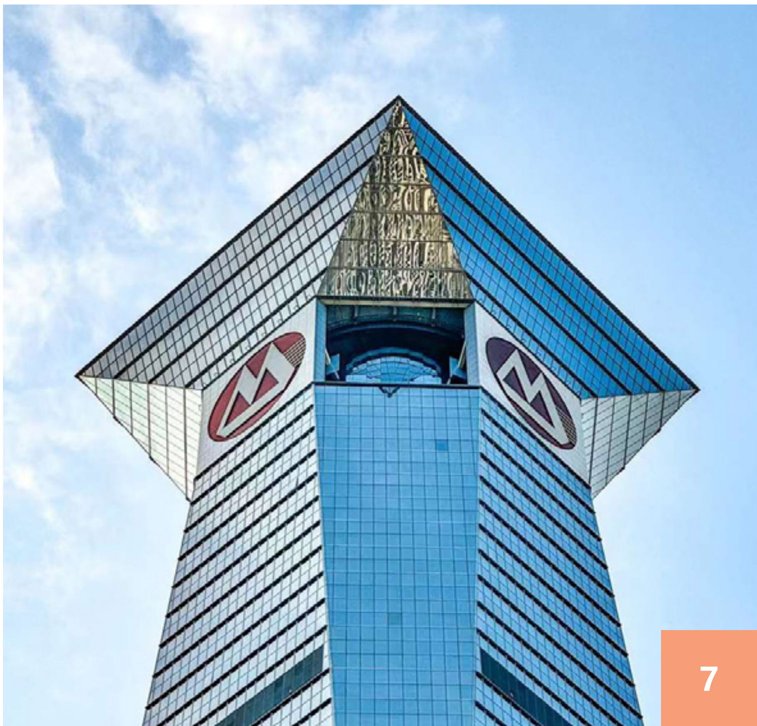
After a difficult 2023-24, British professional and financial services firms are showing signs of recovery in 2024, with more reporting higher revenues and optimism about the Chinese market. Many are focusing on growth opportunities by assisting Chinese companies expanding internationally, with 68% highlighting this as a key area. This includes supporting Chinese companies entering the UK, which could enhance inbound investment and align with the UK government's growth agenda.

Relevance for the UK industrial strategy

The UK government is currently developing its own industrial strategy, outlining eight key areas of capability for its economy[2]. As plans for these sectors take shape, the government should understand the importance of China in reaching key growth markets globally such as Southeast Asia, with businesses already showing signs of integrating the country into their global strategies. The UK government should look to identify and respond to such trends early. By supporting business in keeping access to developing markets, it can ensure that British companies maintain a competitive edge in areas they are market leaders.

1 'UK-China relations flourish at the 2017 People-to-People Dialogue,' Foreign & Commonwealth Office, Department for Health and Social Care and The Rt Hon Boris Johnson, December 2017

2 'Invest 2035: the UK's modern industrial strategy,' Department for Business and Trade, October 2024



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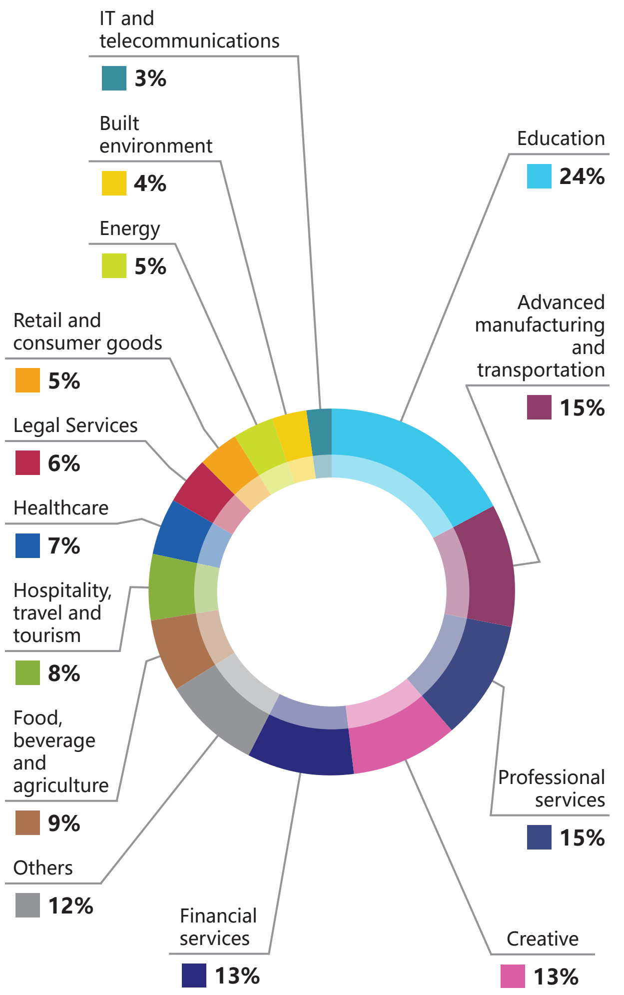
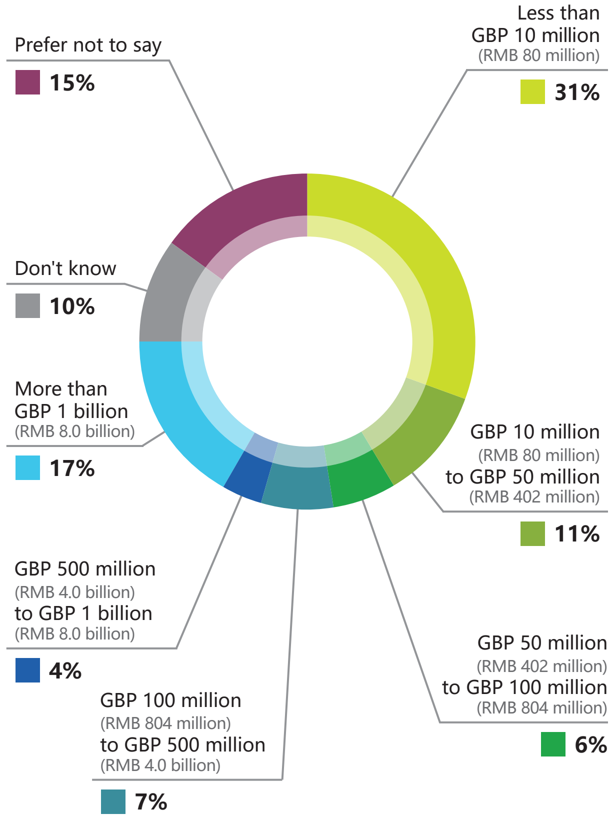
ORGANISATIONAL PROFILE

WHICH SECTOR(S) IS YOUR ORGANISATION INVOLVED IN?



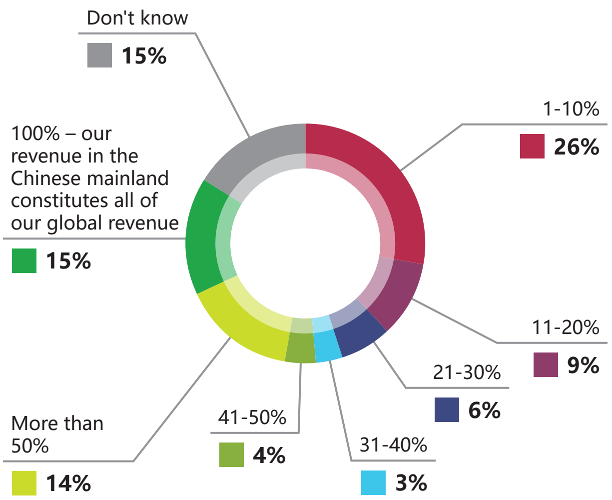
This year has seen a record number of British companies responding to our survey, with strong data across a diverse range of sectors. Professional services companies make up the largest proportion of respondents with 34%, of which 15% came from business advisory services, 13% from financial services and another 6% from legal services. Following this, education was the most common sector (32%), followed by advanced manufacturing and transport ('AMT') (22%), creative industry (13%), healthcare (10%), food, beverage and agriculture ('FBA') (9%), hospitality, travel, tourism and leisure ('HTTL') (7%), built environment (8%), energy (6%), and retail & consumer goods (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. Those with global earnings of more than GBP 500 million (RMB 4.5 billion) are defined as large multinationals, and account for 21% of the respondents, while those operating under this benchmark are classified as SMEs and represent 54% 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. 69% of respondents employ under 250 people in China, whilst 24% have a larger workforce in the China mainland with more than 250 employees. 7% of companies responding don't employ permanent staff in China currently.

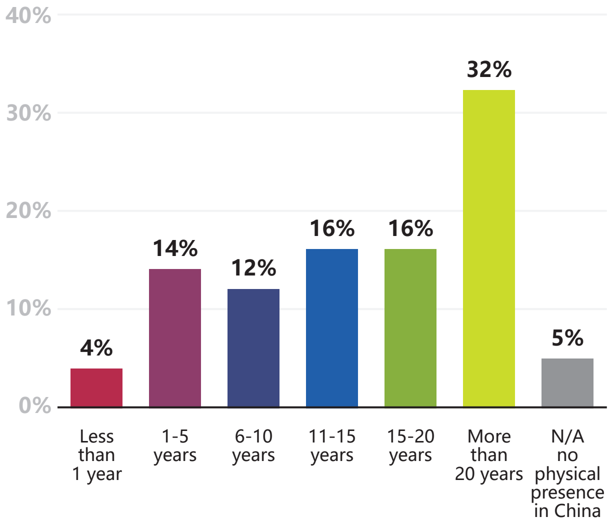
WHAT PERCENTAGE DOES THE REVENUE GENERATED BY YOUR OPERATIONS IN THE CHINESE MAINLAND CONTRIBUTE TO YOUR ORGANISATION'S GLOBAL REVENUE?



Around a third of UK companies in China derive less than 10% of their global revenue from their Chinese mainland operations, with another third of respondents deriving over 40% of their global revenue from their China operations. This means compared to previous years, more companies are earning higher proportions of global revenue from the Chinese mainland.

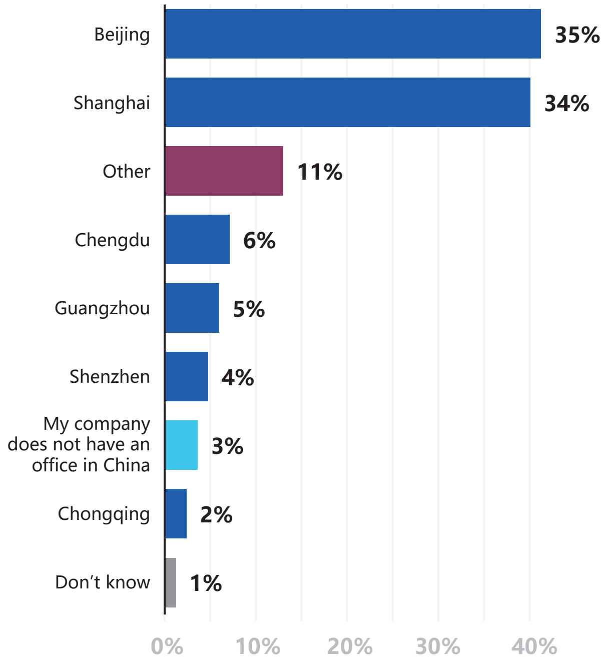
There is a large split between MNCs and SMEs in the proportion of revenue generated in China. The majority (60%) of MNCs make less than 10% of their revenue in China, whilst 45% of SMEs earn more than 50% of their revenue in the country.

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



Responses to this question have remained relatively consistent over years, with around half of the respondents (49%) having been in China for over 15 years. 2023-24's slight recovery in the number of businesses establishing a presence in the Chinese mainland over the past 12 months has remained at 4%, which is still an increase on the pandemic era but does not necessarily show a clear trend of companies returning to market.

IN WHICH CHINESE MAINLAND 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 (35%) and Shanghai (34%). Other locations include Chengdu (6%) and Guangzhou (6%). This year's survey saw a record number of responses from companies headquartered in Shanghai, with 63% of MNC respondents having their principal office there. Of companies with less than GBP 500 million revenue, a larger proportion are based in Beijing (38%) and Shanghai (21%).

This year saw more new entrants setting up primary offices in 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 (38%), followed by Shanghai (21%) and Shenzhen (11%). This saw Shenzhen overtake Chengdu (9%) and Guangzhou (7%) for the first time.

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

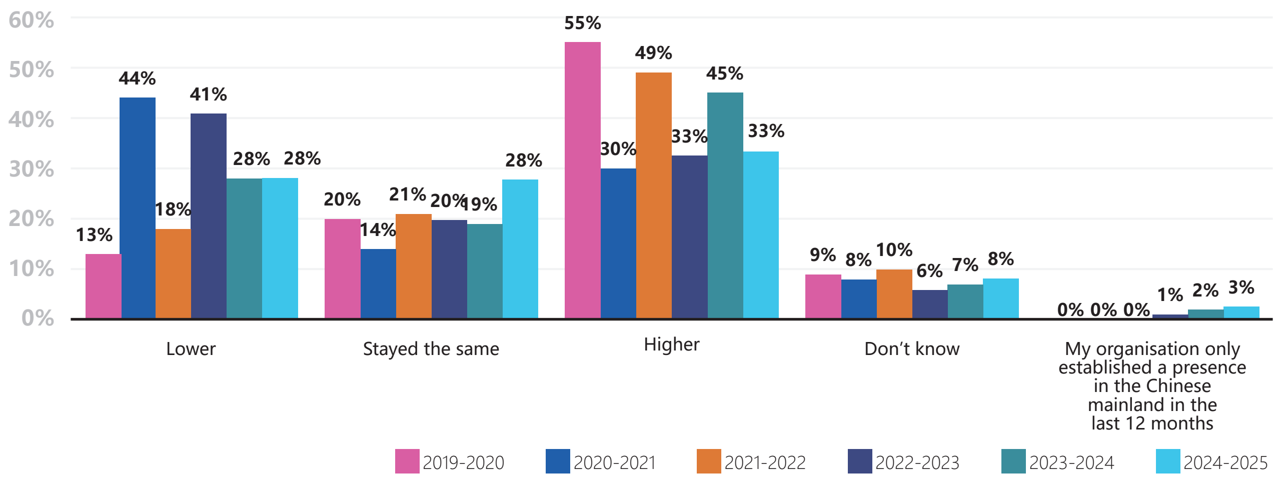
Beijing and Shanghai remain the two most popular destinations for British businesses to report a physical presence, with 57% and 51% of respondents having presence in these two cities respectively. This is followed by Guangzhou (24%), Shenzhen (21%), and Chengdu (20%).

3

BUSINESS ENVIRONMENT AND INVESTMENT OUTLOOK

British businesses in China continue to navigate an increasingly challenging economic environment, both domestically and globally, with economic uncertainty and market access challenges remaining key concerns. Despite these challenges, investment plans remain steady, with most companies maintaining or increasing their presence in the market. The impact of recent measures introduced by the Chinese government to revitalise the economy is yet to be fully felt, but the fact that action is being taken offers some promise.

IS YOUR ORGANISATION'S PROJECTED REVENUE IN THE CHINESE MAINLAND IN 2024 HIGHER OR LOWER THAN THE PREVIOUS YEAR?



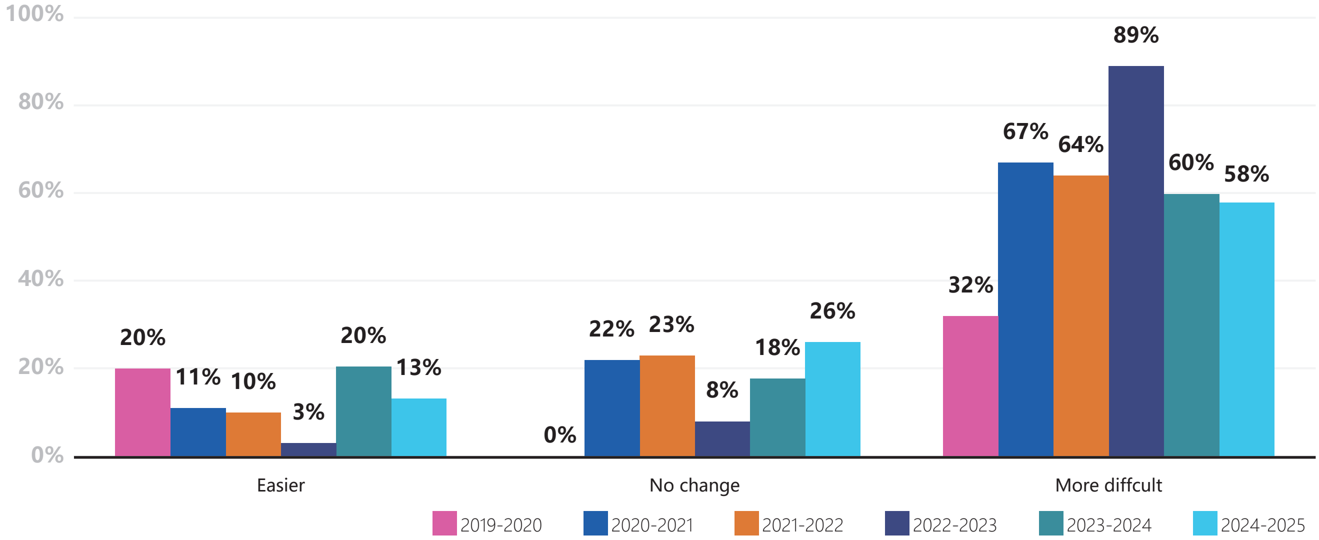
For British companies in the Chinese mainland, year-end revenue projections for 2024 indicate a more cautious outlook compared to last year. A third of respondents (33%) expect revenues to increase in 2024, marking a decline of 12% from last year's 45%. Meanwhile, 28% of companies anticipate a drop in revenue, consistent with last year's percentage. Notably, the percentage of companies expecting revenues to stay the same has risen from 19% to 28%, suggesting a trend of revenue stabilisation rather than strong growth.

Fewer companies are projecting revenue increases this year compared to last year, potentially reflecting the challenges of a difficult 2022. However, the information technology and telecommunications (50%), HTTL (40.5%), and professional and financial services (38.5%) sectors reported higher-than-average revenue growth. This may indicate a slower return to normality post-COVID-19 in some areas, with 69% of HTTL respondents having anticipated lower year-on-year revenue projections for 2023.

However, a few sectors stand out for their more subdued outlook, with more companies reporting lower rather than higher revenues. In the built environment sector, 50% of respondents anticipate a revenue decline, reflecting well-publicised difficulties in China's property market, where demand has remained soft despite policy efforts aimed at stabilisation. The retail and consumer goods sector also faces challenges, with 29.4% of respondents projecting a decrease in revenue, possibly driven by weak consumer confidence. In addition, the food and beverage sector saw 38.5% of companies reporting lower revenues, underscoring the broader issues affecting consumption-oriented industries in the current economic climate.

For larger multinational companies with annual revenues exceeding GBP 500 million, revenue projections for 2024 are mixed. While 28.1% of these companies anticipate a decline in revenue, a third of respondents in this group still foresee an increase.

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



In 2024, British businesses in the Chinese mainland encountered a somewhat more challenging landscape, with 57.9% of respondents noting increased difficulty compared to 2023. This represents a slight improvement from last year when 60% of companies reported tougher conditions in 2023 compared to 2022. However, only 13% of companies found doing business easier this year, a sizeable decline from 20% in 2023-24.

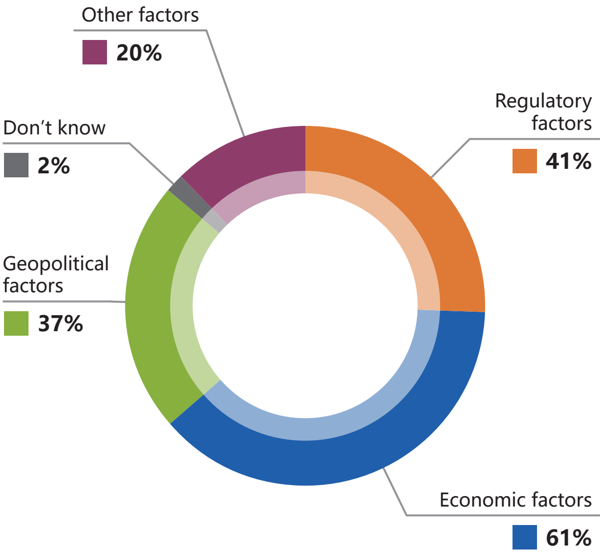
When comparing company sizes, both SMEs and MNCs continue to indicate that doing business has become more difficult over the past year, but with SMEs now faring better than MNCs. SMEs found this year 53% more difficult, down from 63% last year, whilst MNCs found things 65% difficult, up from 58% in the 2023-24 survey.

Notably, several sectors that entered 2024 with a positive outlook encountered more obstacles than anticipated. Last year, the retail, food beverage and agriculture (FBA), and energy sectors expressed the highest levels optimism, with 75%, 65%, and 60% of respondents, respectively, expecting better conditions. Yet this year, the energy sector reported increased pressures, with 67% finding conditions more difficult and none indicating improvement. In the FBA sector, where consumer trends have bolstered certain areas of demand, 33% found business conditions to have improved, reflecting a more mixed experience. These findings suggest that while optimism was prevalent at the start of the year, various sector-specific factors, such as shifts in consumer spending and evolving market conditions, have contributed to a more difficult experience across the board.

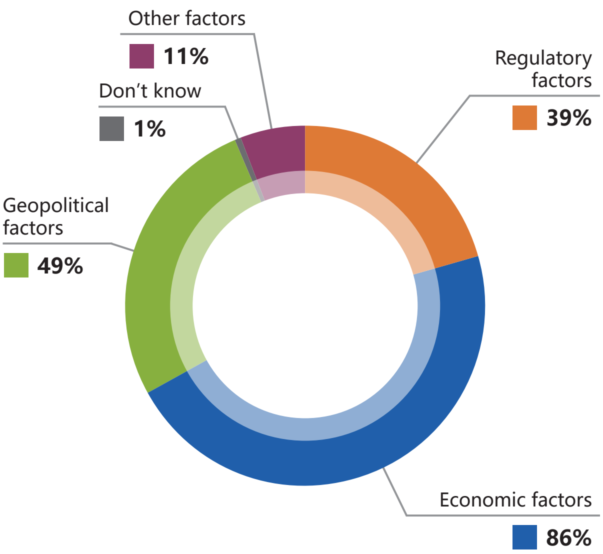
WHAT ARE THE KEY REASONS FOR A CHANGE IN YOUR ORGANISATION'S ABILITY TO DO BUSINESS IN THE CHINESE MAINLAND OVER THE PAST 12 MONTHS?

(Companies rank each option from 1 to 5)

Business has become easier or has not changed



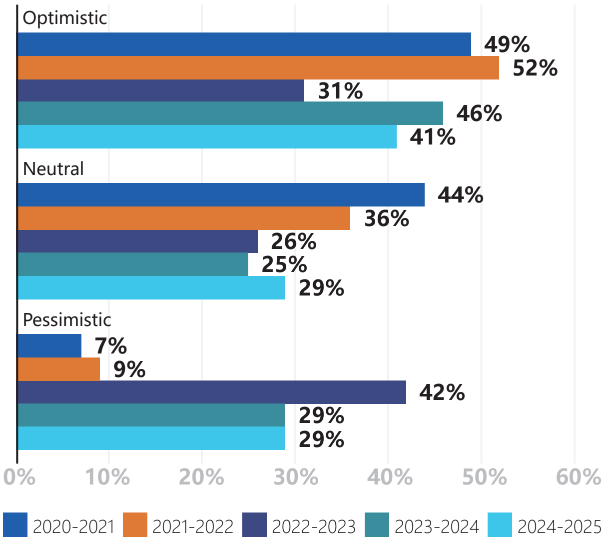
Business has become more difficult



Economic factors remain the primary influence on British businesses' ability to operate in China, with 81.4% of respondents citing economic conditions as the key determinant of ability to do business. This emphasis on economic drivers has held steady from last year, underscoring the continuing impact of market dynamics and consumer demand shifts. Meanwhile, 46.8% of businesses highlighted geopolitical factors as their top concern, and 39.1% pointed to regulatory challenges. This suggests that, though external and policy-related pressures are significant, concerns in this area are secondary to the broader economic landscape. For those finding things more difficult, this year saw a number of companies in the education sector (especially those in early years and K12 education) opt to write in their own issue, with 22% highlighting either the declining population or more competition to attract students as the main reason that they face challenges in doing business.

Similar reasons were given for companies reporting an improvement in business conditions over the past year. Among these, 61% attributed their success to economic improvements, reflecting targeted opportunities in specific sectors or regions. Regulatory factors were the next most cited, with 41.5% of respondents highlighting more favourable conditions. Geopolitical factors, noted by 36.6%, played a smaller but still significant role. These findings underscore that, while most businesses faced challenges, certain firms successfully leveraged changing market dynamics to their advantage.

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

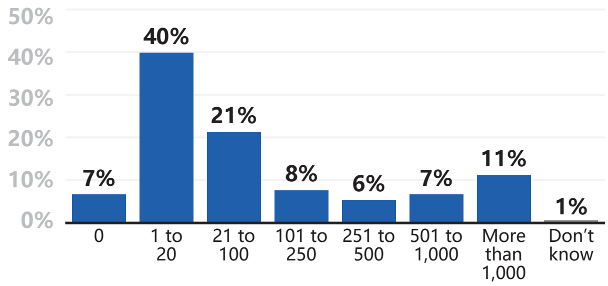


The proportion of British businesses in China expressing optimism for the coming year has reduced in the last year, with 41.3% of companies feeling somewhat or significantly optimistic about their sector's prospects, compared to 46% last year. Meanwhile, the proportion of businesses that feel pessimistic about the year ahead shows a slight reduction to 28.7%, down just a fraction from last year's 29%. This cautious outlook suggests companies are adopting a more measured view of 2024 amid persistent challenges.

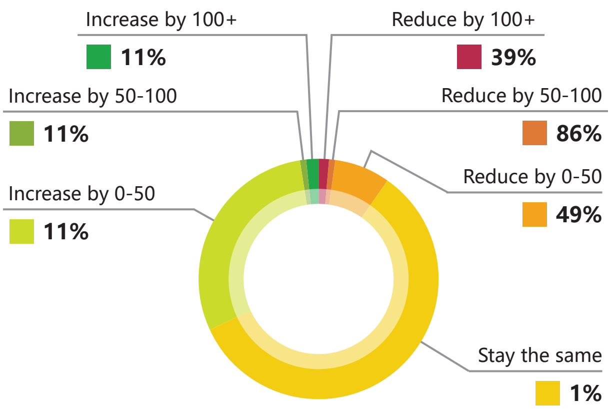
Sentiment varies by sector, with the AMT sector emerging as the most optimistic, where 52% of companies are positive about their prospects. The creative sector follows closely, with 48.7% of companies optimistic. Conversely, the legal services sector, at 26.3% optimism, and healthcare, at 28.6%, show the lowest optimism levels, although healthcare remains notably balanced with the lowest proportion of pessimistic respondents (19.1%). The built environment sector remains the most pessimistic, at 31.3%, though it also sees a larger share of optimistic responses this year compared to last (37.5% versus 33.3%), suggesting a more mixed outlook for the sector.

Large MNCs continue to report a more pessimistic outlook than smaller firms, with 31% of MNCs feeling pessimistic about the year ahead, compared to 28.7% across all respondents. Although 40% of MNCs remain optimistic, this is still a lower rate than the rest of respondents, reflecting an ongoing hesitancy among larger firms in the current business environment.

WHAT IS YOUR ORGANISATION'S HEADCOUNT IN CHINA (INCLUDING JOINT VENTURES)?



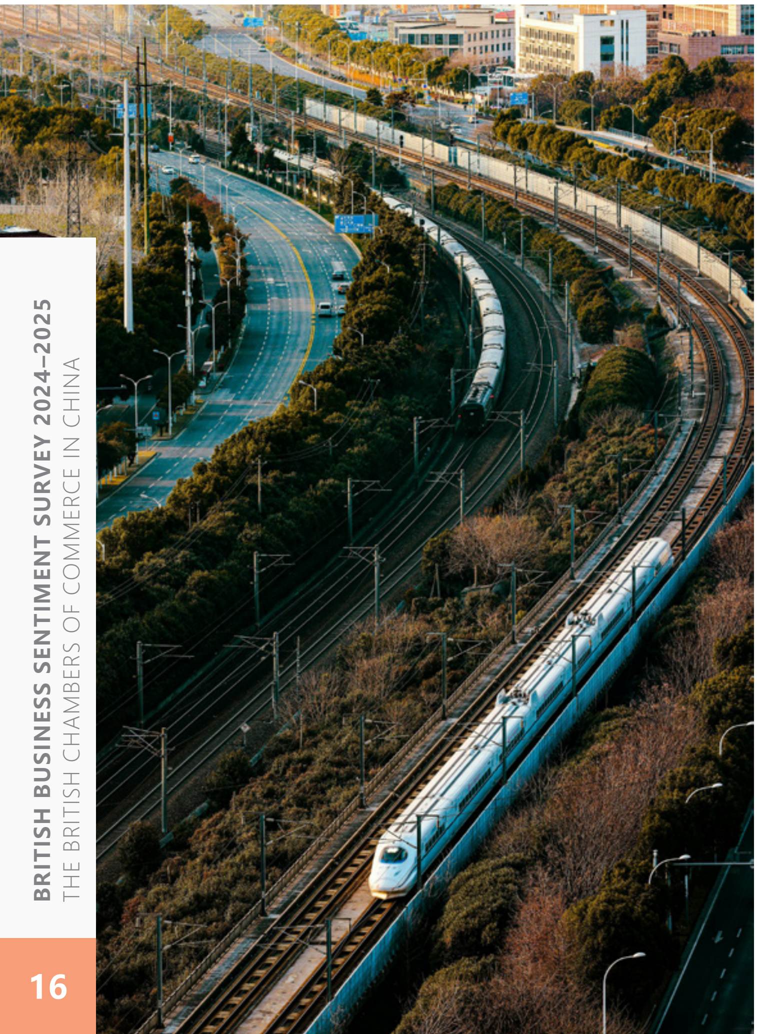
IN ABSOLUTE FIGURES, BY HOW MUCH DO YOU ESTIMATE YOUR ORGANISATION WILL ADJUST ITS HEADCOUNT IN THE CHINESE MAINLAND OVER THE NEXT YEAR?



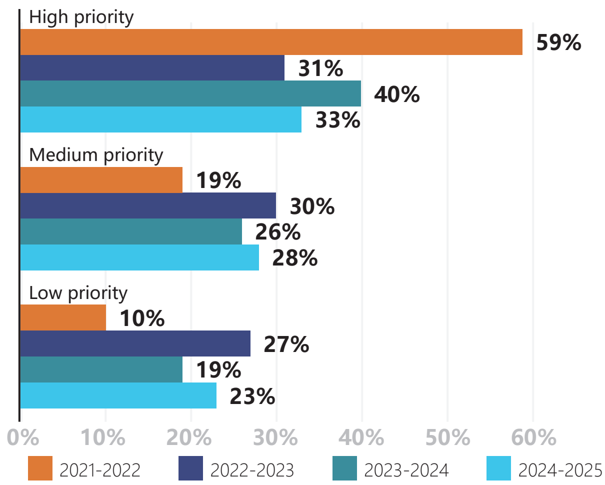
In 2024-25, headcount trends indicate a conservative hiring approach among British companies in China. Over half of respondents (58.3%) plan to maintain their current staffing levels, while 32% anticipate increasing headcount. Only 9.4% of businesses expect to reduce their workforce, indicating that most companies are either maintaining stability or cautiously expanding their teams. Notably, 95% of respondents expect any headcount changes to remain within a modest range of 0–50 positions, suggesting a restrained growth outlook across sectors.

Differences emerge when comparing multinationals to SMEs. Larger MNCs display a more cautious approach, with 28% indicating plans to reduce their headcount and 12% expecting cuts of more than 50 positions. This contrasts with SMEs, where only 5.4% are planning reductions and a higher proportion are actively seeking to expand their workforce.

Sector trends also highlight specific industry priorities. In the AMT sector, where 50% of companies anticipate headcount increases, growth appears to signal a strategic focus on the China market. Conversely, 29% of companies in built environment services foresee reductions, likely influenced by challenges in China's property market.



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

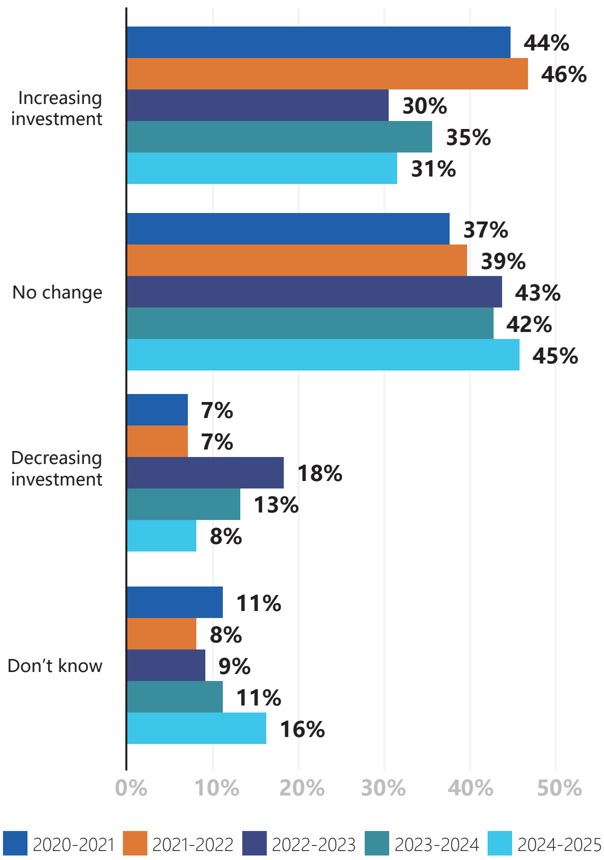


The proportion of British businesses placing China as a priority market for investment remains relatively stable. This year, 32.8% of companies consider China a top or high priority for their global investment plans, down from last year's 41%. Meanwhile, 27.9% of respondents view China as a medium priority, and 22.7% classify it as a low priority, changing from 25.8% and 18.7% respectively last year.

Sector-specific data indicates that certain industries continue to see strategic value in the China market. The education sector, with a high priority rating of 42.9%, reflects the importance of attracting Chinese students to British schools and universities. The retail and consumer goods sector, with a notable 59% rating China as a high priority, underscores the sector's focus on capturing growth opportunities in China's vast consumer market. Healthcare also maintains a high priority level, with 52% of companies identifying China as a key market, reflecting consistent demand for healthcare services and products.

Conversely, companies in the built environment sector are less positive, with 62.5% marking China as a low priority. This trend highlights challenges in China's property and infrastructure markets, where companies may be reallocating investment resources to other regions amidst a slower recovery in demand.

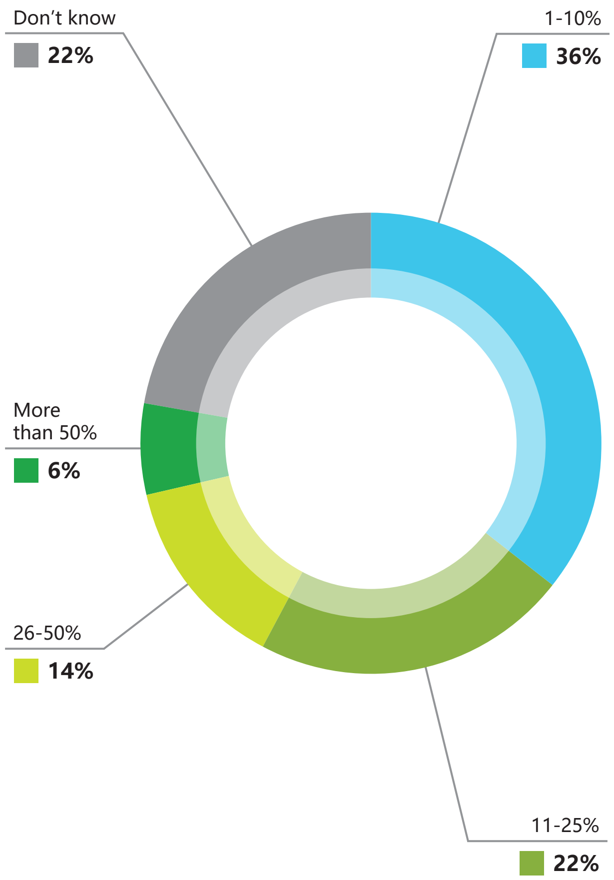
IS YOUR ORGANISATION CONSIDERING INCREASING OR DECREASING INVESTMENT IN ITS CHINESE MAINLAND OPERATIONS OVER THE NEXT YEAR?



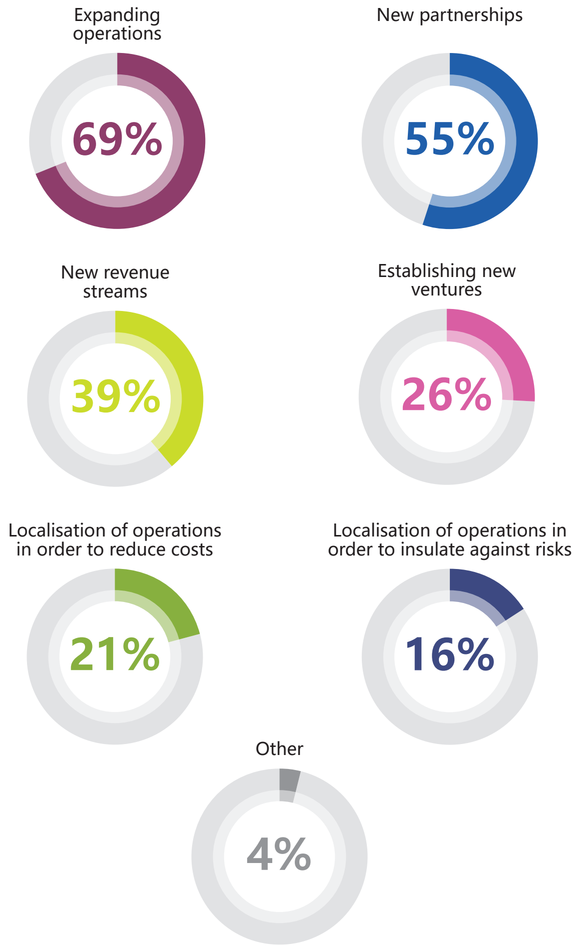
This year, a notable share of British companies in China plan to maintain (45%) or increase (30.7%) their investment in Mainland China operations, reflecting a stable outlook for 2025. The proportion of companies reducing investment has dropped to 8.4%, bringing the figure closer to 2021 levels, when only 7% of respondents were planning reductions. These investment trends indicate that companies are holding steady with investment for the time being.

The retail and consumer goods sector leads in sectors planning to invest, with 58.8% of respondents intending to increase their operations. The food and beverage sector also indicates a positive trend, with 48% planning to expand their investment. Conversely, sectors such as built environment (18.8%) and AMT (16%) report the highest likelihood of decreasing investment, often citing specific sectoral challenges or shifts in market priorities.

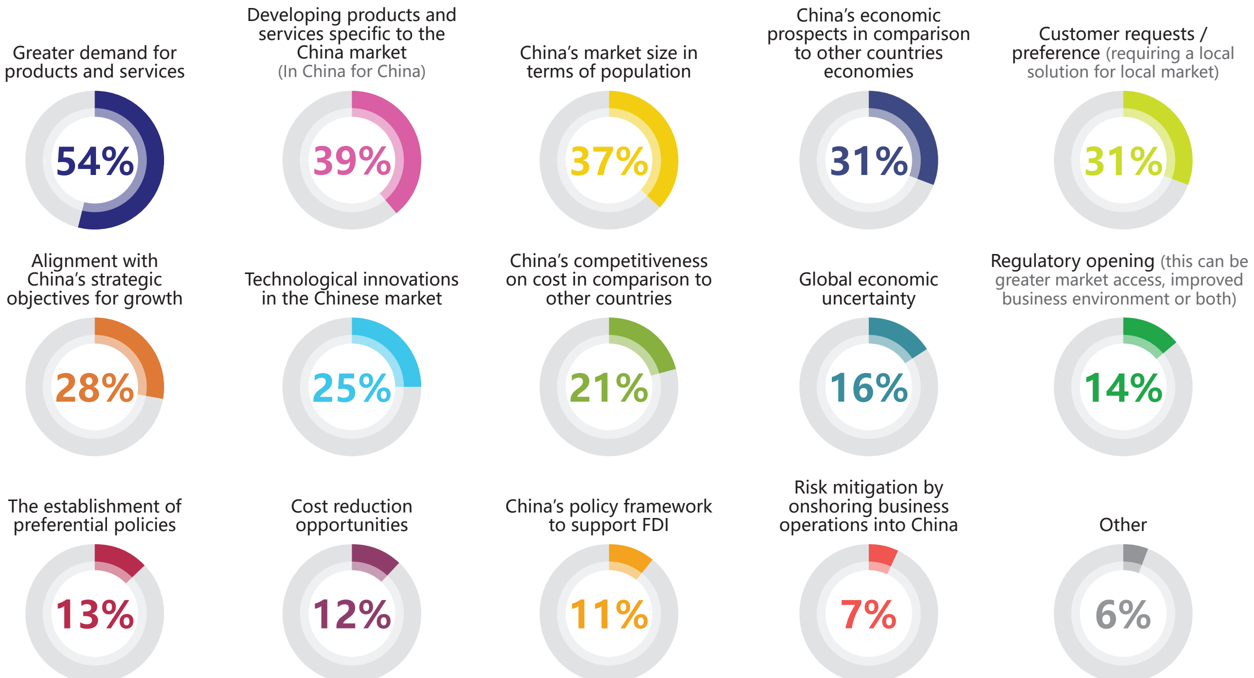
BY HOW MUCH DO YOU ESTIMATE YOUR ORGANISATION WILL INCREASE ITS INVESTMENT IN ITS OPERATIONS IN THE CHINESE MAINLAND OVER THE NEXT YEAR?



IN WHAT AREAS OF YOUR BUSINESS ARE YOU INCREASING INVESTMENT?



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

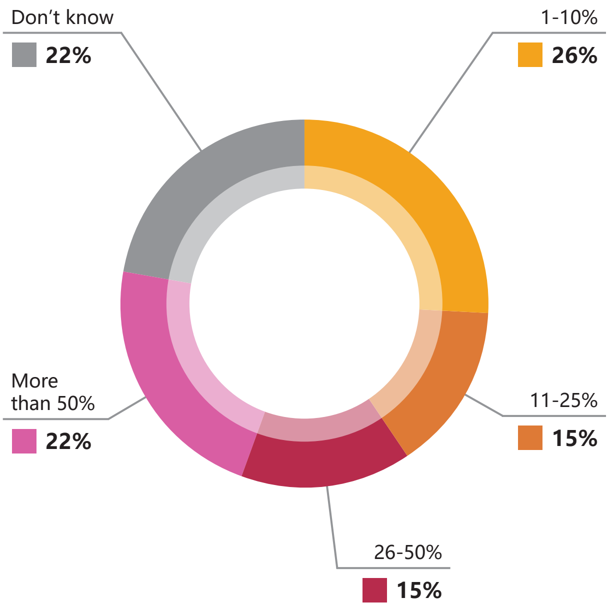


Among companies planning to increase their investment in mainland China, the majority expect only modest growth, with investment increases of between 1% and 25% being the most common, with much of this investment put into expanding operations (67%). The primary motivation behind this expansion is demand-driven growth, with 53.7% of respondents citing stronger demand for their products and services as the top reason for increasing investment—marking a shift from previous years, where strategic market potential often took precedence.

This shift shows the differing priorities of SMEs and MNCs, with SMEs looking to invest due to demand for products and services and MNCs are largely motivated by China's sheer market size (59.1%).

Compared to last year's survey, the proportion of respondents increasing investment in China due to 'Alignment with China's strategic objectives for growth' has decreased from 44% to 28%. In addition, respondents citing 'Greater demand for products and services' has climbed from 42% to 54%.

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

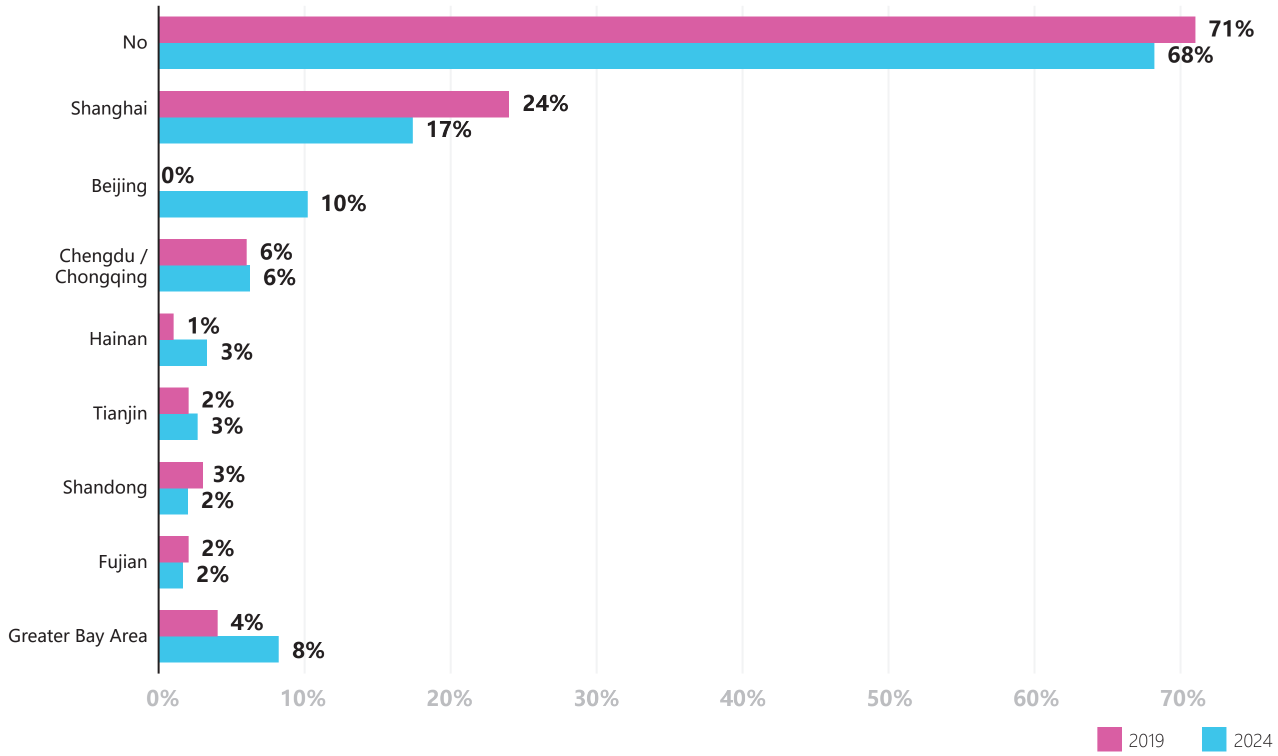


WHY IS YOUR ORGANISATION DECREASING INVESTMENT IN ITS OPERATIONS IN THE CHINESE MAINLAND?

This year, 8.4% of British businesses report plans to decrease their investment in China—a notable reduction from last year's 13%, suggesting a slight easing of caution. Among those planning to cut back, over 30% anticipate reductions of more than 25%. The primary reasons for these reductions reflect key shifts in business sentiment: geopolitical uncertainty now leads as the main concern, cited by 59.3% of respondents, marking an increase over last year's 53%.

Economic uncertainty, which was the top reason for a reduction in investment last year, has now reduced from 72% to 55.6%. That is the same percentage as for businesses reducing investment due to higher operating costs. The increased emphasis on operational costs also reflects a broader concern across sectors this year, as several companies reported rising expenses as a challenge. This shift in sentiment underscores the increasing burden of operational costs and their impact on the business environment, particularly for larger organisations who often face higher fixed expenses and regulatory costs.

DO YOU HAVE OPERATIONS IN A FREE TRADE ZONE IN CHINA?



This question was reintroduced for the first time in 5 years, to look at the shift in operational use of FTZs, particularly given their apparent usage to improve the ease of cross-border data transfers. Whilst responses do not indicate a significant uptake in FTZ usage—68.2% of respondents report having no representation in an FTZ, compared to 71% in 2019—MNC respondents were much more likely to have operations in these zones. 46.2% of them have operations in FTZs, with 36.2% located in Shanghai and 12.3% each in Beijing and the Greater Bay Area. This trend among MNCs reflects a growing appeal for FTZs, which offer specific advantages around regulatory efficiency and cross-border operational flexibility.

Among businesses with FTZ operations, Shanghai remains the most popular location, with 17.4% of respondents reporting FTZ operations there, followed by 10.2% in Beijing, 8.2% in the Greater Bay Area (GBA).

In terms of regional breakdowns, 35.8% of Shanghai-based respondents have operations in the Shanghai FTZ, 16.5% of Beijing-based respondents operate in the Beijing FTZ, and 25.7% of GBA-based respondents report operations in a GBA FTZ. There is also a notable presence in the Southwest region with 38.5% of respondents having FTZ operations in Chengdu or Chongqing.

SECTOR BREAKDOWN

BUSINESS ADVISORY AND BUSINESS SERVICES

72.3% SMEs | **14.9% MNCs**

	LAST YEAR
40.4% Revenue Higher	35.2%
21.3% Revenue Lower	38.9%
25.5% 'Business easier than 2023'	14.5%
51.1% 'Business harder than 2023'	74.6%
41.9% Optimistic for 2025	39.9%
28.7% Pessimistic for 2025	40.7%

After the services sectors found things harder than any others in 2023-24, the business service sector showed an improvement this year. More British companies are expecting higher revenues and expressing greater optimism.

Notably, over two thirds of respondents (68.1%) see growth potential in assisting Chinese companies to go global, along with expanding services within China (46.8%). The top regulatory concern remains cybersecurity and data policy – consistent with last year – though many have suggested there is more regulatory clarification following government changes.

FINANCIAL SERVICES

Financial Services | Accounting

35.9% SMEs | **25.6% MNCs**

	LAST YEAR
42.5% Revenue Higher	53.9%
25% Revenue Lower	23.1%
10% 'Business easier than 2023'	14.8%
57.5% 'Business harder than 2023'	74%
47.5% Optimistic for 2025	47.5%
25% Pessimistic for 2025	26%

The financial services sector is one of the most data-intensive industries, and the efforts of British companies to localise data storage are particularly noteworthy, with 27% of respondents doing so. After calls in our Position Paper earlier this year, the Chamber commends the removal of ownership restrictions on cloud services[1].

Over the past year, the sector did not experience significant positive or negative changes, aside from a reduction in the percentage of businesses finding the environment more challenging compared to last year. However, the revenue projection trend remains somewhat negative.

1 'China opens up medical sector, manufacturing to foreign ownership in growth push,' South China Morning Post, September 2024

LEGAL SERVICES

21.1% SMEs | 42.1% MNCs

	LAST YEAR
33.3% Revenue Higher	20%
16.7% Revenue Lower	30%
21% 'Business easier than 2023'	20%
53% 'Business harder than 2023'	60%
26.3% Optimistic for 2025	20%
26.3% Pessimistic for 2025	50%

The British legal services sector operates in a highly regulated environment with intense competition and once again is one of the more negative sectors. However, there is a slight positive shift in sentiment towards the Chinese market compared to last year. Despite many US law firms exiting the Chinese market in 2024, our data indicates that UK firms are not looking to do the same [2].

A huge portion of the legal sector also recognises growth potential in assisting Chinese companies in expanding globally (84.2%), though given that foreign firms are unable to practice Chinese law, this is likely reflective of the reliance of the sector on cross border work.

2 'Exodus of US law firms from Shanghai accelerates,' Financial Times, May 2024

EDUCATION

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

59.7% SMEs | 5.2% MNCs

	LAST YEAR
37.3% Revenue Higher	54.5%
24% Revenue Lower	21.2%
14.3% 'Business easier than 2023'	24%
62.3% 'Business harder than 2023'	56%
48% Optimistic for 2025	50%
24.7% Pessimistic for 2025	23.2%

The education sector is less optimistic compared to last year, with revenue projections for 2024 having worsened. The sector sees the recognition of qualifications as the most pressing regulatory issue, which comes as little surprise following the research on the Chamber's 2024 Position Paper.

Several K12 and early education schools from Beijing, Shanghai and Guangzhou suggested that the declining population was starting to have an impact on business operations.

ADVANCED MANUFACTURING AND TRANSPORT (AMT)

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

60% SMEs | 26% MNCs

	LAST YEAR
40% Revenue Higher	46%
28% Revenue Lower	27%
4% 'Business easier than 2023'	23.3%
48% 'Business harder than 2023'	56.8%
52% Optimistic for 2025	50%
26% Pessimistic for 2025	20%

The British AMT sector faces persistent challenges in China, with escalating geopolitical tensions and rising operational costs adding to the difficulty of navigating the business environment. Trade tensions are particularly pressing for AMT, as it is the sector most likely to be impacted by tariffs—an issue currently high on the agendas of both the US and EU governments. Reflecting these concerns, 57.5% of British companies express worry about other countries trade policies towards China due to their potential negative impact. In terms of regulatory issues, intellectual property rights protection is the largest faced by the sector.

Interestingly, the AMT sector is pursuing further localisation in manufacturing (27.8% are moving into, or considering moving into, China). These companies are continuing to produce goods in China for the domestic market but are increasingly looking to export to other regions. Additionally, 62% of respondents in the AMT sector indicate they are using China either as a hub to expand into other countries or to export to other areas.

CREATIVE

Culture and arts | Media and publishing | Marketing and communications

87.2% SMEs | 7.7% MNCs

	LAST YEAR
35.9% Revenue Higher	53.1%
28.2% Revenue Lower	18.8%
23.1% 'Business easier than 2023'	21.9%
54.4% 'Business harder than 2023'	65.6%
48.7% Optimistic for 2025	58.7%
28.2% Pessimistic for 2025	28.2%

The creative sector is also earmarked by the UK government as a growth sector in its industrial strategy. The sector recorded decreased optimism this year, with a drop in the number of British companies projecting higher revenues compared to last year. On UK government support, the sector looked to the government to help build relationships with Chinese consumers and clients.

British creative companies continue to face challenges related to regulatory issues such as the 'enforcement of laws and regulations.' A higher-than-average 61.5% of respondents cite growth potential in 'assisting Chinese companies going global.'

FOOD, BEVERAGE AND AGRICULTURE (FBA)

Food and Beverage | Agriculture

73.1% SMEs | 15.4% MNCs

	LAST YEAR
38.5% Revenue Higher	53%
38.5% Revenue Lower	35.3%
18% 'Business easier than 2023'	23.5%
33% 'Business harder than 2023'	47%
48.1% Optimistic for 2025	64.1%
29.6% Pessimistic for 2025	23.6%

The British FBA sector is a mixed picture this year, with fewer companies reporting business has become more difficult in 2024 but with reduced optimism looking forwards to 2025.

In terms of growth prospects, the sector sees the most potential in 'adapting product lines to meet local market demands' (37%), followed by 'exporting goods to the Chinese mainland' (33.3%). Given that exporting to China remains a significant growth prospect for this sector, it remains particularly vulnerable to geopolitical trade tensions, as highlighted in this year's Position Paper. The most pressing regulatory issue is 'customs procedures' for the sector, which comes as little surprise for such an export-intensive area.

HEALTHCARE

Healthcare services | Medical devices | Pharmaceuticals

52.4% SMEs | 28.6% MNCs

	LAST YEAR
38.1% Revenue Higher	52.9%
23.9% Revenue Lower	17.6%
19.1% 'Business easier than 2023'	17.6%
47.6% 'Business harder than 2023'	53%
28.6% Optimistic for 2025	58.6%
19.1% Pessimistic for 2025	6.1%

The healthcare sector has experienced a drastic shift in sentiment, moving from relatively positive last year to noticeably negative this year. There has been a drop in companies anticipating higher year-on-year revenue projections and an increase in those citing lower revenue projections.

There could be multiple reasons for this shift including external issues such as the US Biosecure Act impacting trade or domestic issues such as China's reforms to medicine pricing for pharmaceuticals and ongoing competition issues for medical devices[3]. On this, the relationship between China and other countries has overtaken China's domestic economy as the leading challenge for the sector.

3 'US bill to restrict businesses with China's WuXi AppTec, BGI passes House,' Reuters, September 2024

ENERGY

26.3% SMEs	68.4% MNCs

	LAST YEAR
36.8% Revenue Higher	60%
21% Revenue Lower	26.7%
0% 'Business easier than 2023'	26.7%
67.4% 'Business harder than 2023'	46.7%
47.4% Optimistic for 2025	60.4%
26.3% Pessimistic for 2025	13.3%

After being one of the more positive sectors last year, the energy sector has faced a challenging year; the sector now has the second-highest percentage of firms that said they found this year's business environment tougher than last year's.

Intense competition with SOEs has been a major issue for firms at a time when energy-related technologies are drawing attention from both the Chinese governments' focus on 'new quality productive forces' and the UK's industrial strategy. However, despite these challenges, 73.7% of respondents in the sector continue to see potential through collaboration with Chinese partners in joint ventures or strategic alliances, which keeps companies invested in the market.

BUILT ENVIRONMENT SERVICES

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

43.8% SMEs	43.8% MNCs

	LAST YEAR
17% Revenue Higher	27.8%
50% Revenue Lower	39%
0% 'Business easier than 2023'	11.2%
56% 'Business harder than 2023'	60.1%
36.5% Optimistic for 2025	33.5%
31.3% Pessimistic for 2025	44.3%

The built environment sector has historically been one of the most challenging industries to navigate in China due to intense competition with SOEs and a tightly regulated environment. In addition, a 'slowdown in the property market' also continues to be the main challenge for the sector, though an increase in optimism could suggest that some see slight improvements.

The sector sees potential in decarbonisation in the China market, with many British firms looking to bring expertise to the country in retrofitting and sustainable construction. 37.5% of respondents see growth potential in 'assisting Chinese companies going global', indicating a focus on leveraging their expertise to support international expansion.


GRAND LISBOA
YOHO TREAS

REGIONAL BREAKDOWN

SOUTHWEST

19.2% project revenue will surpass last year' s level

42.3% are optimistic about their prospects in 2025

61.5% report doing business has become more difficult

TOP REGULATORY CHALLENGES:

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

22.2% have not been looking to hire foreign talent

BEIJING

35.2% project revenue will surpass last year's level

44% are optimistic about their prospects in 2025

59.6% report doing business has become more difficult

TOP REGULATORY CHALLENGES

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

42.1% have not been looking to hire foreign talent

SHANGHAI

29.5% project revenue will surpass last year's level

32.4% are optimistic about their prospects in 2025

67% 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. Standards-related challenges

40.7% have not been looking to hire foreign talent

GUANGDONG

47.1% project revenue will surpass last year's level

45.7% are optimistic about their prospects in 2025

37.2% report doing business has become more difficult

TOP REGULATORY CHALLENGES

1. Intellectual property rights protection
2. Transparency of the business environment
3. Customs procedures
4. Obtaining business licences and certificates
5. Navigating cybersecurity and IT regulations

37% have not been looking to hire foreign talent

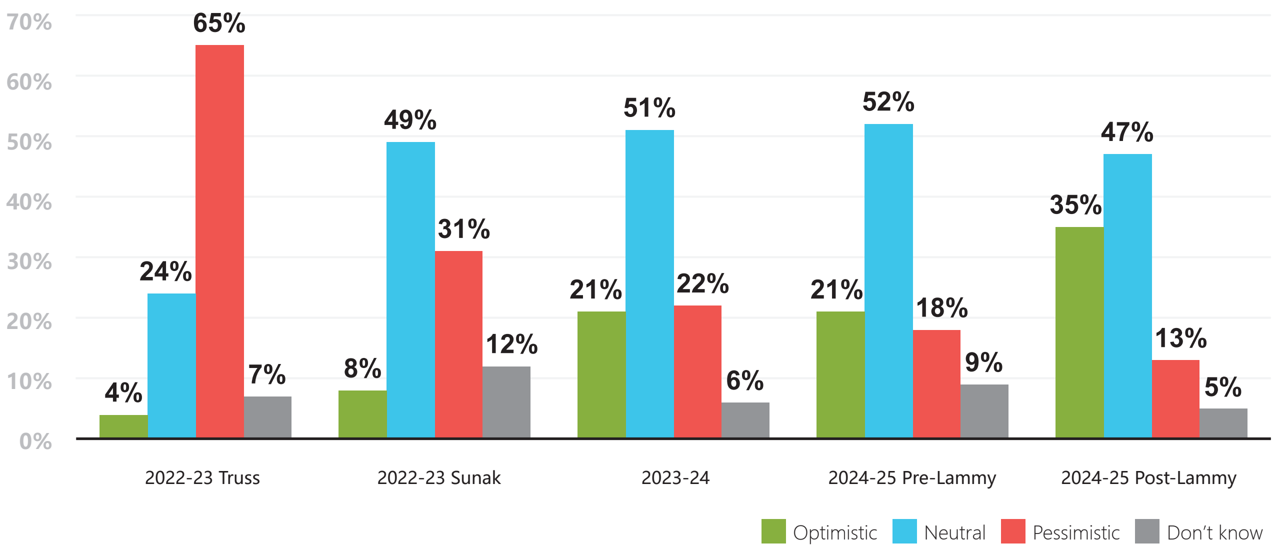
4

A FULL AUDIT OF UK-CHINA RELATIONS

The UK government made a pledge to launch a comprehensive audit of its relationship with China in its pre-election manifesto. Such an audit will likely mark a pivotal moment for UK-China policy, with implications likely to shape bilateral relations for years to come[1]. In advance of launching the audit, the government has committed to establishing a pragmatic and consistent framework for engagement – a popular move among businesses.

Discussions with British businesses highlights the importance of stability and clarity in trade relations. According to the British government, most UK-China trade—95%—falls outside areas of national security concern. Whilst sensitive issues will require careful management, there is optimism that the audit will reaffirm the UK's commitment to balanced economic engagement.

WHAT IS YOUR ORGANISATION'S OUTLOOK FOR UK-CHINA RELATIONS OVER THE NEXT YEAR?



2024 proved to be a year of change for the UK, with a new Labour government elected on 4th July. Following this win, the new government suggested it would start a full audit of its relationship with China. Overall, 26.8% of British businesses expressed optimism for the UK-China bilateral for this year, up 6 percentage points from 2023-24. When looking at responses collected before and after David Lammy's visit to the country in mid-October, this was different.

1 'Change,' The Labour Party, June 2024

38% of companies filled in the survey before Lammy's visit on 18 October, with 62% filling it in afterwards. The data shows that British business optimism around UK-China relations initially appeared unchanged, with 21% of the companies expressing a positive outlook – a result equal to last year's survey under the Conservative government. However, following David Lammy's October visit to China which included meetings with Chinese officials and UK businesses in Beijing and Shanghai, optimism rose by two-thirds, reaching a record 35%.

This increase is likely reflective of a positive response to Lammy's emphasis on establishing a more consistent UK policy towards China, reinforced by plans for regular engagement. These comparisons suggest that the visit bolstered confidence among British businesses, who have been looking for clearer signals from the UK government on its approach to China.

Before Lammy's visit, 52.3% of respondents held a neutral view, and 18.4% were negative on UK-China relations. After the visit the neutrality figure decreased to 46.7%, whilst negative sentiment dropped to 12.8%—the lowest recorded in our surveys. These figures underscore the value of visible government engagement, which appears to have provided companies with greater reassurance amid an evolving policy landscape.

Across the entire survey period, companies demonstrated a more positive view compared to previous years. In total, 26.8% indicated a positive outlook, with 48.8% remaining neutral and 14.9% negative, representing the highest level of positivity and lowest level of negativity since the Sentiment Survey first asked this question in 2022. These figures suggest an underlying shift in sentiment, though the high levels of optimism recorded after the Foreign Secretary's visit highlight the critical role of government engagement in building business confidence.

Looking at overall figures, MNCs—often more attuned to UK-China policy developments—showed particularly high optimism, with 35.5% expressing a positive outlook and only 9.7% holding a negative one. SMEs, while slightly more cautious, also expressed a notable increase in confidence, with 26.8% optimistic and 14.9% pessimistic, shifting from 22% and 28% respectively in 2023.

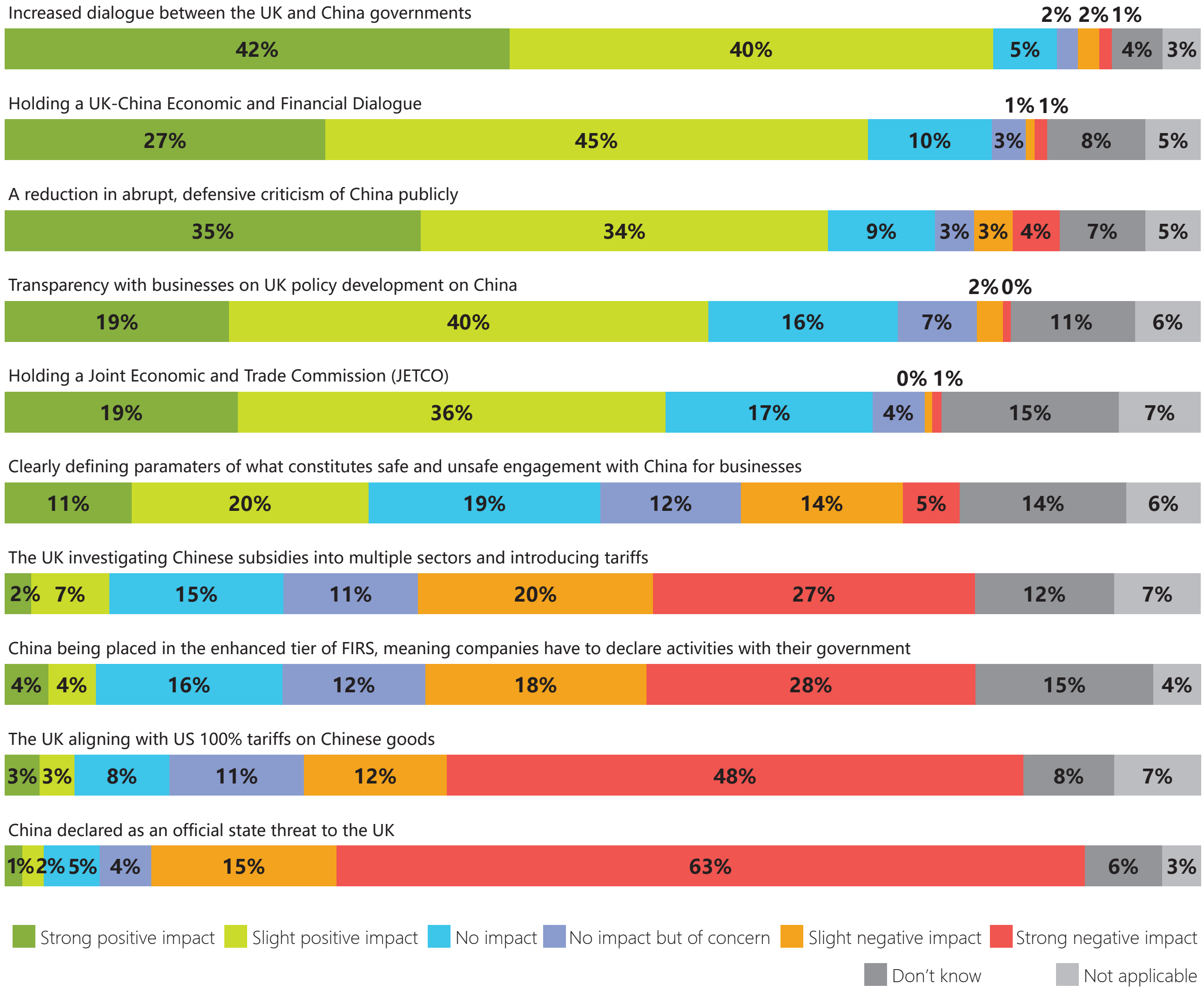
Financial services and legal services were the most optimistic, with 40.5% and 38.9% of firms respectively expressing optimistic sentiment. Education was the most pessimistic sector, with 26.7% holding a negative view, though this could be due to domestic policies which have affected many British school respondents which operate in China[2].

This year's results reflect businesses' positive outlook on UK-China relations under the new Labour government, with the Foreign Secretary's visit and promises of regular engagement acting as significant reassurance to British companies in China. With businesses consistently having called for such engagement, many will likely hope that this engagement can sustain over the coming months and years.

2 'Labour's move to tax private education leaves Britain divided,' Reuters, September 2024

THE UK GOVERNMENT IS COMMENCING A FULL AUDIT OF UK CHINA RELATIONS. WHAT IMPACT DO YOU FEEL THE FOLLOWING CHANGES WOULD HAVE ON YOUR BUSINESS IN CHINA?

This year's Sentiment Survey introduced a new question around the anticipated impact of potential changes resulting from this audit on British businesses in China. To measure where businesses would like to see most work done in this audit, the survey asked businesses to rank which potential outcomes would deliver greatest benefit.



The responses overwhelmingly highlighted the importance of fostering stronger dialogue between the UK and Chinese governments, with 45.1% of surveyed companies indicating this as the most impactful factor for their operations in China. This aligns closely with responses to the survey's earlier question on business confidence in the UK government, where companies clearly expressed a desire for consistent, open engagement with China.

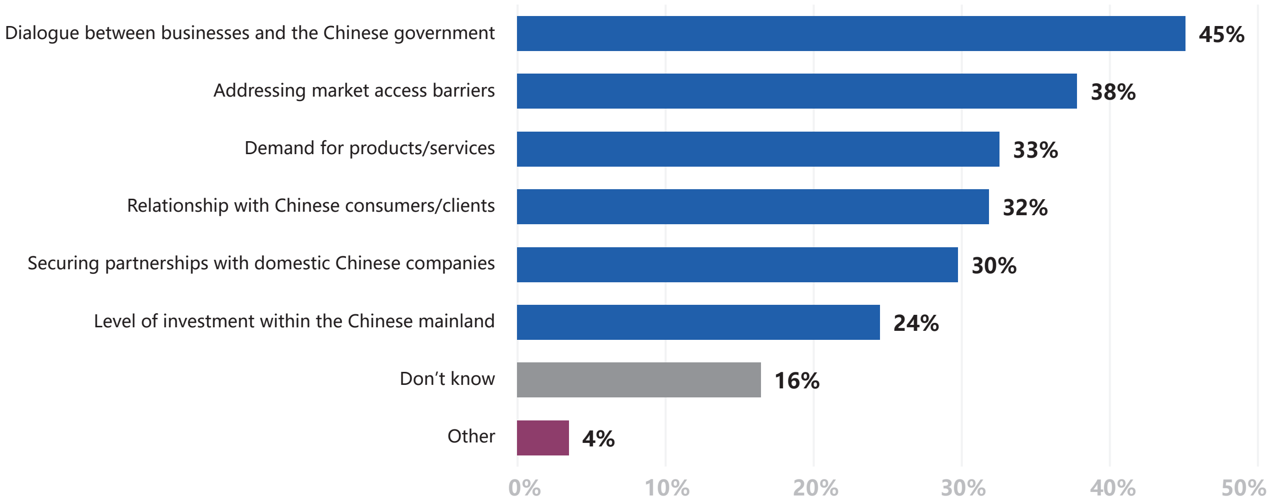
A priority for many companies was the reduction of abrupt, defensive public criticism of China by UK government officials, with survey respondents indicating that this would foster a more stable business environment. Lammy's recent emphasis on 'pragmatism' in the UK's approach to China suggests that such shifts are already in consideration.

Beyond these priorities, the resumption of formal channels of dialogue, such as the UK-China Economic and Financial Dialogue (EFD) and the Joint Economic and Trade Commission (JETCO), was widely seen as an essential measure to facilitate business operations, particularly among MNCs. The HTTL and retail/consumer goods sectors also highlighted the importance of transparency around UK policy development on China as the second priority, underscoring a need for clear communication between the UK government and businesses.

On the other hand, companies expressed notable concern over potential negative aspects of UK-China policy. The prospect of the UK officially designating China as a 'state threat' was identified as the most troubling possible policy shift, a view shared across almost all sectors. In contrast, the advanced manufacturing and transportation (AMT) sector, which faces greater exposure to trade policy shifts, was most concerned about the potential alignment of UK tariffs with US tariffs on Chinese goods. SMEs, meanwhile, flagged investigations into Chinese subsidies as a third major area of concern, whilst MNCs pointed to potential changes related to the UK's Foreign Investment Risk Screening (FIRS) regulations as an area of sensitivity.

The findings from this year's Sentiment Survey underscore the importance of constructive UK-China dialogue and a balanced approach to policymaking as the UK navigates the implications of this audit. For British businesses, increased government engagement, a more stable communication framework, and continuity in trade relations are seen as essential components in maintaining positive UK-China ties amidst a shifting global landscape.

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?



This year's results highlight a range of perspectives across sectors on where UK-China government dialogue could most benefit British business operations in China, underscoring the need for a flexible approach in the UK's engagement with China.

Overall, the most commonly selected area was assisting with 'dialogue between business and the Chinese government,' chosen by 45.1% of respondents, reflecting continued emphasis on the potential influence of diplomatic channels in enhancing interaction with Chinese authorities. The next most significant benefit was 'demand for products and services,' selected by 32.5%, followed by 'addressing market access barriers' at 27.8%.

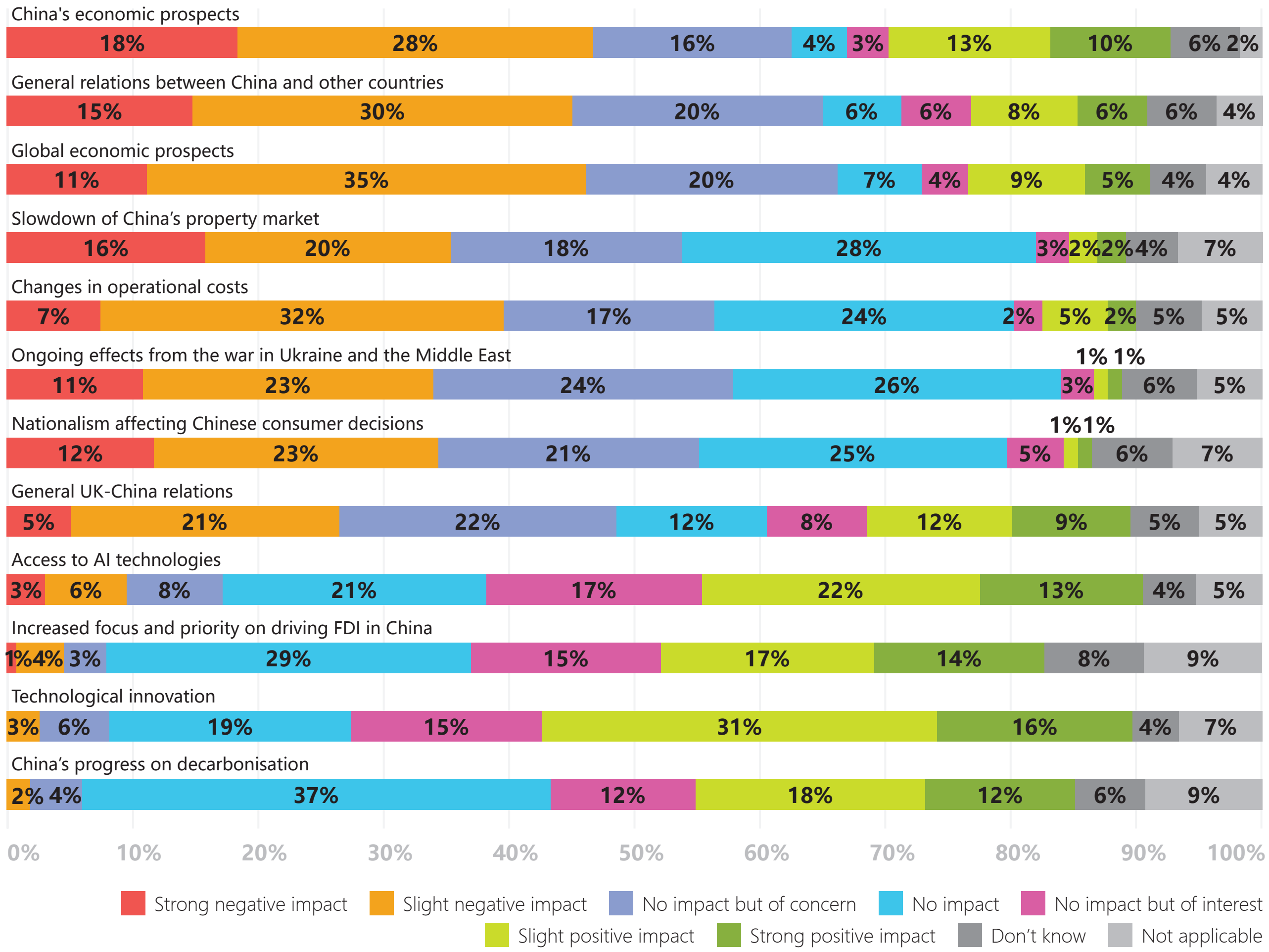
Sector-specific responses illustrate the diverse expectations that British businesses hold for government intervention. While the majority of sectors indicated that business-to-government dialogue would be most beneficial, creative, HTTL, and retail & consumer goods respondents placed greater importance on strengthening relationships with Chinese consumers, seeing this as essential for their operational growth. In contrast, healthcare companies were more focused on the need for dialogue to help address market access barriers, which indicates challenges dealing with these.

Among MNCs, 64.5% prioritised business-to-government dialogue, with 42.6% also stressing the importance of addressing market access barriers. SMEs were saw dialogue as a lower priority, with only 43.5% selecting business-to-government dialogue as their main priority. These sectoral differences suggest that, while broad themes such as dialogue remain prominent, each sector's specific operational context could benefit from a tailored approach in future UK-China government exchanges.

5

POLITICAL AND ECONOMIC TRENDS

PLEASE ASSESS THE FOLLOWING TRENDS IN TERMS OF THEIR IMPACT ON YOUR ORGANISATION'S PROSPECTS IN THE CHINESE MAINLAND OVER THE NEXT YEAR



For 2024-25, British businesses continue to cite China's domestic economy as the most significant challenge affecting their operations, reflecting a consistent trend from previous years. This year, 62.5% of respondents reported negative views on China's economic landscape, showing an increase from 60% last year, although still below the 2022-23 peak of 69%. This data highlights ongoing concerns about economic pressures in China, with companies still grappling with structural challenges, including slowdowns in consumer spending and persistent issues in the property sector.

Following China's domestic economy, the second most concerning factor was 'General relations between China and other countries,' on a weighted average, which this year interestingly was the highest priority challenge for MNCs. 'Global economic prospects' was in third place, underlining the extent to which external economic uncertainties are influencing business sentiment in China. This was closely followed by the 'Slowdown in China's property market', which continues to impact consumer confidence and spending. Finally, a new entrant to the list of top concerns was 'increasing operational costs' within

China, reflecting an uptick in expenses associated with staffing and other costs. This rise in operational costs is a particularly notable concern this year, highlighting the tangible financial pressures companies are facing in the Chinese market.

In terms of areas where companies feel more optimistic, technological innovation leads. This optimism is further bolstered by positive responses on AI and technology access, which has continued to see interest from foreign companies. The Chinese government's priority on driving foreign direct investment (FDI) and progress on decarbonisation have also been welcomed by respondents. These factors align well with international business priorities, giving respondents confidence in their alignment with China's policy focus on sustainable growth and innovation. Notably, the UK-China relationship ranked as the fifth most positive area this year—an intriguing shift, given that this area was among the top negative concerns in recent surveys.

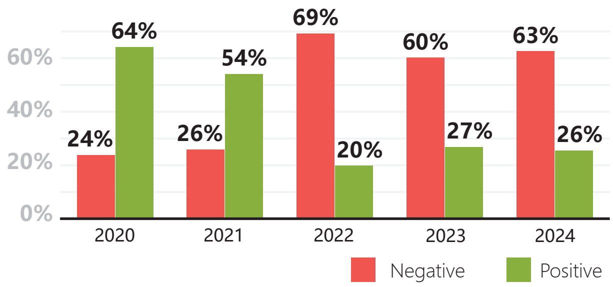
When comparing economic versus geopolitical factors, it's evident that the domestic economic situation continues to eclipse geopolitical concerns as the primary influence on companies' outlooks. While ongoing political tensions with global partners remain significant, they are perceived as somewhat secondary to the practical, immediate challenges that businesses face within China's economic environment. This focus on economic fundamentals reflects a need for more stability and predictability within the Chinese market, as businesses evaluate the feasibility of long-term operations and investments.

On the geopolitical front, companies remain wary of the broader global environment, particularly with the European Union's recent tariff increases and the intensification of US-China and EU-China political rhetoric. These developments contribute to an overarching uncertainty that could impact British business operations within China's market, although companies generally continue to view these issues as supplementary to domestic economic factors. On this it is important to note that the survey closed before the US election on 05 November.

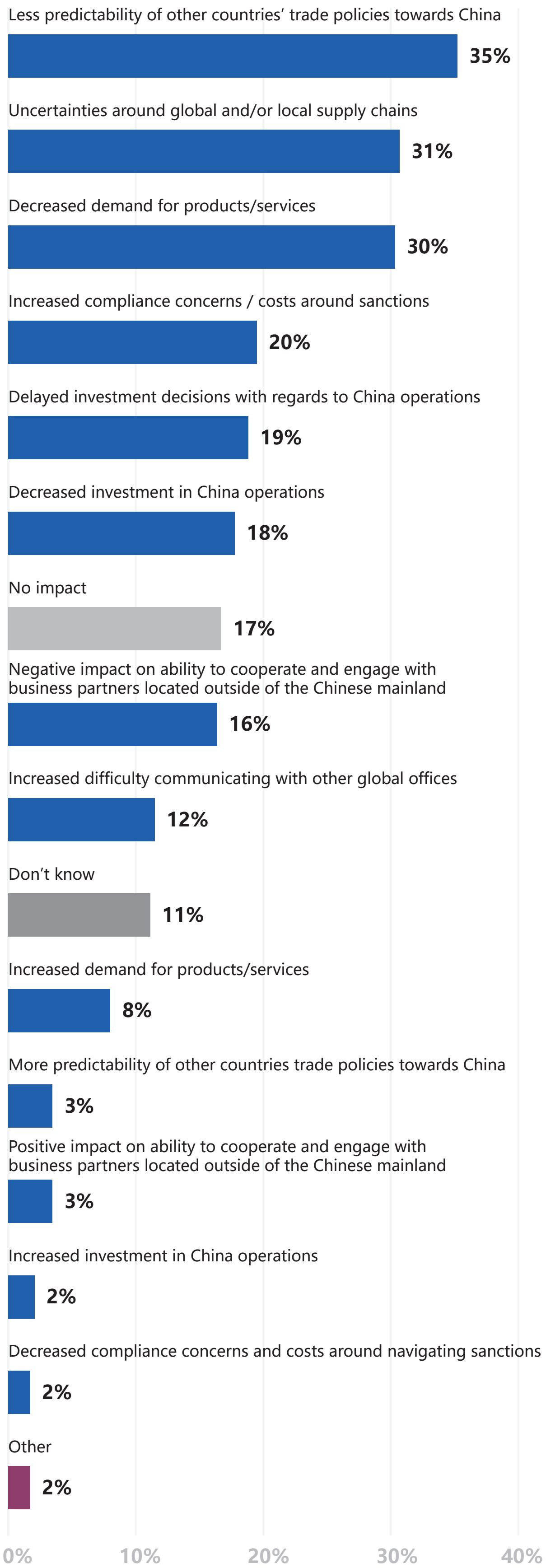
Within the UK, the approach of the newly elected government towards China has provided some basis for optimism. While concerns remain, there is optimism among companies that the government's nuanced and pragmatic stance could open doors for constructive engagement and provide greater predictability for businesses navigating the China market.

Sector analysis adds important nuance to this overall picture. Respondents in the AMT sector ranked operational costs as their most pressing concern, alongside China's relationships with other countries. This reflects the compounded impact of tariffs and staffing expenses on their operations. Similarly, firms in financial services, FBA, healthcare and legal services also indicated that China's external relationships are their top concern, highlighting a widespread apprehension about geopolitical dynamics. Meanwhile, businesses in the built environment and retail sectors pointed to issues in China's property market as a critical challenge, directly affecting their prospects and operations.

PLEASE ASSESS THE IMPACT OF CHINA'S ECONOMIC PROSPECTS ON YOUR ORGANISATION'S OUTLOOK IN THE CHINESE MAINLAND OVER THE NEXT YEAR



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



This year's responses suggest that geopolitical pressures on British companies operating in China have remained steady, with no significant shifts compared to last year. Issues such as foreign trade policies, supply chain uncertainties, and compliance challenges continue to feature prominently in company concerns. While some sectors show signs of adapting to these challenges, the overall impact of geopolitical tensions remains substantial. Notably, the survey closed before the US presidential election, meaning respondents' views may not fully reflect potential policy shifts or evolving dynamics in the months ahead.

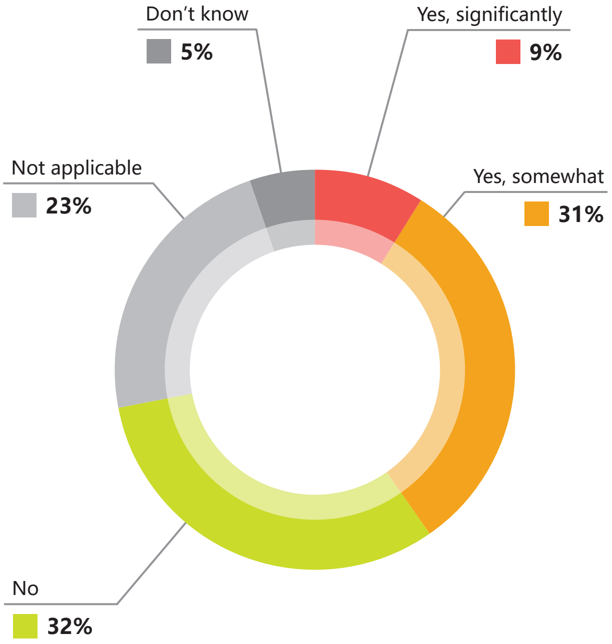
Demand for products and services has also been impacted across specific industries. Companies in education, creative, HTTL, and legal services report that geopolitical tensions have led to reduced demand, with 30.3% of respondents overall indicating a drop. However, this issue is particularly pronounced in these sectors, where consumer sentiment and regulatory policies significantly influence demand. For instance, the education sector faces challenges tied to international student policies, while the creative sector navigates restrictions on content and media.

Investment decisions remain prominent, with 18.8% of respondents delaying investments in China and 17.8% reducing their China-based investments altogether. Compliance costs associated with sanctions remain high, affecting 19.5% of companies, while 11.5% of respondents report difficulties in maintaining effective communication between China-based teams and global offices. These challenges highlight the fragmentation that geopolitical tensions can introduce into global operations.

6

REGULATORY CHALLENGES

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



This year's results reveal a continued shift in how British businesses perceive market access barriers in the Chinese mainland. The proportion of companies reporting significant market access barriers has remained steady at 9.1%, unchanged from last year. However, the percentage of businesses indicating that market access barriers 'somewhat limit' their operations has decreased significantly, from 41% to 31%.

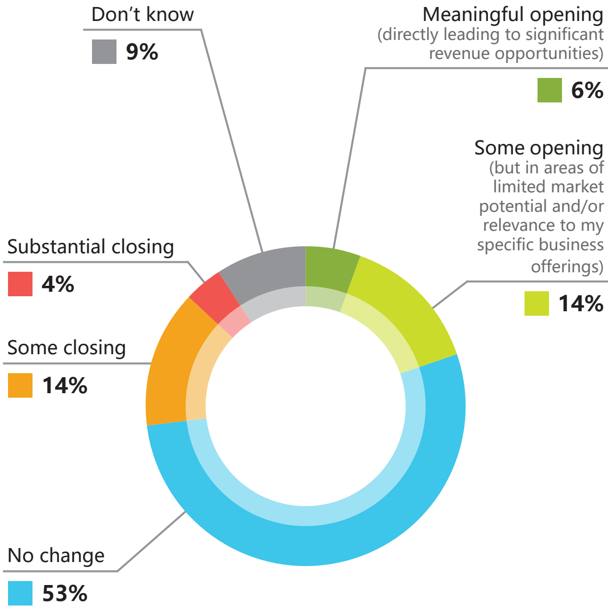
The share of businesses stating they do not encounter market access barriers has dropped slightly, from 33% to 32%. This subtle change, combined with a notable increase in respondents selecting 'Not Applicable'—23%, up from 12% last year—suggests that more companies may find these barriers irrelevant to their specific operations or have yet to encounter them in practice.

While the overall decline in 'somewhat limited' responses is encouraging and points to some improvements in the operating environment, the unchanged proportion of businesses facing significant barriers underscores the existence of structural challenges for a subset of companies. These findings paint a mixed picture: progress for many, but persistent hurdles for others.

Further analysis may be needed to determine whether this positive trend is linked to policy measures such as the 24-Point Action Plan or changes in how businesses operate in the market, particularly in sectors where market access barriers are less relevant.

The energy sector, which last year experienced a significant improvement (with the percentage of companies reporting restrictions dropping from 66% to 40%), has faced a reversal in 2024, with 68.4% of respondents now reporting restrictions. This increase reflects growing difficulties within the sector. Similarly, over half (51.9%) of respondents in the food and beverage (FBA) sector reported market access barriers. By contrast, the creative sector has shown notable improvement: only 30.8% of companies reported market access restrictions, down from 50% last year.

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



Over half (53.5%) of British businesses reported no significant changes in terms of market openings or closings this year, a slight increase from last year's 49%. Among those who experienced changes, 13.9% noted some market closings, and 4% reported substantial closings, both up from last year's figures of 22% and 2%, respectively. Meanwhile, only 5.6% of companies reported meaningful market openings leading to significant revenue, down slightly from 6% last year, while 14.2% observed limited market openings (down from 16%).

Most sectors experienced mixed outcomes. The financial services sector was the most optimistic, with 17.5% of respondents noting meaningful openings and only 2.5% reporting closings. The hospitality, tourism, travel, and leisure (HTTL) sector also showed promise, with 19% seeing meaningful openings and 23.8% reporting some limited openings.

In the survey, companies were invited to write in areas of market opening, with 77 companies submitting responses. Among these, four referenced the opening of ESG-related opportunities in China, and three highlighted increased freight and aviation links as areas of market expansion.

However, challenges remain in specific sectors. The creative sector and education sector saw 15.8% and 18.7% of respondents, respectively, noting market closings. The food and beverage sector displayed a mixed outlook: 18.5% reported some openings, but 14.8% noted closings, and 7.4% faced substantial barriers. These trends reflect a cautious market sentiment amidst evolving regulations.

In other sectors, examples of market closures were cited. The legal sector, for instance, reported closures of US-headquartered firms, with two legal firms explicitly highlighting this trend as an example of market closing.

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	Same as 2023-24
2	Transparency of the business environment	Same as 2023-24
3	Enforcement of laws and regulations	Same as 2023-24
4	Intellectual property rights protection	↑ 3
4=	Obtaining business licences and certificates	↑ 1
6	Competition with SOEs	↑ 1
7	Recognition of professional qualifications	↑ 6
8	Accessing or moving company finances	↓ 4
9	Public procurement policy and practices	↑ 3
10	Customs procedures	↑ 4
11	Standards-related challenges	↓ 2
12	Employing foreign staff	↓ 2
13	Taxation landscape for foreign firms and employees	↓ 7
14	Employing local staff	↓ 3

MNC	
1	Navigating cybersecurity and IT regulations
2	Competition with SOEs
3	Transparency of the business environment
4	Public procurement policy and practices
5	Intellectual property rights protection

Healthcare	
Healthcare services | Medical devices | Pharmaceuticals	
1	Public procurement policy and practices
2	Intellectual property rights protection
3	Accessing company finance
4	Transparency of the business environment
5	Obtaining business licences and certificates

SME	
1	Transparency of the business environment
2	Obtaining business licences and certificates
3	Navigating cybersecurity and IT regulations
4	Enforcement of laws and regulations
5	Intellectual property rights protection

HTTL	
Hospitality | Travel, tourism, and leisure	
1	Obtaining business licences and certificates
2	Transparency of the business environment
3	Enforcement of laws and regulations
4	Employing local staff
5	Public procurement policy and practices
5=	Recognition of professional qualifications

Energy

1. Competition with SOEs
2. Intellectual property rights protection
3. Navigating cybersecurity and IT regulations
4. Enforcement of laws and regulations
5. Public procurement policy and practices
5= Recognition of professional qualifications

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
3= Navigating cybersecurity and IT regulations
5. Obtaining business licences and certificates

Education

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

1. Recognition of professional qualifications
2. Enforcement of laws and regulations
3. Obtaining business licences and certificates
4. Transparency of the business environment
5. Employing foreign staff

Food, Beverage & Agriculture

Food and Beverage | Agriculture

1. Customs procedures
2. Competition with SOEs
3. Enforcement of laws and regulations
3= Intellectual property rights and protection
3= Employing local staff

Creative

Culture and arts | Media and publishing | Marketing and communications

1. Enforcement of laws and regulations
2. Navigating cybersecurity and IT regulations
3. Transparency of the business environment
4. Intellectual property rights protection
5. Public procurement policy and practices

Built environment

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

1. Competition with SOEs
2. Intellectual property rights and protection
3. Enforcement of laws and regulations
4. Transparency of the business environment
5. Public procurement policy and practices

Business Advisory Services

1. Navigating cybersecurity and IT regulations
2. Enforcement of laws and regulations
3. Accessing company finance
4. Public procurement policy and practices
5. Customs procedures
5= Transparency of the business environment

Financial services

Financial Services | Accounting

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

ITT

1	Navigating cybersecurity and IT regulations
2	Enforcement of laws and regulations
3	Obtaining business licences and certificates
4	Intellectual property rights and protection
5	Transparency of the business environment

Retail and consumer

1	Standards-related challenges
2	Customs procedures
3	Navigating cybersecurity and IT regulations
4	Intellectual property rights and protection
5	Accessing or moving company finances

Legal Services

1	Recognition of professional qualifications
2	Obtaining business licences and certificates
3	Taxation landscape for foreign firms and employees
4	Public procurement policy and practices
5	Accessing or moving company finances

Navigating cybersecurity and IT regulations has now topped the list of regulatory challenges for British companies in China for two consecutive years. This comes despite government efforts to ease the use of data in the last year and reflects the high level of challenge that companies face in complying with a regulatory framework that has evolved swiftly in recent years, impacting industries from retail to professional services. Increased scrutiny and rapid implementation of new cyber policies have left organisations facing heightened compliance demands, with many reporting this as their number one regulatory priority. The challenges are further amplified for firms with a heavy reliance on digital infrastructure, with sectors like creative industries, ITT, and financial services each noting the profound impact.

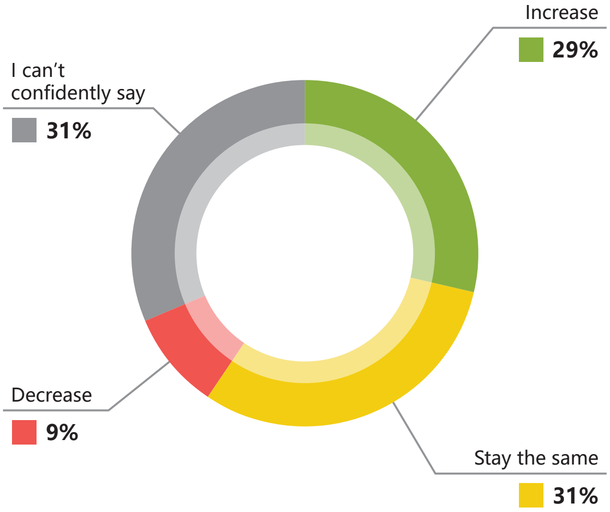
Transparency and enforcement of laws continue to be primary concerns among British businesses, both prominent features in the Chamber's *Position Paper*[1] this year. Transparency of the business environment ranks as the second highest concern, underscoring long-standing issues with the perceived clarity and consistency of China's regulatory approach. Enforcement of regulations follows closely in third, with education, AMT, and ITT companies expressing challenges due to intensified regulatory oversight within their sectors. This landscape requires clear policy commitments to alleviate the uncertainty companies face in navigating an often-opaque regulatory environment.

Challenges around obtaining business licences and permits have become more pronounced this year; now the fourth-most cited concern. This shift is evident across a broad range of sectors, with HTTL and education placing a specific emphasis on the difficulty of securing the necessary licences to operate. The education sector has been affected by rising scrutiny around international education and English-language training, which remains a substantial focus of regulatory control. Other sectors, including AMT and financial services, have similarly noted the administrative burdens and delays involved in getting licenses, highlighting this as a considerable barrier to effective market entry and expansion.

Intellectual property rights protection re-enters the top five this year, reflecting renewed concern over safeguarding proprietary information and technology. While IP protection is an issue across the board, sectors such as healthcare, energy, and the creative industries have placed particular importance on it, given their reliance on innovation and brand integrity. Similarly, healthcare organisations identify IP as critical for the protection of patents and product integrity in the face of rising competitive pressures within China's market.

1 'British business in China – Position Paper 2024,' British Chamber of Commerce, May 2024

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



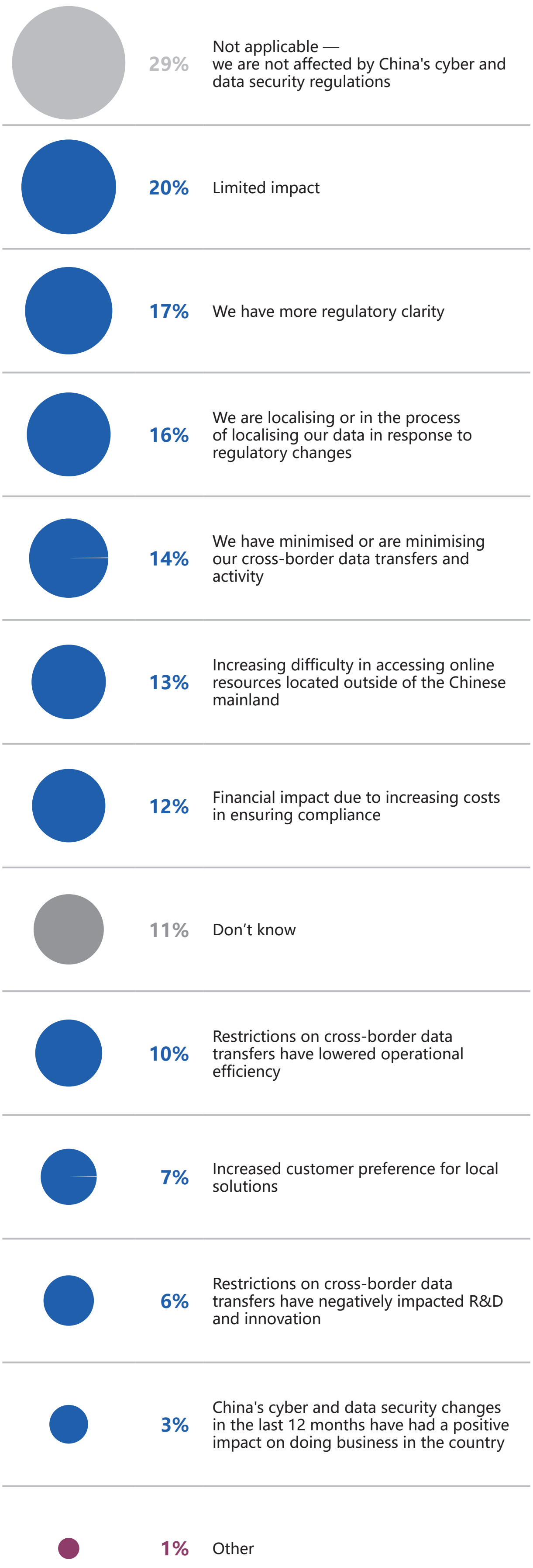
This year's data reveals a modest but notable improvement in sentiment about the regulatory landscape in China over the next five years. Currently, 28.8% of companies expect regulatory obstacles to increase, compared to 36% last year. Meanwhile, 30.9% of respondents believe obstacles will remain unchanged, and 9% foresee a decrease, slightly up from 7% last year. 31.3% of respondents answered, 'I can't confidently say', showing the difficulty companies have predicting how regulatory barriers will change in the current political and economic climate.

While these figures indicate a slightly more optimistic outlook, the results remain cautious. Despite Chinese government efforts to reduce regulatory barriers and attract foreign investment, many businesses have yet to experience meaningful regulatory stability. This lingering uncertainty continues to temper long-term confidence in the market.

Differences in outlook between small and medium-sized enterprises (SMEs) and multinational corporations (MNCs) are notable. SMEs are more likely to predict an uptick in regulatory challenges, with 34% expecting an increase and only 9.6% anticipating a decrease. In contrast, MNCs appear slightly more optimistic, with 21.7% expecting more obstacles and 11.7% expecting fewer. The divide may reflect the fact that larger corporations often have more resources to address regulatory changes, whereas SMEs may find compliance with new requirements burdensome.

Sector-specific results also reveal varied expectations. Advanced manufacturing and transportation (AMT) companies are the most pessimistic, with 40% expecting an increase in regulatory obstacles, followed by the education sector at 36.1%—two industries that have faced extensive regulatory scrutiny in recent years. Legal services, by contrast, reported the lowest levels of concern, with only 15.8% anticipating more regulatory obstacles. Interestingly, no sector expected regulatory obstacles to decrease overall. Notably, zero respondents in the built environment and HTTL (hospitality, travel, tourism, and leisure) sectors anticipate fewer obstacles in the future, and only 6.7% of AMT respondents hold this view. These findings underscore that, despite some targeted regulatory reforms, expectations of regulatory burdens remain prevalent across many sectors.

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

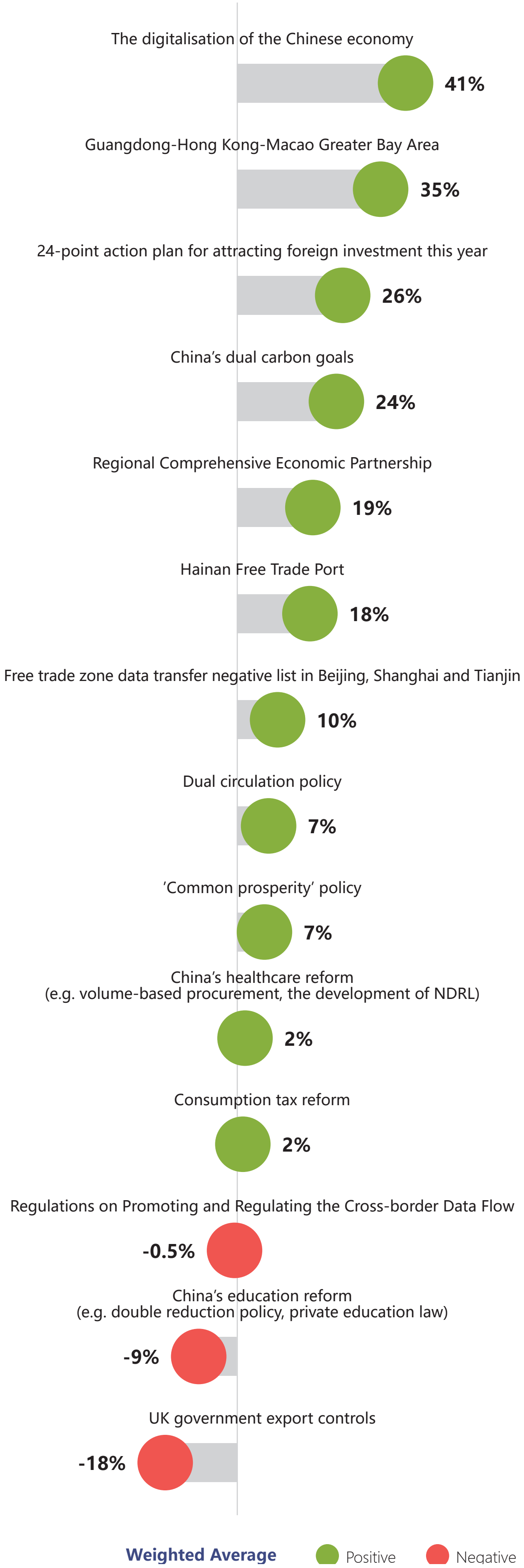


This year's survey reveals that cybersecurity and data compliance issues continue to be the most significant regulatory challenges for British businesses in China, underscoring the complex and evolving landscape. While 17.3% of companies reported a greater sense of regulatory clarity—a notable increase from the 12% who cited clarity last year—the impact of China's cybersecurity and data regulations remains mixed. Some businesses, particularly those in data-intensive sectors, continue to face operational constraints. Last year, 15% of companies highlighted data localisation and compliance as factors affecting confidence in the business environment; this year, more companies (notably in the financial services sector) report actively localising data, indicating that companies are adjusting their operations to meet regulatory requirements despite ongoing concerns.

The contrast between multinational corporations (MNCs) and small/medium-sized enterprises (SMEs) is especially marked in this area. Larger companies appear to be adapting to the shifting regulatory framework. 34.5% of MNCs have ramped up data localisation efforts, with 25% also reporting improved regulatory clarity. For SMEs, however, the impact has been less pronounced: 64.6% of SMEs noted either limited or no impact from these regulatory changes or reported uncertainty about the effects.

Sectoral differences also reveal how certain industries are more exposed to cybersecurity and data regulations. In financial services, 36.8% of companies reported data localisation efforts, a trend echoed in the healthcare sector (30%) and the retail and consumer goods sector (31.3%). Such sector-specific trends suggest that, while regulatory clarity is growing for some, compliance demands remain heavily influenced by industry-specific data use, creating a varied impact across the business landscape.

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?



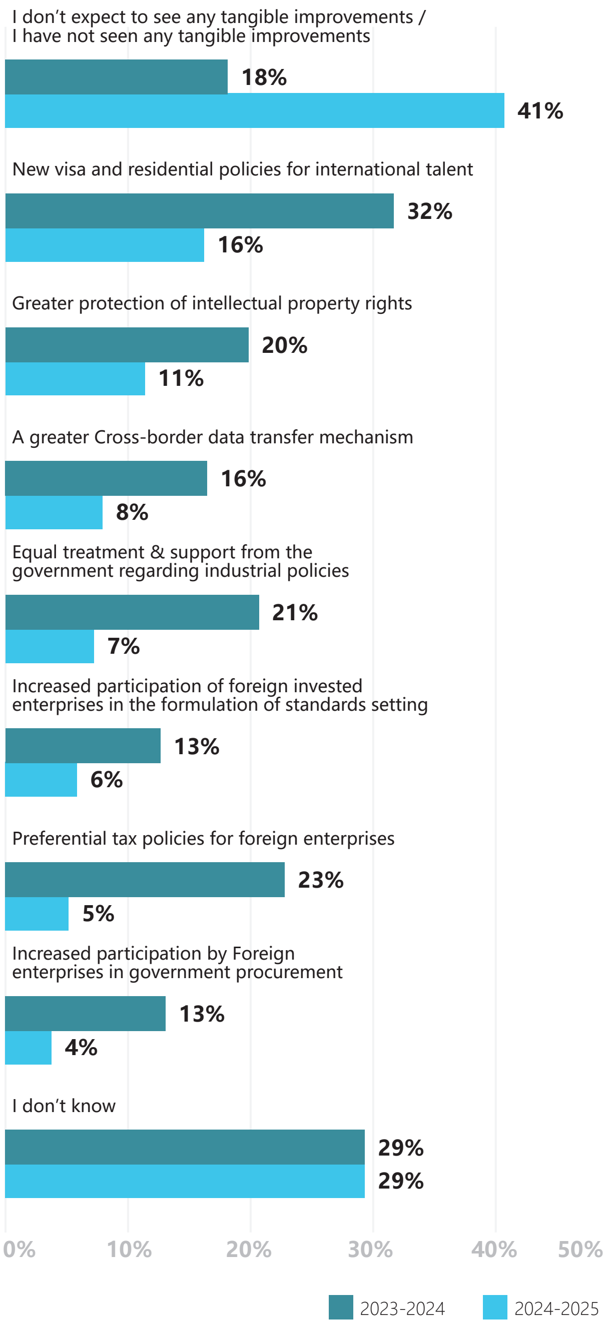
While some sectors have benefited from specific measures, others face challenges stemming from reforms and regulatory changes. These varied responses highlight the importance of sector-specific nuances in evaluating how businesses adapt to China's evolving policy landscape.

British businesses report a mixed experience navigating Chinese policies, with some initiatives presenting clear opportunities while others pose significant challenges. The digitalisation of the Chinese economy stands out as a key benefit, with 44.1% of respondents citing positive impacts. Policies such as the Guangdong-Hong Kong-Macao Greater Bay Area (38% positive), China's dual carbon goals (27.3% positive), and the 24-point action plan (26.4% positive) are widely recognised for their potential to support business growth, with minimal negative feedback. These policies align with industry priorities, offering tangible advantages in professional services, healthcare, and energy.

However, several policies remain contentious. UK government export controls are the most negatively perceived, with 19% of respondents highlighting their adverse impact, far outweighing the negligible 1.5% positive feedback. China's education reform also faces scrutiny, with 26% of education companies expressing concerns about its challenges. Similarly, policies like the dual circulation strategy (8.5% negative) and the Common Prosperity initiative (7.5% negative) have raised doubts among businesses due to unclear implementation and potential cost increases. Meanwhile, regulations on cross-border data flow show a sharp divide, with 15.5% viewing them favourably but 16% citing obstacles, reflecting the complexity of adapting to China's evolving data policies.

While positive feedback highlights areas of alignment between policy priorities and business needs, the negatives underline persistent regulatory hurdles and external pressures impacting British companies in China. These contrasting dynamics underscore the nuanced challenges of operating in an evolving market.

FOLLOWING THE CHINESE GOVERNMENT'S ANNOUNCEMENT OF THE 24-POINT GUIDELINES FOR ATTRACTING FOREIGN INVESTMENT LAST YEAR, IN WHICH AREAS HAVE YOU SEEN IMPROVEMENTS IN THE LAST 12 MONTHS?



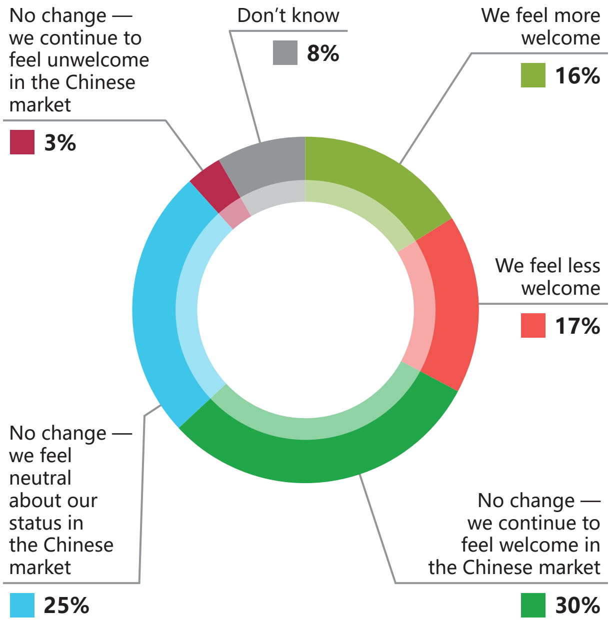
In August 2023, the Chinese government issued its initial *24 Point Guidelines* aimed at enhancing the foreign investment environment, with a focus on areas like visa facilitation, tax incentives, and intellectual property protection. Since then, the government released a second 24-Point Action Plan, accompanied by claims that a majority of the original guidelines had been implemented, demonstrating a continued commitment to attract and retain foreign investment. This year's survey assesses the impact of these policies on British businesses' operations, gathering their perspectives on whether these ambitious policy measures have delivered concrete results.

Results show a measured response from British businesses regarding the impact of the Chinese government's *24 Point Guidelines* for attracting foreign investment. When asked about tangible improvements since the guidelines' announcement, 40.7% of companies reported 'no tangible improvement'. It's important to note that this doesn't necessarily mean that there has been no policy changes, but suggests that respondents are yet to see them translate to tangible improvements. This was particularly prominent in the built environment sector, where nearly 70% of businesses surveyed noted no tangible improvements, along with ITT, healthcare, and business advisory services, each seeing approximately 50% of organisations noting the same.

In contrast, around 30% of respondents reported experiencing some positive changes. Among these, visa and residential policies emerged as the most frequently cited area of improvement, with 16.2% recognising enhanced conditions for attracting international talent. This aligns closely with last year's high expectations for support in employing foreign staff, which topped the list of priorities in the *Business Sentiment Survey 2023-2024*. Additionally, 11.4% noted improvements in intellectual property rights protection—another area previously identified as critical to fostering innovation and building confidence in China's regulatory landscape. Companies in services (21%) and education (23.9%) were particularly positive about advancements in visa policies, reflecting a trend towards more accessible pathways for international talent within these fields.

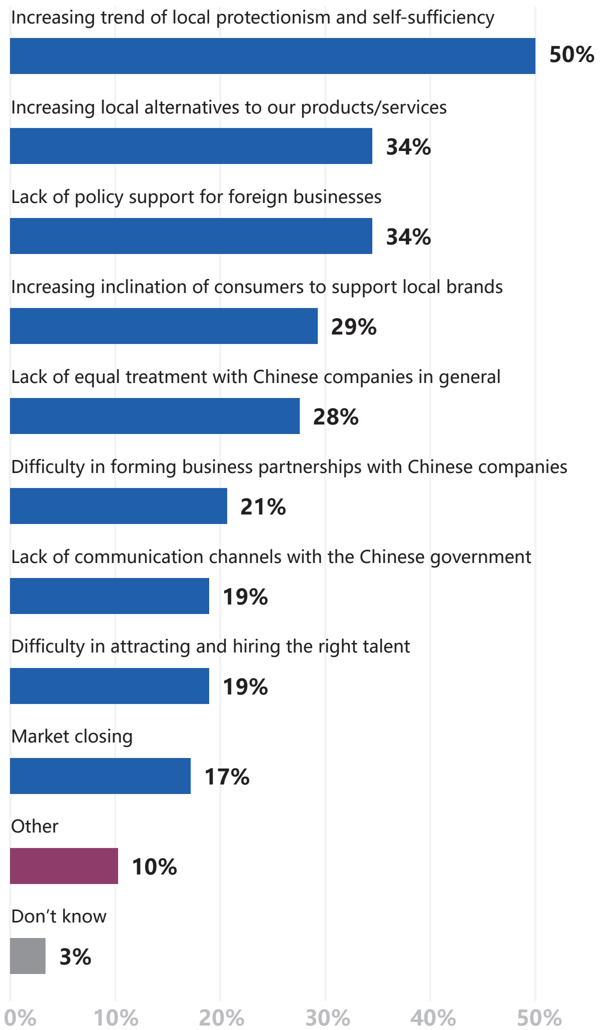
In comparing expectations from last year to this year's feedback, while businesses hoped for greater progress across multiple regulatory areas, the responses indicate only partial fulfilment of these aspirations. High-priority areas like industrial policy equality, government procurement access, and standard-setting involvement standard setting involvement are not yet perceived to have tangibly improved by British businesses, suggesting that while steps may be taken, the gap between policy announcements and their implementation in specific sectors remains an area of interest for foreign investors.

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?



55% of British businesses reported no change in the level that they feel welcome in the Chinese market; 30% of British businesses report feeling as welcomed in the Chinese market as last year, and 25% who feel neutral. These figures have not shifted much from last year; however, the percentage of those who feel less welcomed by the market has decreased to 17%, down from 24% last year. Among these, companies in the healthcare (35%), creative (33.3%), and built environment services (31.3%) sectors particularly tend to feel unwelcome in the Chinese market this year. Interestingly, although many companies in the ITT and professional services sectors felt unwelcome last year, these sectors predominantly report no change in feeling welcomed this year. Many companies feeling continued to feel or more welcomed appear to be in AMT (60%), ITT (60%), FBA (57.7%), energy (52.6%), and education (47.9%).

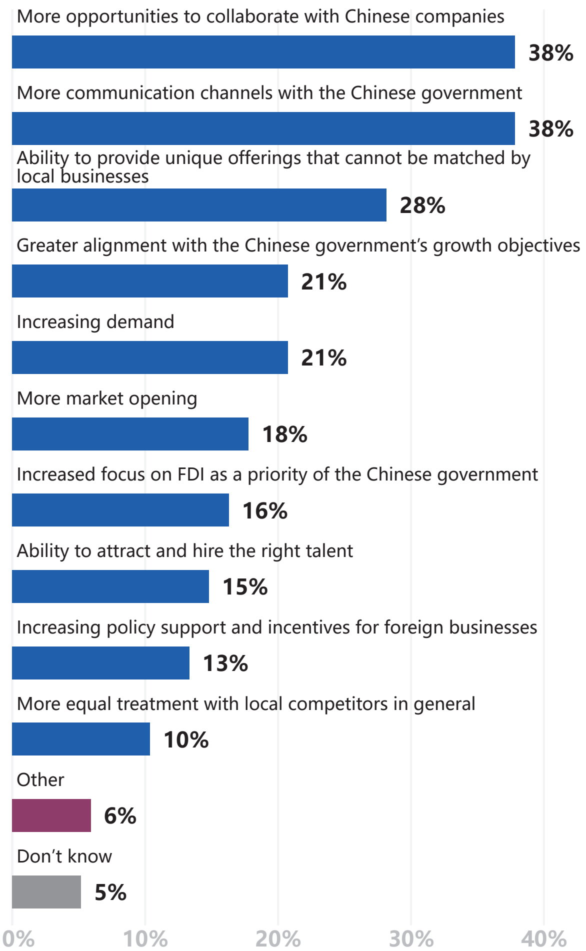
WHY DOES YOUR ORGANISATION FEEL LESS WELCOME OR UNWELCOME AS A FOREIGN BUSINESS IN THE CHINESE MAINLAND?



Of companies who felt less welcome, the top three reasons for this are the 'increasing trend of local protectionism and self-sufficiency' (50%), the 'increasing local alternatives to our products/services' (34.5%), and 'lack of policy support for foreign businesses' (34.5%).

Looking at the three sectors that showed a general sentiment of feeling less welcome in the previous section (healthcare, creative, and built environment services), healthcare sector cited the 'increasing local alternatives to our products/services' as their top concern, followed by 'lack of policy support for foreign businesses.' For both creative and built environment sectors, the leading cause is the 'increasing trend of local protectionism and self-sufficiency.'

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



For companies who noted they felt more welcome in the Chinese mainland, the major reasons given were 'more opportunities to collaborate with Chinese companies' (37.8%), 'more communication channels with the Chinese government' (37.8%), and 'ability to provide unique offerings that cannot be matched by local businesses' (28.2%).

These reasons were broadly the same for all sectors, though the ITT and AMT sectors have slightly different priorities. Companies in the ITT sector selected their top reasons as 'increasing demand,' followed by 'increased focus on FDI as a priority of the Chinese government.' For the AMT sector, their main reason is the 'ability to provide unique offerings that cannot be matched by local businesses,' followed by those listed in the overall rankings. These findings suggest that businesses in ITT are benefiting from expanded opportunities in the Chinese market, while AMT sectors are leveraging their unique competitive advantages to differentiate themselves from local competitors.


鐘鼓樓

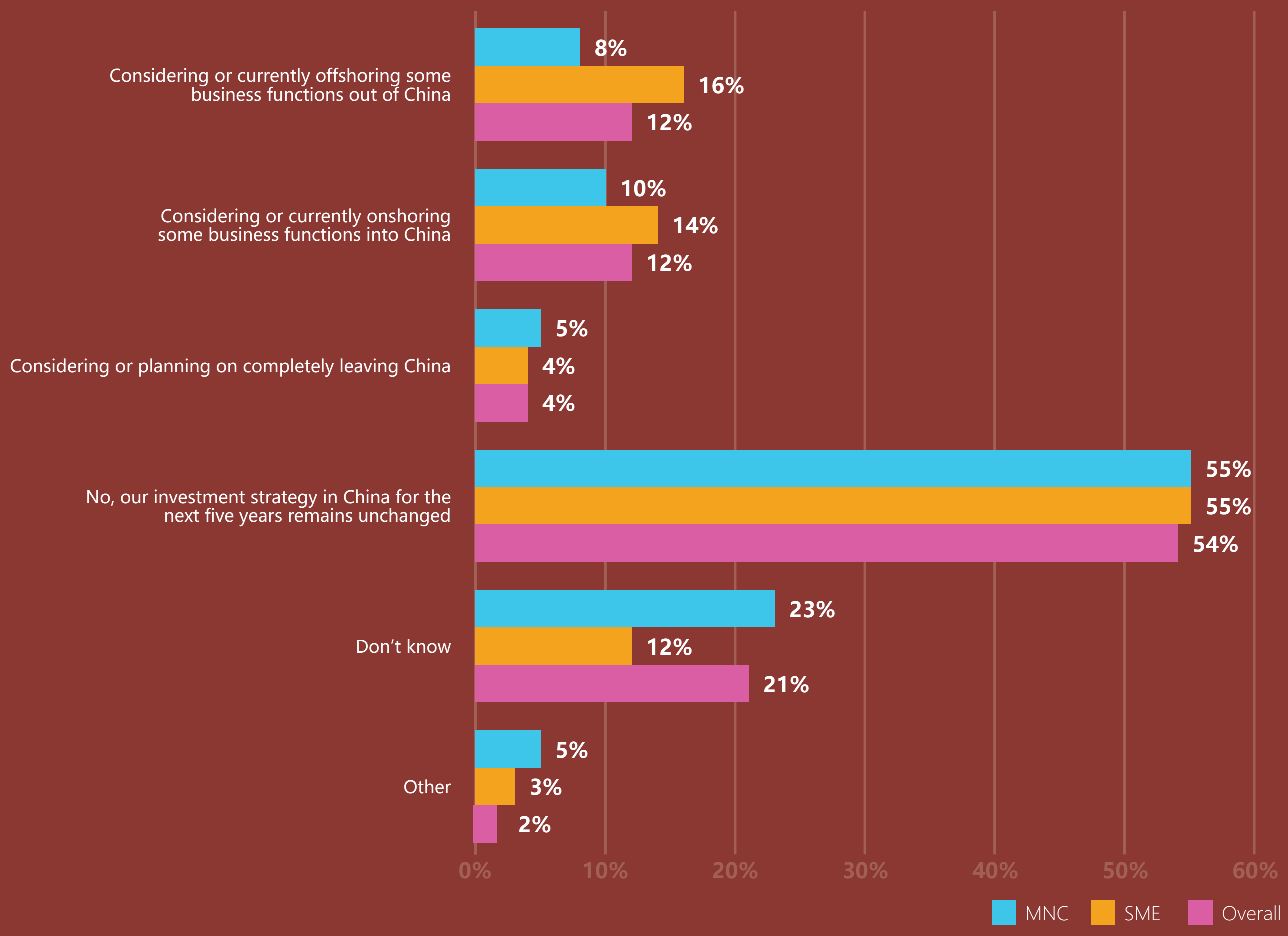
LOCALISATION AND DIVERSIFICATION

This section of our survey examines how British companies are aligning their strategies in the Chinese market with their overall global strategies – especially amidst rapidly changing dynamics between China and the West. In a year marked by heightened concerns over the risk of increased tariffs stemming from tensions with the EU and with a Trump presidency in the US (confirmed after our survey closed on 04 November), the survey reveals intriguing trends in localisation, with each sector driven by distinct purposes.

The majority of British businesses across different sectors have kept their investment strategies unchanged; however, some sectors like AMT, healthcare, and energy – key to both the UK's industrial strategy and China's 'new quality productive forces' – show an increasing trend towards pursuing a higher degree of localisation in business functions such as manufacturing, sourcing components, and R&D.

Compared to last year, more companies are considering or planning a higher degree of localisation strategy by 9 percentage points. The data also shows that the AMT sectors in particular are localising manufacturing in China to expand and/or export to other regions, or using China as a hub for expansion to other areas – or, in other words, pursuing a 'China+1' strategy.

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

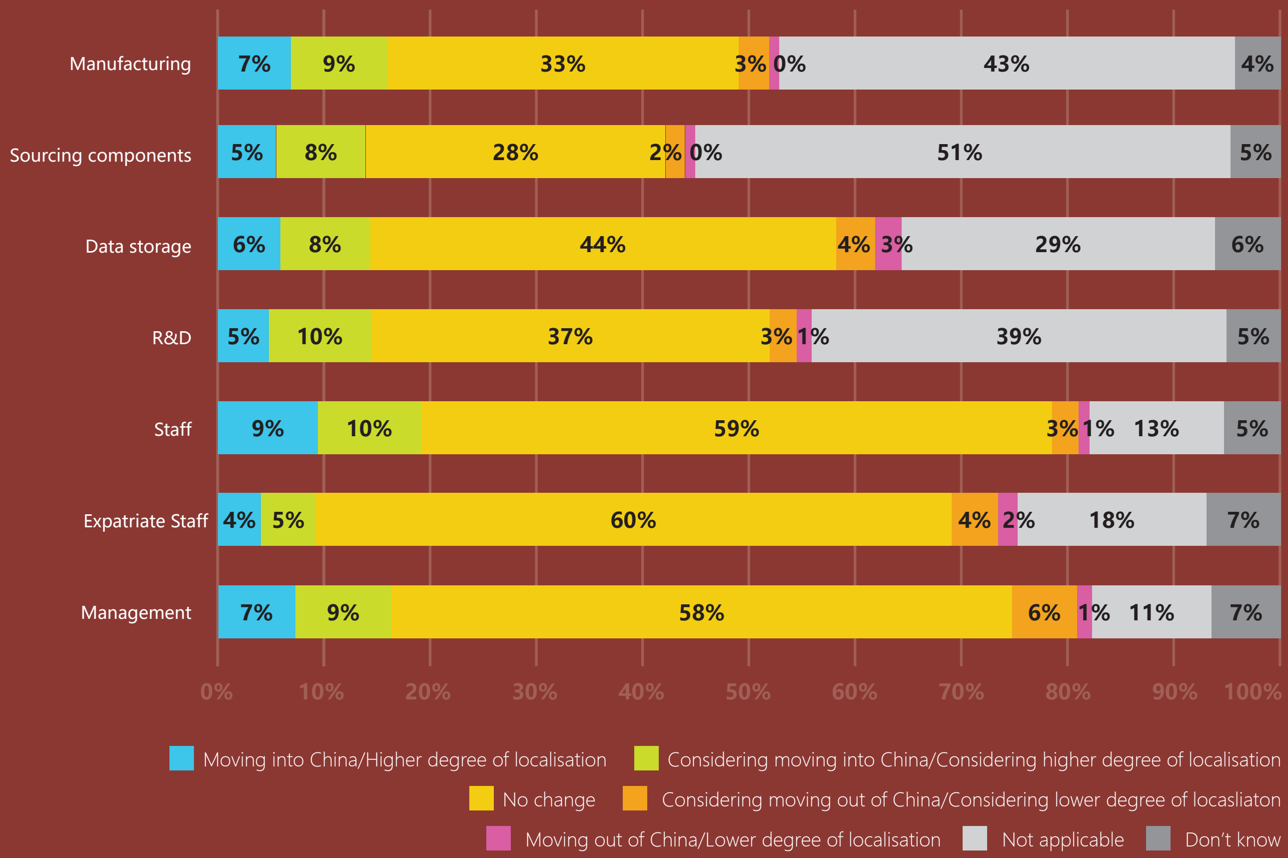


The majority of British companies (54%) plan to keep their investment strategies in China unchanged for the next five years. However, there has been a significant rise in companies considering or actively onshoring certain business functions into China, increasing to 12% from just 3% in 2023—marking a fourfold increase. Of these, about two-thirds are SMEs. The most likely sectors to onshore in the next five years are ITT (20%) and FBA (7.7%). Notably, the professional services sector is also more likely than average to onshore more functions in the next five years, with 13.3% of business advisory, 18.9% of financial businesses, and 11.8% of legal firms willing to invest more in China for future growth. Furthermore, although many US law firms left China last year, the data show that UK firms are not following a similar trend.

On the other hand, companies from four sectors outlined in the UK industrial strategy—healthcare (15%), energy (15.8%), creative (22.8%), and AMT (22.2%)—indicated that they are more inclined to offshore some business functions away from China rather than onshore them. Seemingly, the current environment in China poses both risks and growth opportunities for these sectors, which may push them towards exploring other regions for foreign expansions.

In addition, the built environment services (37.5%), HTTL (26.3%), retail (21.4%), and education (14.5%) sectors also indicate they are more likely to relocate certain business functions out of China. For the built environment services sector, this comes as no surprise, given that it has struggled for years due to difficulties competing against Chinese SOEs, many of which have strong government support.

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



Most companies are holding steady with their plans for major business functions, balancing localisation and diversification. However, there is a notable trend towards high localisation of manufacturing, sourcing components, R&D, and data storage observed across the AMT, healthcare, energy, and professional services sectors.

The AMT sector indicates a high interest in localising manufacturing (27.8%) and sourcing components (34.8%). Similarly, the healthcare sector is also more likely than other sectors to increase localisation in manufacturing (35%), sourcing components (25%), and R&D (30%). The energy sector is interested in localising manufacturing

(22.2%), sourcing components (22.2%), R&D (26.3%), and data storage (27.8%). Data-intensive sectors like the professional services (business 18.2%; finance 27%; legal 35.3%) sectors are more likely than others to localise data storage, a continued trend observed from last year in response to strict data protection and security regulation in the country. These sectors are all identified as key components of the UK industrial strategy, and they are integrating China into their growth plans. Notably, the AMT, healthcare, and energy sectors also fall under China's 'new quality productive forces,' where the interests of both countries intersect.

In terms of the trend in localising data storage, the data shows similar results to previous questions on cybersecurity (see the Regulatory Challenge chapter). Compared to SMEs (11%), MNCs (29.3%) are more likely to be considering or planning to increase localisation of data storage.

Additionally, the data shows that the majority of British businesses are sourcing talent domestically and are less likely to either hire or bring in foreign talent, especially among larger enterprises. This year's survey asked about the localisation of 'expatriate staff' to monitor whether British companies are looking to onshore more foreign talent after many left during the pandemic. On one hand, 19.2% of British businesses are considering greater localisation of staff, up from 15% last year, while only 4% are considering reduced localisation, down from 10% last year. On the other hand, in the new 'expatriate staff' category, 9.3% of British businesses are considering increasing numbers of expatriate staff, while 6.3% are considering decreasing their expatriate presence in China. SMEs show a higher trend towards staff localisation (23.8%) compared to MNCs (11.9%), with a similar pattern for expatriates (12.9% and 5.3%, respectively). Judging from the data, most businesses appear more reluctant to increase foreign talent even though there is an overall increase in the localisation of staff.

WHERE DO YOU SEE YOUR GROWTH PROSPECTS IN THE CHINESE MAINLAND?

This newly added question highlights how businesses across different sectors view growth opportunities in the Chinese mainland, revealing varied growth plans influenced by sector-specific dynamics and broader market conditions. The responses show that 40% of British businesses see the expansion of services within China as a growth opportunity, reflecting the continued importance of the domestic market. Meanwhile, 34% cite assisting Chinese companies to go global as a key driver of growth, and 29% identify collaborating with Chinese partners in joint ventures or strategic alliances.

AMT companies highlight the importance of using China as a base for regional and global expansion. Half of the respondents in this sector report that manufacturing in China for export to other areas represents their most significant growth prospect, underscoring China's role as a critical hub for accessing markets like ASEAN, the Middle East, and Africa. These operations leverage China's supply chain strengths, positioning companies to compete effectively in high-growth regions. Additionally, 38% of respondents in the AMT sector cite joint ventures as a vital strategy, while 32% are focusing on adapting product lines to meet local market demands.

Energy companies show the strongest preference for collaborating with Chinese partners, with 73.7% identifying this as a prospect for growth. These partnerships often focus on co-developing innovative technologies and localising research and development to align with China's significant investment in clean energy infrastructure. Beyond collaboration, 47.4% of energy firms see expanding services within China as their main opportunity, reflecting ongoing demand for energy solutions. Furthermore, 36.8% report assisting Chinese companies going global as a growth driver, suggesting that British energy firms are playing a role in China's outbound investment and international energy projects.

Professional services firms exhibit a clear focus on enabling Chinese companies to expand globally. Among respondents, 68.1% in business services, 47.5% in financial services, and 84.2% in legal services highlight this as their main opportunity. These sectors are integral to facilitating outbound investment, providing critical support in areas such as compliance, market entry strategies, and partnership development. 61.5% of creative industries and 60% of ITT firms also flag a role in assisting Chinese companies on the global stage, reflecting the cross-sectoral importance of this approach.

Across all sectors, 31% of British businesses either manufacture in China to export to other areas or see their operations in China as a platform to expand into other markets. For AMT respondents, this figure rises to 62%. This data highlights a strategic focus on leveraging China's infrastructure, scale, and connectivity to access high-growth regions and mitigate barriers in international trade. For many businesses, the Chinese mainland represents not just a market but a critical component of broader global ambitions.

The data reveals a multifaceted view of growth prospects in the Chinese mainland, driven by a combination of domestic expansion and global strategies. Businesses are aligning with China's economic trajectory, using the country as a springboard for accessing developing markets and strengthening their international presence. By navigating these opportunities effectively, British companies are positioning themselves to achieve long-term growth in the global economy through their operations in 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

OVERALL	RESPONSE
1	China's economic prospects
2	Geopolitical tensions
3	Global economic prospects

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

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

Considering or currently offshoring some business functions out of China/ lower degree of localisation or planning on completely leaving China

RANKING	RESPONSE
1	Geopolitical tensions
2	China's economic prospects
3	Implementation of risk management strategy

Continuing from last year, 'China's economic prospects' remains the main factor influencing long-term strategies for British companies in the Chinese market. However, 'geopolitical tensions' have emerged as the primary consideration for companies weighing potential exit strategies. This trend is particularly pronounced in the AMT sector, which places greater importance on geopolitical tensions compared to other sectors that generally prioritise economic prospects. The AMT sector's heightened sensitivity to geopolitical risks stems from its vulnerability to the direct impact of rising tariffs amidst the ongoing trade war.

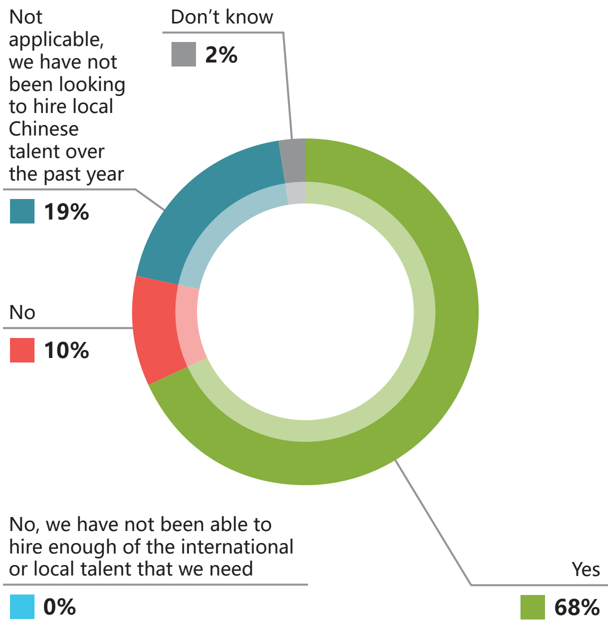
Interestingly, the overall rankings of the top three reasons driving changes in localisation strategies between MNCs and SMEs are the same. This consistency suggests that the sentiment underpinning strategic adjustments remains broadly aligned across companies of varying sizes.

Generally speaking, 'geopolitical tensions' and 'China's economic prospects' are the two of the most significant factors for all businesses, regardless of whether they are implementing a higher or lower degree of localisation. However, for reasons driving an increase in onshoring, 'changes in China's regulatory environment' ranked third, whereas for increased offshoring, 'implementation of risk management strategies' took the third spot. Last year, 'implementation of risk management strategies' ranked highest among companies considering a higher degree of localisation, while for companies considering a lower degree of localisation, 'changes in China's regulatory environment' and 'China's move towards greater self-sufficiency' were in the top three. This year, companies considering onshoring or a higher degree of localisation are paying closer attention to changes in China's regulatory environment. Similarly, companies considering offshoring or a lower degree of localisation are focusing more on implementing risk management strategies.

7

TALENT AND INTERNATIONAL TRAVEL

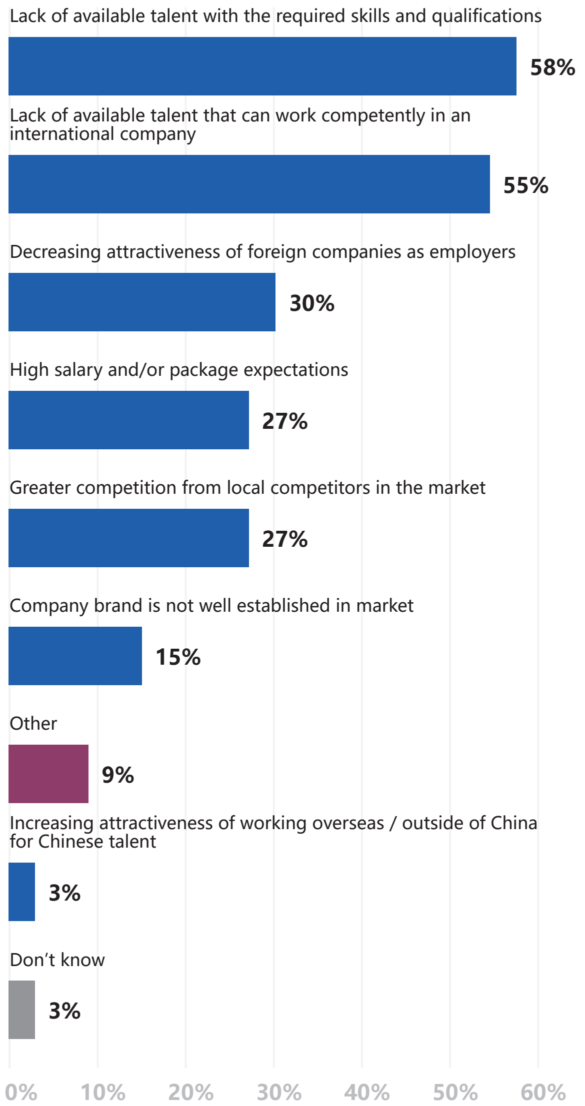
HAVE YOU BEEN ABLE TO FIND AND/OR RETAIN ENOUGH OF THE NECESSARY LOCAL CHINESE TALENT YOU NEED TO OPERATE AND/OR GROW YOUR BUSINESS IN THE CHINESE MAINLAND OVER THE PAST YEAR?



This year's survey reveals that there have been limited changes in the ability of British businesses to attract and retain skilled local Chinese talent. 68% of respondents reported success in talent acquisition and retention, a slight increase from last year's 66%. This rise likely reflects a continuously expanded talent pool in China, with an apparent surge in job seekers due to economic uncertainties, and the return of Chinese nationals with international experience.

Conversely, the percentage of businesses reporting challenges in this area dropped to 10.9%, compared to 15% last year. This decline coincides rising unemployment in China, particularly among those aged 16-24, as economic challenges could lead to increased availability of local job seekers[1]. This expanded talent pool could be enabling companies to fill roles more easily than in previous years. However, it's notable that 18.3% of respondents indicated they had not been looking to hire local Chinese talent over the past year, possibly due to strategic or operational reasons.

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



1 'China's youth unemployment hits fresh high,' CNBC, September 2024

While progress has been made in hiring, recruitment challenges persist for some businesses. The primary issue remains finding candidates with the necessary skills and qualifications, cited by 58% of respondents—down from 68% in 2023-24. Additionally, 54.6% of companies report difficulties in sourcing talent with international competency, a figure that shows little change from last year.

The Chinese government's efforts to enhance vocational education, as highlighted in this year's Position Paper[2], are a step in the right direction. The Chamber has proposed further measures, such as recognising international qualifications and maintaining access to key examinations in China. These steps would help companies access the skilled talent necessary for sustainable growth in the Chinese market. Despite these efforts, demand for international talent remains particularly high in scientific fields like healthcare and energy, with 68% of companies in these sectors reporting challenges in recruitment.

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

British businesses' ability to attract foreign talent has seen little change from last year, although an increase in interest from overseas talent has seen a positive shift. There has been a rise in interest from foreign candidates from 5% to 7.8%, alongside a reduction in companies claiming lower interest from foreign candidates from 14% to 7.8%. However, only 1.6% of MNCs report that more foreigners are interested in their positions, compared to 9.6% of SMEs.

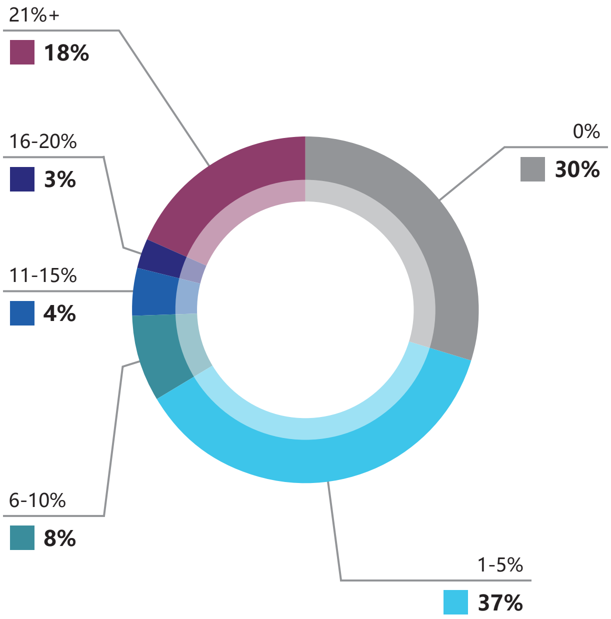
When comparing MNCs and SMEs, MNCs are less likely to be hiring or retaining foreign employees, with 18.8% reporting a net decrease in foreign hires, compared to only 6% of SMEs. On the other hand, 7.2% of SMEs have experienced an increase in foreign employees, in contrast to just 3.1% of MNCs.

2 'British Business in China: Position Paper 2024,' British Chamber of Commerce, May 2024

that 6-10% of their workforce is foreign, and even fewer exceeding this range.

The education sector exhibits a notably skewed pattern: 60% of higher education companies have no employees with foreign passports, whereas 60% of early years and K12 education companies have more than 21% of their staff holding foreign passports. This makes sense, with many universities employing localised recruitment teams and many international schools looking to hire foreign staff as teachers. Alongside this, 45% of British healthcare companies report having no foreign staff in China, with 88.9% all of whom were medical devices and pharmaceutical companies and 88.9% with annual revenue under GBP 50 million.

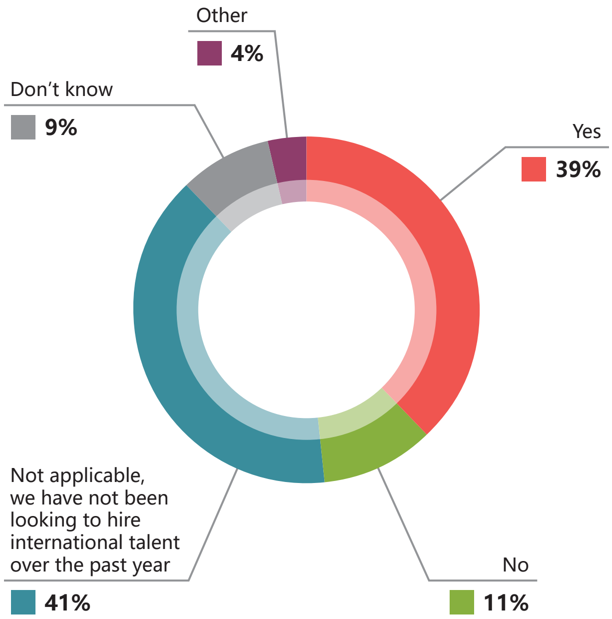
APPROXIMATELY, WHAT PERCENTAGE OF YOUR EMPLOYEES IN YOUR CHINA OPERATIONS ARE FOREIGN PASSPORT HOLDERS?



This new question showed that 29.8% of the surveyed companies have no foreign passport holders among their employees in China. Notably, 18% of surveyed firms report that over 21% of their workforce consists of foreign passport holders, with the majority of these firms being SMEs, making up 70% of that segment. These results indicate that most companies, especially MNCs, maintain a relatively low proportion of foreign staff, suggesting a high degree of localisation among these companies.

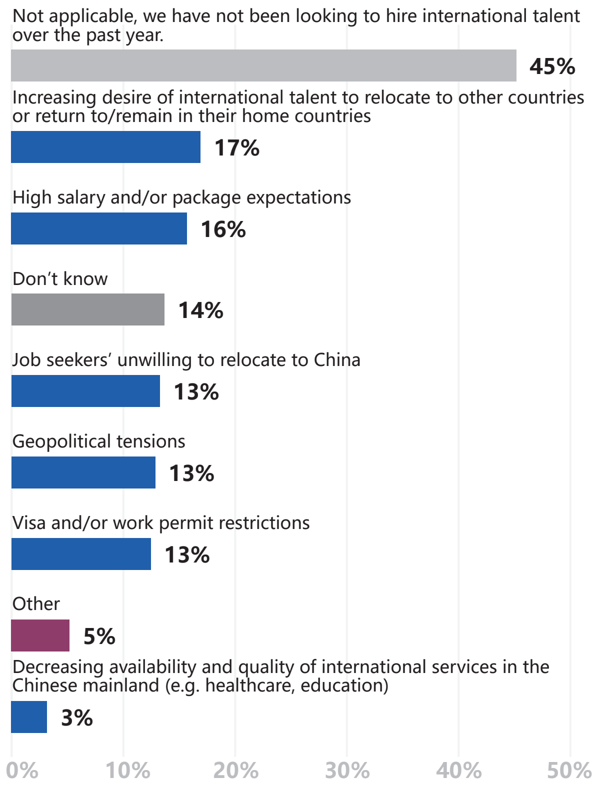
37% of the companies report that foreign employees make up only 1-5% of their workforce, which is the largest segment. Only a small fraction of companies have a higher proportion of foreign employees, with just 8% reporting

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?



40.6% of companies in this year's survey reported that they were not actively seeking to hire foreign staff, which remains largely unchanged from last year's 42% Alongside this, around 40% of respondents suggested they had successfully found or retained the necessary foreign hires, marking a modest improvement from last year's 35%. The education sector is reporting a 52.5% success rate in hiring foreign employees, with only 13% being unable to find and retain foreign talent.

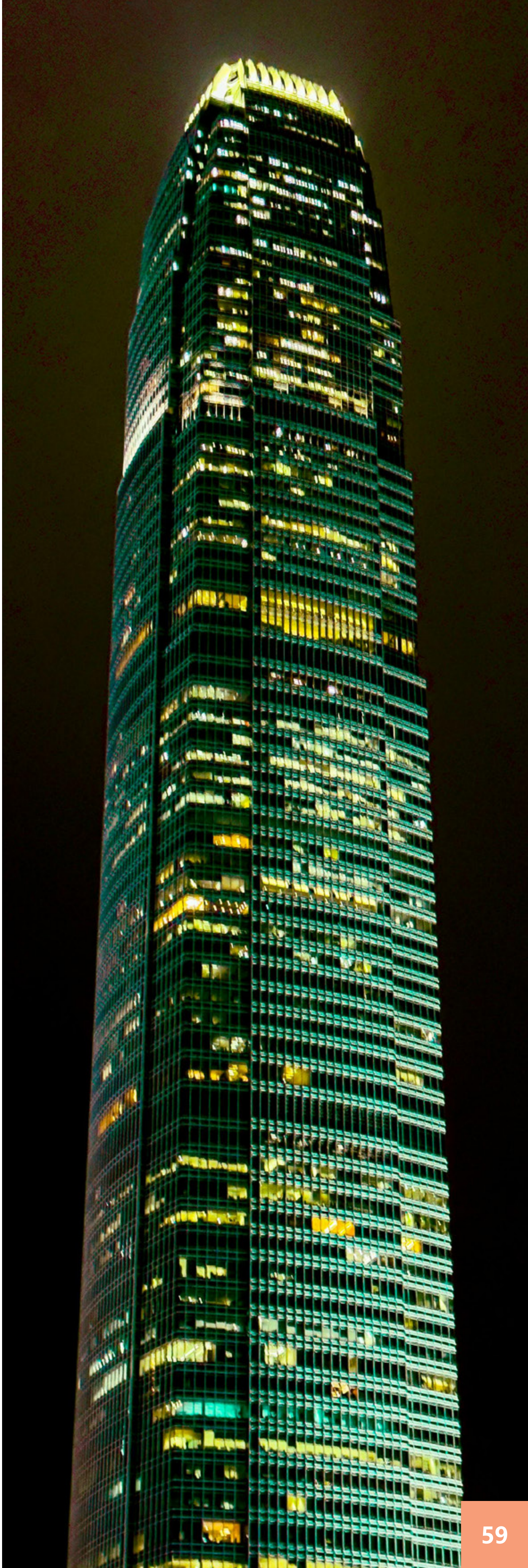
WHICH OF THE FOLLOWING FACTORS HAVE IMPACTED YOUR ORGANISATION'S ABILITY TO HIRE AND/OR RETAIN THE NECESSARY INTERNATIONAL TALENT?



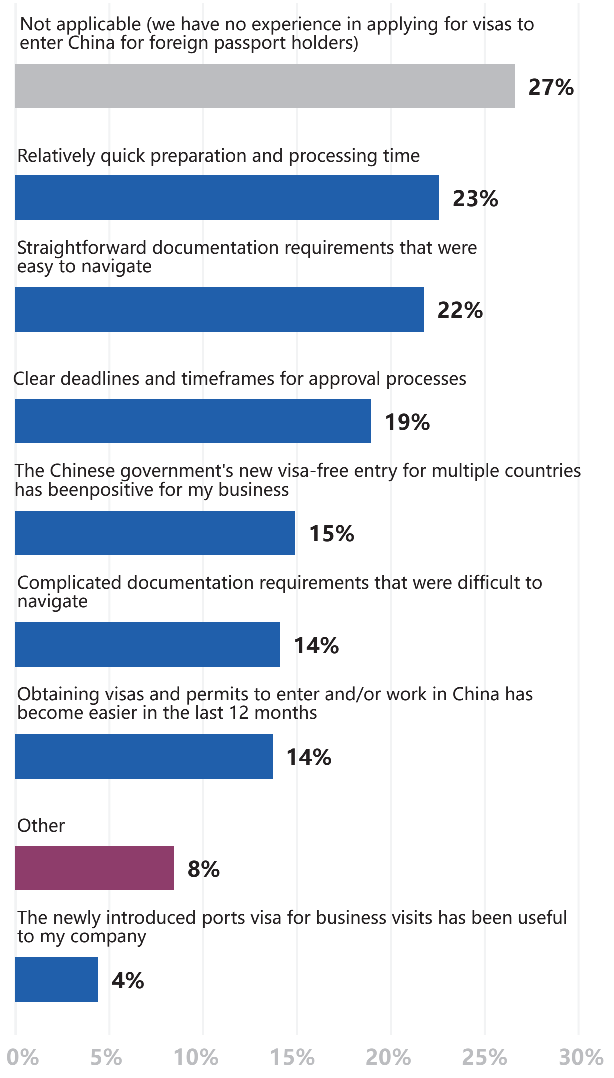
Hiring foreign staff has become less of an issue in the last two years, with an end to COVID-19 restrictions and a constrained economy meaning foreign staff are easier to hire in an environment in which companies are less interested in hiring new staff.

This saw only 10.8% of companies struggle to hire foreign staff. Among this group, the most significant challenge this year was the increasing desire among international talent to relocate to other countries or return home, reported by 17.3% of respondents, which was actually a slight reduction from the 22% noted last year. High salary and package expectations also emerged as an obstacle, affecting 16.1% of firms, underscoring the heightened competition for skilled talent, both international and domestic. This shift reflects a broader concern among companies about managing operational costs, with many organisations facing rising expenses across staffing, including the pressure to offer competitive compensation.

In contrast, visa and work permit restrictions, which had been the primary issue in previous years, has seen a notable decline, now impacting just 12.5%, down from 24% last year. Geopolitical tensions also decreased from 18% to 12.9%.



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?



This year's data highlights a more positive shift in the application and approval process for visas and work permits. Notably, 23% of respondents reported relatively quick preparation and processing times, an improvement compared to last year. However, 14% still faced delays, indicating ongoing challenges with processing efficiency. In terms of documentation, 22% found the requirements straightforward to navigate, while 14% encountered complicated paperwork. Regarding clarity, 19% appreciated clear deadlines and timeframes for approval, while 14% faced uncertainties.

This year saw 14% of respondents noting improvements in obtaining visas and work permits, particularly in quicker processing times and clearer deadlines. This comes as little surprise after China's introduction of new measures, such as visa-free entry for certain countries is aimed at further simplifying entry and supporting business visits. 15% of respondents reported the positive impact of the new visa-free entry for multiple countries. While the UK is currently not included in the visa-free list, introducing such a policy would likely have a positive impact, potentially boosting business travel and encouraging more foreign talent to explore opportunities in China. Only 4% of respondents reported benefits from the 'ports visa' policy for business visits, suggesting that further efforts may be needed to increase its uptake.


Text

8

METHODOLOGY

The *British Business in China: Sentiment Survey 2024-25*, published in December 2024, is the seventh 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 800 Chamber member and non-member British companies between the 23rd September and the 4th November 2024. A record 311 companies responded, representing a 4% increase from last year. This year saw professional services companies make up the largest proportion of respondents with 30%, of which 13% came from business advisory services, 13% from financial services and another 4% from legal services. Following this, education was the most common respondent (24%), followed by advanced manufacturing and transport ('AMT') (15%), the creative sector (13%), food, beverage and agriculture ('FBA') (9%), hospitality, travel, tourism and leisure ('HTTL') (8%), healthcare (7%), energy (5%), retail & consumer goods (5%) and built environment (4%).

Respondents were asked up to 52 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', 'UK-China Audit' and 'Localisation and Diversification'.

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.

ABOUT THE BRITISH CHAMBER OF COMMERCE IN CHINA

The British Chamber of Commerce in China is a membership organisation in the Chinese mainland focused on providing advocacy, knowledge and community for British businesses throughout the country, with offices across Beijing, Southwest China and Guangdong. We operate as an independent, not-for-profit organisation with a strong and diverse membership. With over 43 years' worth of business experience in the market, we are the independent voice of British business in China, bringing the UK-China business community together and supporting UK companies to thrive in one of the world's fastest growing markets.

As the voice of British business in China, the Chamber 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 publications 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. Our other reports provide more focused analysis on particular facets of China's regulatory landscape. Through our engagement with the British and Chinese governments we aim to foster a strong, resilient UK-China trade relationship.

ACKNOWLEDGMENTS

The British Chambers of Commerce in China would like to thank all respondents for their time to fill out the survey. We also thank our Executive Committee for their guidance and insights, and to Harry Bell, Jack Allen, Etsuka Tomonaga, Sun Yifan and Yiyi Jing for leading on the survey preparation, data analysis and drafting process. We are also grateful to Sun Yifan and Practical Translations for their translation services and Boglárka Miriszlai for designing the report.

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