

# FBC BUSINESS CONFIDENCE SURVEY 2020



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In partnership between the Finnish Business Councils in China and Finnish Chamber of Commerce in Hong Kong:

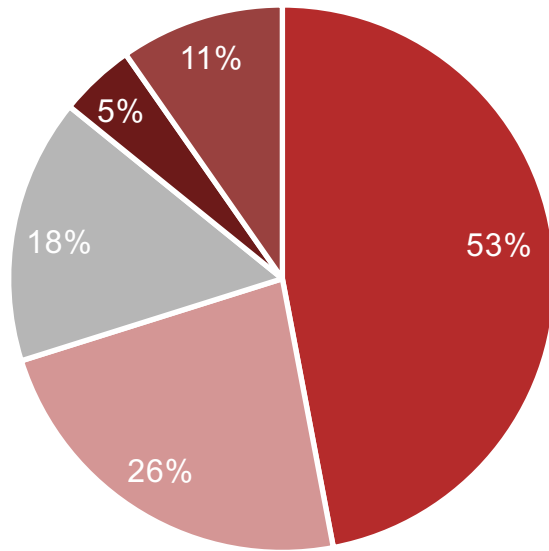


In collaboration with:



# Business Council Allocation

## Which business council are you a member of?

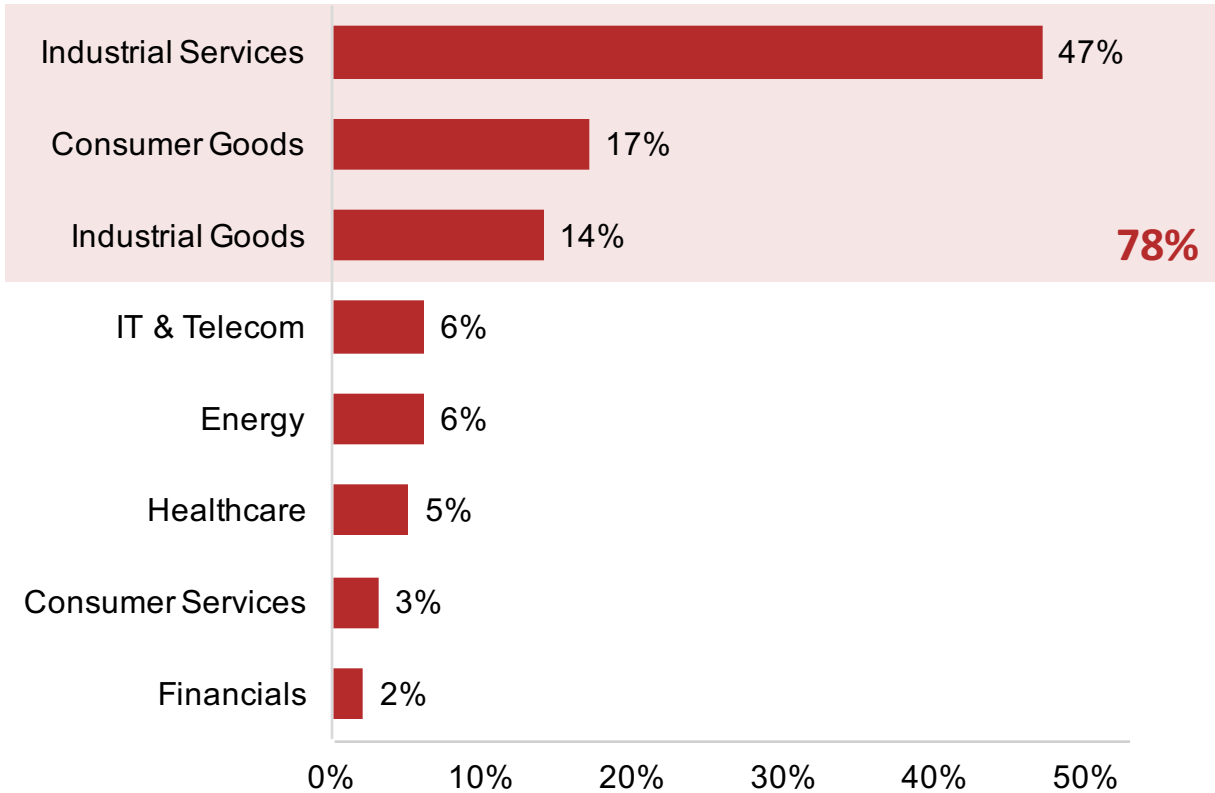


- FBC Shanghai
- FBC Beijing
- FinnCham Hong Kong
- FBC Guangdong
- Not a member in any of the above

- Approximately 89% of the companies are a member of the business councils
- More than half of the companies are a member of Finnish Business Council Shanghai
- Around 13% of the companies are members in two or more of the business councils

# Industry Categories

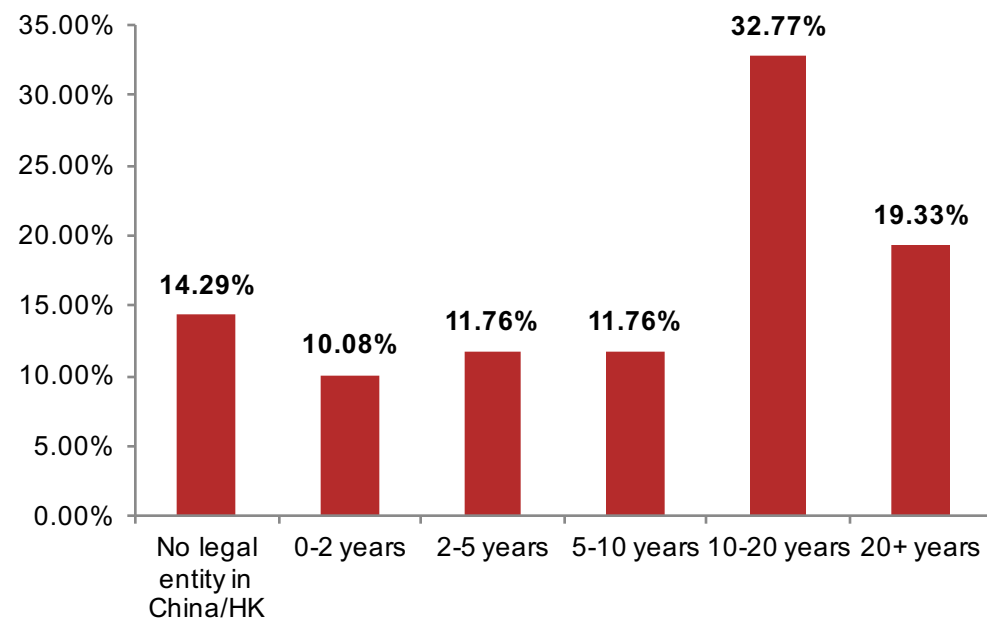
## Which industry do you represent?



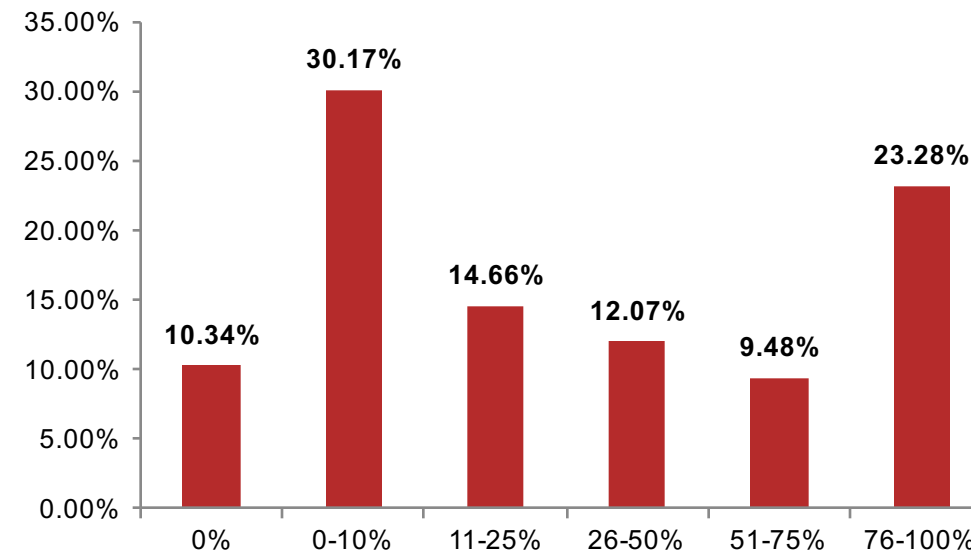
- Most of the companies are active in the Industrial Goods and Services industries (61%)
- Consumer Goods represent the second highest individual industry category, totalling 17%
- The top 3 industries, Industrial Services, Consumer Goods, and Industrial Goods, comprise 78% of the total respondents

## Local Revenue – by Length of Legal Entity

### First legal entity established in China/HK



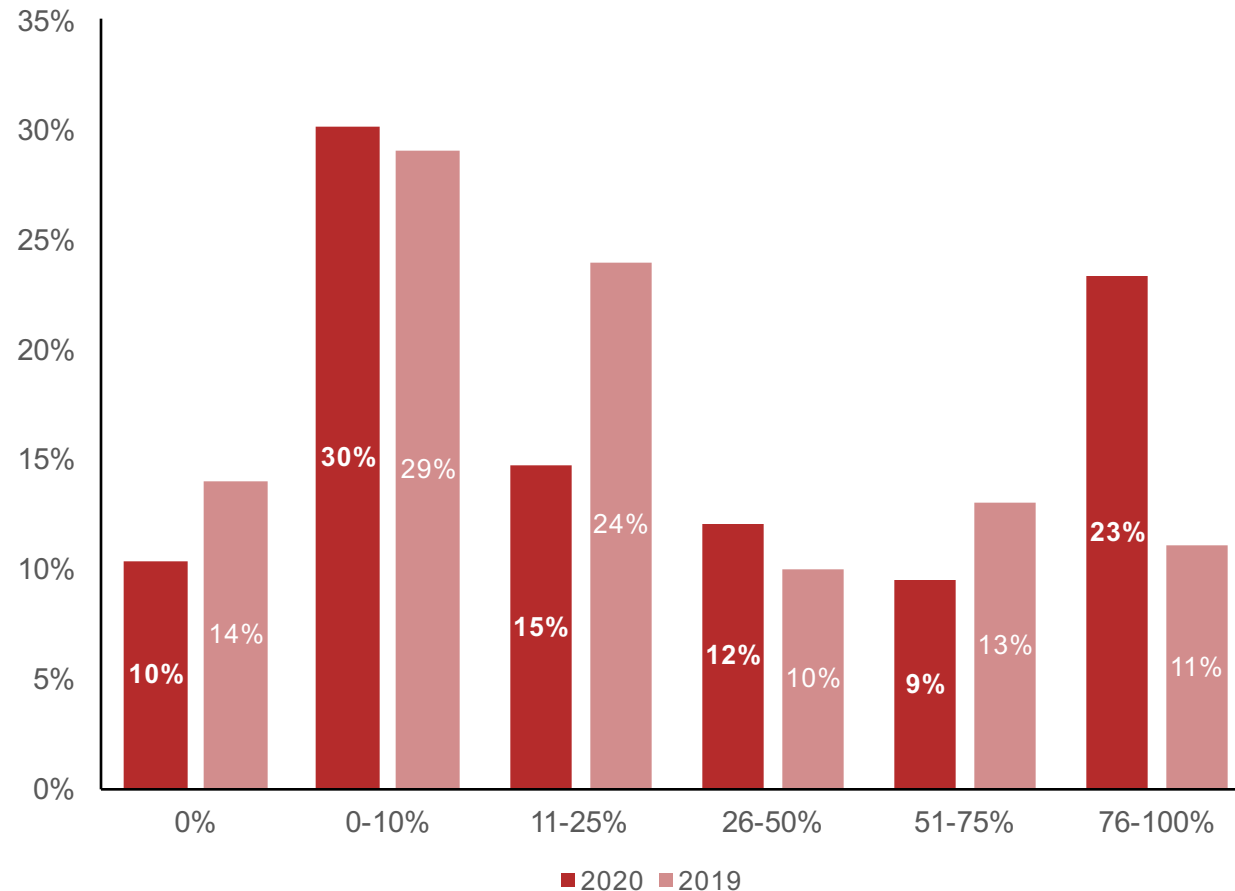
### Revenue generated from local (China/HK) customers



- 52% of the companies established a legal entity in China/HK for 10+ years, these companies have an approximate average of 37% of their revenues generated from local customers, which is not significantly different from the overall average revenue generated locally that is 35%
- Companies with no legal entity in China/HK responded an average of 9% for their revenues generated from local customers

# Local Revenue – 2019 vs 2020

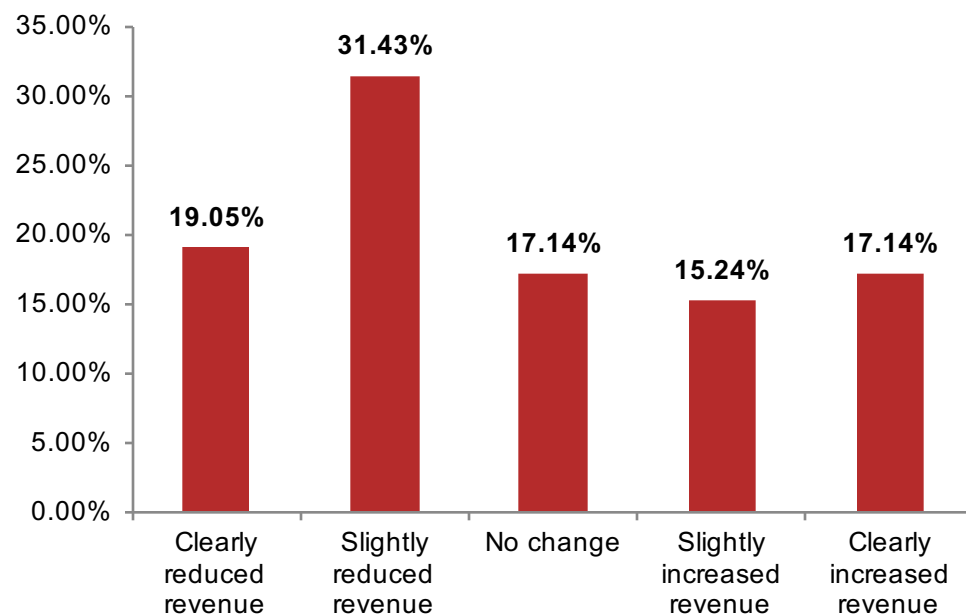
## Revenue generated from local (China/HK) customers 2019 vs 2020



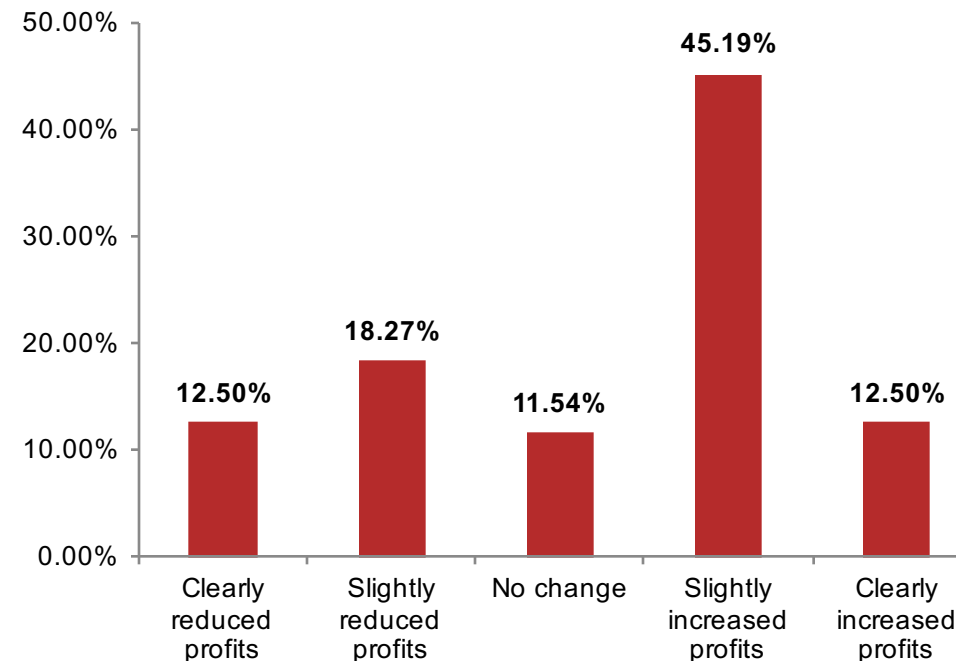
- Compared to last year, revenue generated from local customers increased significantly
- In 2019, the average revenue generated from local customers was 27%, whereas in 2020 the share climbed to 35%
- In the 76-100% category, the share increased from 11% in 2019 to 23% in 2020

# Revenue Expectations

## Expectation of company's local revenue to change for 2020 compared to the forecast in January 2020



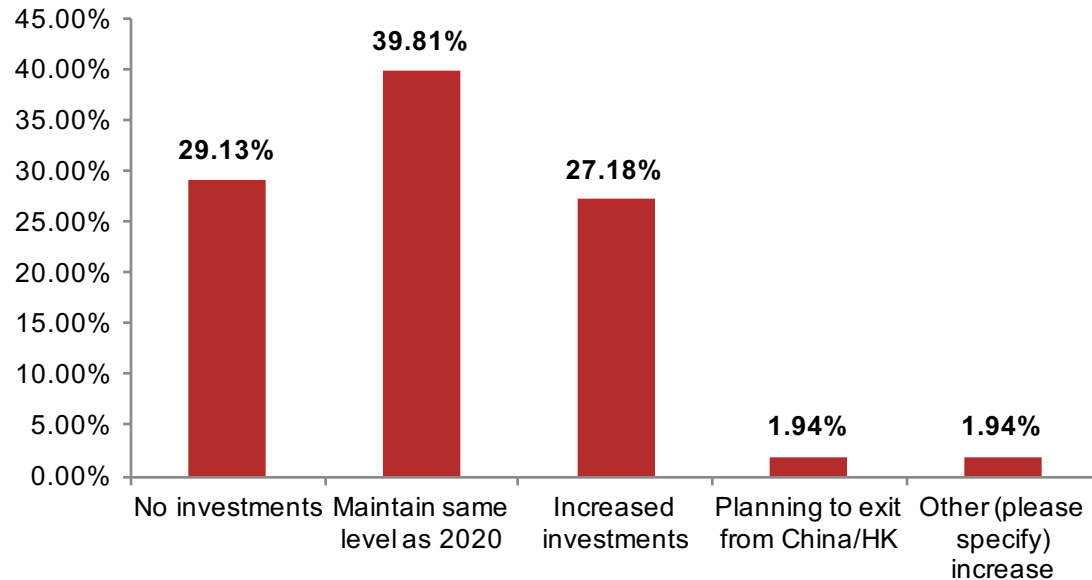
## Expectation of company's net profit (EBIT) in China/HK to change in 2021 compared to the results of 2020



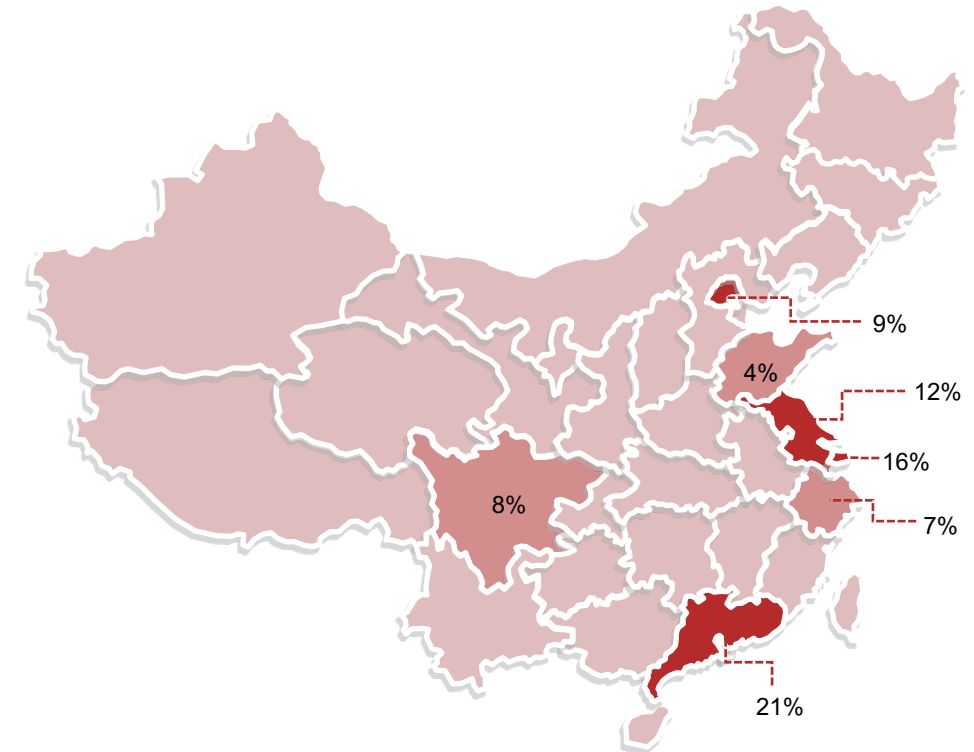
- Around 50% of the companies expect their local revenue in China/HK to be reduced in 2020 compared to the initial forecast in January. This is likely due to the survey being collected in late October to early November, which is when COVID-19 is considered relatively controlled in China
- With China's success in controlling the virus outbreak and gradual opening of the markets, an approximate of 58% of the companies expect their net profit (EBIT) in China/HK to increase in 2021

# Future Plan

## Plan of further investment in China/HK in 2021



## Future business expansion in China

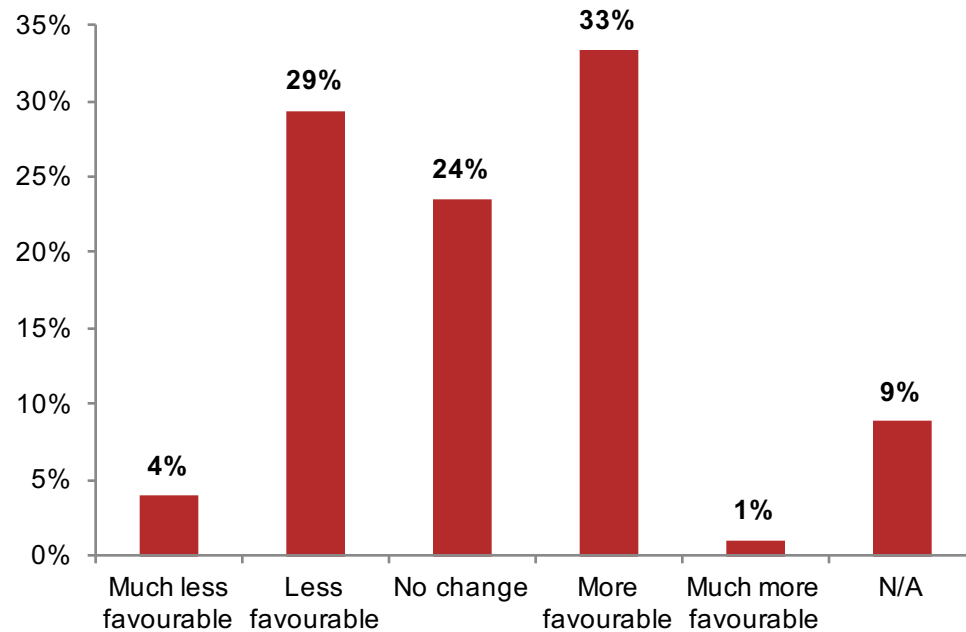


- Around 40% of the companies plan to maintain the same level of investment in China/HK in 2021 compared to in 2020. 27% plan on increasing their investments, and 29% do not intend to invest in 2021
- The most attractive expansion areas are the tier 1 cities Shanghai and Beijing, and the provinces Guangdong and Jiangsu, together they total 58%. Other relatively significant potential future expansion provinces are Sichuan, Zhejiang and Shandong. Together with the major 4 they all total to approximately 80% of the responses

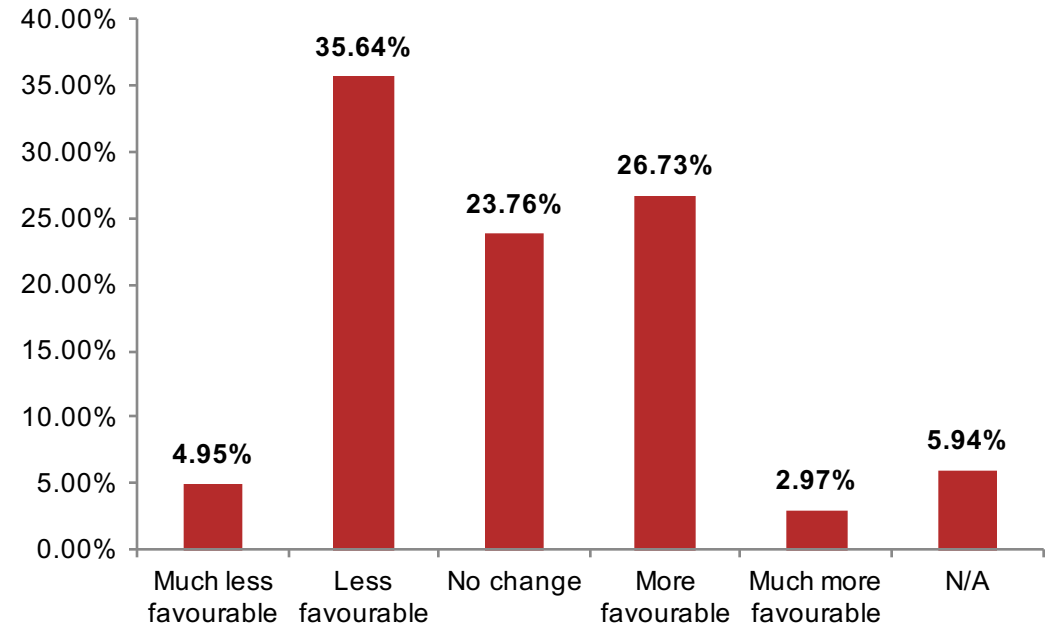


## 2021 Outlook

### Expectation of the investment climate development in China/HK in 2021 vs previous year



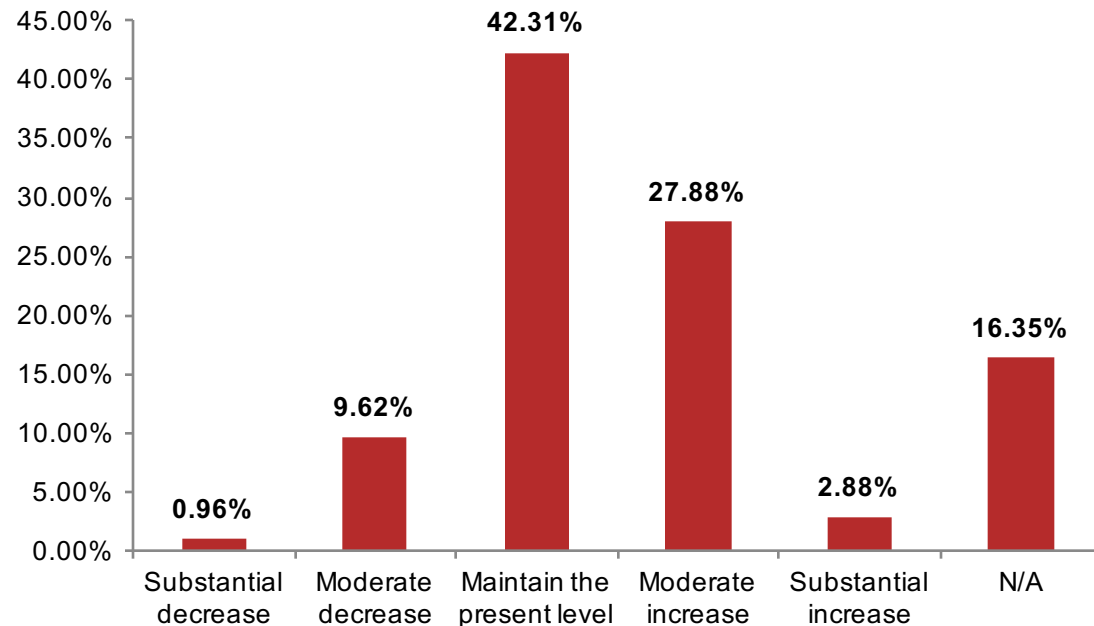
### Expectation of the business climate development in China/HK in 2021 vs previous year



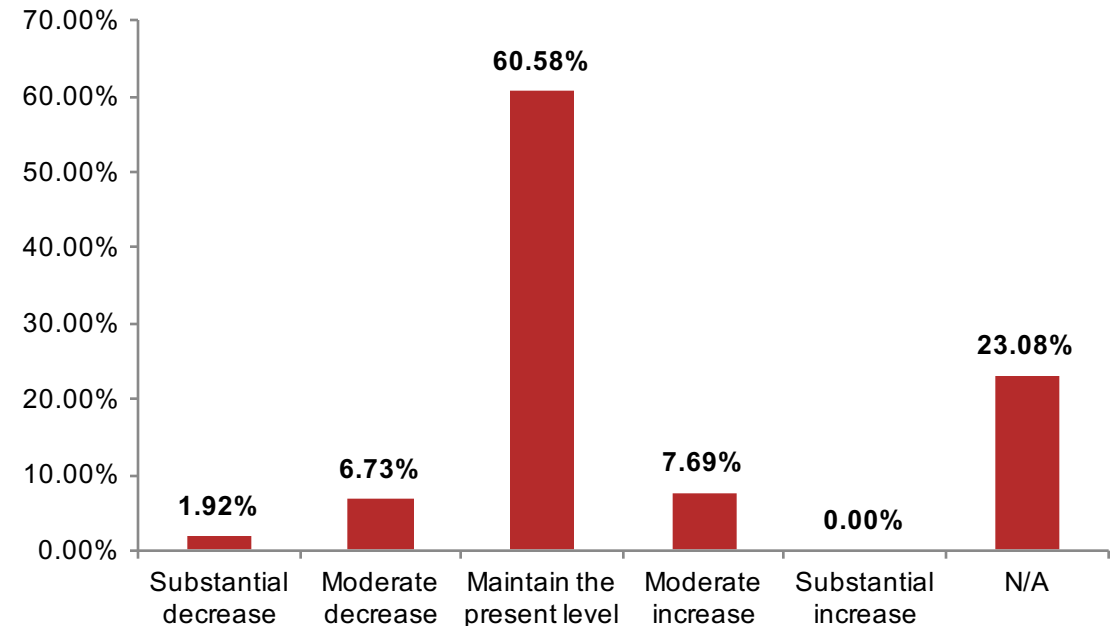
- Slight majority of companies expect the investment climate to be more favourable in 2021, while the uncertain situation and localization pressures are driving the rationale for less favourable investment climate expectations based on the responses
- Majority of companies expect the business climate to be less favourable in 2021, highlighted by rising trade conflicts, global political tensions and uncertain regulatory landscape

## 2021 Employment

Do you plan to change the number of local Chinese employees in 2021?



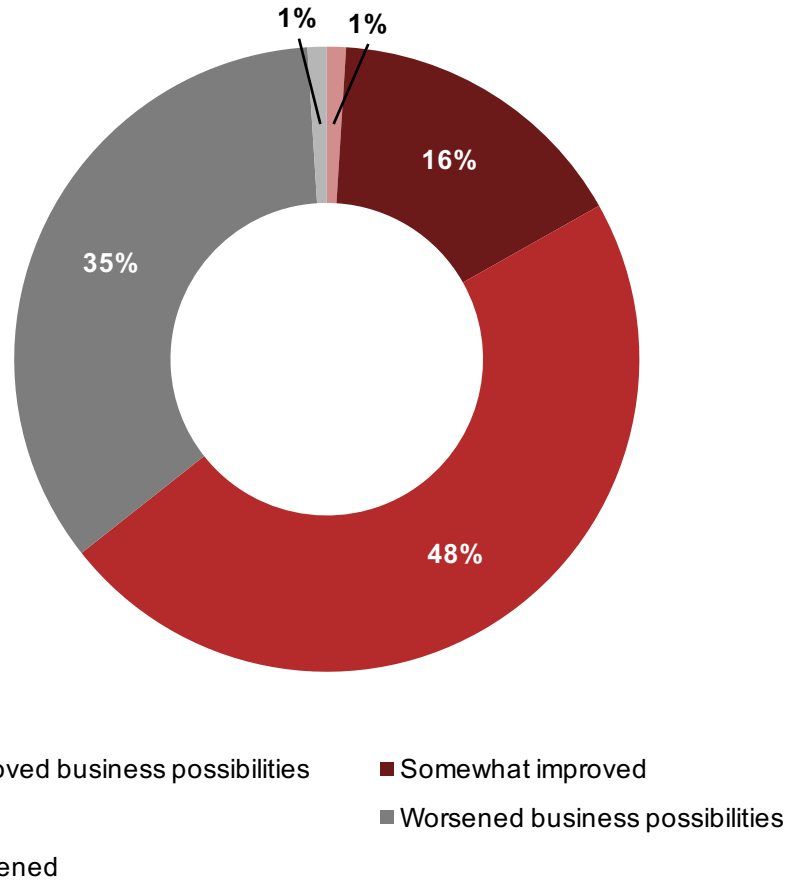
Do you plan to change the number of foreign employees in 2021?



- Majority of businesses plan to maintain the same level of both local and foreign employees in 2021
- Approximately 30% of the companies plan on increasing their local Chinese employees in 2021, compared to only about 8% of the companies who plan to increase their number of foreign employees

# Trade & Technology Battle

How will the ongoing trade and technology battle between China and USA impact your company's business prospects?



Referring to the ongoing trade and technology battle between China and USA, what are the direct or indirect impacts to your company's business?

- Availability of certain key components may be limited or become more expensive
- Increased customs and logistics fees
- Difficulties building supply chain without US exposure
- Worsened economic sentiment and more inward looking economies
- Preference toward local suppliers
- Less competition from the US and more focus toward European companies
- Delayed projects in the US resulting to lost customer projects in China

# COVID-19 Measures

What are the measures that your company have taken or intend to take in order to mitigate the risks and adverse effects of the epidemic?



- Internal safety measures, provide equipment and home working flexibility
- Cost control, restructuring and delayed investments
- Focus on core competencies and core technologies
- Localization measures, build back-up supply chain arrangements and finding alternative suppliers
- Less travel, employ locally or send expats longer-term
- Focus on strategic customers and building long term business partnerships
- Develop competences for future demands and explore new business models
- Shift to online and increase digital environment support systems

# Barriers and Reforms

## Key barriers doing business in China/HK and kinds of reforms that would benefit the business

### What are the key barriers doing business in China/HK?

- National protectionism, made-in-China-policy
- Lack of knowledge in Chinese business customs and regulatory landscape and regional differences
- US/China trade war and its implications to businesses
- Finding the right contacts and connections to affluent players and authorities
- Travelling restrictions during Covid-19
- Fierce domestic competitive landscape
- Lack of Intellectual Property Rights
- Highly priced products imported from Europe difficult for open bidding

### What reforms in China/HK would benefit your business?

- Less favouring of local companies (protectionism)
- Reforms on policy implementations such as social insurance, taxation to make cost structures between companies fair
- Easier import regulation and procedures
- Less forex control and easier capital repatriation
- Environmental regulation and enforcement
- Governmental subsidy for SMEs
- Foreign access to strategic industries
- Recognize IP as part of financial investment
- Tender processes to focus more on life-time cost and quality

# EU-China Trade Issues

## EU views on trade issues with China and their impact on business prospects



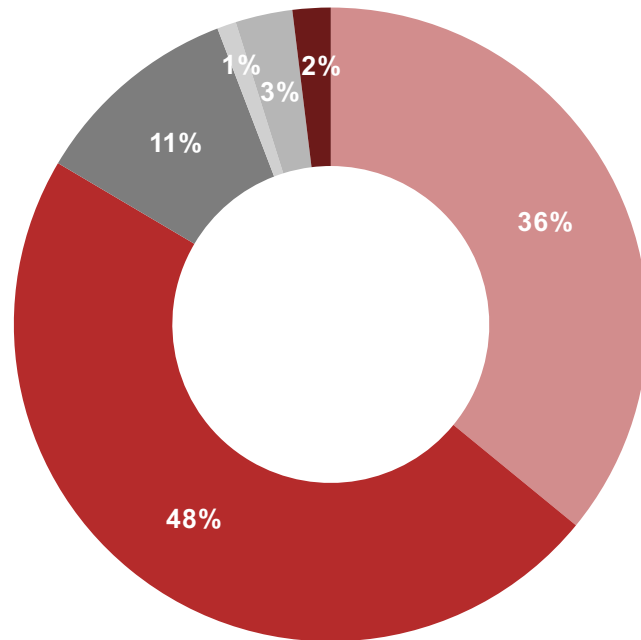
### How do you assess the more critical EU views on trade issues with China will impact your company's business prospects?

- No clear impact, depends on the changes between China and other countries and what position EU will take
- Reciprocity needed for investors and businesses in both Europe and China
- Level playing field and fair and equal treatment needed
- We hope Finland can maintain neutral country position and keep good relationships with China
- EU should focus more on business possibilities
- Diplomatic relations directly impact government projects
- Regulatory enforcement focused on foreign entities, driving costs
- Important that EU drive critical stance and process to follow up improvement actions

For better level playing field and fair and equal treatment; as expressed for example by the European Chamber of Commerce in China, and many EU officials and governments

# Finnish Business Council / FinnCham HK Performance

How would you rank the performance of Finnish Business Council / FinnCham HK in your area?



■ Excellent ■ Good ■ Average ■ Poor ■ Very disappointing ■ N/A

## In which areas could Team Finland improve itself?

- Reaching out and expand regional business communities
- Clarify mission, the organization structure, and who to contact in different situations
- Clear communication and follow up
- Support with finding reliable business contacts and partners

## In which areas could the Business Councils / FinnCham improve?

- Regular and informal knowledge sharing gatherings
- Customized and targeted sessions to identify new opportunity areas and industry best practises
- Regulatory guidance and implications to member companies
- Broader collaboration with local institutions, authorities and relevant organizations

*Team Finland in China/HK consists of Embassy, Consulates, Business Finland and Business Councils/FinnCham*

# THANK YOU FOR YOUR ATTENTION

## About Nordic Match:

Nordic Match is a boutique M&A and Strategy Advisor headquartered in Shanghai. Dedicated to Sino-Nordic transactions, we have a clear vision – to support aspiring corporates and investors in search for value-creating opportunities between Nordics and China.

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