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FBC BUSINESS CONFIDENCE SURVEY 2022



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



In collaboration with:





TONY WANG
PARTNER AT NORDIC MATCH



Finnish Business Council Beijing

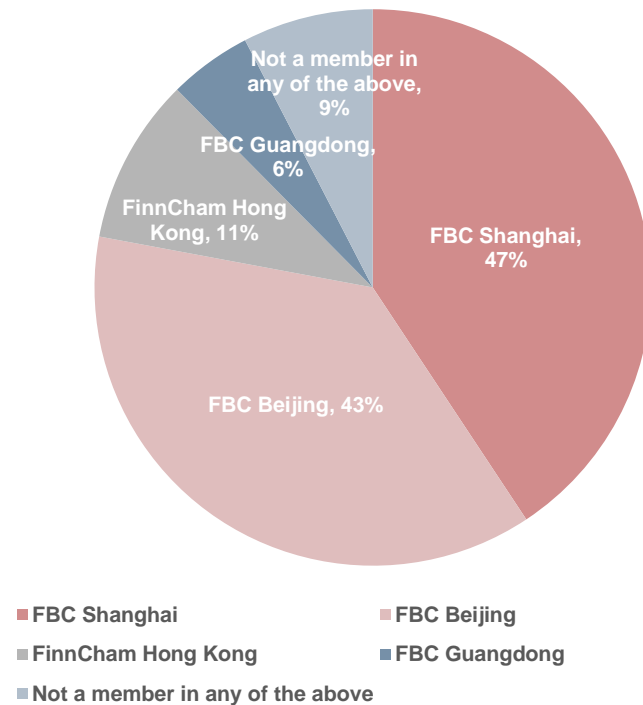


Introduction to the respondents (1/2)

125 respondents have been involved in the survey, and 91% of the respondents are a member of the business council

Business council allocation

Which business council are you member of?



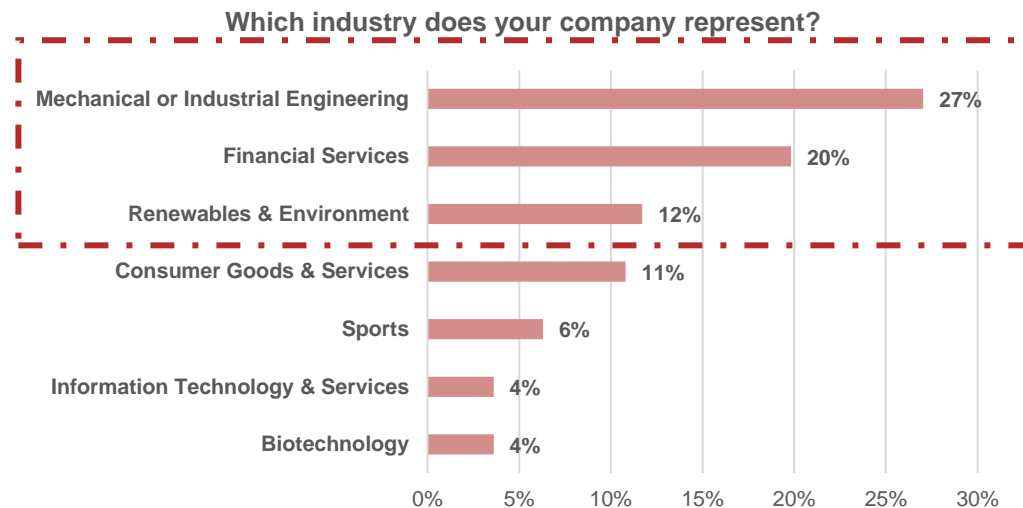
- 91% of the respondents are a member of business council, including:
 - 47% from FBC Shanghai
 - 43% from FBC Beijing
 - 6% from FBC Guangdong
 - 11% from FinnCham Hong Kong
 - 16% of the respondents are members in two or more of the business councils
- Only 9% of the respondents are not a member in any of the above

Introduction to the respondents (2/2)

Most of the respondents are in the Mechanical or Industrial Engineering industry and have established a legal entity in China/HK

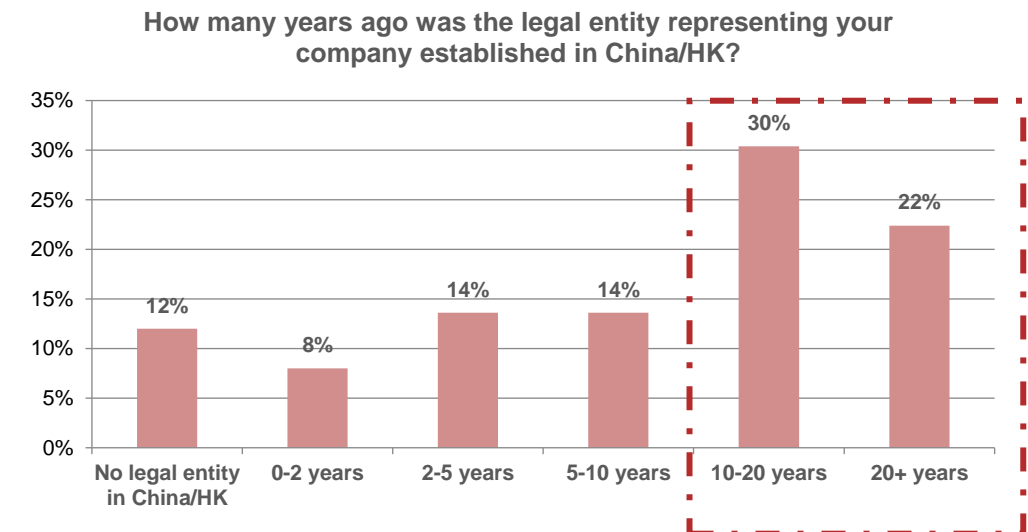
Industry allocation

- Respondents are very diverse and are in more than 40 different niche markets:
 - 27% are in the Mechanical or Industrial Engineering industry
 - 20% are in the Financial Services industry
 - 12% are in the Renewables & Environment industry



First legal entity established in China/HK

- 88% of the companies has established a legal entity in China/HK
 - 52% of the companies have established a legal entity in China/HK for more than 10 years
 - 22% of the companies have established a legal entity in China/HK for more than 20 years



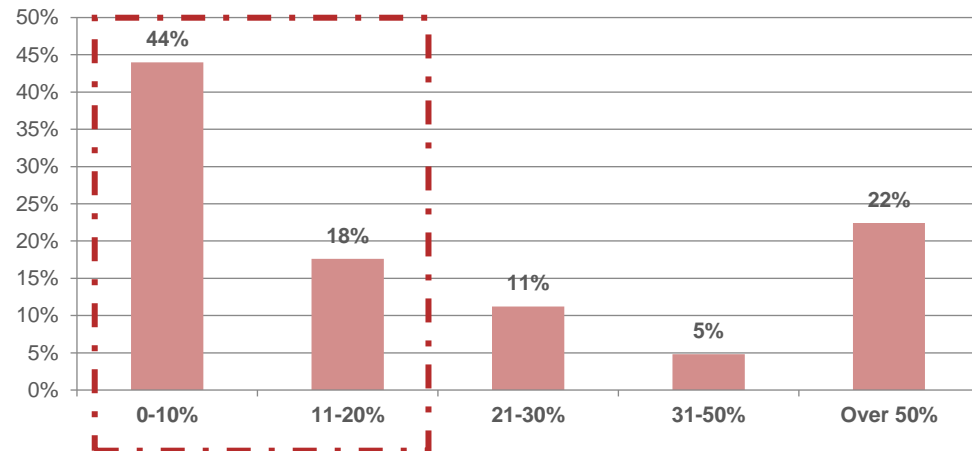
Revenue outlook (1/2)

Majority of the companies generated more than a half of the company's revenue from Chinese customers in 2021

Revenue generated from Chinese market

- More than 50% of the companies are generating <20% of the total revenue in the Chinese segment, which indicates that the Chinese market still has a huge room for future expansion

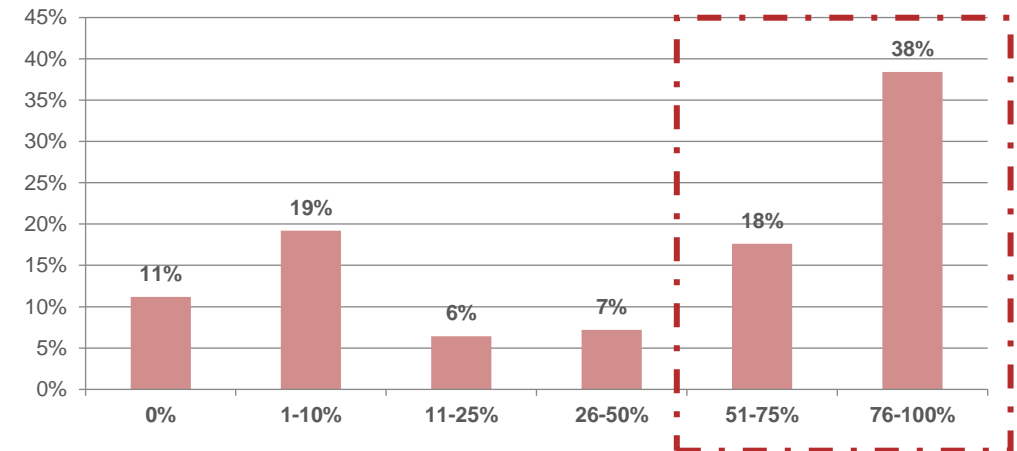
If you think of your company globally, how much of the revenue generated by your Chinese/HK legal entity in 2021?



Revenue generated by local (China/HK) customers

- 56% of the companies generated more than a half of the company's revenue from Chinese customers
 - 38% of them have generated 76-100% of the revenue in China/HK

How much of the revenue was generated by local customers by your Chinese/HK legal entity in 2021?

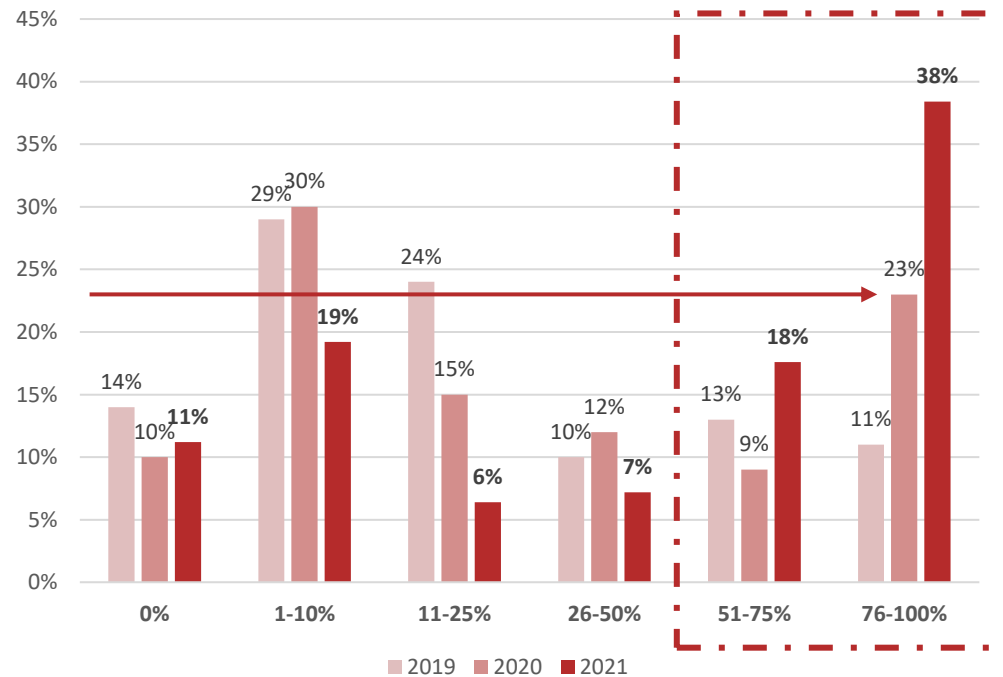


Revenue outlook (2/2)

Companies have generated more and more revenue from local customers over the past three years

Local revenue comparison (2019-2021)

Revenue generated from local (China/HK) customers (2019-2021)



- Overall, the companies are generating more and more revenue from local (China/HK) customers over the past three years:
 - Dramatic decrease in the first four categories
 - 51-75% sector: the percentage moves from 13% to 18%
 - 76-100% sector: the percentage has been tripled, from 11% to 38%

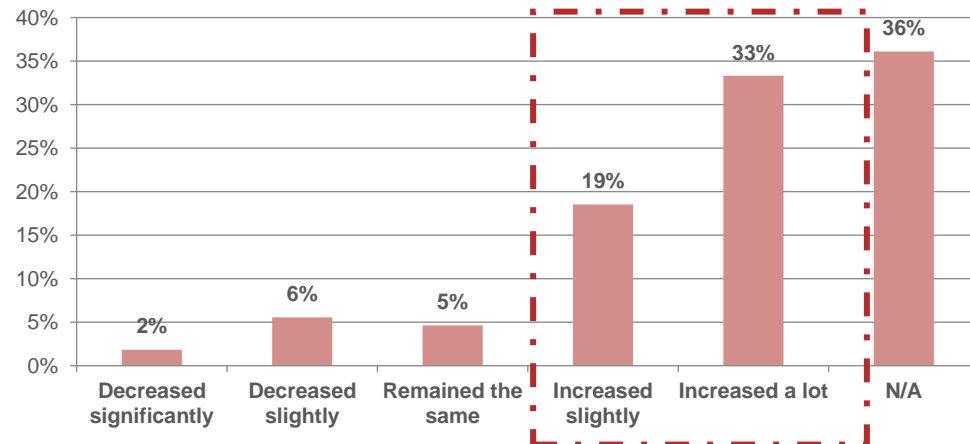
Performance in past 10 years (1/2)

Companies have increased their production capacity and R&D in China/HK over the past decade

Industrial production developed in China/HK

- Over 50% of the companies have increased their industrial production in China/HK during the past 10 years
- Only 8% of them have decreased their industrial production

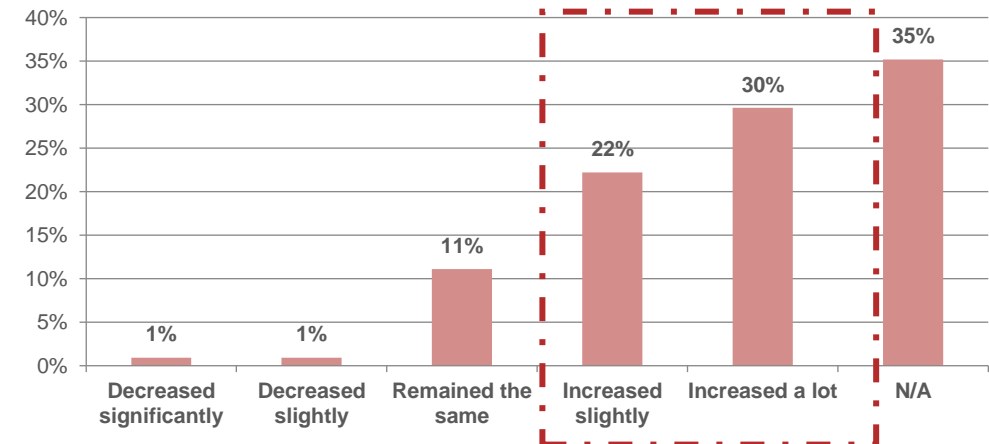
During the past 10 years, how has industrial production of your company developed in China/HK?



R&D developed in China/HK

- Over 50% of the companies have increased their research & development activities in China/HK during the past 10 years
- Only 2% of them have decreased their research & development

During the past 10 years, how have research & development activities of your company developed in China/HK?



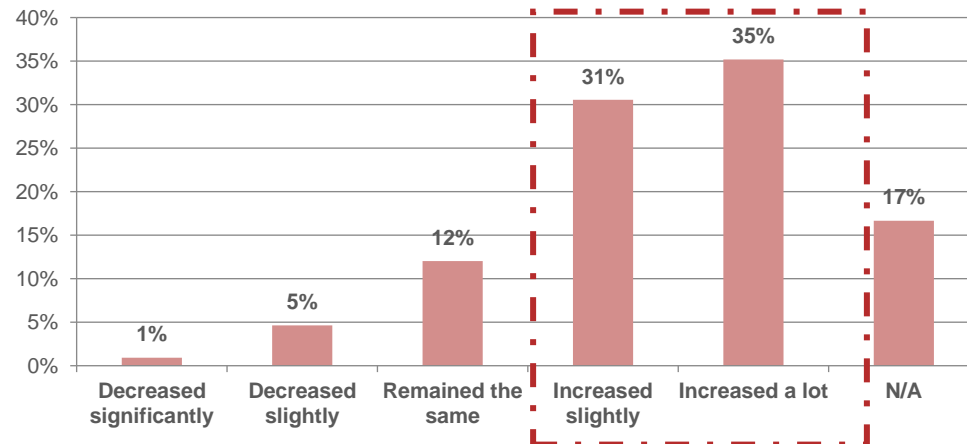
Performance in past 10 years (2/2)

Companies have increased their investments and recruitment in China/HK over the past decade

Investments developed in China/HK

- 66% of the companies have increased their investments in China/HK during the past 10 years
- Only 6% of them have decreased their investments

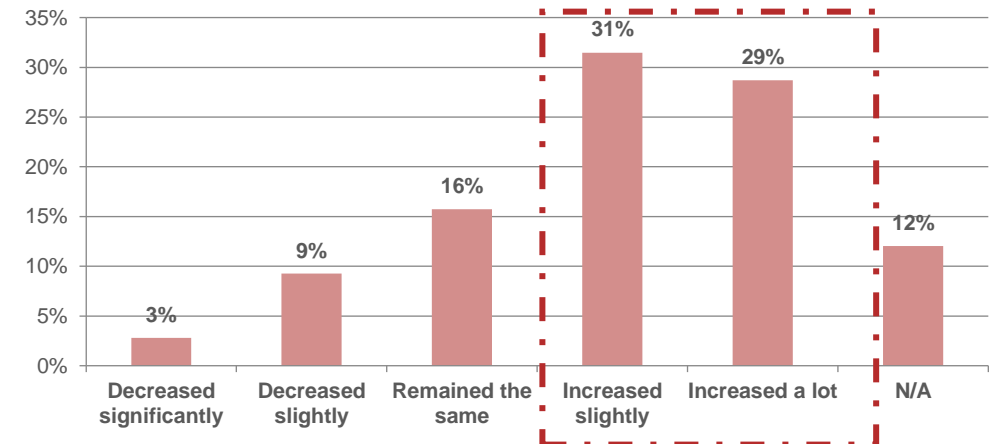
During the past 10 years, how have your company's investments developed in China/HK?



Recruitment developed in China/HK

- 60% of the companies have increased their recruitment in China/HK during the past 10 years
- Only 12% of them have decreased their recruitment

During the past 10 years, how has recruitment in your company developed in China/HK?



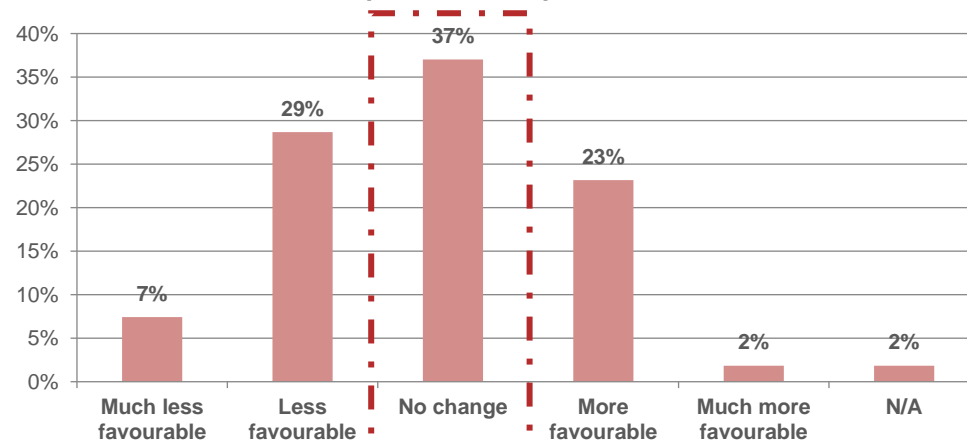
Expectation for future growth (1/3)

Companies are expecting an unchanged business climate and a more favourable investment climate in 2022

Expectations for business climate

- Business climate refers to the perceived hospitality of a state or locality to the needs and desires of businesses located in, or considering a move to, that jurisdiction
- Majority of the companies (37%) expect the business climate in 2022 to remain the same as the previous year

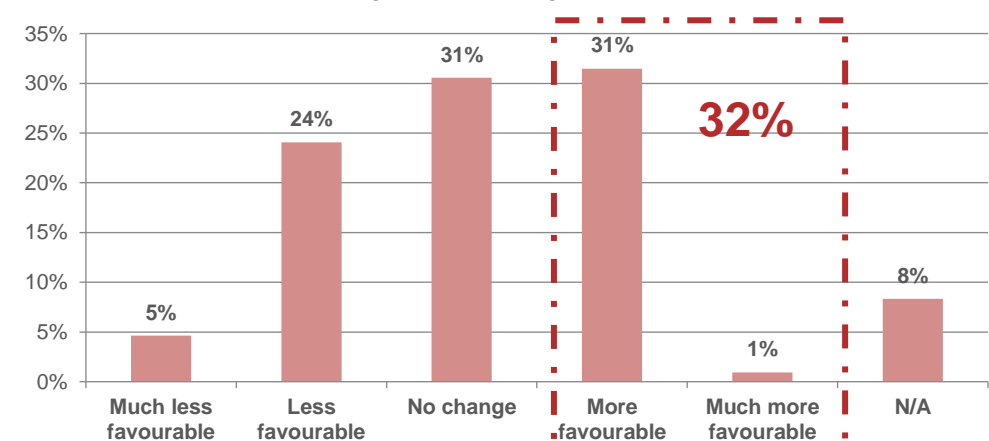
How do you expect the overall business climate in China/HK to develop in 2022 compared with 2021?



Expectations for investment climate

- Investment climate refers to the economic, financial, and socio-political conditions in a country or region that impact whether individuals, banks, and institutions are willing to lend and acquire a stake (i.e., invest) in the businesses operating there
- A slight majority (32%) of the companies expect the investment climate to be more favourable in 2022 compared to 2021

How do you expect the investment climate in China/HK to develop in 2022 compared to 2021?



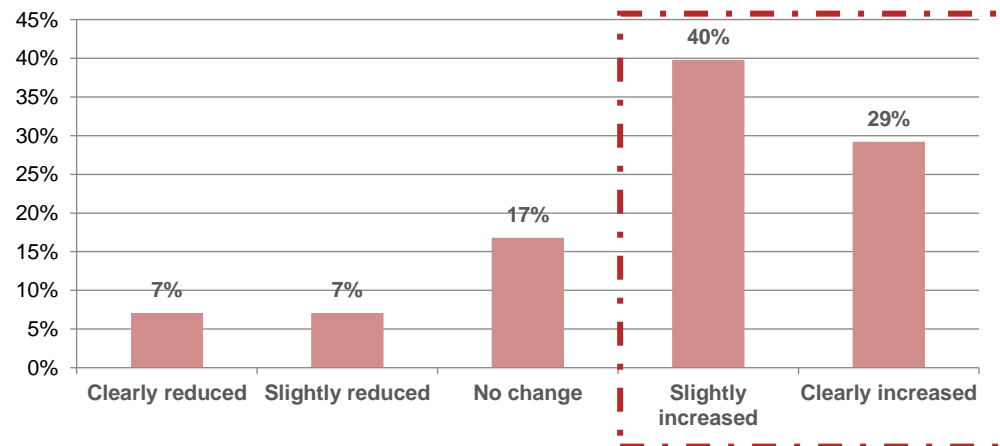
Expectation for future growth (2/3)

Companies are expecting local revenue and net profit to increase in 2022

Expectation for company's local revenue in 2022 compared to 2021

- Around 69% of the companies expect their local revenue in China/HK to increase in 2022, the expectation for growth in 2020 is only at 32%

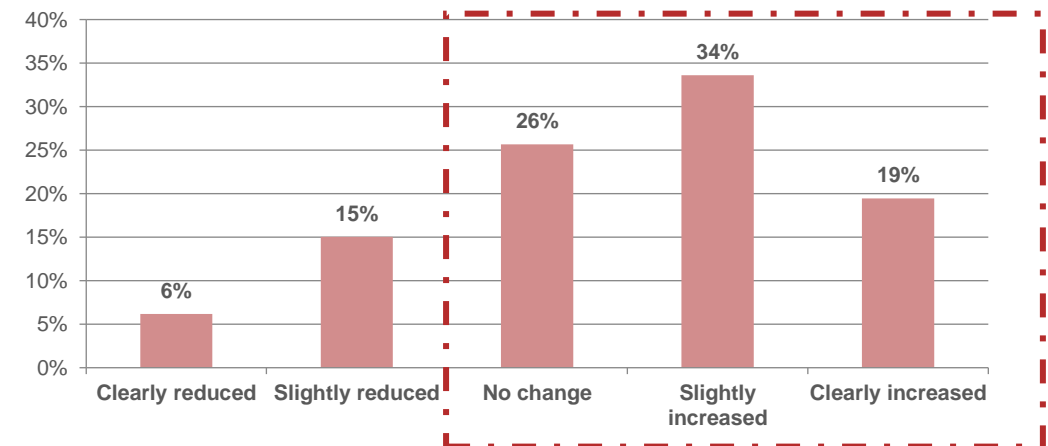
How do you expect your company's revenue in China/HK to change for 2022 compared to 2021?



Expectation for company's net profit in 2022 compared to 2021

- Over 50% of the companies expect their net profit to increase in the following year, and only 21% of the companies are not very optimistic at this point

How do you expect your company's net profit in China/HK to change in 2022 compared to 2021?



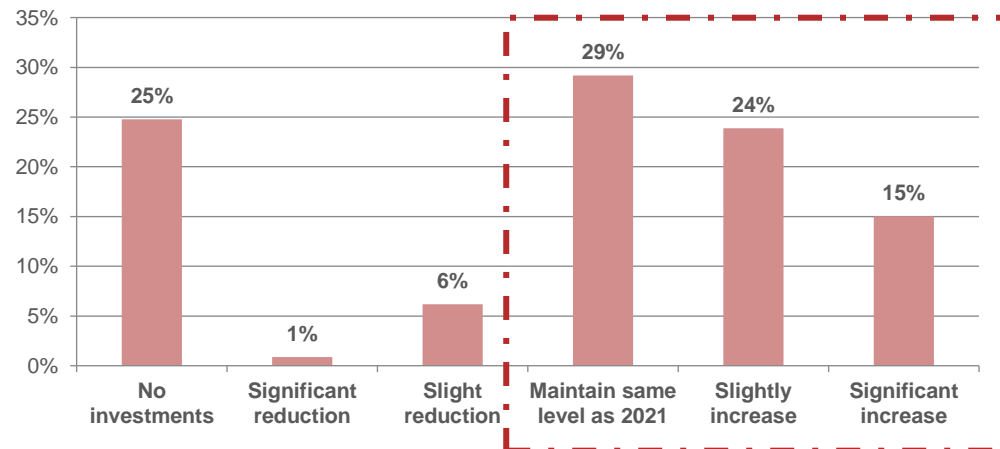
Expectation for future growth (3/3)

Companies will maintain/increase future investment regarding marketing, digitalization and expansion to new business in 2022

Expectation for company's future investment

- 68% of the companies have the intention to maintain/increase the level of investments in 2022
 - 7% of the companies decide to reduce the volumes of investment compared to last year

How do you expect your company's investments to change in China/HK in 2022 compared to 2021?



Investment in 2022: areas of focus

- 51% of the companies are working on marketing strategies to grow the business organically
- Expansion to new business, digitalization, new machinery/technology are also popular for companies to grow in 2022

Areas of focus	
Marketing/promotion	51%
Digitalization	33%
Expansion to new business/category	32%
New/renew machinery or technology	31%
Geographic expansion	20%
Establish or expand research and innovation activities	17%
De-carbonization	15%
New production facility/factory	11%
Acquisition of competence	9%
Merger/Acquisition of a company	8%
Acquisition of IPR/patents	7%

Geographical expansion

Shanghai, Guangdong, Jiangsu are the three most attractive expansion areas to Finnish companies in China

Geographical expansion in China



- The most attractive expansion areas are the provinces in the Eastern and Southern part of China
 - ❑ **Shanghai (Yangtze River Delta): 31%**
 - ❑ Guangdong (Pearl River Delta): 15%
 - ❑ Jiangsu (Yangtze River Delta) : 12%
 - ❑ Sichuan: 10%
 - ❑ Beijing (Capital): 8%
- The top 5 provinces is accounting for 76% of the responses

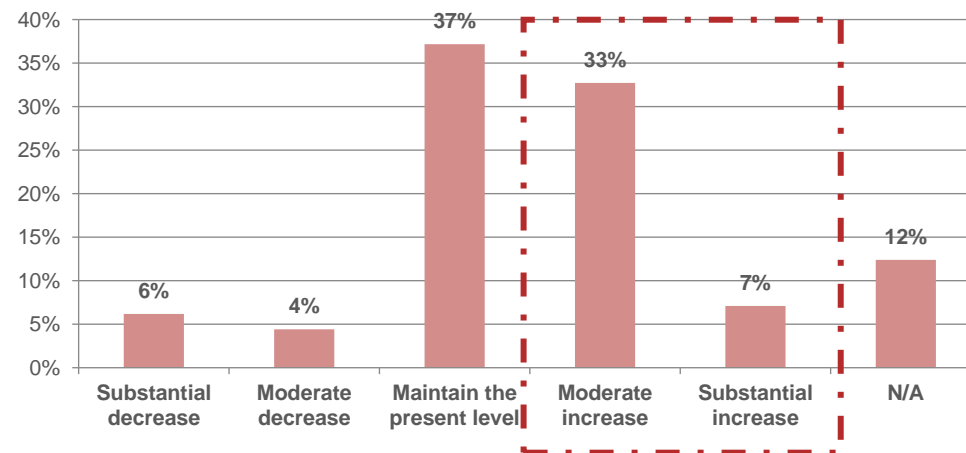
Human capital outlook (1/2)

Companies are hiring more employees in 2022 for the purpose of business expansion and localization

Local employees

- 77% of the companies are demanding local employees, from which 40% of them has the plan to increase local employees in China next year
- Only 10% of the companies will decrease the number of local employees

Do you plan to change the number of local (Chinese/HK) employees in 2022?



Reasons for adjustment

Reasons for hiring more employees:

- A great number of respondents has mentioned that they are hiring more local employees due to an increase in business confidence and growing business in the Chinese market
- Localization: overcome language & cultural barriers, establish a local presence, a better understanding of the local business environment
- Business expansion: acquire local license, promotion & development in China and APAC

Reasons for cutting local employees:

- For companies who want to decrease the number of employees in 2022, cost reduction is the most frequent response

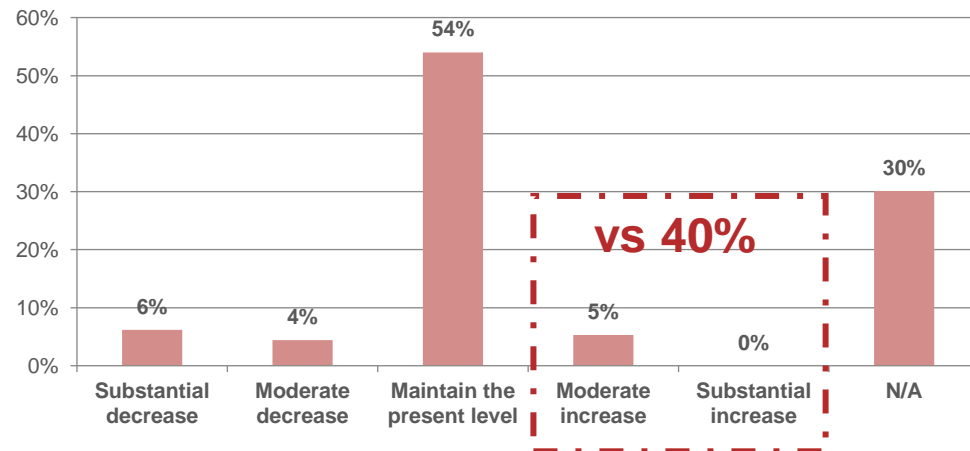
Human capital outlook (2/2)

Companies prefer to hire more local employees instead of foreign ones due to the travel restriction and cost reduction

Foreign employees

- Companies prefer to hire more local employees in the future years as only 5% of the company choose to increase the number of foreign employees, whereas the percentage is 40% for local
- Over 50% of the companies choose to maintain the foreign employees at the same level

Do you plan to change the number of foreign employees in 2022?



Reasons for adjustment

Reasons for decreasing/ maintaining the present level

- Travel restriction: less / more expensive flight options to China, difficult to recruit from Finland
- Cost: reducing costs, as salaries for foreign employees are much higher

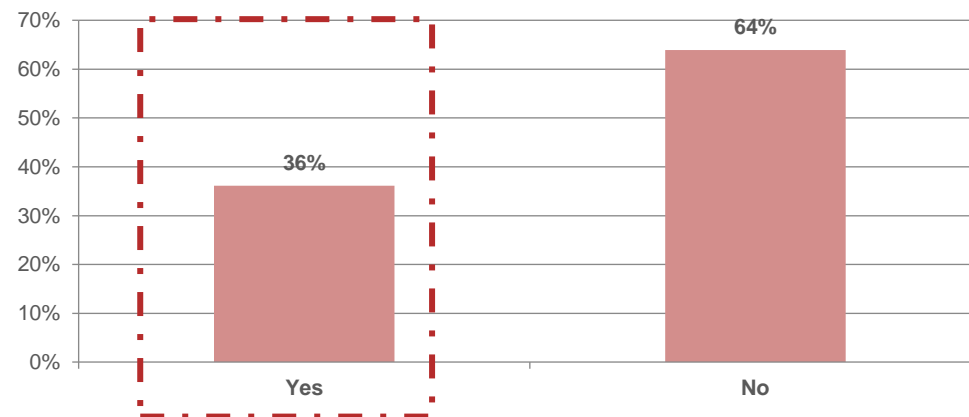
Supply chains

Companies with physical goods have recognized the importance of changing supply chains to adapt the COVID restrictions

Future changes for supply chains

- 36% of the companies will have changes in their supply chains in the near future

Do you anticipate that your company's supply chains will change in the near future with respect to its operations in China?



Rationales

- **Many companies have mentioned localization:**
 - ❑ Increase in number of local distribution centers, local suppliers
 - ❑ Increase in local raw materials due to high cross-country logistic costs
 - ❑ Potential new transportation methods from Finland to China aside from sea shipments

Risks & mitigants (1/2)

Companies are facing the challenges from both Chinese market and the pandemic

Potential or existing risks or barriers for doing business in China/HK

▪ Chinese market:

- ❑ Lack of understanding for the Chinese market
- ❑ Competition with locally favored companies
- ❑ Hard to provide reliable tech services to local customers due to the Great Fire Wall (risk is very minimal in HK)
- ❑ Geopolitical risk and China/US/EU relations

▪ COVID effects:

- ❑ Not familiar with Chinese ever-changing policies or standards
- ❑ Oversea freight cost is high
- ❑ Strict logistic rules between China and abroad
- ❑ Lower availability of imported materials

Impact of new Chinese regulations

▪ How do you evaluate the impact of new Chinese regulations, incl. Data Security Law and Personal Information Protection Law on your operations?

- ❑ Almost 95% of the companies think the impact of the new Chinese regulations are minor or almost no impact at all
- ❑ Only 5% of the companies have optimistic / pessimistic point of views

Risks & mitigants (2/2)

Companies are actively seeking for solutions to mitigate the risks of the pandemic

Measures to mitigate the risks and adverse effects of the pandemic

- Improve inventory management to balance the international logistics risk and domestic business opportunities
- Slight increase in the stock of standard products for local sales. Increase production capacity in supplier network outside of China
- Expand business portfolios, from simple large on-site events to more of some O2O hybrid events
- Increase team digital working skills and knowledge, e.g., using iCloud and DingTalk more effectively than before
- Strengthen cooperation with international partners. Invest more in innovation and training. Apply local knowledge and insights
- Increases cooperation in China and participate more actively in Team Finland events and organization, including FBCB/FBCS

What kind of reforms in China/HK would benefit your business?

- Optimize the process of import and export
- Reduce entry restrictions and quarantines and open the border of China
- Higher regulation on emission control, support for companies helping to reduce energy consumption
- Beneficial tax policies for foreigners and companies
- Encourage more global investors and products
- Decrease the Chinese social insurance payment requirements for foreign employees
- Increase IP protection for foreign company technologies
- Quality standard harmonization with EU standards

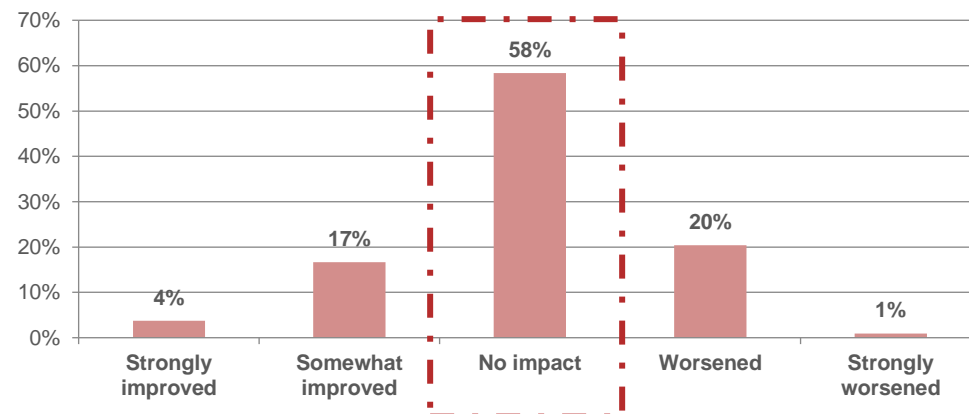
Political outlook (1/2)

The trade/tech battle between China & USA has minor effects on respondents' companies

Assessment of trade/tech battle between China & USA

- The trade/tech battle between China & USA has almost no impact for 58% of the companies
- 21% state that their business opportunities have been either improved or worsened due to this battle

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



Rationales

- Most of the companies have not been affected by the trade war, especially those who are not relying on physical goods
- **Advantages:**
 - ❑ When the USA becomes less favorable to China, Finnish companies gain more opportunities
 - ❑ Strong drive for localization, which enables for new business opportunity
- **Disadvantages:**
 - ❑ Higher taxation on products imported from China
 - ❑ Margin impact since customers need to pay high anti-dumping duties

Political outlook (2/2)

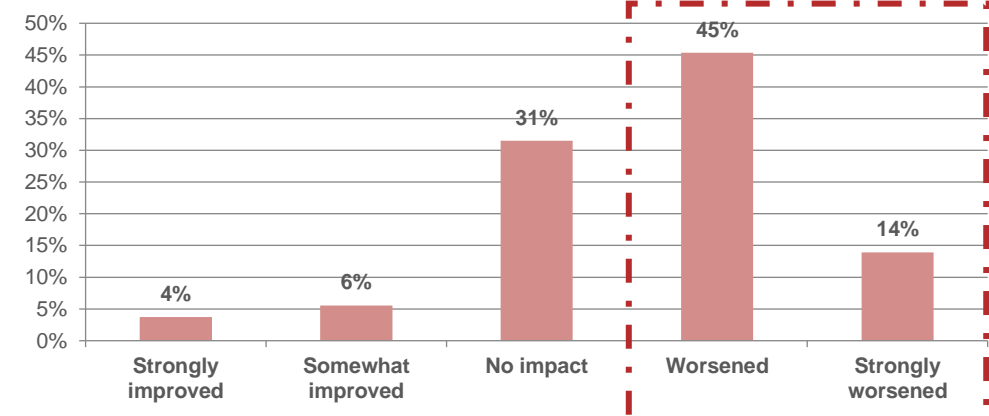
The potential tensions between the EU and China may result in increasing concerns for the respondents' companies

Assessment of a potential trade tensions between EU and China



- Overall, the possibility of more (trade) tensions between the EU and China may arise some concerns for Finnish companies
 - 59% of the companies state that they may be worried if the future trade relationship between the EU and China gets tensed

How do you assess the possibility of more (trade) tensions between the EU and China would impact your company's business prospects?



Satisfaction survey (1/2)

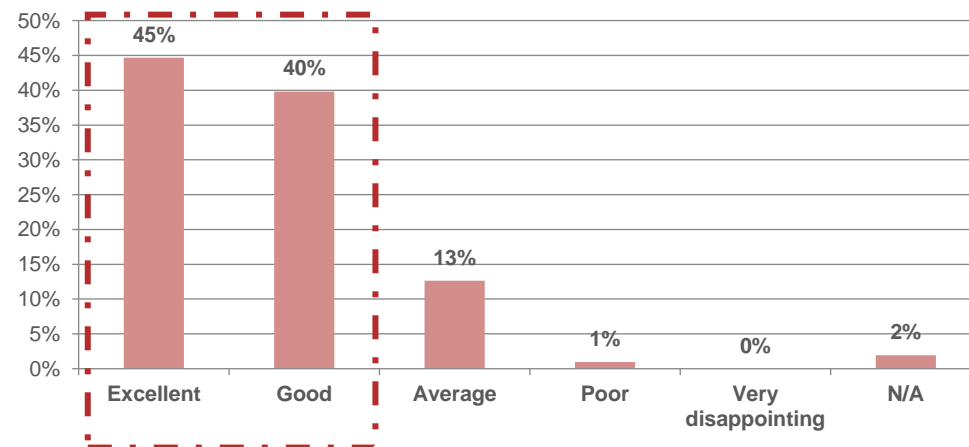
Companies are very satisfied with Finish Business council / FinnCham and are encouraging to receive more support

Results of satisfaction survey

- Overall, companies are satisfied with Finish Business council / FinnCham and appreciated for the works have done so far

- 85% of companies are rating “Excellent” and “Good”

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



Areas to improve

- Initiate more virtual events to allow companies attend safely during the pandemic
- Reach out and expand more regional business communities in other cities like Suzhou, Hangzhou (Zhejiang province)
- Clarify mission, the organization structure, and who to contact in different situations
- Establish more informal activities like speech or sharing session
- Support with finding reliable business contacts and partners

Satisfaction survey (2/2)

Companies are satisfied with Team Finland so far and are encouraging for more business activities

Team Finland

- Team Finland in China/HK consists of:
 - Embassy
 - Consulates
 - Business Finland
 - Business Councils/FinnCham



Areas to improve

- Strengthen relations with both Chinese and Finnish government, offer more practical events like interpretation of government policy
- Reach out and expand in other developing cities / provinces especially in South of China
- Bring more concrete business opportunities to the Finnish companies in China through matchmaking, events and consultations
- Engage more Chinese social media publications regarding Team Finland activities to support Finnish businesses in China
- Add more advocacy to ministries, enable Finland to establish a good reputation in China, and explore how to materialize it into business
- Build more cooperation and coordination, have information actively shared within and between the organizations

Summary

Companies are optimistic and having great business confidence for 2022

Key Takeaways

■ Past performance:

- More local revenues have been generated in the past three years
- More industrial production and R&D developed over the past decade
- More investments and recruitment of local employees over the past decade

■ Future expectations:

- Optimistic of the investment climate in China: more favorable
- Expect local revenues and net profits to grow
- Intend to maintain or increase the level of investments

■ Conclusion:

- **Although the pandemic and political factors has brought risks and concerns for companies in China especially foreign ones, companies are still optimistic and adapting changes quickly**



Team Finland is always here for you!

About Nordic Match



Nordic Match is a financial advisory boutique based in Shanghai, China with a sole focus on Sinordic transactions.

Our Mission:

"To promote Sino-Nordic trade and investments"

Our Vision:

"To become the leading financial advisor focusing solely on Sino-Nordic transactions"



Your Sinordic Partner



Sweden



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Denmark

Sinordic Presence,

Cross-culture Understanding.

Our extensive network of local partners in the Nordics allows us to provide first class services for our clients.



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