



BUSINESS CLIMATE SURVEY FOR SWEDISH COMPANIES IN CHINA 2020

A JOINT REPORT FROM TEAM SWEDEN IN CHINA

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EMBASSY OF SWEDEN

The mission of the Embassy of Sweden in Beijing is to promote and protect Swedish interests in China as well as to further strengthen the Swedish-Chinese relationship. Main areas of bilateral exchange, reporting and other activities include political affairs, economic and trade affairs, science and innovation, press and culture, migration and consular services.



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CONSULATE GENERAL OF SWEDEN

The Consulate General of Sweden in Shanghai represents Sweden in Shanghai and the provinces of Anhui, Jiangsu and Zhejiang. The Consulate General works to strengthen relations between Sweden and the region, promote Swedish trade interests and further exchanges in culture and education. The Consulate General also issues visas for travel to Sweden and provides consular Service to Swedish citizens.



Consulate General of Sweden
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BUSINESS SWEDEN

Business Sweden is commissioned by the Swedish government to help Swedish companies grow global sales and international companies invest and expand in Sweden. Business Sweden offers strategic and hands-on support to Swedish companies with global ambitions. With 44 offices across the globe, we have a strong presence in each of our key regions: Europe, Middle East & Africa, Americas and Asia-Pacific.



SWEDCHAM

The Swedish Chamber of Commerce in China is the information, networking, and facilitator platform for Swedish businesses in Mainland China. Founded in 1998, it now brings together 220 Swedish related companies and associates around issues of common interest through public events, reports, executive dialogues, educational courses, and collaborations with relevant partners in China and Sweden.



SWEDCHAM.CHINA
中国瑞典商会

FOREWORD

This year marks 70 years of diplomatic relations between China and Sweden. Swedish trade with China has increased over the years, and China climbed to eighth place in 2019 on the list of top export countries around the world. In addition to the trade numbers, China also serves as an important market for Swedish companies who operate abroad, and the value of Swedish companies' sales in China is around five times higher than the direct exports.

This year also marks the start of the third decade of the Business Climate Survey in China, which was launched in 2000 and aims to analyse and understand the situation of Swedish companies operating in China. We are very grateful for the input shared by all the participating companies, which makes this regular survey possible.

We are operating in turbulent times, and many of the uncertainties we face are results of market activities and trends which have developed over the last few years. This has been driven by shifting demand patterns and new innovation and manufacturing eco-systems, but also factors such as regulatory uncertainties and trade tensions, with the US – China trade conflict being high up on the agenda. Many of these uncertainties are further reinforced by the current Covid-19 pandemic, which makes forecasts more difficult than ever before.

Despite the uncertainties, it is still of utmost importance to continue staying close to the market, understanding the shifting dynamics, and highlighting the challenges perceived by the business community. We have therefore decided to shift gear and carry out this survey already in 2020, and thus only one year after the previous survey, compared to the bi-annual intervals over the last two decades. This survey is also synchronised with Business Climate Surveys carried out by Team Sweden around the world, making it possible to compare and contrast the impact of mega trends, trade relations and other macro-economic factors.

We hope this survey will help companies to better understand and navigate the Chinese business environment, and enable decision makers to further improve the business climate. Do not hesitate to reach out to your Team Sweden representatives for further discussions around the findings and your specific business situation.



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EXECUTIVE SUMMARY

2020 will go down in history as a turbulent year, marked by the Covid-19 pandemic both from a perspective of health and economic impact. The uncertainties caused by the current situation have made it even more challenging for companies to make proper forecasts and plans. The rapid development is also quickly making forecasts inaccurate. It is thus a complex task to capture the business sentiment among Swedish firms and make a proper analysis. That being said, the Business Climate Survey reflects and represents the situation Swedish companies are currently facing, and the considerations being made in turbulent times.

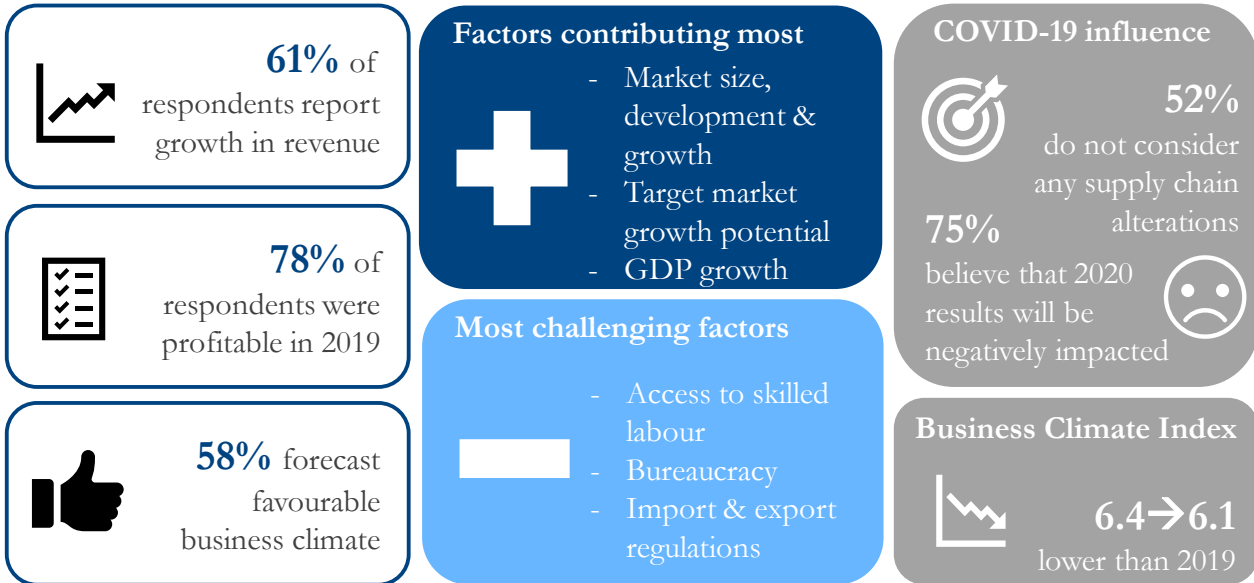
Seeing the fast development of the pandemic, Team Sweden has executed a number of smaller surveys among the business community to understand immediate and medium-term impact on sales and production. Since the larger outbreak in China in the beginning of the year, where impact was deemed to be very high, the surveys have indicated a gradual improvement. When this survey was carried out in May, 75% of the respondents believed that 2020 financial results would be negatively impacted by the pandemic. But almost two thirds still believe that results will be on par with or above 2019 levels, so even if impact is felt, it might not be as gloomy as originally expected.

When it comes to the business climate, the perception among Swedish firms is that it has weakened compared to last year, where the current economic situation could be part of the explanation. The negative impact is seen among Industrial and Service firms. Consumer firms on the other hand are experiencing a better climate compared to last year, where one driver could be new business opportunities created by the strong e-commerce focus during the pandemic period.

Besides a tough economic environment, Swedish firms are also experiencing a number of challenges when doing business in China. A challenge which has significantly increased in magnitude is the access to skilled labour. Given the continued expansion plans among many firms, it is troublesome to see that they struggle to tap into the talent pool and attract the right people. This could be one factor explaining the sudden increase in expats among the responding firms, despite the fact that many expats seem to have left China due to measures related to COVID-19.

Another topic which is receiving higher attention is sustainability. China has actively worked on areas such as anti-corruption and environmental aspects over the last few years, which has in several areas rendered visible improvements. However, Swedish firms are still experiencing slightly higher levels of corruption and somewhat less focus on environmental aspects in purchasing decisions than in some of their other Asian markets, which indicates that these are battles which will need to continue in order to create a sustainable business environment supporting the desired growth. The risk of encountering human rights violations or labour rights abuse when doing business is also considered higher than the APAC average.

Looking ahead, 40% of the respondents are planning to expand their geographical footprint in China over the coming three years, and almost half of the respondents are looking to increase or diversify their supplier base in China, or even shift suppliers from abroad to China. The main reason for operating in China is for many firms to access the Chinese market, but there is also an increased focus on reaching other markets – both through exports from China, but also by using China as regional headquarters for a larger geographic area.



ABOUT THE REPORT

The Business Climate Survey for Swedish Companies in China 2020 is a joint initiative by the following organisations within Team Sweden in China: the Embassy of Sweden in Beijing, the Consulate General of Sweden in Shanghai, Business Sweden and the Swedish Chamber of Commerce in China.

The Business Climate Surveys are published regularly in several markets across the world. In China, the survey has been carried out bi-annually since 2000, with an increased frequency to annually from 2019, with the purpose of furthering our understanding of the performance of Swedish companies, challenges and opportunities that these companies are facing as well as their outlook for the Chinese market, with an emphasis on Mainland China.

The participating companies in this survey are either headquartered in Sweden, have Swedish shareholders or owners, are part of a Swedish conglomerate or have other significant affiliation with Sweden. The companies range from small and medium-sized companies (SME) to large multinational corporations and cover a wide range of sectors. With participation of high-level representatives from almost one hundred Swedish companies, the survey gives a comprehensive perspective on how Swedish companies view the business climate and their own performance in China, one of Sweden's most important markets.

The report is divided into the following sections: Demographics, Performance, Climate, Outlook and Sustainability. Most of the questions in the survey are similar to previously conducted surveys in order to allow for comparison over time. Nevertheless, some new questions have been added to this year's survey, and it has also been synchronised with Business Climate Surveys carried out in other markets around the world to enable comparability where relevant. Also, the respondents differ from last year (e.g. larger share of service firms), which could bring impact on conclusions.



DEMOGRAPHICS

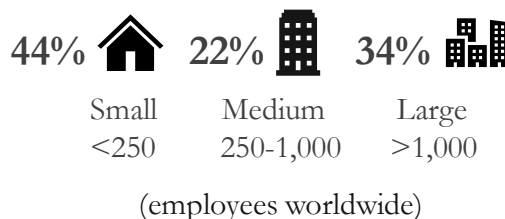
Participants represent a mix of company sizes and industries

The 2020 survey was conducted among member companies of the Swedish Chamber of Commerce between May and June 2020. The response rate was 51%, with 93 out of 183 eligible companies responding to the survey.

93 high-level representatives

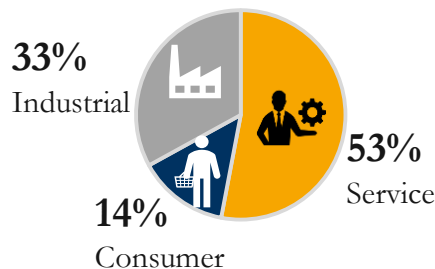
The firms are categorised based on size: “large” firms are entities with more than 1,000 global employees; “medium” firms are defined as entities with global employees within range 250-1,000; “small” firms are entities with less than 250 global employees. Overall, 44% of participants were small firms, and the remaining medium and large firms occupied 22% and 34%, respectively.

... from **large** to **small** firms...



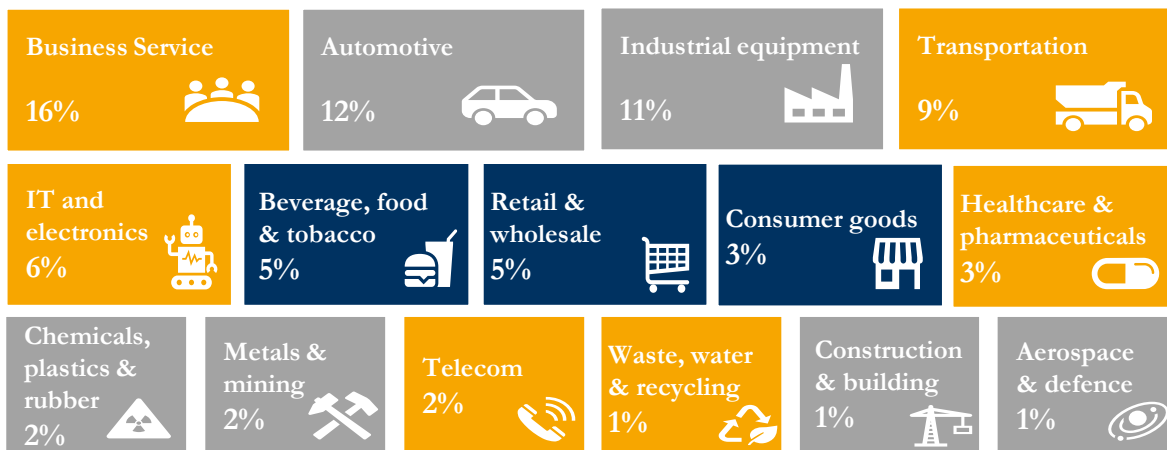
The respondents are grouped into three sector categories: Service, Industrial, and Consumer. Looking back on 2019, the ratio of respondents from industrial companies dropped from 53% to 33%, while the Service firms increase from 30% to 53%. Firms in consumer industries occupies the lowest proportion both in 2019 (17%) and 2020 (14%).

... spanning a wide spectrum of **sectors**



With respect to the specific industries, firms from business service, automotive and industrial equipment are dominating the responses, with approximately 39% across the three sectors.

*As the sample size is limited, the analysis based on segmentation of data into industry and size can provide instructional reference instead of conclusions.

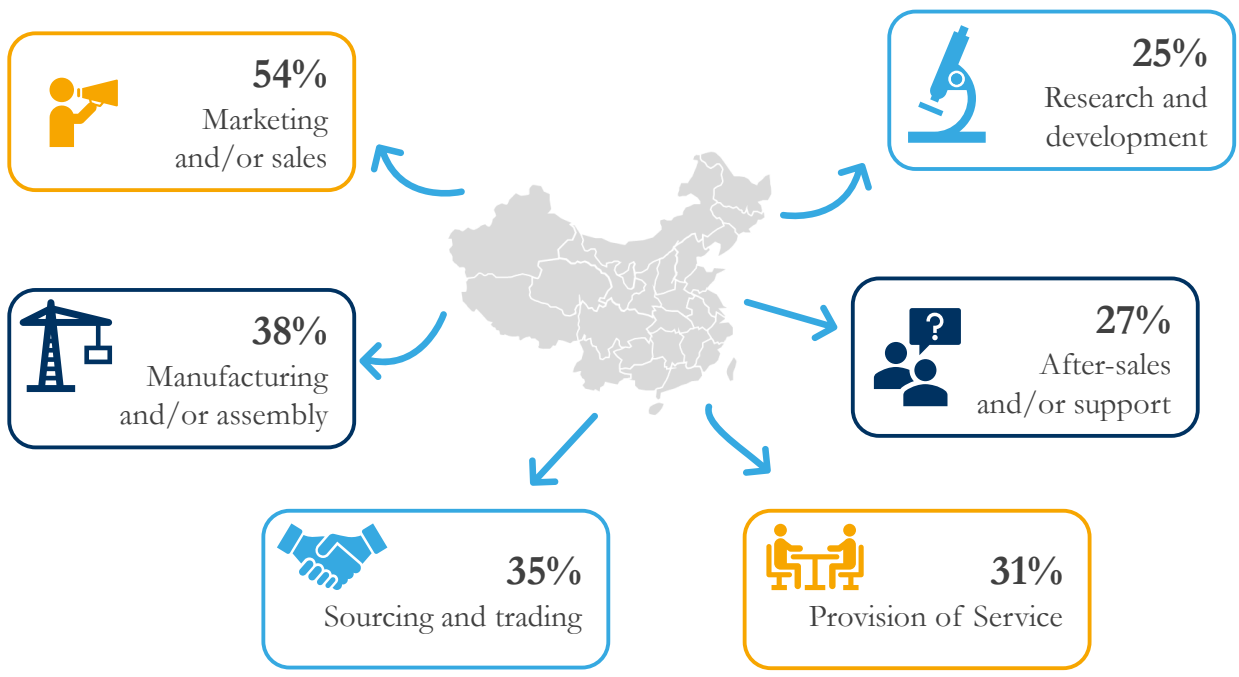


Declining activity in marketing & sales and R&D

Marketing & sales and R&D which were the two most common functions in 2019 Business Climate Survey* have both seen significant reductions in terms of how many respondents have these functions in China. The proportion for marketing & sales has dropped from 70% to 54% from 2019 to 2020, and from 47% to 25% for R&D over the same period.

This can partly be explained by the shifting respondent base, but it is still a call out that these core functions are not present in the market for such a large share of the companies. For many sectors the Chinese market is growing relatively faster than the rest of the world, and firms not operating on the demand side will not be able to capitalise on this growth. From R&D perspective, Chinese presence is not only relevant in order to adapt offerings to the local market, but also to tap into the local innovation and research ecosystem for global purposes. The European Chamber’s Business Confidence Survey 2020* indicates that European firms believe China has an increasingly favourable environment for innovation and R&D, while fears of IP infringement are still keeping some of the research away from China.

What operations do you carry out in China? (N=91)



Source: <https://www.business-sweden.com/insights/reports/china-business-climate-survey/>;
<https://www.eurochamber.com.cn/en/publications-business-confidence-survey/>

Wholly Foreign-Owned Enterprise (WFOE) is the most common type of establishment

In order to fully operate as a foreign firm in China, including selling products to customers, a WFOE is required, which is also the most common form of establishment among the survey respondents (81%). A significantly smaller share have representative offices (11%), which limits the possible business scope. There are also cases of joint ventures (12%), which has traditionally been a requirement within certain industries, but the ease of limitations for foreign firms within some industries may reduce the joint venture share moving forward.

What kind of establishment do you have in China? (N=93)



81%

Wholly Foreign-Owned Enterprise (WFOE)



12%

Joint Venture



11%

Liaison Office / Representative Office

Definitions of establishment options

Wholly Foreign-Owned Enterprise (WFOE)	A limited liability company wholly owned by the foreign investor(s)
Joint Venture	Business entity established by two or more parties for the purpose of executing a particular business undertaking
Liaison Office / Representative Office	A business office with limited functionality that is opened in a jurisdiction where the business is not yet licensed to operate

Swedish firms have more expatriates in China

With respect to employees in China, the proportion of expatriates has been decreasing steadily since 2013, but the trend changed this year, and it has now increased to 3% of the total workforce. It can partly be explained by an increasing interest in the market, but also by challenges to attract local talents.

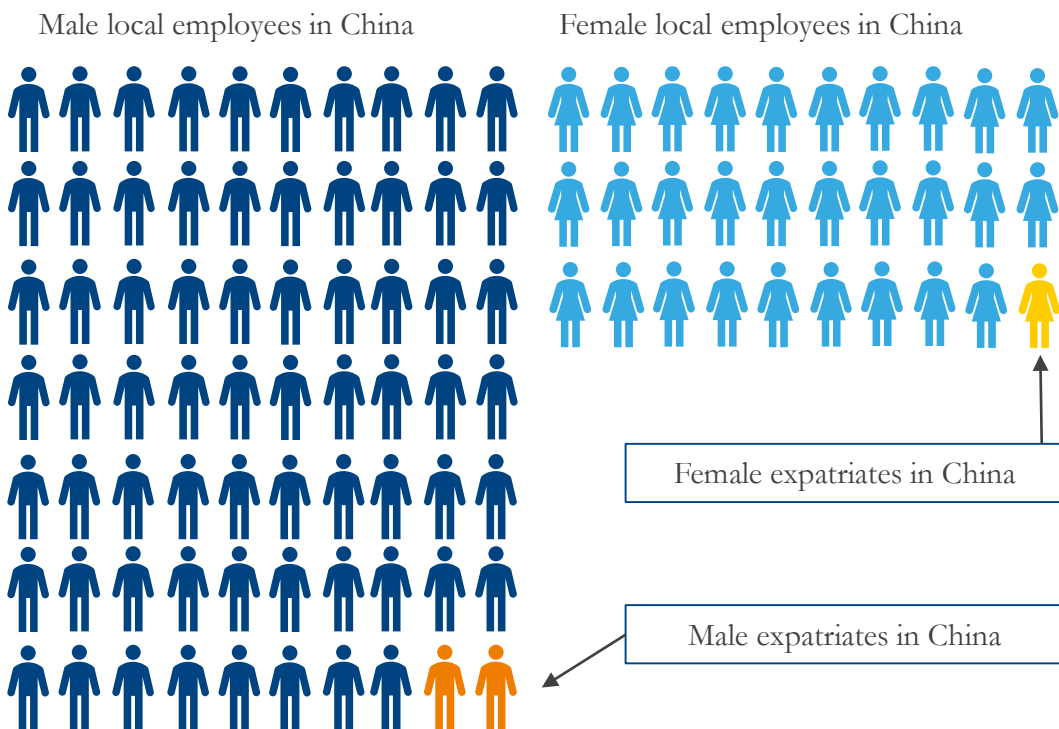
Another aspect worth noting is the ratio between male local employees and female local employees in China, as well as the ratio between male expatriates and female expatriates in China, which are both 7:3, so there is still some way to go in order to reach a better gender balance. With respect to the gender differential ratios across sectors, the service sector has more female employees (44%) than industry (39%) and consumer (39%) segments.

What is the expatriate rate of your company in China? (N=93)



0,4% in 2019
VS
3% in 2020

What is the distribution of employee types in China? (N=93)



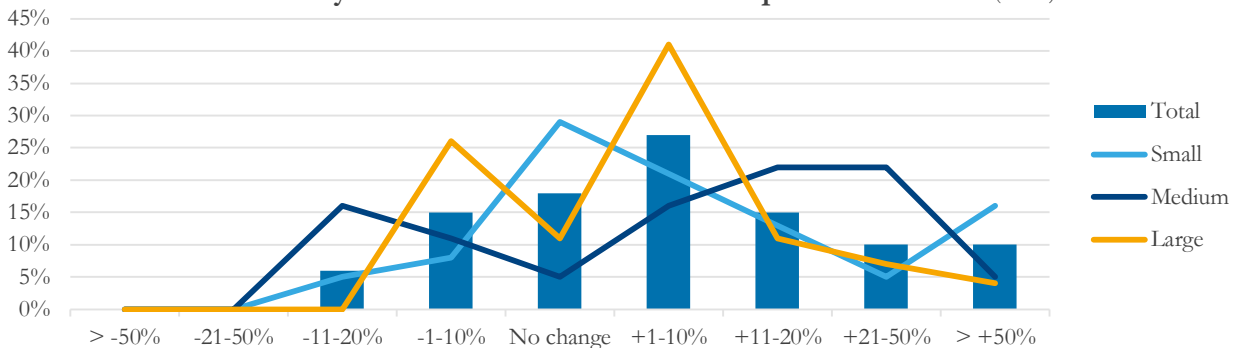
PERFORMANCE

Continued growth in 2019, but less aggressive than previous year

A majority of the respondents (61%) witnessed revenue growth in 2019. The growth was however slightly more modest than previous year, where the most common span was 11-20% growth, while 2019 centred around single-digit growth. This outcome is in line with the projections made in last year’s Business Climate Survey, so the slowdown in growth does not seem to come as a surprise.

An interesting observation is that many small companies have experienced no change, while most medium and large companies either had a positive or a negative growth. This is partly explained by many large firms operating in the industrial segment, and 2019 has been a divider, with some industries being negatively affected (includes automotive, industrial equipment and tele-communications, while others have had a positive traction (such as consumer goods and business services).

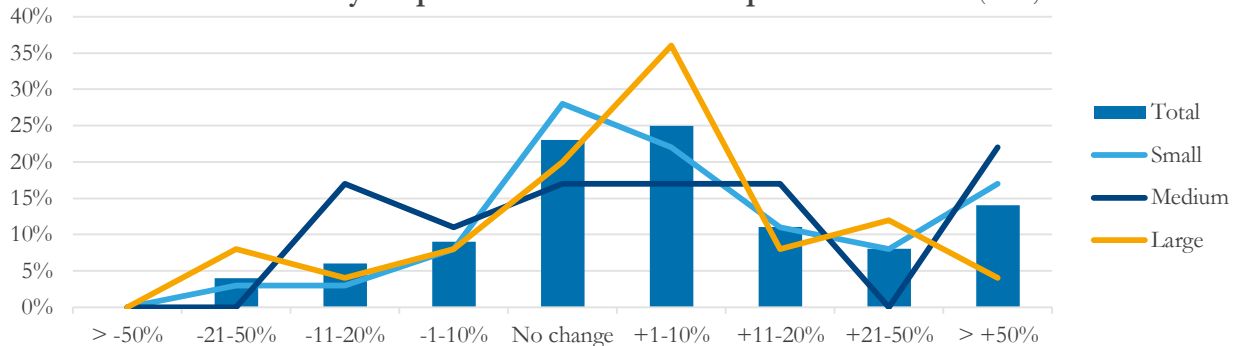
How was your revenue in China 2019 compared with 2018? (N=82)



Unlike last year, where revenue growth was significantly higher than profit growth, 2019 came out as a more balanced year from a profitability perspective. The consumer industry is however having a slightly different profile, with revenue growing faster than other segments, and also faster than their own profit in 2019, which indicates more expansionary approaches.

The healthy balance between revenue and profit growth is also evidenced by the actual profitability of the respondents. 78% were profitable in China in 2019, and only 7% incurred a loss. There is an apparent correlation between company size and profitability, with 97% of large firms being profitable. From a sector perspective, consumer firms show a higher ratio of profitable firms.

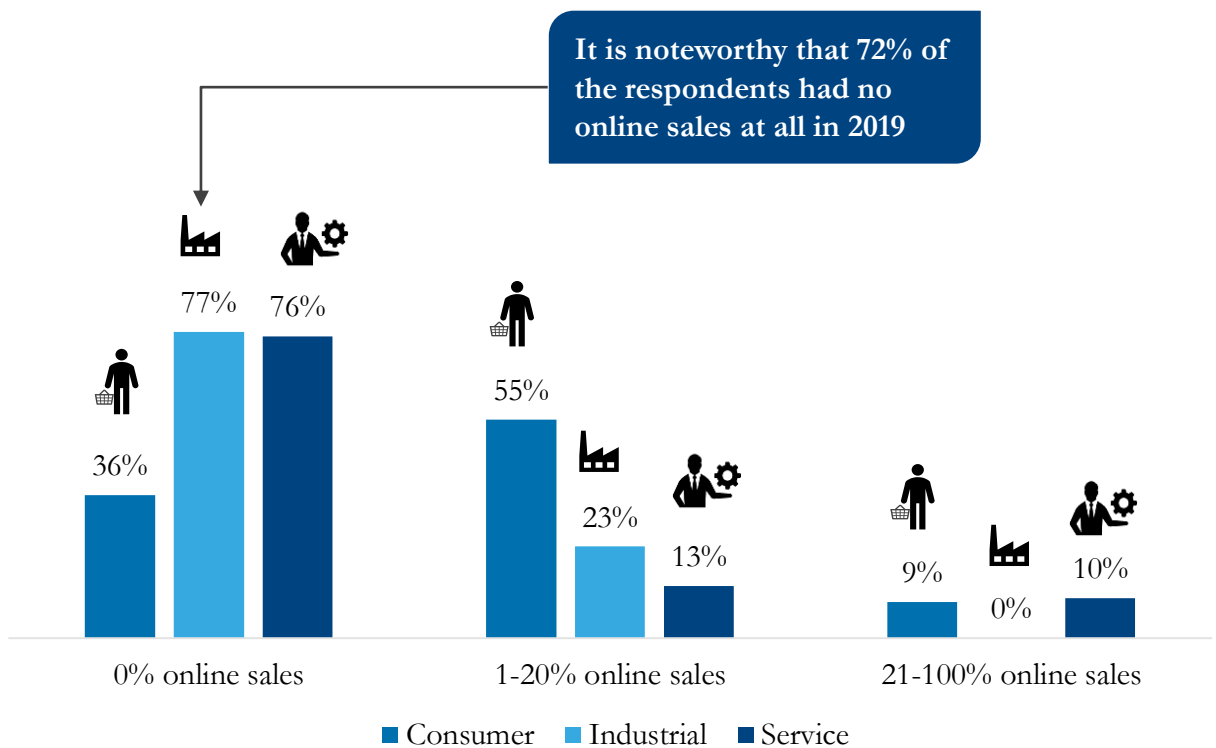
How was your profit in China 2019 compared with 2018? (N=79)



Online sales has not yet been adopted on a larger scale

China has a fast-developing online market, representing 37% of global retail e-commerce transaction value in 2019. It is therefore noteworthy that 72% of the respondents had no online sales at all in 2019. Within the consumer segment, the online share is higher, with almost two thirds of the companies having part of their sales online. But for industrial firms, the share is significantly lower, something worth reflecting on in a market where also many B2B transactions are happening in online marketplaces today. The online universe looks different in China compared to Europe, but seeing that many Swedish companies are in China for China, it will no longer be an option not to use the fast growing online platforms.

What percentage of sales came from your online sales in 2019? (N=88)



Covid-19 has a strong impact on 2020 results

Projections for 2020 are obviously significantly marked by the economic impact of Covid-19. Team Sweden performed surveys of the impact on Swedish companies in China during February and March 2020, where a vast majority of the respondents indicated a negative sales impact on a 3-6 months basis (90% in Feb, and 86% in Mar). When the Business Climate Survey* was conducted in May, 75% of the respondents believed that results for 2020 would be negatively impacted as a result of Covid-19.

When looking at the supply side, the impact improved quicker than the demand side, and companies who indicated a negative impact on a 3-6 months basis on their ability to produce products and services dropped quickly in the previously conducted surveys (82% in Feb, and 32% in Mar). However, looking at full year impact, 61% of the respondents still believe that their production is negatively impacted.

On the flip side, respondents from industries such as consumer goods, industrial equipment, business services and food & beverage experience a positive impact of Covid-19, in terms of both production and sales.

Do you forecast an impact of Covid-19 on your ability to produce products and services in China in 2020? (N=93)



1% Yes, very positive
11% Yes, positive



27% No effect



46% Yes, negative
15% Yes, very negative

Do you forecast an impact of Covid-19 on your sales in China in 2020? (N=93)



2% Yes, very positive
11% Yes, positive



12% No effect



58% Yes, negative
17% Yes, very negative

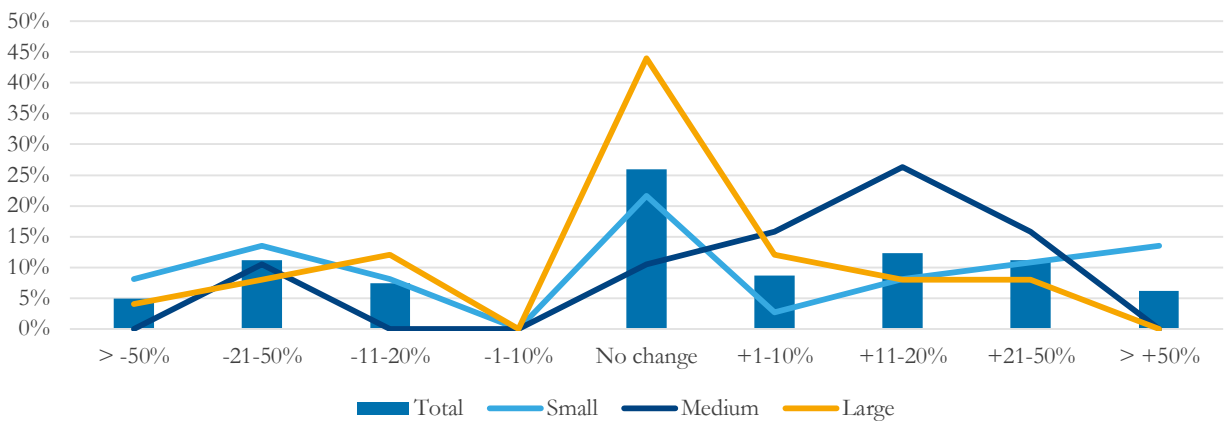
Source: <https://www.business-sweden.com/insights/articles/coronavirus-implications/>;
<https://www.business-sweden.com/insights/articles/how-are-swedish-companies-affected-by-the-coronavirus-pandemic/>

Despite the impact, full year forecasts still carry optimism

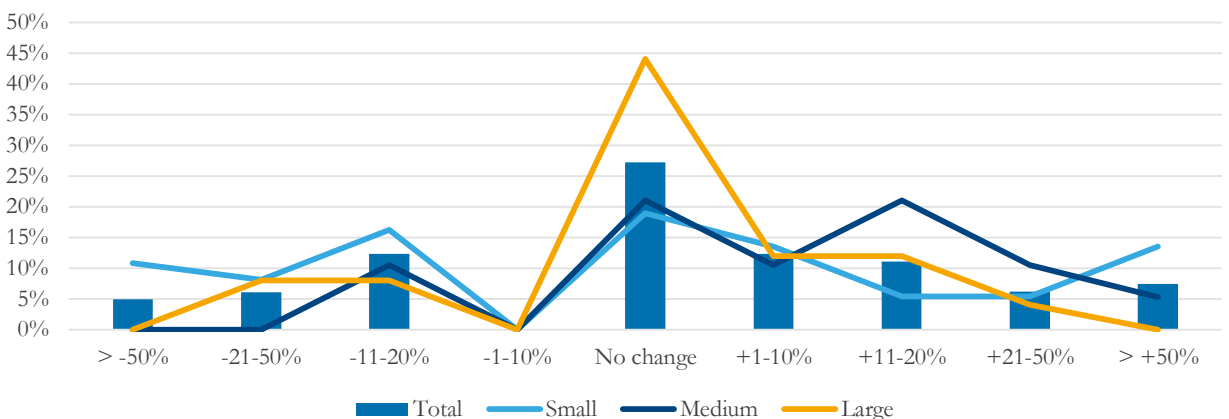
With the Covid-19 impact in mind one could expect a rather gloomy forecast for 2020, but the fact is that 64% of the respondents project both revenue and profit to be in line with or higher than 2019 results. In fact, 30% of the respondents project a double-digit revenue growth, and 25% expect profit to also grow above 10%. This shows that even though many firms have taken a hit this year, their baseline forecast contained even higher growth ambitions, meaning that despite an impact on sales and production, they still expect to deliver better than previous year.

The most negatively hit from a growth perspective are small companies, where 43% expect revenue and profit to go down. This reemphasizes the importance of support to SMEs.

What is your revenue forecast of your operations in China for 2020 compared with 2019? (N=92)



What is your profit forecast of your operations in China for 2020 compared with 2019? (N=93)

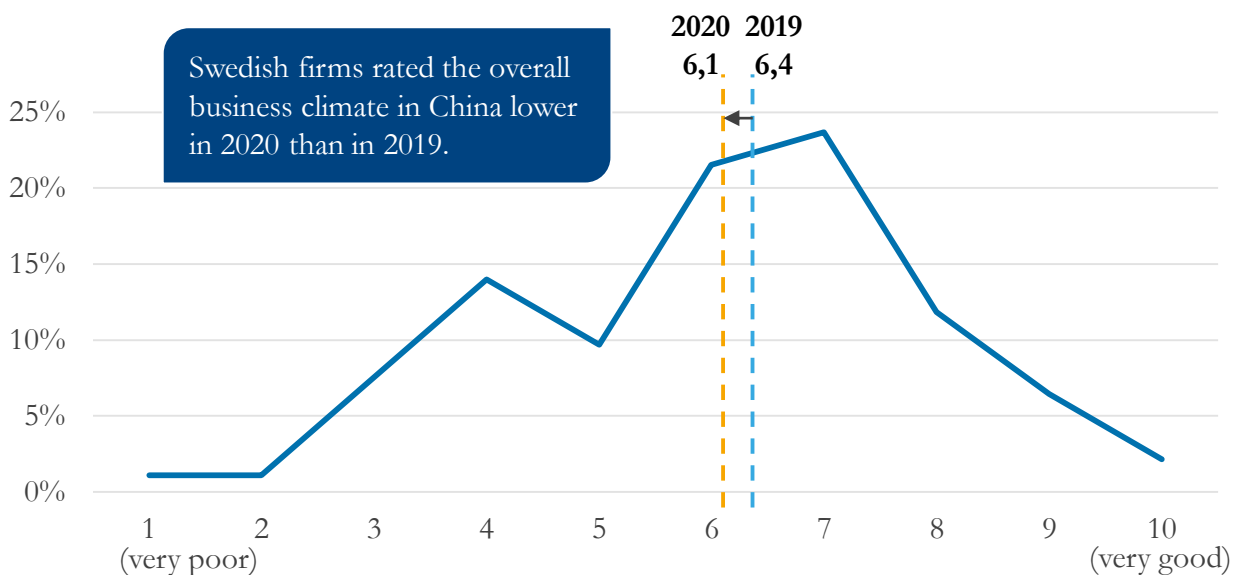


CLIMATE

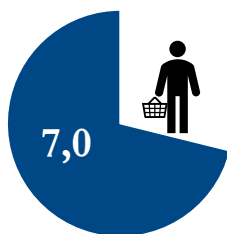
Business climate is getting tougher

The perceived business climate is at the essence of this survey. At each survey, the respondents are being asked to assess the current climate on a scale from 0 to 10. The assessment is subjective and can be impacted by a number of factors – many of them explored through other questions throughout the survey. But it gives a good indication of how the perceived climate is developing over time. This year, the climate index ended up at 6.1, which is a slight deterioration from 2019, when it was 6.4. Seeing the financial impact of Covid-19 on smaller firms, it is not surprising that they are the most negative when it comes to assessing the climate (5.8). When it comes to sectors, the consumer companies are the most positive ones (7.0), while the service sector is facing a tougher climate (5.7).

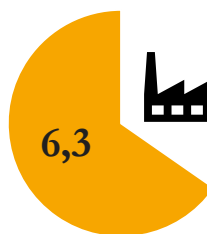
How do you perceive the current business climate in China? (N=92)



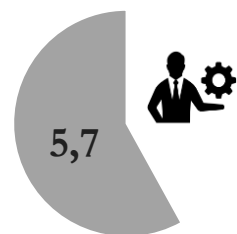
Consumer companies perceive the business climate most favourable



Consumer



Industrial



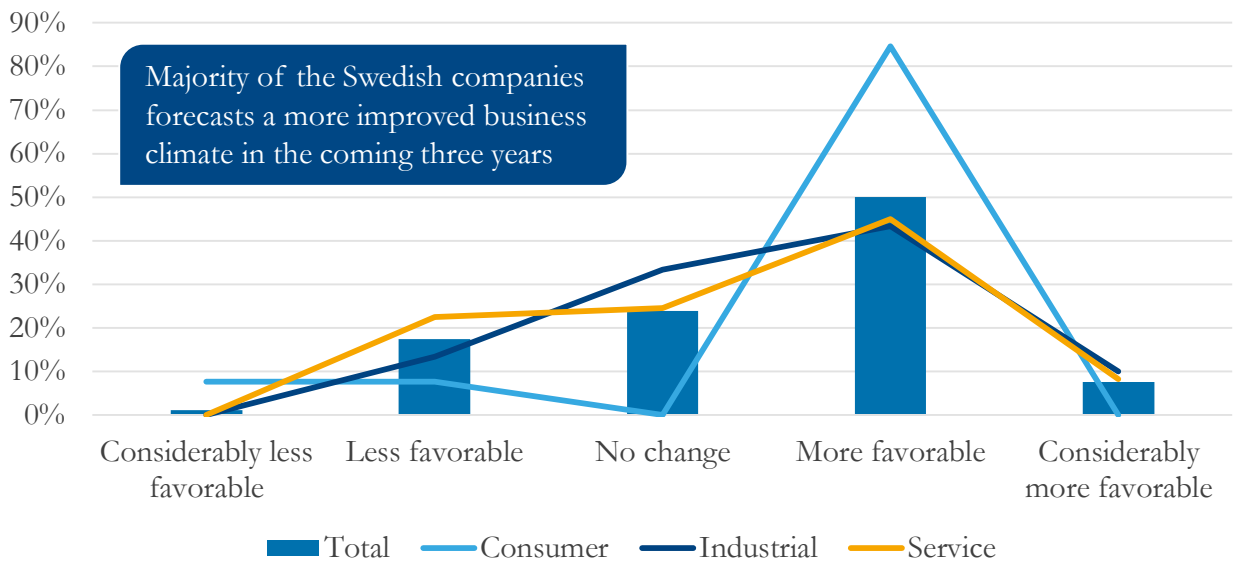
Service

Majority of companies are optimistic about the business outlook in China

In terms of how the climate will evolve, the respondents are rather optimistic. 58% believe that the climate will become more favourable or considerably more favourable over the coming three years. The companies who perceive a good climate today are also the more optimistic ones moving forward, with large firms seeing a more favourable future than the small ones, and with consumer companies being more optimistic than industrial and service companies.

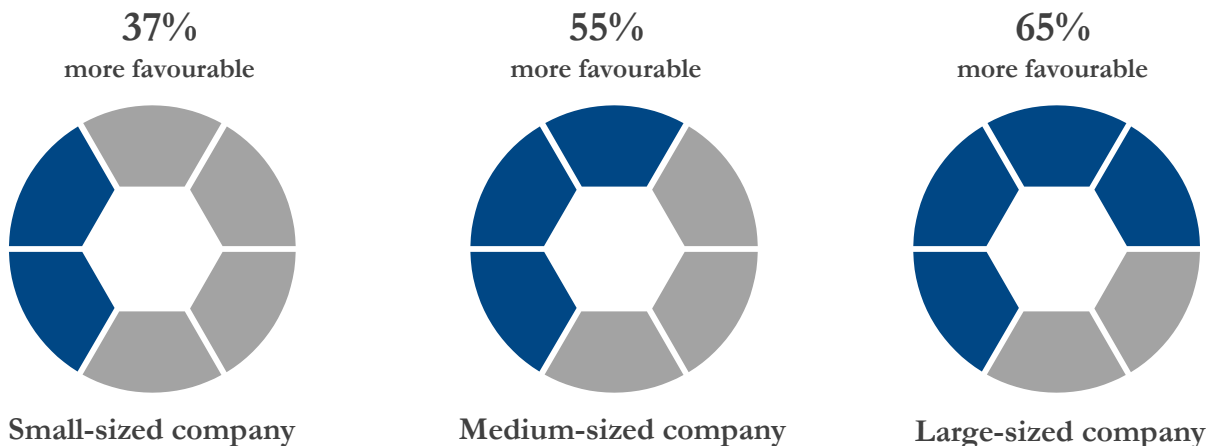
How do you perceive the future business climate in China for the coming three years?

(Segmented in industry, N=92)



How do you perceive the future business climate in China for the coming three years?

(Segmented in size, N=81)



Access to skilled labour considered the most challenging factor

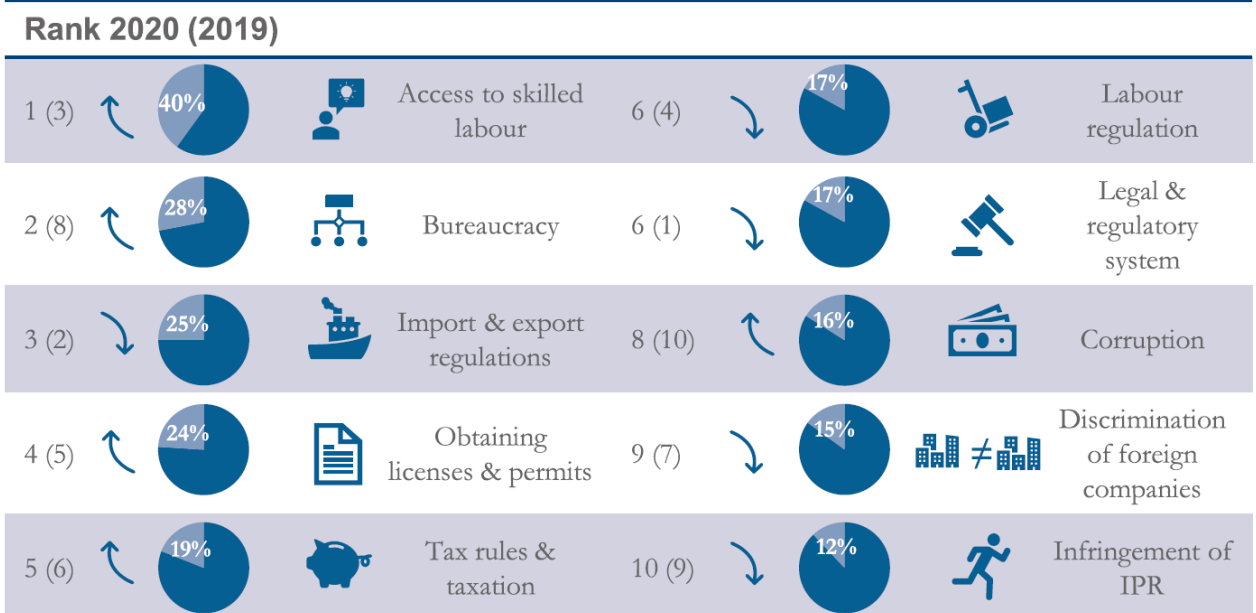
Last year, the legal & regulatory system was deemed to be the most challenging factor for Swedish companies in China. The perception seems to be that this has been improved since then, and the challenge has dropped to sixth place. One measure possibly contributing to this could be the introduction of the Foreign Investment Law in 2020, which should simplify the situation for foreign companies operating in China. There are still complexities remaining. A rather troublesome factor is that Bureaucracy has jumped from eighth place to second place. The intent of many new laws and mechanisms are to make business easier, but an overly bureaucratic system can easily counteract this simplicity and reduce momentum and willingness to invest, which can be detrimental for the well needed foreign investments and trade.

It is also worthwhile noting that import & export regulations remain in top three, which is a key issue to address if trade is to be further stimulated.

The number one challenge this year is however not directly related to authorities and regulations, but to the access to skilled labour. While 23% considered this as a key challenge in last year's survey, the number is now up at 40%. There is not a lack of talents in the market, but competition is fierce and companies need to fight both to attract and retain the right people, something which is also observed in the European Business in China Business Confidence Survey 2020*. COVID-19 has also caused barriers for the flow of talents across borders with respect to travel Visa, relocation difficulties and uncertainty on the markets.

What factors do you consider most challenging for your business in China?

(Respondents may choose up to 3 alternatives, N=93)



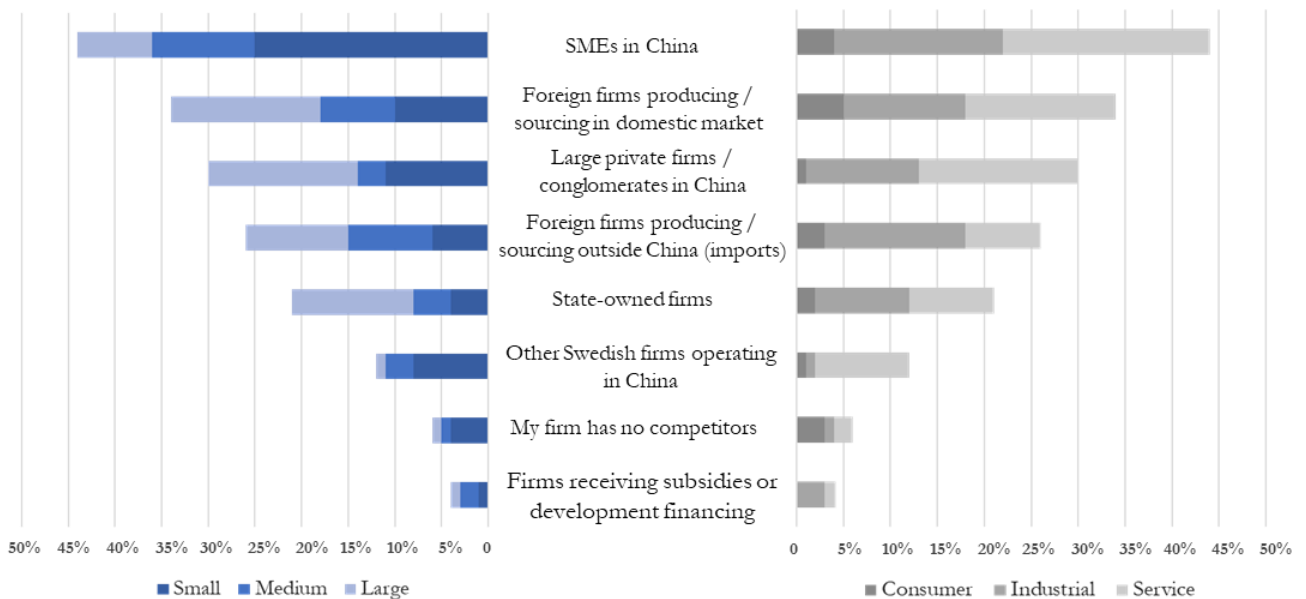
Source: <https://www.europeanchamber.com.cn/en/publications-business-confidence-survey>

Chinese SMEs are still the main competitors

Chinese small and medium sized enterprises (SMEs) are perceived as the main competitor to Swedish firms in China (43%), followed by foreign firms producing/sourcing in China (34%) and large private firms/conglomerates in China (30%). The broad nature of the Swedish business landscape also leads to a broad base of competitors, but it is clear that competition comes from companies with strong roots in China, and the lion's share of competition is from private firms. State-owned firms were only seen as competitors by 22% of the respondents, most of those being large firms.

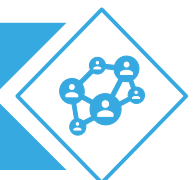
Who are your main competitors in China?

(Respondents may choose up to 3 alternatives, N=93)



A large share of small-sized companies and industrial firms consider local SMEs as their main competitors














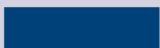
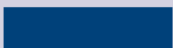















Few respondents perceive other Swedish firms operating in China as main competitors



Achieving cost efficiency is a major challenge

Swedish companies are struggling to achieve cost efficiencies in the Chinese market. This was ranked as the largest disadvantage also in 2019, but at that time it was mentioned by 60% of the respondents, while the same ratio is now down to 40%. Seeing that more than half of the respondents rank this factor as key in maintaining competitiveness in the market, Swedish firms will have to continue their cost optimisation agendas.

Brand awareness has emerged as a disadvantage, signalling a need for Swedish companies to pay more attention to brand positioning among an increasingly important group of strong local brands. Public affairs and relations with government remains at a similar level as last year and is an ongoing activity where focus must be maintained.

		Biggest disadvantages		Key to maintain competitiveness	
	Cost efficiency		40%		52%
	Brand awareness		32%		26%
	Public affairs/ relations with government		26%		26%
	Product development/ adaptation		23%		52%
	Partnerships/ local relationships		21%		25%
	Digitalisation and e-commerce		15%		8%
	Staff development/ training		13%		24%
	Sales competence		12%		23%
	Collaboration with/ feedback from customers		9%		8%
	Service development/ Adaptation		8%		33%

Brand Sweden helps when doing business in China

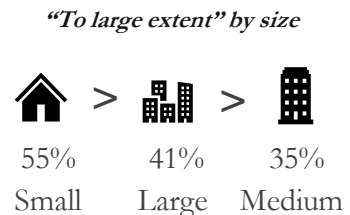
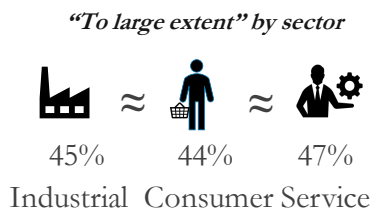
Leveraging the country of origin is continuing to be a strong strategy for Swedish companies in China. Only 11% of the respondents consider that the Swedish origins are not relevant to their business in China. Brand Sweden seems to be particularly important for smaller firms, where 55% selected a 4 or 5 on the scale of 1 to 5.

Using Brand Sweden is not only important for firms directly facing consumers. In fact, the share of respondents selecting a 4 or 5 is almost the same across industries.



...**89%** of respondents believe that the “Swedish brand” contributes to some extent to their business in China

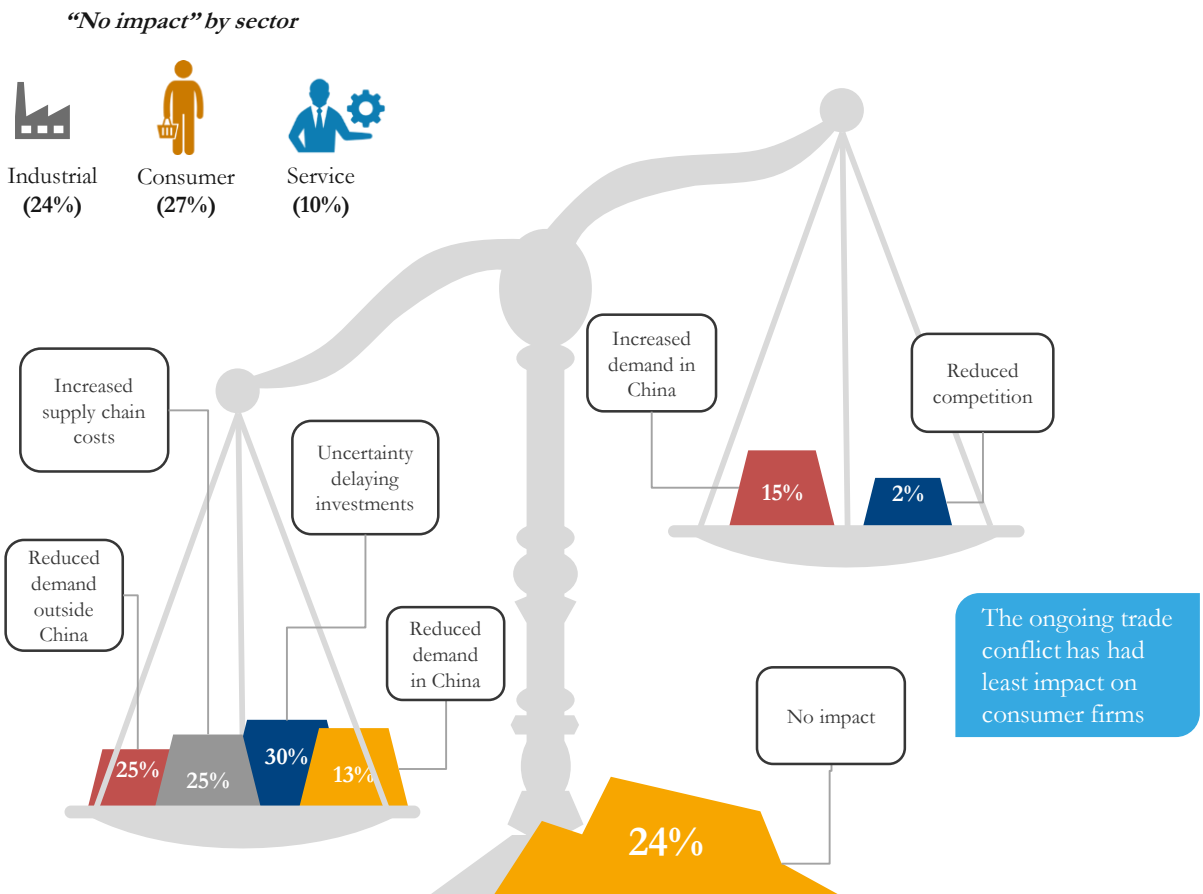
To what extent would you estimate that the “Swedish brand” contributes to your business in China? (N=93)



Trade tensions between US and China remain

Despite the conclusion of the phase 1 agreement in the beginning of the year, the trade tensions between US and China still remain, and most of the respondents are in some way perceiving an impact. The ratio who are not impacted is 24%, which is the same as when Team Sweden performed a trade conflict survey in August 2019. Out of the negative factors, the most common one is uncertainty delaying investments, which together with other macroeconomic uncertainties risk impacting future growth. Even though some respondents see positive factors such as increased demand when offsetting imports from US, the vast majority of effects are on the negative side.

How do you perceive the impact from the current China-US trade conflict / bilateral tension? (N=91)

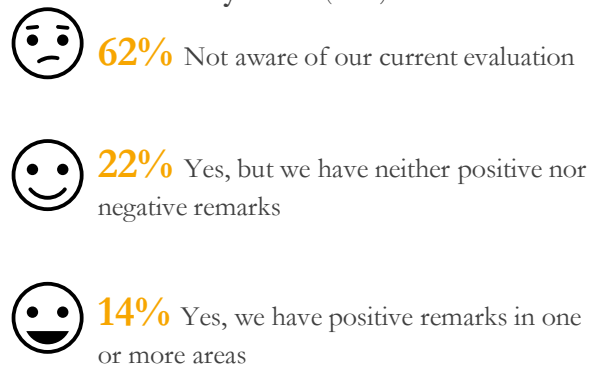


Most firms not aware of the corporate social credit system and its impact

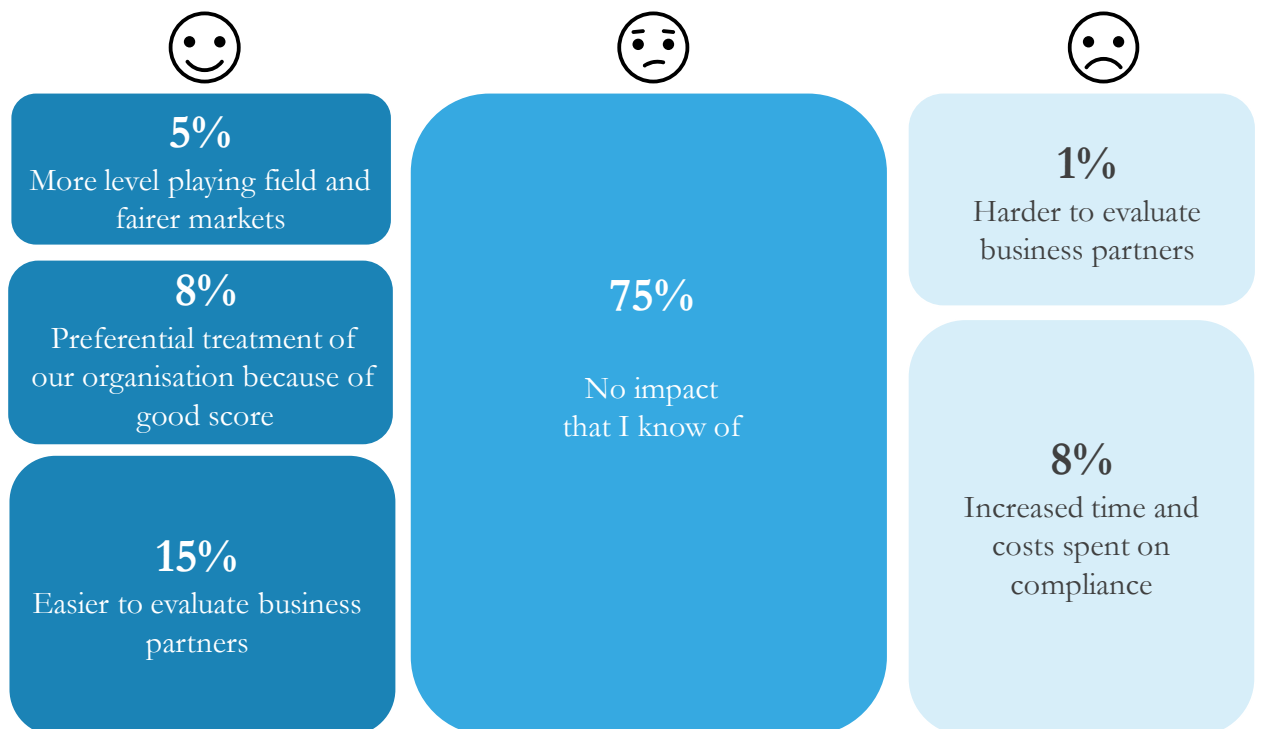
China has adopted a new credit system to regulate the activities and behaviour for those who conduct business in China. The system gathers data from numerous authorities to assess an organisation's trustworthiness, and the ranking comes with benefits and penalties across authorities depending on the performance. 62% of firms are not aware of their profiles in the corporate social credit system. Besides, 75% of Swedish firms have not observed the impact of the corporate social credit system on their business.

Seeing the emphasis put by authorities on the system, and the rapid deployment, it will be key for all firms operating in China, domestic and foreign, to understand how to interpret and use the system.

Are you aware of your organisation's profile in the corporate social credit system? (N=93)



What impact have you felt of the corporate social credit system on your business? (N=93)



OUTLOOK

China has progressive growth opportunities for Swedish firms

In the short-term, nearly all Swedish firms in China expect externally stimulated opportunities to arise from the size and development of the market as well as broad macroeconomic developments. Overall, the results are similar to those presented in the 2017 and 2019 surveys, but market size, development and growth has become even more important. “Target market growth potential” saw the largest increase from previous year (from 24% of respondents to 41%).

There are no obvious differences between companies of different size, but just like last year there are differences between sector groups. No consumer companies selected “GDP growth” as a key external factor.

What are the key external factors contributing to opportunities for your company in China in the short term? (N=93)

Top 3 elements in total



73%

Market size, development & growth



41%

Target market growth potential



23%

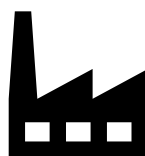
GDP growth

Elements contributing most by sector



Consumer

- Market size, development & growth (31%)
- Highly skilled workforce for R&D (14%)



Industrial

- Market size, development & growth (30%)
- Target market growth potential (18%)



Service

- Market size, development & growth (32%)
- Target market growth potential (18%)

Increased strategic focus on innovation and differentiation

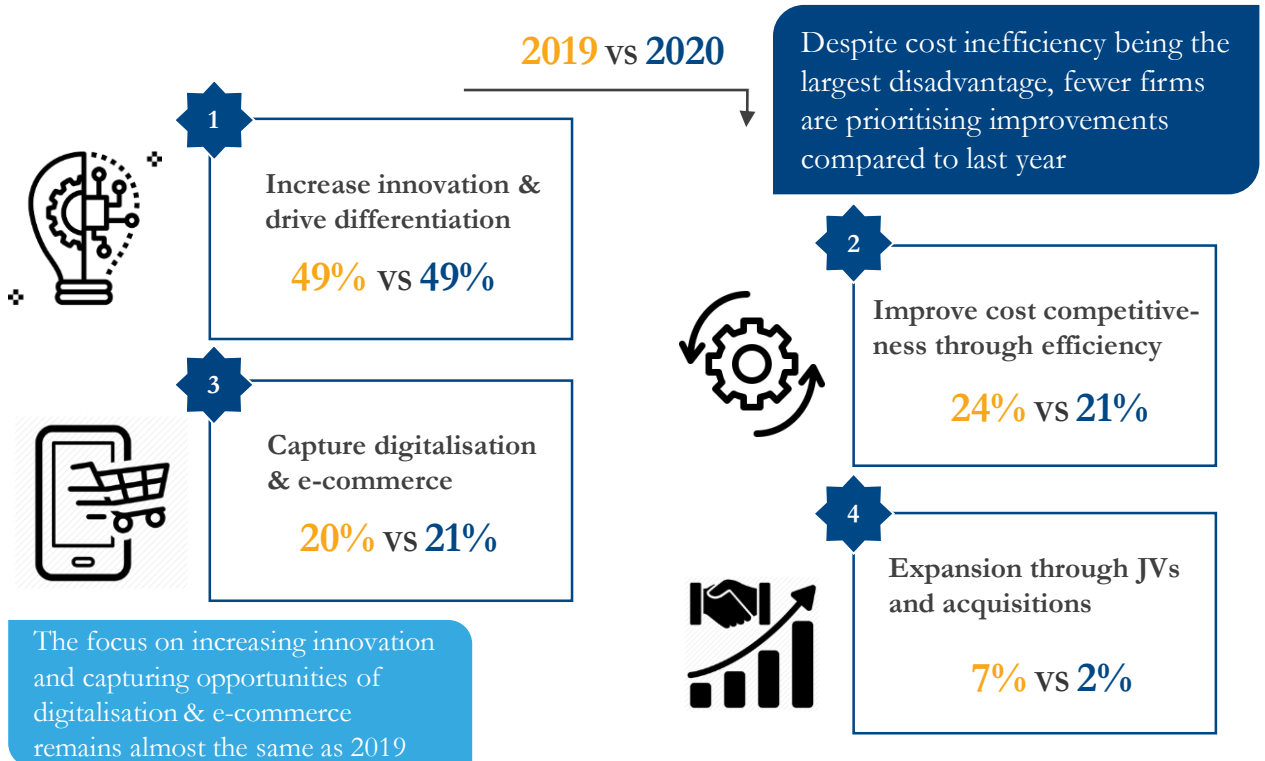
In this year’s survey, “increase innovation and/or drive differentiation of products and services” is the most prioritised strategic initiative for Swedish companies across company sizes and sector focus. This is in line with last year’s survey, when approximately half of the respondents also had this as the highest strategic priority. The continued appetite for innovation is seen across European companies, as illustrated in the European Chamber’s Business Confidence Survey 2020*, and it can be seen not only as an opportunity and development vehicle for global innovation, but also as a defensive need in order not to be overtaken by local innovative firms. Regardless of the underlying reason for

innovation and differentiation, it is positive to see that “infringement of IPR” has dropped to a 10th place among challenging factors.

The strategic focus of “capture digitalisation and e-commerce related opportunities” is overly represented by consumer companies and service companies, while less so for the industrial segment. “Improve cost competitiveness through efficiency” was important for both service companies and industrial companies.

“Joint ventures and acquisitions”, as a strategic priority, saw the largest decrease as a strategic priority from 2019 year’s survey, from 7% to 2%.

What is your most prioritised strategic initiatives to succeed in China over the coming 3 years? (N=92)



Source: <https://www.eurochamber.com.cn/en/publications-business-confidence-survey>

High-income coastal provinces are the most popular regions

Naturally, the footprint of Swedish companies in China has not changed considerably since last year's survey. Most of the Swedish companies that took part in this survey can be found along the more developed coastal provinces. Just as last year, 9 out of the 10 provinces with the highest concentration of Swedish firms are located along China's East Coast, whereas western regions see little Swedish representation. Sichuan, with 8 companies present, is the only inland province on the top 10 list. Shanghai hosts the highest number of Swedish firms (67), followed by Beijing (37), Jiangsu (22) and Guangdong province (19). Considering Shanghai along with the nearby-located provinces of Jiangsu (24) and Zhejiang (6), the total adds up to 97 which represents more than one-third of the responding companies' overall establishments in China. Moreover, sector and size groups follow the general picture with some slight variations. While Shanghai, Beijing

and Guangdong see a large Swedish presence in all sector groups, a province like Jiangsu is more or less exclusively host to industrial firms, accounting for 15 of 20 companies with presence in the region. Likewise, by size, the top three locations remain unchanged with Jiangsu province housing largest share of large firms within the province (17 out of 22 in total).

While it is obvious that Swedish firms today congregate along the eastern shores of China, we may very well see a greater dispersion in the future as the Chinese government continues to promote development in the western part of the country (e.g. via the "Belt and Road Initiative"), which has lagged behind in terms of development. Naturally, foreign industry that is linked to the development of Chinese companies will be more likely to set up in new additional locations if their partners move.

Consumer



- Shanghai Municipality (10)
- Fujian Province (4)
- Beijing Municipality (2)
- Chongqing Municipality (2)

Industrial



- Shanghai Municipality (19)
- Jiangsu Province (15)
- Beijing Municipality (12)
- Guangdong Province (10)

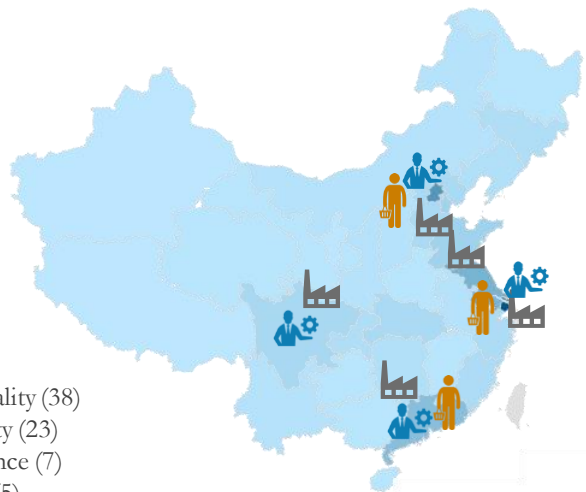
In which province(s) is your company currently present?

(N=92, Data reported in count of responses)

Service



- Shanghai Municipality (38)
- Beijing Municipality (23)
- Guangdong Province (7)
- Hong Kong SAR (5)



Medium sized firms more willing to expand geographically in China

40% of the companies participating in the survey have geographical expansion plans in China within the coming 3 years, which is a marginal increase from last year's survey result. It appears that large firms have lesser geographical expansion plans, perhaps due to an already well-established footprint, while medium sized companies seem to have the largest propensity for expansion. It is primarily industrial companies and service companies that will expand. One explanation can possibly be that the consumer companies to a larger extent are reaching consumers throughout China via digital platforms and e-commerce.

Are you considering expanding your business to other parts of China within the next 3 years? (N=92)



40%

responded that they **ARE** planning to expand business in other province(s)

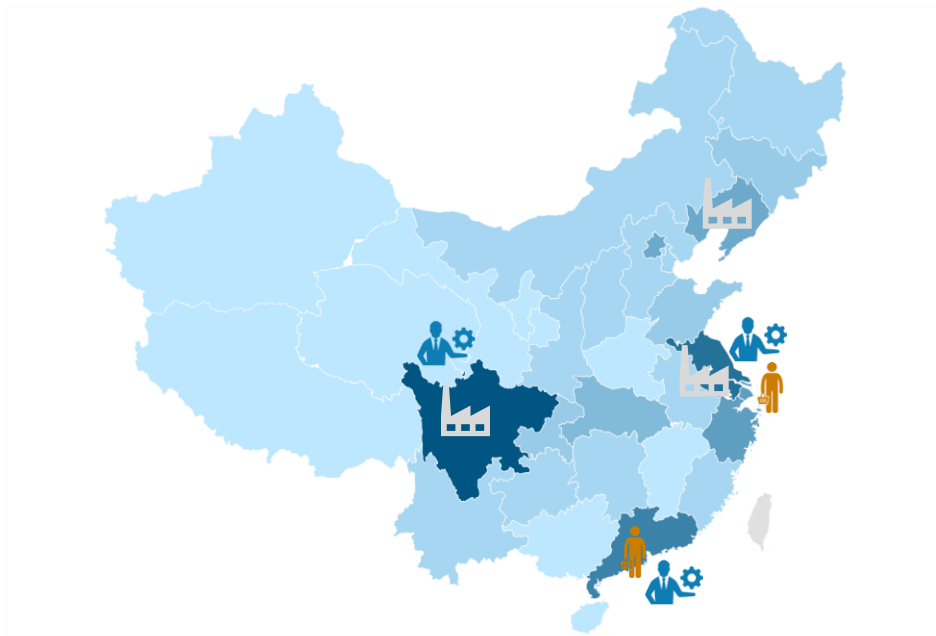


Medium-sized companies tend to have greater geographical expansion plan than large companies

Firms primarily consider expansion to Sichuan, Jiangsu & Guangdong

The companies that plan to expand are mainly considering doing so in Sichuan (26%), Jiangsu (21%) and Guangdong (18%) provinces which follows the trend already seen in last year’s survey. It is not surprising to see that Sichuan province comes out as a top destination for the surveyed firms as the region is a key economic hub in western China, given that it’s a key transport junction in southwestern China, as well as being located at convenient distance from several provincial capitals in central China (e.g. Kunming, Xi’an, and Guiyang). Small companies are inclined to expand in well-developed cities while medium and large companies preferred to expand in second-tier cities in provinces such as Sichuan. Besides that, the three cities have implemented active plans to attract foreign investments in 2019 and 2020.

If yes to above question, in which of the following are you considering expanding your business? (N=38)



Industrial



- Sichuan Province (5)
- Jiangsu Province (4)
- Liaoning Province (3)

Consumer



- Guangdong Province (2)
- Shanghai Municipality (2)

Service



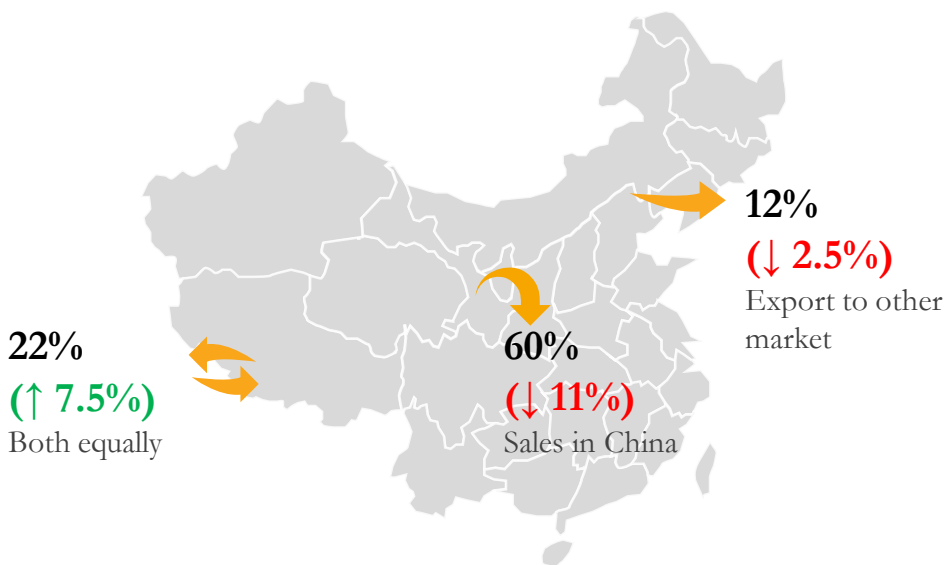
- Sichuan Province (4)
- Jiangsu Province (4)
- Guangdong Province (4)

Companies are still mainly “in China, for China”

A majority of Swedish companies are still primarily in China for sales in China. This is in line with companies stating that market size, development and growth remains key drivers for their business in China. The number of companies being in China for the purpose of exporting to other markets has been reduced compared to last year’s survey.

Data from this survey and from those conducted previously support the notion that the days when companies were in China mostly to take advantage of low-cost labour and lower production costs for export back home or to secondary markets are long gone. Instead, firms today are increasingly seeking to customise their product and service offering to local preferences, with the intention to be “in China, for China” or even “in China, for Global”.

Is the main target for your sales the domestic (China) or export market? (N=91)



↑ Percentage point up compared to 2019
↓ Percentage point down compared to 2019

Limited supply chain alterations

In the wake of the Covid-19 pandemic, supply chain adjustments and diversification have become hot topics. Many companies are reviewing their current supplier bases, as well as the suppliers of their suppliers, in order to mitigate risk and be prepared for future disruptions. At the outset of the pandemic, when China was the worst hit location, many Swedish companies responded that they would alter their supply chain or even shift their own work to other locations, but this factor quickly dropped once the rest of the world was impacted. We can

now see that more than half of the respondents do not consider any supply chain alterations at all at the moment, and out of those considering adjustments, the vast majority are either increasing /diversifying the supplier base within China or shifting suppliers from abroad to China. Only 10% of the respondents are considering shifting from China to abroad. This clearly indicates that Swedish firms continue to see China as a critical supply base, both for its China market and for sales abroad.

What supply chain alterations are you considering? (N=92)



- ✕ 52% No alteration
- +
- 14% Shift to China
- ⏪⏪⏪ 10% Shift to abroad

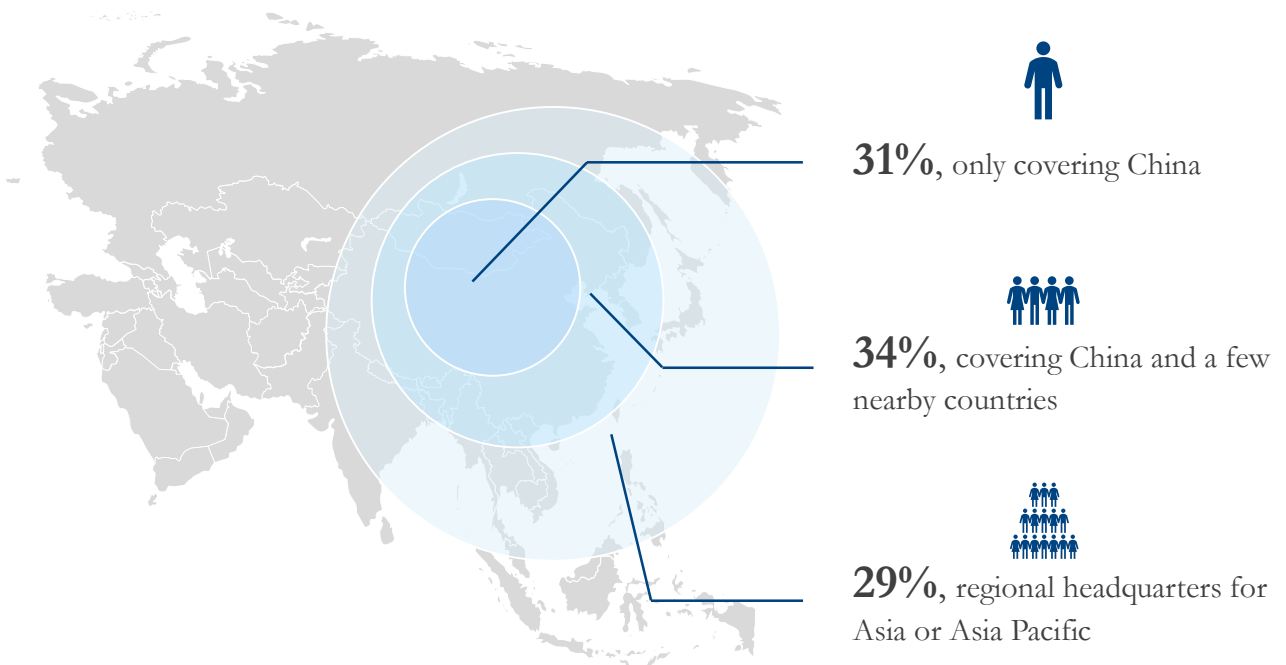
Source: <https://www.business-sweden.com/insights/articles/coronavirus-implications/>;
<https://www.business-sweden.com/insights/articles/how-are-swedish-companies-affected-by-the-coronavirus-pandemic/>

China and nearby markets are main pull factors

As established in this section, a majority of Swedish companies (60%) view China primarily as a base to serve the domestic market. In addition to this, a growing share of companies leverage China as a regional platform to serve more distant markets in the Asia Pacific region.

Compared to last year's survey, there has been a reduction of companies that use China only for China, while an equivalent increase in companies that use China as a regional headquarter for Asia or Asia Pacific.

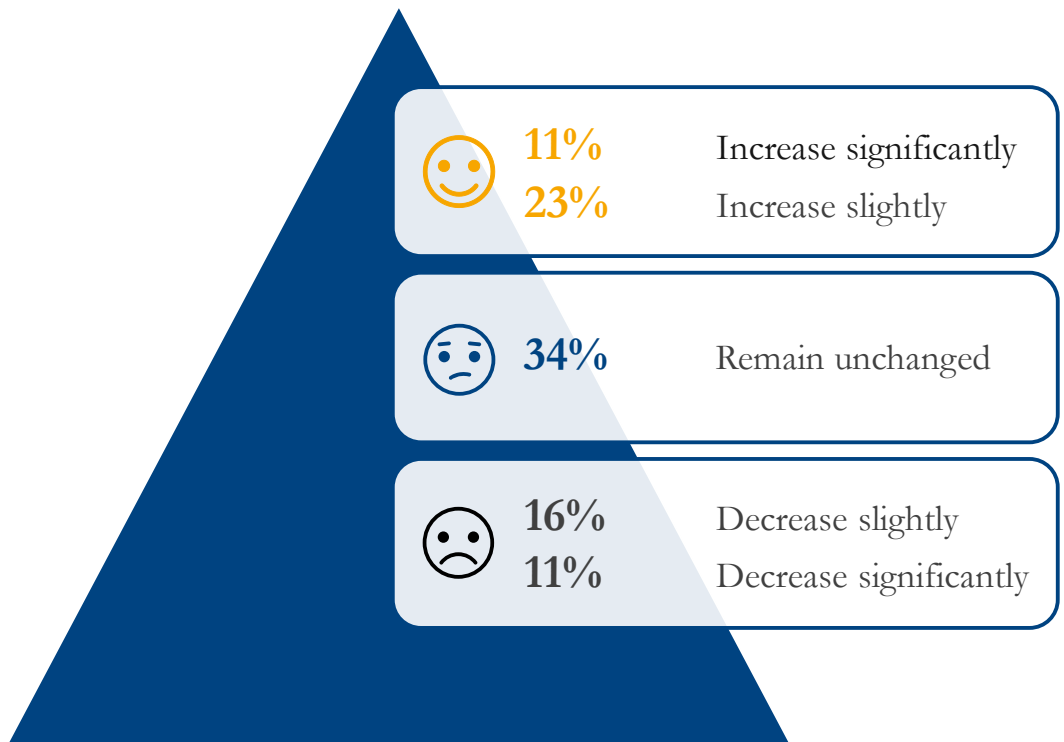
What is the role of China from a regional perspective for your company? (N=93)



Most firms are not increasing their investments in China

One third of companies are not making any changes to their investment plans in China over the coming 12 months compared with the previous 12 months. Companies that are increasing investments (34%) outweigh companies reducing their investments (27%). None of the responding companies consider scaling down their operations or leaving China. There is no obvious difference across the size categories or industry groups regarding the investment plans.

What are your company's investment plan for the coming 12 months in China, compared to the last 12 months? (N=93)

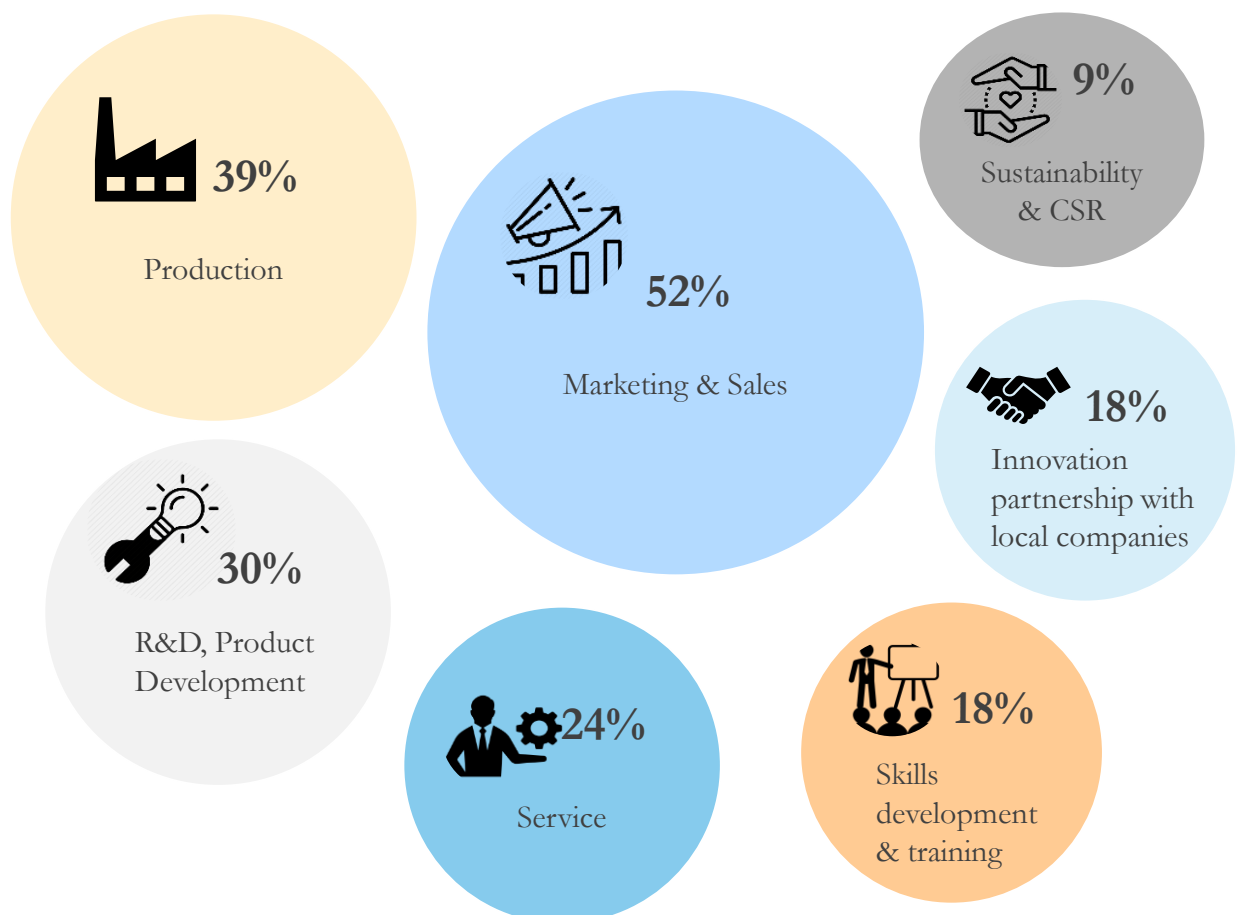


Marketing & sales expected to pave the way for future growth

Out of those Swedish firms which plan to increase their investments in China in the near-term, a clear majority will direct their investments toward marketing & sales activities (52%). Although the largest share, this is a considerable decrease from last year when the corresponding figure was 69%. Production (39%) as well as R&D and product development (30%) account for second and third priority for investment activities. It is noteworthy that production's share has doubled since last year's survey, highlighting the importance of being "in China, for China".

Over the past few years, some firms have chosen to locate R&D in China. Despite this trend, the share of companies making investments into R&D and product development has seen a slight decrease in its relevance.

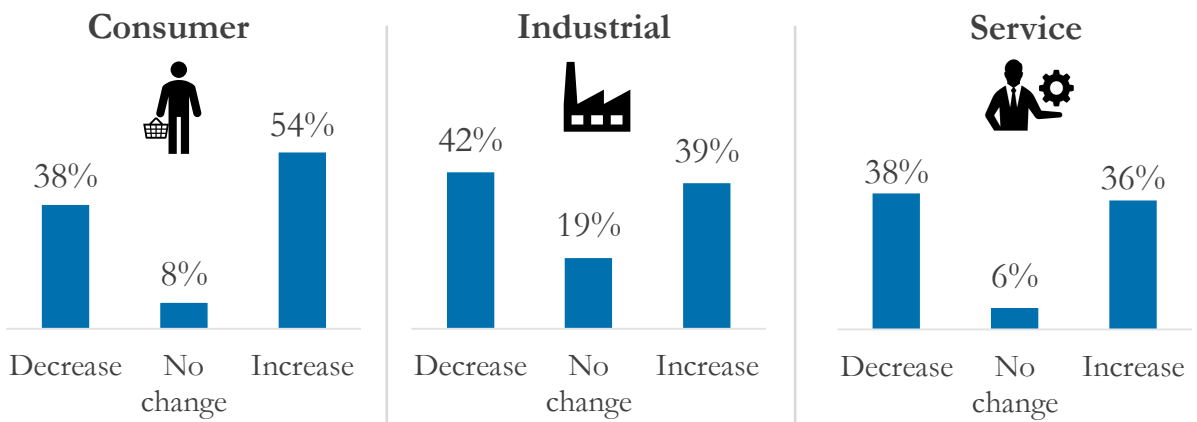
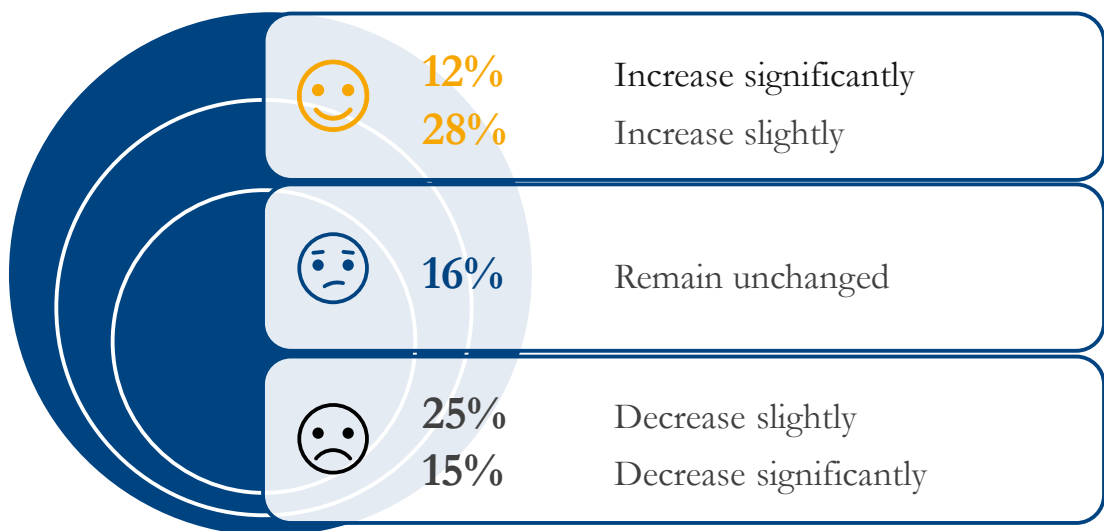
In which business areas do you plan to increase your investments? (N=33)



No large turnover movement is expected

Fewer companies have a positive economic outlook compared to last year's survey when two-thirds of respondents reported having a positive economic outlook of the sector in which they operate in, expecting either moderate or strong growth in the near-term. In this year's survey, 40% of companies expect turnover to either increase slightly or significantly. Equally, 40% of companies expect that turnover will decrease slightly or significantly.

Compared to the development in the past 12 months, what are your expectations for the coming 12 months for your industry/business sector regarding turnover? (N=93)



SUSTAINABILITY

Anti-corruption, environmental focus and human rights still need further attention

Anti-corruption has been high on the Chinese government’s agenda over the last years, and Swedish companies indicate that the situation has improved. However, as seen in the Climate section, 16% of the respondents still see this as a top challenge, and it has even climbed two steps in the ranking of challenges compared to last year. When asked to assess the impact of corruption on business on a scale from 1 (very little) to 5 (very much), the average ends up at 2.3, which indicates that there is still some impact, and 14% of the respondents ranked the impact at high levels (4 or 5). To put this in relation with other markets, the index for the entire APAC region is 2.1, i.e. slightly lower than the China index. The impact varies across industries, with industrial firms in the higher end, while consumer companies see significantly lower impact from corruption, which could partly be explained by the higher transaction values within industrial segments which increases risk for corruption.

Care for the environment is another topic lifted high up on the political agenda, with targeted measures in certain areas such as air pollution. When asked about whether customers consider environmental aspects in their purchasing decision, the importance is less pronounced. The China index is 2.5 (on a scale from 1 being very little, to 5 being very much), to be compared with the APAC average of 2.7 and the global average of 3.0. This indicates that there is still some way to go until political agendas are

To what extent do you perceive that corruption affects your business?

	China	APAC Region
Corruption	2,3	2,1

To what extent do your customers in China consider environmental aspects of a product or service in their purchasing decision?

	China	APAC Region
Environment	2,5	2,7

How do you perceive the risk of encountering human rights violations and/or labour rights abuse when conducting business in China?

	China	APAC Region
Human Rights	2,3	2,0

(Index averages from 1=very little to 5=very much, N=93)

importance ranks slightly higher within the consumer segment than within industrial and Service segments.

When it comes to human rights, the risk index of encountering violations or labour rights abuse when conducting business in China is 2.3 (1 meaning very small risk, and 5 very high risk), which is above the APAC index of 2.0.

Interestingly, the respondents seeing the highest risk are the largest firms, who tend to have clearer sustainability policies and stronger power to avoid violations.

*APAC countries that are included in the survey: Australia (partial, 2019), Mainland China, Hong Kong, India (partial, 2019 and 2020), Indonesia, Japan, Malaysia, Singapore, South Korea, Vietnam, Thailand (partial, 2019)
<https://www.business-sweden.com/insights/global-analysis/global-business-climate-survey-2020/>

CONCLUSION

2020 has been a difficult year with the direct health implications from the Covid-19 pandemic and the following economic and social consequences. Despite this fact, a majority of respondents have a positive outlook for China and investment plans indicate a continued prioritisation of the Chinese market. In fact, China sticks out as a bright spot on the map in comparison to other important markets for Swedish companies.

Since this survey was conducted, the US-China Trade Conflict has escalated further and the international trading system is experiencing increased tensions. Furthermore, many economies around the world are struggling to respond to, and recover from, the impact of the Covid-19 pandemic. This will have a negative effect on global demand and a key question going forward is whether China will generate enough domestic demand to make up for the loss in exports.

Swedish companies operating in China are impacted both by events back in the home market as well as in China, while at the same time being surrounded by global trade uncertainties. It is challenging to maintain a steady course in such turbulent waters. This is also evidenced by the rapidly shifting focus areas and priorities seen in Team Sweden's surveys. It will be important for firms to balance current operational adjustments with longer term plans and strategies, in order to stay relevant and not get derailed. But it will be equally important for Chinese authorities to continue with reforms which support a fair, transparent and sustainable business climate.

Team Sweden is committed to continue supporting Swedish companies in China, particularly during challenging times like these. We welcome further dialogue about the opportunities and challenges that the market present.



TEAM SWEDEN

There is plenty of support available for Swedish companies who plan to grow global sales and internationalise, but it can be hard to know where to turn for the most relevant advice. Team Sweden can help you find the support you need on your global growth journey.

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