An aerial night photograph of a city skyline, likely Shanghai. The image is dominated by several tall, illuminated skyscrapers. In the center, a large, wide building with a grid-like facade is brightly lit. To its right, a cylindrical building with a curved facade is also illuminated. The surrounding area is filled with smaller buildings and streets, all lit up, creating a vibrant urban scene. The sky is dark, making the city lights stand out.

BUSINESS CLIMATE SURVEY FOR SWEDISH COMPANIES IN CHINA 2019

A JOINT REPORT FROM TEAM SWEDEN IN CHINA

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INDEX

EXECUTIVE SUMMARY	6
ABOUT THE REPORT	8
SURVEY BACKGROUND	9
PERFORMANCE	14
CLIMATE	17
OUTLOOK	23

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EMBASSY OF SWEDEN

Embassy of Sweden in Beijing represents Sweden and the Swedish Government and serves to promote Swedish interests in China. Sweden and China share a long history of cooperation. Sino-Swedish exchange is growing and incorporates a broad range of issues such as climate change and environmental matters, innovation as well as political dialogues and international affairs. Bilateral and global trade promotion, economic affairs, and reporting on these issues are also important tasks for the Embassy, as are press and cultural issues, as well as migration and consular services.



**Embassy of Sweden
Beijing**

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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 services to Swedish citizens.



**Consulate General of Sweden
Shanghai**

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 hands-on support to Swedish companies with global ambitions. With 45 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 networking, information and advocacy platform for Swedish businesses in Mainland China. Founded in 1998, it now brings together more than 280 companies and associates around issues of common interest through public events, reports, executive dialogues and collaborations with relevant partners in China and Sweden.



SWEDCHAM.CHINA
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FOREWORD

The end of 2018 marked 40 years since China embarked on its journey of reform and opening-up which has had a profound influence on the landscape of the global economy ever since. Swedish companies and entrepreneurs have proactively engaged in China's rise and it is encouraging to note the positive developments of the business climate since the first Business Climate Survey was carried out in 2000. Today, Swedish bilateral trade in goods with China is at an all-time high, amounting to approximately 130 billion SEK on an annual basis – this makes China Sweden's largest trading partner in Asia.

Amidst sluggish global trade growth and a somewhat weakened global demand for Chinese goods in 2018, the Chinese economy continues to grow, albeit at a slower pace. The rebalancing of the Chinese economy will likely lead to slower rates of growth in the short- and medium-term, but hopefully, in the longer term help put China on a more even keel, making its voyage more stable and its growth more sustainable. A part of this transition will revolve around domestic consumption, further enhancing the importance of the Chinese market for international companies – as such, Swedish companies looking to partake in the next wave of growth will need a firm foothold in China.

The purpose of this report is to increase the understanding of Swedish companies' performance in China and deepen our appreciation of the opportunities and challenges that the Chinese market poses. In addition, it will hopefully serve as a reference in bilateral trade dialogues between Sweden and China, as well as for Sweden's international commitments to promote a more open business environment for foreign companies in China.

Lastly, we would like to extend our most sincere gratitude to the participating companies and respondents which have contributed to this year's report.



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EXECUTIVE SUMMARY

Last year was undoubtedly a turbulent one for global trade, largely marked by geopolitical friction and trade disputes, alongside the slowdown in global trade growth and fears about a cooling Chinese economy. The *Business Climate Survey for Swedish companies in China 2019* captures the business sentiment among Swedish firms during this tumultuous period.

In spite of the bleak global outlook, China emerges as a bright spot for Swedish firms as the survey results indicate that most of them are performing well in China. A clear majority of the surveyed firms continued to see strong revenue growth in 2018. Most firms also experienced growth in profitability, albeit at a slightly weaker level than revenue growth, and many firms are planning to expand their operations in China in the short- to medium-term.

In 2018, professional services firms performed better than other Swedish businesses in China. The data shows that this category of companies outperformed Swedish companies in other sectors, with consistently higher revenue and profit growth, and a more optimistic outlook for the future. This is in line with findings from this year's *Business Confidence Survey* published by the European Chamber.

Reported data support that China remains a highly prioritised market for most Swedish companies. For two-thirds of the surveyed companies this year, China is either the first, second, or third most important market in terms of its contribution to group revenue. The first category is up 7 percentage points from 24% in 2017 and is a reminder of firms' strong commitment to the market.

Most of the surveyed firms view the current business climate in China in a positive light, awarding it a slightly higher rating than in 2017. New for this year's survey, however, is the emergence of a multimodal distribution, especially pronounced in the case of industrial respondents, indicating a divergence in performance and outlook between sectors in light of a shifting economic growth model.

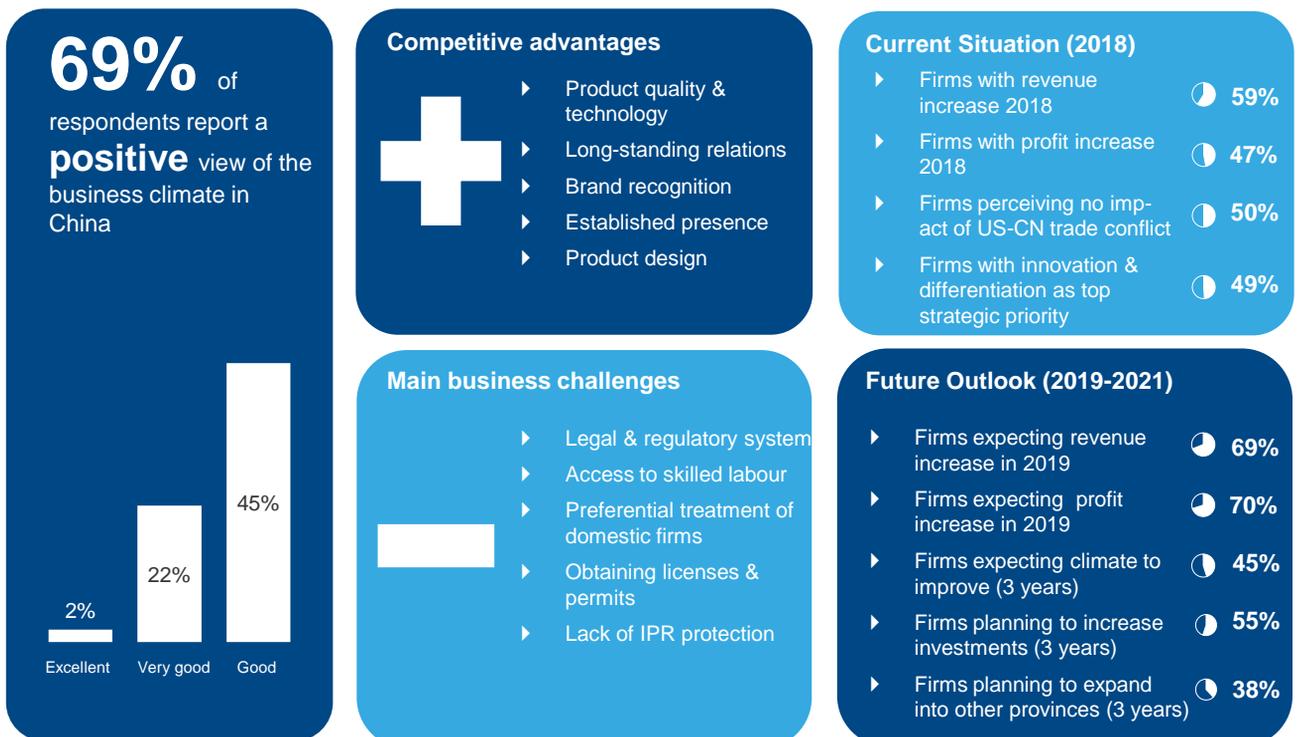
Among perceived challenges, longstanding concerns related to regulatory and legal frameworks, trade procedures, as well as the surrounding red tape persist. In 2017, preferential treatment of domestic firms in China was seen as the main challenge for the surveyed companies. In this year's survey, it was topped by the challenges of China's legal and regulatory system, indicating that, while the promises made are a step in the right direction,

much still needs to be done in practice to translate them into real positive effects for foreign companies. Moreover, while the US-China trade tensions left a clear stamp on 2018, most Swedish firms are yet to feel any significant impact. Half of the surveyed companies express that they see no direct effects from the dispute, although one-quarter of firms appear to be tempering or delaying their investment plans.

Product quality is consistently seen as the main competitive advantage for Swedish companies vis-à-vis their competitors, while pricing and lack of government relations are seen as the biggest disadvantages.

More than three-quarters of the surveyed firms respond that CSR is an integral part of their business strategy – as such, Swedish firms are living proof of that a clearly articulated approach to CSR may go hand in hand with profitability. This allows Swedish firms an opportunity to continue contributing to a strengthened social and environmental development in China.

While Swedish firms operating in China will continue to face significant challenges and uncertainties, they maintain a cautiously optimistic sentiment looking forward.



ABOUT THE REPORT

The Business Climate Survey for Swedish Companies in China 2019 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 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 based 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 more than one hundred Swedish companies, the survey imparts a comprehensive view over how Swedish companies perceive the business climate and their own performance in China, one of Sweden’s most important markets.

The report is divided into the following broad sections: Survey background, Performance, Climate, and Outlook. The majority 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, including one on the ongoing US-China trade conflict.



SURVEY BACKGROUND

Broad survey participation in 2019

The 2019 survey was conducted among member companies of the Swedish Chamber of Commerce between March and April 2019. The response rate was 43% percent, with 102 out of 235 eligible companies responding to the survey.

Companies were selected on the basis of ownership by either a Swedish juridical entity (branch, joint venture, representative office, etc.) or natural person. For the sake of clarity, in the report, all of the participating companies are referred to as “Swedish companies”.

Many of the major multinational Swedish companies present in China took part in the survey. Small- and medium-sized enterprises are also well-represented. For the purposes of this report, “large” firms are defined as entities with more than 1,000 employees worldwide, “medium-sized” firms as entities with 100 to 1,000 employees worldwide, and “small” firms as entities with less than 100 employees worldwide.

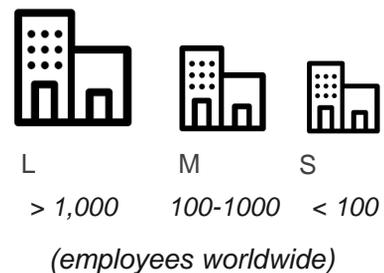
In light of the sufficiently saturated sample and the relatively even distribution of company size and sector, the survey ought to account for the general sentiment among Swedish firms in China fairly accurately.

A high number of **respondents**...



> 100 high-level representatives

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



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



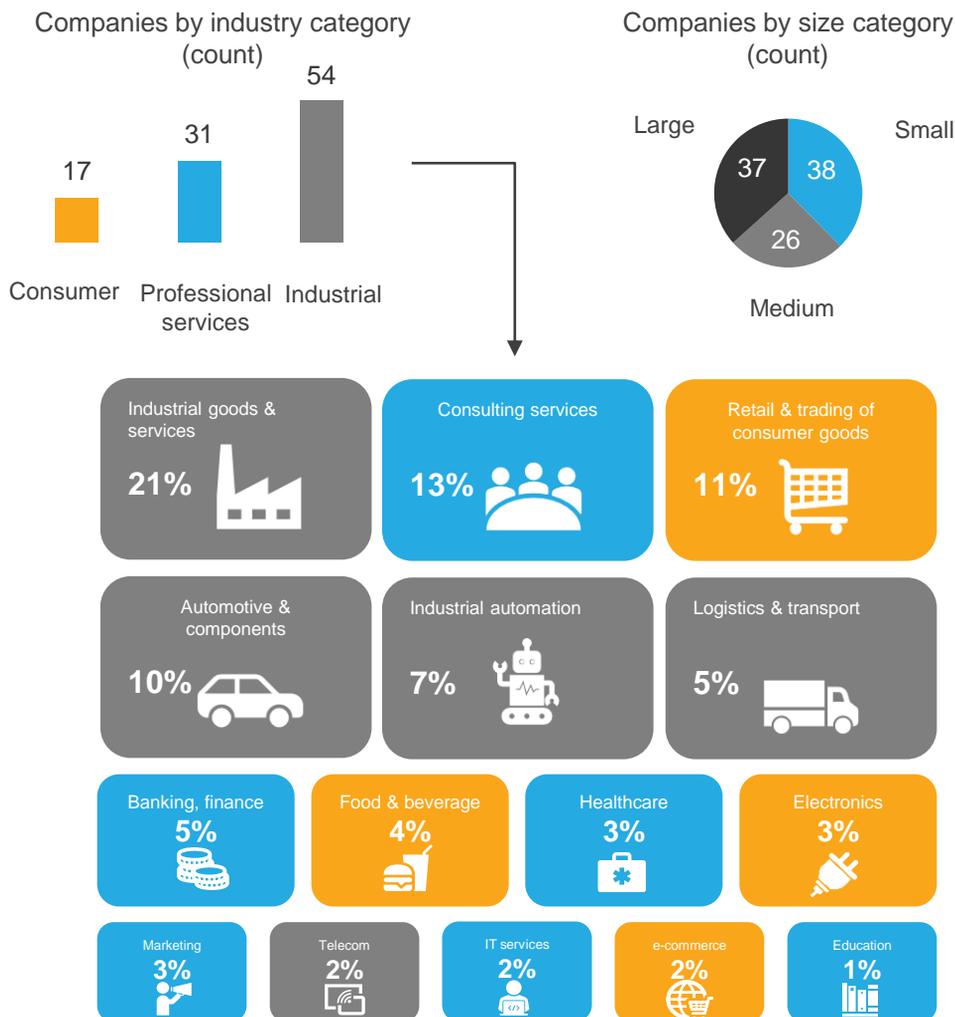
> 30 sectors

Swedish firms span a range of industry sectors

The activities of the surveyed Swedish companies in China span a wide spectrum of industries, ranging from traditional heavy industry such as automotive and telecommunications, to retail and consumer goods. In total, the companies described in this report can be found in more than 30 sectors of the Chinese economy.

As already noted in the 2017 survey, Swedish presence is still particularly salient in engineering and technology sectors. More than half of surveyed firms either sell or manufacture industrial goods or services, 30% are in the professional services sector, 17% either sell or produce consumer goods.

What is the main industry of your business in China? (N=102)



A heavy focus on marketing and sales activities

Swedish firms in China perform a large number of operational activities out of which the most prevalent are Marketing & Sales, followed by knowledge-intensive activities such as Research & Development (R&D) and Product Development, which are carried out by 70% and 47% of respondents, respectively. The latter indicates that the current infrastructure and knowledge-base in China favours R&D activities; in comparison, in 2013, only 40% of companies carried out R&D (excl. Product Development).

R&D and innovation activities are not only playing an increasingly significant role for the Swedish firms that participated in this survey, but also for China as the country makes its way up the value chain.

Foreign R&D investment is certainly not new to China, but how R&D has developed in the past few years is reflective of China's shifting economy. In the past, many foreign firms were driven to establish R&D operations to support global R&D efforts, translating or adapting existing global technology for Chinese consumers. However, as increasingly seen today, localised R&D activities is about the idea of getting closer to the end-consumer and creating products and services customised specifically for the China market. Firms are looking to capitalise on the strong ability of local researchers not only for their technical expertise, but also for their innate understanding of local consumer tastes and trends.

What operations do you carry out in China (N=92)

(Respondents may choose up to three alternatives)

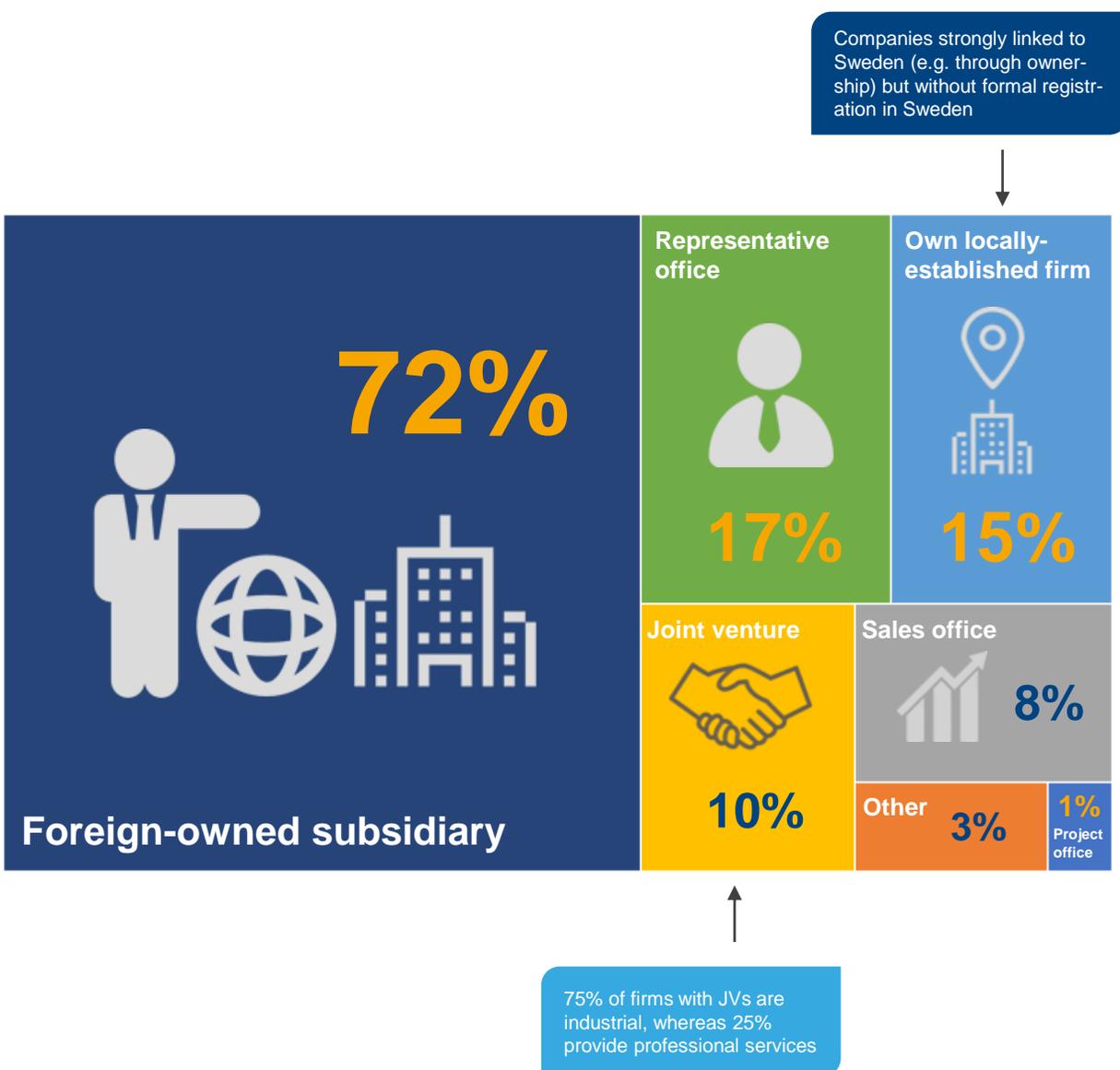


Marketing & sales (70%) together with R&D (47%) are the most carried out operations among Swedish firms in China

Subsidiary is the most common establishment form

The most common establishment form for Swedish firms in China is Foreign-owned subsidiary (72%) which suggests that their preferred modus operandi is one with a high degree of commitment. A lesser number of companies has chosen to set up Representative offices (17%) or Sales offices (8%), whereas others partner with local companies through Joint venture arrangements (10%).

What kind of establishment do you have in China? (N=102)



DEMOGRAPHICS IN THE WORKPLACE

Swedish firms see fewer expatriates

The 102 surveyed Swedish companies (the overall number of Swedish firms of China is estimated to approximately 500) employ 75,000 people, out of which the vast majority are local employees. The relative number of expatriates working for the companies that responded to this and previous years' surveys has dropped markedly. In 2013, the share of expatriates among the surveyed companies was 6.4%. Between 2017 and 2019, the share of expatriates declined more than threefold from 1.4% in 2017 to 0.4% in 2019.

The longer trend of decline likely comes as a consequence of rising costs of labour and is an indication that Swedish companies are becoming more cost conscious and selective in their decisions to send overseas staff to China. This should also be viewed in conjunction with that the pool of, relatively cheaper, skilled local talent has expanded over the years. In addition, hiring

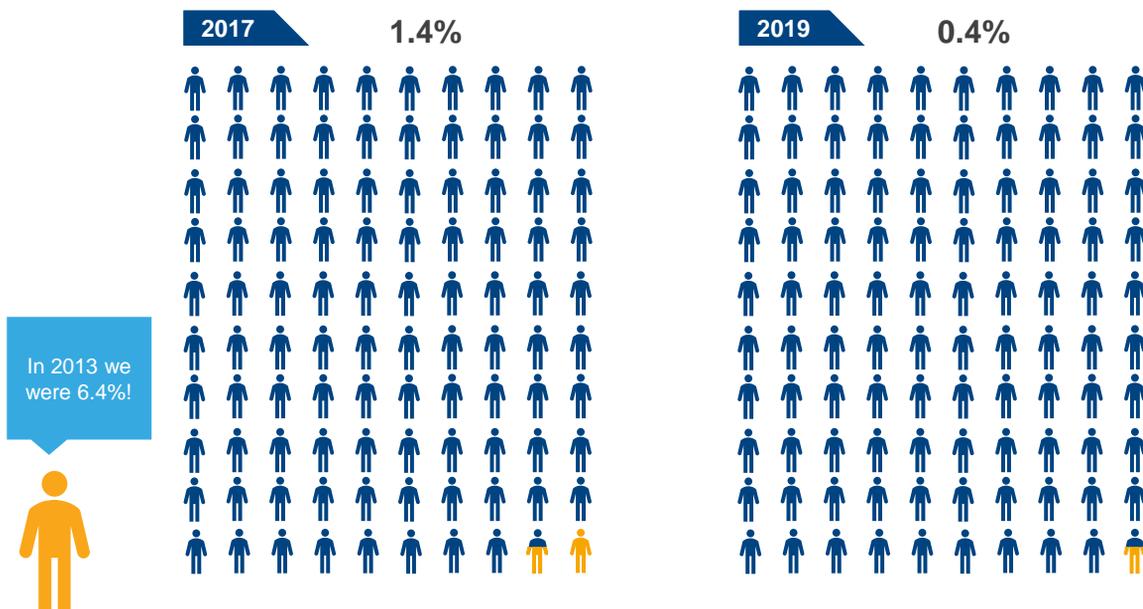
locally not only cuts relocation expenses for the firms, but also provides them with employees that have a solid understanding of local tastes and trends.

AGE DISTRIBUTION

While no data was collected on employee age in this survey, available demographic data on the 235 member companies of the Swedish Chamber of Commerce in China, ought to serve as a useful approximation also for the this survey sample.

In 2018, 41% of the Chamber's members in China were between the age of 18 to 34, 45% were between the age of 35 and 54, and members over 55 years of age made up the remaining 14%. The distribution has shifted somewhat to the left since 2017, suggesting a slight rejuvenation of the workforce.

How many direct employees (expatriates) does your company have in China? (N=94)



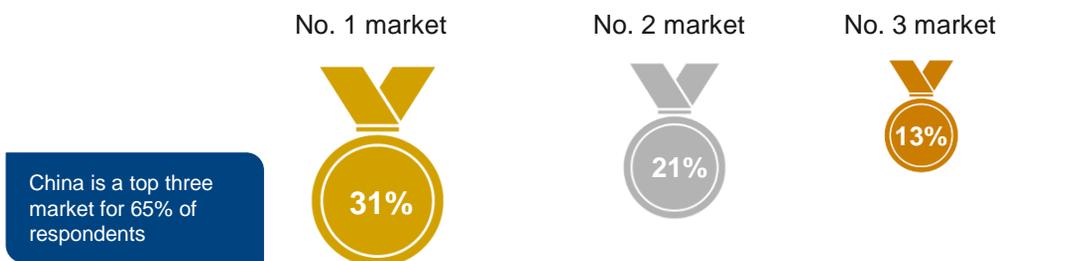
PERFORMANCE

China is a key market for most of the firms

China remains a highly prioritised market for most of the surveyed Swedish companies. For two-thirds of the firms this year, China is either the first, second, or third most important market in terms of its contribution to group revenue. The first category is up 7 percentage points from 24% in 2017 and is a reminder of firms' strong commitment to the market. With 72%

and 62% of professional services and consumer firms, respectively, responding that China is their number one market in terms of its contribution to company revenue, it is clear that China holds a relatively greater importance for these categories than for industrial firms, among which only 27% have China as their most important market.

How important is China for the overall company/group revenue? (N=98)

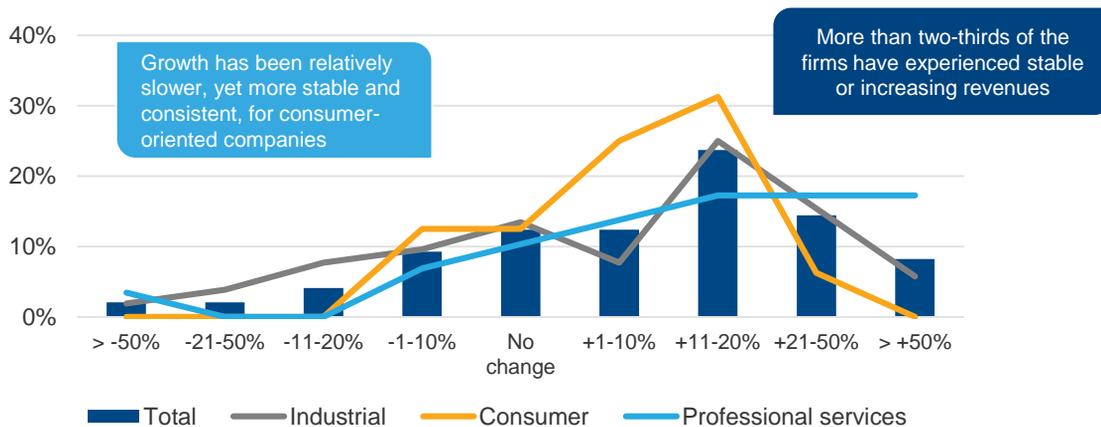


2018 marked by strong performance across the board

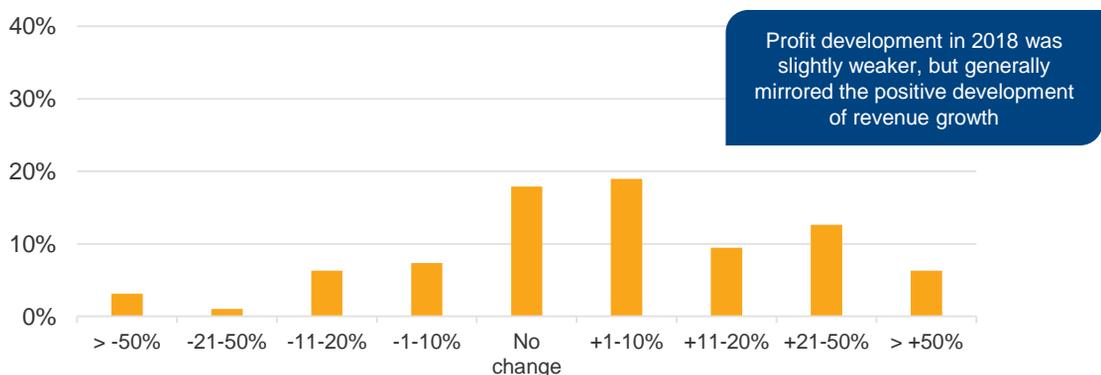
Two-thirds of the companies witnessed revenue growth in 2018 and one-fourth saw growth above 20%. As a segment, professional services firms were the best performers with nearly 8 out of 10 companies experiencing growth out of which more than half saw growth rates higher than 20%. Professional services firms were also the category with the lowest share (12%) of companies witnessing lower turnover in 2018 compared to 2017. As for profit growth, more than half (57%) of companies grew their profitability in 2018 and less than one-fourth (22%) saw reduced profits.

Even though profit growth has been positive, it has fallen short of revenue growth which is supported by the fact that Swedish firms see their cost structure as their biggest challenge in the Chinese market (something which is analysed further in the Climate section of the report).

How was your revenue in China 2018 compared with 2017? (N=86)



How was your profit in China 2018 compared with 2017? (N=95)



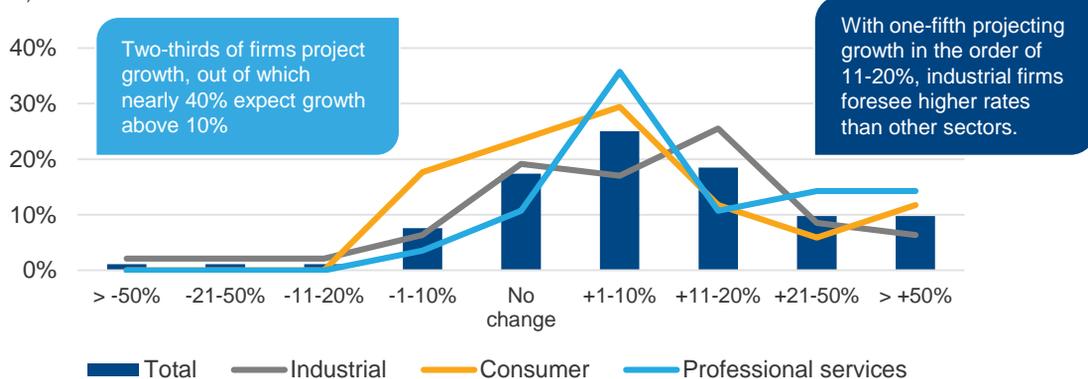
Strong optimism among revenue growth prospects

Overall, the companies expect continued strong revenue performance in 2019. 7 out of 10 of the surveyed firms believe they will see revenue growth in 2019, out of which one-third expects growth in the order of more than 20%. A mere 12% hold a pessimistic outlook on the development of company revenue and only 3% foresee revenues dropping with more than 10%.

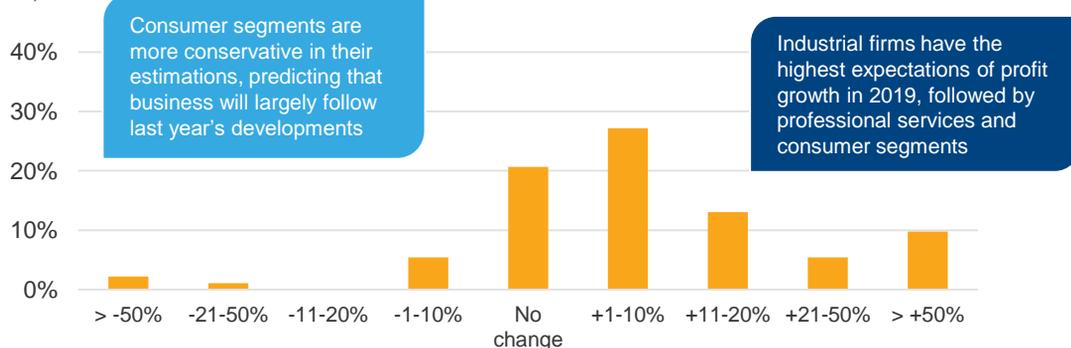
By sector, professional services firms maintain a very optimistic outlook with 84% of companies expecting to see revenues increase, while only 6% expect to see them decrease. Consumer companies, on the other hand, take a slightly more tentative position as 41% of firms in this segment expect revenues remain unchanged or decrease.

Industrial firms are seeing positive growth overall, but there is a clear divide within this group, where one segment is seeing growth in double digits, while the other segment sees limited or negative growth. By the same token, the growth estimates of those firms in the consumer segment that anticipate growth in 2019 are also more conservative with only 29% of firms expecting growth above 10% (compared to nearly half of the industrial and professional services firms). By size, the highest expected revenue growth rates can be found among small companies; of these, 82% expect to see revenues increase in 2019 (compared to 64% of large firms and 56% of medium-sized firms).

What is the revenue forecast of your operations in China for 2019 compared with 2018? (N=93)



What is the profit forecast of your operations in China for 2019 compared with 2018? (N=93)

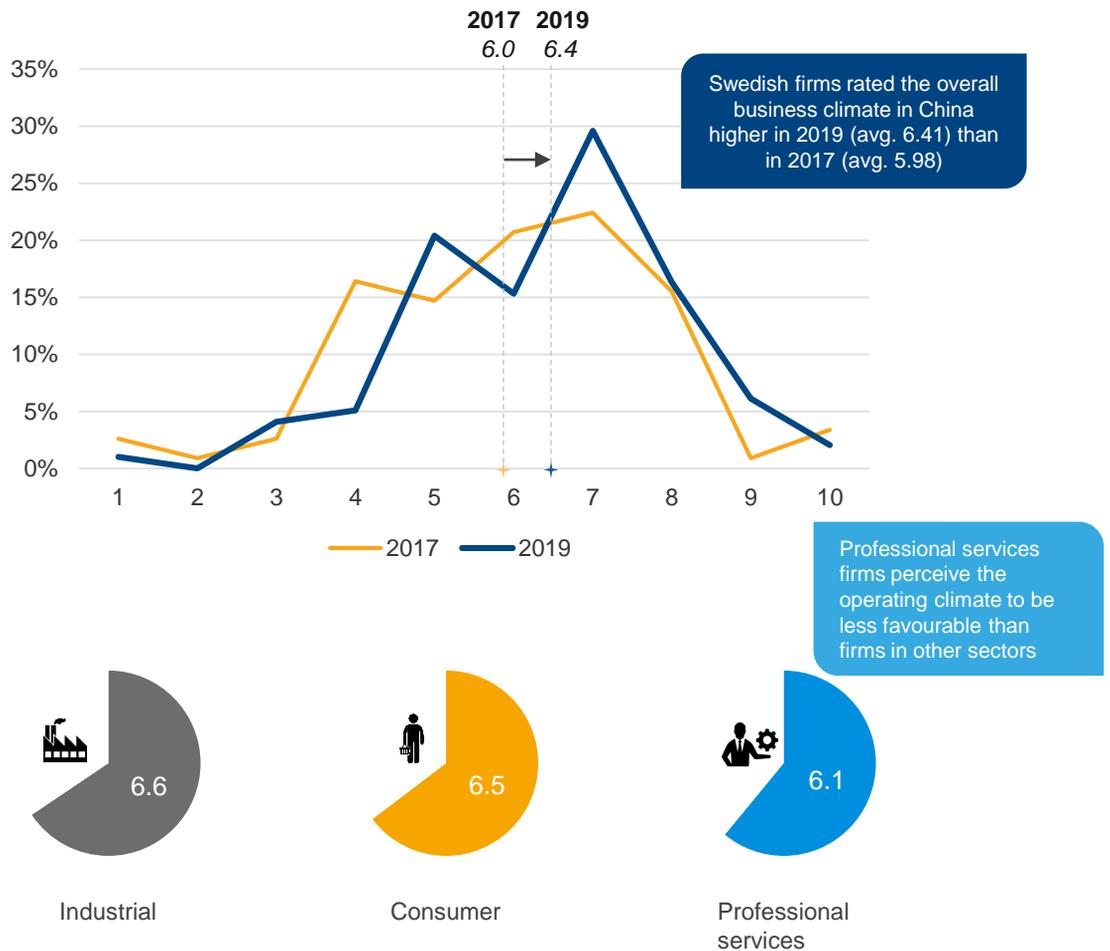


CLIMATE

Business climate viewed as largely favourable

The vast majority of responding firms view the current business climate in China in a positive light. On a scale from 1 to 10, respondents to this year's survey gave an average score of 6.4 when rating the business environment, a slight improvement from the score 6.0 given in 2017. This picture is consistent across the whole survey sample with little variation across sector groups and company sizes; however, industrial and consumer firms rate the business climate slightly higher than do their counterparts in the professional services segment. When comparing the response distributions of 2017 and 2019, it is possible to note a potential divide emerging between those firms that are seeing the business environment improve and those that are seeing it deteriorate.

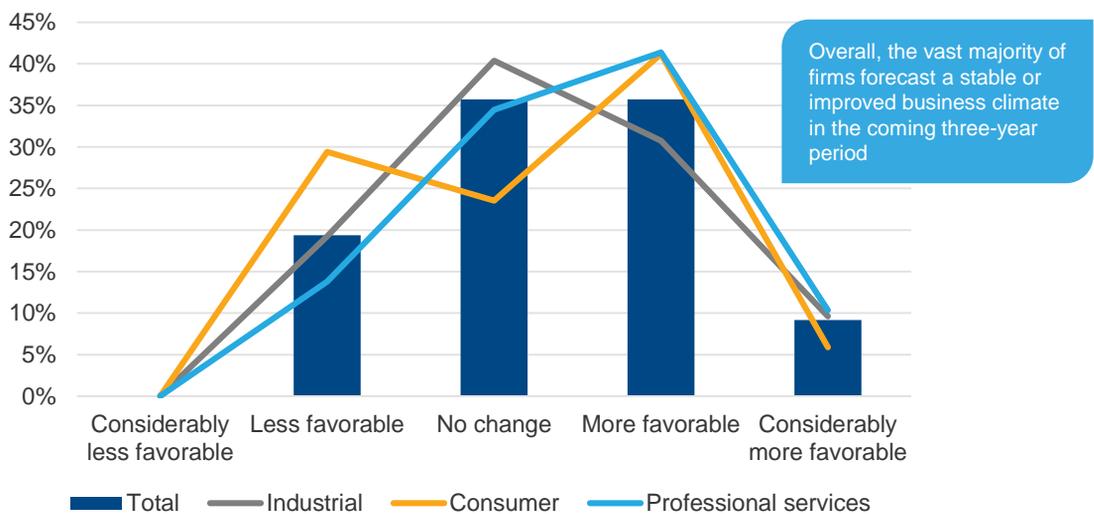
How do you consider the present business climate in China? (N=99)



Fairly optimistic expectations of future business climate

Looking ahead in the short- to medium-term, most of the surveyed firms maintain a cautiously optimistic view of the future business climate in China. In the coming three-year period, nearly half (45%) of the companies expect the overall business climate to improve, whereas only 19% believe that it will worsen. Roughly one-third (36%) of the companies adopt a tentative, “business-as-usual”, stance.

How do you perceive the future business climate in China for the coming three years? (N=99)



Mid-sized firms have a more tentative outlook in the short-to-medium-term (two-thirds foresee a less favourable or unchanged climate)



* Calculated based on subsectors represented by three firms or more

Shifting challenges

Red tape and access to human capital are main challenges

In 2017, preferential treatment of domestic firms was seen as the main challenge for Swedish firms operating in China. This year, the issue has slipped to 7th place in terms of perceived relative importance, indicating that at least some of the steps taken to level the playing field, such as the recently approved Foreign Investment Law, are being received with a measure of optimism by the responding companies.

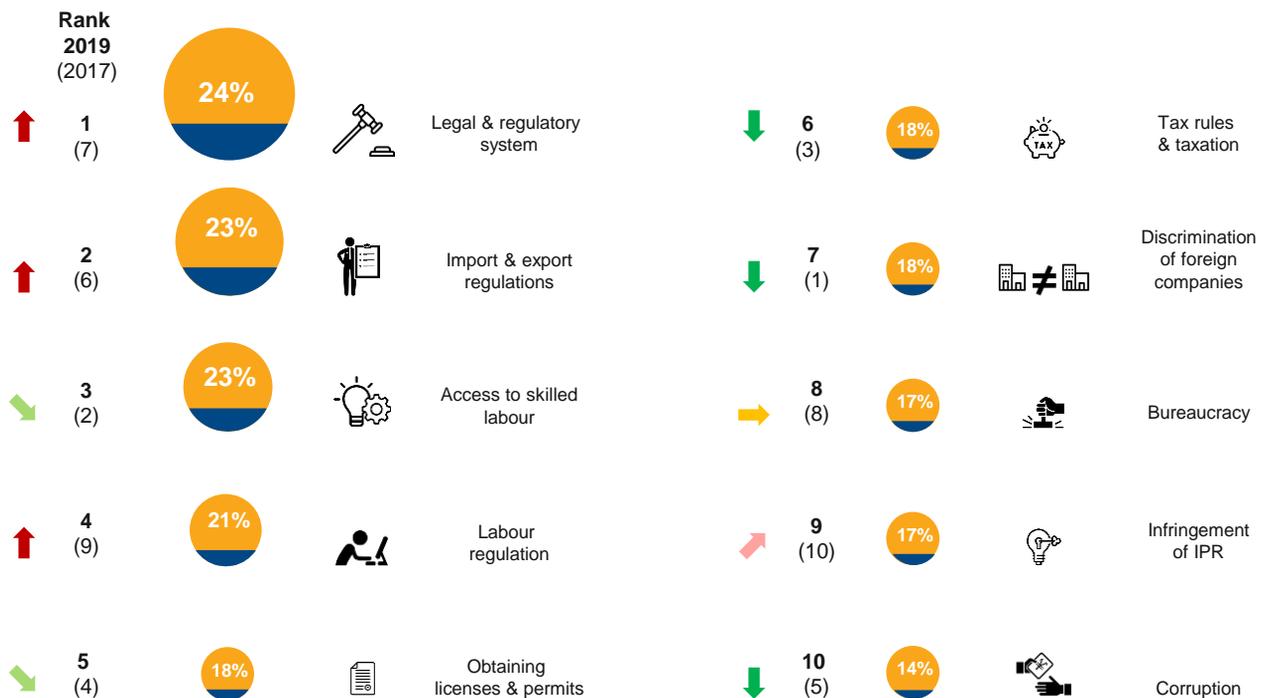
The Chinese legal & regulatory system, however, climbed in the opposite direction from 7th to 1st place and is a major challenge for 24% of respondents, illustrating longstanding concerns about the practical implementation of policy changes and the need to follow through on them.

The trend also serves to illustrate the continued difficulties posed by other regulatory hurdles such as uneven enforcement and interpretation of laws and regulations across locations, and the frequent inclusion of overriding mechanisms weakening the guarantees provided by legislation.

Furthermore, it should be noted that four out of the five main external challenges for Swedish firms in China are of a legal or regulatory nature: the aforementioned concerns are closely followed by Import & Export regulation (23%), Access to skilled labour (23%), Labour regulation (21%), and Obtaining licenses & permits (18%). Issues of corruption are improving and now appear at the bottom of the top 10.

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

(N=99) (Respondents may choose up to three alternatives)



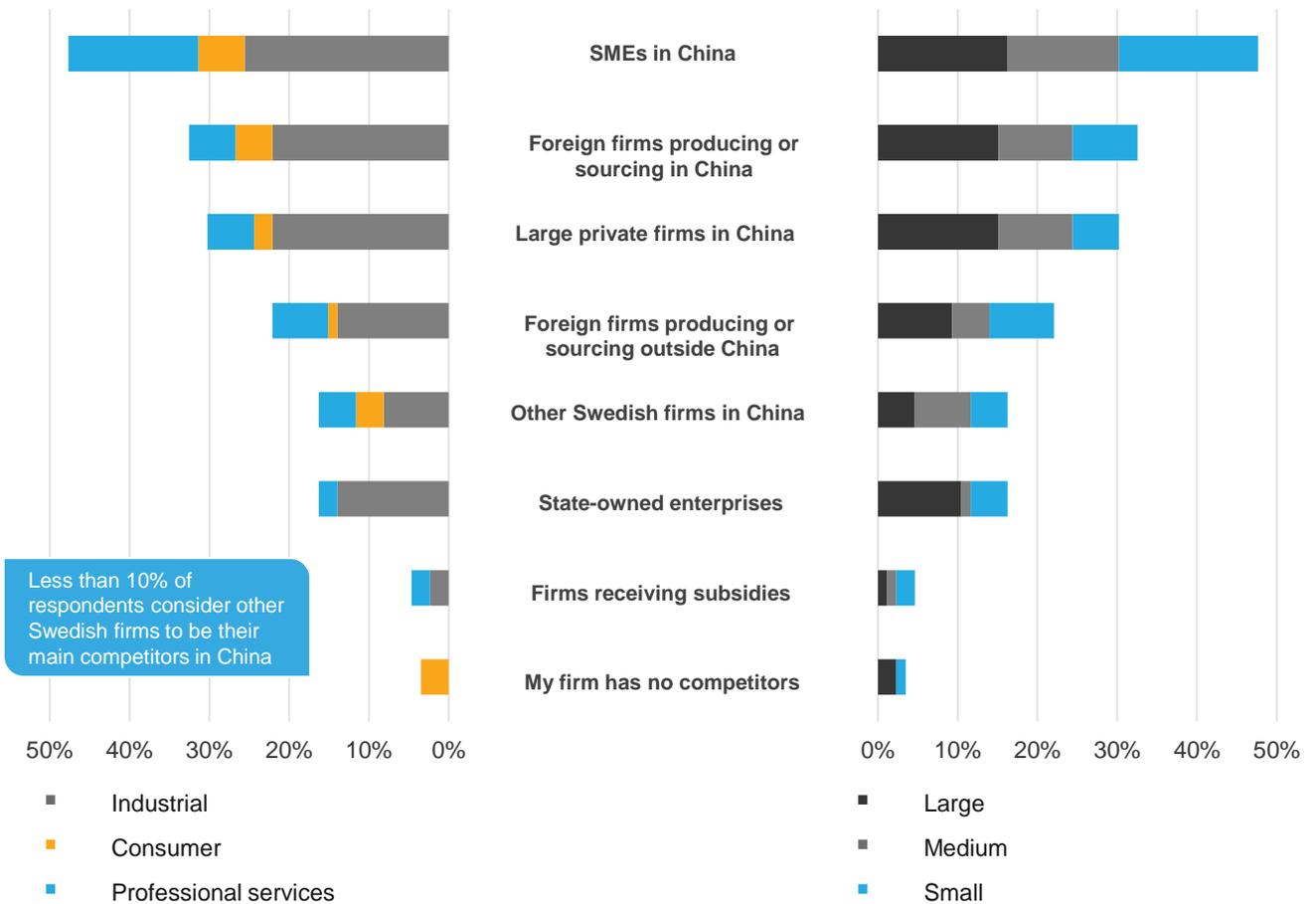
Changing pressures from competition

Chinese SMEs are the biggest competitors to Swedish firms

Chinese small- & medium-sized companies (SMEs) pose the greatest competitive threat to Swedish firms in China, followed by foreign firms that produce and/or source in China (33%), and large-sized local firms (30%). It is worth pointing out that, despite some overlap in the type of activities which Swedish firms carry out in China, relatively few respondents (16%) view other Swedish actors as key rivals. Overall, State-owned enterprises (SOEs) tend not to compete with Swedish firms; where they do, they compete more with industrial firms, whereas no consumer firms consider them as main competitors.

Who are your main competitors in China? (N=86)
(Respondents may choose up to three alternatives)

A larger share of small-sized and professional services firms perceives local SMEs as their primary competitors



Quality, tech & relationships give Swedish firms an edge

The surveyed firms see sophisticated technology and/or product quality (58%) as the source of their competitive advantage. To a large extent, Swedish firms in China also draw from their longstanding business relations (40%) and their brand recognition (36%). The top three response categories remain more or less unchanged from the results presented in the 2017 survey. On a sectoral level, a greater share of industrial firms compete on their advanced technology and superior quality compared to the other two categories of firms. Professional services firms consider longstanding business relationships as their number one source of competitive advantage.

The pricing and cost structure of Swedish firms relative to that of their competitors is regarded as the main disadvantage for the firms, with 60% of responding companies emphasising this. Lack of government relations appears to be the second most prominent disadvantage (27%), suggesting that Chinese firms profit from enjoying closer ties to public authorities. A change observed in this year's survey is that access to financing (27%) came in as the third most significant disadvantage in 2019, whereas the same option in 2017 placed 10th, with 13% of respondents highlighting this as a disadvantage. No significant difference is seen when controlling for size.

What do you perceive to be your company' biggest competitive/disadvantage advantages among the competitors in China? (N=91 & N=89)

(Respondents may choose up to three alternatives)

Advantages



Product quality/technology
58%



Long-standing business relationships
40%



Brand recognition
36%



Established presence in the country
23%



Product design
22%

Disadvantages



Cost structure/pricing
60%



Relations to government
27%



Access to financing
19%



Network
18%



Economies of Scale
17%

The US-China trade conflict

Thus far little direct impact but uncertainty looms

While the US-China trade tensions left a clear stamp on 2018, Swedish firms are yet to feel any significant impact. Half of the surveyed companies express that they see no direct impact* from the dispute, although one-quarter of firms appear to be tempering their investment plans.

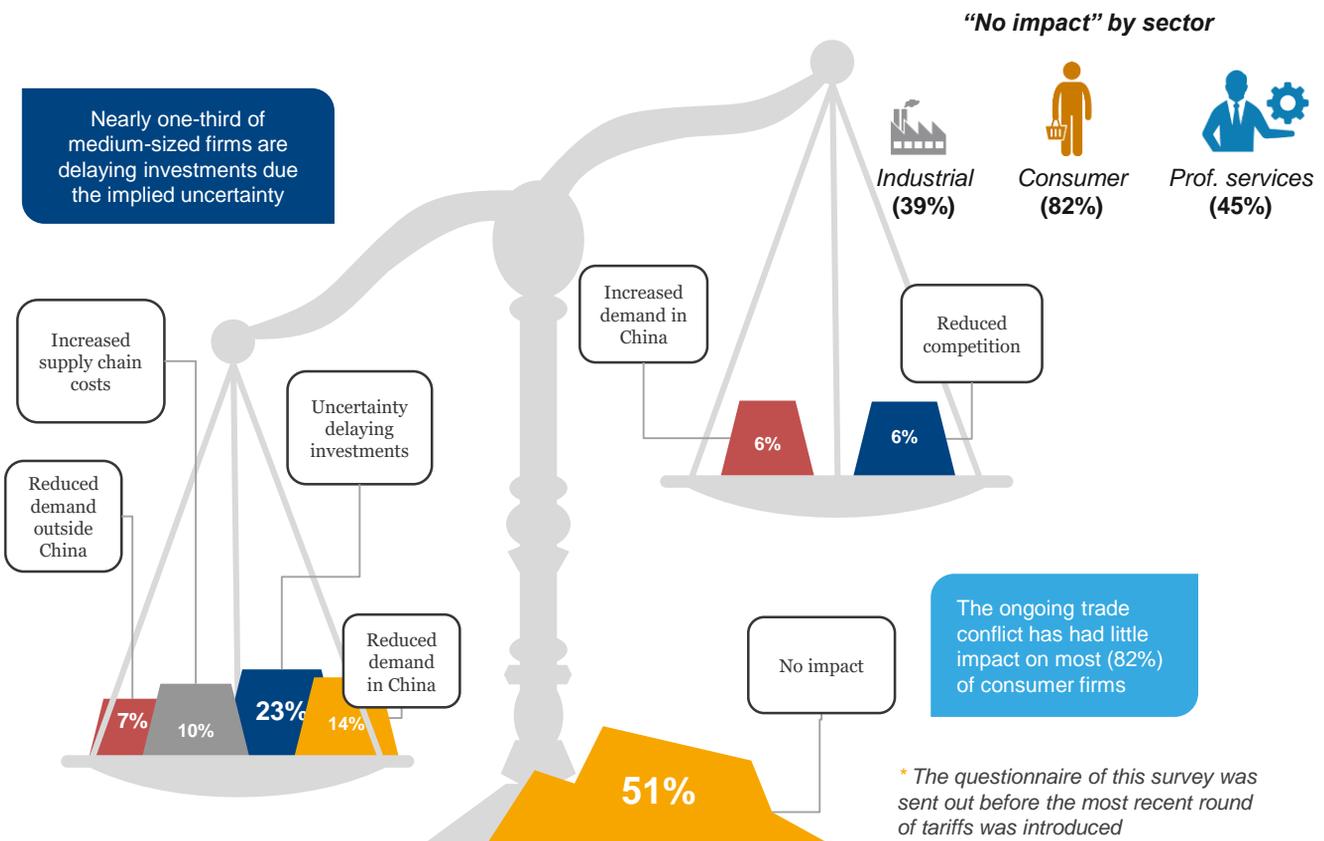
Many respondents report that the trade tensions have affected their operations, directly or indirectly. 44% of the companies answer that the dispute has negatively impacted their business either through reduced demand, increased costs

or delayed investments due to the unpredictable nature of the dispute, whereas only 9% of companies have seen positive effects on their business through higher demand or weakened competition.

Moreover, the effects of the trade conflict have not been felt equally across sectors. Professional services firms have the highest share (82%) of companies seeing no impact from the tensions, followed by consumer (45%) and industrial firms (39%).

How do you perceive the impact from the current China-US trade conflict on your business? (N=98)

(Respondents may choose more than one alternative)



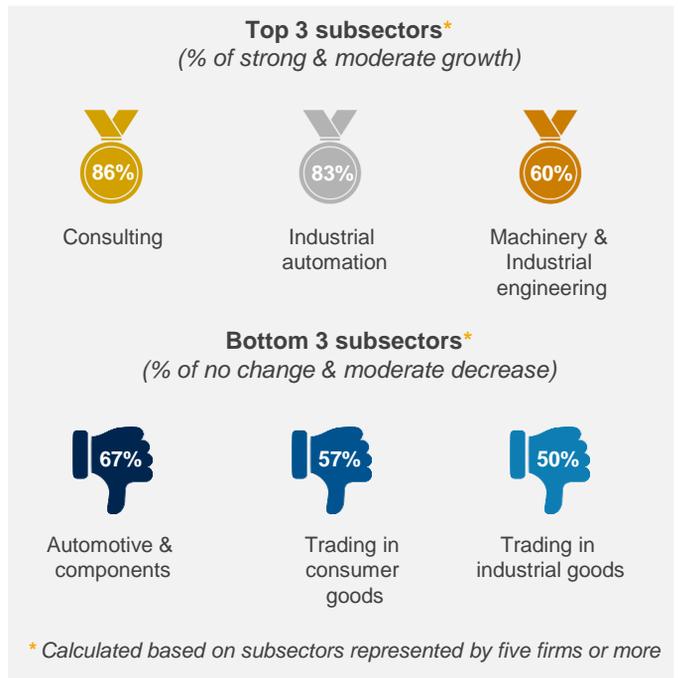
OUTLOOK

Firms are optimistic about their sectors' growth prospects

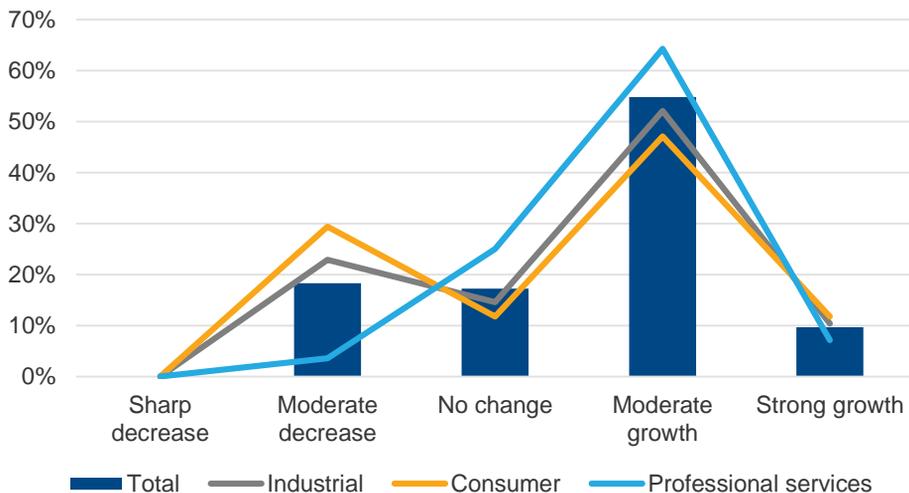
Two-thirds of respondents report having a positive economic outlook of the sector in which they operate in, expecting either moderate or strong growth in the near-term, whereas the remaining third maintain a more cautious position, foreseeing no change or moderate contraction.

By sectoral split, professional services firms are the most optimistic group with 71% expecting a positive development within their sector. A greater share of consumer firms have a slightly pessimistic view of the near-term prospects for their sector, with about one-third (29%) expecting a moderate decrease in 2019.

The subsectors that have the most optimistic outlook include Consulting, Industrial automation, and Machinery & industrial engineering, whereas Automotive & components holds the most pessimistic view. The latter should be viewed in light of that the sector contracted last year, for the first time in almost three decades.



How do you expect the Chinese economic situation within your industry/sector to develop during 2019? (N=94)



Market size, development and growth remains key for China

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 survey.

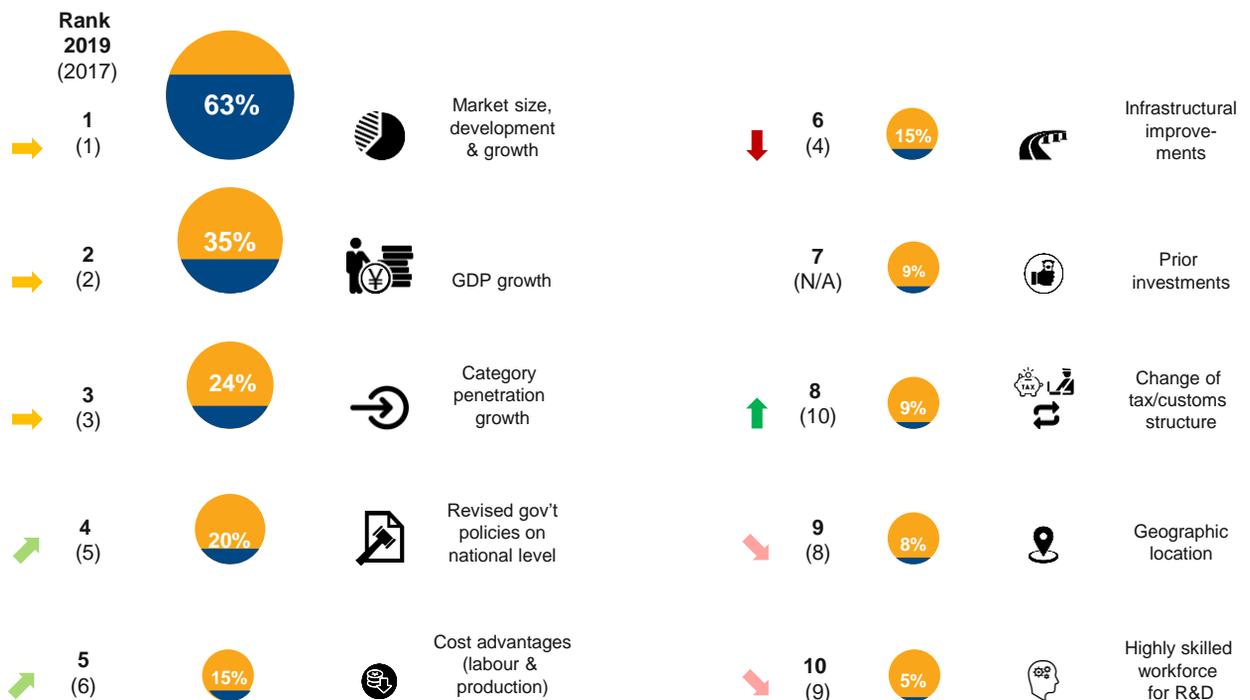
While no significant differences can be observed between companies of different sizes, some notable differences exist when examining the sector groups. A greater number of consumer firms expect opportunities to come from

cost advantages (24% of responses) and penetration growth (17% of responses) and to a lesser extent from macroeconomic developments (7% of responses) and improvements in infrastructure (no responses). Industrial and professional services firms, on the other hand, expect to leverage opportunities arising from macroeconomic developments (20% and 18% of responses, respectively) and to a lesser extent cost advantages (6% and 2% of responses).

What are the key external factors contributing to opportunities for your company in China in the short-term?

(N=93)

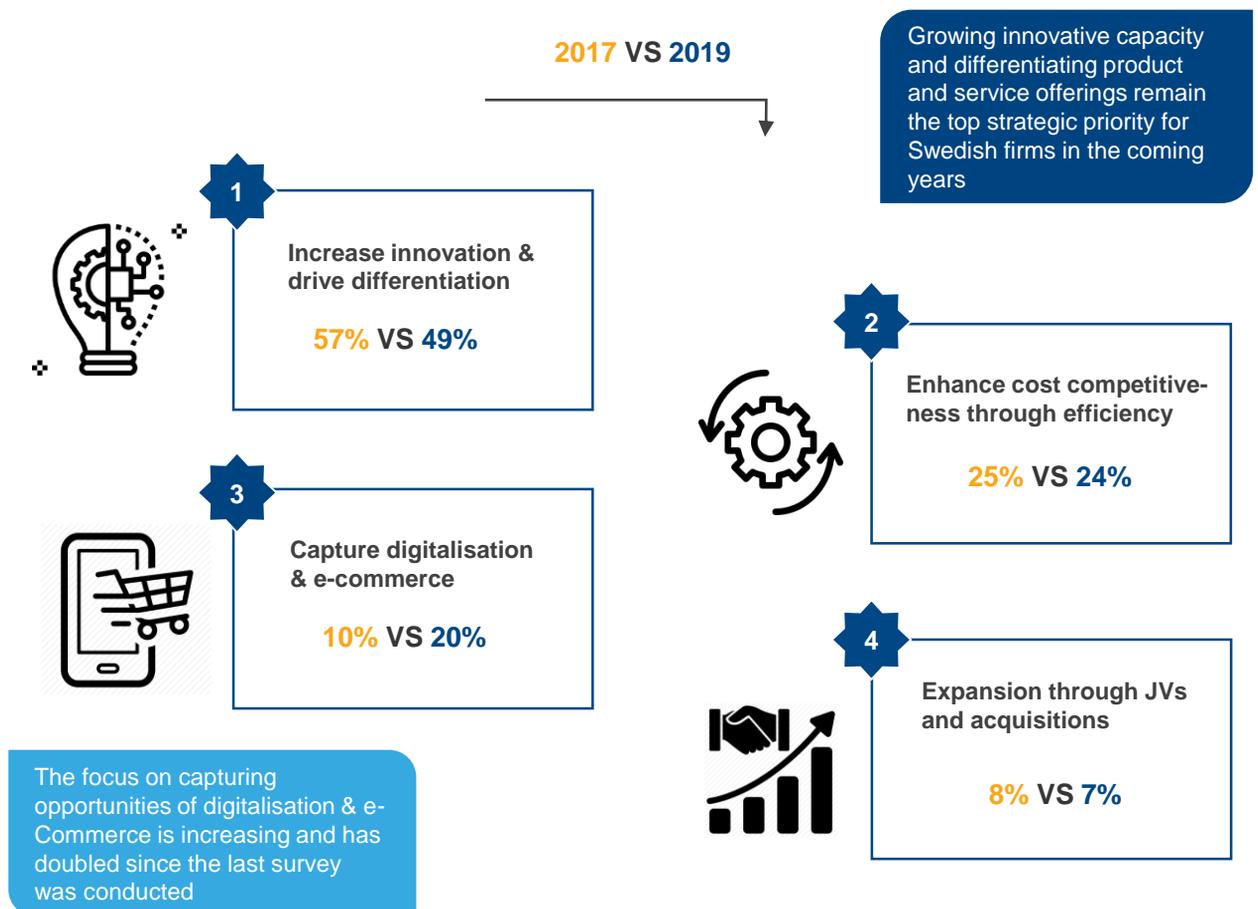
(Respondents may choose up to three alternatives)



Strategic focus fixed on innovation and differentiation

When asked about their strategic priorities in the upcoming three-year period, about half of the participating companies responded that they will focus on growing their innovative capacity and drive differentiation efforts vis-à-vis their products and services. One-quarter of the companies emphasise productivity growth as a means to making them more cost competitive. In the short-term strategic weight is also placed on leveraging opportunities in the digital space as well as growing operations inorganically through joint ventures and acquisitions. In terms of strategic priorities, the companies continue on the same path as reported in the 2017 climate survey.

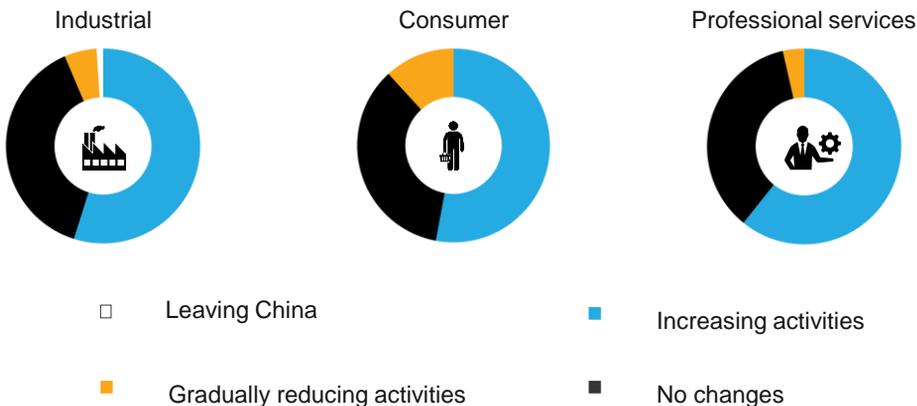
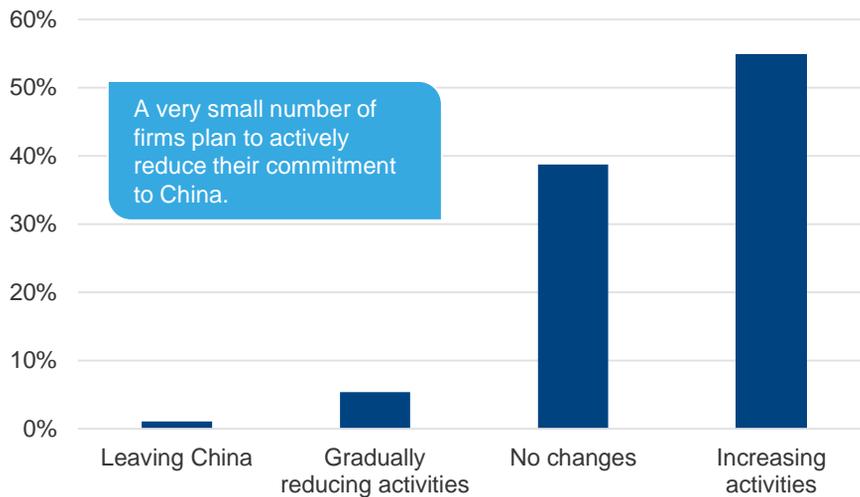
What is your most prioritized strategic initiatives to succeed in China over the coming 3 years? (N=84)



Most firms are ramping up their commitments in China

The Swedish firms that responded to this survey are dedicated to develop their businesses in China, with 55% of companies reporting that they will increase activities in the coming three-year period. Only 6% consider scaling down their operations or leaving China. This sentiment is shared among the broad industry groups with little difference between them. Among the size categories, smaller firms are those with the highest propensity to ramp up activities (63%) whereas the same figure is 54% for large firms and 43% among medium-sized firms. Taken together, Swedish firms look to deepen their commitment to China in the near- to medium-term.

What are your company's investment plans in China for the next three years? (N=94)



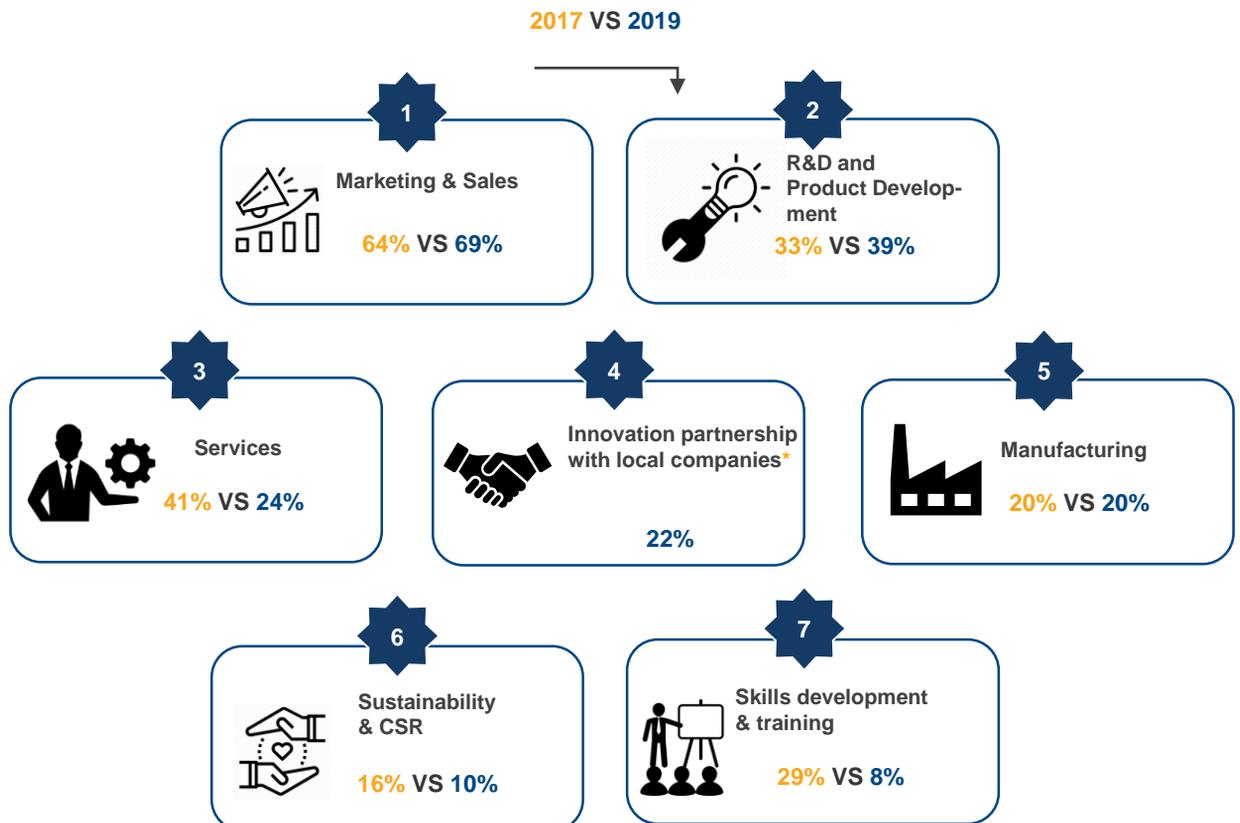
Marketing & Sales expected to pave the way for future growth

Out of those Swedish firms in China which plan to increase their investments in the country in the near-term, a clear majority will direct their investments toward Marketing & Sales activities (69%). R&D and Product Development (39%) account for an increasing share of the areas where these firms plan grow their activities. This is particularly noteworthy given that in the past few firms have chosen to locate ground-breaking R&D in China. Some change to investment

focus can be noticed since the last survey was carried out in 2017. For instance, R&D and Product Development has seen its relevance grow, while the share of firms investing in services has dwindled and is nearly down by half since 2017. Moreover, planned investments in Sustainability & CSR have seen a decrease from the 2017 survey. This should neither be a cause of worry nor surprise given that Swedish firms have a longstanding history of working with CSR in China and therefore start from a high baseline.

If your answer was "increase" to the previous question, in which business areas do you plan to increase your investments? (N=59)

(Respondents may choose up to three alternatives)



*New category in 2019

High-income coastal provinces are the most popular regions

Most of the Swedish firms that took part in this survey can be found along the more developed coastal cities. In fact, 9 out of the 10 provinces with the highest concentration of Swedish firms are located along China's East Coast, whereas western regions see very little Swedish representation. Shanghai hosts the highest number of Swedish firms (67), followed by Beijing (38) and Guangdong province (25). However, considering Shanghai along with the nearby-located provinces of Jiangsu (23) and Zhejiang (13), the total adds up to 103 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 and accounts for 22 of 23 firms with presence in the region. Likewise, by size, the top three locations remain unchanged with Jiangsu province housing most large firms (18 out of 23 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 half of the country (e.g. via the "Great Western Development Strategy"), which has lagged behind in terms of development.

Industrial



- Shanghai Municipality (32)
- Beijing Municipality (23)
- Jiangsu Province (22)
- Guangdong Province (16)

Consumer



- Shanghai Municipality (13)
- Guangdong Province (4)
- Zhejiang Province (4)
- Beijing Municipality (2)

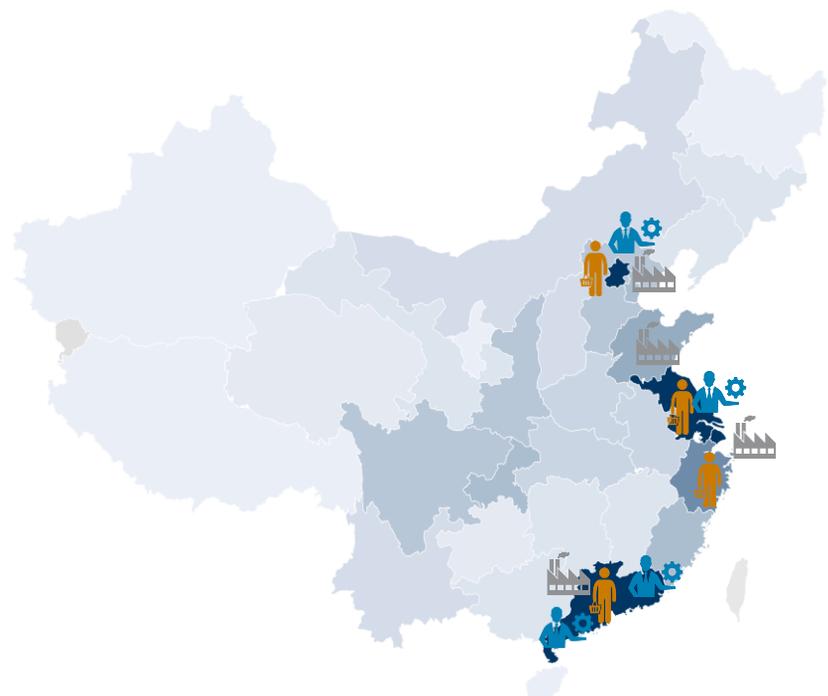
Professional services



- Shanghai Municipality (22)
- Beijing Municipality (12)
- Guangdong Province (5)
- Hong Kong SAR (5)

In which province(s) is your company currently present? (N=92)

(Data reported in count of responses)

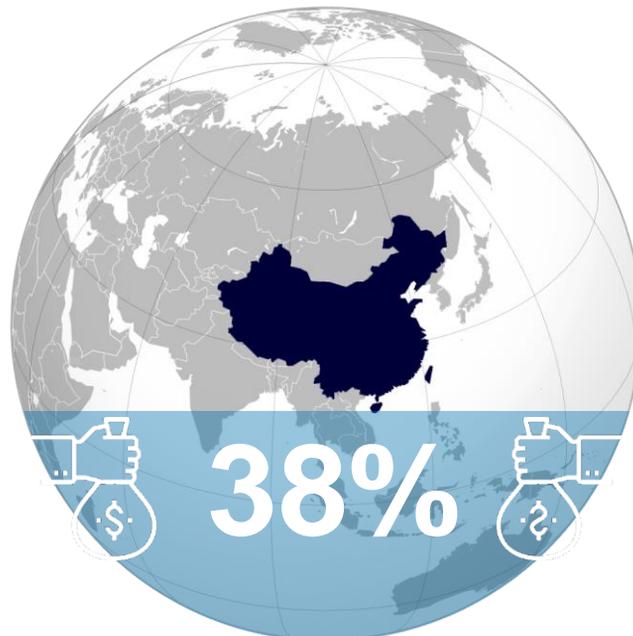


Small firms are relatively more willing to expand

The firms that do not plan to expand their business into new provinces within the nearest three-year horizon outnumber those who do have expansion plans, something which generally applies across all industries and company sizes.

Out of the sector groups, consumer firms show the lowest propensity to expand into new provinces. When controlling for size, scale and propensity to expand appear to correlate. The large Swedish firms in the survey sample are less inclined to enter new provinces, whereas the smaller firms show the greatest propensity to expand.

Are you considering expanding your business in other province(s) of China within the next 3 years? (N=91)



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

Firms contemplate expansion to Sichuan & Guangdong

When asked about which provinces the firms consider to enter, the responses vary across sector and size groups; however, most contemplate expanding to Sichuan province, Guangdong province, and Beijing. In 2017, roughly one-third of firms with expansion plans considered Guangdong province, followed by Chongqing and Beijing, whereas Sichuan was the eight most popular province to expand into. While more data is needed to confirm any definite trend, it is clear from this year's survey

that the firms with expansion plans in China are not only cementing their current operations in coastal regions but are in fact looking westward. It is not surprising to see that Sichuan province comes out as a top destination for the surveyed firms as the region is becoming a key hub for the economy given its geostrategic importance as a key junction in the Belt and Road Initiative (BRI) and convenient distance from several provincial capitals (e.g. Kunming, Xi'an, and Guiyang).

If yes to previous question, in which of the following Chinese province(s) are you considering expanding your business?(N=33)

(Data is reported in counts)

Industrial



- Jiangsu Province (5)
- Sichuan Province (4)
- Shandong Province (4)
- Shaanxi Province (3)

Consumer

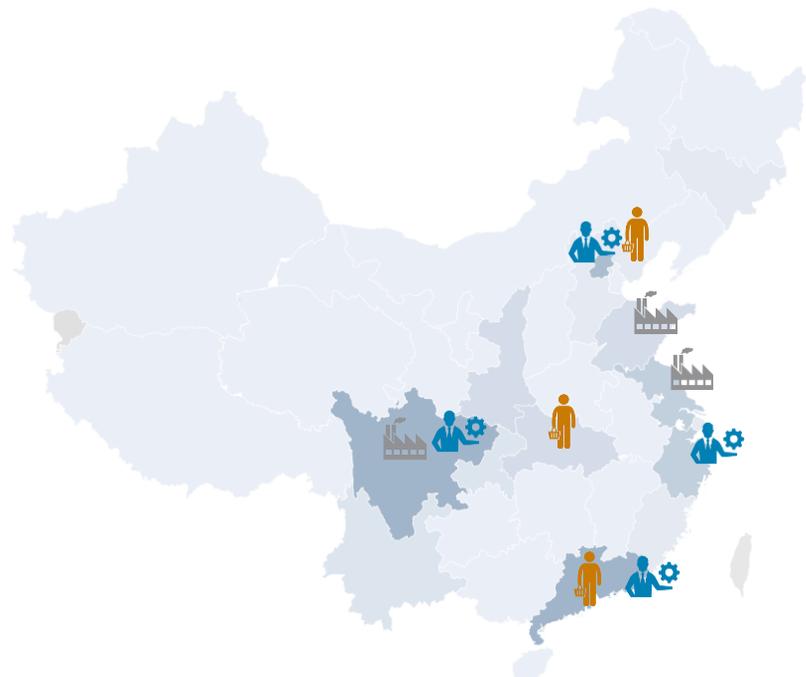


- Guangdong Province (2)
- Beijing Municipality (2)
- Hubei Province (2)
- Sichuan Province (1)

Professional services



- Guangdong Province (5)
- Municipality (4)
- Sichuan Province (4)
- Zhejiang (4)



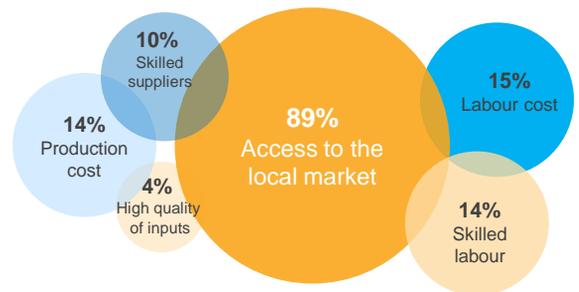
China as an Asian hub

Investments in China are market-seeking

When Swedish companies are asked about their motivations for operating in China, it becomes clear that the lion's share of investment is market-seeking. To a great extent, China's appeal to Swedish firms lies in tapping into the local market, with 9 out of 10 respondents reporting this as the main reason for establishing operations in the country. For the majority of Swedish companies in this survey, the sheer size of the China market is a strong factor guiding firm decisions on localisation (as presented earlier in the report).

What are the main reason(s) your company has chosen to set up operations in China?

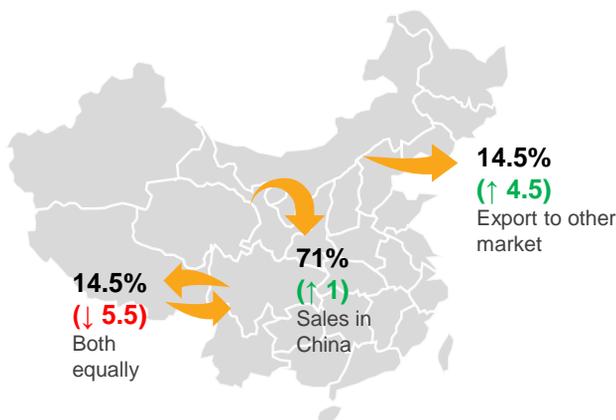
(Respondents may choose up to three alternatives) (N=98)



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

(N=99)

In 2013, Access to the local market was one main reason to set up operations in China for 42% of the survey respondents



↑ Percentage points up compared to 2017

↓ Percentage points down compared to 2017

With regards to sales, 7 out of 10 respondents report that their sales are, in part or completely, directed to the domestic market, whereas only 15% target markets outside China. This is generally in line with the large share of respondents choosing market access as the main reason for entering China.

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 to simply 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”.

China and nearby markets are main pull factors

From a regional perspective, Swedish companies primarily (79%) view China as a base to serve the domestic market and markets in close vicinity to China. A growing share of companies leverage China as a regional platform to serve more distant markets in the Asia-Pacific region.

These findings should be viewed in light of the many outward-oriented development initiatives promoted by the Chinese government in recent years, such as the BRI, to name one.

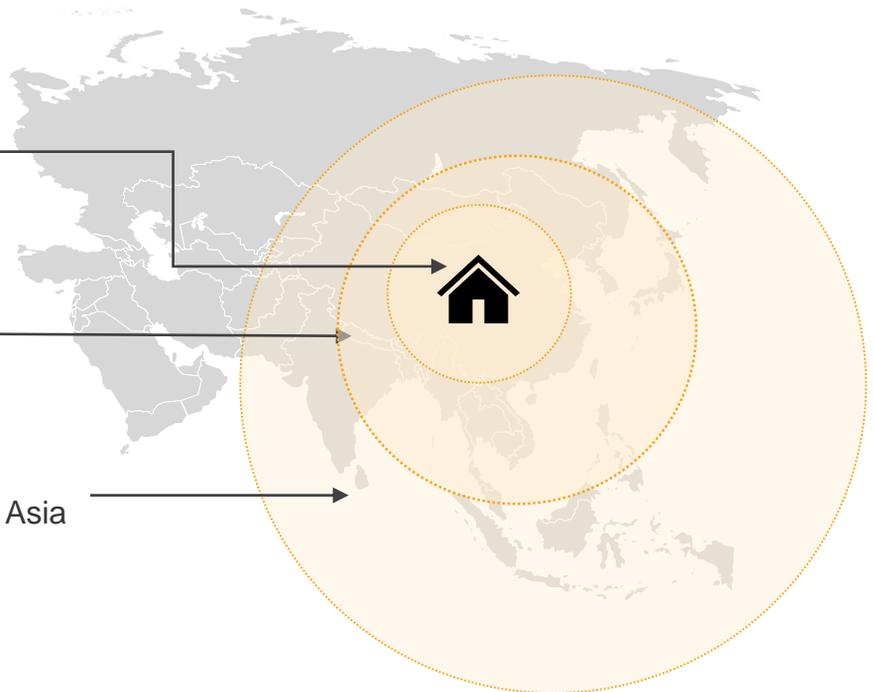
What is the role of China from a regional perspective for your company? (N=98)

More than half of the surveyed companies, irrespective of size & sector, report that China also serves as a base for catering to other markets

40%
Only covering China

39%
Covering China and a few nearby countries

21%
Regional headquarters for Asia or Asia-Pacific

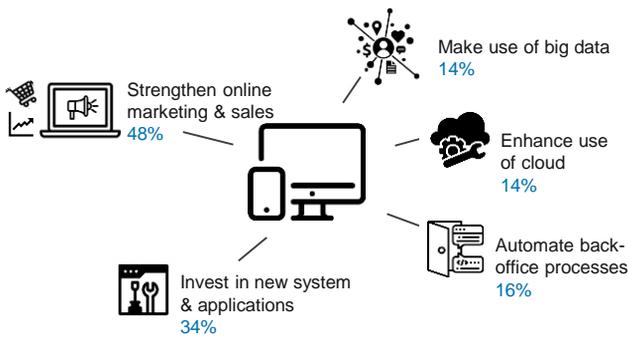


Sweden goes China digital...

Focus on digital expected to increase

While only 20% of the respondents see digitalisation as their most prioritised strategic initiative to succeed in China over the coming three years, two-thirds are planning to leverage digital in their business models. Digital is wisely seen, not as a goal in itself, but as a critical enabler to deliver on the strategic ambitions. Many Swedish companies have also learnt that their digital model from other markets might not necessarily be optimal in China, and alterations are made both to back-office, through local cloud solutions and systems tailored to the Chinese market, as well as to front-end, by opening up e-commerce stores on popular Chinese platforms instead of only relying on global websites.

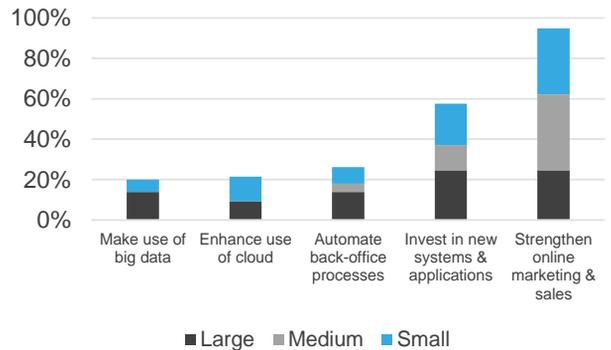
Do you plan to leverage digital in your business model in China and if so how? (N=86)



The first wave of online marketing and sales in China was driven by consumer companies. But Business-to-Business (B2B) is quickly catching up and this year, front-end digitalisation is just as big within industrial firms as in other sectors. This fits well into the Chinese digital eco-system, where B2B awareness creation and actual purchasing is rapidly moving towards online

channels, with a number of generic B2B e-commerce stores as well as specialist trading platforms having boosted traffic significantly over the last years.

Medium-sized companies are underrepresented when it comes to back-office digitalisation, with none of the participating companies looking into big data or cloud, and only one of them wanting to automate back-office processes. This could be explained by the medium-size challenge of not having the scale needed to drive local adaptations, while still being big enough to have implemented solid solutions in other markets which they try to leverage on in China. Facing lower lock-in costs, smaller companies can often be more digitally agile (as they have not yet invested themselves into a rigid digital model which can be costly to alter).

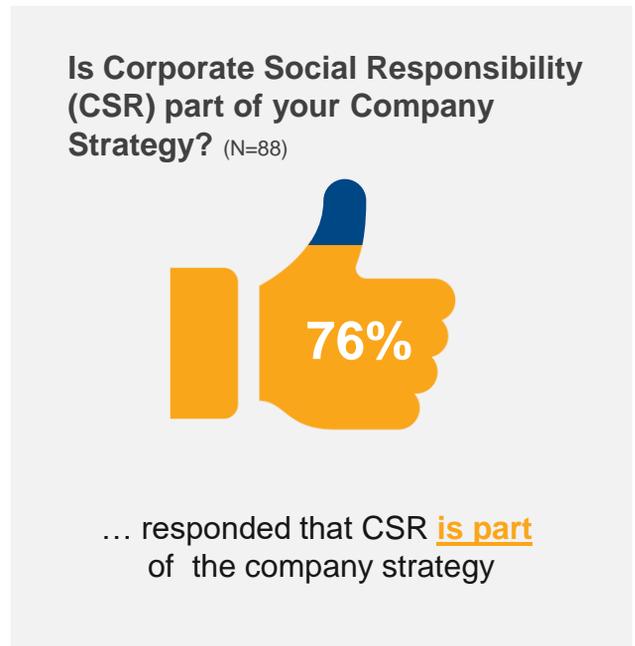


The focus on digital is expected to increase across industries and companies in the coming years, and it will be critical for Swedish companies operating in China to follow suit and adapt their operating models to enable a local digital presence for marketing and sales combined with digital back-office efficiency to stay cost competitive.

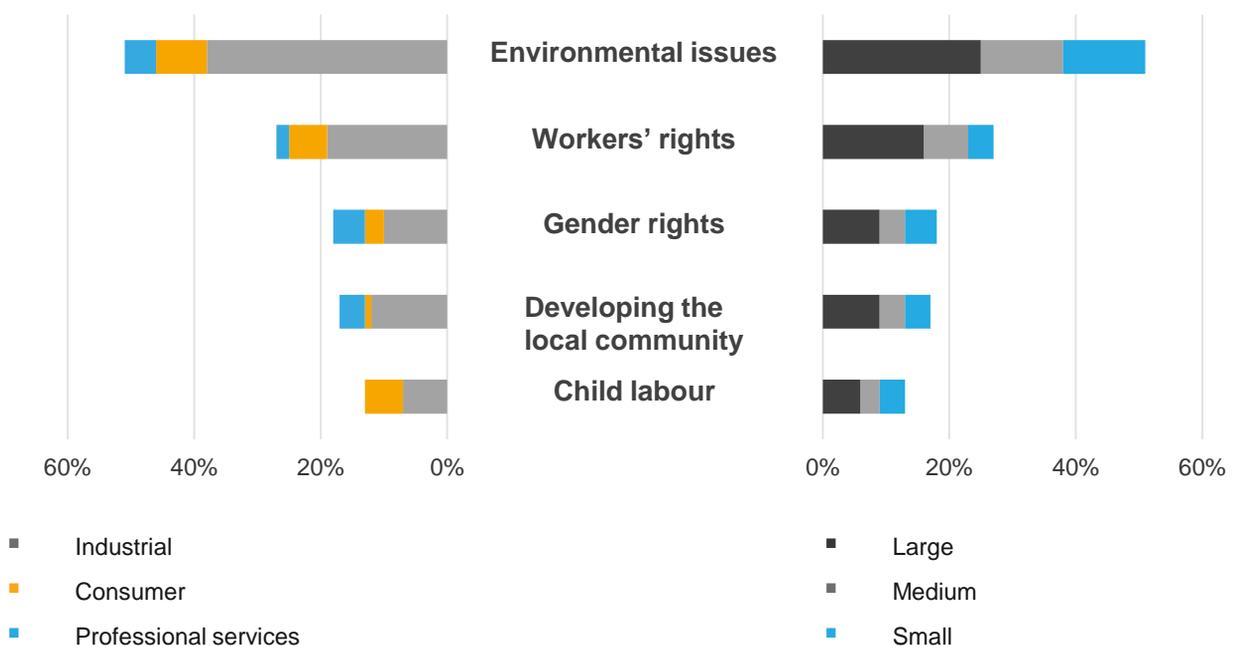
Corporate Social Responsibility

CSR is now an integral part of the majority of firms' strategies

In the 2013 survey, a mere 22% of companies responded that they had a division solely dedicated to Corporate Social Responsibility (CSR) issues. A main conclusion drawn in the report was that most survey respondents lacked a comprehensive approach to CSR. In recent years, more and more Swedish firms have been prioritising CSR as part of their overall company strategy. Data from this year's survey back this claim as 76% of surveyed firms respond that CSR is an integral part of their business strategy, with little difference between sector and size categories (apart from the specific topics they tend to focus on). Evidently, Swedish firms are living proof of that a clearly articulated approach to CSR may go hand-in-hand with profitability.



If yes to previous question, in which areas of CSR do you work most actively? (N=67)



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