2020 Sino Benelux Business Survey

2020 Sino Benelux Business Survey

An initiative in partnership between:

BENCHAM
BENELUX CHAMBER OF COMMERCE IN CHINA
荷比卢工商协会

&

MOORE

In collaboration with the official trade- and diplomatic representations of Belgium, The Netherlands and Luxembourg in China:

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Foreword

Raoul Schweicher

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Benelux businesses in China face unprecedented challenges in wake of the outbreak of COVID-19, firstly paralyzing the Chinese national economy and subsequently impacting the global economy. The onset of the outbreak is expected to plague the business sentiment in China and the economic outlook for the upcoming year.

In the past year, several developments have altered the playing field for foreign companies in China. Here the Chinese economy was affected by a decelerating economy paired with an ongoing trade conflict between the US and China, several national reforms including the implementation of the Corporate Social Credit System and the new Foreign Investment Law as well as ongoing geopolitical tensions.

Considering the above, this survey, conducted in March and April of 2020, provides extensive data on the period prior to the outbreak which supports the community to identify underlying challenges and opportunities present in the Chinese market while simultaneously painting an accurate picture on the development of the perception of the Chinese market and expectations for the future while accounting for the impact of COVID-19.

We believe this report, being published for the 5th consecutive time, will provide a number of valuable and unique up-to-date insights. The dataset and analysis aid to better understand the Chinese business environment and support the successful operation of foreign-invested companies in China.

MOORE

Sino-Benelux Business Survey

On an annual basis the Benelux Chamber of Commerce in China (Beijing, Shanghai and Pearl River Delta), supported by the official trade- and diplomatic representations of Belgium, The Netherlands and Luxembourg in China organize in partnership with Moore the Sino Benelux Business Survey.

The purpose of the Sino Benelux Business Survey is to provide Benelux companies already active in China, Benelux companies seeking to enter the Chinese market and other important stakeholders with comparative information to ensure they make better informed decisions. The survey further aims to help companies and people to better understand the Chinese business climate and strives to help them improve their position within the challenging Chinese business environment.

This objective is accomplished by providing an annual snapshot presenting the experience, challenges and expectations of Benelux companies throughout all of China. Furthermore, within this report we conduct extensive cross-comparison of answers to different questions as well as comparisons over time in order to derive meaningful conclusions.

Last year's survey demonstrated that Benelux businesses in China were experiencing a more volatile market, which resulted in both winners and losers. This year, the survey may be more important than ever considering the extraordinary times we live in, and particularly considering the global COVID-19 epidemic.

We trust that this survey and corresponding report provides its readers with a better understanding of the Chinese business environment and supports the successful operation of Benelux businesses in China.

Methodology

The 2020 Sino Benelux Business Survey was published in June of 2020 for the 5th consecutive year in a row and aims to be a fundamental piece for the Benelux community.

The respondents could take part in the survey over a six-week period starting from March 2020 until the end of April 2020.

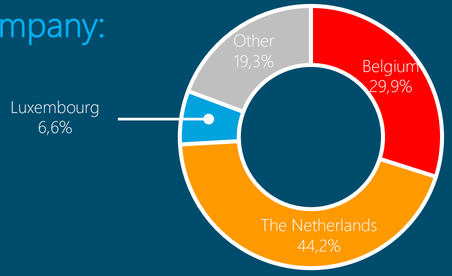
The questionnaire is fully anonymous and is conducted through an online survey that was distributed via Email, newsletters and social media platforms, including WeChat and LinkedIn, with active support from the Benelux Chamber of Commerce throughout China and was actively supported by the official representations of the Benelux countries in China.

Approximately 2000 Benelux companies were contacted throughout the duration of the survey, and 197 complete responses were collected throughout the abovementioned period – a 41,7% increased compared to the previous year and a record for the Sino Benelux Business Survey.

In order to achieve a high response rate the survey remained concise at 31 questions, while maintaining appropriate questions to ensure comparability over time, and is historically divided into 4 themes, namely: Business Demographics, Business Performance, Business Sentiment and Onward Expectations, and this year includes as well the impact of COVID-19.

Most respondents represented companies from Belgium (29,9%), The Netherlands (44,2%) and Luxembourg (6,6%), whereas the remaining 19,3% have either strong relations with- or management from the Benelux.

Parent Company:



Executive Summary

In 2019, Benelux businesses were facing a slowdown of the Chinese economy in combination with trade conflict and geopolitical tensions, whereas in 2020 the outbreak of COVID-19 is expected to negatively influence the business sentiment and onward expectations. Against this backdrop, the 2020 Sino Benelux Business Survey was organized.

Demographics

Despite the slowdown of the national economy, the Size of the China's Domestic Market remains the key motivation for Benelux businesses to be active in China. Furthermore, the Chinese market remains an important market in the global strategy of Benelux businesses.

The average number of expats continues to further decrease for all 3 countries, and it would be interesting to see how this will develop in 2020 considering COVID-19.

Business Performance

The slowdown of the Chinese economy was already evident for Benelux businesses in China in 2019. Revenue growth was worse than expected, particularly Start-ups and SMEs were hard-hit. On the other hand, most Benelux businesses in China were still making profits.

Business Sentiment

Despite reforms appearing to have eased restrictiveness for Foreign-Invested Enterprises, the perception of the Chinese market continues to deteriorate. However, China remains an important market in the global strategy of Benelux businesses and fewer companies consider to leave China.

Furthermore, it appears Benelux businesses are largely unaffected by current global events (incl. China-US Trade War, the BRI and IP Challenges).

Onward Expectations

The outlook for 2020 is bleak, with severely pessimistic growth expectations. Here the outbreak of COVID-19 is expected to severely plague businesses, with 92% of respondents expecting a negative impact on performance. The majority of companies will primarily feel the impact on their revenues as a consequence of decreased demand, and profits will largely be due to costs savings.

Executive Summary – Key Facts

Industry composition in line with past years

- In line with 2019, 60% of the respondents are active in the top 3 industries; Consumer Goods, Industrial Goods and Industrial Services.

Majority of companies classify as SMEs

- 56% of respondents reported revenues of up to RMB 100 mio.
- 63% of companies have up to 49 employees.

Average expat count further decreases

- Average no. of expats per company decreased for all 3 countries from around 3.3 to between 1.7 and 2.6 per company.

Size of Domestic Market remains No. 1 motivation

- In line with past surveys, the Size of China's Domestic Market is the main strategic motivation for being active in China.

Presence/Demand Asian Market is important

- Presence in/Demand from Asian Market is more important than Proximity to East-Asian Markets from last year's survey.

China is an important market in global strategy

- For 63% of companies the Chinese market is a top 3 market in the global strategy.

Executive Summary – Key Facts

Revenue growth worse than expected

- 18% of companies had negative revenue growth, whereas only 11% expected this.
- Only 30% report revenue growth of over 10%.

Low revenue growth notably among small firms

- 41% of start-ups had negative revenue growth.
- 27% of firms with revenues up to RMB 10 mio achieved growth over 10%, vs 63% expected.

Profit margins remain relatively stable

- 84% of companies have positive profit margin, compared to 85% last year.
- Shift to more moderate profit margins.

Largest 3 industries among the most profitable

- Respondents from Industrial Goods and Services and Consumer Goods among most profitable.
- 35% of firms in Consumer Services report losses.

Top 3 main positive drivers remain unchanged

- The main positive drivers are Increased Process Based Efficiency, Increased Turnover/Economies of Scale and Use of Technology.

Salary Costs remains the main negative driver

- 18.5% selected Salary Costs as negative driver.
- Decreased Pricing Power and Administration/ Regulatory Costs complete the top 3.

Executive Summary – Key Facts

Perception of Chinese market further deteriorated

- 35% of respondents perceive the Chinese market as at least somewhat less favorable.
- Only 31% viewed market as more favorable.

Restrictiveness of business environment improved

- Restrictiveness of all four categories surveyed last year improved, particularly Every-Day Business and Government Relations.

New categories mostly considered not restrictive

- Human Resources and Tax and Compliance Requirements are considered very restrictive by only 14% of respondents.

Benelux firms largely unaffected by current events

- Only 19% encountered projects related to BRI.
- 53% not impacted by China-US Trade War.
- Only 25% experienced IP Challenges.

Uncertainty about Corporate Social Credit System

- 35% is unaware of company's records in the system, 41% isn't prepared for implementation.
- 60% has not formed an opinion on system yet.

Fewer companies considering to leave China

- 17% of respondent consider moving Mainland China activities to other Asian countries/regions.
- Vietnam and India are main destinations.

Executive Summary – Key Facts

COVID-19 expected to severely plague businesses

- 92% of firms expect performance in 2020 to be negatively impacted by COVID-19, mainly due to Decreased Demand and Travel Restrictions.

COVID-19 mainly impacting revenue, not profits

- 52% of companies strongly negatively impacted by outbreak expect revenue decrease in 2020.
- Majority still expects to make profits.

Revenue growth expectations very pessimistic

- 35% expects decreasing revenues for 2020.
- Only 11% expects growth of over 10%.
- Categories of 0-10% in line with results of 2019.

Even big companies pessimistic on 2020 revenue

- Expectations more negative compared to 2019.
- 38% of companies with revenues over RMB 500 mio expect negative revenue growth for 2020.

Profit outlook not as bleak, yet still more negative

- Still 79% of respondents expect to make profits, although margins will be more moderate.
- Results will likely be achieved by Cost Savings.

Large contrast in profit expectations by size

- Large number of Start-ups and SMEs expect losses and little expect high margins
- Large firms reasonably optimistic about profits.

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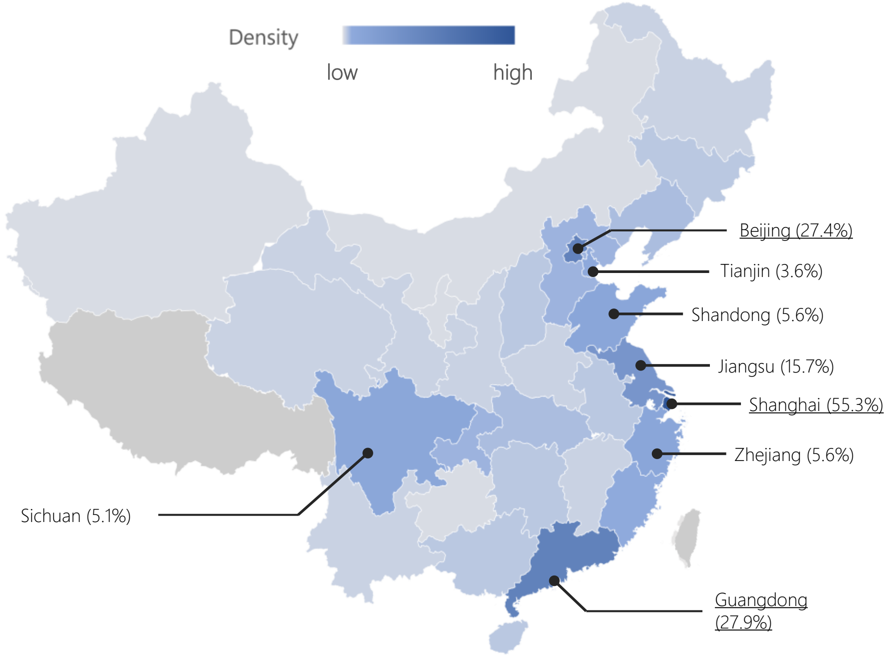
Survey Demographics

Location – by Province

Location of Benelux Companies in China

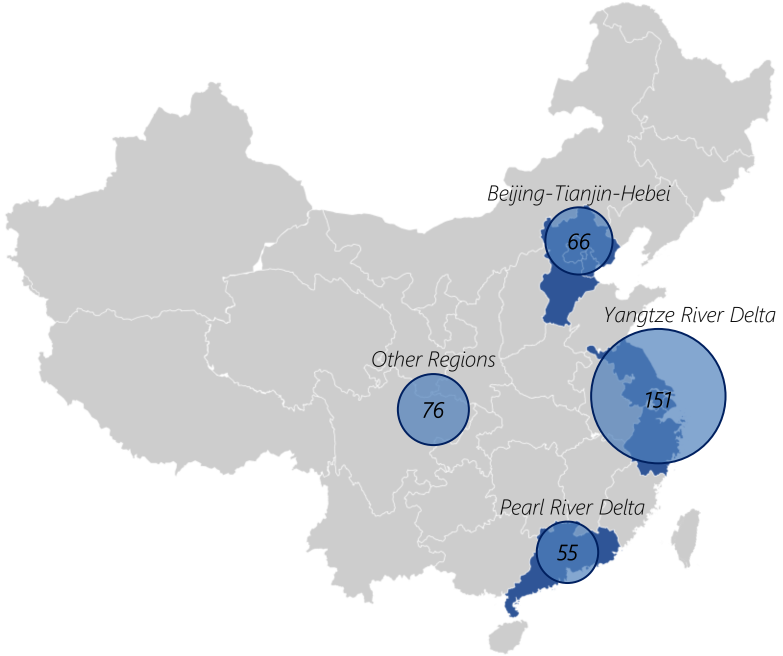


- **197 participants** took part this year in the survey.
- In line with previous years, the companies are best represented in the **coastal regions.**
- Most respondents have offices in **Shanghai** (55.3%), **Guangdong** (27.9%) and **Beijing** (27.4%).
- Other well represented areas are the other coastal provinces of **Jiangsu** (15.7%), **Zhejiang** (5.6%) and **Shandong** (5.6%).
- Outside of the coastal regions Benelux companies are quite evenly spread, apart from a concentration of businesses in **Sichuan** (5.1%).

Note: Respondents were asked in which provinces of Mainland China they have an office. As a result, multiple provinces per respondent could be selected.

Location – per Region

Location of Benelux Companies in China

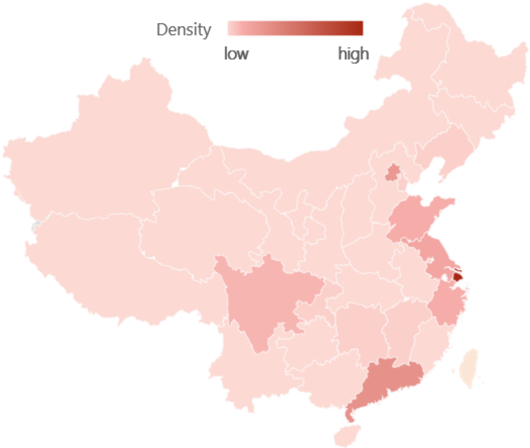


- The majority of Benelux businesses are concentrated around the main economic clusters of China (Schuster, MIT, 2016):
  - In the **Yangtze River Delta** (Shanghai, Zhejiang, Jiangsu) there are 151 offices of Benelux businesses.
  - In the **Beijing-Tianjin-Hebei** region (Beijing, Tianjin, Hebei) there are 66 offices of Benelux businesses.
  - In the **Pearl River Delta** (Guangdong) there are 55 offices of Benelux businesses.
- There is a total of 76 Benelux businesses with offices in other regions of China.

Note: Respondents were asked in which provinces of Mainland China they have an office. As a result, multiple provinces per respondent could be selected.

Location – per Country

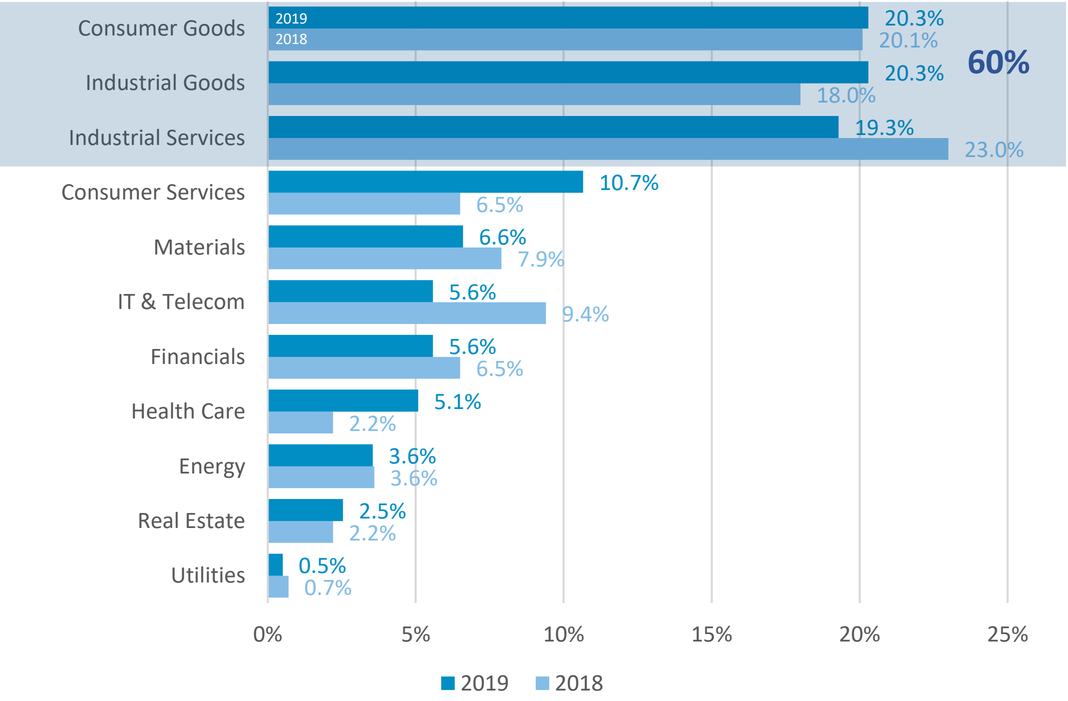
The Netherlands	Belgium	Luxembourg



- When we examine the locations of respondents by country, we see most activities are **along the coastal regions in China**:
  - The highest concentration of **Dutch** businesses can be found in Shanghai (46%), Guangdong (33%) and Beijing (25%). Outside of the three key areas, also 11% of respondents have offices in Jiangsu and 7% have offices in Fujian.
  - **76% of companies from Belgium have offices in Shanghai.** Whereas 22% and 19% have offices in Guangdong and Beijing.
  - The companies from **Luxembourg** are mostly concentrated in Beijing (54%) and Shanghai (38%).

Industry Sectors Represented

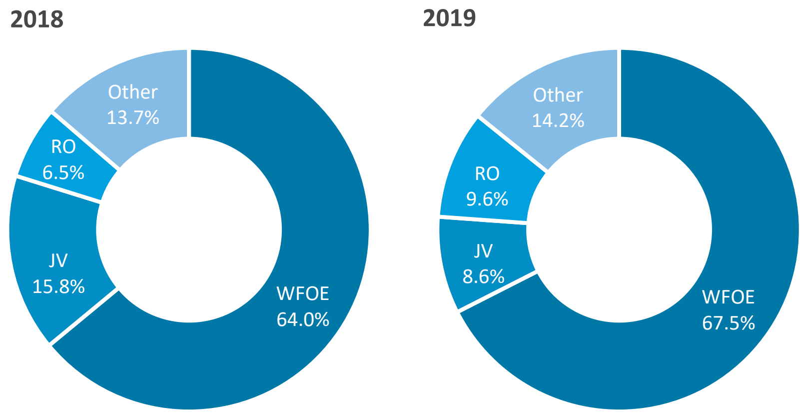
Industry Categories (2018-2019)



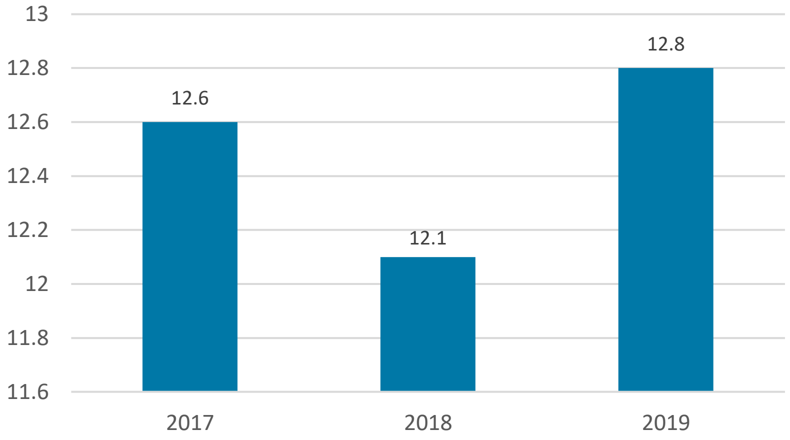
- The results indicate a similar trend of companies participating this year in the survey as compared to last year's business survey.
  - Most respondents are active in the Industrial Goods and Services (39.6%) and Consumer Goods and Services (31.0%) industries.
  - The top 3 represented industries are again Consumer Goods, Industrial Goods and Industrial Services, comprising 60% of the total respondents.
  - Particularly Industrial Services are centered in Beijing, Shanghai and Guangdong.
  - Jiangsu is the 4th largest region, with 80% of businesses active in the Industrial- and Consumer Goods and Materials industries.

Entry Modes in China

Company Structure



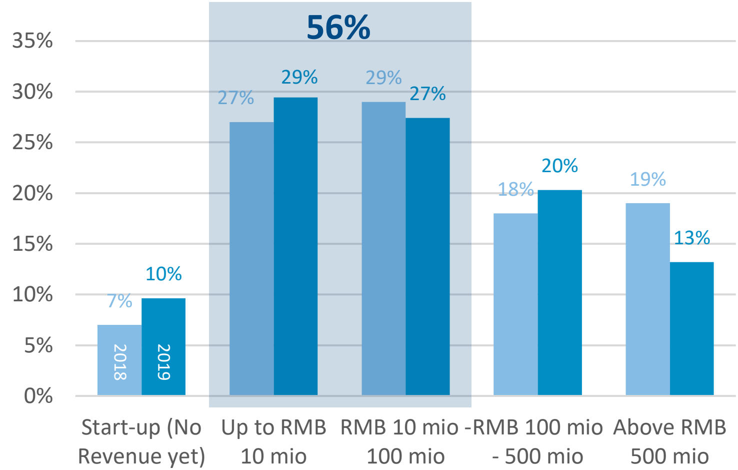
Years in China



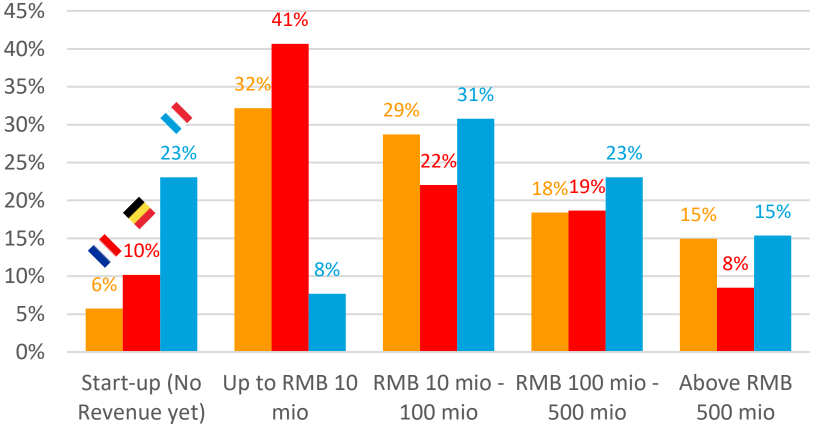
- This year the percentage of WFOEs again increased, to 67.5% of the responding companies.
- We see a strong decrease in the amount of Joint Ventures, suggesting a move away from ownership structures with part Chinese ownership. This could be explained by several industries opening-up to foreign ownership.
- On average the companies operated 12.8 years in China, an increase of 0.7 years compared to last year.

Company Size by Revenue

Size by Revenue (RMB)



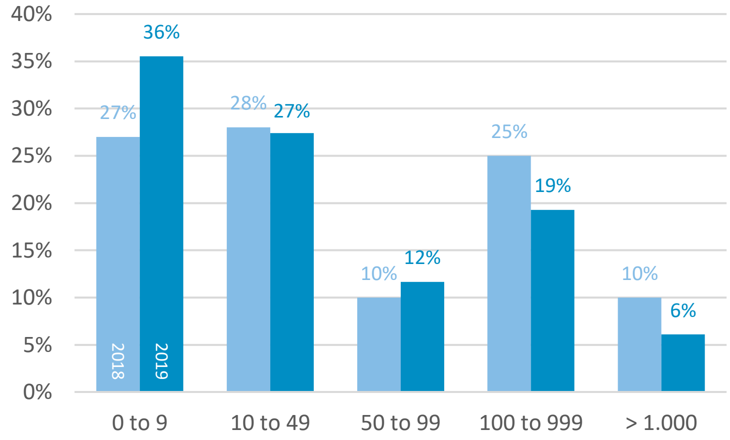
Size by Revenue (RMB) per Country



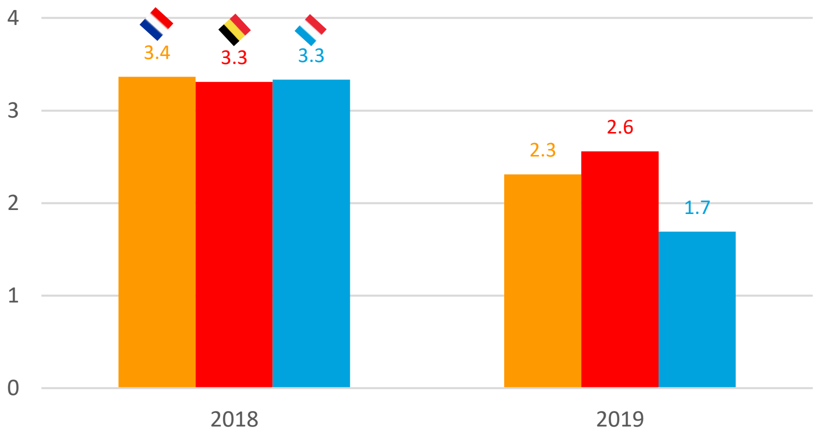
- In line with last year, 56% of the respondents are SMEs in China based on revenues.
- Overall more respondents this year are smaller companies, with a 6% decrease in the category of revenue above RMB 500 mio and a 3% increase in start-ups.
- Especially Belgian companies fall into the category of up to RMB 10 mio with 41% of respondents compared to 38% last year.

Company Size by Employees

Size by Employees in China



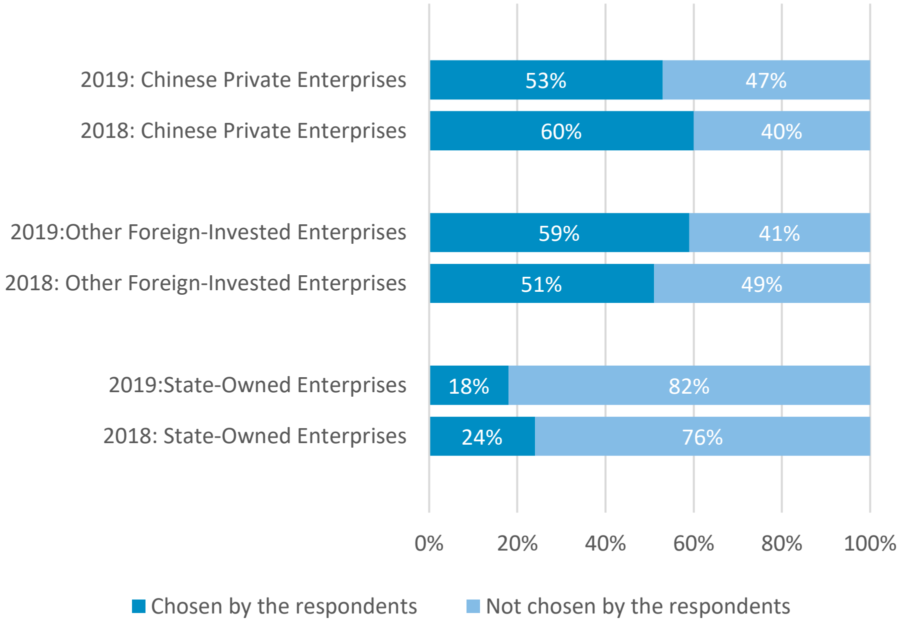
Average No. Expats per Company



- This year's respondents are **smaller companies**, with the category of companies with **0 to 9 employees increasing by 9%**, whereas the category over 1.000 employees decreased by 4% and the 100 to 999 employees category by 6%.
- 63% of respondents have up to 49 employees.
- We see a continued **decrease of expats**, with the average number per company decreasing for all three of the Benelux countries.
  - Part of this shift can be explained by the shift to smaller companies in the sample.

Major Competitors

Major Competitors in the Chinese Market

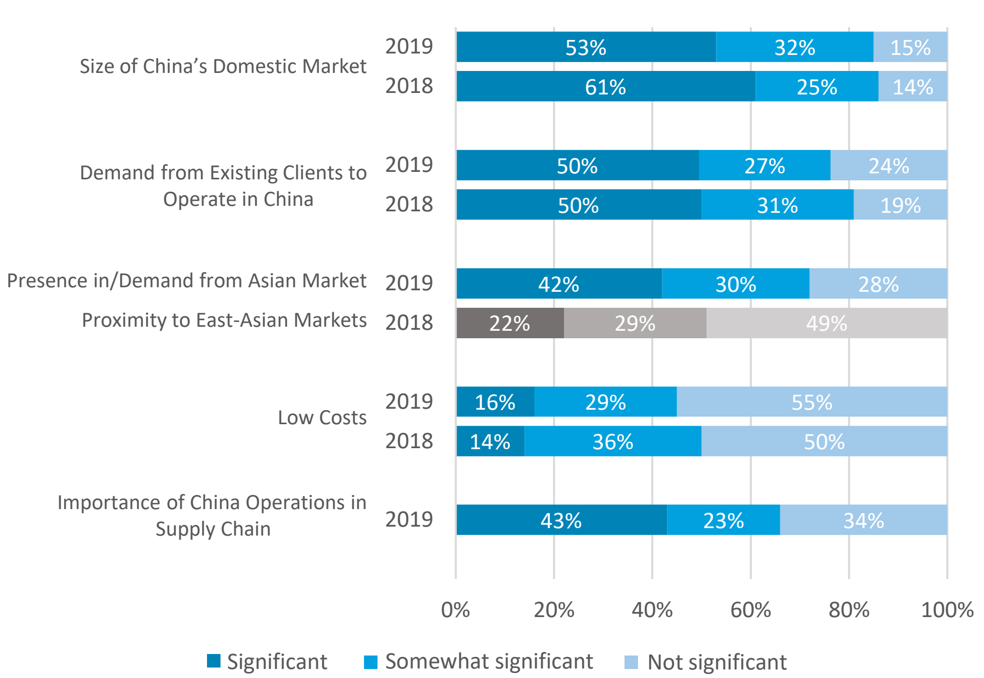


- In line with previous surveys, Chinese Private- and Foreign-Invested Enterprises remain the most important competitors for Benelux business in China.
- This year the percentage of respondents that indicated that Other Foreign-Invested Enterprises are major competitors increased and the percentage that said Chinese Private Enterprises are major competitors decreased, where last year the reverse was true.
- Other Foreign-Invested Enterprises are the most important competitors in the Industrial Services and Goods, Financials and Real Estate sectors.
- Chinese Private Enterprises are the major competitors in the Consumer Goods, Materials, Health Care and Energy sectors.

Note: respondents can choose more than one type of competitor

Reasons for being active in China

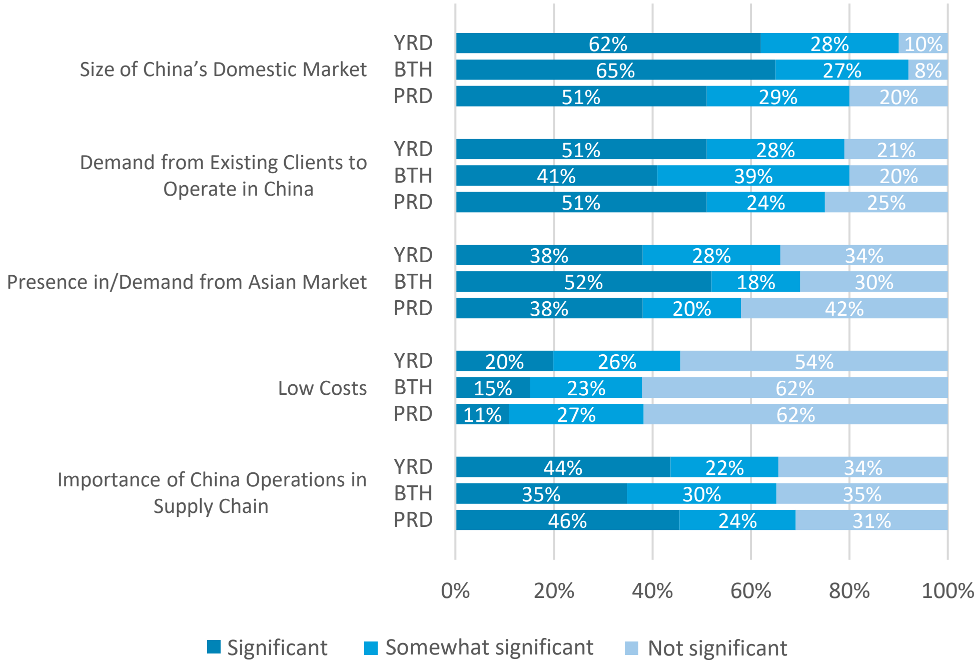
Strategic Motivations for being active in China



- The main motivation for being active in China remains the Size of the Domestic Market (53%), followed closely again by Demand from Existing Clients to operate in China (50%).
- Presence in/Demand from the Asian Market as a whole appears to be a more important driver than Proximity to East-Asian Markets.
- Low Costs continues to be the least relevant motivation, with 55% of respondents saying it is not a significant motivation for being active in China.
  - When looking at industries, only for businesses in the Industrial Goods sector it is truly relevant with 92.5% saying it is at least somewhat significant.
- The newly added driver Importance of China Operations in Supply Chain is at least somewhat significant for 66% of respondents.

Reasons for being active in China

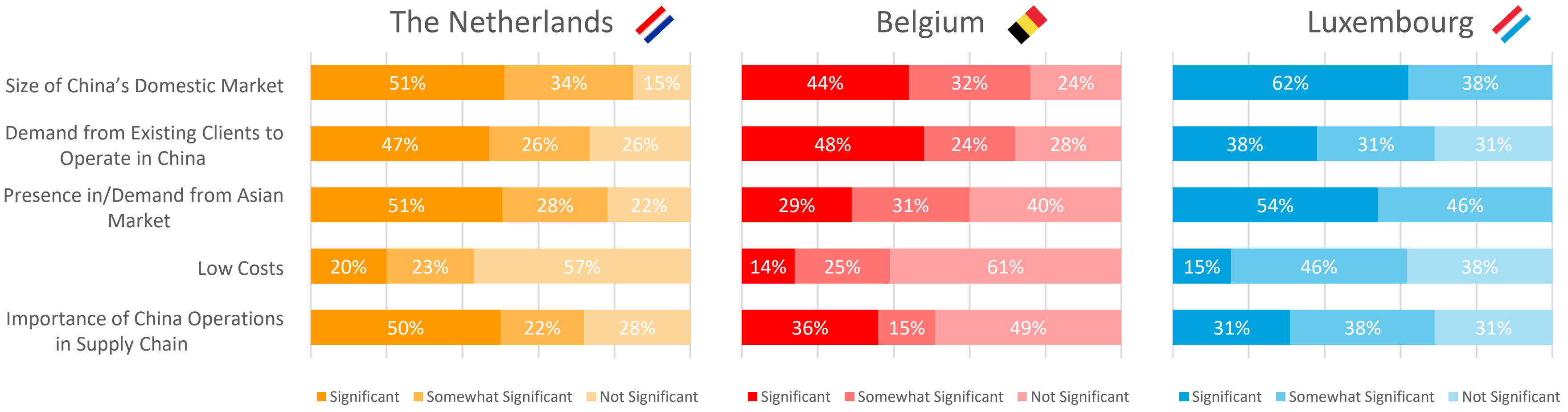
Strategic Motivations for being active in China – by Region



- The **Size of China's Domestic Market** is even more important in the Beijing-Tianjin-Hebei region and the Yangtze-River-Delta, but surprisingly **not in the Pearl River Delta.**
- **Presence in/Demand From Asia Market** is an important factor across all the three regions, but particularly in the Beijing-Tianjin Hebei region.
- **Low Costs** is for all regions the least important motivation, with it being **not significant for 62%** of the respondents in the Beijing-Tianjin-Hebei region and the Pearl River Delta, whereas the latter is known as "the Factory of the World".
- **Importance of China Operations in Supply Chain** is important across all the regions with over 65% of respondents answering it is at least somewhat significant across all the three regions.

Reasons for being active in China

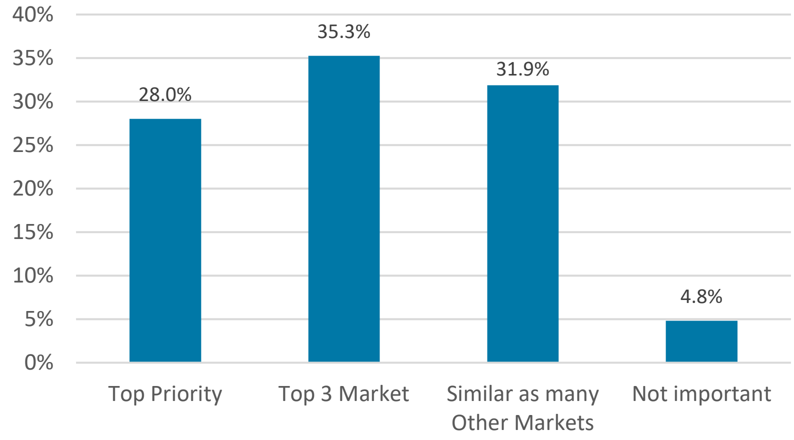
Strategic Motivations for being active in China – by Country



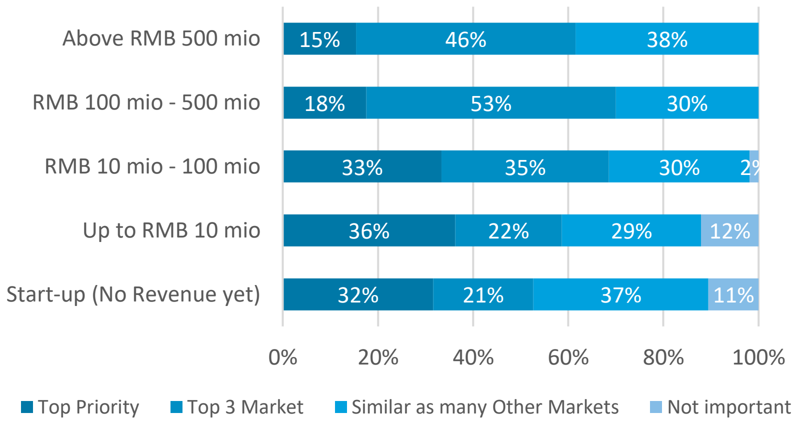
- Contrary to other years, where the ranking of the motivations was the same between all the three countries, this year we see some differences in the importance of the motivations.
- In previous surveys and in general, the Size of China's Domestic Market is the most important motivation for businesses to operate in China, but for Belgian companies, Demand from Existing Clients is the most significant driving factor.

Importance in Group Strategy

Importance in Global Strategy



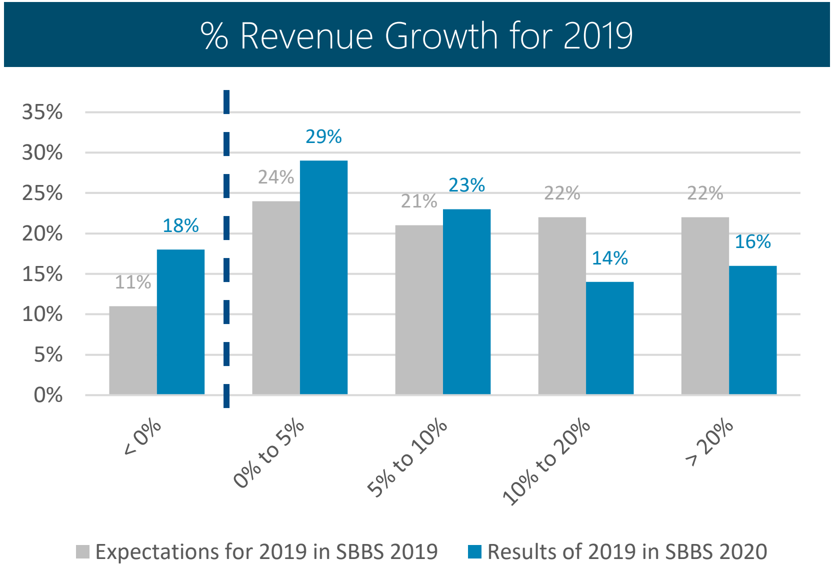
Importance in Global Strategy – by Revenue Size

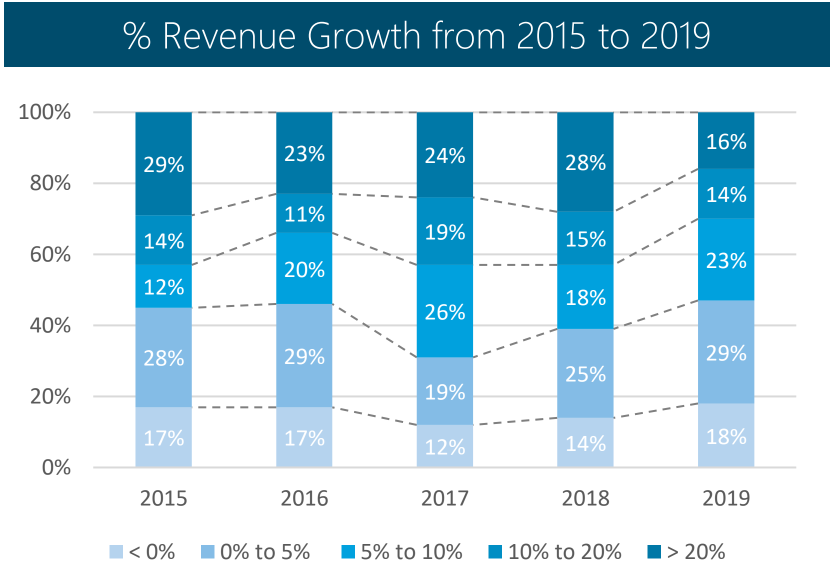


- For **63.3% of the respondents** the Chinese subsidiary is a **Top 3 market in the global strategy.**
- For the larger companies, China is a location of great importance (the majority indicates that China is a Top 3 market), however, larger companies do not as often report it as the single number 1 market.
- For some of the start-ups and SMEs China is not important in the global strategy.

Business Performance

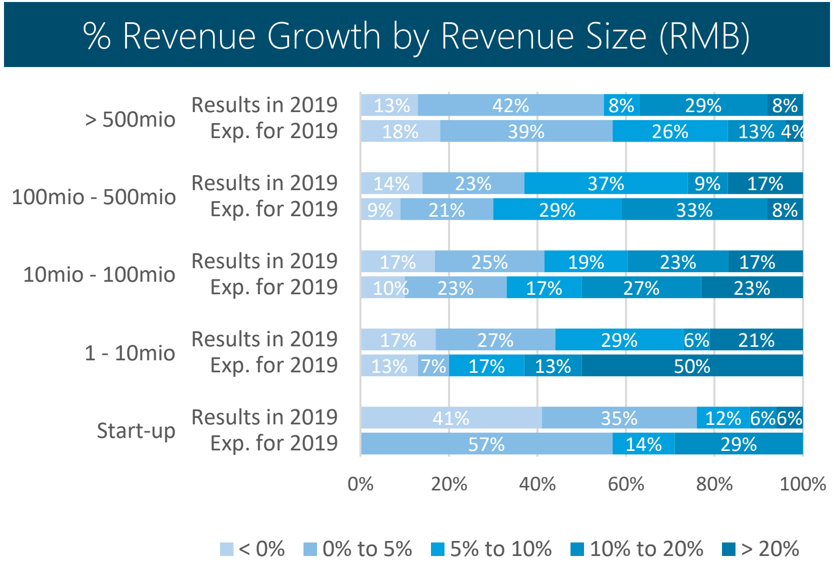
Revenue Growth

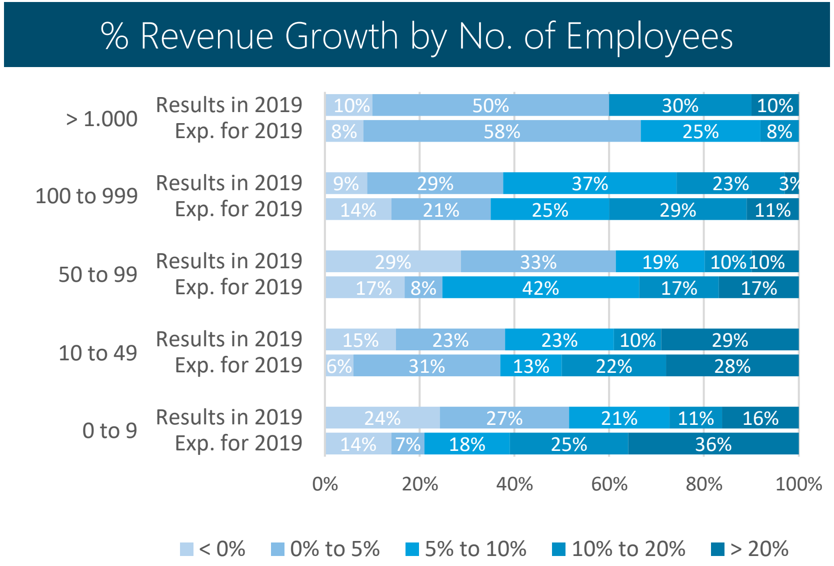




- In 2019, the respondents performed significantly worse on average as was expected.
  - We observe **a significant decline in performance of Benelux companies for the third consecutive year**, where in 2019 only 53% of businesses achieved revenue growth greater than 5% (60% in 2018 and 69% in 2017).
- Despite a continuing trend since 2017, still **82%** of respondents achieved **revenue growth** in 2019.

Revenue Growth – by Size

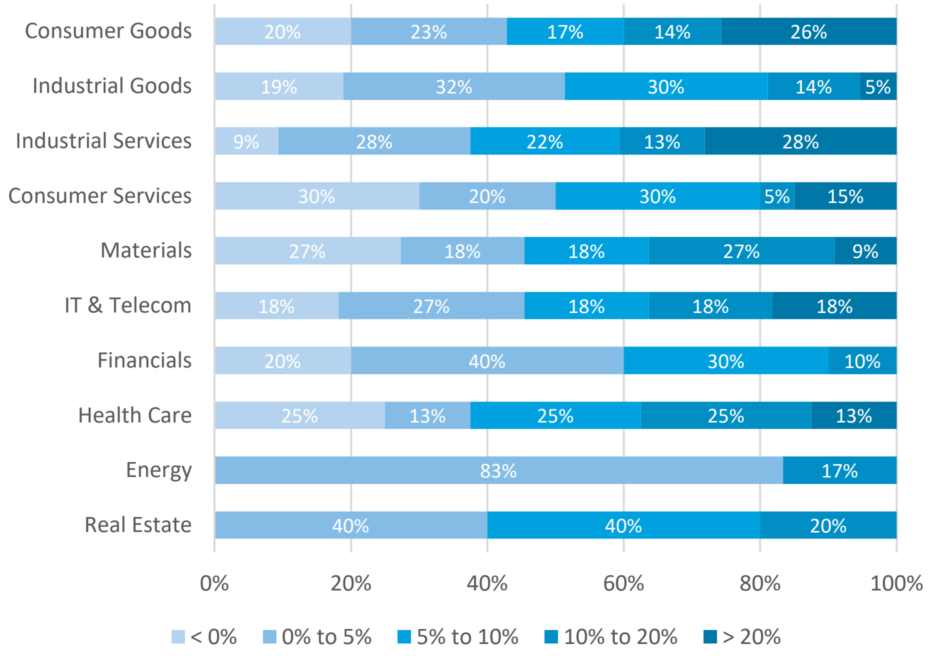




- Although companies across the board seem to have fallen short of their expectations, we observe that particularly **Start-ups and SMEs have performed below expectations** from last years survey.
  - Whereas all Start-ups were expecting revenue growth, only 59% have met these expectations.
  - Only large multinationals appear to have exceeded their expectations in 2019.

Revenue Growth – per Sector

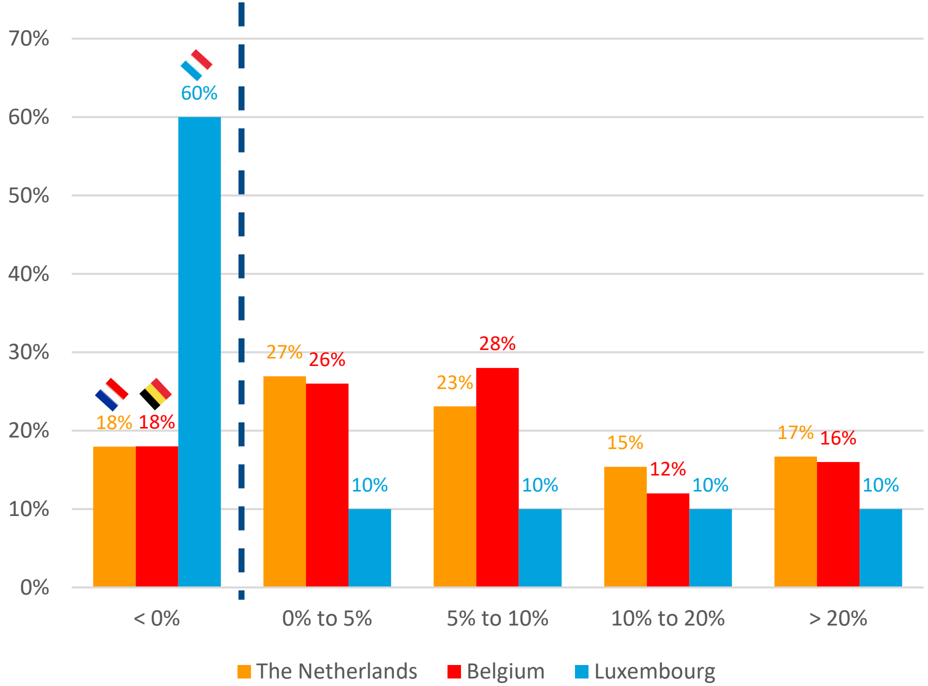
% Revenue Growth per Sector



- Respondents from the Industrial Services sector show the strongest revenue growth, with over 90% having increasing revenue and 28% indicating revenue growth greater than 20%.
- Also the Consumer- and Industrial Goods sectors perform comparatively well, with approximately 80% reporting revenue growth.
  - However, the percentage of business in these sectors reporting revenue growth greater than 20% dropped from 45% to 26% for Consumer Goods and 23% to 5% for Industrial Goods respectively.
- Furthermore, it is noteworthy that 1/3 of respondents from the Consumer Services sector experienced a decrease in revenue in 2019.

Revenue Growth – by Country

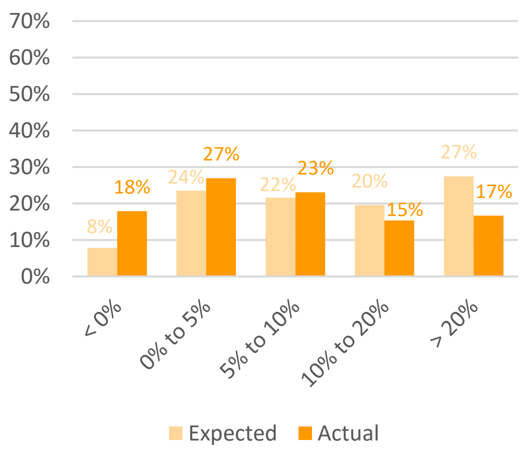
% Revenue Growth by Country



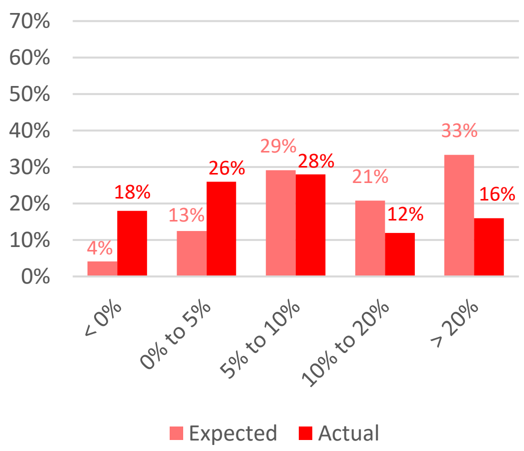
- Whereas in 2018 respondents from Belgium outperformed both their peers from The Netherlands and Luxembourg, this is no longer fully the case in 2019:
  - Belgium: 82% revenue growth (96% in 2018); and 56% revenue growth >5% (81% in 2018).
  - The Netherlands: 82% revenue growth (80% in 2018); and 55% revenue growth >5% (53% in 2018).
  - Luxembourg: 40% revenue growth (92% in 2018); and 30% revenue growth >5% (67% in 2018).
- According to the European Chamber Business Confidence Survey 2020, 59% of European businesses in China report revenue growth >5%, whereas 53% of Benelux businesses report similar growth.
- Only 35% of German business achieved revenue growth greater than 5%.

Expected vs Actual Revenue Growth

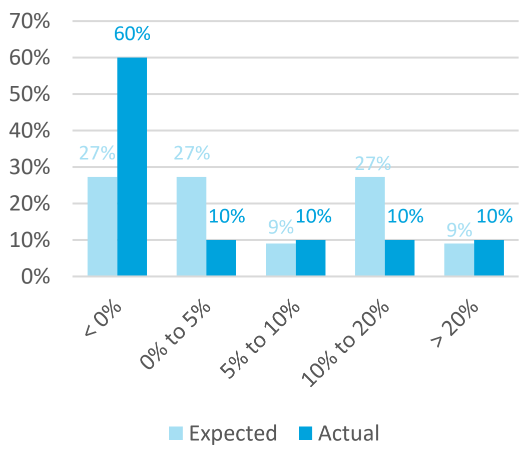
The Netherlands



Belgium



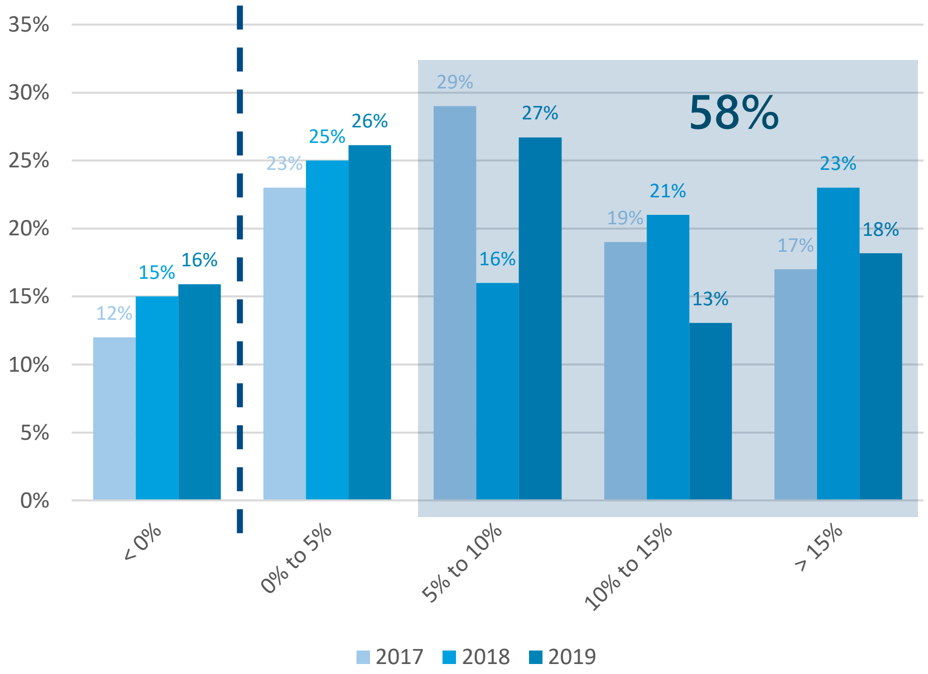
Luxembourg



- Companies from all 3 countries have performed below expectations:
  - Belgium and Dutch companies appear to be relatively evenly spread across actual revenue growth, although companies both countries have clearly performed below expectations.
  - For Luxembourg we observe that a large percentage of respondents (60%) saw a decline in revenue.

Profit Margin

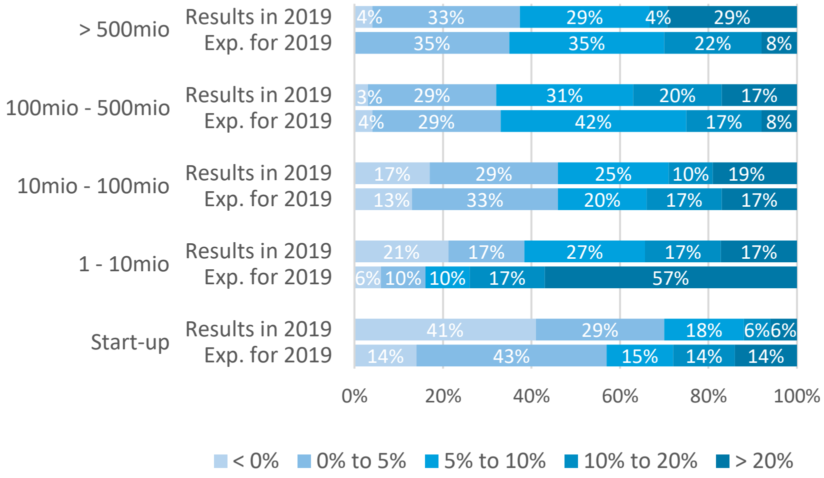
Profit as a % of Revenue



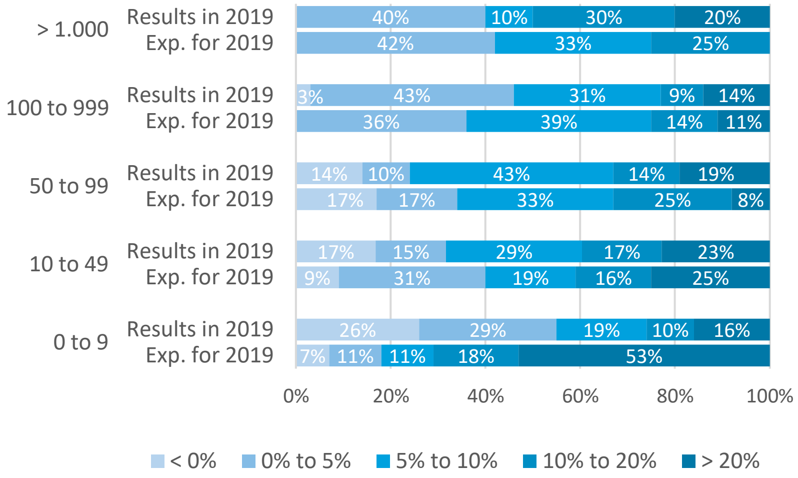
- Although we observe a negative trend for the past 3 years, still 58% of respondents achieved a profit margin of over 5%.
  - This is a decrease from 60% in 2018 and 65% in 2017.
- There is a moderate increase of companies that are at a loss compared to 2018.
- The most notable shift is from upper categories to the 5%-10% category, meaning fewer companies are achieving extraordinary results.
- Whereas we observe a negative trend in revenue growth for the past 3 years, the number of Benelux companies making profit appears to be relatively stable.

Profit Margin – by Size

Profit as % of Revenue by Size (Revenue in RMB)



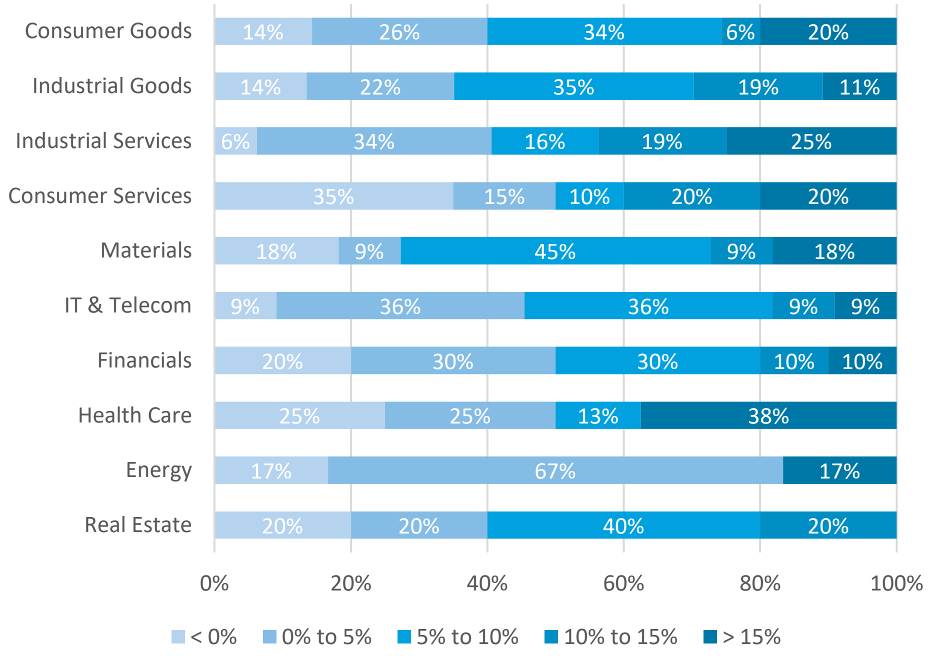
Profit as % of Revenue by Size (No. of Employees)



- Similar as to the revenue growth, again **Start-ups and SMEs have performed considerably lower than expected**.
- On the other hand, medium-sized companies and large companies are less faced by economic downturn.
  - Some of the companies from the medium-sized and large enterprise categories actually exceeded expectations.

Profit Margin – per Sector

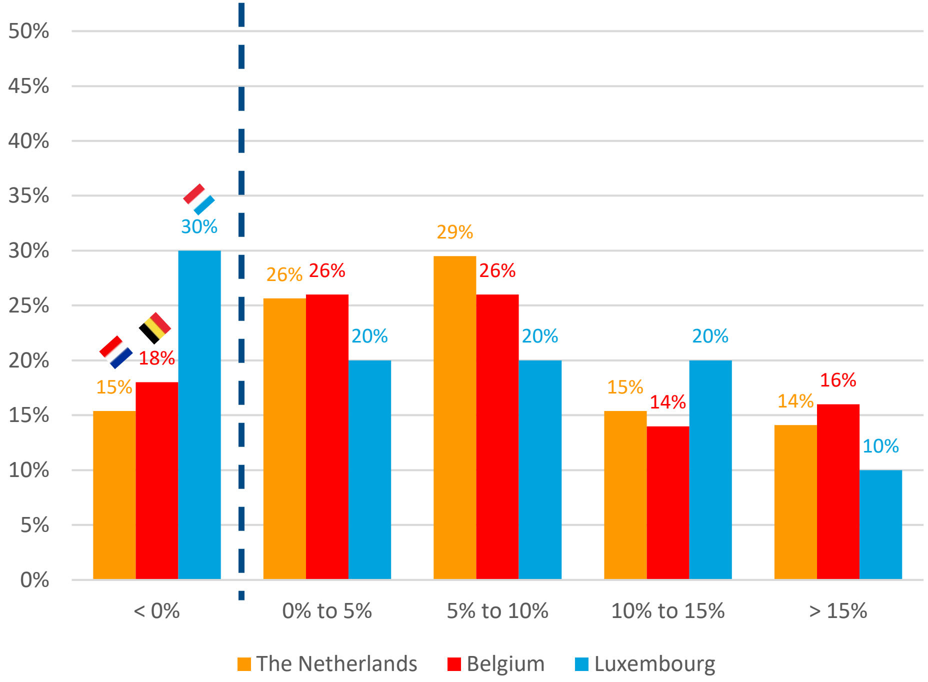
Profit as a % of Revenue per Sector



- The Industrial Services sector demonstrated resilience, where most sectors saw their profit margins dwindle for 2019, **94% of companies from the Industrial Services sector reported profit** (88% in 2018) and same as the past year 60% retain profit margins >5%.
  - More respondents from the Industrial Services made a profit (94%) compared to their expectations (87%).
- Interestingly, also the **Materials sector beat their expectations** with 73% achieved profit margins >5% (whereas 55% were expecting this result).
- Last year, all respondents in the Industrial Goods, Consumer Services, Financials, Health Care, Energy, Real Estate and Utilities were expecting to make profit, however none except for the latter achieved this.

Profit Margin – by Country

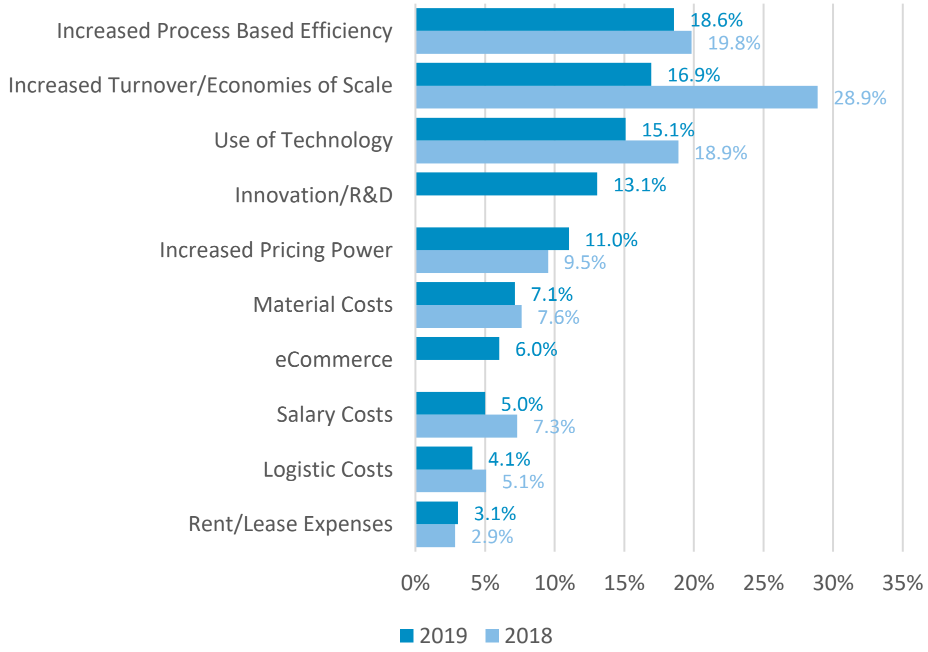
Profit as a % of Revenue by Country



- Similarly as last year, Belgian and Dutch companies perform almost equally well in terms of profit margin, whereas their Luxembourgish counterparts saw a modest decline in margins:
  - Belgium: 82% are profitable (88% in 2018); and 56% achieve profit margin >5% (69% in 2018).
  - The Netherlands: 85% are profitable (83% in 2018); and 59% achieve profit margin >5% (64% in 2018).
  - Luxembourg: 70% are profitable (83% in 2018); and 50% achieve profit margin >5% (34% in 2018).
- Compared to last year, the profit margins of Benelux companies appear to have become more evenly dispersed across the relevant categories.

Positive Drivers

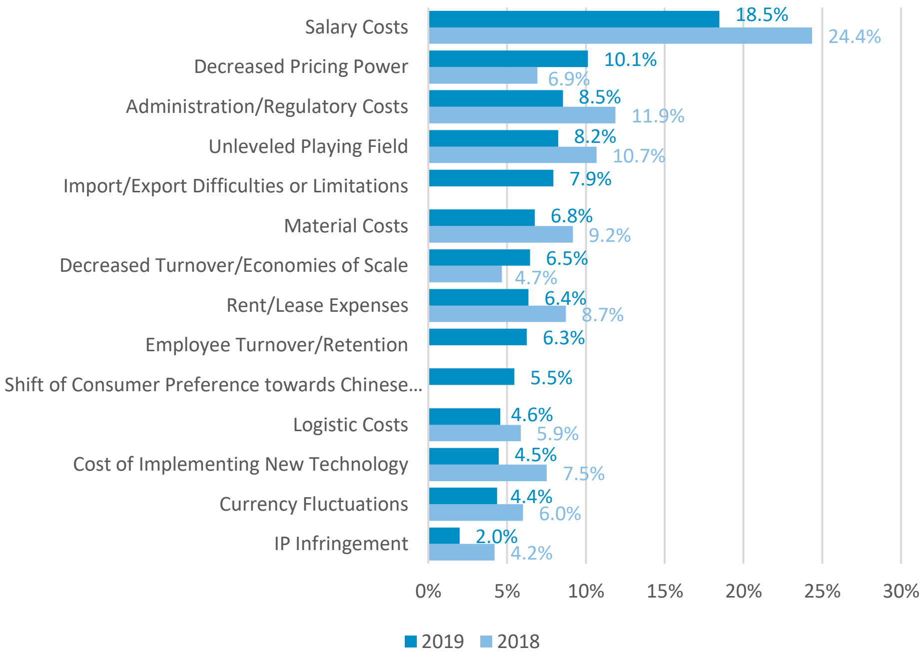
Most Significant Positive Drivers



- In line with the past years, **the top 3 positive drivers are**:
  - Increased Process Based Efficiency,
  - Increased Turnover/Economies of Scale and
  - Use of Technology.
  - However, a significant decrease can be observed for the category Increased Turnover/Economies of Scale from 28.9% to 16.9%.
- The newly surveyed driver Innovation/R&D shows to be a significant driver with 13.1% of the respondents indicating it positively drives performance.

Negative Drivers

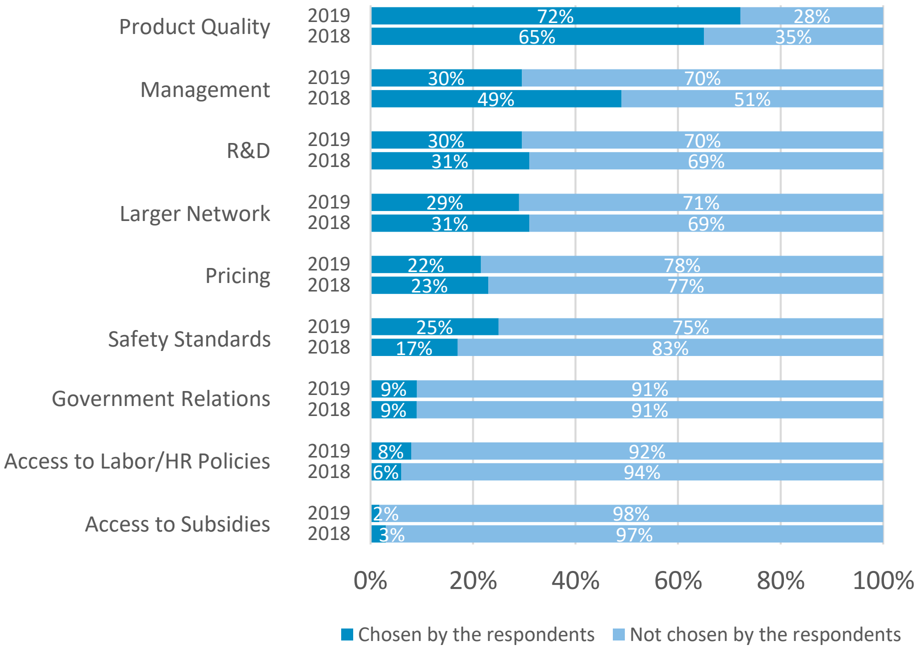
Most Significant Negative Drivers



- **Increasing Salary Costs** remains for the third consecutive year the **most significant negative driver** for Benelux companies in China.
  - Although we observe a reverse trend, where its significance has decreased to 18% (same as in 2017).
- The negative drivers to increase in importance YoY are Decreased Pricing Power (up to 10.1%, from 6.9%) and Decreased Turnover/Economies of Scale (up to 6.5%, from 4.7%).
- The newly surveyed drivers appear to absolve some of the decline in other categories, with these coming in at:
  - Import/Export Difficulties or Limitations at 7.9%.
  - Employee Turnover/Retention at 6.3%.
  - Shift of Consumer Preferences towards Chinese Brands at 5.5%.

Competitive Advantage

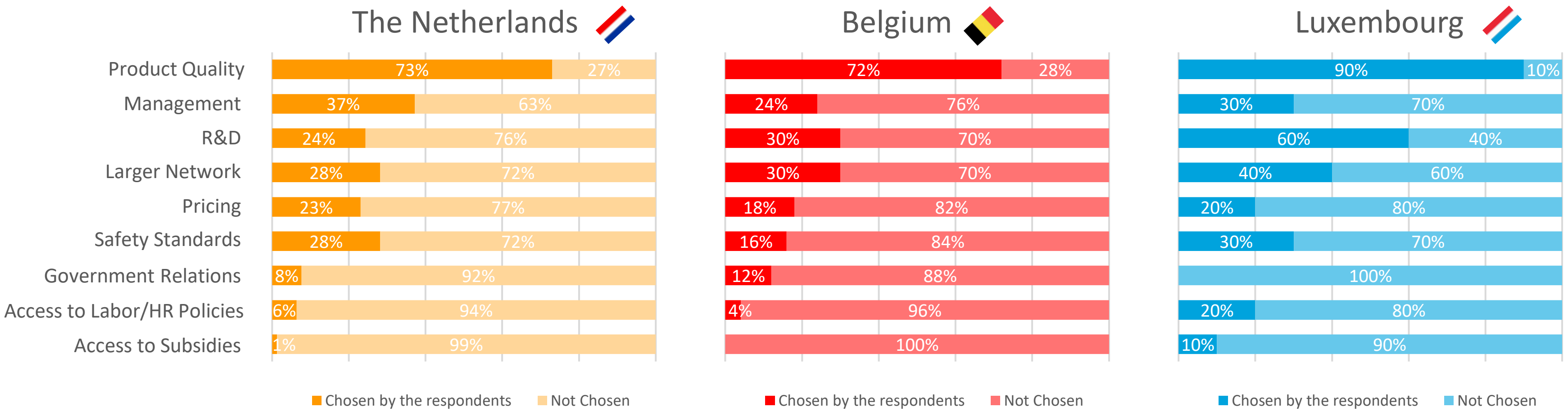
What makes you Competitive in the Chinese Market



- For the past three years, **Product Quality** remains the strongest competitive advantage of Benelux businesses in China.
- This year, **Management** ties with **R&D** for the 2nd most important competitive advantage for Benelux.
  - Although Management as a competitive advantage sees a serious decline, from 49% in 2018 to 30% in 2019.
- We observe a reverse trend for Safety Standards, which importance decreased from 26% in 2017 to 17% in 2018, but increases again in importance for 2019 to 25%.
- Access to Subsidies and Labor/HR Policies remain of negligible importance for Benelux companies for the past three years.

Competitive Advantage – by Country

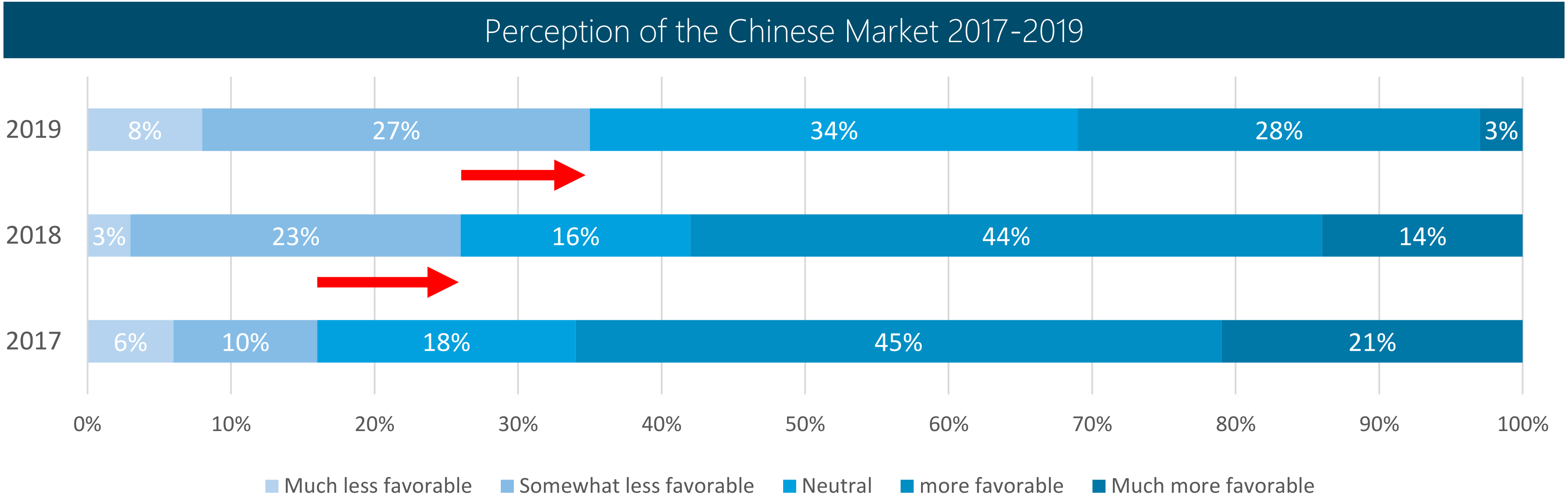
What makes you Competitive in the Chinese Market – by Country



- In departure from last year, Product Quality is also the most important competitive advantage for each individual country.
  - Whereas last year Product Quality, Safety Standards and Management tied for first place for Luxembourgish companies, in 2019 Product Quality is important for almost all (90%) of Luxembourgish companies and R&D a clear 2nd at 60%.
- R&D is more important for Belgian (30%) and Luxembourgish (60%) companies than their Dutch counterparts (24%).

Business Sentiment

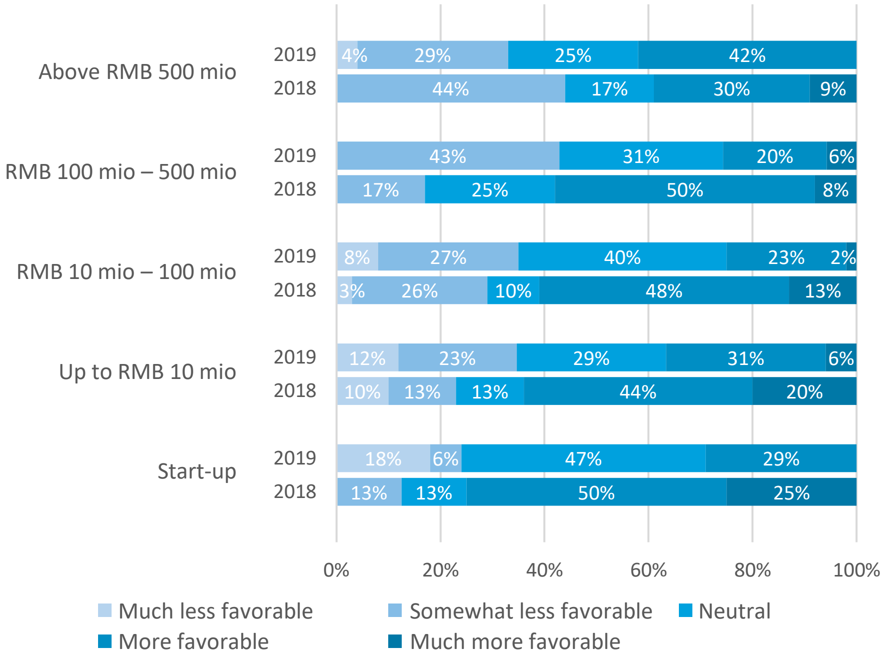
Perception of the Chinese Market



- The responses mainly shifted to neutral, but pessimistic responses also increased from 26% to 35%.
- **Only 31% of the respondents** viewed the Chinese market **more favorable** in 2019 compared to 58% in 2018.
- On an industry level we see the same spread, with fewer respondents viewing the market as much more/less favorable.

Perception of the Chinese Market – by Size

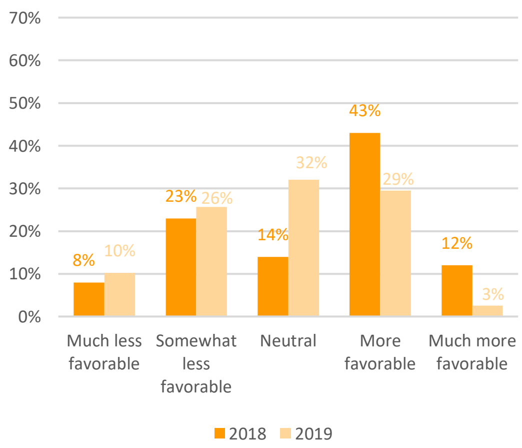
Perception of the Chinese Market – by Size



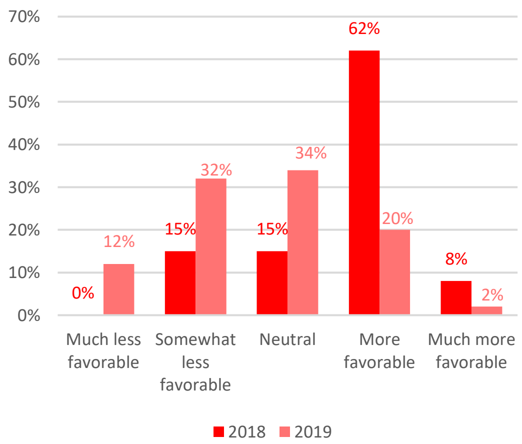
- Across the board we see a strong shift to a more negative perception of the Chinese market.
- in 2018, 75% of Start-ups viewed the Chinese Market more or much more favorable, which decreased to only 29% this year.
- Only companies with revenue above RMB 500 mio view the Chinese market more positively overall, which is represented by fewer respondents having a less favorable perception.
    - Even though 4% of Companies with revenue above RMB 500 mio view the market as much less favorable, compared to none last year.

Perception of the Chinese Market – by Country

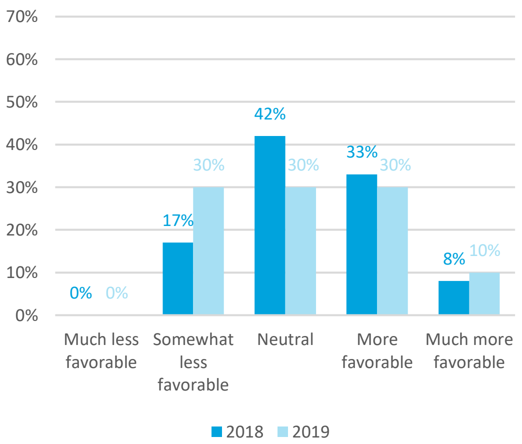
The Netherlands



Belgium



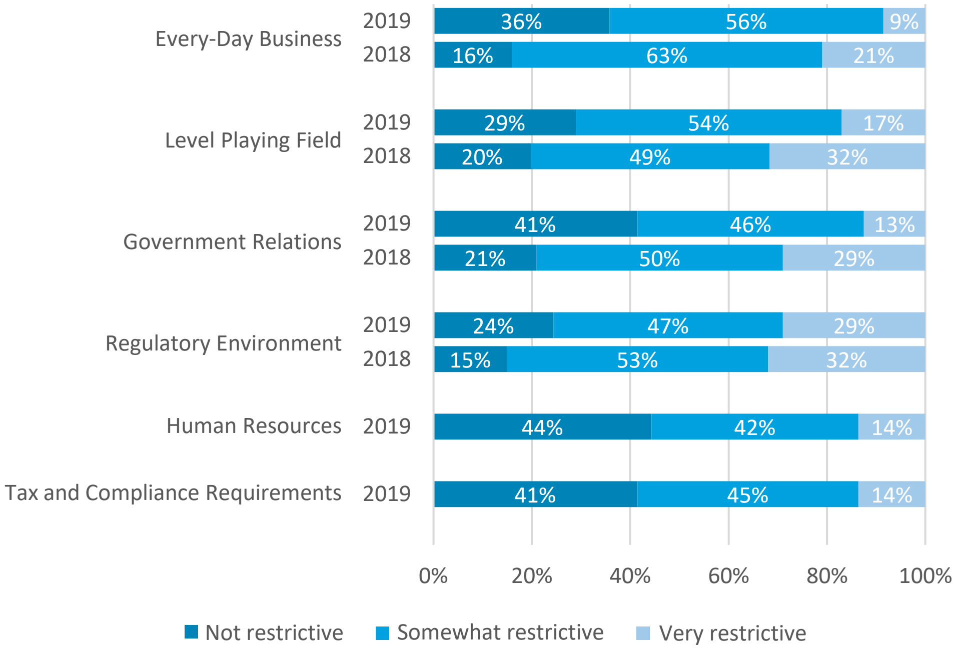
Luxembourg



- Especially Belgian companies see the market less favorable compared to last year. The percentage of companies viewing the Chinese market as at least more favorable decreased from 70% to only 22%.
- Luxembourg companies are slightly less favorable, but the respondents are mostly relatively neutral.
- The perception of Dutch companies shifted from more favorable to mostly neutral.

Restrictiveness of the Business Environment

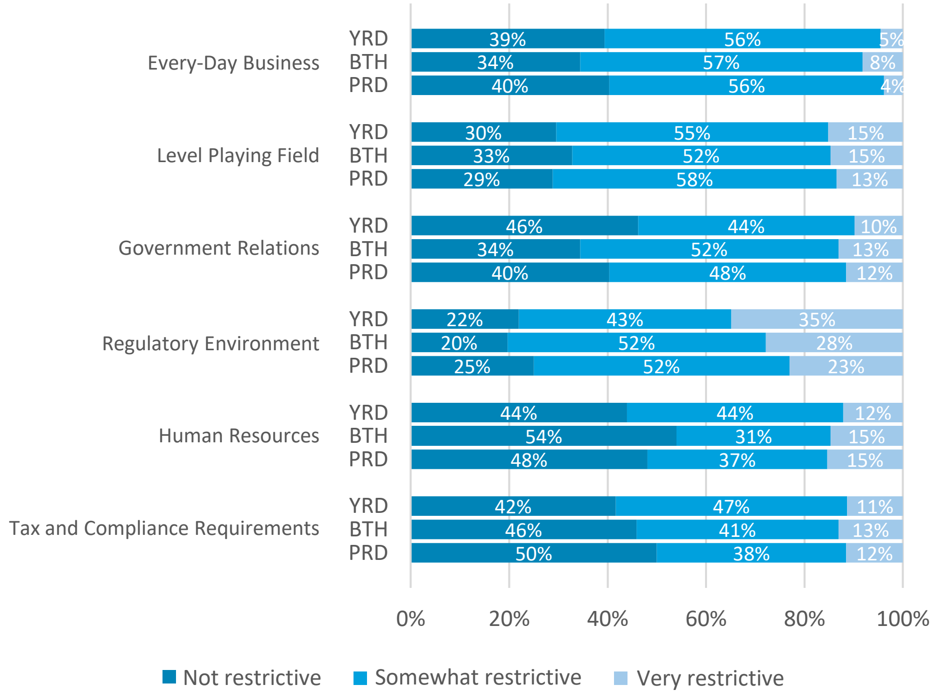
Perception of Restrictiveness of the Business Environment 2018-2019



- All four categories that were included in last year's survey are perceived as less restrictive, despite the more negative perception of the market in general.
  - In particular, the percentage of respondents perceiving Every-Day Business and Government Relations as not restrictive increased by 20%.
- The category that is perceived as very restrictive by most respondents is still the Regulatory Environment.
- Apart from the Regulatory Environment, respondents active in the Materials industry don't perceive any of the other aspects as very restrictive.
- The two newly added categories, Human Resources and Tax and Compliance Requirements, show a similar picture, as they are mostly considered to be not restrictive.

Restrictiveness of the Business Environment

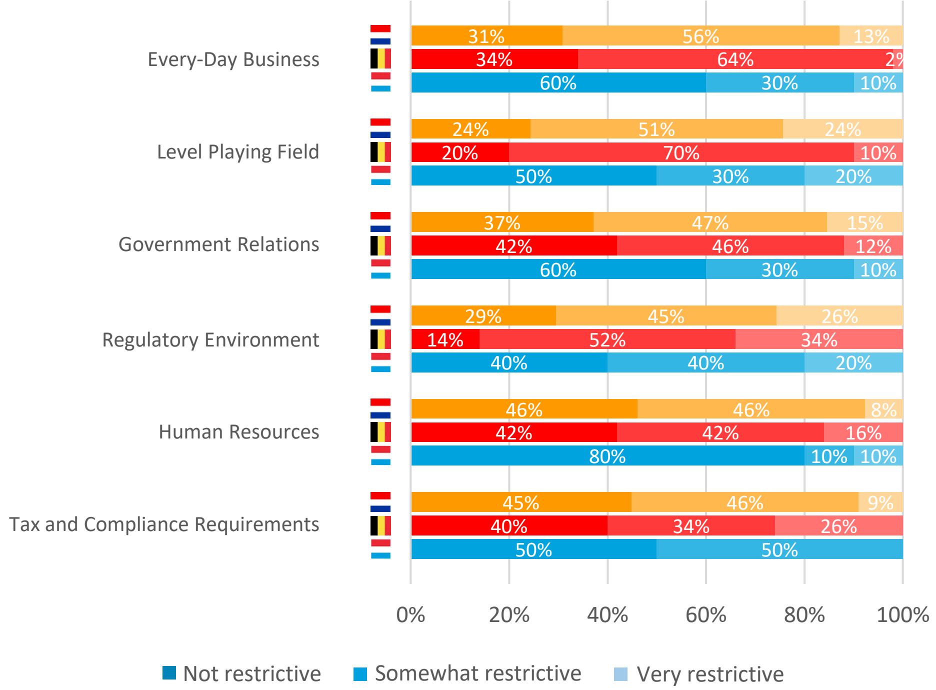
Perception of Restrictiveness of the Business Environment – by Region



- Generally, the differences between the regions are relatively small.
  - However, the perception on the **restrictiveness of the Regulatory Environment** differs with **35% of the respondents in the Yangtze River Delta** perceiving it as very restrictive, with "only" **28 % and 23% in respectively Beijing-Tianjin-Hebei and the Pearl River Delta.**
- It appears that **Government Relations are least restrictive** in the **Yangtze River Delta with 54%** of respondents perceiving it as **at least somewhat restrictive** and **most restrictive in Beijing-Tianjin-Hebei with 66% of respondents** perceiving it as **at least somewhat restrictive.**

Restrictiveness of the Business Environment

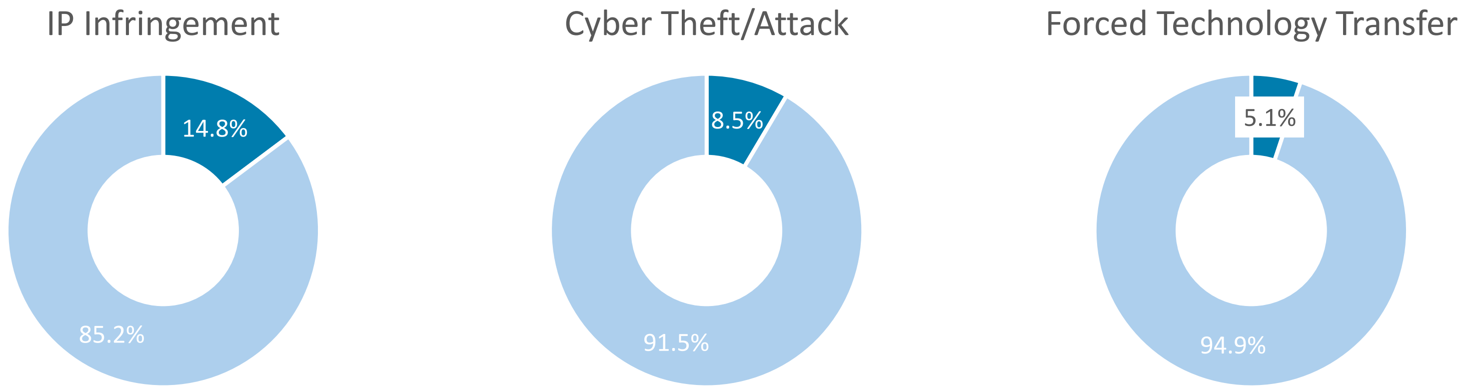
Perception of Restrictiveness of the Business Environment – by Country



- The differences between countries are bigger than among the different regions.
- Particularly **Belgian companies** view the restrictiveness of the different aspects more extremely, with **a much lower percentage** of companies view **Every-Day Business and Level Playing Field** as **very restrictive**, but a **significantly higher percentage** perceiving **Regulatory Environment and Tax and Compliance Requirements** as **very restrictive.**
- **Luxembourgish companies perceive all aspects** as **less restrictive** as they have the highest percentage of not restrictive answers for all categories.

IP Challenges

In 2019, have you experienced any of the following:

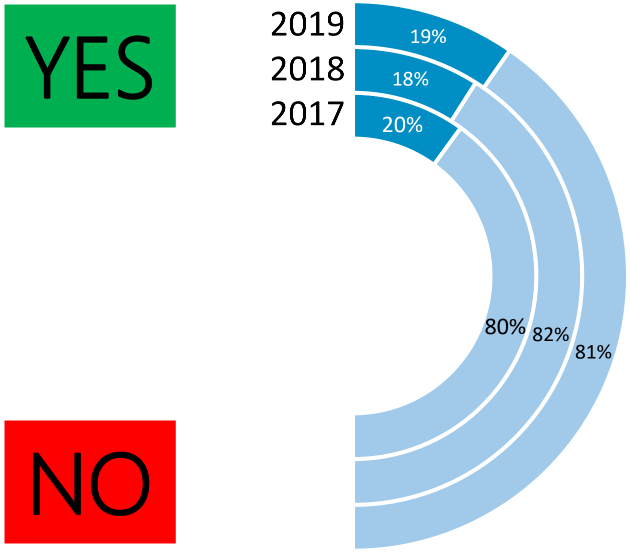


Note: Respondents were asked whether they experienced any of the above IP Challenges or None. If the respondent experienced any, they could select multiple of the IP challenges.

- **75% of the respondents** indicated that their company **had not experienced any of the above IP Challenges** over the past year.
- The most common IP Challenge is **IP Infringement**, with **14.8% of the respondents** experiencing it in 2019.
- 24% of the startups experienced Cyber Theft/Attacks, whereas this figure is only 4% for SMEs and 11-13% for large companies.

Belt & Road Initiative (BRI)

Did you encounter projects in the framework of the Belt & Road Initiative?



- In line with last year, only a **small proportion (19%)** of the respondents said that they encountered projects in the framework of the Belt & Road Initiative.
  - **26% of the respondents** that did encounter such projects are active in the **Industrial Services industry**.
  - The majority of companies that encountered projects have offices in Beijing, Guangdong and Shanghai.
  - There is no clear relation between the size or nationality of the companies and whether they encountered projects in the framework of the BRI.
  - Respondents in the Health Care and Energy industries did not encounter any projects at all.

Belt & Road Initiative (BRI)

Specific Opportunities in the framework of the Belt & Road Initiative reported

- The companies that indicated that they encountered projects in the framework of the BRI (19%) reported opportunities related to logistics, advisory and directly related to government investments along the BRI.

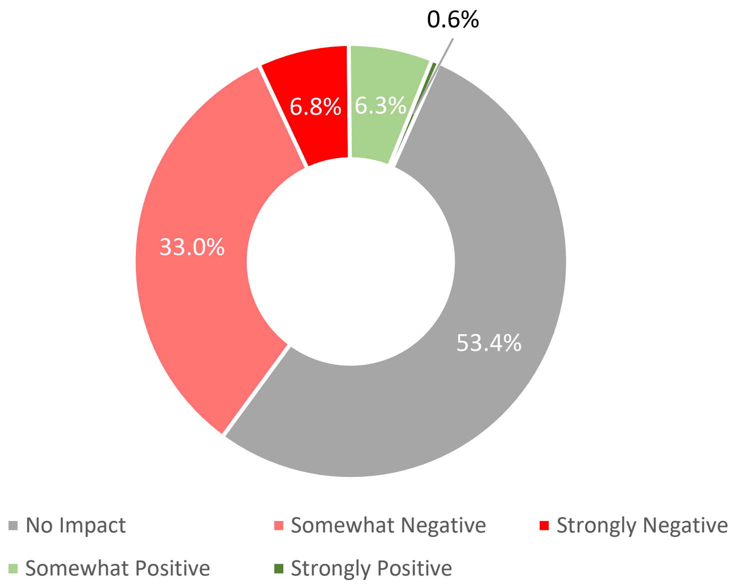
Logistics: More shipments between China and other countries along the BRI

Several respondents encountered investments and demand from both the government and companies.

Advisory: Opportunities in supporting companies with investments in- or drafting strategies for projects along the BRI.

China-US Trade War

How did the China-US Trade War impact your business?



- Almost 54% of the respondents reported that the China-US Trade War has had no impact on their business, where last year this was 63%.
- Almost 40% of respondents has been at least somewhat negatively impacted by the Trade War.
    - In particular, **19% of the respondents** active in the **Industrial Goods** industry said they have been **strongly negatively impacted.**
- Still almost **7% of the respondents were positively impacted.**
    - The majority of these respondents said that **the size of China's Domestic Market is a significant motivation** to be active in China and **Low Costs are not significant.**

China-US Trade War

Did the China-US Trade War impact your Business?

- The companies that were negatively impacted indicated that the main factors impacting them are the tariffs, the negative customer sentiment and lower demand

Demand, sourcing and trade are shifted to other markets (EU, Latin America) and competitors can't compete in China anymore or even decided to leave.

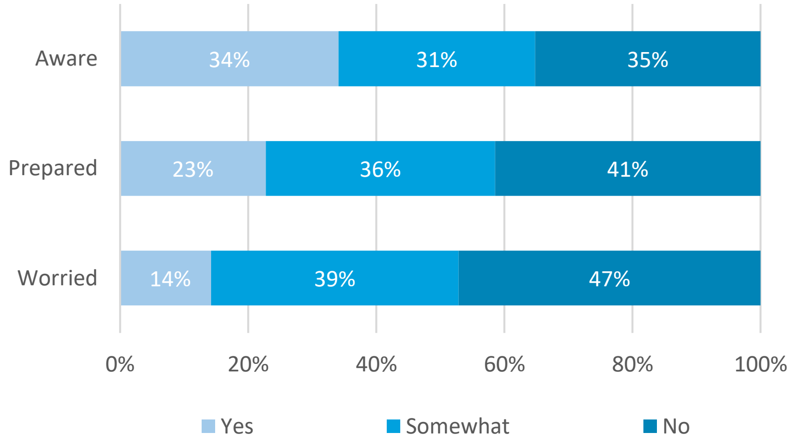
Customer Demand: Customers had less business and therefore there was less demand for products or even order cancellations.

Consumer sentiment: Several respondents said that the Trade War created a negative sentiment towards foreign products in China and for Chinese products in the US.

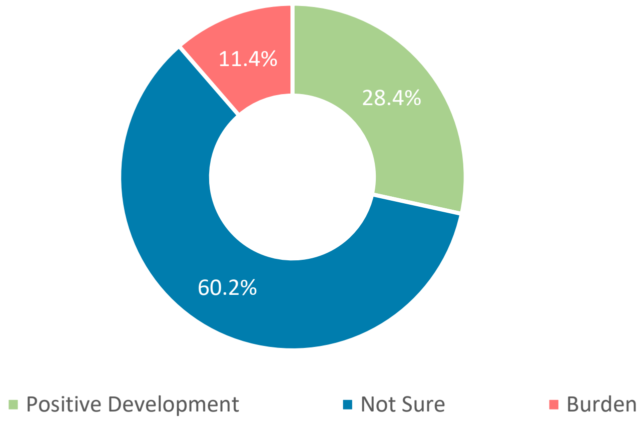
Tariffs and export duties: Companies are less competitive due to increased pricing as a result of tariffs or the face difficulties in exporting their goods.

China Corporate Social Credit System

Sentiment on the Implementation of the System



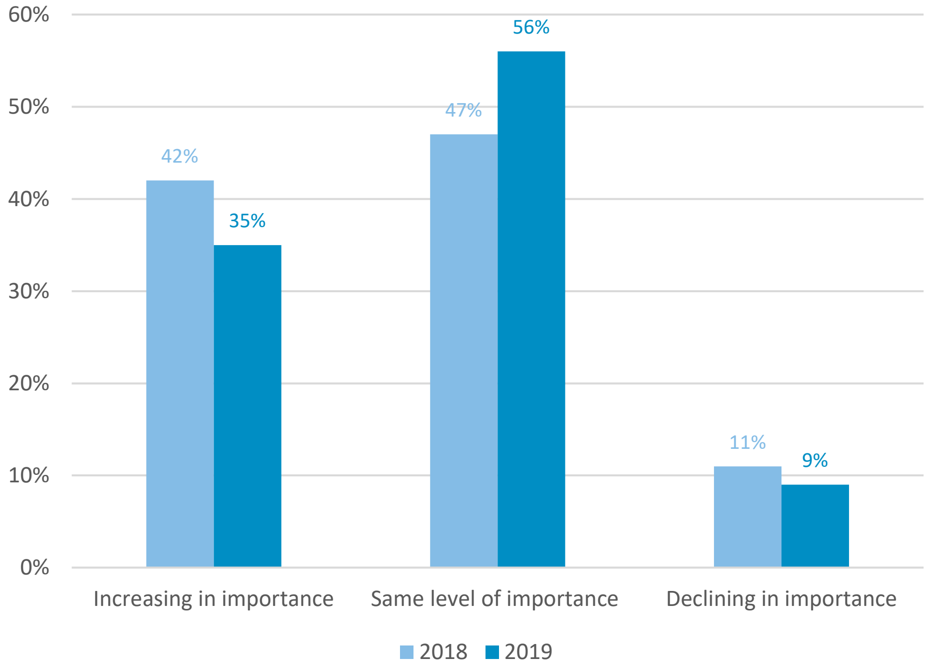
Perception of the System



- Between one third and a half of the respondents is not aware of their company's records in the system or prepared for the implementation of it. However, **almost half of the respondents** is **not worried** about the implementation.
- **The majority (60%)** of the respondents **did not form an opinion** on the system yet.
  - Of the respondents that did form an opinion, more than **two thirds view the implementation as positive development**.

Importance of China in Group Strategy

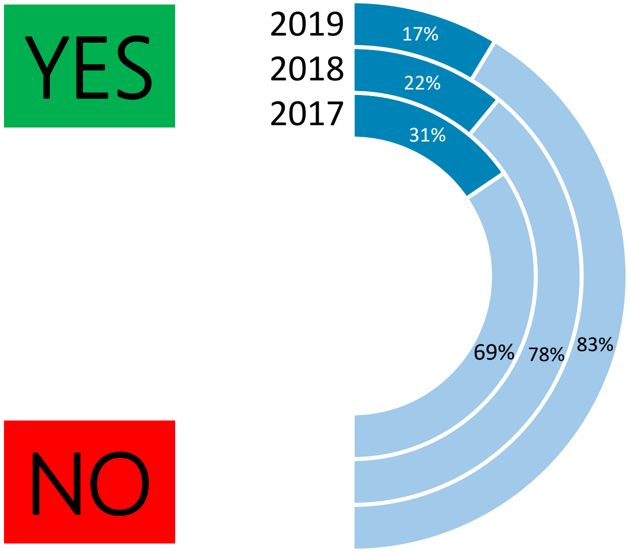
How important will China be in your group's strategy in the coming two years?



- Most respondents do not view the importance of China as declining, however, it is noteworthy that fewer respondents view China as increasingly important **effectively meaning an overall decrease in importance to invest in the Chinese market**.
  - Despite the above, most respondents remain committed at the same level of importance.
  - Companies active in the **Financials** industry are considering to **increase the importance** of the China operations (**70%**).
- Compared to last year a smaller percentage of companies is considering to increase the China operations in importance.
  - The **Size of China's Domestic Market** is a significant motivation for respondents to increasingly view their business in China as more important.

Leaving China?

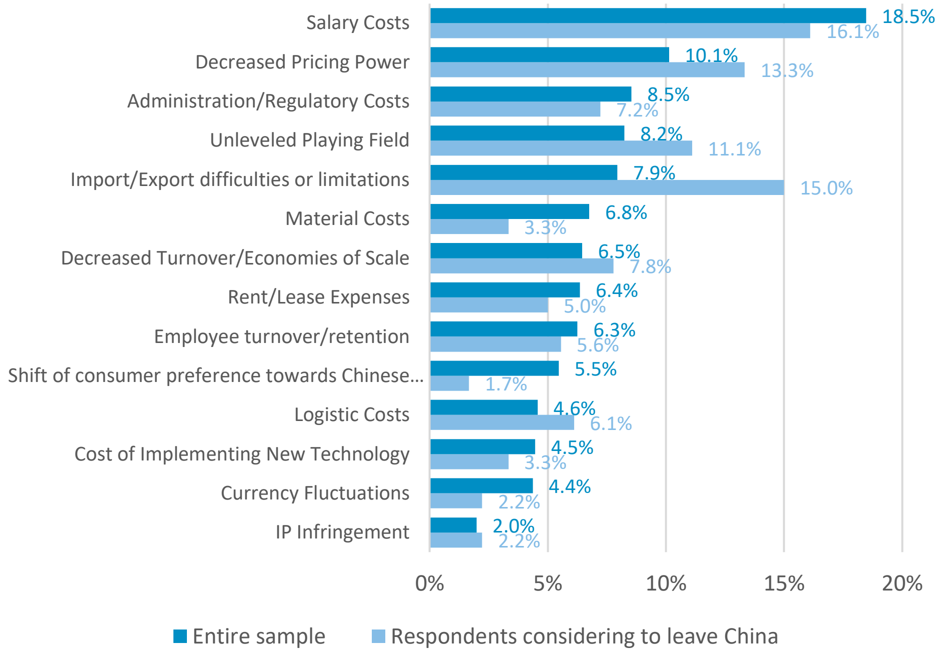
Would you consider to move some of your Chinese activities to other Asian countries/regions?



- This year the percentage of respondents considering to move some of the activities in Mainland China to other Asian countries/regions decreased by 5% to 17%.
- There doesn't appear to be a relationship between the revenue size of the companies and the considerations to move some of the operations away from Mainland China.
- Of the respondents active in **Industrial Services, 97%** said they are **not considering to leave Mainland China**.
- Interestingly, 50% of the companies that indicated to consider leaving Mainland China, said that the importance of the China operations in the global supply chain is a significant reason to operate in China.

Leaving China – Negative Drivers

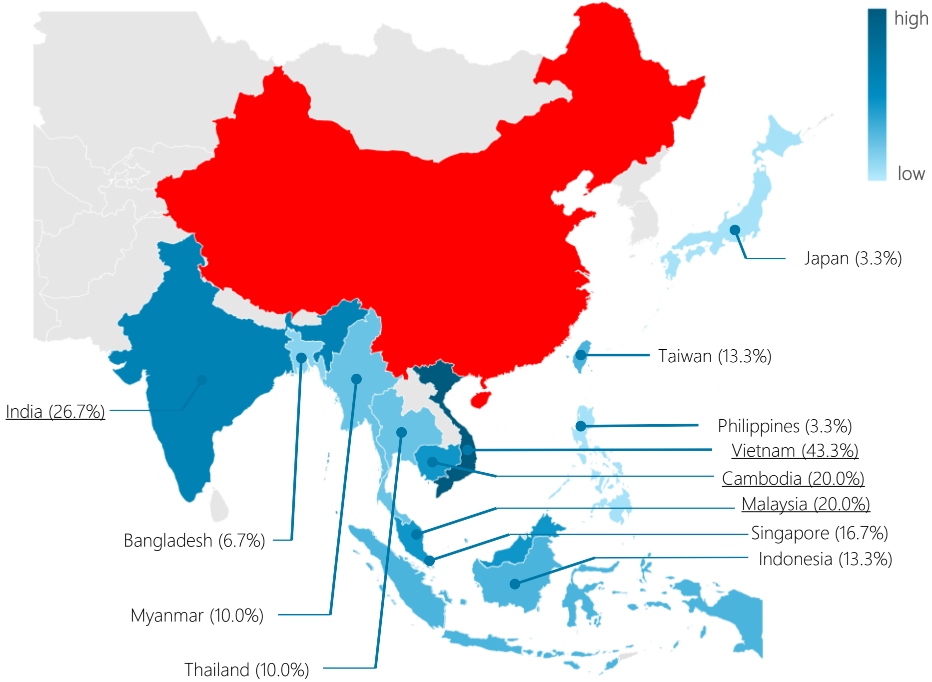
Most Significant Negative Drivers for Companies considering leaving Mainland China



- We compare the negative drivers for companies considering to leave China to the entire survey sample.
- Salary costs still remain the most significant negative driver, but for these companies Import/Export difficulties or limitations are the second most significant negative driver with 15% of the respondents indicating this.
- Also decreased pricing power and the unleveled playing field are more significant for the companies considering to leave Mainland China.
- Material costs and the shift of consumer preference towards Chinese brands are much less significant for these companies.

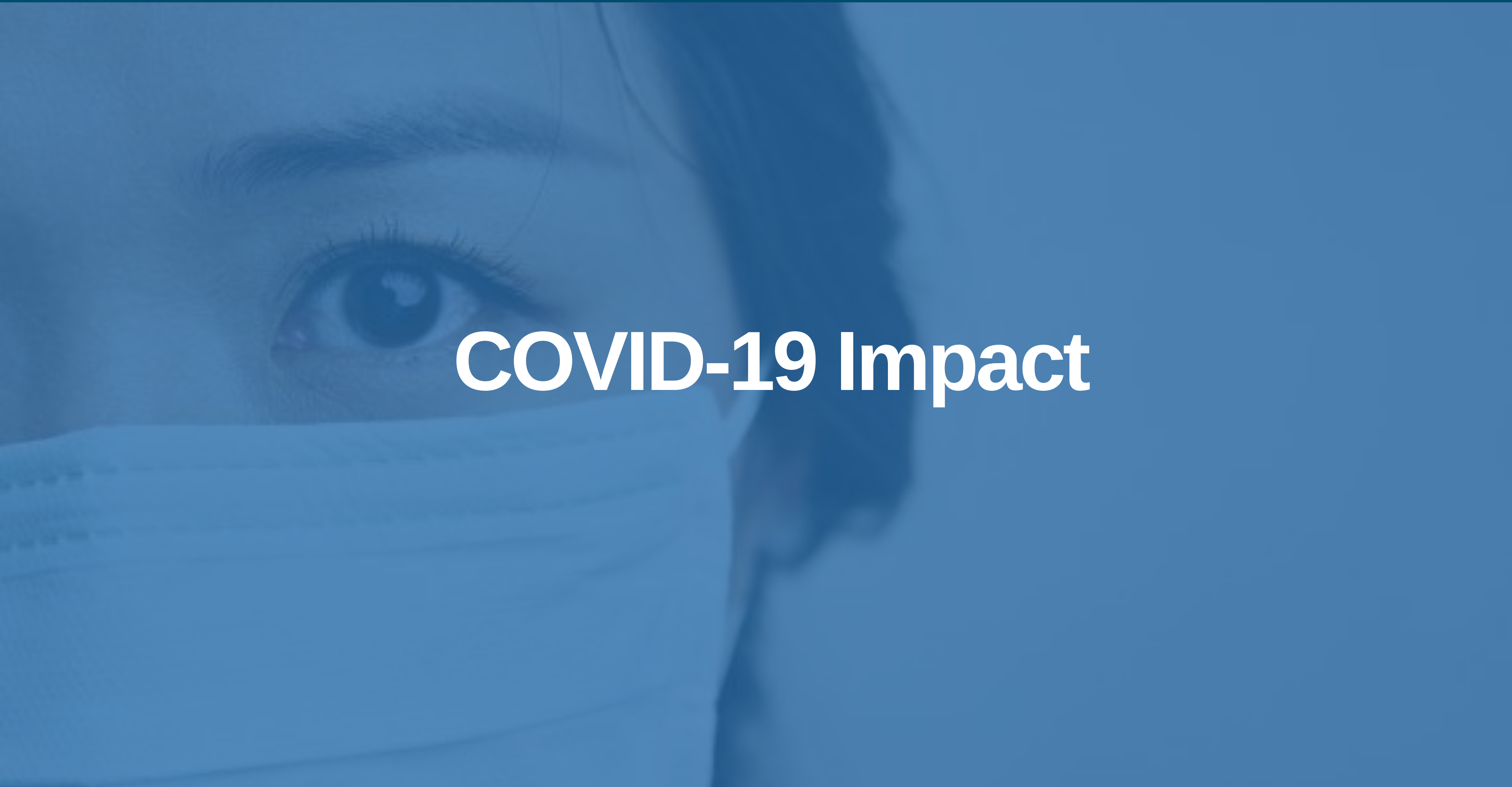
Leaving China – to where?

Destinations of Companies leaving Mainland China



- Of the 17% of respondents that considers moving some of their operations away from Mainland China, most of them consider moving to the southern part of Asia.
- Vietnam is the most important destination with 43.3% of the respondents indicating they consider to move their operations to Vietnam.
- Respondents active in the Industrial Goods industry are mainly considering to move activities to Malaysia.
- Respondents considering to move to Cambodia and Myanmar are all, except for 1, active in the Consumer Goods & Services Industries.
- Companies considering to move operations to India are active in all kinds of different industries.

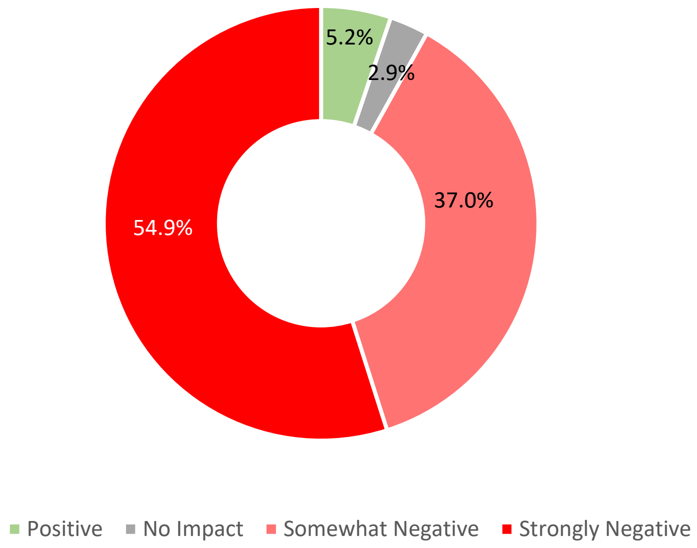
Note: Respondents were asked to which countries/regions they would consider moving their operations. As a result, multiple countries/regions per respondent could be selected.



COVID-19 Impact

COVID-19 Impact

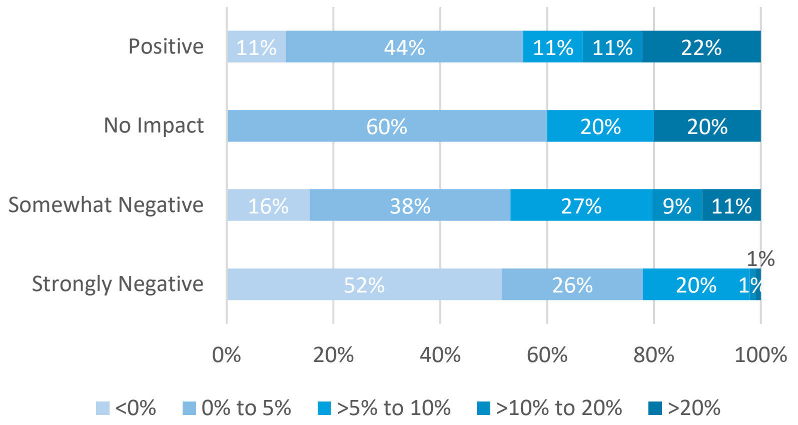
How do you expect the outbreak of the coronavirus (COVID-19) to impact your performance in 2020?



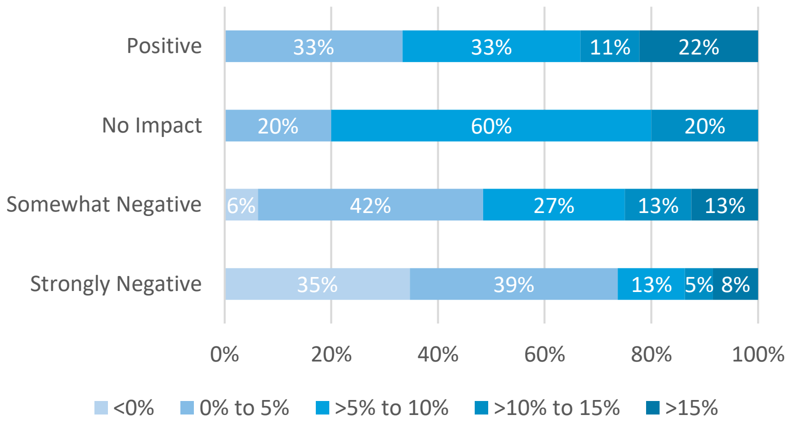
- As can be expected, 92% of the respondents expect the outbreak of COVID-19 to negatively impact performance in 2020.
  - 100% of the respondents in Beijing-Tianjin-Hebei indicated that the outbreak will negatively impact performance.
- Still 5.2% of the respondent expect the outbreak to positively impact performance. These businesses manage to take advantage of the possibilities arising as a result of the outbreak, such as digitalization, supply chain localization, supplying products in need and government stimulation measures.
  - The companies expecting a positive or no impact are largely active in the Consumer and Industrial Goods & Services.

COVID-19 Impact on Revenues and Profits

Revenue expectations for 2020 based on impact



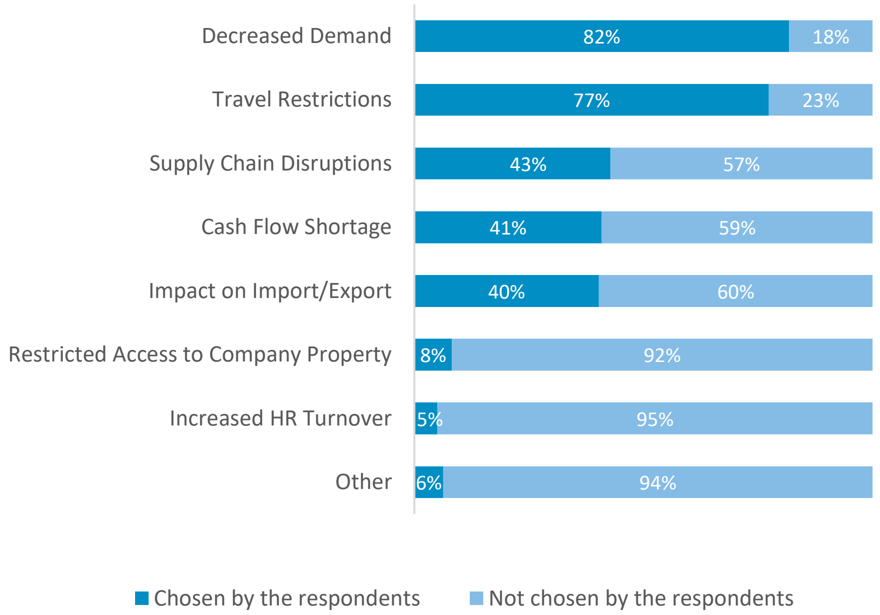
Profit expectations for 2020 based on impact



- Respondents are significantly impacted by the outbreak, with 52% of the businesses that are strongly negatively impacted expecting negative revenue growth for 2020.
- Benelux companies are still resilient. Even from the respondents that expect to be strongly negatively impacted by the outbreak, 65% expects to make a profit in 2020.

COVID-19 Impact – Main Negative Factors

What factors related to the coronavirus will negatively impact your business?

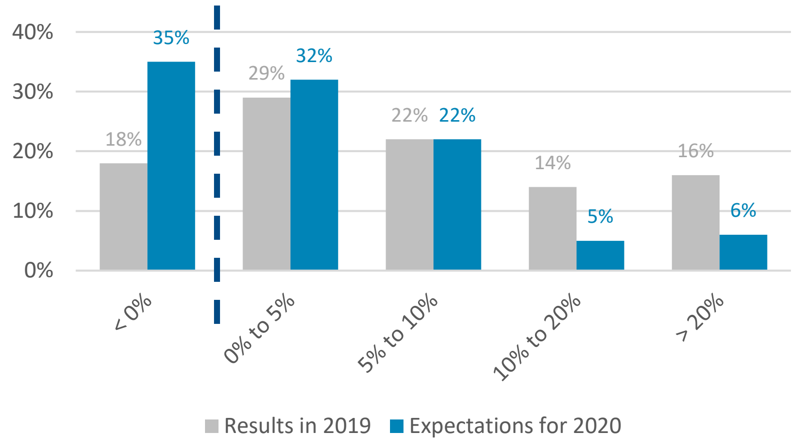


- Over three quarters of the respondents indicated that Decreased Demand and Travel Restrictions negatively impact their business.
  - The importance of Decreased Demand appears to be the difference between a somewhat negative impact (69%) or strongly negative impact (91%).
- Almost half of the respondents said Supply Chain Disruptions are a negatively impacting factor, most prevalent for the Materials, Consumer Goods and Industrial Goods industries.
- When looking at the different regions, the picture is similar. However, Cash Flow Shortage is a negative factor for only 34% of respondents in the Yangtze River Delta compared to 52% in Beijing-Tianjin-Hebei and 63% in the Pearl River Delta.

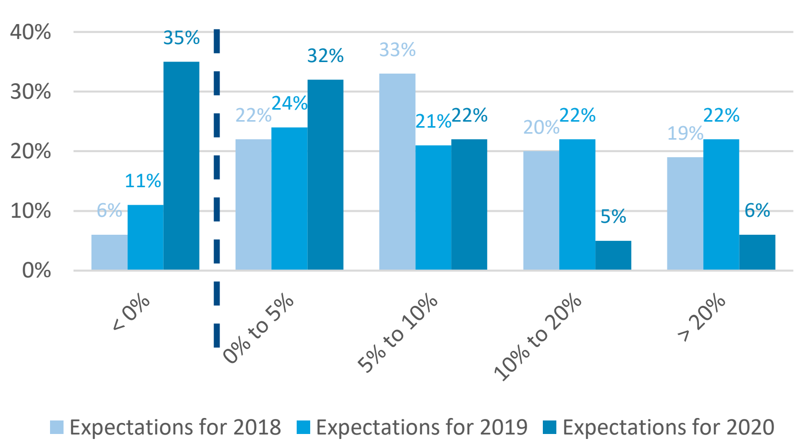
Onward Expectations

Revenue Growth Expectations

Expected Revenue Growth for 2020



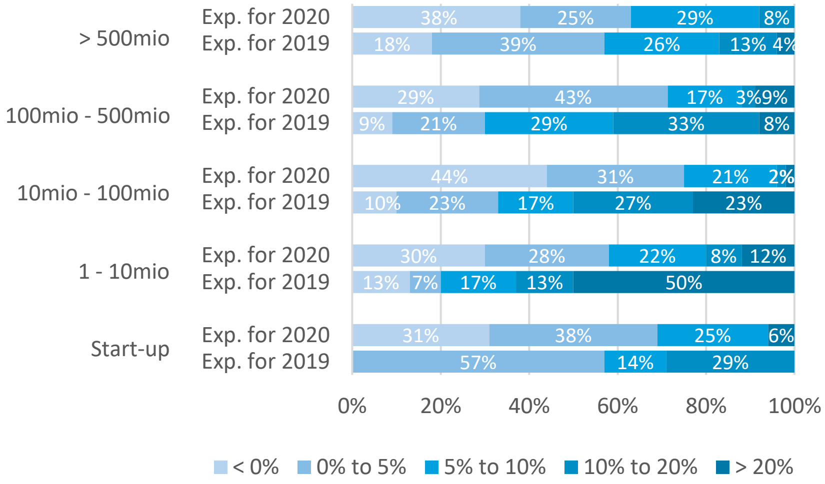
Expected Revenue Growth from 2018 to 2020



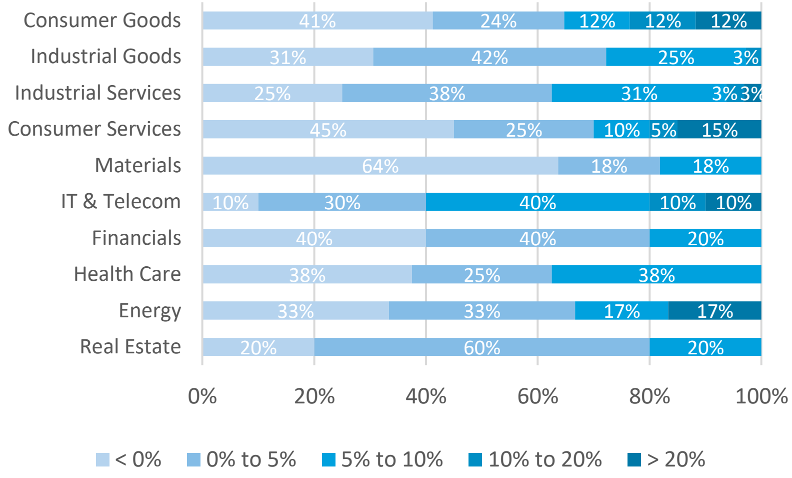
- Benelux companies are quite pessimistic compared to their actual results in 2019, and this can likely be attributed to the impact of the COVID-19 outbreak.
  - 65% expect to achieve revenue growth, whereas 82% expected this for 2019.
  - The percentage of respondents that expect revenue growth >5 per cent dropped to 33% (last year 53%).

Revenue Growth Expectations – by Size & Sector

Expected Revenue Growth by Size (Revenue)



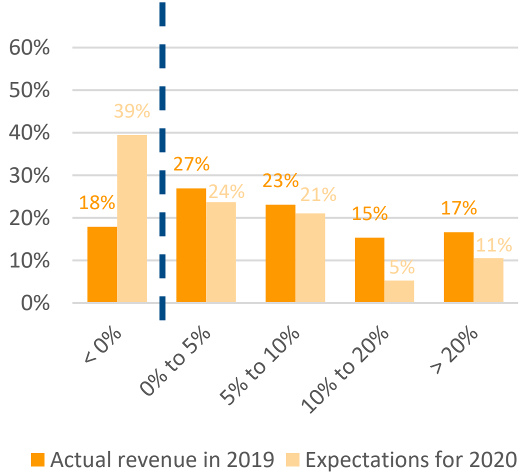
Expected Revenue Growth by Sector



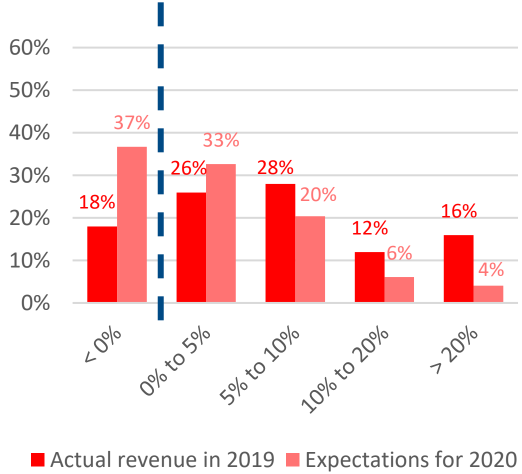
- Companies across the board are more pessimistic, with **less companies of all sizes expect revenue growth**.
  - **31% of Start-ups expect a decrease in revenue**, compared to none last year.
  - **44% of companies between 10mio and 100mio revenue expect revenues to decrease** (last year only expected by 10%).
- Noticeably, almost no companies expect revenue growth >20%:

Revenue Growth in 2019 vs Expectation for 2020

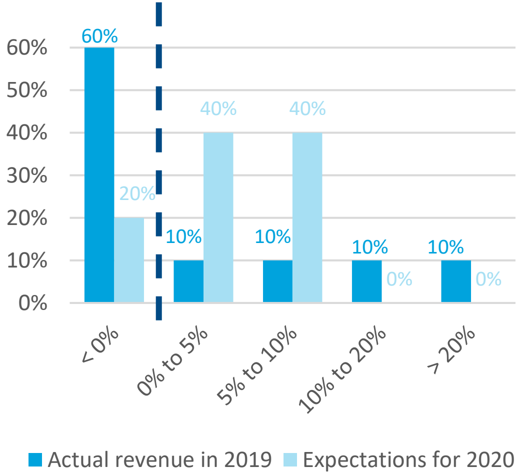
The Netherlands



Belgium

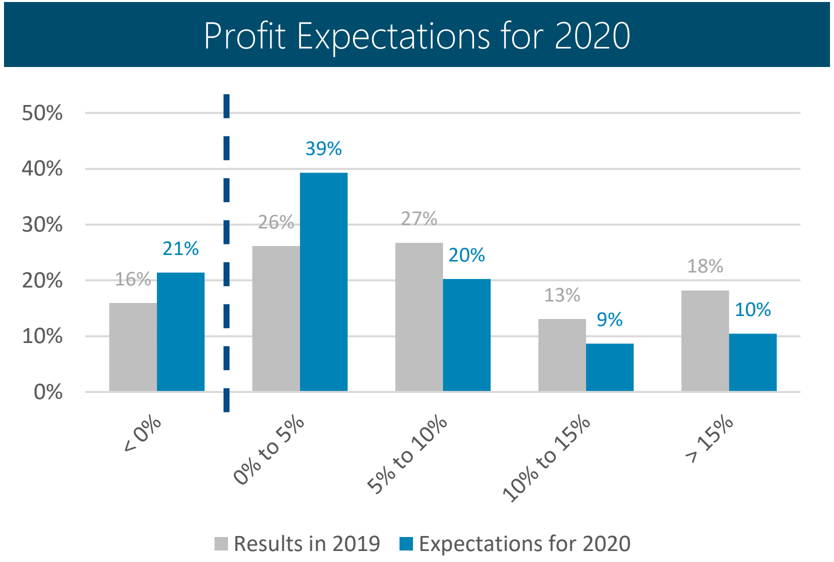


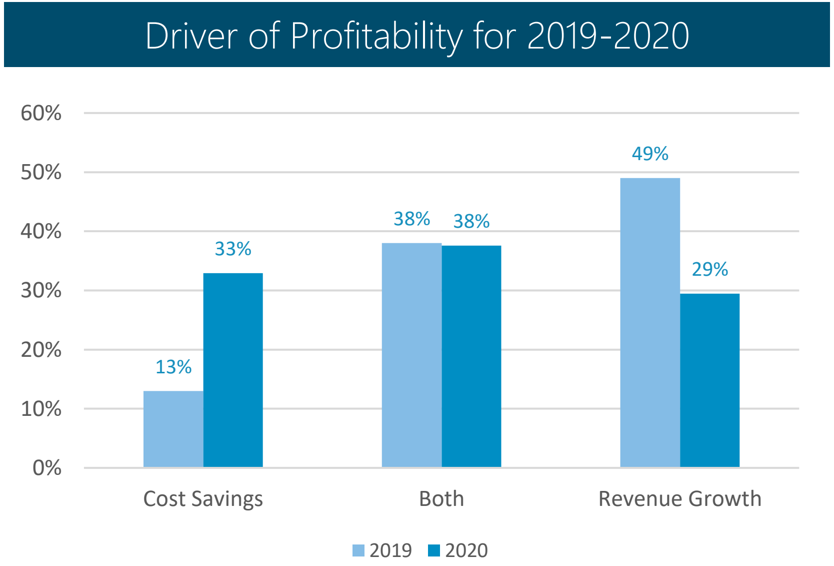
Luxembourg



- Both Belgian and Dutch companies share a similar pessimistic outlook for 2020.
  - For 2020, 39% of Dutch and 37% of Belgian companies expect revenues to decrease.
- Although Luxembourg companies are expecting to exceed their 2019 performance, none expect revenue growth >10%.

Profit Expectations

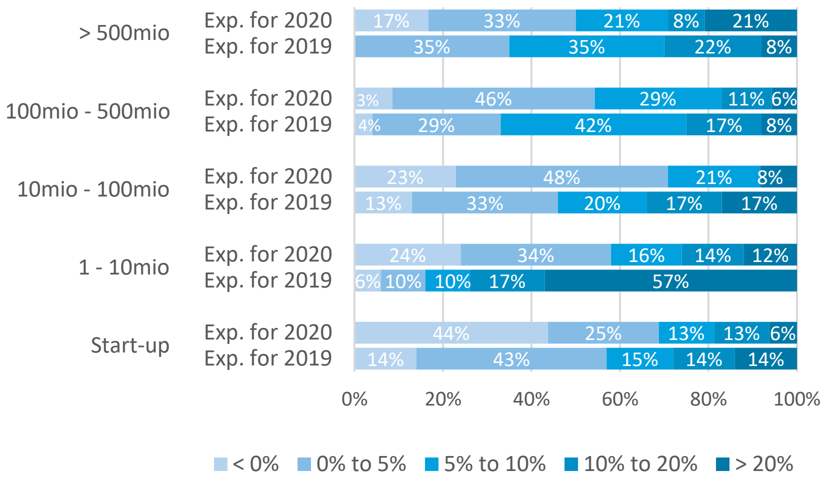




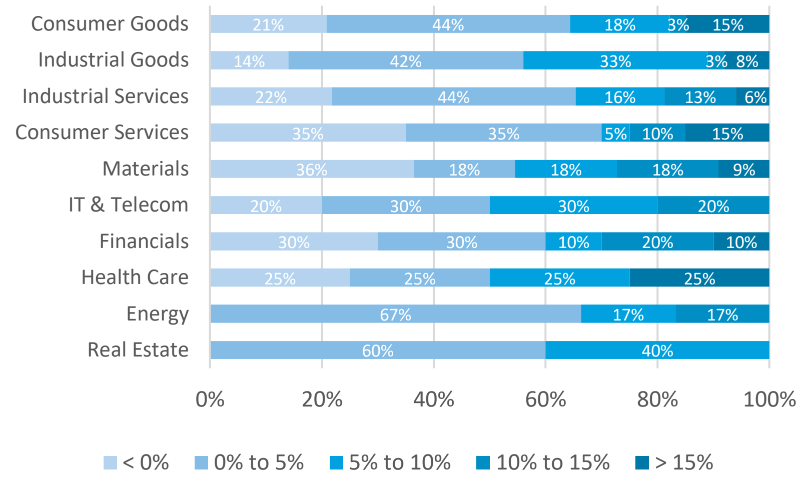
- Compared to last year the **outlook for Profit Margins is more negative**. The three categories above 5% all decreased and the negative margin expectations increased by 5% and the 0% to 5% category increased by 13% percent.
- This year many **more respondents expect profitability** to come from **Cost Savings**. Cost Savings increased by 20%, whereas Revenue Growth decreased by 20%. A likely reason for this is the impact of the COVID-19 outbreak.

Profit Expectations by Size & Sector

Profit Expectations by Size (Revenue in RMB)



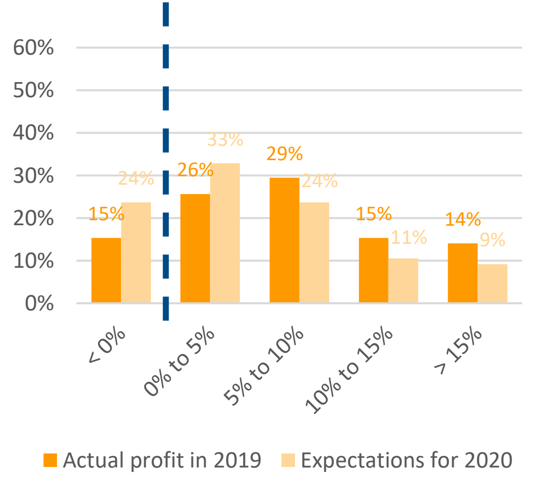
Profit Expectations by Sector



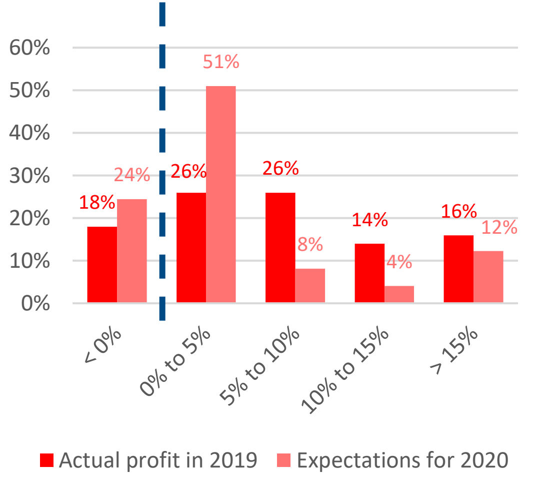
- The larger companies still expect relatively good Profit Margins, whereas the **Start-ups and SMEs have a bleaker outlook**.
  - Over **44% of Start-ups** are expecting to make losses, whereas over **23% of SMEs** similarly expect losses for the year 2020.
  - Strikingly, the number of respondents from companies with revenues greater than RMB 500mio that expect profit margins greater than 20% has increased to 21%.

Profit Expectations by Country

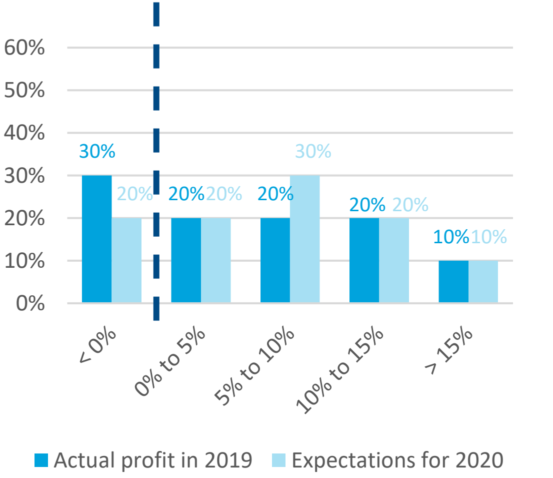
The Netherlands



Belgium



Luxembourg



- The expectations for the **Dutch respondents** are **more pessimistic** than the results for 2019.
- **The Belgian respondents** are **significantly more pessimistic** with especially the 0% to 5% category growing from 26% to 51%.
- Surprisingly, the **respondents from Luxembourg** expect **better Profit Margins in 2020** despite the COVID-19 outbreak.

Conclusion

Conclusion

Companies from the Benelux in China experienced a continuing negative trend of decreasing revenue growth (for the 3rd consecutive year) and performed considerably below their expectations from the previous year. Despite this negative trend, the number of Benelux companies making a profit appears relatively stable (84% of respondents reporting profit, compared to 85% in 2018) and the respondents attribute this mostly to costs savings.

The outlook for Benelux companies is pessimistic both in terms of revenue growth and profit margins alike. On the one hand, only 65% of respondents expect to achieve revenue growth in 2020, whereas 82% achieved this result in 2019. On the other hand, although approximately 79% of respondents still expect to make profits, we see a staggering drop in the number of respondents expecting revenue growth greater than 5% (whereas 52% achieved this result in 2019, only 31% expect this for 2020).

Both the business sentiment and expectations for 2020 are negatively impacted by the onset of COVID-19. Although companies from the Benelux may have already experienced the consequences of the slowdown of the Chinese economy prior to the onset of the epidemic, as evidenced by the continuing negative trend of decreasing revenue growth, the outbreak of COVID-19 does appear to magnify the pessimistic outlook for 2020. It further highlights several vulnerabilities for Benelux businesses such as the interconnectedness of their global supply chain and cash flow shortages.

Finally, it appears that regulatory reform has brought more institutional quality and that the opening-up of the economy has positively impacted the perception of Benelux businesses on the level playing field and restrictiveness of the Chinese market. However, despite the progress on regulatory and business challenges, the general perception of the Chinese market continues to become more negative, due to a continued economic downturn and further amplified by the outbreak of COVID-19 and the still ongoing crisis. Additionally, Benelux companies consider the opening-up of the economy as an ongoing effort and expect the implementation of economic reforms to create equal opportunities for foreign-invested and Chinese businesses.

About Moore

Moore is a financial advisory firm based in Shanghai, which is part of Moore Belgium and a member of the Moore Global Network. Since 2011, Moore has supported foreign enterprises across all provinces of China and in Hong Kong.

Moore focuses on delivering **Transparency**, **Compliance** and **Sustainability** to foreign businesses. Moore is committed to providing its clients with a thorough understanding of administrative- and reporting requirements in China and ensures they have full control over their administration.

Moore's services include:

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About The Benelux Chamber of Commerce

The Benelux Chamber of Commerce is the most active Benelux business platform in China. It is the only Chamber of Commerce that is officially recognised and supported by the Embassy of the Kingdom of Belgium, the Embassy of the Kingdom of the Netherlands and the Embassy of the Grand Duchy of Luxembourg in China.

The chamber has been growing at a steady pace since it was established in 2001. It currently contains 3 chapters; Beijing, Shanghai and Guangzhou (Pearl River Delta).

The Benelux Chamber of Commerce has a constantly expanding network of member companies, consisting of leading enterprises and individuals from Belgium, The Netherlands and Luxembourg with an active interest in developing their business in China, and collaborates with 10 Benelux chambers throughout Asia. As an independent, non-profit organisation, the chamber is managed by a full-time secretariat of both Benelux and Chinese staff and all practises are guided by its Board of Directors.

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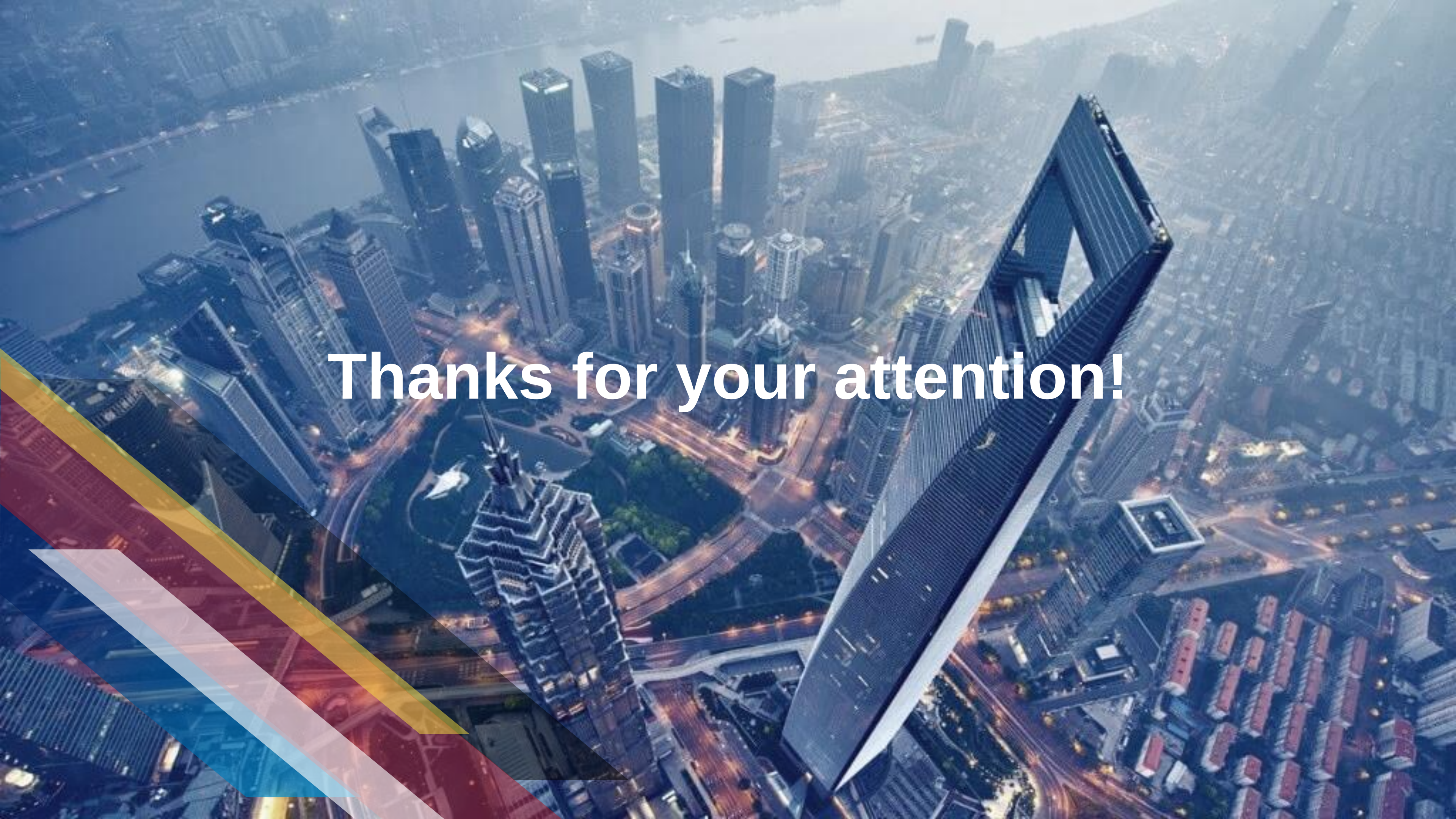

Thanks for your attention!

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- The results of the Sino Benelux Business Survey (2020) only reflect answers given by companies on questions asked through the questionnaire.

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