



British Chamber / CBBC

2010 China Business Climate Survey: Key Findings

The British Chamber of Commerce in China ("British Chamber") and the China-Britain Business Council ("CBBC") are pleased to present the 2010 China Business Climate Survey.

The survey was conducted in September and October 2010 in China in association with UK market research firm ORB (The Opinion Research Business Ltd.). 146 respondents, mostly our members, completed the survey. Details on the survey methodology are provided below.

Positive about macro-economic outlook

Respondents are increasingly optimistic about economic conditions in China, with 84% of respondents 'positive' (67%) or 'very positive' (18%) about the outlook for 2011. These high levels are an improvement on their experience over the last 12 months, for which 77% reported 'positive' (62%) or 'very positive' (15%) conditions.

Optimistic about company performance in China

Respondents are optimistic too about their company's performance in China. 36% of respondents expect demand for their products/services to increase significantly. A further 44% of respondents expect a more modest increased demand. Again these expectations represent an improvement on respondents' experience over the past 12 months, up from 32% and 38% respectively. Respondents are roughly evenly split in their expectations that it will be easier (31%) or more difficult (29%) to run their business in China, with the largest group (40%) thinking it will be about the same.

China is outperforming other markets. While 25% of respondents saw their performance in China as in line with that in other markets, 30% saw it as above average and 21% as significantly above average.

Revenues and hiring will be on the increase - but compensation levels too

Respondents overwhelmingly (77%) expect an increase in revenues in China in the coming 12 months, with only 4% expecting a drop and 17% expecting sales to remain flat.

Over two-thirds (68%) of respondents expect to increase employment of local staff in China in the coming 12 months. Only 4% expect to decrease local staff. In contrast **hiring of expatriate staff will be limited**, with only 29% planning to increase levels. 17% of respondents plan to decrease expat numbers. 42% plan to keep expat levels the same.

Almost two-thirds (65%) of respondents expect their salary/pay levels in China to increase in the coming 12 months, while only 24% expect levels to remain the same.

R&D investments expected to increase - ahead of investments in plant & machinery

59% of respondents (where applicable) **expect to increase their investments in R&D** in China and 40% plan to keep them at the same level.

Half of respondents (where applicable) **expect to maintain the same level of investments in plant & machinery** in the coming 12 months and **47% plan to increase investments.**



HR issues are most important for business performance, ahead of regulatory issues & market access

On a scale of 1 ('not important') to 5 ('very important') ranking business issues and their impact on overall performance, the **number one issue for respondents is retention of high quality / skilled personnel** (average rating of 4.40 points) followed closely by the **availability of high quality / skilled personnel** (4.32). Next in order are **transparency of laws and regulations** (4.31) and the **legal and regulatory systems** themselves (4.21). The 5th ranking issue also relates to HR - staff remuneration / pay levels (4.04) - with market access the 6th ranking issue (3.91) points.

Pollution and the environment cause the greatest dissatisfaction, followed by bureaucracy and IPR

On a scale of 1 ('very dissatisfied') to 5 ('very satisfied'), **respondents are most concerned with pollution and the environment** (average rating of only 2.25 points). Next is **level of bureaucracy** (2.31 points) and the **protection of intellectual property rights** (2.36), followed by concerns over a **level playing field** for foreign firms vs. domestic competitors, and concerns over **transparency** and **legal/regulatory systems**.

Reasons to be cheerful

For those issues ranked important but needing improvement, respondents ranked their expectations for improvement in the next three years on a scale of 1 ('very unlikely') to 5 ('very likely').

Respondents are **most optimistic about improvements in China's physical infrastructure** (e.g. transport) (3.49), communications network (3.44) and English language proficiency of staff (3.31), banking and financial facilities (3.29) and availability of foreign exchange (3.25).

Clouds on the horizon

By the same measure, respondents are **least optimistic about improvements in the next three years in the level of bureaucracy** (2.39), levelness of the playing field for foreign firms vs. domestic competitors (2.46) and the protection of intellectual property (2.55). Other areas of continued concern relate to the taxation system (2.57) and legal & regulatory systems (2.65).

Comments on the Survey from British Chamber / CBBC

Duncan Clark, Chairman of the British Chamber and Vice Chair of the China-Britain Business Council commented: *"British and British-invested firms surveyed in China are overwhelmingly positive about the macro-economic outlook here for the coming 12 months. They are also optimistic about their own prospects in this market."*

Concerns over regulatory issues/bureaucracy continue to be expressed, but many respondents do not build their business plans assuming near-term improvements in these areas.

British and British-invested businesses in China now rank issues such as HR – in particular the availability and retention of skilled personnel - as most important. Firms are stepping up their hiring of staff (local, not expat) and their concerns reflect the increasing maturity of their business.

Pollution and the environment are the cause of greatest dissatisfaction, showing how the physical climate directly affects a country's business climate. At the same time, China's massive investments in transportation and communications infrastructure are improving business confidence."



About the Survey

This report summarises the findings from an online survey conducted by the British Chamber of Commerce in China (“British Chamber”) and the China-Britain Business Council (“CBBC”) in association with UK market research firm ORB (The Opinion Research Business Ltd.). The survey was conducted between 8th September and 7th October 2010 with a total 146 respondents, comprising British and British-invested companies operating in mainland China.

50% of companies surveyed have maintained a presence in China for more than 10 years. 16% have a presence here dating back between 6-10 years. In terms of legal structure (multiple responses allowed) Wholly Foreign Owned Enterprises (WFOEs) dominate (62.5% of respondents), followed by representative offices (24.2%) and joint ventures (22.7%).

Leading sectors represented in the survey (multiple responses allowed) include consultancy (24%), manufacturing (12%), education & training (10%), followed by financial services (9%). Small and medium-sized businesses (measured by headcount in China) account for the bulk of the respondents, with 46.1% having 50 employees or less, and 24.9% having 51 – 100 employees here. 14.9% of respondents have over 1,000 employees in China.

72% of respondents indicated they are producing or sourcing goods or services in China for the China market. 17% are involved in importing goods or services to China. 11% are producing or sourcing goods in China for export to other (non-China) markets.

About the British Chamber of Commerce and China-Britain Business Council

The British Chamber of Commerce in China (“British Chamber”) and China-Britain Business Council (“CBBC”) are dedicated to expanding UK-China commerce and investment. We provide business intelligence, networking and support services to all of our member companies, from the biggest multi-nationals through to fledgling start-ups. Members receive an extensive range of benefits designed to help grow their business, including access to specialist events and conferences, business services, publications, online tools and information.

The British Chamber was informally established as the Association of British Business People in 1981, and the British Chamber officially came into being in 1993. CBBC is the UK’s leading organisation helping British companies grow and develop their business in China. The CBBC delivers a range of practical services to British companies wishing to export goods and services to, invest in, or establish manufacturing under license arrangements with China. The CBBC has 11 offices across China and 9 across the UK.

In December 2009 the British Chamber and CBBC entered into a strategic partnership agreement that allows members to pay one membership fee but benefit from the services of both organisations. As a result, our members now access a wider range of services, more extensive business information, and a larger network of contacts, not just in Beijing but also across China and the UK. For more information: www.pek.britcham.org and www.cbcc.org

About ORB

Established in 1994, ORB is one of the UK’s leading bespoke corporate and issues-led market research companies. Over the past decade, ORB has worked with over 150 clients in the private, public and voluntary sectors in over 80 countries. Driven by a team of experienced market research professionals with specialist knowledge across a wide breadth of sectors, the company provides qualitative and quantitative research and analysis. For more information: www.opinion.co.uk

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