ROYAL DANISH EMBASSY
Beijing

DCCC 中国丹麦商会
DANISH CHAMBER OF COMMERCE IN CHINA

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Denmark – China

SURVEY OF
DANISH COMPANIES IN CHINA
CHALLENGES AND OPPORTUNITIES

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ROYAL DANISH EMBASSY, BEIJING

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CONTENTS

PREFACE

China is Denmark's sixth largest export market, but traditional cross-border trade statistics only tell part of the story that links the Danish business community to China.

Trade statistics largely underestimates the actual importance that China plays in a multitude of ways to Danish economic interests and to the overall Danish economy. Furthermore, Danish companies are global leaders in key sectors and provide highly specialized and valuable solutions that are essential to the continued, sustainable development of China and the Chinese economy.

Despite this growing interdependence and the potential for mutual benefits, Danish companies continue to face substantial challenges in China. These obstacles limit the ability of Danish companies to initiate or expand activities in China on a level playing field, to the detriment of the Danish business community as well as – ultimately – the Chinese economy, development and consumers.

Policy makers and company executives need information to guide decisions and priorities in the years to come. This survey will help fill part of that void by providing comprehensive data on the views and assessments of the executives representing the Danish business community in China.

The results are notable in several ways. In terms of the validity of the data, the findings are ensured by a high response rate from participants of several sectors. The survey was developed and administered by bringing together the Danish diplomatic, commercial and academic presence in China. And finally, for taking the concerns of the combined European business leaders in China as its starting point for identifying and prioritizing the most pressing challenges faced by the Danish business community specifically.

This report contains the findings of the original comprehensive survey conducted in November-December 2019 as well the results of a smaller follow-up survey conducted in May 2020. This two-step approach was not planned, but is the result of the outbreak of COVID-19 in early 2020. In light of the escalating crisis, it was decided to postpone plans to present the findings to a later date as well as to conduct a small add-on survey in order to revisit a number of questions related to companies' future plans and expectations. It has not been possible to ensure a one-to-one match between the respondents of the two surveys, but nevertheless the supplementary study serves to provide valuable insights into the longer-term impact of COVID-19 on the Danish business community in China.

Beijing, June 2020

Anders Carsten Damsgaard
Ambassador of Denmark to China

EXECUTIVE SUMMARY

The two studies presented in this report were conducted among senior executives of Danish companies in China. The comprehensive pre-COVID-19 study finds that the activities of Danish companies in China play a large and important role to Danish multinational corporations. The results deliver a clear message about the unequivocal importance of China and the Chinese market to the Danish business community and its global competitiveness.

Four out of five companies indicate that their present activities in China are essential for the global performance of their Danish mother company and that this is expected to increase. Three quarters of the companies plan to increase capacity considerably – more than 10% – in the coming five years. Most expect to expand both personnel numbers and to make asset investments. Plans for capacity increase are in itself a good indication of the importance that China plays to the companies in question, but this is further strengthened by the fact that more than half of the companies have established strategic collaborations with Chinese partners, and almost half report having placed global or local bases for various business operations in China.

The activities carried out by Danish companies in China are varied and go well beyond the image of China being a manufacturing hub. While more than half of the Danish companies engage in manufacturing and about two thirds in procurement, the primary reason for being in China is the Chinese market. Almost all companies have sales and after-sales services in China, while – more surprisingly – half report engaging in R&D activities.

Also worth noting is a considerable leadership focus from Denmark – as witnessed by regular top management visits and Chinese expertise on many boards of Directors – and it is clear that China is so much more than Denmark’s sixth largest export market.

Most respondents are cautiously optimistic in their assessment of developments in recent years with regards to the overall market and regulatory climate in China. Nevertheless, regulatory challenges are common and widespread. Competition on the Chinese market, especially, gets the most negative outlook from Danish companies. Almost one in two find that developments have gone less than ideal and competition has toughened in the past five years.

The areas most commonly found to pose regulatory challenges to Danish companies in China are compliance and business ethics, where definitions and rules that are open to interpretation create uncertainty, and punishment for non-compliance is excessively high. This is followed by ambiguity in human resources, where rules are similarly unclear or too complex, and IPR, where Danish companies take issue with the Chinese legal system for its lack of transparency, low damages compensations for violations and incompatibility with international standards. Unclear rules, lack of legal transparency, uneven implementation and incompatibility with international rules and standards sum up the concerns that Danish companies express with regards to regulatory challenges in China.

In addition, when questioned about major current events affecting their activities in China, Danish companies in China generally seem to be divided on many questions, signifying a degree of uncertainty. On the question of the impact of the trade conflict between China and the US, the respondents are split almost down the middle, with a slight majority tending to find the impact insignificant. The same is the case with regard to the Corporate Social Credit system, where only a very slight majority regards its implications with concern.

In the first months of 2020, it became increasingly clear that the outbreak and the devastating effects of COVID-19 will have a profound impact on companies all over the world, including Danish companies in China. Prompted by this, the supplementary study places emphasis on exploring possible impacts of the COVID-19 crisis on the initial findings. Although not directly comparable, the results from the add-on survey generally confirm the initial findings while reinforcing some. China is still considered to play a key role for the Danish business community, but activities there seem increasingly to be focused on the Chinese market itself.

In the short term, plans to expand capacity in China are noticeably lower now than prior to COVID-19, but in a five year perspective the outlook of the Danish business community is still very much positive in terms of expansion.

At the time of the adjunct survey, May 2020, the primary COVID-19 related challenges to the Danish companies in China were adjustments to day-to-day operations and the demand shock to the Chinese economy. Aside from internal adjustments to business operations, the main measures of regulation are increased engagement with public authorities and supply chain modifications.

KEY TAKEAWAYS

1 A PROFILE OF DANISH COMPANIES IN CHINA (CHAPTER 1)

- Most Danish companies were established in China in the early years of the new millennium.
- 83% of companies named gaining access (proximity) to China/Chinese market as the primary reason for their activities in China
- Chinese headquarters of Danish companies are located in and around the major hubs of Beijing, Shanghai and Guangzhou.
- 83% of companies are registered as wholly foreign-owned entities with a Danish company as the ultimate beneficiary.
- 75% of companies report directly to the global HQs in Denmark.
- One in four companies have more than 500 employees in China.
- Almost two-thirds of companies indicate that they expect the number of Chinese employees to increase in the next five years, whereas the number of foreign nationals is mostly expected to remain unchanged.
- 49% of respondents have R&D activities, while 85% sell their solutions, 82% provide customer and after sales services, 69% engage in procurement and 58% run manufacturing operations in China.

2 THE IMPORTANCE OF CHINA (CHAPTER 2)

- 79% of companies indicate that their activities in China are essential for the overall (global) performance of the company.
- For two thirds of respondents, turnover in China accounts for 20% or less of their corporation's global turnover. For half of those, China accounts for 5% or less of global turnover. Only 10% of respondents indicate that the turnover generated in China represents more than 80% of their company's global turnover.
- Two-thirds of companies report their turnover being higher compared to 5 years ago.
- 75% of companies believe the global turnover by the company's entities in China will increase in the next 5 years.
- 40% report that China is home to their company's global or regional base for various business areas.
- 58% of respondents state they have strategic collaboration with external partners in China.
- 72% of companies plan to increase capacity in China by more than 10%, where the majority plan to do this by investing both in personnel and in assets. Almost all companies report having annual leadership visits from global headquarters and a third having as many as four or more visits a year.

3 CHALLENGES FACED BY DANISH COMPANIES IN CHINA (CHAPTER 3)

- 59% of companies are positive in their assessment of the market climate developments in recent years.
- 46% of companies are positive in their assessment of the regulatory climate developments in recent years.
- 43% of companies perceive negatively how competition developed in China in recent years.
- Among the areas most commonly found to be challenging to the Danish companies in China, three top the list: compliance and business ethics, human resources (HR) and intellectual property rights (IPR).
- Despite the improvements in the regulatory climate, the overall lack of legal and regulatory transparency remains a challenge to Danish companies with concerns expressed about: environmental regulations (47% of companies), taxation issues (41%), difficulties in exercising legal rights with regards to IPR (29%).
- In addition to crosscutting challenges, the report also provides insights into sectors-specific difficulties with the top challenges highlighted in food, health, design, energy and maritime sectors.

4 VIEWS ON CURRENT EVENTS (CHAPTER 4)

- The majority of companies (58%) found that the impact of the trade conflict with the US on their companies' activities in China has had little (35%) to no impact (23%), while 42% reported the conflict to have a medium to large impact.
- With regards to the Corporate Social Credit System (SCS), almost one in two (49%) assess the system to be of some concern.
- State-owned enterprises create unease in some sectors with health, energy and maritime as well as the environment and water sectors expressing the greatest concern.
- Almost three in four Danish companies (71%) neither agree nor disagree that the new Foreign Investment Law that came into effect on the 1st of January 2020 meets the requirements to satisfy foreign investors' needs.
- Close to a third of the Danish companies neither agree nor disagree that the scope and content of the revised Anti-Unfair Competition Law (enhancing trade secret protection and improving IP protections for multinational corporations active in China) meets the requirements of companies.
- The follow-up interviews, conducted in February and March, showed a shared sense of optimism that the situation in China started showing signs of stabilizing after the immediate shock caused by COVID-19, while at the same time expressing concerns about certain sectors of the economy as well as the situation deteriorating outside China.

5 THE POST-COVID-19 OUTBREAK SURVEY

- Following the outbreak of COVID-19 in early 2020 the publication of the present report was postponed. In addition, it was decided to conduct a post-COVID-19 survey to revisit questions related to companies' future plans and expectations.
- Three-quarters of companies (74%) still agree or strongly agree that activities in China are crucial for their companies' overall (global) performance.
- Companies further underline that they are in China "for China": For the Chinese market (86%), for product development (61%) and for manufacturing (60%).
- 40% of companies no longer foresee an expansion in the coming year while one in three (29%) maintains plans to expand both in terms of personnel and investment in assets.
- Longer-term recruitment perspectives are still very positive, with more than 70% of companies expecting local staff to increase and only one in ten anticipate that to lower in the coming five years.
- COVID-19 has brought on new challenges: Two-thirds (66%) indicate limitations on regular business operations followed by demand-related challenges in China (60%) and supply-side challenges in- and outside China (43%).
- Aside from short-term adjustments of business operations (e.g. remote working and sanitary measures), the virus outbreak has led to grater engagement with public authorities and initiated the dispersal of supply chains (20%).

ABOUT THE SURVEY

In November 2018, an Expert Panel for Global Growth Centers, China, was established by the then Minister for Foreign Affairs with the aim of incorporating the Danish business community in the planning of initiatives to promote the interests of Danish companies in China. The Panel's recommendations were made public in March 2019. They included enhancing dialogue with the Danish business community in China by setting up a local business forum as well as "cataloguing" challenges faced by Danish companies in China.

Following the recommendations, the Ambassador to China, A. Carsten Damsgaard, established the Ambassador's China Business Advisory Group (ACBAG) consisting of 15 representatives of the Danish business community residing in China, which ultimately reflects the sector composition of the Danish business community in China.

In June 2019, the ACBAG decided to initiate preparations of a survey intended to create an overview of sector-specific regulatory challenges facing Danish companies with activities in China. The contents of this report are based on the results of a comprehensive online survey conducted in November-December 2019, supplemented by interviews carried out in February-March 2020. A subsequent add-on survey was carried out in May 2020 in order to revisit key questions related to future plans and expectations in light of COVID-19.

The surveys were jointly developed by the Royal Danish Embassy in Beijing, the Danish Chamber of Commerce in China (DCCC) and the Sino-Danish Center for Education and research (SDC). The original survey aimed to further our understanding of Danish companies' activities in China, the opportunities and challenges they face as well as how the companies see the outlook for their operations in China. The adjunct survey was carried out to supplement the original data with an understanding of the ways in which COVID-19 is expected to impact the activities of Danish companies in China. Both surveys will serve as points of reference for the ongoing activities of ACBAG.

The participating companies in the survey are members of the Danish Chamber of Commerce in China. They range from small and medium-size companies (SMEs) to large multinational enterprises (MNEs) representing both manufacturing and service industries. A total of 71 Danish companies in China participated in all or parts of the original survey, resulting in an impressive 84% completed response rate and 90% response rate including those that only replied to parts of the survey, greatly increasing the validity of the findings. The add-on survey was taken by 42 respondents, resulting in a 50% response rate. The discrepancy between the original and the recent survey makes direct comparisons difficult, but can nevertheless provide some indications as to ways in which COVID-19 has impacted the outlook of the Danish business community since the original survey was conducted.

Following the online surveys, personal interviews were conducted with executives that took part in the online survey and had agreed to elaborate on their replies during interviews. These findings are reflected as quotes in the report.

Considering the high rate of response, the main results of the original survey – especially with regards to regulatory challenges – can largely be considered representative of Danish companies with activities in China overall. The text will therefore refer to the "respondents" and "Danish companies in China" interchangeably.

For the sake of reference, it should be noted that the combined exports of goods and services from Denmark to China, incl. Hong Kong, amounted to 73.4 billion DKK in 2019, of which 47.2 billion DKK in goods (Statistics Denmark, May 2020, Balance of Payments BB2).

CHAPTER 1: A profile of Danish companies in China

2004-2011 period saw largest number of company registrations

The survey shows that most Danish companies established in China in the early years of the new millennium in the decade following China's entry to the World Trade Organization (WTO) in 2001. The years before and after the Beijing Olympics, i.e. 2004 to 2011, saw the largest number of survey respondents registering in China (38%), while the trajectory changed in recent years (Figure 1).

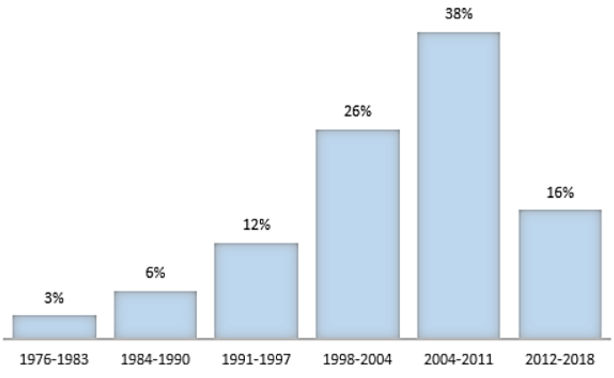

Figure 1 Year of registration in China

> *At that time, before the Olympics, the second rush of manufacturing and re-export was still a big factor. Large companies, who came earlier, showed that there were advantages of being in China and you saw many wind power companies among those who entered in those years. The sub-suppliers started coming to China investing in the wind sector. It is obvious that when the larger companies who are supposed to be here are here, the numbers would decline because we don't have that many in relative terms. But if we look at the percentage of meaningful companies present in China, then Denmark ranks extremely high."*

Danish companies' headquarters are predominantly located around the major Chinese hubs of Beijing, Shanghai and Guangzhou and to a lesser degree in eastern and coastal provinces from Hebei in the North to Guangdong in the South, as shown on the Figure 2 map.

Figure 2 Location of Danish companies' headquarters in China

The charts of Figures 3a and 3b further detail the geography of the various operational activities of Danish companies in China. The province of Guangdong weighs heavy in terms of R&D and procurement activities, representing about a quarter of research and development (R&D) entities, and one in five procurement entities.

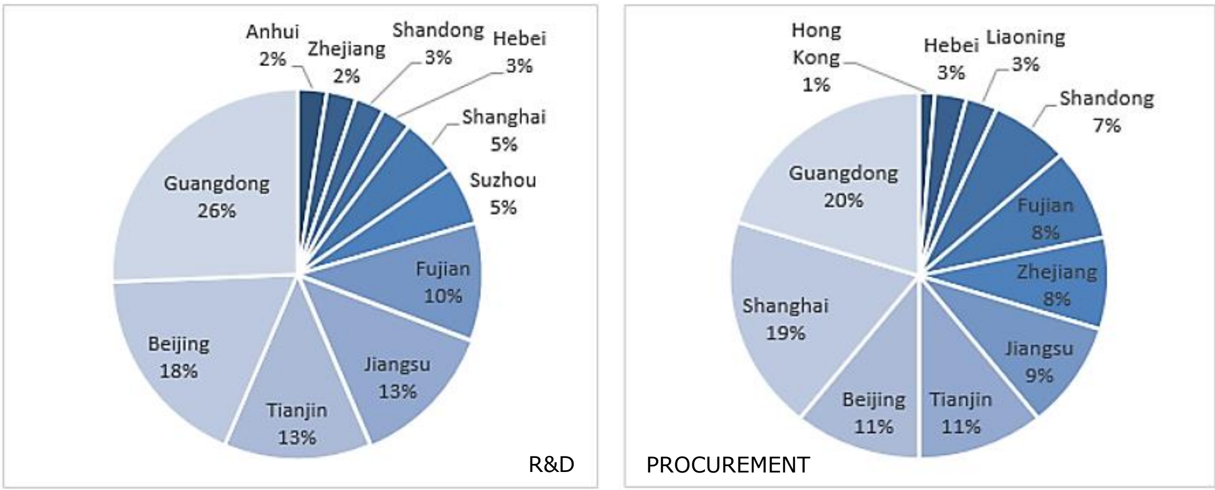

Figure 3a Location of R&D and procurement activities

Manufacturing is to a large degree located in Tianjin, Jiangsu and Guangdong, representing more than half the activities. Sales and after sales activities (not represented) are more difficult to assess as the data was often incomplete or approximate, referencing a large number of offices without detailing these further. However, among those providing specific data, the vast majority of sales entities are located in Beijing, Shanghai and Guangdong.

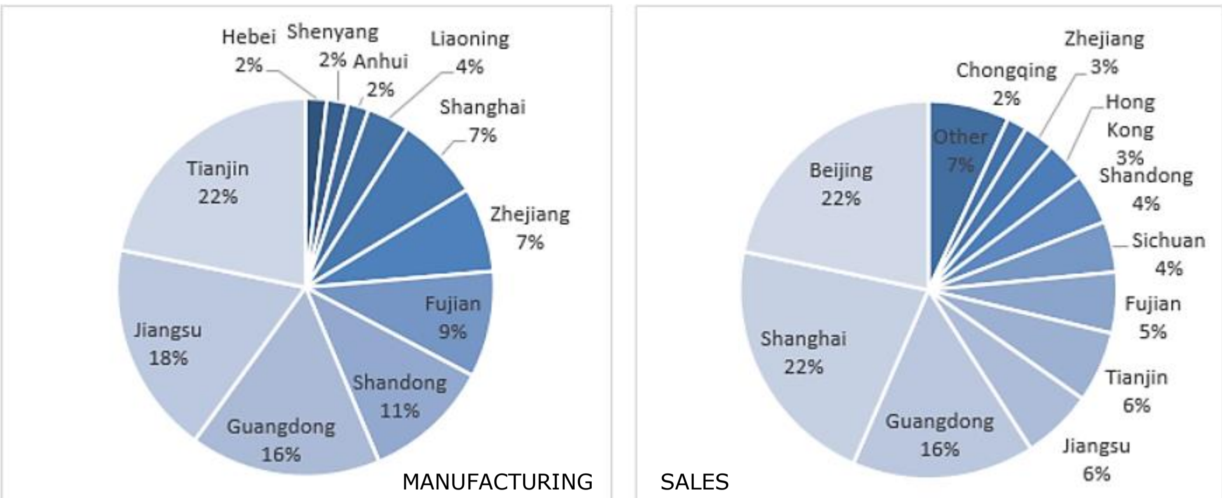

Figure 3b Locations of manufacturing and sales activities

Wholly foreign-owned companies the preferred type of legal entity

86% of Danish companies in China are registered as wholly foreign-owned entities with a Danish company as ultimate beneficiary. Joint ventures with or without Chinese partners account for 6%, while 8% are representative offices. More than half the companies taking part in the survey have more than one legal entity in China, with slightly fewer of those – about two-thirds – being wholly foreign-owned legal entities, and similarly higher numbers being both joint ventures and representative offices.

The companies in China generally report to the company headquarters in Denmark (75%), while less than one in five report to a regional headquarters elsewhere in Asia.

Danish companies as employers

The Danish companies in China are relatively large employers. About half the companies have less than 100 employees, while another quarter have between 100 to 500 employees. About one in four, however, have more than 500 employees on staff. Unsurprisingly, all but a few of the staff are Chinese, with non-Chinese being divided almost equally between Danish and other non-Chinese expatriate staff. A later section will provide further details regarding Danish companies' plans for capacity changes, including changes to staff numbers exceeding 10% in the medium-term.

Employment in China expected to increase

Looking into the medium-term future, almost two-thirds of the Danish companies in China indicate that they expect the number of local Chinese staff to increase five years from now, while the number of expatriate staff is generally expected to remain unchanged.

> “ *Dropping expat numbers have been driven by the fact that the majority of Danish companies have been around for many years, so there is less need for expat managers. We are also not as efficient as local employees. If you have a person with high technical and company knowledge and that person is Chinese, who better understands the culture and language, that person may be more valuable.”*

Half the Danish companies involved in R&D in China

Sales operations are the most common activities of Danish companies in China. Around 85% sell their solutions in one or multiple locations in China. Predictably, an almost equal proportion of companies (82%) provide customer and after sales services. More than two thirds report engaging in procurement in China (69%), while a little more than half the companies (58%) are engaged in manufacturing activities. Finally, and more unexpected perhaps, is the fact that half the companies (49%) report having research and developmental activities in one or more locations in China.

Companies in all sectors are engaged in research and development in China. Nevertheless, companies within the health sector are particularly active and almost all report having such activities.

CHAPTER 2: The importance of China

The present survey offered an opportunity to go beyond traditional trade statistics and obtain a more nuanced and informed view of the role that China plays to Danish companies with activities there, not only as a market, but more broadly speaking in terms of activities and partners located there.

China is crucial to the Danish business community
The companies' verdict is clear. Four out of five companies (79%) state that China is crucial to the overall global performance of Danish companies established there, half of all even strongly agreeing. Less than one in four disagrees.

Although these answers reflect the views of executives located in China and so might differ somewhat from the views of headquarters, it shows a high degree of reliance and dependence on China on the part of the Danish business community, and even more so than reflected in traditional trade statistics.

China ranks as top three market for close to half the Danish companies
Ranking their markets based on turnover in 2018, 42% of Danish companies in China state that China is in the top three, while slightly less than one in five (18%) have China as their largest market for their global corporation.

Danish companies primarily in China, for China
Danish companies were asked to give up to three reasons for their company setting up activities in China. They were given a broad range of possible answers covering the various types of activities on the one hand, and markets in China, Asia or elsewhere on the other hand.

The predominant reason given by respondents was to gain access to the Chinese market (83%). Half the respondents (51%) referred to product development, also for the Chinese market, as the motivation for their activities in China and providing a clue to the extensive presence of R&D activities among Danish companies in China. This is then followed – in equal proportion – by procurement activities for China and manufacturing for markets outside Asia, respectively, as indicated by almost half (46%).

> “ *China is, has been and will remain the largest competitiveness laboratory in the world and that it is an absolutely critical part for any business to be relevant on this market. If you are not capable of being relevant in China, or at least understand what it would take to be relevant in China, there will be many places in the world where you will not be relevant either.”*

Turnover in China as proportion of global turnover less than 20% for most
Using 2018 as a reference year, two thirds of respondents indicate that the turnover generated by the company's entities in China represent up to 20% of their corporation's global turnover. To a third of the Danish companies, turnover in China amounts to 5% or less.

For the top 10% of respondents, turnover in China accounts for 80% or more of their corporation's global turnover. For the vast majority (66%), the Chinese market has become more important relative to other markets within the last five years (measured in turnover), while it has decreased in importance only to a few of the respondents (15%).

Turnover in China to proportionally increase

Two-thirds of Danish companies in China estimate that the proportion of turnover generated in China will increase relatively in the next five years. On the other hand, less than one in ten expects the Chinese market to play a smaller role in the medium-term.

Sales and procurement activities crucial to most

All types of activities in China are deemed essential to a high degree by the respondents, but sales and procurement activities, respectively, top the list and are highlighted by more than two-thirds of respondents.

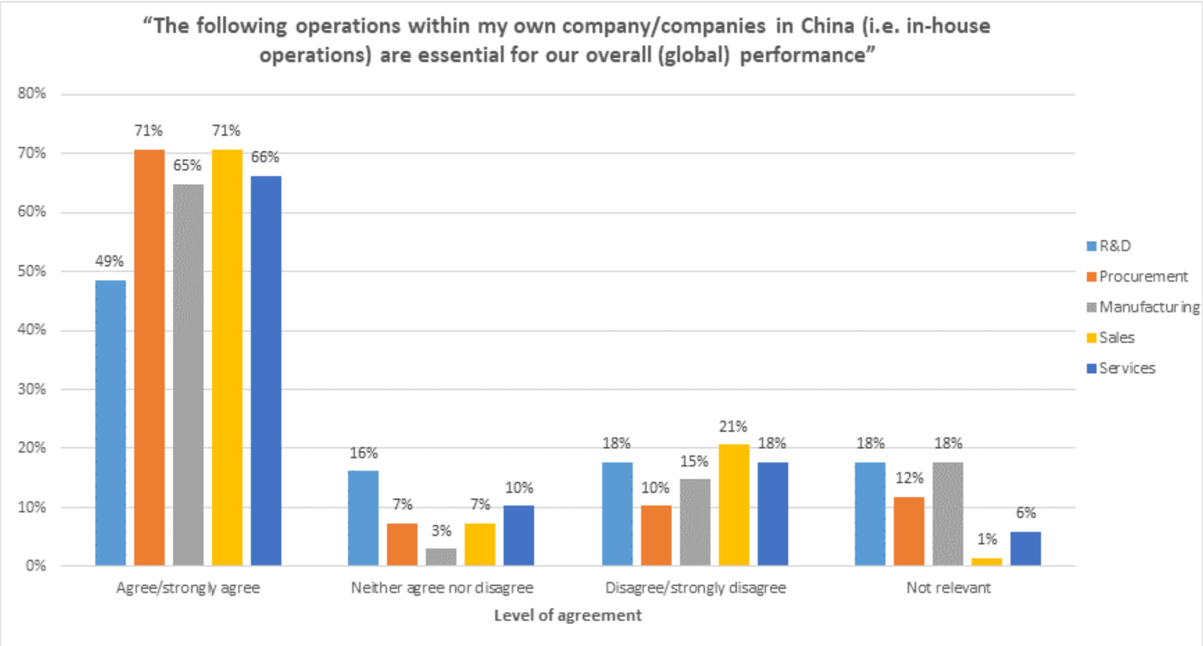

Figure 4. Importance of operations in China for the overall global performance of Danish companies

Danish companies establish strategic alliances with Chinese partners

Confirming the importance of China is the widespread strategic alliances established by Danish companies with local partners. More than half of all Danish companies in China confirm such alliances, most commonly within procurement and manufacturing departments (component suppliers) as well as within sales and services, where these partnerships include corporate customers.

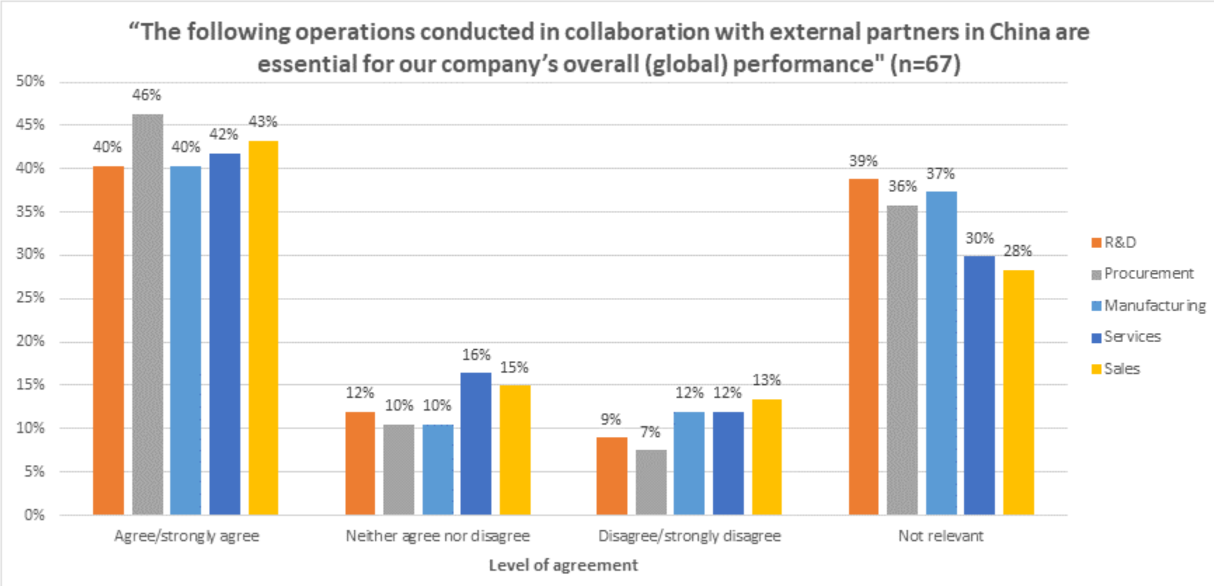

Figure 5 Importance of local partners in China

> *If you find the right partner, that can lift you into bigger relevance, it is a path to success. However, attaining alignment and a balanced relationship where you don't end up being a minor part in the collaboration is not easy to achieve."*

China is home to many global or regional bases

The importance of China is further confirmed by the fact that about 40% of respondents confirm that China is home to the company's global or regional base for one or more activities.

Danish companies plan to expand capacity in China

Questions regarding future developments and strategic decisions regarding capacity changes are obviously speculative and must be considered with a degree of reservation, especially in light of the outbreak of the novel coronavirus (COVID-19) and the concerns it has brought about regarding global supply chains. Nevertheless, replies do give some indication of future trends. At the time the survey was carried out, the vast majority – three quarters – of Danish companies planned to increase capacity investments in China by more than 10%. Most of those expect the increase to include such capacity increases both with regards to personnel and investment in assets. Conversely, less than 5% expected to decrease capacity in China.

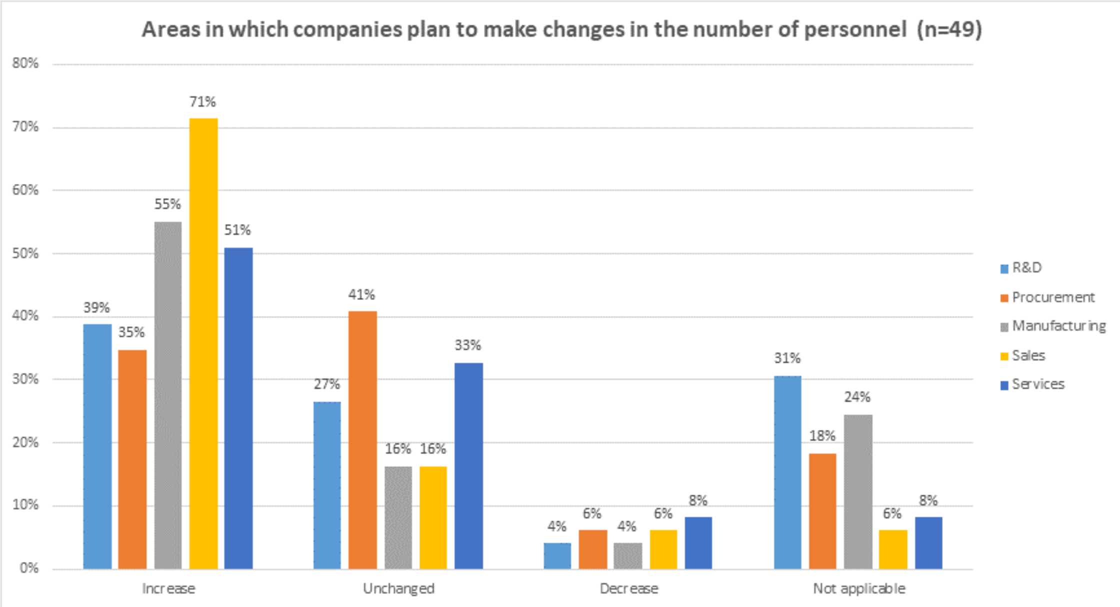

Figure 6 Planned changes in the number of personnel

Focus on increasing sales and manufacturing capacity, but also R&D

Asked to be more specific with regards to the type of capacity changes they were planning, the survey indicates that personnel variance would mostly be within sales (71%), manufacturing (55%) and services (51%). In terms of asset investments, these would target sales (68%), manufacturing (65%) and – most surprisingly – research and development (62%). On the other hand, slightly more than half indicated they were not planning to make any such increases to procurement, possibly indicating a tendency towards diversifying supply chains out of China or at least not increasing the reliance on China.

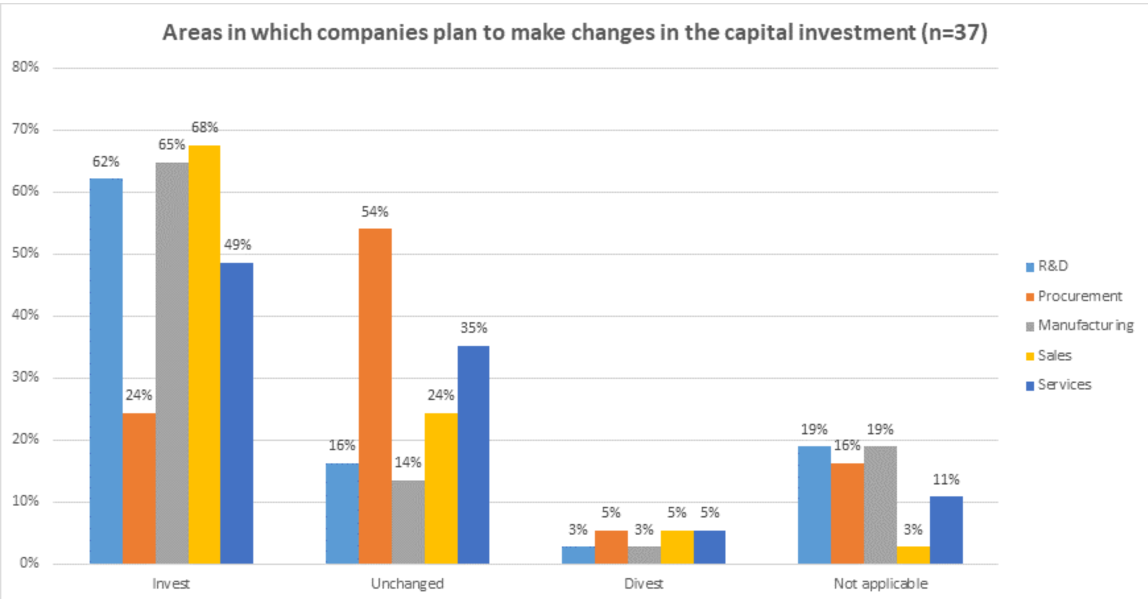

Figure 7 Planned changes in the capital investment

Global leadership focused on China

Reflecting the importance of China, almost all companies report having annual leadership visits from global headquarters and a third having as many as four or more visits a year by the members of the board of directors, members of the top management team, or members of the owning family. About a third of the Danish companies also report that the board of Directors of the corporation they are part of has prioritized to have China insights or experience on the board.

CHAPTER 3: Challenges faced by Danish companies

As the following sections will show, many challenges remain and continue to inhibit Danish companies in their activities in China, but a majority of Danish companies in China find that the situation has improved in the past five years.

Most companies find market and regulatory climate to be improving

When asked about their general perception of the market and regulatory climates in China compared to five years ago, significantly more are positive than negative in their assessment. On the market climate, 59% are positive in their assessment of developments in recent years, while a quarter (23%) are neutral and less than one in five are negative (17%) in their evaluation. As for the regulatory climate, Danish companies are slightly more hesitant, but still almost half find the developments positive (46%), while close to a third remain neutral (30%) and about one in four (23%) are negative in their assessment.

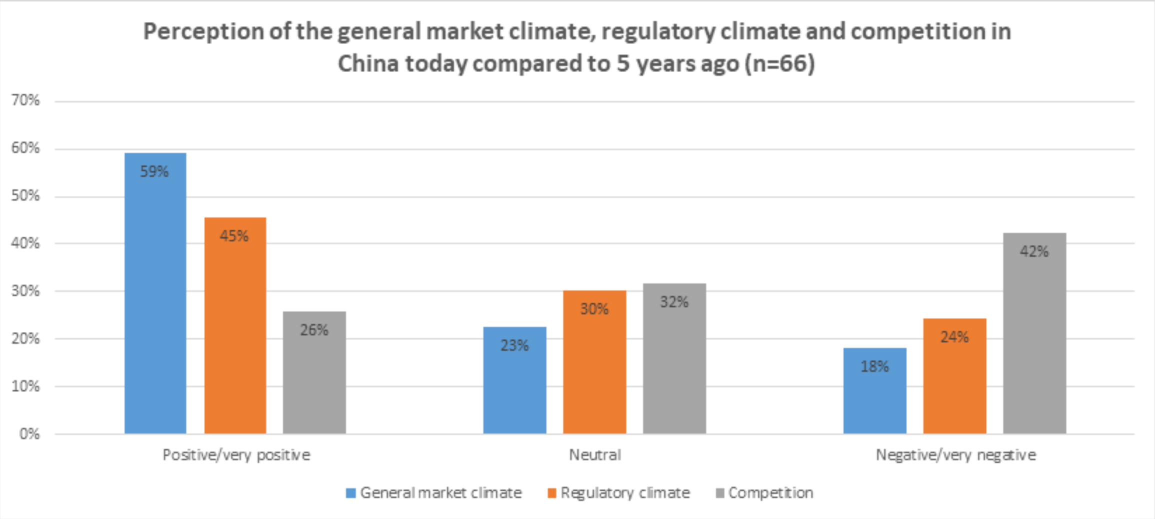

Figure 8 Perception of the market climate, regulatory climate and competition in China

Much less so when it comes to competition

Danish companies are markedly less positive about developments in the last five years with regards to competition in China. On this, only about a quarter (26%) find that developments in recent years have been positive, while upwards of half (43%) instead find that competition has developed negatively in the last five years.

> *The notion that we don't have any Chinese competitors is outdated … and more accept this reality, but there is still a discrepancy in understanding how fast things are moving and how capable the local competitors will be. If you don't adapt, if you don't develop at 'China speed', your relevance has an expiration date."*

And they expect more of the same in the future

Asked about future developments, Danish companies reply very similarly, indicating that they expect recent trends to continue in the coming years. On all three parameters, the proportion of companies with negative perceptions of the future is about three percentage points smaller.

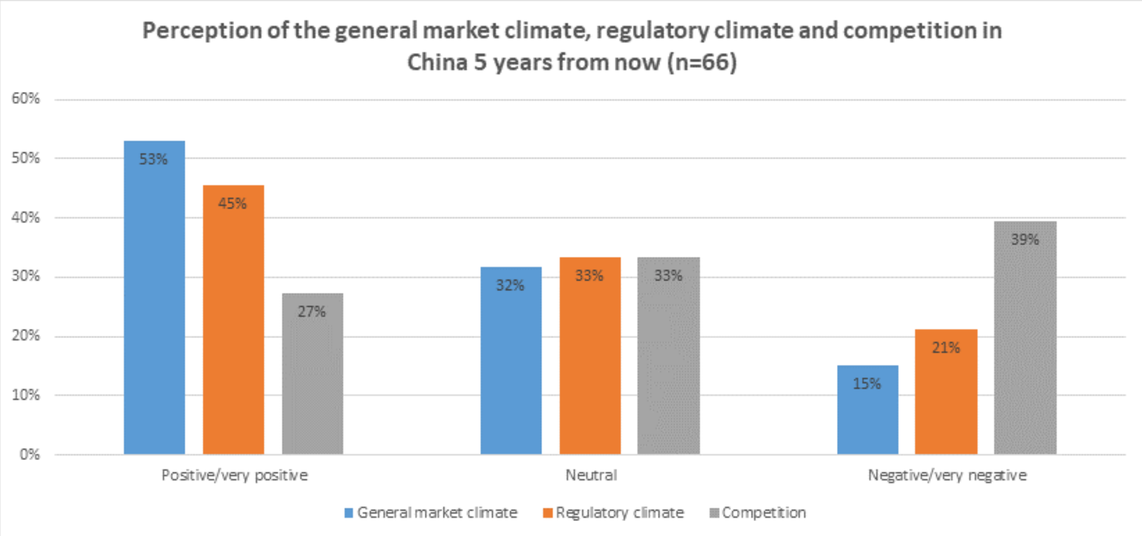

Figure 9 Perceived outlook for the market climate, regulatory climate and competition in China

3.1 Crosscutting challenges

Following the overall and general assessments above, the survey asked Danish companies to rate a comprehensive list of concerns – or challenges – formulated by the EU Chamber of Commerce in China (EUCCC) in their 2019/2020 Annual Position Paper.

The list of these challenges is the result of an elaborate process involving the more than 1.600 members of the EUCCC, including many Danish members. The resulting list of crosscutting and sector-specific concerns are presented in an annual EUCCC Position Paper considered a reference document by Chinese and European stakeholders alike.

Danish companies were not requested to rate all challenges listed in the report. Instead, concerns were grouped and each company asked to determine whether each group of issues (e.g. concerns related to IPR or HR) presented a challenge to them or not. If so, the company would be asked to rate each of the individual concerns related to that group.

Based on the replies, the areas most commonly found to be challenging to the Danish companies in China, overall, are compliance and business ethics, human resources (HR) and intellectual property rights (IPR). The full ranking of challenges can be seen from the figure below. Interestingly, the same three areas top the list for small and medium sized companies (SMEs) with up to 250 employees in China confirming these findings to be of general nature.

High compliance standards not rewarded

Close to two-thirds of companies (61%) report that they have challenges within this area, most of which (63%) pointing to the fact that companies setting high internal compliance standards are not rewarded for their efforts. Some comment that the punishments for non-compliance are excessively high, while rewards to companies who do are inexistent or not visible. Others still refer to the lack of clear definitions and rules open to interpretation, which in turn creates uncertainty in terms of what is and what is not allowed.

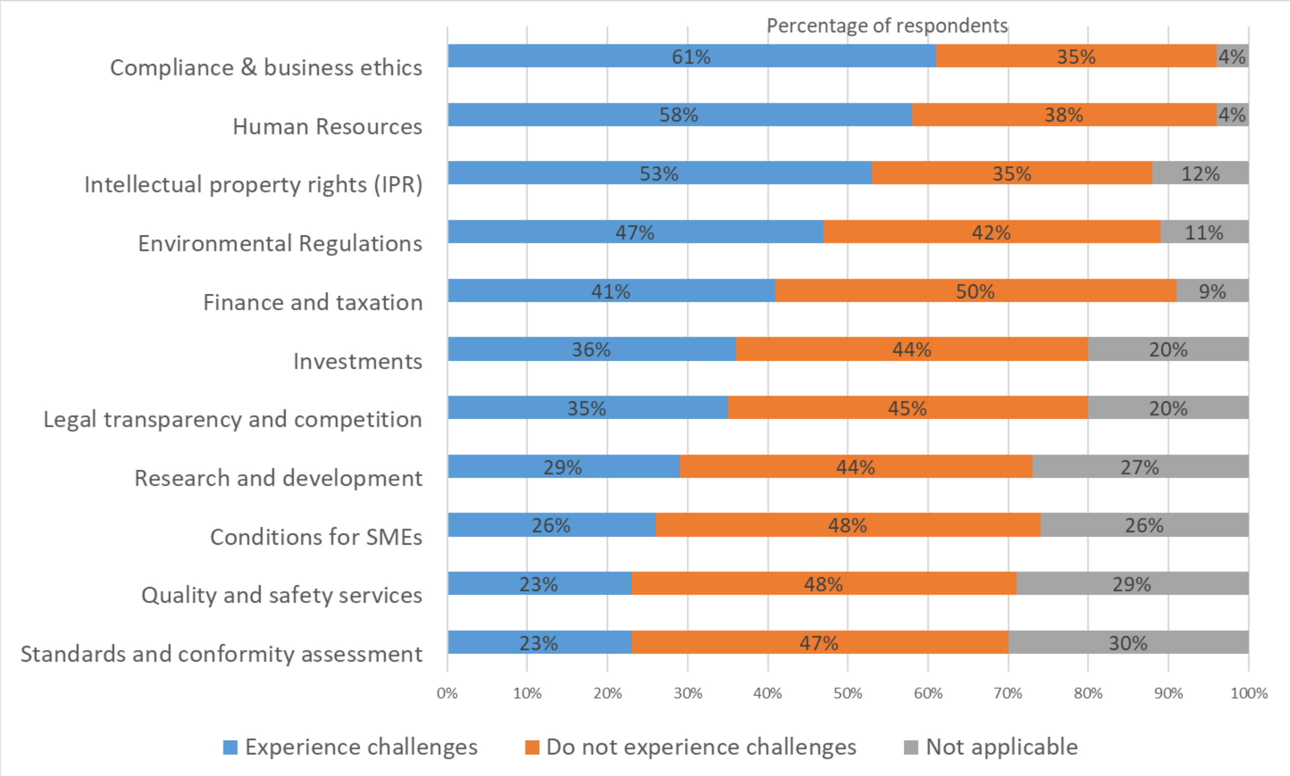

Figure 10 Overview and ranking of the crosscutting challenges

Complex or unclear rules create widespread HR issues

More than half the Danish companies respond that they have challenges related to HR. Most commonly (68%) companies explain this with reference to the current Labour Law and Labour Contract Law that do not give clear guidelines and regulations on hiring employees in a flexible way capable of meeting companies' need in a dynamic market environment. In other words, it is considered difficult and expensive to lay off people.

As seen previously, the number of Danes and other non-Chinese staff in Danish companies is low and is expected to remain so. Nevertheless, more than half the Danish companies (58%) report challenges related to obtaining work permits for them. Since the adoption of the foreigners' work permit (FWP) system, the application requirements are more complex for non-A-level talents, which constitute the majority of foreigners working in China and continue to be also very much needed by foreign and local companies.

IPR is a challenge for more than half the Danish companies
IPR issues are a challenge for more than half the (53%) Danish companies, while a third (35%) do not report any particular challenges in this regard. Among those that find IPR to be challenging, three issues in particular come across as sources of concern. Two in three Danish companies (60%) find that procedural practices make it difficult to guarantee full transparency in the judicial debate and, indirectly, increase the workload of China's courts. Half the companies (54%) find that many cases only award very low damages to trademark owners even when infringers are caught with large inventories of infringing goods. Half the companies also agree (52%) that it is increasingly worrisome that intentionally transformed trademarks infringe existing ones.

Environmental regulations need to be consistent and predictable
Environmental regulations seem to divide Danish companies between half that find them to be a challenge (47%), while the other half do not (42%).

Among those reporting challenges related to environmental regulations, the vast majority and most widely reported challenge relates to local governments implementing environmental protection initiatives in an inconsistent or unpredictable way. Another similarly widely reported challenge has to do with energy-efficient solutions in buildings and the lack of incentives to promote their use. Finally, sludge water disposal remains a major issue to a significant number of Danish companies despite some progress in recent years.

Could investments be less challenging than expected?
Somewhat surprisingly, almost half the companies (44%) state they have no concerns related to investments, while only slightly more than a third report they do (36%). This may reflect that the companies responding are already located in China and may very well differ from the outlook of companies not already established here. Also, the answers may reflect the extent to which companies plan further investments, with those not planning investments generally not indicating that they consider it a challenge.

Among the third of companies reporting challenges, the most widely reported and strongly felt are restrictions limiting the development of foreign companies in the ICT sector closely followed by restrictions on foreign invested entities' access to the Chinese capital markets.

Taxation issues make international recruitment difficult
Finance and taxation are not considered challenges for one in two Danish companies (50%), but among the 41% that do, the fact that the Chinese tax system hampers retention of foreign talents is the most commonly cited challenge. This is followed by China's VAT system that companies find needs to be aligned with international norms as well as tax problems stemming from the General Administration of Customs' (GAC) rules for tax valuation of dutiable items inconsistent use of transfer pricing (TP) evaluation approaches, which results in undue tax burdens on foreign companies.

Design companies especially face SME related challenges
Especially companies within the design sector – comprising the creative sectors as well as e-commerce – face the specific challenges related to SMEs. More than half the companies in the design sector say they are facing such challenges, whereas a small fraction of companies in other sectors report experiencing the same issues. This also reflects the general fact that companies

within the design sector are considerably smaller on average compared to their counterparts in the energy and maritime, environment and water, health and food sectors. The most prevalent challenge facing design SMEs is their struggle to access financing, while also regulatory and licence approval system – especially at the implementation level – create difficulties for a majority of Danish SME's in this sector.

Legal transparency in general remains a major issue

About a third of the Danish companies in China (35%) report that they experience challenges related to legal transparency and competition. In spite of some progress, Danish companies continue to find the overall lack of legal and regulatory transparency in China to be a continued problem. Other than the Foreign Investment Law – as referred to in a later section – the companies also, to a lesser degree, point to concerns as a result of restrictions placed on foreign law firms operating in China.

Research and development limited by legal challenges

Difficulties in exercising legal rights with regards to IP rights serves as a major hindrance to investing in technological innovation in China. Danish companies stating they face challenges within the field of research and development strongly agree with this statement. Although they are just about one in three respondents (29%) to state so, it obviously covers a much larger proportion of the Danish companies that actually report conducting R&D in China. Less prevalent challenges relate to the lack of access to R&D-related tax deductions for foreign companies and lack of support for commercialisation of academic R&D, which in turn is slowing down Chinas green development.

Lack of international standards a barrier to Danish companies

Standards and conformity-related challenges generally apply to about one in four companies that refer to the barriers to access the high market created by multiple requirements that are not coordinated and place undue burdens on foreign companies without increasing product safety. They similarly point to China's non-compliance with WTO Trade Barriers to Trade (TBT) principles that create unnecessary obstacles. Also the lack of equal access to standardisation work as well as the limited implementation in all fields of the new Standardisation Law creates undue barriers to foreign companies active in China.

Public monopoly on testing and certification inspection poses problems

In terms of crosscutting challenges, quality and safety issues come last on the list of challenges faced by Danish companies in China, but it nevertheless touches almost one in four respondents (23%). They especially point to public institutions being the only to qualify to provide special equipment testing and inspection services posing a challenge by hindering independent third party Testing and Inspection Certification (TIC) companies to work in China.

3.2 Sector-specific challenges

Danish companies taking part in the survey were asked to determine which of a number of sectors they belong to, allowing respondents to indicate more than one sector (see annex for details). Based on these self-assessments, companies were subsequently asked to assess sector-specific challenges as formulated by the EU Chamber of Commerce in China (EUCCC) in their 2019-2020 Annual Position Paper. Their replies form the basis of the results below.

Insufficient food safety legislation a challenge

Among the companies belonging to the food and agriculture-related sectors, respondents unsurprisingly indicate a number of regulatory challenges limiting their activities in China. Most notably, the companies largely agree that they face challenges due to the common problem of inconsistent enforcement of regulations and potential non-compliance risks.

To a lesser degree, the companies point to challenges due to the lack of a unified standard to help companies establish a food traceability system. Similarly, companies in this sector also indicate the lack of a rapid response system and information exchange channel, as well as a clear division of responsibility among stakeholders, which pose risks for food safety.

TOP CHALLENGES: FOOD

<u>As defined in the EUCCC Position Paper 2019/2020:</u>

Inconsistent enforcement of enforced rules and regulations is unfortunately a common problem, which lengthens approval times, increases operational complexity for companies and leads to potential non-compliance risks.

There is no unified standard or guideline to help businesses establish food safety traceability, and any monitoring that does exist is not robust enough to communicate all food safety risks, meaning the resulting information can easily be changed or falsified.

The lack of a rapid response system and information exchange channel, as well as responsibility among relevant stakeholders, pose a great risk to food safety.

Healthcare equipment and devices marred by widespread regulatory challenges

Regulatory challenges are widespread within the healthcare sector. About half the companies in the sector report having challenges related to healthcare equipment, pointing to numerous issues. Chief among these is the lack of reform and acceleration of the China Food and Drug Administration (CFDA) type testing on the one hand, and the fact that Chinese medical device regulations requiring market approval in the country of origin before starting registration in China, on the other.

Several other widespread challenges are also reported: Procurement policies for disposable medical devices that only aim at reducing costs while neglecting the total cost of treatment and lifecycle costs of medical devices. Also, requirements for clinical evaluation differ from the guidelines agreed upon at the International Medical Device Regulators Forum (IMDRF). Finally, the lack of conditions for application of diagnostic related groups (DRG) as there is no unified standard for DRG and no reliable data for expenses for treatment of diseases, resulting in underfunding of hospitals.

As for companies working with medical devices specifically, companies widely agree that Chinese regulatory standards often differ from international standards and that similar products made by local Chinese companies and foreign companies receive different outcomes to their application procedures.

TOP CHALLENGES: HEALTH

<u>As defined in the EUCCC Position Paper 2019/2020:</u>

Current Chinese medical device regulations hamper flexible, globalised marketing and production, with the requirement to obtain market approval in the country of origin before starting registration in China delaying market access by at least 18 months.

In 2017, the then China Food and Drug Administration (CFDA) promulgated a series of promising documents on the reform of medical devices supervision, including acceleration of type testing, however the legislative procedure, with the amendment of Order No. 680 at its core, has not yet been completed.

Chinese regulatory standards often differ from international standards, in which similar products made by local Chinese and foreign companies receive different outcomes/approval

China's volume-based procurement (VBP) policy has significantly reduced drug prices, however, the one winning bidder principle has impacted both patients' and doctors' access to drugs and taken a strong toll on market competition.

Rare disease patients in China currently have limited access to care, as few rare disease drugs are registered, diagnostic capabilities are limited and public medical insurance does not cover their conditions.

The pharma industry widely challenged

Pharmaceutical companies similarly report widespread challenges of a regulatory nature. The primary challenge reported by innovative pharmaceutical companies is the increased threat from generic drug companies under current policies that favour the latter.

Other widely reported challenges include the continued lack of detailed rules for IP protection in the pharmaceutical sector. Rare disease patients in China having limited access to care due to few rare disease drugs being registered and remain uncovered by public medical insurance. And finally, a general disconnect between the commercial and public medical insurance systems.

Creative industries generally spared sector-specific challenges

Only few companies in the design, e-commerce and creative sectors report experiencing specific challenges beyond those that apply across sectors. Those that do, however, point to the current product quality law that does not outline legal responsibilities precisely, resulting in unbalanced penalties for infringements and uneven enforcement across China.

TOP CHALLENGES: DESIGN (CREATIVE INDUSTRIES AND E-COMMERCE)

<u>As defined in the EUCCC Position Paper 2019/2020:</u>

Legal responsibilities are imprecisely outlined in the current Product Quality Law, resulting in unbalanced penalties for infringements and uneven enforcement across different jurisdictions, which has a significant impact on legal predictability

Because of low entry thresholds, and the lack of corresponding supervision, the spread and sale of fake products on some social media platforms that have e-commerce functions is becoming increasingly serious, which is significantly harming the interests of both brand owners and consumers.

Chinese policies insufficient to develop sustainable energy sector

Among Danish companies belonging to the energy and maritime sectors, about 40% indicate experiencing overall energy-related challenges. The answers indicate issues that primarily stem from unclear or insufficient national regulations to develop the sustainable energy sector efficiently.

Most prevalent among the challenges mentioned by companies is the lack of clear renewable energy utilisation guidelines in the nationwide Chinese energy framework combined with a cost focus that makes the new energy sector unsustainable.

TOP CHALLENGES: ENERGY

<u>As defined in the EUCCC Position Paper 2019/2020:</u>

To achieve energy transition and meet the objectives set out in the 2015 Paris Climate Conference of the Parties (COP21), and reiterated in COP24 (Katowice), China must focus on energy intensity reduction and shift towards low-emission energy generation.

Decarbonisation in China is not possible without hydrogen generation from renewable energy, but China has not yet adopted the widespread use of hydrogen as an energy carrier, and supporting policies and legislation are inadequate.

Due to the lack of clear renewable energy utilisation guidelines in the nationwide energy framework, electricity from wind and solar power plants is either accounted as a simple add on to the power system or eventually curtailed, while a cost focus on calculating returns and reprioritisation of sector maintenance has made the new energy sector unsustainable.

Companies also point to the challenge stemming from China not sufficiently focusing on energy intensity reduction and shifting to low-emission energy generation to meet Paris Agreement commitments. Finally, Danish companies regret that China has not adopted widespread use of hydrogen as an energy carrier and lack supporting policies and legislation, preventing effective decarbonisation from renewable energy. No clear picture emerged concerning companies within environment and water, as none of the challenges were highlighted by more than one respondent.

Maritime sector suffers effects of discriminatory treatment

Companies belonging to the maritime sector report challenges related to shipbuilding. Their main challenges relate to government intervention and trade-distorting practices on the one hand, and hidden market access barriers on the other. Despite the shipbuilding industry having been removed from the foreign investment ’negative list’, companies find that they struggle to access the sector due to hidden barriers and discriminatory treatment arising from subsidies, tax benefits and preferential treatment extended to Chinese state-owned enterprises (SOEs).

TOP CHALLENGES: MARITIME (INCL. SHIPPING)

As defined in the EUCCC Position Paper 2019/2020:

Despite the shipbuilding industry having been removed from the Foreign Investment Negative List, European companies struggle to access the sector due to hidden market access barriers and discriminatory treatment arising from the proliferation of subsidies, tax benefits and preferential treatment extended to state-owned enterprises (SOEs).

Government interventions and trade-distorting practices have the potential to prolong the severity of the current excess capacity problem in shipbuilding, jeopardising the recovery path of the global market towards a healthier business environment and more profitability.

It is of utmost importance that the Global Sulphur Cap 2020 is followed by effective and global implementation and enforcement to ensure a level playing field.

Liner shipping companies call for level playing field

In international liner shipping, companies specifically point to the need for the Global Sulphur Cap 2020 to be implemented effectively and globally to ensure a level playing field in the sector. Other challenges of particular note are the number of containers originating in China that are found to have inaccurate weight or content declarations as well as the very demanding and costly requirements following implementation of the Chinese Cybersecurity Law.

TOP CHALLENGES: OTHER

As defined in the EUCCC Position Paper 2019/2020:

Foreign banks, futures brokers, securities houses and fund management companies are still prevented from obtaining licences comparable to those of local Chinese firms, which inhibits their organic growth.

Chinese authorities need to do more to facilitate the setting-up of the Shanghai clearinghouse, specifically by implementing an equivalent system of recognition of foreign central counterparties (CCPs).

CHAPTER 4. Views on current events

The final section of the survey was used to include a few additional questions related to current changes in the global business environment that could affect framework conditions for the Danish companies in China.

Trade conflict between the US and China has mixed impact

The present survey was conducted in December 2019 during the ongoing trade negotiations between the US and China, but prior to the signing of the US-China Phase 1 Trade Agreement in mid-January 2020. Their assessment of the impact of the trade conflict on their activities – and the mixed picture it provides – should be seen in that light and at that stage.

The majority of respondents (58%) found that the impact of the trade conflict between China and the US on their companies' activities in China has had little (35%) to no impact (23%), while 42% reported the conflict to have a medium to large impact. Less than one in ten found that the trade conflict was having a large impact on their activities – at that point in time (9%).

The many additional comments provided paints a picture reflecting the complex supply and trading patterns of the global economy. Some companies indicate being affected directly or indirectly by fewer orders from US customers, while others – and sometimes the same – see an offset generated by greater interest from Chinese customers.

> “*Everybody in the business of manufacturing in China that sends output to the United States have been affected and have a real issue. Also, some specific categories of goods have been more affected than others; those categories that have been directly implicated hurt the companies dealing with them. But one of the main takeaways is that it was a hard period in terms of investments because of the uncertainty and not knowing what would be the next area to be affected.”*

Uncertainty surrounding the Corporate Social Credit System (SCS)

The Chinese Social Credit System (SCS) has attracted widespread international interest and concern. Less interest has surrounded the Corporate SCS that is also planned to be rolled out in 2020, stemming – no doubt – from a lack of information, transparency and understanding of its implications for the business community.

When asked about their views, Danish companies seem to echo that sentiment as almost one in two (44%) assess the system to be of some concern (i.e. right in the middle of the scale ranging from 'no concern' to 'great concern'), while almost as many rate it to be either of no or little concern (41%). Just 5% of the Danish companies rate the Corporate SCS to be of great concern.

Based on the comments from the survey, it is clear that Danish companies are generally uncertain of the implications of the Corporate SCS and its implications on their activities.

> *I think there are many levels in this. First, we just don't really know what it is going to be like. The second part is that many Danish companies have a high CSR profile and do things in accordance with the book. So many feel that if we run things as we usually do, we are one of the last ones to be singled out as being bad actors."*

State-Owned Enterprises create unease

Questioned about their concerns related to the increasing role of State-Owned Enterprises (SOEs) in China in their sector, about half (52%) report having no to little concerns. Only 13% reported have high or great concerns. There are significant differences in outlook between sectors, with health, energy and maritime as well as environment and water expressing the greatest concern.

The jury is still out on the Foreign Investment Law

Almost three in four Danish companies (71%) neither agree nor disagree that the new Foreign Investment Law that came into effect on 1 January 2020 meets the requirements to satisfy foreign investors' needs. Only one in five agree (20%), while a minority disagree (9%). Comments indicate that most do not find the law to be adequate or sufficiently clear, while one in particular likely speaks for all when stating that a foreign investment law should not be needed to begin with, as all investments should be treated the same.

Anti-Unfair Competition Law does not change outlook on IP protection

Close to a third of the Danish companies neither agree nor disagree that the scope and content of the revised Anti-Unfair Competition Law (enhancing trade secret protection and improving IP protections for multinational corporations active in China) meets the requirements of companies. The remaining views are mixed with a quarter agreeing (25%) and the rest disagreeing (16%).

Most comment that the law itself is secondary to the implementation, as the present system makes it excessively costly, time-consuming and difficult for companies to protect their IP rights.

COVID-19 initial impact

Personal interviews were conducted as part of the original survey in late February and early March. While the coronavirus outbreak was already impacting the global economy unlike any previous pandemic, the spread beyond Chinese borders was still limited and the full scale of the outbreak and its implications on the global economy still to come. The primary concern at the time related to the sudden supply side shock that had hit the Chinese economy and manufacturing sector in particular.

> *For the last 2-3 days the situation in China is getting more controlled and people are more relaxed than before. But the problem is that the virus has spread to other countries. So now we also see tendencies of some provinces applying special measures for people coming back from Western countries. That can also bring us challenges."*
>
> Interview on February 25

The interviews showed an early realization that there would be no ‘one size fits all’ approach with regards to post-COVID-19 economic recovery, and that the impact of the demand-side shock that was to hit the world economy was still largely underestimated and would surpass the financial crisis in 2008:

> “*It will be case-by-case… industry-by-industry… I am sure if we are talking retail industry, there still will be a long period in which people will be hesitant to go out at the same level as they did before. But in terms of manufacturing, once things are up and running again, there is a big back log. So the wheels will be turning really, really fast. So there will be industries that will be able to catch up, but others will have a long term dislocation.”*
>
> Interview on February 21

> “*In 2008, many small shops didn’t get that affected… But in the current situation the small shops are directly affected losing money every day, because they need to pay rent and salaries, but they are not making any money. They are running out of cash. And where this money is supposed to come from, nobody knows right now. We also don’t know anything about the unemployment rate right now… It could be that millions of people already lost their jobs in the past couple of weeks, but nobody is talking about it.”*
>
> Interview on March 12

CHAPTER 5. The post-COVID-19 outbreak survey

The comprehensive online survey detailed in the preceding chapters was carried out in November-December 2019 and subsequent interviews in February-March 2020. As the findings were ready to be shared, COVID-19 had taken on global proportions. It was therefore decided to postpone plans to present the findings to a later date and to conduct a post-outbreak add-on survey in order to revisit a number of questions related to companies' future plans and expectations.

The results of the initial and the subsequent survey are not directly comparable. Although the sample of both surveys consists of the members of the Danish Chamber of Commerce in China, it has not been possible to ensure a one-to-one match of respondents between the two surveys and the 50% response rate of the add-on survey is low compared to 84% in the initial survey. Nevertheless, the findings of the follow-up survey do indicate certain trends and insights into the longer-term impact of COVID-19 on the Danish business community in China.

Activities in China still considered crucial to Danish companies' performance

The assessment of China's role to the Danish business community has only changed marginally after the outbreak of COVID-19. As was the case in the initial survey, three-quarters of respondents (74%) still agree or strongly agree that their company's activities in China are crucial for their overall (global) performance, with the only noticeable change being a significant drop in those strongly agreeing.

> “ *China has a key place on our global map and that is why we have three factories here."*
>
> Interview on June 1st

> “ *Going forward, the site has significant importance. Our ambitions are high and we expect a large impact on the group's consolidated figures from our company in China."*
>
> Interview on May 28th

> “ *Being present in China now is more important than it has ever been. If walls are erected for one reason or another, you need to be inside that wall or you cannot survive."*
>
> Interview on June 3rd

Companies in China, for their share of the market – seemingly more so than before

In the pre-COVID-19 survey Danish companies were asked to give up to three reasons for their presence in China. Access to the Chinese market (83%) was the prevalent response followed by product development (51%), also for the Chinese market, followed – in equal proportion – by procurement activities for China and manufacturing for markets outside Asia, respectively, as indicated by almost half (46%).

In the post-outbreak survey, the Chinese market is still by far the most prevalent reason (86%) for the Danish business community to be present in China now – as well as in 12 months' time.

> *We see a clear tendency that the companies that invest in China for the purpose of providing goods and services in China for the Chinese market are actually the ones that do best and are the most optimistic. While the companies that are typically manufacturing for the markets outside of China are probably the ones that are now looking at how to reduce their exposure by creating the supply chains that are not so dependent on China."*
>
> Interview on June 2nd

Further reasons given by the survey respondents confirm – even strengthen – their being in China for its market post-COVID-19. Now, more than half point to product development (61%) and to manufacturing for the Chinese market (60%), while manufacturing for the Asian or global markets is indicated by only about one in five. Only in terms of procurement satisfying global market needs plays a significant role in Danish companies' decision to be in China (36%).

Short-term plans to expand capacity in China lower after the COVID-19 outbreak

At the time of the original survey, the vast majority – three quarters – of Danish companies planned to increase capacity investments in China by more than 10%, most of which with regards to both personnel and investment in assets. Following the COVID-19 outbreak, this assessment has lowered considerably for the coming 12-month period, as 40% of respondents do not foresee any such expansions, while close to one in three (29%) maintain plans to expand both personnel and investment in assets by more than 10%.

> *The investment plan for the new sites has already been confirmed before the COVID-19. The new factories are so vital to our future in China that we could not stop these projects."*
>
> Interview on June 1st

Conversely, less than one in ten (7%) plans to divest or decrease personnel by more than 10% in the coming 12-month period.

Longer-term recruitment perspectives are still very positive

When asked about the approximate number of staff employed in China, companies were generally very positive in their assessments looking five years into the future. As for Chinese staff, more than 70% of companies expected numbers to be increased and only 10% for that number to be lower. As for expatriate staff, only about one in five expected the number to increase, while less than one in ten expected the number to have dropped five years from now.

COVID-19 challenges primarily linked to operations and pressure on demand in China

More than eight out of 10 (83%) companies – naturally – agree that COVID-19 has presented new challenges. Two thirds (66%) indicate limitations on regular business operations as a challenge, making it the most commonly experienced issue. As many companies focus on the Chinese market, it is expected that this is closely followed by demand-related challenges in China affecting 60% of respondents, while 43% experience supply-related obstacles in- and outside China. New regulatory challenges affect only a minority – one in five.

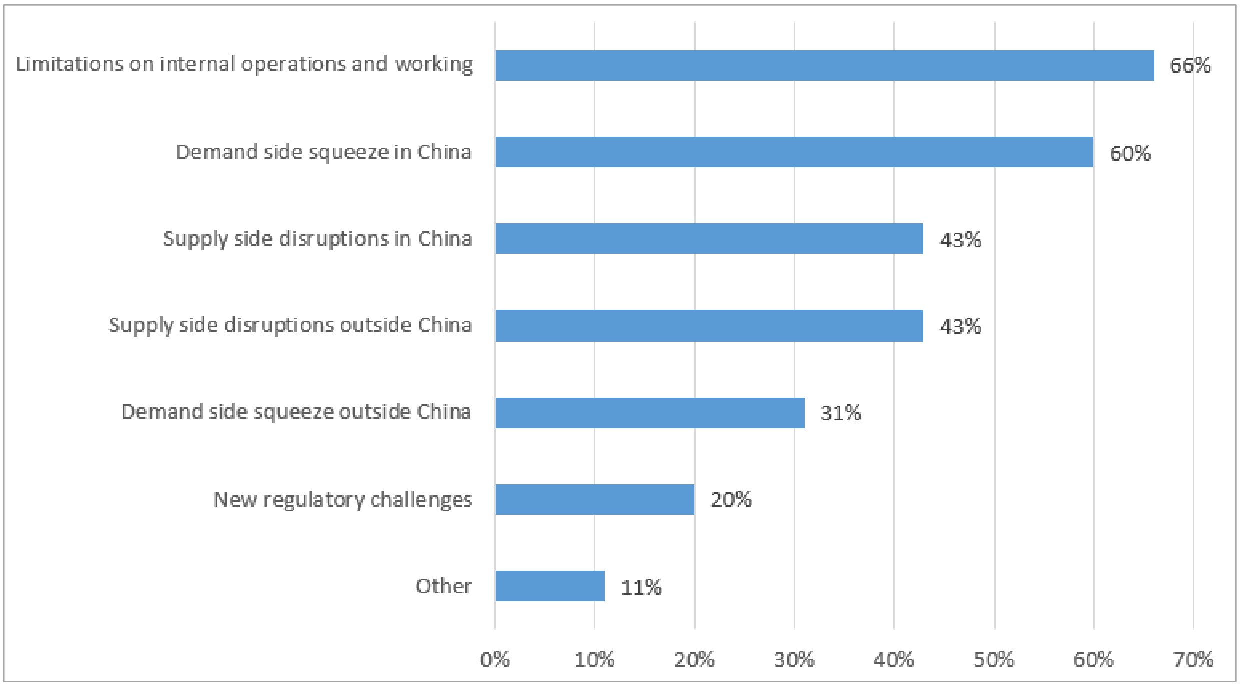

Figure 11 Challenges caused by the COVID-19 pandemic

Supply chain adjustments can be expected following COVID-19

As can be seen from the figure 12 below, the most widespread measures taken to deal with COVID-19 related challenges have been internal, e.g. expanding opportunities for remote working (71%) and on-site protective measures (54%). A third of respondents point to (greater) engagement with public authorities while one in five point to taking a more dispersed approach to supply chains to prevent future challenges, which is further supported by more than one in ten respondents taking a greater 'China-for-China' approach to their supply chain.

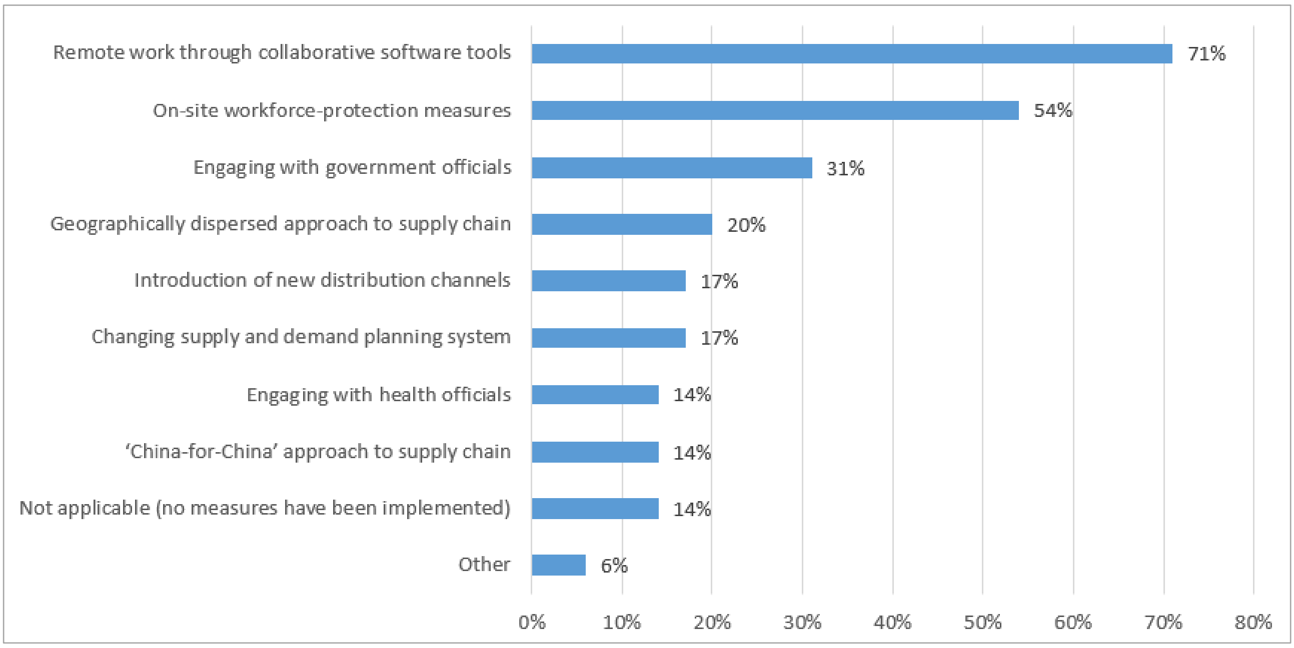

Figure 12 Measures implemented by companies to deal with COVID-19 challenges

Lessons and new opportunities

The silver lining to COVID-19 can be new opportunities that the crisis has revealed. Some of them relate to new ways of organizing work. With 71% of respondents implementing remote work measures, companies in China have gained real-life experiences with work from home that will have *profound longer term implications on the way work is organized*.

> “ *I think this is something that we have learned. Our Chinese employees have never tried before the freedom of working from home. This was a big lesson for all of us and some people really blossomed.”*
>
> Interview on June 1st

The disruptions caused by COVID-19 have proved to be the ultimate test for many companies. While some are still suffering the implications of the disruption, others highlight *opportunities for improving their position in the market*.

> “ *We know that our competition is under pressure, some more than others. Of course we all are, but I think we can walk a longer mile under this pressure than some of our competition and that may bring an opportunity, meaning "picking up" customers from our competition."*
>
> Interview on May 28th

COVID-19 has also manifested itself as an accelerator of change – and in the business world that acceleration might have been especially pronounced in the *advancement of e-commerce and digitization*.

> “ *Acceleration of e-commerce is also an important lesson from COVID-19. China has already been very far in this area and had the logistics systems to support that. However, the lockdowns with the narrative of 'stay at home and shop at home' accelerated this even further."*
>
> Interview on June 3rd

ANNEX: The ACBAG survey partners

The survey presented in this report was initiated by the Ambassador's China Business Advisory Group (ACBAG). The forum was launched and is chaired by the Danish Ambassador to the People's Republic of China and consists of locally based representatives of the Danish business community. The initiative was based on the recommendations made by an Expert Panel on Global Growth Centres (China) in March 2019. The ACBAG has 16 experienced executives as members. They have been personally invited to join the group in order to represent the various sectors and business interests of the Danish business community in China. The ACBAG has followed the preparation of the survey closely, tasking the following institutions with preparing, implementing and presenting the survey findings:

ROYAL DANISH EMBASSY
Beijing

Royal Danish Embassy in Beijing

The Royal Danish Embassy in Beijing is Denmark's foremost diplomatic mission in the People's Republic of China. Its primary tasks include providing sector-specific assistance to the Danish business community in relation to its activities in China and with regards to the Chinese market, ranging from overall trade policy issues to tailored assistance to individual Danish companies. The Embassy has served as the lead on the project.

DCCC 中 国 丹 麦 商 会
DANISH CHAMBER OF COMMERCE IN CHINA

Danish Chamber of Commerce in China (DCCC)

The DCCC is a non-profit and non-Government affiliated organization of Danish businesses in China. Members comprise about 90 Danish companies within a wide range of industries as well as individual members and partners – visit our website for more info. Having chapters in North, Central and South China, the objectives of the DCCC is to promote study and advance commercial relations, investments and trade between Denmark and China. This is achieved through regular member events/workshops and by engaging Chinese and Danish public stakeholders and business organizations on matters relevant to Danish companies in China. DCCC is also the facilitator of various social events for the Danish community in China.

SDC
The university partnership
Denmark – China

Sino-Danish Center for Education and Research (SDC)

SDC is a partnership between all eight Danish universities, the Chinese Academy of Sciences (CAS) and the University of Chinese Academy of Sciences (UCAS). SDCs activities include Danish-Chinese research collaboration within selected focus areas, affiliated Master's programmes and training of a large number of PhD students. The overall objective is to promote and strengthen collaboration between Danish and Chinese learning environments and increase mobility of students and researchers between Denmark and China. Sino-Danish Center is located at UCAS' Yanqihu Campus north of Beijing.

ANNEX: Study background and methodology

In June 2019, the Ambassador's China Business Advisory Group (ACBAG) decided to initiate preparations of a survey intended to create an overview of sector-specific regulatory challenges facing Danish companies with activities in China. Based on input from ACBAG, a working group was established to draft and conduct the survey. The working group, led by the Royal Danish Embassy in Beijing, included the Danish Chamber of Commerce in China (DCCC) and the Sino-Danish Center for Education and Research (SDC).

In terms of challenges, the ACBAG decided not to duplicate nor weaken efforts by the European Chamber of Commerce in China (EUCCC). The annual EUCCC Position Paper contains a comprehensive list of regulatory concerns – or challenges – faced by the European business community in China, including those of their many Danish members. It was decided to use these concerns as the starting point, allowing the present survey to identify and prioritize – among the EUCCC's comprehensive list – the most pressing challenges to the Danish business community.

The ACBAG also decided to use the survey as an opportunity to go beyond traditional trade statistics and obtain a more nuanced and informed view of the role that the market, activities and partners there play to the Danish business community.

Members of the DCCC were invited to participate in the survey provided they were Danish companies representing Danish commercial interests in China, i.e. had a Danish business registration (CVR). A total of 79 companies were identified, in many cases representing multiple legal entities in China. Invitations to participate were sent to the CEO or another member of management.

The final survey contained four sections:

- The first section contained basic questions related e.g. size, location and activities of the responding companies.
- The second section shed light, in various ways, on the importance of China to the responding companies.
- The third – and longest – section related to regulatory challenges using the 2019-2020 edition of the EUCCC Position Paper (published 14 September 2019) as a starting point.
- The fourth, and final, section asked respondents to indicate the extent to which they agree to a number of statements related to current affairs.

Respondents were invited to take the survey online starting the 19th of November 2019 and until the end of the year using the SurveyXact platform. Multiple reminders were sent to encourage respondents to take part. By the closing of the survey, 66 respondents had taken the complete survey, resulting in an 84% response rate. Another six respondents provided partial responses, while eight did not respond.

Among the participants, 14 companies indicated belonging to the design sector, 21 to the energy and maritime sectors and 13 to the environment and water sector. The Food sector counted 11 respondents and the heath sector 15. A total of 18 companies comprised the group of other (including banking, logistics etc.).

The qualitative part of the study was complemented by ten interviews with respondents that had agreed to be contacted. The interviews were carried out by SDC in February and March 2020.

While analysing the data from the online questionnaire, some limited omissions or adjustments of data have been made when necessary to maintain data consistency.

The add-on survey contained 10 questions following up on changes in company activities and resources as a consequence of COVID-19, on the outlook on China and on new challenges faced by companies in the wake of COVID-19. The survey was carried out online using the same platform and format as the initial survey.

With only minor changes, the survey was sent to the same group of respondents in early May 2020. The response rate was predictably lower due to COVID-19 concerns in the companies, but reached 50% (42 respondents).

ROYAL DANISH EMBASSY
Beijing

DCCC 中国丹麦商会
DANISH CHAMBER OF COMMERCE IN CHINA

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