



Ministry of Foreign Affairs of the
Netherlands

Dutch business in China

Business survey 2016

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"We need to take the Netherlands to the Next Level for the sake of sustainable growth and prosperity. For that, one of the pillars is internationalisation. Our opportunities lie across the border."

The economy in China currently only slightly surpasses that of the Eurozone, but in 2060 the Chinese economy is expected to be three times as large. This growth offers us tremendous opportunities for numerous sectors, and companies of all sizes.

We must reap those benefits together by presenting ourselves as a strong, united team."

Hans de Boer
President VNO-NCW



Source: VNO NCW





Preface

It is with pleasure and pride that I present to you the outcome of the third bi-annual business survey, issued not only to underline the importance of China for the Dutch economy, but also to increase our understanding of the businesses we, as an economic network, seek to support, allowing us to improve our services accordingly.

Again, as in 2012 and 2014, the survey sought to identify the characteristics, performance, and outlook of Dutch companies in China. The outcome tells us their experiences, needs, and expectations. We may conclude that the majority of Dutch companies in China are doing well. Most are profitable and expect even better results in the future, despite the economic slowdown in China. This does not mean, however, that they encounter no challenges in China's business environment.

I invite you to take a look at the results of this business survey and gain insight in how Dutch entrepreneurs experience the Chinese Business market. To those of you already present or considering to expand their business into China, this will give a better understanding of the business climate. And if you are not yet active in China, I welcome you to explore your opportunities here with us.

The Netherlands economic network in China is here to support you.

Ron Keller
Ambassador of the Kingdom of the Netherlands
Beijing, September 2016



Source: Olli Geibel



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Executive summary (1)

The results of this survey show few significant differences from the previous surveys.

Still optimistic about doing business in China

- The Chinese business climate is still seen as favourable by a small majority of the respondents (p. 18). Doing business in China is profitable for most (p. 24), and has a positive effect on the overall performance of a company (p. 25).
- Two-thirds of the respondents expect a growth in asset turnover and profitability (p. 27). European entrepreneurs in general seem to be less positive about this (source: EUCCC Business Confidence Survey 2016).
- Likewise, about two-thirds do not experience any significant negative effects of the economic slowdown in China (some even see positive effects) (p. 28).
- Dutch entrepreneurs see some strong advantages for themselves compared to their Chinese competitors: quality of management, R&D, and above all product quality (p. 19). This meshes well with the increased interest in quality products by Chinese customers (source: Bencham, Results of the Sino Benelux Business Survey 2016).

But sentiment seems to be getting less positive

- There is an increase in the number of respondents who perceive the Chinese market as (very) unfavourable (p. 18).
- While almost half of the respondents still expect the importance of China for their company's strategy to increase in the next two years, in previous years respondents were more positive (p. 22).



Executive summary (2)

Doing business in China remains challenging

- A substantial fraction of respondents report that, on the whole, restrictions on doing business have increased since 2014 (p. 30). This is again in line with the view of European entrepreneurs who think that doing business in China has become more difficult (source: EUCCC Business Confidence Survey 2016).
- The barriers to doing business mentioned most often concern government relations and the Chinese regulatory environment. Bureaucracy and the lack of transparency in legislation are the most common hurdles. Finding and retaining competent personnel, licensing, and enforcement of law and regulations also present challenges (p. 31).

CSR

- ISO 26000 and OECD guidelines are seldom part of a company's operation (p. 37). On the other hand, compared to 2014, perception of CSR compliance as an advantage for customers and suppliers is growing (p. 38).

Netherlands economic network in China

- The services most likely to be used in the future are smooth visa procedures (orange carpet) and analysis of market opportunities. A majority of the respondents expects to use these (p. 45). Assistance in the shape of networking events and seminars is appreciated by the Dutch companies (p. 46).



Methodology

Bi-annually, the Netherlands economic network in China examines how Dutch entrepreneurs and companies experience the business climate. As in 2012 and 2014, this survey was conducted so the Netherlands economic network may better align its services to the needs of the Dutch business community in China (both mainland and Hong Kong).

The research was conducted using an online questionnaire: 1091 representatives of Dutch enterprises active in China received the survey via email. After sending out two reminders, the non-respondents were approached by telephone in order to ask whether they wanted to fill out the survey. A total of 175 returned the questionnaire, a response rate of 16%. This field work, which took place in May and June 2016, was supported by the Dutch market research company Perspective (www.perspective-research.nl).

The survey consisted of 40, open and multiple choice, questions about 4 themes: background information of participants, the business climate, Corporate Social Responsibility, and the services of the Netherlands economic network. Besides these, the entities in Hong Kong received a few supplementary questions relating to their unique situation. When reviewing the results in that chapter the small number of respondents (N=14/131, 11%) should be taken into account.

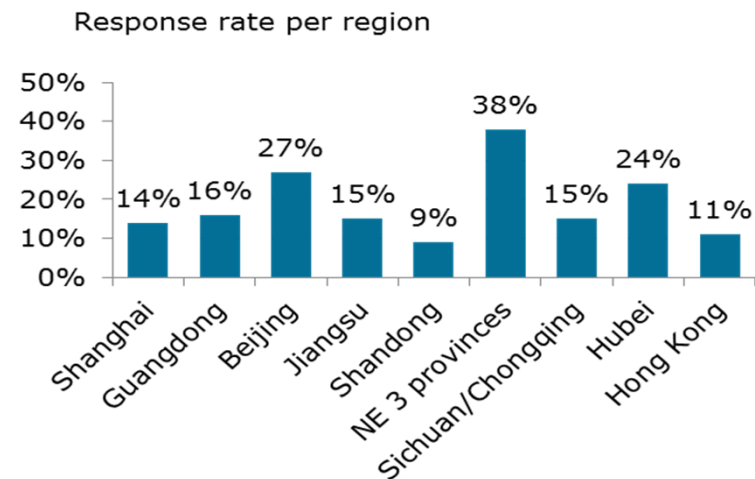
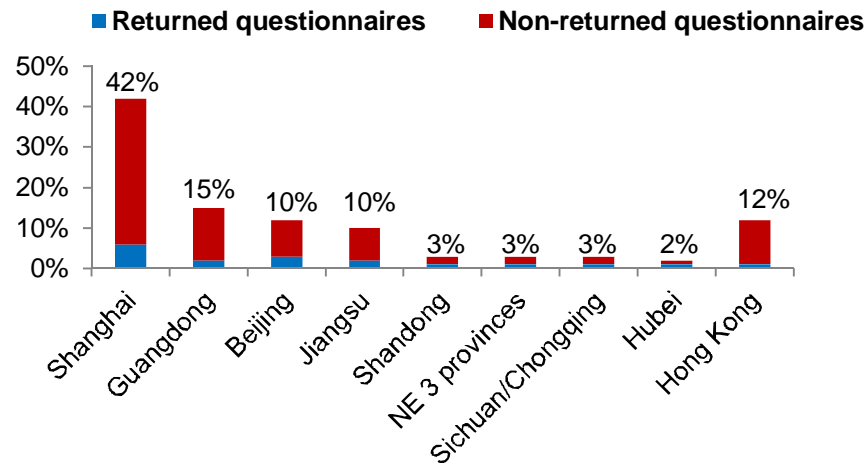
Throughout the report ↑ (increase) and ↓ (decrease) mark significant differences from the results of 2014, measured at a confidence level of 95%. When reviewing the results it is good to keep in mind that the research sample is self-selected; a description of the sample can be found in the chapter on profiles of the participants. In 2016 some new questions were added; for those no trend analysis was possible.

While this document has been produced with the utmost care, the Embassy accepts no responsibility for the accuracy of the results contained in it. Due to rounding, percentages may not always appear to add up to 100%.



Response rate per location

The questionnaire was sent to 1091 representatives of Dutch businesses in both mainland China and Hong Kong. For the purposes of this survey, 'Dutch business' has been defined as 'representative of a Dutch mother company' or 'independent Dutch entrepreneur'. The coastal provinces of Shanghai (463), Guangdong (161), Beijing (113), Jiangsu (110) and Shandong (33) host the largest number of Dutch businesses. Additionally, 32 Dutch businesses in the three Northeastern provinces Liaoning, Jilin and Heilongjiang received the survey. In Sichuan/Chongqing and Hubei, respectively 27 and 21 participants received a questionnaire. To Hong Kong 131 questionnaires were sent. Altogether 175 returned the survey. The graphs below show the number of questionnaires, and the response rates, per region.





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Chapter 1: Profiles of respondents

Source: NicolasTosi for ELLEDeco



Differences between companies (1)

The results of the survey have been factored according to various parameters, including size and location of the companies, and companies that broke even or made a profit vs. those that suffered a loss. Whenever possible, current data have been compared with corresponding data from earlier surveys (2012, 2014). Only significant differences or trends have been reported.

To enhance readability, not all these results have been included as graphs in the report; the relevant tables are available upon request.

By size: large (250+ employees worldwide) vs. small (less than 250 employees worldwide)

- Large companies performed better and suffered fewer losses in 2014-2015. Large companies however more often expect a (strong) negative impact of the economic slowdown.
- Large companies are more likely to have used smooth visa procedures ('orange carpet') for Chinese partners and working on structural trade and investment issues. They less often intend to engage the government for trade and investment promotion.
- Small companies more often report profit repatriation and unfair pricing competition from domestic companies as barriers to doing business.
- Small companies report limited access to government relations as a barrier to doing business more often than large companies do. They are also more oriented toward the market in the Netherlands.



Differences between companies (2)

By location:

- Companies in Beijing report restrictions in access to Chinese financing, subsidies and tax incentives more often than those in Shanghai. They likewise more often report restrictions due to preferential treatment in visa procedures for European competitors.
- Companies in Shanghai expect an increasing importance of China for the next two years of company strategy more commonly than those in Beijing.

By profitability: compared to companies that suffered a loss, companies that broke even or made a profit, more often report:

- having over 250 employees worldwide.
- over 250 employees in China.
- a 4 or more year presence in China.
- management quality as their competitive edge.
- an intention to make use of trade missions led by members of the Dutch government.
- being knowledgeable about the regulatory framework of CSR.
- having a (somewhat) increased attention for CSR.



Divergent opinions on 'One Belt One Road'

Selected responses to the open question: How do you assess the chances for your company, as a result of the Chinese 'One Belt, One Road'- initiative?

Unpredictable

- *'The regulations can change from day to day, which would be better or worse, we can't predict.'*
- *'One cannot depend on China government. Our possibilities change every day.'*

No benefits

- *'Nothing, the whole 'One belt One Road' is a charade that China uses to gain political control of countries between China and the west!'*
- *'This is all done with Chinese companies that are either government linked or with close connections to government. We see very few opportunities here.'*

Little opportunity

- *'Hard to get investment back due to poor countries' paying capacity.'*
- *'For the moment, we don't see any opportunity directly generated from the policy of 'One belt one road', but maybe indirectly.'*

Larger market (good) and new opportunities

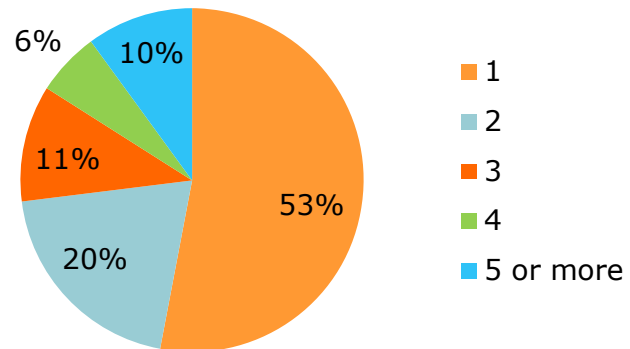
- *'Better distribution and control, makes Asia stronger. It's a good thing to have a better balance of powers!' 'investments in or through the Netherlands will increase.'*



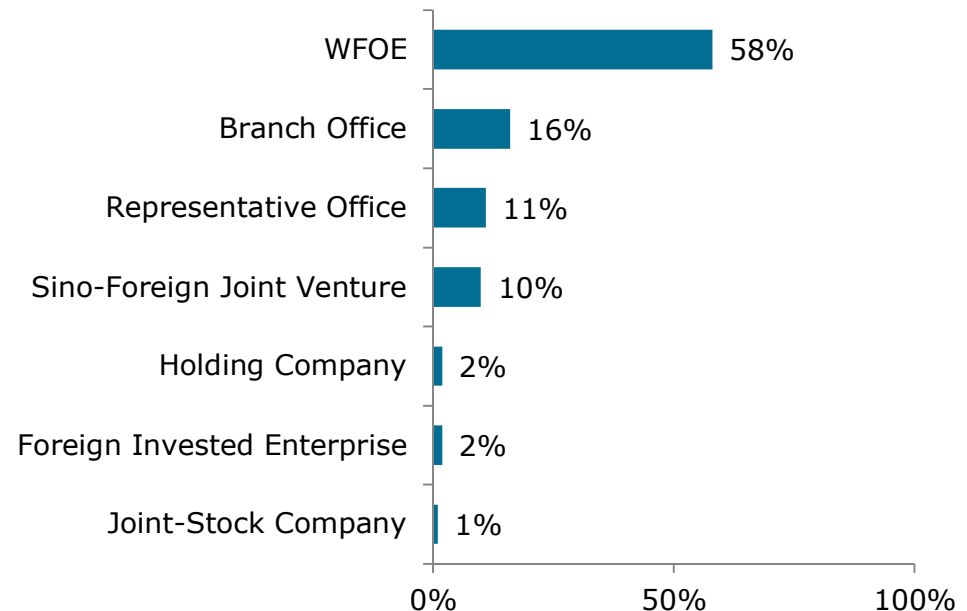
Market presence

- Most establishments are registered as Wholly Foreign Owned Enterprises (WFOE).
- Almost half of businesses have more than one establishment.

Number of establishments



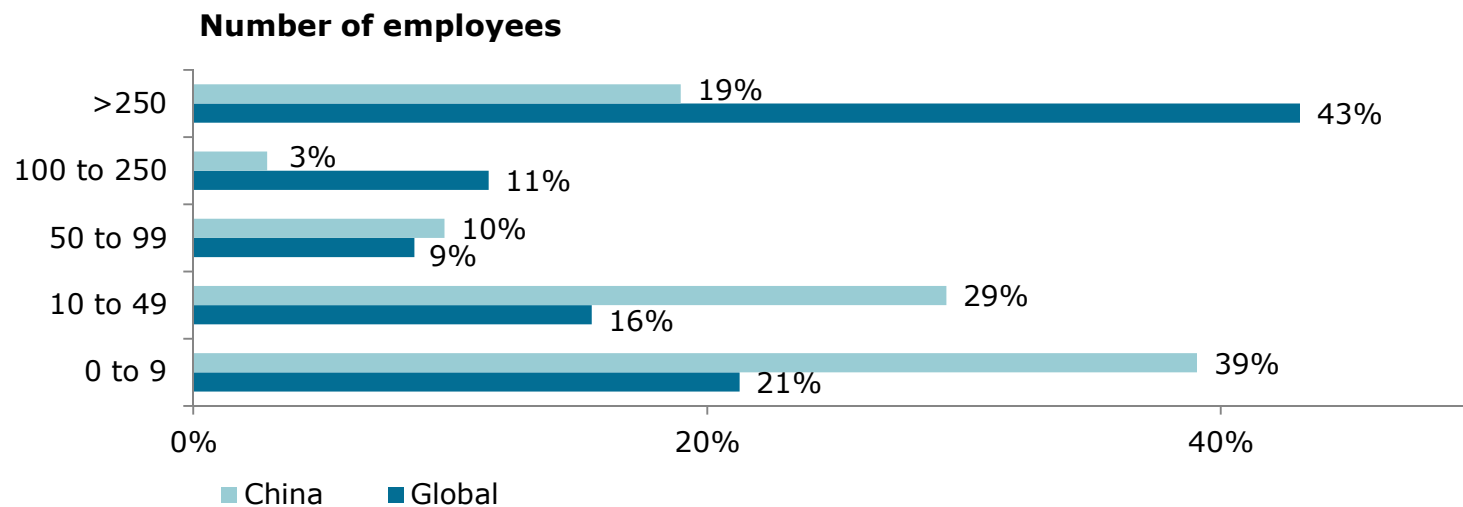
Establishments by type





Employees

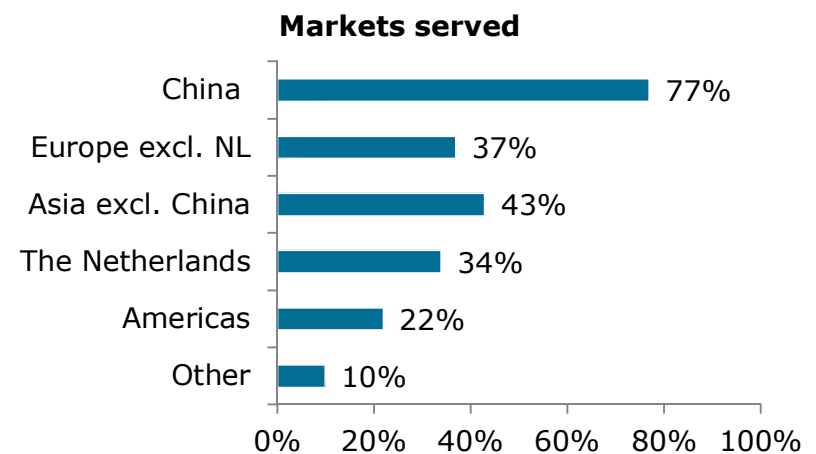
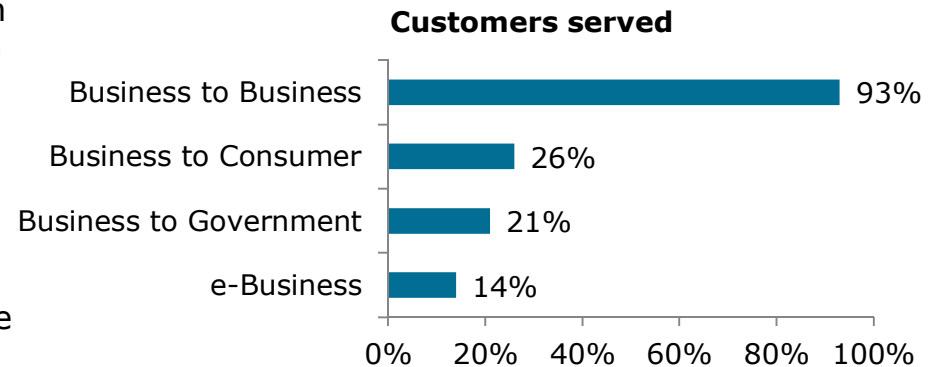
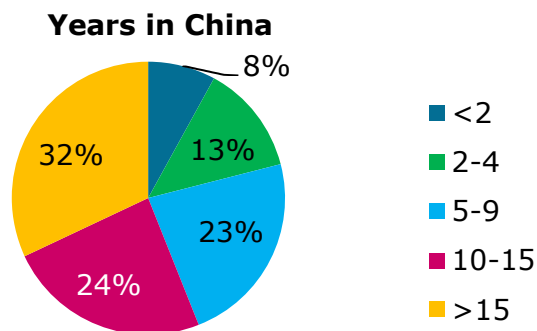
- Companies vary widely in number of employees: over half have more than 100 employees worldwide. Of these, most have more than 250 employees worldwide.
- Almost 70% of the responding companies have fewer than 50 employees in China.
- Companies that broke even or made a profit are more likely to have over 250 employees worldwide (47% vs. 26%), and over 250 employees in China (21% vs. 9%).





Customers and markets served

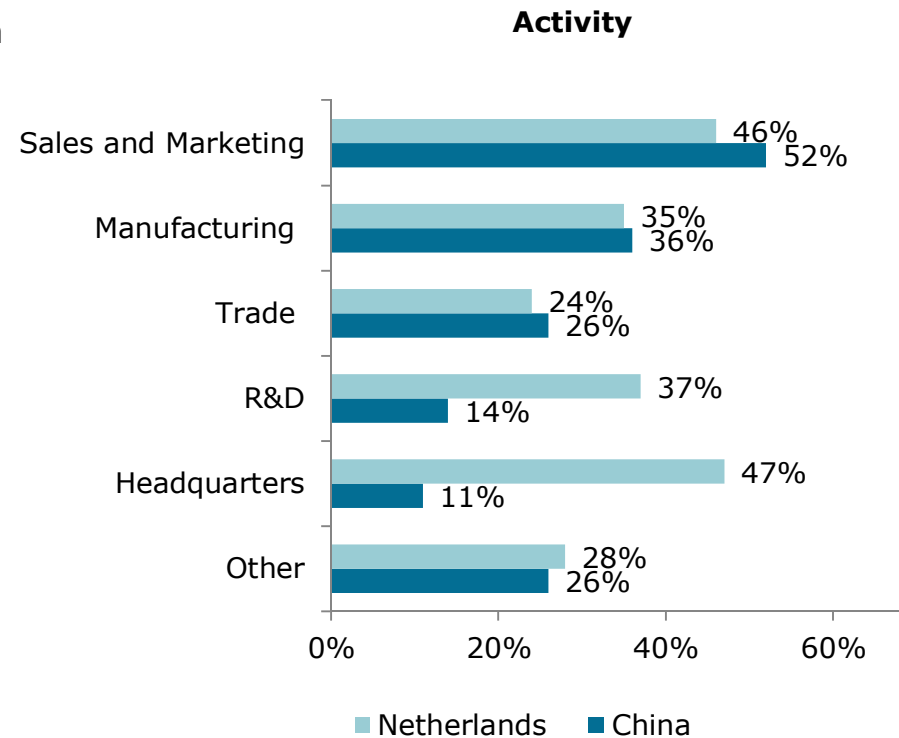
- The majority of the companies have been active in China for over 10 years, and almost a third (32%) for more than 15 years.
- Companies that suffered a loss more often have been present less than 4 years in China (47% vs. 13%).
- More often than large ones, small companies serve the Dutch market (41% vs. 24%).
- Compared to 2012 there are more customers served in the e-Business (14% in 2016 vs. 5% in 2012)





Activities

- Sales and Marketing take place both in the Netherlands and in China.
- Manufacturing takes place about as frequently in China as it does in the Netherlands.
- R&D is more commonly based in the Netherlands than in China.
- Half of the companies have their headquarters in the Netherlands.





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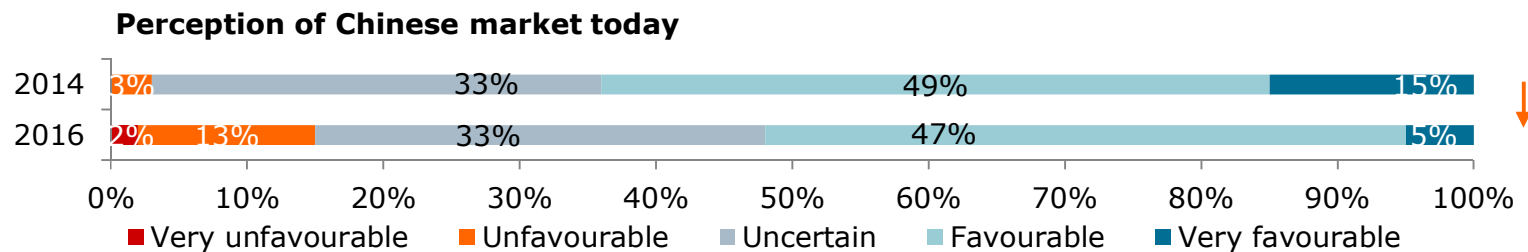
Chapter 2: Business climate in China

Source: Dirk Jan Wierenga

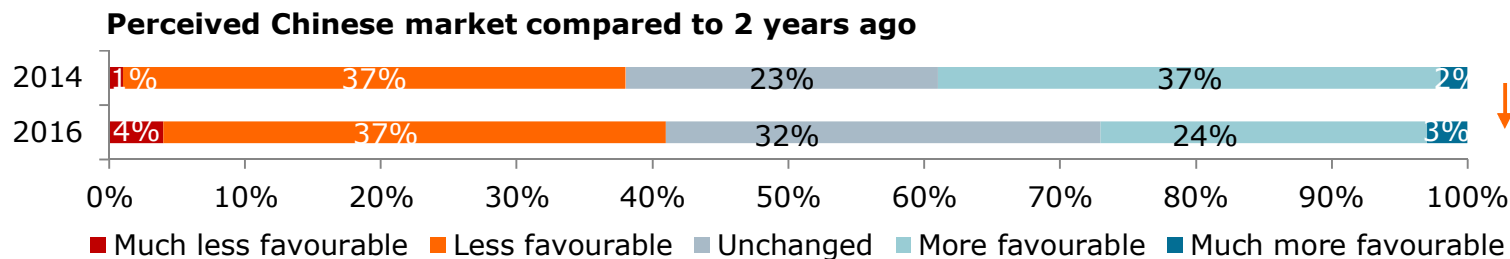


Perception of the Chinese Market

- Respondents that perceive the market today as (very) favourable, still form a majority, though a slightly smaller one than in 2014 (64%). The number of respondents who think the Chinese market is (very) unfavourable has increased fivefold, from a mere 3% in 2014 to 15% now.



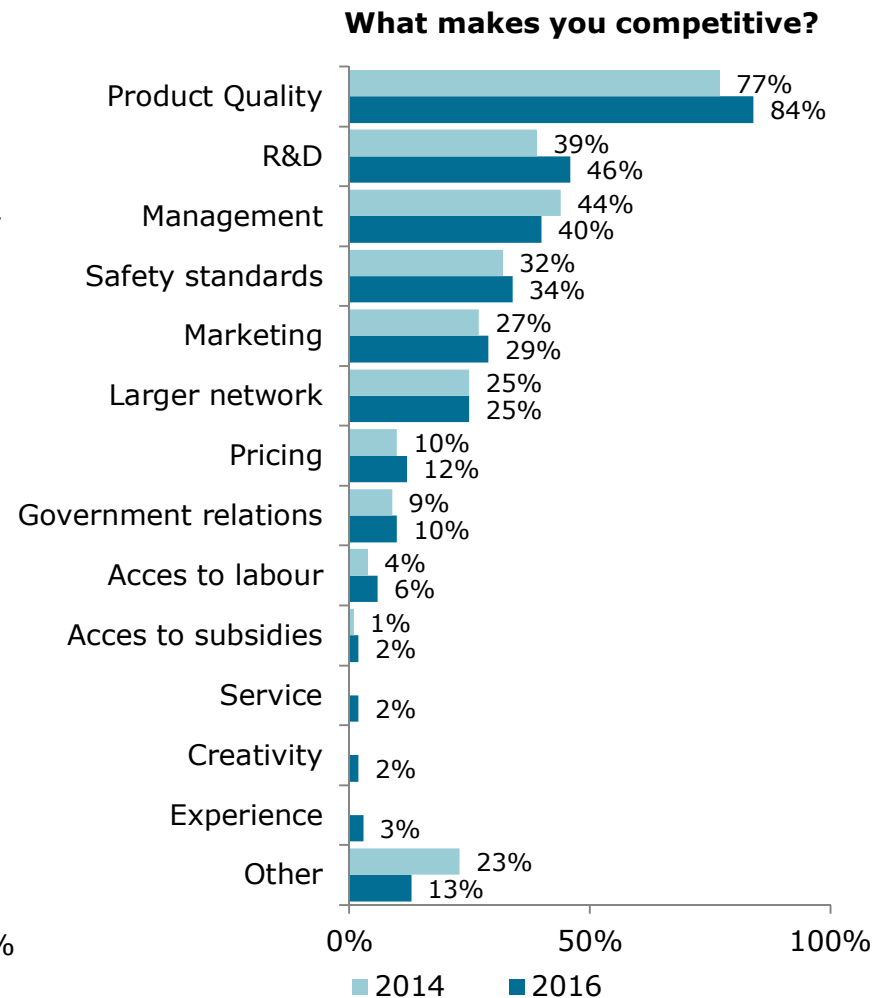
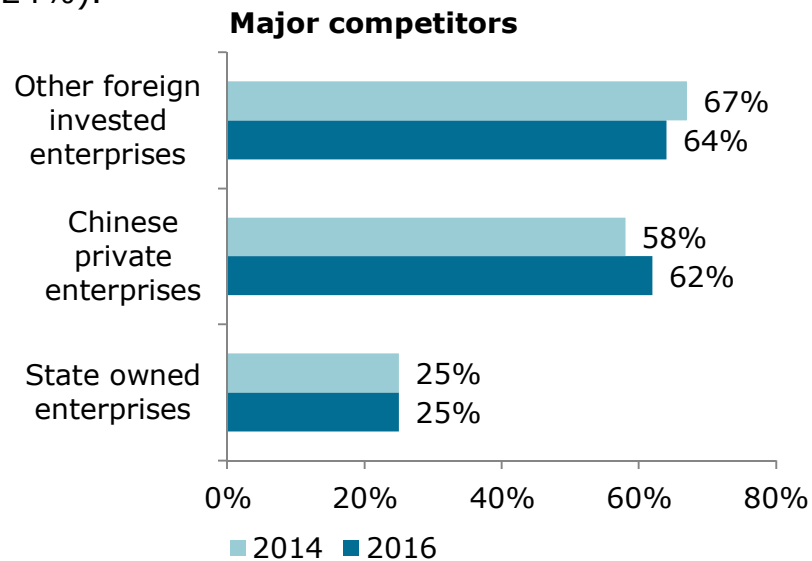
- Respondents seem divided over how the Chinese market has developed for them in the last two years. Over 40% perceive the Chinese market as less favourable today compared with two years ago, 32% see no change and 27% perceive the market as more favourable.





Competition

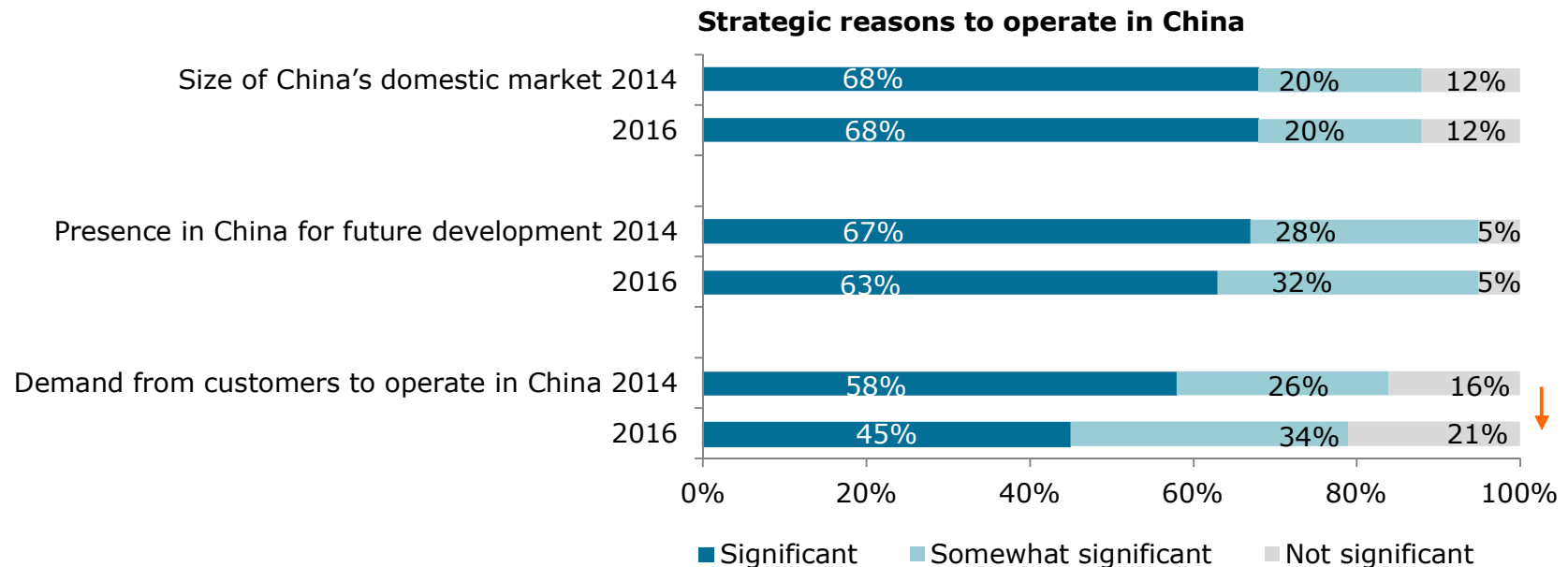
- As in 2014, competitors are mostly active in the private sector.
- Respondents see product quality as their primary competitive edge, followed by R&D.
- Large companies more often see the quality of management as their main strength (44% vs. 24%).





Strategic reasons to operate in China (1)

- The major reasons to operate in China are its domestic market and future development.
- Although demand from customers to operate in China is still an important reason, its weight has decreased compared to 2014.





Strategic reasons to operate in China (2)

- Outsourcing, low costs and proximity to East Asian markets play a smaller role than the reasons mentioned on the previous page.

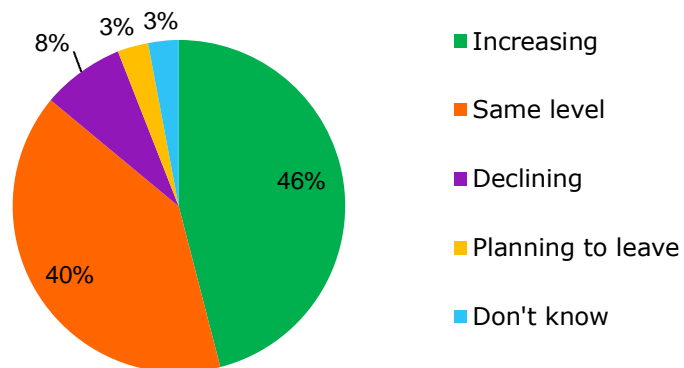




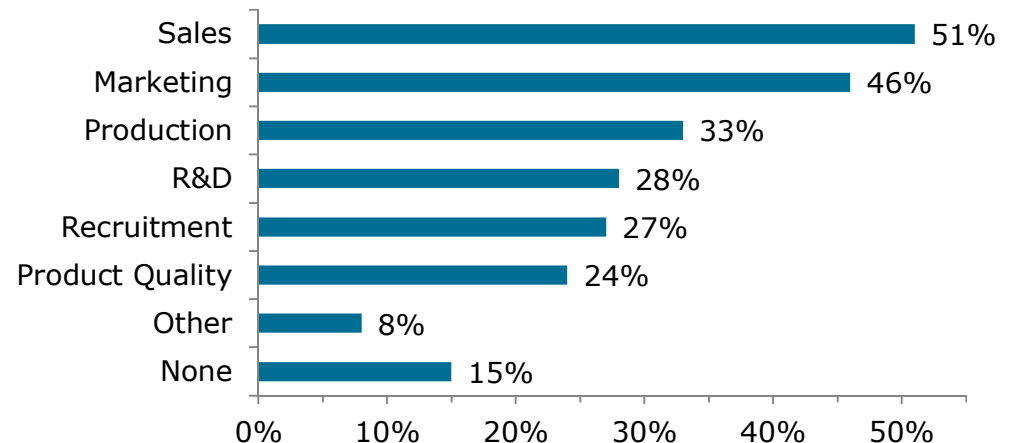
Near-future development and investment plans

- While almost half (46%) of the respondents still expect the importance of China for their company's strategy to increase in the next two years, in previous years companies were more positive about the importance (56% in 2014). And only a small fraction (14%) expects a decline, is planning to leave, or does not know.
- The main areas companies consider for investment in their Chinese branches are sales and marketing. Production, research & development, recruitment and product quality are also considered, though to a lesser extent.

How important will China be in your company's strategy in the next 2 years



In which areas does your company consider to invest in China in the next 2 years?





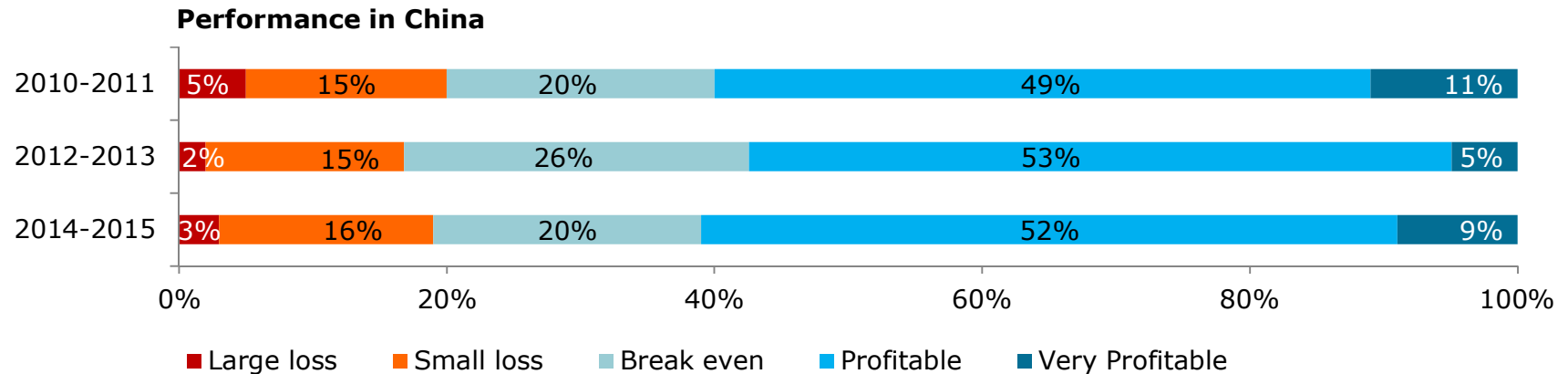
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Chapter 3: Performance and onward expectations



Performance in China

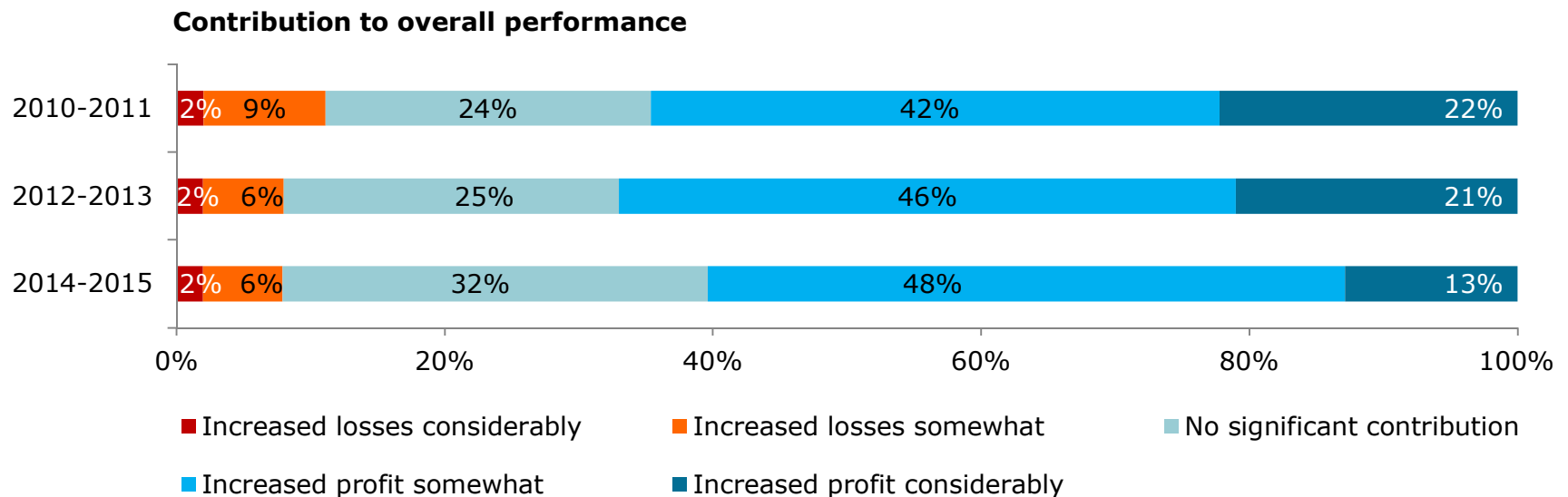
- The results of the 2016 survey show few significant differences from the surveys in 2014 and 2012.
- Of the responding companies, about 60% made a profit, 20% of the companies broke even, and some 20% suffered a loss.
- Large companies performed better and suffered fewer losses in 2014-2015 than small companies.





Relative importance of activities in China

- Having a presence in China is profitable for the majority of companies. Over 60% report a somewhat or considerably increased profit thanks to their presence in China.
- The number of companies reporting a considerably increased profit has diminished from 22% in 2010-2011 to 13% in 2014-2015

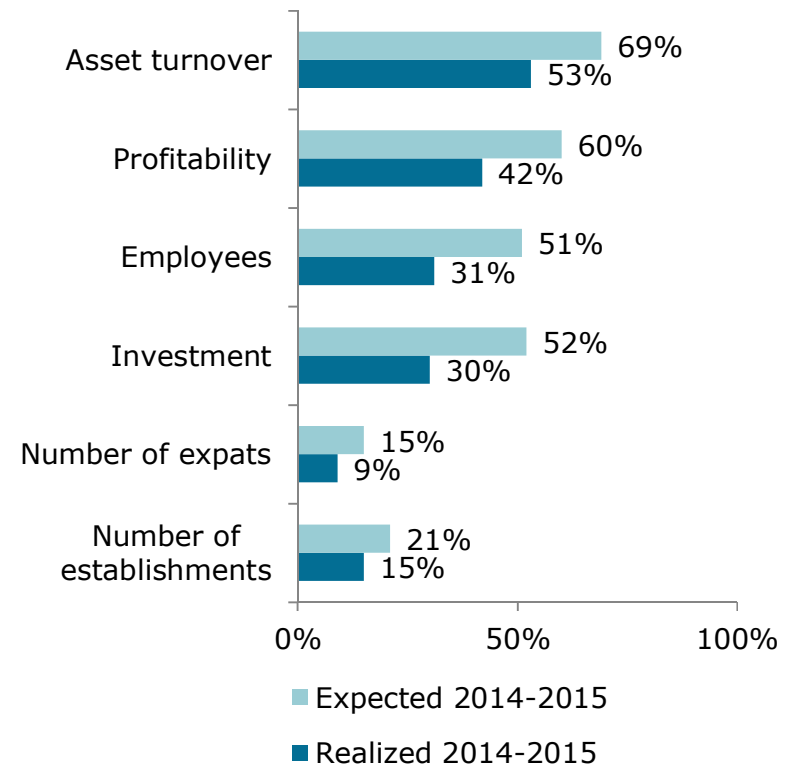




Business development (1)

Expected in 2014 versus
realized results 2014-2015

- As in earlier surveys (in 2012 and 2014), the realized increase turned out to be lower than expected in almost all areas.
- Companies tend to remain overly optimistic in their growth expectations, even though the actual growth consistently lags behind: barely half of the respondents report an actual increase in asset turnover, and only a minority in profitability.

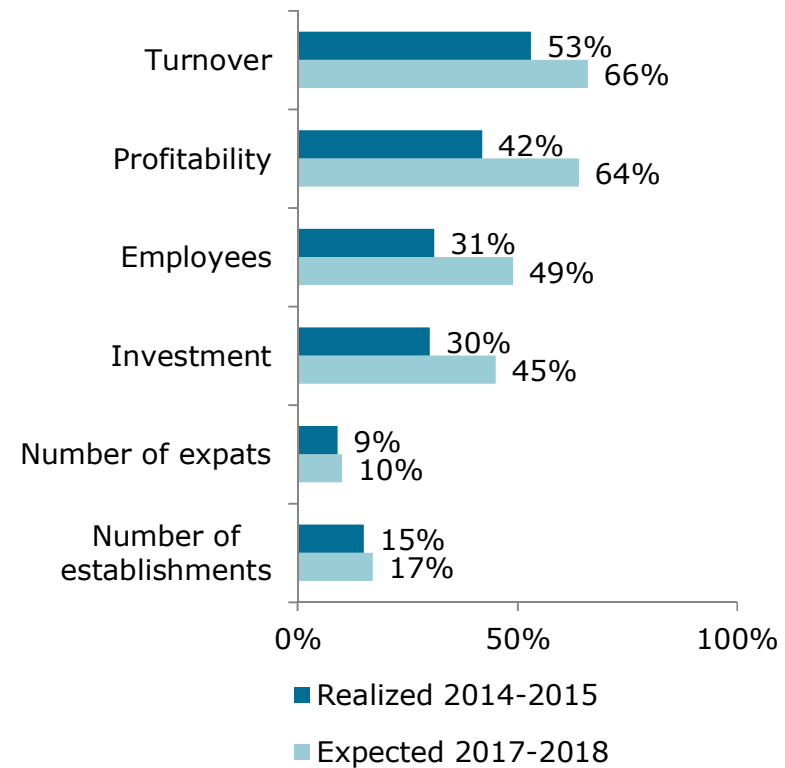




Business development (2)

Expected 2017-2018 versus realized results 2014-2015

- About two-thirds (2/3) of the respondents foresee an increase in asset turnover (66%) as well as an increase in profitability (64%) in the next two years.
- The currently expected increase corresponds in size to the expected, and not to the actual increase in the past. The actual outcome has not dampened the overoptimism.

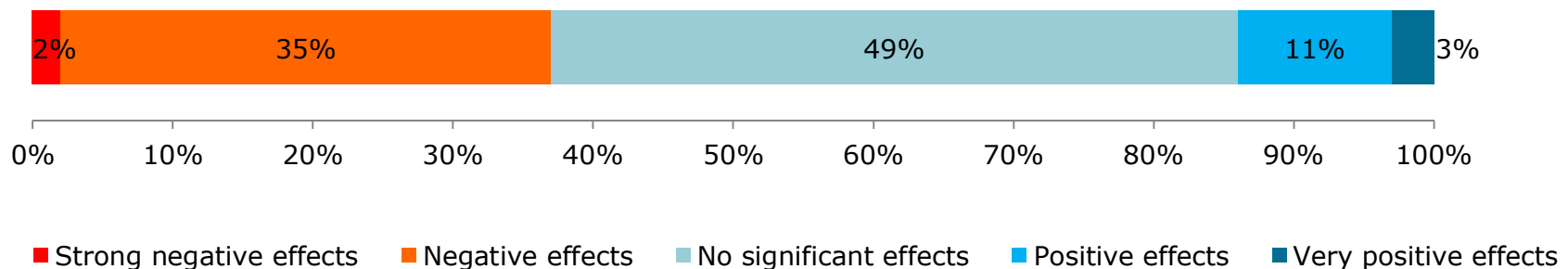




Expected impact of economic slowdown in China

- Over a third of all the respondents (37%) think the economic slowdown in China will have a (strong) negative impact on their business.
- Over half of the respondents (63%) expect no such negative effects, or expect even positive effects.
- Large companies are more likely (51%) to expect a (strong) negative impact of the economic slowdown than small ones (26%).

How do you expect the economic slowdown in China will impact your business?





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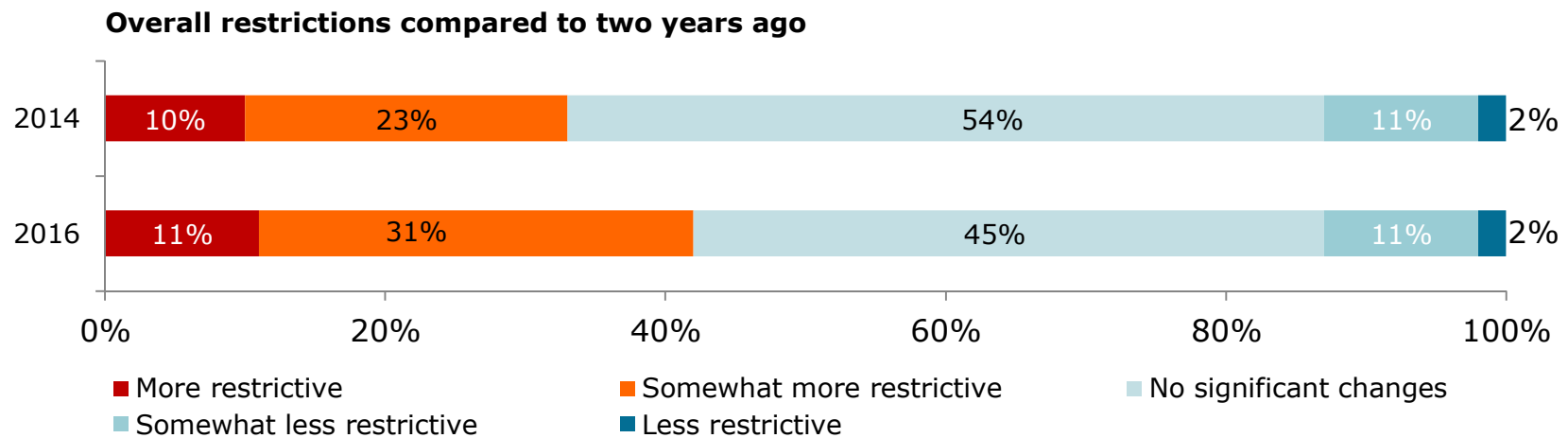
Chapter 4: Barriers to doing business

Source: Amsterdam Toerisme & Congres Bureau (ATCB)



Overall assessment

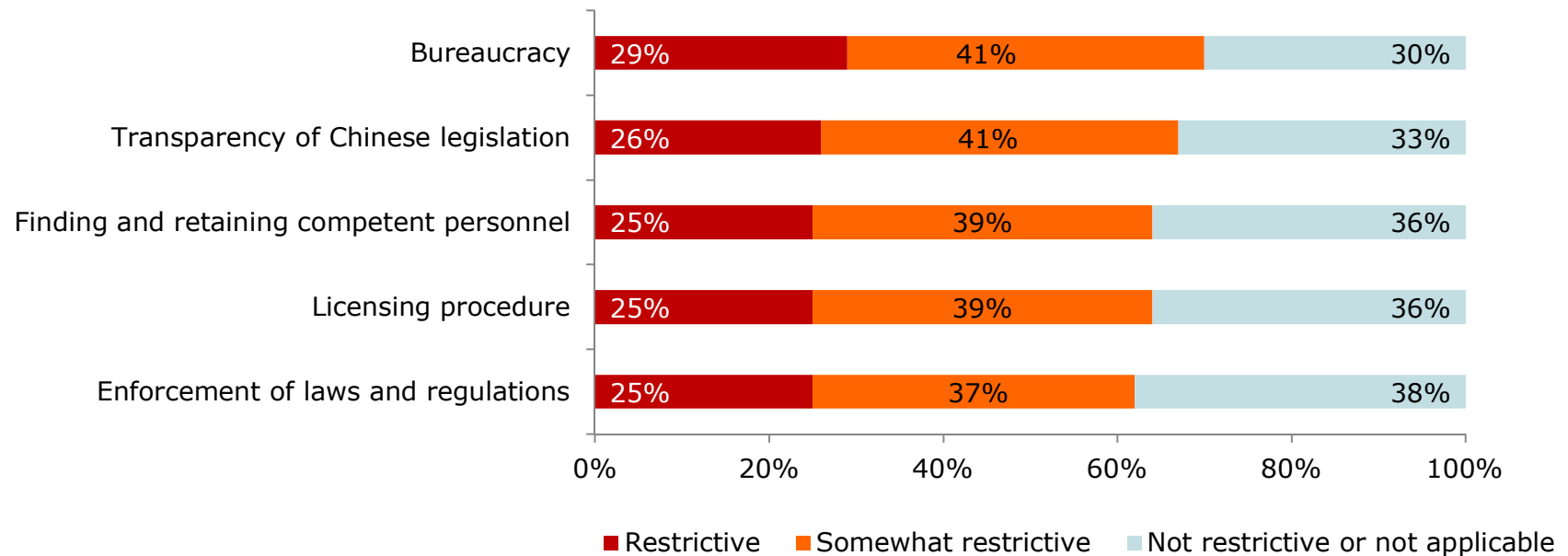
- Over a third of the respondents (42%) view the business climate as (somewhat) more restrictive than two years ago.
- Less than half (45%) reported no significant changes compared to 2014.





Top 5 mentioned barriers

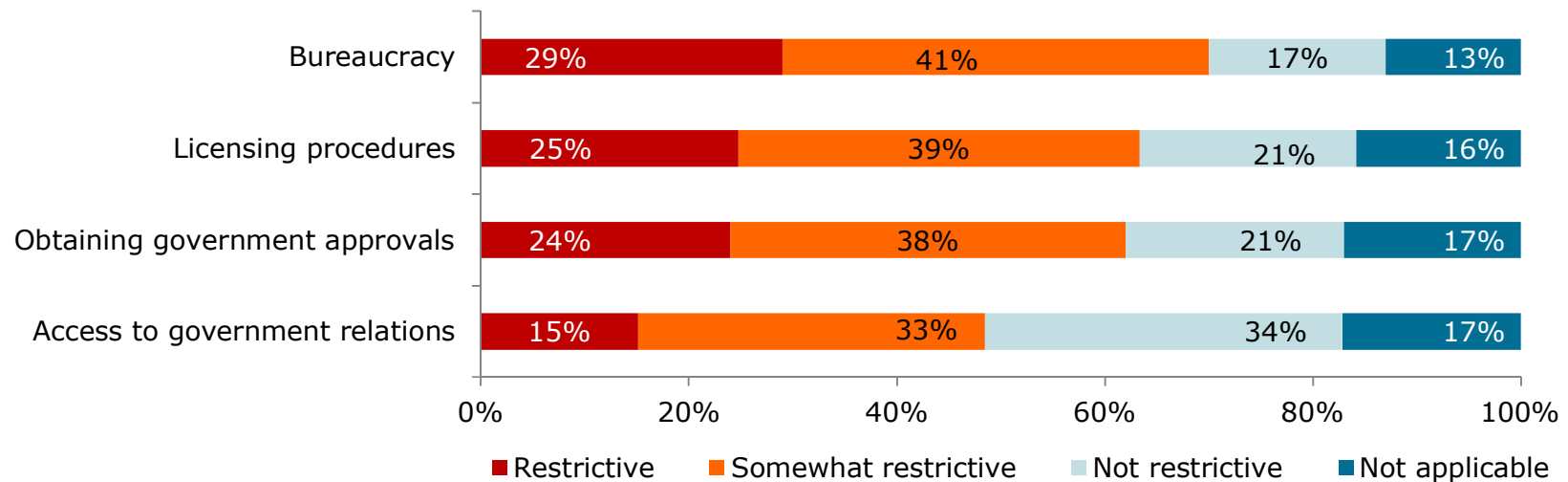
- The barriers to doing business in China reported most often are the following:





Government relations

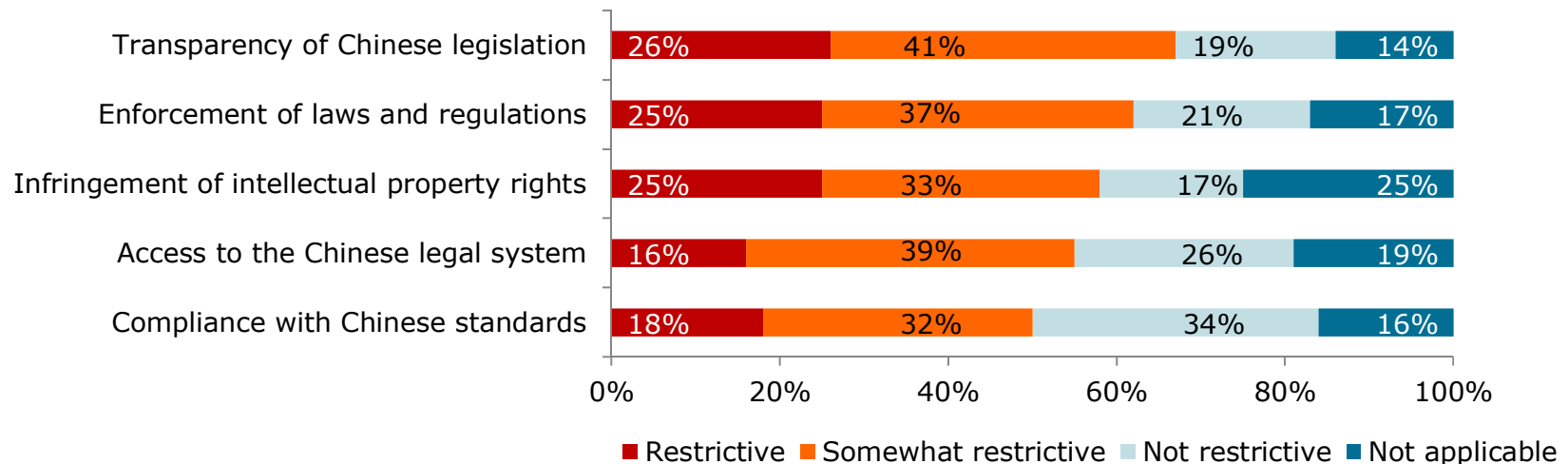
- Over two-thirds (70%) of the respondents experience problems with bureaucracy. Licensing procedures (64%) and obtaining government approvals (62%) are also perceived as (somewhat) restrictive by the majority of companies.
- Small companies are more likely to experience hurdles in obtaining access to government relations than large companies (21% vs. 7%).





Regulatory environment

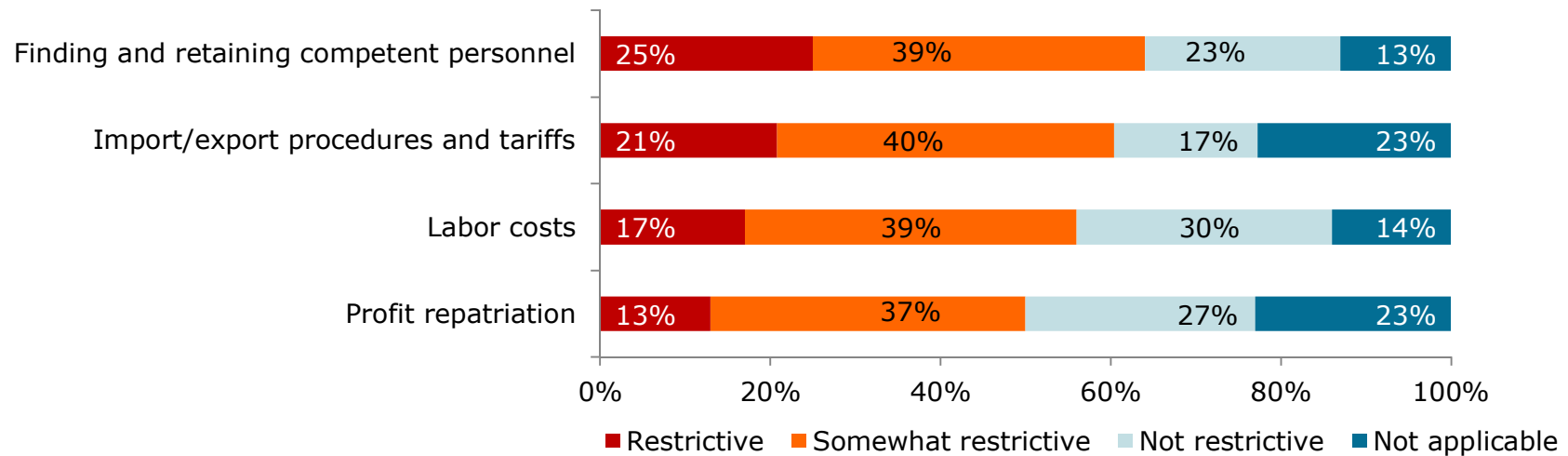
- As in 2014, the regulatory environment is still a large source of barriers for the respondents. Major problems are the lack of transparency of legislation (67%, was 69%), and the weak enforcement of laws (62%, was 66%).
- Fewer and fewer respondents experience full freedom in accessing the Chinese legal system (37% in 2012, 29% in 2014, 26% in 2016).





Operational

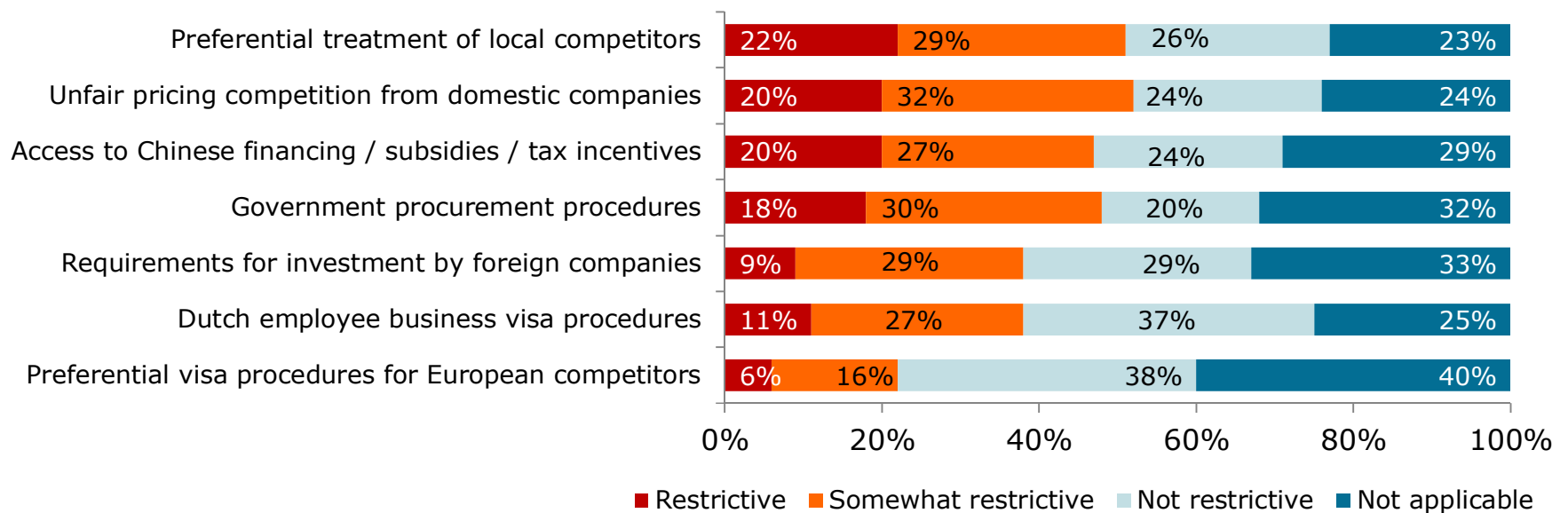
- Finding and retaining competent personnel is the most commonly recognized operational challenge: 64% of the respondents report this as a problem.
- Finding and retaining competent personnel is reported as a barrier more often by companies that make a loss (79%) than by companies that break even or make a profit (60%).





Level playing field

- Preferential treatment of local competitors and unfair pricing competition are seen as the main obstacles preventing a level playing field.
- Respondents in Beijing are more likely (44%) to than those in Shanghai (21%) to suffer from preferential treatment of European competitors in visa procedures than respondents in Shanghai (21%).





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Chapter 5: Corporate Social Responsibility (CSR)



Source: Netherlands Enterprise Agency



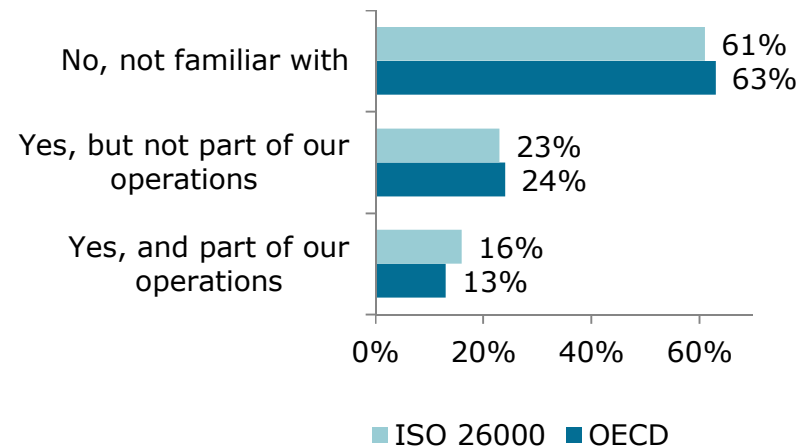
CSR guidelines

- Most respondents are still unfamiliar with the ISO 26000* and OECD guidelines**. This has not changed compared to 2014 and 2012.
- Large companies are more familiar with the OECD and ISO 26000** guidelines than small companies and more often include them in their operations (24% vs. 5%).
- Only a few Dutch companies in China use these guidelines as part of their operations, 16% for ISO 26000 and 13% for OECD.

* ISO 26000 is the international standard developed to help organizations effectively assess and address those social responsibilities that are relevant and significant to their mission and vision; operations and processes; customers, employees, communities, and other stakeholders; and environmental impact.

** The OECD Guidelines are voluntary recommendations to foster sustainable development through responsible business conduct by companies.

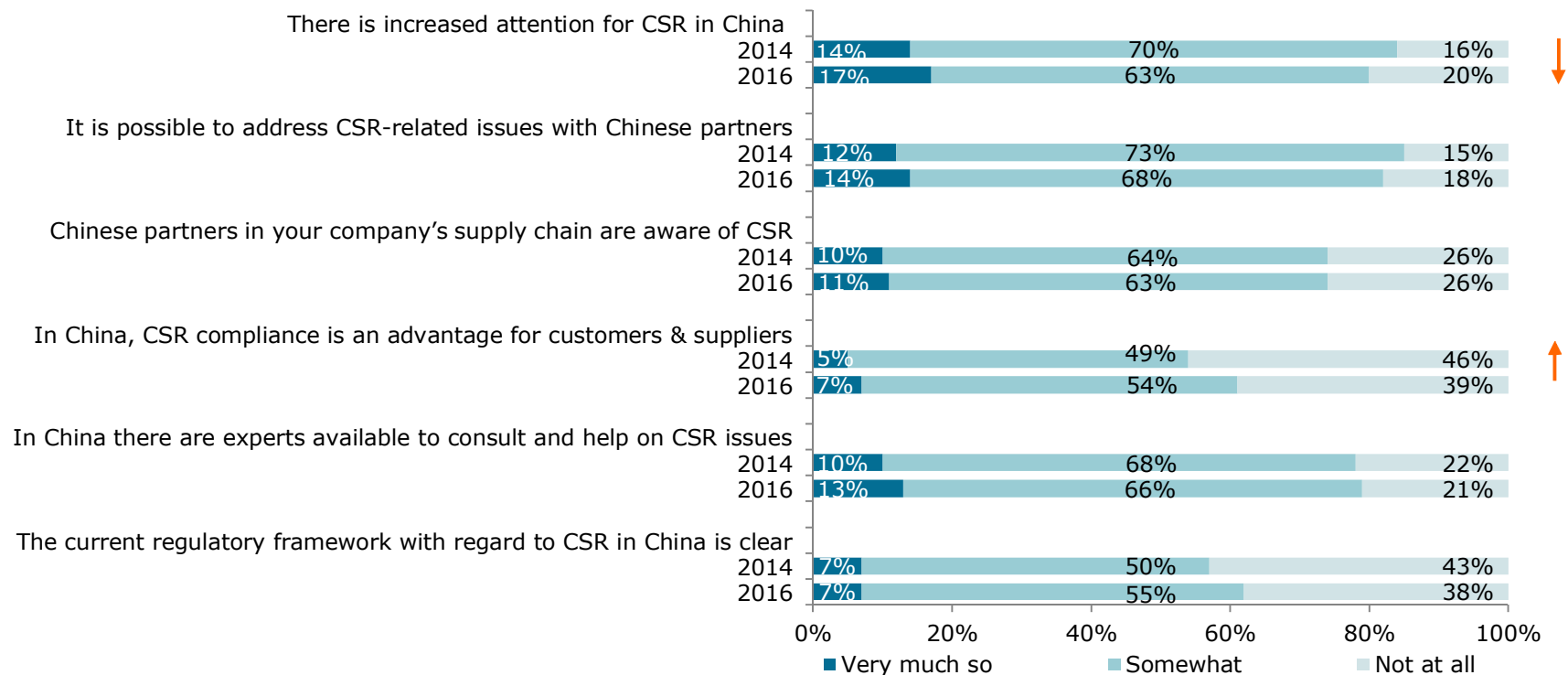
Familiarity with guidelines



- The graph on the next page shows that there is a slight increase in how often CSR is seen as an advantage (61% 2016; 54% 2014).



Corporate Social Responsibility





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Chapter 6: Hong Kong particulars

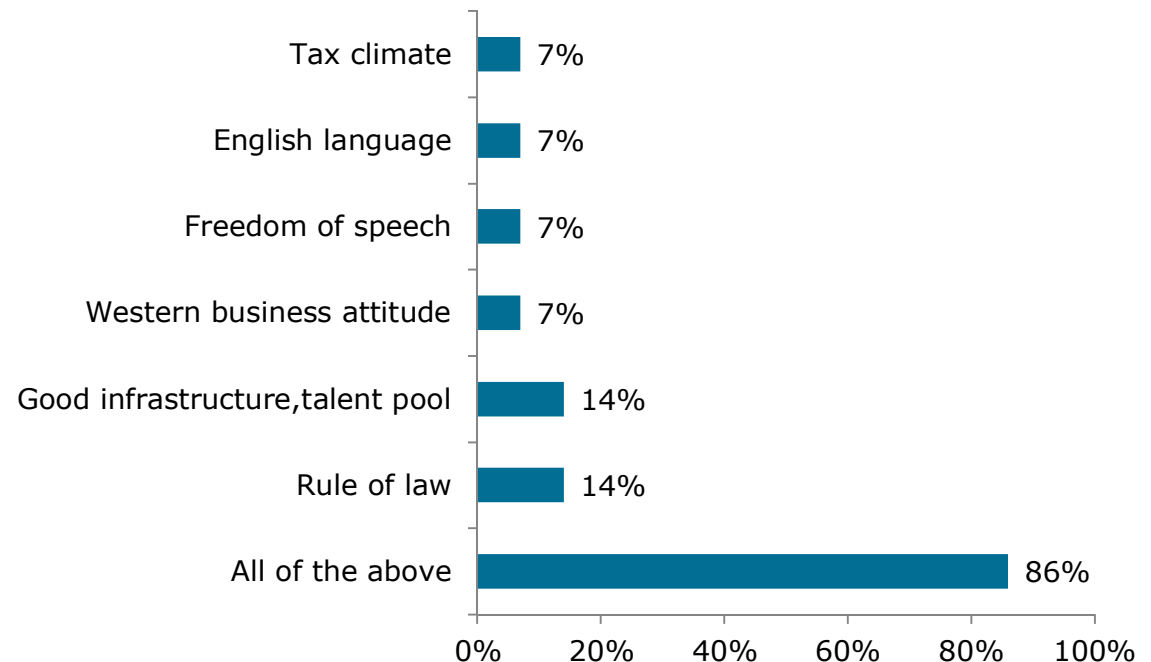


Source: Netherlands Consulate General Hong Kong



Reasons for establishment in Hong Kong

- This part of the survey was only submitted to companies based in Hong Kong. Out of the 131 Hong Kong based respondents who received the questionnaire, 14 respondents (11%) filled out these Hong Kong related questions.
- Most respondents (12 out of 14) stated that all indicators were important in their decision to be based in Hong Kong.

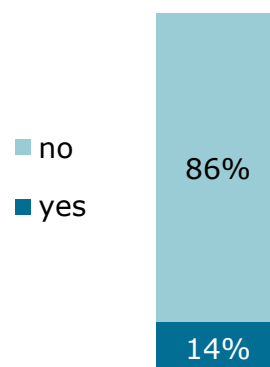




Usage of CEPA and change in business climate

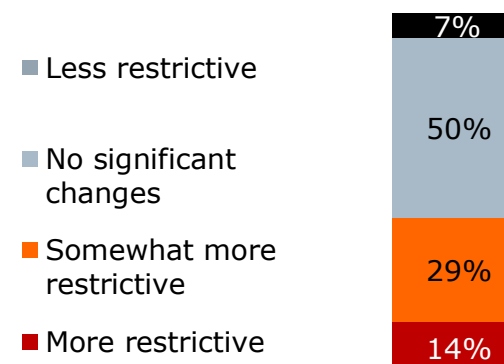
- Only 2 respondents stated that they made use of the Closer Economic Partnership Arrangement (CEPA), a free trade agreement between mainland China and Hong Kong.

Do you make use of CEPA? (N=14)



- The business climate has not changed for half of the companies. To those for whom it did, it has become (somewhat) more restrictive.

Has the business climate in Hong Kong changed over the last two years? (N=14)





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Chapter 7: Netherlands economic network in China



Trade and investment promotion (1)





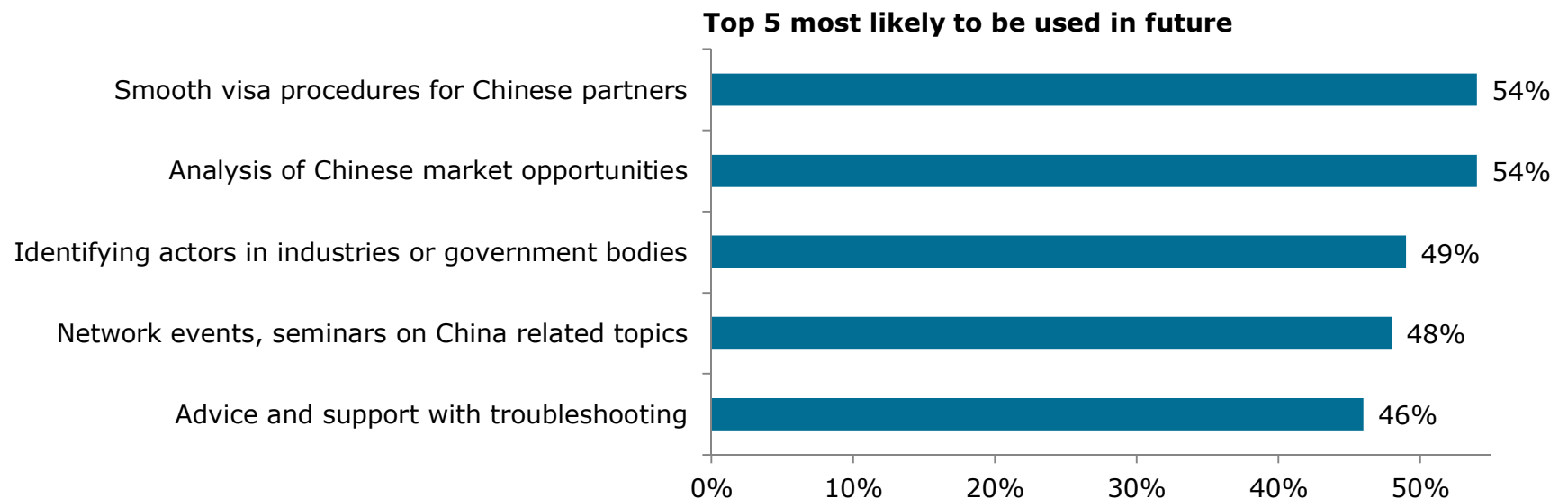
Trade and investment promotion (2)

- Trade missions led by members of the Dutch government have been used more often in 2015 (45%) compared to 2014 (34%). This is probably due to the big trade mission to China, accompanying the State visit in October 2015.
- Companies that broke even or made a profit are more intent to make use of trade missions led by members of the Dutch government than companies that suffered a loss (41% vs. 24%).
- More often than large ones (21%), small companies intend to ask the Netherlands Economic Network to engage the government on their behalf (42%).



Services – future use

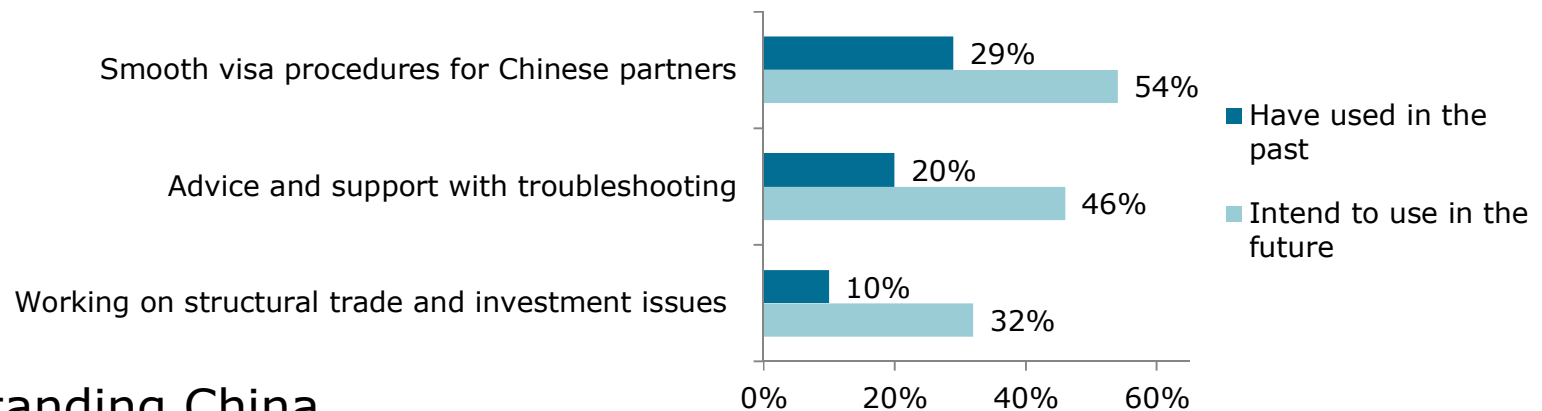
- Smooth visa procedures for Chinese partners, and analysis of business opportunities are considered the most likely services for future use.
- Identifying relevant Chinese actors, advice and support with troubleshooting are new in the top 5.



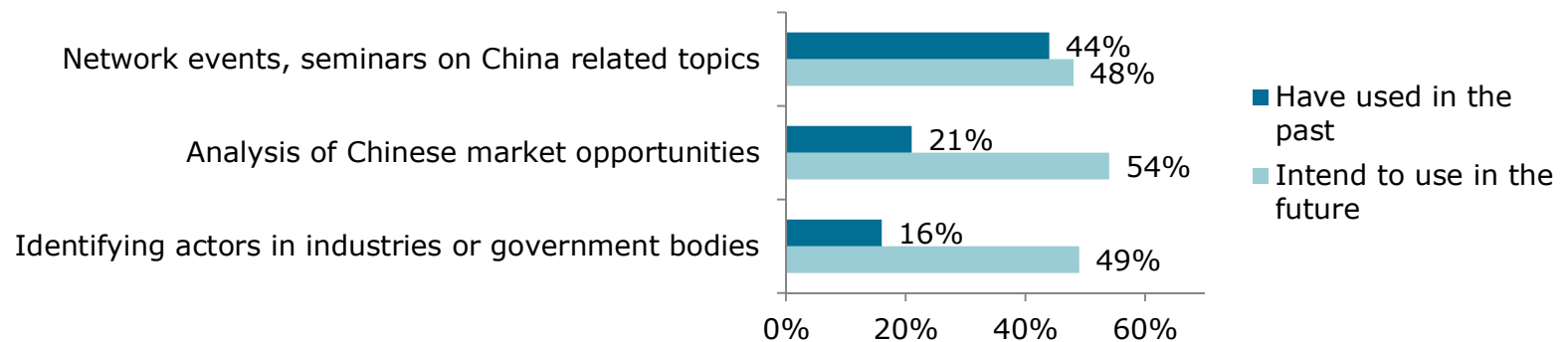


Services

Market access – level playing field



Understanding China





Conclusions (1)

Business climate in China:

- The main strategic reasons to operate in China are the size of its domestic market and future development. Although still a main reason, demand from customers to operate in China is strategically less important compared to 2014 (p. 20).
- Almost half of the respondents expect an increasing importance of China for their company's strategy in the next two years. As in 2014, sales and marketing are considered the main investment areas for the near future (p. 22).

Performance and onward expectations:

- Despite a decrease since 2014, the majority of the respondents still consider the business climate favourable. When they compare the current market with the market in 2014, only a quarter of the respondents perceive the current Chinese market as (more) favourable (p. 18).
- More than half of the companies are profitable (p. 24), and activities in China increase the companies' overall performance (p. 25), but over a third of the respondents (especially the large companies) expect the economic slowdown to impact their business negatively (p. 28).



Conclusions (2)

Barriers:

- The commonest barriers to doing business in China concern government relations and the Chinese regulatory environment (p. 31). As in 2014, especially regulatory barriers to doing business in China remain challenging (p. 33).

CSR:

- ISO 26000 and OECD guidelines are seldom part of a company's operations, and most companies are not even familiar with these guidelines (p. 37).

HONG KONG: the respondents in Hong Kong stated concerning their particular situation that:

- Tax climate, English language, freedom of speech, western business attitude, good infrastructure and talent pool and rule of law are all of them important reasons to have an establishment in Hong Kong (p. 40).
- For half of the respondents the business climate did not change, but for a large minority it became (somewhat) more restrictive (p. 41).

Netherlands economic network in China:

- The services most used in the past, each by almost half of the respondents, are official attendance (p. 43), and network events and seminars (p. 46).
- For the future, the use of smooth visa procedures and of analysis of market opportunities are foreseen by a majority of respondents each (p. 45).



Dutch representations in China



LEGEND

- Embassy
- Consulate-General
- Netherlands Business Support Office (NBSO)





Netherlands economic network in China

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