

Team
FINLAND

**TEAM FINLAND CHINA
BUSINESS CONFIDENCE SURVEY
2023**

China's decision to lift COVID-19 restrictions in December 2022 came unexpectedly. Society and businesses have since opened at record speed.

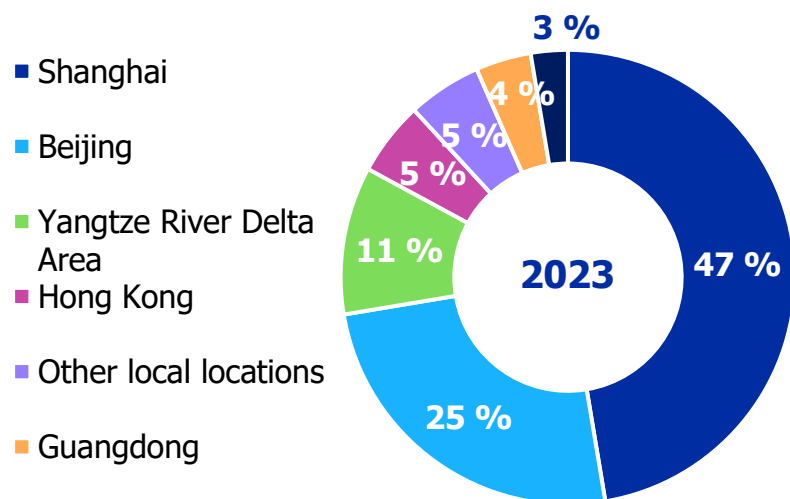
Between February 8th-24th Team Finland China conducted a Business Confidence Survey of Finnish companies about their confidence and expectations on the China market.

Survey received 77 responses.

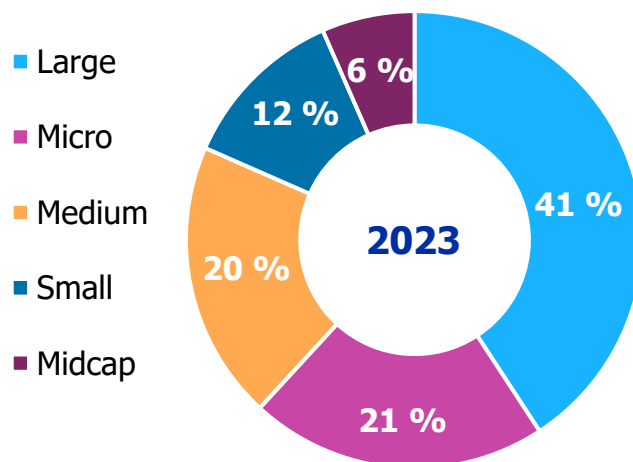
LOCATION AND SIZE OF COMPANIES

MAJORITY OF RESPONDENTS ARE FROM BEIJING & SHANGHAI, WITH LARGE COMPANIES MAKING UP 41% OF RESPONSES.

LOCATION IN CHINA



COMPANY SIZE



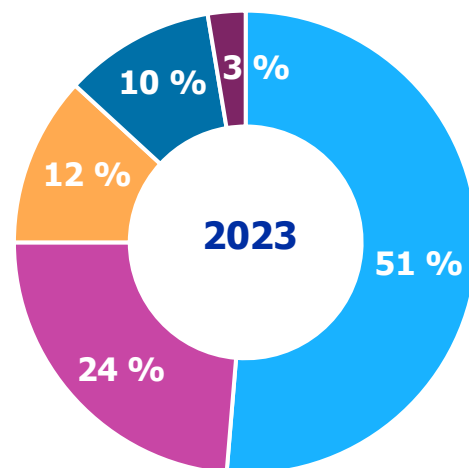
- Large > 250 employees and global sales >300M€
- Micro <10 employees globally and global sales < 2M€
- Medium <250 employees globally and global sales < 50M€
- Small <50 employees globally and global sales <10M€
- Midcap large with global sales < 300M€

THE PROFILE OF RESPONDENTS

MORE THAN HALF OF THE COMPANIES ARE SUBSIDIARIES OF FINNISH COMPANIES IN CHINA

THE COMPANY YOU REPRESENT IS

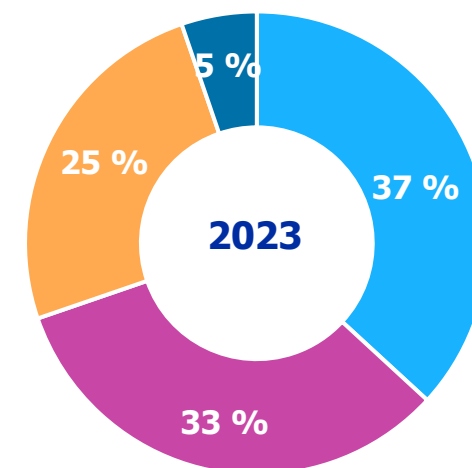
- A subsidiary of a Finnish company in China
- A company based in Finland
- Non-Finnish owned company
- Other Finnish-owned company
- An agent of a distributor of a Finnish company in China



70% RESPONDENTS ARE FROM TOP AND UPPER MANAGEMENT POSITIONS

YOUR POSITION IN THE COMPANY

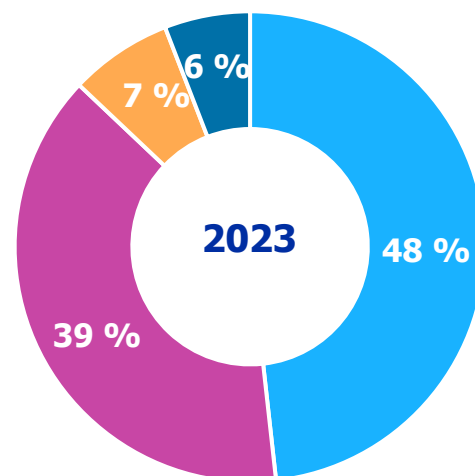
- Top Management (President, CEO, MD, Member of the Board, etc.)
- Upper management (GM, SVP, VP)
- Middle management (Marketing, Sales, etc.)
- Others



FINNCHAM MEMBERSHIP OF RESPONDENTS

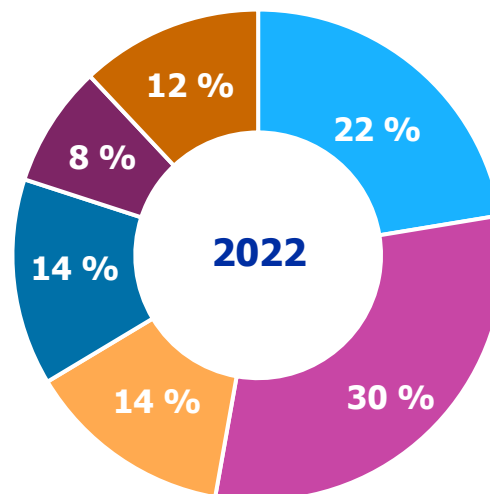
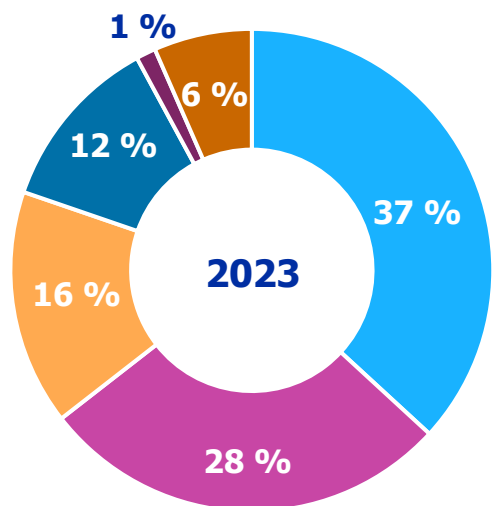
MOST OF COMPANIES ARE MEMBERS OF THE FINNCHAM IN SHANGHAI OR BEIJING

- Shanghai
- Beijing
- Not a member in any
- Guangdong



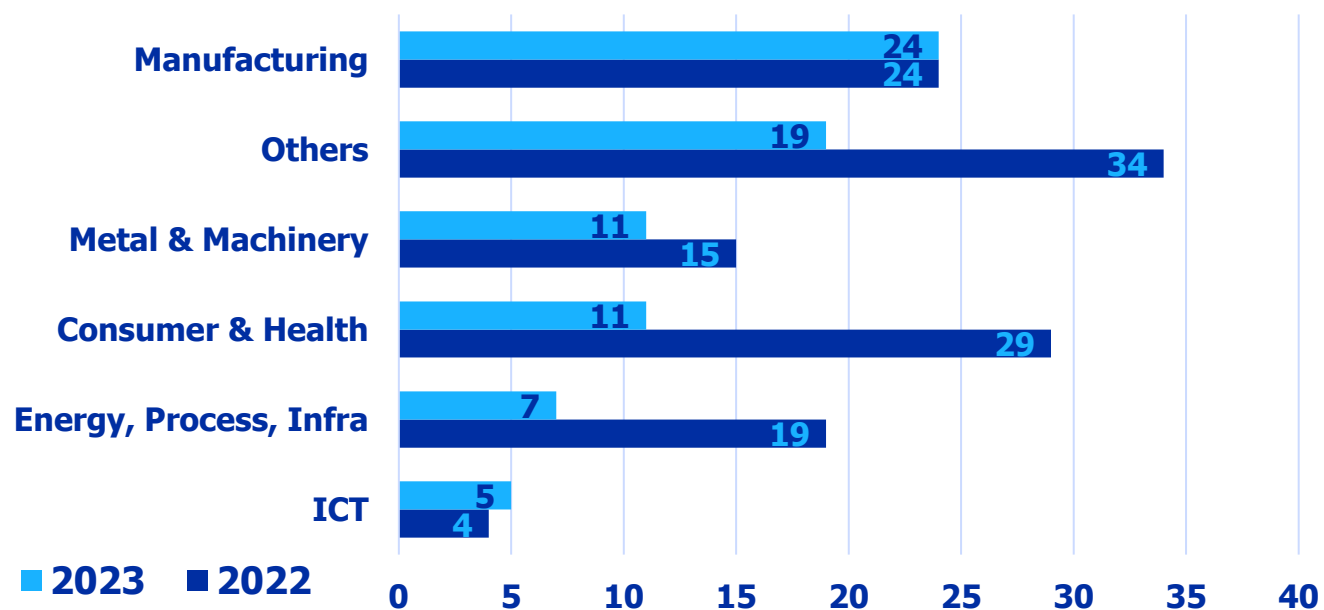
MOST COMPANIES HAVE BEEN IN CHINA FOR MORE THAN 10 YEARS

- 20+ years
- 10-20 years
- 5-10 years
- 2-5 years
- 0-2 years
- No legal entity in China



INDUSTRY SECTORS

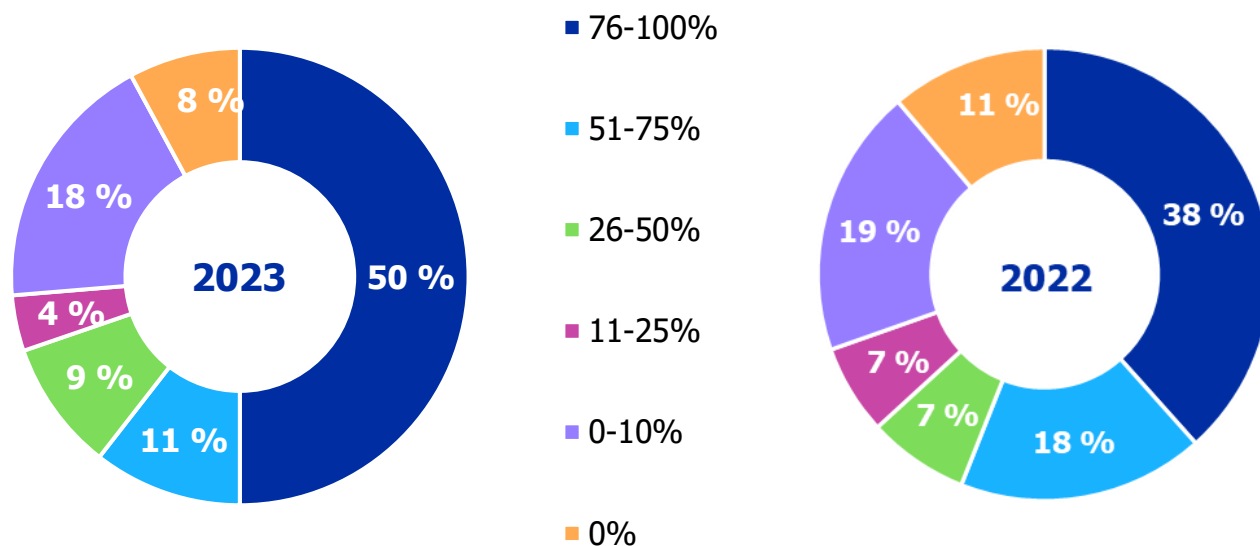
MANUFACTURING IS BIGGEST INDUSTRY SECTOR RESPONDING TO THE SURVEY



- **Note:** The categorization of industry sectors has been changed from 2022 survey. Exact comparison between 2022 and 2023 industry sectors is not accurate.
- Most responses came from manufacturing sector. Consumer & Health sector responses are comparable between 2022 and 2023.

FINNISH COMPANIES ARE INCREASINGLY “IN CHINA FOR CHINA”

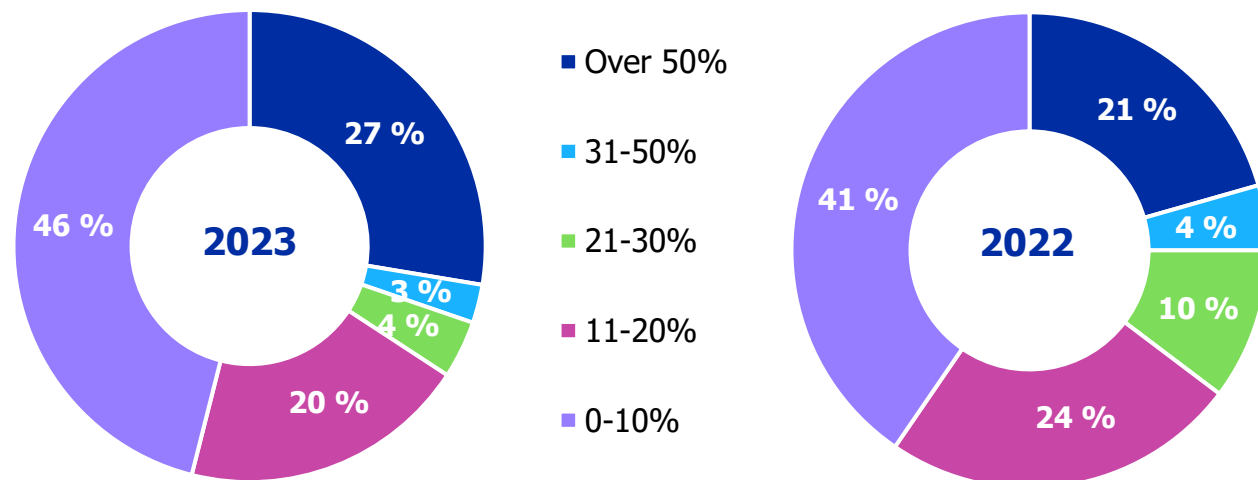
CHINESE CUSTOMERS’ SHARE OF SALES IS EXPECTED TO INCREASE COMPARED TO 2022



- 50 % of companies expect to generate three quarters or more of their revenue from Chinese customers compared to 38% in 2022.
- 26% of respondents generate less than 10% of their revenue from Chinese customers (vs 30% in 2022)

MOST EXPECT CHINA'S SHARE OF THEIR GLOBAL REVENUE TO BE LESS THAN 20%

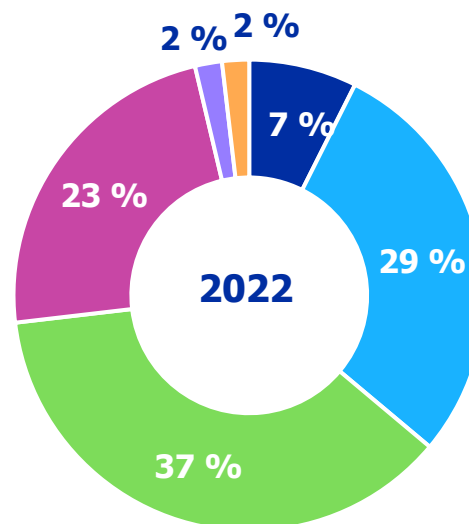
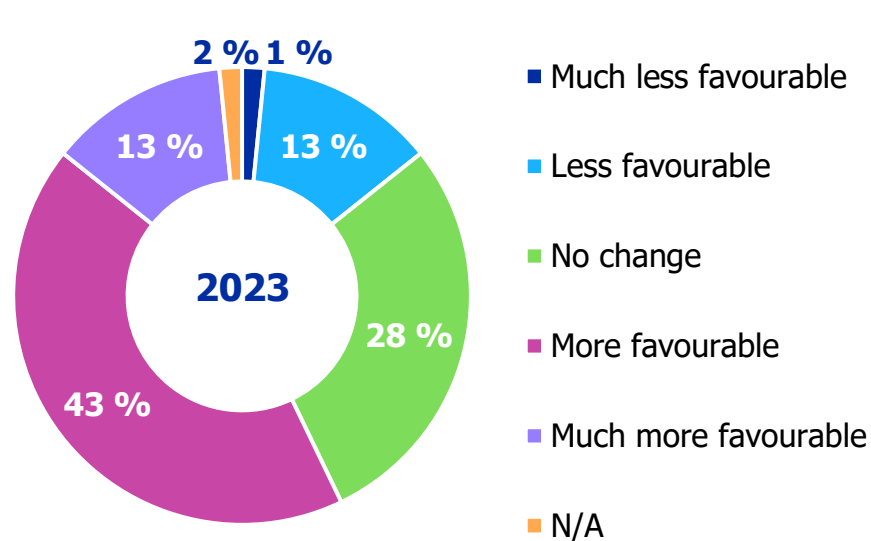
HOW MUCH REVENUE WAS GENERAGED BY LOCAL CUSTOMERS ?



- 66% of companies expect to generate less than 20% of global sales in China (vs 65% in 2022)
- Third of the companies expect to generate over 30% of their revenue in China. Last year one of four expected the same.

BUSINESS CLIMATE IS EXPECTED TO IMPROVE

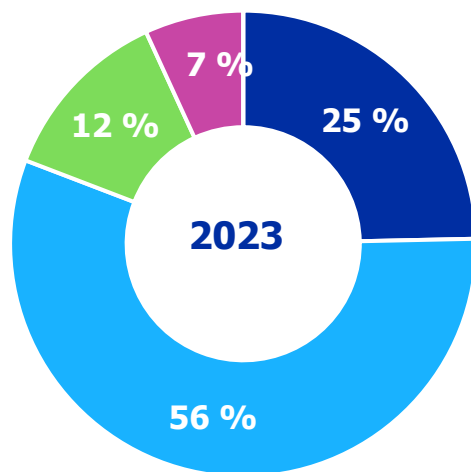
COMPANIES ARE RELATIVELY OPTIMISTIC ABOUT THE BUSINESS CLIMATE IN CHINA FOR 2023



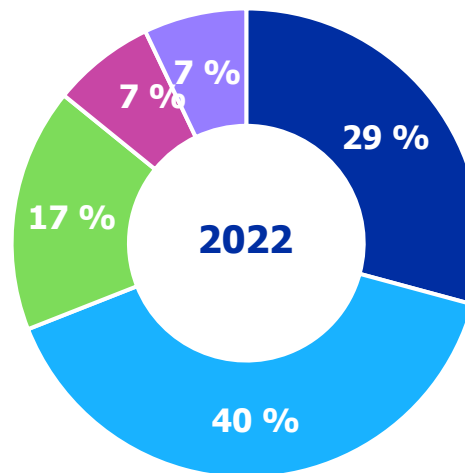
- Slight majority of companies (56%) expect business climate to improve. In 2022 only one in four (25%) expected the same.
- Only 14% of respondents expect less favorable business climate in 2023 compared to 36% in 2022.

IMPROVED OUTLOOK FOR REVENUE GROWTH IN CHINA

81% OF RESPONDENTS EXPECT REVENUE IN CHINA TO INCREASE FROM THE PREVIOUS YEAR



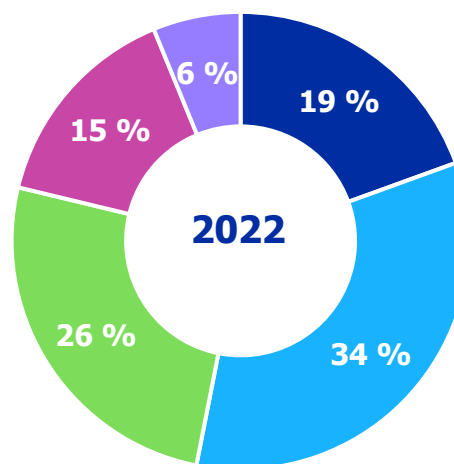
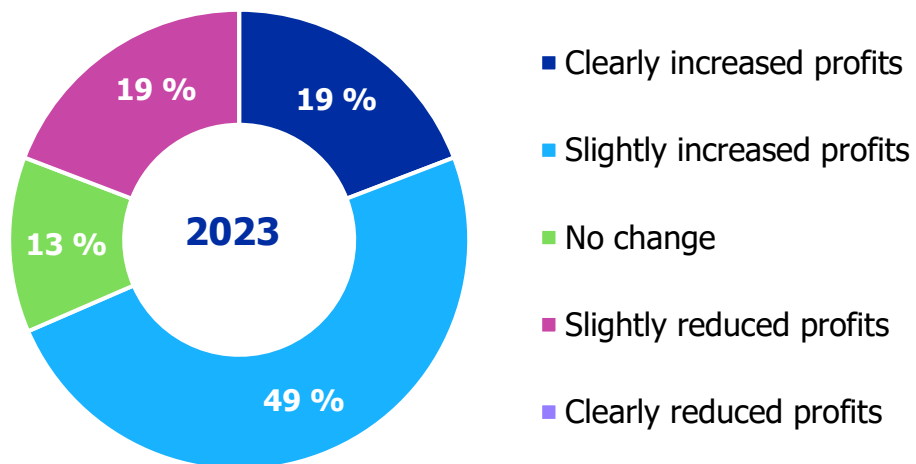
- Clearly increased revenue
- Slightly increased revenue
- No change
- Slightly reduced revenue
- Clearly reduced revenue



- 56% of respondents (vs. 40% in 2022) expect a moderate increase of revenue in China
- 25% expect a clear increase in revenue increase in 2023 (vs 29% in 2022)
- In 2022, 7% of companies expected a clear decline in revenue but in 2023, no one predicts this.

PROFITABILITY OUTLOOK IN CHINA HAS IMPROVED

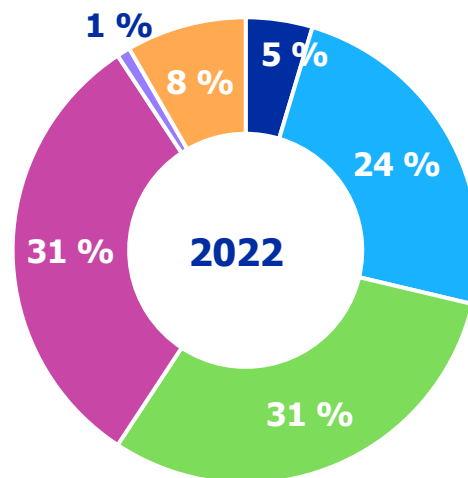
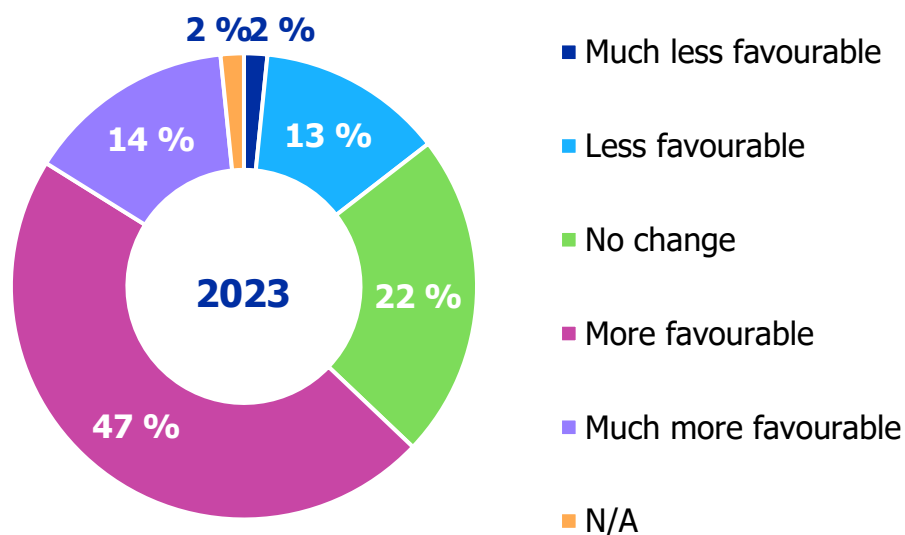
MORE COMPANIES BELIEVE THAT THEIR NET PROFIT IN CHINA WILL INCREASE SLIGHTLY. NO RESPONDENT EXPECTS PROFITABILITY TO REDUCE.



- In 2023, half of the companies expect net profit to increase slightly compared to one third of companies in 2022.
- 2023 data shows that none of the companies predicts a clear decline in net profit, compared to 6% in 2022.

COMPANIES EXPECT INVESTMENT CLIMATE IN CHINA TO IMPROVE

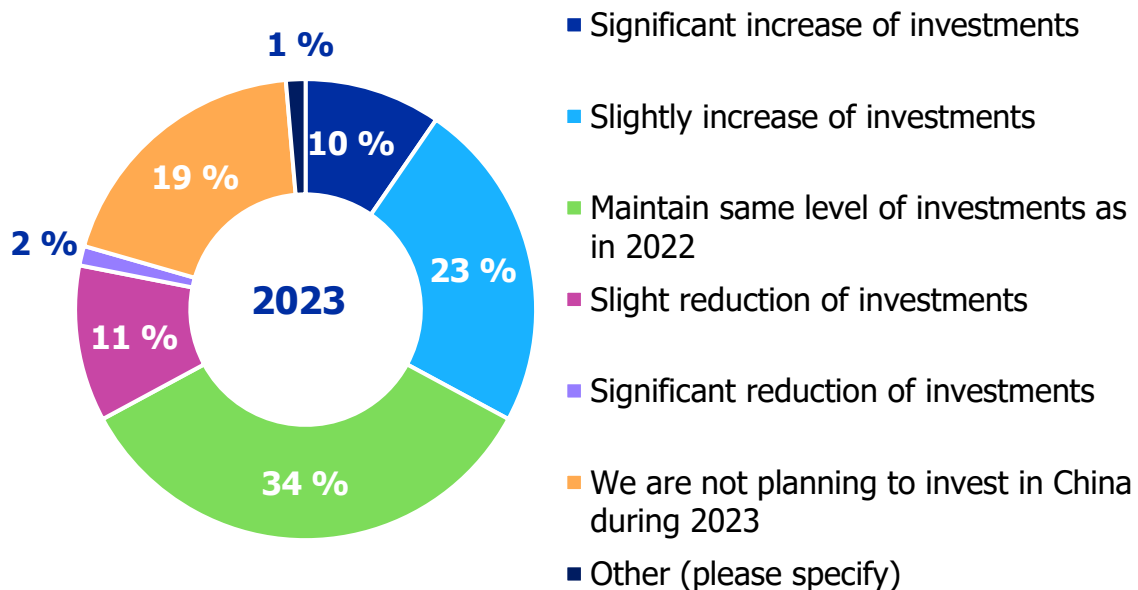
HOW DO YOU EXPECT THE INVESTMENT CLIMATE IN CHINA TO DEVELOP IN 2023 COMPARED TO 2022 ?



- Over half (61%) of respondents consider investment climate to be more favorable in China in 2023 (vs 32% in 2022)
- Companies expressed concerns about the trade war, the end of preferential policies, and uncertainty about Chinese government policies towards foreign companies.

SOLID INVESTMENT ACTIVITY IS EXPECTED IN CHINA IN 2023

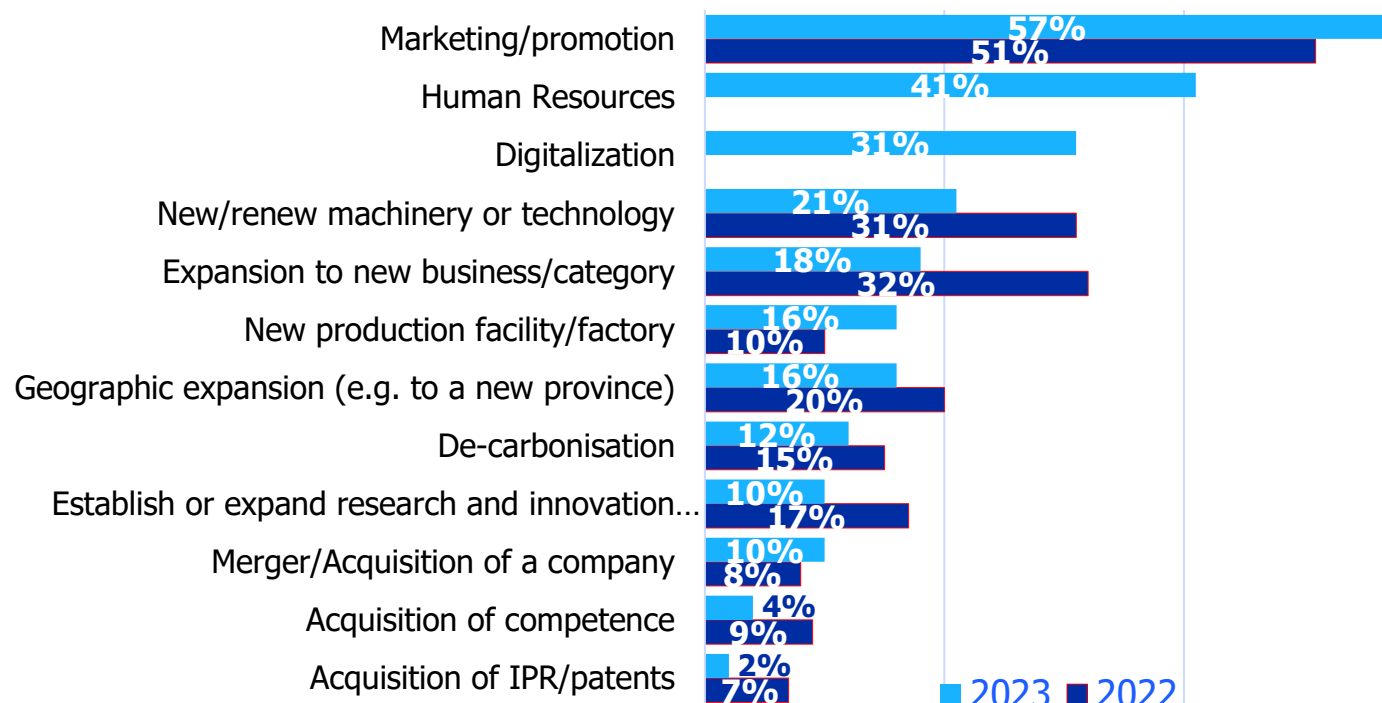
HOW DO YOU EXPECT YOUR COMPANY'S INVESTMENT TO CHANGE IN CHINA IN 2023 COMPARED TO INVESTMENT IN 2022 ?



- 33% of companies are reporting planning to increase investments in China in 2023 vs 39% in 2022.
- Most respondents (34%) plan to maintain investment levels similar to previous year.
- 13% are reducing investments in China.
- Share of companies not planning to invest in China has dropped from 25% in 2022 to 19% in 2023.

INVESTMENT FOCUS IS EXPECTED TO CHANGE IN CHINA

MARKETING, HUMAN RESOURCES AND DIGITALIZATION ARE EXPECTED TO BE THE PRIMARY INVESTMENT FOCUS FOR MANY COMPANIES



- Results indicate that top three areas where respondents would put their investment in are marketing/promotion, human resources and digitalization (*the latter two were not mentioned by companies in 2022 survey.*)
- More than half respondents will focus more on marketing/promotion compared to 2022.
- Companies plan to reduce investments in China in many areas this year, including R&D

INTEREST TO GROW IN SOUTH CHINA IS INCREASING

CENTRAL CHINA REGION SHOWS DECLINE AS A REGION TO EXPAND BUSINESS. INTEREST IS INCREASING TOWARDS SOUTH CHINA.

2023 vs. 2022 Responses

Central China **59 vs. 66**

- 73% in Yangtze River Delta
- SH & JS equally attractive
- 9 mentioned Shandong
- Hubei & Hunan also mentioned

South West **31 vs. 27**

- Most in Chengdu, Sichuan Province
- Incl. Guangxi, Yunnan and Chongqing

Beijing, Tianjin & Hebei **16 vs. 18**

North West **9 vs. 7**

North East **4 vs. 2**

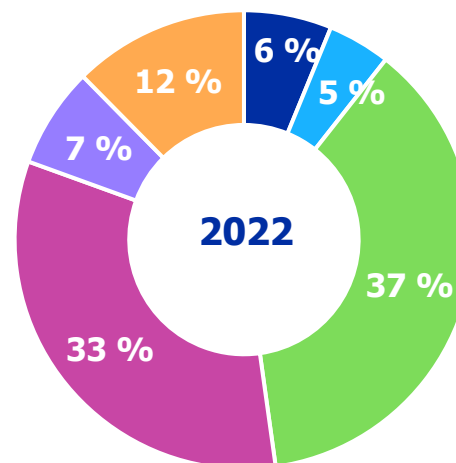
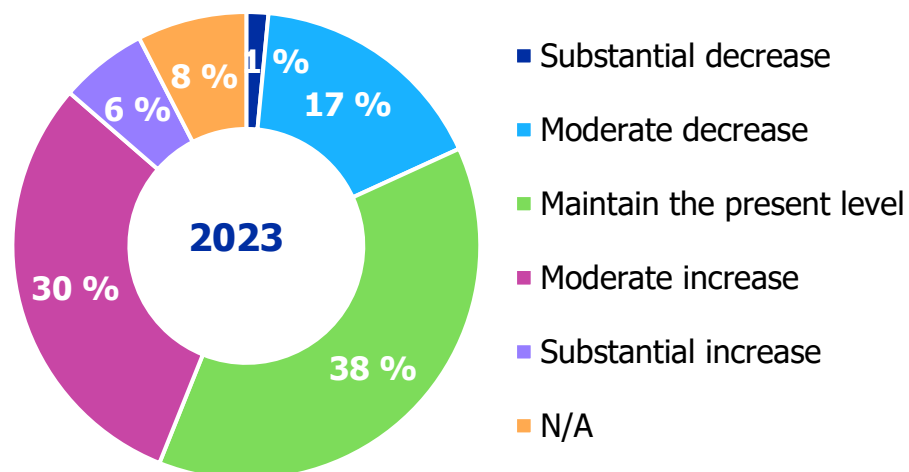
South East, HK & Hainan **39 vs. 29**

- Mostly in Guangdong Province
- 5 in Pearl Delta or Great Bay Area
- 2 in Hainan

- Central China, South East, HK and Hainan as well as South West are the most popular areas that companies would expand their business into.
- The percentage of companies' interested in expanding in Central China declined in 2023. Conversely, the percentage of companies interested in South East & Hainan area increased.

MOST COMPANIES PLAN TO MAINTAIN OR INCREASE LOCAL WORKFORCE IN CHINA

COMPANIES EXPECTING TO DECREASE WORKFORCE HAS ALSO GROWN FROM 11% IN 2022 TO 18% IN 2023

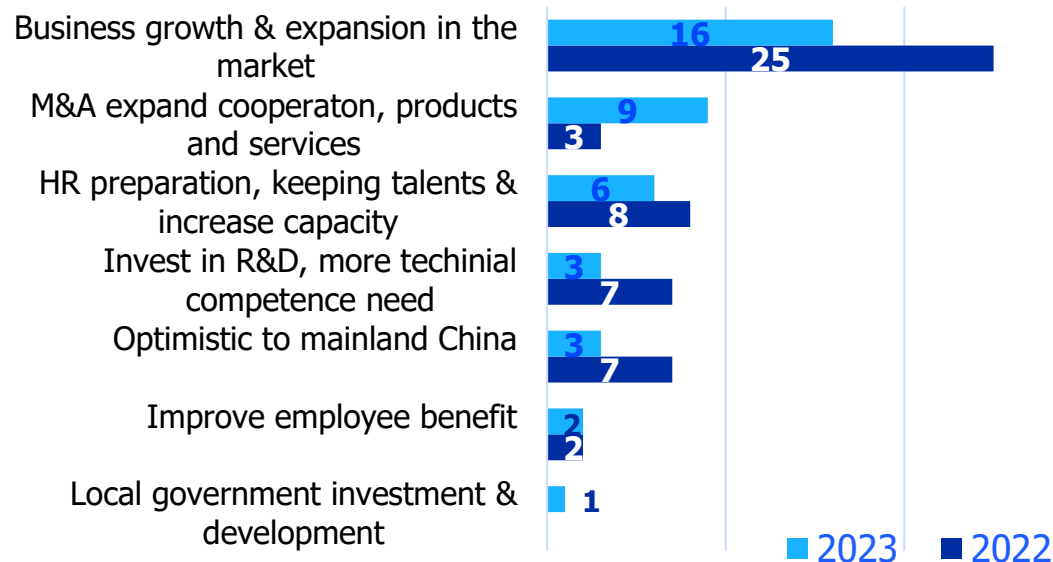


- Most of the companies expect to maintain the current level of local employees or increase it slightly.
- 18% of companies plan to reduce local workforce in China in 2023 vs 11% in 2022

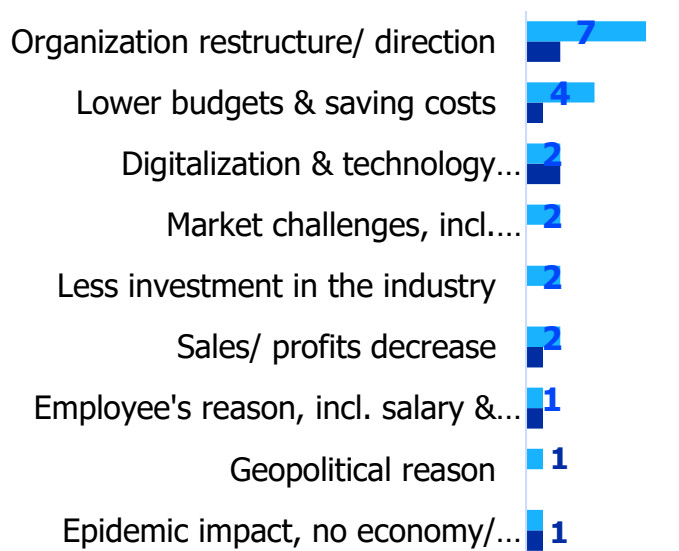
GROWING BUSINESS IS BIGGEST REASON FOR INCREASING WORKFORCE IN CHINA

DECREASING WORKFORCE RELATES TO ORGANIZATION RESTRUCTURE OR SAVING COSTS

Increase

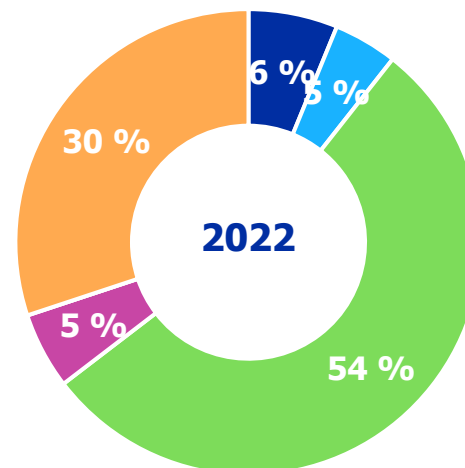
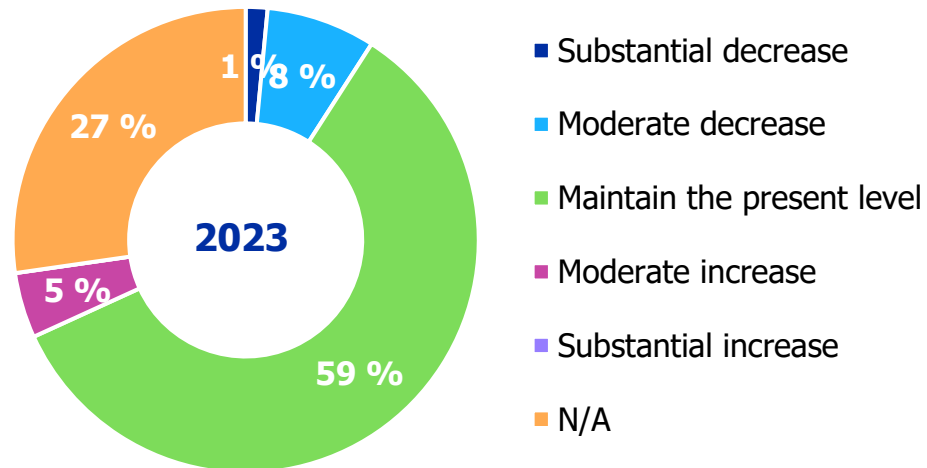


Decrease



MAJORITY PLANS TO MAINTAIN THE NUMBER OF FOREIGN EMPLOYEES IN CHINA

SUBSTANTIAL INCREASE IN THE NUMBER OF FOREIGN EMPLOYEES IS NOT EXPECTED IN CHINA



- The percentage of companies planning to maintain the number of foreign employees increased slightly from 54% to 59%. A similar trend was seen in the category of moderate decrease from 5% to 8%.
- No company plans to significantly increase the number of foreign employees in 2023, nor did any company in 2022.

MAIN DRIVERS BEHIND EXPECTED CHANGES IN FOREIGN EMPLOYEES

BUSINESS DEVELOPMENT IS THE MAJOR DRIVING FACTOR BEHIND CHANGES

2023

Increase

- Business development
- Keeping company culture
- Management level
- Easy communication to HQ/ EU

Decrease

- Company has been localized
- No/decline on budget
- Expats own reason

2022

Increase

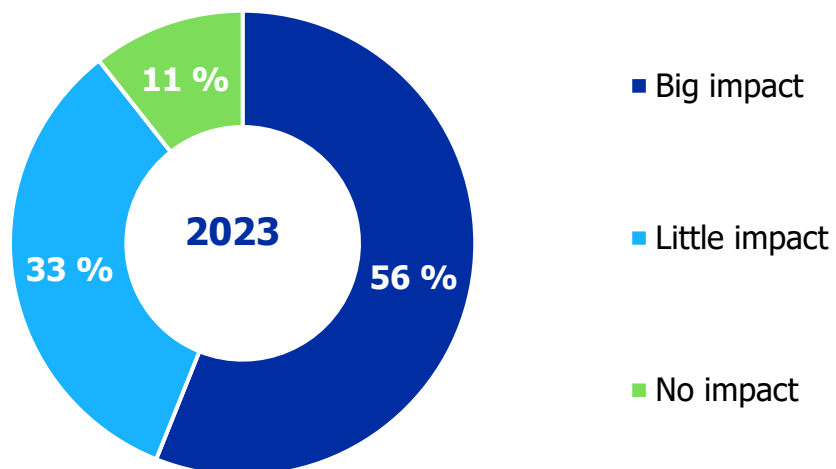
- Business development
- Needs on technology & R&D competence
- Cost of local employee getting higher
- Keeping company culture

Decrease

- No budget for high salary foreign expats
- Difficulty on travel for COVID impact
- Expats own reason

THE IMPACT OF REMOVAL OF COVID-19 BORDER CONTROLS

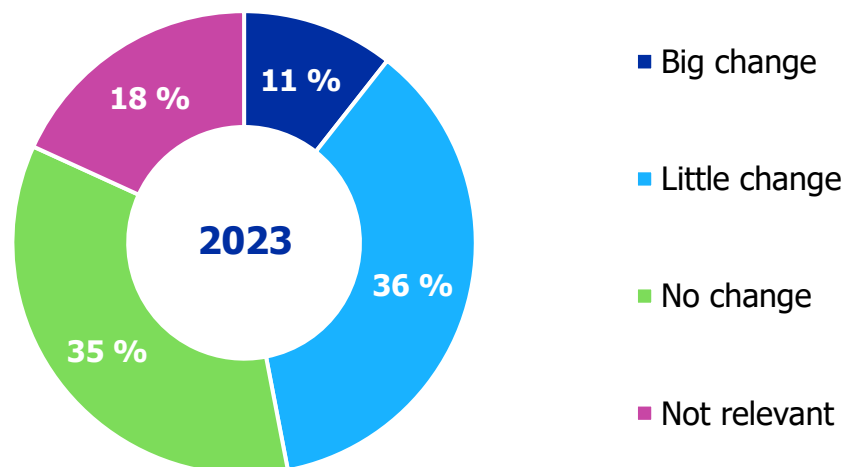
MOST OF THE COMPANIES CONSIDER CHINA'S COVID-19 POLICY CHANGE HAD SIGNIFICANT IMPACT ON BUSINESS



- A total of 89% respondents believe that the removal of Covid-19 border controls had impact, with 56% of them classifying the impact as big.
- 11% of companies did not identify any impact.

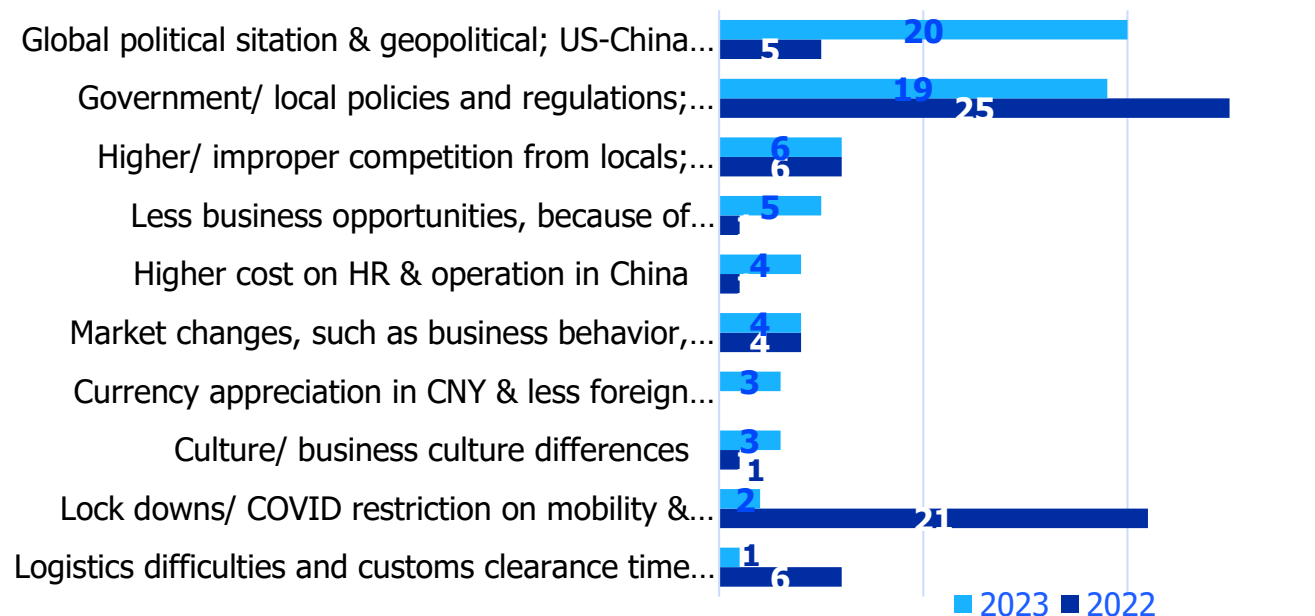
NEARLY HALF OF THE COMPANIES EXPECT CHANGES IN SUPPLY CHAIN

IN 2022 SURVEY 64% EXPECTED NO CHANGE IN SUPPLY CHANGE, NOW ONLY 35% EXPECT THE SAME



GEOPOLITICS BECOMING A CONCERN FOR DOING BUSINESS IN CHINA

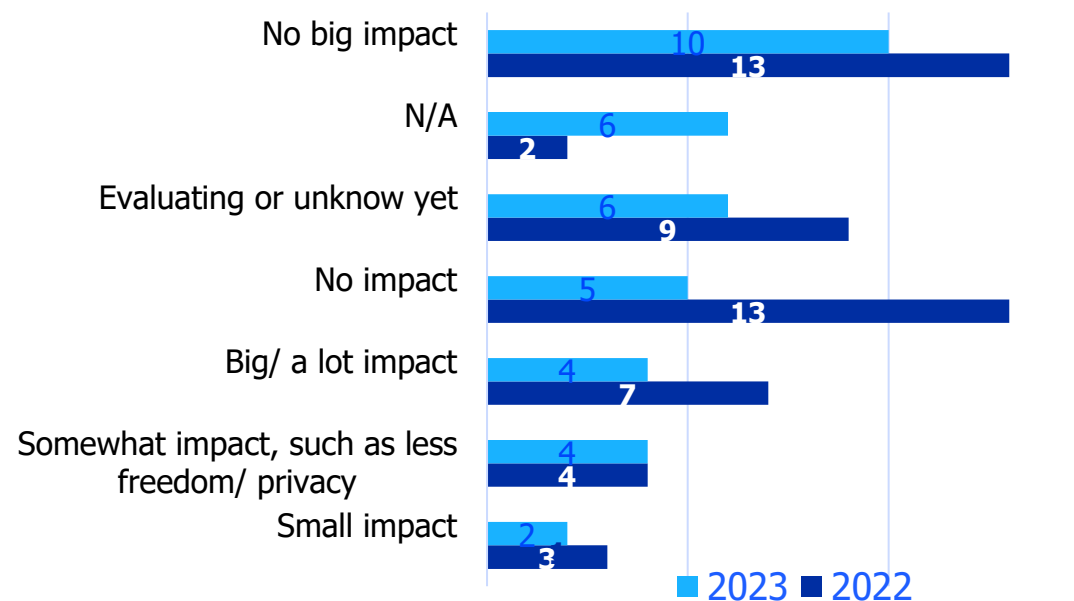
CONCERNS ON COVID RESTRICTIONS GOT MARGINALIZED. GEOPOLITICAL CONCERNS HAVE INCREASED INSTEAD



- The number of companies expressing concerns related to global political situation and geopolitics fourfold compared to 2022.
- Local policy and regulatory concerns remained high on the list, but decreased from 2022 (from 25% to 19% in 2023)
- Only two (2) respondents mentioned Covid-19 restrictions and lock-downs as a concern in 2023.

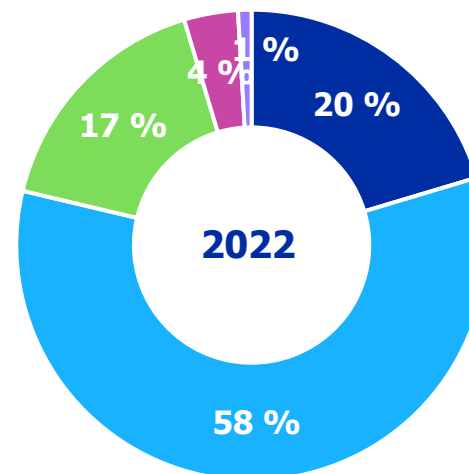
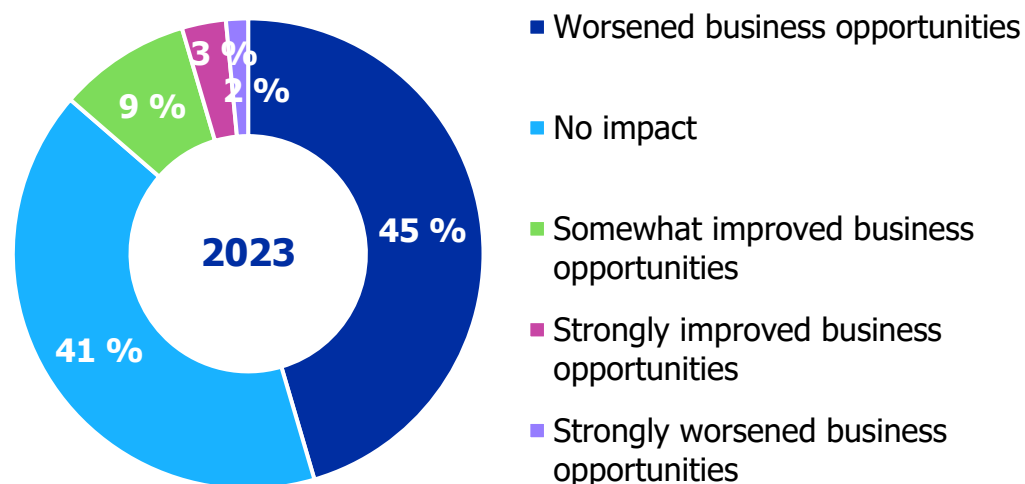
INCREASING IMPACT OF LOCAL REGULATIONS ON DOING BUSINESS IN CHINA

SMALLER NUMBER OF COMPANIES CONSIDER LOCAL REGULATIONS DO NOT HAVE IMPACT ON DOING BUSINESS IN CHINA



NEGATIVE IMPACTS EXPECTED FROM GLOBAL TRADE DISPUTES & TECHNOLOGY PROTECTION

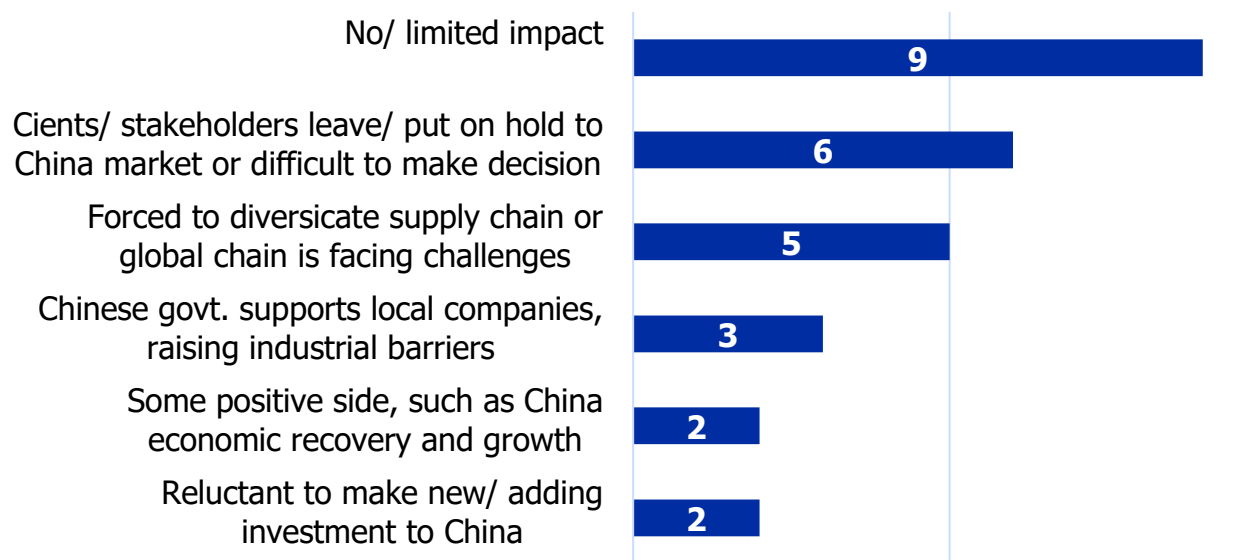
THE SHARE OF RESPONDENTS EXPECTING WORSENED BUSINESS OPPORTUNITIES HAS INCREASED FROM 20% IN 2022 TO 45% IN 2023



- Nearly half of respondents (47%) expect worsening business opportunities due to global trade disputes and technology protection (vs 21% in 2022)
- Only 12% expect improved business opportunities (vs 21% in 2022)
- 41% expect no impact in 2023 vs 58% in 2022
- Responses on strongly worsening have remained low (2% vs 1%)

NEGATIVE IMPACT FROM INCREASING GLOBAL TRADE DISPUTES & TECHNOLOGY PROTECTION

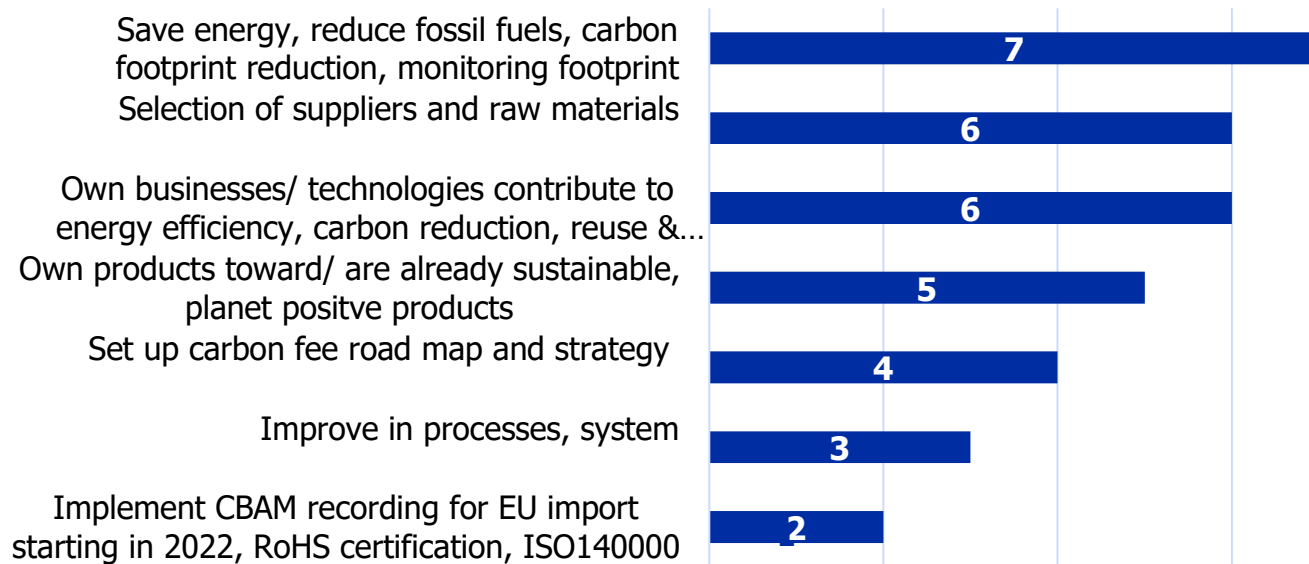
WHAT ARE THE DIRECT OR INDIRECT IMPACTS TO YOUR COMPANY BUSINESS REFERRING THE INCREASING GLOBAL TRADE DISPUTES AND TECHNOLOGY PROTECTION MEASURES ?



- Only nine (9) respondents did not see any or saw limited impact.
- Supply chain concerns are still there. "Wait and see" attitude is expected to increase.
- Other concerns included impacts of rising cost, changing business models, lead times, potential restrictions on international traveling, IPR protection, difficulties in getting financing.

CHINA REGULATIONS EXPECTED TO IMPACT CARBON REDUCTION

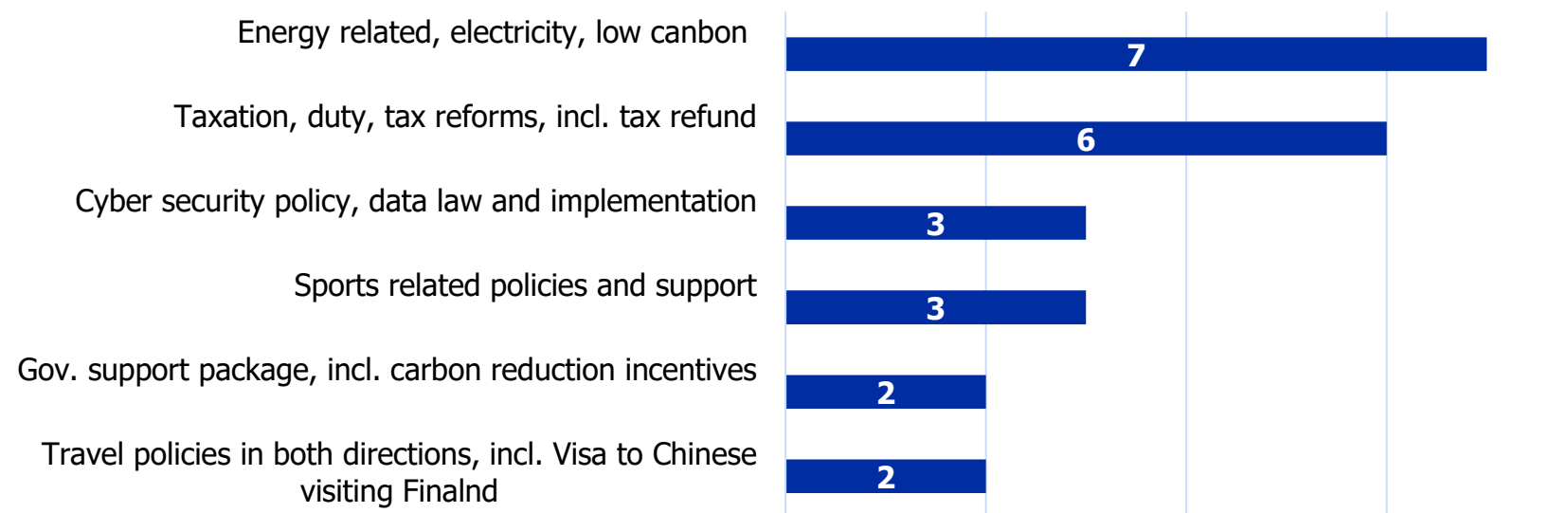
HOW DO YOU EVALUATE THE IMPACT OF CHINESE REGULATIONS, INCL. DATA SECURITY LAW AND PIPL ON YOUR OPERATION?



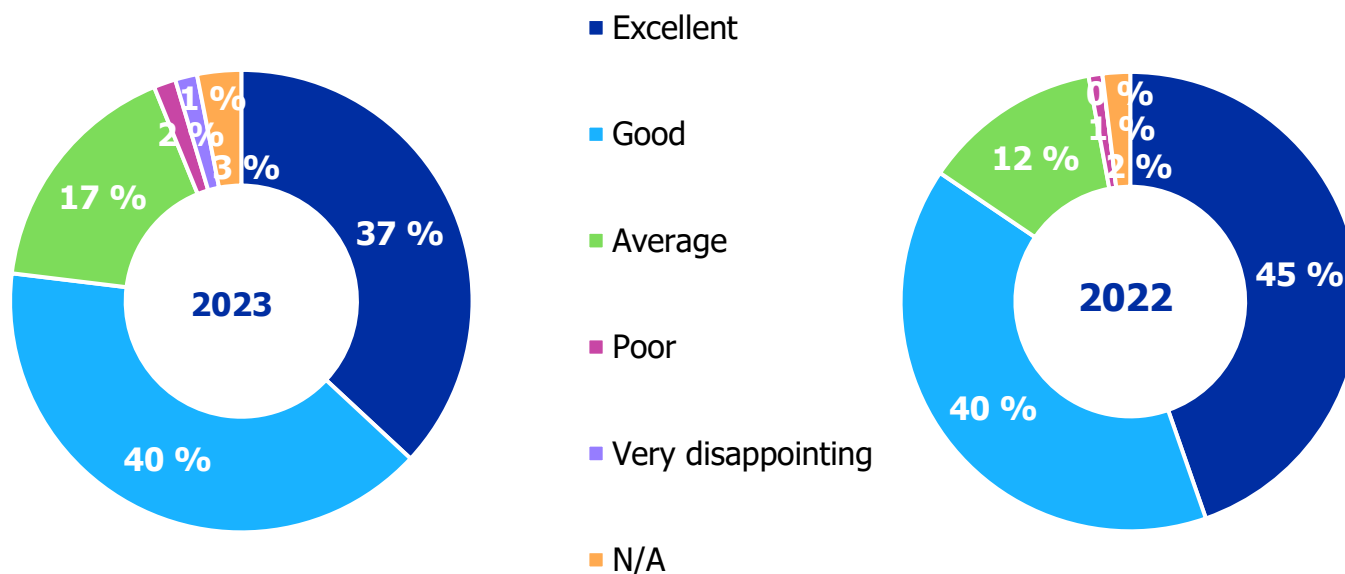
- Saving energy, reducing fossil fuels and lowering carbon footprint mostly mentioned impact on operations impacted by regulations in China

COMPANIES ARE INTERESTED TO GET MORE INFORMATION ON CARBON REDUCTION

WHAT KIND OF REFORMS/POLICY DEVELOPMENT BENEFITING YOUR BUSINESS WOULD YOU BE INTERESTED IN GETTING MORE INFORMATION ON ?



PERFORMANCE OF FINNCHAMS

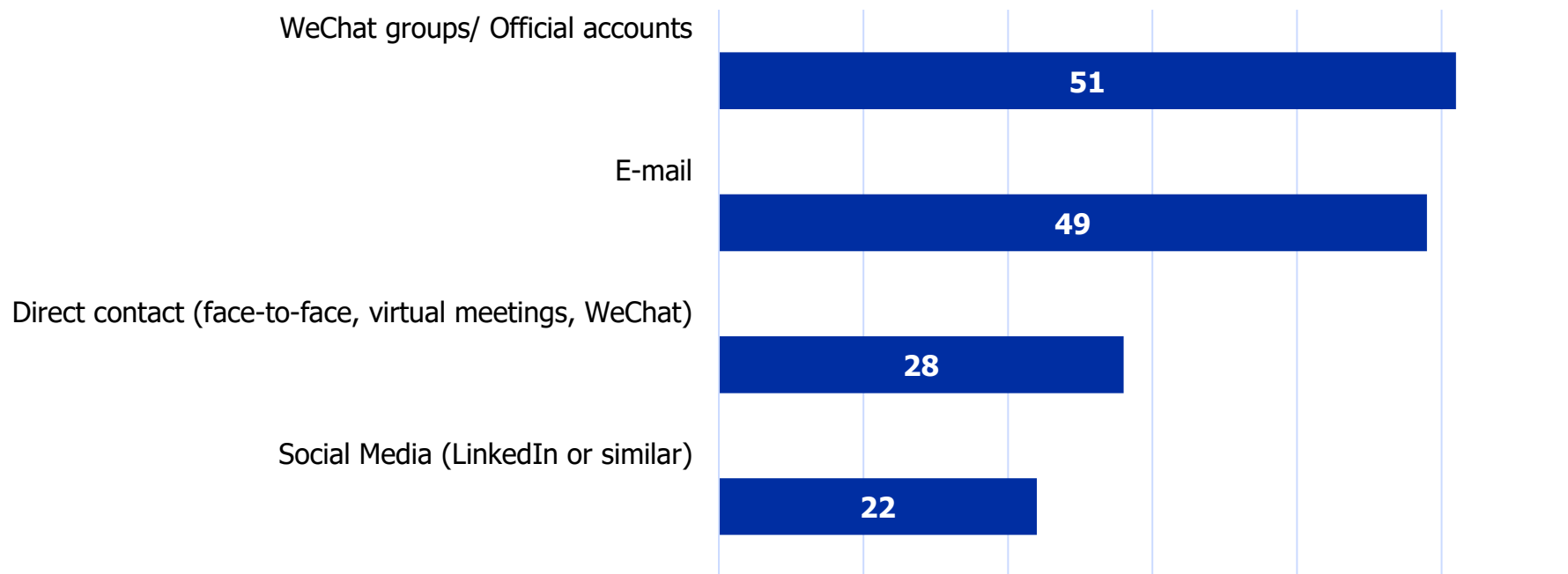


Areas to improve

- 13 respondents want to have more events, activities, and networking opportunities free to members
- 4 respondents express a desire to have more success stories' sharing and high-quality events with dynamic and engaging speakers
- 3 mentioned that FinnChams can be more active; 3 others think FinnChams have done well
- There is no FinnCham in western China yet; or one Finncham could cover whole China

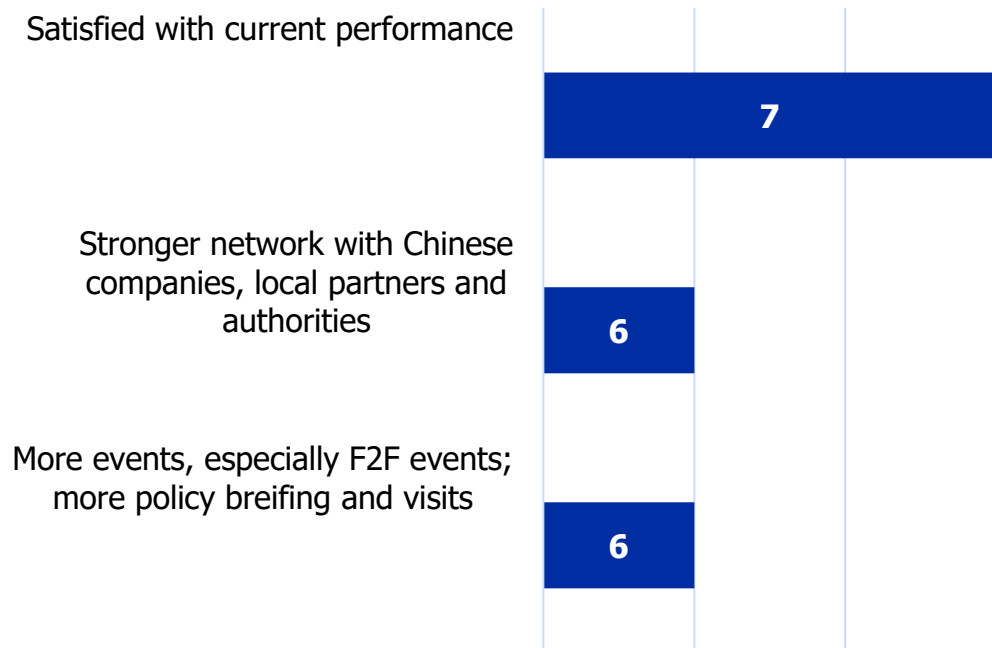
HOW DO YOU WANT TO HEAR FROM US ?

MOST RESPONDENTS PREFER WECHAT AND EMAIL AS COMMUNICATION CHANNELS



PERFORMANCE OF TEAM FINLAND

RESPONDENTS EXPECT TEAM FINLAND TO BUILD MORE STRONGER NETWORK WITH LOCAL PLAYERS AND ORGANIZE MORE VISITS AND EVENTS



- Some open answers**
- Improve country image and more social media engagement
 - More proactive to support Finnish companies incl. facilitating Finnish visa apply
 - Event info more transparent and publishing early
 - More TF resource to South China
 - Convey objective facts of China market to Finland
 - Member of one local FinnCham could enjoy all FinnChams' activities in China
 - Policy influence to ministries and new State Council members

SUMMARY & CONCLUSIONS

- Majority (>60%) of respondents are large and medium size companies and 72% are based in East China region. Highest response rate came from manufacturing sector.
- Majority of Finnish companies generate less than 20% of their global revenue in China. Companies are increasingly “in China for China”
- Outlook for the revenue and profitability in China has improved from last year survey. 81% in 2023 vs 69% in 2022 of respondents expect increased sales. 68% vs 53% expect also profits to improve in China.
- South China is getting more attention for regional expansion.
- Most companies (74%) still consider increasing or maintaining their local workforce in China. Expectations on foreign workforce remain about the same level as in 2022.
- Companies expect improved business and investment climate from 2022 and investments are expected to continue
- Companies expect to increase investments in digitalization, HR, and promotion and marketing, but less in new machinery and R&D
- Negative impacts of Covid restrictions have been replaced by concerns on geopolitics, global trade disputes and technology protection

Thank you!

Kiitos!