



Sweden
Sverige



BUSINESS CLIMATE SURVEY FOR SWEDISH COMPANIES IN MAINLAND CHINA 2023

A REPORT FROM TEAM SWEDEN IN CHINA

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FOREWORD



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2022 was the year when we experienced the toughest pandemic management ever seen in the market, which had a strong impact on companies and individuals. It was also the year when the zero-Covid policy was dropped overnight, and life rapidly went back to normal. The pandemic is now over, but world trade is still facing turbulence and uncertainty. We are also seeing longer-term shifts in the business landscape. Sustainability considerations, as well as geopolitical frictions and protectionism, are driving forces behind regionalisation, which is impacting many companies' value chain configurations. This can have positive effects on the carbon footprint, as the distance between production and market is shortened, but companies are at the same time raising issues with supply chain transparency, making it difficult to assess the environmental and social impact.

While economic recovery is more drawn out in some parts of the world, China shows clear signs of recovery and is committed to delivering around a five per cent GDP increase in 2023. As one of the growth pockets of the world this year, it is troublesome that many companies indicate that they will grow slower than their respective industries, meaning that they are effectively losing market shares. This can be explained by the increased preference for domestic products, cybersecurity regulations creating hurdles for data transfer and other barriers like export controls, but also by the speed and agility demonstrated by local competition. It is a clear callout to Swedish companies to revisit their China go-to-market plans and operating models to ensure they reflect the new reality.

But not all challenges are caused by the new business landscape. Some issues are resurfacing, and it is alarming to see that protection of intellectual property rights, as well as corruption, are becoming more challenging for Swedish companies. These are areas where positive progress has been observed over the last decade, and where a deterioration can quickly have a negative effect on market attractiveness. The number one challenge is, however, most likely here to stay: access to skilled labour. China's demographic situation, combined with an increasing need for talent, will further accelerate the skills shortage and continue driving people cost.

Despite market challenges and turbulent geopolitical surroundings, there is still some optimism among Swedish companies in China. Almost half of the respondents will increase investments in the market in 2023, and many also look to increase their supplier base. This indicates that even though the business climate is the toughest in a decade, China is still a market that is too important not to focus on for many companies. If that is the case, the only option is to stay close to the market and be agile enough to react when conditions change, while at the same time having a clear governance and compass to ensure that business is aligned with headquarters' ambition and code of conduct.

The Business Climate Survey is the result of responses from Swedish companies in the Chinese market across different industries and sizes. The survey has been carried out for more than two decades, and has this year been supplemented with in-depth interviews with several of the companies to get more qualitative insights explaining the data. Team Sweden is grateful to all the companies who have responded to the survey and participated in interviews, and we hope that you find the results valuable. Should you have any questions about the report or want to discuss your situation in the Chinese market further, do not hesitate to reach out to Team Sweden in China.

EXECUTIVE SUMMARY

In 2023, the business climate in China was the worst in at least a decade. The climate index ended up at 3.1, a decrease from last year's score of 3.3. Companies continue to be polarised in their outlook for the years ahead: 46 per cent of respondents think the business climate will improve over the next three years, while 33 per cent think it will worsen.

Financial performance suffered during the last year of the pandemic, but most Swedish companies were still profitable. In 2022, 61 per cent of all respondents reported a profitable business, down from 72 per cent the previous year, while 20 per cent reported a loss, up from nine per cent in 2021.

Profits and revenues are expected to improve in 2023. In the coming year, 65 per cent and 56 per cent of respondents expect an increase in revenue and profit, respectively, up slightly from last year. A quarter of all companies see no revenue growth or even expect revenue decline compared to last year – despite the lifting of the zero-Covid policy.

The past three years' Covid-19 development and management have negatively affected the attractiveness of the Chinese market. Half of the respondents (53 per cent) say that it has negatively affected their view of the Chinese market, with 12 per cent labelling the market as significantly less attractive. Many companies mention an increased awareness of risks and unpredictability in the post-pandemic Chinese market, especially when it comes to policy.

Over half of Swedish companies experience a need to tailor operations and solutions for China, most commonly in supply chains and online presence. Industrial companies say they need to tailor operations and/or solutions to China to a larger extent than other company segments. In addition, a third of Swedish companies consider supply chain alterations, most by increasing their supplier base in China.

One in three Swedish companies is negatively impacted by “buy domestic” requirements. The impact varies significantly between sectors, with 44 per cent of industrial companies saying they have experienced negative effects but only eight per cent of consumer companies.

Access to skilled labour remains the most challenging factor for businesses in China. The second most common challenge for Swedish companies in 2023 is the protection of intellectual property rights (IPR), showing a clear increase over the past two years. New among the top five challenging factors this year are also issues stemming from corruption.

A quarter of Swedish companies face challenges in their environmental efforts in China. The most common challenges are ensuring transparency in the supply chain and educating customers about the benefits of sustainable products and why they are worth paying extra for.

Challenges aside, Swedish companies are still excited about the Chinese market. Respondents see market size, potential, and GDP growth as the key external drivers of business opportunities in the country. Almost half of Swedish companies in China (47 per cent) are looking to increase their investments in the coming 12 months compared to the last 12 months, the same as last year.

Brand Sweden continues to bring value to Swedish businesses in China, especially in the consumer sector. Leveraging the country of origin continues to be a valid strategy for Swedish companies in China. In 2023, consumer companies rate the impact of brand Sweden at 4.3, significantly higher than their industrial (3.4) and professional services (3.3) peers.

Looking ahead, it will be key for companies to continuously monitor market and regulatory trends and react to a changing business environment in an agile manner. The ability of Swedish companies in China to continue to operate and thrive in the market will require continued progress within several fields.

BUSINESS PERFORMANCE

Financial performance suffered during the last year of the pandemic, but most Swedish companies were still profitable

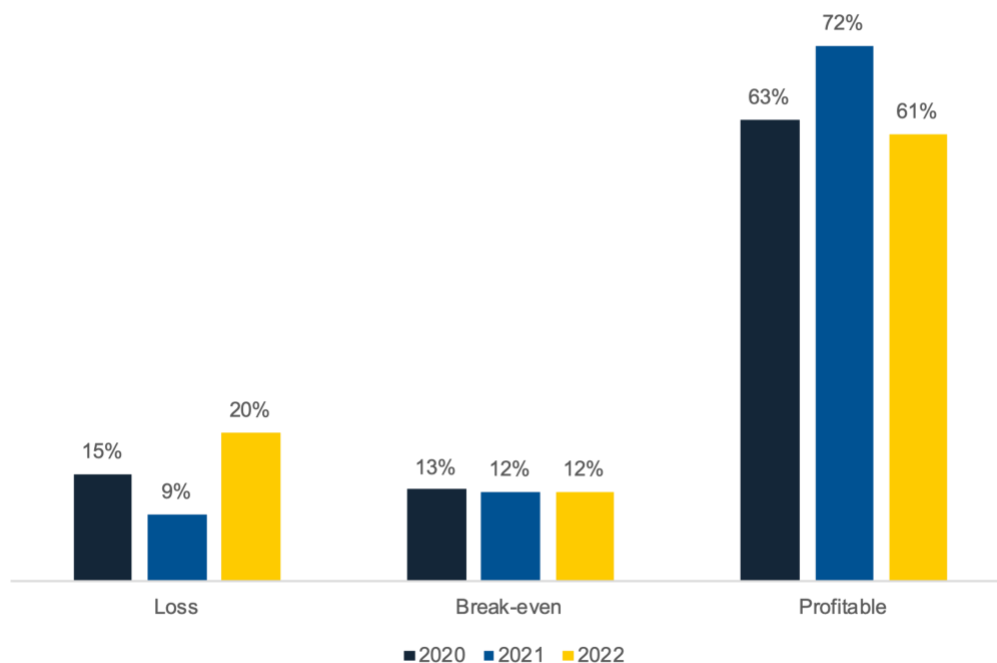
2022 was a profitable year for most Swedish companies in China, but less so than 2021. Of all respondents, 61 per cent reported a profitable business for the year, down from 72 per cent the previous year, and 20 per cent of companies reported a loss over the past year, up from nine per cent in 2021. The highest profitability was found in medium-sized companies, where 73 per cent reported a profitable performance in 2022, the same as in 2021.

While these results are encouraging, considering the many disruptions faced by companies over the course of 2022, it is the overall worst performance by Swedish businesses in China since before the start of the pandemic.

Looking at the different sectors in 2022, compared with 2021:

- 68 per cent of industrial companies were profitable, down from 74 per cent
- 58 per cent of professional services companies were profitable, down from 74 per cent
- 46 per cent of consumer companies were profitable, down from 58 per cent¹

HOW WOULD YOU DESCRIBE YOUR COMPANY'S FINANCIAL PERFORMANCE IN MAINLAND CHINA IN 2022?



NOTE: The number of respondents for this question was 99. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

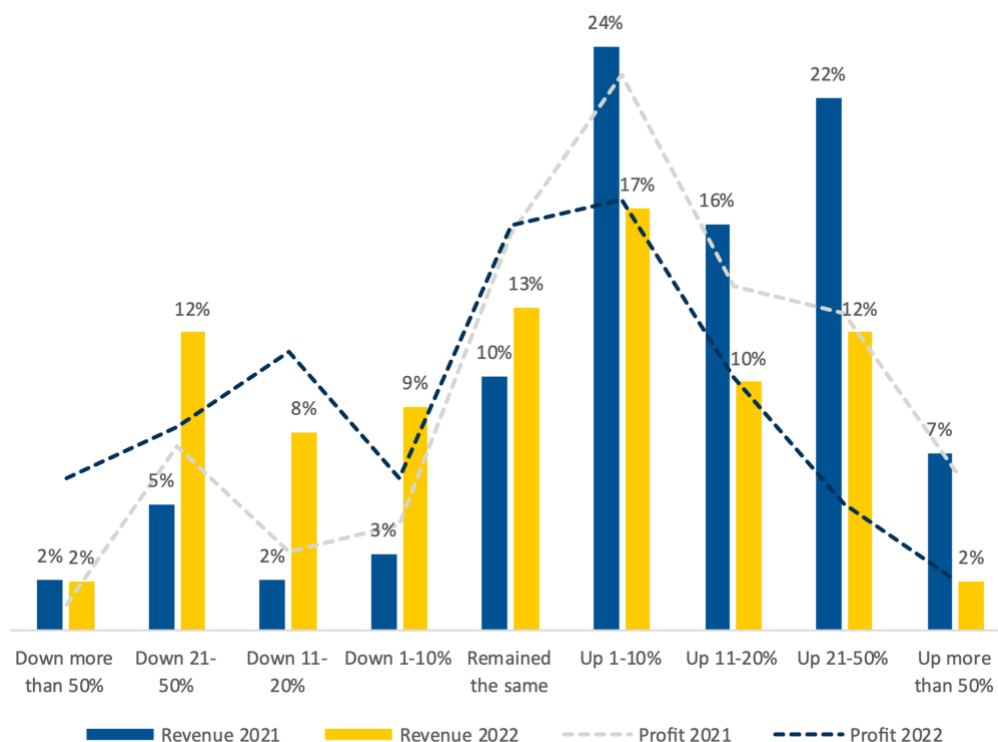
¹ It is worth noting that the lower profitability for consumer companies could be due to the role of their China operations. Of the surveyed consumer companies, almost half have no sales in China (indicating that their China operations are primarily sourcing-related), which obviously restricts their ability to get profit in the market. 54 per cent of consumer companies have marketing/sales in China, compared to 71 per cent of industrial and professional services companies.

Revenue and profit growth declined for Swedish companies in 2022

In 2022, 41 per cent and 35 per cent of all companies saw an increase in revenue and profit, respectively – down from 69 per cent and 56 per cent the year before. Small companies were the main drag on revenue and profit growth, with 41 per cent and 40 per cent of small companies saying that their revenue and profits decreased last year – their worst year since the beginning of the pandemic.

Meanwhile, 31 per cent of all respondents say that they saw a decrease in revenue between 2021 and 2022, compared with 12 per cent in last year's survey. These numbers are on par with the first year of the pandemic. Profit numbers are similarly discouraging, with 32 per cent of all respondents indicating a decline in profit – up from 16 per cent last year. Six per cent of respondents said they saw more than a 50 per cent decline in profit, up from one per cent the year before. Revenue was less impacted, being marginally worse compared to last year with around two per cent, indicating a 50 per cent decline in revenue both years.

HOW WAS YOUR REVENUE AND PROFIT IN MAINLAND CHINA 2022 COMPARED WITH 2021?



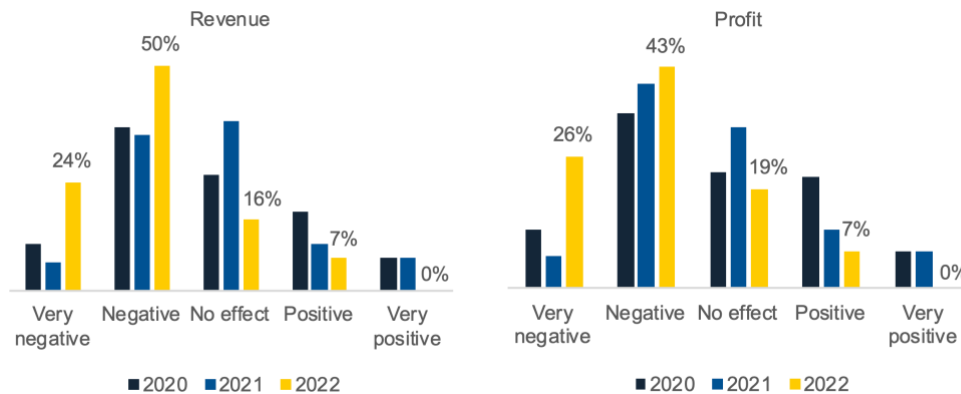
NOTE: The number of respondents for this question was 97. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

Impact of Covid-19 more negative in 2022 than in the previous years of the pandemic

While China has since ended its strict zero-Covid policy – removing previous requirements such as mandatory centralised quarantine, compulsory testing, and sweeping lockdowns – and reopened to the world, the effects of the country's pandemic management continued to haunt people and businesses alike in 2022.

WHAT WAS THE IMPACT OF COVID-19 IN 2022 ON YOUR...



NOTE: The number of respondents for this question was 96-98. "Don't know/Not applicable" responses are included but not shown in figure.
 SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

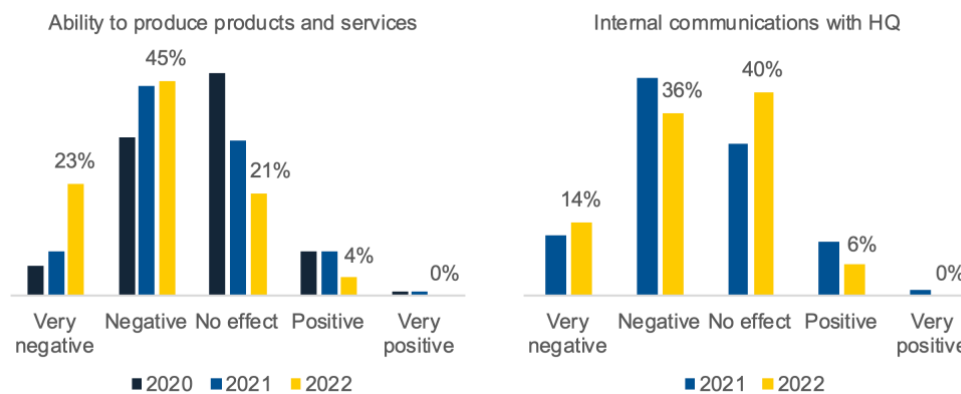


Business activity is improving after the pandemic, we already see a rise in our sales.

Consumer company

Over the past year, the impact of Covid-19 on Swedish companies has been more negative than in the previous pandemic years, with 74 per cent (41 per cent) of respondents reported a negative impact on their revenue, 68 per cent (46 per cent) on their profit, and 68 per cent (56 per cent) on their ability to produce products and services. The negative impact on internal communication with headquarters improved marginally from the year before, from 54 per cent to 50 per cent.

WHAT WAS THE IMPACT OF COVID-19 IN 2022 ON YOUR...



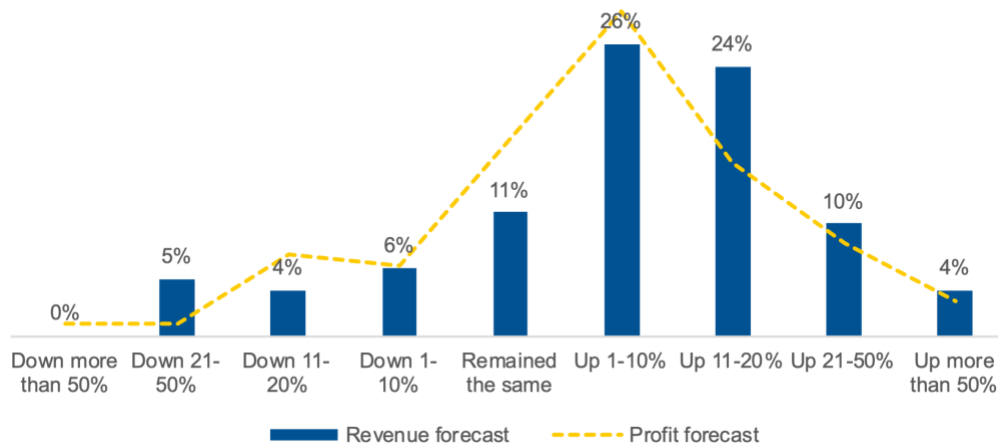
NOTE: The number of respondents for this question was 98. "Don't know/Not applicable" responses are included but not shown in figure.
 SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

Most Swedish companies forecast a slight revenue and profit uplift in 2023, but the outlook is more pessimistic than for the industry as a whole

In the coming year, 65 per cent and 56 per cent of respondents expect an increase in revenue and profit, respectively. That is up slightly from last year's forecast of 62 per cent and 50 per cent. Consumer companies are the least optimistic for the year ahead, with only 38 per cent and 31 per cent reporting an uptick in revenue and profit. Professional services companies are the most optimistic, with 76 per cent and 64 per cent expecting revenue and profit to grow in the year ahead.

It is noteworthy that almost a quarter of all companies (26 per cent) foresee no revenue growth or even expect revenue decline compared to last year – despite the lifting of the zero-Covid policy.

WHAT IS THE REVENUE AND PROFIT FORECAST OF YOUR OPERATIONS IN MAINLAND CHINA FOR 2023 COMPARED WITH 2022?

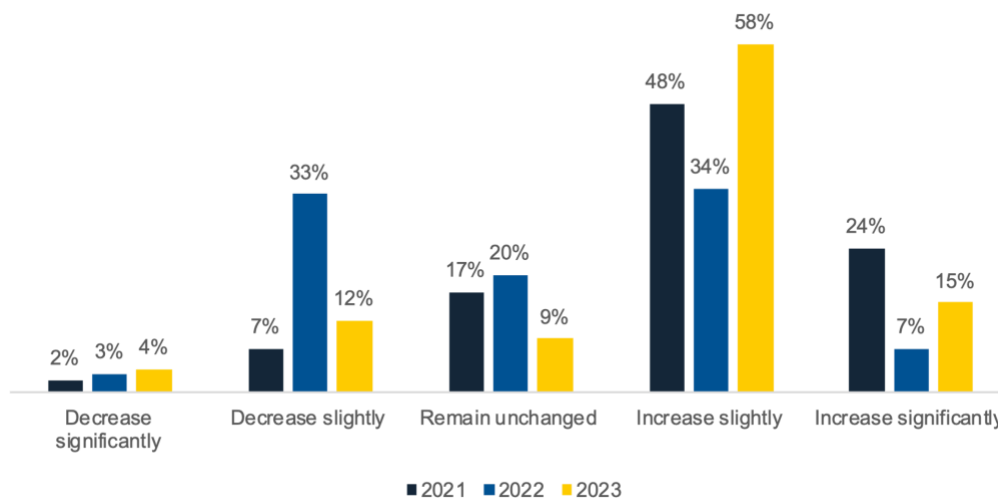


NOTE: The number of respondents for this question was 96-99. “Don’t know/Not applicable” responses are included but not shown in figure.
 SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

In addition to their own company outlook, 73 per cent of respondents expect the turnover within their industry/business sector to increase in the coming 12 months, up substantially from 41 per cent in last year’s survey. Professional services companies were the most optimistic, with 87 per cent expecting turnover to increase in the coming 12 months – up from 38 per cent last year. Consumer companies, meanwhile, had the most improved outlook since last year, with 69 per cent now expecting increased industry turnover in 2023 – up from 17 per cent in 2022.

While the improved outlook is encouraging, the expected revenue increase for some Swedish consumer and professional services companies are lower than the expected turnover increases for their respective sector. While this could have several explanations, such as other segments or price points within their industry being expected to increase faster than those where Swedish companies operate, it could also indicate that respondents see a risk of losing market shares over the coming year. For industrial companies, sales expectations are in line with expected industry turnover.

COMPARED TO THE PAST 12 MONTHS, WHAT ARE YOUR EXPECTATIONS FOR THE COMING 12 MONTHS FOR YOUR INDUSTRY IN MAINLAND CHINA REGARDING TURNOVER?



NOTE: The number of respondents for this question was 100. “Don’t know/Not applicable” responses are included but not shown in figure.
 SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

BUSINESS CLIMATE

The business climate in 2023 is the worst in at least a decade, with a continued polarised outlook

The business climate represents the core of this survey, and each respondent is asked to assess the current climate from very poor to very good. The assessment is subjective and can be impacted by several factors – many of them explored through other questions throughout the survey. Even so, the business climate assessment provides a valuable indication of how the perceived business climate is developing over time.

This year, the climate index ended up at 3.1, a decrease from last year’s score of 3.3 and the lowest result for more than 10 years. Consumer companies experience a better business climate compared to other sectors, with an index of 3.5, compared with industrial and professional services companies, both at 3.0. Smaller companies were more positive, with an index of 3.2, than medium and large companies, both at 3.0.

HOW DO YOU PERCEIVE THE CURRENT BUSINESS CLIMATE IN MAINLAND CHINA?

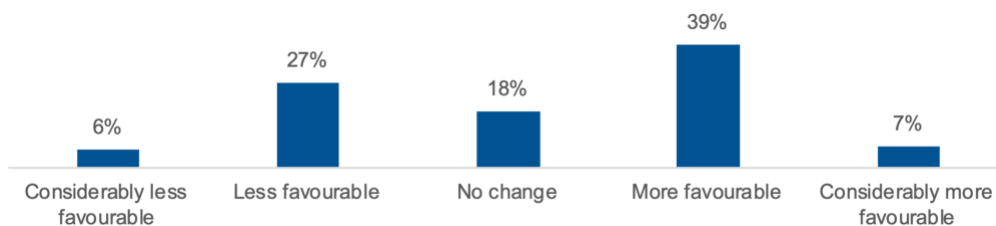


NOTE: The number of respondents for this question was 99.
SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

Like last year, Swedish companies are polarised in their views of how they expect the business climate to evolve over the coming three years. Almost half of the respondents (46 per cent) think the business climate will be more favourable or considerably more favourable – up marginally from 45 per cent last year. At the same time, a third (33 per cent) think the business climate will be less favourable or considerably less favourable – the same as last year. The share of respondents saying that the business climate will be considerably less favourable has increased from two per cent in 2022 to six per cent this year. Consumer companies have the most optimistic outlook, with 56 per cent of the respondents expecting the business climate to improve in the coming three years.

Following the 20th Party Congress in the fall of 2022 and the appointment of a new leadership in Xi Jinping’s third term, several companies specifically mention that they think the business climate will be positively affected by the new government administration. However, many preface their expectations by saying that while government promises of supporting the foreign business are good, they will be worth little unless followed up by concrete measures.

HOW DO YOU PREDICT THE FUTURE BUSINESS CLIMATE IN MAINLAND CHINA THE COMING THREE YEARS?



NOTE: The number of respondents for this question was 100. “Don’t know/Not applicable” responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.



In December things were pitch black.

Consumer company



If you include geopolitical concerns in the business climate then of course things have gotten worse, but just looking at China’s economic and market policies things are actually improving.

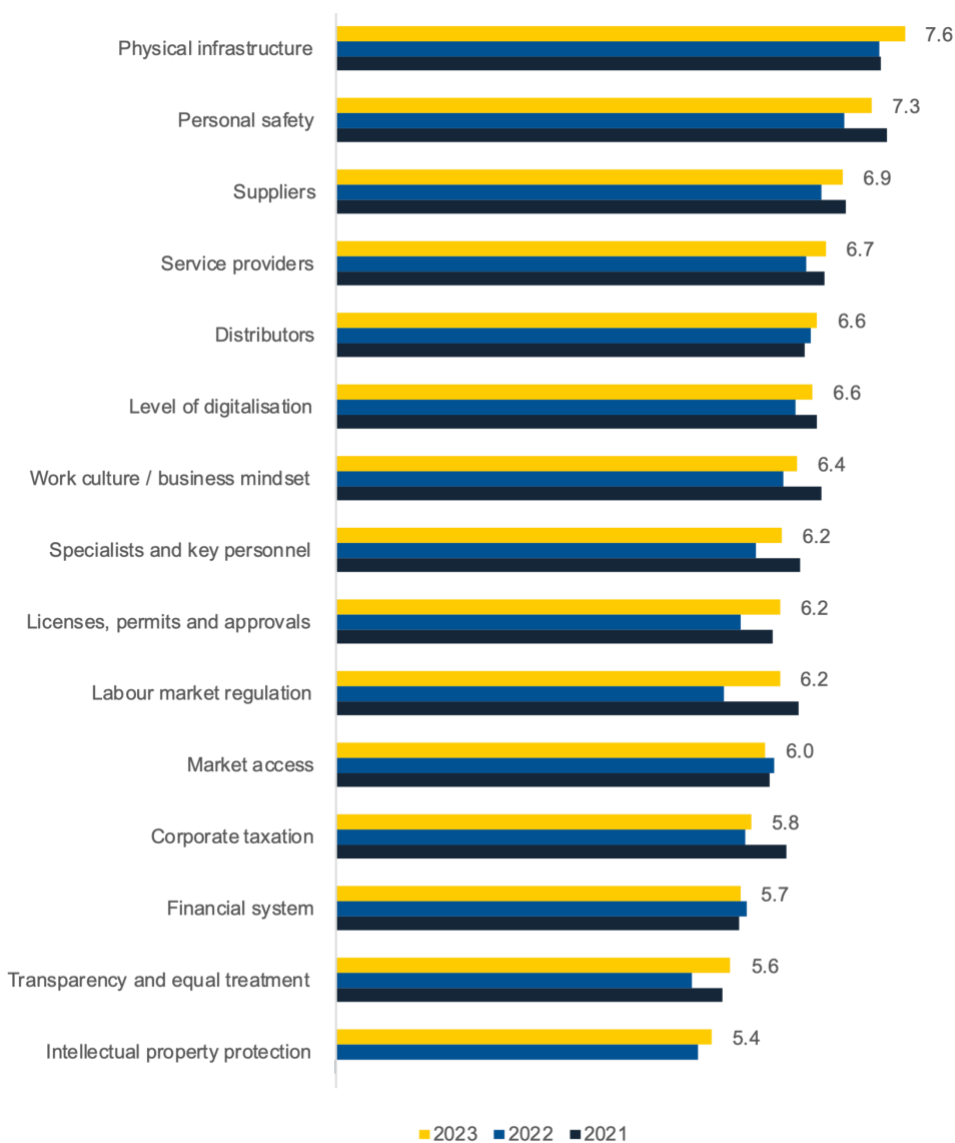
Industrial company

Improved satisfaction with most market conditions in China compared to last year

In 2023, market conditions in China continued to be favourably viewed by Swedish companies. Compared to last year, satisfaction with most of the dimensions examined in this survey has improved. Topping the list is physical infrastructure, personal safety, and access to suppliers and at the bottom are intellectual property protection and transparency and equal treatment – in line with the past two years’ results.²

The only dimensions in which market conditions were seen as worsening compared to last year were financial systems and market access, which both experienced marginal declines.

PLEASE RATE FROM 1-9 HOW THE BELOW CONDITIONS MEET THE NEEDS OF YOUR COMPANY’S BUSINESS IN MAINLAND CHINA



NOTE: The number of respondents for this question was 68-99.
 SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.



We are still worrying about technology leaks to China, but soon it might be the other way around.

Industrial company

² More on IPR protection on page 11.

Access to skilled labour remains the most challenging factor for businesses in China, IPR protection and corruption are new among the top five

In 2023, access to skilled labour remained one of the most challenging factors for Swedish companies in China – topping the list for the fourth year in a row. The issue stems from a combination of tough competition between companies to attract and retain skilled talent and the fact that talent is becoming increasingly scarce. Having already peaked in 2014, China’s currently one billion-strong working-age population is projected to plummet by more than 130 million by 2040 due to a quickly dwindling birth rate and a rapidly ageing society. By mid-century, the share of the working-age population is projected to fall to 50 per cent. Therefore, this issue is likely to remain a top challenge for Swedish companies in China for the foreseeable future.

The second most common challenge for Swedish companies in 2023 is the protection of intellectual property rights (IPR). Chosen by 21 per cent of respondents, the relative importance of this issue has seen a sharp increase over the past two years (up from nine per cent in 2021 and 14 per cent in 2020). Many companies say that they experience that the Chinese judicial enforcement system is lagging and IPR protection is inadequate in relation to their needs.

Another issue that has increased in relative importance is that of corruption. In 2023, 16 per cent of respondents said corruption was one of their three biggest challenges (up from four per cent last year and six per cent in 2020).³

The third most common challenge for Swedish companies in China is governmental policies that disadvantage foreign companies. While the severity of this issue has lessened compared to the past two years (18 per cent in 2023, compared to 21 per cent in 2022 and 27 per cent in 2020), it still indicates that Swedish and other foreign companies feel that they are in an inherently disadvantageous position on the market compared to the local competition, creating an uneven playing field.⁴

Meanwhile, issues pertaining to imports and customs have become relatively less challenging for Swedish companies in 2023. Import regulations and customs duties, levies, and additional charges were named by 11 per cent of companies this year, down from 20 per cent in 2020, and importing procedures for goods through customs dropped to one per cent this year, down from 15 per cent two years ago.

Beyond the issues measured in the survey, several respondents mentioned challenges stemming from the mounting geopolitical tension between China and the US, as well as quickly rising labour costs.



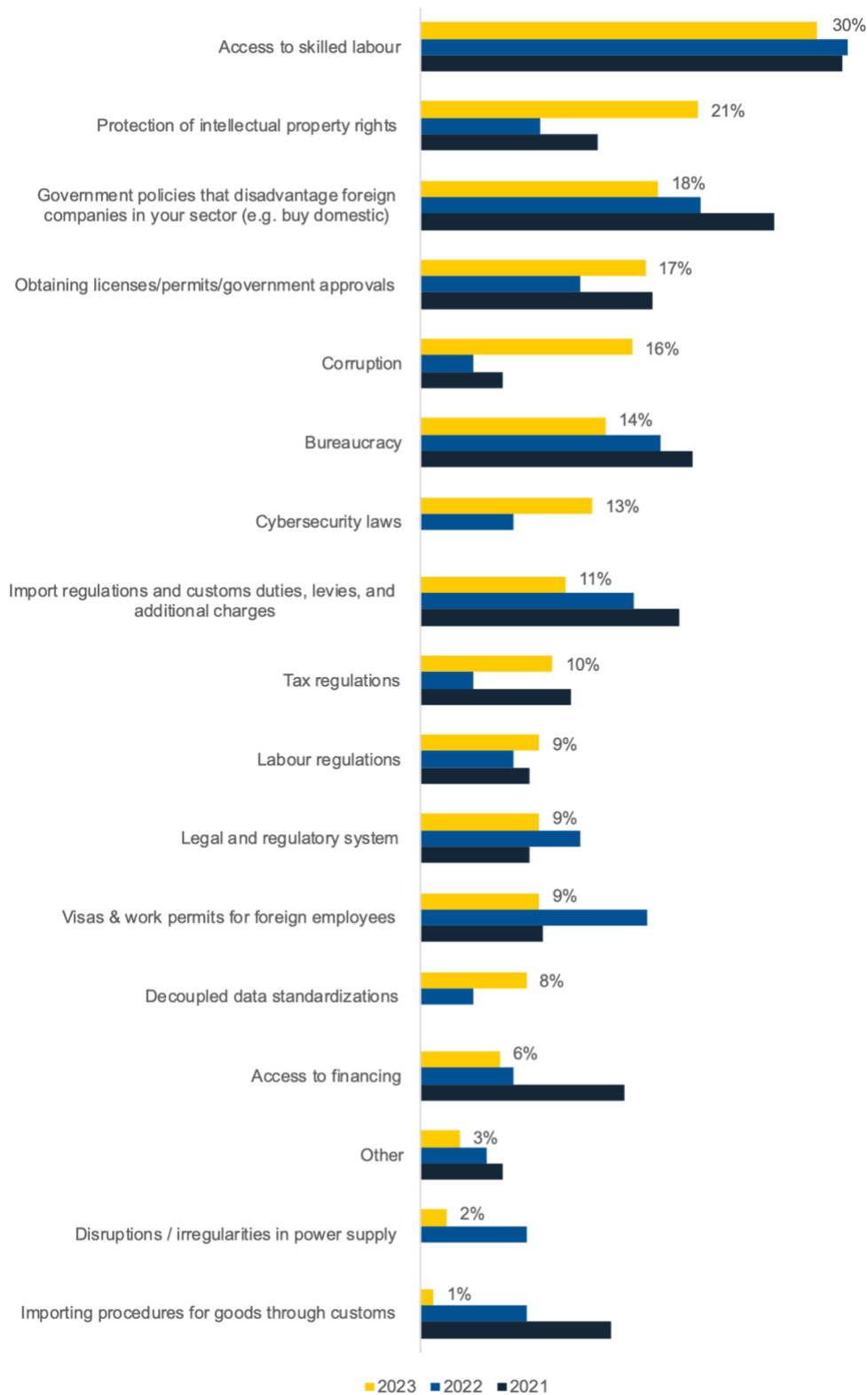
IPR protection has been a big problem in the Chinese market for many years, and honestly the situation has been getting better. But we are still suffering from this kind of damage to our business.

Industrial company

³ More on corruption on page 25.

⁴ More on “buy domestic” requirements on page 15.

WHICH EXTERNAL FACTORS DO YOU CONSIDER MOST CHALLENGING FOR YOUR BUSINESS IN MAINLAND CHINA?



Core challenges include the macro-economic outlook and lingering impact from zero-Covid policy.

Industrial company

NOTE: The number of respondents for this question was 99. "Don't know/Not applicable" responses are included but not shown in figure. Maximum 3 alternatives.

SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

Foreign staffing issues improved compared to last year, but attracting expats to move to China remains a challenge

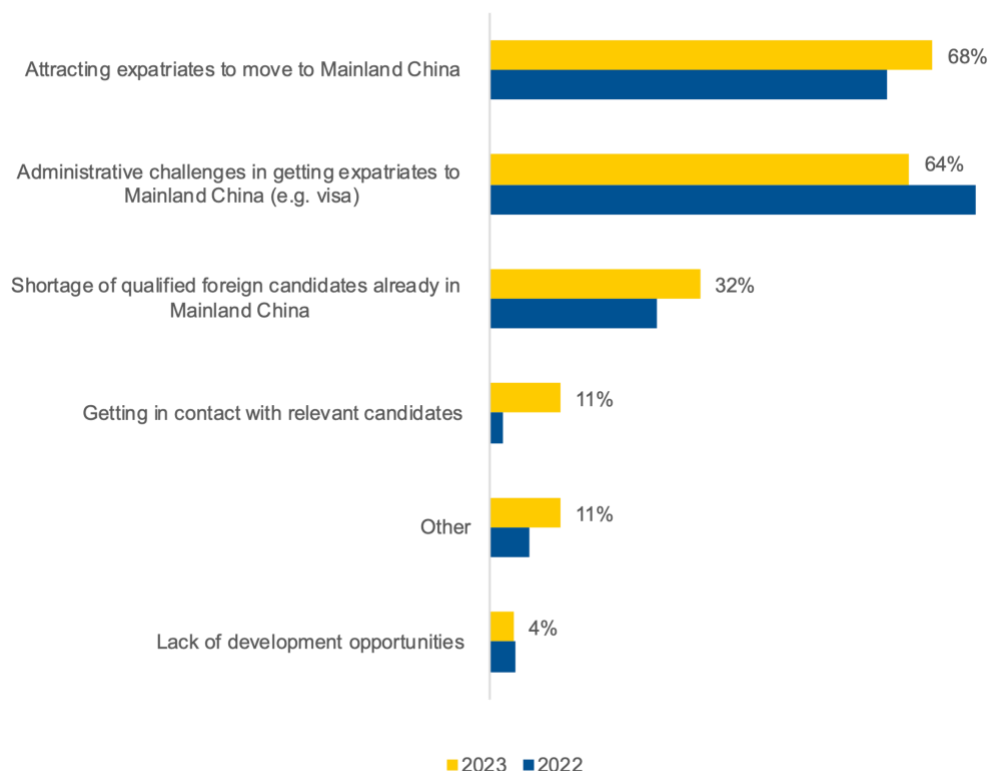
In 2023, foreign staffing issues improved steeply compared to the year before. Less than a third of Swedish companies in China (28 per cent) said they face issues in their foreign staffing efforts, down from more than half (53 per cent) last year. Improvements can be largely attributed to the termination of the zero-Covid policy in China.

Of the companies still affected, 68 per cent say they have trouble attracting foreign staff to move to China, and 64 per cent cite administrative challenges in getting foreign staff into the country. An additional third of affected companies (32 per cent) say that they struggle with a shortage of qualified foreign staff already in the Chinese labour pool.

Looking at the different sectors, professional services companies struggle the most with administrative challenges (81 per cent), while industrial companies struggle the most with attracting expatriates to move to China (64 per cent). Only one consumer company (out of the 13 in the survey) experienced challenges with foreign staffing.

Several companies mentioned the government's strict zero-Covid policy and the subsequent negative image of China in Western media as reasons for why they struggle to attract foreign staff to their China operations. The relative inaccessibility of social media and other platforms commonly used in the West for communication with friends and family (such as Gmail, Twitter, Instagram, etc.) is also cited as having a negative effect on companies' foreign staffing efforts.

WHAT ARE THE MAIN CHALLENGES YOU EXPERIENCE SENDING EXPATRIATES AND / OR HIRING FOREIGNERS TO YOUR OPERATIONS IN MAINLAND CHINA?



NOTE: The number of respondents for this question was 28.
SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

Export controls and/or sanctions are the main barriers to trade, and customs issues significantly improved

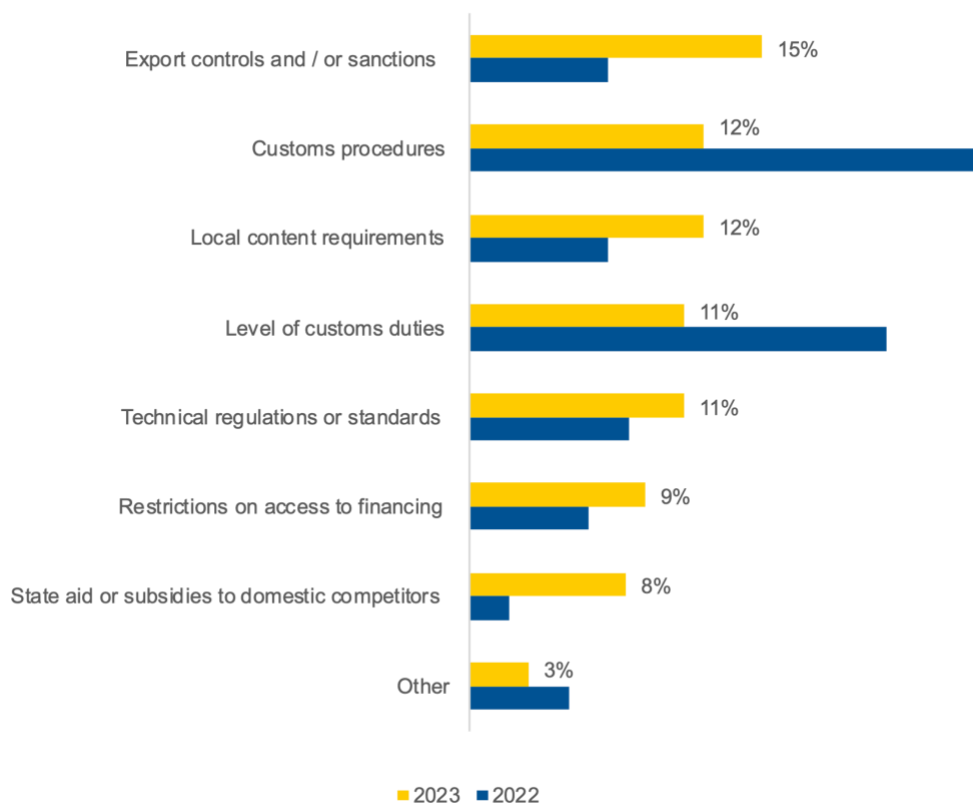
Foreign-owned companies face substantial barriers to trade when doing business in China, both formal and informal. Over the past year, half of the respondents have encountered some form of trade barrier pertaining to their business in China. Obstacles related to export controls and/or sanctions are the most common grievance in this regard, affecting 15 per cent of the companies encountering trade barriers.

The challenge from customs procedures 12 per cent (27 per cent) and the level of customs duties 11 per cent (21 per cent) have both improved significantly over the past year. While more respondents say that customs are a concern when asked explicitly about the negative impact of trade barriers, the relatively lessened concern with customs issues is in line with results from page 11.

Barriers to trade are not equally pronounced in every industry. As can be expected, industrial companies are harder hit by trade barriers than other company segments, with 61 per cent of companies experiencing issues. 24 per cent of industrial companies say they have encountered trade barriers due to export controls and/or sanctions, up from 11 per cent last year. This is not surprising, as industrial companies, to a greater extent, deal with advanced and technical equipment, which are often the explicit target of sanctions.

Not covered by this year's survey explicitly, many of the surveyed companies also underline the tense geopolitical climate as a source of increasing uncertainty and costs (due to risk mitigation) when it comes to trade with and business in China.

HAS YOUR COMPANY IN THE PAST YEAR ENCOUNTERED TRADE BARRIERS IN MAINLAND CHINA WITH A NOTICEABLY NEGATIVE IMPACT ON OPERATIONS, IN ANY OF THE FOLLOWING AREAS?



NOTE: The number of respondents for this question was 100. "Don't know/Not applicable" responses are included but not shown in figure.

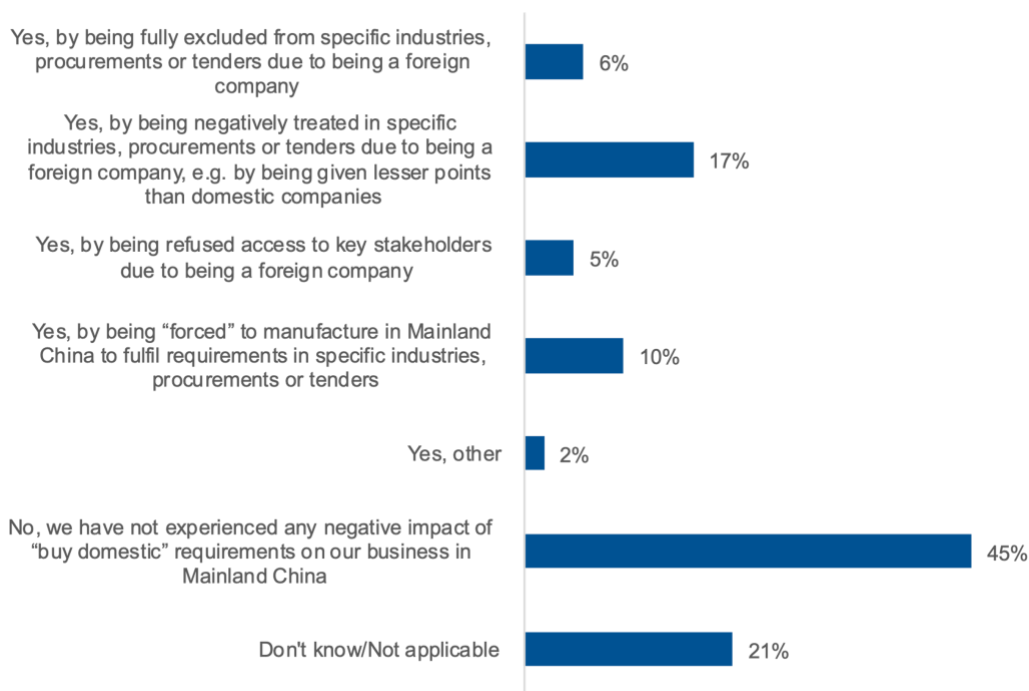
SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

One in three Swedish companies was negatively impacted by “buy domestic” requirements, industrial firms most affected

Over the past year, one-third of Swedish companies (33 per cent) say they have experienced negative effects due to “buy domestic” requirements. The impact varies significantly between sectors, with 44 per cent of industrial companies saying they have experienced negative effects but only eight per cent of consumer companies.

Of industrial companies, 22 per cent say they have been negatively treated in specific industries, procurements, or tenders due to being a foreign company, while 17 per cent have had to locate manufacturing in mainland China to fulfil requirements in specific industries, procurements, or tenders. Of professional services companies, 11 per cent say they have experienced being fully excluded from specific industries, procurements, or tenders due to being a foreign company (for industrial companies, that number is only two per cent). Some companies mention that the buy domestic requirements that disadvantage foreign companies are not always explicitly stated but sometimes exists in more implicit forms, such as a purchasing manager who are trying to fulfil their party-affiliated KPIs.

HAVE YOU EXPERIENCED ANY NEGATIVE EFFECTS ON YOUR BUSINESS IN MAINLAND CHINA DUE TO “BUY DOMESTIC” REQUIREMENTS, AND, IF SO, HOW?



NOTE: The number of respondents for this question was 100.
SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

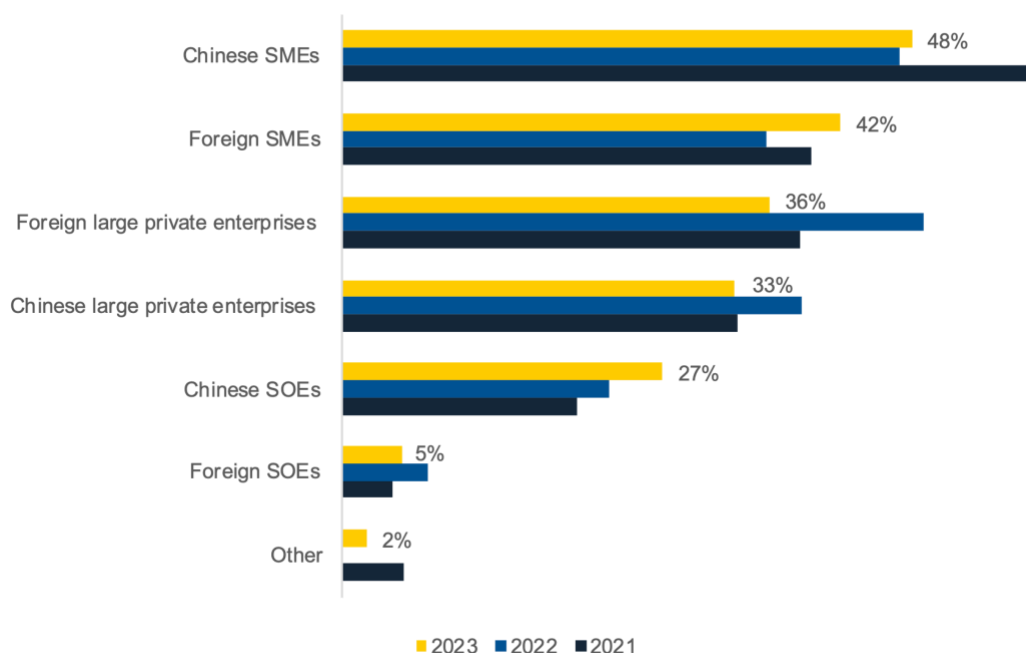
Chinese and foreign SMEs biggest competition for Swedish firms in China, price most important factor

In 2023, Chinese small and medium-sized enterprises (SMEs) (48 per cent) and foreign SMEs (42 per cent) are seen as Swedish firms' top competitors. An additional 36 per cent view large foreign private enterprises as their top competitors, down from 49 per cent last year. This hints at a landscape in which foreign businesses compete for the same part of the market, similar to last year.

A smaller share of respondents views state-owned enterprises (SOEs) as their top competition in China, though their share has increased slowly over the past two years, from 20 per cent in 2021 to 27 per cent this year.

The competitor landscape unsurprisingly varies with company size. Small Swedish companies compete more with Chinese and foreign SMEs, and large Swedish companies compete more with large foreign and Chinese private companies. Medium-sized Swedish companies compete with a mix of both.

WHO ARE YOUR MAIN COMPETITORS IN MAINLAND CHINA?



NOTE: The number of respondents for this question was 100. Maximum 3 alternatives.
SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

In 2023, price continues to be the highest-ranked factor for how Chinese competitors set themselves apart in the market, with 82 per cent of respondents identifying it as one of the top three factors.

Several companies note, however, that while price is still a key factor for Chinese competitors, many customers value the higher quality and trustworthiness of Swedish companies' products and services – especially in the advanced or premium segments for traditional products. For newer, smart and/or digitalised products, however, the relationship between price and quality is not as straightforward. In some segments where China is in the global lead (e.g., AI, 5G networks, and IoT), local competitors tend to compete on a combination of both price and quality, underlining the necessity for Swedish companies to keep up with development and innovation in the Chinese market to ensure both local and global competitiveness.

Also important to Chinese companies' competitiveness in the market is knowledge of local markets/policy (42 per cent) and government relations (29 per cent). This pattern holds true for all sectors and company sizes, though at varying percentages. Several large companies underline the importance of dedicating enough resources to governmental/public affairs work in China and note that this is seldom prioritised by global headquarters to the same extent as similar work is in the US or EU markets.

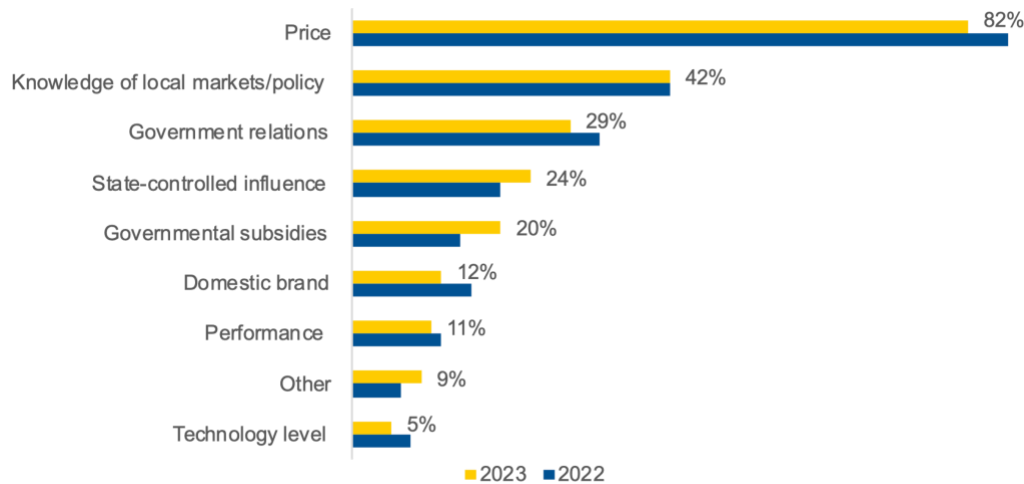
One-fifth of all companies (20 per cent) say that government subsidies were the reason their Chinese competitors had an edge in the China market, up from 14 per cent last year. As government subsidies are one of the factors often cited as a hindrance to a fair business environment in China, it is discouraging to see this year's worsened result.



Price is important, but it's not everything.

Industrial company

WHAT MAIN FACTORS MAKE CHINESE COMPETITORS STAND OUT WHEN IT COMES TO COMPETITION?



NOTE: The number of respondents for this question was 76. "Don't know/Not applicable" responses are included but not shown in figure. Maximum 3 alternatives.

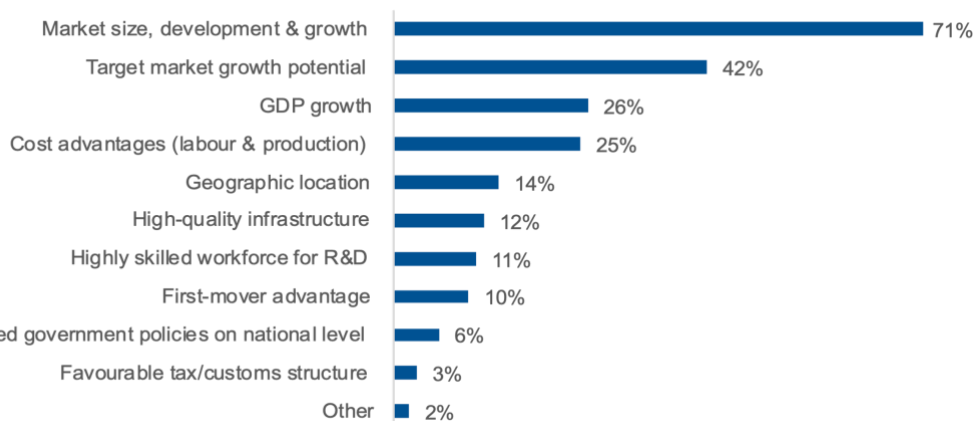
SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

Key drivers of business opportunities in China remain market size, potential, and GDP growth

In the short term, most Swedish companies in China expect externally stimulated opportunities to arise from the size and growth of the market as well as broad macroeconomic developments, in line with findings from the surveys conducted over the past three years. This view aligns well with recent projections by the International Monetary Fund's World Economic Outlook, which projects China to be the top contributor to global growth over the next five years.⁵

The top three business opportunity factors remain largely similar for most company sizes and sectors, with a few exceptions: For small and medium-sized companies as well as for industrial companies, cost advantages (labour & production) replace GDP growth in third place in the ranking.

WHAT ARE THE KEY EXTERNAL FACTORS CONTRIBUTING TO OPPORTUNITIES FOR YOUR COMPANY IN MAINLAND CHINA IN THE SHORT TERM?



NOTE: The number of respondents for this question was 100. "Don't know/Not applicable" responses are included but not shown in figure. Maximum 3 alternatives.

SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.



By overly focusing on risks in China, Swedish companies are losing the ability to seize business opportunities.

Industrial company

⁵ Bloomberg: China to Be Top World Growth Source in Next Five Years, IMF Says. 2023-04-17.

<https://www.bloomberg.com/news/articles/2023-04-17/china-to-be-top-world-growth-source-in-next-five-years-imf-says>

MARKET OUTLOOK

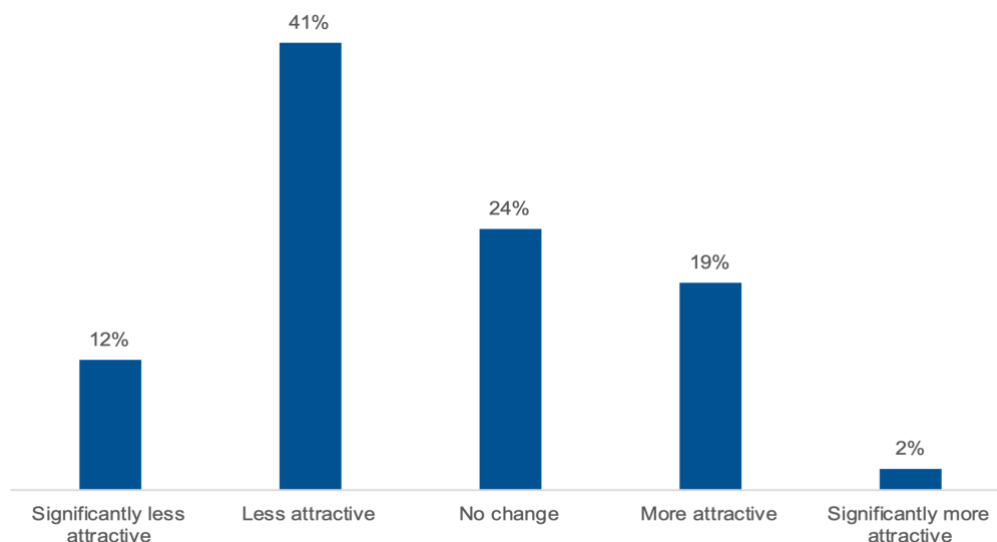
Pandemic management has negatively affected the attractiveness of the Chinese market for half of Swedish companies

53 per cent of respondents say that the past three years of Covid-19 development and management measures have negatively affected their company's view of the attractiveness of the Chinese market, with 12 per cent labelling the market as significantly less attractive. The numbers are largely consistent across all company sizes and sectors.

Whilst bleak, this result is a clear improvement over the two flash surveys conducted by Business Sweden and the Swedish Chamber of Commerce in China last year.⁶ Of the flash survey respondents, 68 per cent viewed the market as less attractive in March (at the height of the Shanghai lockdown) and in September, this negative view was shared by 80 per cent of respondents.⁷

While there is now a slow but steady return to normality, many companies mention an increased awareness of risks and unpredictability in the post-pandemic Chinese market, not least when it comes to policy. Several also underlined the need to work on the negative perception of China at their Swedish headquarters and of the risks associated with doing business in the market as hesitation after zero-Covid still lingers.

FOLLOWING CHINA'S REOPENING, HOW HAS THE PAST THREE YEARS' COVID-19 DEVELOPMENT AND MANAGEMENT AFFECTED YOUR COMPANY'S VIEW OF THE ATTRACTIVENESS OF THE CHINESE MARKET? WE THINK THE MARKET IS...



NOTE: The number of respondents for this question was 100. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

⁶ Business Sweden: Covid-19 flash survey: Swedish companies struggle as China battles recent omicron outbreaks. 2022.04.27. <https://www.business-sweden.com/insights/articles/covid-19-flash-survey-swedish-companies-struggle-as-china-battles-recent-omicron-outbreaks/>

Business Sweden: Covid-19 flash survey: Covid controls in China continue to impact Swedish companies. 2022.09.27. <https://www.business-sweden.com/insights/articles/covid-19-flash-survey-covid-controls-in-china-continue-to-impact-swedish-companies/>

⁷ Results are not directly comparable as survey questions and audience differ between the flash surveys and the Business Climate Survey, but the results can still serve as a general indication of company sentiment.



[We] feel that the new normal we return to is going to be less predictable than pre-pandemic China. We see this as both an opportunity and an increase in risk.

Professional services company

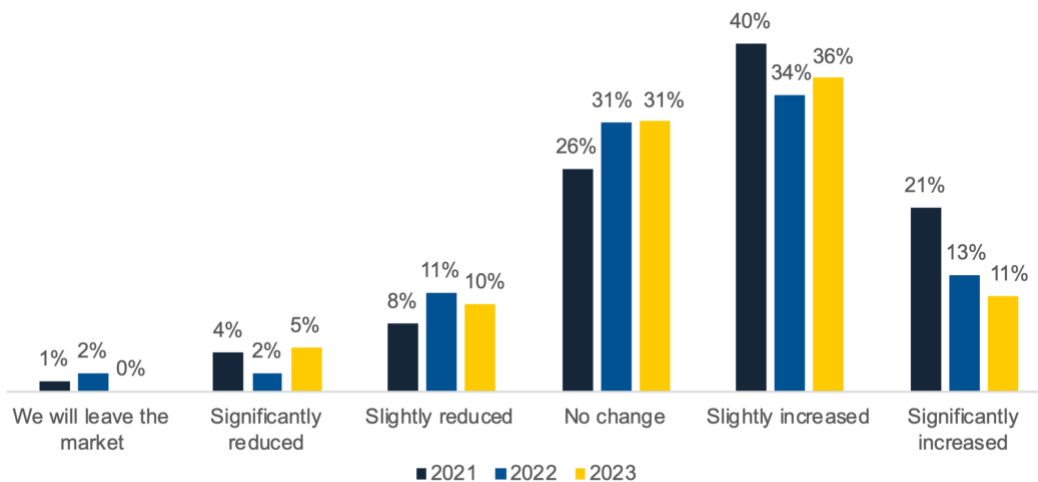
Almost half of the Swedish companies plan to increase investments in China, mainly through improved cost competitiveness through efficiency

In the year following China’s reopening, 47 per cent of Swedish companies in China are looking to increase their investments in the coming 12 months compared to the last 12 months, the same as last year. An additional 31 per cent of companies plan to neither increase nor decrease their investments.

The most eager to increase investments are professional services companies at 62 per cent, with only four per cent of such companies saying they plan to reduce investments.

Only 15 per cent of companies said they will reduce investments over the coming 12 months (up slightly from 13 per cent last year), and no companies said they plan to leave the market.

WHAT ARE YOUR COMPANY'S INVESTMENT PLANS FOR THE COMING 12 MONTHS IN MAINLAND CHINA, COMPARED TO THE PAST 12 MONTHS? INVESTMENTS WILL BE...



NOTE: The number of respondents for this question was 100. “Don’t know/Not applicable” responses are included but not shown in figure.
 SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

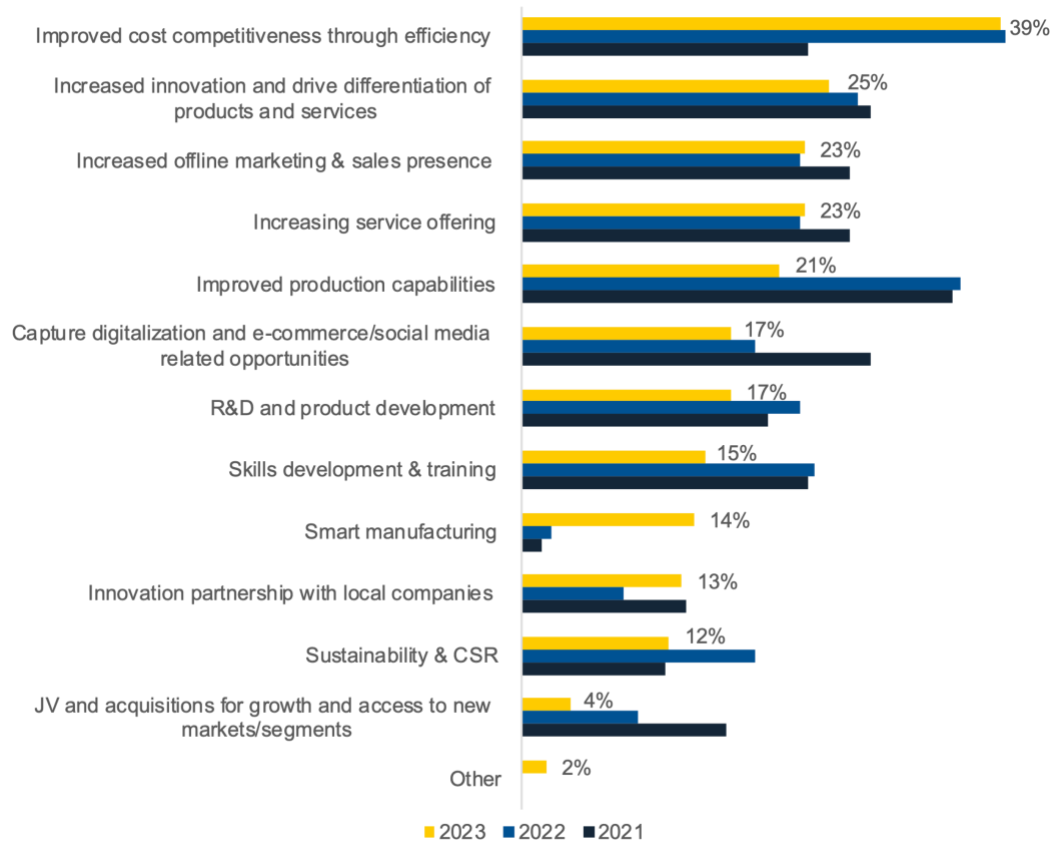
In 2023, Swedish companies are primarily looking to invest in improved cost competitiveness through efficiency (e.g., by modernising operations), the same as last year. This trend is driven mainly by large and medium-sized companies, of which 50 per cent and 52 per cent chose this option as one of the top three areas for increased investments, compared with 39 per cent overall. Investments to increase innovation and/or drive differentiation of products and services similarly remain a top priority for Swedish companies in China, though down from 27 per cent last year to 25 per cent in 2023. Increased offline marketing and sales presence ranks third among the respondents this year, though its share remains the same as last year, at 23 per cent.⁸

Compared to the past two years, investments into capabilities to improve production have decreased significantly to 21 per cent, down from 36 per cent in 2022 and 35 per cent in 2021. However, 32 per cent of industrial companies still chose this option as one of their top investment areas. The uptick in investments focused on sustainability and corporate social responsibility (CSR) seen last year does not continue this year overall (12 per cent). However, 23 per cent of consumer companies and 15 per cent of industrial companies do mention investments in sustainability and CSR.

⁸ The biggest jump compared to last year is in the adoption of smart manufacturing, chosen by 14 per cent of companies this year, up from two per cent in 2021 and 2022. However, the significant uptick is most likely due to the renaming of this option in the survey rather than the result of a shift in investment areas. In the 2021 and 2022 surveys, this option was called “adoption of 5G/IoT”.

Finally, the JVs and acquisitions for growth and access to new markets/segments options continued to decline this year to four per cent, down from 10 per cent in 2022 and 17 per cent in 2021.

WHICH ARE THE AREAS WHERE YOU PLAN TO INCREASE YOUR INVESTMENTS THE MOST?



NOTE: The number of respondents for this question was 100. "Don't know/Not applicable" responses are included but not shown in figure. Maximum 3 alternatives.
 SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

More than half of Swedish firms experience a need to tailor operations and solutions to China, most commonly in supply chains and online presence

A majority of respondents say that they need to tailor their operations and/or solutions to China to some extent across all five asked-for dimensions. The highest perceived need for tailoring is in supply chains and online presence, where 68 per cent of respondents say they need to do so. The lowest is in R&D, in which 52 per cent say they need to adapt specifically to China, down from 60 per cent last year. However, this is much dependent on the company sector and size. For large industrial companies, the corresponding number is 81 per cent.

The need to tailor operations and/or solutions to China is very sector dependent. Across all dimensions, industrial companies say they need to tailor operations and/or solutions to China to a larger extent than other company segments. For example, 83 per cent of industrial companies need to tailor their supply chains to China, compared to only 50 per cent of professional services companies (which naturally have rather more limited supply chains). The large discrepancy between sectors seen in IT/data last year has diminished somewhat this year, with 68 per cent of industrial companies, 64 per cent of professional services companies, and 50 per cent of consumer companies feeling the need to do so. A few respondents mentioned that creating barriers between their China and global operations in the IT/data dimension has less to do with Chinese regulations

“
 No one actually wants to decouple, especially not us.

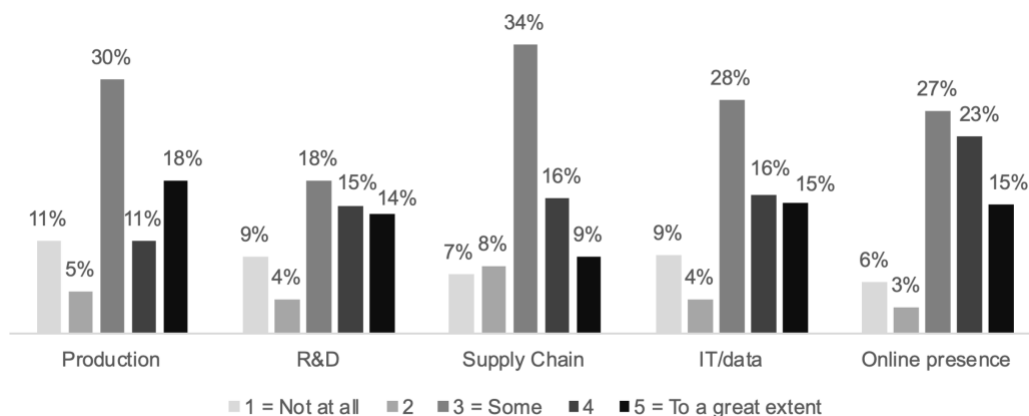
Professional services company

and requirements regarding cross-border data transfers etc., and more to do with fears of accidental or forced IP transfers.

In line with last year’s findings, the discussion about decoupling is increasingly becoming a reality for foreign companies in China and involves adherence to different standards, data setups, supply chains, etc. As decoupling concerns increase, companies are actively exploring ways in which they can separate their China operations from their global operations by onshoring and localising. Several of the respondents underline that they view the process less as decoupling and more as “de-risking” sensitive or high-risk areas of their China operations.

Whether calling it de-risking or decoupling, partially or fully localising in China is not a viable option for all companies. Smaller companies might have a harder time justifying the investment needed for fully independent China operations due to their limited resources, and small or medium-sized players in sectors with access restrictions to the Chinese market might find the high cost of separating operations not worth it considering their limited potential market share. For these companies, market exit could become the only viable option.

ARE YOU EXPERIENCING AN INCREASING NEED TO TAILOR OPERATIONS AND / OR SOLUTIONS SPECIFICALLY FOR MAINLAND CHINA (I.E. DUE TO DECOUPLING) IN THE FOLLOWING AREAS?



NOTE: The number of respondents for this question was 97-99. “Don’t know/Not applicable” responses are included but not shown in figure.
 SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.



There's a great fear of a technological leak via our IT systems in China, which is why we are building walls and safeguards between our China and global systems.

Industrial company

37% of Swedish companies plan near-term expansion in China, most to Guangdong, Chongqing, and Jiangsu

Over the next three years, 37 per cent of Swedish companies say they plan to expand their business to other parts of China from where they are currently located – down from 40 per cent last year.⁹ Among the different sectors, industrial companies show a larger appetite for expanding their geographic footprint (43 per cent) compared with their consumer (38 per cent) and professional services (31 per cent) peers.

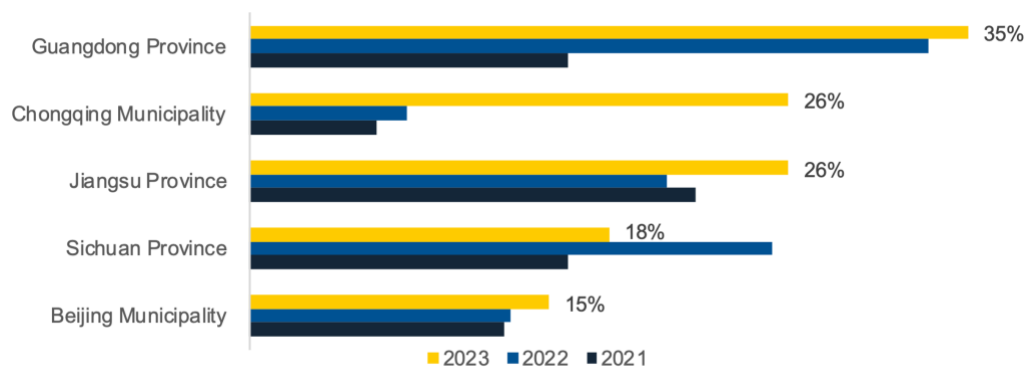
Swedish companies are broadly considering the same regions for potential expansion as last year, although in a different order. Guangdong tops the list at 35 per cent, up slightly from last year (33 per cent), followed by Chongqing and Jiangsu (both at 26 per cent) and Sichuan (18 per cent). All sizes and sectors had Guangdong at the top of their expansion plans list this year, with two notable

⁹ As in previous years' surveys, the vast majority of Swedish companies in China are located in the provinces along China's eastern coast (for specifics, see page 33).

exceptions. Large companies' top choice in 2023 is Hubei, and professional services companies are looking to expand in Chongqing.

Shanghai has dropped significantly as an expansion destination compared to last year, from 29 per cent to 15 per cent. This could be because most Swedish companies are already present in the municipality, lingering sentiment from the citywide lockdown during the spring of 2022, or rising prices and cost of doing business in Shanghai.

EXPANSION PLANS FOR SWEDISH COMPANIES IN CHINA – TOP 5 REGIONS



NOTE: The number of respondents for this question was 34.

SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

A third of Swedish companies consider supply chain alterations, most by increasing their supplier base in China

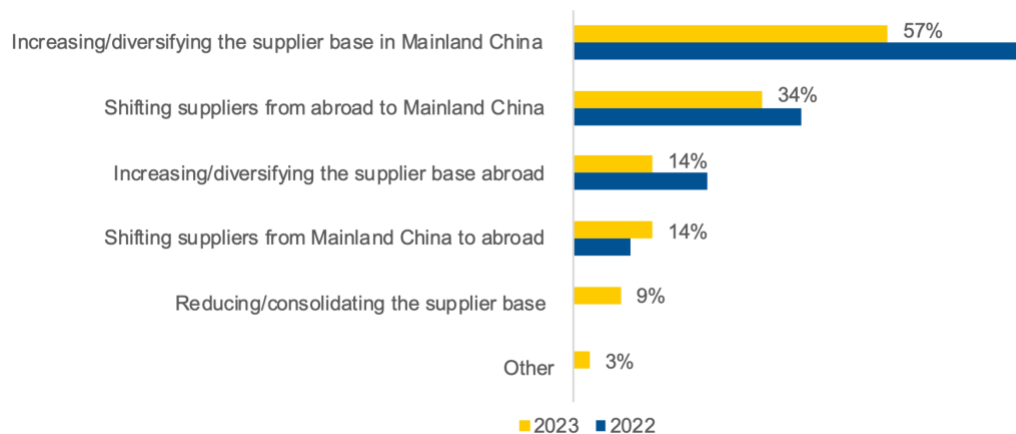
As the increasingly tense geopolitical climate, the lingering effects of the pandemic, and the Russian invasion of Ukraine continue to impact global supply chains, many companies are reviewing their supplier bases to mitigate risks and be prepared for future disruptions.

In 2023, one-third (35 per cent) of Swedish companies in China are considering alterations to their supply chains, up from 30 per cent last year. However, supply chain concerns vary a lot between sectors. Of industrial companies, 49 per cent said they are considering alterations to their supply chains. For consumer and professional services companies, that number was only 23 per cent and 24 per cent, respectively.

Of the respondents looking to alter their supply chains, a majority said they are looking to increase/diversify their supplier base in China (57 per cent). Another option considered by some companies is to shift the supplier base from abroad to China (34 per cent). This shows that despite the global debate regarding companies that potentially look to move their supply chains out of China, Swedish companies are instead considering to strengthen further and diversifying their supply chains locally. The reason for this is likely twofold. Companies are localising in China to be more efficient and aligned with market and customer demands. At the same time, many are diversifying as the Chinese market is not as reliable as previously thought. Logistic challenges and costs are a large part of this equation, both of which have been exacerbated by the negative impact of China's pandemic containment efforts over the past three years.

Five companies said they are considering shifting their suppliers from China to abroad, which is a slight uptick compared to last year's survey.

WHICH SUPPLY CHAIN ALTERATIONS ARE YOU CONSIDERING?



NOTE: The number of respondents for this question was 35.
 SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

Cost efficiency is the most important factor for maintaining competitiveness in China

In 2023, Swedish companies see cost efficiency as one of the most important factors for maintaining competitiveness in the Chinese market.

The relative importance of last year’s top choice, collaboration and feedback from customers has decreased significantly, with only 19 per cent of companies saying this is a key factor for competitiveness in 2023.¹⁰ However, combined with a high result for both product (43 per cent) and service (28 per cent) development/adaptation it still seems clear that a key factor for competitiveness is to ensure that products are made and adapted for the local context. Swedish companies have to truly understand the customers’ needs and the local market context and not expect products made for other geographies to automatically be successful in China.

In line with last year’s findings, digitalisation and e-commerce are seen as the least important factor for competitiveness in China for Swedish companies.

“ Quick adaption to the market is crucial for success.

Professional services company

WHICH OF THE FOLLOWING AREAS HAVE BEEN IMPORTANT FOR YOUR COMPANY IN MAINTAINING COMPETITIVENESS IN MAINLAND CHINA?



NOTE: The number of respondents for this question was 99. Maximum 3 alternatives.
 SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

¹⁰ A direct comparison with last year’s results is not possible for this question due to a change in methodology. But the relative importance of each factor can still be compared.

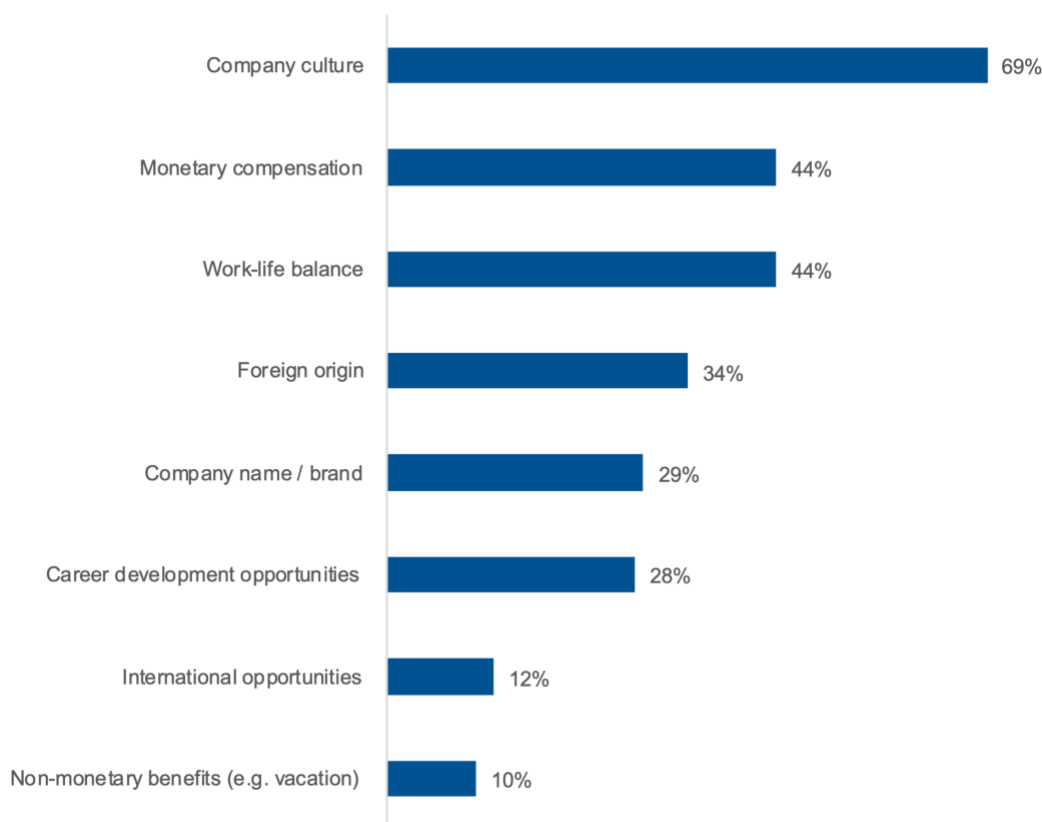
Company culture and work-life balance are important for attracting and retaining talent in China, but so is monetary compensation

When it comes to both attracting and retaining talent, Swedish companies in China see company culture (69 per cent) and work-life balance (44 per cent) as two of the three most important factors. The importance of these factors is not surprising, as a lack of work-life balance at Chinese companies has been a long-standing problem. In contrast, the Swedish work culture offers flexibility and agile working as one of its central pillars. In addition to offering reasonable compensation packages, including extra vacation days, Swedish companies should continue to emphasise these unique company values to be competitive in their hunt for Chinese talent.

At the same time, there's been a substantial uptick in the relative importance of monetary compensation (44 per cent) this year, which last year was ranked second to last. Many companies mention that higher expectations among younger cohorts of employees as well as salary competition with private Chinese companies (especially the big tech companies), are pushing salary expectations up.¹¹

The least important factors for attracting and retaining talents were access to international opportunities (12 per cent) and non-monetary benefits (e.g., vacation) (10 per cent).

COMPARED TO COMPETITORS IN THE MARKET, WHICH OF THE FOLLOWING FACTORS ARE MOST IMPORTANT FOR YOUR COMPANY WHEN IT COMES TO ATTRACTING AND RETAINING THE RIGHT TALENTS TO YOUR OPERATIONS IN MAINLAND CHINA?



NOTE: The number of respondents for this question was 99. Maximum 3 alternatives.
 SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.



We can attract older talents who value work-life balance, but younger talents want higher salaries and go to the large domestic tech companies.

Professional services company

¹¹ The big jump in relative importance compared to last year's survey is most likely also attributed to a change in methodology for this question this year.

SUSTAINABILITY



Some of our competitors are very flexible in regard to the law.

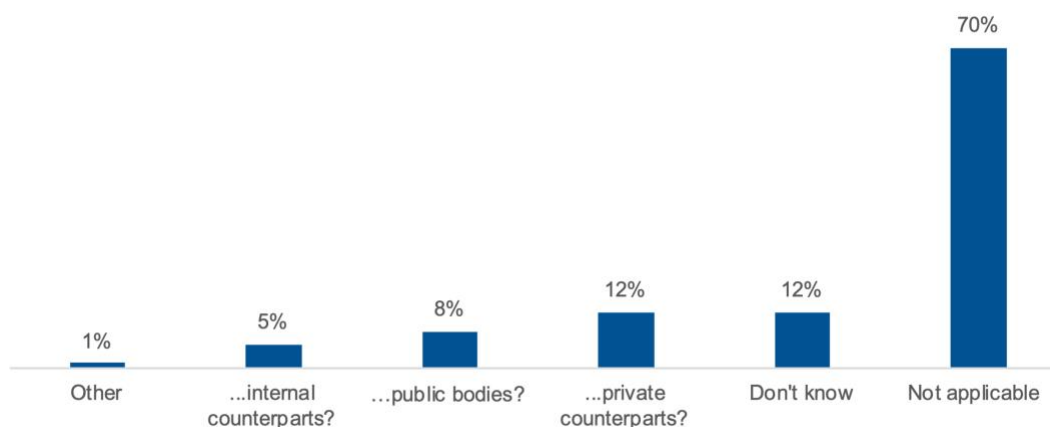
Industrial company

One in six companies has been exposed to corruption

Anti-corruption has been high on the Chinese government's agenda for the past decade, and Swedish companies have, over the years, indicated that the overall situation has improved. In 2023, an absolute majority (83 per cent) of respondents report that they are unaffected by corruption. However, 12 per cent of companies have been exposed to corruption in dealings with private counterparts and eight per cent in dealings with public bodies.

For global context, in 2022, China ranked 65th on Transparency International's Corruption Perceptions Index, beating the global average score by a small margin.¹² While that is great progress compared to the last two decades, the survey findings indicate that there is still work to be done to properly address corruption in China.

IN THE PAST YEAR, HAS YOUR COMPANY IN MAINLAND CHINA BEEN EXPOSED TO CORRUPTION WITH...



NOTE: The number of respondents for this question was 100.
SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

Only 3% of Swedish companies are aware of exposure to human or labour rights violations in their China operations

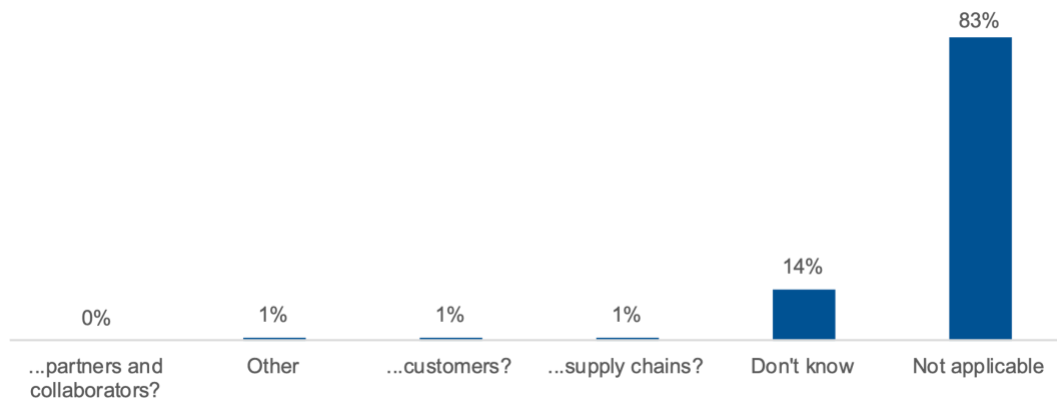
In response to this year's survey question on issues regarding human rights violations and/or labour rights abuse, an overwhelming majority of respondents (97 per cent) said that they have not encountered or do not know about any such issues.

Despite the optimistic survey responses, it is important to note that many foreign governments, civil society groups, as well as United Nations officials have for several years expressed growing concern over the Chinese government's record when it comes to human rights issues.

¹² Transparency International: Corruption Perceptions Index 2022. <https://www.transparency.org/en/cpi/2022>

One company noted that while they have not themselves encountered such violations pertinent to their own business, encounters have not been uncommon when working with client companies' supply chains or sales functions. Another company noted that they have had to undertake significant due diligence to ensure that their supply chains remain free from human rights or labour rights violations.

IN THE PAST YEAR, HAS YOUR COMPANY IN MAINLAND CHINA ENCOUNTERED ANY FORM OF HUMAN RIGHTS VIOLATIONS AND/OR LABOUR RIGHTS ABUSE IN/ WITH YOUR...



NOTE: The number of respondents for this question was 99.

SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

A quarter of Swedish companies face challenges in their environmental efforts in China, ensuring supply chain transparency is the biggest challenge

Over the past year, China's pledge to peak carbon emissions before 2030 and achieve carbon neutrality before 2060 has been overshadowed by a short-term focus on shoring up the Chinese economy and safeguarding energy security. While China is still making major investments in renewable energy (especially solar and wind), it is struggling to shed its long-held reliance on coal. Soaring demand has made it especially difficult for China to produce enough energy using renewables alone. As energy use continues to rise, China needs to find a way to ensure that its green ambitions work in tandem with its energy security and economic goals.

Instinctively, this looks like an area of great potential for Swedish companies. Sweden is well-known as a frontrunner when it comes to sustainability and has set the target of achieving net zero carbon emissions by 2045. Since 1990, Sweden's emissions of greenhouse gases have fallen by around 29 per cent, while GDP has grown by 86 per cent. The Swedish experience shows that the green transformation is not only positive for the environment, but that it also can be a fantastic opportunity to drive innovation and industrial and economic development. Contributing to the green transition are Swedish companies, many of which have defined clear global targets for carbon neutrality. To realise these targets, Swedish companies are innovating new types of solutions and business models, focused on, for example, carbon reduction, to take to the market.

Against this backdrop, it is discouraging that 27 per cent of respondents have experienced challenges when it comes to their environmental efforts in China, up from 19 per cent last year. For some company segments, that number is significantly higher: 37 per cent of large companies say they have experienced such challenges.

The most common challenge is ensuring transparency in the supply chain. More than half (52 per cent) of companies report this as a problem. Several respondents specifically note the lack of reliable emissions data from suppliers and logistics providers in the country as a hurdle.



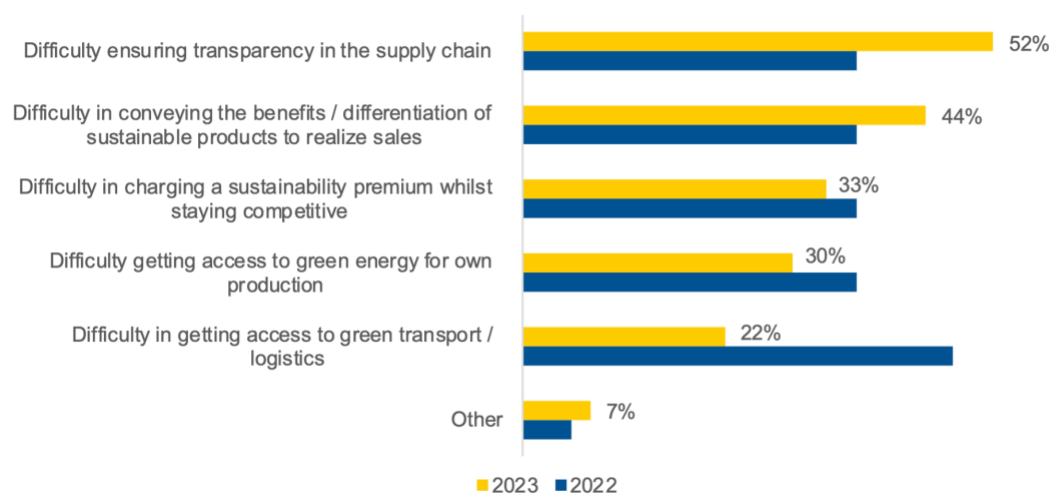
Since China announced its dual carbon goals, demand for our products has increased among local customers. We are known among them for our higher value and full lifecycle of our products compared to the local competition.

Industrial company

Another problem facing Swedish companies regards educating their customers; 44 per cent of all companies say they have a hard time conveying the benefits/differentiation of sustainable products, and 33 per cent say they have difficulty in charging a sustainability premium whilst staying competitive. Several respondents note that market/customer demand for sustainable products is not yet strong enough to offset the increased cost associated with such products, and some call on the Chinese government to introduce more incentives for investment into sustainability to level the playing field.

Difficulty in getting access to green transports/logistics, the most common challenge faced last year, is less prevalent in 2023. Just one in five (22 per cent) companies facing challenges mention this issue, compared to almost half (47 per cent) last year.

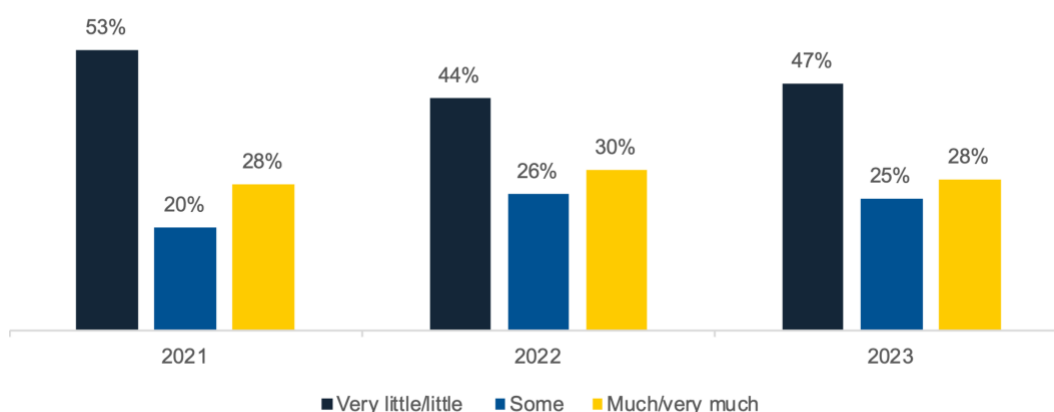
WHAT CHALLENGES DO YOU EXPERIENCE IN YOUR ENVIRONMENTAL EFFORTS IN MAINLAND CHINA?



NOTE: The number of respondents for this question was 27.
SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

When it comes to consumer awareness, Swedish firms reported that 28 per cent of customers care much or very much about environmental aspects in their purchasing decisions. However, 47 per cent of customers care little or very little about this aspect. That is a somewhat worse outlook on this issue than last year, averaging 2.6 on a 5-grade scale (down from 2.8 in 2022). Industrial companies' customers appear to care the most about the environment in their purchasing decisions. These findings indicate that there is still some way to go until China's top-level political agendas are converted fully into business realities and customer priorities.

IN YOUR VIEW, TO WHAT EXTENT DO CUSTOMERS IN YOUR INDUSTRY IN MAINLAND CHINA CONSIDER ENVIRONMENTAL ASPECTS OF A PRODUCT OR SERVICE IN THEIR PURCHASING DECISION?



NOTE: The number of respondents for this question was 88.
SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

“
There is definitely a move towards sustainability, but it is still early days apart from some early movers.

Professional services company

SWEDISH COMPANIES' FOOTPRINT IN CHINA

Women make up a third of the workforce at Swedish companies in China, expat share decreased to 0.8%

According to this year's survey, women make up just over a third of the workforce at Swedish companies in China (35 per cent). That is in line with the findings of surveys done between 2019-2021 when survey respondents indicated a female employment rate of between 27 per cent to 36 per cent. Last year, the reported share of women was 45 per cent.¹³

Consumer companies are the most equal employers, with a 51/49 split between men and women, while industrial companies are the most unequal, with a 70/30 split.

SWEDISH FIRMS' LOCAL EMPLOYEE DEMOGRAPHICS IN MAINLAND CHINA



NOTE: The number of respondents for these questions was 100.
SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

The proportion of expatriates continued to decline in 2023. Only 0.8 per cent of employees at Swedish companies in China were expats, down from 0.9 per cent in 2022, 1.5 per cent in 2021, and 2.7 per cent in 2020. Small companies report the highest share of expats, at 10 per cent (up from 4.5 per cent in 2022).¹⁴



NOTE: The number of respondents for these questions was 100.
SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

¹³ This stark difference likely reflects a different setup of respondents over the past two years rather than a real change in the number of women in most companies. As these results are calculated on the absolute number of employees specified by the companies, a shift in just one or two of the larger employers could have a big impact on the overall percentages in a way that such a shift in the respondent base would not have on other survey results.

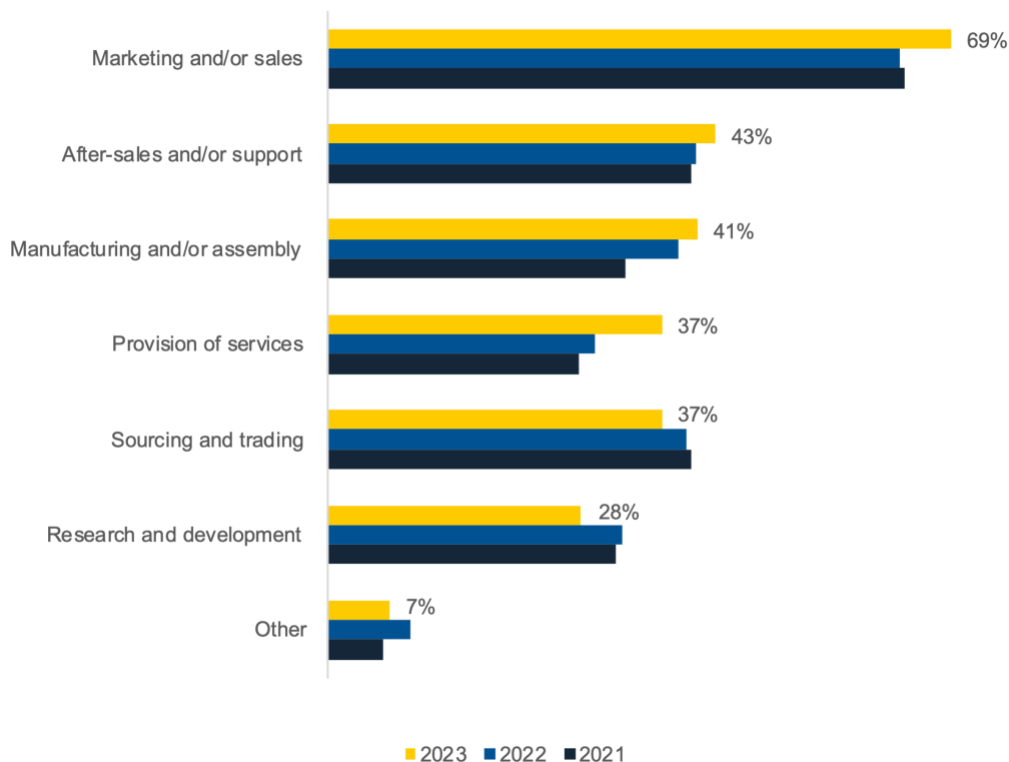
¹⁴ More on foreign staffing on page 13.

Continued focus on marketing/sales and after-sales/support for Swedish companies in China

China is an important market for many Swedish and global companies, both with a strong domestic market as well as a geographically strategic position in the region. In line with last year's findings, marketing and/or sales remain Swedish companies' most frequently used functions in China, at 69 per cent (63 per cent), followed by after-sales and/or support, at 43 per cent (41 per cent), and manufacturing and/or assembly, at 41 per cent (39 per cent).

For many sectors, the Chinese market is growing faster relative to the rest of the world, and firms that are not actively focusing on addressing and building a position locally (which includes marketing, sales, and service functions) risk falling behind competitors in the market and fail to capitalise on growth. These findings indicate that Swedish companies are aware of, and adjusting to, this reality.

OPERATIONS OF SWEDISH FIRMS IN THE MARKET



NOTE: The number of respondents for this question was 100. "Don't know/Not applicable" responses are included but not shown in figure.

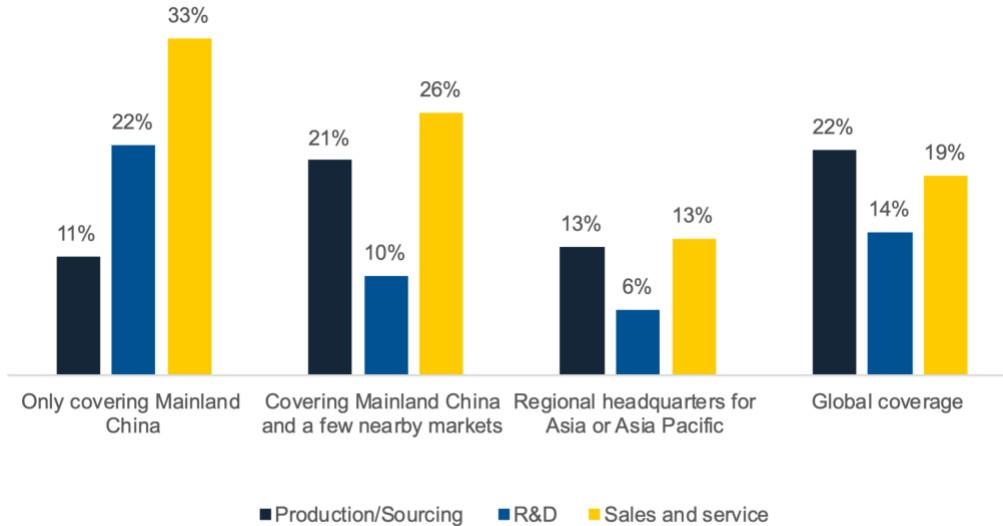
SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

Sales and service functions are more locally focused than R&D and production/sourcing

For Swedish companies in China, the increase in local focus across all operational categories noted over the past two years is largely sustained in 2023. Production and sourcing come in at 22 per cent (25 per cent), R&D at 22 per cent (23 per cent) and sales and services at 33 per cent (31 per cent). This shift could be a result of a more fragmented global marketplace – stemming from Sino-western tensions and the economic fallout from the pandemic or an intention among Swedish companies to localise to be closer to customers and be more sustainable.

Almost a quarter of all companies have specific R&D functions for the China market, but only 14 per cent utilise their Chinese R&D operations for global coverage. That is the same share as in 2022 and is lower than both production and sourcing (24 per cent) and sales and services (19 per cent), which both grew in this dimension compared to last year. However, R&D functions are somewhat dependent on company size; one in five large companies (20 per cent) say they use their China operations of R&D for global coverage.

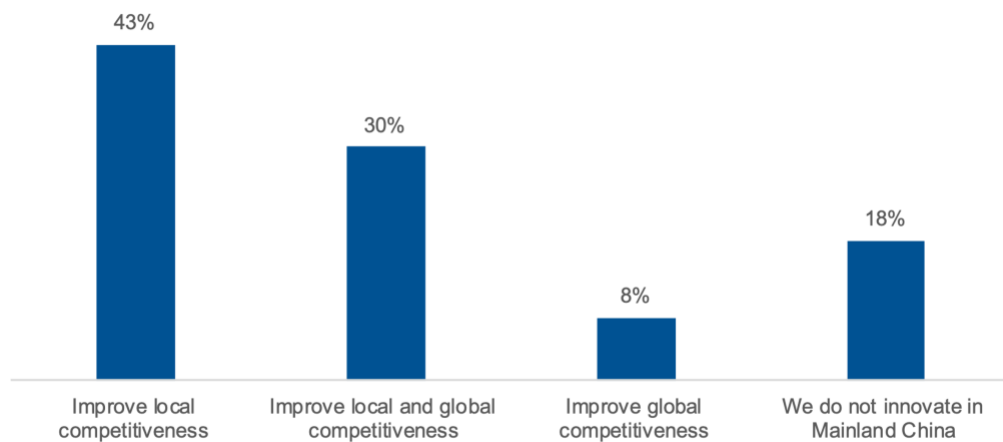
WHAT IS THE ROLE OF MAINLAND CHINA FOR YOUR COMPANY FOR THE FOLLOWING AREAS?



NOTE: The number of respondents for this question was 94-98. "Don't know/Not applicable" responses are included but not shown in figure.
 SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

The reasons behind company innovation efforts seem to reflect this reality, where 43 per cent of companies say they innovate in China to improve local competitiveness, while 30 per cent say they innovate to improve local and global competitiveness. A fifth of the respondents (18 per cent) say they do not innovate in the Chinese market.

WHAT IS THE KEY DRIVER OF YOUR COMPANY'S INNOVATION EFFORTS IN MAINLAND CHINA? TO...



NOTE: The number of respondents for this question was 99.
 SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.

“
Swedish companies need to get better at integrating into China's innovation ecosystems.

Industrial company

Brand Sweden continues to bring value to Swedish firms in China, especially in the consumer sector

Leveraging the country of origin continues to be a valid strategy for Swedish companies in China. In 2023, respondents said that the Swedish brand provided a boost to business, with an average result of 3.6. That is down somewhat from the record 3.7 result seen in last year's survey, but higher than the years prior. The result varies a lot between sectors, with consumer companies rating the impact of brand Sweden at 4.3, significantly higher than their industrial (3.4) and professional services (3.3) peers.

Several companies note that the state of the bilateral relationship between Sweden and China has a direct effect on their business.

TO WHAT EXTENT WOULD YOU ESTIMATE THAT THE “SWEDISH BRAND” CONTRIBUTES TO YOUR BUSINESS IN MAINLAND CHINA?



NOTE: The number of respondents for this question was 96.
SOURCE: Business Climate Survey for Swedish Companies in Mainland China 2023.



The Swedish Brand is especially good for attracting talent.

Industrial company

ABOUT THE REPORT

The Business Climate Survey for Swedish Companies in Mainland China 2023 is a joint initiative by Team Sweden in China, which comprises the Embassy of Sweden in Beijing, the Consulate General of Sweden in Shanghai, Business Sweden in China, and the Swedish Chamber of Commerce in China.

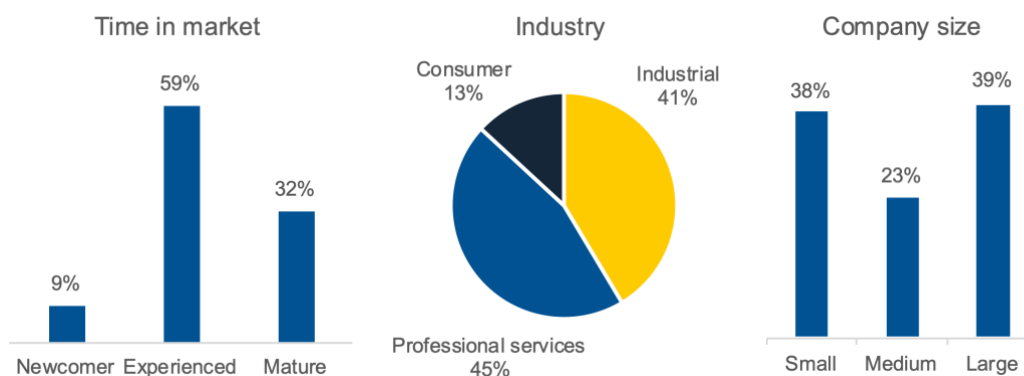
The Business Climate Survey is published regularly in several markets across the world. In mainland China, the survey has been carried out since 2000. The purpose of the survey is to better understand the performance of Swedish companies, the challenges and opportunities they face, as well as their outlook in the Chinese market.

The companies participating in this survey are either headquartered in Sweden, have Swedish shareholders or owners, are part of a Swedish conglomerate, or have other significant affiliations to Sweden. With the participation of high-level representatives from one hundred Swedish companies, the survey gives a comprehensive picture of how Swedish companies view the current business climate and their own performance in China – one of Sweden’s most important markets.

While most questions are similar to those in previous surveys to allow for comparison over time, some questions have been added or adjusted in response to the quickly changing geopolitical context and the evolving Chinese market. This year, in-depth interviews with 10 of the respondents have also been conducted to gather more details and provide a more thorough understanding of the survey results. The survey has also been synchronised with the Business Climate Surveys carried out by Team Sweden in other global markets to enable comparability where relevant.

Respondents represent a mix of sizes and industries

The 2023 survey was conducted among member companies of the Swedish Chamber of Commerce in China between 9-31 March 2023. The response rate was 53 per cent, with 100 out of 187 eligible companies responding to the survey. The vast majority of respondents have been present in the Chinese market for more than five years, with only nine per cent of respondents having established operations in China in 2018 or after. The firms are categorised in the report based on size (measured by the number of global employees) and on sectors.



NOTE: The number of respondents for these questions were 100. Corporate size refers to global employees where large >1000, medium 250-1000, and small 0-249. Time in market refer to year established in the Chinese market, with mature (-2001), experienced (2002-2016), and newcomer (2018-).

Compared to last year, the respondent base is similar overall, with a slight uptick in the share of professional services companies this year (45 per cent compared with 40 per cent) and a decrease in the share of industrial companies (41 per cent compared with 48 per cent). With regards to specific sub-industries, industrial equipment and business services are the two main areas of focus for this year's respondents, totalling 26 per cent of all respondents. The automotive sector comprises another eight per cent this year.

Like previous years' studies, most Swedish companies who responded to the survey are based in the developed coastal regions of China, such as Shanghai, Beijing, Jiangsu, and Guangdong, whereas the inland regions of China still show limited presence from Swedish companies.

GEOGRAPHIC FOOTPRINT OF SWEDISH COMPANIES IN MAINLAND CHINA – TOP 10 LOCATIONS



NOTE: The number of respondents for this question was 100.

CONCLUDING REMARKS

The 2023 Business Climate Survey aims to strengthen the understanding of the Swedish experience of doing business in China by providing a nuanced picture of the key factors driving Swedish companies' success, as well as increasing appreciation for the challenges brought on by current economic headwinds.

Team Sweden in China is committed to continue supporting Swedish companies in the Chinese market as well as maintaining the trust and value of the Swedish brand. Our aim is to support Swedish businesses in their global growth journeys and welcome further dialogue about the opportunities and challenges that the Chinese market presents and welcome you to reach out to us for further discussions.

