



# **BUSINESS CLIMATE SURVEY FOR SWEDISH COMPANIES IN MAINLAND CHINA 2022**

A REPORT FROM TEAM SWEDEN IN CHINA

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# FOREWORD

2021 was a relatively calm year between global storms. Some of the trade effects from the pandemic, such as disruptions in transport flows and supply shortages, were gradually eased, even though there were still large supply and demand imbalances within several industries. China, and many other markets, saw GDP growth getting back on track, and partially compensating for the 2020 slowdown. At the same time, businesses in China faced several domestic events impacting operations. 2021 was the year of power rationing, tightened regulation of the tech sector and a property crisis, to name a few.

In line with the overall market situation, many Swedish companies in China experienced a profitable 2021, and they saw stronger growth than the previous year. But they also faced a number of challenges. A key issue for companies was the trade impact from the pandemic as well as the barriers caused by the pandemic management in China. A significantly larger share of companies experienced an actual negative impact compared to when asked about their expectations one year ago. The outlook for 2022 looks even bleaker. This includes both operational factors such as the ability to produce, transport and sell, but also challenges of a more strategic nature, such as talent attraction, investment propensity and communication with headquarters. The situation is of major concern for companies and other proponents of open trade and healthy economic growth.

Pandemic challenges aside, there are several opportunities for Swedish companies in the Chinese market. The increased focus on green transition opens opportunities for Swedish solutions, a wealthier population demands more qualitative products, which Sweden can offer, and the Swedish brand is perceived to have a higher value than in previous years. There are also a number of investments being made this year, to expand production capabilities, to extend sales channels, and to further tap into the local innovation ecosystem, even though the current situation has taken its toll on some of these investments.

The future remains uncertain, and business sentiment is impacted by global as well as local factors. Russia's invasion of Ukraine has had a strong negative impact on the global economy and increased uncertainty for world trade. Trade barriers and decoupling are creating inefficiencies and making it more costly for some companies to do business in China. While no one can predict the future, companies need to seriously consider how global uncertainties impact their business models. Performing scenario planning and looking into diversification opportunities have become more important than ever before. And not to forget, to ensure close contact between headquarters and the teams in China; misalignment can be detrimental in turbulent times.

This Business Climate Survey is the result of responses from Swedish companies with a market presence in China, across varying company sizes and sectors, and represents the collective view of the Swedish business community. Team Sweden is grateful to all the companies who have taken their valuable time to respond to the survey, and we hope that this report will provide insights and guidance to businesses and policy makers. Should you have any questions to the report or want to further discuss your situation in the Chinese market, do not hesitate to reach out to Team Sweden in China



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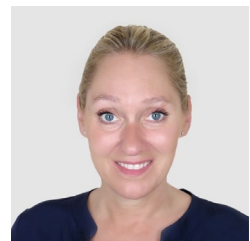
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# EXECUTIVE SUMMARY

**The business climate in China has worsened since last year's survey.** After an improved score of 3.7 in 2021, the climate index was back at 3.3 this year – in line with the result in the first year of the pandemic. Compared to last year, Swedish companies are somewhat more polarised in their views of how they expect the business climate to evolve over the coming three years. 45 per cent of respondents think the business climate will be more favorable while 33 per cent think the business climate will be less favorable.

**Swedish companies' financial performance was overall profitable in 2021.** 72 per cent of all respondents reported a profitable business for the year, up from 63 per cent in 2020. In addition, only 9 per cent of companies reported a loss over the past year, down from 15 per cent in 2020. These encouraging numbers are most likely due to the relatively stable pandemic situation in China during 2021 in combination with a recovering global economy.

**However, Covid-19 continued to pose challenges to international trade and the global economy, impacting Swedish companies more than expected.** A large share of respondents reported a negative impact on both their revenue and profit in 2021, with the largest discrepancy between expectation and reality seen in companies' ability to produce products and services (18 per cent vs. 53 per cent). Due to the especially strict restrictions on international travel for China, 54 per cent of companies also said that the pandemic has negatively impacted their internal communication with headquarters in Sweden.

**Companies expect downward pressures to continue throughout 2022 and beyond.** A majority of Swedish companies forecast a slight revenue and profit uplift in 2022, but report an overall bleaker outlook than last year. 62 per cent and 50 per cent of respondents expect an increase of revenue and profit, respectively, during the coming year, but a third of all companies say they do not expect to see any revenue growth at all, or even expect revenue to decrease.

**Foreign and local staffing has become increasingly difficult since the onset of the pandemic.** A third of Swedish companies said that access to skilled labour remained one of the most challenging factors for businesses in China in 2021. In addition, the barriers caused by Covid-19 to the flow of talent across China's borders have been felt keenly by companies over the past year. Companies report struggles with both attracting and retaining expats as well as managing administrative challenges to get foreign staff into China.

**Despite the pandemic hassle, Swedish companies are still excited about opportunities in the China market.** Like last year, Swedish companies see market size, potential, and GDP growth as the key external drivers of business opportunities in the country. Most companies are looking to increase their investments in China in the coming 12 months compared to the last 12 months – though optimism is lower than last year. However, both industrial and professional services companies expect to grow above the expected industry growth rate, indicating that the respondents see opportunities to increase their market shares.

**Over half of Swedish companies experience a need to tailor operations and solutions for China.** As decoupling concerns mount, companies are exploring ways in which they can separate their China operations from their global operations by onshoring and localising. To maintain competitiveness in the market, working closely with Chinese customers is seen as the most important factor for Swedish firms.

**The Swedish brand is back on trend.** Companies' perception of the positive impact of the Swedish brand has gone up significantly since last year, indicating that the image of Sweden – and more specifically Swedish businesses – increasingly well fits the current needs of Chinese stakeholders.

**Despite China's high-level goals to reduce carbon emissions, one in five Swedish firms still faces environmental challenges on the ground.** Green transport and access to clean energy are the top environmental challenges for Swedish companies in China. Another area of concern is the lack of access to emissions data from suppliers or logistics providers. Several respondents also noted that their own internal tough environmental standards put them at a disadvantage vis-à-vis their domestic counterparts in China and that market/customer

demand for sustainable products is not yet strong enough to offset this difficulty.

**Going forward, 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 for Swedish companies in China to continue to operate and thrive in the market will require continued progress within a number of fields.

# BUSINESS PERFORMANCE

## Improved financial performance of Swedish companies in China 2021, in line with recovering global economy

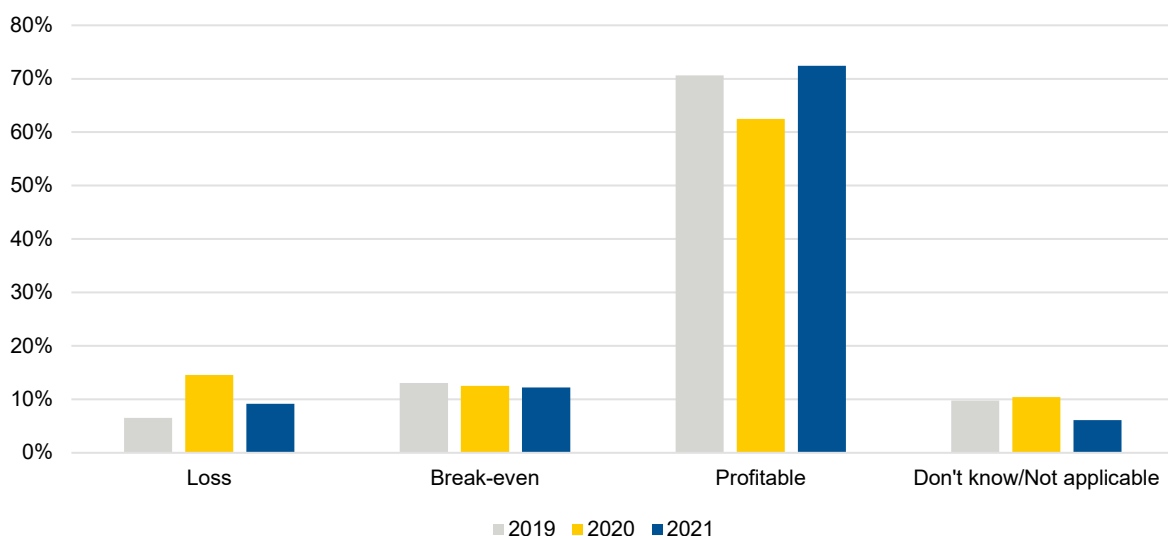
Swedish companies have seen an overall profitable financial performance in 2021. 72 per cent of all respondents reported a profitable business for the year, up from 63 per cent in 2020. In addition, only nine per cent of companies reported a loss over the past year, down from 15 per cent in 2020. These encouraging numbers are most likely due to the relatively stable pandemic situation in China during 2021 in combination with a recovering global economy. These headline numbers are on par with what were reported before the onset of the pandemic.

It is interesting to note that the, at the time, highly disruptive power outages throughout China in the fall 2021 seem to have had limited impact on industrial companies' financial performance. Looking at the different sectors, 74 per cent of industrial and professional services companies record a profitable year, but only 58 per cent of consumer companies. Despite the comparatively lower number, consumer companies' financial performance has improved compared to last year for both the upside (50 per cent profitable) and the downside (14 per cent loss in 2020, compared to eight per cent in 2021). It is also worth noting that the lower profitability for consumer companies could be due to the role of their China operations. Many consumer companies have no sales in China, which obviously restrict their ability to get profit in the market.

The biggest improvement in overall financial performance can be seen among small companies, where 69 per cent of respondents respectively reported a profitable business – up significantly from 51 per cent in 2020.

### FINANCIAL PERFORMANCE OF SWEDISH COMPANIES IN CHINA, 2019-2021

Question: How would you describe your company's financial performance in Mainland China in 2021? [Single choice] [N=98]



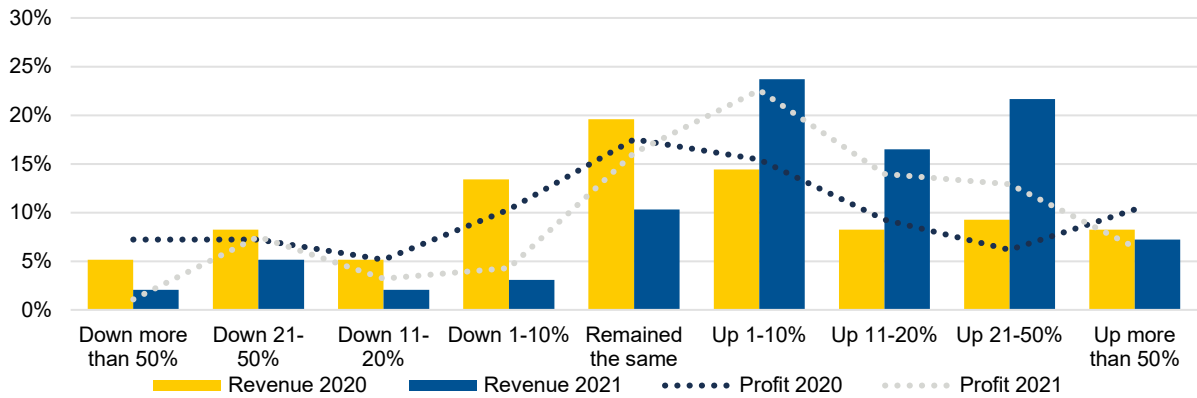
Alongside the stronger financial performance, Swedish companies showed both improved revenue and profit growth in 2021 compared to 2020, due to an increased upside and a decreased downside. In 2021, 69 per cent and 56 per cent of all companies saw an increase in revenue and profit, respectively – up from 40 per cent and 41 per cent the year before. As with financial performance, it is the consumer companies that are a drag on growth, with only 50 per cent and 36 per cent of consumer companies saying that their revenue and profits increased last year, respectively.

Only 12 per cent of all respondents say that they saw a decrease in revenue between 2020 and 2021, compared

with 32 per cent in last year’s survey. Profit numbers are similarly encouraging, with only 16 per cent of all respondents indicating a decline in profit – down from 30 per cent last year. Of these, only two per cent and one per cent of respondents said they saw more than 50 per cent decline in revenue and profit, respectively – down from five per cent and seven per cent the year before.

### REVENUE AND PROFIT GROWTH OF SWEDISH COMPANIES IN CHINA, 2020-2021

Question: How was your revenue / profit in Mainland China compared with 2021? [Single choice] [N=93-97]



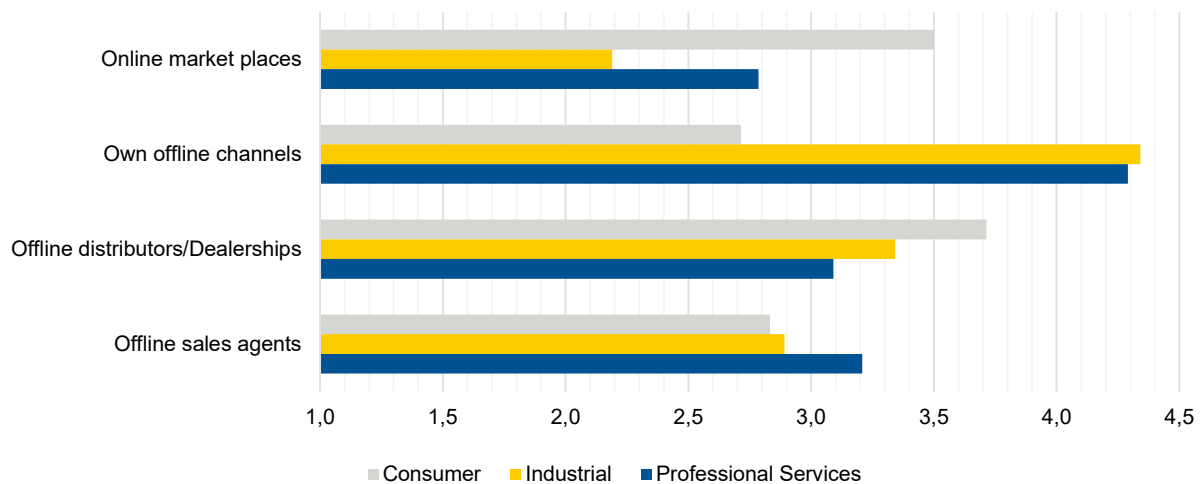
Note: Do not know/Not applicable responses are included but not shown in figure (8 per cent revenue, 12 per cent profit).

## Own offline channels most important for sales, but channel choices differ between sectors

For Swedish companies’ sales activities in China, channel preferences unexpectedly vary a lot between sectors. Online marketplaces are naturally more highly valued by consumer companies, where 33 per cent of respondents said they are a very important sales channel, compared to four per cent for industrial companies and 15 per cent for professional services companies. For industrial companies and professional services companies, 61 per cent and 51 per cent of respondents said that offline channel was very important – compared to 17 per cent for consumer companies.

### IMPORTANCE OF CHANNELS FOR SALES ACTIVITIES

Question: How important are the following channels for your sales activities in Mainland China? [Single choice, 1-5] [N=67-79]



Note: Do not know/Not applicable responses are excluded from the weighted average calculations, resulting in adjusted N-value seen above.



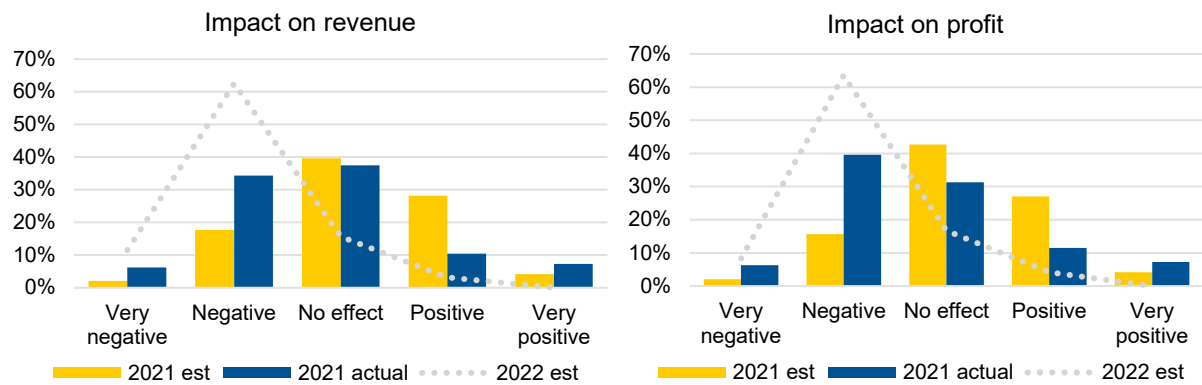
## COVID-19 impact in 2021 more negative than anticipated, pessimistic outlook for 2022 in all dimensions

The effects on the global pandemic continued to haunt people and business alike in 2021. Over the past year, the impact of Covid-19 on Swedish companies across all metrics were more negative than anticipated and companies remain pessimistic about the outlook for 2022. 41 per cent of respondents reported a negative impact on their revenue and 46 per cent on their profit in 2021 – up from expectations of 20 per cent and 16 per cent, respectively. The largest discrepancy between expectations and reality, however, were in the companies’ ability to produce products and services, where 53 per cent experienced a negative impact, up from expectations of 18 per cent.

As there are especially strict restrictions on international travel for China, companies were also asked about how the pandemic has impacted their internal communication with headquarters in Sweden. Results were bleak, with more than half (54 per cent) experiencing a negative impact on communications in 2021.

### IMPACT OF COVID-19 ON THE OPERATIONS OF SWEDISH COMPANIES IN CHINA

Questions: What was the impact of COVID-19 in 2021 / expected for 2022 on your Revenue / Profit? [Single choice] [N=96]

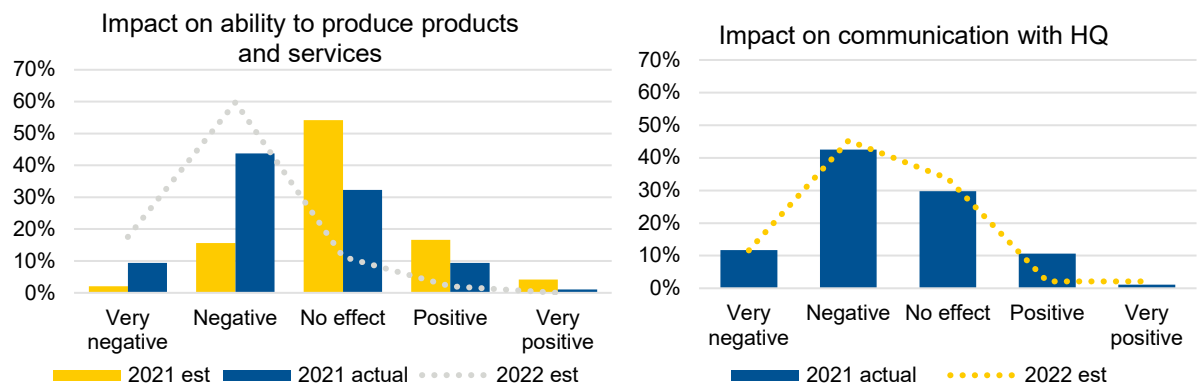


**Note:** Do not know/Not applicable responses are included but not shown in figure (4 per cent and 7 per cent for revenue actual and 2022 estimate, 4 per cent and 7 per cent for profit actual and 2022 estimate).

Looking ahead, companies are pessimistic for the rest of 2022. 74 per cent and 72 per cent predict negative impact of the pandemic on their revenues and profits in 2022. Consumer companies are the most pessimistic (83 per cent for both categories) and professional services companies a little less so (67 per cent for both categories). For the ability to produce products and services, 77 per cent of all companies expect a negative impact from the pandemic and 57 per cent expect a continued negative impact on their internal communications with headquarters throughout 2022.

### IMPACT OF COVID-19 ON THE OPERATIONS OF SWEDISH COMPANIES IN CHINA

Questions: What was the impact of COVID-19 in 2021 / expected for 2022 on your Ability to produce products and services / Alignment with headquarters? [Single choice] [N=94-97]



**Note:** Do not know/Not applicable responses are included but not shown in figure (4 per cent and 9 per cent for ability to produce products and services actual and 2022 estimate, 4 per cent and 5 per cent for communication with HQ actual and 2022 estimate).

It is worth underlining that, for these forward-looking questions especially, the state of the latest Covid-19 outbreaks in China most likely influenced respondents' answers to some degree. As the survey went out to companies, China was in the early days of the worst domestic outbreak of Covid-19 since the inception in Wuhan in early 2020, with Shanghai and other localities already placed under strict lockdowns. Had the survey gone out a week earlier, or a week later, results would most likely have been very different – as can be seen in our Covid-19 Flash Survey.<sup>1</sup>

### COVID-19 FLASH SURVEY

According to a flash survey on the impact of recent Covid-19 outbreaks in China conducted between April 19-22, the effect on Swedish companies' revenues and their ability to produce products and services were more negative than the results from the Business Climate Survey suggests.

- 89 per cent of all companies reported a negative impact on their revenues, with 32 per cent describing the impact as severe. Only two per cent of industrial companies did not report any negative impact on their revenues.
- 86 per cent of all companies reported a negative impact on their production and manufacturing, with 34 per cent describing the impact as severe.

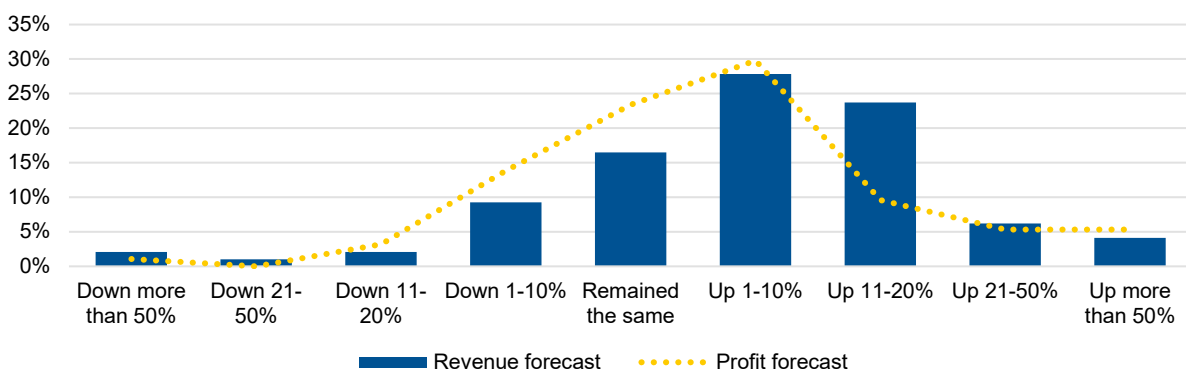
Source: Business Sweden and Swedish Chamber of Commerce in China, Covid-19 Flash Survey, April 2022 [N=120]

## Majority of companies forecast a slight revenue and profit uplift in 2022, but overall bleaker outlook than last year

A majority of Swedish companies forecast a slight revenue and profit uplift in 2022, but report an overall bleaker outlook than last year. 62 per cent and 50 per cent of respondents expect an increase of revenue and profit, respectively, during the coming year. That is down significantly from last year's forecast of 70 per cent and 62 per cent. In line with other findings, it is the consumer companies that are once again a drag on growth, of which only 16 per cent forecast an uptick in either revenue or profit. Worth noting is that a third of all companies (31 per cent) did not expect to see any revenue growth this year – even before the most recent Covid-19 outbreaks really took off and put a damper on business activity and economic projections.

### REVENUE AND PROFIT FORECAST FOR 2022

Question: What is the revenue / profit forecast of your operations in Mainland China for 2022 compared with 2021? [Single choice] [N=94-97]



Note: Do not know/Not applicable responses are included but not shown in figure (7 per cent revenue, 9 per cent profit).

Looking at the year ahead, Swedish companies across all sectors have a more somber outlook than last year, with expectations on industry turnover neutral to slightly negative among all respondents and industries. Only 41 per cent of respondents are expecting the turnover within their industry/business sector to increase the coming 12

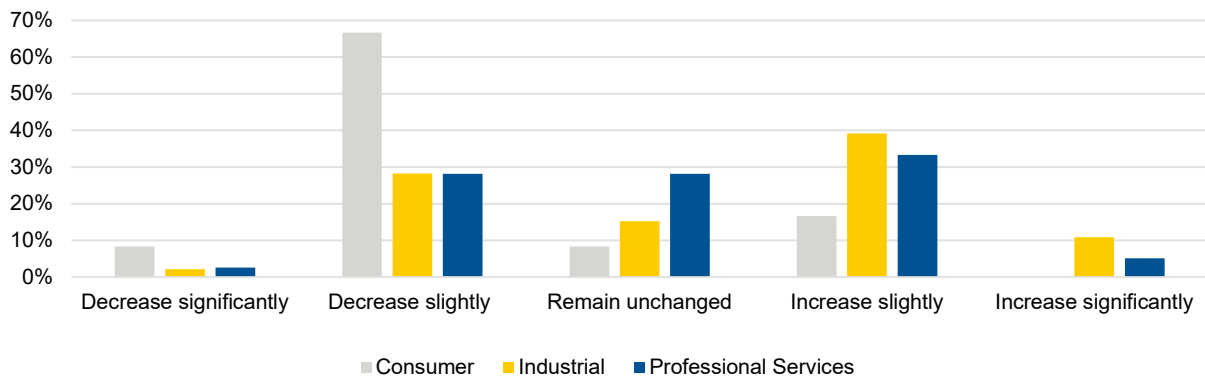
<sup>1</sup> Between April 19 and 22, 2022, Business Sweden and the Swedish Chamber of Commerce in China (SwedCham) conducted a joint flash survey on the impact of recent Covid-19 outbreaks on Swedish businesses in China. 120 member companies of SwedCham participated in the survey.

months, down substantially from 72 per cent in last year’s survey. Consumer companies were the least optimistic, with 75 per cent expecting turnover to decrease in the coming 12 months. The pessimistic outlook among this company segment should come as no surprise, as consumption has been a lagging in China throughout the pandemic with no end in sight. For example, following the extensive lockdown in Shanghai (and elsewhere), consumption was down 11.1 per cent y/y in April – the biggest drop since February 2020.

Despite the more somber industry outlook, it is encouraging to see that expected revenue increases for Swedish industrial and professional services companies are above the expected turnover increases for their respective sector. This indicates that the respondents see opportunities to increase their market shares over the coming year. For consumer companies, sales expectations are in line with expected industry turnover.

**SWEDISH COMPANIES’ EXPECTED INDUSTRY TURNOVER IN CHINA COMING 12 MONTHS**

Question: Compared to the development in the past 12 months, what are your expectations for the coming 12 months for your industry in Mainland China regarding turnover? [Single choice] [N=97]



**Note:** Do not know/Not applicable responses are included but not shown in figure (0 per cent consumer, 3 per cent industrial, 4 per cent professional services).

# BUSINESS CLIMATE

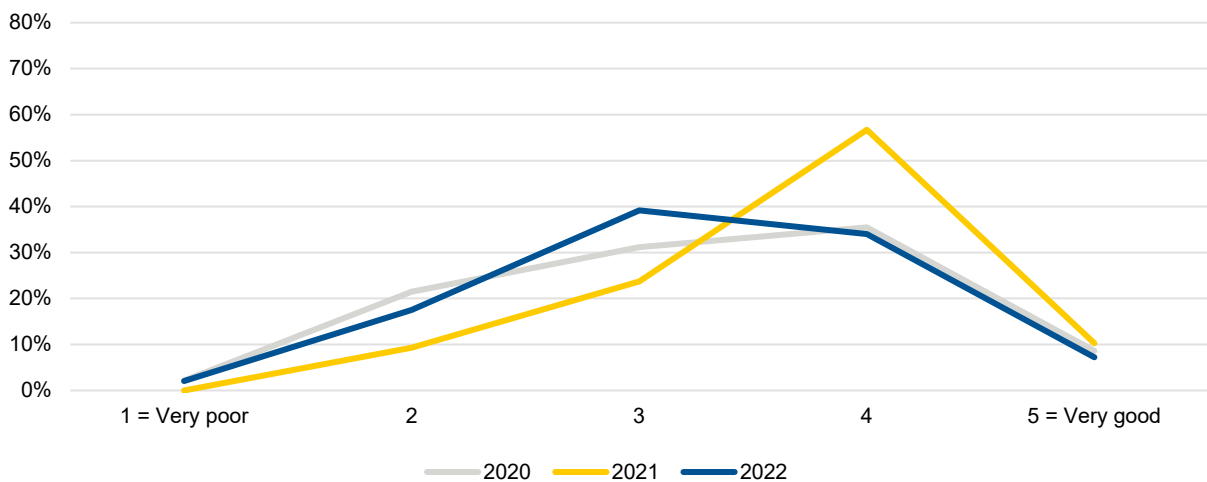
## Business climate in 2022 in line with early-pandemic level, with polarised outlook for the years ahead

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 a number of 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 3.3, a significant decrease from last year's score of 3.7. However, this is in line with the result in the first year of the pandemic.

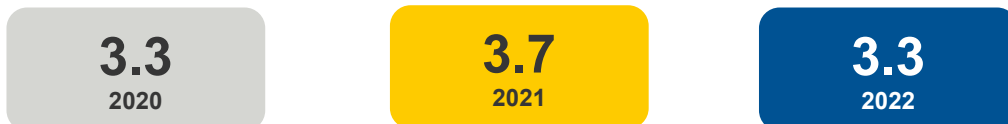
Industrial companies experience a more preferable business climate than the other sectors, with an index of 3.4, compared with consumer (3.0) and professional services companies (3.1). Large companies were more positive (3.4) than medium (3.2) and small (3.3) companies.

### CURRENT BUSINESS CLIMATE IN CHINA

Question: How do you perceive the current business climate in China? [Single choice, 1-5] [N=97]



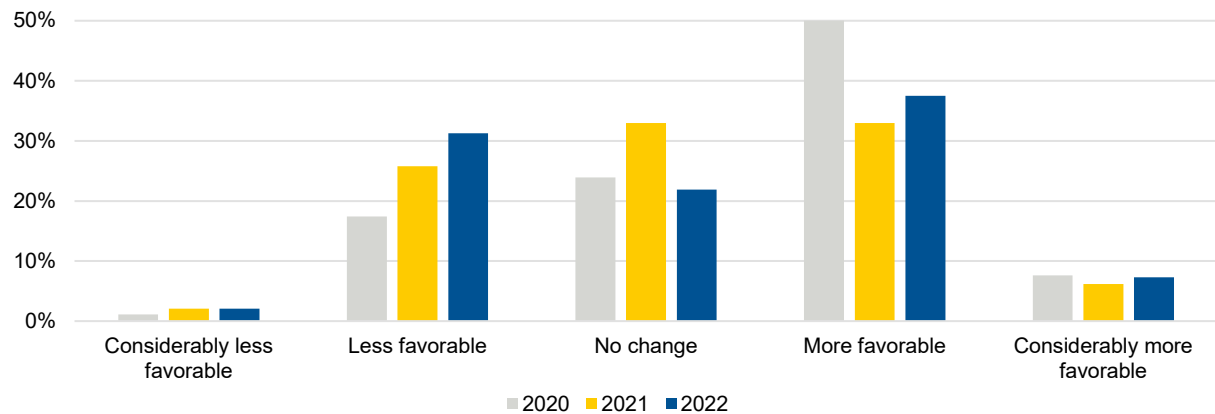
**Note:** Do not know/Not applicable responses are included but not shown in figure (0 per cent). For 2020, a 10-grade scale was used instead of the 5-grade scale used in later years. To make the numbers comparable a conversion scale has been used mapping the 2020 results according to: 1-2=1; 3-4=2; 5-6=3; 7-8=4; 9-10=5



Compared to last year, Swedish companies are somewhat more polarised in their views of how they expect the business climate to evolve over the coming three years. 45 per cent of respondents think the business climate will be more favorable or considerably more favourable – up from 39 per cent last year. At the same time, 33 per cent think the business climate will be less favourable or considerably less favourable – up from 28 per cent last year. Large companies have the least optimistic outlook, with only 33 per cent of the respondents expecting the business climate to improve the coming three years and 41 per cent expecting it to become less favourable.

### PERCIEVED FUTURE BUSINESS CLIMATE IN CHINA BY SWEDISH COMPANIES

Question: How do you predict the future business climate in Mainland China the coming three years? [Single choice] [N=96]



## Decreasing satisfaction with most market conditions for Swedish companies in China compared to last year

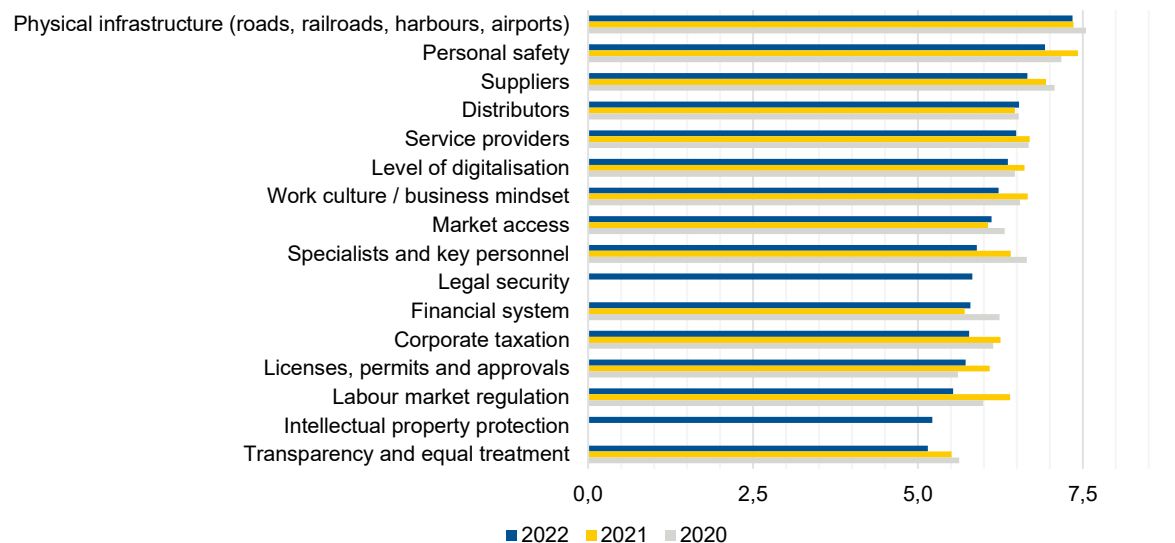
In 2022, market conditions in China continued to be favourably viewed by Swedish companies. However, satisfaction with most of the dimensions examined in this survey has decreased over the past year. Decreasing the most since last year were labour market regulation, access to specialist and key personnel, and personal safety. The decline in personal safety is most likely due to China’s strict pandemic containment measures, as the threat of extended lockdowns, centralised quarantine, and other types of restrictive zero-Covid measures weigh heavy on the minds of both companies and individuals.

The only dimensions in which market conditions were seen as improving compared to last year were in financial system, market access, and access to distributors – though improvements were marginal across all three.

Satisfaction with transparency and equal treatment are just like last year at the bottom of the list, decreasing slightly from last year. Intellectual property protection, a new measure for this year’s survey, is similarly scoring low.

### MARKET FULFILMENT

Question: Please rate from 1-9 how the below conditions meet the needs of your company's business in China? [Single choice] [N=75-98]



Note: Do not know/Not applicable responses are excluded from the weighted average calculations, resulting in adjusted N-value seen above.

## Access to skilled labour remain most challenging factor for businesses in China

For the past three years, access to skilled labour has been the most challenging factor impacting Swedish companies in China. In 2022, 33 per cent of respondents put this factor as one of their most challenging ones, up slightly from 32 per cent last year. 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 quickly ageing society. By mid-century, the share of the working-age population is projected to fall to 50 per cent. Therefore, this issue look likely to remain a top challenge for Swedish companies in China for the years and decades to come.

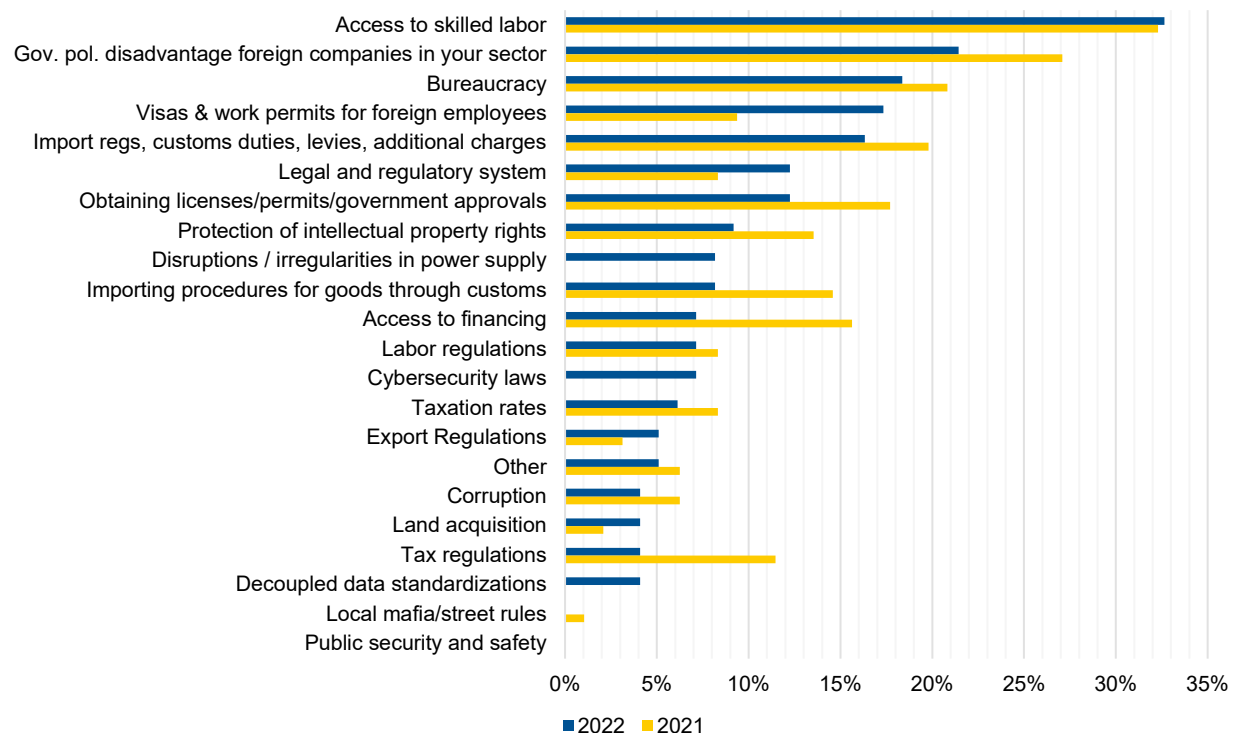
In addition, the barriers caused by Covid-19 to the flow of talent across China’s borders have been felt more keenly by companies in 2021 than the year before. Ranking fourth, 17 per cent of companies say that problems with visas and work permits for foreign employees was a top challenge – up from nine per cent last year.

21 per cent of respondents state that one of the main challenges facing them in the market is governmental policies that disadvantage foreign companies, ranking it as the second most challenging factor for Swedish companies. While this is an improvement compared to last year (27 per cent) 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. This particular challenge hit very different between sectors. 36 per cent of professional services companies chose it as one of the top three challenges they face in China. For industrial and consumer companies, the corresponding numbers were 13 per cent and zero per cent, respectively.

Just like in last year’s survey, bureaucracy remains one of the most challenging factors impacting Swedish companies in China, with 18 per cent of companies considering it a top challenge. While this is a slight improvement compared to last year (21 per cent), the still-high number indicates that efforts by Chinese policymakers to improve the administrative burden on business over the past couple of years have had a limited effect so far.

### MOST CHALLENGING FACTORS SWEDISH COMPANIES FACE IN CHINA

Question: Which external factors do you consider most challenging for your business in Mainland China? [Multiple choice, max 3 alternatives] [N=98]



Note: Do not know/Not applicable responses are included but not shown in figure (12 per cent). Other, please specify responses are shown as Other in figure.

## Foreign staffing increasingly difficult, both attracting expats to China and managing administrative challenges

More than half of Swedish companies in China (53 per cent) face issues in their foreign staffing efforts. Large companies (with larger foreign staffs) are struggling the most, where 67 per cent say they currently face such issues.

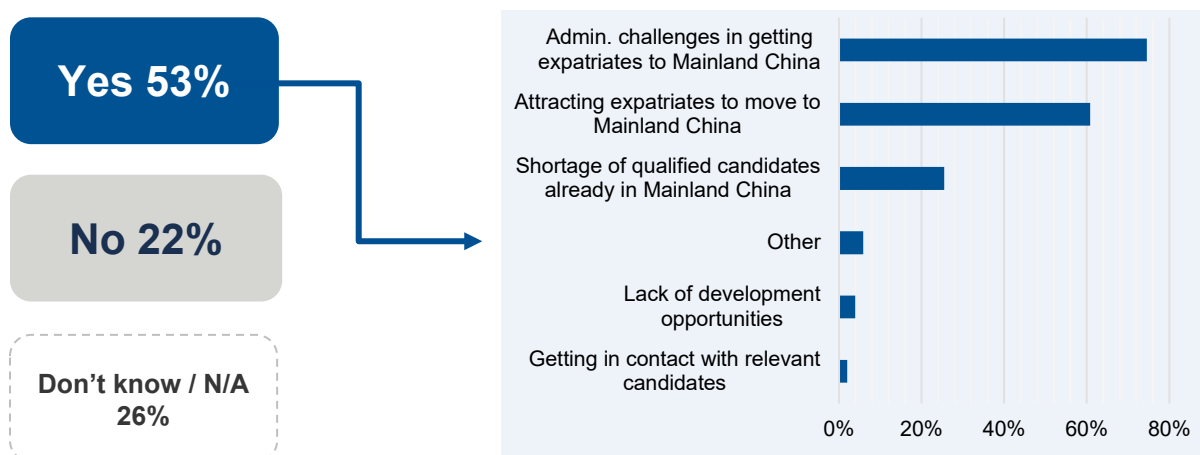
Of the companies affected, 75 per cent cite administrative challenges and 61 per cent say they have trouble attracting foreign staff to move to China. An additional quarter of affected companies (25 per cent) say that they struggle with a shortage of qualified foreign staff already in the Chinese labour pool.

Looking at the different sectors, professional services companies struggle the most with administrative challenges (86 per cent), while consumer and industrial companies struggle more with attracting expatriates to move to China (100 per cent and 69 per cent).

### MAIN CHALLENGES FOR FOREIGN STAFFING OF SWEDISH COMPANIES IN CHINA

Question: Are you experiencing challenges sending expatriates and / or hiring foreigners to your operations in Mainland China (domestic hires or from abroad)? [Single choice] [N=97]

Routed question: What are the main challenges you experience sending expatriates and / or hiring foreigners to your operations in Mainland China? [Multiple choice] [N=51]



Note: Other, please specify responses are shown as Other in the right figure.

## Less than a fifth of respondents perceive negative impact from China's cybersecurity regulations

In 2021, China's Data Security Law and the Personal Information Protection Law (PIPL) came into force. Together with the Cyber Security Law – in effect since mid-2017 – they are the three cornerstones of China's cyber security and data regime.

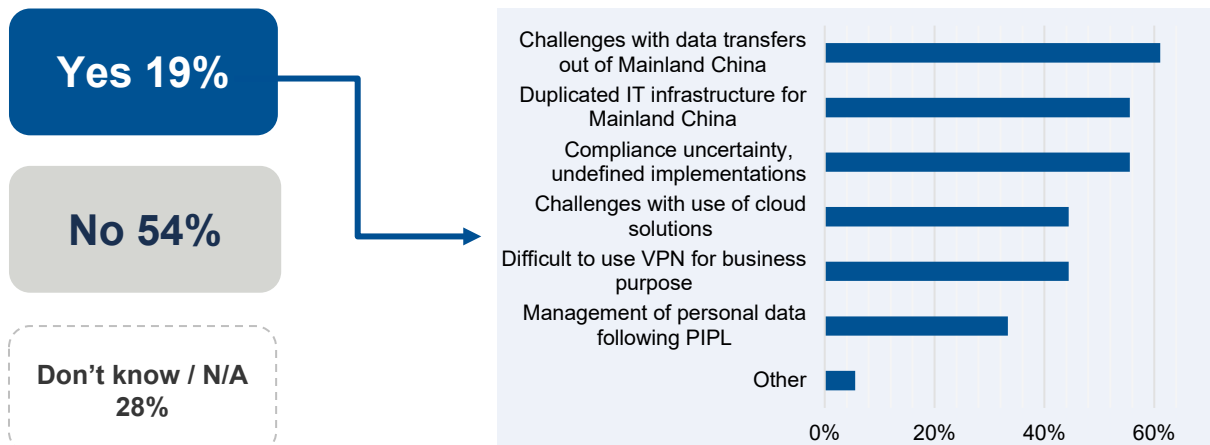
According to the 2022 survey, less than a fifth of respondents (19 per cent) say they have experienced a negative impact from China's cybersecurity regulations. This is in stark contrast to last year, when a majority of companies said they had been negatively impacted by the regulations. It is worth noting, however that more than a fourth of companies chose don't know/not applicable as their answer to this question. This could indicate that companies are still unfamiliar with how the new regulations are impacting their industry/business – most likely a consequence of the difficulty interpreting the new regulations, in which key terms are often defined over time. It is therefore not easy for companies to understand exactly how they will be affected by the regulations or how they need to change their routines.

Impact vary quite significantly among company sizes and sectors. Only six per cent of small companies say they have been impacted by the cybersecurity regulations, compared to 30 per cent of large companies. No consumer companies say they have been impacted by the new laws, compared to 17 per cent of industrial and 26 per cent of professional services companies.

Among the affected companies, most companies struggle with data transfers out of China as well as having to duplicate their data infrastructure for China. More than half of the respondents to this question also say that they have experienced uncertainty regarding compliance due to undefined implementations.

### IMPACT FROM CHINESE CYBERSECURITY REGULATIONS ON SWEDISH COMPANIES

Question: Have you felt any negative impact on your business from the Chinese cybersecurity regulations? (Personal Information Protection Law, Data Security Law, Cybersecurity Law) [Single choice] [N=97]  
 Routed question: In what way have you felt negative impact from the Chinese cybersecurity regulations? [Multiple choice] [N=18]



Note: Other, please specify responses are shown as Other in the right figure.

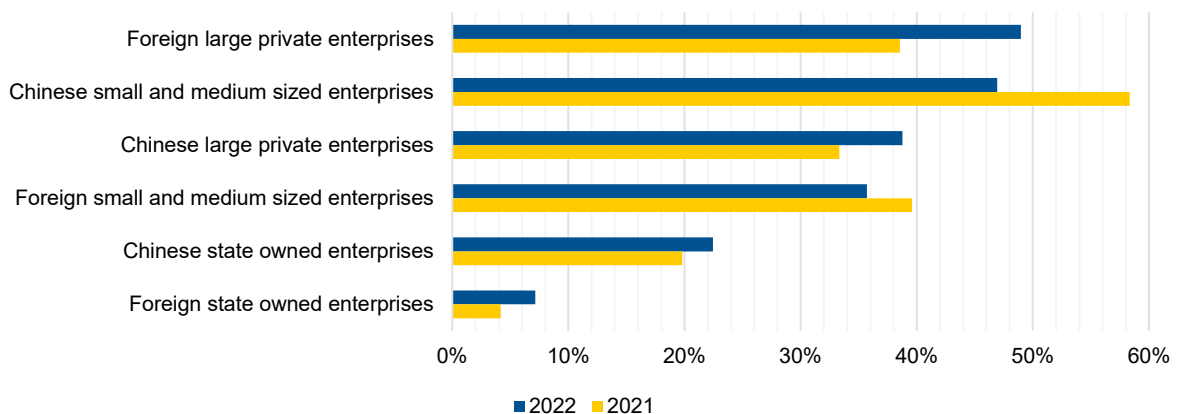
## Foreign large private enterprises biggest competition for Swedish companies in China, price most important factor

The perceived competitors' landscape of Swedish companies in China has changed a bit since last year. In 2022, foreign large private enterprises (49 per cent) and Chinese small and medium-sized enterprises (SMEs) (47 per cent) were seen as Swedish firms' top competitors. Chinese SMEs remain one of the top competitors on the market, but 11 per cent fewer respondents select them as top three compared to last year. An additional 36 per cent view foreign SMEs as their top competitors, indicating a landscape in which foreign businesses compete for the same part of the market.

A smaller share of respondents view state-owned enterprises (SOEs) as their top competition in China, though their share has increased slightly from last year.

### MAIN COMPETITORS IN CHINA

Question: Who are your main competitors in Mainland China? [Multiple choice, maximum 3 alternatives] [N=98]



Note: Do not know/Not applicable and Other, please specify responses are included but not shown in figure (6 per cent and 0 per cent).

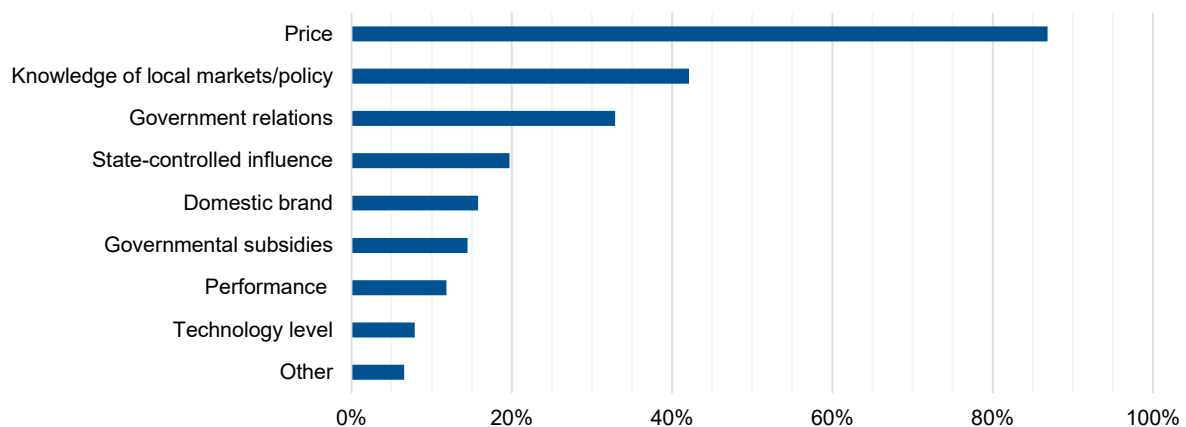


Price is overwhelmingly the biggest factor that Swedish companies see Chinese competitors stand out on across all sizes and sectors, with 87 per cent of respondents identifying it as one of the top three factors. At a distant second place is knowledge of local markets/policy (42 per cent), and government relations (33 per cent) comes in third. This pattern holds true for all sectors and company sizes with two exceptions. Medium-sized companies rank the second and third option equally high and consumer companies rank domestic brand, instead of government relations, as the third factor that make Chinese competitors stand out (33 per cent compared to 16 per cent for all companies).

Only 14 per cent of all companies said that government subsidies were the reason their Chinese competitors had an edge in the China market. The low number is interesting as government subsidies is one of the factors often cited as a hindrance to a fair business environment in China. While the low number is encouraging, it is important to consider that it could be the result of companies not daring to address the problem as it is directly related to politics / government. Moreover, looking at industry size we get another picture. A fourth of all large companies (25 per cent) cited government subsidies as a reason their Chinese competitors stand out in the China market.

### OUTSTANDING FACTORS FOR CHINESE COMPETITORS IN CHINA

Question: What main factors make Chinese competitors stand out when it comes to competition? [Multiple choice, maximum 3 alternatives] [N=76]



Note: Do not know/Not applicable responses are included but not shown in figure (1 per cent).

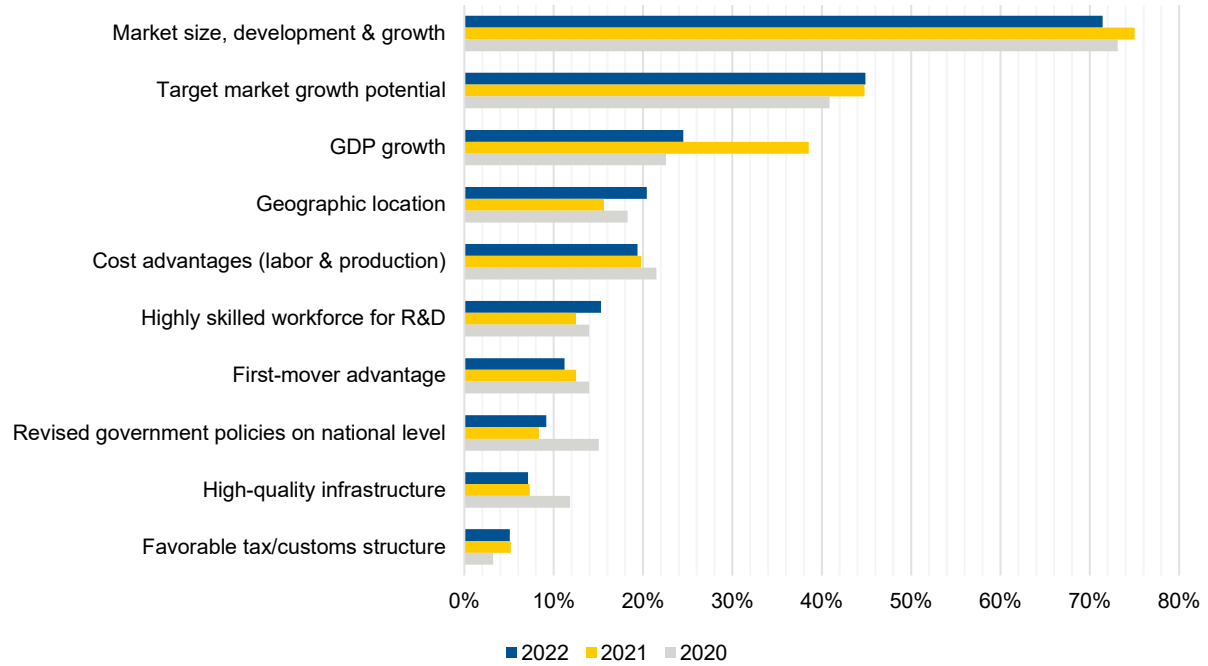
## Key external drivers of business opportunities in China remain market size, potential, and GDP growth

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 two years. However, the notable uptick for GDP growth as an important factor seen in last year's survey is not present this year. In 2022, 24 per cent of respondents chose it as one of the three most important factors compared with 39 per cent in 2021. Last year's unusually high number was most likely due to the pandemic wreaking havoc on growth in many global markets throughout 2020. However, as the rest of the world is learning to live with the virus, China's zero-Covid policy is creating uncertainties in the growth outlook for the years ahead.

The top three business opportunity factors remain largely similar for most company sizes and sectors, with a few notable exceptions: For consumer companies, market size (50 per cent) is followed by a highly skilled workforce for R&D (33 per cent) and then by cost advantages (labour & production) (25 per cent). For professional services companies, the third most common advantage is geographic location, chosen by 26 per cent of such companies.

### DRIVERS FOR BUSINESS OPPORTUNITIES IN CHINA

Question: What are the key external factors contributing to opportunities for your company in China in the short term? [Multiple choice, maximum 3 alternatives] [N = 98]



**Note:** Do not know/Not applicable and Other, please specify responses are included but not shown in figure (2 per cent and 1 per cent).

# MARKET OUTLOOK

## Planned investments by Swedish companies continue to increase, but optimism lower than last year

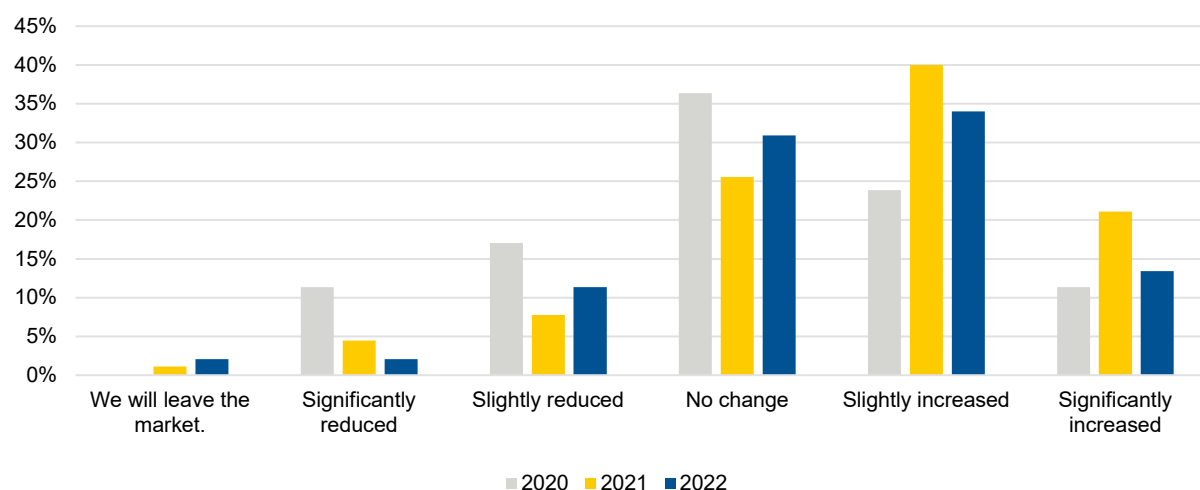
In the pandemic's third year, most Swedish companies in China are looking to increase their investments the coming 12 months compared to the last 12 months. However, last year's optimism has been dampened somewhat, most likely due to uncertainties about the timeline of China's pandemic response and subsequent opening up.

In line with last year's survey, the most eager to increase investments are medium-sized companies. However, while 74 per cent of such companies said they would up investments last year, only 61 per cent said they will do so this year. Despite the general optimism, it is worth noting that only 11 per cent of consumer companies said they will increase investments over the coming year, down significantly from 50 per cent in last year's survey.

13 per cent of companies said they will reduce investments over the coming 12 months (down slightly from 12 per cent last year), and only two companies said they plan to leave the market.

### INVESTMENTS PLANS THE COMING 12 MONTHS COMPARED WITH THE 12 LAST

Question: What are your company's investment plans for the coming 12 months in Mainland China, compared to the past 12 months? Investments will be... [N=97]



Note: Do not know/Not applicable responses are included but not shown in figure (6 per cent).

#### COVID-19 FLASH SURVEY

According to a flash survey on the impact of recent Covid-19 outbreaks in China conducted between April 19-22, the uncertainties from the outbreaks and containment measures had further prompted Swedish companies to reexamine their investments in China and expectations on the market.

- 68 per cent of all companies reported a negative impact on their investment plans, with 14 per cent describing the impact as severe.
- 68 per cent of respondents said the recent outbreaks had affected their view of the Chinese market negatively, with almost one in five companies (19 per cent) describing the market as significantly less attractive.

Source: Business Sweden and Swedish Chamber of Commerce in China, Covid-19 Flash Survey, April 2022 [N=120]

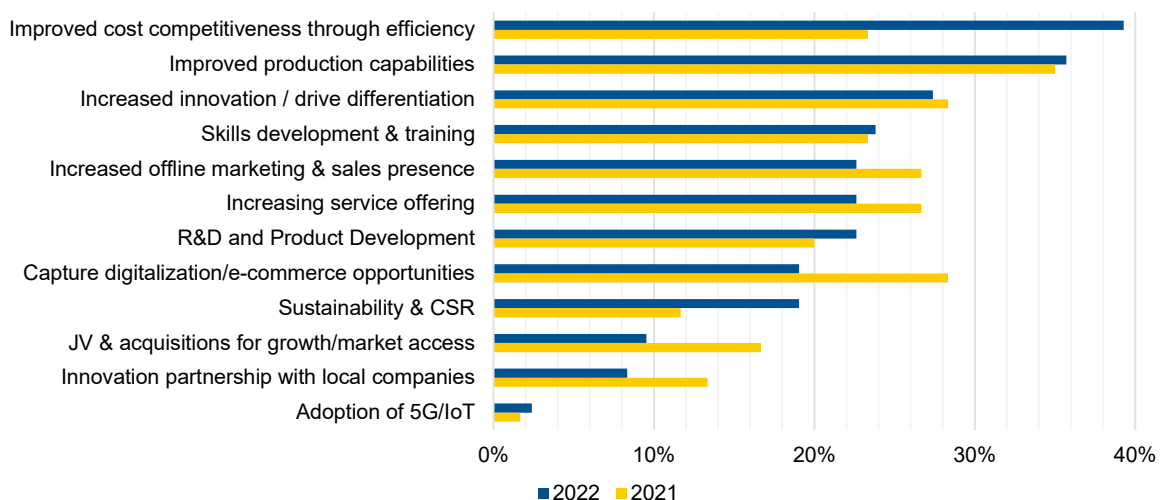
In 2022, Swedish companies are primarily looking to invest in improved cost competitiveness through efficiency. This trend is driven mainly by large companies, of which 56 per cent chose this option as one of the top 3 areas for increased investments, compared with 39 per cent overall. Last year's top choice, improving production capabilities, were chosen by 36 per cent of companies. 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 28 per cent last year to 27 per cent in 2022.

Like last year, adoption of 5G/IoT is very low on Swedish companies' agendas, with only two professional services companies looking to increase investments in this area.

Compared to last year's survey, investments into capabilities to capture digitalisation and e-commerce/social media related opportunities have decreased significantly, being ranked as top three by 19 per cent of all respondents, down from 28 per cent in 2021. Only 14 per cent of consumer companies were looking to invest into this option in 2022, compared to 50 per cent last year. Also JVs and acquisitions for growth and access to new markets/segments have dropped significantly since last year (from 17 per cent to 10 per cent), despite many Swedish companies struggling to localize and remain competitive in the market. Combined with the pessimistic growth outlook outlined in the previous chapter (see page 10), Swedish companies in China will be in for a challenging time ahead, trying to find a way to grow in a market where overall industry growth is low and inorganic activities are limited.

### INVESTMENT AREAS FOR SWEDISH COMPANIES IN CHINA

Question: Which are the areas where you plan to increase your investments the most? [Multiple choice, maximum 3 alternatives] [N=84]



**Note:** In 2021, only those looking to increase investments were asked this question. To make comparison with the 2021 data more fair, respondents who answered "Do not know/Not applicable" (12) have been removed from the 2022 data, lowering the N from 96 to 84 for this question. There was no overlap between "Don't know/Not applicable" and other responses for these respondents. Other, please specify responses are included but not shown in figure (0 per cent).

## More than half of Swedish companies experience a need to tailor operations and solutions for China

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 IT/data, where 66 per cent of respondents say they need to do so. That is a higher share of respondents compared to those that said they have been affected negatively by the Chinese cybersecurity regulations (see page 15), giving weight to the hypothesis that implications of the new cyber regime are not clearly understood among companies.

The lowest is in production, in which 56 per cent say they need to adapt specifically to China. Only seven per cent of companies said they do not need to tailor their R&D to China, and only nine per cent their IT/data.

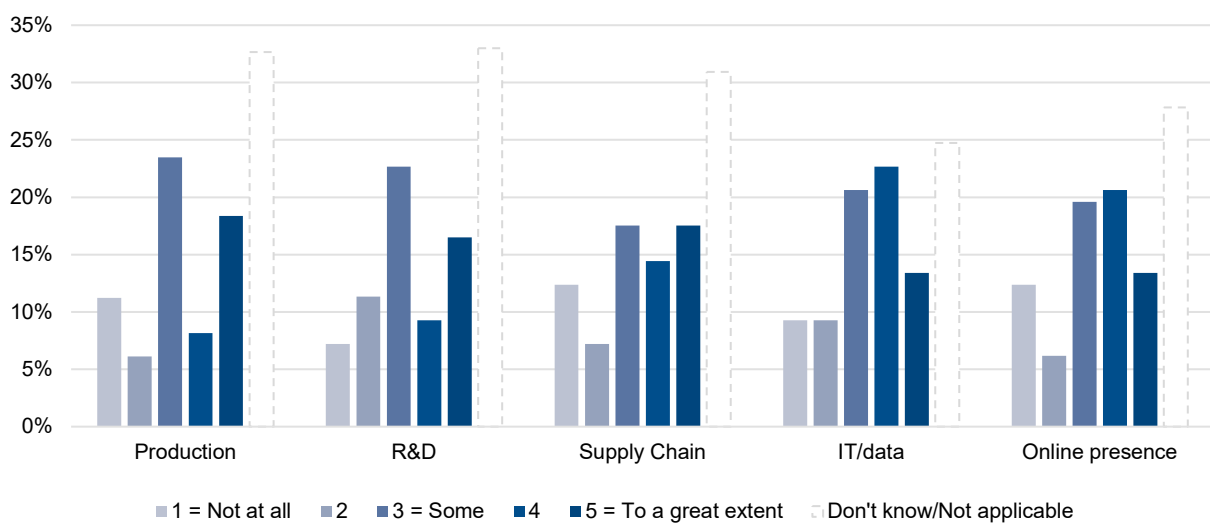
The need to tailor operations and/or solutions to China is very different between sectors. 70 per cent of industrial companies say the need to tailor operations and/or solutions to China, while only 50 per cent of consumer and 41

per cent of professional services companies feel the need to do so. The largest discrepancy between sectors can be seen in IT/data, where 79 per cent of industrial companies said they have to tailor their IT/data to China, compared with only 25 per cent of consumer companies. A similar, although slightly less extreme, split can be observed between company sizes. While 65 per cent of large companies experience a need to tailor operations and/or solutions to China, the corresponding numbers for small and medium companies are 47 per cent and 54 per cent, respectively.

Several companies mention the importance of shortening lead time, ensuring faster delivery, lowering costs, and adapting to increase match with demand from customers as reasons for localising in China. In addition, the need to comply with domestic policy directives as well as local rules and regulations are also recurring answers among respondents.

### NEED TO TAILOR OPERATIONS AND / OR SOLUTIONS FOR CHINA

Question: 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? [Single choice] [N=97-98]



For foreign companies in China, the discussion about decoupling is increasingly becoming reality, 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. But 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 large cost of separating operations not worth it considering their limited potential market share. For these companies market exit could become the only viable option.

How Swedish companies manage the localising challenge will have a large bearing on the makeup of the Swedish business community in China in the years and decades ahead.

## 40 per cent of Swedish companies plan near-term expansion in China, most to Guangdong, Shanghai, or Sichuan

Over the next three years, 40 per cent of Swedish companies say they plan to expand their business to other parts

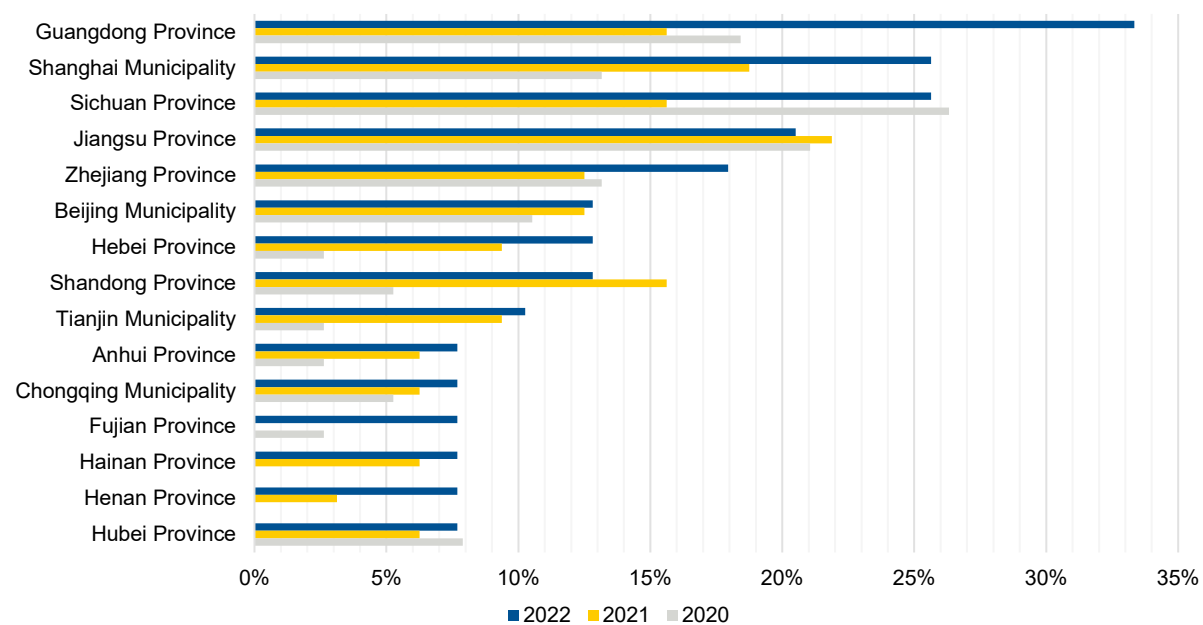
of China from where they are currently located – up from 33 per cent last year.<sup>2</sup>

Similar to findings from 2020 and 2021, medium-sized companies stand out this year as well, with 50 per cent of respondents in this segment looking to expand their business to other parts of China. This indicates a continued appetite for medium-sized companies to expand. Among the different sectors, industrial companies show a larger appetite for expanding their geographic footprint (45 per cent) compared with their consumer (33 per cent) and professional services (36 per cent) peers.

The regions considered mostly for Swedish companies’ expansion plans are largely similar to last year, though the exact ranking is somewhat different. What they have in common? Most of them are located along the affluent eastern coast. Topping the list is Guangdong at 33 per cent, up significantly from last year (then at 16 per cent). All sizes and sectors had Guangdong at the top of their expansion plans list this year, though to varying degree. The other top destinations were Shanghai and Sichuan (both at 26 per cent), Jiangsu (21 per cent), and Zhejiang (18 per cent).

### EXPANSION PLANS FOR SWEDISH COMPANIES IN CHINA – TOP 15 REGIONS

Question: To which of the following locations are you considering expanding your business? [Multiple choice] [N=39]



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

With both the pandemic and the Russian invasion of Ukraine impacting global supply chains, many companies are reviewing their supplier bases as well as sub-suppliers to their main suppliers to mitigate risks and be prepared for future disruptions.

In 2022, almost one third of Swedish companies in China are considering alterations to their supply chains, down by almost half since last year. However, supply chain concerns vary a lot between sectors. A whopping 58 per cent of consumer companies said they are considering alterations to their supply chains. For professional services companies that number was only 13 per cent, most likely reflecting the relatively small importance of supply chains for this sector.

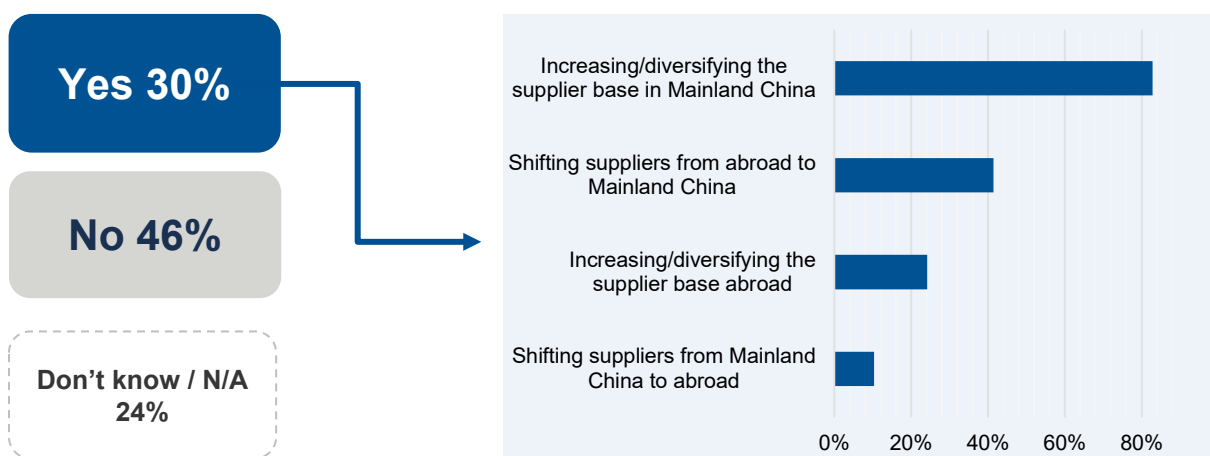
<sup>2</sup> As in previous years’ surveys, the vast majority of Swedish companies in China are located in the provinces along China’s eastern coast (for specifics, see page 32).

Of the respondents looking to alter their supply chains, a large majority said they are looking to increase/diversify their supplier base in China. Another option considered by some companies is to shift supplier base from abroad to China. 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 further strengthen 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 China 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 from China’s pandemic containment efforts.

Only three companies said they are considering shifting their suppliers from China to abroad, which is in line with last year’s survey.

**SUPPLY CHAIN ALTERATIONS CONSIDERED BY SWEDISH COMPANIES IN CHINA**

Question: Are you considering any supply chain alterations for your operations in Mainland China? [Single choice] [N=98]  
 Routed question: Which supply chain alterations are you considering? [Multiple choice] [N=29]



**Note:** Other, please specify responses are included but not shown in the right figure (0 per cent).

**COVID-19 FLASH SURVEY**

According to a flash survey on the impact of recent Covid-19 outbreaks in China conducted between April 19-22, 79 per cent of all companies reported a negative impact on their supply chains, with 25 per cent describing the impact as severe. Hardest hit were consumer companies as well as large industrial companies, for whom the negative impact on supply chains were 100 per cent and 94 per cent, respectively.

To be able to better handle future potential outbreaks in China, 35 per cent of companies said they are considering finding alternative transport solutions and 30 per cent that they are looking into diversifying their supplier base – in line with the result of the Business Climate Survey (see above).

**Source:** Business Sweden and Swedish Chamber of Commerce in China, COVID-19 Flash Survey, April 2022 [N=120]

**Customs obstacles main obstacles for companies from a trade barrier perspective, industrial firms hardest hit**

Obstacles related to customs are the most common grievance for Swedish companies from a trade barrier perspective. Over the past year, 27 per cent of Swedish companies has encountered obstacles related to customs procedures and an additional 21 per cent from the levels of customs duties. However, more than half of the respondents (57 per cent) say that the question is not applicable to their business.

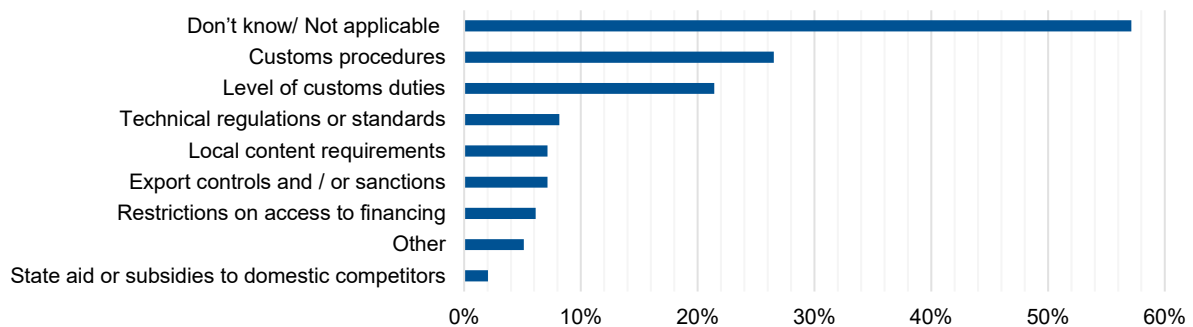
As expected, industrial companies are especially hard hit by custom procedures and high levels of custom duties,

where 38 per cent and 32 per cent of respondents in this segment say they have encountered such barriers, respectively. In addition, 11 per cent of industrial companies say they have encountered trade barriers due to export controls and/or sanctions – higher than other sectors. This is equally unsurprising, as industrial companies to a greater extent deal with advanced and technical equipment, which are often the explicit target of sanctions.

It is worth noting, however, that while many respondents say that customs are a concern when asked explicitly about noticeable negative impact from trade barriers, only eight per cent of respondents said custom procedures and 16 per cent said import regulations and customs duties were part of their top three challenging factors when looking at the business environment more comprehensively (see page 14).

**IMPACT FROM TRADE BARRIERS ON SWEDISH COMPANIES’ OPERATIONS IN CHINA**

Question: 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? [Multiple choice] [N=98]



Note: Other, please specify changed to Other in figure.

**Working closely with customers most important for maintaining competitiveness in China**

In 2022, Swedish companies see collaboration and feedback from customers as the most important factor for maintaining competitiveness in the Chinese market, especially among small and professional services companies. This is in sharp contrast to last year’s results, when only a bit over a quarter of all companies said that this was a key factor for competitiveness. Combined with a high result for product development/adaptation it becomes clear that a key factor for competitiveness is to ensure that products are made and adapted for the local context. It is essential for Swedish companies 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. And as China continues to be *de facto* closed for inbound travels, having foreign staff that can bridge the gap between headquarters and the local team become even more important.

Last year’s top choice, cost efficiency, is seen as the second most important factor for competitiveness in the market this year.<sup>3</sup>

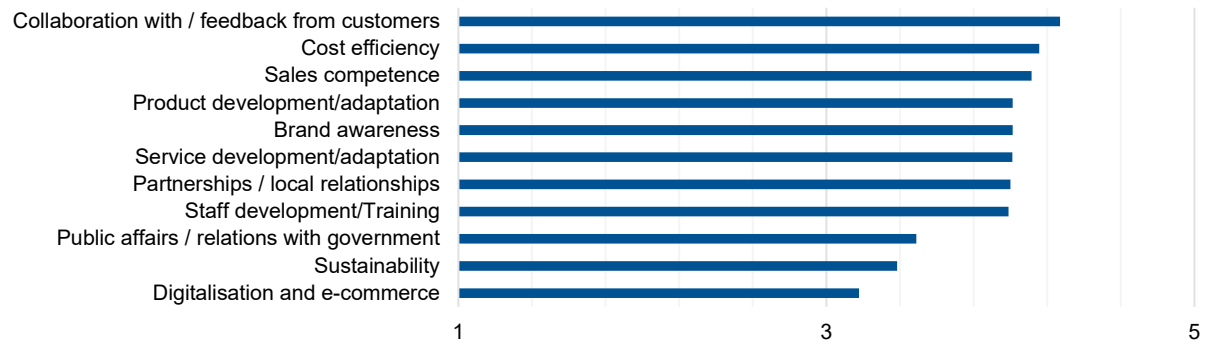
In line with last year’s findings, digitalisation and e-commerce is seen as the least important factor for China competitiveness for Swedish companies. However, this is highly sector dependent. Among consumer companies, more than half of the respondents (56 per cent) said that digitalisation and e-commerce was important to an extent or to a great extent (options 4 or 5 on a 1-5 scale).

<sup>3</sup> In the 2021 Business Climate Survey, this option was labeled “cost competitiveness”.



**PERCEPTION OF KEY FACTORS FOR MAINTAINING COMPETITIVENESS IN CHINA**

Question: Which of the following areas have been important in maintaining competitiveness in Mainland China? [Single choice, 1-5] [N=84-96]



Note: Do not know/Not applicable responses are excluded from the weighted average calculations, resulting in adjusted N-value seen above.

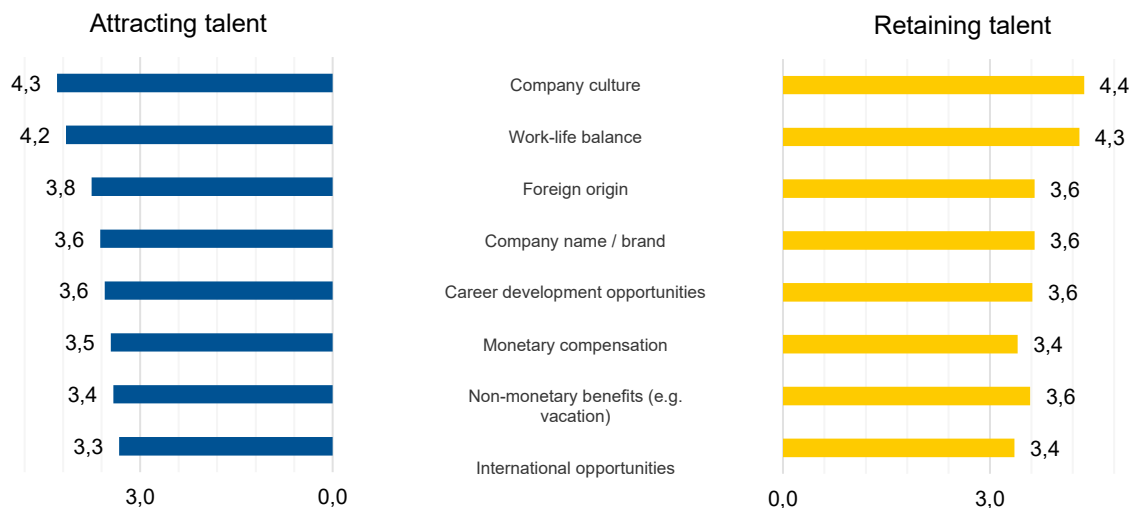
**Company culture and work-life balance most important for attracting and retaining talent in China**

When it comes to both attracting and retaining talent, Swedish companies in China see company culture and work-life balance as the two 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, which offers flexibility and agile working as one of its central pillars, firmly places on the positive side in the work-life balance map. In addition to offering reasonable compensation and vacation packages, Swedish companies should continue to emphasise these unique company values to be competitive in their hunt for Chinese talent.

Least important for both attracting and retaining talents were access to international opportunities.

**FACTOR IMPACT ON SWEDISH COMPANIES' ATTRACTION AND RETENTION OF TALENTS**

Question: Compared to competitors in the market, how do you perceive the following factors for your company when it comes to ATTRACTING / RETAINING the right talents to your operations in Mainland China? [Single choice, 1-5] [N=92-96]



Note: Do not know/Not applicable responses are excluded from the weighted average calculations, resulting in adjusted N-value seen above.

**Increased impact of the Swedish brand compared to previous years**

Leveraging the country of origin is a valid strategy for Swedish companies in China. In 2022, respondents said that the Swedish brand provided a moderate boost to business, with an average result of 3.7. That is markedly up from

the 3.3 average of the past two years. This finding indicates that the image of Sweden – and of Swedish companies – increasingly well fits the current needs of Chinese stakeholders. Swedish companies should continue to leverage the Swedish brand to bring value to their business in China.

Brand Sweden is seen as slightly more valuable to consumer companies, of which 58 per cent of respondents rate it as a 4 or 5 on a 5-grade scale, compared to an 53 per cent average. It is also worth noting that respondents across different sectors are more similar in their perception of the value of the Swedish brand to their China business this year than they were in last year's survey.



**Question:** To what extent do you estimate that the "Swedish brand" contributes to your business in Mainland China? [Single choice] [N=89]  
**Note:** Do not know/Not applicable responses are excluded from the weighted average calculations, resulting in adjusted N-value seen below.

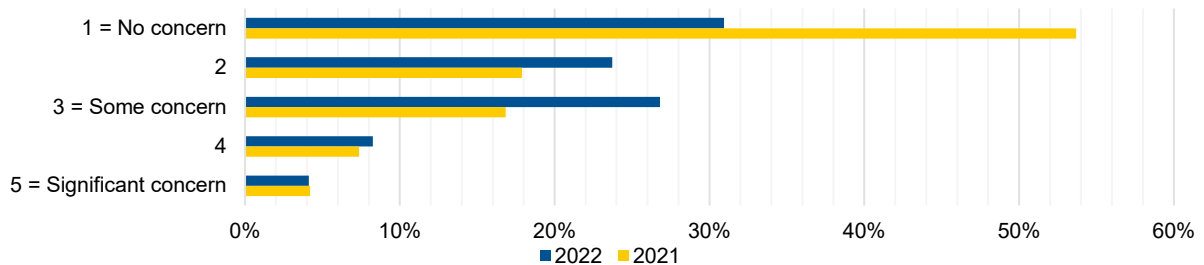
# SUSTAINABILITY

## Swedish companies increasingly concerned of ability to do business in China given company code of conduct

There is increasing concern among Swedish companies about the ability to do business in China given the company code of conduct. Almost two thirds of companies (63 per cent) expressed such concern in 2022 – up from 46 per cent last year. When asked to assess the impact on a scale from 1 (no concern) to 5 (significant concern), the average ends up at 2.1, up from the 1.9 average in last year's survey. However, the amount of companies expressing significant concern is unchanged from last year, at 4 per cent.

### IMPACT OF CODE OF CONDUCT ON ABILITY TO DO BUSINESS IN CHINA

Question: To what extent are you concerned about your ability to do business in Mainland China given your company's code of conduct? [Single choice, 1-5] [N=97]



Note: Don't know/Not applicable responses are included but not shown in figure (6 per cent).

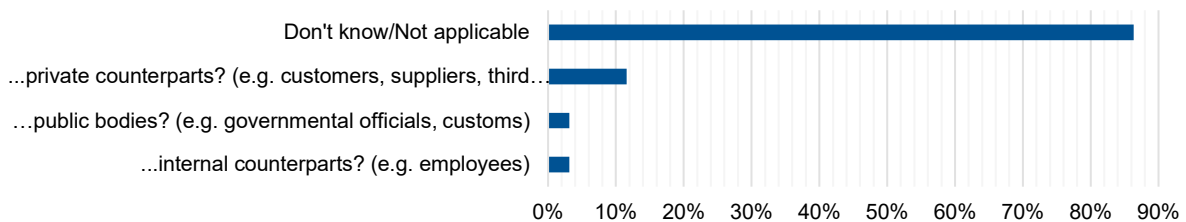
## Majority of Swedish companies unaffected by corruption, but one of ten exposed in contact with private counterparts

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 situation has improved with less challenges experienced from corruption. The fruit of these efforts can be seen in this survey, where an absolute majority (86 per cent) of respondents appear unaffected by corruption. However, more than one in ten companies (12 per cent) have been exposed to corruption in dealings with private counterparts. Exposure to corruption is largely similar across all company sizes and sectors.

For global context, in 2021, China ranked 66th on the Transparency International's Corruption Perception Index, beating the global average score by a small margin. While that is great progress from 2020 (78<sup>th</sup> place, scored three points lower) – not to speak about the last decade – the survey findings indicate that there is still work to be done to properly address corruption in China.

### EXPOSURE TO CORRUPTION IN CONTACT WITH DIFFERENT ACTORS

Question: In the past year, has your company in Mainland China been exposed to corruption such as, but not limited to, attempts of bribery or fraud in contacts with... [Multiple choice] [N=95]



Note: Other, please specify responses are included in the Don't know/Not applicable category as they were all (2 per cent) variations of "no".

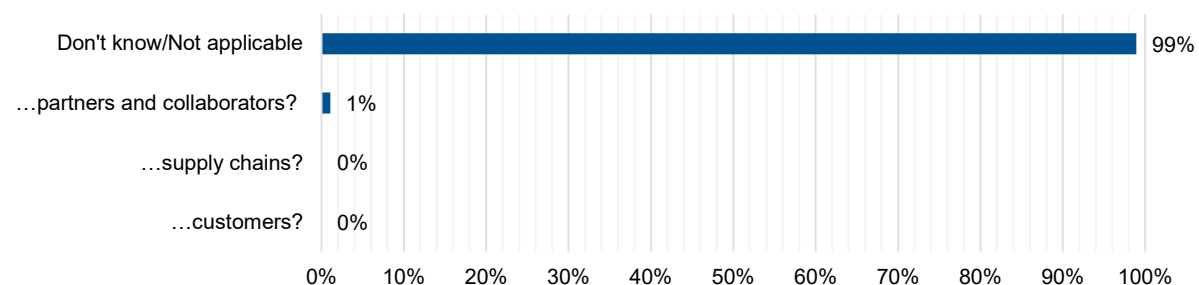
## Only one per cent of Swedish companies aware of exposure to human rights / labour rights violations in China operations

In response to this year's survey question on issues regarding human rights violations and/or labour rights abuse, an overwhelming majority of respondents (99 per cent) said that they have not encountered or don't 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 a growing concern over the Chinese government's record when it comes to human rights issues.

### EXPOSURE TO HUMAN RIGHTS VIOLATIONS OR LABOR ABUSE IN CONTACT WITH DIFFERENT ACTORS

Question: 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... [Multiple choice] [N=94]



**Note:** Other, please specify responses are included in the Don't know/Not applicable category as they were all (3 per cent) variations of "no".

## Green transport and access to clean energy top environmental challenges for Swedish companies in China

In September 2020, President Xi Jinping announced that China aims to peak carbon emissions before 2030 and achieve carbon neutrality before 2060. Since then, environmental concerns and climate change are increasingly on the minds of Chinese policymakers, and the government is looking to private business (foreign and domestic) to do their part. Instinctively, this looks to be an area of great potential for Swedish companies, most of which have already set their own – more ambitious – carbon and climate goals.

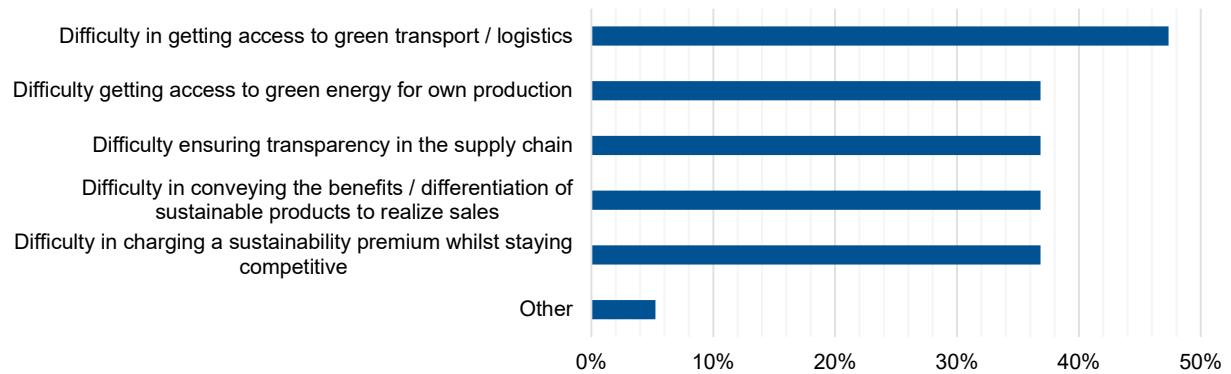
Against this backdrop, it is discouraging to see that one of five (19 per cent) Swedish companies say that they have experienced challenges when it comes to their environmental efforts in China. For some company segments, that number is significantly higher: 35 per cent of large companies say they have experienced such challenges.

There's an even spread among challenges faced in the environmental efforts of Swedish companies, though access to green transport is a problem for almost half (47 per cent) of companies experiencing challenges. However, problems faced vary across sectors, for example, 64 per cent of industrial companies said they had difficulty in charging a sustainability premium whilst staying competitive – which neither consumer nor professional services companies had a problem with.

Several respondents underlined that, as China uses a coal-heavy energy mix, it is hard to be carbon emissions compliant when access to clean energy is difficult. Another area of concern for many were the lack of access to emissions data from suppliers or logistics providers. Several respondents also noted that their own internal tough environmental standards put them at a disadvantage vis-à-vis their domestic counterparts in China and that market/customer demand for sustainable products is not yet strong enough to offset this difficulty.

## ENVIRONMENTAL CHALLENGES EXPERIENCED BY SWEDISH COMPANIES IN CHINA

Question: What challenges do you experience in your environmental efforts in Mainland China? [Multiple choice] [N=19]



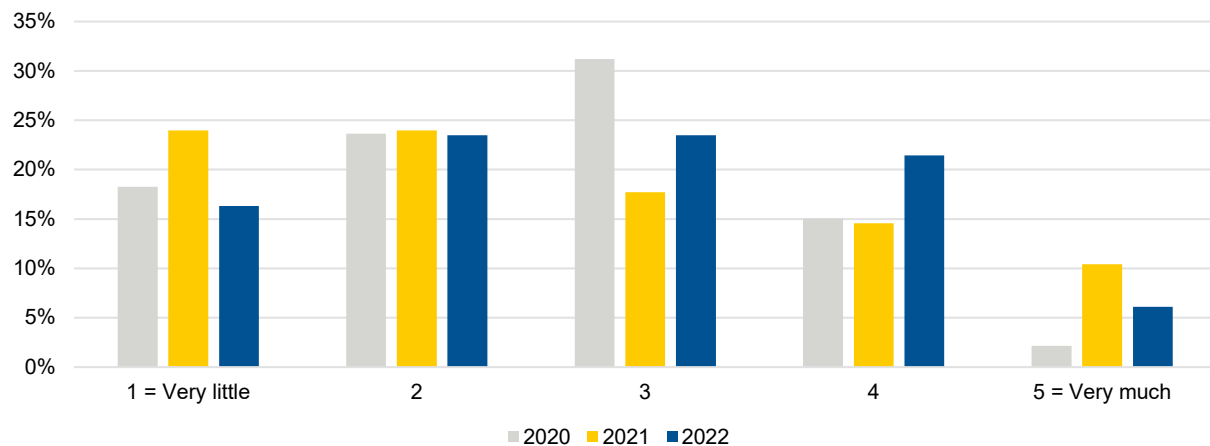
**Note:** Other, please specify changed to Other in figure.

The results from the consumer awareness question seems to confirm this conclusion. While Swedish firms reported a higher share of customers that care much or very much about environmental aspects in their purchasing decisions (28 per cent) compared with previous years (25 per cent in 2021 and 17 per cent in 2020), 40 per cent of customers still care very little or little about this aspect. The customers caring the most about the environment in their purchasing decisions are those of consumer companies.

These findings indicate that there is still some way to go until political agendas are converted fully into business realities and / or customer priorities.

## SWEDISH COMPANIES' PERCEPTION OF ENVIRONMENT AND SUSTAINABILITY IN CUSTOMER PURCHASING DECISIONS

Question: 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? [Single choice, 1-5] [N=98]



**Note:** Don't know/Not applicable responses are included but not shown in figure (9 per cent).

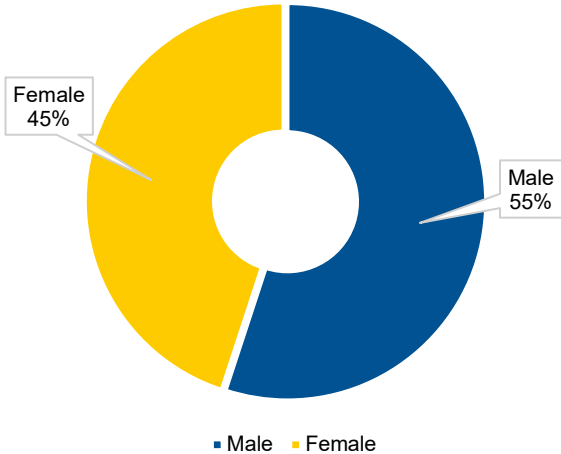
# SWEDISH COMPANIES IN CHINA

## Women make up 45 per cent of the workforce at Swedish companies in China, expat share decreased to 0.9 per cent

According to this year's survey, women make up almost half of the workforce at Swedish companies in China (45 per cent). That is a significant improvement over the past three years, when survey respondents have indicated a female employment rate of between 27 per cent to 36 per cent. Most likely, companies have not gone on a hiring spree for women since last year's survey, but the stark difference in numbers reflects a different setup of respondents. Consumer companies are the most equal employers, with a 52/48 split between men and women.

### EMPLOYEE STRUCTURE OF SWEDISH COMPANIES IN CHINA

Question: Please estimate the number of male / female employees (full-time resources) your company has in Mainland China? [Single choice] [N=95-96]



The proportion of expatriates continued to decline in 2022. Only 0.9 per cent of employees at Swedish companies in China were expats, down from 1.5 per cent in 2021 and 2.7 per cent in 2020. Small companies have the highest share of expats, at 4.5 per cent (up from 4.1 per cent in 2021).

The decrease in this employee group is most likely due to the continued impact of China's policy response to the Covid-19 pandemic. Several companies noted that China's restrictions on international travel (including long and strict quarantine requirements for inbound travellers) are taking a larger-than-average toll on foreign employees, many of whom have not been able to visit family or friends outside of China since before the start of the pandemic.<sup>4</sup>



**Note:** The number of responses to the question "Please estimate the number of expat male / expat female employees (full-time resources) your company has in Mainland China? [Single choice] was 83-92.

<sup>4</sup> More on foreign staffing on page 15.

## Continued focus on marketing / sales and after-sales / support for Swedish companies in China in 2022

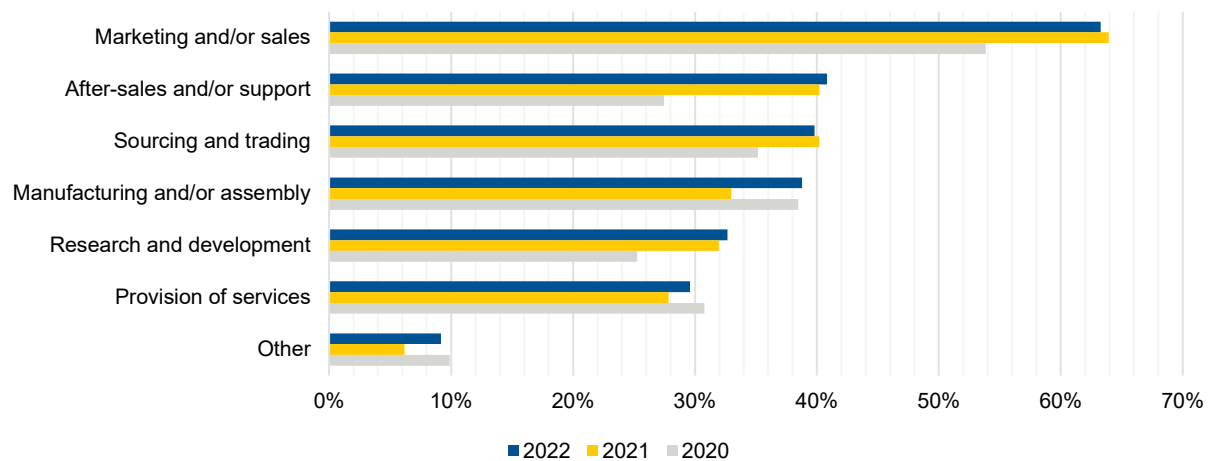
China is an important market for many Swedish and global companies, both with a strong domestic market as well as a geographically strategic position in the region. In line with last year's findings, marketing and sales remain Swedish companies' most frequently used functions in China, at 63 per cent (64 per cent), followed by after-sales and/or support, at 41 per cent (40 per cent), and sourcing and trading, at 40 per cent (40 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 include 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.

It is worth noting that the drop seen in manufacturing and/or assembly in last year's findings looks to have been due to respondent base and not to an actual shift in business functions.

### BUSINESS FUNCTIONS CARRIED OUT BY SWEDISH COMPANIES IN CHINA

Question: What operations do you carry out in Mainland China? [Multiple choice] [N=98]



Note: Do not know/Not applicable responses are included but not shown in figure (0 per cent).

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

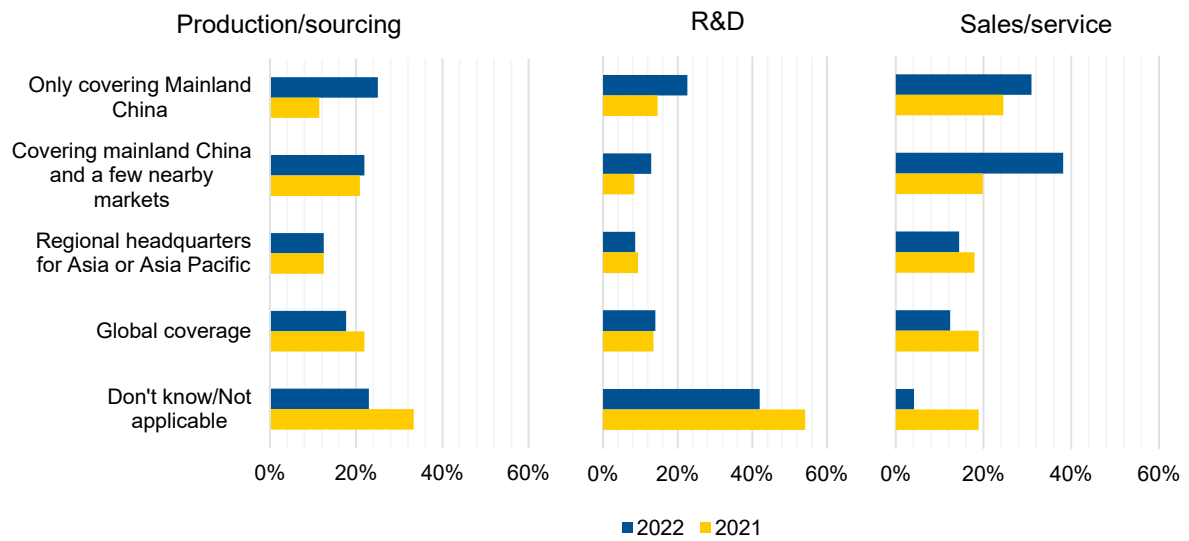
For Swedish companies in China, the local focus across all operational categories has increased notably since last year. Production and sourcing is up from 11 per cent to 25 per cent, R&D is up from 15 per cent to 23 per cent, and sales and services is up from 25 per cent to 31 per cent. It is important to keep in mind, however, that whether this shift is due to a more fragmented global marketplace – stemming from Sino-western tensions and the economic fallout from the Covid-19 pandemic – or to a different respondent base in this year's survey is hard to tell. It is also possible the higher numbers reflect an intention among Swedish companies to localise to be closer to customers or to 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 lower than both production and sourcing (18 per cent) and sales and services (19 per cent), despite the share of both of these categories declining compared to last year.

Swedish companies' sales and services function in China is primarily focused on China and neighboring countries according to over two thirds of respondents, up significantly from last year. The China operations also act as a regional HQ for one in seven companies. This indicates a growing regional importance of the China organisation from a sales and services perspective.

### ROLE OF CHINA FOR DIFFERENT OPERATIONAL FUNCTIONS OF SWEDISH COMPANIES

Question: What is the role of Mainland China for your company for the following areas? [Single choice] [N=93-97]



**Note:** In the 2021 survey, sales and services were separately polled. To enable comparison with the 2022 data, the highest number of either sales or services for each category is being used, with N=106.



# ABOUT THE REPORT

The Business Climate Survey for Swedish Companies in China 2022 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, and the Swedish Chamber of Commerce in China.

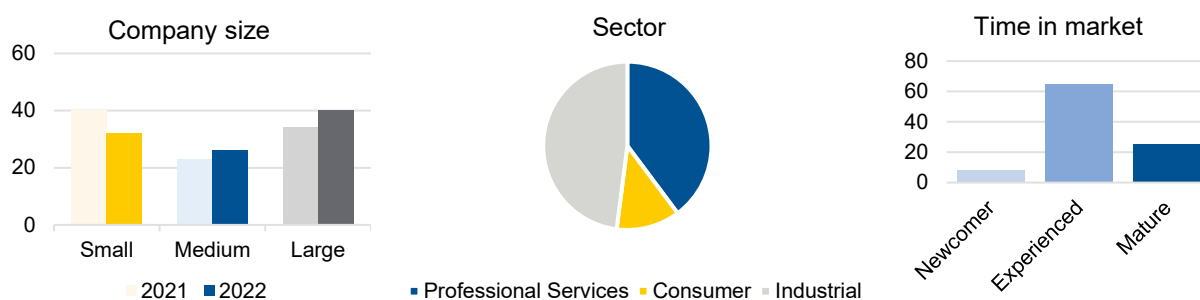
The Business Climate Survey is published regularly in several markets across the world. In Mainland China, the survey has been carried out since 2000. The purpose of the survey is to better understand the performance of Swedish companies, the challenges and opportunities they face, as well as their outlook 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 affiliation to Sweden. With participation of high-level representatives from almost 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. 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 2022 survey was conducted among member companies of the Swedish Chamber of Commerce between March 24 to April 14, 2022. The response rate was 55 per cent (51 per cent), with 98 (97) out of 177 (191) 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 eight per cent of respondents having established operations in China 2017 or after. The firms are categorised in the report based on size (global employees) and on sectors.



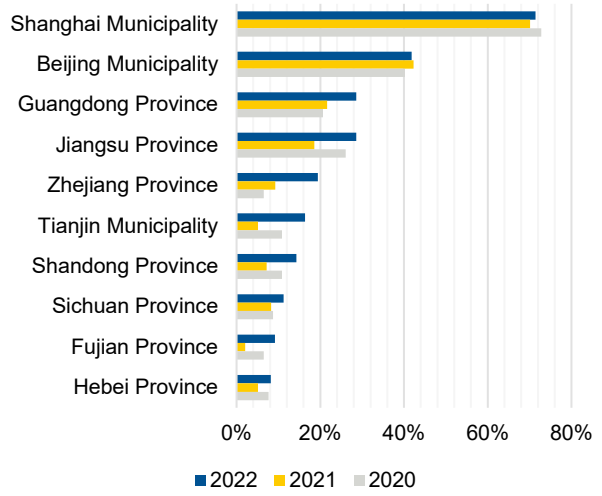
**Note:** The number of respondents for these questions were 98. Corporate size refer to global employees where Large >1000, Medium 250-1000, and Small 0-249. Time in market refer to year established in the Chinese market, with mature (>2000), experienced (2001-2016), and newcomer (2017-).

The respondent base was overall similar to last year but saw a slight change with regards to sectors, where the share of professional services companies is smaller this year (40 per cent compared with 46 per cent) and the share of industrial companies is larger (48 per cent compared with 37 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, totaling 31 per cent of all respondents. The automotive sector has seen an uptick in respondents, totaling nine per cent of all respondents (six per cent in 2021).

Similar to previous years' studies, the majority of Swedish companies who responded to the Business Climate Survey remain in the developed coastal regions of China, such as Shanghai, Beijing, Guangdong and Jiangsu, whereas the inland regions of China still show limited presence from Swedish companies.

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

Question: Where in Mainland China is your company currently present? (Factory/sales office/service office/retail shop/distribution centre, etc.) [Multiple choice][N=98]



# CONCLUDING REMARKS

The 2022 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.

Since this year's survey was conducted, outbreaks of the highly contagious omicron strain of Covid-19 in several locations in China (most notably Shanghai) have triggered strict containment efforts that has led to large interruptions for both companies and individual. As of writing, efforts to contain the spread of the virus is still ongoing in many cities. While the full repercussions on the Chinese economy of the zero- Covid policy are not yet clear, Beijing's ambitious goal of achieving "about 5.5 per cent" GDP growth in 2022 looks increasingly challenging. In these uncertain times, it will be important for firms to balance current operational adjustments with longer term plans and strategies, to stay relevant and not get derailed. But it will be equally important for Chinese authorities to continue with reforms which support a fair, transparent, and sustainable business climate – for Chinese and foreign business alike.

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.



# Team Sweden

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