SURVEY OF DANISH COMPANIES IN CHINA

CHALLENGES AND OPPORTUNITIES
MAY 2022

EMBASSY OF THE KINGDOM OF DENMARK, BEIJING

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Preface

In November/December, 2021, the Danish Embassy and Danish missions in China, the Danish Chamber of Commerce (DCCC), Danish-Chinese Business Forum (DCBF) and the Sino-Danish Center for Education and Research (SDC) jointly launched the second comprehensive survey of Danish companies in China.

Since the first survey in 2020 Danish exports to China has grown and China became Denmark's fifth largest export market in 2021, but traditional cross-border trade statistics only tell part of the story that links the Danish business community to China.

Therefore, the survey once again intends to provide policy makers and company executives with information which can guide decisions and priorities in the years to come by providing comprehensive data on the views and assessments of the executives representing the Danish business community in China.

For the same reason the aim has been to keep the format and structure of the original survey to ensure comparison and provide valuable insight into the development of the Danish business community's business sentiment in China over the past two years.

Since the release of the first survey in 2020 Danish companies have internationally demonstrated great adaptability during the COVID-19 pandemic and in the way, they have handled strained global supply chains and labour shortages. Thus, the activities of Danish companies in China, although encountering hurdles and challenges in the local business environment, continue to play a significant role for the Danish business community and their global competitiveness.

Nevertheless, as reflected in this report, it has become clear that the Russian invasion of Ukraine and the disrupting effects of the latest COVID-19 outbreak in Shanghai and China has had a significant impact on trade, supply chains and business confidence in China.

Beijing, May 2022

Thomas Østrup Møller
Ambassador of Denmark to China

Key Takeaways

PROFILE OF DANISH COMPANIES IN CHINA

- 130 Danish companies in China were invited to participate in the survey in November/December 2021. 72 companies responded resulting in a response rate of 55 pct.

- In light of the Russian invasion of Ukraine and the disrupting effects of the latest COVID-19 outbreak in Shanghai and China, an additional flash survey was conducted in order to supplement the initial findings. The survey was conducted between 18 April and 6 May, 2022. 65 companies responded resulting in a response rate of 50 pct.

- 92 pct. of the respondents had a legal entity in China. Since 2000, on average 2.2 companies per year have established their first legal entity in China.

- The survey indicated that the location of Danish companies in China are mainly in or around Shanghai and Beijing.

- 43 pct. of respondents represents large companies (250+ employees). This is a relatively high share compared to the population of Danish export companies of which only 6 pct. are large.

- The most common activities for Danish companies in China are related to sales and customer services, respectively 81 pct. and 71 pct. reply that their company has these activities. This indicates that the Chinese market is still more than a manufacturing hub for Danish companies.

- Danish companies in China predominately hire Chinese nationals. The median respondent has 56 Chinese employees, one Dane and no employees of other nationality. A fourth of the respondents say that the number of employees of Danish or other nationality has decreased during the past two years, mostly due to problems with retention and a desire to localize staff. 60 pct. of the respondents express that they intend to further increase the number of Chinese employees in the next two years. Only 15 pct. intend to increase the number of employees of Danish or other nationality.

THE IMPORTANCE OF CHINA

- China ranks as a top three market for almost half the Danish companies based on turnover in 2020 (as opposed to 42 pct. in 2018). The respondents expected the importance of China to grow so that in two years China will become the largest market for 21 pct. and in top three for 63 pct.

- 83 pct. of the respondents believed that their activities in China were crucial for their company's overall (global) performance.

- 58 pct. of the respondents believe that a higher share of their companies' turnover is generated in China today compared to two years ago. The respondents were also optimistic about the financial outlook, and 62 pct. believed that the share of turnover generated in China would increase in the coming two years with only 10 pct. believing it would decrease.

- When asked to reflect on the same question in April/May 2022 the number of respondents who expected that the proportion of turnover generated in China would decrease had grown from 10 pct. to 25 pct.

- 60 pct. of the respondents' companies have strategic collaboration with external partners located in China. The most common type of strategic collaboration partner are corporate customers and service providers.

- 65 pct. of respondents planned to significantly increase capacity in China in the next two years. Most respondents planned to increase capacity both in terms of personnel and investment in assets.

- When asked to reflect on the same question in April/May 2022 the proportion of respondents who planned to significantly increase capacity in China in the next two years had decreased to 48 pct.

- 58 pct. of the companies have prioritized to have China insight or expertise on the Board of Directors.

CHALLENGES FACED BY THE DANISH BUSINESS COMMUNITY IN CHINA

- The respondents have a mixed opinion on the general market climate and the regulatory climate. Around 35 pct. of the respondents find that the regulatory climate in China has improved, while 31 pct. find that it has deteriorated. Most companies (62%) find that the competitive situation of Chinese companies has improved.

- The respondents also have mixed views on the future outlook of the business climate. 67 pct. of the respondents believe that local competition will increase in the next two years, and 43 pct. believe that the general market climate and regulatory climate will improve.

- 40 pct. of the respondents experience challenges within human resources. These challenges are mainly caused by the Chinese regulation being out of line with international standards or insufficiently enforced. The respondents find that it is difficult to get work permits for international employees.

- Challenges with intellectual property rights are also causing problems for a substantial share of Danish companies in China s(35%).

- Around half the respondents expressed that they experience supply chain issues. These issues are caused by global capacity constraint of shipping, trucking, warehouse capacity, price increases, delays and general uncertainty.

- When asked to reflect on the same question in April/May 2022 the proportion of respondents who experience supply chain issues had grown to 83 pct.

INNOVATION AND TECHNOLOGY

- 59 pct. of the respondents find that their activities in China are impacted by the digital development in China. The digital development in China mainly affects the companies' activities in the country through transactional/market and informational technology.

- 39 pct. af respondents find that technology and knowhow from China spread to other parts of the organization.

- Most companies (72%) have R&D activities within new product development. The main reason for the companies to prioritize R&D activities in China is a need for product adaption to the local market.

- Nearly half of the respondents find that the output from their company's R&D activity is at the same level as the global R&D activities, but 35 pct. find the output in China is lower or significantly lower. However, the companies have great expectation to their R&D activities in China. 41 pct. of respondents expect output to be higher in two years, while just 7 pct. expect it to be lower.

- Most respondents (55%) find that they cannot make decisions about R&D activities independently of global headquarters in Denmark.

About the survey

This report is published by the Danish Chamber of Commerce in China (DCCC), the Danish-Chinese Business Forum (DCBF), the Sino-Danish Center for Education and research (SDC) and the Embassy of the Kingdom of Denmark, based on a bi-annually survey amongst Danish companies with activities in China.

The purpose is to create an overview of Danish companies' activities in China, the opportunities and challenges they face, as well as how the companies see the outlook for their operations in China.

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

The first report was published in June 2020 and this survey thereby constitutes the second Survey of Danish Companies in China. As such, it also provides an updated snapshot on the perception of Danish companies' activities in China in 2021/2022.

The content of this report is based on the results of a comprehensive online survey conducted in November-December 2021. In light of the Russian invasion of Ukraine and the disrupting effects of the latest COVID-19 outbreak in Shanghai and China and the expected impact it will have on trade, supply chains and companies in China and all over the world an additional flash survey was conducted in order to supplement the initial findings. The survey was conducted between 18 April and 6 May 2022.

Corporate members of DCCC and DCBF were invited to participate in the survey provided they were Danish companies representing Danish commercial interests in China, i.e. had a Danish business registration (CVR). A total of 130 companies were identified, in many cases representing multiple legal entities in China. They range from small and medium-size companies (SMEs) to large multinational enterprises (MNEs) representing both manufacturing and service industries.

A total of 72 Danish companies participated in the survey in December 2021, followed by 65 participants in the add-on survey conducted in 2022. This is comparable in size to the survey from 2019, which had 71 participants.

In order to obtain a high response rate, which is an essential feature for high-quality results, in 2021 the survey was more condensed, compared to the original version from 2019, while keeping the appropriate questions to make comparisons over time possible.

The survey contains four chapters reflecting on: 1) size, location and activities of the responding companies, 2) the importance of China to the responding companies, 3) the challenges facing the Danish companies in China and finally 4) how they assess the technological development in China to affect their company and the performance of their company's R&D activity in China. In light of the need to conduct an add-on survey, an additional introductory chapter has been added, which reflects on the difference in business sentiment of Danish companies between December 2021 and May 2022.

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

Introduction

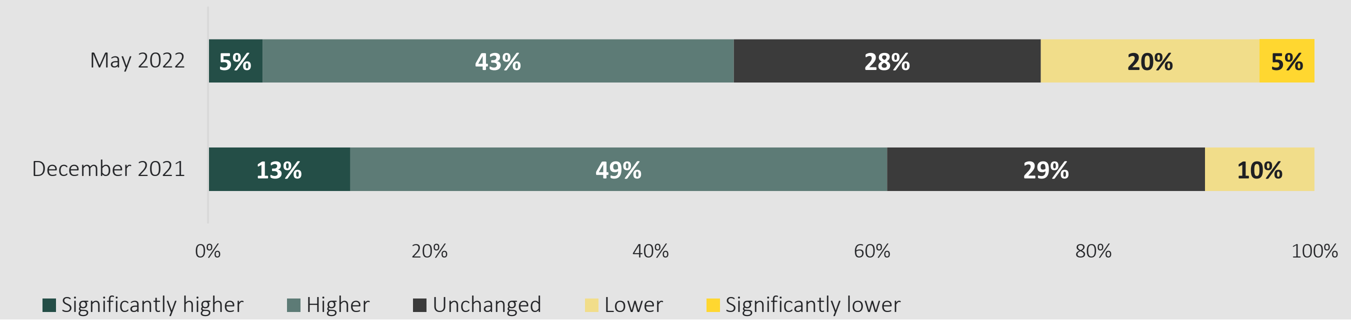
In light of the Russian invasion of Ukraine and the disrupting effects of the latest COVID-19 outbreak in Shanghai and China and the expected impact it will have on trade, supply chains and companies in China and all over the world an additional flash survey was conducted in order to supplement the initial findings from December 2021. This survey was conducted between 18 April and 6 May.

7 out of 10 companies expect growth to deteriorate due to COVID-19

Just below two-thirds of Danish companies in China indicated in December 2021 that the proportion of turnover generated in China would increase in the coming two years. On the other hand, one in ten expected the Chinese market to play a smaller role in the same time span.

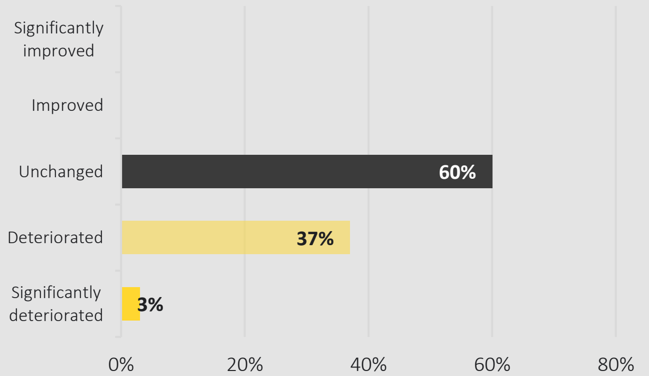
When asked to reflect on the same question in April/May 2022 the number of respondents who expected that the proportion of turnover generated in China would decrease had grown from 10 pct. to 25 pct.

In the next 2 years will the percentage of your company's global turnover generated in China be:

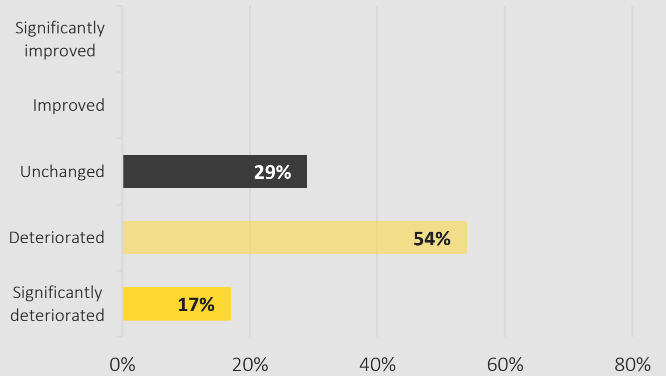


Thus, confidence in the Chinese market has clearly diminished following the Russian invasion of Ukraine and the latest COVID-19 outbreak in Shanghai and China. When asking the respondents to reflect on to what extent each of the two occurrences affected the companies' expectations toward turnover generated in China in the next two years, below figures clearly show that both incidents have had a significant influence on the respondents' expectations.

May 2022: To which extent has the Russian invasion of Ukraine affected your expectation towards turnover generated in China in the next 2 years?



May 2022: To which extent has the COVID-19 outbreak in March in Shanghai and China affected your expectation towards turnover generated in China in the next 2 years?

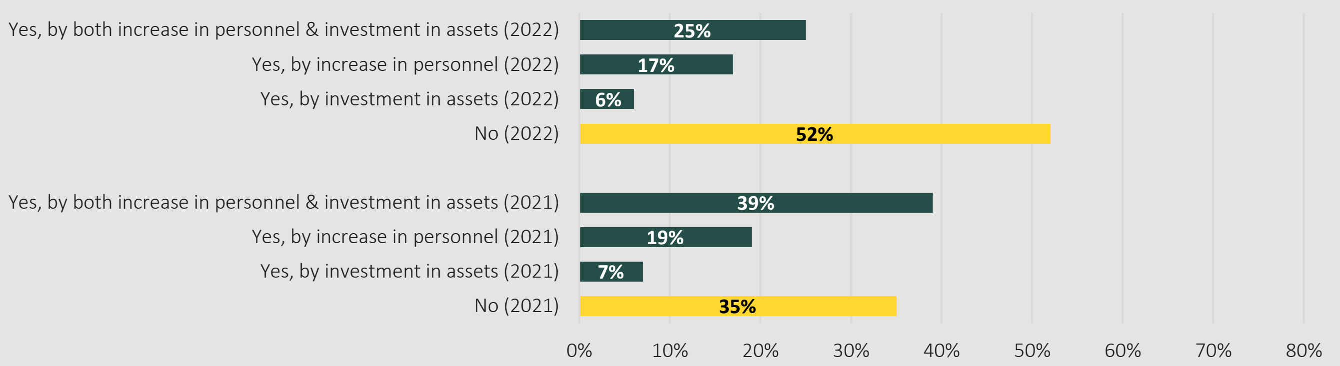


More than seven out of ten of the surveyed companies indicate that the COVID-19 outbreak in March 2022 in Shanghai and China have deteriorated or significantly deteriorated their expectations towards future turnover in China in the next two years.

Investment plans put on hold or scaled back

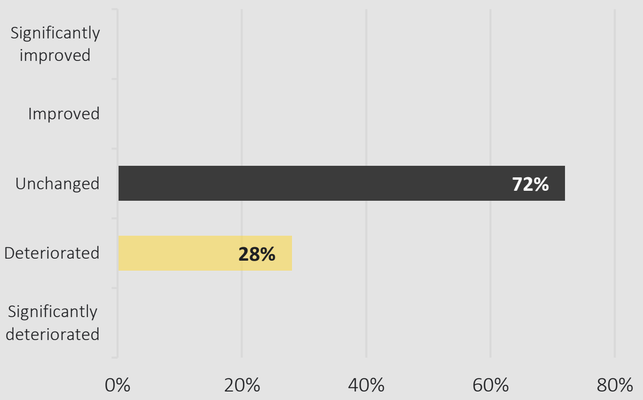
At the time the second survey in 2021 was conducted, the vast majority – two-thirds (down from three quarters in 2019) – of Danish companies planned to increase capacity investments in China significantly. Most companies expected the capacity increase to include more investment in both personnel and assets. Conversely, less than 6 pct. expected to decrease capacity in China. This indicated that Danish companies, at the time, still showed a strong commitment to the Chinese market, although the numbers had dropped slightly since the first survey was published in 2020.

Does your company plan to significantly increase capacity in China in the next 2 years?

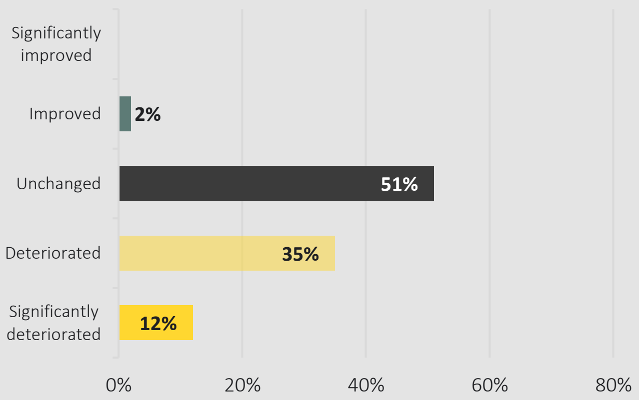


Once again, the surveyed companies indicate that their confidence in the Chinese market has clearly declined following the Russian invasion of Ukraine and the COVID-19 outbreak in Shanghai and China. The proportion of companies who no longer plan to significantly increase capacity in China in the next two years has increased by 17 pct. points over the time span of only four months.

May 2022: To which extent has the Russian invasion of Ukraine affected your company's plan to increase capacity in China in the next 2 years?



May 2022: To which extent has the COVID-19 outbreak in March in Shanghai and China affected your company's plan to increase capacity in China in the next 2 years?



When assessing the root cause of the decline in investment plans then, similarly to the respondents' expectation for future turnover, it is the COVID-19 outbreak in March in Shanghai and China, which has the largest effect, albeit both events still have a significant impact based on company feedback. That 47 pct. of companies indicate that the

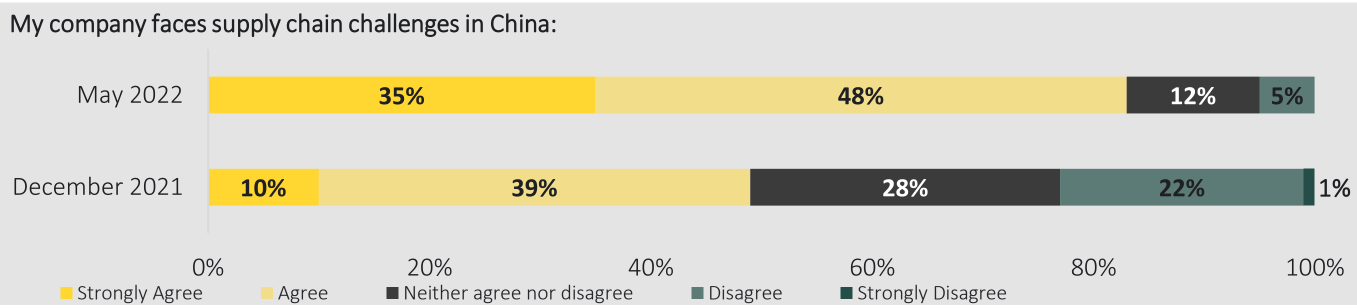
COVID-19 outbreak has a deteriorating or significant deteriorating effect on their plans to increase capacity in China is in stark contrast to the fact that in December 2021 only 5 pct. of all surveyed companies indicated plans to decrease capacity in the coming two years.

Supply Chains hit hard

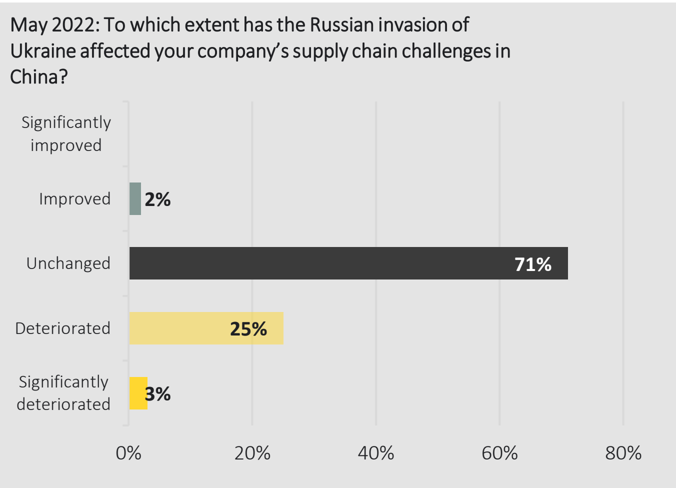
Respondent clearly indicate that they face increased supply chain challenges between the conclusion of the second comprehensive survey and the time of the add-on survey. More than eight out of ten surveyed companies now indicate that they agree or strongly agree that they face supply chain challenges in China, which is an increase of 34 pct. point in the time span of only four months.

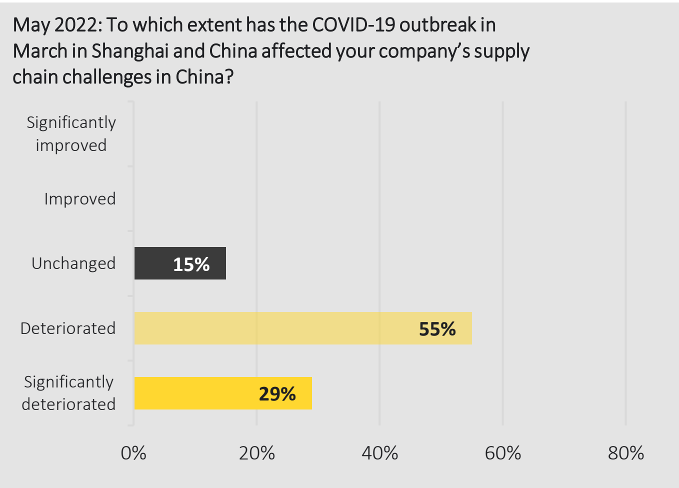
In December 2021, responses to the second comprehensive survey indicated that 29 pct. of the companies was divesting in China in order to build resilience in supply chains outside of the country. Although this question was not repeated in the add-on survey, it is probably fair to assume that the proportion of companies considering divesting in China in order to build resilience in their supply chains has increased since then and most likely also affected the previous plans to increase capacity.

Especially since most Danish companies indicate that, they are in China for both the Chinese and other global markets. At the time of the survey in December 2021, 92 pct. of all companies surveyed indicated that their manufacturing activity in China is intended for other markets than China or a combination of the Chinese market and abroad. Furthermore, 80 pct. of the surveyed companies replied that their sourcing activity in China was mainly intended for other markets or a combination of the Chinese market and abroad.



It is again the latest COVID-19 outbreak and its spillover effects in Shanghai, which has the largest effect on companies increased supply chain challenges. This is not surprising given how decreased logistical capacity has affected companies' operations and their ability to receive components as well as to ship finished goods to customers in China and overseas.





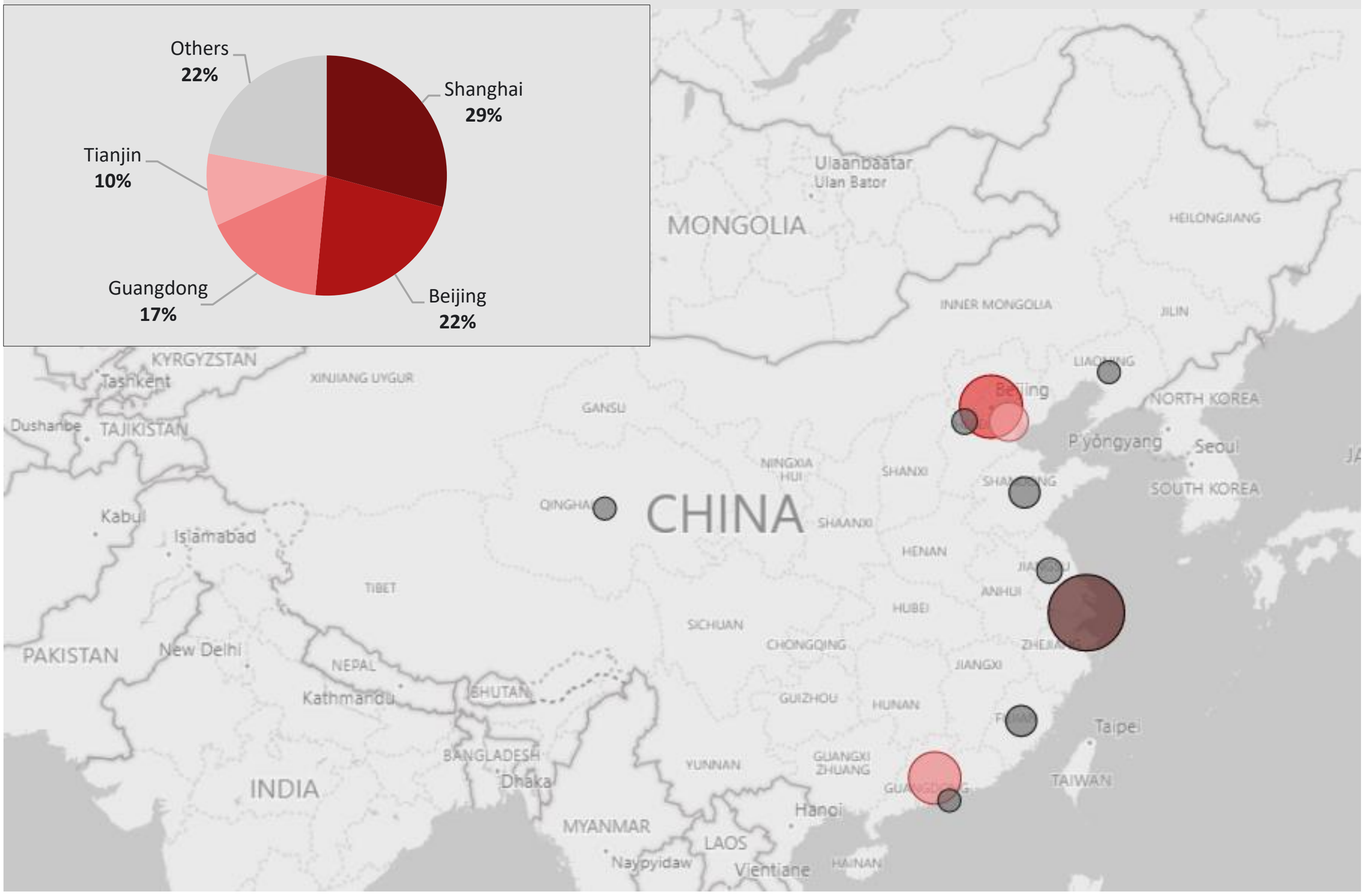
Chapter 1: A profile of Danish companies in China

Beijing and Shanghai remain the economic centres for Danish companies in China.

Unsurprisingly Danish companies are still located in or around the economic clusters of the Yangtze Delta (Shanghai) and the Beijing-Tianjin area.

The survey indicates that the China headquarter of Danish companies are predominantly based in Shanghai (29%) or Beijing (22%). As such, the two areas of Shanghai and Beijing constitute the geographical location of more than half of the respondent in this survey, with Guangdong (17%) and Tianjin (10%) following close, as shown on the map in Figure 1. Headquarters are to a lesser degree located in eastern and coastal provinces from Hebei in the North to Guangdong in the South.

In which province (or municipality) is your company's main China headquarters?



Background

Beijing and Shanghai are two of the four municipalities in China directly administered by the central government.

As the country's capital, Beijing is the political and cultural centre of the People's Republic of China. Beijing has a long history as centre of political and economic power and many headquarters of the largest Chinese companies are located in the city. A major part of the capital's economy belongs to the service sector, with financial services and information technology exerting growing influence. Together with surrounding Hebei province and Tianjin city, Beijing forms the Jing-Jin-Ji metropolitan cluster in Northern China.

Key Economic Figures Beijing (2021)

Total GDP	*4tr CNY*
GDP growth rate	*8.5%*
Population (2020)	*20.9m*
Per capita GDP	*184.000 CNY*
City with the highest number of unicorns in Asia	*Beijing*

Shanghai is the largest city in China and one of the largest cities in the world. It is located on the southern estuary at the mouth of the Yangtze river and forms a natural hub of the densely populated and economically advanced Yangtze river delta. The city is an important centre of trade and finance and furthermore China's most important gateway to the global world. Shanghai hosts the busiest container port in the world.

Key Economic Figures Shanghai (2021)

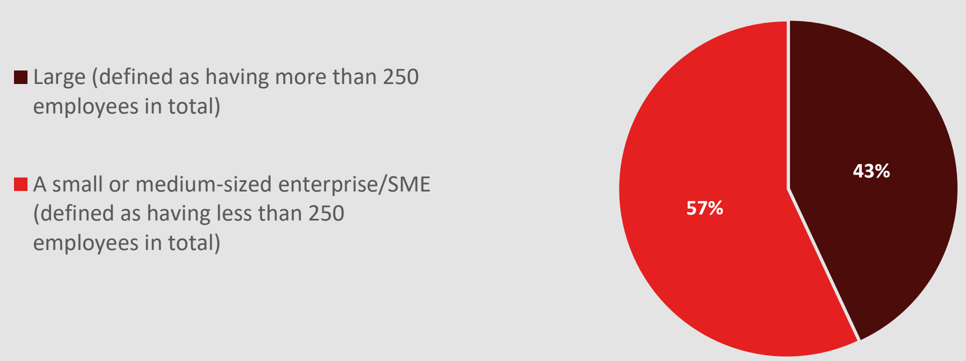
Total GDP	*4.3tr CNY*
GDP growth rate	*8.1%*
Population (2020)	*27.8m*
Per capita GDP (2020)	*173,600 CNY*
Share of Yangtze river delta in China's GDP (2020)	*23%*

Source: Statista

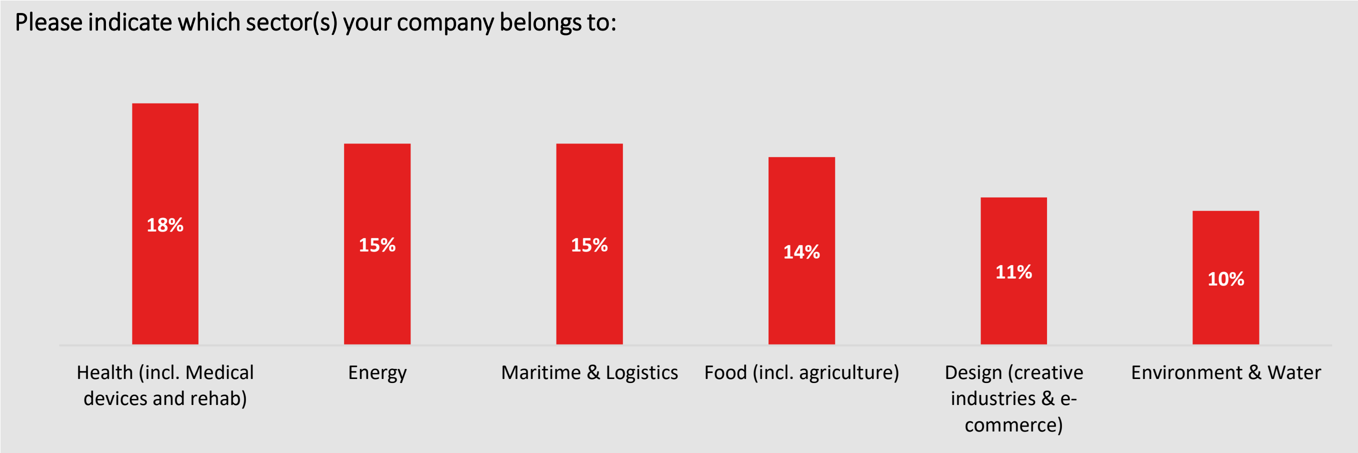
Activities in China

More remarkable is the fact that 43 pct. of the respondents in the survey represents a large company (250+ employees) as opposed to 57 pct. being SMEs. This is a relatively high share taking into account that only 6 pct. of Danish export companies are considered large companies.

Company size:

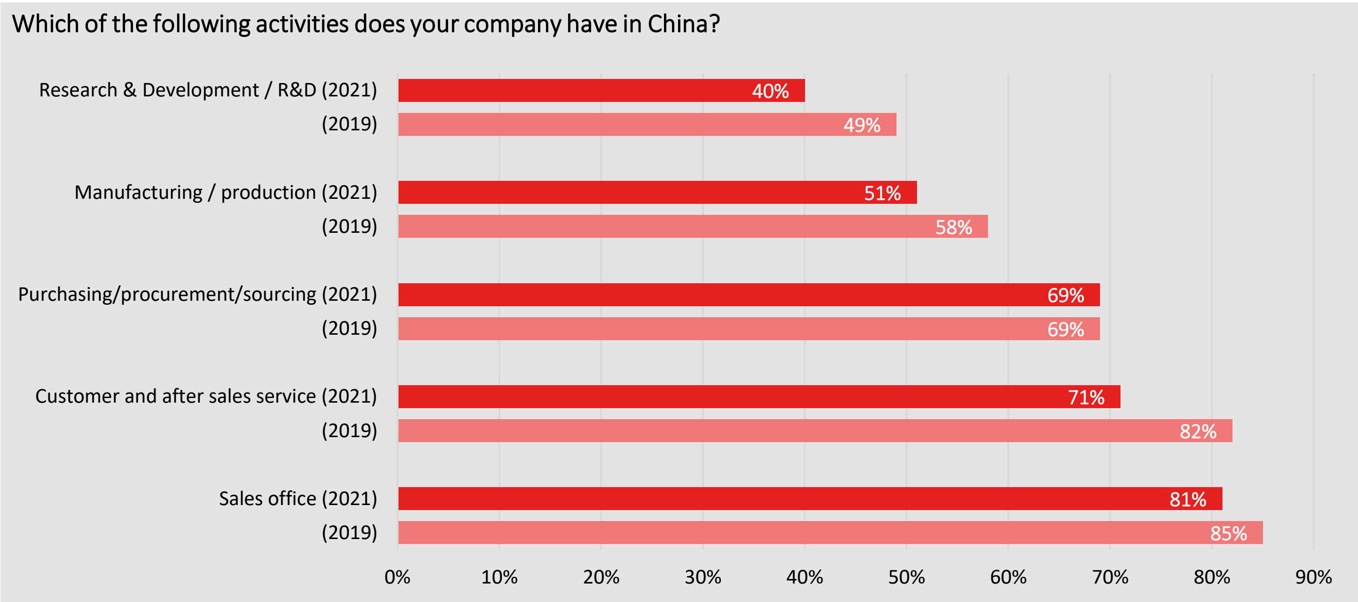


Almost a fifth of the responding Danish companies in the survey comes from the Health sector, which is therefore the most common sector. The second most prominent sectors are Energy (15%) and Maritime & Logistics (15%).



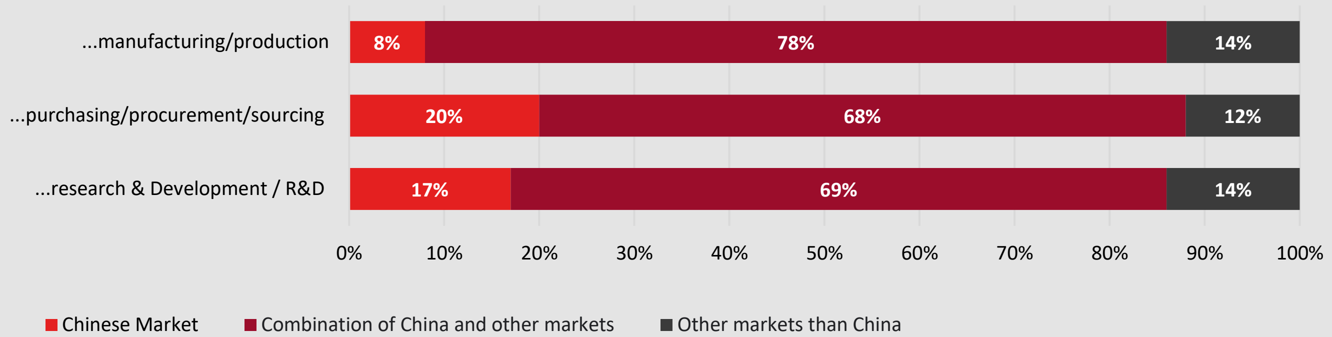
The focus of Danish companies' engagement in China has not changed drastically since the last survey. Sales operations continue to be the most common activity. Around 81 pct. of the companies sold their solutions in one or more locations in China in 2021, while a similar proportion of companies (71%) provided customer and after sales services.

More than two thirds of the responding companies report that they are engaged in procurement (69%), while a little more than half are engaged in manufacturing activities (51%). Finally, and perhaps more unexpected, is the fact that less than half the companies (40%) report having research and developmental activities in one or more locations in China compared to almost half in 2019.



The fact that sales, customer and after sales services remain the most common activities indicates that the Chinese market is more than a manufacturing hub for Danish companies. This is documented by the fact that the respondents' indicate that their business activities in China are not only targeted at supplying markets outside China but also the domestic market. Yet it is remarkable that very few respondents indicates that they only conduct manufacturing, sourcing and R&D in China for the Chinese market. The fact that 92 pct. of all companies surveyed indicated that their manufacturing activity in China is intended for other markets than China or a combination of the Chinese market and abroad indicates that Danish companies are not only in China for China. Furthermore, 80 pct. of the surveyed companies replied that their sourcing activity in China was mainly intended for other markets or a combination of the Chinese market and abroad.

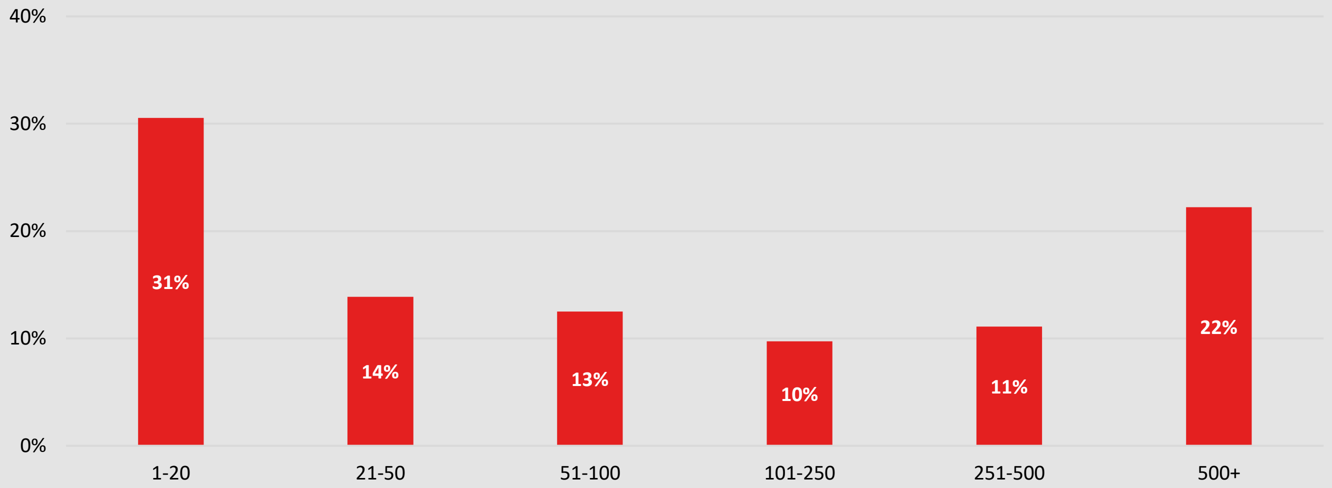
Please indicate whether this activity is mainly intended for the Chinese market, for other markets or for a combination:



Danish companies as employers

The Danish companies in China participating in the survey appear to be distributed across the whole size spectrum. A larger part tends however to be either relatively large employers or being in the smallest category with less than 1-20 employees. Similar to the results in the last survey, approximately half of the companies have less than 100 employees while a quarter have between 100 to 500 employees. Once again, about one in four, however, have more than 500 employees within their operations in China.

What is the approximate number of employees in your company in China: (including subsidiaries and/or sister companies in China)



As expected, all but a few of the staff employed by the participating Danish companies in this survey remains to be Chinese, with non-Chinese staff being divided almost equally between Danish and other non-Chinese expatriates. A later section will provide further details regarding Danish companies' plans for capacity changes, including changes to staff numbers.

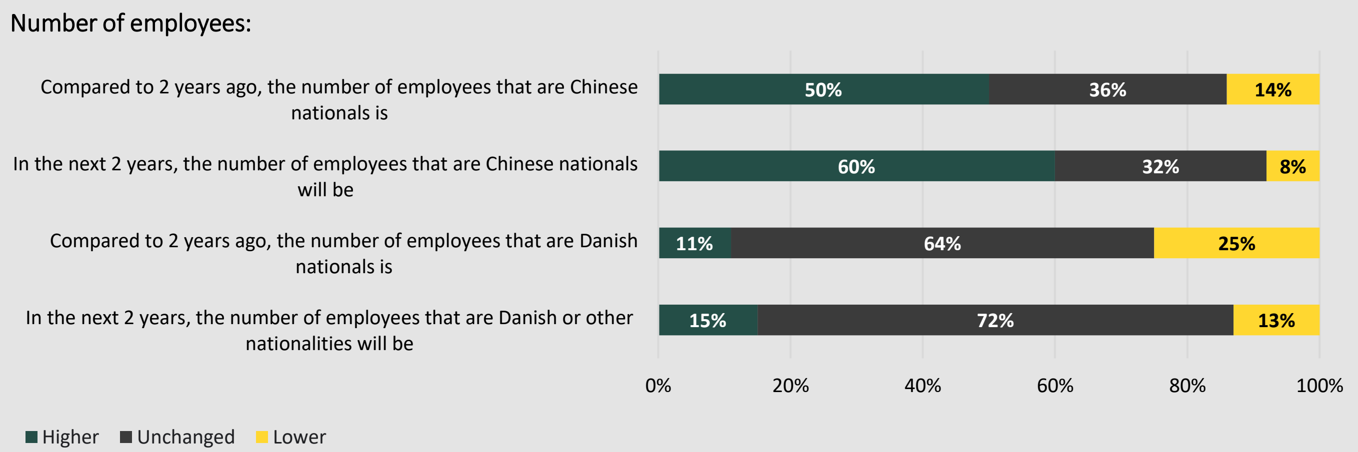
Employed nationality	Percent	Average	Median
Chinese	99.6%	665	56
Danish	0.2%	1	1
Other nationalities	0.2%	2	0

"The foreign populations of Shanghai and Beijing—locations that have historically had a higher density of foreign nationals from developed economies relative to the rest of China—dropped from 208,602 to 163,954 (0.59 per cent of the total) and from 107,445 to 62,812 (0.3 per cent of the total) respectively from 2010 to 2021."

Source: European Business in China – Position Paper 2021/2021 by the European Chamber of Commerce

Local employment in China expected to increase

Looking at the medium-term prospects of employment, almost two-thirds of the Danish companies in China indicated that they expected the number of local Chinese staff to increase within the next two years. A significant part of the companies expected the number of expatriate staff to remain unchanged.



For those indicating that the number of Danish or other international staff will increase argue that this is because foreign staff possesses knowhow, skills or experience required to perform a specific task, while a minor group of respondents indicate the importance of company culture or specific requirements from headquarters. No respondent indicated that the increase was due to difficulty in attracting local talent of sufficient quality.

For the small part of respondents indicating that the number of Danish or other international staff is decreasing, they indicate that this is partly due to problems with retaining foreign talent. Some also explain that they no longer need foreign talent, explaining that local talent has increasing relevance for their operations in China.

"Staff localisation is a natural process, and China has a large pool of talent with a good spread of vocational skills and professional training to fulfil most HR needs. However, the European business community notes that the steady decrease in the number of foreign workers is increasingly worrying, chiefly in terms of corporate culture and the value of diverse views in decision-making processes. Over the last five years, 35 pct. of respondents witnessed a decrease in the number of foreign workers at their company, while 18% had increased their foreign headcount. With COVID-related travel restrictions leaving many foreign residents stranded outside of China, while also making it extremely challenging for new talent to enter, the European Chamber anticipates that when this question is asked in the BCS 2022, these numbers will drop even further."

Source: European Business in China – Business Confidence Survey 2021 by the European Chamber of Commerce

Wholly foreign-owned companies the preferred type of legal entity

As expected the corporate structure of Danish companies in China has predominantly remained unchanged. Companies continue to be registered as wholly foreign-owned entities with a Danish company as ultimate beneficiary (80 pct. as opposed to 86 pct. of all respondents at the last survey). Similarly, the proportion of Joint Ventures with or without Chinese partners remains almost unchanged (currently 7 pct. as opposed to 6 pct. previously), while the amount of representative offices has dropped from 8 pct. to 3 pct. Half of the surveyed companies have more than one legal entity in China.

Chapter 2: The importance of China

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

China was crucial to the Danish business community

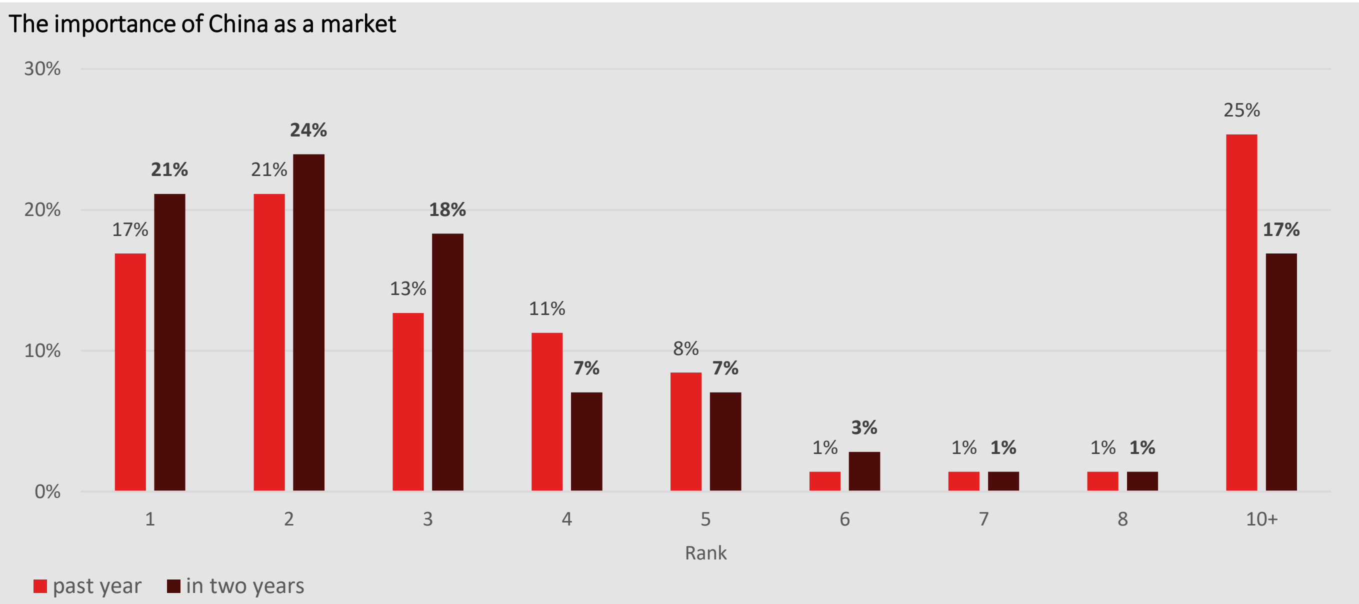
The companies' verdict was clear. More than four out of five companies with establishment in China (83 pct. compared to 79 pct. in 2020) stated that China was crucial to the overall global performance of these companies, almost half of all even strongly agreeing. Even more significant was the fact that only 4 pct. disagreed as opposed to less than one in four disagreeing when the survey was done in 2019.

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

China ranks as top three market for close to half the Danish companies

Ranking their markets based on turnover in 2020, 50 pct. of Danish companies in China (as opposed to 42 pct. in 2018) state that China is in the top three, while slightly less than one in five (17 pct. as opposed to 18 pct. in 2018) have China as their largest market for their global corporation.

The respondents expected the importance of China to grow so that in two years China will become the largest market for 21 pct. and in top three for 63 pct.



Danish companies in China, for China and the world.

The most common activities for Danish companies in China are related to sales and customer services, 81 pct. and 71 pct. respectively reply that their company is engaged in these activities. This indicates that the Chinese market is more than a manufacturing hub for Danish companies.

Furthermore, when asked to indicate whether the activity is mainly intended for the Chinese market or abroad, no more than 20 pct. (or below depending on category) of the respondents indicated that their activity in China was only intended for the Chinese market.

The increased significance of the Chinese market for Danish companies is also reflected in the Danish companies' priority towards having China insight or expertise on the Board of Directors, which was the case for 58 pct. of the surveyed companies. This is almost twice as much as last time the survey was conducted, where only about a third of the Danish companies reported that their Board of Directors had prioritized to have China insights or experience on-board. As such, it reflects on the increased importance of China, but possibly also the complexity of the interaction between China and global markets.

Turnover in China as proportion of global turnover more than 20 pct.

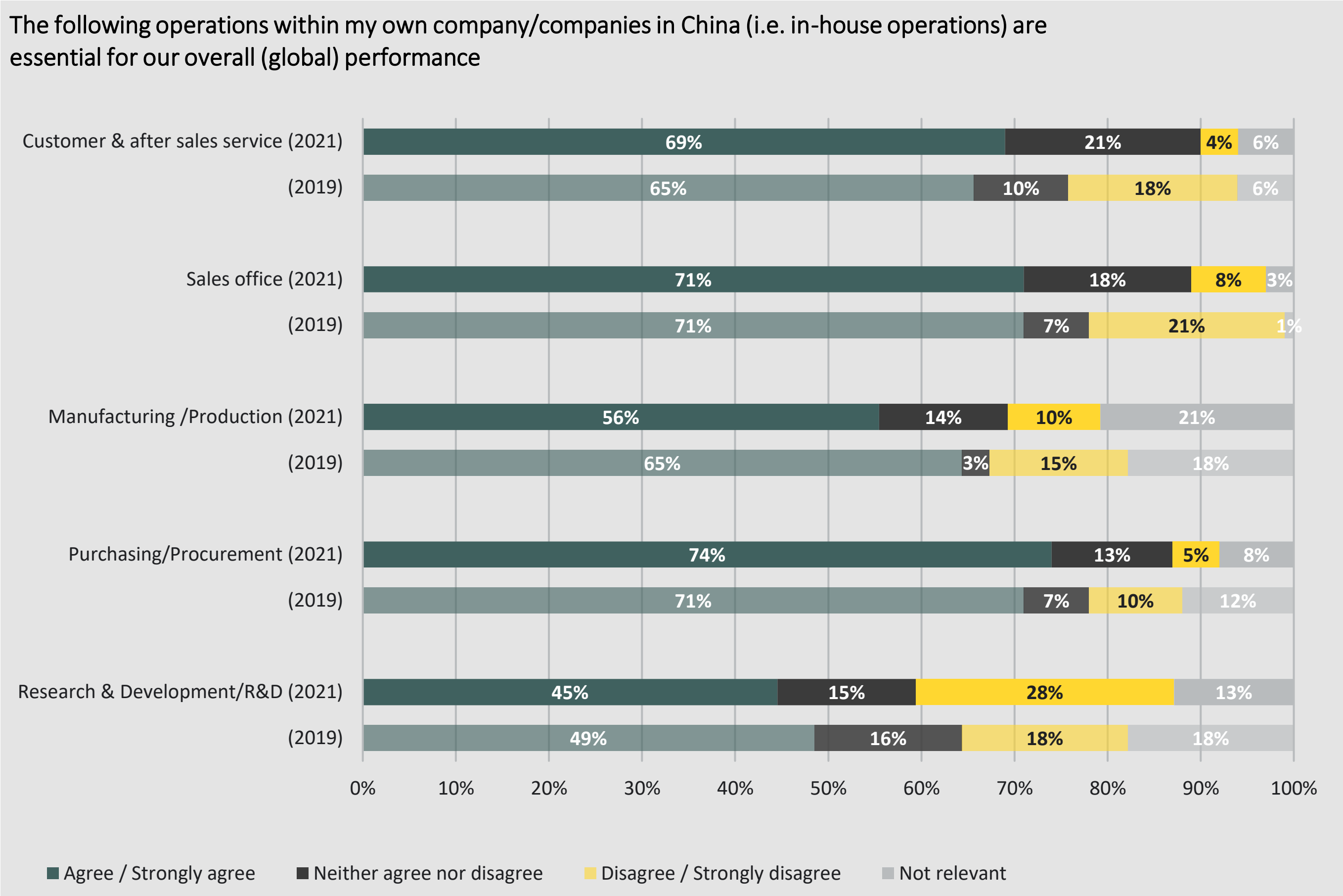
Using 2020 as a reference year, on average, more than a fifth of the respondents' turnover was created by their entities in China. In terms of progress, compared to two years ago, 62 pct. of the respondents believed that a higher share of their companies' turnover was then generated in China. Correspondingly, only 13 pct. believed that the percentage of their company's global turnover generated in China is lower or significantly lower than it was 2 years ago.

Turnover in China has and was expected to proportionally increase

Just below two-thirds of Danish companies in China estimated that the proportion of turnover generated in China would increase in the next two years. On the other hand, less than one in ten expected the Chinese market to play a smaller role in the same time span. Since then confidence in the Chinese market has clearly diminished following the Russian invasion of Ukraine and the latest COVID-19 outbreak in Shanghai and China, as mentioned in the introductory section of this report.

Sales and procurement activities crucial to most

All types of company activities in China are still deemed essential by the respondents, but procurement and sales activities remain at the top of the list. Sales and procurement activities are highlighted by more than two-thirds of respondents as operations within the company in China which remains essential for the company's overall (global) performance. R&D is perceived the least essential activity, and is the only activity where the respondents indicate a higher share of disagreement or strong disagreement to whether the operation within the company is essential for their overall (global) performance, compared to when the survey was last conducted. Yet, still 45 pct. of respondents find their R&D activity in China essential.

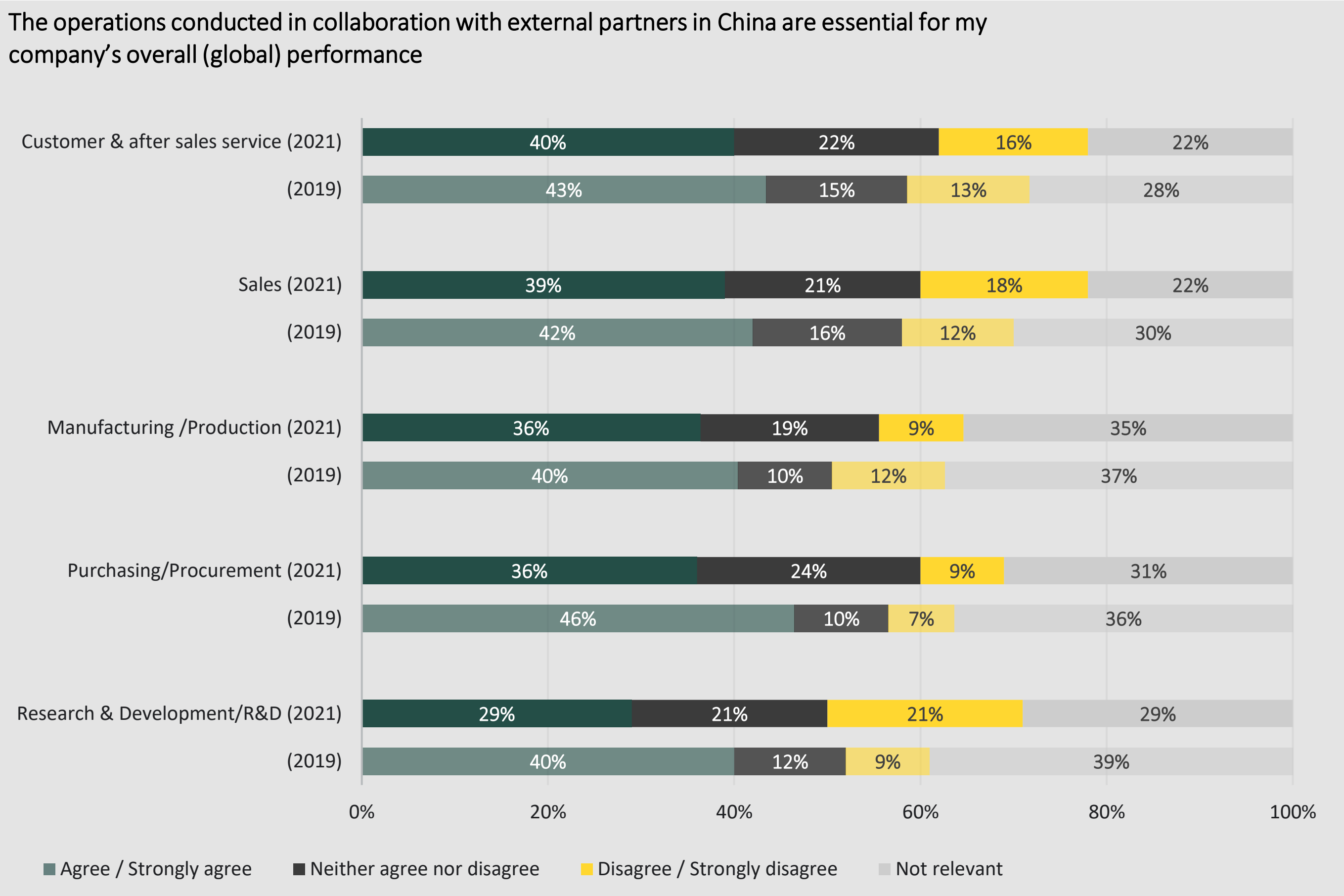


Companies still establish essential alliances with Chinese partners – but the trend is declining

Similar to the results in the last conducted survey more than half of all Danish companies in China (60 pct. in 2020) confirmed that they have strategic collaboration with external partners in China. However, when asked to indicate to which extent the respondent agrees to whether the operations conducted in collaboration with external partners in China are essential for the company's overall (global) performance the share of respondents who agree or strongly agree has dropped across all five categories, compared to 2019.

In 2021, alliances with local partners were most commonly within Sales and Customer & after sales service, as opposed to 2019, where such alliances were most common within procurement and manufacturing departments as well as within sales and services. Within both surveys, the respondents indicate that the most common type of strategic collaboration partner is corporate customers as opposed to service providers, suppliers or research institutes.

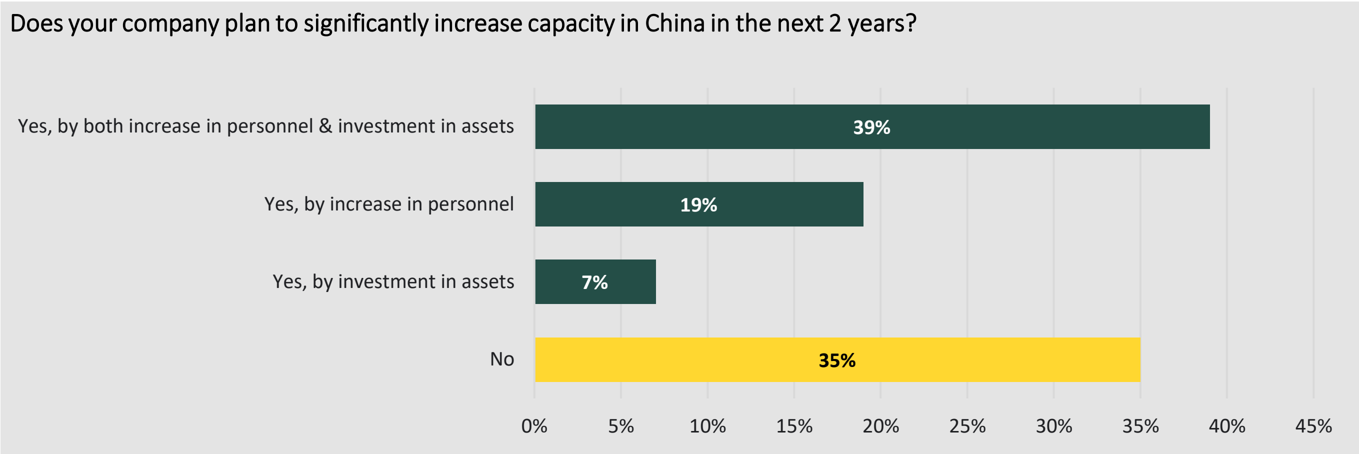
The alliances seem predominantly to focus on collaboration in China. When asked if companies pursue collaboration with Chinese partners outside of China driven by strategic considerations only 31 pct. of the respondents answered yes.

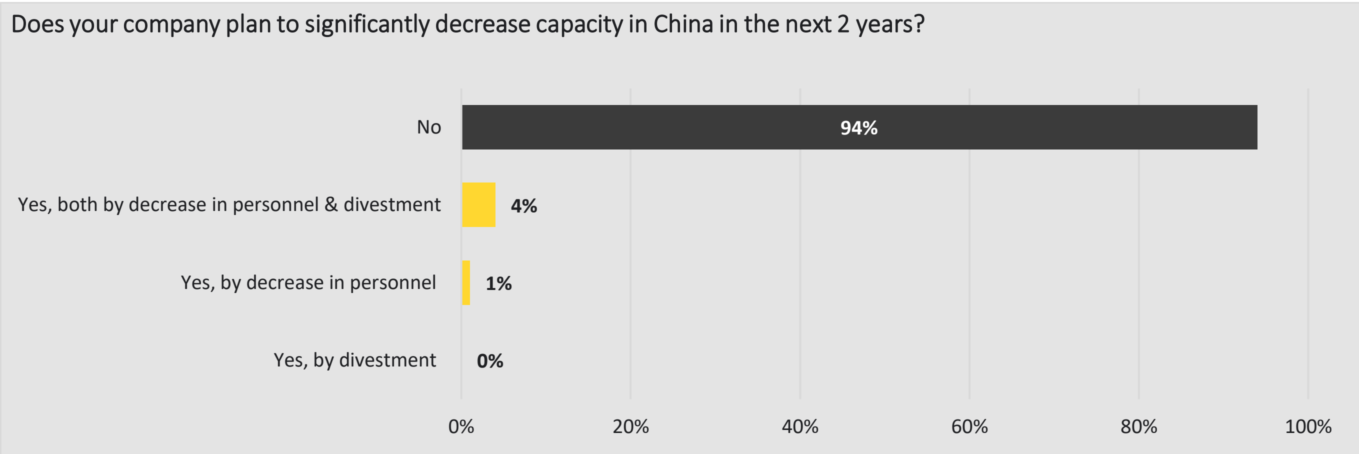


Danish companies planned to expand capacity in China

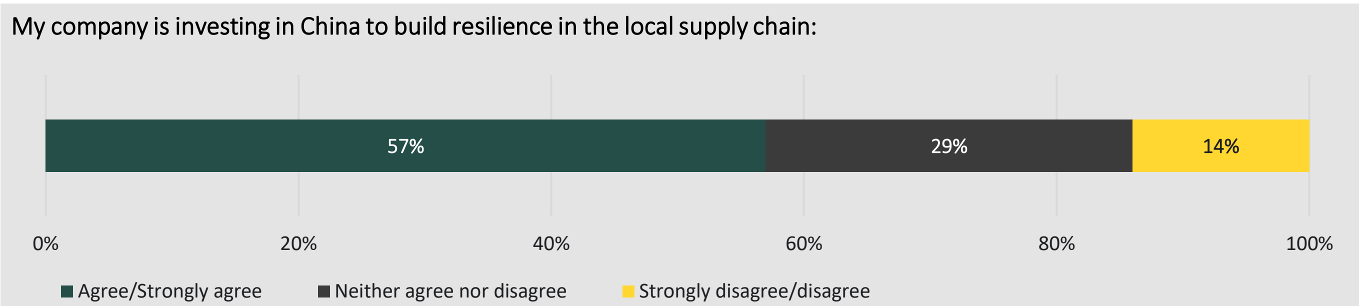
Questions regarding future developments and strategic decisions on capacity changes are obviously difficult to answer. The assessment has to be made with a certain degree of reservation, especially in light of the continued development of the coronavirus (COVID-19) and the concerns it has brought about regarding the impact on global supply chains. The significant changes in investment sentiment which was reported by Danish companies between December 2021 and May 2022, and described in the introductory section, only reconfirms this. Nevertheless, replies do give a good indication of future trends as well as how recent external shocks can changes Danish companies' attitude towards investing in China.

At the time, the original survey was carried out, the vast majority – two thirds as opposed to three quarters in 2019 – of Danish companies planned to increase capacity investments in China significantly. Most companies expected the capacity increase to include both more personnel and investment in assets. Conversely, less than 6 pct. expected to decrease capacity in China. This indicated that Danish companies at the time still showed a strong commitment to the Chinese market, but based on updated figures from May 2022 this trend has clearly declined.



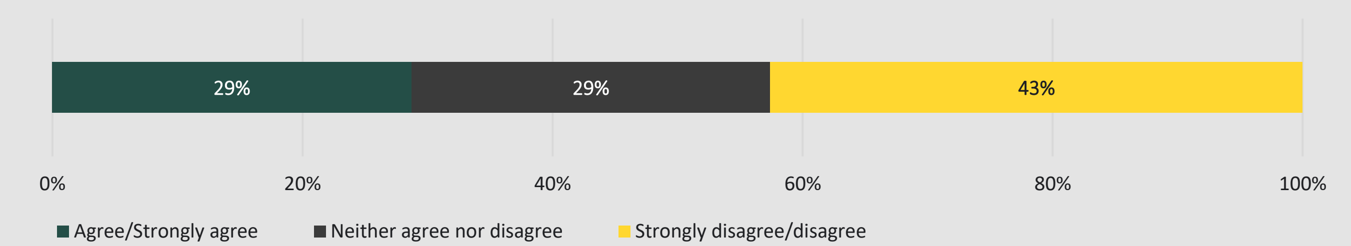


When asked to indicate whether the companies are investing or divesting in China so as to build resilience in local and global supply chains, 57 pct. of the respondents indicated that they are increasing their investment in China as opposed to only 29 pct. looking to divest.



As already mentioned in the introductory section, although this question was not repeated in the add-on survey in May 2022, it is probably fair to assume that the proportion of companies considering divesting in China in order to build resilience in their global supply chains has increased since then and most likely also affected the previous plans to increase capacity.

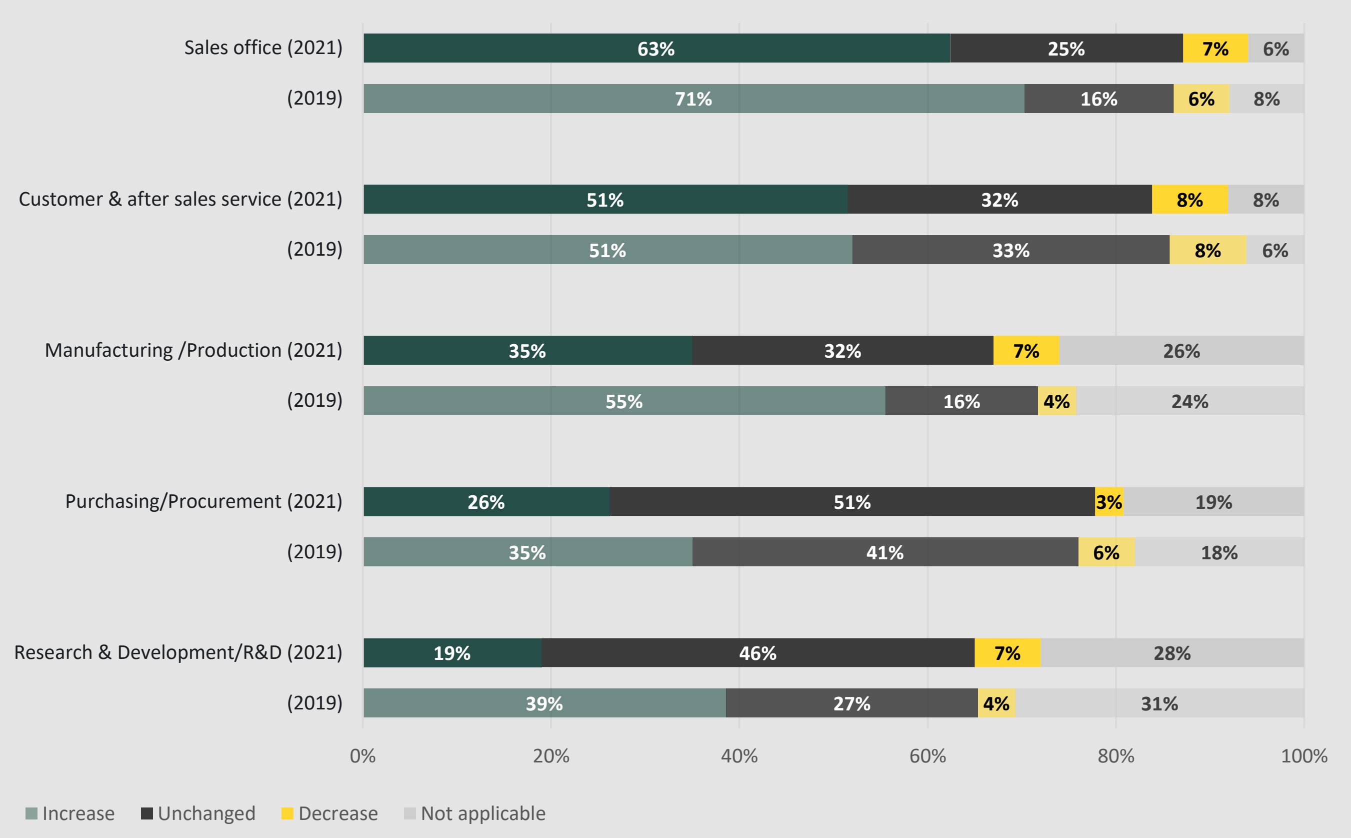
My company is divesting in China in order to build resilience in supply chains outside China:



Focus on increasing sales and service capacity

Asked to be more specific on the type of changes in personnel companies were planning, the survey indicated that variance would primarily be within Sales (63%), Customer and after sales services (51%) and manufacturing (35%).

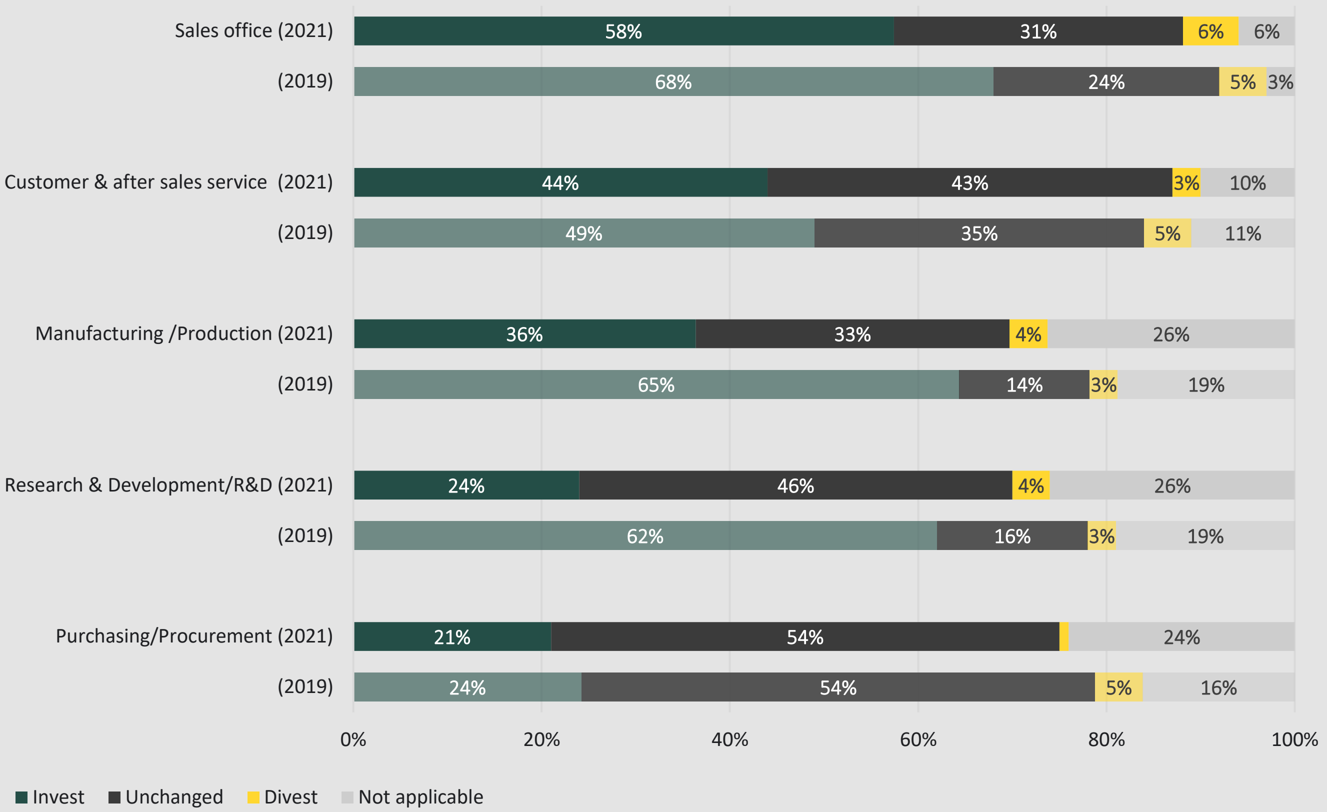
Area(s) your company(ies) plan to make changes in the number of personnel in China:



In terms of asset investments, the highest proportion of respondents indicated that these would be made in sales offices (58%), followed by customer and after sales services (44%) and manufacturing (36%). On the other hand, while still expressing an intention to invest in R&D (24%) and Procurement (21%) approximately half of the respondent indicated that they were not planning to make any investments nor divestment within the two areas.

In light of the fact that 71 pct. of the surveyed companies now indicate that the 2022 COVID-19 outbreaks in Shanghai and China have reduced their expectations towards future turnover in China in the next two years, it would be reasonable to assume that the proportion of companies planning to invest in personnel or assets related to sales may have dropped.

Area(s) your company(ies) plan to invest/divest in China in the next years:



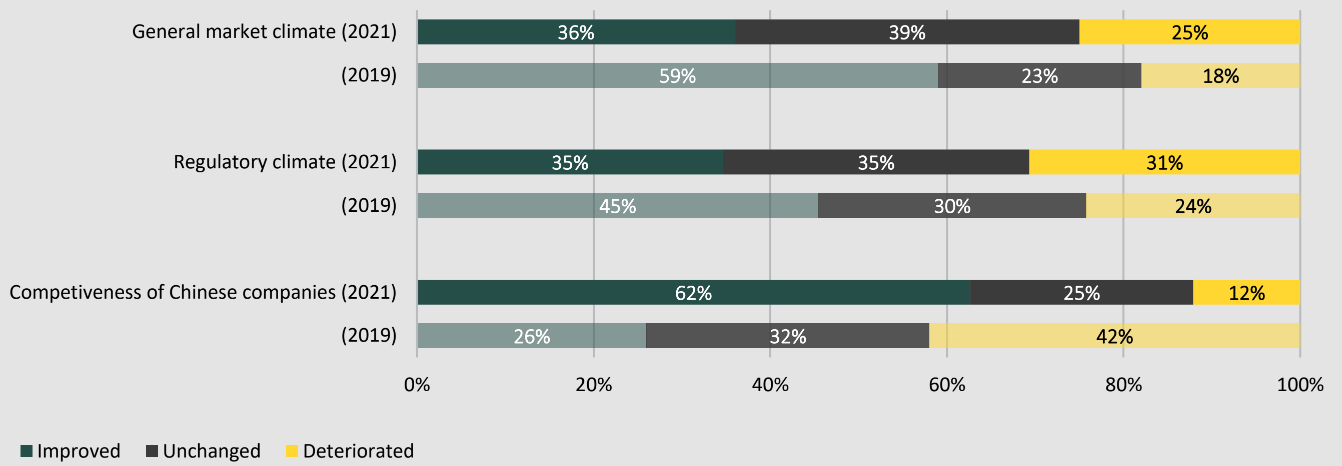
Chapter 3: Challenges faced by the Danish business community in China

As the following sections will show, many challenges remain and continue to inhibit Danish companies in their activities in China. However, a small majority of companies indicated that the regulatory climate, market climate and competitiveness of Chinese companies has improved or remained unchanged over the last two years. Nevertheless, the proportion of companies that finds the development improving has clearly diminished compared to the findings in the last survey.

Ambivalent attitude to market- and regulatory climate.

When asked about their general perception of the market and regulatory climates in China compared to two years ago when the last survey was conducted, significantly less companies are positive in their assessment. On market climate, 36 pct. are positive in their assessment of the developments in recent years. This is a significant drop from the last survey where 59 pct. of the respondents were positive, while 39 pct. neutral and one in four negative (25%) in their evaluation. As for the regulatory climate, the indications are similar, with little more than one-third finding the development positive (35%), with similar indication for unchanged development (35%) and almost one in three (31%) are assessing that the regulatory climate in China has deteriorated or significantly deteriorated within their sector in the past two years.

How do you see the general market climate, regulatory climate and local competition develop within your sector in China in the past years?



Much more so when it comes to competition

Danish companies are markedly more unequivocal about developments in the last two years concerning competition in China. On this, close to two thirds (62%) find that the competitiveness of Chinese companies within their respective sector has either improved or significantly improved, while approximately only one out of 10 (12%) find that their competitiveness has deteriorated in the last two years.

"Although the Foreign Investment Law reiterates the concept of national treatment for foreign companies, it still does not fundamentally abolish the distinction between foreign and domestic investment, which means that a level playing field cannot be achieved in practice. The European Chamber believes there are no compelling reasons to regulate companies differently due to their ownership structure or by the nationality of their investors. To do so creates unnecessary complexities in practice, as there are always cases where differentiating foreign investment from domestic investment is very difficult "…" Considering China is now the world's second largest economy, and is

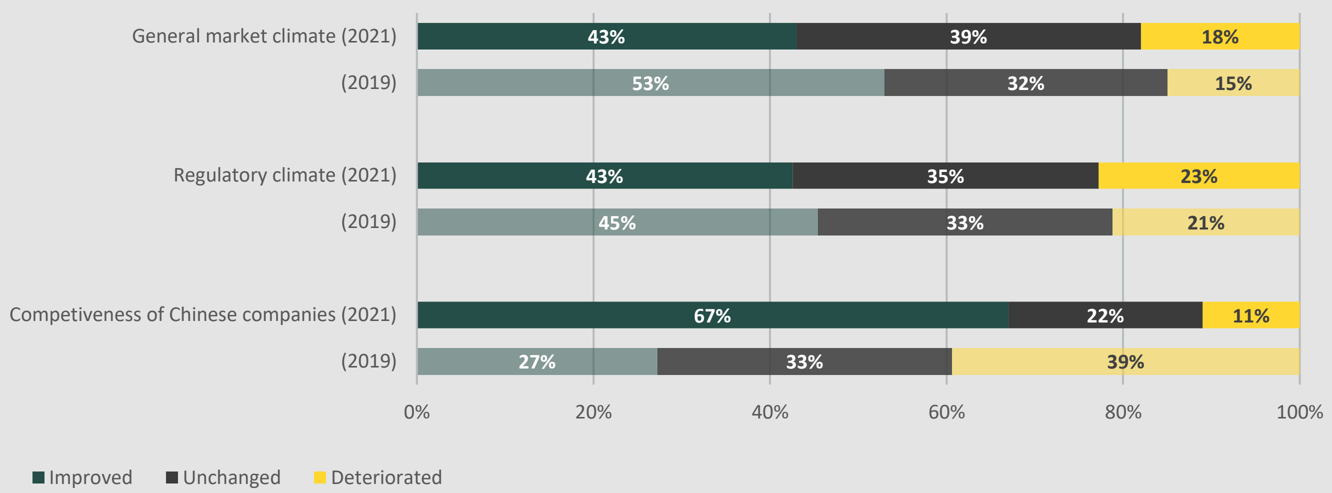
increasingly sharing and leading international responsibilities in more and more areas, real consideration should be given to fundamentally changing the existing foreign investment management regime in favour of a more confident and open attitude. In particular, this should entail ceasing to differentiate between Chinese and foreign investment."

Source: European Business in China – Position Paper 2021/2021 by the European Chamber of Commerce

And they (still) the same in the future

Asked about future developments in market climate, regulatory climate and competition, Danish companies reply very similarly, indicating that they expect recent trends to continue in the coming years.

What is your outlook for the general market climate, regulatory climate and local competition within your sector in China 2 years from now?



Sector-specific challenges

In terms of challenges, the survey does not aim to duplicate nor weaken efforts by the European Chamber of Commerce in China (EUCCC). The annual EUCCC Position Paper contains a comprehensive list of cross-sector or sector-specific concerns – or challenges – faced by the European business community in China, including those of their many Danish members. For the same reason short excerpts from the position paper, highlighting the chambers key concerns and recommendations within specific sectors are included.

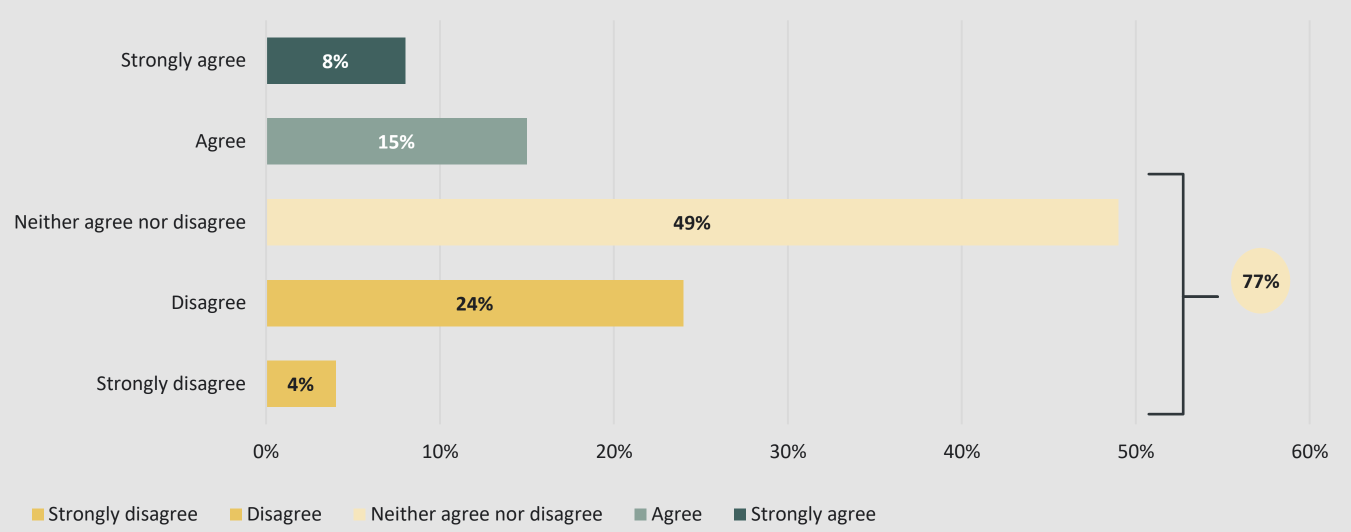
Key sector concerns and recommendations as defined in the EUCCC Position Paper 2021/2022:

Food

***Concern**: The Regulations on the Administration of Registration of Overseas Food Manufacturing Enterprises (Regulations) leave uncertainties about China's future risk assessment management system and corresponding additional requirements for overseas food manufacturers and government bodies.*

***Recommendation**: Adopt a Reasonable Monitoring and Regulatory Framework that Contains Clear Targets for Overseas Manufacturers and Importers of Food.*

My company faces challenges specific to my sector or business area:



When asked if companies faced challenges specific to their sector or business area, surprisingly only 23 pct. of respondents agreed or strongly agreed. The low proportion of companies facing sector specific challenges could be explained by two factors; that companies to a much higher degree perceive their challenges as cross-cutting and/or that sector-specific challenges are more predominantly experienced by large corporations. The latter being substantiated by the fact that the surveyed population, as shown in chapter 1, is highly skewed when measured by amount of staff, with only 22 pct. of companies having more than 500 employees.

Key sector concerns and recommendations as defined in the EUCCC Position Paper 2021/2022:

Health

Concern: *In the absence of nationwide regulations for Value-Based Procurement (VBP), local criteria for selecting winning tenders tend to be based on purchasing price at the expense of product quality and clinical requirements, while the procurement of contractually agreed volumes is not guaranteed.*
Recommendation: *Strengthen the Role of Clinical Requirements and Market Forces in the procurement of Medical Devices and give priority to VBP and Improve Operational Procedures in VBP.*

Concern: *Price control has become the core of China's drug pricing mechanism, including NRDL negotiation and drug procurement, which negatively impacts innovation.*
Recommendation: *Maintain Regular Listing in the NRDL Dynamic Updates to Promote the Medical Insurance System Reform and Introduce a Value-based Evaluation Mechanism for Innovative Drug Inclusion.*

Concern: *Although the Foreign Investment Law came into force on 1st January 2020, it has not yet been implemented effectively across China.*
Recommendation: *Implement the New Foreign Investment Law and other Central Laws and Regulations to Address Discriminatory Behaviour at the Provincial Level, Especially the 'Buy China' Policy.*

Concern: *Although the pharmaceutical industry is encouraged by recent policy initiatives to improve IP protection, such as the new Patent Law,16 implementation rules may lead to inadequate patent protection or enforcement, and effective regulatory data protection (RDP) remains unenforced.*
Recommendation: *Coordinate Different Measures for Intellectual Property (IP) Protection and ensure Their Adequate Implementation*

Concern: *China's VBP policy has significantly reduced drug prices, however, problems in drug selection, procurement and quality supervision have impacted both patients' and doctors' access to drugs, and taken a strong toll on market competition.*
Recommendation: *Further Improve the Implementation of the Volume-based Procurement (VBP) Policy to Ensure Market Competition as well as Patients' and Doctors' Access to High-quality, Safe and Efficacious Drugs.*

Key sector concerns and recommendations as defined in the EUCCC Position Paper 2021/2022

Maritime & Shipping

Concern: *The current strict quarantine measures and visa restrictions make it difficult for foreign, specially-trained maritime experts and marine technicians to enter China to conduct specific, short-term activities related to installation, maintenance and repairs onboard ships, as well as the newbuilding of ships.*
Recommendation: *Ease Cross-border Movement of Foreign Experts, Managers and Specially trained Maritime Engineers / Maintenance Workers.*

Concern: *Government interventions and trade-distortions may jeopardise the recovery of the global shipbuilding sector.* ***Recommendation***: *Foster Fair, Competitive Conditions and a Level Playing Field in the Maritime Industry.*

Concern: *International relay may only be carried out by Chinese flagged vessels operated by wholly-owned Chinese companies, a market access barrier that remains an issue of the highest priority for the foreign liner shipping community in China.*
Recommendation: *Allow the Transport of International Cargo Between Chinese Ports (International Relay).*

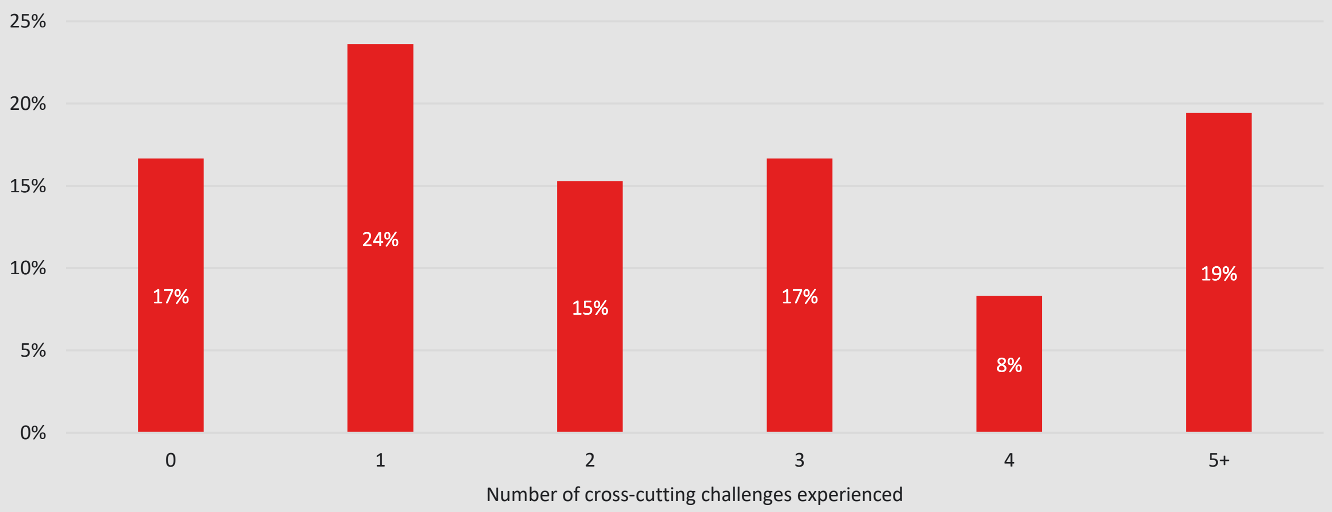
Concern: *The Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships,6 which could have a very positive environmental impact, is yet to enter into force due to lack of ratification, including by China.*
Recommendation: *Ratify the Hong Kong Convention for the Safe and Environmentally Sound Recycling of Ships.*

Concern: *For the maritime industry to deliver on decarbonisation targets set by governments in China, Europe and elsewhere, international collaboration and alignment is critically important.*
Recommendation: *Collaborate with the International Liner Shipping Community to Decarbonise the Industry and Provide a Comprehensive Roadmap Detailing how the Maritime Sector will be included in China's 2060 Carbon Neutrality Pledge.*

That companies, to a much higher degree, experience their challenges as cross-cutting is also documented by the fact that the survey asked if companies experienced challenges within 10 different categories, where only 17 pct. reported that they did not experience any challenges at all.

With 83 pct. of all respondents indicating, that they experience, 1 or more, cross-cutting challenges it is clear that Danish companies remain to have challenges related to the market- and regulatory climate in China. When assessing it should also be taken into account the survey's inability to capture the experienced challenges in a qualitative indicator, but instead only measuring quantitative feedback.

Percentage of respondents that experience cross-cutting challenges:



When asked to report on specific issues companies brought forward challenges such as; increased pricing pressure and lack of reward for innovation, complex and unclear regulation/legislation, high degree of government intervention in what ought to be market-based transactions as well as inability for foreign players to participate in certain bidding processes. Furthermore, increased challenges related to; covid-19 measures in connection with import of food products, reduced activity in the real estate sector, limitation of foreign ownership in certain sectors as well as additional freight cost was also mentioned.

The latter also indicating a possible overlap between the respondent's perception of sector specific and cross cutting challenges, which would explain the low number of sector specific challenges.

Key sector concerns and recommendations as defined in the EUCCC Position Paper 2021/2022

Energy
Accelerate China's New Energy Reforms incl.;

***Concern**: Despite district energy systems (DESs) potential to play a key role in energy transition and decarbonisation within urban development, district heating remains dominated by coal as a fuel source while district cooling*
***Recommendation**: Boost Investment in District Energy Infrastructure, incl. developing a national roadmap for a rapid switch to cleaner fuels to reduce coal use in district energy systems and promote the use of heat pumps in district energy networks, utilising waste heat sources of low temperatures (below 45 degrees Celsius) in the district heating grid.*

***Concern**: European companies require a level playing field when competing with Chinese companies in the renewable energy sector -*
***Recommendation**: Ensure Equal Access for European Investment and Technology in the Renewable energy sector; developing an ancillary market for electricity at the national level (e.g., green certificates, fast frequency response and black start) with a premium for renewable investment, and ensure a level playing field; and remove legal constraints on European companies investing in China's renewable sector, for example, by approving track records from outside China in the bidding process for projects.*

***Concern**: China needs to set more aggressive national and regional power usage effectiveness (PUE)41 design targets for new sites and major expansions, and create more incentives for zero-carbon internet data centres (IDCs).*
***Recommendation**: Promote Green Renovations of Data Centres, incl. multi-dimensional considerations to encourage the comprehensive utilisation of excess heat from data centres and the utilisation of renewable energy.*

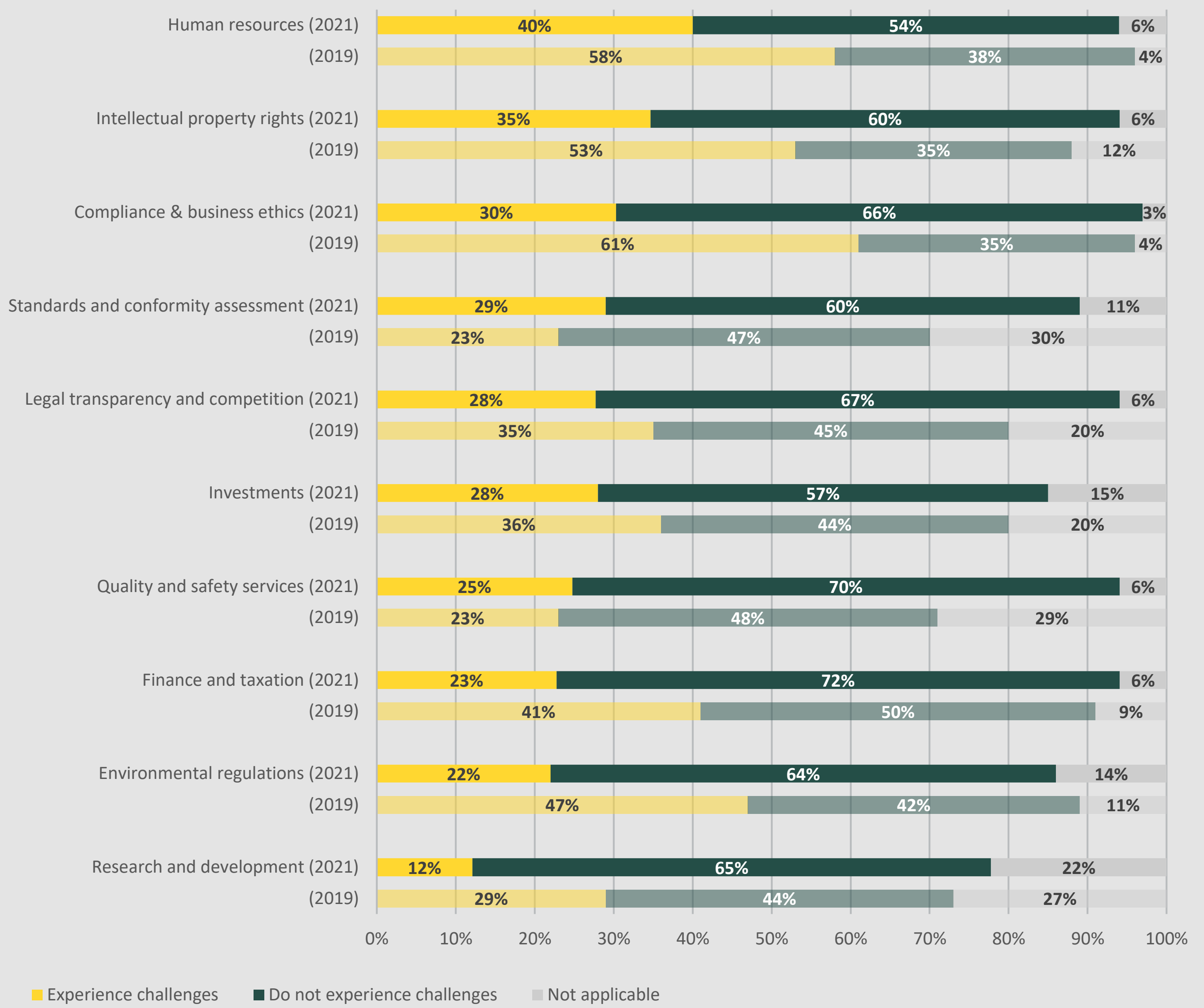
CROSSCUTTING CHALLENGES

Following the assessments above, the survey asked Danish companies once again to report if they experience concerns – or challenges – across a comprehensive list of horizontal issues as formulated by the EU Chamber of Commerce in China (EUCCC) in their 2021/2022 Annual Position Paper.

The list of these horizontal issues is the result of an elaborate process involving the more than 1,600 members of the EUCCC, including many Danish members. The resulting list of crosscutting and sector-specific issues is presented in the annual EUCCC Position Paper, which is considered to be a reference document by Chinese and European stakeholders alike.

Based on the replies, the areas most commonly found to be challenging for the Danish companies in China, overall, are once again human resources, intellectual property rights and compliance & business ethics. Interestingly, the proportion of respondents that do experience challenges has been greatly reduced across all horizontal issues except for challenges related to standards & conformity and quality & safety service.

My company faces challenges related to:



Complex or unclear rules create widespread HR issues

Almost half of the Danish companies (40%) respond that they face challenges related to HR. The predominant share of these companies (31%) explain this with reference to other issues such as increased salary level, availability of labour, training and language skills not living up to international standards. As seen previously, the number of Danes and other non-Chinese staff in Danish companies is low, and is expected to remain so, with the median respondent indicating only one Dane and no employees of other nationality per company. Nevertheless, the ability to attract expat talent and issues related to obtaining work permits for foreigners, also figure as main reasons for companies answering *other*.

Additional reasons for companies indicating challenges within HR issues are that legislation is not in line with international standards and/or commitments (28%) or that HR issues are insufficiently enforced (21%) and disputes left to the discretion of local authorities.

IPR remains to be a challenge for Danish companies

IPR issues relating to procedural practices, IP courts, trademarks, social media platforms lack of IP regulation, e-commerce business operators, CNIPA and the Patent Re-examination Board etc. are a challenge for more than one third (35%) of the Danish companies, while almost two-thirds (60%) indicate that they do not report any particular challenges in this regard.

The predominant share of the companies that experience challenges (40%) indicate that their issues relates to legislation being insufficiently enforced while 32 pct. indicate that their challenges are due to unclear (undefined or vague) legislation while 20 pct. indicate that it relates to IPR issues not being in line with international standards and/or commitments.

Insufficiently enforced compliance standards

Close to one-third of companies (30%) report that they face challenges regarding compliance & business ethics issues such as anti-bribery legislation diverging from international standards, legal uncertainties and the lack of rewards for compliance, most of which (36%) pointing to the fact that issues are insufficiently enforced or (23%) that they are unclear (undefined or vague).

International standards a barrier to Danish companies

Issues with standards and conformity-related challenges generally apply to about one in three companies (29%). This relates to China's compliance with WTO/TBT regulations, market access barriers due to multiple market access requirements, testing and certification procedures, implementation gaps on equal access for all relevant stakeholders, transparency and fairness of standard-setting procedures etc. One-third (33%) of the respondents point to the fact that standards or testing and certification procedures are discriminatory (uneven market access or unequal treatment) or indicates that they are unclear (undefined or vague) (33%).

Legal transparency in general remains an issue

About three out of ten of the Danish companies in China (28%) report that they experience challenges related to legal transparency and competition. In spite of some progress, Danish companies continue to find the overall lack of legal and regulatory transparency in China to be a continued problem.

Could investments be less challenging than expected?

Almost two-thirds of the companies (57%) state they have no concerns related to investments, while only slightly less than a third report they do (28%). This may reflect that most of the companies responding are already located in China and may very well differ from the perception of the investment situation of companies not already established here. In addition, the answers may reflect the extent to which companies plan further investments, with those not planning investments generally not indicating that they consider it a challenge. Among the third of companies reporting challenges, the most widely reported and strongly felt issue is unclear (undefined or vague) rules and legislation.

Quality and Safety Services

When companies asked if they face challenges regarding quality and safety services relating to regulations on certification and accreditation of products and services, 25 pct. indicates that they experience challenges. For those who do (33%) points to the fact that such services are not in line with international standards and/or commitments including references to enforced covid restrictions for imported frozen food or companies indicating that the rules are unclear (undefined or vague) (33%).

Finance & Taxation

Among the 23 pct. of companies indicating challenges within finance and taxation, the challenges predominantly refer to the fact that local legislation is not in line with international standards and/or commitments or that legislation is unclear (undefined or vague).

Challenges with Environmental regulations diminishing

Challenges with environmental regulations seems to have diminished, with the share of companies indicating that they experience any challenge within this field greatly reduced from 47 pct. in the last survey to the current 22 pct. Among those reporting challenges related to environmental regulations, the vast majority and most widely reported challenge relates to unclear (undefined or vague) rules.

Research and development

Danish companies stating they face challenges within the field of research and development predominantly indicate that these relate to issues not in line with international standards and/or commitments.

Chapter 4: Innovation and Technology

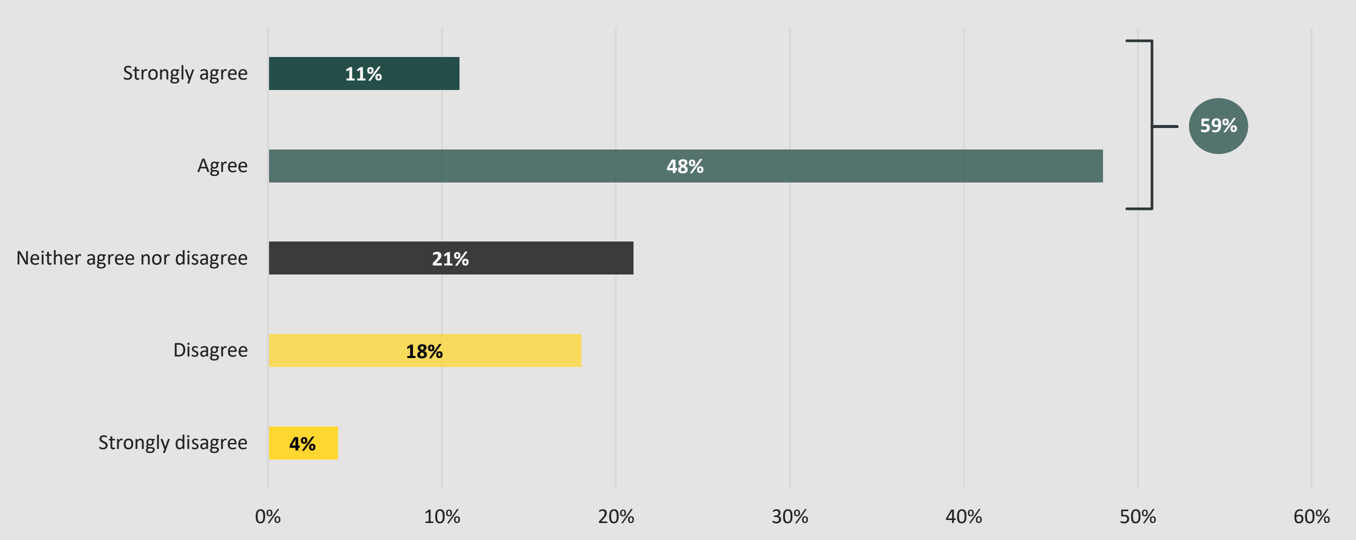
In 2019, a majority of companies indicated having R&D activities in China. It was therefore decided to include a section of the survey on innovation and technology in order to better understand the importance of these areas for Danish companies in China.

The findings in this chapter can be supplemented by the results in the report *OUTLOOK REPORT: Danish R&D-Intensive Companies. An understanding of R&D activities in China* (*OUTLOOK REPORT*) prepared for the Innovation Centre Denmark Shanghai (ICDK). ICDK was established in 2007 in a collaboration between the Danish Ministry of Higher Education and Science, and the Ministry of Foreign Affairs. As opposed to this survey the OUTLOOK report focuses on the most R&D-intensive Danish companies, with answers coming from the VP or director for R&D activities in China. As such, the results may not be directly comparable, but could be considered as complementary by providing a broader insight into how Danish companies view innovation and technology in China and conduct their R&D activities.

Digital development in China is influencing Danish business activities

In a relatively short time span, China has become one of the world's largest digital economies. As such, it is surprising that not more than approximately two-thirds of all respondents indicate, that the activities of their companies in China are impacted by the digital development in the country. The impact of Chinese digital development on Danish companies is also transcending the Chinese borders as just below two-in-five of all respondents indicate that in terms of digitization and the sector, the companies operate within, technology and knowhow from China is used in other parts of their organisation.

My company's activities in China is impacted by the digital development in China?



For those companies indicating that they agree or strongly agree that their activities in China are being impacted by the digital development, 42 pct. percent states that it is predominantly within transactional and market technology areas such as e-commerce platforms and networks. Approximate one-third indicate that informational technology, such as cloud computing, big data, business management software and AI, as the main impact. Finally, 24 pct. indicate operational technology, such as smart robots, 3D printing and IoT, to lower the costs of production or delivery of a service by integrating data with production, transportation or other equipment, as the main area affecting their activities in China.

Introduction of data and cybersecurity regulations in China disrupts companies

2021 was an important year when it comes to regulative reforms within data and digitalisation in China, with the central government launching a complex matrix of regulations, issued by different authorities, but with some overlaps in content and scope. As such, both the Personal Information Protection Law (PIPL) and the Data Security Law (DSL) came into effect in 2021, and these laws will work together with China's existing Cybersecurity Law (CSL) creating a broader framework governing cybersecurity and data privacy protection in China. These regulations not only apply to Chinese companies but foreign companies as well.

Respondents were therefore asked to reflect on whether their companies have been affected by the introduction of these regulations, which more than one-third agreed or strongly agreed to. Only 19 pct. indicated that they disagreed or strongly disagreed.

Introduction of Chinese data and cybersecurity legislation.

Cybersecurity Law - CSL (Entered into force 1 June 2017)

- *The first overarching cybersecurity law regulating network operators within China*
- *Regulating Authority: Cyberspace Administration of China (CAC), Ministry of Industry and Information Technology (MIIT)*

CSL is the overarching cybersecurity law and has laid the foundation to subsequent data legislation. It requires personal information and important data collected or generated in China to be stored domestically. Many of the new regulations cover the topics mentioned in the CSL with more clarity.

Data Security Law- DSL (Entered into force 1 September 2021)

- *Contains provisions that cover the usage, collection, and protection of data in China.*
- *Provides principles on the categorization of data into critical; important; and normal/other, but not detailed methods for classification.*
- *Regulating Authority: CAC*

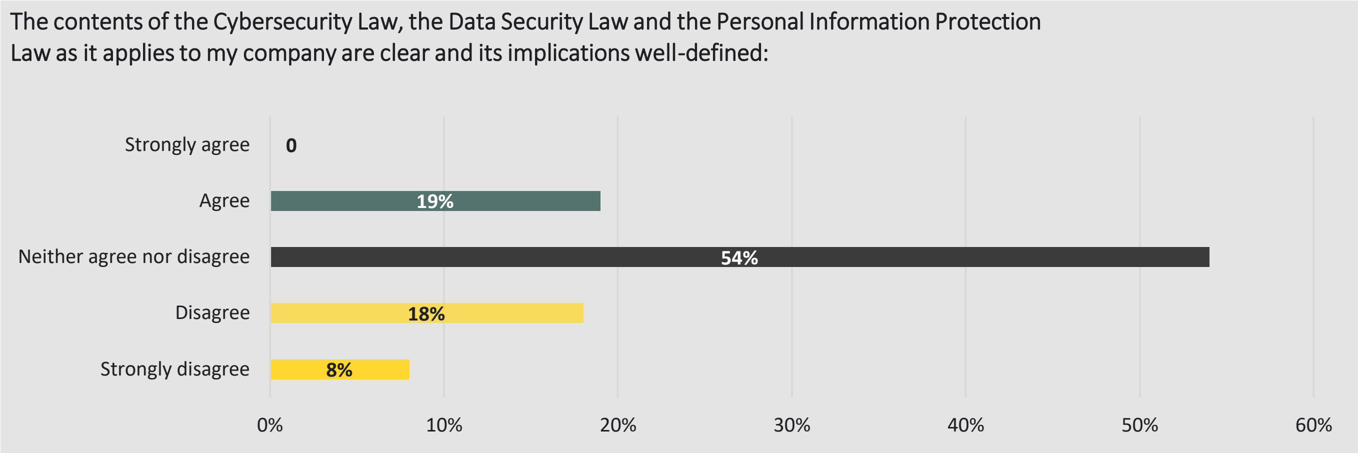
On 10 June 10 2021, The National People's Congress Standing Committee passed the Data Security Law ("DSL"). The key focus of the DSL is the protection and security of critical data relating to national security and public interest. The most significant element of the law is the data classification system defining three groups of data based on the level of sensitivity. The requirements for protection increases with the level of sensitivity. DSL also sets out certain general security obligations for data processors at large. DSL is a framework and thus broad in nature. In the time of writing, DSL is expected to impact companies possessing a large volume of personal data and data regarding critical infrastructure and critical industries, such as financial, medical and key technologies.

Personal Information Protection Law - PIPL (Entered into force 1 November 2021)

- *Relating to all data regarding personal information of Chinese nationals both within and outside of China*
- *Regulating Authority: CAC, MIIT*

The PIPL imposes protections and restrictions on personal data collection and transfer, which might affect companies both inside and outside of China. Its particular focus is 1) on apps using personal information to target consumers and giving them unfair treatment, e.g. differentiated pricing on products and services, and 2) on preventing the transfer of personal information data to other countries. The fundamental principle of the PIPL is that collection and processing of personal information data should be limited only the minimum level as necessary to fulfil the specific purpose of PI processing.

However, respondents indicated to have been affected by the new data privacy and cross-border data transfer regulations are split on the topic of the clarity of the Cybersecurity Law, the Data Security Law, and the Personal Information Protection Law. More than half (54%) neither agree nor disagree that these laws are clear with slightly more disagreeing, that the interpretation and application of these rules are well defined.



While this survey does not distinguish between the positive or negative impact of the CSL, DSL, or PIPL, then, European companies, overall, expect the evolving Cybersecurity Law, the Data Security Law and the Personal Information Protection Law to have a significant negative impact on their company in the next five years.

> *"Overall, European companies expect the evolving Cybersecurity Law, the Data Security Law and the Personal Information Protection Law to have a sizeable negative impact on their company in the next five years. Although two fifths of respondents expect a neutral impact, 33 pct. expect a negative impact. The challenges brought by these rules are varied. Rigorous demands on cybersecurity impose significant costs as companies are expected to align with certain standards, some of which deviate from the standard corporate practices of European companies. In terms of data, the challenge is two-fold: first, data localisation requirements necessitate integrating with a local partner and also demand that companies establish specific procedures that are unique to China. Second, data transfer rules are currently vague in terms of defining different types of information, and push European companies to adopt highly conservative stances on cross-border transfers, often meaning that they simply do not send data to be aggregated at HQ."*
>
> *Source: European Business in China – Business Confidence Survey 2021 by the European Chamber of Commerce*

Danish companies locate where the Chinese ecosystem is strongest

There are several reasons for companies to conduct R&D activities in China, but the approach to R&D in China varies between companies depending on their markets, regulation, experience, ambition, competences, and internal organisation.

Nevertheless, survey answers indicate that 91 pct. of all respondents who carry out R&D activities in China have activities in at least one of the following three main areas, Beijing/Tianjin, Yangtze River Delta around Shanghai, and in the Greater Bay Area in Guangdong. This does not come as a surprise as it is widely believed that these locations are the top tier locations in terms of innovation ecosystems within China, as also stated in the *OUTLOOK REPORT*.

Danish companies R&D activities predominantly focus on new product development

When asked what type of R&D activities the respondents in China engage in then almost three out of four (72%) respond that their primary R&D activity is new product development, while 10 pct. indicated that their R&D activity focused on product adaptation to the local market for existing products. Only 14 pct. indicated that their predominant R&D activity revolves around basic- or applied research.

The respondents were subsequently asked to indicate the main driver for their company's R&D activities in China. Almost half replied that their activities were driven by the need for product adaptation to the local market. One out of five indicated that access to local knowledge was the predominant factor with another 14 pct. indicating lower cost of R&D as the main driver.

It may seem contrasting that 72 pct. of all respondents indicated that new product development was their primary R&D activity, ahead of product adaptation. While half simultaneously indicate the need for product adaptation as the main driver for their activities in China. These findings should also be considered in light of the fact that the respondents could only choose one option for their type of R&D activity and main driver.

Nevertheless, as also stated in the *OUTLOOK REPORT*, market adaption and product development are two topics closely related to market access. The Chinese market is different from other markets on a variety of parameters, i.e., cost-base, regulation, culture, language, and standards. Adaption to the Chinese market through product and process development is a big part of the R&D efforts.

Output from R&D activities expected to increase

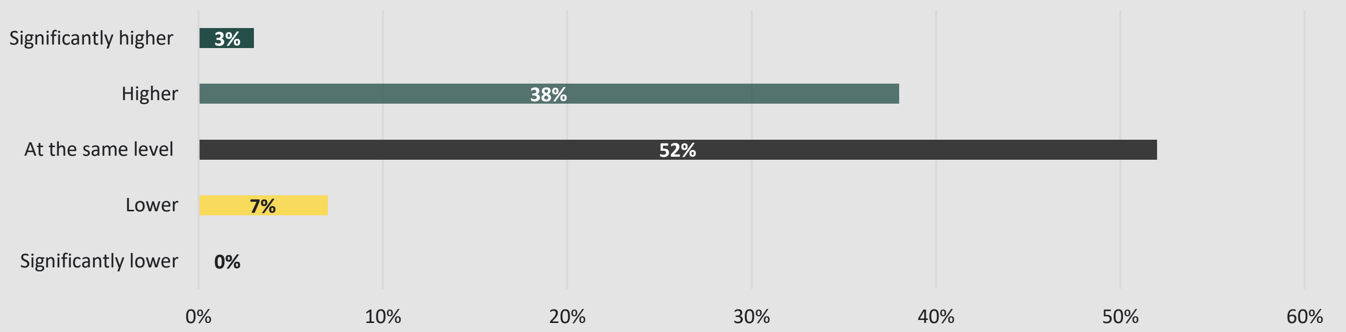
When asked if the companies in China can make decisions about R&D activities independently of their global headquarters in Denmark, a slight majority (55%) indicate that they conduct their R&D activities in close coordination with the Danish HQ. However, one third of the respondents indicate that they agree or strongly agree with the proposed statement indicating that in some affairs, or possibly strictly local affairs, they act independently of their HQ when it comes to make R&D decisions in China.

It is not surprising, based on the difference in the engagement in China of the surveyed companies, that R&D activities are organised differently, as it is highly depending on products, company size, market demand, and strategic priorities.

Perhaps more surprisingly is that only 17 pct. indicated that output from R&D activities in China is higher or significantly higher, compared to output of global R&D activities of their company. Correspondingly, 35 pct. indicated that their output is lower or significantly lower, while approximately half of all respondents indicated the output between their global and China based R&D activities is at the same level.

When instead asked to assess their company's output from R&D activities in China compared to globally in two years' time, then half of the respondents still believe the output would be at the same level. But the proportion of respondents who assessed that the output would be higher or significantly higher had increased from 17 pct. to 41 pct.

Compared to global R&D activities of my company, output from R&D activities of my company in China in two years' time is expected to be:



Annex: The survey partners

The survey presented in this report was developed in close collaboration between the following institutions:

EMBASSY OF THE KINGDOM OF DENMARK
Beijing

Embassy of the Kingdom of Denmark in Beijing

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

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

Danish Chamber of Commerce in China (DCCC)

The DCCC is a non-profit and non-government affiliated organization of Danish businesses in China. Members comprise about 150 Danish companies within a wide range of industries as well as individual members and associates. Having branches in North, Central and South China, the objectives of the DCCC are to promote, study and protect trade, investments, commercial and other relations between Denmark and China and to serve as the preeminent business and social networking platform for the Danish Community in China. DCCC was established in 2000 and celebrated its 20th anniversary in the year 2020.

DCBF 丹中商会 DANISH-CHINESE BUSINESS FORUM

Danish-Chinese Business Forum (DCBF)

DCBF was established in 2005 and is an independent, non-profit network organisation with more than 120 members, companies and institutions. The purpose of Danish-Chinese Business Forum is to promote exchange of information and contacts among companies, organisations, top executives and managers who have Danish-Chinese commercial interests.

SDC The university partnership Denmark – China

Sino-Danish Center for Education and Research (SDC)

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

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