BenCham
BENELUX CHAMBER OF COMMERCE IN CHINA
荷 比 卢 商 会

In partnership with:

MOORE

Sino Benelux Business Survey 2019

In collaboration with the official trade- and diplomatic representations of Belgium, The Netherlands and Luxembourg in China:

Embassy
KINGDOM OF BELGIUM
比利时王国驻华大使馆

Embassy
KINGDOM OF THE NETHERLANDS
荷兰王国驻华大使馆

Embassy
GRAND DUCHY OF LUXEMBOURG
卢森堡大公国驻华大使馆

Trade
WALLONIA EXPORT INVESTMENT

Trade
HUB BRUSSELS INVEST & EXPORT
布鲁塞尔投资出口局

Trade
FLANDERS INVESTMENT & TRADE
比利时法兰德斯投资贸易局

Foreword – BenCham

Tom Hoogendijk

Chairman,
Benelux Chamber of Commerce in Beijing

Karel Eloot

Chairman,
Benelux Chamber of Commerce in Shanghai

Kevin Cremer

Chairman,
Benelux Chamber of Commerce in Pearl River Delta

In China the only thing that is constant is change itself. During the last year these changes included new regulations, a slower economy, a tariff conflict between the largest two economies in the world, the belt and road initiative and many other factors.

Despite being aware of most of the major changes in China, little is known about how companies from the Benelux are dealing with these threats and opportunities and how these changes influence their perceptions for the coming years.

That is exactly why the Benelux Chamber of Commerce in China and MS Advisory, with support of the diplomatic networks of Belgium, The Netherlands and Luxembourg have jointly initiated this survey: Not to explain why China is changing, but to ensure organizations from the Benelux have comparative information about companies similar to theirs to enable them to make better informed decisions.

We believe this report, being published for the 4th consecutive time, will be a fundamental piece not only for BenCham members, but also for BenCham itself to even better fulfill our mission of identifying opportunities and guiding our members through their challenges in China.

Foreword – MS Advisory

Raoul Schweicher

Managing Director,
MS Advisory

The past year has been an important year for businesses in China as we have seen a lot of far-reaching changes in finance and taxation. After the continuing increase in salary costs, companies identify the costs related to remain compliant and keep up with regulation as a main difficulty encountered on the Chinese market.

2018 has also seen the start of the trade conflict between two of the largest trading countries in the world, the United States and China. Our research finds that several rounds of tariffs have had their impact on over a third of the surveyed companies. Nevertheless, over half of the companies remain confident in the Chinese market due to still unmet market demand and, especially true for China, the use of technology to increase domestic sales.

The findings of the survey are well in line with our experience at Moore Stephens of working with and helping foreign invested companies in China in terms of compliance, finance and taxation.
This report will provide valuable up-to-date insights to companies already in China and those thinking to relocate to better understand the current Chinese business environment.

MOORE

Sino-Benelux Business Survey

- The 2019 Sino Benelux Business Survey is organized by the Benelux Chamber of Commerce in Beijing, Shanghai and Guangzhou, supported by the official trade- and diplomatic representations of Belgium, The Netherlands and Luxembourg in China and in partnership with MS Advisory (www.msadvisory.com).

- We have investigated how the Benelux business community in China has performed in 2018, their experiences in the market and what their expectations are for 2019.

- Similar to previous years, this survey was conducted so that the Benelux business community and other important stakeholders can better understand the Chinese business climate and how they may improve within its challenging business environment.

Methodology

- The research was concluded through an online survey that was distributed by Email, newsletters and social media platforms, including WeChat and LinkedIn.
- Approximately 2000 Benelux companies were contacted during the months of March and April, and 139 of these returned the completed questionnaire. The field-work was actively supported by the Benelux Chamber of Commerce throughout China, with further support from the official representations of the Benelux countries in China.
- This year's survey consisted of 28 questions divided into 4 categories: Business Demographics, Business Performance, Business Sentiment and Onward Expectations.
- Most of the companies that took part in the questionnaire came from the Netherlands, Belgium and Luxembourg, with the percentages respectively corresponding to 43%, 22% and 9%. The other participants with 26% have either strong relations with- or management from the Benelux.

Executive Summary (1)

Survey Demographics

This year 139 companies have participated in the Sino-Benelux Business Survey

Most of the respondents come from Industrial Goods and Services (41%)

The Industry with the second highest participation is Consumer Goods and Services (27%)

On average, the respondents have operated in China for 12.1 years.

More than 50% of the respondents are SMEs with revenue from RMB 1 million to RMB 100 million

Executive Summary (2)

Business Performance

The performance of Benelux businesses in China remained fairly positive, with 86% of respondents reporting revenue growth and 85% reporting profits

The percentage of companies reporting no revenue growth or growth >20% increased for the first time since 2015; we observe a more volatile market with more winners and losers;

SMEs (companies with 0-49 employees or up to RMB 10 million in revenue) represent the group with the highest percentage of revenue growth > 20%

Companies in the Consumer Goods sector reported the highest revenue growth; 45% of the respondents reported revenue growth over 20%

Executive Summary (3)

Business Sentiment

Increased Turnover and Economies of Scale (28%) are the most significant positive drivers for Benelux business in China

Salary costs (24%) is the most significant negative driver in 2018, following a similar trend from previous years

This year, fewer companies perceive the Chinese Market to be favorable (58%) compared to last year (66%)

The percentage of companies which perceive that the "Level Playing Field" and "Regulatory environment" has become more restrictive has increased

Only 18% of the respondents came across BRI partnership and business opportunities, of which the majority are SMEs.

37% of the respondents said they were affected by the China-US Trade War

Executive Summary (4)

Onward Expectations

Most participants have good expectations on their revenue and profit growth for 2019, with 89% expecting revenue growth and 93% expecting profits

All startups are expecting revenue growth, as well as over 80% of respondents from the Consumers Services industry.

Both Dutch and Belgian companies are much more optimistic about their profit expectations, with respectively 92% and 96% expect to make profit in 2019

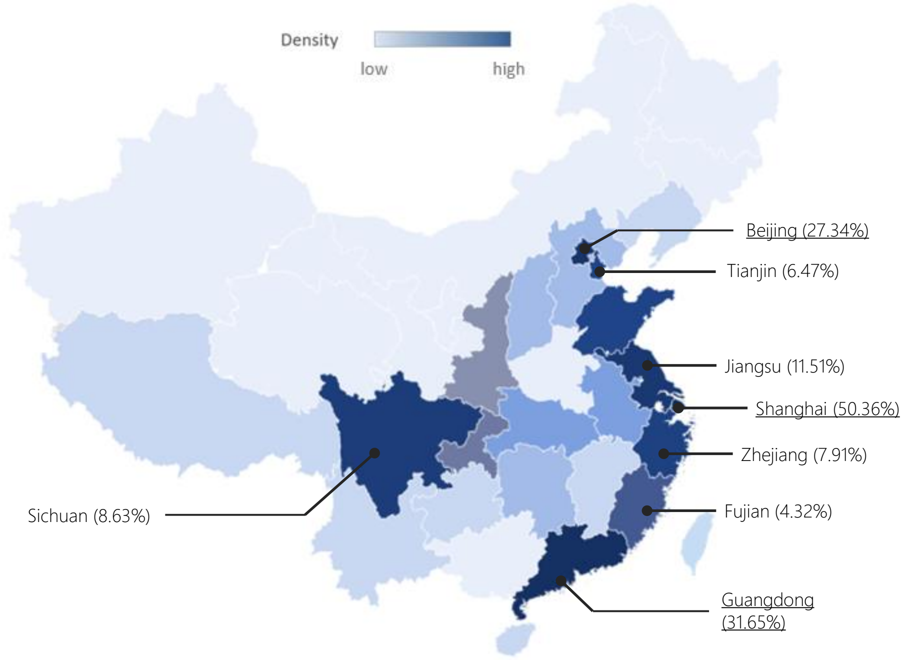
The majority of Benelux companies attributed the fact that they were making profits to revenue growth (49%), whereas a further 38% attributed this to both revenue growth and cost savings

Table of Contents

Survey Demographics

Location – by Province

Location of Benelux Companies in China

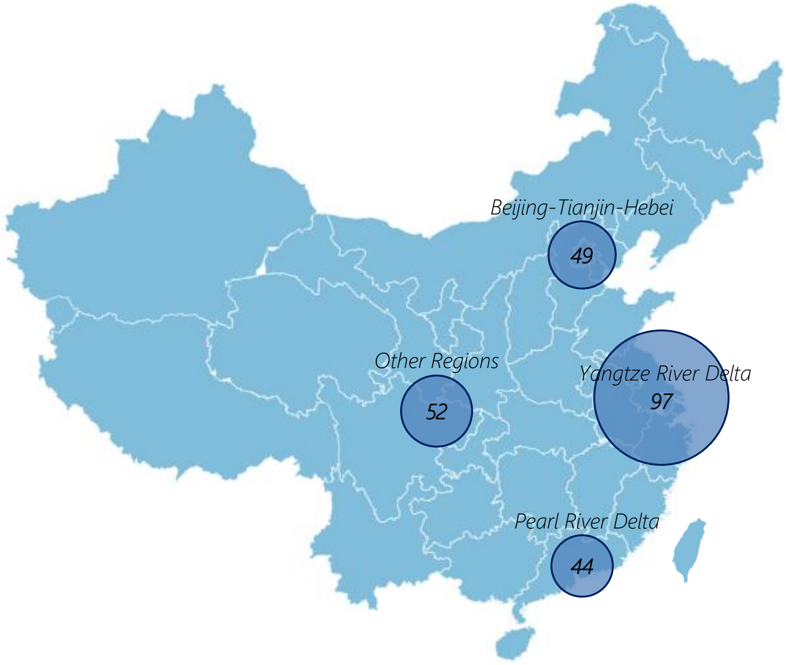


- **139 participants** took part this year in the survey.
- Most respondents have offices in **Shanghai** (50.36%), **Guangdong** (31.65%) and **Beijing** (27.34%).
  - Similar to last year's business survey, mostly companies from first-tier cities in China have taken part.
- **Other coastal provinces are also well represented.** Respondents indicated to be active in Jiangsu (11.51%), Zhejiang (7.91%), Tianjin (6.47%) and Fujian (4.32%).
- Although Benelux business are quite evenly spread across the rest of China, we do observe a concentration of establishments in Sichuan (8.63%).

Note: Respondents were asked in which provinces of Mainland China they have an office. As a result, multiple provinces per respondent could be selected.

Location – per Region

Location of Benelux Companies in China

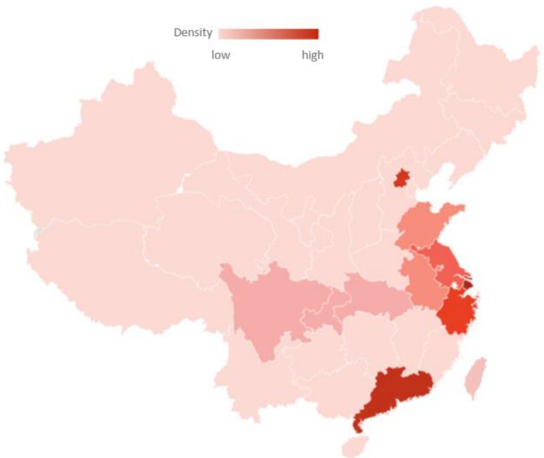


- The majority of Benelux businesses are concentrated around the main economic clusters of China (Schuster, MIT, 2016):
  - In the **Yangtze River Delta** (Shanghai, Zhejiang, Jiangsu) there are 97 offices of Benelux businesses.
  - In the **Beijing-Tianjin-Hebei** region (Beijing, Tianjin, Hebei) there are 49 offices of Benelux businesses.
  - In the **Pearl River Delta** (Guangdong) there are 44 offices of Benelux businesses.
- There is a total of 52 Benelux businesses with offices in other regions of China.

Note: Respondents were asked in which provinces of Mainland China they have an office. As a result, multiple provinces per respondent could be selected.

Location – per Country

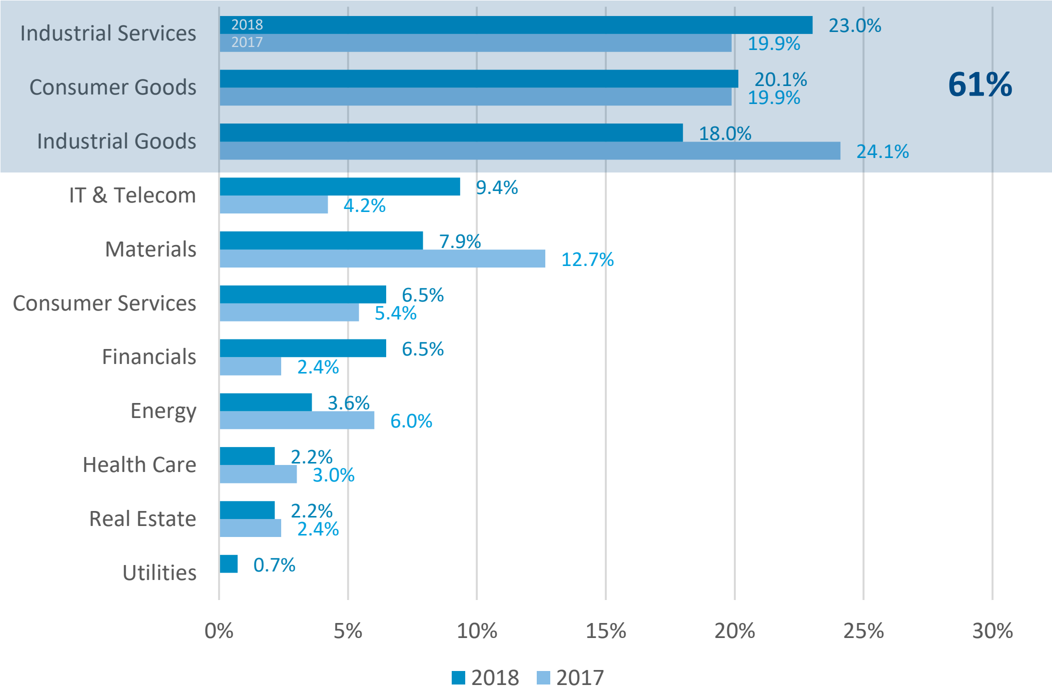
The Netherlands	Belgium	Luxembourg



- When we examine the locations of respondents by country, we see most activities are **along the coastal regions in China**:
  - A total of 41.67% and 38.33% of Dutch companies have offices in Shanghai and Guangdong respectively, followed by 23.33% whom have an office in Beijing. At least 10% of companies from The Netherlands indicated to have an office in Sichuan.
  - **63% of companies from Belgium have offices in Shanghai**. Further, 20% have an office in Guangdong and 16.67% in Beijing.
  - Companies from Luxembourg almost solely have offices in Shanghai (69.23%) and Beijing (46.15%).

Industry Sectors Represented

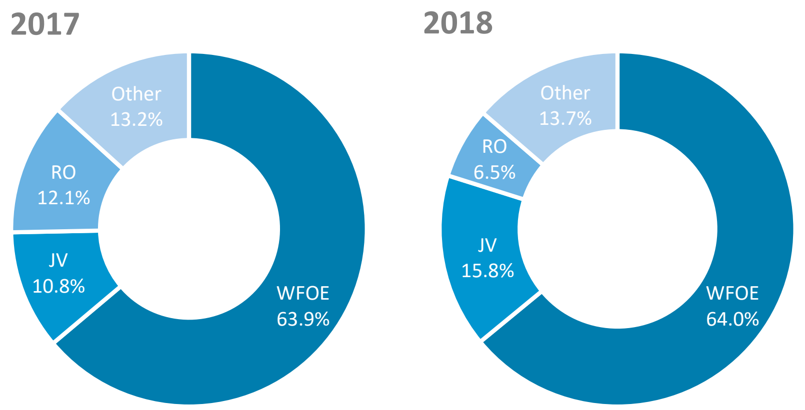
Industry Categories (2017-2018)



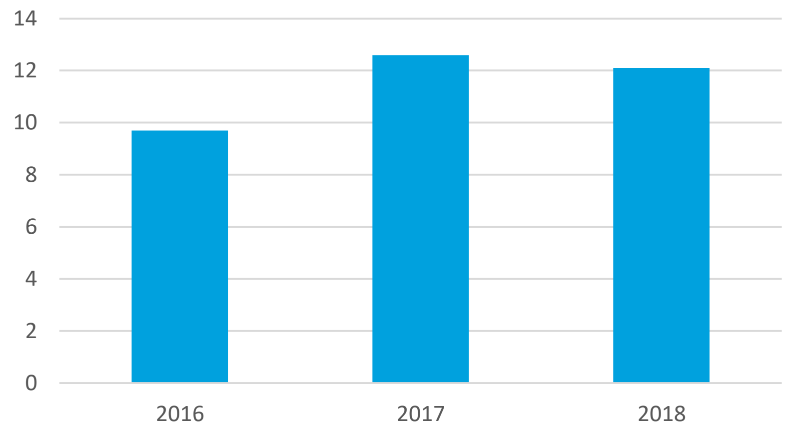
- The results indicate a **similar trend of companies** participating this year in the survey as compared to last year's business survey.
    - The **Industrial Goods & Services** Industry is well represented (**41% of respondents**).
    - Compared to last year's business survey, 3% less participants come from the Industrial Goods and Services sector.
    - Industrial Services remain primarily located in Tier 1 Cities.
    - **Consumer Goods & Services** account for **26.6% of the total respondents**.
    - 61% of the participants are from the Industrial Goods & Services and Consumer Goods industry.

Entry Modes in China

Company Structure

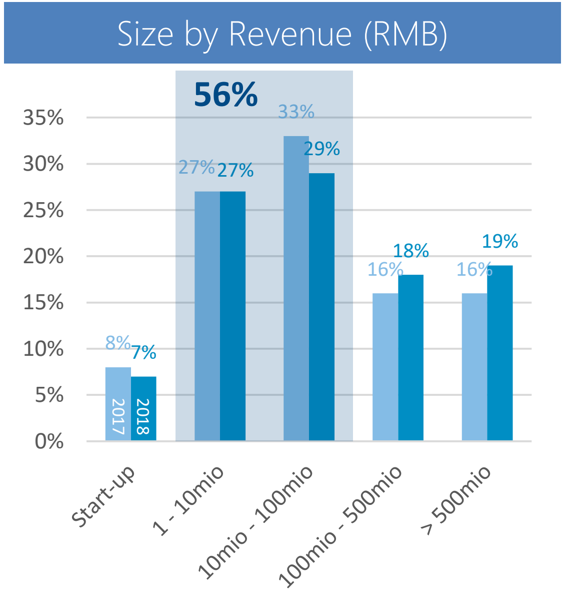


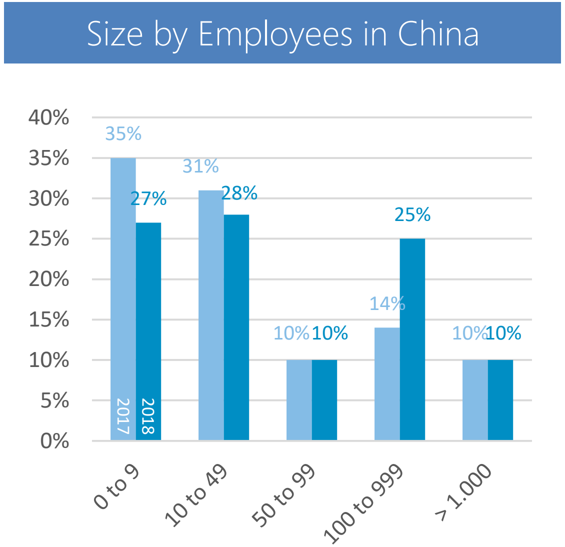
Years in China

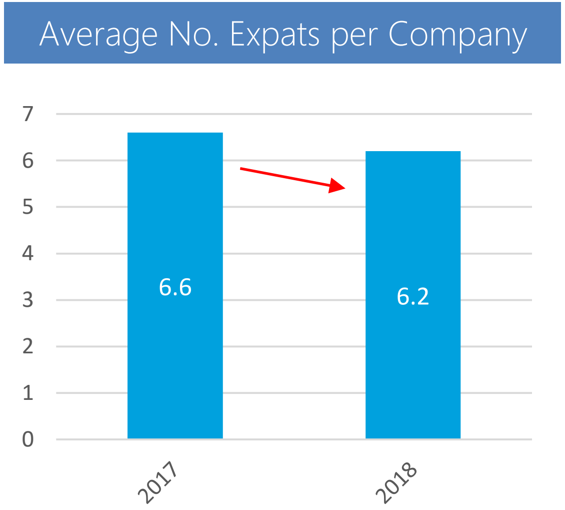


- This year **79.8% of the companies** indicated to be a Limited Liability Company: **WFOE** or **Joint Venture (JV)**.
- Compared to last year's business survey, we see **a decrease in the number of Representative Offices (RO)** from 12,1% to 6,5%.
  - This is generally in line with the trend we observe in China, since in limited circumstances a RO is beneficial structure for foreign investors in China.
- The results show that **the companies operated on average 12.1 years in China;** similar to last year's survey.

Company Size & Employees



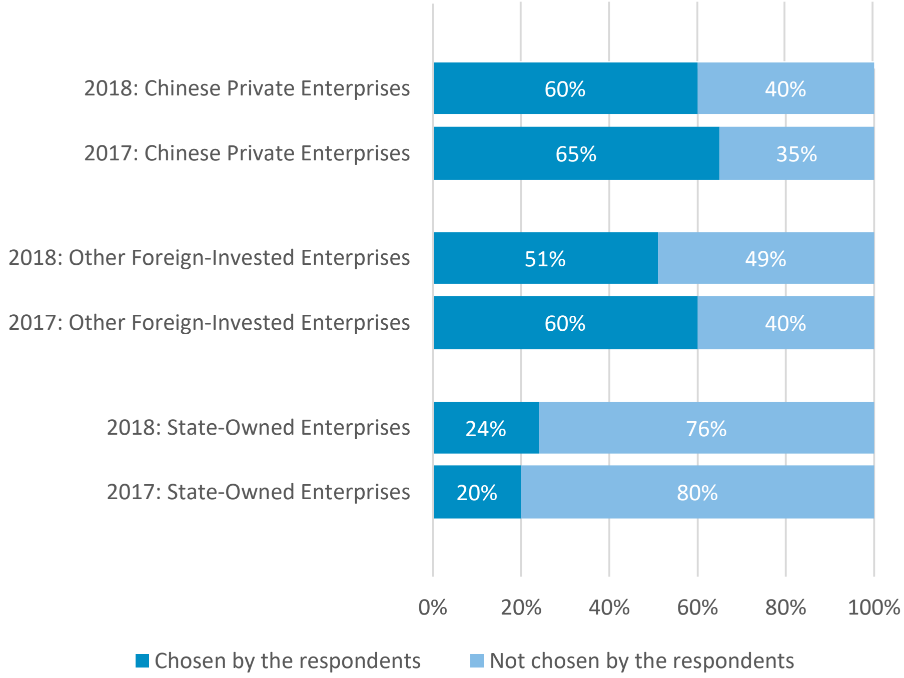




- Based on revenues and employees, around **56% of the respondents are SMEs in China**.
  - Over 60% of respondents have a revenue size from 1 to 100 million RMB.
- On average, **the number of expatriates per firm has decreased** from 2017 to 2018 by 6% – which we see is in line with the general trend experienced with foreign companies in China.

Major Competitors

Major Competitors in the Chinese Market

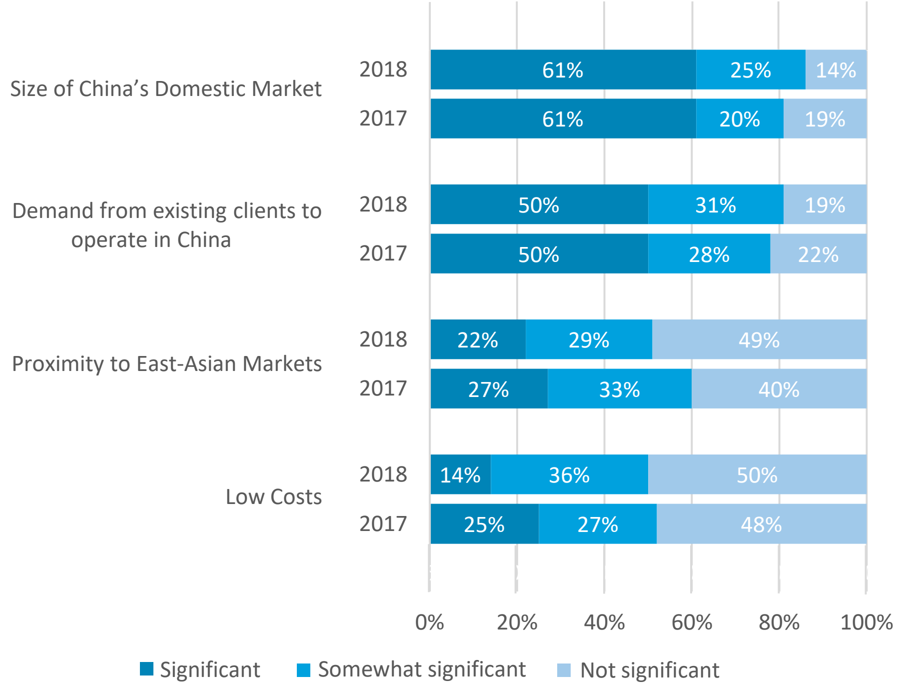


- Both **Chinese Private- (60%)** and **Foreign-Invested Enterprises** remain the most important competitors for Benelux businesses in China.
  - Foreign-Invested Enterprises are the main competitors in Industrial Services and Consumer Services (60%).
  - Competition from **Chinese Private Enterprises** is the greatest in the **Health Care Sector** (100%).
  - In **Shanghai**, competition evenly balanced between FIEs and Chinese Private Enterprises.
  - In the Energy sector, competition from **SOEs** is ranked as highest (100%).

Note: respondents can choose more than one type of competitor

Reasons for being active in China

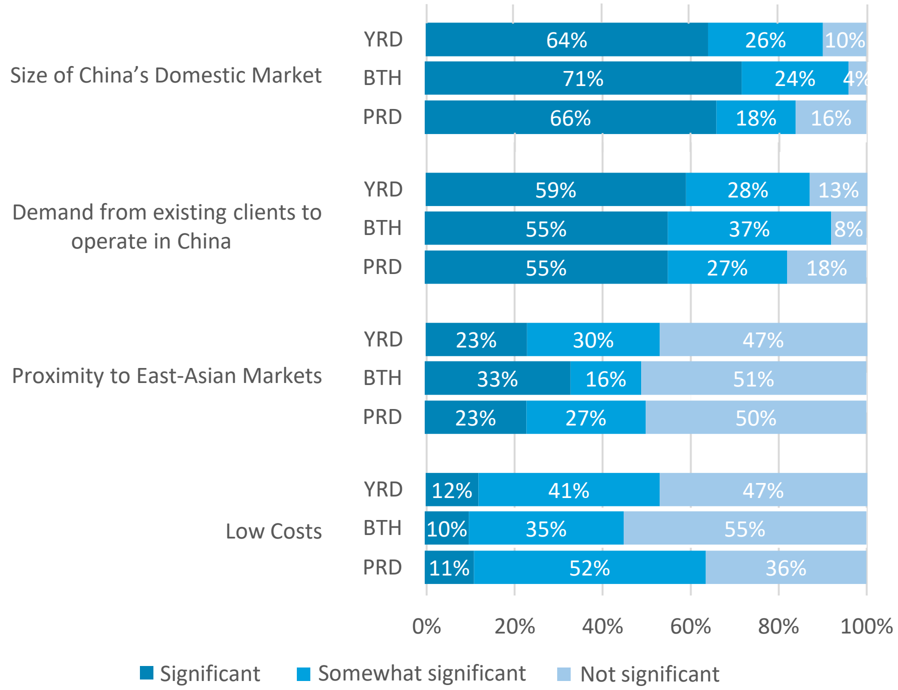
Strategic Motivations for being active in China



- The main motivation for being active in China is the **size of the domestic market** (61%).
  - Particularly in Sichuan (83%) and Beijing (79%).
- Similar to last year, **Demand from existing clients to operate in China (50%)** is an important reason to be active in this market.
  - Demand from existing clients is the main reason for companies from the **financial sector** to be active in China.
- (i) **Proximity to East-Asian Markets** and (ii) **Low Costs** remain less important for Benelux businesses. Approximately **50% indicate these are not a significant reasons** to be active in China.
  - **Proximity to East-Asian Markets** remains more important in the coastal regions of Zhejiang (45%) and Shandong (55%)

Reasons for being active in China

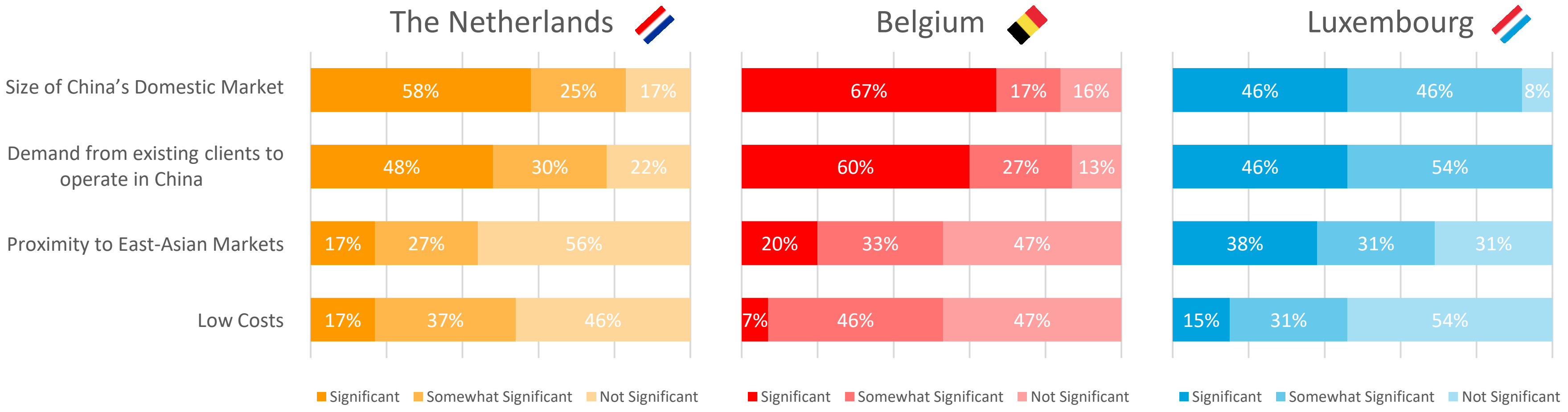
Strategic Motivations for being active in China – by Region



- The importance of the **size of the domestic market** becomes even more important in the main economic clusters.
  - Particularly in the Beijing-Tianjin-Hebei region this is an important reason, where respectively 71% indicate it to be significant.
- Surprisingly, **Proximity to East-Asian Markets** is more important in the Beijing-Tianjin-Hebei region; 50% of these companies were from the Industrial Goods & Services sector.
- Around **52% of businesses in the Pearl River Delta indicate Low Cost** are still somewhat a significant factor. However, only 12% indicates this is a significant reason to be active in the region which is widely known as "the Factory of the World".

Reasons for being active in China

Strategic Motivations for being active in China – by Country

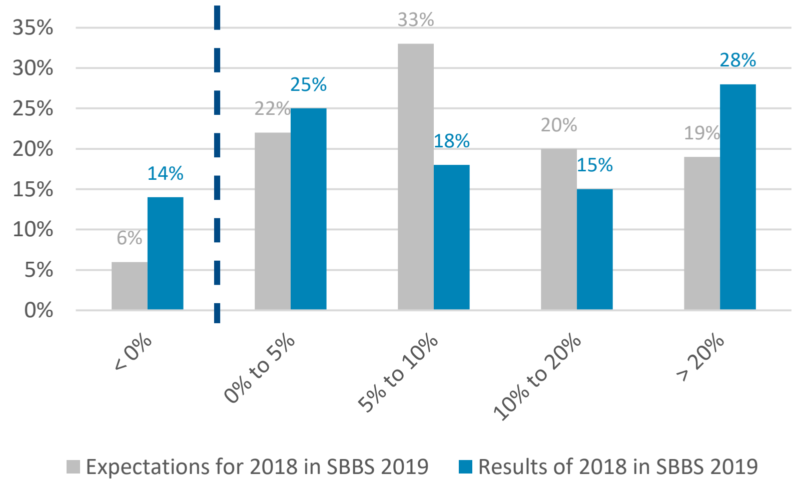


- The Size of China's domestic market is the main motivation for all Benelux businesses to be active in China.
  - According to the European Chamber Business Confidence Survey, the size of the China's domestic market is also the most common reason for European businesses to be active in China.

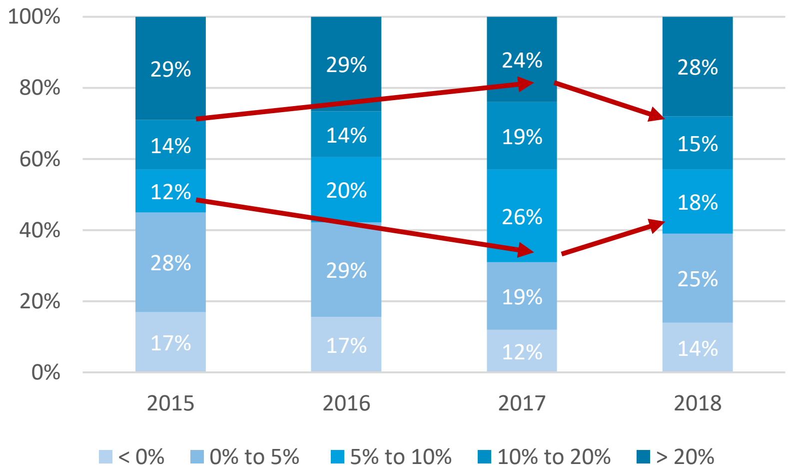
Business Performance

Revenue Growth

% Revenue Growth for 2018



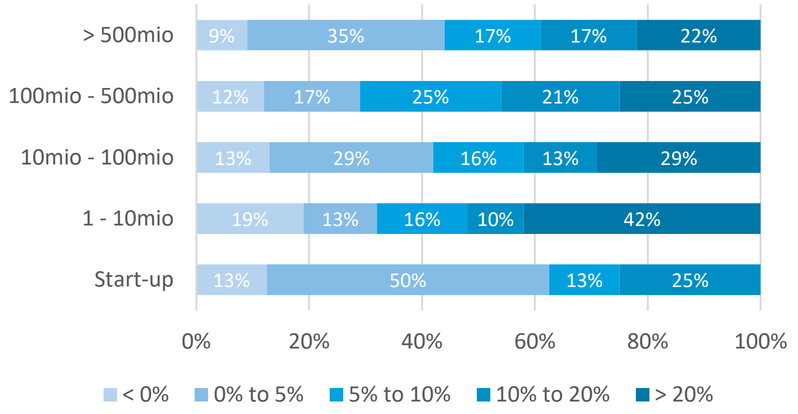
% Revenue Growth from 2015 to 2018



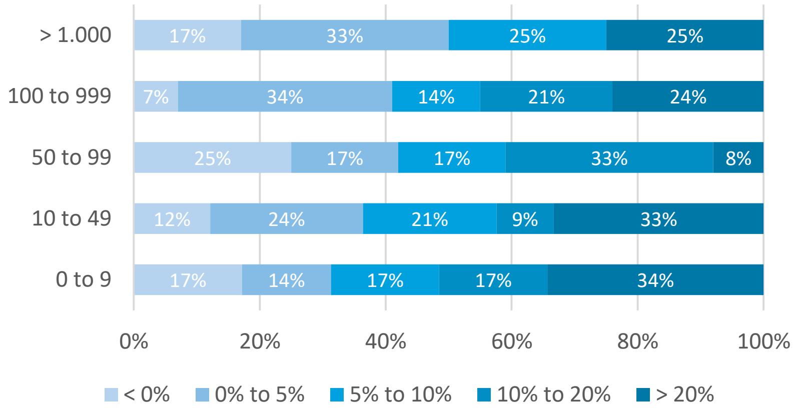
- **86%** of respondents achieved **revenue growth** in 2018 (compared to 88% in 2017).
- Over **60%** achieved **revenue growth of over 5%**, whereas 69% achieved this result in 2017.
  - **We observe a more volatile market with winners and losers**. We can observe that for the first time since 2015, the percentage of companies reporting either no revenue growth or revenue growth >20% has increased.

Revenue Growth – by Size

% Revenue Growth by Revenue Size (RMB)



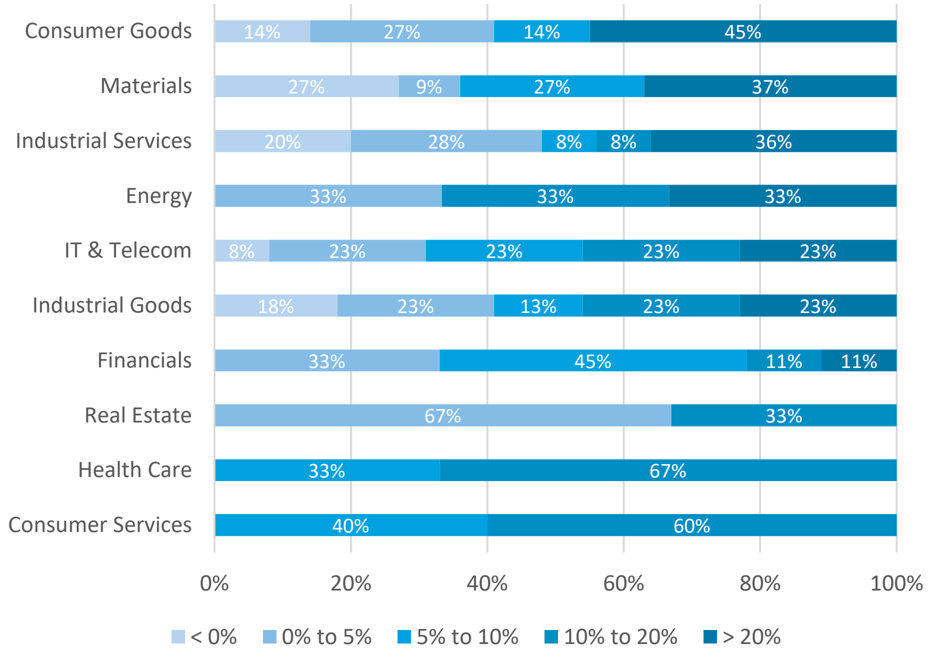
% Revenue Growth by No. of Employees



- Across different size of companies, revenue growth remained positive for more than 80% of the companies.
  - SMEs that have between 0 and 49 employees or up to RMB 10 million represent the group with the highest percentage of revenue growth > 20%.
  - Companies with the size of 50 to 99 employees reported the highest rate of revenue decrease, 25%.

Revenue Growth – per Sector

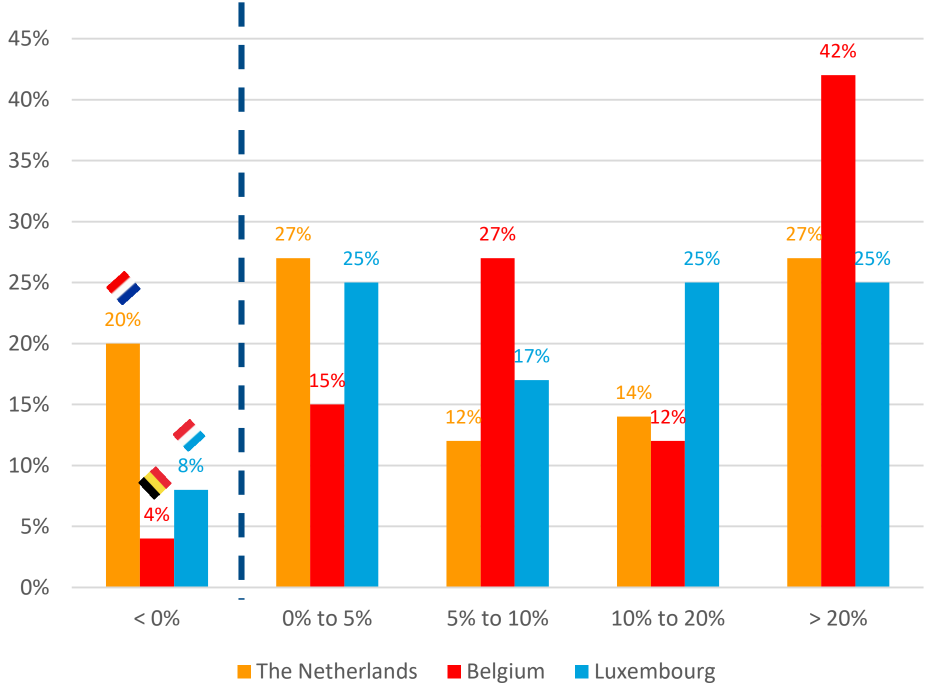
% Revenue Growth per Sector



- Respondents from the Consumer Goods, Materials and Industrial Services report strong revenue growth, respectively 45%, 37% and 36% indicate to have revenue growth greater than 20%.
  - The percentage of the Consumer Goods companies that reported over 20% growth more than doubled from 21% to 45%.
  - Similarly, the number of companies from the Industrial Service sector which reported over 20% growth almost doubled as well (from 20% to 36%).
- Contrary to last year, all respondents from the Energy sector indicated revenue growth in 2018, up from 75% in 2017.

Revenue Growth – by Country

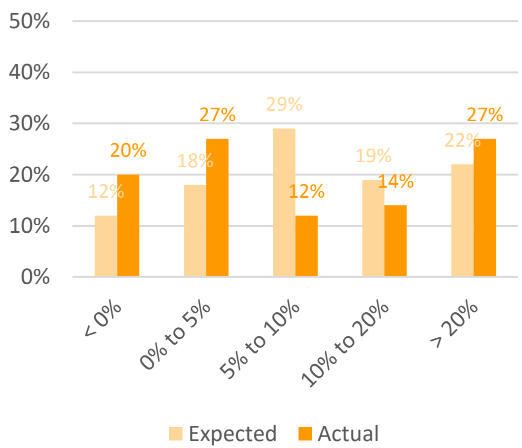
% Revenue Growth by Country



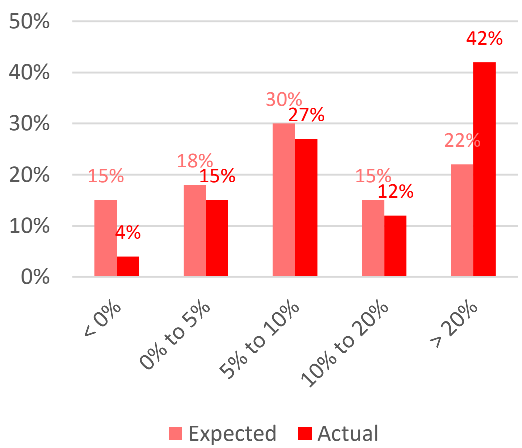
- Respondents from Belgium outperform their peers from the Netherlands and Luxembourg in terms of Revenue Growth.
  - Belgian companies also have the lowest percentage of negative revenue growth & the highest percentage of revenue growth greater than 20%.
- Compared to other countries:
  - According to the European Chamber Business Confidence Survey 2019, **56% of European businesses** in China reported revenue **growth over 5%**, whereas **61% of Benelux business** reported similar revenue growth.
  - However, **70% of German businesses** in China reported revenue growth over 5%; **only Belgian companies** outperform their German counterparts.

Expected vs Actual Revenue Growth

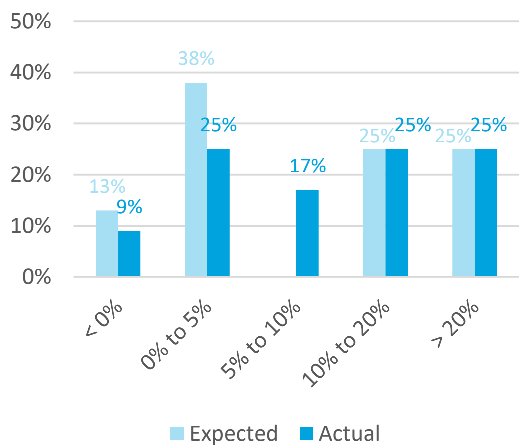
The Netherlands



Belgium



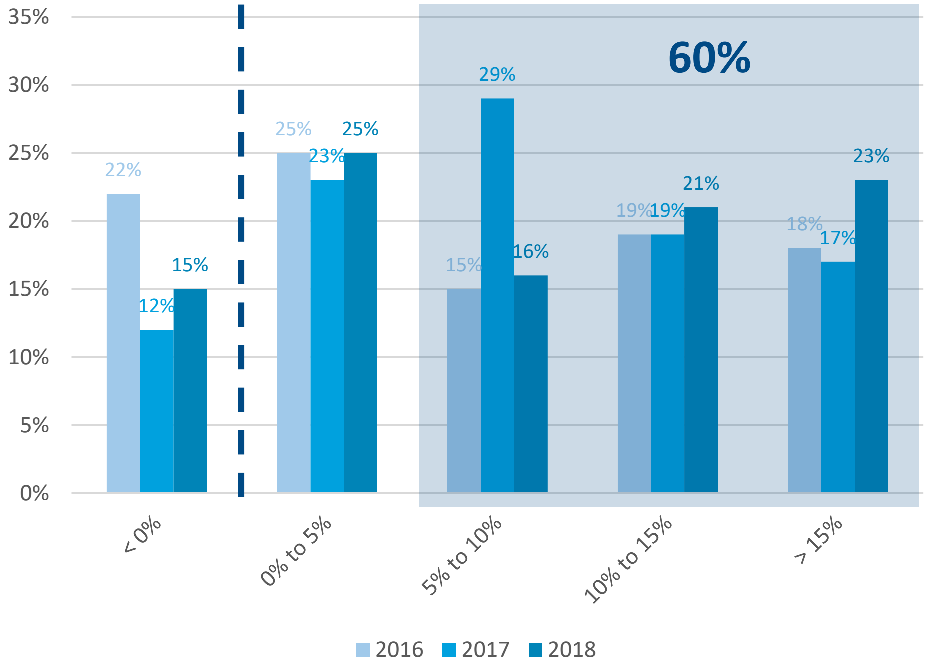
Luxembourg



- Companies from Belgium and Luxembourg outperformed their expectations in 2018.
  - 42% of Belgian companies achieved revenue growth of greater than 20%.
  - For Luxembourg companies we observe that 67% achieved revenue growth greater than 5%, where only 50% expected this.
- On the other hand, companies from the Netherlands performed not as well as anticipated.

Profit Margin

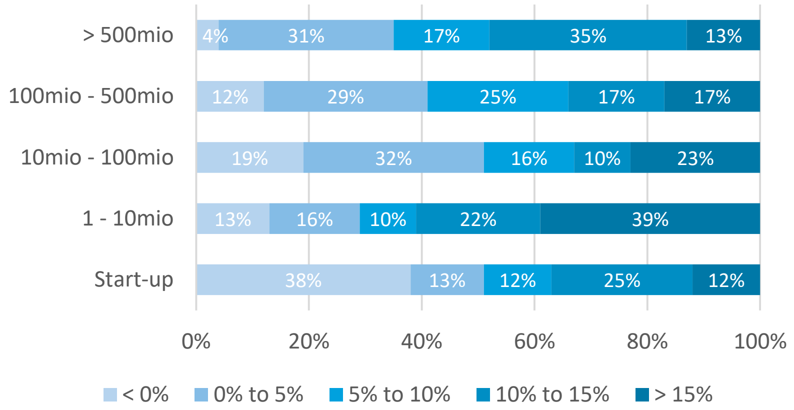
Profit as a % of Revenue



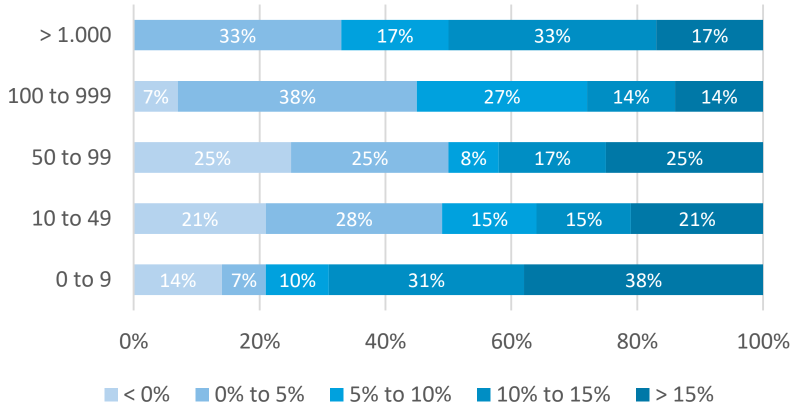
- More than 60% of the respondents achieved a profit margin of over 5%.
  - This number is down 5% from the previous year's number (65%).
- There is an increase of companies that are at a loss compared to 2017.
- The most significant change is in the 5%-10% category, where there is a 13% decrease compared to the previous year.
- For comparison, 77% of European businesses in China remained profitable in 2018, where 85% of Benelux businesses reported same result.

Profit Margin – by Size

Profit as % of Revenue by Size (Revenue in RMB)

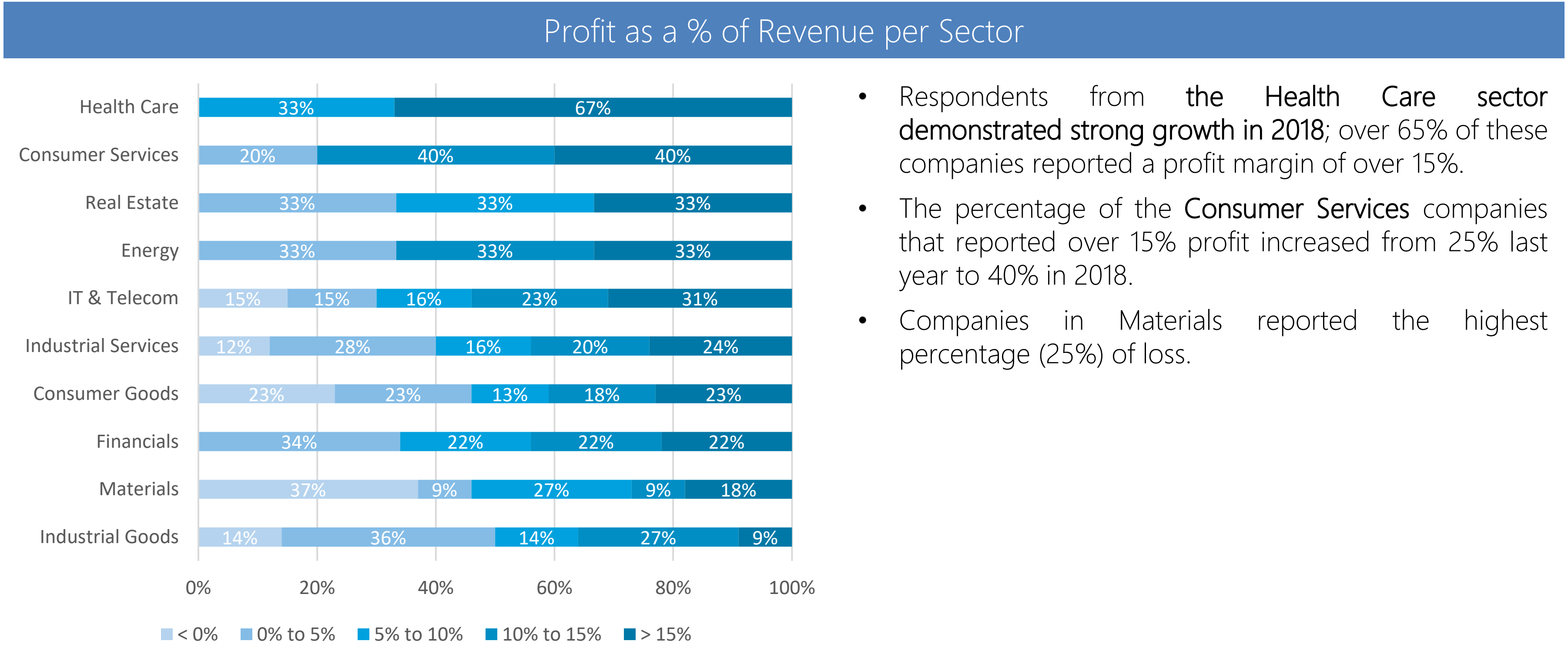


Profit as % of Revenue by Size (No. of Employees)



- Across the different size of companies, profit margins of the respondents remained positive for over 80% of the companies.
  - Companies with the size of 50 to 99 employees reported the highest rate of loss (25%)
  - SMEs that have 0 to 49 employees or up to RMB 10 million in revenue achieved the highest profit rates for the > 15% growth category.

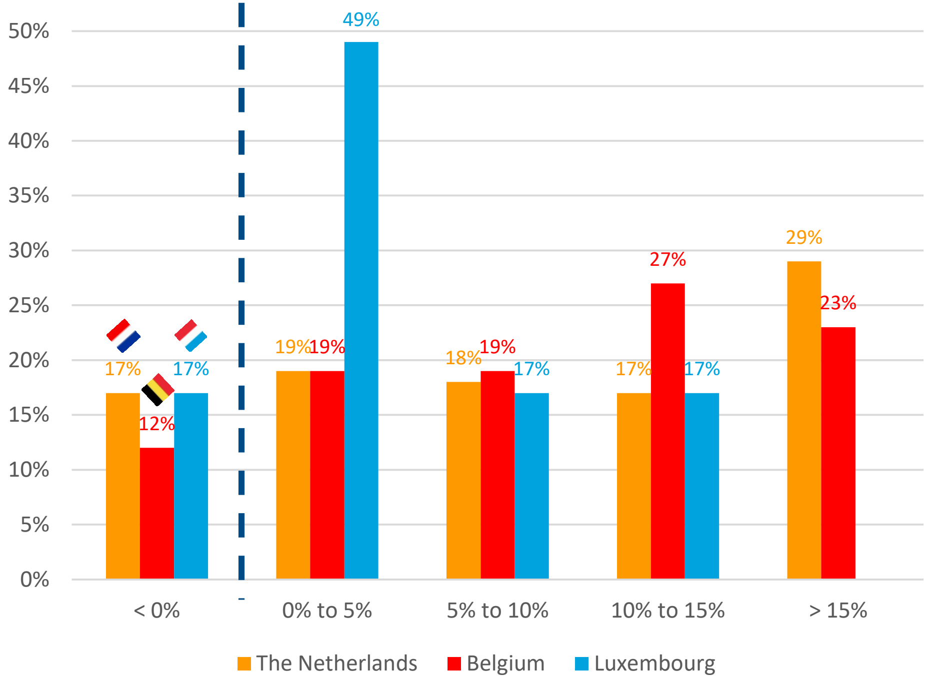
Profit Margin – per Sector



- Respondents from **the Health Care sector demonstrated strong growth in 2018**; over 65% of these companies reported a profit margin of over 15%.
- The percentage of the **Consumer Services** companies that reported over 15% profit increased from 25% last year to 40% in 2018.
- Companies in Materials reported the highest percentage (25%) of loss.

Profit Margin – by Country

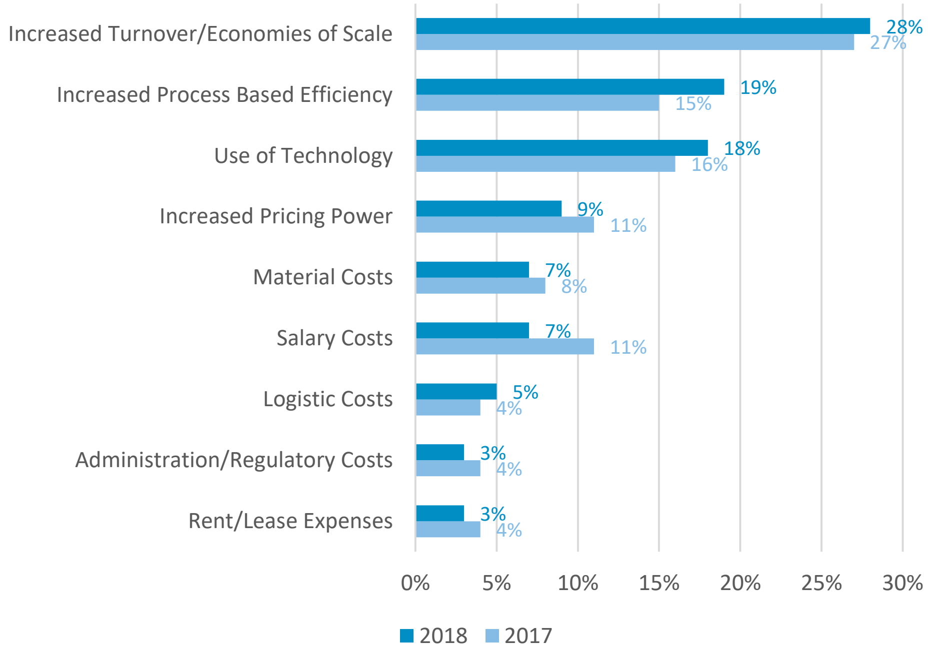
Profit as a % of Revenue by Country



- Companies from the Netherlands and Belgium perform almost equally well in terms of profit margin.
  - The Dutch companies have the highest percentage of respondents reporting a profit margin over 15%; Belgian companies the least reporting losses.
- Comparatively:
  - Benelux businesses outperform their European counterparts as a whole and individually as 88% of Belgian businesses and 83% of Dutch and Luxembourg businesses in China reported profit (on average 77% for European businesses).
  - Also, compared with their Australian peers more Benelux companies reported a profit (62.5% of Australian business reported profit in 2018).

Positive Drivers

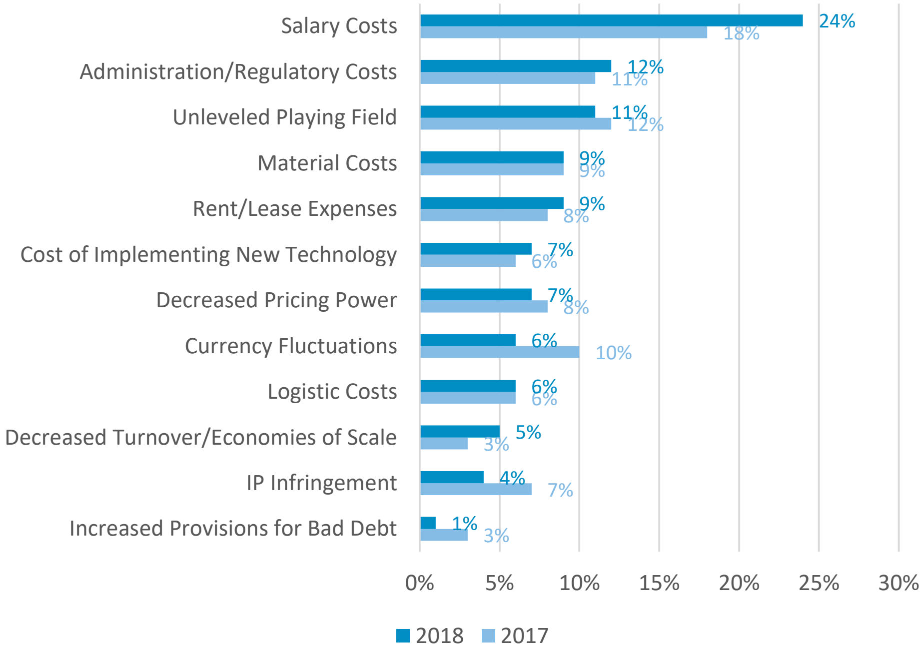
Most Significant Positive Drivers



- Same like last year, **Increased Turnover/Economies of Scale was the most significant Positive Driver** (28%).
  - Interestingly, it was more significant for companies from Belgium (32%) and Luxembourg (32%) compared to their Dutch peers (25%).
- The top three positive drivers are again completed by Increased Process Based Efficiency and Use of Technology.
- It is striking to observe that **the top three Positive Drivers are recognized by 66% of the respondents to be significant in 2018**, compared to 54% in 2017.
- The responses in the category "Other" vary, but comments mentioned include "Growth of the Chinese Market" as well as beneficial changes to "Laws and Regulation".

Negative Drivers

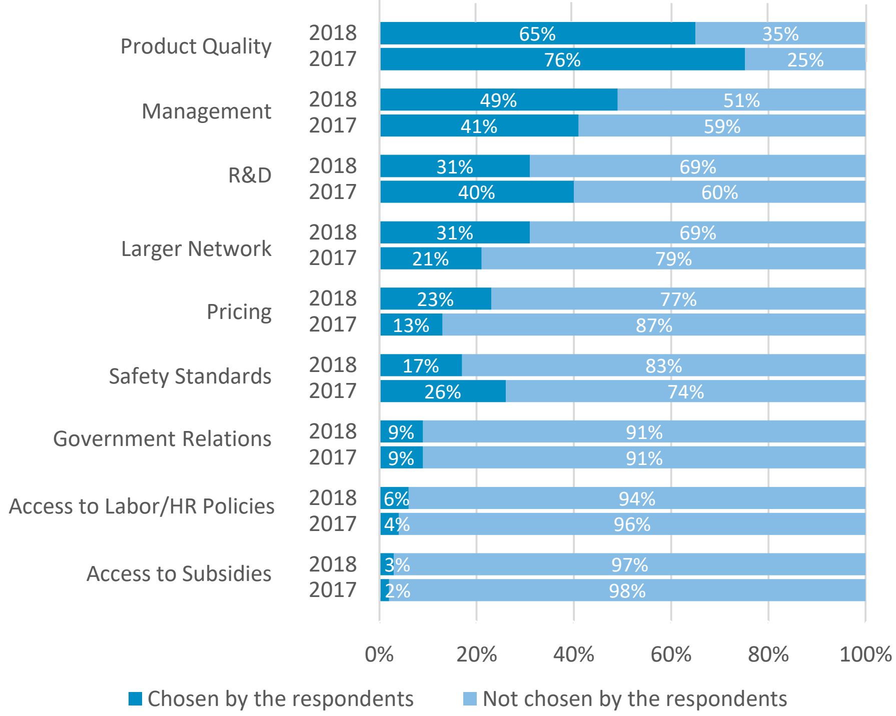
Most Significant Negative Drivers



- **Increasing Salary Costs** has remained the **most significant negative driver** for Benelux companies.
  - An increasing number of respondents have indicated this to be significant (24%) as compared to last year (17%).
- Salary Costs was followed by Administration/Regulatory Costs (12%) and the Unleveled Playing Field (11%).
- Within the category "Other", a recurring topic was **competition from local firms**, including both private enterprises as well as Chinese State Owned Enterprises (SOEs).

Competitive Advantage

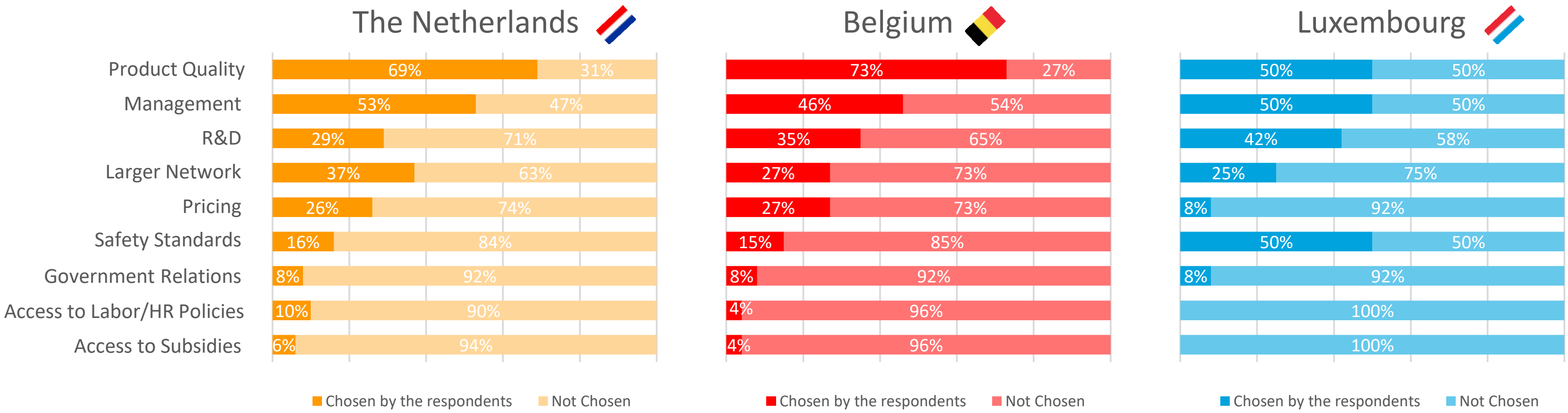
What makes you Competitive in the Chinese Market



- **Product Quality** remains the **strongest competitive advantage of Benelux businesses in China**.
  - The Materials (91%), Industrial Goods (77%) and Consumer Goods (82%) sectors uniformly agree this is their strongest competitive advantage.
- Same like last year, **Management** occupies the 2nd position, where it is particularly important for companies from the Industrial Services sector (60%).
- R&D is the most important competitive advantage for companies from the IT & Telecom industry.
  - The respondents indicated that those companies whom view R&D as a competitive advantage, generally view Chinese Private Enterprises as competitors.

Competitive Advantage – by Country

What makes you Competitive in the Chinese Market – by Country

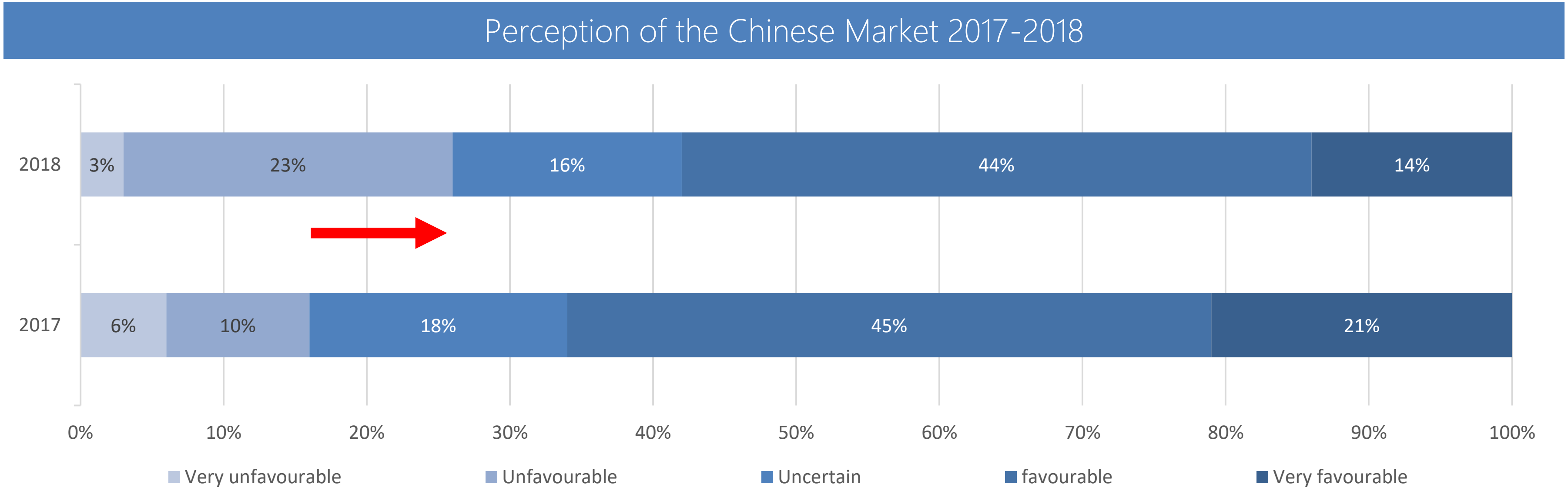


- Product Quality is also the most important competitive advantage for companies from Belgium (73%) and The Netherlands (69%).
  - Product Quality, Safety Standards and Management are all equally important to companies from Luxembourg.
- We can observe that the Benelux countries share similar competitive advantages in the Chinese market.

BenCham MOORE

Business Sentiment

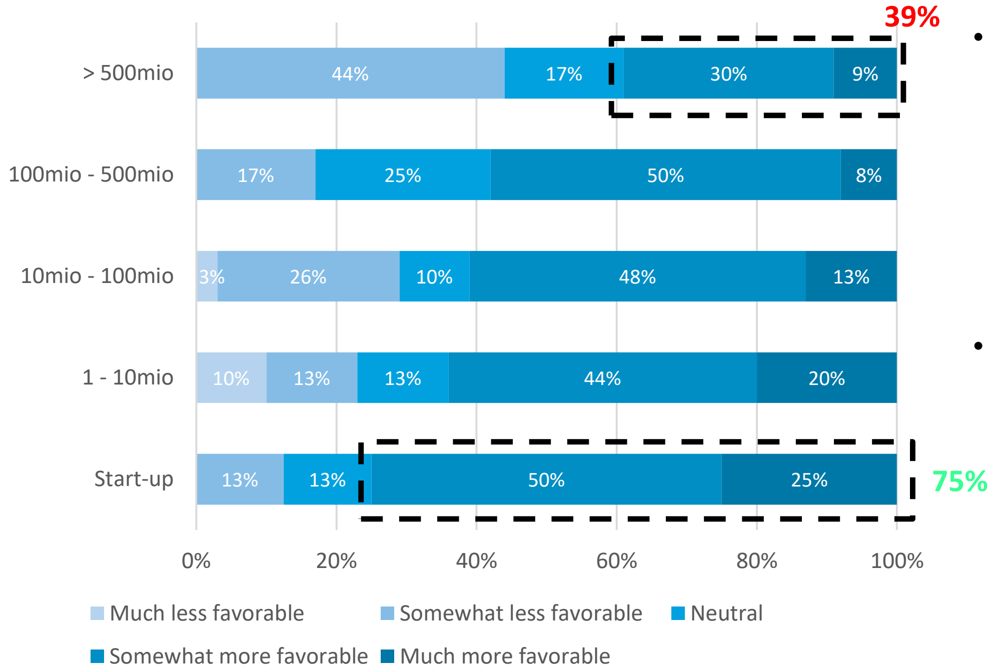
Perception of the Chinese Market



- **58% of respondents are optimistic (favorable to much more favorable) about the Chinese market** (down from 66% last year).
  - The most optimistic sectors are the Financials (75%) and Consumer Goods (69%).
- There appears to be no direct correlation between years active in China and the perception of the market.

Perception of the Chinese Market – by Size

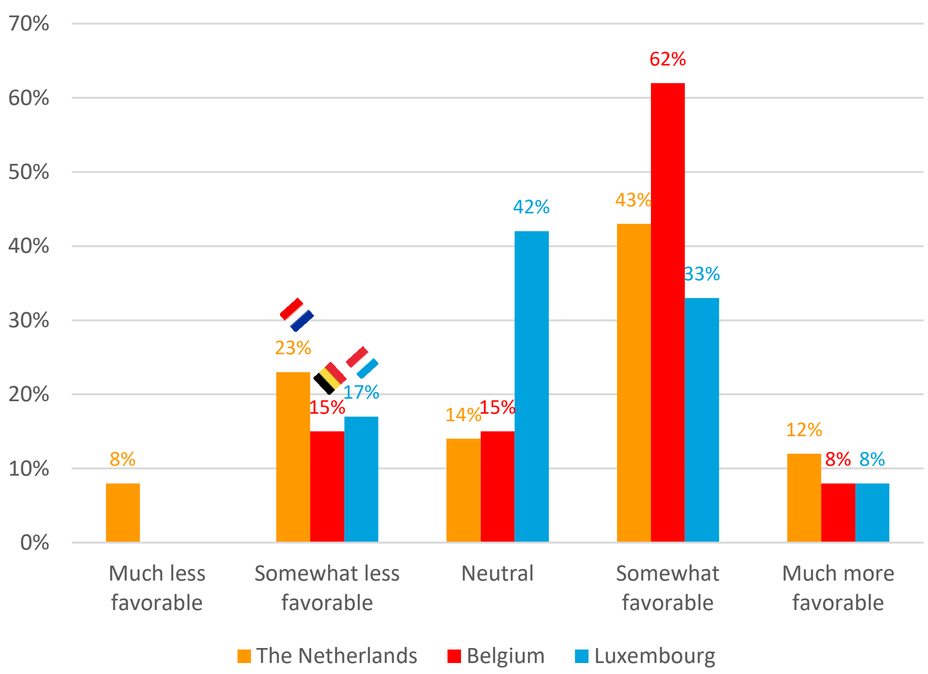
Perception of the Chinese Market – by Size



- Interestingly, there seems to be a correlation between the size of a business and the perception of the Chinese market.
  - SMEs generally tend to view the Chinese market with more optimism than larger businesses.
  - 75% of Start-ups are optimistic as well as 64% of companies with a revenue up to RMB 10 million.
- Overall, the number of companies who perceive the market somewhat less favorable increased from 10% in 2017 to 23% in 2018.
  - We observe that mostly companies with revenue greater than RMB 500 million and those with revenue between RMB 10 and 100 million have this perception.

Perception of the Chinese Market – by Country

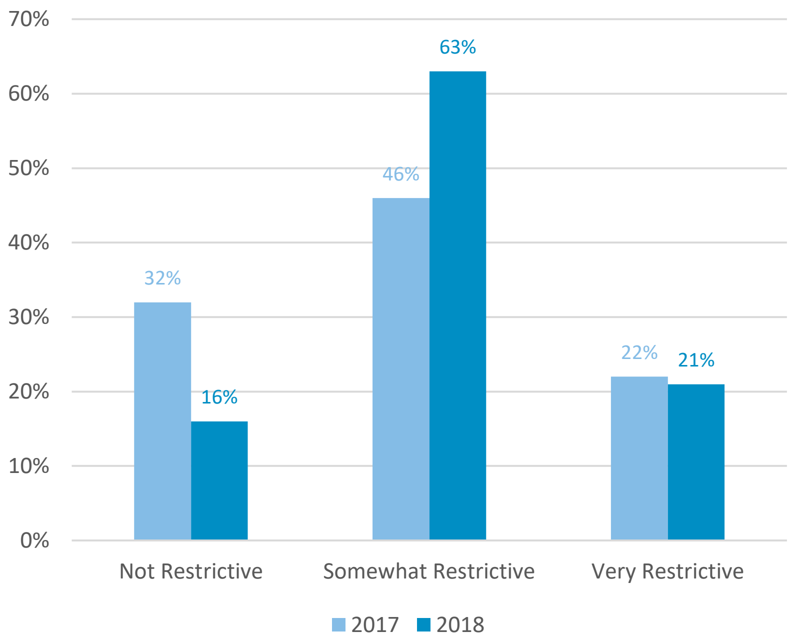
Perception of the Chinese Market – by Country



- When reviewing the results on the perception of the Chinese market compared between the different countries, generally the Dutch companies are more negative with (31%) compared to the Belgian companies with 15% indicating the market is either much less favorable or somewhat favorable.
- 70% of Belgian companies see the market either somewhat favorable or much more favorable;
  - These results are in line with the profit margin and revenue growth results in 2018 of the Belgian companies.
- Luxembourg companies are generally neutral with 42%.
- In 2018, the Benelux community is slightly less optimistic (58%) compared to European average (62%).

Restrictiveness of the Business Environment

Perception of Every-day Business 2017-2018

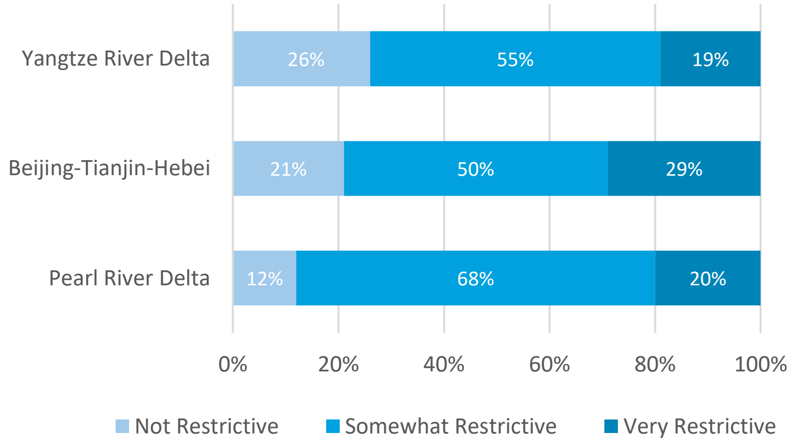


The perception of Every-day Business is measured as the perception of respondents on factors such as Profit Repatriation, Import/Export Procedures, Labour Costs and the Ability to Find Personnel.

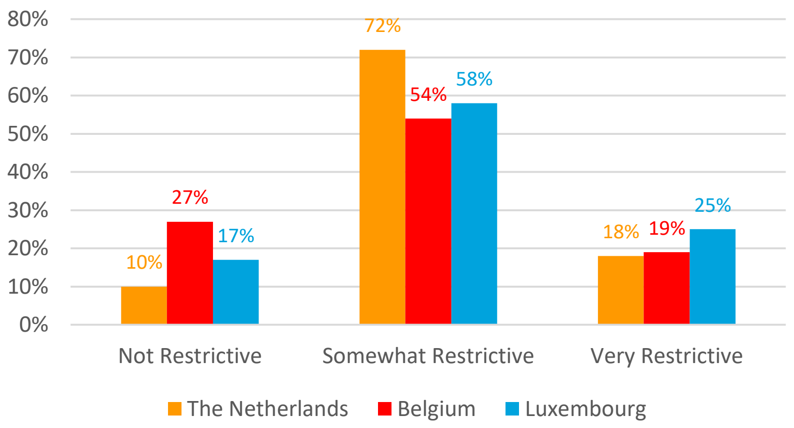
- 84% of respondents find Every-day business either very or somewhat restrictive (an increase of 16% compared to 2017).
  - The Financial sector perceives the Every-day Business most restrictive (respectively 44% very- and 56% somewhat restricted).
  - Similarly, 85% of companies from the IT & Telecom sector perceive the business environment somewhat restrictive.

Restrictiveness of the Business Environment

Perception of Every-day Business by Region



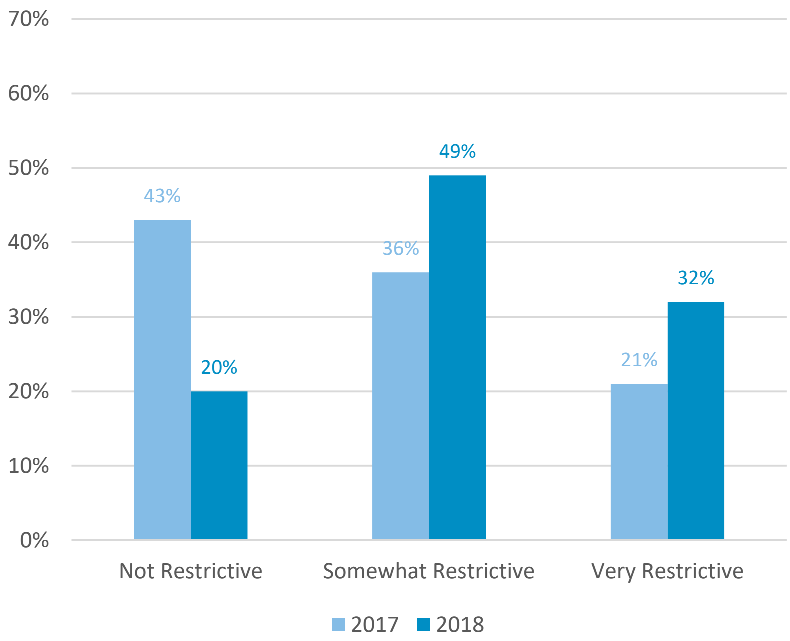
Perception of Every-day Business by Country



- The respondents indicated that **Yangtze River Delta is less restricted in terms of Every-day Business** compared to other clusters.
- Belgian companies perceive the business environment less restrictive (only 73%) compared to their Benelux counterparts.
    - All but 1 of these Belgian companies also answered that they perceive the Chinese market somewhat more favorable.

Restrictiveness of the Level Playing Field

Perception of the Level Playing Field 2017-2018

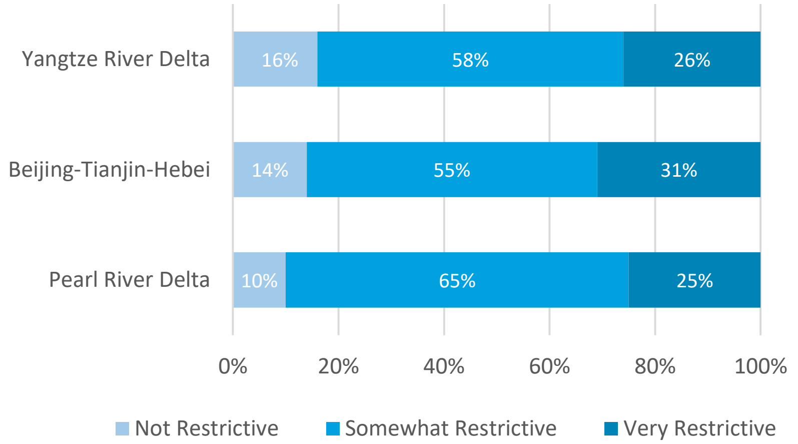


The perception of the Level Playing Field is measured as the perception of respondents on factors including Access to Chinese Financing, Preferential Treatment of Local Competitors and Unfair Pricing from Domestic Competitors.

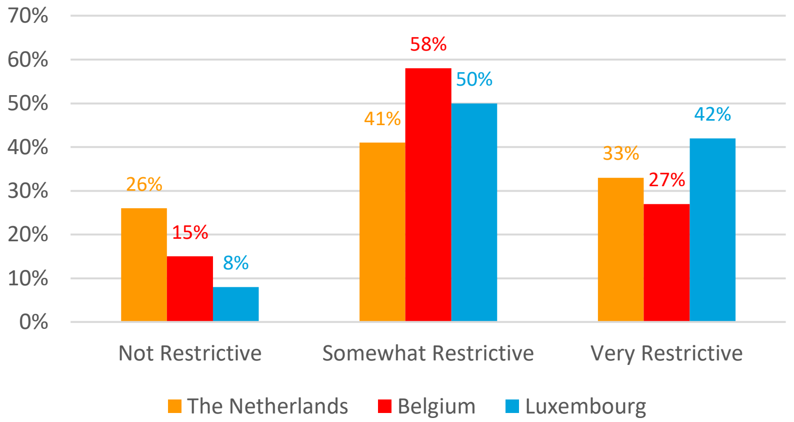
- 23% of respondents perceive that the Level Playing Field worsened, with 80% now believing it to be very or somewhat restricted.
  - Both the Consumer Services- and Industrial Services sector indicate an Unlevel Playing Field (100% and 92%) respectively.
- More than 80% of firms who incurred a loss, also perceive an Unlevel Playing Field.

Restrictiveness of the Level Playing Field

Perception of Level Playing Field by Region



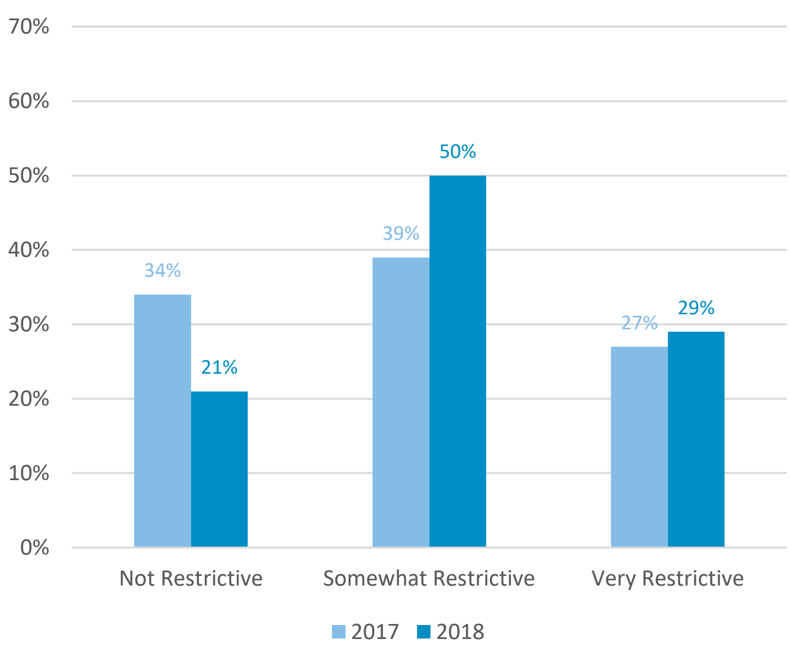
Perception of Level Playing Field by Country



- Overall, we observe that across regions over 80% observe an Unlevel Playing Field.
- Companies from the Netherlands least perceive an Unlevel Playing Field (26%).
- In total, 80% of Luxembourg companies who perceive an Unlevel Playing Field are from the Industrial Goods & Services sector.

Restrictiveness of Government Relations

Perception of Government Relations 2017-2018

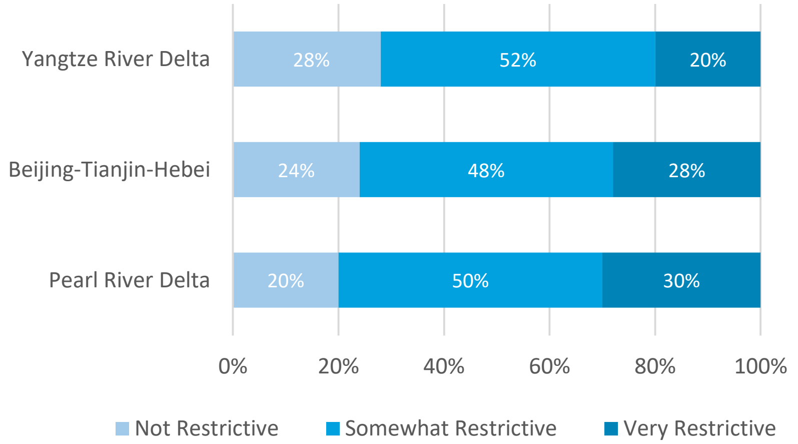


The perception of Government Relations is measured as the perception of respondents on factors including Bureaucracy, Access to Government Relations and Obtaining Government Approval.

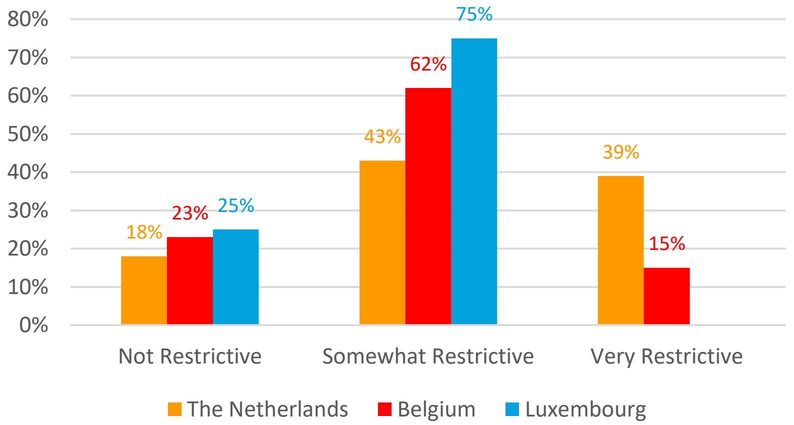
- **79% of Benelux businesses perceive Government Relations either very- or somewhat restrictive** (up from 66% in 2017).
  - The least optimistic sectors are the Industrial Services (84% indicate that Government Relations are restrictive) and Consumer Services (80% and 20% indicate very restrictive or somewhat restrictive Government Relations)

Restrictiveness of Government Relations

Perception of Government Relations by Region



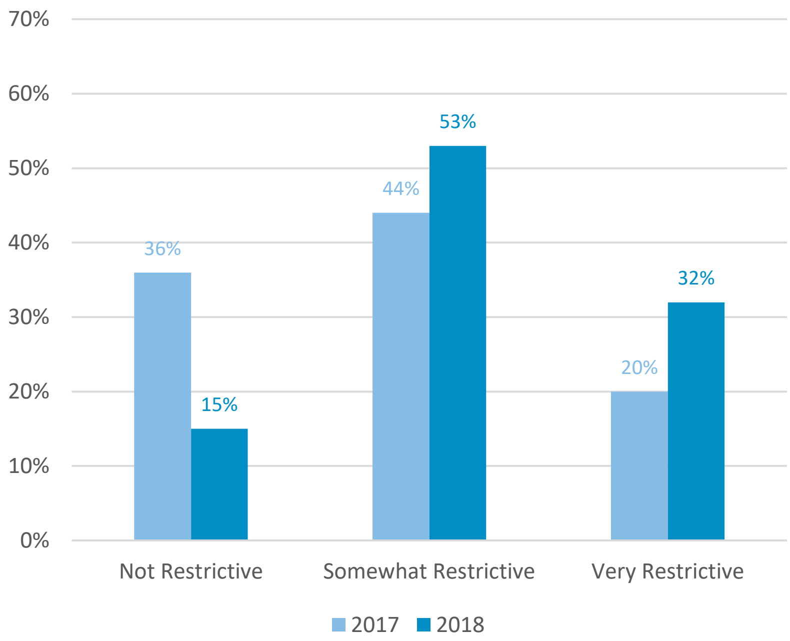
Perception of Government Relations by Country



- Government Relations are perceived to be equally restricted across the main economic clusters of China.
    - Compared to the perception on Every-day Business, the Level Playing Field and the Regulatory Environment, the perception of Government Relations appears to be less negative (over 20% across all regions perceive this not restrictive).
- Companies from the Netherlands perceive Government Relations most restrictive, with 39% perceiving them very restrictive.

Restrictiveness of the Regulatory Environment

Perception of the Regulatory Environment 2017-2018

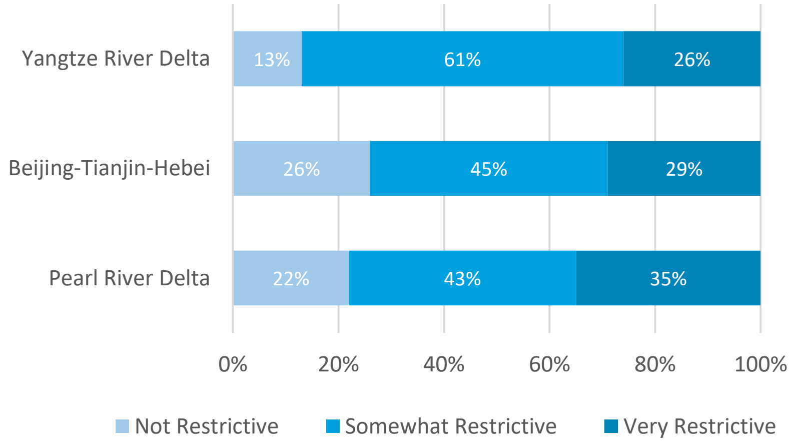


The perception of the Regulatory Environment is measured as the perception of respondents on factors including Legislative Transparency, IP Protection and Enforcement of Legislation.

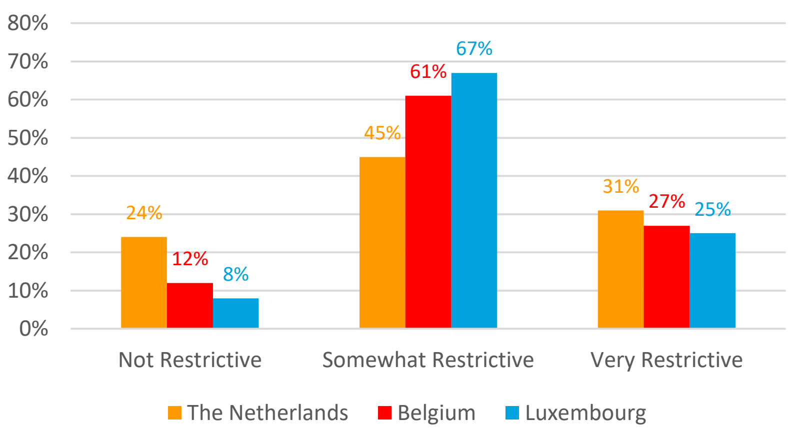
- In 2018, **the number of respondents who believe the Regulatory Environment to be restricted has increased from 64% to 85%.**
  - According to the respondents, the **Financial sector is most restricted** (100%).
  - On the other hand, companies from the Consumer Services industry are more optimistic with respectively 40% indicating as not restrictive.

Restrictiveness of the Regulatory Environment

Perception of Regulatory Environment by Region



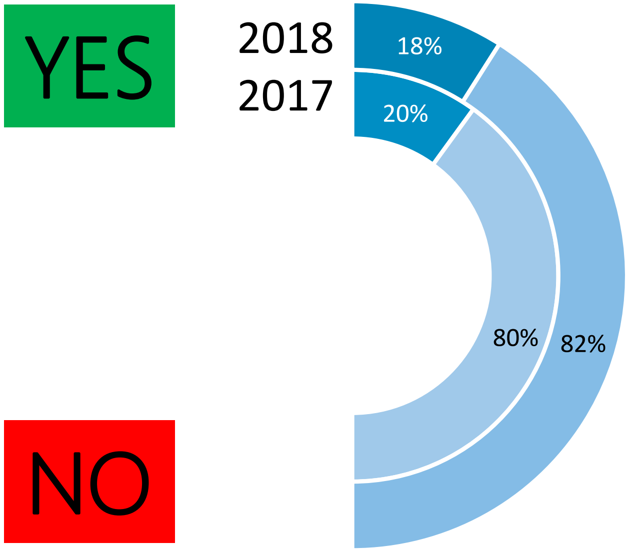
Perception of Regulatory Environment by Country



- The Regulatory Environment, is considered to be most restricted in the Yangtze River Delta economic cluster.
  - This could potentially be attributed to the enforcement of legislation in more developed regions of China.
- Dutch companies see the regulatory environment less restrictive as compared to Luxembourg and Belgian companies, however, the majority is feeling an either somewhat restrictive or very restrictive environment.

Belt & Road Initiative (BRI)

Did you encounter projects in the framework of the Belt & Road Initiative?



- **Only 18%** of the respondents from our survey indicated that they **encountered projects in the framework of the Belt & Road Initiative.**
  - **45%** of these companies are from the **Industrial Services industry** (including businesses in consulting, transport/logistics and the maritime sector).
  - In addition, over **60% of these companies are SMEs**.
  - The majority of companies who have encountered projects related to the Belt & Road Initiative have office locations in First-tier cities and coastal regions.
- We do not see that the companies that encountered BRI projects have been participating activ building BRI Infrastructure nor on a large scale (i.e. trading) are using the BRI infrastructure. **Findings show that the companies are generally not involved in this project.**

Belt & Road Initiative (BRI)

Specific Opportunities in the framework of the Belt & Road Initiative reported

The companies that have indicated that they encountered specific projects (18%) reported opportunities related to logistics, advisory and potential clients.

However, no companies appear to be involved in the construction of infrastructure; and only very few respondents were actively engaged in providing services in the Belt & Road Framework.

Logistics: respondents reported they either provided logistical services in the framework of the Belt & Road Initiative or customers have been using BRI infrastructure.

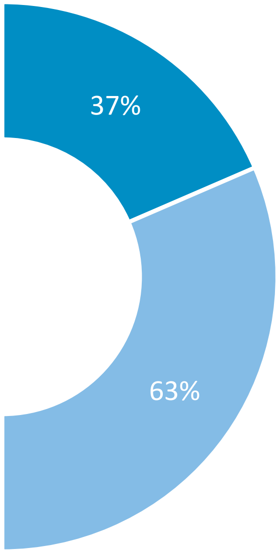
Encountered potential clients whose interest in China started because of the BRI.

Advisory: a number of respondents indicated they assisted with enquiries about the Belt & Road Initiative (including consultancy, research and by participating in events).

China-US Trade War

Did the China-US Trade War impact your Business?

YES



NO

Note: The questionnaire was open during the months of March and April 2019, and therefore excludes any respondents' perception due to recent US tariffs from May 2019.

On July 6th, 2018, the US implemented its first tariffs specifically aimed at China and to date the US has put USD 250 million of tariffs on Chinese products.

- 37% of the respondents reported that the China-US Trade War impacted their business.
  - Chinese **coastal regions** were mostly impacted.
  - **40%** of these companies come from **the Industrial Goods & Services industry**.
  - **Over 45%** of companies from the **Materials sector** were impacted.

US-China Trade War

Did the China-US Trade War impact your Business?

The respondents indicated that their business was both negatively and several positively impacted because of changes in import/export, customer demand, patriotism and US competition.

Import/Export: several respondents indicated they were directly affected by the increase in price of materials due to the tariffs

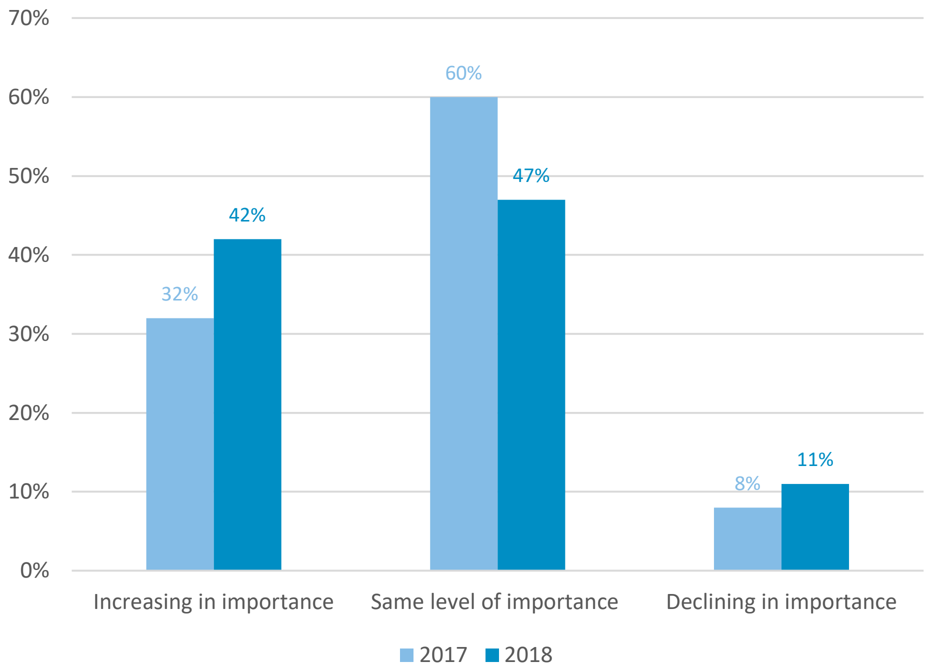
Customer Demand: Chinese customers are less confident in the economy resulting in lower sales.

Patriotism: due to increased nationalism/patriotism, Chinese consumers are more likely to purchase domestic Chinese goods.

US Competition: a number of respondents indicated they experienced a positive effect because of fewer competition from companies originating from the United States.

Importance of China in Strategy

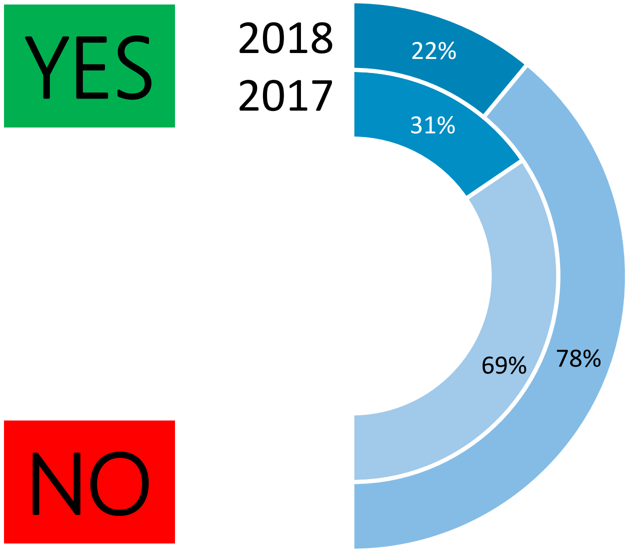
How important will China be in your group's strategy in the coming two years?



- **89%** of respondents perceive their Chinese operations at the **same or increasing level** of importance in their group's strategy.
  - There seems to be n**o direct correlation between the years active** in China or company size and **the importance of China** in the company's group strategy.
  - Positive drivers named: **27% Increased Turnover/Economies of Scale** and **20% Use of Technology**.
- 11% report a declining in importance:
  - The **most important negative drivers** of these companies are the **Unleveled Playing Field** (42%) **and Salary Costs** (33%).

Leave China?

Would you consider to move some of your Chinese activities to other Asian countries?

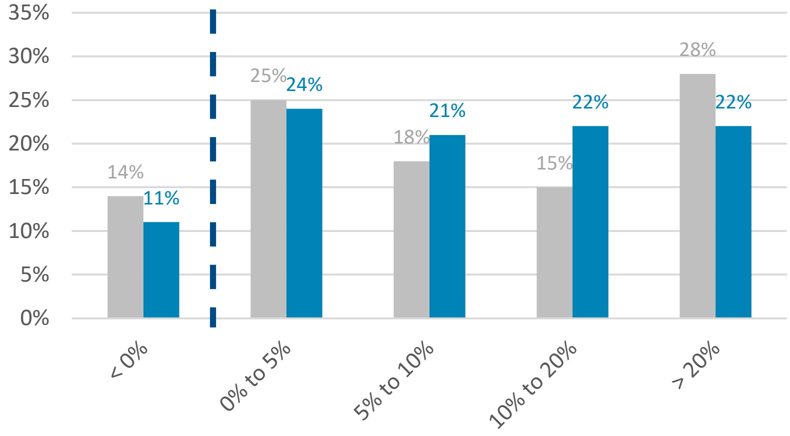


- **22% of the respondents consider to move** some Chinese activities to other Asian countries.
  - **Salary Costs** is an important negative driver for **52% respondents** who indicated they consider to move activities from China.
  - **48%** of these companies indicated they were **impacted by the China-US Trade War**.
- Stay in China – Chinese market size and opportunity
- Leave China – Costs (material, labor etc.) is too high
- Only 7% of companies with offices in the Beijing-Tianjin-Hebei region consider to move activities, compared to 17% of companies in the Yangtze River Delta and 22.5% in the PRD.

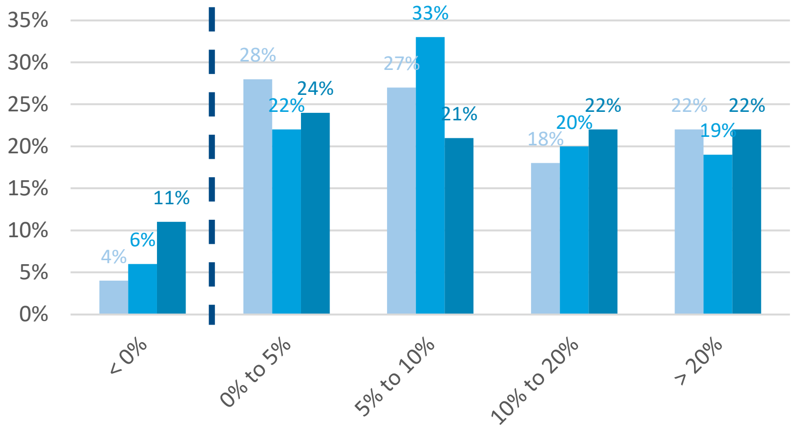
Onward Expectations

Revenue Growth Expectations

Expected Revenue Growth for 2019



Expected Revenue Growth from 2017 to 2019

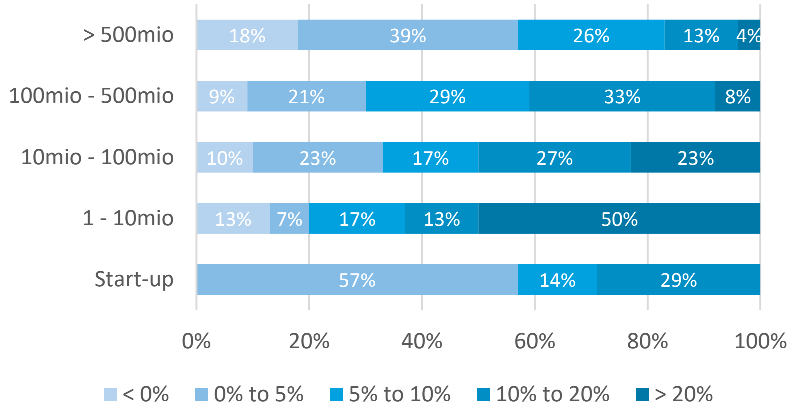


Results in 2018 | Original Expectations for 2017 | Original Expectations for 2018 | Expectations for 2019

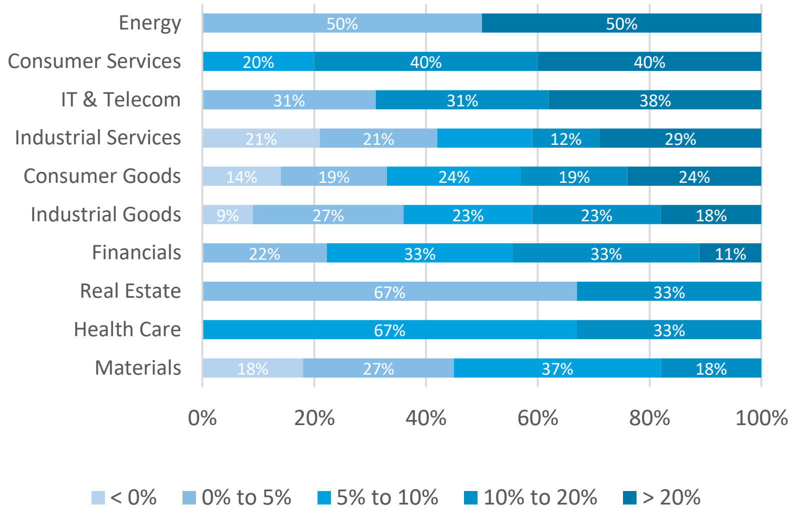
- We see that **Benelux companies are more optimistic compared to their actual results in 2018**.
  - Where 65% expect revenue growth greater than 5%, whereas 61% achieved this result in 2018.
- However, overall we observe that revenue growth expectations above 5% and higher have decreased to 65% (down from 72% in 2018).

Revenue Growth Expectations – by Size & Sector

Expected Revenue Growth by Size (Revenue)



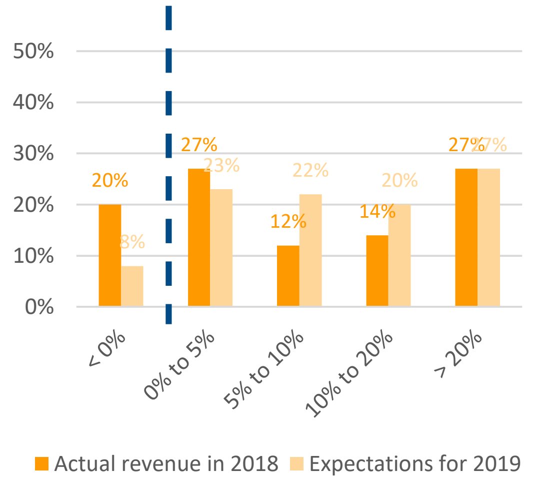
Expected Revenue Growth by Sector



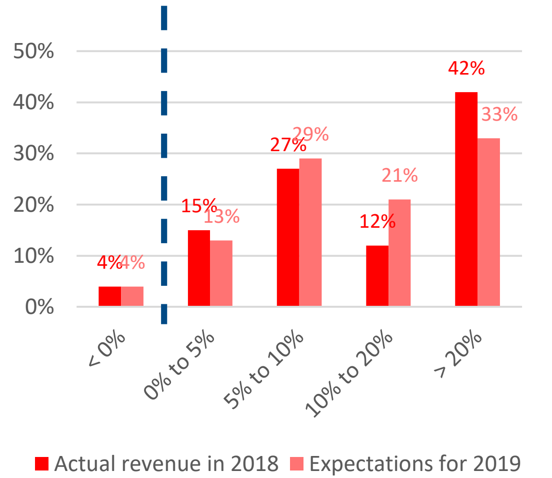
- All startups are expecting revenue growth for 2018.
- **Between 67% and 80% of SMEs**, with revenue growth between RMB 1 million and RMB 100 million, **expect revenue growth to be greater than 5%**.
- Above 80% of respondents from the Consumer Services expect revenue growth to exceed 10%.

Revenue Growth in 2018 vs Expectations for 2019

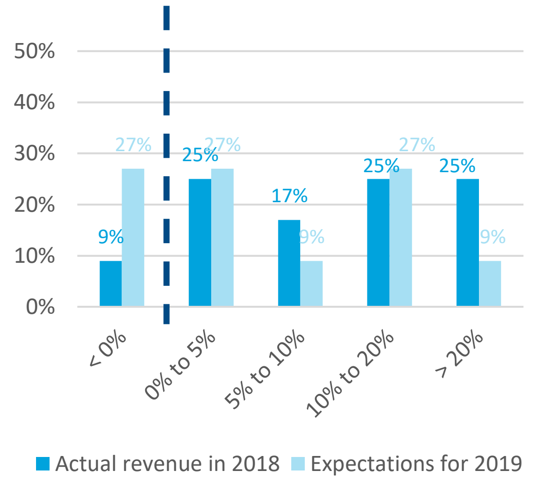
The Netherlands



Belgium



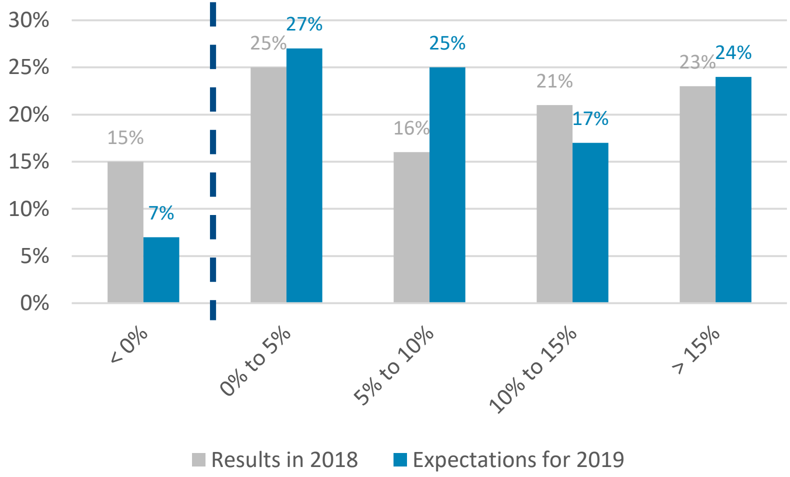
Luxembourg



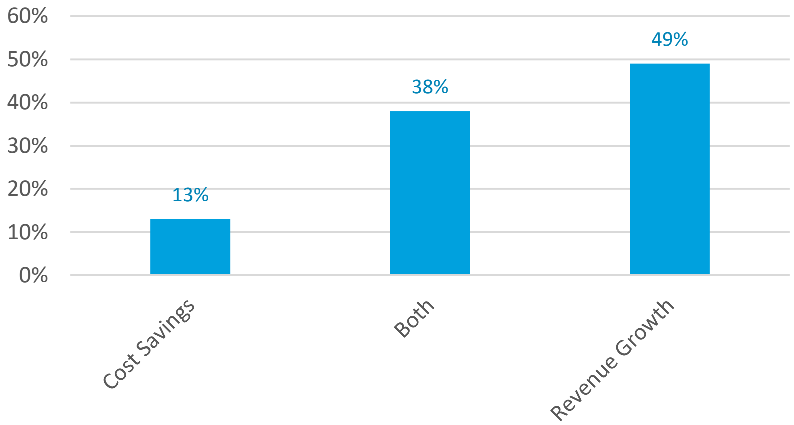
- Both Belgian and Dutch companies are expecting an increase in revenue growth compared to the actual results in 2018.
  - Where 83% of businesses from Belgium expect expect revenue growth greater than 5%, compared to 69% of Dutch businesses.
- Although the Luxembourg companies exceeded their expectations for 2018, they are less optimistic for the year 2019.

Profit Expectations

Profit Expectations for 2019



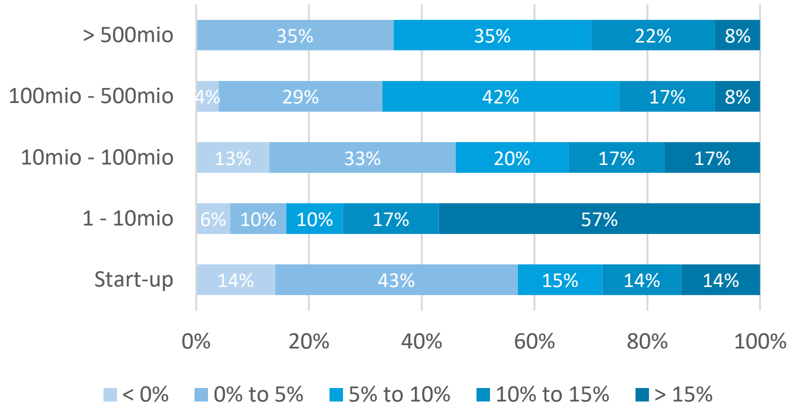
Driver of Profitability for 2019



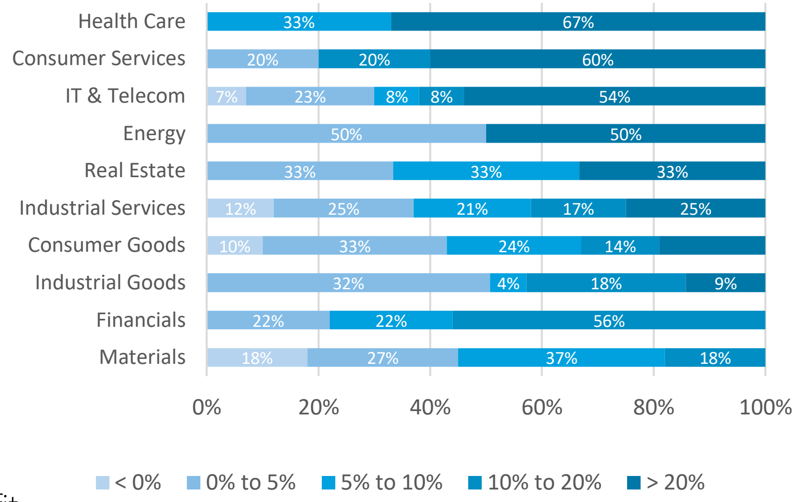
- Compared to the results in 2018, **companies which expect to make profits in 2019 have increased with 8%.** Confidence of the Benelux companies has increased.
- The majority of these companies expects to make profits because of revenue growth (49%), whereas a further 38% attributes these expectations to both revenue growth and costs savings.

Profit Expectations by Size & Sector

Profit Expectations by Size (Revenue in RMB)



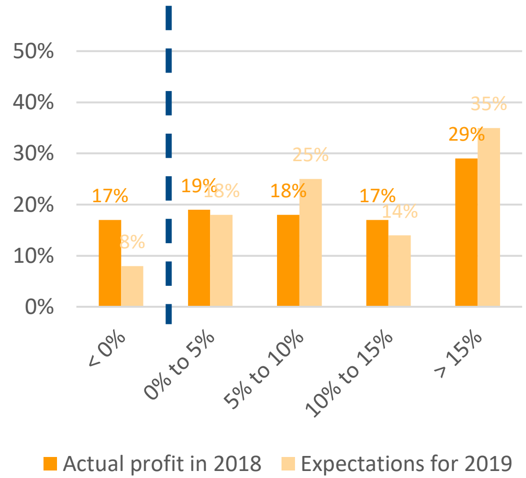
Profit Expectations by Sector



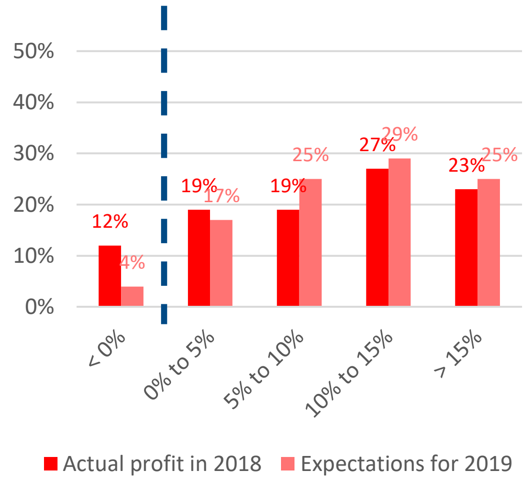
- Companies with Revenue above RMB 500 million expect to make profit.
- **57% of SMEs** with revenue between RMB 1 million and RMB 10 million **expect a profit margin greater than 15%**.
  - Companies from the Health Care- and Consumers Services sectors expect large profit margins.
- As to be anticipated, not all start-ups expect to make profit in 2019.

Profit Expectations by Country

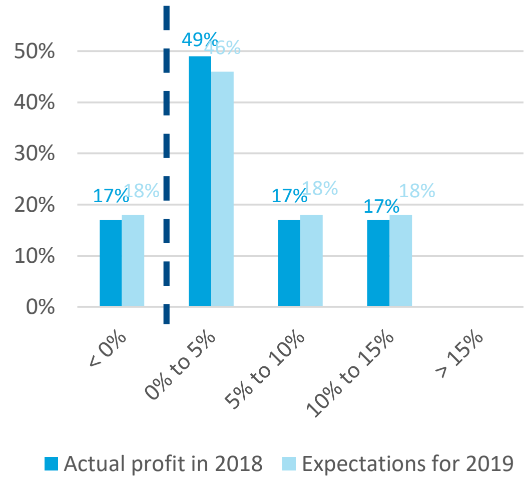
The Netherlands



Belgium



Luxembourg



- Dutch and Belgian companies are expecting a greater profit margins in 2019.
  - Where 83% of businesses from Belgium expect expect revenue growth greater than 5%, compared to 69% of Dutch businesses.
- The Expectations for 2019 and Actual Profit in 2018 for Luxembourg companies in China is very much in line with each other.

Conclusion

Conclusion

- Despite recent reforms, we observe a continuous more negative perception of the Chinese business environment as compared to previous years.
- Salary Costs and Administration Costs are again a major concern for businesses in China.
- Companies from the Benelux actually felt the impact of the China-US Trade War.
- In 2018, again business has been profitable for Benelux companies in China.
- In addition, the respondents have positive expectations for the growth in 2019, which is mostly driven by continuous Use of Technology and Increased Turnover which arises due to a very receptive market.
- More volatile market conditions which result in winners and losers.

Negative perception but good results!

Thanks for your attention!

In collaboration with the official trade- and diplomatic representations of Belgium, The Netherlands and Luxembourg in China:

Embassy	Embassy	Embassy	Trade	Trade	Trade
KINGDOM OF BELGIUM 比利时王国驻华大使馆	KINGDOM OF THE NETHERLANDS 荷兰王国驻华大使馆	GRAND DUCHY OF LUXEMBOURG 卢森堡大公国驻华大使馆	WALLONIA EXPORT INVESTMENT	HUB BRUSSELS INVEST & EXPORT 布鲁塞尔投资出口局	FLANDERS INVESTMENT & TRADE 比利时法兰德斯投资贸易局

Disclaimer

- This document has been prepared by Moore Stephens Consulting, also referred to as “MS Advisory” (www.msadvisory.com).
- The results of the Sino Benelux Business Survey (2019) only reflect answers given by companies on questions asked through the questionnaire.
- MS Advisory is not liable for the use of the information as included in this document.