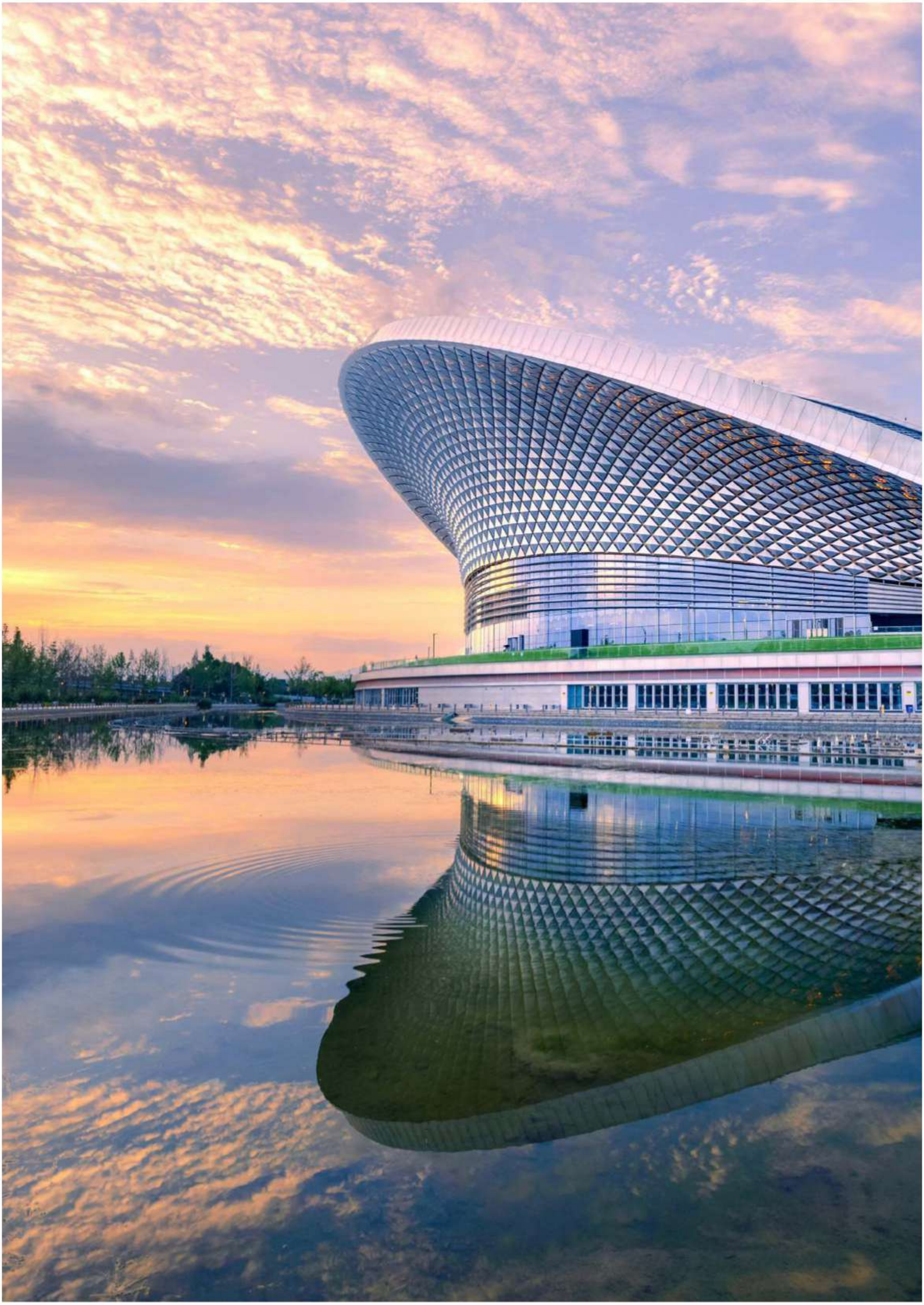
An initiative by:

benelux 荷比卢商会
chamber of commerce in china

SINO BENELUX BUSINESS SURVEY 2023

Supported by: MOORE



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Foreword

I am pleased to present the findings of our 2023 business survey conducted in cooperation with Moore – MS Advisory. This survey aims to provide insights into the current state of the Chinese economy and the challenges and opportunities facing (Benelux) businesses in the region.

Thomas Knoop
General Manager
Benelux Chamber of Commerce

The impact of the COVID-19 restrictions in 2022 led many businesses in the Benelux Business community to reevaluate their long-term strategies and find new ways to achieve growth. While the restrictions varied across sectors, the primary goal for most businesses operating in China was to maintain stability and weather the storm. Those who were on the ground in China maintained a more positive outlook and could see more potential opportunities amidst the challenges.

Although the business environment in China continues to face new and different challenges in 2024, the importance of the Chinese market has not diminished. The Chinese government has made commitments to support and bolster the private sector, foreign investment, aiding in the country's recovery and growth. Businesses that remain competitive on a global scale understand the role that China plays in their global strategy and recognize the potential for growth and success.

While some businesses chose to exit the Chinese market in response to the challenges faced, there is a steady influx of new entrants ready to take their place. This demonstrates the continued interest and confidence in the Chinese market and its potential for business opportunities.

Despite the challenges faced by businesses in China, the importance of the second-largest economy in the world remains intact. Businesses must adapt and pivot their strategies to navigate the evolving landscape. The findings of this survey provide valuable insights for businesses operating in China and serve as a reminder of the need for proactive operations.

I encourage businesses to use these insights to seize the opportunities presented by the Chinese market and propel their growth in the years to come and to contact us for more up to date information exchanges.

Introduction

For the 8th consecutive year, the Sino-Benelux Business Survey has been an initiative conducted by the Benelux Chamber of Commerce and its 3 chapters across China, including North China, East China and South China. All 3 regions are supported by the official trade and diplomatic representation of Belgium, the Netherlands, and Luxembourg in China. The survey is published in partnership with Moore – MS Advisory and is seen as a fundamental report for the Benelux business community.

The objective of the Sino Benelux Business Survey is to provide Benelux companies – from entrepreneurs, start-ups, and SMEs to multinationals – active in the Chinese market, as well as newcomers, and stakeholders such as trade & investment associations and governmental institutions with comparative information about the business climate, sentiment and emerging trends.

Throughout the report, an intuitive and comprehensive analysis is provided about the common experiences, growth opportunities and challenges Benelux companies are facing throughout China. Extensive cross-comparison is made throughout the different sections for over five years which enables us to derive meaningful conclusions.

In the previous editions of the Sino-Benelux Business Survey, the results were impacted by the effects of the COVID-19 pandemic on China's domestic economy and the operations of foreign companies in China. In this report, we provide a unique perspective on how Benelux companies are performing in the post-pandemic era and how they look onward to China.

We trust that this survey and the corresponding report will equip the readers with detailed insights about the Chinese business climate Benelux companies are navigating. Furthermore, we are confident that it will contribute to improving the market position and overall success of Benelux companies operating in China.

Methodology

The Sino Benelux Business Survey 2023, published in September of 2023, for the 8th consecutive year remains a fundamental source of information about the Benelux business community in China. The survey captures the perspectives and business sentiment of Benelux companies operating in the Chinese market.

The survey was open to Benelux companies between March 2023 and April 2023. Over the course of six weeks, 177 companies had responded.

The online questionnaire is fully anonymous and was distributed in a joint effort by the Benelux Chamber of Commerce, the official trade and diplomatic representation of Belgium, the Netherlands, and Luxembourg in China, and the Moore - MS Advisory network.

In order to obtain thorough insight into how Benelux companies are doing in China, respondents were asked 30 qualitative and quantitative questions. In order to ensure comparability over time, we maintian some uniform questions, which are grouped over the 4 following themes.

- Business Demographics
- Business Performance
- Business Sentiment
- Onward Expectations

Similar to last year, we have included an additional category analyzing the impact of COVID-19 on the business confidence and economic impact of Benelux companies.

The information presented in this publication was assembled by Moore - MS Advisory.

Shanghai, September 2023

Executive Summary

The 2023 Sino Benelux Business Survey was conducted between March and April 2023, gathering insights from a diverse group of Benelux companies operating in China. The majority of respondents hailed from the Netherlands (48.6%), Belgium (30.5%), and Luxembourg (6.8%), while a smaller portion had strong ties to management from the Benelux (14.1%). Notably, most companies were situated in economically strong regions such as Beijing, Shanghai, and the Greater Bay Area.

The survey encompassed a wide range of Benelux companies from various industries and revenue sizes, with the majority falling under the classification of small and medium-sized enterprises (SMEs). The three most common industries include industrial services, industrial goods and consumer goods, representing in total 50% of the respondents. The main significant strategic factor for Benelux companies operating in China is the domestic market size (significant for 84% of respondents), and for 65% of the respondents the Chinese operations are within the top 3 of the group's global strategy.

As was to be expected considering the developments in 2022, we observe a strong increase of respondents reporting negative revenue growth. 31% of the respondents reported revenue shrinking and another 21% reported growth of below 5%. At the same time, the number of respondents reporting significant revenue growth of over 20% shrank from 28% to 16. Despite this strong negative shift, still 85% of companies reported profits, a decrease of 2% compared to last year's survey. 68% of respondents even reported profit margin over 5%, indicating the strong resilience of Benelux companies in China.

In terms of positive drivers, respondents highlighted the importance of innovation/R&D, use of technology, and increased process based efficiency. On the other hand, material costs emerged as the main significant negative driver, followed by decreased turnover/economies of scale and import/export difficulties or limitations. Most notable is the decrease in significance of salary costs, ranked only fourth after being the main negative driver for the first 5 years of the survey.

There was a notable shift in business sentiment toward the Chinese market among Benelux companies over the past year, with more than half of the businesses perceiving the market as at least somewhere unfavourable. This trend mirrored the previous year's observations, indicating a persistent negative sentiment. The unfavourable perception could be attributed to the lingering effects of the COVID-19 pandemic and the associated lockdowns in China.

The COVID-19 pandemic had a widespread negative impact globally, and 76.7% of Benelux companies reported a strong or somewhat negative impact on their operations in 2022. However, 11.3% of companies identified positive business opportunities during the crisis, particularly in industrial services and information technology & telecom. Looking ahead, China has now abandoned its strict COVID-19 measures, and 72% of respondents expect that the policy change will positively impact their business. The improving situation in the country has likely also led to the improved sentiment for the future, with 67% of respondents holding optimistic prospects for their business operations in China over the next five years.

Looking forward to 2023, the optimistic outlook among Benelux companies regarding revenue growth and profitability in the Chinese market continues. Most companies anticipate positive revenue growth (88%) and positive profit margins (93%), with a significant decrease in the proportion of businesses expecting negative growth. The expected revenue growth ranges from 0% to over 20%, signalling a potential comeback for Benelux companies in China.

In conclusion, the onward expectations for revenue growth and profitability demonstrate a restoration of confidence in the Chinese market among Benelux companies. These positive outlooks can serve as guidance for strategic decision-making, reinforcing the belief in the post-pandemic recovery and underscoring the significance of revenue growth and effective cost management.

Key Facts

Survey Demographics

65%
Of respondents believe that their Chinese entity is a top-3 priority for their global strategy

50%
Of respondents fall within these industries:

Industrial Services, Industrial Goods, Consumer Goods

70% Of respondents are located in main economic hubs

Business Performance

31%
Of respondents saw a decrease in revenue

85% of respondents generated profit

68% exceeded profit margins of 5%

Positive Drivers

Main positive drivers include:

Increased Innovation/R&D & Use of Technology

Negative Drivers

Main negative drivers include:

Material Costs & significant decrease in Economies of Scale

Most Restrictive Barrier

Every-Day Business & Regulatory Environment

Business Sentiment

29%

Of respondents considered leaving China

57%

Of respondents perceive the Chinese market as unfavorable

77%

Of respondents were negatively impacted

COVID-19 Impact

72%

Of respondents expect a positive impact after China's policy change

Post-pandemic Optimism

88%

Of companies expect generating revenue growth

93%

Expect to generate profit

Onward Expectations

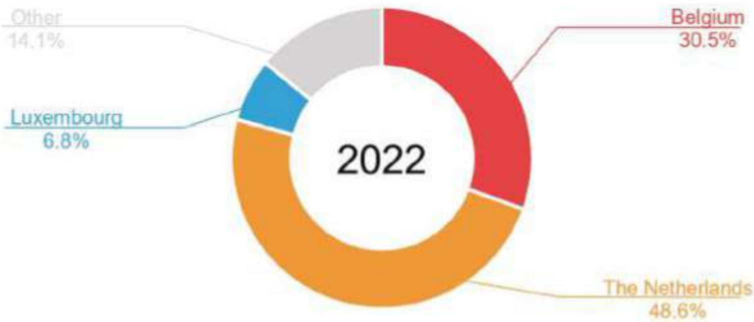
29%

Intending to actively localize production lines in China

1 Demographics

Parent Company Nationality

What is the nationality of the Parent Company or the Beneficial Owners?



The 2023 Sino Benelux Business Survey reached its third highest participation levels since its inception 8 years ago, with more than 170 completed questionnaires. Between the middle of March and the end of April 2023, companies from the Benelux region were asked to participate in this survey. The survey respondents are primarily composed of Dutch (48.6%), Belgian (30.5%) and Luxembourgish (6.8%) participants, who collectively account for 85.9% of the total. The remaining 14.1% consists of "Other," which include companies that have strong ties to the region, either through business activity or through connections from Benelux executives.

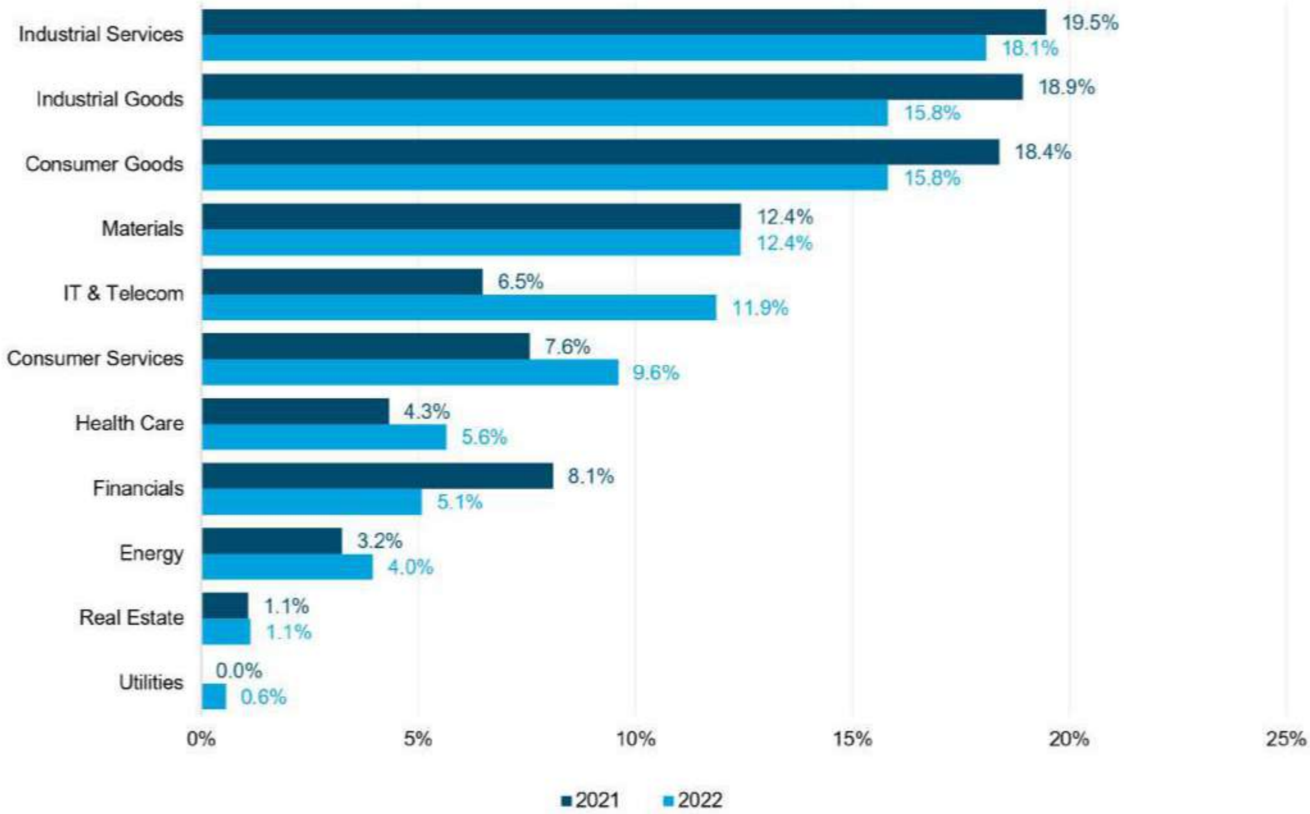
Location of Benelux Companies in China

In which provinces of Mainland China do you have an office/entity?

This analysis represents a total of 345 offices or entities from Benelux companies, with more than 70% of them located in the 3 main economic hubs. The smallest representation of the 3 areas is in the Greater Bay Area in China's Guangdong province, with 36 offices, representing 10.4% of the sample. The Beijing-Tianjin-Hebei region has 51 Benelux office locations, with 14.8% of offices in the sample located there, of which over 3 quarters are located in Beijing. Nearly half of the offices are located in the Yangtze River Delta region (Shanghai, Zhejiang, Jiangsu), which has a total of 166 offices, making it the largest concentration of Benelux businesses in China, representing 48.1% of them. Shanghai has the highest concentration of Benelux companies, with 68.7% located there. The rest of the country has 92 offices in total, mostly spread across the inner provinces.

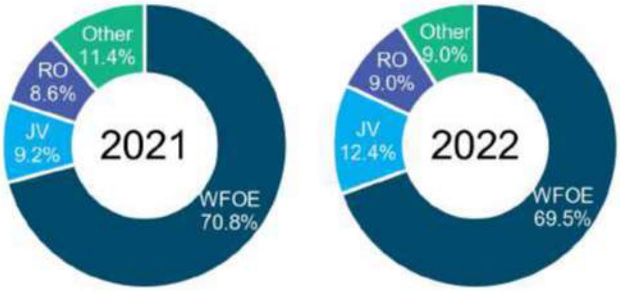
Note: Respondents were asked in which provinces of Mainland China they have an office. As a result, multiple provinces per respondent could be selected.

Industry sectors in which Benelux companies are active
Business Classifcation/Sector



The above-illustrated graph shows the diverse range of industries that Benelux companies operate in. The three main industries - Industrial Services, Industrial Goods and Consumer Goods - account for nearly 50% of the businesses and are evenly spread, with Industrial Goods showing the largest decline of almost 3% from the last reporting period. We note the strongest increases in representation are from the Consumer Services and IT & Telecom industries, increasing by 2% and 5.4%, respectively, indicating a slight shift in the industry. This trend may have been driven by the COVID-19 pandemic and resulting lockdowns, which increased the popularity of these sectors. Health Care and Energy have also seen increases compared to 2021, which may also be related to the pandemic and rising global energy prices.

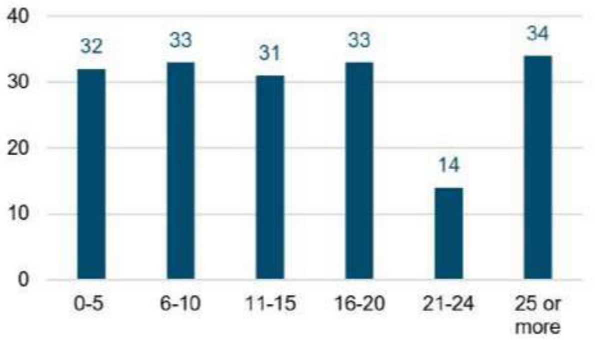
Entry modes in China
Company Structure in China



As in previous years, the most common entry mode for Benelux businesses in China (69.5%) has been a Wholly Foreign Owned Entity (WFOE). This finding underscores the fact that foreign investors consider setting up a WFOE as the most secure option as they retain full control of their business in China. Joint Ventures (12.4%) are the next most popular mode of entry, showing a 3% increase in popularity among companies. The entry modes for the remaining respondents were evenly spread between Representative Offices (9.0%) and other business forms (9.0%).

Company years active in China

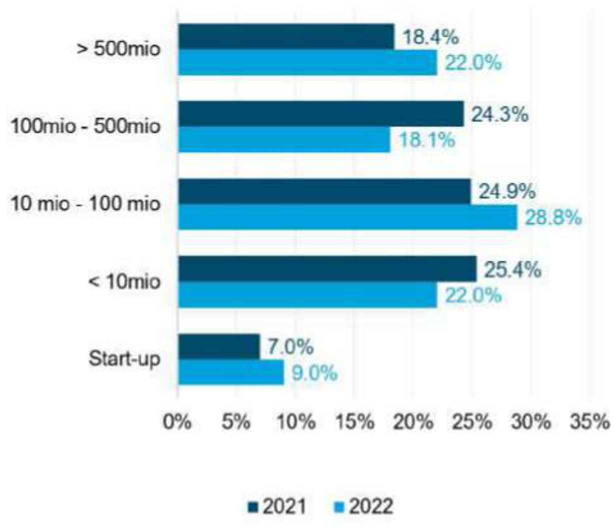
How many years has your company been active in China?



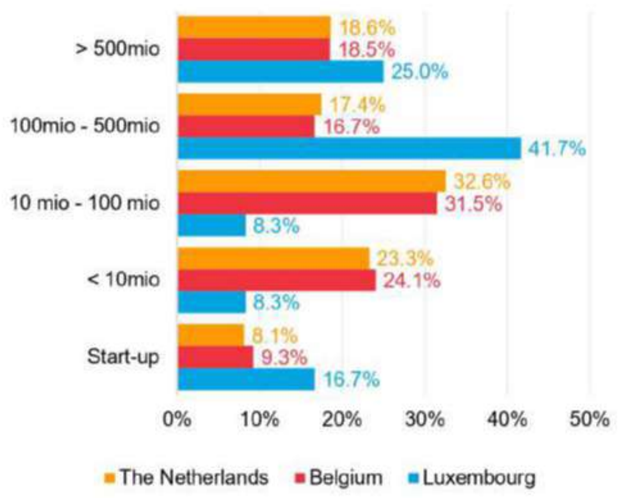
Contrary to last year's survey, this year we found that businesses are relatively evenly spread across all operating times in China. There has been a significant increase in the bracket of 16-20 years. Last year, only 23 participants (12%) had been active in China for this long, but this number has now increased to 33 (19%). However, there has been a slight decrease in the number of young companies (0-5 years) from 45 to 32. This reduction is likely due to the challenges young companies faced during the lockdown, which made it difficult to enter or maintain business operations in China. Furthermore, some companies have moved beyond the 5-year maturity and entered the 6–10-year range, causing an increase compared to last year.

Company size in China (in RMB)

What is your company's revenue size in China?



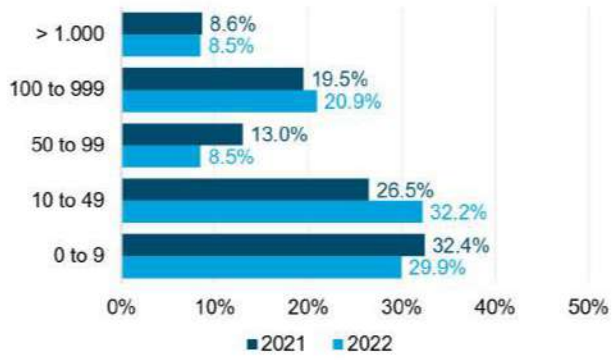
The upward trend in the highest revenue category continues, which has been consistent since 2020. There has also been a rebound in the number of startups, following a year-on-year decline in the previous survey. The middle revenue category of 10-100 million RMB is recovering from a significant drop last year, with a rate of 28.8%. Both the middle and upper revenue categories are well-represented in the survey, accounting for more than 50% of the respondents. However, there is a 6% decrease in the 100-500 million RMB category, which may be attributed to the challenges faced by some companies in the past year. Some businesses that were previously in this category may have performed exceptionally well and moved to the 500+ million RMB category, while others may have experienced revenue declines and moved to the sub-100 million RMB category, potentially causing significant increases in both areas. Moreover, there has been a slight industry shift as well that could account for this.



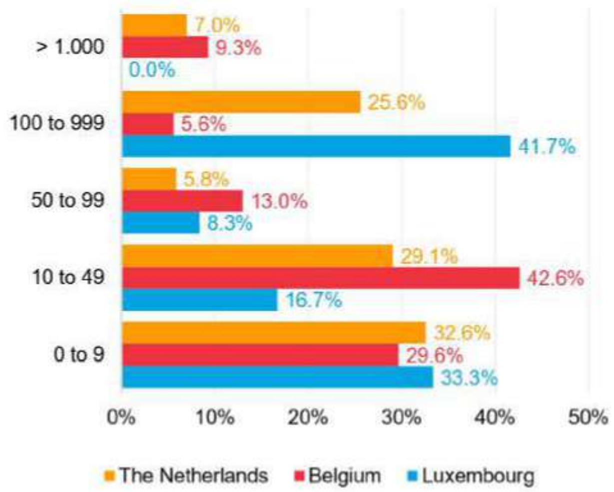
Dutch and Belgian companies are both well-represented in the category of 10-100 mio RMB, while Luxembourgish companies are most heavily represented in the 100-500 million RMB category (41.7%). In terms of companies with a revenue of up to 10 million RMB and not specified as Start-up, Belgium (24.1%) and the Netherlands (23.3%) have a similar representation. Overall, the Belgian and Dutch respondents have very similar revenue distributions.

Size by Employees in China

What is your company's employee count in China?



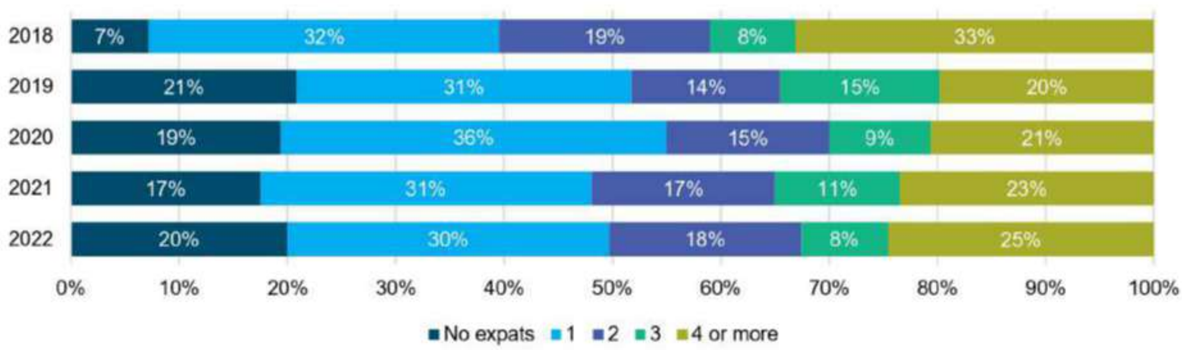
This year's survey reveals a decrease in the number of companies with 50 to 99 employees. This could be attributed to the downsizing of SMEs due to the difficulties brought about by the pandemic. On the other hand, there has been little change in the number of large corporations with 1000+ employees compared to the previous year. The category with the most growth is 10-49 employees, which could be linked to the increase in the number of companies with revenues between 10-100 million RMB, or a downsizing from companies with 50 to 99 employees.



Dutch companies have the highest representation (32.6%) in the category of companies employing a maximum of nine employees. The most represented category for Belgian companies is 10-49 employees (42.6%), while for Luxembourg, it is 100-999 employees (41.7%). However, this incidence is likely due to the small number of Luxembourgish respondents. The Netherlands experienced a significant decline in the 50-99 employee category, dropping from 11% to 5.8%. Belgium had its biggest decline in the 100-999 employee category, falling from 16.2% to 5.6% this year.

Expat count per company in China

What is the expat(s) count in your company?



When looking at the expat count per company, we observe that after the strong drop in 2019 there has been a continued increase in the percentage of companies employing 4 or more expats, with a quarter of respondent companies doing so. However, we do note a significantly higher percentage of companies with no expats (20%), compared to only 7% in 2018. This is in line with the general perception that many foreign companies in China are shifting towards hiring local employees instead of expatriating foreign employees to their subsidiaries.

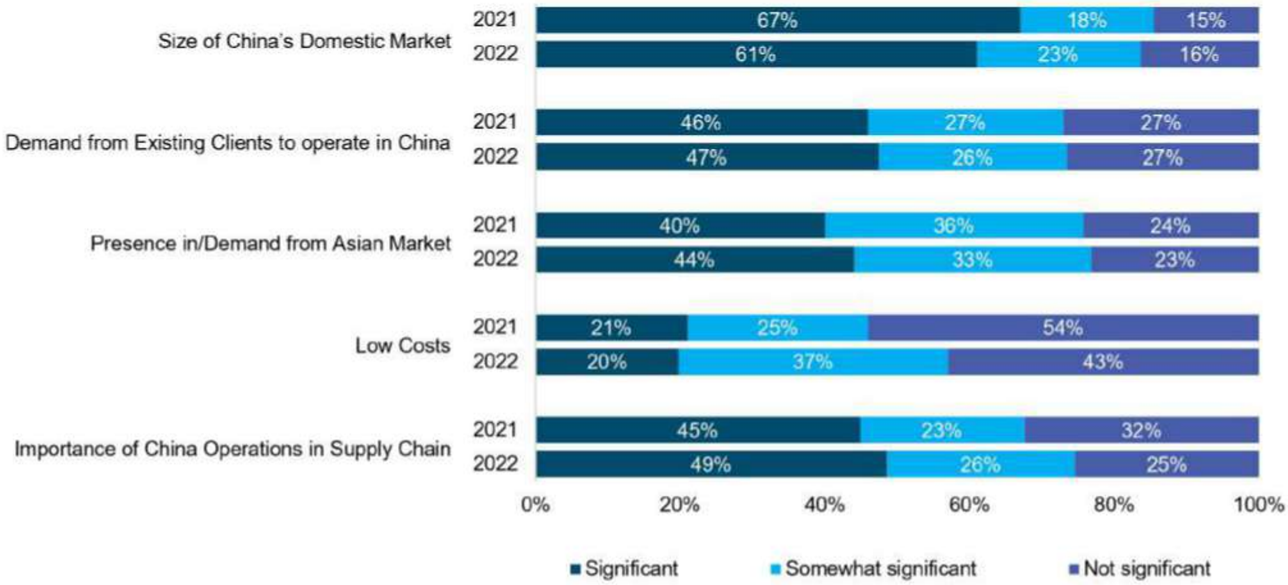
Major Competitors

What are your main competitors in the Chinese market?

Over (60%) of respondents identified Chinese Private and Foreign Invested Enterprises as their primary competitors in the local market, with Foreign Invested Enterprises experiencing a 5% increase and Chinese Private Enterprises a 5% decrease compared to the previous year. This suggests a shift in competition for Benelux companies, with growing competition from other Foreign Enterprises. State-Owned Enterprises are only identified as main competitors by (23%) of companies, likely due to the highly regulated industries that make it challenging to operate in China. Other Foreign-Invested Enterprises are the primary competitors in Energy (80%), Industrial Services (90%), and Health Care (75%). Meanwhile, Industrial Goods (70%), Consumer Services (67%), and Information Technology & Telecom (69%) face stiff competition from Chinese Private Enterprises.

Reasons for being active in China

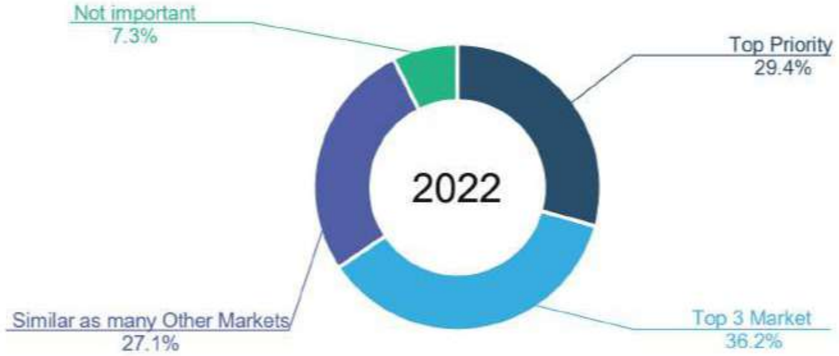
What are the strategic reasons to operate in China?



The market size remains the top strategic reason for Benelux companies operating in China, cited by 61% of respondents, indicating the enormous business and sales opportunities in the country. The percentage of companies who do not see it as significant has only increased by one percentage point, suggesting that market size remains a critical factor for operations in China. The Health Care (90%), Energy (86%), and Consumer Goods (68%) industries rank market size as the most significant driver. This represents a shift from last year when Health Care ranked third behind Materials and IT & Technology, which have decreased to 59% and 62%, respectively. There are slight increases in the importance of Demand from Existing Clients to operate in China (47%) and the Importance of China Operations in Supply Chain (49%) as significant reasons. Around (44%) of respondents find it essential to be present in the Asian market or receive demand from there, contributing to the overall strategic importance of this region at (77%). Although low costs are not the main reason for companies to start operations, it is a factor that is growing in importance, with a decrease in the percentage of respondents who do not consider it significant from (54%) to (43%), which is a surprising shift after a continuous declining trend regarding importance in the previous years. Energy (43%), Industrial Goods (32%), and Utilities (100%) are the main industries who consider low costs as significant.

Importance in Group Strategy

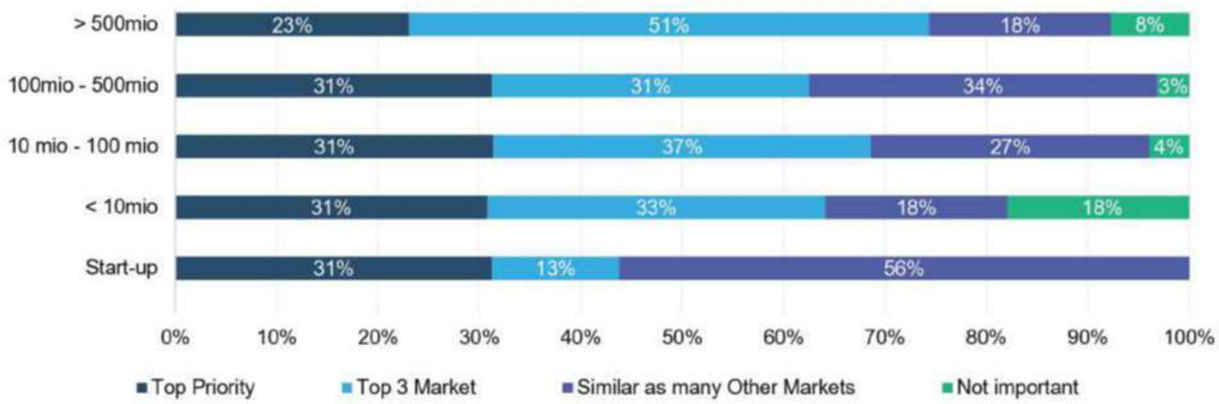
How important is your Chinese entity for your global strategy?



To emphasize the importance of their Chinese entities for Benelux companies, the majority (65.6%) regard China as a top priority (29.4%) or within their top 3 markets (36.2%) in their global strategy. This indicates the continued significance of the Chinese market, even after the pandemic outbreak. Among the Benelux countries, the limited amount of Luxembourgish companies that are in China regards it as the highest (50%), while Belgian and Dutch companies have a more balanced view, considering China either similar to other markets or among their top 3. In terms of industry, the Energy sector places China within their top priority or top 3 markets (86%), while Consumer Goods companies have also increased their prioritization by 7 percent, with (78%) regarding China as a significant market.

Importance in Group Strategy - by Revenue Size

How important is your Chinese entity for your global strategy?



Breaking this down by revenue size, we can see that for 3 quarters of the large companies with annual revenue exceeding 500 million RMB China is at least a top 3 market, where for 23% of the respondents it's even the top priority. In the 3 middle categories the priorities are similar, which 31% of all 3 categories indicating China is the company's top priority and another 1/3 perceiving the Chinese market as a top 3 market. However, for the companies with revenues below 10 million RMB that are not start-ups, China is not important for 18%, making it a stand out in the data and a significant increase compared to last year (6%). For the start-ups participating in the survey, we note that the proportion of respondents viewing the Chinese market as top priority or top 3 market have remained consistent, while we observe a strong shift away from specifying China as not important. Whereas last year 31% of respondents viewed the Chinese market as not important and another 31% viewing is similar as many other markets, this year no respondents viewed China as not important as 56% viewed the market similar as other markets.

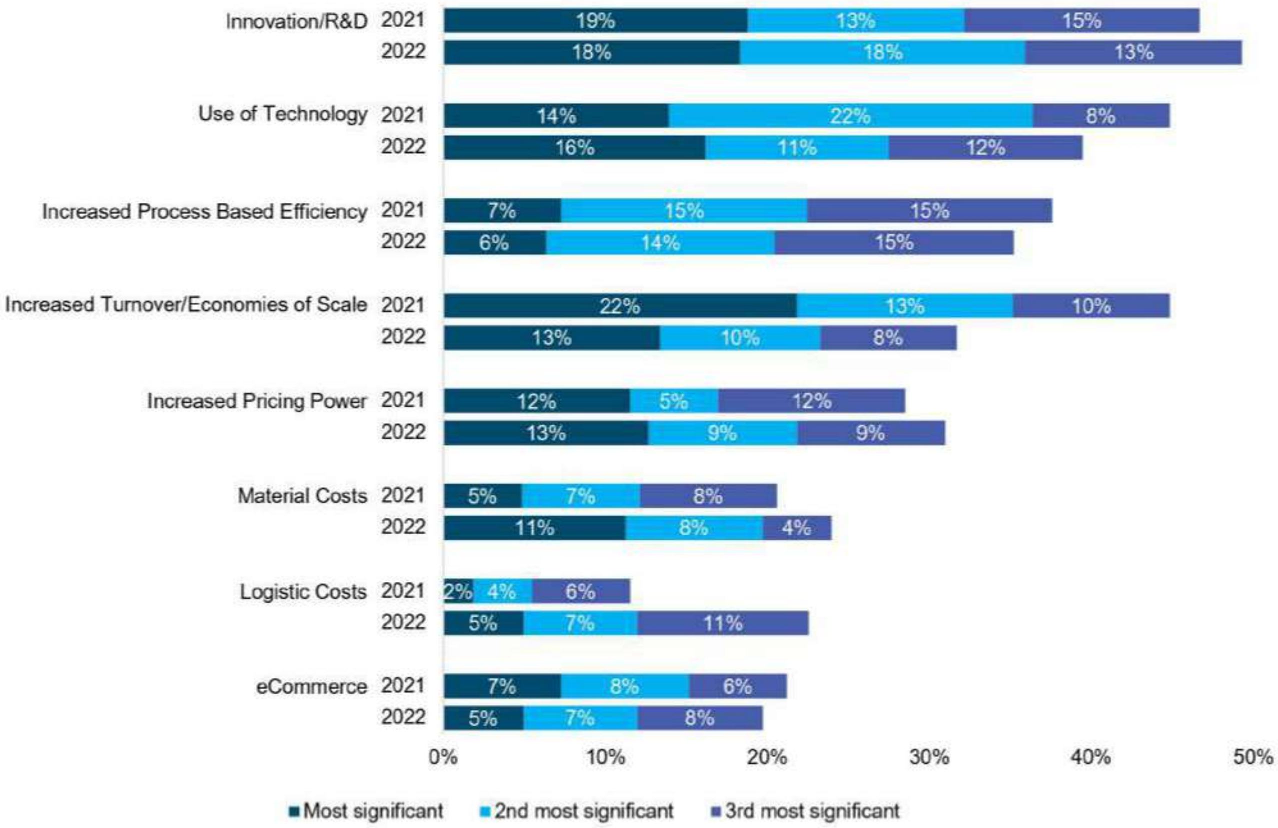
2 Business Performance

Competitive Advantage
What makes you competitive in the Chinese market?

The top 3 competitive advantages in the Chinese market for Benelux companies this year are Product Quality (69%), Research and Development (43%), and Management (35%), followed by a Larger Network (26%) and Safety Standards (25%). These results are similar to last year's survey, with R&D and Management showing an increase of 4% and 3%, respectively, while Product Quality has decreased by 2%. In terms of country distribution for Benelux companies, Product Quality and R&D are considered the most important advantages for all represented nationalities. A Larger Network and Management advantages are also ranked within the top 5 for each nationality. When it comes to Safety Standards, Luxembourgish and Belgian businesses ranked it 4th (20%), while Dutch businesses ranked it 5th, but with a higher percentage (26%), depending on the industries they represent.

Positive Drivers

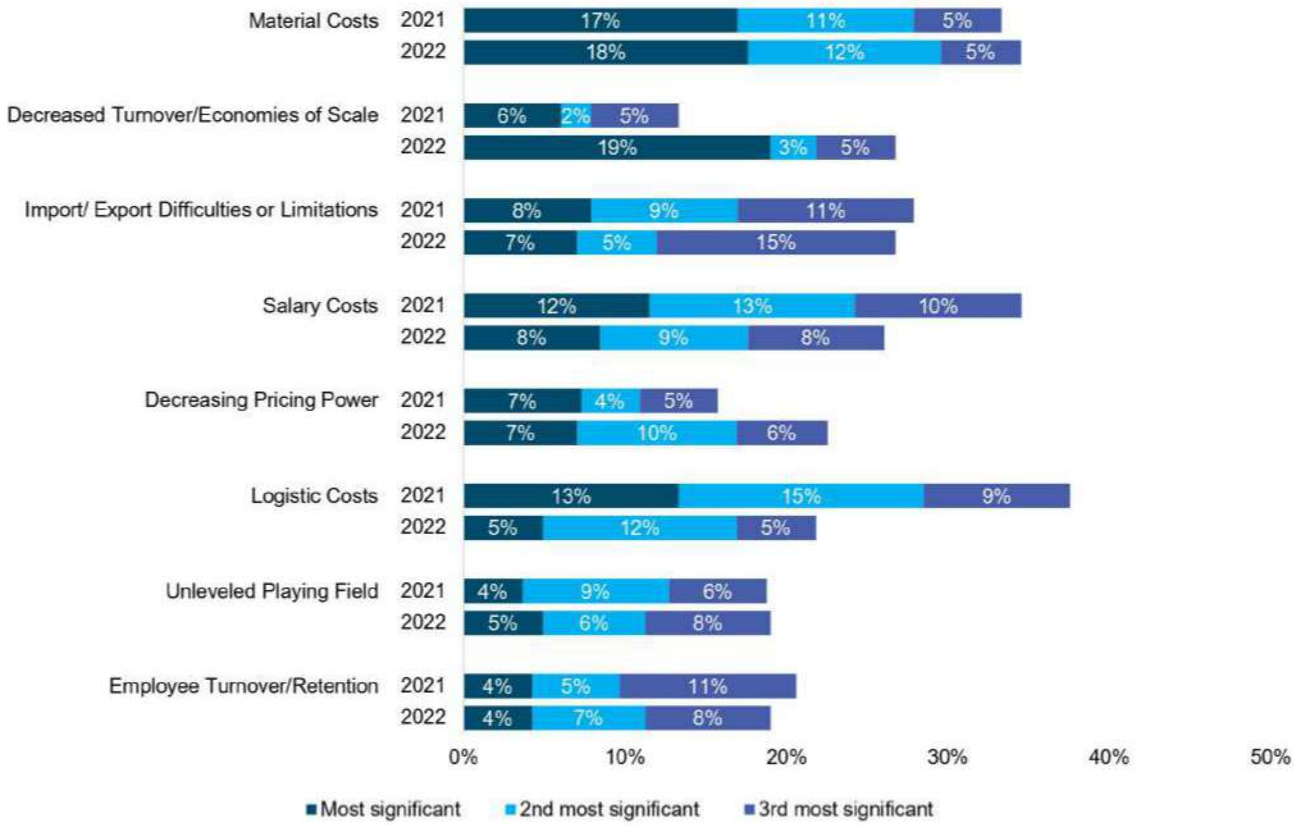
Most significant positive drivers for your company in the past year



In this year's Sino Benelux Business Survey, the two most significant positive drivers remained the same, even though Innovation/R&D grew in importance, whereas Use of Technology became less significant as a driver for growth for Benelux companies, indicating that companies are strongly relying on innovation and technology for success in the Chinese market. We observe a switch for the third most significant driver, with Increased Process Based Efficiency entering the top 3, despite a small decrease in significance. This is mainly due to the strong decrease in significance for Increased Turnover/Economies of Scale, especially for companies highlighting it as the most significant positive driver.

Next to moderate increases in significance for Increased Pricing Power and Materials Costs, we note a strong increase in importance of Logistic Costs as a positive driver. This is an interesting development considering this driver did not make it into the top 8 positive drivers last year and was listed as the most significant negative driver. At the expense of the entry of Logistics costs into the top 8, Salary Costs is no longer a top significant positive driver for growth. Lastly, we note a further decrease in significance of eCommerce as a positive driver for growth, although it is still a significant driver for 20% of respondents.

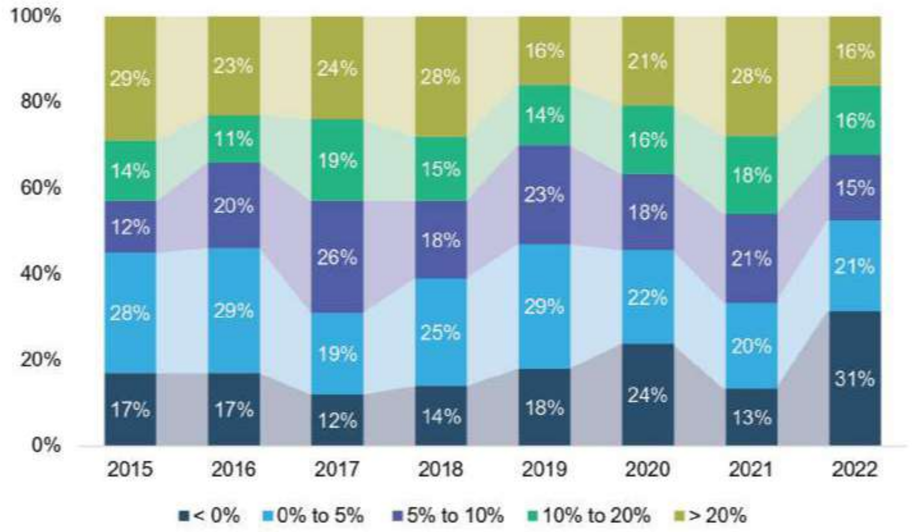
Negative Drivers
Most significant negative drivers for your company in the past year



Whereas the positive drivers remained relatively similar, we observe considerable changes in the ranking and importance of the negative drivers. Firstly, last year's most significant negative driver, Logistic Costs, dropped to the sixth place, with only 22% of respondents indicating the driver as a top 3 most significant negative driver for growth, compared to 35% in last year's edition. The new number one negative driver is Materials Costs, which still saw a small increase in importance compared to last year. The new second most significant negative driver is Decreased Turnover/ Economies of Scale, wasn't even included in the top 8 negative drivers in the 2022 edition of the survey. The same holds true for Decreasing Pricing Power, which came in as the fifth most significant negative driver this year, after not being included in the top 8 last year. We furthermore observe a further decrease in the significance of Salary Costs as a negative driver. This year it was only the fourth most significant driver, a further drop from second last year, after being the top negative driver for the five editions before. Import/Export difficulties or limitations moved into the top 3, despite seeing a moderate decrease in significance. Lastly, we observe a small increase in significance of Unleveled Playing Field and a moderate decrease in significance of Employee Turnover/Retention as negative drivers of growth.

Revenue Growth

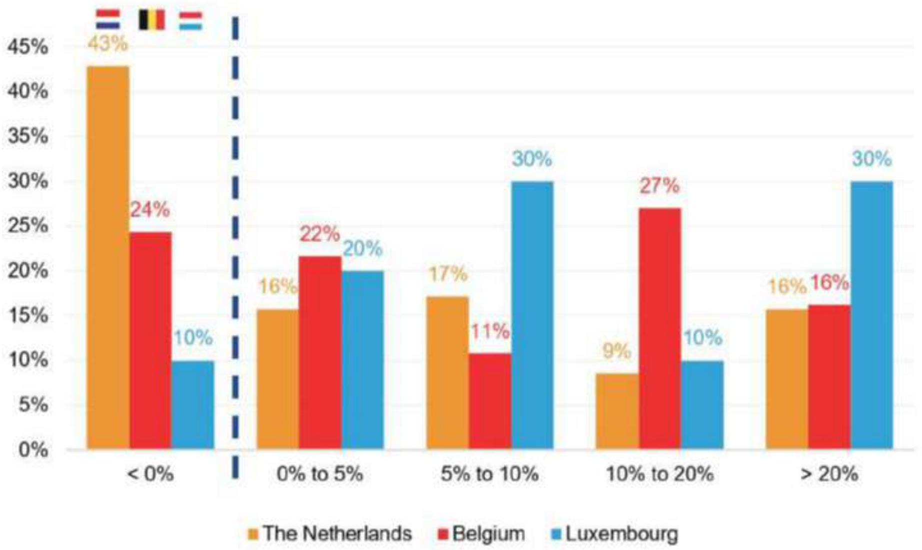
What was your company's revenue growth rate in the past year?



Overall, Benelux businesses performed the worst in 2022 since the start of this survey, with 31% of companies experiencing a decline in revenue growth, an increase of 18% compared to last year. This was likely caused by the economic slowdown and the impact of COVID-19, with major cities in China being on lockdown for significant periods during 2022. We mainly observe a strong drop in companies with exceptional performance, with a drop from 28% to only 16% of companies reporting revenue growth of over 20%.

Revenue Growth – by Country

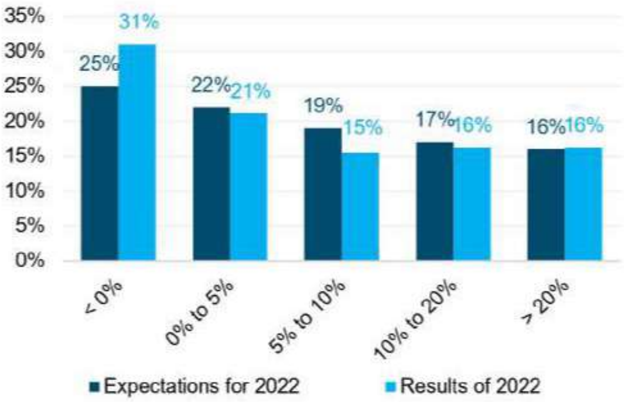
Revenue growth rate in 2022 in percentages



When the data is analysed by country, it is evident that Dutch companies experienced the largest decrease in revenue growth in 2022, with 43% reporting negative growth. Belgian companies also faced challenges, with almost a quarter of them experiencing negative revenue growth. In the category of 0%-5%, the Benelux companies were more or less evenly represented. However, it is noteworthy that in the 10%-20% category, Belgian companies were strongly represented, even showing an increase of 6% compared to last year.

Revenue Growth compared to expectations

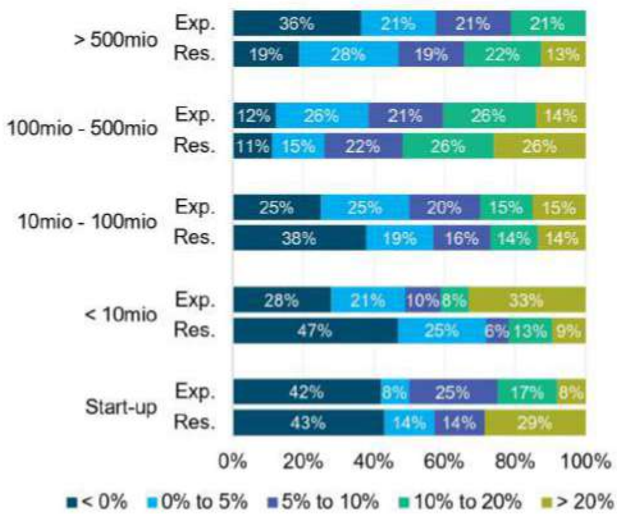
Revenue growth rate in 2022 in percentages



When we compare the projected revenue growth rates of last year's survey to the actual results in this year's edition, it becomes apparent that the Benelux businesses that participated in the 2022 Business Survey had estimated their achievable growth rates with considerable accuracy. (25%) percent of the respondents had anticipated negative revenue growth, which is quite close to the 31% that was observed this year. This suggests that many businesses were aware that the high growth rates seen in 2021 were an anomaly. Moreover, this underscores the fact that the Benelux companies possess accurate knowledge of the Chinese market, even during challenging times such as the COVID-19 pandemic.

Revenue Growth – by Size

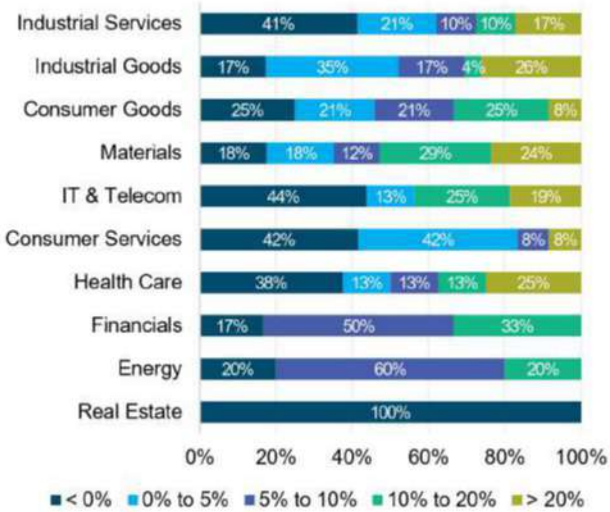
Revenue growth rate in 2022 in percentages



When analyzing the revenue growth rate by size, we observe in particular that nearly 30% of start-ups achieved revenue growth exceeding 20%, a much higher figure than the expected 8%. However, companies with revenues up to 100 million RMB experienced more negative growth than anticipated, with companies under 10 million having 19% more negative growth than expected. Companies with revenues between 100-500 million RMB performed as predicted, with 87% experiencing revenue growth. Finally, companies with revenues over 500 million RMB performed better than expected, with 81% experiencing revenue growth compared to the anticipated 65%, particularly in the >20% growth category, which was experienced by 13% of these companies, compared to no respondents expecting this last year.

Revenue Growth – per Sector

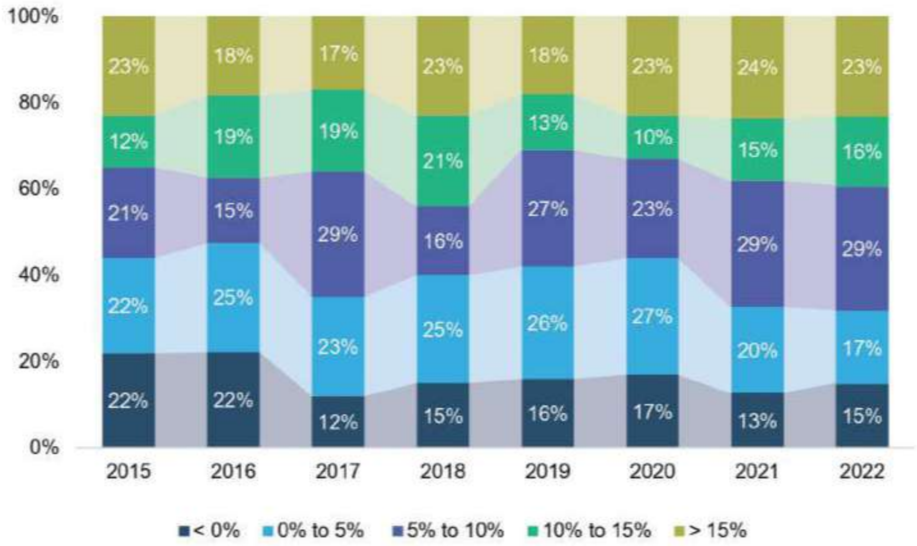
Revenue growth rate in 2022 in percentages



According to the 2023 Business Survey, 3 sectors had a significant proportion (20%+) in high revenue growth of 20% or more. These sectors were Industrial Goods, Materials, and Health Care. Conversely, the Industrial Services, Consumer Services, and IT & Telecom sectors took the biggest hit, with over 40% of respondents reporting in negative revenue growth. Both the Financials and Energy sectors largely experienced moderate growth in revenue between 5% and 10%. This is a notable difference from last year's report, where 60% of the respondents in the Energy sector had reported revenue growth of over 20%.

Profit Margin

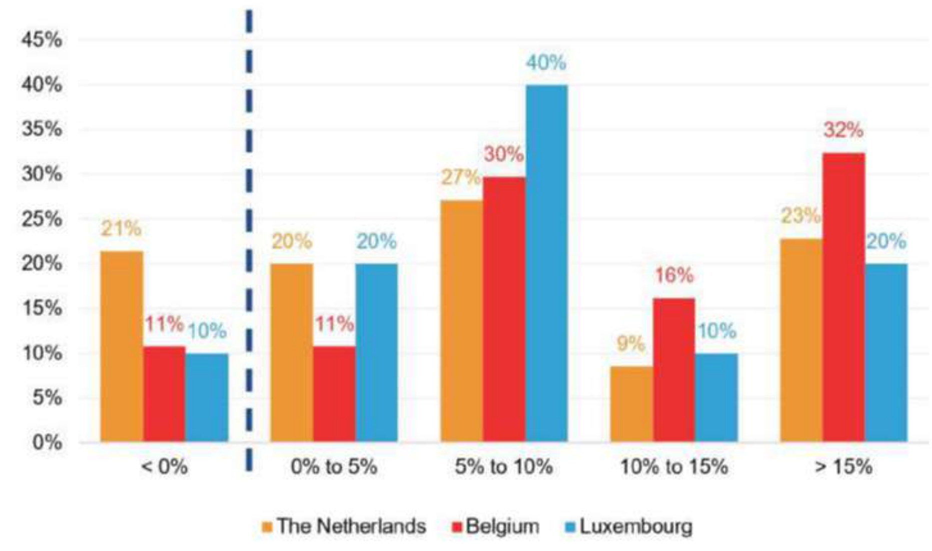
Profit as a percentage (%) of revenue in the past year



Despite the strong negative shift in revenue growth, it is notable that negative profit margins have only increased by 2% compared to last year. As such, it is positive to see that 85% of the companies generated a profit last year, and more than 68% of them had profit margins that were at least 5%. This is an encouraging sign, considering the many challenges businesses faced in 2022. This again shows the strong resilience of Benelux companies operating in China.

Profit Margin – per Country

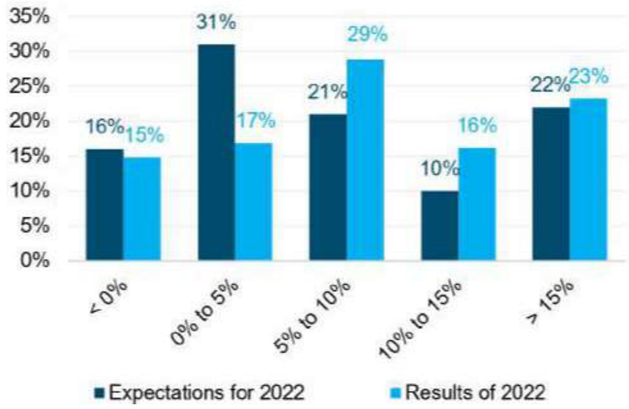
Profit as a percentage (%) of revenue in 2022



Similarly, to the revenue growth rates, Dutch companies also faced challenges in terms of negative profit margins, with 1 in 5 Dutch companies generating losses. However, it's worth noting that this was only a slight increase of 2% compared to the previous year. In contrast, Belgian companies performed strongly across all margin categories exceeding 10%, with 32% of them reporting margins larger than 15%. Luxembourgish companies also performed well, with a profitability rate of 90%, indicating that only 10% of them did not achieve profits in 2022. Finally, Dutch companies performed relatively better in the 5%-10% margin category, with 27% of all Dutch companies reporting profit margins in this range, although the proportion is lower than the other 2 countries.

Profit Margin compared to expectations

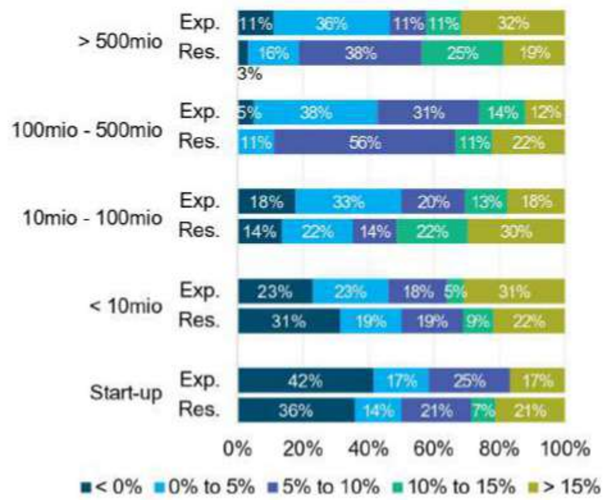
Profit as a percentage (%) of revenue in 2022



In contrast to the results and expectations for revenue growth, the profit margin forecast was more pessimistic. However, the actual results outperformed the forecast in every profit margin bracket except for the lowest bracket of 0%-5%, where the forecast was 31%, but the actual result was only 17%. This difference was presumably compensated for by the higher profit margin categories. Additionally, 8% more Benelux businesses reported profitability of 5%-10%, while another 6% more businesses reported profit margins of 10%-15%.

Profit Margin – by Size

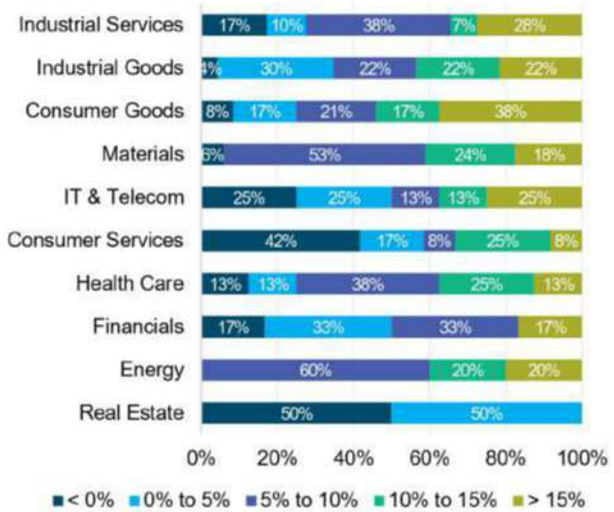
Profit as a percentage (%) of revenue in 2022



When comparing the profit margins of companies in the Benelux region by revenue size, it becomes apparent that medium to large-sized companies (with revenue ranging from 10 million to over 500 million RMB) performed exceptionally well, surpassing expectations. Conversely, small companies with revenue lower than 10 million RMB were projected to experience losses, but they ended up with a 31% operating loss, which is 8% higher than anticipated. Start-ups exceeded expectations, with 4% more respondents reporting high profits (greater than 15%) and 6% fewer respondents reporting losses. In the year 2022, it was anticipated that large companies would generate substantial profits, with 32% of respondents expecting profit margins to exceed 15%. However, in reality, only 19% achieved profits at that level, and the majority (38%) had profits ranging from 5% to 10%. This profit range was also dominant (56%) for companies with revenue between 100 million and 500 million RMB. It is noteworthy that these companies still outperformed expectations.

Profit Margin – per Sector

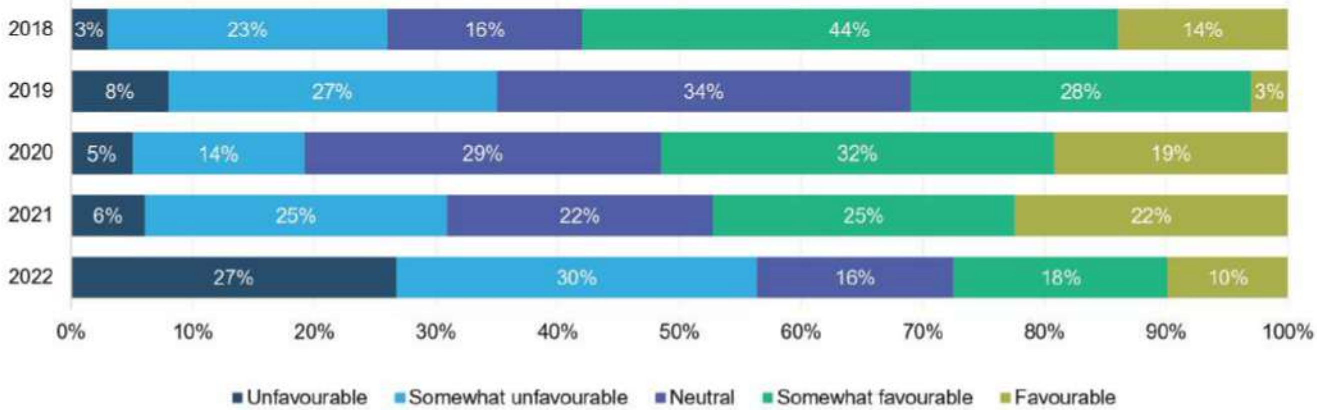
Profit as a percentage (%) of revenue in 2022



With the exception of the Energy sector, all industries experienced varying degrees of losses. The top 3 industries with the highest losses were Real Estate, Consumer Services, and IT & Telecom. In contrast, the most profitable industries were Consumer Goods, Industrial Goods, and Materials, each with profitability of at least 92%. Industrial Services saw a significant increase in losses this year, almost tripling from 6% in 2021 to 17% in 2022. On the other hand, Consumer Goods performed exceptionally well, with a 5% increase in profitability and a rise in the highest profit margin from 23% in 2021 to 38% in 2022, surpassing expectations.

3 Business Sentiment

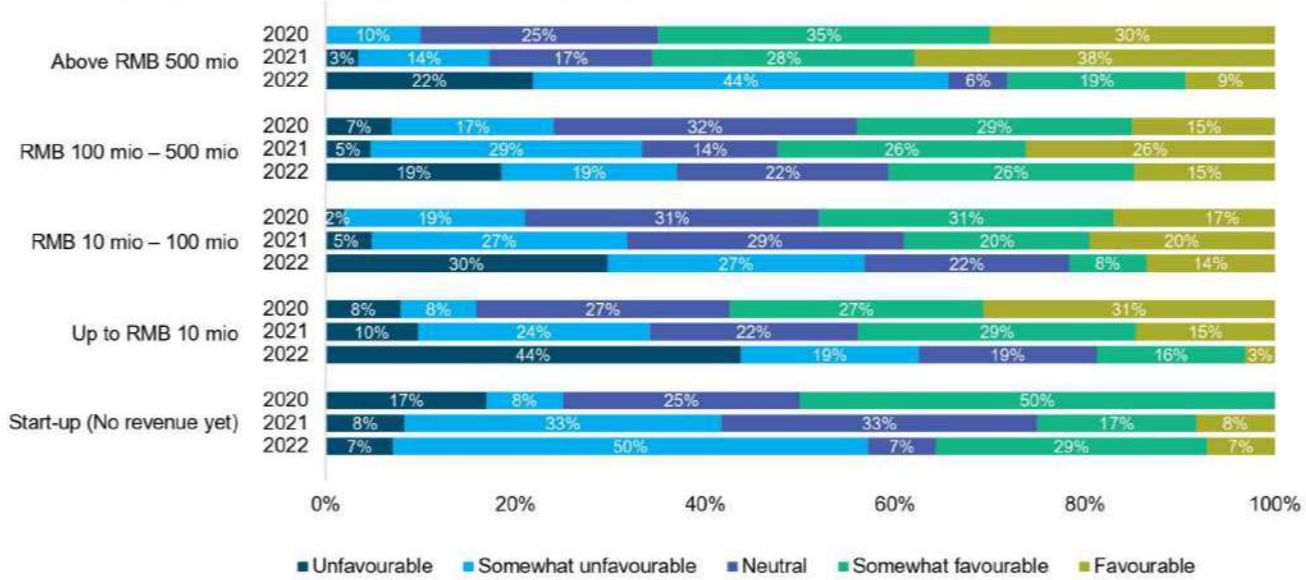
Perception of the Chinese market
How did you perceive the Chinese market in the past year?



In 2022, Benelux companies operating in China experienced a shift in their perception of the Chinese market compared to the previous year's evaluation. While in 2021, 31% of companies considered the market as unfavorable or somewhat unfavorable, this year we have witnessed a notable increase of 26%, resulting in more than half of Benelux businesses perceiving the Chinese market as rather unfavorable, of which over a quarter viewed the market as unfavourable. This trend follows a similar pattern observed in the previous year's survey, where the unfavorable category saw a 12% increase as well. The neutral (16%) and somewhat favorable (18%) views decreased in comparison to the two previous surveys. There was also a significant decline in the favorable section, halving from 22% to 10%. The significant negative shift can likely be explained by the impact of the Covid-19 pandemic in 2022, in particular related to the lockdowns that occurred throughout China. Since this survey is the first one conducted after the Shanghai lockdown, it is evident that these events are still fresh in the minds of the companies. However, a more positive outlook is expected for the Sino Benelux Business Survey in 2024 with the abandoning of the zero-Covid policy and the opening of the borders.

Perception of the Chinese market – by Size

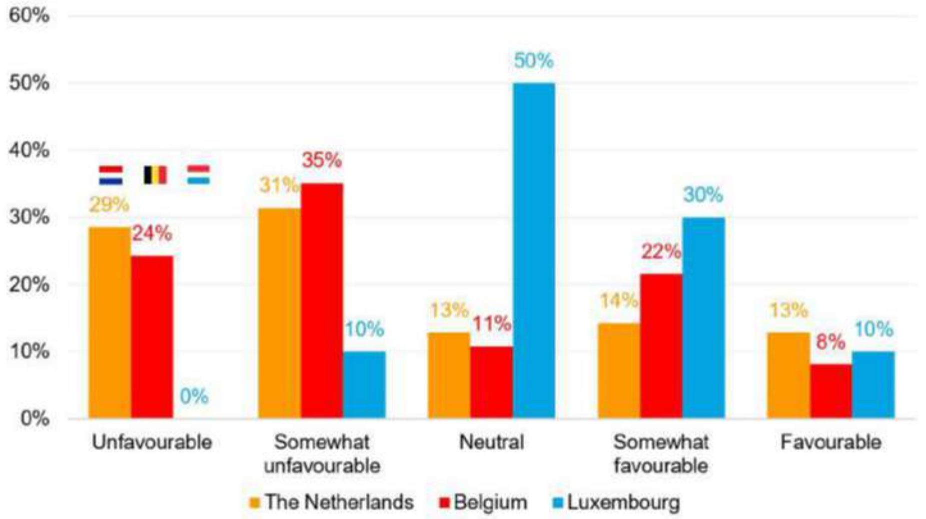
How did you perceive the Chinese market in the past year?



When examining the business sentiment based on company size, it is evident that Benelux companies across all revenue classes have experienced a notable increase in unfavorable sentiment towards the Chinese market. 4 out of 5 revenue categories now have a combined share of more than 50% in the unfavorable and somewhat unfavorable categories. The exception is the 100-500 million RMB category, which had a share of 38%, representing a 4% increase from last year. This category also demonstrates the lowest increase compared to the other revenue categories. The somewhat favorable section remained unchanged for the 100-500 million RMB category, but it increased by 12% for the Start-up section. Start-up companies now exhibit a combined favorable sentiment of 36%, representing an 11% increase compared to the previous year and serving as the only positive increase in this year's survey results. These results further confirm the ongoing unfavorable trend established in last year's survey. Respondents' perceptions appear to be increasingly polarized, with both increases in unfavorable and favorable sentiments observed in the start-up category. The overall results can once again be attributed to the negative sentiment that persists due to the effects of Covid-19 pandemic in China.

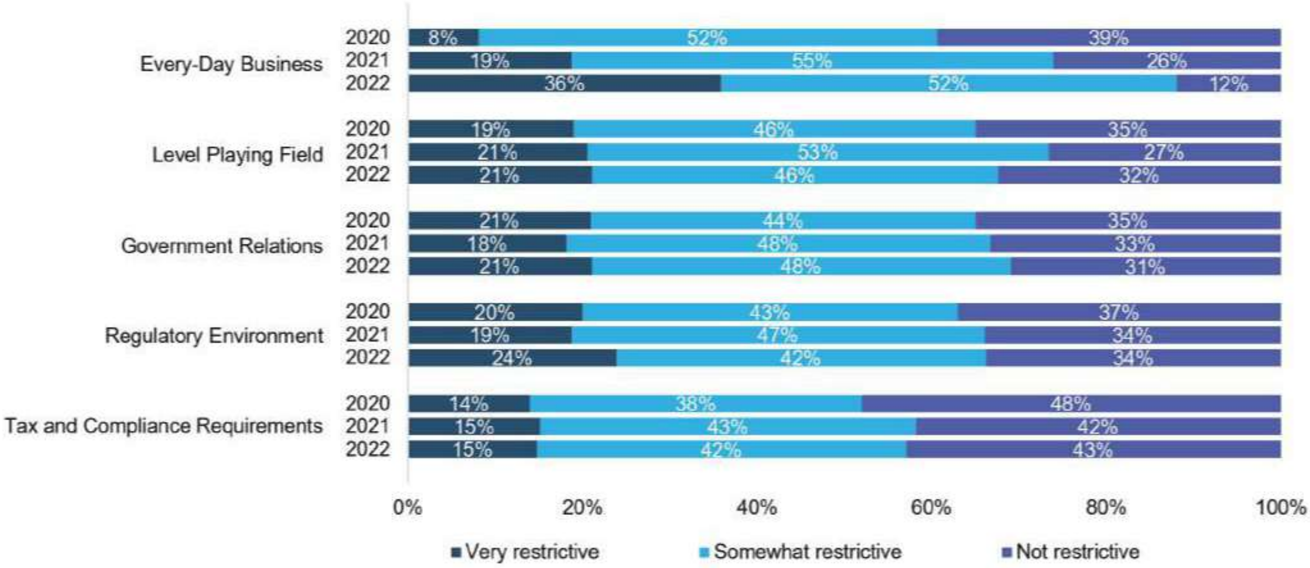
Perception of the Chinese Market – by Country

How did you perceive the Chinese market in the past year?



Belgian and Dutch companies exhibit a remarkably similar outlook on the Chinese market, as both have a combined share of 59% and 60% in the unfavorable category, respectively. Additionally, they share a combined favorability of 30% and 27% for the Chinese market. On the other hand, Luxembourgish companies do not share this pessimistic perspective, as they only have a 10% share in the somewhat unfavorable category and a neutral perception of 50% towards the Chinese market.

Restrictiveness of the Business Environment
How restrictive did you perceive the following aspects in China in the past year:



In the current year, the proportion of respondents perceiving factors as somewhat restrictive has either decreased or remained the same across all categories compared to the previous year. However, when considering the highly restrictive aspect, it either increased or remained unchanged for all factors. For instance, 43% of Benelux companies perceive Tax and Compliance Requirements as non-restrictive, while 15% describe them as highly restrictive. When it comes to Every-Day Business, there has been an overall perception of increased restrictiveness, with a significant rise in the highly restrictive category from 8% in 2020 to 36% in 2022. This may be related to the impact of the Covid-19 pandemic. On the other hand, the Level Playing Field has witnessed a 5% decrease in restrictiveness compared to the previous year. Regarding Government Relations and the Regulatory Environment, there has been a slight increase of 3% and 5%, respectively.

Perception of HR challenges in China
Did you experience any of the following challenges in the field of HR in 2022?

According to the data, the percentage of respondents encountering various difficulties decreased overall in 2022 compared to the previous year. The most significant decreases were observed in challenges related to increased labor costs, retaining qualified staff and entry restrictions. These declines indicate potential improvements in these areas, which may be attributed to changes in policies or economic factors. However, the category of attracting foreign talent saw a minor increase in the percentage of respondents facing difficulties. The data also highlights that "other" challenges experienced in the field of HR in China increased from 1% in 2021 to 5% in 2022, indicating the emergence of new or previously less prevalent obstacles.

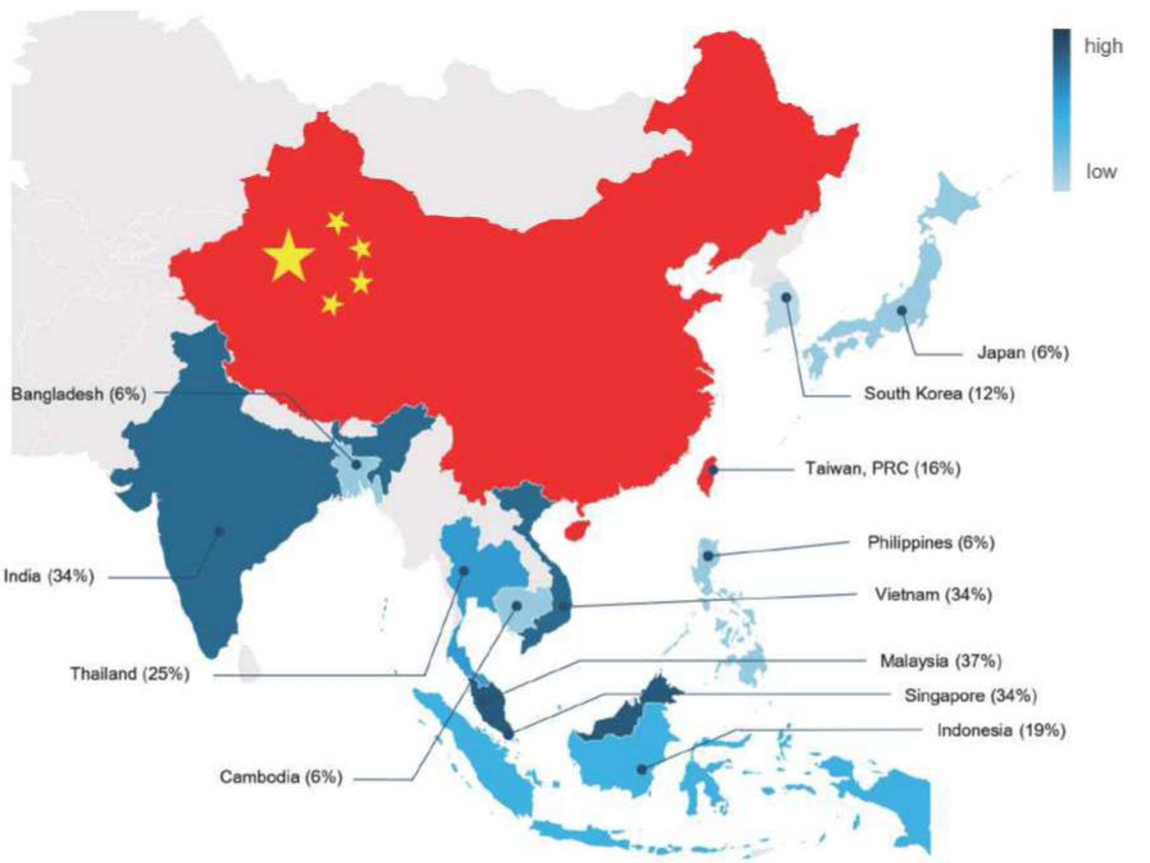
Companies considering leaving China

Would you consider / are you moving some of your Chinese activities to other Asian countries/regions?

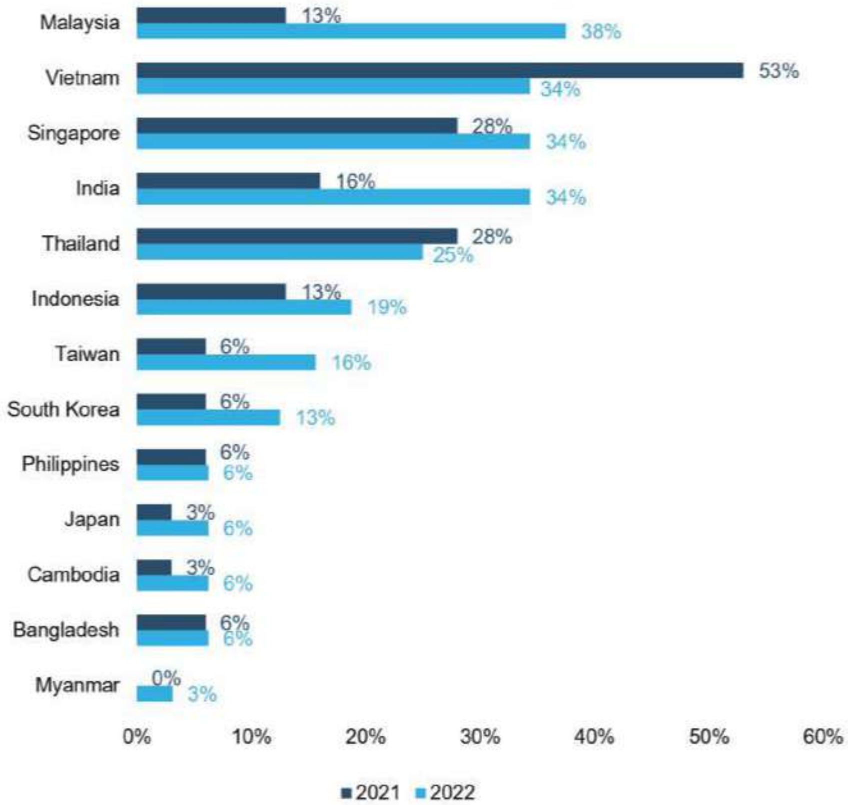
Following a consistent downward trend from 2018, there was a significant upturn last year, with a 17% increase in the number of companies actively considering or initiating the relocation of their Chinese operations. Although this year there is still a substantial proportion of Benelux businesses contemplating moving (29%), we observe a slight 1% decrease and therefore remain hopeful as future expectations suggest a shift in sentiment by 2023. The main industries that are considering leaving the Chinese market are Consumer Goods (43%), IT & Telecom (41%) and Energy (40%). The first 2 were also the two main industries considering leaving China in last year's survey.

Destinations of companies leaving Mainland China

To what regions do you consider / are you moving some Chinese activities?



Note: Respondents were asked to what regions they consider/ plan to move. As a result, multiple regions per respondent could be selected.



Among the Benelux businesses considering leaving the Chinese market or relocating their local operations to other Asian regions, Vietnam is no longer the main destination, although it still remains number 2 destination together with India and Singapore. The new most popular destination is Malaysia with 37.8% of respondents who considering moving Chinese activities to another Asian region stating the country as a potential destination, compared to 13% last year. We furthermore also observe significant increases in popularity for Indonesia, Taiwan and South Korea as region to potentially move some Chinese activities, and small increases as well for Japan and Cambodia. Only Vietnam and Thailand saw a decrease in popularity. When looking at the main destination by industry, we note that Malaysia and Vietnam are top destinations for Benelux companies active in the Consumer and Industrial Goods and Services sectors, whereas for Materials companies, Indonesia is a key destination.

1 – Europe

2 – North America

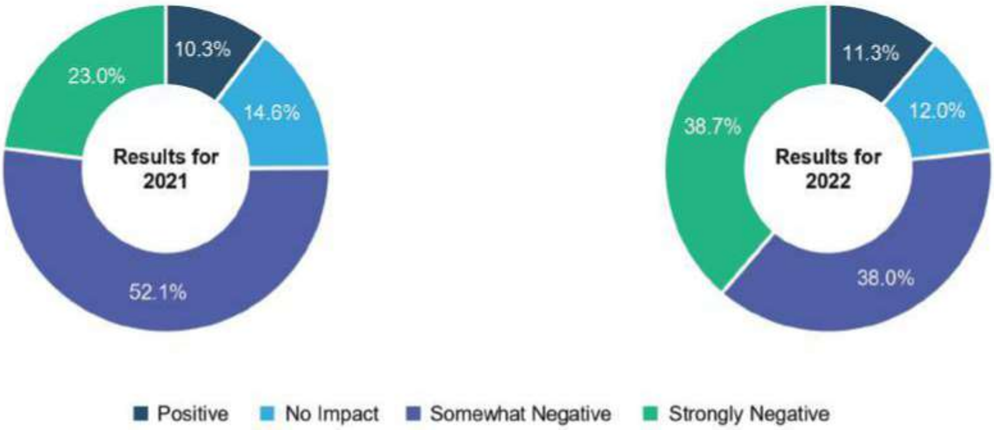
3 – Africa

4 – South America

We also asked respondents if they would consider moving their operations to regions other than Asia. Similar to last year, the majority of respondents consider moving to Europe, followed by North America, where the only country mentioned was USA. Additionally, few respondents considered Africa and the Middle East as potential destinations to move some of the Chinese activities. The main industry considering moving the activities outside of Asia is the Information Technology & Telecom industry.

4 COVID-19 Impact

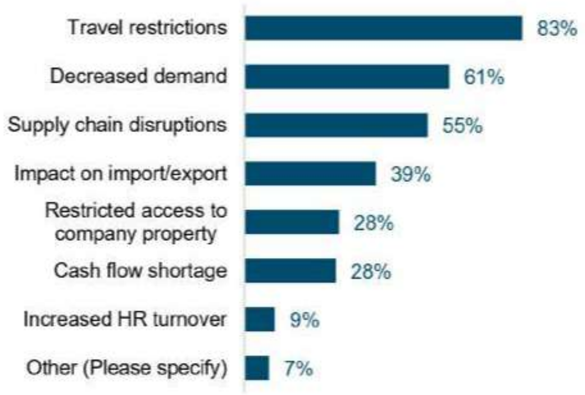
Impact of COVID-19 on 2022 performance
How did the outbreak of COVID-19 impact your business' performance throughout the year 2022?



Amid the ongoing COVID-19 pandemic, we conducted another survey to gauge how Benelux companies perceived the impact of the pandemic on their business this year. In the previous survey, conducted in March and April 2021, 23% of companies reported a strongly negative impact, while 52.1% reported a somewhat negative impact, showing 3 quarters of the respondents were negatively impacted. These figures underscore the significant challenges faced by many businesses during that period. In 2022, a slightly higher percentage reported that their business performance was negatively impact, with a total of 76.7% reporting a strong or somewhat negative impact reached 76.7%. This is slightly lower than the expected 86.9% negative impact expected in last year's survey. It is important to note that the share of companies being strongly negatively impacted did significantly increase from 23% to 38.7%, while the somewhat negative category decreased. On the positive side, 11.3% of companies managed to identify positive business opportunities amid the crisis. This indicates that some businesses were able to adapt and transform adversity into favourable circumstances. The 2 industries that stand out in particular regarding this, were Industrial services and Information Technology & Telecom.

COVID-19 Impact – Main Negative Factors

What factors related to COVID-19 negatively impacted your business?



Similar to the previous year, travel restrictions continue to be the primary negative impact on companies, 83% reported that this is an issue that they faced. This shows that the restrictions imposed on both foreign and domestic travel significantly impacted Benelux businesses' operations in China, as quarantine upon international arrivals was still required all throughout 2022 and even domestic travel could result in quarantine for periods during the year. This led to significant costs and time constraints. Furthermore, decreased demand and the disruption of the supply chain also had a substantial impact on over half of the businesses, with 61% and 55%, respectively. Among the sectors, Consumer Goods and Industrial Goods industries were most affected by these factors, while Financials and Information Technology & Telecom sectors experienced the least impact.

Impact of COVID policy change in 2023

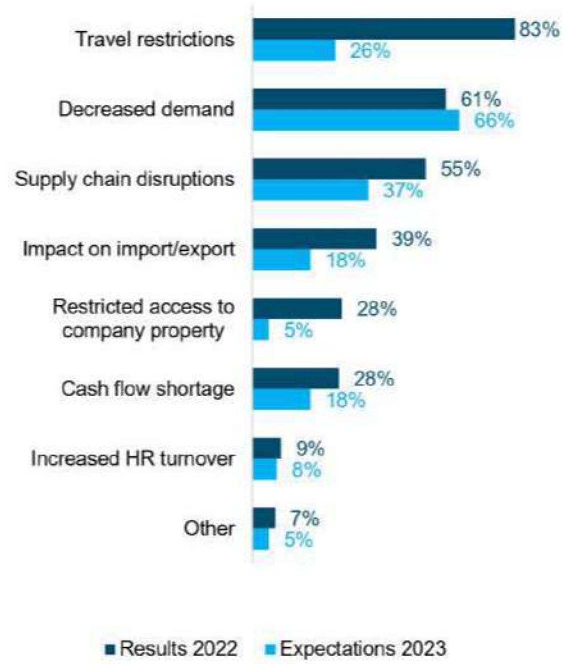
How do you expcet China's Covid policy change affect your company in 2023?

As at the start of 2023 China officially abandoned its zero-Covid policy, Benelux businesses were asked about the anticipated impact of the changes in policies on their operations going forward. The results revealed an overwhelmingly positive outlook, with 72% of the businesses expecting a positive impact.

However, what is intriguing is that a notable portion (22%) stated that they expected no impact on their business. This sentiment was particularly prevalent in the Health Care and Industrial Goods sectors, where a significant number of businesses shared this opinion.

COVID-19 - Negative Factors Expectations

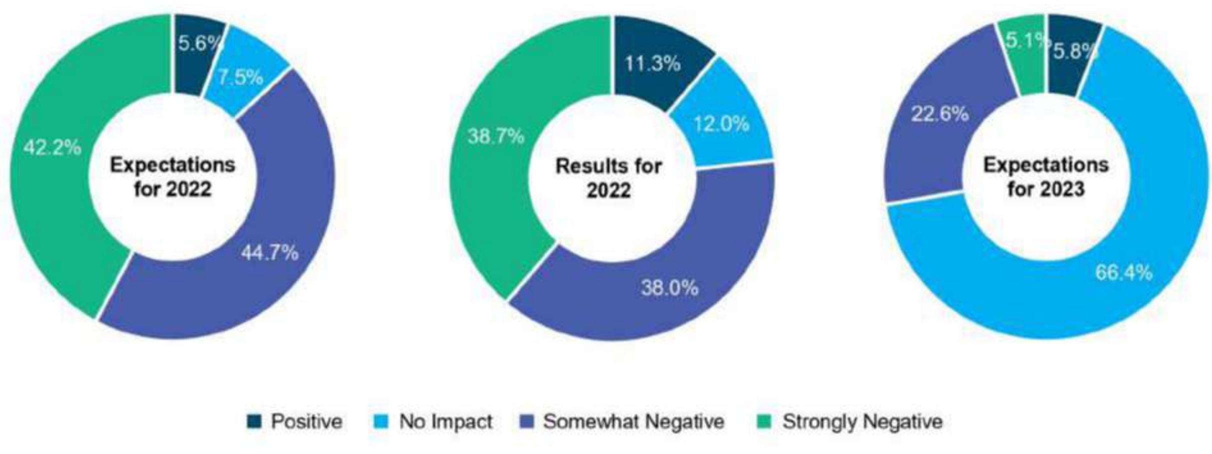
Where do you expect COVID-19 most significantly impacting your company in 2023?



The outlook of Benelux companies in China regarding the COVID-19 situation shows increased optimism across various categories. Travel restrictions are expected to have a reduced impact on businesses, with only 26% of companies foreseeing a negative impact, compared to 83% experiencing a negative impact in 2022, which is likely thanks to the full border openings. Supply chain disruptions are also expected to decrease by 18%. However, there is a slight increase in significance for the expected decrease in demand, which is projected to rise to 66%. The impact on import/export activities experiences a significant decline of 21%, decreasing to 18%. This suggests that the challenges related to importing and exporting goods have considerably diminished. Additionally, restricted access to company property has fallen to a mere 5%, indicating that accessibility is no longer a significant concern for businesses operating in China.

COVID-19 - Expected Impact in 2023

How do you expect COVID-19 will impact your performance in 2023?



Last year's survey was conducted in the middle of the Shanghai lockdown in 2022, which significantly negatively impacted expectations for 2022. As a result, 86.9% of Benelux companies anticipated a negative impact from the pandemic for the year 2022. However, we observe in the actual results for 2022, that 76.7% of the company surveyed were negatively impact by COVID-19 in 2022. Even though it is still significant, the results were slightly better than expected. Even 11.3% of the companies were positively impacted.

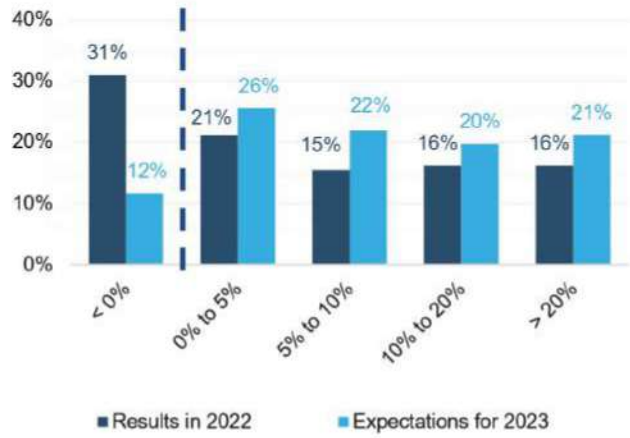
Looking ahead, in lights of the abandonment of the zero-COVID policy, companies are a lot more optimistic for the future, as 66.4% of Benelux businesses expected that COVID-19 will not impact their performance in 2023. A significantly reduced proportion (27.7%) still believes that the pandemic will have a negative impact on their businesses. Overall, the future outlook of Benelux businesses operating in China has shifted back to a positive stance.

5 Onward Expectations

Revenue Growth Expectations

What is your company's expected revenue growth for 2023?

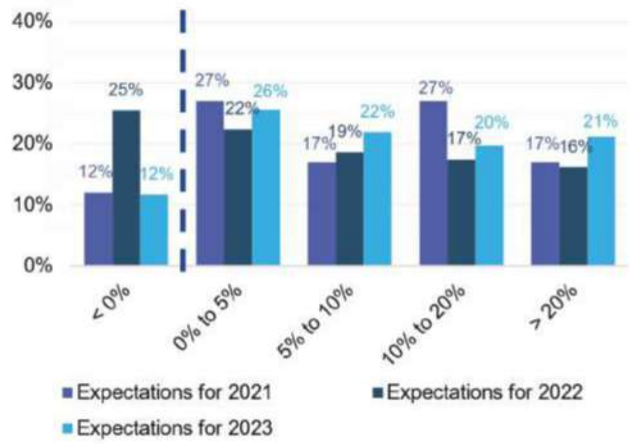
In 2022, Benelux businesses experienced lower-than-anticipated revenue growth. However, there is a more optimistic outlook for the future. Only 12% of companies anticipate negative revenue growth this year, which marks a significant decrease from the 31% that encountered revenue shrinking in 2022. It is expected that there will be a notable increase in revenue growth for all growth ranges. While the results fell short of expectations in 2022, largely due to the pandemic, 2023 holds promise as a strong year for Benelux companies in China.



Revenue Growth Expectations over time

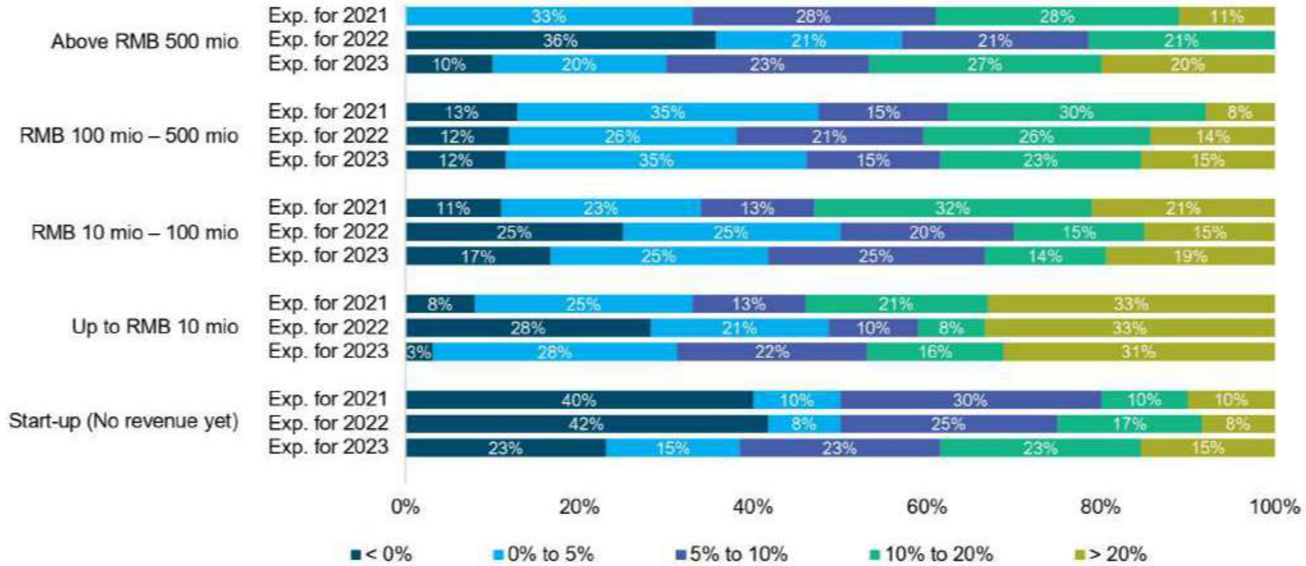
What is your company's expected revenue growth for this year?

Following the adverse impact of the COVID-19 lockdowns on Benelux businesses in the China region last year, this year's expectations have become more cautiously optimistic. The proportion of companies anticipating a decline in revenue has returned to pre-lockdown levels. Additionally, there is a notable increase in growth expectations, specifically in the 5%-10% and >20% brackets, surpassing pre-lockdown figures. Overall, across all levels, the outlook appears brighter compared to last year's predictions.



Revenue Growth Expectations – by Size

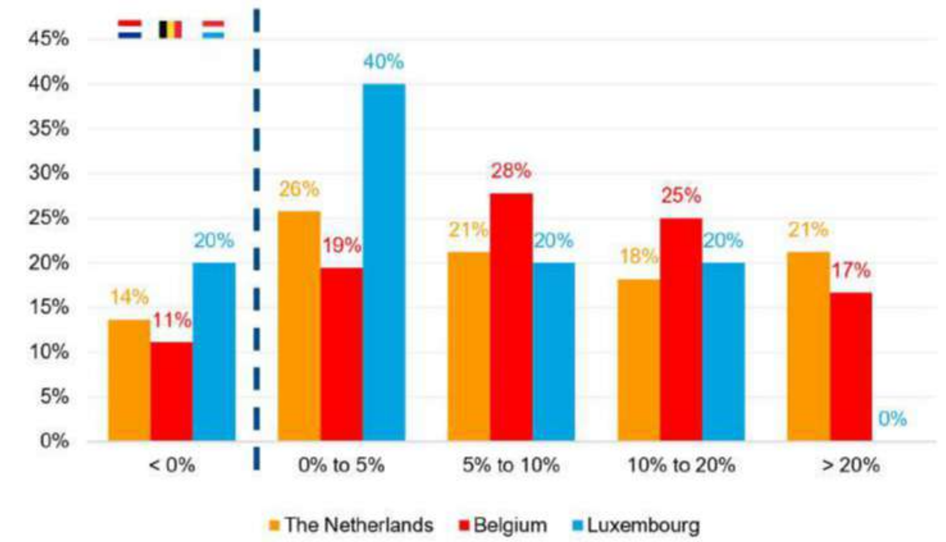
What is your company's expected revenue growth for this year?



Large companies with revenues exceeding 500 million RMB anticipate growth this year, with a 26% reduction in negative revenue projections and a 20% increase in high-growth scenarios (>20%). Regarding start-ups, the pandemic initially posed challenges, as 42% of these businesses expected shrinking revenues in the previous year. However, there has been a remarkable recovery since then, with the number decreasing to 23% as their expectations improved. Companies with revenues up to 10 million RMB are expecting to have their most successful year since the onset of the pandemic, surpassing both 2021 and 2022 expectations. Across higher revenue brackets, there is a notable sense of optimism, although caution still lingers in their outlook.

Revenue Growth Expectations - by Country

What is your company's expected revenue growth for 2023?



In 2023, most companies in the Netherlands and Luxembourg anticipated generating revenue growth ranging from 0% to 5%, whereas 28% of Belgian businesses expected growth between 5% and 10%. This year, the expectations for all nationalities lean towards positive revenue growth, marking a significant shift from the previous year's projections. Approximately 89% of Belgian businesses and 86% of Dutch businesses are anticipating revenue growth, 80% of Luxembourgish companies share the same expectation. Belgian and Dutch companies display a slightly higher level of optimism, with 42% and 39% respectively anticipating revenue growth between 10% and over 20%.

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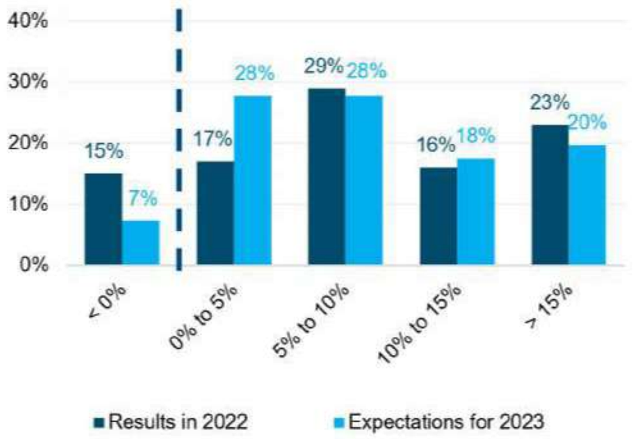
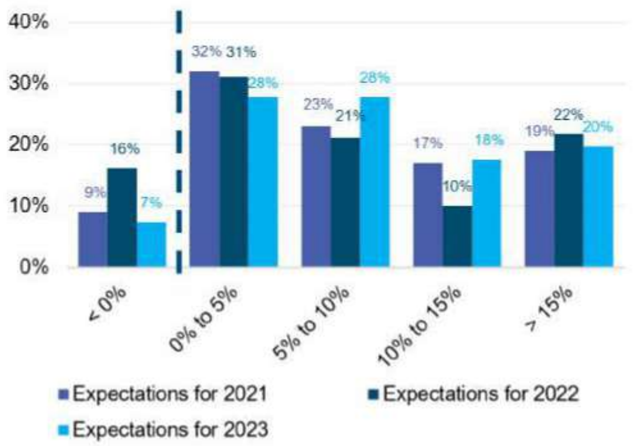
Profit Expectations
What is your company's expected profit margin for 2023?



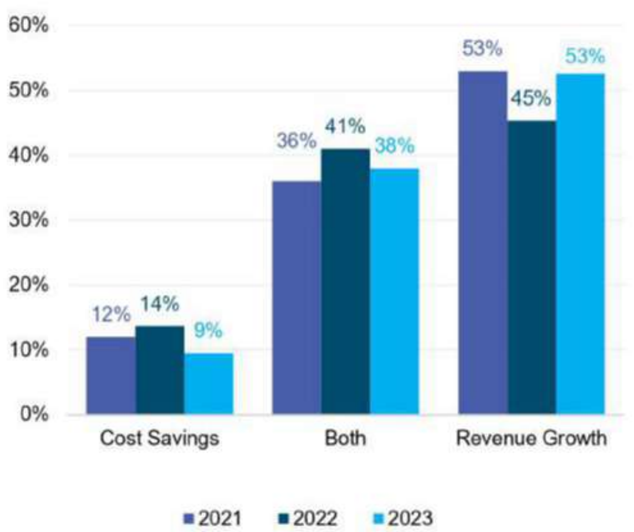
The profit margin expectations for 2023 paint a more optimistic picture compared to the results of 2022. It is anticipated that negative margins will decrease by 8% for Benelux companies, reaching a level of 7%. Among the respondents, 28% expect to achieve profit margins in the break-even category, ranging from 0% to 5%, which reflects a strong increase of 11%. The 10% to 15% category shows a 2% increase, while the 5% to 10% bracket and over 15% categories show a decrease of 1% and 3% respectively. This shows that the main shift in expectations is towards moderate profit margins or even break even. While it is of course a good development that fewer losses are expected, the lack of higher profit expectations show that Benelux companies are still expecting challenges or are more cautious in their expectations going forward.

Profit Expectations over time
What is your company's expected profit margin for this year?



Aligned with the projected revenue growth rates, the expectations for profit margins in the past 3 years reflect optimism towards a post-pandemic market. The overall expectations for profit margins in 2023 closely resemble those of 2021, but with a notable difference in the negative to 5% range, where the anticipated margins for 2023 are significantly lower compared to previous years. In all higher-level profit margin categories, the expectations for 2023 surpass both 2021 and 2022, except for the highest category, which experiences a 2% decrease from the previous year. These numbers collectively convey the same narrative mentioned earlier, indicating a restoration of confidence in the Chinese market.

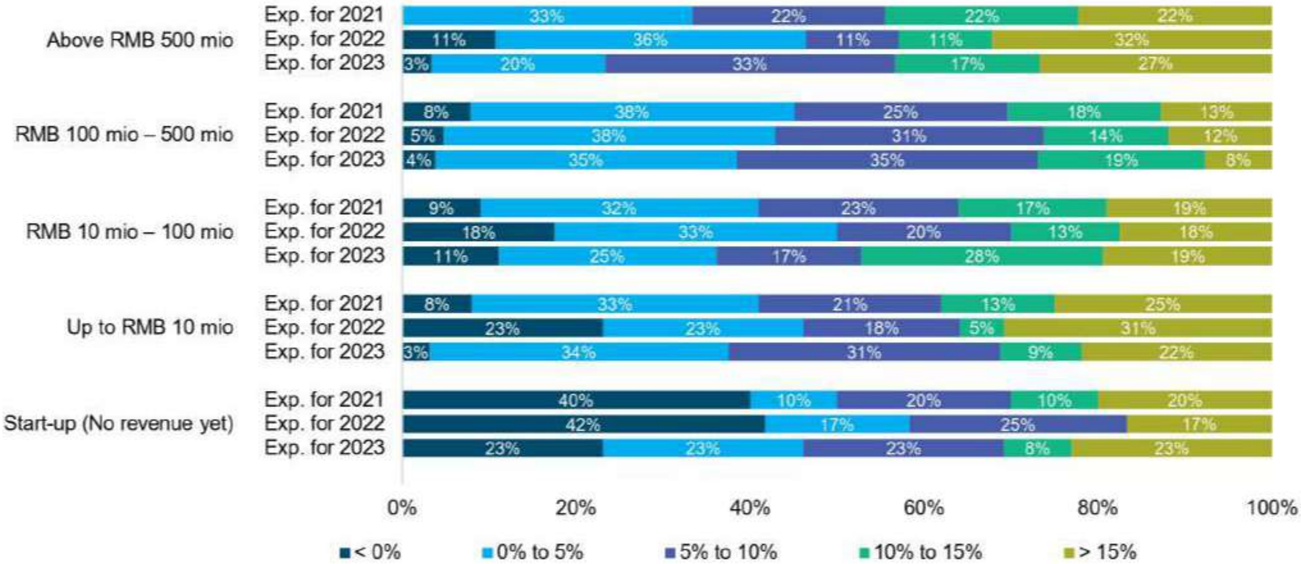
Driver of profitability
Profitability this year will be driven more by:



For 2023 the majority of respondents (53%) anticipate that their profitability will primarily be driven by Revenue Growth, while only 9% expect cost savings to play a significant role. This represents the lowest percentage recorded thus far for Cost Savings as a driver of profitability. Additionally, 38% of Benelux companies expect both factors to influence their profitability. These findings closely align with the evaluations from 2021, with a slight decrease observed in the impact of Cost Savings on profitability, which is consistent with the positive expectations for profit growth.

Profit Expectations by Size

What is your company's expected profit margin for this year?

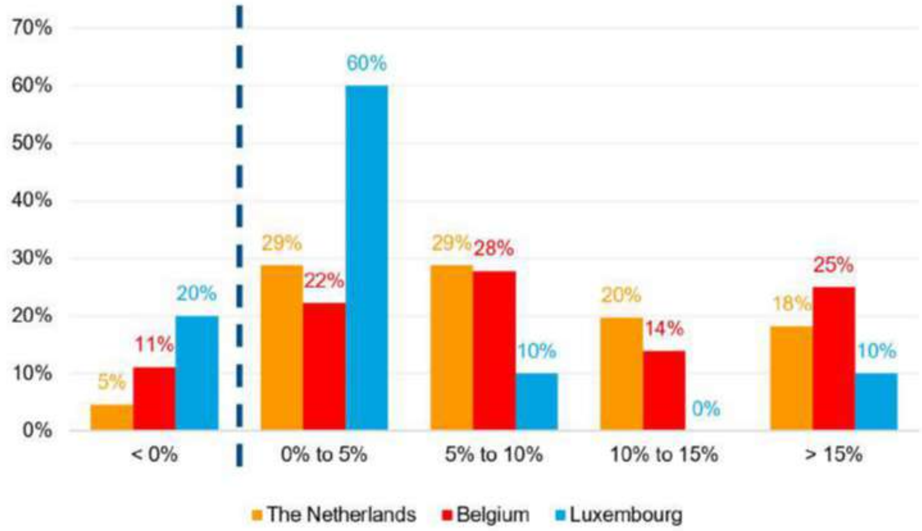


In general, we observe a similar trend in expectations for profit margins and revenue growth. Among large companies with revenues exceeding 500 million RMB, 3% anticipate a negative profit margin this year, which marks an 8% decrease compared to the previous year but still a 3% increase compared to 2021. Simultaneously, 77% of these companies expect profit margins exceeding 5%. Companies with revenues ranging from 100 million to 500 million RMB, as well as startups, have their most favorable expectations in the past 3 years, with only 4% and 23% respectively expecting negative profit margins.

The most significant decrease in expected losses is observed in the up to 10 million RMB revenue class, with only 3% of respondents expecting losses, representing a 20% decrease from the previous year. Additionally, 62% of companies in this class anticipate profit margins of over 5%. Among companies with revenues of 10 to 100 million RMB, 64% expect profit margins higher than 5%. It is noteworthy that all company sizes display a more optimistic outlook, as reflected in the general decrease in negative and break-even profit margins.

Profit Margin Expectations – by Country

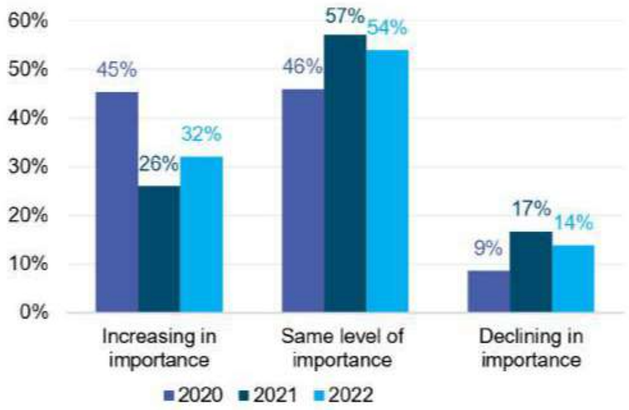
What is your company's expected profit margin for this year?



Compared to the previous year, there is a notable improvement in the expectations of Benelux businesses. In particular for respondents expecting losses in 2023, with only 5% of Dutch companies and 11% of Belgian companies exhibiting expectations for negative profit margins, a significant decrease compared to last year. Dutch and Belgian companies also reported fewer expectations in the 0% to 5% and 5% to 10% categories, with a strong increase in the profit margin expectations of over 10%. However, the majority of Dutch and Luxembourgish companies still anticipate operating within the break-even category, while 28% of Belgian businesses expect to achieve a profit margin ranging from 5% to 10%. This shows that also on a country level we do still observe cautiousness in the profit expectations.

Corporate strategy in China for next two years

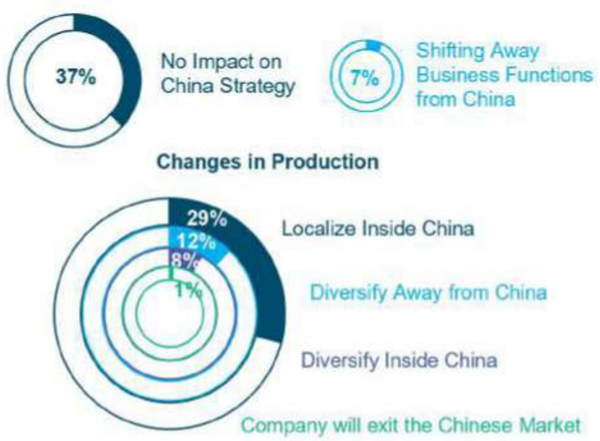
How important will China be in your group's strategy in the coming two years?



China has consistently been recognized as an important market for Benelux companies, and this trend is expected to continue. In the previous year, only 26% of Benelux companies considered the Chinese market to be increasingly important, a decrease from 45% in the preceding year. However, this year shows a shift in the corporate strategy of Benelux companies, with 32% attributing a higher level of importance to the Chinese market in the coming 2 years. Furthermore, the number of companies expecting China to lose importance in the foreseeable future has decreased to 14%, a three percent decrease compared to the previous year. A majority of respondents (54%) believe that China will remain just as important in the next two years as it was in the past. This indicates a continued recognition of the significance and potential of the Chinese market for Benelux businesses.

Adapting China strategy considering current climate

How is your firm adapting its China strategy considering the current business and geopolitical climate?

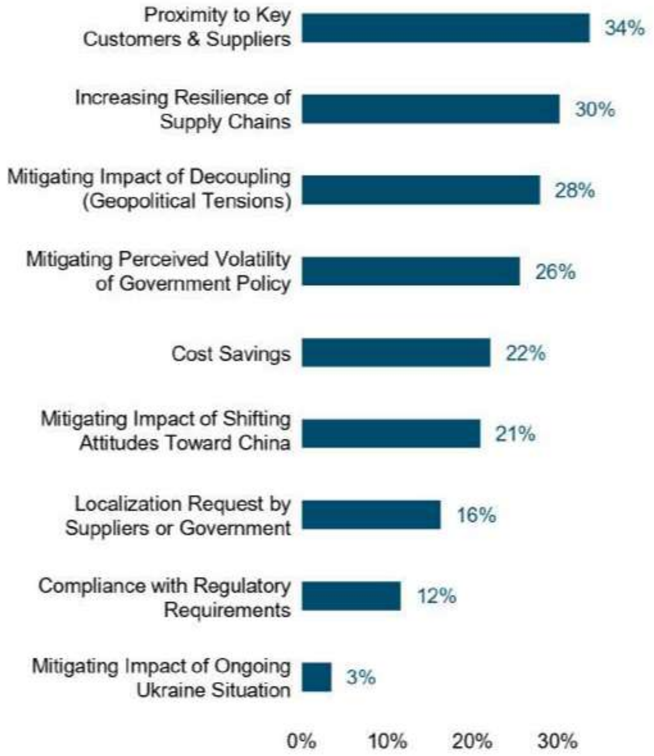


Note: Multiple factors per respondent could be selected.

In this year's survey, the strategies adopted by Benelux businesses operating in China in response to the current business and geopolitical climate are a notable addition. The data reveals the percentages of firms implementing different approaches. A considerable portion (37%) of businesses reported no impact on their strategy, indicating operational stability. However, a significant number of firms are prioritizing localization, with 29% actively pursuing the localization of production within China and 24% emphasizing the localization of supply chains within the country. Diversification strategies are also prominent, with 15% of firms opting to diversify their supply chains both within and outside of China or adopting backup options outside of China. Additionally, 12% of companies are diversifying their production away from China, signifying a strategic shift. Meanwhile, a smaller proportion of businesses (7%) are implementing partial diversification by shifting specific business functions outside of China. Only a few firms are choosing to exit the Chinese market entirely (1%) or move away from supply chains sourced solely from China (3%). Overall, these findings underscore the diverse adaptation strategies pursued by Benelux businesses in China, following the post COVID-19 pandemic environment. The importance of localization and diversification is emphasized in response to the prevailing business and geopolitical climate.

Adapting China strategy considering current climate

How is your firm adapting its China strategy considering the current business and geopolitical climate?

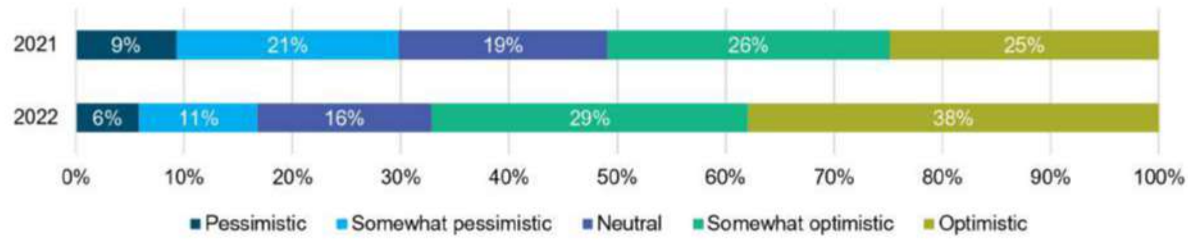


Note: Multiple factors per respondent could be selected.

Another addition to this year's SBSS reveals significant motivations driving the recalibration of China strategies among Benelux businesses. The main motivations for calibration for these businesses are leveraging proximity to key customers and suppliers (34%) and building supply chain resilience (30%). Furthermore, decoupling due to geopolitical tensions (28%) and mitigating shifting attitudes toward China (21%) are important drivers as well, showing that Benelux companies are not immune to international political influences and changing perceptions, and this shows that these businesses adopt a proactive approach in response to the environment. At a local level, we observe that 26% of Benelux companies recalibrated to mitigate perceived volatility in government policy and 12% did so due to compliance with (newly introduced) regulatory requirements, demonstrating the impact of having to adhere to evolving policies and legal frameworks. Lastly, we found that business drivers such as cost savings (22%) and request for localization by customers or government bodies (16%) also are a key motivation behind calibration. The data underscores the dynamic Chinese business landscape, necessitating strategy recalibration. Benelux businesses can position themselves for success, mitigate risks, and capitalize on opportunities by responding to these motivations. Adaptability, collaboration, and efficient logistics play vital roles in navigating the evolving business and geopolitical climate.

Company prospects in China for next five years

How do you feel about your company's prospects in China for the next 5 years?



Taking a more mid-term perspective, the outlook of Benelux companies operating in China reveals a growing sense of optimism. About 67% of these companies hold at least somewhat optimistic or optimistic prospects for their business operations in the country, marking a 16% increase compared to the previous year. This positive sentiment aligns with the two-year outlook, where 32% of companies consider China to be increasingly important in their overall strategy. Looking ahead over the next 5 years, 38% of respondents expressed optimism about their business prospects in China. Meanwhile, 14% of the surveyed companies believe that China will become less important in their group strategy over the 2 years. However, when considering the 5-year outlook, only 17% of respondents hold a somewhat pessimistic or pessimistic view, indicating a significant decrease compared to the previous year's combined category of 30%. When looking at the findings by industry, we note that respondents active the Real Estate, Consumer Services and Materials sectors are the most optimistic about their company's prospects.

About - Benelux Chamber of Commerce

The Benelux Chamber of Commerce is the Benelux business platform in China. Its members, leading companies from Belgium, the Netherlands and Luxembourg, share an active interest in developing trade and business in China. The Chamber of Commerce is officially recognised and supported by the Embassy of the Kingdom of Belgium, the Embassy of the Kingdom of the Netherlands and the Embassy of the Grand Duchy of Luxembourg in China.

Benelux Chamber has been growing at a steady pace since it was established in 2001. It currently contains 3 chapters; Beijing, Shanghai and Guangzhou (Pearl River Delta). It is the prime platform for the Benelux business community to get together.

The Benelux Chamber currently has over 350 members, aspiring to grow further every day. Its base consists of Large Enterprises, Small and Medium sized Enterprises (SMEs) as well as individuals with an active interest in developing their business in China. As an independent, non-profit organisation, the Benelux Chamber is managed by a full-time secretariat of both Benelux and Chinese staff. All practises are guided by an active Board of Directors. Benelux Chamber sustains itself through government subsidies, membership subscriptions, sponsorships and event fees.

On May 27, 2010, Benelux Chamber received the Accreditation Certificate from the BLCCA (Accreditation Programme for Belgian and Belgian-Luxembourg Chambers of Commerce Abroad).

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About - Moore - MS Advisory

Moore - MS Advisory is a financial advisory firm based in Shanghai, which is part of Moore Belgium and a member of the Moore Global Network. For more than a decade, we have supported foreign enterprises across all provinces of Mainland China and in Hong Kong with Accounting, Tax and Corporate Services which include company set up and registration.

We have served foreign companies active in a wide range of industries. Among others, this includes enterprises from the agriculture, food & beverage, TMT, manufacturing, professional services and trading sectors.

Moore focuses on connecting foreign businesses with their business in China through our core values of Transparency, Compliance and Sustainability. Moore is committed to providing its clients with a thorough understanding of administrative and reporting requirements in China and we ensure they have full control over their administration.

Moore's services include:

- Accounting & Tax Filing;
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In collaboration with the official trade- and diplomatic representations of

Belgium, The Netherlands, and Luxembourg in China:

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