Spring 2022 survey of French enterprises in China

From April 1st to May 9th
200 respondents

Economic and human resources landscape in the current crisis status
French companies are highly impacted by the stringent COVID-19 containment measures and the situation in Ukraine

With more than 2100 subsidiary companies employing close to 445000 people, France is the first European investor in China by the number of companies. With its 1600 members, the French Chamber of Commerce and Industry in China (CCI FRANCE CHINE) represents the interests of French companies since 1992.

In the continuation of the surveys conducted by other foreign chambers of commerce in China (including the European Union, Germany, and the United States), the French Chamber of Commerce and Industry in China (CCI FRANCE CHINE) interrogated its members between April 1st and May 9th regarding the economic activity of French companies. 200 companies responded to the survey.

- **COVID-19 restrictions**, leading in recent weeks to full or partial lockdowns across numerous cities accounting for 40% of China’s GDP, have an impact on investment strategies of the vast majority of subsidiaries in China (80%); 16% consider reducing their presence in the country. The image of China has degraded in the eyes of their headquarters (76%), notably as an investment destination (64%) and for conducting R&D activities (36%). Current COVID-19 restrictions strongly hamper the management of foreign human resources (85%). Consequently, half of the respondents replace expatriate staff with local employees, two thirds of them citing entrance restricting into China and the loss of attractiveness of China. This trend, if it were to last, risks to deteriorate the communication between subsidiaries and the headquarters in France (68%).

- **80% of subsidiaries are affected by the gradual decoupling between China and the rest of the world**, which impacts their supply chains (48%), the management of personal data (43%) and legal compliance (40%). More than half of companies impacted by the trend of “decoupling” consider to regionalize their presence, namely by remaining in China solely to meet the demands of the Chinese market.

- **China’s intellectual property regime (56%) and the regulatory environment (51%) count amongst the main challenges faced by French firms.**

- Nevertheless, **China remains an attractive destination for innovation** in the eyes of French subsidiaries (86%) and their headquarters (72%); 54% of the companies invest in R&D in China. The high potential of the Chinese market is well known to French companies; 37% of subsidiaries still consider extending their investments.

- **Respondents are also impacted by the consequences of the invasion of Ukraine (37%)**, because of supply chain disruptions (55%), a fall of their revenue (32%), and the increase in energy prices (30%).

The challenges met by French firms in China are significant and the attractiveness of China risks to suffer a lasting damage if the current COVID-19 restrictions were to be maintained. More specifically, it is high time to facilitate the arrival of expatriate workers in China after more than two years of strict border restrictions, by increasing international air traffic services, issuing visas, and improving quarantine conditions (housing, predictability, separation of families). These are essential factors to deepen industrial cooperation and foster the development of commercial opportunities for French and Chinese companies. For our commercial exchanges and bilateral investment flows to continue thriving, a transparent, predictable and fair business environment are necessary.
The local subsidiaries of a French company in China who completed the survey regard themselves as:

- French Company established in China: 66.2%
- Local Company with French Shareholders: 12.3%
- Both: 21.5%

The Local Entrepreneur Companies who completed the survey regard themselves as:

- French Company established in China: 29.8%
- Chinese Company with a French management: 26.3%
- Both: 43.9%
Perception of China and Impact on Investments

Subsidiary of a French company in China

Has your investment strategy been impacted by one or several of the following factors/ trends/ developments?

- COVID-19 (Zero Covid policy): 80.2%
- Macroeconomic factors (slowdown of the Chinese economy): 48.6%
- Market Restriction: 27.0%
- International Compliance: 18.0%
- Data Regulation: 15.3%

Entrepreneur Local company

Has your investment strategy being impacted by one or several following reasons?

- COVID-19 (Zero Covid policy): 86.5%
- Macroeconomic factors (slowdown of the Chinese economy): 44.2%
- Political factors (decoupling): 28.8%
Perception of China and Impact on Investments

Subsidiary of a French company in China

Has there been a change of perception by your company’s headquarter regarding China in the past months?

- No: 23.7%
- Yes: 76.3%

If your company headquarter had a change of perception toward China in these last few months...

How did their perception evolve?

- A lot more positive: 1.0%
- More positive: 2.0%
- Less positive: 37.6%
- A lot less positive: 59.4%

What was the impact of that change on R&D?

- Positive: 6.5%
- Neutral: 58.1%
- Negative: 35.5%

What was the impact on investment?

- Positive: 5.1%
- Neutral: 31.3%
- Negative: 63.6%
Do you observe an impact on your business from the trend of decoupling between China and the world?

- No: 19.7%
- Yes: 80.3%

If yes, which aspects of your business are impacted?

- Supply Chain: 48.1%
- Data management: 43.4%
- Legal Compliance: 39.6%
- Technology development: 36.8%
- Human Resources: 34.9%
- HQ Communication: 32.1%
- Production Delocalization: 27.4%
- IT Environment: 27.4%
- External Communication: 24.5%
- Internal Communication: 18.9%
- R&D Delocalization: 13.2%
- Finance: 12.3%
Perception of China and Impact on Investments

Subsidiary of a French company in China

How do you plan to develop your activity in the next 3 years?

- **Investment extension**: 37.0%
- **Expansion of current production site**: 31.5%
- **No development planned**: 26.8%
- **JV Creation**: 18.1%
- **Downsizing**: 15.7%
- **Acquisition**: 15.7%

Reasons for no investment

- “Instability”
- “China is seen as a risk more than an opportunity”
- “Will be decided after the reopening of China’s borders”
- “Too many difficulties to enter / exit the country even for Chinese nationals, and fewer needs for our services as Chinese autonomy developed significantly”
- “No appetite for China investment from HQ”
- “Difficult to assess the market potential due to political instability / unclear political climate?”
- “Closing down China subsidiary and relocating production, notably in Portugal and Spain”
- “Recentering on EU business”
**Perception of China and Impact on Investments**

*Subsidiary of a French company in China*

In case of investment/acquisition, estimation of the increase of the company’s investments in China?

<table>
<thead>
<tr>
<th>Percentage of China annual revenue</th>
<th>Percentage of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 5%</td>
<td>29.1%</td>
</tr>
<tr>
<td>5-10%</td>
<td>32.6%</td>
</tr>
<tr>
<td>11-20%</td>
<td>14.0%</td>
</tr>
<tr>
<td>&gt;20%</td>
<td>24.4%</td>
</tr>
</tbody>
</table>
If you perceive an impact of the decoupling between China and the world, through which means do you plan to adjust your strategy?

**Regionalization**: 55.2%

**Localization of human resources**: 37.1%

**Localization of innovation activity**: 36.2%

**Reduction of expatriates**: 25.7%

**Redundancy of technological development**: 21.9%

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In your sector, do you anticipate a trend for the emergence of standards that would challenge your company's development?

**No**: 45.3%

**Already the case**: 21.2%

**In 1 to 2 years**: 15.1%

**In 2 to 5 years**: 20.1%

**Beyond 5 years**: 5.6%
Decoupling and standards Challenges

Subsidiary of a French company in China

Has your company been affected by one of those two regulations?

- Data Security Law: 43.4%
- Personal Information Protection Law: 40.3%
- None of them: 49.6%

If yes, how were you affected?

- Localization of data processing within China: 66.2%
- Personal information protection measures: 64.6%
- Cybersecurity measures: 53.8%
- Restrictions of cross-border data transfers: 52.3%
- Other: 1.5%
Supply Chain

Subsidiary of a French company in China

Has the supply of imported products/material become harder?

- No: 65.4%
- Neutral: 26.1%
- Yes: 8.5%

Reasons that make it harder for subsidiaries of French companies to import/source certain products/material:

- Transportation Costs: 81.6%
- Regulatory/Import control: 55.2%
- Product Availability: 51.7%
- Product price: 50.6%
Zero Covid policy and foreign employees

Subsidiary of a French company in China

How is your company impacted by China’s Zero Covid policy regarding/ with regards to foreign human resources/ foreign staff?

- Negatively: 84.8%
- No Impact: 13.6%
- Positively: 1.5%
Human resources trends for *Subsidiaries of French companies* in China

### Nationality of the CEO in subsidiary of French companies in China

- **French**: 73.5%
- **Chinese**: 16.7%
- **Other**: 5.3%
- **European**: 3.0%
- **American**: 1.5%

### Ratio of expatriates in subsidiary of French companies in China

- **0-10%**: 86.4%
- **11-20%**: 6.8%
- **21-50%**: 3.8%
- **51-100%**: 3.0%
Is your company replacing expatriates by local talents?

- No: 48.5%
- Yes: 51.5%

Those who answered “yes” listed the different reasons that led them to that decision:

- Difficulties attracting expatriate to China: 65.2%
- Entry restrictions into China due to Covid: 65.2%
- Promotion of Chinese talents: 43.5%
- Need to better communicate with Chinese clients and partners (including Government Agencies): 42.0%
- Cost: 37.7%
- Other: 2.9%
Reduction of foreign employees

Human resources trends for *Subsidiaries of French companies* in China

If your company is replacing their expatriates by local employees, by whom are they replaced?

- Chinese Employees: 84.1%
- Foreigners under local contracts: 36.2%
- Foreigners working remotely: 11.6%

Challenges foreseen as consequences of foreign employees replacement

- Communication issues with HQ: 66.7%
- Losing the company culture: 59.1%
- Creation of China exceptions in corporate rules: 31.8%
- Other: 22.7%
- Different technology choices: 19.7%
Reduction of foreign employees

Human resources trends for *Entrepreneur Local company* in China

Is your company replacing expatriates with Chinese employees?

- **No**: 70.7%
- **Yes**: 29.3%

Reasons for the replacement of expatriates

- Entry restrictions into China due to Covid: 47.4%
- Normal evolution of Human resource structure: 42.1%
- Difficulties attracting expatriates to China: 36.8%
- Promotion of Chinese talents: 36.8%
- Need to better communicate with Chinese clients and partners: 36.8%
- Costs: 26.3%
- Other: 5.3%
Entrepreneur Local company

Are you facing issues in hiring non-Chinese employees?

- Yes: 53%
- No: 47%

If you are facing issues with hiring non-Chinese employees, what are they?

- Zero Covid policy: 75.8%
- China attractiveness: 45.5%
- Regulations: 39.4%
- Costs/Expenses: 30.3%
- Other: 12.1%
- Language skills: 9.1%
- Taxes: 6.1%
Perceptions of China and Impact on Investments

**Entrepreneur Local company**

Have your overseas stakeholders/partners had a change of perception toward China these past few months?

- No: 69.0%
- Yes: 31.0%

Do you feel communication with overseas stakeholders/partners has become harder?

- No: 57.9%
- Yes: 42.1%

Here are the reasons why entrepreneur local companies are feeling that the communication with overseas stakeholders/partners has become harder:

- Zero Covid policy: 86.8%
- Political Risk: 57.9%
- China attractiveness: 50.0%
Supply chain

Subsidiary of a French company in China

Do you feel it is harder to import products/materials?

- No: 37.0%
- Yes: 63.0%

Reasons that make it harder for entrepreneur local companies import products/materials:

- Transportation Costs: 68.6%
- Regulatory/Import control: 48.6%
- Product Availability: 40.0%
- Product price: 40.0%

Have you already faced a situation where you were unable to replace the foreign supply by a local supply?

- No: 34.6%
- Yes: 65.4%
Perception of China and Impact on Investments

*Entrepreneur Local company*

**How do you plan to develop your activity in the next 3 years?**

- No development planned: 47.5%
- Development/Investment: 44.1%
- Downsizing: 8.5%

**In case of investment/acquisition, how much would you be likely to increase your company’s investments in China?**

- >20% of China annual revenue: 5.9%
- 11-20% of China annual revenue: 17.6%
- 5-10% of China annual revenue: 32.4%
- <5% of China annual revenue: 44.1%

**Reasons for non-investment:**

- “Uncertainty of the local environment”
- “Changing market”
- “Wait and see how situation evolves”
- “No perspective”
- “Not enough resources”
- “No business need, focus on other markets”
Innovation and R&D

Subsidiary of a French company in China & Entrepreneur Local company

How do you assess the innovation capacities in China?

- Very positive: 17.6%
- Positive: 68.1%
- Low: 11.7%
- Very Low: 2.7%

How does your head office assess the innovation capacities in China?

- Very positive: 6.0%
- Positive: 66.1%
- Low: 21.9%
- Very Low: 6.0%

Have you identified obstacles to the development of innovation in China?

- Intellectual Property: 55.9%
- Regulations: 50.6%
- Different Market: 35.3%
- Different Usage: 28.2%
- Cyber security: 25.3%
- Standards: 22.9%
- HR Cost: 20.0%
Innovation and R&D

*Subsidiary of a French company in China & Entrepreneur Local company*

**Does your company invest in research & development in China, and if so, for which market?**

- **Global Market**: 10.8%
- **Local Market**: 29.0%
- **Both**: 14.5%
- **No**: 45.7%

**If you have selected “Local Market” only, why?**

- **Cultural Difference**: 56.1%
- **Decoupling of Ecosystems**: 47.0%
- **Internal Company Policy**: 27.3%
- **Export Restrictions**: 9.1%
In your company, does the intellectual property protection policy encourage limiting R&D activities in China?

- No: 65.7%
- Yes: 34.3%

Does your company benefit from government funding supporting R&D investment in China?

- No: 83.0%
- Less than 5%: 13.7%
- 5 to 10%: 2.2%
- 10 to 25%: 1.6%
Impact of the invasion of Ukraine by Russia

All companies included

Impact of the invasion of Ukraine by Russia on operations in China

Company operations impacted by the invasion

- Supply Chain: 54.8%
- Revenue: 31.5%
- Energy prices: 30.1%
- Exports to Russia: 17.8%
- Compliance with regards to export control: 16.4%
- Other: 16.4%
- Investment Projects: 11.0%
- Recruitment: 8.2%
- Current JV: 2.7%
Impact of the invasion of Ukraine by Russia

All companies included

Impact of European and American sanctions

- 79.1% No
- 20.9% Yes

Monitoring effort of the EU and US sanctions to avoid potential impact

- 62.3% No
- 37.7% Yes
Impact of the invasion of Ukraine by Russia

All companies included

France’s image in the eyes of the employees since the beginning of the conflict

- Positive: 25.1%
- No opinion: 11.5%
- Neutral: 56.5%
- Negative: 6.8%

Are the foreign employees concerned about their presence in China as a result of the invasion?

- No: 49.2%
- Yes: 50.8%
Profile of Respondents

Activity sector

- Industry: 25.5%
- Consulting: 17.0%
- Services to companies: 10.5%
- Other: 10.0%
- Distribution & Import: 8.5%
- IT & Software: 6.5%
- Transports & Logistics: 5.0%
- Bank & Finance: 5.0%
- Agro, Food, Wine...: 5.0%
- Automotive: 4.5%
- Health & Medical: 4.0%
- Construction: 3.5%
- Digital Agency & Marketing: 3.0%
- Hospitality / Tourism: 2.5%
- Education: 2.5%
- E-Commerce: 2.5%
Profile of Respondents

Number of employees in China

- > 5000 employees: 9.0%
- 1001-5000 employees: 9.5%
- 501-1000 employees: 1.5%
- 101-500 employees: 13.5%
- 11-100 employees: 30.0%
- 0-10 employees: 36.5%

Company turnover in China (in Million Euros)

- > 1500 Millions Euros: 8.5%
- 50-1500 Millions Euros: 18.5%
- 2-50 Millions Euros: 38.5%
- < 2 Millions Euros: 34.5%

Number of employees worldwide

- > 5000 employees: 28.5%
- 1001-5000 employees: 10.5%
- 501-1000 employees: 8.5%
- 101-500 employees: 17.0%
- 11-100 employees: 17.0%
- 0-10 employees: 18.5%

Company turnover worldwide (in Million Euros)

- > 1500 Millions Euros: 27.5%
- 50-1500 Millions Euros: 25.5%
- 2-50 Millions Euros: 24.0%
- < 2 Millions Euros: 23.0%
Profile of Respondents

**Respondent’s nationality**
- French: 92%
- Chinese: 5%
- Other: 3%

**Respondent’s title**
- C - Suite: 54%
- Management: 44%
- Expert: 1%
- Supervisor: 0%
- Junior: 1%
Thank You