Canada-China Business Survey 2018/2019: Summary

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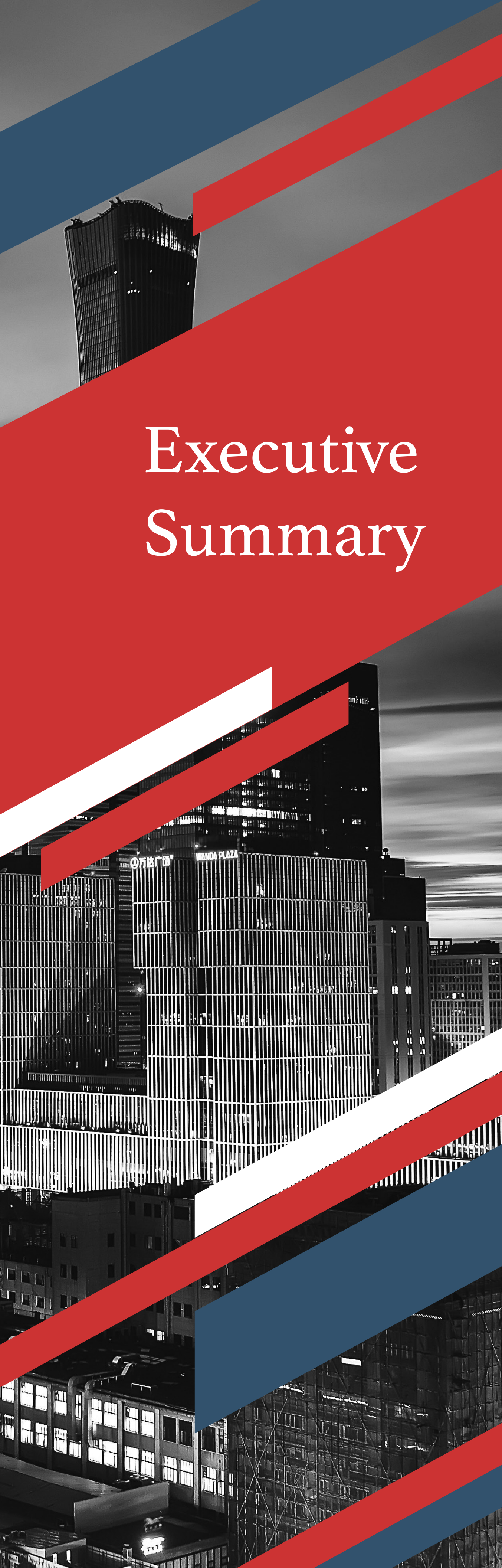


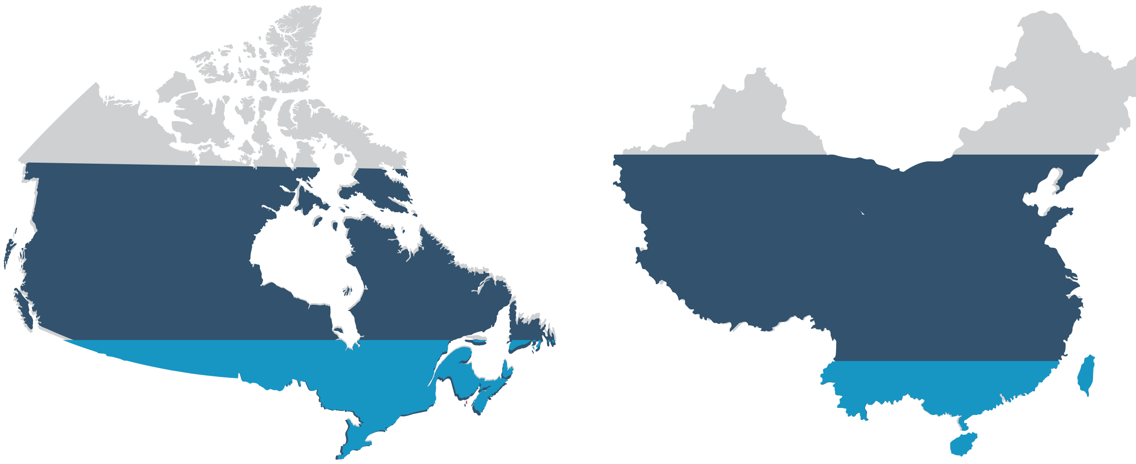
Executive Summary

Canada is a recognized and valued brand in China; Canadian products and services are well regarded for their quality; and Canadian organizations are doing business in and with China on a deeper and broader basis than ever before.

However, the tensions between the countries that emerged in late 2018 have impacted Canadian companies to varying degrees.

Our research shows that:

1.



Close to **20 per cent** of companies from both countries have been negatively impacted by the dispute; **52 per cent** have changed their business plans from slightly to significantly; and approximately **65 per cent** have experienced no change in their operations.

2.

Organizations do not want a dispute between the two governments to impact their operations. Based on the survey, CCBC concludes that it is imperative that both governments need to be more sensitive to the negative impact the dispute is having on businesses whose operations are unrelated to current political and legal issues.

3.

Despite concerns about the present situation, the survey reveals that companies are planning to either stay the course (15%) or expand their operations (65%) in the future.

4.

Despite different systems of government, both Canadian and Chinese companies doing bilateral business are similarly hindered by each other's government regulations, processes, procedures and laws.

The Canada China Business Council conducts a survey every two years to explore issues of relevance for Canadian companies conducting business in China and Chinese companies operating in Canada. The 2018/2019 survey strikingly found that despite the different political systems and government structures of the two countries, both Canadian and Chinese companies face very similar challenges and frustrations because of administration issues, red tape and different business cultures.

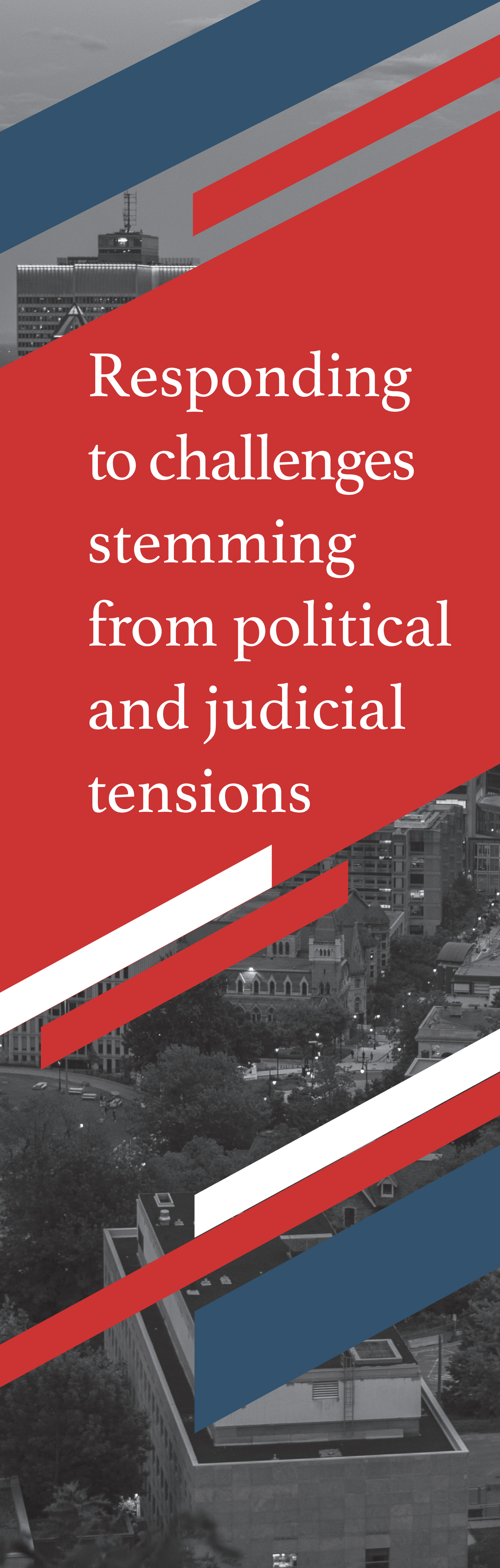
The survey shows that Canadian companies operating in China are profitable and are growing and planning to expand, despite the current political situation. Although Chinese companies with operations in Canada are not as profitable as those who responded two years ago, they are minimizing their losses and are similarly planning to expand. In essence, companies in both countries are optimistic about their long-term prospects.

Intellectual property (IP) protection, which has been a major focus of this longitudinal survey, moved higher on the list of challenges identified by companies compared to 2016. Having said this, only one-third of respondents answered questions about IP protection, suggesting the issue is not of significant importance to many companies. Similar to the results from 2016's survey, IP protection is challenging and takes effort, but companies are finding ways to manage this issue in China. Its return to the list of top five challenges simply underscores the importance of and vigilance required in protecting it well.

The major issues of this report are:

- Responding to challenges stemming from recent bilateral political and legal tensions: December 1, 2018, to March 1, 2019
- Barriers to doing business in China and Canada
- Leveraging Brand Canada and trends in profitability
- Addressing intellectual property rights
- Looking to the future

Note: Issues 2–5 represent business results from prior to the current trade dispute.

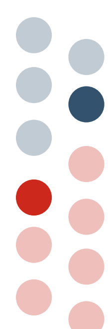


Responding to challenges stemming from political and judicial tensions

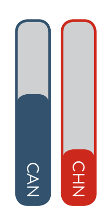
The current political and judicial tensions between Canada and China appear to have extended into bilateral business relationships in the form of postponements, delays or cancellations.

Roughly one in five Canadian and Chinese respondents reported cancellations or postponements in contracts or investment deals.

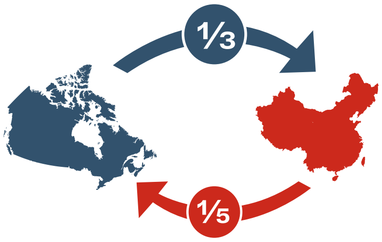
For Canadian respondents, approximately one in five experienced a decrease in Chinese demand for their goods or services, and one in seven Chinese respondents experienced a decrease in Canadian demand.



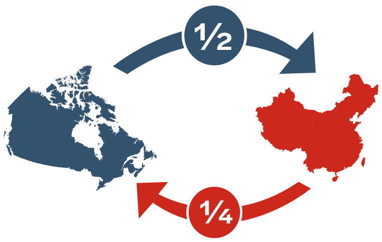
More than half of Canadian respondents have modified their business plans, and more than one-third of Chinese respondents reported changing their plans.



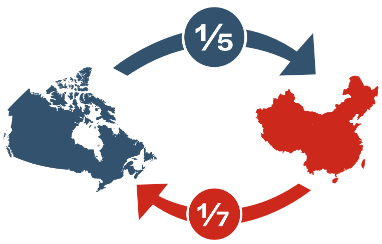
Travel by Canadian companies to China was more severely impacted than for Chinese companies operating in Canada; one-third of Canadian respondents were concerned about travelling between Canada and China and one-fifth of Chinese respondents were concerned about travelling between China and Canada.



Almost half of the Canadian company respondents have or may cancel or postpone business trips to China. One-quarter of the Chinese companies responded the same about travel.



About one in five Canadian respondents felt pessimistic about the future of their organization's business with China, and one in seven Chinese respondents felt pessimistic about their future with Canada.



Canadian Companies Doing Business in China

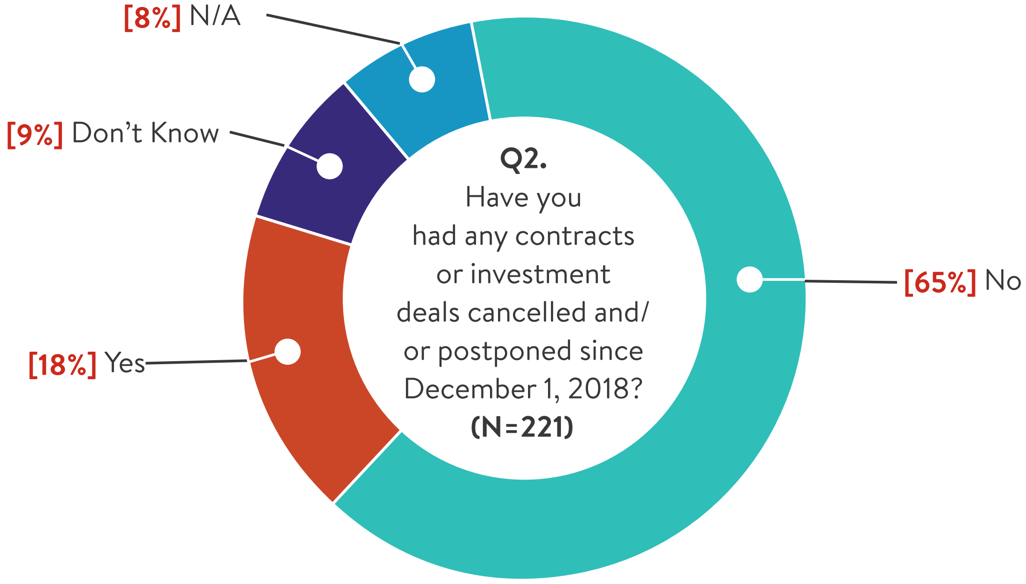
- **Cancelled or postponed contracts**
  18% (N=221) of respondents had experienced cancelled or postponed contracts or investment deals, while **65%** reported no change. Common concerns included projects or agreements put on hold with no information and company orders cancelled not because the Chinese buyer had concerns, but because the buyer's customers may.

- **Changes to business plans**
  53% of respondents (N=213) made changes to their business plans as a result of the current bilateral situation, with **11%** making significant changes.

- **Changes in demand for product or services**
  20% (N=217) of respondents saw a decrease in demand for their product or service and **5%** reported an increase in demand. Decreases varied dramatically, from **20% to 80%**, with one company down **95%** as their market is "not interested in buying or putting money in Canada." **58%** of respondents did not experience a change in demand for their products or services.

- **Cancelled or postponed travel plans**
  48% of respondents have or may cancel or postpone their travel plans. **49% (N=216)** are not concerned about travelling to China and **35% (N=213)** have travelled or will travel as planned. Anecdotally, by late March 2019, CCBC offices have seen members resume travel to China.

- **New meeting locations**
  15% of respondents stated that business meetings originally to be held in Canada or China have been moved to other locations, primarily to other Asian countries.



Chinese Companies Doing Business in Canada

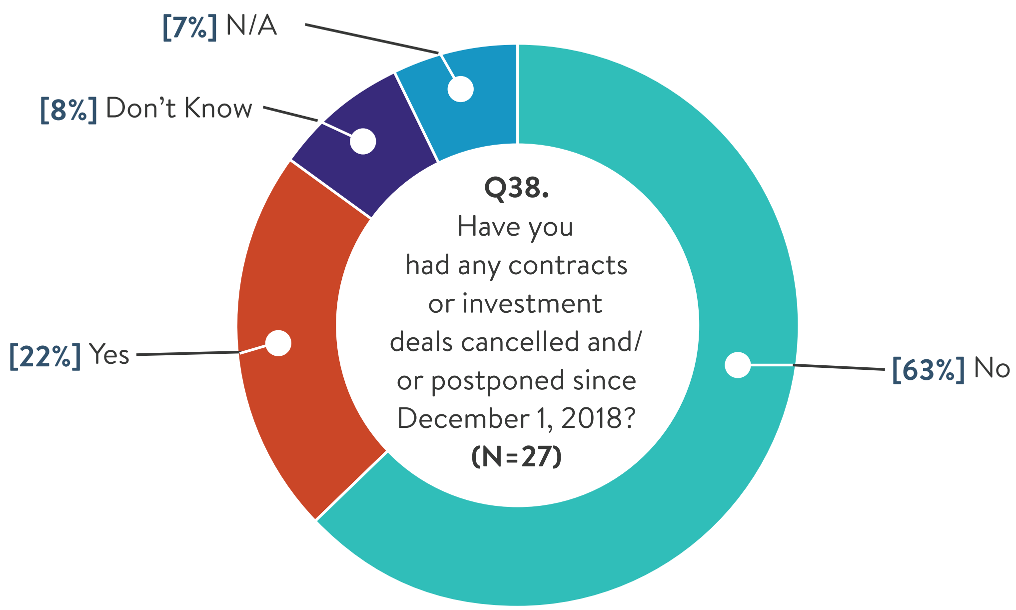
- **Cancelled or postponed contracts**
  22% (N=27) of respondents had contracts cancelled or postponed, while **63%** of respondents reported no changes.

- **Changes to business plans**
  35% of the respondents **(N=26)** experienced a slight or moderate change in their business plans, but no significant changes were reported.

- **Changes in demand for product or service**
  Most companies **(over 50%)** reported unchanged Canadian demand for their product or service; **15%** reported a decrease in demand and **15%** reported an increase.

- **Cancelled or postponed travel plans**
  26% of respondents have or may cancel/postpone travel plans, while more than half are not concerned about travelling between Canada and China.

- **New meeting locations**
  11% of respondents said meetings had been moved to alternate locations such as Hong Kong.



Identifying barriers to doing business in China and Canada

At CCBC, our mission is to create more and better business between in Canada and China by identifying obstacles and pursuing strategies to reduce their impact.

China's reform efforts, albeit slow in implementation, have reduced many of the barriers reported by our members over the years.

In this most recent survey, Canadian respondents were presented with a list of 31 obstacles, and Chinese respondents with a list of 20 obstacles, and asked to rate these obstacles on a five-point scale, with one being a minor barrier and five being major. One-hundred-and-ninety-one Canadian respondents reported facing at least one obstacle, as did 24 Chinese companies. Compared to our 2016 survey, the perceived severity of these obstacles was lower. We take this to represent an overall diminishing in the significance of these barriers to doing business.

Although we tend to focus on the barriers to doing business in China, it's important to note that Chinese companies perceive similar barriers when doing business in Canada. Just as bilateral tension impacts companies from both countries, so too does the overall business environment.

The survey results identified 13 barriers that pose high obstacles for Canadian companies doing business in China. These barriers can be grouped into four main types: administrative/regulatory, business environment and financial. The chart below compares these barriers to the top 13 barriers identified by Chinese companies. There are many parallels, most notably the difficulty of navigating differences in business culture, finding the right partner, and overcoming intensive competition.

<table>
<tr><th>Common Obstacles to Doing Business in China</th><th>Common Obstacles to Doing Business in Canada</th></tr>
<tr><th colspan="2">Regulatory / Administrative</th></tr>
<tr><td>• Challenges in gaining business licenses, approvals to expand operations, product approvals
• Intellectual property protection and enforcement in China
• Inconsistent interpretation of regulations / laws in China / lack of transparency
• Intellectual property—forced IP or technology transfer to a Chinese partner in order to operate in the market
• Lengthy and complicated certification
• Domestic regulations at the central Chinese government level
• Chinese customs procedures</td><td>• Challenges in gaining business licenses, approvals to expand operations, product approvals
• Investment policy
• Mobility of Chinese business travellers in Canada (visas, work permits etc.)
• Enforcing contracts (time and cost necessary to resolve a dispute)
• Restrictive labour regulations</td></tr>
<tr><th colspan="2">Business Environment</th></tr>
<tr><td>• Difficulty finding the right Chinese partner
• Intensive competition
• Rising costs for your company’s operations in China
• Differences in business culture</td><td>• Differences in business culture
• Difficulty finding the right Canadian partner
• Discrimination against Chinese companies in Canada
• Intensive competition
• Costs for your company’s operations in Canada
• Marketing to Canadian consumer preferences</td></tr>
<tr><th colspan="2">Financial</th></tr>
<tr><td>• Restrictions for entities in China to make offshore payments
• Restrictions on currency conversion</td><td>• Complexity of tax regulations
• Inadequate financing</td></tr>
</table>

The longitudinal nature of CCBC's research enables us to identify whether specific obstacles are posing more or less of a challenge over time. The following table lists the top five obstacles to doing business cited by survey respondents over the last three surveys. Administrative barriers dominate across the three surveys, but most notable for the 2018/2019 survey is that China's capital controls (a financial barrier) have made it back onto the list of top five challenges. These controls have severely impacted outbound investment to many countries. Pollution, which was one of the top concerns in the 2016 survey, fell off the top five list this year (it is now ranked #15), reflecting an improvement in air quality, particularly in Beijing. Concerns about IP protection are now one of the top five identified challenges, and new on the list this year are navigating business culture differences.

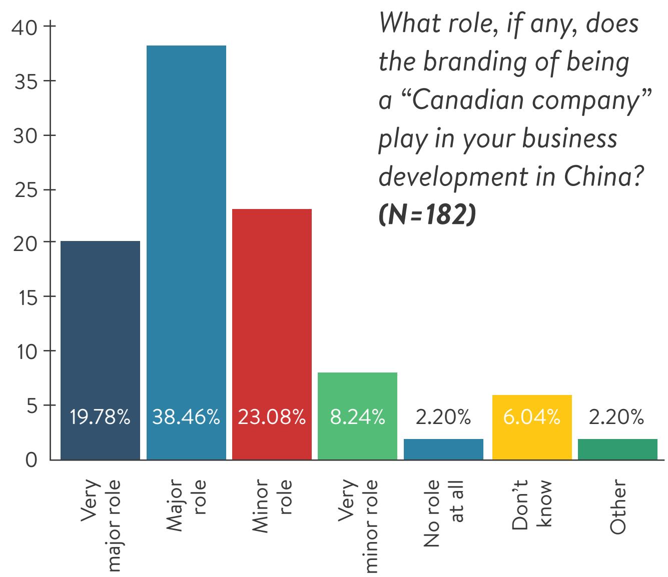
2014	2016	2018
• Inconsistent interpretation of regulations/laws in China	• Lengthy and complicated certification	• Inconsistent interpretation of regulations/laws in China/ lack of transparency
• Weak dispute settlement mechanism (inefficient legal system)	• Local content requirements in China	• Challenges in gaining business licenses, approvals to expand operations, product approvals
• Lengthy and complicated certification	• Chinese customs procedures	• Restrictions for entities in China to make offshore payments
• Intellectual property rules and practices in China	• Chinese labelling requirements	• Intellectual property protection and enforcement in China
• Restrictions on currency conversion	• China's air and environmental pollution	• Differences in business culture

Leveraging Brand Canada and trends in profitability

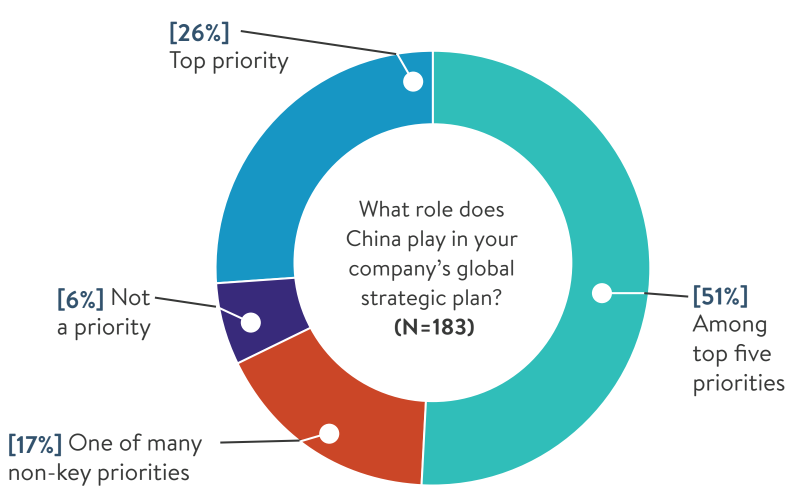
Brand Canada continues to play a prominent role in the valuation of Canadian products and services.

As such, Canadian companies place significance on maintaining the value of Brand Canada, and this is especially true for those that place a high strategic priority on doing business in China.

Although many companies report increasing profitability from their operations in China, most respondents say their profitability has remained unchanged, with only a few experiencing losses.



What role, if any, does the branding of being a "Canadian company" play in your business development in China? ***(N=182)***



Canadian Companies Doing Business in China

- **Profitability: 64% of respondents (N=169)** characterized their company's financial performance for 2017 as profitable or very profitable **(57.5% in 2015)** and **11%** reported losses **(15% in 2015)**.

- **Changes in financial performance:** Compared to the **2016** survey, profitability rose in 2017 for **33% (38%, 2015)** of respondents **(N=175)** operating mainly in the finance and insurance, professional services, and educational services sectors. Profitability remained unchanged for **40% (32%, 2015)** of the companies and decreased for **14% (16%, 2015)** of the respondents. Three companies operating in culture, agri-foods and IT reported losses; however, two of these companies said their business in China represents less than **10%** of their revenue.

- **Importance of the Canadian brand: 58% (N=182) (60%, 2016 survey)** of respondents said the Canadian brand plays a very major or major role in their business development with China.

- **China as a strategic priority: 77% (N=183)** of respondents indicated that China is a top strategic priority or one of their five top strategic priorities.

- **Length of time in China:** The vast majority of respondents have conducted business in or with China for more than five years, and a third for more than 20 years.

Chinese Companies Doing Business in Canada

- **Profitability: 38% of respondents (N=24)** characterized their company's financial performance for 2017 as profitable or very profitable **(80% in 2015)** and **46%** reported losses **(7% in 2015)**.

- **Changes in financial performance:** Profitability rose in 2017 for **48%** of respondents **(N=25) (43%, 2015)**, was unchanged for **24% (21%, 2015)**, and decreased for **8% (21%, 2015)**.

- **Chinese companies operating in Canada (N=21) cited the primary constraints on increased profitability were:**
  - rising labour costs in Canada and insufficient capacity to meet demand
  - Canadian government policy/regulation and insufficient managerial talent to support growth

- **Canada as a strategic priority: 71%** of respondents **(N=24)** indicated that Canada is a top strategic priority or one of their five top strategic priorities.

- **Length of time in Canada:** Most of the respondents have been doing business in/with Canada for more than 10 years.

Addressing intellectual property rights

Only one-third (N=74) responded to the section of the survey focused on intellectual property rights (IPR) protection.

Interestingly, however, when asked to rate obstacles to doing business in China, 155 Canadian companies rated IP protection as an obstacle, with most rating it as a minor rather than major obstacle. Similarly, 134 respondents rated “forced IP or technology transfer to a Chinese partner” as an obstacle, but again, the ratings were much more heavily weighted toward the “minor obstacle” end of the scale.

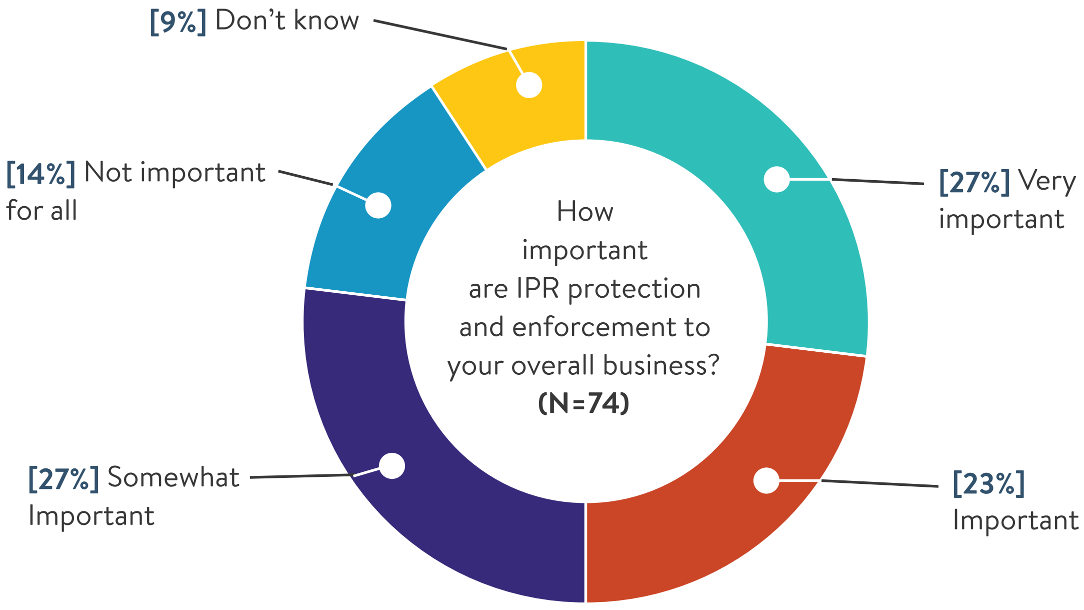
We interpret these combined findings to suggest that while addressing IP protection issues is challenging and takes effort, most companies are finding ways to manage this issue when they do business in China.

Intellectual Property Rights

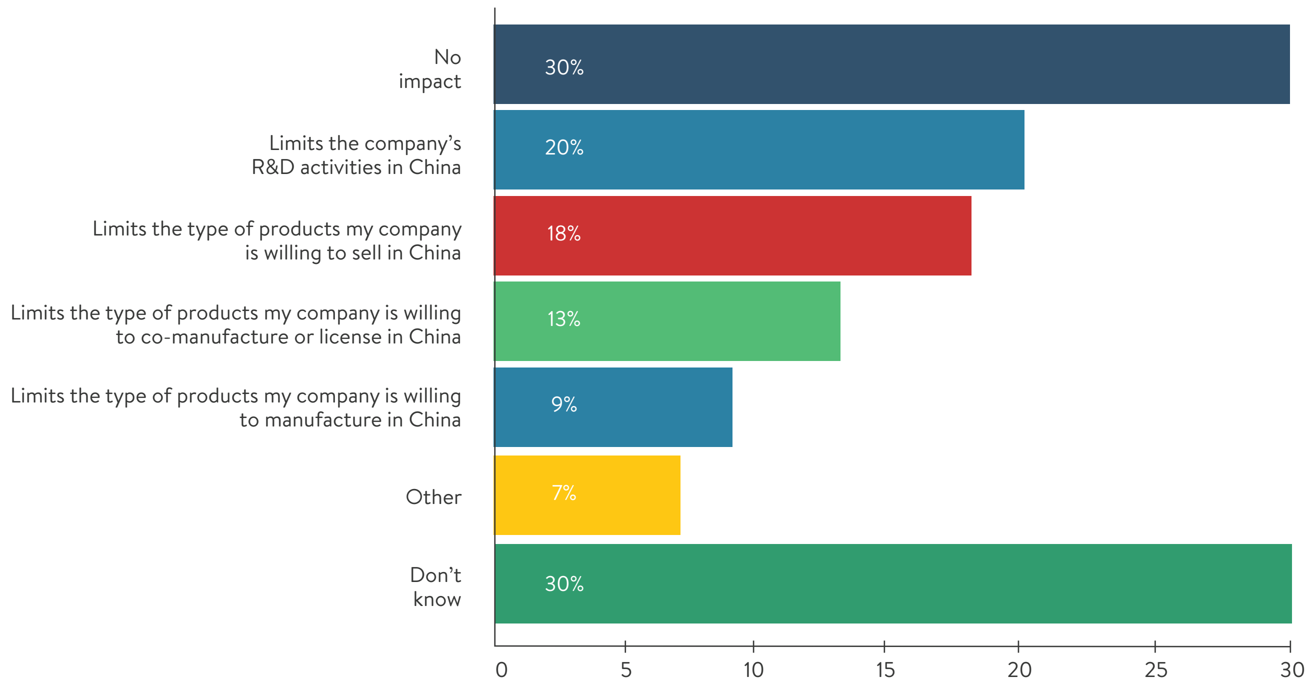
- **77%** of respondents see IPR protection and enforcement as important, ranging from somewhat important **(27%)** to very important **(27%)** to their business. This compares to **50%** rating IP protection as very important or important in 2016.

- The main sources of IPR infringement, identified by **5** respondents, are Chinese competitors—private or non-state-owned; this was also the case in the 2016 survey. Other major sources of IPR infringement are suppliers and Chinese competitors (state-owned enterprises).

- The percentage of respondents who experienced a serious impact of actual or potential infringements increased in 2017 to **43% (2016: 35%, 2014: 67%)**.



- Because of this, **39%** of respondents experienced limitations related to the type of products they were willing to manufacture, co-manufacture or license in China, or the type of products they were willing to sell in China; for **20%** of the respondents, concerns over IPR limited the company's R&D activities in China.



Looking to the Future

Although the current trade and political situation between Canada and China is impacting many companies, it is telling that the majority of Canadian and Chinese respondents plan to expand their operations.

Two-thirds of Canadian companies that conduct business in China (N=181) plan to expand their business in the country in the next five years (one-third have plans for a substantial expansion and another one-third for a slight expansion). Those planning on expanding (N=117) indicated their plan is to:

- grow the export volumes of their product or service to China (56%)
- invest in additional projects (26%), or
- seek distributors (23%).

Most of the companies that plan to expand substantially operate in the agri-foods sector, and most reported revenues of C$1 million to C$4.9 million. Respondents in the professional, scientific and technical services sector also have substantial expansion plans; these companies generally report revenues of over C$500 million. Companies that plan a more moderate expansion are those in the finance, education services, professional services, and transportation sectors.

Chinese respondents operating in Canada are similarly optimistic about plans for growth, with 46% planning a substantial expansion and 38% a slight expansion. Half of the companies plan to expand in their current locations or to additional cities; 30% plan to expand by acquiring or investing in a Canadian firm and 20% intend to grow through a joint venture.

These results suggest that despite the current trade and political tensions between the two countries, Canadian companies operating in China (and Chinese companies operating in Canada) see an optimistic future of continued business growth and development.

About the Respondents

Total number of surveys completed: 254 from companies, organizations, entrepreneurs, educational institutions, and government agencies. N = total number of respondents for a question.

Key Information about Respondents:

Canadian Companies	Chinese Companies
• 226 respondents* • Presently doing business in China or planning to start • Represent 20 sectors, with the top four being: o Finance and insurance (27) o Professional, scientific, and technical services (26) o Educational services (25) o Agri-foods (18) • Top business activities o 109 have operations in China o 58 export services to China o 51 export products to China o 34 import products from China o 14 have no business with China, but are interested in the market • Length of time conducting business in China o 60 companies – over 20 years o 40 companies – 11–20 years o 41 companies – 6–10 years o 40 companies – 2–5 years • Global gross revenue in 2017 (majority of respondents) o 40–> $1 billion o 27–$1 million–$4.9 million o 35–< $1 million • Percentage of global gross revenue in 2017 attributable to business in China o 63–< 10% o 37–11%–25% o 23–>75%	• 28 respondents • Top two categories of Chinese companies doing business in Canada and/or globally: o 11 privately owned o 8 state-owned • Represent 11 sectors dominated by: o Finance and insurance (7) o Natural resources (5) • Top business activities o 19 have operations in Canada o 11 have invested in a Canadian company • Length of time conducting business in Canada o 9 companies – 11-20 years o 6 companies – 6-10 years o 9 companies – 2-5 years • Parent company's global gross revenue in 2017 o 8–>$1 billion o 2–$500 million–$999.9 million o 2–$100 million–$249.9 million o 2–$10 million–$49.9 million o 2–< $1 million • Canadian gross revenue in 2017 (or most recent business year) o 1–> $1 billion o 3–$100 million–$249.9 million o 3–$1 million–$4.9 million o 4–<$1 million

*These companies either identified as a Canadian company or responded to questions posed to Canadian companies.

Methodology

This survey was conducted in partnership with the Rotman Institute for International Business. It fielded from February 13 to March 15, 2019.

Survey design

The survey was designed to include the most relevant issues and areas of business for Canadian companies conducting business in or with China and for Chinese companies operating in Canada. We surveyed challenges related to the bilateral environment, profitability, financing, expansion into Canada / China, and intellectual property rights.

To examine trends and understand the development of perceptions and changes in development of business strategy, the survey gathered some of the similar data from CCBC previous surveys. Therefore, a number of questions are related to profitability, expansion into China, and obstacles encountered by Canadian companies doing business in China and Chinese companies conducting business in or with Canada.

New in this survey are questions on the bilateral environment and Canada–China relations.

Data collection

The Canada China Business Council disseminated the survey through its membership and contacts, as well as numerous other channels.

From the 254 survey respondents, 220 identified themselves as Canadian companies, organizations, entrepreneurs, educational institutions, and government agencies doing business in or with China, or planning to start. Six more that identified as Other answered the questions posed to Canadian companies. Twenty-eight respondents are Chinese-owned companies, organizations, entrepreneurs, educational institutions doing business in Canada and/or globally.

Methodology
continued

Data analysis and constraints of the study

The research team analyzed the responses to each question. For areas surveyed in previous studies (2012, 2014, 2016), a trend analysis was provided, and changes and similarities highlighted.

For questions where respondents can select several choices, the percentages are relative to the total number of options selected. For the questions asking the respondents to rate answers on a scale from 1 to 5, the weighted average is provided in the analysis.

The number of responses to certain questions limited the ability to make general conclusions. Chinese company responses, at 28, represent about 20% of companies registered in Canada with the China Council for the Promotion of International Trade. While Canadian responses (226) were roughly two-thirds of CCBC's membership size, some questions elicited very few responses.

Acknowledgments

The Canada China Business Council disseminated the survey through its membership and contacts, as well as through numerous other channels. Thanks to the organizations who helped us reach out to companies to participate in the survey, including Asia Pacific Foundation of Canada; Canada China Chamber of Commerce (Quebec); Canadian Chamber of Commerce in Shanghai; Canadian Chamber of Commerce in Hong Kong; Canadian Chinese Entrepreneurs Council; Export Development Canada; Export Quebec; Nova Scotia Business Inc.; the provinces of Alberta, British Columbia, Ontario, Newfoundland & Labrador, and Prince Edward Island; and Saskatchewan Trade and Export Partnership.

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