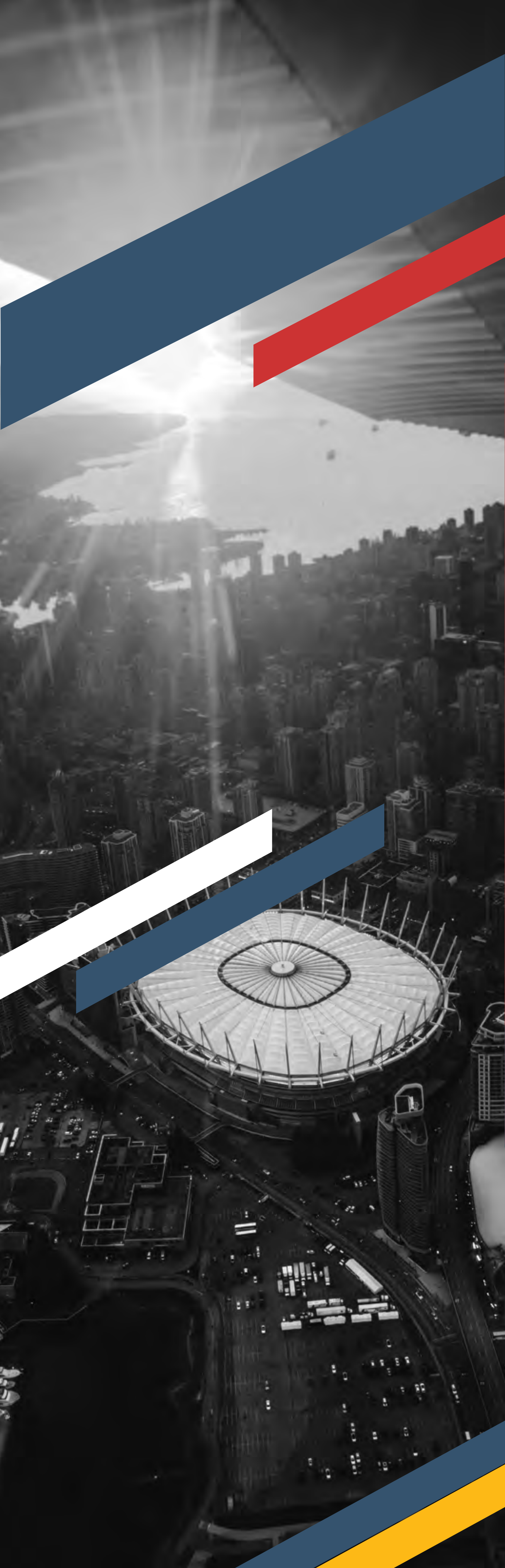


Canada-China Business Survey 2020/2021: Summary

Dr. Walid Hejazi
Daniela Stratulativ
Sarah Kutulakos

Canada China Business Council
Conseil d’affaires Canada-Chine
加中贸易理事会

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

Executive Summary

The last two years have taken a marked toll on Canadian companies' business with China, resulting in them being disproportionately affected versus their American and European counterparts

Obstacles to business success have become more political and policy oriented, with Canada-China relations, US-China relations, and the detention of citizens by each country all continuing to have a strong effect, compounded by another year of travel restrictions due to COVID.

Fielded before the late September homecomings of Michael Kovrig, Michael Spavor, and MENG Wanzhou, our results bear the full impact of nearly three years of bilateral tension. Trends we saw in the 2020 interim survey continue. Sectors aligned with China's policies and economic development remain optimistic. Less optimistic, and more likely to downgrade China's role in global strategy, are sectors not aligned with these policies, sectors which rely on travel to develop business, or industries for whom strong bilateral relations are crucial. The Canada brand remains remarkably strong, despite the challenges, and it will likely carry business forward as the political relationship slowly unthaws.

This year's survey yields three big takeaways:

1.

The operating environment is ever more difficult, because it's also more political.

2.

Despite the difficulty, **companies with an in-China presence are not only doing fine, they are planning on expanding. China is determined to become the world's largest economy,** which creates this environment for growth.

3.

The inability for people to move across borders is an issue for sectors that would otherwise be growing in China.

China's massive consumer market and demand for much that Canada exports continues to drive companies to develop, maintain, and expand their China business. Diversification does not happen overnight, especially diversification away from a country that supplies a third of the world's incremental GDP growth each year. Nonetheless, Canadian companies recognize the challenges and risks of this complex market and are slowly building alternative market options.

Introduction

The Canada China Business Council conducts a survey every two years to explore the performance, challenges, and future outlook of companies involved in Canada-China business.

The last such biannual survey was done in early 2019 (using full-year 2017 data). In 2020 CCBC ran an interim survey exploring the impact of tensions on Canada-China business activity. Previous conclusions from these two surveys included:

- 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.
- Canadian companies operating in China were profitable, growing, and planning to expand, despite the tense political situation. Chinese companies with operations in Canada were less profitable than two years prior, were minimizing their losses and were similarly planning to expand.
- In essence, companies in both countries were optimistic about their long-term prospects.
- In March 2020, after more than a full year of bilateral tension brought on by the detention incidents of December 2018, four major factors impacted business: Bilateral tensions, the US-China trade war, COVID-19, and China policy/economic developments.
- Impacts were bifurcated—some industries continued to prosper and others were negatively impacted by one or more of the factors. Although companies overall were optimistic, some companies were reexamining China's role in global strategy. And companies felt a clear Canadian government strategy was needed

For this year's biannual survey, we again polled both Canadian and Chinese companies, but the number of Chinese company respondents was very small, so this report will focus on Canadian responses. Because bilateral and US-China tensions were so prominent in the 2020 interim survey, they were added to the list of obstacles this year, and both rose right to the top.

Key insights from this year's survey are that:

1. Challenges have become more political
2. External pressures are being felt
3. Profitability is down
4. Optimism and expansion plans remain, but companies are finding ways to diversify beyond China

As in 2020, both performance and outlook continue to be more positive for sectors most aligned with China's economic and policy development.

We Report Key Findings Of The Survey In Five Sections:

1. BUSINESS PERFORMANCE

2. CHINA'S PLACE IN CURRENT AND FUTURE PLANS

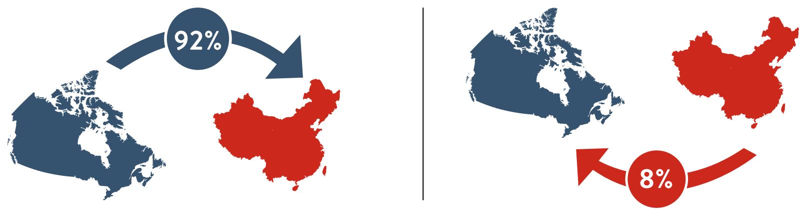
3. BUSINESS AND POLICY OBSTACLES

4. IMPACT OF COVID-19

5. OTHER ISSUES

Survey Respondents

This year's respondents were overwhelmingly representatives of Canadian organizations, with 92% identifying as a Canadian company/organization/entrepreneur doing business in or with China, including sourcing from China. With only 8% identifying as a Chinese company/organization/entrepreneur doing business in Canada, this small sample size hindered analysis. As a result, this report will focus on Canadian responses.



Among the 236 Canadian respondents, the most-represented sectors are professional, scientific and technical services (15%); finance and insurance (12%); and educational services (11%). This is very similar to the population surveyed two years ago. *See full chart below.*

While company size ranged widely, 39% percent were SMEs with global revenues under C$50 million. 20% had revenue between $50m and a billion Canadian dollars, and 21% were larger than $1 billion. *See full chart below.*

Top business activities of Canadian companies in/with China include having operations in China [e.g., representative office, JV, plant, factory, subsidiary, sales, branch] (44%), exporting services to China [includes education, tourism, consultancy] (27%), exporting products to China (26%), and importing products from China (21%). *See chart*.

We include a special section at the end of this report on sourcing issues.

Which one of the following best reflects your company's sector? N = 226

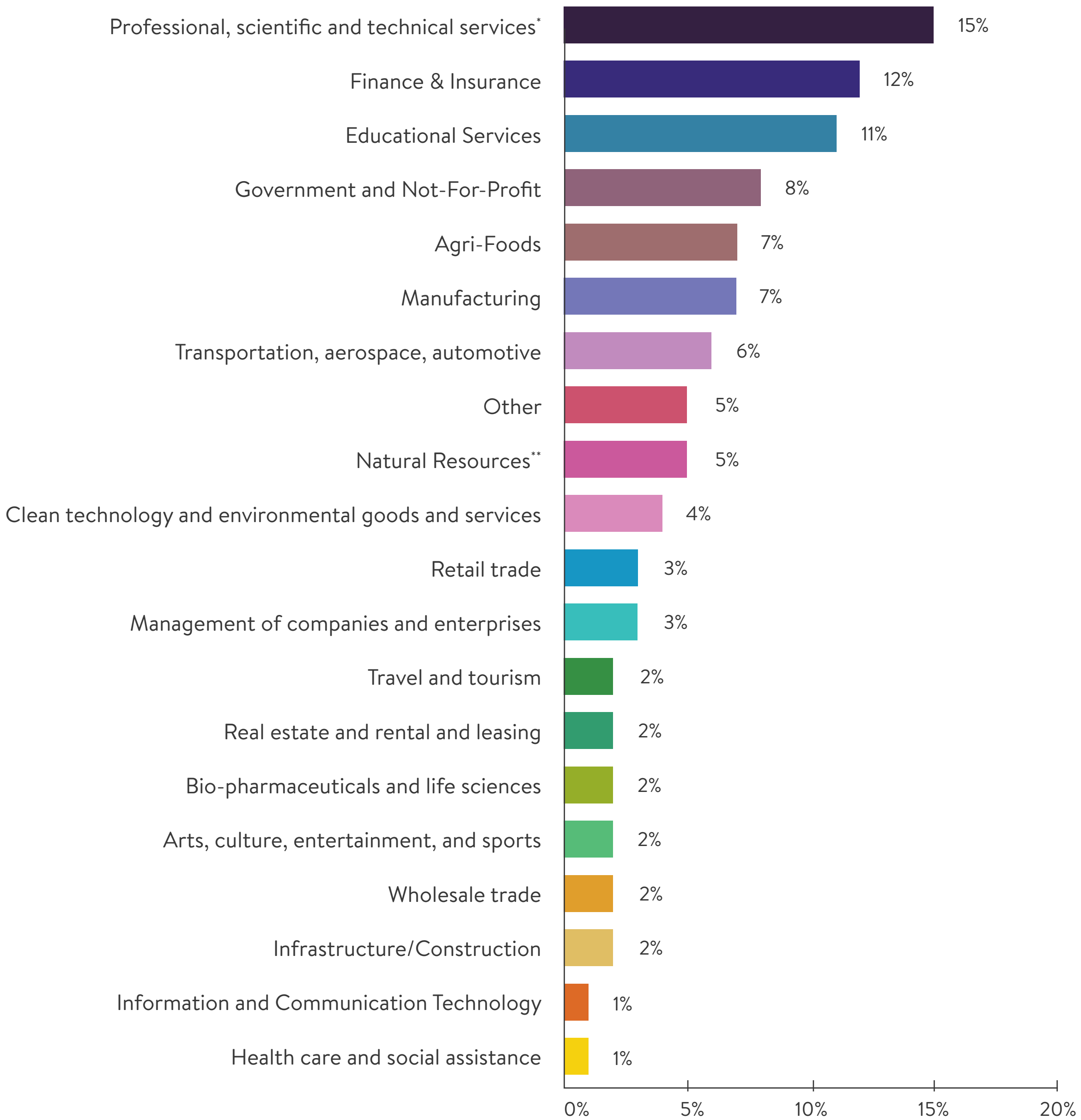


Figure 1: Canadian companies—Sectoral distribution

*(Engineering, Business, Project, Accounting, Legal, Logistics)

**(Forestry, Metals & Metallurgy, Mining, Oil & Gas)

What was the range of your company's global gross revenue in 2019? (in CAD, N = 225)

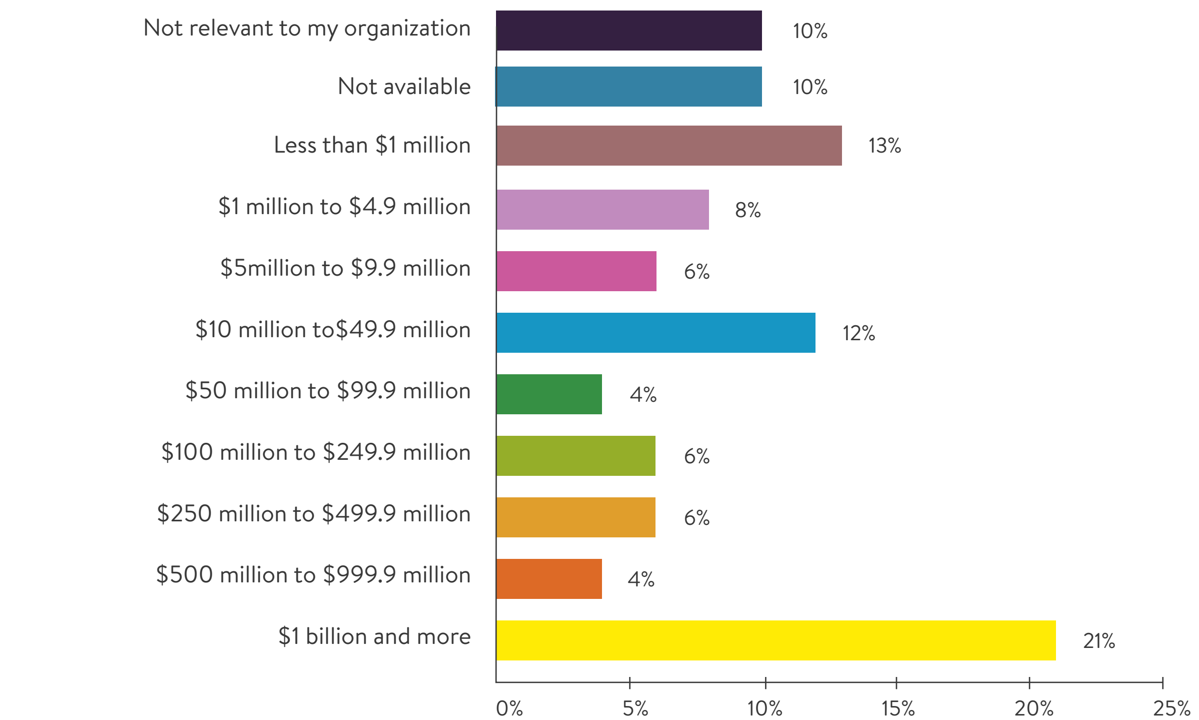


Figure 2: Company's global gross revenue, 2019

Which of the following describes your company's current business activity with China? N = 215

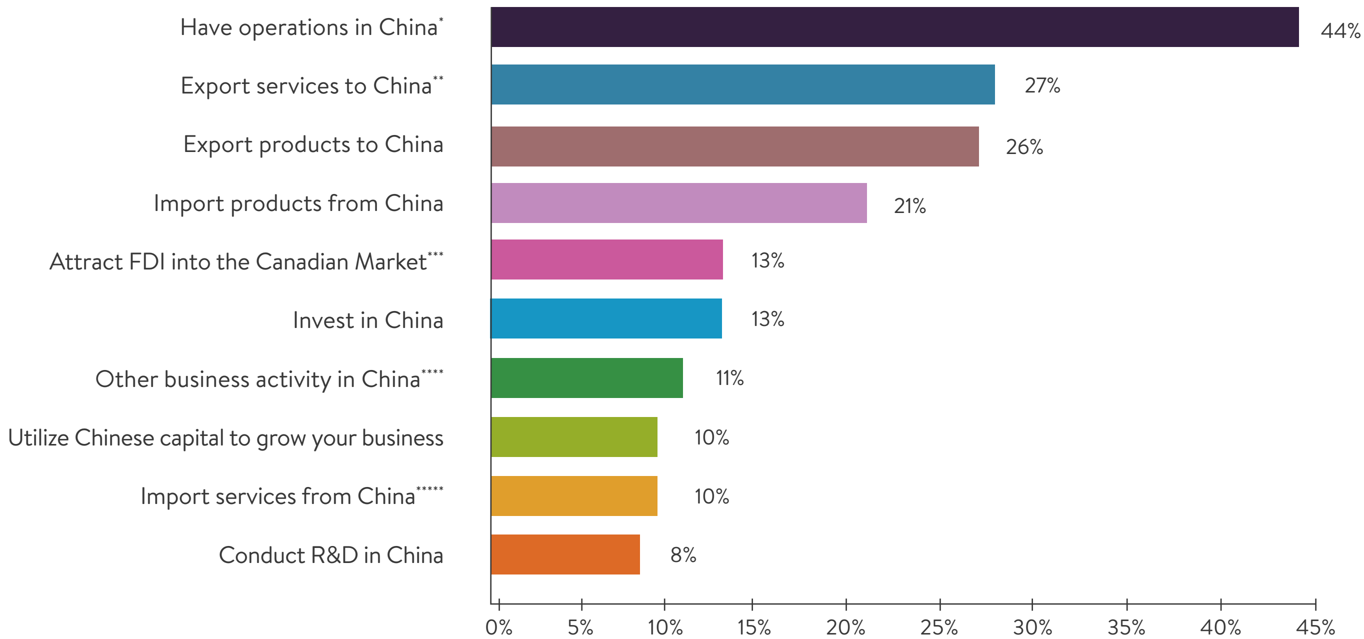


Figure 3: Current business activity with China

* (e.g. representative office, JV, plant, factory, subsidiary, sales, branch)
** (includes education, tourism, consultancy etc.)
*** (not into your company)
**** (please specify)
***** (includes education, tourism, consultancy, etc.)

Key Findings

Canada/China business performance

As the previous survey (termed 2018/2019) was fielded in early 2019, before some companies reported full-year 2018 results, that survey used 2017 financial results. To maintain the two-year nature of the longitudinal study, and to ensure that the numbers were not influenced by COVID-19 business disruptions, 2019 was chosen as the comparison year. In some cases we did ask about 2020, and those cases are clearly noted.

Respondents have more experience than in the past—38% of Canadian companies have conducted business in/with China for more than 20 years (vs 33% last time), and 24% between 11-20 years (vs 22% last time). At 38%, there were fewer companies in the market for 10 years or less (vs 45% last time).

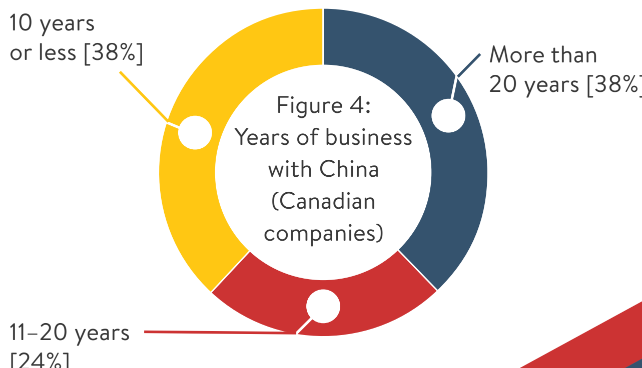


Figure 4:
Years of business with China (Canadian companies)

How big a part of respondents' business is China? For 42% of Canadian companies (vs 35% last time), China comprised less than 10% of gross revenue. At the other end of the scale, 10% of respondents derive >75% of revenues from China. Companies with more revenue attributable to China tend to be smaller firms.

What percentage of your company's global gross revenue in 2019 was attributable to your China business? N= 207

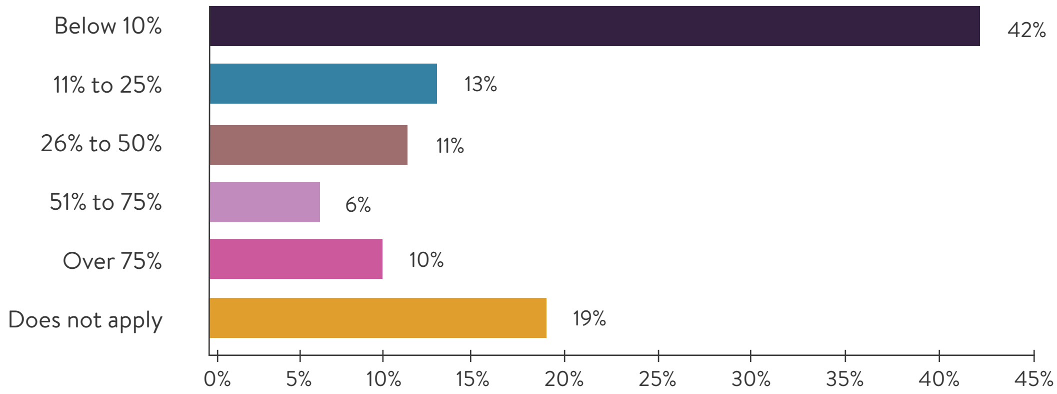


Figure 5: Global gross revenue attributable to China business, 2019

An important longitudinal statistic is the profitability of respondents' China business, and this year's results show the wear and tear of the past two years on Canadian business results. Only 49% indicated they were profitable in China in 2019. This dropped from 64% two years ago and 58% four years ago.

How would you characterize your company's financial performance in/with China?

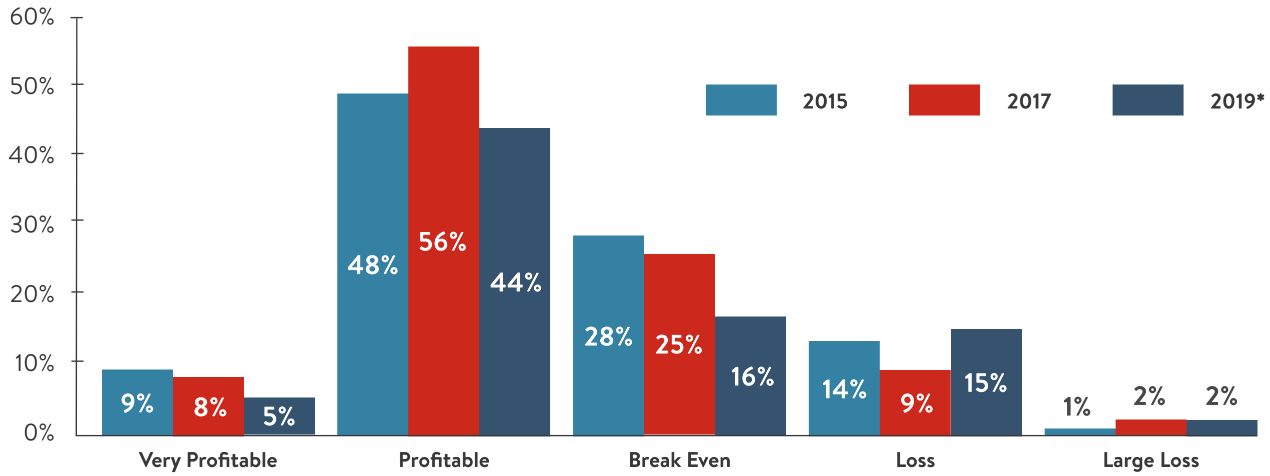


Figure 6: Financial Performance

This year 17% incurred losses, versus only 11% two years ago, and 15% four years ago.

**2019 total <100 due to 19% who said "does not apply"*

In this year's survey, top sectors represented by the companies who are profitable and very profitable are professional services (15%), finance and insurance (15%), and educational services (12%).

Profitable companies by sector

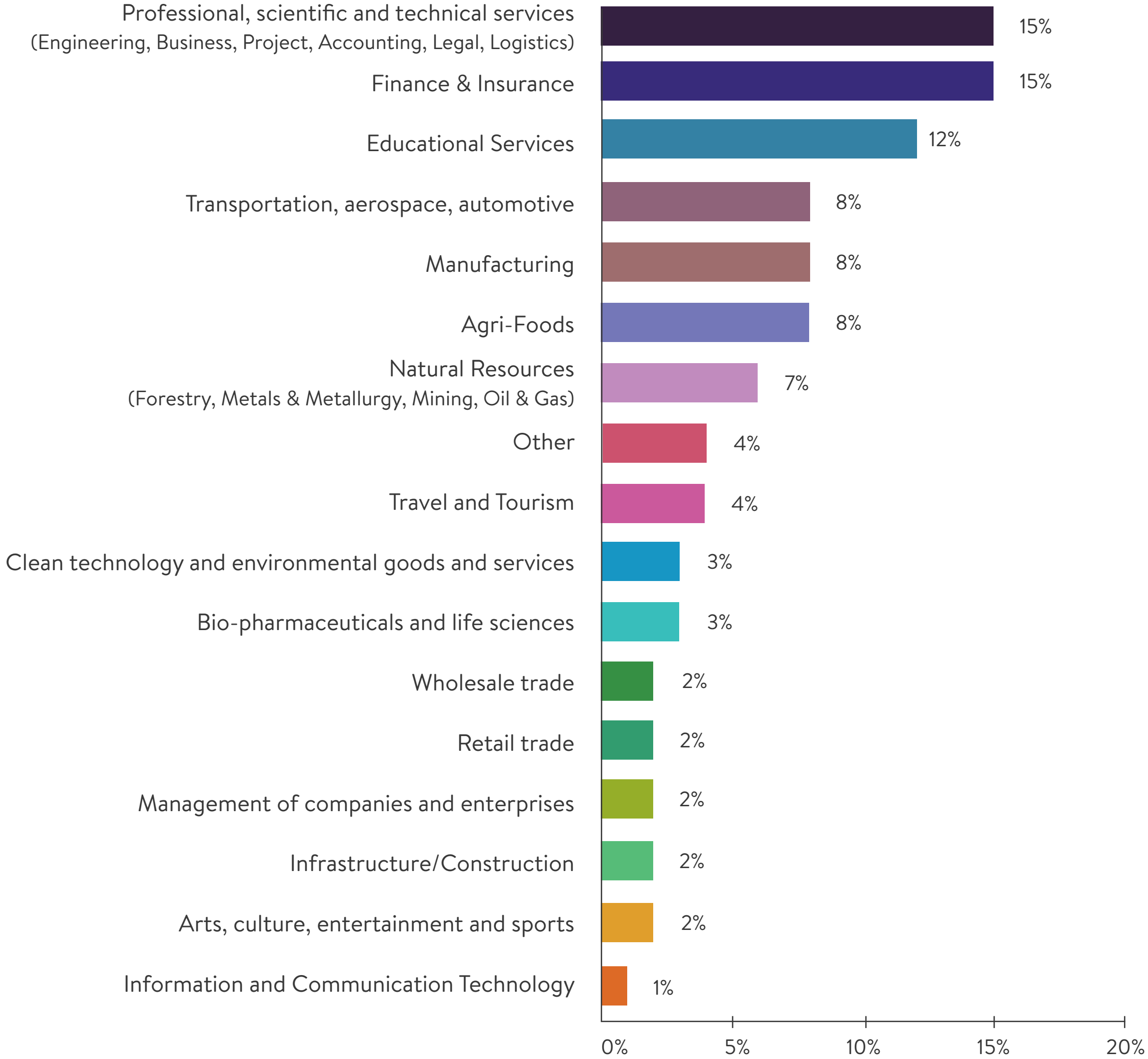


Figure 7: Profitable companies by sector

As in previous surveys, time in market plays a role—46% of the companies who recorded a profit have been conducting business in/with China for more than 20 years, a quarter of respondents for 11-20 years. Size does make some difference: 27% of profitable respondents have global revenue > C$1 billion (vs 21% of respondents being of that size).

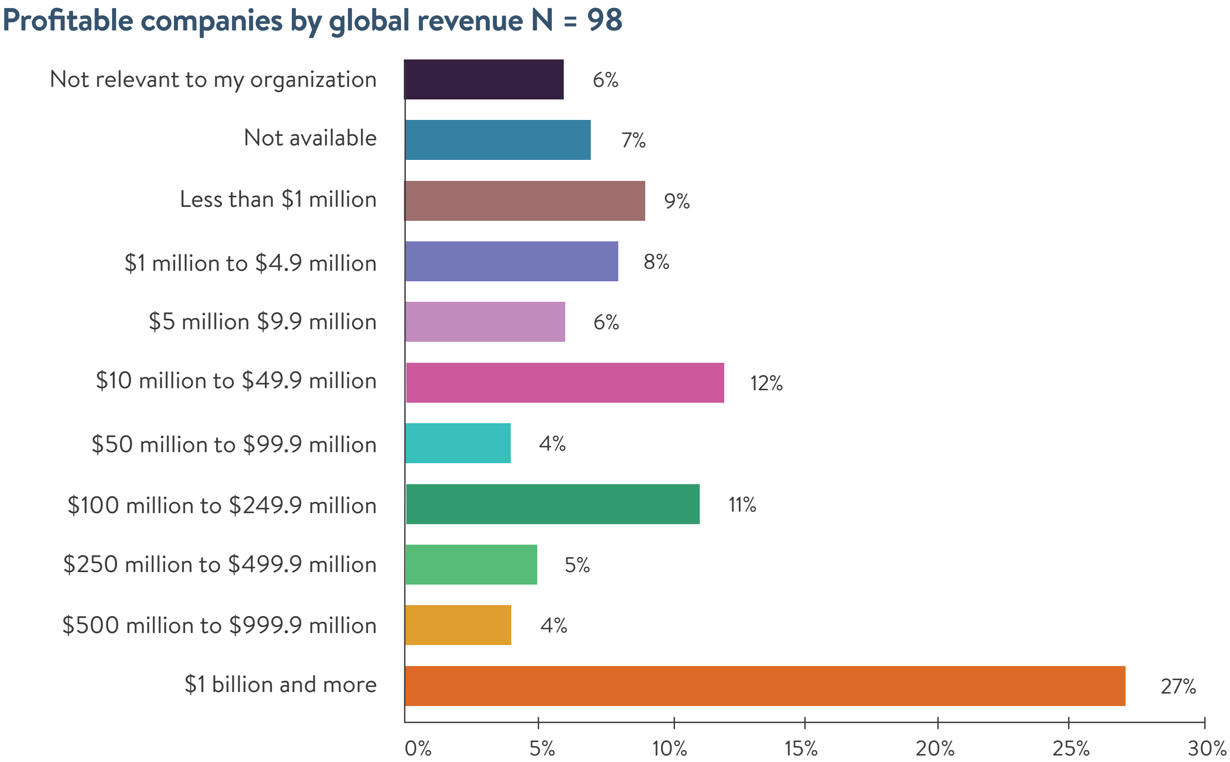


Figure 8: Profitability by company size

The figure below shows the percentage of respondents who reported a profit in 2017 and the number of years they have conducted business in China.

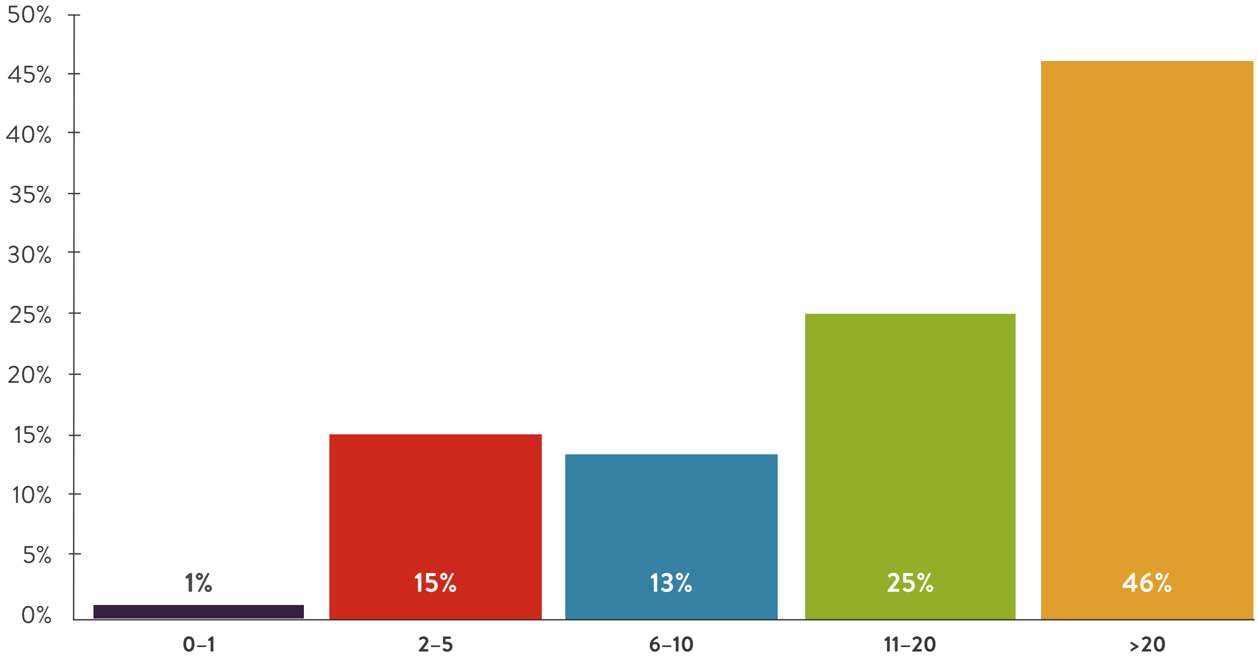


Figure 9: Profitable companies by years of China experience. (N= 93)

In terms of profitability trend, of 198 respondents, 25% indicated an increase vs the previous year, while for 21% profitability in China decreased. This represents a marked step back from two years ago, where 33% saw improvements to profitability.

How did your company's profitability in China compare to the previous year?

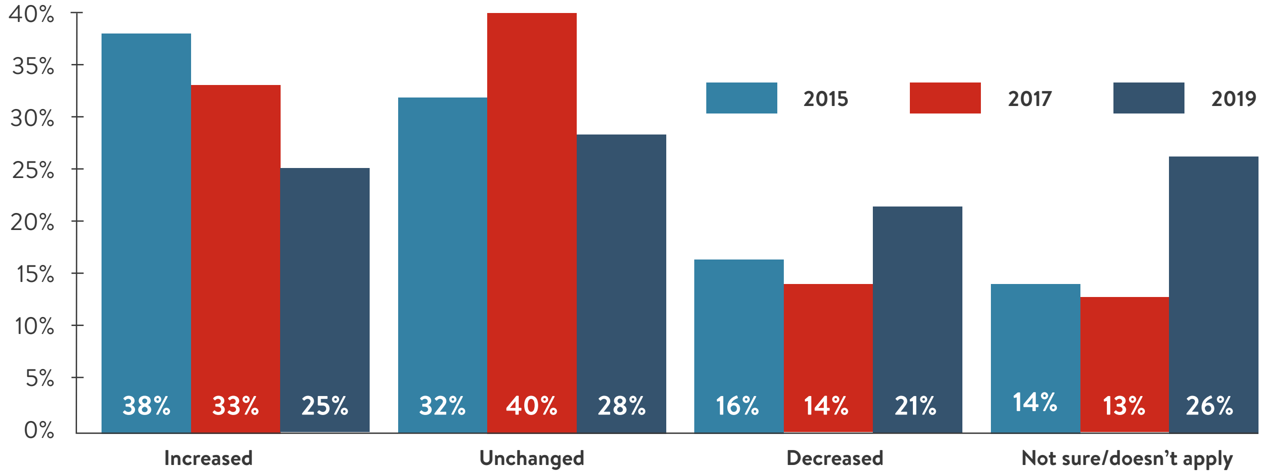


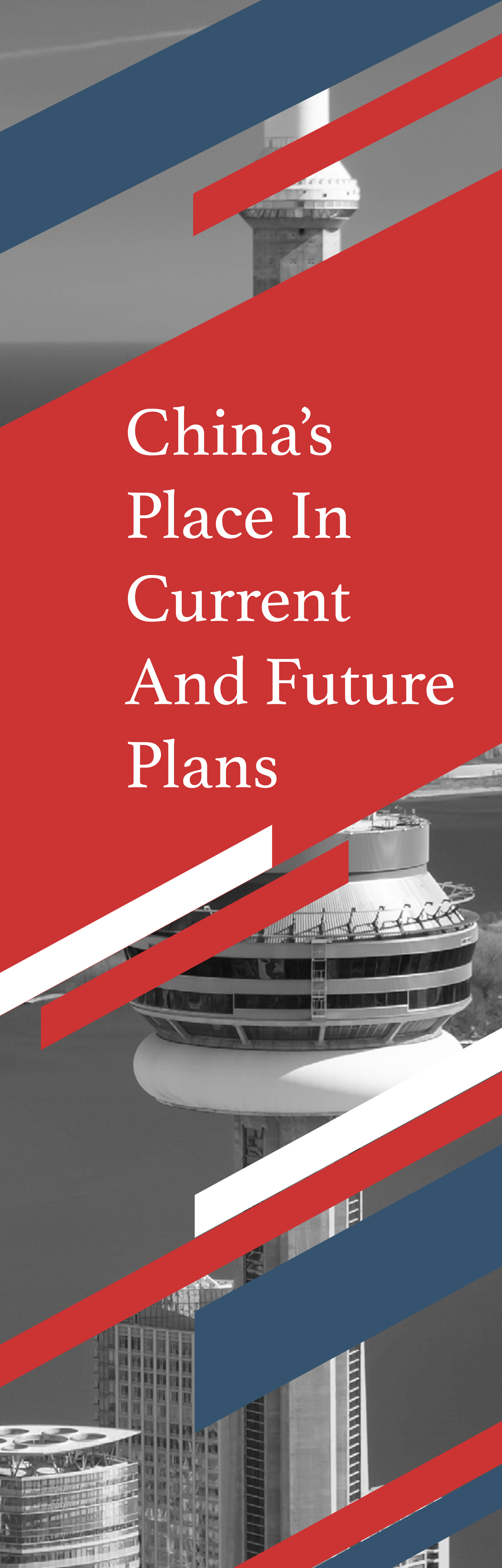
Figure 10: Profitability vs the previous year

These downward profitability trends are concerning, as they are more pronounced than in other countries:

- **The US-China Business Council (USCBC)**[1] (whose members tend to be larger multinationals) reported that 97% of respondents were profitable in 2019, and this only fell to 91% in the wake of the 2020 pandemic. In 2019 China revenue increased for 52% and decreased for 26%. Relevant to this group's high performance vs Canadian respondents includes:
    - o A different company makeup (45% manufacturing, 40% services), and nearly all respondents have been in China for at least 10 years (68% for >20 and 24% for 11-20 years)
- **The American Chamber of Commerce in China (AmCham China)**[2], which has a larger, more diversely-sized membership then the USCBC, was less positive. In 2019, 61% were profitable, vs the Canadian 49%. In AmCham's 2021 White Paper, only 55% were profitable in 2020, but COVID-19 was overwhelmingly cited as the reason for lower performance.
- **The European Chamber (Eurocham)**[3], which polls a large and broad group of organizations, reported that 75% of companies ended 2020 with positive earnings before interest and tax (EBIT), on par with the last five years. More than half say China profit margins exceed their company's worldwide average, and up from the high 30% range in prior years.
- Although **the British Chamber of Commerce in China (Britcham)**[4] did not report on profitability, it did note that 55% of British companies saw China earnings higher in 2019 than 2018, more than double the Canadian results of 25%.

In comparing Canadian performance to these other countries, our business community's profitability severely lags in 2019, and 2020 offers little potential for improvement. When asked about their profitability in China during COVID-19, only 18% of Canadian companies were more profitable in 2020 compared to 2019. Thirty-three percent reported decreased profits in 2020.

With profitability waning, are companies changing their outlook for China? We use several measures to assess outlook, including strategic plan priorities, optimism, and expansion plans.

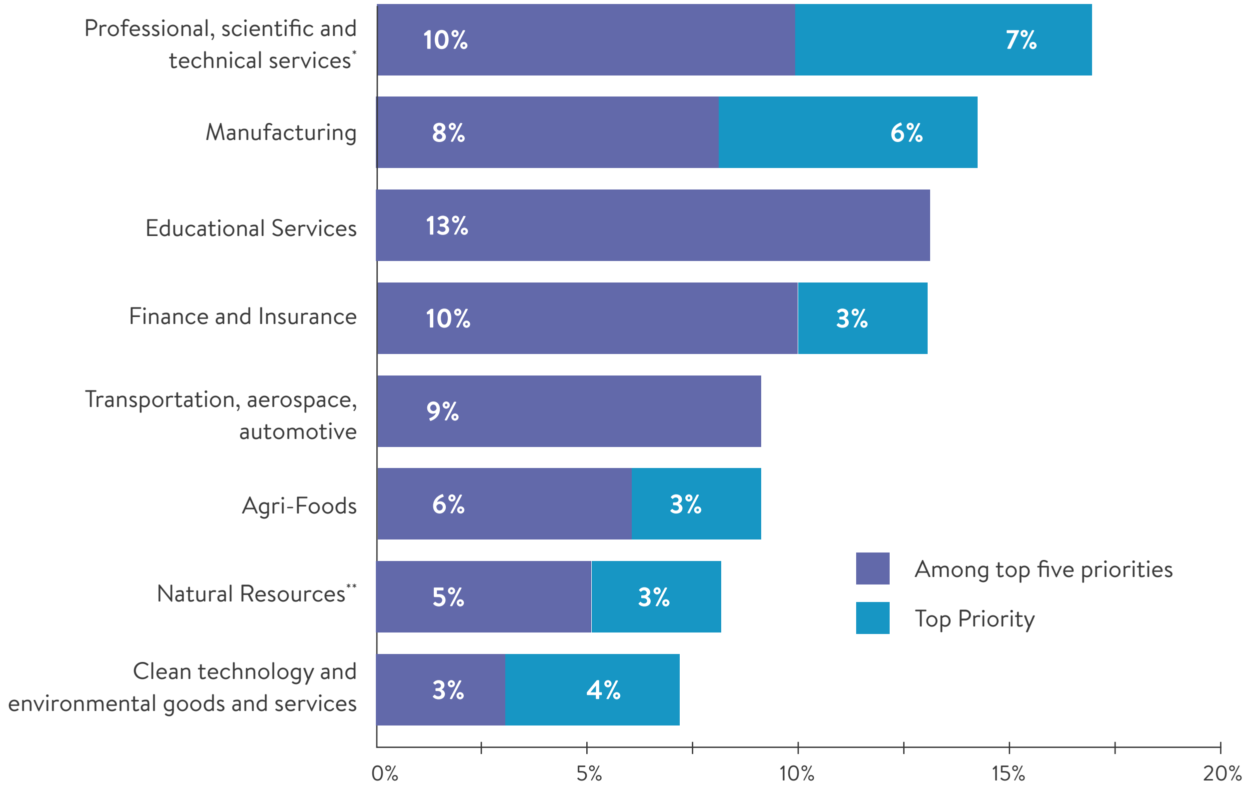


China's Place In Current And Future Plans

Strategy

China's place in Canadian firms' global strategic plan is still prominent, but dropping. China is top priority for 21% of companies (vs 26% last time) and among the top five priorities for 48% (vs 51%). It was one of many non-key priorities for 26% (vs 17%). Top sectors for companies setting China as a priority are professional services (13%), manufacturing (11%), finance and insurance (10%), and educational services (10%).

Top sectors that consider China a priority, by level of priority



* (Engineering, Business, Project, Accounting, Legal, Logistics)
** (Forestry, Metals & Metallurgy, Mining, Oil & Gas)

Figure 11: China as a top 5 priority, by sector

It is notable that neither education nor transportation respondents cite China as a top priority, but rather one of the top five, which is logical as these sectors tend to have a global focus.

China's role in the company's global plan today versus two years ago is higher for 24% of respondents, lower for 27%, while 7% of Canadian companies replaced China with other countries.

Top sectors for companies setting China as higher priority are professional services (13%), finance and insurance (13%), and agri-foods (13%). The top sectors for companies who consider China a lower priority are professional services (20%), educational services (20%), and finance and insurance (12%). Most of the companies who replaced China in their strategy with other countries operate in the professional services sector, IT, government and not-for-profit.

Comparison to other countries:

- **USCBC**—China is a top strategic priority for 10%, top 5 for 64%, and one of many key priorities for 21%. But a decade ago, China one of the top 5 for 94% so while still a priority, the current top 5 sum of 74% is "considerably lower" than in the past.
- In the **Britcham** survey, China is top priority for 39%, and it rates second or third for 18%. China is in the top 3 for 67% of SMEs and 41% of large MNEs. In the education sector, 80% rank China as a top 3 priority.

Future of company's business in/with China

While optimism remains about equal to the previous biannual survey (32%, up from 31%) there is a definite pessimistic shift. This year 34% of Canadian companies feel pessimistic about the future of their organization's business with China (vs 19% last time), and only 26% are neutral, versus 35% last time. Top sectors optimistic about future business with China are finance and insurance (21%), manufacturing (19%), and professional services (14%).

How does this compare to other countries? Canadian views are significantly less optimistic than American or British companies.

- **USCBC** asks about companies' five-year business outlook in China: 69% are optimistic, 22% neutral, 9% pessimistic. While this hasn't changed significantly in recent years, a decade ago 91% were optimistic. The top issue undermining optimism is China's policy and regulatory environment.
- **Britcham** reports that "Despite the uncertainties and challenges of the past year, British businesses in China remain broadly optimistic. Nevertheless, business sentiment has declined over the past three years, with 49% reporting an optimistic outlook for 2021, down from 54% last year," with a shift toward a neutral outlook, rather than pessimism.

Expansion Plans

More than half of Canadian companies plan to expand their business in China over the next five years—21% substantially and 30% slightly. 21% plan no change, while 15% will contract. As with optimism, this is lower than in the previous survey, where 64% planned expansion and only 9% contraction.

Again comparing to other countries, three surveys asked about plans, but for only the next year:

- **USCBC**—43% will increase resource commitment over next 12 months, 51% stable, only 6% to decrease
- **Eurocham:** 59% plan to expand current China operations in 2021
- **Britcham:** 44% plan to increase investment over next year (down from 60% a year ago), but only 7% plan to decrease. F&B and agriculture most likely to increase

Conclusion

Canadian plans for the future are aligned with other countries. While different timeframes were compared, about half intend to increase investment in China. Nonetheless, Canadian companies are less likely to plan expansion than they were two years ago (51% vs 64%), and slightly more likely (15% vs 9%) to contract.

Substantial expansion is planned by companies in finance and insurance (18%), professional services (16%), and manufacturing (13%). Sectors planning slight expansion are educational services (13%), professional services (11%), and agri-foods (11%).

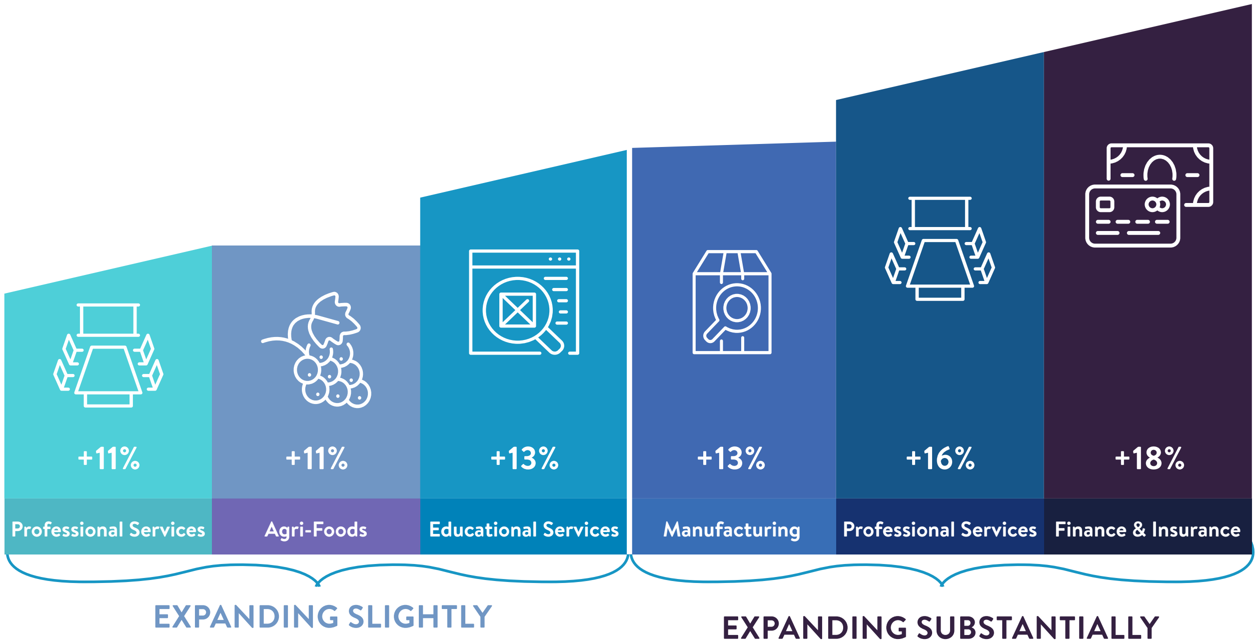
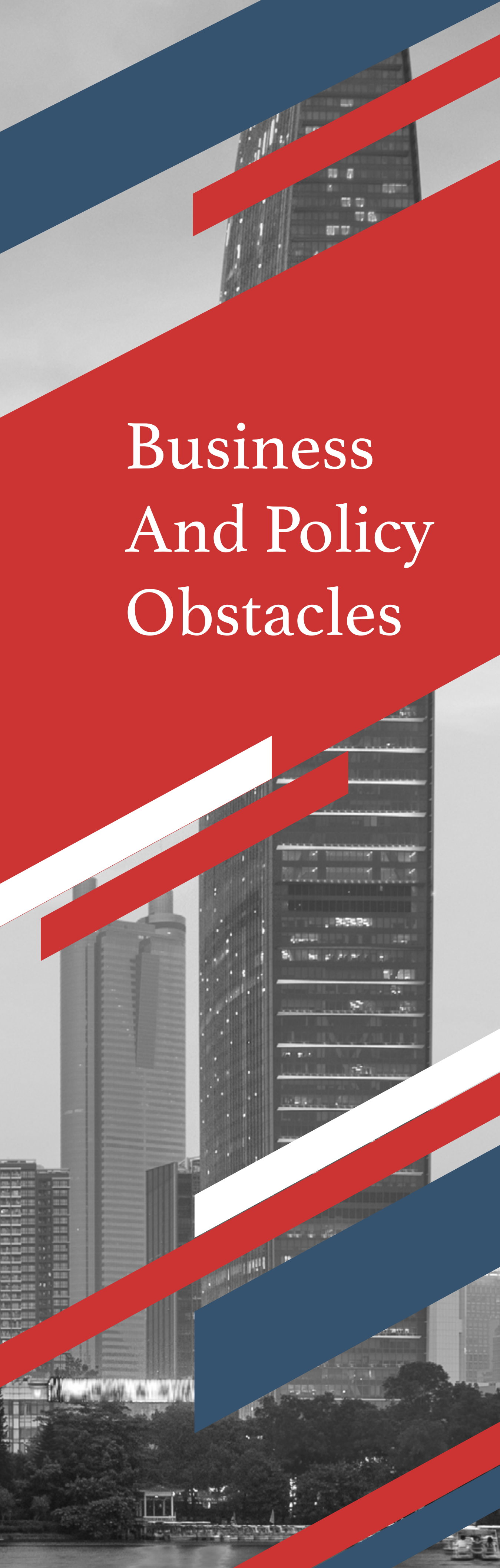


Figure 12: Expansion plans by sector

For companies who plan to expand, what type of expansion is in the works? The top three types of expansion in China are exporting products or services to China, investing in additional projects, and expanding sales channels or adding more sales outlets. Expansion of distribution is covered in several expansion categories—if we combine them (expanding sales channels or adding more sales outlets at 35%, seeking distributors at 22%, selling via e-commerce at 13%)—together they comprise 70% of respondents, higher than the 55% who said they would expand by exporting their product or service. Broader reach in the China market, with its growing middle class, drives these expansion plans. This aligns with both increased experience in market and with the export growth Canada has experienced of late. It is notable that 26% will seek a joint venture partner and 20% wish for Chinese investment in their firm—both acknowledging the fact that Chinese capital and the market often go hand in hand.

Business And Policy Obstacles



Business challenges faced by Canadian companies

The obstacles in Canada-China have changed significantly in the last two years. In 2019, we identified 13 of 38 barriers that pose high obstacles for Canadian companies doing business in China, and they fell into three main categories: administrative/regulatory, business environment and financial, with the first group dominating. This year we expanded the choices to 38 barriers, and we classified them into four categories, adding policy to the three above.

Top 5 obstacles faced by Canadian companies doing business in/with China

are Canada-China relations, US-China relations, mobility of Canadian business travellers to China (Visas, work permits, travel concerns etc.), competition level, and regulations at the central or local Chinese government level.

Notable this year:

- **Canada-China and US-China relations are the dominant obstacles**
- **The above are policy challenges.** A third policy challenge comes in at #15, "Market access limitations due to national security concerns." Of the rest on the top 15 list, eight are regulatory/administrative and four relate to the business environment. Financial barriers were all rated lower.
- **"Mobility of Canadian business travellers to China (Visas, work permits, travel concerns etc.)" rose significantly.** Now the third biggest obstacle up from #28 last time, its rise reflects COVID-19 travel restrictions added to already-decreased travel (in 2019 some firms were not allowing executives to travel to China due to perceived detention risk).
- Of other new obstacles added, two made the top 15: **"Data flows and cybersecurity"** at #8, and **"Internet access quality and/or censorship"** at #13.
- **Intellectual Property (IP),** which had risen back to #4 in 2019 (but still scored relatively low), has now fallen to #10. We continue to hear from members that IP protection is important but manageable in China.
- **Financial obstacles fell significantly:** "Offshore payments restrictions for entities in China" from #3 to #18, "Currency conversion restrictions" from #8 to #22, and "Financing availability" from #19 to #27.
- **China's air and environmental pollution**, which fell from #5 in four years ago to #15 two years ago, now sits at #28.
- **Difficulty of finding a business partner in China**, which was #6 two years ago, is now #25.

Obstacle	2021 Rank	2019 Rank
Relations between Canada and China	1	New
Relations between China and US	2	New
Mobility of Canadian business travellers to China (Visas, work permits, travel concerns etc.)	3	28
Competition level	4	7
Regulations at the central or local Chinese government level	5	9 & 13
Regulations and laws in China interpreted inconsistently/ lack of transparency	6	1
Business licenses approvals to expand operations, product approvals—challenging to obtain	7	2
Data flows and cybersecurity	8	New
Mobility of Chinese business travellers to Canada (Visas, work permits, travel concerns, etc.)	9	29
Intellectual property protection and enforcement in China	10	4
Certification length and complexity	11	11
Customs procedures in China	12	16
Internet access quality and/or censorship	13	New
Business culture differences	14	5
Market access limitations due to national security concerns	15	17

Policy — Bus Env — Reg/Admin

Table 1: Top 15 obstacles, 2021 vs 2019

How do our challenges compare to those faced by competitor countries?

- **Six of the USCBC's top 10 align with ours:** US-China relations, competition, travel mobility, data flows, IP protection, and licenses/approvals
- **Three shared with Eurocham's top 10** are US-China trade war, ambiguous rules and regulations, and competition. In a different section of their report, 41% cited the increasingly politicised business environment as a dominant challenge, and intellectual property protection continued to be a lower-priority challenge.

• **Shared between AmCham's top 5 and our top 10 are four obstacles:** US-China relations; inconsistent regulatory interpretation and unclear laws and enforcement; competition, and data security

US-CHINA RELATIONS
DATA FLOWS
COMPETITION
IP PROTECTION
TRAVEL MOBILITY
LICENSES/APPROVALS

US-CHINA TRADE WAR
COMPETITION
AMBIGUOUS RULES AND REGULATIONS

US-CHINA RELATIONS
COMPETITION
DATA SECURITY
INCONSISTENT REGULATORY INTERPRETATION & UNCLEAR LAWS AND ENFORCEMENT

Unique obstacles faced by the education sector

With the education sector being dominant among respondents and in CCBC's membership, we examined how this sector's challenges may differ. While Canada-China relations was #1 by a wide margin, similar to other sectors, many of the other top 10 are unique to education.

	Obstacle
1	Relations between Canada and China
2	Data flows and cybersecurity
3	Internet access quality and/or censorship
4	Competition level
5	Mobility of Canadian business travellers to China (Visas, work permits, travel concerns etc.)
6	Intellectual property protection and enforcement in China
7	Regulations at the central or local Chinese government level
8	Intellectual property—forced IP or technology transfer to a Chinese partner in order to operate in the market
9	Relations between China and US
10	Research collaboration restrictions

Table 2: Top 10 obstacles for Education Respondents N = 22

Canadian companies expect the number of regulatory obstacles in China to increase

As regulatory obstacles dominate our challenges list, we asked respondents' outlook on China's regulatory environment. 44% of Canadian respondents expect the number of regulatory obstacles facing their company in China to **increase** over the next five years, while only 11% of Canadian respondents expect a **decrease** in the number of regulatory obstacles. This aligns with the opinion of Eurocham members, where 46% predicted an increase over that same time frame. Given that China's big bureaucratic push in recent years has been to **decrease** administrative complexity, and that it hopes to attract more foreign investment, China's reform agenda may require attention.

Obstacles for Chinese companies in Canada

Due to the very small Chinese company sample size, we focus on Canadian companies in this report. However, on obstacles it is worth noting that while two years ago the primary obstacles cited were related to business culture, finding the right partner, challenges with licenses and approvals, and complexity of tax regulations, this year the top four challenges were much more influenced by the tense bilateral situation, government policy and public opinion.

	Obstacle
1	Restrictions in my sector on investment by state-owned or state-influenced companies
2	Politicization of the Canada-China business environment
3	Restrictions in my sector on investment from China
4	Canadian public opinion on China

Table 3: Obstacles for Chinese companies in Canada

Recent laws, regulations, and policies have a strong impact on the company's business in/with China

In addition to the usual numerous obstacles, this year we observe a large number of issues, laws, regulations, or policies that may impact our members. We asked about 17 different items in this category, and whether they have positive or negative impact.

NEGATIVE:

Unsurprisingly, "detention of citizens by the other country" was the most-chosen issue by a wide margin: 35% of respondents feel its strong negative impact and another 35% feel a somewhat negative impact. Next were three high-scoring issues, with 55-60% choosing regulations on Xinjiang/alleged forced labour, US sanctions, and export controls. The third tier of negative issues, rating from 39%-52% were the Hong Kong National Security Law, Taiwan tensions, and China's anti-foreign sanctions law.

Laws, regulations, policies and major issues that have a negative effect on Canadian businesses

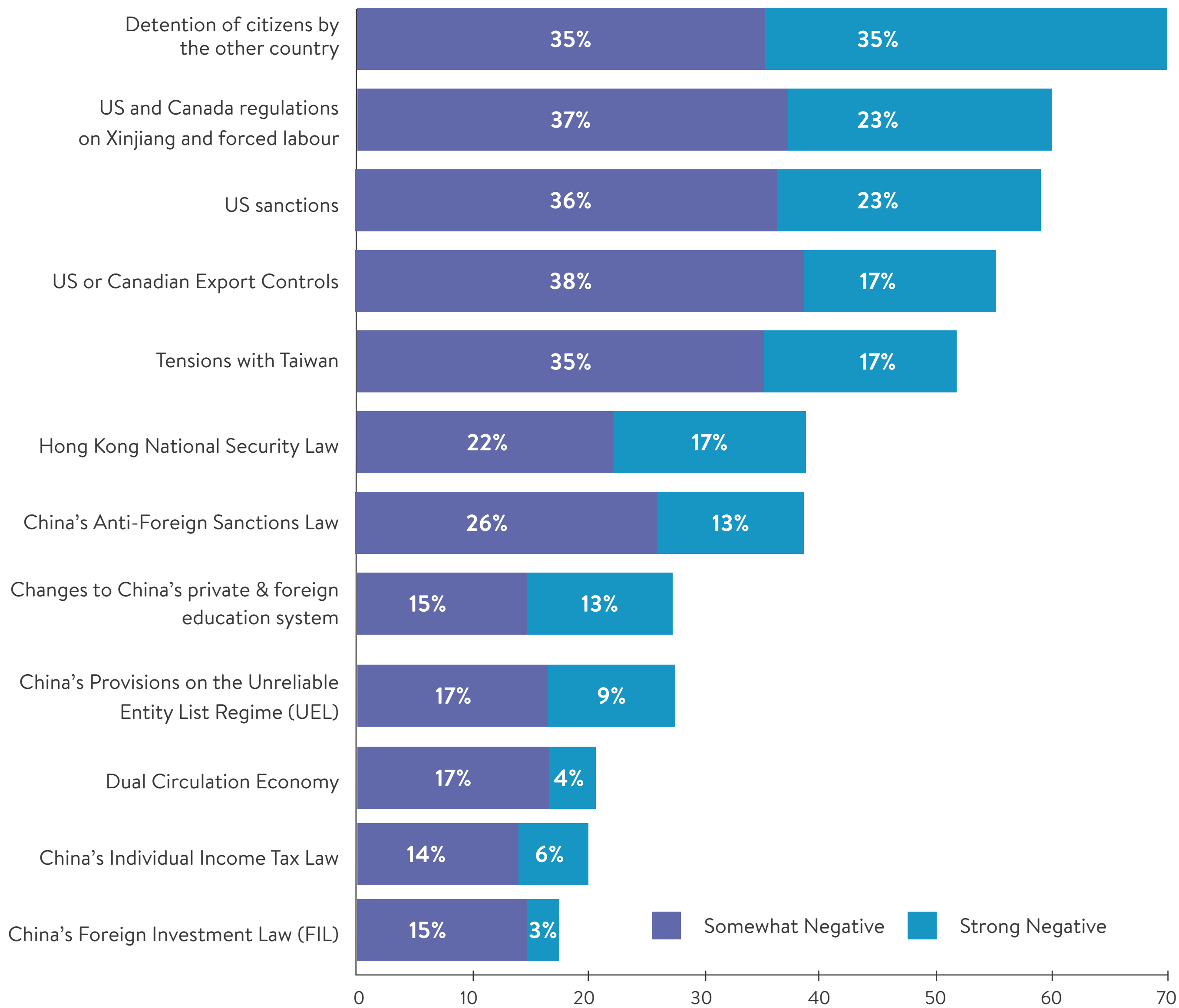


Figure 13: Issues having a negative impact

The top issue with a positive impact on the company's business in/with China is China's liberalization of capital markets, followed by RCEP, Dual Circulation Economy, and the Belt and Road Initiative. Close behind are the Greater Bay Initiative, China's Three-Child Policy, and China's Foreign Investment Law (FIL). The Greater Bay Initiative, which will more closely link Hong Kong with the Pearl River Delta, is well aligned with liberalization of capital markets. Many Canadian financial institutions have significant operations in Hong Kong, and the Greater Bay Initiative may allow them to tap into sector liberalization from that Hong Kong base.

POSITIVE

Laws, regulations, policies and major issues that have a positive effect on Canadian businesses

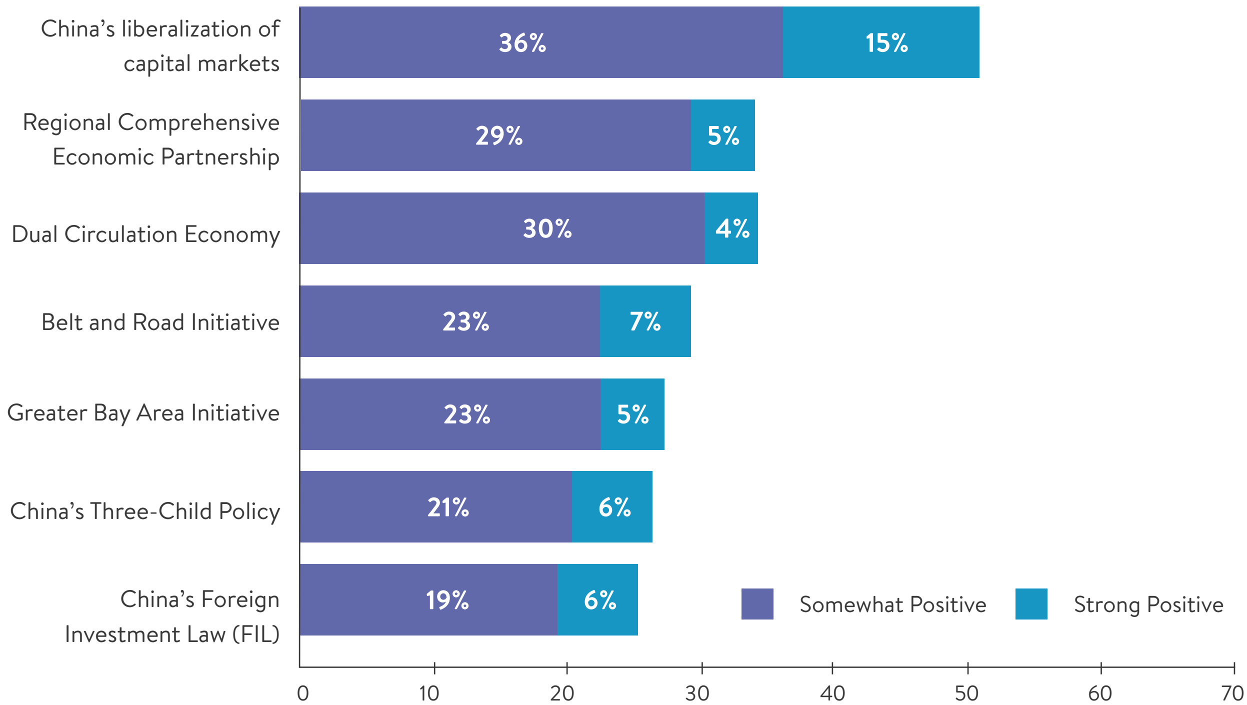


Figure 14: Issues having a positive impact

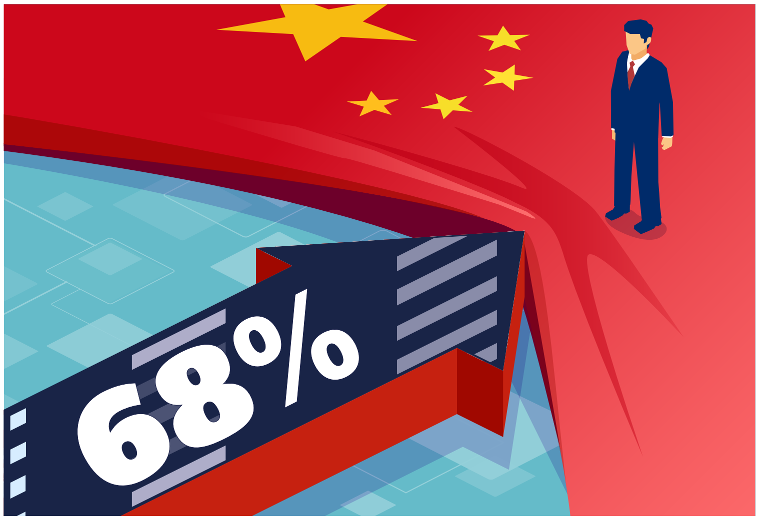
Public opinion and government opinion have a strong impact

Other countries' 2021 surveys also report more politicization of the business environment. In the Eurocham survey, 41% of European companies reported that business has become more political, with 50% reporting pressure from the Chinese government, 39% from Chinese media, and 28% from international media.

Knowing from past research how bilateral tension is impacting Canadian business, as well as how Canadian public opinion has soured on China, we added a section to ask if and how this politicization is impacting Canadian companies. We asked two questions:

- Do you feel that your China business or ambitions for China are being hindered by public opinion or government opinion, either in China or Canada?
- Over the past two years, from which of the following sources has your company felt increased pressure related to your business in/with China?

A whopping 68% of 173 respondents feel pressure on their China business or plans for China from external sources. For that group, the top influencing channels and organizations are Canadian public opinion (62%) international or Canadian media (56%), and the Canadian government (50%).



For the full population of respondents who indicated sources of pressure (169), nearly half cited Canadian public opinion (49%); 44% indicated international or Canadian media, followed by the Chinese government and the Canadian government (each at 40%). Aligned with the US-China challenge noted as a top obstacle, 25% feel pressure from third-party governments (including and, we assume, primarily, the US). Only 13% of European companies felt pressure from this source, and only 13% felt pressure from their home government (and 11% from the European Commission). This distinct difference in local government pressure between European and Canadian organizations is notable.

Over the past two years, from which of the following sources has your company felt increased pressure related to your business in/with China? N = 169

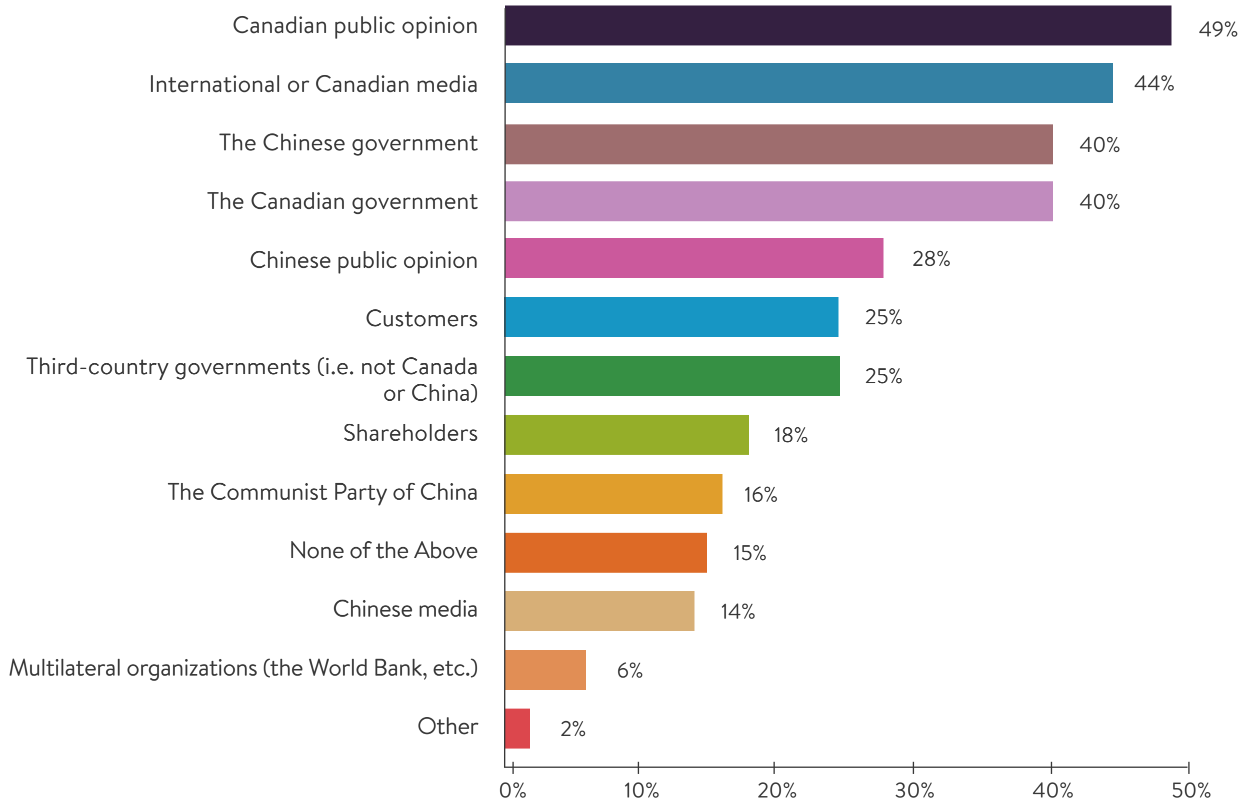


Figure 15: Sources of external pressure

Related to the Canadian government, in CCBC's 2019 and 2020 surveys, respondents told us that 1) they hoped both countries' governments would quickly resolve the problems caused by the detentions of citizens in both countries (2019) and 2) they strongly felt a clear Canadian government strategy for China is needed to eliminate uncertainty and advance Canada-China business (2020).

We followed up this year to seek views on the Canadian government's strategy for China over the last two years. More than half reported disapproval of the strategy (30% disapprove and 24% strongly disapprove), and only 13% approve or strongly approve. CCBC is hopeful that, with the two Michaels and MENG Wanzhou now home, the Canadian government can move forward with a clearer strategy for China that takes into account Canada's values and interests.

In 2020 we heard that a clear policy would enable the Canadian government and its agencies to advocate for Canadian business, political and judicial interests. The many comments we received on this question in 2020 showed that the business community is not saying that Canada should appease China, and in consumer polling that CCBC conducted via Ipsos earlier this year, 61% of Canadians believe Canada can engage economically with China while maintaining a hard line on areas of disagreement, such as human rights (May 2021, sample size 1001 individuals). While most of this year's survey comments reflected the situation prior to the Michaels' returning (as exemplified by "The continued detention of the two Michaels and Meng is the elephant in the room"), others noted the complexity of the situation, encouragement to take a firmer stance, and the weight of our neighbour to the south.

- *"It would be preferable to stop the tight-rope act and have the government say exactly what it means and not mind the immediate damage that may result - hopefully and likely short term -- and rebuild new paths from there."*
- *"Be clearer regarding its position. Take a strong and consistent stand. Stop the virtue signalling as it only highlights how profoundly ignorant Canadian politicians are regarding other cultures and geopolitical realities."*
- *"Engage positively and exercise soft diplomacy. Stop politicizing the bilateral trade relationship"*
- *"Not being an important player in the world politic and heavy reliance on our southern neighbour provides Canada with few choices"*
- *"Too political under US pressure"*
- *"Maintain balance and nuance in addressing complex challenges"*

How do you feel about the Canadian government's strategy for China over the last 2 years? N = 164 Canadian respondents

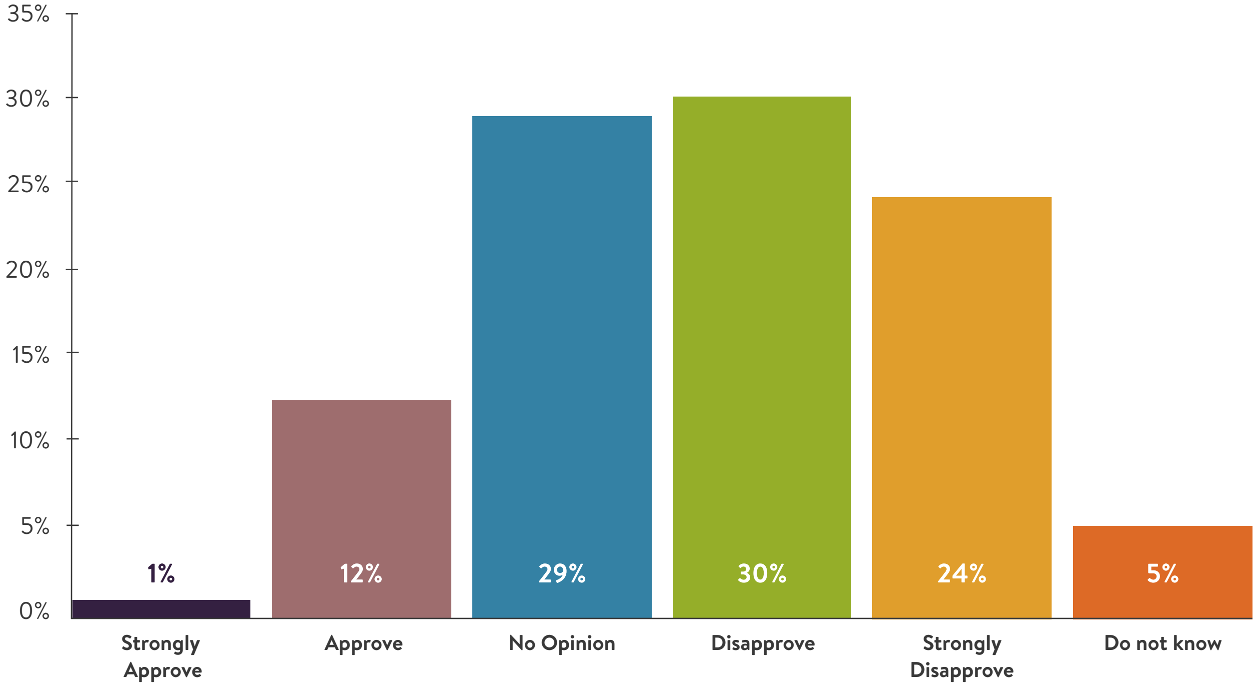


Figure 16: Opinions on Canadian government's strategy for China

Impact Of COVID-19

We explored how COVID-19 impacted both global and China revenues, wanting to know if China's 2020 market growth meant companies were able to rely on their China business to offset declines elsewhere.

How has COVID-19 impacted your revenue?

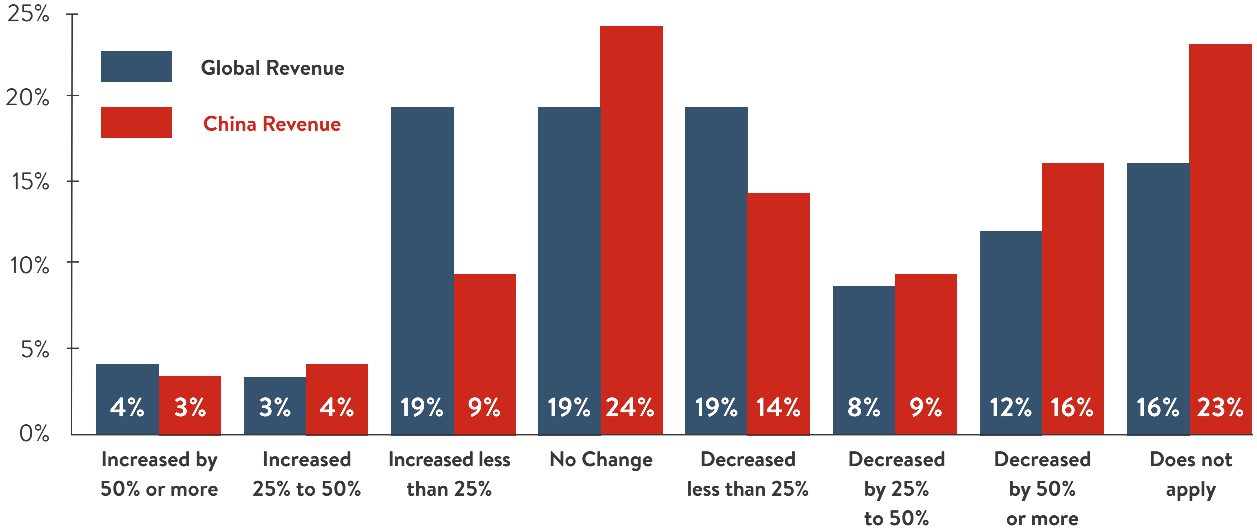


Figure 17: COVID-19 impact on global and China revenues

Roughly the same number of respondents saw a decrease in both global and China revenues in 2020 due to COVID-19 (39% global vs 38% China). More respondents saw an increase in their global revenues (26%) than in their China revenues (15%).

At more than 1/3 of respondents, the four largest sectors all involve services rather than products, meaning they rely more on people, relationship building, and often travel, to develop and sustain business. Thus it is no surprise that both bilateral tension and COVID-19 restrictions have taken a toll on business. 39% of respondents saw their China revenue drop due to COVID-19. Interestingly, of the 30 respondents who saw China revenues rise, 20% were in professional, scientific and technical services; 20% in finance and insurance; and 10% in agri-foods. Companies with teams in place in China, or who actively export product, were able to leverage China's continued growth during the pandemic. But starting new business, sealing deals, or expanding via HQ teams was much harder.

We asked Canadian companies about the impact COVID-19 has had on their China strategy. Overwhelmingly, reduced business travel was the top choice, at 78%. But the second and third choices, reduced business development activity and delayed execution of China market entry/ development, also speak to the challenges for Canadian companies to establish relationships, negotiate agreements, and take advantage of the growth happening in China. A very close fourth, at 35%, is supply chain/shipping challenges, which dominates the news today. In line with some companies diversifying beyond China, 20% said COVID-19 decreased the importance of China to their business. At 18%, those who report COVID reducing the number of expats in China may look relatively low, but has this been a major issue for global companies. A large number of European companies still have foreign experts stranded outside China, as reported in the Eurocham survey.

What impact has COVID-19 had on your China strategy? N = 168

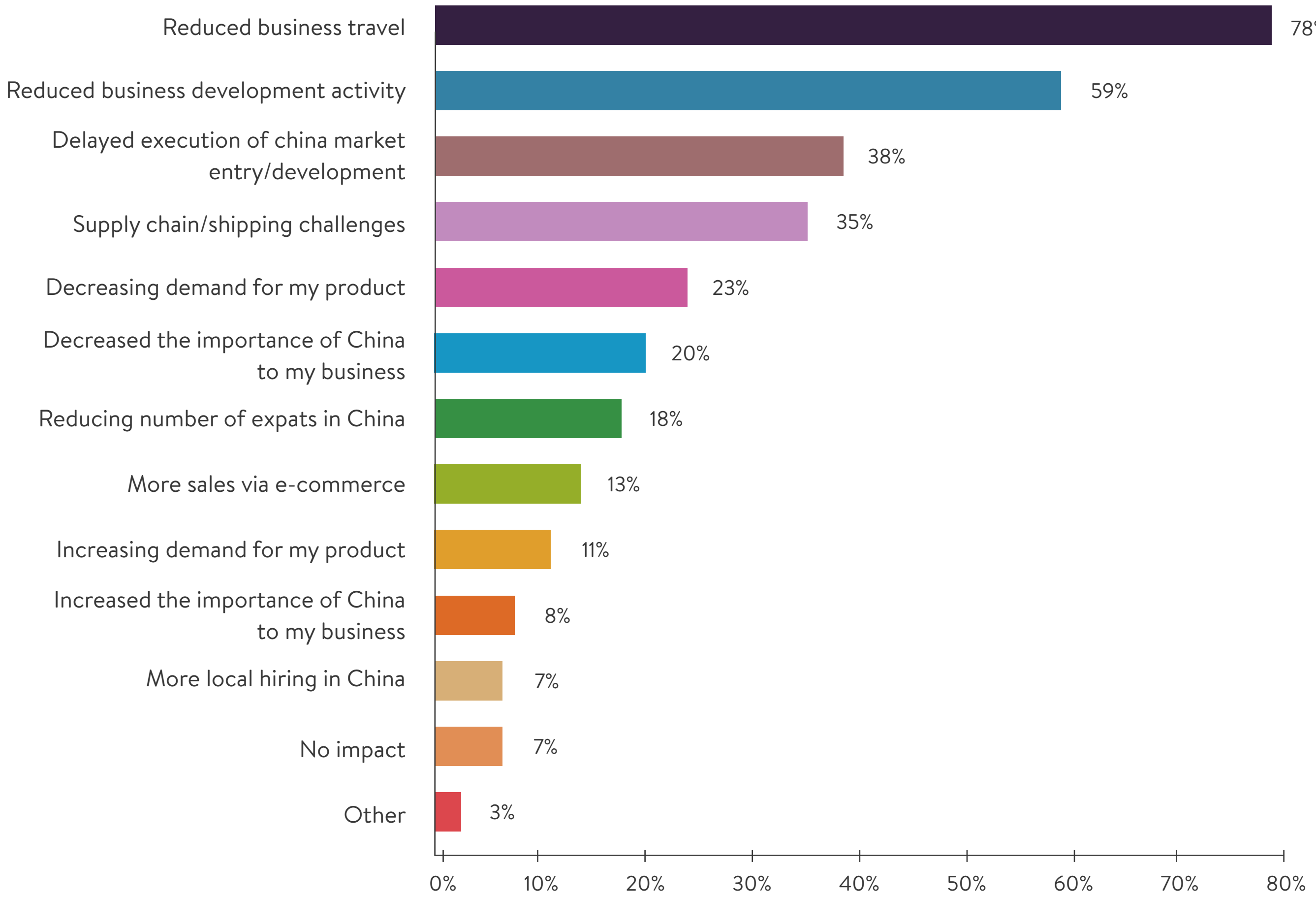


Figure 18: COVID-19 impact on China strategy

Business travel and COVID-19

With the large impact of business travel being felt, we wanted to dig deeper into the future of post-pandemic travel. While travel to China started to decline in 2019 due to the "two Michaels," COVID-19 halted nearly all travel between Canada and China. While some routes continue to fly, and CCBC has successfully helped both China residents and business travelers to enter China during the pandemic, the country's "zero COVID" policy and three-week quarantine requirement strongly discourage travel. Certain industries have found video conferencing to be an acceptable substitute, although members tell CCBC that business development and relationship building are difficult, as is certain communication that would only happen when a senior executive travels from HQ to meet with the local team, or when local executives go back to HQ for training or meetings.

Based on market intelligence, CCBC does not expect business travel to China to resume before mid-2022. To explore where expectations lie in future travel, we asked about the number of pre-COVID business trips between Canada and China. The majority indicated making 1-3 trips per year, nearly a quarter made 3-6, and just under 10% made >6 trips each year, pre-pandemic. Once travel re-normalizes, 40% forecast a return to pre-COVID-19 levels, 41% of respondents forecast a decrease, and only 19% of respondents forecast an increase in the number of business trips.

How many business trips between Canada and China, per year, did you personally make pre-COVID-19?

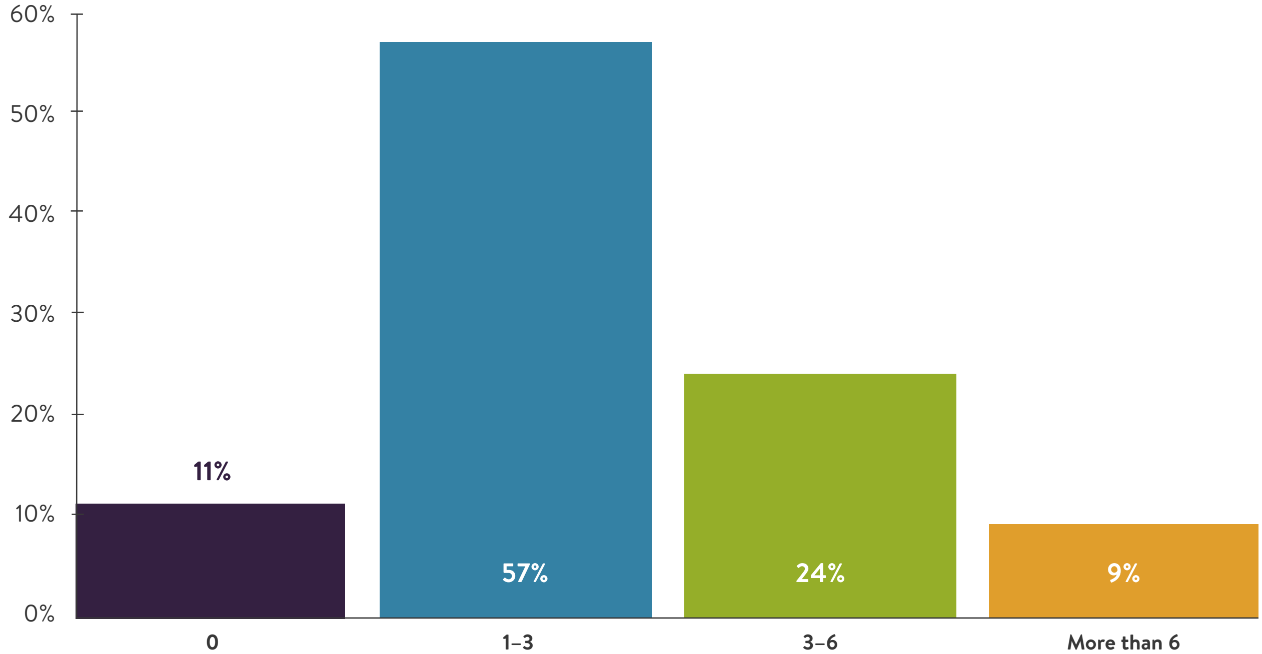


Figure 19: Pre-COVID-19 trips per year

Other Issues

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

While much of this year's results represent a deterioration in situation, one bright spot is the role of the Canada brand. Almost identical to two years ago, the branding of being a "Canadian company" in business development in China played some sort of role for 87% of respondents, and for 20% it plays a "very major role" (184 respondents).

What role, if any, does the branding of being a "Canadian company" play in your business development in China? N = 184

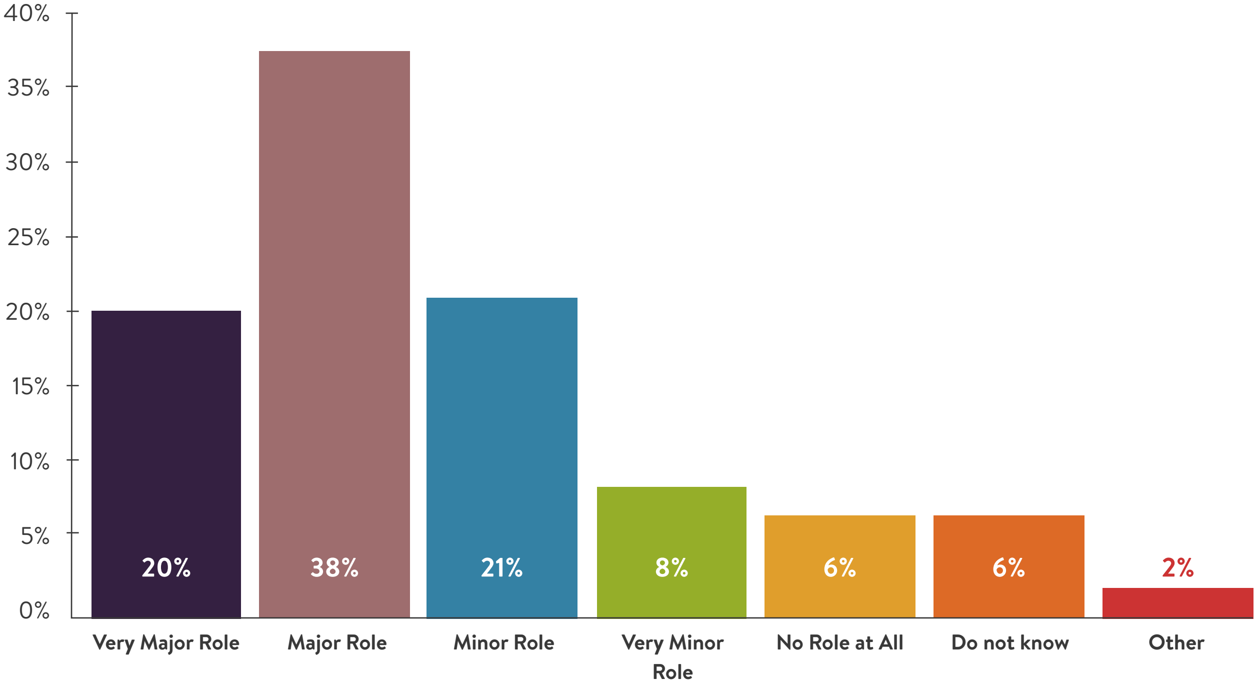


Figure 20: The Canada Brand

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.

Chief China Officer

CCBC's June newsletter discussed the disconnect that often happens between multinational companies' China teams, who require quick reaction and decision making to keep up with China's growth, and headquarters, which they often feel makes decisions too slowly and doesn't understand their needs. We cited an article that makes the case for a way to address the disconnect—a Chief China Officer, or CCO, at headquarters. Having a CCO who advises on and influences decisions that impact the China market can help prevent costly mistakes. This CCO can also help HQ understand the very real market and competitive differences that warrant different actions in China. So we asked respondents if they have a CCO (described as a person at HQ who is focused on China). Of 180 Canadian companies, 44% have such a person. For the 79 companies with a Chief China Officer, the top two sectors are professional services (19%) with most having revenue over C$100 million; and finance and insurance (18%) with almost half reporting revenue of over C$1 billion.

Finally a special section on Canadian companies sourcing products and services from China is included in this chapter.

Canadian companies sourcing from China

In reporting their activities in/with China, 21% of respondents import goods from China, up from 17% two years ago. Given recent sourcing issues, including reshoring, access to key inputs during the pandemic, and regulation regarding Xinjiang and alleged forced labour, we explored in more detail the activities of these importing companies. Among those importing from China, 42% are sourcing finished goods, while 35% are sourcing products for assembly or input into a Canadian-made finished good. This aligns with statistics in the recently-released CCBC-CIUA report on China's Economic Impact on Canada, which explains how sourcing from China has shifted away from finished product in recent decades.

With so much discussion about moving supply chains out of China, have companies been doing so? Surveys released in advance of ours say no:

- The **USCBC** reports 87% of members have kept their supply chain in China.
- **Eurocham** reports that "Contrary to the plans that members spoke about in the first quarter of 2020, to build resilience outside of China and into their global supply chains and to diversify into other markets, many now report that they are building resilience in China to secure their market position...In terms of supply chains, 38% said they have reviewed their supply chain strategies in the last two years and are not planning significant changes; 22% said they are planning to further onshore supply chains into China; 10% will diversify future investment out of China but not change in China; only 5% are planning to shift outside China or divest completely."
- And **AmCham China** states that: "Our members remain committed to the China market; 85 percent report they are not considering relocating manufacturing or sourcing outside of China, consistent with our data from 2019 and 2018."

Canadian companies, on balance, are staying put, although there is movement. 31% of importers have reduced sourcing volume in the past two years, while 29% increased sourcing volume from China. In the last 12 months 26% moved some of their supply chain outside of China, and 30% added new vendors from China. Canadian and/or US laws regarding Xinjiang and forced labour caused 19% of Canadian companies to change their sourcing patterns or practice.

We dug deeper into these responses:

- Of those reducing sourcing volume from China over the past two years, 64% also saw their global revenues decline in 2020 due to COVID, so the reduction could be due to natural lessening of demand, rather than conscious movement elsewhere.
- For those who increased sourcing volume from China, 45% also saw their global revenues rise due to COVID.

- We asked those who moved some of their supply chain outside of China why they did so. Comments included:
    - o *"Supply chain risk/vulnerability made us shift away from just in time."*
    - o *"Michael Spavor & Kovrig, Xinjiang"*
    - o *"A few very long lead time parts"*
    - o *"Construction materials"*
    - o *"Moved purchases of components to North American suppliers"*
    - o *"Because of duties issues"*
- When asked if they moved supply chain outside of China due to Xinjiang, roughly half said yes and half said no.
- Did importing companies rate obstacles differently? Top obstacles were largely the same, but importers put "Customs procedures in China" and "Certification length and complexity" as #4 and #5, quite a bit higher than the general population.
- Nearly half of those sourcing from China also have operations in China, reinforcing that many companies are "in China for China." In addition, 38% of those importing also report exporting products to China.

Related, 60% of all respondents (not just those sourcing) cited regulations on Xinjiang and alleged forced labour having a negative impact on their business (23% strong, 37% somewhat, 30% say no impact), so the regulation in both the US and Canada is top of mind for Canadian companies. 45% of the companies require suppliers to pass social compliance audits, either internal or third party, before sourcing from them.

[1] **US-China Business Council: USCBC 2021 Member Survey**, https://www.uschina.org/reports/uscbc-2021-member-survey

[2] **AmCham China: 2021 American Business in China White Paper**, https://www.amchamchina.org/white_paper/2021-american-business-in-china-white-paper/

[3] **European Chamber: European Business in China Business Confidence Survey 2021**, https://www.europeanchamber.com.cn/en/publications-business-confidence-survey

[4] **British Chamber of Commerce in China—British Business in China: Sentiment Survey 2020-2021,** https://www.britishchamber.cn/en/business-sentiment-survey/

Conclusion

While doing business between Canada and China is never easy, we look for constant improvement in the bilateral business environment to ensure that Canadian companies, and Canada, can compete and succeed in this growing market.

Many challenges are shared with likeminded competitor countries, and on certain obstacles there is improvement—IP protection and financing both show progress. But geopolitical issues have risen to the forefront, and US-China tension has arisen as a top challenge for American, Canadian, and European companies alike.

The Canada-China tension brought on by the detention of citizens by the other country added an extra layer of difficulty for nearly three years, and this has put Canadian companies at a marked disadvantage to their other Western competitors. It has affected mobility, which disproportionately affects the service sector, dominant in Canada's industrial structure. The COVID-19 pandemic further severed mobility, and all these factors combined have left survey respondents less profitable and less optimistic overall.

As China has become politicized in the media and among governments, respondents also feel pressure from multiple external sources, with Canadian public opinion, the Canadian government, and the media playing a far bigger role than customers and shareholders.

This report is being published after Michael Kovrig, Michael Spavor and MENG Wanzhou have returned home, so a major obstacle has been removed. While US-China tension is out of Canada's hands, what is in our control is how Canada engages with China in rebuilding a diplomatic relationship, ensuring that Canada's values and interests are considered. Taking a hard line on issues does not necessarily hurt business, and US survey results demonstrate that. The majority of respondents disapproved of the Canadian government's strategy over the past two years, and they would welcome a clearer strategy now that the door is open to resumption of relations.

What is also clear is that China is a market in itself, and companies who are operating there have weathered the storm better than those doing business from Canada. Companies who have operations in China are more profitable, significantly less pessimistic about the future of their business with China, and are more likely to expand over the next five years, compared to companies who do not operate in China. Regardless of business structure, companies planning for growth overwhelmingly plan to broaden their sales channels and distribution, demonstrating the continued market potential for Canadian products. And the Canada brand remains extremely strong.

Those who are sourcing from China are making shifts where demand, regulation, or other factors require, but there is less reshoring than we expected.

Whether a company is sourcing from, exporting to, or operating in China, or even competing with Chinese companies elsewhere in the world, the fact that China will continue to grow (and has clear policies describing how it will grow), means that Canadian companies cannot ignore China. Business and government must work together to support Canadian companies' competitiveness in China by removing obstacles and supporting an environment that allows Canada to prosper from the relationship.

Methodology

A total of 285 companies participated in the survey, but the first question eliminates any that do not identify as being from the Canada-China business community. This yielded 256 survey respondents, 236 identifying as Canadian companies, organizations, entrepreneurs doing business in or with China, including sourcing from China; and 20 as Chinese companies, organizations, entrepreneurs doing business in Canada.

Survey design

As in previous years, CCBC worked with Dr. Walid Hejazi and Daniela Stratulativ of the Rotman Institute for International Business. 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. To examine trends and understand the development of perceptions and changes in development of business strategy, the survey retained many questions from previous CCBC surveys. These relate to profitability, expansion, optimism, 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 related to sourcing products and services from China. In addition, questions on the effect of COVID-19 are included, related to the impact on company's revenue, profitability, and business travel.

Data collection

The Canada China Business Council disseminated the survey for six weeks in August and September 2021, through its membership and contacts, as well as numerous other channels. It was open to all in the Canada-China business community, regardless of CCBC membership status. Of the organizations responding, 63% were CCBC members, 37% non-members. Of Canadian respondents, 82% are based in Canada, 16% in China, and 2% elsewhere or equally based in both countries. Encouragement to respond was shared broadly on social media, and the Canadian Apparel Federation was a supporting organization, in support of this year's special section on sourcing.

Data analysis and constraints of the study

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 used in the analysis.

The number of responses to certain questions limited the ability to make general conclusions. A small number of Chinese companies responded to the survey, and some of the questions received few responses.

For clearer graphical presentation of the results, most numbers were rounded up to integers, which resulted in totals that may be slightly more or less than 100%.

About the Canada China Business Council

At the Canada China Business Council (CCBC), membership means business. We are a truly bilateral non-profit organization with seven offices in both Canada and China. Founded in 1978, we have been the leading voice of Canadian businesses in China for over 40 years and provide the knowledge and connections you need to succeed in China and Canada. In addition to its focused and practical services, CCBC is the voice of the Canadian business community on issues affecting Canada-China business, trade, and investment.

CCBC members include some of the largest and best-known Canadian and Chinese firms, as well as small to medium-sized enterprises (SMEs), entrepreneurs, and non-profit organizations. Members represent a wide range of sectors, including education, financial services, professional services, manufacturing, construction, transportation, oil and gas, natural resources, ICT, and public sector.

In addition to its corporate head office in Toronto, CCBC has offices and staff in Toronto, Montreal, Halifax, Vancouver, Calgary, Beijing and Shanghai. CCBC's network of staff offers programs and services in both Canada and China, and introduces members to opportunities in China's emerging markets. CCBC also operates a Chamber of Commerce in Beijing, offering a range of events and broad networking opportunities at the local level.

Through its member services and events, CCBC provides member companies with business insight, intelligence, connections, and networks that help resolve the inevitable challenges of doing business in another country.

For further information, please visit: **www.ccbc.com**.