



Doing Business in China

**Experiences and opinions
of Australian companies
operating in China**

March 2018



Chair's message

At what is an important juncture in the Australia-China relationship, AustCham is proud to present the inaugural **Doing Business in China Survey**.

It is reassuring to see a clear-eyed and optimistic view from Australian companies doing business in and with China. Reflecting the importance of the 'Belt and Road' Initiative (BRI), the number of companies which selected BRI as a key opportunity for their business in China was second only to the number of companies which selected "rise of the middle class".

We hope these findings will serve as a useful reference for policymakers, businesses and communities to understand the opportunities and challenges of doing business with and operating in China, and make decisions that will guide the evolution of the Australia-China relationship in a positive direction.

I would like to acknowledge the support and contribution of The University of Melbourne, KPMG and Australia China Business Council (ACBC) Victoria in completing this important project. I would also like to thank all the companies and institutions that participated in this survey. Through your sustained efforts to engage and succeed in the "new era" in China, you are contributing to the social and economic development of both nations and building greater trust and understanding between our peoples.

Vaughn Barber

Chair, AustCham Beijing







Foreword

Long before the People's Republic of China officially acceded to the World Trade Organisation in December 2001, a healthy trade relationship already existed between Australia and China. Clearly, trade agreements are not a necessary condition for trade to flourish. Nonetheless, China's emergence as a global economic and trading powerhouse, and its many trading partners seeking exclusive free trade agreements with it, are probably not entirely independent events.

Indeed, as this report highlights the present and expected future benefits of the still young China-Australia Free Trade Agreement (ChAFTA), Australian businesses indicate real optimism about its impact. While the generally agreed upon *difficulty-of-doing-business* remains the Achilles heel for many an Australian trade venture in China, ChAFTA may just alleviate some of the frustrations and obstacles, and make the trading process that much more efficient.

This comprehensive survey of Australian companies doing business in and with China is long overdue, following in the footsteps of the AmCham's China Business Climate survey, now in its 20th year. AustCham Beijing have recognised the need for a longitudinal survey of Australian businesses to better evaluate the impact of trade liberalisation and specific trade agreements, as well as

the general business conditions in doing business in and with China. The survey also gives a better understanding of why Australian companies engage in business with China, and whether that engagement delivers the business objectives.

China remains in many ways an enigma. What is abundantly clear though is that China intends to continue its stellar economic growth for its people to prosper. Trade is just one, albeit a very important, instrument that allows that to happen. The transition in China's economic strategy – from building infrastructure to boost exports, to building social infrastructure for a rapidly emerging middle class – poses challenges and opportunities for Australian businesses.

China will continue its strong demand for Australia's primary commodities, but it won't do so at the same exponential growth rates. Australia's services sector on the other hand is extremely well placed to contribute to building that social infrastructure. It will be exciting to observe that transition in trading experience unfold in future surveys.

Paul Kofman

Sidney Myer Chair of Commerce
and Dean, Faculty of Business
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About the survey participants

The 2017 Business in China Survey was conducted with the membership of the China-Australia Chamber of Commerce (AustCham) and the Australia China Business Council (ACBC) Victoria in Q3 2017. The survey base comprised Australian businesses operating in or doing business with China. Responses were received from 100 companies.

The survey respondents were predominantly (senior) executive-level leaders who provide strategic leadership in managing their companies' China business interests.

Figure 1

What is your position within your organisation?

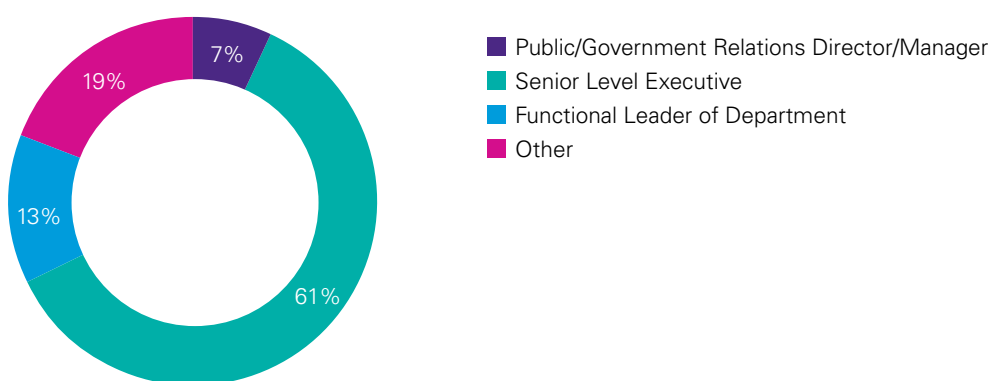
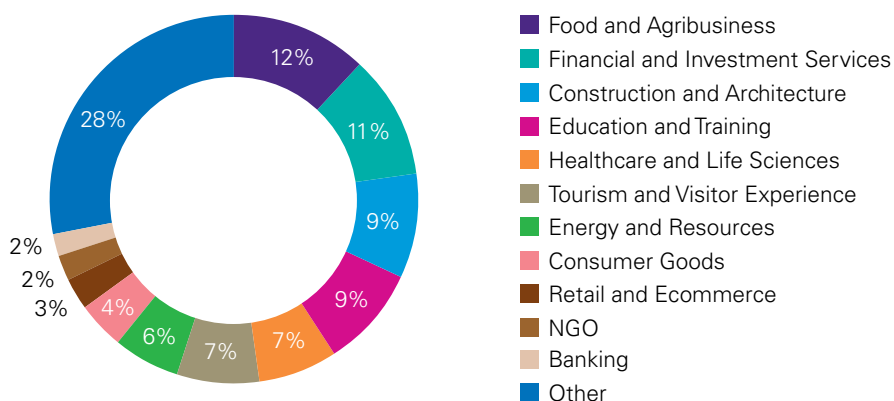


Figure 2

Which best describes the main industry you work in?



The responding companies covered a diverse (and representative) range of industries, dominated by services providers followed by agribusiness and resources. Perhaps not surprisingly, there were only a few manufacturing companies among the respondents. Within services, finance and education dominated the sector sample, followed by health and tourism.

Figure 3

What is your company's primary strategy in China?



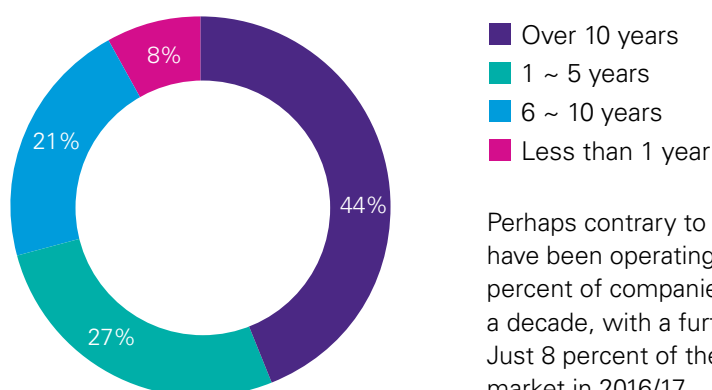
Figure 4

What type of presence do you have in China?



Figure 5

How long has your company been operating in China?

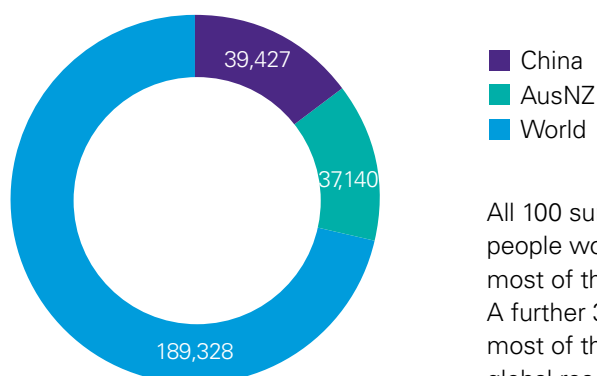


Perhaps contrary to public impression, Australian companies have been operating in China for many years now. Forty-four percent of companies have operated in China for more than a decade, with a further 21 percent for more than five years. Just 8 percent of the sample were newcomers to the China market in 2016/17.

To check whether longevity makes companies better able to deal with regulations, or more generally perform better, we distinguish the novices (35) with less than 6 years presence in China from the establishment (65) with more than 6 years of presence in China.

Figure 6

How many employees work for your organisation?



All 100 surveyed companies combined employ 265,895 people worldwide. Of these, 39,427 are employed in China, most of them in Hong Kong, then Beijing and Shanghai. A further 37,140 are employed in Australia or New Zealand, most of them in Victoria, then NSW. Not to overestimate the global reach of the surveyed companies as a whole, note that the large global employee base of 189,328 is dominated by just three companies contributing 177,000 employees.

We use the employee data as a control variable proxying for size of the company. We classify a business as small if it has less than 120 employees in China. We identify 24 large businesses operating in China and 76 small businesses. Of course, this is not the only metric that determines size, but it allows us to draw comparisons with the AmCham report¹ that uses a similar metric. Maybe unsurprisingly, employee-size correlates with time of operation in China. Most of the young companies are also very small.

1. AmCham China, 2018, China Business Climate Survey Report, January 2018.

The investment environment

Ever since China's accession to the World Trade Organisation in December 2001, trade with China has taken off at astonishing speed. It has fuelled China's sustained economic growth – which was 6.8 percent per annum for the third quarter of 2017² – and has changed the economic fortunes of its trading partners in South East Asia along the way. Australia has been and continues to be a significant beneficiary of Chinese trade liberalisation.

Australia's former dominant Asian trading partner, Japan, has long since been surpassed in trade volume and value. China is now easily Australia's largest trading partner in exports and in imports³. Yet Australia is also China's 6th largest trading partner (5th largest supplier of imports, and 10th largest buyer of Chinese exports)⁴. Thermal coal and iron ore exports have been important drivers of these ranks, and more recently agri-business and LNG, but increasingly the trade flows include services. Beyond opportunities to trade in goods and services, new Australian companies continue to establish a presence in China⁵ and Australian companies already present consider expanding their operations⁶.

2. Trading Economics. China GDP Annual Growth Rate: 1989-2017. <https://tradingeconomics.com/china/gdp-growth-annual> (accessed October 23, 2017).

3. Department of Foreign Affairs and Trade. 'China Country Brief'. 2017 (accessed October 23, 2017), <http://dfat.gov.au/geo/china/Pages/china-country-brief.aspx>.

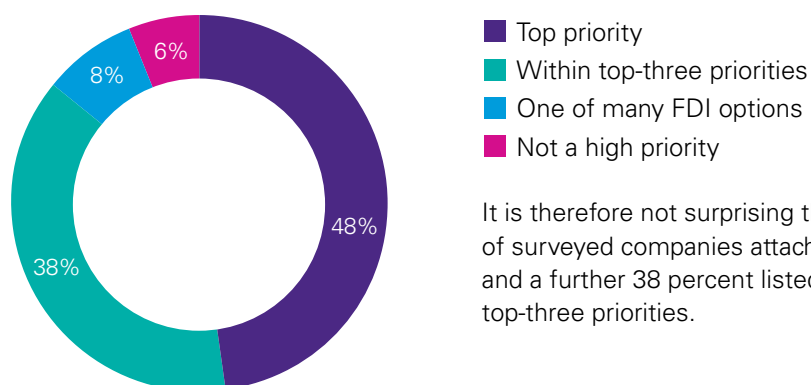
4. A Holmes, 'Australia's economic relationships with China,' in Parliamentary Library Briefing Book (accessed on October 23, 2017), https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook44p/China.

5. Born in China: a new type of Australian business. The Conversation. June 28, 2017. <http://theconversation.com/born-in-china-a-new-type-of-australian-business-79037>.

6. Australian businesses expanding their business with China, as indicated in Figures 8, 9 and 10 below.

Figure 7

How does China rank in your company's short-term global investment plans?

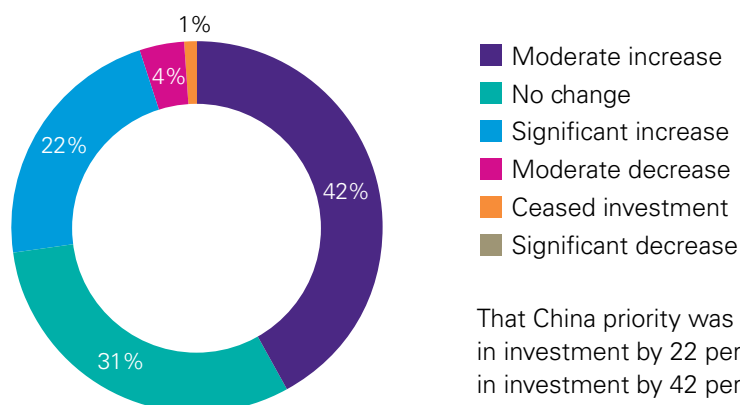


- Top priority
- Within top-three priorities
- One of many FDI options
- Not a high priority

It is therefore not surprising that almost 50 percent of surveyed companies attach top priority to China, and a further 38 percent listed China as within its top-three priorities.

Figure 8

For year ending 2016, did your company increase or decrease the level of investment in its China operations?

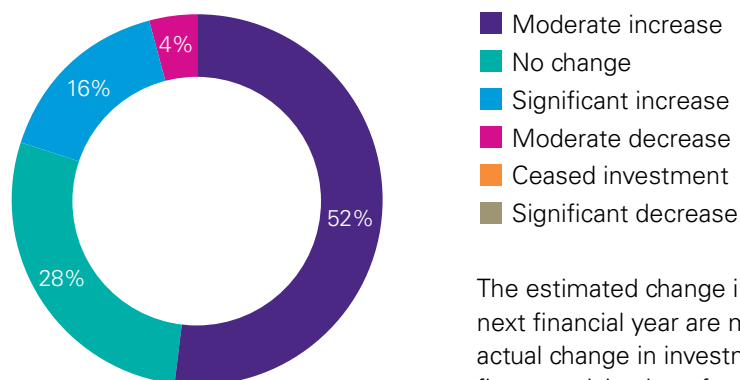


- Moderate increase
- No change
- Significant increase
- Moderate decrease
- Ceased investment
- Significant decrease

That China priority was evidenced with a significant increase in investment by 22 percent, and a moderate increase in investment by 42 percent over the last financial year. Virtually no companies scaled back investment level.

Figure 9

For 2017, will your company increase or decrease its level of investment in its China operations?

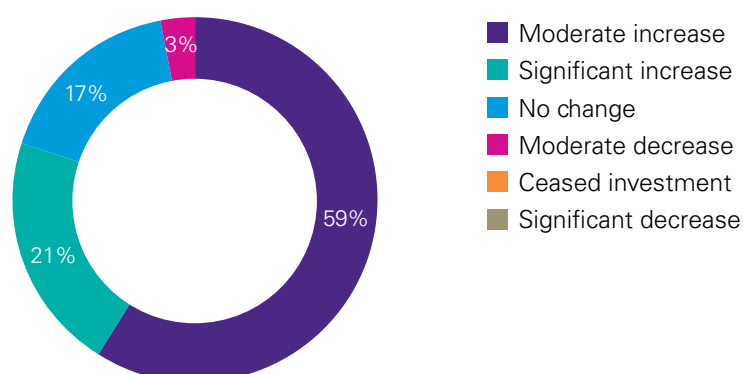


- Moderate increase
- No change
- Significant increase
- Moderate decrease
- Ceased investment
- Significant decrease

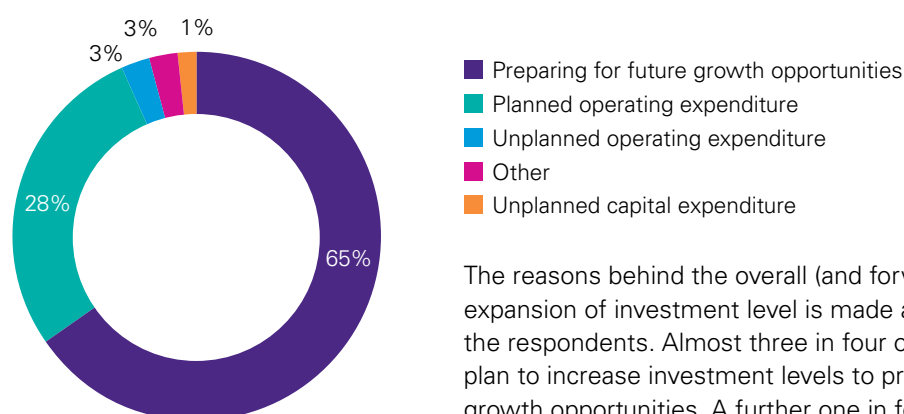
The estimated change in investment levels for this and the next financial year are mostly similar to last financial year's actual change in investment level, with perhaps an even firmer anticipation of an increase in investment levels over the next two years.

Figure 10

For 2018, will your company increase or decrease its level of investment in its China operations?

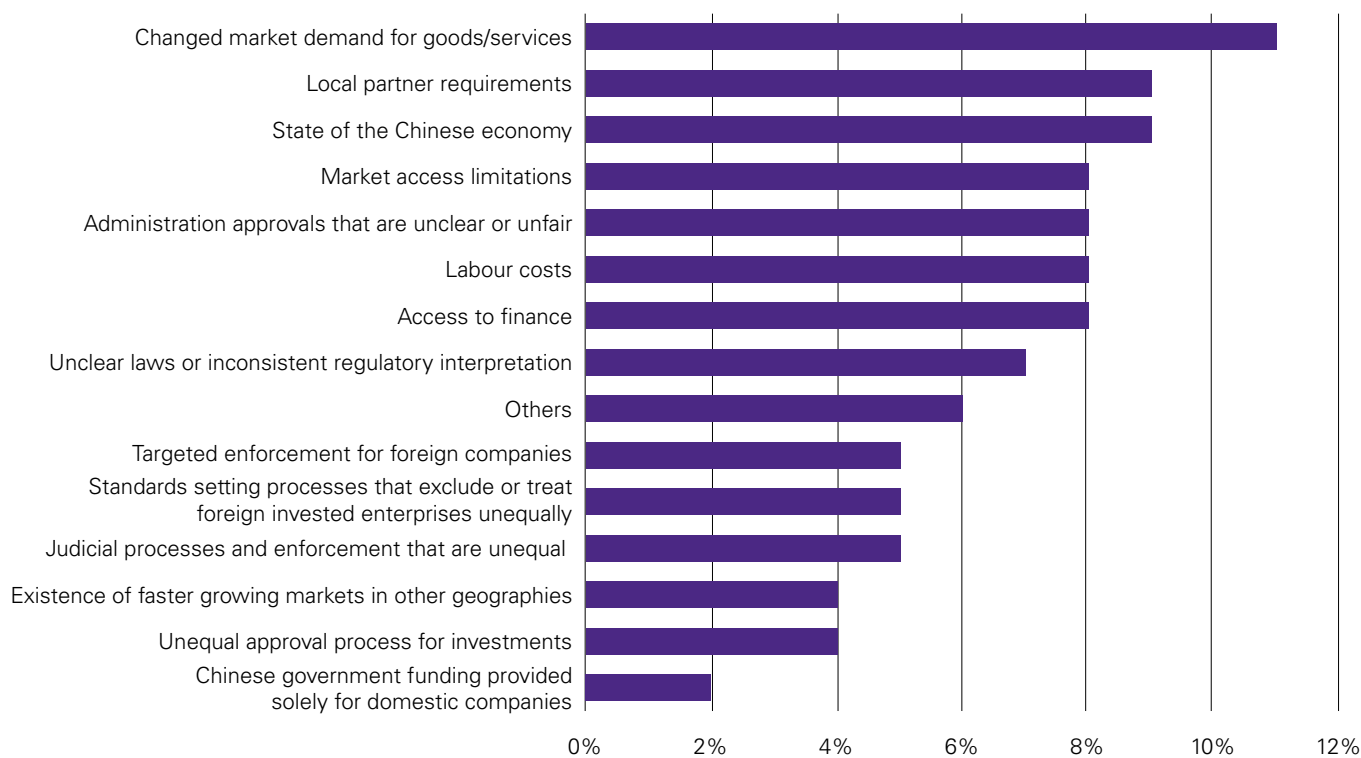
**Figure 11**

What were the reasons for the increase in investment, in 2016?

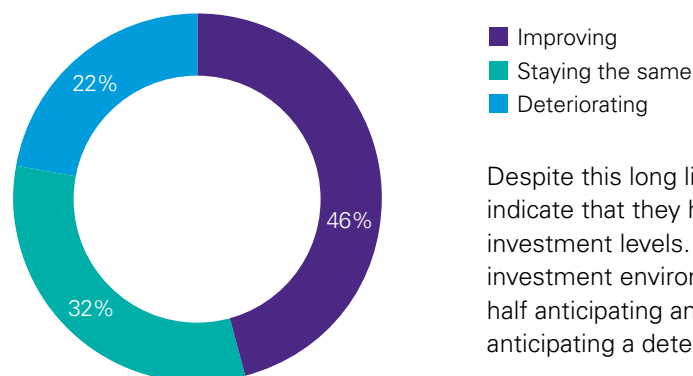


The reasons behind the overall (and forward looking) expansion of investment level is made abundantly clear by the respondents. Almost three in four of the respondents plan to increase investment levels to prepare for future growth opportunities. A further one in four do so to scale up their existing operations – again to meet future demand opportunities.

Perhaps surprisingly, only a single business cited start-up as a reason to increase its investment level. Of course, the survey sample selection may explain why the expansion of existing presence is by far the dominant response – rather than by greenfield investment.

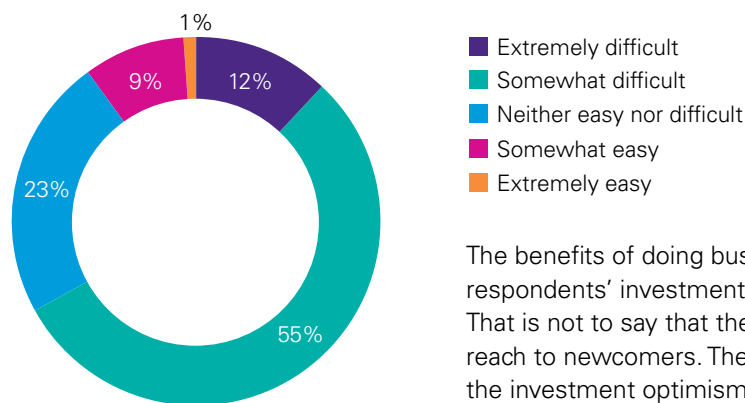
Figure 12**Which measures limited your company's ability and willingness to invest in China?**

Factors that may have held back companies from investing (even more) are closely linked to the perceived risk of future business conditions. The most significant factor is the volatility in consumer demand, closely linked to the state of the Chinese economy. A lack of investment enablers (like local partner requirements, access to finance, labour costs, and administration approvals) are the next in the list of constraints on investment growth.

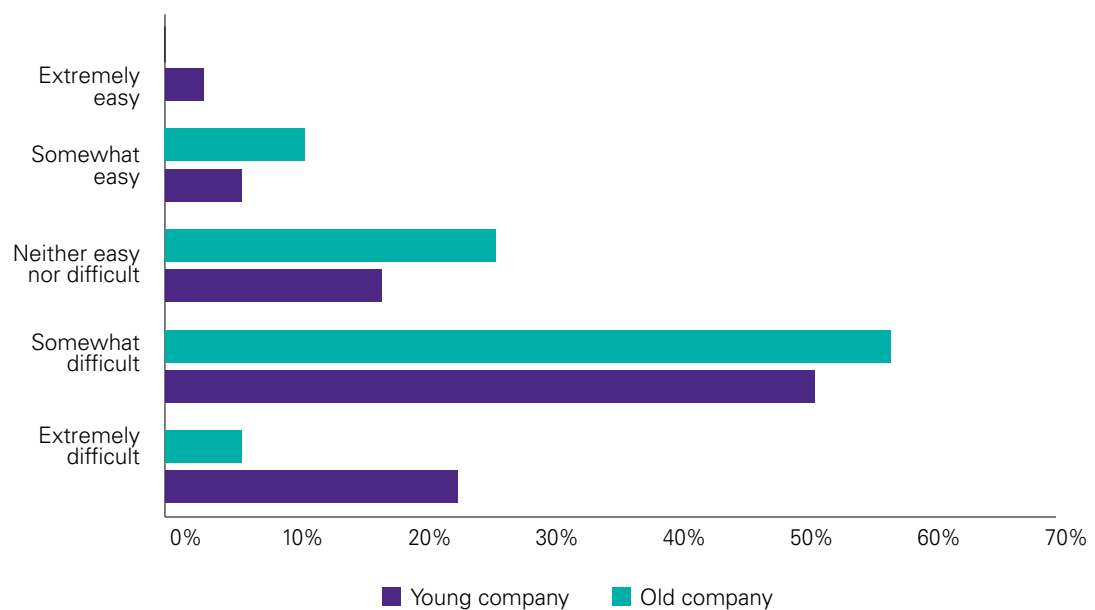
Figure 13**How do you feel about China's inbound invest environment?**

Despite this long list of constraints, the survey respondents indicate that they have and will continue to increase investment levels. Their sentiment towards China's inbound investment environment supports this confidence with half anticipating an improvement and only 22 percent anticipating a deterioration.

China's business climate

Figure 14**How would you rate the ease of doing business in China?**

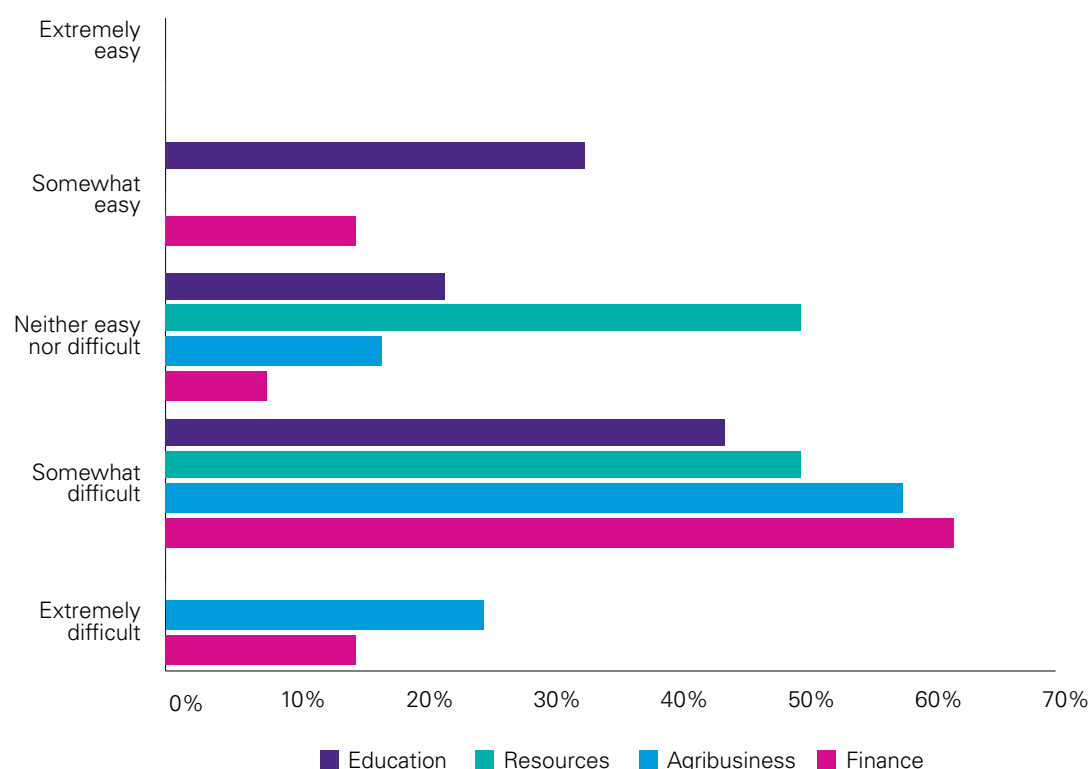
The benefits of doing business in China are clear and respondents' investment plans are consistent with this. That is not to say that these benefits are within easy reach to newcomers. The data suggests that despite the investment optimism, the ease of doing business in China is found to be somewhat (55 percent) to extremely (12 percent) difficult. Only 10 percent characterised the business climate as somewhat or extremely easy.

Figure 15a**How do you rate the ease of doing business in China (by age of operations)?**

Could it be easier for companies who have long-standing operations in China than for the newcomers? When we split the sample according to age of operation, we observe something surprising. Young companies (less than 6 years experience) find it both easier and more difficult as extreme experiences. Older companies still find it somewhat difficult, but do not seem to have the same extreme experiences.

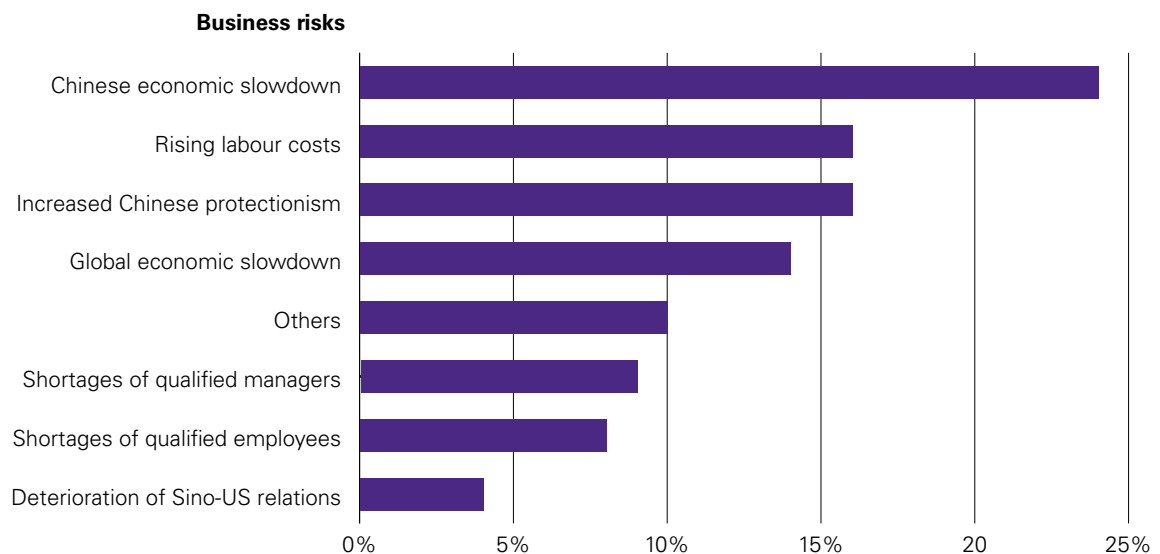
Figure 15b

How do you rate the ease of doing business in China (by industry)?

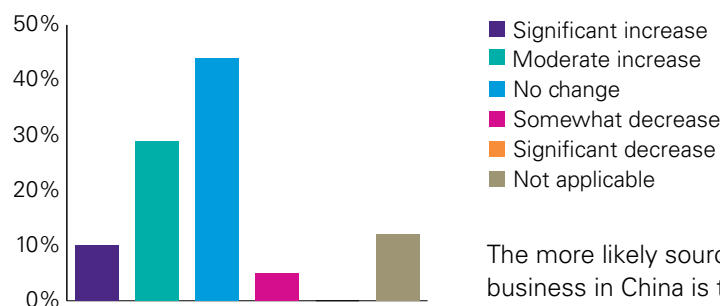


Is it easier doing business in China for some industries than others? Comparing the four major industries, we see that agribusiness and financial services find it more difficult than education and resources.

The perceived difficulty of doing business in China can reflect two distinct experiences. Either companies have to overcome (or comply with) a labyrinthine of administrative, regulatory and legal requirements, or operating in China exposes companies to business risks that are difficult to manage or to quantify. When we take a closer look at those China-specific business risks, they are most likely opposites of the very factors that made China an attractive investment option in the first place.

Figure 16**What are the top business risks facing your business in China?**

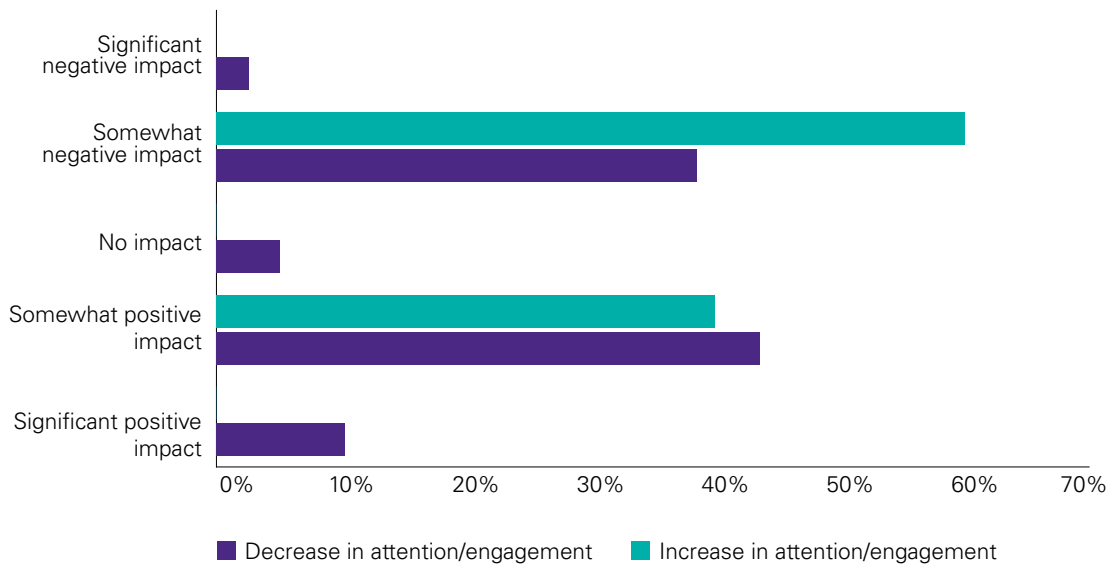
With the exception of shortages of qualified managers and employees, these key business risks seem to be strategic / macro rather than operational.

Figure 17**Have you noticed any change in attention or engagement of your firm from Chinese authorities, including Chinese industry-wide regulatory change, in the last year?**

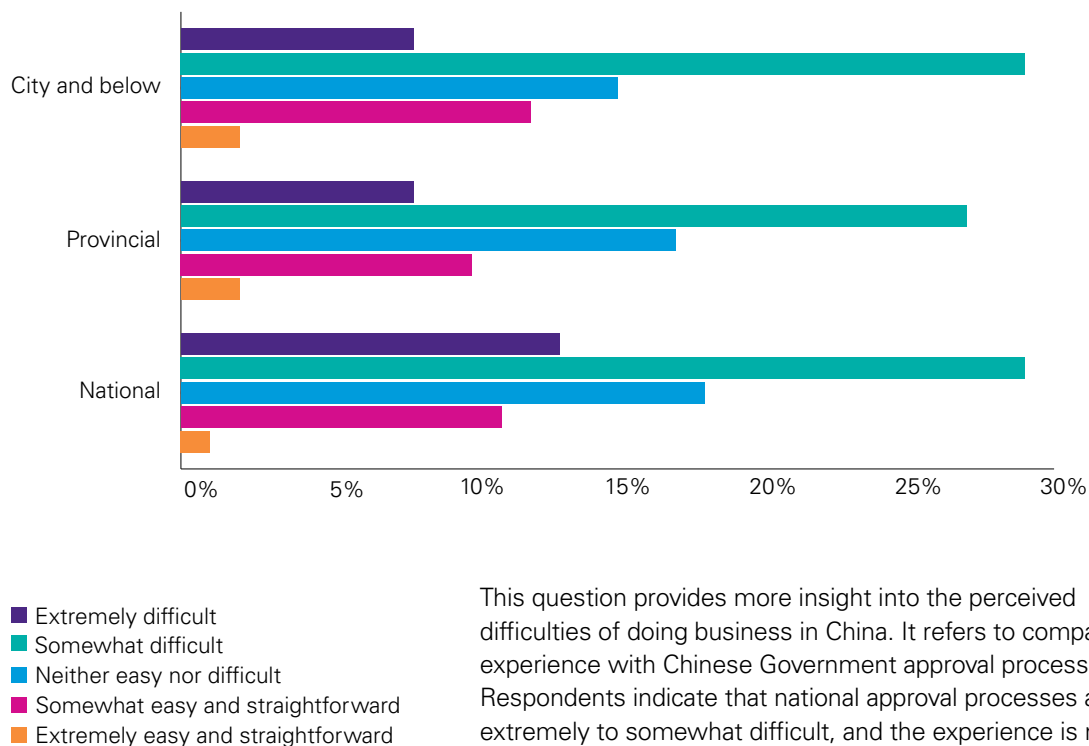
The more likely source of expressed difficulty of doing business in China is therefore the impact of regulatory/legal oversight. When asked whether companies experienced a change in engagement or regulation from Chinese authorities, the respondents indicated an increase.

Not all engagement or regulation is bad. In fact, improved IP regulation may be most welcome to some companies.

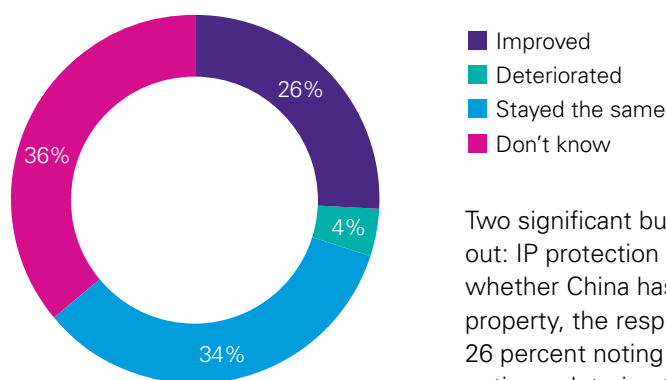
Figure 18
How has that change in attention/engagement impacted your business?



To assess the impact of the interaction with the Chinese authorities, this graph separates the companies experiencing an increase in attention from those experiencing a decrease in attention.

Figure 19**How do you rate your experience with approvals processes at different levels of the Chinese government?**

This question provides more insight into the perceived difficulties of doing business in China. It refers to companies' experience with Chinese Government approval processes. Respondents indicate that national approval processes are extremely to somewhat difficult, and the experience is not much different at provincial or city/council level. Only some 10 percent of responses suggest easy processes.

Figure 20**During the last year, how has China's protection of IP changed?**

Two significant business climate concerns continue to stand out: IP protection and internet regulation. When asked whether China has improved its protection of intellectual property, the respondents are cautiously optimistic with 26 percent noting an improvement against only 4 percent noting a deterioration.

Figure 21

To what degree does internet regulation impact your ability to conduct business in China?

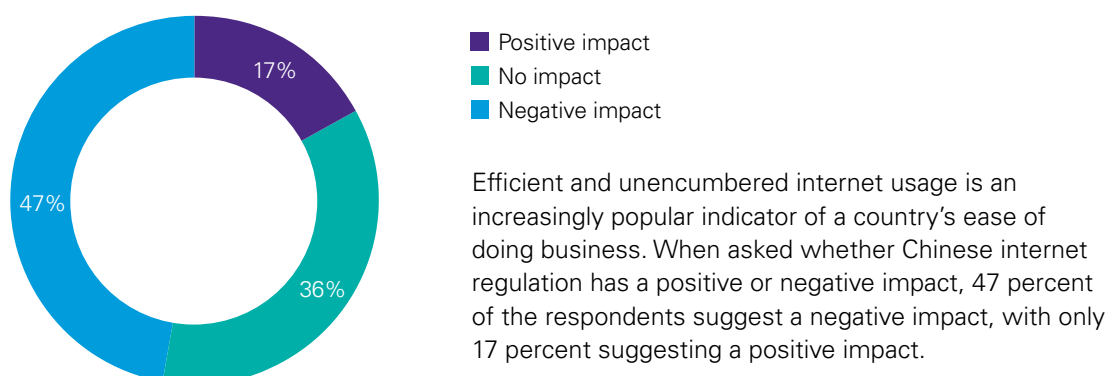
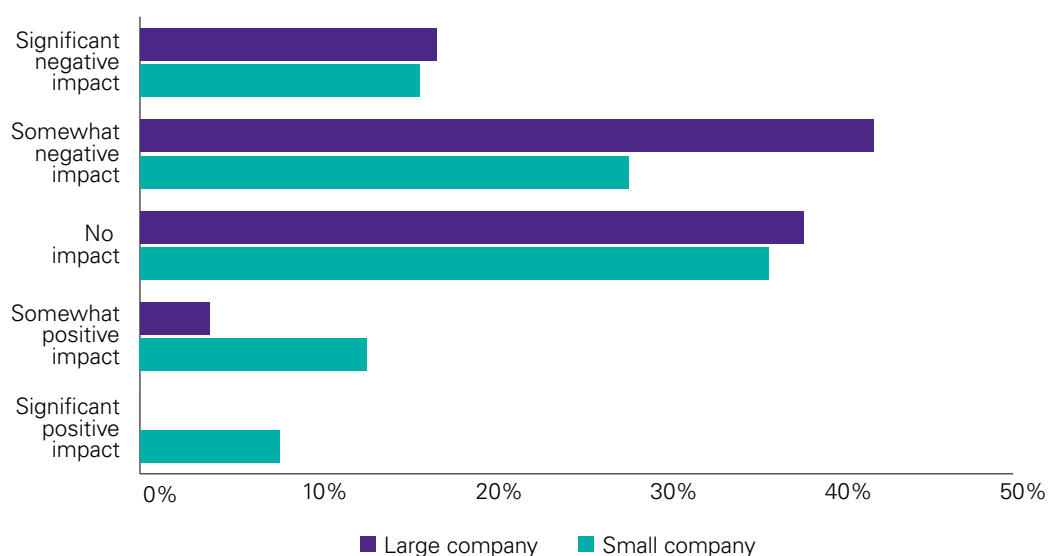
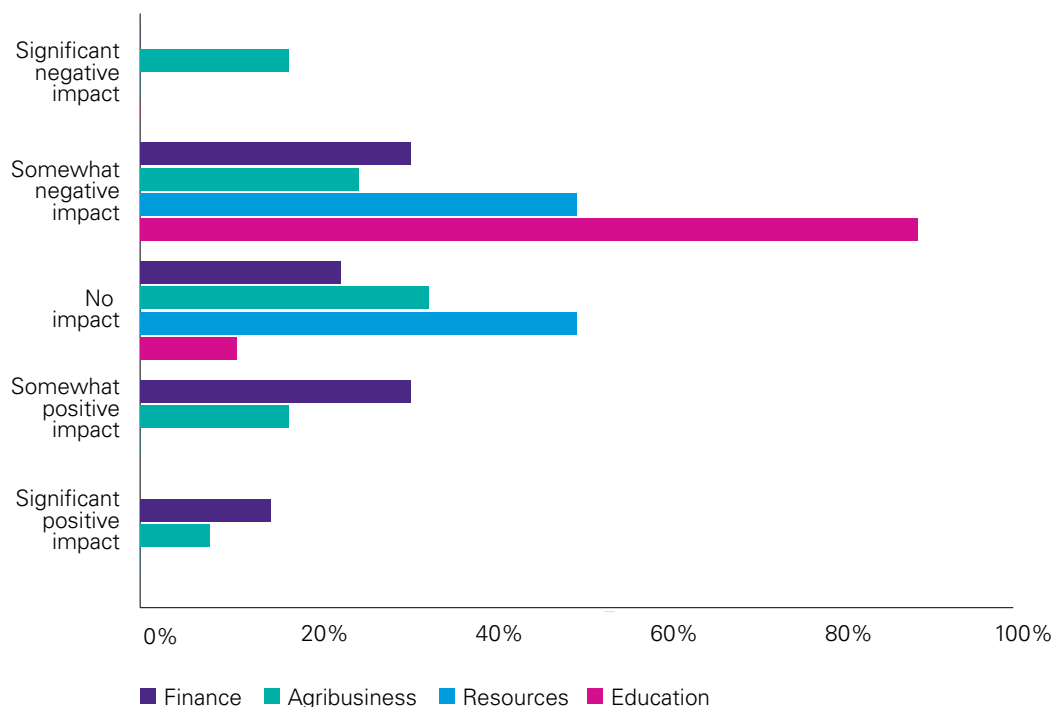


Figure 22a

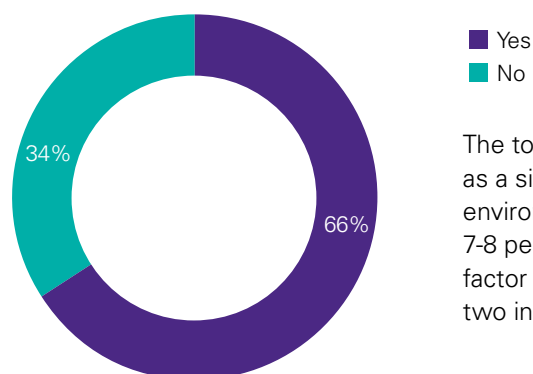
To what degree does internet regulation impact your ability to conduct business in China (by company size)?



To check whether company size makes a difference in the perception of internet regulation, we split the results between small companies (less than 120 China based employees) and large companies (more than 120 China based employees). Surprisingly, there is a statistically significant difference but it seems counter-intuitive. If small companies are relative newcomers with business models that are more likely to rely on the internet, then they would express a more significant negative impact of regulation. That is not the case. Large companies are more likely to be negatively impacted by internet regulation. Perhaps the key to understanding this result is that communications between employees are crucially affected by the quality of the internet access. Large companies are then more affected than small companies.

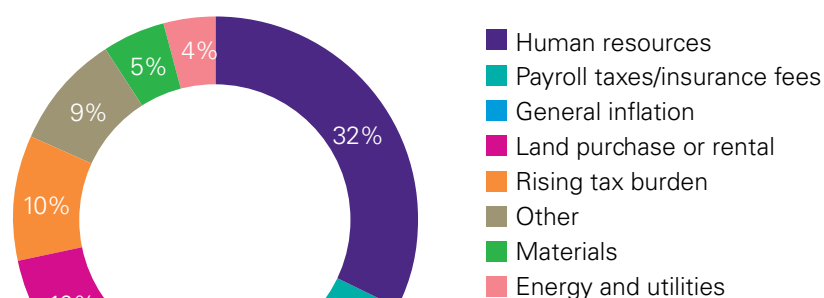
Figure 22b**To what degree does internet regulation impact your ability to conduct business in China (by industry)?**

We could expect that education and financial services sectors experience a stronger impact from internet regulation, as their business models are heavily reliant on internet usage and communications. When comparing by industry, internet regulation is indeed found to be impacting education more than resources and agribusiness. However, for financial services, it seems that internet regulation also provides opportunity, as some respondents indicate a positive impact.

Figure 23**Are rising costs a concern for your company operations in China?**

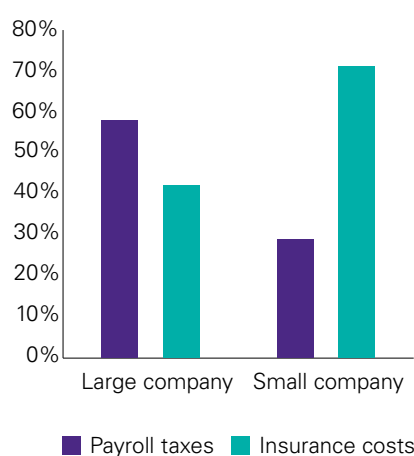
The top business risks prominently featured rising costs as a significant impediment to an attractive business environment. In an 'overheated' Chinese economy with 7-8 percent GDP growth rates per annum, production factor cost inflation is almost inevitable. Not surprisingly, two in three respondents cite rising costs as a concern.

Figure 24

What are your top cost concerns?

A breakdown of the top cost concerns suggests that wage growth (and accompanying payroll taxes and insurance fees) is by far the most prominent concern. It also reflects China's inevitable transition from a low-cost labour force to large middle class, developed economy where wage demands will put pressure on costs.

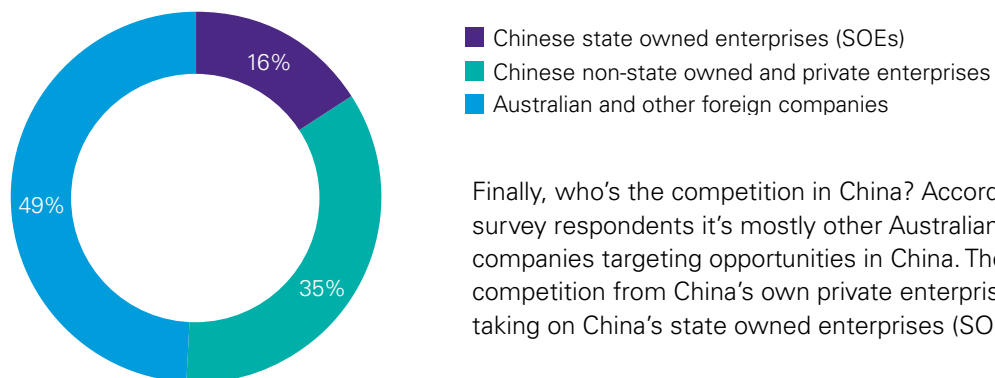
Figure 25

Are payroll taxes/insurance fees a top cost concern (by company size)?

Is this perhaps more of a concern for large companies? The results for payroll taxes suggest that to be the case, where large employers are more exposed than small companies.

Figure 26

Who are your key competitors in China?



Finally, who's the competition in China? According to the survey respondents it's mostly other Australian and foreign companies targeting opportunities in China. There is some competition from China's own private enterprises. Few are taking on China's state owned enterprises (SOEs).

Economic and policy outlook in China

Managing (and adapting to) the regulatory environment should be considered a necessary condition of doing business in China or anywhere else for that matter. It is not a sufficient condition for profitability. China's economic policy settings, market volatility and GDP growth rates will influence the success of a foreign-owned business ventures operating in China. Nonetheless, it's the competitiveness of the goods and services themselves that remain the key determinant of success.

Much of the post-2001 Australia-China trade bonanza came through China's seemingly insatiable demand for resources fuelling its strategic investment in physical infrastructure to build capacity for challenging export-focused economic growth targets. This was a windfall for the Australian economy – and transformed China's economy, too. The economic transition from an emerging economy to a developed economy with a rapidly growing middle class has occurred in an amazingly short time-frame – less than two decades, or within one generation.

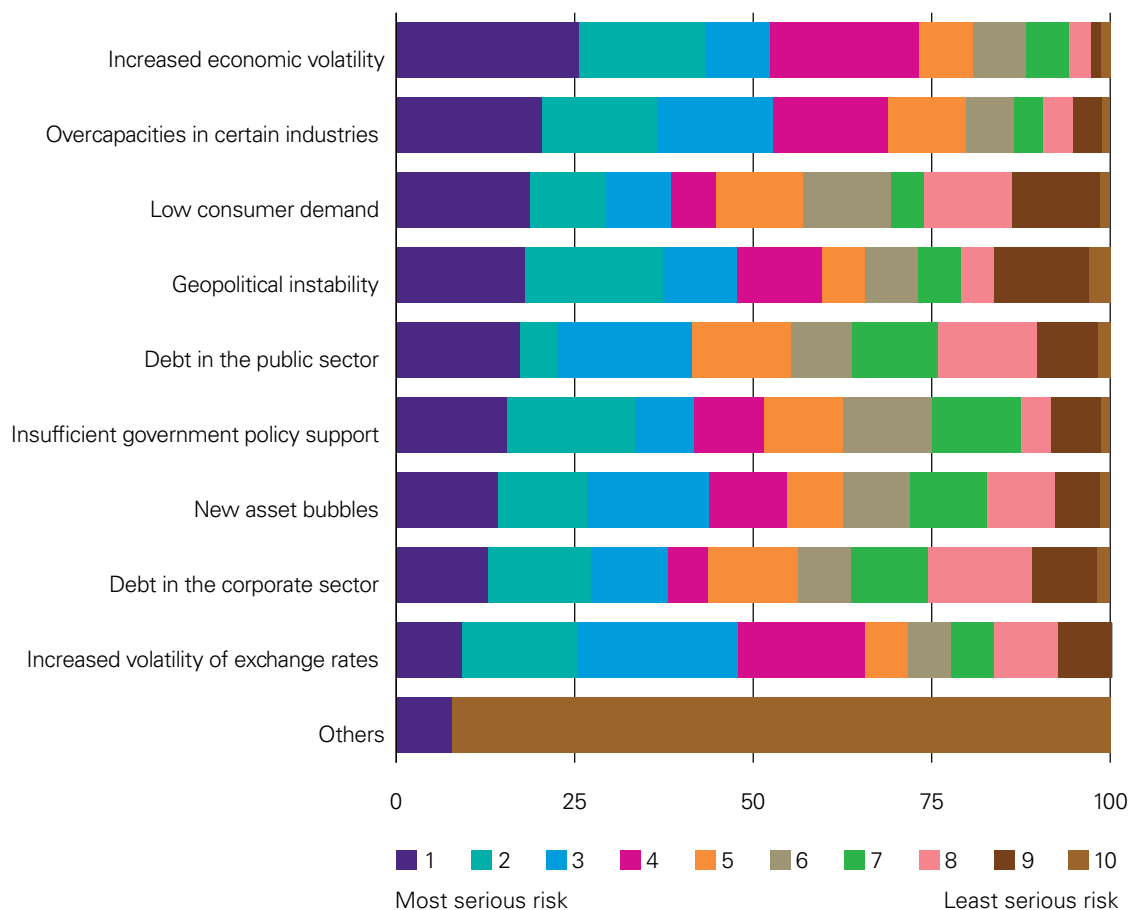
In response to that transition, China's economic policies again changed gear. In the last five years those policies shifted towards investment in social infrastructure like health, and education. At the same time, growth targets became consumption-focussed.⁷ The demand for resources weakened, and commodity price growth started to pull back as orders declined. Nonetheless, Australian resources remain a dominant export to China in the foreseeable future. The changes in economic policy offer many new opportunities for Australian companies. It will change what China imports and which companies will be welcomed as foreign direct investment into China – a shift from raw materials to services and expertise.

Of course, transitions often come with frictions and uncertainties. So what do Australia's companies see as the main challenges to China's economic prospects?

7. <https://www.iri.co.jp/MediaLibrary/file/english/periodical/rim/2011/42.pdf>.

Figure 27

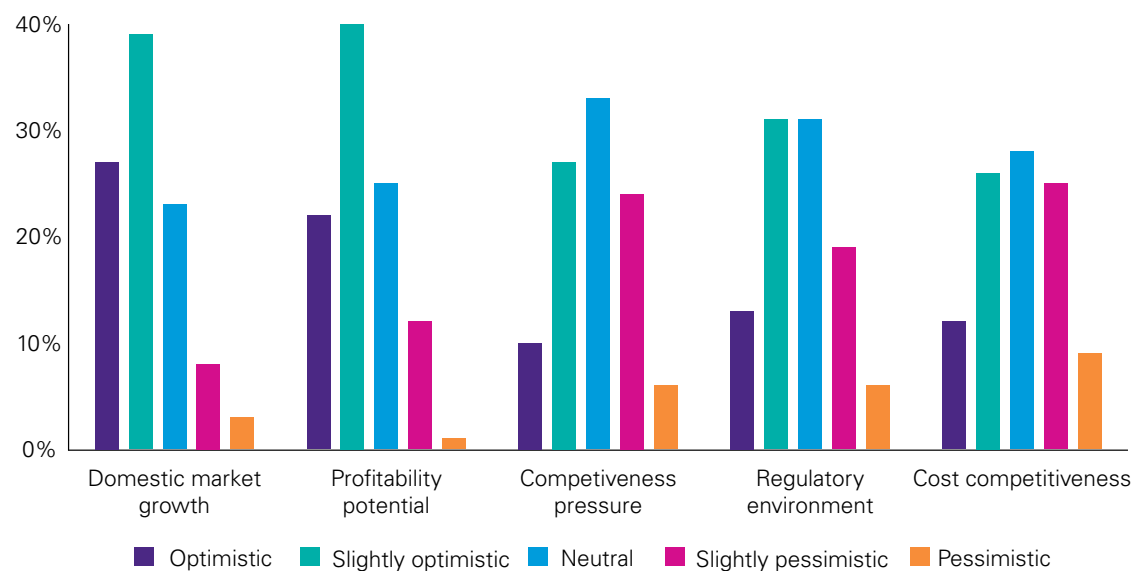
**What do you view as potential risks to China's economic growth?
(ranking 1 – 10. 1 = most serious)**



Volatility, overcapacity, low consumer demand, and geopolitical instability are the four most commonly identified risks threatening sustained economic growth patterns. Public sector debt, market problems (asset bubbles), and exchange rate volatility are deemed less significant risk factors – possibly as they are still tightly controlled by the Chinese authorities.

Figure 28

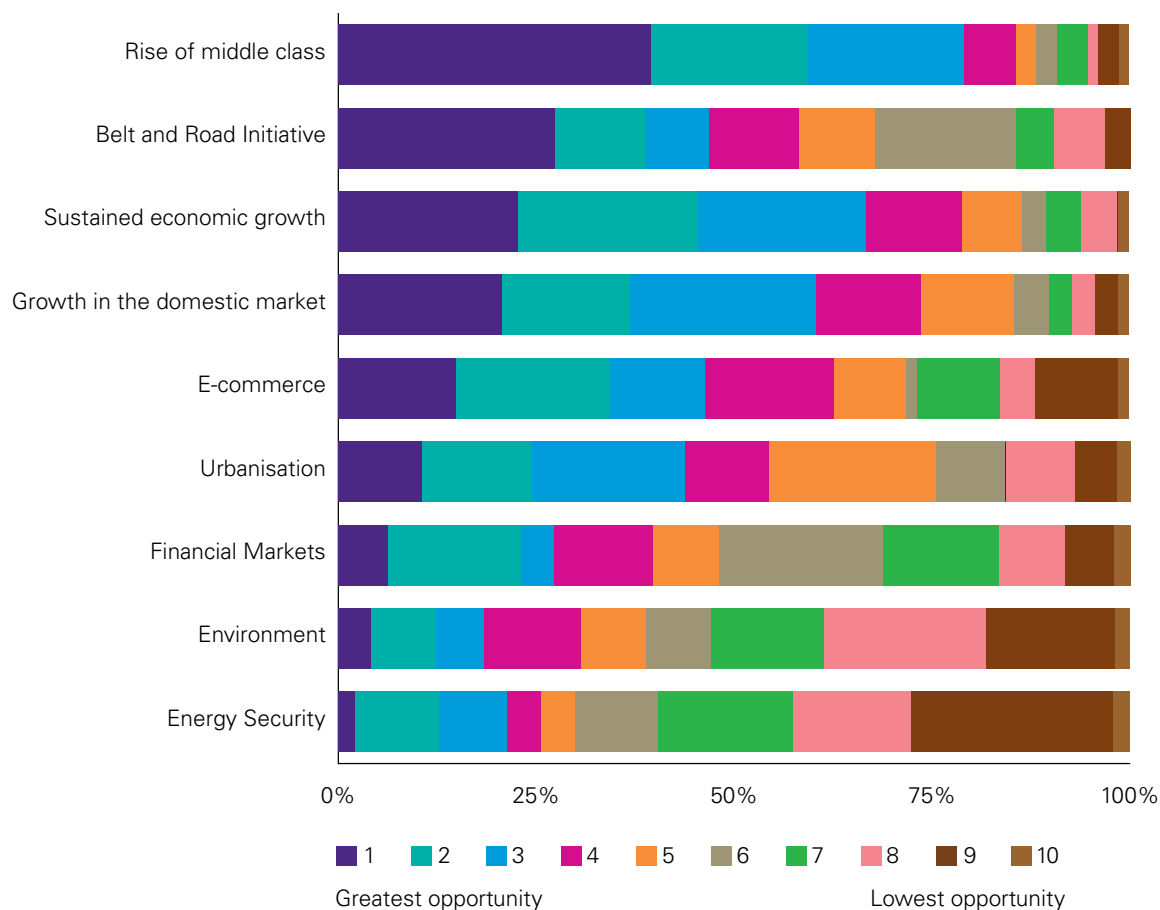
How would you describe the business outlook in China?



And how do these risk factors weigh into the respondents' business outlook? In line with earlier stated investment intentions, domestic market growth and profitability expectations are overwhelmingly optimistic. The mood is more balanced with regard to competition for those profits. Regulation and cost competitiveness attract more pessimism from the respondents.

Figure 29

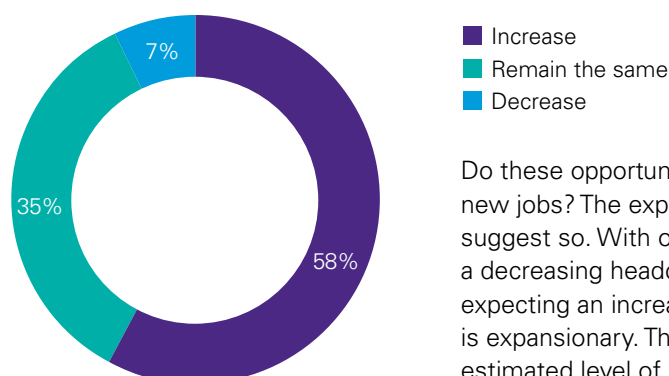
**Which are the key opportunities for your business in China?
(ranking 1 - 10: 1 = greatest opportunity)**



In addition to these broad “macro” settings for the business outlook, survey participants were also asked to rank a set of China-specific business opportunities. The rise of China’s middle class was identified as the single most important business opportunity. That prominence becomes even more pronounced when combined with closely related third ranked (economic growth) and fourth ranked (domestic market growth) opportunities.

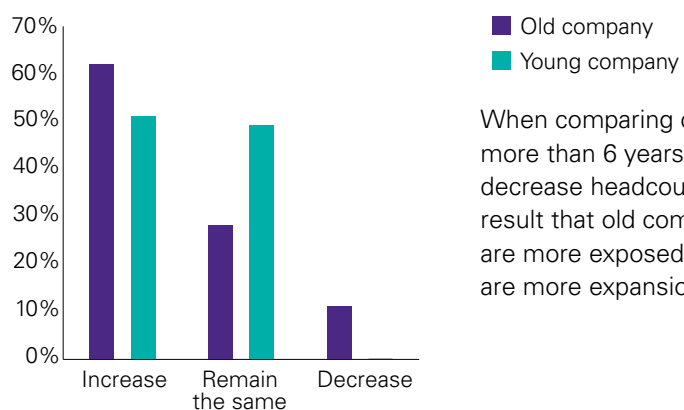
Supplying China’s demand for services (and food) is clearly identified by this ranked list as the key opportunities. While this is the case, these opportunities also point to a demand in resources, which is further supported by the rank of China’s ambitious ‘Belt and Road’ initiative as second in top opportunities. Its continued implementation will continue to pull China’s demand for Australian resources.

Figure 30

Do you expect headcount to increase or decrease in 2017?

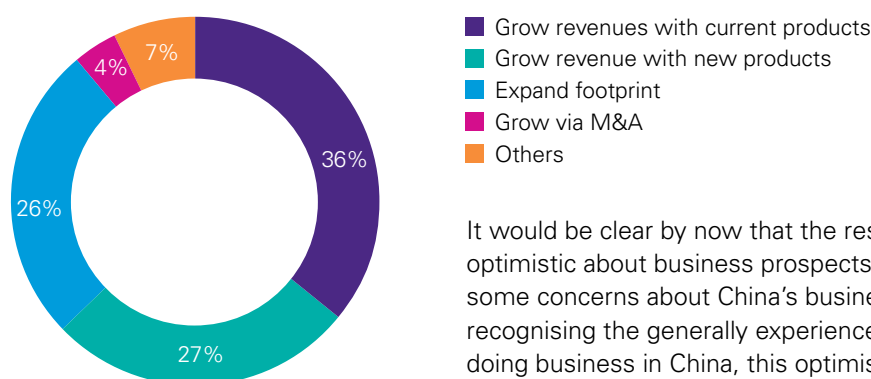
Do these opportunities and positive business outlook create new jobs? The expectations of 2017 headcount clearly suggest so. With only 7 percent of respondents expecting a decreasing headcount employment and 58 percent expecting an increasing headcount employment, the trend is expansionary. This is consistent with the respondents' estimated level of investment in China for this (2017) and the next (2018) year.⁸

Figure 31

Do you expect headcount to increase or decrease in 2017 (by age of operations)?

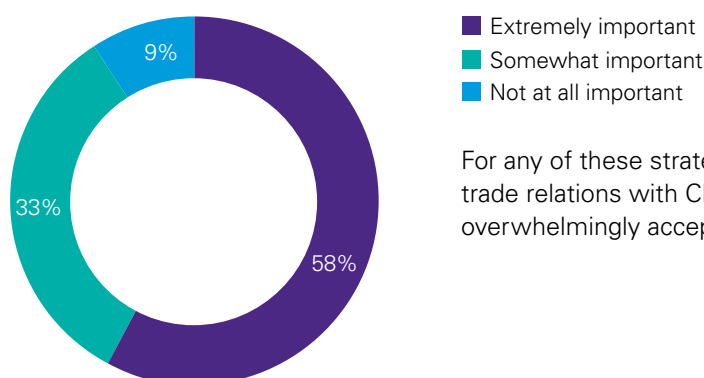
When comparing companies by age of operation (less or more than 6 years), we observe that some 'old' companies decrease headcount. That is consistent with the earlier result that old companies employ more people in China and are more exposed to rising labour cost. Young companies are more expansionary in recruitment.

8. See Figures 9 and 10.

Figure 32**Which are your company's primary growth strategies for China in 2017?**

It would be clear by now that the respondents are generally optimistic about business prospects in China. While sharing some concerns about China's business environment and recognising the generally experienced ongoing difficulty of doing business in China, this optimism translates into growth strategies.

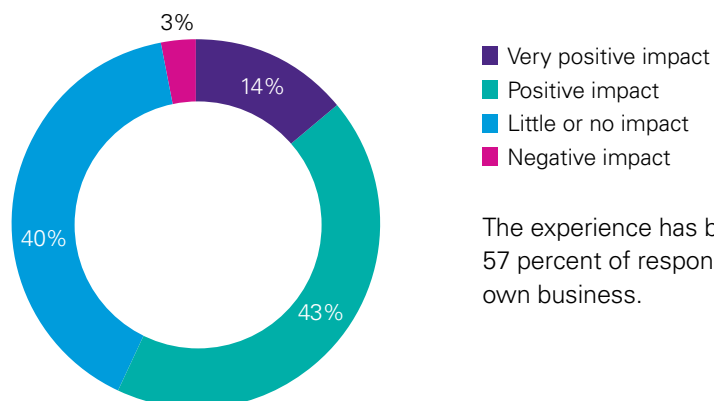
How do the companies frame their growth strategy? Expanding existing markets with current products is the dominant strategy, closely followed by growing revenue from new products. Expanding the footprint, and growth through M&A only comes third and fourth. The cost of accessing new domestic markets and the regulatory requirements and constraints of M&A seem to make these strategies uncertain, potentially costly and lengthy.

Figure 33**How important are positive bilateral relations between Australia and China to your business growth in China?**

For any of these strategies to bear fruit, maintaining good trade relations with China is absolutely necessary. This is overwhelmingly accepted by 91 percent of respondents.

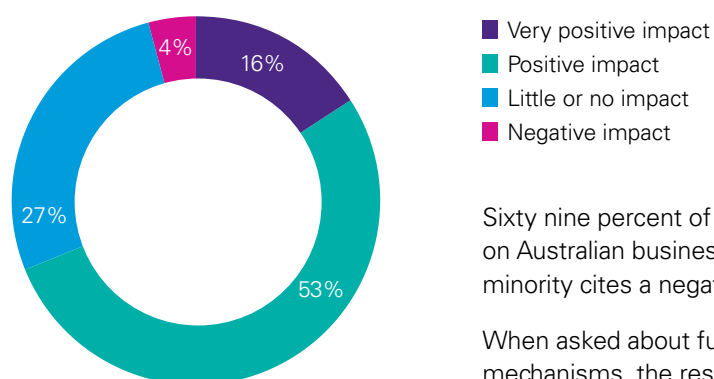
ChAFTA – impacts and improvements

The China Australia Free Trade Agreement (ChAFTA) is the single most important recent change affecting Australian companies doing business with China. ChAFTA came into effect in December 2015 and its implementation is now starting to make its impact felt. It is timely to ask Australian companies how it is impacting their (and other businesses') China business experience.

Figure 34**What has been the impact of ChAFTA on your business?**

- Very positive impact
- Positive impact
- Little or no impact
- Negative impact

The experience has been overwhelmingly positive with 57 percent of respondents citing a positive impact on their own business.

Figure 35**What has been the impact of ChAFTA on Australian businesses in China?**

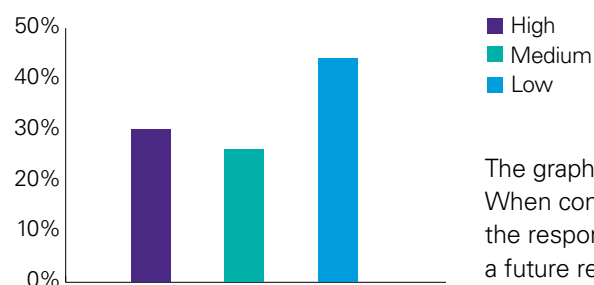
- Very positive impact
- Positive impact
- Little or no impact
- Negative impact

Sixty nine percent of respondents cite a positive impact on Australian businesses in China generally. A very small minority cites a negative impact.

When asked about further prospective ChAFTA review mechanisms, the respondents do not clearly indicate a way forward. What is deemed a high priority for some is deemed equally a low priority for others. That could either mean that none of the proposed ChAFTA extensions are in fact significant obstacles to trade, or it means that what is a relevant improvement for some sector, say agriculture, is hardly a significant improvement for the education sector.

Figure 36

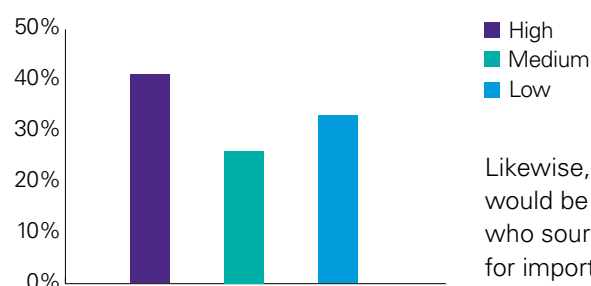
What priority would your business attach to future ChAFTA review of agricultural safeguard measures?



The graphs seem to support the latter explanation. When considered for agribusiness companies only, the response suddenly reveals a very high priority for a future review of agricultural safeguard measures.

Figure 37

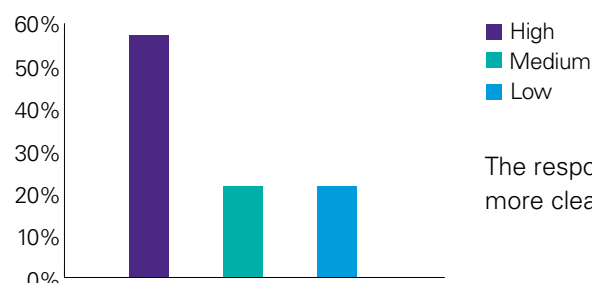
What priority would your business attach to future ChAFTA review of non-tariff barriers to trade in goods?



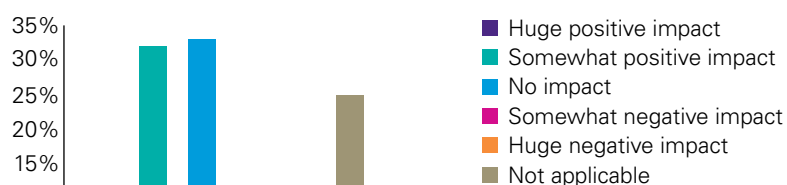
Likewise, a further review of non-tariff barriers (NTBs) would be particularly welcome to those businesses who source products and services from Australia for import into China. Yet NTBs would be much less relevant for firms that produce or source goods/services from China for the China market.

Figure 38

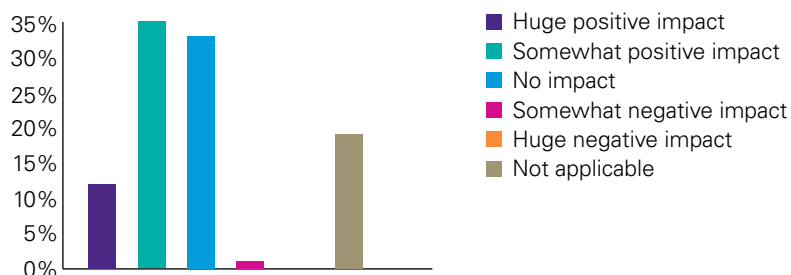
What priority would your business attach to future ChAFTA review of non-tariff barriers to trade in goods (produced in Australia for the China market, and imported into China)?



The response for businesses importing into China more clearly favours a review of NTBs.

Figure 39**What is the impact on your business of increased import sales into China?**

When asked about ChAFTA's detailed impact on Australian businesses, the verdict is consistently (overwhelmingly) positive. From increased import sales into China, to promotion of FDI and new business opportunities in China, the respondents report a resounding positive impact. This should be considered a remarkable outcome for a free trade agreement that has only been active for a year and a half at the time of the survey.

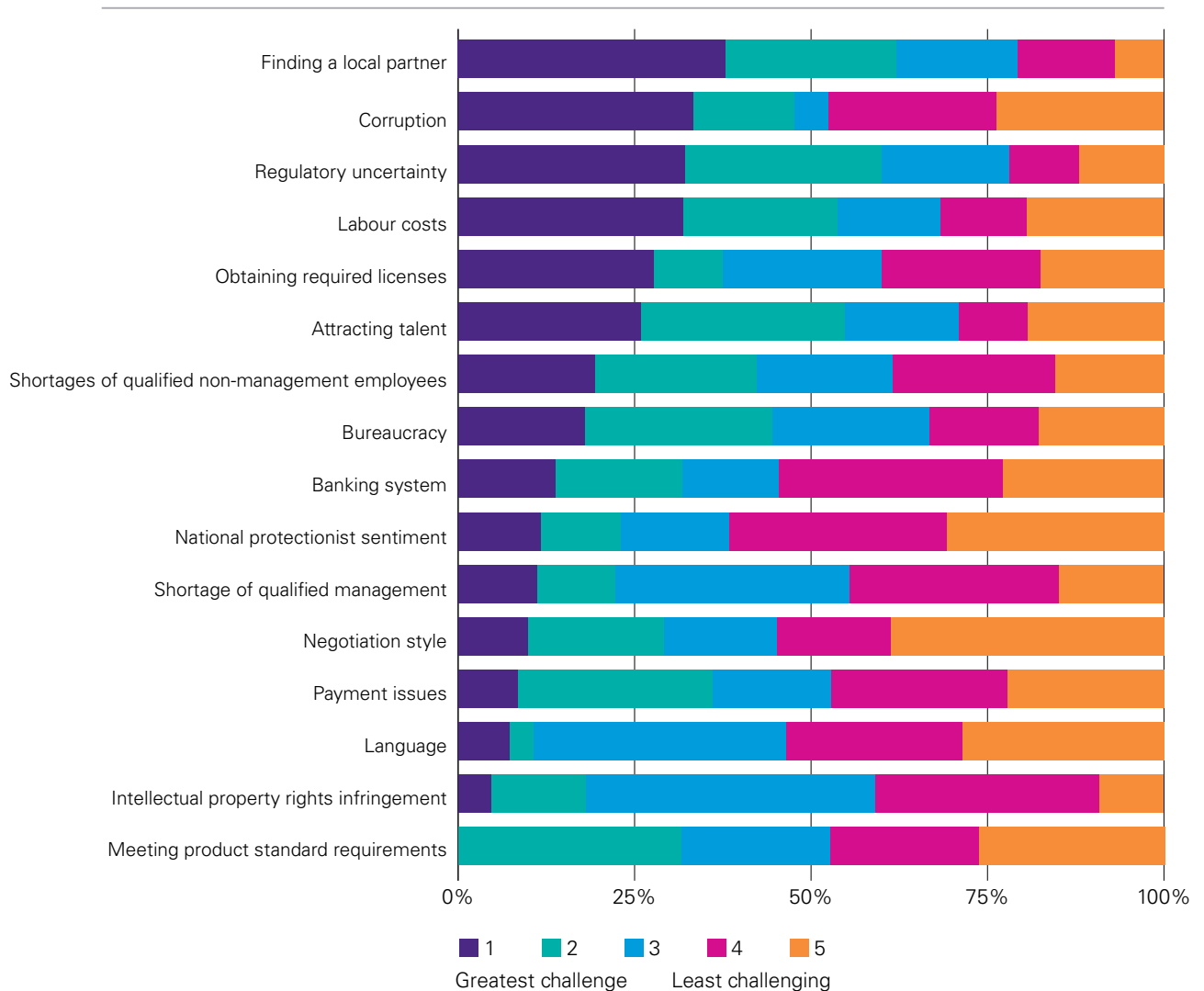
Figure 40**What is the impact on your business of promotion of FDI and new business opportunities?****Figure 41****Which channels have provided the most beneficial source of information about ChAFTA?**

When asked which sources of ChAFTA information were most useful to the respondents, they mostly referred to the official sources (mostly government agencies). Yet, information was also obtained from indirect sources (like newspaper stories and word-of-mouth) about the opportunities provided by ChAFTA.

Challenges of doing business in China

Figure 42

**Which are your top five business challenges in China?
(ranking 1 - 5: 1= greatest challenge)**



While regulatory policy and economic conditions are determinants of business success, there are many additional (micro) challenges. The prioritised list unveils some interesting results. Closely related to the perceived difficulty of doing business in China is the challenge of finding a local business partner who can help navigate many of the administrative, regulatory and legal requirements. Getting the partnership right will help avoid or overcome many of the other challenges. Corruption, and regulatory uncertainty (including licensing) are the second most important group of challenges. Rising labour costs, attracting talent and qualified employees form the third set of challenges.

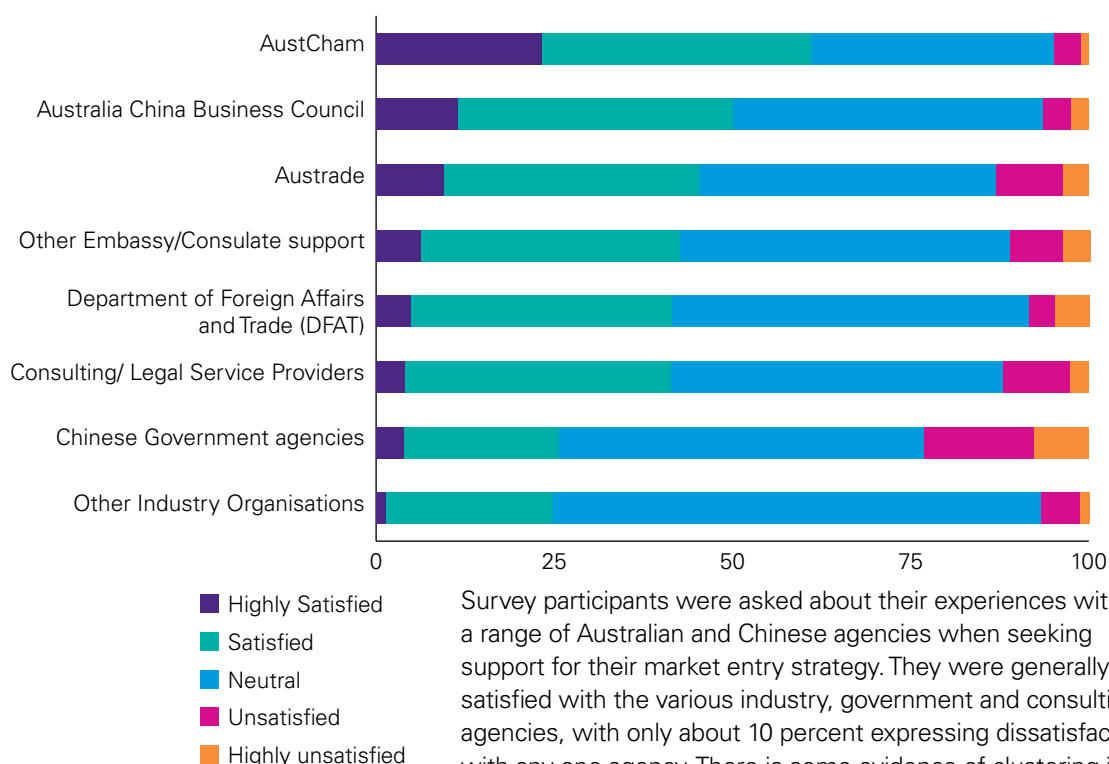
What were once considered major stumbling blocks, now no longer seem to be principal challenges of doing business in China. Banking and payment issues have mostly been resolved by a much more regulated, transparent and efficient financial system. Negotiation style and language also feature low on the respondents' list, which could suggest a ready availability of local, English-speaking management and employees in China.

Market entry and support

Consulates, trade offices and chambers of commerce provide a network of support services to assist their countries' new business entrants in getting started and establish a business foothold in foreign countries. Given the expressed difficulties of doing business in China, these services can be highly valuable.

Figure 43**How would you rate your business' preparedness on entering the Chinese market?**

While two in three respondents stated that they were appropriately prepared, 26 percent felt under-prepared. With better resources, more information and a database of relevant experience from those who went before, one would expect that more recent entrants (young companies) came better prepared than their established counterparts who 'pioneered' business in China. Splitting the survey data according to age of operation, however, reveals no significant differences. In fact, young companies experience a slightly higher rate of being underprepared. It could be that the experience is still fresh in their memory. Alternatively, the established firms in the sample were better prepared exactly because of the perceived difficulty at the time.

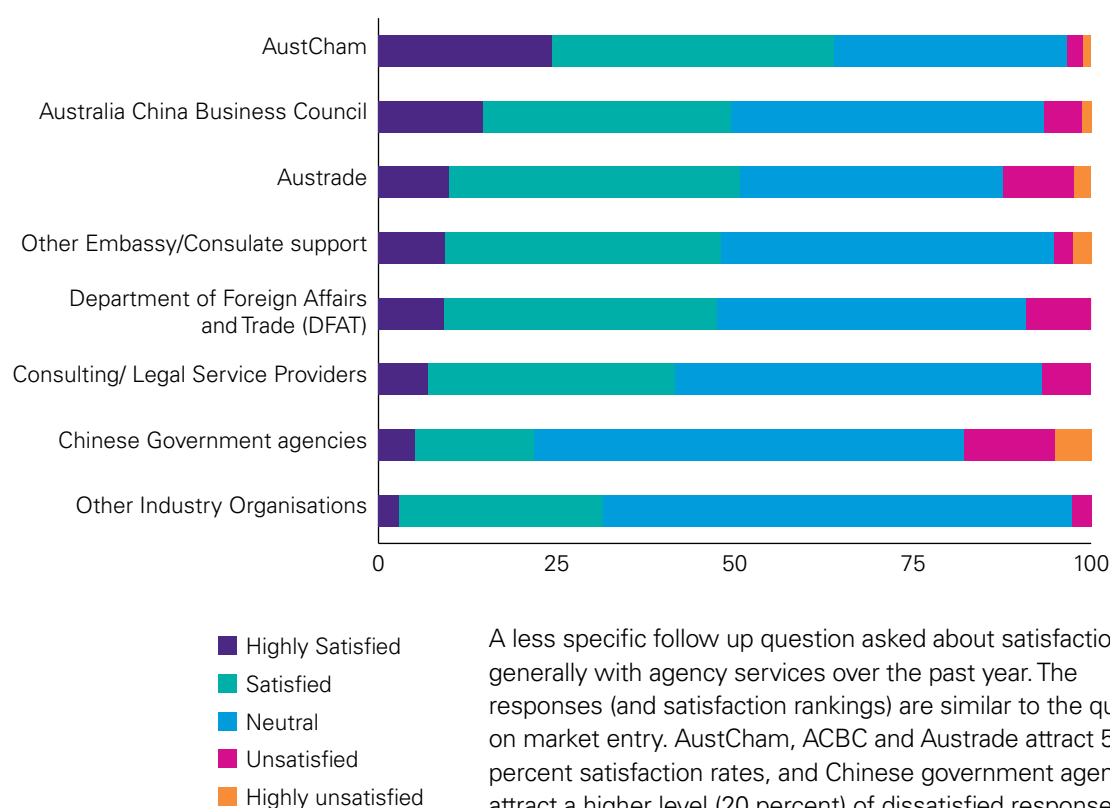
Figure 44**How would you rate the effectiveness of services/agencies as part of your market entry strategy?**

Survey participants were asked about their experiences with a range of Australian and Chinese agencies when seeking support for their market entry strategy. They were generally satisfied with the various industry, government and consulting agencies, with only about 10 percent expressing dissatisfaction with any one agency. There is some evidence of clustering in the expressed level of (dis)satisfaction across agencies. Either the support needed could not be found with any agency, or the support provided was highly complementary.

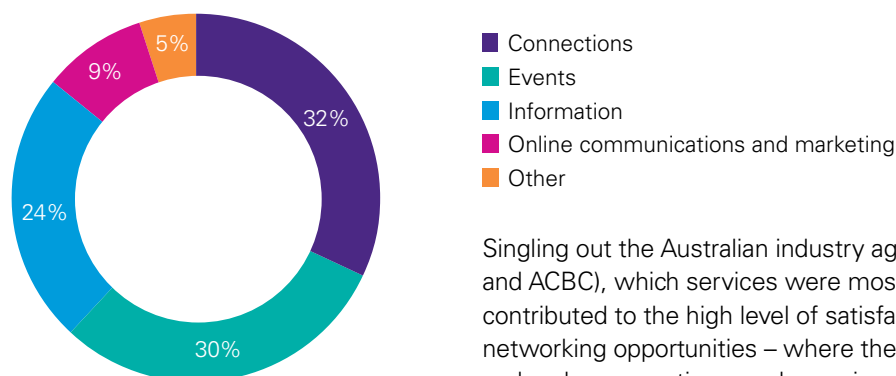
AustCham and ACBC were both rated highly on effectiveness of support, reporting over 50 percent satisfaction rates. The experience with government agencies was more mixed with, for example, as many respondents satisfied as dissatisfied with the support received from Chinese government agencies.

Figure 45

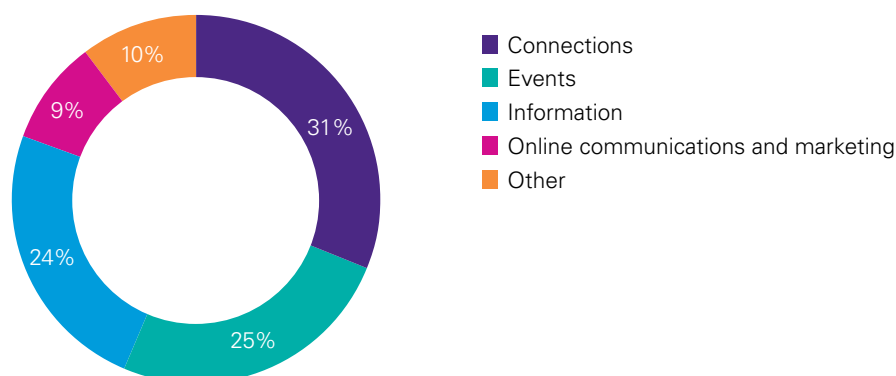
How satisfied are you with the effectiveness of services/agencies you engaged with in the past year?



A less specific follow up question asked about satisfaction generally with agency services over the past year. The responses (and satisfaction rankings) are similar to the question on market entry. AustCham, ACBC and Austrade attract 50 percent satisfaction rates, and Chinese government agencies attract a higher level (20 percent) of dissatisfied responses. The similarity could be due to the fact that eventual satisfaction with the agencies' services depends crucially on how effective that agency was perceived to be in supporting initial market entry or that agency was initially perceived

Figure 46**What services provided by AustCham add the most value to your business?**

Singling out the Australian industry agencies (AustCham and ACBC), which services were most likely to have contributed to the high level of satisfaction? Creating networking opportunities – where the agencies provide and make connections, and organise events – are clearly most valued by the respondents. Of course, events also provide an opportunity to disseminate information.

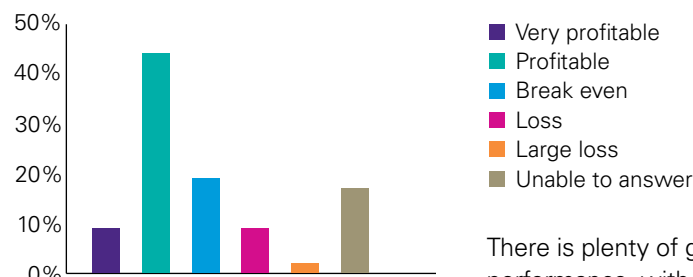
Figure 47**What services provided by the Australia China Business Council add the most value to your business?**

Business performance

For most Australian businesses, the purpose of doing business in China is to improve financial performance. Other motivations, like diversification of revenue sources, or access to low cost production facilities undoubtedly play a role, but the survey did not address this nor pursue other non-profit benefits.

Figure 48

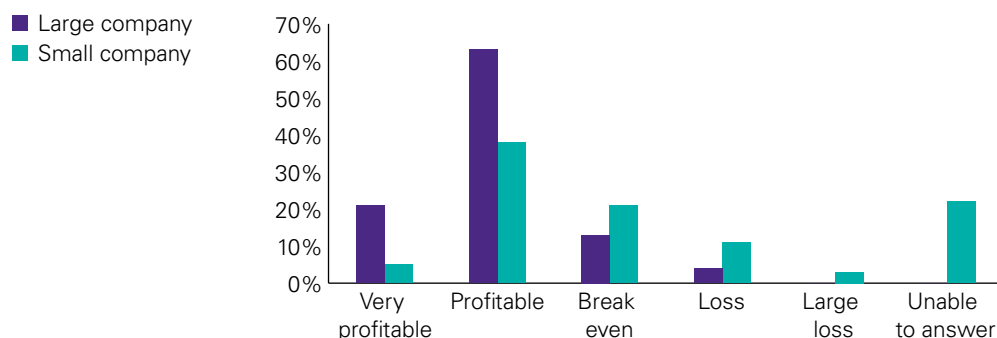
How would you characterise your company's financial performance in China in the past financial year?



There is plenty of good news on the companies' financial performance, with 9 percent of companies being very profitable, and a further 43 percent of companies being profitable. A further 18 percent reported a break-even result. Nine percent of companies reported a loss and 2 percent a large loss.

Figure 49

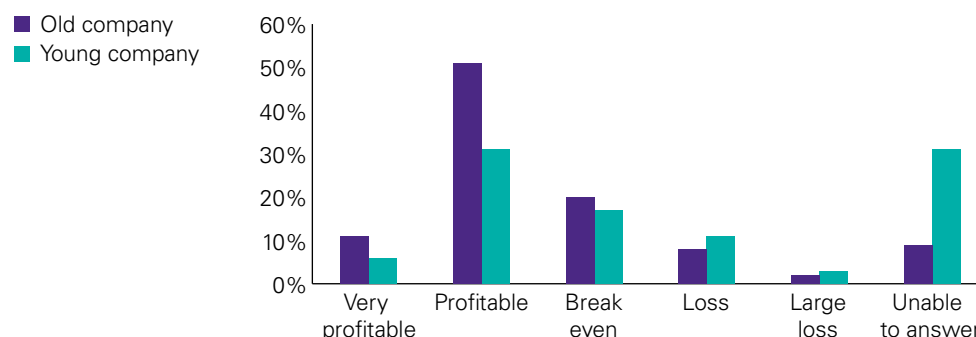
How would you characterise your company's financial performance in China in the past financial year (by size)?



This question did reveal a significant difference in performance between small and large companies – with large companies outperforming small companies. Of the large companies, 20 (from 24) reported a profit with only one large company posting a loss. Of the small companies, 10 (from 76) reported a loss with a further 17 unable to answer the question.

Figure 50

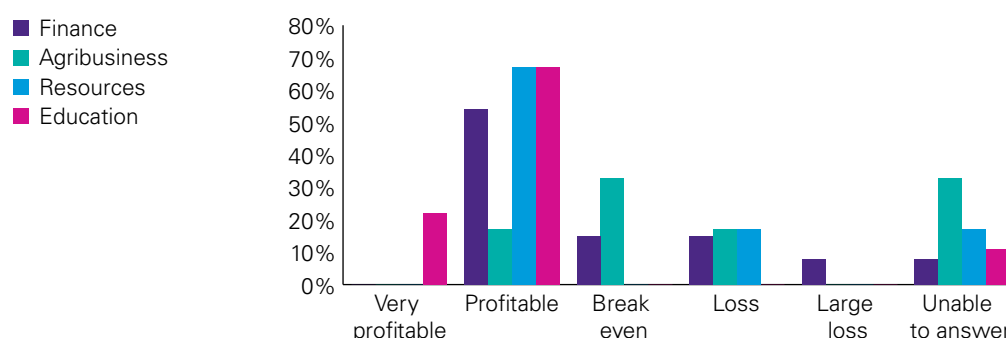
How would you characterise your company's financial performance in China in the past financial year (by age of operations)?



That distinction in profitability also appears when we compare 'old' and 'young' companies – with established companies outperforming young companies.

Figure 51

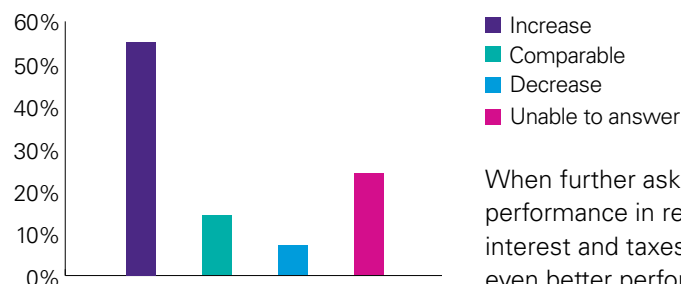
How would you characterise your company's financial performance in China in the past financial year (by industry)?



Comparing profitability by industry indicates that education, resources and energy, and (to a lesser extent) financial services were highly profitable. The results for agribusiness were more mixed.

Figure 52

How does the forecast of this financial year's revenue of your China operations compare to last year's revenue?



When further asked about their one-year forecast performance in revenue and earnings before interest and taxes (EBIT), the respondents predict even better performance than last year. More so in revenue than in EBIT, but the respondents are clearly optimistic. Large and old companies are almost without exception positive about this year's performance. Small and young companies, while still predominantly positive, also have a few respondents forecast a decrease in revenue and EBIT.

Figure 53

How does the forecast of this financial year's EBIT margins of your China operations compare to last year's?

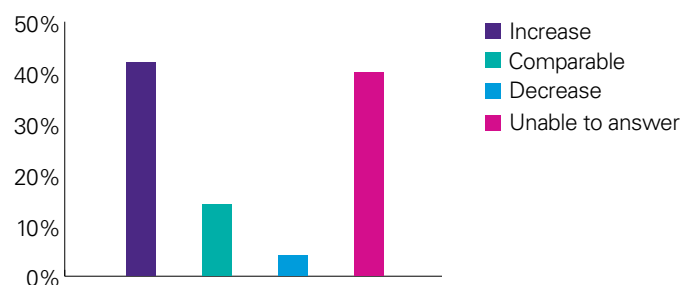
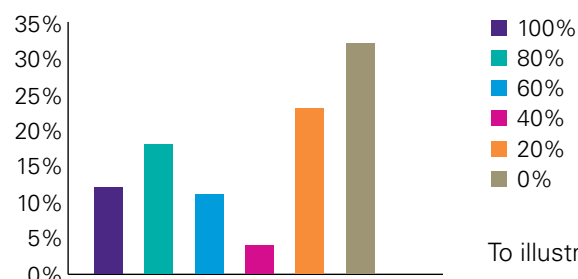


Figure 54

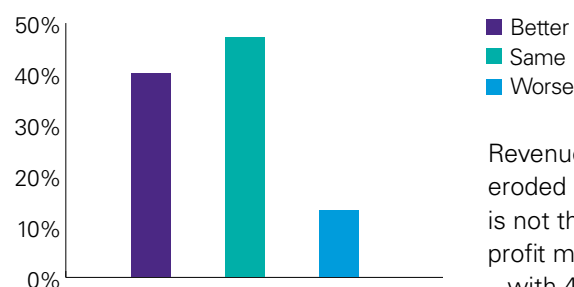
In the previous financial year, what was the revenue from your company's China operations as a percentage of your company's worldwide operations revenue?



To illustrate the importance of the China operations for the companies' bottom line, consider the following revenue share graph. For 41 of the survey companies, the China revenue to total revenue exceeds 60 percent. For those companies, profitability depends on business performance in China.

Figure 55

In the previous year, what is the profit margin of China-based operations compared to the company overall profit margin?



Revenue contribution is important, but its benefits could be eroded by slim profit margins on the China operations. That is not the case. The China-based operations deliver higher profit margins than the companies' overall profit margins – with 40 companies claiming better margins, 47 claiming identical profit margins and only 12 reporting worse profit margins. Almost all large companies report China-based operations profit margins that are better or similar to their overall profit margin. Among the small companies, a few report a worse outcome.

Top tips for business success

**For Australian companies
operating in China**



Drawing on the key findings from the 2017 *Doing Business in China Survey*, KPMG's top tips are:

1

Recognise that China is the big show:

no other market compares now or in the future. Make China a strategic long term priority, dedicate appropriate senior resources, invest with a medium-to-long-term view, and do your homework.

2

Understand that China is not an “easy”

market: it is a complex, fast changing and highly competitive market. There are also aspects of the business environment which can be challenging for foreign companies. All of this means that to establish a profitable China business requires careful planning and disciplined execution. This is also why it is important to work with strong partners including reputable advisors with a good track record of relevant in-market experience.

3

Develop a compelling China strategy: not based on “over-quoted” macro statistics about China’s economy or demography, but very niche and independently tested growth strategies about markets, customers and positioning. Spend the time and money to identify, qualify and prioritise growth opportunities; develop a robust market entry strategy to capture them; and make an implementation plan for launching your new China business.

4

Localise: foreign companies need to consider what unique contribution they can make to China’s social and economic development priorities and align their value proposition and business strategies appropriately. Consider establishing a local presence, partnering with local companies, and using local talent to ensure your business operates effectively and adapts appropriately to local conditions.

5

Be prepared for frequent regulatory changes:

implement processes to ensure your company considers the implications of all new laws, regulations and practices affecting your business and makes timely changes to ensure full compliance.

6

Build understanding and support: especially with your Board and shareholders and avoid setting overly optimistic expectations too early. Based on this survey, the majority of Australian companies are profitable or at least breaking even, but at least 10 percent of respondents are currently incurring losses.

7

Understand that atmospherics really matter:

the impact of ChaFTA has been overwhelmingly positive in creating opportunities, but positive bilateral relations are also seen as important for trade and business growth. Assistance in solving a multitude of non-tariff barriers are the biggest priority areas for government and Austrade attention and support.

8

Utilise communities of Australians to

help each other: leverage the information, connectivity and support provided by AustCham, the Australia China Business Council, government-led delegations and various other networking and knowledge sharing platforms.

10 boardroom questions to consider in your planning⁹

9. Adapted from KPMG publication: *Boardroom Questions - China's Development Roadmap 2016-2020*.



Based on key finding and our collective experience, 10 questions that Boards should consider asking executives operating in China:

1

How will the ongoing economic transition impact our existing China business: positively and negatively?

2

Which sectors and regions will provide the greatest opportunities and where are we best placed to take advantage of them?

3

What strategy review have we undertaken to assess the opportunities under China's 13th Five-Year Plan?

4

How does the value proposition for our China business align with the social and economic development goals in the 13th Five-Year Plan?

5

What disruptions – technological, regulatory, competitors – could take place in my industry in China and how would they impact our business? How will my business in China be transformed over the next three years – new technologies, new business/operating models, new processes, new products and services, disruption from existing competitors?

6

How will the globalisation of Chinese companies – who might be our suppliers, competitors and/or customers – affect our business in China and in our top markets outside China?

7

What are the opportunities for co-operation between Chinese companies and us in China, our home market and/or third countries?

8

What does the 'Belt and Road' Initiative mean for our company? Are there opportunities for us to supply goods and/or services to 'Belt and Road' infrastructure projects? How do we access these opportunities?

9

Which 'Belt and Road' markets would be attractive for our group to sell goods and/or services? How and when would we enter these new markets, and what would the role be for our Chinese business to manage sales and production operations in 'Belt and Road' regions?

10

How would various potential geopolitical outcomes affect our business in China? What steps have we taken or should we take to mitigate potential business impact of these risks?

Conclusion

The Australian companies that participated in this *Doing Business in China* survey are overwhelmingly positive about the current economic and investment climate. Even more so, they clearly expect business conditions to improve even further in the next few years. The China-Australia Free Trade Agreement in particular is seen as the catalyst for unlocking future business opportunities. That is not to say that operating in China is easy, straightforward, without challenges or not exposed to underlying economic risks. But it is despite these concerns and misgivings that the optimistic survey results stand in stark contrast with the almost synchronous AmCham *China Business Climate Survey Report*.

US companies feel that they have to compete even harder than before in the face of slowing economic growth, while simultaneously being exposed to cost increases and reducing profit margins. Unlike the Australian companies, AmCham China members report China-based EBIT margins below margins in other parts of the world. It is worth noting that the AmCham membership has a distinctly different industry composition than AustCham/ACBC's membership. The US companies operating in China are possibly more exposed to China's economic growth fluctuations and labour cost pressures, than the Australian companies.

Characterising the survey sample by key characteristics (size, industry, age of operations in China) provides some deeper insights into the survey differences, but in many cases there is no strong evidence of significant differences. That could be an artefact of the sample size, it could also reflect a shared Australian optimism in China's current and future economic environment.

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