SURVEY OF DANISH COMPANIES IN CHINA

CHALLENGES AND OPPORTUNITIES
JUNE 2024

EMBASSY OF THE KINGDOM OF DENMARK, BEIJING

SINO-DANISH CENTER FOR EDUCATION AND RESEARCH (SDC)

DANISH-CHINESE BUSINESS FORUM (DCBF)

DANISH CHAMBER OF COMMERCE IN CHINA (DCCC)

DANISH EXPORT ASSOCIATION IN CHINA (DEA)

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Danish Industry

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PREFACE

In April 2024, the Danish Chamber of Commerce in China (DCCC), the Danish-Chinese Business Forum (DCBF), the Danish Export Association in China (DEA), Danish Industry in China (DI), the Sino-Danish Center for Education and Research (SDC) and the Danish Embassy and Danish missions in China jointly launched the third comprehensive survey of Danish companies in China.

The survey once again intends to provide policy makers and company executives with information to guide decisions and priorities in the years to come, by providing comprehensive data on the views and assessments of the voices representing the Danish business community in China.

For the same reason the aim has been to keep the format and structure of the original survey to ensure comparison and provide valuable insight into the development of the Danish business community's sentiment in China over the past two years.

At the launch of the last report in 2022, companies were facing the recent Russian invasion of Ukraine, the disrupting effects of the COVID-19 pandemic and strained global supply chains, which all had a significant impact on trade, supply chains and business confidence in China.

In 2024, global geopolitical tensions also have caused Danish companies to scrutinize their China business more closely and the survey shows that many Danish companies in China are facing a range of challenges, including political or economic uncertainties. The latter fuelled by a predominant feeling that China's economy is facing a downward trajectory. These are factors contributing to a situation where a larger proportion of companies, through each of the surveys in 2020, 2022 and 2024, are perceiving the market climate to be deteriorating. With this in mind, it is not surprising to see that the proportion of companies' global turnover generated in China looks to be diminishing, indicating that companies are attentive to diversifying their global operations.

Nevertheless, companies' activities in China still remain crucial for their overall global performance. China ranks as a top two market for almost half the surveyed Danish companies in China in 2024 and many Danish companies still believe their turnover in China to rise over the coming years and have plans to increase their capacity within the country.

Thus, the activities of Danish companies in China, although encountering hurdles in the local business environment, yet again continue to play a significant role for the Danish business community and their global competitiveness. Illustrating the complexity of the Chinese market and that it truly consist of both challenges and opportunities.

Beijing, June 2024

Thomas Østrup Møller
Ambassador of Denmark to China

KEY TAKEAWAYS

PROFILE OF DANISH COMPANIES IN CHINA

- 178 Danish companies in China were invited to participate in the survey in April 2024. 91 companies responded resulting in a response rate of 51 pct.
- Amongst the surveyed companies, only one has established its first legal entity in China, since the last survey was conducted in 2021.
- The survey once again indicated that the location of Danish companies in China are mainly in or around Shanghai and Beijing.
- Similar to the report published in 2022, large companies contributed a significant part of the surveyed companies, as opposed to the majority of companies in Denmark, which consist of SMEs.
- In 2024, 52 pct. of respondents represents large companies (250+ employees). This is a relatively high share compared to the general share of Danish exporting companies.
- The most common activities for Danish companies in China are related to sales and customer services, respectively 87 pct. and 63 pct. reply that their company conduct these activities in China. This indicates that the Chinese market is still more than a manufacturing hub for Danish companies.
- Despite 52 pct. of the surveyed companies being categorised as large companies, only 13 pct. have more than 500+ employees.
- Danish companies in China predominately still hire Chinese nationals. The median respondent has 52 Chinese employees, one Dane and no employees of other nationality.
- Approx. one fifth of the respondents say that the number of employees of Danish or other nationality has decreased during the past two years, while the predominant share of surveyed companies do not see a change in the number of employees who will be non-Chinese. Half of the surveyed companies express that they expect to further increase the number of Chinese employees in the next two years, while only 8 pct. expect the number of Chinese employees to decline.

THE IMPORTANCE OF CHINA

- China as an investment location seems to be losing attractiveness, with more respondents (41 pct.) indicating that the attractiveness is decreasing, as opposed to respondents indicating that it has increased (17 pct.).
- Companies' activities in China are crucial for their overall (global) performance for 68 pct. of the companies, and based on turnover, China ranks as a top two market for almost half the Danish companies in China.
- 38 pct. of Danish companies believe that current Chinese framework conditions within the green transition will have an improved effect on their future turnover in China.
- Half of all surveyed companies indicate that they plan to significantly increase their capacity in China over the next two years. Only 8 pct. expect to decrease their capacity.
- The majority of Danish companies believe that China's economy is facing a downward trajectory, of which most believe it will take 3-5 years for China to regain a robust economic development.
- Global geopolitical tensions are the predominant reason for companies' reason to take risk-mitigating steps within the Chinese market.
- Companies pursuing China+1 strategies are predominantly looking to invest in other Asian markets, as opposed to Europe.
- 44 pct. of the companies have prioritized to have China insight or expertise on the Board of Directors, which is down from 58 pct. two years ago.

CHALLENGES FACED BY THE DANISH BUSINESS COMMUNITY IN CHINA

- The predominant share of surveyed companies' feel that the general market climate in China is unchanged (39 pct.) over the last two years, but the general trend over the three conducted surveys is that a higher proportion feels that the market climate is deteriorating.

- The same applies when asked about the regulatory climate in China. Nevertheless, half of the surveyed companies have an improved outlook for the general market climate over the coming two years. For the regulatory climate, the corresponding share is 39 pct.

- 41 pct. of the surveyed companies indicate that they experience political or economic uncertainties in China.

- The predominant share of respondents still believe that Chinese competitiveness has increased over the past two years and expect this to continue.

- Sector-specific challenges are on the rise, while supply chain challenges have decreased substantially since the last survey.

- Main crosscutting challenges amongst the surveyed companies are intellectual property rights, compliance & business ethics and legal transparency & competition.

- Half of all surveyed companies engage in regular or occasional interactions with Chinese authorities on central or provincial level.

INNOVATION AND TECHNOLOGY

- Four-in-ten believe that China's attractiveness when it comes to China as an innovation market has increased over the last two year. Only 12 pct. believe the country's attractiveness has decreased.

- Compared to the last survey from 2022, Danish companies indicate that they, to a lesser degree, are impacted by the digital development within the country.

- Companies still find that technology and knowhow from China spread to other parts of the organization, but the proportion of companies indicating that they use technology and knowhow from China in other parts of the organisation has gone down from two-in-five in 2021, to three-in-ten in 2024.

- One third indicate that they are still affected by Chinese data privacy and cross-border data transfer regulations, of which challenges with the additional work required to comply with Chinese regulations remain the challenges mostly mentioned.

- The largest R&D activity in China amongst the surveyed companies is new product development. Lower cost of R&D in China, as opposed to other markets, is the most mentioned driver amongst the surveyed companies.

- Surveyed companies are split between whether or not output from R&D activities in China is higher than globally, with approximately one-in-four indicating it is higher, with a similar amount saying it is lower. Yet, half of the surveyed companies still expect the output from their Chinese operations to increase over the coming two years, whereas only 17 pct. believe it will decline.

- Surveyed companies indicate a higher degree of independence between headquarter and subsidiary when it comes to making decisions about R&D in China.

ABOUT THE SURVEY

This report is published by the Danish Chamber of Commerce in China (DCCC), the Danish-Chinese Business Forum (DCBF), the Danish Export Association in China (DEA), the Confederation of Danish Industry in China (DI), the Sino-Danish Center for Education and Research (SDC) and the Danish Representations in China, based on a bi-annually survey amongst Danish companies with activities in China.

The purpose of the survey is to provide an overview of the activities of Danish companies in China, the opportunities and challenges they face, as well as how the companies view the outlook for their operations in China. The survey offers an opportunity to go beyond traditional trade statistics and obtain a more nuanced and informed view of the role that the market, activities and partners play for the Danish business community.

This is the third edition of the Survey of Danish Companies in China, following the first report launched in 2020 and the second in 2022. As such, it provides an updated snapshot of Danish companies' perceptions of their activities in China in 2024, drawing comparisons to previous years.

The content of this report is based on the results of a comprehensive online survey conducted in April 2024. Corporate members of the DCCC, DCBF, DEA, and DI were invited to participate in the survey, provided they were Danish companies representing Danish commercial interests in China, i.e. had a Danish business registration (CVR). A total of 178 companies were identified, in many cases representing multiple legal entities in China. These companies ranged from small and medium-sized enterprises (SMEs) to large multinational enterprises (MNEs), representing both manufacturing and service industries.

Out of these 178 Danish companies, 91 completed the survey. This was an improvement compared to the surveys in 2019 (published 2020) and 2021 (published 2022), where the number of respondents were 71 and 72. .

To achieve a higher completion rate, all survey questions were designed to be voluntary in the 2024 survey, which meant that, as opposed to previous surveys, not every company answered all questions. Therefore, the number of respondents who answered the respective questions is noted next to each graph in the report to ensure transparency, i.e. *N = x*.

In order to better capture the complexity of the Chinese market, the changed international landscape and the way Danish companies adapt to a post-COVID reality in China, additional questions were included in the 2024 survey. This report thus offers a more comprehensive picture compared to the version from 2022 while retaining most of the original questions, in order to be able to make comparisons over time possible.

The survey, similar to 2022, contains four chapters. These chapters reflect on: 1) size, location and activities of the responding companies; 2) the importance of China to the responding companies; 3) the challenges facing the Danish companies in China; and finally 4) how they assess the impact of technological development in China on their company and the performance of their company's R&D activities in China.

When analysing the data from the online questionnaire, some limited omissions or adjustments of data have been made when necessary to maintain data consistency.

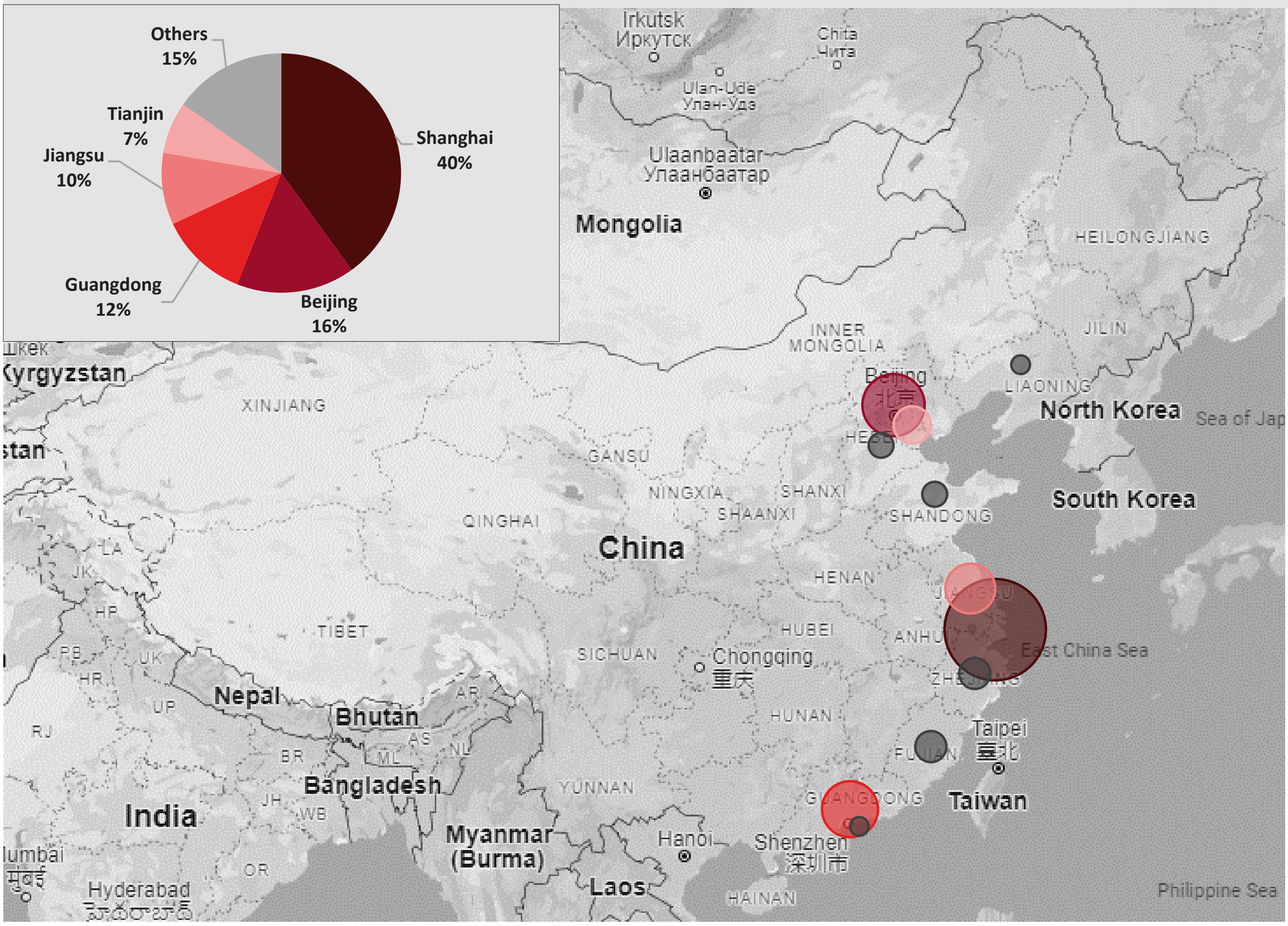
CHAPTER 1: A PROFILE OF DANISH COMPANIES IN CHINA

Shanghai – the economic centre for Danish companies in China

The Danish companies, which participated in the survey are primarily located in or around the economic cluster of the Yangtze Delta area (Shanghai, Jiangsu etc.), while the Beijing-Tianjin area comes in second place.

The geographical location of respondents has changed compared to the previous survey, where the Beijing-Tianjin area had a higher percentage of Danish companies participating in the survey. In 2021, 29 pct. of the participating companies had their China headquarter in Shanghai, 22 pct. in Beijing and 10 pct. in Tianjin. This year, 40 pct. of the surveyed Danish companies are located in Shanghai, while the numbers for Beijing and Tianjin dropped to 16 pct. and 7 pct. respectively, as shown on the map below. Guangdong stands as the third biggest economic centre for Danish companies in this survey with 12 pct. of the headquarters based in the province. The rest of the headquarters are predominantly located in eastern and coastal cities from Shenyang in the north to Shenzhen in the south.

In which province (or municipality) is your company's main China headquarters? (Note: *N = 91)*



Background

Beijing and Shanghai are two of the four municipalities in China directly administered by the central government.

As the country's capital, Beijing is the political and cultural centre of the People's Republic of China. Beijing has a long history as centre of political and economic power and many headquarters of the largest Chinese companies are located in the city. A major part of the capital's economy belongs to the service sector, with financial services and information technology exerting growing influence. Together with surrounding Hebei province and Tianjin city, Beijing forms the Jing-Jin-Ji metropolitan cluster in Northern China.

Key Economic Figures Beijing (2023)

Total GDP	*4.4tr CNY*
GDP growth rate	*5.2%*
Population	*21.86m*
Per capita GDP	*200,000 CNY*
City with the highest number of unicorns in Asia	*Beijing*

Shanghai is the largest city in China and one of the largest cities in the world. It is located on the southern estuary at the mouth of the Yangtze river and forms a natural hub of the densely populated and economically advanced Yangtze river delta. The city is an important centre of trade and finance and China's most important gateway to the global world. Shanghai hosts the busiest container port in the world.

Key Economic Figures Shanghai (2023)

Total GDP	*4.7tr CNY*
GDP growth rate	*5%*
Population	*24.9m*
Per capita GDP (2022)	*179,900 CNY*
Share of Yangtze river delta in China's GDP (2020)	*23%*

Guangdong province, located in southern China, is the country's most populous province and one of its most economically vital regions. Bordering the South China Sea, Guangdong boasts a strategic coastal location that has historically facilitated trade and commerce. The province's capital, Guangzhou, is a major port and commercial hub, while the neighbouring cities of Hong Kong, and Macau are also key economic powerhouses.
Shenzhen, in particular, has transformed from a small fishing village into a bustling metropolis known for its rapid development and status as China's Silicon Valley. It is home to leading technology companies such as Huawei and Tencent, making it a crucial hub for technological advancement and entrepreneurship.

Key Economic Figures Guangdong (2023)

Total GDP (2022)	*12.91tr CNY*
GDP growth rate	*4.8%*
Population	*127.06m*
Per capita GDP (2022)	*101,900 CNY*
The largest exports value among all provinces and municipalities, share of the national total (2022)	*21.6%*

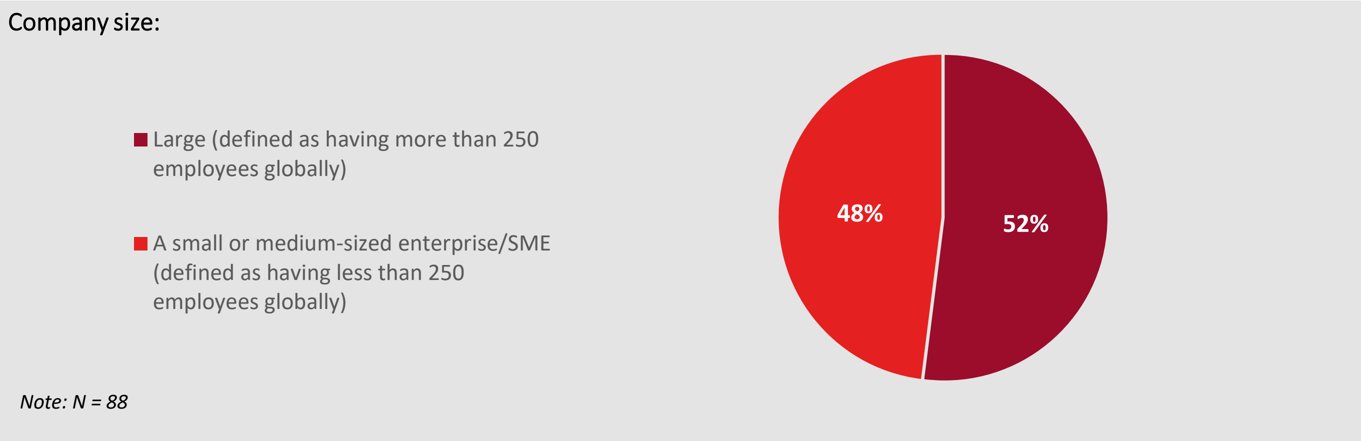
Source: Statista

In 2022, China incl. Hong Kong was the 6th largest Danish investment destination - the highest ranking in 10 years. Yet, while investment has gone up, there has been a decline in the number of overall subsidiaries in 2022. With 466 registered companies, a decline of 15 subsidiaries from the year before, China was still ranked as the 6th largest global destination for Danish subsidiaries in 2022. The corresponding figures for Hong Kong was 136 registered companies (ranked 24th), a decline of 7 companies from the previous year; and in Taiwan there was 57 registered companies (ranked 45th), which was an increase of 7 companies.

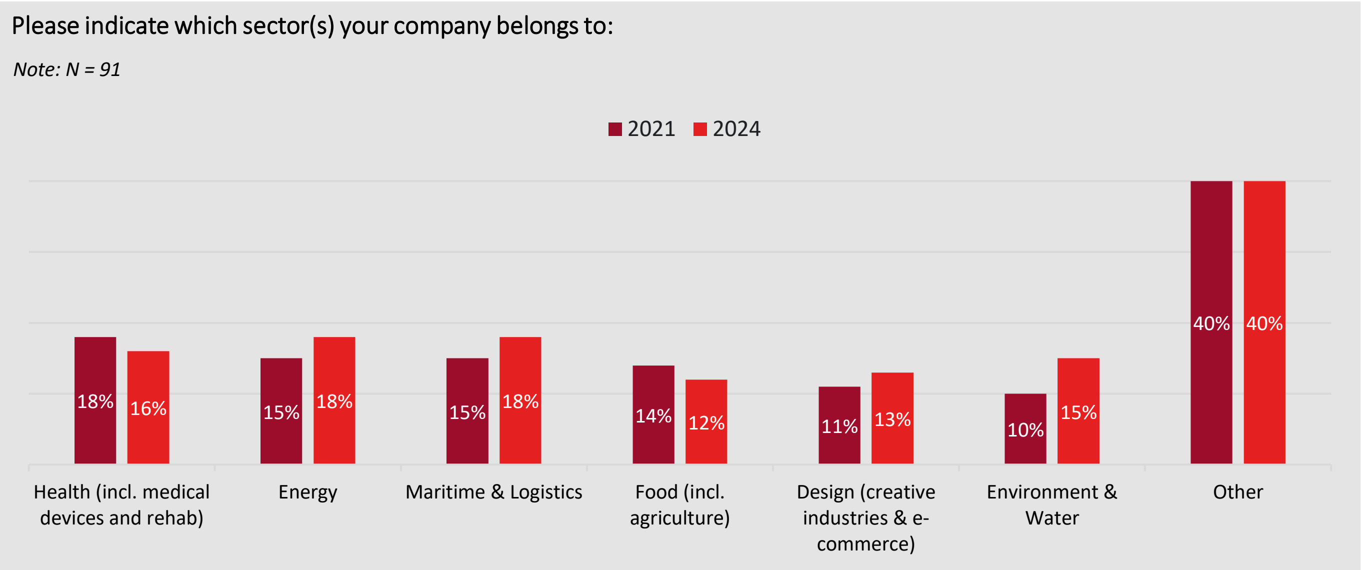
Source: Statistics Denmark
Latest official statistics for Danish investment in China

Activities in China

When looking into the types of company surveyed, 52 pct. of the respondents represent a large company (250+ employees) as opposed to 48 pct. being SMEs. It also shows an increase in the share of large companies in the survey compared to 2021, where 43 pct. were large companies and 57 pct. were SMEs. The proportion of large companies in this survey is also a relatively high share, taking into account that only 16 pct. of Danish companies who export to China are considered large companies, based on 2021 figures from Statistics Denmark.

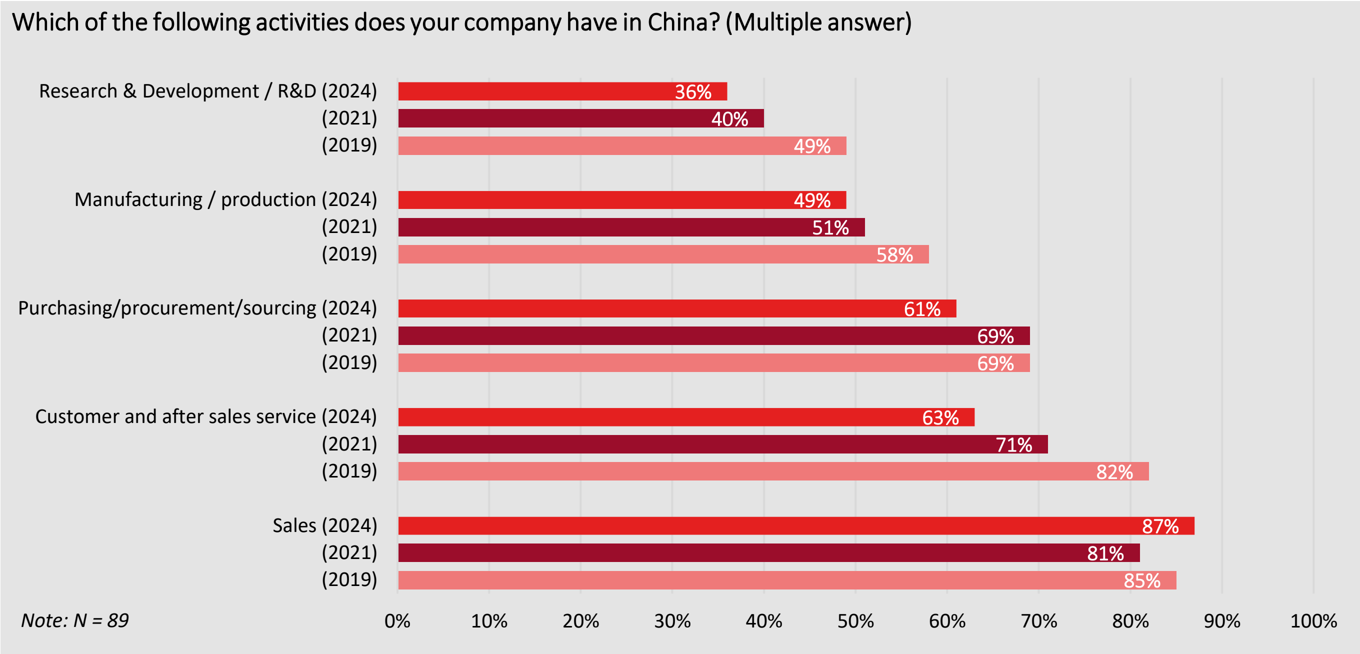


Changes can also be observed in regards to which sectors the companies operate within. Energy and Maritime & Logistics have replaced Health as the most common sectors for the surveyed Danish companies in China, while Environment & Water sector has experienced the largest growth of 5 percentage points. Overall, the survey shows that Danish companies are present in a diverse range of sectors.

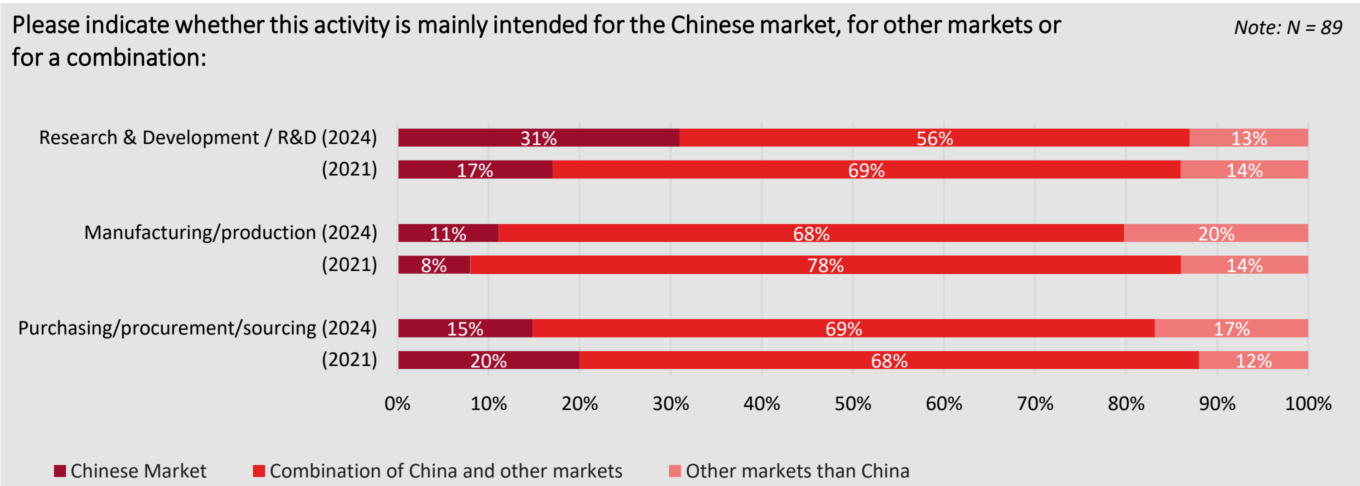


The focus of Danish companies' engagement in China has not changed drastically since the last survey. It is worth noting that there has been a decrease in the proportion of companies engaging in most activities, not considering sales. Sales operations, on the other hand, continue to be the most common activity. Around 87 pct. of the companies sold their solutions in one or more locations in China in 2024, a historic high when comparing to previous surveys. Interestingly, the comparison shows a downward trend for the affiliated activity covering customer and aftersales services, where the share of the surveyed companies engaged in this activity has fallen to 63 pct. (from 82 pct. in 2019), although still being the second largest activity.

Furthermore, a smaller proportion of companies are pursuing procurement and manufacturing activities, resulting in a share of 61 pct. and 49 pct. respectively. Despite a decrease in the proportion of Danish companies who indicate that they have R&D activities in China, with 36 pct. of the surveyed companies still engaged in this activity in 2024, in contrast to 49 pct. in 2019, it would not be conclusive to say that they are shifting away from research & development. Due to the increased number of surveyed companies, then in actual numbers, 32 companies indicated that they conducted R&D in China in 2024, as opposed to 29 in 2021.



The fact that sales and customer and after sales services remain the most common activities indicates that the Chinese market is more than a manufacturing hub for Danish companies. This is documented by the fact that the respondents indicate that their business activities in China are not only targeted at supplying markets outside China but also the domestic market. Yet it is noteworthy that the proportion of companies indicating that their manufacturing and sourcing activities in China, only intended for other markets, has increased. The fact that 89 pct. of the companies, who answered the question, indicated that their manufacturing activity in China is intended for other markets than China, or a combination of the Chinese market and abroad, suggests that Danish companies are not only in China for China. Furthermore, 85 pct. of the participating companies replied that their sourcing activity in China is mainly intended for other markets or a combination of the Chinese market and abroad. Compared to 2021, the biggest change is in the area of R&D, where more companies are focusing on the Chinese market in 2024, an increase from 17 to 31 pct.

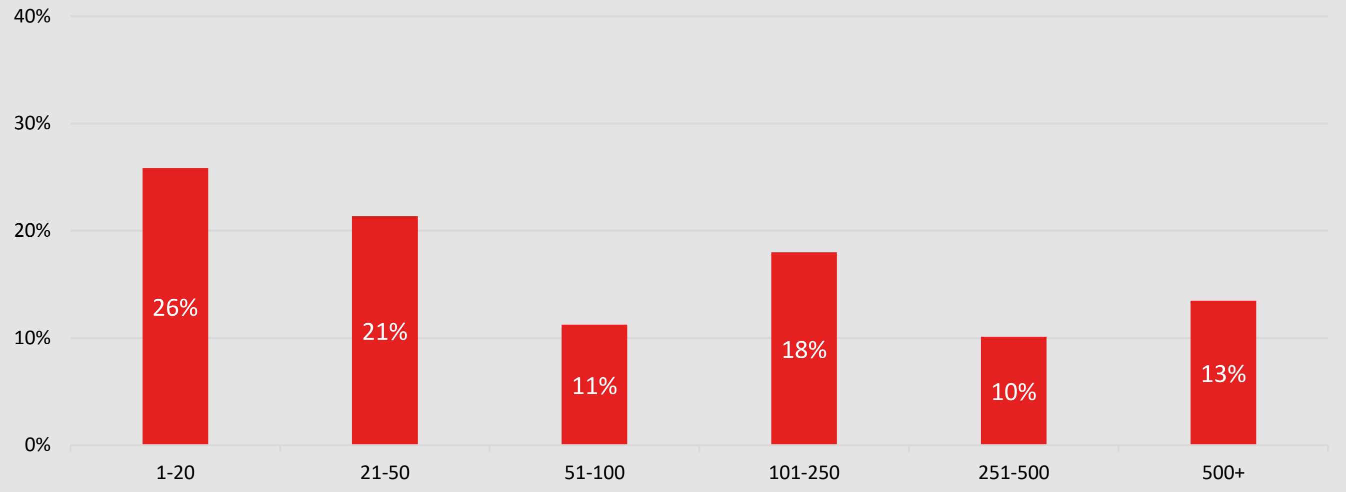


Danish companies as employers

The survey shows that Danish companies of different sizes are present in China. However, around half of the participating companies are small, with 50 or fewer employees. About one-in-four are large companies with over 250 employees in China, while 13 pct. of all participating companies have over 500 employees.

What is the approximate number of employees in your company in China: (including subsidiaries and/or sister companies in China)

Note: N = 89



All but a few of the staff employed by the participating Danish companies are Chinese, with non-Chinese staff making up only 1 pct. of total number of employees in 2024. The slightly higher average number of Danish employees in 2024, compared to 2021, can be contributed to a handful of companies, where merely four companies have over five Danish nationals. A later section will provide further details regarding Danish companies' plans for capacity changes, including changes to staff numbers.

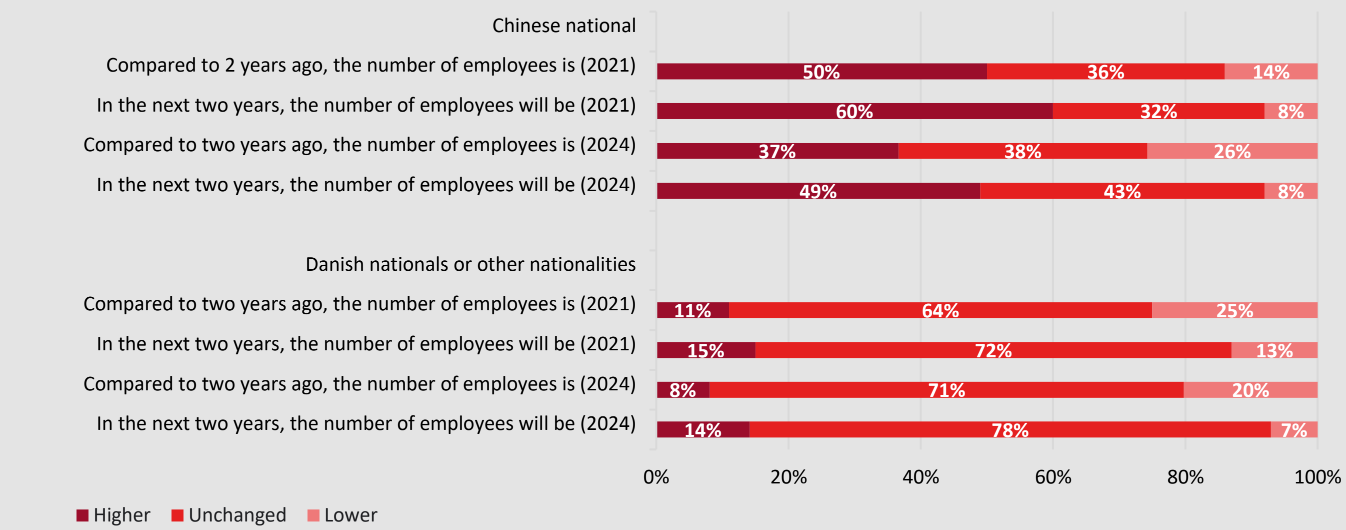
Employed nationality	Percent	Average	Median
Chinese (2024)	98.95%	549	52
(2021)	99.6%	665	56
Danish (2024)	0.76%	5	1
(2021)	0.2%	1	1
Other nationalities (2024)	0.29%	2	0
(2021)	0.2%	2	0

Note: N = 89 (2024). In the survey, the respondents were asked to write down the number of employees of different nationalities. We assume that when a respondent has filled out the number of Chinese employees, but has left the Danish or other nationalities blank, Danish/other nationalities = 0.

Local employment in China expected to increase, but slower than before

By comparing the survey data from 2024 with that from 2021, it becomes apparent that a smaller percentage of the participating Danish companies have experienced an increase in the number of local Chinese staff for the past two years. In 2024, 37 pct. of the participating Danish companies have experienced an increase, compared to 50 pct. in 2021, falling short of the expectations of the companies themselves, where 60 pct. expected an increase of local staff from 2021 to 2023, under the assumption that the respondents have remained the same. The number of expatriate staff remains stable for around two thirds of the companies. A significant part of the companies also expect the number to be unchanged for this employment category over the next two years.

Number of employees:



Note: N = 83-91

Those indicating that the number of Danish or other international staff will *increase*, argue that this is because foreign staff possesses knowhow, skills or experience required to perform a specific task. Furthermore, some underline the importance of company culture or specific requirements from headquarters, while others point to the wish to foster diversity and better communication.

For those indicating that the number of Danish or other international staff will *decrease*, they argue that this is partly due to the high cost, and problems with attracting and retaining foreign talent. Some also explain that they no longer need foreign talent, and local talent has an increasing relevance for their operations in China.

"[T]he exodus of foreign nationals, an issue exacerbated by China's 'zero-COVID' policy, continued throughout 2022. Nearly one in six (16%) respondents report having no foreign nationals working in their China operations, a figure that jumps to 21% for small and medium-sized enterprises, many of which experienced severe difficulties getting staff into China over the past three years […] These factors all come at a considerable cost, with members reporting a reduced transfer of know-how, communication difficulties, and even a need to defer investments. The disconnect between company HQs and China operations risks further damaging confidence in the China market, precipitating a negative cycle of disengagement. These factors are also challenging the efficiency of multinational companies' traditional operating models – which have historically relied on their ability to capitalise on synergies between business units to build global economies of scale – as businesses are increasingly pushed to further localise and create divergent systems, with one for China and one for the rest of the world."

Source: European Business in China – Business Confidence Survey 2023 by the European Chamber of Commerce

Wholly foreign-owned companies the preferred type of legal entity

The corporate structure of Danish companies surveyed remains mostly unchanged. Companies continue to be registered as wholly foreign-owned entities with a Danish company as ultimate beneficiary (84 pct. of the participating companies in 2024, as opposed to 80 pct. in 2021, and 86 pct. in 2019). Conversely, the share of joint ventures with or without Chinese partners has slightly decreased from 7 pct. in 2021 to 4 pct. in 2024, while the share of representative offices is unchanged at 3 pct.[1] Around half of the participating companies have more than one legal entity in China.

[1] The numbers from 2024 cover the primary type of company registration, while companies with more than one legal entity in China have answered as follows: 83 pct. are wholly foreign-owned entities with a Danish company as ultimate beneficiary, 15 pct. joint venture with a Chinese company, and 13 pct. representative offices.

CHAPTER 2: THE IMPORTANCE OF CHINA

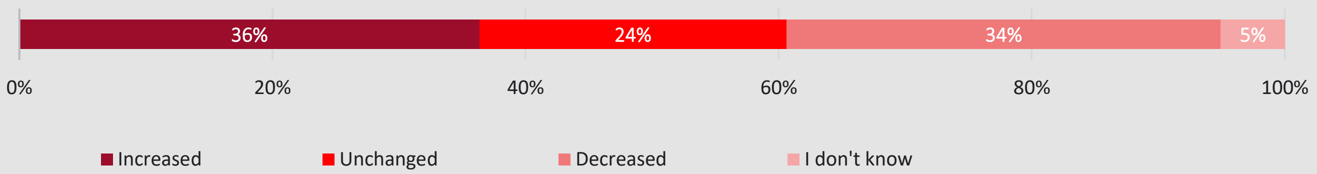
Chapter two aims to provide insight into the respondents take on the importance of the Chinese market in 2024. It seeks to assess the importance of China to the Danish business community, not only in terms of market, but also as part of the overall supply chain of the participating companies global activities, and to focus on the Danish companies' expectations toward the opportunities and challenges of the Chinese market.

China remains crucial to the Danish business community – but attractiveness is declining

Based on the survey, the Chinese market remains a crucial market for Danish companies, and continues to be an attractive market for many of the respondents, but the general feedback is not unequivocal. When asked how China's attractiveness has developed as a general market over the last two years, compared to other countries, the answers are somewhat evenly split between those who answered increased (36 pct.), decreased (34 pct.) and unchanged/don't know (29 pct.).

How has China's attractiveness developed as a general market compared to other countries over the last two years?

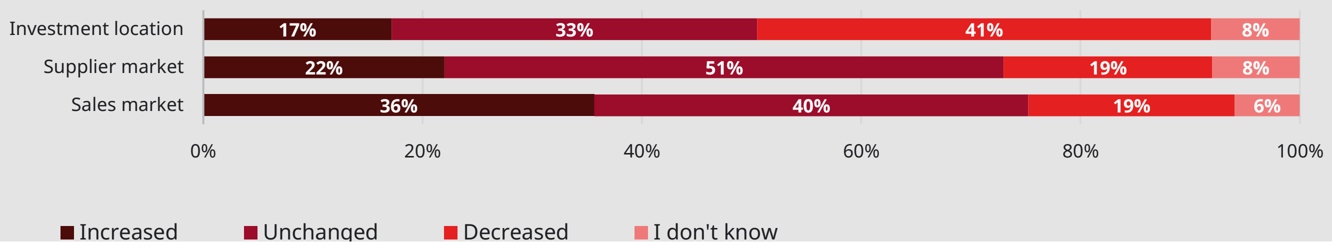
Note: N = 91



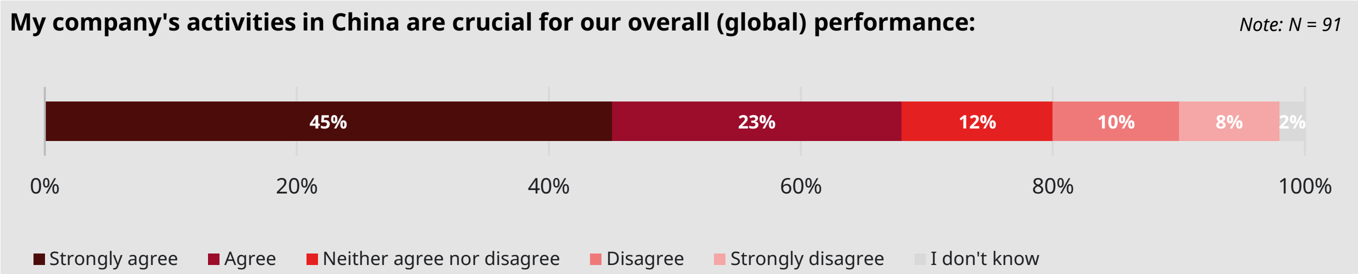
In order to give more insight and reflection, companies were also asked to rate the Chinese market's attractiveness as an investment location, supplier market and sales market. Based on the feedback, most companies indicated that China as a *sales market* had the most attractiveness. On the other hand, China as an *investment location* seems to be losing attractiveness, with more respondents (41 pct.) indicating that the attractiveness is decreasing, as opposed to respondents indicating that it has increased (17 pct.).

How has China's attractiveness developed when it comes to the following areas as compared to other markets over the last two years?

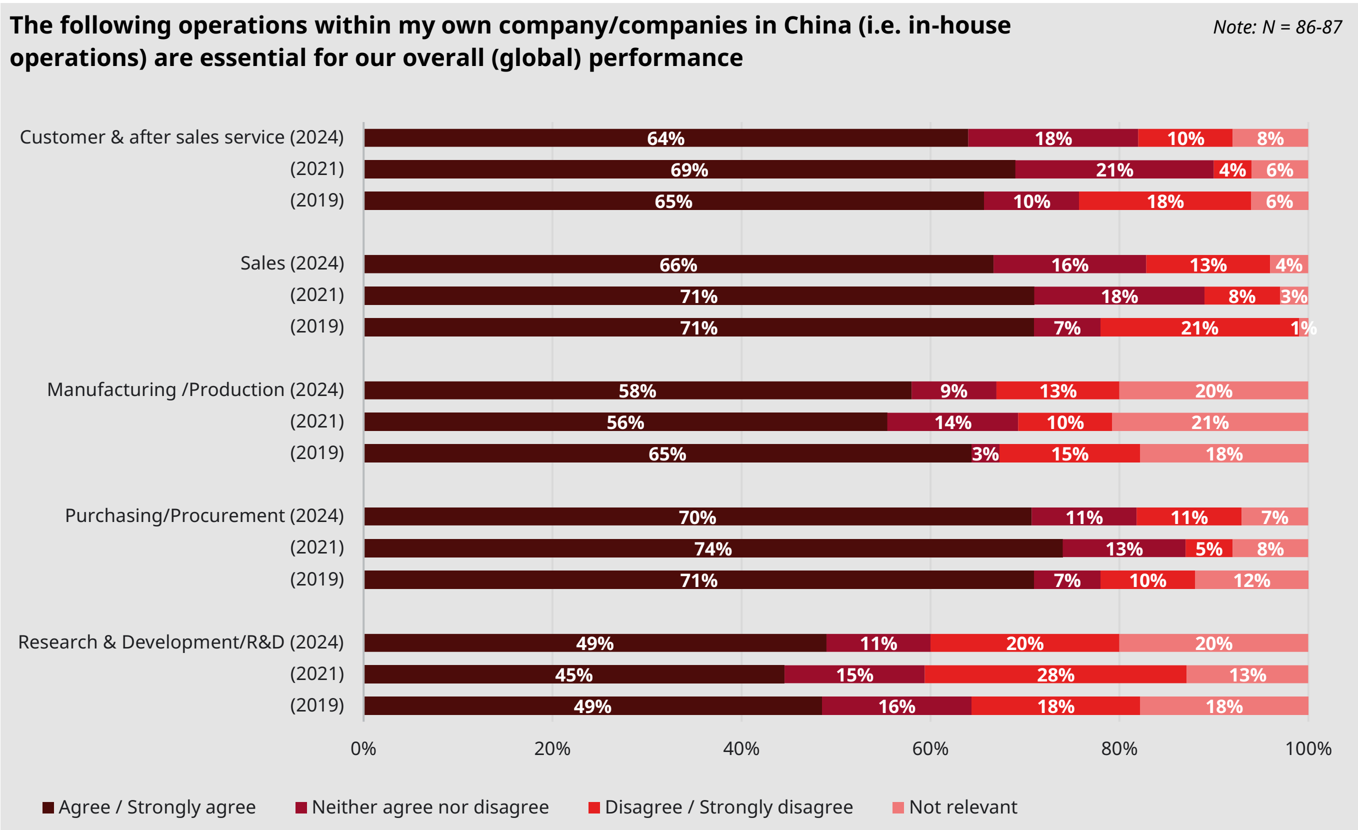
Note: N = 87-90



A majority of the companies stated that China was crucial to the overall global performance of the companies that they represented, with almost half of the respondents strongly agreeing. However, while the number of companies rating China as crucial to their overall global performance remains high, the proportion has declined to 68 pct. in 2024 compared to 83 pct. in 2021. Similar tendency can be seen from those respondents who disagree or strongly disagree, and no longer believe their activities in China are crucial for their overall global performance. Here the share of respondents has risen to 18 pct. in 2024, as opposed to merely 4 pct. when the survey was conducted in 2021.



In order to differentiate which operations within Danish companies, which had the largest contribution to their global performance, respondents were asked to answer if their operations within customer and after sales service, sales, manufacturing, procurement or R&D are essential to their overall global performance. Interestingly, within all five categories the predominant share of companies rated that these operations are essential, as opposed to disagreeing, with procurement and sales activities remaining at the top of the list. Amongst respondents, R&D was the operation which had the least share of companies believing that their operation is essential, and where the respondents indicate the highest share of disagreement or strong disagreement to whether the operation within the company is essential for their overall (global) performance. Yet, still 49 pct. of respondents find their R&D activity in China is essential, which is a 4 pct. increase since the previous survey.

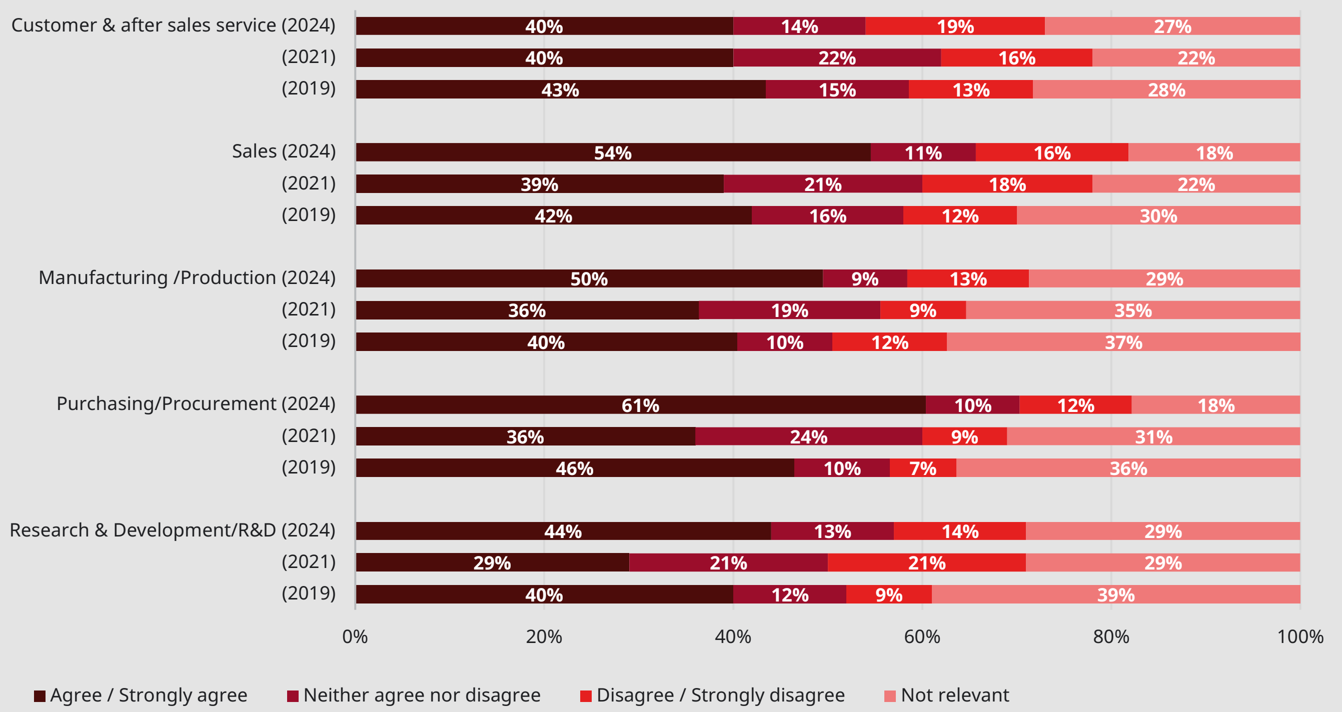


Companies still establish alliances with Chinese partners – that are essential for global performance

Similar to the results in the previously conducted surveys, more than half of all Danish companies in China (62 pct. in 2024, compared to 60 pct. in 2019) confirmed that they have strategic collaborations with external partners in China. Further, when asked to indicate to which extent the respondent agrees to whether the operations conducted in collaboration with external partners in China are essential for the company's overall (global) performance, the share of respondents who agree or strongly agree has increased across four out of the five categories, compared to 2021.

The operations conducted in collaboration with external partners in China are essential for my company's overall (global) performance

Note: N = 86-89



In 2024, strategic collaborations with external partners were most common within Sales, Procurement and R&D, as opposed to 2021, where such alliances were most common within Sales and Customer & after sales services, and 2019, where the most common partnerships found place within procurement, manufacturing departments as well as Sales and Services. Throughout the past three surveys, the respondents continue to indicate that the most common type of strategic collaboration partner is corporate customers, as opposed to service providers, suppliers or research institutes.

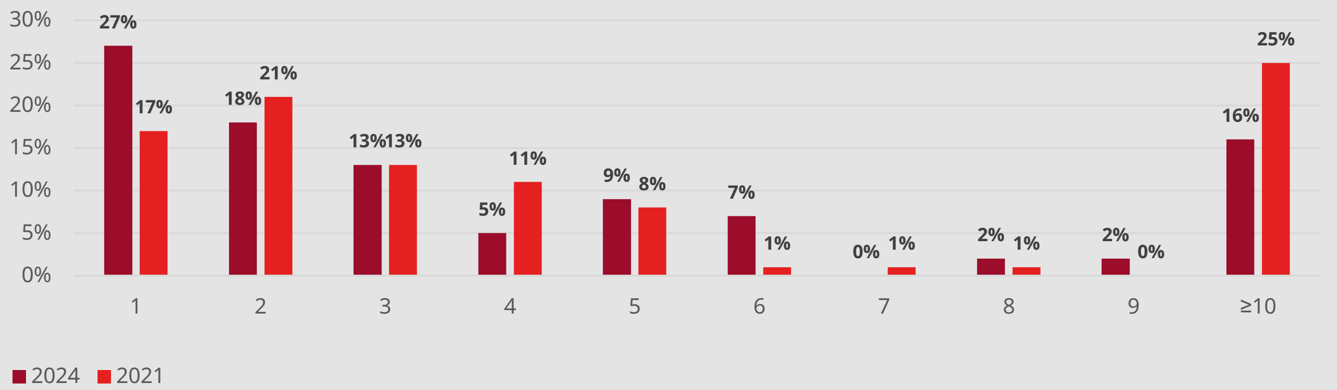
The partnerships seem predominantly to focus on collaboration in China. When asked if companies pursue collaboration with Chinese partners outside of China, driven by strategic considerations, only 29 pct. of the respondents answered yes, which is a decrease from 31 pct. in the previous survey.

China ranks high for close to half the Danish companies

The fact that China remains crucial for Danish companies is also substantiated by how the respondents rank the Chinese market, compared to other global markets, based on their turnover. 45 pct. of Danish companies in China (as opposed to 38 pct. in 2021) state that China is at least their second largest market, while more than one-in-four (27 pct. as opposed to 17 pct. in 2021) have China as their most important market, measured in turnover, for their global operations. While China is important for many, then 16 pct. of companies indicate that the Chinese market is not even in their top nine.

The importance of China as a market

Note: N = 55

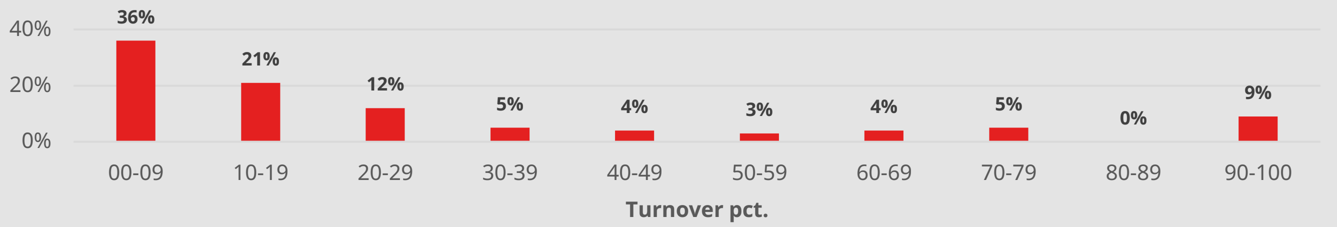


Under the assumption that the surveyed companies had remained the same, it is interesting to see that the findings in 2024 corresponds well with the company feedback in the last survey in 2021, when asked about the expectation moving forward. In 2021, 45 pct. of the surveyed companies indicated that China would become either the largest or second largest market over the coming two years. If companies' ability to predict also holds true moving forward, then, based on company feedback, China will become the most or second most important market for more than half of Danish companies in the coming two years.

When asking companies what percentage of their global turnover was generated by their entities in China, the feedback is greatly diversified. Unsurprisingly, more than half of the companies indicated that China contributed 20 pct. or below to their company's global turnover and the median number for all respondents was 10 pct., but for some companies in the survey, China contributes surprisingly much.

In the past financial year, what pct. of your company's global turnover was generated by your company's entities in China? (Approx pct.)

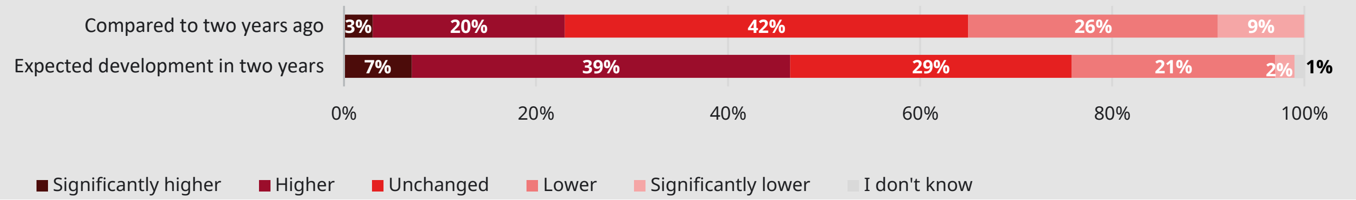
Note: N = 75



When comparing the proportion of the companies, who estimate that the percentage of their global turnover generated in China has increased throughout the past two years, 23 pct. of the companies responded this it is higher or significantly higher. This is a lower percentage than the results from the 2021 survey, where the same question gave a result of 62 pct. Correspondingly, 35 pct. believe that the percentage of the company's global turnover generated in China is now lower or significantly lower than it was two years ago, which is an increase compared to the 13 pct. who answered the same in the 2021 survey.

So while companies indicate that their ranking of the importance of China seem to be increasing, then the general trend is that the share of companies who believe their proportion of global turnover generated in China is declining, possibly indicating that other markets are on the rise or a more diversified market engagement for Danish companies around the world. Looking forward, 46 pct. of the companies believe that the proportion of global turnover generated in China will increase.

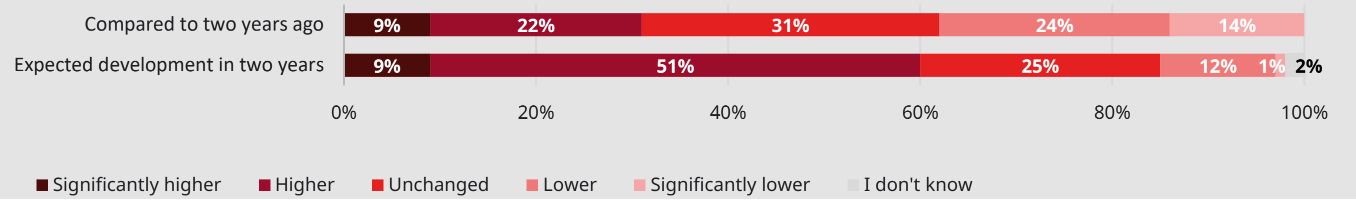
Proportion of companies' global turnover generated in China *Note: N = 89-91*



Turnover in China

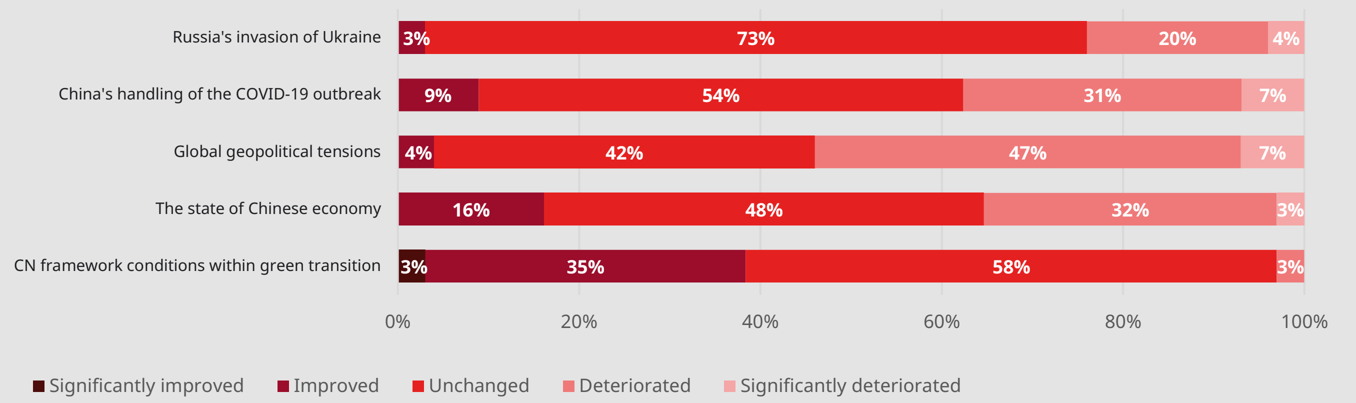
Looking at the development of the turnover in China in itself, compared to two years ago, it is relatively even split between 31 pct. indicating significant or moderate growth, 38 pct. indicating significant or moderate decline, and 31 pct. having experienced a unchanged turnover in China, compared to two years ago. Looking ahead, two thirds of all respondents expect their turnover in China to be higher over the next two years, which is significantly higher than the proportion of companies who indicate that they have actually seen increased turnover compared to two years ago.

Companies' turnover generated in China *Note: N = 89-91*



The most prominent factor to affect companies expectations towards future turnover is global geopolitical tensions, of which over half (54 pct.) expect it will lead to deteriorated or significantly deteriorated expectations to their turnover. Handling of the COVID-19 outbreak, the state of the Chinese economy and Russia's invasion of Ukraine are similarly causing deteriorated or significantly expectations with 38 pct., 35 pct. and 24 pct., respectively. On the other hand, 38 pct. of the surveyed companies indicate that China's framework conditions within green transition has improved or significantly improved their expectation towards turnover in China in the next two years.

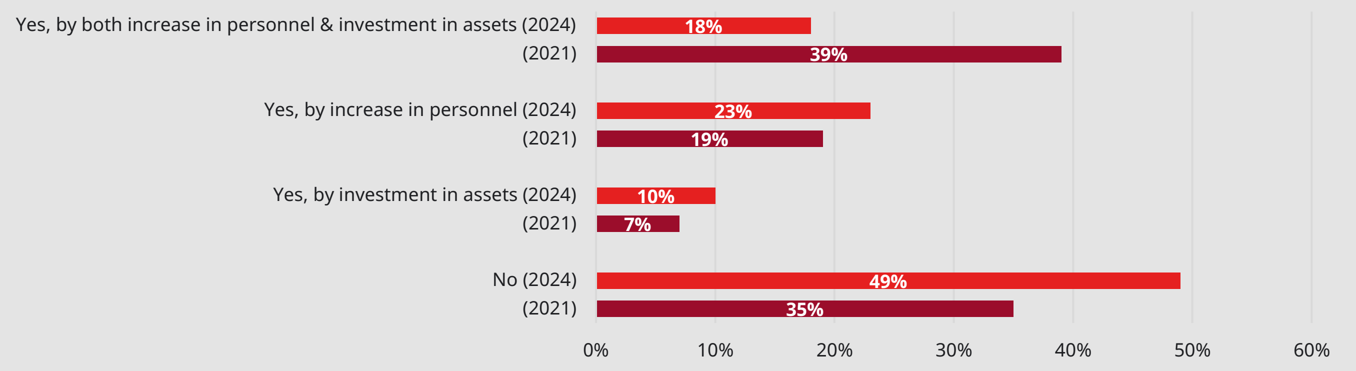
To which extent has [...] affected your expectation towards turnover in China in the next two years? *Note: N = 90-91*



Danish companies more predisposed to expand capacity in China

Questions regarding future developments and strategic decisions on capacity changes are obviously difficult to answer. The assessment therefore has to be made with a certain degree of reservation. Nevertheless, over half of the surveyed companies (51 pct.), plan to significantly increase capacity in China in the next two years. Among the companies planning to increase capacity in China, their reasons for doing so include, among other reasons, high expectations for market expansion (63 pct.), the wish to remain competitive in China (57 pct.) and customers/partners in China requiring more localization (35 pct.). It is worth noting that the number of companies planning to significantly increase capacity in China is lower than in the two previous surveys (two thirds in 2021 and three quarters in 2019).

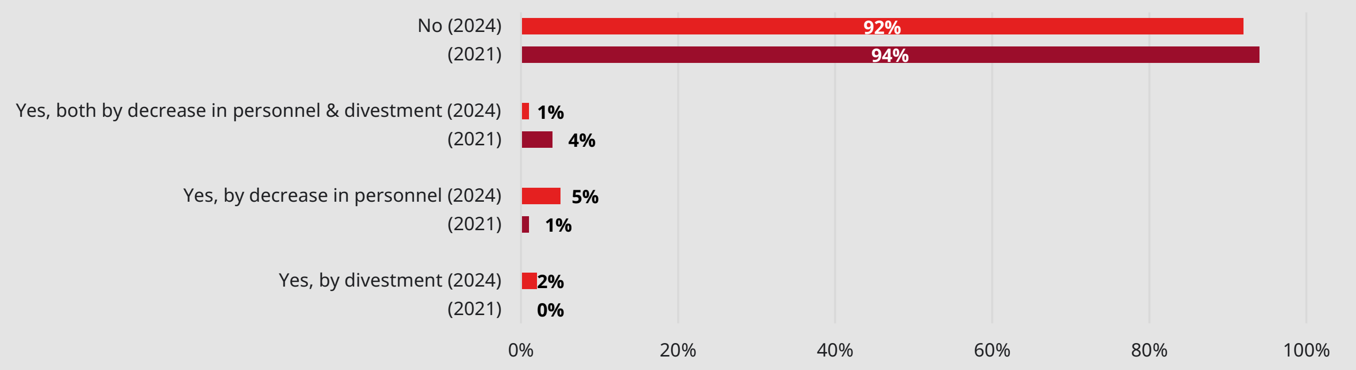
Does your company plan to significantly increase capacity in China in the next 2 years? *Note: N = 83*



Conversely, 8 pct. of companies plan to significantly decrease capacity in China in the next two years, which is a slight increase from less than 6 pct. in the previous survey.

Among the 8 pct. of companies planning to decrease capacity in China, their reasons for doing so include, among other reasons, global geopolitical tensions (55 pct.), low expectations for market expansion/expectation of slower growth in China (36 pct.) and increased domestic competition (36 pct.). Note that the sample size here is relatively small (8 pct. correlates to the 11 companies who answered this question).

Does your company plan to significantly decrease capacity in China in the next 2 years? *Note: N = 85*



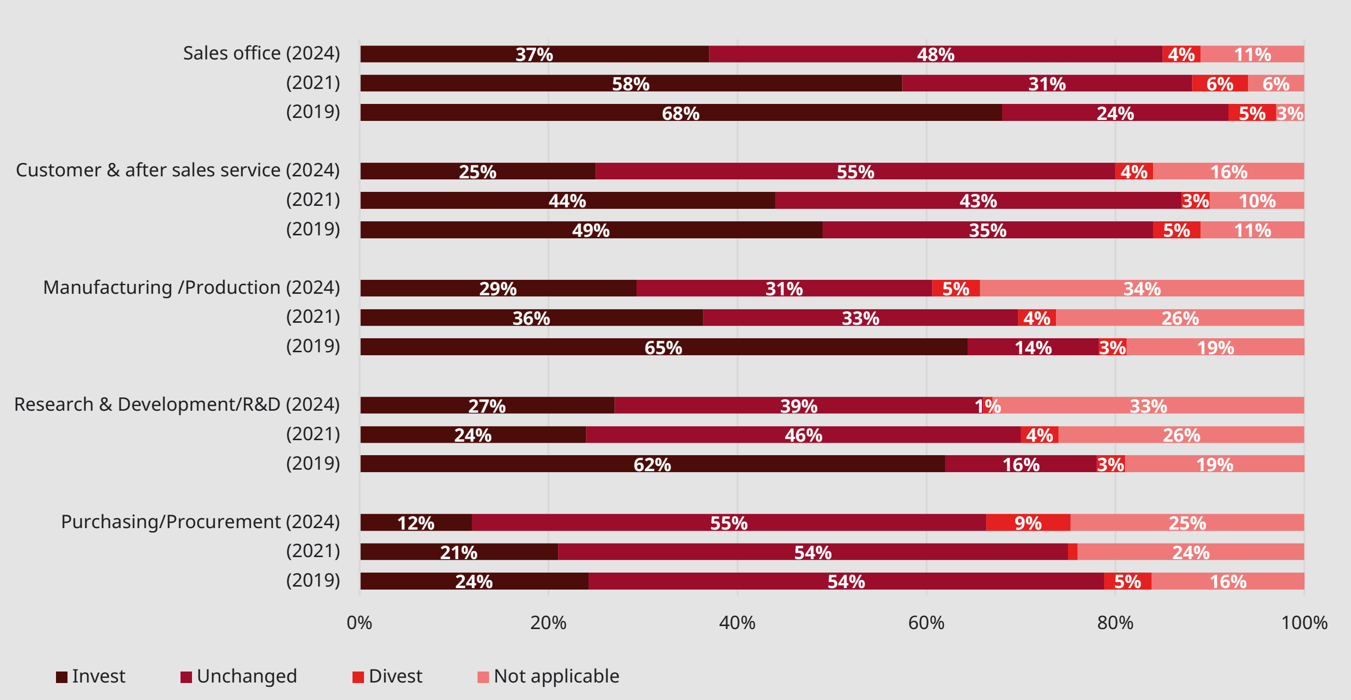
Invest- and divestment plans across sectors

In order to further understand the priorities of Danish companies in China, they were asked to specify within which business areas that they planned to invest or divest in within China.

The highest proportion of respondents indicated that these would be made in sales offices (37 pct.) and manufacturing (29 pct.). However, both numbers are lower than the numbers from the previous survey done in 2021, being 58 pct. and 36 pct., respectively, which corresponds to the fact that a lower proportion of Danish companies plan to significantly increase their capacity in China. R&D is the only category to experience a slight increase in companies' plan to increase investment, as well as being the only category with no planned divestments by the companies in the next two years.

Most significant is perhaps the lowered investment within procurement and planned initiatives for companies to divest in this category. While the category has continuously been the category with the lowest investment throughout all the three conducted surveys in 2024, 2021 and 2019, it takes a step further down to just 12 pct. of the companies planning to invest in procurement. Further, among the three conducted surveys, the category this year sees a record high divestment percentage, with 9 pct. of the companies looking to divest in procurement in China in the next two years.

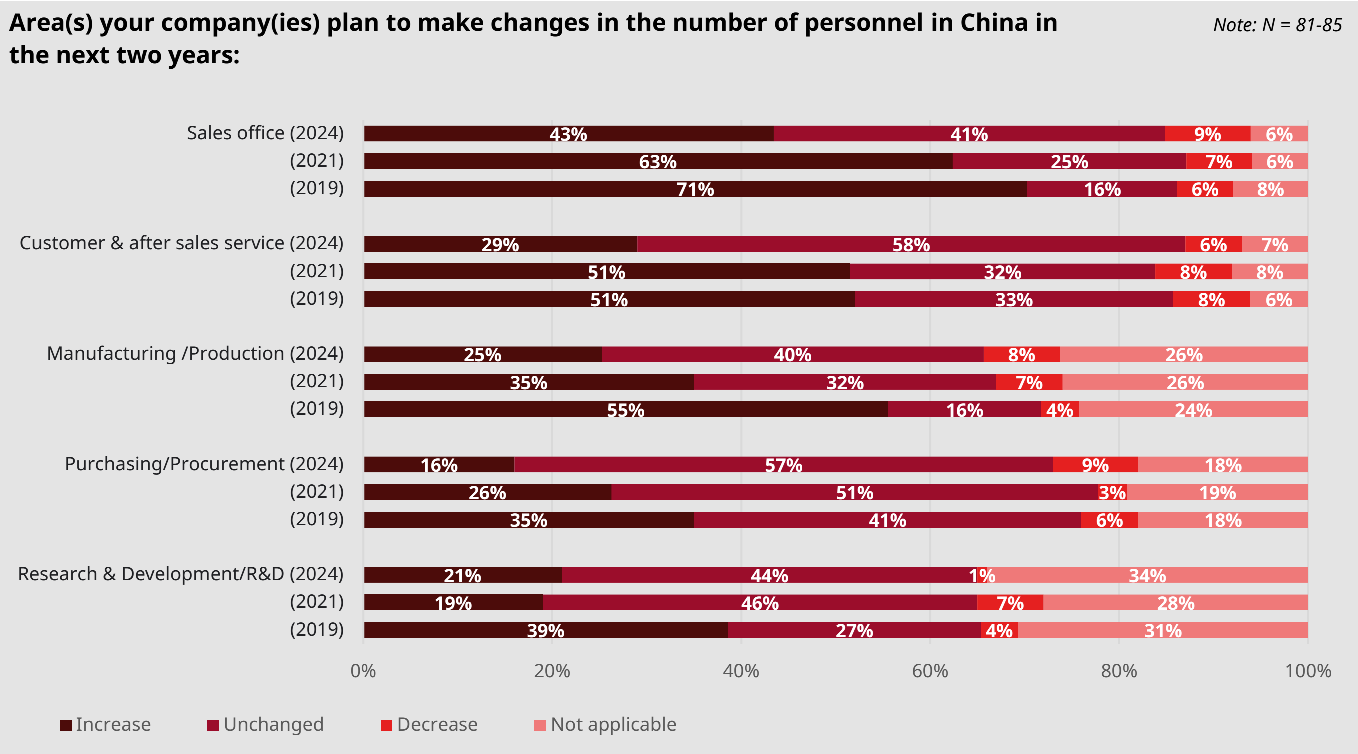
Area(s) your company(ies) plan to invest/divest in China in the next years: *Note: N = 76-78*



When asking the companies who indicated that they had intention to invest in China in any of the above mentioned sectors, if they did so to build resilience in local supply chains, three respondents either agreed or strongly agreed. Similarly, when asking the companies who indicated that they had intention to divest in China in any of the above mentioned sectors, if they did so to build resilience in supply chains outside of China, two respondents either agreed or strongly agreed.

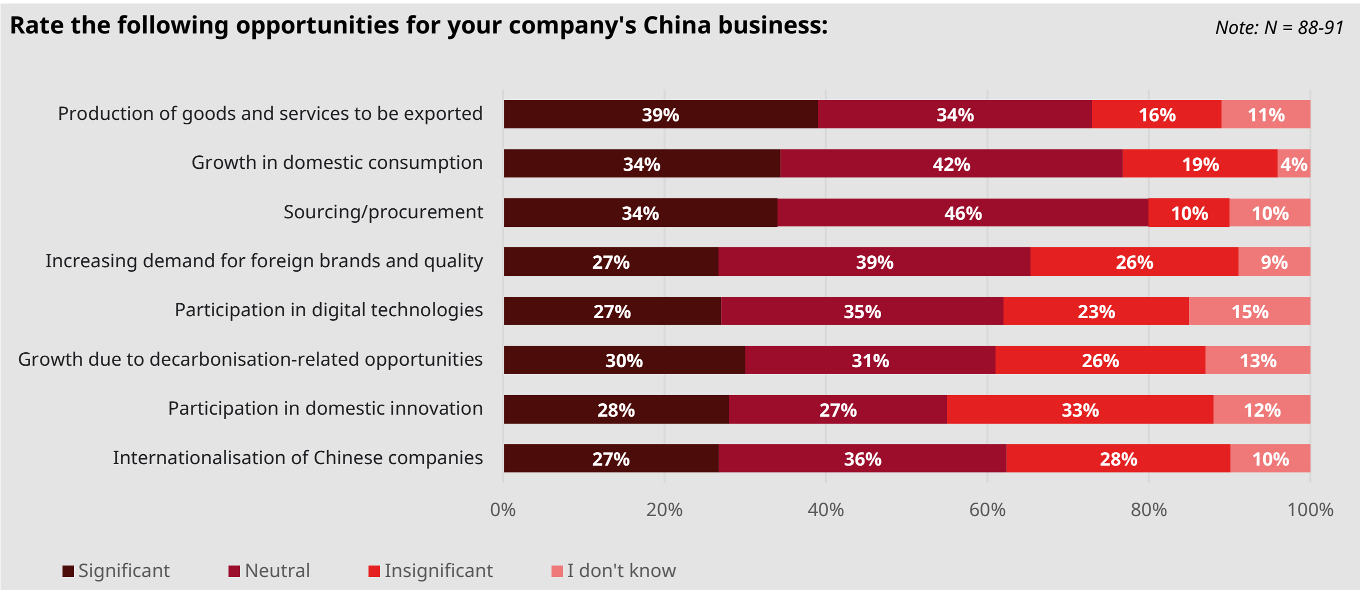
Personnel changes in the coming two years

Asked to be more specific on the type of changes in personnel companies were planning over the next two years, the survey indicated the biggest increase would be within Sales (43 pct.). For all five types of categories, a higher proportion of companies expect an increase in personnel, as opposed to decrease, with R&D being the only category in which fewest companies reported an expectation to decrease personnel in the next two years.



Economic downturn one of the main challenges for Danish companies in China

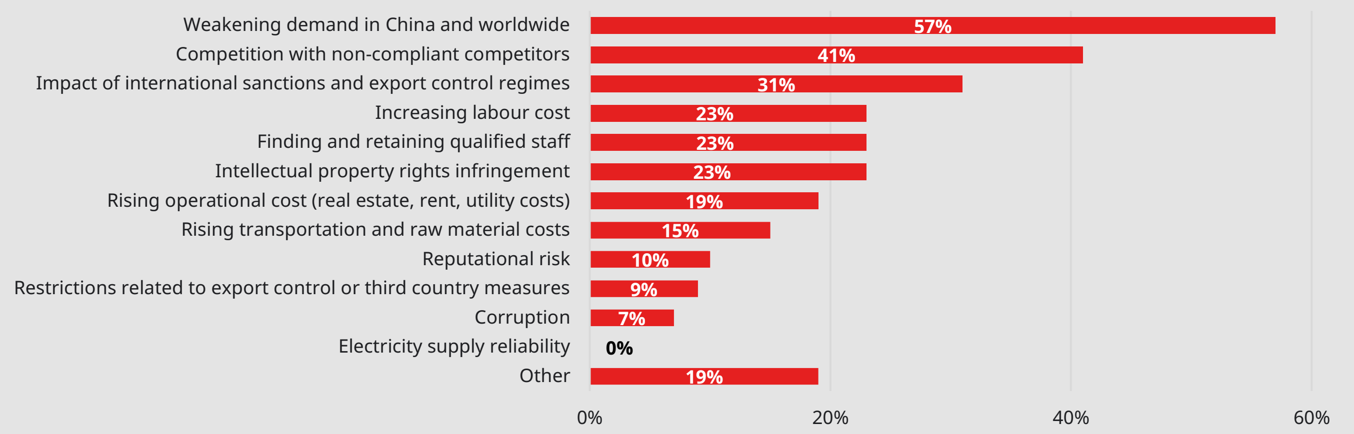
Companies were asked to assess their opinion on both opportunities and challenges. When it comes to opportunities then based on the answers within each of the categories below, the most significant market opportunities lies within production of goods and services and sourcing/procurement, supporting the hypothesis that China remains an important location for production. Companies also indicated that, despite the views of the Chinese economy and overall lack of household consumption, that they see opportunities within growth in domestic consumption. The fourth highest category, based on companies' assessment of the significant opportunities remains within growth associated with decarbonisation efforts in China.



Companies were also asked to select their top three business challenges in China. Unsurprisingly, most companies pointed to weakening demand in China and worldwide as the greatest concern, followed by competition with non-compliant competitors, indicating that companies are still facing an un-even playing field within the Chinese market. The third largest challenge was the impact of international sanctions and export control, indicating that the geopolitical tensions plays a significant role for Danish companies in China.

Top three business challenges in China for your company:

Note: N = 91



The fact that weakening demand in China is the business challenge mostly mentioned, is substantiated by the companies' immediate view on the trajectory of the Chinese economy. The majority of the companies (58 pct.) responded that they believe that China's economy is facing a downward trajectory, as opposed to around a third of the companies (30 pct.) who does not think so.

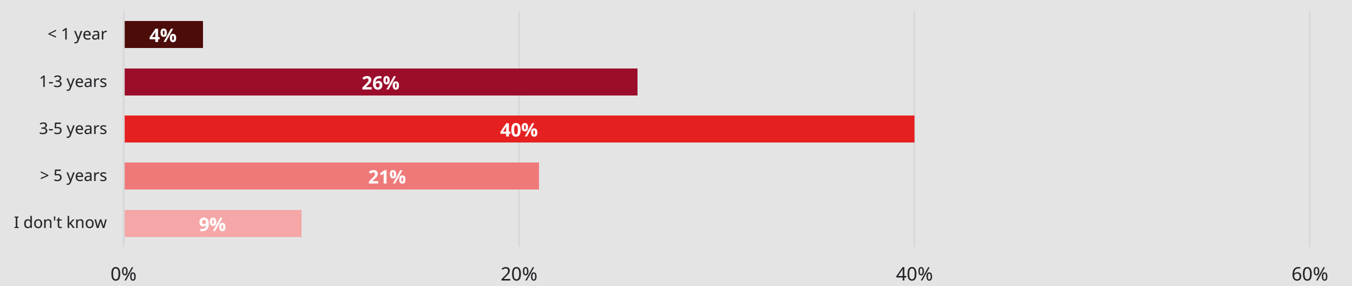
In your view, does China's economy face a downward trajectory?

Note: N = 91

The 58 pct. who answered "yes" (53 companies), were inquired as to how long they think it will take for China to regain a robust economic development. The largest proportion (61 pct.) of these companies believe that it would take at least three or more years, while only approximately one third believe that China would regain a robust economic development within a three year time span.

How long do you think it will take for China to regain a robust economic development?

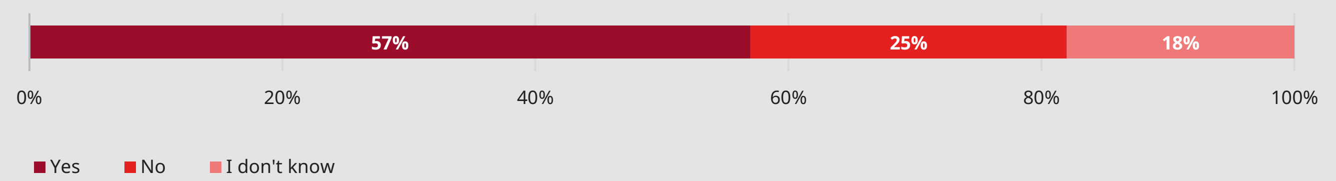
Note: N = 53



Geopolitical tension forces Danish companies to risk mitigate

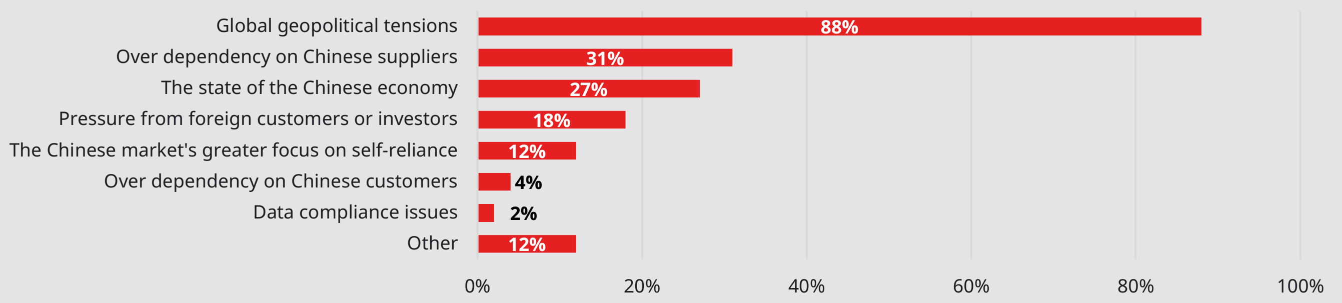
In light of international sanctions and export control, indicated to be a major challenge for Danish companies, it is no surprise that more than half of Danish companies in this survey are taking steps to mitigate risks associated with their business in China.

Is your headquarter taking steps to mitigate risks related to its China business? *Note: N = 89*



When asking companies who are taking steps to mitigate risks to select their three predominant reasons for taking such measures, it becomes apparent that global geopolitical tensions play a significant part with close to all of the companies answering this to be one of their top three reasons.

What are the reasons for your headquarters to take risk mitigation steps towards its China business? [Select up to three answers] *Note: N = 51*

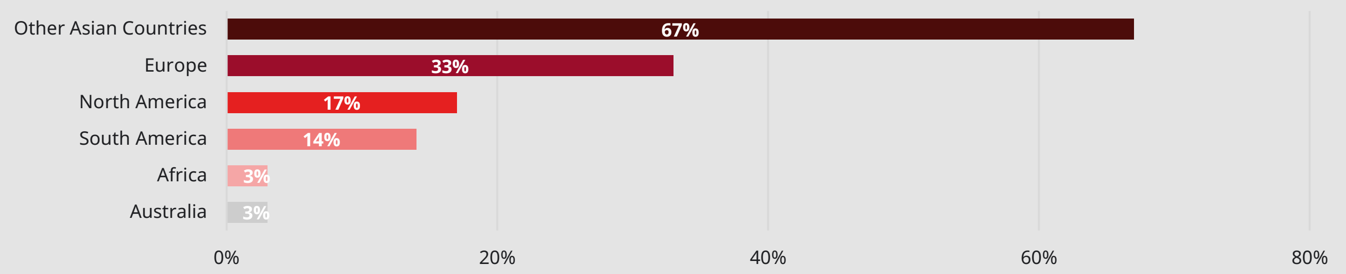


Danish companies are implementing various measures to tackle the inherent risk in their China operation. The predominant action seems to be building up additional operations in other countries through China+1 strategies or independent supply chains aimed at serving other markets.

How is your headquarter de-risking/minimizing the risk of their China operations? [Multiple answers possible] *Note: N = 51*

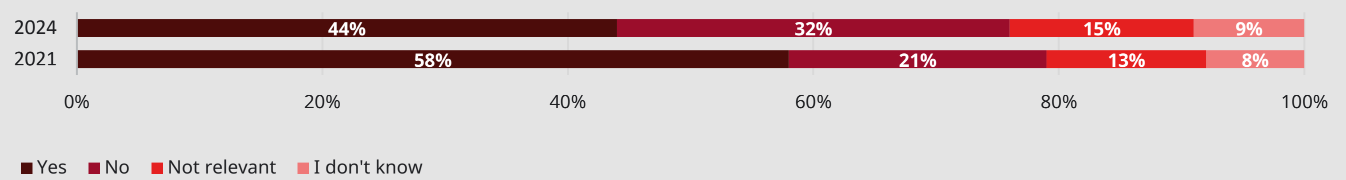
Amongst the companies who indicated that they are either 1) building up China independent supply chains serving different markets, 2) building up additional operations in other countries (China+1), 3) shifting operations from China to other countries, 4) nearshoring supply chains in China or 5) shifting R&D away from China, Asian countries remain the primary destination (67 pct.), as opposed to Europe (33 pct.). For those companies re-locating operations to other Asian markets, Vietnam is indicated as the primary location, followed by Thailand and India.

What region is your headquarter shifting activities to? [Multiple answers possible] *Note: N = 36*



Another risk mitigating factor is whether companies have prioritized having China insights or expertise on their boards. In light of global geopolitical tensions being one of the reasons for headquarters to take risk-mitigating steps towards its China business, it is surprising to see that the share of companies who prioritized China insights or expertise has actually gone down since the last survey.

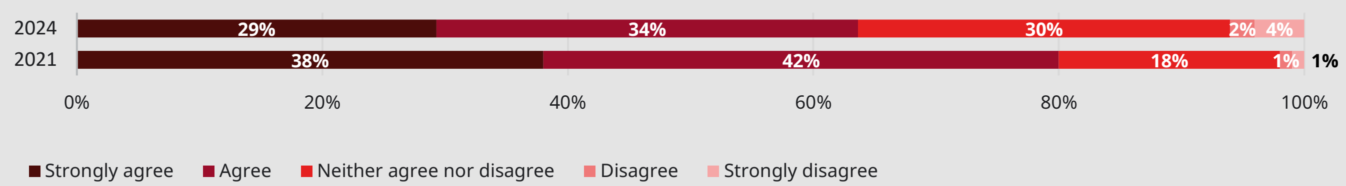
Has the Board of Directors of your company/corporation prioritized to have China insights or expertise on the board? *Note: N = 88*



Sustainable Development Goals (SDGs) as a driver for business in China

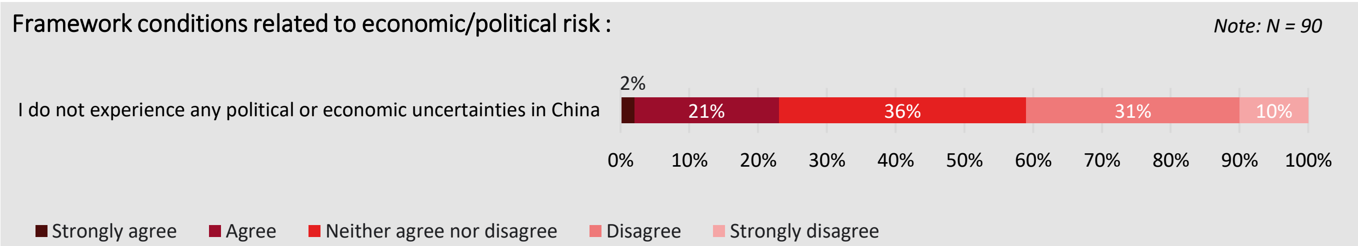
Despite companies indicating that Chinese framework conditions within the green transition is a significant positive factor for the future expected turnover in China, then the proportion of companies who work with the UN SDGs or otherwise actively pursuing green and decarbonised development in China, has actual declined compared to the last survey. Nevertheless, the majority of Danish companies (63 pct.) still agree to working within this area, while only 6 pct. disagree or strongly disagree to work on the SDGs or green/decarbonized development in China.

My company works with the UN SDGs or is otherwise actively pursuing green and decarbonized development in China *Note: N = 89*



CHAPTER 3: CHALLENGES FACED BY THE DANISH BUSINESS COMMUNITY IN CHINA

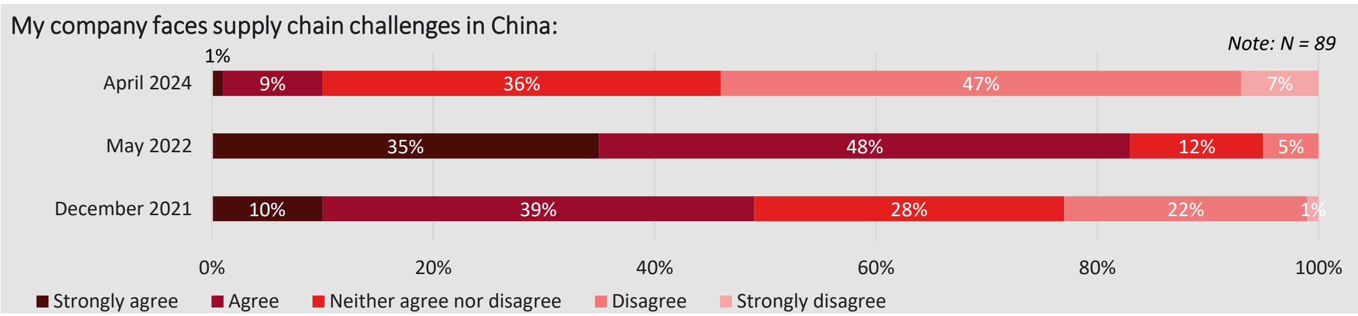
The EUCCC business confidence report for 2024, which was published in May 2024, emphasised that businesses increasingly have to navigate the politics of economic security, and more than half of the respondents in that survey reported that China's business environment had become more politicised in 2023. This is closely comparable to the findings in this report, where 41 pct. of the surveyed companies indicate that they disagree or strongly disagree with the statement that they do not experience any political or economic uncertainties in China. Only 2 pct. strongly agree and 21 pct. agree that they do not experience any political or economic uncertainties in China.



Supply Chain challenges vanished or not a prioritized challenge

In 2022, unsurprisingly in light of the Covid-19 lockdown in Shanghai and the start of the Russian invasion of Ukraine, respondents clearly indicated that they faced increased supply chain challenges. More than eight out of ten surveyed companies at the time indicated that they agreed or strongly agreed that they face supply chain challenges in China. When asked again in 2024, respondents indicate that they face significantly less supply chain challenges with only one out of ten indicating this as a challenge, despite current geopolitical tensions and the situation in the Red Sea.

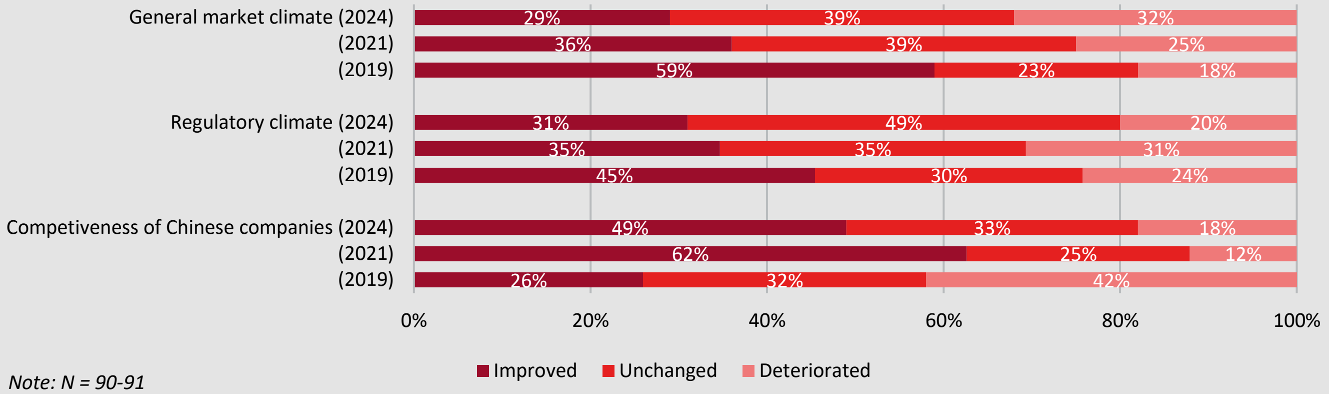
As indicated in chapter two, more than 57 pct. of the surveyed companies indicated in 2021 that they were planning to invest in China in order to build resilience in the local supply chain. If this has taken place, then this could be a contributing factor as to explain why so few companies currently feel that they experience supply chain challenges in China. Another reasoning for the low perception of supply chain issues could stem from the fact that many companies are building up additional operations in other countries through China+1 strategies or independent supply chains.



Ambivalent attitude towards the market and regulatory climate

When asked about their general perception of the market and regulatory climate in China, compared to two years ago, significantly fewer companies are positive in their assessment. With regards to general market climate, 29 pct. indicate that they experience an improved framework condition over the past two years. As shown below, this is a continued decline through each of the three periods that this survey has been conducted, with 59 pct. indicating improvement in 2019 and 36 pct. in 2021. On the contrary, in 2024, a higher proportion of companies indicate that the general market climate has deteriorated as opposed to improved. As for the regulatory climate, the proportion of companies indicating an improvement has also declined albeit only with 4 pct. points. On the positive side, the proportion of respondents who indicate that the regulatory climate has deteriorated, has declined significantly from 31 pct. in 2021 to 20 pct. in 2024.

How do you see the general market climate, regulatory climate and local competition develop within your sector in China in the past years?



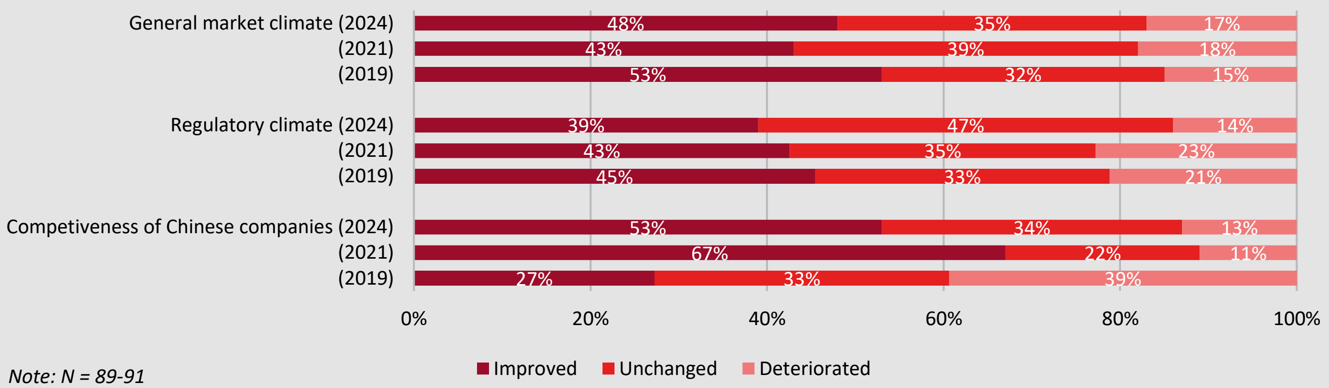
Note: N = 90-91

Expectations to future market- and regulatory climate and competitiveness

Asked about future developments in market climate, regulatory climate and competition, Danish companies respond surprisingly more optimistic, than how they have perceived the past years. In terms of the general market climate, 48 pct. indicate that they believe the outlook will improve over the coming two years, while only 29 pct. have experienced an improvement over the past years. Likewise, only 17 pct. of the respondents believe that the general market climate will deteriorate, which is equivalent to approximately only half as many respondents as those who had experienced a deteriorating market climate over the past two years.

Similarly, when looking at the regulatory climate, 39 pct. of the respondents believe that the regulatory climate will improve, while only 31 pct. indicate that they have experienced an improvement over the past years. Only 14 pct. believe it will deteriorate, which is again lower than the amount of respondent who had experienced a deteriorating regulatory climate over the past years.

What is your outlook for the general market climate, regulatory climate and local competition within your sector in China 2 years from now?



Note: N = 89-91

Chinese competition still on the rise, but no longer unequivocal

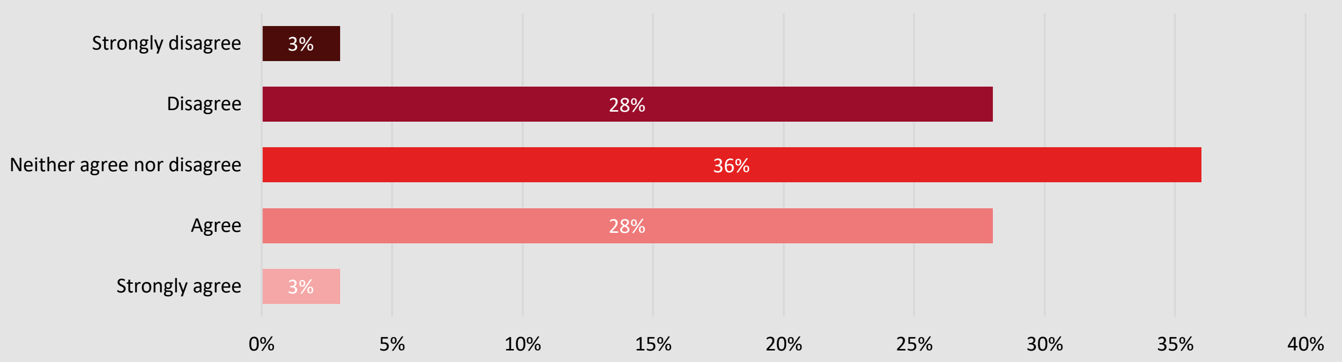
As opposed to 2021, Danish companies are no longer unequivocal about their assessment of the competitiveness of the Chinese companies. In 2024, only 49 pct. of respondents indicate that Chinese competitiveness is improving, down from 62 pct. in 2021. On the other hand, 51 pct. indicate that the competitiveness of Chinese companies remains unchanged or has deteriorated. Looking ahead, more than half of the respondent still believe that competitiveness of Chinese companies to be on the rise.

Sector-specific challenges on the rise

When asked if companies faced challenges specific to their sector or business area, 31 pct. of the respondents agreed or strongly agreed, which is an increase since the last survey, where only 23 pct. of the respondents agreed or strongly agreed. Nevertheless, the proportion of respondents who disagree or strongly disagree has also increased from 28 pct. to 31 pct. As in 2021, the low proportion of companies facing sector specific challenges could be explained by two factors; that companies to a much higher degree perceive their challenges as cross-cutting and/or that sector-specific challenges are more predominantly experienced by large corporations. The latter being substantiated by the fact that the surveyed population, as shown in chapter one, is highly skewed when measured by amount of staff, with only 13 pct. of companies having more than 500 employees.

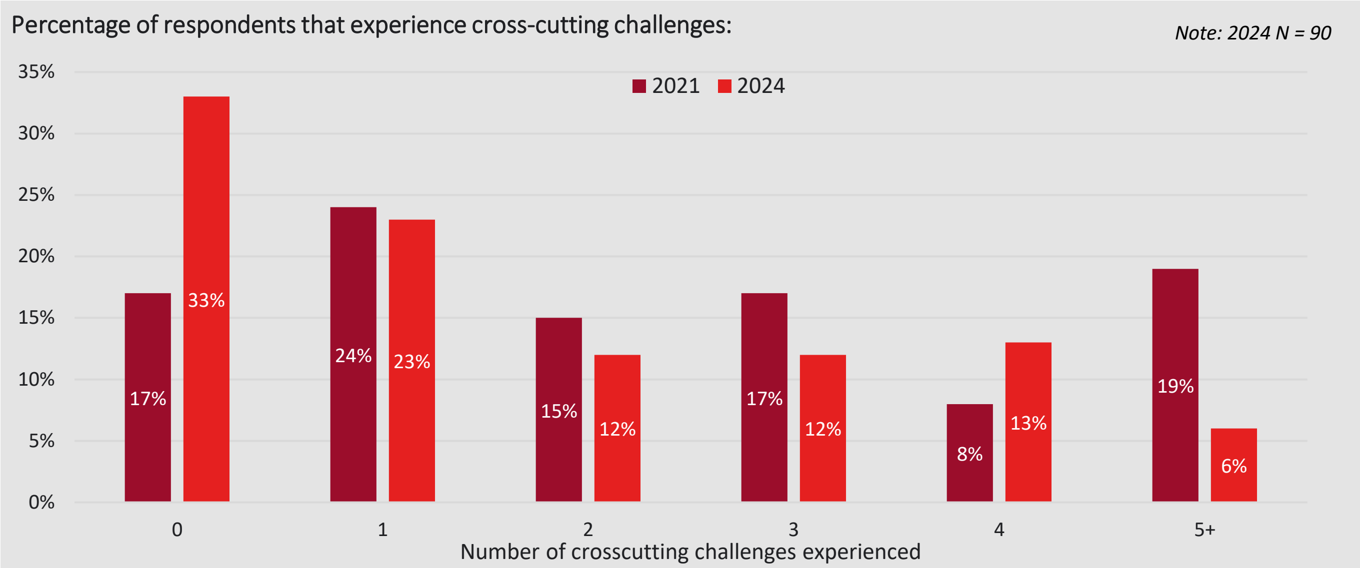
My company faces chanlenges specific to my sector or business area:

Note: N = 88



That companies, to a much higher degree, experience their challenges as cross-cutting is also documented by the fact that the survey asked if companies experienced challenges within 10 different cross-cutting categories, where 66 pct. reported that they experience one or more cross-cutting challenges. Although this is a decrease of 16 pct. points since the survey was conducted in 2021, it is clear that Danish companies still have challenges related to the market- and regulatory climate in China. When assessing challenges, it is worth noting the survey's inability to capture the depth and severity of the respondents' perceived challenges.

In terms of sector-specific challenges, the survey does not aim to duplicate nor weaken efforts by the European Chamber of Commerce in China (EUCCC). The annual EUCCC Position Paper contains a comprehensive list of sector-specific concerns – or challenges – faced by the European business community in China, including those of their many Danish members. Simultaneously, due to the limited population size in this report, as opposed to the EUCCC Position Paper, this report does not aim to go into greater details of sector specific challenges.



Crosscutting challenges

Following the assessments above, the survey asked Danish companies to report if they experience concerns – or challenges – across a comprehensive list of horizontal issues, similar to what was done in 2019 and 2021.

Based on the replies, the challenges most commonly found to be challenging for the Danish companies in China, are intellectual property rights, compliance & business ethics and legal transparency & competition. Interestingly, the proportion of respondents that do experience challenges has been greatly reduced across, almost, all horizontal issues except for challenges related to compliance & business ethics.

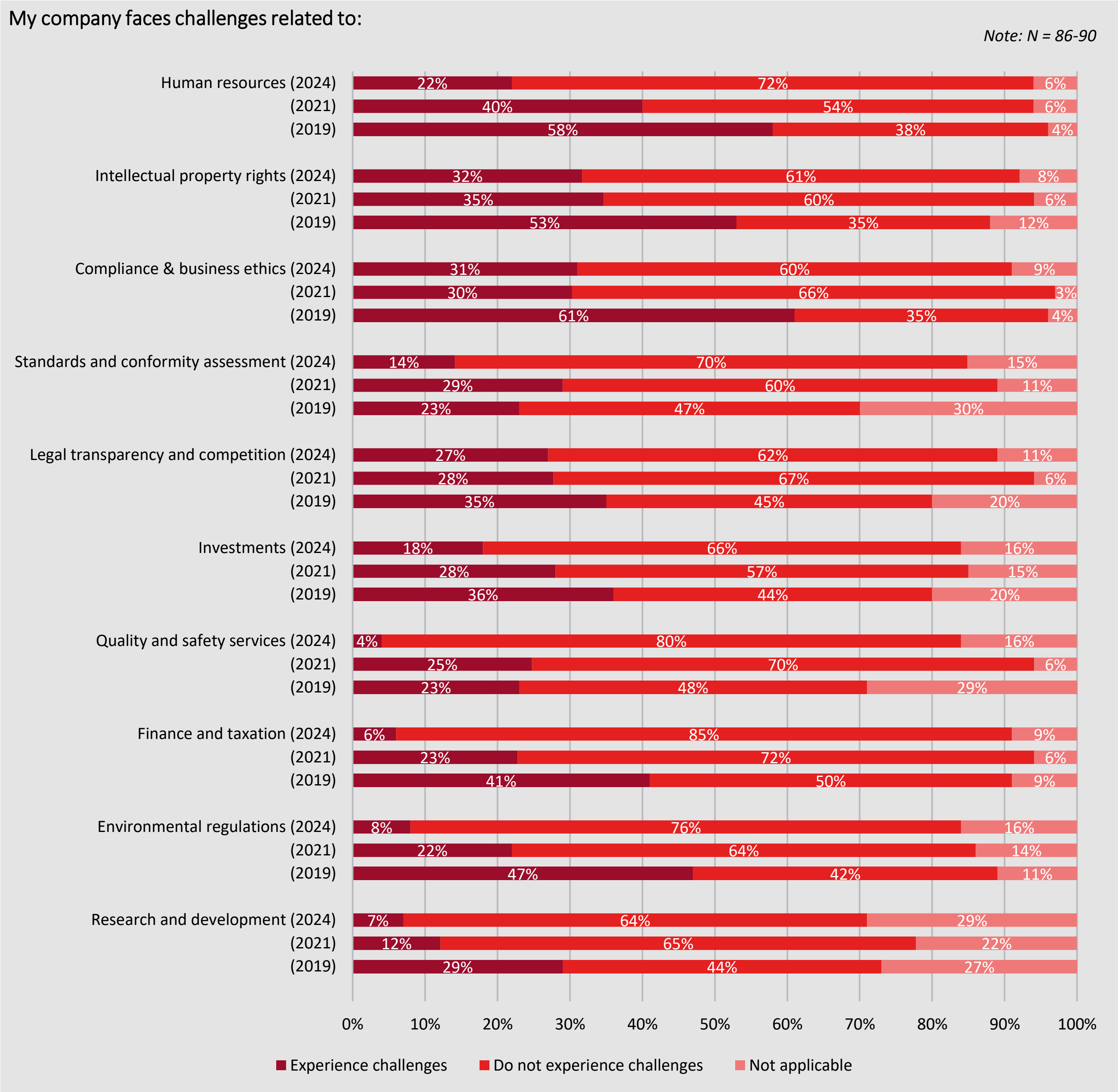
Human Resources

Compared to 2021 the share of respondents who indicate that they face challenges related to the Chinese Labour Law, social security policies for part-time and foreign employees, foreigners' work permit system, education quality, and disabled workers etc. has dropped from 40 pct. to 22 pct., indicating a significant improvement. Yet, the predominant share of those companies still experiencing challenges explain this with reference to other issues such as rules not being in line with international standards and/or commitments. Individual respondents also indicated that there is a discrepancy between how the labour law is applied between foreign invested and Chinese companies, creating an uneven playing field, lack of labour and sufficient skillsets.

Intellectual Property Rights

IPR issues relating to procedural practices, IP courts, trademarks, social media platforms lack of IP regulation, e-commerce business operators, CNIPA and the Patent Re-examination Board etc. are a challenge for nearly one third (32 pct.) of the Danish companies. Thus, IPR is indicated as the most challenged horizontal issue for the participating companies.

The predominant share of the companies that experience challenges within IPR clearly indicate (79 pct.) that their issues relates to insufficient enforcement of IPR rights, while 32 pct. indicate that their challenges relate to regulations that are not in line with international standards and/or commitments and 21 pct. indicate that it is due to unclear (undefined or vague) legislation.



Compliance & Business Ethics

Close to one third of companies (31 pct.) report that they face challenges regarding compliance & business ethics issues such as anti-bribery legislation diverging from international standards, legal uncertainties and the lack of rewards for compliance. Most of the companies indicate that regulation is not in line with international standards and/or commitments, followed by insufficient enforcement and discriminatory practice related to uneven market access or unequal treatment.

Standards and conformity assessment

The proportion of companies experiencing issues with standards and conformity-related challenges showed an increase between 2019 to 2021, but has since dropped and is now at its lowest level with 14 pct. of all the surveyed companies indicating that this is a challenge. These challenges relates to China's compliance with WTO/TBT regulations, market access barriers due to multiple market access requirements, testing and certification procedures, implementation gaps on equal access for all relevant stakeholders, transparency and fairness of standard-setting procedures etc. The respondents primarily point to the fact that standards or testing and certification procedures are unclear or not in line with international standards and/or commitments.

Legal transparency and competition

Over four out of ten of the Danish companies in China (27 pct.) report that they experience challenges related to legal transparency and competition. In spite of some progress, Danish companies continue to find the overall lack of legal and regulatory transparency in China to be a continued problem and largely due to unclear (undefined or vague) regulation, regulations insufficiently enforced or discriminatory or simply not in line with international standards and/or commitments.

Investments

Two thirds of the companies (66 pct.) state they have no concerns related to investments, while only slightly less than one fifth report they do (18 pct.). This may reflect that most of the companies responding are already located in China and may very well differ from the perception of the investment situation of companies not already established here. In addition, the answers may reflect the extent to which companies plan further investments, with those not planning investments generally not indicating that they consider it a challenge. Among the one fifth of companies reporting challenges, the most widely reported and strongly felt issue is discriminatory practice related to uneven market access or unequal treatment followed by concerns related to unclear (undefined or vague) rules and legislation and that regulation is not in line with international standards and/or commitments.

Quality and Safety Services

When companies asked if they face challenges regarding quality and safety services relating to regulations on certification and accreditation of products and services, only 4 pct. indicate that they experience challenges. As such, this is the horizontal issue with the least perceived challenges based on input from the surveyed companies. For those who do experience challenges, it is related to discriminatory treatment, insufficiently enforcement and differences between Chinese and EU regulation.

Finance and Taxation

With only 6 pct. of respondents indicating that they face challenges concerning finance and taxation, this crosscutting issue is perceived as one the least challenging areas amongst the participating companies in this survey.

Environmental regulations

Based on this survey, then challenges with environmental regulations seems to have diminished amongst the respondents, with the share of companies indicating that they experience any challenge within this field greatly reduced from 47 pct. in the 2019 survey to currently 8 pct. Among those reporting challenges related to environmental regulations, the vast majority and most widely reported challenge relates to unclear (undefined or vague) rules.

Research and development

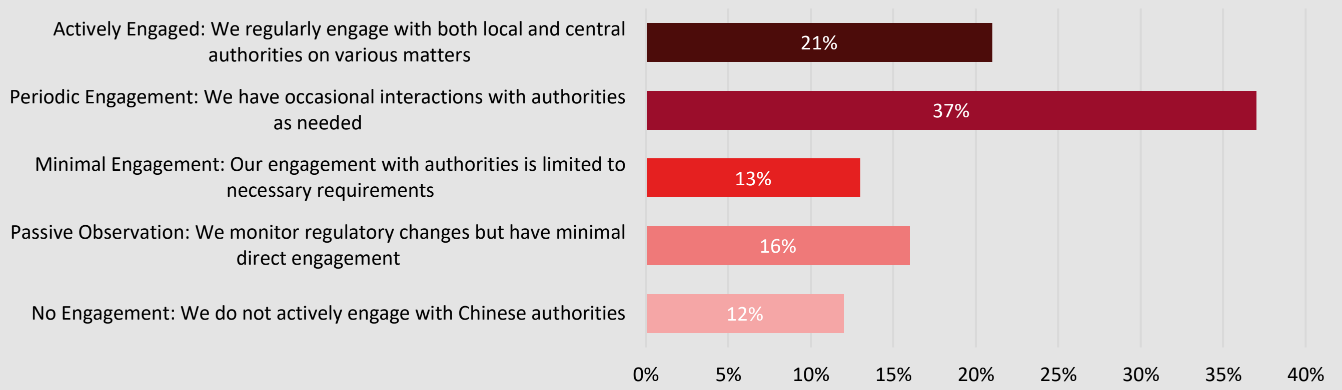
Similar to environmental regulations, then the proportion of companies expressing challenges relating to difficulties in exercising legal rights, difficulties for foreign enterprises, government support facilitating commercialisation from academic R&D to industrial application, talent availability, and information for R&D, has dropped significantly from 2019 (29 pct.) to 2024 (7 pct.).

High degree of government engagement

In light of the above, it is not surprising to see that more than half of the surveyed companies frequently engage with central and local authorities.

Please indicate how actively you engage with Chinese authorities:

Note: N = 89

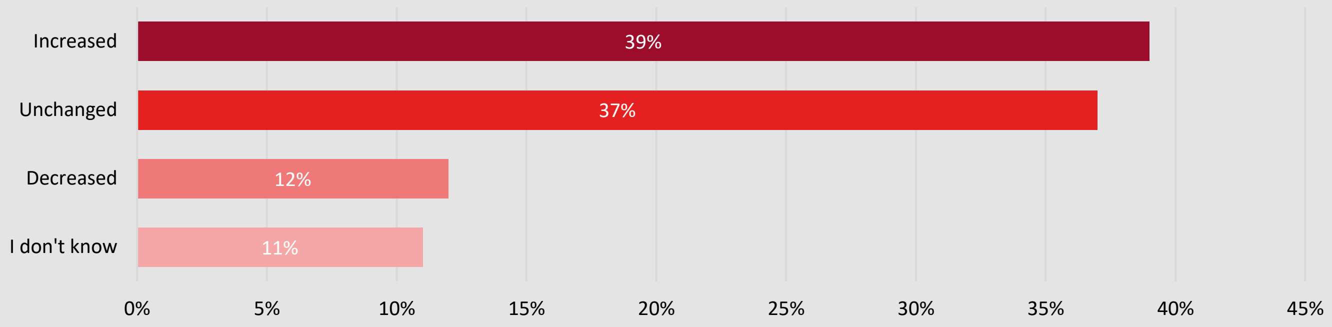


CHAPTER 4: INNOVATION AND TECHNOLOGY

In June 2023, the World Economic Forum published an article with the title “What makes China’s innovation ecosystem unique?” If asking Danish companies this question, one answer could be that its attractiveness as an innovation market continues to rise. At least among the respondents in this survey, since respondents indicate that the market has increased over the last two years and only around one in ten indicate that the attractiveness of the market has decreased.

To which extent has China’s attractiveness developed when it comes to China as an innovation market over the last two years?

Note: N = 89



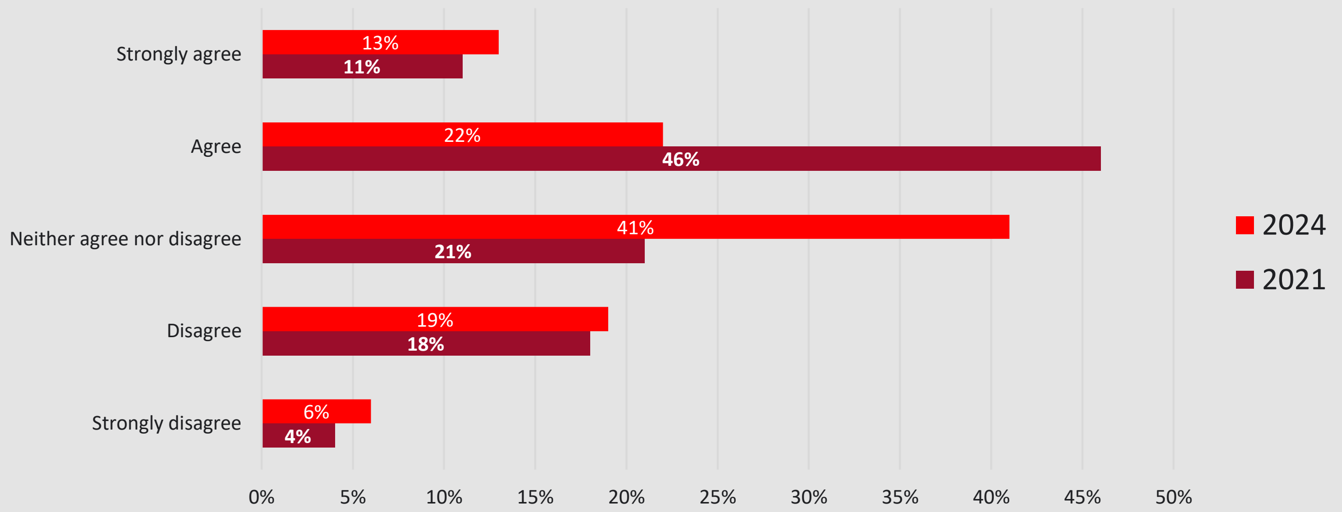
Impact of digitalization

China has embraced digitalization over recent time. Nevertheless, compared to the last survey, Danish companies, somewhat surprisingly, indicate that they, to a lesser degree, are impacted by the digital development within the country, as opposed to two years ago.

China has become one of the world’s largest digital economies. As such, it is surprising that not more than approximately one third of all respondents indicate in 2024, that the activities of their companies in China are impacted by the digital development in the country, compared to two thirds in 2021.

My company’s activities in China is impacted by the digital development in China?

Note: N = 86

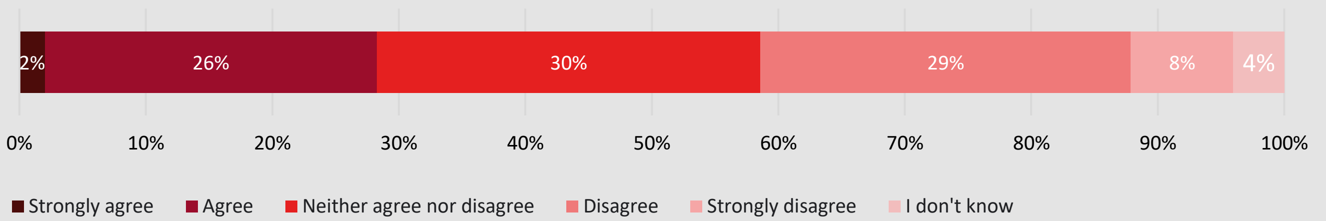


For those companies indicating that they agree or strongly agree that their activities in China are being impacted by the digital development, 60 pct. states that it is predominantly within transactional and market technology areas such as e-commerce platforms and networks. Approximate half indicate that informational technology, such as cloud computing, big data, business management software and AI provides an impact. Latter being similar to the share of companies who indicate operational technology, such as smart robots, 3D printing and IoT, to lower the costs of production or delivery of a service by integrating data with production, transportation or other equipment, as how their activities are impacted by the digital development in China.

The impact of Chinese digital development on Danish companies is still transcending the Chinese borders with 28 pct. indicating that they use technology and knowhow from China in other parts of the organisation. Yet, the proportion has seen a decline compared to the last survey, where the comparable number was two-in-five, indicating that the transfer and adaptation of digital knowledge from China is declining.

In terms of digital development in my company and the sector i work in, technology and knowhow from China is used in other parts of my organisation:

Note: N = 89



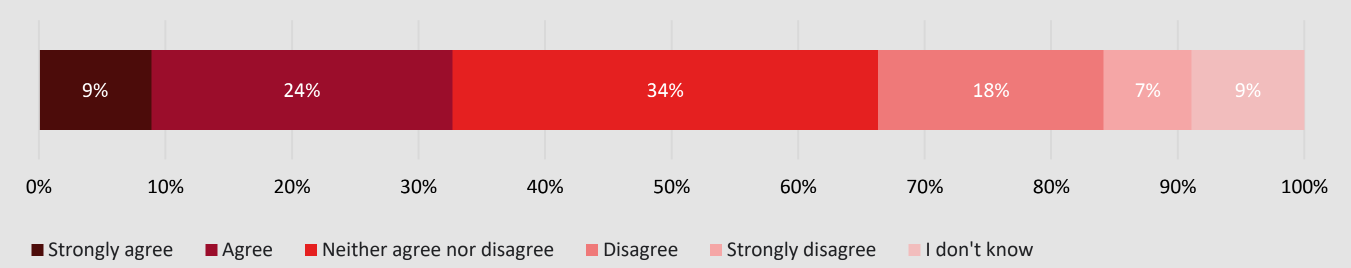
Data and cybersecurity regulations in China still disrupts companies

China has been expanding its legal framework for cybersecurity and data protection in recent years. This includes the implementation of several new regulations on data protection and cybersecurity in China, with a particular focus on cross-border data transfer and personal information protection. This has created considerable challenges for companies with large cross-border data flows. However, in an effort to ease data export restrictions, and thus also improve the business environment, the Cyberspace Administration of China (CAC) released regulation and guidelines on how to administer Cross-border data flows in March 2024.

Respondents were asked to reflect on whether their companies have been affected by Chinese data regulations over the past years. Considering the significant scrutiny and attention to Chinese data legislation, then, only one-third agreed or strongly agreed to being affected by Chinese data privacy and cross-border data transfer regulations. Especially when comparing to findings from the EUCCC business confidence report for 2024, where 55 pct. of all respondents across all sectors reported facing difficulties due to the lack of clarity on key definitions. One explanation could be that the EUCCC survey was conducted prior to the release of the final version of CACs Provisions on Regulating and Promoting Cross-border Data Flows, which is expected to lessen the administrative burdens, associated with cross-border data transfers, as opposed to this survey which was conducted after its release. Yet, interestingly, the proportion of companies who indicated they have been affected by Chinese data regulations corresponds to the findings in the last survey of Danish companies released in 2022, which could indicate that this is an area, that may in particular affect a specific proportion of the Danish companies in China and not others.

My company is affected by Chinese data privacy and cross-border data transfer regulations:

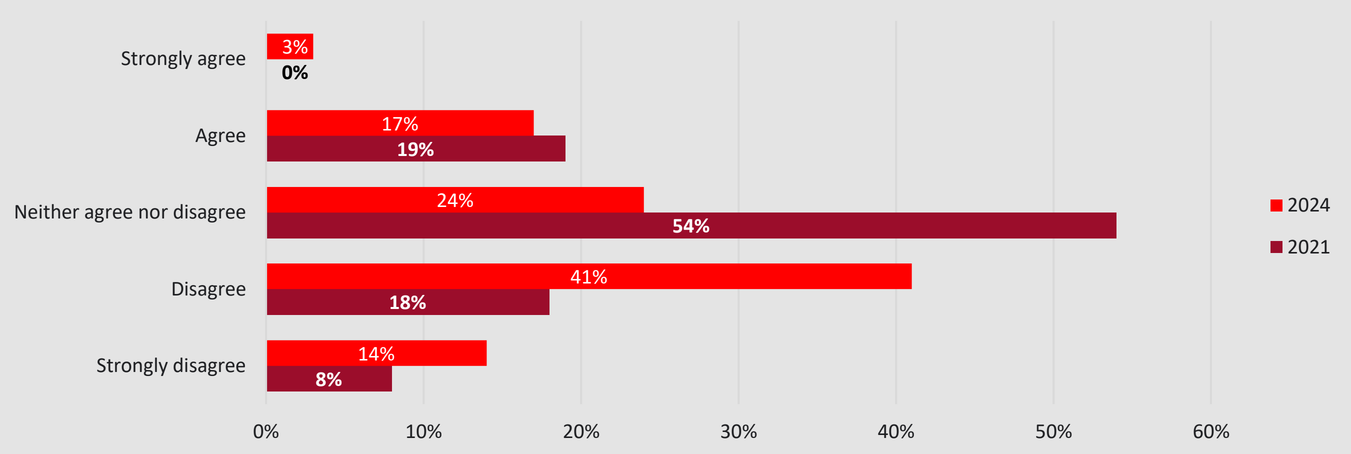
Note: N = 89



Based on the 33 pct. of respondents who indicated that they are affected by Chinese data privacy and cross-border transfer regulations, only 20 pct. indicate the Chinese regulations are clear and its implications well defined, indicating that despite the new legislation released by CAC, uncertainty still remains.

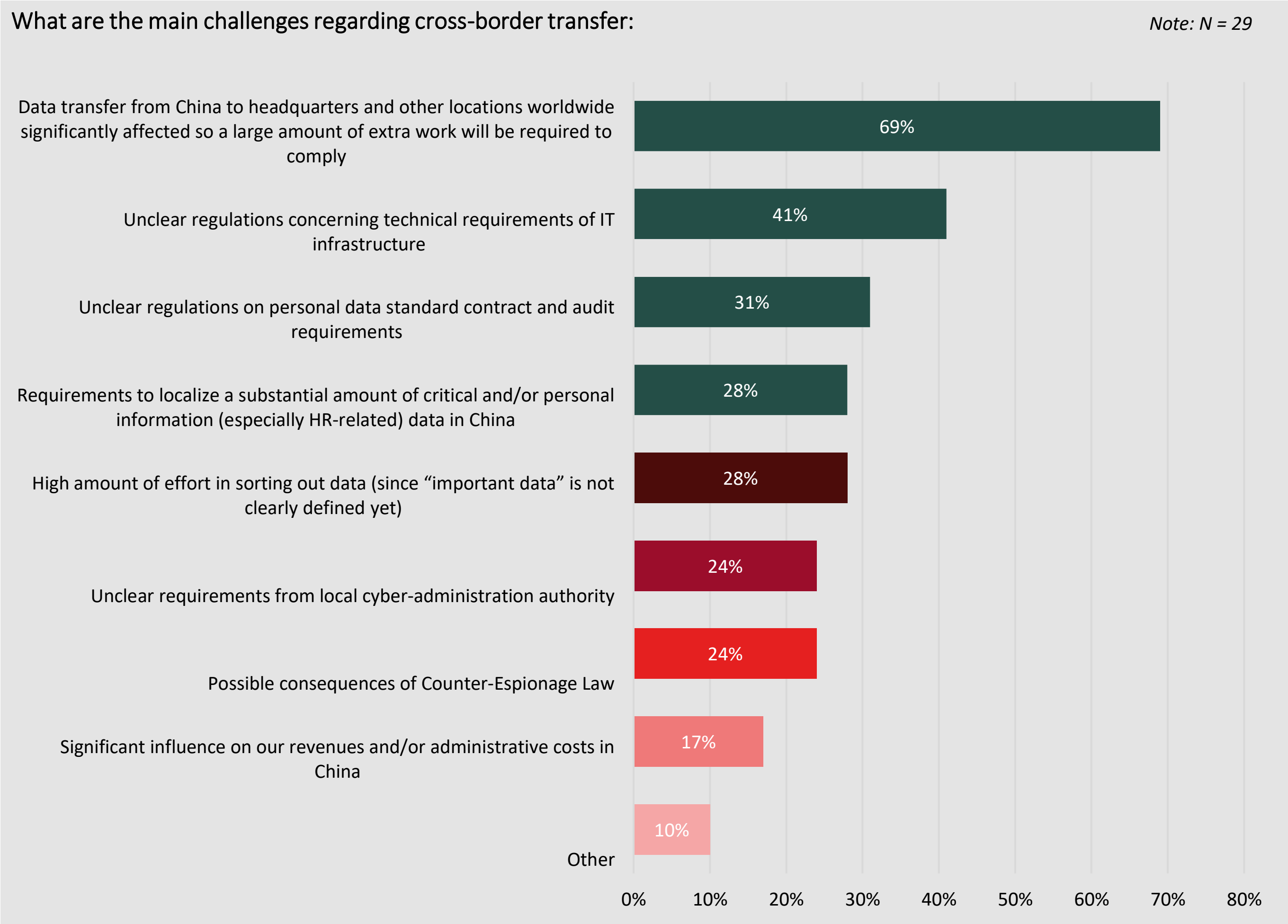
The contents of the Cybersecurity Law, the Data Security Law and the Personal Information Protection Law as it applies to my company are clear and its implications well-defined:

Note: N = 89



Therefore, concerns about Chinese data privacy and cross-border transfer regulations persist. When asked about the main challenges regarding cross-border transfer of data, then respondents indicate that multiple issues persist as a challenge for them, the prevailing being that companies are required to allocate a large amount of extra work in order to ensure companies comply with Chinese legislation.

When asked to the consequences of these challenges, 18 of 29 respondents who answered this part of the survey, indicate that their operational costs, including compliance and due diligence, have increased as a result of Chinese data privacy and cross-border data transfer regulations. Four respondents go as far as to say that they are considering reducing their level of engagement in China as a result of the Chinese data privacy and cross-border data transfer regulations.



Status quo for Danish R&D in China

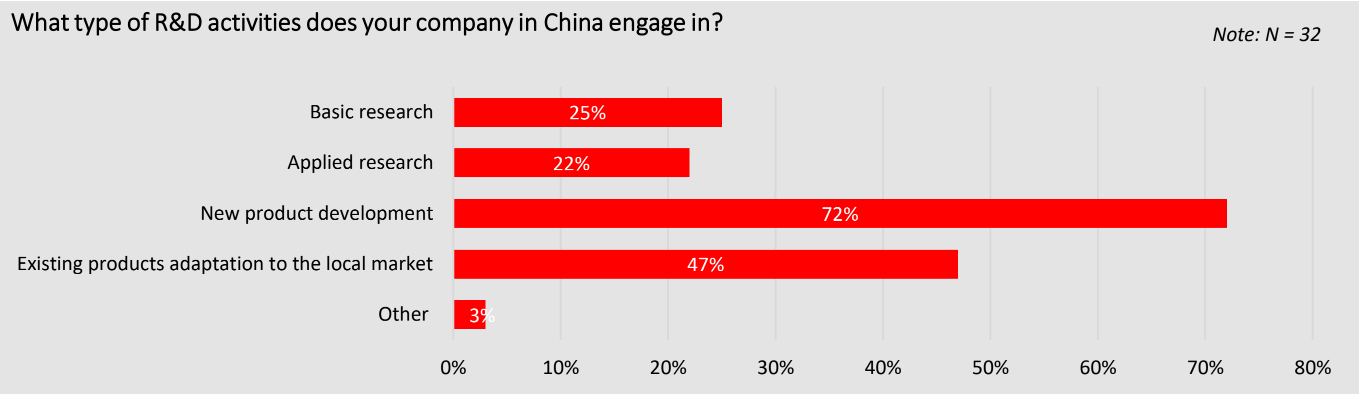
Not surprisingly, similar to the last survey, then most of the Danish companies who conduct R&D in China (91 pct.) are based in one of the following three main areas: Beijing/Tianjin, Yangtze River Delta around Shanghai, and in the Greater Bay Area in Guangdong.

This does not come as a surprise, as it is widely believed that these locations are the top tier locations in terms of innovation ecosystems within China, as also stated in the outlook report prepared by the Innovation Centre Denmark (ICDK) titled "Outlook Report: Danish R&D-intensive Companies – an understanding of R&D activities in China", and it is comparable to the general location of Danish companies in China, as stated in chapter one. Out of 32 companies, indicating to have R&D in China, then the predominant share of companies have a single R&D office. Nevertheless, seven companies indicate that they have more than one R&D office.

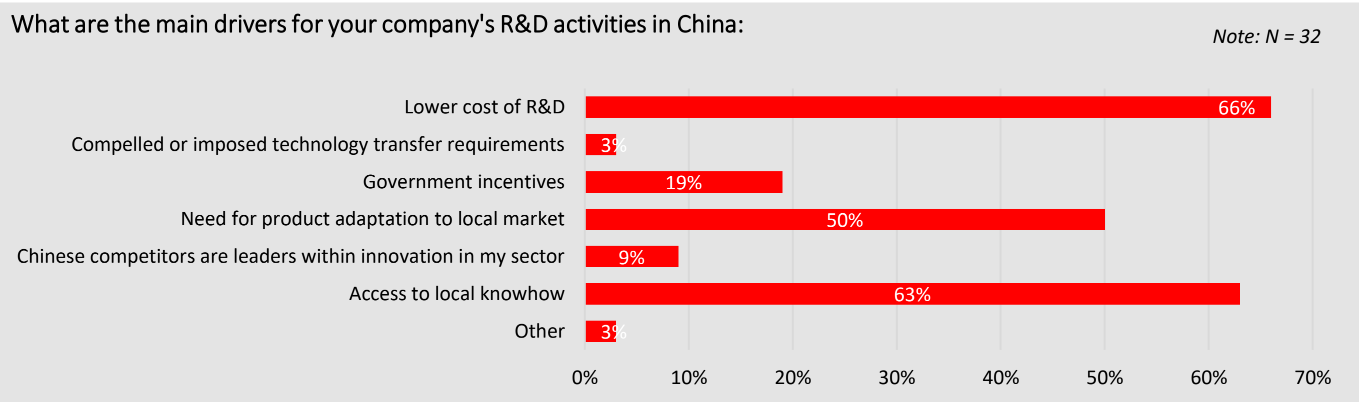
When asked if the companies in China can make decisions about R&D activities independently of their global headquarters in Denmark, one third of the respondents indicate that they agree or strongly agree with the proposed statement. Interestingly, this is identical to the findings in the last survey, indicating that in some affairs, or possibly strictly local affairs, they still act independently of their HQ when it comes to making R&D decisions in China. In contradiction, approx. one third either disagree or strongly disagree, which is down from 55 pct. in the last survey, thus indicating a higher degree of independence between headquarter and subsidiary.

It is not surprising, based on the difference in the engagement in China of the surveyed companies, that R&D activities are organised differently, as it is highly depending on products, company size, market demand, and strategic priorities.

When asked what type of R&D activities the respondents engage in, in China, then almost three out of four (72 pct.) responded that, at least part of their R&D activity, is new product development, which is identical to the response rate in 2021. Indicating that the main focus area of Danish companies' R&D engagement in China predominantly remains the same. In 2021, companies where only asked to indicate their primary focus area, whereas in 2024, they had the option of indicating more than one answer. This provides a much broader understanding of the full scope of Danish companies R&D engagement, which shows in the responses. As an example, only 10 pct. indicated that local adaption was their primary focus area in 2021, while in 2024 almost half (47 pct.) of the respondents indicated that this is part of their R&D activities in China. Same applies for basic- or applied research, where only 14 pct. of the respondents indicated that this was their primary focus in 2021, as opposed to 2024, where 47 pct. indicate that, while maybe not the primary, it is a focus area of their R&D activities.

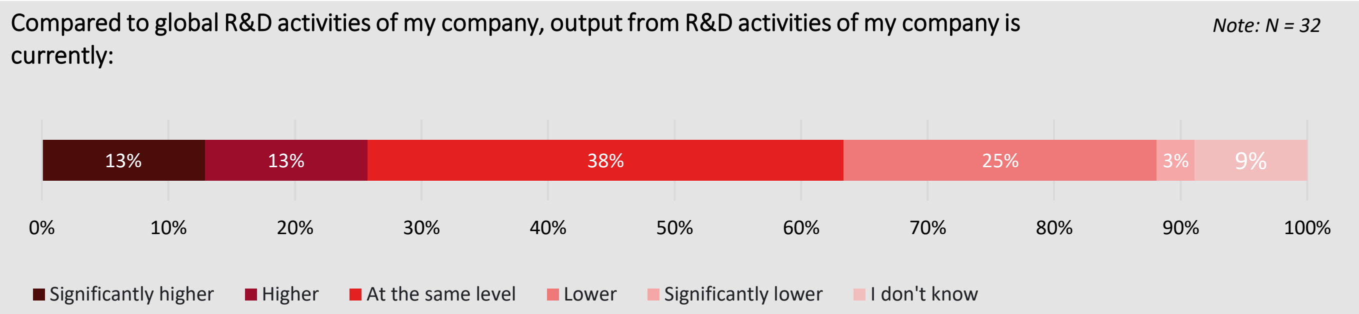


The respondents were subsequently asked to indicate the drivers for their company's R&D activities in China. Once again, in 2024 respondents were allowed to answer more than one driver, as opposed to 2021, where they could only select their main driver. In 2021, the main driver was the need for product adaptation to the local market. While this may still be the case then based on answers in 2024, with 50 pct. indicating that this is still the driver, it is clear that the most common driver for the predominant share of respondents is access to local knowhow and lower cost of R&D. On the other end of the scale, very few respondents indicate that compelled or imposed technology transfer requirements, or that Chinese competitors are leaders within innovation in the respondents field, is a driver for their R&D activities.

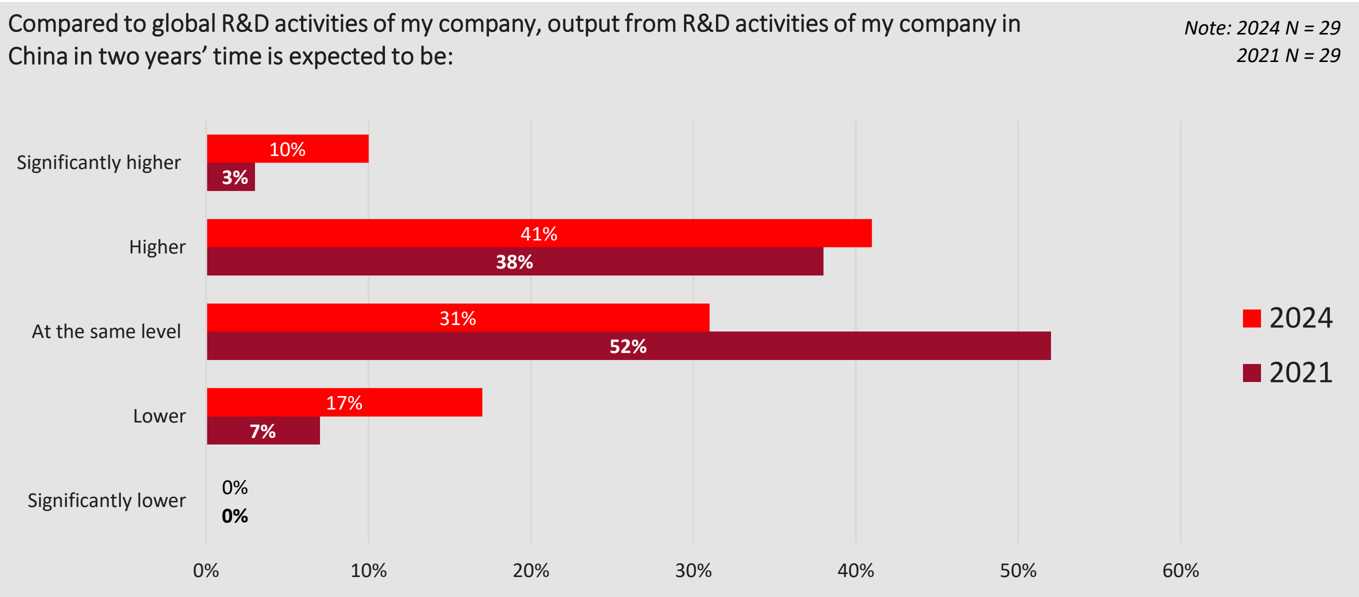


Output from R&D activities has risen but still not up to par

Respondents were, once again, asked to compare the output of their R&D activities in China and abroad. In 2021, 41 pct. of the respondents indicated that they expected that their output would be higher within a two-year span. In 2024, the feedback shows that 26 pct. now believe this to have happened and that the output of their R&D in China is higher than abroad. Indicating that, if the respondents had been the same, Danish companies have not managed to reap the full benefit of their expectations to R&D output from their operations in China.



Yet, optimism has not declined, as 51 pct. now believes that their output from R&D operations in China will be higher within the coming two years. Only 17 pct. has indicated that they expect a downward trajectory on the output of their operations.



ANNEX: THE SURVEY PARTNERS

The survey presented in this report was developed in close collaboration between the following institutions:

The Danish Representations in China

The Danish Representations in China are the Embassy of the Kingdom of Denmark in Beijing, the Royal Danish Consulate General in Shanghai, the Royal Danish Consulate General in Guangzhou and the Trade Council of Denmark in Taipei. One of the primary tasks of the representations is providing sector-specific assistance to the Danish business community in relation to its activities in China and about the Chinese market, ranging from overall trade policy issues to tailored assistance to individual Danish companies. The Danish representations in China have served as the lead on the project.

Danish Chamber of Commerce in China (DCCC)

The DCCC sees it as its primary purpose to represent Danish business interests in China and strengthen the ties between Denmark and China through advocacy, knowledge sharing, networking and social events in cooperation with major Danish and Chinese state and market actors. The Danish Chamber has strong ties with other Danish and Nordic stakeholders present in China as well as important government bodies in North, East and South China.

The Ministry of Commerce (MOFCOM) approved the formation of the Danish Chamber of Commerce in China on October 8, 2000, at the recommendation of the China Council for the Promotion of International Trade (CCPIT). The Chamber registered on December 21, 2000 with the Ministry of Civil Affairs (MCA). DCCC is one of 17 Chambers of Commerce in China.

Danish-Chinese Business Forum (DCBF)

DCBF was established in 2005 and is an independent, non-profit network organisation with more than 120 members, companies and institutions. The purpose of Danish-Chinese Business Forum is to promote exchange of information and contacts among companies, organisations, top executives and managers who have Danish-Chinese commercial interests.

Danish Export Association in China (DEA)

Danish Export Association is a national non-profit association. With almost 60 years of experience and about 700 member companies of Danish export market leaders, DEA offers direct access to the largest network of Danish suppliers within 12 key industries. Its 3 networks in China, including Danish Export – Wind China, Marine & Offshore China, Water China have been very active in assisting the members by sharing the industry knowledge, getting closer contact with the main customers in the Chinese market.

Confederation of Danish Industry in China (DI)

Confederation of Danish Industry in China promotes broad member interests and provides news and analysis about China's business environment. Headquartered in Shanghai, DI China also offers operational services such as subsidiary management, Finance and HR-services including recruitment, as well as online- and offline training and consulting services related to ESG.

Sino-Danish Center for Education and Research (SDC)

SDC is a partnership between all eight Danish universities, the Chinese Academy of Sciences (CAS) and the University of Chinese Academy of Sciences (UCAS). SDC's activities include Danish-Chinese research collaboration within selected focus areas, affiliated Master's programmes and training of a large number of PhD students. The overall objective is to promote and strengthen collaboration between Danish and Chinese learning environments and increase mobility of students and researchers between Denmark and China. Sino-Danish Center is located at UCAS' Yanqihu Campus north of Beijing.

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Danish Industry