

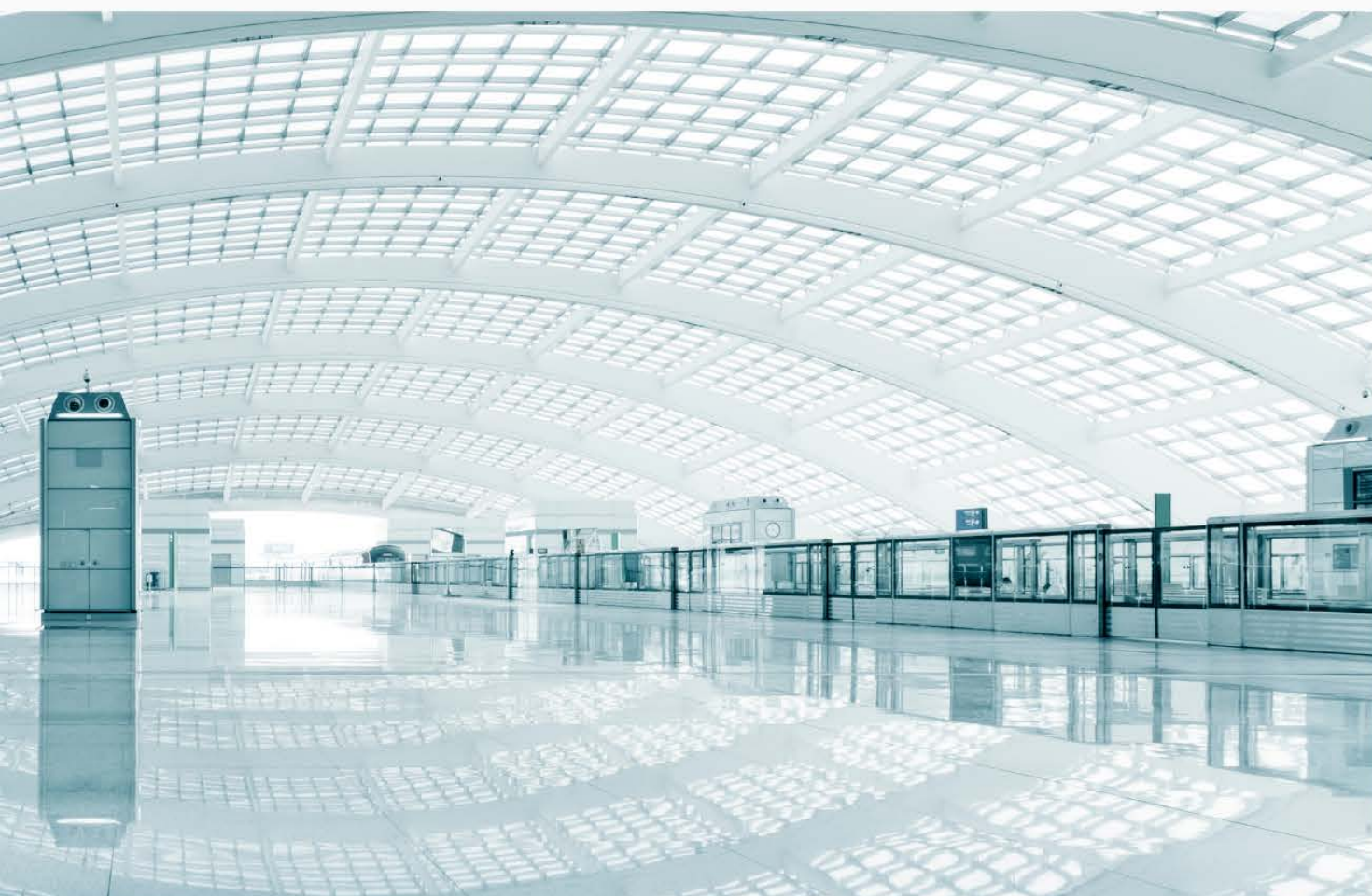


Camera di Commercio Italiana in Cina
中国意大利商会
China-Italy Chamber of Commerce

CHINA-ITALY CHAMBER OF COMMERCE BUSINESS SURVEY

2020 EDITION

www.cameraitacina.com



A project
of
China-Italy Chamber of Commerce



Camera di Commercio Italiana in Cina
中国意大利商会
China-Italy Chamber of Commerce

in cooperation with

International Business School Suzhou



International
Business School
Suzhou at XJTLU
西浦国际商学院



AACSB
ACCREDITED



EQUIS
ACCREDITED



ASSOCIATION
AMBA
ACCREDITED



PRME
an initiative of the
United Nations Global Compact

BSIS
IMPACT



EFMD
EQUIS
ACCREDITED

China-Italy Chamber of Commerce

www.cameraitacina.com

@ 2021 China-Italy Chamber of Commerce, all rights reserved. This study may not be reproduced either in part or in full without prior written consent of the China-Italy Chamber of Commerce.

Contents

Foreword.....	6
About the China-Italy Chamber of Commerce	7
International Business School Suzhou (IBSS) at Xi'an Jiaotong-Liverpool University (XJTLU)	7
Executive Summary.....	8
Introduction	10
Preamble	10
Structure of the Survey	10
Methodology and Limitations.....	11
Profile	12
Organizational Structure and Processes	19
Competition and Strategic Positioning in the Chinese Market	29
Innovation and Technology	34
Financial Performance	39
Business Environment.....	44
China-US Trade War.....	62
Conclusions	64

Foreword

Dear Members, Companies, Entrepreneurs and Friends of CCIC,

The year 2020 represented a complex year in consideration of the challenges brought by COVID-19 and its consequences on global market trends. China was able to respond to the outburst of the pandemic in a timely and effective way by applying economic measures to help restrain its effects. This allowed the economy to promptly recover from Q2 already, which ultimately allowed to close 2020 with a GDP growth at +2.3% compared to 2019.

The recovery plan benefited Italian companies active in China to regain their competitive advantage within the local market, but also to contribute significantly to the results of their Italian headquarters.

The China-Italy Chamber of Commerce, following its mission and strategy centered on the support of its Members, developed tangible initiatives to boost and promote the Italian economic system in China. These actions have been accomplished in synergy with the Italian institutions and led to the achievement of significant results in terms of size, presence and authority in the territories, opening doors to further business opportunities both in China and in Italy.

The III edition of CICC Business Survey, released thanks to the support of the International Business School Suzhou Xian Jiatong Liverpool University and Prof. Roberto Donà, provides an updated snapshot of Italian presence in China, representing a valuable informative tool for CICC Members' business strategies in the market.

Thanks to the high rate of participation of our valued Members and Friends (around 60%), also this edition of the Survey remains instrumental to acknowledge in a precise and reliable way the overall business sentiment of Italian companies towards the Chinese market. The report offers significant instrument to all the companies and individuals interested in gaining insights into the potential and future trends of doing business in China.

This 2020 CICC Business Survey proves that, despite of the difficulties posed by the global pandemic and the increasing international competition within the Chinese market, our companies remain resilient and competitive showing confidence towards the opportunities provided by the high demand of quality products and services of the local market.

The China-Italy Chamber of Commerce is committed to support Italian companies localised in China in a concrete way, boosting business opportunities with Chinese partners to ultimately create value for Italy.

Paolo Bazzoni
Chairman
China-Italy Chamber of Commerce

About the China-Italy Chamber of Commerce

The China-Italy Chamber of Commerce (CICC) is a business organisation recognised by both the Italian Government (Ministry of Economic Development, MiSE) and People's Republic of China (Ministry of Civil Affairs, MoCA) since 1991. With offices in Beijing, Chongqing, Guangzhou, Shanghai and Suzhou, CICC aims at boosting the internationalisation and localization of Italian business and to promote the "Made in Italy" in the PRC.

To companies settled in China and those with on-going business within the Chinese market, the CICC offers informative, training and business networking opportunities. Besides, the CICC qualifies itself as a voicing platform for them to share topics of common interest. To companies interested in strengthening their business in China, the CICC offers consultancy, assistance, and marketing services.

For 30 years the CICC has worked closely with its Members (579 Members and Friends in 2020) and Partners, who represent the Italian Business Community in China, to promote the internalization of companies. With its Members CICC has established eight Working Groups covering those sectors considered as the most important and strategic for Italian companies in China. The aims are to share information, resources and ideas and to build sectorial expertise within the CICC in order to voice SMEs' needs to both Chinese and Italian institution.

International Business School Suzhou (IBSS) at Xi'an Jiaotong-Liverpool University (XJTLU)

IBSS (International Business School Suzhou), is the largest among the schools of XJTLU, an independent Sino-foreign cooperative university, which captures the essence of both of its prestigious parents (Xi'an Jiaotong in China and Liverpool from UK) it is the first and only of its kind approved by the Ministry of Education.

IBSS is based on strong principles of internationalism, innovation, inspiration and integrity to create a positive impact on society through teaching, research and business engagement.

IBSS became one of the ten business schools in Greater China, and the youngest in the World, to achieved the triple crown, having been accredited by AACSB in 2016, EQUIS in 2018 and AMBA in 2020.

The five departments of IBSS are Accounting, Economics, Finance, Intelligent Operations and Marketing, and Strategic Management and Organizations with over 140 staff members and more than 4,000 students from over 60 different countries.

Roberto Donà, the author of this report, is an academic and a business practitioner with a long experience in China. He is a Professor of Practice in Management at IBSS where he serves also as Associate Dean for Corporate Affairs. He is also Honorary Professor at School of Innovation and Entrepreneurship of University of Chinese Academy of Science. Currently he is also no executive chairman and independent director in a company listed at the Catalyst market in Singapore.

Executive Summary

The business survey organized by the Italian Chamber of Commerce has been executed during the fall of 2020 in the middle of the pandemic. The survey was made by a questionnaire consisting of a 55 questions, out of which 54 were closed questions and one was an open question. The questionnaire has been sent to all the members of the Italian Chamber of Commerce and we have received 304 answers corresponding about 60% of the members of the chamber.

Among the respondents roughly 57% of the companies are subsidiaries of Italian companies in China while 30% represent independent companies created in China by the Italian community, demonstrating the entrepreneurial spirit of Italians.

A large percentage of the companies, roughly 32%, are focused in the service-to-business industry which is a cluster of many sub-sectors such as strategic, legal and financial consultancy, logistics, insurance financial services, etc.

Manufacturing represents by far the largest group with the more than 42%, even if in our survey it has been divided in three main categories, 10% in automotive field, 11% in machinery field and about 20% in other manufacturing field.

Most of the companies that have participated the survey have been in China for more than 10 years (60%) but it's interesting to notice that 17% of the company are new companies. In terms of geographical location, most of them are in the east of China, including Anhui, Jiangsu, Shanghai and Zhejiang, representing 50% of the respondents. Only 16% of the companies are from the North and a small number of them is distributed in the south and west of China.

The size has been determined in both number of people and class of revenues, and in both cases they have been grouped in 4 categories: big, medium, medium/small and small, and in both classifications the big counts for about 12%.

The result of 2020 are controversial. For some companies it has been a very positive year, for some other, a very negative year. For 5% of the respondents, 2020 was an over performing year with an increase in revenues of about 50% compared to 2019. This is because as always, in a moment of crisis, some sectors could have particular benefits while other are suffering because of the situation. Anyway, the performance of mainland China is much better than in greater China and the rest of the world. Italian companies are in China not only to localize the production, but also to commercialise their products in the country. The large majority of them is also exporting to other countries.

Italian companies are in China not only to localize the production but also to commercialise their products in the country and already exporting to other countries, and this is true for large majority of them.

For what is concerned about the Chinese market, large part of the customers are Chinese private enterprises. There is a growing number of customers that are not Italian or Chinese enterprise but what seems still weak is the presence of the Italian companies among the supplier of Chinese state owned enterprises and public procurement government.

During the survey, the respondents have been asked to say what they think about the three main initiatives of the Chinese government (Made in China 2025, Belt and Road and the newer Dual Circulation). While there is a clear idea about the benefits and the impact of MiC2025 upon their businesses, the respondents are a little bit more skeptical when it comes to the BRI, which is more a topic for headquarters. For what concerns the Dual Circulation, there is still a limited level of knowledge.

About the other policies, the impact of the environmental health and safety is considered low (which does not mean negative) as well as for many other interventions of the Chinese policy makers or regulatory bodies.

Generally speaking, the Italian companies have a positive assessment of their situation in China.

There is a strong belief that the business in 2021 will increase and the numbers are expected to be even better than that of the 2020 and that explains why to operate in the country is still a strategic choice for most of them.

The expectations for the future are quite positive as the Italian companies believe China is still a key and strategic market for their future development.

Introduction

Preamble

The survey of the business in China of the Italian companies has been executed in October and November 2020 during the pandemic.

Therefore, some of the results presented in this reports have to be considered and discounted given the particular situation faced at that time.

Furthermore, in the report we refer to “Italian Companies” to indicate the companies members of the China-Italy Chamber of Commerce, despite their country of origin and/or incorporation

	Identity	Entity	Industry	Location	LifeCycle	People	Revenues	
Profile	0.18	0.15	0.07	0.17	0.11	0.13	0.11	7
Structure	0.10	0.10	0.07	0.07	0.44	0.30	0.23	6
Strategy	0.11	0.11	0.05	0.04	0.36	0.31	0.37	10
Performance	0.07	0.13	0.05	0.06	0.34	0.31	0.47	7
Business Environment	0.08	0.10	0.06	0.06	0.29	0.23	0.36	13
Business Sentiment	0.08	0.15	0.06	0.05	0.37	0.29	0.42	11

Survey Structure

Figure 1

Structure of the Survey

The survey was divided in six parts: profile, structure, strategy, performance, business environment and business sentiment, and in total was composed by 54 closed questions and one open question.

All the questions have been analyzed considering six different categories: Identity, Entity, Industry, Location, Lifestyle, People, and Revenues, and the figure 1 represents the level of consistency of the answers.



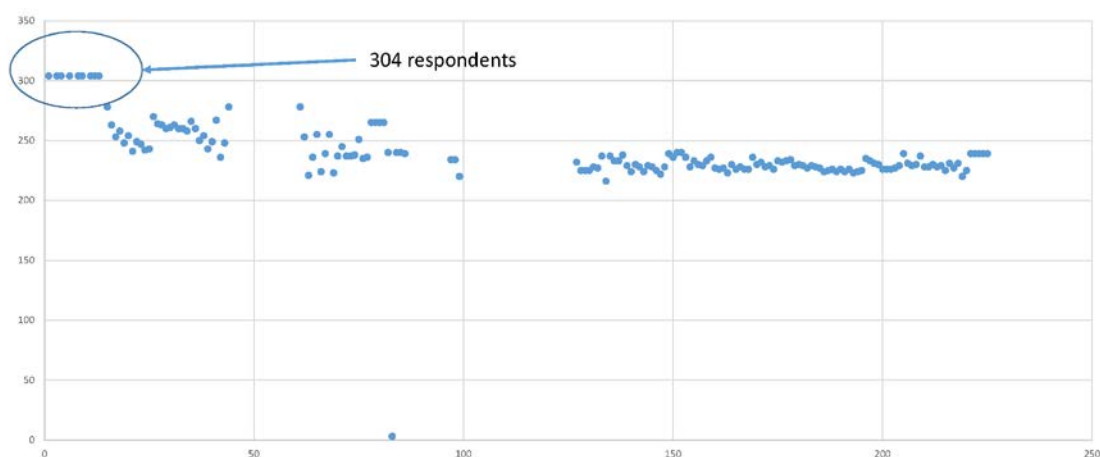
Indeed, the numbers that are represented in this chart are the average of the correlation indexes among all the questions belonging to a specific part and therefore the greener, the stronger the correlation is, while the red color indicates a low correlation.

What we can notice is that there is a strong correlation by the revenues, size and life cycles.

What does it mean?

It means that despite different industries, in China, companies are facing the same situation when they have the similar level of maturity, they are the same for size (number of employees) and revenues.

China is a country where size matters!



Respondents and Responses

Figure 2

In total 304 respondents have started to fill the questionnaire and the large majority of them, roughly 250 out of 304, have completed the questionnaire.

This means that along the entire questionnaire, there's the consistency of the answers is very strong because apart those people that have just completed the first part, the profile, all the others have completed the entire questionnaire.

This is a good sign for the quality and the representativeness of the results.

Methodology and Limitations

The survey has been conducted exclusively among the members of China Italy Chamber of Commerce during the months of October – November 2020 in an anonymous form.

The questionnaire consisting of 55 questions was created by a team of faculty and students of IBSS using a premium account, belonging to CICC, of the SurveyMonkey service.

The distribution of the questionnaires has been done by the CICC team which has provided to the research team with the data set of the responses cleaned of any reference of the respondent.

In total 304 respondents, representing almost 60% of the members of CICC, have submitted the questionnaire with a % of full completion of 85%.

English was the chosen language of the survey being the respondents of different nationalities.

In the interpretation of the data, we have noticed the following limitations:

- The size of the investigated population and the granularity of the profiling required by CICC might reduce the statistical significance of some of the charts because of the limited number of respondent in the selected cluster;
- Comparison of the data with previous edition of the survey is not always possible because of changes in the clusterization criteria;
- Some respondents might have interpreted differently, some of the questions despite the information provided (currency, “not really” vs “not applicable”);
- Anonymity keeps confidentiality on the individual data but doesn't allow any horizontal consideration.

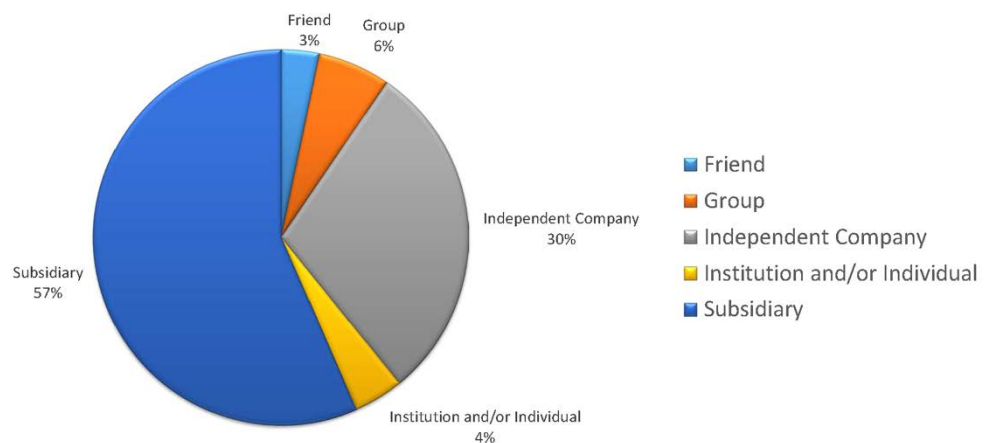
Profile

Let's start to analyze in details who are the Italian companies that have responded to the survey.

In figure 3 we can see that 57% of the companies are subsidiaries of Italian groups. It means that they report to an Italian group. Among the others, relevant is the 30% of independent companies.

We can assume that an independent company is a company that has been created in China by Italian entrepreneurs and therefore a company that is not necessarily linked with another group.

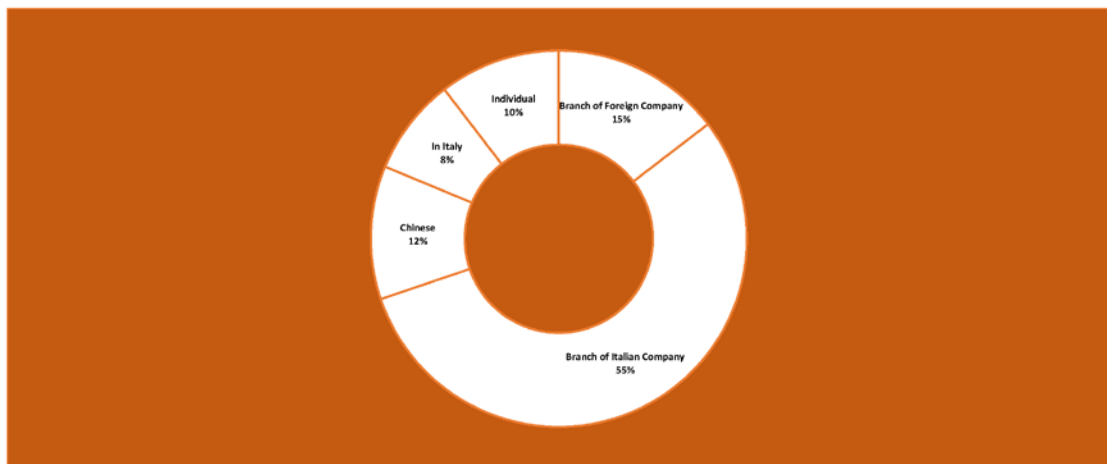
It is an important data because it reflects the Italian entrepreneurial spirit also in a faraway country like China. Establishing new companies is a clear indicator of a community which is strengthening its presence in the country.



Identity of the Italian Companies

Figure 3

In figure 4 we can see the analysis of the Entity, where Entity is the legal form of the Italian company in China.



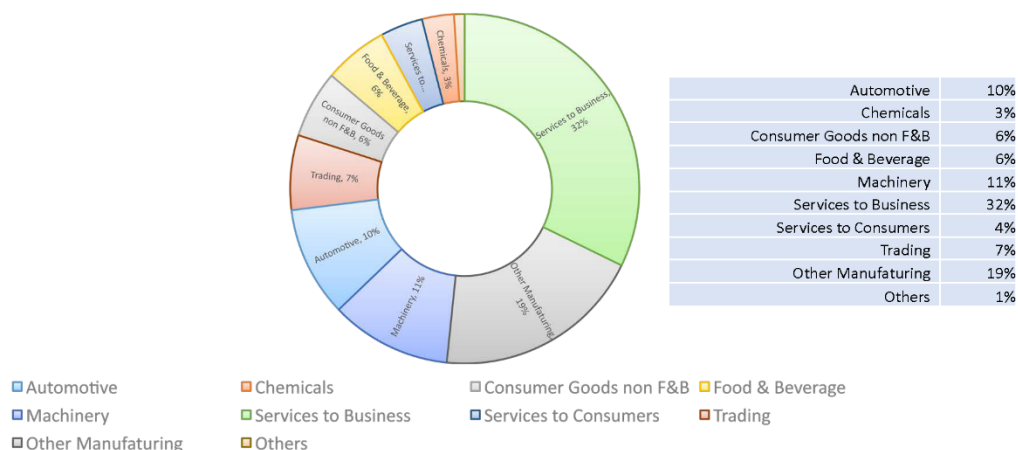
Type of Entity

Figure 4

The large majority, 53% of them, are branch of the Italian companies and 15% are branch of foreign companies.

At a superficial first look, it seems that there is a little inconsistency between Identity and Entity, but it is not, because reporting line and decisions about legal entity are different things.

The figure number 5 instead represents the breakdown of the industry of the respondents.

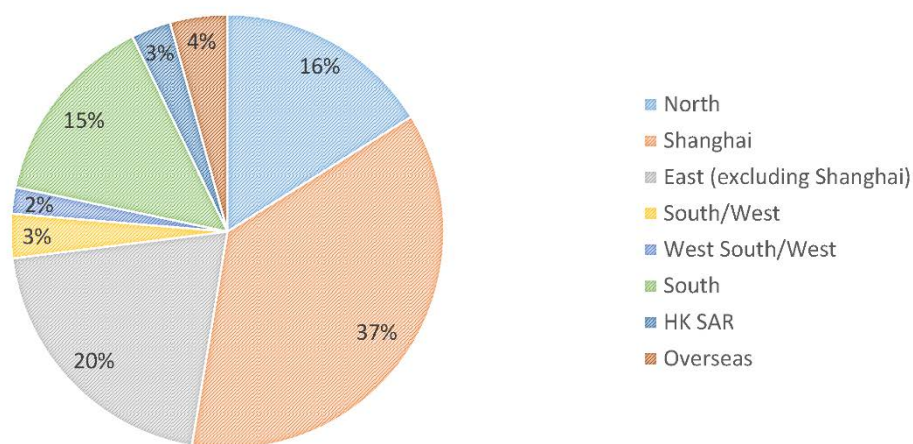


Industries

Figure 5

The larger majority, the biggest group is the group called **Service to Business**. It is a large group that includes consulting companies, financial services, IT companies, Logistic and all those companies that offer services to businesses. It is large but also very diverse.

It might surprise many readers to see that in China, the factory of the world, most of the companies are not in manufacturing, but in our analysis, and also to better analyze the results, the manufacturing industry has been split in three groups: automotive, machinery and other manufacturing, and combined they represent 40% of the sample.



Location

Figure 6

In figure 6 the sample is described in term of location.

China has been divided in 6 regions, starting from the 4 (plus one)¹ main regions recognized by the Italian Institutions: **North**, **South**, **East** and **West**.

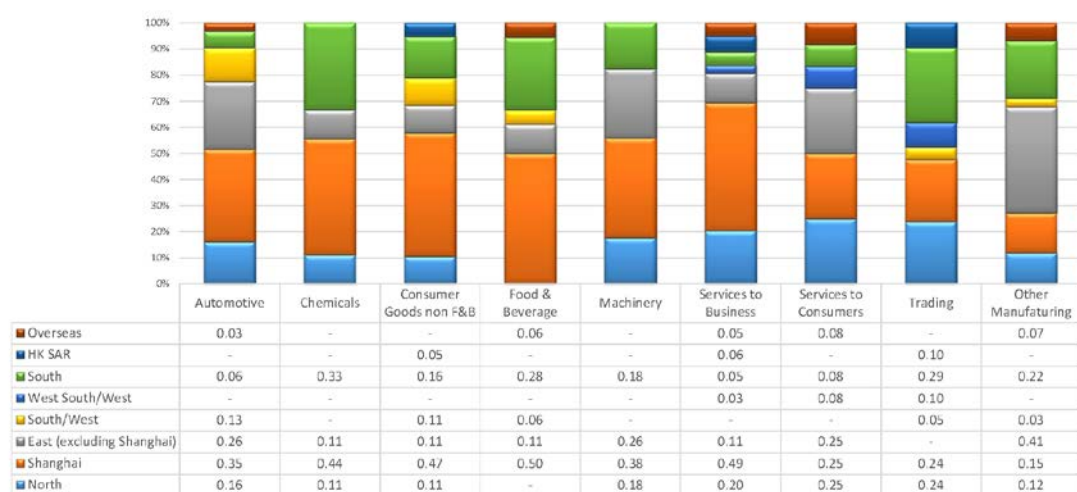
For a matter of clarity and also to combine size of the region with its peculiarity, the data of **Shanghai** have been extracted from the East as well as the **South/West** from the South.

At the 6 Chinese regions two others have been added: **HK SAR** because there are still companies operating their business from there and **Overseas** which means Italy in most of the cases.

Combined Shanghai and East of China are the 57% of the sample. Indeed, 37% of the respondents are in Shanghai to re-inforce the point that the city is the center for the international trade between China and the rest of the world, while the remaining 20% is distributed in the 3 provinces of Anhui, Zhejiang and Jiangsu in which Suzhou plays an important role as manufacturing hub.

For what it concerns the other regions 15% of the companies are from South and 16% from North while the West is still in a development stage.

In figure 7 the two dimensions of Industry and Location are crossed.



Industry vs Location

Figure 7

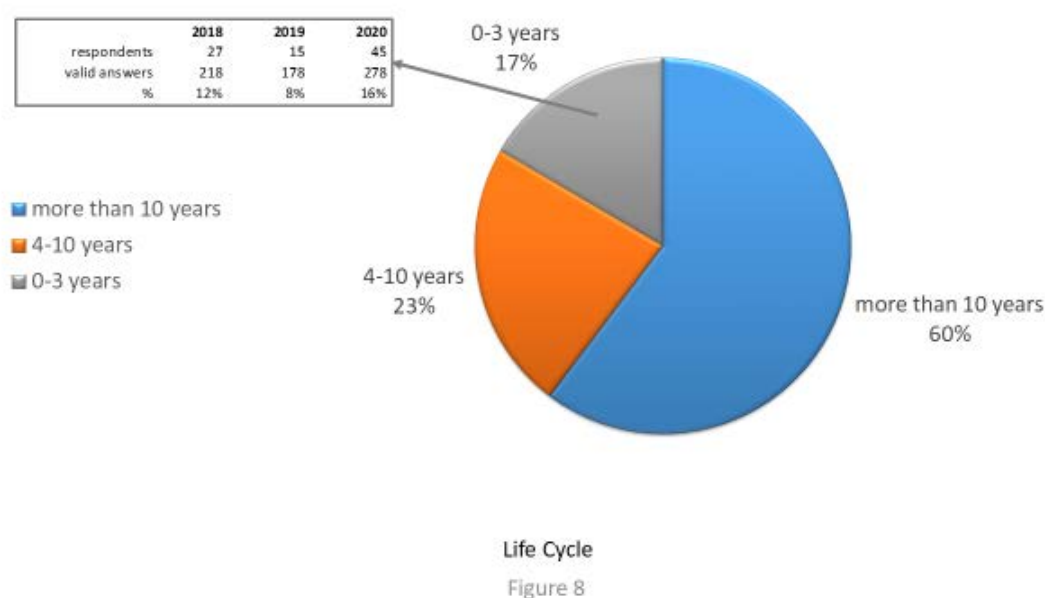
In the figure it is possible to notice the breakdown of each industry by the relative weight of the regions.

¹ The Italian presence in the Chinese territory is organized in one Embassy in Beijing and four General Consulates: Shanghai, Hong Kong, Guangzhou and Chongqing

Thus, we see that the percentage of Services (including Trading) in the North is higher than 16% as well as in Shanghai versus East. It is a quite obvious and trivial consideration (services are more centralized in big cities rather than decentralized in production hubs) but can be used as a “confirmation of evidence”.

Some of the data depends also from the group of respondents, which is not a real sample but it is a self-created group of companies based on voluntary participation, and that’s the reason why no Food&Beverage companies appear to be in the North, while there are some.

Anyway in the South respondents are not only from manufacturing (Guangdong as the factory of the world) but they are an important part of some key industries such as for instance Chemical and Trading².



In figure 8, we see the level of maturity, the life cycle of the Italian companies in China and we have grouped them in three different stages.

We can consider the new enterprises, in their initial stage, the companies that have less than three years of life³. The development stage instead contains companies that are in China for more than three years but less than 10 and finally the maturity stage for companies with more than 10 years of experience.

What we can see is that 60% of the companies are in China for more than 10 years already, while there is an interesting 17% of companies that are new or relatively young, and they are a second wave of investment done by Italians in the Chinese territory, which continues to keep attention.

² Which are by the way the historical industries of the area

³ In this case “years of life” refers to the Chinese subsidiary

This number is also growing compared to the previous surveys and it might explain a new wave of entrepreneurship maybe pushed by the opportunities offered during the pandemic.

For what is concerned the size there two relevant measurements: number of people and revenues.

Regarding the number of people, the four categories are: **big**, **medium**, **small/medium**, and **small**. The output of the breakdown is a situation reflecting the same industrial structure of Italy with the large majority of the companies that are considered small or small/medium enterprises. In our sample the big corporations are the 10% and the medium the 19%.

This number can create some doubts, because at first look to see a bigger number of big companies compared to medium appears to be inconsistent, but in reality there is a clear explanation for this phenomena. In China, as well as in many other “big” economies, either companies operate in a niche, focusing on specialization, quality and uniqueness of their offer, or they need to operate achieving the critical mass required to be competitive and to achieve economies of scale.

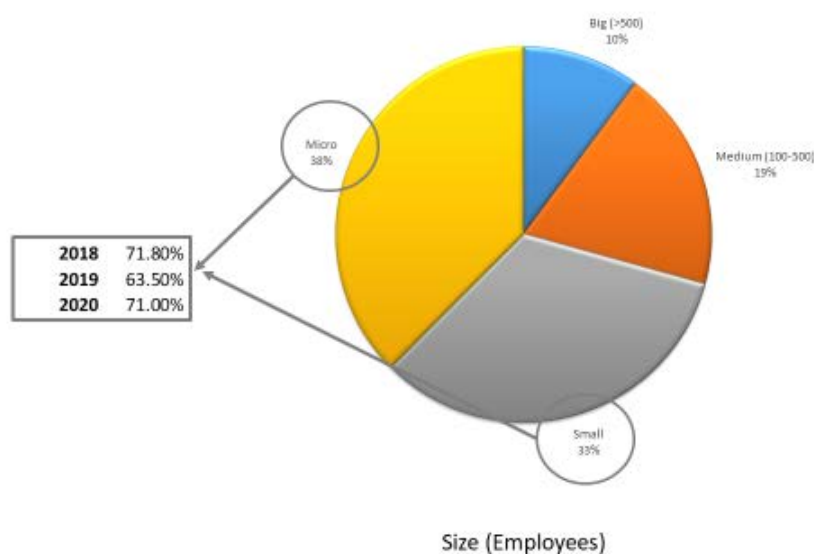
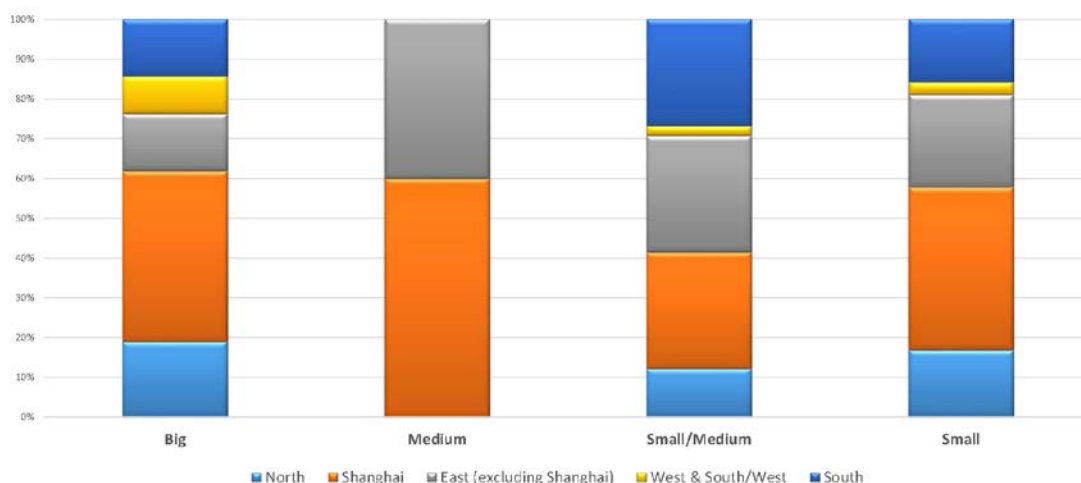


Figure 9

To further support of the idea of the revamping of startups we can notice an increase of the small sized companies versus 2018 and 2019.

To stuck in the middle, it is possible only in the growing stage or in a transition period. From a strategic perspective the positioning and the right sizing of the organization are important and key decision to make.



Size vs Location

Figure 10

From the figure 10, we can see that “big” companies are more located in Beijing, and this is link with some considerations done previously, while the medium company are distributed between Shanghai and the east China.

The reason is, probably⁴, due to the typical structure and positioning of the company of Shanghai and Jiangsu. Most of them are 1st or 2nd tier suppliers in global value chain of heavy industries⁵, and in most of the cases they are specialized companies of small/medium size. They operate with a limited set of products and a limited number of customers focusing on the efficiency of their cost structure to be competitive with the requirements of the market.

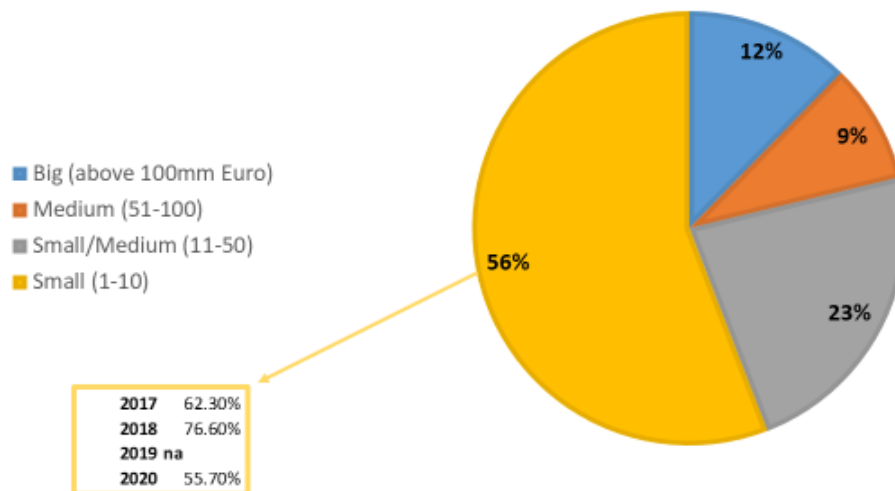
To be notice also that small/medium companies, or at least a large portion of them, is located in the south and the south/west to indicate that the new territories are attracting new businesses.

Finally, the figures 11 and 12 are describing the economic impact, in term of revenues, of the Italian companies in China.

Also, for the revenues, as per the number of people, there clusterization has been done grouping the companies in **big**, **medium**, **small/medium** and **small**, using respectively the following ranges: up to 10mm Euro for the small, between 11 to 50 for small/medium, between 51-100 for the medium and above 100 for the big.

⁴ “probably” because of data not presented here are supporting this hyphothesis

⁵ Typically automotive



Economic Impact

Figure 11

The two classifications, number of people and revenues, are creating strong correlations among the companies which are in principle belonging to the same group no matter which criteria is considered.

This element can be considered a redundancy but also a demonstration that in order to operate effectively, and efficiently, in China it is necessary to reach a certain level of revenues per capita, and that this number is homogeneous among the different industries.

Also, in this case the Big companies are representing the 12% of the respondents while the medium are the 9% of the respondents.

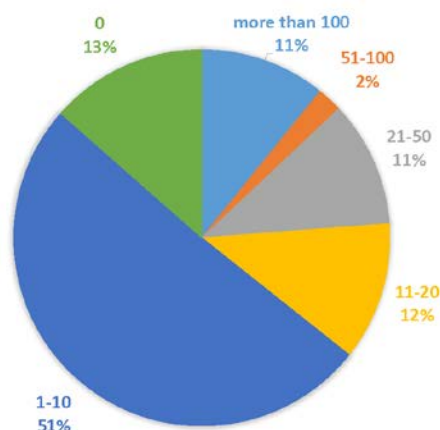
Analyzing instead the figure 12, revenues by industry, interesting to see that none of the company in the “service to consumer” industry have declared their revenues, while the large portion of the companies in automotive and chemical tend to be bigger than in other industries.

Food&Beverage and Service-to-Business are two sectors instead characterized by companies of a small/medium size.

Organizational Structure and Processes

In the previous paragraph we have studied the profiling of the Italian companies participating in the business survey.

In this paragraph instead we focus on their structure.



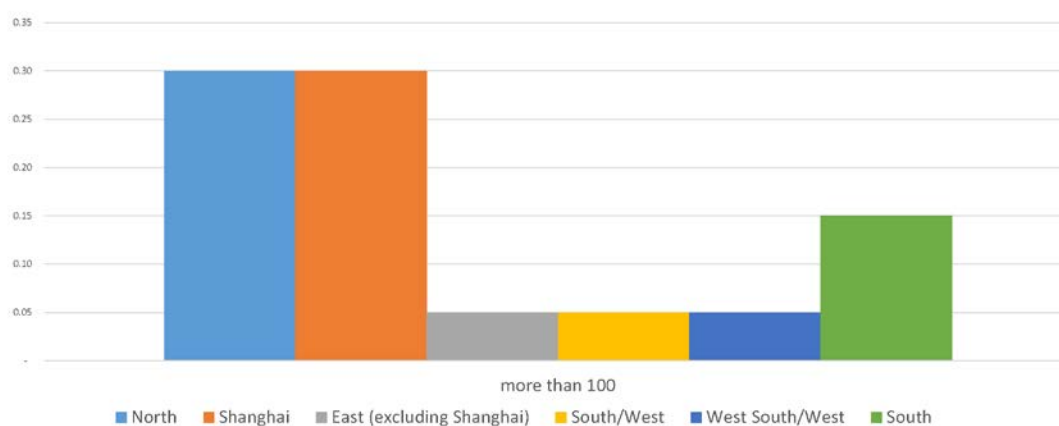
Investments

Figure 13

The first data to consider is about the investment done by the Italian companies in China (figure 13). We can see that half of the companies have invested up to 10 million euro while the 11% of the respondents have invested more than 100 million Euro and this is a quite large portion taking in consideration the data presented above.

The three industries where most of the largest investments have been done are, in order, machinery, automotive and food&beverage.

In term of region of destination of the Italian investments, we can see in figure 14, where they have been allocated. 30% of those that have are from North or Shanghai.



Where the Most Relevant Investments

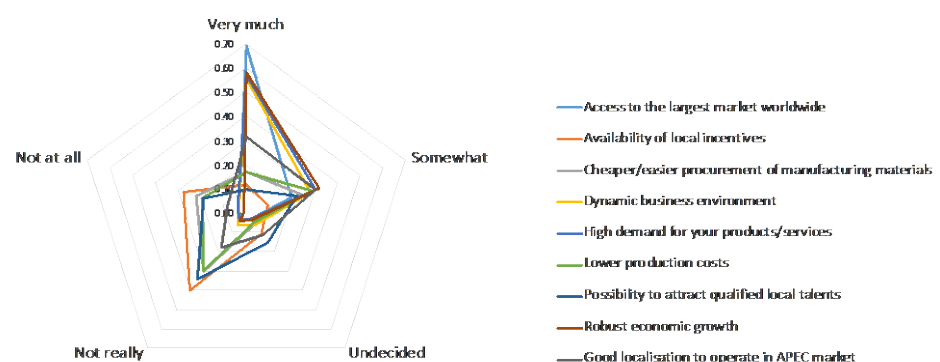
Figure 14

We can also see that 20% of those that made large investments are located in the South, while the other regions including the east of China⁶ that's included the Zhejiang and Jiangsu are below these amounts or they have a limited number of investments above a hundred million euros, compare to others.

The following figure is instead about the reasons why the Italian companies are in China (figure 15).

For this question, the respondents have been asked to reply with a Likert scale, rating 9 different options:

1. Access to the largest market worldwide
2. Availability of local incentives
3. Cheaper/easier procurement of manufacturing materials
4. Dynamic business environment
5. High demand for your products/services
6. Lower production costs
7. Possibility to attract qualified local talents
8. Robust economic growth
9. Good localisation to operate in APEC market



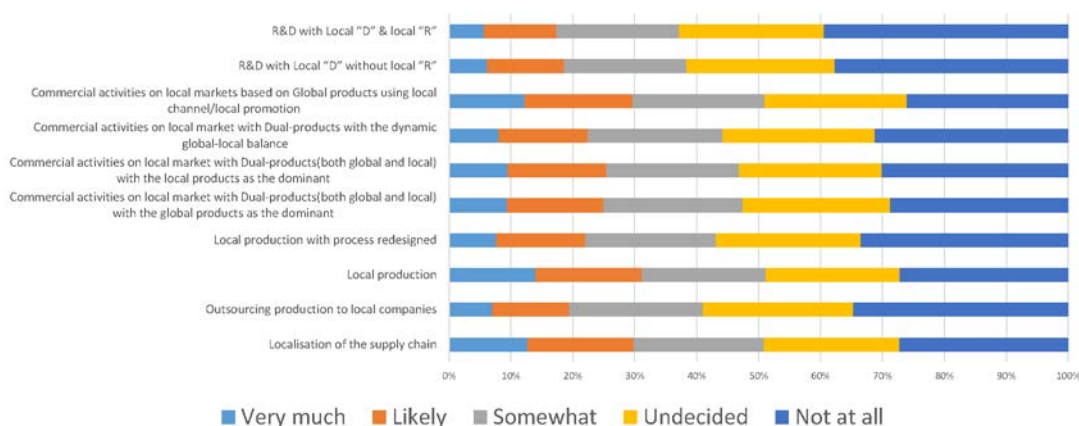
The results clearly demonstrate that the driving reasons to be in China are related to core business evaluation, 69% say “**very much**” to **access to the largest market worldwide** and 58% to both **high demand for your products/services** and **robust economic growth**. This is an important sign of maturity for the companies which is confirmed by the fact that the lowest “**not at all**”, 28%, is for the option about the availability of local incentives.

⁶ That includes Zheijiang and Jiangsu

The Italian companies are in China because of the local business opportunity and not because of financial support or lost cost of production.

Possibly this is a change in perspective and most probably for the companies with a longer tradition in the country the trigger at the beginning was different but, now, the presence is clearly a strategic decision “built to last” and not just an opportunistic option.

Consequently, and also to confirm the results, the next question is about the activities performed by the Italian companies in China.



Activities in China

Figure 16

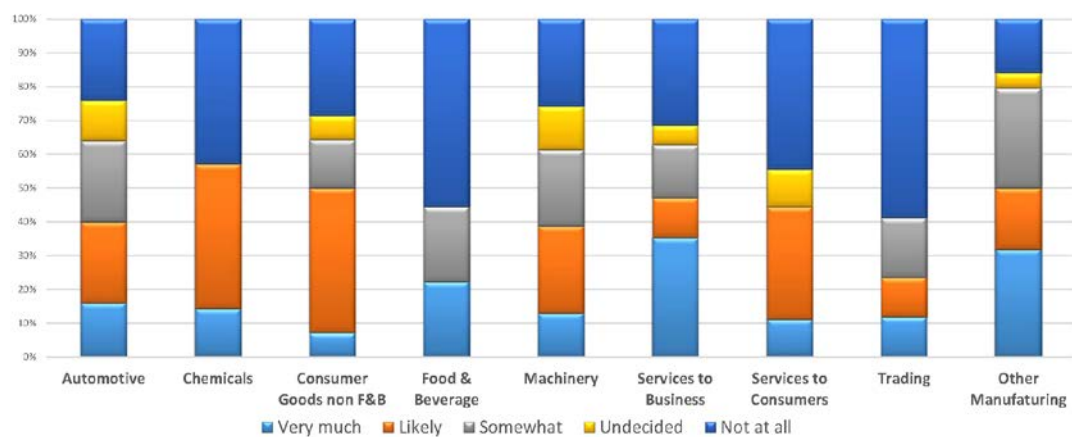
This figure (16) shows a situation which is still a bit “traditional” even if it is evolving. Indeed, if we consider the combined values of “**very much**” and “**likely**” which indicates the region of confirmation in the chart, we can notice that most of the companies are operating in China leveraging their global positioning, with an offer which is the same all around the world.

On the other side if only 30% of the total have some R&D activities (the two options with or without local “R” have a strong correlation – almost 1 – and therefore we can argue that they have been chosen by the same respondents), we can see that the large majority of the manufacturing companies have R&D activities.

Commercial activities on local markets based on Global products using local channel/local promotion	0.67
Localisation of the supply chain	0.63
Local production	0.63
Commercial activities on local market with Dual-products(both global and local) with the global products as the dominant	0.54

Commercial activities on local market with Dual-products(both global and local) with the local products as the dominant	0.53
Commercial activities on local market with Dual-products with the dynamic global-local balance	0.46
Local production with process redesigned	0.43
Outsourcing production to local companies	0.36
R&D with Local “D” without local “R”	0.33
R&D with Local “D” & local “R”	0.29

In the next figure, the number 17, instead, we just focus on the option local production with process redesigned.



Local Production and Redesign Processes

Figure 17

We can see that localization of the production to produce according the need of the market is already a fact: for Automotive “**very much**” and “**likely**” is almost 40%, Chemical is above 50%, Consumer Goods is also above 50%, Machinery roughly 40% and Service-to-business more than 50.

Why food&beverage is only 20%? Again, it seems quite obvious and it means that even if there are a lot of industries that are requiring a very strong localization to adapt the product and the processes to the needs of the market, in others in which the customers is looking for the Made-in-Italy is an absolute value.

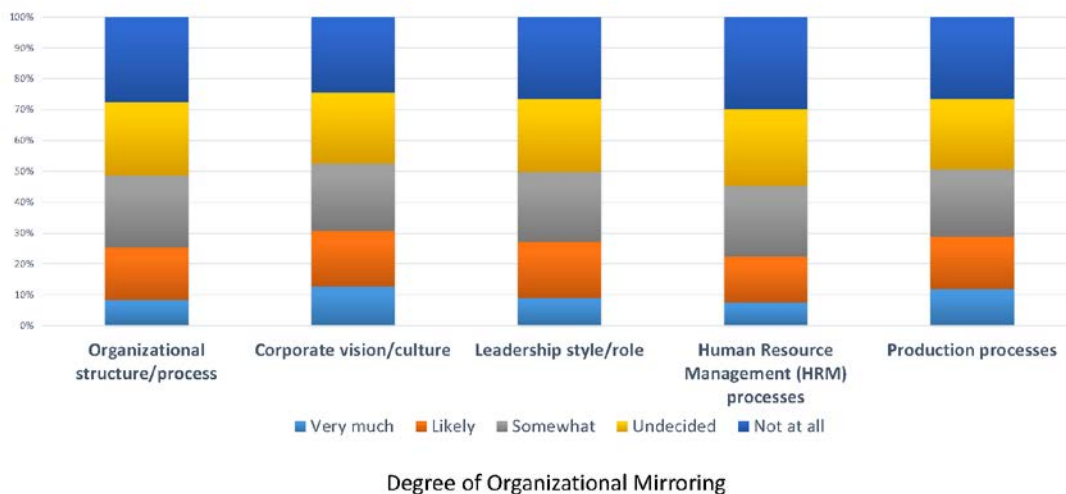


Figure 18

Of course, the major implications of these strategic choices are in the organizational structure and localization requires a certain level of organizational mirroring (figure 18).

In particular in the level of mirroring has been asked with the respect of 5 type of organizational issues: structure and process, corporate vision and culture, leadership style and role, human resource management processes and production processes.

We can see that, for instance, that the higher value is at the mirroring of the corporate vision and culture, but all the other choices haven't received a high score.

Anyway, for this particular question the lower score the better, because we might say that the Italian companies in China are already trying to adapt their organization, their management style, their leadership attitude to the local needs of the market and this is due to the fact that there is an evolution in term of presence in the territory.

In the past, most of the company they had a single presence and this is represented in the figure 19, while in recent past, the number of locations is actually increasing.

We can notice that have more than two G&A offices the 12% of the companies, Sales Offices the 23% of the companies, Warehouses the 16%.

It is a first sign of expansion of their presence, in a territory and this is probably due also to the support they are receiving from public and private organizations aimed to promote the Italian business in China.

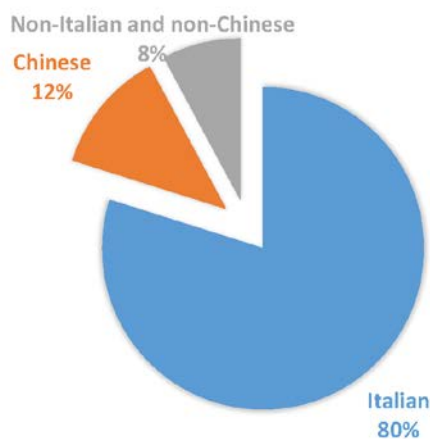
	0	1-2	3-5	More than 5
General and Administrative Office	45	175	18	11
Sales Office	46	134	33	21
Warehouse	75	98	20	14
Production Plant	100	86	10	8
R&D Center	120	64	6	4
Retail and/or Distribution Center	108	47	11	25

Number of Locations

Figure 19

The mirroring and the distribution of the organization structure are linked with the following questions which are related to the presence and role of foreign employees (figures 20, 21 and 22).

For what it concerns the top management, CEOs and/or GMs, still 80% of them are from Italy whilst the percentage of Chinese is limited to 12%.

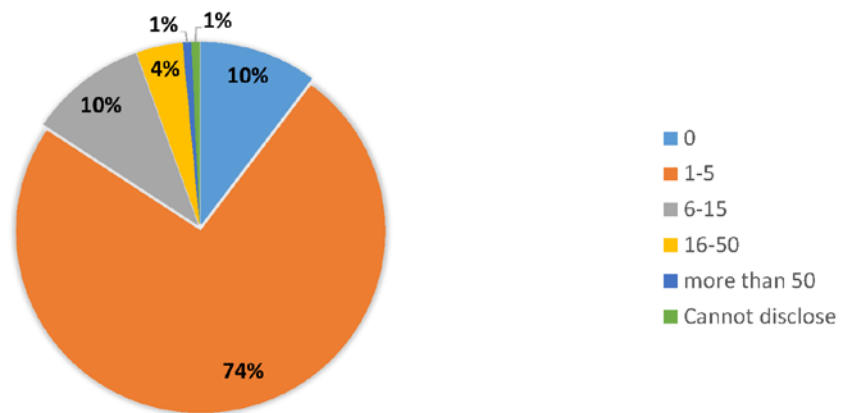


CEO/GM Nationality

Figure 20

Overall, the number of foreign employees tend to be limited since only 1% of the companies have more than 50 foreigners, while 10% have no Italian at all. 74% of the

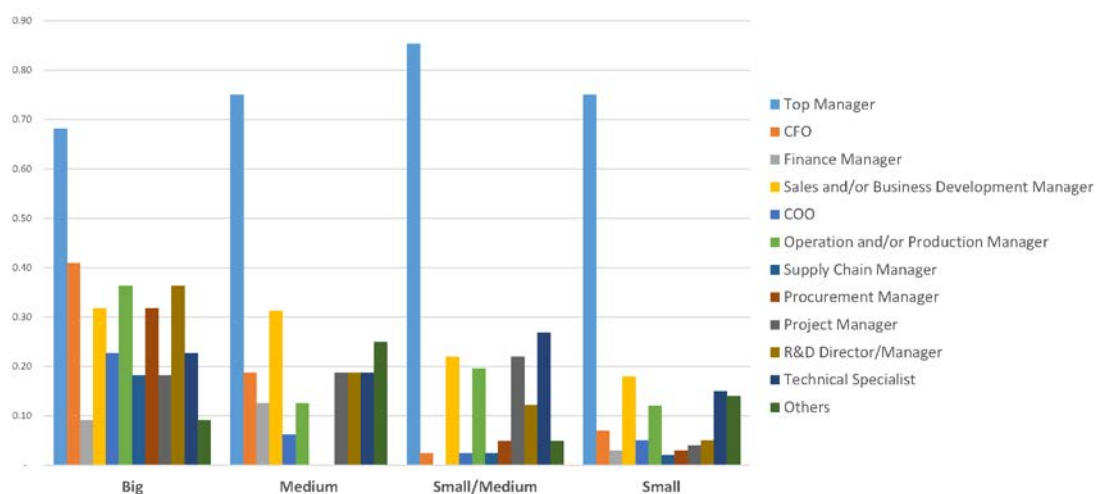
companies have a number of foreign employees between one and five.



Number of Foreign Employees

Figure 21

Regarding the roles and the responsibilities covered by the foreigners⁷, the figure 22 reports the answers of the respondents divided by company size.



Roles of Foreigners Employees

Figure 22

Considering this data and combining them with two previous slides we can see that in the large majority of companies, no matter if big, medium, small/medium or small, the leading managerial role is covered by foreigners.

The role of CFO or at leader of the financial processes is covered by foreigners in the big companies while in the smaller is covered by the local employee, like for the HR manager.

⁷ Non Chinese

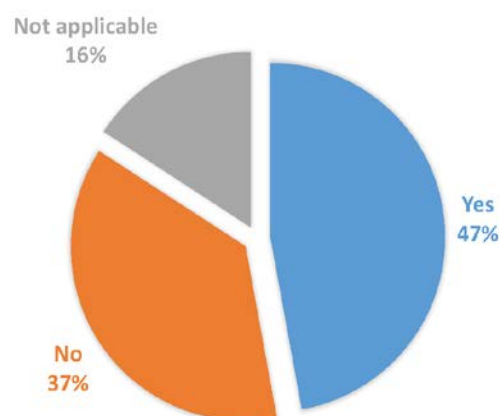
Again, this is quite obvious as the big companies want to keep a strong linkage between the local practice and the headquarter for some of the core processes. While there are more companies here for of accessibility to the local market, that prefer to have a local people in managing the market.

Interesting also to remark that there is a growing number companies which are bringing foreigners to manage technical processes, engineering, R&D and this is because of the increasing level of competitiveness requires the best talents, despite of their nationality.

In the figure 23 there is the data representing how many companies export their products and/or services outside of China.

Of course there is a relevant % of respondents for which this is not applicable but among the other 84%, 47% said **Yes**, which is the majority of the answers.

Exporting remain one of the fundamental engines of growth for the Chinese economy and therefore we have analyzed also which are the region with a larger attitude in exporting.

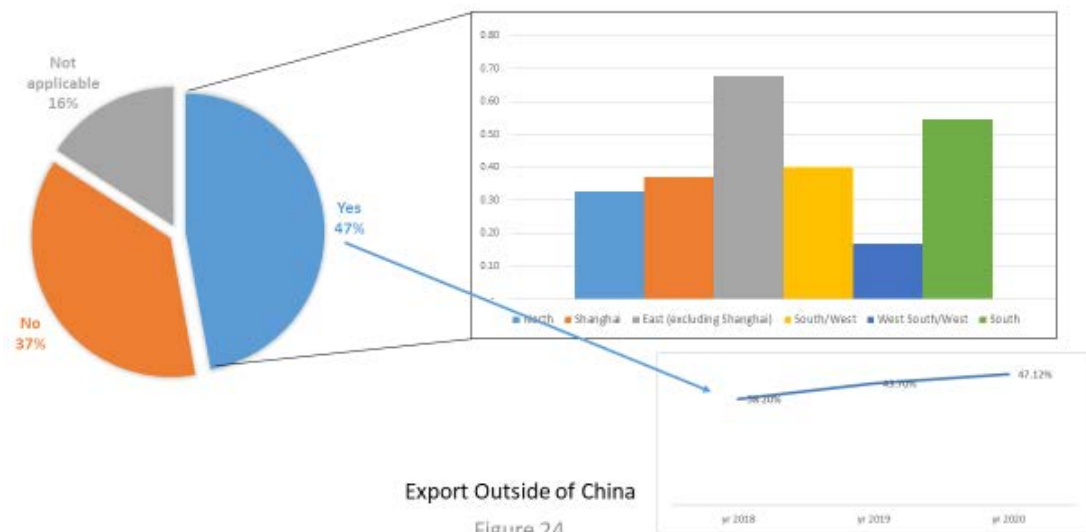


Export Outside of China

Figure 23

That's why in figure 24 there is the analysis of the export by region.

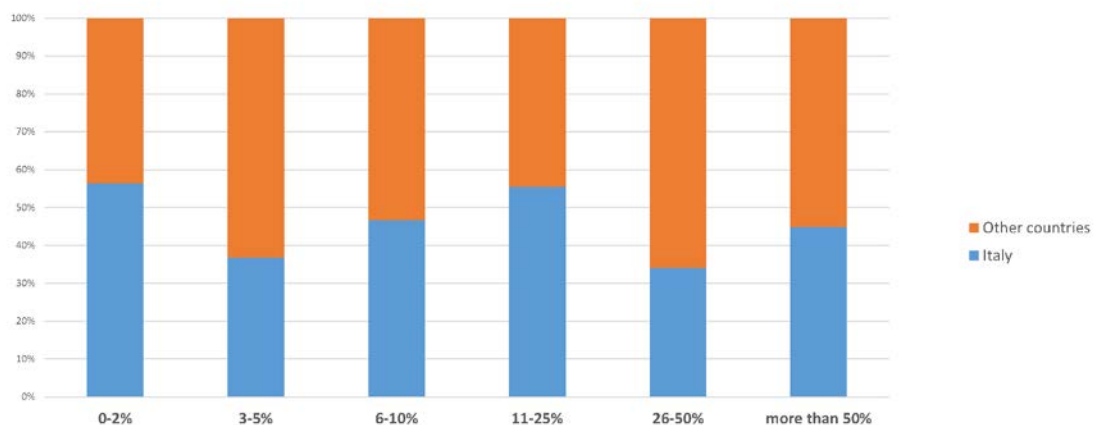
We can see that the two areas that are exporting are the East of China, excluding Shanghai, and the South again, also this is a result without surprises because in East China there are Zhejiang and Jiangsu with are typical industrial provinces.



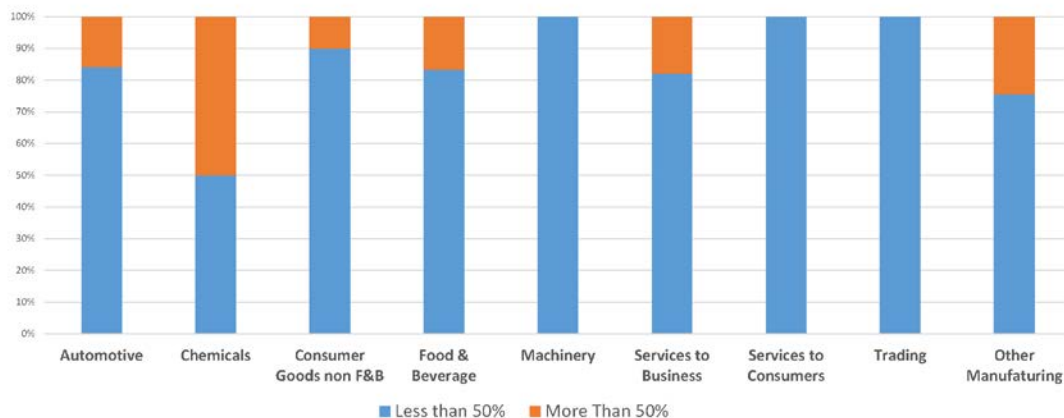
In the South instead the largest province is the Guangdong that is another industrial hub and therefore it seems confirmed that those provinces with a stronger industrial tradition are still leading the export of China.

The next step has been to ask is the destination of the export was Italy or other countries, and how this data impact on the total revenues of the companies.

We can see, for instance, that there are a large number of companies that are exporting between the zero and the 2% of their revenues. And in this case, they



are more exporting to Italy than to other countries. But when we move on the right side of these chart, for instance, we see that when we export count for more than 26% or more it is not only Italy the destination.



Relevance of Export vs Other Countries

Figure 26

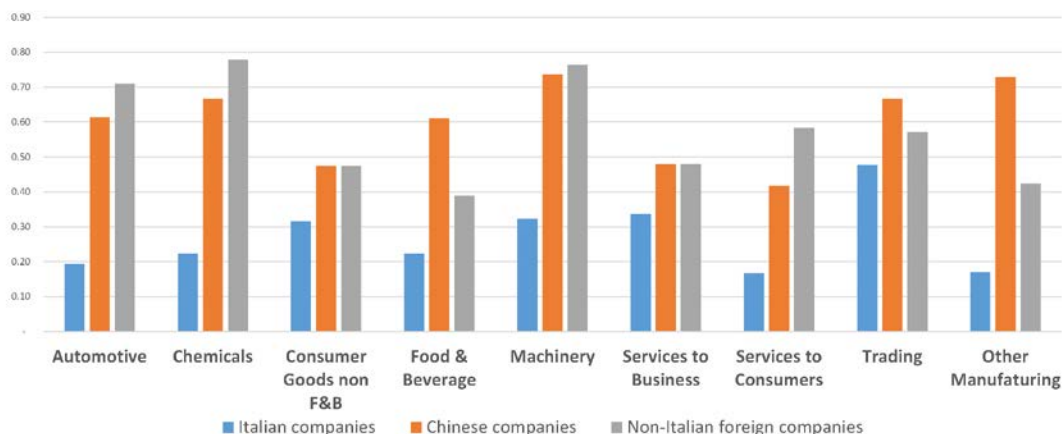
So the bigger the company, the more countries they export to express the fact that the position in China is not only to de-localize their production processes to a low cost country but to cover a well-defined production strategy.

The figure 26 instead represents the same data by sectors and only for those companies that have declared that their export counts for more than the 50%.

We can see that there are important quotas in Automotive and Chemical which are two sectors characterized by global value chains, as well also some answers are from food&beverage and services-to-businesses because there are some services that might be exported as well, but again, also from this point of view is the automotive the relevant sector.

Competition and Strategic Positioning in the Chinese Market

Another important part of our analysis is related to the competitive environment. Who are the main competitors of the Italian companies? Which competitive advantage are they leveraging?



Competitors

Figure 27

The figure 27 describes who are, from their perspectives, the competitors of the Italian companies in China.

It emerges very clear that the competitors are the local Chinese companies, 64%, but there is still a big portion of non-Italian foreign companies, 52%, and of Italian companies, 45%.

This data depends of two factors: the sector and the positioning.

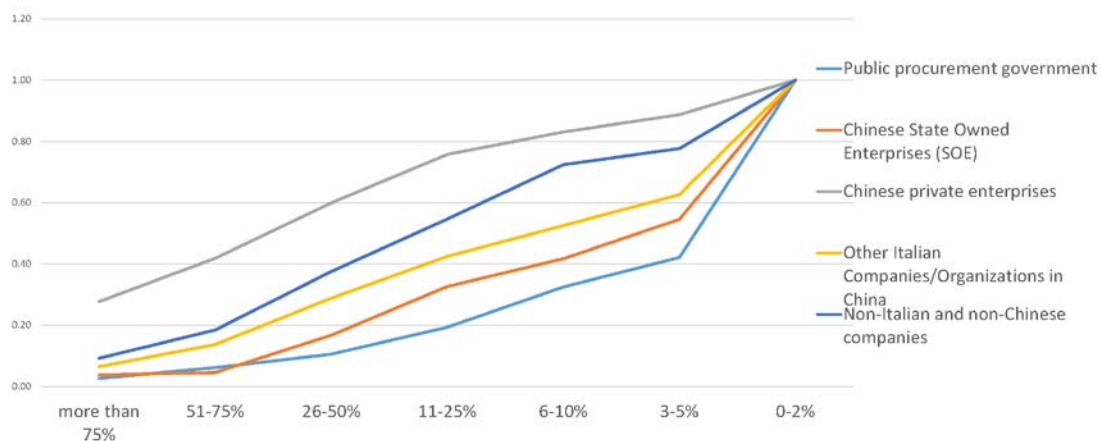
The industry because in the service industries – for instance legal and accounting services – most of the Italian companies still prefer to interact with international providers and the positioning because of the relative low number of Chinese competitors which have a comparable offering system in term of quality, price and service.

The data tell also as that in the market there is still a clear distinction between the domestic and the international products. But in many industries, we can see that there is a sort of balance between the non-Italian foreign competitors and the Chinese.

This does not necessary mean that the number of competitors is the same, but it is probably an indicator that the quality of the Chinese competitors is increasing and therefore they start to be perceived as such.

This perception of the origin of the competition derives also from the analysis of the main sources of revenues.

We have asked to express which among the following 5 (public procurement government, Chinese state-owned enterprises, Chinese private enterprises, other Italian competitors and other non-Italian and non-Chinese competitors) are the most relevant channels as source of revenues (figure 28).



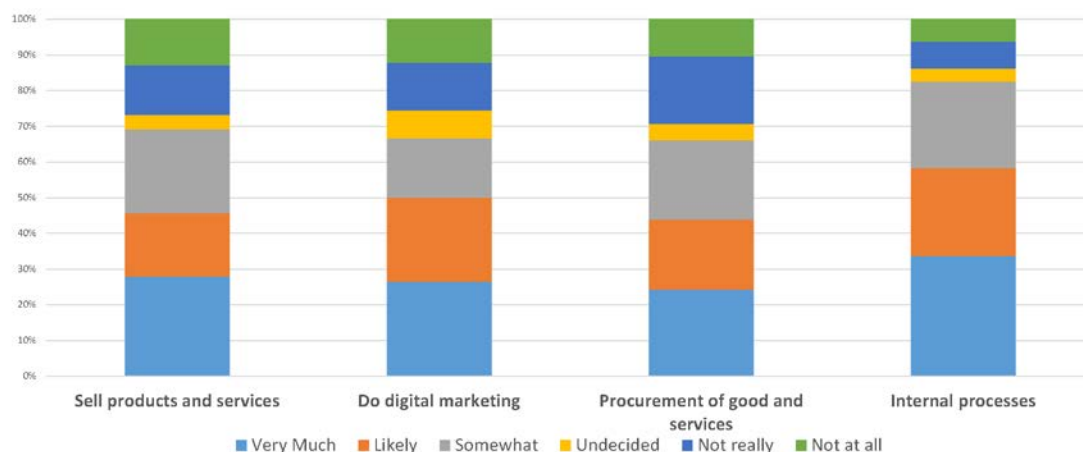
Source of Revenues

Figure 28

The large majority of the revenues, more than 75%, come from Chinese private enterprises where a Chinese private enterprise can be any company based in China. In the second position we have the non-Chinese companies and only the 3rd other Italian companies.

We can also see that is very irrelevant, at least in the high percentile, the portion of the revenues that come from the public procurement government and Chinese state-owned enterprises. And this is clearly an area of improvement for the Italian companies in China.

This is probably due also to a limitation of the level of the digitalization achieved. In fact, when we have asked to assess which is their level of digitalization against four parameters (sell products, digital marketing, procurement and internal processes) we have obtained the results represented in figure 29.



Level of Digitalization

Figure 29

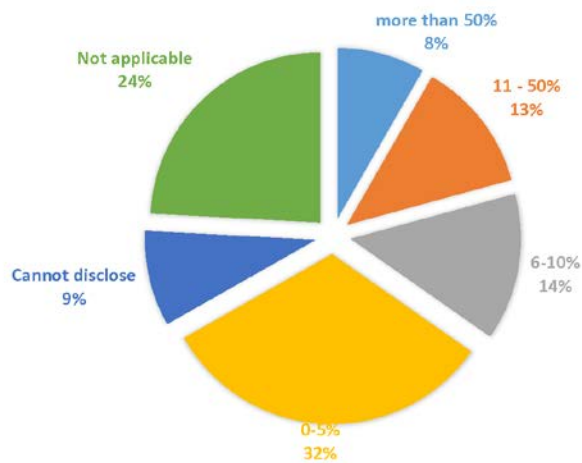
Only 30% of the companies are very satisfied⁸ about their level of digitalization and less than 50% are satisfied.

As we said before, there is space to do better, especially in a market which is driving the digital revolution, and this is also proven by the next figure in which we represent which is the percentage of revenues coming from digital processes (figure 30).

Only 8% have more than 50% of the revenues coming from the digital process while 13% is between 11 to 50%.

In other contexts this percentage can be considered very high, because the relative weight of the B2C versus the B2B transactions, but not in China where many industries have been disintermediated and disrupted by the e-commerce.

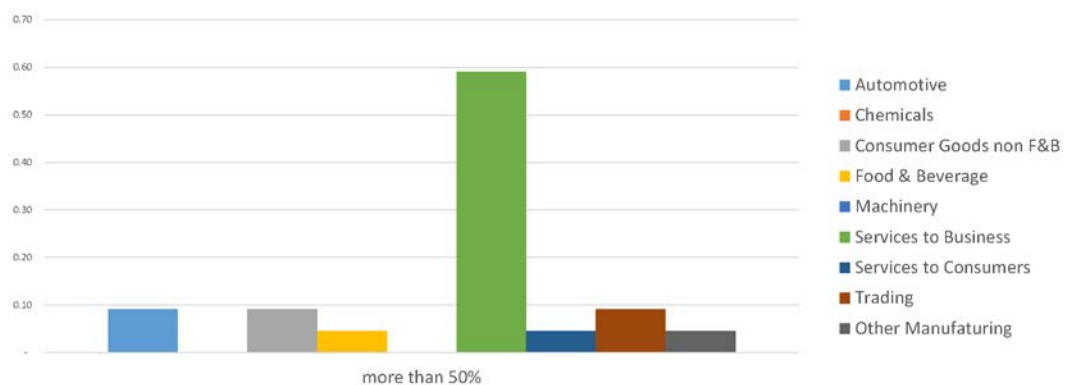
⁸ We are assuming that to say “very much” is a measure of satisfaction



% of Revenues Depending on Digital Processes

Figure 30

Anyhow, the industry in which the Italian companies seems do a better job compared to others is the service-to-business, while in the others again to mention the automotive industry.



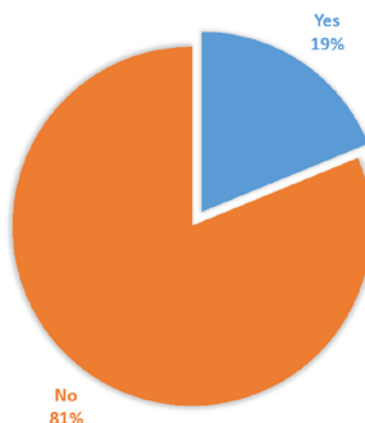
The More Digitalized Industries

Figure 31

Innovation and Technology

In this part of the report, we analyze how the Italian companies position themselves against some of the most important and relevant Chinese policies and regulations.

The first one is the High and New Technology Enterprise Certificate (figure 32).



High and New Technology Enterprise Certificate

Figure 32

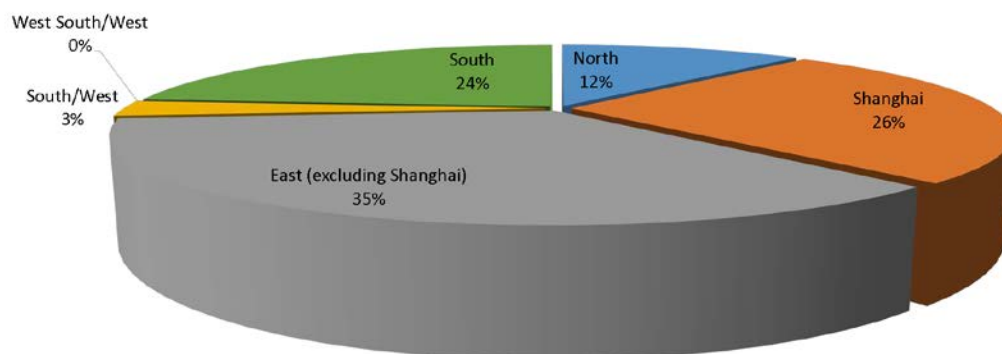
The HNTE is a fundamental achievement not only because of the recognition provided by the certificate itself, but also for the benefits associated with it, such as the tax rebate and the fast track to access to incentives.

We can see that is less than 20% of the companies have achieved it. So 80% of the companies operating in China are not yet to recognized as high and new technology enterprises even if we the numbers are changing considering only the manufacturing enterprises.

Indeed, considering only automotive, machinery and other manufacturing, the percentage of companies with HNTE is already at 44%.

To have more information about the distribution of the certificates in the territory we have the figure 33.

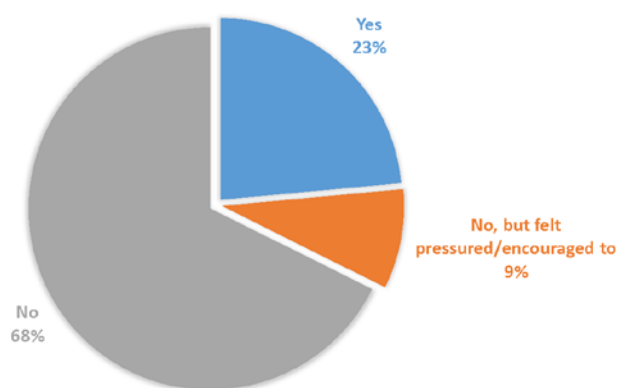
Again, for other previous data, the large majority are in the East and, most probably, in the Suzhou area, Shanghai and the South. These are all regions in which there are experiences, examples and possibly services able to provide accessibility to the information and other things that might help the companies in succeeding in applying for the certificates.



HNTE Certificates by Location

Figure 33

The next figure (34) is reporting the answers to the question in which we asked to the Italian companies is they feel to be under pressure in making technology transfer.

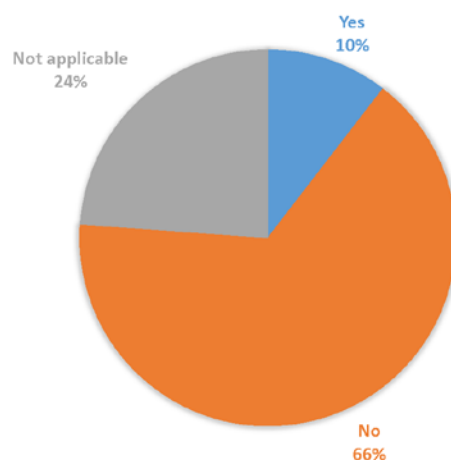


Technology Transfer Issues in Doing Business with Chinese Partners

Figure 34

68% of the companies said **No**, 23 said **Yes**, but 9% feel encouraged to do it.

Therefore, to make technology transfer seems a choice and not something imposed by the different stakeholders even if the position is not so clear as it appears.

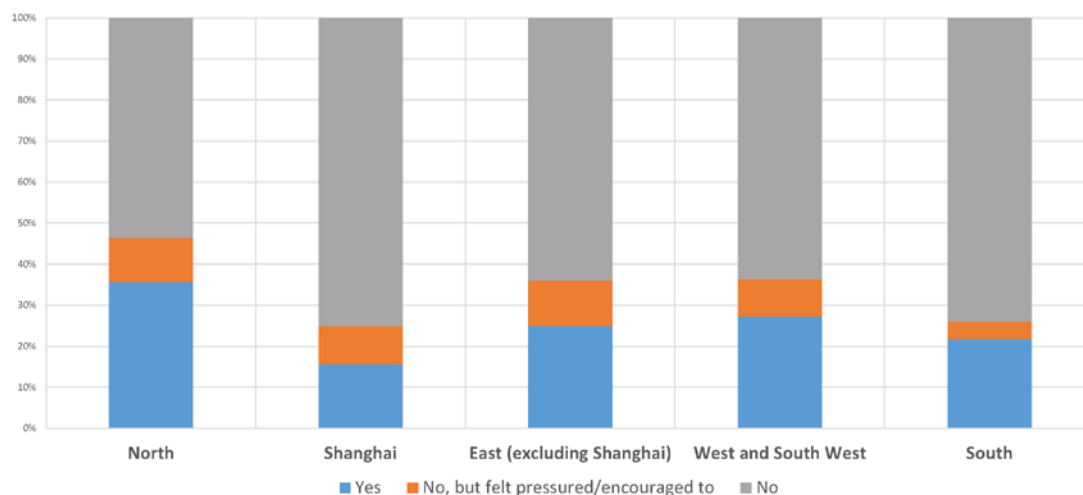


Technology Transferred to Other Countries

Figure 35

The same question is also analyzed by area, figure 36, but before that we do have the figure 35, in which we have asked companies if they have done any technology transfer to other countries and only 10% of them said **Yes**. While for the 24% of the companies this question is **not applicable**, 66% say **No**.

If we net the data with the “not applicable” we can say the already 15% of the companies among those that are eligible have done track technology transfer to other countries.

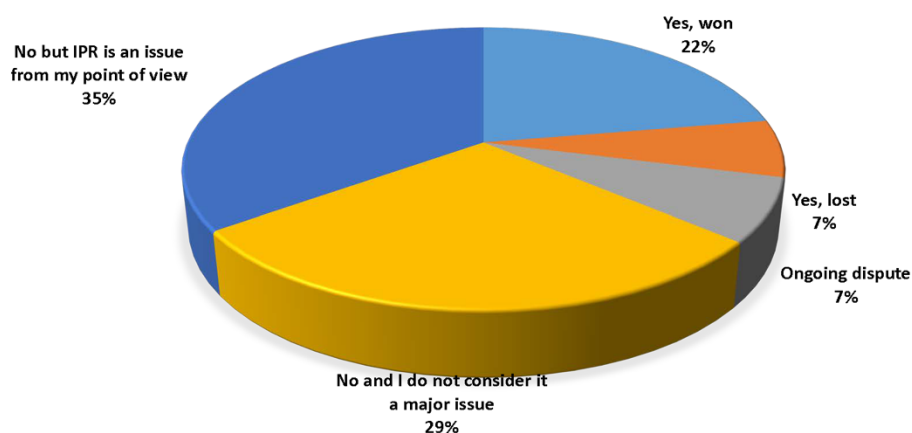


Technology Transfer Issues in Doing Business with Chinese Partners by Location

Figure 36

Consequently, the figure 36 illustrates the technology transfer with the Chinese partners by location. What we can see is that this is an issue for organization from the North and from Shanghai because, probably they are the more international environments and therefore the companies have a less pressure against the technology transfer.

For what it concerns IPR, intellectual property, in figure 37 we have the results of what we obtained when we asked to our companies if they have this issue or not.

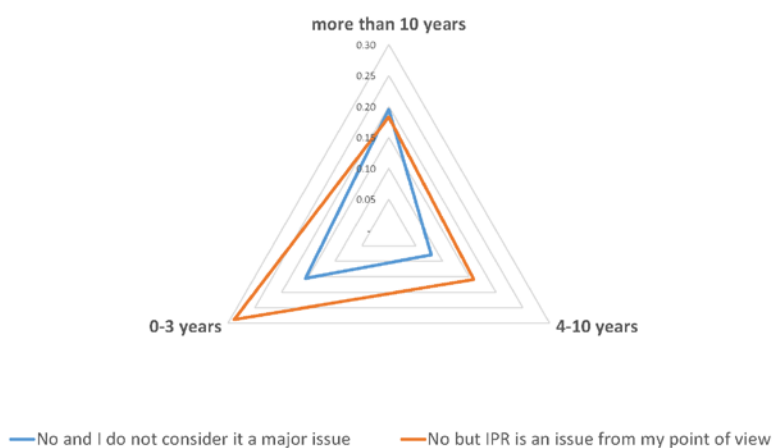


IPR Infringements and Legal Disputes

Figure 37

Among all the answers we can recognize two groups: those who had an IPR issue before and those who hadn't. Among the first group, 36% of the total, almost 60% of them won their disputes, 20% lost and 20% were still ongoing.

In the second group instead the split among those who believe that IPR is an issue and those who doesn't is almost 50/50.



IPR Infringements and Legal Disputes: The Two Extremes

Figure 38

It was therefore interesting to see how this 50/50 is divided according to the profiling criteria.

In figure 38 we see that more young enterprises believe that this is an issue more than elder.

So the younger is a company and the more the company tends to act and judge based on the external sentiments, more company is becoming mature and more is evolving.

The company ability to judge therefore, let's say that the two results have to converge in considering an issue more at particular elements, there are some bias, individual or company biases.

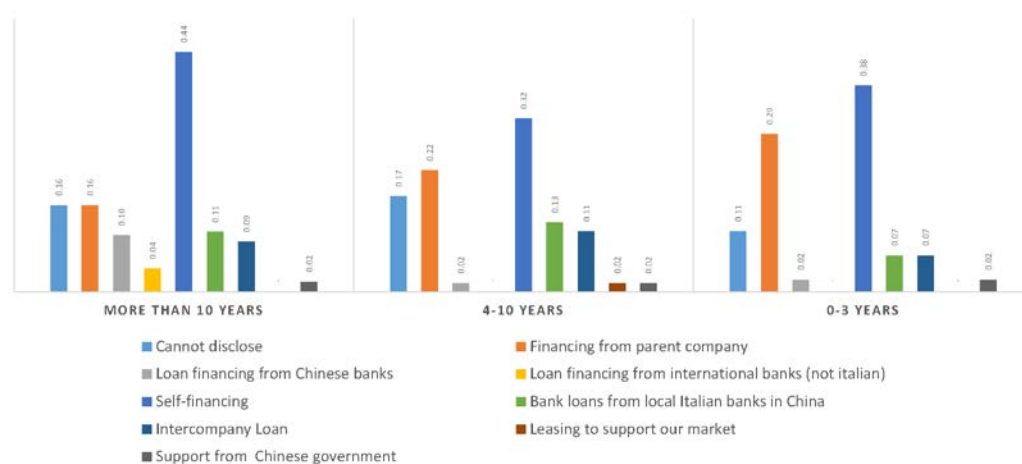
So if a company has is in a sector in which these things are happening quite often, they believe that is an issue if the company is not in such a situation they have a different perception.

Financial Performance

This section of the report focuses on the financial performance of the companies in China.

As we can see in figure 39 no matter if a company is young or more stable, the self-financing is the major source of finance. This is a very good sign of the financial solidity of the Italian companies in China.

If the company is younger, there is a higher percentage of financing from the parent company and so also if it is a medium enterprise.



Financial Resources

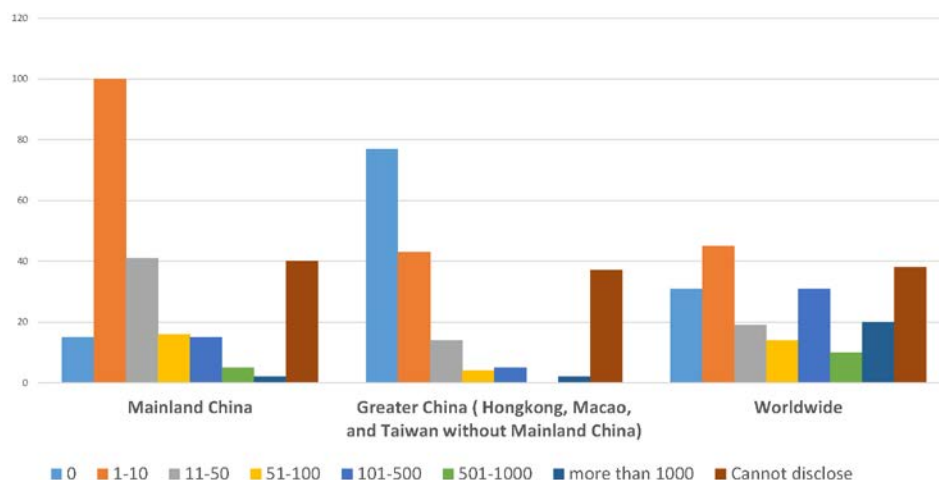
Figure 39

If instead the company is more stable, there are more tools available.

So it seems quite obvious at the beginning the self-finance and the money of the parents.

Lately, the companies became more mature and therefore can become more sophisticated in covering their financial needs.

In figure 40 we split of the revenues in classes with the respect of three geographical area of interest: **mainland China**, **greater China** and the **Rest of the World**.

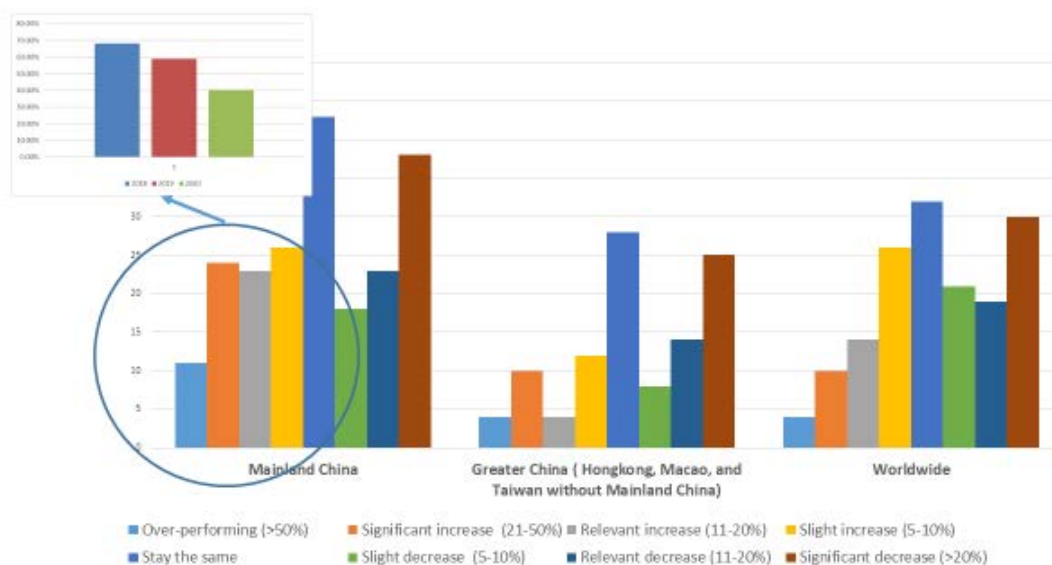


2020 Forecasted Revenues

Figure 40

Overall we can say that mainland China is bigger than the rest of China and more concentrated in low categories. The weight seems similar and therefore the relative importance of China on the global business of the Italian companies growing.

In figure 41 instead, we have compared the revenues, in the same three territories, versus the year before.



2020 vs 2019 Revenues

Figure 41

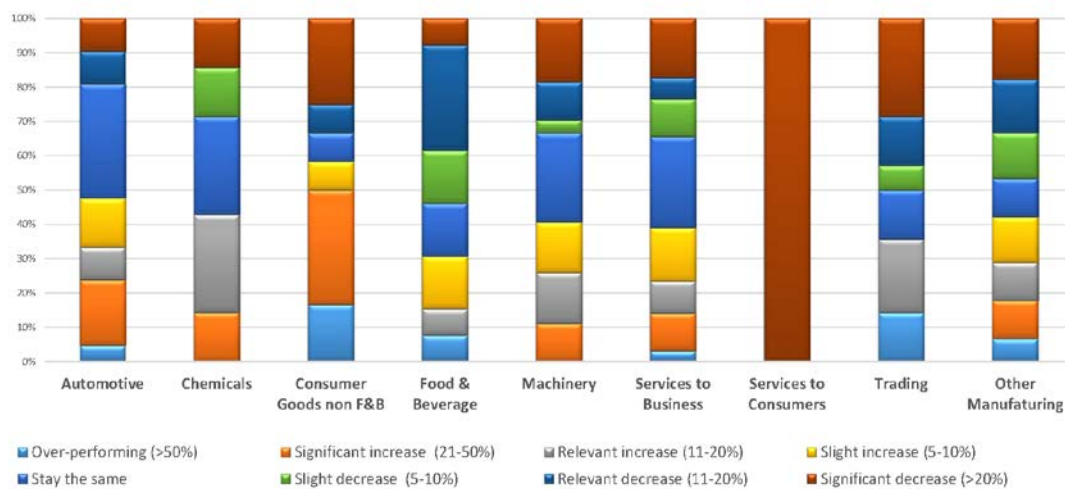
Surprising or not, despite the pandemic the results seems positive, or at least not so negative – of course decreasing compared to the two previous year - and the mainland China performed better than the other two regions.

Of course the trend is not the same for everybody and for somebody is particularly positive while for others particularly negative.

Even the breakdown by industry doesn't clarify if there was a specific, clear, pattern.

Despite the low significance of the trends we can say that in some sectors, automotive, chemicals and machinery among the others, the negative performances are less than the positive keeping the average above the zero.

To be noticed that all the companies in service-to-consumer have registered a significant decrease of the revenues, and this was expected considering the long period of reduced mobility.

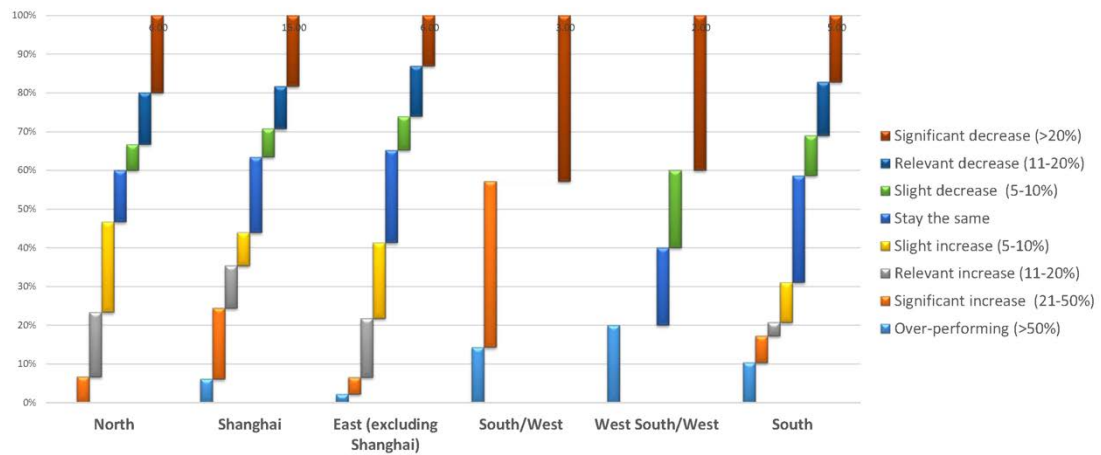


2020 vs 2019 Revenues by Industry

Figure 42

On the other side there have been over performing companies, and they are probably those which have been able to ride the wave of the opportunity or of the crisis.

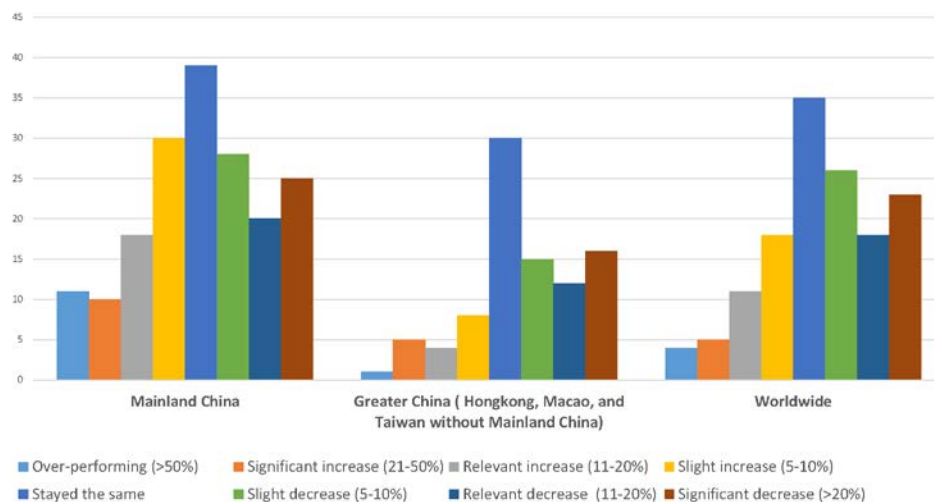
Therefore, the large variability is not only a matter of industry, but it's also a matter how good the company was in doing business, how good the company was in adapting to the new reality, to the new law, how fast the company was in changing itself.



2020 vs 2019 Revenues by Location

Figure 43

The figure 43, shows there isn't a specific pattern related to location results mostly depend on the ability of the management and this is also represented in the variation of earnings before interest in taxes in the next figure (44).

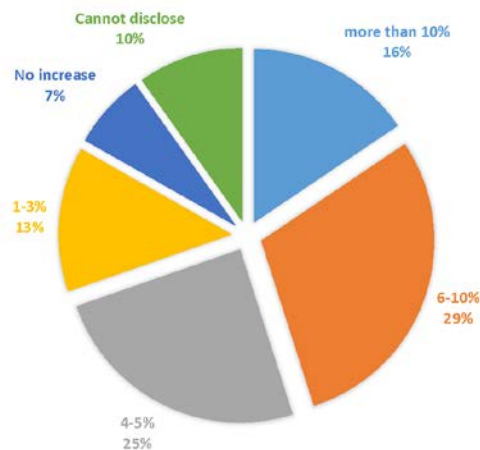


2019-2020 Expected Variation in EBIT

Figure 44

The figure shows that the trend of the variation of the EBIT is absolutely aligned with the revenues, and this means that also the costs have been kept consistent during this difficult year.

Among these cost, one of the largest portion is always linked to the cost of labor and how it is changing is showed in figura 45.

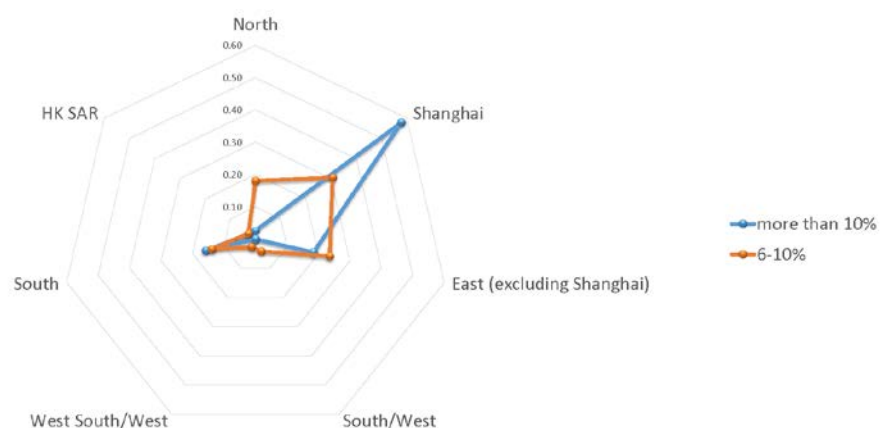


Labor Cost Increase in the Last 3 Years

Figure 45

For most of the companies, roughly the 30%⁹, the labor costs increase in the last three years was between 6 to 10%, and only for 16% of the company was more than 10% and 10% accumulated in the three years.

But if we combine some of the data, we can see that for 75% of the companies, at least the increase was above 4% in the last three years, in line with the inflation rate.



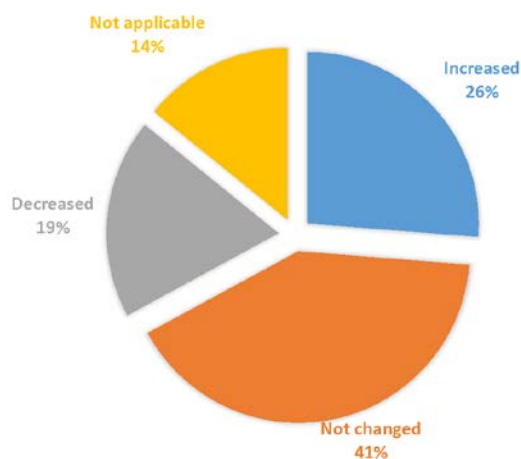
Where the Labor Cost Increases at Most

Figure 46

The analysis of where, in the sense of which are the reason with the highest increases (figure 46) shows that is, easy to guess, Shanghai the area that grows more and this is clearly linked with the economic growth of the city as well as for what is happening in the East or the South and we could expect this trend also continuing in the future.

⁹ 29% to be more precise

Business Environment



Changes in the Entry Barriers in the Last 5 Years

Figure 47

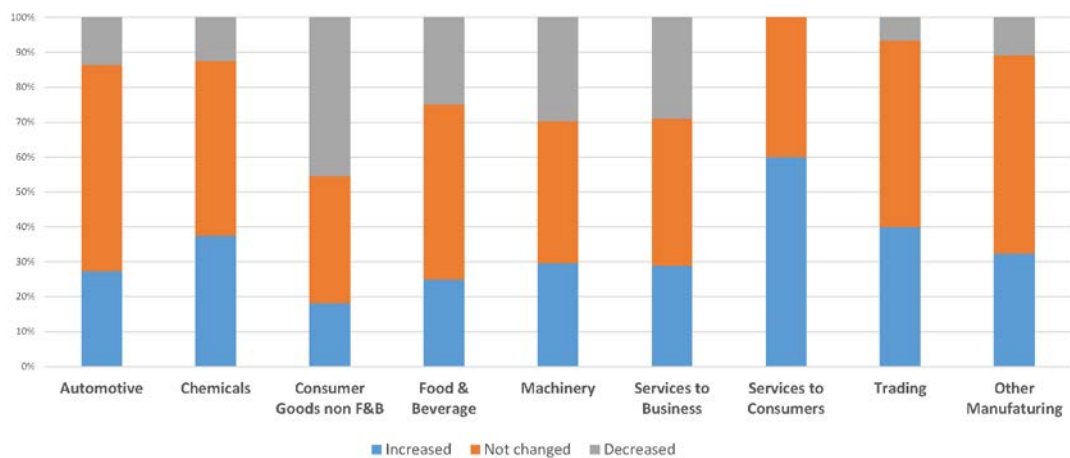
The analysis of the Business Environment starts with the evaluation of the entry barriers in the last 5 years (figure 47).

For the past five years, only 1/4 of the companies sees an increase in the difficulty to enter in the market, while for the 19% of them at the opposite the barriers at decreasing.

This balance between increase and decrease, between 26% and 19%, is important because can be related to many factors: regulations, cost of the projects, level of competitiveness and not only because of some level of protectionism in the favor of the domestic companies.

Probably this is something that has to be evaluated by industry. And that's why we have plotted to the results in the slide number 48, on it we can see which are the industries where the Italian company have perceived the entry barriers increasing. Among the other the industry mostly affected is the service-to-consumer.

.



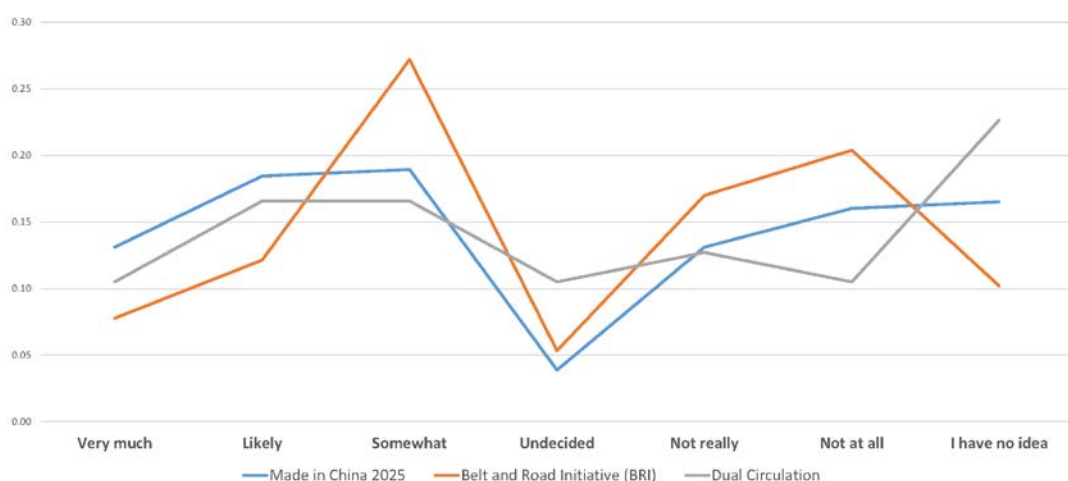
Changes in the Entry Barriers in the Last 5 Years by Industry

Figure 48

So where there is a closer relationship with the customer probably there is an increase of the barriers. This is not necessarily something which should be considered negative because it might also explain that the market is becoming more regulated, and a more regulated market can be positive because it is based on a more transparent business system.

After this, we have asked to respondents how do they feel about three important national initiatives, Made in China 2025 (MiC2025), The Belt and Road (BRI) and the Dual Circulation (DC).

The judgement of these initiatives in their doing business in China.



Relevance of National Initiatives

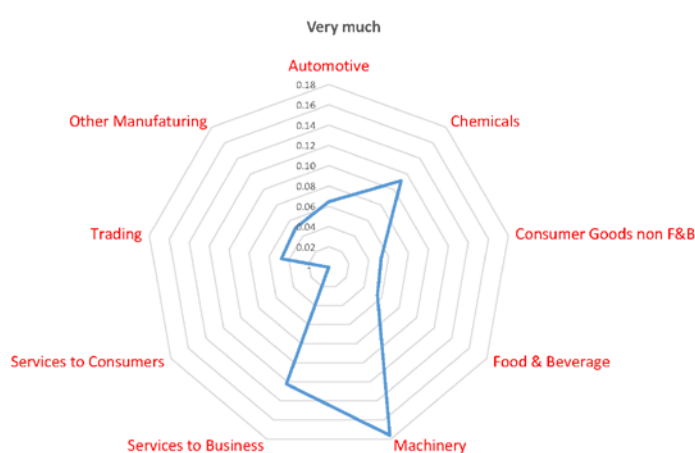
Figure 49

As we can see from the picture 49, MiC2025 is considered very relevant, BRI less relevant

and DC stuck in the middle. The explanation of these different perceptions can be summarized in this:

- MiC2025 is an initiative with strong governmental support that gives very clear direction in improving the quality and level of automatisisation of the value chains;
- BRI is something that is relevant, but not for the companies that are in China¹⁰ but more for their headquarters;
- DC, instead, is something still very new with not a clear understanding from everybody.

If we look at the slide 50, we see what we were saying before, confirming by the fact that MiC2025 is considered **Very Much** in all the industries with a manufacturing output.



Made-in-China 2025 versus Industries

Figure 50

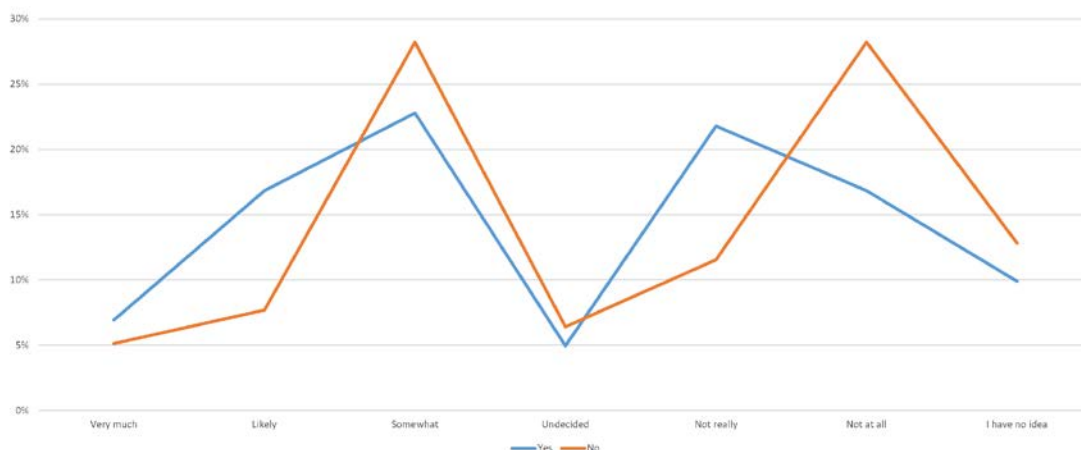
In those industries in which we do have a strong impact directly on the the product.

If we analyze, instead, the BRI versus the global business scope, where global business scope for the global business scope, we can cross it with the companies which are exporting to other countries apart from China and Italy (figure 51).

We have used this data assuming that an exporting company has a higher level of global business scope.

If we combine very much, likely and somewhat there is a pool of already 60% of the companies.

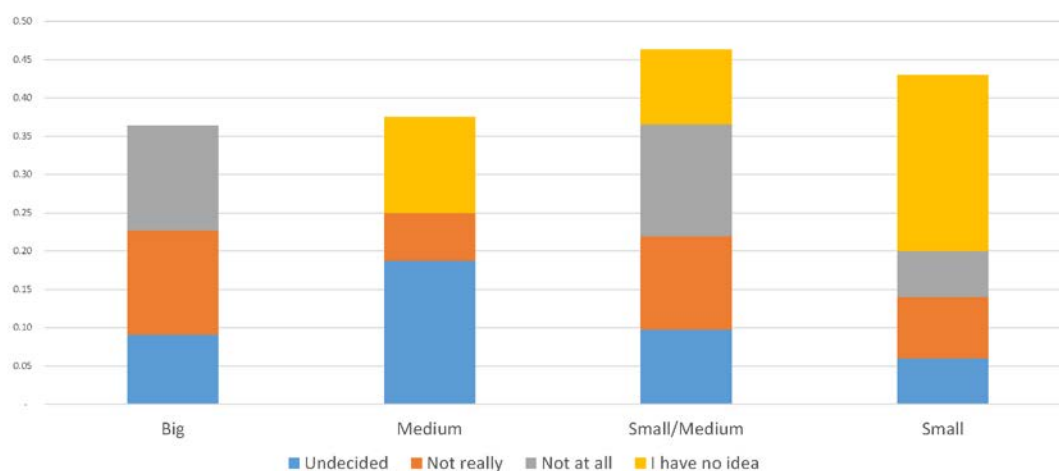
¹⁰ In the sense of Chinese subsidiaries



BRI versus Global Business Scope

Figure 51

With the regards of DC, instead, we can see that the doubts about the relevance of the policy are mainly in small and medium companies (figure 52).



Knowledge About the Dual Circulation

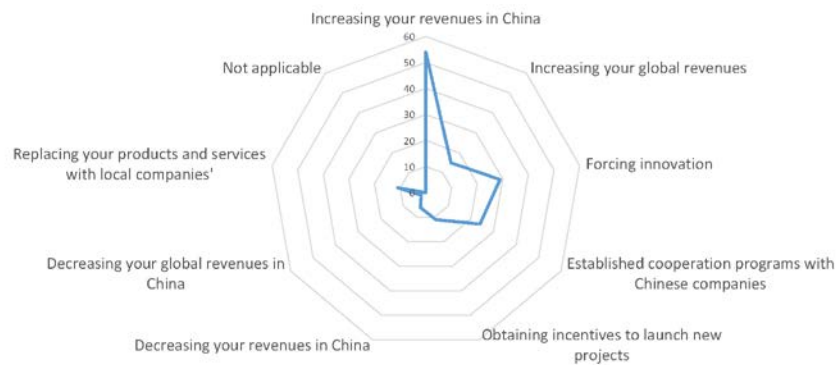
Figure 52

Therefore, for instance, the option “I have no idea” has been chosen by medium, small/medium and small enterprises, but not from the big.

They have the capabilities to analyze all of these things, to study their effects, to liaise with the local government, while sometimes the smaller companies cannot do that.

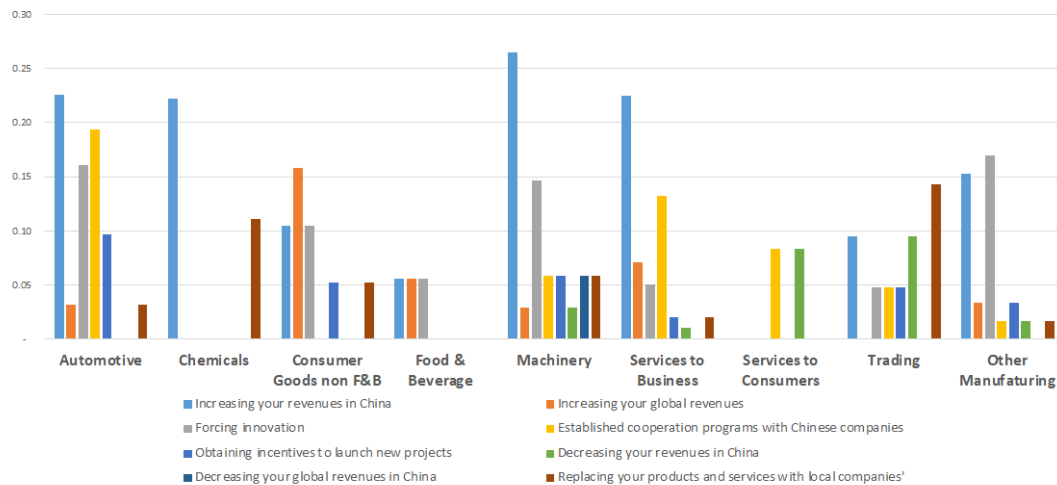
We have then asked the impact of these three initiatives, considering a set of parameters, such as: revenue increases in global revenue, forcing innovation and set up. We have asked to compare all of them for the three initiatives and the results are showed in the next 5 slides (from 53 to 57).

For MiC2025, figure 53, the three key benefits are increasing revenues in China, forcing innovation and establishing cooperation with the Chinese company. This trend is confirmed analysing the data at industry level, slide 54,



Impact of Made-in-China 2025

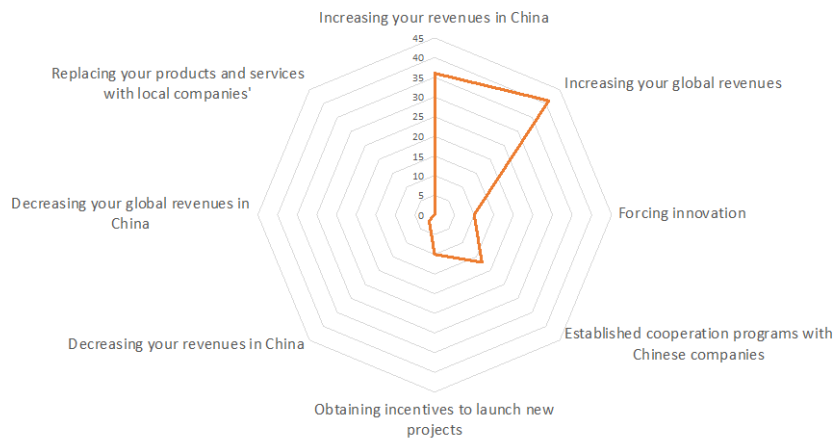
Figure 53



Impact of Made-in-China 2025 by Industries

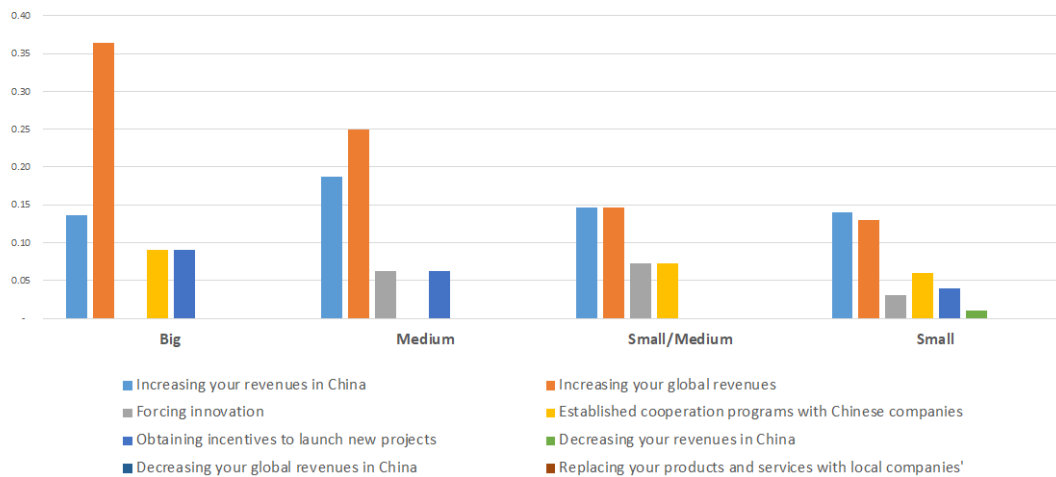
Figure 54

For what it concerns BRI instead, figure 55, there is also an increase of revenues in China , but more important increasing global revenues, and the effect is amplified with the growing size of the companies (figures 55 and 56).



Impact of BRI (Belt and Road Initiative)

Figure 55



Impact of BRI (Belt and Road Initiative) by Size

Figure 56

And finally, the DC, Dual Circulation, all the respondents say just increase the revenues in China, even if this is not what the policy only aimed to achieved.

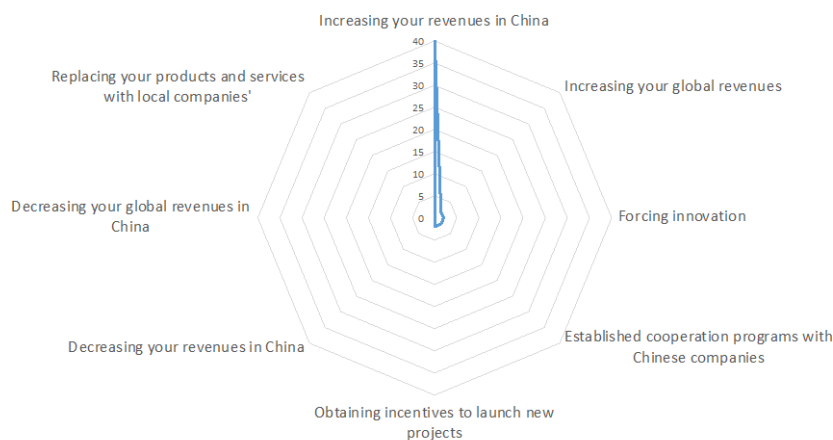
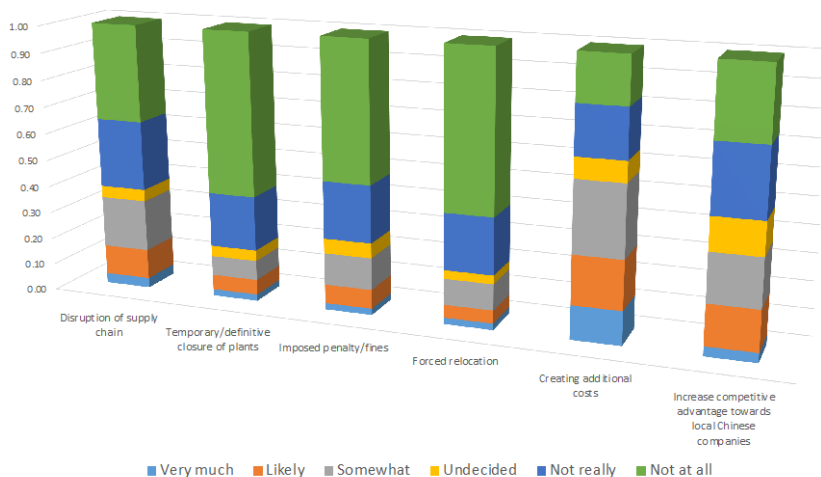


Figure 57

Another very important element on the Business Sentiment is the impact of the environmental health and safety law on business supervision that is something that is in the agenda of the our managers on our daily work.



Impact of Environmental Health and Safety (EHS) Law on Business Operations

Figure 58

We can see that most of the answers, figure 58, are **not really** and **not at all**.

The points addressed in the question, impact on impact on disruption of supply chain, closure of plants, imposition of penalties, force relocation, creating additional costs and/or an unfair competitive environment were aimed to see if the managers of the Italian company in China see in this new regulation a limitation in their activities, but this is not the case.

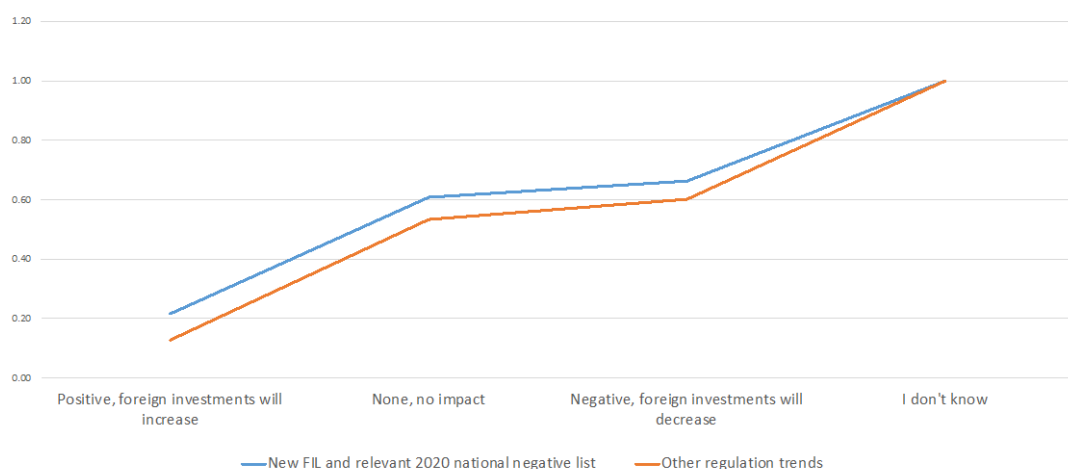
The Italian companies replied in a positive way, without expressing any concerns.

This sentiment is emerging also from the analysis of the answers related to other governmental interventions.

For instance, in slide 59 we see what the respondents said about the new FDI regulations and other trends.

The negative judgement is 5% for the first and 7% of the last, to support the previous arguments.

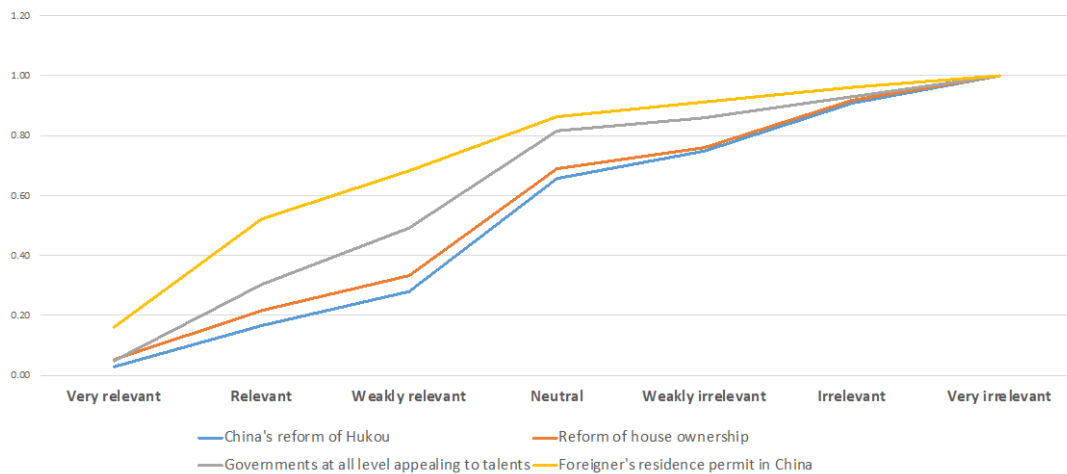
As per the DC, it emerges, instead, a limited knowledge of the respondents because the answer “I don’t know” is respectively 34% and 40%.



Impact Recent Reforms and Regulation Trends on Foreign Investments

Figure 59

Therefore, there is still a gray area related to a limited understanding or a limited perception of how the enforcement of the laws will really impact on the business. And that's why for both these, and also other, questions the same concerns on knowledge of policies should be considered for further actions.



Relevance of Other Policies

Figure 60

The slide 60 reports the answers about the relevance of four policies related people, and the next four, a focus on 2 of these 4 policies.

The four policies are:

- China's reform of Hukou
- Reform of house ownership
- Governments at all level appealing to talents
- Foreigner's residence permit in China

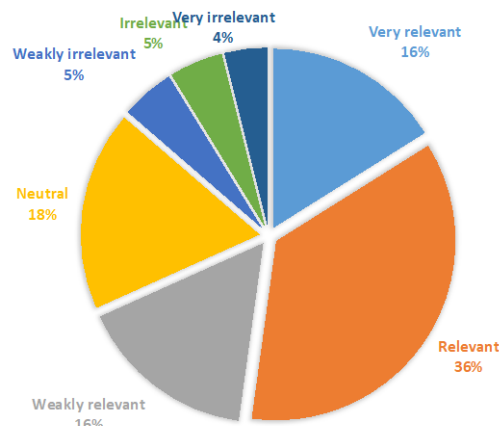
Accumulating the first three options¹¹, what we can call the relevance area, we see that the % of answers are respectively 28%, 33%, 49% and 68%.

In our perception this is a sort of demystification of some of the “old” ways of seeing China and in particular we are referring to the fact that to have employees it is necessary to offer them access to the house market.

This is not true anymore, with the exception of the decreasing number of blue collars, because the market is more mature and the real problem is the overall package that it is offered to the talents, as in any other part of the world.

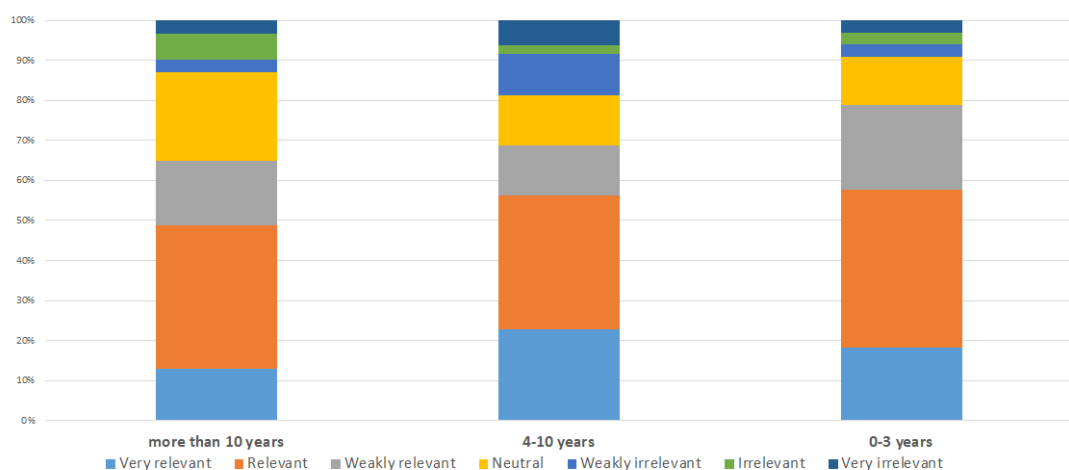
In detail, therefore, we have focused our attention on the last two points in the next four following picture.

¹¹ Very relevant, Relevant and Weakly Relevant



Reform of Residence Permit

Figure 61



Reform of Residence Permit by Life Cycle

Figure 62

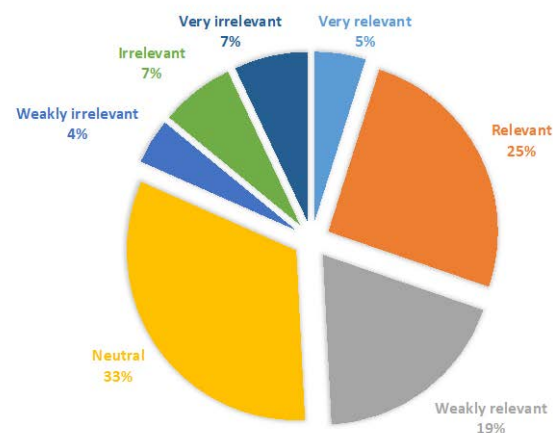
As we said above the relevance area for the reform of the resident permit (slide 61 and 62) is around 68% and the younger the company is and the higher the value goes.

Young companies are very often the innovative enterprises and they need talents, but not only local talents.

The development of an innovative ecosystem requires “fresh energies”, “creativity” and “ability to dare” which are all things that can be better developed in a multicultural and open environment, and that’s why the reform of the residence permit is important.

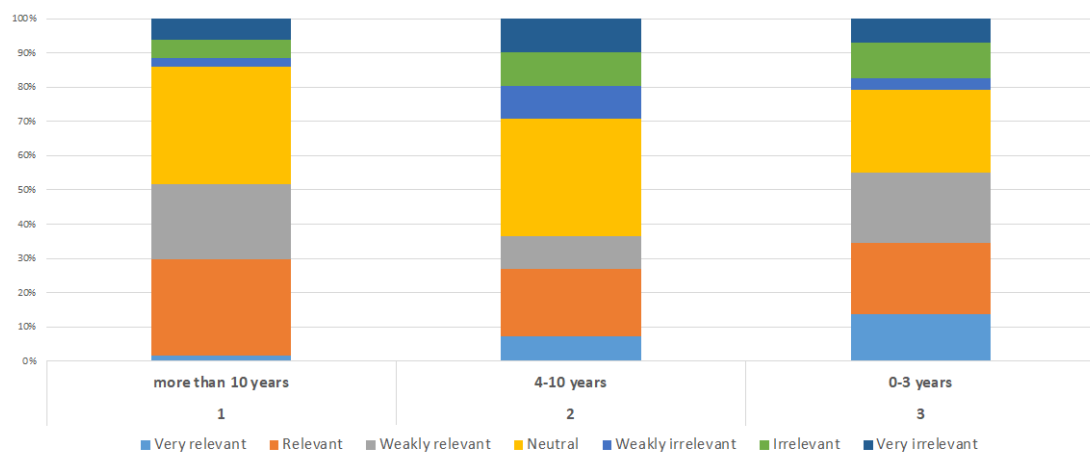
Government at all level appealing to talents is only 49% in the relevance area (slide 63) but considering that 33% is neutral, it's more judged positive than negative.

In this case, also, the problem is more important for young, possibly small, companies rather than the biggest, because they need to be able to attract and retain their talents.



Attracting Talents

Figure 63



Attracting Talents by Life Cycle

Figure 64

And since attracting talents is an issue, with the slide 65 this issue is analyzed in details under different elements, which are:

- Air quality issues
- Unattractive career opportunities
- High job turnover
- Employees starting their own businesses
- Healthcare facilities availability and quality
- High compensation package expectations

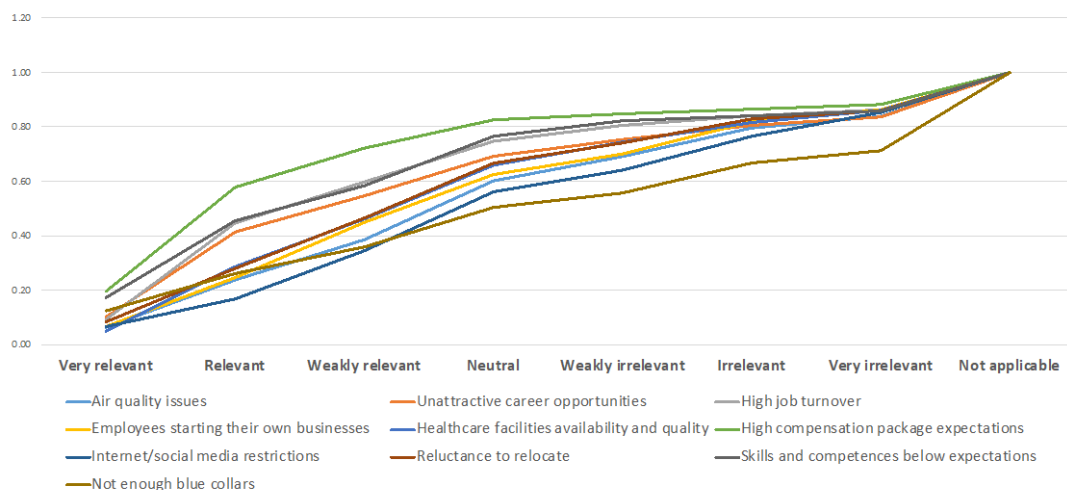
- Internet/social media restrictions
- Reluctance to relocate
- Skills and competences below expectations
- Not enough blue collars

It seems banal, or maybe even obvious, but the highest value is the relevance area is for **“high compensation package expectations”** but for sure is a bit surprise, at least for those with a limited knowledge of the Chinese context, that the two lowest are **“Not enough blue collars”** and **“Air quality issues”**.

The latest because probably the people are appreciating the progression of the improvements achieved in the previous years¹² while the first is related to the reallocation of who is doing what in the country.

To keep labor intensive industries in metropolitan areas in which cost of living is increasing is a non-sense.

Another issue which doesn't seem to be an issue for the Italian companies is the **“internet/social media restrictions”** and also this is a fact quite obvious for people who are living in China, more used to its specificities, while it appears to be a problem for those who are not in the country.



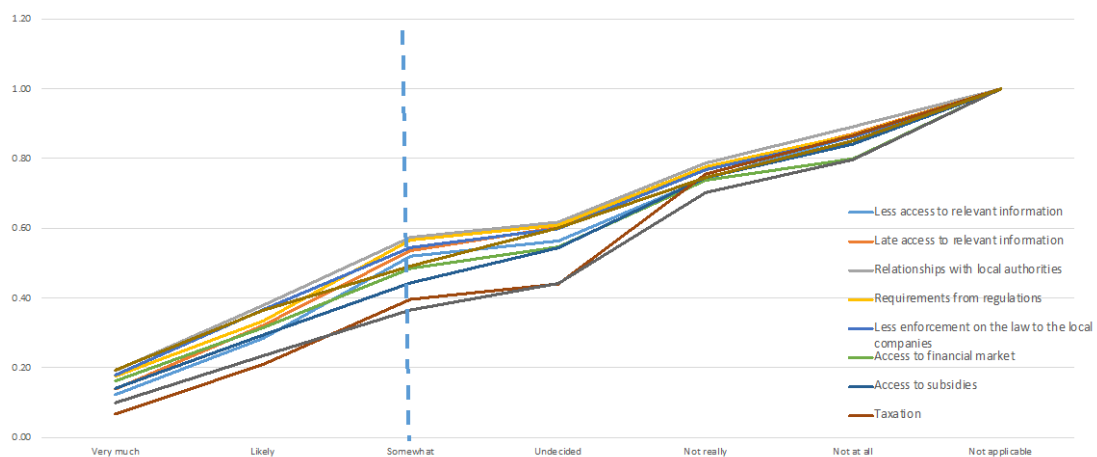
Challenges in Retaining and Attracting Chinese Talents

Figure 65

The next slide, 66, is reporting the results of a very specific question: “In which of the following areas do you feel penalized by being a foreign company in doing business in China?” and the respondents have been asked to rate different elements:

¹² Pollution can be reduced step by step but not cancelled over night!

- Less access to relevant information
- Late access to relevant information
- Relationships with local authorities
- Requirements from regulations
- Less enforcement on the law to the local companies
- Access to financial market
- Access to subsidies
- Taxation
- Licensing
- Hidden support to local companies



Areas of Penalization

Figure 66

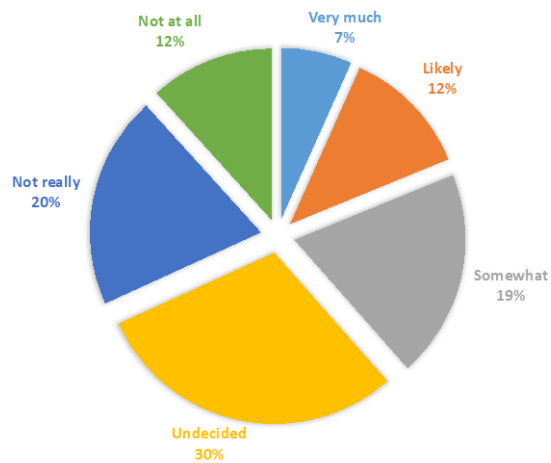
Focusing on the first two possible answers (**very much** and **likely**) we notice that the highest value is **relationships with local authorities** and lowest is **taxation**.

They are sides of the same coin.

Indeed, if in one side the respondents say the taxation is not unfair, they confirm that laws, regulations and policies are equally the same for domestic or international players but, at the same time, they confirm that the relationships with the local authorities is still a matter of guanxi.

And related to the relationship with the authorities we have the next two slides, 67 and 68, with are very specific for Italian companies since we have asked about the impact on these relationships of the MOU signed by China and Italy on the Belt and Road Initiative.

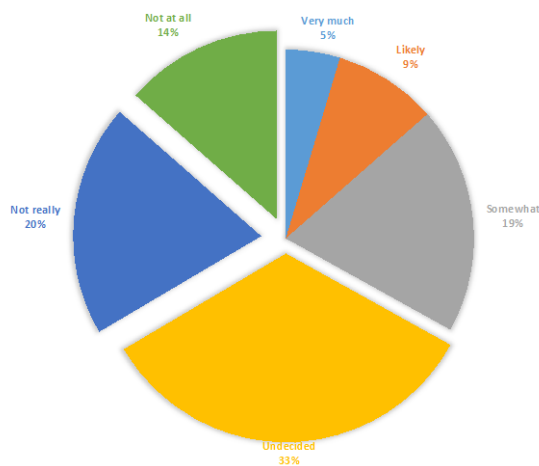
In particular we have asked if the attitude of the Chinese authorities has changed after the signature of the MOU (slide 67) and if there some perceived advantages deriving from the it (slide 68).



Chinese Government Post MOU Attitude Positive Change

Figure 67

From what we can see the post MOU attitude didn't change too much and also in term of advantages only 14% of the respondents has perceived a real advantage¹³.

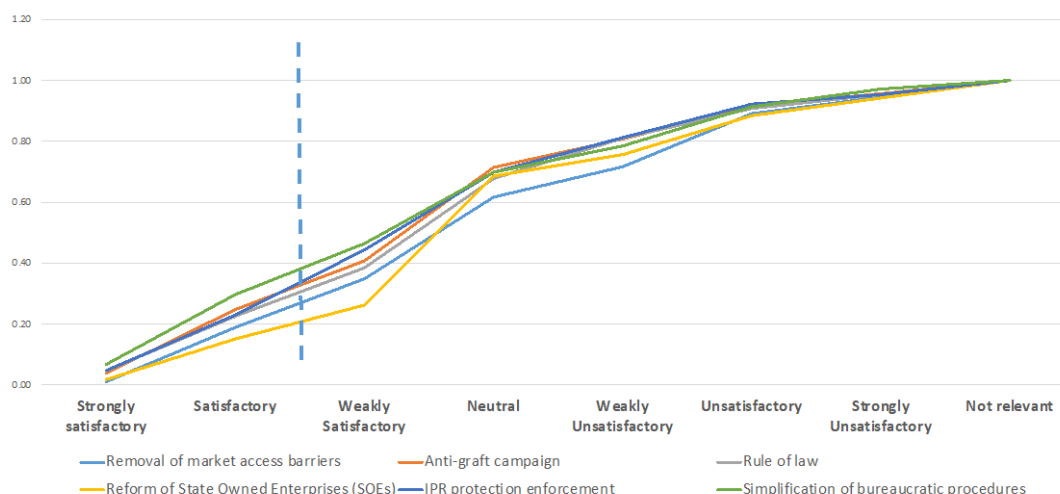


Chinese Government Post MOU Advantages

Figure 68

This part of the report on the business environment ends with the assessment of the effort done in the recent past, the evaluation of challenges and opportunities in doing business in china and, finally, with a review of the barrier to enter for the incoming future.

¹³ The number grows to 33% including the option "somewhat"



Rating on the Government's Effort in the Last 3 Years

Figure 69

In particular slide 69 is about the effort done during the last 3 years looking specifically to some issues such as: Removal of market access barriers, Anti-graft campaign, Rule of law, Reform of State-Owned Enterprises (SOEs), IPR protection enforcement and Simplification of bureaucratic procedures.

Overall, if the area of positiveness is around 40% for all the options, adding the neutral answers¹⁴, this number goes above 60%.

Anyway, in this type of questions there are two elements that are important: the average and the choices that are at the two extremes.

In this case the highest value is for the simplification of the bureaucratic procedures, and this is an important recognition versus a more friendly business environment, but on the other hand the lowest is on **"removal of market access barriers"** and, as mentioned before, this not necessary implies protectionism.

The next two slides are therefore describing how all of this impact on doing business in China.

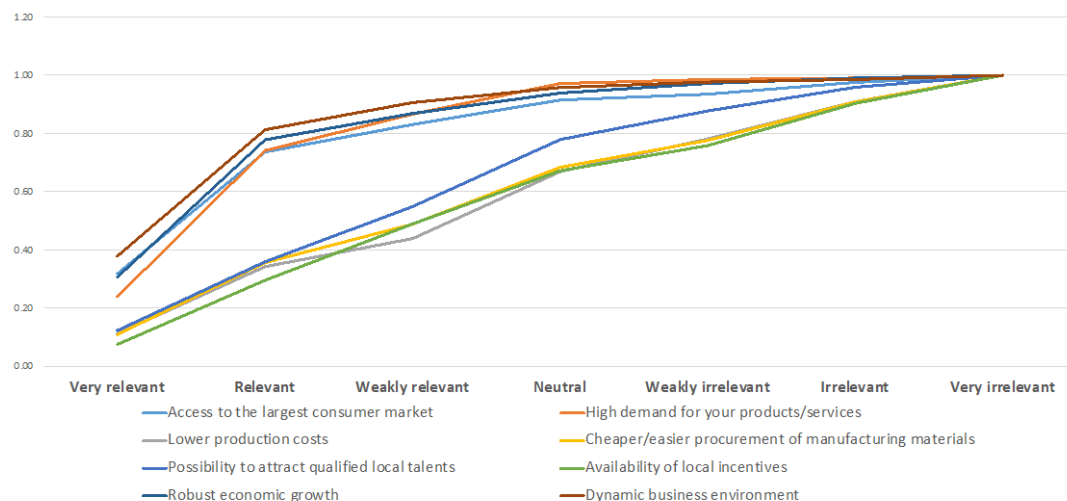
In particular with the first slide, figure 70, the focus is on the opportunities, while the second, slide 71, the focus is on challenges/obstacles.

For what it regards the opportunities, the respondents have been asked to rate the following options: Access to the largest consumer market, High demand for your products/services, Lower production costs, Cheaper/easier procurement of

¹⁴ Given the type of question we can assume that a neutral answer not being negative is positive.

manufacturing materials, Possibility to attract qualified local talents, Availability of local incentives, Robust economic growth and Dynamic business environment.

The results are quite interesting because there are two clearly defined clusters: the super positive and the less relevant.

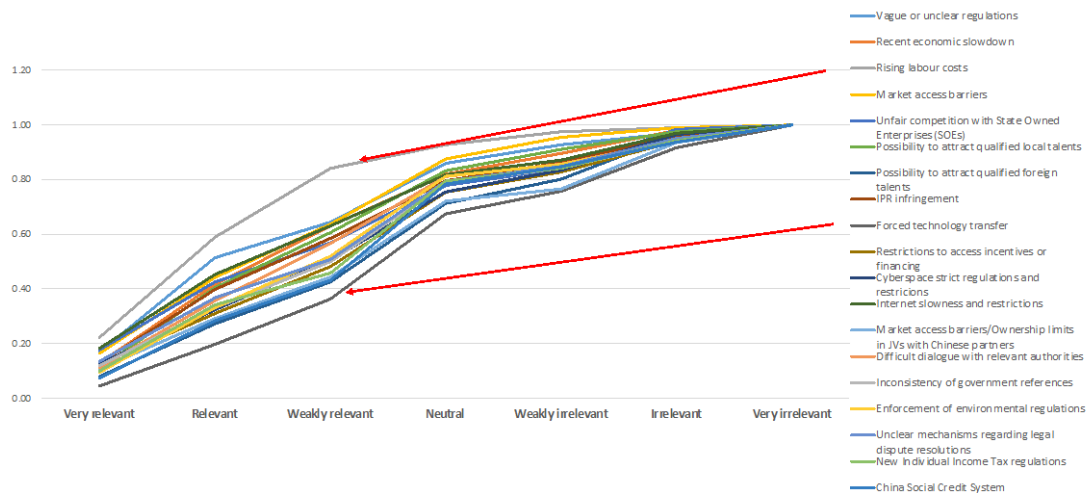


Opportunities in Doing Business in China

Figure 70

The most relevant reasons are related to the size and the dynamic of the market, in other words what we can defined as **Strategic Reasons**. The second group, ie less relevant options, are related to more **Opportunistic Reasons**.

Once again, our respondents are saying that now Chinese is a Strategic choice and of course it brings the reasoning to the consequences of this way of thinking.



Challenges and Obstacles in Doing Business in China

Figure 71

The judgement of the respondents is also confirmed by the evaluation of the challenges/obstacles. The rating has been done to these elements: Vague or unclear regulations, Recent economic slowdown, Rising labour costs, Market access barriers, Unfair competition with State Owned Enterprises (SOEs), Possibility to attract qualified local talents, Possibility to attract qualified foreign talents, IPR infringement, Forced technology transfer, Restrictions to access incentives or financing, Cyberspace strict regulations and restrictions, Internet slowness and restrictions, Market access barriers/Ownership limits in JVs with Chinese partners, Difficult dialogue with relevant authorities, Inconsistency of government references, Enforcement of environmental regulations, Unclear mechanisms regarding legal dispute resolutions, New Individual Income Tax regulations, China Social Credit System.

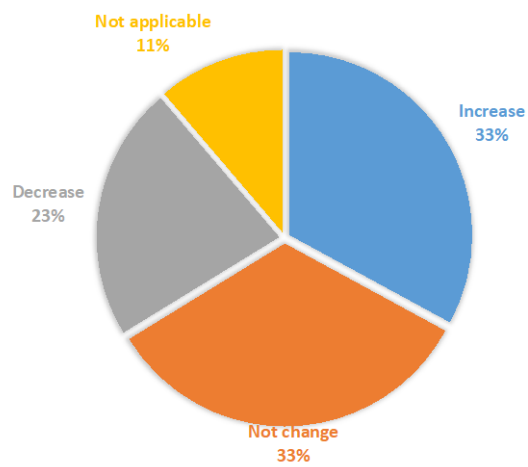
For almost all of them the answers are quite similar but, as mentioned above, the two extremes are important: rising the labor cost (the highest) and force the technology transfer (the lowest).

We believe that this is a clear sign that the worries are not in the fairness of the business environment but rather in the economic sustainability of being in China.

In this sense we need to evaluate also the estimation of the barriers to entry for the next 5 years.

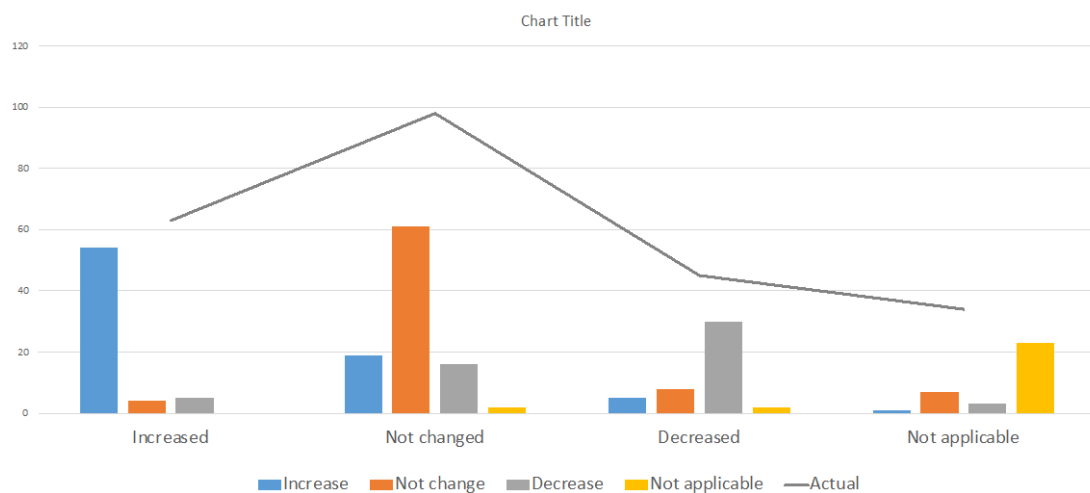
We strongly believe that their increase, slide 72, or at least not their decrease, is more related to economic conditions.

Interesting about the entry barriers is to evaluate the past versus the future (picture 73) to determine if there are changes in the opinion.



Entry Barriers in the Next 5 Years

Figure 72



Past and Future of the Entry Barriers

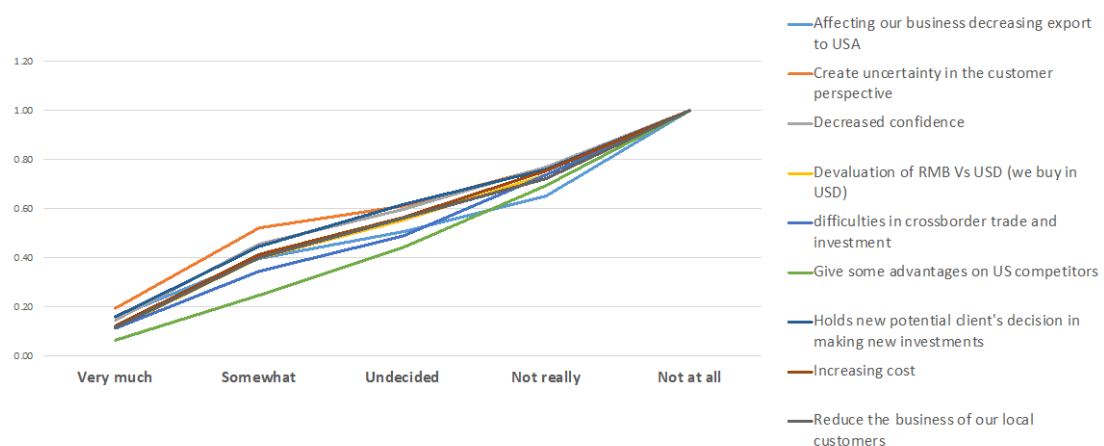
Figure 73

There is a strong correlation between the judgement of the past and the forecast of the future and therefore, in other words, it seems that the past it's a strong bias to determine the future, or in another way, that we live in a world of prejudices.

China-US Trade War

Given the situation, we have faced in particular in the last two years, we have to the Italian companies how do they are affected by the China-US trade war? In particular, we have asked how the trade war is affecting their business from different points of view, such as Affecting our business decreasing export to USA, Create uncertainty in the customer perspective, Decreased confidence, Devaluation of RMB Vs USD (we buy in USD), difficulties in crossborder trade and investment, Give some advantages on US competitors, Holds new potential client's decision in making new investments, Increasing cost, Reduce the business of our local customers.

The data are in the slide 74, and considering only the two options, **very much** and **somewhat**, we see that the only among the above mentioned factors which is above the 50% is the ones referred to uncertainty. Uncertainty is the key elements and indeed in all the factors the average number of answers chosing “**undecided**” is around 50%¹⁵.



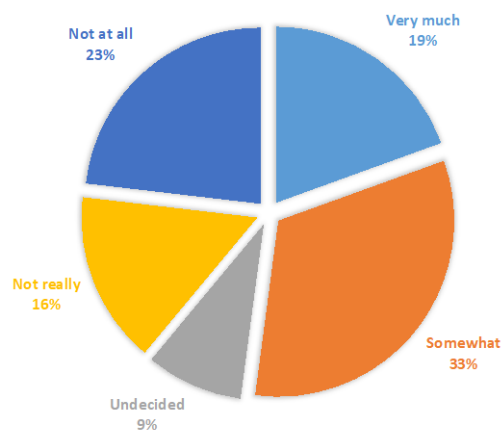
Impact on Business of China-US Trade War

Figure 74

And exactly to have a better understanding of the uncertainty that we have digged into this element in particular (slides 75 and 76).

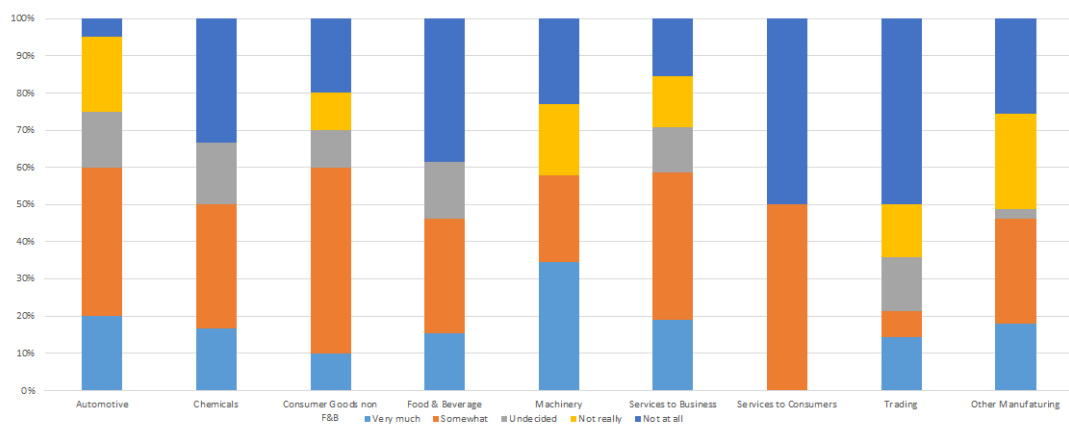
For the slide 75 we can appreciate that the answers are quite homogeneously distributed among the different options and therefore with slide 76 we have tried to see if the criteria were related to their industry and it seems so because some sectors, and again it seems automotive and service-to-business, are suffering more.

¹⁵ 55% to be more precise with a standard deviation of 0.055



Level of Uncertainty Generated by the China-US Trade War

Figure 75



Level of Uncertainty Generated by the China-US Trade War by Industry

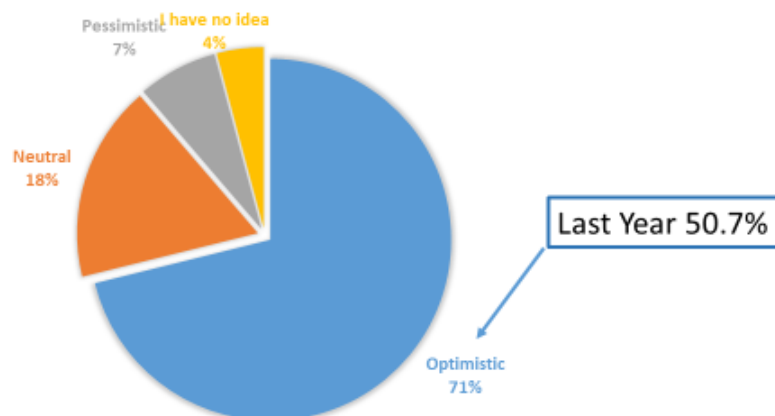
Figure 76

An obvious result is also to see that none of the company operating in the service-to-consumer said that the trade war generates a lot of uncertainty in their customers.

Conclusions

To conclude we have asked our managers how they forecast the future and they are very optimistic (71%) about the overall business scenario for the next five years (slide 77).

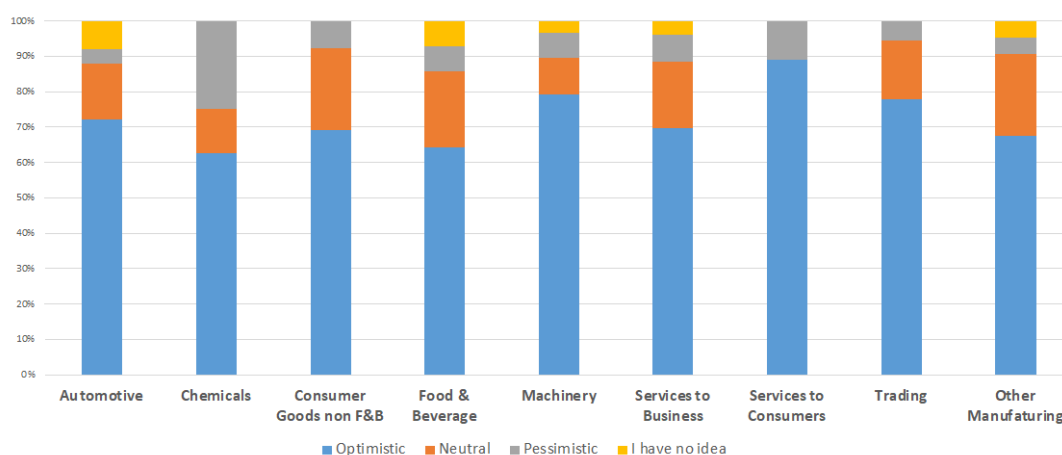
This is a strong direction especially if we consider that only the 7% is clearly pessimistic.



Overall Business Scenario in the Next 5 Years

Figure 77

Being the output of the question with such an high convergence to the optimistic also the breakdown by industry follows the same trend.

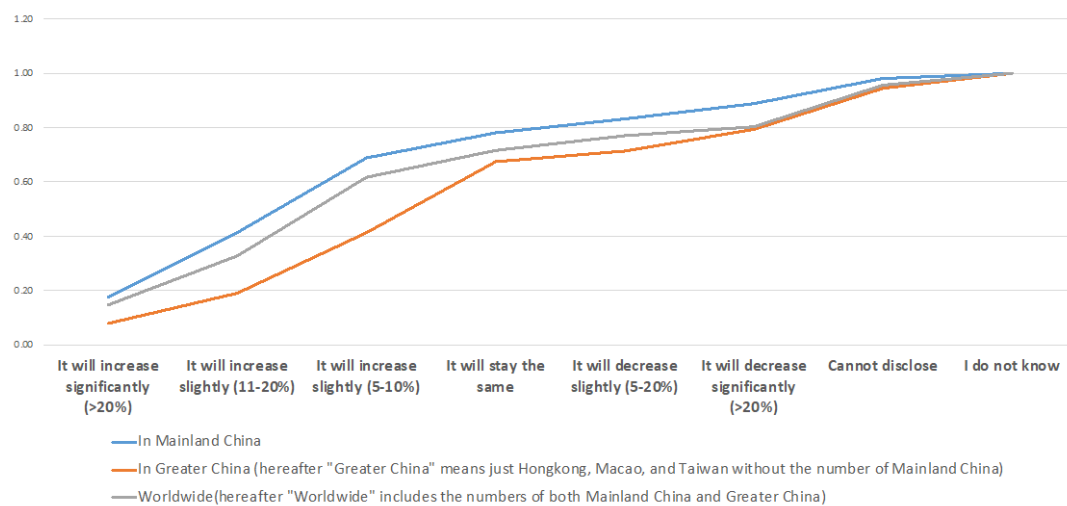


Overall Business Scenario in the Next 5 Years by Industry

Figure 78

A little bit smoother the optimism in the chemical industry while there are a lot of expectations in the service-to-consumer business and this is because the largest market is becoming larger and larger.

Therefore, if the scenario is optimistic, which is what the company see about the revenues in 2021 compared to the 2020 and again we see that mainland China increases at least above 10% for the 40% of the respondents (slide 79).



2021 Revenues Forecast versus 2020

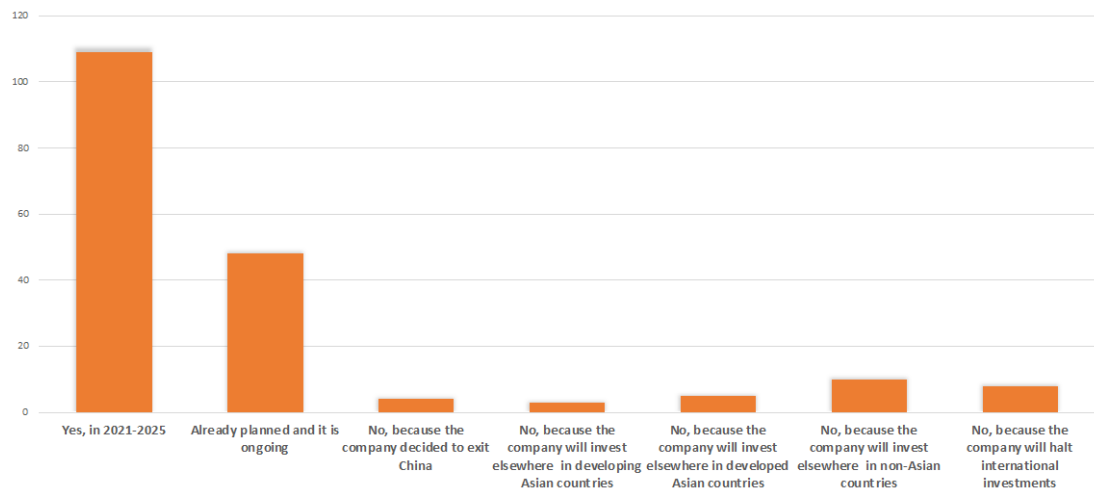
Figure 79

Above 70% there is the line of increase even if a lighter one.

The optimism in the future is also represented by the number of investments already planned for the future (slide 80).

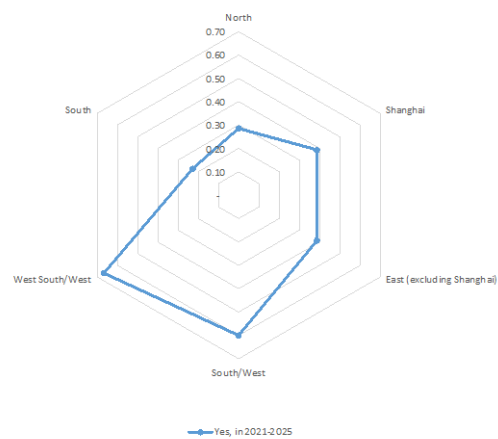
We can say “more revenues = more investments” and a large number of companies are ready to make them in the next five years and/or they are already ongoing with the related projects.

The good news is that most of these investments will be in emerging regions (slides 81 and 82). West, southwest, south, these are the place where, the companies are going to plan their investments in the future because there is still a big portion of the market that is not explored, or at least developed, yet.



Future Investments in China

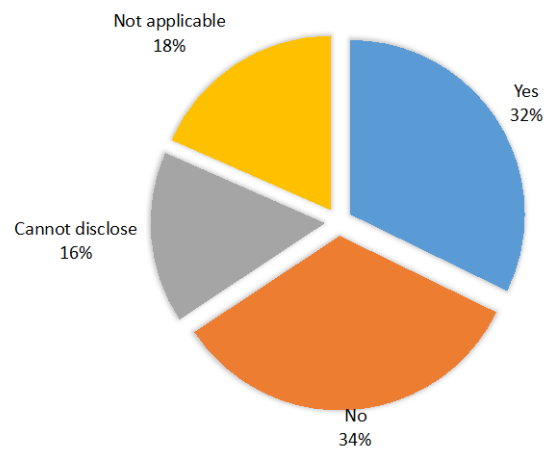
Figure 80



Future Investments in China by Location

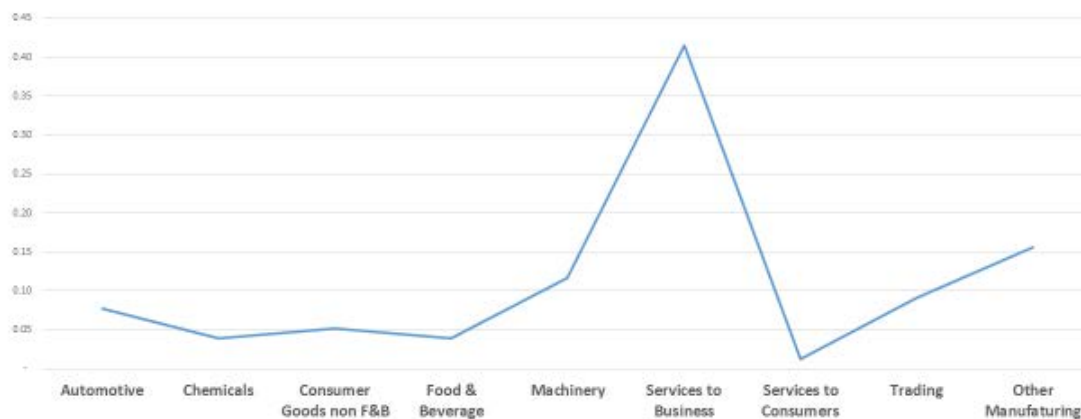
Figure 81

Investment in new territories is in the agenda of almost 32% of the companies in our population (slide 83) and they will mainly be generated by companies in the service business (slide 84).



Investing in New Territories

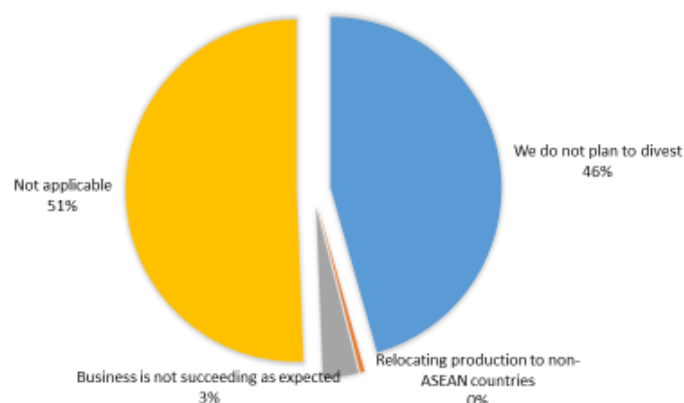
Figure 82



Investing in New Territories by Industry

Figure 83

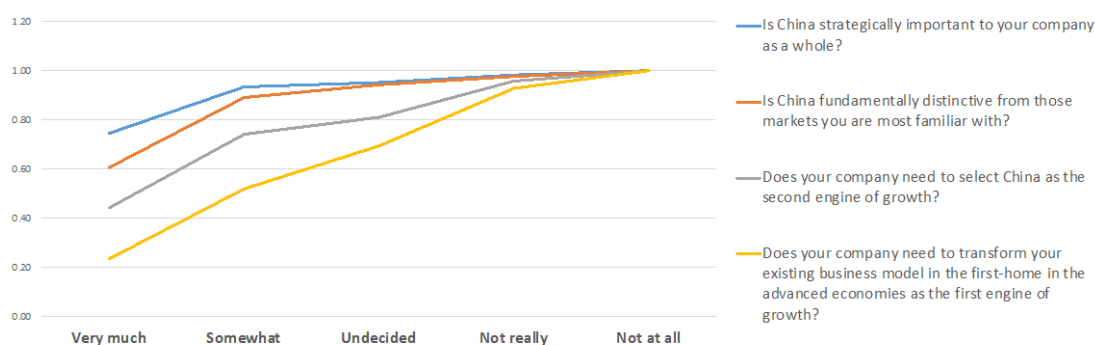
To complete the analysis of the investments we have asked if there is any company which has plan to divest from China and only 3% have expressed this intention.



Disinvestment Plan

Figure 84

From the results analyzed in this report we see that the Italian companies are step by step growing in China, consolidating their presence and enduring their confidence on the business environment.



Overall Assessment of China

Figure 85

The last slide, slide 85, demonstrates that the large majority of them is still considering this country a milestone of their strategic plan with its peculiarities and strengths.

CONTACT INFO

BEIJING OFFICE

3-2-21 Sanlitun Diplomatic Residence
Compound, Gongtibeilu No. 1, Chaoyang
District, 100600 Beijing
info@cameraitacina.com
0086-10-85910545
0086-10-85910546

CHONGQING OFFICE

Floor 20th, Chongqing Lianjiang International
Cooperation Centre, n 6 Huang Shan Avenue
Liangjiang, New Zone Chongqing. 401121
infochongqing@cameraitacina.com
0086-23-81156589

GUANGZHOU OFFICE

Room 1201-1202, Garden Hotel, No.368
Huanshi Dong Road, Garden Tower,
Guangzhou, 510064
infoguangdong@cameraitacina.com
0086-20-83652682

SHANGHAI OFFICE

N. 777 Weihai road, 2nd Floor, Room 202,
Jing'An District, Shanghai, 200000
Shanghaiinfoshanghai@cameraitacina.com
0086-21-63810268

SUZHOU OFFICE

No. 7, Fangzhou Road, Suzhou Industrial
Park, Suzhou, 215126
infosuzhou@cameraitacina.com
0086-512-67996169

