

Canadian Businesses in China Survey 2012



Asia Pacific
Foundation
of Canada

Fondation
Asie Pacifique
du Canada



Foreword



Since the great recession of 2008, China's economic importance for Canada has grown sharply. By providing an alternate source of demand for Canadian exports in the face of a global downturn, the Chinese market saved Canada from a more severe slowdown.

Four years on, the importance of China for the world economy is even greater, and the Canada-China economic relationship more complex. Doing business with China is no longer simply about stuffing commodities onto vessels and shipping them across the ocean; nor is it just about stocking our store shelves with inexpensive manufactured goods from the People's Republic.

China has arrived on our shores in the form of investment, infrastructure projects, workers, and technology. In turn, Canadian businesses are venturing deep into the Chinese economy with products and services that respond to the unique requirements of that marketplace. It used to be that the major barriers to bilateral trade were tariffs and quotas. Today, the obstacles go well beyond the border and include a wide range of regulatory and business environment issues in both countries.

This biennial survey of Canadian firms doing business in China sheds light on the performance of those firms and the challenges they face in the Chinese market. As the only survey of its kind, it provides "on the ground" information that is vital for policy development, and can serve as a useful corrective to popular myths and prejudices about doing business in China.

Our respondents have no illusion about the difficulty of doing business in China, but 75 percent of them report that their China operations are profitable, and two-thirds say their activities in China have grown in the last five years. They identify a range of "rule of law" issues as the major problems they face in China, including inadequate protection of intellectual property, inconsistent application of laws, and weak dispute settlement mechanisms. An overwhelming majority support free trade talks with China and believe that their businesses would grow if an FTA could be reached. This is not a hypothetical question: Beijing has invited Canada to begin FTA talks and the ball is now in Ottawa's court.

We are delighted to once again partner with the Canada China Business Council to launch the survey results at CCBC's 2012 Annual General Meeting. But we hope the findings will travel far beyond the Canada-China business community and that this report will help inform the increasingly noisy public discussion about China.

Yuen Pau WOO

President and CEO

Asia Pacific Foundation of Canada

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Executive Summary



The Asia Pacific Foundation of Canada (APF Canada) conducted this survey, which exclusively targeted Canadian companies that are active or interested in the China market. It is a follow-up study to a 2010 baseline survey. In addition to measuring the business performance of Canadian companies in the China market, this year's survey collects views on key policy issues affecting Sino-Canadian trade and investment relations, including the potential of a Canada-China Free Trade Agreement. The findings of this survey reflect the attitudes of Canadian firms about opportunities and challenges in the China market and their views on various policy issues affecting their business in China. The results will help inform policy makers and service providers on how to help Canadian companies develop stronger businesses in the country.

The findings of *Canadian Businesses in China Survey 2012* show that China is a great place for Canadian business but is not without some challenges. The major findings include:

- 75% of the Canadian companies surveyed reported that they were profitable in China, slightly down from 76% in a 2010 survey. By contrast, 56% of the British corporations surveyed reported they were profitable in China, along with 80% of German firms and 89% of American companies.
- 66% of surveyed companies reported their business activities in China had grown over the last five years, while 17% said their businesses had declined over the same period.
- 70% of the companies surveyed noted that it was either much more difficult or somewhat more difficult to conduct business in China than in other international markets in which they operate.
- Unlike U.S. and German companies, which viewed constraints on human resources as their biggest challenge, or British and Swiss firms, which said slowing global growth was their biggest challenge, the top three challenges identified by Canadian firms were related to "rule of law" issues, including:
 1. Intellectual property rules and practices in China
 2. Inconsistent interpretation of regulations/laws in China
 3. Weak dispute settlement mechanisms
- 82% of surveyed companies either strongly or moderately supported negotiations for a free trade agreement (FTA) between the two countries.
- 83% of surveyed companies said their business activity in China would increase if Canada and China were to conclude a free trade agreement.
- 48% of Canadian businesses active in the China market were involved in the export-import trade, while another 24% of respondents have business operations in China.
- Small and medium-sized enterprises (SMEs) are the major business players in China. 58% of respondents reported global revenue of less than C\$10 million in 2011.
- 85% of surveyed companies reported that they had never bid on Chinese government procurement contracts because they were neither interested nor aware of projects.
- Only 28% of surveyed Canadian companies said they were looking for a Chinese investor. Of those, building or expanding their business in China was the reason they were looking for a Chinese partner.

Résumé



Cette enquête de la Fondation Asie Pacifique du Canada visait exclusivement les entreprises canadiennes actives sur le marché chinois ou intéressées par celui-ci. Elle fait suite à une première enquête réalisée en 2010. En plus de mesurer les résultats des entreprises canadiennes sur le marché chinois, l'enquête de cette année a recueilli leurs points de vue sur les grandes questions politiques déterminant les relations sino-canadiennes en matière d'échanges et d'investissements, et notamment sur la possibilité d'un accord de libre-échange entre les deux pays. Les constatations de cette enquête reflètent les attitudes des entreprises canadiennes à l'égard des possibilités et des défis que présente le marché chinois, ainsi que leurs points de vue quant aux différentes questions de politiques pesant sur leurs activités en Chine. Les résultats sont voués à éclairer les décideurs et prestataires de services sur la manière d'aider les entreprises canadiennes à établir et renforcer leurs activités dans ce pays.

Au final, l'enquête 2012 montre que la Chine est un pays très intéressant pour les entreprises canadiennes, mais qu'il ne va pas sans poser quelques défis, comme l'indiquent les principaux constats résumés ci-dessous.

- 75 pour cent des entreprises canadiennes interrogées ont indiqué que leurs activités en Chine étaient rentables (ce qui représente une légère baisse par rapport aux 76 pour cent de l'enquête de 2010). À titre de comparaison, 56 pour cent des entreprises britanniques interrogées ont indiqué que leurs activités en Chine étaient rentables, et il en va de même pour 80 pour cent des entreprises allemandes et 89 pour cent des entreprises américaines interrogées.
- 66 pour cent des entreprises interrogées ont indiqué que leurs activités en Chine s'étaient accrues au cours des cinq dernières années, tandis que 17 pour cent ont indiqué qu'elles avaient décliné pour cette même période.
- 70 pour cent des entreprises interrogées ont trouvé qu'il était « beaucoup plus difficile » ou « plutôt plus difficile » de faire des affaires en Chine que dans les autres marchés étrangers où elles exercent des activités.
- Si le plus grand défi à surmonter résidait dans les contraintes de ressources humaines pour les entreprises américaines et allemandes et dans le ralentissement de l'économie mondiale pour les entreprises britanniques ou suisses, les trois principaux défis des entreprises canadiennes étaient des questions d'ordre juridique :
 1. règles et pratiques chinoises en matière de propriété intellectuelle;
 2. manque de cohérence dans l'interprétation des lois et règlements en Chine;
 3. faiblesse du mécanisme de règlement des différends.
- 82 pour cent des entreprises interrogées étaient « tout à fait pour » ou « plutôt pour » la négociation d'un accord de libre-échange entre les deux pays.
- 83 pour cent des entreprises interrogées ont indiqué que la conclusion d'un accord de libre-échange entre le Canada et la Chine entraînerait une augmentation de leur activité en Chine.
- Parmi les entreprises canadiennes actives sur le marché chinois, 48 pour cent l'étaient dans le domaine de l'import-export et 24 autres pour cent avaient des installations en Chine.
- Les petites et moyennes entreprises (PME) sont les principaux acteurs en Chine. 58 pour cent des entreprises répondantes ont fait état d'un chiffre d'affaires brut de moins de 10 millions de dollars canadiens en 2011.
- 85 pour cent des entreprises interrogées ont indiqué n'avoir jamais répondu à un appel d'offres du gouvernement chinois parce qu'elles n'étaient ni intéressées, ni au courant de ces derniers.
- Seulement 28 pour cent des entreprises canadiennes interrogées ont indiqué rechercher un investisseur chinois. Parmi celles-ci, la principale raison de rechercher un investisseur chinois était d'établir ou d'étendre leurs activités en Chine.

报告摘要



加拿大亚太基金会进行的这项调查，专门针对已经或有兴趣在中国市场营商的加拿大公司。这是在2010年基准调查基础上的一个后续研究。最新发布的调查结果是该项目开展以来的第二份报告。除了评估加国企业在中国的运营表现，今年的调查还收集了企业对影响中加贸易投资关系各议题的看法，其中包括未来可能的加中自由贸易协议的看法。调查结果反映出加拿大企业对于中国市场的机遇和挑战抱持的态度，至于会影响他们在中国营商的各种政策议题，这些企业也通过调查表达了各自的看法。今年的调查研究结果可供加拿大政府与其他相关服务单位参考，以便协助加国企业在中国的运营取得更显著的成功。

“在中国营商的加拿大企业—2012年调查”结果显示，中国是个极佳的营商之地，但同时也是挑战重重。这次调查研究的主要结论如下：

- 75%参与调查的加国企业表示，他们在中国的运营带来获利，这个比例比2010年的76%略为下降。相较之下，只有56%在中国的英国企业有获利，德国企业为80%，而美国企业的获利比例则为89%。
- 66%的受访加国企业表示，过去五年来，他们在中国的商业活动保持增长；但也有17%的公司表示同期他们的业务衰退。
- 70%的受访企业指出，在中国营商比在其他国家要困难很多或比较困难。
- 不同国家的企业对于中国营商环境的挑战有不同的看法，美国和德国企业认为人力资源的限制是最大的挑战；英国和瑞士企业表示，全球经济成长缓慢显著影响了他们在中国的发展。加拿大企业列举的三大挑战则都与中国的法制有关系：
 1. 中国的知识产权规则与管理做法
 2. 中国对于法规的诠释前后不一
 3. 争端解决机制薄弱
- 82%的加国企业强烈支持或中度支持加中两国协商自由贸易协定。
- 83%的受访企业认为，假如加拿大与中国签订自由贸易协定，那么他们在中国的业务量会增加。
- 48%活跃于中国的加拿大企业从事进出口贸易，另外有26%的受访企业则是在中国有实际办公运营。
- 在中国营商的加拿大公司主要是中小企业，其中58%于2011年的全球总营收在1000万加元以下。
- 85%的受访加国企业指出，他们从来没有参与中国政府采购合同的投标，原因是没兴趣或根本不知道有项目可投标。
- 只有28%的受访企业表示他们在寻找中国的投资者，之所以想找中国的合作伙伴主要是希望在中国立足设点或是扩大运营。

1

Survey Results: Introduction

The Asia Pacific Foundation of Canada (APF Canada), an independent think-tank on Canada's relations with Asia, conducted this survey, which exclusively targeted Canadian companies that are active or interested in the China market. APF Canada consulted with a variety of stakeholders on survey design, including the Canada China Business Council (CCBC), the country's leading Canada-China bilateral trade and investment facilitator, catalyst and advocate. It is a follow-up study to a 2010 baseline survey.¹ The findings presented in this report help shed light on critical components of the Canada-China business relationship.

1.1 Objective and Approach

The purpose of this survey is to identify opportunities and challenges that face Canadian businesses in the China market. The focus of this year's survey is on key policy issues affecting Sino-Canadian trade and investment, particularly a potential Canada-China free trade agreement. The findings of this survey reflect the opportunities and challenges that Canadian firms face in China and their views on some of the policy issues affecting their business in China. The results also provide guidance to Canadian government departments and other service providers on how best to help Canadian companies develop their business in China.

1.2 Target Companies

The survey exclusively targeted Canadian companies that are active or interested in the China market. Two sources were used to identify the sample population:

- Canadian business drawn from Industry Canada's public database
- Members of the Canada-China Business Council

¹ An e-copy of the *Canadian Businesses in China 2010: Survey of Constraints and Opportunities* can be downloaded at the APF Canada's website, http://www.asiapacific.ca/sites/default/files/filefield/asia_pacific_foundation_survey_2010_fnl_english_web_0.pdf

1.3 Survey Method

The survey was conducted online² in English and French using a questionnaire containing 18 questions. Individual responses were not made public, nor shared with other parties.

The survey was unveiled at a CCBC luncheon for 320 people on Sept. 25, 2012 in honour of China's Minister of Commerce, Mr. Chen Deming. CCBC then sent out electronic invitations to all of its members and contacts to participate in the survey. APF Canada drew on Industry Canada's database to invite 2,719 Canadian businesses across Canada to participate in this survey. Of these, 211 chose to participate in the survey.

The online survey was taken between Sept. 25 and Oct. 15, 2012.

1.4 Acknowledgment

This report was prepared by Kenny Zhang, senior project manager at APF Canada, under the direction of Yuen Pau Woo, president and chief executive officer of APF Canada, with input from Dr. Michael Goldberg, Dr. Daniel Savas and Mrs. Sarah Kutulakos. Eiston Lo, Mikhail Iturralde, Alice Lee and Haruka Nakamura provided research assistance. Special thanks go to all respondents, who participated in the survey.

This study, conducted by the APF Canada, is the second survey to focus exclusively on Canadian companies and their business activities in China. There have been similar studies conducted in other western countries, however, which served as a reference point. Information on American, British, German, European Union and Swiss companies is extracted respectively from business climate surveys by each country, and it is gratefully acknowledged.³

The APF Canada would also like to thank Air China (Canada), which generously offered a Business class return ticket between Vancouver and Beijing as an incentive for participating in the survey.

Personal information is strictly protected under APF Canada's *Privacy Policy*⁴ of the APF Canada.

² The survey site in English is at:
<https://asiapacific.insitesystems.com/terminal/guests/surveys/v2/survey.aspx?passkey=GK6J&page=1&view=start>;
and the French version:
<https://asiapacific.insitesystems.com/terminal/guests/surveys/v2/survey.aspx?passkey=8CXR&page=1&view=start>

³ These surveys were conducted by The German Chamber of Commerce in China; The U.S.-China Business Council; The European Union Chamber of Commerce in China; The British Chamber of Commerce in China; and The Swiss Chinese Chamber of Commerce. Survey reports by these organizations were extracted directly from their websites.

⁴ <http://www.asiapacific.ca/about-us/copyright#3>

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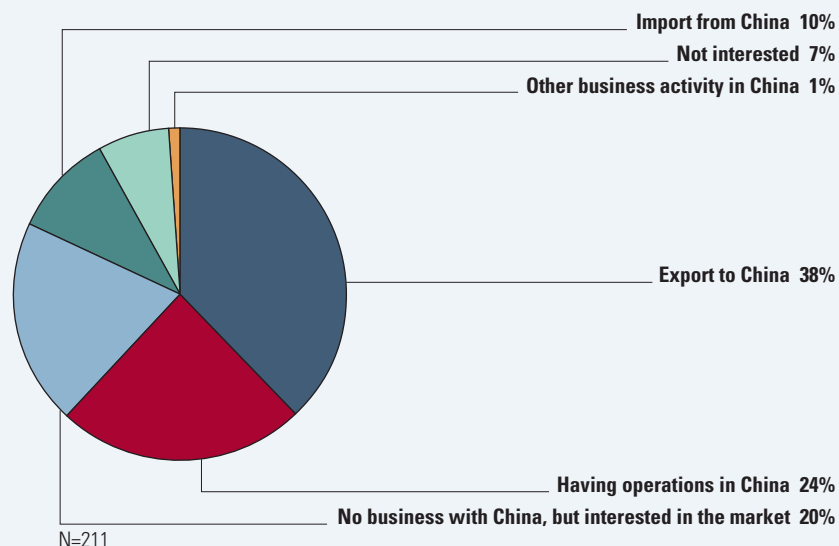
Landscape of Canadian Business in China

What does the China market mean to Canadian business? To some, China acts as a source of low-cost products, and to others, it is a market for Canadian exports. Our survey finds that China, in fact, represents a land of many business opportunities for Canadian companies, whether they choose to operate business in or outside of China.

2.1 Categories of Business Relationships

The most common Canadian business activity in China is international trade. Thirty-eight percent of the Canadian companies polled export their products and services to China while 10% of the respondents import products from China. Nearly a quarter of all respondents reported having set up an office or factory in China. One-fifth of respondents said that while they did not currently have a business in China, they were interested in the market. Only 7% of those polled said they had no interest in the China market. Nearly 1% of the respondents reported some kind of activity in the China market, whether it was conducting online businesses with Chinese clients or offering professional services when Chinese clients invest in Canada.

CHART 2.1 CATEGORIES OF CANADIAN BUSINESS IN CHINA

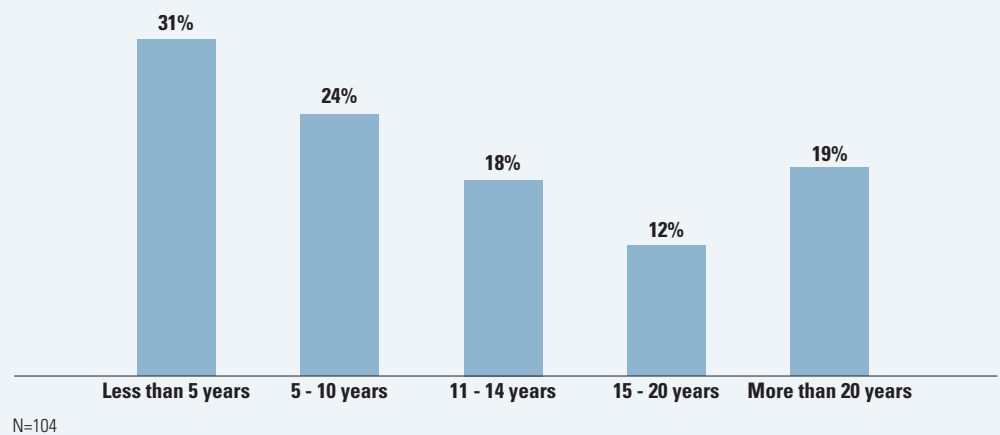


Q: Which of the following best describes your company's current business in the China market?

2.2 History of Business Relationships

The history of Canadian business relationships in the China market has been uneven. While most Canadian businesses are newcomers to China, some started their businesses quite early on. More than half of all respondents reported that they had developed businesses in China within the last ten years. About 30% said they became active in the China market over the last ten to twenty years, while another 19% said they had more than twenty years of business experience in China.

CHART 2.2 HISTORY OF BUSINESS IN/WITH CHINA



Q: Which year did your company start business in/with China?

2.3 Location of Canadian Business

Canadian business activities are heavily concentrated in Beijing, Shanghai and Guangdong province, the three most important and developed economic and political centres of the country. One in five of those polled reported that their major business activities take place in Beijing or Shanghai, respectively, while another 10% said they were active in southern Guangdong province.

Despite the heavy concentration of business activities in these three centres, Canadian companies are widely distributed across China. Almost all provinces in China have some Canadian companies present, with perhaps the strongest presence in the Hong Kong SAR, which acts as a gateway to the China market.

The location of Canadian business activities in China is displayed in Map 1.

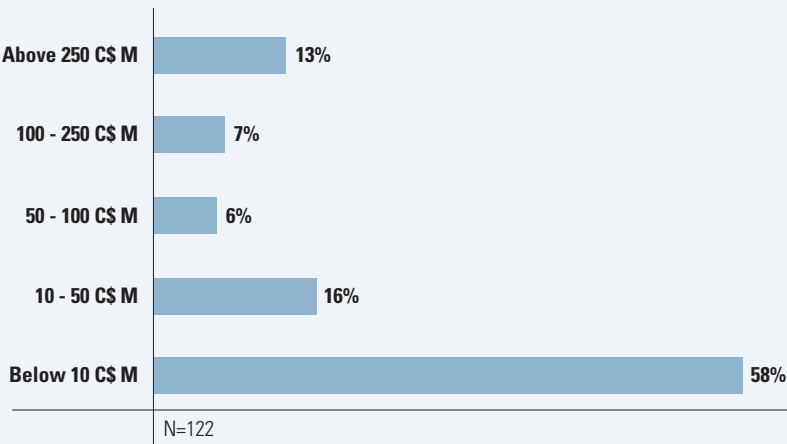
MAP 1. LOCATION OF CANADIAN BUSINESS ESTABLISHMENTS IN CANADA



2.4 Size of Business

The data show that Canadian small- and medium-sized enterprises (SMEs) are the major players in the China market. Nearly 58% of respondents reported global gross revenues of under \$10 million in 2011. Large Canadian corporations are also significant players in the China market, with 20% of respondents reporting global revenues of more than \$100 million. Some 22% reported annual gross revenues of between \$10-100 million.

CHART 2.4 SIZE OF BUSINESS

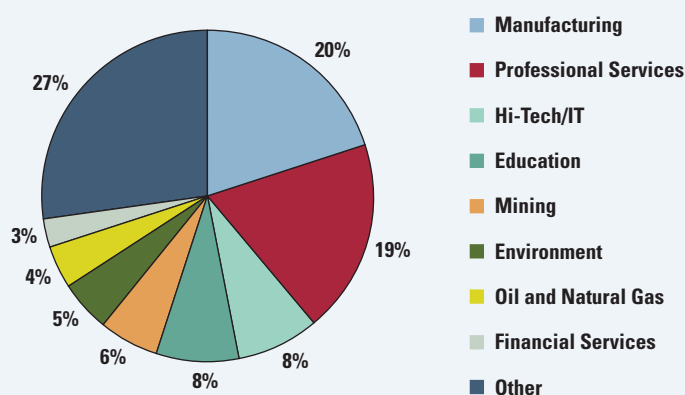


Q: What is the range of your company's global gross revenue in 2011?

2.5 Sector of Business

Canadian companies that are doing business in China represent a wide range of industries. The top five sectors are manufacturing, professional services, hi-tech/IT, education and mining. A detailed breakdown can be found in Chart 2.5.

CHART 2.5 INDUSTRY

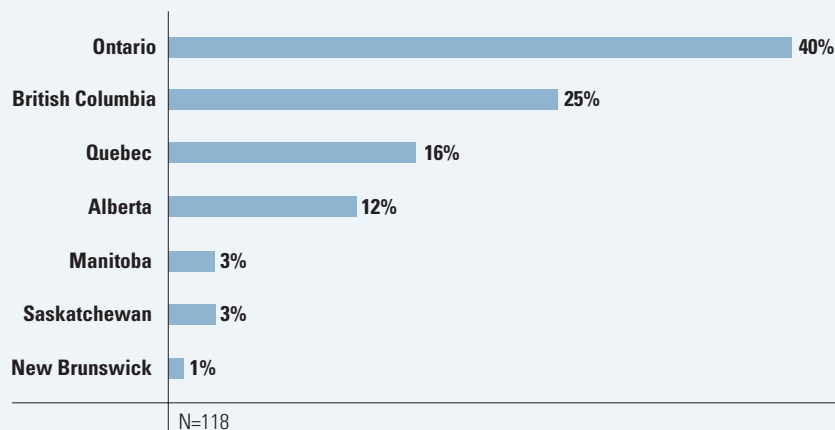


Q: Which of the following industries best reflect your company's major business activities?

2.6 Home Base of Parent Companies

The headquarters or parent companies of Canadian corporations that have business in China are mainly based in Ontario (nearly 40%) and British Columbia (25%) (see Chart 2.6).

CHART 2.6 HOME PROVINCE OF PARENT COMPANY



Q: Where is your Canadian parent or headquarters based in Canada?



China: A Profitable and Growing Market for Canadian Businesses

China is a profitable market for most Canadian businesses, but the Chinese market still represents a small share of global sales.

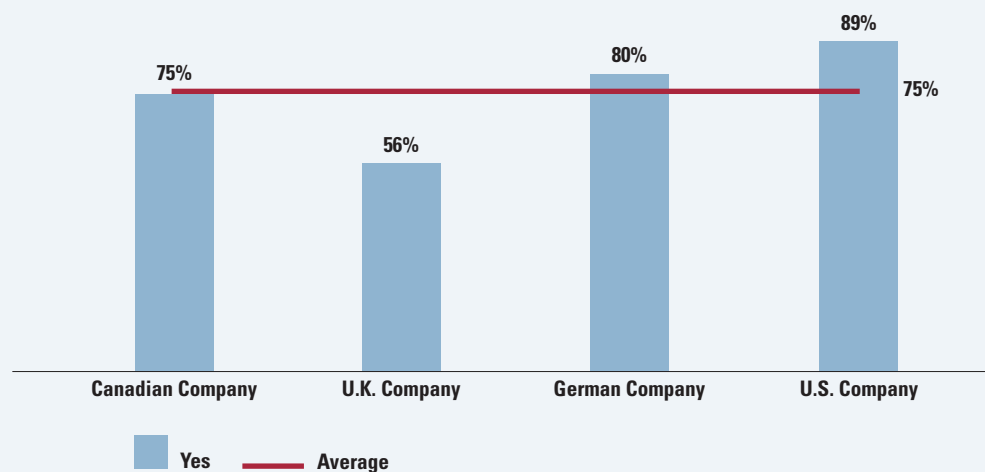
3.1 Profitability in China

Seventy-five percent of the Canadian companies surveyed reported that their operations in China were profitable. In the 2010 survey, 76% reported their China operations were profitable.

In the United States, Germany, the European Union and Switzerland, on average, three quarters or 75% of businesses reported they were profitable in China. Canadian businesses outperformed their counterparts in China from the United Kingdom but underperformed their counterparts from Germany and the U.S. (see Chart 3.1).

Companies that export to China demonstrated the highest profitability (84%), followed by importers (75%), and companies with operations in China (68%).

CHART 3.1 IS YOUR CHINA BUSINESS PROFITABLE?



Q: Is your China business profitable?

3.1 Profitability in China (cont.)

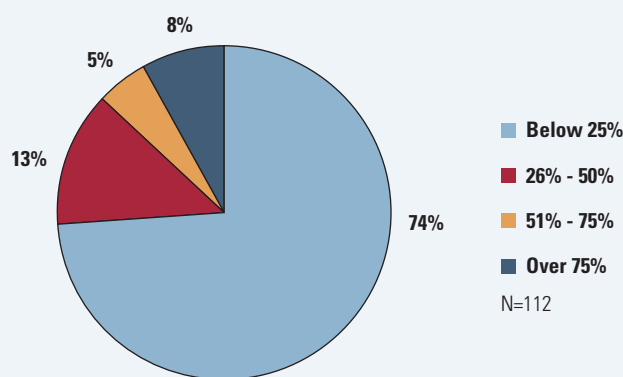
TABLE 3.1 PROFITABILITY BY TYPE OF BUSINESS RELATIONSHIP IN THE CHINA MARKET

Type of Business Relationships	Profitability			
	Yes	No	Total	Share of Profitable
Export to China	49	9	58	84%
Import from China	9	3	12	75%
Having operations in China	23	11	34	68%
Others	2	4	6	33%
Total	83	27	110	75%

3.2 Revenue from China

Even if the profitability in the China market for Canadian companies can be as high as 75%, revenue attributable to their China business represented a small share of their global gross revenue in 2011. Nearly 74% of respondents indicated that revenue from their China business was less than 25% of their global revenue. About 13% of respondents reported that more than half of their total revenue was attributable to their China business, while another 13% said the China market generated 25-50% of their total revenue.

CHART 3.2 REVENUE SHARE FROM CHINA



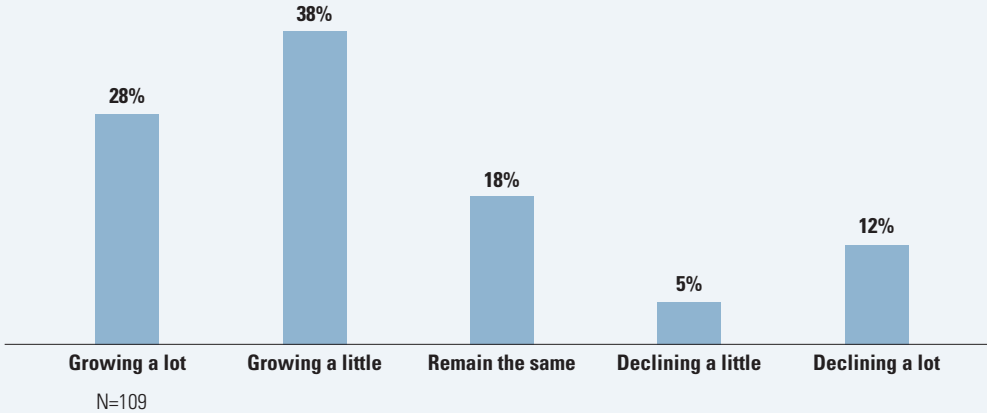
Q: What percentage of your company's global gross revenue in 2011 was attributable to your China business?

3.3 Business Growth in China

China is also important to Canadian companies for long-term growth. Nearly two thirds of the respondents reported their companies' business activities in China had grown over the last five years (or from the start of their business with China if it was less than five years). Of those, 28% said their business was growing a lot. A little under one-fifth or 20% of those polled said their business in China has remained the same, while 17% reported their business has declined.

The survey found out that there is a significant association between business growth in the China market and the types of activities Canadian companies are involved in there (See table 3.3). The statistics show that if a company imports from China they are most likely to see their business grow, followed by firms with operations in China and those exporting to China.

CHART 3.3 BUSINESS GROWTH IN CHINA



Q: How would you describe the performance of your company's activities in China over the last five years (or from the start of your business with/in China)?

TABLE 3.3 BUSINESS GROWTH BY TYPE OF BUSINESS RELATIONSHIP IN THE CHINA MARKET

Type of Business Relationships	Business Growth Over Five Years			Share of Those Reported Growth
	Yes	No	Total	
Import from China	10	2	12	83%
Having operations in China	26	9	35	74%
Export to China	34	21	55	62%
Others	1	6	7	14%
Total	71	38	109	65%

Pearson $\chi^2(4) = 12.8502$; Pr = 0.012

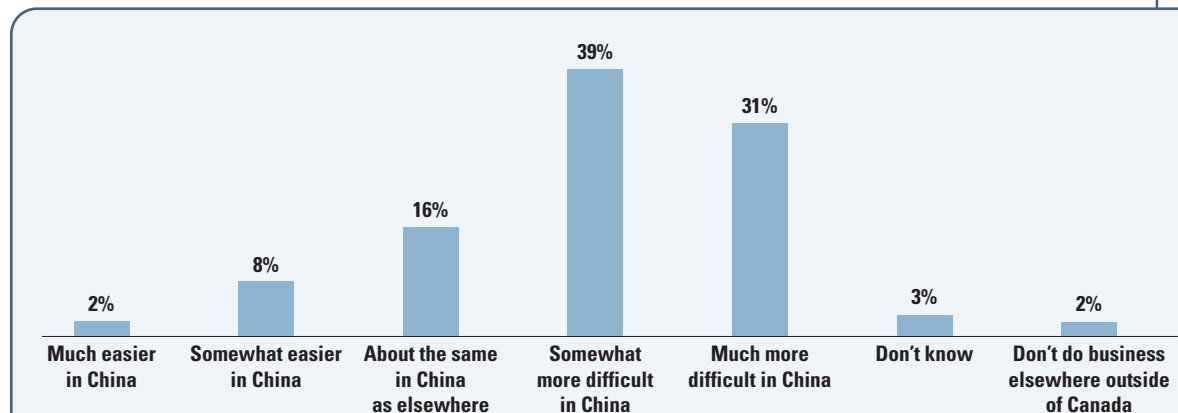
4 Major Constraints Facing Canadian Businesses in the China Market

China is a great place to do business but it does present significant challenges. Some of those challenges may be common to companies from all countries, but some are unique to Canadian companies. What do Canadian firms say are the major constraints in the market? Are there differences between what Canadian companies find difficult about operating in China and what their counterparts in other countries find difficult about operating in China?

4.1 Difficulties in China Market

Generally Canadian companies believe that it is more difficult to do business in China than it is in other international markets. About 70% of respondents noted that it is either much more difficult or somewhat more difficult for them to conduct business in China than it is elsewhere. Only 10% suggested it is easier in China and 16% said it is about the same.

CHART 4.1 LEVEL OF DIFFICULTY OF DOING BUSINESS IN CHINA



N=113

Q: Compared to other markets where you might have business, would you say it is easier or more difficult to do business in China?

4.2 Top Challenges

Respondents said many different challenges face companies trying to do business in China. On a seven-point scale where 1 means that the respondent thinks it is only a minor barrier and 7, which represents a

4.2 Top Challenges (cont.)

major barrier, respondents listed intellectual property rules and practices in China as the top barrier. (IP scored a mean value of 4.93, the highest among all major issues.) The other top challenges included inconsistent interpretation of regulations/laws (4.77); weak dispute settlement mechanisms (4.55); lengthy and complicated certification procedures (4.47); and Chinese tariffs and other border barriers (4.26). A list of the major challenges can be found in Table 4.1.

TABLE 4.1 MAJOR CHALLENGES IN CHINA

	Mean	% rated as a major challenge (6 and 7)
Intellectual property rules and practices in China	4.93	51
Inconsistent interpretation of regulations/laws in China	4.77	45
Weak dispute settlement mechanism	4.55	41
Lengthy/complicated certification	4.47	36
Chinese tariffs and other border barriers	4.26	38
Handing over encryption codes; technology, in order to obtain certification	4.20	36
Lack of access to Chinese government procurement contracts	4.07	28
Limitations to market access due to national security concerns	4.05	32
Domestic regulations at the local Chinese government level	4.05	31
Chinese customs procedures	4.04	24
Domestic regulations at the central Chinese government level	4.00	28
Restrictions on currency conversion	3.91	22
Labour law and practices in China	3.82	24
China's sanitary/phyto-sanitary and health-related rules	3.80	31
Technical barriers to trade with China	3.77	20
Mobility of Canadian business travelers in China (Visas, work permits etc.)	3.74	26
Restrictions on Canadian investment in China	3.51	19
Local content requirements in China	3.38	16
Chinese labeling requirements	3.17	13
China's anti-dumping provisions	3.11	8

Despite the slight difference between this year's top five challenges and what were identified in the 2010 survey, it appears that the top five challenges are related to the rule of law and trade policy. In other words, these issues are not being resolved easily or improved at the company level. The findings suggest that governments in both countries must make efforts to improve the policy and regulatory environment.

A comparison of the major challenges facing companies from other western countries in China illustrates that many of the challenges are the same (see Table 4.2). However, some variation does exist depending on each country's business model and culture.

4.2 Top Challenges (cont.)

TABLE 4.2 TOP FIVE BUSINESS CHALLENGES ⁵

	2010	2012
CANDIAN COMPANY 	<ol style="list-style-type: none"> 1. Inconsistent regulatory interpretation 2. Pollution/Air quality 3. Bureaucracy 4. Enforcing contracts 5. Transparency 	<ol style="list-style-type: none"> 1. Intellectual property rules and practices 2. Inconsistent interpretation of regulations/laws 3. Weak dispute settlement mechanism 4. Lengthy/complicated certification 5. Chinese tariffs and other border barriers
U.S. COMPANY 	<ol style="list-style-type: none"> 1. Inconsistent regulatory interpretation 2. Management-level human resources constraints 3. Obtaining required licenses 4. National Protectionism 5. Bureaucracy 	<ol style="list-style-type: none"> 1. Management-level human resources constraints 2. Inconsistent regulatory/unclear laws 3. Non-management level human resources constraints 4. Difficulty obtaining required licenses 5. Corruption
BRITISH COMPANY 	<ol style="list-style-type: none"> 1. Retention of high qualified staff 2. Availability of qualified staff 3. Transparency of laws and regulations 4. The legal and regulatory systems themselves 5. Staff remuneration/pay levels 	<ol style="list-style-type: none"> 1. Global economic slow down 2. Increase Chinese competition 3. Labour costs 4. Inconsistent regulatory interpretation 5. Increased bureaucracy
GERMAN COMPANY 	<ol style="list-style-type: none"> 1. Protection of intellectual property rights 2. Availability of qualified human resources 3. Legal security & compliance with business terms 4. Bureaucracy & Authorities 5. Corruption 	<ol style="list-style-type: none"> 1. Finding qualified staff 2. Increase of labor cost 3. Retaining qualified staff 4. Bureaucracy/Administration 5. Corruption
EUROPEAN UNION COMPANY 	<ol style="list-style-type: none"> 1. Discretionary enforcement of laws and regulations 2. Registration processes 3. IPR protection 4. Visa and work permit practice 5. Local implementation of national standards 	<ol style="list-style-type: none"> 1. Unequal implementation of the law and the laws themselves 2. Over-reliance upon fixed asset investment and exports 3. Failing to move up the value chain 4. The slow development of the service industry risk stifling economic development 5. Decline in labor supply
SWISS COMPANY 	<ol style="list-style-type: none"> 1. Finding suitable talent 2. Unclear, inconsistent law/regulations 3. Stricter regulations to fulfil 4. Global economic slowdown 5. Local product 	<ol style="list-style-type: none"> 1. Global economic slowdown 2. Increasing wages and cost of people 3. Inflation 4. Finding suitable talent 5. Higher taxes

⁵ These surveys were conducted by The German Chamber of Commerce in China; The U.S.-China Business Council; The European Union Chamber of Commerce in China; The British Chamber of Commerce in China; and The Swiss Chinese Chamber of Commerce. Survey reports by these organizations were extracted directly from their websites.

4.3 Overcoming Difficulties

Respondents said that having a Chinese partner to stick-handle any problems that might arise was the most effective strategy in overcoming the difficulties of doing business in China. Second-tier strategies include:

- Getting advice from individuals in Canadian communities who are knowledgeable about China
- Building close relationships with Chinese government officials
- Relying on Canadian government services
- Getting advice from other Canadian businesses
- Using legal counsel or consulting services based in China

CHART 4.3 OVERCOMING DIFFICULTIES IN CHINA



Q: Based on your company's experience, which strategies have been the most effective in overcoming the difficulties and challenges of doing business in China?

5

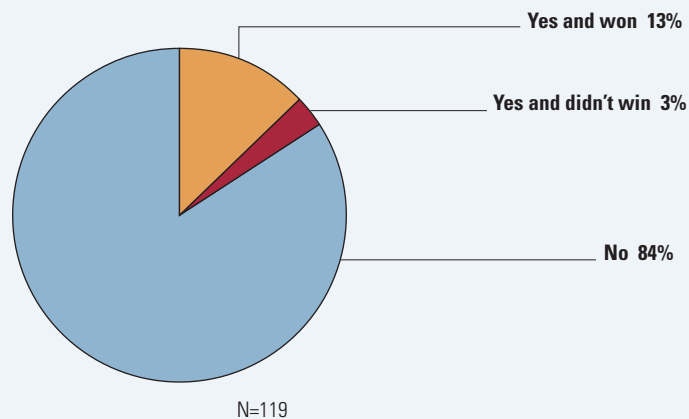
Perception of Chinese Government Procurement

Many foreign companies are often frustrated with the lack of access to China's government procurement market.

5.1 Bidding on Government Procurement

The data shows that 85% of respondents reported that they had never bid on a Chinese government procurement contract. Thirteen percent said they had bid on a government procurement contract and won. Another 3% said they had tried but did not win.

CHART 5.1 CHINESE GOVERNMENT PROCUREMENT CONTRACTS BIDS

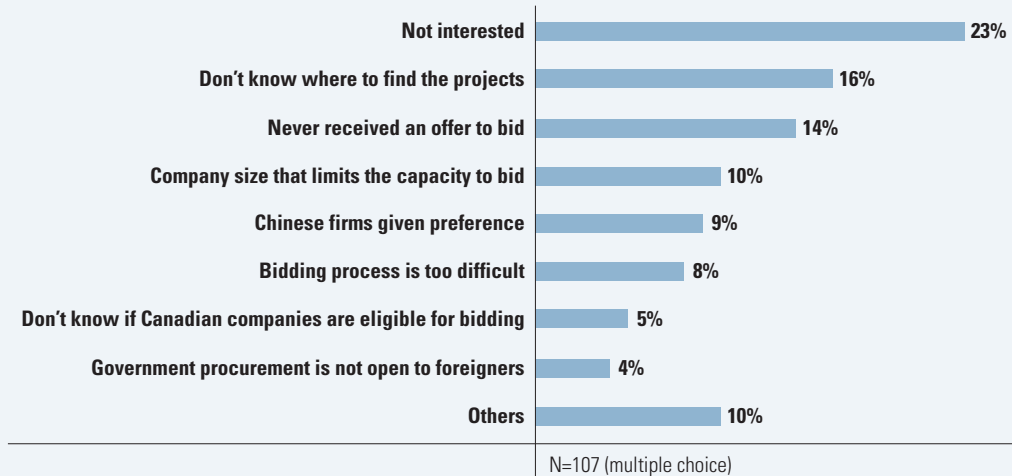


Q: Has your company ever bid on a Chinese government procurement contract?

5.2 Reasons for not Bidding on Government Contracts

For those respondents that have never bid on a Chinese government procurement contract, 23% said they were not interested in doing so. Another 16% said they didn't know where to find the projects and 14% said they had never received an offer. Some companies said they did not bid because of a preference given to Chinese firms. For a full list of reasons, see Chart 5.2.

CHART 5.2 REASONS FOR NOT BIDDING ON GOVERNMENT PROCUREMENT CONTRACTS

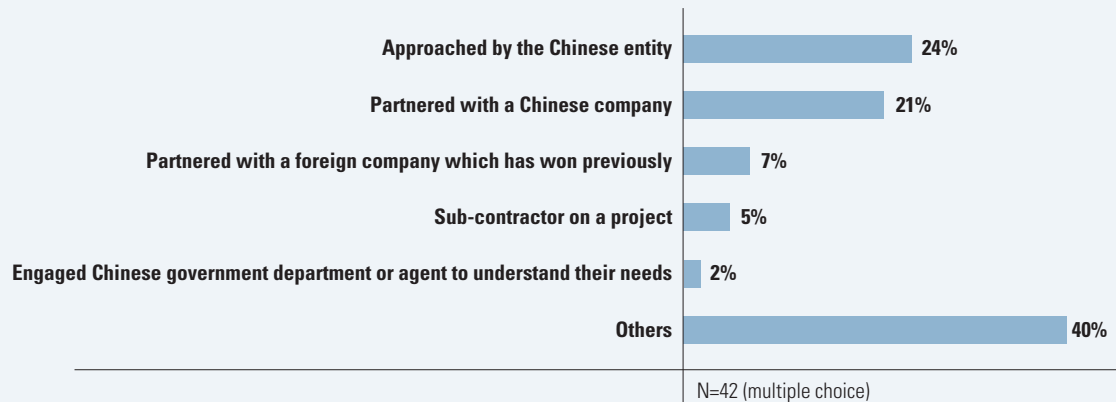


Q: What are the main reasons why you have never bid on any Chinese government procurement contracts?

5.3 Tips for Winning Government Procurement Contracts

Many respondents reported that working with Chinese partners was the key to success. About 24% reported they won a contract because they were approached by a Chinese entity, and another 21% cited partnering with a Chinese company as the way to win a contract. See Chart 5.3.

CHART 5.3 TIPS FOR WINNING GOVERNMENT PROCUREMENT CONTRACTS



Q: What strategies are the keys to winning the contract?

6

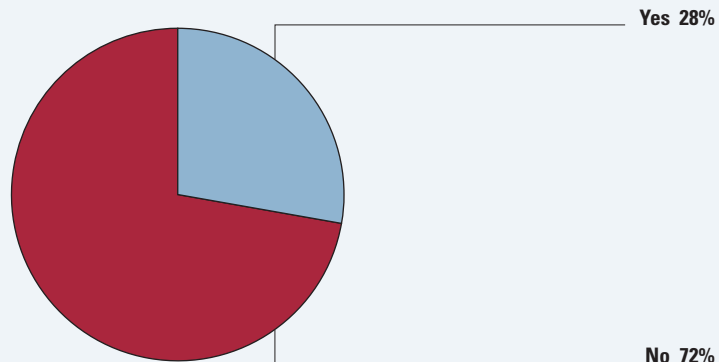
Perception of Chinese Investment

Chinese investment in Canada has become a hot button issue recently. How many Canadian companies are seeking a Chinese investor and for what purpose?

6.1 Seeking Chinese Investment

Just 28% of those polled suggested that they were seeking a Chinese investor while 72% said they were not looking for a Chinese investor.

CHART 6.1 SEEKING CHINESE INVESTMENT

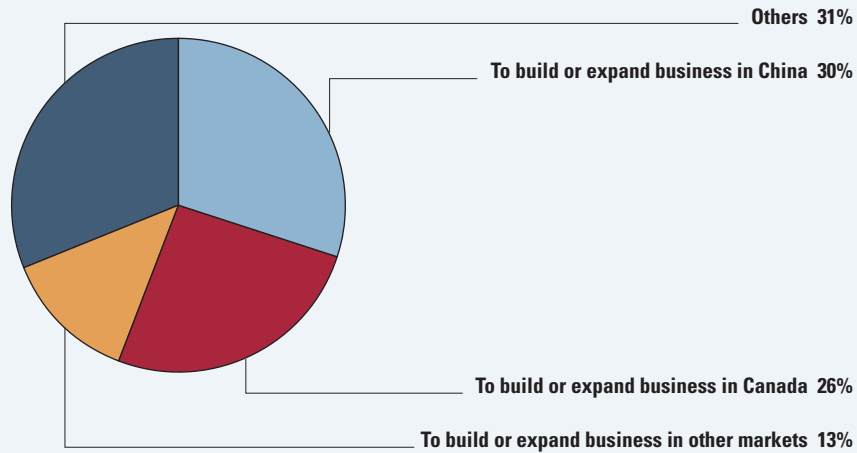


Q: Is your company currently seeking a Chinese investor?

6.2 Purpose of Seeking Chinese Investment

Thirty percent of those polled said the reason they would seek a Chinese partner would be to build or expand their business in China. Just over one quarter said Chinese investment is helpful to build or expand their business in Canada, and 13% said having a Chinese investor would help them expand globally.

CHART 6.2 REASON FOR SEEKING A CHINESE INVESTOR



Q: What are the main reasons for seeking a Chinese investor?

7

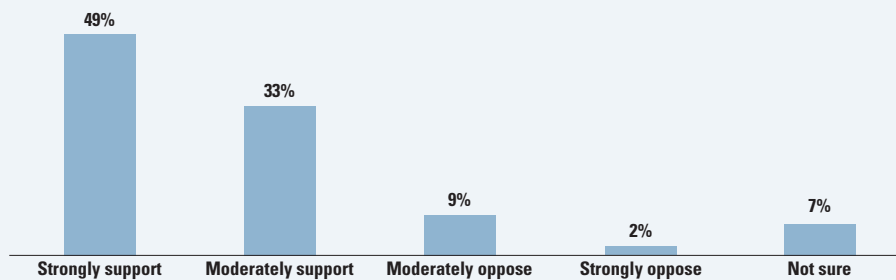
Perceptions of Canada-China Free Trade Agreement (FTA)

Recently, the Chinese government offered Canada the opportunity to enter into discussions about a free trade agreement or an enhanced trade and cooperation agreement. Would Canadian businesses support or oppose an FTA?

7.1 Level of Support

Nearly half of the respondents strongly supported negotiations for a Canada-China FTA and 33% said they were moderately supportive of the idea. About 11% reported being either strongly opposed or moderately opposed. Another 7% said they were undecided.

CHART 7.1 LEVEL OF SUPPORT



Q: Are you in support of or opposed to a potential Canada-China free trade agreement?

7.2 Reasons for Support

Many respondents believe an FTA could be an important tool that they could use to develop and expand their business in the China market. Two reasons stand out from the rest:

- 39% agreed that a Canada-China free trade agreement would give Canadian manufacturers and exporters significant opportunities to expand and build new business activities in China.
- 28% believe Canada needs greater trade and investment opportunities in China, noting that even though China is Canada's second-largest trading partner after the U.S., China represents just 7% of our total trade.

CHART 7.2 REASONS FOR SUPPORT



Q: Which of the arguments in favour of a Canada-China free trade agreement would you say is the most compelling one for you?

7.3 Potential Benefits of an FTA

Broadly speaking, survey respondents believe a Canada-China FTA will provide wide-ranging benefits. On a 7-point scale where 1 means the respondent thinks it is only a minor benefit, and 7 means the respondent thinks it is a major benefit, respondents rated on average 5.16 for ten possible benefits of a FTA with China, or 53% see it as a major benefit.

The top three advantages of creating a fairer and more predictable business environment with China:

- Help protect the rights of Canadian businesses in China, with commitments to treat Canadian firms the same as domestic Chinese businesses (5.52).
- Ensure that Canadian goods would not be excluded from the Chinese market due to the application of arbitrary and discriminatory technical rules and standards (5.35).
- Help set up an improved rules-based system for doing business in China, where Canadian businesses would have recourse to remedies if they were excluded from the market (5.35).

Other benefits are reported in Chart 7.3.

CHART 7.3 POTENTIAL BENEFITS OF AN FTA

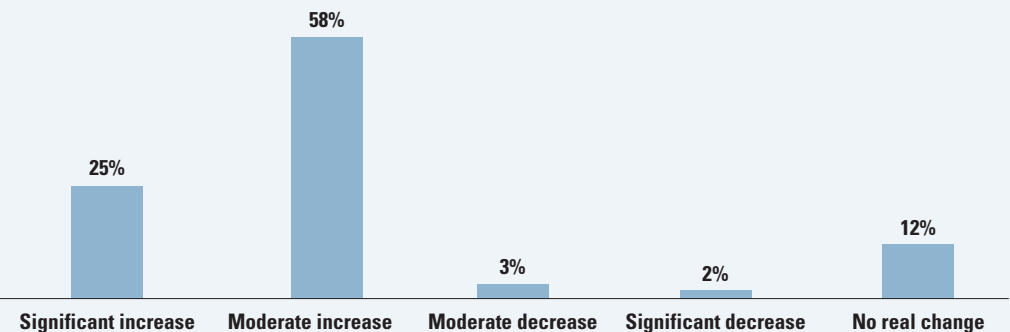


Q: To what extent do you think each of the followings is a potential benefit to Canada having a free trade agreement with China? Please rate each one on a 7-point scale where 1 means you think it is only a minor benefit, and 7 means you think it is a major benefit.

7.4 Impact on Business

If Canada and China were able to conclude a free trade agreement over the next few years, how would it impact Canadian business? Nearly 83% of respondents said their businesses or activities in China would be significantly or moderately increased. Some 5% forecast a significant or moderate decrease and another 12% said an FTA would bring no real change to their business.

CHART 7.4 PERCEPTIONS OF FTA IMPACT ON BUSINESS



Q: If Canada and China were able to conclude an FTA over the next few years, do you think this would lead to an increase or decrease in the level of business your company or organization does in China?



Conclusion

In the 2010 survey, one of the participants said “nothing is easy and anything is possible!” in terms of doing business in China. The results of this year’s survey suggest that the same is very much true today.

Despite the fact that 75% of the Canadian companies surveyed reported they were profitable in China and 66% said their business activities in China had grown over the last five years, 70% still said that it was more difficult doing business in China than in other international markets.

Unlike companies in the U.S. and Germany that view human resource constraints as the top challenge in China, or companies in Britain and Switzerland that say the global economic slowdown is their biggest challenge in China, Canadian firms said the top three challenges all had to do with the rule of law. It is not surprising then, that 82% of the Canadian companies who participated in the survey are in favour of a free trade agreement between the two countries, and 83% said they believed it would help their business in China.

9

Respondent Profile

The online survey received 211⁶ responses from Canadian companies that have all kinds of businesses in China. Based on respondents who completed the entire survey and voluntarily left contact information, the majority were senior executives of their respective companies (see Chart a). Some 81% were male and 19% were female and the majority were over the age of 45 (see Chart b).

CHART A POSITION OF RESPONDENT

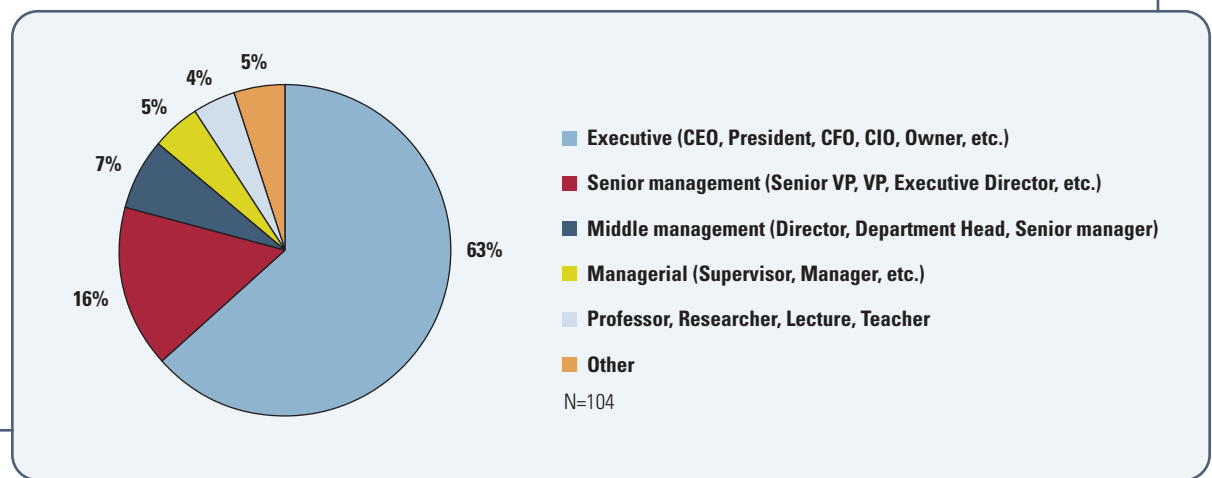
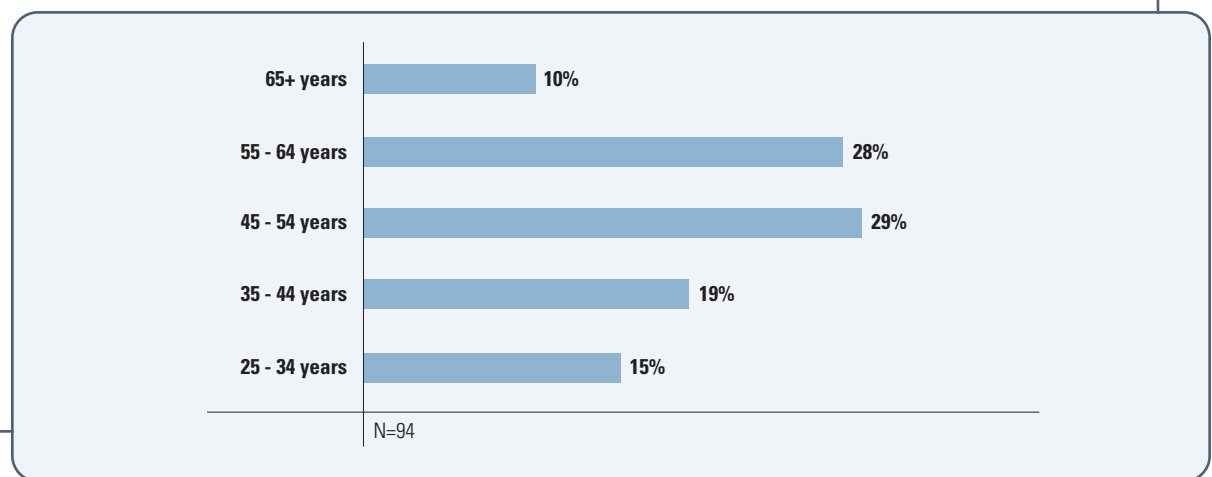


CHART B AGE OF RESPONDENT



⁶ The 2010 survey of Canadian business in China had 95 respondents, which included only companies that had a physical presence in China. Due to the fact that total population is unknown in this survey, the margin of error cannot be reported.

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