Canada China Business Survey 2016

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1. EXECUTIVE SUMMARY

This is a pivotal moment in Canada-China economic relations. Following two successful official visits by leaders in 2016, Canada is trying to figure out its relationship with China. A potential free trade agreement (FTA) is in the wings, with China keen to negotiate and Canada undergoing consultations to decide if it should proceed. Because an FTA is an economic agreement, the voice of the business community on both sides is important to understanding where opportunities and challenges for deeper economic engagement lie.

This survey is unique. It gives insight from those on the ground -- not just from Canadians but from Chinese companies—those who know the landscape from their own personal experiences. We should be listening to them.

What is most surprising about the survey results is that, notwithstanding the negative stories we hear in the press, those actually doing business show an optimism and eagerness to continue to grow this relationship. They are succeeding, they see additional opportunity, and they are investing their time and resources to grow and expand. This applies equally to Chinese-owned companies operating in Canada as it does to Canadian-owned businesses in China.

The landscape is not all rosy. Many challenges exist, and the goal of this biannual survey is to identify which challenges dominate and track longitudinally how those challenges are evolving. But the overall optimism reinforces the notion that the survey results should serve as a call to action rather than a justification for disengagement. These companies are not disengaging.

The Survey

China has emerged as Canada's second-largest trading partner and is an increasingly important source and destination for Canadian foreign direct investment. Nevertheless, this bilateral relationship is underdeveloped and there remain significant opportunities and obstacles to further growth in the bilateral relationship. To shed light on these issues, including opportunities and challenges, and also to develop recommendations for both business and government, the Canada China Business Council, in partnership with the Rotman School of Management, surveyed a broad cross section of Canadian companies doing or considering doing business in China, as well as Chinese companies doing or considering doing business in Canada. The survey was conducted during the latter half of 2016, and the results are compared to survey results in 2014 and earlier. 205 responses were received. The report provides analysis and perspective of the survey responses as well as recommendations. This is the first year that Chinese companies were included in the survey, and while the sample size is small, the results help us see the perspective from both sides.

What Canadian Companies Say About Business in China

Top Obstacles are Increasingly Administrative

There are many obstacles to doing business in China, and those at the top of the list are typically a focus for policy discussions. Continuing a trend from past years, four of the five most important as identified by Canadian companies responding to the survey could be considered administrative obstacles: (1) Lengthy and complicated certification (2) Local content requirements in China (3) Chinese customs procedures and (4) Chinese labelling requirements. Rounding out the top five is China's air and environmental pollution.

By comparison, US companies conducting business in China view licensing as one of the top obstacles. In addition, competition with Chinese companies and cost increases are major obstacles for US companies in China. German companies and European Union businesses conducting business in China face challenges related to Chinese economic slowdown and increased labour costs.

A comparison with previous Canada China Business Council survey results shows that some of the obstacles identified in 2014 have ranked lower in the 2016 survey. The top major obstacle in 2014 was the Inconsistent interpretation of regulations/laws in China / lack of transparency. This has not proved to be as significant in 2016, where it is ranked as 13th. The second major obstacle in 2014 was the weak dispute settlement mechanism, which in 2016 is ranked 25th. However, the third major obstacle in 2014, the lengthy and complicated certification process, is the top major obstacle identified by the respondents of the 2016 survey.

The top three sectors for Canadian companies in China are professional services, finance and insurance, and Information and Communication Technology and Environmental Services. US, German and European Union businesses in China operate in professional services as well as manufacturing (US), machinery and industrial equipment (Germany), industrial goods and services (European Union), and primary industries (e.g. agriculture, mining) (US).

Intellectual Property Protection Continues to Diminish as a Concern

A major concern expressed by Canadian firms, either operating in China or considering such a move, has been the protection of intellectual property. The 2014 survey showed progress, with IP infringement being considered “just another business problem,” rather than one of the top problems companies face. It was the #1 challenge in 2012. The 2016 survey results continue this trend toward IP protection being less of a concern. Protection of and enforcement of Intellectual Property Rights was viewed as very important by only 36% of the survey participants in 2016, down from 46% in 2014, and viewed as important by only 18% in 2016, compared to 30% in 2014. The perceived impact of IPR infringements in China has decreased. In 2016, 35% of respondents indicate serious impact of IPR infringements in China on their company’s business, compared to 67% in 2014. This sentiment was also expressed in roundtable discussions held with a cross section of stakeholders. These improvements in the protection for intellectual protection in China enhance the spectrum of activities Canadian firms are willing to undertake in China. For example, concerns on IPR enforcement have only limited the type of products 18% of Canadian companies are willing to manufacture or co-manufacture in China, 17% of Canadian company’s R&D efforts in China, and impacted 16% of the type of products Canadian companies are willing to sell in China. This development is crucially important, as many Canadian firms avoid China due to perceptions developed based on past IP protection issues.

China is a Profitable Market, but Competition and Slowing Economic Growth are Concerns

57.5% of Canadian firms operating in China were either profitable or very profitable in 2015, and another 27.5% broke even. The year 2015 was more profitable than previous years for 38% of firms, whereas 32% have reported no change and 16% indicated a decrease in profitability. The most significant obstacle to profitability is competition from domestic competitors. This is an important result in that it highlights the increasing maturity and sophistication of Chinese firms. In this and other results involving Chinese firms, no significant difference was noted between state-owned and private firms.

The risk environment in China has improved, according to 27% of respondents. An equal number perceive an increase in business risk, with the main concern being the slowdown in economic growth.

The Competitive Environment in China is Tightening

The major competitors for 35% of Canadian businesses operating in China were identified as other Canadian and foreign companies, with 32% of Canadian businesses operating in China identifying Chinese non-state-owned and other private companies as their major competitors. Only 20% see state-owned enterprises as competition. The top concerns regarding competition in China by Canadian companies operating there are the increased competitiveness of Chinese (35%) and foreign (25%) competitors, followed by the advantage of Chinese non-state-owned and private companies (22%), as well as the insufficient enforcement of laws and regulations (22%).

Companies Already in China Plan to Expand

China is indeed becoming an increasingly attractive market, at least for the companies that responded to the survey. In particular, almost three quarters of respondents indicated they plan to expand their operations in China, 49% indicating the planned expansions as substantial, and 24% as slight. Only 4% of the respondents indicated that they plan to contract their operations in China. The modes of expansion are indeed varied. 48% of the respondents indicated that their plan is to increase their business activities in their current location or in other cities, 38% are seeking a joint venture partner, and 26% are seeking Chinese investment.

There is Increased Appetite for an FTA between Canada and China

The results of the survey show increased favorability towards a potential Canada-China FTA, compared to 2012. Respondents view a potential Canada-China FTA that would be negotiated in the next five years as having a positive impact on their company's business. Strong support for a potential FTA is provided by companies operating in Professional, scientific and technical services sector (Engineering, Business, Project, Accounting, Legal, Logistics). Respondents state that Canada should be open to greater trade and investment opportunities with China, given the importance of Chinese market in the global economy. A number of participants indicated that an FTA would give Canada the opportunity to catch up with Australia and New Zealand, who have FTAs with China. An FTA with China will ensure that Canadian goods would not be excluded from the Chinese market due to the application of arbitrary and discriminatory technical rules and standards, will help protect the rights of Canadian businesses in China, with commitments to treat them the same as domestic Chinese businesses. An additional benefit would be helping 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, as well as helping bring order and clarity to the rules for Chinese investment in Canada.

Canada's Brand is Increasingly Important

The importance of the Canadian brand has increased since the last survey in 2014, with 9% more respondents indicating it plays a major role in their company's business development in China. That is, survey respondents are indicating that the Canadian brand has strengthened. It should be highlighted that the survey results were collected in the months leading up to the U.S. election, and hence prior to the election of Donald Trump.

The FIPA is Not Well Understood

Foreign Investment Protection and Promotion Agreements (FIPAs) are meant to facilitate the flow of capital between countries. These are important agreements which provide investors a certain degree of clarity and protections of their investment position, along with mechanisms to move forward in the case of challenges they face. FIPA creates predictability in their investment because it imposes discipline on conduct by Chinese officials at different levels of government.

Canada's FIPA with China came into effect in 2014. Nevertheless, 53% of respondents to the survey do not know about this FIPA. However, 10% of respondents indicate they can use the FIPA's arbitration process if their investor rights are violated, 9% are more inclined to invest in China as a result of the FIPA, and 8% agree it creates predictability.

The One Belt One Road Initiative is an Opportunity

China's One Belt One Road Initiative would see transportation and shipping infrastructure put in place linking China to South, Southeast and Central Asia, and all the way to Europe. Models of international business show that such efforts, if successful, would reduce the costs significantly of doing business along this corridor and thus stimulate trade, investment, and other kinds of business activity. Three quarters (74%) of the survey respondents were aware of this initiative. Despite the fact that Canada is not on the One Belt One Road path, 44% of respondents see opportunities for their firm to participate in the One Belt One Road initiative. This links positively to the "third country collaboration" priority established by Premier Li and Prime Minister Trudeau during the 2016 official visits.

What Chinese Companies Say About Business in Canada

Canada is a Profitable Market

For Chinese firms operating in Canada responding to the survey, 80% were profitable in 2015, 13% roughly broke even, indicating only about 7% incurred a loss. Furthermore, profits were up in 2015 relative to the previous year for 43% of respondents. Respondents identified two broad obstacles to their profitability in Canada: 33% indicated are Canadian Government policies and regulations, and 27% indicated competition from domestic competitors.

Canada is an Attractive Market

Canada is indeed an attractive location for Chinese firms to invest, with 88% of respondents indicating they plan to expand in the Canadian market, where 53% indicate they plan to expand slightly and 35% plan to expand substantially into the Canadian market. The majority of respondents plans a business expansion in Canada in their current location or additional cities (57%). The next most common types of expansion are seeking a joint venture partner (36%), setting up a representative office and hiring local employees (29%), and seeking suppliers (29%).

Obstacles in Canada are also Largely Administrative

Chinese companies operating in Canada still experience many important obstacles to doing business in Canada, namely dealing with construction permits, border compliance procedures, and the costs for company's operations in Canada. Also, 46% of firms indicated their top financing constraint was getting credit, 37% reported international banking, and 18% protecting investors. The two top financing options to these Chinese companies were using their own funds (64%), and accessing Chinese banks (36%).

Policy Recommendations

Given the survey results and roundtable discussions with stakeholders, several Policy implications flow from the survey,

1. **Further education is warranted for Canadian companies not active in China.** There is indeed a gap in the knowledge about the Chinese market. The reality vis-à-vis protections for intellectual property and the effective strategies available to Canadian firms operating in China to protect IPR are far more advanced than is the perception. As such, more needs to be done to inform a broader spectrum of Canadian firms on the potential in the Chinese market and the ability to exploit these opportunities and at the same time protect IPR. Further to this point, there is a general view that firms engaging in China should do so without advanced technologies. This has the effect of limiting the profits that could be obtained had they more fully engaged the market. Given that firms have been able to more effectively protect IPR, firms operating in China may wish to reconsider these decisions, and firms that are not engaged in China for this reason should reconsider. An awareness campaign targeting companies in sectors with the most opportunity in China could help engage many more companies. To achieve the bilateral goal of doubling 2015 trade levels by 2025, many more Canadian firms must engage in bilateral business. This awareness campaign can be conducted by a combination of the Trade Commissioner Service, provincial economic development agencies, or trade organizations.

2. **Existence of the FIPA should be reinforced**. Further to point (1) is the lack of awareness by respondents that a FIPA is in place. Given that most respondents are actively engaged in/with China, we can assume that an even lower percentage of firms NOT engaged in China are unaware that the FIPA exists. Given the clarity and protections that come with a FIPA, a communications campaign would enhance awareness of the FIPA and its associated protections, and thus would encourage further business between Canada and China. Potential enhancement of FIPA provisions in an FTA would also provide opportunity for increased awareness.

3. **OBOR and 3rd country collaboration should be promoted**. The One Belt One Road (OBOR) initiative has been described as larger than the Marshall Plan by some. While only 44% see opportunity from OBOR, for a country that is neither on the belt nor on the road, the high awareness and relatively high interest, particularly among a service-oriented group of respondents, is a positive sign. Canada's recent accession to the Asian Infrastructure Investment Bank can be leveraged in parallel to support for Canadian businesses interested in OBOR. CCBC members active in third-country collaborations are seeing success based on relationships developed via their past China activities. The Trade Commissioner Service and other support organizations should continue to help Canadian firms find partners and should reinforce the idea that business in China can also lead to increased business globally.

4. **Reduction of barriers should be included in bilateral discussions**. Mechanisms such as the Economic and Financial Strategic Dialogue provide a platform for progress on bilateral challenges. Many of the administrative obstacles for Canadian companies in China can be helped via faster implementation of economic reforms that China has been planning. The Canadian government should stress the importance of such reform and the impact it can have on encouraging more Canadian companies to invest in and trade with China.

Conclusion

China is now Canada's second largest trading partner in terms of both exports and imports, and it is becoming increasingly important in terms of bilateral foreign direct investment. Furthermore, there is tremendous optimism on both sides of this relationship, with the vast majority of businesses improving their profitability and looking to expand their businesses in China and in Canada. However, there remain many obstacles to doing business in the respective markets. As such, governments on both sides of this relationship should work to reduce government regulations and barriers that inhibit both profitability and business growth.

2. METHODOLOGY

Survey design

The survey was designed based on several resources. We reviewed the APFC reports from 2010, 2012, and 2014, the 2014 survey questions, and similar surveys by international and European organizations that examine various aspects of doing business in China and the major obstacles firms encounter while entering the market and developing their business in China. Studies include the World Bank report "Doing business in China 2016", the UK Institute of Export "International Trade Survey 2014", as well as the results of the 2015 study. In addition, we reviewed the survey conducted by the British Chamber of Commerce in 2014 "Overcoming challenges to going global" that gathered responses from over 4700 businesses.

To examine trends and understand the development of perceptions and changes in development of business strategy, the survey gathered some of the similar data from previous years – such as profitability, expansion into China, and perception of changes in Chinese business risk environment.

New in this survey are questions on financing, FIPA, and One Belt One Road initiative. In addition, we reviewed and expanded the list of sectors used in previous surveys, and reviewed and updated the list of potential obstacles Canadian companies face in the Chinese business environment. This survey includes for the first time a section on Chinese businesses operating in Canada. 205 responses were received.

The research team used the Project Management Institute methodology and the Research planning approach according to Blaikie (2010), and Easterby-Smith et al. (2013).

Data collection

The Canada China Business Council disseminated the survey through its membership and contacts, as well as numerous other channels. Thanks for the organizations who helped reach out to companies to participate in the survey, including the Canadian Trade Commissioner Service, Export Development Canada, HKCBA, the Canadian Chambers of Commerce in Hong Kong and Shanghai, the Asia Pacific Foundation of Canada, and the provinces of Ontario, Alberta, British Columbia, and Quebec.

The survey ran from July to November 2016.

Data analysis

The research team analyzed the responses to each question and provide. For areas surveyed in previous studies (2010, 2012, 2014), a trend analysis was provided, and changes and similarities highlighted.

In addition, the survey offers a comparison of top sectors of companies conducting business in China and obstacles faced by Canadian, European Union, Germany, and US companies in China. Data sources were European Union Chamber of Commerce in China, European Business in China, Business Confidence Survey, 2016; German Chamber of Commerce in China, German Business in China, Business Confidence Survey, 2016; US-China Business Council, 2016 Membership Survey - The Business Environment in China-Key Findings.

The analysis highlights the obstacles to conducting business in China common to companies in Canada, European Union, Germany, and US.

For the questions where respondents can select several choices, the percentages are relative to the total number of options selected, not the number of respondents.

After the survey was closed and the preliminary data analysis performed, two roundtables were conducted to gather stakeholders' input and review the results.

3. CANADIAN COMPANIES IN CHINA

This section presents the survey results on company profile, business development, profitability, business environment risk, IPR, financing, expanding into China, setting up business in China, potential FTA, FIPA, and awareness of One Belt One Road initiative. The section offers a comparison of obstacles faced by Canadian, European Union, Germany, and US companies in China. The top three sectors of companies from above countries are highlighted.

3.1 COMPANY PROFILE

This subsection provides details on respondent company profile on Canadian headquarters location, company sector, revenue, number of employees globally, years of operation and location in China, and the type or business relations with China. Following the discussion of results below are figures with additional details for each area surveyed.

The provinces with the highest number of Canadian companies conducting business in China are Ontario (34%) and British Columbia (25%), followed by Quebec (18%) and Alberta (17%). – Figure - Q2

The sectors with the highest representations are Professional Services (25%), Finance and Insurance (12%), Information and Communication Technology (11%), and Clean technology and environmental goods and services (11%). Professional Services include Engineering, Business, Project, Accounting, Legal, and Logistics.

The classification of sectors was revised for the 2016 survey to include additional sectors. For the sectors common to 2016 and 2014 survey, the results reflect an increase in construction by 3%, educational services by 3%, management of companies and enterprises by 3%, utilities by 2%, art, entertainment and recreation by 3%. Compared to 2014, the wholesale trade sector representation decreased by 2%, and manufacturing by 1%.

In terms of company's global revenue, 53% of respondent company revenue is lower than $10 million CAD, while 19% of companies surveyed report a revenue of $1 billion CAD or more. Figure - Q4. Over 25% of companies surveyed have more than 1000 employees, while 40% have fewer than 19 employees. Figure – Q5

48% of the Canadian companies surveyed have operations in China (e.g. representative office, plant, factory, subsidiary, sales, branch), while 17% are not currently operating in China, but are interested in the market. Companies exporting products and services to China represent 32% of the surveyed sample and importers of products and services for China account of 16% of the Canadian companies surveyed. Figure – Q6.

44% of Canadian companies surveyed have been conducting business in China for less than 10 years, 26% for over 10 years and less than 20. Companies operating in China for over 20 years and less than 30 years represent 19% of the respondents, while companies conducting business in China for over 30 years account for 11% of the respondents. (Q7)

The top four locations for Canadian companies operating in China are Beijing Municipality, Shanghai Municipality, Guandong and Hong Kong.

Compared with 2014, the percentage of respondents conducting business in Beijing and Shanghai increased by 2% and 5%, respectively. The percentage of companies operating in Hong Kong and Guangdong decreased compared to 2014 by 8% and 4%, respectively. Figure – Q8.

Following are the figures with additional details for each area surveyed.

As shown in Figure Q2 below, in terms of number of companies headquartered in Canada, the top three provinces are Ontario, British Columbia, and Quebec.

Figure – Q2 – Company headquarters in Canada

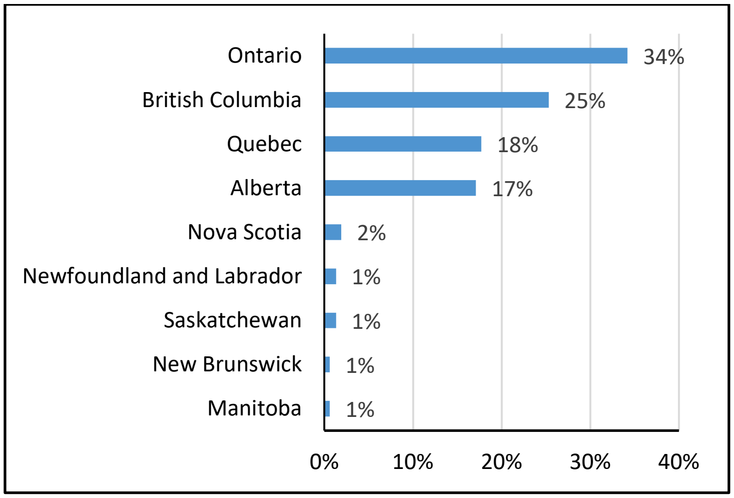
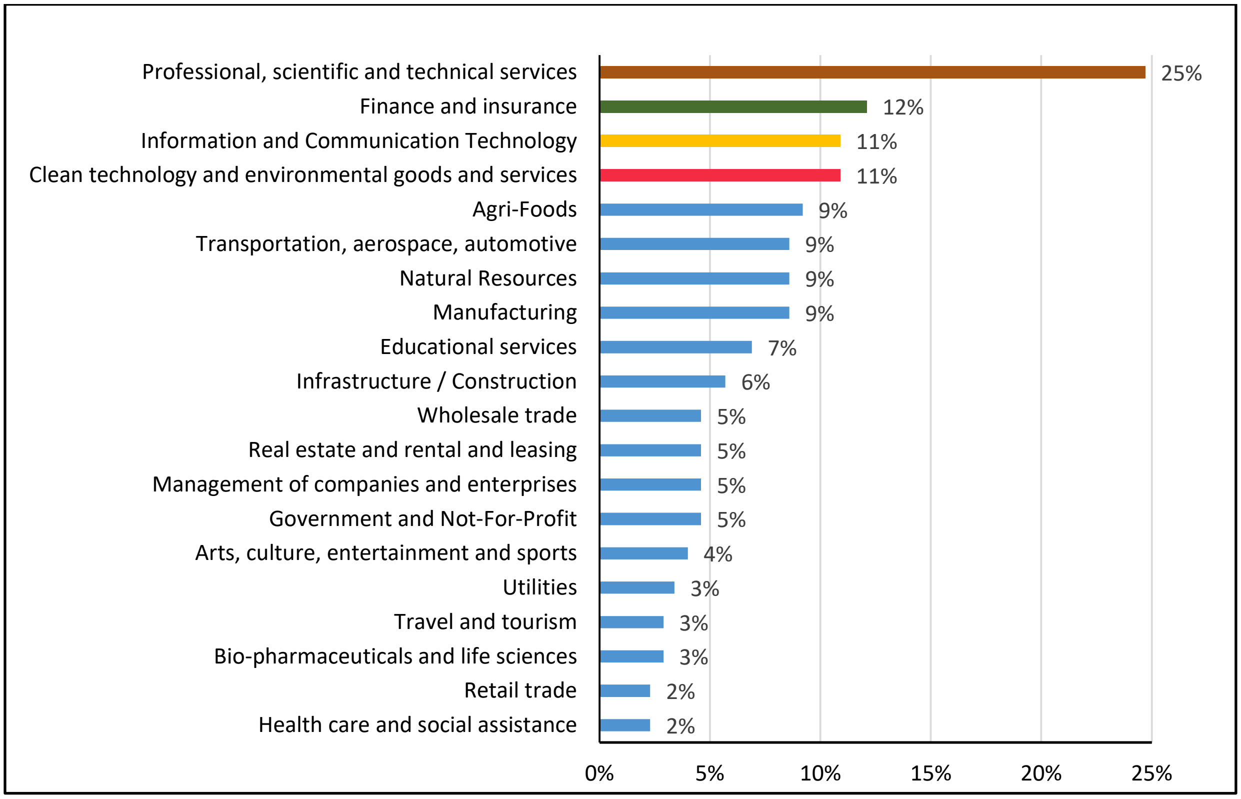


Figure – Q3 – Company sector



Note: Natural Resources include Forestry, Metals & Metallurgy, Mining, Oil & Gas.

Table – Number of companies per sector

Sector	Number of companies
Agri-Foods	14
Arts, culture, entertainment and sports	4
Bio-pharmaceuticals and life sciences	3
Clean technology and environmental goods and services	17
Educational services	11
Finance and insurance	16
Government and Not-For-Profit	7
Health care and social assistance	4
Information and Communication Technology	18
Infrastructure / Construction	8
Management of companies and enterprises	6
Manufacturing	14
Natural Resources (Forestry, Metals & Metallurgy, Mining, Oil & Gas)	11
Professional, scientific and technical services (Engineering, Business, Project, Accounting, Legal, Logistics)	37
Real estate and rental and leasing	8
Retail trade	4
Transportation, aerospace, automotive	13
Travel and tourism	4
Utilities	6
Wholesale trade	7

Figure – Q4 - The range of the company's global gross revenue in 2015, or the most recent business year for which a financial statement was prepared (In $CAD)

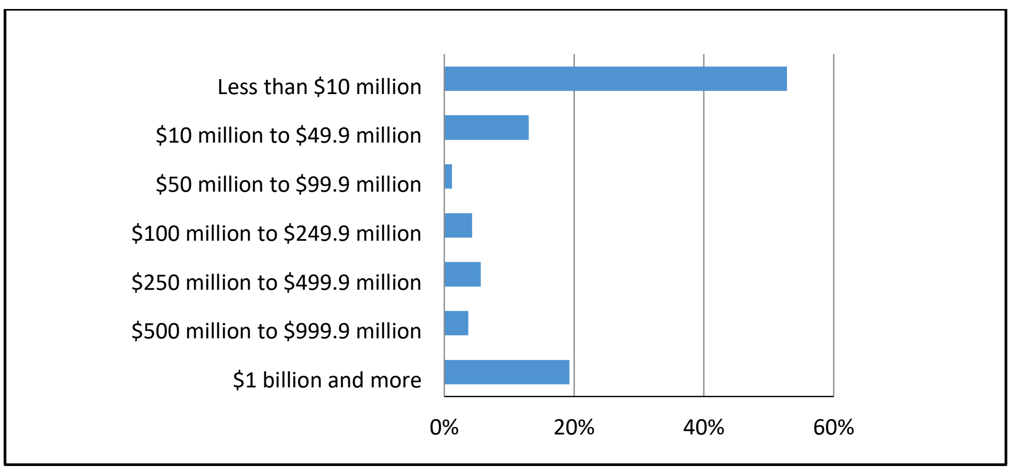


Figure – Q5 Number of employees globally

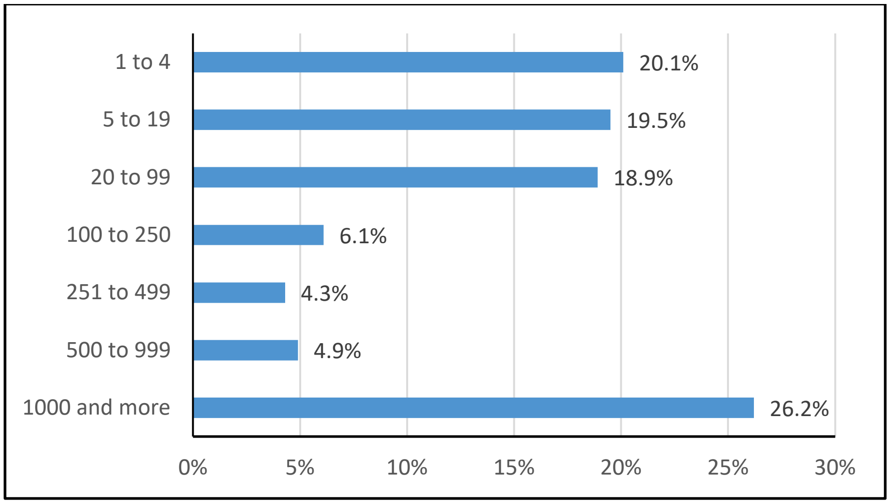


Figure – Q6 - Company's current business relations with China

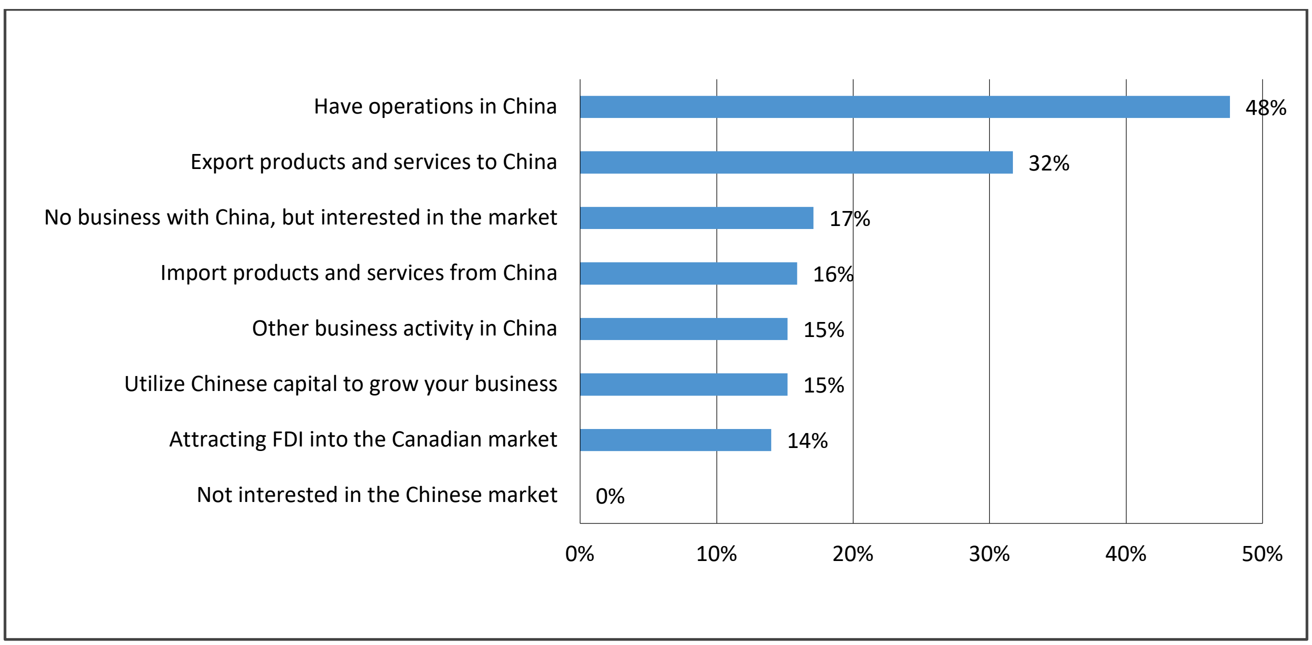
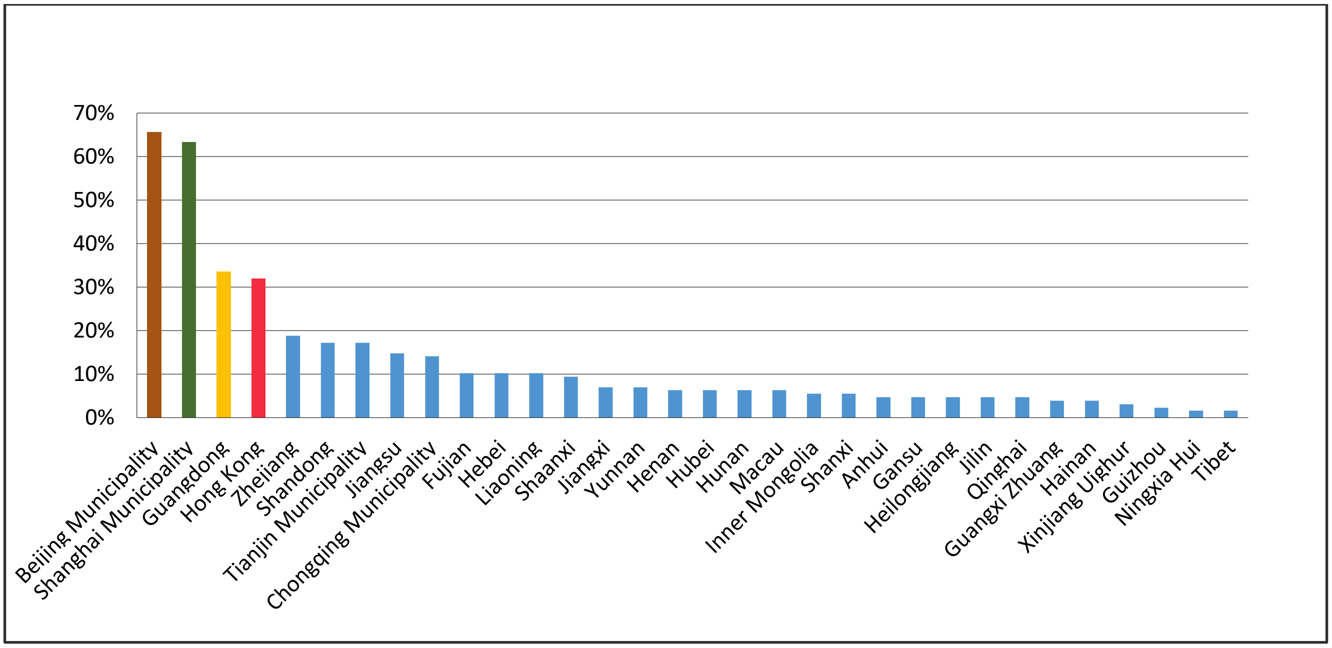


Figure – Q8 – Locations in China where company's major business activities are taking place.



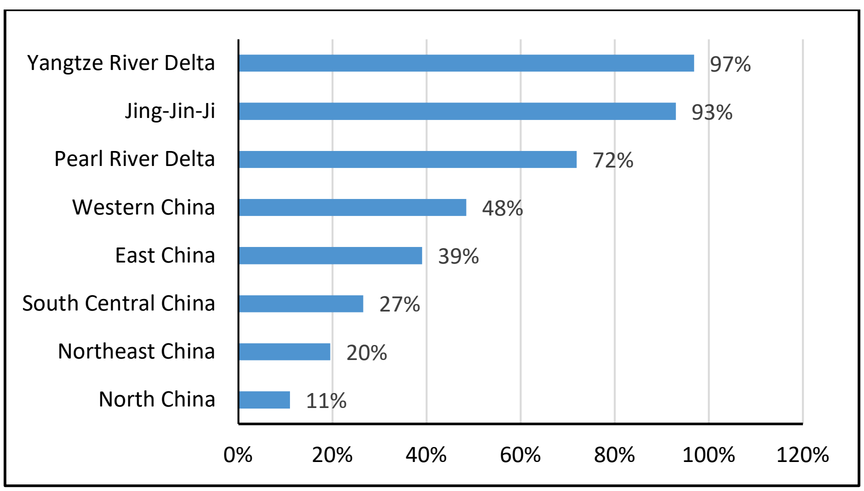
Respondents were asked to specify the discrete location for their operations in China. Given China's focus on regional development, the above locations were clustered by geographical region to highlight where Canadian companies operate.

The locations were mapped to regions as in *Table – Mapping of China locations to regions* below.

Table – Mapping of China locations to regions

Jing-Jin-Ji	
	Beijing Municipality
	Tianjin Municipality
	Hebei
Yangtze River Delta	
	Shanghai Municipality
	Jiangsu province
	Zhejiang province
Pearl River Delta	
	Guangdong Province
	Special administrative regions (SAR) : Hong Kong and Macau.
East China	
	Anhui, Fujian, Jiangxi, and Shandong
North China	
	Shanxi
	Inner Mongolia Autonomous Region
Northeast China	
	Helongjiang
	Jilin
	Liaoning
South Central China	
	Hainan, Henan, Hubei, and Hunan
	Guangxi Zhuang Autonomous Region
Western China	
	Chongqing Municipality
	Guizhou, Yunnan, Shaanxi, Gansu, and Qinghai.
	Tibet, Ningxia, and Xinjiang.

Figure – Regions in China where company's major business activities are taking place (Q8) – mapped to geographical regions.



3.2 BUSINESS DEVELOPMENT, PROFITABILITY, RISK

This section presents the survey results on the importance of "Canadian brand," China's role in the company's strategic plans, revenue from company's operations in China, company's financial performance in China, obstacles to profitability, and changes in the business risk environment in China. Results are compared with those of 2014 survey where data are available. Following the discussion of results below are figures with additional details for each area surveyed.

The results show that Canadian brand has strengthened compared to 2014, with an increase of 9% of the respondents indicating the Canadian brand plays a major role in their company's business development in China (Figure – Q18 – The role of "Canadian company" brand in the business development in China)

Almost three-quarters of respondents (72%) indicated that China is a top priority or among top five priorities in their company's strategic plans (Figure – Q9 - China's role in company's global strategic plan).

For 66% of the respondents their China operations account for less than 25% of the company's global gross revenue, and for 14% China business represents between 26% and 50% of the company's global revenue (Figure – Q10 - Percentage of your company's global gross revenue in 2015 (or most recent business year) attributable to China business).

For 48% of the respondents, 2015 was a profitable year and 48% indicated neither profit nor loss (Figure – Q11 - Company's financial performance in China in 2015 or most recent business year).

An increase in profitability in 2015 compared to previous years was observed by 38% of the respondents. 32% have reported no change and 16% indicated a decrease in profitability (Figure – Q12 - Company's profitability in 2015 compare to the previous years).

27% of respondents indicated that the main obstacle to profitability is the competition from domestic competitors (Figure - Q13 - What is the primary restraint on increased profitability for company's operation in China?). 21% of surveyed companies wrote in restraints related to:

- Expertise to export products into China (understanding the regulations)
- Ignorance of the Chinese Market and capabilities from US/Canada operations
- Unwillingness of Chinese companies to pay otherwise market rates, extreme delays inpayments and significant risk of non-payment despite contract
- Lack of international experience by Chinese partners
- Company's risk appetite
- Chinese companies do not see Canada as an important market in comparison to the US, the EU, other Asian markets and even Africa.
- Delays on part of Chinese corporations due to regulations around investing.
- Very complicated investment processes with hidden agendas
- Competing priorities and inability of China players to take risks
- Decline in commodity prices.
- The time it takes to develop new relationships in other words trust
- Cultural gap and uncompetitive business environment in Canada
- Domestic competition and building effective distribution channel

- Difficulty evaluating opportunities in commercializing healthcare training and consulting for government and government funded healthcare organizations. Advisors in Canada and in China are typically experienced with product export and import in the private sector and have very little experience in healthcare training and consulting.
- Transparency in corporate governance.
- Lack of intellectual property protection.
- Lack of understanding of philanthropy.

Almost one half of respondents (46%) perceived no change in the business risk environment for Canadian companies in China in 2015. 27% indicated the business risk environment has improved and same percentage perceived it worsened (Figure – Q14 – Perceived change in the business risk environment for Canadian businesses in China in 2015). The top three changes observed in the business risk environment for Canadian companies in China are a greater risk of economic slowdown in China (59%), more uncertainty due to China's political transition (38%) and more attention paid to compliance efforts (31%) (Figure – Q15 a – Type of changes in the business risk environment for Canadian businesses in China in 2015 - results from 2016 survey)

The percentage of respondents who view greater risk of economic slowdown in China as the highest risk has increased by 15% from 2014 survey. The risk posed by uncertainty due to China's political transition was viewed as second-highest risk by 38% of the respondents in 2016 compared to 27% in 2014 (Figure – Q15 b – Type of changes in the business risk environment for Canadian businesses in China in 2013 - results from 2014 survey).

In addition, the respondents have listed the following risks:

- China have become more savvy when buying Canadian foods and price sensitive as well.
- Anti-dumping laws affecting ability to import Chinese Fabricated Steel/Pipe etc.
- Changing policies, protectionism/market access, domestic competitors
- More local competition
- Goods quality
- IP risks are better understood and worse than expected.
- Hostility towards foreign companies & preferential treatment of businesses run by Chinese nationals
- View of Canada has worsened in terms of opportunity.
- Foreign currency wired out of China takes a lot longer to get approval.
- Canada's inability to compete with other foreign businesses in China's.
- Retaining employees
- We can speak for our sector which is opening up
- Role of the government in corporate governance

The major competitors for Canadian businesses in China are Canadian and other foreign companies (for 35% of the respondents), and Chinese non-state-owned and other private companies (for 32% of the respondents). (Figure – Q16 - Chinese competition of Canadian companies in China).

The top concerns regarding competition in China are the increased competitiveness of Chinese (35%) and foreign (25%) competitors, followed by the advantage of Chinese non-state-owned and private companies

(22%), as well as the insufficient enforcement of laws and regulations (22%) Figure – Q17 - Main concerns regarding competition in China.

Other concerns listed by respondents:

- Some other countries have free trade agreement with China while Canada does not. The foreign competitors from those countries enjoy zero import tax for their products into China.
- Attracting and retaining top talent
- Duties for importing Canadian goods into China remain high and government should do more to get Canadian fruit into China.

Following are the figures with additional details for each area surveyed.

Figure – Q18 – The role of "Canadian company" brand in the business development in China

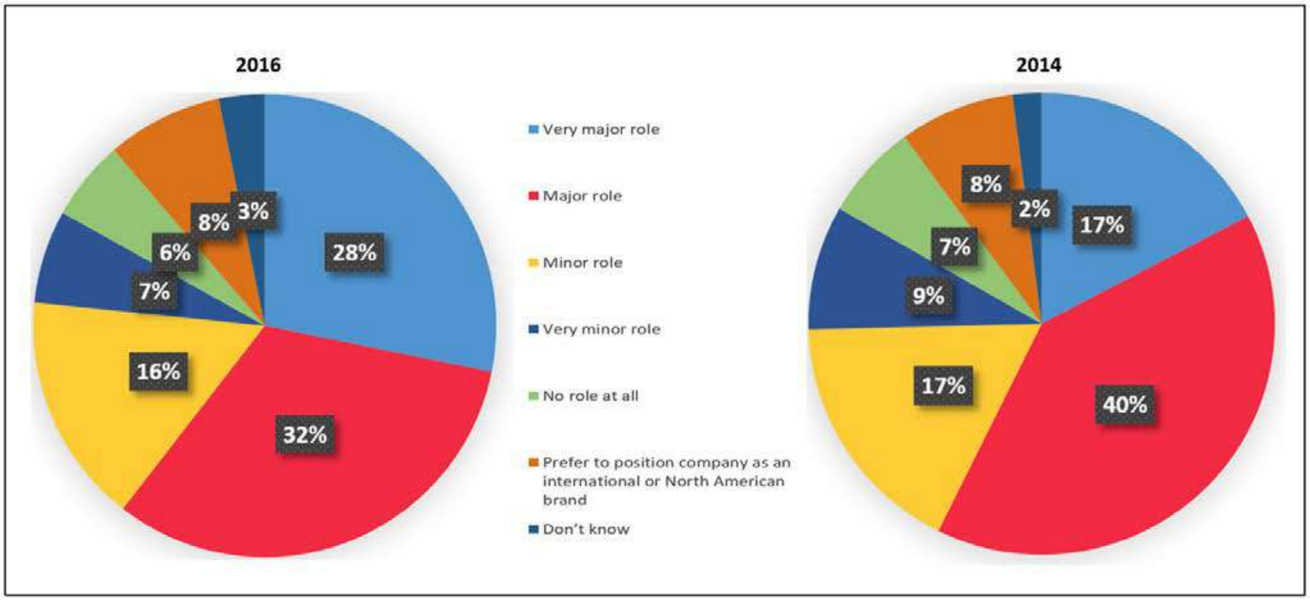


Figure – Q9 - China's role in company's global strategic plan

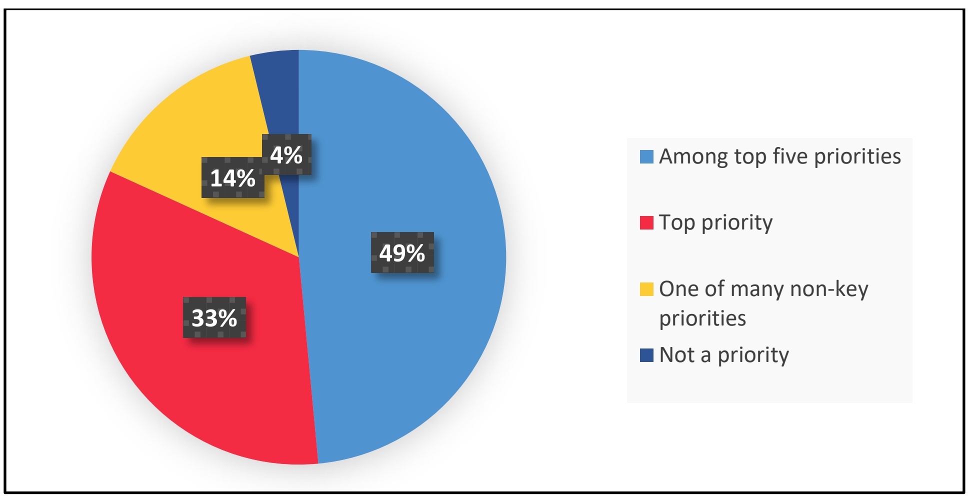


Figure – Q10 - Percentage of your company's global gross revenue in 2015 (or most recent business year) attributable to China business

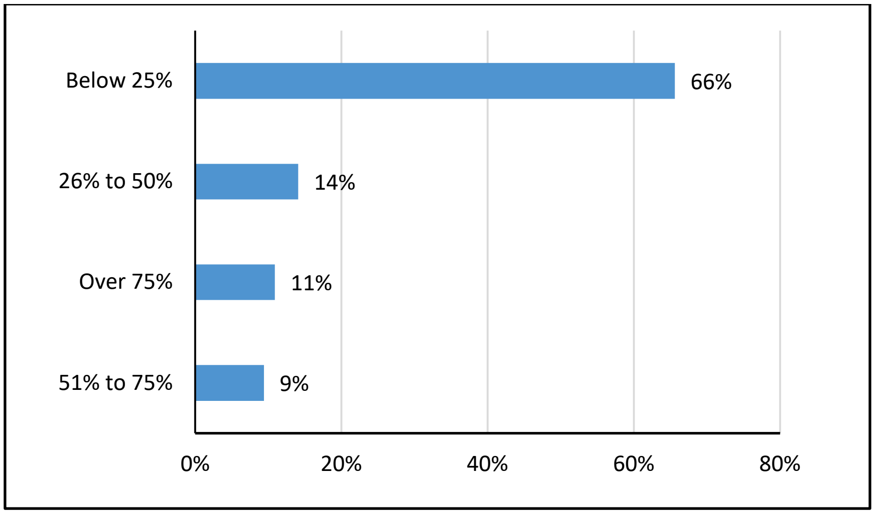
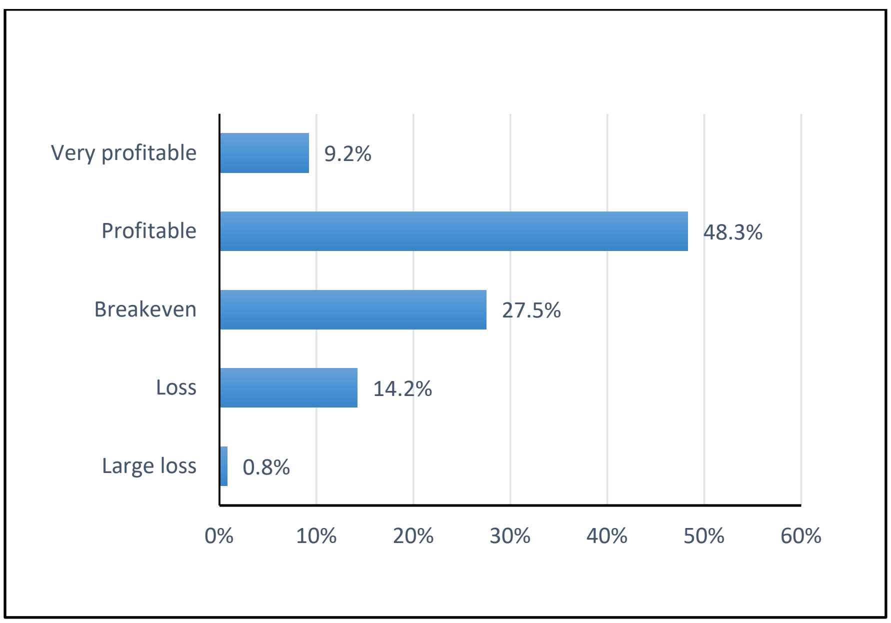
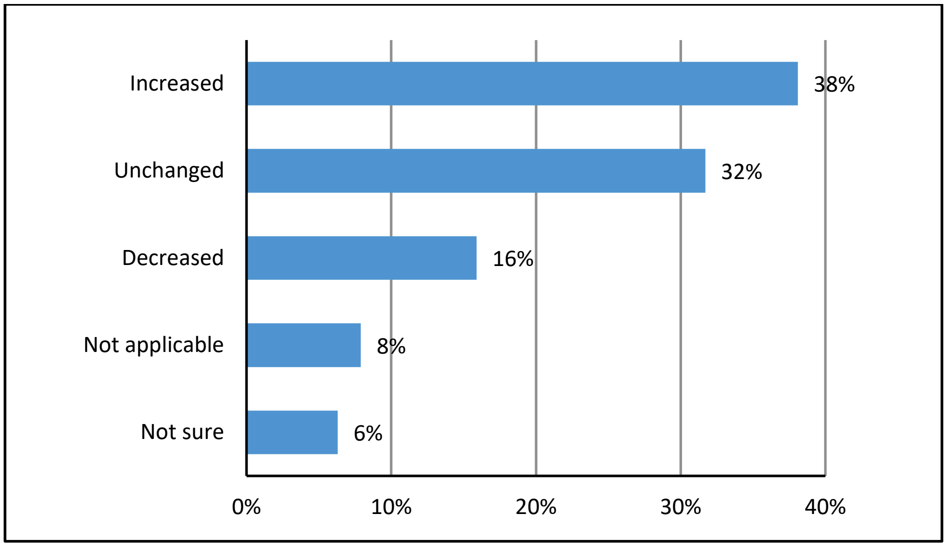


Figure – Q11 - Company's financial performance in China in 2015 (or most recent business year)



Business years in China	Profitability
10 years or less	51%
More than 10 years	67%

Figure – Q12 - Company's profitability in 2015 compared to the previous years



A number of respondent companies who described their profitability in 2015 as loss or breakeven, reported an increase in profitability compared to previous years.

Figure - Q13 - Primary restraint on increased profitability for company's operation in China

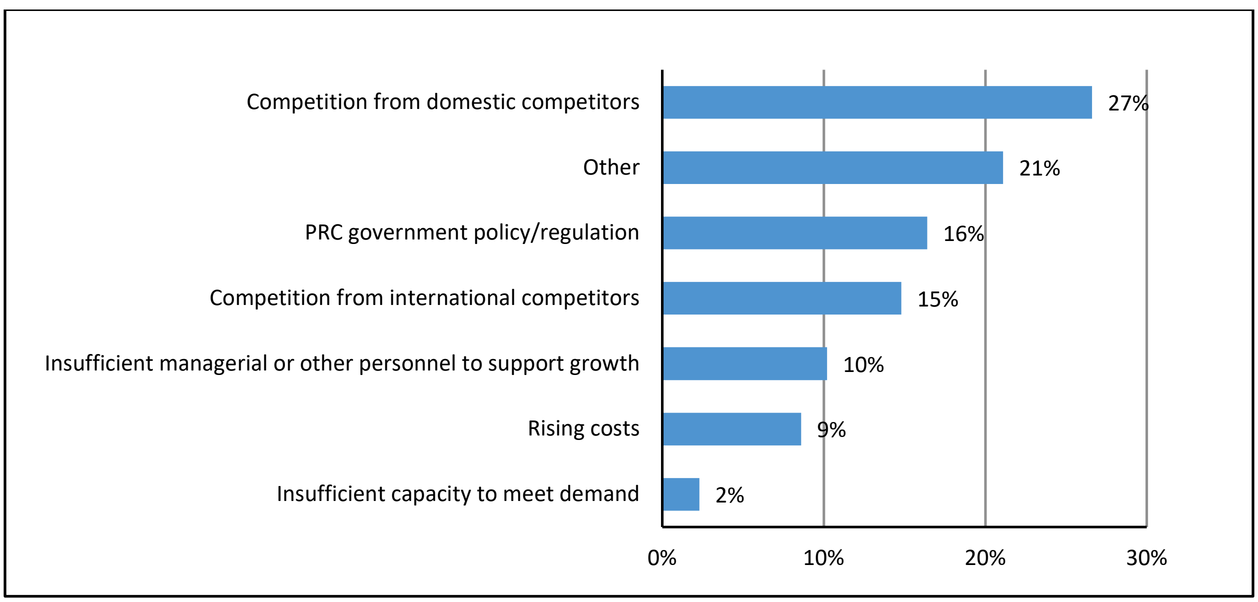


Figure – Q14 – Perceived change in the business risk environment for Canadian businesses in China in 2015

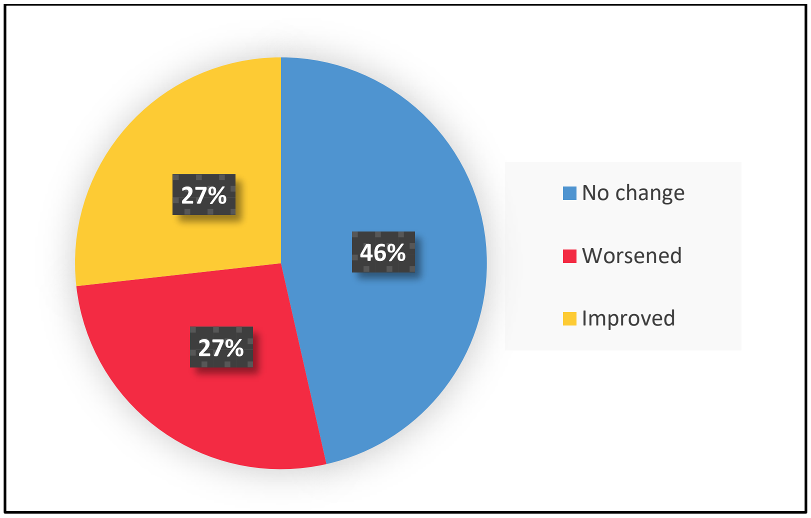


Figure – Q15 a – Type of changes in the business risk environment for Canadian businesses in China in 2015 (results from 2016 survey)

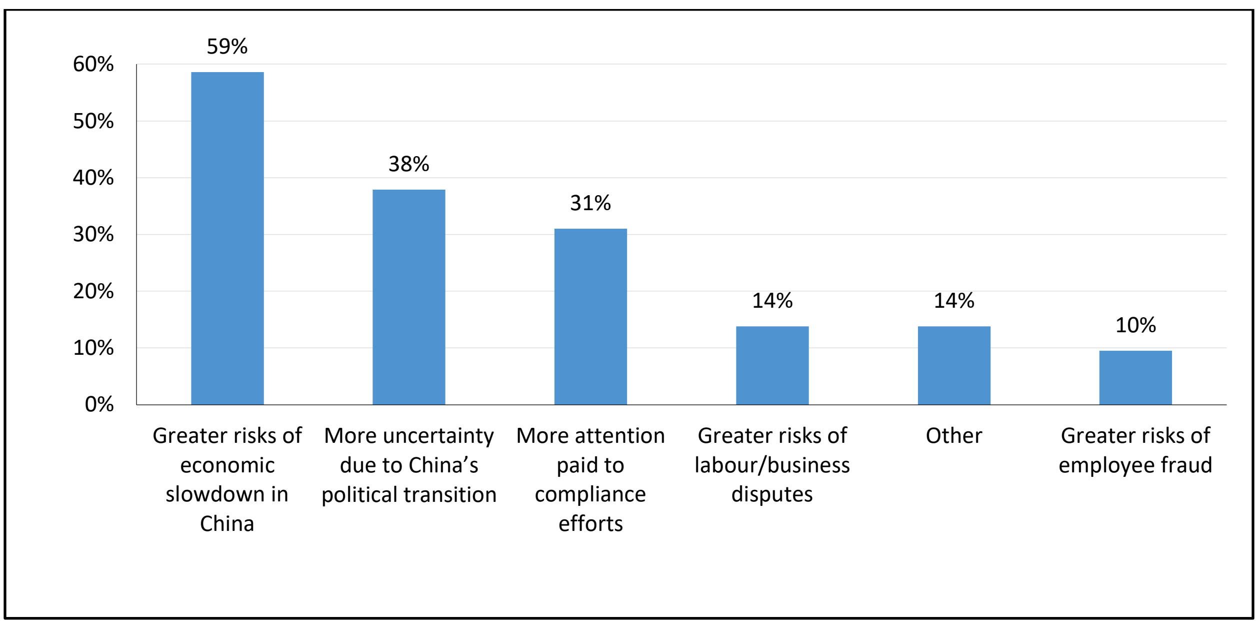


Figure – Q15 b – Type of changes in the business risk environment for Canadian businesses in China in 2013 (results from 2014 survey)

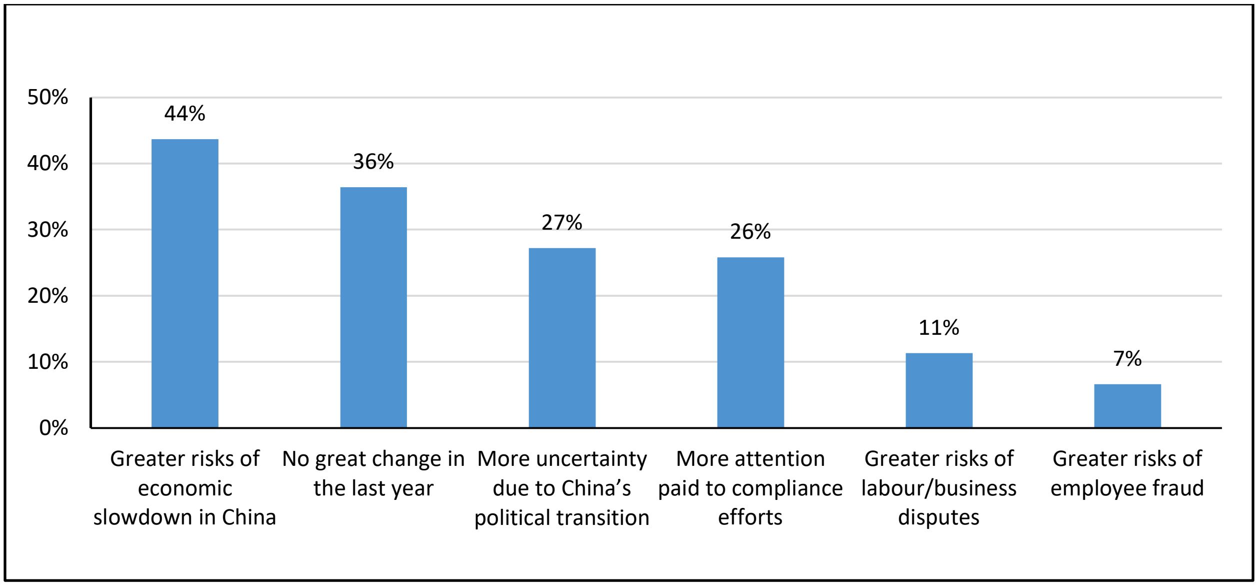


Figure – Q16 - Chinese competition of Canadian companies in China

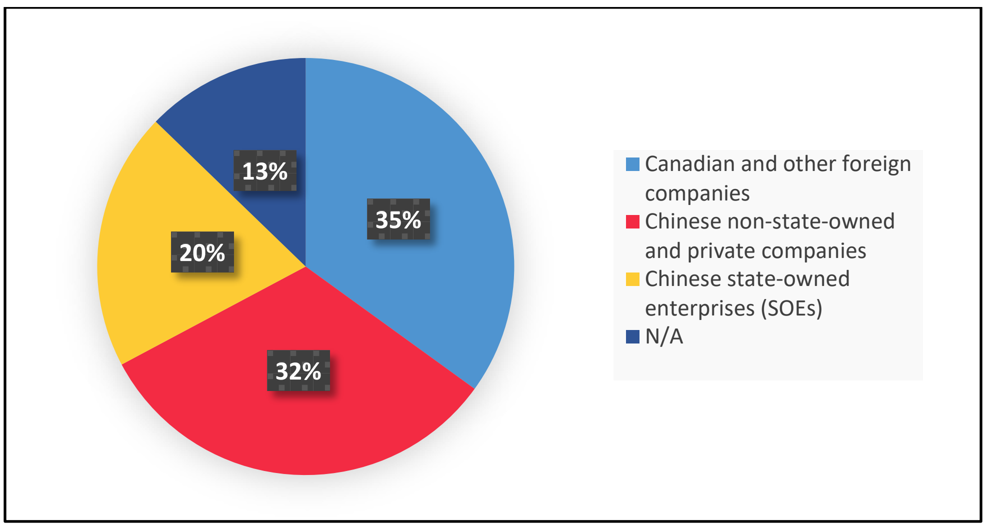
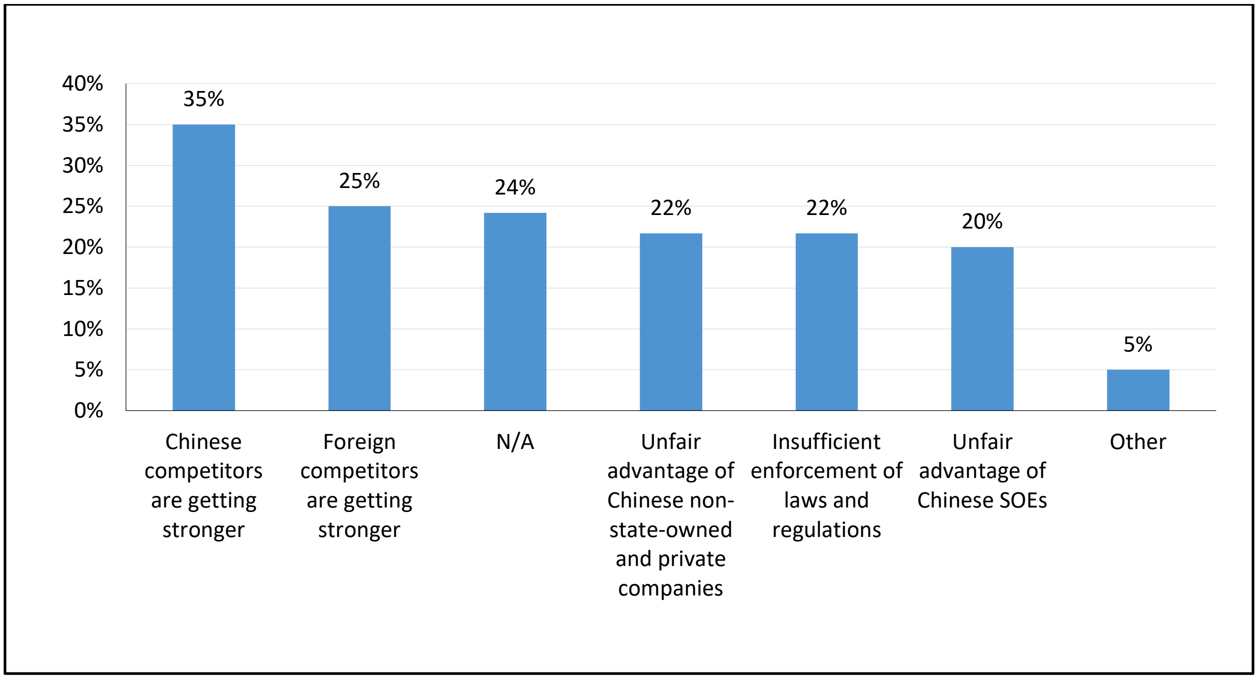


Figure – Q17 - Main concerns regarding competition in China



3.3 Intellectual Property Rights (IPR)

The areas surveyed include the importance of IPR protection and enforcement for respondent's company, the types of IP causing the greatest concern, the sources of IPR infringements, the severity of the impact of IPR infringement on company's business, and the limitations imposed by IPR enforcement on the company's activities. Results are compared with those of 2014 survey where data are available.

The IPR protection and enforcement for respondent's company are viewed as very important by 36% of the survey participants, compared to 46% in 2014 (Figure – Q19 – The importance of IPR protection and enforcement for respondent's company).

The types of IP causing the greatest concern are trade secrets for 24% of respondents, patents for 18%, trademark for 16% (Figure – Q20 – Type of IP of greatest concern). Other types of IP causing concerns are copyright, plagiarism, branding and expertise. Chinese competitors – private or non-state-owned -- are the major source of IPR infringements (26%), followed by former or present employees (9%), Chinese SOEs (8%), and joint venture partners (7%). (Figure – Q21 – The source of experienced IPR infringements in China). Other sources listed by the respondents are customers and clients, as well as universities.

Very serious impact of IPR infringement of company's business was observed by 7% of the respondents, serious impact by 12%, and somewhat serious impact by 16%. (Figure – Q22 – Impact of IPR infringements in China on respondent's business – 2016). Therefore, 35% of respondents indicate serious impact of IPR infringements in China on their company's business, compared to 67% in 2014.

The results show that the level of IPR enforcement imposes limitations on the company's activities. It limits the type of products the company is willing to manufacture (18%), to co-manufacture (18%), limits company's R&D in China (17%), and the type of products the company is willing to sell in China (16%). For 40% of the respondents the IPR enforcement has no impact on the type of activities their company conducts in China. (Figure – Q23 - How does the level of IPR enforcement affect the type of activities that your company undertakes in China)

Following are the figures with additional details for each area surveyed.

Figure – Q19 – The importance of IPR protection and enforcement for respondent's company

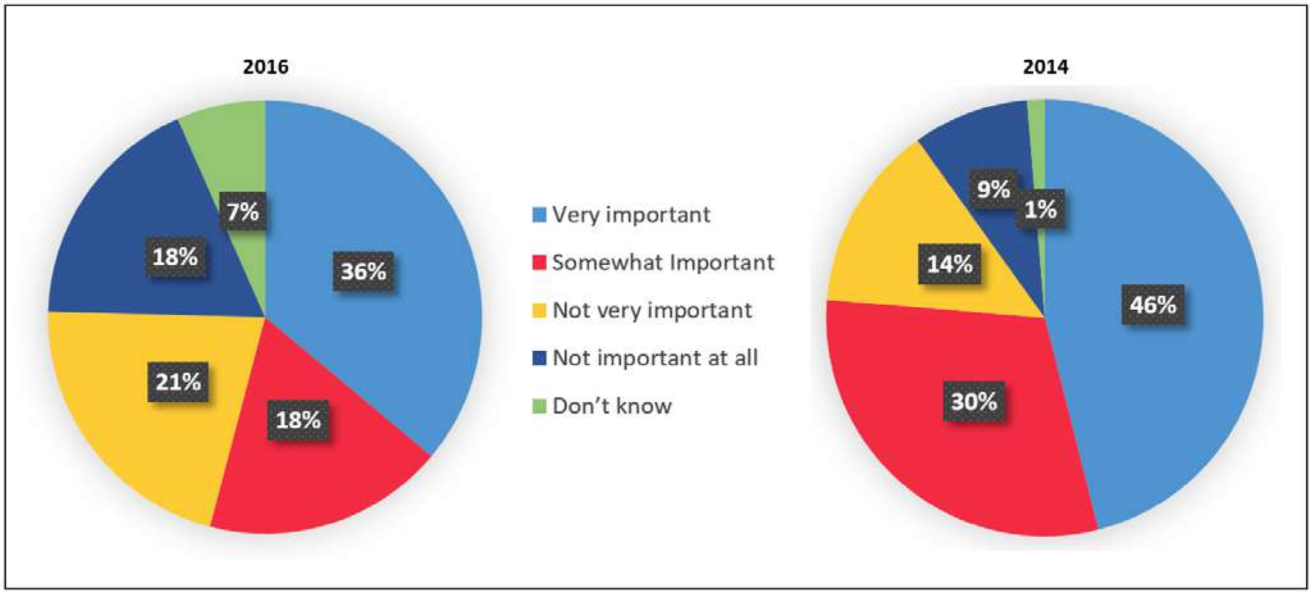


Figure – Q20 – Type of IP of greatest concern.

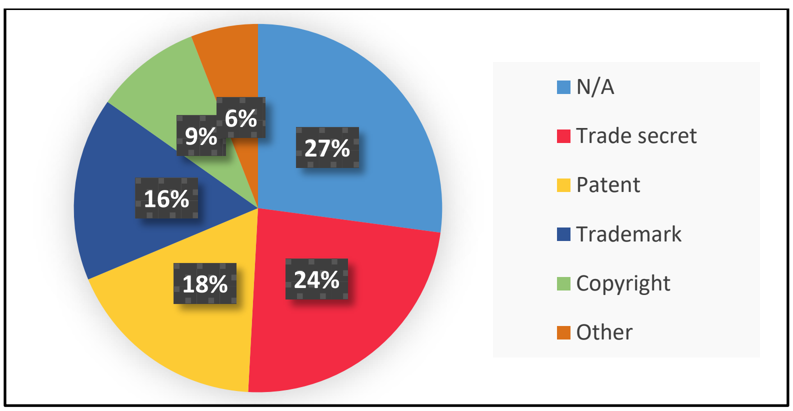


Figure – Q21 – The source of experienced IPR infringements in China

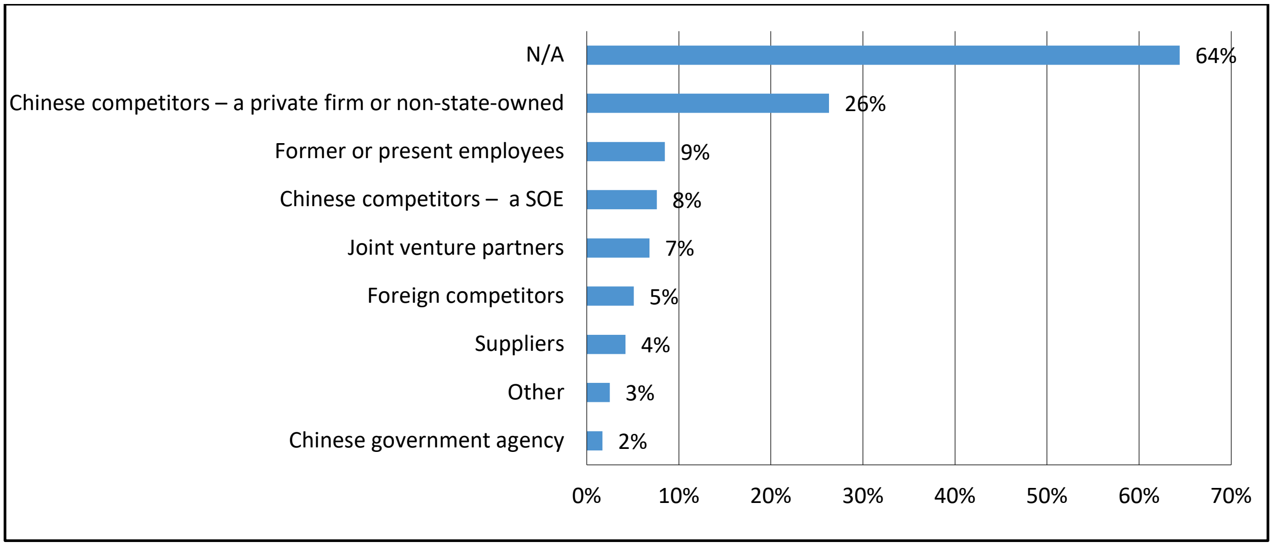


Figure – Q22 – Impact of IPR infringements in China on respondent's business

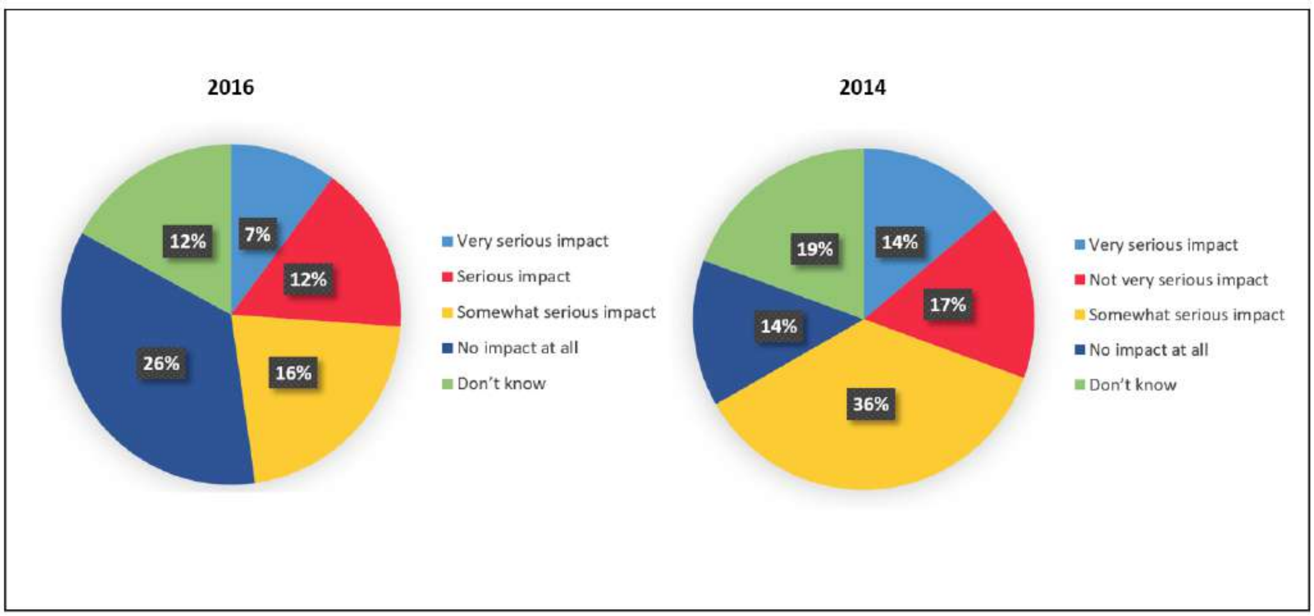
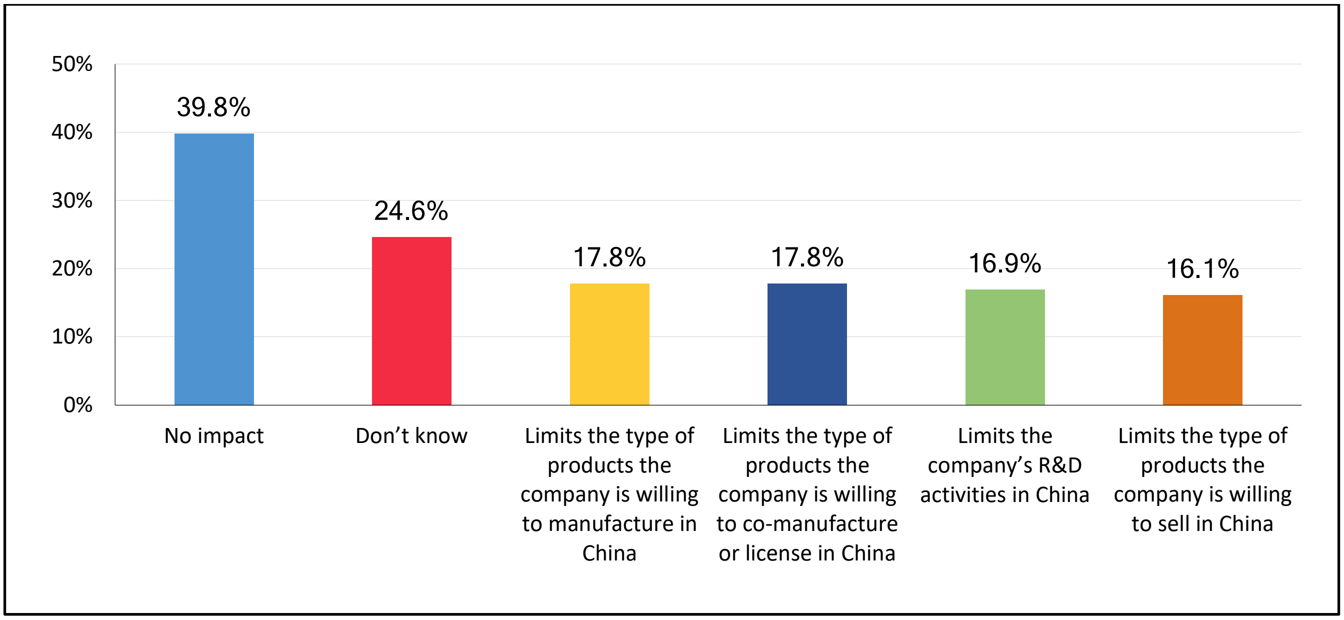


Figure – Q23 - How does the level of IPR enforcement affect the type of activities that your company undertakes in China



3.4 FINANCING, EXPANDING INTO CHINA, SETTING UP BUSINESS IN CHINA

This section offers the survey results on financing constraints and financing options the respondents' companies are using or planning to use to enter the Chinese business environment. Additional areas surveyed are the business expansion plans into China and plans for entering Chinese business environment. 29 obstacles faced by Canadian companies interested in expanding or setting up new business in China are ranked on a scale from 5 – major obstacle to 1 – minor obstacle. The results are compared with the findings of 2014 survey. Following the discussion below are figures with additional details for each area surveyed.

The top financing constraints identified are the foreign exchange controls on investment funds sent to Canada from China (21%), repatriation of profits from China back to Canada (18%), and getting credit (17%). (Figure - Q24 - Financing constraints). In addition, respondents listed the low Canadian dollar versus US dollar and timely payments. The top three financing options are own funds (66%), Chinese investment (12%), and Canadian commercial banks (8%) (Figure - Q25 - Main financing option the company is using /planning to use).

The majority of companies surveyed (73%) plan to expand in China substantially (49%), slightly (24%). Only 4% plan to contract. (Figure - Q26 - Plans for expansion/contraction in China in the next five years).

The top three types of business expansion in China are a business increase in current location or additional cities (48%), seeking a joint venture partner (38%), seeking Chinese investment (26%). (Figure - Q27 – Planned type of business expansion in China).

The majority of Canadian companies surveyed (68%) plan to develop business in or with China in the next five years. Figure - Q28 Plans for developing business in or with China in the next five years

The majority of Canadian companies planning to develop business in China are seeking a joint venture partner (58%). The other main approaches to developing business in China are seeking Chinese investment (37%), and seeking distributors (32%). (Figure - Q29 - How is your company planning to develop its business with China)

The main resources companies rely on to enter the Chinese market are the Canadian Embassy in China (45%), Canada China Business Council (41%), and Global Affairs Canada (38%). In addition to the above resources, companies rely on Chinese law firms and Chinese contacts, as well as on the Chambers of Commerce of other countries active in China. (Figure - Q31 - Government or organizational resources the company rely on or would consult to enter the Chinese market)

Respondents were asked to select the top five obstacles that are most important for their company in doing business in China. (Table Q32)

The following obstacles obtained the same and highest rating average (4.33): lengthy and complicated certification, local content requirements in China, and Chinese customs procedures.

Next were the Chinese labelling requirements (rating average 4.29), followed by China's air and environmental pollution (4.28), limitations to market access due to national security concerns (4.27), and intensive competition (4.24). A complete list of obstacles ranked as well as the rating average are provided in Table Q32.

In 2014, the top major obstacle was the Inconsistent interpretation of regulations/laws in China / lack of transparency with a rating average of 4.73, compared to 2016 rank 13 with rating average of 4.00. The second major obstacle in 2014 was the weak dispute settlement mechanism with a rating average of 4.46. In 2016 it is ranked 25th and has a rating average of 3.40. The third major obstacle in 2014 was the lengthy and complicated certification with a rating average of 4.46. This is the top major obstacle identified by the respondents of the 2016 survey, with a rating average of 4.33. In 2016, the same significance (rating average 4.33) have the local content requirements in China (rating average of 3.28 in 2014) and Chinese customs procedures (rating average 3.60 in 2014).

Other obstacles listed by respondents are the slow process of Canadian Government for visa approvals for Chinese interests and the evaluation of the market opportunities in China and own company's value in China.

Included below are figures with additional details for each area surveyed.

Figure - Q24 - Financing constraints

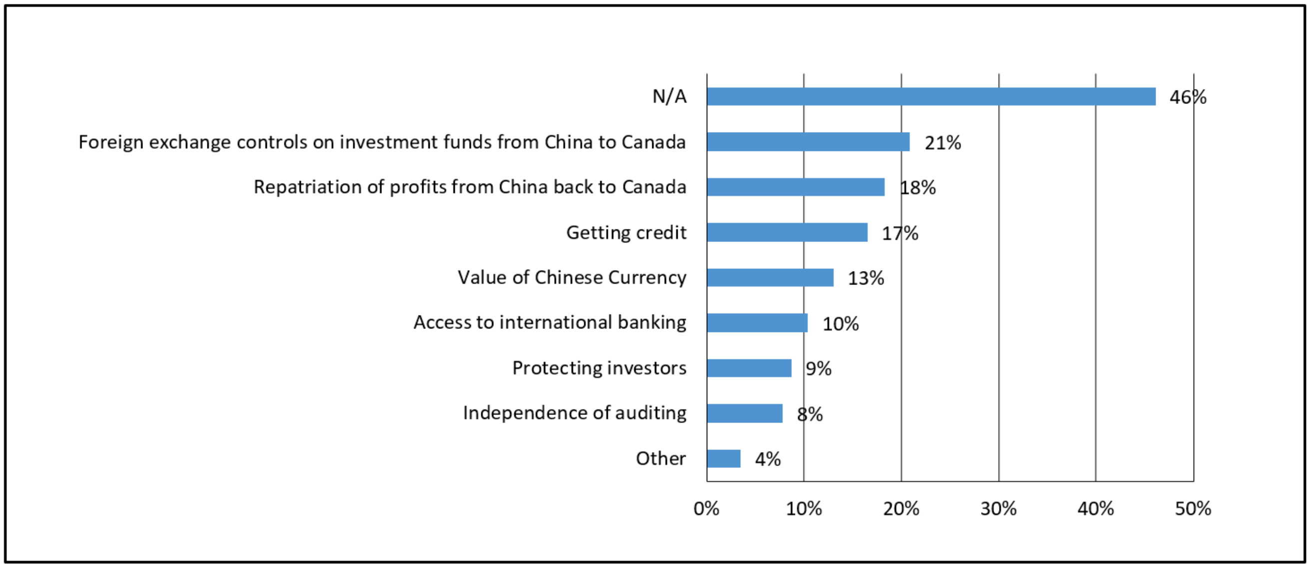
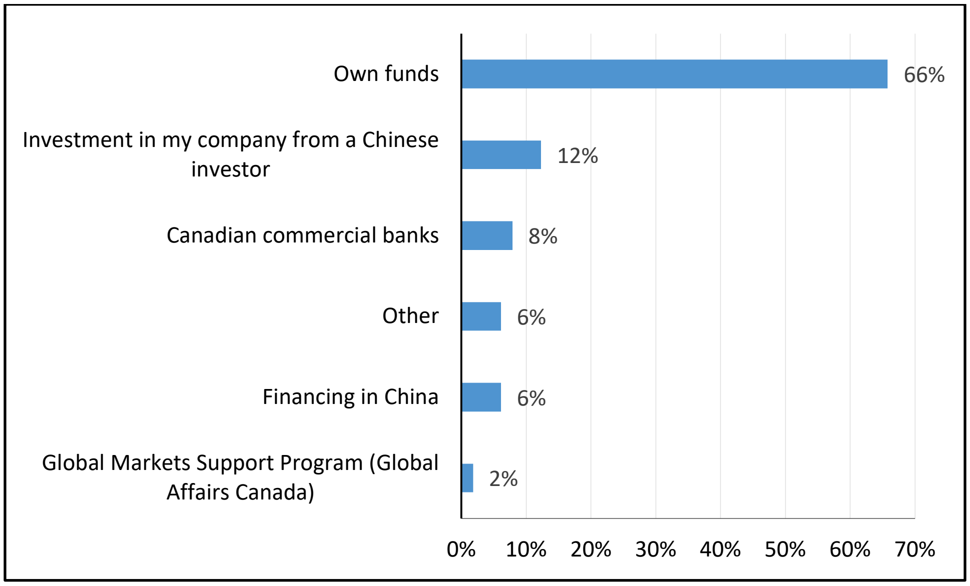


Figure - Q25 - Main financing option the company is using /planning to use



Business expansion into China

Figure - Q26 - Plans for expansion/contraction in China in the next five years

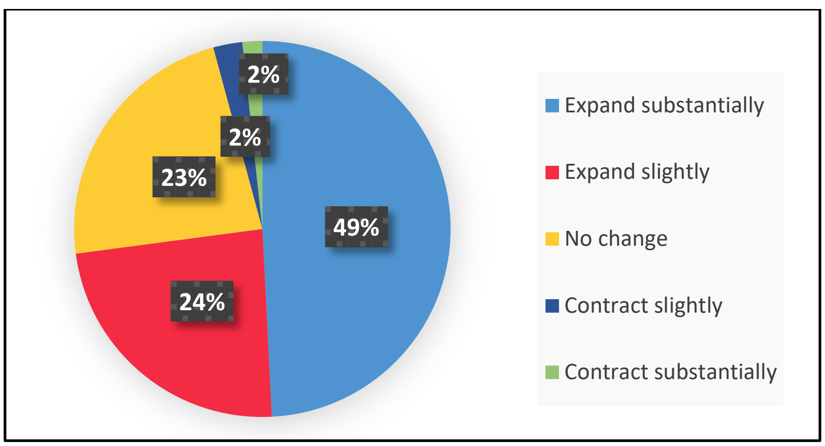
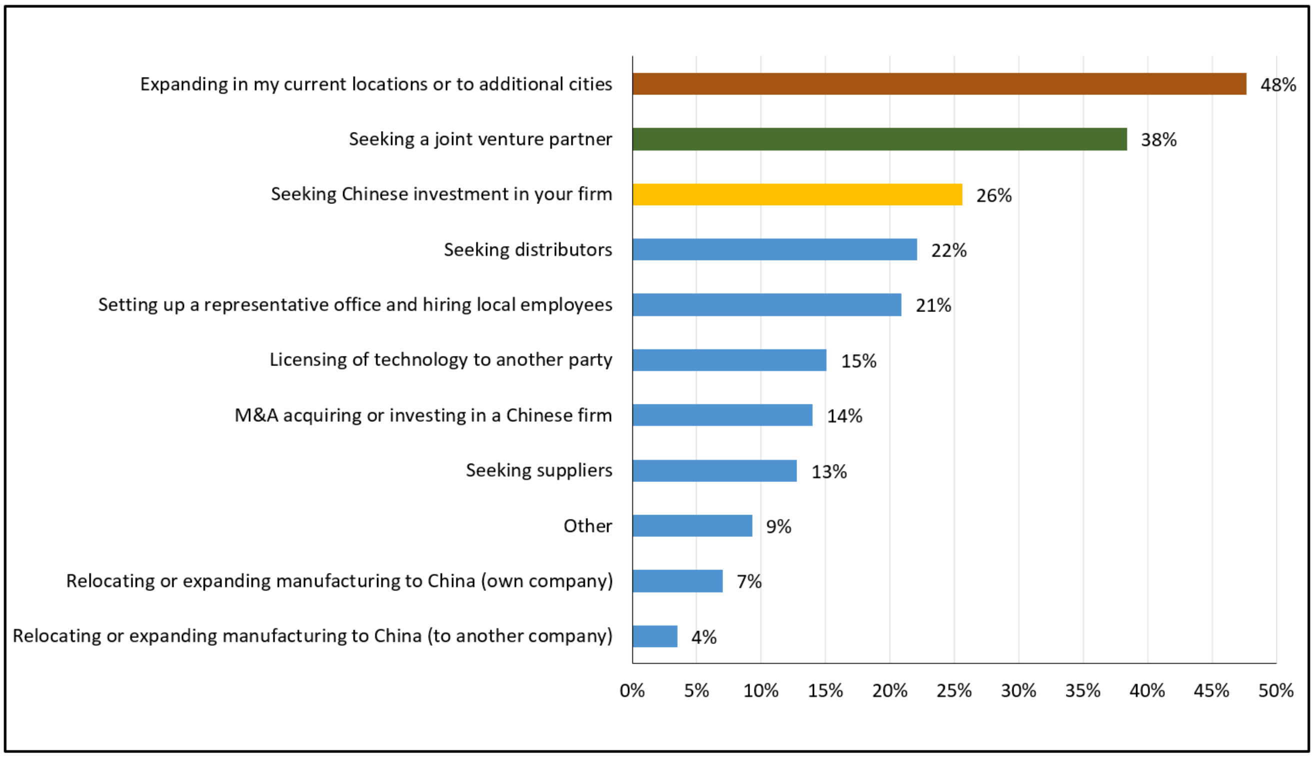


Figure - Q27 Planned type of business expansion in China



Plans to develop – set up new business in China

Figure - Q28 Plans for developing business in or with China in the next five years

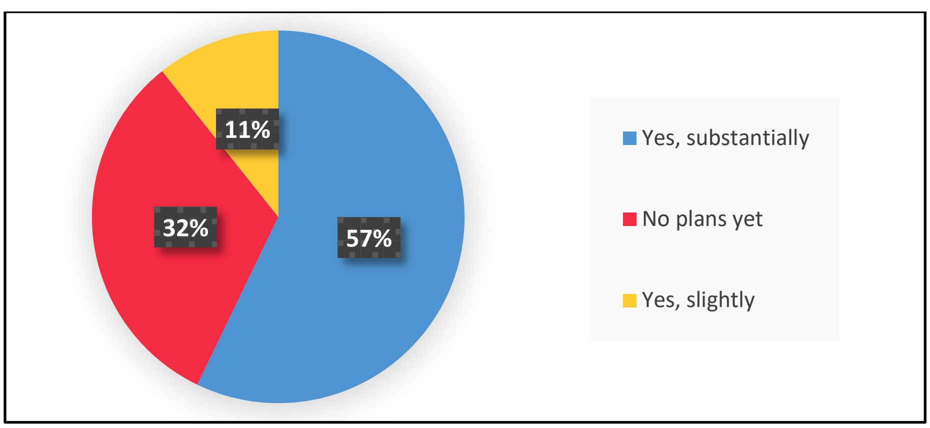


Figure - Q29 - How is your company planning to develop its business with China (companies not active in China planning to set up business.)

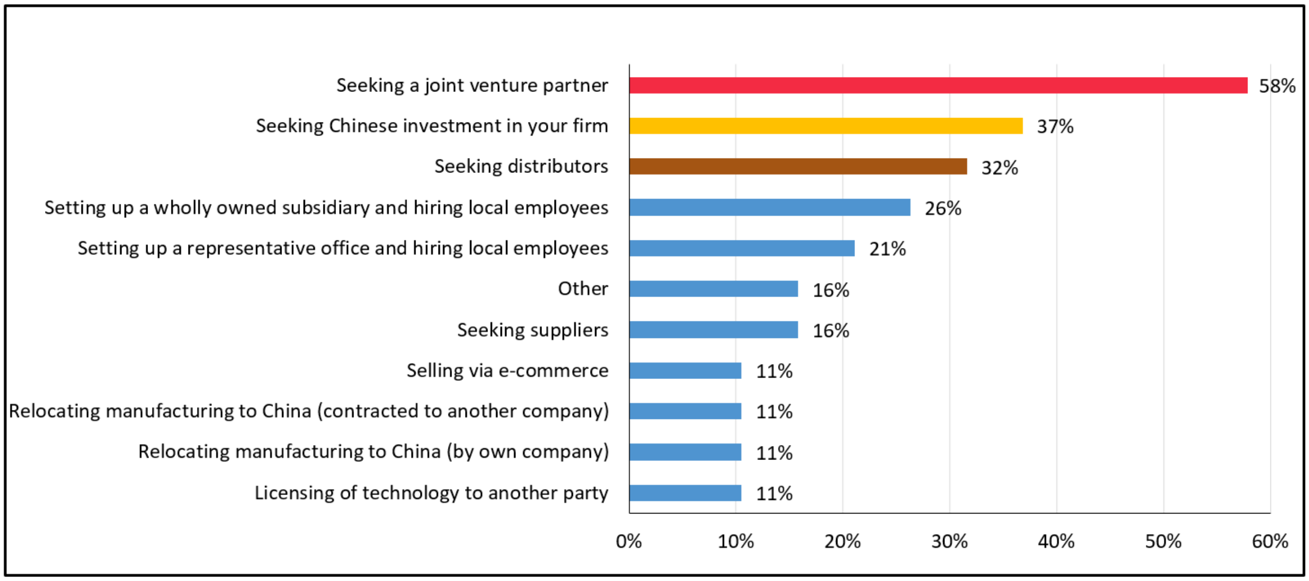


Figure - Q31 - Government or organizational resources the company rely on or would consult to enter the Chinese market

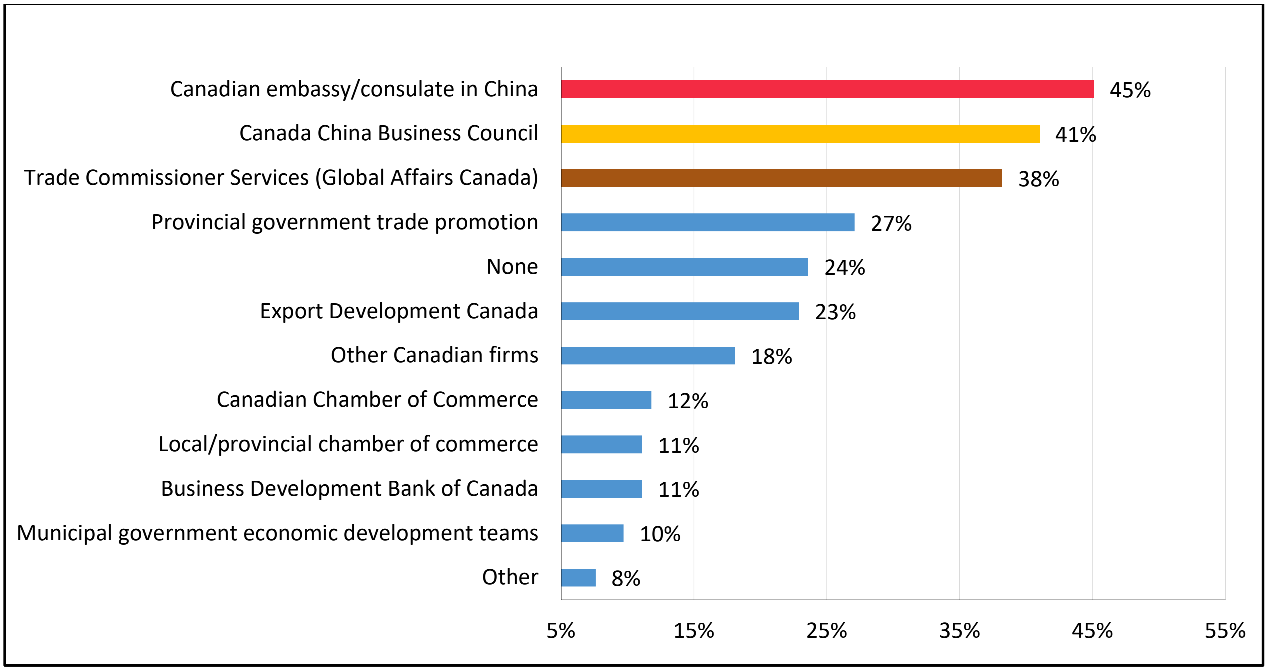


Table - Q32 Please select the top five obstacles that are most important for your company in doing business in China. Please rate them on a 5-point scale where 1 means only a minor barrier or is not relevant, and 5 means a major barrier.

	Obstacle	**Rating Average**
1	Lengthy and complicated certification	4.33
2	Local content requirements in China	4.33
3	Chinese customs procedures	4.33
4	Chinese labelling requirements	4.29
5	China's air and environmental pollution	4.28
6	Limitations to market access due to national security concerns	4.27
7	Intensive competition	4.24
8	Difficulty finding the right Chinese partner	4.18
9	Intellectual property rules and practices in China	4.08
10	Chinese tariffs on your product	4.00
11	Technical barriers to trade with China	4.00

	Obstacle	Rating Average
12	Restrictions for entities in China to make offshore payments	4.00
13	Inconsistent interpretation of regulations/laws in China / lack of transparency	4.00
14	Other - please elaborate - Product demand/China's economic strength	4.00
15	China's anti-dumping provisions	3.93
16	Labour law and practices in China	3.87
17	Challenges in gaining business licenses, approvals to expand operations, product approvals	3.86
18	Discriminatory innovation promotion policies	3.83
19	Restrictions on currency conversion	3.81
20	Mobility of Canadian business travellers in China (Visas, work permits etc.)	3.73
21	Handing over encryption codes, technology in order to obtain requisite certification	3.70
22	Lack of access to Chinese government procurement contracts	3.67
23	Rising costs for your company's operations in China	3.64
24	Domestic regulations at the local Chinese government level	3.60
25	Weak dispute settlement mechanism	3.40
26	Inadequate financing	3.20
27	Domestic regulations at the central Chinese government level	3.20
28	China's sanitary/phytosanitary and health-related rules	3.17
29	Restrictions on foreign investment in my sector in China - Canadian investment in China	2.67

Obstacle for SMEs doing business in China

SMEs definition: have revenue less than 50 million / year. There are 85 respondents with revenue less than 10 million and 21 with revenue between 10 and 49.9 million.

	Obstacle	Rating Average
1	Domestic regulations at the local Chinese government level	4.67
2	Difficulty finding the right Chinese partner	4.42
3	Intensive competition	4.32
4	Lengthy and complicated certification	4.29
5	Inadequate financing	4.28
6	Chinese tariffs on your product	4.23
7	Handing over encryption codes, technology in order to obtain requisite certification	4.20
8	Local content requirements in China	4.13
9	Restrictions for entities in China to make offshore payments	4.07
10	Technical barriers to trade with China	4.00
11	Inconsistent interpretation of regulations/laws in China / lack of transparency	3.93
12	Weak dispute settlement mechanism	3.91
13	Domestic regulations at the central Chinese government level	3.89
14	China's sanitary/phytosanitary and health-related rules	3.88
15	Chinese customs procedures	3.76
16	Intellectual property rules and practices in China	3.76
17	Labour law and practices in China	3.75
18	Lack of access to Chinese government procurement contracts	3.75
19	China's air and environmental pollution	3.72
20	Rising costs for your company's operations in China	3.72
21	Mobility of Canadian business travellers in China (Visas, work permits etc.)	3.57
22	Challenges in gaining business licenses, approvals to expand operations, product approvals	3.50
23	Limitations to market access due to national security concerns	3.50
24	China's anti-dumping provisions	3.40
25	Restrictions on currency conversion	3.40
26	Restrictions on foreign investment in my sector in China- Canadian investment in China	2.67

Table: Obstacles in doing business in China - comparison

2016		2014		2012	
Obstacle	**Rating**	**Obstacle**	**Rating**	**Obstacle**	**Rating**
Lengthy and complicated certification	4.33	Inconsistent interpretation of regulations/laws in China	4.73	Intellectual property rules and practices in China	4.93
Local content requirements in China	4.33	Weak dispute settlement mechanism (inefficient legal system)	4.46	Inconsistent interpretation of regulations/laws in China	4.77
Chinese customs procedures	4.33	Lengthy and complicated certification	4.46	Weak dispute settlement mechanism	4.55
Chinese labelling requirements	4.29	Intellectual property rules and practices in China	4.33	Lengthy/complicated certification	4.77
China's air and environmental pollution	4.28	Restrictions on currency conversion	4.28	Chinese tariffs and other border barriers	4.26

3.5 POTENTIAL FTA, FIPA, ONE BELT ONE ROAD

This section offers the survey results on a potential Canada-China FTA, on the FIPA's impact on business, and the awareness of respondents of One Belt One Road initiative.

The support for a potential Canada-China FTA, the benefits for Canadian companies, and the impact on company's business were surveyed in 2012. The results of the 2016 survey are compared with those of 2012 survey.

Following the discussion of results below are figures with additional details for each area surveyed.

FTA

The majority of respondents support strongly (57%) or moderately (22%) a potential Canada-China FTA. The results show an increase in favour of a potential free trade agreement, compared to 2012 when 49% of the respondents were strongly in support of an FTA and 33% expressed moderate support. (Figure - Q33 - Support of a potential Canada-China FTA). The stronger support for FTA is provided by the Professional, scientific and technical services (Engineering, Business, Project, Accounting, Legal, Logistics) sector.

The most compelling argument in favour of a Canada-China FTA that has been identified by 27% of respondents is Canada must open up to greater trade and investment opportunities with China, given the importance of Chinese market in the global economy. (Figure - Q34 – The most compelling argument in favour of a Canada-China FTA). The next major reason is the creation of significant opportunities for Canadian companies to expand and build new business activities in China. 23% of respondents indicate that an FTA would give Canada the opportunity to catch up with Australia and New Zealand, who have FTAs with China.

Other views offered by the respondents include:

- Depending on how "education" is defined, it could improve freer flow of students and faculty members.
- It would be unfair agreement with China.
- A free trade agreement must be fully reciprocal. Wherever China has market access in Canada, the reverse must also be true. However, because China has no effective rule of law, this is unenforceable

for Canadian companies. Canada should not be afraid to be "behind" countries with agreements that grant China unequal market access. Those are bad deals.

- A China-Canada agreement that sought to respect and improve health, environment, labour, social and human rights in both our countries could change our opinion.
- A free trade agreement would encourage more Canadian businesses to try the important expansion into China.

Respondents ranked a list of 11 potential benefits to Canada of having an FTA with China. (Table - Q35 – Ranking of potential benefit to Canada having an FTA with China)

The top three benefits identified are:

- ensuring that Canadian goods would not be excluded from the Chinese market due to the application of arbitrary and discriminatory technical rules and standards (rating average 4.21)
- helping protect the rights of Canadian businesses in China, with commitments to treat them the same as domestic Chinese businesses (rating average 4.06)
- helping 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, as well as helping bring order and clarity to the rules for Chinese investment in Canada (rating average 3.94).

The full list of potential benefits ranked according to rating average is provided in Table - Q35 – Ranking of potential benefit to Canada having an FTA with China).

Other benefits listed by respondents include:

- These bilateral trade agreements are just substitutes for multilateral agreements under the WTO. Not signing the free trade agreement is akin to withdrawing from the WTO previously WA
- Establish a more consistent framework of attracting Chinese investments in Canada
- Better enforcement of IP rights

Respondents view a potential Canada-China FTA that would be negotiated in the next five years as having a positive impact on their company's business. 37% of respondents forecast a potential moderate increase, compared to 58% in 2012 (Figure - Q36 – Impact on company's business of a Canada-China FTA ratified in the next five years). In 2016, 34% predict a significant increase, compared to 25% in 2012. Only 3% predict a moderate decrease in their company's business activity, while 17% see no impact. The remaining 9% did not express an opinion. The sectors with highest percentage of respondents forecasting an increase are Professional, scientific and technical services (Engineering, Business, Project, Accounting, Legal, Logistics), Information and Communication Technology, and Transportation, aerospace, automotive.

FIPA

The majority of respondents (53%) do not know about FIPA. For 20% of respondents FIPA is not relevant since they are not invested in China, while 20% indicate they can use the arbitration process if their investor rights are violated, and 9% are more inclined to invest in China, due to FIPA.

A number of respondents indicate FIPA creates predictability in their investment because it imposes discipline on conduct by Chinese officials at different levels of government (7.5%). (Figure - Q37 - In 2014, Canada and

China ratified the bilateral Foreign Investment Promotion and Protection Agreement (FIPA). How, if at all, does the FIPA between Canada and China help your business?)

In the event of a dispute, 45% of the respondents would use the FIPA dispute settlement options, 8% would not use it, and 47% have not decided. (Figure - Q38 - If you are invested in China, would you be willing to use the FIPA's dispute settlement options in the event of a problem?)

One Belt One Road

The majority of the respondents (74%) are aware of the One Belt One Road initiative (Figure - Q39 China's new One Belt One Road initiative is a major strategic priority for China. Are you aware of the initiative?)

Only 44% of respondents see opportunities for their firm to participate in the One Belt One Road initiative (Figure - Q40 - Do you see opportunities for your firm to participate in the One Belt One Road initiative?).

Respondents identified the following opportunities to participate in the One Belt One Road initiative:

- Using Chinese distribution network to spread Canadian products through Chinese hubs.
- Explore opportunities in Northwestern part of China where Canadian products still have large room to grow from agriculture technologies to clean energy.
- It might help decrease the fees related to exporting our products.
- Cross-border investment work between China and other OBOR countries.
- Partner with Chinese firms to participate in developing economies that are outside EDC's priorities.
- Research and training programs
- Infrastructure
- Technology
- Services
- We are a provider of minerals and products that will be essential to construct the One Belt One Road infrastructure.
- More business activities in BC with China, as Pacific Gateway of China to North and South Americas.
- Satellite communications networks are key infrastructural elements of their build out.
- Academic activities
- Providing specialised technologies and services for infrastructure development.
- Canada has great strength in all aspects of infrastructure in harsh environments so it brings a wide range of opportunities which we could address
- Environment protection around the silk road area

Following are the figures with additional details for each area surveyed.

FTA

Figure - Q33 - Support of a potential Canada-China free trade agreement

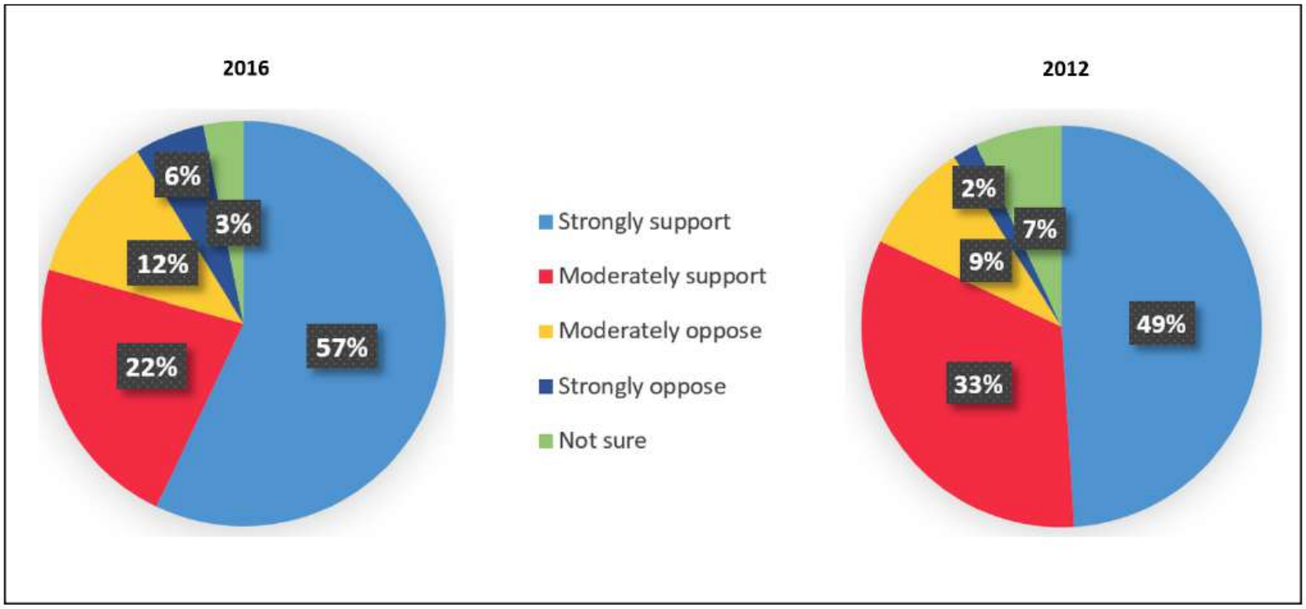


Figure - Q34 – The most compelling argument in favour of a Canada-China FTA.

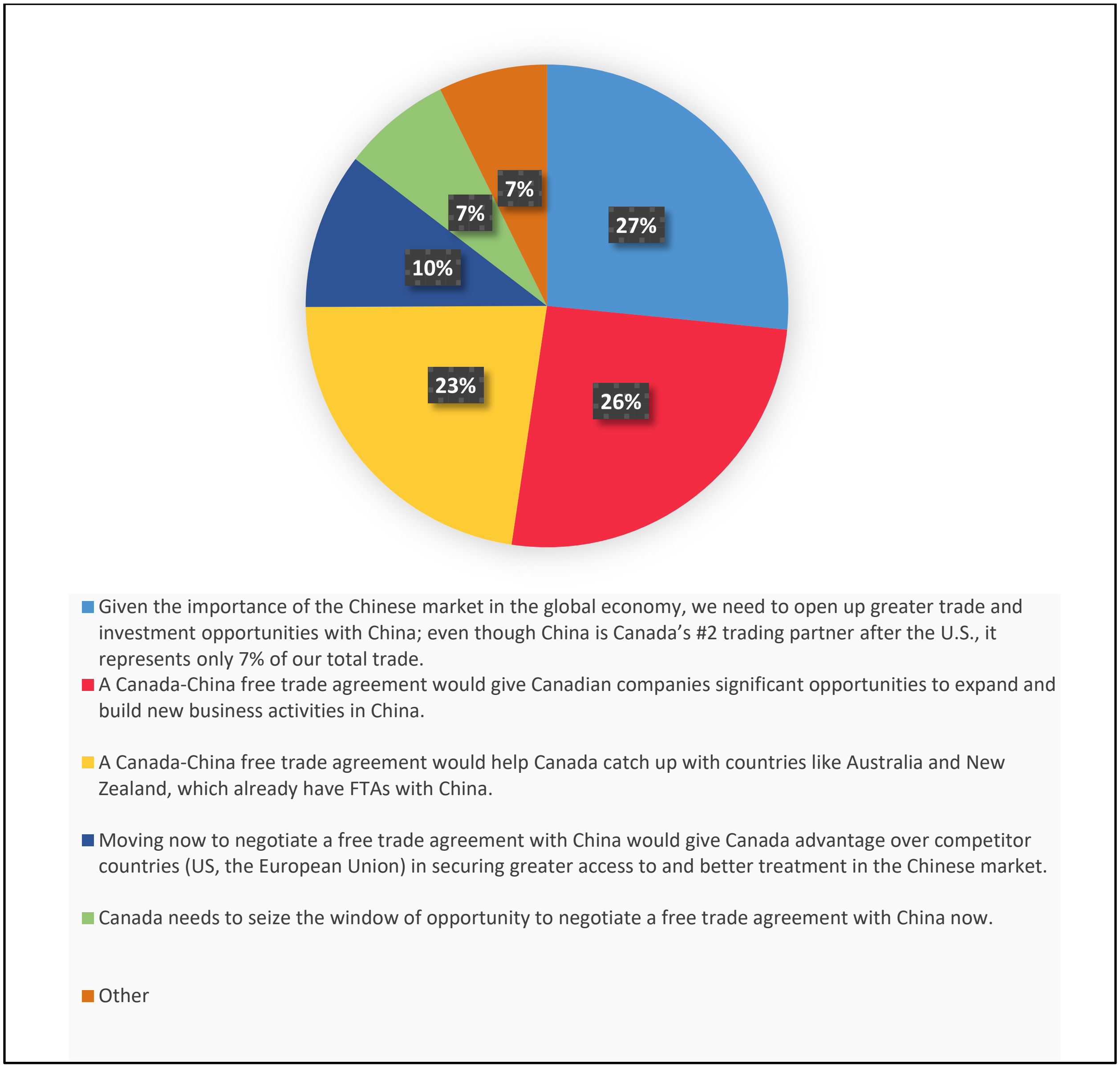
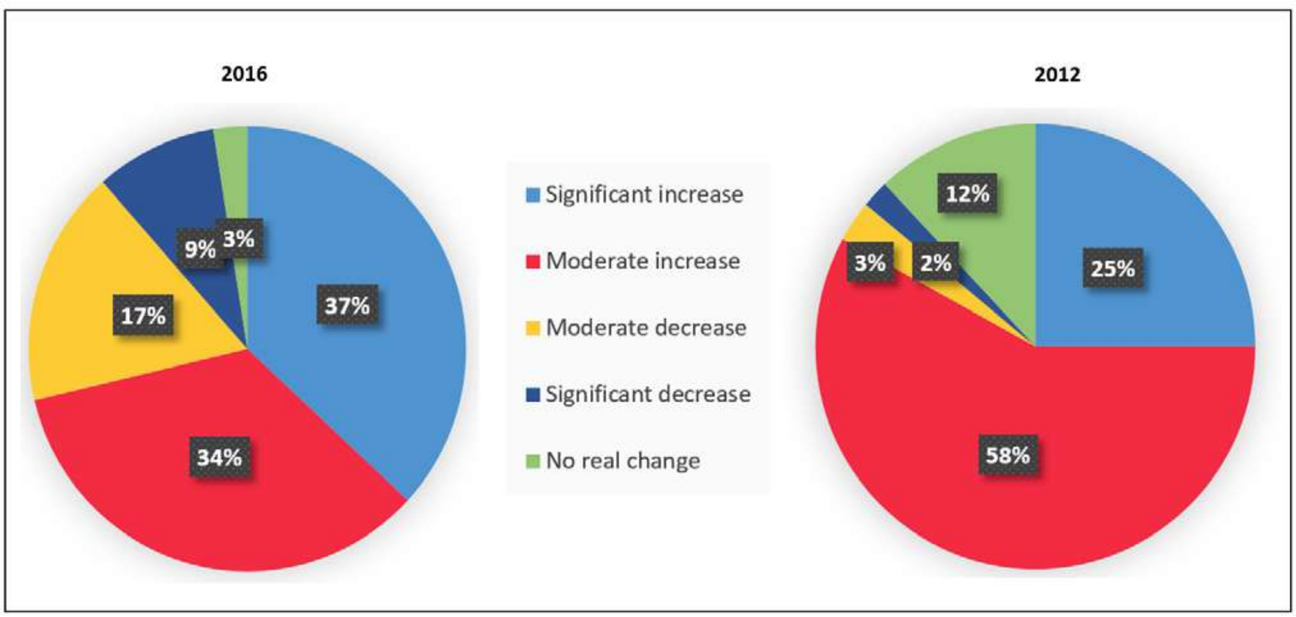


Table - Q35 – Ranking of potential benefit to Canada having an FTA with China

The benefits are ranked on a 5-point scale where 1 is a minor benefit and 5 a major benefit.

	Benefits	Rating Average
1	Ensure that Canadian goods would not be excluded from the Chinese market due to the application of arbitrary and discriminatory technical rules and standards.	4.21
2	Help protect the rights of Canadian businesses in China, with commitments to treat them the same as domestic Chinese businesses.	4.06
3	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. Help bring order and clarity to the rules for Chinese investment in Canada.	3.94
4	Other	3.93
5	Eliminate tariffs	3.91
6	Bring greater transparency to how the Chinese government makes decisions on trade and investment matters.	3.67
7	Eliminate Foreign Direct Investment caps and/or JV requirements.	3.60
8	Help provide a framework for the rule of law in China, including standards related to corporate social responsibility (e.g. corporate governance, etc.).	3.58
9	Help establish closer people-to-people contacts through business, culture, and education, with longer term benefits for both countries.	3.55
10	Help reduce the trade imbalance Canada currently has with China.	3.42
11	Canadian firms would gain access to Chinese government contracts.	3.40

Figure - Q36 – Impact on company's business of a Canada-China FTA ratified in the next five years



FIPA

Figure - Q37 - In 2014, Canada and China ratified the bilateral Foreign Investment Promotion and Protection Agreement (FIPA). How, if at all, does the FIPA between Canada and China help your business?

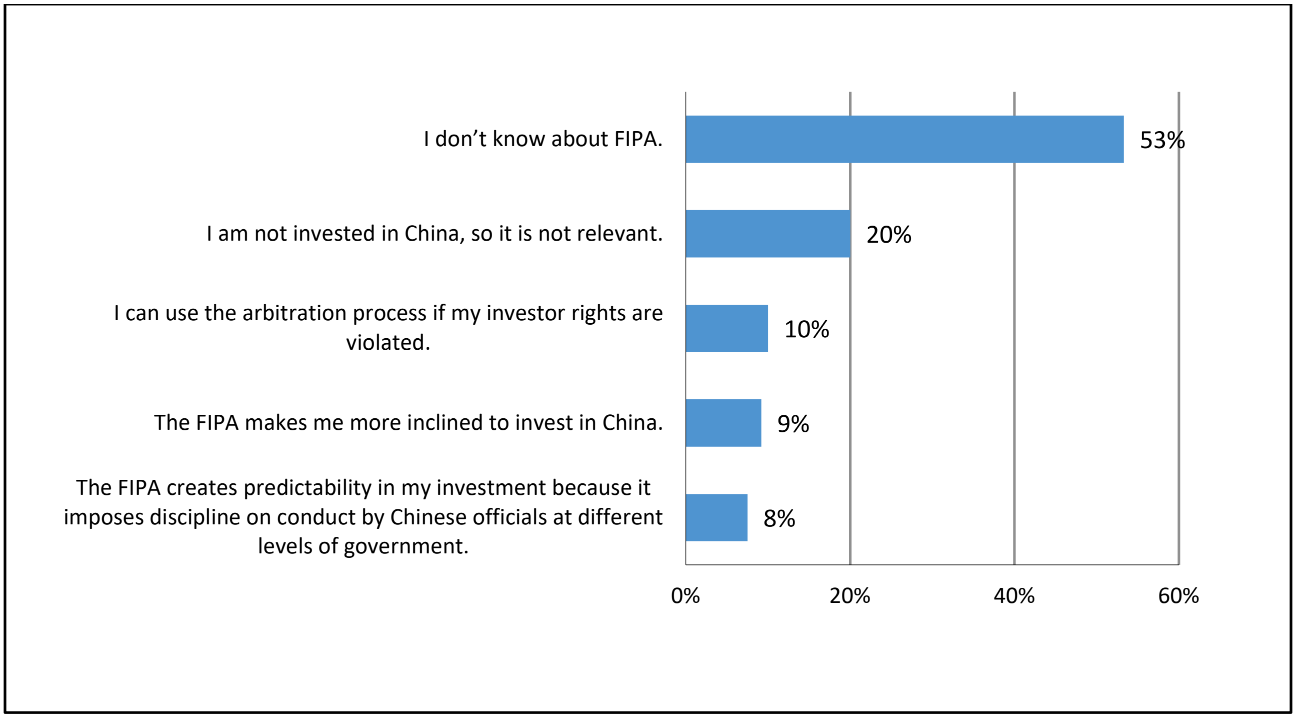
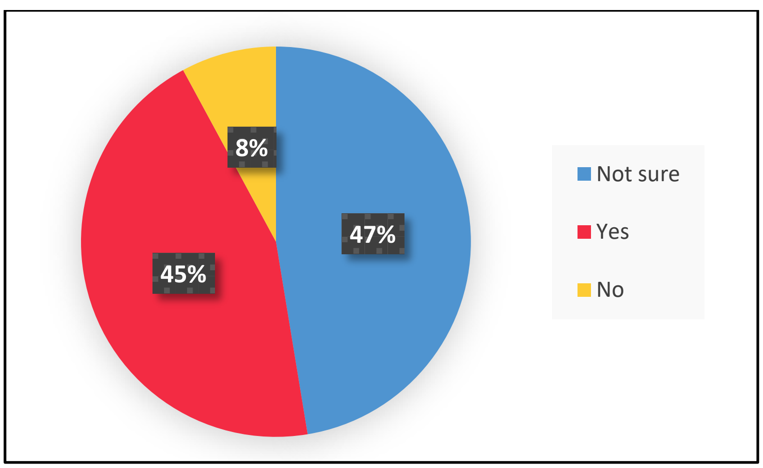


Figure - Q38 - If you are invested in China, would you be willing to use the FIPA's dispute settlement options in the event of a problem?



One Belt One Road

Figure - Q39 China's new One Belt One Road initiative is a major strategic priority for China. Are you aware of the initiative?

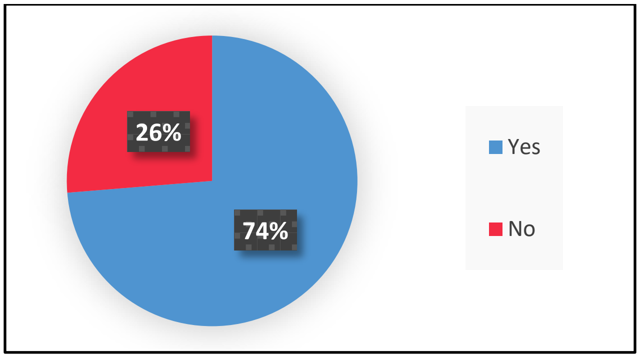
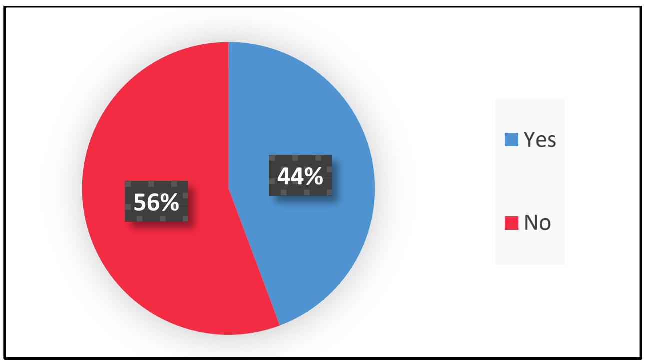


Figure - Q40 - Do you see opportunities for your firm to participate in the One Belt One Road initiative?



3.6 COMPARISON – CANADIAN, EUROPEAN UNION, GERMANY, AND US COMPANIES IN CHINA

Sources consulted were European Union Chamber of Commerce in China, European Business in China Business Confidence Survey, 2016; German Chamber of Commerce in China, German Business in China Business Confidence Survey, 2016; US-China Business Council, 2016 Membership Survey - The Business Environment in China-Key Findings.

The number of respondents was as follows: Canada 205, European Union 506, Germany 426, US 119.

Table 4.6 - 1 - Top obstacles to conducting business in China in 2015

Highlighted are common obstacles across countries/regions.

Canada	European Union	Germany	US
Lengthy and complicated certification	Chinese economic slowdown	Increasing labour costs	Competition with Chinese companies in China
Local content requirements in China	Rising labour costs	Finding qualified staff	Cost increases
Chinese customs procedures	Global economic slowdown	Economic slowdown in China	Licensing

Table 4.6 - 2 – Top sectors for companies conducting business in China

Highlighted are the common sectors (approximately) across countries/regions.

Canada	European Union	Germany	US
Professional Services	Consumer Goods and Services	Machinery/Industrial equipment	Manufacturing
Finance and Insurance	Industrial Goods and Services	Automotive	Services
Information and Communication Technology, Clean technology and environmental goods and services	Professional Services	Consulting/Legal Services	Primary Industries (agriculture, mining)

4. CHINESE COMPANIES IN CANADA

This section presents the survey results on company profile, financing, expanding into Canada, and setting up business in Canada.

4.1 GENERAL PROFILE

From the 205 survey respondents, 21 are Chinese-owned companies. This section provides details on respondent company profile on the location of company's Canadian operations, the location of the parent company in China, the ownership structure of the parent, company's sector, global and Canadian revenue, number of employees globally and in Canada, the type or business relations with Canada, and years of operation in Canada. This is the first survey of Chinese companies conducting business in Canada, therefore no comparison with previous survey data can be offered. Following the analysis below are figures with additional details for each area surveyed. While 21 respondents identified themselves as Chinese-owned companies, the number of responses in the section for Chinese-owned companies ranged from 15 to 20.

Based on 20 responses, the provinces with the highest number of Chinese companies conducting business in Canada are British Columbia (60%), Ontario (55%), and Alberta (40%). (Figure – Q42 Locations in Canada where company's major activities take place).

The top three locations in China for company's Chinese parent or headquarters are Beijing Municipality (58%), Shanghai Municipality (21%), and Jiangsu (11%). (Figure – Q43 Province or territory of Chinese parent or headquarters based in China)

The majority of Chinese companies conducting business in Canada are State-owned (50%), 45% are privately owned and 5% are business associations. (Figure - Q44 Ownership structure of parent company).

The sectors with highest representations are Finance and Insurance (30%), followed by Wholesale trade and retail trade, Natural resources (include Forestry, Metals & Metallurgy, Mining, Oil & Gas), Management of companies and enterprises, Information and communication technology, Health care and social assistance, Government and not-for-profit, and Agri-foods, each at 10%. (Figure - Q45 Company sector).

Regarding company's global revenue, 47 % of companies surveyed report a revenue of $1 billion CAD or more, 27% of respondent companies' revenue is less than $10 million, and for 11% the revenue is in the range of $10 million to $49.9 million. (Figure - Q46 The range of parent company's global gross revenue in 2015, or the most recent business year for which an end-of-year financial statement was prepared (In $CAD)).

The company's revenue from Canadian operations is less than $10 million for 50% of respondents. Revenue is the range of $10 million to $49.9 million for 19% of respondents, and in the range of $500 million to $999.9 million for 13% of survey participants. (Figure - Q47 The range of company's Canadian gross revenue in 2015, or the most recent business year for which an end-of-year financial statement was prepared (In $CAD)).

32% of companies surveyed have more than 50,000 employees, while 32% have fewer than 99 employees. 26% have between 5,000 and 50,000 employees. (Figure - Q48 Number of employees globally)

The operations in Canada have a relatively small number of employees. 33% of companies have fewer than 4 employees in Canada, 28% between 5 and 19 employees, and 17% between 100 and 250 employees. (Figure - Q49 Number of employees in Canada)

From 16 respondent companies with headquarters in China, 69% have been conducting business in Canada for less than 10 years, 12% for more than 10 years and less than 20 years, and 19% for over 20 years (Q51).

Following are the figures with additional details for each area surveyed.

Figure – Q42 Locations in Canada where company's major activities take place.

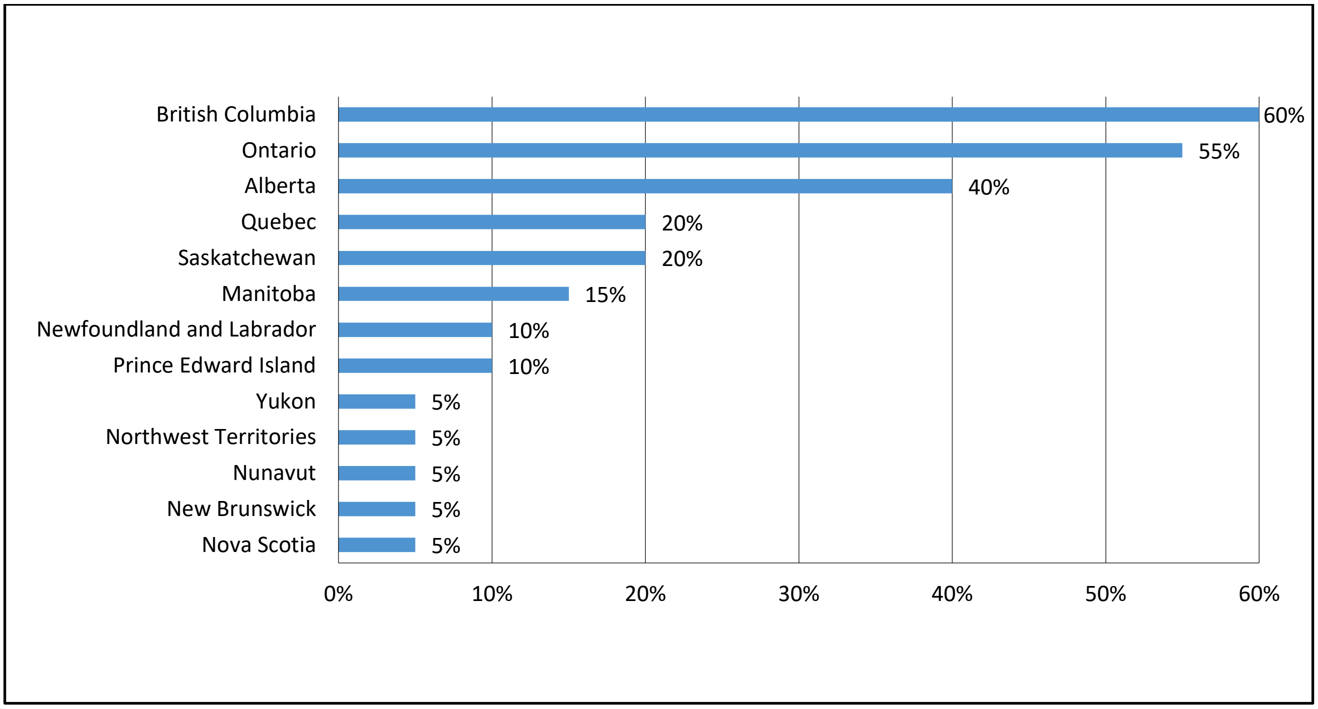


Figure – Q43 Province or territory of Chinese parent or headquarters based in China

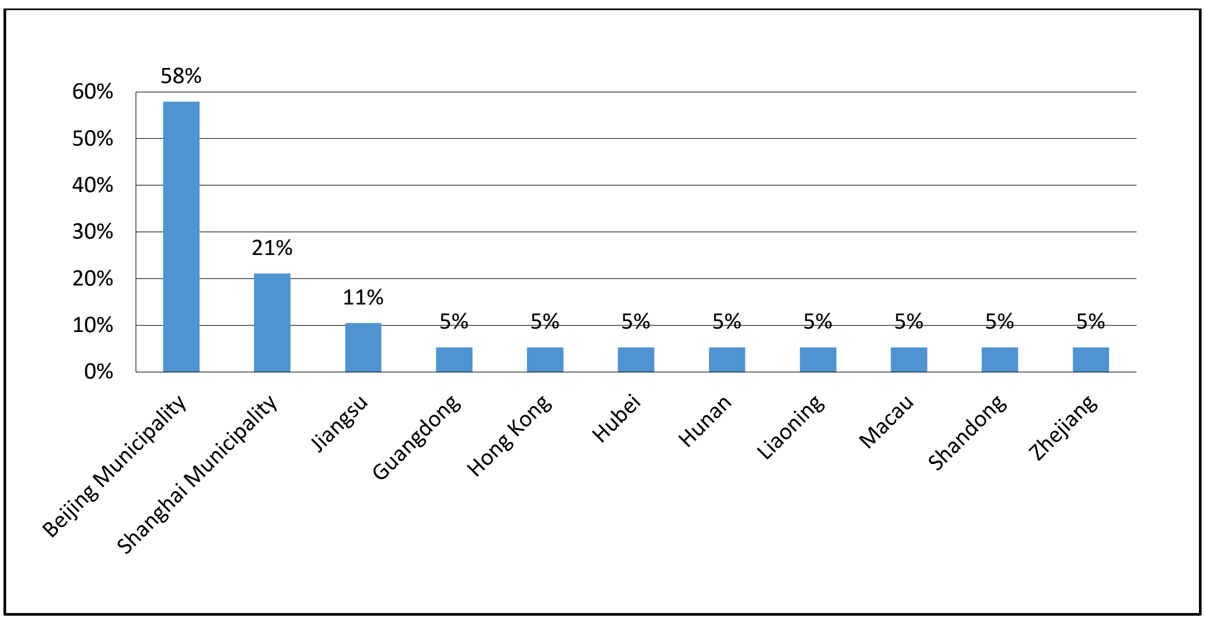


Figure – Location of Chinese parent or headquarters based in China (Q43) - mapped to China geographical regions.

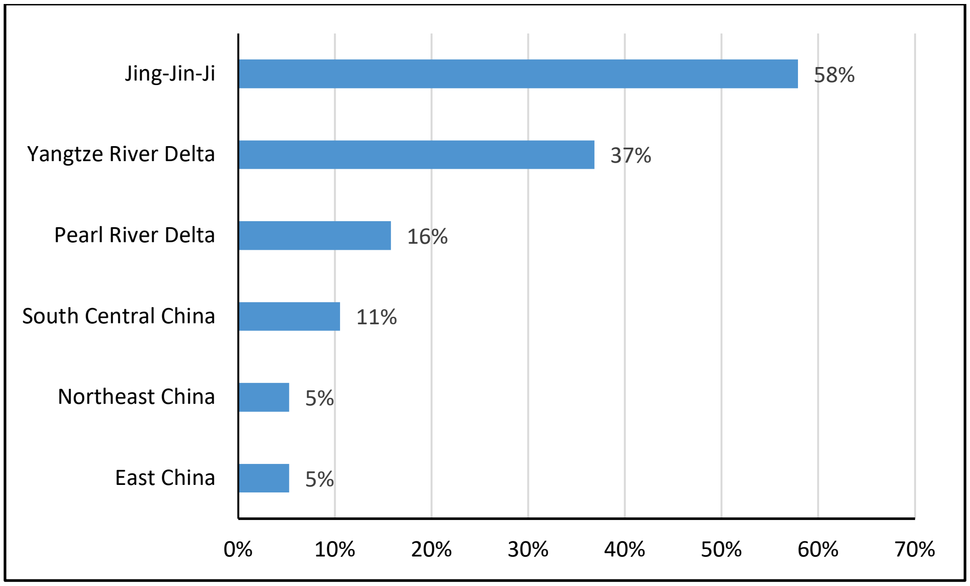


Figure - Q44 Ownership structure of parent company

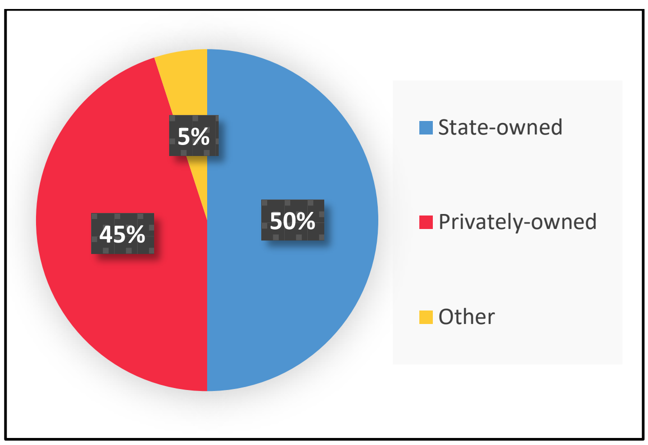


Figure - Q45 Company sector

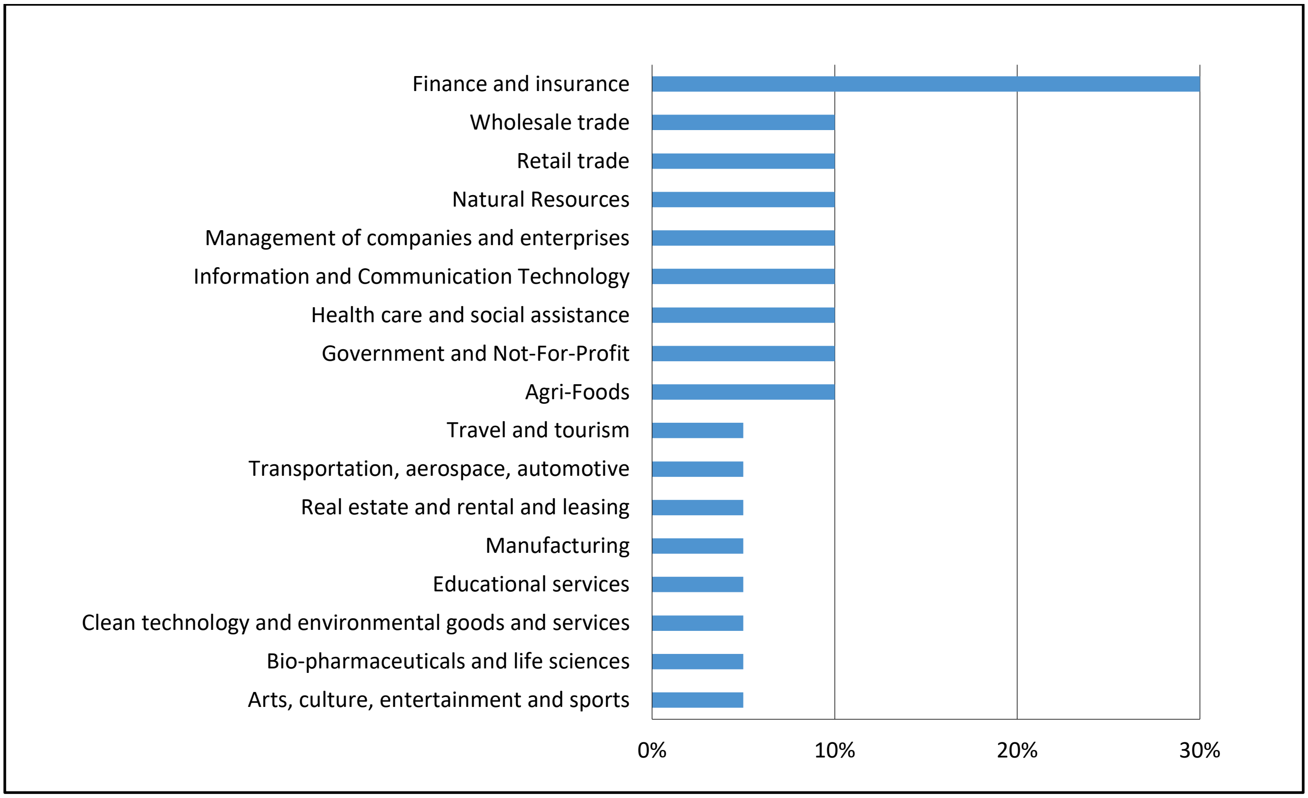


Figure - Q46 The range of parent company's global gross revenue in 2015, or the most recent business year for which an end-of-year financial statement was prepared (In $CAD)

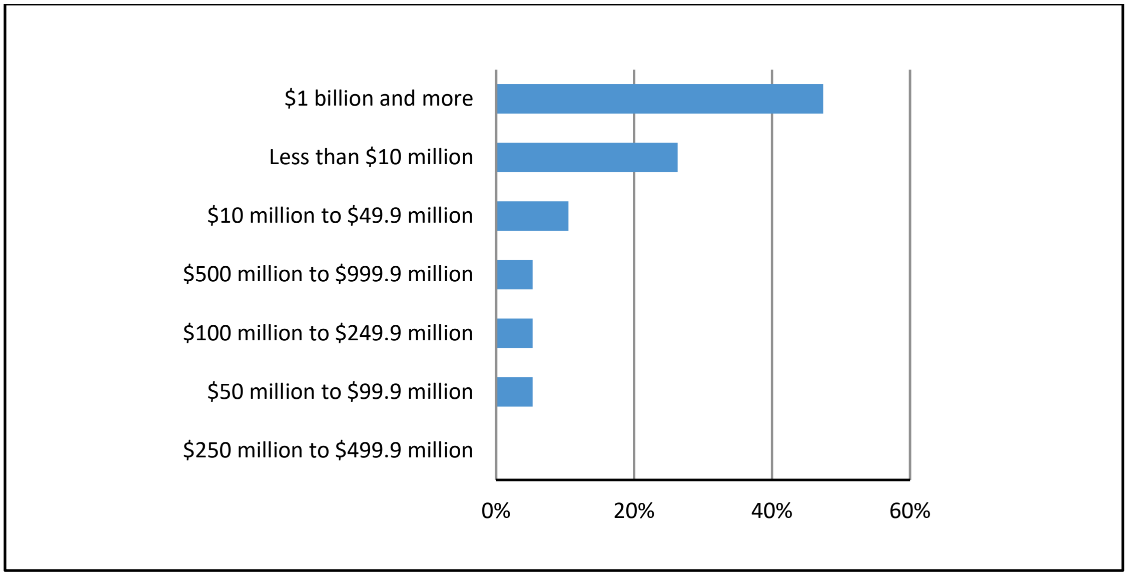


Figure - Q47 The range of company's Canadian gross revenue in 2015, or the most recent business year for which an end-of-year financial statement was prepared (In $CAD)

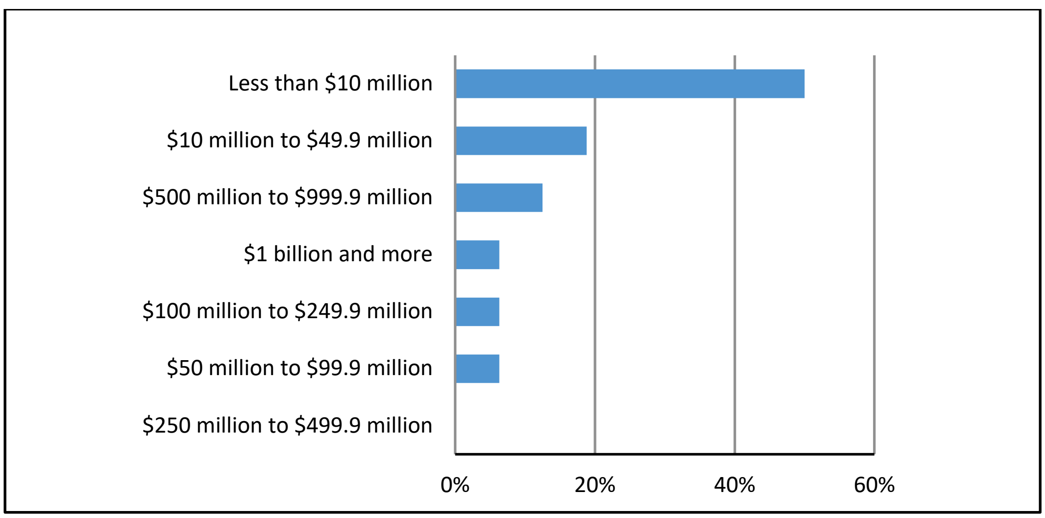


Figure - Q48 Number of employees globally

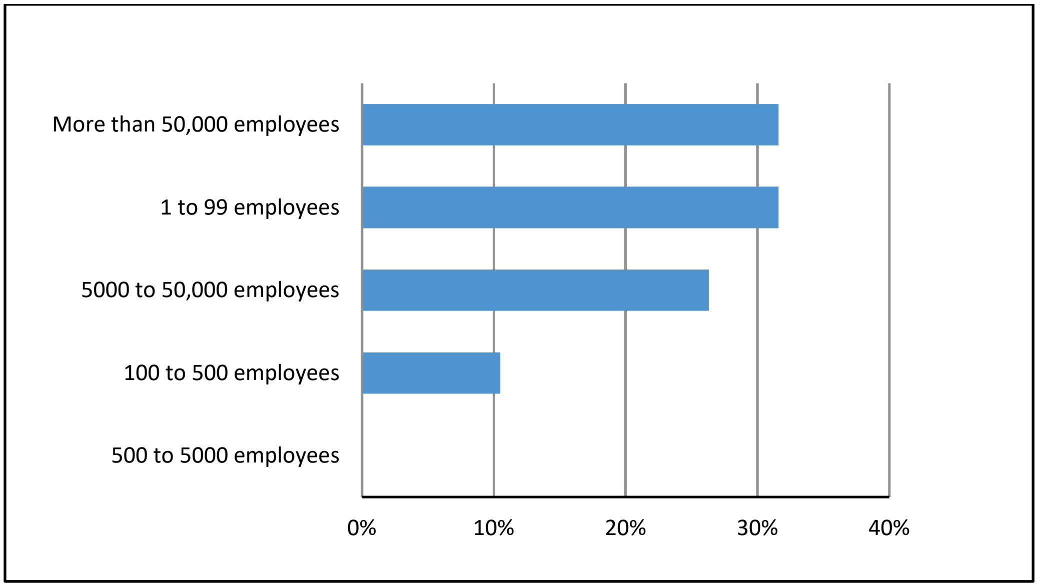
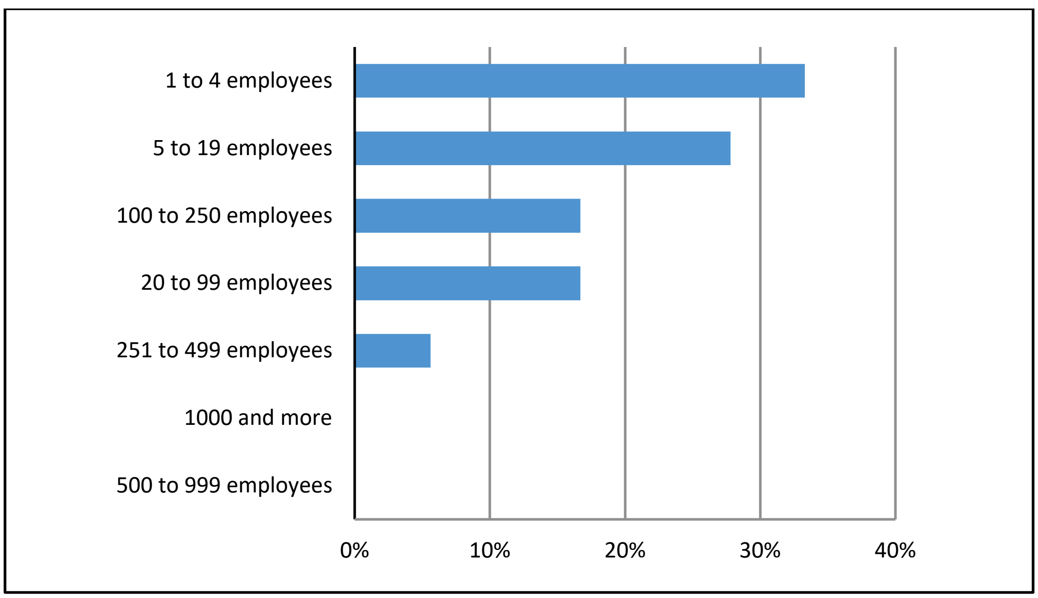


Figure - Q49 Number of employees in Canada



4.2 FINANCING, EXPANDING INTO CANADA, SETTING UP BUSINESS IN CANADA

This section presents the survey results on Canada's role in the respondent Chinese company's strategic plans, revenue from company's operations in Canada, company's financial performance in Canada, obstacles to profitability, financing constraints, and financing options the respondents' companies are using.

Following the discussion of results below are figures with additional details for each area surveyed.

The majority of respondents (76%) indicated that Canada is a top priority (23%) or among top five priorities (53%) in their company's strategic plans (Figure - Q52 Canada's role in company's global strategic plan).

For 75% of the respondents their Canada operations account for less than 25% of company's global gross revenue, and for 19% Canadian business represents between 26% and 50% of company's global revenue (Figure - Q53 Percentage of company's global gross revenue in 2015 (or most recent business year) attributable to Canadian business).

For 80% of the respondents, 2015 was a profitable year and 13% indicated neither profit nor loss, while 7% experienced a loss. (Figure - Q54 Company's financial performance in Canada in 2015 (or most recent business year).

An increase in profitability in 2015 compared to previous years was observed by 43% of the respondents. 21% have reported no change and 21% indicated a decrease in profitability. (Figure - Q55 Company's profitability in 2015 compared to the previous years).

The respondents were asked to rate 15 obstacles faced by Chinese companies interested in expanding or setting up new business in Canada. One-third of respondents (33%) indicate the main obstacles to profitability are the Canadian Government policy and regulation. For 27% the main obstacle is the competition from domestic competitors. (Figure - Q56 Primary restraint on increased profitability for company in Canada).

33% of respondents list other reasons:

- Present macroeconomics and cumulative government costs
- Commodity pricing
- Higher operating costs, wages and higher incoming costs
- Growth of the economy

The top financing constraints identified in the survey are obtaining credit (46%), access to international banking (37%), and protecting investors (18%). Figure - Q57 Financing constraints. The two financing options chosen by the respondents are own funds (64%), and Chinese banks (36%). Figure - Q58 Main financing option company is using.

The majority of companies surveyed (88%) plan to expand in Canada slightly (53%) or substantially (35%). Only 6% plan to contract. (Figure – Q59 Plans for expansion/contraction in Canada in the next five years). The majority of respondents plan a business expansion in Canada in current location or additional cities (57%). The next most common types of expansion are seeking a joint venture partner (36%), setting up a representative office and hiring local employees (29%), and seeking suppliers (29%). (Figure – Q60 Planned type of business expansion in Canada).

Respondents were asked to rate a set of 15 obstacles encountered doing business in Canada. The top three obstacles identified are dealing with construction permits (rating average 3.92), border compliance procedures (3.54), and costs for company's operations in Canada (3.33). (Table - Q61 To what degree are each of the following an obstacle in doing business in Canada. Please rate them on a 5-point scale where 1 means it is only a minor barrier, and 5 means it is a major barrier). A complete list of obstacles ranked as well as the rating average are provided in Table Q61.

Following are the figures with additional details for each area surveyed.

Figure - Q52 Canada's role in company's global strategic plan

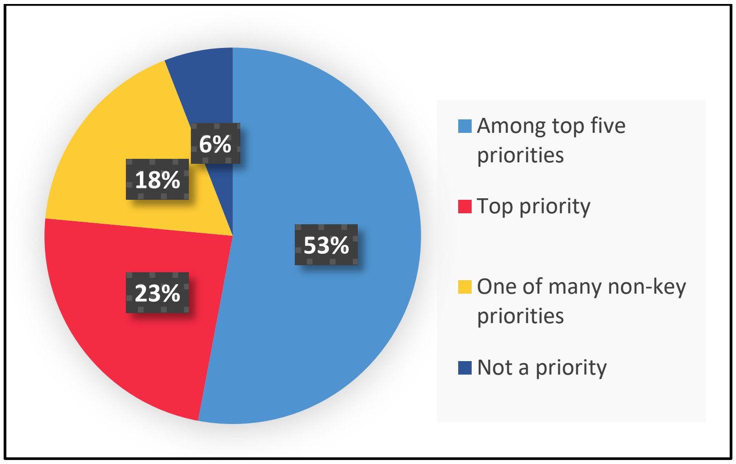


Figure - Q53 Percentage of company's global gross revenue in 2015 (or most recent business year) attributable to Canadian business.

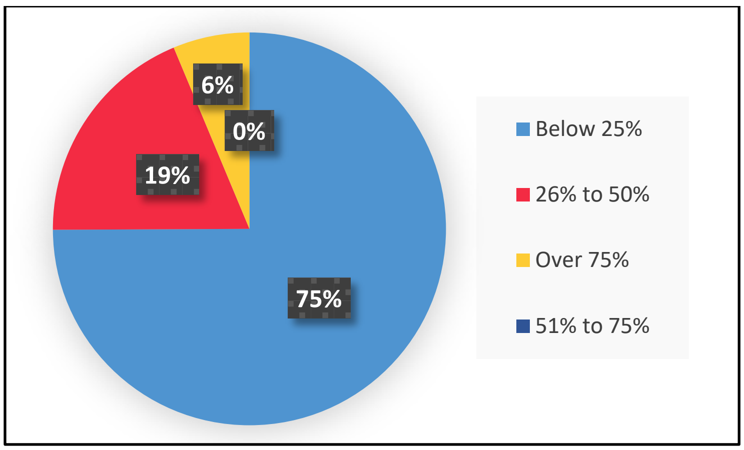


Figure - Q54 Company's financial performance in Canada in 2015 (or most recent business year)

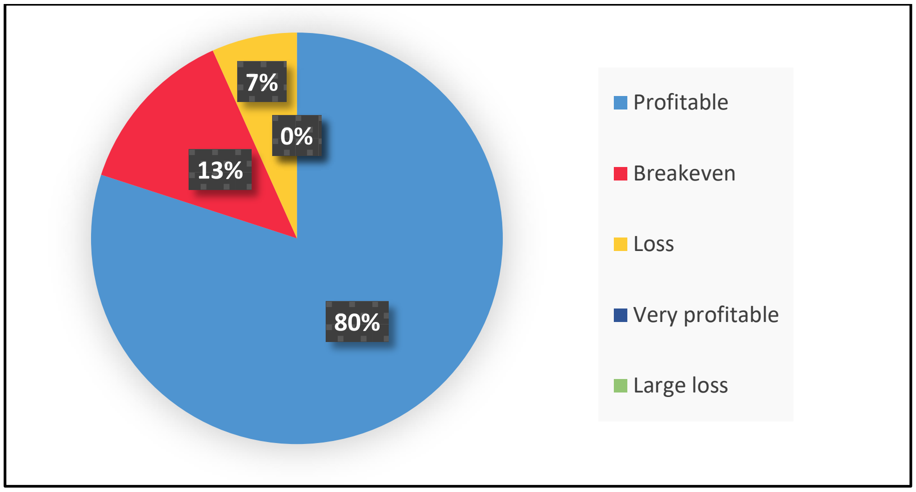


Figure - Q55 Company's profitability in 2015 compared to the previous years

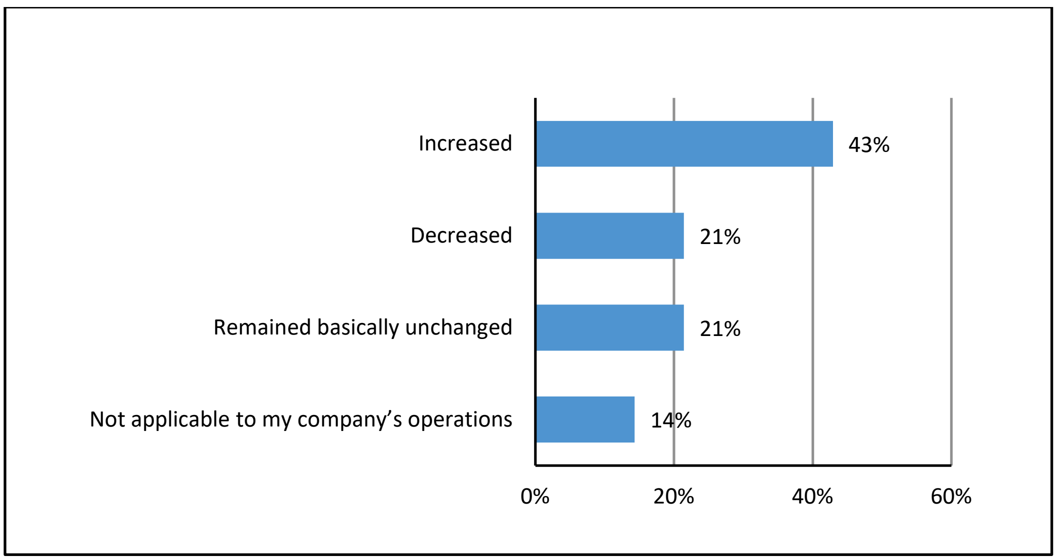


Figure - Q56 Primary restraint on increased profitability for company in Canada

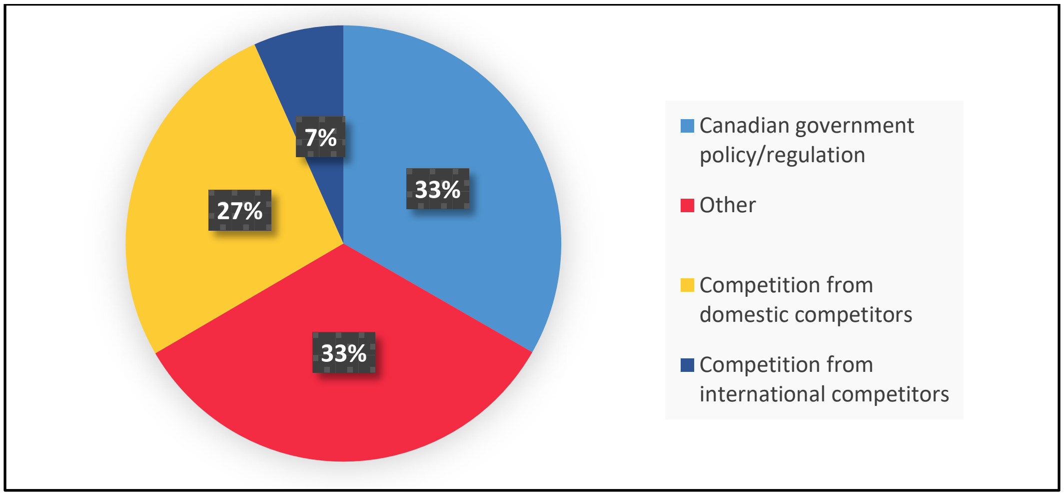


Figure - Q57 Financing constraints

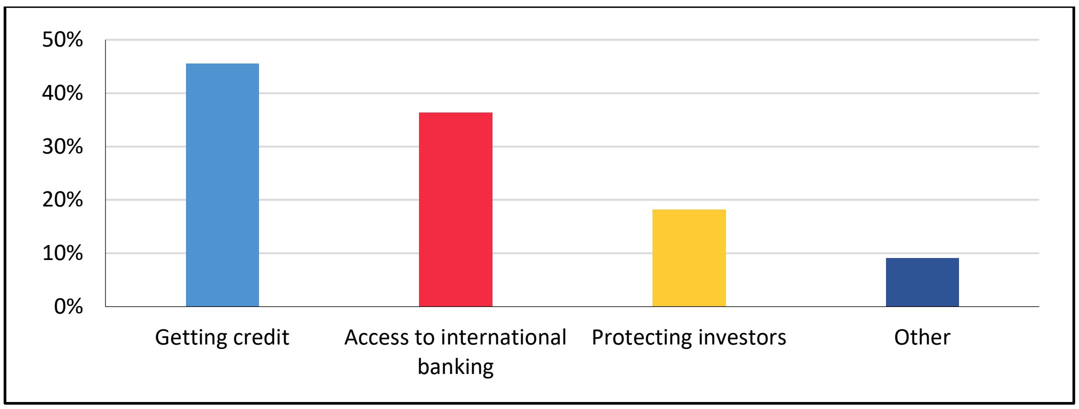


Figure - Q58 Main financing option company is using

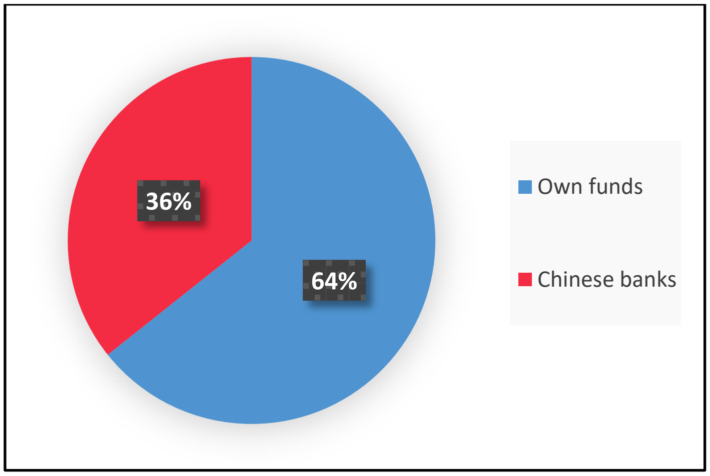


Figure - Q59 Plans for expansion/contraction in Canada in the next five years

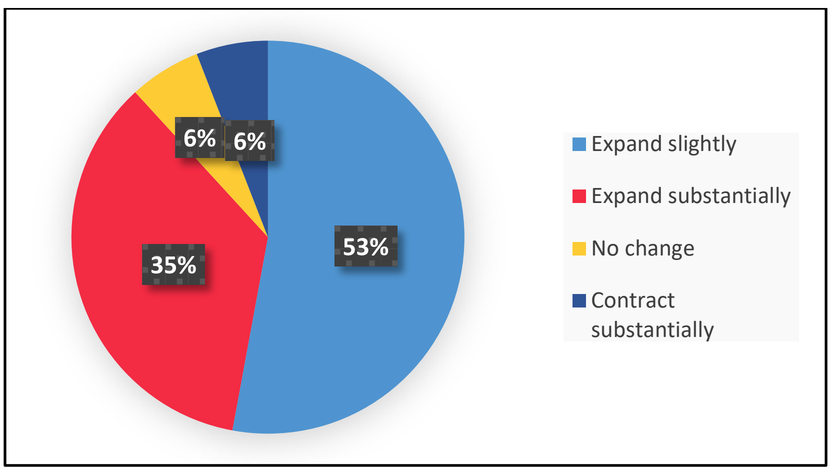


Figure - Q60 Planned type of business expansion in Canada

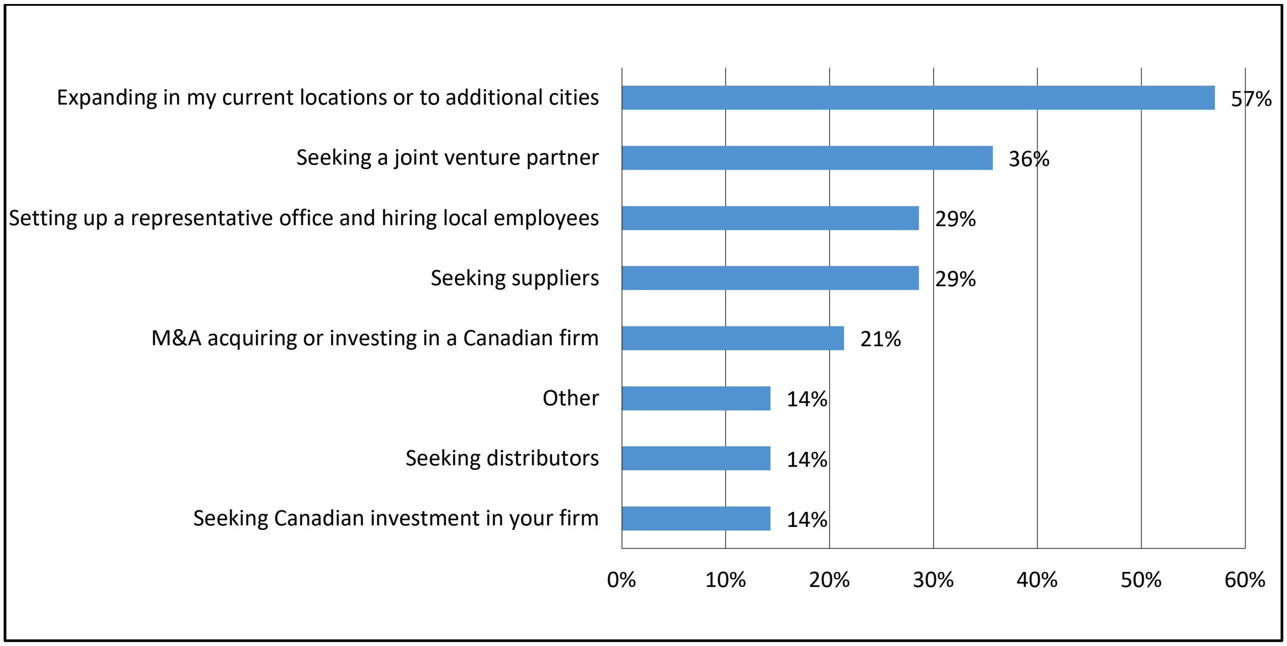


Table - Q61 To what degree are each of the following an obstacle in doing business in Canada. Please rate them on a 5-point scale where 1 means it is only a minor barrier, and 5 means it is a major barrier.

	Obstacle	Rating Average
1	Dealing with construction permits	3.92
2	Border compliance procedures	3.54
3	Costs for your company's operations in Canada	3.33
4	Challenges in gaining business licenses, approvals to expand operations, product approvals	3.25
5	Restrictions in my sector on investment by state-owned or state-influenced companies.	3.17
6	Complexity of tax regulations	3.08
7	Restrictions in my sector on investment from China	3.00
8	Challenges in working with First Nations groups	2.82
9	Restrictive labour regulations	2.75
10	Technical barriers to trade with Canada	2.73
11	Intensive competition	2.58
12	Enforcing contracts (time and cost necessary to resolve a dispute)	2.55
13	Inadequate financing	2.50
14	Difficulty finding the right Canadian partner	2.33
15	Registering property	2.25

5. RESPONDENTS' RECOMMENDATIONS AND FEEDBACK

Respondents provided a number of recommendations for creating opportunities for Canadian business in China, and Chinese businesses in Canada, as well as feedback on Canada China Business Council services and activities. The suggestions were grouped in the following categories.

Feedback for Canada China Business Council:

- Important service you provide. Suggest having more informal social gatherings.
- Your association is very important to us.
- The AGM in 2016 was ok but I would like to see it include other activities over a couple of days so that I could maximize my time for such a long trip. Also I was disappointed that Justin Trudeau did not stay around at the end of the Gala dinner to meet attendees.

Opportunity for Chinese businesses in Canada:

- Welcome Chinese investment to our Canadian businesses / enterprises up to 33% of ownership control.
- We think that are business opportunity is working for Chinese companies wishing to come to Alberta/Canada to invest or establish a buying relationship with Canadian suppliers.

Opportunity for Canadian businesses in China:

- We are at the initial stage to contact with each other. However, we believe the potential for future cooperation is huge.
- We think there is a huge opportunity to commercialize Canadian healthcare and education expertise to help the Chinese government and government funded agencies to address gaps in knowledge, but Canada is poorly organized to advise or support the development of entrepreneurial approaches to export of services by its own publicly funded health and education institutions, and seems to either support the development of product exports by private sector, or tepid support of research collaborations that aren't designed to become commercial relationships.

FTA:

- Any clauses in an agreement for services must spell out quality based competition not price based competition. This applies in particular to architecture, engineering and project management. This is standard practice in many US states already and should be more widely used in Canada
- Trade deal is a nice dream but China will always play by China's rules no matter what nice platitudes are spoken.
- Free trade agreement is important for Canadian companies. Provincial government should be involve in the negotiation process.

Additional recommendations:

- Greater sector focus
- Greater focus on policy issues
- Priorities must be given to increase the understanding of the culture and history of China among the Canadian public and the Canadian mainstream media so that the Canadian public would be more

receptive to the mutual economic benefits and sharing of values that can occur in further engagement with China.

- I have a lots of contacts here in China and it would be my pleasure to help any Canadian company who wishes to do business in Canadian if I can.

Survey feedback:

This survey only loosely fits the interests, needs and activities of universities and the educational sector. Considering that marketing of educational services is one of the biggest single sectors in Canada's relations with China the concept of "business" and the survey should be adjusted.

6. LIMITATIONS OF THE STUDY AND FUTURE WORK

This section provides several recommendations for future work and expanding the study.

A higher number of responses is required in certain areas. For example, close to one half of respondents (46%) perceived no change in the business risk environment for Canadian companies in China in 2015. 27% of survey participants indicated an improvement and an equal percentage perceived the business risk environment worsened (Figure – Q14 – Perceived change in the business risk environment for Canadian businesses in China in 2015).

Feedback from one of the respondents suggested a survey should also include questions relevant to universities. The questions refer only to the business environment, not taking into account the education sector.

Directions for future work include exploring several areas. As China becomes more innovative, are Canada's businesses prepared for increased competition? Will Canadian companies operating in China increase their investment in R&D? Are they prepared for China as a sales market? Do they forecast moving some of the high-value functions to China?

7. CONCLUSION

The survey provided a view of Canadian companies conducting business in China in the areas of business development in China, obstacles to expansion, profitability, IPR, financing constraints, perception of a potential Canada China FTA benefits and impact on the business, awareness of FIPA and One Belt One Road.

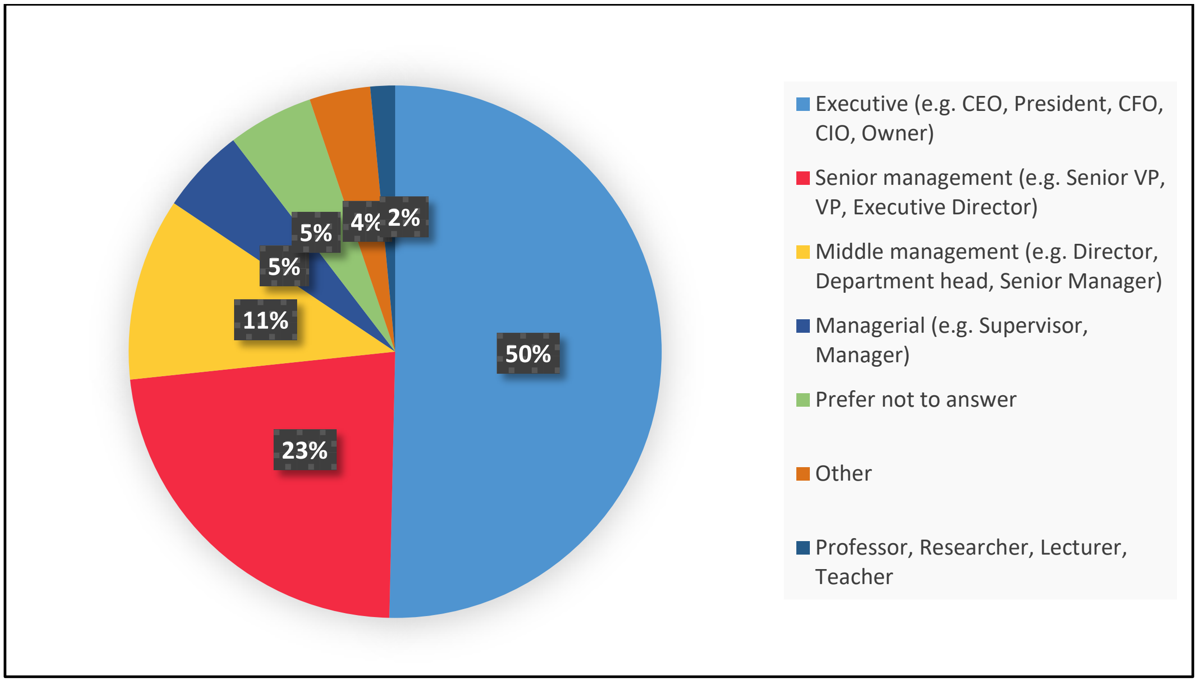
To assist Chinese companies operating in Canada or entering the Canadian market, the survey examined Canada's role in the respondent Chinese company's strategic plans, identified obstacles to profitability, financing constraints and financing options, and analyzed company's financial performance in Canada.

The findings will assist government agencies and service providers in designing policies that will allow closer Canada – China economic relations and benefit both Canadian companies operating or setting up in China and Chinese companies conducting business in Canada or interested in entering the Canadian market.

APPENDIX – RESPONDENTS' PROFILES

Figure - Q62 - What is your position within your firm?

Half of respondents hold Executive positions and 23% are in Senior Management. 11% hold middle-management positions and 5% managerial roles.



Other:

- Associate
- Broker
- Professor
- Independent director and advisor
- Advisor

Figure - Q63 – Respondents location

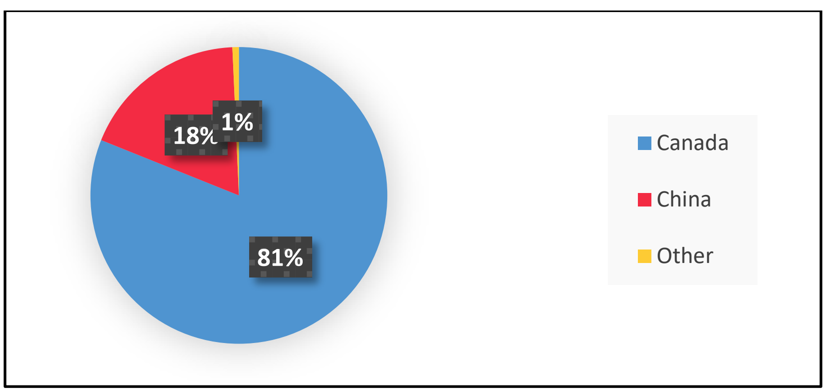
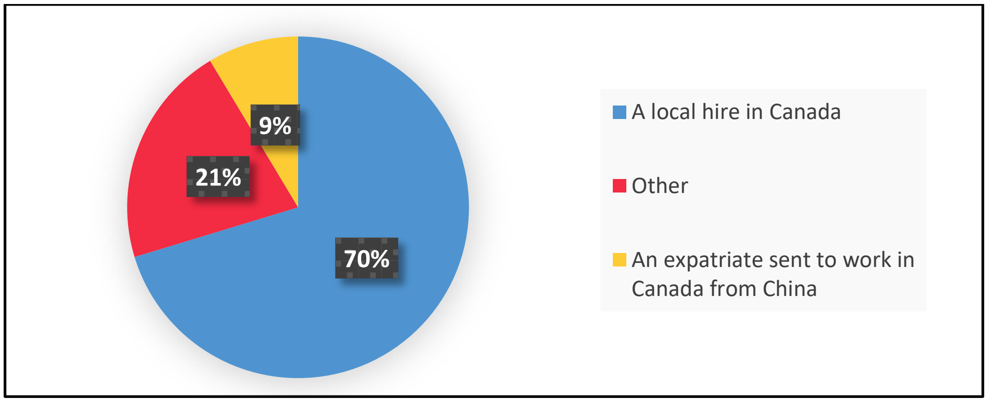


Figure - Q65 – Respondent – local hire or expatriate



Other:

- Owner of company offering service in the Real Estate market
- Canadian resident
- A Canadian who moved to work in China
- in the process of applying work permit in Canada
- Owner of WOFE
- Professor at UBC
- Immigrant
- Canadian entrepreneur
- CEO of own firm
- Local Business Partner in Canada
- A local sent to work in China 7 years
- A Canadian working in China and Hong Kong
- Owner
- An expatriate sent to work in China from Canada

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