



Canada-China Business Survey 2018/2019

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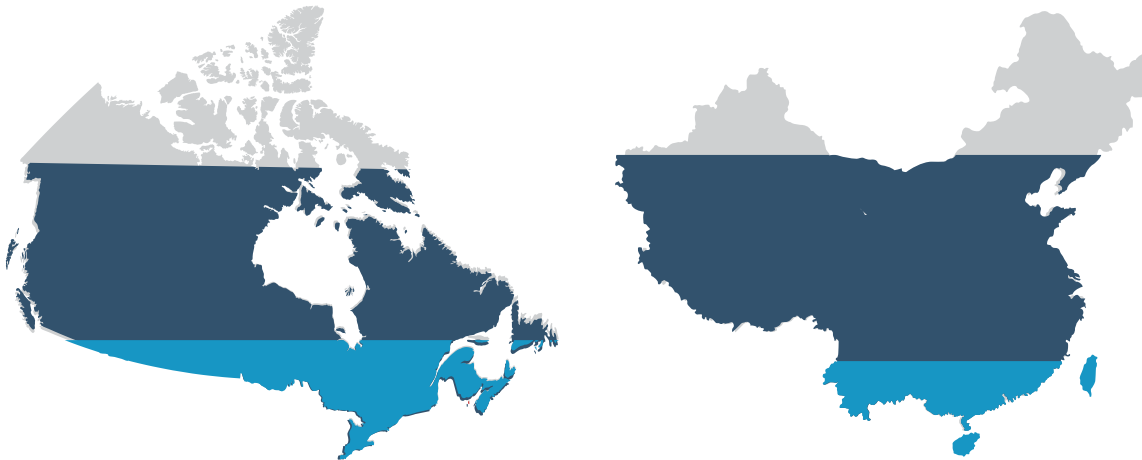
Executive Summary

Canada is a recognized and valued brand in China; Canadian products and services are well regarded for their quality; and Canadian organizations are doing business in and with China on a deeper and broader basis than ever before.

However, the tensions between the countries that emerged in late 2018 have impacted Canadian companies to varying degrees.

Our research shows that:

I.



Close to **20 per cent** of companies from both countries have been negatively impacted by the dispute; **52 per cent** have changed their business plans from slightly to significantly; and approximately **65 per cent** have experienced no change in their operations.

2.

Organizations do not want a dispute between the two governments to impact their operations. Based on the survey, CCBC concludes that it is imperative that both governments need to be more sensitive to the negative impact the dispute is having on businesses whose operations are unrelated to current political and legal issues.

3.

Despite concerns about the present situation, the survey reveals that companies are planning to either stay the course (15%) or expand their operations (65%) in the future.

4.

Despite different systems of government, both Canadian and Chinese companies doing bilateral business are similarly hindered by each other's government regulations, processes, procedures and laws.



The Canada China Business Council conducts a survey every two years to explore issues of relevance for Canadian companies conducting business in China and Chinese companies operating in Canada. The 2018/2019 survey strikingly found that despite the different political systems and government structures of the two countries, both Canadian and Chinese companies face very similar challenges and frustrations because of administration issues, red tape and different business cultures.

The survey shows that Canadian companies operating in China are profitable and are growing and planning to expand, despite the current political situation. Although Chinese companies with operations in Canada are not as profitable as those who responded two years ago, they are minimizing their losses and are similarly planning to expand. In essence, companies in both countries are optimistic about their long-term prospects.

Intellectual property (IP) protection, which has been a major focus of this longitudinal survey, moved higher on the list of challenges identified by companies compared to 2016. Having said this, only one-third of respondents answered questions about IP protection, suggesting the issue is not of significant importance to many companies. Similar to the results from 2016's survey, IP protection is challenging and takes effort, but companies are finding ways to manage this issue in China. Its return to the list of top five challenges simply underscores the importance of and vigilance required in protecting it well.

The major issues of this report are:

- Responding to challenges stemming from recent bilateral political and legal tensions: December 1, 2018, to March 1, 2019
- Barriers to doing business in China and Canada
- Leveraging Brand Canada and trends in profitability
- Addressing intellectual property rights
- Looking to the future

Note: Issues 2-5 represent business results from prior to the current trade dispute.



About the Respondents

Total number of surveys completed: 254 from companies, organizations, entrepreneurs, educational institutions, and government agencies. N = total number of respondents for a question.

Key Information about Respondents:

Canadian Companies	Chinese Companies
<ul style="list-style-type: none"> • 226 respondents* • Presently doing business in China or planning to start • Represent 20 sectors, with the top four being: <ul style="list-style-type: none"> o Finance and insurance (27) o Professional, scientific, and technical services (26) o Educational services (25) o Agri-foods (18) • Top business activities <ul style="list-style-type: none"> o 109 have operations in China o 58 export services to China o 51 export products to China o 34 import products from China o 14 have no business with China, but are interested in the market • Length of time conducting business in China <ul style="list-style-type: none"> o 60 companies – over 20 years o 40 companies – 11-20 years o 41 companies – 6-10 years o 40 companies – 2-5 years • Global gross revenue in 2017 (majority of respondents) <ul style="list-style-type: none"> o 40 –> \$1 billion o 27 – \$1 million – \$4.9 million o 35 –< \$1 million • Percentage of global gross revenue in 2017 attributable to business in China <ul style="list-style-type: none"> o 63 –< 10% o 37 – 11% – 25% o 23 –> 75% 	<ul style="list-style-type: none"> • 28 respondents • Top two categories of Chinese companies doing business in Canada and/or globally: <ul style="list-style-type: none"> o 11 privately owned o 8 state-owned • Represent 11 sectors dominated by: <ul style="list-style-type: none"> o Finance and insurance (7) o Natural resources (5) • Top business activities <ul style="list-style-type: none"> o 19 have operations in Canada o 11 have invested in a Canadian company • Length of time conducting business in Canada <ul style="list-style-type: none"> o 9 companies – 11-20 years o 6 companies – 6-10 years o 9 companies – 2-5 years • Parent company's global gross revenue in 2017 <ul style="list-style-type: none"> o 8 –> \$1 billion o 2 – \$500 million – \$999.9 million o 2 – \$100 million – \$249.9 million o 2 – \$10 million – \$49.9 million o 2 –< \$1 million • Canadian gross revenue in 2017 (or most recent business year) <ul style="list-style-type: none"> o 1 –> \$1 billion o 3 – \$100 million – \$249.9 million o 3 – \$1 million – \$4.9 million o 4 –< \$1 million

*These companies either identified as a Canadian company or responded to questions posed to Canadian companies.



Methodology

This survey was conducted in partnership with the Rotman Institute for International Business. It fielded from February 13 to March 15, 2019.

Survey design

The survey was designed to include the most relevant issues and areas of business for Canadian companies conducting business in or with China and for Chinese companies operating in Canada. We surveyed challenges related to the bilateral environment, profitability, financing, expansion into Canada / China, and intellectual property rights.

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 CCBC previous surveys. Therefore, a number of questions are related to profitability, expansion into China, and obstacles encountered by Canadian companies doing business in China and Chinese companies conducting business in or with Canada.

New in this survey are questions on the bilateral environment and Canada–China relations.

Data collection

The Canada China Business Council disseminated the survey through its membership and contacts, as well as numerous other channels.

From the 254 survey respondents, 220 identified themselves as Canadian companies, organizations, entrepreneurs, educational institutions, and government agencies doing business in or with China, or planning to start. Six more that identified as Other answered the questions posed to Canadian companies. Twenty-eight respondents are Chinese-owned companies, organizations, entrepreneurs, educational institutions doing business in Canada and/or globally.



Methodology continued

Data analysis and constraints of the study

The research team analyzed the responses to each question. For areas surveyed in previous studies (2012, 2014, 2016), a trend analysis was provided, and changes and similarities highlighted.

For questions where respondents can select several choices, the percentages are relative to the total number of options selected. For the questions asking the respondents to rate answers on a scale from 1 to 5, the weighted average is provided in the analysis.

The number of responses to certain questions limited the ability to make general conclusions. Chinese company responses, at 28, represent about 20% of companies registered in Canada with the China Council for the Promotion of International Trade. While Canadian responses (226) were roughly two-thirds of CCBC's membership size, some questions elicited very few responses.

Acknowledgments

The Canada China Business Council disseminated the survey through its membership and contacts, as well as through numerous other channels. Thanks to the organizations who helped us reach out to companies to participate in the survey, including Asia Pacific Foundation of Canada; Canada China Chamber of Commerce (Quebec); Canadian Chamber of Commerce in Shanghai; Canadian Chamber of Commerce in Hong Kong; Canadian Chinese Entrepreneurs Council; Export Development Canada; Export Quebec; Nova Scotia Business Inc.; the provinces of Alberta, British Columbia, Ontario, Newfoundland & Labrador, and Prince Edward Island; and Saskatchewan Trade and Export Partnership.

CCBC thanks the Asia Pacific Foundation of Canada for its support on the survey initiation and design.

CCBC appreciates partial funding support from the Government of Canada's Global Opportunities for Associations (GOA).



3. A look at Canadian companies operating in China

This section presents the survey results on company profile, profitability, intellectual property rights (IPR), financing, expanding into China, setting up business in China, and awareness of the Belt and Road Initiative. This section also highlights the main obstacles Canadian companies encounter when doing business in or with China. The analysis compares the obstacles faced by Canadian companies conducting business in China with those encountered by German and US businesses in China.

Section 1: Company profile

From the 254 survey respondents, 220 identified as Canadian companies, organizations, entrepreneurs, educational institutions and government agencies doing or planning to do business in or with China. Six more who identified as “Other” answered the questions posed to Canadian companies.

This section provides details on respondent companies’ current activities in China, sector, revenue and years of conducting business in or with China.

The Canadian companies who participated in the survey conduct business in the 20 sectors identified in Figure Q10, as well as several additional areas such as language translation software and entertainment. The most represented sectors are professional, scientific and technical services (15.4%), the finance and insurance industry (14.9%) and educational services (12.4%). In the 2016 Canada China Business Survey, the top three sectors represented were professional services, finance, and information and communication technology.

The majority of Canadian companies surveyed have operations in China (e.g., a representative office, plant, factory, subsidiary, sales office or branch office), while 7% do not conduct business with China but are interested in entering the market. Companies exporting services to China represent 29% of the respondents and companies exporting products account for 25% of the total survey sample.

Companies that have conducted business in or with China for more than 10 years account for 54% of the respondents. The majority of companies conducting business in or with China for 11 to 20 years have operations in China. The next largest groups are the exporters of services and products.

Seventy-three per cent of the companies operating in China or doing business with China for more than 20 years reported revenue of over C\$10 billion.

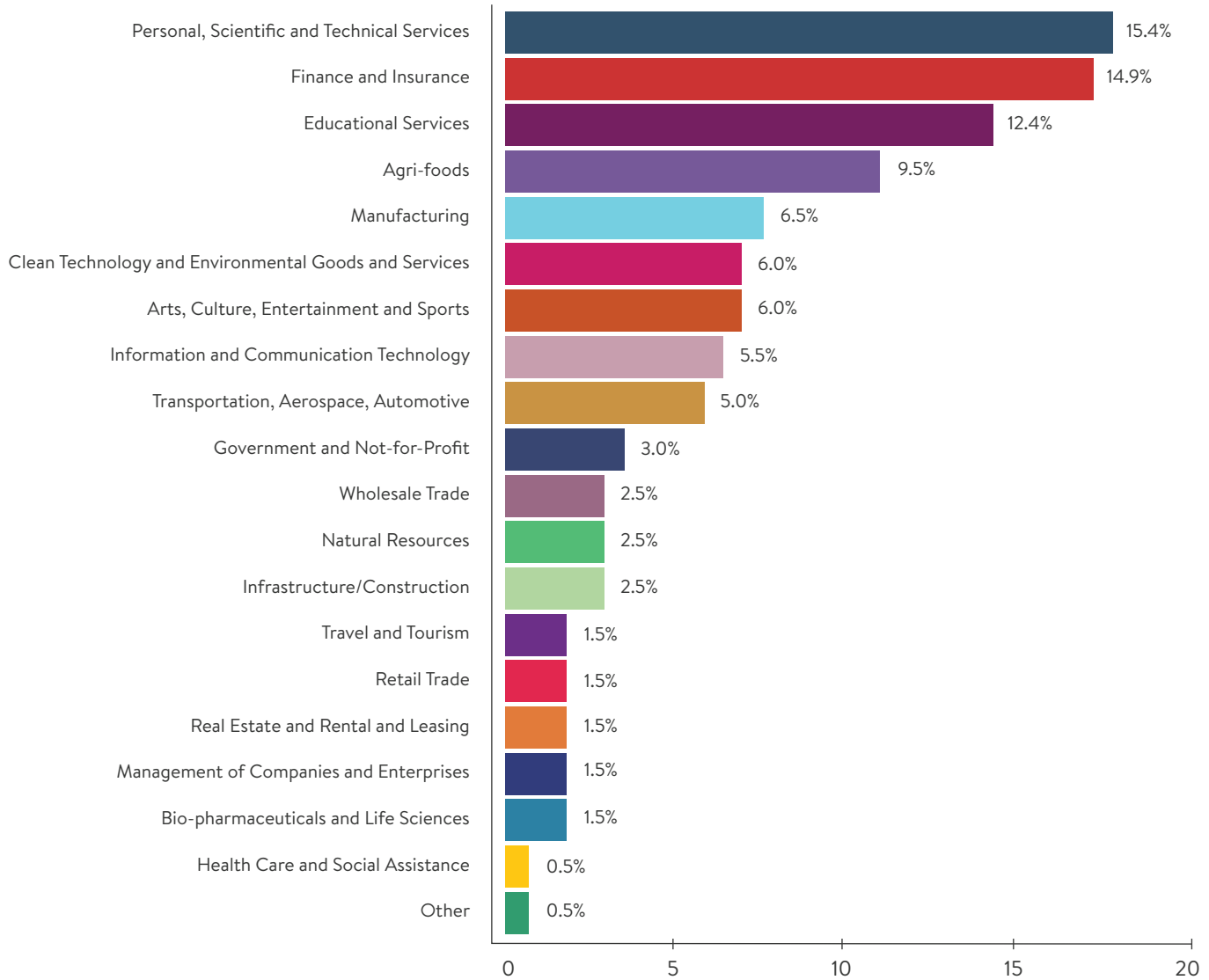
In terms of global revenue, 20% of respondents reported company revenue of over C\$1 billion and over half of these operate in the finance and insurance sector. The second-largest group of respondents reported revenue of less than C\$1 million, with agri-food and professional services being the top sectors represented.

The following figures provide additional details for each area surveyed.



Figure 1 Q10 Distribution of respondents by sector

Which one of the following best reflects your company's sector? (N=201)

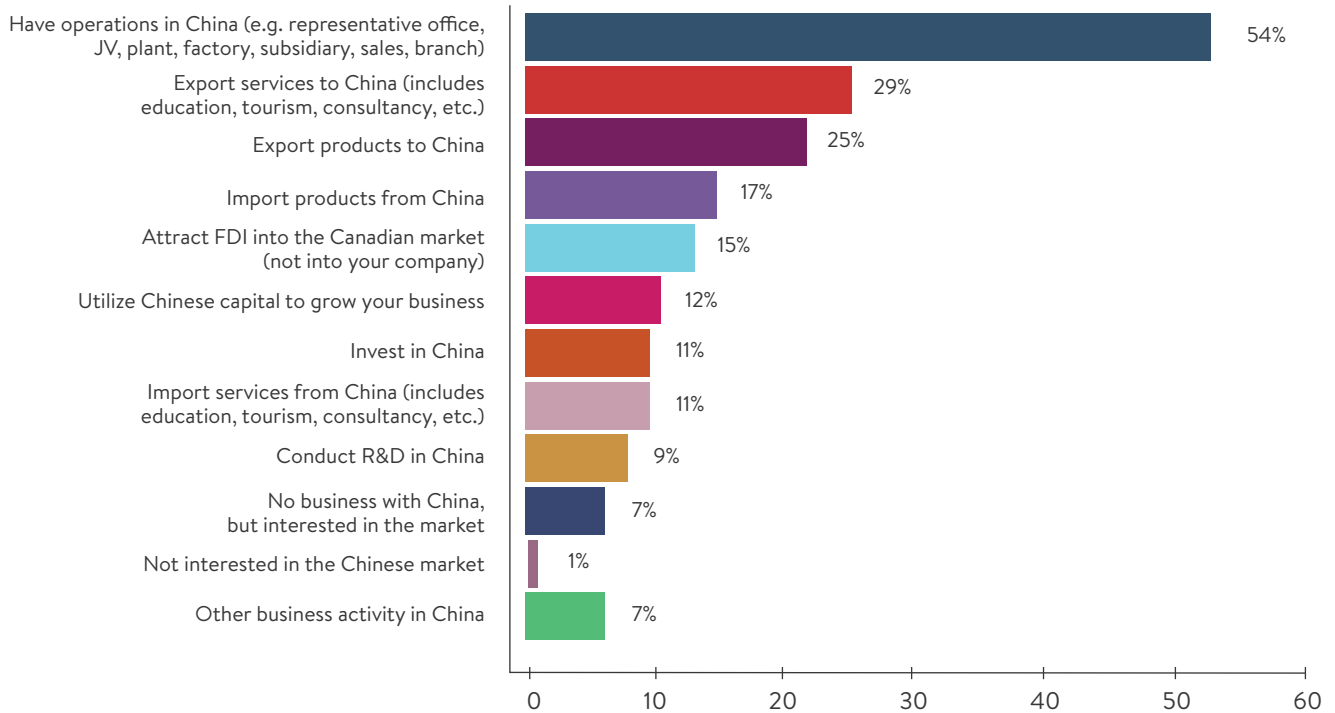


Note: Professional services include engineering, business, project, accounting, legal, logistics, natural resources include forestry, metals & metallurgy, mining, oil & gas.



Figure 2 Q12 Current activity in China

Which of the following describes your company's current business activity with China? (N=201)



Other activities include:

- Professional services
- Business with Chinese-owned companies registered outside of China
- Licensing cultural and educational content
- Cultural relationships and exchanges
- Presenting and promoting shows and events
- Conducting FDI activities with Chinese technology companies
- Contract manufacturing
- Exhibitions in China to promote Quebec
- Recruiting students in China to study at Canadian high schools
- Helping business with brand strategy (such as foreign companies coming in and Chinese companies going abroad)
- Representing Chinese companies (private and SOE) investing in Canada

Figure 3 Q13 Years of conducting business in/with China

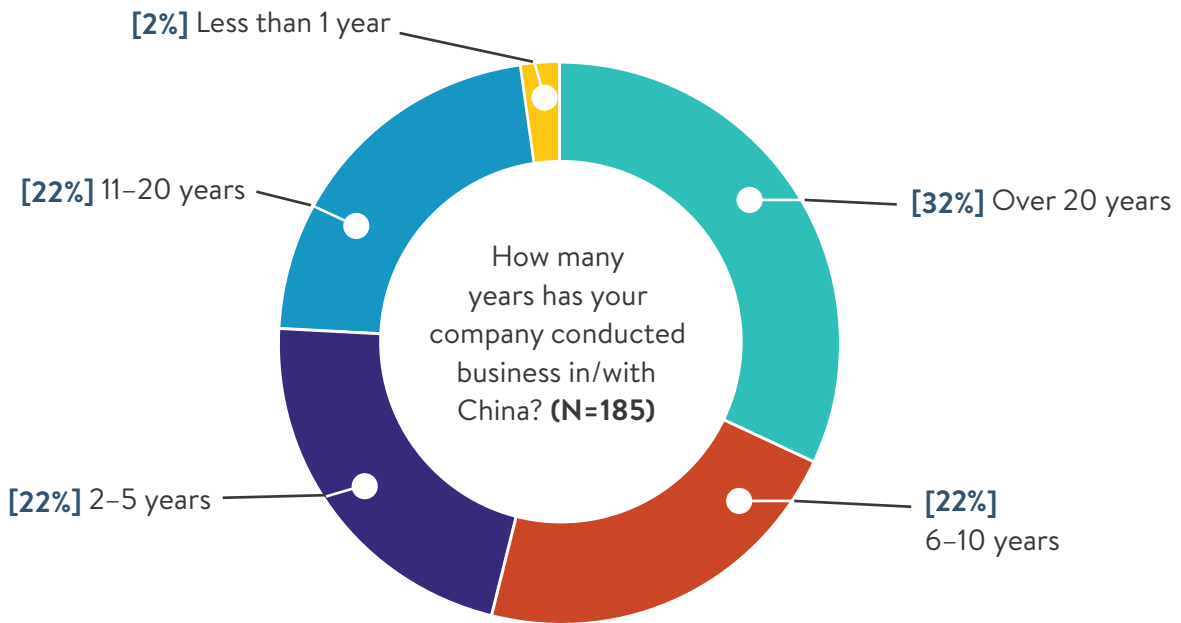


Figure 4 Q11 Global revenue in 2017

What is the range of your company's global gross revenue in 2017, or the most recent business year for which you have an end-of-year financial statement? (In \$CAD) (N=201)

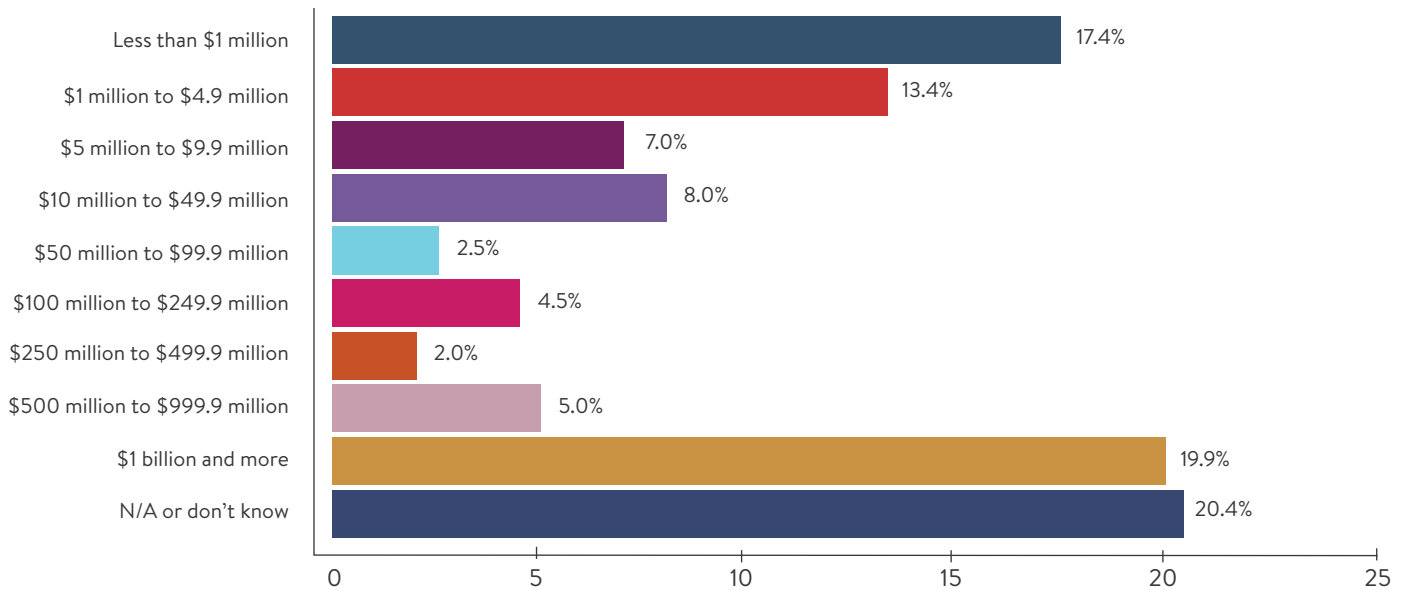
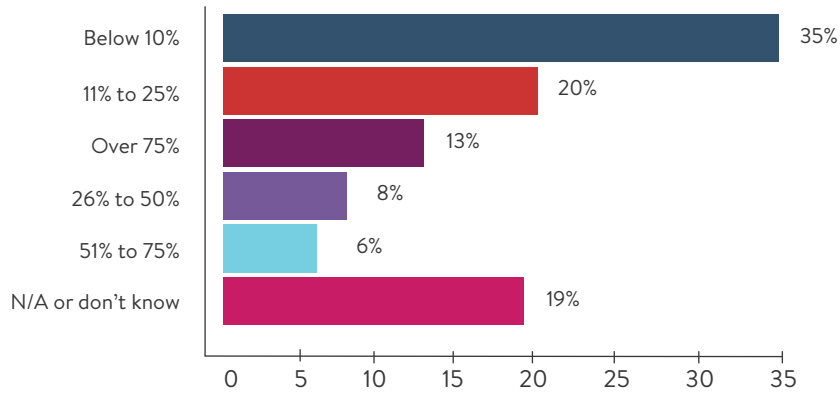


Figure 5 Q15 China business revenue as percentage of company's global revenue in 2017
What percentage of your company's global gross revenue in 2017 (or your most recent business year) was attributable to your China business? (N=182)



Section 2: The impact of the bilateral environment

This section presents the challenges faced due to changes in the bilateral environment since December 1, 2018.

Although the majority of the companies surveyed did not have contracts cancelled or postponed, 18% experienced cancellations. In regards to change in demand for goods and services, 58% did not experience a change, while 20% saw a decrease in demand.

Close to half of the respondents are not concerned about travelling to China, while more than a third cancelled their travel plans. Only 11% of respondents made significant changes in their business plans due to the current bilateral situation, while 42% made moderate or slight changes. Only 19% of respondents were pessimistic regarding their organization’s future business plans with China.

The following figures provide additional details for each area surveyed.

Figure 6 Q2 Contracts or investment deals cancelled or postponed

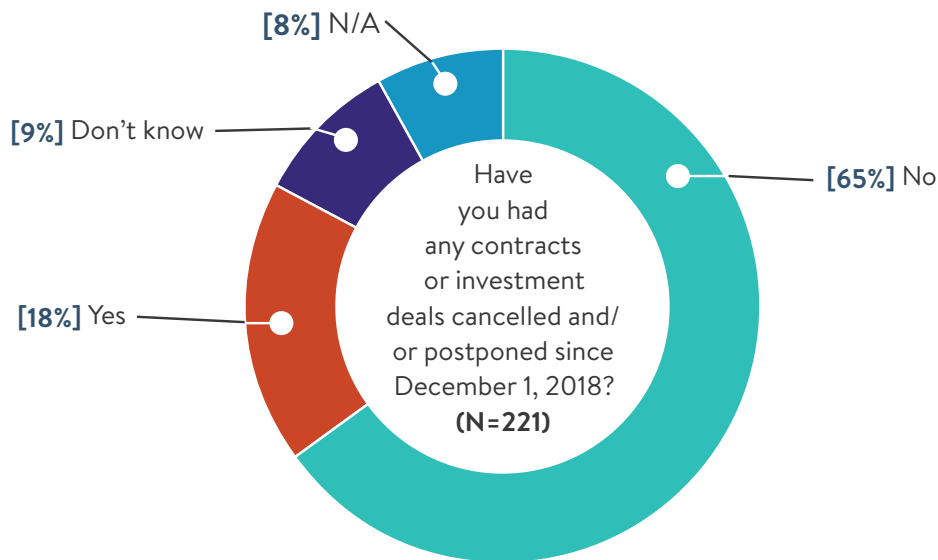


Figure 7 Q3 Changes in Chinese demand for goods or services

How has Chinese demand for your goods or services changed since December 1, 2018?
(N=217)

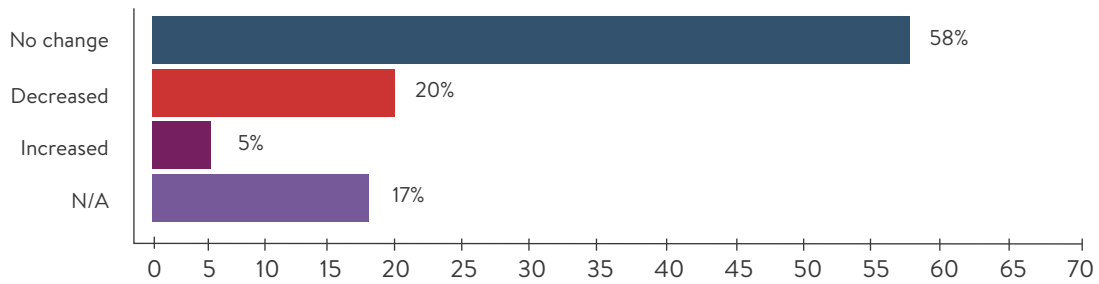


Figure 8 Q4 Concerns regarding travel between Canada and China

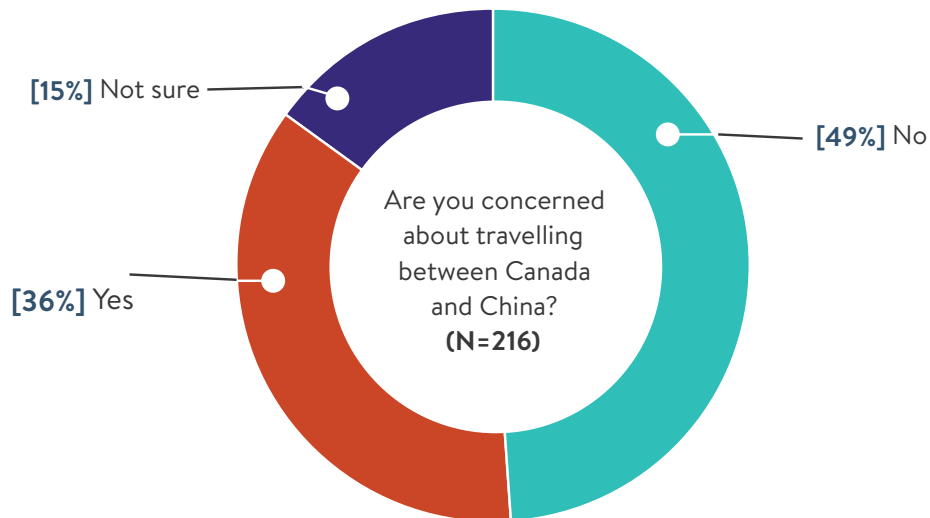
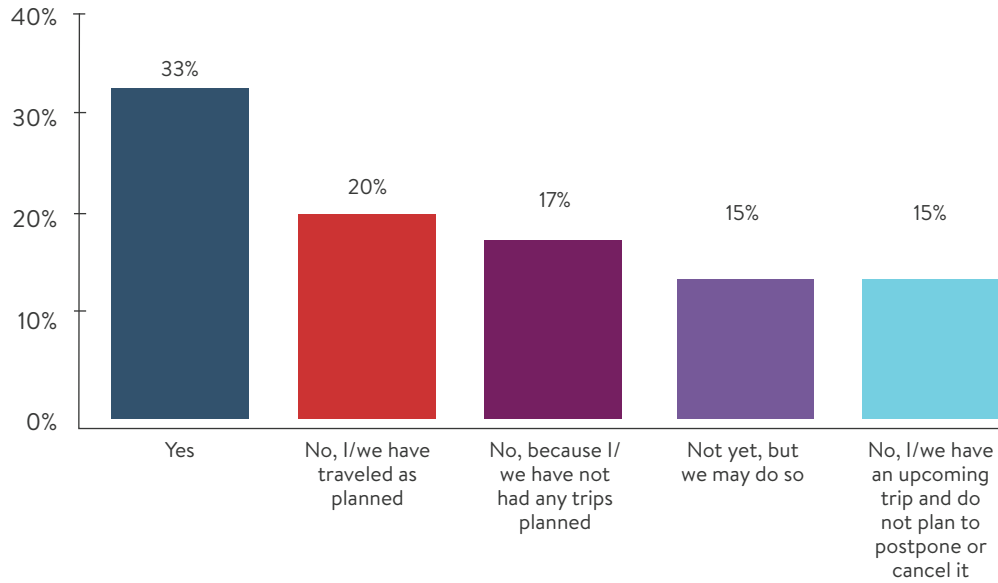


Figure 9 Q5 Trips cancelled or postponed

Has your organization postponed or cancelled any trips as a result of the situation? (N=213)



Close to 15% of respondents stated that meetings planned to be held in Canada or China have been moved to other locations. Meetings were moved to Hong Kong, Japan, Mexico, Singapore, South Korea, Taiwan, Thailand or Vietnam.

Figure 10 Q7 Changes in business plans

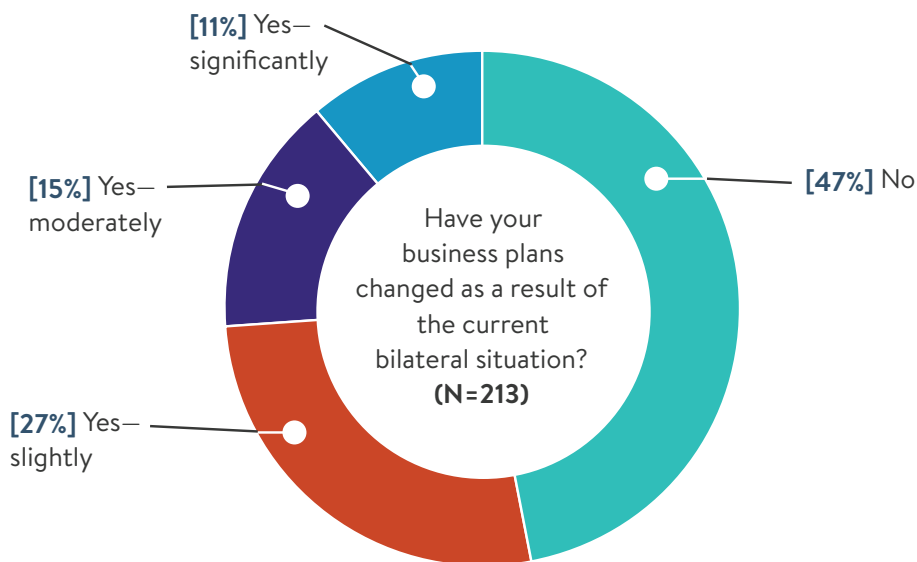
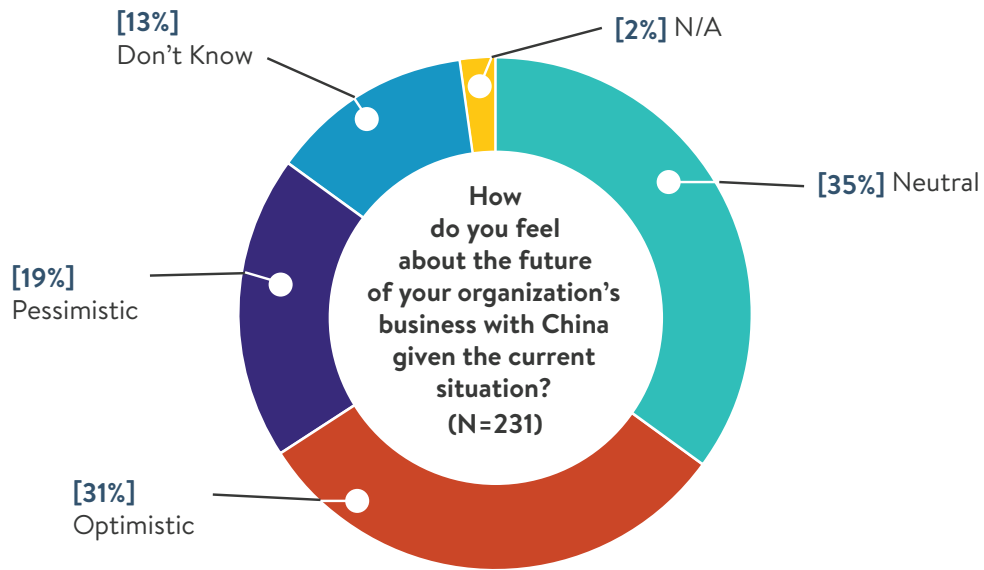


Figure 11 Q8 The future of the organization's business with China



Section 3: Profitability and the importance of the Canada brand, as well as the role of China in Canadian companies' strategic plans

This section presents the results of the survey on financial performance in China, changes in profitability and the importance of the “Canadian company” brand in developing business in China. This section also discusses the role of China in companies' strategic plans.

Sixty-four per cent of the respondents indicated that 2017 was a very profitable or profitable year and 11% reported losses. The 2% of respondents (three in total) who reported large losses operate in arts and entertainment, agri-foods, and information and communication technology. Two of these three companies indicated that business in China represents less than 10% of their revenue.

In the previous 2016 survey, only 58% of the respondents indicated that 2015 was a very profitable or a profitable year, and the percentage of companies reporting losses was higher, at 15%.

One-third of companies reported increased profitability in 2017 (with most of these companies operating in the finance and insurance, professional services or transportation sectors). Profitability was unchanged for 40%

of the companies and it decreased for 14% of respondents.

In the 2016 survey, a higher percentage of respondents reported an increase in profitability (38%) in 2015 compared to the previous years, while profitability remained unchanged for 32%. In 2015, profitability decreased for 16% of the respondents.

Sixty-two per cent of the respondents indicated the Canadian brand plays a very major or major role in the company's business development with China, compared to 60% in the 2016 survey.

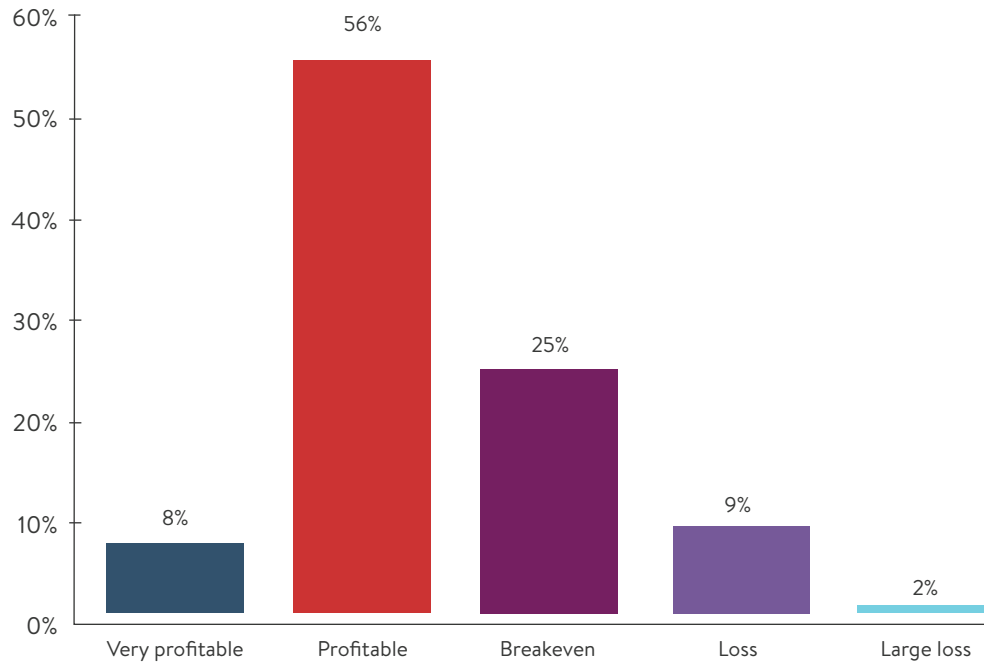
Over half of the respondents indicated that China is among their company's top five strategic priorities. The majority of the respondents in this group have operations in China and have conducted business in or with China for over six years, with most of them doing business with China for more than 20 years.

The following figures provide additional details for each area surveyed.



Figure 12 Q16 Financial performance in/with China in 2017 compared to the previous years

How would you characterize your company's financial performance in/with China in 2017 (or your most recent business year)? (N=169)



The results are comparable with those of the American Chamber of Commerce in the People's Republic of China "2019 China Business Climate Survey" report. Sixty-two percent of American companies in China reported an increase in revenue in 2018, while 12% reported a decline. The 2018/2019 survey conducted by the European Union Chamber of Commerce in China found that 66% of the respondents registered a profit in 2017.



The figure below shows the percentage of respondents who reported a profit in 2017 and the number of years they have conducted business in China.

Figure 13 Profitability by time in China

Profitability of Canadian companies by time in China

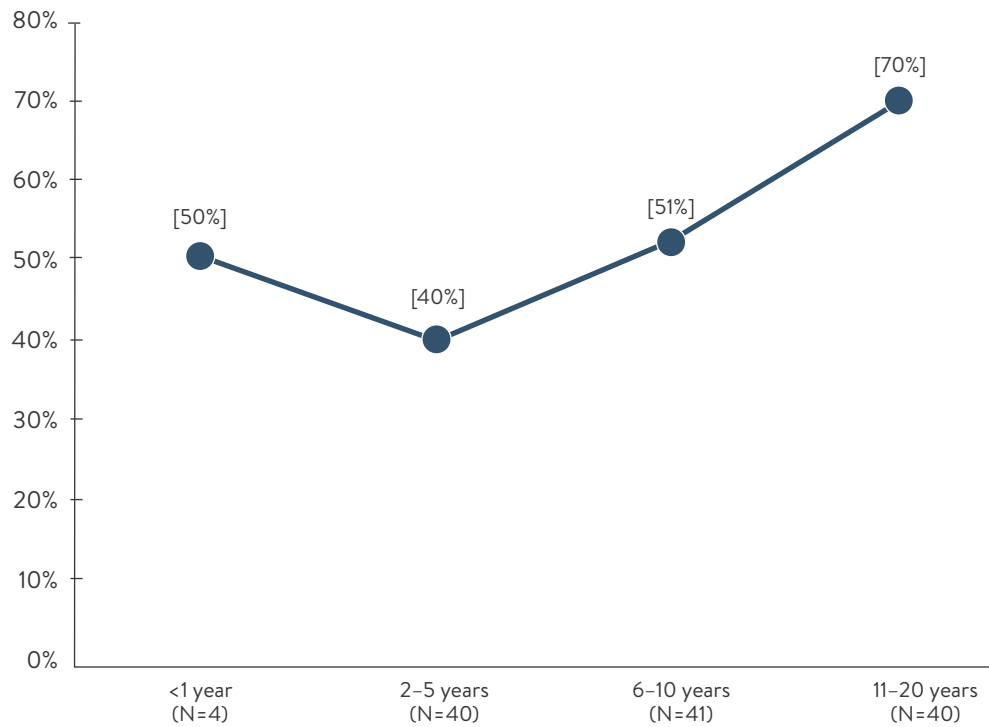


Figure 14 Q16 Financial performance of Canadian SMEs in/with China in 2017 compared to previous years

SMEs Profitability—How would you characterize your company’s financial performance in/with China in 2017 (or your most recent business year)? (N=81)

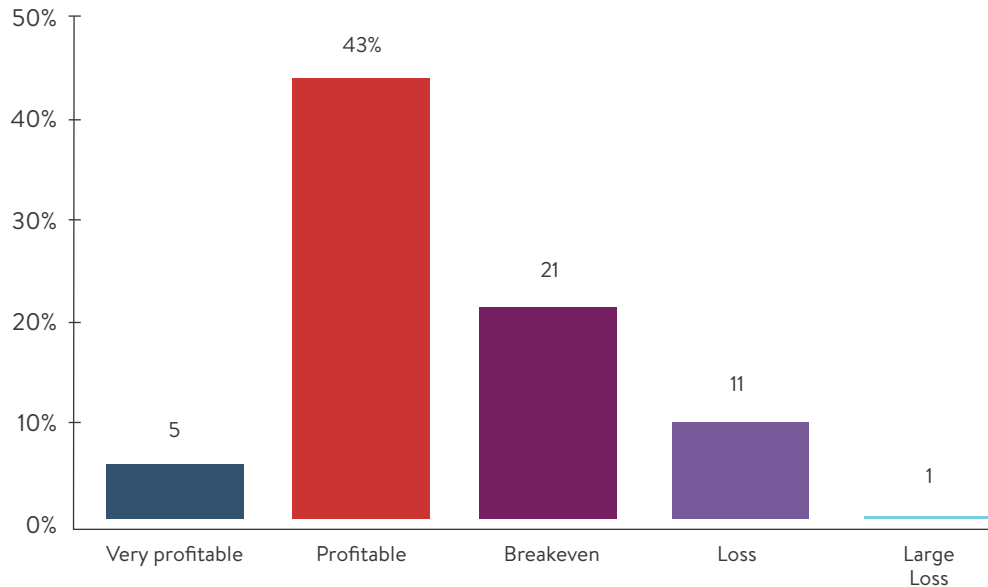


Figure 14 Q17 Profitability changes for the company’s business in China in 2017 compared to the previous years

How did your company’s profitability in China in 2017 (or your most recent business year) compare to the previous years? (N=175)

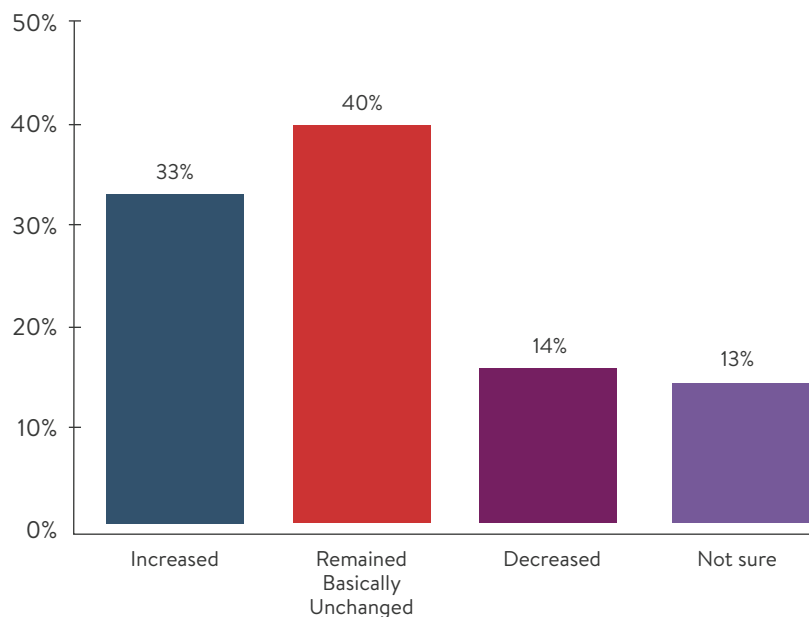


Figure 15 Q18 The importance of the Canadian brand when doing business in China

What role, if any, does the branding of being a “Canadian company” play in your business development in China? (N=182)

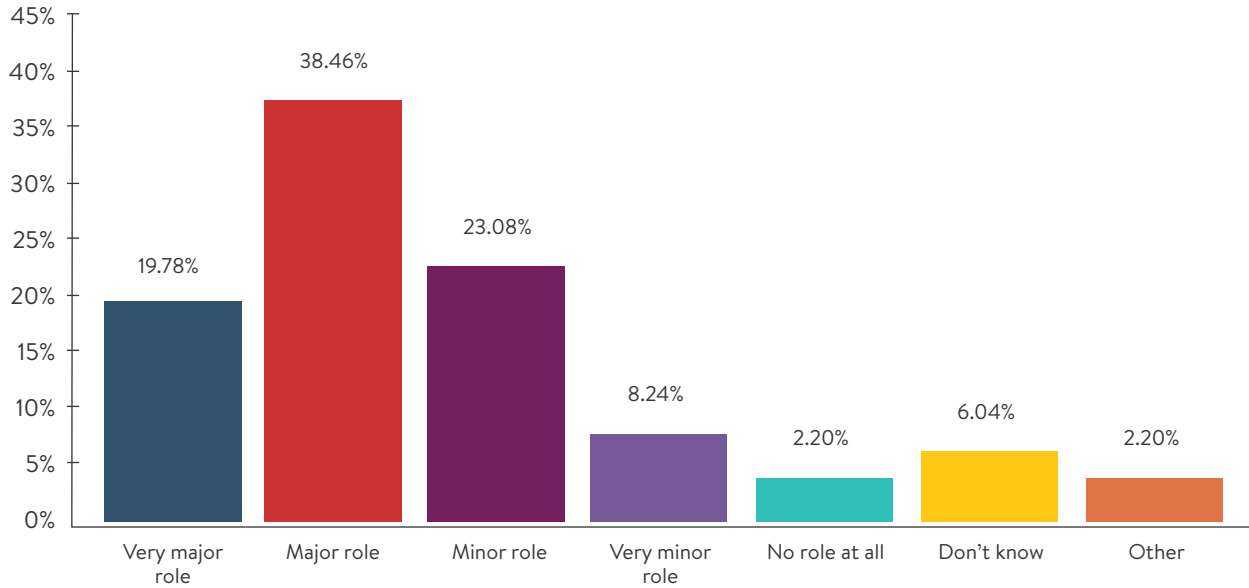
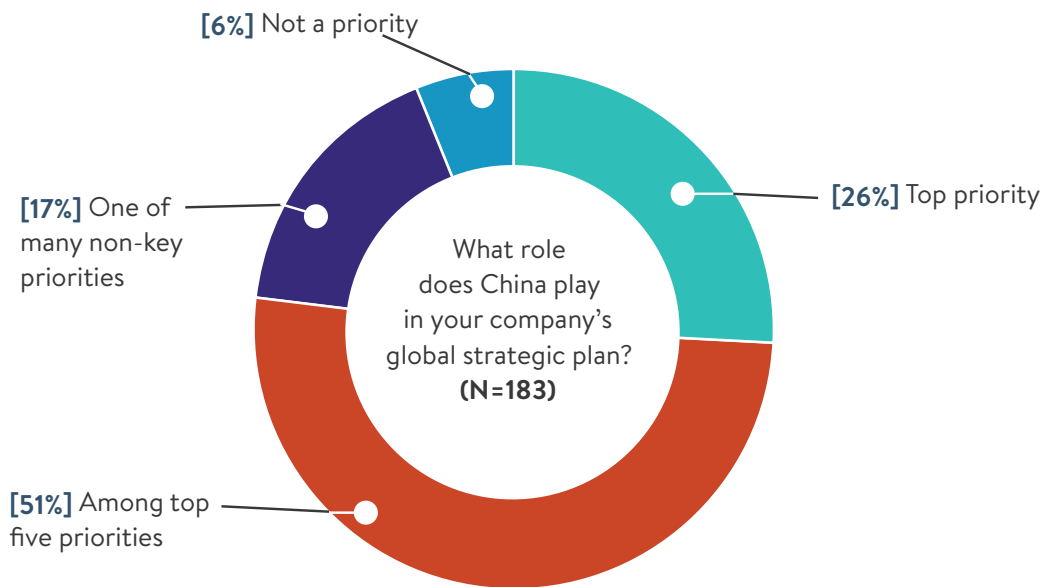


Figure 17 Q14 The role of China in the company’s global strategic plan



Section 4: Intellectual property concerns

Survey participants were asked about the importance of intellectual property right (IPR) protection and enforcement, the sources of IPR infringements and the severity of the impact of IPR infringement on their business. Results were compared with those of the 2016 and 2014 surveys.

Seventy-four respondents provided input on IPR, with 50% of them saying that IPR protection and enforcement is very important or important to their business. The 2016 survey revealed the same results, with half of respondents stating that IPR protection was very important or important.

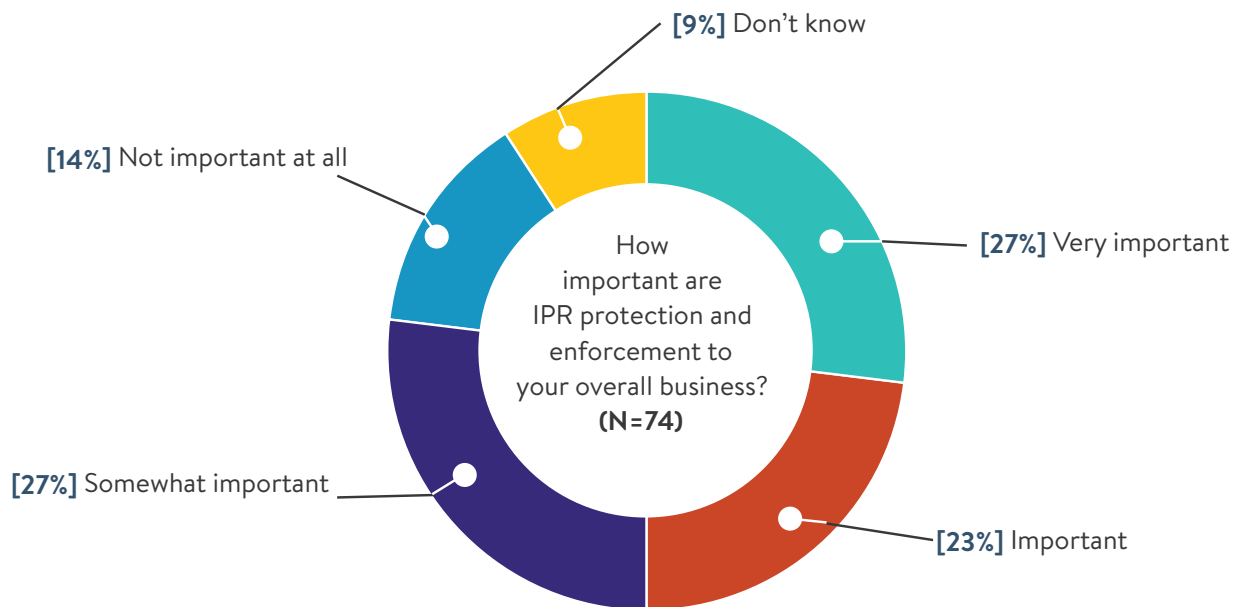
Only five companies reported IPR infringement, with the main source being Chinese competitors (private or non-state-owned), followed by suppliers and Chinese competitors (SOEs).

The percentage of respondents who experienced serious impact from actual or potential infringements increased in 2018 to 43%, compared to 35% in 2016.

For 30% of respondents, the level of IPR enforcement does not affect the type of activities the company undertakes in China. However, 66% experience limitations related to the type of products they are willing to manufacture, co-manufacture or license in China, or the type of products they are willing to sell in China. For 20% of the respondents, this limits the company's R&D activities in China.

The following figures provide additional details for each area surveyed.

Figure 18 Q25 The importance of IPR protection and enforcement to the company's overall business



The table below shows that two of the top three sources of IPR infringements in 2018 are the same as those identified in the 2016 survey.

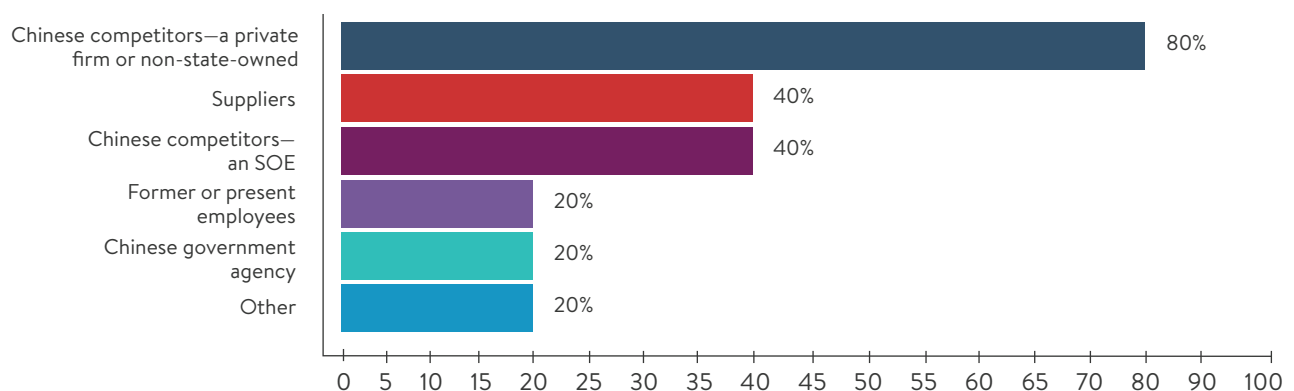
Table 1 Top three sources of IPR infringement in 2016 and 2018

2016	2017
Chinese competitors—private or non-state-owned	Chinese competitors – private or non-state-owned
Former or present employees	Suppliers
Chinese competitors—SOEs	Chinese competitors—SOEs

Five respondents encountered IPR infringements, with the sources of these infringements shown in the figure below.

Figure 19 Q27 Sources of IPR infringement

Please specify the source(s) of the infringement. (N=5)



Another source of IPR infringements are Chinese SOE clients.

Figure 20 Q28 The impact of actual or potential IPR infringements

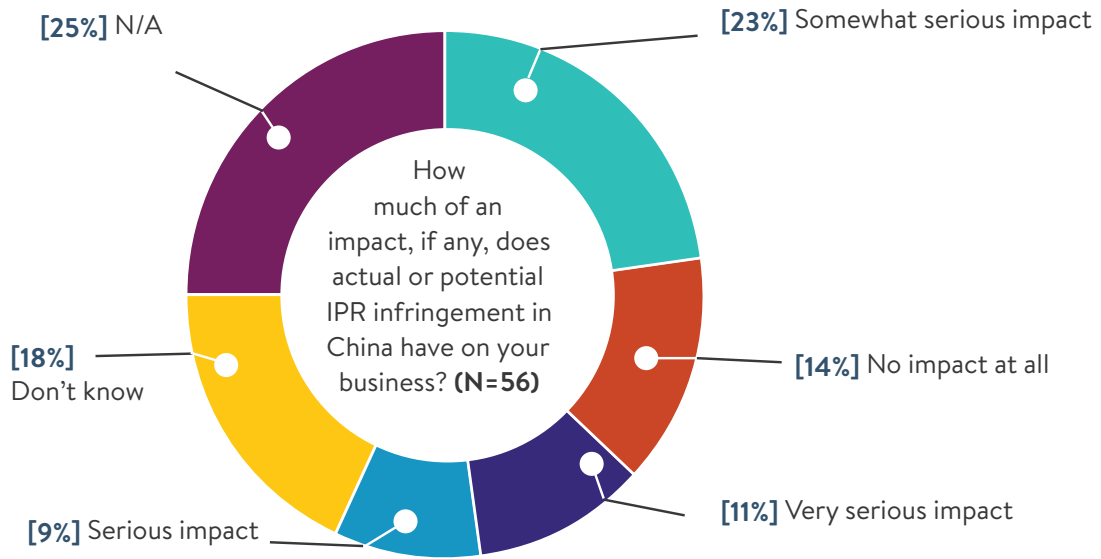


Figure 21: Changes in impact on the business of actual or potential IPR infringements in China
Serious impact of actual or potential IPR infringement in China on the company

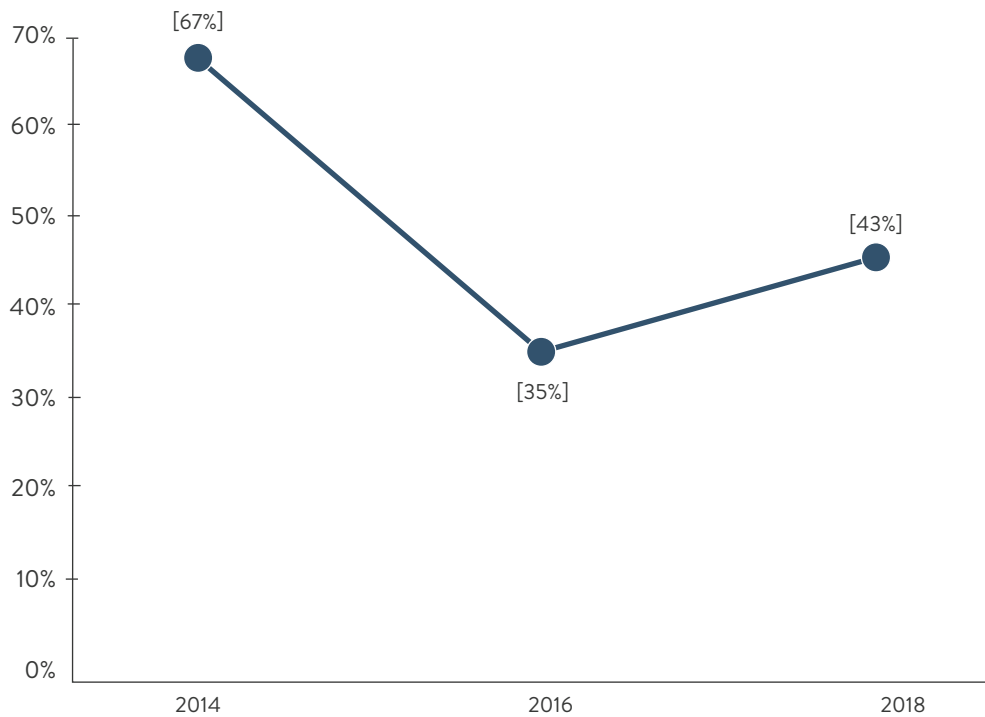
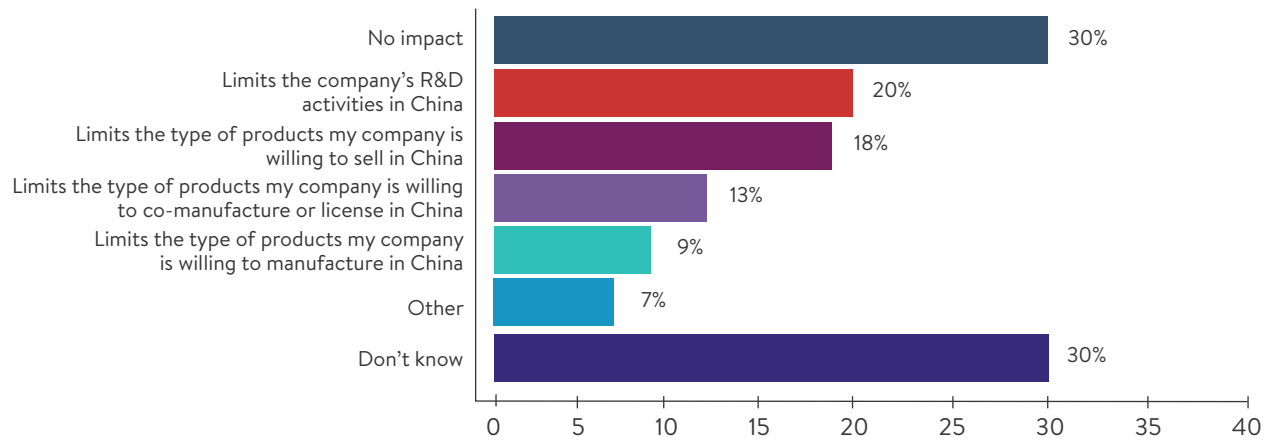


Figure 22 Q29 Level of IPR enforcement impact on the type of activities undertaken in China
How does the level of IPR enforcement affect the type of activities that your company undertakes in China? (N=56)



Section 5: Obstacles to doing business, and financing and expansion plans

This section presents the survey results on the obstacles Canadian companies face in doing business in or with China. It also explores financial constraints, the main financing options used by survey respondents, and respondents' plans for expansion in China.

The top obstacles to doing business in China are the inconsistent interpretation of regulations and laws in the country, followed by the challenges of gaining business licenses, getting approvals to expand operations, securing product approvals, and the restrictions for entities in China to make offshore payments.

For 32% of the respondents, financial constraints present a challenge to their business operations in China. These respondents have operations in China or export services to China.

The top financing constraint companies experience with regard to their China business are the foreign exchange controls on investment funds coming to Canada from China (61%). The same constraint was identified in the 2016 survey as the top barrier to financing. Other major constraints are access to working capital when needed (39%) and access to international banking (30%).

For 45% of respondents, the primary financing option is the company's own funds, followed by financing through Export Development Canada programs or trade finance from a bank in Canada.

Half of the respondents who are not yet conducting business in or with China, plan to substantially develop their business the country over the next five years, while 43% plan to develop it slightly. The top three approaches that companies plan to use include exporting products and services (69%) and seeking suppliers and joint venture partners (38% each).

The companies who already conduct business in or with China or are interested in developing their business in China shared the method(s) they have used or would use to set up or expand their business. The most common strategies are joint ventures with Chinese partners (42%), followed by setting up a representative office (over 25%), and establishing a wholly foreign owned enterprise (close to 25%).

Over 33% of the companies who are conducting business in China plan to substantially expand their business in China in the next five years, and 31% plan to expand it slightly. Most of the companies who plan to expand substantially operate in the agri-foods sector and most reported revenue of C\$1 million to C\$4.9 million, followed by respondents in the professional, scientific and technical services sector with revenues over C\$500 million. The companies who plan to expand slightly tend to operate in the finance, education services, professional services, and transportation sectors. Over half of the respondents plan a business expansion in China by exporting products and services and 26% plan to invest in additional projects.



Respondents were asked to rate 20 obstacles faced by Canadian companies interested in doing business in or with China. The obstacles

were rated on a five-point scale where one means it is only a minor barrier and five means it is a major barrier.

Table 2 Obstacles faced by Canadian companies doing business in/with China

Obstacle	Rating
Inconsistent interpretation of regulations / laws in China / lack of transparency	2.81
Challenges in gaining business licenses, approvals to expand operations, product approvals	2.77
Restrictions for entities in China to make offshore payments	2.71
Intellectual property protection and enforcement in China	2.70
Differences in business culture	2.69
Difficulty finding the right Chinese partner	2.69
Intensive competition	2.67
Restrictions on currency conversion	2.66
Domestic regulations at the central Chinese government level	2.59
Rising costs for your company's operations in China	2.52
Lengthy and complicated certification	2.50
Intellectual property—forced IP or technology transfer to a Chinese partner in order to operate in the market	2.49
Domestic regulations at the local Chinese government level	2.48



Weak dispute settlement mechanism	2.35
China's air and environmental pollution	2.33
Chinese customs procedures	2.32
Limitations to market access due to national security concerns	2.26
Restrictions on foreign investment in your sector in China	2.17
Inadequate financing	2.10
Chinese tariffs on your product	2.08
Labour laws and practices in China	2.02
Technical barriers to trade with China	2.02
Lack of access to Chinese government procurement contracts	2.01
Discriminatory innovation promotion policies	1.98
Marketing to Chinese consumer preferences	1.98
Local content requirements in China	1.96
Mobility of Chinese business travellers to Canada (Visas, work permits, etc.)	1.93
Mobility of Canadian business travellers in China (Visas, work permits, etc.)	1.91
China's anti-dumping provisions	1.78
Chinese labelling requirements	1.77
China's sanitary/phytosanitary and health-related rules	1.75



The table below shows the top three obstacles for the current survey in comparison with the CCBC surveys conducted in 2014 and 2016.

Table 3 Top five obstacles to doing business in China in 2014, 2016 and 2018

2014	2016	2018
<ul style="list-style-type: none"> • Inconsistent interpretation of regulations/laws in China 	<ul style="list-style-type: none"> • Lengthy and complicated certification 	<ul style="list-style-type: none"> • Inconsistent interpretation of regulations/laws in China/ lack of transparency
<ul style="list-style-type: none"> • Weak dispute settlement mechanism (inefficient legal system) 	<ul style="list-style-type: none"> • Local content requirements in China 	<ul style="list-style-type: none"> • Challenges in gaining business licenses, approvals to expand operations, product approvals
<ul style="list-style-type: none"> • Lengthy and complicated certification 	<ul style="list-style-type: none"> • Chinese customs procedures 	<ul style="list-style-type: none"> • Restrictions for entities in China to make offshore payments
<ul style="list-style-type: none"> • Intellectual property rules and practices in China 	<ul style="list-style-type: none"> • Chinese labelling requirements 	<ul style="list-style-type: none"> • Intellectual property protection and enforcement in China
<ul style="list-style-type: none"> • Restrictions on currency conversion 	<ul style="list-style-type: none"> • China’s air and environmental pollution 	<ul style="list-style-type: none"> • Differences in business culture

According to the “2019 China Business Climate Survey” report of the American Chamber of Commerce in the People’s Republic of China, the top obstacle faced by US companies doing business in China is the inconsistent interpretation of regulations and laws. This is the same top obstacle cited by Canadian companies in our survey. For German companies conducting business in China, the major barrier is finding and retaining qualified staff, according to the “German

Business in China—Business Confidence Survey 2018/2019” report of the German Chamber of Commerce in China.

The surveyed US and German companies are also facing challenges due to increasing labour costs in China, while for Canadian companies, gaining business licenses, getting approvals to expand operations, and receiving product approvals constitute some of the major obstacles to doing business in China.

Table 4 Top five obstacles to doing business in China in 2018 for Canadian, German and US companies

Canada	Germany	US
<ul style="list-style-type: none"> • Inconsistent interpretation of regulations/laws in China/lack of transparency 	<ul style="list-style-type: none"> • Finding and retaining qualified staff 	<ul style="list-style-type: none"> • Inconsistent regulatory interpretation and unclear laws & enforcement
<ul style="list-style-type: none"> • Challenges in gaining business licenses, approvals to expand operations, product approvals 	<ul style="list-style-type: none"> • Changes of economic situation in China / economic slowdown & Increasing labour costs—both as important 	<ul style="list-style-type: none"> • Rising labor costs
<ul style="list-style-type: none"> • Restrictions for entities in China to make offshore payments 	<ul style="list-style-type: none"> • Competition from non-compliant competitors 	<ul style="list-style-type: none"> • Rising tensions in US-China relations
<ul style="list-style-type: none"> • Intellectual property protection and enforcement in China 	<ul style="list-style-type: none"> • Competition from Chinese privately-owned enterprises 	<ul style="list-style-type: none"> • Increased competition from privately owned Chinese companies
<ul style="list-style-type: none"> • Differences in business culture 	<ul style="list-style-type: none"> • Increasing commodity and energy prices 	<ul style="list-style-type: none"> • Shortage of qualified employees

The obstacles specific to small and medium enterprises when doing business in or with China are listed in table below.

These businesses face specific challenges that are different from the overall survey results.

Table 5 Obstacles faced by Canadian small and medium enterprises doing business in/with China (N=117)

Obstacle	Rating
Challenges in gaining business licenses, approvals to expand operations, product approvals	2.96
Intellectual property protection and enforcement in China	2.93
Restrictions for entities in China to make offshore payments	2.71
Difficulty finding the right Chinese partner	2.81
Inconsistent interpretation of regulations / laws in China / lack of transparency	2.78
Intellectual property—forced IP or technology transfer to a Chinese partner in order to operate in the market	2.76
Lengthy and complicated certification	2.72
Intensive competition	2.70
Domestic regulations at the central Chinese government level	2.63
Restrictions for entities in China to make offshore payments	2.62
Rising costs for your company's operations in China	2.61
Restrictions on currency conversion	2.59
Chinese customs procedures	2.56
Differences in business culture	2.55
Domestic regulations at the local Chinese government level	2.52
Limitations to market access due to national security concerns	2.42
Inadequate financing	2.34
Lack of access to Chinese government procurement contracts	2.32
China's air and environmental pollution	2.26
Weak dispute settlement mechanism	2.24
Chinese tariffs on your product	2.21
Technical barriers to trade with China	2.12
Marketing to Chinese consumer preferences	2.09
Discriminatory innovation promotion policies	2.07
Local content requirements in China	2.03
Mobility of Chinese business travellers to Canada (Visas, work permits etc.)	1.99
Labour laws and practices in China	1.97
Restrictions on foreign investment in your sector in China	1.95
Mobility of Canadian business travellers in China (Visas, work permits etc.)	1.93
Chinese labelling requirements	1.92
China's anti-dumping provisions	1.87
China's sanitary/phytosanitary and health-related rules	1.78



Figure 23 Q30 The challenge of financing constraints

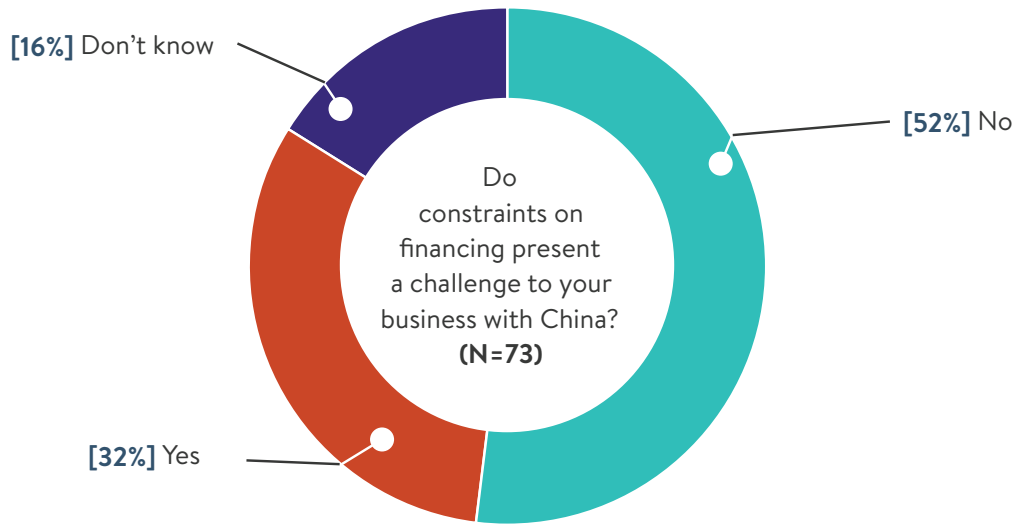


Figure 24 Q31 Financing constraints for the company's business in China

Which of the following financing constraints does your company experience with regard to your China business? (N=23)

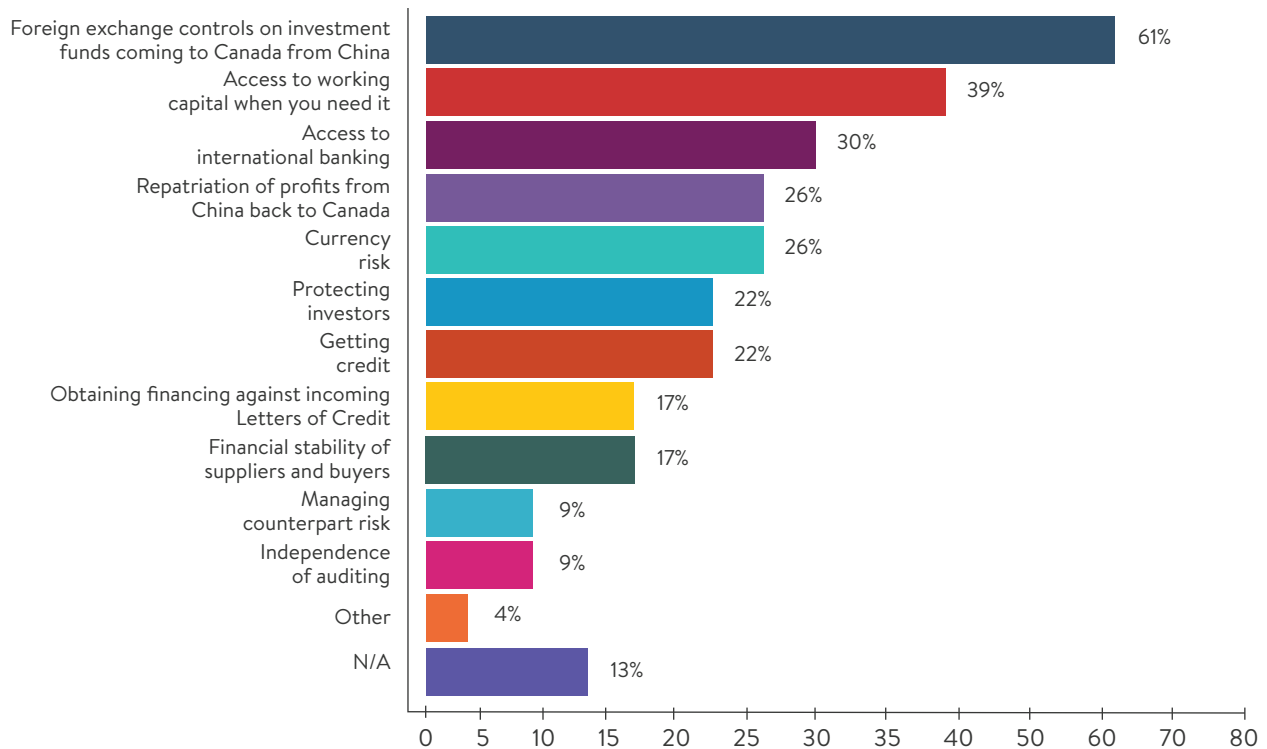


Table 6 Top five financing constraints for Canadian companies in China in 2016 and 2018

2016	2018
• Foreign exchange controls on investment funds coming to Canada from China.	• Foreign exchange controls on investment funds coming to Canada from China
• Repatriation of profits from China back to Canada	• Access to working capital when you need it
• Getting credit	• Access to international banking
• Value of Chinese Currency	• Currency risk
• Access to international banking	• Repatriation of profits from China back to Canada

Figure 25 Q32 Financing options for the company's business in China

What are the top three financing options your firm is using/planning to use for your China business? (N=22)

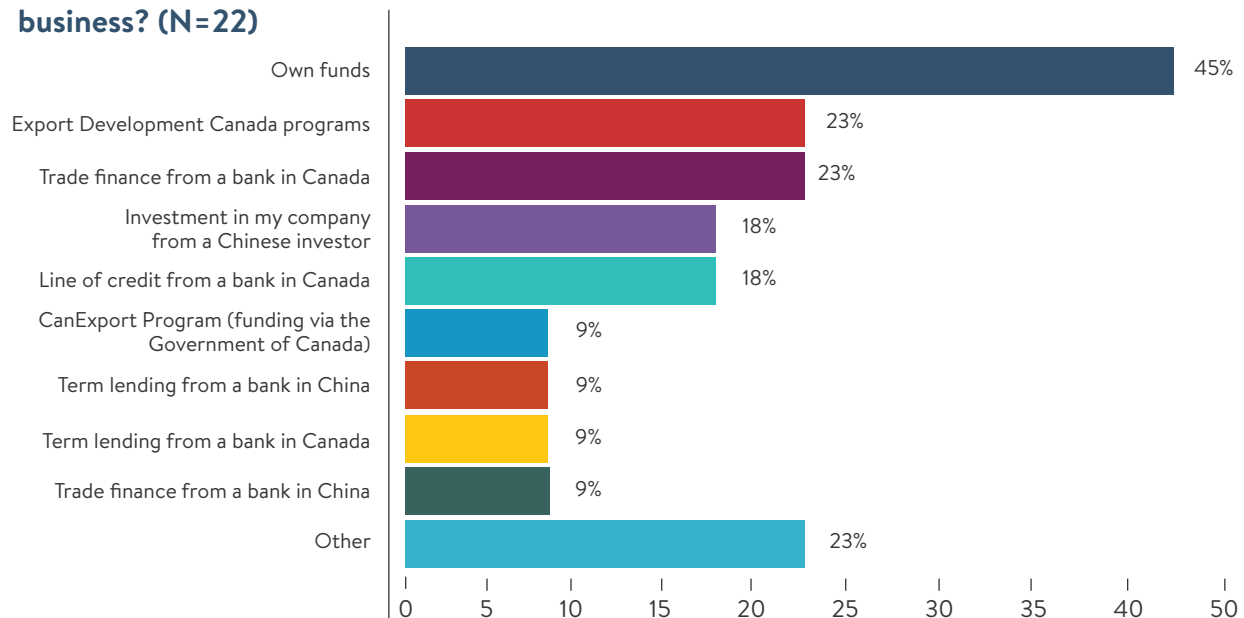


Figure 26 Q33 Plans to develop business in/with China in the next five years

Is your company planning to develop its business in or with China in the next five years? (N=14)

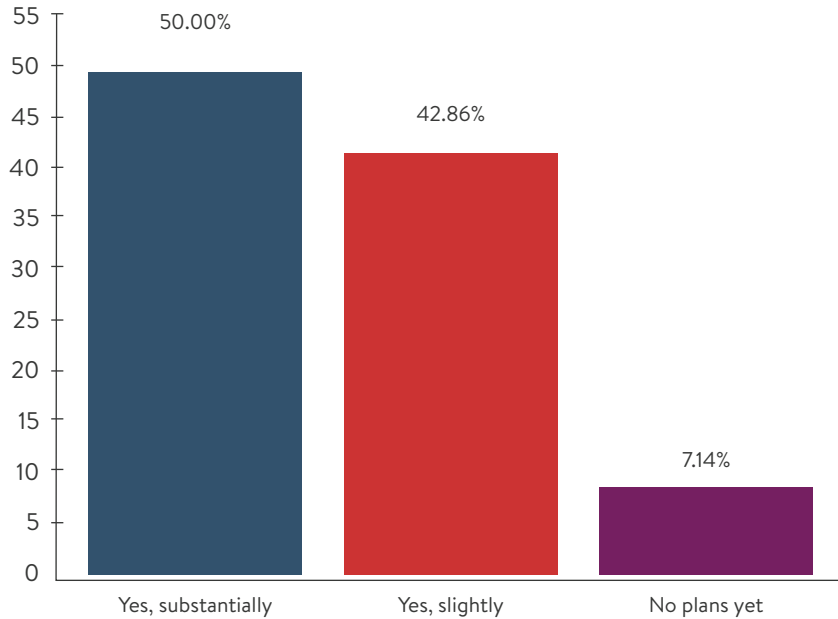
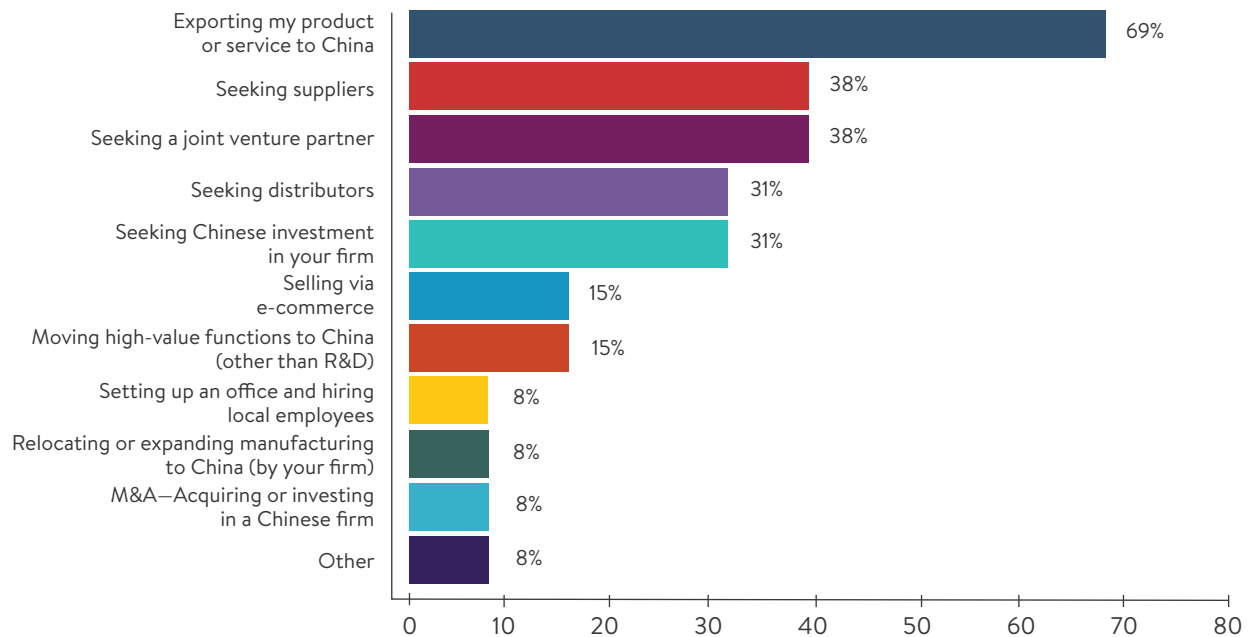


Figure 27 Q34 Plans to develop business with China

How is your company planning to develop its business with China? (N=13)



Thirteen companies are planning to develop business with China:

Number of Companies	Sector	Revenue
2	Arts	1 has revenue less than 1 million 1 did not enter revenue
1	Agri-foods	Less than 1 million
1	Computer tech (ICT)	Less than 1 million
1	Education services	Less than 1 million
3	Clean technology	2 have revenue of 1 million to 4.9 million; 1 did not enter revenue
1	Management of companies	1 million to 4.9 million
1	Manufacturing	10 million to 49.9 million
1	Construction	1 million to 4.9 million
1	Natural resources	50 million to 99
1	Wholesale trade	Less than 1 million

Figure 28 Q35 Methods to set up or expand business in/with China

What describes the method(s) your company has used/would use to set up or expand its business in/with China? (N=121)

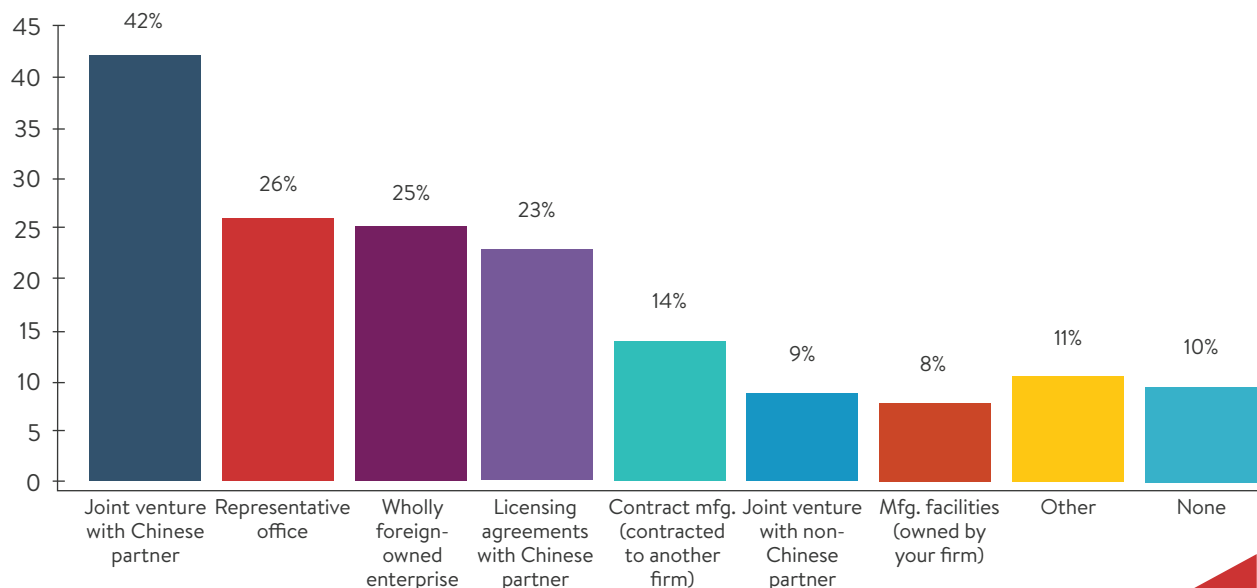


Figure 29 Q19 Plans to expand or contract business in/with China in the next five years
Is your company planning to expand or contract its business in China in the next five years? (N=181)

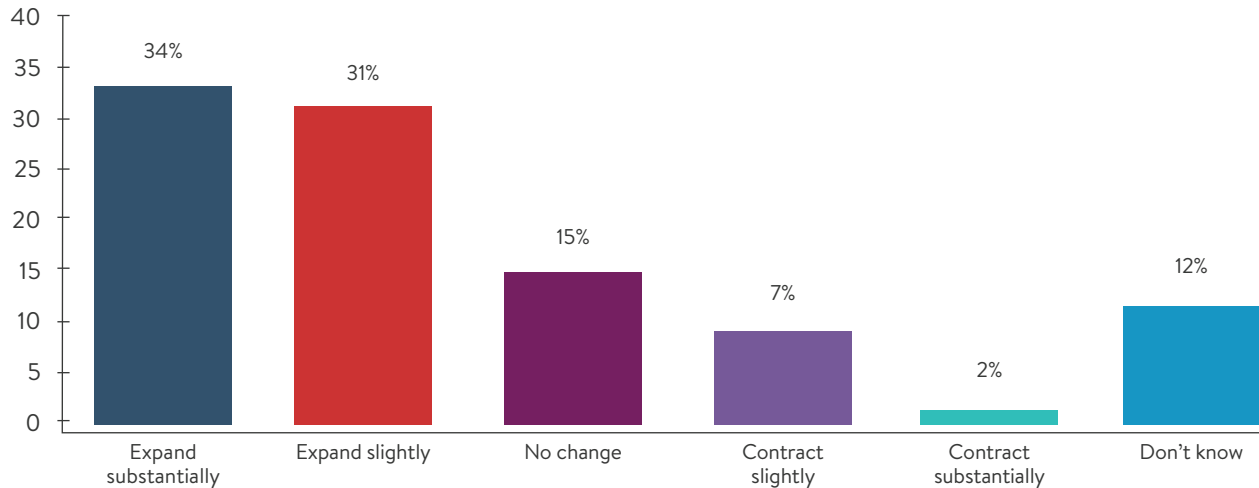
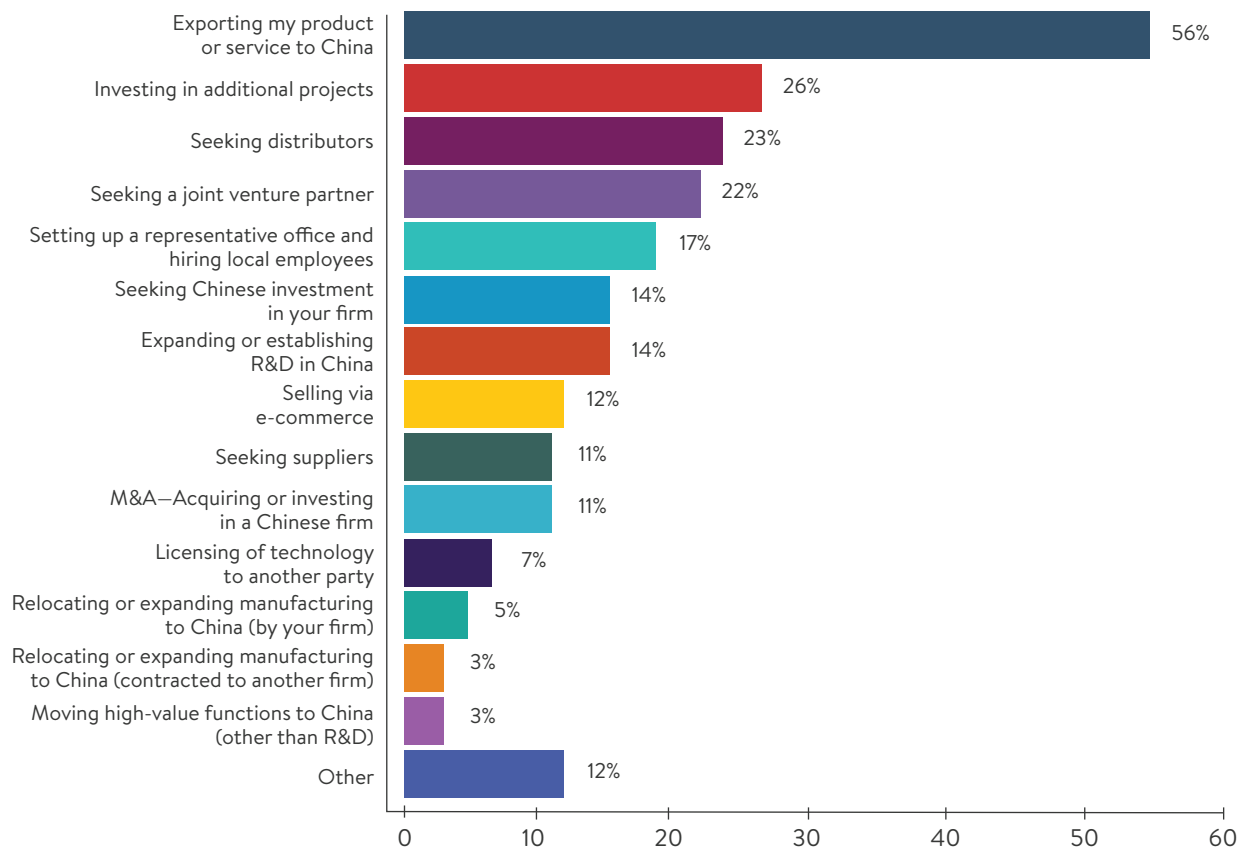


Figure 30 Q20 Planned business expansion in China
What type of business expansion in China is your firm planning? (N=117)



Sixty-six of the surveyed companies are planning to export.

Number of Companies	Sector	Revenue
12	Agri-foods	<ul style="list-style-type: none"> • 4 with less than 1 million; • 4 with 1 million to 4.9 million; • 1 with 5 million to 9.9 million; • 1 with 250 million to 499.9 million; • 1 with 500 million to 999.9 million; • 1 did not specify
2	Arts	<ul style="list-style-type: none"> • 1 revenue over 1 billion; • 1 did not specify
5	Clean Technology	<ul style="list-style-type: none"> • 2 less than 1 million; • 2 with 10 million to 49.9 million; • 1 did not specify
9	Educational Services	<ul style="list-style-type: none"> • 2 less than 1 million; • 2 with 1 million to 4.9 million • 2 with 10 million to 49.9 million • 1 with 100 million to 349.9 million • 1 with 250 million to 499.9 million • 1 did not specify
6	Finance	<ul style="list-style-type: none"> • 1 with 5 million to 9.9 million; • 5 with 1bn or more
1	Government	<ul style="list-style-type: none"> • N/A
1	Health Care	<ul style="list-style-type: none"> • Less than 1 million
3	ICT	<ul style="list-style-type: none"> • 1 with 1 million to 4.9 million • 2 did not specify
5	Manufacturing	<ul style="list-style-type: none"> • 1 with 1 million to 4.9 million • 1 with 5 million to 9.9 million • 2 with 10 million to 49.9 million • 1 with 50 million to 99.9 million
1	Natural Resources	<ul style="list-style-type: none"> • Over 1 billion
7	Professional, Scientific, and Technical Services	<ul style="list-style-type: none"> • 2 with 1 million to 4.9 million • 1 with 5 million to 9.9 million • The rest did not specify
1	Real Estate	<ul style="list-style-type: none"> • Did not specify
2	Retail Trade	<ul style="list-style-type: none"> • 1 with less than 1 million • 1 with 1 million to 4.9 million



Number of Companies	Sector	Revenue
2	Transportation	• Over 1 billion
1	Travel	• Less than 1 million
3	Wholesale trade	<ul style="list-style-type: none"> • 1 less than 1 million • 1 with 1 million to 4.9 million • 1 with 5 million to 9.9 million
1	Infrastructure	• Less than 1 million
1	Other: Seafood sales	• 1 million to 4.9 million
2	Other: language, translation & related software; niche that is between education and entertainment	• Less than 1 million each
1	Other: Fertilizer	Did not specify



Section 6: The Belt and Road Initiative

While 86% of the companies surveyed are aware of the Belt and Road Initiative, only 36% see opportunities to participate. We asked companies if they saw opportunities for their firm to participate in the Belt and

Road Initiative, and, if the answer was “yes” to elaborate on those opportunities. The list of opportunities provided by respondents reflects their wide-ranging perspectives:

- Opportunities to leverage Belt and Road have not formally been laid out
- Training and skills development, strengthen co-operation between Canada and China and intercultural exchanges
- Infrastructure project along the Belt and Road regions
- To provide products to the growing population of Belt and Road regions
- Not sure
- Opportunities for Canadian companies to participate/invest
- Through JV to offer programs
- The remediation of contaminated sites may be accelerated with the initiative under way
- Possibly taking our model to other B&R countries with Chinese government blessing or support
- infrastructure financing, foreign exchange
- As we work with Chinese partners expanding along the BRI countries, they take us along
- Satellite communication networks infrastructure will be required
- We had inquiries coming in from projects related to the Belt and Road Initiative
- We already operate in many of the Belt and Road countries so have extensive local knowledge
- Expanded distribution networks in targeted Asian and European countries
- Help Canadian companies to participate in the initiative from a legal perspective
- They are working on a network of festivals and venues along the silk road that might help our development
- My company is already a member of the Belt and Road Initiative!
- Not sure it is relevant to us
- Opportunities are probably diminished due to the diplomatic dispute
- I was originally from there and know that there are opportunities
- Support financing needs
- As a sub-contractor to the Chinese contractors in Belt & Road projects
- Joint venture opportunities and investment into British Columbia
- Our goal is to be a highly visible edutainment brand in China that promotes positive values, creativity, cultural awareness and communication skills. As China expands its influence to other regions, we would also like to expand the reach of our brand into those areas
- Canada appears to be a less of a priority in favour of more direct One Belt, One Road countries



Section 7: Party committees in a company's Chinese operations

This section presents the survey results related to the recently announced initiative encouraging the formation of a Party committee in the operations of foreign firms.

Sixty-five per cent of respondents were not aware of the initiative or said it does not apply to their company. Four per cent of the surveyed companies had been approached and asked to form a Party committee but had not done so. Only 5% of respondents have had a Party committee within their organization for more than one year. From organizations who have been approached, half are wholly foreign-

owned or a representative office, 33% are joint ventures with privately owned Chinese companies, and 17% are joint ventures with state-owned enterprises.

Seventy-five per cent of the companies who have a Party committee stated the committee does not have a role in decision-making and 25% do not know whether the Party committee is part of the decision-making process.

The following figures provide additional details for each area surveyed.

Figure 31 Q21 Impact of the Party committee initiative on the business

China's government recently announced a renewed initiative encouraging the formation of a Party committee in company operations. How has your company been affected by this initiative? (N=74)

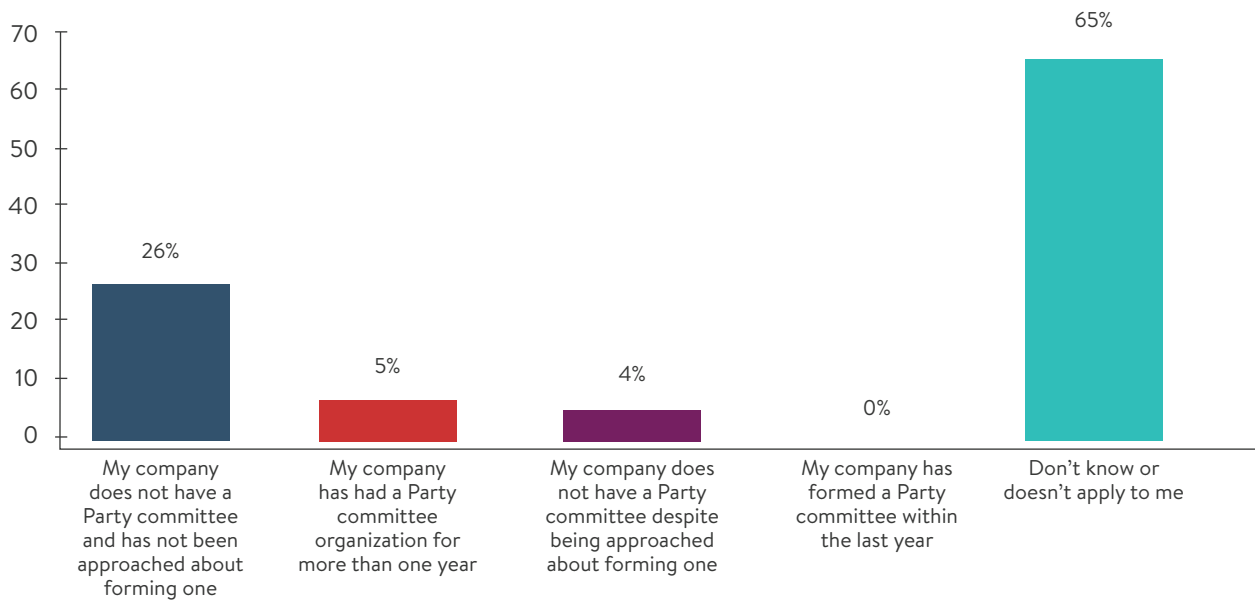
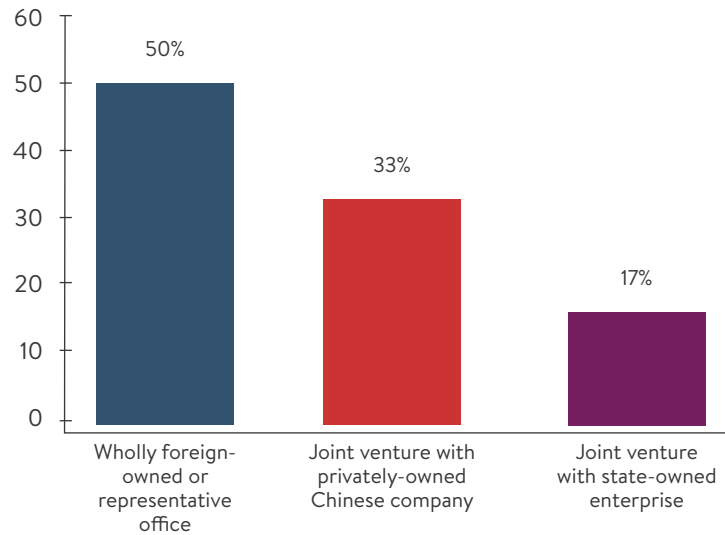


Figure 32 Q24 The ownership structure of the operation that has or was approached about a Party committee

What is the ownership structure of the operation that has or was approached about a Party committee? (N=6)



4. A look at Chinese companies operating in Canada

This section presents the survey results on Chinese companies in Canada, including their company profile, financing strategies, plans for expansion into Canada and setting up business in Canada.

Section I: Company Profile

This section summarizes the operations of Chinese companies in Canada by sector, revenue and the type of activities the company is undertaking in Canada. Following the discussion of results, we have included figures providing additional details for each area surveyed.

From the 254 survey respondents, 28 are Chinese-owned companies, organizations, entrepreneurs or educational institutions doing business in Canada and/or globally.

Close to half of the Chinese companies surveyed are privately owned, followed by state-owned companies at 32%. Others include a state-owned, privately owned and foreign shareholder type of structure.

The Chinese companies surveyed conduct business in 11 sectors. Most respondents operate in the finance and insurance sectors, followed by natural resources. In the 2016 survey, finance and insurance was the top sector by representation, followed by wholesale trade and retail trade companies, as well as natural resources.

The provinces with the highest number of Chinese companies conducting business

in Canada are Quebec (64%), Ontario (56%) and British Columbia (44%). Most of the respondents with operations in Quebec operate in the finance and insurance, and information and communication technology sectors.

Seventy-three per cent of the respondents have operations in Canada and 42% have invested in a Canadian company, while 21% export and import products. Other business activities include M&A and network services.

The highest percentage of respondents, 35%, has conducted business in or with Canada for 10 to 20 years and 34% have conducted business in Canada for two to five years.

Companies whose parent company's global gross revenue in 2017 was over C\$1 billion represent 32% of the respondents. Most of these companies conduct business in the natural resources and infrastructure sectors.

Sixteen per cent of the respondents' Canadian gross revenue in 2017 was less than C\$1 million, 12% reported revenue in the range of C\$1 million to \$ 4.9 million, and 12% reported revenue in the range of C\$100 million to C\$249.9 million.

Chinese companies with less than \$1 million in Canadian revenue operate in the professional services, wholesale trade, natural resources, and finance and insurance sectors. Companies with Canadian gross revenue within the range of \$1 million to \$4.9 million conduct business in the utilities sector and in the educational services sector. Companies who reported Canadian gross revenue between \$100 million and \$249.9 million operate in the infrastructure and agri-foods sectors. There are two respondents whose Canadian revenue is in the range of \$500 million to \$999.9 million: one operates in

the natural resources industry and the other in the finance and insurance sector. One respondent with revenue over \$1 billion conducts business in the information and communication technology sector.

The following figures provide additional details for each area surveyed.

Figure 33 Q49 Ownership structure of the parent company in China

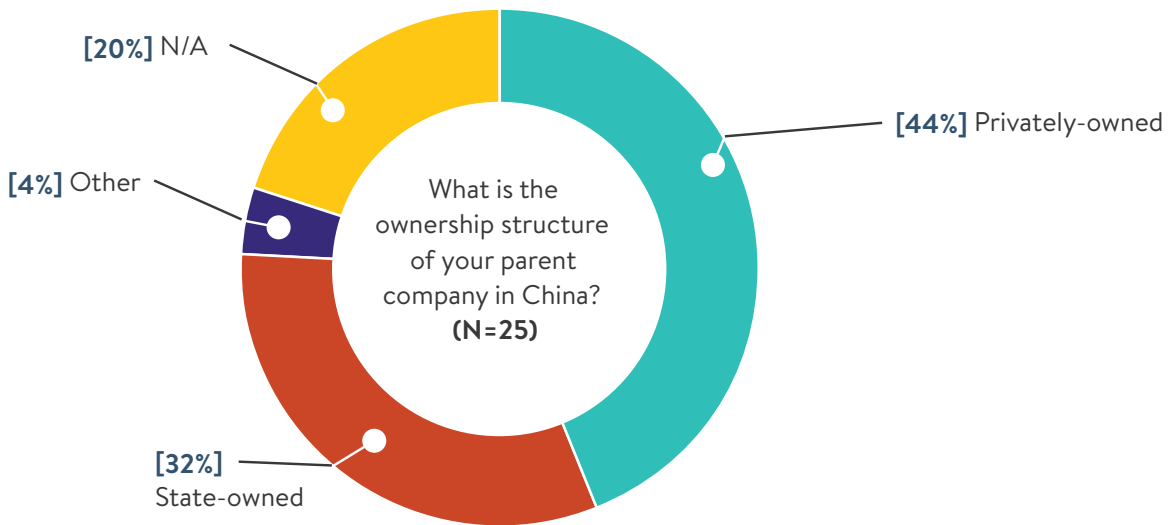
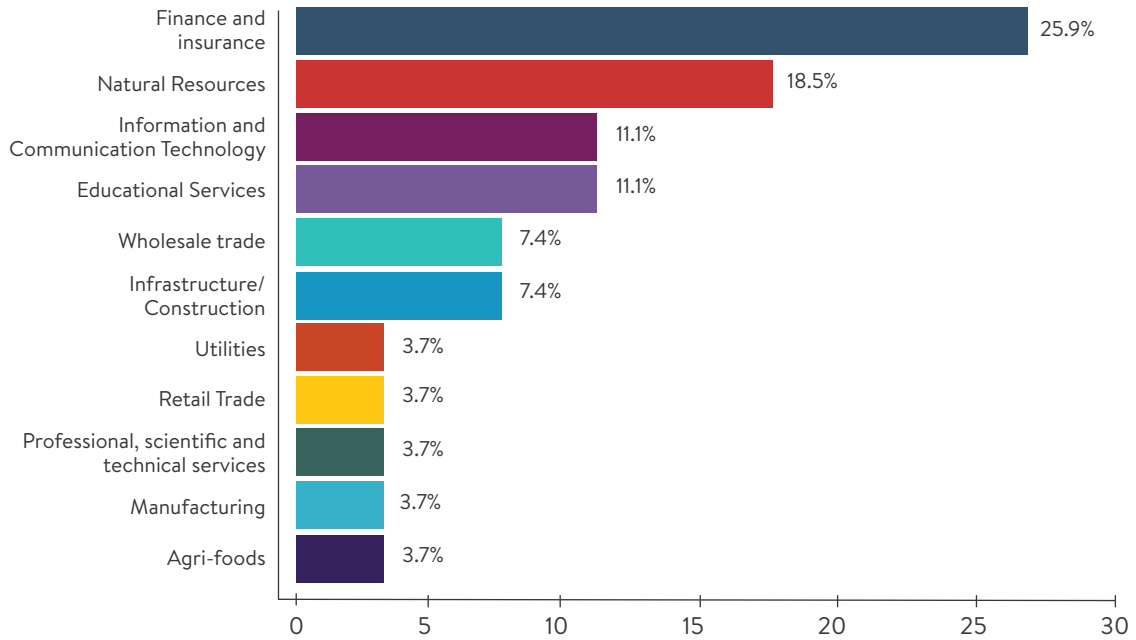


Figure 34 Q50 Distribution of Chinese companies by sector

Which one of the following best reflects your company's sector? (N=27)



Note: Professional services includes engineering, business, project, accounting, legal and logistics.

Natural resources includes forestry, metals & metallurgy, mining and oil & gas.

Figure 35 Q56 Location where business activities take place

In which location(s) in Canada are your company's business activities taking place? (N=25)

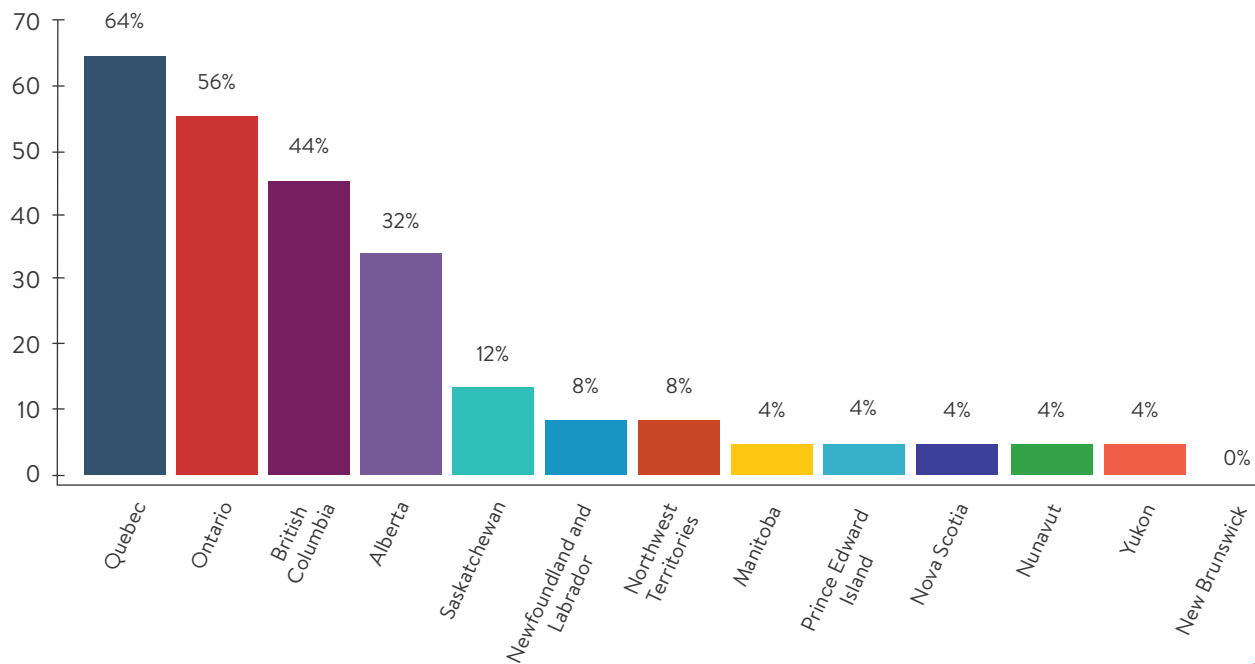


Figure 36 Q46 Current activity in Canada

Which of the following describes your company's current business activity with Canada? (N=26)

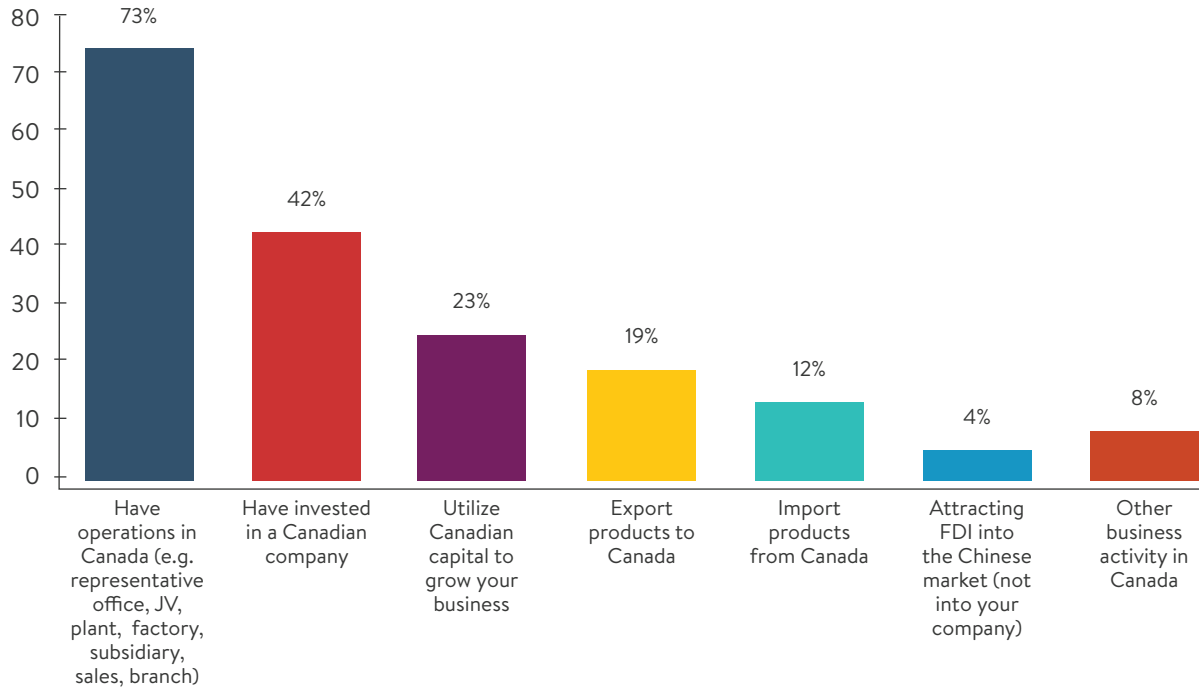


Figure 37 Q47 Years of conducting business in/with Canada

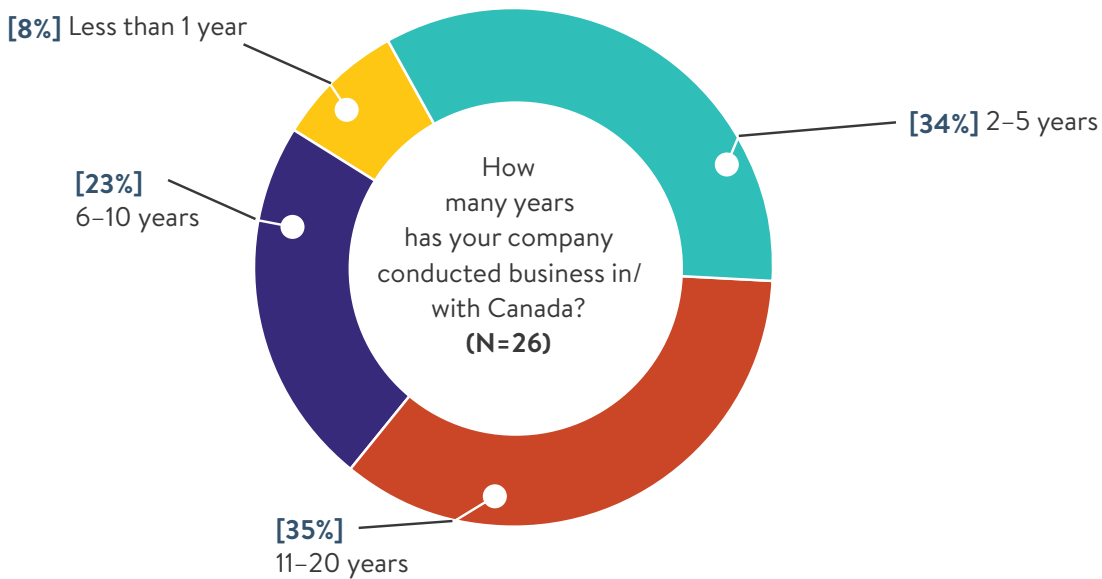


Figure 38 Q51 Parent company's revenue in 2017

What is the range of your parent company's global gross revenue in 2017, or the most recent business year for which you have an end-of-year financial statement? (In C\$) (N=25)

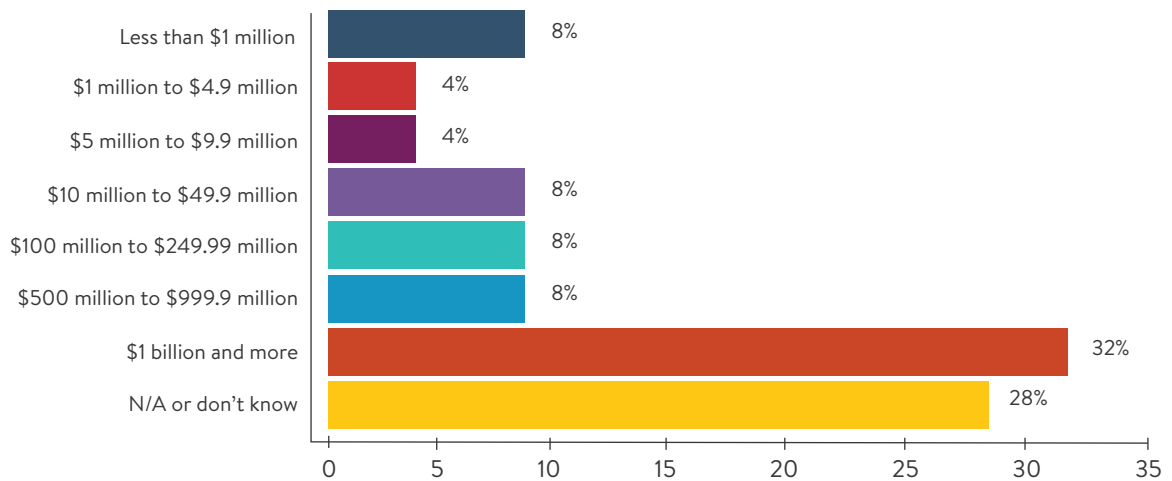
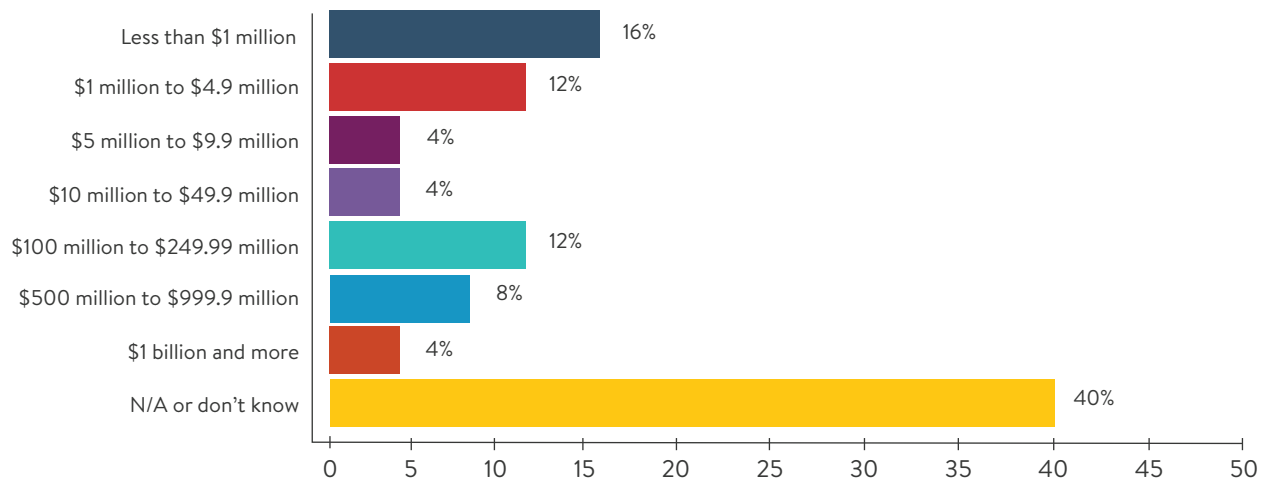


Figure 39 Q52 Canadian gross revenue in 2017

What is the range of your company's Canadian gross revenue in 2017, or the most recent business year for which you have an end-of-year financial statement? (In C\$) (N=25)



Section 2: The impact of the bilateral environment

This section presents the opinions of the surveyed Chinese companies on the challenges they have faced due to changes in the bilateral environment since December 1, 2018.

Twenty-two per cent of respondents had contracts cancelled or postponed, while 63% have not experienced cancellations. In regards to demand for goods and services, 52% have not seen a change in demand, while 15% experienced a decrease and another 15% saw an increase in demand.

More than half of the respondents are not concerned about travelling to Canada, and

only 7% have cancelled their travel plans. Eleven per cent specified that meetings have been moved to alternate locations such as Hong Kong.

Thirty-five per cent of the companies surveyed experienced a slight or moderate change in their business plans, but no significant changes were reported. In regards to the organization's plans with Canada, 30% of the respondents are optimistic, while 15% are pessimistic.

The following figures provide additional details for each area surveyed.

Figure 40 Q38 Contracts or investment deals cancelled or postponed

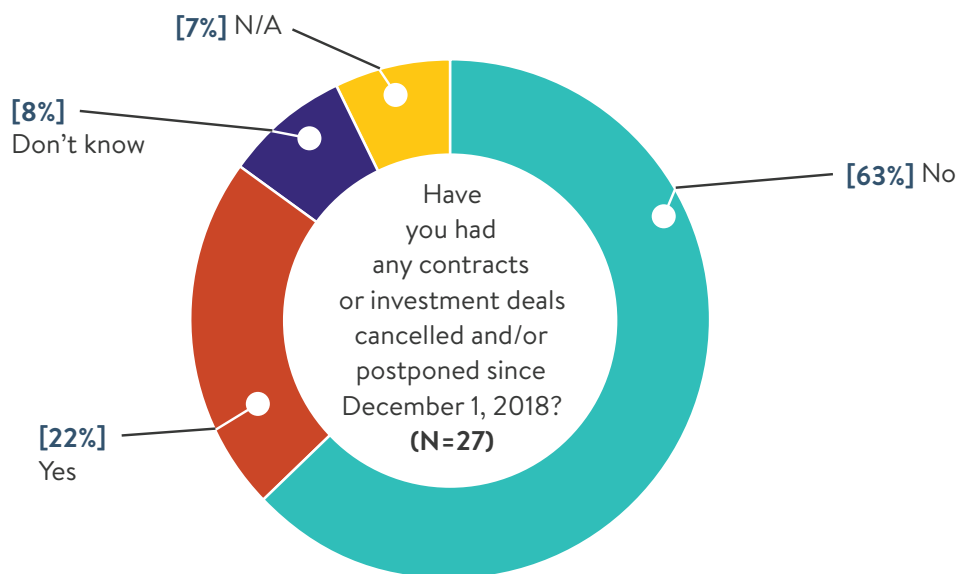


Figure 41 Q39 Changes in Canadian demand for goods or services

How has Canadian demand for your goods or services changed since December 1, 2018?
(N=27)

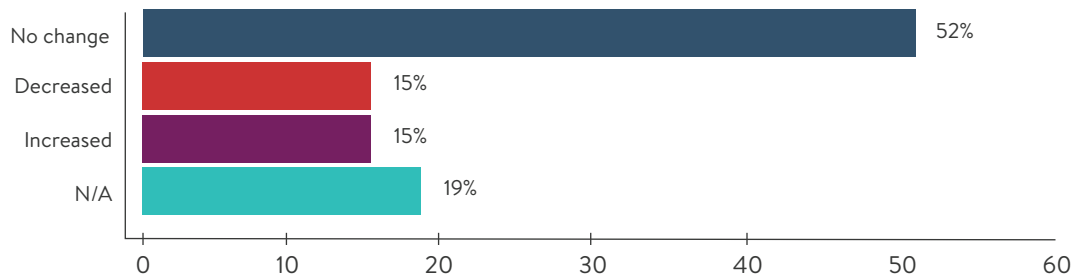


Figure 42 Q40 Concerns regarding travel between Canada and China



Figure 43 Q41 Trips cancelled or postponed

Has your organization postponed or cancelled any trips as a result of the situation? (N=27)

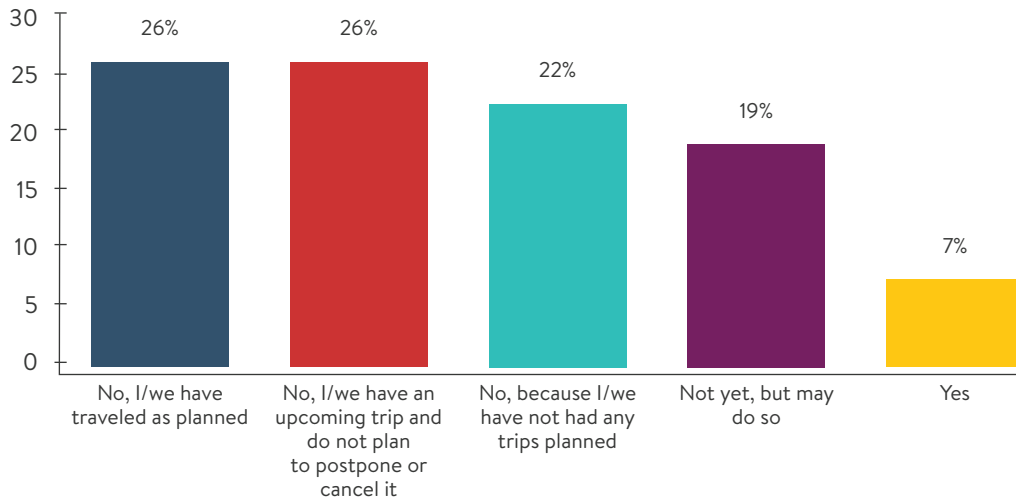


Figure 44 Q43 Changes in business plans

Have your business plans changed as a result of the current bilateral situation? (N=26)

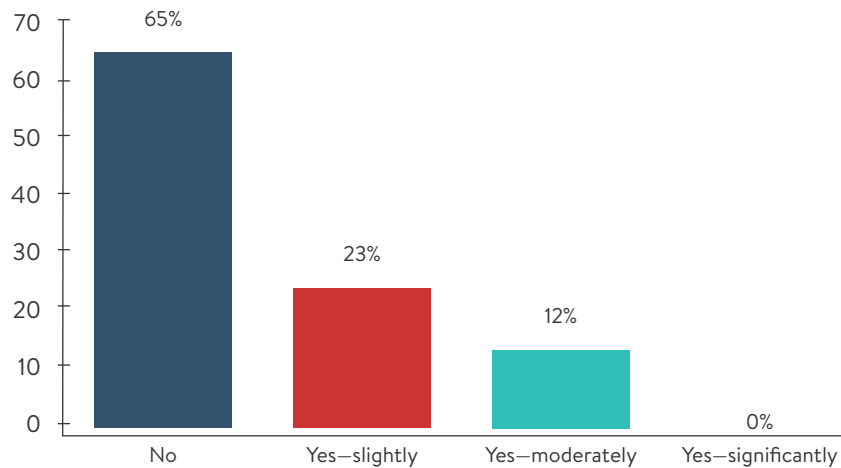
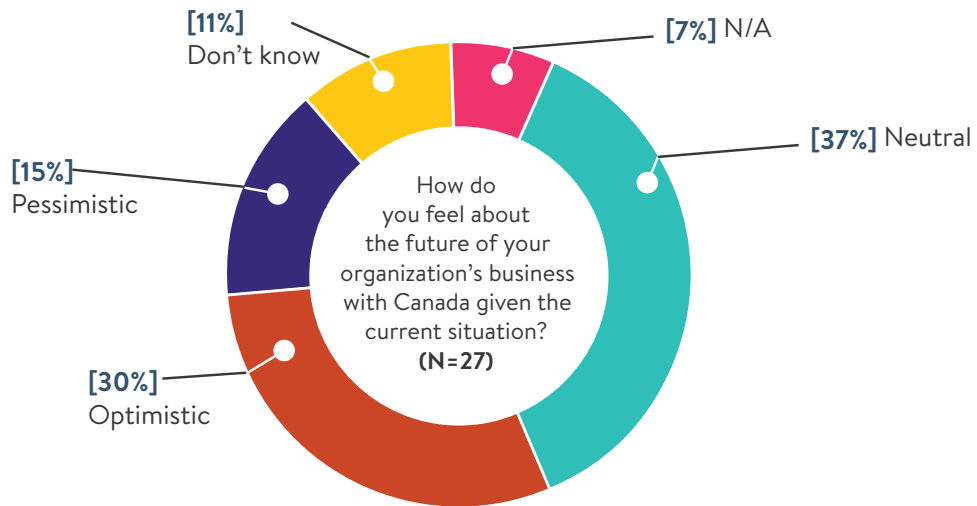


Figure 45 Q44 The future of the organization's business with Canada



Section 3: Profitability and the role of Canada in Chinese companies' strategic plans

This section presents the survey results on companies' financial performance in Canada, changes in profitability and Canada's role in their strategic plans.

A large percentage of Chinese companies conducting business with Canada experienced losses in 2017. The majority of the 46% who reported losses operate in the natural resources and information and communication technology sectors. In the 2016 survey, only 7% of the respondents reported they had encountered losses in 2015. For 80% of the companies surveyed, 2015 was a profitable year. Only 37% were very profitable or profitable in 2017, and of these, the majority had operations in Quebec and had been doing business with Canada for more than 10 years. These companies conduct business in the finance and insurance, information and communication technology, agri-foods, utilities, manufacturing, and retail and wholesale trade sectors.

Forty-eight per cent of companies reported an increase in profitability in 2017, and profitability remained unchanged for 24% of the respondents. The majority of the companies who did not experience fluctuations in profitability are companies who experienced losses.

Given that a number of companies that participated in the survey did not disclose information on profitability, a larger sample would be needed to meaningfully define and interpret a trend on financial performance.

Companies provided information on the barriers they face to increasing profitability. The results show that the top barrier is the insufficient capacity to meet demand in the infrastructure, agri-foods, finance and educational services sectors. Another top constraint on increasing profitability is rising labour costs in Canada. The respondents identified other barriers that include global cyclicalities in the mining sector, lack of brand recognition in Canada, demand for mineral resources, lack of opportunity, the inability to achieve economy of scale and commodity prices.

The majority of Chinese companies operating in the finance and natural resources sectors indicated that doing business in Canada is among their top five strategic priorities.

The following figures provide additional details for each area surveyed.



Figure 46 Q53 Financial performance in Canada in 2017 compared to previous years

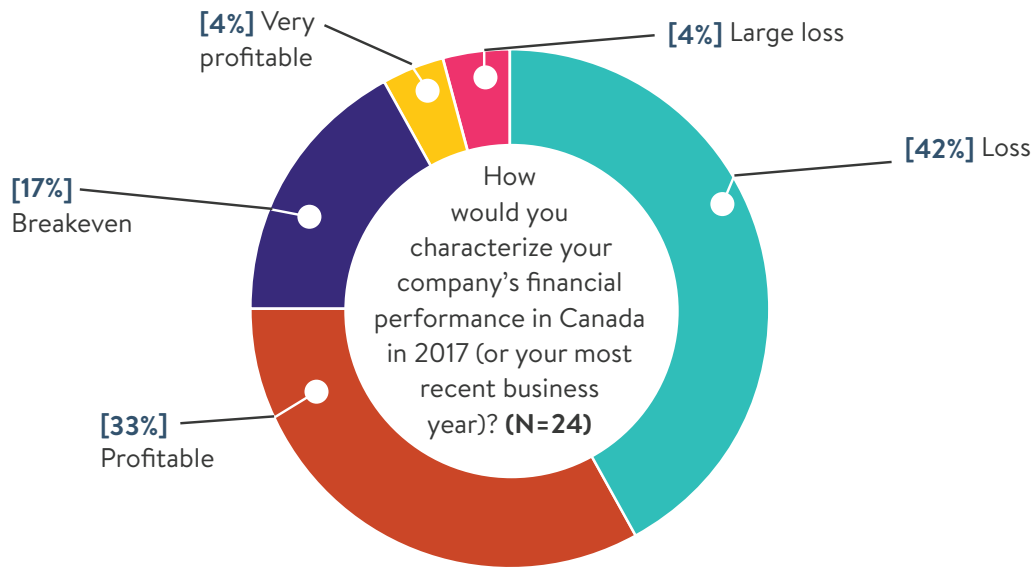


Figure 47 Q54 Profitability changes for the company's business in Canada in 2017 compared to previous years

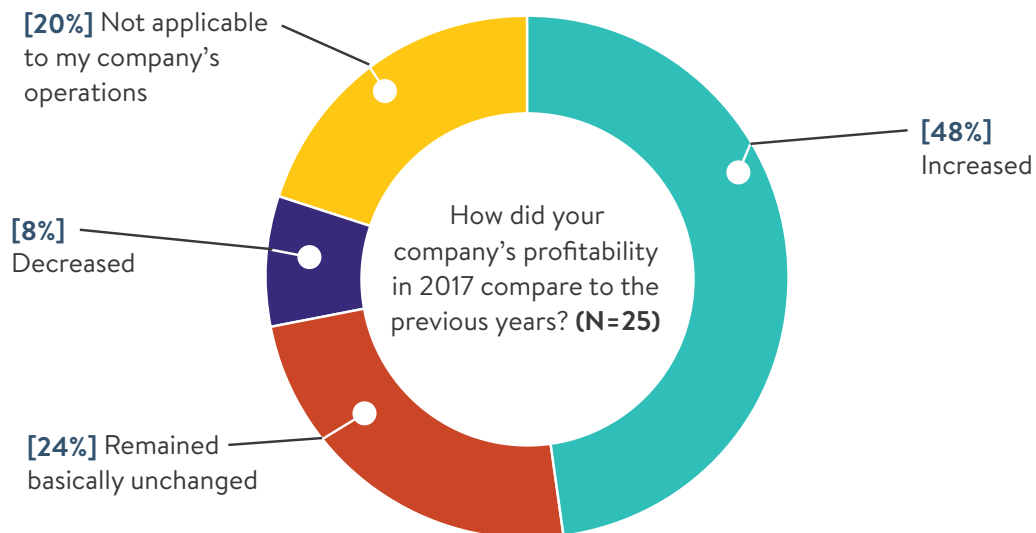


Figure 48 Q55 The primary restraint on increased profitability

For your company in Canada, what is the primary restraint on increased profitability? (N=21)

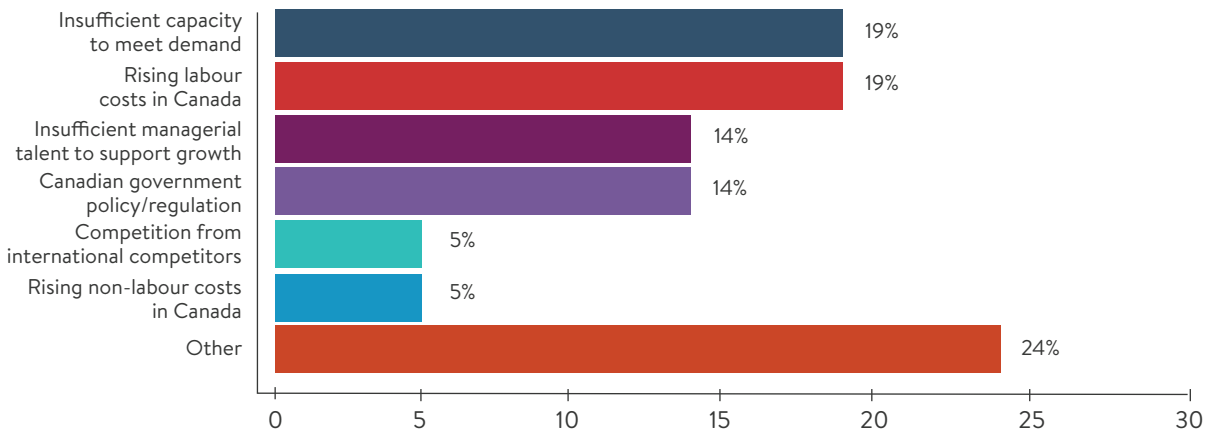
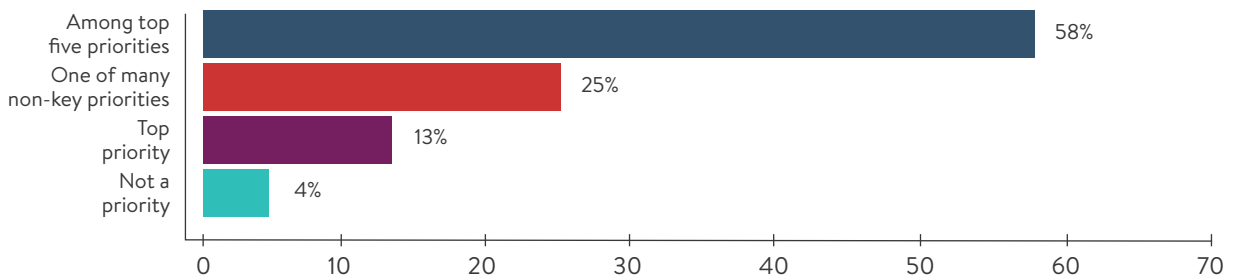


Figure 49 Q48 Canada's role in the company's global strategic plan

What role does Canada play in your company's global strategic plan? (N=24)



Section 4: Obstacles to doing business, and financing and expansion plans

This section presents the survey results on the obstacles faced by Chinese companies when doing business in or with Canada. It also explores the financial constraints, the main financing options used by respondents use, and companies' plans for expansion in Canada.

The top three obstacles for Chinese companies doing business in or with Canada are the differences in business culture, the difficulty of finding the right Canadian partner, and challenges in gaining business licenses, approvals to expand operations or product approvals.

The main financing constraints are getting credit (26%), currency risk (17%), foreign exchange controls on investment funds coming to Canada from China (17%), and the financial stability of suppliers and buyers (17%). Other constraints include getting support from Canadian banks.

Eighty-two per cent of respondents use their own funds as the main source of financing and 9% use trade finance from a bank in Canada.

Close to half of the companies surveyed (46%) plan to substantially expand their operations in Canada and 38% plan to expand slightly. Only 4% plan to contract.

Half of the respondents plan to expand their business in Canada in their current location or in additional cities, and 30% plan to expand through M&A or by investing in a Canadian firm. Other expansion initiatives include developing strategic partnerships with Canadian institutions and setting up an operating office.

The following figures provide additional details for each area surveyed.



Table 7 Obstacles faced by Chinese companies conducting business in/with Canada

Obstacle	Rating
Differences in business culture	2.83
Difficulty finding the right Canadian partner	2.81
Challenges in gaining business licenses, approvals to expand operations, product approvals	2.73
Complexity of tax regulations	2.70
Discrimination against Chinese companies in Canada	2.70
Intensive competition	2.58
Costs for your company's operations in Canada	2.56
Investment policy	2.50
Mobility of Chinese business travellers in Canada (Visas, work permits, etc.)	2.47
Inadequate financing	2.35
Enforcing contracts (time and cost necessary to resolve a dispute)	2.33
Restrictive labour regulations	2.32
Marketing to Canadian consumer preferences	2.28
Border compliance procedures	2.18
Technical barriers to trade with Canada	2.14
Restrictions in my sector on investment from China	2.11
Restrictions in my sector on investment by state-owned or state-influenced companies	2.05
Challenges in working with First Nations groups	2.00
Registering property	2.00
Dealing with construction permits	1.95



The table below shows that the primary challenges faced by Chinese companies when

doing business in or with Canada have changed between the 2016 and 2018 surveys.

Table 8 Top five obstacles faced by Chinese companies when doing business in/with Canada in 2016 and 2018

2016	2018
Dealing with construction permits	Differences in business culture
Border compliance procedures	Difficulty finding the right Canadian partner
Costs for your company's operations in Canada	Challenges in gaining business licenses, approvals to expand operations, product approvals
Challenges in gaining business licenses, approvals to expand operations, product approvals	Complexity of tax regulations
Restrictions in my sector on investment by state-owned or state-influenced companies.	Discrimination against Chinese companies in Canada



Figure 50 Q57 Financing constraints experienced by the company's business in Canada

Which of the following financial constraints, if any, does your company experience in your Canadian business?

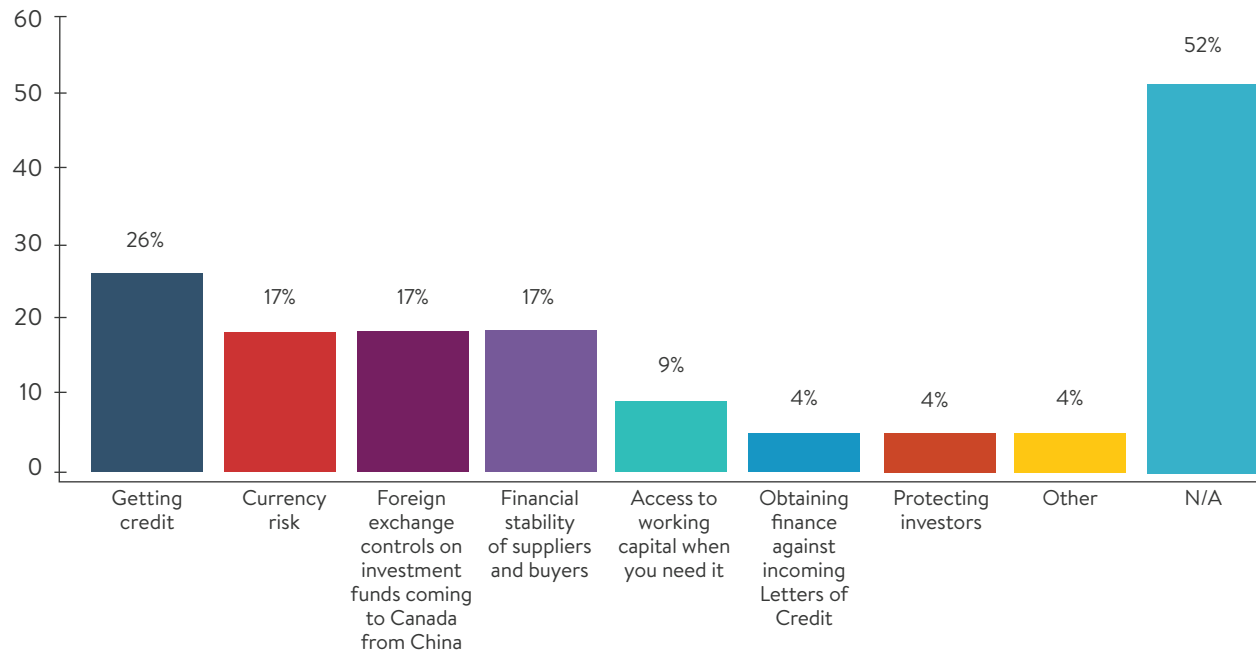


Table 9 Top three financing constraints for Chinese companies in Canada in 2016 and 2018

2016	2018
Getting credit	Getting credit
Access to international banking	Currency risk
	Foreign exchange controls on investment funds coming to Canada from China
Protecting investors	Financial stability of suppliers and buyers

Figure 51 Q58 Financing options for the company's business in Canada

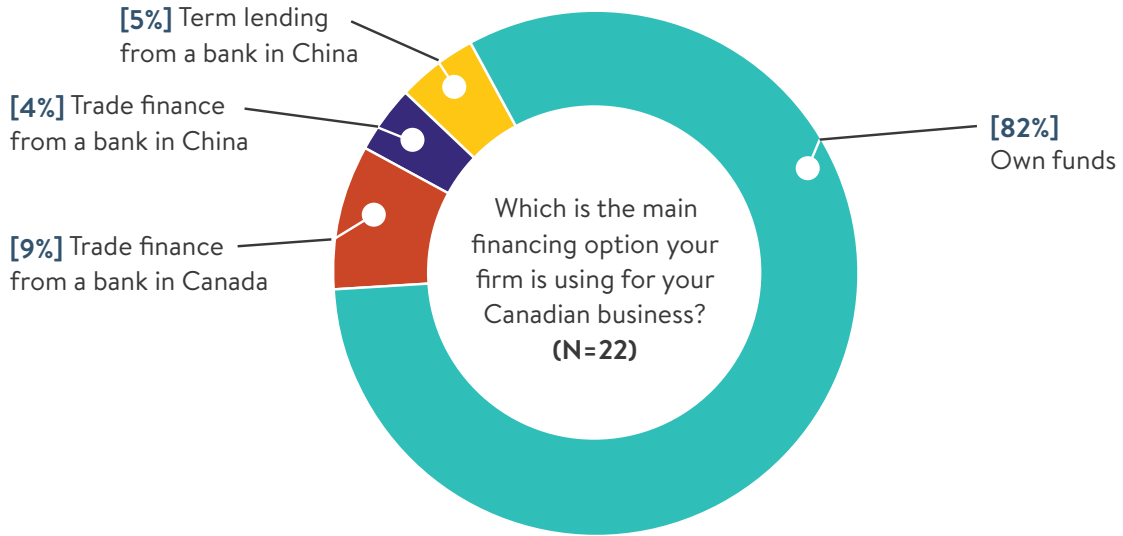


Figure 52 Q59 Company's growth plans in Canada over the next five years

What are your company's growth plans in Canada over the next five years? (N=26)

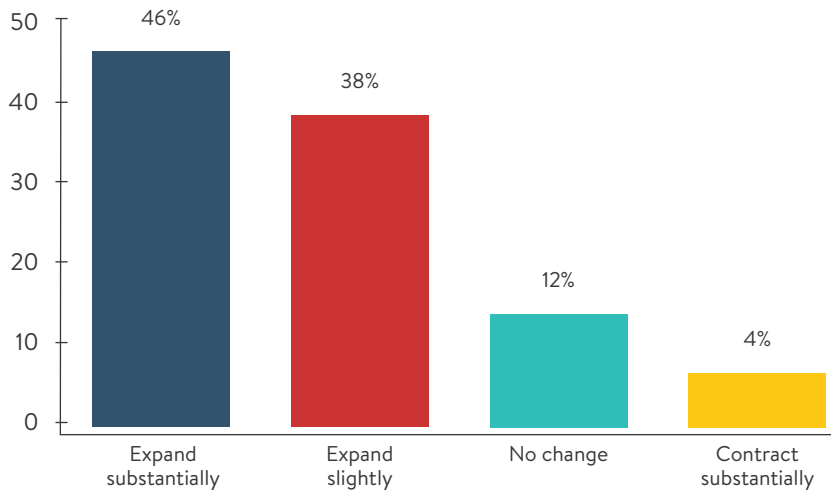
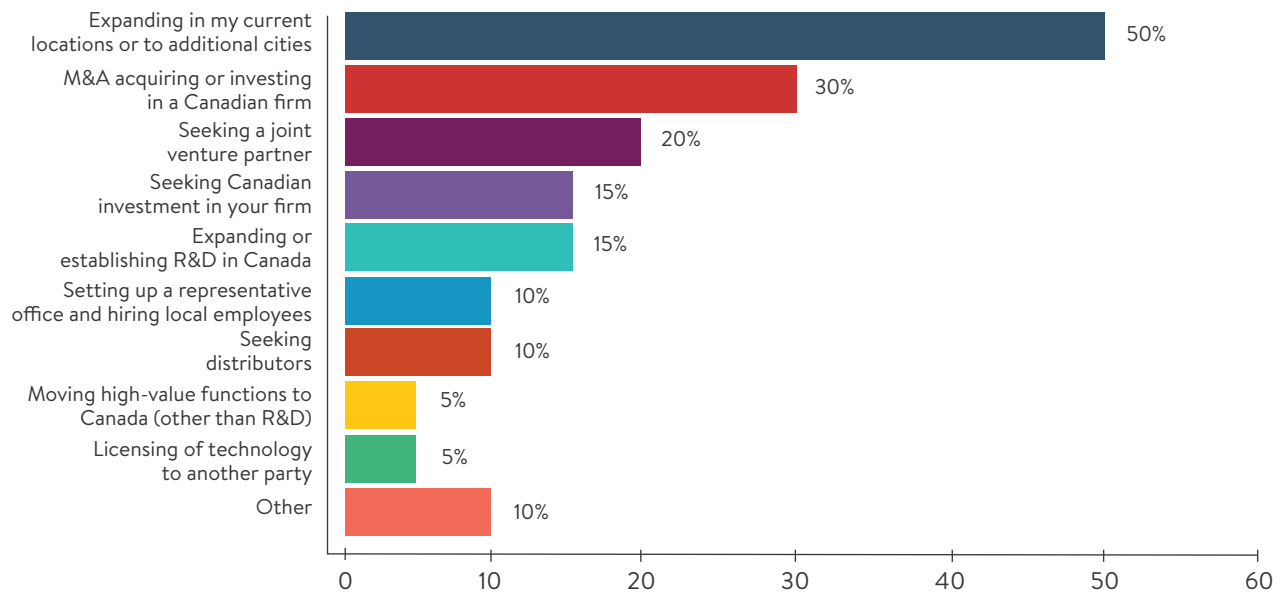


Figure 53 Q60 Planned business expansion in Canada

What type of business expansion in Canada is your firm planning? (N=20)



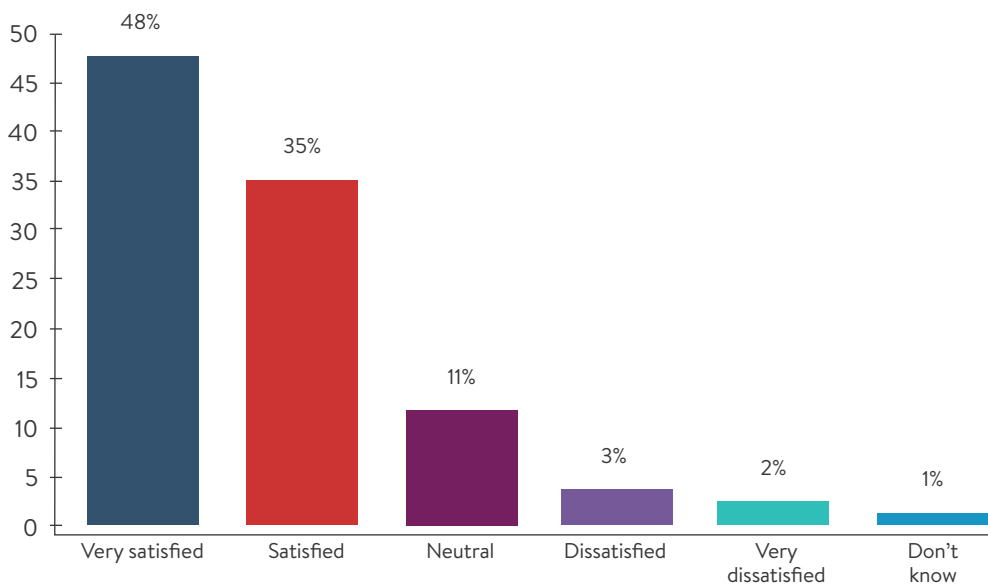
5. Respondent recommendations and feedback

Figure 54 Q66 Membership in the Canada China Business Council



Figure 55 Q67 Level of satisfaction with CCBC membership

How satisfied are you with membership in the CCBC? (N=157)



Appendix A—Respondent profiles

Figure 56 Q62 Respondent's position within the firm

What is your position within your firm? (N=217)

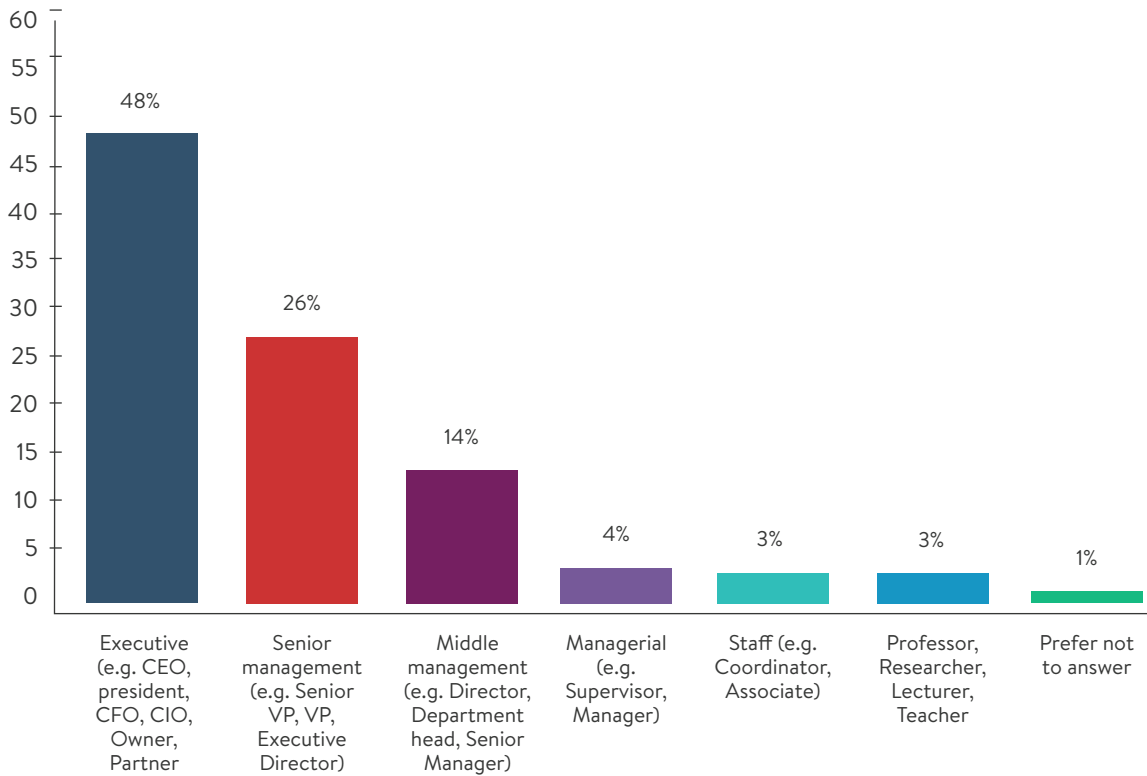


Figure 57 Q63 Respondent's location
Are you personally based in: (N=220)

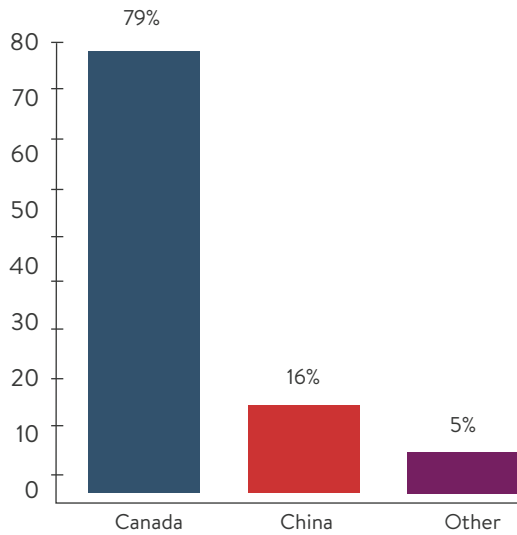
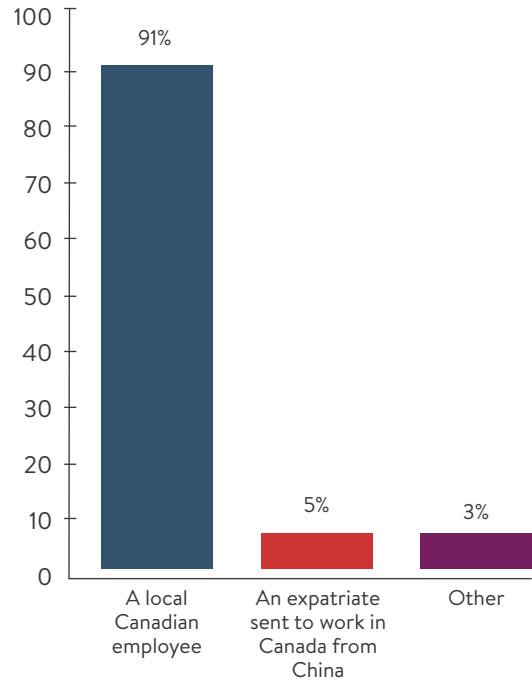


Figure 58 Q64 Respondents in Canada
Respondents in Canada (N=172)



Respondents in Canada (N=172)

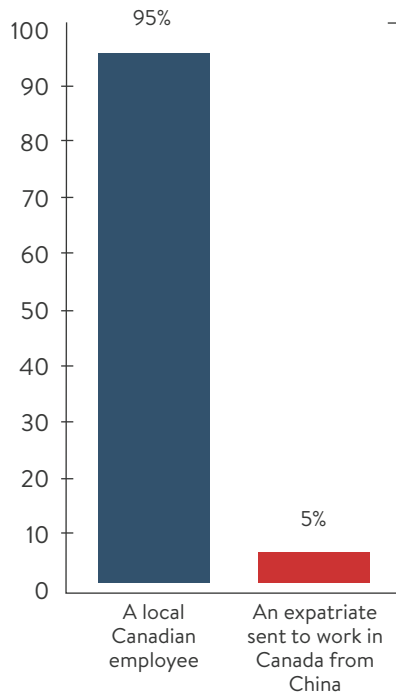
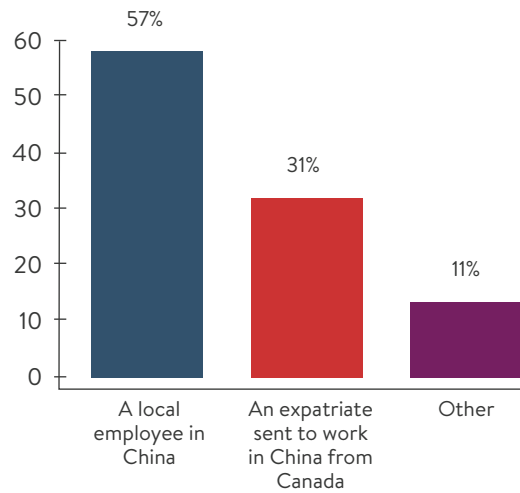


Figure 59 Q65 Respondents in China
Respondents in China (N=35)



Appendix B – Reasons Canadian businesses are not interested in the Chinese market

Table 10 Reasons Canadian companies are not interested in doing business in/with China

Reasons for not being interested in the Chinese market	Rating
Unsuitability of the product for the market	3.50
Difficulty finding the right Chinese partner	3.00
Fear of intellectual property rights infringement	3.00
Language/cultural barriers	3.00
Past failures	3.00
Not a priority for senior management	2.67
Inadequate financing	2.00
Inadequate market information	1.50
Intensive competition	1.50
Difficulty in analyzing too much information	1.00
Human resource constraints in China	1.00
Regulatory barriers	1.00

