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EUROPEAN COMPANIES OPERATING IN CHINA: FROM DIGGING IN TO RETHINKING THEIR PRESENCE

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We use nearly a decade's worth of panel data from European Union Chamber of Commerce in China business confidence surveys to analyse the deteriorating outlooks of EU firms in China from 2017 to 2025.

All firms in China currently face challenges including slow profit growth and deflation. These circumstances have contributed to a rare drop of foreign direct investment into China over the last two years. However, certain challenges are particularly acute for foreign firms, including those from the EU.

According to survey results, business sentiment among EU firms operating in China has never been bleaker. Respondents view their profitability, growth opportunities and competitiveness negatively, while fewer respondents than ever plan to expand their Chinese operations. Moreover, significant shares of respondents report recent increases in political pressure from the Chinese state and media, while nearly a third of respondents say they are siloing their Chinese operations, meaning separating them from other global activities.

Disaggregated by size, sector, and years of operation in China, insightful differences emerge between the business strategies of EU firms. We broadly classify these into four categories: doubling-down, hedging, hibernating and ready to exit.

EU policymakers should consider how to address the challenges EU firms in China face, such as asset-heavy sectors being 'stuck' in China and smaller firms lacking the capacity to operate at a loss in China's market. The EU might need to facilitate transitions for these companies, helping them to reduce exposure to China and diversify into other emerging markets.

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1 Introduction

European companies flocked to China after its 2001 entry into the World Trade Organisation. Companies were attracted by China's lower labour costs and the size of its internal market. Some companies were more successful than others in China, but general experiences were positive, leading European companies – among others – to reinvest profits obtained in China in new or larger ventures. But that trend has significantly tailed off over the past few years.

We investigate general trends in foreign direct investment (FDI) into China, and particularly FDI from Europe. We then analyse how the sentiment of European companies has evolved and the main reasons behind its rapid deterioration. We based our analysis on European Chamber of Commerce in China (EUCCC) business confidence surveys, which provide a wealth of information both on how companies feel about market opportunities and the main challenges they face. Based on survey responses, we classify European firms in China into four broad categories depending on their business strategies. We then ask:

1. How has EU corporate sentiment about the Chinese market evolved across firms of different sizes, sectors and time spent in China?
2. What underlying factors have contributed to deteriorating sentiment?
3. What business strategies have arisen over this period of deteriorating sentiment?
4. How should these findings shift EU policy in supporting its firms and negotiating with the Chinese government?

2 Methodology

2.1 Data

To evaluate the profound changes in how European companies perceive opportunities in the Chinese market, we use annual EUCCC business confidence surveys carried out from 2017 to 2025[1]. This survey offers a cross-sectional snapshot of firm-level experiences, with consistent core survey questions and sections adapted each year to changing circumstances in China. Response rates have varied from 44 percent to 48 percent of the EUCCC membership, or an average of 500 respondents per year, amounting to 5,021 cumulative responses from 2017 to 2025. Surveys were carried out over four-week periods from January to February each year.

Overall respondent attrition rates have been high, with 39.65 percent of respondents completing only a single survey over the nine years covered, while 19.85 percent of respondents submitted responses

[1] This paper uses data from the European Union Chamber of Commerce in China's (European Chamber) Business Confidence Survey, published in partnership with Roland Berger. This data has been fully anonymised to ensure privacy protections. As such, it is not possible to trace, retrieve or reconstruct any personal or sensitive information from the findings presented in this paper. The opinions and findings in this report do not necessarily represent those of neither the European Chamber, its members nor Roland Berger.

for two years, 10.18 percent of firms submitted responses for four years and only 2.02 percent of all respondents consistently submitting survey responses each year from 2017 to 2025. Attrition rates from year to year have also been quite high, with about 40 percent of each year's respondents failing to respond to the survey the following year – though frequently returning several years later. For example, 45.9 percent of 2019 respondents failed to submit survey responses in 2020, and 39.6 percent of 2024 respondents failed to submit responses in 2025.

Respondents represent individual legal entities, meaning that several respondents may come from multiple subsidiaries of a single parent company. No information is given about the firm-level role of the survey respondent, raising questions about their familiarity with the range of topics covered in the survey. Answering on behalf of their firm, each respondent describes their sector, revenue bands from operations in China and years of experience operating in China, but does not provide much more description of their firm beyond that. Each respondent is assigned an anonymous numerical identifier, facilitating the creation of harmonised and structured panel data for in-depth analysis over nine years of survey coverage. In that period, respondents shifted their identifying responses quite substantially. For example, 42.9 percent of respondents identified their firm's sector differently at least once in the survey responses they submitted, thus complicating sectoral analyses from year to year as the sector-specific pool of respondents changes substantially.

Given the structural limits of survey panel data analysis, including firm anonymity and the different roles of respondents within each firm, causal relationships cannot be extrapolated from our results. However, given the importance of this topic, a thorough analysis of such rich data on European companies' views of the Chinese market can contribute to better economic policy in Europe.

2.2 Method

We first harmonised survey questionnaires and responses to provide comparable data over time. As questions were rephrased and response options expanded or restricted, standardisation through response pooling facilitated consistent comparison and the distillation of policy insights. Broad trends in terms of business outlook on growth, profitability, competitiveness, decoupling, expansion plans and sources of political pressure are first presented in section 4 of this paper. Then, respondents were segmented into sector, revenue and years of operation in China, isolating respondents that had operated in China for decades or just a few years, and those with larger or smaller annual revenues from their operations in China. Finally, aggregate firm responses are interpreted in part 5 of this paper to estimate the business strategies firms are executing, based on their survey responses in 2024 and 2025.

Data was analysed by calculating the proportion of respondents who chose each option from a targeted survey question per year. This method produced a four-part analysis, beginning with an examination of China's inward FDI and European companies, proceeding to an examination of overall business trends among EU firms in China, then to classification of firm strategies and finally, take-aways and policy conclusions for analysts, executives and policymakers.

3 FDI and the eroding stake of European companies in China

3.1 A turning point for inward FDI

China has been a magnet for FDI for decades, most notably since its entry into the WTO on 11 December 2001. But since 2021, there has been a noticeable deceleration in inward FDI (Figure 1), with a record low balance of just $5 billion of inward FDI in 2024. Still, the stock of FDI has not yet begun to decrease (Figure 2). According to UNCTAD (2025), in 2024, FDI inflows to China *"dropped by 29 percent"* – a staggering figure. This followed on from 2023, when China experienced a *"rare decline in inflows"* of FDI, breaking a *"decade-long growth trend,"* also according to UNCTAD (2024).

Figure 1: China and Hong Kong balance of FDI ($ billions)

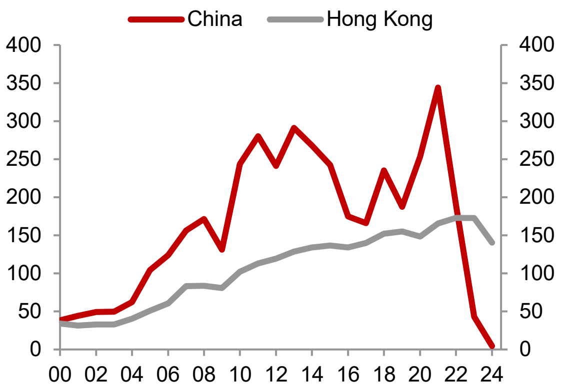
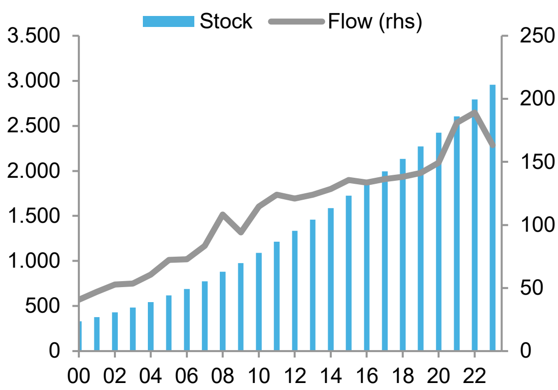


Figure 2: China inward FDI: stocks and flows ($ billions)



Source: Bruegel based on Natixis, CEIC.

European companies flocked to China during the period of rapid economic growth, but have recently reduced their presence. Furthermore, and in contrast with global trends (Figure 3), European investments in China have shifted from manufacturing towards financial services (Figure 4).

Figure 3: China inward FDI from the world by sector ($ billions)

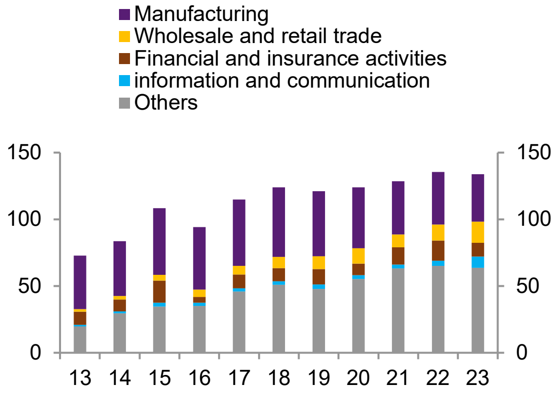
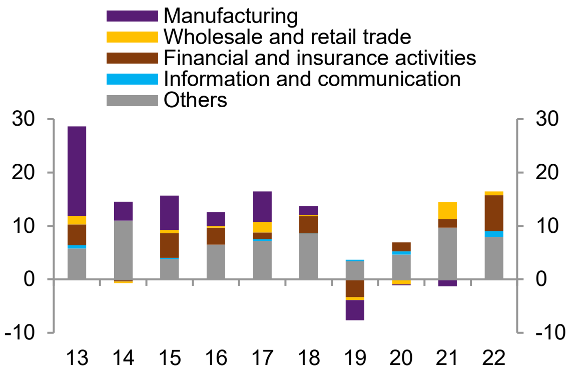


Figure 4: China inward FDI from the EU by sector ($ billions)



Source: Bruegel based on Natixis, CEIC, Eurostat.

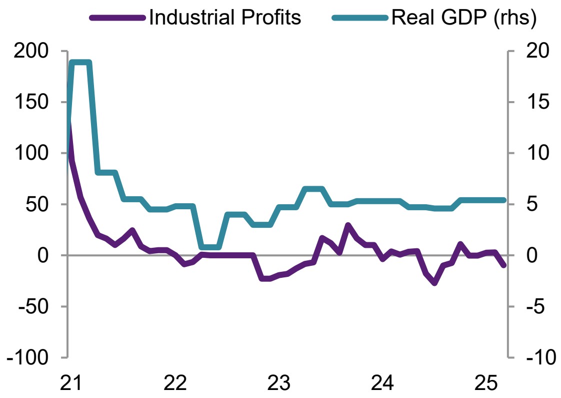
Beyond its sectoral shift and deceleration, European FDI into China has become more concentrated among a small number of large investors. The top-ten European investors in China have made up no less than 60 percent of its total European FDI flow since 2017, ranging as high as 81 percent to 88 percent in 2019 and 2020, respectively[2]. Measurement of inward and outward Chinese FDI has been the subject of great controversy among researchers because of inconsistencies in data reported from different sources and because of the significant role that Hong Kong plays in intermediating such flows (Tseng and Zebregs, 2002). Another caveat is that most definitions of FDI fail to differentiate between new investment flows and re-invested earnings.

3.2 Macroeconomic challenges in China

Operating in China is made more difficult by several entrenched macroeconomic challenges. As China shifts its industry-reliant economy in a new strategic direction, frictions have emerged that are depressing investment and consumption in a vicious cycle. These challenges include low industrial profits and real GDP growth (Figure 5), and low consumption and consistent overcapacity.

[2] Kratz, A., N. Barkin and L. Dudley (2022) 'The Chosen Few: A Fresh Look at European FDI in China', *Rhodium Group,* available at: https://rhg.com/research/the-chosen-few/

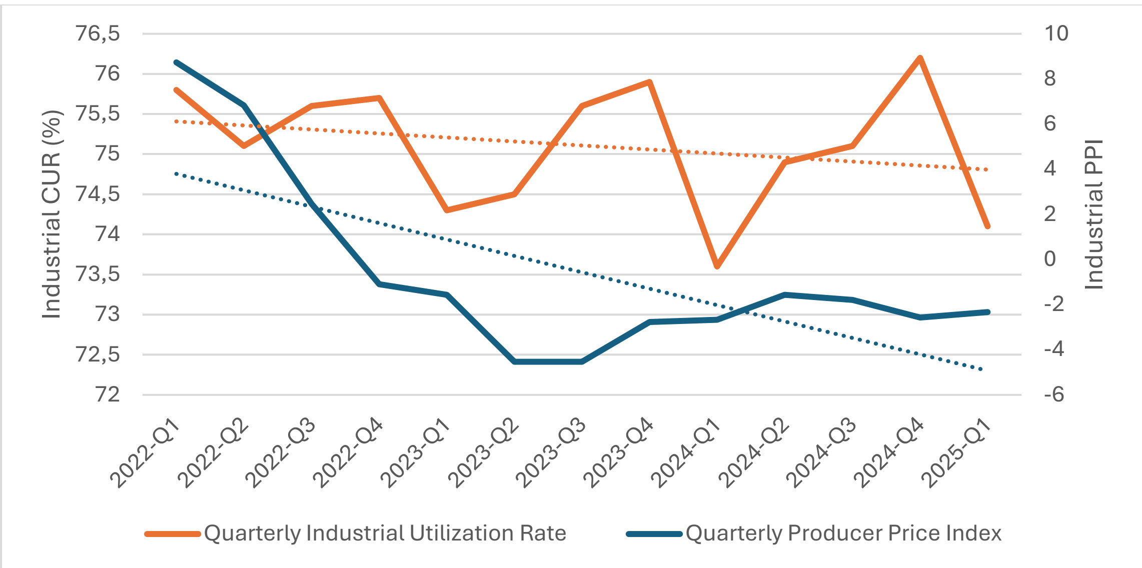
Figure 5: China, industrial profits and real GDP growth (March 2021- December 2024)



Source: Bruegel based on Natixis, WIND.

Depressed corporate profits were the norm in China for much of 2023 and 2024, although there has been a recent recovery. One of the main reasons for such depressed profitability is the intense competition between firms in the Chinese market, which the government has labelled, quite negatively, as 'Neijuan' (内卷) or 'involution'. Over-competition is a consequence of low domestic demand, which has led to overcapacity, as measured by low and falling capacity utilisation rates in China's industrial sector. Low domestic demand has also led to a massive push to export at ever-lower prices (Figure 6).

Figure 6: China, industrial capacity utilisation and producer price index (2022-Q1 to 2025-Q1)

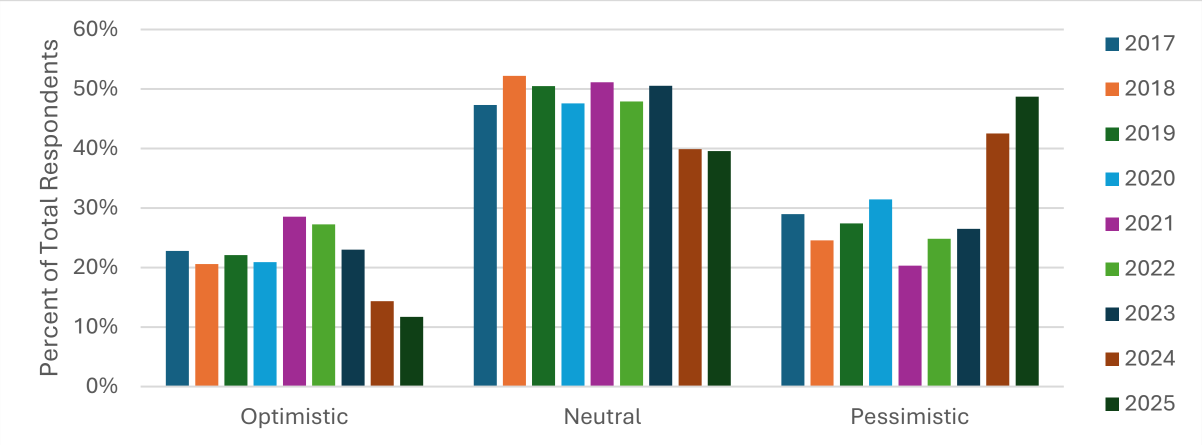


Source: Bruegel based on China National Bureau of Statistics.

Partly because of these challenges, European companies in China have reported increasing difficulty in doing business for the past few years, with no sign of improvement, even in the most recent EUCCC Business Confidence Survey (BCS), conducted from January to February 2025. While some challenges are common to all firms in China, stemming from the macroeconomic circumstances such as weak demand and deflationary pressure, others are unique to their status as foreign firms operating in China.

European companies' perceptions of their sectoral profitability in China have never been bleaker, as shown in Figure 7, which displays the attitude of all respondents from 2017 to 2025 towards their sector's future profitability. It is important to note that China relaxed its extremely restrictive zero-COVID-19 policies at the end of 2022, which in principle should have led to more optimism among companies in 2023. However, no increase in positivity was recorded. Rather, pessimism climbed sharply, while both optimism and neutral attitudes declined.

Figure 7: Attitudes of EU firms' sectoral profitability over next two years (2017-2025)

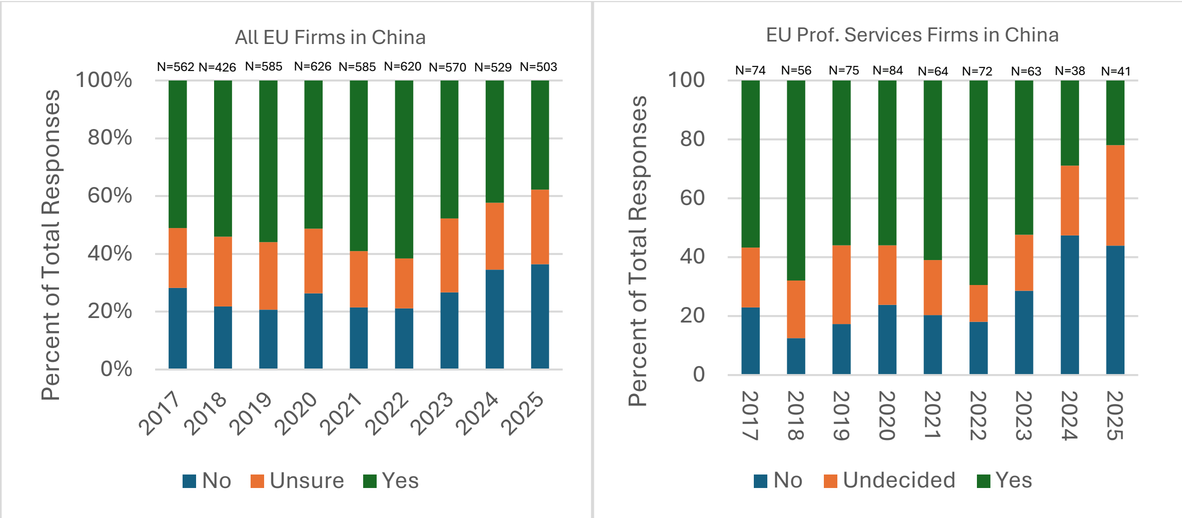


Source: Bruegel based on EUCCC BCS.

4 The deteriorating sentiment of European Companies in China and its underlying factors

We find a clear deterioration in the sentiment of European companies in China, beginning in 2022 and becoming more acute each year until the latest data in 2025. Fewer European firms than ever intend to expand their Chinese operations. Figure 8 shows that the overall trend is bleak, with views even more negative than during the pandemic. Most notably, in 2025, 36.38 percent of all BCS respondents claimed they were unwilling to expand their current China operations, while an additional 25.84 percent said they were unsure.

Figure 8: EU firms' expansion plans in China (2017-2025)



Source: Bruegel based on EUCCC BCS.

The trend is even starker in some sectors, such as professional services. This sector includes consultancies, strategic advisories and due-diligence firms, and has been perhaps influenced by the string of high-profile investigations into several foreign consulting firms operating in China[3]. In such cases, firms' offices were raided and staff detained for failing to comply with data security regulations or for conducting investigations into sensitive topics in China. Among professional services firms, 43.9 percent of 2025 respondents explained that they were unwilling to expand operations in China, and a further 34.15 percent said they were unsure, leaving just 21.95 percent affirming plans to expand. This was down from 69.44 percent of professional services firms in 2022 wanting to expand their Chinese operations.

4.1 Overarching trends

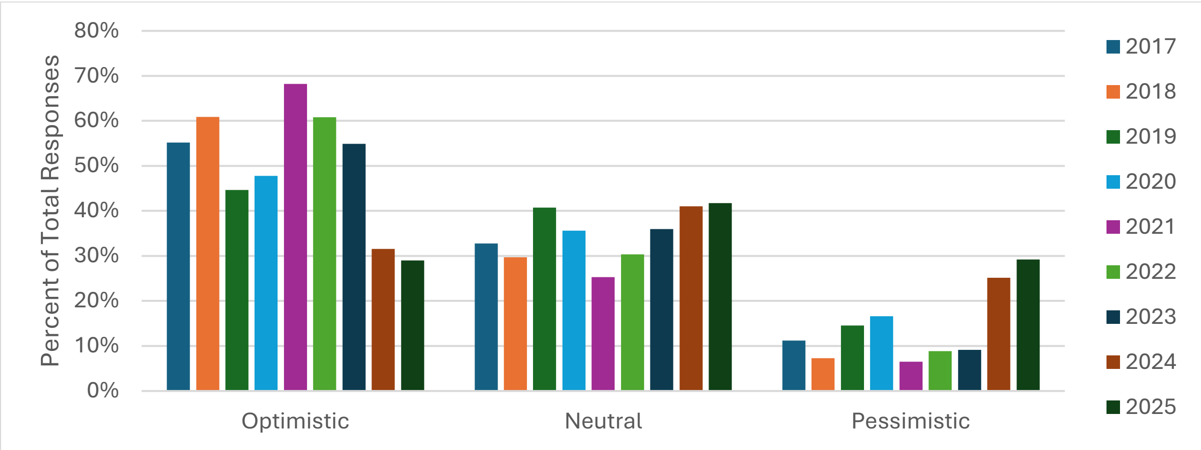
In determining the main factors behind sentiment deterioration, we consider four broad categories: China's domestic economic circumstances, unsettling Chinese regulations, home-country economic circumstances and external regulatory incentives to de-risk from China. The relative importance of these factors varies by sector, but some general trends emerge.

[3] See for example Michael Martina and Yew Lun Tian, 'China detains staff, raids officer of US due diligence firm Mintz Group', *Reuters*, 24 March 2023, https://www.reuters.com/world/us-due-diligence-firm-mintz-groups-beijing-office-raided-five-staff-detained-2023-03-24/; David Pierson and Daisuke Wakabayashi, 'China's Crackdown Widens as Police Raid Another Firm With Foreign Ties', *The New York Times*, 8 May 2023, https://www.nytimes.com/2023/05/08/business/capvision-china-espionage-law.html; Dan Strumpf, 'Bain's Staff in Shanghai Questioned as China Targets Foreign Businesses', *The Wall Street Journal*, 27 April 2023, https://www.wsj.com/articles/chinese-authorities-question-bain-staff-in-shanghai-e0bbf2fb.

4.1.1 Growth

Hampered by deflation, shrinking profits, regulatory crackdowns in key sectors, longstanding concerns over intellectual property and trouble retaining foreign talent, EU firms are understandably pessimistic about the growth of their operations in China over the next two years. Figure 9 shows that across all EU firms, rates of pessimism over sectoral growth have never been more acute. Nearly 30 percent of respondents reported feeling pessimistic about their sector's potential growth in the two years following 2025, more than double the rate reported in 2023.

Figure 9: EU firms' views on sectoral growth in next two years (2017-2025)



Source: Bruegel based on EUCCC BCS.

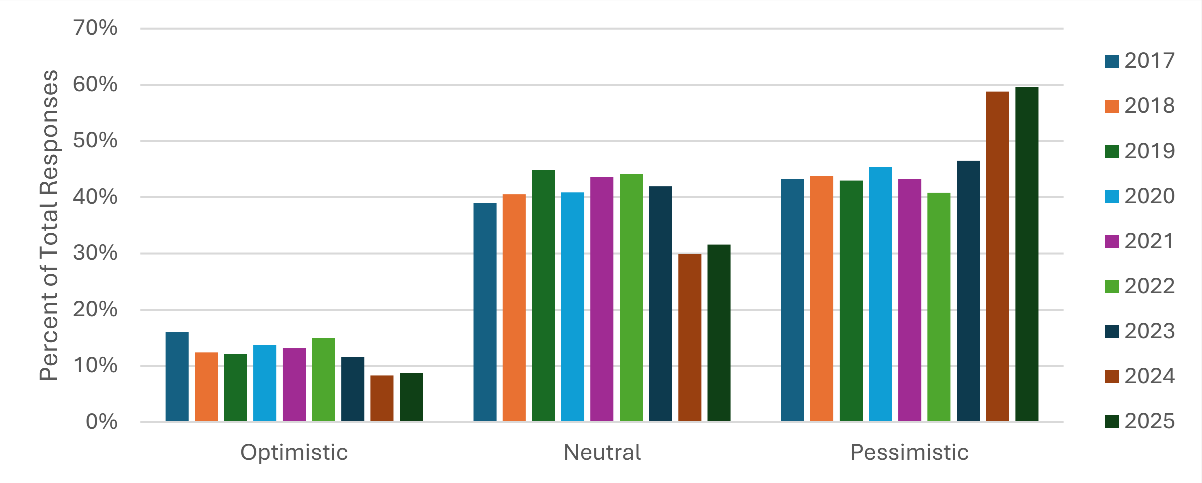
Strikingly, the positive attitudes seen near the end of the pandemic have evaporated. Since 2021, when more than two thirds of firms were optimistic about their sector's growth in the two years to come, optimism has fallen precipitously to just 29.02 percent in 2025, while pessimism has increased to a similar rate and neutral sentiment has risen to a record 41.75 percent.

4.1.2 Level playing field

In China, EU firms are widely perceived to operate at a regulatory disadvantage to Chinese counterparts in terms of market access, intellectual property protection, bids for government procurement contracts and a host of other issues long documented by the EUCCC and other foreign chambers of commerce. EU firms in China operate in an exceedingly challenging regulatory environment. Rates of optimism about their competitiveness have consistently been low, and pessimism has consistently been high. Lately, far fewer respondents have reported feeling neutral about competitive pressure, and far more report feeling pessimistic.

Significant examples of this dynamic include draft regulations on public procurement contracts, worth a minimum of about $500 billion per year[4]. China's December 2024 Notice on Domestic Product Standards and Policies in Government Procurement (政府采购领域本国产品标准及实施政策有关事项的通知) suggested that bids from domestic producers would benefit from a 20 percent reduction in the price listed as their bid[5] (Procurement Network of China, 2024). Clarification of the specific definition of a *"domestically produced product"* is eagerly awaited, but these moves appear to violate the WTO's Agreement on Government Procurement, of which China has been an observer since 2002 while negotiating to become a signatory[6]. Previous cases of discrimination against foreign firms in Chinese procurement include the medical devices sector, which has prompted an investigation by the European Commission trade directorate general[7].

Figure 10: EU firms' views on competitive pressure over the next two years (2017-2025)



Source: Bruegel based on EUCCC BCS.

Figure 10 illustrates this longstanding dismal sentiment, with fewer respondents than ever saying they have a neutral outlook on their competitiveness in years to come, and the already-small share of optimists shrinking from 15 percent in 2022 to 8.75 percent in 2025. From 2017 to 2023, neutrality was the prevailing sentiment – along with pessimism – on this issue, but was substantially overtaken

[4] Yikan Chen, 'Chinese Gov't Procurement Was Above CNY3 Trillion for Eighth Year in 2023, Despite 3% Drop', *Yicai Global*, 18 September 2024, https://www2.yicaiglobal.com/news/chinas-government-procurement-fell-in-2023-but-stayed-above-cny3-trillion-for-eighth-year.

[5] Procurement Network of China, 关于就《关于政府采购领域本国产品标准及实施政策有关事项的通知（征求意见稿）》向社会公开征求意见的通知, 5 December 2024, https://www.ccgp.gov.cn/news/202412/t20241205_23796937.htm.

[6] See WTO, 'Overview of the Agreement on Government Procurement', undated, https://www.wto.org/english/tratop_e/gproc_e/gpa_overview_e.htm.

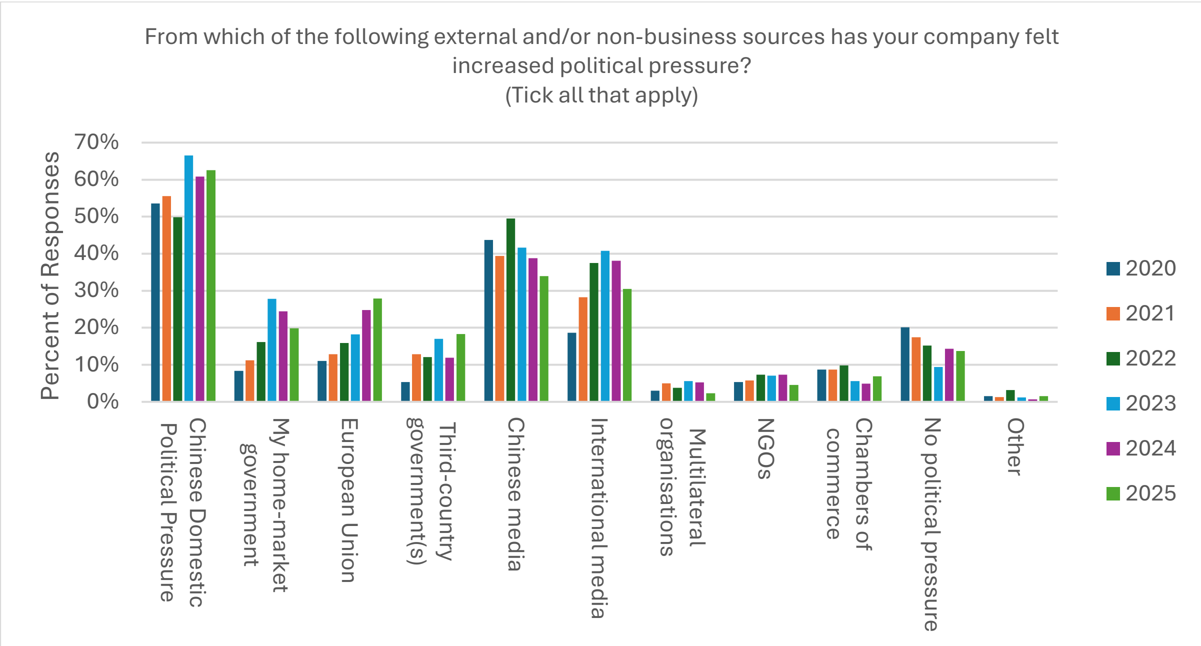
[7] A new investigation by the Commission's Directorate General for Trade and Economic Security is mentioned in its January 2025 report under the International Procurement Instrument; see European Commission, 'China - Medical devices', https://policy.trade.ec.europa.eu/help-exporters-and-importers/accessing-markets/public-procurement/international-procurement-instrument/china-medical-devices_en.

by pessimism starting in 2023. Now, only 31.61 percent of survey respondents take a neutral view of their competitiveness in China, compared to 41.92 percent in 2023. Rates of pessimism have soared, with 59.64 percent of respondents feeling uncompetitive in the two years to come after 2025, up from 46.49 percent in 2023.

4.1.3 Political pressure

Globally, trade relationships are increasingly politicised, with terms such as 'economic security' gaining traction among policymakers and the public. Probing this issue since 2020 with a tick-all-that-apply approach, the EUCCC has delved into the different sources of political pressure European companies have felt in China. The main source of political pressure appears to be Chinese domestic political pressure, encompassing organs of the Chinese state (Figure 11). This constitutes one of the most common and potentially impactful experiences of EU firms operating in China. Political pressure from Chinese media is also elevated, followed closely by the international media. Significantly lower shares of respondents identify EU institutions, home governments, third-country governments and civil society organisations as sources of political pressure.

Figure 11: Shares of EU firms experiencing political pressure from different sources (2020-2025)



Source: Bruegel based on EUCCC BCS.

Political pressure from home governments, Chinese media and international media have reduced from their peak levels in 2023-2024, while pressure from Chinese government institutions has become more significant over the past three years, according to these confidence surveys. Pressure from the EU and third-country governments has increased as well, though levels are below those identified for the Chinese government.

Examples of political pressure from the EU include certain regulations such as the 2024 supply chains law (Corporate Sustainability Due Diligence Directive 2024/1760) which complicates business operations for European firms operating in China[8]. While designed to ensure adequate environmental, labour and human rights practices throughout the supply chains of products available to EU consumers, these rules require due diligence that in practice is very difficult to complete in an authoritarian state such as China[9].

4.1.4 Siloing

Analysis of the EUCCC surveys points to a noticeable increase in respondents that affirm that their firms have undergone some form of siloing of their Chinese operations, which the surveys refer to as 'decoupling', meaning isolating of the company's operations in China from the rest of the group. Specifically, the 2024 survey defined decoupling as: *"disconnection between* [a firm's] *headquarters and its China operations"*. We use the term 'siloing' to refer to the survey's concept of decoupling.

Siloing became particularly important for European companies in 2024, with 31 percent of respondents stating that they had experienced it over the past two years, up from only 16 percent in 2022 (Figure 12). In 2025, rates of siloing fell just below 30 percent, but fewer respondents than ever said they were not experiencing siloing, opting instead to select 'I Don't Know' or 'Not Applicable', at higher rates than in 2024.

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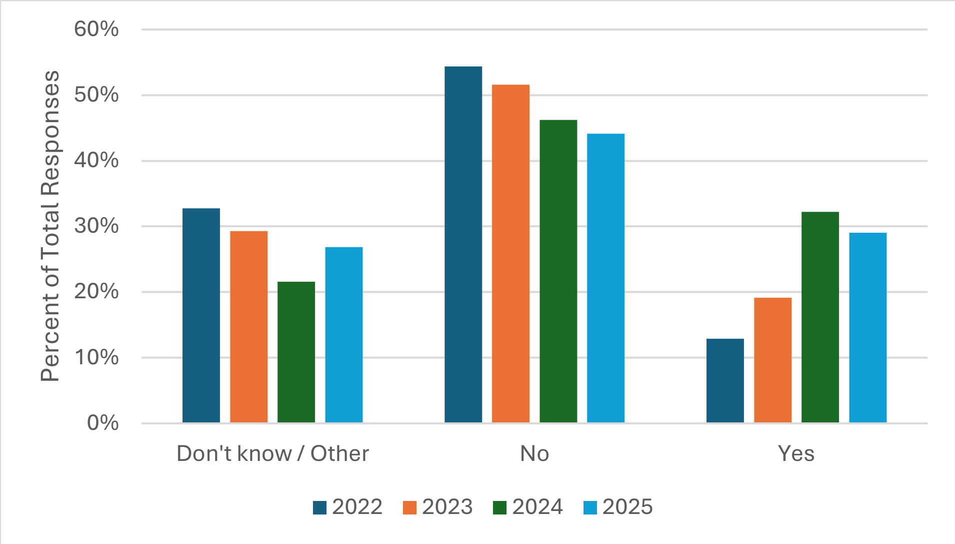
[8] European Parliament press release of 14 December 2023, 'Corporate due diligence rules agreed to safeguard human rights and environment', https://www.europarl.europa.eu/news/en/press-room/20231205IPR15689/corporate-due-diligence-rules-agreed-to-safeguard-human-rights-and-environment.

[9] Patricia Nilsson and Edward White, 'VW audit of Xinjiang plant failed to meet international standards', *Financial Times*, 19 September 2024, https://www.ft.com/content/ae25a633-1c5d-4268-8f22-1ab55ed51a58; Emilio Parodi (2024) 'Armani company put in receivership amid labour exploitation probe', *Reuters*, 5 April 2024, available at: https://www.reuters.com/business/retail-consumer/armani-group-company-receivership-over-labour-exploitation-probe-2024-04-05/.

Figure 12: EU firms in China: has your firm experienced siloing in the past two years (2022-2025)



Source: Bruegel based on EUCCC BCS.

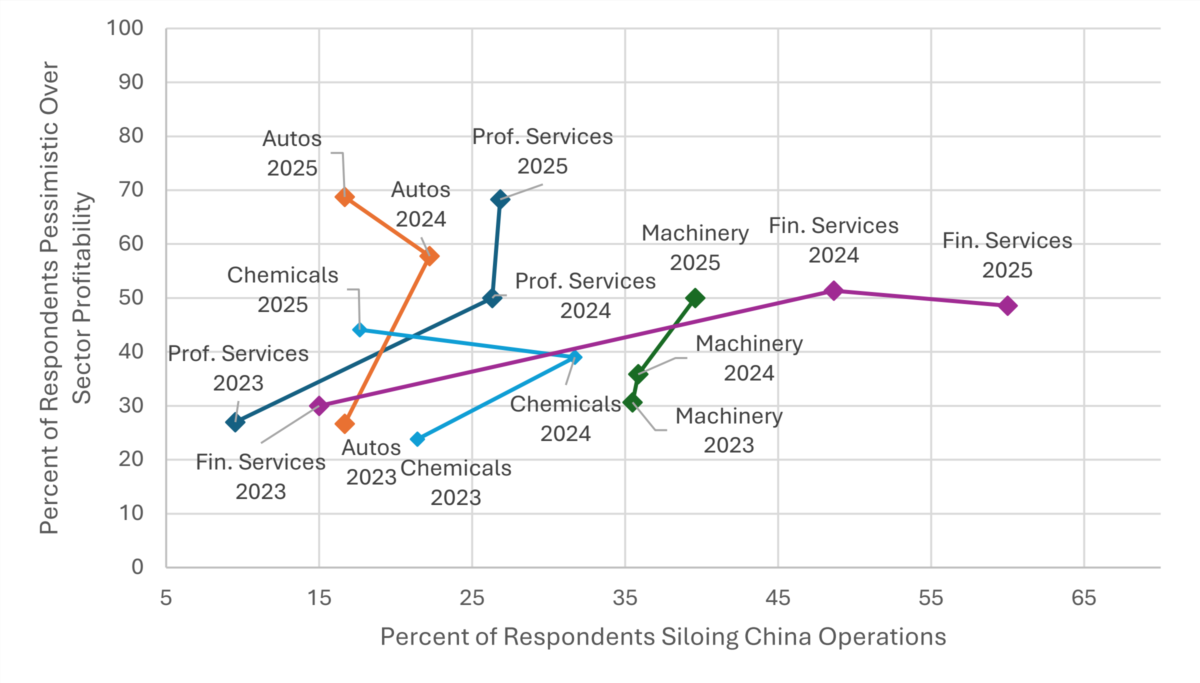
To identify factors underlying this surge in siloing in the past three years, we searched for correlations between siloing and critical business factors such as profitability. We further disaggregated data by sector, to examine whether siloing trends were concentrated in a few sectors. Our working hypothesis is that asset-heavy sectors – which would find it very costly to leave China – may prefer to silo their operations. This could be the case for machinery and automotive firms, compared to asset-light sectors such as professional and financial services.

Broadly, results suggest that across five measured sectors, profitability pessimism correlates quite strongly with siloing of Chinese operations. Figure 13 illustrates this correlation with a scatter plot, showing that the correlation is strongest among asset-light firms, but weaker among asset-heavy firms. Two exceptions stand out: the chemicals and auto sectors, which experienced less siloing in 2025 than 2024, despite greater pessimism about profitability. Machinery firms presented the same correlation of profitability pessimism and siloing, but less so than professional and financial services firms.

Auto firms also stand out for the sharpest increase in pessimism about profitability in the past three years, yet with consistent lower rates of siloing of Chinese operations than firms from all other sectors. A contrasting case is financial services firms, in that their profitability outlook is substantially better than that of auto firms, but their rates of siloing are more elevated than any other sector. Asset-heavy firms such as those in the automotive, chemicals and machinery sectors, may be 'stuck' in China, while their asset-light counterparts can silo China operations more quickly, reducing exposure.

Generally, the rather strong correlation between pessimism about profitability and siloing points to rational fiduciary considerations acted on by firms with differing sectoral considerations.

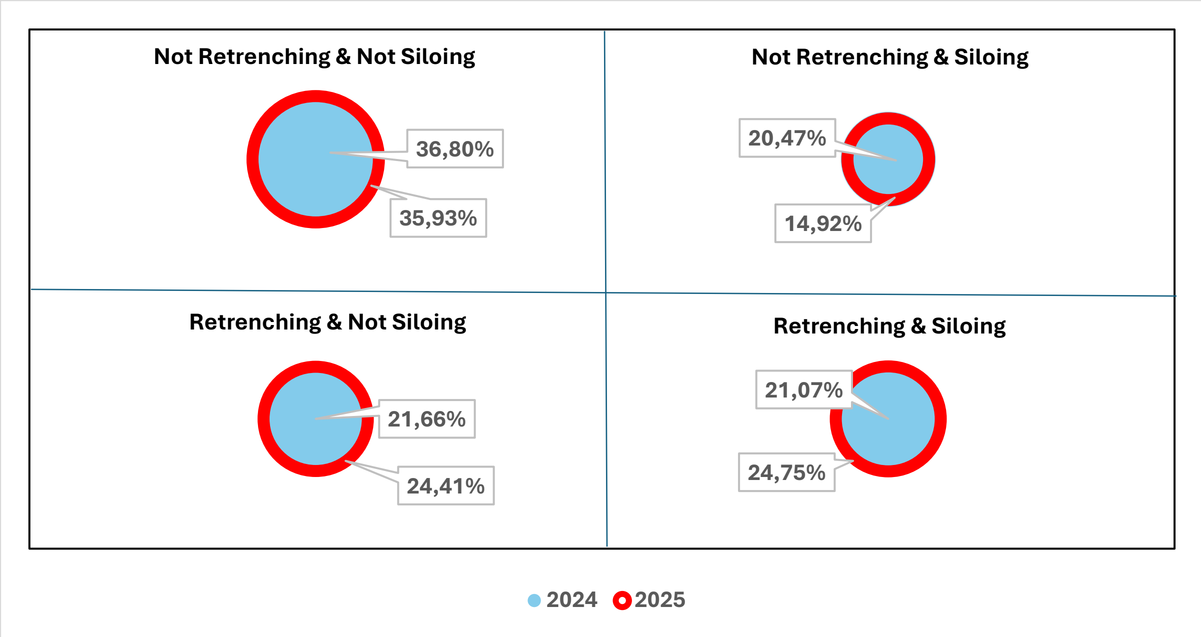
Figure 13: Pessimism about profitability vs rates of siloing by sector (2023-2025)



Source: Bruegel based on EUCCC BCS.

Notably, we found that the siloing of Chinese operations does not necessarily imply retrenchment from the Chinese market. The top right quadrant of Figure 14 illustrates how in 2024 and 2025, substantial shares of respondents affirmed both that they were siloing their Chinese operations while not stepping back from the Chinese market. Down from 20.47 percent in 2024, nearly 15 percent of all BCS respondents in 2025 declared they were siloing Chinese operations but not retrenching from the Chinese market. A shift seems to have occurred in the past two years, however, with more firms in 2025 declaring they are both retrenching from China and siloing their Chinese operations.

Figure 14: Retrenchment from China vs. siloing of Chinese operations, 2024-2025



Source: Bruegel based on EUCCC BCS.

Several regulatory factors may contribute to these trends. Chief among them is legislation China has introduced and reformed, which significantly complicates the operations of foreign companies, such as the Counter-Espionage Law (中华人民共和国反间谍法) introduced in April 2023, and the Cross-Border Data Transfer Regulation (促进和规范数据跨境流动规定) introduced in March 2024[10]. While these regulations were later revised after push-back from several businesses sectors – including pharmaceutical companies which require cross-border data transfers for clinical trials[11] (Li and Wang, 2024) – they seem to have startled the foreign business community, including European companies.

4.2 Classifying EU firms' experiences in China

When analysing the behaviour of European companies as depicted in these confidence surveys, certain recurring behaviours appear that can be typified as different business strategies in the Chinese market. We have tentatively classified them as: 1. doubling down, 2. hedging, 3. hibernating and 4. ready to exit.

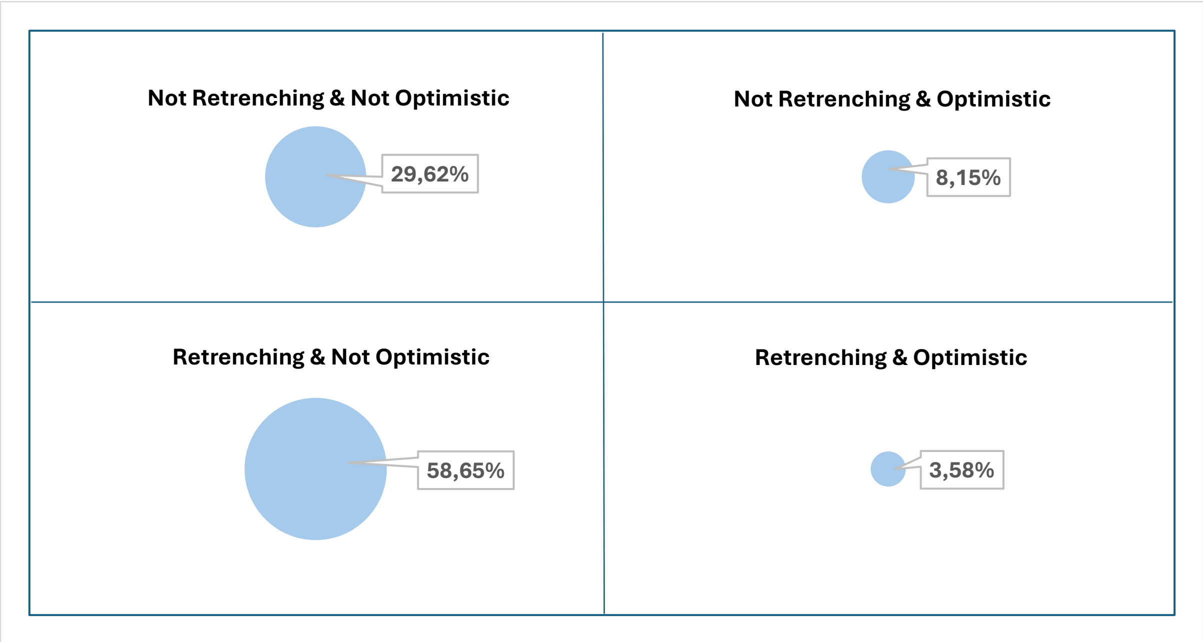
[10] See Standing Committee of the People's Republic of China, 中华人民共和国反间谍法, 27 April 2023, https://www.gov.cn/yaowen/2023-04/27/content_5753385.htm; and Cyberspace Administration China, 促进和规范数据跨境流动规定, 22 March 2024, https://www.cac.gov.cn/2024-03/22/c_1712776611775634.htm.
[11] Lei Li and Lianying Wang, 'Pharma Companies in Beijing Free Trade Zone to Benefit from Relaxed Data Transfer Rules', Sidley, 19 September 2024, https://datamatters.sidley.com/2024/09/19/pharma-companies-in-beijing-free-trade-zone-to-benefit-from-relaxed-data-transfer-rules/.

4.2.1 Doubling down: in China for China

One of the most significant typologies we found was firms that seemed to 'double down' on their Chinese operations. Despite low profitability, as indicated by neutral or pessimistic profitability outlooks, nearly a third of respondents declared that they still planned to expand their positions in China the following year. Figure 15 shows shares of respondents in 2025 according to their assessed level of profitability optimism versus their plans to retrench or expand positions in China.

While low profitability is intuitively associated with retrenchment from China – as 58.65 percent of respondents declared in 2025 – we found that 29.62 percent of respondents affirmed that while they were not optimistic about sectoral profitability in China over the coming two years, they still planned to expand their Chinese operations in the year to come.

Figure 15: Retrenchment from China vs. profitability optimism in 2025



Source: Bruegel based on EUCCC BCS.

Within the double-down cohort of respondents, 42.76 percent were large firms, with revenues from China above €251 million per year. Only 15.13 percent of firms doubling down on their Chinese operations were small, with revenues of less than €10 million per year. This suggests that firms doubling down on their positions in China tend to be those firms with the financial capacity to sustain themselves while operating at a loss.

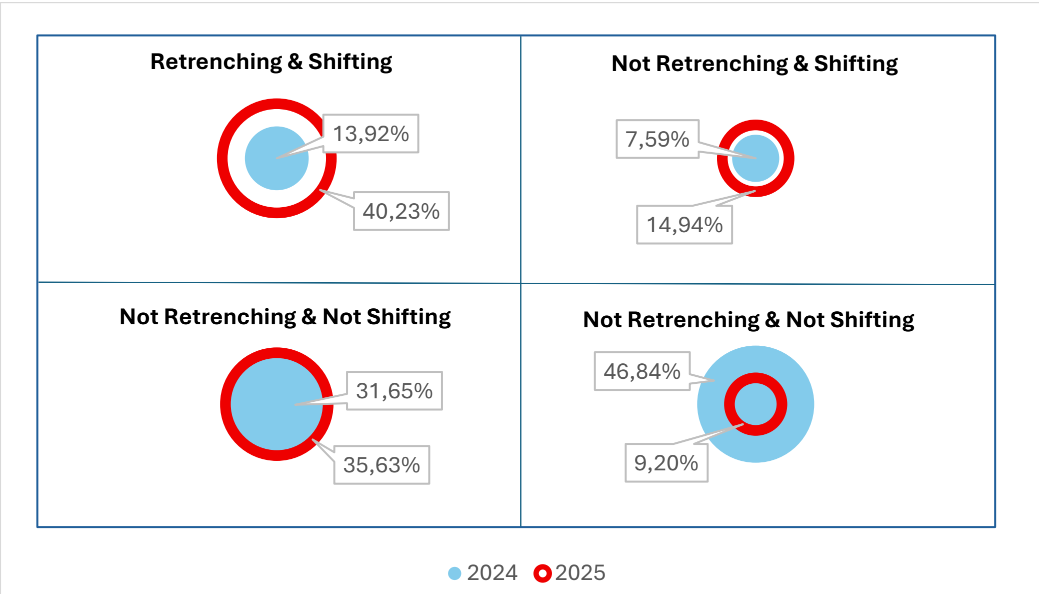
One might assume that firms doubling down on their China operations would mostly shift their staffing decisions to provide local rather than international expertise – losing international staff while committing to a strategy localised to China. The EUCCC BCS posed questions about shifts in foreign staffing of firms from 2019 to 2023, but discontinued the question in 2024. However, we used the anonymous numerical identifiers for respondents to the 2023 survey to track whether firms that declared their foreign staff numbers were falling in 2023 later affirmed in 2024 and 2025 that they were expanding their Chinese operations, despite being unprofitable. Results were staggering: 40.67 percent of firms that declared they had reduced foreign staff in 2023 later qualified as 'doubling down' on China in 2024 and 2025. This suggests that firms might have been preparing to localise their operations as early as 2023, doubling down on a localised strategy for the Chinese market while somewhat abandoning the idea that their Chinese operations could fit into a globally integrated business portfolio.

4.2.2 Hedging: expanding in China and elsewhere

The EUCCC BCS also probes whether firms are moving their operations out of China, and if so, where to. While the survey options for investment destinations changed substantially each year the question was posed, the issue of shifting investment destinations remained, facilitating an important segment of this investigation.

Figure 16 shows that while a substantial share of respondents said they were moving their operations elsewhere or considering doing so in 2024 and 2025 while retrenching from China, a smaller but growing share – 7.59 percent in 2024 and 14.94 percent in 2025 – exhibited a behaviour we call 'hedging'. These 'hedgers' said that they were shifting or thinking about shifting investments elsewhere while simultaneously expanding their positions in China. This strategy enables them to take advantage of a host of emerging markets while sustaining and even growing their positions in China. In some ways, it's an insurance mechanism, protecting their interests from volatility in the Chinese market.

Figure 16: Retrenchment from China vs. shifting operations elsewhere (2024-2025)



Source: Bruegel based on EUCCC BCS.

Should China's economic environment improve in the next few years, these firms will be well positioned to broaden their Chinese operations. On the other hand, if the Chinese market continues to deteriorate, hedgers will have an advantage compared to their competitors as they will have already dedicated substantial resources to developing business opportunities elsewhere.

The proportion of hedgers remains small compared to the share of firms that, in 2025, said they were shifting or considering shifting operations abroad while retrenching their positions in China. Hedgers are a minority that have the financial and strategic capacity to pursue several markets at once.

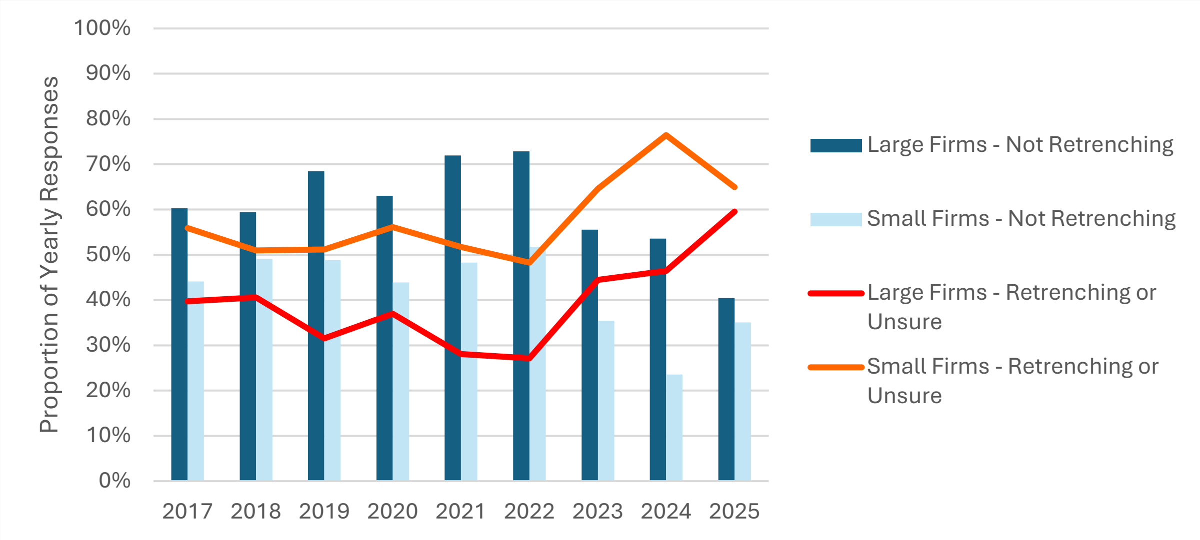
4.2.3 Hibernating: weathering the storm

Another potential strategy identified from the data is 'hibernating', when large firms are unprofitable and stepping back from China despite having the financial capacity to operate in difficult circumstances.

Large firms are typically much more likely to expand their positions in China regardless of circumstance, while smaller firms are more hesitant in that they're less likely to expand and more likely to retrench. This trend has been remarkably consistent since 2017, despite both large and small firms having nearly identical outlooks on sectoral profitability. Figure 17 shows that since 2017, there has consistently been a near 20 percent gap between the rates of retrenchment from China of small and large firms, narrowing in 2025 when the gap closed to only 10 percent. In contrast, Figure 18 shows that the gap between the profitability outlooks of large and small firms has never been more than 7 percent, ranging mostly from 2 percent to 4 percent. Their profitability outlook has moved in tandem for nearly the entire period covered by the survey, except for a divergence in 2022 when larger firms became more pessimistic than their smaller counterparts – likely in response to COVID-19.

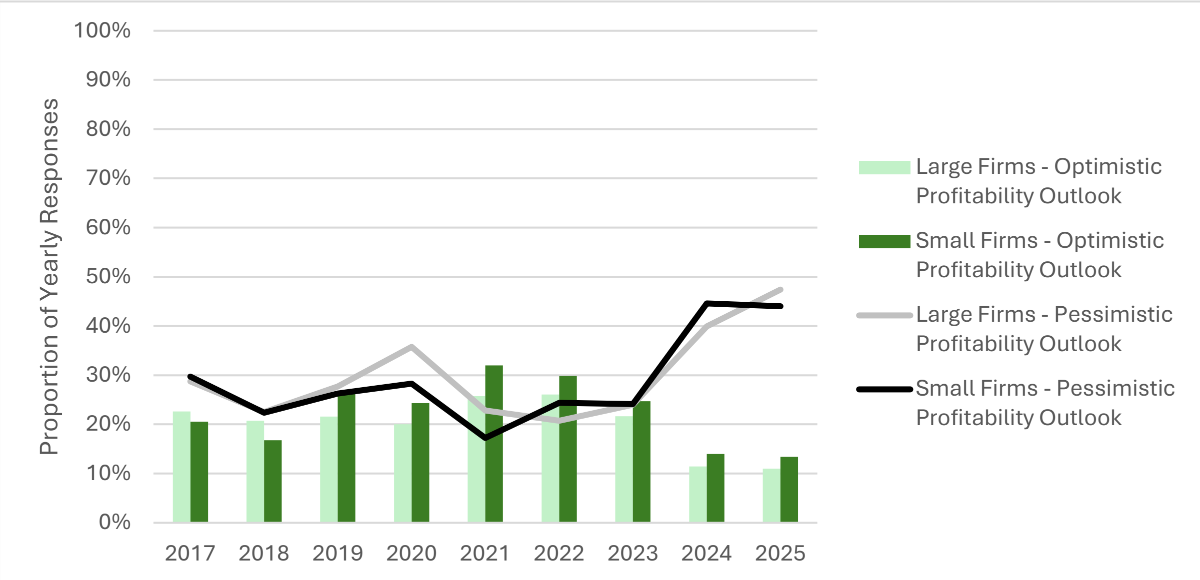
Among large companies, 59.5 percent declared they were either not expanding their operations in 2025 or that they were unsure. While this is less than the corresponding figure for small firms, which reached 64.9 percent in 2025, the significant differences in financial capacity between the two subsets of firms suggest that they may be motivated by different business strategies. While small firms may be forced to take more drastic measures in response to deteriorating conditions, large firms may exemplify the French saying: *reculer pour mieux sauter* or stepping back in order to jump further ahead.

Figure 17: EU firms retrenching from China, share of responses grouped by firm size



Source: Bruegel based on EUCCC BCS.

Figure 18: EU firms' profitability outlook: share of responses grouped by firm size

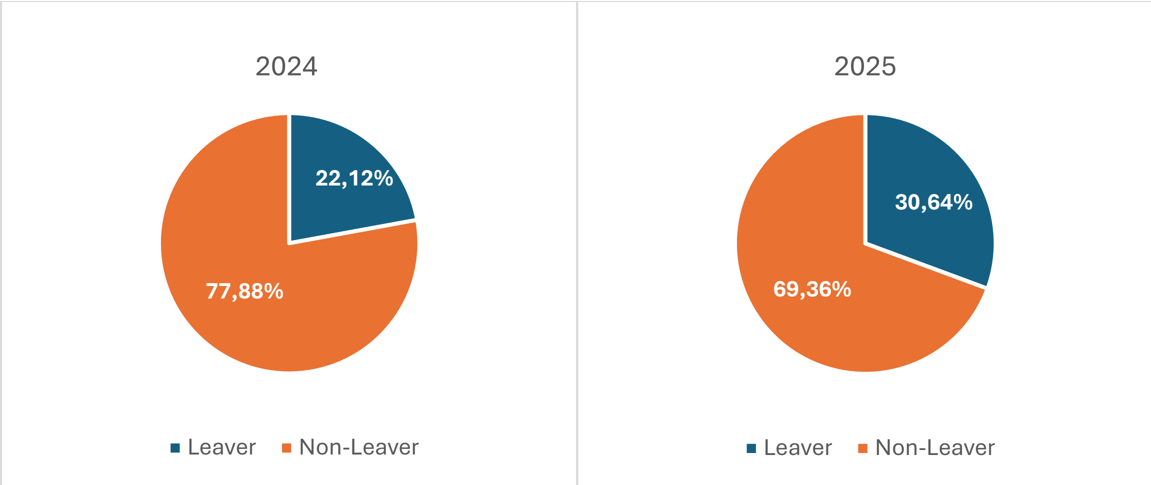


Source: Bruegel based on EUCCC BCS.

4.2.4 Ready to exit

Finally, we identified a series of respondents exhibiting negative sentiments across a number of critical indicators, all pointing to them being ready to exit China. While we cannot determine whether respondents ultimately left the Chinese market, the term 'leavers' was applied to respondents that simultaneously satisfied three conditions suggesting their sentiment was significantly negative, perhaps even negative enough to leave China.

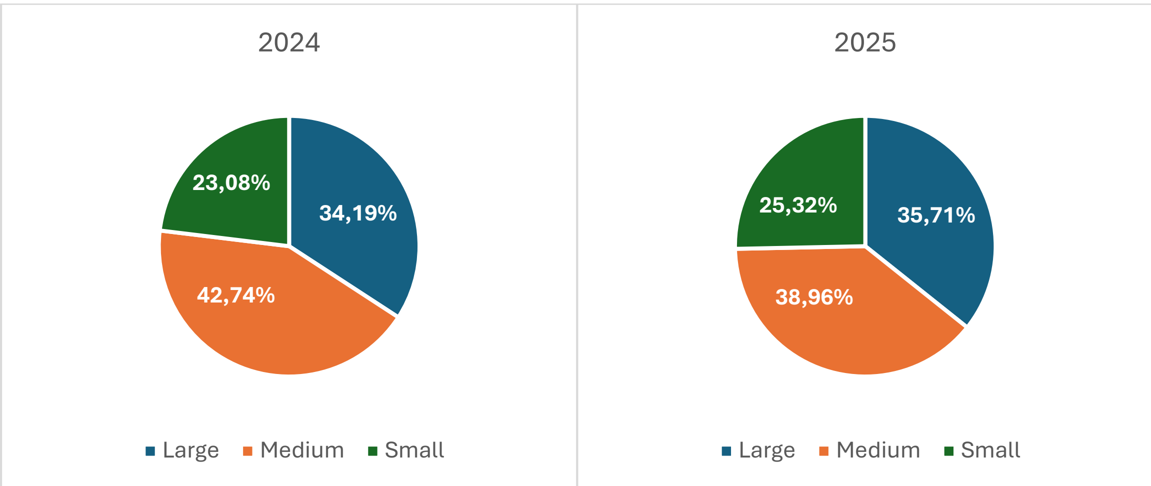
Figure 19: Proportion of respondents that are ready to exit (2024-2025)



Source: Bruegel based on EUCCC BCS.

The three conditions were: lack of optimism about profitability or competitiveness, retrenchment from China, and shifts of investments to elsewhere. Figure 19 shows that the portion of respondents that met all these conditions simultaneously grew from 22.12 percent (117 respondents) in 2024 to 30.64 percent (154 respondents) in 2025. While that means that more than two thirds of respondents exhibited profitability or competitive optimism, wanted expand their positions in China or were not contemplating shifting operations elsewhere, the portion of respondents that are ready to exit is substantial and growing rapidly.

Figure 20: Size breakdown of firms that are ready to exit (2024-2025)

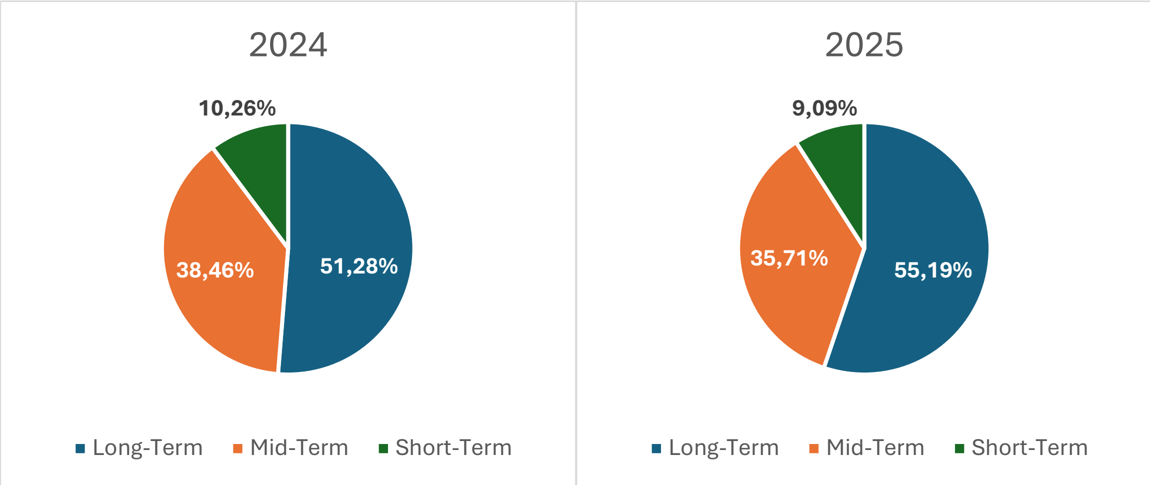


Source: Bruegel based on EUCCC BCS.

Figures 20 and 21 present a critical disaggregation of ready-to-exit respondents. Three quarters of these respondents in 2024 and 2025 were large or mid-sized firms, ie with revenues from China of more than €10 million, while only a quarter were small, with revenues from China totalling less than

€10 million. Correspondingly, more than half of ready-to-exit respondents were firms with long presences in China, declaring they had operated in China for 11 years or more. Far fewer were new arrivals, having operated in China for fewer than six years.

Figure 21: Breakdown of ready-to-exit firms by duration of presence in China (2024-2025)



Source: Bruegel based on EUCCC BCS.

5 Conclusions

European companies operating in China seem to have experienced sustained economic and political pressure in the last few years. Surprisingly, the pressure did not recede after the end of zero-COVID-19 policies in 2022 but continued to build from 2023 to 2025. Lack of profitability, hampering regulations and political pressure, as reported in European Chamber business confidence surveys, are relevant factors behind the significantly deteriorated sentiment of European companies.

Stagnant growth and deflationary pressures in China have both taken a toll on European companies, which appear more inclined to repatriate their shrinking profits rather than reinvest in China. It is noteworthy that European companies tend to respond to such deteriorating circumstances by siloing (disconnecting their Chinese operations from their global operations) while not necessarily leaving. Siloing, however, does not mean that their business will expand, as the survey results show.

In other words, while some companies might have taken the tougher regulatory environment as an additional reason to shift investment elsewhere, others have decided to adapt by siloing components of their Chinese operations, such as human resources, IT and research and development, to better comply with regulations and increasingly prevalent localisation requirements (EUCCC, 2025). Localisation in China is significantly incentivised by a vague and tougher regulatory environment. This means that companies staying and doubling down may need to separate critical components of their China operations from global strategies and research networks. Frequently, this process substantially reduces the competitiveness of European firms.

Together, these factors reflect an increasingly politicised and securitised concept of EU-China trade, shifting incentives for EU policymakers and firms alike, counterbalancing the economic sacrifices entailed by the decoupling of two of the world's largest markets.

Policymakers should consider how to address the challenges we have outlined, such as asset-heavy sectors being 'stuck' in China and smaller firms lacking the capacity to operate at a loss in China's market. Against such a backdrop, the EU might need to facilitate transitions for its firms, so that they reduce exposure to China and diversify into other emerging markets.

China is – and will likely remain – a main market for any major European company. Even if de-risking is supported by those companies, the EU must maintain strong business ties with the world's second largest economy. However, building such a relationship will require assertive action from the EU to address the current *status quo*, which is clearly not serving the interests of European companies in China, based on their increasingly negative sentiment. To achieve this goal, political will is needed on both sides.

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