SWISS CENTER 瑞士中心 SHANGHAI 上海

THE SWISS CHINA GATEWAY SINCE 2000

PRESS RELEASE

Swiss companies in China plan to increase investments

- *Despite a strong Swiss franc and weakening Swiss exports to China and Hong Kong, Swiss managers on the spot remain confident.* ***72% of Swiss companies plan to increase investments.***

- ***78% of Swiss companies expect "higher" or "substantially higher" sales in China this year****, while only 1% expects lower sales, according to the 2015 Swiss Business in China survey.*

- *Reasons for optimism are the low Producer Price Index (PPI) and the progressive elimination of Swiss import tariffs on Chinese products. The PPI decreased by 4.6% in May 2015 year-on-year,* ***bringing China's costs down to the level of 7 years ago****.*

Shanghai (27 July 2015) – Difficult times for Swiss exporters: In the first half of 2015, Swiss exports to most major markets declined. The Swiss Federal Customs Administration recently reported export declines of 7.3% to the most important market Germany year-on-year, -9.2% to Italy, -6.3% to France, -5.8% to the EU. The two remaining major growth markets are the United States (+6.1%) and the United Kingdom (+9.8%).

Swiss exports to China and Hong Kong declined by 6.6% year-on-year. "In the first six months of 2015, Swiss goods in the value of 7.2 billion Swiss francs have been exported to China and Hong Kong. That means China remains the third biggest market for Swiss goods behind Germany and the United States", explains Nicolas Musy, Managing Director of the Swiss Center Shanghai, a non-profit organization facilitating the market entry of Swiss companies in the Far East.

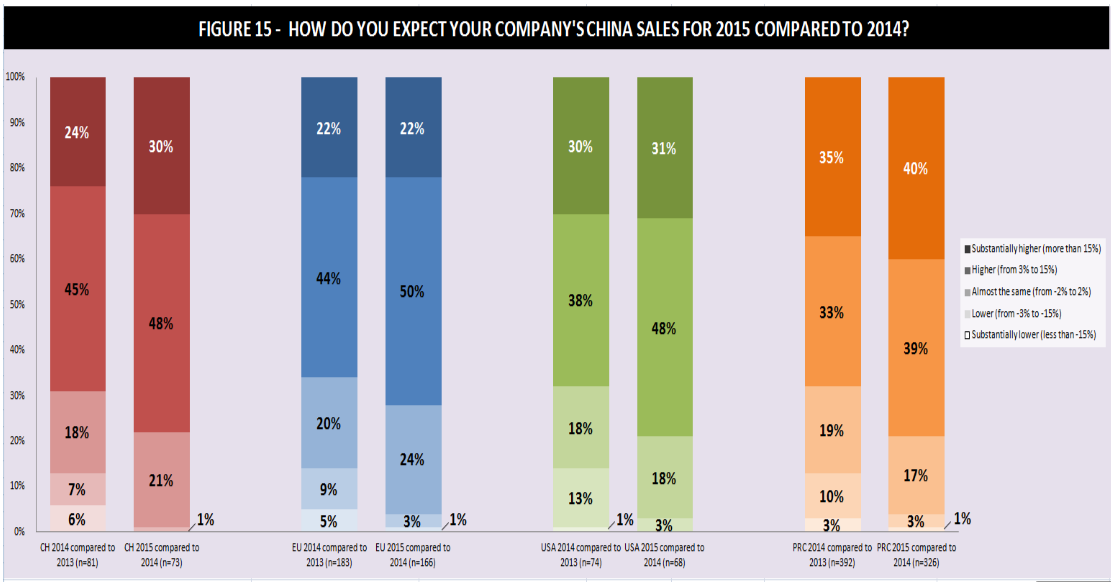
Swiss companies remain confident

Despite halting exports, Swiss managers in the Far East remain confident, according to the recent 2015 Swiss Business in China Survey: **78% of Swiss companies expect "higher" or "substantially higher" sales in China this year**, while only 1% expects lower sales.

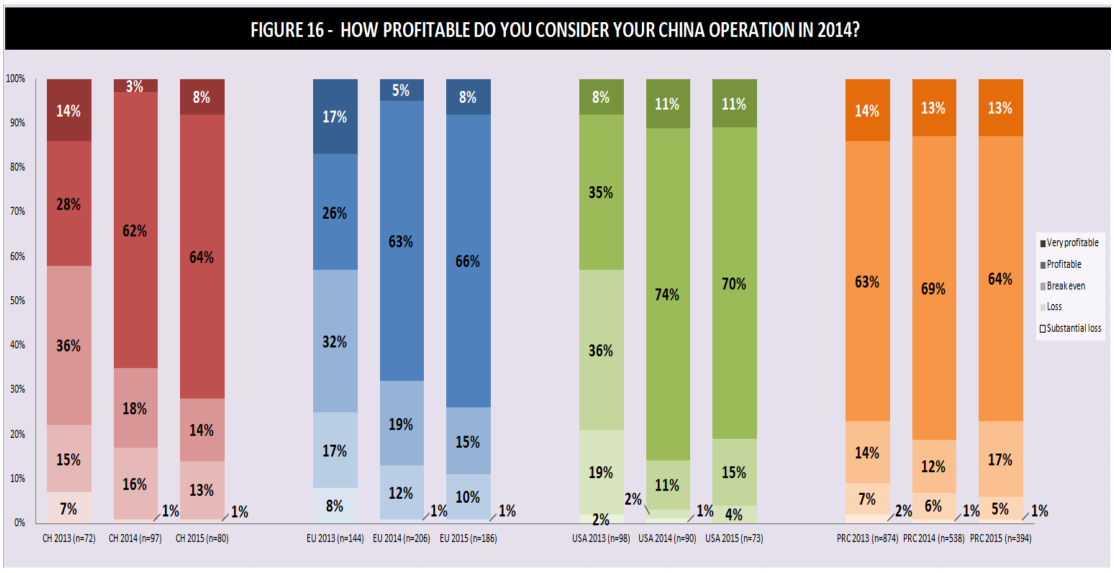
The survey, compiled by the **China Europe International Business School (CEIBS, the premier business school in Asia), the Swiss Center Shanghai (SCS), the Swiss Embassy in China, Swissnex, SwissCham** and **China Integrated**, comprises responses of 62 Swiss companies out of the total 368 foreign-owned enterprises. The survey is believed to be representative of the approximately 254 Swiss companies that are currently registered with SwissCham China. The Swiss Business Survey is the only such survey that also includes responses of 410 Chinese companies.

Companies of all origins surveyed expect on average a stronger increase in sales in 2015. Nicolas Musy: “This result may appear extraordinary in light of the media reports commenting on China’s decelerating growth. However, it is important to remember that decelerating growth of a larger GDP base still results in addition of more GDP than in previous years. The consistent increase in sales expectations from all companies indicates that most businesses remain confident in the sales opportunities that China offers.”

The answers of Swiss (CH) and European (EU) respondents are tightly matched both on revenue and profits, with respondents from these regions stating increasingly profitable operations yearly for the past three years.



Sales expectations of Swiss, European, US-American and PRC companies for 2015



Swiss, European and US-American companies consider their China operations increasingly profitable. (Please note: This survey question concerns the previous year’s profits; E.g. CH 2015 column is about 2014 profits, CH 2014 column about 2013 profits, etc.)

72% of Swiss companies plan to invest more

Based on the profit and revenue picture, it is not surprising to see that growing investment plans and investments in China command a high priority.

72% of the Swiss companies’ surveyed plan to increase investment in China in 2015 and 64% consider China as a top 3 investment destination. Chinese firms are clearly the most aggressive investors, planning to accelerate their investments significantly in 2015 compared to 2014.

FIGURE 17 - WHAT INVESTMENT DO YOU PLAN FOR 2015 IN CHINA?

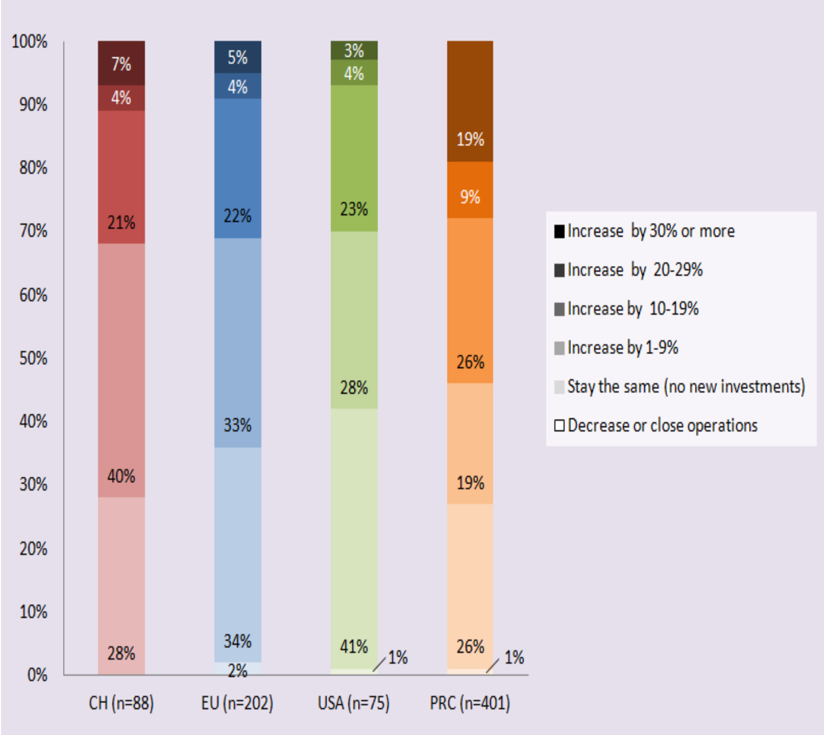
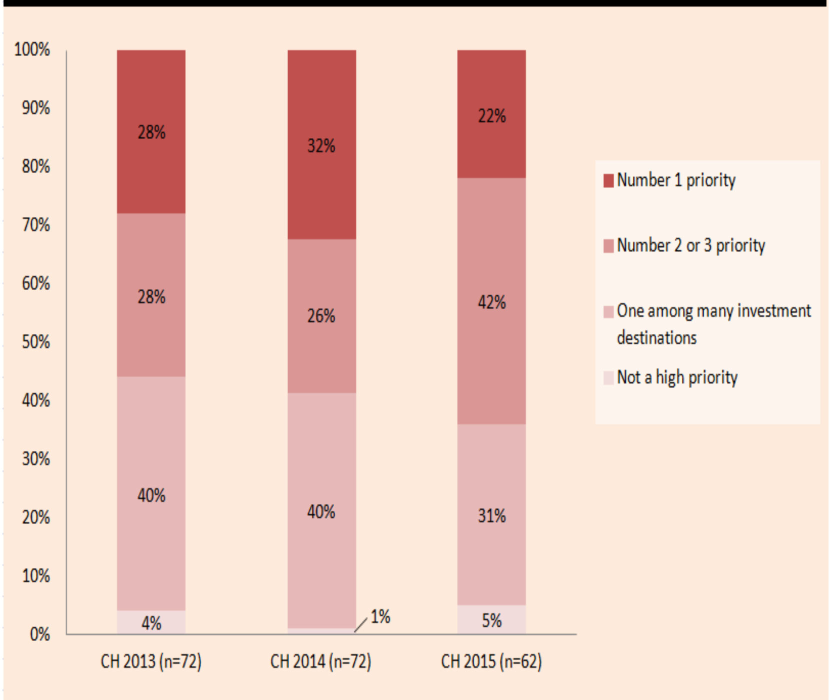


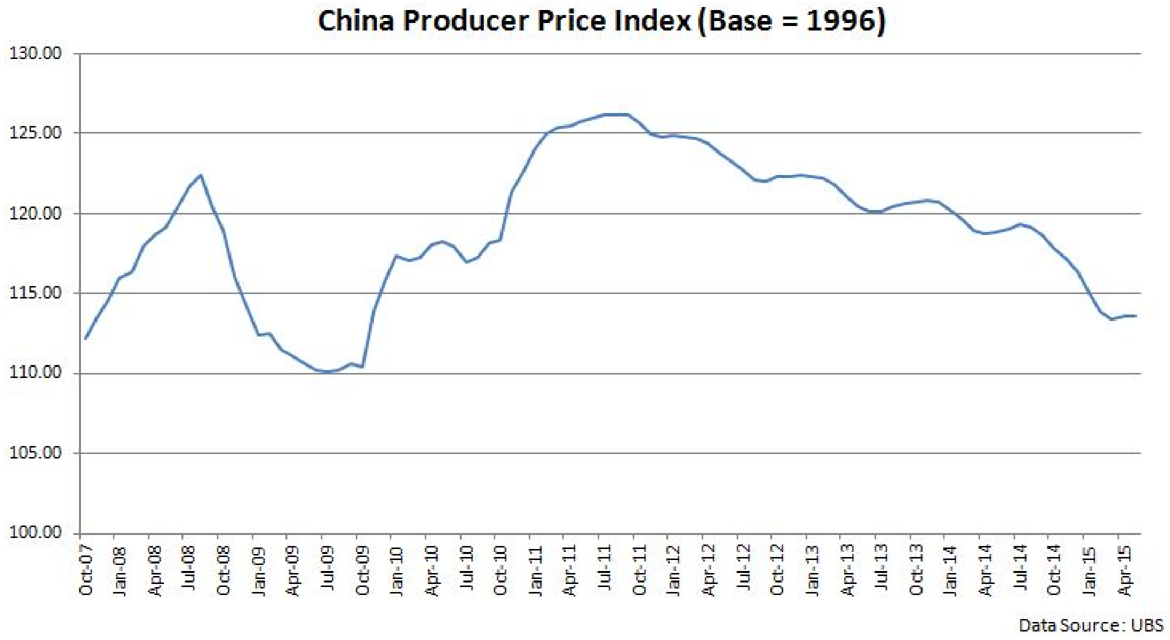
FIGURE 18 - HOW DOES CHINA RANK IN YOUR GLOBAL INVESTMENT PLAN? (CH COMPANIES)



Lower Production and Purchasing Costs

One of the main reasons for the confidence of Swiss managers in China is the Producer Price Index. “The situation in China is paradoxical: Although labor costs are still increasing by 5% to 10% per year, the

Producer Price Index has been going down steadily, year after year, since mid-2011", explains Nicolas Musy. "That means: Goods can be produced cheaper." The PPI registered -4.6% in May 2015 when compared to a year earlier. Musy: "This stronger than usual decline is certainly linked to the lower cost of oil and mineral resources, but it does not explain the steady decline of previous years."



One major aspect for the low production costs is China's push for more automation. "China is the biggest world market for robotics since 2013. The development of automation and the increasing use of robots in manufacturing allow more efficiency. That explains the steady decline of production costs", says Zhen Xiao, General Manager of the Swiss Center. "And this trend can last for a long time: China has 20 times less robots per worker than Korea."

Thanks to the progressive elimination of Swiss tariffs on Chinese goods by the Free Trade Agreement and a weakening currency, Chinese goods are becoming significantly cheaper for Swiss companies, before taking into account the rising Swiss Franc.

Mr. Xiao: "Even if business growth cannot accelerate indefinitely, and despite the often negative perception of China in Europe, the market trends both for sales and procurement are fundamentally positive for the Swiss in China."

Picture legend: Supporting Swiss companies in the Far East: Swiss Center Shanghai.

Picture source: swisscenters.org

About Swiss Center Shanghai (SCS): Founded in 2000, SCS is a platform supporting operations of Swiss companies in China and Asia. It is by far the largest cluster of Swiss businesses in Asia with a unique experience in business set-up, expansion and operations management. SCS not only offers instant workshop, office and desk space, but also supports its members with government relations and a comprehensive network of experts. SCS served more than 250 companies in China – both SMEs and large enterprises. Among other, the SCS experts have established 20 production companies and more than 30 commercial offices for Swiss companies. For more information, kindly visit: www.swisscenters.org.

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