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THE SWISS CHINA GATEWAY SINCE 2000

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**Year of the Monkey: Swiss managers in China remain confident**

- Despite a strong Swiss Franc and slowing GDP growth, **Swiss managers in China remain confident: 58% expect "higher" or "substantially higher" sales in 2016 compared to 2015. Only 7% expect lower sales.** Profit expectations are very positive, too.
- **57% of Swiss companies plan to invest more in China, 5% want to decrease investments,** according to a recent survey among 101 decision makers of Swiss enterprises.
- The confidence level of Swiss enterprises in China remains positive at 5.9 for the next year, lower than in the previous years. The confidence level for the next 5 years is high at 6.6, seeing the new growth opportunities brought by the transformation of the Chinese economy.

Shanghai (5 February 2016) – A strong Swiss Franc and the slowing Chinese luxury and manufacturing sectors are obstacles for Swiss companies in the Middle Kingdom. In 2015, Swiss exports to China and Hong Kong declined by 7.1% year-on-year, according to recent figures by the Swiss Customs Administration.

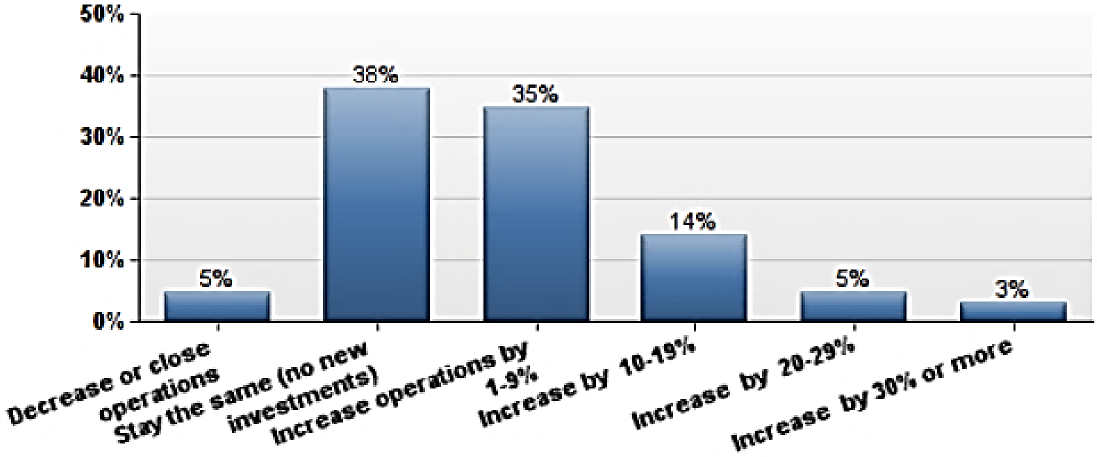
Nonetheless, Swiss companies in the Far East are very confident about their operations in the upcoming Year of the Monkey. 58% of Swiss business leaders in China expect "higher" or "substantially higher" sales in 2016 compared to 2015, while only 7% expect lower sales. This is the result of the "**2016 Swiss Business in China Survey**" 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**, **Switzerland Global Enterprise** and **China Integrated**. The comprehensive survey comprises responses from 101 Swiss enterprises, from small and middle-sized companies to big players. The survey is believed to be representative of the approximately 600 Swiss companies that have established operations in China.

45% of Swiss respondents expect their profits in China to be "higher" or "substantially higher" than in 2015. 11% expect lower profits.

**57% of Swiss companies plan to invest more**

Considering this high confidence level, it is not surprising that the majority of Swiss companies aim to increase their investments in the Chinese market in the coming year. "57% stated that they plan to increase investments, while only 5% plan to decrease them", explains Nicolas Musy, Managing Director of the Swiss Center Shanghai, a non-profit organization facilitating the market entry of Swiss enterprises in Asia. For almost half of the survey respondents, China is a top 3 priority market for investments.

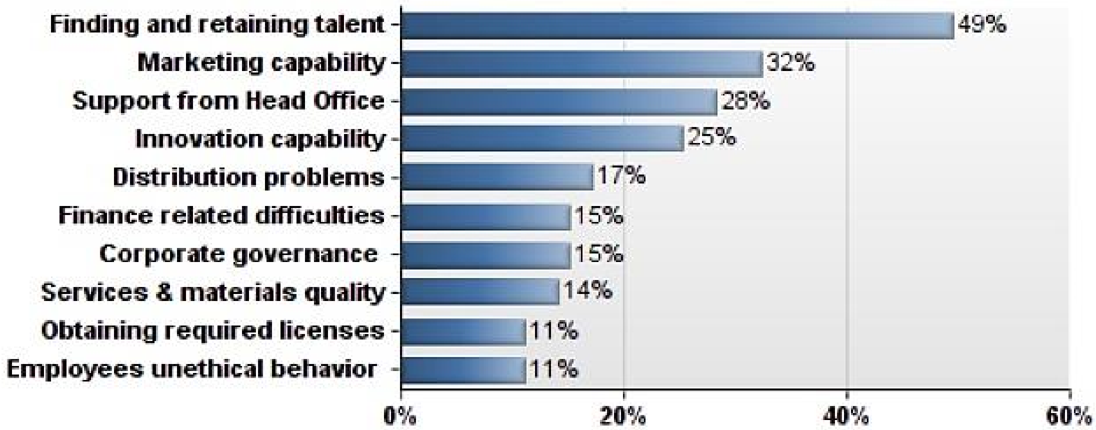
**What investments do you plan for 2016 for China?**




**Major concerns: economic slowdown, labor costs and competition**

Asked about the greatest internal challenges, Swiss managers responded that “Finding and retaining talent”, “Marketing capability” and “Support from Head Office” are the biggest hurdles. Among the external challenges, the relative economic slowdown in China, rising labor costs and fierce competition are seen as most severe.

**What are the greatest internal challenges for your company?**




Worries about an economic slowdown go hand in hand with recently published 2015 export figures of the Swiss Customs Administration. With exports in the value of 14.7 bio Swiss Francs, China including Hong Kong is the fourth biggest market for Switzerland, neck and neck with third placed France, behind Germany and the United States. Still, Swiss exports to China including Hong Kong declined by 7.1% year-on-year. Musy: “The most important factors are the sharp decline of watch exports (-12.6%) and the slower manufacturing sector. The Chinese anti-corruption campaign and the new ‘frugal government’ concept are making luxury purchases much less fashionable.”

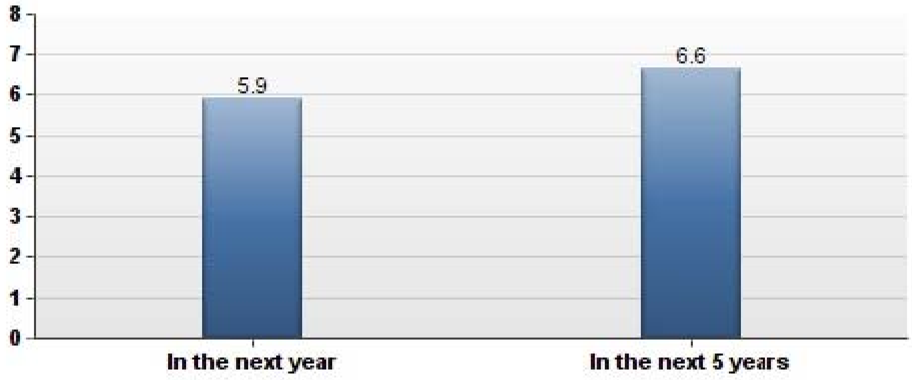
Besides, the slowdown in the industrial activity means less need for production capacity increases so that Swiss machinery exports to China and Hong Kong have declined as well (-10.6%).

The export figures to China are in line with global trends: Swiss exports to the major markets Germany (-5.1%), France (-6.8%) and Italy (-7.2) declined as well, overall Swiss exports in 2015 went down by 2.6%.

The United States (+6%) and the United Kingdom (+16.2%) were the only bright spots in a difficult year for the export industry.

The confidence level of Swiss enterprises in China is lower than in the years before, but still relatively high. Asked about the upcoming year, the level reaches 5.9 – with 0 representing absolutely no confidence and 10 representing extreme confidence. "In 2012, 2013 and 2014, the confidence level of Swiss respondents for the upcoming year was around 6.5", states Musy. "With the rate of 6.6, **the optimism about the upcoming five years in China is still very strong**. Swiss decision makers acknowledge current problems and hurdles, but are confident about the chances that the Chinese economy offers them in the long run."

**How confident are you that your operations in China will be successful in the next year, and in the next 5 years? (0= absolutely not confident, 10= extremely confident)**




**Why this confidence?**

Declining exports, slowing GDP growth in China, stock market crash. At first glance, the optimism of Swiss companies is surprising. "Growth is lower, but it is now happening in services and higher technology sectors where Swiss companies are strong."

China has constructed too many apartments in the past years and accumulated an enormous stock. As a result, the construction industry is forced to reduce its activity considerably. "The new construction starts are 17% lower than a year earlier. As a result, the large related sectors like the steel and cement industries have to reduce their activity and are in recession. This means that to reach 6.9% GDP increase, the economy must develop faster in the growing sectors to compensate the GDP reduction linked to construction", explains Zhen Xiao, General Manager of the Swiss Centers.

Besides, while the GDP growth of 6.9% is the slowest rate in more than two decades, it was still sufficient to create 11 million jobs, 1 million over the government target for 2015 and 300'000 more jobs than in 2014. Mr. Xiao: "The current lower growth is happening on a much higher base and in more interesting sectors, so that it continues to create considerable business opportunities for Swiss companies."

Today, China is a 11 trillion USD economy, up from just 2.3 trillion USD in 2005. 6% or 7% today represent a much bigger growth than 10% or 15% in the past.

Consumers continue to increase their spending and consumption grew at a healthy rate of 10.7%.

Estimates for 2016 and 2017 are for further deceleration to 6.2% and 5.8% GDP growth, until the construction inventory is digested and the rebalancing of the economy towards more high-tech products and services is well underway. "Very attractive opportunities will continue to arise for those who are able to grasp this fundamental transition of the Chinese economy", says Zhen Xiao.

**Free Trade Zones & new economy**

Another reason for the confidence of Swiss companies, explains Mr. Xiao, are the Chinese efforts to deepen the economic reform, liberate markets and reduce administrative hurdles for businesses. A good example is the establishment of Pilot Free Trade Zones, which not only reduce trade hurdles but also facilitate foreign investment. According to the Shanghai Commission of Commerce and reported by

Forbes, around 2.800 foreign-funded projects were launched last year in the Shanghai Free Trade Zone alone, with a contracted value of more than 35 billion USD.

Shanghai, China's most dynamic economic center, attracted 58.9 billion USD foreign investment in 2015 – a rise of 86% compared to 2014. "By comparison, that is roughly what all of Russia or Brazil get from foreign investment", explains Xiao. Most of the money is going into China's new economy and the services sector. Shanghai attracted 535 multinational companies to locate their regional headquarters in the city, along with 396 research and development centers last year.

**Economic transformation**

Zhen Xiao: "We need to see all of these developments in the light of China's economic transformation. While labor-intensive industries such as textile or steel are slowing down, **we see dynamic growth and big opportunities in the service industry, in new technologies and high quality manufacturing**." R&D, innovation and automation will continue to transform the Chinese economy and offer chances for growth for Swiss enterprises. "The transformation from an investment-driven to a consumer-driven economy also requires the companies to transform and adapt. In manufacturing, the huge demand for automation and high-end production is going to be a big opportunity for Swiss enterprises."

To support Swiss companies on the spot, the Swiss Center recently opened new locations in the most promising business hubs of North China, Tianjin and Beijing. "In the Wuqing Industrial Park between the two metropolitan areas, we offer first-class workshop space from 200sqm up to 3.500sqm", says Mr. Xiao. Swiss Center Shanghai, the largest cluster of Swiss companies in Asia, recently won the Award for Outstanding Achievements in the SME Category of the Sino-Swiss Business Award 2015.


*Picture legend: Supporting Swiss companies in the Far East: Swiss Center Shanghai opened the Machinery, Trade and Business Center in the China Pilot Free Trade Zone.*

*Picture source: swisscenters.org*

*Picture legend: SCS Managing Director Nicolas Musy at the Award Ceremony of the Sino-Swiss Business Award 2015.*

*Picture source: swisscenters.org*

**About Swiss Center:** Founded in 2000 as a non-profit, Sino-Swiss, public-private partnership, Swiss Center is by far the largest cluster of Swiss enterprises in Asia. With five locations strategically located on the dynamic East coast of China (Shanghai, Beijing and Tianjin), Swiss Center does not only offer virtual and instant office space as well as ready-to-use workshops and showrooms, but also supports member companies with government relations, technology transfer and a broad network of experts. Swiss Center served more than 300 companies in China – both SMEs and large enterprises. Among other, the Swiss Center 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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