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Swiss companies Confidence in China is Growing

Swiss managers in China are considerably more confident than a year ago: 68% expect "higher" or "substantially higher" sales in 2017 compared to 2016, while only 1% expects lower sales. As well 68% consider their companies "profitable" or "very profitable", while only 14% announce a loss.

Hence, 61% of Swiss companies plan to increase their investments in China; and for 57% of Swiss companies, China is a top 3 priority for investments.

This is the helicopter view of the results of the "Swiss Business in China Survey" covering more than 100 decision makers of Swiss enterprises.
Read more and get the full survey and analysis for trends, as well as detailed comparisons on factor of success, human resources, competition and sales organizations.

This latest survey is of particular interest not only for its findings but also because:

- It is the only survey that collects responses from **both Chinese and foreign companies** in China. Furthermore, this year's edition contains once again a unique **analysis of international and Chinese SMEs**.
- This survey allows **comparisons among firms of different national origins that operate** in China and in particular comparisons **between Swiss and Chinese** companies.

For the Swiss business community, it is for the fifth time possible to understand **how similarly Swiss, European and American companies** perceive their China environment.
This allows us to feel very comfortable about the accuracy of the major trends affecting Swiss companies we report.

Rebound in confidence

This year's survey is marked by a measurable jump in confidence, companies of all origins surveyed report a higher level of confidence for the coming year than they did last year. Swiss companies are again the most confident, though there is now little differences between respondents (with the exception of an - understandable - pessimistic long term view of US companies).

FIGURE 28 - HOW CONFIDENT ARE YOU THAT YOUR OPERATIONS IN CHINA WILL BE SUCCESSFUL IN THE NEXT YEAR?

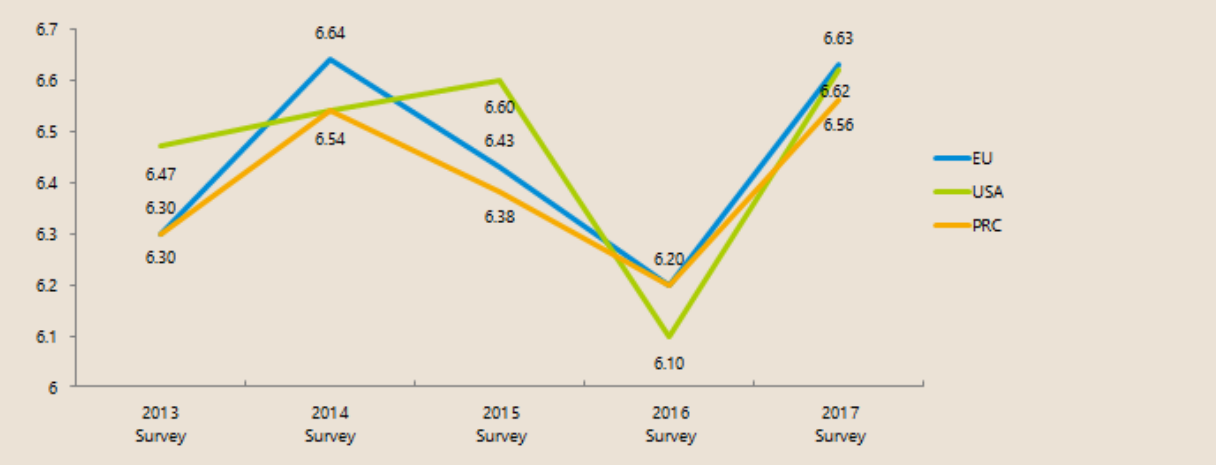
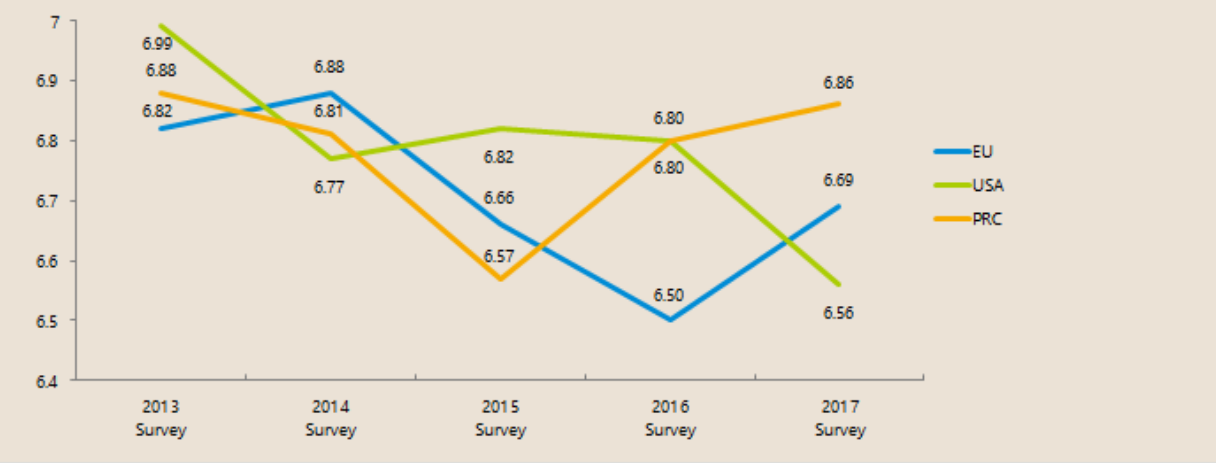


FIGURE 29 - HOW CONFIDENT ARE YOU THAT YOUR OPERATIONS IN CHINA WILL BE SUCCESSFUL IN THE NEXT 5 YEARS?

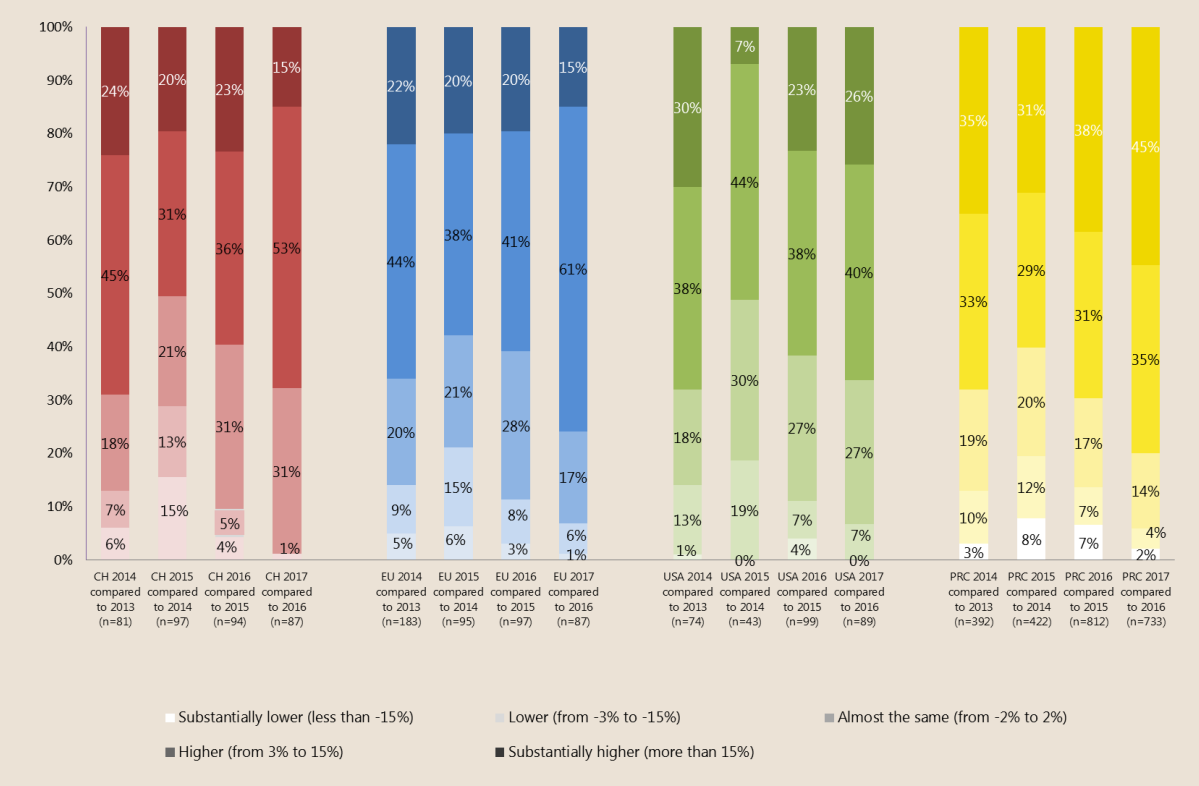


Sales and profits accelerate, particularly for SMEs

Indeed and generally speaking, **Swiss, international and Chinese companies are doing well in China**.

The survey results show positive trends in all aspects. From the 2016 survey to the current edition, Swiss firms'expectations of higher sales went up from 59% to 68%, expectations of higher profits grew from 61% to 68%, plans for increased investments increased from 57% to 61%.

FIGURE 23 - HOW DO YOU EXPECT YOUR COMPANY'S CHINA SALES COMPARED TO LAST YEAR?



Foreign SMEs in particular saw a remarkable resurgence this year, with **65% of foreign SMEs expecting higher profits and 79% expecting increased sales:**

FIGURE 4 - HOW DO YOU EXPECT YOUR COMPANY'S CHINA PROFIT THIS YEAR COMPARED TO LAST YEAR? SME VS. LARGER FIRMS

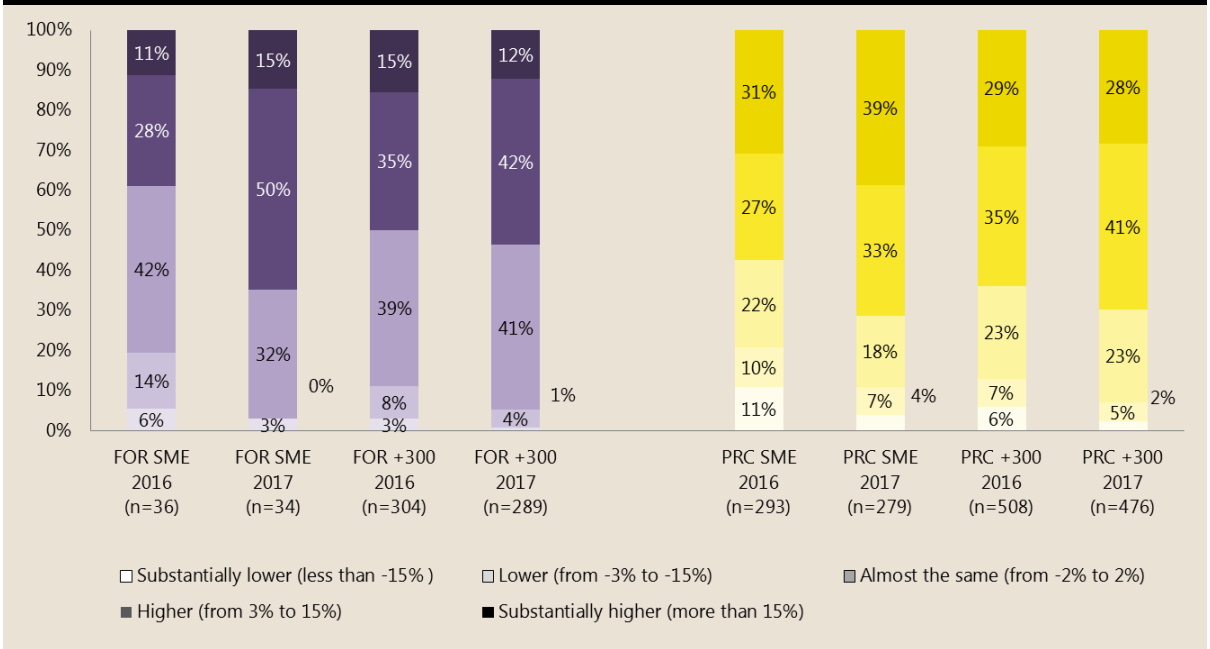
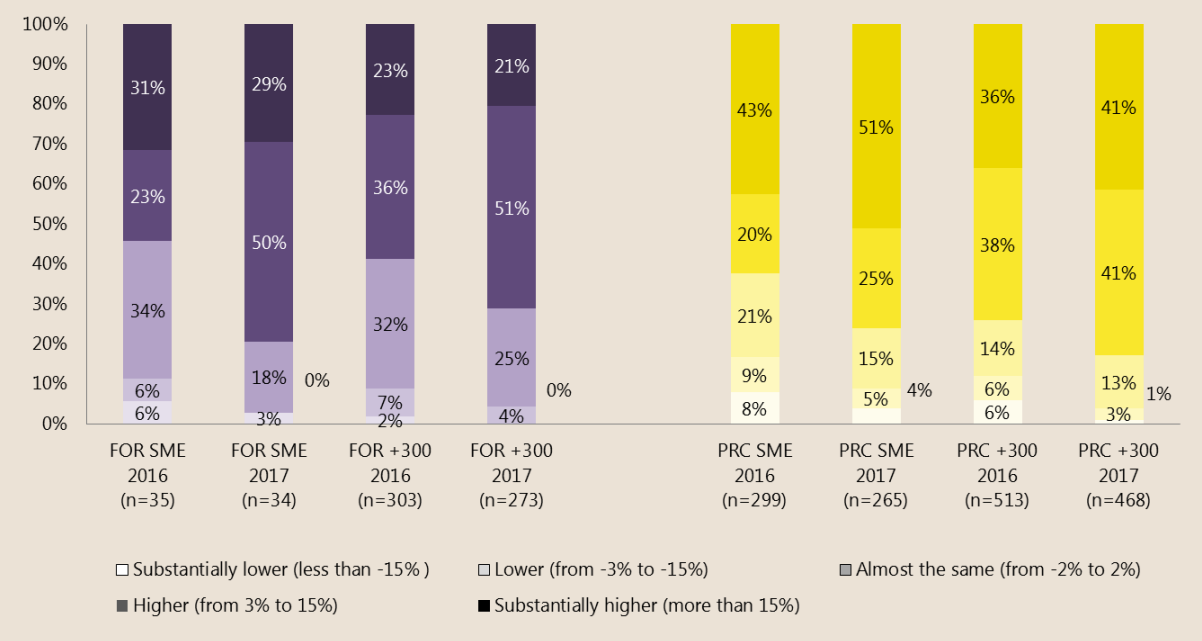


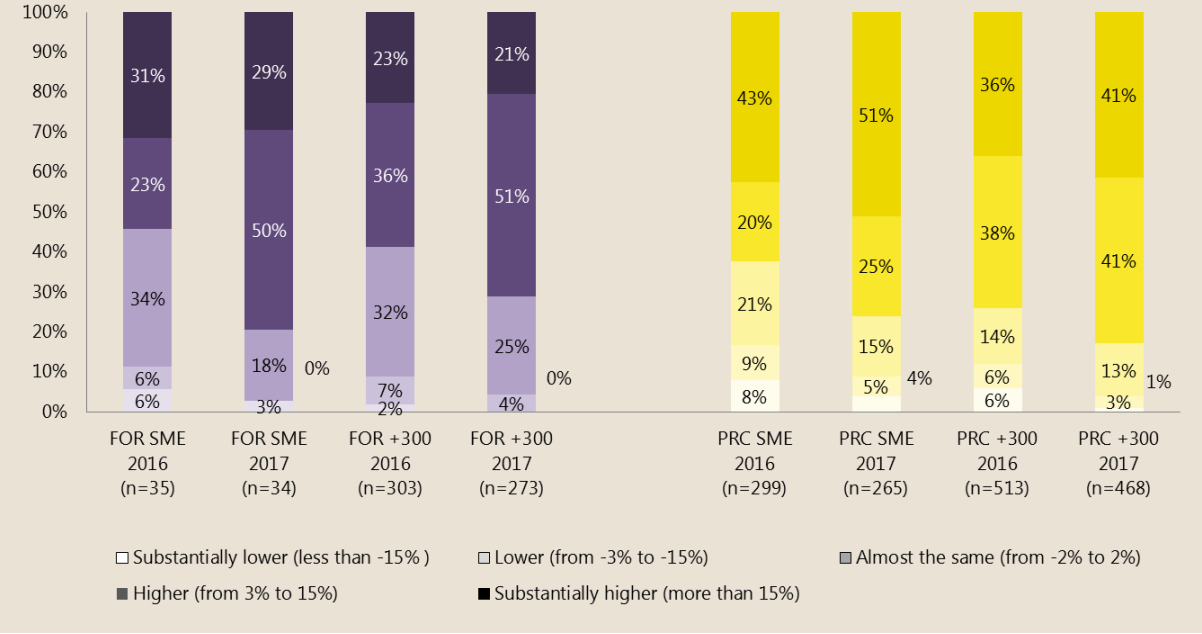
FIGURE 5 - HOW DO YOU EXPECT YOUR COMPANY'S CHINA SALES THIS YEAR COMPARED TO LAST YEAR? SME VS. LARGER FIRMS



Despite slower economic growth and **contrary to what is usually reported** in the international media**, western companies continue to succeed** with growing sales and profits in China. In fact, in 2017 the expectation for improved sales is over 10 percentage points higher for large foreign companies and **25 percentage points higher for foreign SMEs** when compared to 2016.

And while larger foreign companies still have lower sales and profit growth expectations than their Chinese counterparts, **foreign SMEs expect to do as well as Chinese ones.**

FIGURE 5 - HOW DO YOU EXPECT YOUR COMPANY'S CHINA SALES THIS YEAR COMPARED TO LAST YEAR? SME VS. LARGER FIRMS



Challenges keep intensifying too!

Challenges are also growing for foreign companies. For the fourth year in a row**, competition from private Chinese companies** is perceived to be more important than competition from other foreign firms. In terms of **internal challenges**, as always, **finding and retaining talent tops the list of both foreign and Chinese managers**.

FIGURE 15 - WHAT ARE THE GREATEST EXTERNAL CHALLENGES FOR YOUR COMPANY? (MULTIPLE ANSWERS)

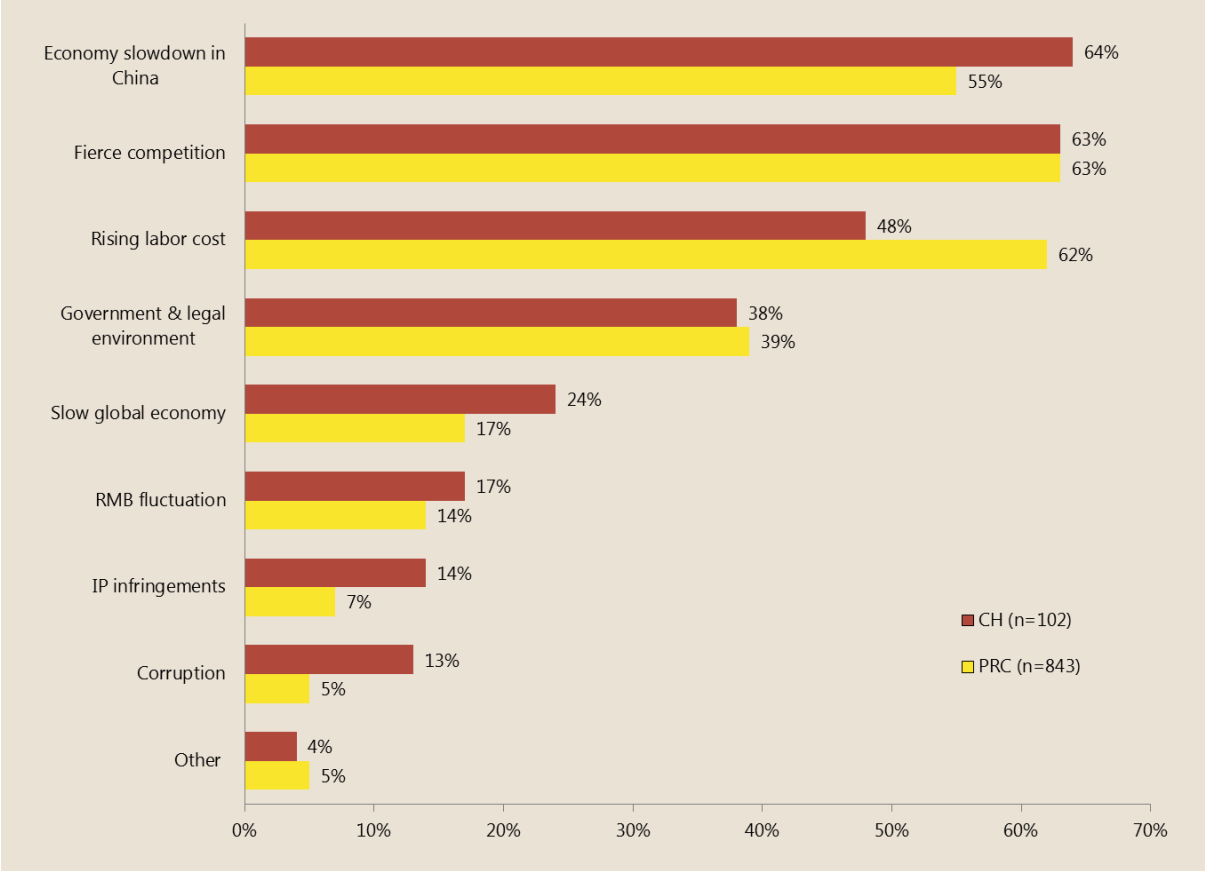
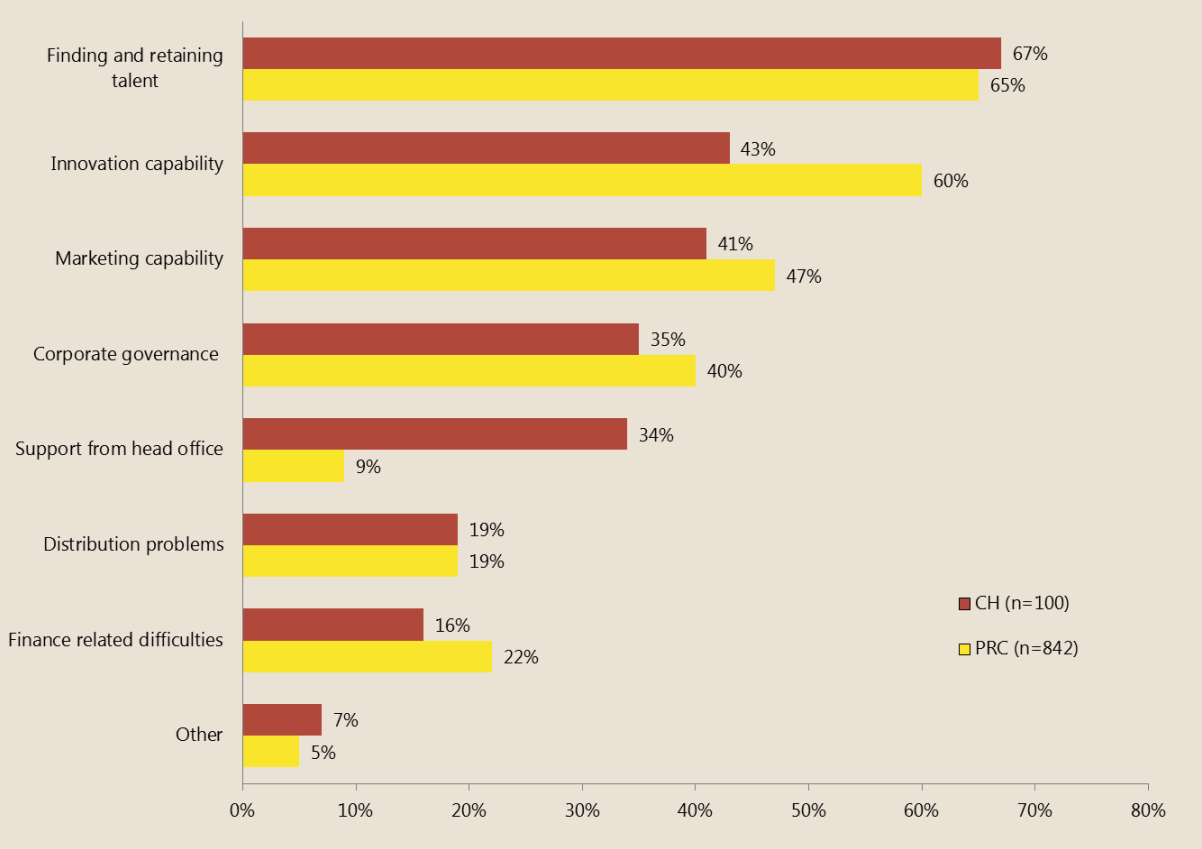


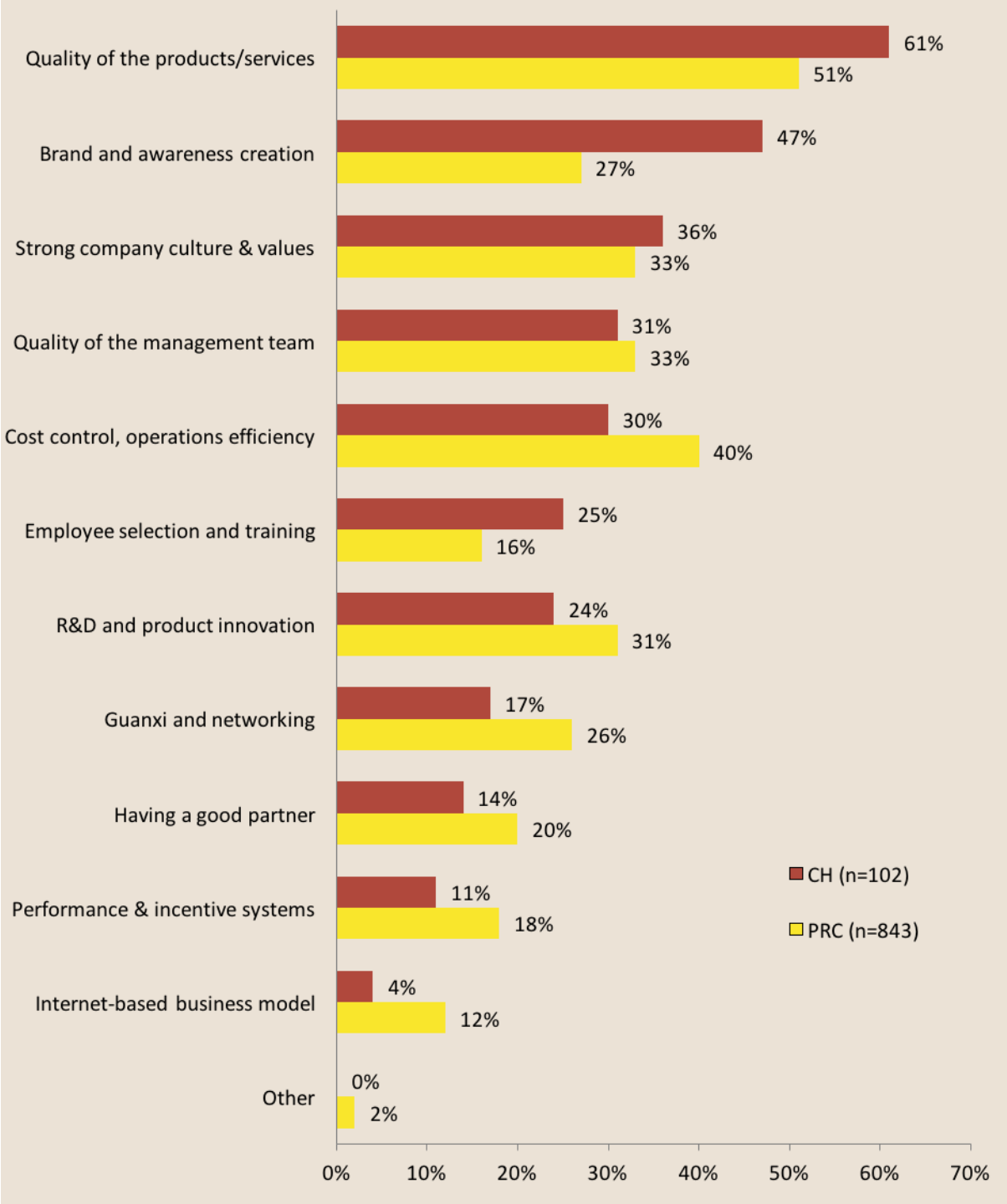
FIGURE 14 - WHAT ARE THE GREATEST INTERNAL CHALLENGES FACING YOUR COMPANY IN CHINA? (MULTIPLE ANSWERS)



Innovation (R&D) **clearly increases as a priority for Chinese businesses**; this is also reflected in the continued strength of the Chinese respondents as competitors in general.

Still, **foreign companies, and Swiss** in particular, **keep quality, technology and brand advantages** that has allowed them to continue growing despite increased competition.

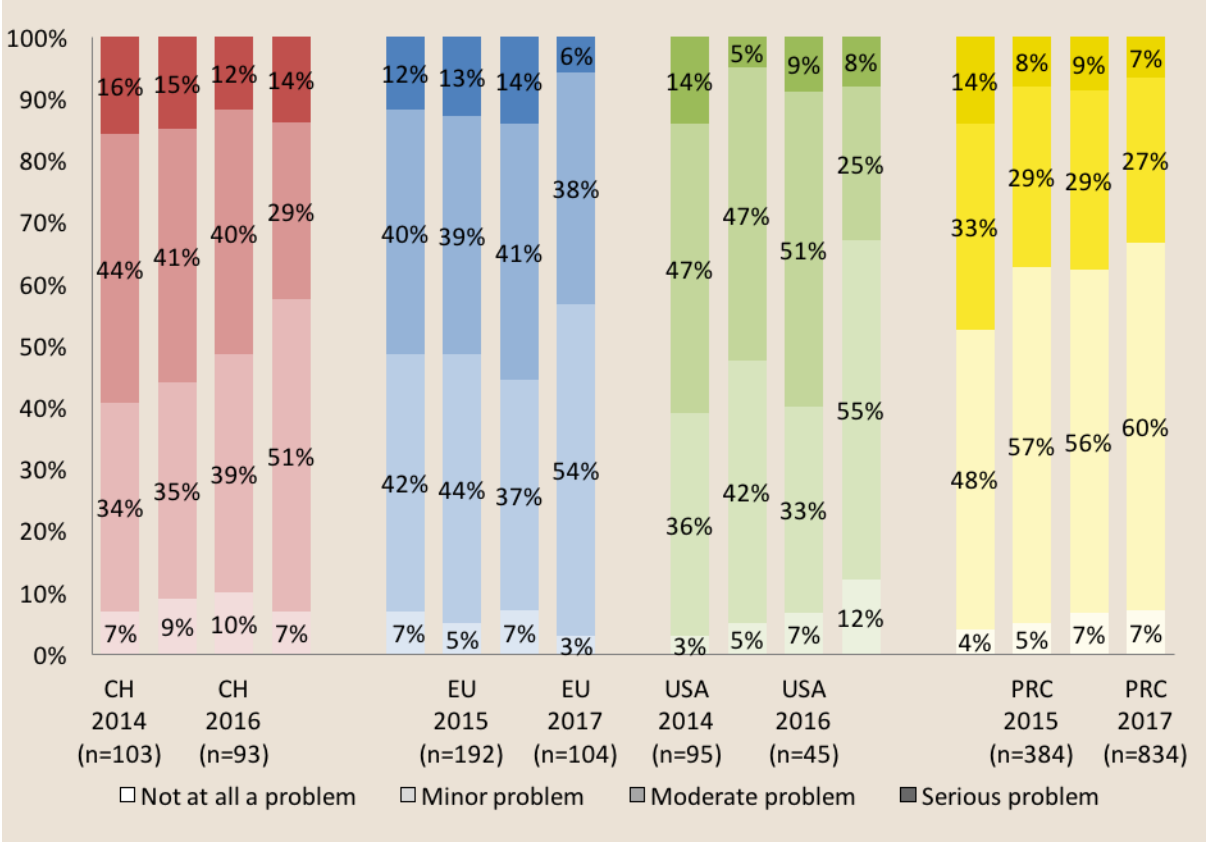
FIGURE 20 - WHAT ARE THE MOST IMPORTANT FACTORS FOR YOUR COMPANY'S SUCCESS IN CHINA? (MULTIPLE ANSWERS)



See the full survey for an analysis of replies on competition and competitors' advantages.

On the positive side, **reports of problems posed by corruption in China are at their lowest numbers** since we began surveying companies on the topic 5 years ago. In general, **corruption and IP infringements rank in the bottom third of reported external challenges** by respondent companies.

FIGURE 31 - IN YOUR VIEW, HOW SERIOUS IS CORRUPTION IN YOUR INDUSTRY?



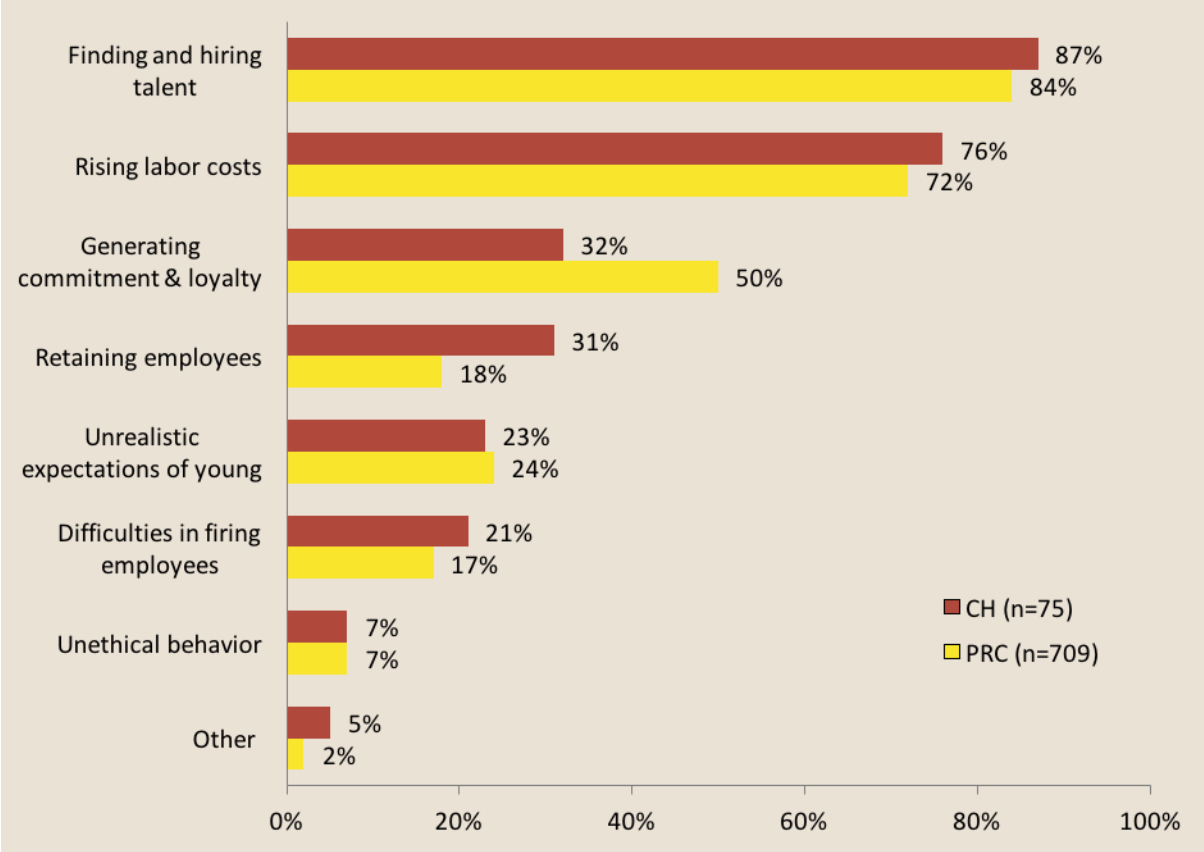
Human Resources: Opportunity for improvement in retaining employees

Respondents from Swiss and Chinese firms see in very similar ways their biggest HR challenges: **hiring & retaining employees** and **rising labor costs**.

However and paradoxically, compared to the Swiss **Chinese firms have a much more difficult time in “generating commitment and loyalty” but less of a challenge than Swiss firms in "retaining employees".**

This may indicate that Chinese companies employ personnel who apparently have less possibilities to find other, better opportunities, and are therefore probably less qualified. As a result, one may surmise that Chinese firms employees are generally more reluctant, less engaged employees.

FIGURE 16 - WHAT ARE THE MAJOR HUMAN RESOURCE ISSUES FACING YOUR COMPANY IN CHINA? (MULTIPLE ANSWERS)



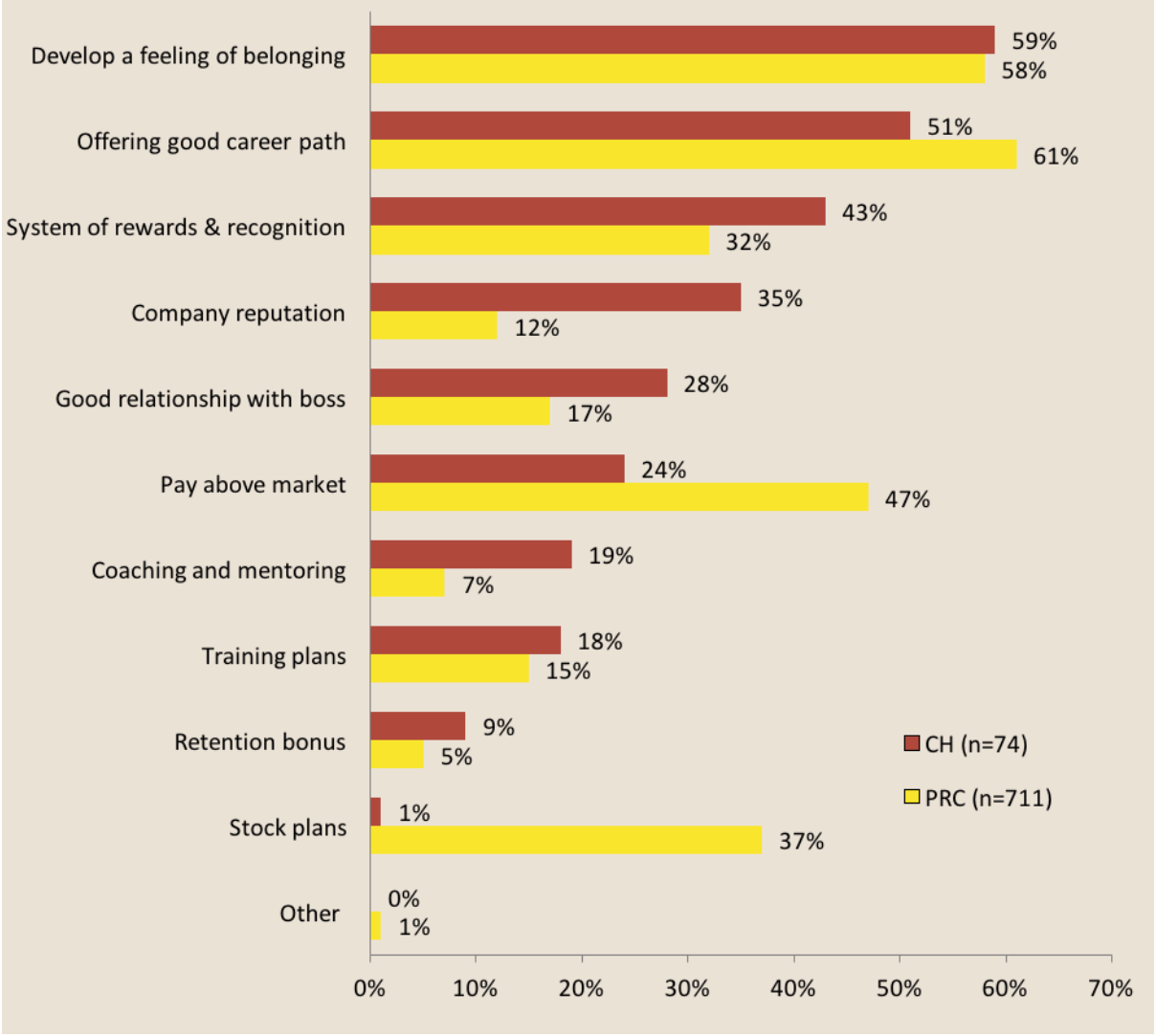
Indeed, to deal with the very critical HR issues and in order to retain employees, “pay(ing) above the market” is heavily used by the local employers. It comes as their third most efficient measure after “Offering a good career path” and “develop(ing) a feeling of belonging”.

In fourth place for Chinese companies comes "stock plans", which is the least considered measure by the Swiss.

We see a consistent pattern in differences of HR management: while **Chinese firms favor monetary rewards** (pay above market, stock plan and career plans, which ultimately provides promotion expectations and substantial increase in remuneration) to retain employees, **Swiss firms emphasize the traditional European approach of softer factors** to retain employees (recognitions & rewards, company reputation, developing good boss-employee relations, coaching & mentoring).

While it appears that Swiss companies may have more efficient HR management than their Chinese counterparts, they should have **opportunities to improve their retention performance,** which is significantly worse than their Chinese counterparts'. In particular they could consider to make more efforts in terms of career plans and remuneration (possibly linking remuneration to the long term performance of the company to compete with the Chinese stock plans).

FIGURE 17 - WHAT MEASURES DO YOU FIND MOST EFFICIENT IN RETAINING EMPLOYEES? (MULTIPLE ANSWERS)



As a conclusion: the New Normal favors Swiss businesses in China

Though the annual GDP growth rate has been continuously slowing down to 6.7%, Swiss (and other international) businesses continue to do better across the board. A number of factors are probably at play:

- Growth is now generated less and less from traditional and heavy industries, driven by construction and civil engineering works. **The proportion of growth coming from services and higher or new technologies is increasing**, which favors foreign and more sophisticated Chinese companies to capture more of the growth.[1] As an example, growth in the medical sector is in the range of 10% and e-commerce grew by almost 20% in 2016, quite higher than the 6.7% overall China GDP growth.
- The **regulatory environment is stricter** allowing less advantages to those willing to resort to unfair practices (corruption is going down). Swiss (and western) companies are usually more compliant than their Chinese competitors. The stricter enforcement starts to remove a disadvantage that foreign companies faced for decades
- The combination of increasing costs and stagnating prices is forcing all players to become more efficient. Here, **Swiss companie have a long history of having to become lean and efficient** (due to both high costs at home and an ever apreciating Swiss franc!). On the other hand Chinese competitors had 2 decades during which they only needed to focus on growth. Most of them have to learn efficiency from scratch.

While inequalities of treatment of foreign companies certainly remain and many of us will continue to feel frustrated by the often stricter enforcement of policies on foreign businesses, we can remain optimistic while looking at the current trend, in line with the survey's respondent confidence in the future!

The "**2017 Swiss Business in China Survey**" has been conducted by the **China Europe International Business School** (**CEIBS**, the premier business school in Asia), the **Swiss Centers China** (**SCC**), the **Swiss Embassy** in China, **Swissnex**, **SwissCham**, **Switzerland Global Enterprise** and **China Integrated**. The comprehensive survey comprises responses from 102 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. Besides Swiss companies, the survey also includes responses from Chinese (853), EU (106) and US (105) companies.

Building bridges: Swiss Centers China

Founded in 2000 as a non-profit, Sino-Swiss, public-private partnership, Swiss Centers China 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), SCC 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. SCC served more than 300 companies in China – both SMEs and large enterprises. Among other, the Swiss Centers experts have established 30 production companies and more than 50 commercial offices for Swiss companies. SCC also conducts surveys and expert analyses of China's business opportunities and challenges, and at the same time promotes the *Swiss Made* brand and Switzerland as a country for innovation and an industrial leader.

For more information, kindly visit: www.swisscenters.org.

[1] Chinese companies respondents of the survey are alumni of CEIBS, and therefore most likely to represent top Chinese companies.