

Economic Slowdown Becomes Top Concern

Swiss businesses are currently doing surprisingly well in an increasingly difficult business climate. Asked about their outlook, Swiss companies anticipate an increase of their business expansion. However, the trend for local Chinese companies is opposite. For three consecutive years, less and less Chinese firms reported sales growth. The slowdown of China's economy is the new biggest external challenge, the "2019 CEIBS - Swiss Businesses in China Survey" reveals.

By Swiss Centers Shanghai

经济放缓成为最令人担忧的问题

在日益艰难的商业大环境中，瑞士企业目前表现出奇的优异。当被问及对前景的看法时，瑞士企业预计他们的业务扩张势头将会增加。然而，中国本土企业的势头正相反。连续三年，中国企业报告的销售增长越来越少。“2019 中欧国际工商学院——瑞企在华调查”显示，中国经济放缓是新的最大的外部挑战。

“2019 中欧国际工商学院——瑞企在华调查”显示，瑞士企业目前在日益艰难的商业环境中表现出色。对于前景，瑞士企业预计会有业务扩张，而中国本土企业趋势相反。中国经济放缓已成为新的外部关注焦点，其次是“激烈竞争”、“劳动力成本上升”和“政府与法律”方面的挑战。2019 年，只有不到三分之二 (63%) 的中国企业预计销售额会“提高”或“大幅提高”，而超过四分之三 (76%) 的瑞士企业预计销售额会“提高”或“大幅提高”。规模较大的中国企业受经济放缓的影响更大。传统上中小企业活跃的利基市场似乎不太受经济放缓的影响。将一年前的增长预测与实际增长数据进行比较后，可以发现，中国企业对 2018 年的预测过于乐观。换言之，2018 年的经济放缓尤其让中国企业感到意外。

有意思的是，“劳动力成本上升”和“政府与法律”是中国中小企业最担心的两个问题，有别于其他调查对象的结果。这其中似无关联，不过值得注意的是，2018 年中国政府将企业全面落实劳动福利政策列入优先事项之一，同时也在全面有力地执行环境政策。中国与外国中小企业在调查结果上的差异，清楚地说明了前者在被强制合规（也因此承担与合规程度更高的外国竞争对手同样的成本）时所面临的困难。

虽然目前监管环境的改善可能已接近上限，但《中瑞自由贸易协定》的使用率正在不断提高。今年近 60% 的受访者表示，他们公司使用了自贸协定，而两年前这一比例为 46%。自贸协定以及瑞士企业的质量、创新和专业组织无疑是瑞士企业在中国取得成功的原因之一。

The “2019 Swiss Business in China – CEIBS” survey respondents are predominantly of Swiss (132) and Chinese origin (683). The high participation numbers from Swiss companies makes this survey particularly suitable to a comparison between Swiss and Chinese companies and gives a valuable picture of the state of SMEs and Swiss businesses in China. As in previous years, SMEs are defined as companies with less than 300 employees globally. This year, SMEs make up 44% of Swiss respondents. Foreign SMEs (including EU and US based ones) represent 30% of the foreign respondents.

This year, a larger proportion of respondents report growing sales than in the previous survey. While for 2019, 76% expect “higher” or “substantially higher” sales, this number was 72% in 2018, 68% in 2017 and 59% in 2016. It is worth to note that, on the Chinese side, the opposite trend unfolds. For three consecutive years, less and less Chinese firms reported sales growth. As a result, for 2019, less than two thirds (63%) of the Chinese firms expect “higher” or “substantially higher” sales, while over three quarters (76%) of Swiss ones do.

We believe that a key reason for this situation is that more of China’s growth happens in higher technology and higher quality sectors today than it was the case in the past. As a result, the growth in traditional sectors, where Chinese companies are active, is lower than in the newer and higher quality areas of the economy. This situation has been clearly identified in the automotive industry where better perceived, mostly foreign brands (Eg. Buick, Cadillac and German brands) are doing much better than the local ones in a stagnating market.

While larger foreign and Chinese enterprises are less optimistic about their sales growth, foreign SMEs show a unique improvement in sales expectation from last year, catching up with their Chinese competitors. In terms of profitability, Swiss companies have rebounded (69% announce to be “profitable” or “very profitable”), while the Chinese ones report a lower level of profits (75% are profitable or very profitable).

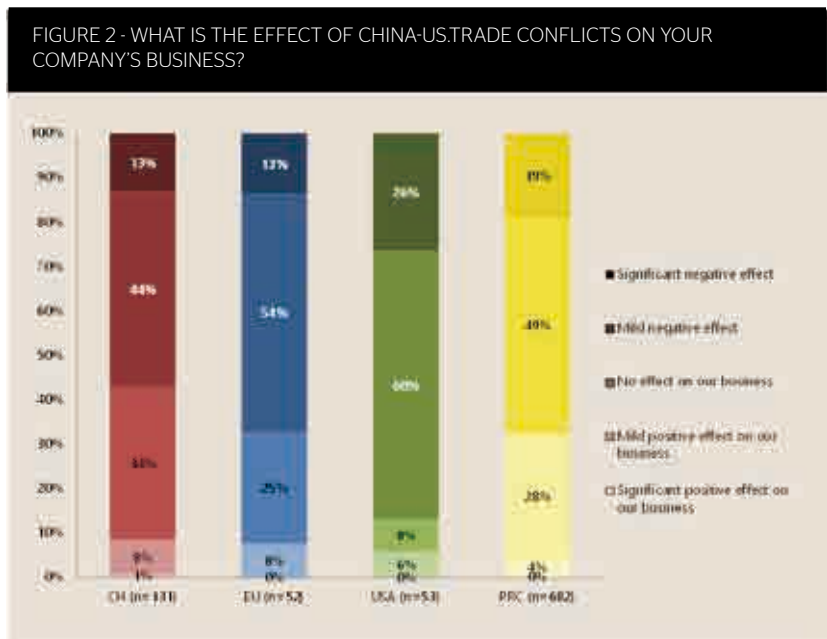
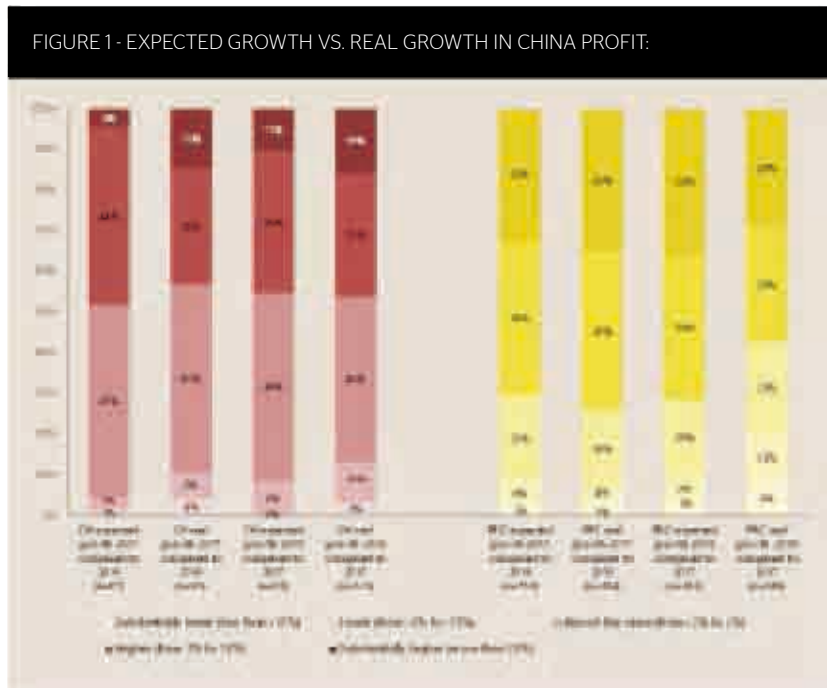
Chinese firms caught by surprise

The chart beside (FIGURE 1), which we have computed for the first time, compares growth forecasts made from one year to the other, with the actual growth reported one year later. It reveals, interestingly, that Chinese firms have been over optimistic in their previsions for 2018, while they did not have such an issue the year before. In other words, the 2018 slowdown has specifically caught Chinese enterprises by surprise.

In fairness, it may be the case that the Chinese respondents to this survey are comparatively more exposed to business with the US, as it appears clearly in FIGURE 2. In such a case, the difficult to predict trade war certainly created more disruption to the previsions of the more exposed companies.

It is surprising that Chinese respondents consider the “trade conflict with U.S.” as a significantly less important challenge than their foreign counterparts do. That includes the Swiss. We do not have an explanation for this apparent contradiction, but certainly will look for more information while conducting the next survey.

This year, managers of Swiss subsidiaries are less prone to see China as a top priority for investment. Though a majority (53%) still see the country as a top three investment priority, it is significantly less than in the previous year (62%). The slow down and the



trade war are certainly having an impact and generating a more cautious approach to investments. At the same time, the Chinese still invest significantly more aggressively than the Swiss and other foreign enterprises.

Swiss firms' long term confidence is eroding

While the confidence index remains positive, there is a visible drop in confidence across all respondents, which is certainly linked to the slowdown and the US-China trade conflicts. Swiss companies however are again the most confident for their business prospects in China, even more than their Chinese counterparts (see FIGURE 3). However, when looking at the confidence level announced for business prospects in five years, the trend is certainly one of slowly but steadily eroding confidence.

“Competition” and “rising cost” remain key concerns

While “fierce competition”, “rising labor costs”, “government & legal” and “economy slowdown in China” remain the top four external challenges, their relative importance has changed. The lower economic growth, which ranked fourth in the previous survey, has become the key preoccupation for almost all kinds of foreign and Chinese companies (see FIGURE 4).

FIGURE 3 - HOW CONFIDENT ARE YOU THAT YOUR OPERATIONS IN CHINA WILL BE SUCCESSFUL IN THE NEXT YEAR?



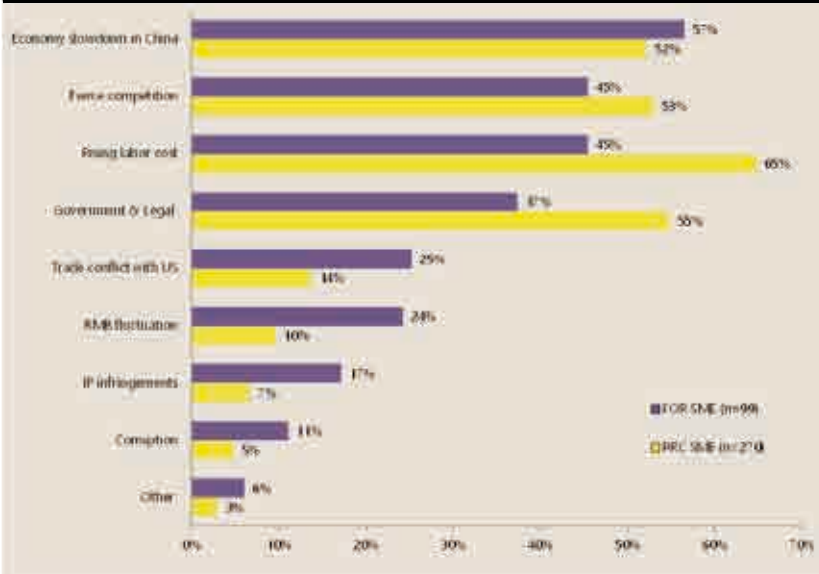
“IP infringement” and “corruption” go to the very bottom of the list of external challenges, providing an indication that the government campaigns in these aspects have delivered some results. In any case, these often mentioned challenges certainly do not take the precedence that the international press usually confers them. While it is hardly news that 2018 was slow, some other new elements are certainly noteworthy.

Chinese firms feel the pain of policies enforcement

Very interestingly, smaller Chinese companies are unique in reporting “rising labor costs” and “government & legal” as their top two concerns. They would not appear to be linked unless one takes notice that 2018 is the year when full enforcement of

labor welfare payment by companies has become a government priority while, at the same time, environmental policies have also been strongly enforced across the board.

FIGURE 4 - WHAT ARE THE GREATEST EXTERNAL CHALLENGES FOR YOUR COMPANY? SME (MULTIPLE ANSWERS)



The discrepancy in answers of the Chinese SMEs when compared to the foreign ones in the below chart appears to us as a clear illustration of the difficulties that smaller Chinese firms face when forced to become compliant (and therefore when they incur the same costs as their usually more compliant foreign competitors). Larger Chinese companies actually show a similar though less marked picture, indicating that compliance has been a general problem.

Larger Chinese companies suffer more

While large and small foreign companies rate the economic slowdown in almost equal ways, larger

Chinese companies mention it with 13 percentage points more intensity than the Chinese SMEs. And they also deem the slowdown as 8% more important than their foreign counterparts. This may indicate that the niches where SMEs are traditionally active are less affected by the slowdown. Yet, it may also be the case that larger companies, having easier access to funding may have over invested in anticipation of a growth that did not come as they forecasted.

All in all, it is interesting to note that respondents of Chinese firms experience all top four challenges with a considerably higher intensity than managers of Swiss businesses. This indicates that Swiss companies are, hopefully, keeping some strong competitive advantages in China.

Corruption improvement hitting ceiling?

For the first year since 2014, Swiss managers are experiencing more challenges with regard to corruption when compared to the previous year. The trend is not as clear for the Chinese (and other international) companies, still it looks like improvements in corruption are plateauing.

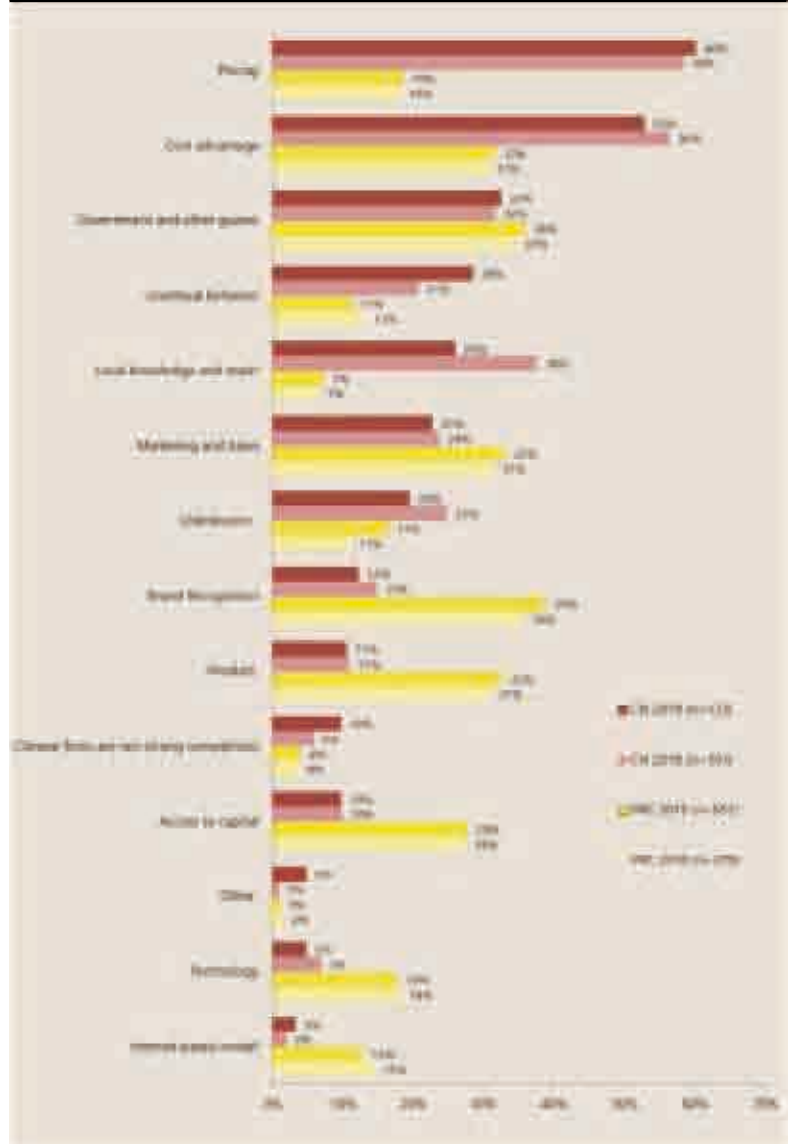
A similar picture appears when looking at how important the survey respondents view relationships with authorities. Adjacent chart (see FIGURE 5) on competitive advantages of competitors as perceived by Swiss and Chinese companies, shows little change from last year to this one with two exceptions.

Respondents representing Swiss businesses feel that competitors have less of an advantage in terms of reach and access. However, they do feel that competitors make use of more unethical behavior. All in all, the results depict a legal and governance environment in which improvements may be stalling after a period of continuous ameliorations.

FTA utilization rate on the rise

While improvements to the regulatory environment may currently be reaching a ceiling, the utilization rate of the Sino-Swiss Free Trade Agreement (SSFTA) is continuously improving. Almost 60% of this year's survey respondents announce that their companies use the SSFTA, against 46% 2 years ago. The Free Trade Agreement, along with the quality, innovation and professional organization of Swiss businesses, is no doubt one of the reasons for Swiss success in China.

FIGURE 5 - WHAT ARE THE COMPETITIVE ADVANTAGES OF YOUR MAIN CHINESE COMPETITORS? (MULTIPLE ANSWERS)



2019 Swiss Business in China Survey

The "2019 Swiss Business in China Survey" has been conducted by CEIBS, a 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 132 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 (683), EU & US (107) companies.