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**Business Sentiment Survey
2009**



Confidence in the Year of the Ox?

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Vibrant Swiss Businesses in China

Dear Colleague and Participant in the SwissCham Confidence Survey,

We would like to thank you very warmly for your participation in the first SwissCham China Business Confidence Survey.

We intended to identify Swiss business leaders' perceptions and expectations for their businesses in China for the coming year as well as for the foreseeable future to provide a benchmark and valuable information for the participants.

We believe the goal has been achieved with a fairly representative participation and very interesting answers.

The Confidence level of Swiss businesses in China is surprisingly high for 2009 with plans to increase investments and hire more employees on average.

Even more enthusing us is the confidence of Swiss businesses to beat the competition in 2009. **70% of the respondents expect to grow better or much better than their markets.**

While answers have been collected during the second half of October and early November in a changing environment, recently released information from European and American businesses present a similar picture. AmCham's survey released on Dec 16 mentions that 80 % of respondents were "optimistic or slightly optimistic" about business prospects in the next five years. Out of 187 senior executive of multinational companies in East China, almost half expect the first 6 months of 2009 to be better than the corresponding period in 2008¹.

Though we live at a time when the rate of change is unprecedented, we hope that these results will be of use for your group and operation.

Business Sentiment surveys will be repeated, at least once a year. These results are destined to you and other respondents as well as to the PR and lobbying audience of SwissCham only.

If non-participating members of the Swiss business community show an interest in having the results, we would certainly all benefit if you would suggest them to participate in the next surveys.

With the numbers to back them up we are happy to provide you our very confident wishes for a prosperous 2009 and look forward to contribute further.

Nicolas Musy
Vice-Chairman SwissCham China

¹ Shanghai Business Review, December issue, p. 24.

Key Findings and Executive Summary

- Survey is representative of members of SwissCham China. Three main regions represented with 19 to 28% each in the survey. Hong-Kong is represented by 6.4% of the members only.
- **Confidence is high to very high:**
 - Majority is very confident for 2009 (**67%** index) and even more so for the next 5 years (**78%** index)
 - Companies expect their industries on average to grow 12% in 2009 and 70% of participants expect to outperform their industry average
 - Labor force and investments are expected to increase in 2009 by 5% and 14% on average, respectively
- Global competitiveness of Swiss subsidiaries in China should remain high with salaries not increasing in real terms on average. And though rising labor costs are a top concern, practically no Swiss company is planning to move operations inland for lower labor costs
- Among the biggest concerns, the global economic slowdown ranks first followed by the increasing cost of labor and lack of talent, while socio-political stability and regulatory issues are not most preoccupying.

Considering that 85% of subsidiaries have their own clients (by opposition to working for the group) and that 90% are wholly owned, Swiss companies are independent and well established in the domestic market. Yet, they see a lot of potential that they want to convert into larger market shares. They intend to do so from their current coastal bases, which they still consider very competitive.

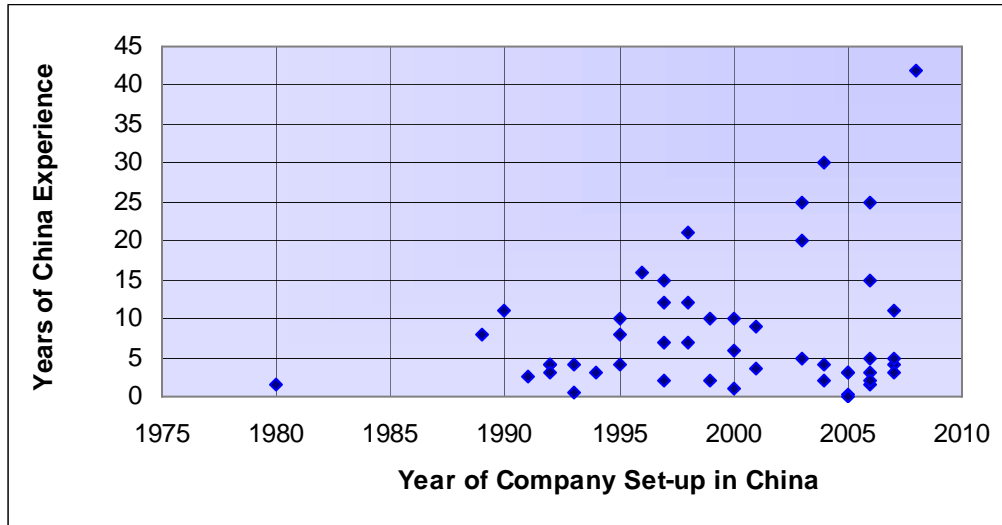
Survey Questions

1a) General Information: China Experience

How many years of China experience do you possess?: **8.3 years** (average)

When was your company set-up in China?: **1999** (average)

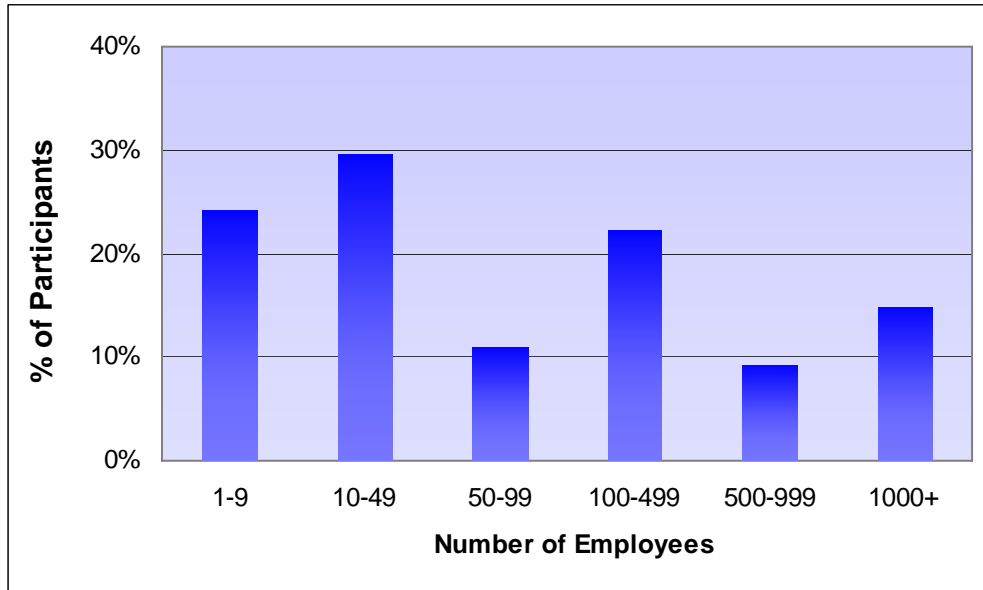
Total Responses: 49



There is not much correlation between date of establishment and experience in China. 72% of companies show more than 3 years of China experience, which indicates good value in the answers provided.

1b) General Information: Number of Employees

How many employees does your subsidiary have in China?: **890** (average)
Total Responses: 60

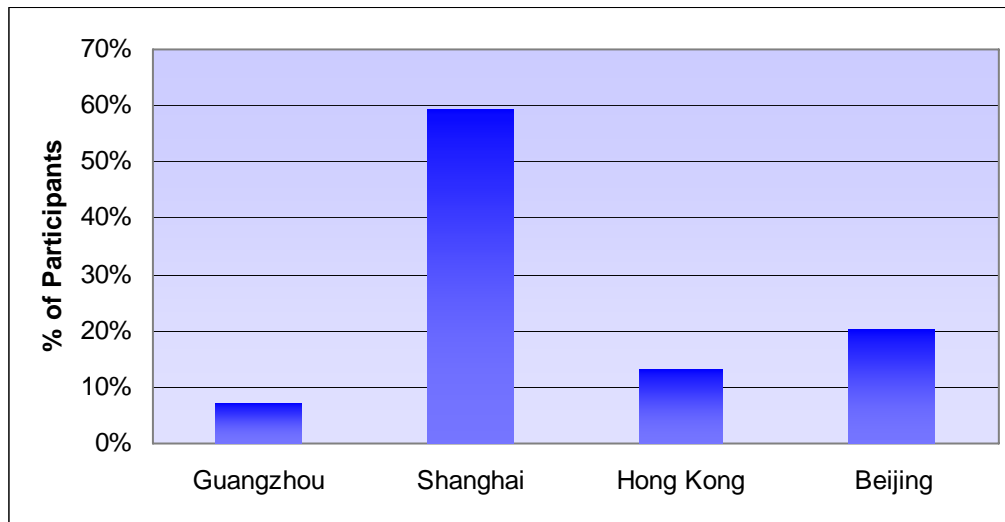


Swiss subsidiaries who answered the survey are rather large on average (890 employees) and 25% of them employing more than 500 persons. Small enterprises are also well represented with 45% of them under 50 employees.

2a) SwissCham Membership

I am/our company is a SwissCham member in the following city:

	Percentage	Responses
Guangzhou	7.2%	5
Shanghai	59.4%	41
Hong Kong	13.0%	9
Beijing	20.3%	14
Total responses:		69



Of the 69 companies who participated in our nationwide SwissCham Business Confidence Survey, more than 60% have their headquarters in Shanghai, 20% in Beijing and the remaining 20% are located in Hong Kong and Guangzhou.

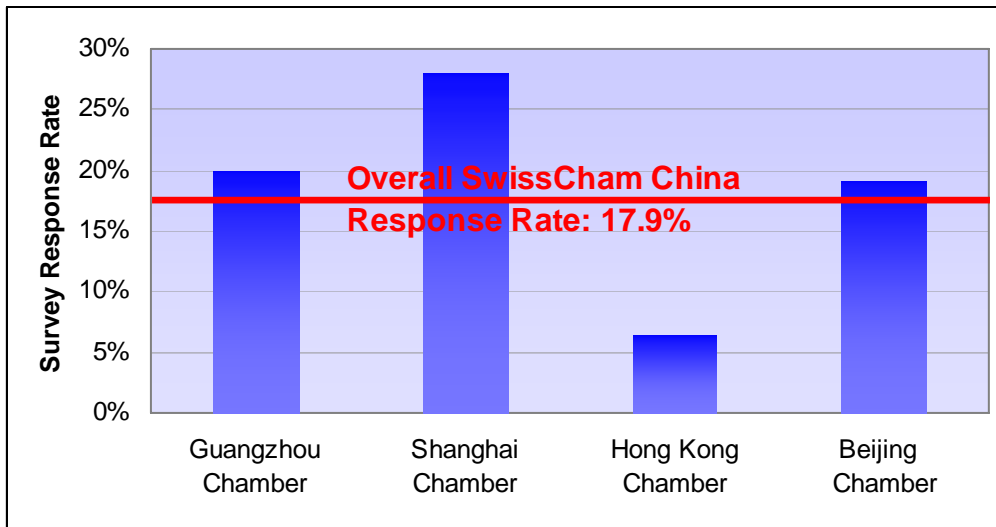
Shanghai (companies in East China) appears over represented with close to 60%. However, the Yangtze Delta represents about 50% of Swiss investment. Also see representation according to membership below.

(Note: in a separate question we asked participants about the location of their subsidiaries, in 95% of the cases the location of the subsidiaries was identical to the SwissCham membership city/province.)

2b) Representativeness

Overview of the SwissCham China Business Confidence Survey 2009 response rates in the individual chambers and overall:

	Responses	Members with Voting Rights	Response Rate
Guangzhou	5	25	20.0%
Shanghai	41	146	28.1%
Hong Kong	9	141	6.4%
Beijing	14	73	19.2%
SwissCham China	69	385	17.9%

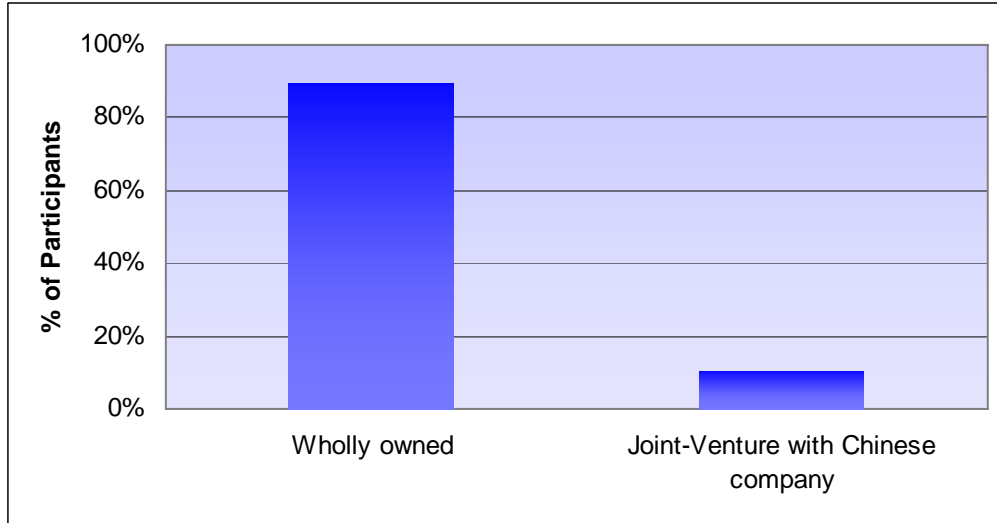


Of the 385 members with voting rights of the different SwissCham chambers in China, 69 participated in the SwissCham China Business Confidence Survey, which equals a response rate of 17.9%. In Shanghai the response rate was the highest with 28% while the Hong Kong only recorded 6.4%. Overall the three main regions of Mainland China (North, East and South) are proportionally well represented.

3) Ownership

Ownership of your subsidiary:

	Percentage	Responses
Wholly owned	89.6%	60
Joint-Venture with Chinese company	10.4%	7
Total responses		67

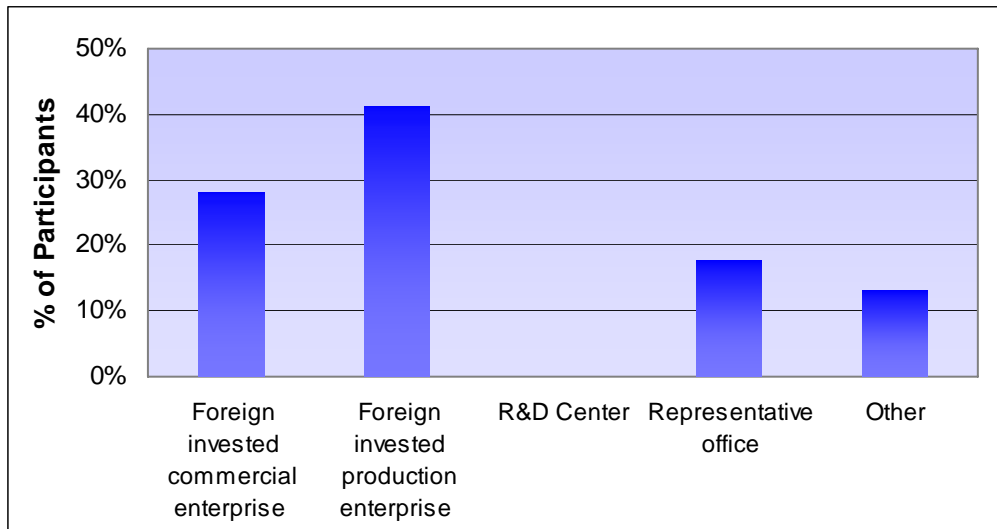


Regarding the ownership status, 90% of the questioned Swiss companies are wholly owned, while only 10% are a joint-venture with a Chinese company.

4) Legal Form

The legal form of your subsidiary is:

	Percentage	Responses
Foreign invested commercial enterprise	27.9%	19
Foreign invested production enterprise	41.2%	28
R&D Center	0.0%	0
Representative office	17.6%	12
Other	13.2%	9
Total responses		68

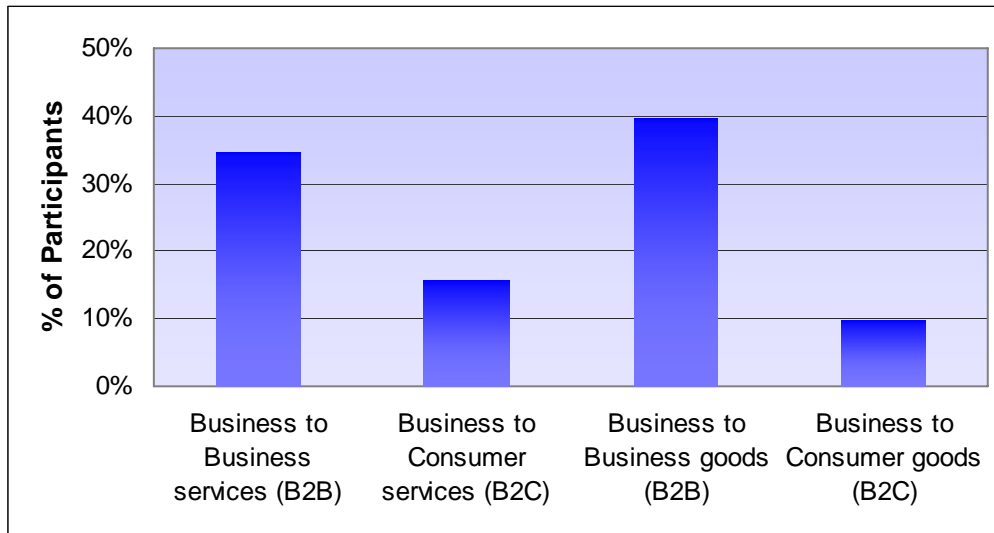


The legal form most used by respondents is still the foreign invested production enterprise with 41.2%. At the other end of the scale, no answers were received from research and development centers.

5) Type of Product & Activity I

Chose your subsidiary's types of product/services in China (Multiple answers possible):

	Percentage	Responses
Business to Business services (B2B)	34.7%	35
Business to Consumer services (B2C)	15.8%	16
Business to Business goods (B2B)	39.6%	40
Business to Consumer goods (B2C)	9.9%	10
Total responses		101

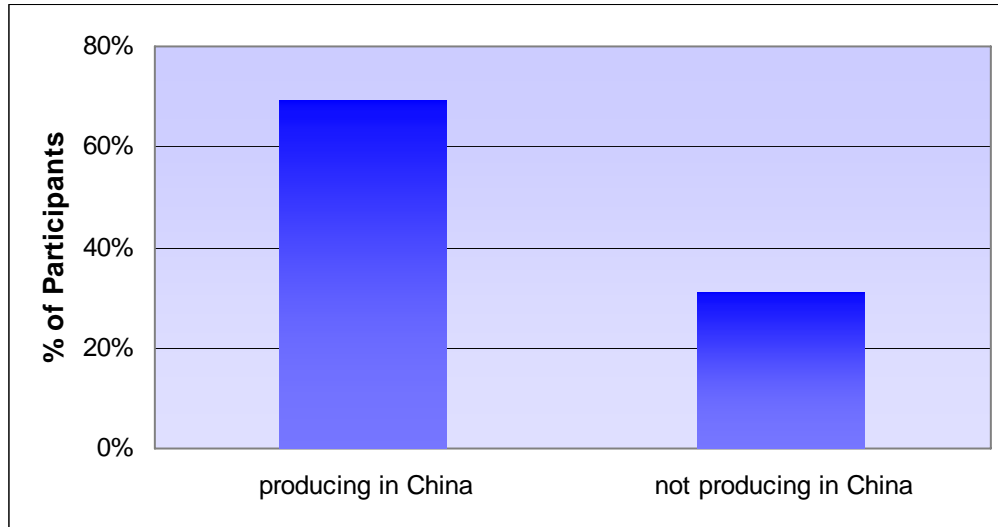


The market remains an overly business to business one for Swiss companies with 75% of respondents in the category.

6) Type of Product & Activity II

Is your subsidiary producing/assembling products/services in China?

	Percentage	Responses
producing in China	69.1%	47
not producing in China	30.9%	21
Total responses		68

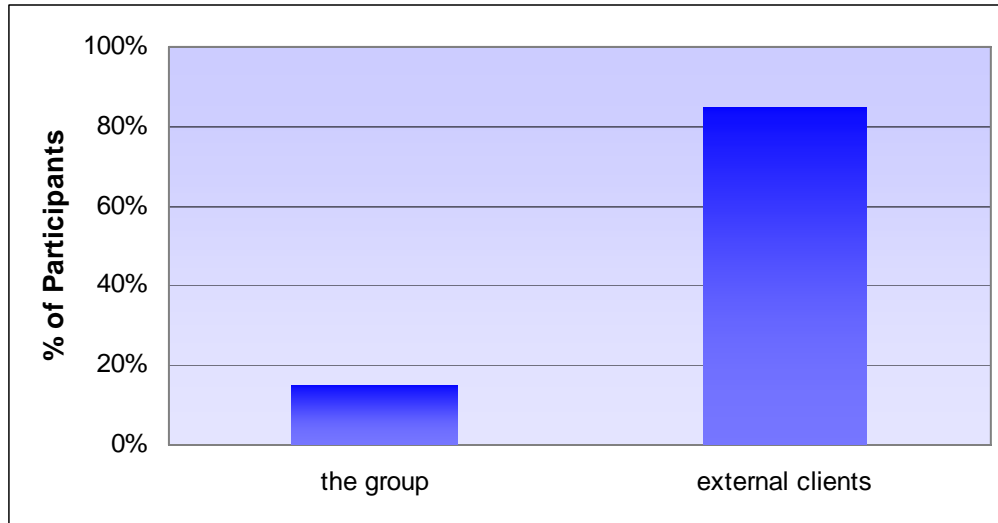


Nearly 70% of Swiss subsidiaries are localized.

7) Type of Product & Activity III

If your answer is "Yes" to question 6 , are you producing and selling to:

	Percentage	Responses
the group	15.1%	8
external clients	84.9%	45
Total responses		53

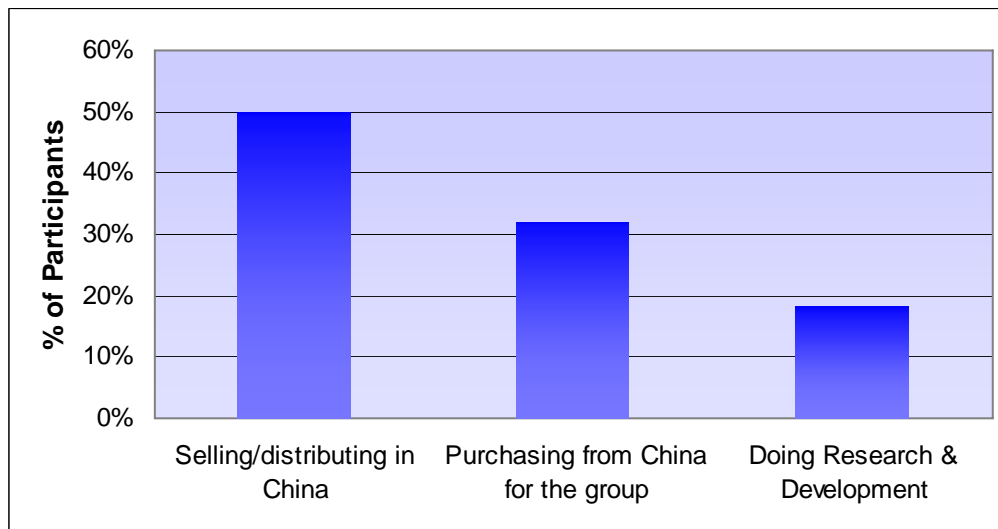


85% of companies are having their own customers and targeting markets rather than serving their group.

9) Type of Product & Activity IV

If you are **not** producing/assembling in China, is your subsidiary (multiple answers possible):

	Percentage	Responses
Selling/distributing in China:	50.0%	22
Purchasing from China for the group	31.8%	14
Doing Research & Development	18.2%	8
Total Responses		44

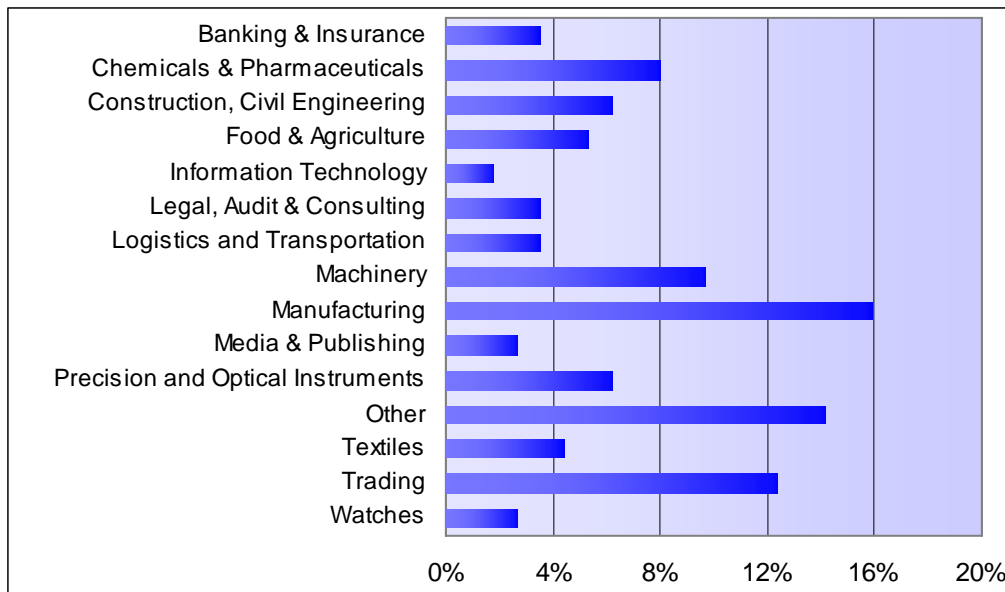


Most companies (50%) who did not localize their productions are still focused on sales into the Chinese market.

10) Business Segments

In what industry/sector are you doing business in China? Multiple answers are possible

	Percentage	Responses
Banking & Insurance	3.3%	4
Chemicals & Pharmaceuticals	8.1%	10
Construction, Civil Engineering	5.7%	7
Food & Agriculture	5.7%	7
Information Technology	2.4%	3
Legal, Audit & Consulting	3.3%	4
Logistics and Transportation	4.1%	5
Machinery	10.6%	13
Manufacturing	15.4%	19
Media & Publishing	2.4%	3
Medical, Precision and Optical Instruments	6.5%	8
Other	14.6%	18
Textiles	4.1%	5
Trading	11.4%	14
Watches	2.4%	3
Total Responses		123



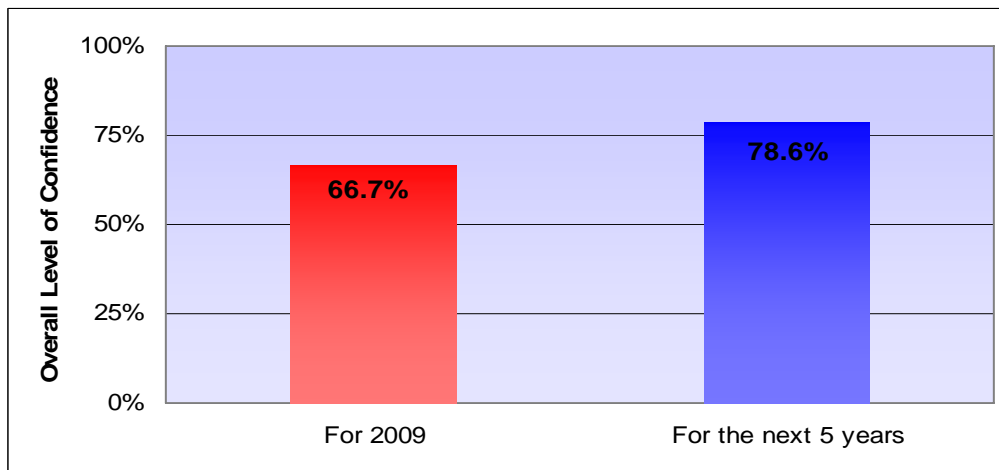
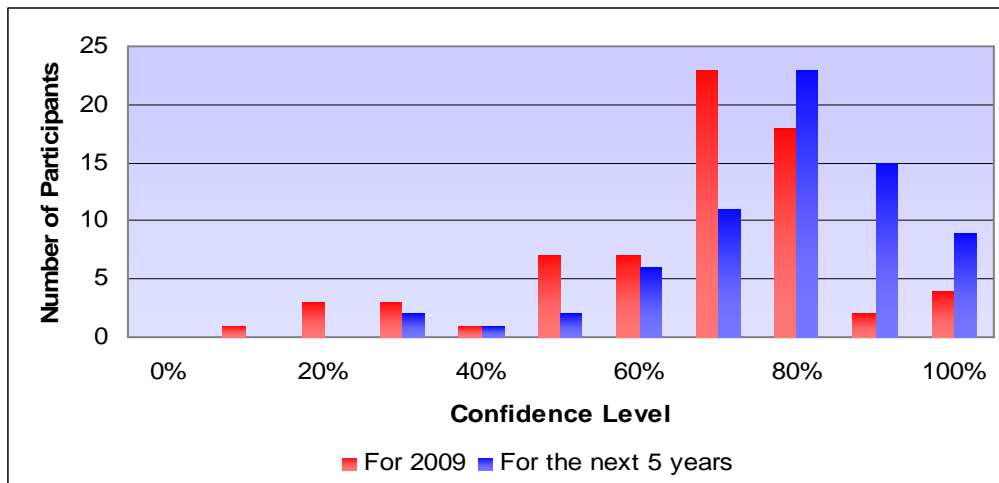
All business segments are represented in the survey, with the manufacturing industry accounting for the biggest share with 16%. The second biggest share with 14.6% belongs to "other", with most companies in this segment belonging to the airline and airline service, travel or hotel business.

11) Level of Confidence

What is your overall business confidence to do successful business in China?

The scale goes from 0 (worst case, very negative) to 10 (best case, extremely confident) with 5 meaning "average".

	0	1	2	3	4	5	6	7	8	9	10	Responses	Average Score
For 2009	0	1	3	3	1	7	7	23	18	2	4	69	6.66
For the next 5 years	0	0	0	2	1	2	6	11	23	15	9	69	7.86



The first figure shows how participants rated their confidence level for 2009 and the next 5 years. Overall Swiss subsidiaries expect a prosperous future in China, as is also confirmed by the other indicators. (investments, market performance, increase in labor force: see below questions 13, 14, 15)

12) Your Company's Biggest Concerns in China

What are your biggest concerns regarding your company's business activities in China in 2009?

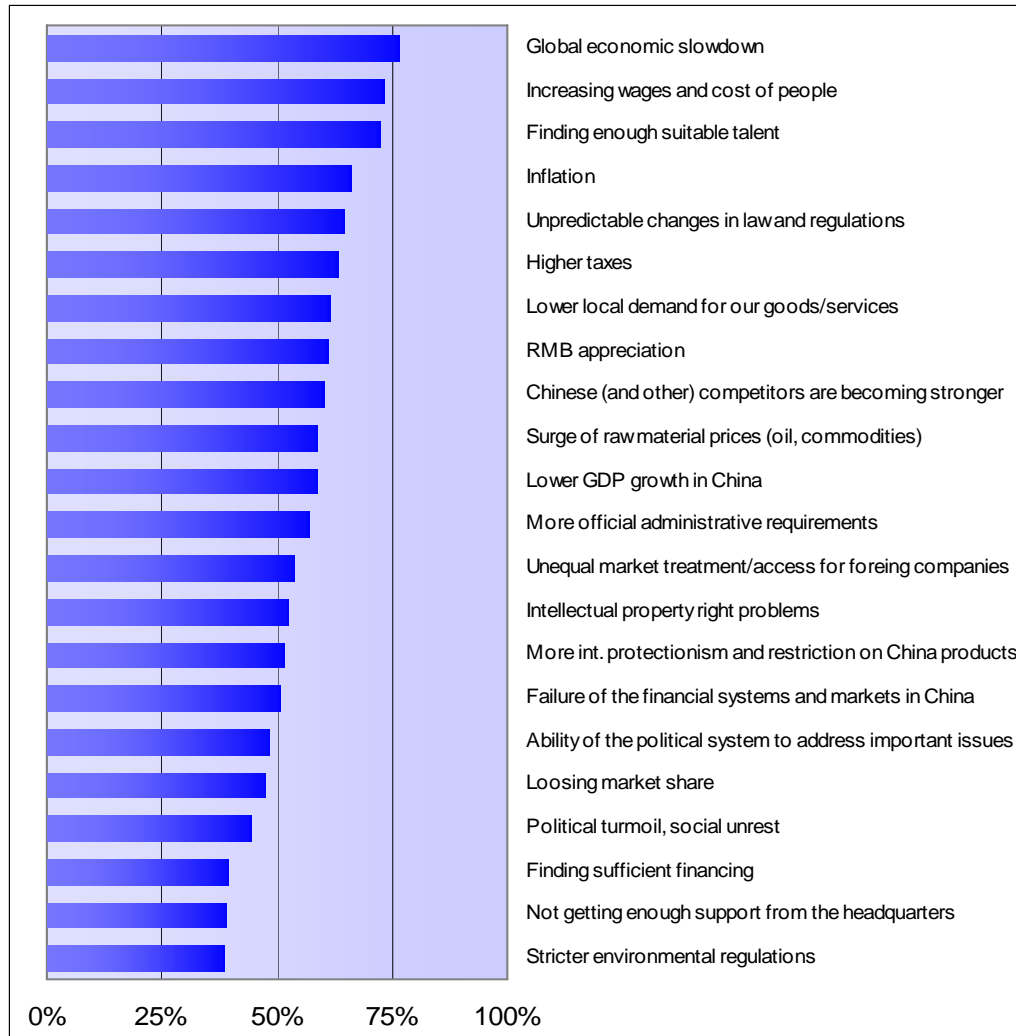
The scale goes from 0 (no issue, this is not important at all) to 10 (most important) with 5 meaning "average".

	0	1	2	3	4	5	6	7	8	9	10	Responses	Average Score
Stricter environmental regulations	11 16.67%	13 19.70%	2 3.03%	5 7.58%	1 1.52%	12 18.18%	7 10.61%	6 9.09%	7 10.61%	1 1.52%	1 1.52%	66	3.86
Not getting enough support from the headquarters	13 19.70%	7 10.61%	10 15.15%	1 1.52%	4 6.06%	9 13.64%	8 12.12%	2 3.03%	8 12.12%	1 1.52%	3 4.55%	66	3.88
Finding sufficient financing	13 19.12%	12 17.65%	3 4.41%	3 4.41%	3 4.41%	12 17.65%	5 7.35%	6 8.82%	5 7.35%	4 5.88%	2 2.94%	68	3.93
Political turmoil, social unrest	1 1.49%	8 11.94%	11 16.42%	4 5.97%	6 8.96%	16 23.88%	8 11.94%	5 7.46%	4 5.97%	3 4.48%	1 1.49%	67	4.45
Loosing market share	5 7.46%	4 5.97%	7 10.45%	4 5.97%	6 8.96%	11 16.42%	11 16.42%	10 14.93%	7 10.45%	2 2.99%	0 0.00%	67	4.76
Ability of the political system to address important issues	1 1.49%	4 5.97%	10 14.93%	4 5.97%	8 11.94%	13 19.40%	10 14.93%	7 10.45%	8 11.94%	2 2.99%	0 0.00%	67	4.84
Failure of the financial systems and markets in China	0 0.00%	5 7.46%	7 10.45%	6 8.96%	8 11.94%	13 19.40%	9 13.43%	9 13.43%	4 5.97%	3 4.48%	3 4.48%	67	5.07
More int. protectionism and restriction on China products	5 7.35%	4 5.88%	9 13.24%	3 4.41%	4 5.88%	11 16.18%	5 7.35%	8 11.76%	10 14.71%	6 8.82%	3 4.41%	68	5.18
Intellectual property right problems	4 6.06%	4 6.06%	6 9.09%	6 9.09%	3 4.55%	11 16.67%	7 10.61%	7 10.61%	10 15.15%	5 7.58%	3 4.55%	66	5.26
Unequal market treatment/access foreign companies	5 7.46%	5 7.46%	4 5.97%	4 5.97%	1 1.49%	11 16.42%	11 16.42%	9 13.43%	8 11.94%	5 7.46%	4 5.97%	67	5.40

	0	1	2	3	4	5	6	7	8	9	10	Responses	Average Score
More official administrative requirements	1 1.47%	4 5.88%	4 5.88%	0 0.00%	6 8.82%	14 20.59%	14 20.59%	12 17.65%	7 10.29%	4 5.88%	2 2.94%	68	5.68
Lower GDP growth in China	1 1.49%	5 7.46%	1 1.49%	2 2.99%	5 7.46%	14 20.90%	9 13.43%	13 19.40%	10 14.93%	5 7.46%	2 2.99%	67	5.87
Surge of raw material prices (oil, commodities)	4 5.97%	2 2.99%	6 8.96%	4 5.97%	3 4.48%	9 13.43%	6 8.96%	5 7.46%	16 23.88%	8 11.94%	4 5.97%	67	5.88
Chinese (and other) competitors becoming stronger	4 5.88%	2 2.94%	0 0.00%	6 8.82%	2 2.94%	11 16.18%	8 11.76%	12 17.65%	15 22.06%	6 8.82%	2 2.94%	68	6.01
RMB appreciation	3 4.41%	0 0.00%	6 8.82%	4 5.88%	3 4.41%	14 20.59%	1 1.47%	10 14.71%	16 23.53%	5 7.35%	6 8.82%	68	6.10
Lower local demand for our goods/services	3 4.55%	4 6.06%	3 4.55%	1 1.52%	4 6.06%	4 6.06%	12 18.18%	12 18.18%	11 16.67%	8 12.12%	4 6.06%	66	6.14
Higher taxes	0 0.00%	2 2.99%	2 2.99%	5 7.46%	3 4.48%	13 19.40%	8 11.94%	13 19.40%	10 14.93%	3 4.48%	8 11.94%	67	6.33
Unpredictable changes in law and regulations	0 0.00%	4 5.97%	5 7.46%	0 0.00%	6 8.96%	11 16.42%	4 5.97%	8 11.94%	12 17.91%	7 10.45%	10 14.93%	67	6.45
Inflation	0 0.00%	1 1.49%	1 1.49%	0 0.00%	2 2.99%	15 22.39%	10 14.93%	17 25.37%	14 20.90%	4 5.97%	3 4.48%	67	6.61
Finding enough suitable talent	1 1.47%	0 0.00%	4 5.88%	3 4.41%	2 2.94%	5 7.35%	7 10.29%	6 8.82%	18 26.47%	7 10.29%	15 22.06%	68	7.22
Increasing wages and cost of people	0 0.00%	0 0.00%	0 0.00%	2 2.94%	0 0.00%	6 8.82%	14 20.59%	11 16.18%	18 26.47%	11 16.18%	6 8.82%	68	7.35
Global economic slowdown	0 0.00%	1 1.49%	0 0.00%	0 0.00%	1 1.49%	8 11.94%	7 10.45%	13 19.40%	12 17.91%	13 19.40%	12 17.91%	67	7.63

12) Your Company's Biggest Concerns in China (Figure)

The scale goes from 0% (no issue, this is not important at all) to 100% (most important) with 50% meaning "average".



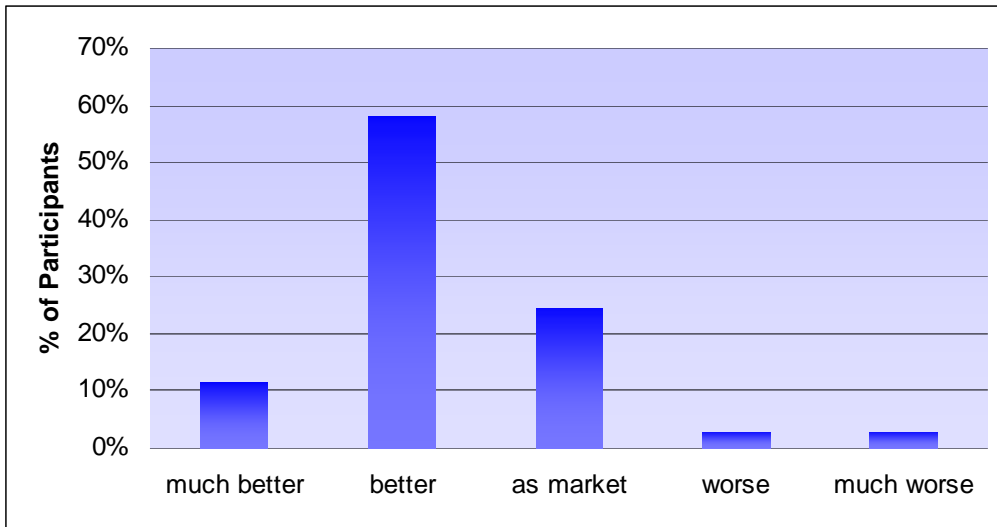
Not surprisingly, the global economic slowdown (76.3%) figures at the top of the worries. An interesting fact is that lower GDP growth (58.7%) in China is not perceived to be nearly as important as the global slowdown, indicating that Swiss companies are not too dependent on the growth rate and probably still have large market shares to conquer. (This is evidenced by the expectation of more than 70% of respondents to grow better than the market, see just below.) Increasing wages cost and availability of talent is the next biggest concern.

At the other end we see that socio-political and regulatory issues are of little concern, as is finding sufficient financing and getting support from the headquarters.

13) Business Development Expectations

What are your expectations for the development of your business in China 2009 by comparison to the growth of the local market in your specific industry or sector?

We plan for 2009 to grow:	much better	better	as market	worse	much worse	Responses
	8 (11.59%)	40 (57.97%)	17 (24.64%)	2 (2.90%)	2 (2.90%)	69



The responses to question 13 confirm participants' confidence for 2009. Business development expectations for 2009 are high, 70% of the questioned Swiss companies expect to outperform their industry growth and feel therefore well equipped to beat their competitors. 6% only expect to lose market share.

14) Industry Growth

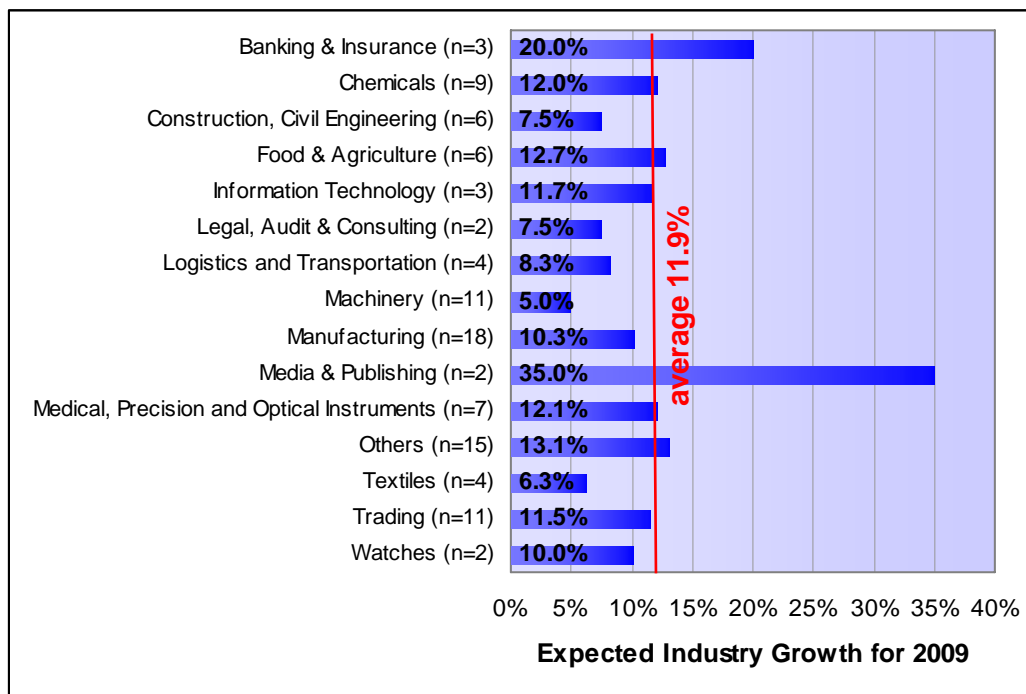
How do you expect your industry to grow (market volume) in China for 2009 (in percent)?

Average: 11.9%

Range: 0% <=> 60%

Median: 10%

Total Responses: 61



The high average indicates that Swiss subsidiaries are in high growth industries, those who grow faster than China's GDP on average. Considering the fact that 70% of companies expect to outperform their industry (see question 13), Swiss companies should grow on average by quite some more than 12% in China.

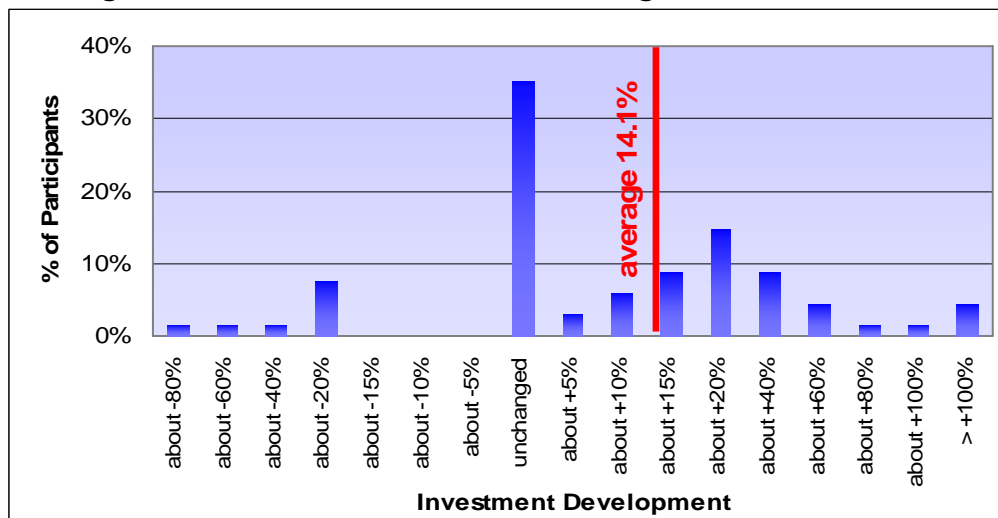
Looking at the expected growth of the separate industries, media and publishing is on top. However, only 2 participants from this industry responded to this question, so this impressive result shouldn't be rated too highly. More explanatory power (n=11) has the less optimistic outlook of companies in the machinery sector expecting an industry growth of 5% for 2009.

Average calculation method: Individual responses were multiplied with their corresponding expected increase (positive) or decrease (negative) of expected industry growth factor. The sum of the responses was then divided by the number of total responses.

15) Investment Plans

Compared to 2008, the amount of your subsidiary's total investments in RMB in China in 2009 will be:

	Percentage	Responses
more than 100% lower investments	0.0%	0
about 100% lower investments	0.0%	0
about 80% lower investments	1.5%	1
about 60% lower investments	1.5%	1
about 40% lower investments	1.5%	1
about 20% lower investments	7.4%	5
about 15% lower investments	0.0%	0
about 10% lower investments	0.0%	0
about 5% lower investments	0.0%	0
unchanged	35.2%	24
about 5% higher investments	2.9%	2
about 10% higher investments	5.9%	4
about 15% higher investments	8.8%	6
about 20% higher investments	14.7%	10
about 40% higher investments	8.8%	6
about 60% higher investments	4.4%	3
about 80% higher investments	1.5%	1
about 100% higher investments	1.5%	1
more than 100% higher investments	4.4%	3
Total responses:		68
Average	14.1% higher investments	



Another sign of the prevalent confidence among respondents is their intention to increase investments in 2009. Indeed, most subsidiaries intend to invest more in China in 2009 than in 2008.

On average the planned increase will be 14.1% compared to 2008. Only 8 companies, or 11% of those questioned, plan on decreasing their investments.

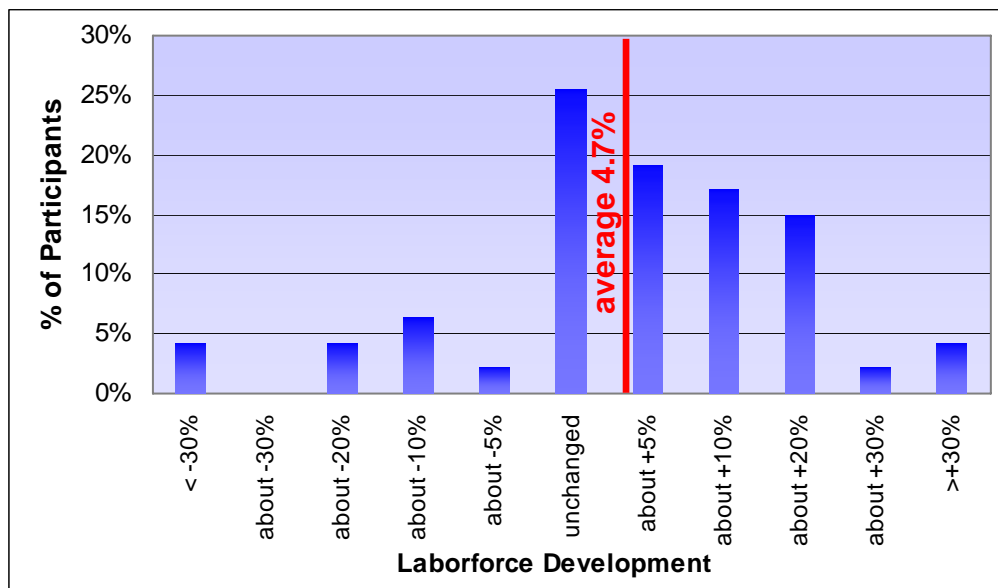
Average calculation method: Individual responses were multiplied with their corresponding expected increase (positive) or decrease (negative) of investment factor. The sum of the responses was then divided by the number of total responses.

16) Development of Laborforce

Regarding the total number of employees in China, we plan to do the following in 2009:

	Percentage	Responses
decrease labor force in China by more than 30%	4.3%	2
decrease labor force in China by about 30%	0.0%	0
decrease labor force in China by about 20%	4.3%	2
decrease labor force in China by about 10%	6.4%	3
decrease labor force in China by about 5%	2.1%	1
unchanged	25.5%	12
increase labor force in China by about 5%	19.1%	9
increase labor force in China by about 10%	17.0%	8
increase labor force in China by about 20%	14.9%	7
increase labor force in China by about 30%	2.1%	1
increase labor force in China by more than 30%	4.3%	2
Total responses:		47
Average	4.7% increase in labor force	

Note: For statistical reasons companies with less than 14 employees were omitted



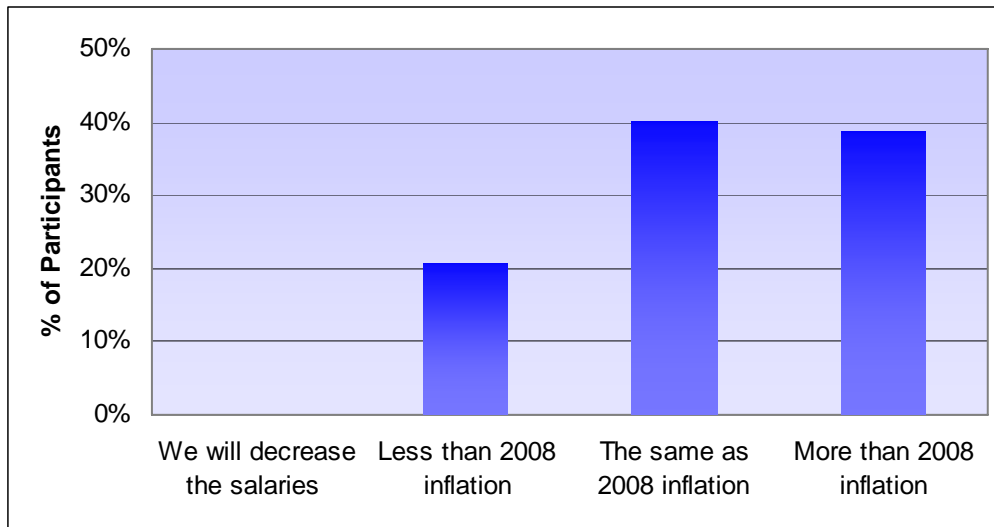
In line with increases in investments a majority of Swiss subsidiaries intend to increase their workforce. On average they intend to increase the number of their employees in China by 4.7% in 2009.

Average calculation method: Individual responses were multiplied with their corresponding expected increase (positive) or decrease (negative) of laborforce factor. The sum of the responses was then divided by the number of total responses.

17) Salary Level

In 2008 the estimated average inflation rate in China is 6.5%. How much do you expect to increase salaries for 2009 on average:

	Percentage	Responses
We will decrease the salaries	0.0%	0
Less than 2008 inflation	20.9%	14
The same as 2008 inflation	40.3%	27
More than 2008 inflation	38.8%	26
Total responses:		67



Regarding the expected level of salaries in 2009, the survey delivers a very clear result. For 2009 none of the participants plan on decreasing salaries. However less than 40% intend to increase them in real terms (over the inflation rate).

18) Salary Increase

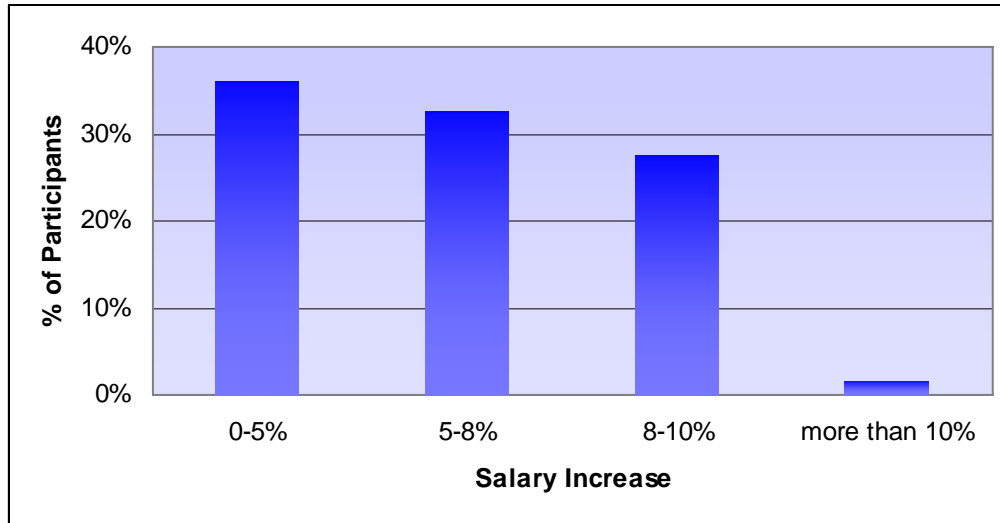
If you intend to increase salaries in 2009, how many percent would the increase be?

Average: 6.78%

Range: 0% <=> 14%

Median: 7%

Total Responses: 57



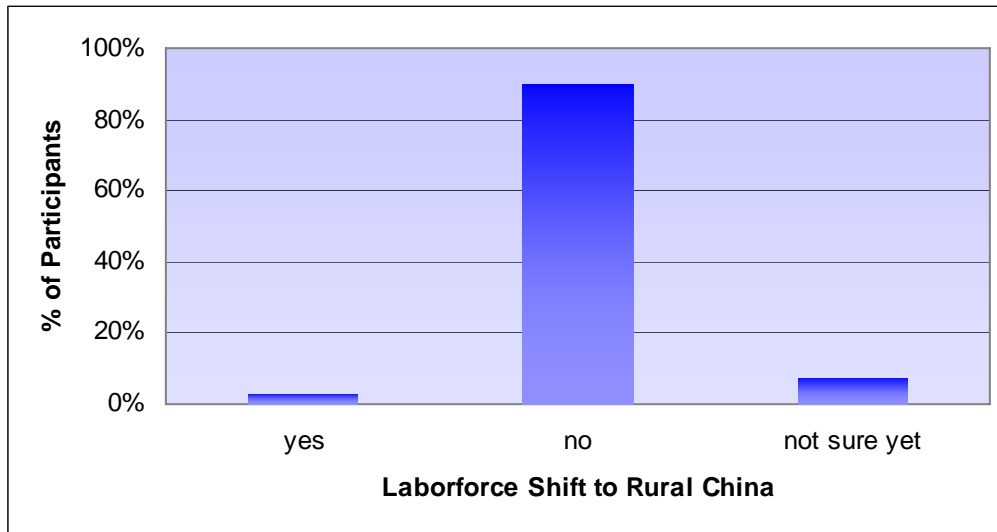
When questioned about the amount Swiss companies plan on increasing salaries for 2009, participants responded with an average increase of 6.78%, very slightly over inflation. On average, real term salaries will not increase in Swiss subsidiaries.

(Note: the range of salary increases ranges from 0% to 14%, however there was only one participant planning to increase by more than 10%.)

19) Laborforce Shift to Rural China

In recent years wages in the more developed costal areas of China increased sharply. This led some companies to shift workforce to more rural and cheaper areas in China. In 2009 does your company also plan to move jobs from coastal to rural areas in China?

	Percentage	Responses
yes	2.9%	2
no	89.9%	62
not sure yet	7.2%	5



Of the 69 SwissCham members who participated in the survey only 2 plan on moving some of their workforce to more rural areas in order to cut labor costs. This indicates that though increasing wages are the second biggest concern, they are definitely not a reason for action yet. (See question 12)