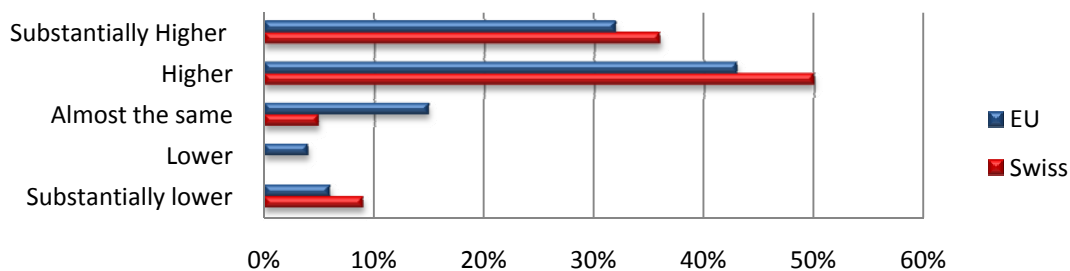


A Good Chinese Year of the Rabbit! What should we expect from the Dragon? An Analysis in two parts

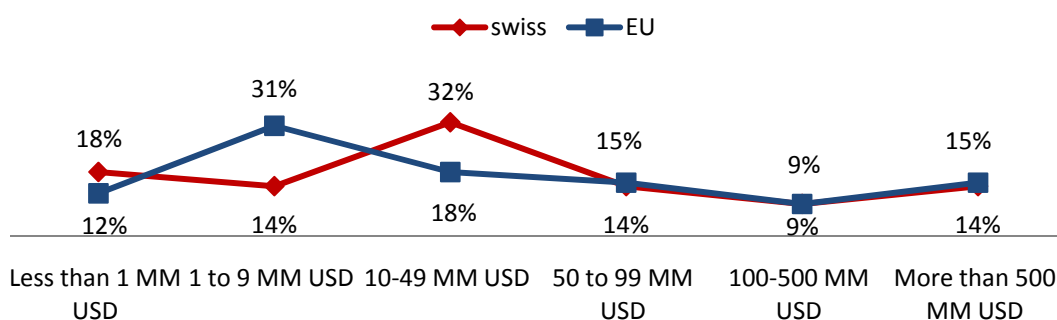
With the year of the Dragon just about to welcome us, here is a look back at 2011 with the help of the annual “CEIBS Survey - Foreign Executives in China” done in collaboration with China Integrated and the Swiss Center Shanghai in October and November 2011. The most prominent profile of respondent is a manager, working for a WOFE in the manufacturing industry, with an office in Shanghai or Beijing, selling to other businesses (B2B goods). 138 EU company executives answered and 26 from Swiss companies.

2011 was definitely a better year than 2010 in terms of sales with over 70% of all companies forecasting that their revenue in 2011 would be higher to substantially higher than in 2010. In consistence with data we have from previous years, Swiss companies are still doing a bit better than their EU counterparts. In general (as an indication only as the respondent sample may not be sufficiently representative) expected China revenue of Swiss companies is also slightly bigger than EU ones, on average:

Expected Revenue in 2011 compared to 2010



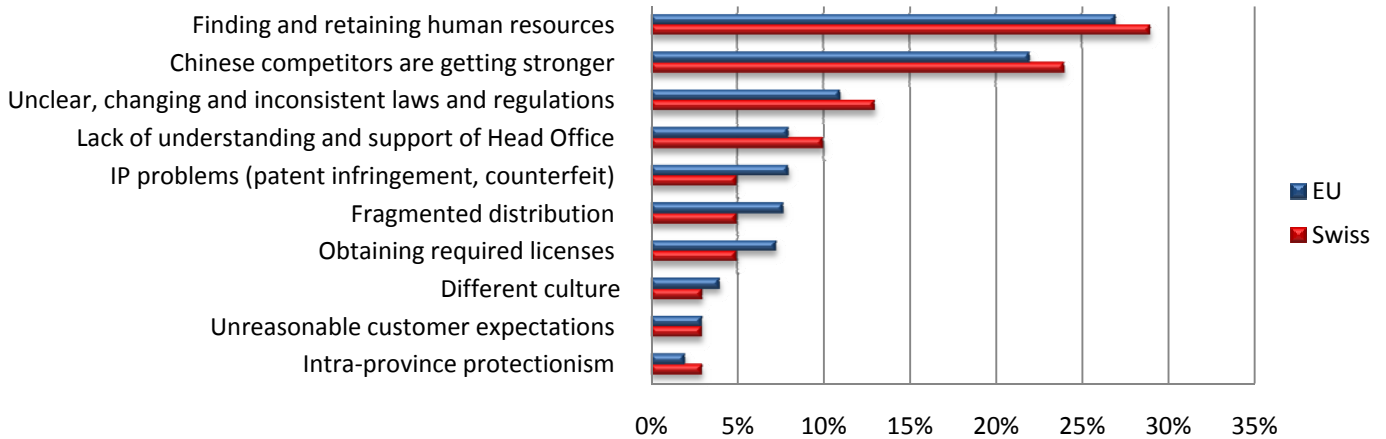
Companies' Expected China Revenue for 2011



Difficulties and concerns

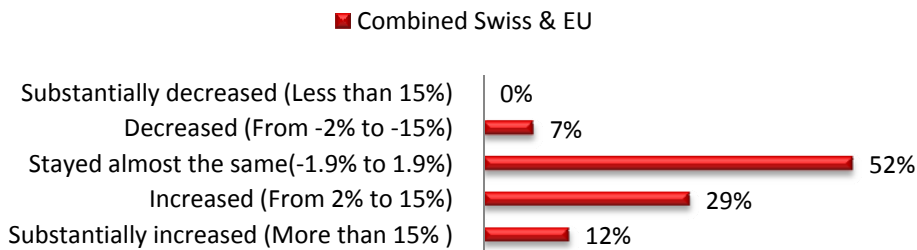
As in 2010, the biggest difficulty for companies is finding and retaining human resources, with the strength of Chinese competitors, and unclear, changing and inconsistent laws and regulations following closely. Top concerns in the year to come newly include rising labor costs and economic growth slowdown in China, but we will develop this part in a follow up analysis.

Companies' biggest difficulties at present



Despite the constant noise that this topic generates in Switzerland and in Europe and a slight average increase in reported IP Infringement, it is interesting to note that IP yet again has not climbed into the top reported difficulties, particularly for the Swiss companies, in line with previous year's data.

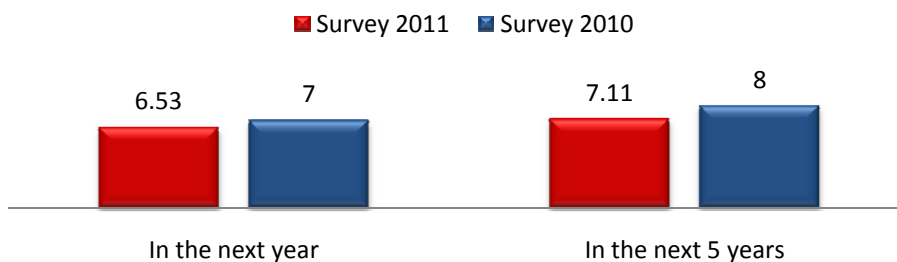
Occurance of IP infringement over the past 3 years

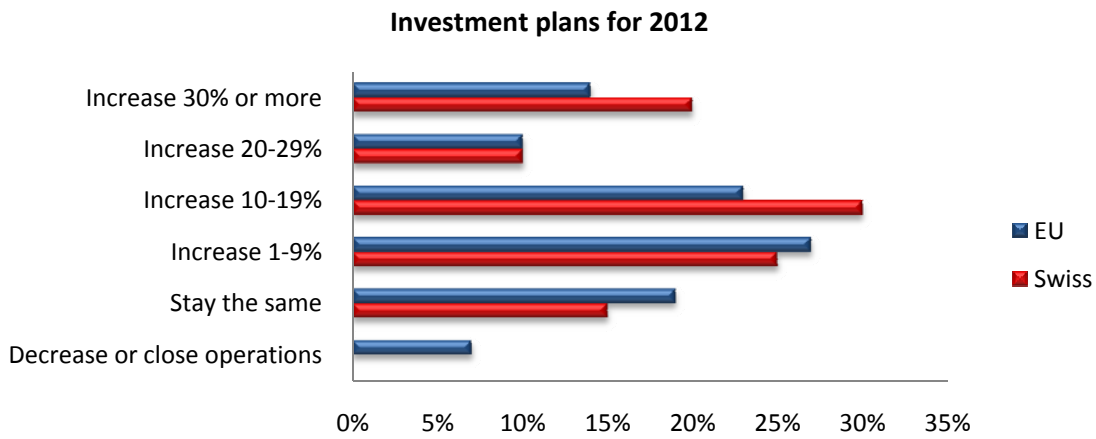


Harder years & fiercer competition ahead, but very strong investments planned

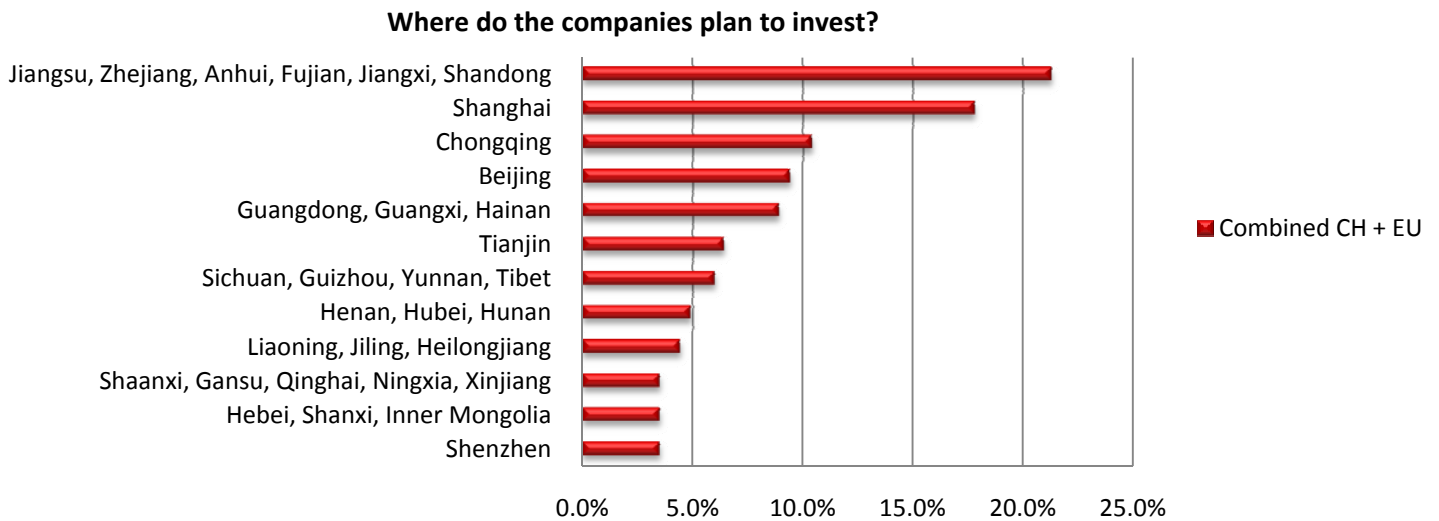
Due certainly to economic uncertainties, the confidence of Swiss companies in the ability of their China operations to do successful business is slightly lower than last year, though overall not taking a big knock despite slowing Chinese (and global) growth. Most probably due to still very strong growth expected in China in 2012 compared to the rest of the world (between 8 - 8.5%) investment plans in China in 2012 are extremely strong: 85% of Swiss and 74% of EU companies will be increasing their investments in China in the year to come.

Confidence of Swiss companies in the ability of China operations to do successful business

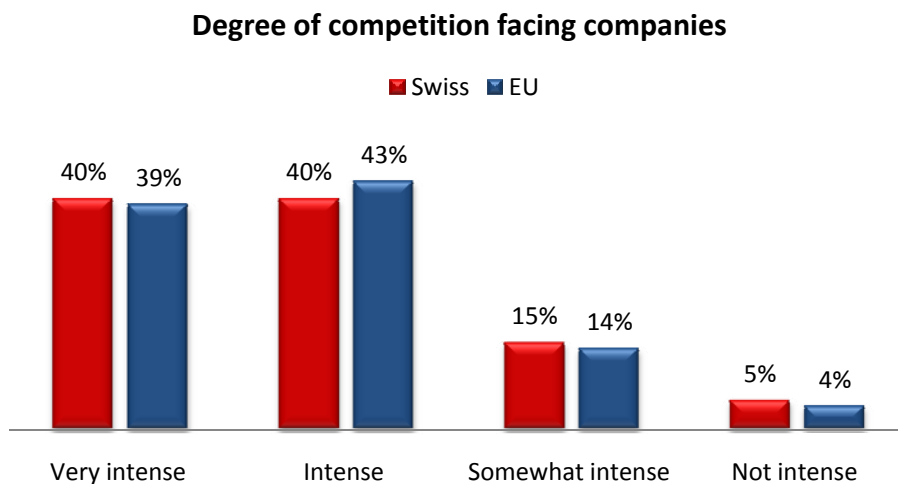




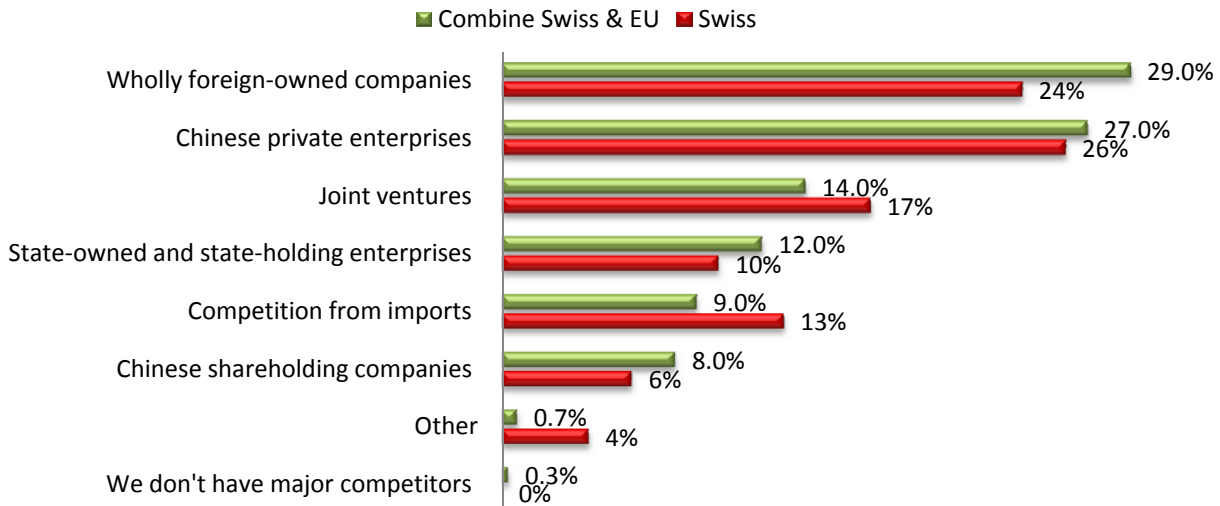
Moving towards a service industry hub, Shanghai will not attract as much investment as the rest of the coastal provinces, though East China is still obviously the top place for investments. Chongqing in the inland is appearing as a strong location following the trend of greater Chain companies such as Foxconn, reported to invest USD 3 Bio. in Chongqing.



Competition in China is getting more and more intense with a growing trend that Chinese private enterprises are closing the gap with foreign companies in terms of competition. This is particularly so for Swiss companies, already identifying Chinese competitors as their major one.



Who are the major competitors?



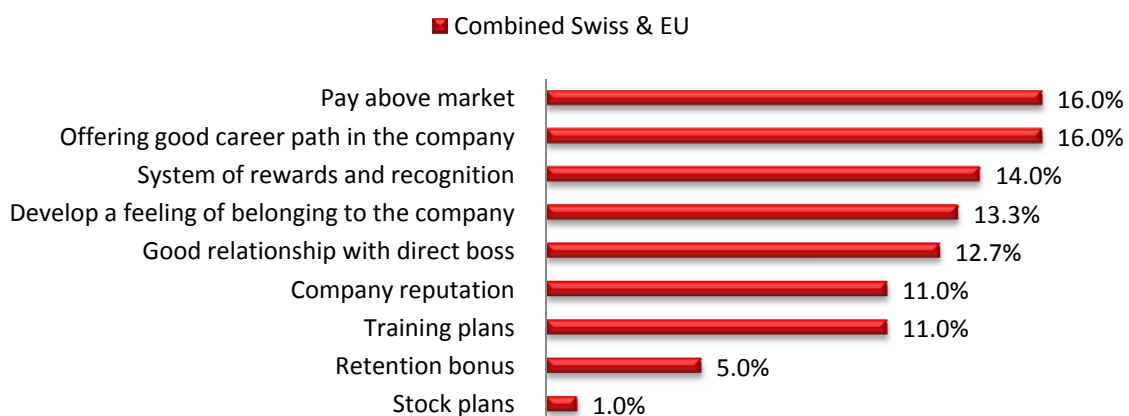
Human Resources – the constant headache

For Swiss and EU companies, as it has been for several years now, finding and hiring suitable talents is a top concern. Is it also a key cost competitiveness element for all foreign companies, considering that Chinese competitors almost always drag prices down. As a result, with high staff turnover rates encouraged by a myriad of opportunities for strong candidates, retention strategies are key.

As clearly indicated on the chart below, while monetary incentives are needed, offering a good career path in the company is considered as important by European companies to retain their staff. Indeed, offering a talent long term perspectives not only motivates the individual at work, but also encourages the person to stay on and make a position and a corresponding remuneration jump.

Recognizing achievements and developing a feeling of belonging to the company are almost as important measures and, all in all, allows keeping good employees and remaining competitive.

Top measures to retain employees



We will focus our February analysis with more trends to figure out what to expect in 2012 and the years to come, particularly with respect to the labor market, manufacturing and cost competitiveness.

Meanwhile, we wish you a very happy, prosperous and powerful Chinese Year of the Dragon!

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