



The Swiss Business in China Survey 2023

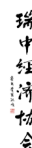
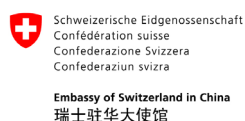
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**The Swiss Business
in China Survey 2023**

2023年度瑞士在华企业调查

Methodological note

The Swiss Business in China Survey 2023 is the second such inquiry carried out since the start of the pandemic—following the COVID-induced hiatus in 2021— and follows previous editions published between 2006 and 2019. The survey instrument has been updated this year after many years of development, with many new questions negotiated by its numerous institutional stakeholders and then tested on respondents. The team intends to continue to improve the survey instrument, in both its English and Chinese versions. While the comparatively low number of respondents associates with statistical validation issues, the report undeniably provides unique insights of strategic and operational relevance to practitioners. The report also provides the Swiss public with a description of doing business in China during a critical juncture, and possibly the most challenging year for Swiss companies in over two decades. The collection of data for the 2024 survey will start in October 2023 with the intention of contrasting and contextualizing the findings of this report and assessing future trends.

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Preface



Dear readers,

Swiss business sentiment in China has had its ups and downs over the past few years. Expectations fell and rose, investment plans were reviewed, market dynamics and manifold economic issues kept management busy at all times. Thanks to the **Swiss Business in China Survey**, we can track these movements and take the pulse of the many Swiss companies established in China. It gives me great pleasure to introduce the latest edition, and I invite businesspeople, policymakers, and all those interested in further developing Sino-Swiss economic relations to look into the latest Survey's results.

Since the quarantine that initiated my tenure as the Swiss Ambassador to China, I have witnessed remarkable developments and events that have reshaped the business climate. While access to information remains difficult, we are relieved that the COVID-19 pandemic and the restrictions imposed on the mobility of people now lie behind us. Local Chinese governments have taken the opportunity of the reopening to go into full trade and investment promotion mode, organizing numerous events in China and abroad. There is a lot of enthusiasm around the topic of "opening up".

I have also found much enthusiasm among the Swiss business leaders that I have had the opportunity to meet—but it is on a different level. Indeed, though they all noted the importance of meeting and reconnecting with their teams in China to reassess the situation, most of them are not aggressively expanding businesses and are still evaluating new investments.

Swiss business leaders highlighted that their Chinese management did not sit idle during this period of isolation. Upon returning to China, Switzerland-based executives were impressed by the progress made by their local subsidiaries in the fields of digitalization, process development and quality assurance.

Against this background, 2023 promises to be a year both of recovery but also of reconsidering how to do business with China. Indeed, decision-makers need to address new challenges that have emerged or gained in relevance, such as the diversification of supply chains, or coping with geopolitical tensions. In refining their China strategies, C-level executives will certainly benefit from comparing their own assessments with the views expressed by their peers.

I wish you an instructive and inspiring reading of the Survey's results and me and my "Swiss team" are looking forward to welcoming many of you at the Embassy in Beijing or in our Consulates General in Shanghai, Guangzhou, Chengdu and Hong Kong.

Jürg Burri,
Ambassador of Switzerland to the People's Republic of China

Executive summary

Like its 2022 predecessor, the **2023 Swiss Business in China survey provides rich new findings and insights**. It is particularly important as it allows **direct comparisons to be made between the new post zero-COVID business environment and pre-pandemic years**.

Swiss firms have **recovered their confidence in successfully doing business in China** and now view the country as a priority market for investment at a similar level to the pre-pandemic years.

However, **Swiss businesses have lower expectations than in the past in terms of their sales and profit growth**. China's growth potential is considered in an article in Part III of this report.

Overall, **Swiss companies in China seem to have weathered the challenges created by the 3 years of the pandemic**.

Many took advantage of the crisis to improve their efficiency. Less intense competition and a **more favorable human resources situation** for Swiss employers certainly helped.

Interestingly, **Swiss companies see previously reported challenges related to innovation and R&D in China as less of an issue**. Time will tell if this is because they now face less intense competition or whether they are scaling down their innovation and R&D activities in China.

Despite the more positive outlook, **the travails of 2022 have left an indelible impact on the business environment in China**.

Regulatory challenges have not diminished and the likelihood of international sanctions on Chinese companies has risen due to the increasingly tense geopolitical situation. As a result, **many Swiss businesses are changing their China strategies**.

While Swiss firms still expect additional growth and profits from their China businesses, they are clearly **more cautious with the investments that they plan to make**. In particular, over 40% of them are canceling or postponing planned investments due to geopolitical tensions.

We would like to sincerely thank all of the participants in the 2023 survey. The respondents inform this report with valuable and timely insights on the opportunities for Swiss firms doing business in China at a time when such information is not more easily available. **The outcome supports better communication between Head Offices and their Chinese subsidiaries and more successful businesses for all**.

The Editors and Contributors to the Swiss Business in China Survey 2023

The timeline of survey responses

This year's business survey of Swiss firms active in China started on October 25, 2022 and concluded on April 4, 2023. It therefore included responses from participants both prior to the lifting of the zero-COVID policy (about one-third) and post-reopening (about two-thirds).

Unsurprisingly, the business confidence expressed by participants filling in the survey before the lifting of the zero-COVID policy was much lower than that expressed post-reopening. As a consequence, we found it more valuable to present the results relating to business expectations by splitting the respondents into two distinct groups:

- Those who answered while the zero-COVID policy was still in place ('0-covid' in the charts). The last such response was submitted on December 13, 2022.
- Those who answered after the lifting of the zero-COVID policy ('post-reopening' in the charts). The first such response was submitted on January 9, 2023.

The 4-week gap between these submission dates was the result of a pause we took in collecting answers due to the radical change in the situation.

However, the approach taken in presenting the results allows for a clear separation of answers between the two very different environments that Swiss businesses had to deal with in China. Furthermore, it highlights the different expectations of managers in facing these two contrasting situations.

I. Business confidence rebounds in 2023:

But investment intentions fall amidst a shifting competitive landscape

This year's survey of Swiss firms conducting business in China started at the end of 2022 and was concluded in the first quarter of 2023, after the January announcements by the Chinese government to end the zero-COVID lockdown restrictions. The timing of this announcement had a significant impact on the expected business performance by Swiss companies for 2023. To illustrate this impact, survey responses that were submitted prior to the end of zero-COVID (termed in this report as '0-covid') have been compared to those submitted after the announcement (termed in this report as 'post-reopening) whenever appropriate.

Q4.9*

How confident are you that your company's business operations in China will be successful?

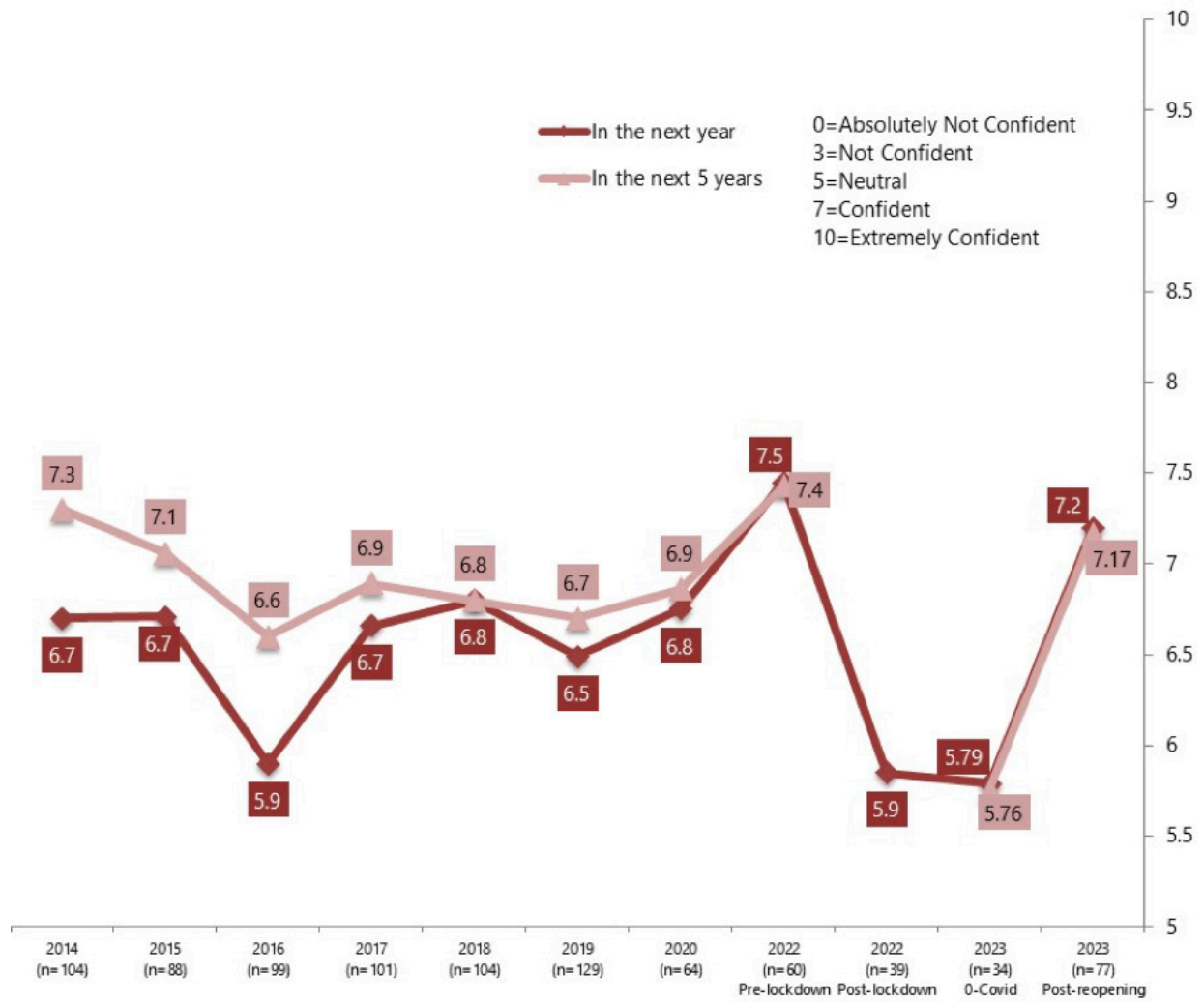


Figure 1.1: Confidence in doing business in China

*The top right corner of all applicable figures references the question number in the survey instrument.

I.I Sales growth, profitability and investment intentions

While sales, profits and investment growth expectations declined, China remains a top priority investment market for Swiss businesses.

Sales

Q2.2

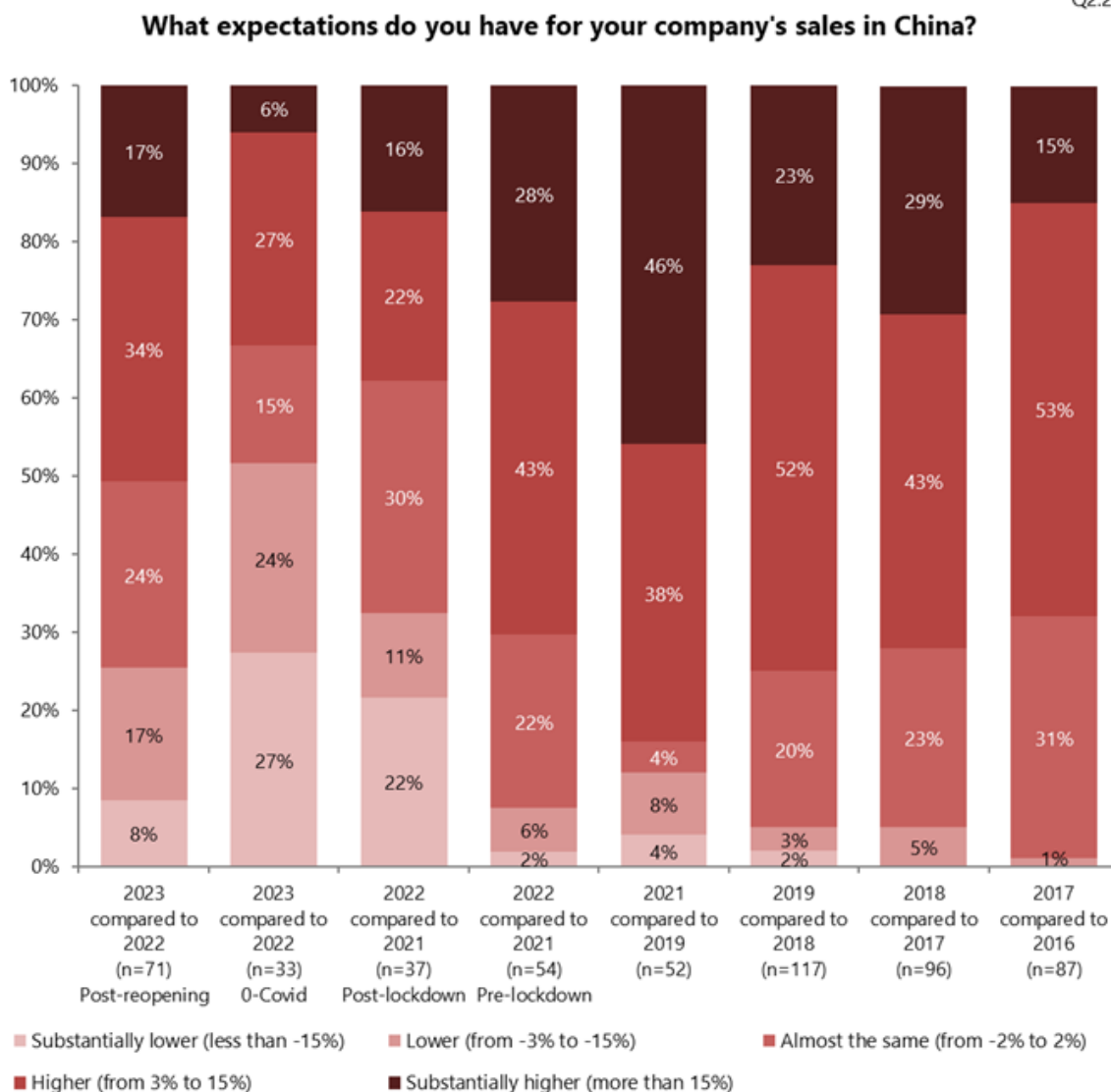


Figure 1.2: Sales growth expectations

A majority (51%) of survey respondents expected lower sales in 2023 compared to 2022 while under zero-COVID conditions. This percentage dropped to 25% of Swiss businesses expecting lower sales revenues in responses received post-reopening, indicating how crippling the COVID-19 restrictions put in place in the second half of 2022 have been for businesses.

However, despite these considerably more positive expectations, this percentage is still about 5 times higher than in the pre-pandemic years (just 1-5% of respondents were expecting lower sales in the 2017, 2018 and 2019 surveys).

Profits

Q2.5

What expectations do you have for your company's profit in China?

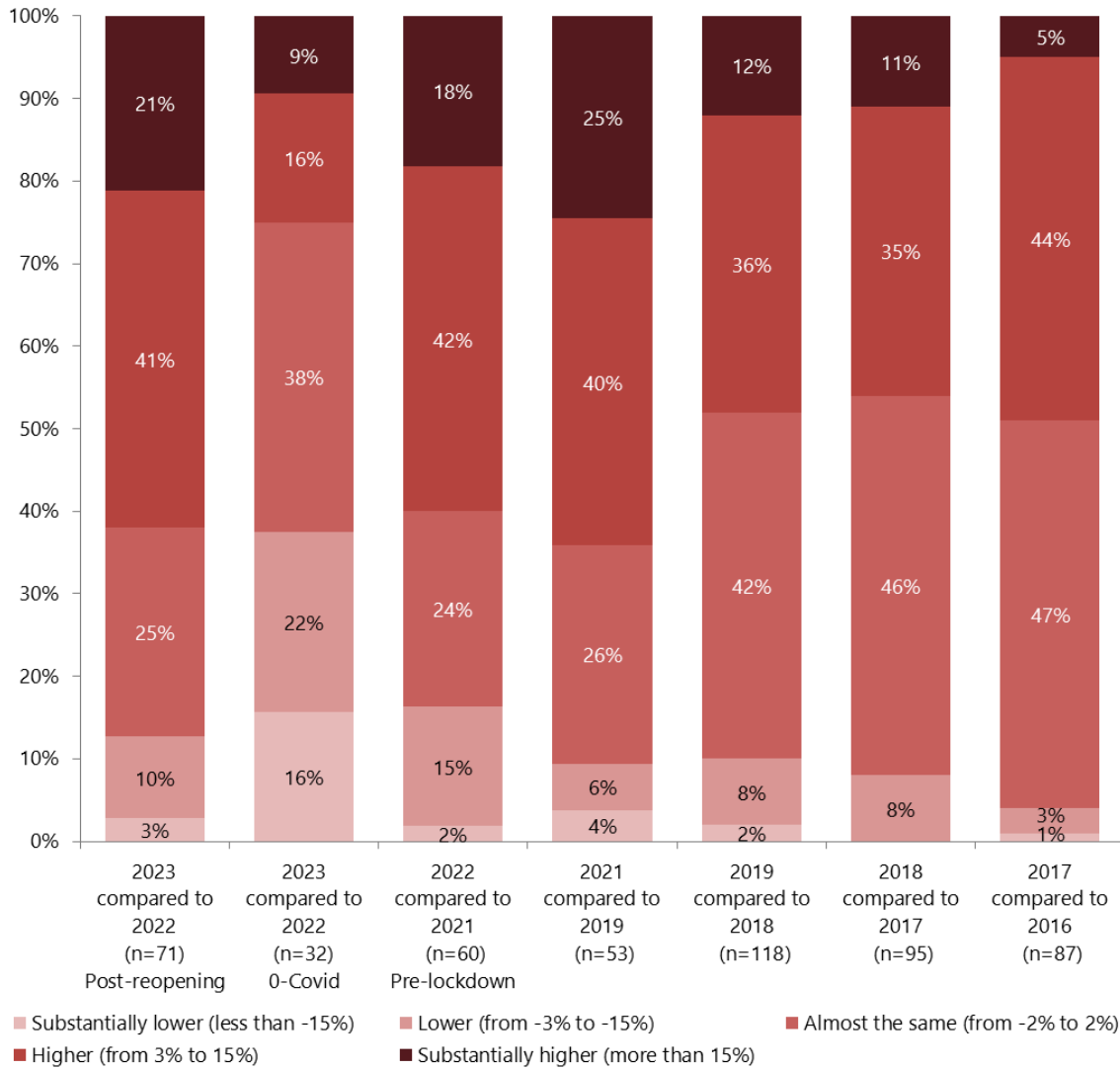


Figure 1.3: Profit growth expectations

A picture similar to the sales development (Figure 1.2) appears in terms of profit.

The number of businesses expecting lower profits in 2023 (13%) is close to twice the number typical in the pre-pandemic years (about 7% on average in the 2017, 2018 and 2019 surveys). The trend is still for a larger percentage of respondents to expect lower profits, year by year.

However, the overall proportional expectations for higher profits, when compared to sales, indicates that Swiss companies have by and large grasped the opportunities afforded by the pandemic years to become more efficient in China. (This also appears to be the case when looking at the change of emphasis in success factors, highlighted in Section 1.2 below).

Investments

Q2.6

What investments are you planning for China in 2023?

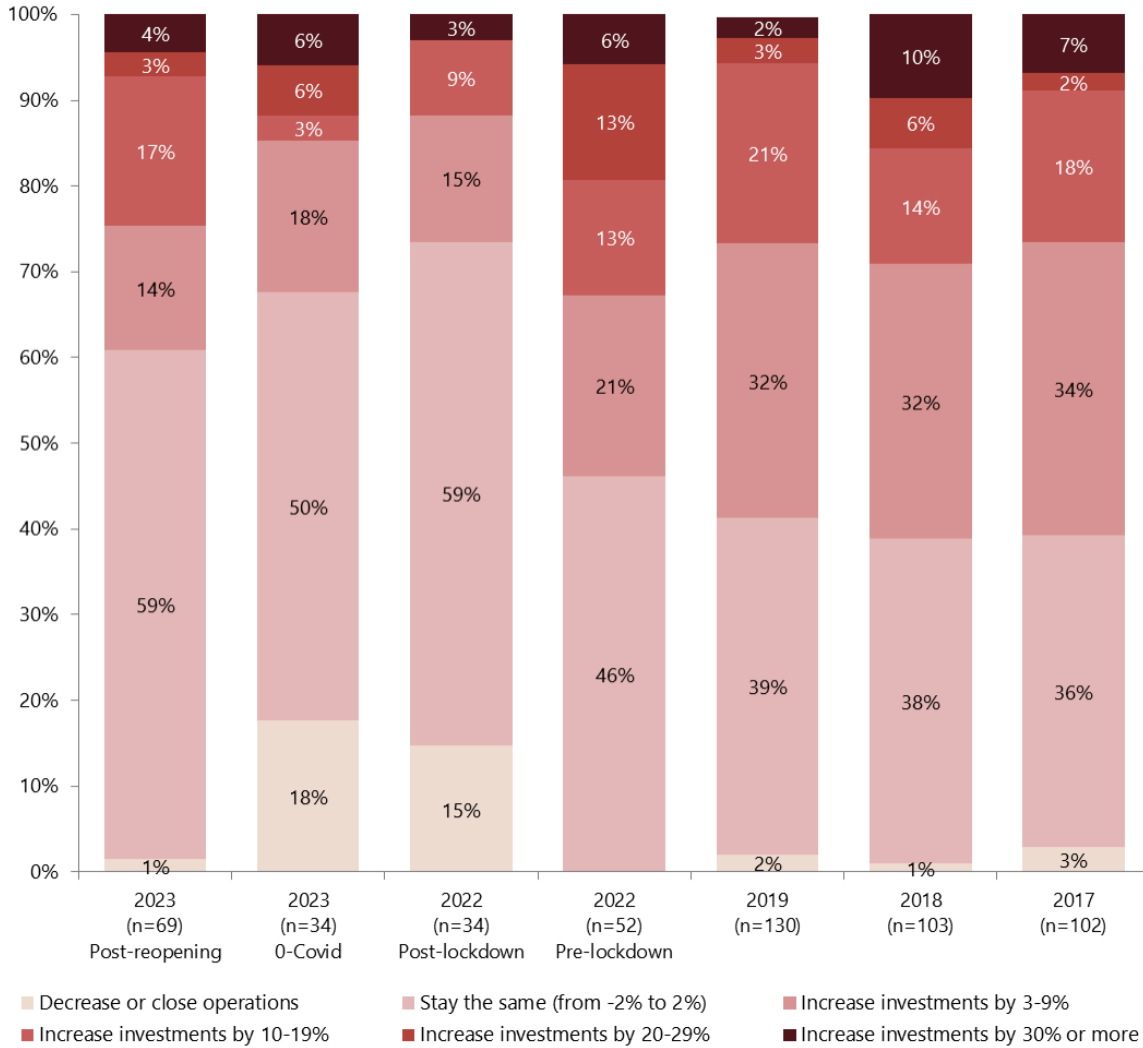


Figure 1.4: China investment plans

In 2023, Swiss firms still remain more cautious with their investment plans compared to the pre-pandemic years.

38% of post-reopening respondents plan to increase investments in China, whereas this percentage was 61% in the pre-pandemic years (the average reported in the 2017, 2018 and 2019 surveys).

When taking into account the results reported in Part II of this report, it is reasonable to conclude that the uncertain global geopolitical situation is the primary cause for this caution.

China's ranking in global investment plans

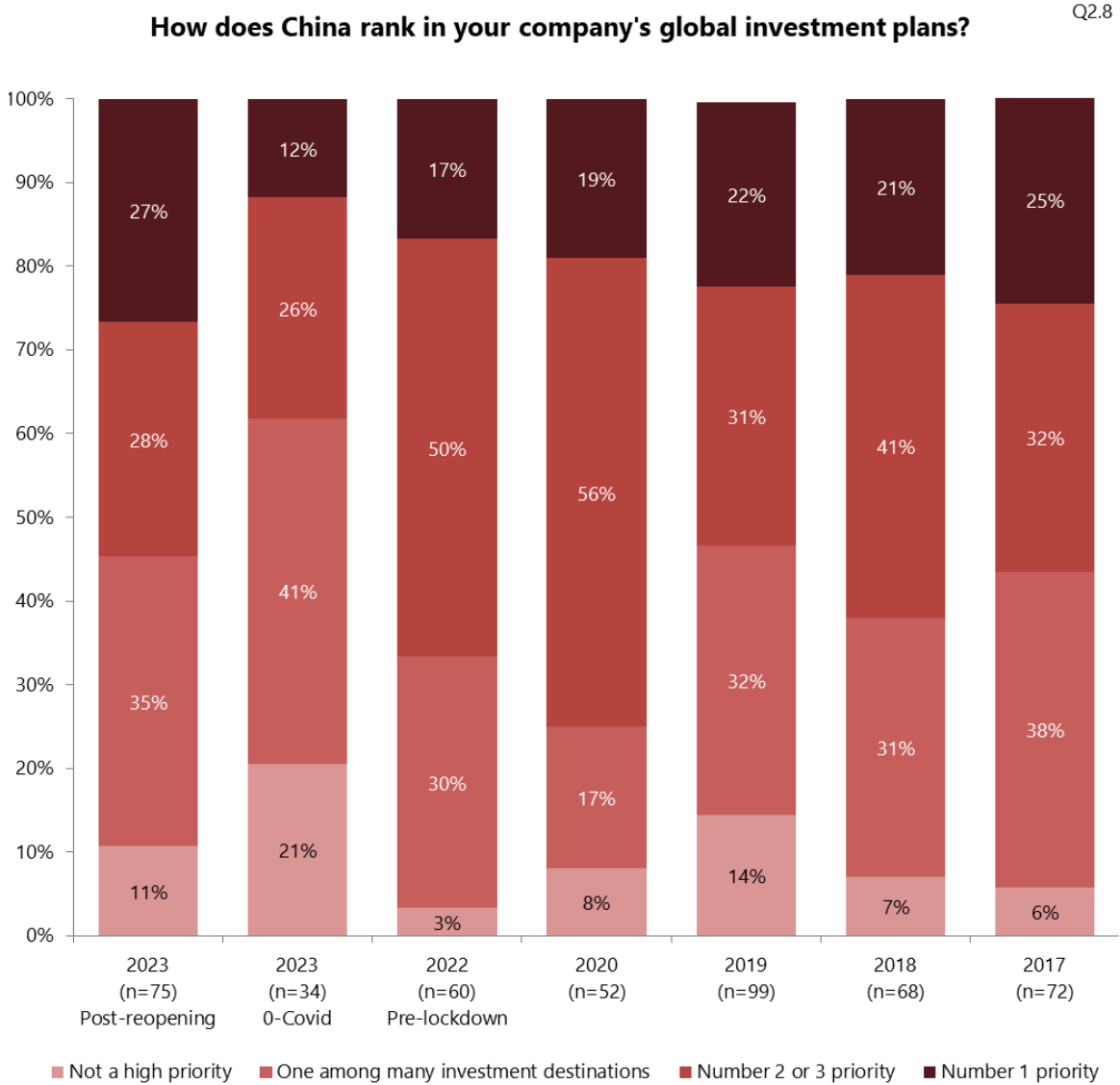


Figure 1.5: How China is ranked in global investment plans

Post-reopening, Swiss companies see the Chinese market as a top priority (ranked in first, second or third position as an investment destination) **in numbers that are very similar to the pre-pandemic years** (55% in 2023 against 57% on average for 2017, 2018 and 2019).

However, this percentage is notably lower than the 67% of respondents (the highest recorded percentage in recent years) that saw China as a top investment priority in pre-lockdown 2022.

This clearly highlights how positive the investment expectations were towards China at the beginning of 2022.

Top investment locations in China

Q2.6.1

**If you are planning investments in China, in which locations will these be?
(Multiple selection)**

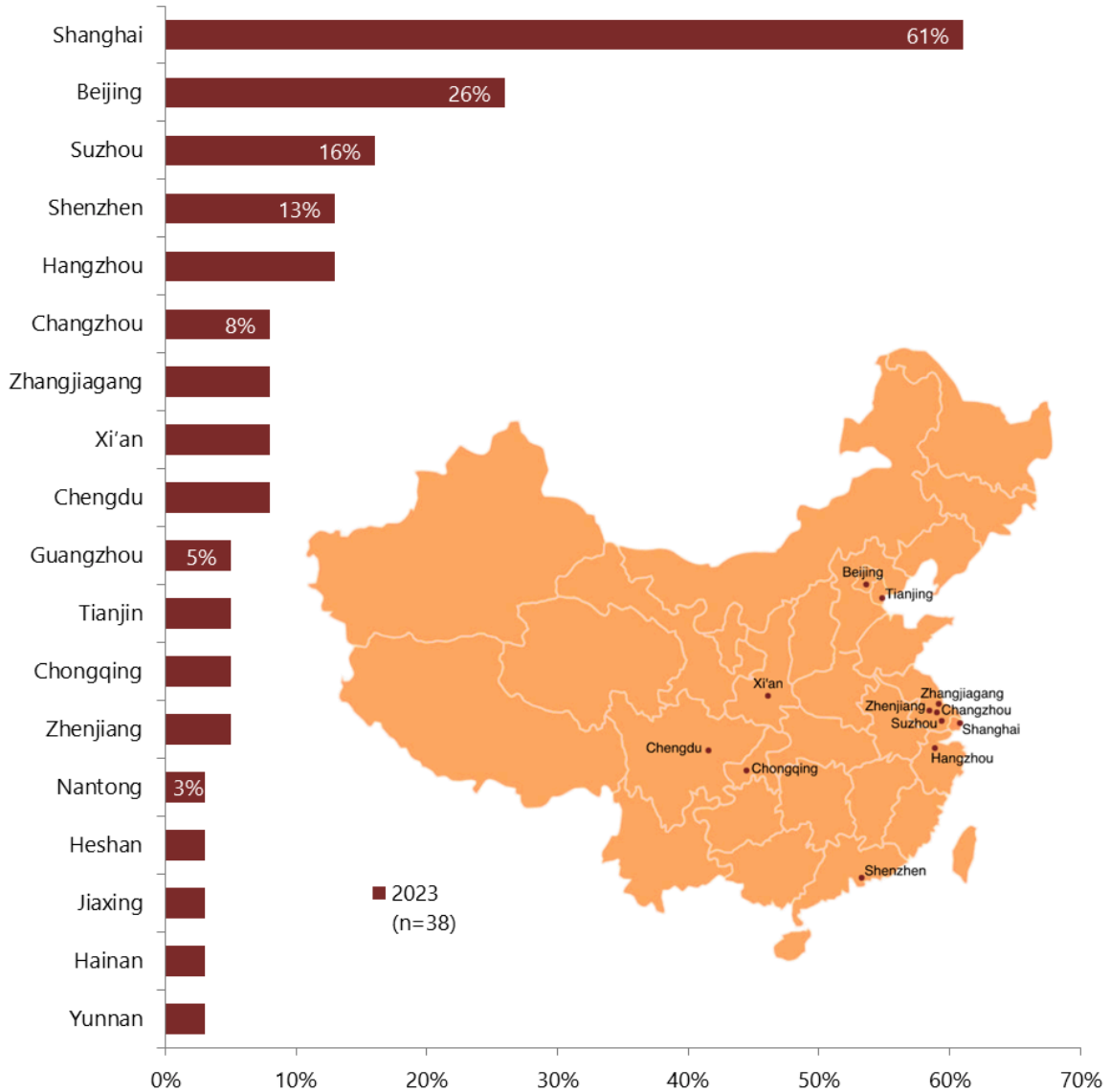


Figure 1.6: Target cities for China investments

Although Figure 1.6 indicates the locations where survey respondents plan to invest, it should be emphasized that the proportion of answers originating from businesses located in Shanghai is probably higher than the proportion of Swiss companies based in Shanghai when compared to the total number of Swiss companies operating in China.

Additionally, the number of companies that gave answers on their intended investment locations was small (38) compared to the total number of survey answers (111). This is due to the fact that only companies that intended to increase their investments were asked to respond to this question.

Therefore, the survey sample likely has a Shanghai bias.

I.2 Success and competitive advantage in China

The way that Swiss companies undertake successful sales and marketing efforts for their products and services has not changed, post-pandemic. But while superior quality, branding and having effective human resources remain key success factors, the pandemic years have given cost control and efficiency a new importance.

Success factors

Q3.3

What are the most important factors for your company's success in China? (Select up to 5 issues from the list)

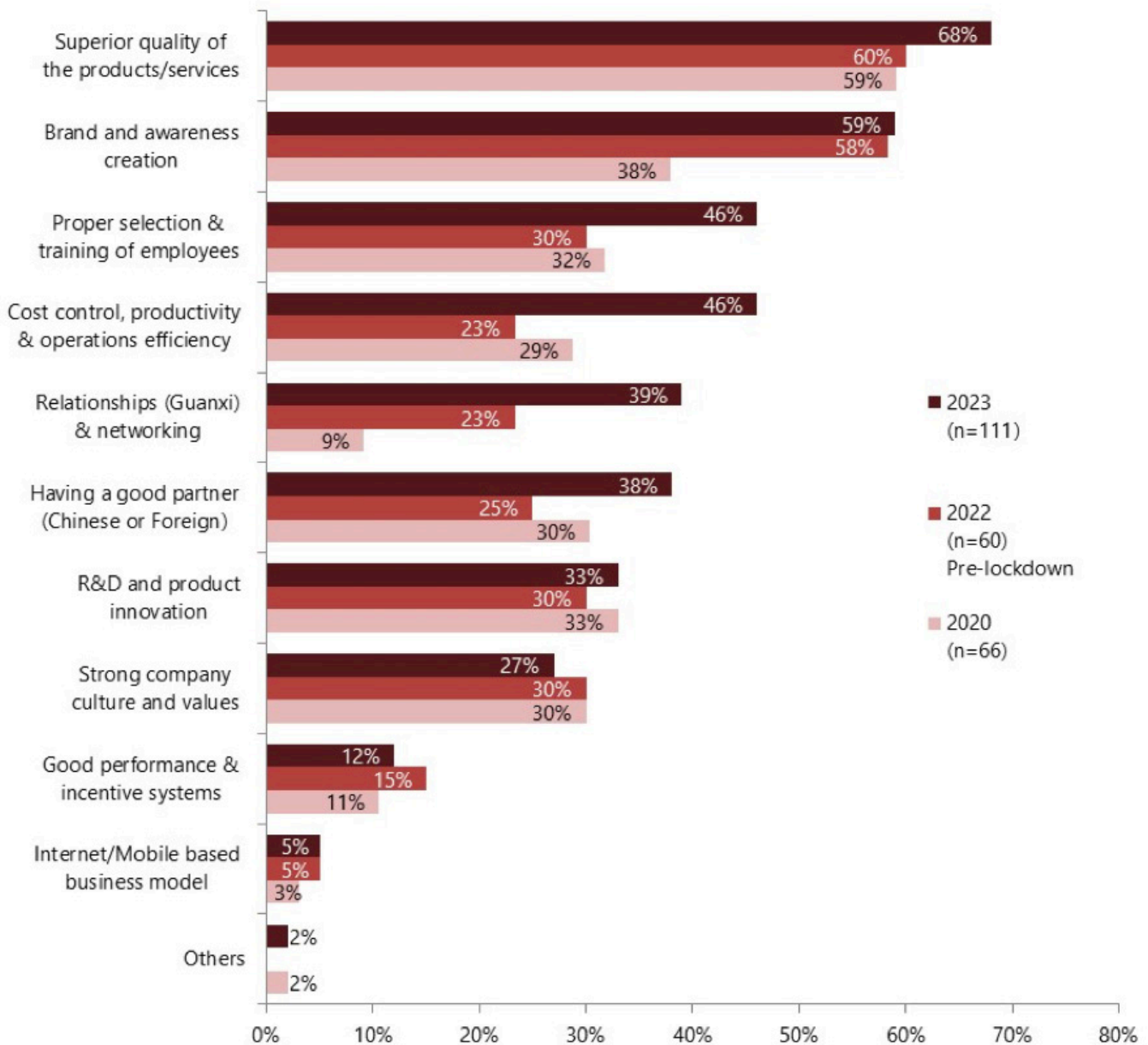


Figure I.7: Key success factors in the Chinese market

Despite the considerable disruptions that 2022 brought to doing business in China, the key success factors that Swiss firms identify are fundamentally unchanged, with perhaps one exception.

As always, Swiss companies see the “Superior quality of the products/services” as the primary factor for their success in China.

“**Brand creation and awareness**” is confirmed by the 2023 respondents as significantly more important when compared to surveys carried out in the past (a trend that first emerged in the 2022 survey).

Since competition is perceived to be less intense than in 2022 (see Figure I.11, below), the emphasis on brand awareness may instead be a consequence of the growing capabilities and professionalism of competitors’ (in particular, Chinese) brands (see Figure I.13, below).

“**Proper selection & training of employees**” remains one of the top 3 key success factors, but a significantly higher emphasis is placed upon it than in the two previous surveys.

The need for better quality human resources may also be driven by **the increased emphasis put on “Cost control, productivity & operation efficiency”**.

This success factor was consistently ranked at the bottom of the list in recent surveys, but in 2023, **efficiency and its corollaries have risen to third place, on a par with human resources.**

It is important to note that respondents to this question had (in 2023) a new option to select a maximum of 5 success factors, while only 3 were allowed in previous surveys.

This new and expanded response option was also used for Figures I.8, I.9, I.10, 2.1, 2.2 and 2.5.

We made this change to the methodology because more categories were added to the list of response options. Besides, we believe that the greater flexibility this change provides to respondents results in a more accurate overall picture.

Sales success factors

Q7.2

What are the most important success factors driving your sales in China?
(Select up to 5 issues from the list)

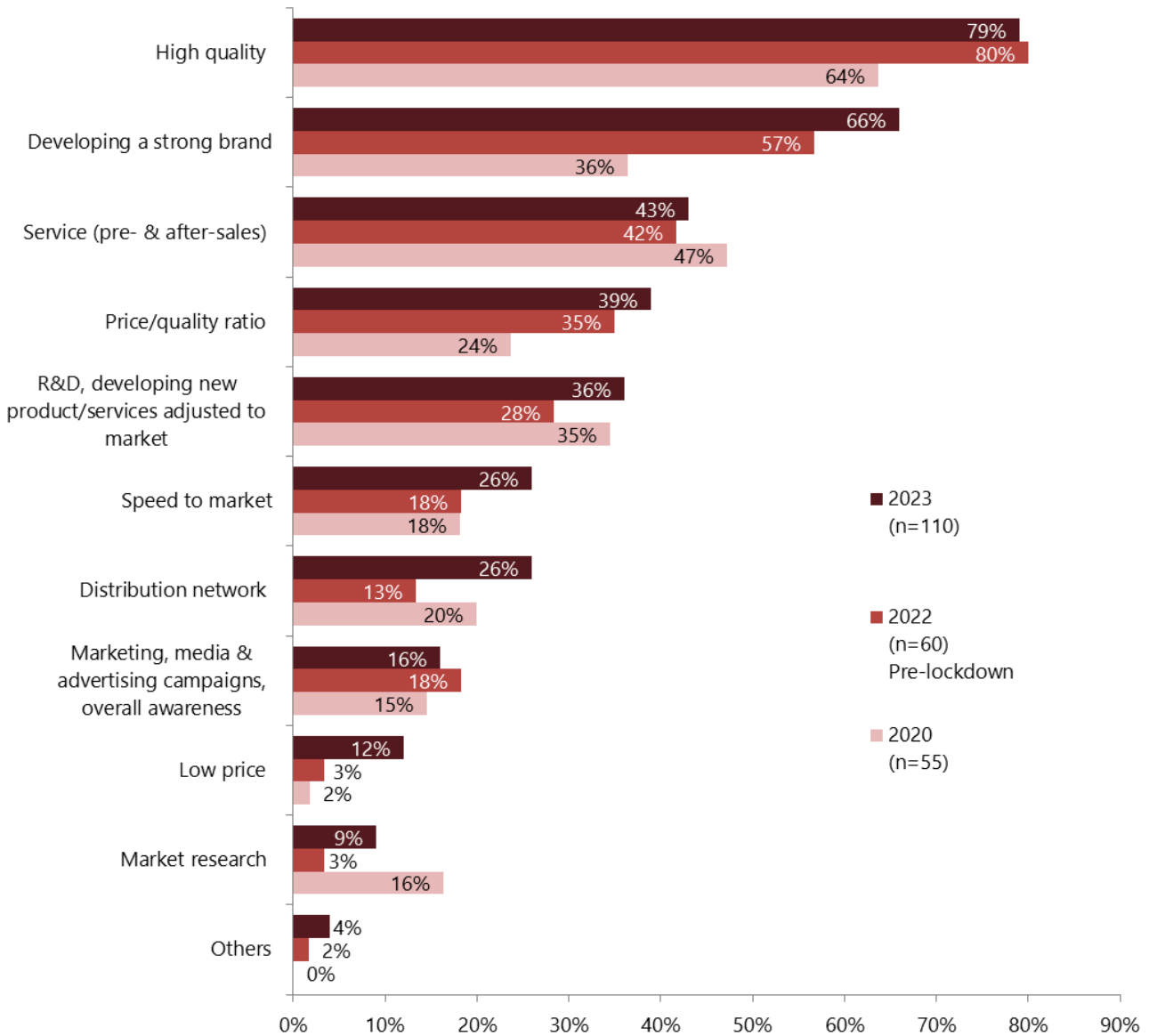


Figure 1.8: The most important success factors driving sales in China

In the sphere of sales, there were no evident changes. Indeed, the ranking and intensity of factors driving successful sales in China in the 2023 survey responses appear identical to the 2022 results across the board.

“R&D, developing new products/services adjusted to the market” remains as important as previously reported. Still, it is worth noting that it is placed in only 5th position, after “Service (pre- and after-sales)”.

“High quality” and “Developing a strong brand” remain the key success factors for sales.

Q7.3

Marketing success factors

What are the most effective marketing activities for your main business in China? (Select up to 5 issues from the list)

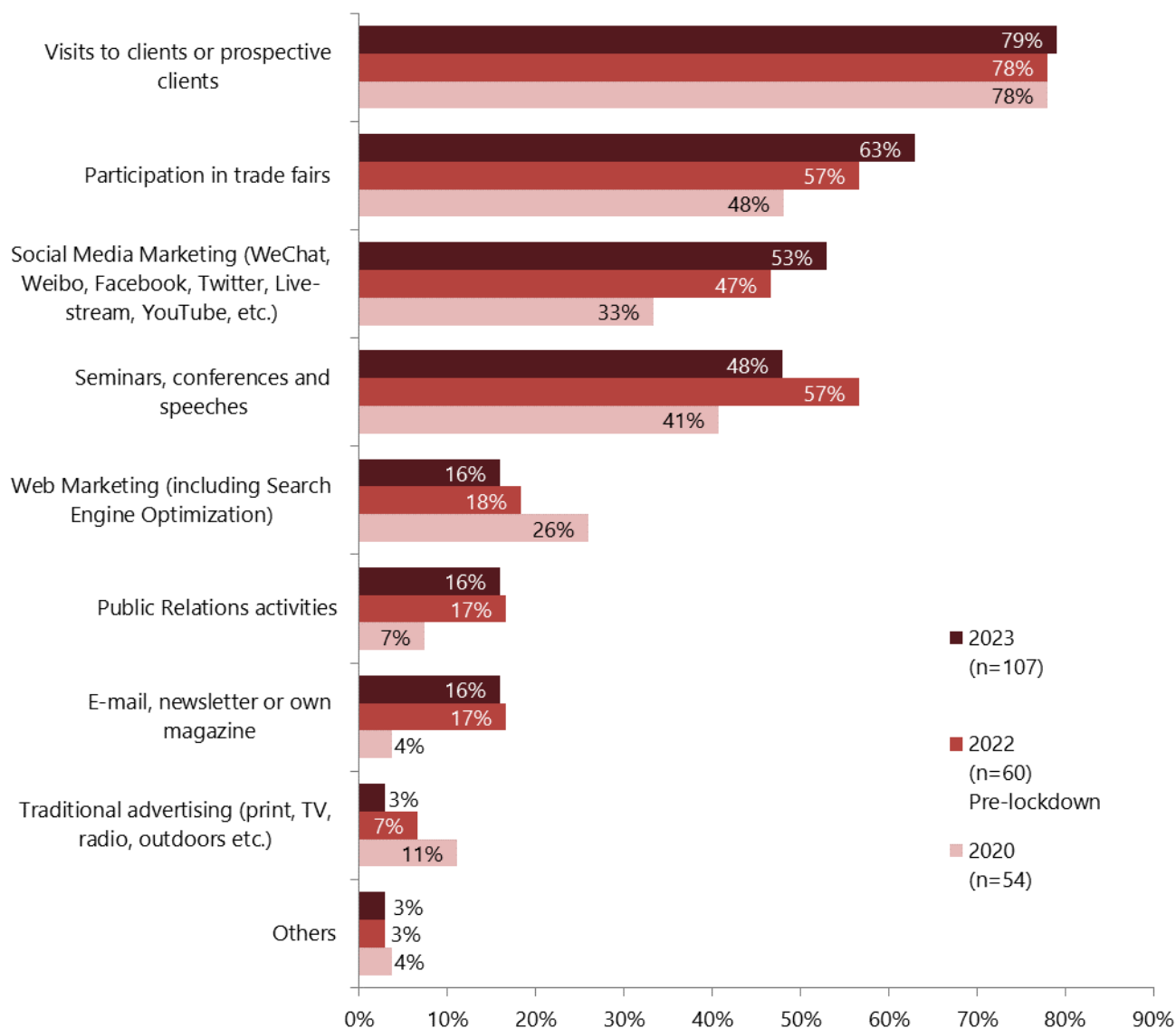


Figure 1.9: Effectiveness of marketing activities in China

As with sales, little has changed in terms of the success factors for marketing. Though “Seminars, conferences and speeches” and “Social Media Marketing” traded fourth and fifth places, the growth of the latter is understandable given the pandemic-related restrictions.

It may be useful to note that trade fairs were still held in China from June 2020 until March 2022. The CIIE (China International Import Exhibition) was held every year in November, including in 2022. Trade fairs therefore provided efficient occasions for multiple face-to-face meetings amidst the fluctuating domestic travel restrictions.

I.3 External challenges: A shifting competitive landscape

With less growth and possibly a number of actors exiting the market, the pandemic has reduced the intensity of competition in China. However, domestic Chinese competitors are now perceived as being more important as they become more capable and professional.

The most significant external challenges

Q3.1

What are the most significant external challenges facing your company in China? (Select up to 5 issues from the list)

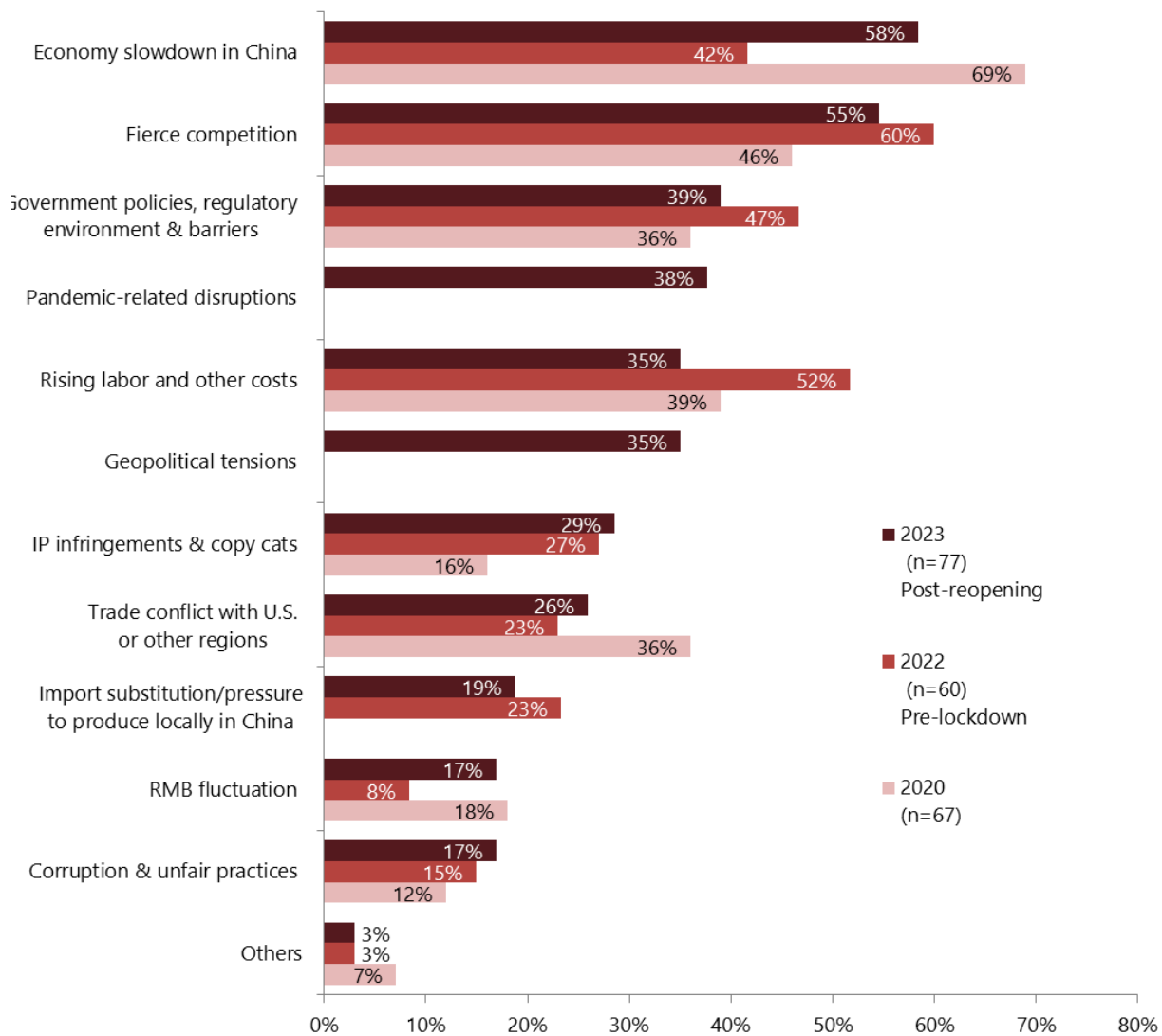


Figure 1.10: Most significant external challenges

While the success factors for how companies ran their sales and marketing campaigns have not changed much despite the disruptions caused by how China managed the pandemic, the external challenges faced by Swiss companies have altered quite significantly.

Post-reopening, “Economic slowdown” has surged to become the top challenge, rising from 4th position a year ago. “Fierce competition”, last year’s top concern, fell back to 2nd position.

“Rising labor and other costs”, the second most important challenge identified in the 2022 survey, lost two places and is ranked 4th this year.

The new elements we added to the list, “Geopolitical tensions” and “Pandemic-related disruptions” were selected by 35% and 38% of the post-reopening respondents, respectively. While pandemic issues would now probably be at the bottom of the list, the importance of geopolitical issues should not be under-estimated (also see Figure 2.9).

Weakening competition

Q5.1

How fierce is the competition facing your company in China?

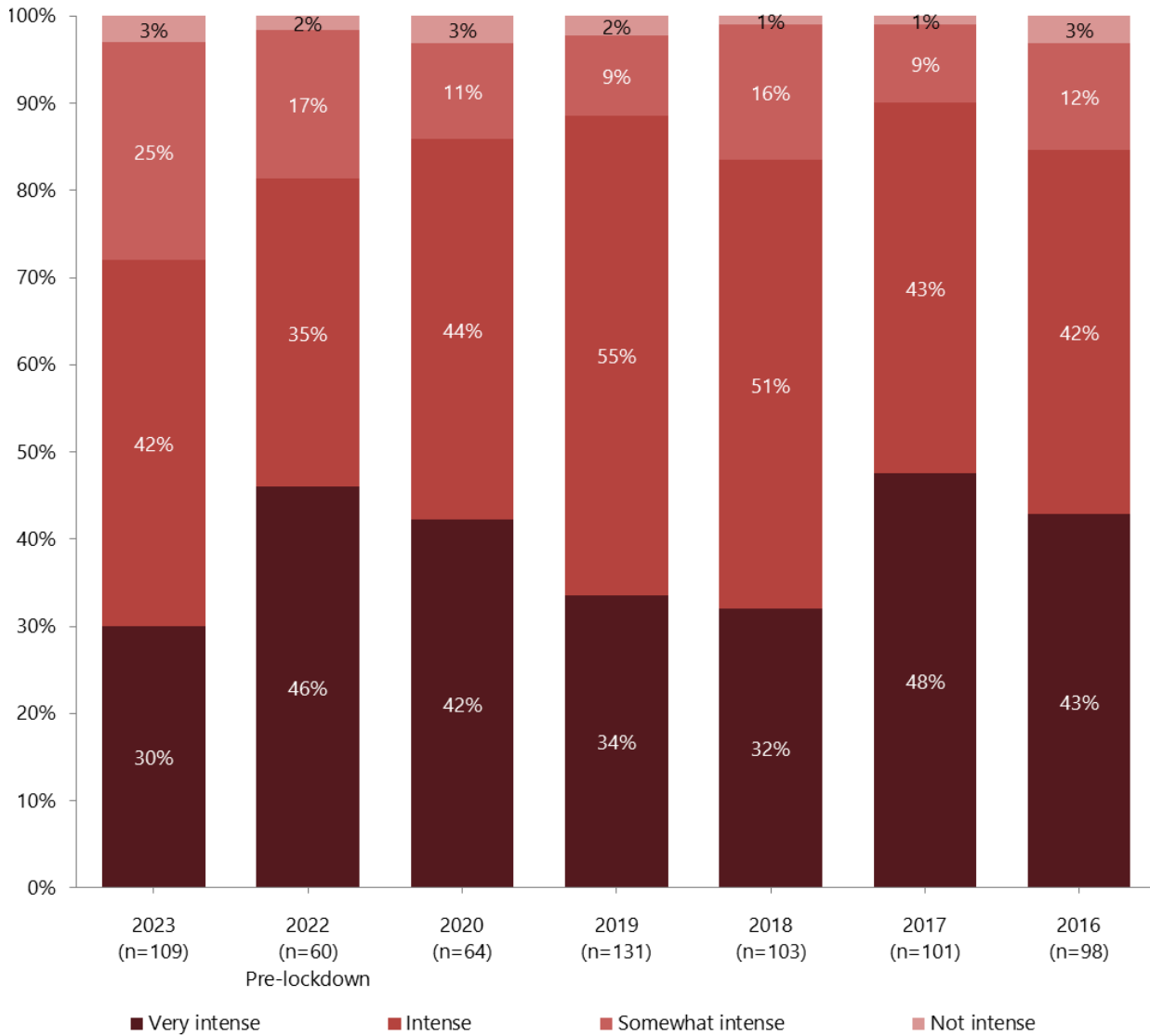


Figure 1.11: Competition intensity in China

A milder competition landscape is confirmed by the data reported in Figure 1.11. During the pre-pandemic years of 2017-2019, less than 13% of respondents saw competition as being “not intense” or “somewhat intense”, while 28% do so in 2023.

Who are the competitors?

Q5.2

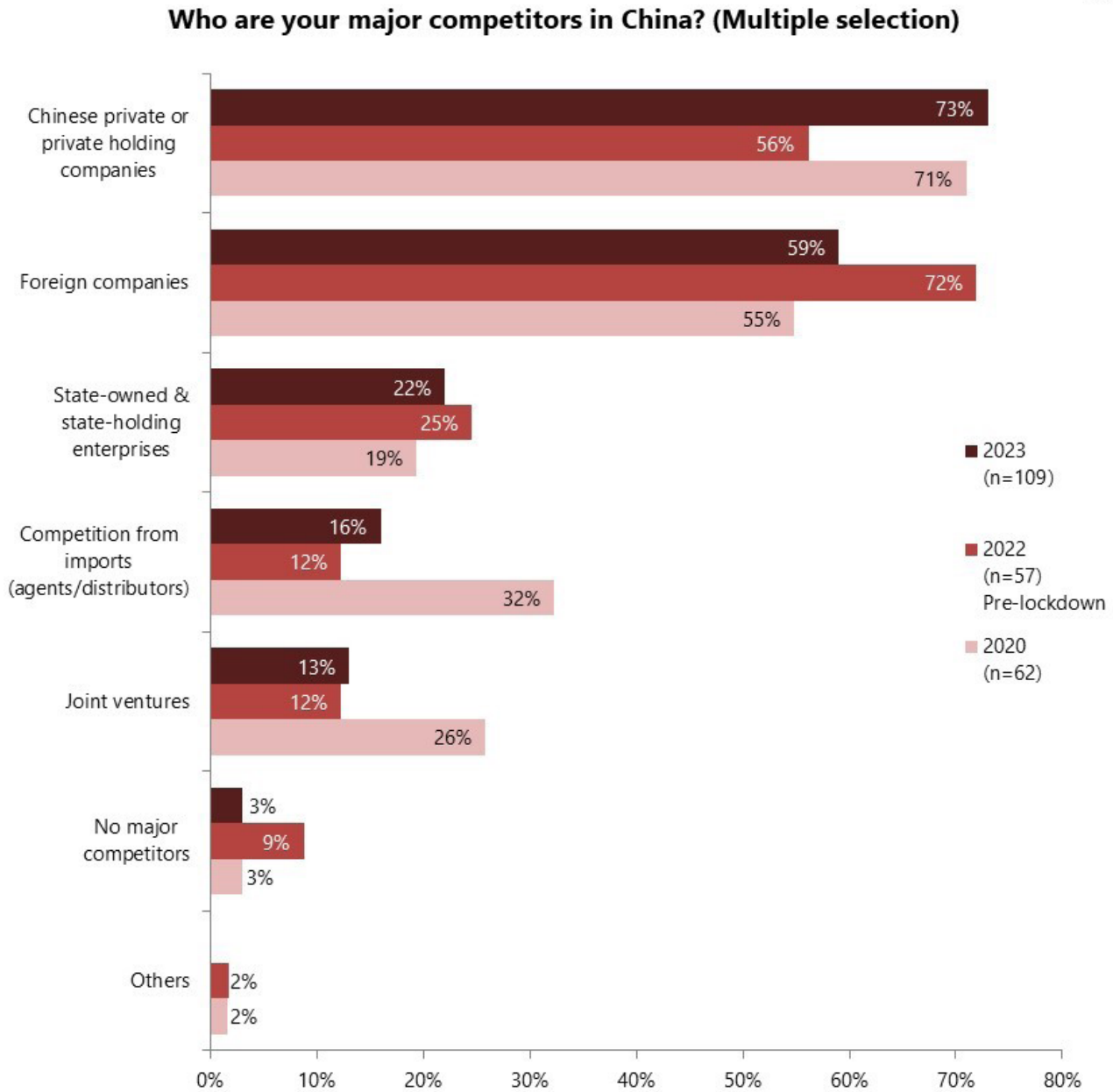


Figure 1.12: Types of competitors to Swiss companies in China

While competition appears to be generally less intense after the pandemic, Chinese competitors have gained more importance than foreign entities.

Source of Chinese competitors' competitive advantage

Q5.2.2

What are the competitive advantages of your main Chinese competitors? (Multiple selection)

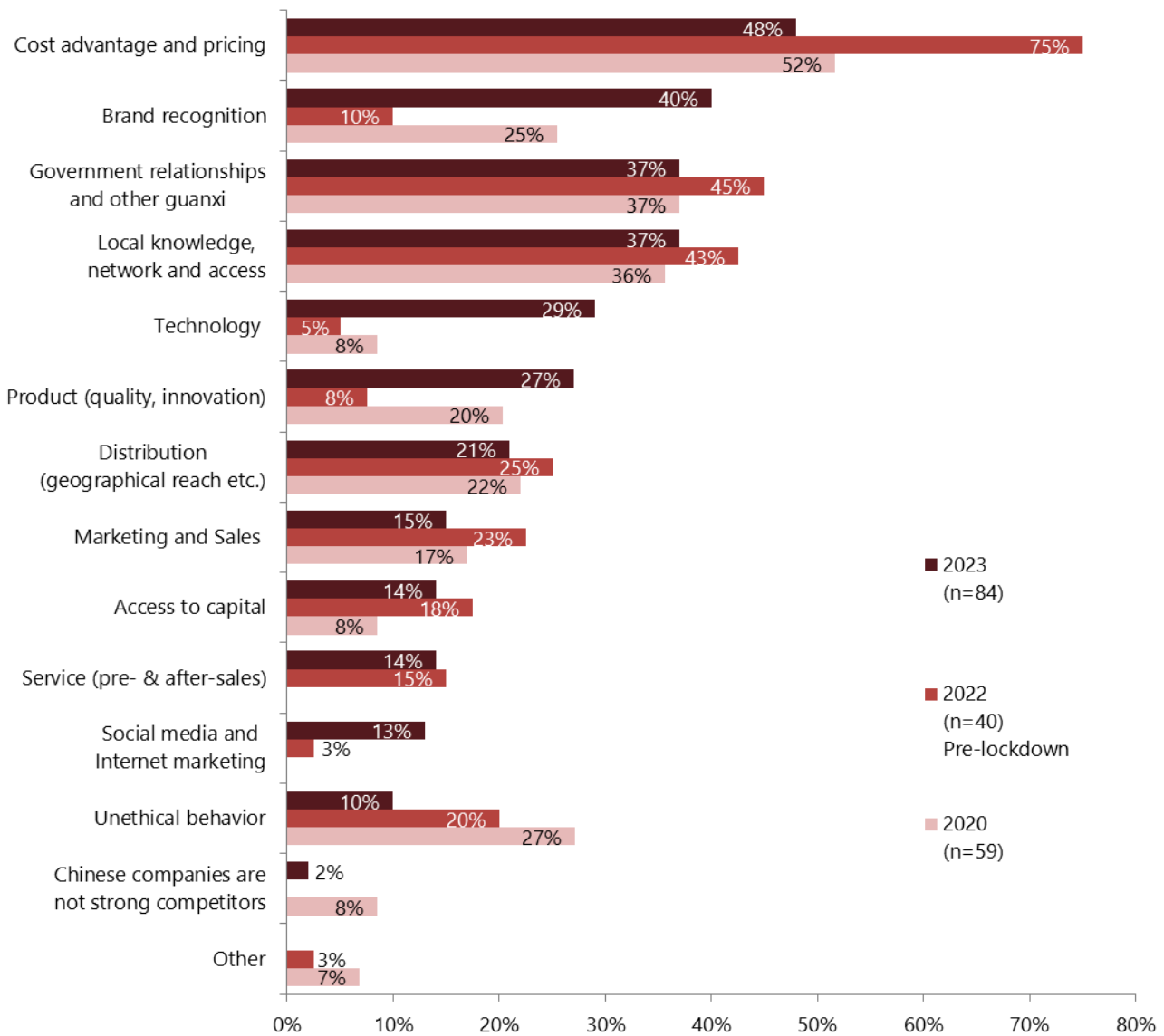


Figure 1.13: Chinese companies' competitive advantages over Swiss firms

Domestic Chinese competitors seem to have made a leap forward in terms of acquiring the traditional advantages of Swiss companies.

While “Cost advantages and pricing” remains the main advantage enjoyed by Chinese firms, “Brand recognition” takes 2nd position this year after being regularly ranked towards the bottom of the list in previous surveys.

Similarly, “Technology” and “Product (quality, innovation)”, formerly placed towards the bottom of the list, rose notably in the rankings, settling in the middle positions.

This indicates that Chinese companies are relying less on their traditional advantages of having strong “Government relationships and other guanxi” and “Access to local knowledge and networks”. In other words, they are becoming more professional.

Source of foreign competitors' competitive advantage

Q5.2.1

What are the competitive advantages of your main foreign competitors in China? (Multiple selection)

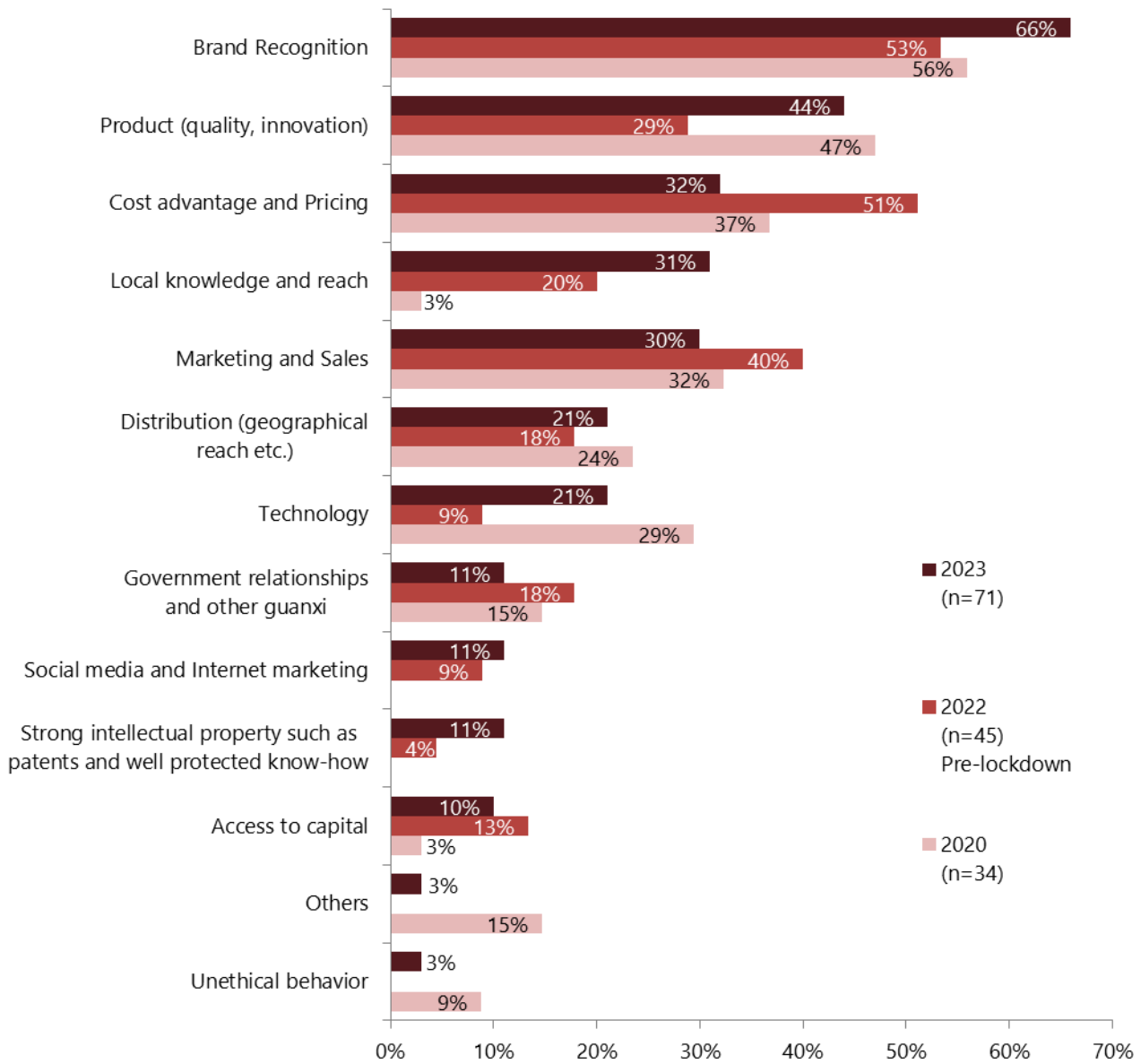


Figure 1.14: Foreign companies' competitive advantages in China

Foreign competitors clearly compete with Swiss companies using the traditional attributes of international companies: brand and product advantages.

Interestingly, Swiss companies see their overseas competitors being strong in “Cost advantages and Pricing” (in third place on the list), emphasizing the need to provide value for money in China.

I.4 Regulatory challenges, corruption, reforms and policies

Difficulties with customs appear as a new regulatory hurdle, while domestic policies that encourage the procurement of Chinese products are becoming a more prominent challenge.

Regulatory challenges

Q3.1.1

What are your major regulatory challenges? (Multiple selection)

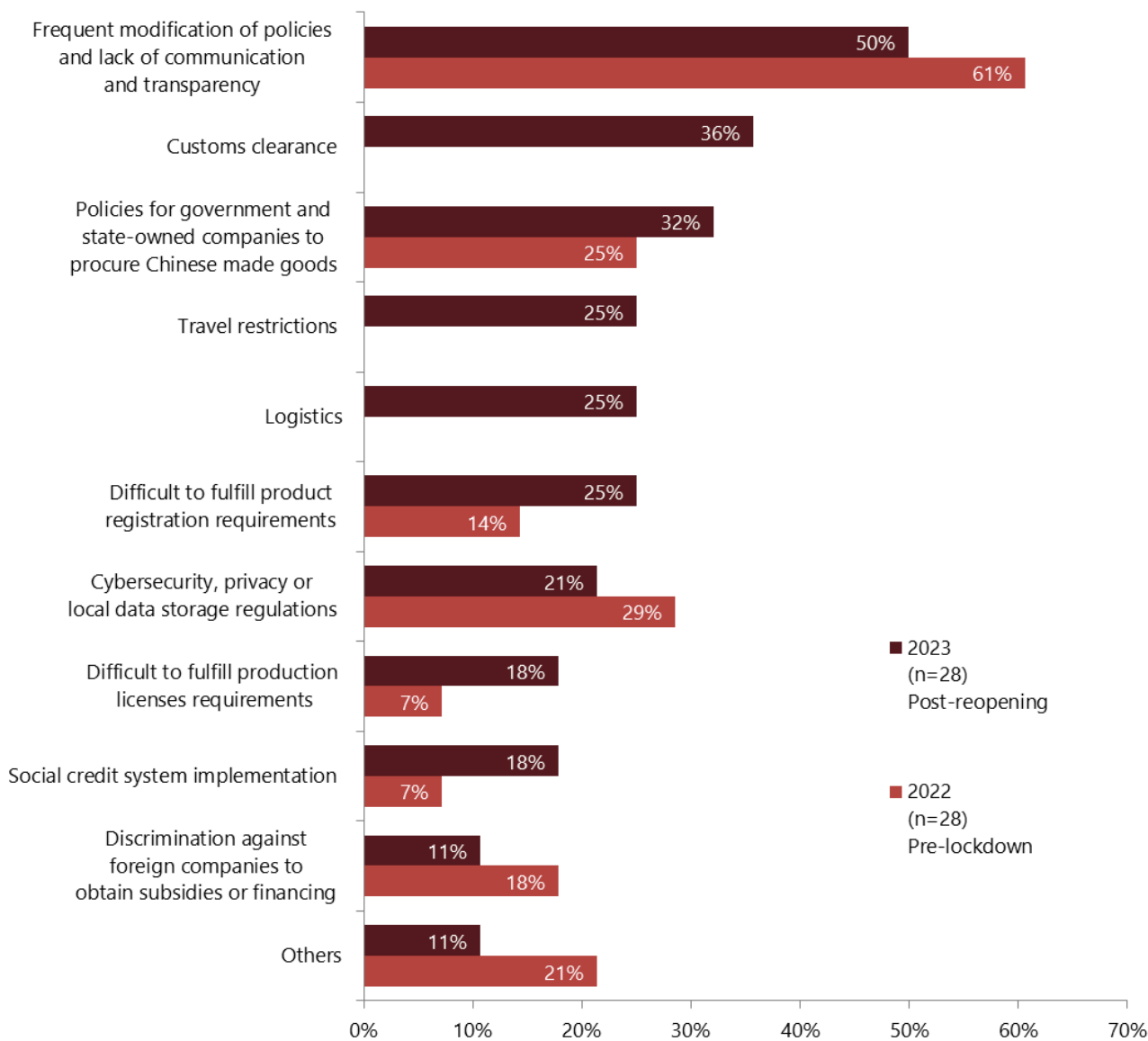


Figure 1.15: Major regulatory challenges in China

The lack of transparency and frequent modifications of governmental policies remains the top regulatory challenge for respondents that answered on regulatory issues (the 28 firms who selected regulatory issues as an external challenge).

We introduced new options to this list in 2023, one of them being “Customs Clearance” which appears to be

a major issue for Swiss companies on the regulatory side. Further surveys will indicate if this issue remains important as the pandemic recedes.

Almost a third of respondents also selected “Policies for government and state-owned companies to procure Chinese-made goods” as a regulatory challenge. This appears to be a growing concern for Swiss companies.

Economic reform

Q4.1

How do you feel about the progress of China’s economic reform?

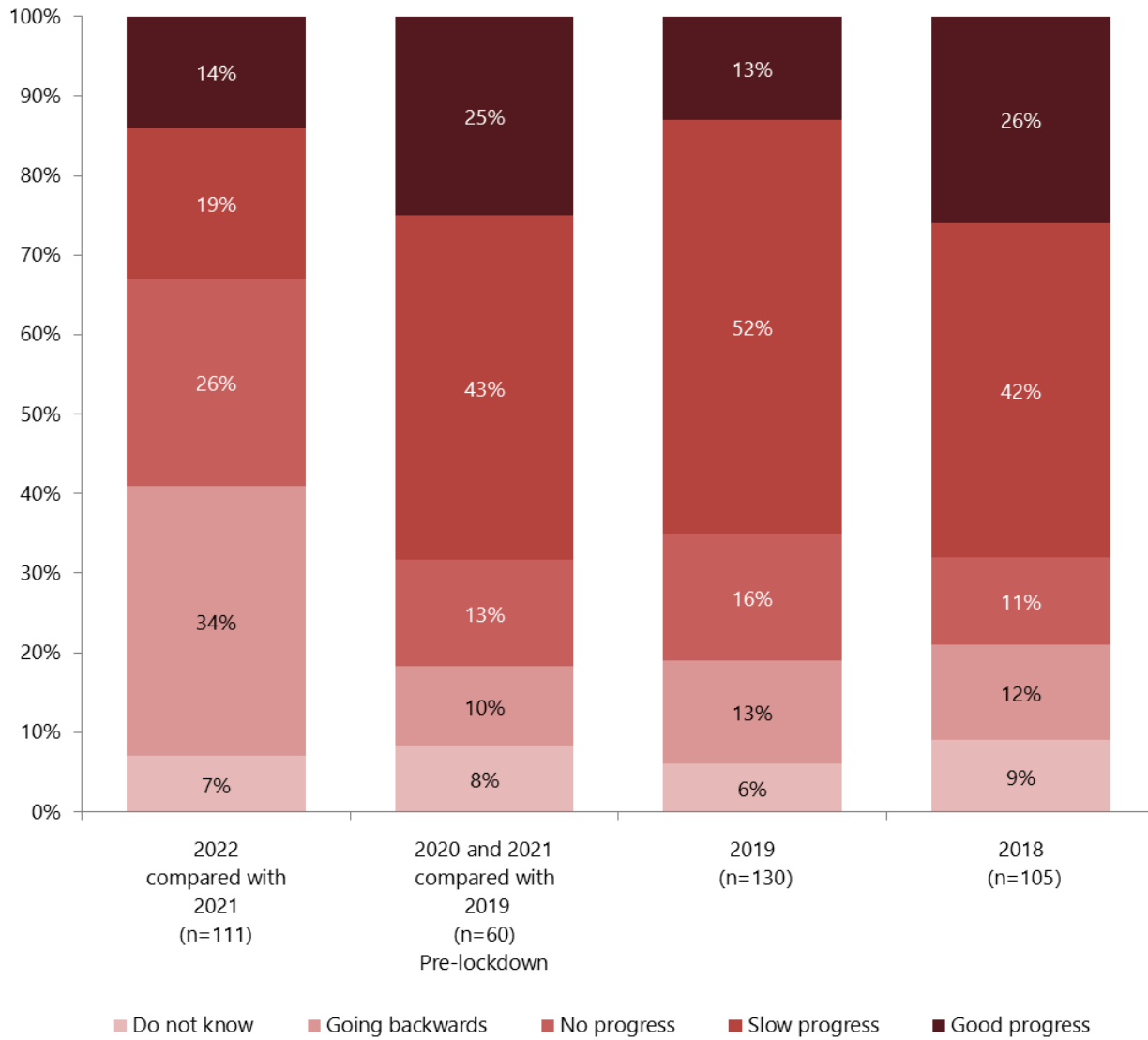


Figure 1.16: Perceived progress on China’s economic reform

While in the previous three surveys about two-thirds of Swiss companies saw progress in regard to economic reform when comparing the situation to the previous year, **only one-third see progress on economic reform in 2023.**

Informal arrangements

Q4.7

In your view, how is corruption in your industry?

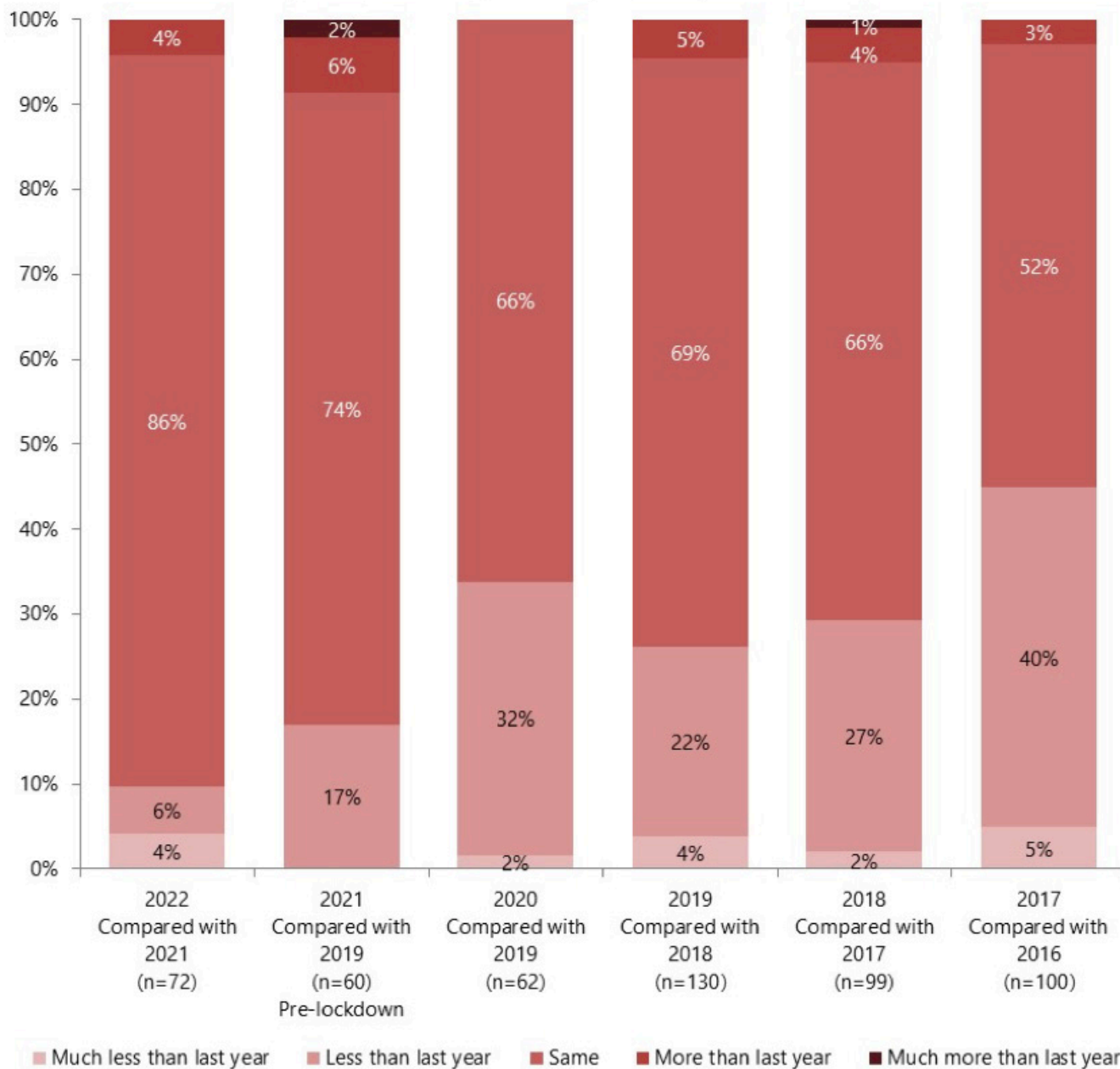


Figure 1.17: Perception of corruption in industry

The views of Swiss companies’ representatives on corruption in their industry have generally improved over the year, a trend that has now been visible for some time.

However, in 2023, these perceptions of decreasing corruption appear to have reached a plateau compared to recent surveys. 4% of companies say that corruption has worsened, while 6% see the situation as being better than 2022.

In the pre-pandemic years (2017-2019), an average of 4.3% of respondents saw corruption getting worse when compared to the previous year, while 27% perceived the problem to be less widespread.

Institutional coordination

Q4.5

How important is it for your business to build/keep good relationship with Chinese authorities?

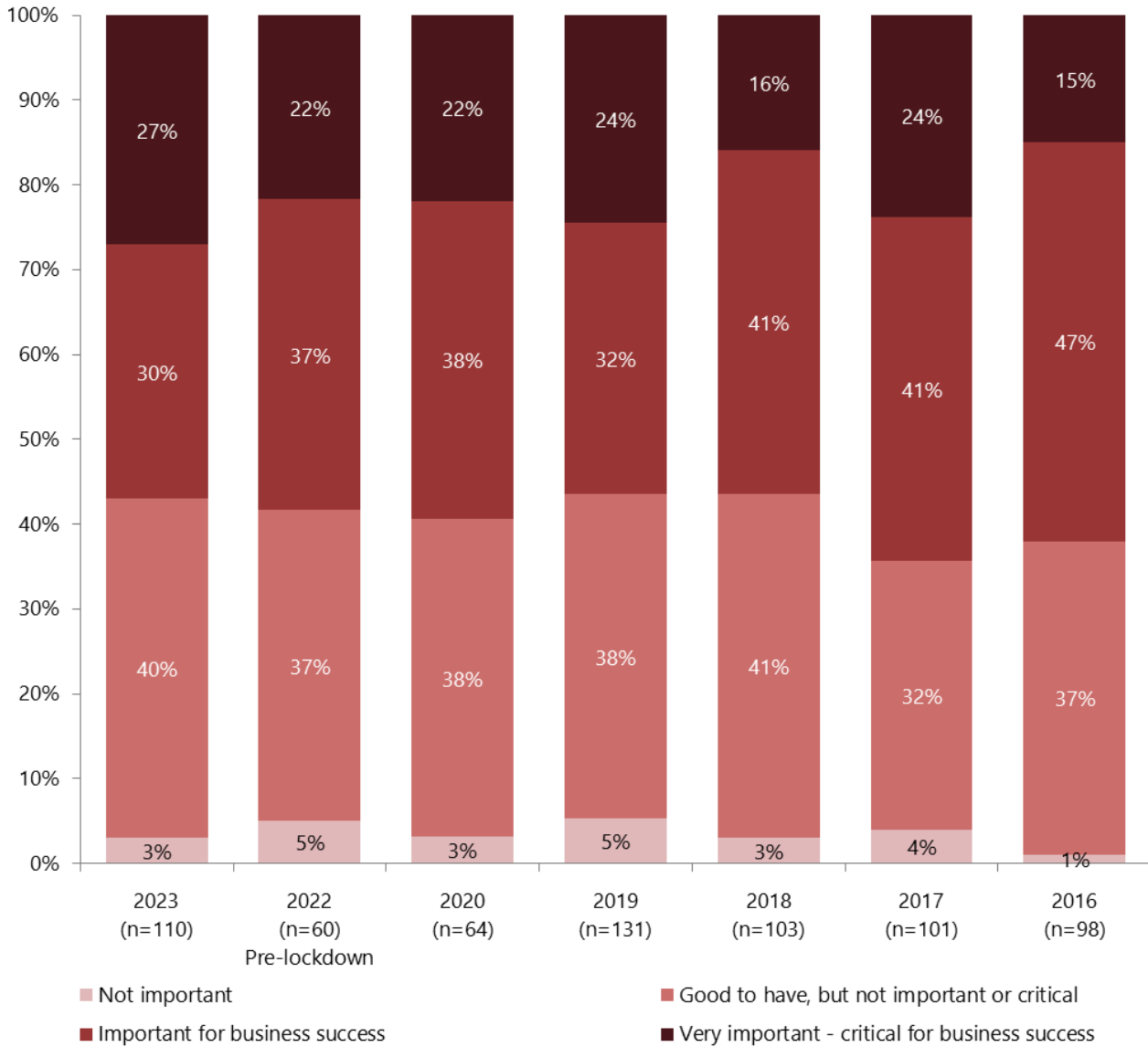


Figure 1.18: Importance of relationships with Chinese authorities

Government relationships are generally seen as being no less important this year than in the past.

Positive impact factors, external

Q4.8

Looking forward, for the next 5 years, what aspects of China will have the most positive impact on your company's business operations in China? (Multiple selection)

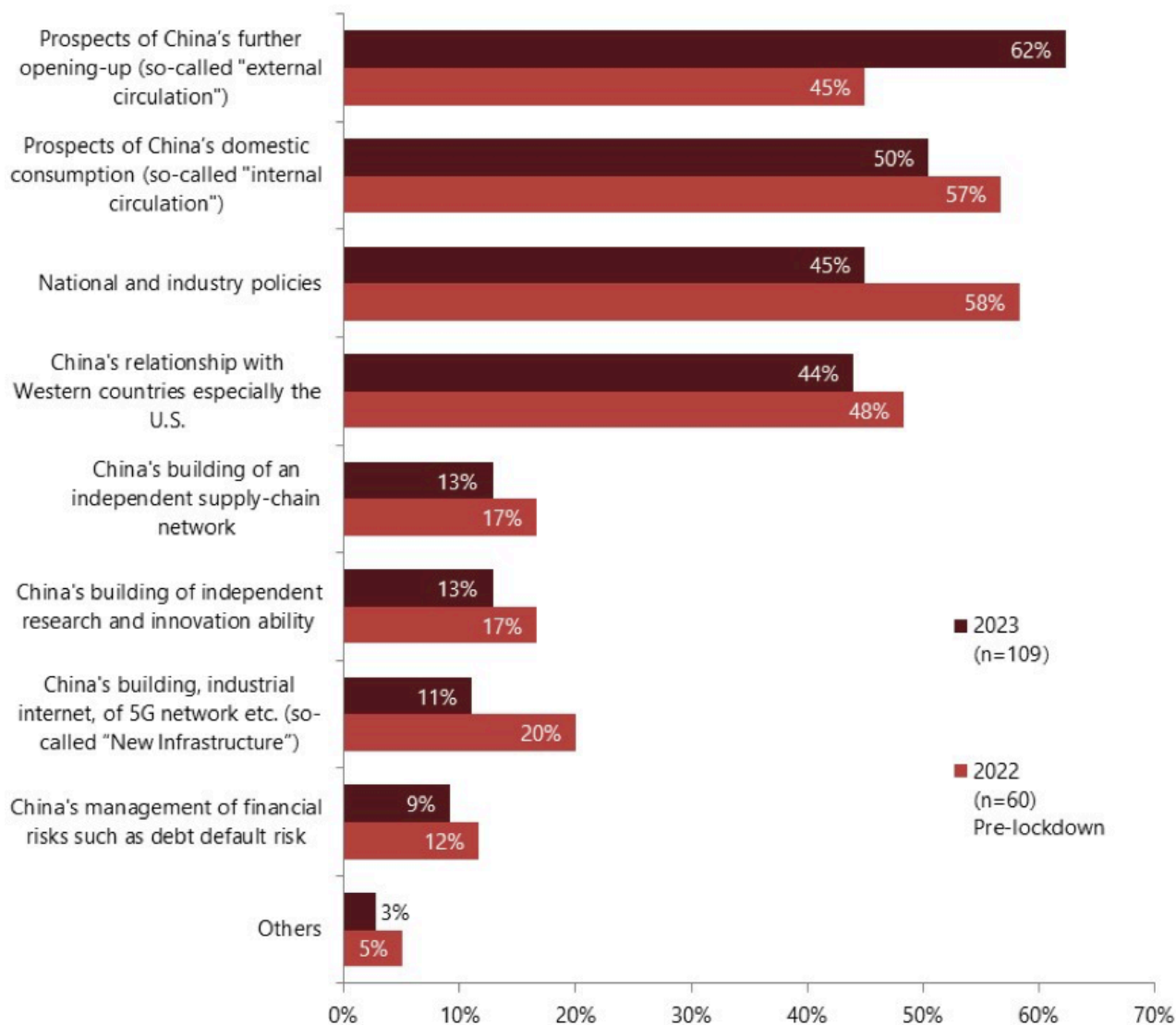


Figure 1.19: Positive business environment impact factors, next five years

Swiss firms see themselves benefiting more from a further opening up of China than an increase in domestic consumption, which indicates a greater emphasis is being placed on trade rather than selling into the Chinese market.

China's relationships with Western countries (particularly the US) figures prominently in the list and reflects the growing importance of geopolitical tensions.

2. The internal challenges picture is redrawn:

Innovation is a lesser challenge as geopolitics enter the business equation

While Part I mainly focuses on business performance, success factors, external challenges, the competitive landscape and investment plans, Part II highlights the internal challenges such as human resources, innovation and geopolitical circumstances that Swiss firms are facing when doing business in China and discusses some of the associated opportunities.

PART II

2.1 A reordering of internal priorities

Human resources (HR) still is the top challenge facing Swiss companies, though it is now less crucial than previously reported.. Innovation has been relegated to a secondary issue, while the increasingly tense geopolitical situation presents a key new challenge for the China strategies of Swiss companies.

Internal challenges

Q3.2

What are the most significant internal challenges facing your company in China? (Select up to 5 issues from the list)

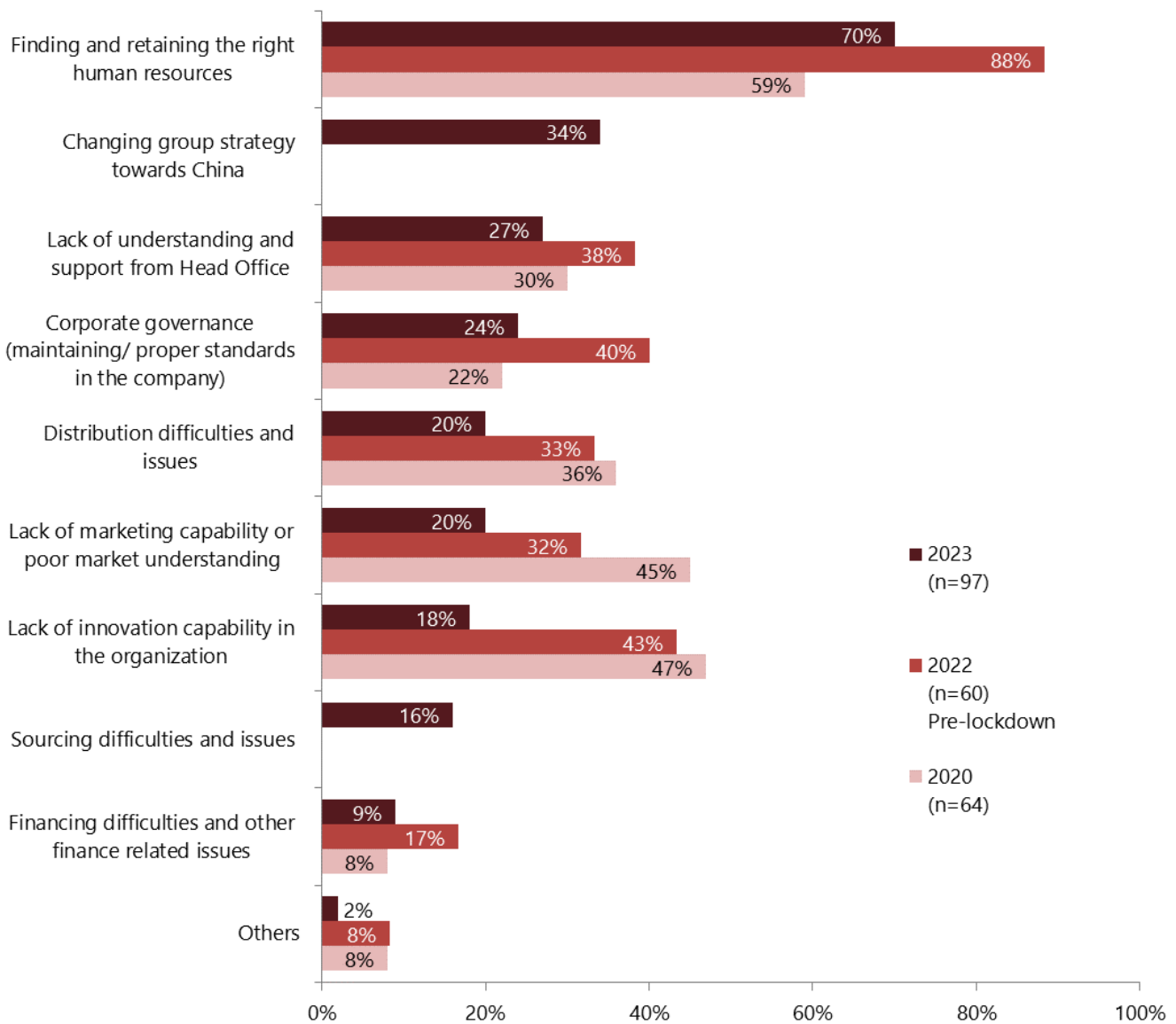


Figure 2.1: The most significant internal challenges faced by Swiss companies in China

While human resources remain the key internal challenge, the importance of the issue is decreasing.

More remarkably, this survey results provide two key differences when comparing 2023 to 2022 (pre-lockdown):

“Changing group strategy towards China”, previously not offered as an option, **takes second position** in the list of internal challenges.

Moreover, **“Lack of innovation capability in the organization”**, which occupied second position in 2022, **falls to seventh place**, implying it is no longer a key challenge. This indicates that Swiss companies newly see the issue of innovation as secondary on their priority list, at least in comparison to other internal challenges.

It is important to note that the 2023 survey sample includes a proportionally smaller number of large companies than in 2022 (see Part IV for the descriptive statistics of the 2023 survey respondents). It is therefore possible that the proportion of companies facing innovation challenges locally is lower in the 2023 survey as a result of this lower average company size of respondents.

It is also possible that with less competition and a more favorable labor market, fewer companies, proportionally, have difficulties with innovation in 2023.

The 2024 survey will attempt to provide additional insights on the important innovation question.

2.2 Getting human resources right remains key

While Swiss companies are still struggling to obtain the right talent, the 2023 survey results point to a less challenging HR situation when compared to the pre-pandemic years.

Human resources issues

Q8.4

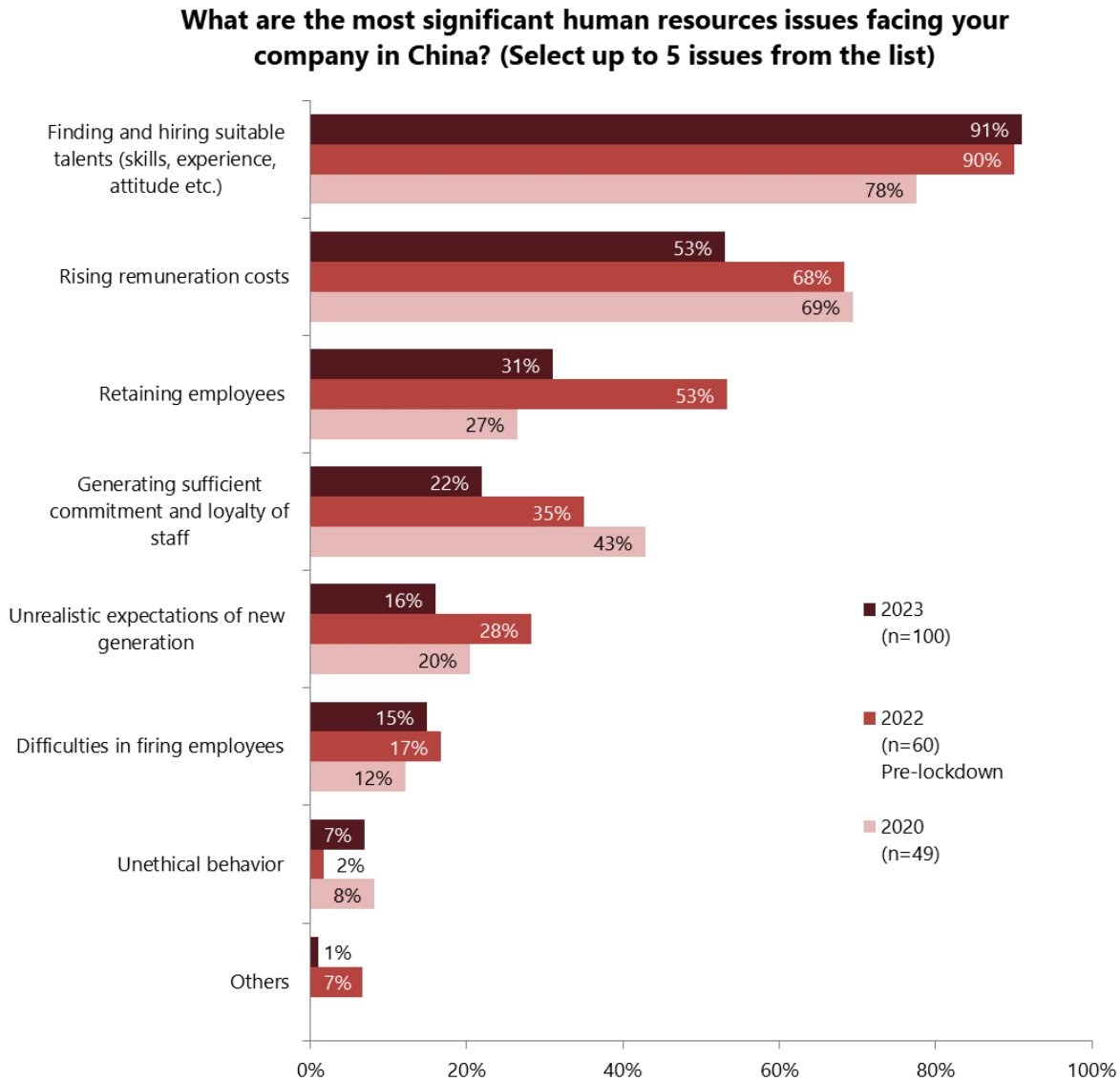


Figure 2.2: Major human resource issues facing Swiss companies in China

There is no doubt that “Finding and hiring suitable talent” remains the key HR issue facing Swiss companies (as well as being a key success factor).

This issue has become even more prominent in comparison to others. In particular, “Retaining employees” appears to have become easier while “Generating sufficient commitment and loyalty of staff” has clearly become easier over the pandemic years.

This is probably a consequence of the more difficult economic environment, providing fewer good job opportunities for staff that previously might have looked to progress their careers elsewhere.

Unwanted employee turnover

Q8.6

What is your total unwanted employee turnover in China?

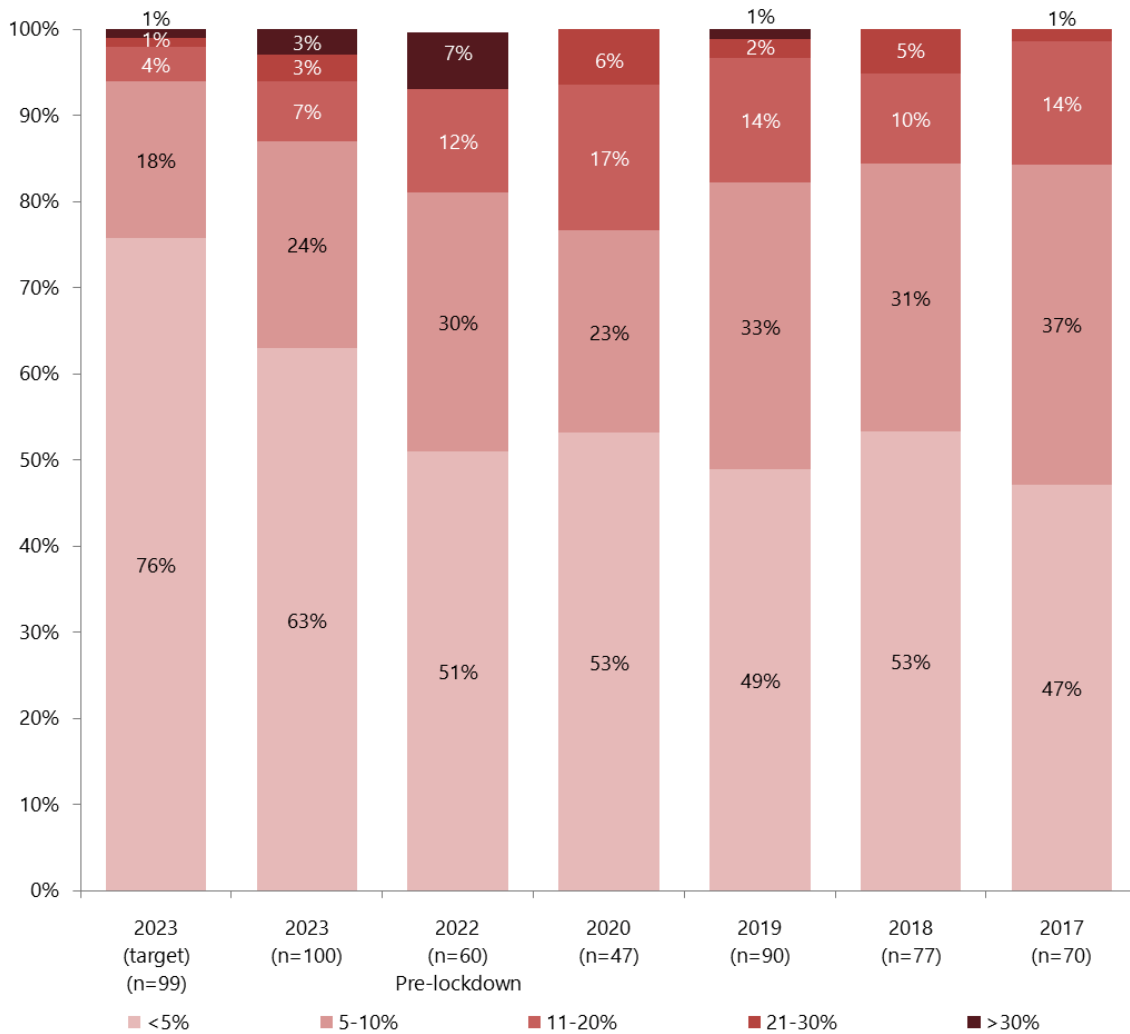


Figure 2.3: Total unwanted employee turnover

The preceding analysis is confirmed by the data on unwanted employee turnover. Almost two-thirds of the respondents to the 2023 survey saw an unwanted employee turnover of 5% or less, while only about half of those taking the survey in previous years reported such a low number.

In addition, three-quarters of the respondents to this survey have set a target for less than 5% unwanted employee turnover in 2023.

Expected salary increases

Q8.5

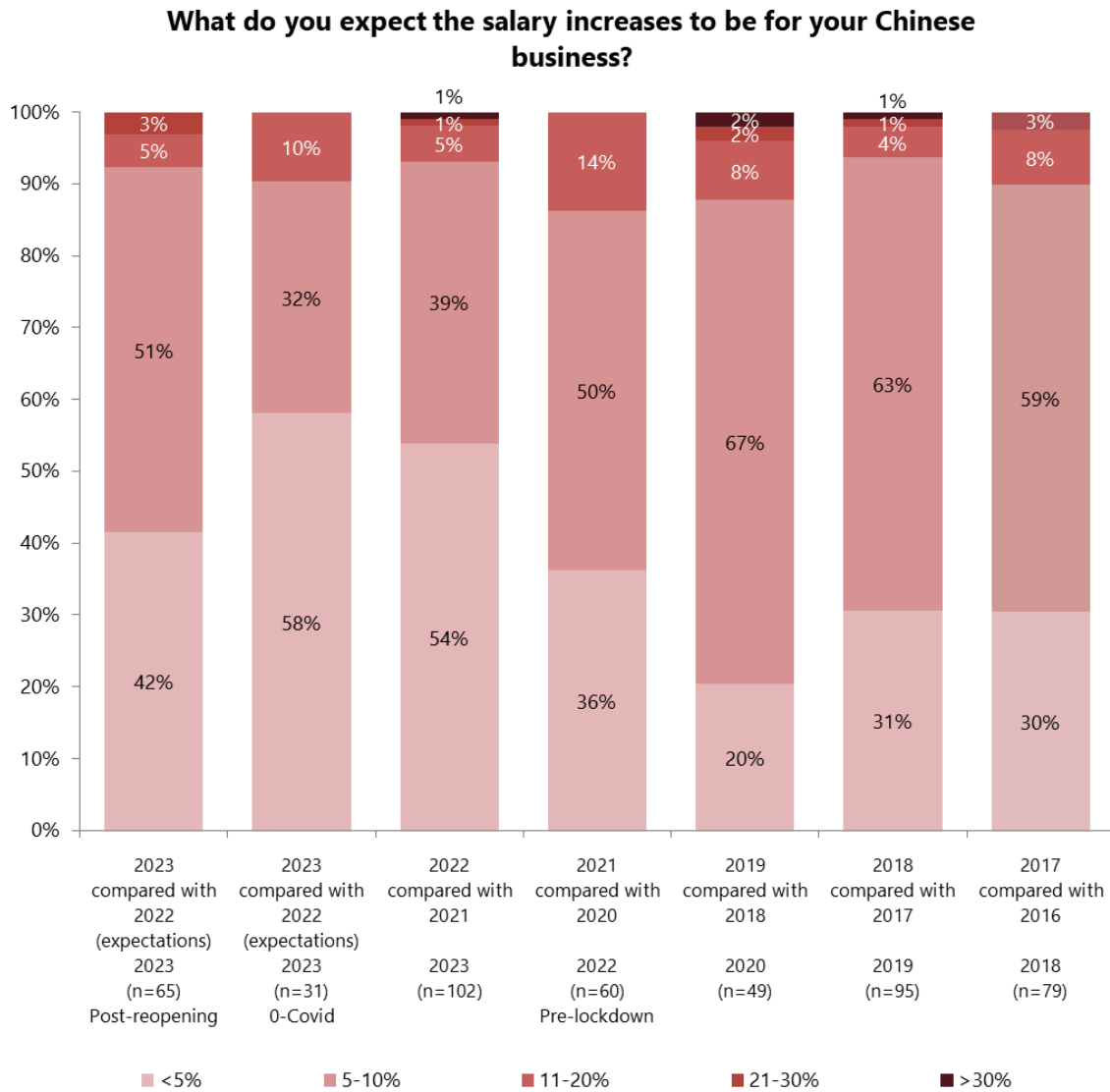


Figure 2.4: Expected salary increases

The lower unwanted employee turnover connects to lower planned salary increases in the post-reopening phase of 2023, with 42% of respondents intending to increase salaries by 5% or less.

By comparison, in the pre-pandemic years of 2017-2019, the average percentage of companies able to agree such low salary increases was only 27%.

Unwanted employee turnover

Q8.8

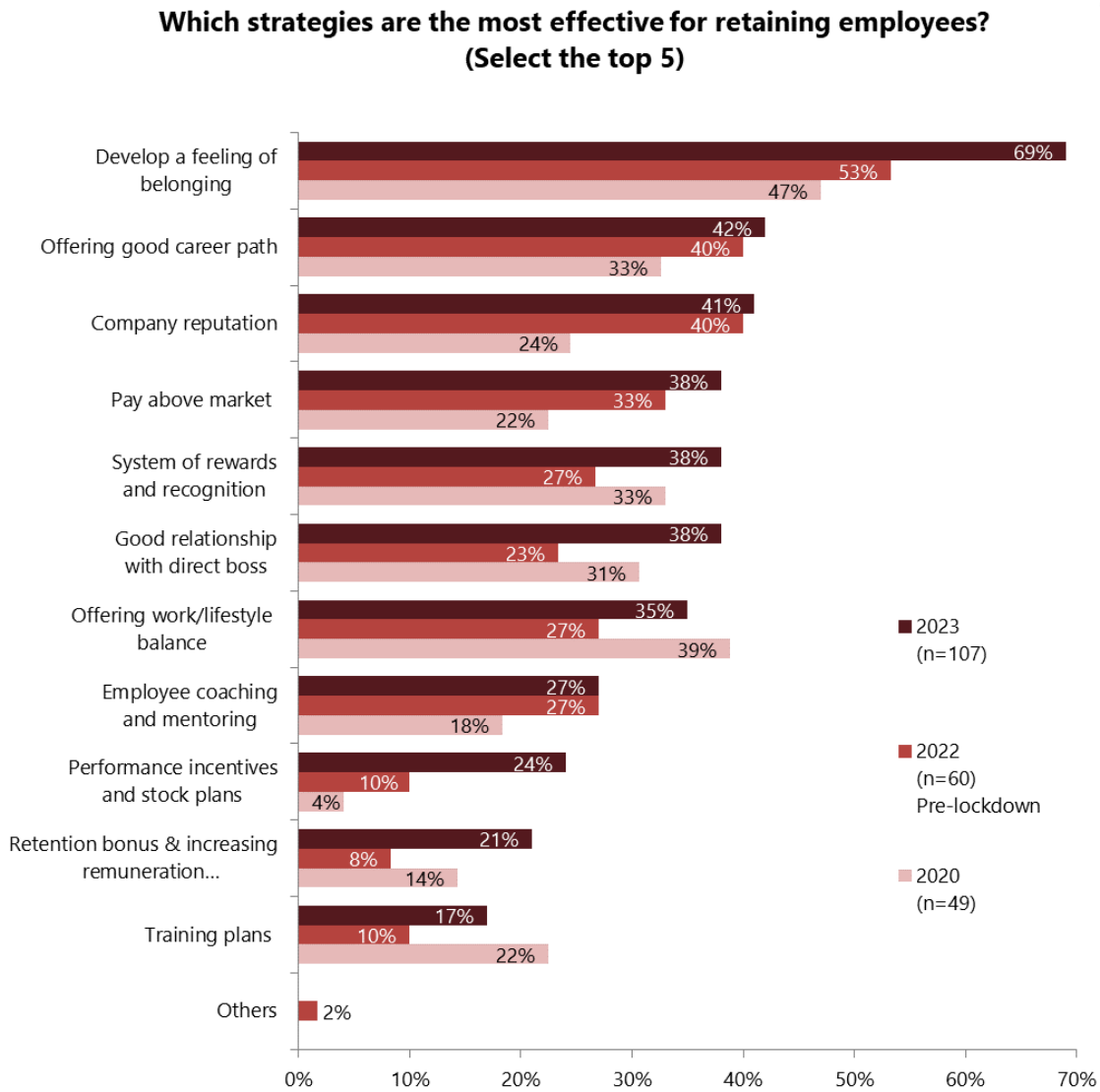


Figure 2.5: Most effective strategies for retaining employees

As far as employee retention is concerned, no major strategy changes occurred in 2023 when compared to 2022, with the possible exception of an even stronger **stronger** emphasis on “developing a feeling of belonging”.

2.3 Innovation and R&D command a lower priority

Post-pandemic, Swiss companies seem to have increased the gap with their Chinese competitors in terms of R&D performance. They also intend to do less R&D for their worldwide operations in China.

Perceived innovation gap

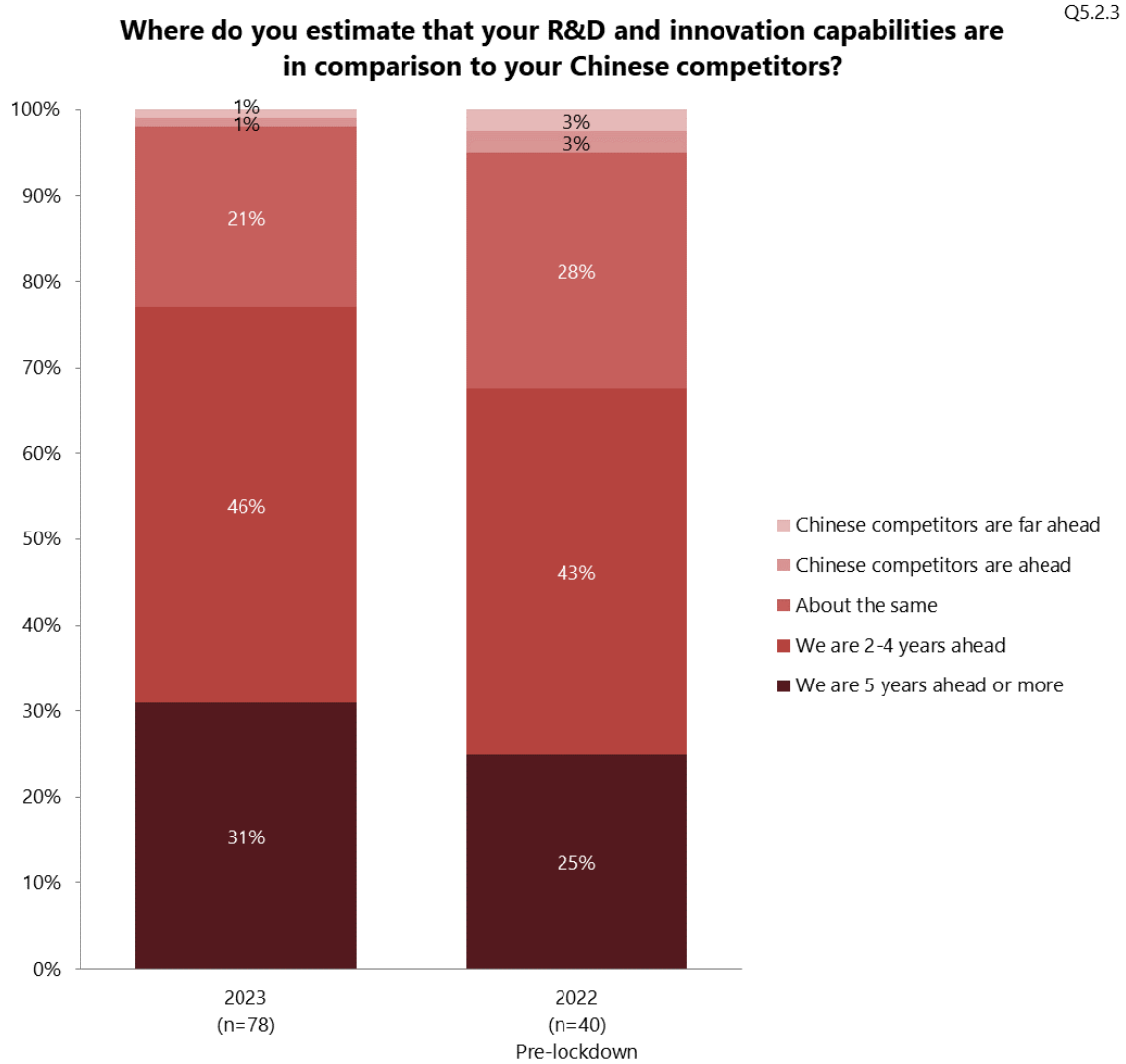


Figure 2.6: Swiss firms' perceptions of their R&D capabilities in relation to Chinese competitors

Respondents to the 2023 survey are markedly more confident about their R&D and innovation capabilities than those three-quarters answered in 2022.

Over three quarters see themselves 2-4 or 5 years ahead of their Chinese competitors in this survey, while only two-thirds did so in 2022.

R&D mandate

Who do you do R&D in China for?

Q 6.1

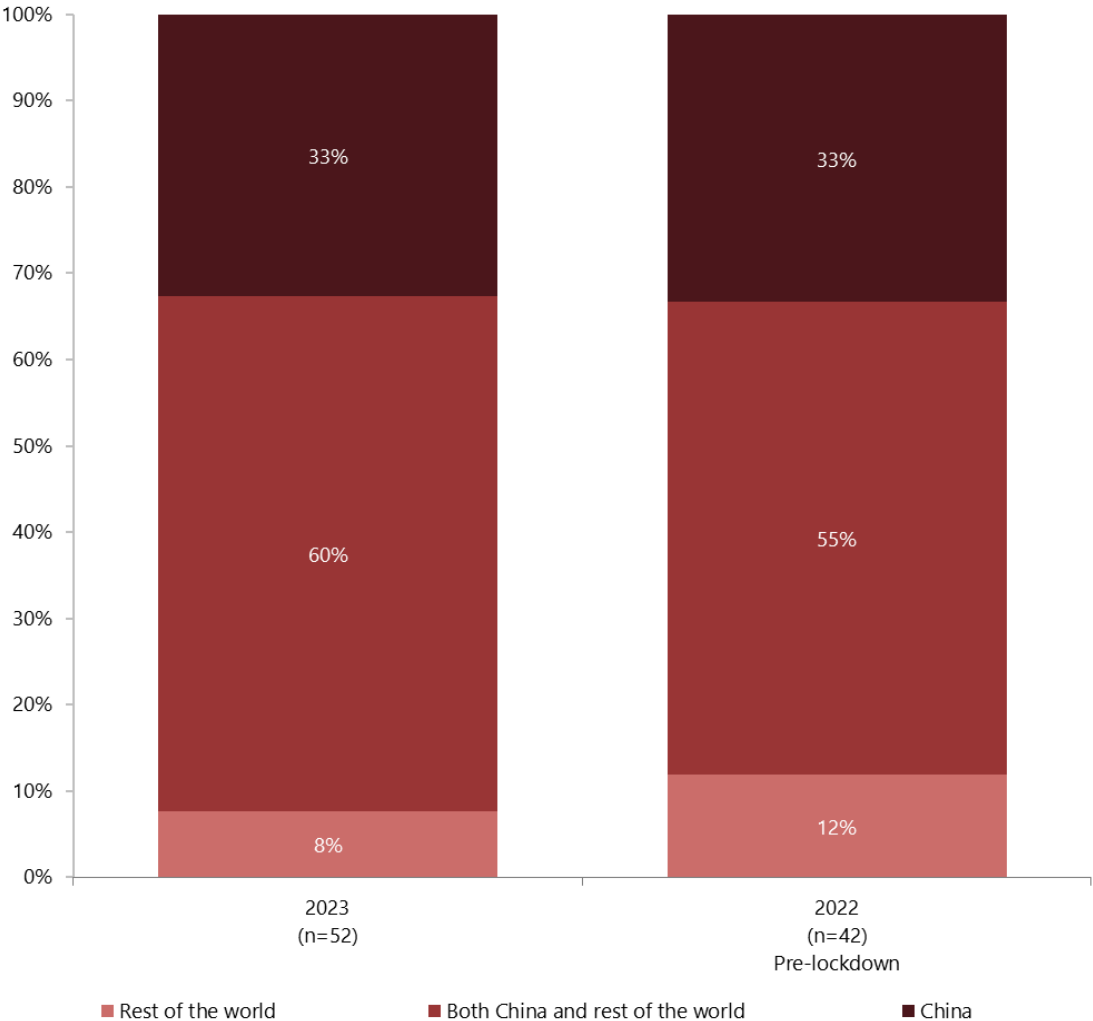


Figure 2.7: Users of the Chinese R&D of foreign firms

More companies now do R&D for China and the world from China, and slightly fewer companies now do R&D in China for the world only.

2.4 A lack of understanding and support from headquarters is perceived as an important internal challenge

Swiss companies have an opportunity to improve their communications with their Chinese subsidiaries.

Communications with HQ

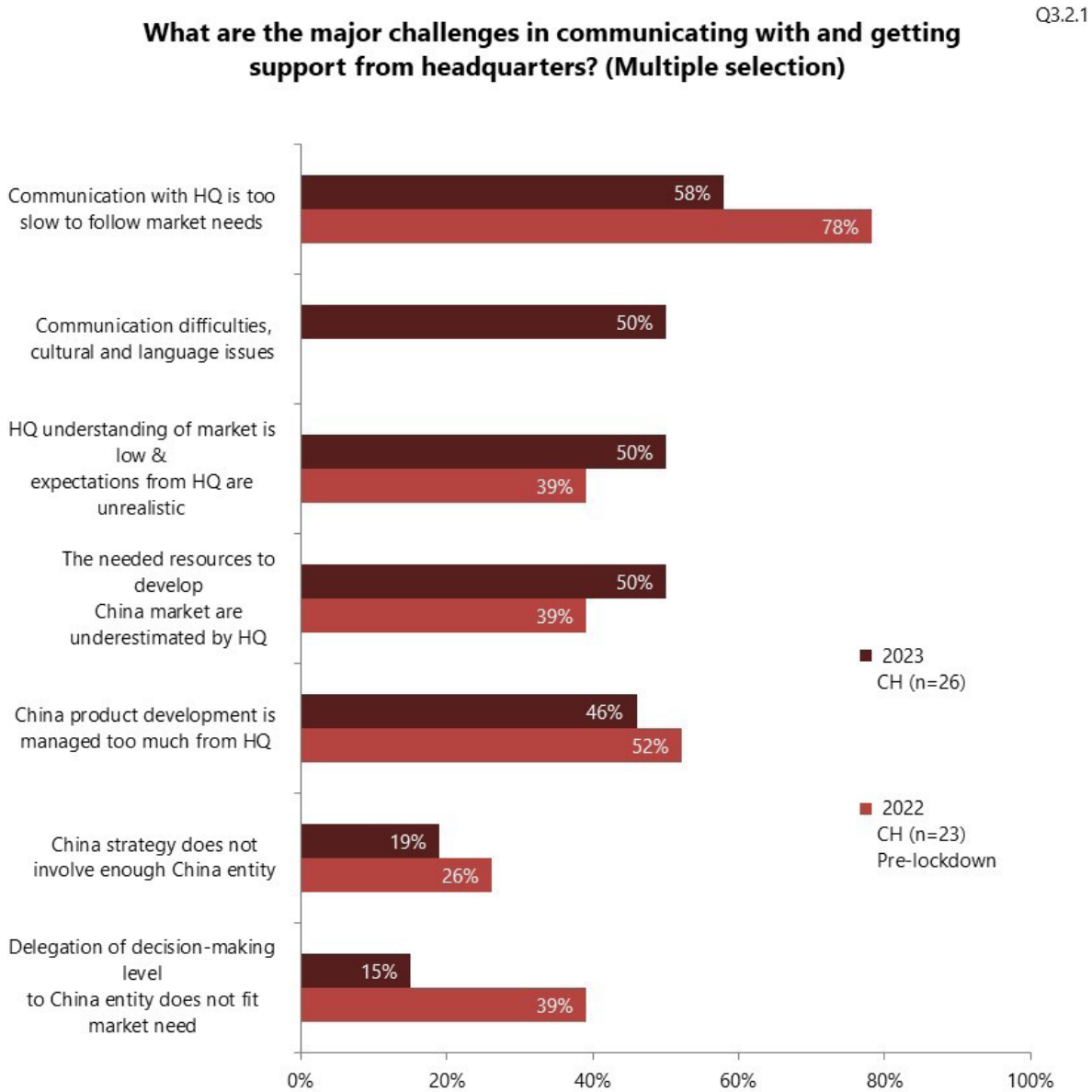


Figure 2.8: Major challenges in relationships with HQ

This challenge collectively highlights the persistent difficulties in communication between headquarters and their Chinese subsidiaries.

After three years of restrictive travel policies, this is not surprising. The next survey may shed light on whether the importance of this issue recedes post-reopening and the resumption of unhindered travel.

Product development issues between headquarters and their subsidiaries fell in importance, but the difference is not significant considering the small sample size (only companies that selected this internal challenge were asked to list the specific reasons for the perceived lack of support and understanding from their HQs.)

2.5 Geopolitics have entered the business equation

In 2023, geopolitics may be the key reason for companies to revise their investment plans.

Investment impact of geopolitical tensions

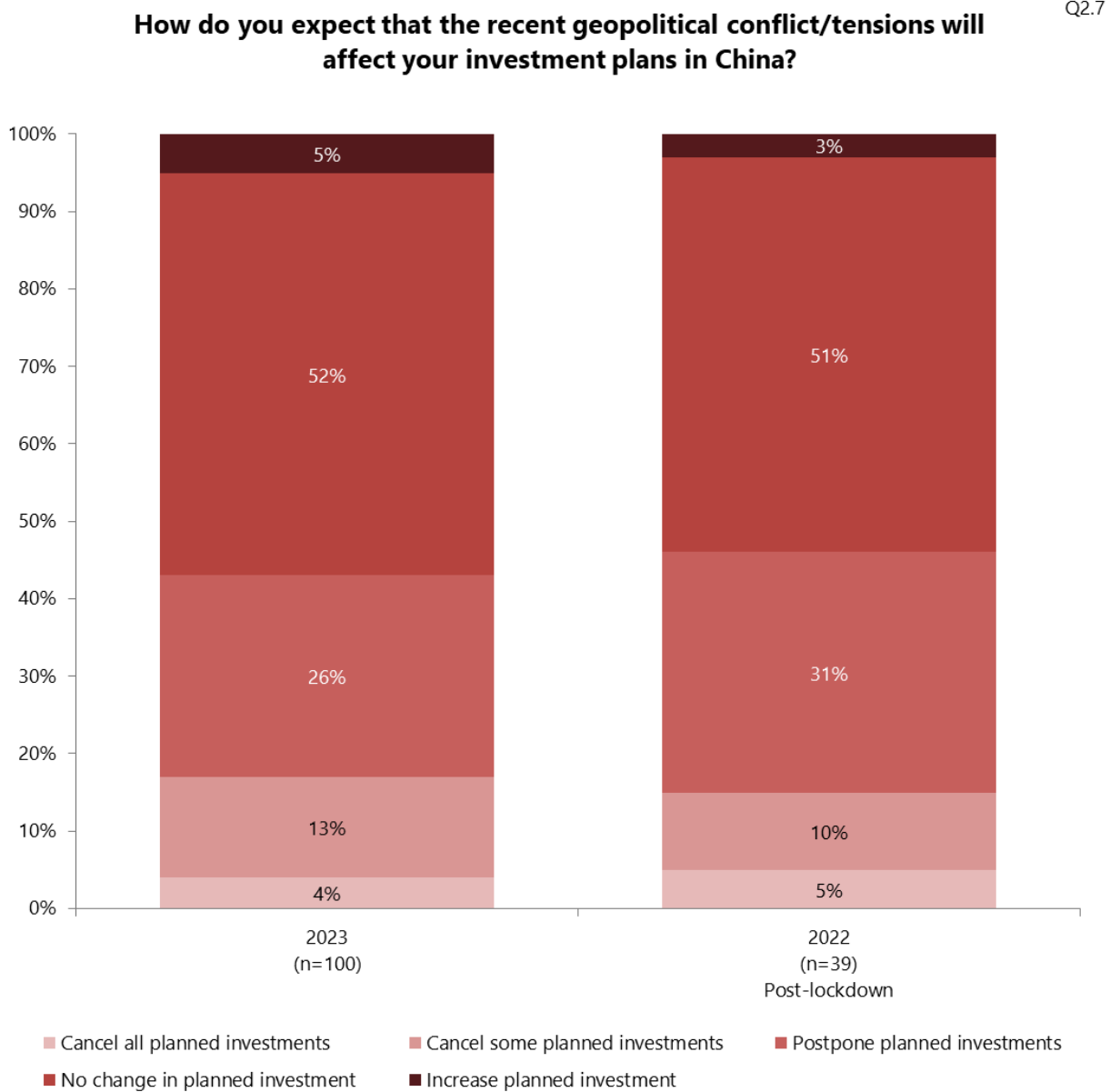


Figure 2.9: The impact of geopolitical conflict and tension on Chinese investment plans

The answers above indicate that Swiss companies have not fundamentally altered their perception of the geopolitical risks they identified in mid-2022, the first time that this question was asked in the Swiss Business in China survey.

It is clear that investment intentions are being impacted by greater geopolitical uncertainty and some planned investments are being cancelled or postponed.

When taking into consideration the fact that pandemic-induced supply chain issues were essentially resolved in the fourth quarter of 2022, geopolitical issues now appear to be the major reason for respondents to cite “Changing group strategy towards China” as the most important internal challenge they face after “Finding and retaining the right human resources”.

The new importance of geopolitical issues is certain to retain the attention of Swiss companies in the coming years and we will carefully track the evolution of the perceived risks in future surveys.

3. Analysis and opinion

This central part of the report provides analysis and opinion covering a range of different perspectives on doing business in China.

PART III

3.1 An update on China

Felix Sutter, President of the Swiss-Chinese Chamber of Commerce (SCCC)

Since the start of 2023, China's economy has been freed from the drastic measures taken to control the pandemic within its borders. Four months after this reopening, what effects have been seen, what issues still need to be paid attention to, and what are the likely implications for the remaining months of 2023?

The abrupt dropping of the zero-COVID policy was a major and unexpected shift that caught entrepreneurs and local governments alike by surprise.

With this newly gained freedom to operate and the end of Chinese Lunar New Year, the industrial base of China was ready to return to unhindered operations. The same was true for the logistics sector. Foreign companies have already started to see and receive Chinese delegations since mid-December, 2022. These delegations were keen to reconnect, rebuild business relationships and, most importantly, to secure orders and investments for the Chinese economy. Due to the geopolitical situation and tensions with the US, European companies have in recent years become preferred business partners for Chinese industry, so it is not a surprise that many delegations selected Europe as their first destination after China reopened.

While China will no doubt once again stun the world with the speed of its economic ramping up, the question is whether the rest of the world is ready or well prepared enough to receive these delegations and entrepreneurs. In the three years that the borders to China were tightly controlled, limiting business travel to a trickle, the business environments in China and Europe have diverged and a visible gap is now apparent. European and Chinese entrepreneurs must now find new ways to understand their cultural differences and adapt to expectations. One example is the necessary lead time to set up meetings with executives at the C-suite level; in China a lead time of 3-5 days is usual and acceptable, while in Europe at least five weeks is needed. Many Chinese delegations return home empty handed and frustrated as their attempts to engage with senior European economic leaders do not materialize. This frustration is shared on the European side, as although the desire to engage with Chinese counterparts is high, meeting requests and travel schedules communicated at short notice don't allow executives sufficient time to free up their agendas.

Nonetheless, assuming that these barriers can be overcome and constructive meetings do take place, what are the key topics and questions currently on the mind of European business leaders:

- The world is facing inflationary pressures and the spillover risks continue to cloud the current economic outlook. It can be expected that during the course of 2023 some regions will fall into recession. Consequently, investors are wary of making new commitments and consumers are holding on to their savings. Smaller government budgets, as well as the uncertainty around potential increases in energy prices, are weighing heavily on lower and middle-income citizens.
- The war in Ukraine has changed the views of governments and societies on how tax revenues should be spent. Arms industry spending has already increased and will continue to do so significantly. Therefore, there is growing competition for capital investments and greater scrutiny on investment opportunities.
- The breakdown in supply chains and the geopolitical changes that occurred during the pandemic has resulted in more funds willing to invest in Europe and North America. China's long periods of lockdown and tighter governmental controls have seen investors shying away from such uncertainties. To better prepare for potential future supply chain disruptions many companies are de-risking their strategies.
- During the COVID-19 years, Chinese society has for the first time in recent times been confronted with an economic downturn that has led to job losses, wage cuts and company closures. Therefore, entrepreneurs, government agencies and consumers are reviewing their operating models, governance costs and spending behaviors. New regulations on the biggest growth industries in China, the real estate and tech sectors, left many entrepreneurs wary of pursuing further ventures. In recent meetings the government has issued statements and amended regulations to counter these negative developments.
- While 2022 marked the first drop in China's population in six decades, 2023 saw India surpass China as the world's most populated country. As China's society is aging, the upside is that there is a changing market need for services that provide new opportunities. There is also the need for saving models that allows the older generation to finance its lifestyle going forward.
- The working age population has been declining for a long period of time and is putting pressure on manufacturing sectors for more automation and smart manufacturing. Such automation upgrades require capital and a well-educated workforce. This potentially makes polytechnic universities or the apprenticeship model more important, but these are not yet supported by mainstream Chinese thinking. The situation is further complicated by the graduation of 10 million Chinese college and university students every year, many of which have no job prospects or are not willing to work in factories or the service industry.
- As the Chinese economy returns to normalcy, the markets have already reacted with prices for raw materials increasing on the expectation that China will start to consume more. However, Chinese factory gate prices have dropped and shipping costs around the globe are significantly lower than 12 months ago. Therefore, it is as yet unknown what the overall effects of inflationary pressures will be on economies around the world.

On many occasions the challenges described above have been used to talk down Chinese economic prospects. However, each challenge also offers an opportunity. China is pragmatic, if nothing else, and it will likely continue to surprise us with solutions to its challenges.

It is therefore crucial that the economic players of Europe engage with their Chinese counterparts, industry regulators and government officials to understand their intentions and strategies. The cultural differences need to be understood and respected—not forced on each other by intent, ignorance, or lack of information. When both sides are able to effectively voice their concerns to ensure a fair market share and market position, mutual benefits will become evident and create the necessary trust to invest in their respective markets, technologies and companies.

3.2 China's economy: Perspectives and opportunities for Swiss businesses

Nicolas Musy, Founder of the Swiss Centers and CEO of China Integrated

The post-pandemic recovery is here, but it is uneven

China's 2023 first quarter growth, at 4.5% (year on year), surprised many positively. The first quarter of 2022 was strong, so the higher-than-expected economic performance of early 2023 is not due to a low base in the previous year.

April's figures were positive, with an 18.4% year on year retail sales growth. But when taking into consideration that April 2022 saw a decrease here of 11.4% on the back of the Shanghai lockdown, **April 2023 retail sales actually have gone up by just 7.3% over 2 years** (i.e., 3.35% per year on average). For comparison, pre-pandemic years regularly saw retail sales growth of 8 to 10%.

On the export side, the picture is similar. In Q1 2023, these grew 0.5% overall, due to a spike of 14.3% in March year on year, compensating the negative – 10.5% and – 6.8% figures of January and February. April saw a rebound of 8.5% year on year, but on the low base of April 2022, when Shanghai was under lockdown.

Two more indicators brought bad news in April. The **manufacturing Purchasing Manager Index (PMI) went into negative territory** at 49.5 (50 represents stable purchasing activity). And the **youth unemployment rate climbed to 20.4%**. One out of five young Chinese between 16 and 24 does not have a job. A similar unemployment level (19.9%) was reached in 2022, but that was in July after universities released their new graduates. In 2023 a record 11.5 million students are expected to graduate, potentially pushing the youth unemployment rate even higher in the coming months.

More data came in after the May holiday, with total spending reaching the levels of the May 2019 holiday, but on average each traveler spent less than in 2019.

On the investment side, growth for the first 4 months of 2023 is on levels similar to pre-pandemic levels. However, the country's fixed assets growth has been almost fully generated by state investments. Car and apartment sales, the big-ticket items that Chinese have been buying in ever larger numbers in pre-pandemic years, remain in negative territory.

The picture that emerges from China in the beginning of 2023 is one of **cautious consumers and private business owners** and strong state investments, which may be compared to some extent to that of the years following the international financial crisis (as far as China is concerned).

However, China's overall debt to GDP level, which has been exacerbated by the extra costs of the 2022 extraordinary measures to maintain a zero-COVID environment, is twice the level of 2008. Moreover, the most productive infrastructure investment projects have already been executed in the past decade, so that the levels of investments growth should naturally be lower than in the past.

All in all, China's growth potential is limited for the years to come. Researchers focusing on China's economy estimate it to be around 3% for the next 10 to 15 years, after the post-COVID rebound. Yet and of course, **this growth is happening on an economy size that is almost 5 times bigger than it was in 2008.**

Moreover, with China reaching peak employment, this growth happens in segments that Swiss businesses are particularly suitable to serve.

China has reached peak population: Growth happens through better consumers rather than more of them

China's population has decreased in 2022 for the first time in recent history as was predicted by the United Nations (see Figure 3.1). While there are still new migrants from the countryside finding employment in the cities, by and large, the number of Chinese earning money will stop increasing in the coming years.

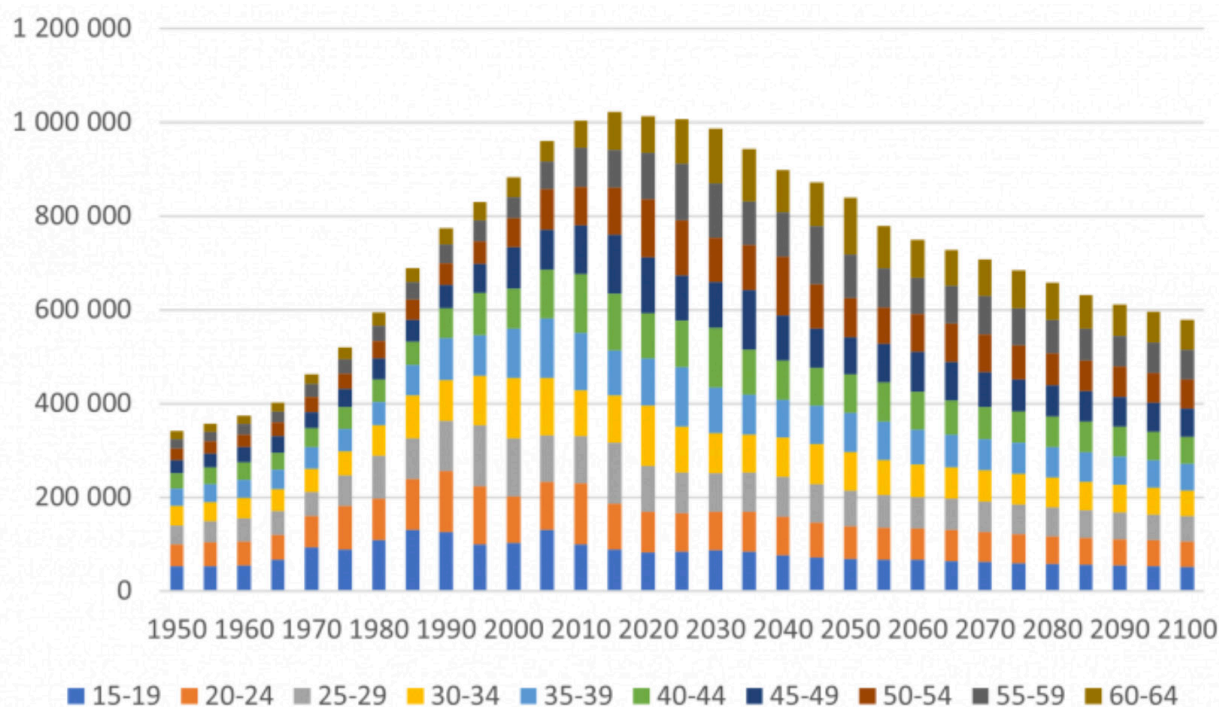


Figure 3.1: China's demographic structure (based on Rizvi, 2021; data from United Nations, Department of Economic and Social Affairs, Population Division; 2022 Revision of World Population Prospects)

As a result, the number of consumers is not growing any more in the country, and thus consumption-driven GDP growth may only increase if Chinese citizens earn (and therefore spend) more on average. Naturally, when buying power increases, the demand for higher quality, more expensive and sophisticated products and services also rises.

This is well illustrated by the projections of McKinsey on the growth of the Chinese middle class projected in Figure 3.1,

Chinese urban households by income group (million)

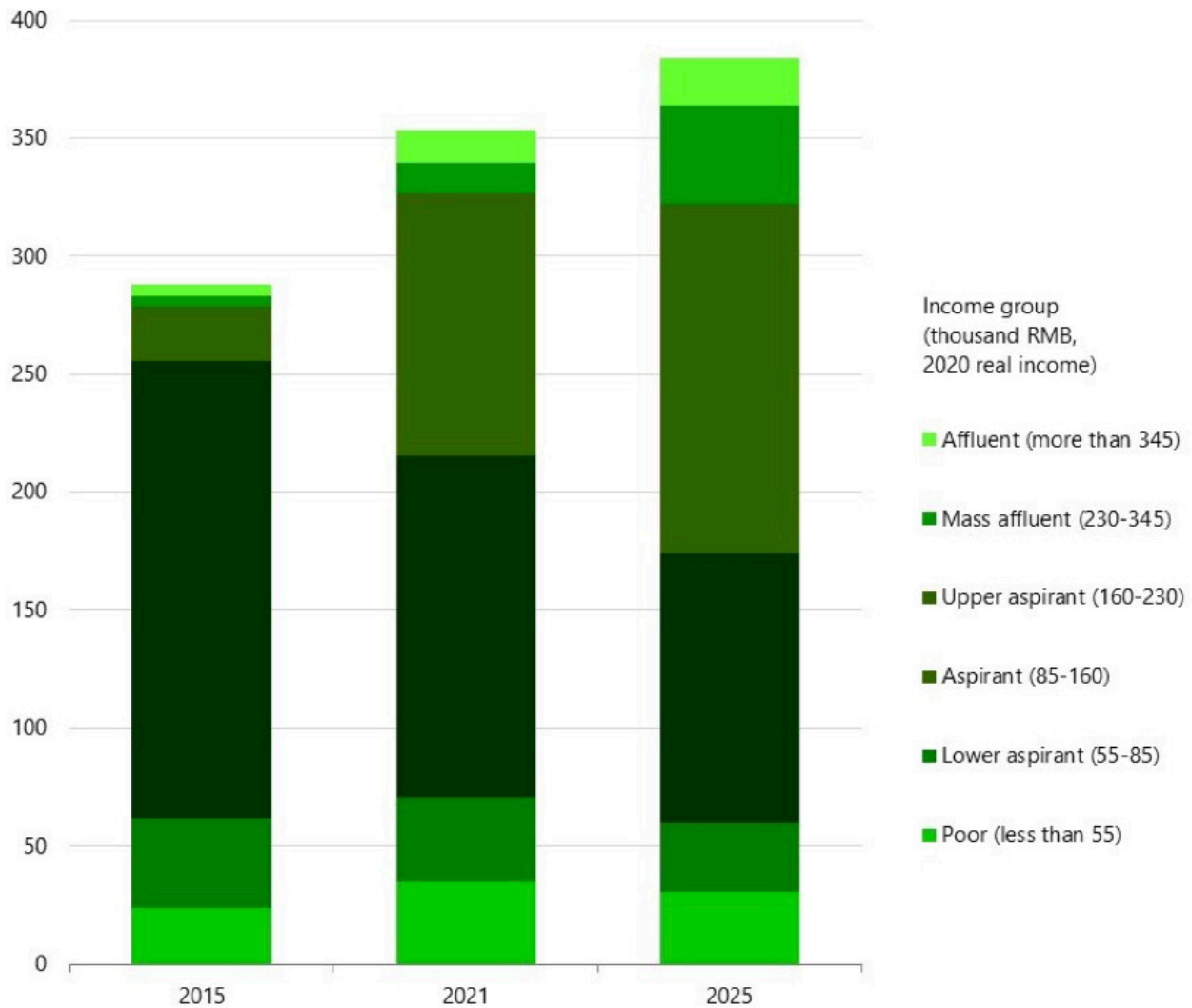


Figure 3.2: Income structure of Chinese urban households (based on Grimmelt, et al., 2023)

This new phase of China’s development has been highlighted by **the emphasis on quality and innovation put by the Chinese government** during the recent state-level political meetings.

So, while China’s expected economic growth is lower than before, the quality of the products, equipment and investments required will be higher.

This certainly generates an increased need for quality, which in turn brings opportunities to all producers of high-quality equipment and products.

Therefore, and paradoxically, **China’s slower growth is actually generating a greater need for the high-quality product and services that Swiss companies typically excel at providing.**

This may be a reason why the results of the 2023 survey of Swiss businesses in China reveal a more positive outlook than one may have expected.

In addition, China has become a leader in a number of industries, in particular those linked to renewable energies and electric vehicles. For those Swiss firms active in related fields, growing means growing with China.

Realizing the opportunities but not the risks

Not far from half of the respondents of this 2023 survey have announced **canceling or postponing their investments due to geopolitical tensions.** Moreover, one third of the respondents mention that a **change of group strategy towards China** constitutes a significant internal challenge.

At the same time, the regulatory environment can be expected to become more challenging. Doing business is complicated by a growing body of sanctions on Chinese companies and increasing requirements or incentives to localize the manufacturing of products that China considers key to its national security.

Under the circumstances, good management practice naturally requires optimizing investments, identifying risks and finding ways to mitigate them when making good on the opportunities.

While every company's circumstances are different and call for different management of the specific risks, two broad strategies allow a foreign investor to reduce the risks currently associated with China. These are relevant for international businesses in general as these challenges can occur in any country.

First, firms must advance the resilience of their international supply chains. This has been much highlighted recently, particularly since supply chains may be more complicated than commonly understood and many companies do not have a full understanding of them. This is, of course, part of the usual risk management of international firms.

Second is the localization of production (and its financing) for local sales. This is a simple concept to generate business autonomy and reduce risk in case of international sanctions. However, such projects usually need complex evaluations and can take quite some time to carry out, because they involve the transfer of know-how which presents its own set of risks.

Yet, being well prepared and well planned has always been a trademark of success, in particular for Swiss companies. And, in the current circumstances, a well-managed approach allowing for the tapping of the new opportunities that are bound to arise in China is certainly worthwhile.

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3.3 Survey comparison between Swiss businesses in China and their German, British and American peers

Kieran-Lee Russell, student at University of St.Gallen

The following analysis compares the results of the *Swiss Business in China Survey 2023* (n=111) with similar surveys conducted by the British Chamber of Commerce in China (n=292), the German Chamber of Commerce in China (n=593), as well as the American Chamber of Commerce in the People’s Republic of China (n=319). The data collection of the four surveys took place during the latter half of 2022, with Germany’s having started in August and Britain’s in

October, both of which lasted for one month. In contrast, data for the Swiss survey was collected over several months (October 25th, 2022 – April 2nd, 2023). Due to the announcement of the lifting of the zero-COVID measures by the Chinese government on December 7th, 2022, the Swiss data has been subdivided into two subsets, namely “0-covid” and “Post-reopening” as noted in Part I. Furthermore, flash surveys published by the various Chambers have been included, whenever appropriate.

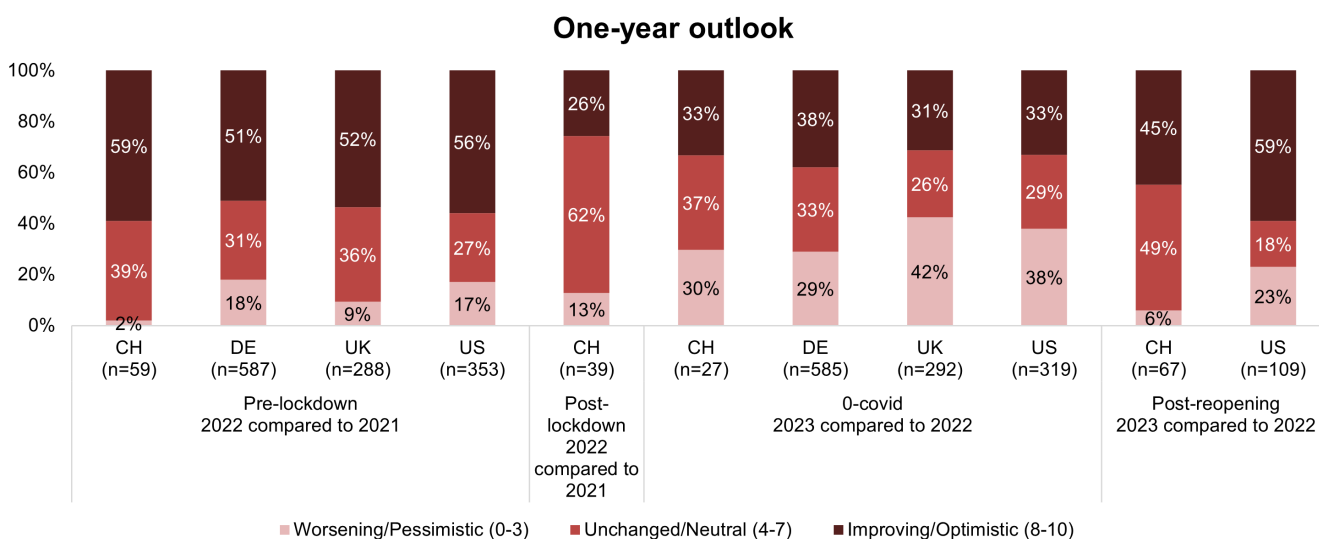


Figure 3.3: One-year business outlook of Swiss, German, British and American* companies in China

* The American survey asked for a two-year outlook.

Sources: Hirst et al., p. 14; German Chamber of Commerce, *Rocky Roads Ahead: Business Confidence Survey 2022/23*, p. 12; Ma et al., p. 30; American Chamber of Commerce, *Flash Survey April 2023*, p. 13.

Due to the challenging economic environment, the business outlook has been on a constant decline for all countries. While more than half of all respondents reported an optimistic outlook for the upcoming year during the pre-lockdown phase in 2022, only about a third of them did so during the zero-COVID period in late 2022 (i.e., before December 7th, 2022) (Figure 3.3). It should be noted that despite the limited sample size of the Swiss survey, Swiss companies exhibit a similar response behavior to their peers, indicating that the result can be still considered representative.

As evidenced by the American flash survey carried out in April 2023 as well as the responses from Swiss respondents submitted after December 7th, the post-reopening period is characterized by a strong improvement of future prospects, with Swiss companies reporting a 12-percentage point increase (from 33% to 45%) and American companies exhibiting a 26-percentage point rise (from 33% to 59%) compared to the zero-COVID period. Since companies across all countries share a similar future outlook, these two results could be seen as a bellwether for the other countries to follow suit.

In a similar vein, expected year-on-year profits remained moderately low for all peer groups, as well. Germany, saw a slight decline in companies expecting increasing (i.e., higher or substantially higher) profits (from 41% to 37%) when comparing the pre-lockdown to the zero-COVID phase (Figure 3.4). In contrast, American, and especially Swiss businesses were much more pessimistic during this time period. As for Swiss companies, they experienced a 29-percentage point drop (from 60% to 31%), and American businesses' optimistic profit expectations decreased by 23 percentage points (from 56% to 33%). Interestingly for

the first time Swiss companies took the lead for the largest proportion (15%) of businesses anticipating a significant decrease for year-on-year profits. Yet the post-reopening period showed that this dip might have been only of a temporary nature. After the announcement of lifting the zero-COVID policy, 61% of Swiss and 39% of American businesses respectively expect higher profits for the current year, as compared to 2022. Profit expectations have here recovered back to a pre-lockdown level. Again, German and British peers may likely display a similar trend in the future.

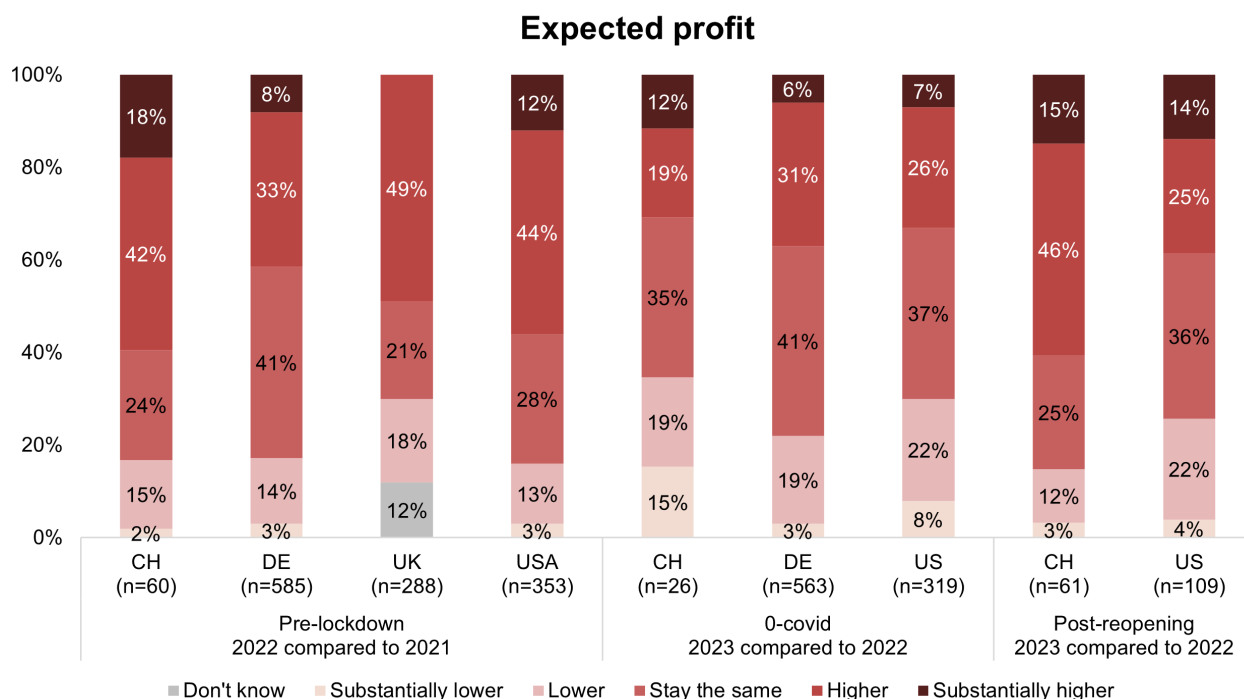


Figure 3.4: Expected profit of Swiss, German, British and American businesses in China

Sources: Patel et al., p. 12; German Chamber of Commerce, *Rocky Roads Ahead: Business Confidence Survey 2022/23*, p. 15; Ma et al., p. 30; American Chamber of Commerce, *Flash Survey April 2023*, p. 13

Sources for the article:

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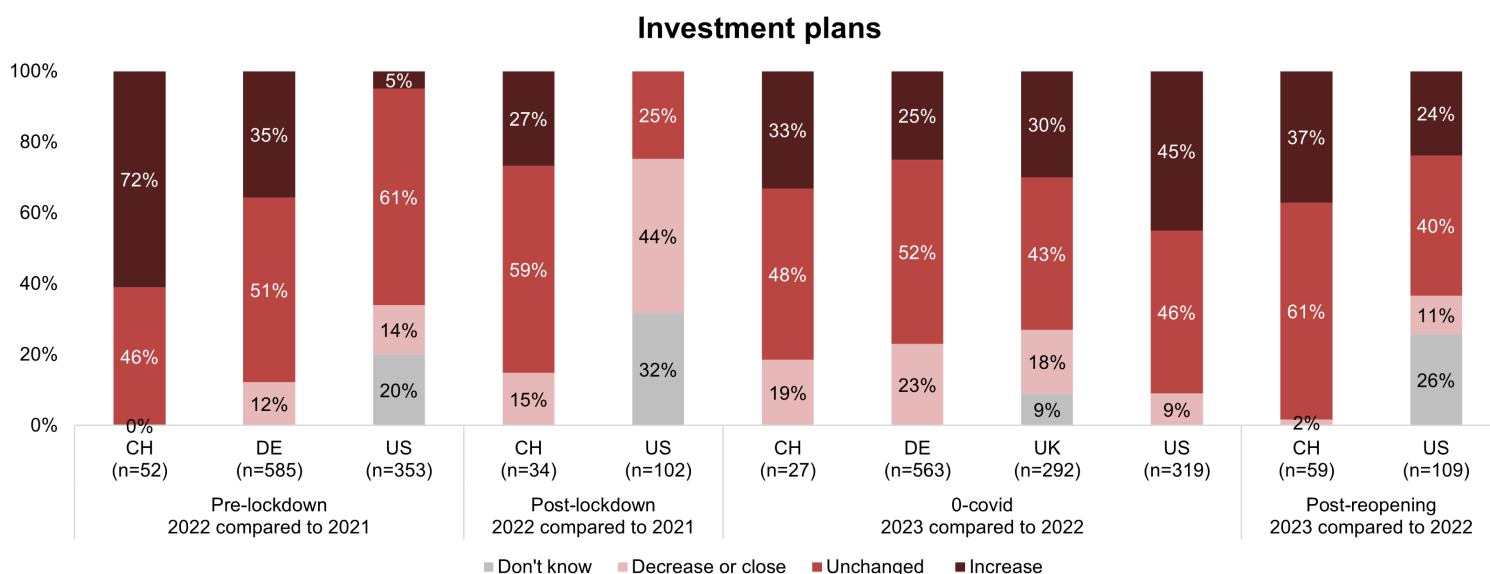


Figure 3.5: Investment plans for Swiss, German, British and American businesses

Sources: Hirst et al., p. 15; German Chamber of Commerce, Rocky Roads Ahead: Business Confidence Survey 2022/23, p. 15; Ma et al., p. 48; American Chamber of Commerce, Flash Survey April 2023, p. 7.

This rather grim outlook during the zero-COVID phase is also reflected in planned investments. While the proportion of companies planning to increase investment is quite similar—ranging between low 25% for Germany and moderate 45% for America—the development over time is more volatile for Swiss businesses compared to its peers (Figure 3.5). Most notably is the steep drop from 72% of Swiss companies planning to increase China-related investments during the pre-lockdown phase to only 33% during the zero-COVID phase. Furthermore, during zero-COVID, 19% of the Swiss companies were planning to decrease or close investments entirely, an option none

of Swiss respondents had opted for during pre-lockdown times. In contrast, American businesses have been relatively optimistic, as planned investments rose from only 5% to 45% in the same period. Interestingly, this trend appears to have reversed when taking into consideration the data from America’s most recent flash survey. Whereas American corporations’ investment plans have decreased to 24%, Swiss businesses have made a slight recovery in this regard. More noteworthy: the percentage of Swiss companies planning to decrease investments fell significantly, with only 2% of respondents opting for a divestment strategy in contrast to US companies.

Note for Figure 3.5: Despite a similarly worded survey question across all countries, the answer options were rather different, with either using differing percent ranges for each option or using nominal dollar amounts instead of percentages to indicate increasing or decreasing investments. Therefore, the diagram only indicates general investment tendencies.

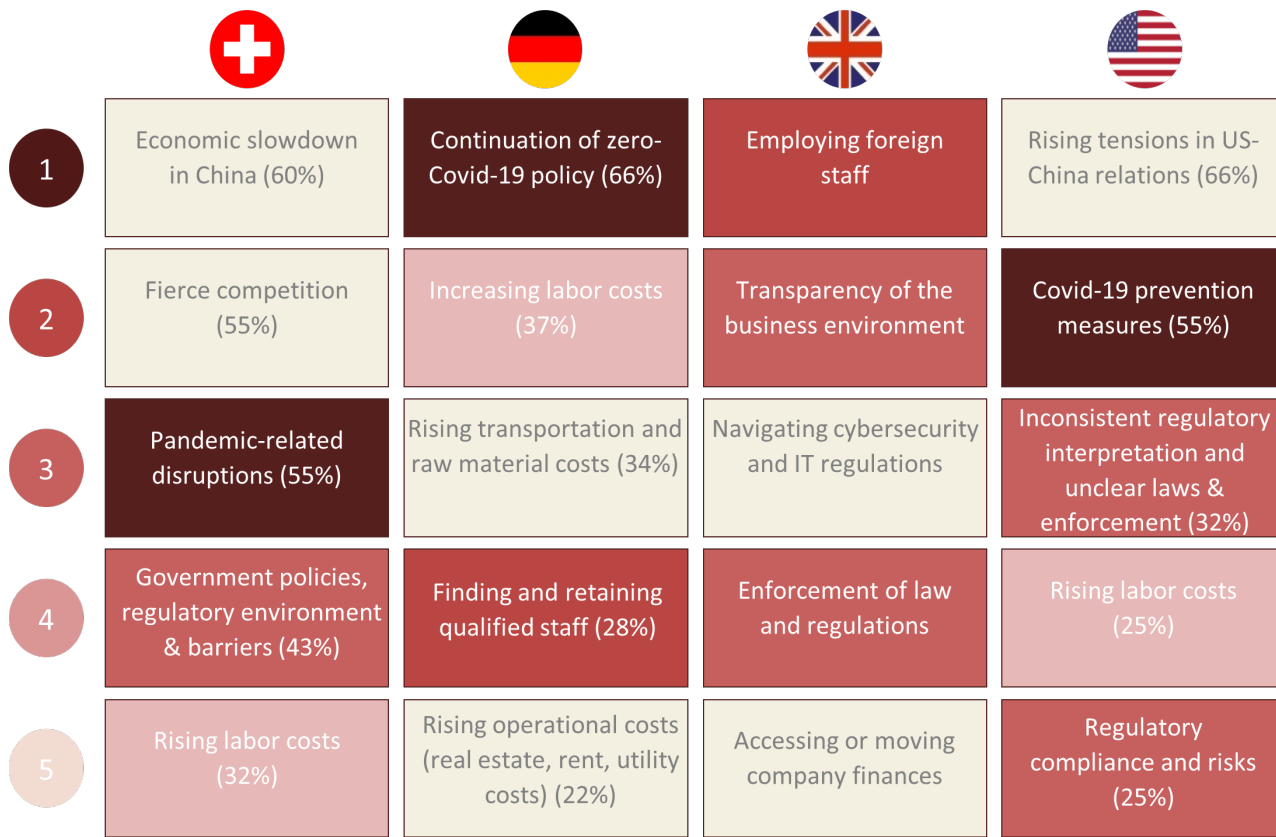


Figure 3.6: Top 5 challenges facing Swiss, German, British and American businesses in China

Sources: Hirst et al., p. 28; German Chamber of Commerce, *Rocky Roads Ahead: Business Confidence Survey 2022/23*, p. 27; Ma et al., p. 37.

When it comes to the key challenges that companies are facing in China, similar issues were mentioned among all the peers, except for the UK. This might be a result of how the questions in the different surveys were phrased, as the Swiss one asked for “greatest external challenges”, the German for “operational and macroeconomic challenges”, the American for “business challenges” and the British for “regulatory challenges”.

Despite these differences, pandemic-related disruption and/or policies remained among the top 5 challenges for more than half of Swiss, German, and American businesses surveyed (Figure 3.6). Other key issues shared among the peers were inconsistent governmental law enforcement and regulatory barriers, as well as rising labor costs, which represented a major challenge for approximately one in three Swiss and German, and one in four American companies. It remains to be seen how these challenges will change over the course of 2023 with COVID-related restrictions finally losing relevancy. However, as exhibited by German and British companies, labor issues, increasing costs in general, as well as cyber security risks appear to be areas that companies should pay close attention to.

3.4 Can European firms benefit from China’s growing digital and AI economy?

Shuo Shi, Fudan Development Institute, Hanzhen Ouyang, School of Management, Fudan University, and Tomas Casas-Klett, University of St.Gallen.

Against the escalation of a comprehensive strategic rivalry with the US, China has doubled down on regulation and support for its AI economy. This may have a heavy impact on Swiss and other European firms operating in the Asia-Pacific region. How should multinational firms, business leaders and investors address China’s rapid development of AI and think about their entry, expansion and innovation strategies while realizing potential opportunities and remaining competitive?

China has become a global leader in AI development. Stanford University’s AI Index report for 2023 evaluates cross-country AI performance on research and development, investment, and the economy, and ranks China among the top three countries in the world for global AI vibrancy.¹ Moreover, China ranks ahead of all the developed economies in AI research in terms of total AI journals, conferences, and repository publications. With 268,000 new industrial robots installed in 2021, China accounted for 51.8% of the global total, thus leaving Japan, the country with the second largest industrial robot installed base, far behind. At the same time, the leading AI product, GPT-4, shows that the cutting edge work on artificial general intelligence (AGI) is in the US as China has no comparable offering as of now. Moreover, the US export controls on key Western technologies and products necessary for the development of AI, like those of NVIDIA or ASML, are expected to slow down the progress of AI in China.

Still, China’s remarkable performance in AI development foretells of great value creation in the immediate future. Based on a systemic assessment of China’s AI market, McKinsey projected in 2022 business opportunities worth up to \$US 600 billion by 2030.² The AI industry of China is cross-sectional with manufacturing accounting for 19%, enterprise software for 13%, healthcare and life sciences for 4%, and the remaining 64% split between automobile, transportation, logistics and other sectors. Top Chinese AI firms include Baidu in autonomous driving, Alibaba in smart cities, Tencent in medical imaging, iFLYTEK in intelligent voice, and SenseTime in computer vision. A key factor in the potential for China’s emerging AI market to create sustainable value is that it is highly competitive. This is where China’s regulatory regime on AI enters the picture.

Regulatory challenges

According to the Digital Trade and Data Governance Hub under the academic leadership of the Institute for Data, Democracy & Politics at The George Washington University, and as shown in Figure 3.7, China has established a relatively strong data governance regime, including a national data strategy, AI strategy, and protection of cross-border data, though still lacks specific laws on personal data protection. While the European Union (EU) is expected to enact the Artificial Intelligence Act later this year, its persistent emphasis is on ensuring the privacy of electronic communications. China, on the other hand, is more focused on building a national-level AI regulation system. This has a

Personal data protection law	National data strategy	AI strategy	Protection of cross-border data flows
Australia			
Brazil			
Canada			
China			
EU			
India			
Japan			
Malaysia			
Mexico			
Singapore			
S. Korea			
Switzerland			
Thailand			
U.K.			
U.S.			
Vietnam			

Figure 3.7: Selected key indicators of a comprehensive data governance regime.

Source: Authors’ elaboration based on work by the Digital Trade and Data Governance Hub, available at: <https://datagovhub.letsnod.com/>.

variety of implications. For instance, the rapid development of AI regulation enables a country to impose great restrictions on data flows. At the same time, China’s first-mover advantage here means that it can provide a benchmark and even lead the process of international standard-setting on data policy. The extent to which China’s national data regulation system for digital markets, data, and AI provides a blueprint for the future global AI economy is of particular relevance to multinational businesses.

On the back of strong AI regulation, China’s policies relate to higher digital trade barriers and policy risks. As shown in Figure 3.8, the rankings of the Organization for Economic Cooperation and Development’s (OECD) Digital Services Trade Restrictiveness Index reflect the fact that China’s digital trade barriers are much higher than those of its major trade partners. Barriers to digital trade may bring unwanted frictions to foreign firms operating in China that need to manage data flows, and hamper the expansion of digital platforms and the advancement of AI technologies. So, on the one hand, while investors in China will benefit from the very

promising prospects provided by the large AI market and an AI technology boom, they will also have to manage hefty digital trade barriers imposed by restrictive regulations.

It has been widely reported that China has been cracking down on its domestic technology giants. At a key event on February 13, 2023, China’s anti-monopoly regulator, the State Administration for Market Regulation (SAMR), held its annual conference in Qingdao, and established its agenda for 2023. SAMR’s main focus this year is to seek and strengthen “linkage effects” with international markets, whilst also maintaining the “bottom line of development security”. The latter is evidenced by how SAMR took decisive action and imposed substantial fines on two of China’s corporate giants, Alibaba and Meituan, totaling \$US 2.8 billion and \$US 530 million, respectively. The government also announced comprehensive new privacy laws, modified regulations for cross-border data transfers, introduced new measures in the gaming industry, and prohibited certain kinds of content from being displayed on the internet.

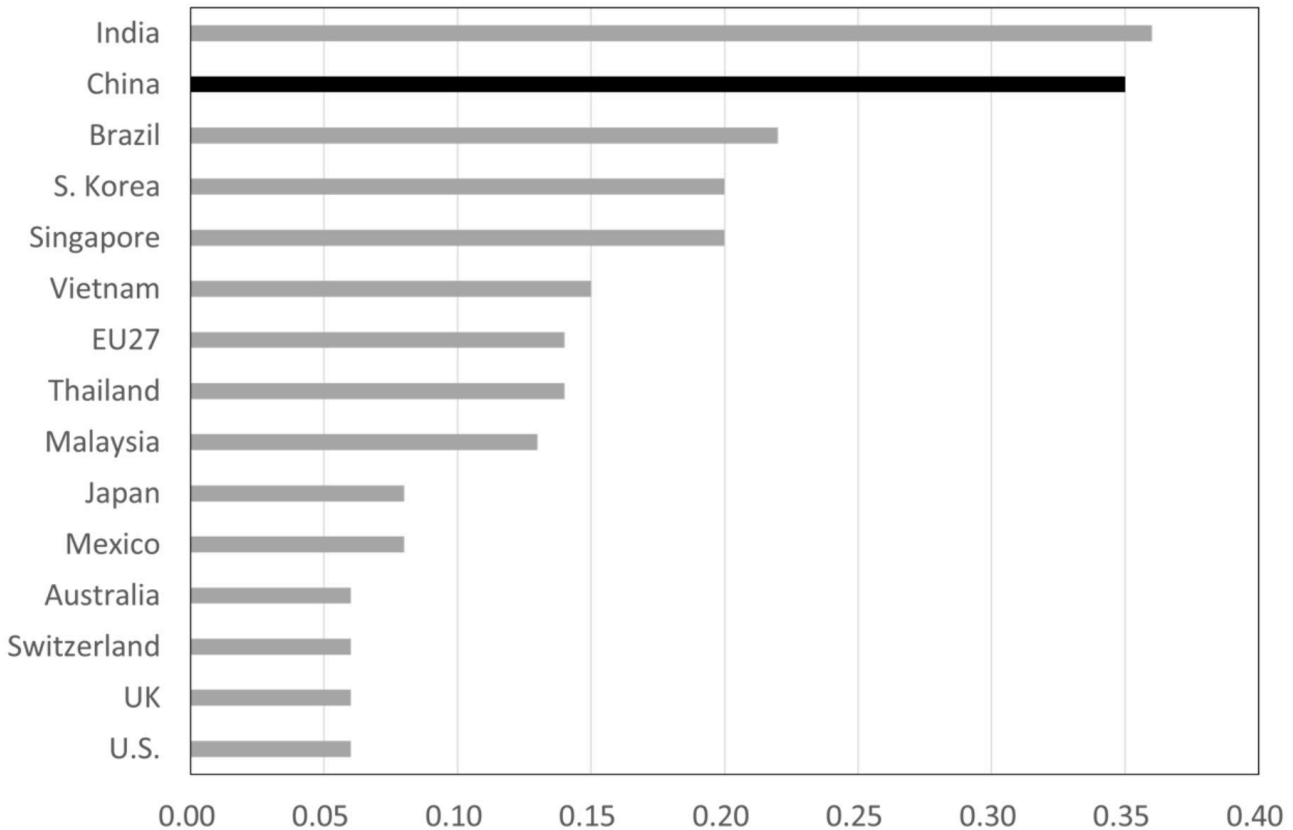


Figure 3.8: Digital Services Trade Restrictiveness Index for selected key China trading partners, 2022.

Source: Authors’ calculations using OECD data.

The rigorous enforcement of digital regulations and crackdowns on some of the big players has caused Chinese tech businesses to experience increased levels of instability. Alibaba's shares have shrunk in value by over two-thirds compared to 2020 (it is now worth \$US 227 billion), while ride-hailing company Didi saw its online app suspended for suspected violation of the country's cybersecurity law, losing over 80% of the market value of its initial public offering (IPO) (it now has a \$US 16 billion capitalization). Likewise, JD.com, one of the top e-commerce companies, saw its market value plunge by 25 percent in 2022 from the previous year (and now has a \$US 35 billion capitalization).

The good news, in light of these actions by SAMR, is that there are now reassuring signs of a relaxation in the enforcement of digital market regulation. To address weakened economic prospects caused by the COVID-19 pandemic and repeated lockdowns, Beijing has started to reduce

its monitoring of the tech industry. As early as the end of 2021, the National Development and Reform Commission (NDRC) of China, along with eight other ministries and commissions, released a joint document advocating for the standardized, healthy, and sustainable development of the platform economy.³ The document reaffirmed China's determination to regulate platform companies' prohibited activities, such as monopolies, unfair competition, and abuse of user data. The tone, however, was relatively mild. While underscoring the obligations of domestic tech firms, the document also explicitly encourages technological innovation and business globalization. Later, in March 2022, the Financial Stability and Development Committee (FSDC) of the State Council endorsed a healthy platform economy to boost global competitiveness. Finally, in May of 2022, during the Chinese People's Political Consultative Conference (CPPCC), Vice Premier Liu explicitly encouraged tech companies and expressed his backing for their overseas listings.

Who is ahead in AI, the US or China?

According to McKinsey's projections, automotive, transportation, and logistics will become the most AI-intensive industries, amounting to more than \$US 380 billion in China by 2030 in total economic value.

China shows greater strategic advantages over the US in specific narrow AI fields, especially in automotive. According to the China Automobile Dealers Association, China's auto market has grown to be the largest in the world with the number of vehicles in use surpassing that of the US. Moreover, China is the largest exporter of electric vehicles (EV) in the world, exporting 1.1 million EVs in 2022.

On the back of the rapid developments in the EV market, China performs very well in terms of automobile AI, with offerings in autonomous driving, connected-car data processing, and fleet asset management being allegedly better than US companies. These strategic technological advantages underpin the confidence of Chinese AI firms and are also evident and have the potential to be further expanded in other narrow AI fields like production or logistics, offering first-mover advantages and lower entry costs than their US rivals.

However, the US still plays a dominant role in almost all the general AI fields. As is shown by Stanford University's AI Index Report 2023, the US is still ahead in terms of AI conference and repository citations. In addition, the majority of the world's large language and multimodal models (54% in 2022) are produced by American organizations.

The superiority of the US in the general AI fields is linked to American capital market efficiency. As the AI Index Report 2023 illustrates, the US leads the world in terms of the total amount of AI private investments. In 2022, the \$US 47.4 billion invested in the US was roughly 3.5 times the amount invested in China, the second most highly invested in country with \$US 13.4 billion.

As far as can be anticipated, China and the US will remain the two leading players in AI. Given its giant domestic market and rapid AI development, China has the advantage in competitive narrow AI fields. By comparison, the US is much more innovative in general AI and R&D, and enjoys a more dynamic and efficient venture capital market. This dual-track rivalry is likely to continue for the foreseeable future.

What should Swiss firms do?

So how can Swiss and European firms in general hedge against regulatory risk and grasp the economic opportunities afforded by China's AI market, and more broadly, its digital economy? In applying AI technologies to Chinese markets, European businesses need to prove to customers and partners that they are trustworthy technological providers, able to offer strict guarantees on data security, not unlike the General Data Protection Regulation (GDPR) regime in Europe. At the same time, they should respect regulations when creating new products, services, and business models that may encroach on sensitive area in China.

If this is done well, the potential to increase firm value is tremendous. For example, one might consider the opportunities of AI in the health sector. In 2019, a law was enacted in China to improve citizen health that, for instance, promoted the use of big data and AI by developing technical standards on the collection, storage, analysis, and application of medical and health data.⁴ This came on the back of a push by the National Health Commission in China aimed at building a data foundation for electronic medical records (EMRs) and disease databases in 2018 which has led to the creation of a standardized disease database and EMRs for use in AI. This could be an important resource for foreign firms and becomes even more interesting if used in conjunction with pilot zones, such as those in Hainan's Boao, that are easing approvals of foreign drugs and medical devices, as well as offering a general liberalization of investment rules, including reducing duties and implementing negative lists for services.

It is important to emphasize that in matters of AI and data, Western firms must comply with their own domestic laws, but in times of heightened global rivalries these might conflict with Chinese regulations. Moreover, as foreign firms in China navigate such dilemmas, they will invariably come under public scrutiny at home. An illustration of this point is found in a recent article in the *Financial Times* offering a critical take on a firm that has masterfully navigated the dilemma and creating enormous value both in China and the West: "In reality, Apple is now as much a Chinese company as it is American".⁵ For Swiss firms, it will not be easy to balance such conflicting forces. A decision-making support framework is provided in Figure 3.9. The opportunities afforded by China's digital and AI economy will be an important consideration in both the development of China and global business strategy.

(a) Opportunities and their capture	
AI market and AI-driven market growth	In addition to the direct AI sector, many of China's markets are poised to grow faster, in part due to the increased value that AI-enabled products and services provide to customers.
Product development	A highly competitive market in China offers the chance to test advanced AI products and related supply chains; the responses to new products developed with AI by some of the most sophisticated and demanding customers supports product development. AI will also lead to more competitive products on the basis of AI-induced cost savings emanating from better efficiency and productivity.
Source Chinese IP	In specific areas, such as narrow AI for automotive where China has the leading technologies, licensing will make firms more competitive in China, in Asia and in other global markets.
Reduced value extraction in data and AI fields	China's crackdown on monopolistic and anticompetitive practices means better pricing and terms when using the platforms, financial and other services of local Big Tech firms.
Combine China's narrow AI and the US' general AI capabilities in emerging AI-intensive industries	China has an arguable advantage in competitive narrow AI fields. By comparison, the US is much more innovative in general AI fields. The ideal multinational firm strategy will combine both.
(b) Risks and mitigation	
Non-compliance with Chinese law	Proactively invest in understanding regulations, reach out to authorities for regulatory guidance, and push forward coordination mechanisms.
Country of origin AI dilemma	Foreign firms in China naturally prefer AI platforms and technologies from the West but must also consider the increasing risk that Chinese regulation might target foreign firms using non-Chinese AI technologies. Choosing Chinese AI technologies might mitigate these risks. However, this is a double-edged sword as this approach comes with operational and other risks for foreign multinationals.
Data unavailability	Specific policies and technology upgrades must be developed to increase data access levels, data standardization, and data connectedness. Enhance the adoption of digital and analytics technologies in Chinese operations, including implementing Internet of Things sensors across manufacturing equipment, applying data science tooling and platforms for factory production lines, advancing cloud infrastructure, investing in AI research and advanced AI techniques, etc.
Insufficient AI talent	As in other countries, there is a chronic talent gap in AI fields. Therefore, foreign firms in China must prepare for systematically training and upskilling their existing AI experts, including newly hired data scientists and AI engineers. Beyond this, specialist on-the-job AI training for all employees across different functional areas is essential so that they can lead various digital and AI projects across the enterprise.
Home market impact of AI in China risk-mitigation strategies	After weighting the risk/return of Chinese data regulations and localized AI solutions, evaluate how a 'China for China' (or 'China for Asia') AI approach can be tenable and work in the context of the firm's international strategy.

Figure 3.9: China's digital and AI economy and foreign businesses

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- ⁵ Newman, J. (2023, May 3). Apple is a Chinese company. *The Financial Times*. Retrieved from <https://www.ft.com/content/bf8e3846-2421-4f91-becf-2dfe39ec9941>

4. Appendices

Demographics: Descriptive statistics for the 2023 survey respondents

The Appendices to this report are comprised of data on how Swiss firms view the Chinese legal environment and dispute-resolution process and descriptive statistics of the 2023 survey respondents, such as firm type, sector, and turnover.

PART IV

4.1 Further survey statistics: Legal disputes in China

While sales profits and investment growth expectations declined, China remains a top priority investment market for Swiss businesses.

Do you have any legal disputes in China?

Q3.4

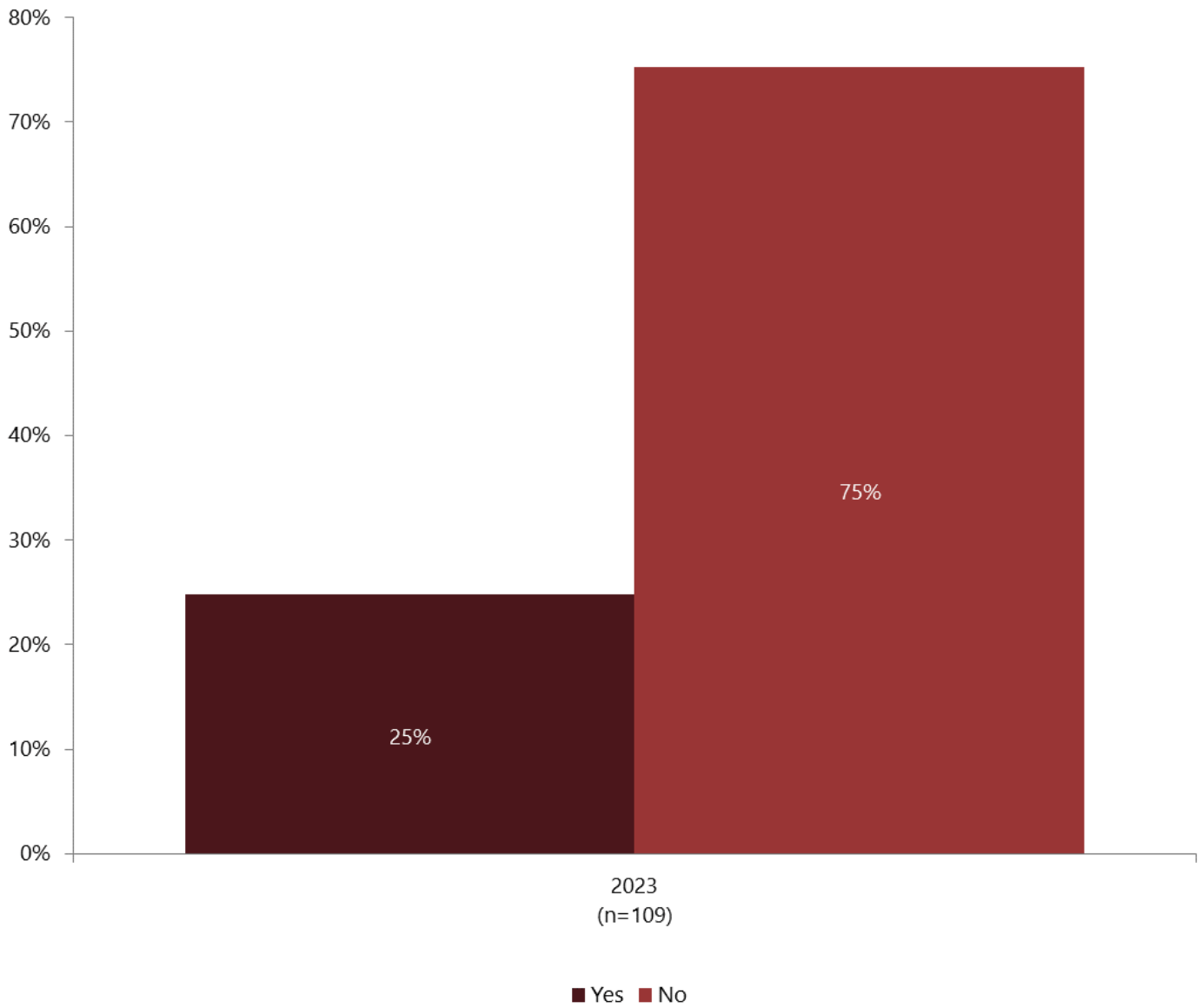


Figure 4.1: Businesses facing legal disputes in China

Q3.5

If you should have been facing legal disputes in China, how do you estimate your chances of success when taking legal action in China in these situations?

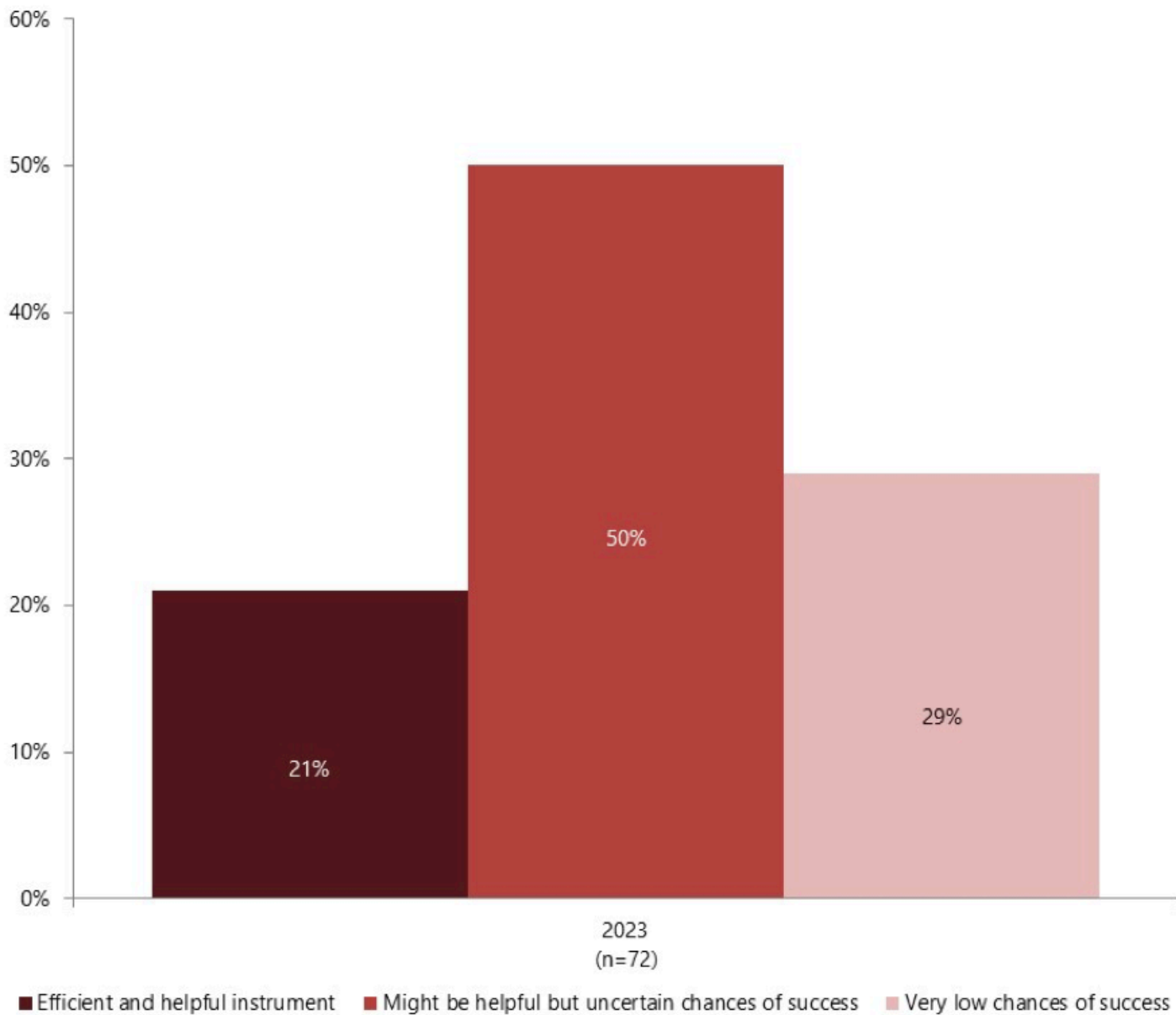


Figure 4.2: Success rate of businesses facing legal disputes

Q3.5.1

What are the most common legal issues? (Multiple selection)

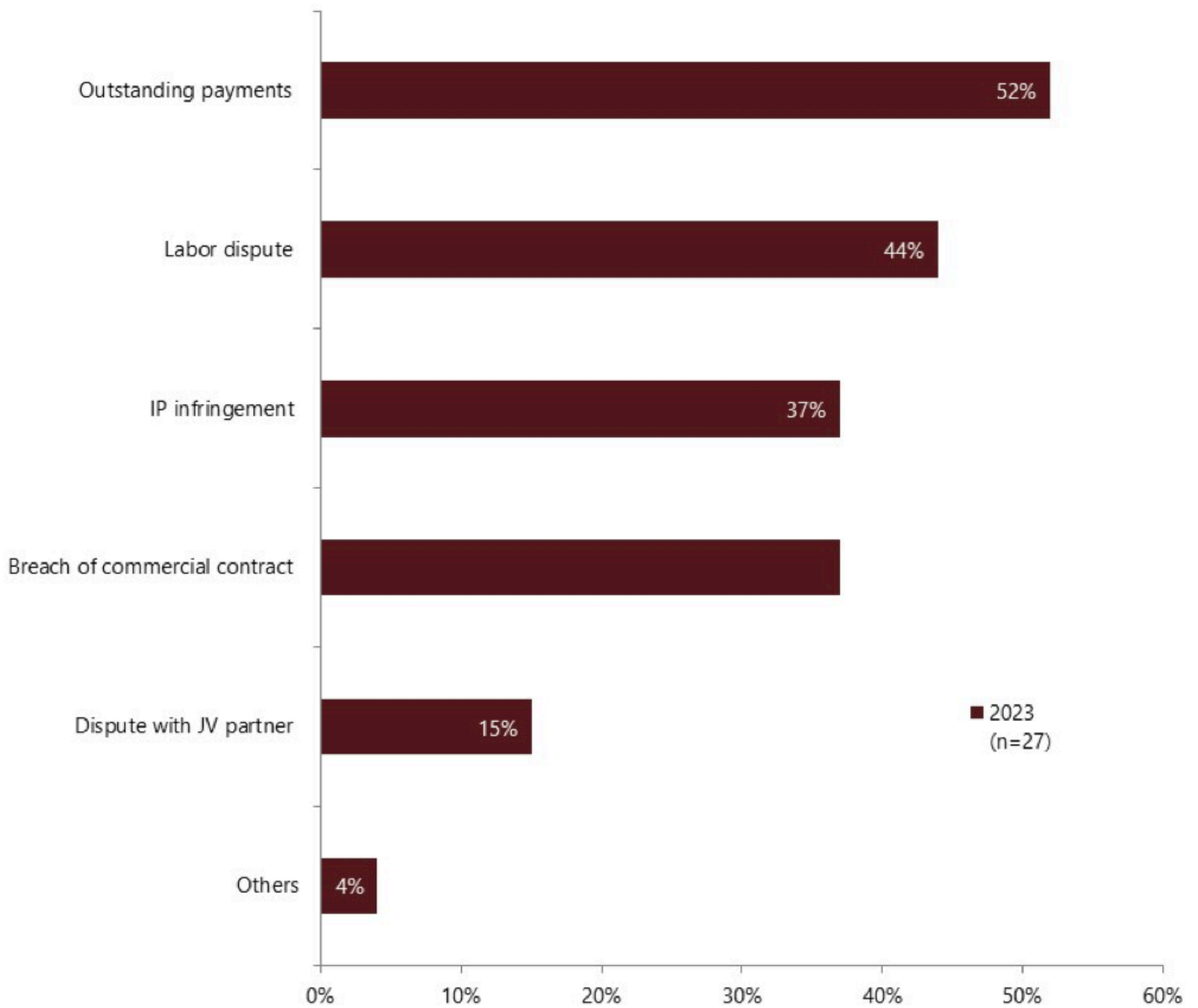


Figure 4.3: Most common legal dispute issues faced by Swiss businesses in China

4.2 Demographics: Descriptive statistics for the 2023 survey respondents

While sales profits and investment growth expectations declined, China remains a top priority investment market for Swiss businesses.

Sales

Q2.1

What are your company's forecasted total China sales for 2023?

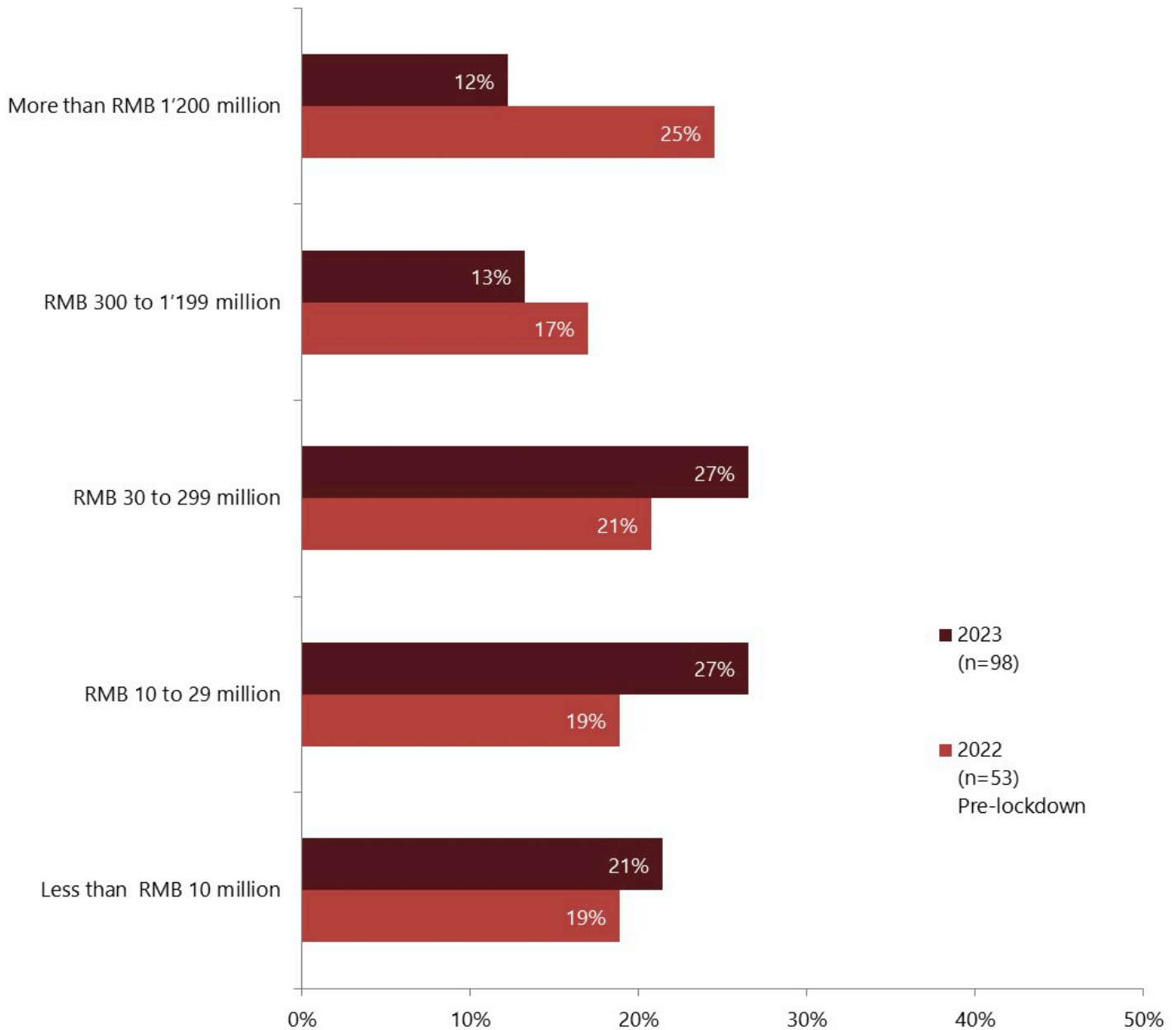


Figure 4.4: Forecasted total China sales of Swiss businesses

Q1.8

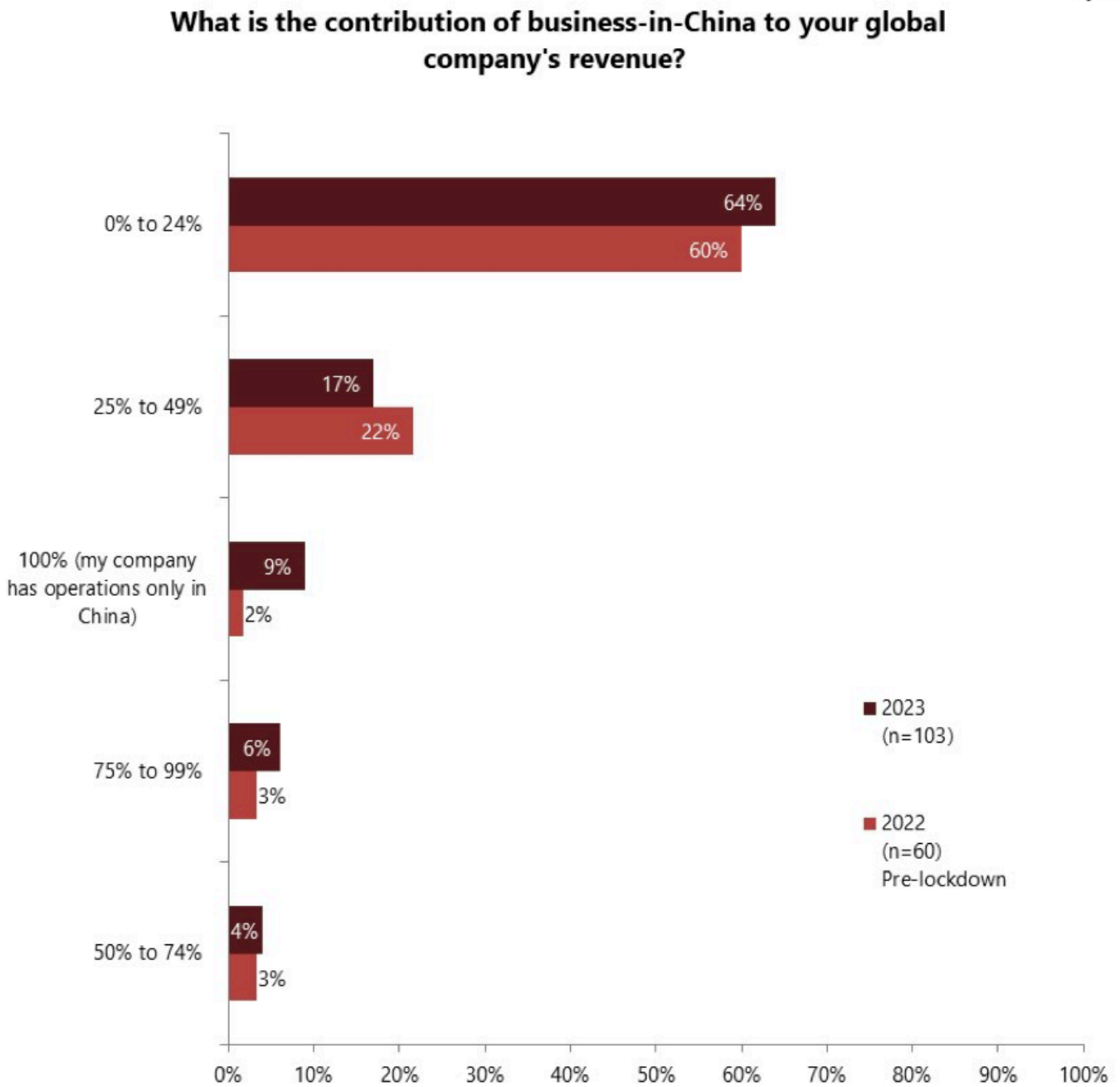


Figure 4.5: The contribution of Chinese business to Swiss firms' total global revenue

Q1.2

**What is the ownership structure of your company
(the company you work for)?**

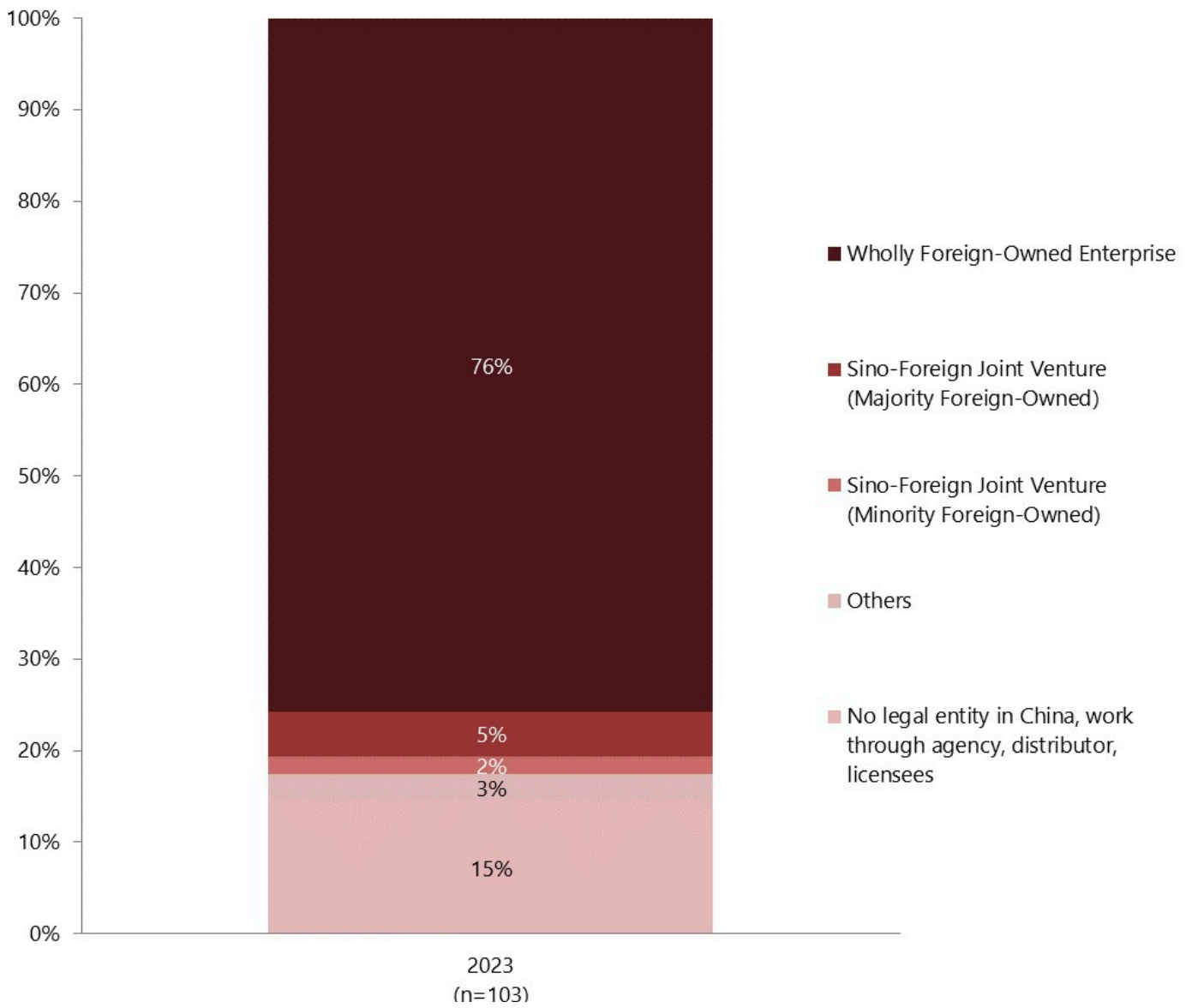


Figure 4.6: Corporate ownership structure

Q1.3

Is your company listed?

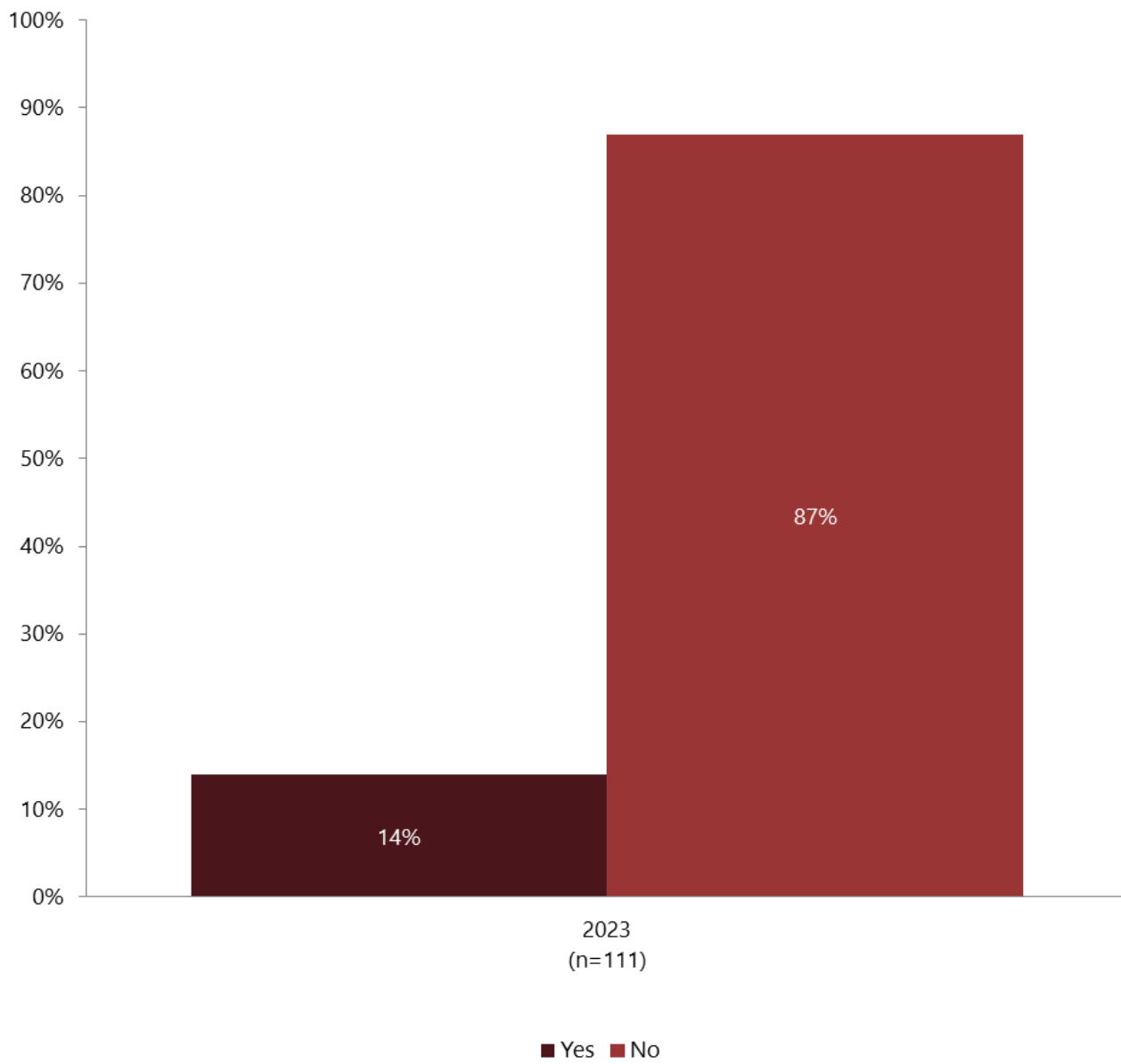


Figure 4.7: Public vs. private company type of survey respondents

Q1.5

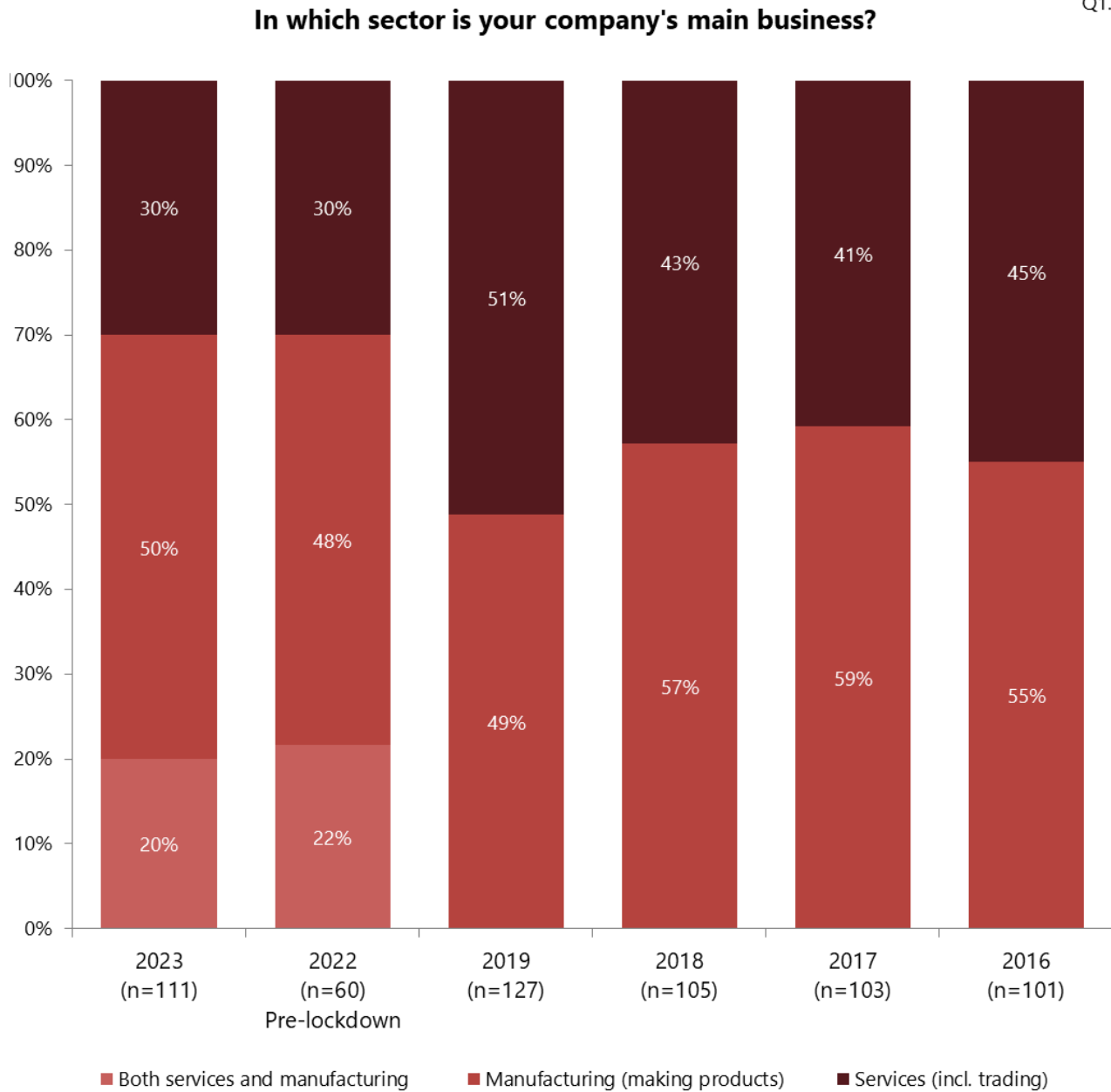


Figure 4.8: Business sector of Swiss companies in China

Q1.7

What are the end customer groups for your Chinese business?

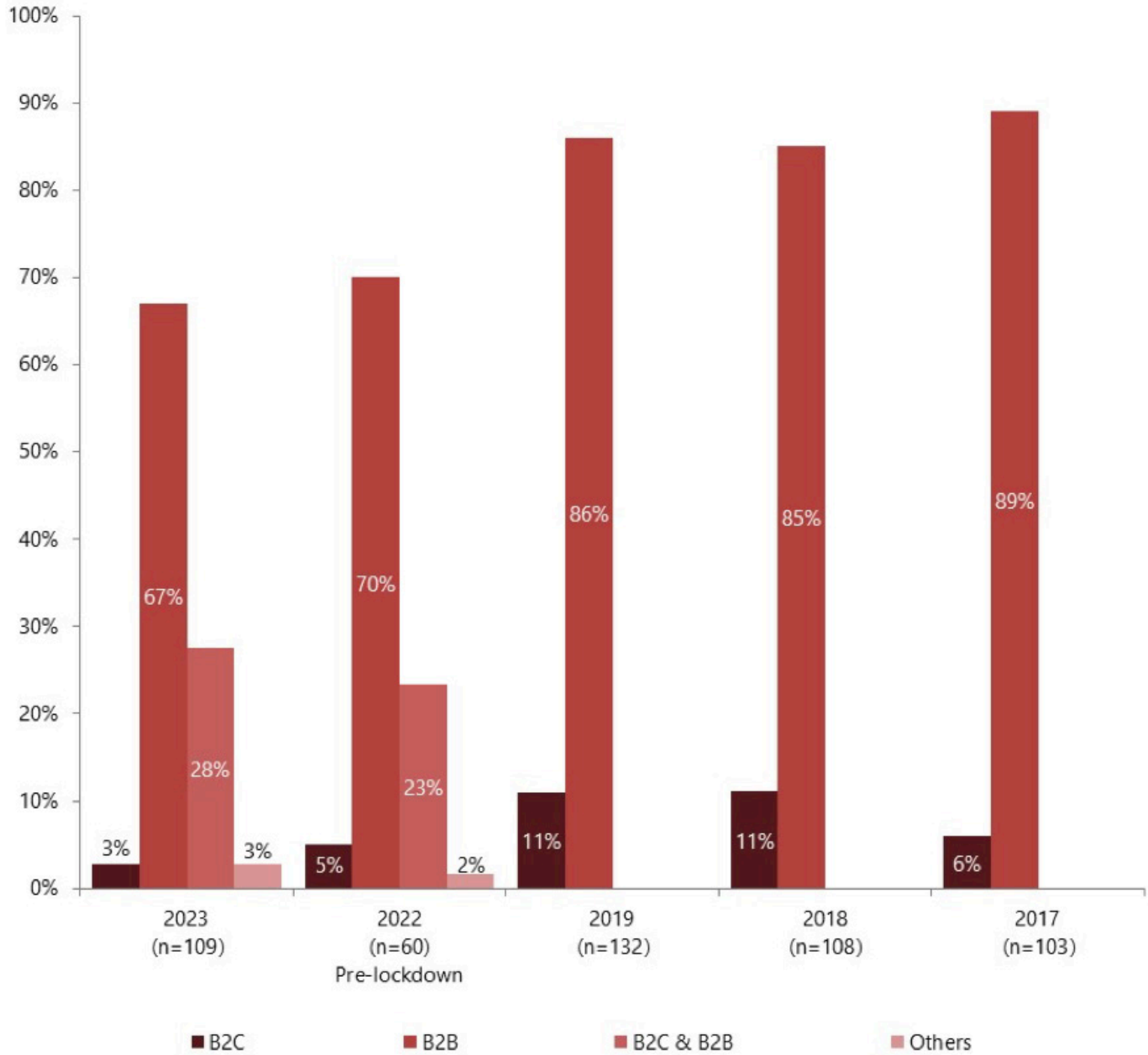


Figure 4.9: End customer groups of the Chinese business

Which market segments are your company's main product and/or services aimed at? (Multiple selection)

Q1.6

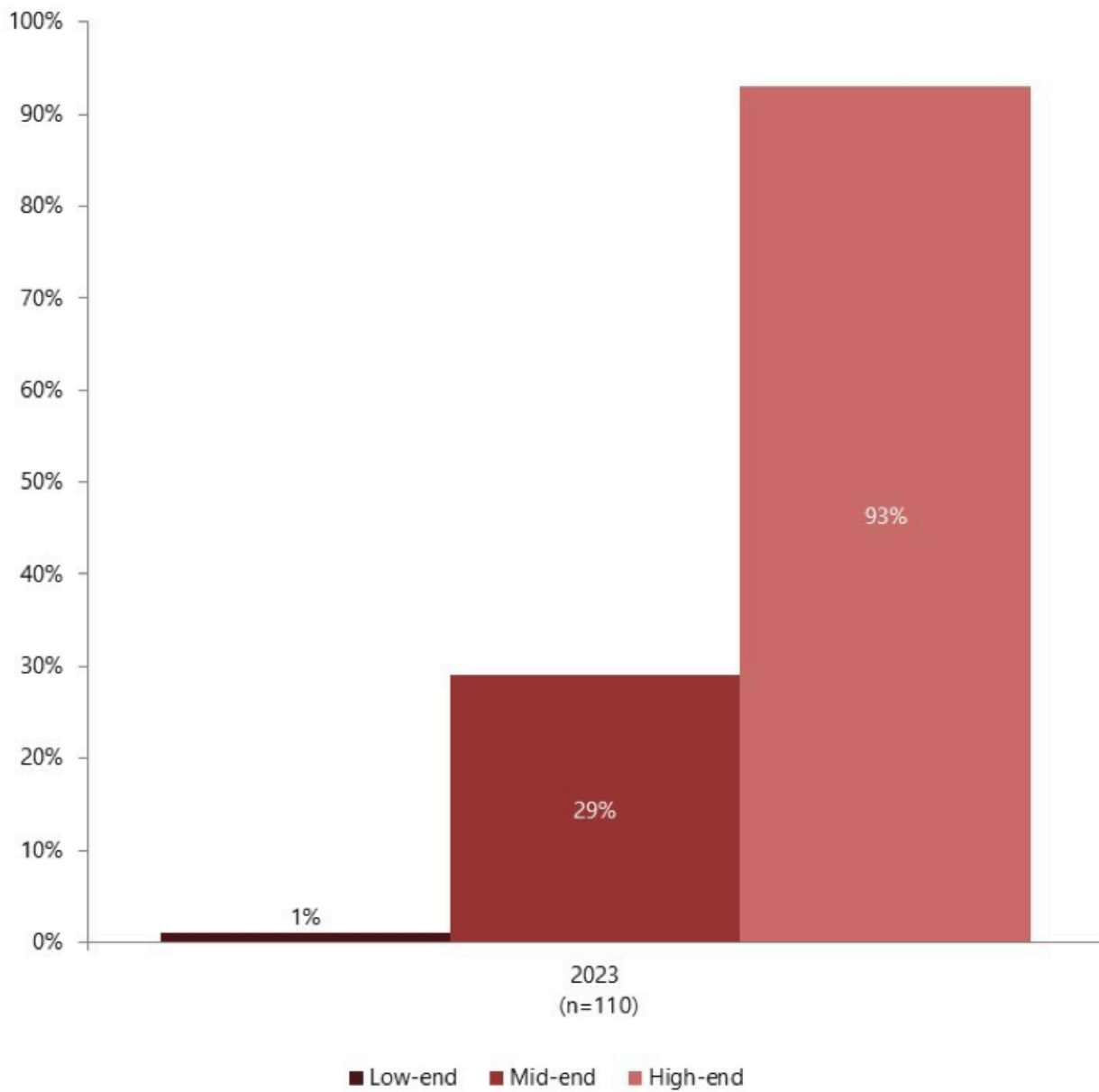


Figure 4.10: Positioning of Swiss companies' products and services in the Chinese market

Q9.3

How many years of management experience in China do you have?

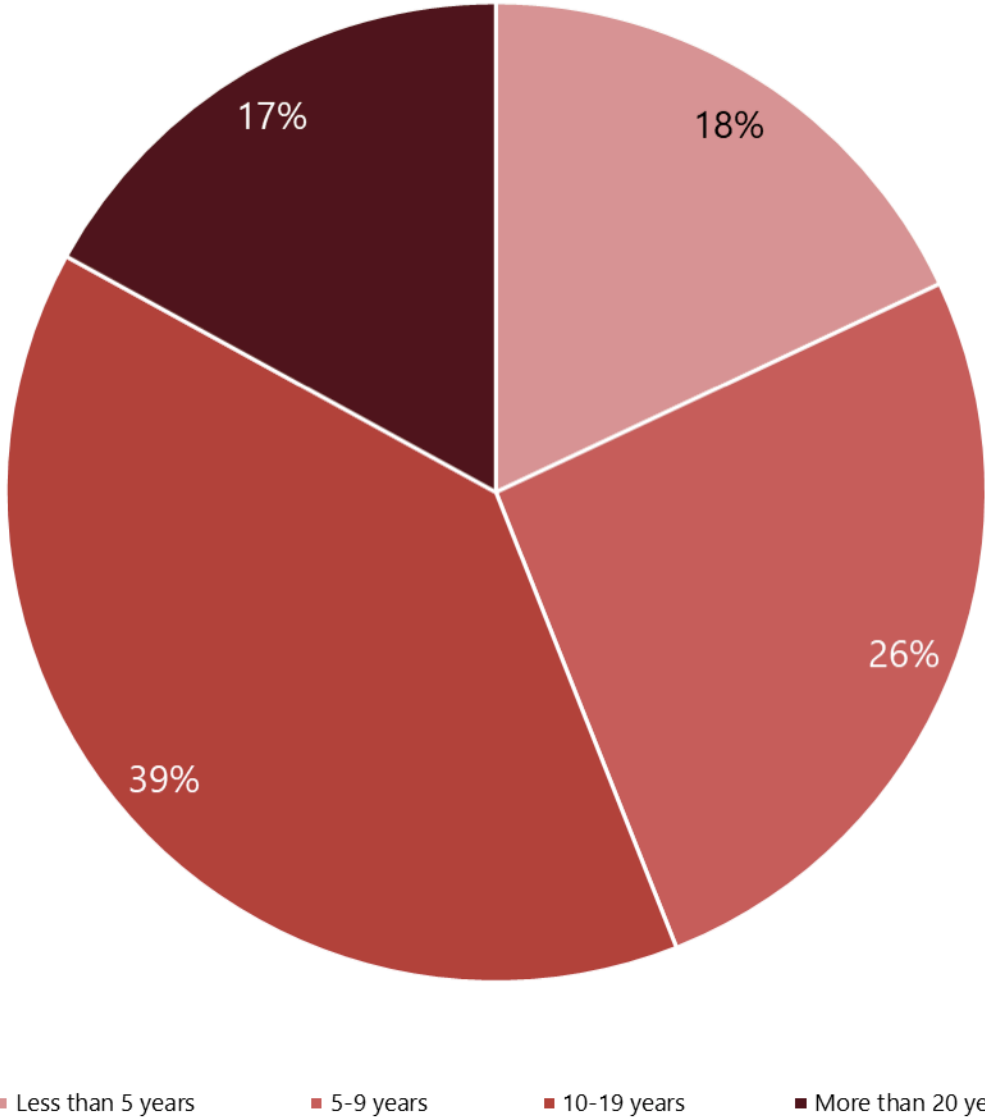


Figure 4.11: China management experience of survey respondents

Q9.4

Where do you originally come from?

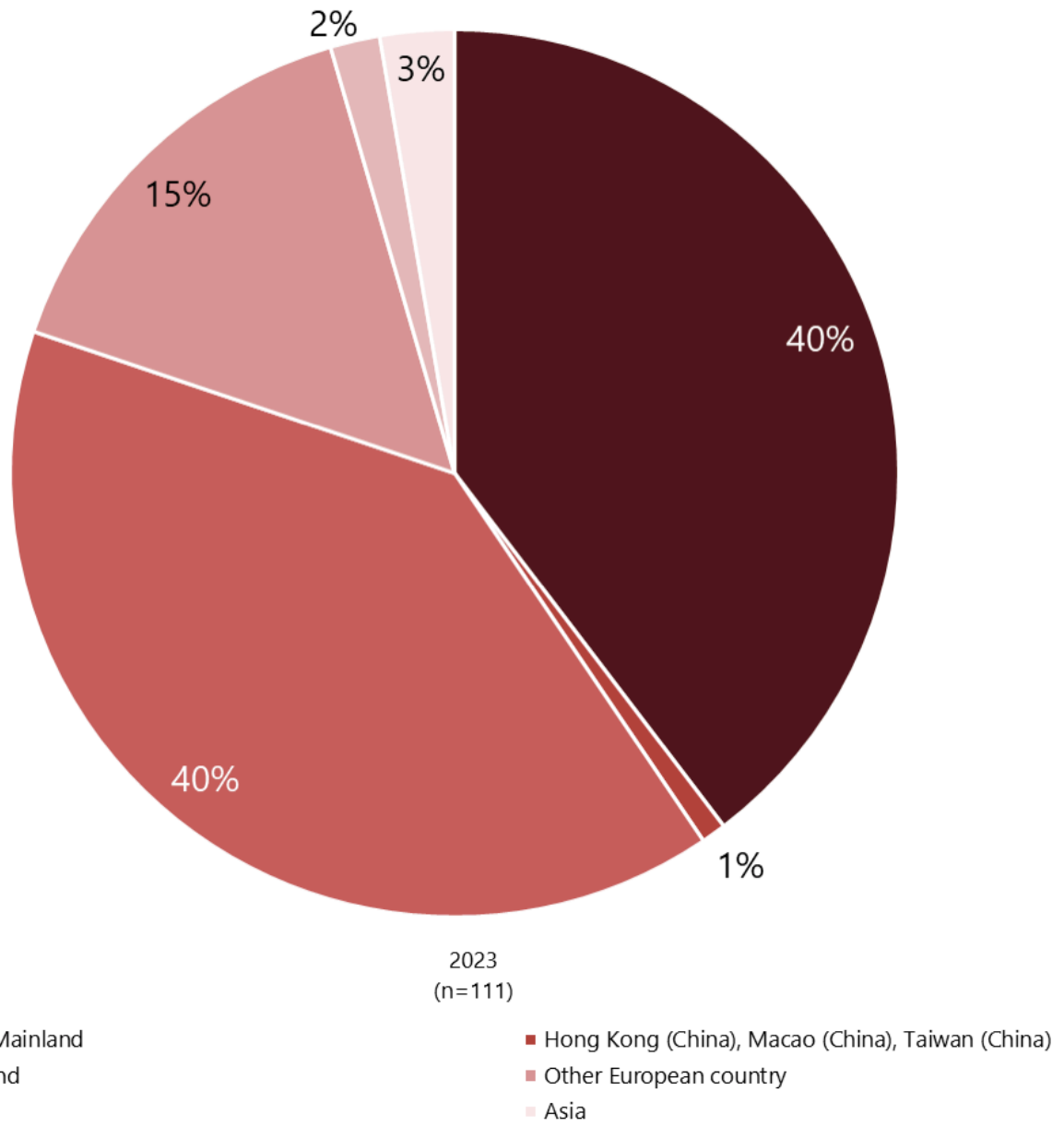


Figure 4.12: Nationality of survey respondents

Q9.2

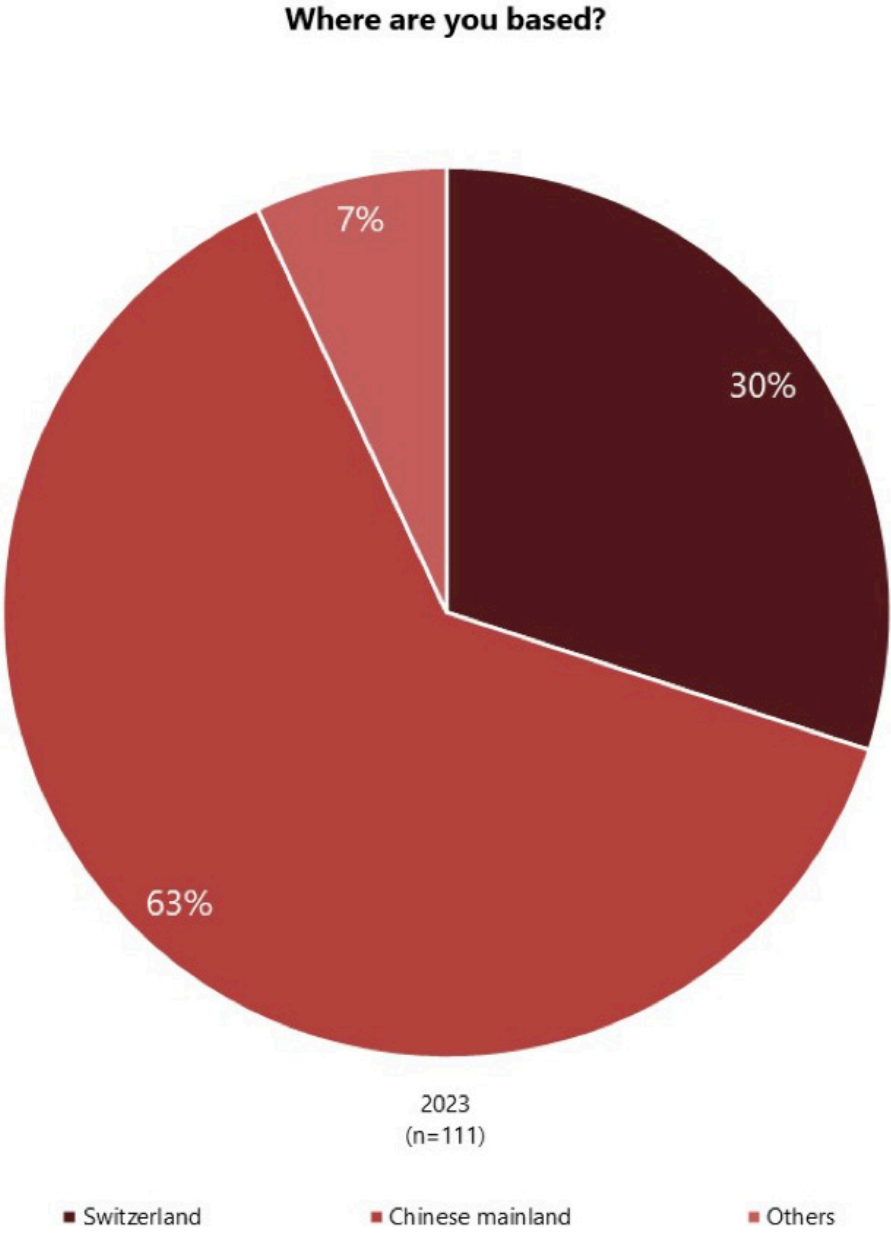


Figure 4.13: Location of respondents

Q9.1

What is your position in the company (please choose the closest to your position)?

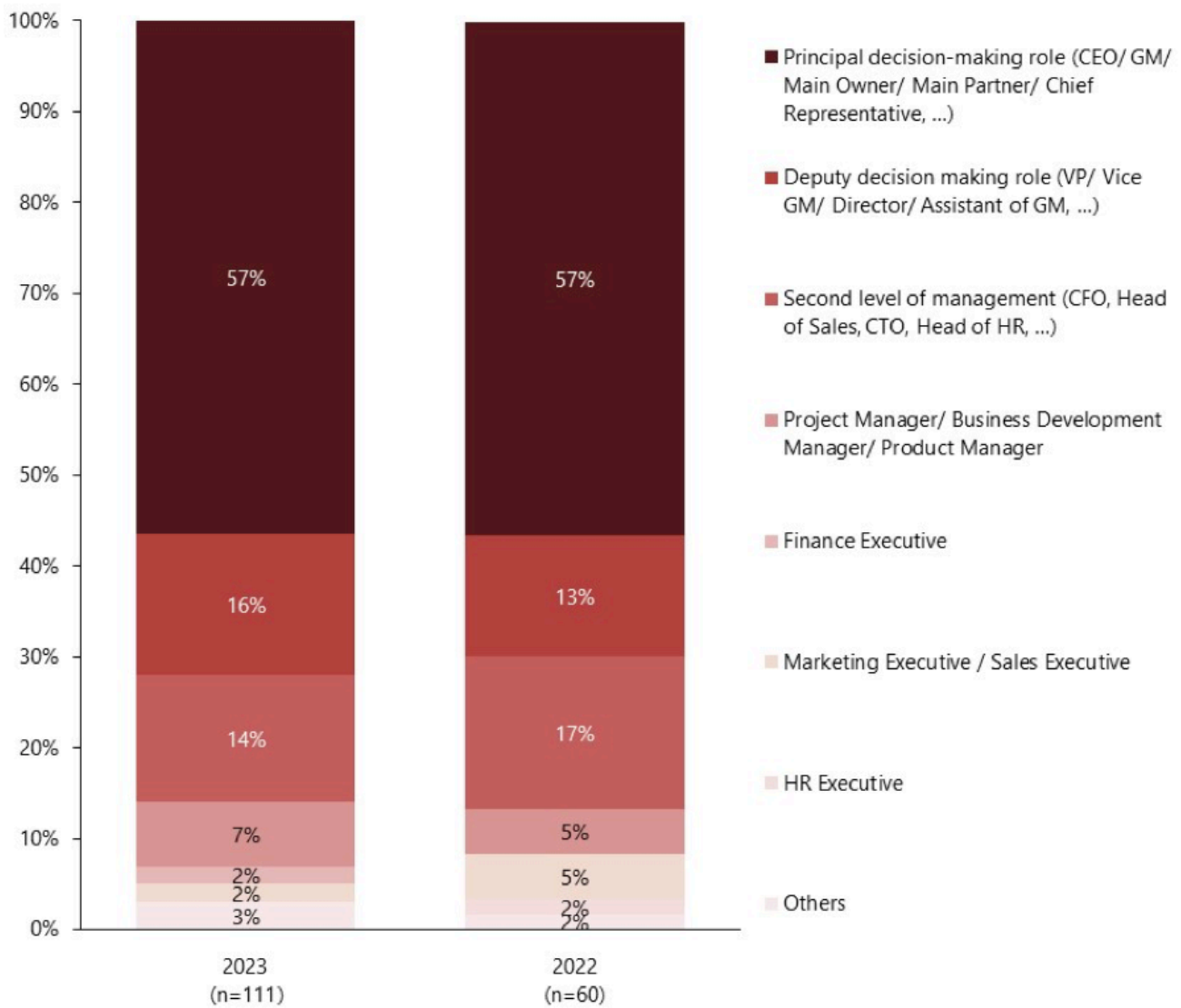


Figure 4.14: Respondent's job position within the company

The *Swiss Business in China Survey 2023* is the second such inquiry carried out since the start of the pandemic and follows previous editions published between 2006-2020, and, after a COVID-induced hiatus in 2021, the 2022 report.

Due to the Chinese government's lifting of the zero-COVID restrictions in the midst of the data collection process, this survey is unique in that it is able to compare the perceptions of Swiss businesses both prior and subsequent to the end of COVID-19 restrictions. Additionally, since the Chinese government went from a strict zero-COVID policy to no restrictions at all in the space of a few weeks—and since we interrupted the data collection process during that transition—the results present a clear differentiated picture of how these two very different policies impacted the business environment.

The editors, authors and survey team hope that the results will be useful in benchmarking the activities of Swiss and other foreign firms in China. Moreover, the analyses may assist business decision-making and increase the overall level of understanding of the Chinese market with its unique challenges and opportunities.

Most of all, the authors hope that this report will contribute to creating more successful business opportunities for Swiss companies in post-pandemic China.



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