

Restricted Internet access hampers business activity and development of German companies in China

Results of the German Chamber of Commerce in China's Survey on Internet Access and the Chinese Cybersecurity Law

Beijing / Guangzhou / Shanghai, March 31, 2018 - The Business Confidence Survey of the German Chamber of Commerce in China in November 2017 revealed that slower cross-border Internet speed and Internet access restrictions are increasingly among the top ten business challenges German companies face in China. To better assess these challenges and the impact of the Chinese cybersecurity law on German companies in China, the German Chamber of Commerce has turned to its member companies. A total of 216 German companies participated in the survey conducted between 15 and 22 March. The Chinese cybersecurity law creates uncertainty among companies. Moreover, the vast majority of companies report that restricted internet access and restrictions on Internet-based applications significantly hampers their daily business in China. When it comes to VPN connections, 83 percent of surveyed companies consider VPN services as essential to their businesses. Internet access restrictions and slow Internet speed could negatively impact research, development and investment activities of German companies on the Chinese market - without these challenges, the contributions of German businesses to the Middle Kingdom could be even greater than they are today. In times of global digitization and production, unfettered data transfers in accordance with international standards is a prerequisite for creating more jobs and affluence. Therefore, the dialogue on digitization and associated regulatory frameworks between international partners such as Germany and China should be deepened.

Large majority of companies consider their daily business hampered

The vast majority of German companies in China are struggling with slow internet speeds when visiting foreign websites and transferring data abroad. One in two companies also report a slowdown of internet speed and a limitation of their functionality while using business applications, such as enterprise resource planning systems. More than two-thirds of companies report that communication with their headquarters or other branches are affected and for nearly half of the companies, communicating with customers and suppliers is hindered by slower internet speed. Due to the Internet access restrictions, 78 percent have difficulties in accessing foreign websites, while for 58 percent accessing servers abroad and for 42 percent accessing Internet-based business applications is an issue.

German companies consider VPNs and leased lines as necessary for their business in China

Currently, nine out of ten German companies in China use a "virtual private network" (VPN) or a leased line, to ensure secure data exchange with the company headquarters or to access the company's ERP system in Germany. The importance of VPNs and leased lines is emphasized by the fact that 83 percent of the surveyed companies consider this technical solution as critical to their business.

Chinese cyber security law leads to uncertainty among German companies

The new cybersecurity law creates uncertainty for most companies (62%) regarding future compliance. More than 40 percent are concerned about a possible access of third parties to confidential internal company data. 37 percent expect their operating costs in China to significantly increase due to the implementation of this law. For the majority of German companies in China, the relevance of the cybersecurity law is clear: two-thirds have raised awareness in their headquarters and mobilized additional resources. Nearly half have reassessed their existing IT architecture and deployed additional processes such as internal protocols. One third of companies have already relocated their server from abroad to China. 30 percent have implemented additional IT security systems.

Possible effects

The existing slow Internet speed is a longstanding business challenge for German companies in China and the foreseeable upcoming restrictions will reinforce it. Even if these internet related difficulties subsist, 50% of the companies would not implement strategic changes to their activities in China. However, the planned tightening of internet access would make their daily work within the company and between their international partners / customers so difficult that planned investments would potentially have to be reassessed. This is the case for 39 percent of companies - many of them focusing on research and development. However, only 14% would consider relocating their activities abroad. More than a third of companies confirm today that Internet restrictions are already making it difficult to recruit foreign staff into China.

About the German Chamber of Commerce in China

The German Chamber of Commerce in China is the official member organization for German companies in China. By providing up to date market information and practical advice, the German Chamber helps its members to succeed in China. It offers a platform for the Sino-German business community and represents its members' interests towards stakeholders including government bodies and the public. The Chamber was founded in 1999 and currently has more than 2,400 members in mainland China. For more information, please visit: www.china.ahk.de

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