



German Business
in China

Business Confidence Survey

2018/19





BUSINESS CONFIDENCE SURVEY 2018/19

Since 2007, the German Chamber of Commerce in China's Business Confidence Survey has been a key instrument for measuring the business sentiment of German companies operating in China. As of 2018 the German Chamber of Commerce in China has approximately 2,400 member companies, representing about 50% of German companies operating in China. This year's survey was conducted online among member companies in China between August 27th and October 22nd, 2018. In total the survey comprised 52 questions, focusing on business outlook and performance, investment climate, China's reform efforts and deficits, the trade conflict and its consequences as well as Made in China 2025. 423 valid responses were collected, resulting in a representative sample for the analysis of German companies in China.

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EXECUTIVE SUMMARY

BUSINESS CONFIDENCE SURVEY 2018/19

A subdued business outlook and a challenging regulatory environment characterize the business climate of German companies operating in the Chinese market.

Dampened Economic and Business Outlook

China remains a significant market to German companies, but the momentum of recent years has diminished.

Around 40% of German companies perceive the development of the Chinese economy as 'improving' or 'significantly improving'. However, this figure has decreased compared to last year's survey. And German companies' less optimistic outlook stretches into 2019: Nearly 30% expect a worsening of the development of the Chinese economy next year.

On an industry level, 50 percent of German companies in China are still satisfied with the growth potential in their primary market segment. Nevertheless, the three largest German industries in China - Machinery/Industrial equipment, Automotive Industry and Business Services - evaluate 2018 as less optimistic and report to not have met the expectations they had set in the previous year. For 2019, no significant changes are expected.

Around one in two German companies forecast to exceed or fully achieve their business targets in 2018, but the percentage has been decreasing from previous year, as well as expectations for 2019, in this regard.

Further Investments planned

Around two thirds of the German companies plan to further invest in China within the upcoming two years. Investment in staff development and training are the main areas of investment. A notable share of respondents furthermore plans investment in sales, marketing and business development, new manufacturing facilities, as well as Research and Development.

The main reasons for the one third of respondents who do not plan to invest in China within the next two years are the increasing labor costs. Furthermore, the expectation of slower growth in China, the lack of regulatory transparency, predictability and impartiality as well as increased domestic competition were also often stated as the reason.

Trade Conflict, Reactions and Consequences

In 2018, the bilateral relations between China and the US were characterized by the ongoing trade dispute, resulting in mutual implementation of punitive tariffs. In general, relatively few German companies in China are dependent on exports. The majority of German companies in China produce for the local market. Only few companies have larger exports to the USA. The effects of the trade conflict have nevertheless become noticeable for surveyed companies.

Around one third of the respondents stated that they were directly or indirectly affected. Among the directly or indirectly affected companies the majority do not consider changes to their business. And those that do consider changes, shifting focus on other markets - along with production site relocation and product portfolio changes - were considered as the most likely strategic consequences.

Reform Efforts, Deficits and Business Challenges

40 years ago, China's economic opening-up and reforms began, leading to an unprecedented and successful economic development for the benefit of foreign and Chinese companies alike. Around 50 percent of the surveyed companies believe in the Chinese government's commitment to market opening. However, the current market opening rhetoric has not been implemented as expected by German companies in China. Evaluating the government's actions not only in the area of market opening to global investors, but in various fields of the Chinese economic policy, areas such as economic reform as well as the improvement of level playing field are perceived to display rather insufficient efforts by the Chinese Government.

In the field of tension between enormous market opportunities, uncertain regulatory conditions and growing competition, German companies still face various challenges on the Chinese market: Bureaucracy/administrative hurdles, legal uncertainty and an unclear regulatory framework are evaluated as regulatory business challenges. Internet-related challenges such as slow cross-border internet speed and internet access restrictions hamper German businesses in China.

HR-related issues remain unchanged among the most severe operational challenges. Additionally, rising operational costs, general economic slowdown and domestic competition also challenge German companies in China.

Belt & Road Initiative and Made in China 2025

This year's survey contains an assessment of German companies' involvement in the Belt and Road Initiative (BRI) as well as their views on Made in China 2025.

The vast majority of the German businesses in China are not engaged with Chinese partners within the BRI. The most apparent reason for not engaging in the BRI framework is the low relevance of many German companies' industry or business model to the initiative. Compared to last year's survey these shares remained stable.

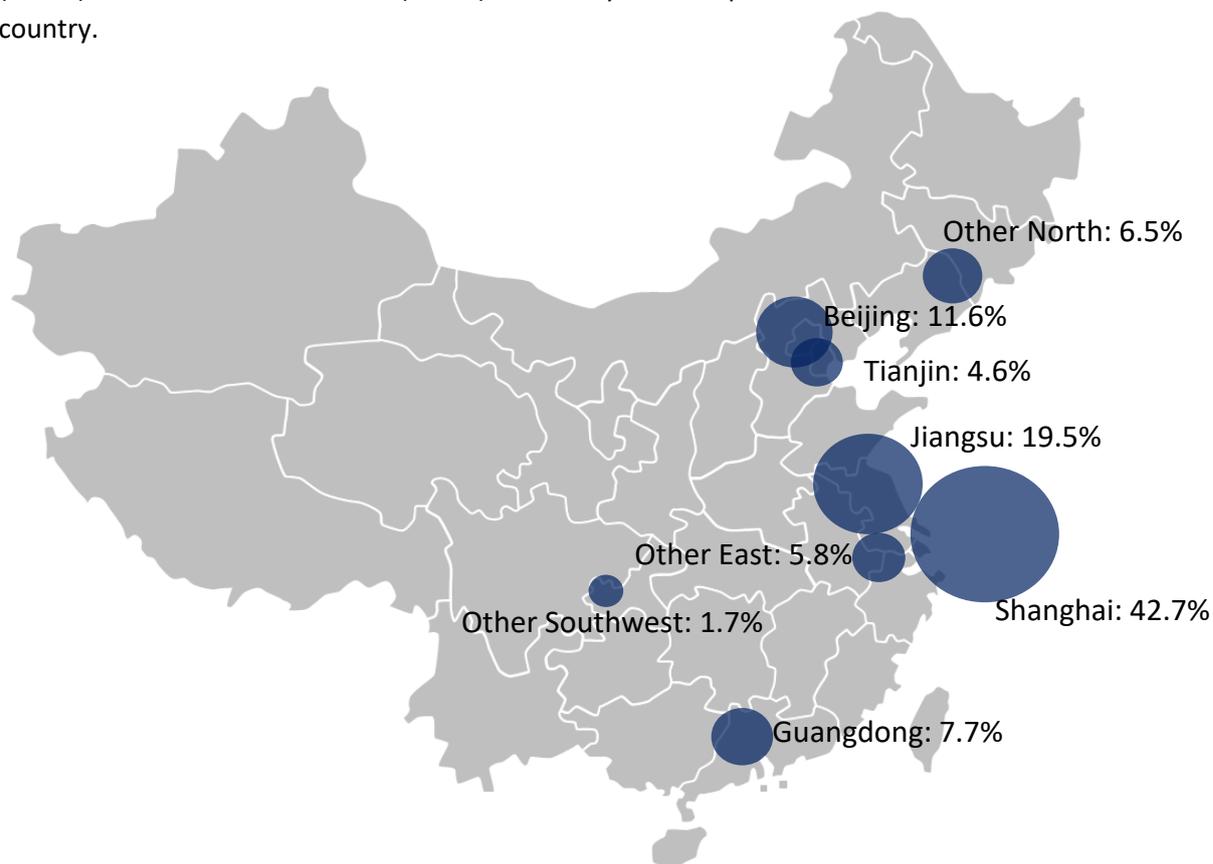
Made in China 2025 is seen as unfavorable by a share of more than 40% of German companies and fails to convince the majority as revenue opportunity. Most surveyed companies have not benefitted from Made in China 2025 financial support schemes or are not aware of them. Furthermore, a lack of information as well as beneficial treatment of Chinese companies in tenders were reported.

Profile of Responding Companies

The background features several overlapping geometric shapes in various shades of blue. On the left, there is a large, light blue semi-circle. In the center, a dark blue semi-circle is partially overlapped by a medium blue semi-circle. To the right, there are several rectangular shapes in different shades of blue, some overlapping each other, creating a layered, abstract composition.

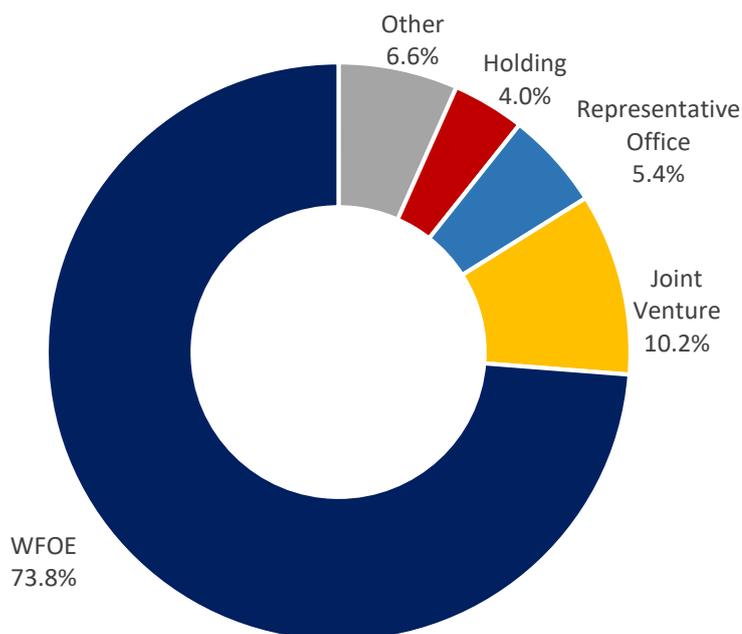
In which city in mainland China is your company located? (n=423)

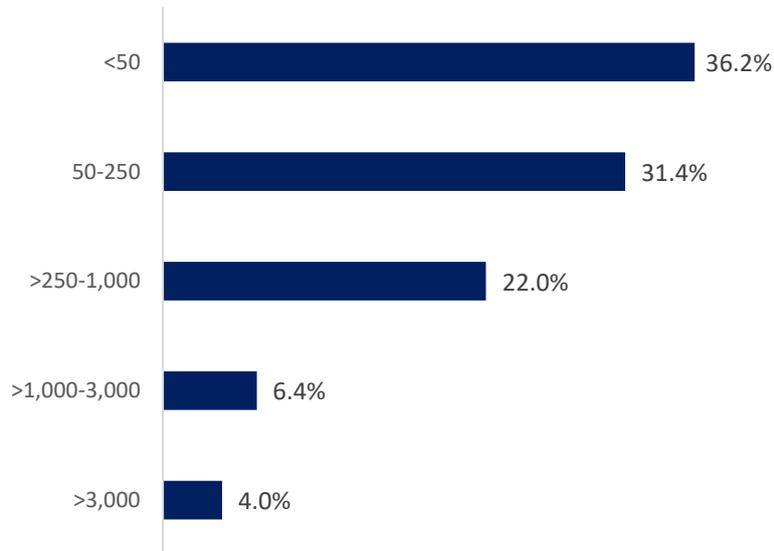
The majority of German businesses in China is located in coastal areas, thereby especially concentrating in the main economic clusters of the Yangtze Delta (East), the Bohai Economic Rim (North) and the Pearl River Delta (South). Relatively few companies are located at the interior of the country.



Please indicate the legal status of your company in China. (n=423)

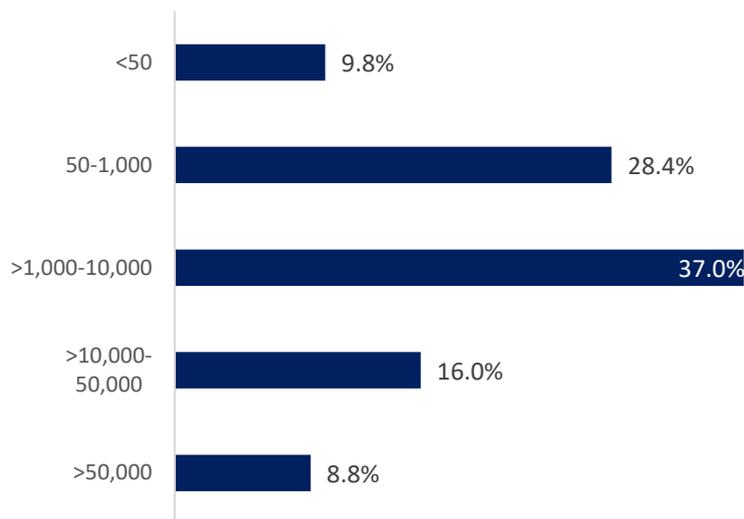
Most German companies in China are organized as Wholly Foreign Owned Enterprise (WFOE), constituting 73.8% and by far exceeding Joint Venture (10.2%), Representative Office (5.4%) and Holding (4.0%)





Please indicate the number of employees working at your company's local operation. (n=423)

Small and medium enterprises (SMEs) still constitute the largest share among German companies in China. However, the share of companies employing a maximum of 250 employees accounts to 67.6%, which means a decrease compared to last year's survey (71.4%). Contrary, companies with more than 1,000 employees working at the operation in China do now make up 10.4% (2017: 9.2%).

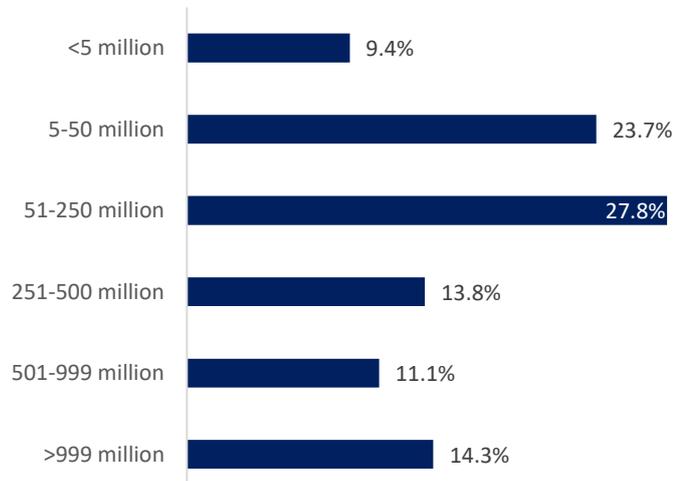


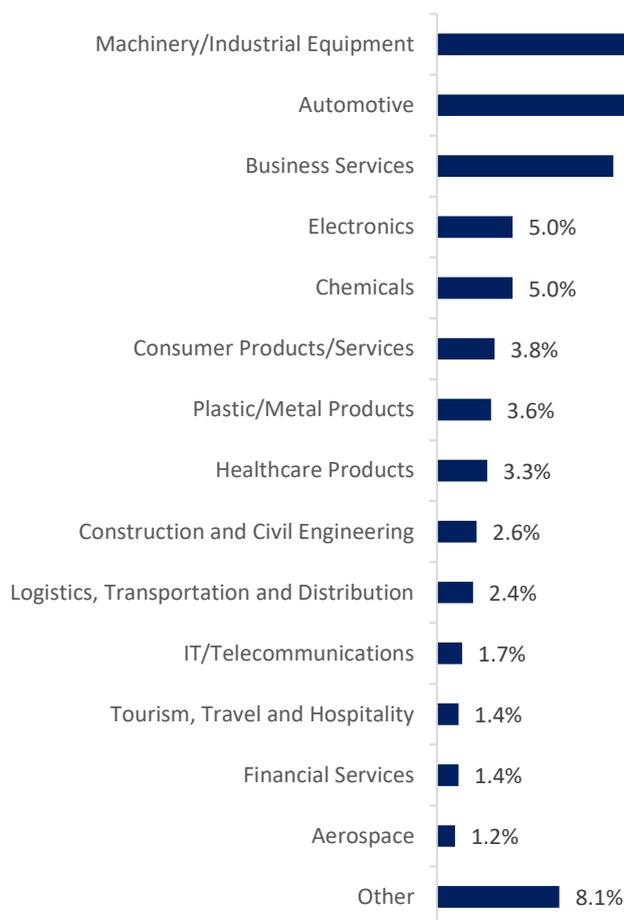
Please indicate the number of employees working at your company worldwide. (n=419)

Many German companies operating in China employ 4-digit or 5-digit numbers of employees worldwide. 61.8% indicated at least 1,000, 24.8% at least 10,000 and 8.8% even more than 50,000 as the total headcount in their company.

Please indicate your local operation's annual turnover for 2017 in RMB. (n=414)

The high prevalence of German SMEs in China is also expressed in turnover figures. 60.9% stated that their (local operation's) 2017 revenue was below RMB 250 million.



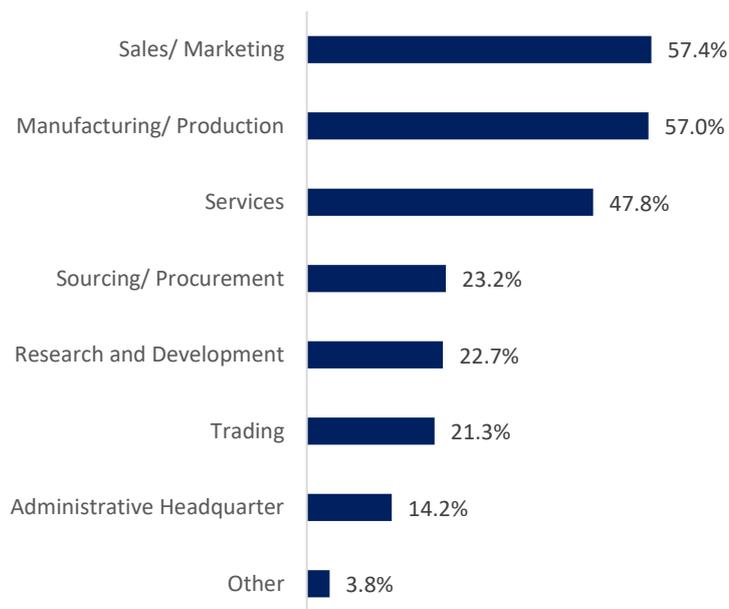


Please specify the main industry of your company. (n=423)

Traditionally, German companies in China abundantly engage in industries such as Machinery/Industrial Equipment and Automotive – summing up to 48.8% of this year’s respondents. Furthermore, 11.7% engage in Business Services. The remaining 39.5% consist of companies from a broad range of different industries.

Please indicate your local entity’s main field of business. (n=423)

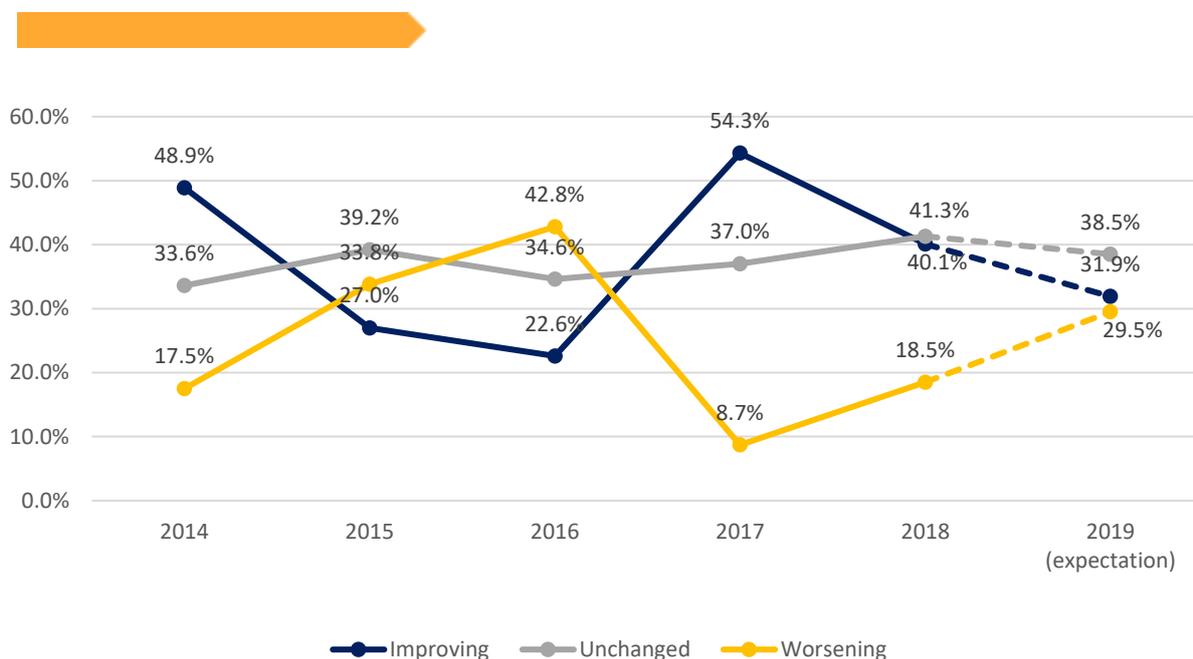
Sales/Marketing (57.4%) and Manufacturing/Production (57.0%) were indicated as main fields of business by more than half of the respondents, while Services (47.8%) were chosen by nearly half of participating companies.





Economic and Business Outlook

How do you evaluate the development of the Chinese economy in 2018 and expect its development for 2019? (n=422)



In the first three quarters of 2018, China’s economy grew by 6.7% vis-à-vis the same period in the previous year. GDP growth rates thus remain stable and slightly exceeded the overall growth target of the Chinese government. However, the latest figure for the third quarter displays a decreased growth rate (compared to the equivalent quarter of the preceding year):

2017 Q4: 6.8%

2018 Q1: 6.8%

2018 Q2: 6.7%

2018 Q3: 6.5% (Source: NBS)

Asked for the evaluation of the development of the Chinese economy in 2018, around 40.1% of German companies perceive the development as ‘improving’ or ‘significantly improving’ – 14.2 percentage points less than in 2017. 18.5% rate the development as ‘worsening’ or ‘significantly worsening’, which means an increase compared to the previous survey (more than doubled).

The observed development for 2018 has furthermore not fully met last year’s rather optimistic expectation for 2018 (as captured in the 2017/18 BCS – 53.5% expected an improving situation, while only 9.0% expected a worsening development).

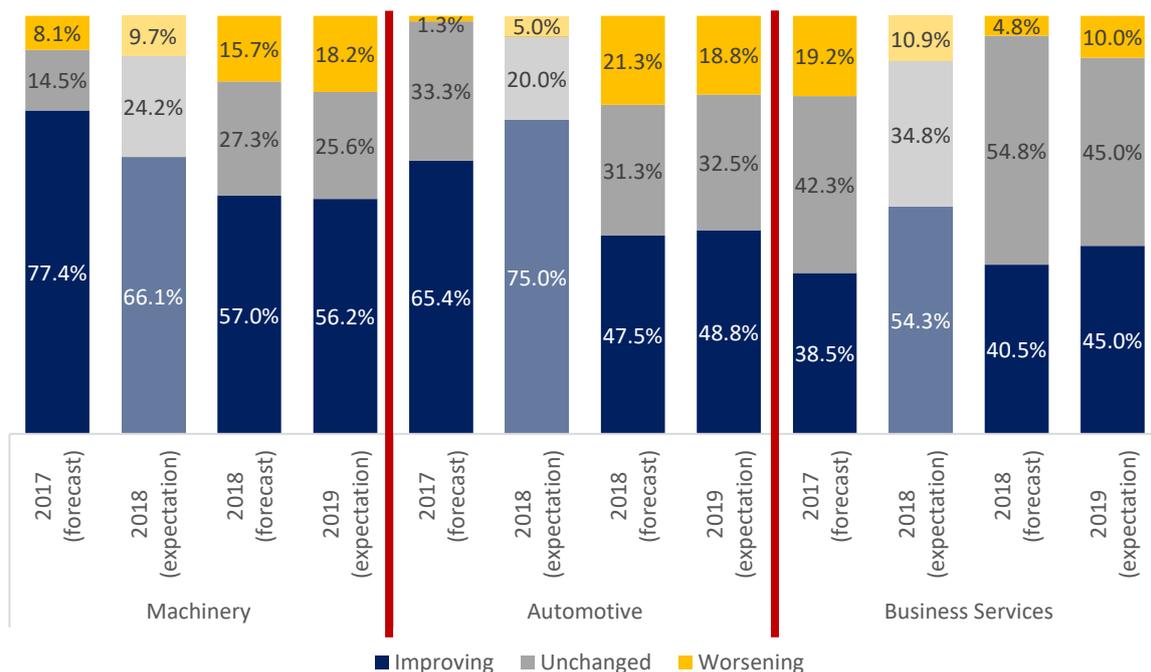
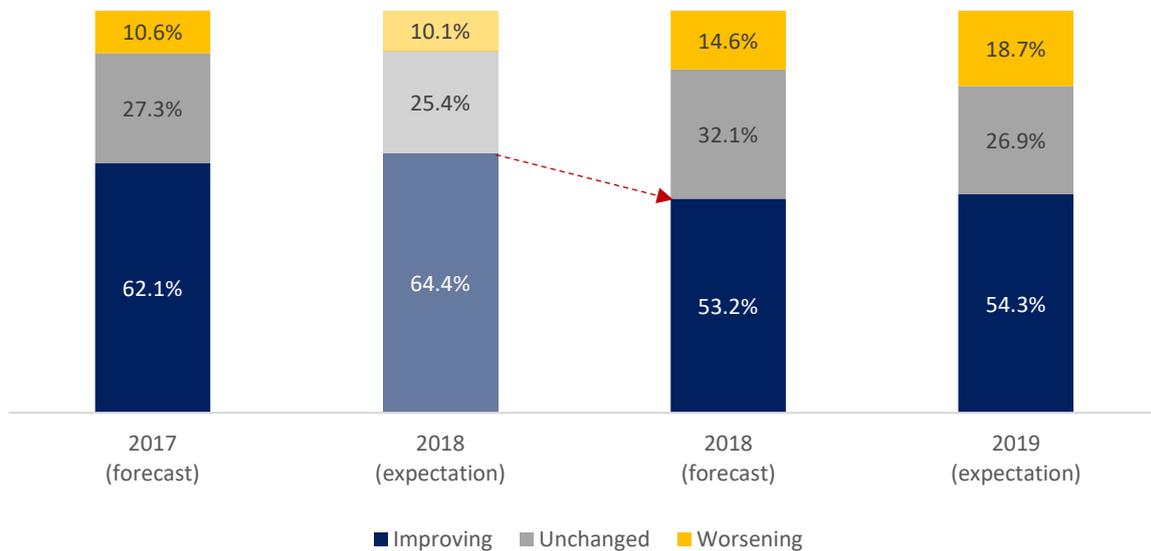
For 2019, leading international institutions such as World Bank, Asian Development Bank or IMF predict a slowing growth rate in the range on 6.2%-6.3%. Since China strives for a transition towards more sustainable growth, a further slowdown of economic growth rates needs to be expected in the medium-term.

German companies’ economic outlook for 2019 shows some conformity with the general expectations, as the share of respondents indicating ‘worsening’ or ‘significantly worsening’ expected development for 2019 bounces up to 29.5%, while only 31.9% expect an improving trend.

How do you evaluate the development of your industry in China in 2018 and expect its development for 2019? (n=420)

With 53.2% evaluating the development of their respective industry in China as improving or significantly improving, the majority among German companies remains contently. However, this figure decreased as compared as to 2017 (62.1%). Moreover, the percentage of companies deploring worsening industry development increased by 4 percentage points to 14.6%. Also on industry level, the development for 2018 shows deviations from the expectations set up in the previous year (as captured by 2017/18 BCS – 64.4% expected an improving industry development, 10.1% a worsening trend).

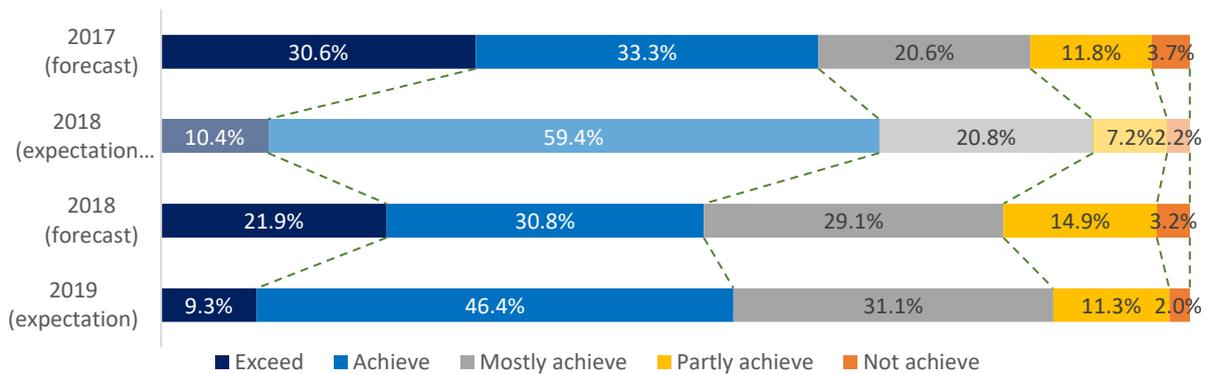
Meanwhile, the expectation for 2019 mostly overlaps with the perception of 2018 – with the share of respondents expecting improving industry development at 54.3% and 18.7% having a pessimistic industry outlook.



To what extent will you be able to achieve your business targets in 2018 and what are your expectations for 2019? (n=402)

The majority of German companies (52.7%, 11.2 percentage points less than 2017) forecasts to exceed or fully achieve their business targets in 2018 with additional 29.1% indicating to mostly achieve their targets. However, 18.1% of the respondents replied that they did not – or only partially – achieve their respective targets for 2018.

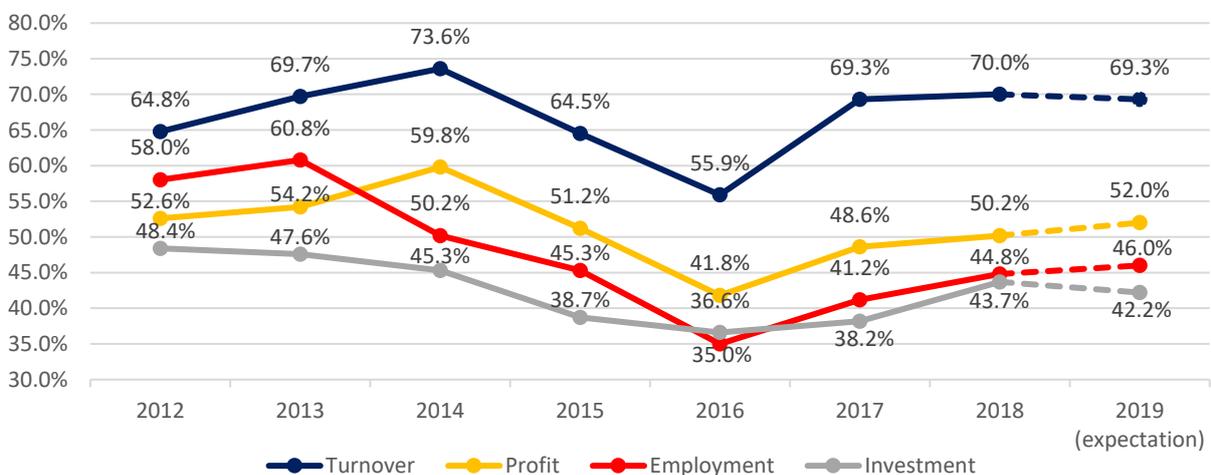
With regards to 2019, 9.3% expect to exceed the goals, while 46.4% are confident to achieve the business targets for the upcoming year.



Please indicate the year on year development for your company in China in the following areas. (n=401)

70.0% of the respondents forecast a turnover increase of at least 5% in 2018. For profits, this figure accounts to 50.2%, for investment 43.7% and for employment 44.8%. All these indicators show slight increases as compared to 2017 levels. However, turnover and profit figures did not meet the expectations set up in 2017 – in the BCS 2017/18, 75.2% expected turnover increases and 61.1% profit increases of at least 5% for 2018. The expectations for 2019 do not show any significant deviations to the forecast for 2018 in all four areas.

Share of respondents indicating a growth in underlying indicators of at least 5%

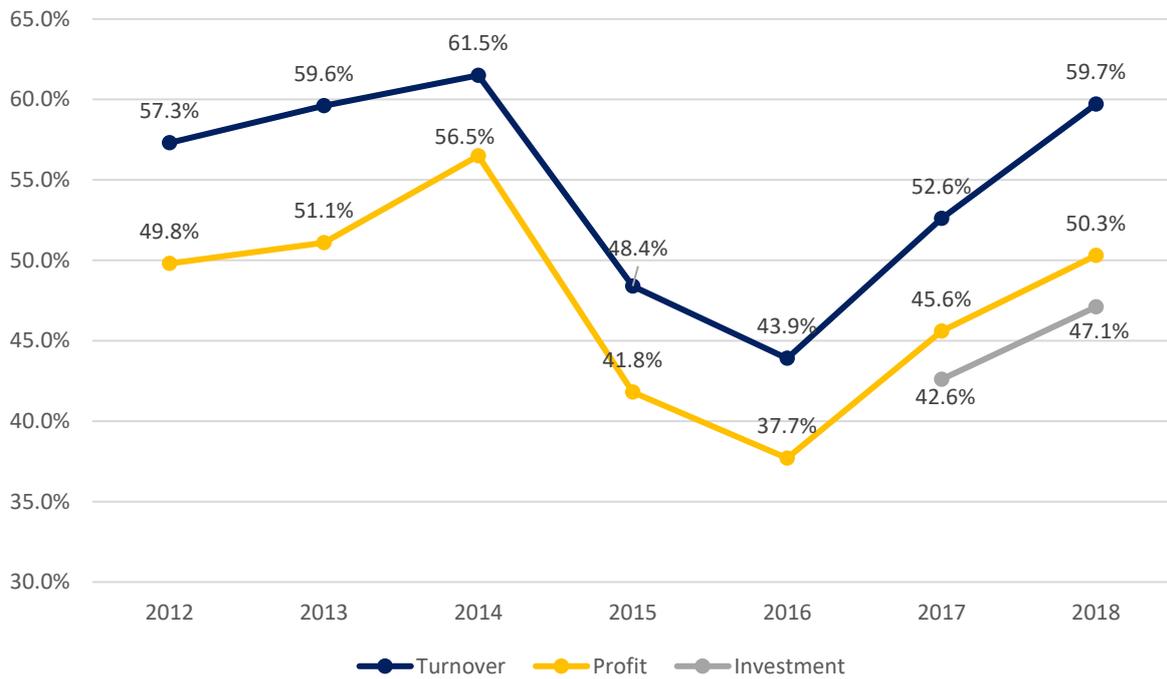


What is the status of your company's China business within your parent company's global turnover, profit and investment? (n=370)



The Chinese market is of great significance for German companies operating in it. Three of five respondents indicate China as among the Top 3 markets in terms of global revenue (59.7%). In terms of global profit this figure accounts to 50.3% and 47.1% for investment respectively. All these three figures thereby show increases compared with last year.

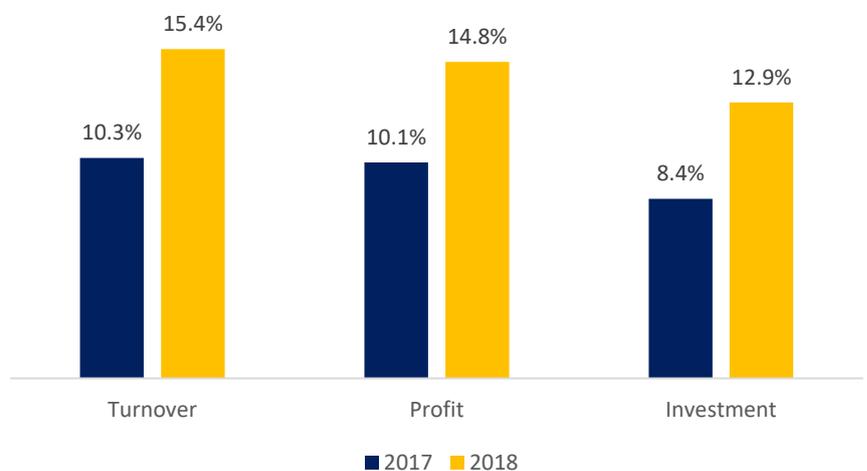
Share of respondents indicating that China is among Top 3 markets



Share of companies that quote China as the Top 1 market is rising compared to 2017 in all indicators.



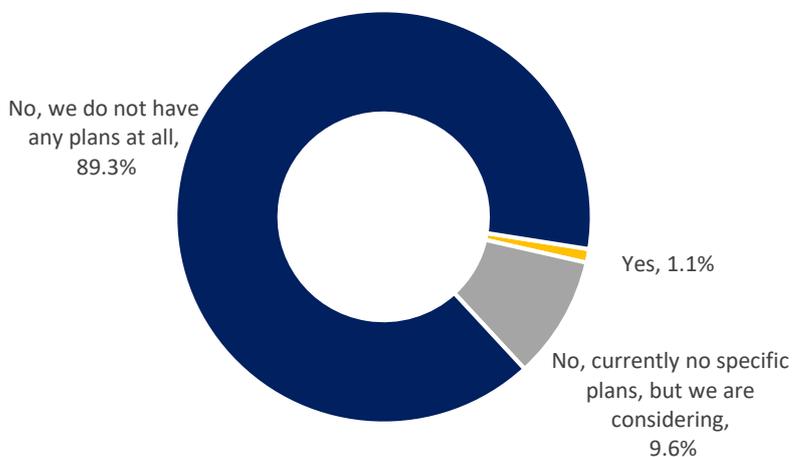
Share of respondents indicating that China is their Top 1 market



Does your company plan to leave China within the next two years? (n=375)



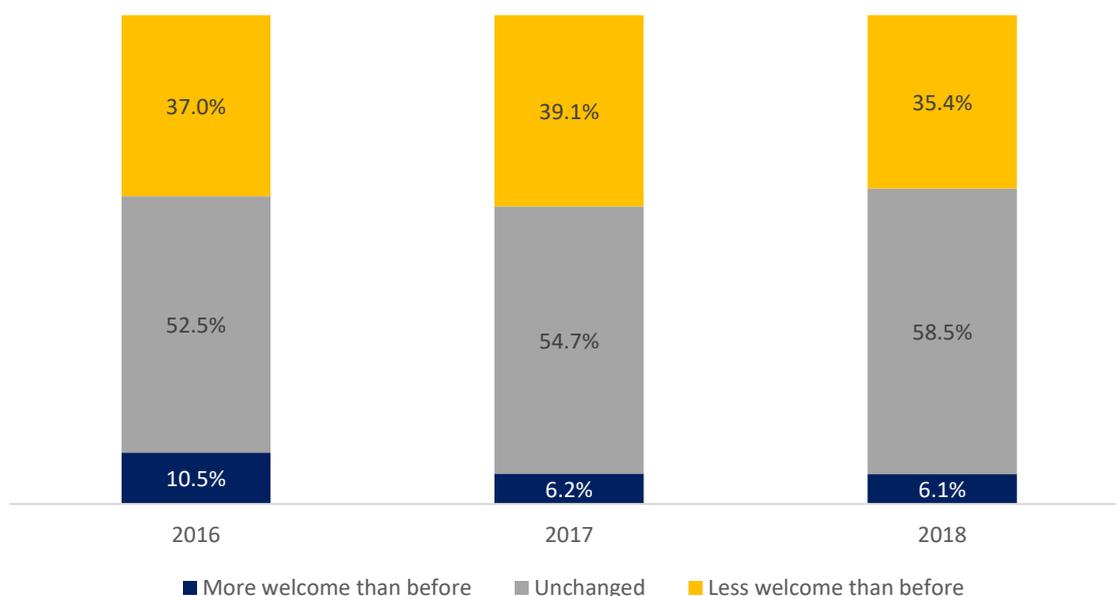
The percentage of those planning to completely leave the market is as low as 1.1%. Further 9.6% do consider such measures but do not have specific plans yet.



Do you, as a foreign business, feel more welcome or less welcome in China than before? (n=347)



Regarding the subjective feeling on how welcomed German businesses feel in China compared to before, the tendency remains negative. With a mere 6.1% feeling more welcome, this figure has remained stable. 35.4% explicitly feel less welcome than before – 3.7 percentage points less than in 2017.



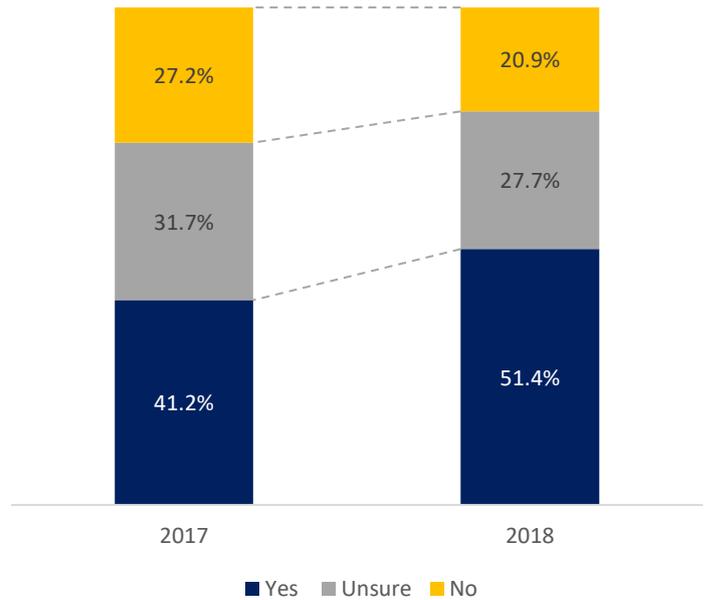
The background features a large, stylized graphic of the letters 'E' and 'A' in a light blue color. The 'E' is on the left and the 'A' is on the right, both rendered in a bold, sans-serif font. The 'E' has a thick vertical stem and three horizontal bars. The 'A' has a thick vertical stem and two slanted bars meeting at a point at the top. The overall design is minimalist and modern.

Investment

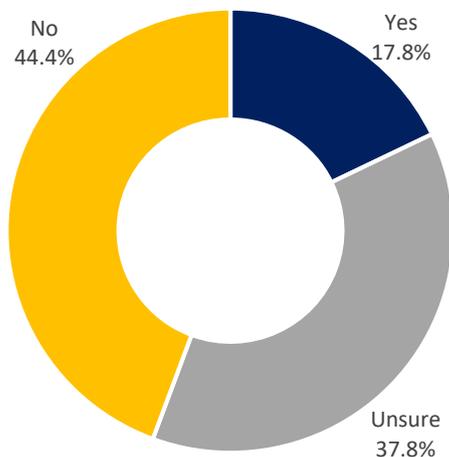
Do you think that the Chinese leadership is committed to further opening China’s market to foreign investment in the next three years? (n=383)



Compared to last year, German companies are more optimistic, that measures will be taken by the Chinese leadership to further opening its market for FDI. Half of the companies expect a further opening – 10.2 percentage points above the 2017 level. Nevertheless, one in two surveyed German companies is uncertain or not convinced about the opening of China’s market in the medium term.



The recently revised “Negative List” (Special Administrative Measures on Access to Foreign Investment 2018) widens market access for foreign investors in several industries, with the number of items included on the list being reduced from 63 to 48. Do you expect additional business opportunities for your company? (n=381)



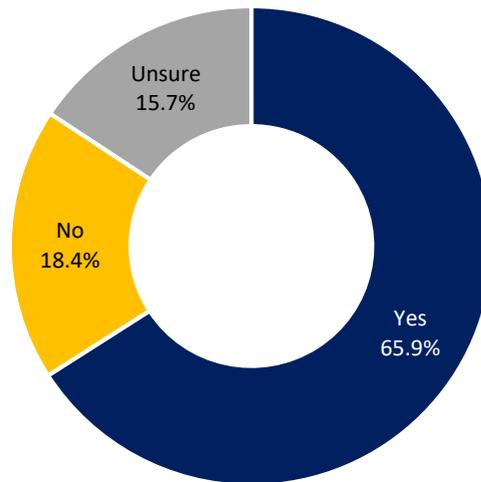
The most important section of the government’s Catalogue of Industries for Guiding Foreign Investment, the negative list, sets limits for foreign investments. Foreign investments are free of restrictions in anything unlisted. The 2018 revision falls short of expectations. No new opening was made to the prohibited sector. Instead, the government removes either some or all restrictions for the previously restricted sector.

With regards to the updated negative list, 17.8% expect additional business opportunities for their company, and twice as many (37.8%) are unsure.

Is your company planning to further invest in China within the next two years? (n=402)



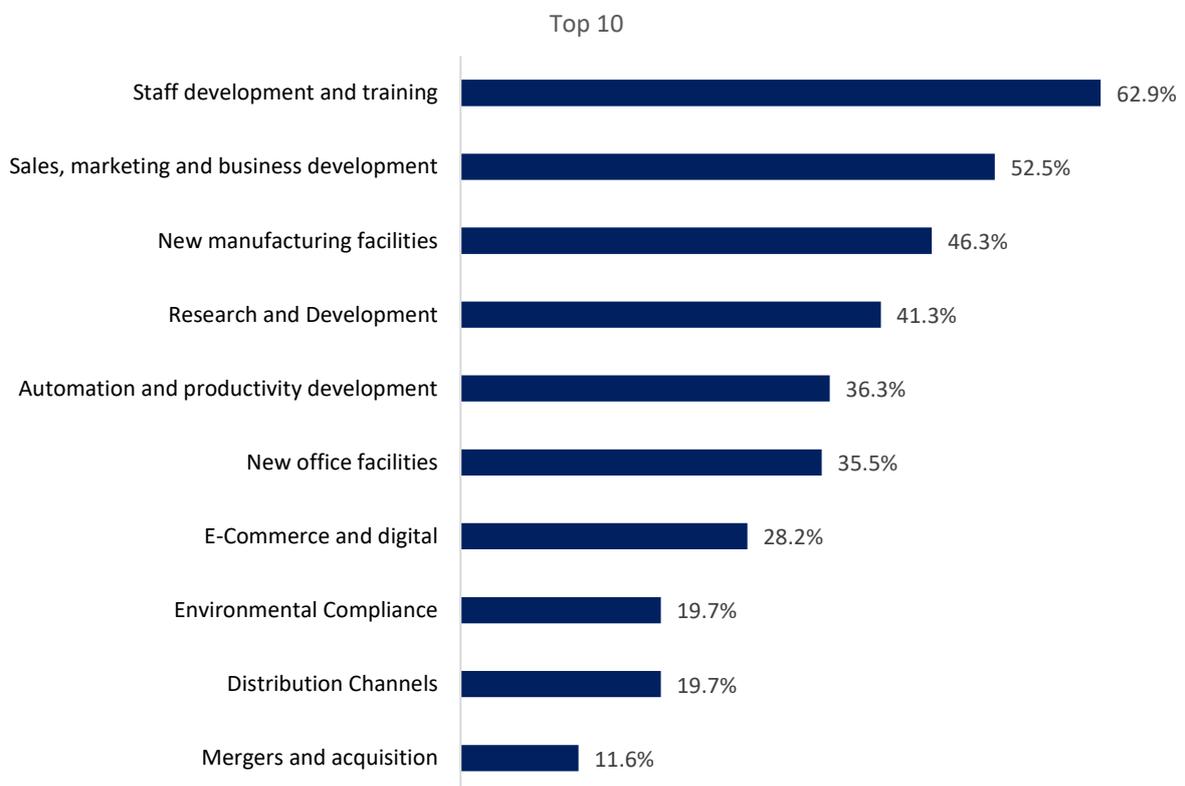
Around two thirds (65.9%) of the German companies plan to do further investment in China within the upcoming two years.



What types of investment is your company planning for the next two years? (n=259)
(Only respondents who plan investment within the next two years)

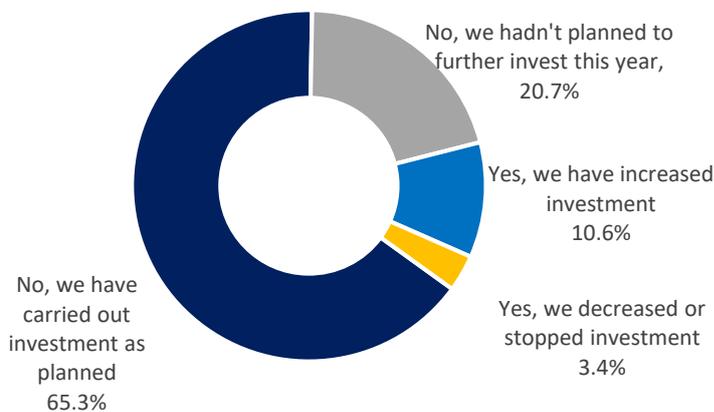
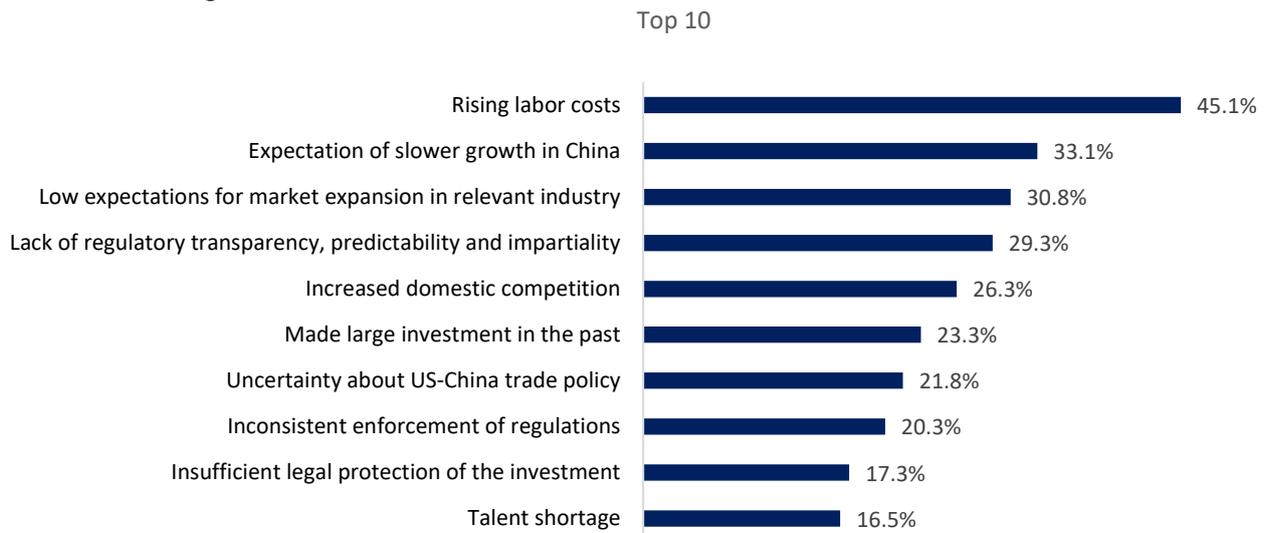


Among all companies with investment plans for the next two years, investment in staff development and training was indicated by the largest number of respondents (62.9%). A notable share of respondents furthermore plans investment in sales, marketing and business development (52.5%), new manufacturing facilities (46.3%) and Research and Development (41.3%).



What are the main reasons for not investing in China? (n=133)
(Only respondents who are not planning investment or are unsure)

34.1% of the German companies in China do either not have any investment plans for the upcoming years or are unsure about it. Assessing their underlying reasons, increasing labor cost has been among the main reasons for the hesitant investment behavior - according to 45.1% of the respondents. Furthermore, the expectation of slower growth in China (33.1%), lack of regulatory transparency, predictability and impartiality (29.3%) as well as increased domestic competition (26.3%) were often stated as main reasons for not investing in China.

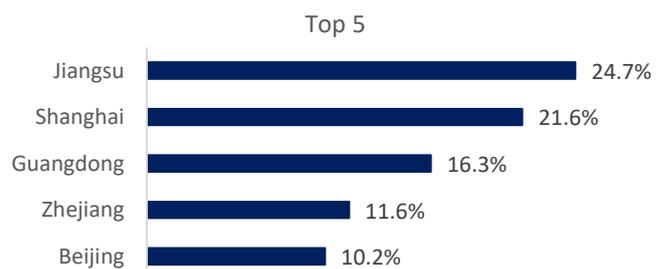


Has your company changed investment plans for China during this year and what are the reasons? (n=391)

86.0% of the German companies did not change investment plans for China during the year. 10.6% decided to increase investment, while only 3.4% decreased or stopped investment – mostly due to regulatory and market barriers.

If you are planning any new investments at new locations within the next two years, please specify the top three provinces/cities you consider to be the most likely locations. (n=361)

The Pearl River Delta, the Yangtze Delta and Beijing are considered as most likely locations for new investments by German companies.





Trade Conflict, Reactions and Consequences

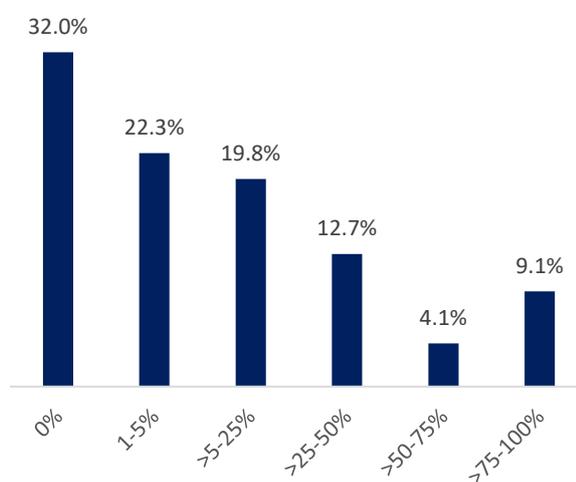
In 2018, the bilateral relations between the People’s Republic of China and the USA were characterized by the ongoing trade dispute, resulting in the mutual implementation of punitive tariffs. While the survey was conducted, Chinese exports (to the USA) worth 50 billion USD were affected by the new tariffs. By mid of September 2018, the USA announced to impose tariffs on a wider range of products. As of January 2019, the volume of Chinese exports to the US, which are subject to the increased tariffs will account to 200 billion USD – and even the option of imposing tariffs on the entire Chinese exports was not ruled out.

When looking at the results, it should thus be considered that the survey was conducted in a period of increasingly harsh political rhetoric and immense uncertainty about the development of China-US trade relations.

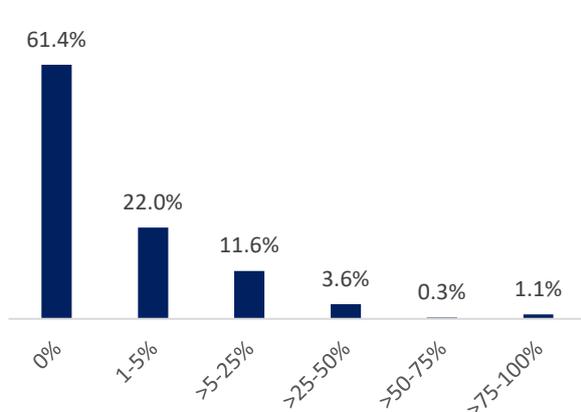
Which share of the revenue of your company in China is generated by exports? (n=363)



In order to frame to which extend German companies in China are affected by the deteriorated trade relations between the United States and China, assessing their export volume to the US is of great interest. While the majority of 54.3% does either not generate any export revenue or below 5% of the total revenue, 25.9% of the companies generate at least 25% of their revenues through exports.

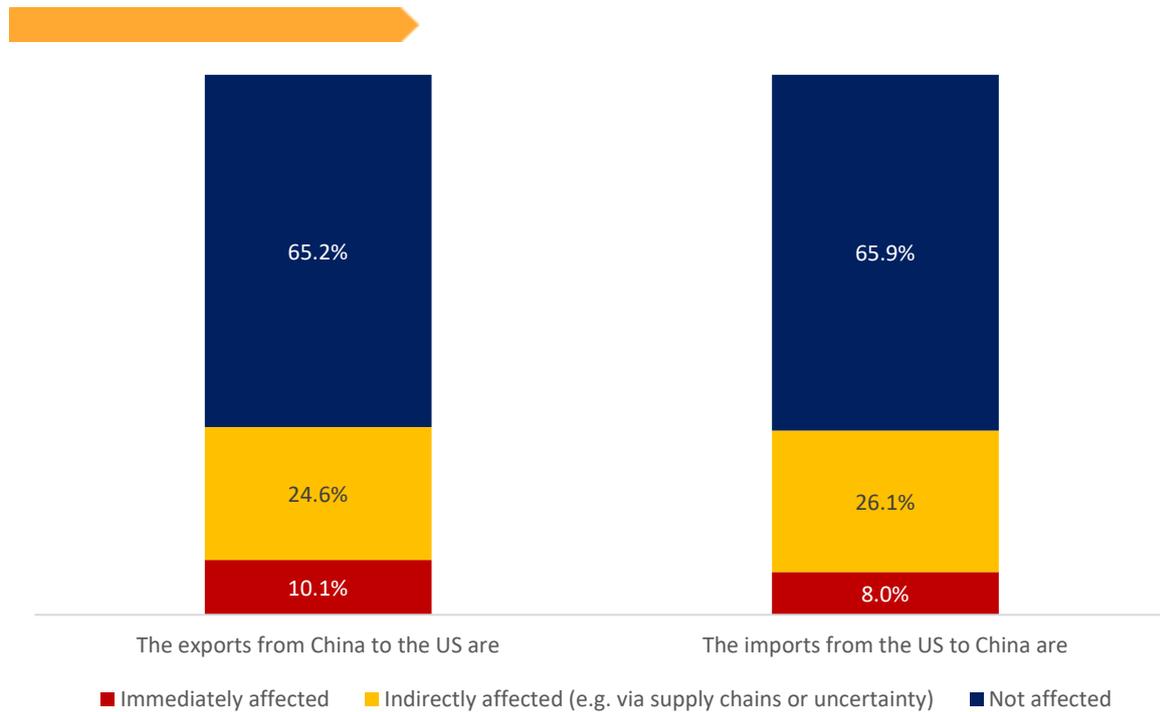


What is the percentage of your company’s exports to the USA (of your exports from China)? (n=363)



However, only few companies have larger exports to the USA. Only for 5.0% of the respondents, the share of their exports to the USA constitutes more than 25% of the total exports of their firm.

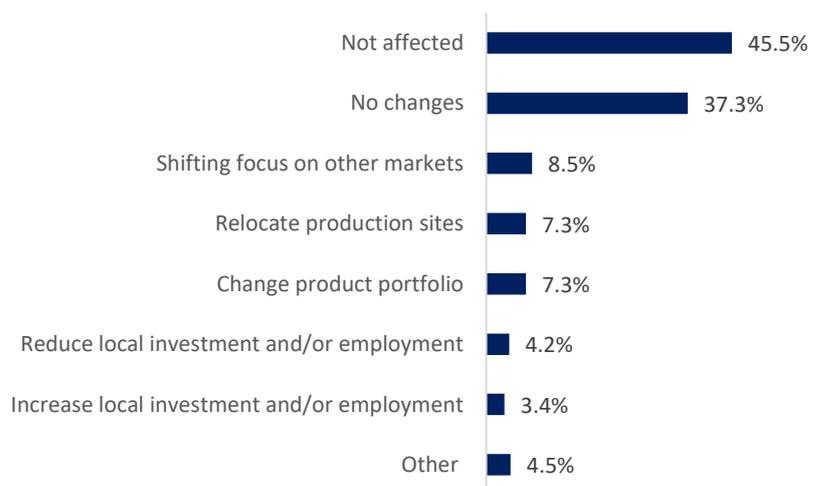
Is your company in China affected by the current US-China trade dispute, such as new tariffs or countermeasures? (n=360)



Consequently, almost two thirds of German companies in China do not see their exports being affected. Few respondents indicated an immediate impact (10.1%), while notable 24.6% find their exports to be indirectly affected by the trade dispute – e.g. via supply chains or the generated uncertainty. In the case of imports from the US to China, similar percentages can be observed.

If your company in China is directly or indirectly affected by the ongoing US-China trade dispute (e.g. through new tariffs or countermeasures), are you considering changes to your local business? (n=354)

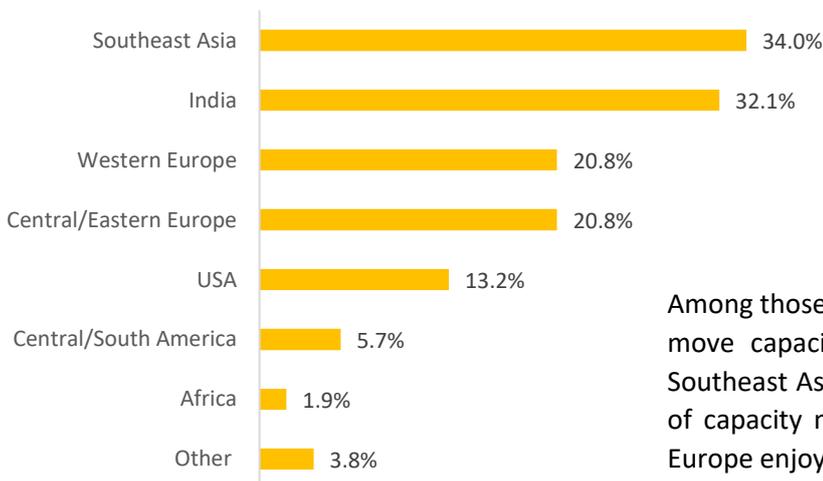
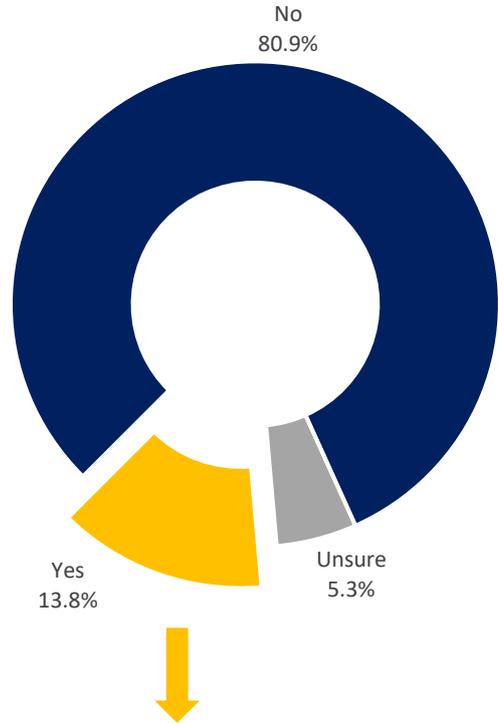
The vast majority of companies is not affected or does not consider any changes to their business because of the underlying trade dispute. Among the directly or indirectly affected companies that do consider changes, shifting focus on other markets – along with production site relocation and product portfolio changes – were considered as the most likely strategic consequences.



Has your company decided to move capacity outside China? What is the most important reason for moving capacity outside China? (n=379)



80.9% of German companies have not taken any decision or action to move capacity outside of China, while 13.8% have confirmed to have taken such decisions. Among the latter group, increasing costs, including labor cost has been chosen as the most important reason by 53.8%. Furthermore, strategic reprioritization of other countries (36.5%) as well as expectations of faster-growing markets in other geographies (30.8%) are among the main reasons for moving capacity. Moreover, expected negative effects from US-China trade conflict (26.9%) and concerns about an uncertain policy environment are further reasons given (23.1%).



If you have decided to move capacity within the past two years, where to? (n=53) (Only respondents that decided to move capacity)

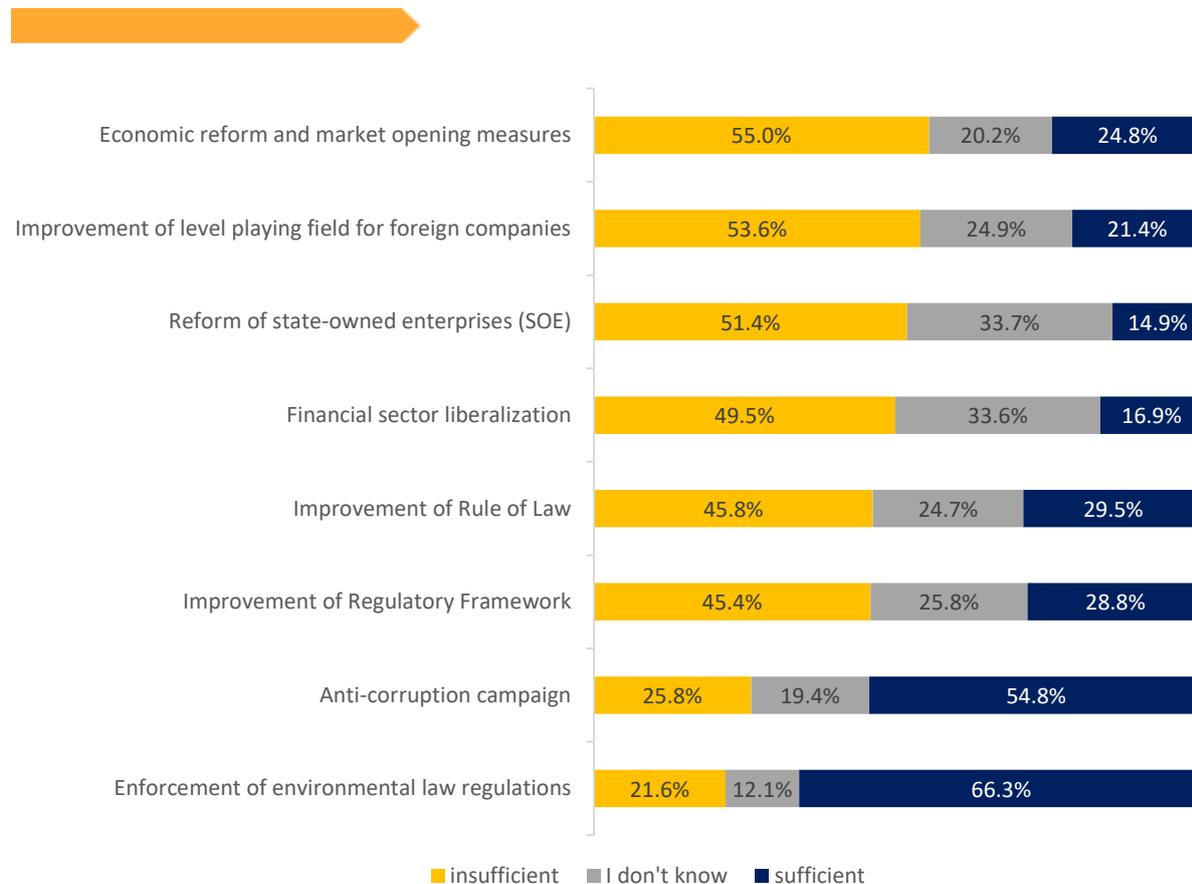


Among those German companies that have decided to move capacity outside China, most have indicated Southeast Asia (34.0%) or India (32.1%) as destination of capacity movement. Western and Central/Eastern Europe enjoy similar popularity with 20.8% each.

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Reform efforts, deficits and Business Challenges

How do you rate the efforts of the Chinese Government since President Xi Jinping’s speech at Davos World Economic Forum in January 2017 in the following areas? (n=374)



It was the first time in 2017 that a Chinese president attended the World Economic Forum in Davos. At his keynote speech, President Xi expressed continued support towards globalization and concerns over protectionism.

Assessing the government’s actions not only in the area of market opening to global investors, but in various fields of the Chinese economic policy, six of eight underlying areas are perceived to display rather unsatisfactory efforts by the Chinese Government.

A majority of 55.0% perceived the economic reform and market opening measures as insufficient. The share of German companies dissatisfied with the improvement of level playing field for foreign companies is equally high at 53.6%.

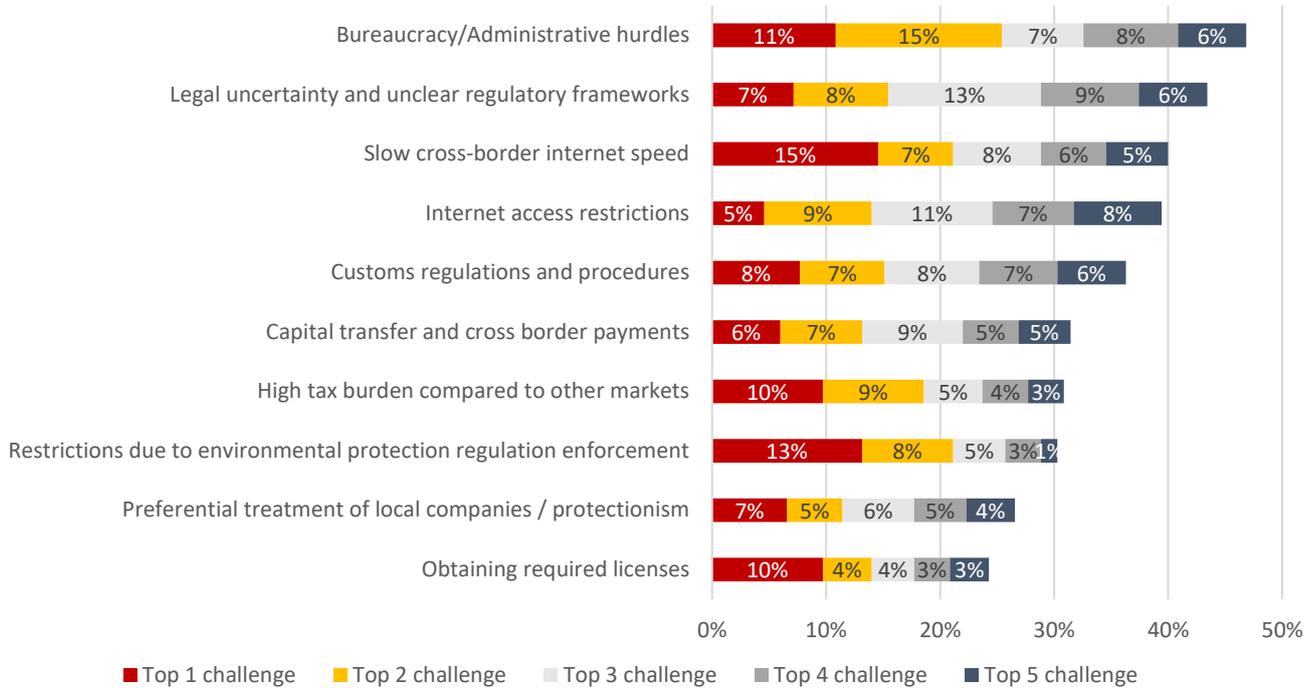
Respondents were furthermore stating insufficient efforts since the Davos WEF 2017 with regards to the reform of state-owned enterprises (51.4%), financial sector liberalization (49.5%). Improvement of Rule of Law (45.8%) as well as improvement of regulatory framework (45.4%) displayed high shares of dissatisfaction too.

However, the government’s engagement in the anti-corruption campaign (54.8% indicating ‘sufficient’ efforts) and the enforcement of environmental law regulations (66.3% indicating ‘sufficient’) has been persuasive for the majority of German businesses in China.

Please evaluate your current regulatory business challenges (n=350)



Regulatory Business Challenges - Top 10

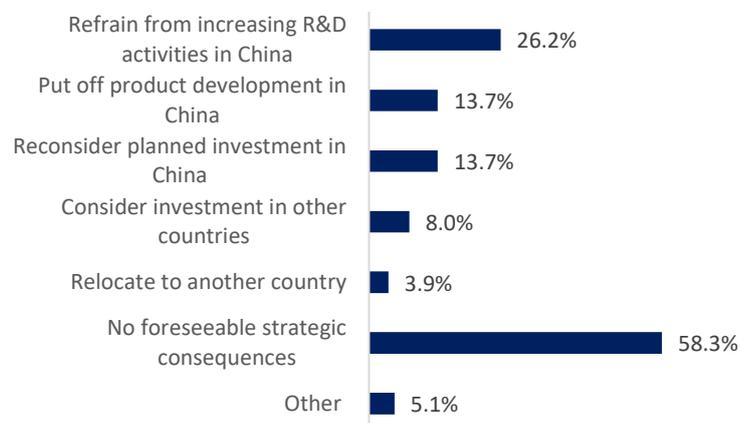


German companies in the Chinese market are confronted with various regulatory business challenges. These particularly include: Bureaucracy/administrative hurdles, legal uncertainty and unclear regulatory framework, which were most often chosen as one of the Top 5 regulatory business challenges. Internet-related challenges such as slow cross-border internet speed and internet access restrictions rank 3rd and 4th on the list. Various further challenges hinder German companies, including but not limited to: Custom regulations and procedures, restrictions of capital transfer and cross border payments, high tax burden or restrictions due to the enforcement of environmental protection regulations. Most often chosen as Top 1 problem was slow cross-border internet speed (15% of the respondents).

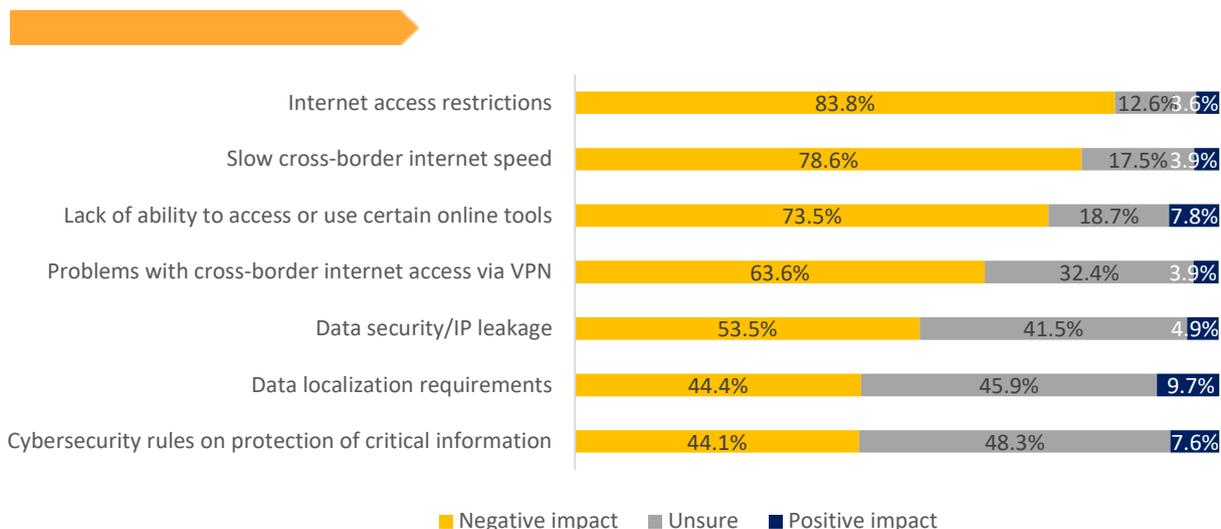
What could be strategic consequences of continued slow cross-border internet speed and internet access restrictions for your company? (n=336)



Although 58.3% of the respondents do not have any strategic consequences in mind, every fourth company (26.2%) may refrain from increasing R&D activities as a consequence of these internet related issues. Putting off product development and reconsidering planned investment in China (13.7% each) are further possible consequences.

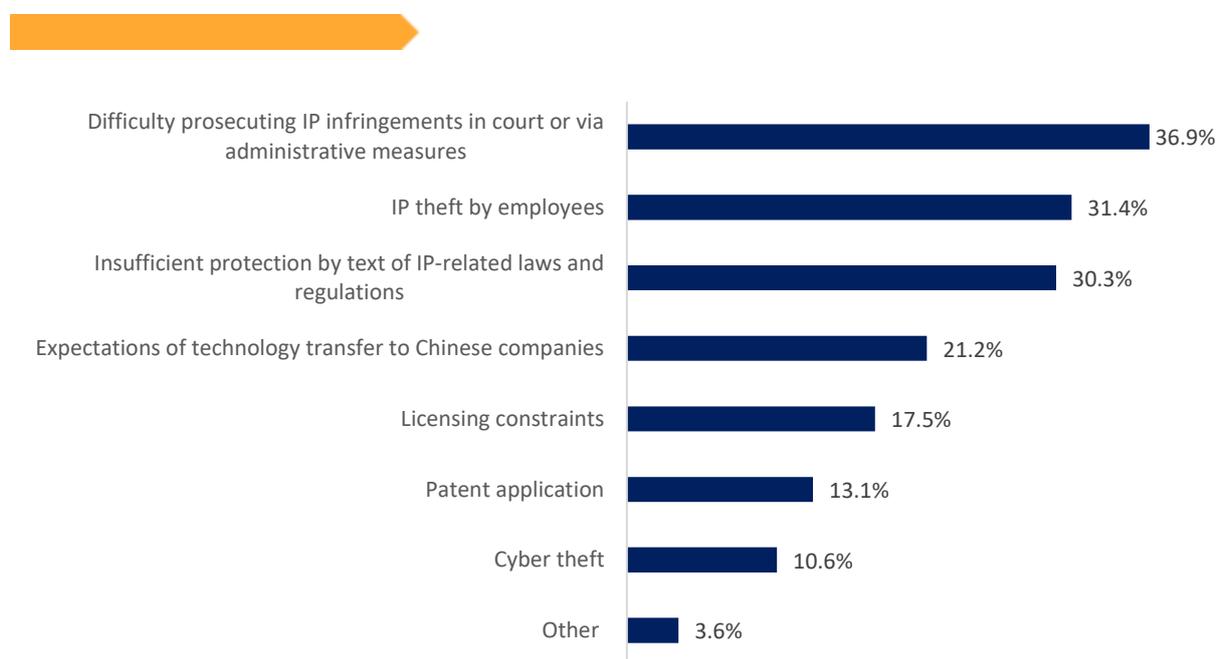


To what degree do the following IT, data security or Internet-related issues impact your company's competitiveness and operations in China? (n=339)



The underlying issues unsurprisingly are perceived to have a negative impact on the competitiveness and operations in China. A particularly clear negative impact on operations and competitiveness is expected through internet access restrictions (83.8%) and slow-cross border internet speed (78.6%). None of the seven issues are expected to bring positive impacts by more than 10% of the respondents.

What IP challenges is your company faced with? (n=274)



According to the survey results, German companies in China face a range of different IP problems. The difficulty prosecuting IP infringements in court or via administrative measures ranks first, followed by IP theft through employees and insufficient protection by text of IP-related laws and regulations.

Please evaluate your current operational and macroeconomic business challenges. (n=350)



HR-related issues remain unchanged among the most severe operational challenges. Particularly increasing labor cost make up a significant issue to German companies: Three out of four respondents indicated rising labor cost as among their top 5 operational challenges. Retaining qualified staff makes up another HR issue on top of the ranking. The investment section of this year’s survey has already identified that increasing labor cost has most often been the underlying reason for the absence of new investment. The cost factor has moreover been the most prevalent reason for moving capacity outside China.

In its *Labor Market and Salary Report 2018 | 2019*, the German Chamber of Commerce in China identified rising labor cost as a persistent challenge, as average wage increases of around 6% are expected for 2019. Chinese overall national wages even increased by 10.0% in 2017.

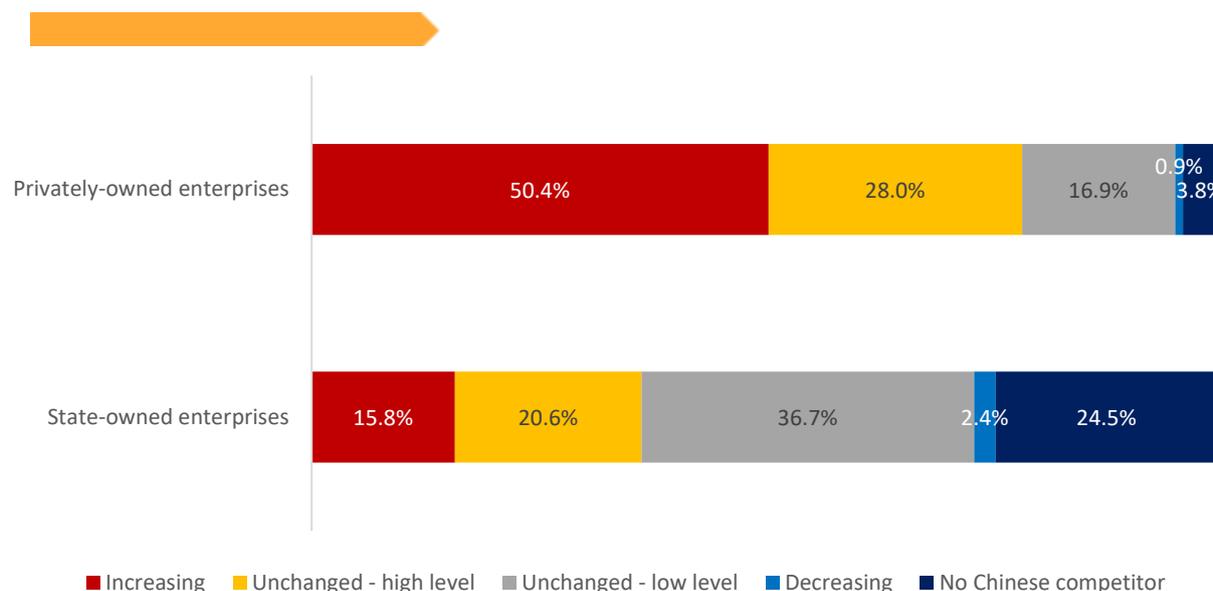
Finding and retaining qualified staff constitutes the Top 1 operational challenge for 19% of the respondents and emphasizes the prevalence of HR issues for German companies in China.

Moreover, rising operational costs (for real estate, rent and utilities) challenge German companies in the Chinese market.

The economic outlook has displayed increasing pessimism with regards to the expected slowdown of the Chinese economy. This development is often also considered as a serious business challenge for German companies.

Apart from that, competition remains a fierce issue – non-compliant competitors and Chinese privately-owned enterprises stand in the focus, while competition from state-owned enterprises is not part of the Top 10 challenges.

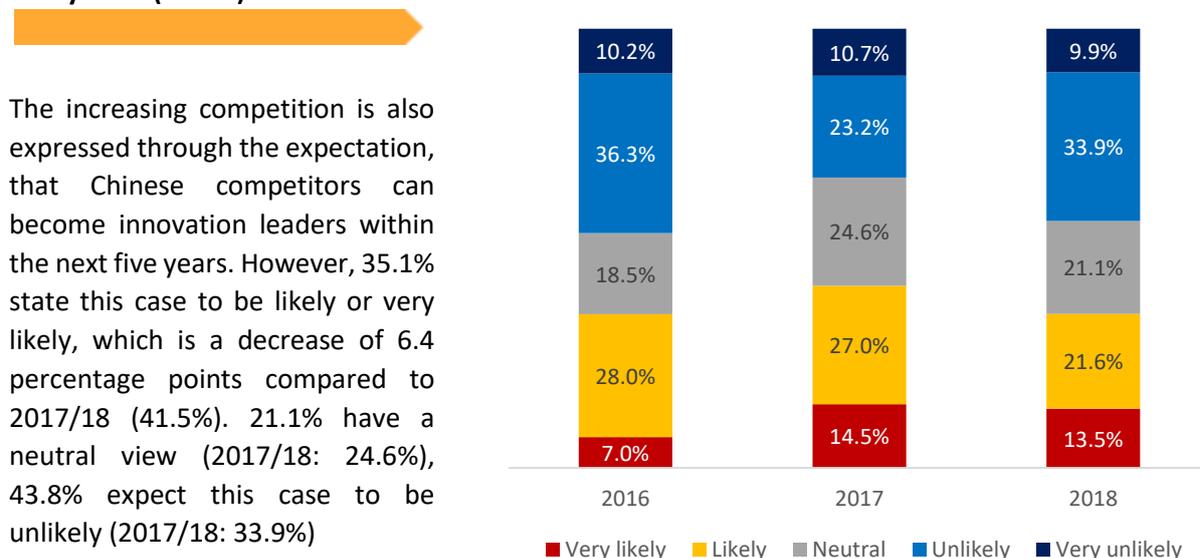
Please evaluate the competition your company is facing from Chinese companies. (n=345)



Competition has been identified as a severe business challenge. To get a more distinctive picture of the state of competition in the Chinese market, the BCS 2018/19 distinguishes between SOEs and privately-owned enterprises – with a statistically highly significant difference in the results: For many German companies, the competition from SOEs is low, decreasing or non-existent (63.6%). 20.6% perceive high competition, 15.8% state that their competition is increasing.

Chinese privately-owned enterprises are much stronger competitors for German companies than SOEs. The share indicating their competition to be low, decreasing or non-existent is much smaller (21.6%). Cause for concern may furthermore be the outstanding proportion of 50.4% perceiving increasing and 28.0% perceiving high competition from privately-owned firms.

Do you think Chinese competitors can become innovation leaders in your industry within the next five years? (n=342)



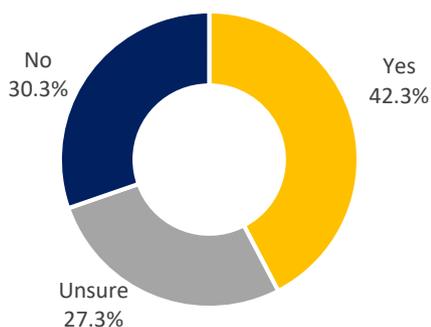
The increasing competition is also expressed through the expectation, that Chinese competitors can become innovation leaders within the next five years. However, 35.1% state this case to be likely or very likely, which is a decrease of 6.4 percentage points compared to 2017/18 (41.5%). 21.1% have a neutral view (2017/18: 24.6%), 43.8% expect this case to be unlikely (2017/18: 33.9%)

What do you consider important for the German government to act upon more strongly towards the Chinese government to help German businesses in China? (n=365)



Almost half of the respondents (48.2%) consider an improvement of Intellectual Property Rights (IPR) protection and enforcement as an important topic for the German government to act upon more strongly towards the Chinese government. The percentage of companies requesting the German government to push China towards RMB liberalization and reduction of capital controls is similarly high (47.7%). Advocating more strongly for a level playing field for German businesses in China and urging China to specify the Chinese Cyber Security Law is desired by 41.9% of the respondents.

Do you believe that the German government should use investment reciprocity as a tool to gain greater market access to China for German companies (i.e. restricting Chinese investment in Germany)? (n=366)

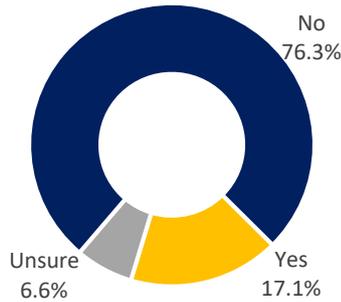


More than 40% agree that investment reciprocity should be used as a tool by the German government in order to gain greater access for German companies to the Chinese market.

Communist Party organizations in companies

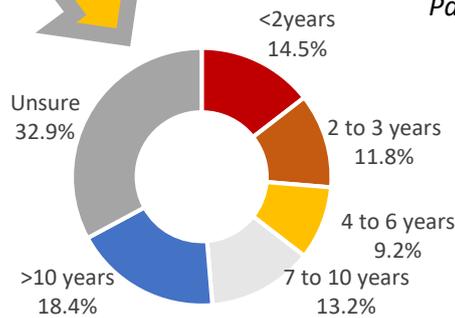
March 2017, the Communist Party released a directive on the responsibilities of Party building in central SOEs, the first ever policy of its kind. Following suit, State-owned Assets Supervision and Administration Commission (SASAC), the SOE overseer, published a notice, requiring SOEs to incorporate party-building principles into their articles of association. The 19th Party Congress in 2017 October marked another new high. In the following months, foreign companies with SOEs partners are reportedly being asked to give internal Party cells an explicit role. In the light of this development, this year's survey assessed the existence and role of Communist Party Cells in German companies.

Do you have a Communist Party organization in your company? (n=350)



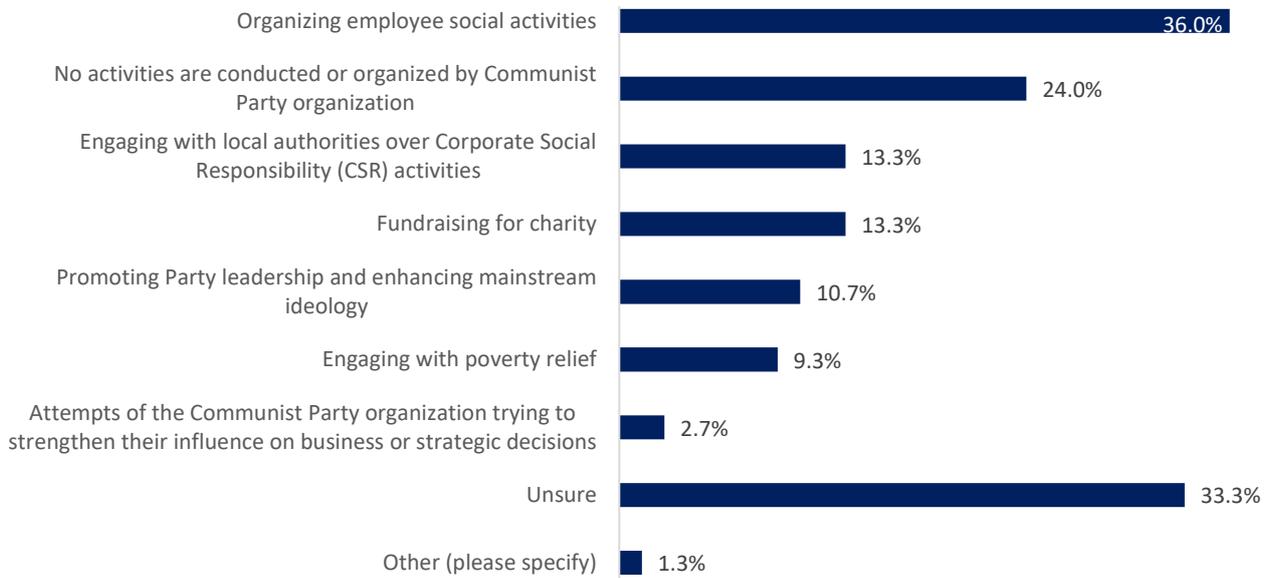
The share of companies having a Communist Party organization was below one fifth at 17.1%.

How long has a Communist Party organization been active in your company? (n=76) (Only respondents with Communist Party organization in their company)



In these companies, the Party Cell has often been established for several years already, while merely 14.5% indicated that it was founded within the last two years.

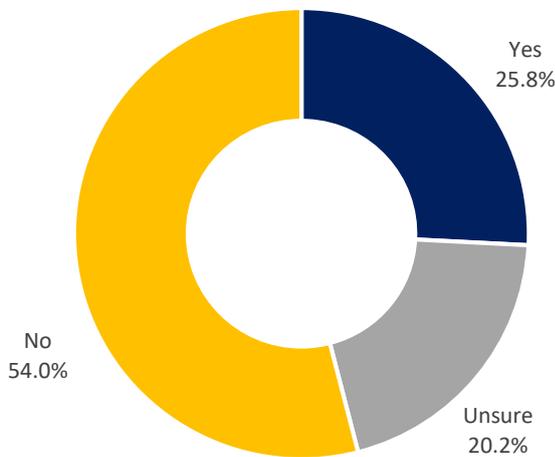
In your company, which activities does your Communist Party organization conduct? (n=75)



The “Social Credit System”

In 2014, the State Council published the “Planning Outline for the Construction of a Social Credit System”, which is considered as draft and roadmap for the Social Credit System (SCS), which is to be gradually implemented by 2020. Among the targets of the SCS is a more extensive surveillance, rating and control of individual market players. The implementation of the social scoring system enables the Chinese government to efficiently monitor companies and individuals and – in the case of non-compliance with the law – to impose sanctions quickly and efficiently. This survey therefore assesses German companies’ current understanding of the SCS.

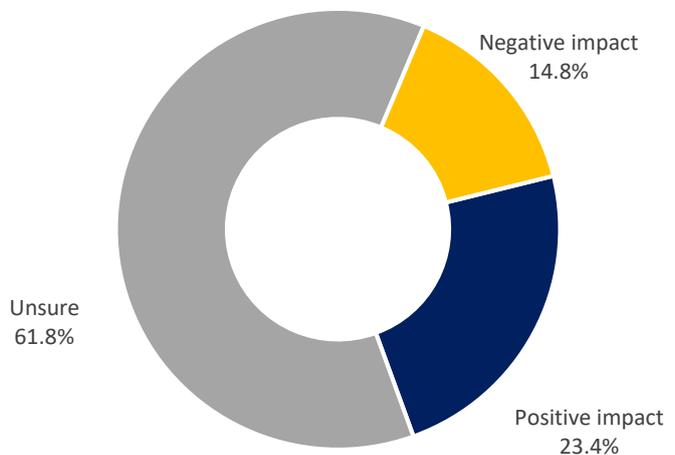
Are you aware of your company’s record in the “Social Credit System (SCS)” compiled by the government, including administrative penalties, abnormal business activities, and legal records? (n=337)



With the implementation still being in process, only 25.8% of the respondents are aware of their record in the SCS. 54.0% are not aware, 20.2% unsure.

Once the Social Credit System will be fully implemented by 2020, what impact on your company’s operations are you expecting? (n=338)

More than 60% are unsure about the impact of the SCS, most likely since the consequences of the system cannot be observed before it is fully implemented. Among the other respondents, the group expecting a positive impact through the SCS implementation (23.4%) outnumbers those expecting a negative impact (14.8 %).





Belt & Road Initiative and Made in China 2025

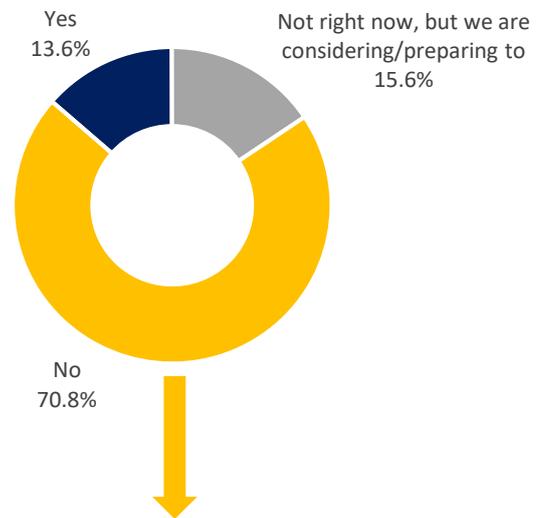
The Belt and Road Initiative

Only a few years after its introduction in 2013, the Belt and Road Initiative (BRI) has become a buzzword reflecting a Chinese foreign policy. BRI comprises extensive investments in infrastructure and energy-related projects. It aims to achieve a higher connectivity of China with countries in Central and South East Asia, Europe as well as Africa. The BCS 2018/19 evaluates the involvement of German companies within BRI.

Are you engaged with Chinese business partners within Belt and Road Initiative (BRI) affiliated projects or is your company in any other way engaged in BRI? (n=346)

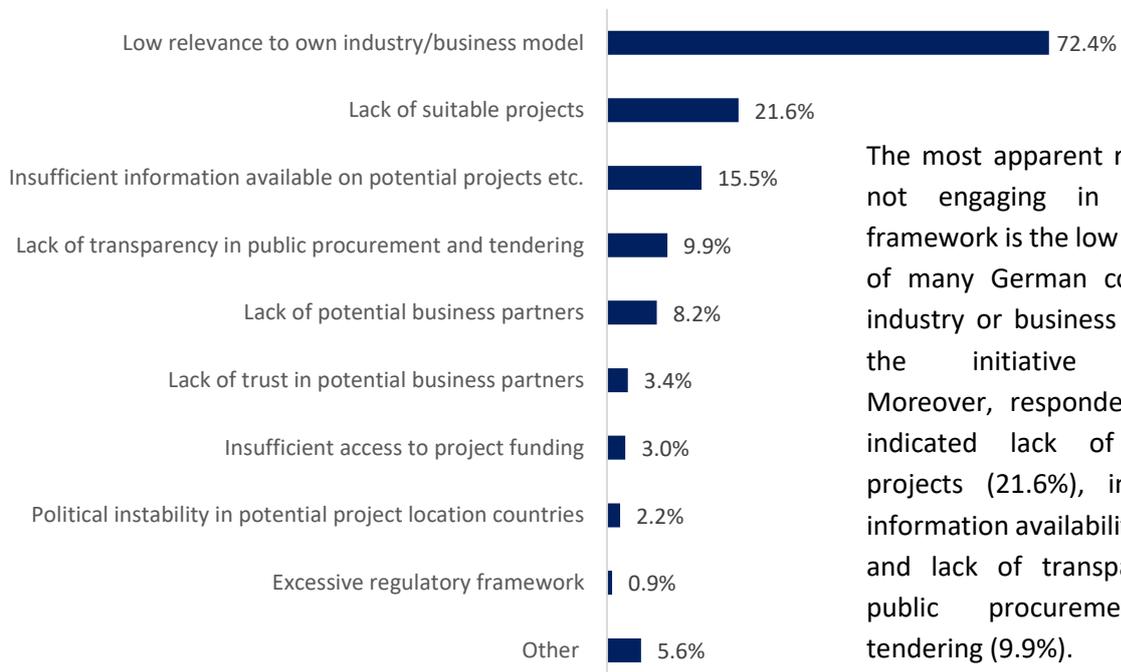


More than two thirds of the German businesses in China are not engaged with Chinese business partners within BRI. Further 15.6% of the companies are considering or planning to do so, 13.6% are already cooperating with Chinese partners in the scope of BRI. Compared to last year's survey these shares remained stable.



What are the main reasons for your company not to engage in any Belt and Road Initiative (BRI) affiliated project? (n=232)

Only respondents that are not engaged in BRI affiliated project

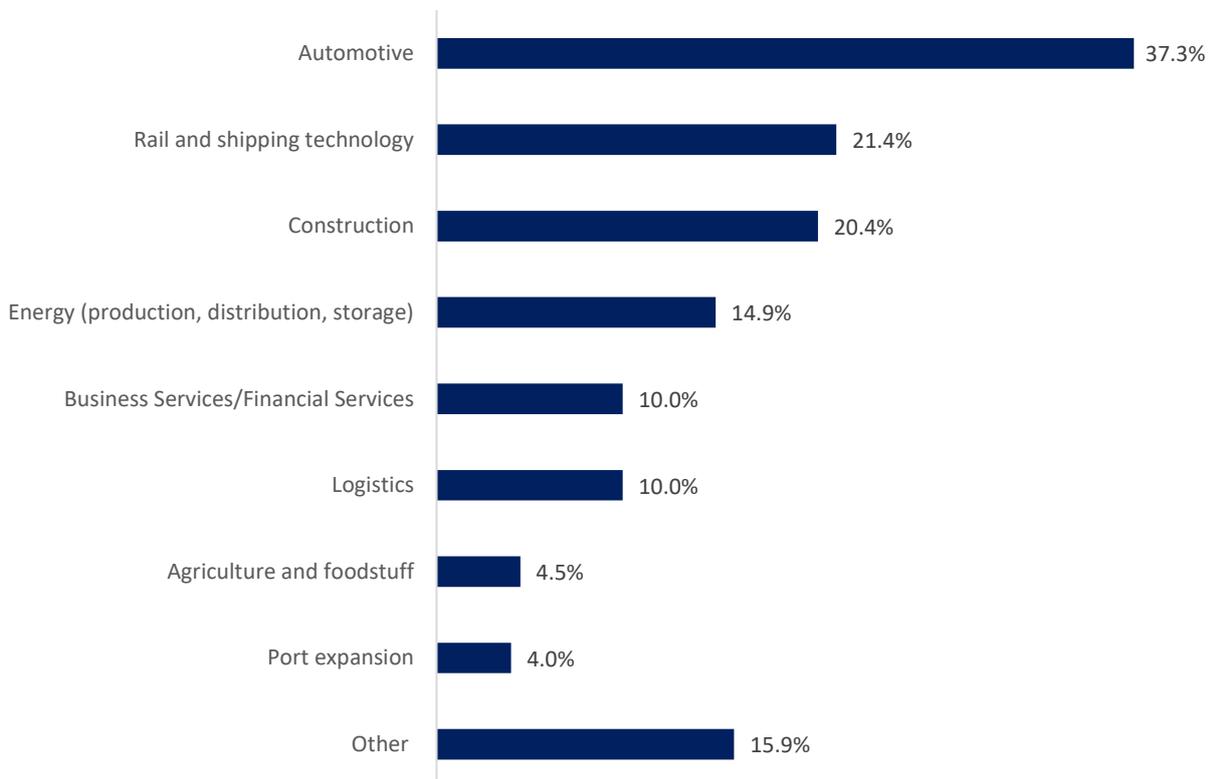


The most apparent reason for not engaging in the BRI framework is the low relevance of many German companies' industry or business model to the initiative (72.4%). Moreover, respondents often indicated lack of suitable projects (21.6%), insufficient information availability (15.5%) and lack of transparency in public procurement and tendering (9.9%).

What is your company's area of involvement in Belt and Road Initiative (BRI)? (n=201)



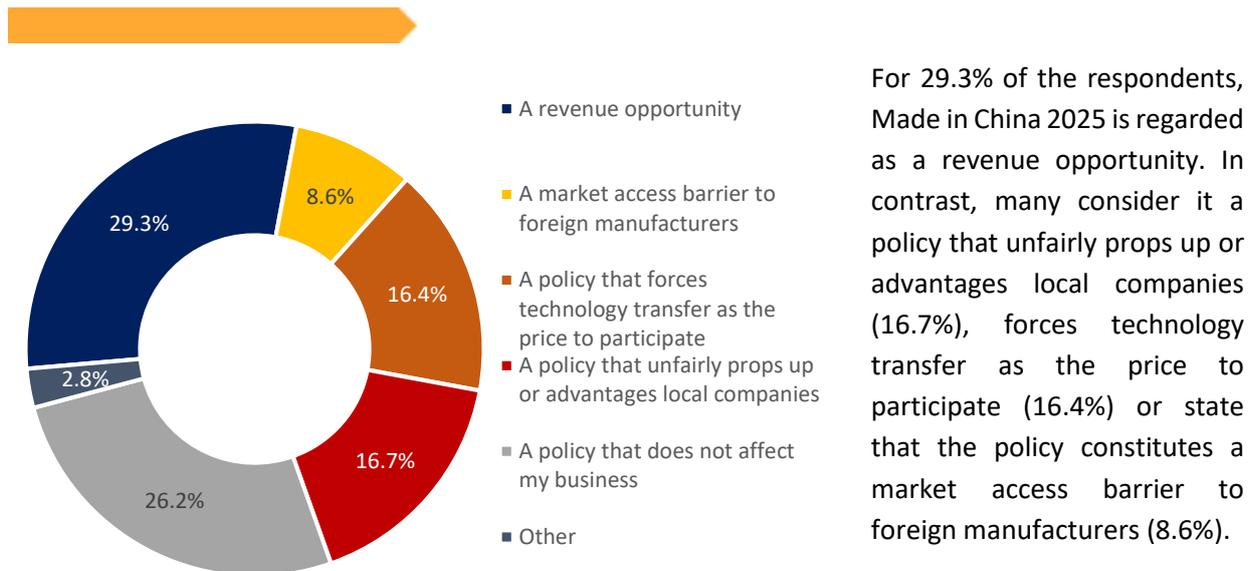
The extensive scope of BRI becomes comprehensible when observing the areas of involvement of German companies in the initiative's framework. A wide range of engagement in the BRI project was indicated in the survey. The ranking is led by companies from the automotive industry (37.3%), followed by rail and shipping technology (21.4%), construction (20.4%), energy (14.9%), logistics (10.0%) and business services (10.0%). The existing involvement in these and further, more specialized fields, displays the broad opportunities for foreign companies in the BRI initiative.



Made in China 2025

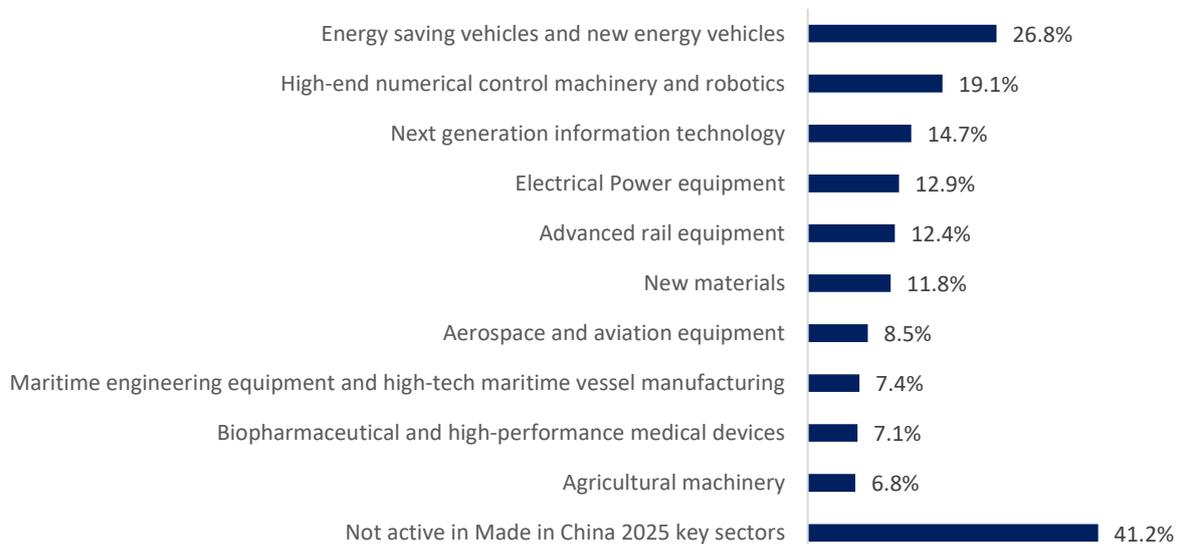
The “Made in China 2025” initiative was initiated by the State Council in 2015. Through this strategy, the Chinese government attempts to shift to a value-added manufacturing sector and promotes innovation and research in order to achieve the status of a “world manufacturing power”. A total of ten key industries is therefore abundantly subsidized. For producers and suppliers of these key industries, the initiative comprises opportunities, while it is often also criticized for undermining the level playing field between domestic and foreign firms.

Which of the following best reflects your company’s view of Made in China 2025? (n=324)

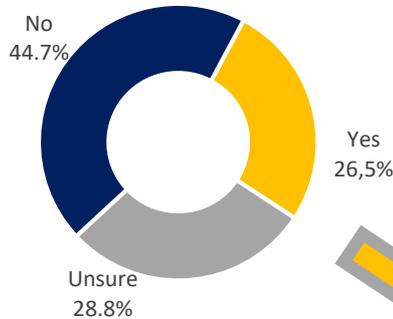


In which of the ten Made in China 2025 key sectors does your company operate? (n=340)

German firms mainly operate in the fields of energy saving vehicles and new energy vehicles, robotics, next generation IT, advanced railway equipment and new materials.



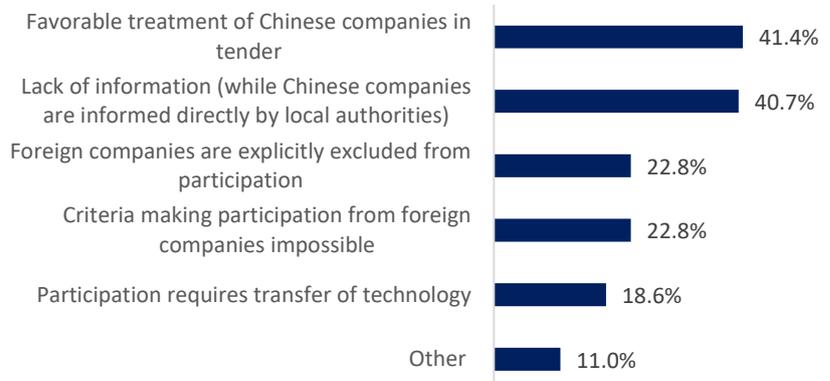
In your sector, do you see discriminatory practices from local authorities to favor domestic companies? (n=340)



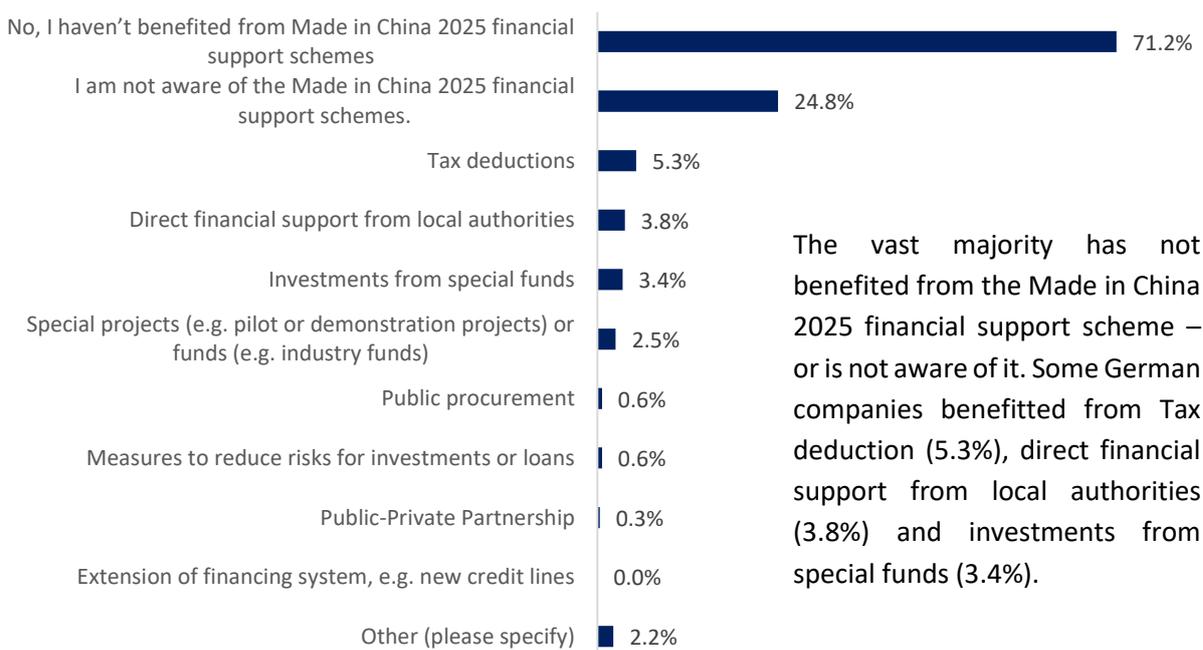
In the framework of Made in China 2025, 26.5% of the German firms have recorded discriminatory practices, where domestic companies were favored by local authorities. 28.8% are unsure, 44.7% do not indicate any issue of this kind.

What kind of discriminatory practices have you experienced, or do you see in your sector? (n=145)

The observed discriminatory practices in particular include lack of information compared to Chinese companies (40.7%) as well as a general favorable treatment of Chinese companies in public tenders (41.4%).



Have you benefitted from Made in China 2025 financial support schemes? (n=319)



The vast majority has not benefited from the Made in China 2025 financial support scheme – or is not aware of it. Some German companies benefitted from Tax deduction (5.3%), direct financial support from local authorities (3.8%) and investments from special funds (3.4%).

The German Chamber of Commerce in China

The German Chamber of Commerce in China is the official member organization which represents German companies doing business in China. The German Chamber helps its members succeed by providing up-to-date market information and practical advice. It offers a platform for the Sino-German business community and represents its member's interests towards stakeholders including governmental and public stakeholders. The Chamber was founded in 1999 and currently has around 2,400 members in mainland China.

German Business in China Business Confidence Survey

2018/19

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