



GERMAN CHAMBER
of Commerce in China
中国德国商会

German Business Confidence 2013

Press Conference

NORTH CHINA
SHANGHAI
SOUTH & SOUTHWEST CHINA

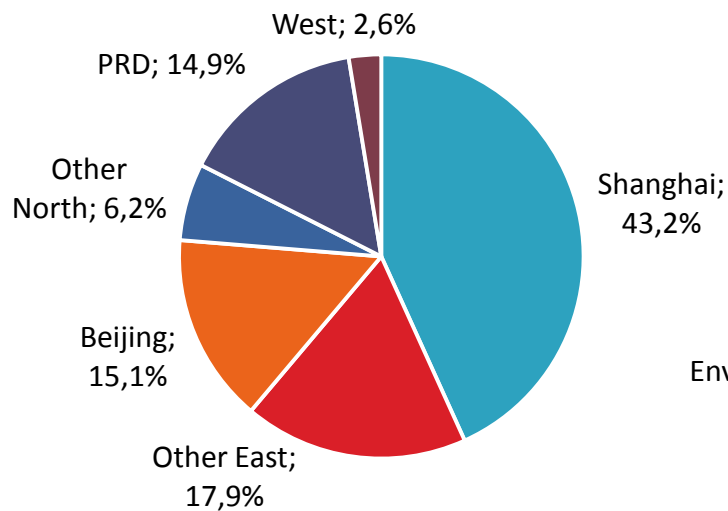
Dr. Jörg Mull | 01.07.2013

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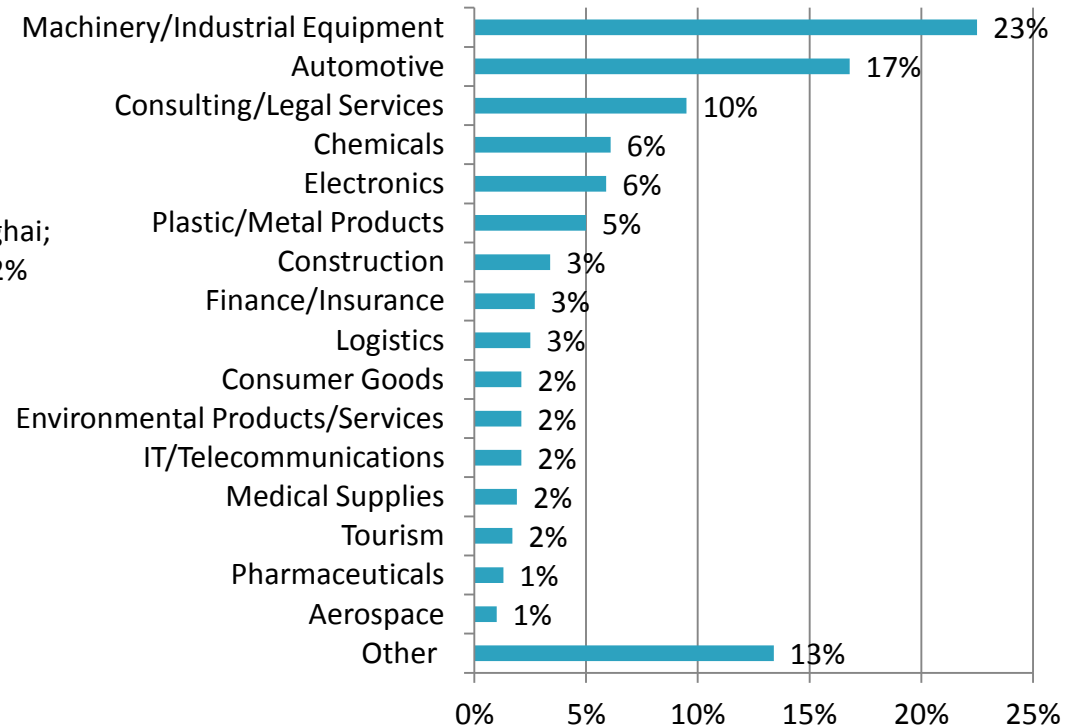
Data Set

- Survey conducted from May 13th to June 7th 2013
- Sent out to 2.200 members of the German Chamber in China
- Response rate 22.8% or 502 companies (2012: 319 companies)

Location

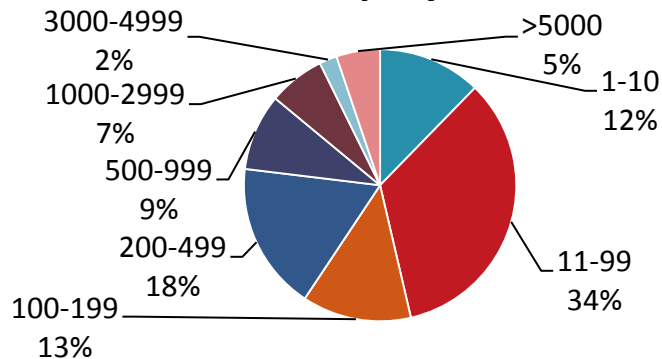


Industry segments

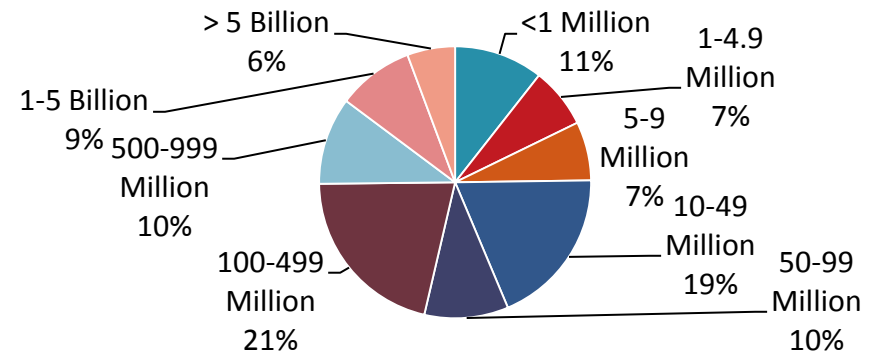


- Roughly 60% of the companies belong to the German Mittelstand
- 45 % have been operating in China for over 10 years
- WFOE dominate legal form

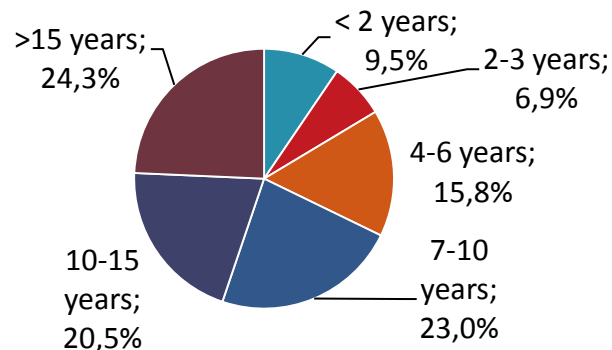
Employees



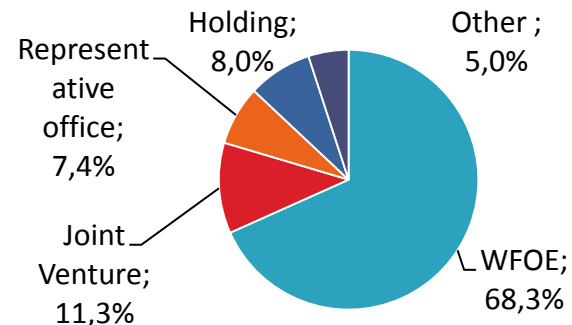
Yearly Turnover



In China since



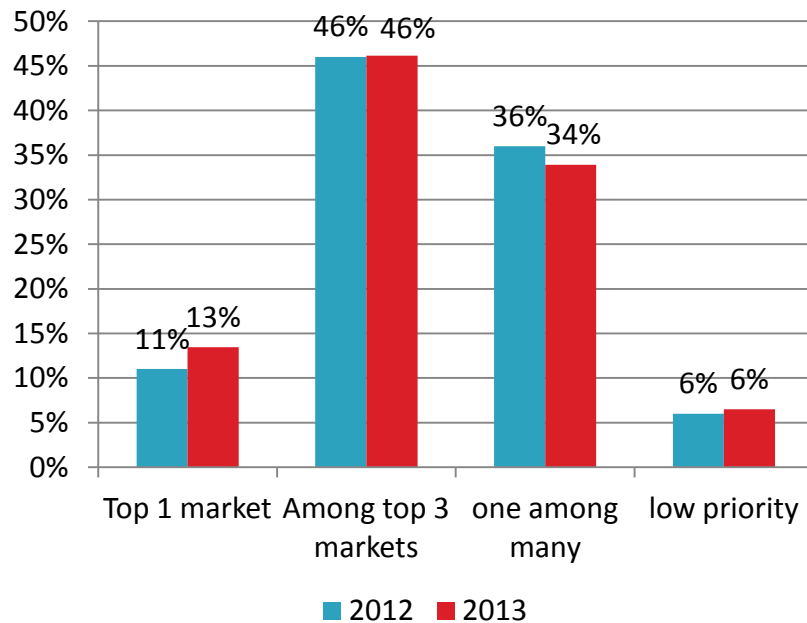
Legal form



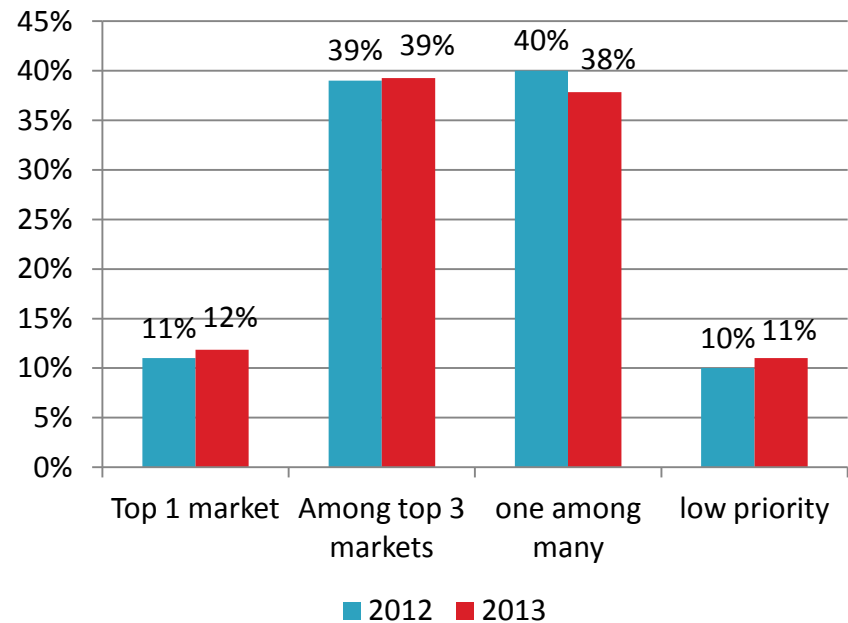
- China is among Top 3 markets worldwide for 60% in terms of turnover and for more than 50% in terms of revenue

Importance of China operations compared to global operations

Turnover



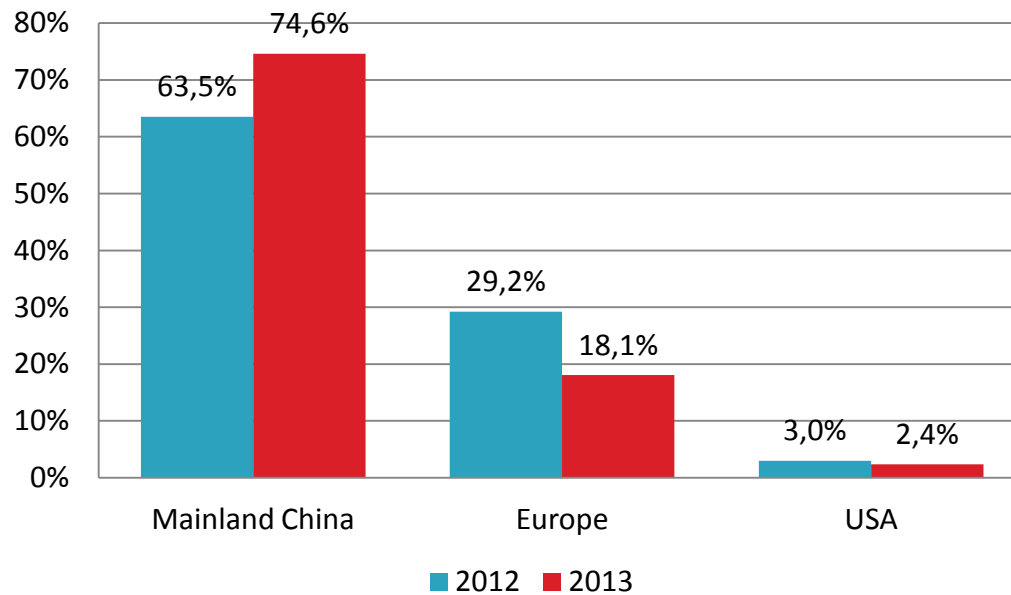
Profit



- China market becomes even more important for sales (+11%*)
- Production for Europe and USA decreases significantly

* Percentage points

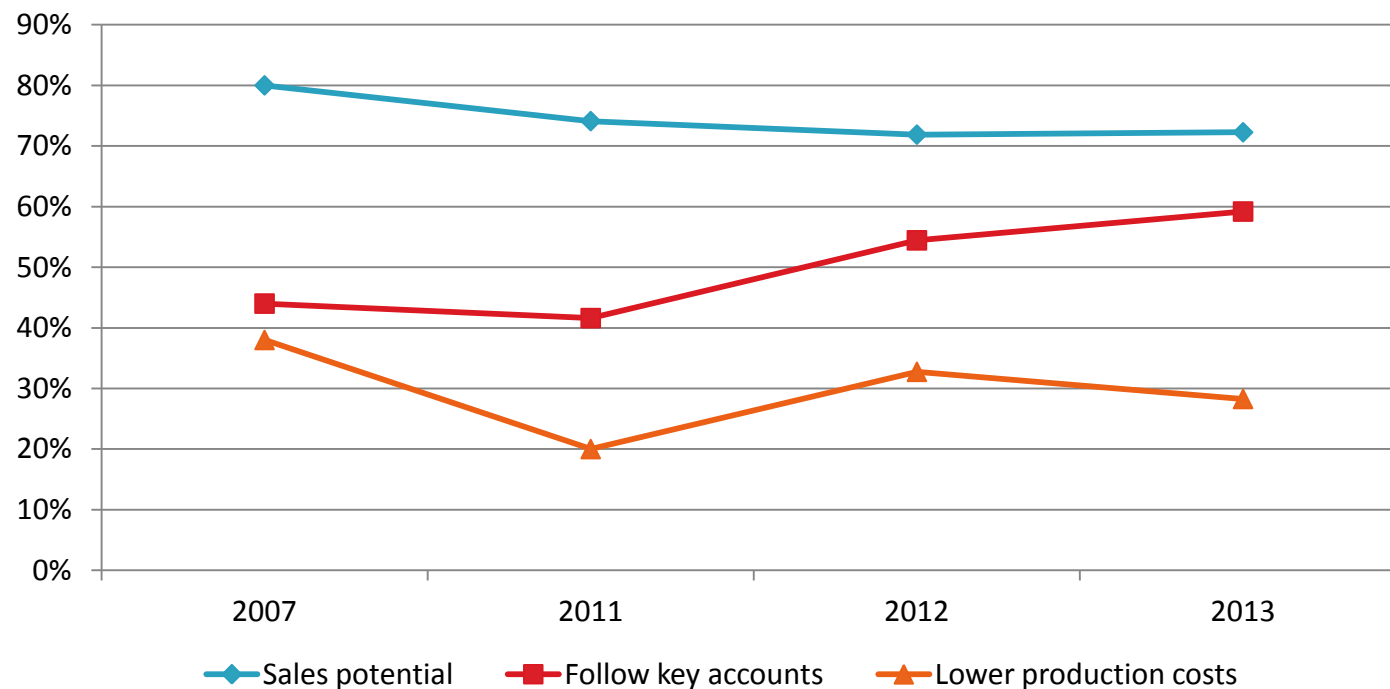
Main market for revenue generation of local company



- Main motives unchanged since 2007
- Following key customers increased by 20%* over the last two years

* Percentage points

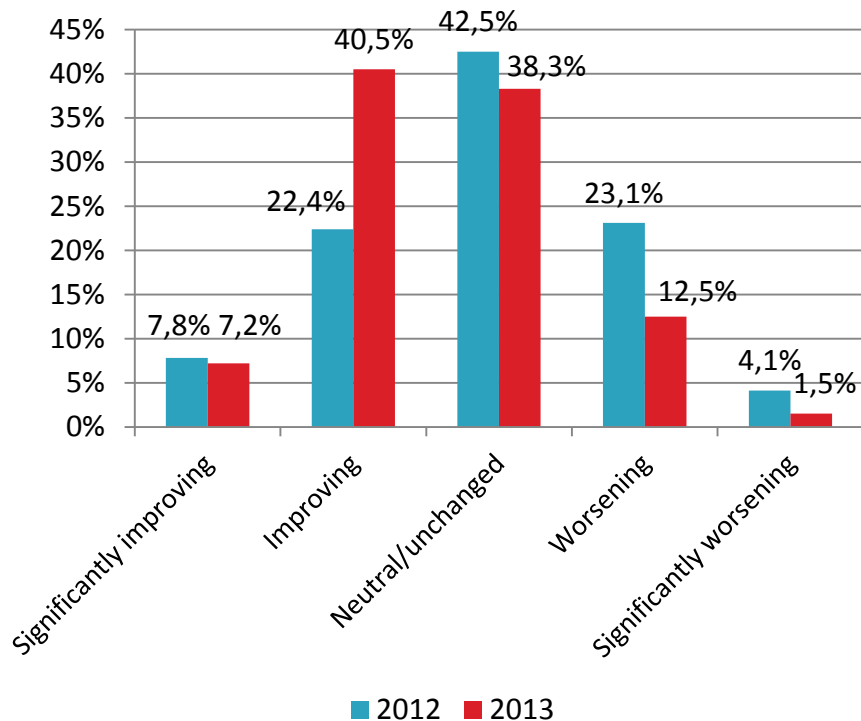
Motives for market presence 2007 - 2013



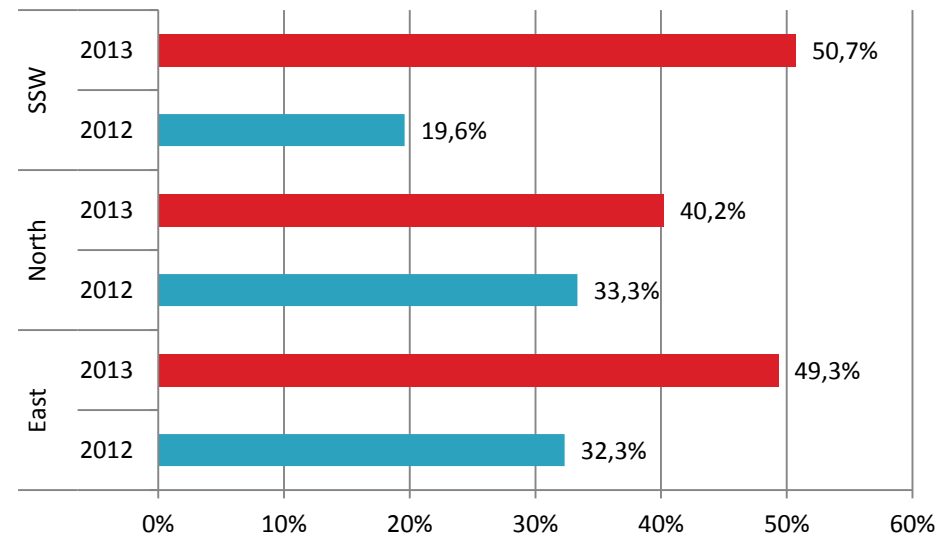
- Companies significantly more positive than 2012 (+17.5%*)
- Largest increase in optimism by companies in South China

* Percentage points

Business outlook for remainder 2013



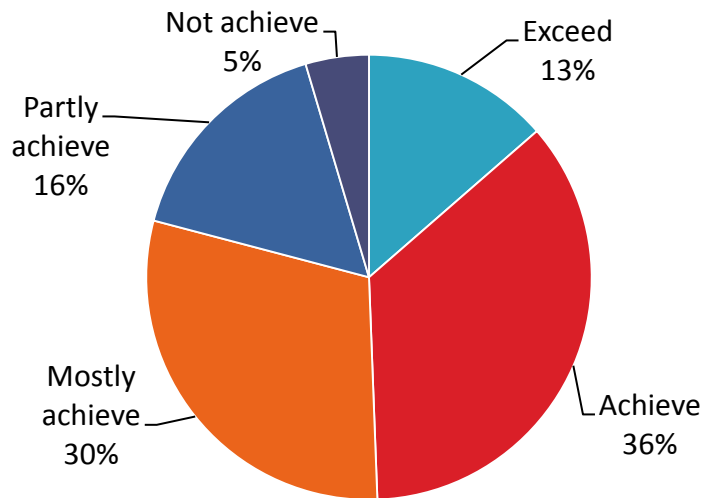
Expected improvement by region



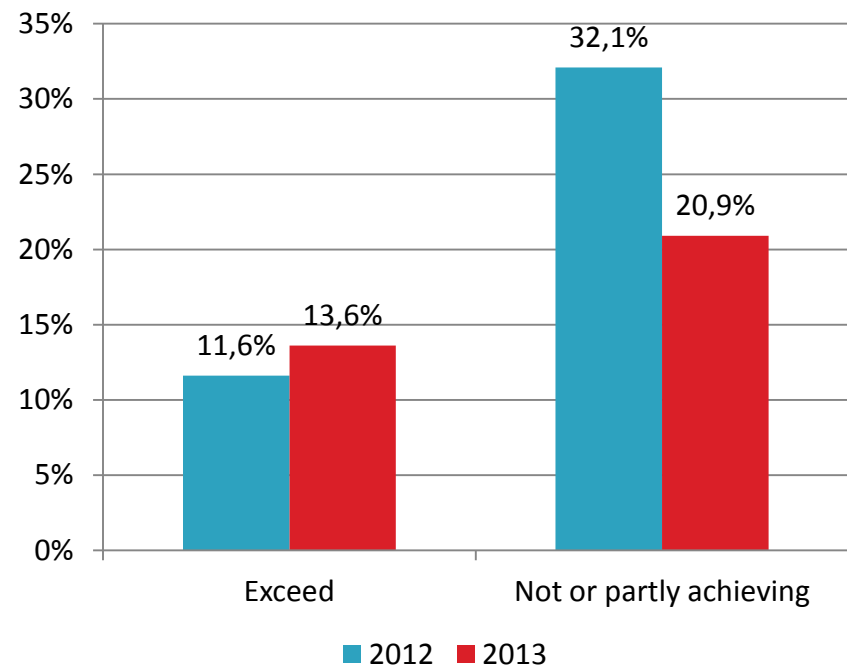
- 80% expect to mostly reach business targets 2013
- Significantly less companies expect to not reach their business targets (-11%*)

* Percentage points

Expectations on reaching business targets



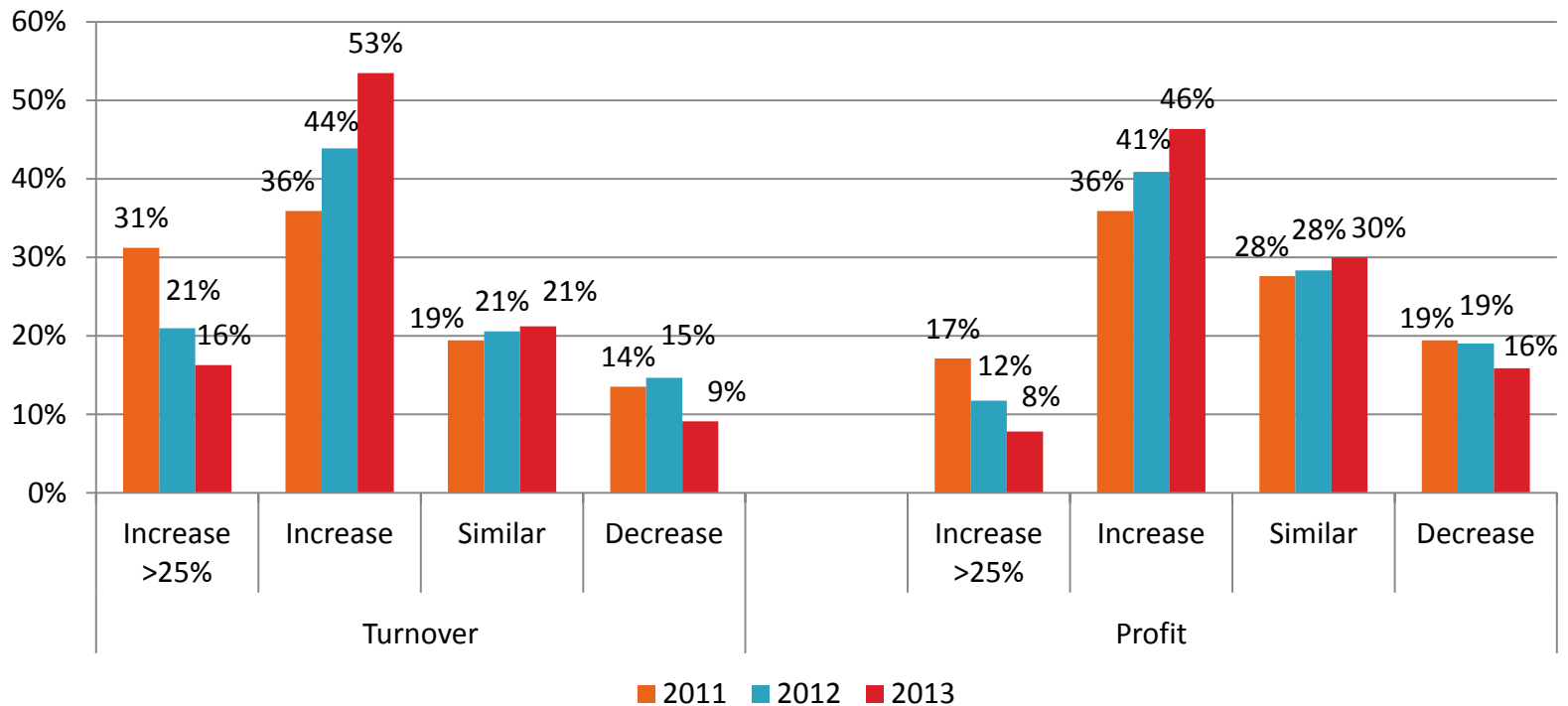
Changes compared to 2012



- Majority of companies expect increase in turnover and profit in 2013
- Moderation of increases continues

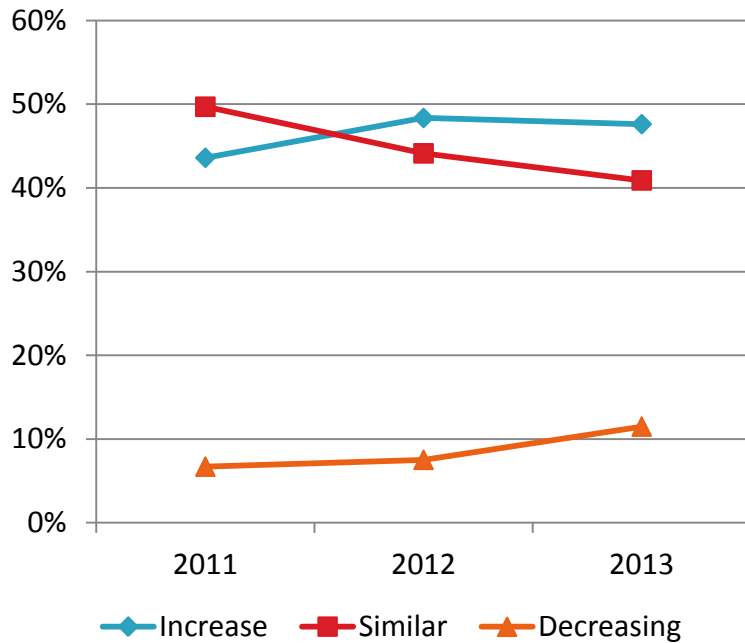
Change in expected turnover

Change in expected profit

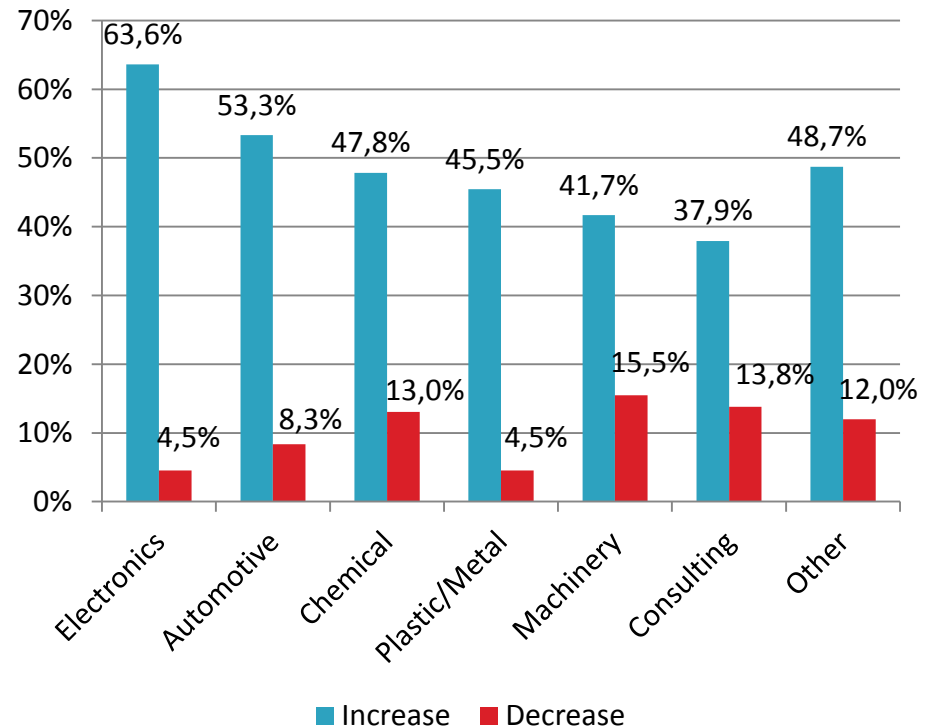


- Roughly every second company plans to increase investments
- 11% of companies plan to reduce investment
- Investment most attractive for electronics and automotive Industry

Expected change in investment 2013

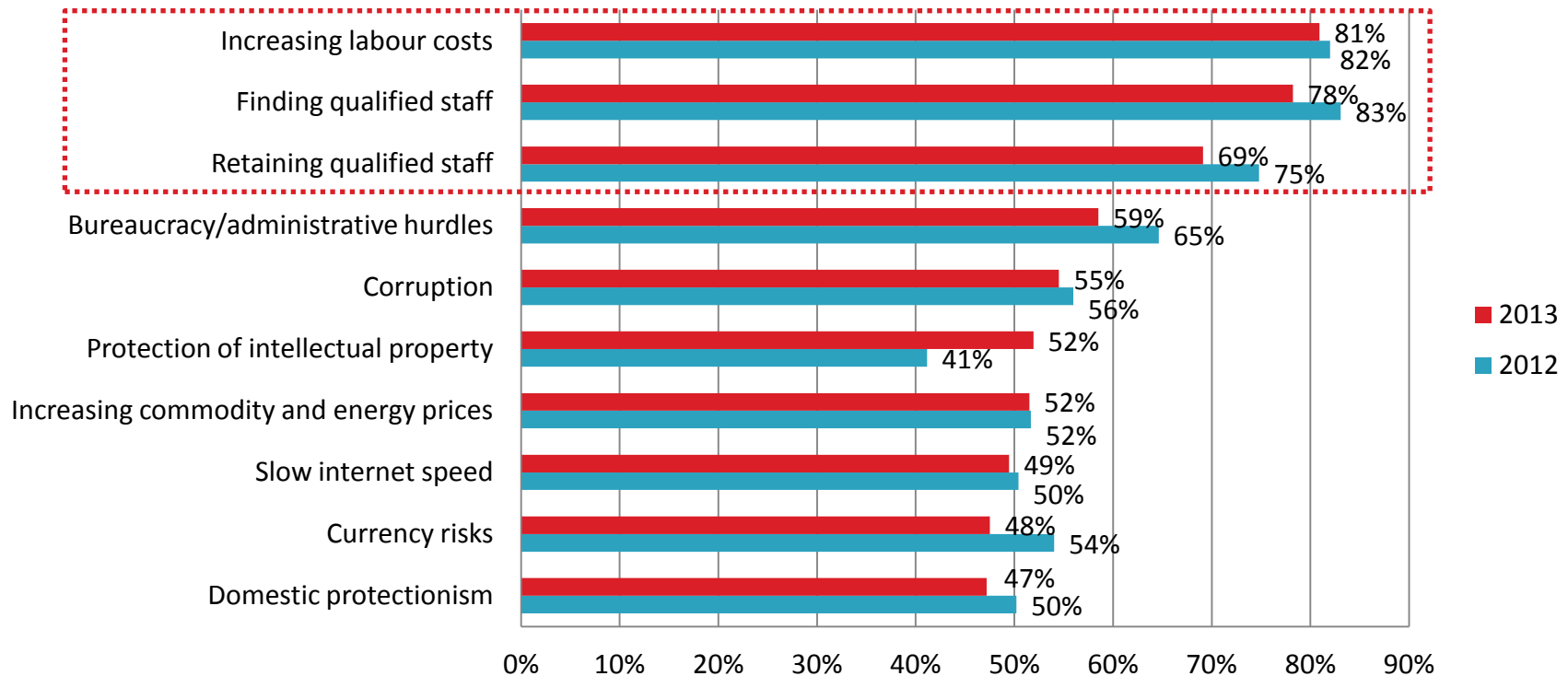


Investment change by industry 2013



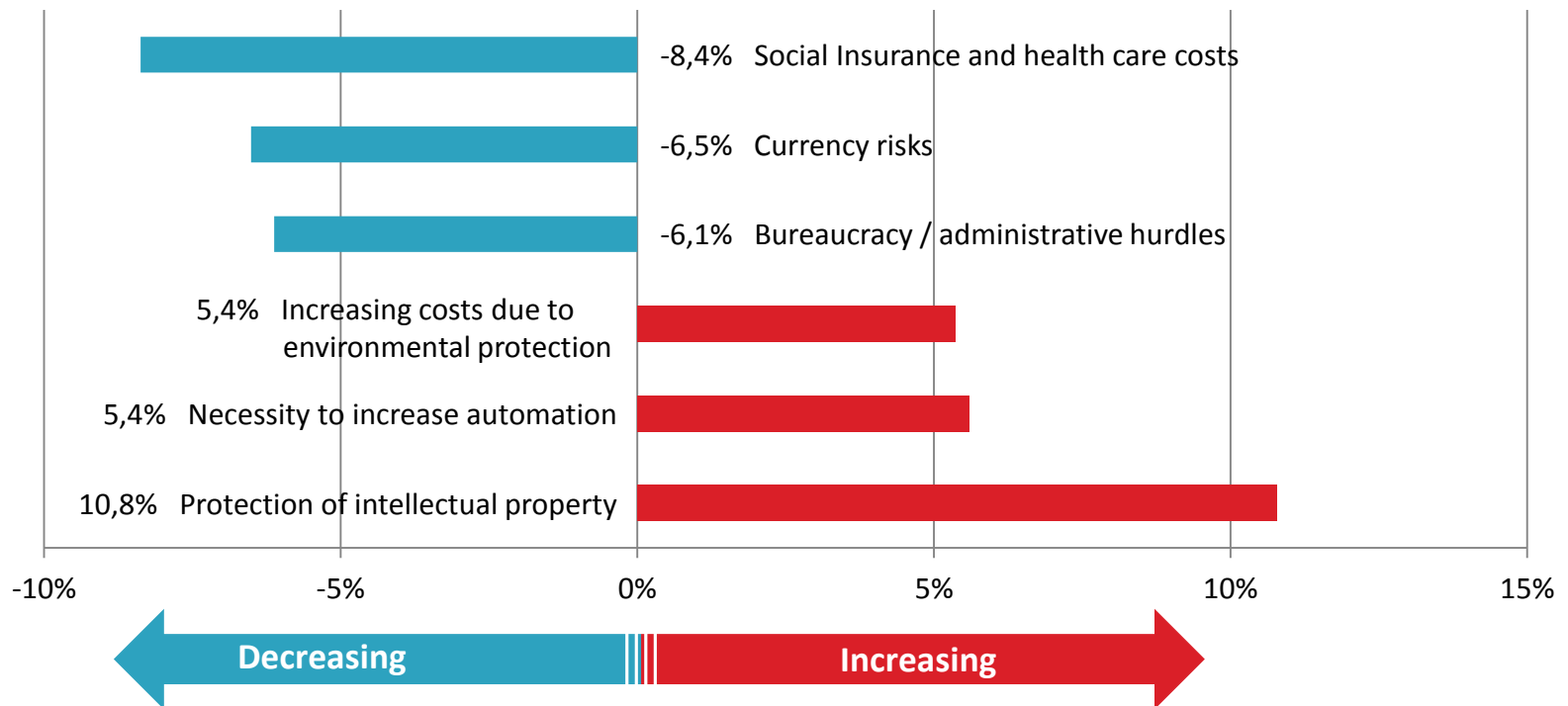
- HR challenges continue to be most severe
- IPR challenge again among top 10
- 7 out of 10 challenges affect more than half of German companies

Top 10 challenges 2013



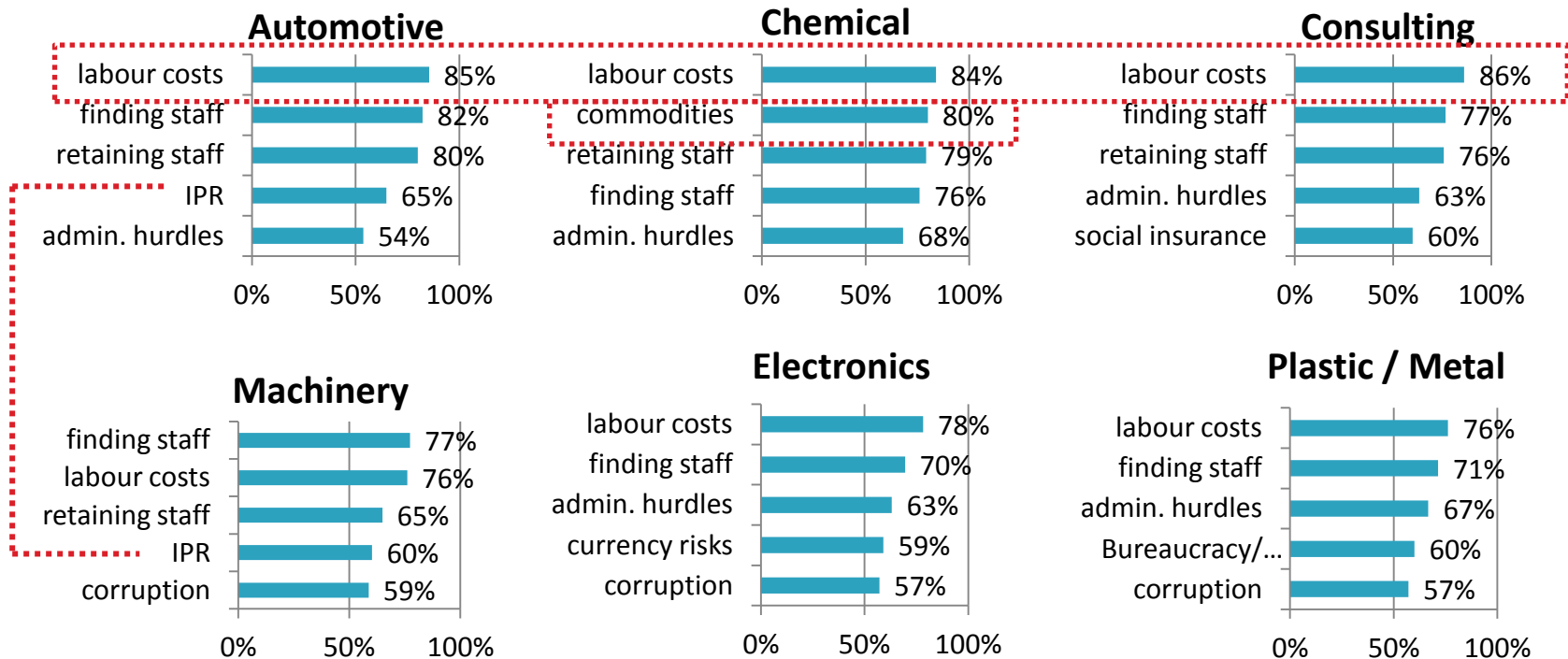
- IPR, automation pressure, and cost of environmental protection gain more attention
- Social insurance, currency risk and bureaucracy related challenges decrease

Largest changes among challenges 2012 - 2013



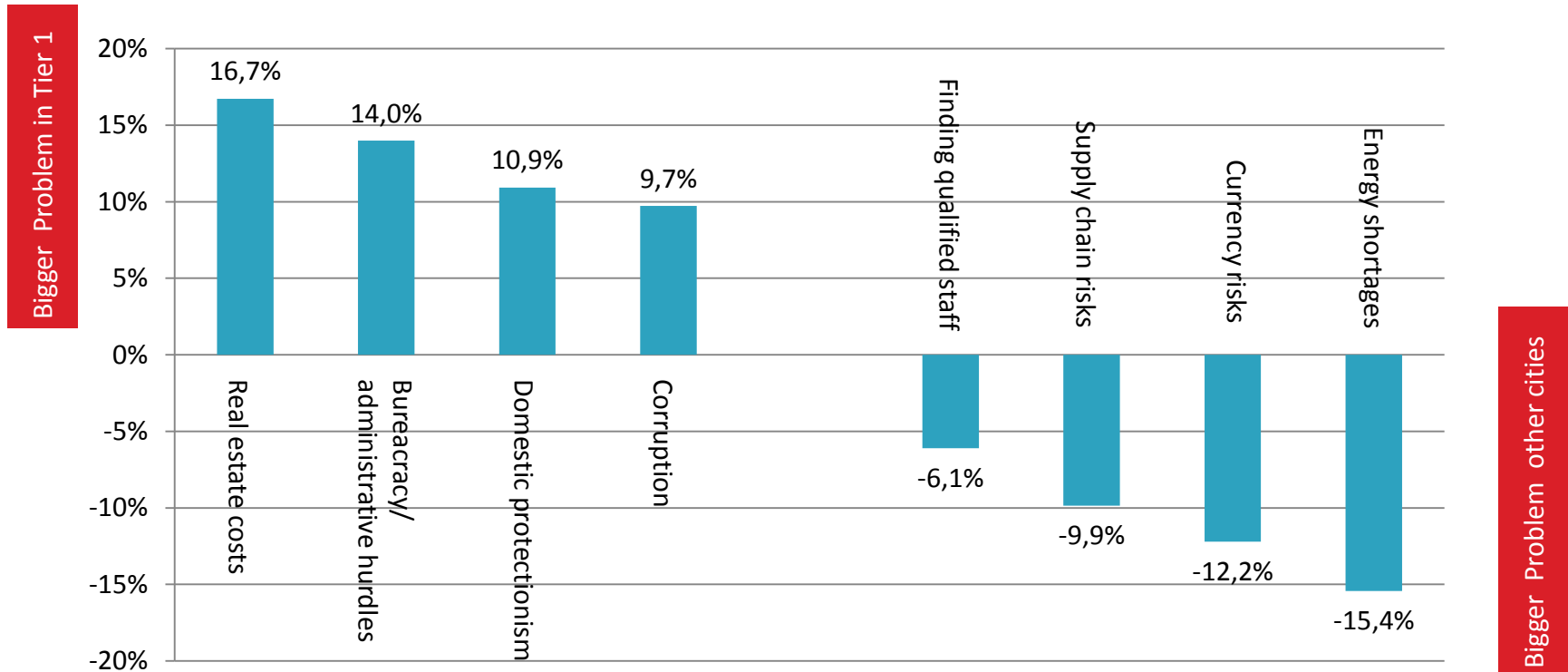
- Increasing labour costs most challenging for automotive, chemical & consulting
- IPR biggest non-HR challenge for automotive & machinery
- Commodity and energy prices second biggest challenge in chemical

Top 5 challenges by industry



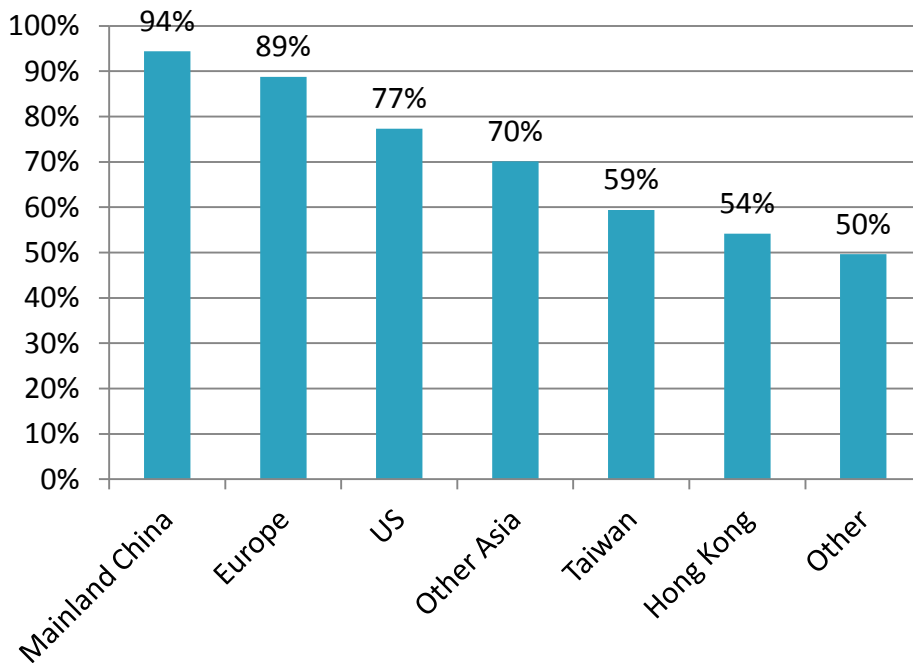
- Real estate costs and bureaucracy larger problem in tier 1 cities
- Energy shortages and currency risks more challenging for companies in tier 2 cities

Major differences among challenges between Tier 1 and Tier 2 cities

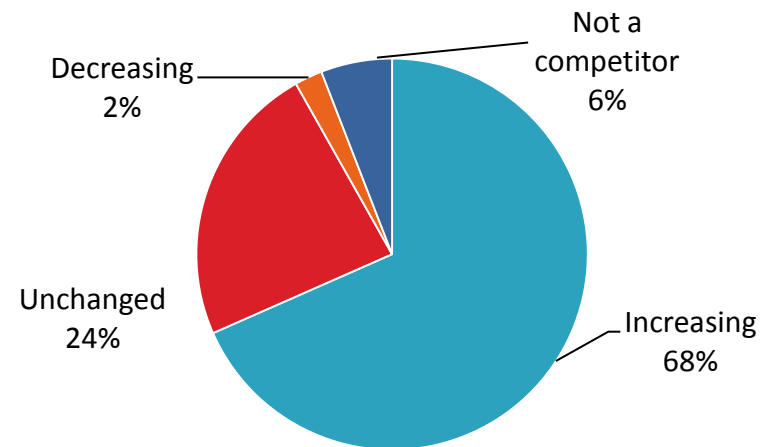


- 94% of German companies report Chinese competition
- Competitive pressure of Chinese companies continues to increase for 68%

Origin of competition for German companies in China

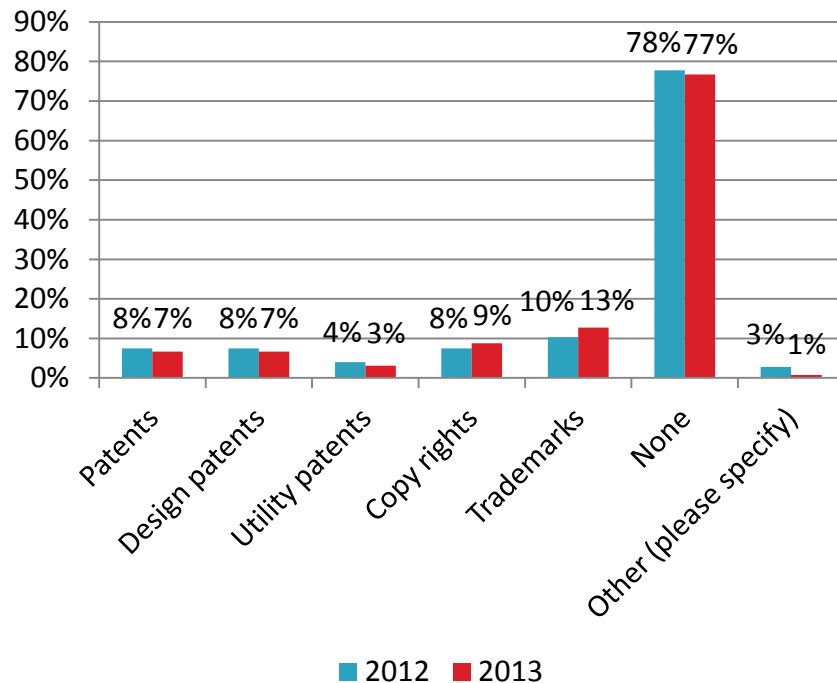


Development of Chinese competition

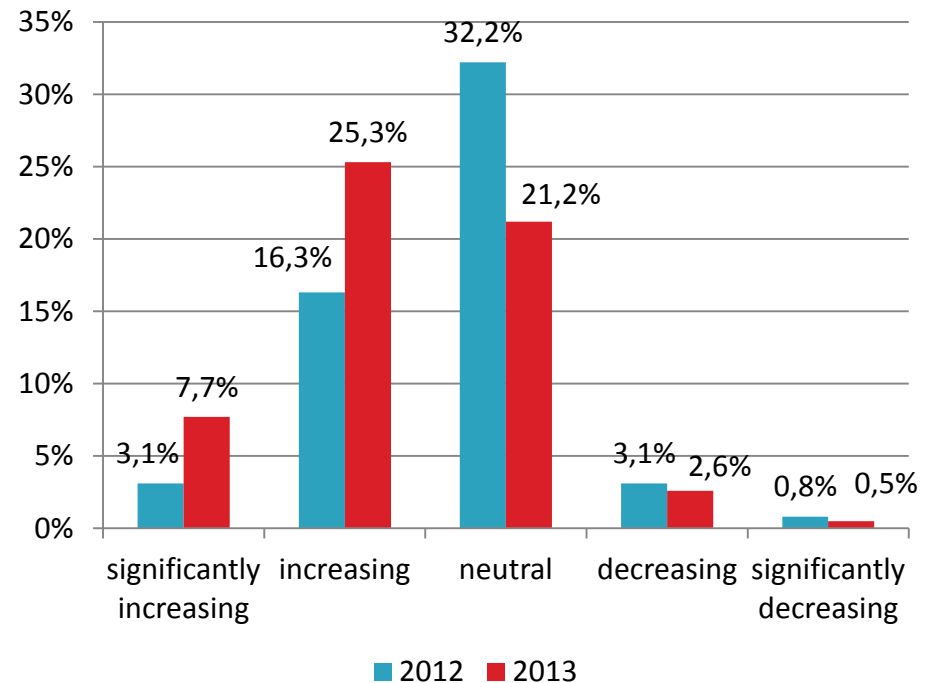


- One out of five companies have been confronted with IPR cases initiated by Chinese competitors
- Every 3rd company expects rising competition from innovative Chinese companies over the next three years

IPR confrontations initiated by local companies



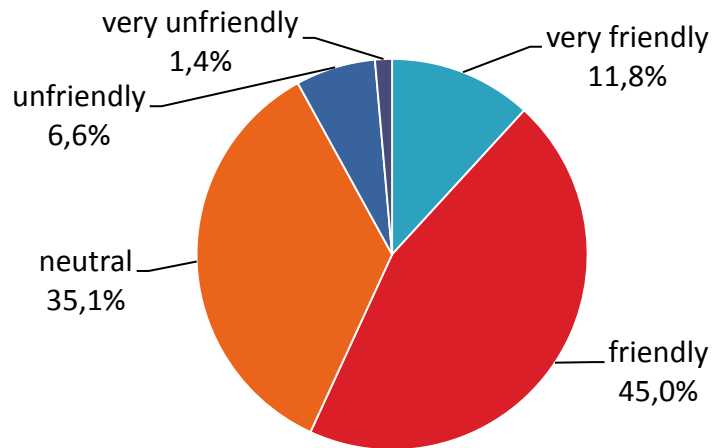
Expected competition through Chinese innovations over next 3 years



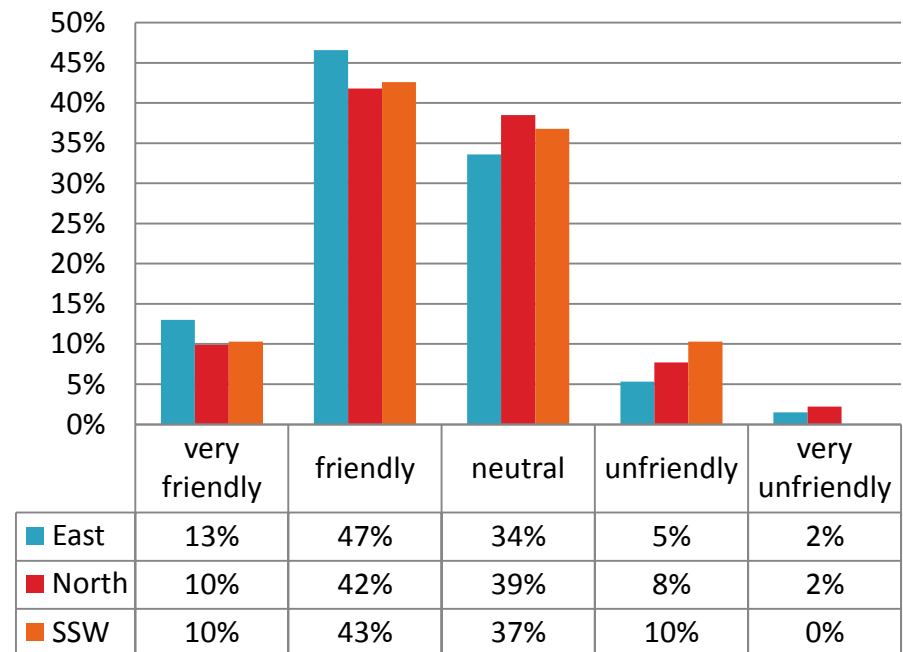
- Vast majority regards local authorities as friendly or very friendly towards their business
- Share of companies with positive view 16.3%* higher in tier 2 cities
- Companies in East China perceive region to be most business friendly

* Percentage points

Business friendliness of local authorities

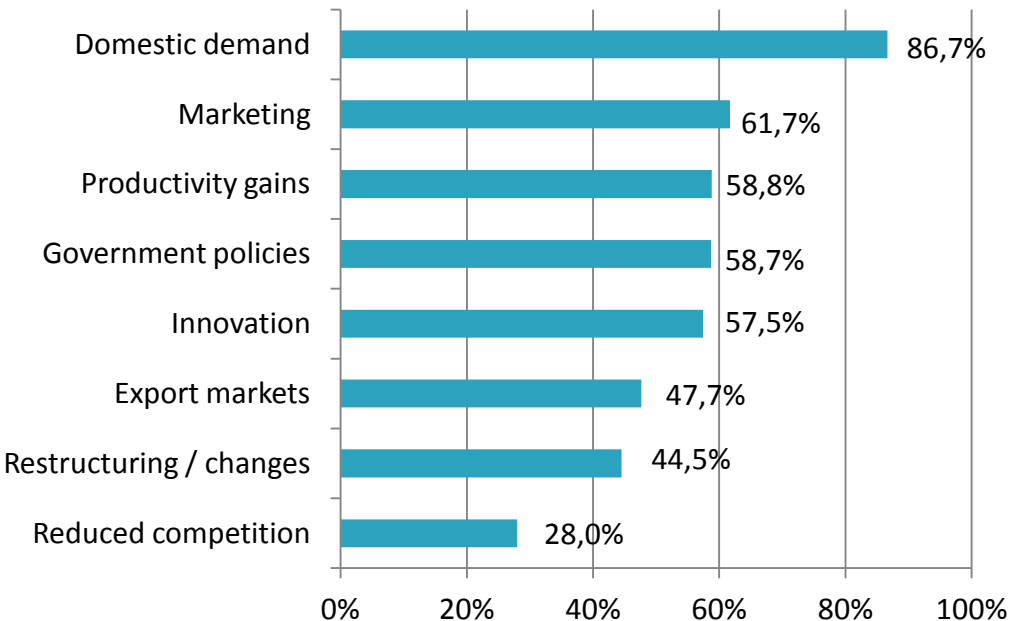


Business friendliness by regions

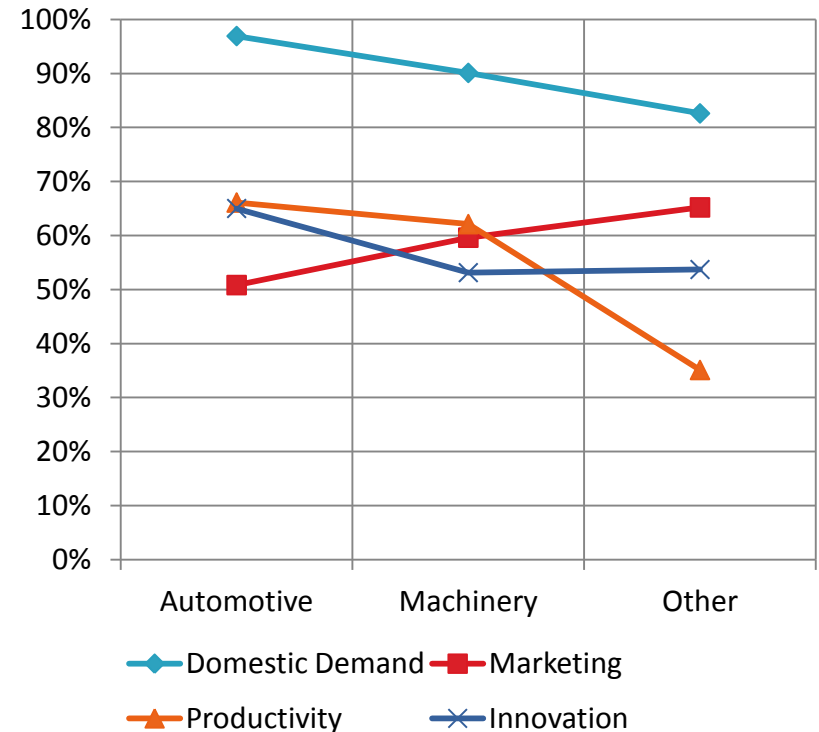


- Increasing demand continues to be most important growth driver
- Increase in productivity for automotive and machinery most important

Top future growth drivers

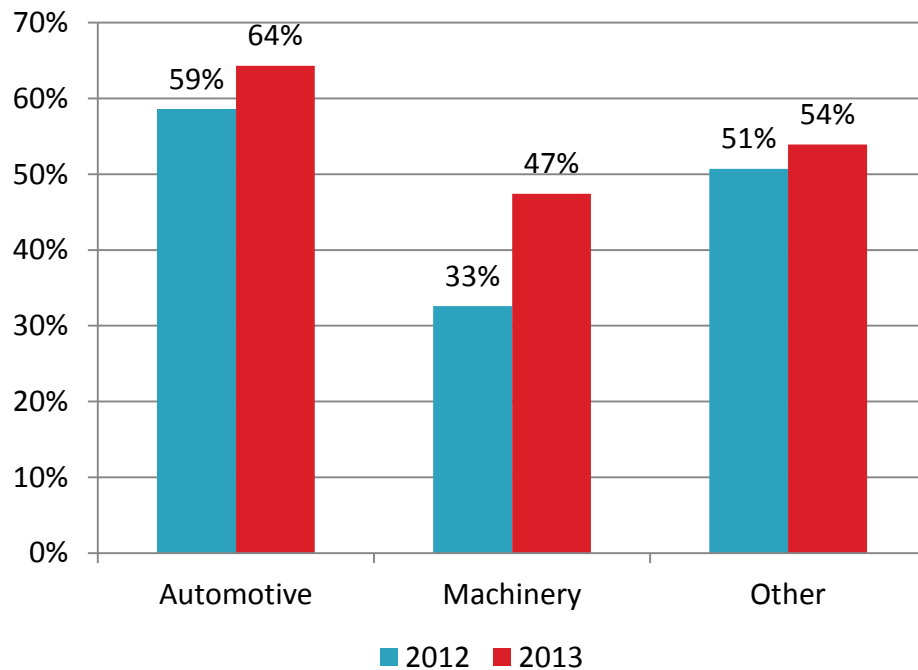


Future growth drivers by industry

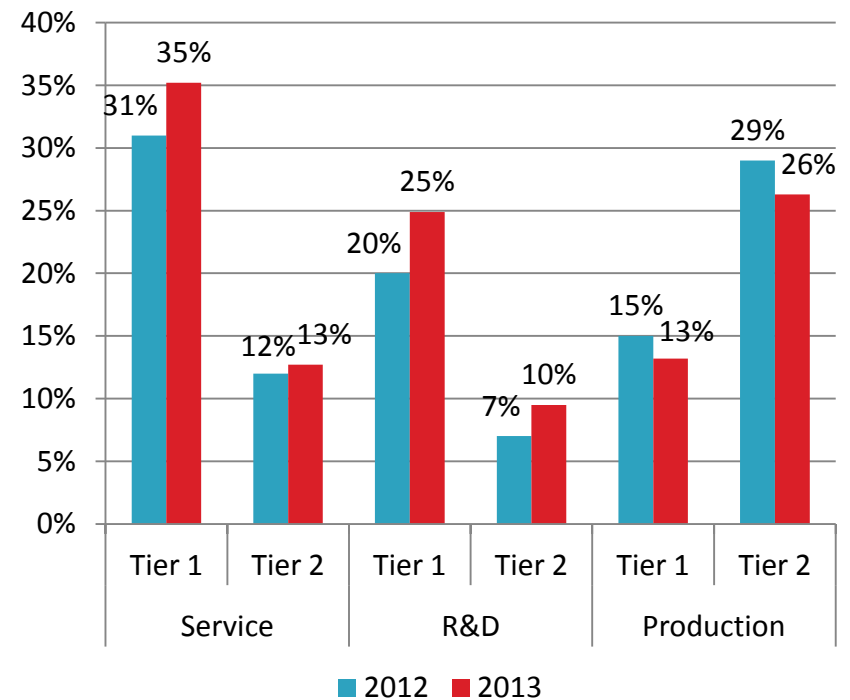


- Automotive sector most open towards R&D, machinery sector opening up
- Attractiveness for future R&D and service activities generally increasing
- Attractiveness for future production activities in tier 1 and tier 2 equally under pressure

Attractiveness for R&D activities by industry



Future attractiveness of current location



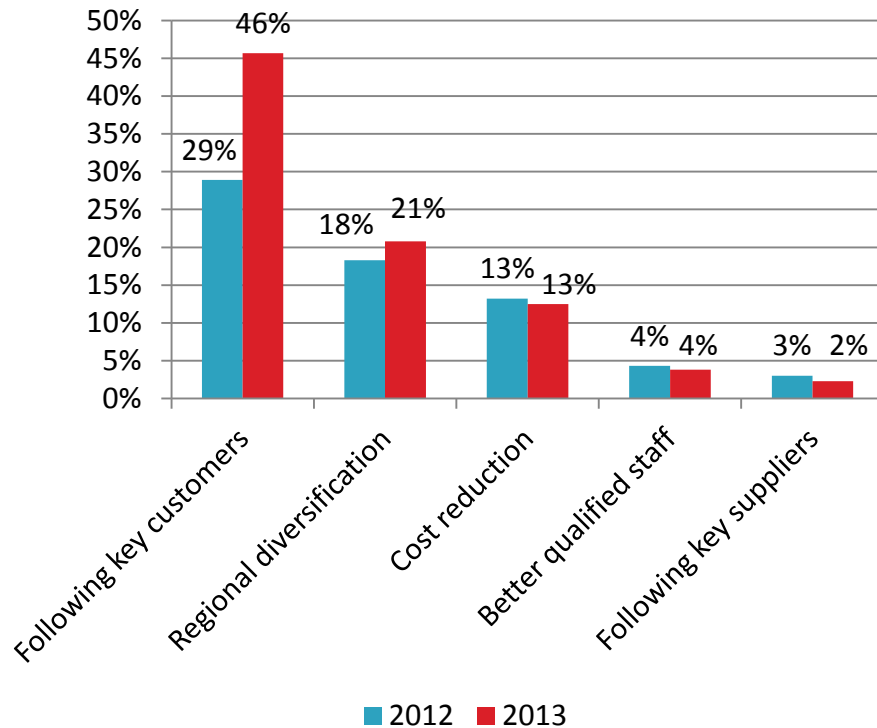
- Shanghai, Chengdu and Beijing most attractive locations for future investments
- Shenyang and Nanjing new among top 10 locations
- Wuhan and Xi'an no longer among top 10

Top 10 locations companies plan to invest in within the next 3 years

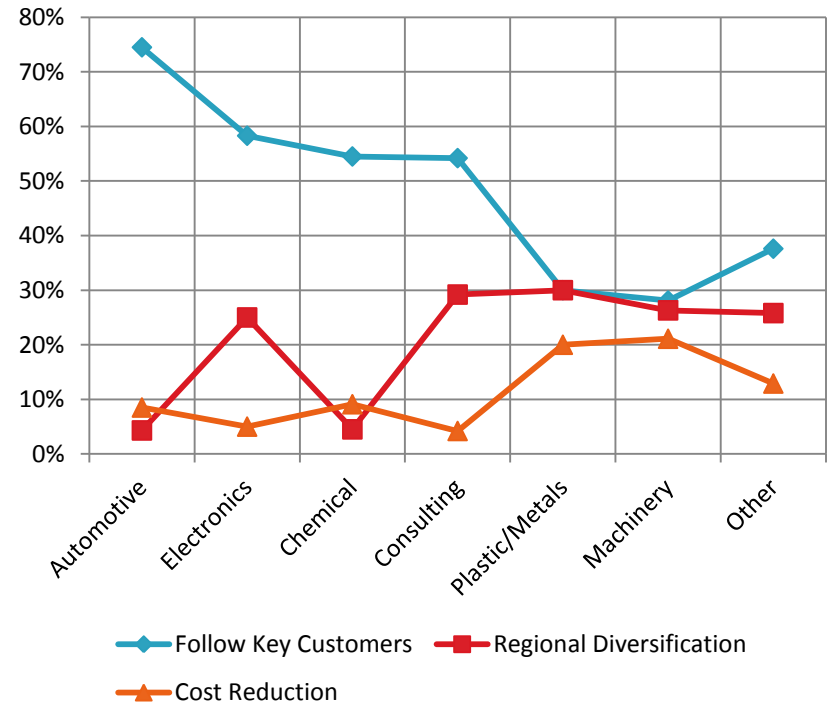


- Following key customers main reason for new investments – most for automotive
- Regional diversification second most important – most for consulting & plastic/metal

Major motivation for new investment



Motivation by industry



Importance

- Importance of local market increases further
- Lower production costs still major motive for market presence for 1/3 of companies

Outlook

- More optimism regarding economic environment – especially in South China
- Larger share of companies confident to mostly reach business targets (+11%* compared to 2012)

Challenges

- HR related challenges continue to be most severe
- 7 of top 10 challenges affect over 50% of companies
- IPR again is among top 10

Future Attractiveness

- Local R&D activities become more attractive – especially for machinery
- Chengdu continues to be most attractive tier 2 city, Shenyang and Nanjing new among top 10

* Percentage points



In cooperation with

STAUFEN.

Innovation in China

Situation and goal of German Companies 2013

Dr. Ulrich K. Frenzel
Prof. Dr. Gerhard Hube
Ole Strachan

| 01.07.2013

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1

- Innovation in China is getting more important for German companies
- Budgets and intensity of innovation activities are growing.

2

- German companies do not only apply patents for the Chinese market, they also develop these patents in the country to achieve customer satisfaction in China.

3

- There is not only customization of existing products and services but also the development of new or significant improved solutions.

4

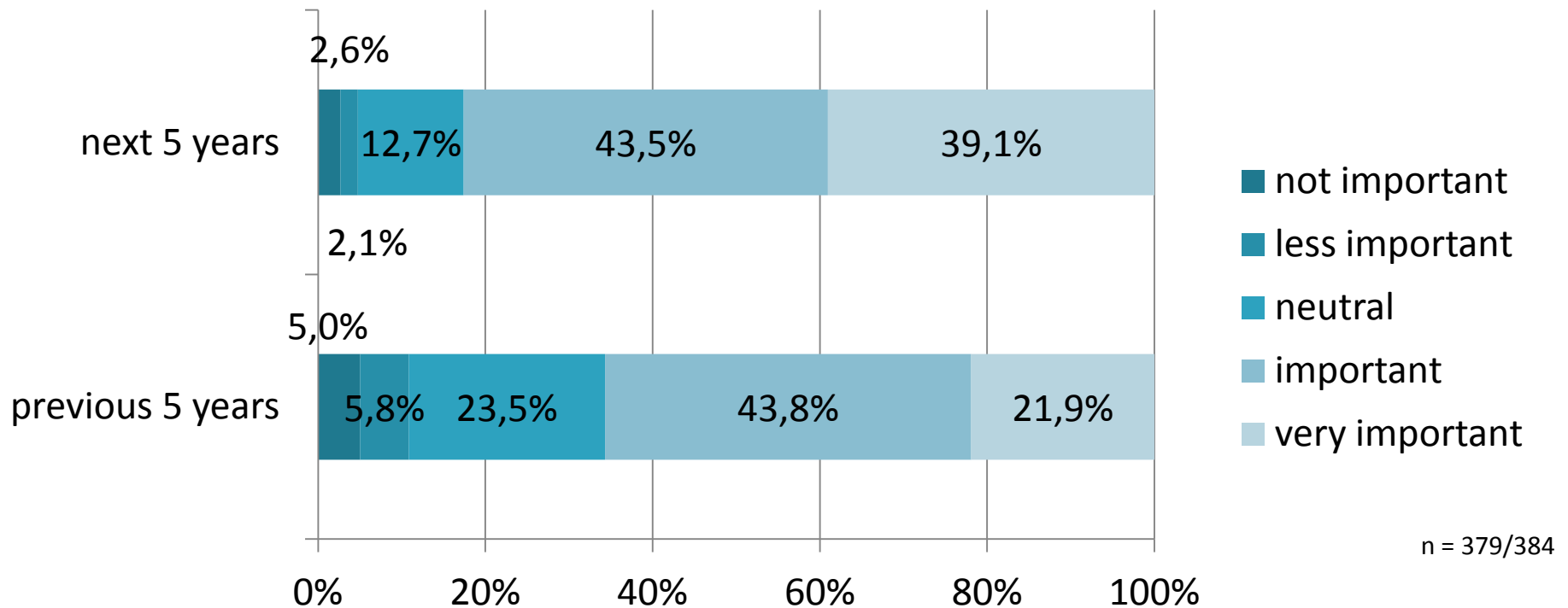
- Innovation activities are rather German, which means the responsible managers are mainly German and the main cooperation partner for innovation is the German mother company.

5

- The main problem for innovation activities is the lack of qualified employees

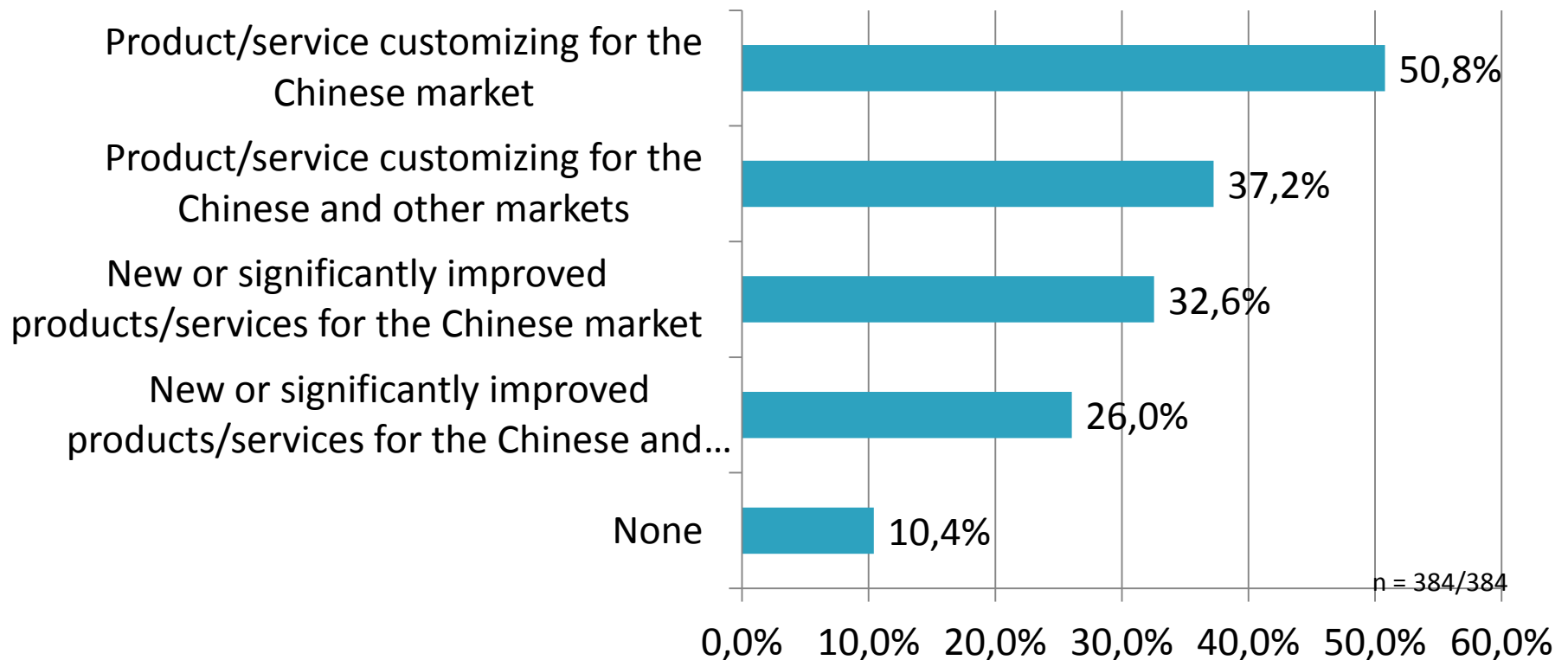
The importance of new or significant improved products or services affects almost 40% of the respondents within the next five years.

How important will innovations be in terms of new or significant improved products or services for your success on the Chinese market?



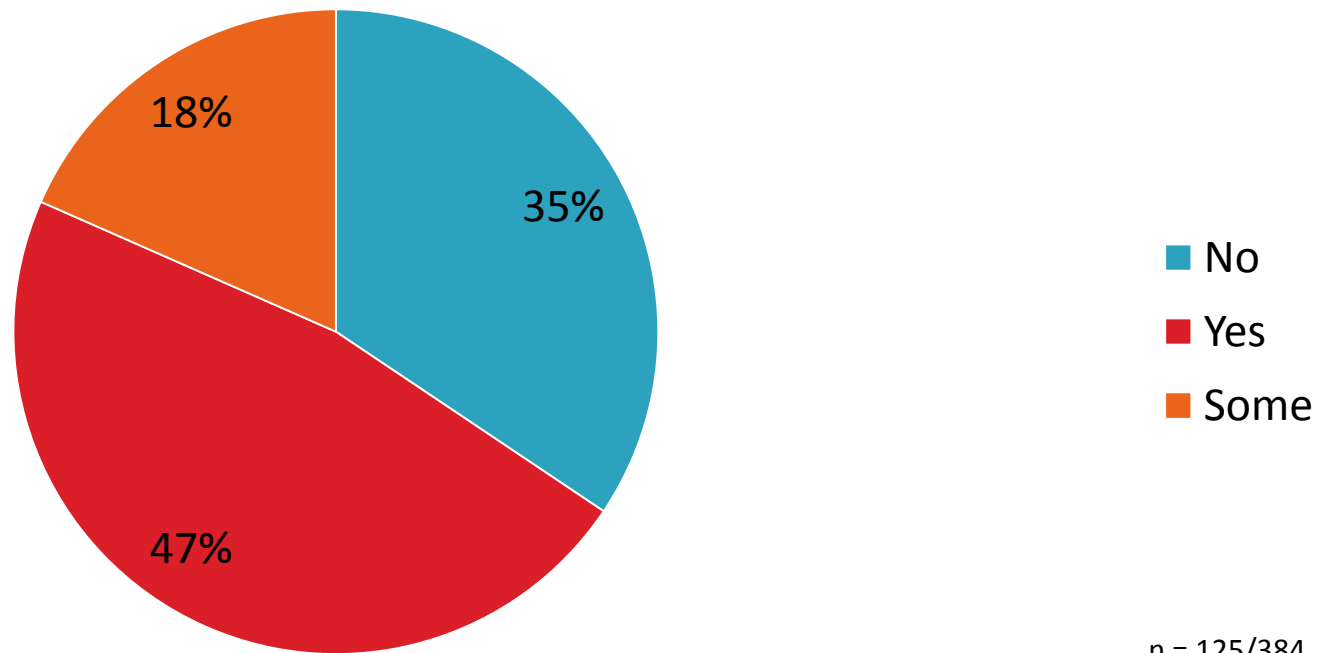
Almost every company in China is doing at least product/service customization. The main focus of innovation activities is on the Chinese market, but almost 30% are working on significant innovations not only for the Chinese market.

What types of innovation activities do you practice in China?



Enterprises do not only apply patents in China, almost half of the applied patents were developed in China. Only 6% of the interviewed companies did move their innovation activities back to Germany.

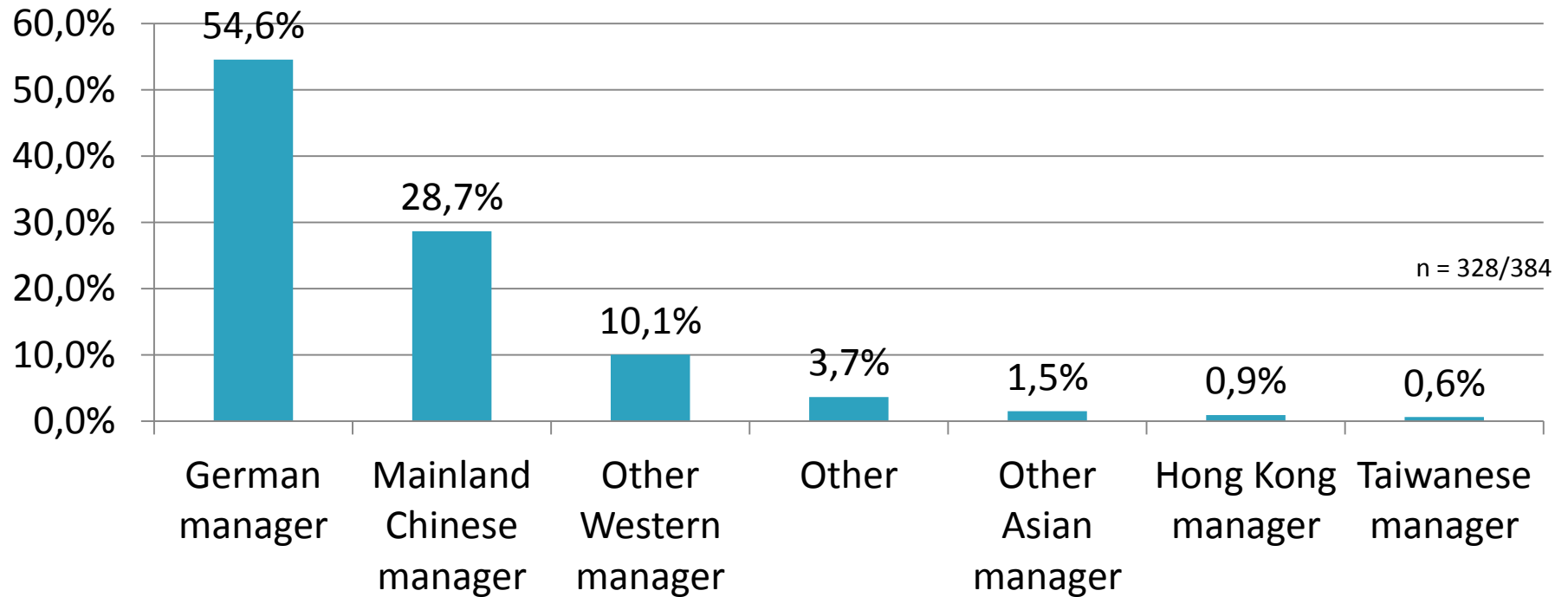
Were these applications from patents developed in China?



n = 125/384

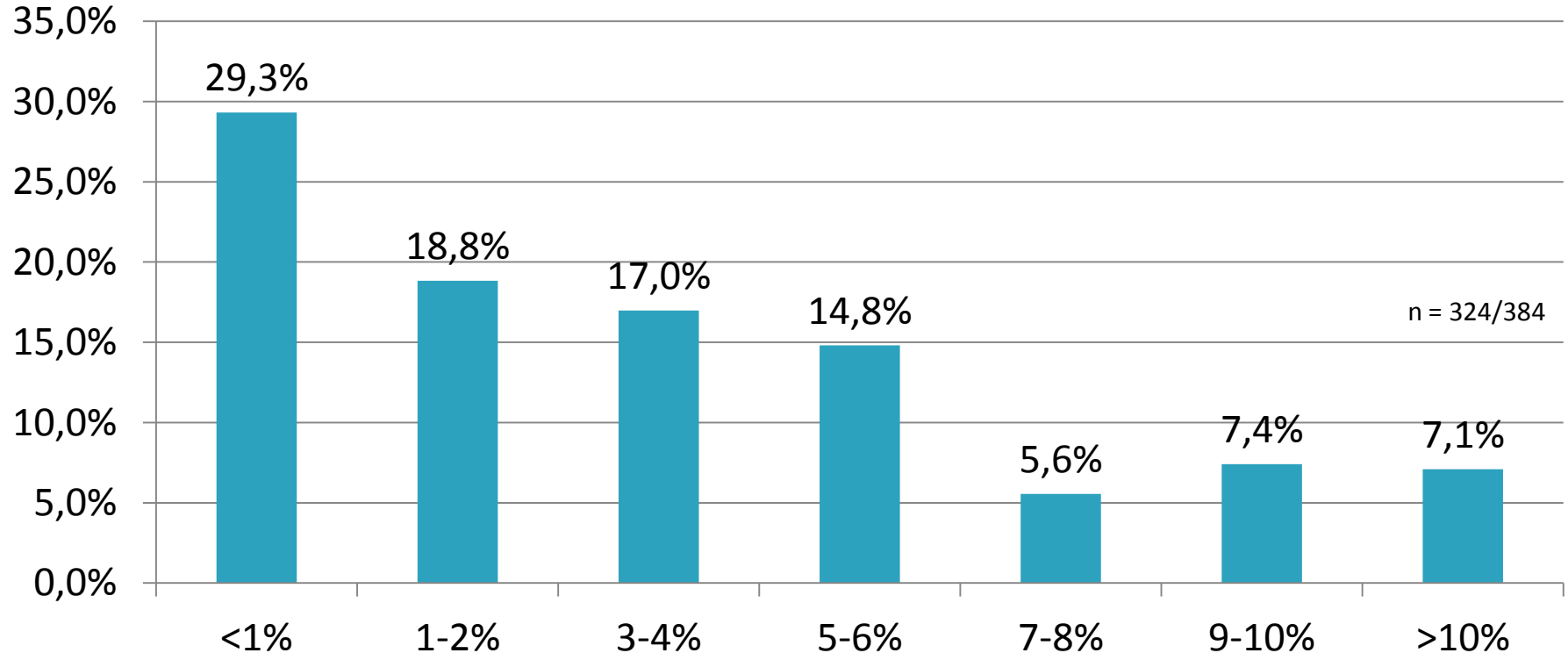
There are mainly German managers responsible for innovation activities in China, but Chinese managers follow second.

If there are innovations activities from your enterprise in China, who is the responsible manager?



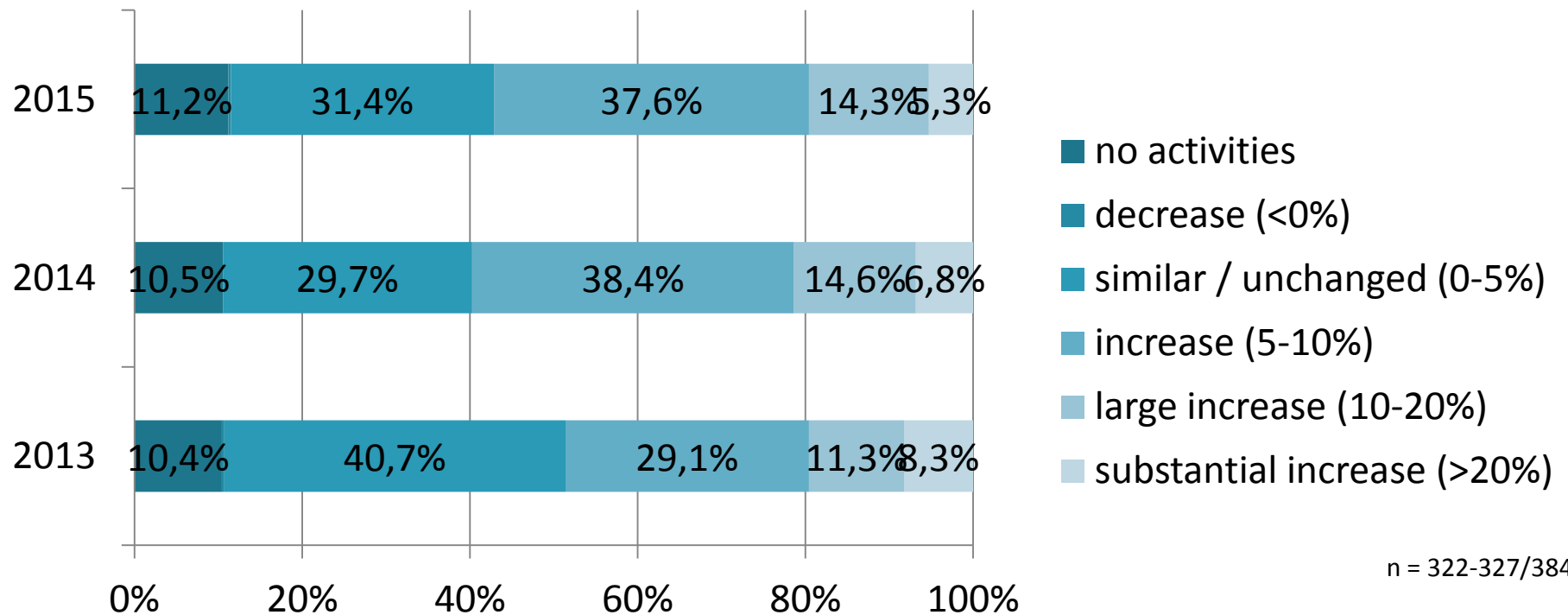
The expenses for innovation activities tend to be similar as in Germany. Almost 35% of the interviewed enterprises spend 5% and more of their revenue share for innovation activities, which correspond to the figures of industry in Germany (ZEW Innovation Survey 2012).

What share of revenue do you spend on R&D activities?



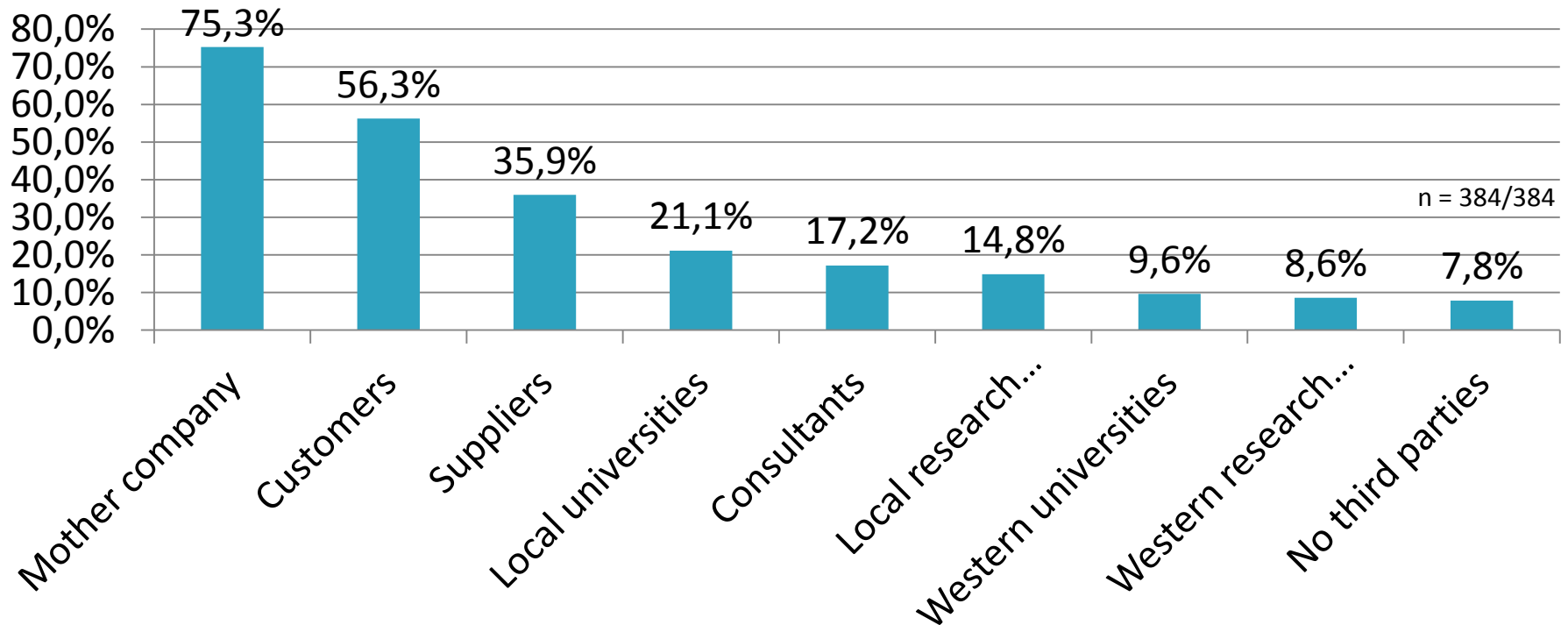
There will be an increase in innovation budgets in China till 2014 balancing on this level the upcoming years. Over 50% of the enterprises are going to increase their budget at least for more than 5-10% - this is remarkably high.

Please estimate the budget change for your innovation activities in the current year and over the next two years



The German mother company is still the most important partner for innovation activities in China, followed by the customers and suppliers. Local universities and institutes are rarely integrated.

What kind of partners do you integrate in your innovation activities?



The lack of qualified employees is the biggest barrier for innovation activities for German companies in China. The other topics are of equivalent relevance.

Which of the following conditions complicate or prevent your innovation activities in China?

