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Confédération suisse
Confederazione Svizzera
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Embassy of Switzerland
Swiss Business Hub China

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Mega trends, business opportunities and challenges in China

Mingya YE, Trade Promotion Officer,
Swiss Business Hub China



1. Tasks & Services of Swiss Business Hub



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Swiss Business Hub China Team



Yves Morath
Head of SBH
Export: 0.5 FTE
Invest.: 0.5 FTE

Country / Sub-Reg.

Actual - Qu. 1 / 2016 -

Exp. Inv. Oth. Total

SBH China

5.8

5.2

0.0

11.0



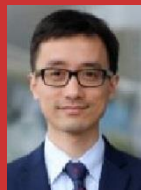
Philipp Haas
Investment Promotion Director
Export: 0.0 FTE
Invest.: 1.0 FTE



Intern
IP
Export: 0.2 FTE
Invest.: 0.8 FTE



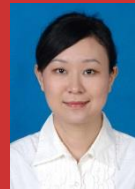
Ye Mingya
TP Officer
Export: 1.0 FTE
Invest.: 0.0 FTE



Peng Ligang
TP Officer
Export: 1.0 FTE
Invest.: 0.0 FTE



Wang Ke
Chief TP Officer
Export: 1.0 FTE
Invest.: 0.0 FTE



Chen Fangfang
TP Assistant
Export: 1.0 FTE
Invest.: 0.0 FTE



Mandy Lin
IP Officer
Export: 0.2 FTE
Invest.: 0.8 FTE



Yingming Liu
IP Officer
Export: 0.0 FTE
Invest.: 1.0 FTE



Wei Jinxiang
IP Officer
Export: 0.0 FTE
Invest.: 1.0 FTE



Tasks and Services

Service Publique

- Researching and compiling information about the relevant target market
- Clarification of business opportunities in relevant industries
- Individual consulting for small and medium-sized enterprises
- Contacts with trade organizations and public institutions

Mandates

- Market research, entry strategies and company set-up
- Partner search (distributors, representatives and import partners)
- Individual fact finding trips / event organization and support
- Organization of visits and trade missions

2. China – Megatrends

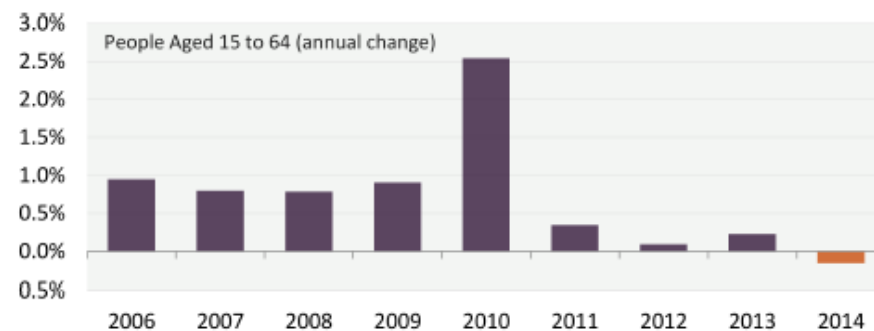


Demographic Shift

Shrinking Pool of Workers

The declining birth rate means that the nation will have a smaller and smaller population from which to draw workers. That can hold back economic growth and drive up wages too quickly, leading companies to move factories to lower-cost nations in Asia and elsewhere. The number of people ages 15 to 64 declined in 2014 for the first time in at least two decades, a drop of about 1.6 million, or 0.2 percent, to 1.004 billion.

Labor Force Declines First Time in at Least Two Decades



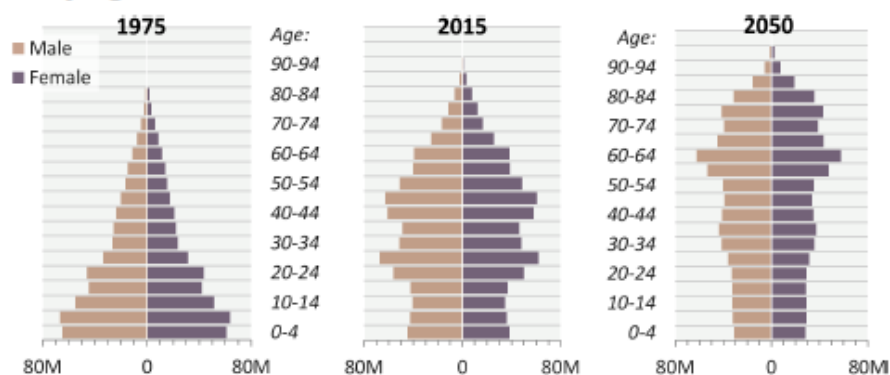
Source: National Bureau of Statistics

BloombergBriefs.com

Aging Population

The demographic shift means an ever-growing proportion of the population will be older, limiting the size of the workforce, boosting health-care costs and putting bigger burdens on younger people to support them. The United Nations projects that the number of Chinese age 60 and older will more than double in the next 25 years to 431 million. In 2050, that group's share of the population will be 36.5 percent, up from 15.2 percent in 2015, the UN estimates.

Graying China



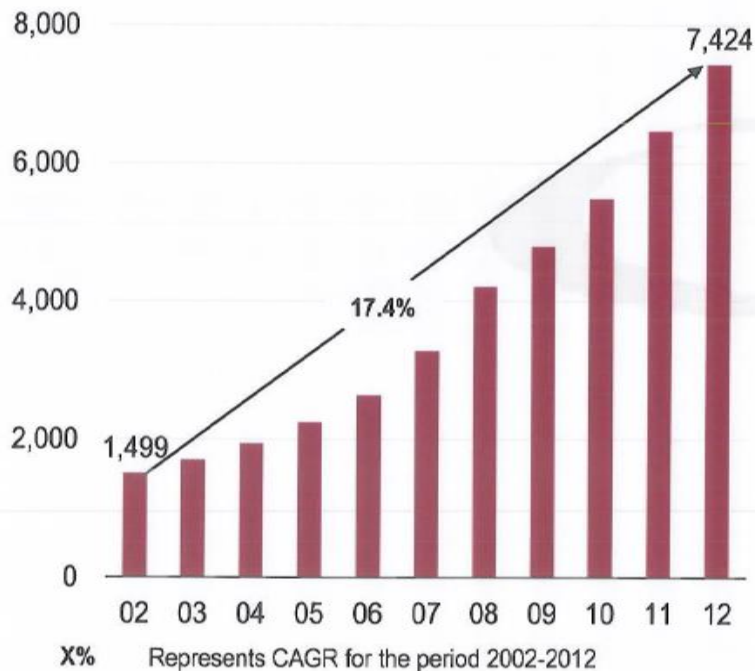
Source: UN World Population Prospects

BloombergBriefs.com

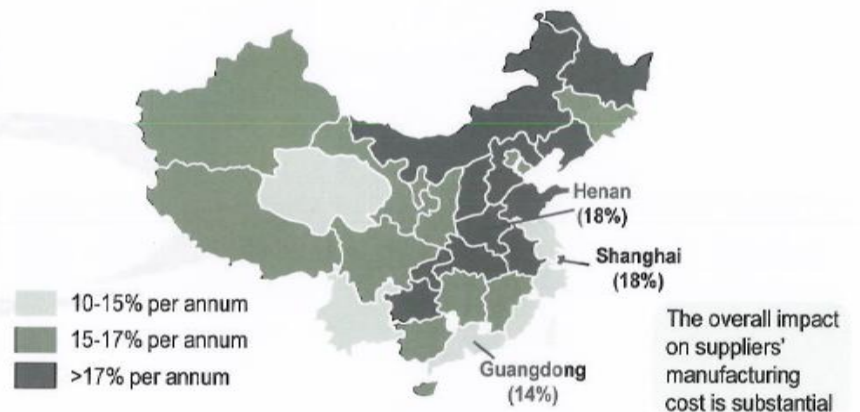


The End of Low-Cost China

Average Annual Wage of Urban Workers in China (USD, 2002-2012)



Average Annual Growth Rate of Hourly Manufacturing Wage Across China (2000-2012)



Labour Cost in China (2000 vs. 2012)

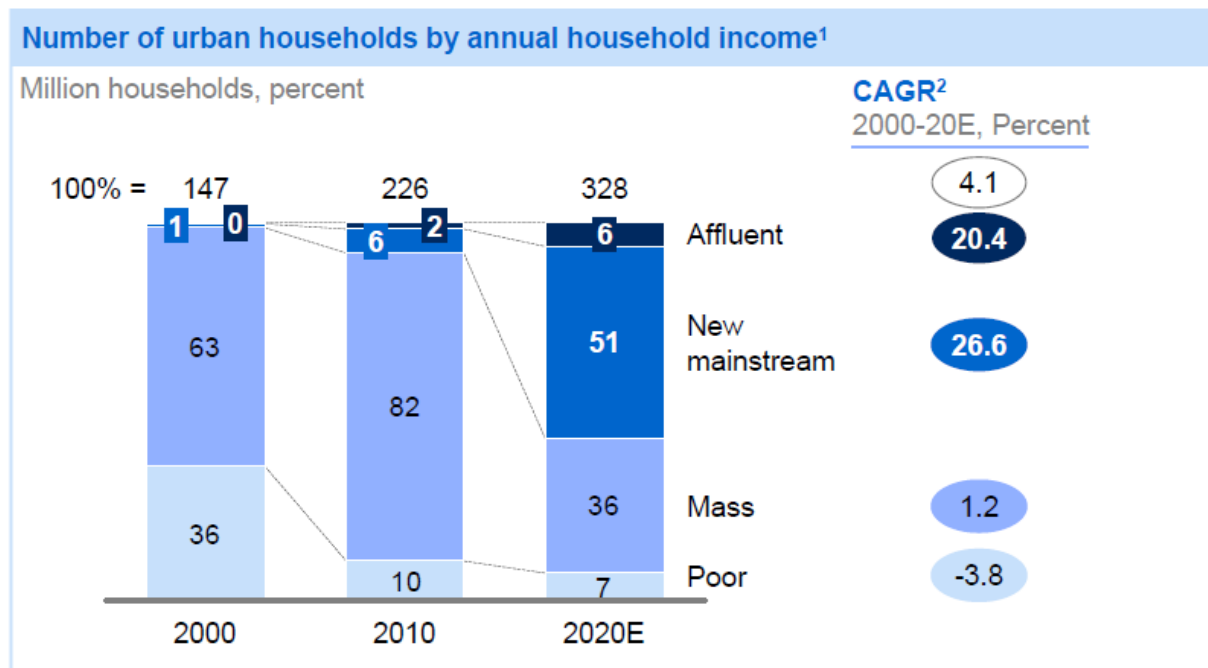
Province	Hourly Cost (USD, 2000)	Hourly Cost (USD, 2012)	Annual Cost* for 1,000 Workers (USD mn, 2000)	Annual Cost* for 1,000 Workers (USD mn, 2012)
Shanghai	1.03	4.74	2.1	9.5
Guangdong	0.75	2.76	1.5	5.5
Henan	0.37	2.32	0.74	4.6



Rapidly Growing Middle Class

New mainstream consumers will comprise more than half of all urban residents by 2020

URBAN CHINA



¹ Brackets are defined by disposable income per urban household per year, in 2010 real terms: affluent, more than RMB229,000 (equivalent to \$34,000); new mainstream, RMB106,000 to RMB229,000 (equivalent to \$16,000 to \$34,000); mass, RMB37,000 to RMB106,000 (equivalent to \$6,000 to \$16,000); poor, less than RMB37,000 (equivalent to \$6,000)

² Compound Annual Growth Rate

SOURCE: McKinsey Macroeconomic model update (Apr. 2012)

3. China – Challenges and Opportunities

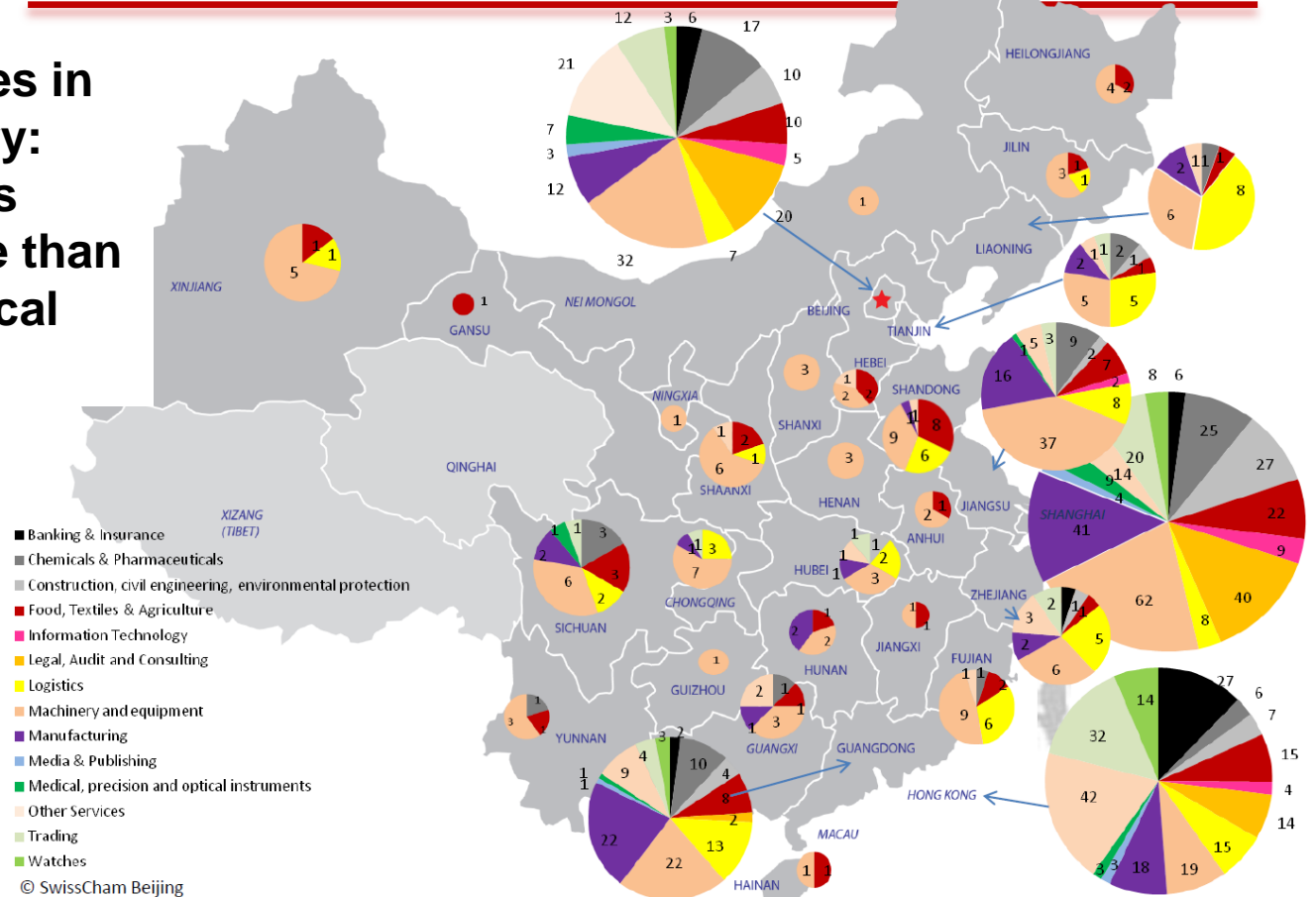


Challenges - Dimensions

swisscham.org

Swiss Companies in China 2015

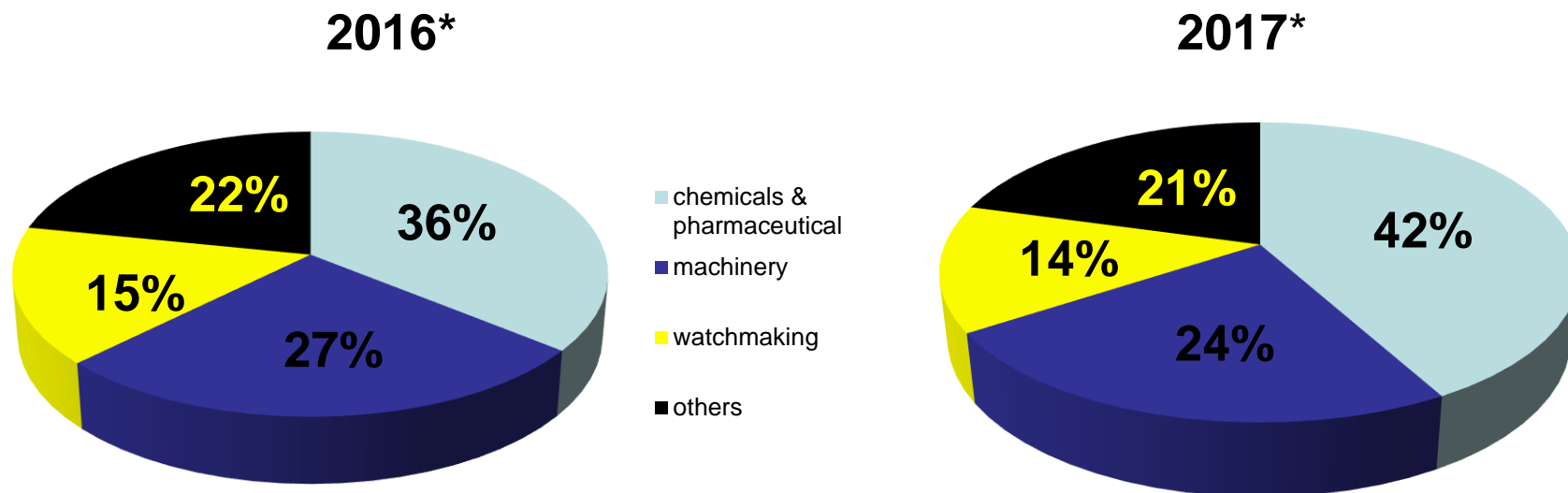
Swiss Subsidiaries in China per Industry: Around 600 Swiss Companies (more than 1000 including local Subsidiaries)



Challenges - Dimensions

Swiss Exports to China (without Hong Kong)

Swiss Exports to China reached a value of 9.5 billion CHF in 2017, the third biggest destination after the EU and the US



*Gold, precious stones, metals, and jewelry are not included in the calculation

Source: Swiss customs



Challenges - Cultural

Key Differences between business in Switzerland and China

Aspect	Switzerland	China	Take-aways
Quality	Quality & delivery are key	Price is key	<ul style="list-style-type: none"> Adjust quality to customers' demands Don't focus on perfection
Contracts	Contract is followed in word and deed	Contract is perceived as a base document, flexible	<ul style="list-style-type: none"> Set-up contracts in detail, Be specific about deadlines & requirements
Penalty	Penalty in case of violations	Usually no penalties	<ul style="list-style-type: none"> Set up contracts according to Chinese law (so you can sue in China) Even if Chinese firms don't: always play by the rules and follow the law
Risk	Risk averse	Risk is part of the game	<ul style="list-style-type: none"> Reduce risk with proper contracts Follow the law Get help from expert who knows both markets
Business / Private	Tendency to keep business, friends and family apart	Strong linkage between family, business and friends	<ul style="list-style-type: none"> Build long-term relationships Double-check the people you trust Don't criticize China in front of employees, partners etc.



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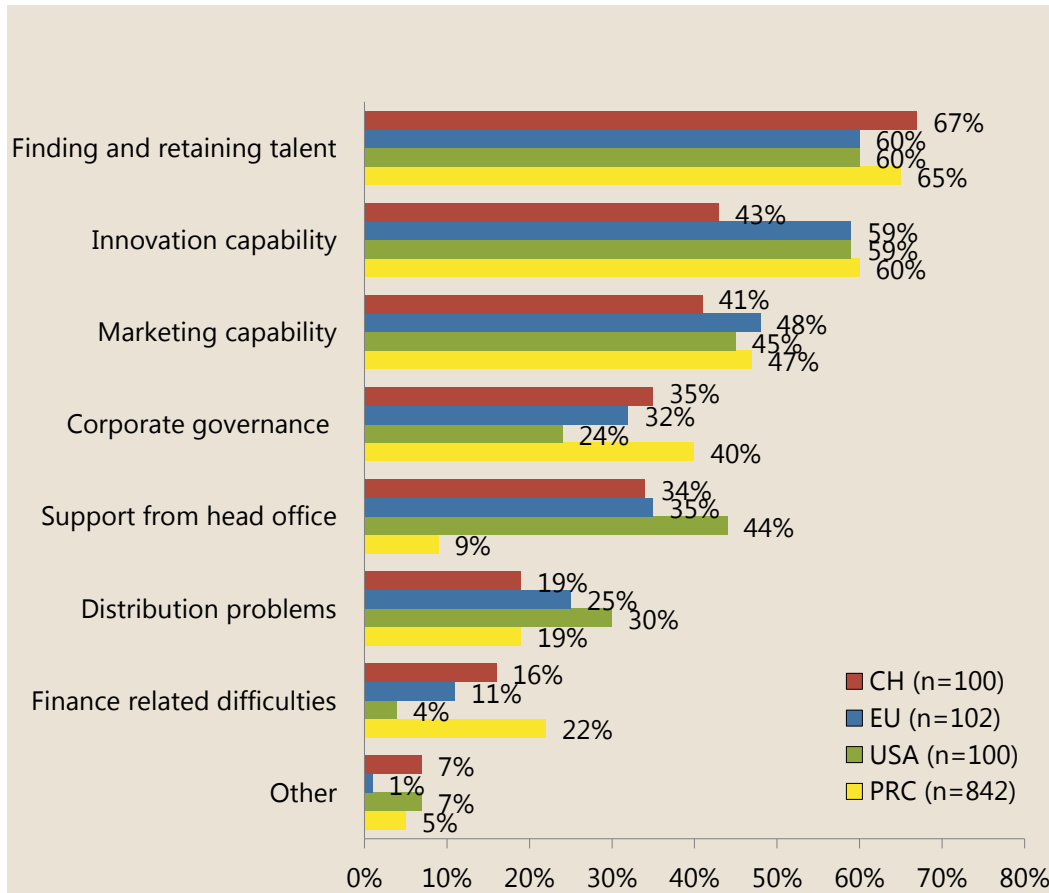
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Challenges – Investor Concerns



- WHAT ARE THE GREATEST INTERNAL CHALLENGES FACING YOUR COMPANY IN CHINA? (MULTIPLE ANSWERS)

Source: China Business Survey 2017 (CEIBS / China Integrated / SCS)



Challenges – IPR, legal and regulatory issues



Regina, Bombardier



CRH1



E2 Series Shinkansen, Kawasaki



CRH2

As reported to Swiss representations present in China:

- Insufficient enforcement of IP protection
- Un-transparent and unfavorable arbitration procedures, lacking recourse to international arbitration institutions
- Non-adherence to terms of contracts with respect to price, quantity and quality, changes or sudden termination of contracts and switching to other business suppliers
- Unclear regulatory environment and implementation of specific components or ingredients
- Burdensome processes for project approvals, licenses and certification



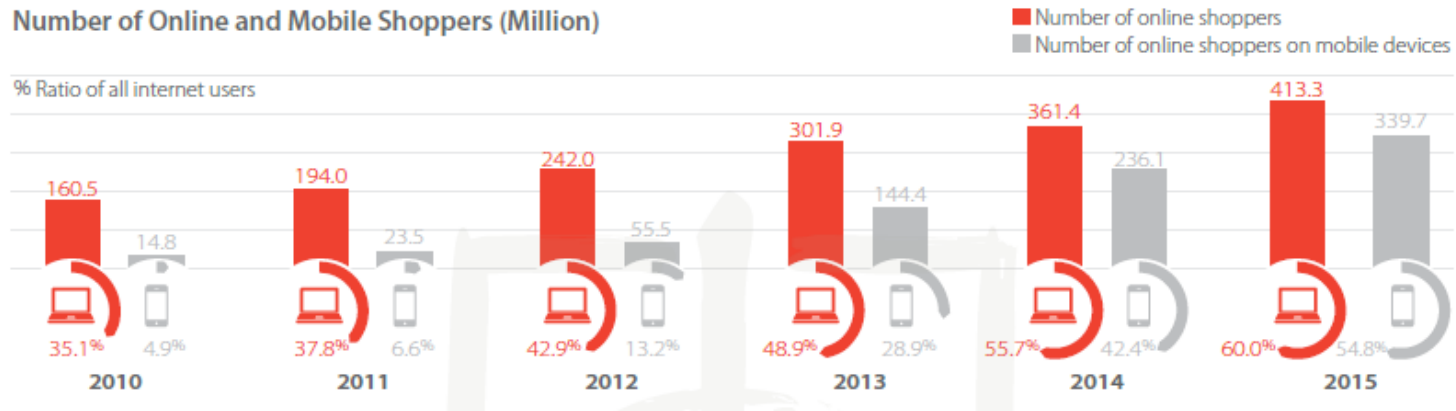
Challenges – Adapt your Approach to your Customer

Government	<ul style="list-style-type: none"> tender process complicated, requires local partner relationship very important, most times will have to deal with intermediary
SOE State Owned Enterprise	<ul style="list-style-type: none"> huge conglomerates, often not efficient or maximize profit driven requires patience, identifying the right person very difficult decision makers often elder and with close ties to the government party mostly will have to be dealt through an intermediary
POE private owned enterprise	<ul style="list-style-type: none"> often younger entrepreneurs that built the company by themselves one decision maker (owner) more price sensitive than SOEs business deals reached often quite quick, can be serviced from abroad
FIE foreign invested enterprise	<ul style="list-style-type: none"> easiest to deal with, direct business talks more often possible Keep in mind decision often made by headquarters abroad
private consumer	<ul style="list-style-type: none"> in general much younger than European consumers Less informed, education might be necessary rely very heavily on the internet and social media as a means of info

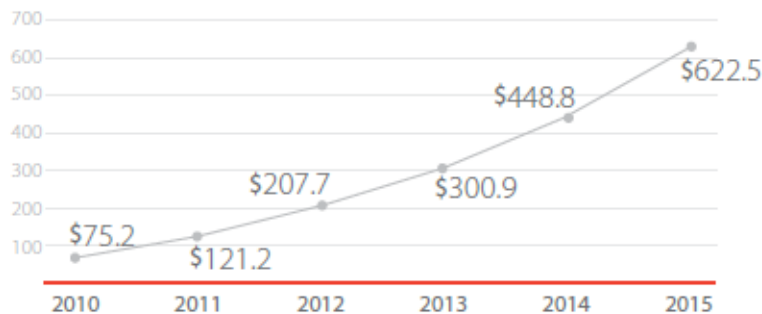


Opportunities – Internet / E-Commerce

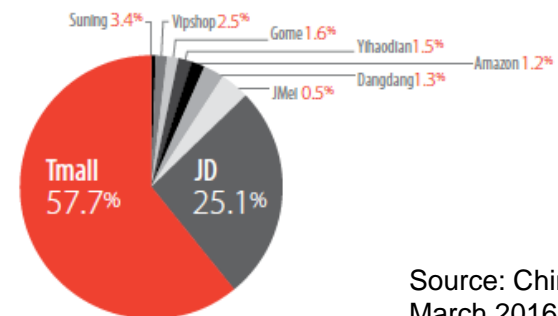
Number of Online and Mobile Shoppers (Million)



China's Online Retail Sales Since 2010 (Billion USD)



Structure of China's Online Shopping B2C Market in the First Half of 2015



Source: China Briefing, March 2016



Opportunities – Machinery

- Industry had growth rate of 25% in the last ten years, however exports declined in 2015
- One of the biggest export sectors to China with around 25%
- Third largest market for Swiss machinery industry
- Chinese competitors are catching up, imports make up only 30% of market (2005 over 50%)



Outlook:

- Highend manufacturing among 7 state supported strategic Industries
- Opportunities for:
 - Specialized high-end machinery (e.g. agriculture machinery, power, automation, etc)
 - high-end components of machinery and specialized components

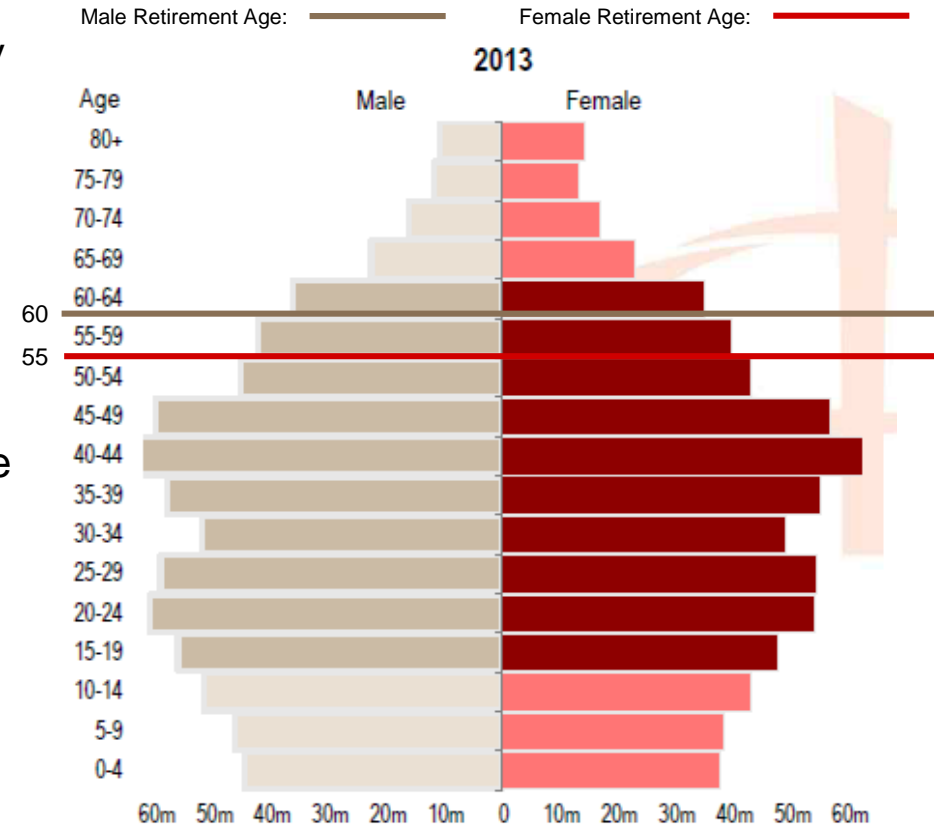


Opportunities – Healthcare: China is Growing Older

- China is expected to be an aged society (14% of population over 65) by 2027 – growing at a similar pace as Japan
- Medical-services market growing 18% annually
- Healthcare spending expected to grow to USD 1 trillion in 2020 (from USD 357 billion in 2010)
- Demand for a highly qualified healthcare system is increasing

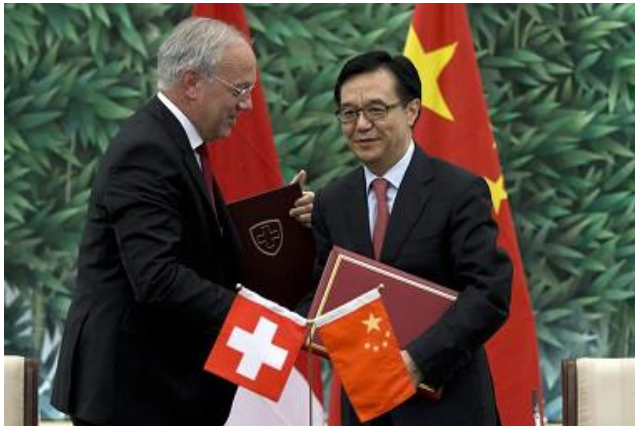
Conclusion:

- Chances for the life science and Medtech sector
- Chinas aging leads to new long-term challenges (Japan)





Opportunities – Sino-Swiss Free Trade Agreement



- Bilateral FTA entered in force on July 1 2014
- China will eventually offer zero tariffs to 84.2 percent of imports from Switzerland. Switzerland will offer zero tariffs for 99.7 percent of China's exports.
- Most goods will be reduced over a time period of 5-10 years, 20-30% of the goods from Switzerland will be immediately reduced to 0%
- FTA also includes country of origin, IPR, Trade barriers, dispute resolution, service sector, etc.
- Implementation has seen a number of issues after the entry in force; however, a number of solutions have been found between the Custom authorities of the two countries and exchanges are ongoing



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THANK YOU!



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