



China Business Survey

■ 2018

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2018 China Business Survey

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China Europe International Business School

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LETTER FROM THE RESEARCH TEAM

We are pleased to present the 8th annual CEIBS China Business Survey.

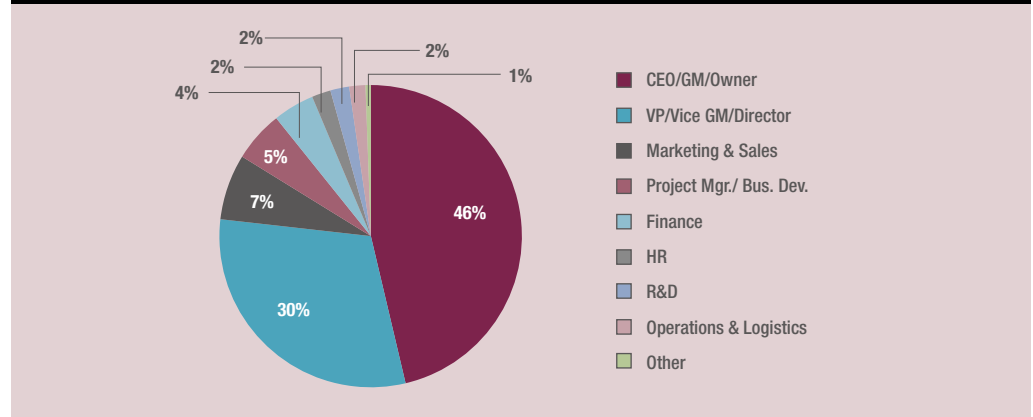
We want to sincerely thank all of the executives working in China who have participated in this survey for their time and valuable contribution. In particular we thank the CEIBS alumni community and current students who have given their support to this research. Our gratitude is also extended to the various Swiss organizations in China and its affiliated companies: Swiss Centers China, China Integrated, The Embassy of Switzerland in Beijing, Swissnex China, Swiss GlobalEnterprise, SwissCham.

We also acknowledge the financial support from CEIBS Research Fund, support from the alumni, MBA, EMBA, FMBA and Executive Education offices at CEIBS, and the many friends that helped us with their network. We are grateful to all of them.

Top management executives and also functional experts have given us a very valuable and rich perspective of the situation of their businesses in China in 2017 and their expectations for 2018 and the future.

The 2018 CEIBS Business in China Survey was completed by 699 executives between November and December 2017, with 440 from Chinese companies and 259 from foreign companies. Among them were 323 CEOs, GMs, and company owners; 213 Vice Presidents, Deputy General Managers or Directors. The rest represented all the remaining business functions: HR, Finance, Marketing, Sales, Operations and Research & Development. Of the respondents, 83% are from the Chinese mainland, 2% from Taiwan, Hong Kong or Macao, and 15% from other countries. 46% of the total sample has more than 20 years of work experience. The firms they work for are both Chinese owned (63% of them) and foreign owned (37%). This broad and experienced sample added rich and valuable perspectives to the survey.

FIGURE 1 - WHAT IS YOUR POSITION IN THE COMPANY? N= 699



THE RESEARCH TEAM



Prof. Juan Antonio Fernandez

Dr. Juan Antonio Fernandez is Associate Dean, MBA Programme Director and Professor of Management at China Europe International Business School (CEIBS) in Shanghai, China.

Prof. Fernandez has co-authored six books: *America Latina en China*, *CHINA CEO*, *Chinese SOEs Reform*, *China CEO: A Field Guide*, *China (Foreign) Entrepreneur* and *Chinese Entrepreneurs*. He has given presentations about his Chinese research in USA, India, Japan, Korea, UK, France, Italy, Spain, Vietnam, Mongolia and Ghana.



Prof. Bin Xu

Dr. Bin Xu is Professor of Economics and Finance, Associate Dean (Research) at CEIBS. He received his B.A. and M.A. from Fudan University, and Ph. D. from Columbia University.

Dr. Xu's current research focuses on the global and Chinese economy, multinational enterprises in China, and trade and finance issues of emerging markets. He has published extensively in both international and Chinese journals, and is author of *International Trade* (Peking University Press, 2009). Dr. Xu has worked as a consultant for International Monetary Fund (IMF) and the World Bank.



Prof. Dongsheng Zhou

Dr. Dongsheng Zhou is Professor of Marketing at CEIBS. He is also the academic director of SEPC, a joint executive training program with Harvard Business School and Tsinghua University. He received his Ph.D. from the University of British Columbia (UBC), Canada.

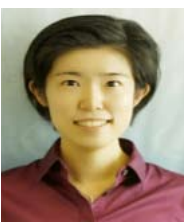
Dr. Zhou's research focuses on marketing strategies, game theory, MNE strategies in China and China's private enterprises. His research has been published in the *Academy of Management Review*, *International Business Review*, *International Marketing Review*, and others. Dr. Zhou has conducted consulting services for a number of firms (e.g. IBM, DuPont).



Maria J. Puyuelo

Maria J. Puyuelo is Research Associate at CEIBS. She obtained her MBA from Stanford Graduate School of Business (USA) and her MSc in Engineering from the University of Zaragoza (Spain).

Maria started her career at Procter & Gamble and has held various senior marketing positions at L'Oreal Luxury Goods Division. She has also worked as a free lance consultant, helping businesses develop and grow their markets in China. She has co-authored the book *America Latina en China*. Most recently she has developed and taught courses in the leadership field.



Dr. Yuwen Dai

Dr. Yuwen Dai is Research Fellow at CEIBS. She received her PhD from the University of York in the UK. Prior to joining CEIBS, Yuwen had more than five years of teaching and research experience in Australia, US and UK. She has also worked as a consultant for the International Monetary Fund (IMF) and the Asian Development Bank (ADB). As a global citizen, Yuwen has extensive traveling experience to over 60 countries across 5 continents.



SPECIAL TOPIC

CHINA'S DIGITAL REVOLUTION

Manufacturing companies dominated *Fortune Magazine's* first list of the 500 most profitable US companies in 1956; in stark contrast the latest ranking in 2018 is dominated by internet companies. The digital revolution is clearly transforming the way the whole world does business.

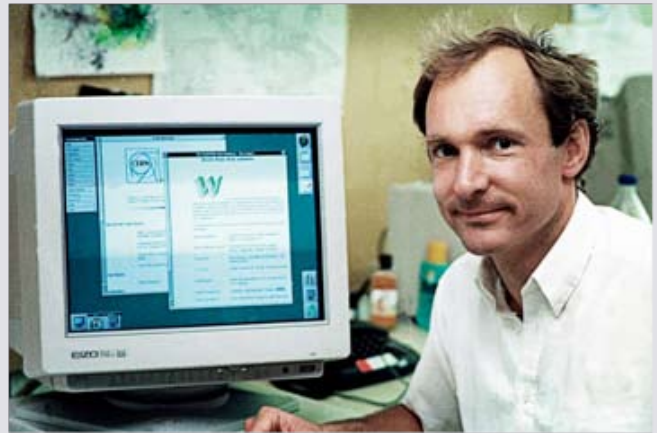
A natural effect of this revolution is that businesses, and sometimes entire industries, are becoming obsolete as new players emerge. This is what led Austrian economist Joseph Schumpeter (1883–1950) to coin the term 'creative destruction' to describe how creativity is at the heart of market economies, where innovations make traditional companies obsolete. It all began with the Industrial Revolution in the UK, in the 18th century, which included James Watt's invention of the steam engine in 1769. That revolution transformed the world; while some countries prospered, others lagged behind. We are now in the midst of another revolution, the digital.

This digital revolution started in the 1980s with Tim Berners-Lee's creation of the World Wide Web and in less than 30 years the internet has made a profound impact on the world economy. China has been a particularly interesting case. The opening up of the Chinese economy under the leadership of Deng Xiaoping in the late 1970s, dovetailed with the creation of the World Wide Web. Since then, China has experienced both revolutions – industrial and digital – almost simultaneously. Whereas it took the West almost 300 years to implement all the changes that resulted from the industrial revolution, China did it in less than three decades, transforming itself from an underdeveloped country into one of the largest economies in the world. The pace of China's Digital Revolution has been even faster. The country is becoming a leading force in the world's digital transformation, which is creating a new driver for the Chinese economy.

JAMES WATT, INVENTOR OF THE STEAM ENGINE¹



TIM BERNERS-LEE, INVENTOR OF THE WORD WIDE WEB²

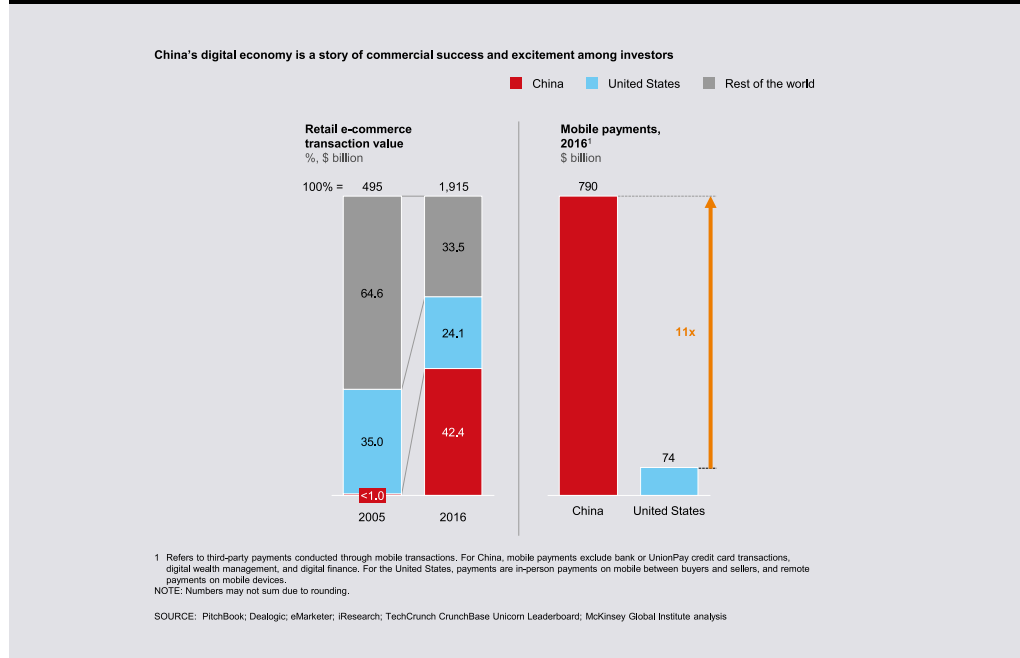


¹ http://www.bbc.co.uk/history/historic_figures/images/watt_james.jpg

² https://www.journaldugeek.com/wp-content/blogs.dir/1/files/2016/06/surveillance_tim_bern timers_lee_www.jpg

In a McKinsey Global Institute discussion paper³ comparing 2005 and 2016 retail e-commerce transaction values worldwide, China's numbers went from miniscule in 2005 to representing 42.4% of the world's transactions in 2016. In terms of mobile payments, China is by far the largest user on the planet, with 11 times the number of users in the United States.

CHINA'S RETAIL E-COMMERCE⁴

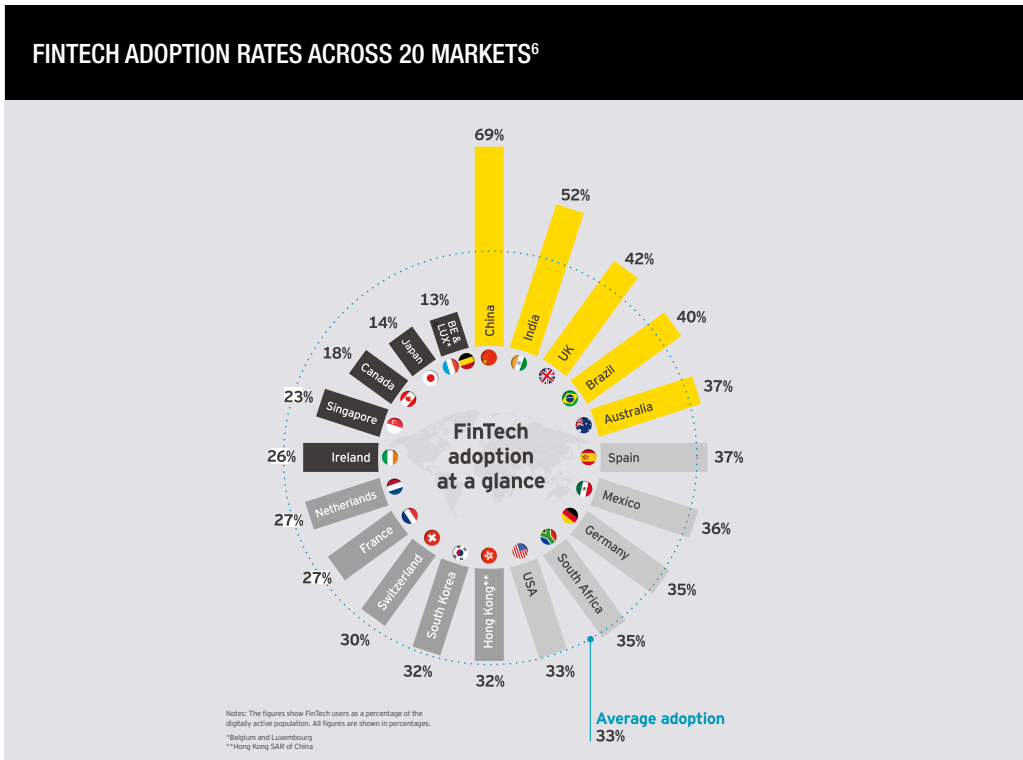


Another example is FinTech, the application of digital technology in China's financial industry. An EY report about FinTech adoption in 2017⁵ shows that China has 69% of its digitally active consumers using FinTech. This is the highest adoption rate in the world, more than double the 33% average adoption rate across the 20 markets studied. This is also reflected in the funds venture capitalists invest in digital start-ups: China is one of the leading countries.

³ "China's Digital Economy, a Leading Global Force", McKinsey Global Institute discussion paper, August 2017.

⁴ "China's Digital Economy, a Leading Global Force", McKinsey Global Institute discussion paper, August 2017.

⁵ "EY FinTech Adoption Index 2017. The rapid emergence of FinTech" ey.com/fs.



Given the Digital Revolution’s impact on how Chinese companies do business, we decided to include a few questions in our annual CEIBS China Business Survey, to better understand what companies are doing and plan to do in the future.

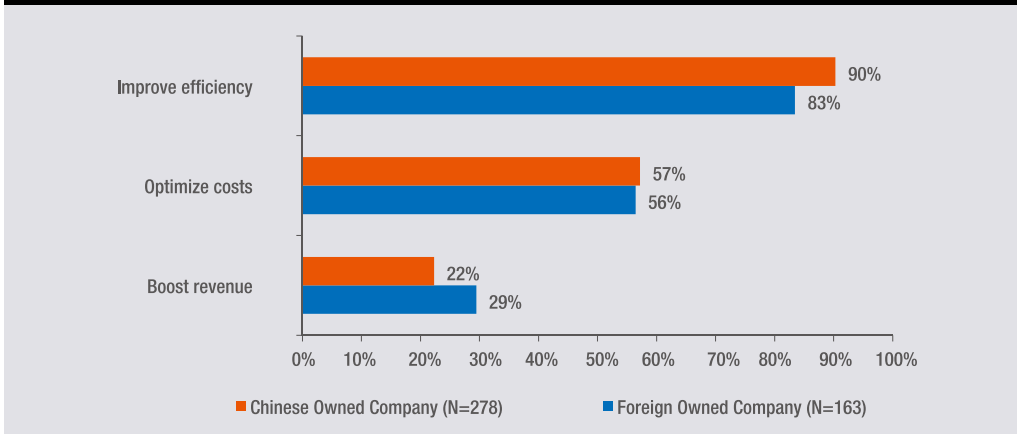
View from China

Out of our sample of 699 executives, 82% declared that their companies have already adopted digital technologies or plan to adopt them in the near future (72% have adopted, 10% plans to adopt soon). This data is consistent with Chinese consumers’ high rate of adoption of digital technologies. Moreover, companies currently using digital technologies all agree on the importance of digitalization for the success of their business, regardless of the industry where they operate, their size or type.

Most of the companies, adopters of such technologies, say digitalization helps them improve efficiency (90% of Chinese firms, 83% of foreign firms). Cost optimization comes in second place, mentioned by 57% of companies. A lower percentage of companies, 22% of Chinese firms and 29% of foreign ones, cite a boost in revenue as an advantage of digitalization.

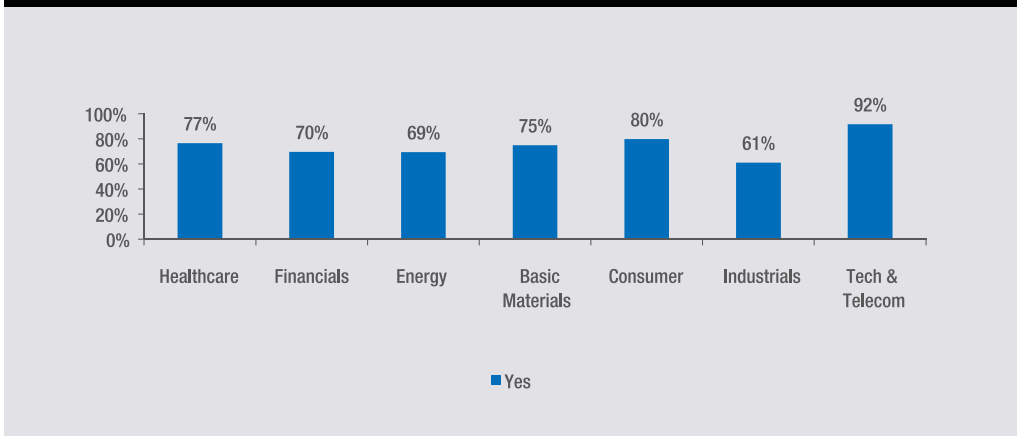
⁶ EY FinTech Adoption Index 2017. The rapid emergence of FinTech[®] ey.com/fs.

HOW DOES INVESTING IN DIGITAL TECHNOLOGY HELP YOUR BUSINESS?

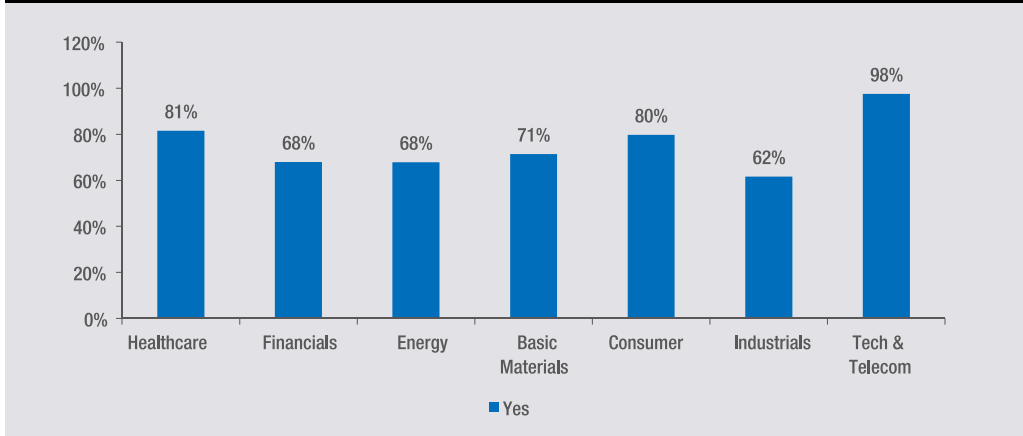


Despite the high level of adoption across the whole sample, the level of digitalization varies across industries. Unsurprisingly, Technology & Telecommunications is the industry showing the highest rate of adoption, accounting for 92% of the total sample. Energy and Industrials are on the lower side of the spectrum with adoption rates of 69% and 61% respectively. This effect is seen in our total sample as well as for Chinese-owned firms only.

HAVE YOU ADOPTED DIGITAL TECHNOLOGIES IN YOUR COMPANY? ALL SAMPLE, N=608

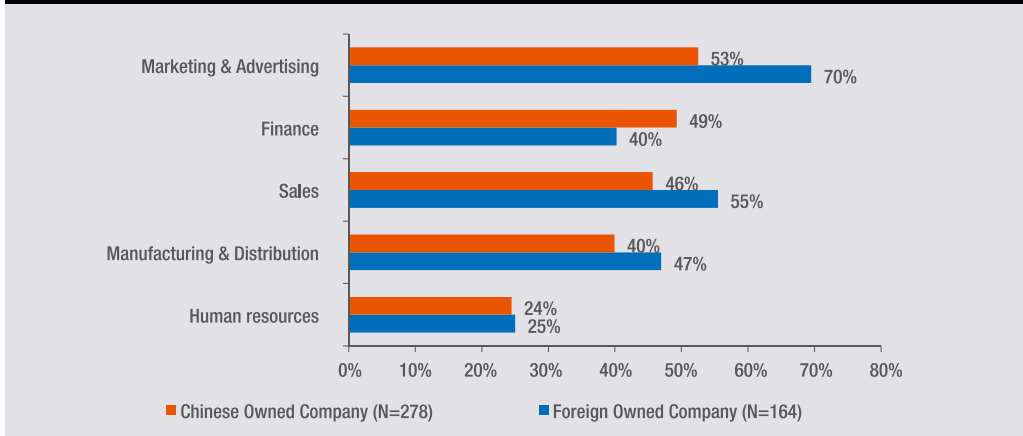


**HAVE YOU ADOPTED DIGITAL TECHNOLOGIES IN YOUR COMPANY?
CHINESE FIRMS ONLY, N=374**



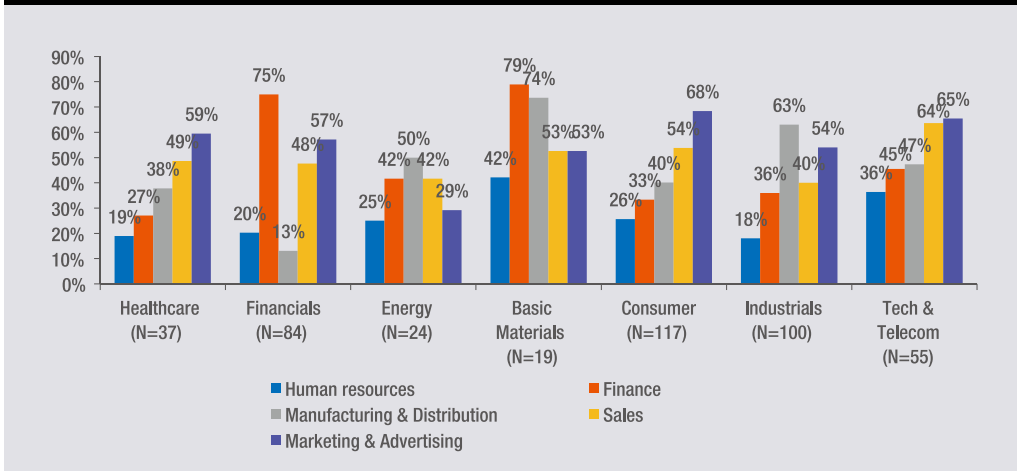
The impact of digitalization also depends on the function within the firm. Marketing & Advertising is the area where most of the sampled firms use digital technologies (53% of Chinese firms and 70% of foreign firms), followed by Finance, Sales and Manufacturing & Distribution. Human Resources is the area with lowest penetration rate at 24% of Chinese firms and 25% of foreign firms.

IN WHICH AREA OF YOUR COMPANY HAVE YOU ADOPTED DIGITAL TECHNOLOGIES?



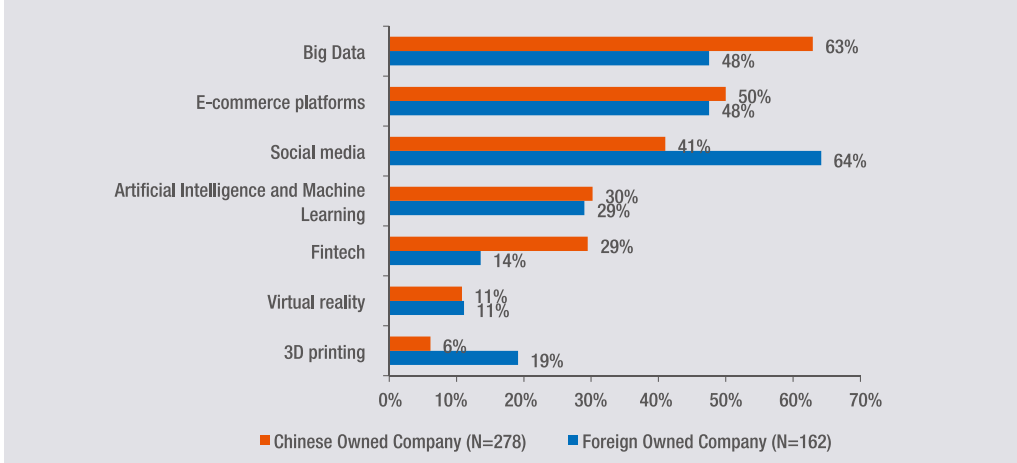
The chart below shows the differences, by industry, in the areas where these companies adopt digital technologies. Several clear differences emerge that can be explained by the specificities of the industry. For example, adoption of digital technologies in the finance department is seen more often for firms in the Finance or Basic Materials sectors. Digitalization in the Marketing & Advertising department is highest for firms in the Consumer sector, Technology & Telecommunications and Healthcare.

BY INDUSTRY: IN WHICH AREA OF YOUR COMPANY HAVE YOU ADOPTED DIGITAL TECHNOLOGIES?



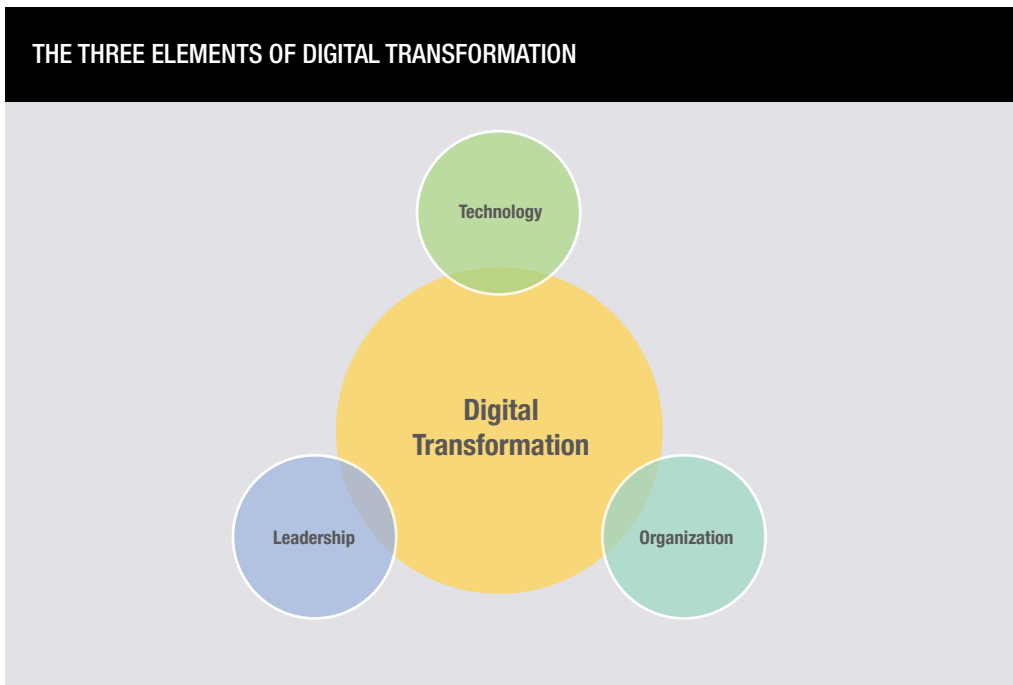
We also asked our sample about the type of digital technologies they use. Chinese companies mostly select the areas of Big Data (63% of companies), followed by E-commerce platforms and Social Media (50% and 41% of them respectively). Foreign firms show a strong preference for the use of Social Media (64% of companies), followed by Big Data and E-commerce (48% of firms).

WHICH OF THESE TECHNOLOGIES DO YOU USE IN YOUR COMPANY?



How to maximize digital technology

Chinese consumers are some of the most enthusiastic adopters of digital technologies in the world. Moreover, companies in China are adopting this technology which is helping them improve efficiency and reduce costs. However, it is not often easy for a traditional company to start on the path towards digital transformation. But there are some key factors that can go a long way towards successfully adopting digital technologies in organizations:



Technology: Keeping up with and, more importantly, leveraging the latest technology will be one of the biggest challenges of the Digital Revolution. A few years ago, it was all about 3G and Big Data. Today we are talking about 5G and how to interpret the mounds of data that is literally at our fingertips. Conversations routinely touch on topics such as the Internet of Things (IOT), Virtual and Augmented Reality (VR and AR), Artificial Intelligence (AI) and how all of these will impact the way we live and work.

Organization: Today's organizations need to be agile and able to quickly respond to changes in an ever-evolving environment, and in their client base. They must be connected to the market, extremely skilled at listening to their customers, and always ready to adopt the digital tools their businesses need to thrive. With today's Digital Revolution, success hinges on creativity, a proactive attitude, and specific skills adapted to the needs and conditions of the digital world. Employees need to have big ideas and propose workable solutions, not just wait for instructions on what to do. The national education system must be adapted to the new technology as well as to today's increasingly tech-savvy youngsters. At the same time companies must provide more mature employees with the training needed for them to acquire the necessary skills, as well as establish internal processes that foster creativity and initiative taking. These initiatives are increasingly important as questions arise about which skills or positions will be made obsolete with even greater breakthroughs in AI and robotics.

Leadership: Today's leaders – and those of the immediate future – will face the huge challenge of being at the helm of organizations where many of those they lead know a lot more about the digital age than they do. A healthy dose of humility will help them remain effective and respected. So too will having an open minded and willingness to learn from others, even if their teachers are younger or have less seniority within the company.

The digital revolution is here to stay. It is transforming the way we do business and it is transforming customer expectations. Organizations and individuals need to adapt fast if they want to be among the winners.



SECTION 1

DESCRIPTION OF THE COMPANIES PARTICIPATING

This section details the following information about the companies that have participated in the 8th edition of the CEIBS China Business Survey

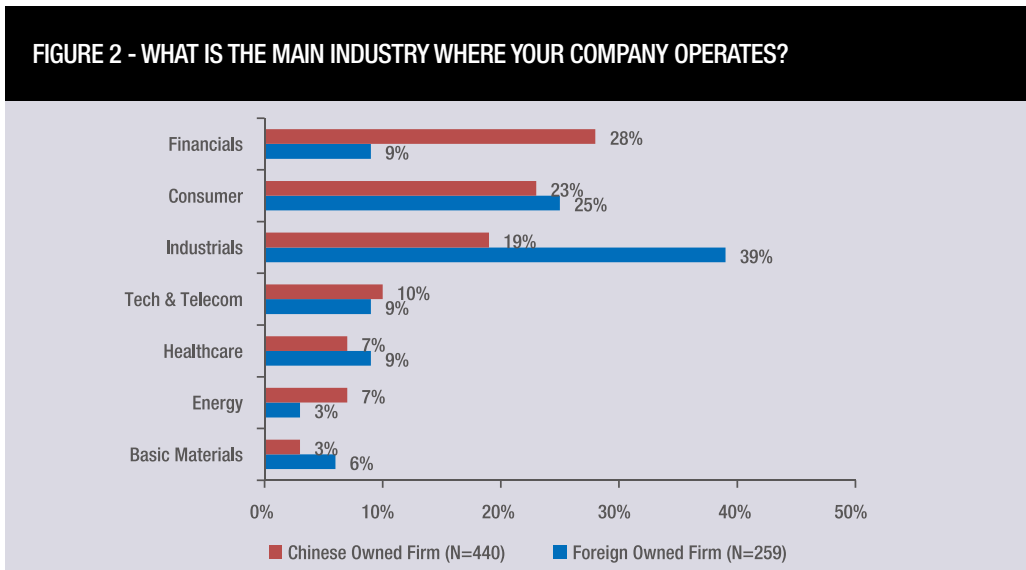
- Type of ownership (Chinese or foreign), business sector, industry and type of activity
- Location of Global Headquarters
- Degree of internationalization
- Number of employees in China and globally
- Revenue level in China
- Legal form in China
- Years of operation

The purpose of the section is to give a general overview of the type of companies that took part in the survey. This information helps clarify the scope of the survey and provides background to interpret survey results.

A total of 699 companies operating in China have participated in the 2018 edition of the CEIBS China Business Survey. This sample of businesses includes 440 (63%) Chinese owned companies (i.e. with 50% or more Chinese ownership)⁷ and 259 (37%) foreign-owned companies (i.e. with more than 50% foreign ownership).

In terms of business activity, the sample is well balanced with 43% of firms having their main activity in manufacturing and 57% in services. 75% of the total sample of firms are B2B companies, having other businesses as main clients, while 25% are B2C companies, offering products and services directly to consumers.

The industries represented are varied, topped by industrial products and services (185 firms, 27% of total sample), consumer goods and services (167 firms, 24%), Financials (146 firms, 21%), Technology and Telecommunications (69 firms, 10%), Healthcare (51 firms, 7%), Energy (38 firms, 5%), and Basic Materials like chemicals, forestry and mining (31 firms, 4%). We observe a considerably larger presence of financial companies within the Chinese-owned firms of our sample (28% versus 9% of foreign firms), a consequence of existing regulations limiting or constraining foreign investment in the sector. Foreign-owned firms are markedly more represented in “Industrials” with 39% of them vs. 19% of Chinese-owned firms in the industry.



In terms of market position, the firms surveyed operate mostly in the mid and high ends of the market. According to survey answers, 280 firms (54%) in our sample operate mainly in the premium segment, another 223 (43%) in the middle segment and only 19 (3%) in the low-end of the market. Moreover, 167 companies (32%) identify themselves as market leaders for their main business line and 213 (41%) consider themselves to be in the Top 5. When splitting by type of company ownership, we do observe a considerable difference in market positioning between the two groups with 75% of foreign companies in the sample in the premium segment vs. a lower 42% of Chinese-owned firms. Inversely, 53% of Chinese-owned firms operate in the middle segment of the market, while 24% of foreign-owned do so.

The location of their Global headquarters is shown in the following map:

⁷ Including Chinese controlled Joint Ventures

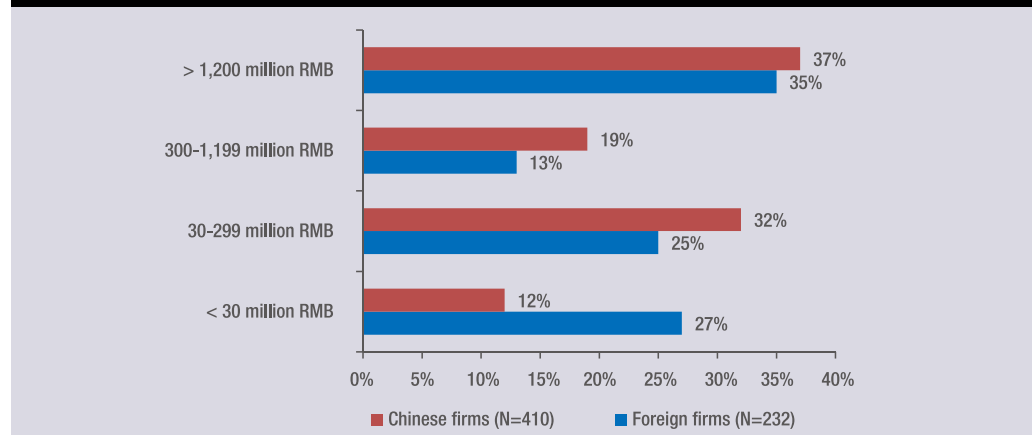
FIGURE 3 - WHERE ARE YOUR GLOBAL HEADQUARTERS LOCATED? N=699



In 2017, participating companies generated collective revenue of more than 400 billion RMB and were employing more than 4.6 million people in China alone.

Of all the participating companies, 60% of the Chinese-owned firms and 65% of the foreign-owned firms surveyed are considered large⁸.

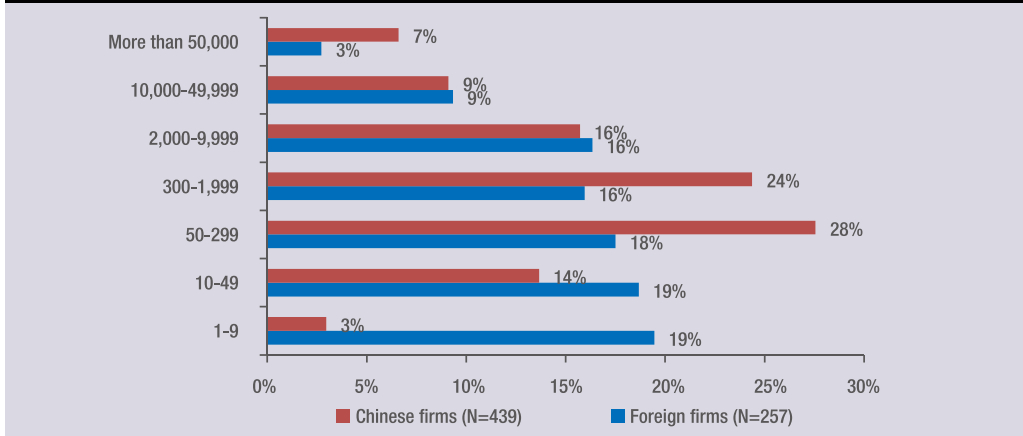
FIGURE 4 - WHAT ARE YOUR COMPANY'S TOTAL SALES IN CHINA IN 2017?



The sample of companies varies widely in size, ranging from companies with less than 10 employees in China to those with more than 50,000. Surveyed Chinese firms tend to be larger than foreign ones with, on average, 4,600 employees in China or more, compared to 2,600 employees or more for foreign-owned firms. Moreover, 38% of foreign-owned firms surveyed have fewer than 50 employees versus only 17% of Chinese firms.

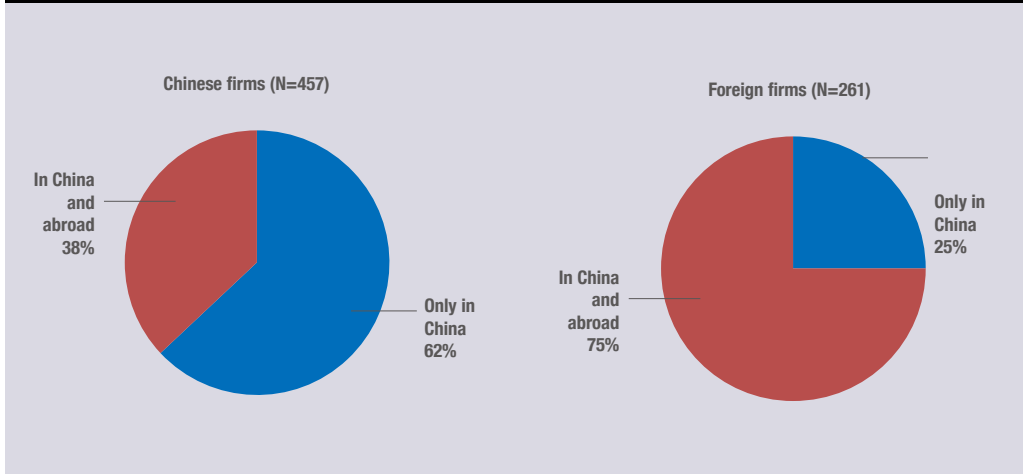
⁸ According to China official definition companies with more than 300 million RMB are considered large.

FIGURE 5 - HOW MANY EMPLOYEES DOES YOUR COMPANY HAVE IN CHINA?



38% of the Chinese owned firms in our sample have operations abroad too. And although 75% of foreign firms in our sample are international, there is a non-negligible 25% of foreign owned firms that only operate in China. These are foreign entrepreneurs who have started their business ventures in China.

FIGURE 6 - WHERE DOES YOUR COMPANY HAVE OPERATIONS?



The internalization of Chinese firms is a development that has been captured in our survey over the past years. The following charts show the evolution of interest in overseas expansion for sampled Chinese firms in the past five years, as well as the differences in their preferred geographies for expansion.

FIGURE 7 - HOW IMPORTANT IS OVERSEAS EXPANSION TO YOUR COMPANY?

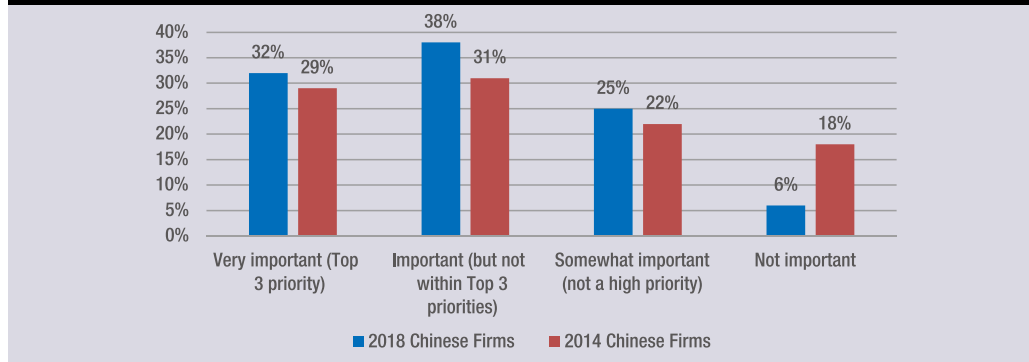
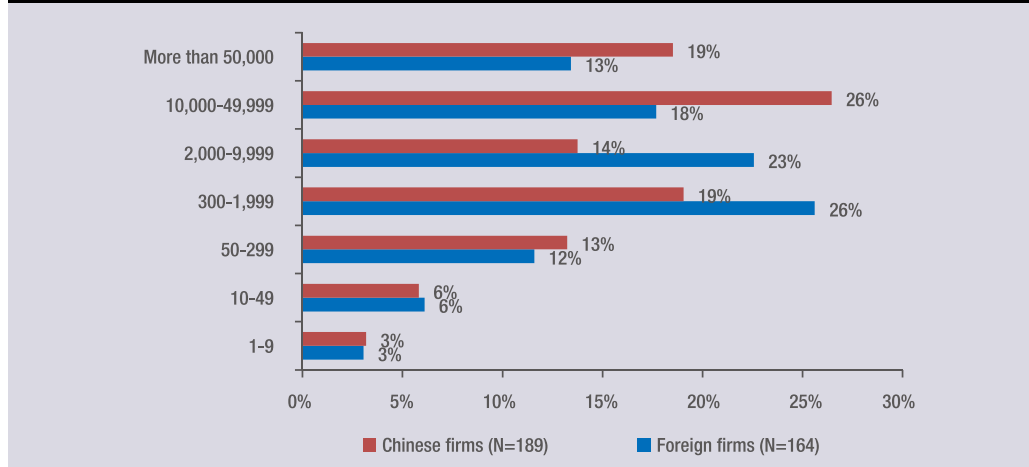


FIGURE 8 - WHERE OUTSIDE OF CHINA DO YOU PLAN TO INVEST IN THE NEXT 3 YEARS?

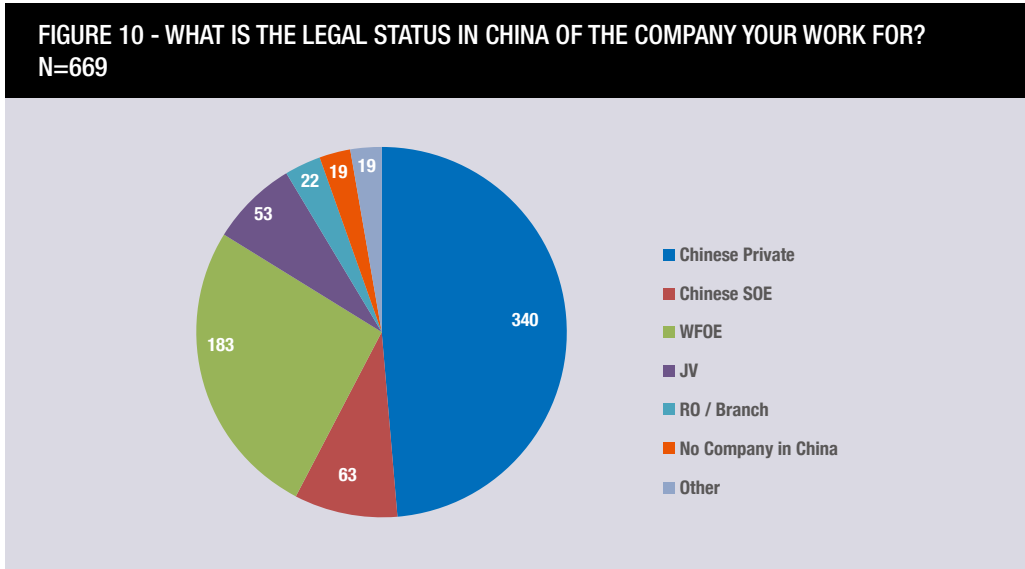


Within the surveyed companies that operate both in China and abroad, Chinese-owned ones are overall larger in their global operations than foreign-owned firms. 45% of the surveyed Chinese companies with international operations have more than 10,000 employees globally vs. 31% of their foreign-owned counterparts.

FIGURE 9 - FIRMS WITH INTERNATIONAL OPERATIONS- HOW MANY EMPLOYEES DOES YOUR COMPANY HAVE GLOBALLY?



49% of surveyed companies are Chinese privately owned or private-holding companies and 9% are state-owned or state-holding enterprises. Joint Ventures (JV) constitute 8% of the sample, with different levels of Chinese and foreign ownership. Most of the foreign-owned companies are Wholly Foreign Owned Enterprises (WFOE, 26% of total sample), with Representative Offices (RO) and Branches of foreign companies making up the rest.



Most of the Chinese private companies in our sample (89%) have been established after 1990 following the economic reforms initiated by Deng Xiaoping in the late 1980s and early 1990s, which triggered a remarkable growth of the private sector. In contrast, 44% of the SOEs in our sample were established before 1990.



SECTION 2

BUSINESS INDICES

This section presents four Indices:

- Two Business Performance Indices that measure performance variation compared to the previous year, and expected performance for the next year. They are based on sales revenue and profit growth, realized and expected.
- Two Business Confidence Indices give reading on the optimism and confidence in business results declared by respondents.

Business Performance Indices are:

- Current Performance Index (CPI)
- Expected Performance Index (EPI)

These two directional indices were introduced in the 2013 report to measure variation in both the current and the expected performance of the surveyed companies. Each index (ranging from 0 to 100) is constructed similarly to the well-known Purchasing Managers' Index (PMI): an index reading of 50 means that performance is unchanged compared to previous year, a number over 50 indicates an improvement while anything below 50 suggests a decline. The further away from 50 the index is, the stronger the

change over the period. The indices are based on multiple choice questions with 5 possible answers⁹.

Business Confidence Indices are:

- Business Confidence Index, for next year
- Business Confidence Index, for the next 5 years

The Business Confidence Index is a measure of the optimism stated by executives in our sample with respect to the evolution of their businesses for the next year (2018 and the next 5 years (2018 to 2022)). These 2 indices have been part of the CEIBS China Business Survey since its inception 7 years ago, which allows us to start recognizing emerging trends as well as current values.

The reading ranges from 0 to 10 (0 = Absolutely Not Confident, 3 = Not Confident, 5 = Neutral, 7 = Confident, 10 = Extremely Confident). The executives in our survey are asked to state their confidence level in the short term (next year) and in the medium term (next 5 years).

⁹ $INDEX = (P1*1) + (P2*0.75) + (P3*0.5) + (P4*0.25) + (P5*0)$

P1 = Percentage number of answers that reported a substantial improvement.

P2 = Percentage number of answers that reported an improvement.

P3 = Percentage number of answers that reported no change.

P4 = Percentage number of answers that reported a deterioration.

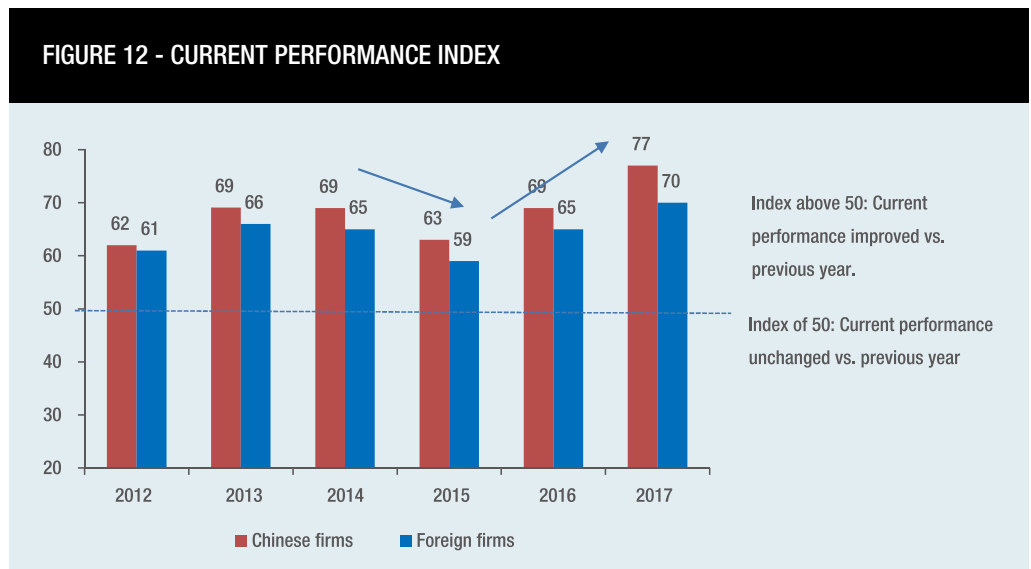
P5 = Percentage number of answers that reported a substantial deterioration.

2.1. CURRENT PERFORMANCE INDEX – CPI

2017 performance indices are the highest since the beginning of this measure in 2012, reflecting robust growth levels in revenue and profit of the sampled firms in 2017.

The CPI Index is calculated as a composite of two survey questions: Revenue and Profit Level. Each variable is attributed the same weighting. An index above 50 indicates performance improvement vs. the previous year. The further away from 50 the index is, the stronger the change over the period. Performance is based on both revenue and profit evolution in 2017.

2017 Current Performance Indices (CPIs) are higher than 50 for both sampled Chinese and foreign firms, reflecting better business results in 2017 than in 2016. Moreover, their indices for 2017 reflect the best business performance since the beginning of this measure, in 2012. Whereas 2016 showed a recovery in the performance of sampled firms to the levels of 2014 and before, 2017 has seen the sampled firms peak to an index of 77 for Chinese companies and 70 for foreign companies (versus last year's indices of 69 and 65 respectively). Chinese owned companies in our sample reflect better results than foreign ones.



Given that the CPI integrates sales and profits results into one index, we can explore both business indicators separately to better understand the growth in 2017.

Sales:

The following figures reflect the answers of our sample to the question “How do you expect your company’s sales in China compared to last year?” as asked in 2017 and 2016. We observe that 79% of Chinese firms reported higher or substantially higher sales for 2017, vs. a lower 69% in 2016. Within foreign firms, 69% of our sample reports sales growth in 2017 vs. 60% in 2016.

FIGURE 13 - HOW DO YOU EXPECT YOUR COMPANY'S CHINA SALES IN 2017 COMPARED TO 2016?

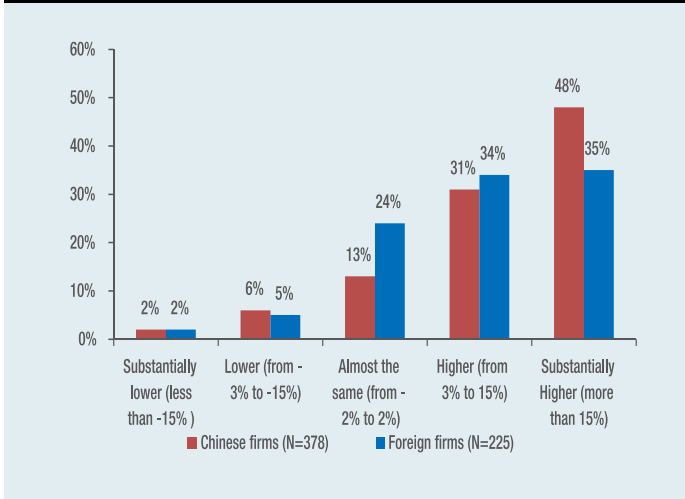
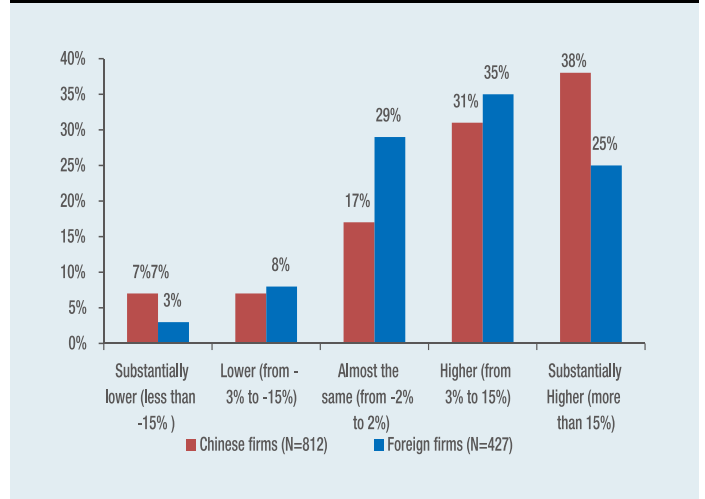


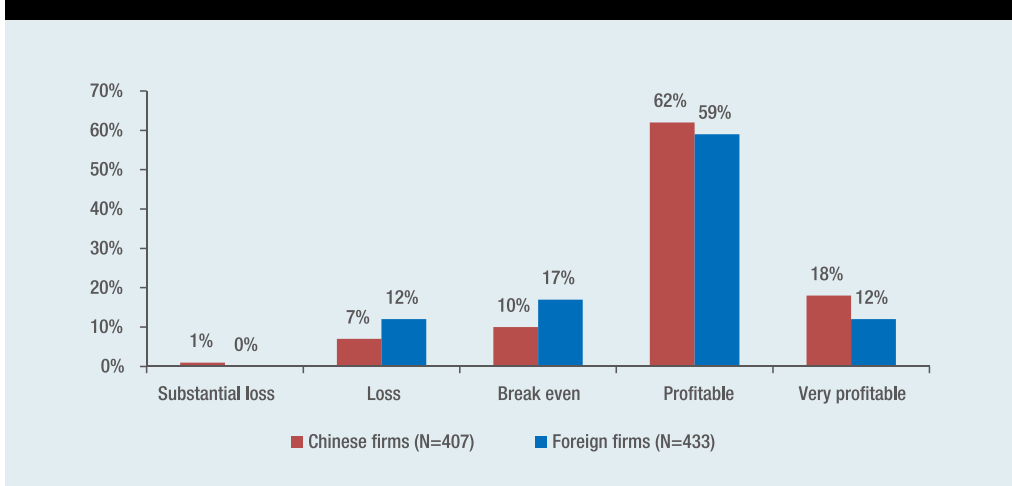
FIGURE 14 - HOW DO YOU EXPECT YOUR COMPANY'S CHINA SALES IN 2016 COMPARED TO 2015?



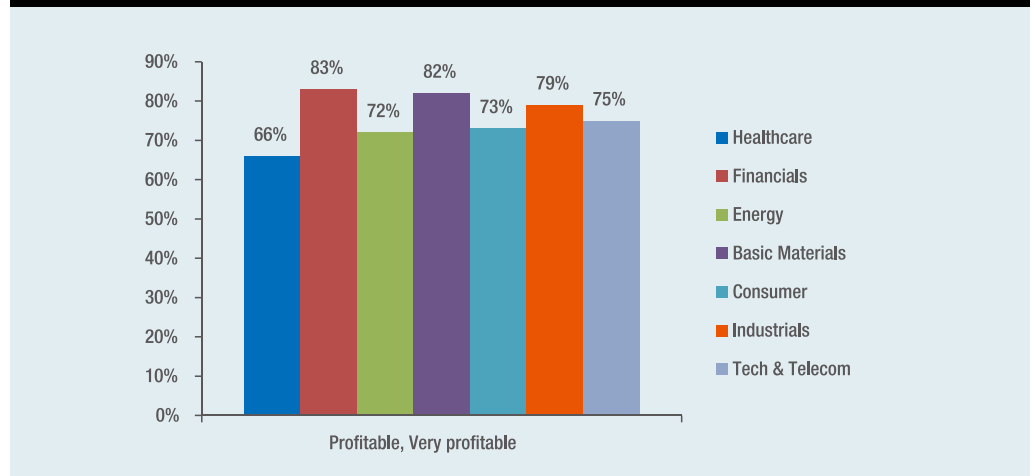
Profits:

In our overall sample, 77% of the companies declared being profitable or very profitable in 2017, while 10% incurred losses. The following chart reflects the profit situation of our sample in 2017, separating the results of Chinese and foreign firms.

FIGURE 15 - HOW PROFITABLE DO YOU CONSIDER YOUR CHINA OPERATION IN 2017?



In terms of industry, Financials and Basic Materials sectors report the largest percentage of firms profitable or very profitable in 2017.

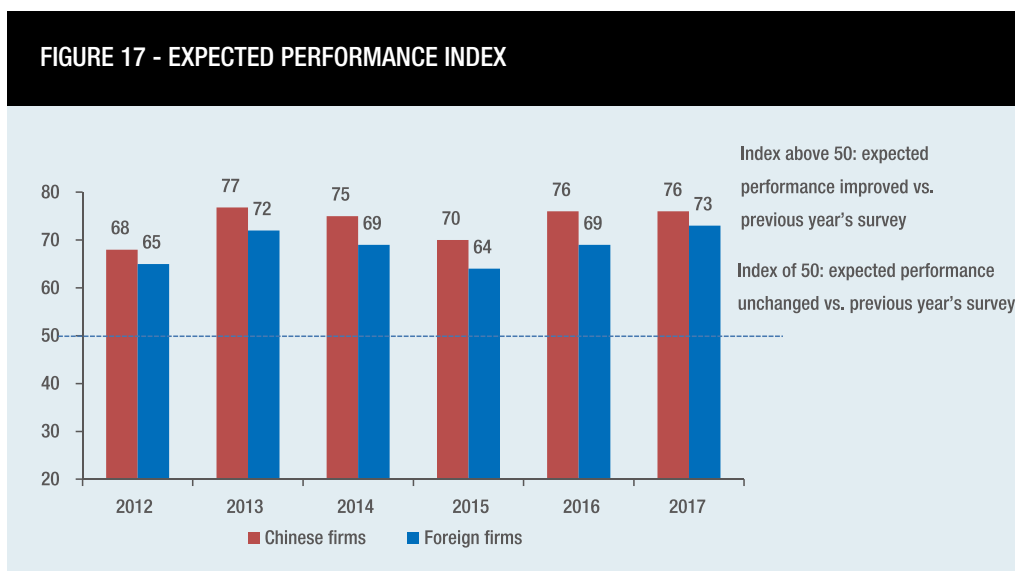
FIGURE 16 - 2018 SURVEY: HOW PROFITABLE DO YOU CONSIDER YOUR CHINA OPERATION IN 2017? PROFITABLE OR VEY PROFITABLE - BY INDUSTRY

2.2. EXPECTED PERFORMANCE INDEX – EPI

Growth expectation for 2018 for both Chinese and foreign firms surveyed, in levels similar to what was expected for 2017 in last year's edition of the survey.

A majority of the companies surveyed are optimistic for 2018. The Expected Performance Index (EPI) amounts to 76 (Chinese companies) and 73 (foreign companies), reflecting an expected growth for 2018 for both types of companies¹⁰. These EPI values are similar to those declared in last year's survey although foreign firms sampled seem a bit more optimistic for their immediate future performance than last year's sample (73 in 2017 vs. 69 in 2016).

The EPI is calculated as a composite of 2 survey questions: Revenue and Profit Level expectations for 2018. Each variable is attributed the same weighting.



When we look at planned investments in China for 2018, which are closely related to growth expectations, optimism is observed especially in foreign firms. This redresses the trend seen in the first four editions of the survey in foreign firms, and consolidates their tendency towards increasing investment started last year. Chinese firms show a slight contraction of their intention to increase investments in China compared to previous years (72% in 2016, 72% in 2017, 69% in 2018).

¹⁰ An index above 50 indicates expected growth in sales and profit, the further away from 50 the index is, the stronger the change over the period

FIGURE 18 - FOREIGN FIRMS: WHAT INVESTMENTS DO YOU PLAN FOR THE NEXT YEAR IN CHINA?

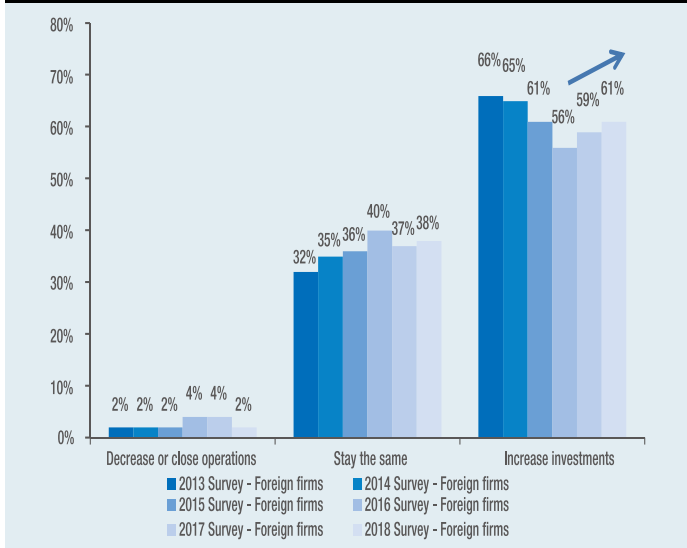
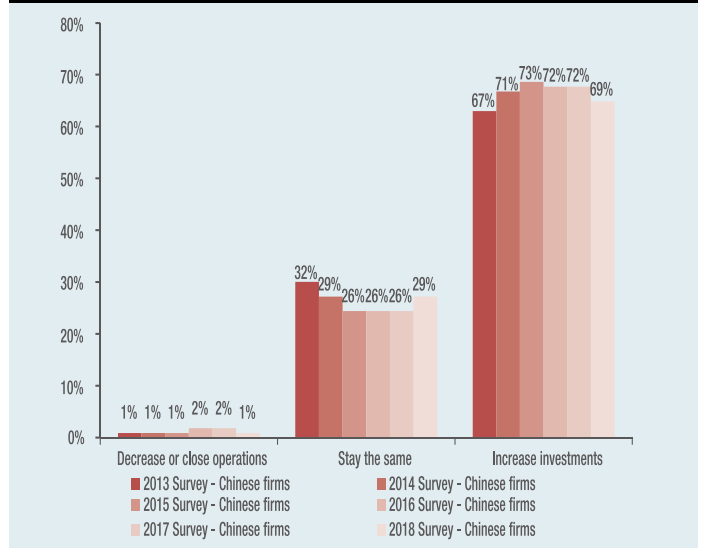


FIGURE 19 - CHINESE FIRMS: WHAT INVESTMENTS DO YOU PLAN FOR THE NEXT YEAR IN CHINA?



2.3. BUSINESS CONFIDENCE INDICES – BCI

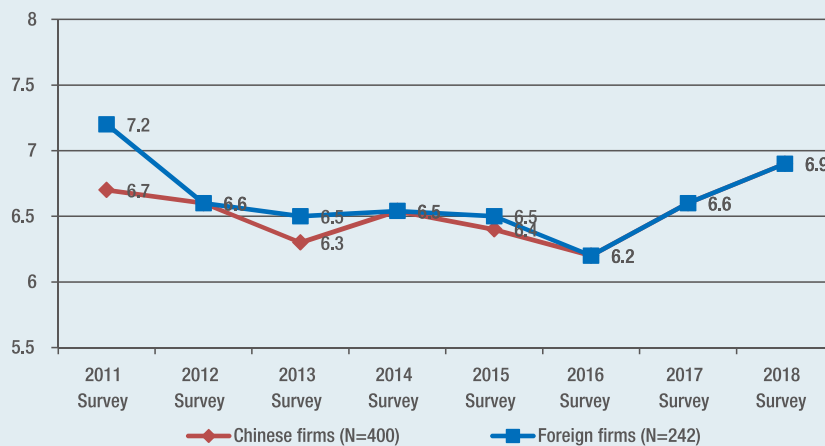
Confidence in the next year goes up for two consecutive survey editions, both Chinese and foreign firms sampled declare to be confident for success in the next year. Confidence in the next five years increases as well, with Chinese firms in the sample showing more optimism than foreign ones.

The annual survey provides two confidence indices based on the question, “How confident are you that your operations in China will be successful in the next year and in the next 5 years?” The scale is from 0 (no confidence at all) to 10 (maximum confidence).

The current issue reveals identical levels of business confidence for Chinese and foreign firms as both claim to be close to “confident” that their operations in China will be successful in 2018 (confidence index of 6.9). Nevertheless, Chinese firms show slightly more enthusiasm for the next 5 years with an index of 7.2 vs. 6.8 for non-Chinese firms, a trend that appeared in last year’s survey.

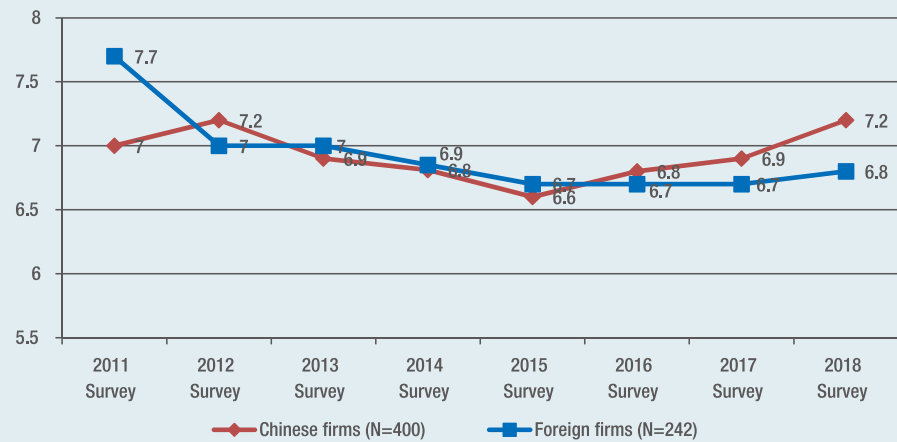
Confidence for the next year: When examining the eight-year trend we remark that in the first six years of the survey (2011-2016), the value of the one-year confidence moved down and reached its lowest level in 2016 at 6.2 for both Chinese and foreign companies. 2017 survey redressed this downward trend and started a recovering of confidence that has been consolidated and strengthened in this year’s survey.

FIGURE 20 - HOW CONFIDENT ARE YOU THAT YOUR OPERATIONS IN CHINA WILL BE SUCCESSFUL IN THE NEXT YEAR?
0=ABSOLUTELY NOT CONFIDENT, 3=NOT CONFIDENT, 5=NEUTRAL, 7=CONFIDENT, 10=EXTREMELY CONFIDENT



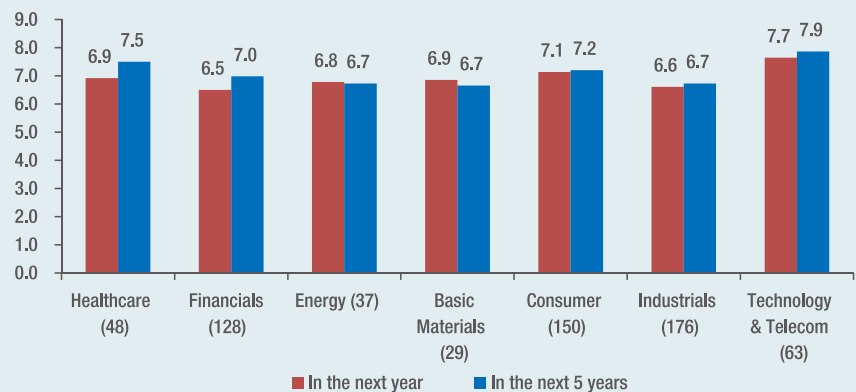
Confidence for the next five years: We notice that the five-year confidence of executives continues the recovery started two years ago, after a four-year downward trend in confidence recorded from 2012 to 2015 editions. This optimism is consistent with the improved business performance of sampled companies in 2017, as described in Section 2.1 of this report. Chinese firms surveyed express more optimism for the next five years than foreign ones (index of 7.2 vs. 6.8).

FIGURE 21 - HOW CONFIDENT ARE YOU THAT YOUR OPERATIONS IN CHINA WILL BE SUCCESSFUL IN THE NEXT 5 YEARS?
 0=ABSOLUTELY NOT CONFIDENT, 3=NOT CONFIDENT, 5=NEUTRAL, 7=CONFIDENT, 10=EXTREMELY CONFIDENT



Analyzing by industry, we notice that companies in Technology & Telecommunications exhibit the highest confidence in the next year and the next five years (7.7 and 7.9 respectively).

FIGURE 22 - 2018 SURVEY: BY INDUSTRY - HOW CONFIDENT ARE YOU THAT YOUR OPERATIONS IN CHINA WILL BE SUCCESSFUL IN THE NEXT YEAR AND IN THE NEXT 5 YEARS?





SECTION 3

CHALLENGES AND SUCCESS FACTORS

This section details the difficulties encountered in China by the firms in our sample and the keys to their success:

- External Challenges
- Internal Challenges
- Success Factors

The purpose of this section is to identify the main challenges faced in China by the companies surveyed, explore the relevant differences in the difficulties faced by Chinese companies compared to foreign companies, and learn how the companies in our survey deal with these challenges.

3.1. EXTERNAL CHALLENGES

The fierce competition in China's business environment has become the most pressing external challenge for our sample of firms when compared to five years ago. Rising labor costs, economy slowdown in China and struggles with the government and legal environment remain in the Top 4 of external challenges.

We compare the evolution of the Top 4 External Challenges for both Chinese and foreign companies in the last five years. For both Chinese and foreign companies in our sample, "Fierce Competition" has become the number one concern surpassing "Rising labor costs", which was the most pressing issue of Chinese firms five years ago. This phenomenon reflects the fundamental changes that the Chinese economy and business landscape have experimented over the past half-decade.

Despite this change in the most pressing issue, the Top 4 External Challenges remain unchanged for both Chinese and foreign firms in the last 5 years: "Fierce competition", "Rising labor costs", "Slowdown of Chinese economy" and "Government and legal environment".

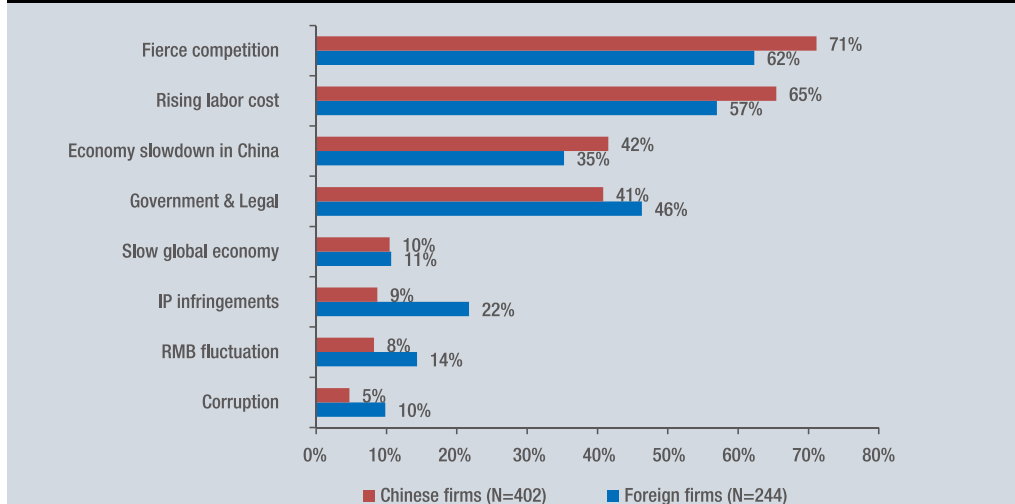
Chinese firms – Top 4 External Challenges

	2018 Survey	2014 Survey
1	Fierce competition (71%)	Rising labor cost (66%)
2	Rising labor cost (65%)	Fierce competition (59%)
3	Economy slowdown in China (42%)	Economy slowdown in China (47%)
4	Government & Legal environment (41%)	Government & Legal environment (36%)

Foreign firms – Top 4 External Challenges

	2018 Survey	2014 Survey
1	Fierce competition (62%)	Fierce competition (59%)
2	Rising labor cost (57%)	Rising labor cost (61%)
3	Government & Legal environment (46%)	Economy slowdown in China (45%)
4	Economy slowdown in China (35%)	Government & Legal environment (41%)

FIGURE 23 - 2018 SURVEY: WHAT ARE THE GREATEST EXTERNAL CHALLENGES FACING YOUR COMPANY IN CHINA?



Although the fierce competition is the most pressing issue for the majority of the surveyed companies, we observe some differences when comparing Chinese State-owned firms, Chinese private firms and foreign firms. In particular, “economy slowdown in China” seems to affect the SOEs more than the private companies in our sample.

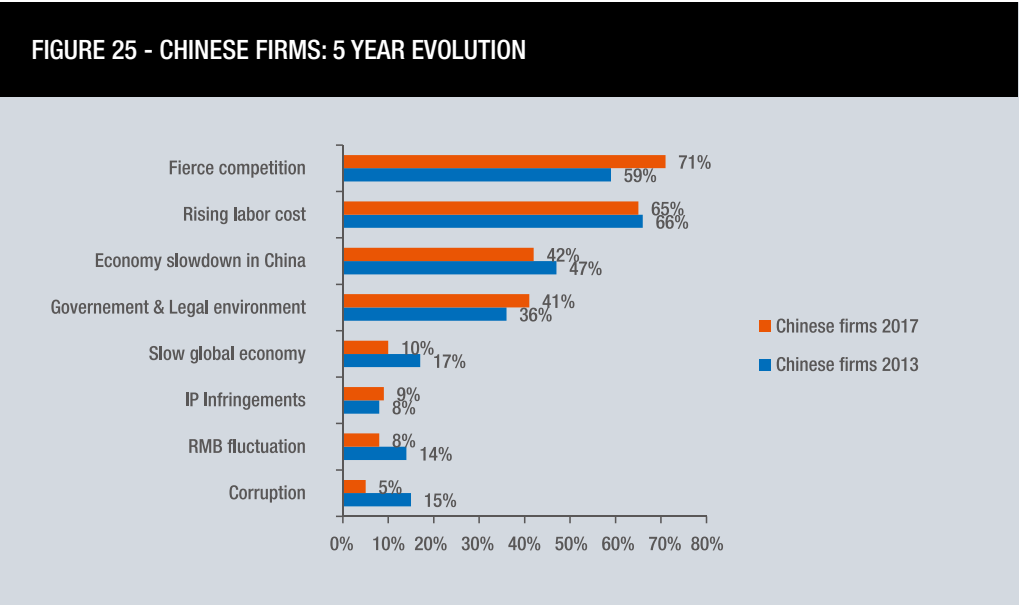
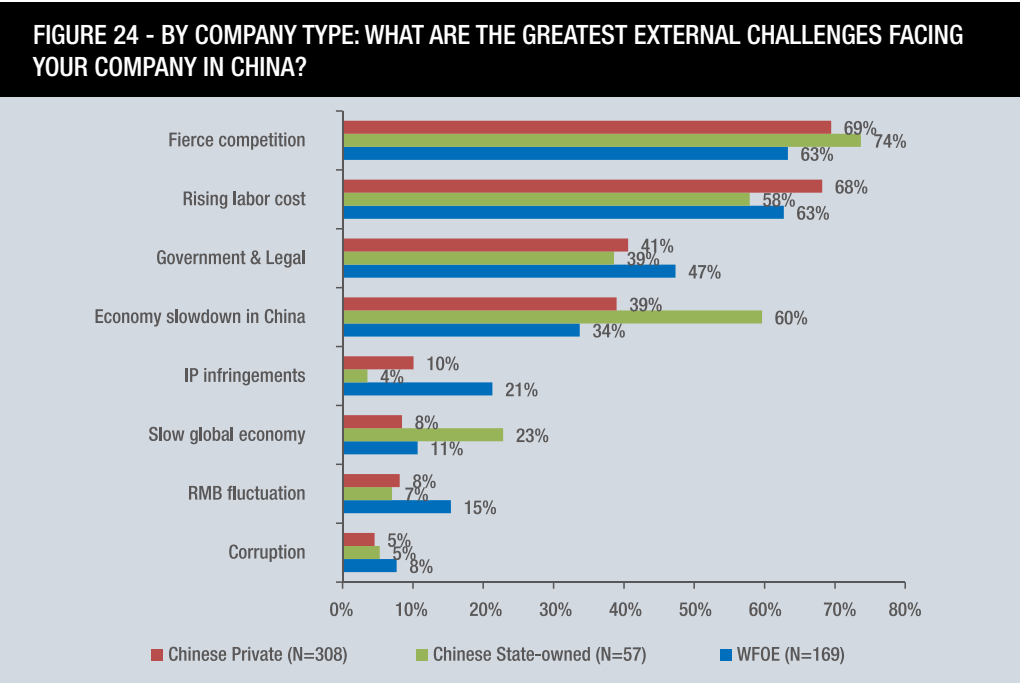
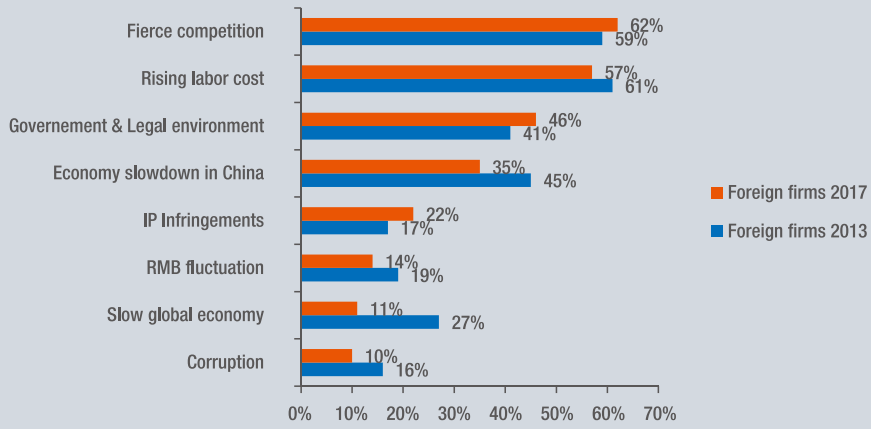


FIGURE 26 - FOREIGN FIRMS: 5 YEAR EVOLUTION



3.2. INTERNAL CHALLENGES

Three top internal challenges are shared by both Chinese and foreign owned firms and remain unchanged from previous years' polls: Finding and retaining talent, innovation, and marketing capabilities.

The Top 3 internal challenges of Chinese and foreign firms in our sample remain unchanged over the last five years: "Finding and retaining talent", "Innovation Capability", and "Marketing Capability". However, both innovating and marketing capability appear to be more critical skills in the 2018 survey than they were in the 2014 one. This is consistent with the changes experienced by the Chinese economy. When the economy matures and competition heats up, it becomes more important to come up with innovative products and services and effective marketing tactics increase in importance.

The 4th challenge on the top list differs for both groups. "Corporate governance" is a concern relatively more prevalent in Chinese firms with 35% of the executives selecting it vs. a lower 27% of those working for foreign companies. This effect is consistent with previous editions of this survey. On the other hand, for executives working for foreign-owned companies "Support from Head Office" is one of the top issues more frequently mentioned, cited by 30% of them (vs. a much lower 7% of Chinese firms). This is also consistent with previous polls and with the physical and cultural distance with their global headquarters.

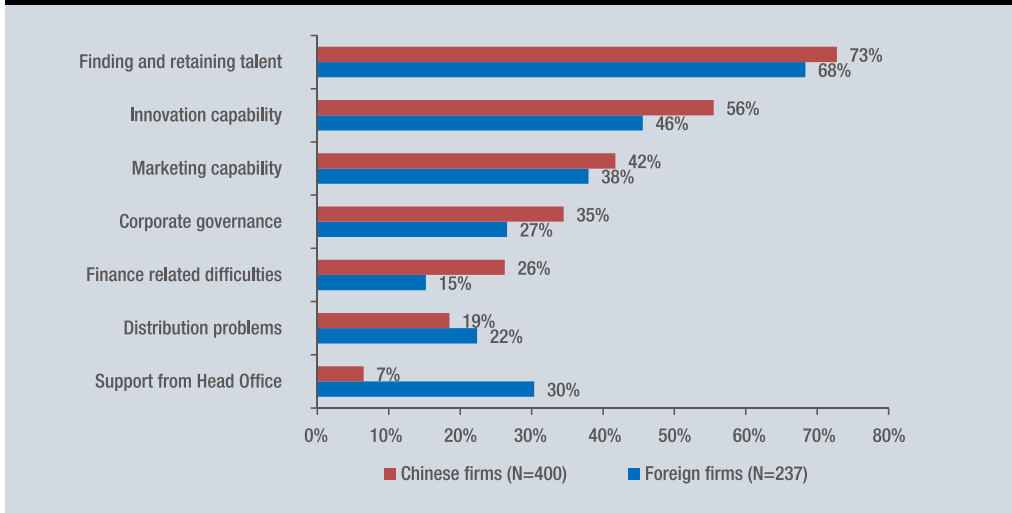
Chinese firms – Top 4 Internal Challenges

	2018 Survey	2014 Survey
1	Finding and retaining talent (73%)	Finding and retaining talent (63%)
2	Innovation capability (56%)	Innovation capability (50%)
3	Marketing capability (42%)	Marketing capability (38%)
4	Corporate governance (35%)	Corporate governance (36%)

Foreign firms – Top 4 Internal Challenges

	2018 Survey	2014 Survey
1	Finding and retaining talent (68%)	Finding and retaining talent (67%)
2	Innovation capability (46%)	Innovation capability (31%)
3	Marketing capability (38%)	Marketing capability (29%)
4	Support from Head Office (30%)	Support from Head Office (29%)

FIGURE 27 - 2018 SURVEY: WHAT ARE THE GREATEST INTERNAL CHALLENGES FACING YOUR COMPANY IN CHINA?



Another group-specific challenge is “Finance related difficulties” which worries 29% of the Chinese private firms vs. a much lower 12% of SOEs and 14% of foreign firms. Innovation capability is a top concern for 72% of the Chinese state-owned companies, contrasting with a lower 53% of Chinese private companies and 48% of WFOEs.

FIGURE 28 - BY COMPANY TYPE: WHAT ARE THE GREATEST INTERNAL CHALLENGES FACING YOUR COMPANY IN CHINA?

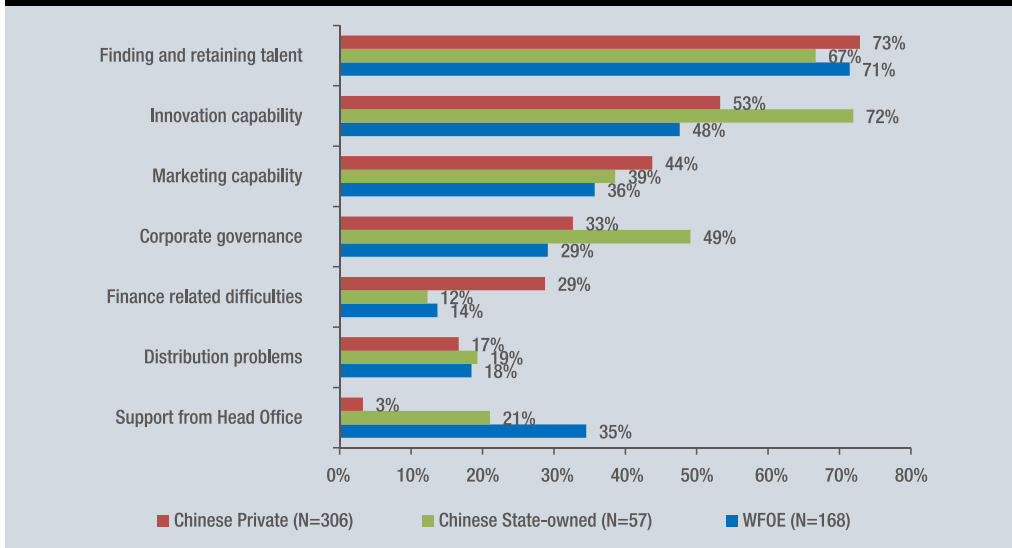


FIGURE 29 - EVOLUTION CHINESE FIRMS: 5 YEAR EVOLUTION

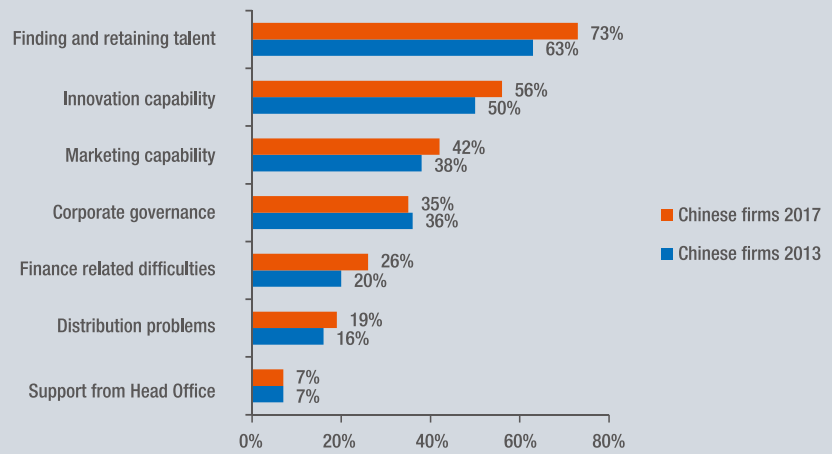
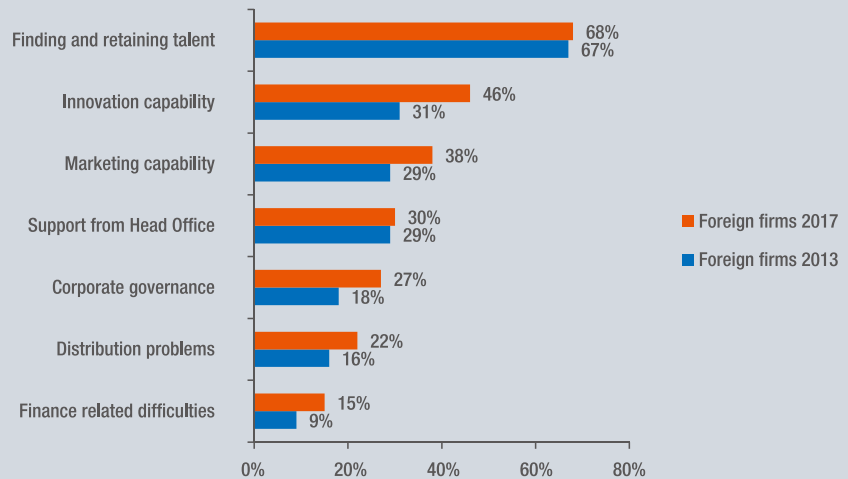


FIGURE 30 - EVOLUTION FOREIGN FIRMS: 5 YEAR EVOLUTION



3.3. SUCCESS FACTORS

Product and service quality and the ability to control costs are key success factors in the current economy. Brand creation and product innovation follow closely.

Both executives from Chinese and foreign-owned companies in our sample believe that success in China is linked to product and service quality superiority. Chinese firms select cost control and operations efficiency in second position and the capacity to innovate in third position. Foreign companies give slightly more importance to brand awareness and creation, although it is followed closely by cost control. The fierce competition in the current economy forces companies in China to be careful with their operating expenses if they want to survive and be profitable.

Soft factors such as company culture & values also make the Top 4 Success Factors in the 2018 survey. “Employee selection and training”, although not in the Top 4 lists, stands out as a factor more frequently considered key to success by foreign companies than by Chinese companies, 30% of foreign firms vs. 17% of Chinese firms.

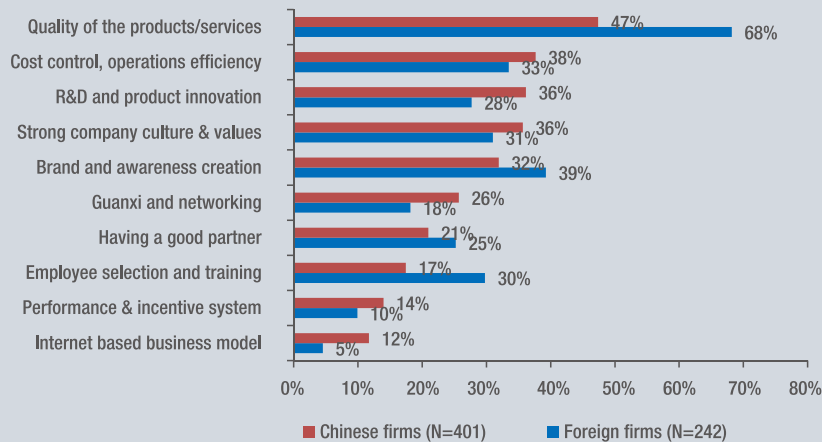
Chinese firms – Top 4 Success Factors

	2018 Survey	2014 Survey
1	Quality of the products/services (47%)	Quality of the products/services (51%)
2	Cost control, operations efficiency (38%)	Quality of the management team (43%)
3	R&D and product innovation (36%)	Strong company culture & values (41%)
4	Strong company culture & values (36%)	Brand and awareness (39%)

Foreign firms – Top 4 Success Factors

	2018 Survey	2014 Survey
1	Quality of the products/services (68%)	Quality of the products/services (64%)
2	Brand and awareness creation (39%)	Strong company culture & values (45%)
3	Cost control, operations efficiency (33%)	Cost control, operations efficiency (44%)
4	Strong company culture & values (31%)	Brand and awareness creation (42%)

FIGURE 31 - 2018 SURVEY: WHAT ARE THE MOST IMPORTANT FACTORS FOR YOUR COMPANY'S SUCCESS IN CHINA?



When analyzing success factors by type of industry, some differences are revealed: According to our sample of surveyed companies, cost control and operations efficiency is considered a success factor more often for companies operating in mature sectors like Energy and Basic Materials (57% and 55% of them, respectively). Brand awareness is relatively more critical for companies in Healthcare or Consumer markets (49% and 43% of them, respectively). Quality of the products and services, although a key concern for all companies, is mentioned more often by companies in Industrials, Technology & Telecom and Healthcare fields (66%, 65% and 62% of them).

FIGURE 32 - BY INDUSTRY: WHAT ARE THE MOST IMPORTANT FACTORS FOR YOUR COMPANY'S SUCCESS IN CHINA?

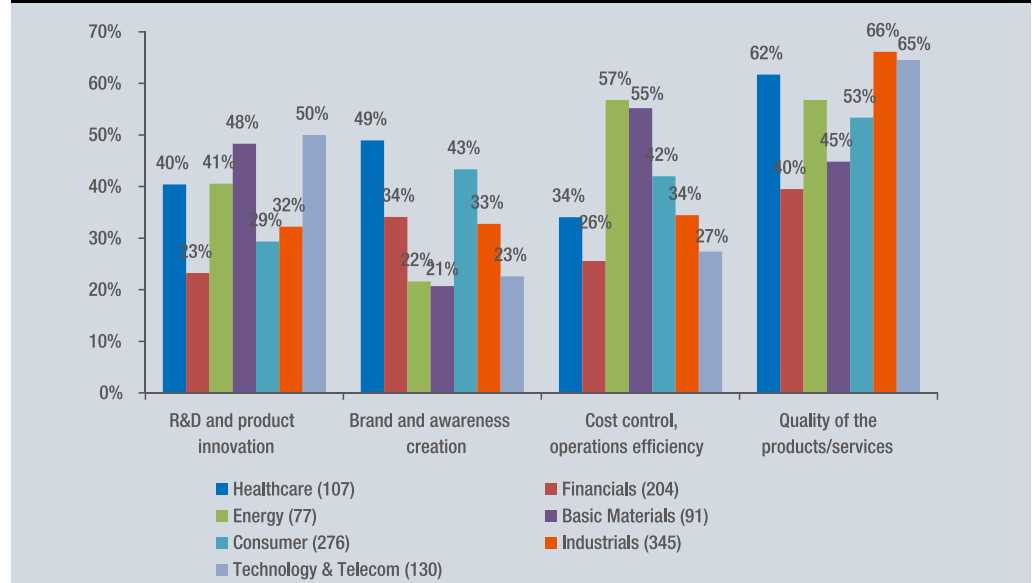


FIGURE 33 - EVOLUTION CHINESE FIRMS: 5 YEAR EVOLUTION

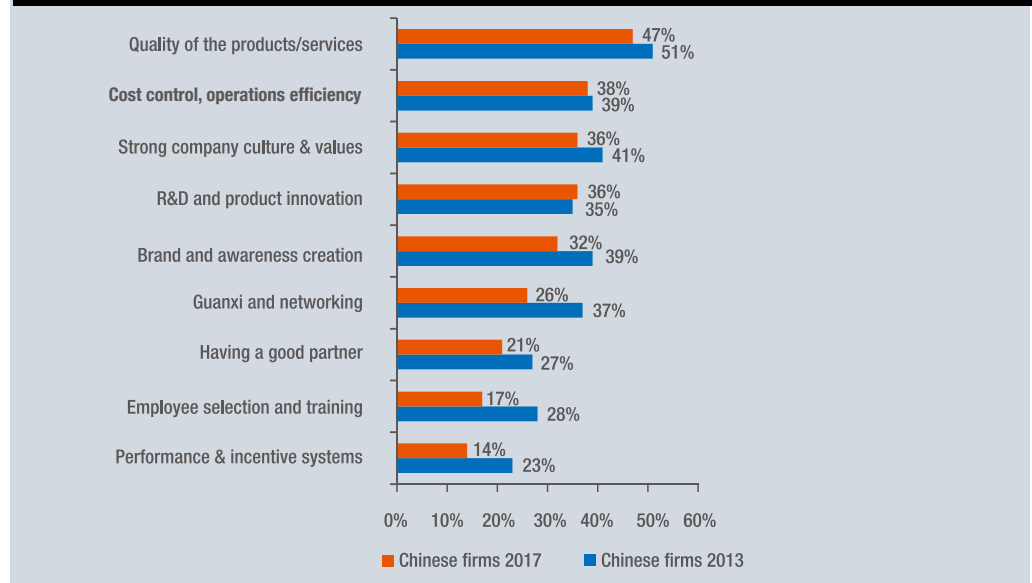
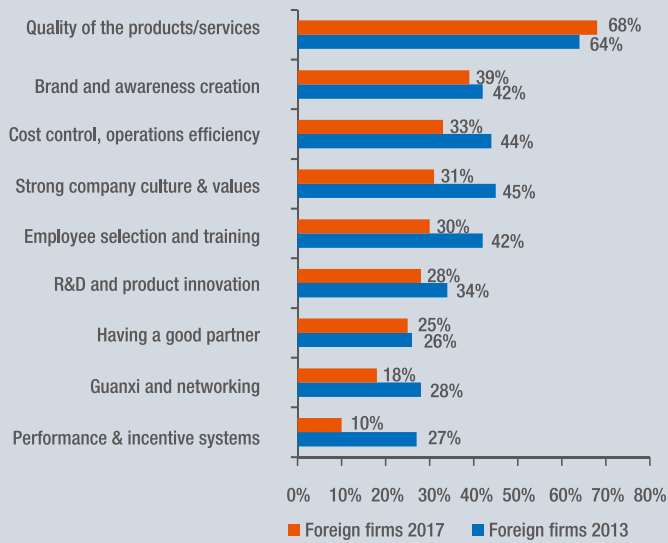


FIGURE 34 - EVOLUTION FOREIGN FIRMS: 5 YEAR EVOLUTION





SECTION 4

FOCUS BY AREA

This section gives an overview of the following topics:

- Human Resources

The chapter covers the top HR issues that companies in our sample face in China. It also gives a commentary on what the executives in our sample think are the most effective measures to retain employees.

- Sales and Marketing

This chapter describes the competitive landscape and includes an overview of the market segments where companies in our sample operate. It also details which are the most effective sales and marketing strategies for the companies in our sample.

- Research & Development

This chapter presents a summary of our main learning on R&D trends from our sample of surveyed companies.

- Government and Legal Environment

This chapter discusses the perceived importance of establishing relationships with the Chinese government as well as polled executives' outlook on corruption in their industries and in general.

4.1. HUMAN RESOURCES

Labor force increased in 2017 for 64% of the sample (vs. 55% in last year's survey). Chinese private companies and firms in rapidly growing sectors (Technology & Telecom, Healthcare and Financials) lead the workforce expansion. Finding talent and rising labor costs are cited as the top HR issues for managing businesses in China. Developing a feeling of belonging to the company is cited most often as the key to retain employees by private companies, whereas SOE companies rely more often on offering a good career path to their employees.

4.1.1. Change in labor force, employee turnover and salary increase in 2017

In line with the overall positive business performance experienced by our sample of firms in 2017 (see Section 2.1 of this report), a large proportion of the surveyed companies increased their labor force in 2017 and more so than in the previous year: 67% of Chinese SOE, 69% of Chinese private and 58% of foreign firms (vs. 62%, 59% and 46%, respectively in 2016). Chinese private companies experienced the largest levels of salary increase and employee turnover in 2017.

Analyzing the data by industry, we discover that it is Technology & Telecom, Healthcare, and Financials firms that have proportionally increased their labor force the most in 2017 with 78%, 76% and 72% of them expanding in number of employees. Also in line with the economy transformation of China, we note that 71% of firms dealing with services increased labor force in 2017 compared to a lower 55% of firms in the manufacturing side of their industries.

FIGURE 35 - BY LEGAL STATUS: THE CHANGE IN YOUR COMPANY LABOR FORCE IN 2017 VS. 2016 IS:

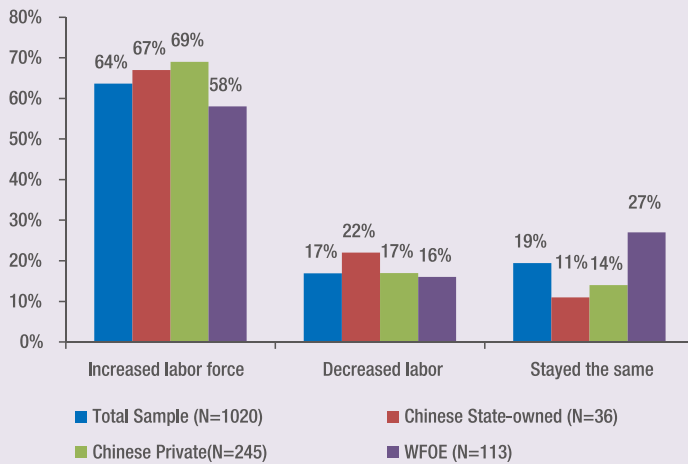


FIGURE 36 - BY INDUSTRY: THE CHANGE IN YOUR COMPANY LABOR FORCE IN 2017 VS. 2016 IS:

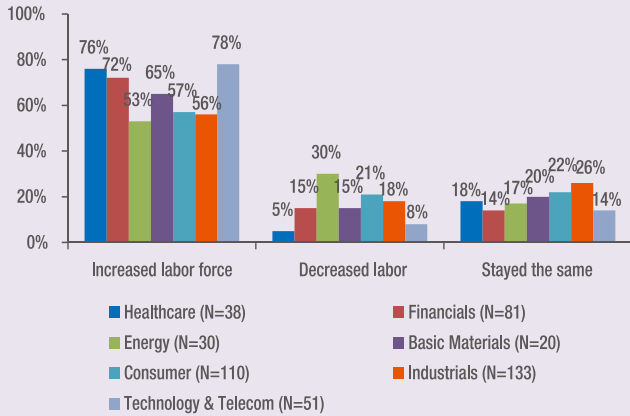


FIGURE 37 - BY SECTOR: THE CHANGE IN YOUR COMPANY LABOR FORCE IN 2017 VS. 2016 IS:

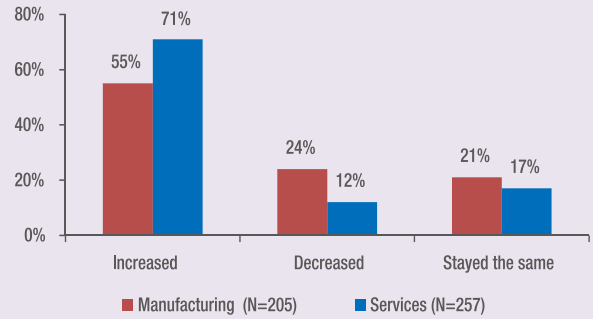


FIGURE 38 - THE TOTAL SALARY INCREASE IN 2017 COMPARED TO 2016 IS:

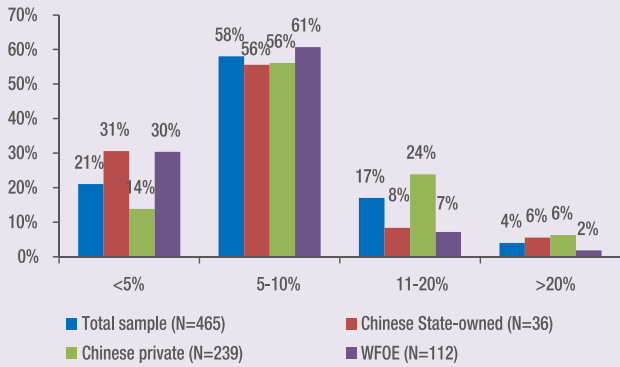
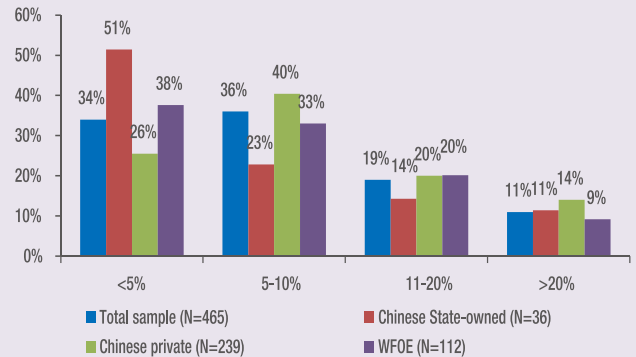


FIGURE 39 - THE TOTAL EMPLOYEE TURNOVER IN 2017 COMPARED TO 2016 IS:



4.1.2. Top Human Resources issues in China

Consistent with previous years, “Finding and hiring suitable talent”, “Rising labor costs” and “Generating commitment and loyalty” are the top HR concerns for surveyed Chinese and foreign companies. Foreign firms and Chinese private firms have more issues finding and retaining talent than SOEs (84% of foreign firms and 78% of Chinese private firms, vs. 72% of SOEs and declare issues in hiring suitable talent). The differences by industry are captured in the chart below.

FIGURE 40 - BY COMPANY TYPE: WHICH ARE THE MAJOR HUMAN RESOURCES ISSUES FACING YOUR COMPANY IN CHINA?

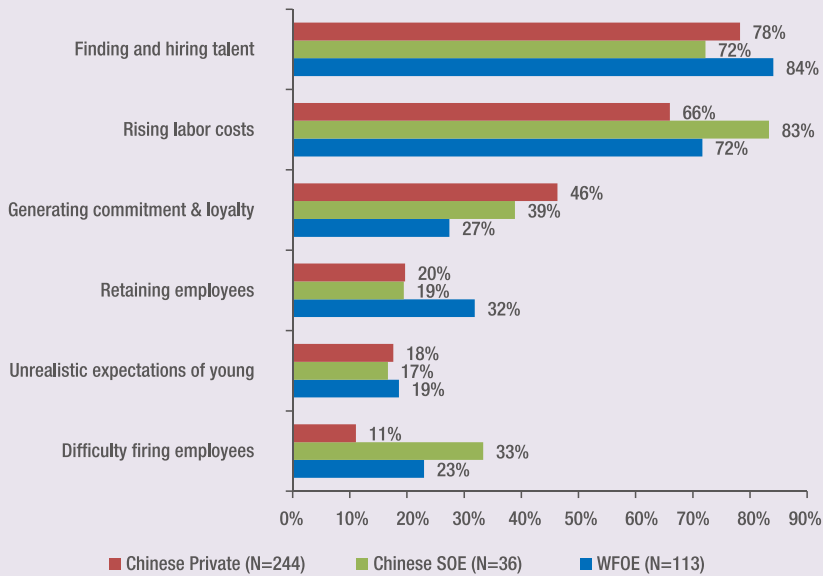
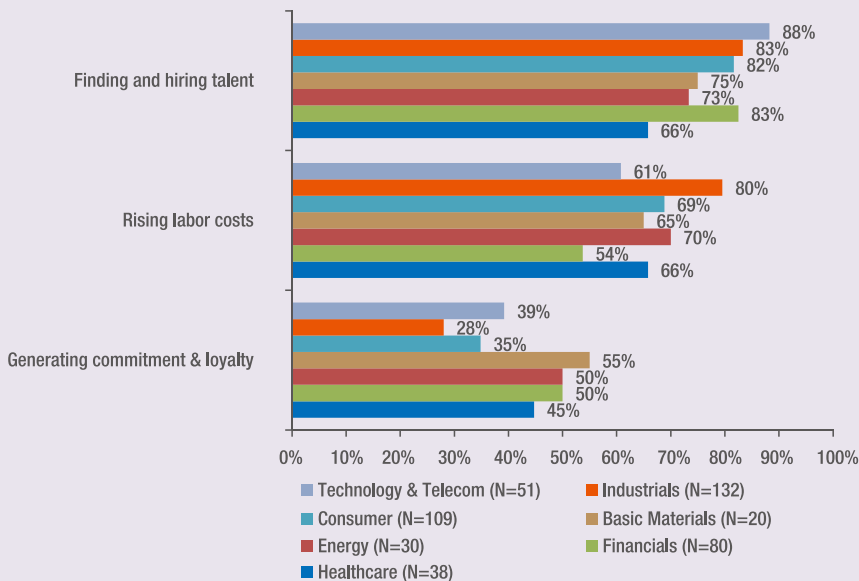


FIGURE 41 - BY INDUSTRY: WHICH ARE THE MAJOR HUMAN RESOURCES ISSUES FACING YOUR COMPANY IN CHINA?



4.1.3. Most effective measures to retain employees

In terms of the most effective measures to retain employees, “Develop a feeling of belonging to the company” is cited as most effective measure by 58% of the total sample, followed by “Offering a good career path” (51% of the sample). Both sets of measures come before salary as “Pay above market” is cited by a lower 36% of sampled companies. However, when observing according to type of company, we note that “offering a good career path” is a strategy particularly relevant for SOEs, much more than for Chinese private firms or foreign firms. The differences in the relative weight of some of the strategies between types of firms are captured in the chart below.

FIGURE 42 - TOTAL SAMPLE: WHAT MEASURES DO YOU FIND MOST EFFICIENT IN RETAINING EMPLOYEES?

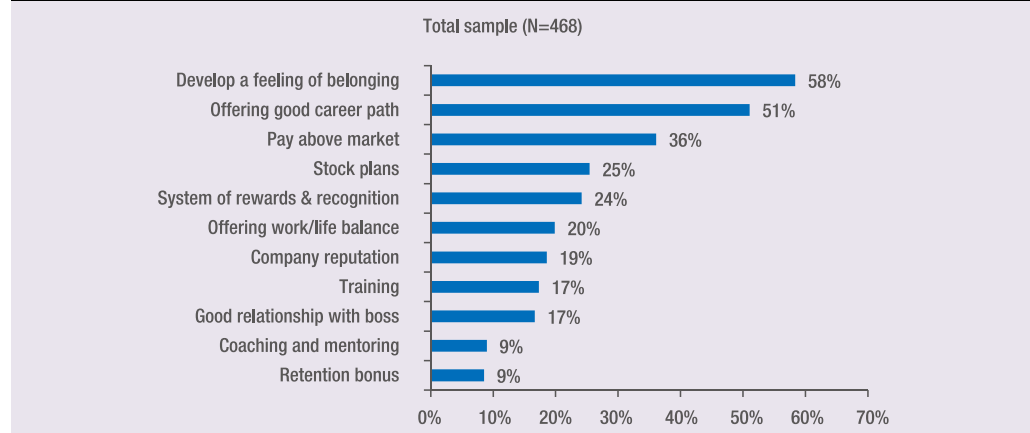
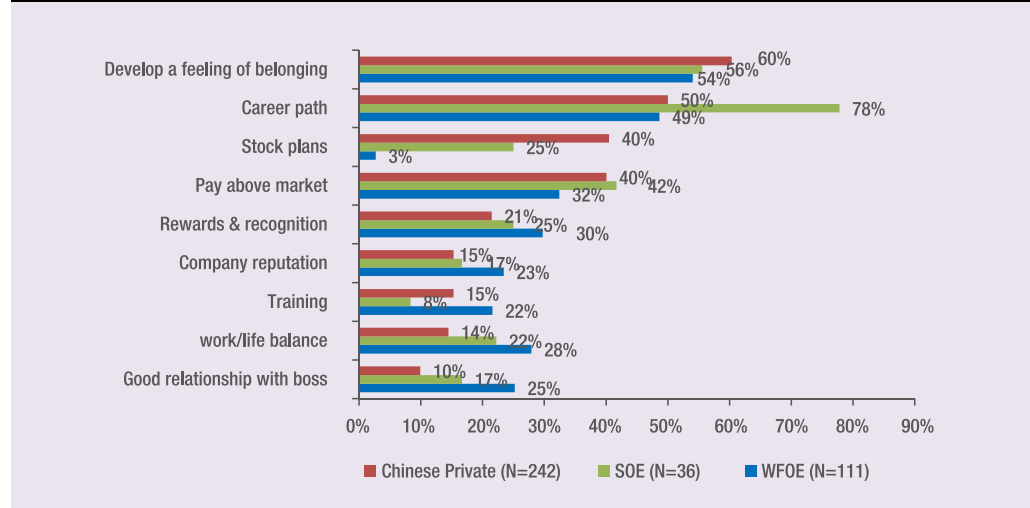


FIGURE 43 - BY COMPANY TYPE: WHAT MEASURES DO YOU FIND MOST EFFICIENT IN RETAINING EMPLOYEES?



4.2. SALES AND MARKETING

4.2.1 Competition

90% of Chinese firms and 87% of foreign firms polled consider the competition in China to be intense or very intense, which is consistent with competition being the most pressing external challenge faced by our sample of companies (Section 3.1).

A majority of respondents cited their main competitors to be Chinese private enterprises (74% of Chinese firms and 71% of foreign firms). Chinese-owned respondents cite state-owned enterprises as a distant second (41%). In contrast, foreign companies measure themselves also amongst each other, citing WFOE (54%) as their second major type of competitor. These results are consistent with previous surveys.

The top strengths of foreign firms according to their Chinese competitors are related to their capability to create brands, the superiority of their products and their technology. In contrast, foreign-owned firms consider that their main weaknesses vis-à-vis their Chinese competitors lay in Chinese firms' superiority in "Cost advantages", "Price", and "Relationships with Government and other guanxi".

FIGURE 44 - HOW INTENSE IS THE COMPETITION YOU ARE FACING IN CHINA?

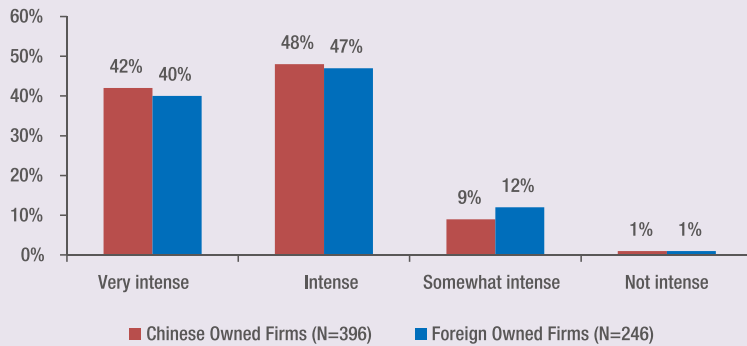


FIGURE 45 - WHO ARE YOUR MAIN COMPETITORS IN CHINA? MULTIPLE ANSWERS

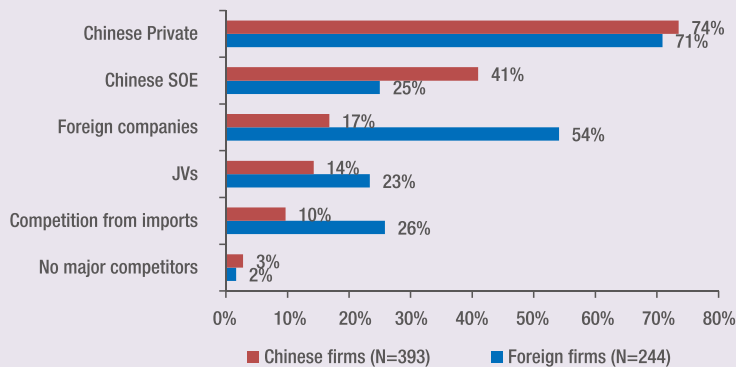


FIGURE 46 - BY INDUSTRY: HOW INTENSE IS THE COMPETITION YOU ARE FACING IN CHINA?

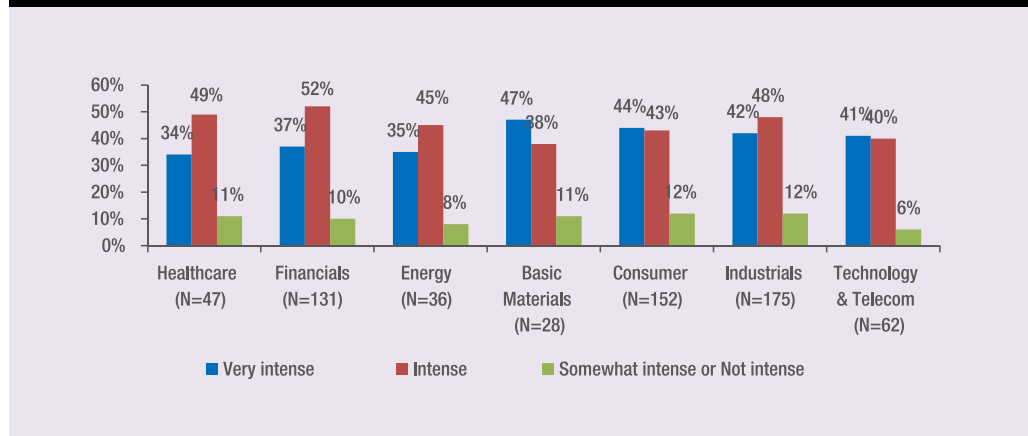


FIGURE 47 - WHAT ARE THE COMPETITIVE ADVANTAGES OF YOUR MAIN FOREIGN COMPETITORS IN CHINA? MULTIPLE ANSWERS

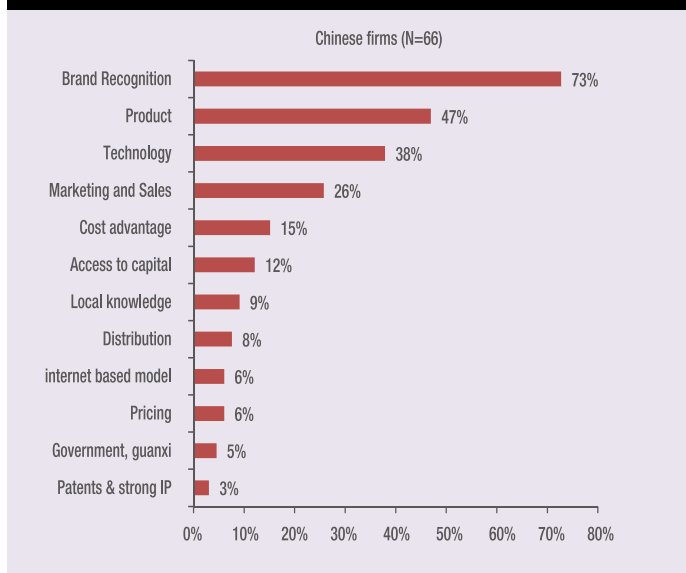
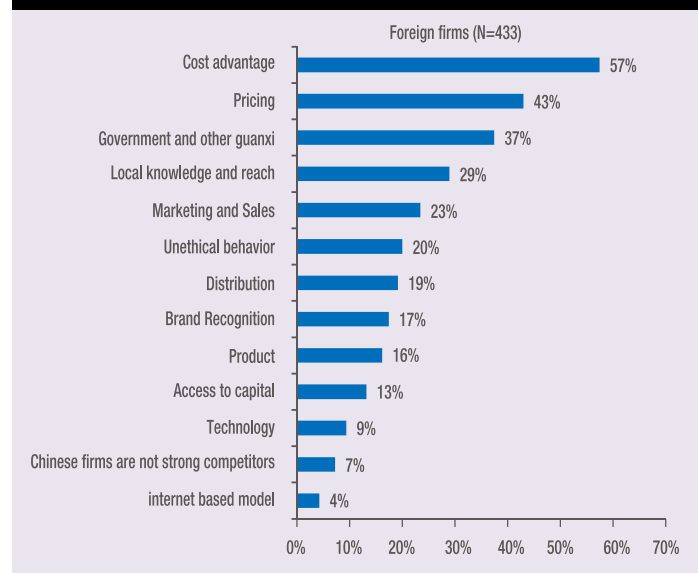


FIGURE 48 - WHAT ARE THE COMPETITIVE ADVANTAGES OF YOUR MAIN CHINESE COMPETITORS IN CHINA? MULTIPLE ANSWERS



4.2.2. Market segments and mobility

Our sample of companies operates mainly in the premium and middle segments with 54% and 43% of companies respectively, and only a small 3% in the low-end. The sample of foreign firms is more skewed towards high-end markets than the Chinese sample: 75% of foreign firms declare to operate in the premium market vs. 42% Chinese firms. In terms of segment mobility, we see that even if a majority of companies plan to grow future sales within their existing segment, there is still a significant amount of companies that plan to grow outside of their current segment. This trend is stronger for companies in the lowest segment of the market.

FIGURE 49 - WHICH IS YOUR MAIN MARKET SEGMENT IN CHINA?

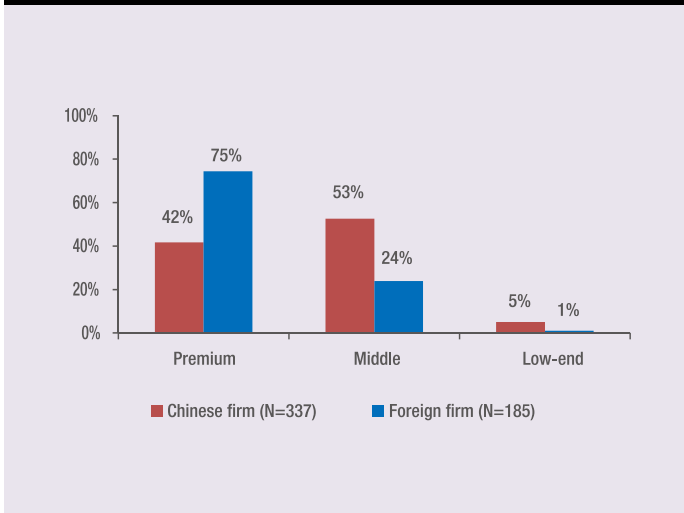
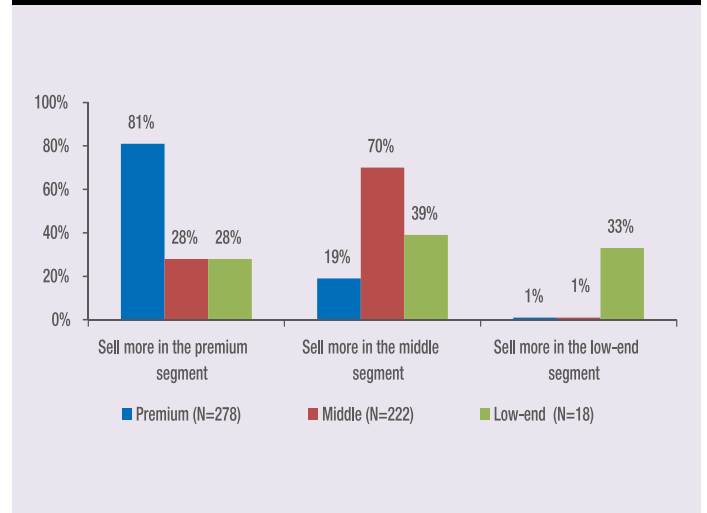


FIGURE 50 - WHAT ARE YOUR PLANS FOR THE FUTURE?



4.2.3. Marketing, Sales and Distribution Strategies

Marketing & Sales spending: There is no significant difference in marketing and sales spending for Chinese owned and foreign-owned firms. However, more Chinese firms plan to increase their investments in the coming year. B2C firms in our sample allocate a higher portion of their budgets to marketing and sales activities than B2B firms.

In terms of industry, Healthcare seems to be the largest investor with 53% of sampled firms spending above 10% of yearly revenues in marketing and sales, followed by firms in the Consumer goods and services sector (39% of them). Companies operating in the medium and low-end segments of the market tend to have larger marketing & sales spending than those in the premium sectors.

Sales strategies: B2B companies in our sample emphasize providing service and high quality above other factors. However, executives in B2C companies consider their distribution network and advertising campaigns most often as a key success factor for their sales.

Marketing strategies: Most cited marketing expenditures for B2B companies in our sample are visits to clients or prospective clients, followed distantly by organizing seminars and attending conferences. In contrast, B2C firms favor mostly social media, internet marketing and traditional advertising.

Distribution network: 17% of the total sample considers their distribution network in China to be bad or very bad, 47% consider it sufficient and 36% of them label it efficient or very efficient.

FIGURE 51 - WHAT % OF YEARLY REVENUES DO YOU SPEND IN MARKETING & SALES?

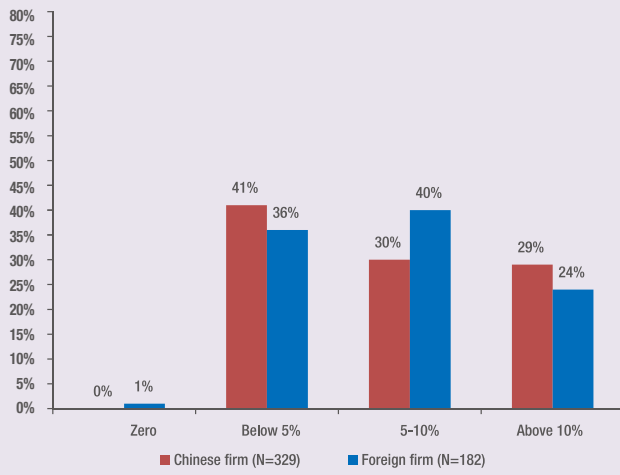


FIGURE 52 - WHAT ARE YOUR PLANS FOR NEXT YEAR?

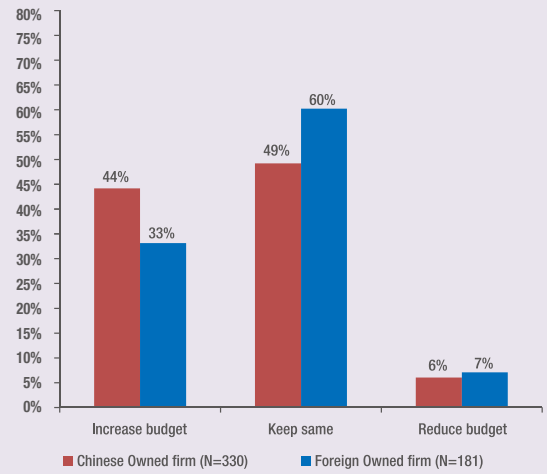


FIGURE 53 - BY B2B/B2C: WHAT % OF YEARLY REVENUES DO YOU SPEND IN MARKETING & SALES?

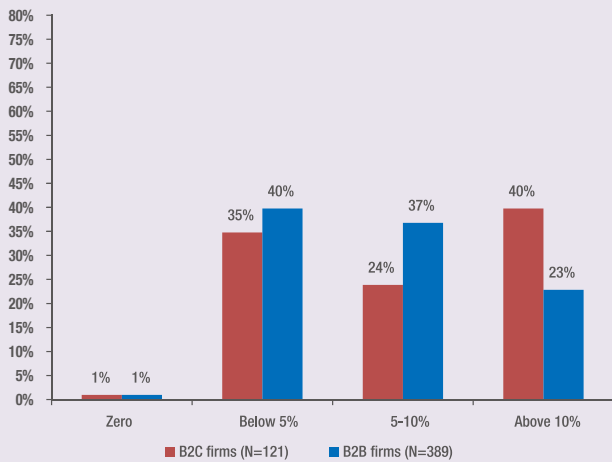


FIGURE 54 - WHAT ARE YOUR PLANS FOR NEXT YEAR?

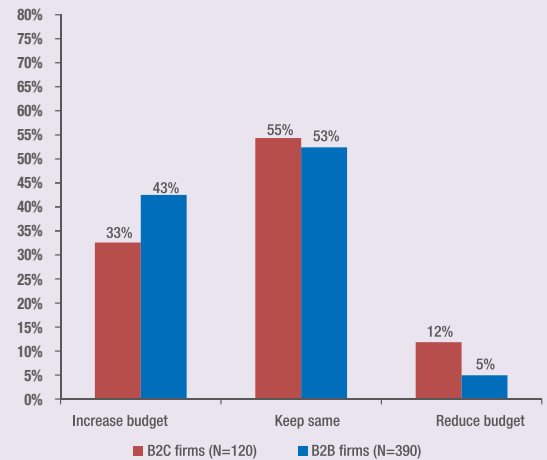


FIGURE 55 - BY INDUSTRY: WHAT % OF YEARLY REVENUES DO YOU SPEND IN MARKETING & SALES?

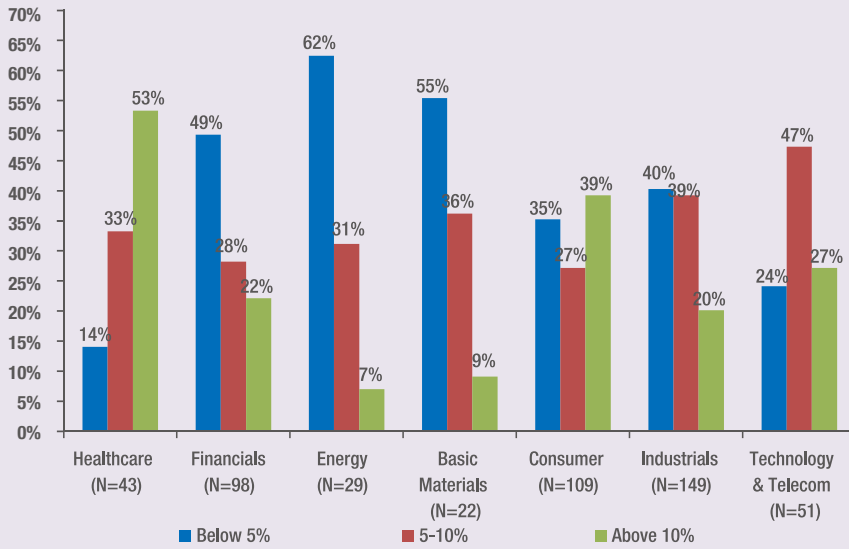


FIGURE 56 - BY MARKET SEGMENT: WHAT % OF YEARLY REVENUES DO YOU SPEND IN MARKETING & SALES?

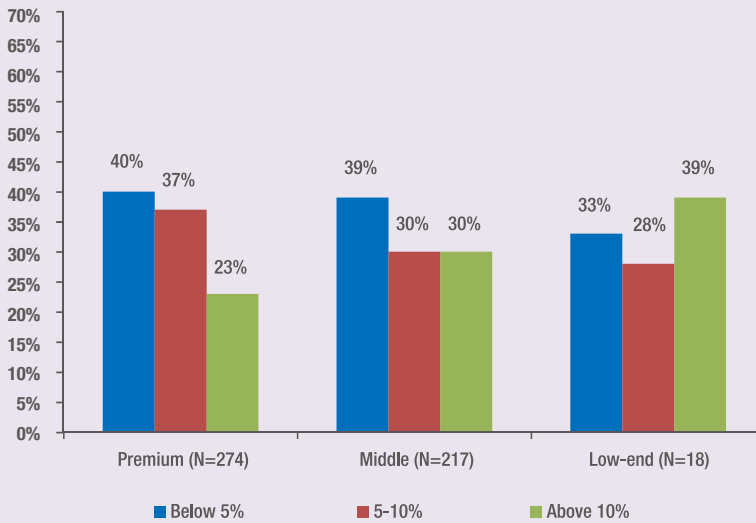


FIGURE 57 - BY B2B / B2C: PLEASE CHOOSE THE MOST IMPORTANT FACTORS ON THE SUCCESS OF YOUR SALES IN CHINA. MULTIPLE ANSWERS POSSIBLE

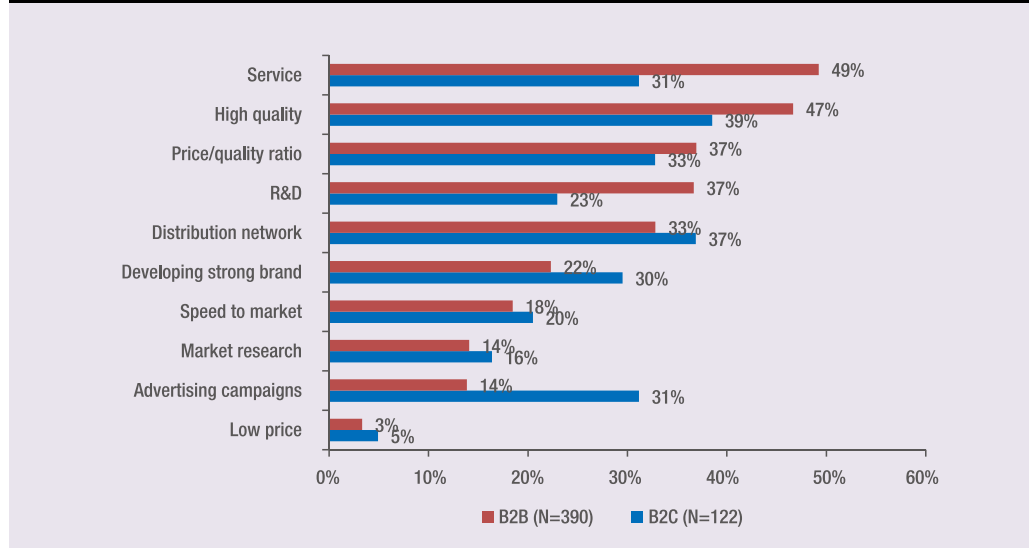


FIGURE 58 - BY B2B/B2C: WHICH MARKETING ACTIVITIES ARE MOST EFFECTIVE FOR YOUR MAIN BUSINESS?

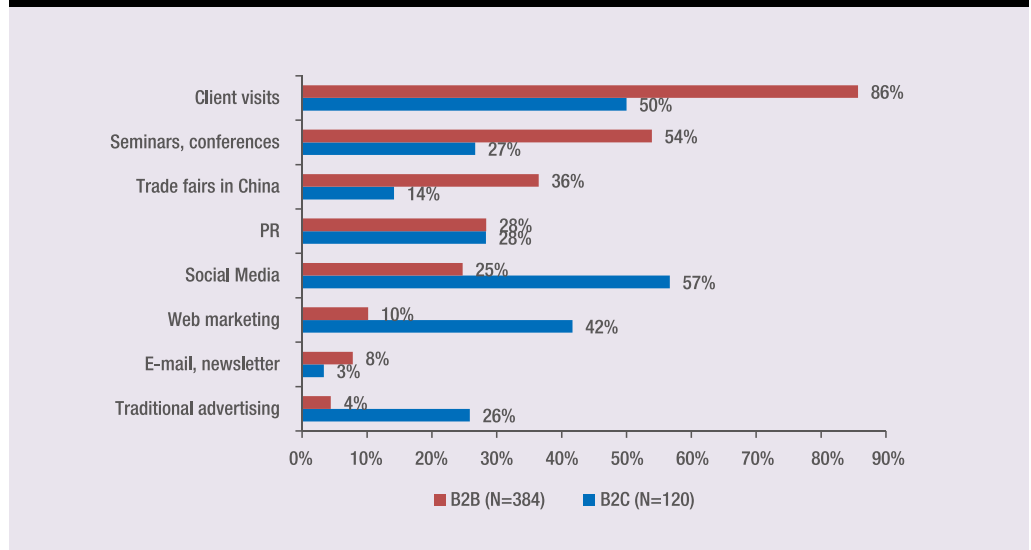


FIGURE 59 - BY MARKET SEGMENT: WHICH MARKETING ACTIVITIES ARE MOST EFFECTIVE FOR YOUR MAIN BUSINESS?

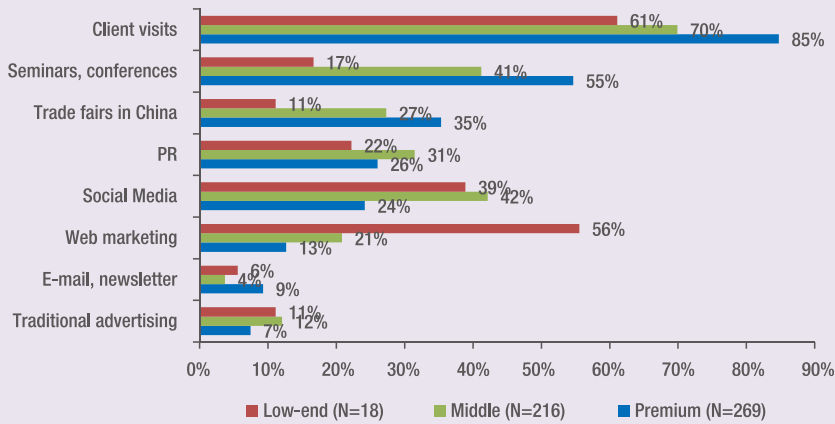


FIGURE 60 - HOW DO YOU EVALUATE YOUR COMPANY DISTRIBUTION NETWORK IN CHINA?

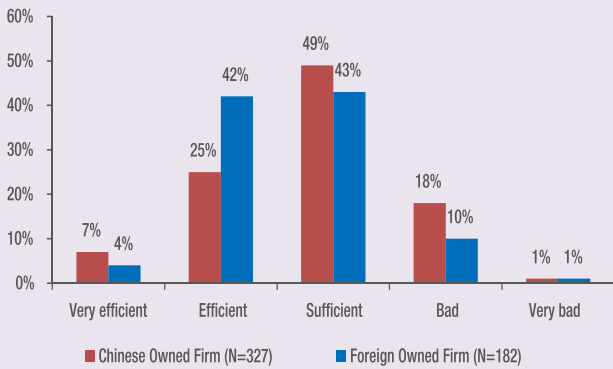


FIGURE 61 - BY B2B/B2C: HOW DO YOU EVALUATE YOUR COMPANY DISTRIBUTION NETWORK IN CHINA?

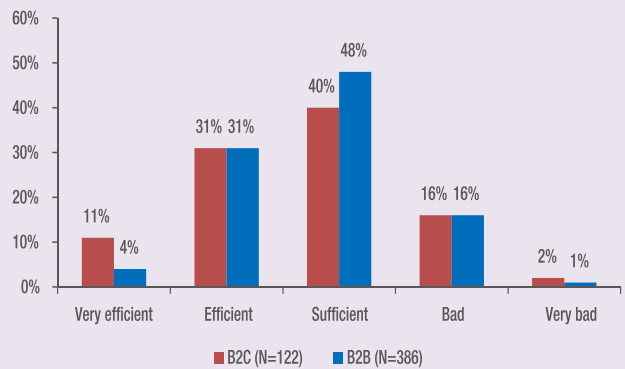


FIGURE 62 - BY MARKET SEGMENT: HOW DO YOU EVALUATE YOUR COMPANY DISTRIBUTION NETWORK IN CHINA?

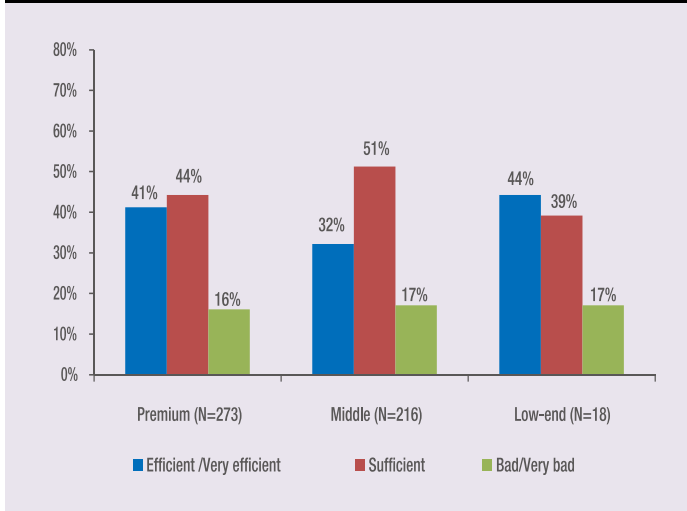


FIGURE 63 - BY INDUSTRY: HOW DO YOU EVALUATE YOUR COMPANY DISTRIBUTION NETWORK IN CHINA?

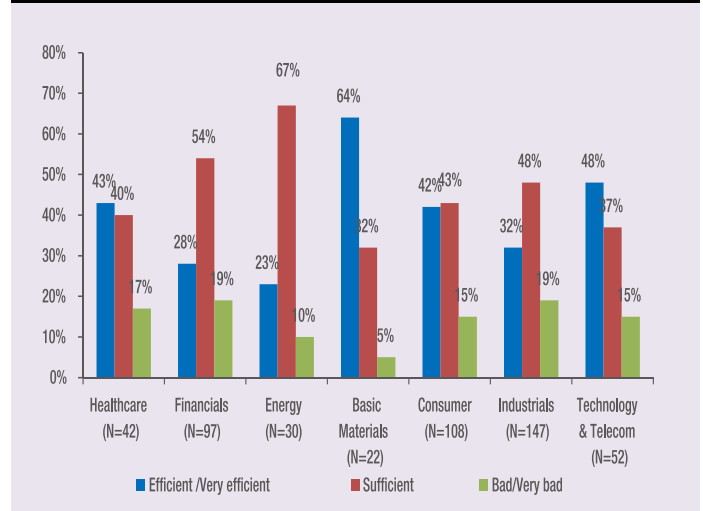


FIGURE 64 - MARKET LEADERS: WHY ARE YOU IN THAT POSITION? N=165

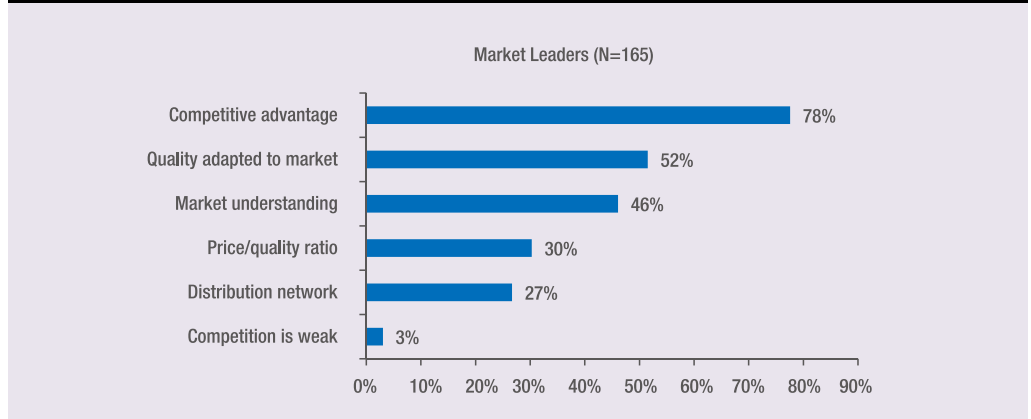
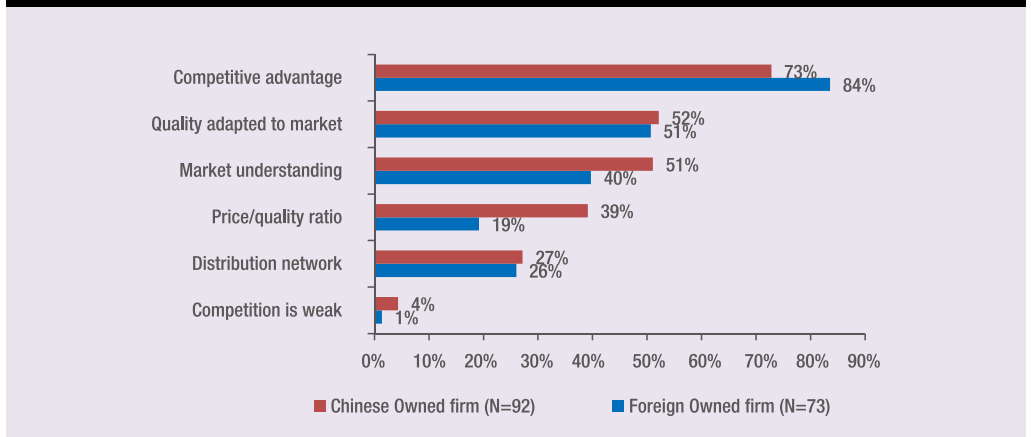


FIGURE 65 - CHINESE / FOREIGN MARKET LEADERS: WHY ARE YOU IN THAT POSITION?



4.3. RESEARCH & DEVELOPMENT

Chinese and foreign executives who participated in this year's survey report high levels of innovation for their companies as 67% of them have introduced new products or services in 2017. Introducing new management techniques has also been a popular improvement for our sample, especially for Chinese owned firms.

Levels of R&D investment are similar for Chinese and foreign companies in our sample. However, more Chinese companies declare intention of their company to increase R&D spending in the next three years, 63% of them vs. a significantly lower 41% of foreign firms. Within Chinese companies, it is private firms that take the lead in intention to expand R&D investment.

In terms of industry, we observe that Technology & Telecommunication have the highest percentage of "big R&D spenders" in our sample, with 74% of them, followed by Healthcare with 58% of them devoting more than 5% of their sales revenues to R&D.

FIGURE 66 - WHAT TYPES OF INNOVATIONS HAVE YOU INTRODUCED IN 2017?

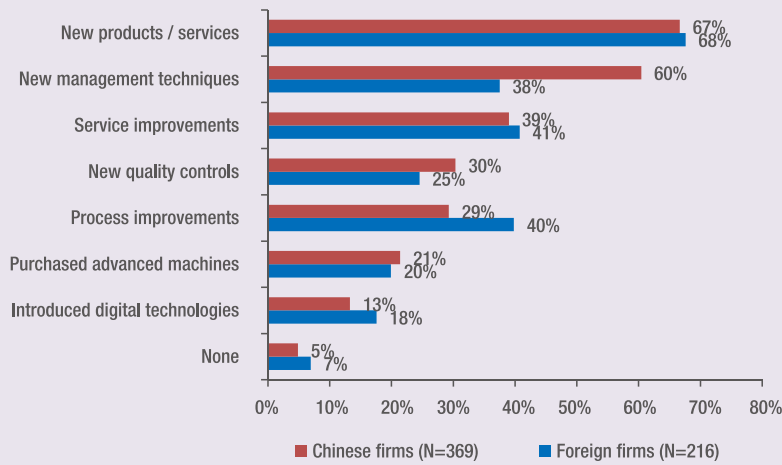


FIGURE 67 - WHAT IS YOUR ANNUAL EXPENDITURE IN R&D AS A % OF REVENUES?

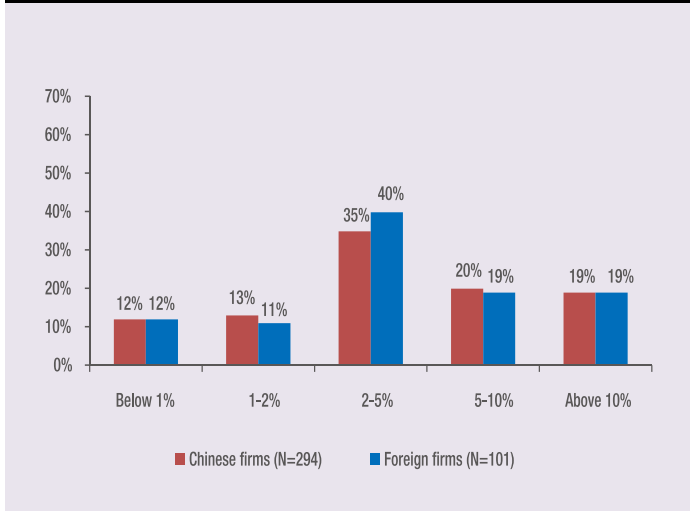


FIGURE 68 - WHAT ARE YOUR R&D PLANS FOR THE NEXT 3 YEARS?

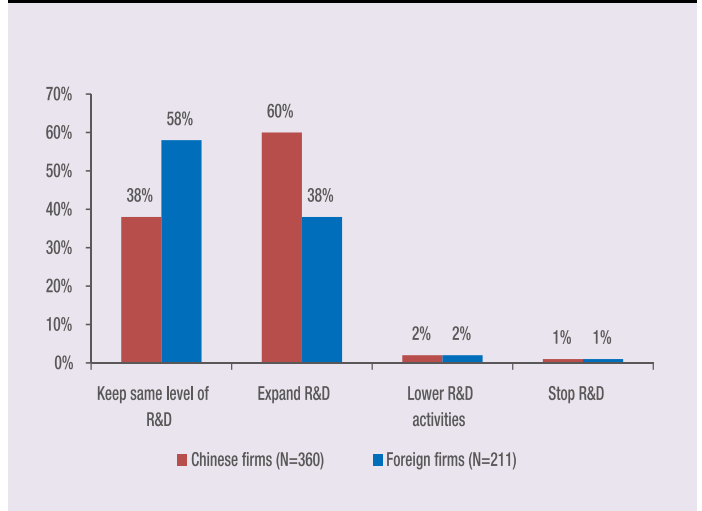


FIGURE 69 - BY COMPANY TYPE: WHAT IS YOUR ANNUAL EXPENDITURE IN R&D AS A % OF REVENUES?

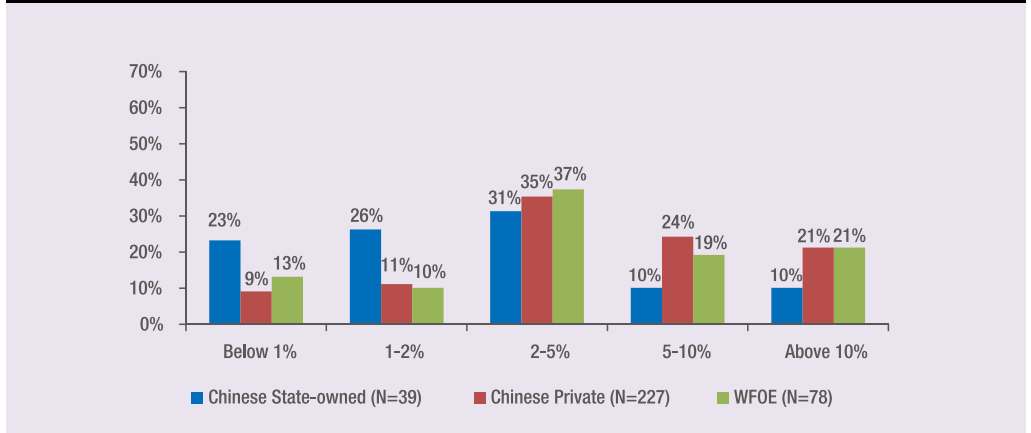


FIGURE 70 - BY COMPANY TYPE: WHAT ARE YOUR PLANS FOR THE NEXT 3 YEARS?

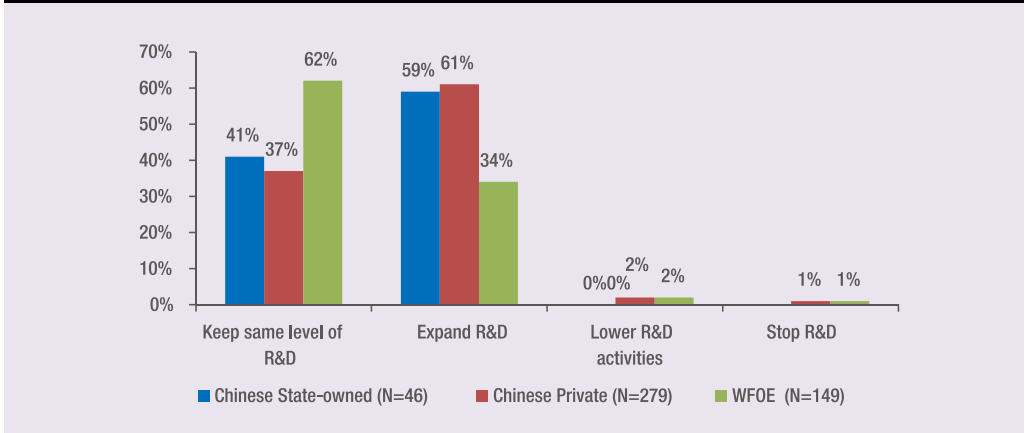


FIGURE 71 - BY INDUSTRY: HAVE YOU INTRODUCED NEW PRODUCTS OR SERVICES IN 2017?

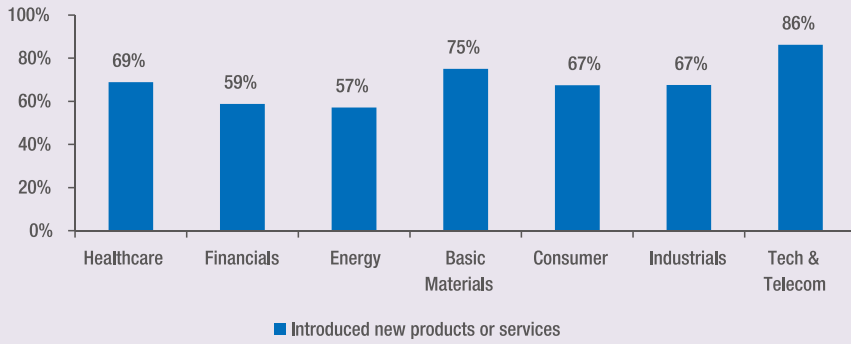


FIGURE 72 - ZOOM BY INDUSTRY: ANNUAL R&D EXPENDITURE ABOVE 5% OF SALES REVENUES

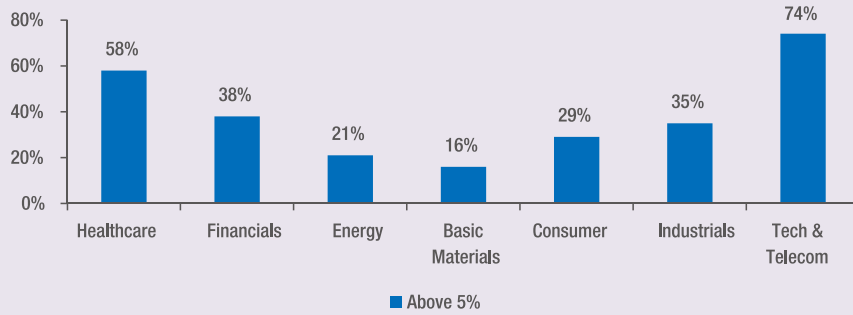
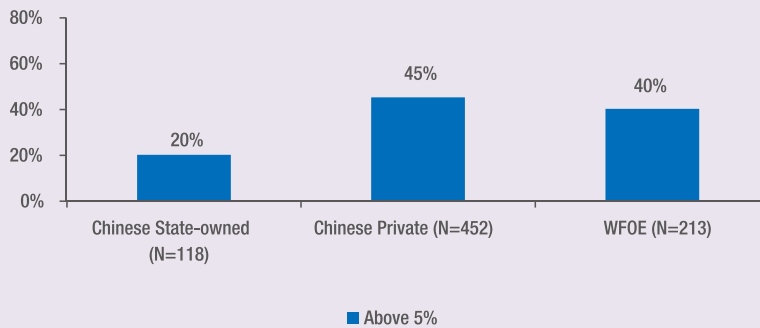


FIGURE 73 - ZOOM BY COMPANY TYPE: ANNUAL R&D EXPENDITURE ABOVE 5% OF SALES REVENUES



4.4. GOVERNMENT & LEGAL ENVIRONMENT

4.4.1. Government Relationships

71% of the sampled executives view the relationship with the Chinese authorities as important or very important to their businesses, regardless of whether they work for a Chinese or foreign firm. However, it is Chinese state-owned firms that emphasize most the importance of this relationship, with 45% of them labeling it critical for business success.

When analyzing by industry, we observe differences. Our polled sample would suggest that government relations may be more significant for companies operating in Financials, Energy or Healthcare, where 86%, 83% and 77% of their executives in our sample have labeled them important or critical.

FIGURE 74 - HOW IMPORTANT ARE THE RELATIONSHIPS WITH THE AUTHORITIES?

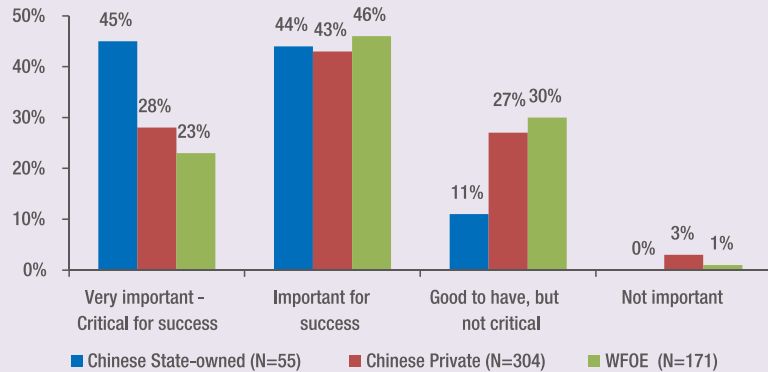
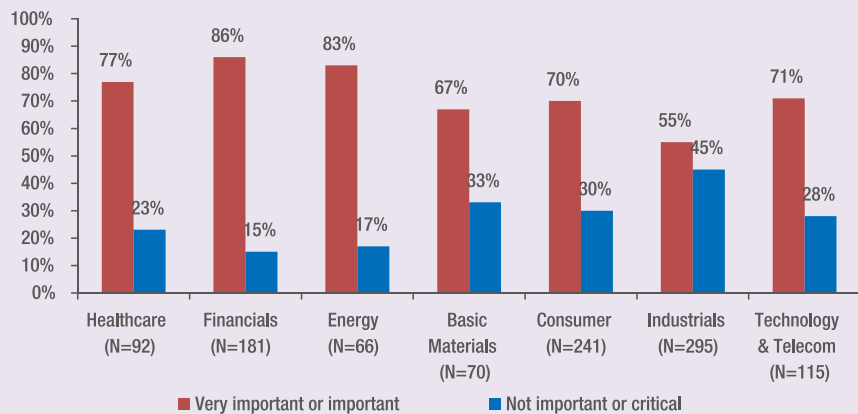


FIGURE 75 - BY INDUSTRY HOW IMPORTANT ARE THE RELATIONSHIPS WITH THE AUTHORITIES?



4.4.2. Corruption

The Corruption Improvement Index is based on the multiple-choice question “In your view, how is corruption in your industry compared to last year?” and it is constructed in a way similar to the well-known Purchasing Managers’ Index (PMI). A reading of 50 means that corruption is unchanged; a number over 50 indicates an improvement while anything below 50 suggests a worsening of the situation compared to the previous year. The further away from 50 the index is, the stronger the improvement or worsening over the year.

After four years (from 2012 to 2015) observing the Corruption Improvement Index get better year after year, 2016 showed a slight deterioration and 2017 continues this downward trend, albeit modest. The index is still larger than 50, meaning that our sample perceives an improvement in the corruption situation in 2017 vs. 2016. However, its value is smaller than what it was in previous years.

An interesting phenomenon that we have been observing in all editions of this survey is that respondents perceive corruption in China as being less acute when asked about one’s own industry than when asked about the country in general. When we ask our sample about general corruption in China, a majority (56% of respondents) view corruption in China to be a problem (moderate to serious). However, when asked about corruption in their industry, the number of respondents seeing it as a problem drops to 29%. This phenomenon is observed with respondents from all types of companies (Chinese private-owned firms, WFOEs and Joint Ventures), and across industries.

Different industries seem to perceive different levels of corruption. The charts below provide details on these perspectives.

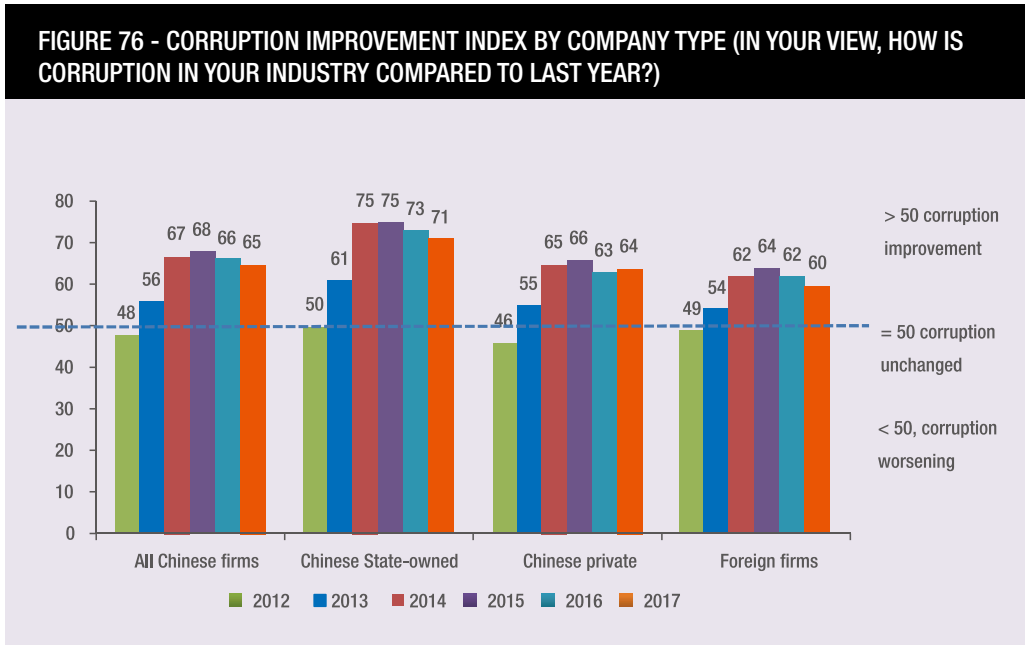


FIGURE 77 - IN YOUR VIEW, HOW SERIOUS IS CORRUPTION IN CHINA, IN GENERAL, AND IN YOUR INDUSTRY? N=626

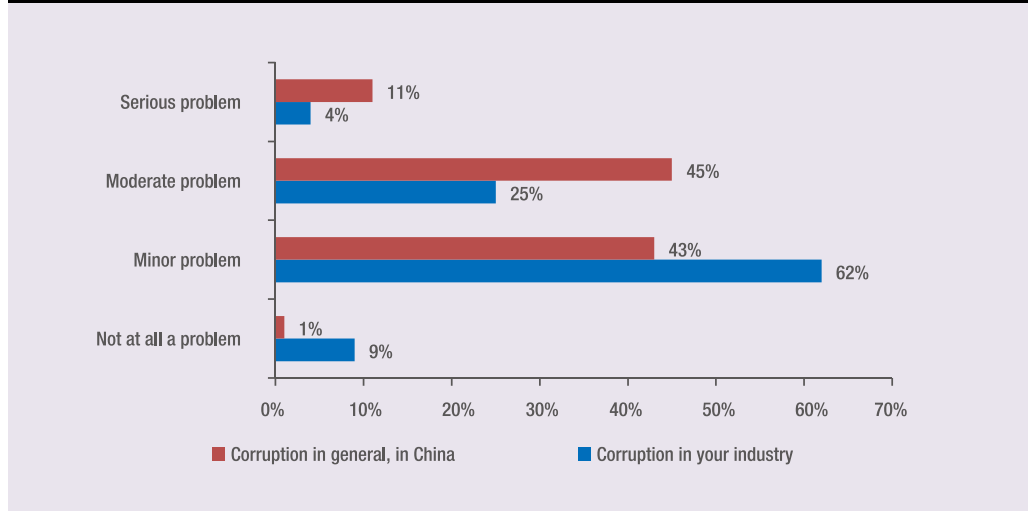


FIGURE 78 - BY COMPANY TYPE: IN YOUR VIEW, HOW SERIOUS IS CORRUPTION IN YOUR INDUSTRY?

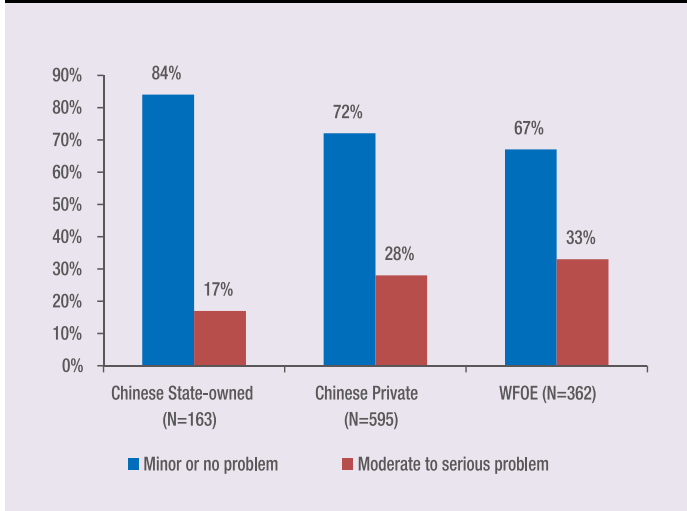


FIGURE 79 - BY INDUSTRY: IN YOUR VIEW, HOW SERIOUS IS CORRUPTION IN YOUR INDUSTRY?

