Information to media

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SEB's China Financial Index: Business climate continues to improve in China – but competition fiercer than ever

Senior managers at Northern European subsidiaries in China foresee continued improvement in business prospects on the Chinese market. Substantial recruitments and a continued high pace in investment are expected in the coming six months.

The latest survey reveals that competition from local and international firms will be the major challenge going forward – not customer demand as previously indicated.

The Chinese economy grew by 10.3 per cent in the second quarter of this year, continuing to outperform all other major markets in the world. Continued massive fiscal stimulus and huge bank lending are contributing factors, and export figures are also picking up substantially.

“Nordic and German multinationals are not worried that there will be a dip in the high growth in China. Basically all companies are expanding, primarily by adding staff. One year ago 70 per cent of respondents answered that customer demand was their major concern. Six months ago that figure had fallen to 48 per cent and today only 17 per cent of companies surveyed are worried about customer demand in China,” says **Fredrik Hähnel**, General Manager of SEB in Shanghai and author of the report.

Meanwhile, more companies foresee increased competition.

“China is one of the most competitive markets in the world. The experience of many companies is that basically all their international competitors are established in China. On top of that, the number of Chinese competitors is increasing and their capabilities are improving rapidly. It is a bit contradictory therefore that 75 per cent of respondents are expecting to increase their market share in the coming six months,” Hähnel continues adding that raw material costs and the scarce supply of qualified labour are further challenges identified by companies in this survey.

The expansive fiscal and monetary policies in China are continuing, in the short term, while administrative measures are being taken to avoid a property bubble. Inflation was 3.5 per cent in August and more and more analysts expect the central bank to raise interest rates soon. This can also be seen in the answers from Nordic and German companies.

”Eighty-five per cent of companies in our survey believe that the RMB will continue appreciating against the USD and half the companies expect one or more interest rate hikes," Hähnel concludes.

This is the fourth time SEB has published the China Financial Index, a unique survey published twice a year. The purpose is to mirror changes in expectations among Northern Eurpean companies in China, to bring about greater understanding of the economic and financial development of the country. The survey includes 12 questions related to the business climate, investment plans, recruitment plans and views on currencies and interest rates. The full report can be downloaded from: www.seb.se

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