

**NEWSLETTER**

**INTERNATIONAL**

 ENGLISH VERSION

CHINA



## CHINA – CHALLENGES IN PRODUCTION PARADISE



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## “ESCALATION OF TRADE DISPUTES CREATES UNCERTAINTY”

### How do you rate the availability of skilled labor in China?

We know that this has long been an urgent issue for German companies in China. This is confirmed by the annual AHK business climate survey: the search for and retention of skilled employees has consistently been among the Top 5 operational challenges in recent years.

Our current Labor Market and Salary Report also highlights the significant rise in labor costs. All of this has a significant impact on the business activities of German companies in China. For manufacturing companies, recruiting qualified personnel is just as crucial to business operations as increasing labor costs. For non-production companies, the recruitment of qualified personnel is second only to rising labor costs.

Local employees are generally perceived to be reliable, with a strong work ethic and good technical and professional skills. When it comes to creativity, decision-making or critical thinking, however, the skills of local employees are rated more conservatively.

German companies in China typically name three strategies to retain qualified employees. These are salary adjustments, a bonus system, and career development plans. According to a majority of the companies surveyed, considerable efforts must be made to bring the staff to the desired level of qualification.

Roles that require substantial expertise are the hardest to fill, with technical sales, engineering / R&D and technical service in the lead. On the other hand, roles in administration, procurement, finance, HR, IT or marketing are considered easier to recruit. Lack of professional competence and inadequate salary expectations remain the most frequently cited answers to the question of why positions are difficult to fill.

### Which locations beyond Shanghai are interesting for setting up production facilities?

German companies are located mainly in the economic centers of China: the Yangtze Delta in the east of the country, in and around Shanghai, in the Bohai Economic Rim in the north, which includes the areas around Beijing and Tianjin and the surrounding provinces, Hebei, Liaoning and Shandong.

In the south of China, in Guangzhou and Shenzhen as well as in the Pearl River Delta, more and more German companies have settled in the last ten years. Increasingly, the provinces of Jiangsu, Guangdong and Sichuan are gaining importance as manufacturing locations for German companies.



**Jonathan Schoo**

General Manager of German Industry & Commerce Greater China – Beijing (AHK)

## Several companies have recently had to move their plants within China due to changes in environmental standards. What is behind this?

Rapid urbanization is one of the major challenges in the country. In northern China, a region that traditionally provides a base for heavy industry, this becomes apparent when you think of the smoggy skies above the cities in the region.

In particular, companies that pollute the environment through carbon emissions, high water and electricity consumption, no longer receive a start-up permit for new settlements. Regulations are being enforced, resulting in more relocations. In addition, there is now more pressure to upgrade equipment with new technologies.

This can be an opportunity for German companies and experts, as they can support China's economic realignment with their experience in sustainable development. Our organization has been advising companies in the construction, energy and environment sector for many years. With information, services and special projects, we support them in the Chinese market for sustainable technologies.

## What are the implications of the current China-US tariff dispute for the China business of European companies?

Overall, there are great concerns and the developments are being monitored very closely by the local business community. The escalation of the trade dispute between the US and China is creating uncertainty among companies. With each additional round of escalation, the number of companies affected increases.

The majority of German companies in China produces for the local and Asian market, but in part by employing global supply chains. Especially the highly internationalized German economy relies on open markets and a functioning world trade system.

INTERVIEW

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## „EUROPEAN COMPANIES ARE CONSIDERED FAIR EMPLOYERS“

### How has the Chinese labor market developed over the past twelve months?

According to government figures, the Chinese unemployment rate in the urban areas at the end of 2017 was 3.9 percent, the lowest level since 2002. In the first quarter of this year, the unemployment rate fell again slightly to 3.89 percent.

Last year, a total of 13.51 million new jobs were created in urban areas. China's working-age population in 2017 reached more than 900 million.



**Christian Tegethoff**  
Managing Director  
CT Executive Search

Salaries at the upper end of the scale are likely to continue to rise this year in light of the continued robust economic development and the perceptible staff shortages in some areas. According to a survey of the recruitment company Hays, 51 percent of employers plan to increase salaries by more than 6 percent and another 38 percent by 3 to 6 percent.

Due to the size and diversity of China, there are many distinct labor markets from a practical point of view. For example, the situation in Shanghai is completely different from that in small western Chinese cities. Although statistical data can thus convey a general trend, the situation at a specific location must always be taken into consideration.

### **How do you assess the availability of skilled workers?**

Chinese and foreign companies both complain about significant difficulties with recruiting skilled workers. Labor market experts believe that these problems will be exacerbated in the future.

One reason for the current shortage is the attractiveness of the metropolises. Many young Chinese are drawn to cities such as Shanghai or Guangzhou, where there is an oversupply of labor. The result: while there is a lack of professionals in the provinces, those moving to Tier 1 cities often have to work in jobs below their formal qualifications due to the fierce competition.

According to a McKinsey study, the Chinese labor market will demand 24 million more university graduates and skilled workers nationwide by 2020 than will be available. The reasons for this are the demography characterized by the one-child policy and the progressive mechanization of the Chinese production companies. The demand for unskilled workers is decreasing, that for skilled workers is rising.

Companies often complain about graduates' shortcomings in soft skills, such as communication, analysis and management skills. This is attributed to the highly test-based Chinese education system, which relies entirely on the teaching of technical knowledge. Companies must therefore devote considerable resources to preparing young people for the demands of the working world.

### **To what extent are Chinese executives internationally mobile? Are Chinese interested in foreign assignments?**

The availability of internationally deployable executives has grown as the presence of international companies in China has increased. Over the past 30 years foreign companies have built up a respectable pool of executives through education and training. Millions of Chinese have been „socialized“ in foreign companies and are thus familiar with the practices of internationally operating businesses.

However, the mobility of Chinese executives is rather low. The vast majority prefer a career in their home country and are not necessarily interested in a long-term stay in another country.

For those considering moving away, the US and other English-speaking countries are clearly favored. Comparatively few Chinese speak German and therefore prefer the English-speaking foreign countries.

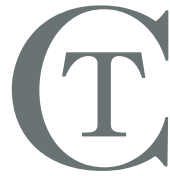
For companies with long-term plans for China, it is therefore advisable to cultivate a forward-looking personnel policy and systematically develop executives in-house. Longer training stays at the HQs not only serve the development of technical skills, but they also help to create a reservoir of employees who are rooted in the corporate culture and feel thus loyal to the company.

### **How are European employers perceived in China today?**

European companies are synonymous in China for quality products and are generally considered well-organized and fair employers. This positive perception applies to European companies in general - French, German, British or Scandinavian employers are equally popular in China.

Many Chinese also feel connected to the United States, despite all the current political and economic tensions, and are interested in working in an American company. Although European companies have a clear advantage over local employers, they are not necessarily in a stronger position than other international players.

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