February 21, 2024

Economic Conditions in China / Hearing

Business Sentiment Becoming Worse Despite Macroeconomic Indicators Continuing to Recover Gradually

- Reasons for the Widening Gap between Major Economic Indicators and Business Sentiment -

<Report on a business trip to Beijing, Chengdu, and Shanghai (January 22 to February 2, 2024)>

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<Key Points>

○ The real GDP growth rate in the fourth quarter of 2023 was +5.2% year on year (y/y), registering a higher growth rate than in the preceding quarter (+4.9% y/y). Seasonally adjusted, however, annualized Q/Q growth rate was 4.0%, slowing down compared to the preceding quarter (+6.0% annualized Q/Q).

○ Except for real estate-related economic indicators, the major indicators such as industrial production, service production, capital investments in manufacturing, and the retail sales of consumer goods continued to recover gradually in general after they bottomed out in July. However, with the future of the economy being quite uncertain, business sentiment among corporate managers and consumers did not recover, rather became worse.

○ One reason for the widening gap between the recovery of macroeconomic indicators and the deteriorating business sentiment is that corporate profits were improving slowly. In order to make it look like the economic performance was improving, provincial governments mainly requested state-owned businesses expand production exceeding demand. This increased inventories, causing selling prices to fall as the balance between supply and demand deteriorated, which in turn reduced corporate profits. That led to the attitude of curbing production, capital investments, employment, and wages for the future – the cause of the downward trend in the economy that deteriorated the business sentiment among businesses.

○ Another reason is that the stagnation of the real-estate market was not stemmed. In China, individuals have invested 60-70% of their assets in real estate, but real-estate prices continued to fall, and it was uncertain when they would recover.

○ Since summer of last year, the central and provincial governments had announced various measures to revitalize the real-estate market, but none of them had an impact strong enough to reverse the downturn trend in real-estate prices, and the prices continued to drop.

- ○ Still another reason is that the recovery of confidence among private enterprises was delayed.
- ○ In order to break through this situation, it is considered necessary that the leaders who are responsible for the administration of economic policy in the Chinese government accurately recognize the harsh circumstances the Chinese economy currently faces and take effective and drastic measures to recover business confidence early.
- ○ At the National People's Congress in March, the Chinese government is expected to announce that the expected economic growth rate this year would be around 5.0%, but the prevailing view is that it would barely manage to reach 4.7-4.8% as the government implements economic stimulative measures. Many experts reckon that if the government puts off effective measures such as the injection of public funds to recover the real-estate market, the economic growth rate would be highly likely to fall below 4%.
- ○ The future of the Chinese economy is quite uncertain, but major Japanese and German businesses do not intend to change the policy toward investments in China they have adopted in the past.
- ○ The recent policy of German businesses is to discover excellent Chinese engineers, take them to Germany, and let them train Germans. The major field of training would be digitalization technology, including electric vehicles, artificial intelligence, and IT.

1. **Recent macroeconomic situation**

The National Bureau of Statistics announced on January 17 that the real GDP growth rate in the fourth quarter of 2023 (October to December) was +5.2% y/y, registering a higher growth rate than in the preceding quarter (+4.9% y/y) (See Figure 1). Seasonally adjusted, annualized Q/Q growth rate was 4.0%, slowing down compared to the preceding quarter (+6.0% annualized Q/Q). A look at monthly changes shows that major economic indicators such as industrial production, service production, capital investments in manufacturing, and total retail sales continued to recover gradually in general after they bottomed out in July and that except for the real-estate sector, following the preceding quarter, they continued to improve as they did in the second quarter and thereafter.

Figure 1: Major Economic Indicators (%, Year on Year)

	Real growth rate	Exports	Imports	Investments in fixed assets (YTD)	Total retail of consumer goods	Consumer prices	Selling prices of real estate (YTD)
2020	2.2	4.0	-0.7	2.9	-3.9	2.5	5.9
2021	8.1	21.2	21.5	4.9	12.5	0.9	2.8
2022	3.0	10.5	4.3	5.1	-0.2	2.0	-3.2
2023	5.2	0.6	-0.3	3.0	7.2	0.2	6.4
1Q/2021	18.7	38.6	19.0	25.6	33.9	0.0	15.0
2Q	8.3	19.8	31.9	12.6	14.1	1.1	8.8
3Q	5.2	14.1	16.7	7.3	5.1	0.8	4.7
4Q	4.3	17.6	19.3	4.9	3.5	1.8	2.8
1Q/2022	4.8	13.2	8.7	9.3	3.3	1.1	-10.4
2Q	0.4	13.1	2.6	6.1	-4.9	2.2	-8.6
3Q	3.9	15.1	5.3	5.9	3.5	2.7	-5.3
4Q	2.9	1.9	2.2	5.1	-2.7	1.8	-3.2
1Q/2023	4.5	8.1	1.2	5.1	5.9	1.3	6.8
2Q	6.3	0.6	-1.0	3.8	13.4	0.1	10.6
3Q	4.9	-5.4	-3.9	3.1	3.7	-0.1	7.2
4Q	5.2	-1.3	2.3	3.0	8.4	-0.3	6.3

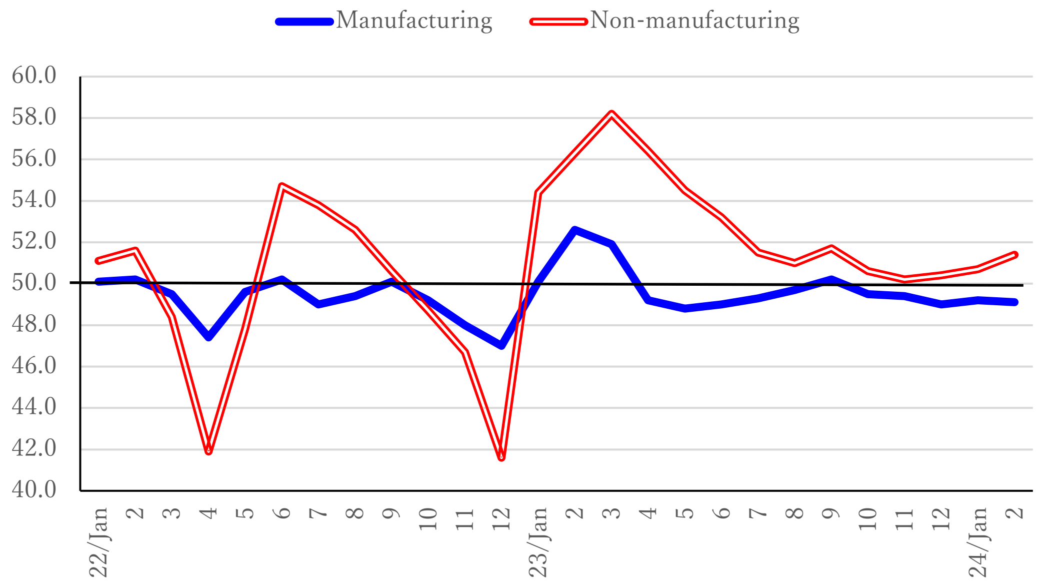
Note: Quarterly data for imports/exports are calculated by the author based on the original figures in Chinese yuan; for the total sales of consumer goods and consumer prices, the average of monthly growth rates compared to the previous year are used.

(Source: National Bureau of Statistics and CEIC)

However, with the future of the economy being quite uncertain, the recovery of confidence among corporate managers and consumers was slow. A look at the purchasing manager's index[1] (PMI) indicates that in April and thereafter, it continued to record below 50 in the manufacturing industry except for September and that in non-manufacturing industries as well, it continued to decline in April and thereafter (Figure 2). Major macroeconomic indicators continued to recover for five consecutive months, but even under these circumstances, business sentiment did not recover and was rather becoming worse.

During a recent business trip, the author interviewed economists and business people primarily to find the reasons for the discrepancy between indicators and their sentiment.

Figure 2: Purchasing Managers' Index (PMI) for Manufacturing and Non-manufacturing Industries



(Source: CEIC)

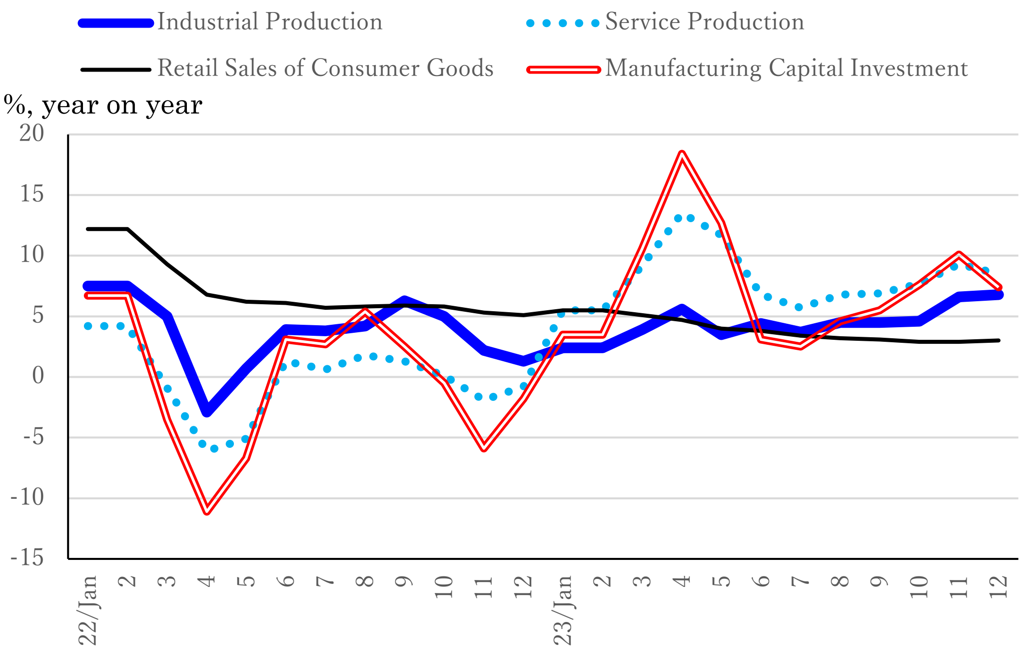
2. Reasons for the widening gap between major economic indicators and business sentiment

A look at major macroeconomic indicators shows that the growth rate for industrial production, service production, and the total retail sales of consumer goods compared to the same month of the previous year continued to recover

[1] The figure has been created by totalizing the results of the questionnaire survey of corporate purchasing managers' business sentiment. Business sentiment is considered to be improving if the index goes above 50 and to be worsening if it goes below 50.

gradually in August and thereafter. (See Figure 3.) The growth rate for service production and the total retail sales of consumer goods in December fell compared to the preceding month, but this was because of a reaction to the rise in December of the previous year compared to the preceding month, and the upturn trend is considered to remain unchanged.

Figure 3: Monthly Changes in Major Economic Indicators



(Source: CEIC)

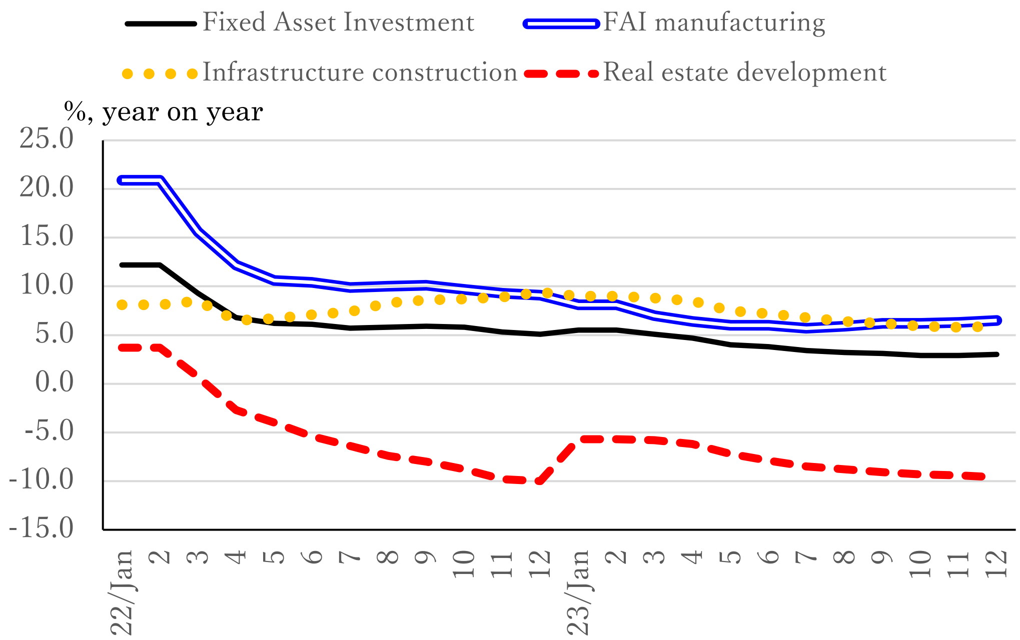
Among the major economic indicators, only fixed-asset investments (YTD, y/y) continued to decrease gradually after March in 2023 and still continued to decrease since August with the downturn trend not stemmed. This is chiefly due to the effects of decreases in real estate-related investments.

A look at cumulative capital investments since the beginning of the year compared to the previous year indicates that after they bottomed out during the period from January to July, at 5.7% y/y, they continued to recover gradually in August and thereafter (Figure 4). In particular, capital investments in the manufacturing industry by private enterprises showed a high growth rate in December, at 9.4% y/y.

The growth rate for infrastructure construction investments continued to decrease gradually during the period from January to July, when it was +6.8% y/y, and thereafter, but from October to December, it remained almost on the same level.

As described above, only real-estate development investments put pressure to lower fixed-asset investments in recent months, and if they are excluded, major economic indicators generally continued to recover in August and thereafter.

Figure 4: Monthly Changes in Fixed-Asset Investments by Industry



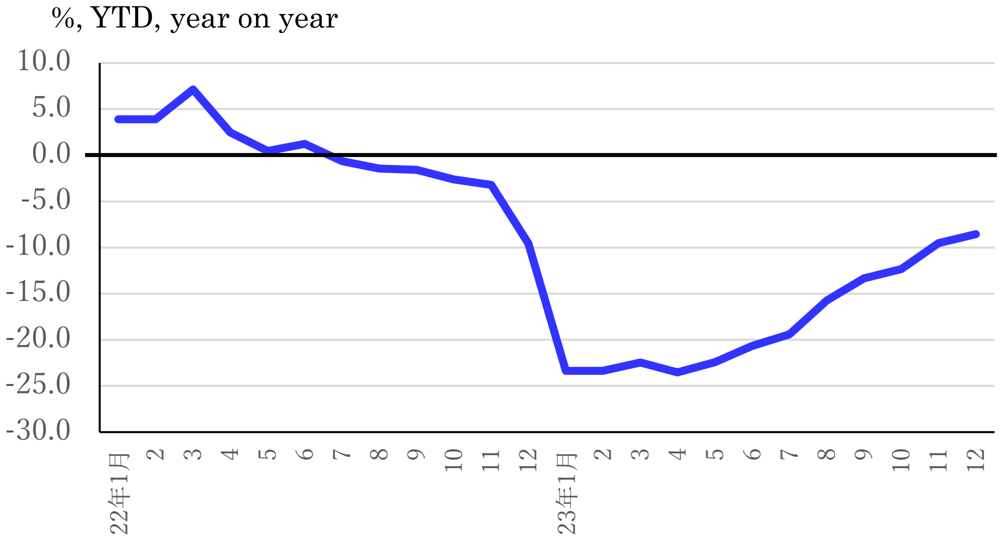
(Source: CEIC)

Nonetheless, the PMI for both manufacturing and non-manufacturing continued to worsen in April and thereafter, and there was no sign of improvement in business sentiment. The three reasons for that are as specified below.

First, corporate profits improved slowly. A look at the total of cumulative corporate profits since the beginning of the year compared to the previous year shows that they started to fall below the previous year's level in July 2022 and continued to register negative growth year on year until the end of 2023 (Figure 5).

In 2022, the economy seriously stagnated in the second quarter and thereafter owing to the effects of lockdowns mainly in Shanghai under the zero COVID policy, and because the effects extended up to around February 2023, corporate profits deteriorated during the interval. In March 2023 and thereafter, expectations for the normalization of the economy grew briefly, putting an end to the deterioration of corporate earnings. After April, however, it was found that the momentum of economic recovery was not so strong as expected, and for this reason, the economy slowed down again.

Figure 5: Changes in the Growth Rate for Total Earnings



(Source: CEIC)

Having noticed such circumstances, the government started to implement economic stimulative measures in late July and thereafter. The number of measures taken was very large, but they were all small in scale and not sufficient to drastically eliminate the two major causes of economic recession in recent months: the prolonged stagnation of the real-estate market and falling confidence among private enterprises.

In addition, following the central government's demand for expanded stimulative measures, provincial governments requested local businesses to expand production exceeding demand in order to make their performance look like it was improving on the surface. Such a request was made mainly to state-run businesses. Major Japanese automobile manufacturers attempted to continue the policy of maintaining the volume of production that met demand, but following the request of the state-run businesses which worked with them as a joint-venture partner for expanded production, they were forced to decide to increase production, and as a result, their inventories grew, puzzling them over what to do with the excessive inventories.

This growth of inventories in the market made the balance between supply and demand worse, causing selling prices to fall and corporate profits to decline. Under these circumstances, there was a limit to the volume of inventories that could be added if businesses looked to the future, and therefore, they were forced to curb production for the future. Owing to the excessive production capacity, capital investments were also curbed. The moves mentioned above had negative effects on employment, and the rises in wages were also curbed. All these trends combined to work as a factor for causing the economy to decline, and business confidence worsened.

Because of these less-effective policies, disappointment spread among businesses and consumers in summer and thereafter. This is probably the cause of decline in the quarter-on-quarter growth in the real growth rate of the fourth quarter (October to December) compared to the third quarter.

Secondly, the stagnation of the real-estate market was not stemmed. The Chinese stock market continued to stagnate after the summer of 2015, and in addition, capital movements were strictly restricted, and overseas investments were also difficult. For these reasons, individuals invested 60-70% of their assets in real estate. The real-estate market plunged into serious stagnation during the second half of 2021 and thereafter, and mainly in third- and fourth-class cities, real-estate prices continued to fall significantly.

The range of falls in first-class cities such as Beijing, Shanghai, Guangzhou, and Shenzhen and second-class cities that followed them remained small. A look at the recent situation shows, however, that real-estate prices continue to fall even in the first-class cities, and it is difficult to say when the decline in real-estate prices could be stemmed.

Despite these circumstances, there is still no sign that the government starts to take drastic measures for a solution to the problems, including the injection of public funds, and therefore, anxiety about the future of the economy is not swept away.

For this reason, the value of personal assets is expected to fall continuously, and cautious attitudes continue to be seen in a wide range of areas such as consumer spending, investment in real-estate development, real estate-related demand (such as furniture, consumer electronics, and interior decoration), provincial finances, and small and medium-sized financial institutions.

Thirdly, the recovery of confidence among private enterprises was delayed. To begin with, the period of rapid economic growth, which had continued for about 40 years, ended in 2021, and after 2022, as the expected growth rate was revised downward, and production, investment, consumption, employment, etc., continued to be put under downward pressure. Added to this downward pressure were negative factors such as the aftereffects of the zero COVID policy, the decline in investor confidence due to the common prosperity policy, the prolonged stagnation of the real-estate market, the acceleration of the drop in the birthrate and the aging of the population, and U.S.-China frictions.

Under these circumstances, the recovery of confidence in the future of the economy among private enterprises was delayed partly because it did not seem that the government had clearly revised its basic policy of state enterprises advance, private sectors retreat.

For the three reasons listed above, although macroeconomic indicators continued to recover, business sentiment was worsening.

In order to break through this situation, it is considered necessary that the leaders who are responsible for the administration of economic policy in the Chinese government accurately recognize the harsh circumstances the Chinese economy currently faces and take effective and drastic measures to recover business confidence early.

3. Trends by component

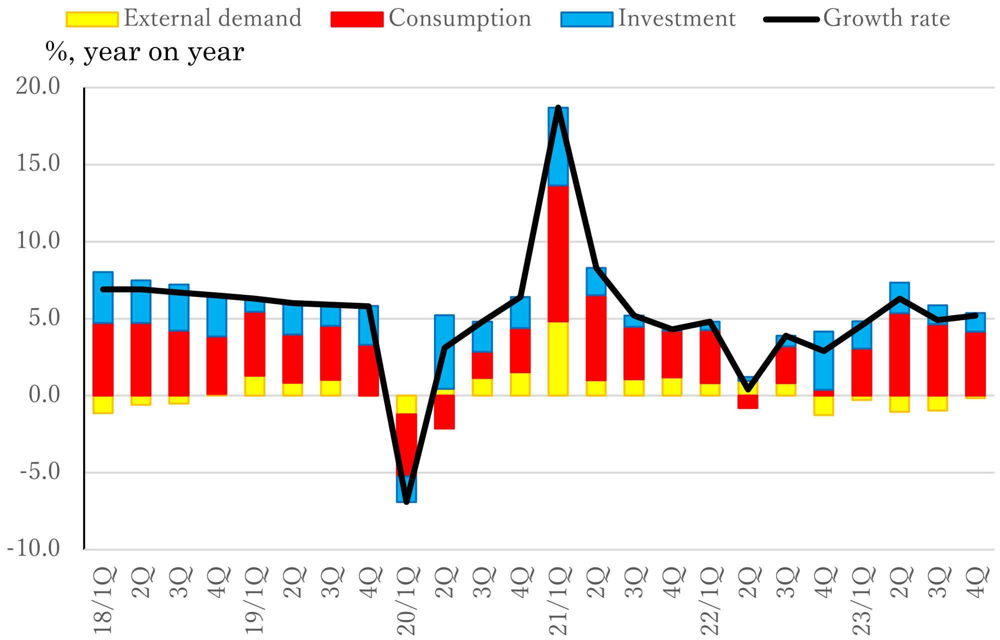
A look at the contributions to the real GDP growth rate in the fourth quarter by component shows that the degree of contribution was +4.2% for consumption, +1.2% for investment, and -0.2% for external demand (+4.6%, +1.1%, and -0.8%, respectively, in the third quarter), indicating that while the degree of contribution of consumption fell slightly compared to the preceding quarter, external demand's negative contribution shrank. (See Figure 6.) Given the fact that the degree of contribution of consumption in the same period of the previous year was only +0.4%, it would have been natural that in reaction to such a low degree of contribution, consumption's contribution increased compared to the preceding quarter, but in fact it shrank. This shows that consumption slowed down.

(1) External demand

Exports in the fourth quarter of 2023 (on a Chinese yuan basis) fell 1.3% y/y with the range of falls shrinking compared to the preceding quarter (-5.4% y/y), and imports grew 2.3% y/y (-3.9% in the third quarter), achieving positive growth against the negative figure in the preceding quarter. During this interval, the trade surplus shrank to 1,437.2 billion yuan from 1,622.1 billion yuan in the preceding quarter. (See Figure 7.)

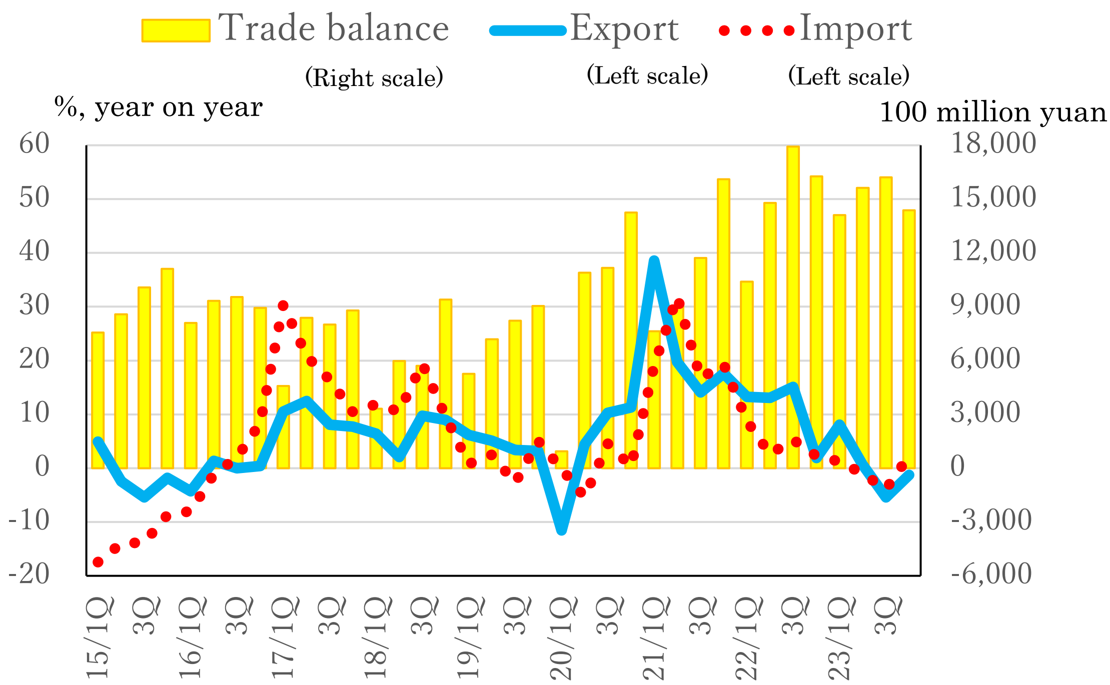
A look at exports in the fourth quarter by region indicates that those for advanced countries such as Japan, North America, and Europe, as well as ASEAN, continued to decrease but that the range of decrease for each region shrank.

Figure 6: The Degree of Contribution to Real GDP Growth Rates by Component



(Source: CEIC)

Figure 7: Year-on-year Changes in Imports and Exports and Trade Balance (on a Chinese Yuan Basis)



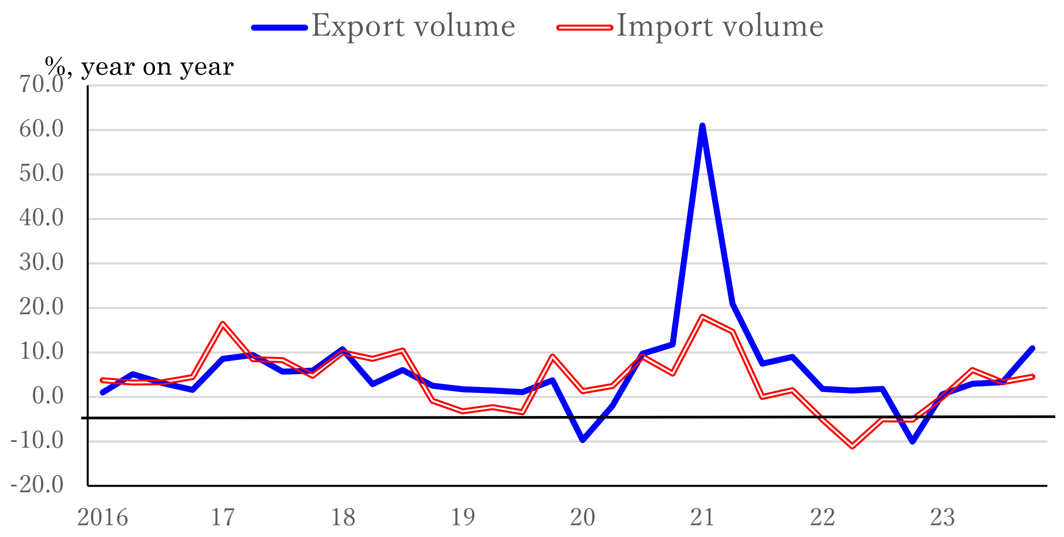
(Source: CEIC)

A look at exports on a volume basis excluding pricing factors shows, on the other hand, that exports in the fourth quarter grew 10.9% y/y, registering a higher growth rate than in the preceding quarter (+3.3% y/y). (See Figure 8.)

During this period, import volumes in the fourth quarter grew 4.5% y/y, registering a higher growth rate than in the third quarter (+3.3% y/y).

As the above comparison with the preceding quarter indicates, since the growth in export volumes was large and that in import volumes was small, the degree of contribution of external demand to the real GDP growth rate in the fourth quarter of 5.2% y/y was -0.2% y/y, shrinking the negative contribution that lowered the GDP growth rate compared to the preceding quarter (-0.8% y/y) (Figure 6).

Figure 8: Changes in Import and Export Volumes

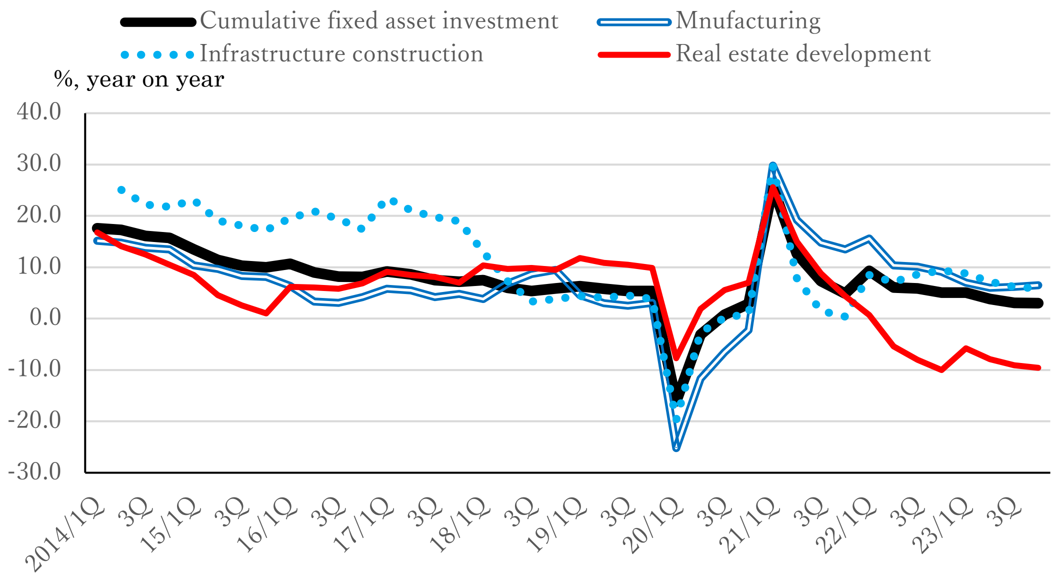


(Source: CEIC)

(2) Investment: Manufacturing and infrastructure construction investments were solid while the negative contribution of real-estate development investments expanded

Cumulative fixed-asset investments in the January-December period increased 3.0% y/y with their growth rate slightly lower than in the January-September period (+3.1% y/y). (See Figure 1.)

Figure 9: Changes in Fixed-asset Investments (YTD, Y/Y)



(Source: CEIC)

A look at the growth in cumulative fixed asset investments by industrial sector in the January-December period (see Figure 9) shows that manufacturing rose

6.5% y/y, registering a slightly higher growth rate than in the preceding period when it grew 6.2% y/y, and that infrastructure construction increased 5.9% y/y, registering a slightly lower growth rate than in the preceding period when it went up 6.2% y/y. During this period, real-estate development fell 9.6% y/y with the range of negative growth having expanded further compared to the previous period (-9.1% y/y).

As illustrated above, a look at fixed-asset investments by industrial sector indicates that only the continued substantial negative growth in real-estate development investments stood out and that the continuous expansion of their negative growth was not stemmed.

1) Manufacturing capital investments

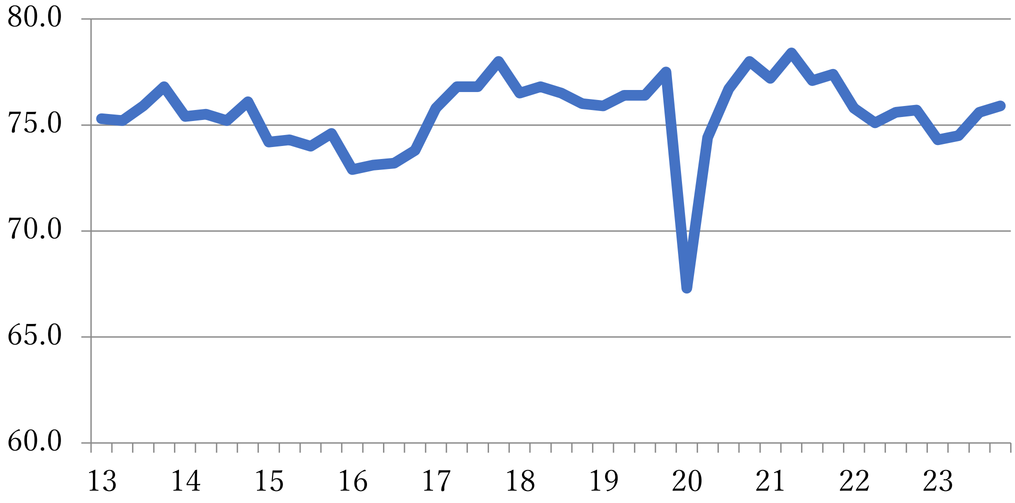
In August and thereafter, manufacturing capital investments continued to recover gradually after having bottomed out in July. Cumulative manufacturing capital investments in the January-December period rose 6.5% y/y. Private enterprises showed higher growth than the entire manufacturing industry, at 9.4%. By industry type, high-tech, EV, and environment-related enterprises achieved high growth year on year with +9.9% y/y for high-tech manufacturing, +19.4% y/y for automobile manufacturing, +32.2% y/y for electric machinery, and +23.0% y/y for electricity and energy.

In the fourth quarter, the industrial equipment operating rate, which affected capital investments, was 75.9%, slightly higher than in the preceding quarter (75.6%). (See Figure 10.) Corporate profitability in the fourth quarter also recovered, at 5.76%, if compared to the preceding quarter, when it was 5.62%. (See Figure 11.)

As mentioned above, backed by the recovery of industrial production and other indicators, both the equipment operating rate and corporate profitability improved in recent months. Since growing inventories, curbed production, sluggish selling prices, etc., are expected in the months to come, it is projected that it would be difficult to expect continued, steady recovery in industries that are faced with the problems cited above.

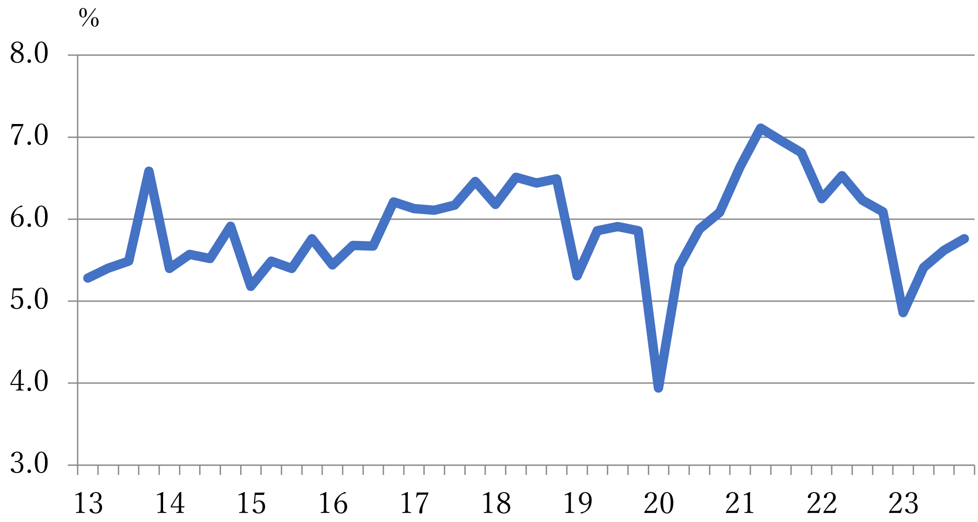
Figure 10: Changes in the Industrial Equipment Operating Rate

%



(Source: CEIC)

Figure 11: Changes in Corporate Profitability (Industrial Enterprises' Main Operating Revenue Margin, YTD, Y/Y)



(Source: CEIC)

2) Infrastructure construction investments

Cumulative infrastructure construction investments in the January-December period grew 5.9% y/y, registering slightly lower growth than in the preceding period (+6.2% y/y). In late October of last year, the Chinese government announced the issuance of special government bonds totaling one trillion yuan (about 20 trillion yen). Since the major use was said to be infrastructure development for recovery from natural disaster, this would cause infrastructure construction investments to grow. In reality, it seems that after the announcement of this measure, these bonds were used for a wide range of uses related to infrastructure construction as typified by the payment of lease fees for construction machinery provincial governments had postponed. Among the many economic stimulative measures that have been announced since last summer, this is the only measure whose effectiveness is favorably evaluated by economic experts.

3) Real-estate development investments

Cumulative real-estate development investments in the January-December period fell 9.6% y/y, an indication that the serious situation continued with the downturn trend not stemmed (Figure 9).

A look at changes in the selling prices of previously-owned houses compared to the preceding month shows that even in Beijing and Shanghai, where the latent demand was strongest in China, selling prices continued to fall after October. (See Figure 12.)

A look at changes in the number of cities out of the 70 major ones which saw the selling prices of houses rise compared to the preceding month indicates that the downturn trend was not stemmed after April, and that in November, none of the cities saw prices rise (with the prices remaining almost on the same level in Hangzhou) and in December, all cities saw prices fall. (See Figure 13.)

In April of last year, forecasts differed greatly, but the view of some market watchers was that real-estate prices would bottom out and start to rise during the period from the second half of last year to the end of this year. Today, the prevailing view is that it is impossible even to predict when prices will bottom out and start to rise. Previously, some reckoned that in the real-estate market, adjustments were likely to progress even if the government did not intervene, but recently, the dominant view is that the market cannot bottom out and start to rise independently unless the government injects public funds.

Since last summer, the central and provincial governments have announced various measures to revitalize the real-estate market, but none of them has had an impact strong enough to reverse the downturn trend in real-estate prices, and prices are continuing to fall. As long as prices continue to fall, the willingness to purchase real estate does not grow.

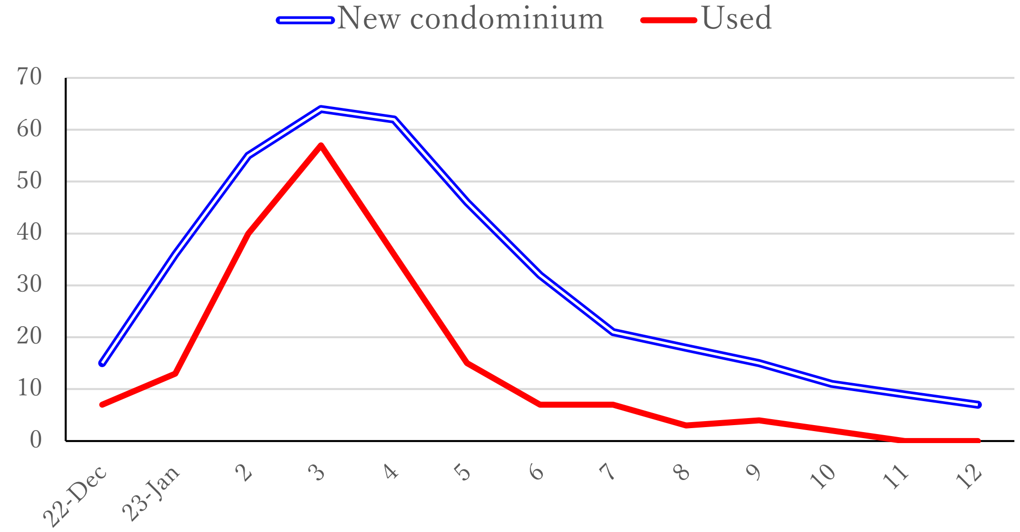
Figure 12: Changes in the Selling Prices of Secondhand Houses in Beijing and

Shanghai Compared to the Preceding Month (%)

	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Beijing	-0.6	-0.7	-0.6	-0.2	0.7	-1.1	-1.4	-1.2
Shanghai	-0.8	-1.2	-0.7	0.1	0.6	-0.8	-1.5	-0.6

(Source: National Bureau of Statistics)

Figure 13: Changes in the Number of Cities out of the 70 Major Cities in Which the Prices of New/Secondhand Houses Rose Compared to the Preceding Month



(Source : National Bureau of Statistics)

(3) Consumption: Continued recovery of service consumption

The total retail sales of consumer goods in the fourth quarter grew 8.4% y/y, a substantial increase from the preceding quarter (+3.7% y/y). This represents the effects of the reaction to the slowdown of substantial growth from the third quarter of the last year (+3.5%y/y) to the fourth quarter of the last year (-2.7% y/y) and does not mean that the real momentum of consumption grew rapidly.

The major factor that underpinned consumption is the recovery of service consumption, mainly dining and drinking (+30.0% y/y in December).

In terms of the consumption of merchandise, the timing for a favorable silicone cycle is approaching, and therefore, inventory adjustments for PCs, smartphones, and other devices are progressing gradually. On the other hand, automakers sold the largest-ever number of cars (30.09 million units) last year, but the number of cars produced and sold is expected to be sluggish in the future because inventories grew owing to production that exceeded demand in the fourth quarter of last year.

One recent tendency of consumption has been that while the popularity of low-priced products and services has grown as the middle class and lower are increasingly uncertain about the future of their incomes, sales of high-priced products for the wealthy have continued to be strong. Sales of products in-between are slowing down. Among Japanese restaurants, for example, low-priced restaurants serving Western dishes, conveyor belt sushi restaurants, and super-high-class Japanese restaurants continue to be strong while high-class Chinese restaurants continue to be sluggish, causing many of them in Beijing and Shanghai to go out of business. In addition, sales of high-grade imported beef have been sluggish.

During the past ten years or so, Internet sales have expanded rapidly, reaching 27.6% of total consumption in the whole year of 2023 (5.2% in 2013). Previously, however, sales increased substantially if bargain sales were conducted on particular days such as November 11, but recently, bargain sales have been less effective, and sales growth have remained low. (On November 11 of last year, Internet sales grew 2.1% y/y, and on the same day of 2022, they rose 2.9% y/y.)

4. Forecasts for the future of the Chinese economy

As described above, a look at recent macroeconomic indicators shows that except for real estate, industrial production, service production, manufacturing capital investments, and consumption have all continued to recover gradually since August. However, business sentiment is worsening, and it is quite uncertain when it will start to move toward recovery.

Unless the Chinese government boldly and drastically changes its policy toward the prolonged stagnation of the real-estate market and the falling confidence of private enterprises, the two causes of the recent deteriorating business sentiment, it will be difficult to ensure that the economy changes course to an early recovery. For this reason, the prevailing view is that forecasts for the future of the economy depend on when the government shows its new policy.

At the National People's Congress in March, the Chinese government is expected to announce that the expected economic growth rate this year would be around 5.0%, but in reality, it is considered difficult to achieve such a growth rate. In general, it is expected that the government would barely manage to achieve 4.7-4.8% by implementing economic stimulative measures. The view of many experts is that if, this year, too, the government puts off the implementation of policies effective in recovering the real-estate market, such as the injection of public funds, the economic growth rate would be more likely to drop below 4% because real estate-related investments, consumption, provincial finances, and small and medium-sized financial institutions continue to deteriorate.

5. Japanese and German businesses' stance toward investments in China

As mentioned above, since the future of the Chinese economy was quite uncertain, Japanese and German businesses, etc., were expected to become negative in their stance toward investments in China. Therefore, the author asked representatives of Japanese and German businesses stationed in China about their view of the businesses' future stance toward investments in China. Contrary to the author's expectations, the answer was that they did not intend to change their current policy.

In mid-January, the German Chamber of Commerce and Industry published the results of a questionnaire survey of German businesses, which was conducted in the autumn of last year. (The number of respondents was 566 companies.) According to the survey, the percentage of businesses whose outlook of their industry in 2023 improved compared to the previous year remained at 21%, but 42% of the businesses surveyed expected that their industry would improve in 2024. On the other hand, the percentage of businesses that forecast worsening of it decreased from 52% to 23%, indicating that the improvement in performance forecasts was noticeable. Furthermore, the percentage of businesses replying that average annual growth of their industry would increase when they were asked about medium-term forecasts for the period up to five years later reached 78%. Asked about the possibility of withdrawing within two years, 91% rejected, and 7% replied that they might consider doing so.

The German Chamber of Commerce and Industry analyzed these survey results, commenting that it was found that in the future, many German businesses would continue to maintain their active stance toward investments in China. A senior manager of the Chamber commented that the reason for that was simple: German businesses thought that the next target market after China was India, but at present, India's GDP was only one-fifth of China's. According to IMF's estimates, India's dollar-based nominal growth rate for the period from 2024 to 2028 would be 9-10%, which corresponded to around 2% if converted to an equivalent of China's rate. Meanwhile, China's dollar-based nominal growth rate for the same period would be 5-6%, and the difference between the two was clear. Judging from this large difference in market scale, it was impossible to decide to change the active investment stance toward China for the time being.

During this period, the author asked managers of Japanese businesses stationed in China and senior managers of Japanese mega-banks there about the possibility of Japanese businesses retreating in their stance toward investments in China, and the answer was almost the same as the one given by their German counterparts.

In November of last year, the Japanese Chamber of Commerce and Industry in China carried out the second economic survey of 1,713 member companies, and in mid-January, it published the results of the survey. The key points of the results are as specified below.

1) The business sentiment in China continued to improve (compared to the first survey in September) (Results of the first survey → Results of the second)

57% → 44% for "Became worse" and "Slightly worse," 30% → 45% for "Remained almost on the same level," and 13% → 11% for "Improved" and "Slightly improved"

2) Respondents were generally satisfied with the business environment. (Results of the first survey → Results of the second)

51% → 54% for "Very satisfied" and "Satisfied" and 49% → 46% for "Want it to be improved" and "Want it very much to be improved"

Behind these results is the high direct investment profit ratio (4-6% for direct investments in the U.S. between 2017 and 2021 and 15-16% for those in China).

3) The benefits of the policies adopted and measures taken by the government were highly evaluated (Results of the first survey → Results of the second)

10% → 5% for "Treated better than domestic businesses," 71% → 73% for "Treated equally," 20% → 21% for "Not treated equally"

The results of the survey listed above can be interpreted as showing that the majority of Japanese businesses maintain their active stance toward China business. Actually, during the business trip, the author heard many examples of individual businesses posting favorable results. Specifically, at a conveyor belt sushi restaurant which opened in Beijing in January, customers had to line up for one to four hours before they were seated. Asia's largest shopping mall, which opened in Wuhan, was very popular and crowded. In addition, examples of excellent performance such as high-grade kitchen facilities, toilet equipment, washing machines, and components for new energy vehicles are too numerous to mention.

One characteristic shared by many thriving Japanese businesses was that local management was left to capable Chinese managers. A senior manager of a Japanese mega-bank said that if the bank developed new customers from among

Japanese businesses operating in China, it made a rule to give priority to considering businesses in which a Chinese served as president.

As described above, there is generally no major difference between German and Japanese businesses in their stance toward investments in China, but there is one large difference between the two.

There is currently a succession of moves among German businesses to establish a research and development center by investing huge amounts of money in order to discover excellent Chinese engineers. The policy is to discover excellent Chinese engineers, take them to Germany, and let them train Germans. The major field of training would be digitalization technology, including electric vehicles, artificial intelligence, and IT. On the other hand, an increasing number of Japanese businesses has depended on research and development in China for products and services consumed in the country, but the fact is that moves to utilize Chinese engineers even for products sold in Japan and third countries are extremely rare.