

OPPORTUNITIES AND CHALLENGES FACING EUROPEAN SMEs IN CHINA

Professor David Smallbone

**Small Business Research Centre,
Kingston University**

STRUCTURE OF PRESENTATION

- Key Features of the Chinese Market
- Opportunities for Europe's SMEs
- Barriers to Market Entry
- The SME Dimension
- What should SMEs do?
- What do SMEs need?

Some Stylised Facts about China

- China is the 4th largest country in the world
- Administrative organisation is based on three-levels: provinces, counties, and townships.
- population of 1.3 billion people with an average age of 35 years (July 2010 est.), comprising a labour force of 820 million (2009 est.).
- The sectoral composition: agriculture 10%; industry 47% and services 44%.
- China's GDP per capita is about USD \$4400 (lower middle-income).
- In 2010 more than 27000 new foreign companies were established in China with FDI of about \$11 billion (both figures about 17% increased compared to 2009).

Key Features of the Chinese Market

- China is the 3th economy in the world (GDP).
- China ranks no. 1 in the world of exporters: \$ 1506 billion USD (2010).
- China ranks no. 3 in the world with imports: \$ 1307 billion USD (2010).
- Imports mainly from:
 - Japan 12%, Hong Kong 10%, South Korea 9%, US 8%, Taiwan 7%, Germany 6% (2009)
- Main imports:
 - electrical and other machinery, oil and mineral fuels, optical and medical equipment, metal ores, plastics, organic chemicals

The Economic Crisis

- In 2009, the global economic downturn reduced foreign demand for Chinese exports for the first time in many years,
- but China rebounded quickly, outperforming all other major economies in 2010 with GDP growth around 10% (in 2008 and 2009 still about 9%).
- Government policies included a public works programme
- But the inflation rate in 2010 was 5% surpassing the government's target of 3%

Trade relations EU27 - China

- China: exports 2009 euros 844bn, imports 655
- EU export to China 82, import from China 214
- So EU share in China export 25%
- EU Share in China import 13%

China is the Union's second biggest trading partner after the United States in 2009.

China-EU Trade relations

- China has already concluded a lot of Free Trade Agreements (with Asian countries, Pakistan, Chile, New Zealand, Singapore, Peru, Costa Rica etc), but not yet with EU or EU Member
- Nevertheless EU-China trade has increased dramatically in recent years. China is now the EU's 2nd trading partner behind the USA and the biggest source of imports. The EU is China's biggest trading partner.
- The EU is committed to open trading relations with China. However the EU wants to ensure that China trades fairly, respects intellectual property rights and meets its WTO obligations.

WTO MEMBERSHIP

- In 2001 China joined the WTO.
- The EU uses the regular Trade Policy Review of China in the WTO to raise concerns regarding China 's trade policy, including:
 - inadequate protection of IPR,
 - the maintenance of industrial policies which may discriminate against foreign companies especially in sectors like automobiles
 - barriers to market access in a number of services sectors including construction, banking, telecommunications

Opportunities for Europe's SMEs

- Some relate to China's ongoing need to modernise and upgrade its technology base;
- others relate to rapidly growing consumer markets in the country;
- while others are related to the ongoing processes of structural change within the Chinese economy

More specifically

- **machine tools**, as Chinese companies continue to upgrade the technology, reflecting China's ongoing strength in manufacturing.
- **business services**, as the Chinese economy continues to develop. Examples mentioned include public relations, advertising and specialist financial services, such as factoring, private equity, specialist management consultancy
- **Consumer and personal services**, such as healthcare and medical services, education
- .

and

- **Environmental products and services** , as the Chinese government increase the priority given to environmental protection.
- **Energy**, particularly renewable energy has great market potential in China, according to some Chinese informants
- **Low-carbon technologies**, optical fibre manufacturing technology,
- **Luxury products**, such high specification cars for the growing consumer market, but also niche opportunities, such as ultralight aeroplanes, yachts and ski equipment.

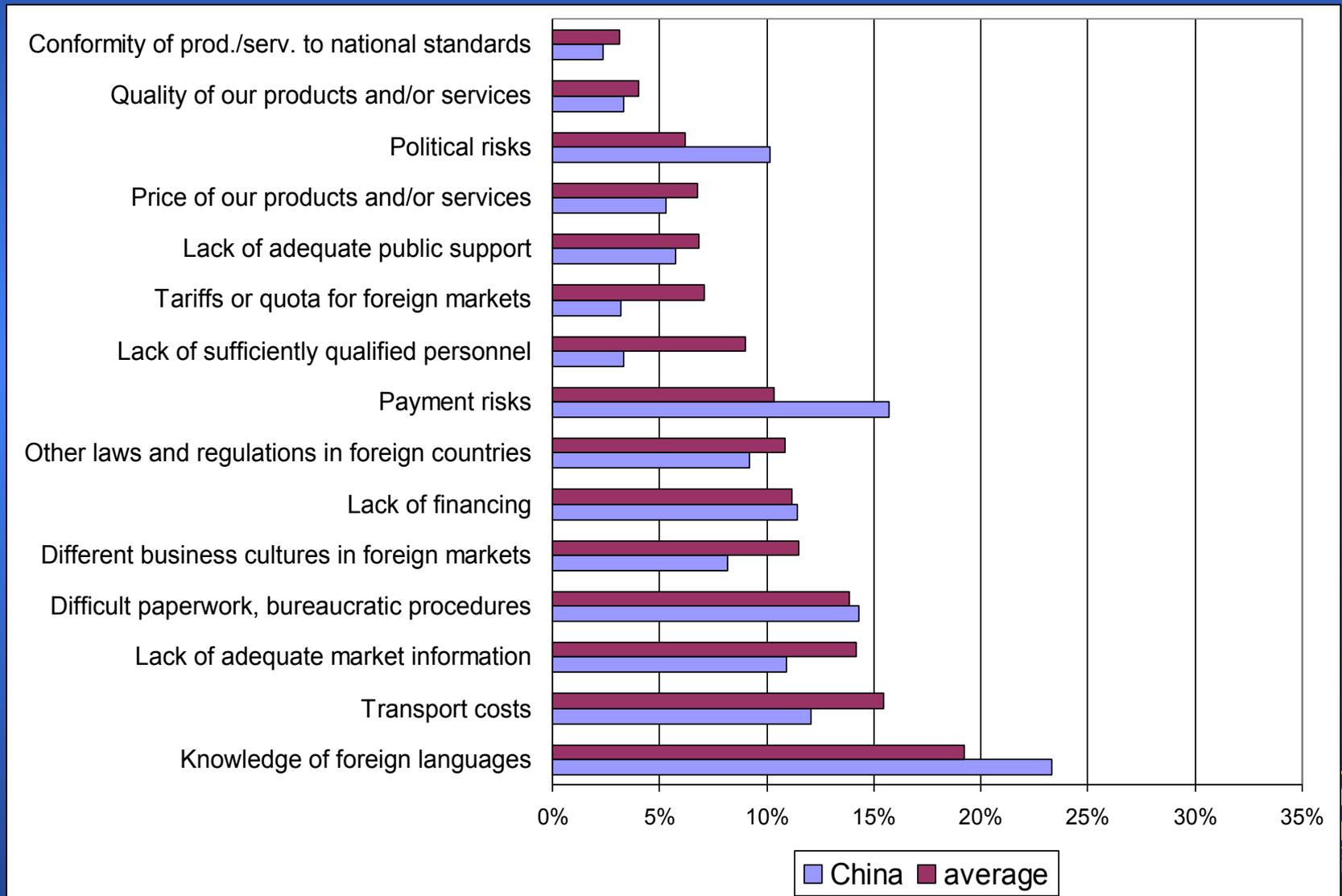
Spotting business opportunities

- the contents of China's 5 year plans may be used to identify the sectors that will be supported by the Chinese government in the near future providing many business opportunities
- Current examples of opportunities mentioned in this context included environmental projects, such as low carbon and renewable energy technologies (e.g. wind turbines), electric cars and high quality machinery.
- Such analysis could be undertaken by individual enterprises as part of their market research but SMES may need help from government and organisations such as Chambers of Commerce.

Overhyped?

- The development of China in the last decade is impressive by any standards, with the business press emphasising
 - - the huge market;
 - - very high growth rates;
 - - and unlimited business opportunities
- The coverage given to the experience of Europe's leading companies has a positive effect on making the wider business community in Europe, including SMEs
- But it encourages some enterprises come to China poorly prepared
- The market is very large, but so is the competition
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- Need a serious unique selling point (USP)

Major Problems seen by European SME in relation to China



The SME Dimension

- Compared with large firms, SMEs
 - Have a more limited internal resource base
 - Personalised management style
 - Less ability to influence external relations
- But they are also more flexible

Main Barriers to Market Entry

- China is a very competitive market, so price can be more important than elsewhere
- IPR – but mixed opinions about extent and causation
- Access to good information – which is higher cost than in other markets
- Understanding regulations & standards; their implications for one's business
- Market access issues associated with non-tariff barriers
- Understanding implications of Chinese culture on business practices

Other Barriers to Market Entry

- Recruitment issues
- ‘Big is beautiful’ attitude in China
- Financing constraints
- ‘Fear’
- Distance from Europe
- Effects of anti-dumping disputes

What SMEs need to do

- Thorough preparation: do homework better
- Seek out expert advice and support from organisations with practical experience of Chinese market
- Be sensitive to Chinese business etiquette and practices

What SMEs need?

- Essentially, an external support infrastructure

SERVICES AVAILABLE TO EUROPEAN SMEs FROM NATIONAL & EU SOURCES

- Information provision
- Advice and consultancy
- Events in home country on *'how to do business in China'*
- Market research
- Overseas market introduction service
- Help in setting up representative offices
- Offering temporary office facilities (sometimes also temporary staff)
- Mediating in disputes between European and Chinese partners

SERVICES AVAILABLE TO EUROPEAN SMEs (continued)

- Helping with sourcing on the Chinese market
- Undertaking legality checks of potential Chinese partners
- Identifying potential distributors and/or suppliers in China
- Helping with language, organising business meetings and accompanying to the meeting (in some cases)
- Helping companies find other business services such as interpretation, consulting companies with recommendations (in some cases)

The Future

- The economy appears set to remain on a strong growth trajectory in short term, lending credibility to the stimulus policies rolled out during the global financial crisis.
- The government intends to continue reforming the economy and emphasizes the need to increase domestic consumption in order to make the economy less dependent on exports for GDP growth in the future
- But inflation at 5% is well above the government target of 3% max, and
- - local government debt, which swelled as a result of stimulus policies

BEYOND THAT CHALLENGES FACING CHINA INCLUDE

- Supporting an ageing population
- Stemming brain drain to economic core areas
- Raising incomes and economic development in the West
- Reducing the time and cost of starting a business
- Adapting to the upward pressure on production costs in some regions (cost of labour, energy, environmental protection)
- Accommodating private entrepreneurship in a socialist market economy