

EU SME Centre:
Is China on Your Radar?



1. Is China on your radar?
2. The main reasons why EU SMEs should consider China
3. China's many markets
4. The 14th Five-Year Plan
5. Sector insights
6. Going forward

All exchange rates in this report are calculated on the basis of: EUR 1 = CNY 7.80 = USD 1.11

All sources used in this report can be found in the EU SME Centre report **Is China On Your Radar?** This report was prepared by the **China-Britain Business Council** (www.cbbc.org).

1. Is China on your radar?



Is China on your radar?

- Almost any enterprise looking to **do business internationally** will at some point consider China, whose rise has been the economic story of the 21st century and is set to continue as such.
- China is a market that a number of major EU-based companies are familiar with. Many have **factories** in China, source Chinese **parts** and **materials**, have set up **representative offices**, **partnerships**, or **wholly foreign-owned enterprises**, and are known among Chinese buyers and companies.
- However, for EU SMEs China can be a market in which the opportunities, though clearly there, are not always easy to find, and come with unfamiliar regulations, competitors, and demands. This means that success in China can require significant **investments** of both **time** and **money**.
- To assist EU SMEs in their journey into the China market, the following **EU SME Centre reports** provide detailed analysis and advice covering a range of topics:
 - **Is China on Your Radar?**
 - **Ways to Enter the Chinese Market**
 - **Exporting Goods, Services and Technology to the Chinese Market**

2. The main reasons why EU SMEs should consider China



The main reasons why EU SMEs should consider China

- Since becoming the **second-largest global economy** in **2010**, China's **GDP** has continued to increase. **GDP per capita** has also seen a steady year-on-year increase, and there is still **significant room for growth** there, as it is lower than that of many other countries.

Figure 1: Nominal GDP in China, 2011-2019, EUR trillion

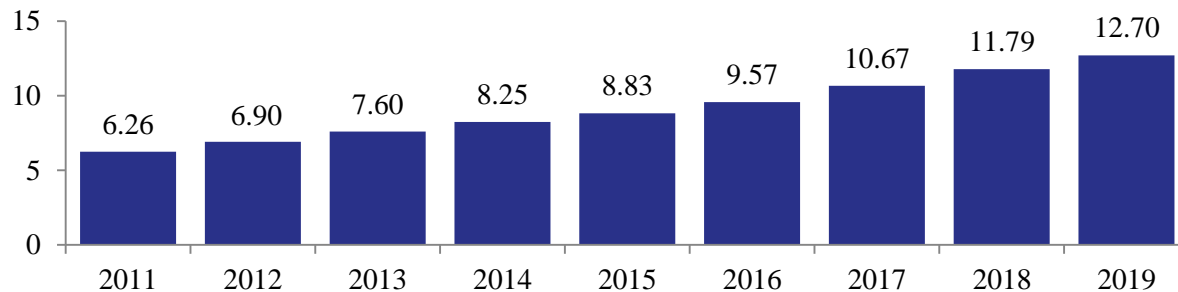
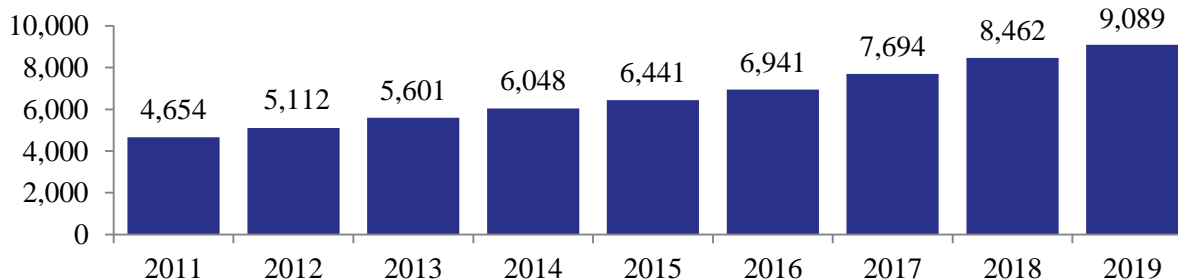


Figure 2: Nominal GDP per capita in China, 2011-2019, EUR

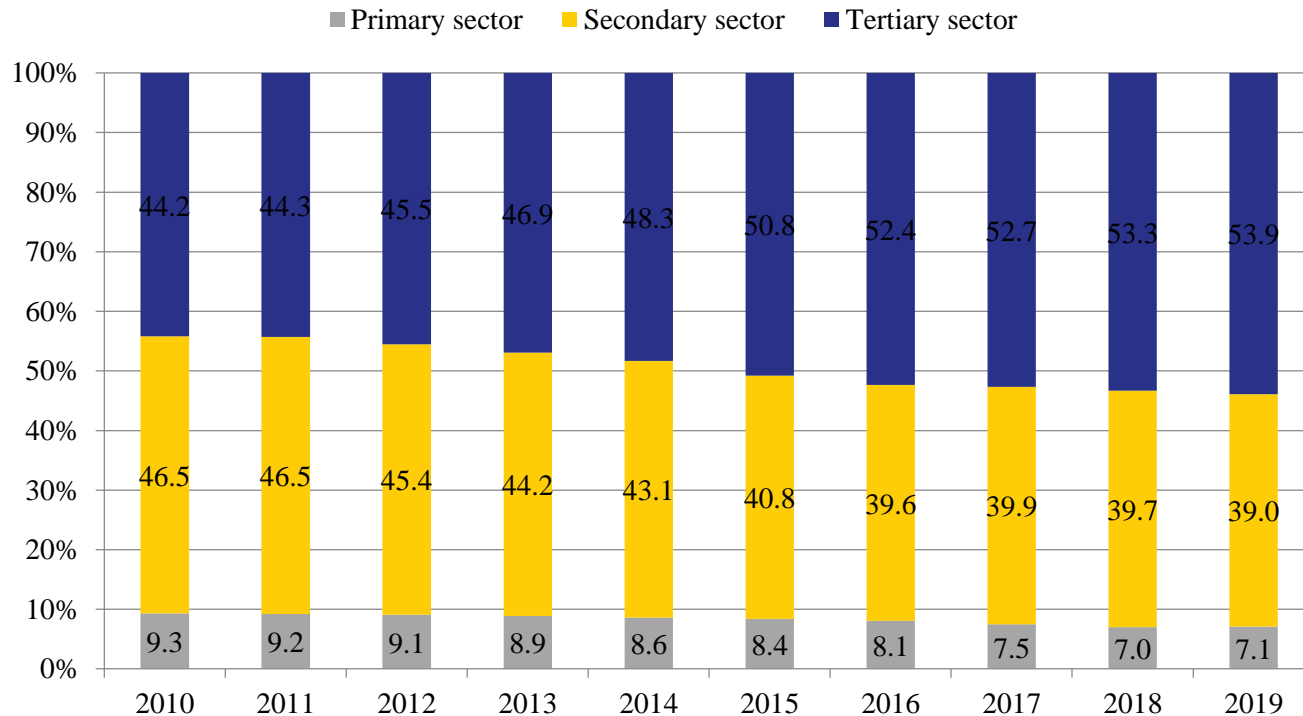


The vast size, impressive growth rate, and opportunities for future expansion all make China a **promising market for EU SMEs**. China may not be the easiest market to enter, but its sheer size and weight mean that any SME aiming to have a truly international presence cannot ignore it.

The main reasons why EU SMEs should consider China

- A major change within the Chinese economy over the last decade has been the **pivot towards the tertiary sector** at the expense of the primary and secondary sectors, although the secondary sector also remains very large. There are therefore many opportunities for experienced EU SMEs within the tertiary sector in China.

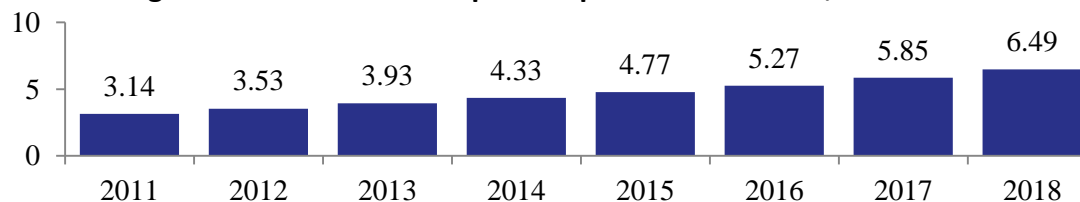
Figure 3: Share of China's primary, secondary, and tertiary sectors, 2010-2019



The main reasons why EU SMEs should consider China

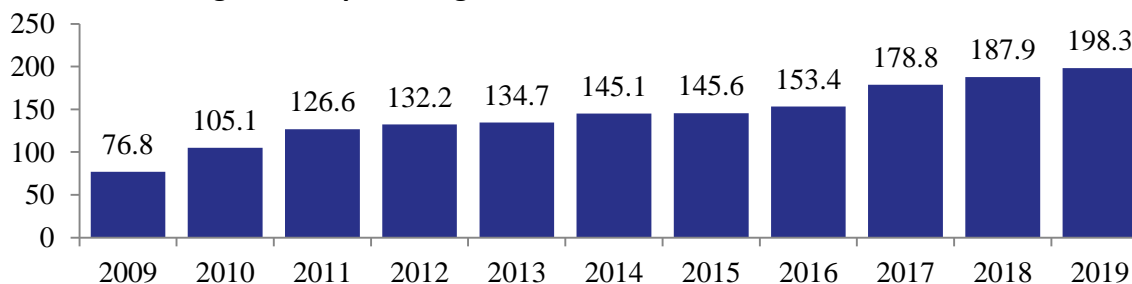
- **Consumption** has been rising in China, and by 2030 is expected to grow by the same amount as Western Europe and the United States combined. However, urban incomes are on average **2.7 times** higher than rural incomes, a larger difference than in many other countries, hence these opportunities tend to be based in **municipalities**.
- **Online B2C consumption** in China is another fast-growing area, increasing at a rate of 24% per year.

Figure 4: Nominal consumption expenditure in China, EUR trillion



- China maintains a **surplus in its trade of goods with the EU**, yet despite this EU goods exports to China are very large – in **2019**, China was the **third largest importer of EU goods**.
- China's trade in services with the EU operates at a deficit. The EU exported **EUR 46.7 billion's worth of services to China in 2017**, compared with just **EUR 30.6 billion of services imported from China**.

Figure 5: Exports of goods from the EU to China, EUR billion



The main reasons why EU SMEs should consider China

- **Goods and services from abroad** have a history of being **preferred to domestic alternatives** by Chinese consumers and companies. However, this is no longer always the case, and whilst EU products retain their general reputation for high quality, Chinese consumers have become more discerning in recent years, hence EU SMEs must be able to compete on quality and price in China..
- With one of the fastest-growing major economies and the world's largest population, China faces large-scale, cross-sector **challenges** in adapting to almost constant change. These include:
 - **Environmental problems**
 - **An ageing population**
 - **Unbalanced growth**
 - **Moving up the value chain**

3. China's many markets



China's many markets

- China's cities are often classed (unofficially) as belonging to either the **first, second, third, or fourth tier**, based on a multitude of factors including the size of the market.

First-tier cities	Beijing, Shanghai, Guangzhou, and Shenzhen
Second-tier cities	Chengdu, Hangzhou, Wuhan, Chongqing, Nanjing, Tianjin, Suzhou, Xi'an, Changsha, Shenyang, Qingdao, Zhengzhou, Dalian, Dongguan, and Ningbo
Third-tier cities	Xiamen, Fuzhou, Wuxi, Hefei, Kunming, Harbin, Jinan, Foshan, Changchun, Wenzhou, Shijiazhuang, Nanning, Changzhou, Quanzhou, Nanchang, Guiyang, Taiyuan, Yantai, Jiaxing, Nantong, Jinhua, Zhuhai, Huizhou, Xuzhou, Haikou, Urumqi, Shaoxing, Zhongshan, Taizhou, and Lanzhou

- China is no longer a cheap country, with many first- and second-tier cities having become **expensive even by international standards**. Rental costs for office space in China's most expensive cities in 2018 provide a good example:

Rank	City	Average rent per square metre per day, EUR	Annual change
1	Beijing	0.82	2.05%
2	Shanghai	0.59	4.91%
3	Guangzhou	0.49	7.99%
4	Nanjing	0.36	2.35%
5	Hangzhou	0.34	17.78%
6	Chengdu	0.30	6.65%
7	Lanzhou	0.30	15.40%
8	Changsha	0.30	19.36%
9	Haikou	0.29	17.84%
10	Chongqing	0.29	9.33%

China's many markets

- China's **transportation network** is growing quickly, and includes new airports, railway stations, ports, high-speed railway lines, and motorways to link different cities, and new mass transit systems, roads, business units, and warehouses within cities themselves. When choosing where to locate, it is important to consider the ease of access to a site, either for employees or for resources or for both.
- Similarly, access to **resources**, such as those used in manufacturing or labour resources is also a consideration to take into account. China's **geography and population spread** varies significantly across the country, therefore some cities are much closer to sources of natural and human resources than others.
- **Support from the Chinese government** comes from three broad sources. These are: **general national, provincial, and municipal support; zone-based support; and initiative-based support.**
- This support is commonly offered in the form of **tax breaks** and **lower rent**, and in some cases **loose regulations** and **faster visa processing** is offered.

4. The 14th Five-Year Plan



The 14th Five-Year Plan

- The 14th Five-Year Plan (“FYP”), which will be revealed at the **5th Plenum of the Communist Party** in late **October 2020**, will continue China’s transition from an export-led growth model towards a consumption-based and service-oriented one.
- Its principal objective will be to ensure a **smooth transition towards a capital-intensive, high-quality, and service-oriented economy**. Behind this lies the effort to **avoid the so-called middle income trap**, and to emulate other economies that are seen to have achieved this, such as South Korea.
- In order to enable China to achieve high-income status, the 14th FYP will focus on key challenges in the following areas:
 - **Education:** A priority will be improving the educational level of China’s ageing workforce, which existing government initiatives such as the Educational Modernisation Plan have begun to address
 - **Digitalisation and high-tech manufacturing:** Despite being the world’s biggest market for industrial robots, in 2017 China had only 97 robots per 10,000 factory workers, and the 14th FYI will therefore include measures to close this gap.
 - **Opening up of the service sector:** By removing barriers currently in place against foreign competitors, China’s services sector could become a major source of growth.
 - **State-owned enterprise reform:** The productivity of SOEs continues to lag behind the private sector, and since 2019 efforts have been made to address this.
 - **Reform of local governance:** Recent data has shown that the 14th FYP will need to address a number of local governance issues, including smart urban planning and rust belt redevelopment.

5. Sector overviews and opportunities



- **Advanced manufacturing sector opportunities for EU SMEs in China**
 - China's manufacturing output is equivalent to CNY 29.9 trillion (EUR 3.8 trillion) per year, accounting for 29.4% of the country's GDP in 2018.
 - The key advantages of China's manufacturing industry lie in its complete supply and manufacturing chains, large domestic market, and huge wealth of human resources.
 - The ambitious Made In China 2025 initiative, launched in 2015, aims to maintain and further develop its world-leading position in manufacturing.
- **Transportation sector opportunities for EU SMEs in China**
 - China is one of the world's largest markets for automotive vehicles, railways, and aircraft, with automotive sales in 2019 reaching a total volume of 25.8 million.
 - It is also an important market for high-end international automotive brands.
 - China bought 192 large aircraft from the EU in 2018, accounting for 20% of the EU's aircraft exports.
- **ICT sector opportunities for EU SMEs in China**
 - China's ICT market has grown rapidly and was worth CNY 24 trillion (EUR 3.1 trillion) in 2018.
 - With its 830 million internet users representing only 60% of the population, there is still considerable room for growth.
 - Challenges in this sector include government policies, such as the Cyber Security Law, and intellectual property protection.

- **Education sector opportunities for EU SMEs in China**
 - More than 80 bilateral education cooperation agreements existed between China and EU countries by November 2016.
 - Ranking second only to the US, China has developed over 600 AI education companies.
 - Opportunities exist for EU SMEs in numerous areas of the sector, including joint research, transnational higher education programmes, and online learning.
- **Training sector opportunities for EU SMEs in China**
 - China's K12 after-school training market is currently worth CNY 560 billion (EUR 72 billion) and continues to grow by 17% per year.
 - Recent governmental reforms have encouraged the development of the vocational education sector.
 - There is demand for new types of professional training since it became popular in China during the economic downturn.
- **Healthcare sector opportunities for EU SMEs in China**
 - Valued at USD 130 billion (EUR 117 billion), China is the world's largest pharmaceutical market – but spends only 6.4% of its GDP on healthcare.
 - Advances in healthcare have struggled to keep pace with other developments, and current challenges include urban and rural disparity, restricted resources, and outdated technologies.
 - Foreign-owned hospitals (previously restricted or forbidden) are being considered by the government as a means of introducing advanced treatment technology.

- **Clothing sector opportunities for EU SMEs in China**

- The adult clothing market was worth CNY 1.6 trillion (EUR 0.21 trillion) in 2018, but following six years of growth the clothing market as a whole experienced a drop in size in the same year.
- China's high-end clothing market is dominated by brand from Europe and North America, along with products from some Asian countries.
- Livestreaming and other forms of online engagement are now common within the Chinese clothing industry.

- **Retail sector opportunities for EU SMEs in China**

- As disposable income and consumer spending rise, China's retail industry has grown in recent years, increasing by 8% in 2019.
- E-commerce sales now make up a large portion of China's retail market.
- Particularly popular areas of this sector include beauty and personal care products, furniture, luxury goods, and mother and baby products.

- **Food and drink sector opportunities for EU SMEs in China**

- China is world's largest food and drink market by revenue, importing USD 73.6 billion's worth (EUR 66.3 billion) of food in 2018.
- Particularly popular among Chinese consumers are imported meat, seafood, and dairy products.
- In 2018 China imported food from 185 countries and regions.

- **Energy sector opportunities for EU SMEs in China**
 - China is the world's largest consumer of energy, and is predicted to account for 40% of the world's renewable energy capacity expansion between 2019 and 2024.
 - Coal remains the country's main energy source, accounting for approximately 59% of total energy consumption in 2018.
 - Restrictions on foreign investment have recently been cut in relation to foreign ownership of petrol stations and exploration and development of petroleum and natural gas reserves.
- **Sports sector opportunities for EU SMEs in China**
 - The government's objective of increasing the general population's health and fitness has resulted in major investment in sport at grassroots level.
 - In 2015 China announced its plan to become a global football power by 2050.
 - The upcoming Winter Olympics has resulted in a growing interest in winter sports, and China aims for the number of winter sports schools to triple by 2025.
- **Creative industries sector opportunities for EU SMEs in China**
 - The increase in disposable income has created growing demand for high-quality and reputable entertainment content in China.
 - In 2019, China's computer games market attracted over 620 million players and was worth an estimated CNY 233 billion (EUR 29.9 billion).
 - International marketing agencies are increasingly interested in establishing a presence in China as advertising becomes a key form of competition between both Chinese and western brands.

6. Going forward



- The Chinese market is now more **accessible** and **lucrative** than ever, and this trend looks set to **continue in the long term**. Many of the **innovative and high-quality goods and services** offered by EU SMEs are well-placed to meet the demands of consumers and the **economic, social, and industrial challenges** that China is facing. By considering how they can best take advantage of these trends, EU SMEs will be able to **overcome domestic competition** and **establish themselves successfully** within the context of China's economic miracle.
- **Suggested next steps** for EU SMEs include:
 - Research where the demand for particular goods or services is in China;
 - Visit China;
 - Consider intellectual property rights protection;
 - Take the time to understand the political, regulatory and cultural; environment in China;
 - Carry out all required due diligence.