# Is China on your radar?

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Are you ready for China - Report 1

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**Exchange rates**

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

## 1. Is China on your radar?

The rise of China is the economic story of the 21st century to date, and looks likely to continue to be for decades to come. Almost any enterprise looking to do business internationally will at some point consider China. Indeed, the beginning of the third decade of this century China is a market that a large number of major companies based in the EU are familiar with: they have factories in China, they source Chinese parts and materials, they have set up representative offices, partnerships, or wholly foreign-owned enterprises, they provide their services to Chinese companies and individuals, and they are known among Chinese buyers.

The picture can be very different for EU SMEs though. For them, China is often a market where the opportunities, though clearly there, are not always easy to find, particularly in comparison to those within many EU countries' more traditional trading partners. China can be a market of unfamiliar regulations, competitors, and demands, and success can require significant investments of both time and money.

To assist EU SMEs in their journey into the Chinese market, these three reports will provide detailed analysis and advice covering a range of topics, including:

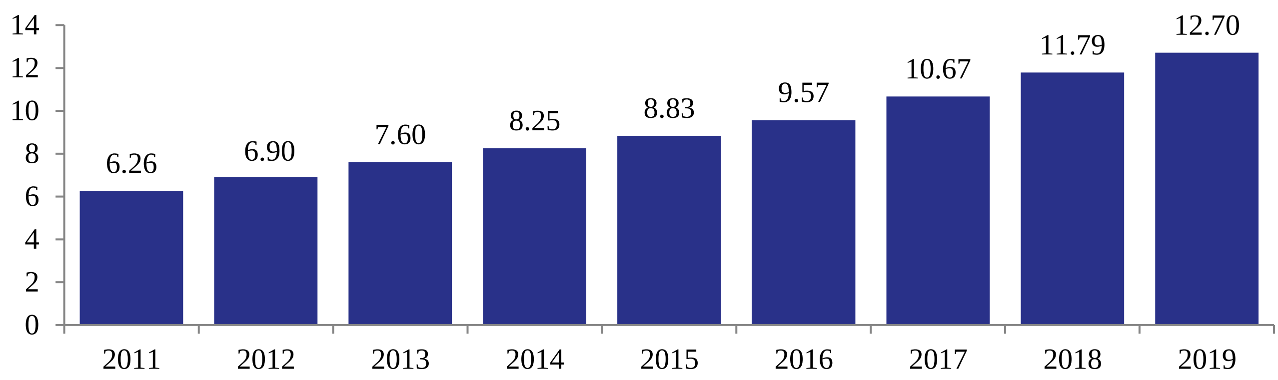
- Is China on Your Radar?: Reasons to consider entering the Chinese market, the variations seen across China, the 14th Five-Year Plan and what it means, and the opportunities available in key sectors;
- Ways to Enter the Chinese Market: Compliance with Chinese standards and regulations, the methods of market entry available, and the purposes of Pilot Free Trade Zones;
- Exporting Goods, Services and Technology to the Chinese Market: The process of exporting goods and services to China, Chinese contracts, and the distributions channels that can be used.

# 2. The main reasons why EU SMEs should consider China

## 2.1 China's strong economy

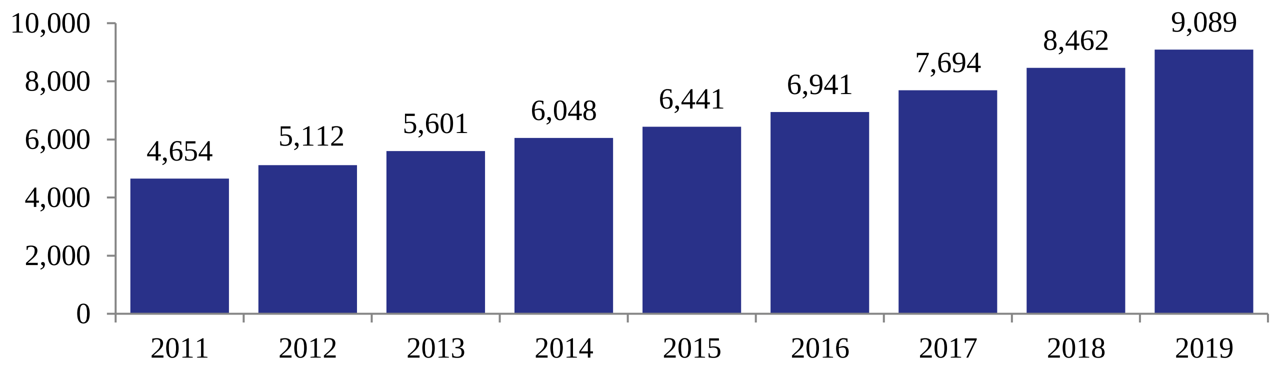
Since overtaking Japan to become the second largest economy in the world in 2010, China has continued to grow, and is now approximately twice as large as it was when it moved into its current position, recording a GDP of EUR 12.7 trillion is 2019[1] and a real GDP growth rate of 6.1%.[2] While this is the lowest annual growth rate China has witnessed since the early 1990s, it is still high by global standards, and given the size of the Chinese economy, is approximately equivalent to economic growth the size of the Australian economy over the course of a year.[3]

**Figure 1: Nominal GDP in China, 2011-2019, EUR trillion[4]**




In terms of GDP per capita, China has also continued to see significant increases in the last decade, reaching EUR 9,089 in 2019.[5] It is still the case, however, that per capita income in China is only around 25% of that seen in high-income countries, suggesting that there is still a lot of room for future growth.[6]

**Figure 2: Nominal GDP per capita in China, 2011-2019, EUR[7]**




[1] http://data.stats.gov.cn/english/index.htm
[2] https://tradingeconomics.com/china/gdp-growth-annual
[3] https://www.mckinsey.com/featured-insights/china/china-brief-the-state-of-the-economy
[4] http://data.stats.gov.cn/english/index.htm
[5] http://data.stats.gov.cn/english/index.htm
[6] https://www.worldbank.org/en/country/china/overview
[7] http://data.stats.gov.cn/english/index.htm

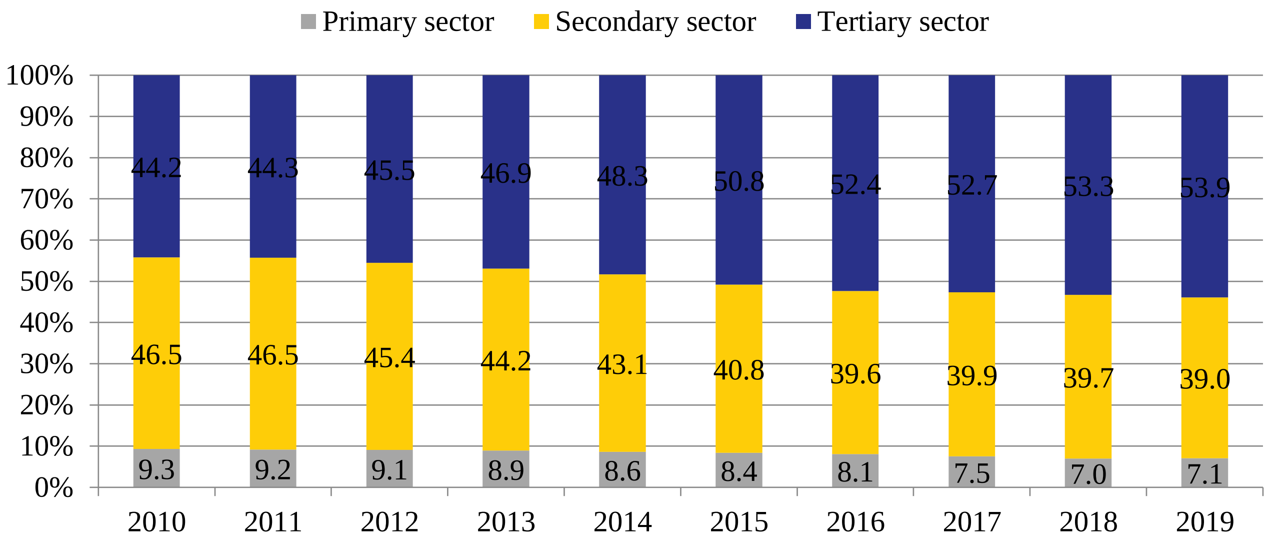
Accompanying the significant increases in both GDP and GDP per capita over the last decade in China has been the rise in debt. Household debt as a proportion of GDP was 27.3% in 2010, yet by 2019 had risen to 55.8%,[8] all in a decade when a number of the world's other major economies reduced their household debt to GDP ratio.

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.

## 2.2 The changing structure of the Chinese economy

A major change in the constitution of the Chinese economy over the last decade has been the pivot towards the tertiary sector at the expense of the primary and secondary sectors. This presents opportunities for EU SMEs within the tertiary sector as their Chinese competitors may not have as much experience as them, and may also be looking to work with international partners to meet global standards. At the same time, the secondary sector in China remains very large – perhaps more so than in many EU countries – therefore there are abundant opportunities for collaboration there even as it fades from prominence in China.

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



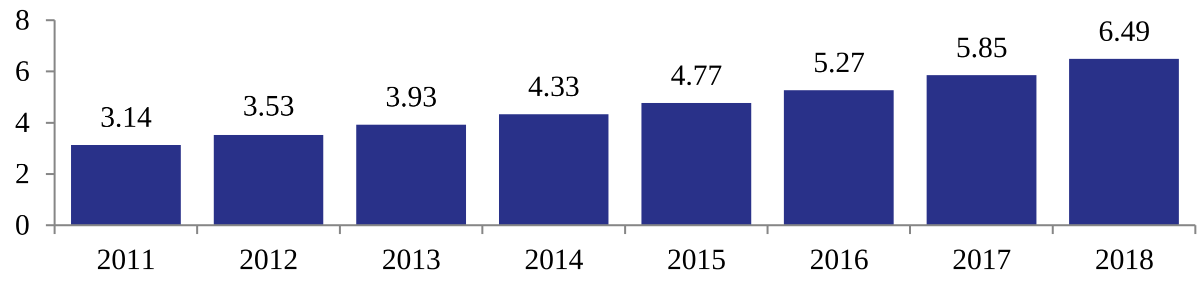

## 2.3 A consumer market that is growing quickly

Consumption has been rising in China, and in the years to 2030 is expected to grow by the same amount as in Western Europe and the United States combined will.[9] This is partly due to the Chinese economy's shift towards consumption, which is itself further mirrored by the growth in the tertiary sector in the country. Growth in consumption now makes up approximately 76% of economic growth in China, further underlining its importance. When looking at business-to-consumer ("B2C") consumption, it is China's burgeoning middle class that acts as the driver of this growth, with 400 million Chinese people now in this bracket.[10] Urban incomes in China are 2.7 times higher than rural incomes on average, which is a larger difference than in many other countries, indicating that while the Chinese middle class is large, it is concentrated in urban areas, which in turn

[8] https://www.ceicdata.com/en/indicator/china/household-debt--of-nominal-gdp
[9] https://www.mckinsey.com/featured-insights/china/china-brief-the-state-of-the-economy
[10] https://www.china-briefing.com/news/chinas-middle-class-5-questions-answered/

are concentrated along China's eastern seaboard.[11] B2C consumption is growing particularly quickly online in China, at a rate of 24% per year.

**Figure 4: Nominal consumption expenditure in China, EUR trillion[12]**

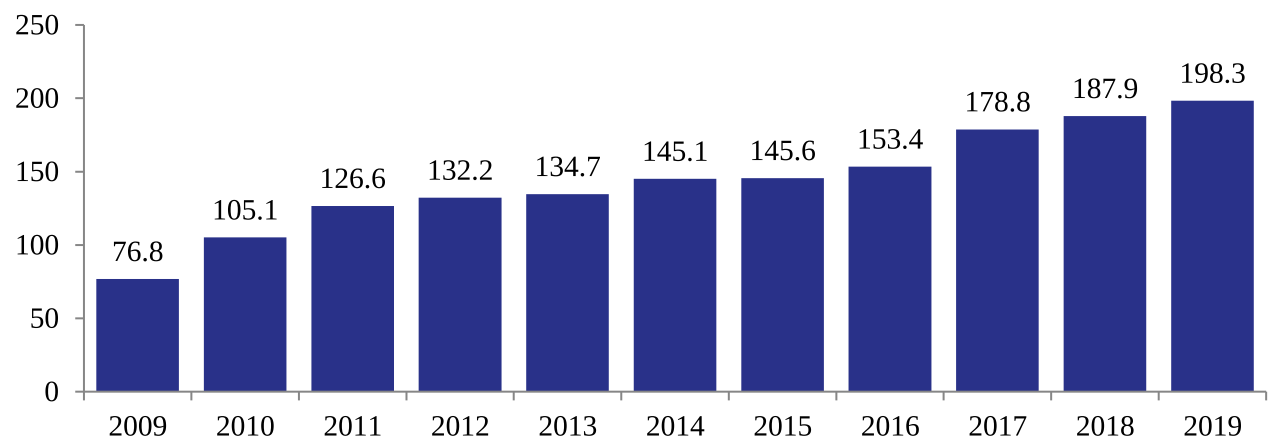



EU SMEs producing consumer goods are well placed to attract China's new high-spending consumers, as products and services form Europe are often seen to be aspirational, with Chinese consumers naturally seeking them out. At the same time, the growth in middle class consumption has led to a raft of new Chinese companies targeting this market, hence EU SMEs will face in-market competition for a portion of this spending.

## 2.4 China imports heavily from the EU

China maintains a surplus in its trade of goods with the EU, and a deficit in the trade of services. This surplus in terms of goods trade masks a large quantity of goods exported to China from the EU though: EUR 198.3 billion in 2019,[13] while China was the third largest importer of EU goods in the same year.[14]

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




The EU is a net exporter of services to China, exporting a total of EUR 46.7 billion in 2017, which was EUR 16.1 billion more than the EUR 30.6 billion of services imported from China.[15] In short, high volumes of EU goods and services flow to China each year, demonstrating that the market already exists for EU SMEs, should they wish to be a part of it.

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[11] https://foreignpolicy.com/2018/02/01/chinas-middle-class-is-pulling-up-the-ladder-behind-itself/
[12] http://data.stats.gov.cn/english/index.htm
[13] https://ec.europa.eu/eurostat/statistics-explained/index.php/China-EU_-_international_trade_in_goods_statistics
[14] https://ec.europa.eu/eurostat/statistics-explained/index.php/China-EU_-_international_trade_in_goods_statistics
[15] https://ec.europa.eu/trade/policy/countries-and-regions/countries/china/

## 2.5 EU products and services enjoy a strong brand image in China

In the recent past it was often the case that goods and services from foreign countries, especially relatively rich foreign countries like many of those in the EU, were seen as being intrinsically better by Chinese companies and consumers. This is not always the case now in China, due to the success of many high-quality local brands, and also because of Chinese companies and consumers that are more experienced and better educated about what EU companies can offer them. While EU products and services may not automatically benefit from being viewed as better anymore, they are still generally seen as being of high quality, and it is the case that a great number of EU companies in China compete at the higher end of their respective markets, rather than at the lower end.

For EU SMEs that can provide high-quality goods and services, China can be a very receptive market, albeit one in which there is likely to be an increasing number of local competitors in the coming years.

## 2.6 Challenges bring opportunities

With one of the world's fastest-growing major economies, China faces challenges in adjusting to almost constant changes; and with the world's largest population, these challenges are often on a very large scale. Key cross-sector challenges that China currently faces include:

- Environmental problems: Rapid growth since China began its signature Reform and Opening Policy in the late 1970s has led to poor air, water, and ground quality in parts of China, which is a problem that the country is now taking seriously. China is hoping to improve its environmental quality without sacrificing significant economic growth, and often looks towards technological solutions to solve these problems, such as green energy generation and electric vehicles, which EU SMEs often excel in.
- An aging population: The limits that China placed on family sizes during parts of its recent history mean that by 2050 35% of Chinese people could be over 60 years of age, compared with 14% in 2010.[16] These limits have now been relaxed but the birth rate in China remains rather low at 10.48 per 1,000 people, which is the lowest since the country was founded in 1949.[17] Health and social care for the aged, retraining for those staying in employment longer, and the rebalancing of an economy to cater to the differing demands of the older members of society are all areas that EU SMEs can play their part in helping China achieve.
- Unbalanced growth: While areas of China – in particular the eastern seaboard – now see relatively high incomes and levels of development, there are still parts of China that are much less developed, and the differences in quality of life between these areas can be large. China is working to change this, so will require investment across the country, and will also likely offer incentives to foreign enterprises that support the less-developed ports of the country.
- Moving up the value chain: Although China grew very quickly since the late 1970s by often focusing on lower-quality products and services – in particular relying on the production of cheaper goods for export – it is now moving up the value chain, and companies in many industries seek partnerships with those already supplying high-value goods and services, such as many EU SMEs. Such increases in value can come about through access to more advanced technology, better training, or a deeper understanding of market signals among other things, all of which EU SMEs may have experience in providing.

China shows great interest in learning from international experiences and best practices, and also working with international partners, in order to tackle these macro-issues and many others, and the specialisms and high quality of many EU SMEs make them well placed to work with China in overcoming these challenges in the long term.

[16] https://www.unescap.org/sites/default/files/Session1_Mr.ZhaiZhenwu_China.pdf
[17] https://edition.cnn.com/2020/01/17/asia/china-birthrate-intl-hnk/index.html

## 3. China's many markets

It has often been said that China, with its population of approximately 1.4 billion people, large area, and cultural diversity, should be thought of a as more of a continent of different markets than a country of a single market by businesses hoping to operate there. There are significant differences between each city and province in China, and deciding where to operate is one of the most important and impactful decisions an EU SME setting up or expanding in China will make. Listed below are a number of factors to consider when weighing up the advances and disadvantages of each location being considered during location scouting:

### 3.1 The ranking of a city

Although it is not an official definition, China's cities are often classed as belonging to either the first, second, third, or fourth tier, based on a multitude of factors including the size of the market. As local market size is usually one of the deciding factors used by many EU SMEs in choosing where to operate, which tier a city falls under can be a useful indicator of how suitable a city is. Caijing ranked Chinese cities belonging to the top three tiers as the following in 2017:[18]

| | |
|---|---|
| **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 |

Away from the larger first- and second-tier cities, The Economist Intelligence Unit has also ranked China's emerging cities for growth potential, based on growth indicators including changes in real GDP, metropolitan population, disposable income, consumption expenditure, FDI, fixed asset investment, and the urban built area. Its overall top 10 are:[19]

1. Suzhou
2. Yueyang
3. Luoyang
4. Xiangyang
5. Xiangtan
6. Urumqi
7. Changchun
8. Guiyang
9. Tai'an
10. Xinxiang

Similarly, PricewaterhouseCoopers and the China Development Research Foundation published a Cities of Opportunity report in 2018 which ranked Chinese cities based on intellectual capital and innovation capacity, technical maturity, how international they are, how safe (including from a health perspective) and secure they are, their transportation capabilities and quality of urban planning, how sustainable their development is, their culture and quality of life, their economic influence, the cost of living, and the ease of doing business. The top

[18] https://www.sohu.com/a/216496951_694251
[19] http://country.eiu.com/article.aspx?articleid=1097567693

10 cities outside of Beijing, Shanghai, Guangzhou, and Shenzhen offering business opportunities, according to this report, are:[20]

1. Hangzhou
2. Wuhan
3. Nanjing
4. Chengdu
5. Xiamen
6. Xi'an
7. Tianjin
8. Changsha
9. Suzhou
10. Zhengzhou

When looking into individual cities, the National Bureau of Statistics of China (中华人民共和国国家统计局) is a useful tool that can be used to compare GDP, GDP per capita, population, economic growth, and many other economic indicators.

## 3.2 Costs

Going into the third decade of this century, China is not a cheap country in the same way it was in the past. Indeed, many of China's first- and second-tier cities can be expensive even by international standards when considering costs like rent, labour, utilities, and HR. As an example, the rental costs for office space in China's most expensive cities in 2018 were:

| 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% |

As can be seen above, Beijing, Shanghai, and Guangzhou are significantly more expensive for office rental than other cities in China, reflecting their size and importance.

## 3.3 Access to logistics and resources

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

[20] https://www.pwccn.com/en/research-and-insights/chinese-cities-of-opportunities-2018-report.html

population spread varies significantly across the country, therefore some cities are much closer to sources of natural and human resources than others.

## 3.4 Access to government to support

Government support can be seen to come from three broad sources in China:

- General national, provincial, and municipal support: The Chinese government can offer preferential policies to foreign companies, such as EU SMEs, that are seen to be beneficial to China, such as those that introduce technology to China or invest in China. This support can come from differing levels so it is important to investigate what each offers, not just one of them.
- Zone-based support: There are many zones in China, including Pilot Free Trade Zones, Economic and Technological Development Zones, and Bonded Zones, and they often offer their own benefits to foreign companies that set up there, some of which are negotiable.
- Initiative-based support: The Belt and Road Initiative, the Greater Bay Area, Jig-Jin-Ji, the Yangtze River Delta, and the Yangtze River Economic Belt are five of China's major international and domestic initiatives, and involvement in areas of the country that are involved in these can also lead to benefits being offered.

The most common types of support available are tax breaks and lower rent, with looser regulations and speedier visa processing also on offer. Even if the benefits available appear generous, EU SMEs must consider the ease of actually accessing them, i.e. how bureaucratic the location in China is. Some parts of China, especially those less used to dealing with foreign enterprises, could prove difficult to work with, while such cities may not have as many organisations that can help international companies should they encounter any problems, such as chambers of commerce, lawyers, accountants, or translators.

## 4. The 14th Five-Year Plan

The 14th Five-Year Plan ("FYP") will be revealed at this year's 5th Plenum of the Communist Party in late October 2020. The FYP will continue China's transition from an export-led growth model towards a consumption-based and service-oriented one.

As China's economy is confronted by serious challenges, central planners will focus on productivity growth and improved local governance. EU companies, especially those in the service sector, will enjoy new opportunities but will have to navigate an increasingly diverse and complex environment.

### 4.1 Background

The FYP's objective is to define "development targets, working guidelines and key tasks".[21] But more importantly, it also sets the tone for China's overall economic development strategy, which, since key reforms that began in in 1979, has focused on labour intensive industries and export-led growth.

The 13th FYP was the first to deviate from this paradigm, putting more emphasis on sustainability. Thus, the plan's main themes were innovation, coordination, green development, openness, and shared development (such as the Belt and Road Initiative).[22]

The principal objective of the 14th FYP 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.[23]

### 4.2 Key challenges

In order to achieve high-income status, China needs to develop a strong high-technology sector and raise productivity. While industrial policies like Made In China 2025 aim to foster advanced industrial clusters, improving labour output will require a series of interconnected policies. The principal areas will be education, digitalisation and high-tech manufacturing, liberalisation of the service sector, and further reform of state sector.

#### 4.2.1 Education

Education and human capital are essential for reaching a high-level status. Improving the educational level of an aging and declining work force – the number of people in China's workforce peaked in 2014 – will thus be a top priority.

The Chinse government has already launched a new Educational Modernisation Plan which prioritises life-long learning and includes a strong focus on vocational training.[24] Recent high-level initiatives such as the Greater Bay Area Initiative have equally stressed the need for better professional education.[25]

#### 4.2.2 Digitalisation and high-tech manufacturing

Digitilisation is an important driver of productivity. According to recent research by the IMF, a 1% increase in digitalisation can add 0.3% to GDP growth per annum.[26] Despite being the world's biggest market for industrial

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[21] http://english.www.gov.cn/premier/news/201911/26/content_WS5ddd1626c6d0bcf8c4c17d87.html
[22] https://en.ndrc.gov.cn/newsrelease_8232/201612/P020191101481868235378.pdf
[23] Aiyar, S. et al. (2013), *Growth Slowdowns and the Middle-Income Trap*, IMF Working Paper
[24] http://www.xinhuanet.com/politics/2019-02/23/c_1124154392.htm
[25] https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/international-business-support/deloitte-cn-csg-decoding-greater-bay-area-plan-en-190415.pdf
[26] Quoted in Zhu, M. et al (2019), "China's Productivity Convergence and Growth Potential – A Stocktaking and Sectorial Approach", *IMF Working Paper*, WP/19/263, p.33

robots, China had only 97 robots per 10,000 factor workers in 2017, which is significantly behind the world's most automated economy: South Korea had 710 robots for the same number of workers. [27] The 14th FYI will therefore include further measures to close this gap.

### 4.2.3 Opening up of the service sector

Despite repeated revisions of China's Foreign Investment Negative List, the country's service sector is still highly protected against foreign competitors: according to the OECD's Services Trade Restrictiveness Index, China scores lowest among all 45 participating countries. [28]

The IMF believes that the productivity in China's business service sector is only 17% of global benchmark levels.[29] Removing barriers for foreign investors could therefore increase productivity and turn China's service sector into a major growth engine.

### 4.2.4 State-owned enterprise reform

The ongoing reform of China's large state sector will remain an issue. Despite recent reforms, productivity of SOEs remains far below that of their private peers. After 2019's Fourth Plenum, a new effort to accelerate SOE reform was announced.[30] At the same time, the State-owned Assets Supervision and Administration Commission ("SASAC") has also issued new guidelines to improve management and increase profitability.[31]

### 4.3 Reform of local governance

In order to maintain the current growth trajectory, important reforms need to be addressed. According to a recent study, there are seven challenges the 14th FYP will need to address: [32]

- Transparent market and price mechanisms
- Smart urban planning
- Rust belt redevelopment
- New public-private financing models
- Sustainable local finances
- Strengthen private businesses and investment
- Global trade governance

The main burden for overcoming these challenges will lie with local authorities. New models, such as Shenzhen's Smart City initiative,[33] Xiong'an's green urban development,[34] and Hainan's free port system,[35] as well as regional integration plans such as the Greater Bay Area, the Yangtze River Delta, and the Beijing Capital region, will all receive greater attention and be upheld as examples for other cities and regions.

[27] https://www.bloomberg.com/graphics/2019-china-factory-future-automation/
[28] http://www.oecd.org/trade/topics/services-trade/documents/oecd-stri-country-note-china.pdf
[29] Zhu, M. et al (2019); p.32
[30] http://www.gov.cn/guowuyuan/2019-11/22/content_5454387.htm
[31] http://www.xinhuanet.com/2019-11/11/c_1125218861.htm
[32] http://www.lse.ac.uk/GranthamInstitute/publication/chinas-14th-plan-sustainable-development-and-the-new-era/
[33] https://www.scmp.com/news/china/politics/article/3035765/chinese-city-shenzhen-using-big-data-become-smart-socialist
[34] https://archive.worldenvironmentday.global/2018/en/news/green-growth-xiongan-sustainable-city
[35] https://www.telegraph.co.uk/china-watch/business/hainan-island-pilots-free-trade-zone/

# 5. Sector overviews and opportunities

## 5.1 Advanced manufacturing market overview

China has been the world's leading country for manufacturing since 2010, when it surpassed the United States. 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.[36]

The manufacturing industry has developed quickly in China: it now boasts the world's largest manufacturing capacity for over 200 industrial products including steel, cement, and automotives. China's steel output, for example, is over 900 million tonnes, accounting for 50% of the world's total in 2018. By contrast, China only contributed 0.1% to global steel output in 1949 when the country was founded.

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. These combined advantages have assisted China in exceling in manufacturing.

The United Nations defines 39 major-level, 191 medium-level, and 525 minor-level sub-sector categories within the manufacturing industry, and China is the only country in the world to operate in all of them. China can produce nearly every industrial product from garments to aircrafts, iron ore to trains. This capacity benefits from China's complete supply and manufacturing chains, large domestic market, as well as the country's great efforts to continue developing within the manufacturing industry. In addition, China is home to the world's largest population. In the past, this has meant low labour costs. Now, however, as the education level in China has improved significantly, it provides a huge number of qualified engineers to the industry. Over the past decade, a total of 70 million undergraduates and 5 million post-graduates have graduated from Chinese universities; half of them with degrees in science and engineering.

China issued its ambitious Made In China 2025 initiative in 2015 in order to maintain and further develop its world-leading position in manufacturing. It is committed to strengthening sectors such as information technology, numerically-controlled tools and robots, aerospace, marine engineering equipment railway, energy saving and new energy vehicles, new materials, biological medicine and devices, and agricultural engineering.

The Made in China 2025 initiative is open to international companies operating in China as part of an effort to further open China's manufacturing industry to the world. The government has stated that all the policies and measures designed to support the initiative will be available to all types of enterprises in China, and all of them will be treated equally; regardless of whether they are Chinese or international.

## 5.2 Transportation market overview

The transportation industry is an important pillar of China's economy. There are 1.4 billion people living in the country, and the huge demand on transportation has made China one of the world's largest markets for automotive vehicles, railways, and aircraft.

China's automotive market has increased in size rapidly since 1990, and the sales volume of automotives reached 25.8 million in 2019, when 10.1 million cars, 9.2 million SUVs, and 1.4 million MPVs were sold in China.[37] A total of 409 million people in the country hold driving licences and China has 327 million automotive vehicles, of which 240 million are passenger cars.

[36] http://finance.sina.com.cn/china/gncj/2019-01-22/doc-ihrfqziz9903444.shtml
[37] https://www.qi-che.com/guoneicheshi/6782.htm

China is a very important market for international automotive manufacturers, especially high-end brands. China now accounts for 26% of BMW's global sales, 27% of Mercedes-Benz's, 37% of Audi's, 39% of Volkswagen's, and 40% of General Motors'.[38] BMW, Mercedes-Benz, Audi, Cadillac, and Lexus were the top five best-selling premium automotive brands in China in 2017, and Zhejiang, Jiangsu, and Guangdong were the top three provinces for purchase of high-end vehicles.

China is committed to opening up its automotive industry. In 2018, China cancelled the restriction on foreign share ratios in automotive joint ventures for new energy vehicles, and it will lift restrictions on other types of vehicles within five years. Thanks to this policy, The US automotive company Tesla started to build up its wholly-owned company in Shanghai in mid-2018, and has since launched the first batch of Model 3 cars manufactured at its Shanghai facility, which is capable of producing 500,000 cars per year.

In addition to automotives, China is also strong in other transportation markets such as the air and rail sectors.

China is a major client for global aircraft manufacturers. In 2018, China bought 192 large aircraft from the EU, accounting for 20% of the EU's aircraft exports.[39] In addition, China also bought 26% of Boeing's total aircraft output in 2017.[40] Aircraft have also been an important point of leverage for China to counter the United States' rising tariffs on China's exported products during the ongoing trade conflict between China and the United States.

China has one of the world's longest railway networks. It has 132,000 kilometres of railway, including 29,000 kilometres of high-speed railway. China is also trying to export its mature railway system to other countries, and has won and completed large projects in Africa, West Asia, and Southeast Asia.

## 5.3 ICT market overview

China has established a complete ICT industrial system that reaches from components to finished products and software. It is currently the world's third largest ICT market by expenditure, and was worth CNY 24 trillion (EUR 3.1 trillion) in 2018, 10% more than in 2017.[41] The ICT sector is also one of the most supported sectors of the 13th Five-Year Plan.

The ICT sector has grown rapidly in China, driven by the fast growth of the internet and the rising number of mobile internet users. The 830 million internet users (including 819 million mobile phone users) represent approximately 60% of the Chinese population, meaning there is still room for future growth.

China's ICT industry is a dynamic and complex one covering a broad range of products and services, including hardware, software, and IT services sectors. The opportunities for EU SMEs in this sector fall within areas where they can leverage their quality and innovation strengths. EU SMEs are most likely to find opportunities in high-value niche areas where specialisation in certain technologies or know-how provides them with a significant competitive advantage. However, there are challenges to succeed in the Chinese ICT market, including government policies such as the Cyber Security Law (网络安全法), telecommunications regulations, competition, and intellectual property protection.

Specific opportunities in the ICT market in China include:

- In the hardware sector: integrated circuits, consumer electronics, telecommunications equipment, display panels, printed circuit boards, storage, and instruments;

[38] https://chejiahao.autohome.com.cn/info/3293094
[39] http://www.fstaoci.com/news/201912/21248035.htm
[40] https://kuaixun.cngold.org/c/2018-04-04/c724003.html
[41] http://www.caict.ac.cn/

- In the software sector: operating systems, desktop and smart phone applications, web development, and industrial software;
- In the IT services sector: consultancy and outsourcing;
- In the emerging technologies sector: artificial intelligence, block chain, 5G mobile networks, the internet of things, cloud computing, and virtual reality and augmented reality.

Further reading:

- Sector report: *ICT market in China*; www.eusmecentre.org.cn/content/ict-sector-report-0
- Case study: *EGGSIST - Succeeding in the IT consultancy sector*; www.eusmecentre.org.cn/content/eggsist-succeeding-it-consultancy-sector
- Case study: *Tuca IT - Recruiting personnel in China;* www.eusmecentre.org.cn/content/tuca-it-%E2%80%93-recruiting-personnel-china

## 5.4 Education market overview

A PEST analysis of the education market in China produces the following results:

| | |
|---|---|
| **Politics** | Since the establishment of the EU-China High-Level People-to-People Dialogue in 2012, four ministerial-level meetings and six department-level policy dialogue meetings have been made to recognise exchanges and cooperation in higher education quality assurance, accreditations, student and scholar exchanges, joint research, and many other areas.[42]<br>By November 2016, there had been over 80 bilateral education cooperation agreements between China and EU countries, 574 joint transnational education institutions and projects, over 300,000 Chinese students studying in EU countries, and over 45,000 students from EU countries studying in China.[43]<br>Chinese children are provided with nine years of free compulsory education from elementary to junior high school. In November 2016, the National People's Congress (全国人民代表大会, "NPC") revised the Private Education Promotion Law (民办教育促进法), banning private, for-profit schools from offering compulsory education from the first to the ninth year of school.[44] |
| **Economy** | China is the EU's second largest trade partner, after the US.[45]<br>According to a survey carried out by the China Institute for Educational Finance Research, Peking University, the total scale of family expenditure on pre-school and compulsory education reached CNY 1.9 trillion (EUR 0.24 trillion) in 2017.[46] |
| **Society** | In 2018, citizens from China received the second-largest number of first residence permits in the EU, with 67% of them being for educational purposes.[47]<br>In addition to the state-owned education system, there remains a large space for private-owned education providers and various types of provider in areas including training, international schools, overseas study consultancy, and education technology to meet the demand for education in China. |

[42] http://www.moe.gov.cn/jyb_xwfb/xw_fbh/moe_2069/xwfbh_2016n/xwfb_161008/161008_sfcl/201610/t20161008_283199.html
[43] http://edu.people.com.cn/n1/2016/1117/c1006-28873978.html
[44] https://www.export.gov/article?id=China-Education-and-Training
[45] https://ec.europa.eu/eurostat/documents/2995521/9678910/6-20032019-AP-EN.pdf/0ebd7878-dad5-478e-a5f0-3ae2c91f7ea3
[46] http://www.xinhuanet.com/fortune/2018-01/15/c_1122258696.htm
[47] https://ec.europa.eu/eurostat/documents/2995521/10189082/3-25102019-AP-EN.pdf/95e08bc8-476d-1f7d-a519-300bdec438cb (inaccessible)

| | |
|---|---|
| **Technology** | China has developed over 600 AI education companies, the second most worldwide, trailing only the US. In 2018, the Ministry of Education (中华人民共和国教育部) issued its Actions on Educational Informationisation 2.0 (教育信息化2.0行动计划) to promote AI technologies applied in the process of teaching, learning, and management.[48]<br>197 serial numbers for block chain projects hosted by Chinese companies were issued in February 2019. This first batch was registered at the Cyberspace Administration of China (国家互联网信息办公室), with three of them for educational service projects. 309 more serial numbers were released in the second batch in October 2019.[49] |

Within the education market, there are specific opportunities for EU SMEs in the following sectors:

- Student and scholar exchange programmes;
- EU-China higher education transnational programmes;
- Joint research;
- Language courses;
- Early learning teaching and learning programmes;
- Online learning.

Further reading:

- Education in China A Snapshot; http://www.oecd.org/china/Education-in-China-a-snapshot.pdf
- Deloitte Report: A New Era of Education, China Education Development Report 2018; https://www2.deloitte.com/cn/en/pages/technology-media-and-telecommunications/articles/new-era-of-education-china-education-development-report-2018.html

## 5.5 Training market overview

The training market in China is best analysed as a series of sub-sectors:

- **K12 after-school training**

  The K12 after-school training market in China is now worth CNY 560 billion (EUR 72 billion), and is growing at an annual rate of 17%.[50] Several regulations have been issued to control and emphasise the focus on all-round youth development, manage educational apps, reduce the burdens of study, and administer training providers' after-school operations within this market. In terms of demand, STEM and coding have become the most popular after-school training subjects, while drama, music, art and PE have also seen rapid growths in popularity.

- **Vocational education and training**

  In January 2019, the State Council issued the National Vocational Education Reform Implementation Plan (国家职业教育改革实施方案),[51] and in April of the same year the Ministry of Education issued the Qualifications and Certifications + Professional Skills Grade Certification System Pilot Scheme (学历证书+若干职业技能等级证书制度试点方案)[52] to encourage the reform and development of the vocational education sector, so as to adapt to the economic and social development trends in China and worldwide. Investment firms are also paying significant attention to the vocational education and training sector, as is

[48] http://www.sohu.com/a/342638786_120336547
[49] http://www.cac.gov.cn/2019-03/30/c_1124305122.htm; http://www.cac.gov.cn/2019-10/18/c_1572931934637684.htm
[50] http://www.sohu.com/a/342638786_120336547
[51] http://www.gov.cn/zhengce/content/2019-02/13/content_5365341.htm
[52] http://www.moe.gov.cn/srcsite/A07/moe_953/201904/t20190415_378129.html

demonstrated by the fact that four of the nine education companies listed were vocational education providers in the first half of 2019.[53]

- **Professional training**

  Professional training for recruitment purposes and professional training for entrepreneurs became popular in China during the global economic downturn, and since then new jobs in emerging industries are creating demand for new types of professional training in the market, particularly as AI technology becomes more broadly applied in many industries.

- **Education technologies**

  In April 2018, the Ministry of Education issued The Action Plan for Education Informationisation 2.0, which aims to build a large online platform for education. This means that AI and new technologies are now part of all education subsectors. Block chain technology has also started to be applied in education subsectors, a trend that is likely to continue and expand.

Within the training market, there are specific opportunities for EU SMEs in the following sectors:

- AI technology for young people;
- Vocational education;
- Early education and family education products;
- Edtech and online learning systems;
- Professional and internship programmes.

Further reading:

- Intellectual Property & Education in China; https://www.gov.uk/government/publications/ip-and-education-in-china
- Deloitte AI Report; https://www2.deloitte.com/cn/zh/pages/about-deloitte/articles/pr-global-ai-development-white-paper.html

## 5.6 Healthcare market overview

China is the world's second largest pharmaceutical market, valued at USD 130 billion (EUR 117 billion),[54] and is also the second largest medical devices market, valued at USD 78 billion (EUR 70 billion), a year-on-year increase of 22% over 2018.[55] Despite being one of the world's largest healthcare markets, China spends only 6.4%[56] of its GDP on healthcare, compared with 12.5% in high-income countries.[57]

The implementation of effective healthcare delivery across China has struggled to keep pace with other sector reforms. As a result, China's healthcare sector is now facing a wide range of challenges, including ongoing urban and rural disparity, an ageing population, restricted resources, and outdated technologies.

The Chinese government is aware of this, and in October 2016 the State Council of China issued the Healthy China 2030 report, which set out the goal to provide affordable and equitable basic healthcare for all by 2030. China has doubled its spending on public hospitals in the last five years to USD 38 billion (EUR 34 billion) and

[53] http://www.sohu.com/a/342638786_120336547
[54] https://www.mckinsey.com/industries/pharmaceuticals-and-medical-products/our-insights/biopharma-in-china-insights-into-a-market-at-a-crossroads
[55] https://www.export.gov/article?id=China-Medical-Devices
[56] https://www.bloomberg.com/graphics/2019-china-healthcare/
[57] https://www.bloomberg.com/opinion/articles/2019-10-27/china-steps-up-health-care-spending-just-in-time

wants to see a healthcare industry valued at USD 2.3 trillion (EUR 2.1 trillion) by 2030, more than twice its current size.[58]

Rapid industrialization and urbanisation, as well as an ageing population, are contributing to the rise in cases of acute conditions. The treatment burden for heart attacks, strokes, diabetes, and obstructive pulmonary diseases is anticipated to rise by 50% from 2010 to 2030, according to China's analysis of its data on health. China has an ageing population and by 2035, China's senior citizen population (aged over 60) is expected to reach 409 million, making up 28.5% of the total population.[59]

In order to prevent and combat these issues, many of China's hospitals need to be upgraded or replaced in the coming years. In addition, the Chinese government is looking at foreign-owned hospitals – the ownership of which was previously restricted or forbidden – as a means to introduce more advanced treatment technology. Further policy liberalisation is being witnessed, in particular the lead times of product registration for foreign companies are being greatly reduced following the National Medical Products Administration ("NMPA") replacing the China Food and Drug Administration ("CFDA").

China's digital adoption is also presenting opportunities for EU organisations that are rarely available in developed countries. China's advanced telecommunications sector has facilitated the spread of mHealth, which utilises mobile phones and tablet computers to provide instant access to health services and information – something particularly useful in remote regions.

The challenges facing the healthcare sector in China, alongside the increased spending on the healthcare sector and rising consumer spending owing to higher disposable incomes, provide many opportunities for EU companies, and the EU's capabilities in healthcare-related goods and services are an ideal match for China's national healthcare objectives.

## 5.7 Clothing market overview

In 2018, the adult clothing market in China was worth CNY 1.6 trillion (EUR 0.21 trillion), a value that is estimated to reach CNY 1,7 trillion (EUR 218 billion) in 2020.[60]

It is, however, the case that the clothing retail market experienced a drop in size in 2018, following six years of growth. In 2018, the combined retail value of clothing was CNY 1.4 trillion (EUR 0.18 trillion), a figure that is subsequently expected to have risen somewhat in 2019 due to national-level policies to stimulate consumption.[61]

The total value of imported and exported clothing products in China was CNY 1.0 trillion (EUR 0.13 trillion) in the first 11 months in 2019, and while the value of exports did not change between 2018 and 2019, the value of imports grew by 12% over the same period.[62]

At present, the high-end clothing market in China is dominated by brands from European and North American countries and regions, in particular France, Germany, Italy, the UK, and the US, and well some Asian countries and regions, namely Japan and South Korea. At the same time, brands from Hong Kong and Taiwan focus more on mid-range products, while the mid-to-low end of market is mainly targeted by Chinese brands.

Promotional crossovers have become common in the fashion world in China in recent years. Product-based collaborations on Weibo became significantly more popular throughout 2019, with long-term collaboration via

[58] https://www.bloomberg.com/graphics/2019-china-healthcare/
[59] https://www.eastspring.com/insights/emerging-opportunities-in-chinas-healthcare-sector
[60]http://china-trade-research.hktdc.com/business-news/article/China-Consumer-Market/China-s-Garment-Market/ccm/en/1/1X3AYEP5/1X002L72.htm
[61] http://finance.sina.com.cn/stock/relnews/cn/2019-07-19/doc-ihytcitm3249265.shtml
[62] http://www.customs.gov.cn/customs/302249/302274/302277/302276/2790950/index.html

a celebrity endorsement seen as the ultimate goal of the many companies engaged in this practice.[63] Furthermore, it not just the case that luxury and fast fashion brands are developing such collaborative opportunities, as it is a trend that has spread throughout many industries.

Livestreaming is also a current trend within the clothing market. China's livestreaming market was worth USD 4.4 billion (EUR 4.0 billion) in 2018 – 32% more than the previous year – and attracted 456 million livestream viewers.[64] Chinese consumers are heavily influenced by key opinion leaders ("KOLs") and key opinion consumers ("KOCs") when making purchasing decisions, and these KOLs and KOCs favour livestreaming when demonstrating the latest clothing lines. Those watching therefore interact with other viewers and place orders for products during a live stream, which in turn promotes an online-to-offline strategy that is bringing traffic back to physical retail stores. The beneficiaries of livestreaming are not limited to established brands in China, instead extending to international brands looking to enter the Chinese market that are able to use livestreaming to directly reach out to target consumers.[65]

Chinese consumers use an omni-channel strategy when making purchases such as clothing, meaning they combine E-commerce, brands' own websites, social commerce, and offline stores. As the largest category of E-commerce consumers in China, over 85% of clothing consumers had both online and offline shopping experiences in 2019, a five percentage point increase since 2017.[66] It is also the case that in China, 63% of consumers conduct research on their mobile phones before making their purchasing decision, hence the platforms they use to do this – such as user-generated content-based app like RED and direct-to-consumer platforms like WeChat mini programs – benefit from attracting promotional content aimed at these consumers. Indeed, these days in China a recommendation from a KOL or KOC is seen as more influential than a discount in determining which products will sell well, and this is particularly true in third- and fourth-tier cities, which is where a significant proportion of future growth in retail products is predicted to be located.

When looking at clothing brands in China, they can be categorised by type, such as those that focus on upmarket products and those that focus on fast fashion segments. They can also be categorised by the type of clothing that they make, and when EU SMEs pay attention to the Chinese market there are six main broad categories to prioritise:[67]

- Women's clothing: With sales increasing by 7.6% from 2017, in 2018 this market was worth CNY 999 billion (EUR 128 billion). As tastes further diversify, the market will continue to grow, likely being worth CNY 1.2 trillion (EUR 0.15 trillion) by 2022.
- Men's clothing: Growth is driven by the growing amount of attention men pay to their appearances, with the market worth CNY 573 billion (EUR 73 billion) in 2018 and expected to be worth CNY 671 billion (EUR 86 billion) by 2022.
- Children's clothing: With 15.23 million babies born in 2018, baby clothing leads the growth in children's clothing, in that the market grew by 20.1% in 2018 to be worth CNY 209 billion (EUR 27 billion). As safety and the materials used in the production of children's clothing are the primary considerations for consumers

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[63] http://china-trade-research.hktdc.com/business-news/article/China-Consumer-Market/China-s-Garment-Market/ccm/en/1/1X3AYEP5/1X002L72.htm
[64] http://china-trade-research.hktdc.com/business-news/article/China-Consumer-Market/China-s-Garment-Market/ccm/en/1/1X3AYEP5/1X002L72.htm; https://www.alizila.com/how-livestreaming-is-transforming-e-commerce-in-china/
[65] http://china-trade-research.hktdc.com/business-news/article/China-Consumer-Market/China-s-Garment-Market/ccm/en/1/1X3AYEP5/1X002L72.htm; https://www.alizila.com/how-livestreaming-is-transforming-e-commerce-in-china/
[66] https://www.mckinsey.com/~/media/McKinsey/Featured%20Insights/China/China%20digital%20consumer%20trends%20in%202019/China-digital-consumer-trends-in-2019.ashx
[67] http://china-trade-research.hktdc.com/business-news/article/China-Consumer-Market/China-s-Garment-Market/ccm/en/1/1X3AYEP5/1X002L72.htm

when choosing what to buy, offline stores remain popular as purchasing points because they let shoppers physically see and experience their chosen products first.

- Sportswear: In 2018, sales of sportswear were worth CNY 265 billion (EUR 34 billion), a figure that is expected to grow as Chinese consumers pay more attention to their physical health, which in turn is an effect of an increasingly prosperous society.
- Custom-made clothing: Growth in this market is driven by the rise of China's middle class. Both the quality of the materials on offer and the uniqueness of the styles available have a large influence over any purchasing decisions.
- Casualwear: Value for money is the deciding factor for consumers of casualwear, rather than simply style.

## 5.8 Retail products market overview

China's retail trade grew by 8% in 2019, in line with the average growth in consumer spending between 2013 and 2018. Disposable income in China increased by a similar figure of 7.9% in 2019, rising from CNY 39,250 (EUR 5,032) to CNY 42,359 (EUR 5,431).[68]

As the result of the drop in China's GDP growth rate during the first half of 2019 and the continued weakening of consumer confidence, spending patterns are now driven less by brand loyalty and more by value for money.[69] Brands therefore need to constantly provide an impressive service in order to retain current customer sand attract new ones.

Increasing adoption of technology such as livestream selling, AI technology, and 3D experiences are, however, giving retailers more opportunities for lean production processes and the provision of one-of-the-kind experiences.[70] As a result, a brand that establishes a specific identity and embraces personalisation has a better chance of building up loyalty among Chinese consumers. This helps to explain why wellness and fitness products underpinning a healthy lifestyle are now among the fastest growing retail products in China.

E-commerce is a significant part of the retail market in China. In 2019, retail E-commerce spending in China was estimated to be worth USD 1.9 trillion (EUR 1.7 trillion), making it three times larger than the equivalent market in the US. Furthermore, E-commerce sales are expected to have made up 36.6% of the country's total retail sales in 2019. Almost 80% of online retail sales are carried out via Chinese-founded retail E-commerce giants, including Alibaba, JD.com, and Pinduoduo, setting an example that is leading the way in current global trends.[71]

Although economic growth has been slowing in China in recent years, consumers still pursue high-value products. This can be seen in the total value of transactions in 2019's Single's Day (which falls annually on 11th November), which increased by 31% over the previous year to CNY 410 billion (EUR 53 billion).[72]

Certain retail products are particularly popular in China, including:

- Beauty and personal care products: Retail sales of cosmetic products in China were worth CNY 262 billion (EUR 34 billion) in 2018, representing year-on-year growth of 4%, although sales some cosmetic products

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[68] https://tradingeconomics.com/china/disposable-personal-income
[69] https://store.mintel.com/china-consumer-spending-priorities-market-research-report
[70] https://nrf.com/blog/coming-soon; https://www.mckinsey.com.cn/wp-content/uploads/2019/12/%E9%BA%A6%E8%82%AF%E9%94%A12020%E5%B9%B4%E4%B8%AD%E5%9B%BD%E6%B6%88%E8%B4%B9%E8%80%85%E8%B0%83%E6%9F%A5%E6%8A%A5%E5%91%8A.pdf
[71] https://www.statista.com/statistics/880212/sales-share-of-the-leading-e-commerce-retailers-in-china/#statisticContainer
[72] https://www.mckinsey.com.cn/wp-content/uploads/2019/12/%E9%BA%A6%E8%82%AF%E9%94%A12020%E5%B9%B4%E4%B8%AD%E5%9B%BD%E6%B6%88%E8%B4%B9%E8%80%85%E8%B0%83%E6%9F%A5%E6%8A%A5%E5%91%8A.pdf

grew a lot faster than that: sales of make-up grew by 24% in this time period.[73] Revenue from cosmetics sales was expected to reach CNY 329 billion (EUR 42 billion) in 2020, which is still some way off the global leader in this market: the US, with expected sales worth CNY 603 billion (EUR 77 billion).[74] Skincare products make up the largest proportion of China's cosmetics market revenue, while make-up and cosmeceuticals are considered to be cash cows. More than half of the market share is taken by 4,933 China-licensed cosmetic manufacturers, which target mid- and low-level consumers in second- and third-tier cities. Driven by the increasing number of market entries from high-end foreign brands, cosmetics companies in China are now pursuing quality increases and brand image optimisation. As well as traditional retail counters in shopping centres, a sales channel that has become popular in recent years is cross-border E-commerce, which enables international cosmetics brands to enter the China consumer market without having to carry out animal testing, and greatly facilitates market access. Furthermore, during the outbreak of COVID-19 in late 2019 and 2020, online marketing became the key promotion strategy as offline stores became inaccessible.[75]

- Furniture: Thanks to rising living standards in China, rapid urbanisation, and consumer's increasing purchasing power, total domestic furniture sales grew by 6.4% to CNY 543 billion (EUR 70 billion) in 2018. At the same time, many international furniture brands have been introduced to the Chinese consumer market through a combined offline showroom and online E-commerce presence. New product lines are now available in China and are selling well, such as green and eco-friendly furniture, children's and outdoor furniture, smart furniture with AI capabilities, traditional furniture integrated in to the big data cloud, and custom-made furniture, the latter of which is linked to an increasing awareness of the optimisation of space usage. Star-graded hotels are the major source of demand for up-market furniture, and the increasing number of star-graded hotels in China will drive demand for this type of furniture higher in the coming years. However, despite high domestic growth rates, Chinese furniture products are becoming less competitive in the global market due to rising design fees and labour costs.
- Mother and baby products: The mother and baby product market continued to grow in 2019, especially with the effects of China's two-child policy replacing the previous one-child policy and with the new generation of parents seeking higher quality products and possessing an increased willingness to choose international mother and baby products. Indeed, the market value of the mother and baby market in China is expected to reach CNY 7.6 trillion (EUR 0.97 trillion) by 2024.[76] Despite the fact that many Chinese mothers obtain information about mother and baby products online and also make purchases online, offline distribution channels of such products, such as supermarkets, still dominate the market in China. Choosing the right model that combines cross-border E-commerce, a suitable distributor, consignment to retailers, and direct sales to retailers is therefore key for EU exporters of mother and baby products to succeed in the competitive Chinese market. In addition to traditional market demand for imported mother and baby products, an increasing number of young parents born after 1985 also attach more value to advanced maternity and baby care services in today's market.
- Luxury goods: Although there is likely to be a rebound in spending on luxury goods in China after the COVID-19 epidemic passes, Chinese consumers have now developed a more complex set of demands which pays increased attention to health and culture, as well as concepts such as experimentalism, humanism,

[73] http://china-trade-research.hktdc.com/business-news/article/China-Consumer-Market/China-s-cosmetics-market/ccm/en/1/1X000000/1X002L09.htm
[74] https://www.mckinsey.com.cn/wp-content/uploads/2019/12/%E9%BA%A6%E8%82%AF%E9%94%A12020%E5%B9%B4%E4%B8%AD%E5%9B%BD%E6%B6%88%E8%B4%B9%E8%80%85%E8%B0%83%E6%9F%A5%E6%8A%A5%E5%91%8A.pdf; http://china-trade-research.hktdc.com/business-news/article/China-Consumer-Market/China-s-cosmetics-market/ccm/en/1/1X000000/1X002L09.htm
[75] https://www.mckinsey.com.cn/wp-content/uploads/2019/12/%E9%BA%A6%E8%82%AF%E9%94%A12020%E5%B9%B4%E4%B8%AD%E5%9B%BD%E6%B6%88%E8%B4%B9%E8%80%85%E8%B0%83%E6%9F%A5%E6%8A%A5%E5%91%8A.pdf
[76] https://www.iimedia.cn/c1061/67284.html

minimalism, and patriotism, when they make their purchases.[77] Despite this, it is still possible for the luxury goods industry to grow in China, as some brands have demonstrated by already making changes to their offerings that cater to the new trends and values of progressive, modern, and diverse Chinese consumers.[78]

## 5.9 Food and drink market overview

China is the largest food and beverage market in the world by revenue, and continues to grow at a sustainable rate. Owing to the current trend towards consumption of higher-quality goods among Chinese consumers, the imported food and drink market is undergoing a period of adaptation to this new type of demand.

USD 73.6 billion (EUR 66.3 billion) of food was imported into China in 2018 was, USD 11.9 billion (EUR 10.7 billion) more than the previous year, meaning year-on-year growth of 19.3%. Compare with 1997, when USD 4.1 billion (EUR 3.7 billion) of food was imported, the volume of food imported increased 18.1 times in 21 years.[79]

Imported seafood and sea products, meat and meat products, and dairy products are popular among Chinese consumers, being worth USD 12.2 billion (EUR 11.0 billion), USD 11.1 billion (EUR 10.0 billion), and USD 10.7 billion (EUR 9.6 billion) in 2018 respectively, and making up 16.5%, 15.1%, and 14.5% of total imported food respectively, or 46.1% combined.

In terms of the fastest growing imported food categories, dairy products, tea, dried nuts, and beverages saw increases of 36.1%, 33.9%, 31.8%, and 27.4% respectively in 2017.[80]

Looking at China's provinces and provincial-level cities, Guangdong Province imported the most food in 2017, followed by Shanghai, Beijing, Shandong Province, Liaoning Province, Fujian Province, Jiangsu Province, Zhejiang Province, Tianjin, and Anhui Province.

China imported food from 185 countries and regions in 2018, 15 more than in 2017. The USA, Australia, New Zealand, Indonesia, France, Thailand, Canada, Brazil, Vietnam, and Indonesia are the main sources of this food.

China's huge food and beverage market is expected to continue growing as a result of a series of reasons: increasing disposable income, stronger demand in lower-tier cities and rural areas, concerns over domestic food safety, and a growing taste for foreign foodstuffs. Many EU SMEs have already successfully entered this sector and, despite increasing local competition and barriers that consumers believe they face when purchasing foreign food and drink products (including high prices, fewer sales promotions, less brand familiarity, low availability, and shorter shelf lives when compare with domestic substitutes), opportunities are still growing quickly.

## 5.10 Energy market overview

China is now the world's largest consumer of energy, the largest producer and consumer of coal, and the largest emitter of carbon dioxide. Furthermore, between 2019 and 2024, China will account for 40% of global renewable capacity expansion. [81] In 2018, China's consumption of natural gas reached 280.3 billion cubic metres, and is expected to increase by 82% to 510 billion cubic metres by 2030.

China's energy demand is still growing and coal remains the main source of energy in the country, accounting for approximately 59% of the total energy consumption in 2018. The national authorities consistently implement measures aimed at securing the country's energy needs and, at the same time, reducing carbon dioxide emission,

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[77] https://jingdaily.com/the-post-covid-19-rise-of-conscious-luxury/.
[78] Kantar, Luxus: Decoding the Ingredients of  Impactful Luxury Social Media , China 2019/2020.
[79] http://www.cccfna.org.cn/
[80] www.ifachina.com
[81] China country profile IEA

and protecting its population and natural environment. The PRC's 13th Five-Year Plan for Energy Development (能源发展"十三五"规划) recognises promoting structural reforms in energy, the expansion of natural gas, power system optimisation, and cleaner high-efficiency and digital technologies as key goals for a more sustainable future of the country.[82]

Key targets in the 2016-2020 period given within this plan include:

- A 15% reduction in energy intensity (energy consumption per unit of GDP);
- An increase in non-fossil energy to 15% of total energy use;
- An 18% reduction in carbon intensity (carbon emissions per unit of GDP).

At the end of 2017, China launched a unified carbon market with the electric power industry as the pilot industry throughout the country. A series of carbon market regulations will be introduced in 2020 to promote the construction of the national carbon market.[83]

For foreign investment, the Special Administrative Measures on Access to Foreign Investment ["Negative List"] 2018 Edition (市场准入负面清单【2018年版】) has cut restrictions on foreign ownership of petrol stations in China, and the Foreign Investment Special Measures [Negative List] [2019 Edition] (外商投资准入特别管理措施【负面清单】【2019 年版】) has cut restrictions on the exploration and development of petroleum and natural gas reserves.

EU SMEs that have advanced and cost-effective products and services that can facilitate China's carbon emission reduction plans will be highly encouraged to invest.

Within the energy market, there are specific opportunities for EU SMEs in the following sectors:

- Clean coal conversion technologies;
- Energy efficient devices;
- Carbon capture and storage technologies;
- Demonstration projects for clean technology;
- Offshore wind supply chain development;
- Oil and gas exploration and production;
- Virtual power plants and other digital technologies.

## 5.11 Sports market overview

The growth of sports in China follows several key trends: a growing middle class, an increased desire for recreational activities and the Chinese government's support of the industry. The main objective of the government's investment in sport is to increase the health and fitness of the general population, and this in turn has spurred major investment in grassroots sports development and participation. China also seeks to be recognised on the world stage by achieving success at international competitions and hosting major sports events. The General Administration of Sports of China (国家体育总局, "GASC") estimates that the sports industry is expected to double in size over the next five years, reaching an estimated CNY 5 trillion (EUR 0.64

[82] http://www.gov.cn/xinwen/2017-01/17/5160588/files/595b9ac5f61d46c4828b99404578eba5.pdf; https://www.chinacqpgx.com/upload/file/201909/1567392456142650.pdf

[83] http://www.gov.cn/zhengce/content/2016-11/04/content_5128619.htm; https://www.chinacqpgx.com/upload/file/201909/1567392456142650.pdf

trillion) by 2025.[84] The following are areas where international companies have found and can continue to expect opportunities.

*Infrastructure & Major Events*:

To support this ambitious growth, China needs help building major infrastructure and delivering major events. Similar to 2008 when China hosted the Summer Olympics, as Beijing prepares to host the 2022 Winter Games there is a rush to complete new facilities. In addition to the Olympics, China will host the Asian Games in Hangzhou (2022), the World Games in Chengdu (2025), and is expected to bid on hosting a future football World Cup. Each year finds more and more cities hosting large mass participation events like marathons and bike races. China is therefore looking to international companies that specialise in the architecture, design, engineering, and operation of sports and recreation facilities for assistance.

*Football*

In 2015, China announced ambitious plans to transform the country into a global football power by 2050. Recognising the needs of basic grassroots development, the government focused on spurring grassroots development and creating 85,000 on-campus football fields by 2020[85] and 50,000 football-featured schools by 2025.[86]

While the top tier of football Chinese Super League (has become one of the most popular professional sports leagues in the country, China still lacks knowledge in talent development and football operation. International companies that work with coaches, trainers, and skills development are constantly in need.

*Winter Sports*

With the Winter Olympics coming, there is a big push to create a sustainable ecosystem of facilities and operators to service the growing interest in winter sports. China aims to increase participation in winter sports by the Winter Olympics and for the number of winter sports schools to triple by 2025.[87] New opportunities exist for ski and ice-skating facilities, facility operators and of course product companies.

*Fitness & Home Wellness*

A more health-conscious population, due in part to rising obesity across the country has led to a rise in gyms. Across the fitness industry, statistics show more and more Chinese are getting regular physical exercise every year.[88] Companies specializing in gym equipment, sports training and personal health technology can expect a market growing at double digits in the coming years.

The above highlights are not comprehensive and areas that appeal to the emerging middle class such as running, swimming, and those that target more affluent consumers like horseback riding sailing and sports tourism all show promising potential.

## 5.12 Creative industries market overview

As China's economy continues to grow and develop, Chinese consumers have increasing disposable incomes. As a result of this, there is a growing demand for high-quality and reputable entertainment content. However, the creative industries face a number of challenges in China, including official censorship, restrictions on

[84] http://www.xinhuanet.com/fashion/2018-01/25/c_1122309635.htm
[85] http://www.chinanews.com/gn/2018/02-01/8438430.shtml
[86] http://www.chinanews.com/gn/2018/02-01/8438359.shtml
[87] https://www.sohu.com/a/276834590_565998
[88] https://news.cgtn.com/news/2019-06-22/How-fit-is-China-s-fitness-industry--HJy9BwahDW/index.html

investment, regulatory barriers, intellectual property challenges, and quotas. However, notwithstanding these barriers, the underlying demand in this sector makes China a worthwhile market for many foreign companies.

*Film and TV*

China was the largest market for European films in 2017, surpassing the United States; there were more than 35.8 million cinema admissions in in that year alone.[89] However, this title was lost in 2018 when fewer European films were approved for screening in China. Although China is the world's largest film market, quotas on foreign content present a sizable challenge for international films looking to enter it. These challenges also exist within the TV market; however, apolitical content such as nature documentaries and children's programming has experienced recent success with the help of appropriate Chinese partners.

*Publishing*

The value of China's publishing market grew by 11.3% in 2018 to CNY 89.4 billion (EUR 11.5 billion).[90] However, like all creative industries, publishing faces strict censorship controlled by the Chinese central government, with ISBNs only issued to 55 state-owned publishing groups. With the availability of ISBNs restricted, international firms are required to work with a Chinese state-owned publishing group or a private Chinese publisher in order to secure access to the market, many of which can be met at international book fairs including both the Beijing International Book Fair (held annually in August) and the Shanghai International Children's Bookfair (held annually in November).

*Computer Games*

China is the world's largest computer games market, worth an estimated CNY 233 billion (EUR 29.9 billion) in 2019, when it attracted over 620 million players.[91] Mobile games dominate the market with more than a 60% market share, exceeding that of both console and desktop games. Driven by concerns about growing levels of computer game addiction, the Chinese government has taken a number of steps to curb usage, while also restricting and impeding market access for foreign games, including through an extended approvals process. Nevertheless, given the underlying demand for their games, many European firms have successfully entered the market by finding domestic partners able to navigate the complex regulatory environment.

*Cultural Institutions*

Largely driven by the growth in international Chinese tourists, European cultural institutions are increasingly looking to the Chinese market for licensing opportunities, merchandise sales, and also the establishment of physical locations and partnerships in China. This trend is exemplified by the Centre Pompidou, the Victoria and Albert Museum, and the Tate Galleries. In each of these cases, securing and working with a local partner was critical to the broader success of the project.

*Advertising and Marketing*

As China shifts from a construction- to consumption-led economy, the role of advertising and marketing will play a more important role as both Chinese and western brands compete for Chinese consumers. In light of this trend, international marketing agencies are increasingly looking to establish a presence in the China market to support international brands interested in talking to Chinese consumers. By establishing a presence in China, many of these firms are also able to support Chinese companies that wish to expand outside China.

[89] https://baijiahao.baidu.com/s?id=1641611475986564700&wfr=spider&for=pc
[90] http://www.hustp.com/index.php?s=/index/iteminfo/type_id/3/id/1734.html
[91] https://www.chinaz.com/2020/0102/1086192.shtml

*Music*

Although experiencing rapid growth (China ranks seventh in the IFPI Global rankings), revenue per user remains comparatively low in a market dominated by streaming and live music, with physical sales now accounting for only 7% of the market. Live music presents a significant area for growth, with live concerts generating USD 747 million in 2017, an increase of 13% compared with the previous year.

## 6. Going forward

While the road to success is not an easy one, the Chinese market is more accessible and lucrative than ever before, and that is a trend that looks set to continue in the long term.

Many innovative and high-quality goods and services offered by EU SMEs fit in well with where demand in China is heading, and at the same time offer solutions to the economic, social, and industrial challenges that China is facing. Such goods and services face more domestic competition in China now than they would have in years past, yet as long as companies take the time to research the opportunities, understand the steps necessary for exporting and investing and carefully develop a market entry strategy that suits China's demands and their capabilities, success is possible.

China is becoming an increasingly important partner for Europe. EU SMEs, for their part, cannot afford to stand aside and watch these changes happen. They, too, must consider how they will handle the challenges and take advantage of China's economic miracle.

Suggested next steps include:

- Read all three reports in this EU SME series, to better understand market entry in China.
- Research where the greatest demand for a particular good or and service is in China through by reviewing trade statistics and trends, using the sectoral and horizontal materials on the EU SME Centre website, reading other supporting materials from associations, embassies, investment and export promotion offices, and engaging professional service providers. Remember that like Europe, China has many markets.
- Check for service providers that can support your market entry and operations in China on the EU SME Centre's database.
- Visit China to meet with support organisations such as the EU SME Centre and chambers of commerce, and also visit trade shows and organise meetings with possible local business partners.
- Consider protection of any intellectual property rights before operating in China.
- Investigate which standards and regulations govern the relevant product or service to be supplied in China.
- Take the time to understand the political, regulatory and cultural environment in China. Visit often, learn a little bit of Chinese, and understand traditional Chinese concepts of "face" and "relationships". Be vigilant and question anything that seems out of place: many companies, out of naivety, will make initial payments, commitments, visits, and investments in the hope that it will lead to further business with an individual or company. It is also useful to take the time to develop a relationship with a counterpart.
- Carry out all required due diligence: Before signing any agreement with a potential partner or customer, make sure to carry out sound due diligence by ensuring that any administrative, legal, financial and operational records are intact. As well as this, make sure that contractual arrangements are in place if things go wrong. This can be done by using the services of a Chinese lawyer.

**About the Centre**

The EU SME Centre helps EU SMEs prepare to do business in China, by providing them with a range of information, advice, training and support services. Established in October 2010 and funded by the European Union, the Centre has entered its second phase which will run until April 2020.

The Centre is implemented by a consortium of six partners – the China-Britain Business Council, the Benelux Chamber of Commerce, the China-Italy Chamber of Commerce, the French Chamber of Commerce in China, the Eurochambres, and the European Union Chamber of Commerce in China. All services are available on the Centre's website after registration, please visit: www.eusmecentre.org.cn.

**About CBBC**

This report is compiled in partnership with the China-Britain Business Council ("CBBC") and is an introduction to Chinese economics. It aims to help EU SMEs gain an understanding of the different BRI programmes and how EU SMEs can take advantage of these programmes in a cost-efficient way.

CBBC is the leading organisation helping UK companies grow and develop their business in China. CBBC delivers a range of practical services, including: advice and consultancy, market research, event management, an overseas market introduction service, trade missions and exhibitions, and setting up rep offices. For more information about what CBBC can do to help your business develop in China, please visit: www.cbbc.org.

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