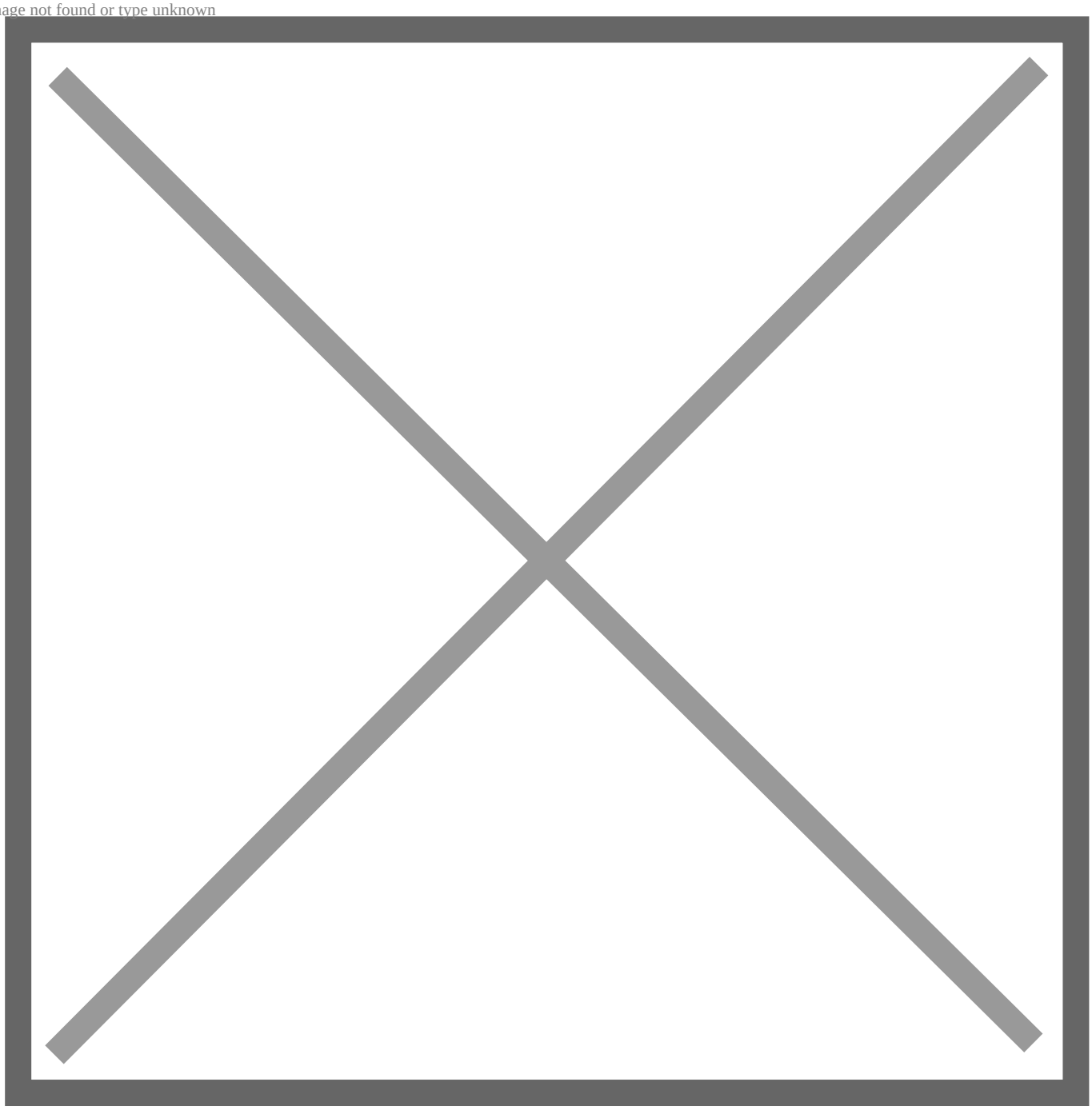
China's New Normal and Opportunities for European Small Businesses

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This article was written by EU SME Centre Director Chris Cheung for the Panview Column of CNTV.

For European Union SMEs (small medium-sized enterprises) that have already set up business in China, they are confronting a mixed picture. FDI (foreign direct investment) flows from the EU to China have increased by 17.8 percent from 2010 to 2013, reaching 17.1 billion Euro in 2013 and European companies remain confident with long-term growth prospects on China. However, at the same time they are feeling their profit margins being squeezed.

Human resource costs have increased by around 14 per cent from 2000 to 2013 and competition is increasing from both foreign and domestic Chinese companies; there is the increasing sense that as they look inwards, these players will be approaching the same segments. In the short term all the companies think that they will be affected by the Chinese economic downturn, but the companies making industrial goods and services more so than the ones on the consumer side.

European companies are therefore looking to other countries, particularly in South East Asia, but primarily for market seeking purposes; they are, in the main, not looking to relocate.

If we look at exports, European small businesses are excited by the prospects of Chinese domestic consumption making a larger part of the economy. In the last five years, exports to China from the EU have grown by 9.8 per cent to 160 billion Euro while exports from China to the EU have only grown by 1.6%. China's new normal recognises that domestic consumption must make up a larger part of the economy's growth. And Chinese consumers are literally hungry for goods from the EU.

At the EU SME Centre, the three areas where we have seen the highest demand for our services is in food and beverages, cosmetics and medical devices.

However, if we look at the broader picture machinery and electronics equipment will continue to make up the lion's share of the exports from the EU to China and as the country upgrades its industrial processes there is the potential for the value of these exports to rise.

The upgrading and innovating of industrial processes is an area where European small businesses can play a key part. The EU SME Centre is currently researching opportunities in industrial robotics, agricultural equipment and green technology.

To give you an idea of the size of the opportunity: in Germany there are around 232 industrial robots per 10,000 workers, in China there is only 14 robots per 10,000.

China is also in the process of setting up manufacturing innovation centres (15 by 2020 and 40 by 2025) in order to attract innovative technologies from abroad.

However, up to now although the opportunities are huge, technology transfer to China from the EU is still at the beginning stage. One of the key ongoing concerns for many small technology businesses is protection of their IPR.

Finally, there is one overarching trend that is also highlighted in the thirteenth five year plan. And that is, China is coming to Europe.

Chinese direct investment flows to the EU have increased by 135.5% to 4.8 billion Euros over the last four years and the number of tourists visiting the EU has now reached 7.4 million.

Even if European SMEs are not contemplating doing business in China there are already Chinese businesses and consumers interacting with their products and services.

This means that to a great extent, they are already in China. European brands are already listed on China's e-commerce platforms or being discussed on their social media.

This, I hope, will increasingly be the New Normal.

More Discussion on the Topic

Check out Centre's interview with the programme Global Business of China Central Television during this year's Two Sessions – the National People's Congress (NPC) and Chinese People's Political Consultative Conference (CPPCC).

About the EU SME Centre

The EU SME Centre in Beijing provides a comprehensive range of hands-on support services to European small and medium-sized enterprises (SMEs), getting them ready to do business in China. We provide support in four areas – business development, law, standards and conformity and human resources.

Collaborating with external experts worldwide, the Centre converts valuable knowledge and experience into practical business tools and services easily accessible online. From first-line advice to in-depth technical solutions, we offer services through Knowledge Centre, Advice Centre, Training Centre, SME Advocacy Platform and Hot-Desks.

The Centre is funded by the European Union and 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.