Reasons to be Cheerful. Why the slowdown in the Chinese economy is not all bad news.

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> **"Despite the slowdown, China is one of the most attractive places for business expansion."**

China's economy may be slowing down, but it is still recording GDP growth figures that are the envy of many developed economies. Meanwhile, the Chinese business environment is slowing seeing improvements in regulation and has a technology sector that's getting ever more innovative. As ***Frederic Derbaudrenghien*** *of the* ***EU SME Centre*** *explains, there are still many opportunities for any small and medium enterprises that are prepared to embrace the challenges of the 'New Normal'.*

Over the past five years, the double-digit growth rates of China's GDP have been replaced the 'new normal' of around 7 per cent. And while many economists will congratulate China for retaining control over this transition to a more sustainable growth, the worry now is how far this deceleration will reach. Even at rates of just over 6 per cent, China remains the growth engine of the world. The value of the current increases in its GDP is still equal to the double-digit period, when the economy was smaller. But what will happen if China's GDP growth drops below 6.2 per cent (often mentioned as the 'bottom line'), to 5 per cent or even 4 per cent?

Let there be no doubt that China's current GDP is 'not bad'. We frequently hear how focus on GDP as a measure for the health of an economy is too abstract. Add to this the fact that there are important differences between the mega-cities in China—sectors, uncertainties about trade wars, and so on—and our European companies are left with more questions than answers about how to cope with the current situation. And that applies not only to companies based in China but also anywhere else in the world, because the major economies, and their GDPs, are interdependent.

Enterprises should look at expanding in China today

So, let's agree that the current status of the slowdown is not that troublesome; China's GDP growth is still three times that of many developed economies. We are even confident that, in 95 per cent of cases, it's even a better proposal for European companies to expand business in China now than five or ten years ago. Below I present some additional arguments to enforce that statement:

1. European companies have a competitive edge in dealing with a complex and slower economy

The years that foreign companies found doing business easy are indeed over, as the competitivity of Chinese companies now reaches almost every level and all sectors. However, European companies can now benefit from their experience in competing in a tighter and more complex market, in particular those companies who stayed away from the previous 'Wild West' business environment in China.

2. Laws and regulations have improved to become an advantage

The European Chamber in China has long called for a legal environment that is stronger and treats foreign enterprises equally. Though there's still room for improvement, we believe that if an enterprise is well prepared and guided, it is at least as well protected by (enforceable) law in China as in other countries. Let that more stringent regulatory environment now become another competitive edge for European companies with experience in navigating this.

3. Today's China offers advantages in technology

China's determination to lead on innovation and technology is unstoppable. And while understandably this can be a threat to some, it certainly offers unique opportunities to others. Certain sectors are still in need of enabling technologies from outside of China. We suggest using this advantage to build a solid position for the future. In other sectors, especially new technologies, China is already ahead or even the world leader, which means that now is a good moment to build strong partnerships.

4. SMEs, especially in the consumer market, have easier access and more chance of success

2019 will be the year that marks China surpassing the United States (US) as the world's largest consumer market. There's also increasing demand for quality products (from outside of China). If we also consider our arguments in point 2 regarding IPR protection, one could state that staying away from the Chinese market is absurd. Access has improved thanks to reliable (international) service providers offering help in areas such as market entry, efficient logistics, localised marketing. Think also of the booming cross border e-commerce.

Worth noting is that geographical targeting can be a useful part of one's strategy. Some of China middle-tiers cities show over 10 per cent year-on-year (y-o-y) GDP growth, which brings with it drastic improvements in the dispensable income of their millions of residents.

Embracing the challenges

We all know that establishing a solid footing in China, be it in manufacturing or selling, can be an expensive adventure. In the past, this meant it was within reach of multinational corporations (MNCs) alone. However, we are convinced that these days a well-planned long-term entry strategy offers the best results, by balancing investment requirements as well as guaranteeing positive results.

So even if a more drastic slowdown lies ahead, we strongly advise companies to establish a presence in China. Textbook business strategies teach us that the best things to do during a deceleration or even recession is to take more time to plan your strategy, pay the most attention to your cash flow, get lean, and review your sales pipeline (It might be worth reconnecting with any of those old Chinese leads still around). Marketing expenditures traditionally also tend to increase when economic times are worsening.

Keep in mind also that competition in China will only increase over time. Even with an unlevel playing field, European companies should face up to the challenge. The imbalances can only be evened out at the political level, but businesses cannot sit still in the meantime, or they may lose more now and end up weaker in the future.

A tough battle lies ahead between two economic models, state-led versus (free) market, where the tools at hands for the latter are much fewer and decision-making is much slower.

About the author:

Frederic Derbaudrenghien is serving a short-term tenure as an expert at the EU SME Centre. He is also CEO of the consultancy firm EU Sino and the trading advisory KNG Asia. He also spent four years as vice-chair of the Benelux Chamber of Commerce in China, Beijing Chapter.

EU Sino Beijing is a consultancy offering a full range of professional services built around China expertise and trustworthy partners. Its Suzhou office cooperates closely with the local government of Xiangcheng and focusses on location selection and landing services. KNG Asia started as a trading company in 2008, and now specialises in market entry and distribution services.