Dealing with Change - Business Opportunities and Challenges for European SMEs in China's Shifting Landscape

TAGS Trends

ARTICLES | 15 November 2016

The Chinese market has seen many changes in 2016, opening up new opportunities for European small businesses while demanding even more advanced local knowledge and experience. In this article, China experts at the EU SME Centre review the key changes that affected European SMEs in 2016, and share advice on how to better prepare for the future.

Meet the experts

Chris Cheung, Director

Image not found or type unknown

What are the key market trends that you think European small businesses should be aware of?

Despite the many changes taking place in the global socio-economic environment European companies remained, confident of the long-term prospects in China. The GDP growth rate is slowing, of course, from the double-digits of the past to the recent 6.7 per cent, and in the near future this looks set to decrease further to around five per cent. The change emphasises China's aspirations to restructure its economy – moving from investment and export orientated growth, to an environment where domestic consumption, increased productivity and innovation are the key drivers. This transition will bring with it the potential for greater opportunities for European businesses contemplating the market. The three top trends for 2017 that I would highlight are:

Moving up the value chain

China is striving to move its industrial processes up the value chain; looking to automatise and informatise its supply chains so that its goods can be produced more efficiently. Hand-in-hand with this move will be China's hunger for technology required to make the change – from industry robotics, transportation equipment, to agri-equipment and their related services, there will be opportunities for EU SMEs.

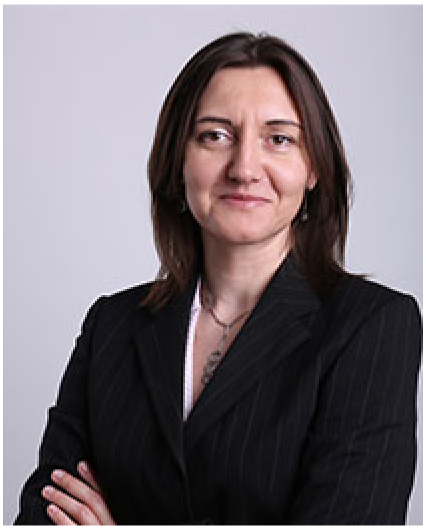
Growing domestic consumption

China's 'new normal' recognises that domestic consumption will play a larger role in the economy. Meanwhile, Chinese consumers, driven by the fast growing middle class, crave more goods from the EU. Small EU businesses should be particularly aware of the rapid growth of e-commerce platforms in China which has diversified the entry modes to the country, providing them with more channels to sell to the market.

Chinese outbound investment

The trend of increasing Chinese outbound investments is another key change. Spurred on by policies such as 'One Belt One Road', Chinese companies will increasingly be encouraged to venture outside the mainland to export and invest abroad. European businesses should grab the opportunities to service these new Chinese investors and, more importantly, to build the relationships with them on which long-term, successful business can be sustained.

Ludmila Hyklova, Legal Advisor



What was the one key legal update for European SMEs in 2016 in terms of doing business with or in China?

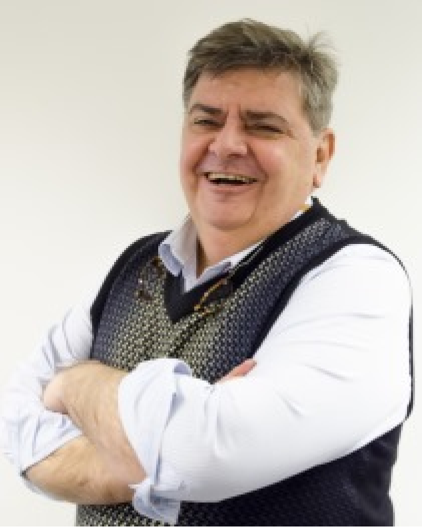
China's foreign investment administration reform. Starting from October 2016, foreign companies setting up a company in China in the industry sector—provided its activities are not in the category of restricted or prohibited according to the Foreign Investment Guidance Catalogue or other regulations—no longer need to apply for prior approval from Ministry of Commerce (MOFCOM). The reform applies to both traditional wholly foreign-owned enterprises (WFOEs), Sino-foreign equity joint ventures (EJVs) and cooperative joint ventures (CJVs), and those invested in by foreign-funded investment enterprises in China. The filing process also applies to changes within current foreign-invested enterprises (FIEs).

This new regulation is another step in the foreign investment reform that started in several free trade zones some time ago, which aims to simplify procedures by replacing former approval requirements with filing. However, the pool of industries and activities in the category still requiring MOFCOM prior-approval is not small. For more information, read the article written by Helen Ju, Centre's Senior Legal Consultant.

What would be your top advice for FIEs in China this year?

Understand how this reform affects your business when it comes to set up and company reporting. It is crucial that companies keep themselves aware of these significant steps. The Chinese Government continues to take measures aimed at attracting foreign investors while still maintaining high market access standards in certain sectors.

Rafael Jimenez, Business Development Advisor



What was the most important update for European SMEs in 2016 in terms of doing business with or in China?

Cross border e-commerce (CBEC). In April, the Chinese Government made a number of significant amendments to the regulation of CBEC in the country, including a new tax policy and a list of products authorised to be imported via CBEC. Both amendments can affect all participants in the supply chain of imported products through CBEC into China, from suppliers and traders in the EU, to online platforms registered to trade with imported products via CBEC.

What do you think the biggest market challenge is for European SMEs?

The major challenge for SMEs now is to understand that success in China requires much more granularity. From now on SMEs need to manage a scale or level of detail much deeper in identifying the opportunities.

What would be your top advice this year for European SMEs interested in the Chinese market?

They need to segment their targeted market more carefully. Product category no longer defines an opportunity. It has to be mapped out beforehand in terms of cities, sales channels, target consumers, pricing, distribution, types of retailer, types of partner, and sub segments for each of these criteria. There are a growing number of opportunities—that’s the bright side for SMEs—and we remain positive.

Martina Gerst, Market Access Advisor

What changed the most for European SMEs in 2016 in terms of market access?

The implementation of China's new Food Safety Law (NFSL). China has been implementing this new law for over a year, which is recognised as the country's strictest food safety law by far. It is important for European companies in the food and beverage (F&B) sector to keep a close eye on its implementation and understand how to comply with it to avoid unnecessary problems.

What would be your top advice this year for European SMEs in the F&B sector?

Compliance is essential. You must immediately face all legal aspects required in China, not grope in the dark with the hope that everything will be alright. To ensure compliance you may want to establish a special China food safety team, ideally consisting of members from the legal, food technology, product management and quality assurance departments before exporting.

Establishing a specific internal Chinese food safety working procedure as a reference for employees involved in various stages of handling a food safety issue is also useful, as is keeping organised written records for all activities. Investigation dossiers should include written records such as correspondence, meeting minutes, testing reports, findings of investigations, conclusions reached by the investigation team and corrective measures, if any, that have been taken.

Close attention should also be paid to legal updates. Different authorities, or even individual officers, often have different interpretations of the regulations. Being accurately informed of legal and regulatory updates in China is crucial for your business success here.

Finally, **they should monitor different enforcement levels and local regulations across the country**. While the central government has published, or is drafting, regulations to enforce the NFSL, local governments are also actively developing new implementing rules. You can expect tighter control and inspection in some cities (e.g. Beijing) while others could still delay the application of the new rules or enforce them in a more relaxed way.

If you have any questions, get in touch with our experts here.