Is China on your radar?
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1. **Is China on your radar?**

Of the 24 million EU SMEs that exist only around 250,000 are currently exporting to China and far fewer are investing. This goes to show that for many EU SMEs, China is just not on their radar. There are many reasons for this, ranging from the distance to market to the many challenges (regulatory and cultural) of doing business in China. However, we believe that there is one overriding reason - the lack of reliable information available on the market which makes it difficult for EU SMEs approaching the market to assess both the opportunities and challenges of doing business in China. This report seeks to rectify this situation by providing EU SMEs with clear information and advice by way of concise thematic overviews and checklists which will enable them to grasp more quickly the potential in the Chinese market. The report also contains a number of links which will allow EU SMEs to explore more deeply particular areas of interest.

**Introduction to the EU SME Centre diagnostic kit**

To help European SMEs entering the Chinese market to make an informed decision, the EU SME Centre has published a series of diagnostic business tools entitled *Are you ready for China?*. Four reports introducing different aspects of market entry are accompanied by an online quiz tailored to help entrepreneurs check their level of readiness regarding the market and pointing them towards further resources to improve their understanding of less well-known business areas. The series is designed to work as a step-by-step introduction to the Chinese business environment, allowing SMEs to gauge their preparedness in doing business in China.

This report, *Is China on Your Radar?*, is the first in the series of four aimed at helping EU SMEs understand and ideally enter the China market. It highlights China’s economic development, the opportunities and challenges it has created and relevant government policies. It also offers a variety of case study examples, practical recommendations and references for further information.

**Online quiz - Gauging your readiness**: An electronic learning module to help you assess your knowledge of the Chinese business environment.

**Report 1 - Is China on your radar?**: A general introduction to China’s macroeconomic framework and what it means for European SMEs, including specific opportunities by industry sector.

**Report 2 - Ways to enter the Chinese market**: An overview of different modes of entering the Chinese market, from exporting to investing, from joint ventures to wholly foreign-owned enterprises.

**Report 3 - Exporting goods, services and technology to the Chinese market**: A closer look at import regulations and processes, including practical tips and best practices.

**Report 4 - Knowing your partners in China**: A concise guide to due diligence in China. From verifying a company’s administrative and legal standing to checklists for visits to the partner’s premises, it covers all areas basic due diligence is concerned with.

To find out more, please visit [www.eusmecentre.org.cn/content/diagnostic-kit](http://www.eusmecentre.org.cn/content/diagnostic-kit)
2. China backstory

1949
- Establishment of the People’s Republic of China

1966-76
- Ten years of upheaval during the Cultural Revolution; Chairman Mao passes away in 1976

1978
- Start of the reform and opening up period under Deng Xiaoping followed by creation of Special Economic Zones

1986-90
- China’s “Open-door policy” opens the country to foreign investment and develops the market economy

1986-89
- Calls for political reform and concerns over rising inflation and corruption

1990
- In the past decade, China’s annual economic growth averages at 10.1%; Shanghai Stock Exchange re-opens

1992
- Deng Xiaoping’s Southern Tour reinvigorates economic reforms

1997
- Deng dies; the return of Hong Kong in 1997 and Macau in 1999; China doesn’t fall victim to the Asian Financial Crisis

1998
- Premier Zhu Rongji reforms SOEs leading to millions of unemployed and massive restructuring and bankruptcies

2000
- In the past decade, China’s annual economic growth averages at 10.7%

2001
- China joins the World Trade Organisation; average import tariffs fall to 9.8%

2003
- China and Hong Kong get hit by the SARs virus outbreak; China starts operation of the massive Three Gorges Dam Plant

2004
- World Bank: 600 million Chinese lifted out of poverty since 1981

2008
- China hosts the Summer Olympics to much acclaim; China announces RMB 4 trillion stimulus to put off economic crisis

2009
- China celebrates 60 years since the Communist Party came to power

2010
- In the past decade, China’s annual economic growth averages at 10.5%

2011
- China overtakes Japan to become the world’s second largest economy

2012
- The Party selects Xi Jinping and Li Keqiang as China’s next leaders

2030
- World Bank predicts China becomes the largest economy in the world by 2030
3. Top reasons why EU SMEs must consider China

3.1. China is the world’s fastest growing and second largest economy

Since 1979 the People’s Republic of China has been experiencing a fast pace economic development, becoming today the second largest economy in the world after the United States of America. With a compound annual growth rate (CAGR) at around 10% - even higher in Central and Western China -, China’s gross domestic product (GDP) growth rate reached its climax in 2007 (14.2%), decelerating only in the last three years primarily as a result of the global financial and economic crisis. Such a sound and outstanding performance has produced a steady increase in average household income, endowing Chinese families with more disposable resources for their expenditures and foreign enterprises with a new set of business opportunities.

Recommended reading:

- *China Economic Outlook*, International Monetary Fund (IMF)
  [www.imf.org/external/country/CHN/rr/2012/020612.pdf](http://www.imf.org/external/country/CHN/rr/2012/020612.pdf)


- *Investment in the People’s Republic of China*, KPMG


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1 Both in terms of nominal gross domestic product (GDP) and purchasing power parity (PPP)
Europe and China have developed strong trade relations. Today, the PRC represents EU’s second largest trade partner after the US, with Europe’s exports to China having doubled in the period 2007-2011, growing approximately 20% per year. Moreover, with China’s share of European exports growing by nearly 50% in the last five years (China’s exports to the EU increased by 31% between 2009 and 2010), the two markets are now playing an increasingly important role in each other’s supply chains and intra-industry trade. According to the European Commission’s report *Internationalisation of European SMEs*, while three quarters of all exporting SMEs are oriented towards markets in other EU Member States, China is the most common trading partner amongst the BRICS countries (Brazil, Russia, India, China and South Africa).

In terms of products, EU’s top exports include machinery, transport equipment, automotive products and chemicals. Consumer goods, especially luxury goods, are also in strong demand.

### Top 6 EU exports to China, 2011

- **Machinery and transport equipment**: 60.2%
- **Chemicals and manufactured goods classified chiefly by material**: 10.4%
- **Crude materials, inedible, except fuels**: 9.4%
- **Miscellaneous manufactured articles**: 7.3%
- **Food and live animals**: 7.0%
- **Miscellaneous manufactured articles**: 1.5%

Source: Eurostat, 2011
3.3. China’s second and third tier cities offer vast opportunities

Whereas first tier cities like Beijing, Shanghai or Shenzhen - which account for only about 10% of the population - have been the main stage of the country’s economic development so far, smaller and less well-known cities in Central and Western China are gaining momentum, boasting much higher growth rates than the megacities in the east. Those municipalities, classified as second\(^2\) and third\(^3\) tier cities, are now attracting greater amounts of public and private investments on account of the large labour pool and lower wages they can provide compared to the more developed coastal regions.

Currently, more than 300 million people already live in second and third tier cities, and the number keeps growing due to massive migration from the countryside. According to a 2010 report by Credit Suisse\(^4\), three areas are expected to be the biggest beneficiaries of the rise of the hinterland, mainly due to their proximity to large and wealthy cities: Sichuan province (close to Chongqing); Anhui, Jiangxi and Hunan (near Guangdong); and Hebei and Henan (surrounding Beijing).

Recommended reading:

- **Opportunities in China’s Regional Cities**, China-Britain Business Council (CBBC)
  

- **Japanese Companies’ Strategies in Response to the Rise of Inland China’s Economy**, Nomura Research Institute
  

3.4. A fast growing consumer market

China has been growing rapidly during the last three decades, and so have the incomes and living standards of average Chinese people. Being the first to benefit from the country’s economic boom, the wealthier urban dwellers have naturally been the targeted consumer group for foreign enterprises so far. However, besides the most affluent urban customers, a large middle class has emerged in the past 15 to 20 years now reaching about 25% of the total population. Estimated to comprise 300 million people (600 million by 2020), this emerging middle class enjoys a fast growing purchasing power resulting from higher levels of income. According to government statistics in 2010 the disposable income of a typical family of three in urban China rose to RMB 56,000 (€ 6,800), a tenfold increase since 1980.

China, whose government has recently pronounced its commitment to boost domestic consumption and reduce dependence on exports, is predicted to become the largest consumer market in the world by 2020 when, according to a recent report by Credit Suisse, it will reach the value of EUR 12 trillion.

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\(^2\) Provincial capitals and special administrative cities are commonly classified as second tier cities

\(^3\) Prefecture and county level cities are classified as belonging to the third tier

\(^4\) *China Market Strategy - China's 12th Five-Year Plan: Rewriting the social contract?*, Credit Suisse
3.5. European products enjoy a strong brand image in China

Chinese customers' taste and preference towards foreign goods has increased over time due to frequent product safety scandals that have occurred in China during the last decades, especially in the food and beverage sector. The recent “melamine adulterated milk” incident that struck the domestic diary industry in 2008, for example, earned wide media coverage inside the country and hampered consumer confidence in the national food industry, pushing them towards imported goods, perceived as products of higher quality\(^5\).

As a result Chinese customers nowadays tend to buy foreign products when their personal safety is concerned. The trend involves not only the food sector, but also other product groups, such as toys, children’s wear and, to a somewhat lesser degree, furniture, electrical appliances and cars.

This status quo is particularly favourable for those EU SMEs that have invested to improve the quality of their own goods and that are now looking at China as a possible destination for their products.

Recommended reading:

- **Facts and Figures on EU-China Trade**, European Commission (EC)

3.6. China’s economic restructuring

The Chinese economy is undergoing a process of reform aimed at rebalancing its internal structure. The downturn of the world economy subsequent to the global financial crisis has urged the Chinese authorities to abandon the EOI development model (export-oriented industrialisation), embracing a consumption-led growth paradigm instead. Relying less on low value-added manufacture and exports and more on high value-added production and services as well as a robust domestic demand have thus become the objectives pursued by the PRC government. In order to achieve its goals, the country’s authorities announced a series of measures - most of which are included in the 12\(^{th}\) Five-Year Plan (FYP, 2011-2015) - focusing increasingly on innovative and qualitative growth. In particular, Chinese planners will put considerable efforts in developing seven “Strategic Emerging Industries” (SEIs) - biotechnology, new energy, high-end equipment manufacturing, energy conservation and environmental protection, clean-energy vehicles, new materials, and next-generation IT - which are predicted to become the backbone of the country’s economy in the next decades. With public investments amounting at RMB 4 trillion, plus a set of related incentives and policies\(^6\), those sectors represent a unique occasion for EU SMEs to capitalise on their expertise in the Chinese market.

\(^{5}\) In a recent survey, more than 60% of respondents said their confidence in domestic foods has declined during the past year with 28% saying they will buy more imported food in the future. China Daily (22.08.2012)

\(^{6}\) Preferential tax, fiscal and procurement policies
Are you ready for China?

3.7. Challenges bring opportunities

China is currently facing a number of critical issues and structural challenges. Amongst them, the degradation of its natural environment, widening disparities across social and geographical areas of the country, the ageing of the population, the rebalancing of its economy and the lack of a developed welfare system representing the most arduous ones.

To fully cope with all of the upcoming tasks, and to ensure the country’s sustainable development, China’s national planners will have to work hard and focus on policies towards the establishment of higher value-added manufacturing, the growth of the domestic market, the expansion of the tertiary sector, the development of the inner regions, the increase of renewable resources’ share of the total energy production, the improvement of the social welfare system and the enhancement of the environmental protection practices.

Naturally, due to the dimension of the country and its integration in the global economy, the extent of China’s structural adjustments will produce effects on other countries, providing their companies with new opportunities in each of the sectors undergoing reform (i.e. energy, healthcare, services, high value added production, retail and logistics, environmental protection).

Recommended reading:


- **12th Five Year Plan Overview**, KPMG China

3.8. EU SMEs in China are succeeding

Data disclosed by the European Chamber of Commerce in China in its 2012 Business Confidence Survey show how “European companies overwhelmingly perceive China as a driver of their global business” and put the market in an increasingly important position in their overall global strategy. Companies whose revenue generated in China has increased during the last three years are larger in number than they were before (less than a third in 2009, 45% in 2012). Today, 26% of the firms surveyed by the European Chamber of Commerce declared that more than a quarter of their total revenue was generated in China in 2012 compared to only 17% of respondent companies in 2009. EU companies, in addition, have all enjoyed positive overall profitability from China operations. On these bases, the 2012 Business Confidence Survey concludes, 55% of the surveyed SMEs are planning on making new investments in China in the next two years, with 71% considering China as one of their top three investment destinations. Read more on the EUCCC’s survey in the appendix on page 35 or follow the
3.9. Improved logistics

Having built its economic success on international trade, China is in need of a functional and well developed infrastructure network. In recent years, the PRC government has put considerable efforts in developing its domestic transport infrastructure, launching a massive investment plan in the sector. In 2011, for example, RMB 2,200 billion were invested in fixed assets in the four major modes of transportation (road, railway, water and air), with highway alone accounting for more than half of the total resources allocated.7

Such an impressive infrastructural project has produced immense benefits to the domestic logistics industry. Today, thanks to the National Development and Reform Commission's (NRDC) commitment to develop a complete and modern cold chain logistics system, for example, products particularly sensible to transportation conditions, such as food and beverages, can be safely stored and delivered to the different areas of the country. This is true not only for the well-known first tier cities, but also to the fast growing second and third tier municipalities.8

Further improvements are also expected from the full implementation of the 12th FYP, which sets ambitious goals for the logistics sector; including: the improvement of the technological level in transportation systems and equipment, the improvement of transportation quality, the establishment of a competitive market environment for the development of logistics services and new investments in fixed assets. These future initiatives, and the concrete actions already taken by the Chinese government, will endow the country with a vast and well developed logistics chain, enhancing the attractiveness of its domestic market in the eyes of foreign companies.

Recommended reading:
- *Business Confidence Survey 2012*, European Chamber of Commerce in China (EUCCC)
  www.europeanchamber.com.cn/upload/media/media/14/European_Chamber_Business_Confidence_Survey_2012_EN[559].pdf
- *Logistics in China: An All-inclusive Market?*, PricewaterhouseCoopers (PwC)
- *Logistics in China*, KPMG

3.10. Ample support provided by different entities

European SMEs willing to enter, export to or invest into the Chinese market can enjoy the support and the expertise offered by a number of agencies or institutions, such as chambers of commerce, embassies and special agencies for internationalisation. Amongst them, the EU SME Centre is fully focused on providing free, first-line advice to EU SMEs. For a list of useful links, please refer to Annex 9.4. on page 39.

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7 Roads constitute the backbone of the country's transportation framework, with 28 billion tonnes of cargo moved in 2011, up 15.2% YOY. As for other networks, 5.6 billion tonnes were moved by air freight in China last year (-1% YOY), 4.3 billion and 3.9 billion tonnes respectively by waterway and railway for the same period, recording a 13.5% and 7.9% increase from the previous year.

8 The NRDC set the goal of establishing a network of up-to-date cross-regional cold chain logistics distribution centres by 2015.
China is changing fast. For more than 30 years, the eastern provinces have been developing rapidly following the government’s opening-up policy which facilitated foreign investments and promoted the country’s integration into world trade. Having thus turned themselves into the world’s manufacturing hubs, those areas are now at the edge of a structural transformation, moving up the value chain and boosting the development of the service sector. While the most advanced and densely populated provinces of the PRC have embarked on this path of transition, the inlands and the western part of the country are now receiving increasing attention from the national authorities and attracting growing amounts of investments, both domestic and foreign direct investment (FDI). As a result, these regions, as well as the rural areas throughout the country, are catching up fast, with growth rates quickly overtaking those of the traditional business centres.

<table>
<thead>
<tr>
<th>China’s top five fastest growing provinces</th>
<th>China’s top five fastest growing cities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rank</td>
<td>Province</td>
</tr>
<tr>
<td>------</td>
<td>----------</td>
</tr>
<tr>
<td>1</td>
<td>Ningxia</td>
</tr>
<tr>
<td>2</td>
<td>Inner Mongolia</td>
</tr>
<tr>
<td>3</td>
<td>Shaanxi</td>
</tr>
<tr>
<td>4</td>
<td>Hubei</td>
</tr>
<tr>
<td>5</td>
<td>Qinghai</td>
</tr>
</tbody>
</table>

As shown in the charts above, amongst the top five fastest growing regions, three belong to Northwest China, one to the North and one to the South Central area of the PRC, confirming that the inner provinces of the country are catching up quickly and offer opportunities to foreign businesses.

Similarly, second and third tier cities located in Central and Western China are becoming increasingly attractive to investments due to improving infrastructure, lower wages and higher growth rates. Whereas major first tier cities and provinces have traditionally attracted most new-to-China entrants, those new locations are predicted to become the future stage of China's development, with some of them having already gained a reputation for their appeal to certain industries (see Annex 9.2. on page 37).

In a 2011 study released by UK Trade & Investment and the China-Britain Business Council examining high potential growth markets by business activity, the following areas have been deemed the most attractive with regards to sales, production, exporting and research & development:
<table>
<thead>
<tr>
<th>Business activity</th>
<th>City profile</th>
<th>Cities highlighted</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales (local sales)</strong></td>
<td>Higher than average disposable income</td>
<td>Chengdu, Dalian, Dongguan, Foshan, Hangzhou, Qingdao, Suzhou, Tianjin</td>
</tr>
<tr>
<td></td>
<td>Strong retail sales</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Good retail infrastructure</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lower costs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Access to seaports</td>
<td></td>
</tr>
<tr>
<td><strong>Overall domestic (local production for domestic markets)</strong></td>
<td>Good logistics network</td>
<td>Changsha, Chengdu, Dongguan, Hangzhou, Nanjing, Ningbo, Shenyang, Suzhou, Tianjin, Wuhan, Xiamen, Zhengzhou</td>
</tr>
<tr>
<td></td>
<td>Low labour costs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Comparatively low energy costs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Preferential government policies</td>
<td></td>
</tr>
<tr>
<td><strong>Overall export (local production for export markets)</strong></td>
<td>Easy access to seaports</td>
<td>Dalian, Dongguan, Foshan, Hangzhou, Ningbo, Qingdao, Quanzhou, Suzhou, Tianjin, Wuxi, Xiamen</td>
</tr>
<tr>
<td></td>
<td>Strong concentration of multinational manufacturers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Large pool of educated workers</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Good manufacturing infrastructure and facilities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reliable energy and transportation infrastructure</td>
<td></td>
</tr>
<tr>
<td><strong>Research and development (R&amp;D)</strong></td>
<td>Large pool of university educated workers</td>
<td>Changsha, Chengdu, Hangzhou, Jinan, Nanjing, Suzhou, Tianjin, Wuhan, Xi’an</td>
</tr>
<tr>
<td></td>
<td>Reputable universities and science and technology facilities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>High government spending on science and education</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Concentration of high technology development zones</td>
<td></td>
</tr>
</tbody>
</table>

Source: Sector and City Profiles for China's Regional Cities, UK Trade & Investment
4.1. Choice of location: Things to consider

With so many of China's cities on the rise, it has become more difficult for EU SMEs to decide where to sell their products and services. Below is a list of factors that EU SMEs should be considering and that should be weighted according to the needs and objectives of each company.

**Size of the market**
- Population size and growth
- Disposable income and growth
- Existing customers

Knowing which cities are on the rise and are providing the most attractive opportunities for EU SMEs is the start to this process. First tier cities are said to be saturated for many products. Second and third tier cities should also be considered.

**Ease of bureaucracy**
- Support services
- Time to set up/get licences

Going through bureaucracy and administration procedures is one of the biggest challenges that EU SMEs will face when entering the market. Some cities will be more experienced in dealing with foreign businesses than others and these cities will in general provide better public and private support services (e.g., chambers of commerce, lawyers, accountants).

**Access to logistics**
- Proximity to ports
- Availability of suitable warehousing
- International flights

China's logistics infrastructure is developing fast, but getting products around the country can still take time. Knowing which cities are the easiest to access from ports and can provide adequate warehousing will save you time and money in the long run.

**Climate**
- Suitability of temperature and humidity

Particularly for those SMEs providing temperature or humidity sensitive products, e.g., certain foodstuffs or pharmaceuticals, it will be worth looking into which cities in China are most appropriate for their products.

**Availability of resources**
- Raw materials
- Human resources

For those SMEs that are not just looking to sell in China but are also looking to produce, being close to raw materials will provide a competitive advantage.
Are you ready for China?

**Costs**
- Utilities costs
- Office / factory space rent
- HR costs

Costs are going up across China and particularly in first tier cities like Beijing, Shanghai and Shenzhen. For SMEs whose production is particularly resource-intensive it will be worth looking around to find the most cost-effective location.

**Incentives**
- Tax breaks
- Cheaper rent

Tax breaks are not as prolific as they used to be but they are still available in support of certain policy directives (e.g., to go west or north) or if technologies in question are considered to be high-tech. The local Ministry of Commerce (MOFCOM) and Ministry of Science and Technology (MOST) will make the assessment on whether businesses qualify for these incentives.

**Recommended reading:**

- *Sector and City Profiles for China’s Regional Cities*, UK Trade & Investment (UKTI)
  [www.uktradeinvest.gov.uk/ukti/chinacities](http://www.uktradeinvest.gov.uk/ukti/chinacities)
- *Opportunities for UK Business in China’s Regional Cities*, China-Britain Business Council (CBBC)
- *Location Studies*, KPMG
China has ambitious goals to restructure its economy in the period 2011-2015. The key catalyst for this change is China’s 12th FYP – the leading macroeconomic policy blueprint for China’s development. This important document is not only a strong indicator of the direction of the economy, but also an important signpost for opportunities for EU SMEs. The key themes that emerge from the 12th FYP 2011-2015 are:

1. Economic restructuring
2. Promotion of social equality
3. Protection of the environment

**Recommendation:** EU companies that can match government policy initiatives are likely to be more successful in getting investment approvals, win public procurement bids, benefit from supporting policies such as tax breaks, be able to register their products on preferential catalogues and find buyers for their products.
5.1. Opportunity knocks: The Strategic Emerging Industries

Seven industries, known as Strategic Emerging Industries (SEI), have been highlighted in the 12th FYP as important areas for the future development and prosperity of China. Plans concerning these industries aim at moving beyond simple low-end manufacturing towards developing global brands and services that mark China as an innovative production leader in the 21st century.

The following areas within these industries represent opportunities for EU SMEs:

<table>
<thead>
<tr>
<th>Clean energy technology</th>
<th>High-efficiency and energy saving technologies; advanced environmental protection; recycling; waste treatment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Next generation IT</td>
<td>Next-generation mobile communications; next-generation core internet equipment; smart devices; the internet of things; three network convergence; cloud computing; new displays; integrated circuits; high-end software; high-end servers; digitisation of culture and creative industries</td>
</tr>
<tr>
<td>Biotechnology</td>
<td>Bio-pharmaceuticals; innovative pharmaceuticals; biomedicine; bio-agriculture; bio-manufacturing; marine biology</td>
</tr>
<tr>
<td>High-end equipment manufacturing</td>
<td>Aerospace and space industries; rail and other transportation; marine engineering; smart assembly</td>
</tr>
<tr>
<td>Alternative energy</td>
<td>Nuclear power; solar power; wind power; biomass power; smart grids</td>
</tr>
<tr>
<td>New materials</td>
<td>New functional materials; advanced structural materials; high performance composites; generic base materials</td>
</tr>
<tr>
<td>Clean energy vehicles</td>
<td>Electric hybrid cars; electric cars; fuel cell cars</td>
</tr>
</tbody>
</table>

The government will invest heavily in these areas in the future as well as provide significant tax, fiscal and procurement incentives for companies looking to develop in these areas in China. While the ultimate goal is to develop strong national players, EU SMEs that have a technological advantage in areas where China is still relatively weak will find strong opportunities and willing partners.

The government is prepared to spend more than RMB 4 trillion on these industries during the 12th FYP period, with an aim to increase SEI’s contribution from today’s approximately 5% of GDP to 8% by 2015 and 15% by 2020.

5.2. Other key issues related to the 12th Five-Year Plan that will create opportunities for SMEs

Sustainable development: After many years of environmental degradation, China is increasingly focused on environmentally friendly and technologically advanced goods and services. Many European SMEs are in possession of technologies able to help China to ensure its future investments and development are sustainable.

Consumption: Another important focus of the government is to boost domestic consumption. China aims to increase the corresponding share of the GDP from 36% in 2009 to 50% by 2030. It aims to do so
by lowering taxes, creating duty-free zones, raising minimum wage by 13% per year and implementing other policies that will boost consumer confidence and access to credit. Consumer goods from the EU will very likely benefit from these policies as well. European luxury brand manufactures, for example, are doing extremely well. China’s retail sector, although competitive, is widely open.

### Social issues

The Chinese government is facing many social challenges including healthcare reform, social security funding, access to education, food safety and environmental challenges. As China continues to face increasing disparities between the rich and poor, east and west and rural and urban areas, government attention, spending and reform is expected to increase.

### Trade and currency issues

Having faced global pressure regarding its ‘under-valued currency’, China successfully brought down its current account surplus from a high of 12% in 2007 to a low of 2.1% in 2012. Although not an opportunity per se, this does affect business. China’s appreciation of its currency is a mixed blessing. It benefits European exporters to China by making their goods cheaper, but it makes goods produced in China (including those by European companies) more expensive to export out of China as well. Companies engaged in importing and exporting can be heavily affected by exchange rate volatility and will want to consider hedging against such risks.

### Demographics

Looking at opportunities created by changing demographics needs to be a part of any EU SME’s market research. With 1.34 billion people, China is the most populated country in the world. Some 200 cities with a population of more than 1 million are already located within its borders and the Chinese government continues to encourage urbanisation as a driver for growth, aiming to increase the urbanisation rate from 47.5% in 2010 to 51% by 2015. Given the EU’s own experience with urbanisation, the governments of the EU and China have agreed to work together to tackle associated challenges and opportunities, including initiatives that might be of interest to European SMEs. To find out more, please visit:

http://eeas.europa.eu/delegations/china/funding_opportunities/contracts/index_en.htm

Furthermore, as the old-age dependency ratio, i.e., the number of elderly people compared to those of working age continues to rise, there will be increased demand for healthcare services. According to the World Bank, China’s dependency ratio will hit 34.4% in rural China by 2030, up from 13.5 percent in 2008.
5.3. The 12th Five-Year Plan and top ten encouraging trends for EU SMEs

1. China is looking to import more consumer goods from overseas.
2. China has a huge appetite for innovative products across all sectors.
3. China is looking for ways to reform and improve its healthcare, education and social security systems.
4. China is focused on the protection of the environment, energy efficiency and new and renewable energies more than ever before.
5. China’s urbanisation goals will provide opportunities for urban planners and service providers.
6. China is increasingly looking for investment opportunities abroad for Chinese companies.
7. China is prepared to further reform its financial services sector.
8. China aims to increase its overall share of services in the economy.
9. China continues to promote foreign cooperation.
10. China aims to create more support to help SMEs.

Recommended reading:

- 12th Five Year Plan Overview, KPMG China

- Providing Greater Old-age Security in China, Organisation for Economic Co-operation and Development (OECD)

- A Pause in the Growth of Inequality in China, Organisation for Economic Co-operation and Development (OECD)

- Improving China’s Health Care System, Organisation for Economic Co-operation and Development (OECD)

- The 12th Five-Year Plan (English translation), China direct

- China 2030: Building a Modern, Harmonious, and Creative High-Income Society, World Bank
6. Opportunities by sector

Although competition can be fierce, most sectors of the economy do offer opportunities to innovative, price competitive companies that have the patience, commitment and a well thought-out strategy for market entry and development\(^9\).

6.1. Automobiles and autoparts

- China became the world’s largest auto market in 2009;
- 25% annual growth between 2001 and 2010;
- Expected to continue to grow by 15% annually through to 2020;
- Over 65 million households with disposable income of more than USD 4,500 per capita per year (threshold for entry into the car buying market).

The auto market is driven by a relatively low base of car ownership in China, rapidly rising incomes, improvements in road infrastructure, demand from 2nd and 3rd tier cities and a prevalent view of cars as status symbols. By 2020, the market is set to reach 40 million units, representing half of the world’s new car sales.

The fast growing auto population provides a huge market for original equipment manufacturers (OEM) and auto-parts replacement manufacturers. Automotive products represent an impressive 18% of EU exports to China.

**Specific opportunities**

- E-vehicles
- Autopart replacement products
- Specialised testing equipment
- Fuel efficiency systems
- After-treatment of auto emissions
- Electricity and fuel hybrid technologies
- New materials such as carbon fibre to make a car lighter
- Complex metal or plastic auto components
- Precision granulated equipment
- Balance shafts and vibration dampeners

**Must reads:**

- Sector report: *The automotive market in China*
  
  [www.eusmecentre.org.cn/content/automotive-market-sector-report](http://www.eusmecentre.org.cn/content/automotive-market-sector-report)

- Sector report: *The machinery sector in China*
  
  [www.eusmecentre.org.cn/content/machinery-sector-report](http://www.eusmecentre.org.cn/content/machinery-sector-report)

- Case study: *Stavus Machinery and Electrical Equipment - Exporting machinery to China*
  
  [www.eusmecentre.org.cn/content/stavus-machinery-electrical-equipment-%E2%80%93-exporting-machinery-china](http://www.eusmecentre.org.cn/content/stavus-machinery-electrical-equipment-%E2%80%93-exporting-machinery-china)

\(^9\) For more information on market entry strategies, please see *Ways to enter the China market*, part 3 of the EU SME Centre diagnostic kit.
6.2. Chemicals

- China is the world’s second largest importer of chemicals behind the US;
- In 2011, the total value of the domestic production reached almost EUR 783 billion, up 26.4% from 2010;
- The PRC’s chemical industry is expected to continue to grow by 10% through to 2016.

Although the pace of its development has slowed down recently – due to downturns in demand from the main chemicals consumer industries: automobile, shipbuilding and construction – China’s chemical industry no doubt represents one of the most interesting and fast expanding sectors of the country’s domestic economy. To overcome the current slowdown - and enhance their productivity - Chinese firms in the chemical sector are increasingly willing to form joint ventures and partnerships with foreign companies with technical expertise. In this regard, recent changes in the regulatory framework for chemicals in China – which have made them more similar to EU REACH, which regulates the chemical industry in Europe – may help EU SMEs to find a partner in the PRC. The new regulations, dubbed ‘China REACH’, have created difficulties for a large number of Chinese chemical companies which find it hard to comply with them. This may translate into new opportunities for EU SMEs who are already familiar with the regulatory framework.

Specific opportunities

- Agrochemicals (China has 7% of the world’s arable land and 22% of the world’s population)
- Bulk and specialty chemicals that are likely to require servicing
- Related R&D expertise
- Industrial gases
- Supplying and servicing multinationals
- Assisting Chinese companies to meet EU REACH standards
- Technologies that can help reduce the heavy environmental impact of this sector

Must reads:

- Guideline: Guidelines for China REACH
  [www.eusmecentre.org.cn/content/china-reach-guideline](http://www.eusmecentre.org.cn/content/china-reach-guideline)
- Guideline: Cosmetic products in China
  [www.eusmecentre.org.cn/content/cosmetic-products-china](http://www.eusmecentre.org.cn/content/cosmetic-products-china)

6.3. Construction

- All sectors of the construction industry have experienced solid yet fluctuating growth of roughly 11% per year over the last five years;
- In 2011 the total output value of construction enterprises amounted to RMB 11.77 trillion, up by 22.6% year-on-year (YOY);
- In 2011, although fixed assets investment from central government declined by 9.7% YOY, those from local projects increased by 27.2%, reaching RMB 28.17 trillion.

Even though the Chinese construction sector has shown signs of instability it is expected to grow in
the near future, driven by central and local government’s investments, increasing incomes, continuing urbanisation, infrastructure development, strong consumer preferences and status recognition for home ownership.

In addition, in order to reach the environment conservation targets established by the recently adopted 12th Five Year Plan, much more consideration will be put on energy efficiency in the building sector, creating a unique opportunity for the construction of eco-cities on a major scale. As a matter of fact, within its massive urbanisation plan, which includes the construction of 36 million affordable housing units, the Chinese government is also focusing on the implementation of a series of sustainable urban development projects such as the Sino-Singapore Tianjin Eco-City and Tongzhou New City.

**Specific opportunities**

**Green buildings**
- Green building financing and cooperation with Chinese firms investing or completing projects overseas
- Green building design

**Construction equipment**
- Energy efficiency in buildings
- Self-propelled bulldozers
- Angle dozers
- Graders
- Levelers
- Scrapers
- Mechanical shovels
- Excavators
- Shovel loaders
- Tramping machines
- Road rollers

**Must reads:**

- Sector report: *The machinery sector in China*
  
  [www.eusmecentre.org.cn/content/machinery-sector-report](http://www.eusmecentre.org.cn/content/machinery-sector-report)

- Case study: *Terao - Pioneering green building in China*
  
  [www.eusmecentre.org.cn/content/terao-%E2%80%93-pioneering-green-building-china](http://www.eusmecentre.org.cn/content/terao-%E2%80%93-pioneering-green-building-china)

- Case study: *Realys Group - Designing and managing building projects in China*
  
  [www.eusmecentre.org.cn/content/realys-group-designing-and-managing-building-projects-china](http://www.eusmecentre.org.cn/content/realys-group-designing-and-managing-building-projects-china)

**Also see:**

- *Market Survey on Construction Machinery and Construction Machinery Component Sectors in China*, Istituto Nazionale per il Commercio Estero (ICE)
  

- *China Construction Industry Overview 2011*, Turkish Industry and Business Association (Tusiad)
  

- *Real Estate Market in China*, Istituto Nazionale per il Commercio Estero (ICE)
  

- *Construction, Engineering and Design*, American Chamber of Commerce in the People’s Republic of China (AmCham China)
  

- *Sustainable low-carbon city development in China*, World Bank
  

  
Case Study - Terao: French green building services provider builds in China

Terao, established in France in 1993, has almost 20 years of experience in the green building sector, providing services in green building certification, low carbon planning and environmental audit. Through a programme organised by the French Agency for Environment and Energy Management (ADEME) and the French Fund for Global Environment (FFEM), Terao entered the Chinese market for the first time at the end of the 1990s. Acting as the project leader and having the opportunity to work with various officials and experts, Terao sensed the opportunities available in China and eventually opened a representative office in the country. However, finding new clients turned out to be a hard task for Terao. First of all, it is difficult for a very small foreign company with little resources to canvass Chinese clients. And the Chinese usually do not see the benefits of retrofitting their buildings; they tend to ask for free demonstrations of services with little prospects of signing a contract. Even when the contract is finally signed and the service delivered, a last challenge is to get paid for the services provided. To cope with all those difficulties Terao had to develop Chinese marketing materials to explain green building concepts and build a Chinese website, and even work with famous Western architects to facilitate relationships with Chinese partners.

Lessons learned: It is important to coordinate with government agencies to help obtain new contracts; setting up a wholly foreign-owned enterprise (WFOE) or joint venture can make more economic sense than representative offices in the current policy environment; localising communications for the Chinese market to optimise results is a must.

6.4. Education

- Chinese households spend about 7% of their income on education, more than most other developing countries;
- In 2010, approximately 120,000 Chinese students studied at European universities;
- Approximately 290,000 foreign students studied at Chinese universities in 2011.

The education sector has been growing fast in China during the last few years. For example, to help Chinese students to enter foreign universities, an industry has been developing providing preparation courses for the TOEFL, SATs, IELTS and other mandatory examinations. In addition, as more Chinese families look at foreign universities for their children’s education, the market for international schools is booming. EU SMEs specialised in realising education materials, products, guides or services will find this growing sector to be a great expansion opportunity. Teachers of European languages, particularly English, and certified teachers of other subjects will also find opportunities throughout China with relative ease.

Also see:
- *Education in China*, KPMG
- *Education and Training in China*, UK Trade & Investment (UKTI)
6.5. Energy

- In 2010, China became the global leader in energy consumption, surpassing the United States;
- The country builds three power stations per week on average;
- Based on the International Energy Agency’s energy demand predictions, China’s energy consumption will increase by 75% from 2008 to 2035, contributing nearly 40% to the total growth of the world’s energy demand.

China’s energy demand is growing fast. However, despite the government’s efforts to move toward comparatively cleaner energy sources, coal still remains the main source of energy in the country (around 70% of the total energy consumption is based on that mineral). The catastrophic effects on the environment caused by such an extensive use of the mineral has put pressure on the national authorities to implement measures aimed at ensuring the country’s energy supply and, at the same time, protecting its human and natural environment. The PRC’s 12th FYP recognizes energy saving and efficiency improvements as key goals for the sustainable future of the country. Key targets in the 2011-2015 period include:

- A 16% reduction in energy intensity (energy consumption per unit of GDP);
- Increasing non-fossil energy to 11.4% of total energy use; and
- A 17% reduction in carbon intensity (carbon emissions per unit of GDP).

In line with this trend, China is also the world’s largest market for projects within the framework of the UN clean development mechanism.

EU SMEs that have advanced materials or products that can facilitate China’s energy and environmental plans will be warmly welcomed to invest.
6.6. Food & beverages

- China is the largest food and beverage market in the world by revenue;
- Expected growth rates between 2.7% and 3.6% for the next three years;
- Exports of EU pre-packaged food and beverages to China doubled between 2005 and 2010.

China’s huge food and beverage market (with close to USD 1 trillion in revenue in 2011\(^\text{10}\)) is expected to continue growing as a result of a series of factors: increasing disposable income, urbanisation, concerns over domestic food safety and a growing taste for foreign foodstuffs. Many EU SMEs have already successfully entered the sector in the past and, despite a fragmented distribution infrastructure and increasing local competition, opportunities are growing quickly.

**Specific opportunities**

- Wine
- Cheese
- Dairy and premium ice cream
- Pasta
- Sauces and tomato products
- Olive oil
- Beer
- Chocolate
- High-end confectionery
- Pre-packaged biscuits and snacks
- Breakfast cereal
- Coffee
- Baby food/infant formula
- There is also increasingly strong demand for foreign general management and staffing in this sector

**Must reads:**

- Sector report: *The F&B market in China*
  [www.eusmecentre.org.cn/content/food-and-beverages-sector-report](www.eusmecentre.org.cn/content/food-and-beverages-sector-report)
- Sector report: *The wine market in China*
  [www.eusmecentre.org.cn/content/sub-sector-report-wine-market-china](www.eusmecentre.org.cn/content/sub-sector-report-wine-market-china)
- Case study: *Taste Spain - Setting up shop in the food industry*
  [www.eusmecentre.org.cn/content/taste-spain-%E2%80%93-setting-shop-food-industry](www.eusmecentre.org.cn/content/taste-spain-%E2%80%93-setting-shop-food-industry)

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\(^{10}\) *Daily chart: Grocers' green, The Economist online (10.04.2012)*
6.7. Healthcare

- The Chinese healthcare market is now the third largest in the world in terms of medical devices, second in pharmaceuticals, and amongst the largest in terms of services;
- In 2009, the total sales of the three markets reached approximately EUR 10.8 billion, EUR 30 billion and EUR 163 billion respectively;
- Annual healthcare spending in China amounted to EUR 163 billion in 2009, rising to almost EUR 302.7 billion in 2012.

The Chinese healthcare sector represents a fast growing market with increasing opportunities for partnerships between EU SMEs and local enterprises. Growing disposable income, ageing of the population and increasing government support represent the main drivers for development. Moreover, according to the latest Catalogue for the Guidance of Foreign Investment Industries, “health institutions” have now been removed from the list of restricted areas for foreign investment. This important change in policy direction will create new opportunities for foreign investors. Nevertheless, challenges in entering the market still exist, consisting mainly of regulatory barriers, competition with local businesses and threats to intellectual property rights.

### Specific opportunities

<table>
<thead>
<tr>
<th>Medical devices</th>
<th>Pharmaceuticals</th>
<th>Healthcare services</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Home-use medical devices</td>
<td>• Generic and innovative drugs</td>
<td>• Private hospitals</td>
</tr>
<tr>
<td>• Low- to mid-end medical equipment and implantable devices</td>
<td>• Vaccines and biopharmaceuticals</td>
<td>• Health/lifestyle management</td>
</tr>
</tbody>
</table>

### Must reads:

- Sector report: The healthcare sector in China  
  [www.eusmecentre.org.cn/content/healthcare-sector-report](http://www.eusmecentre.org.cn/content/healthcare-sector-report)
- Case study: Linet - Exporting medical beds to China  
  [www.eusmecentre.org.cn/content/linet-%E2%80%93-exporting-medical-beds-china](http://www.eusmecentre.org.cn/content/linet-%E2%80%93-exporting-medical-beds-china)
- Case study: Bluepharma - Entering the Chinese pharmaceutical market  
  [www.eusmecentre.org.cn/content/bluepharma-%E2%80%93-entering-chinese-pharmaceutical-market](http://www.eusmecentre.org.cn/content/bluepharma-%E2%80%93-entering-chinese-pharmaceutical-market)
- Case study: Covex - Exporting to the Chinese pharmaceutical market  
  [www.eusmecentre.org.cn/content/covex-%E2%80%93-exporting-chinese-pharmaceutical-market](http://www.eusmecentre.org.cn/content/covex-%E2%80%93-exporting-chinese-pharmaceutical-market)
6.8. ICT (technology and telecommunications)

- The PRC is currently the world’s fourth largest information technology market by expenditure;
- The Chinese ICT market in 2010 was reported at RMB 10.7 trillion (EUR 1.3 trillion) by the Ministry of Industry and Information Technology (MIIT), up 18% from 2009;
- The ICT sector is one of the seven Strategic Emerging Industries to receive support during the 12th FYP.

The ICT sector has grown rapidly in China, driven by the large and growing number of internet and mobile phone users. The 457 million internet users and the 859 million mobile phone users represent penetration rates of around 30% of the Chinese market, which means there is still room for much more growth.

The PRC’s ICT industry is a dynamic and complex industry covering a broad range of products and services including telecommunications, hardware (including consumer electronics), software and IT services sectors. The opportunities for EU SMEs in this sector will fall within areas where they can leverage their quality and innovation strengths. EU SMEs will find opportunities in high-value niche areas where specialisation in certain technologies or know-how will provide them with a strong competitive advantage. However, while investing in the Chinese ICT market, companies should take action to ensure that their intellectual property rights are protected.

**Specific opportunities**

- Enterprise software
- Web development
- Applications development
- IT consultancy and outsourcing
- Financial IT services
- Teaming up to participate in China’s state driven “Golden Projects”
- E-government
- E-health
- Projects under the 12th FYP such as the development of cloud computing, the internet of things and mobile internet

**Must reads:**

- Sector report: *ICT market in China*
  
  www.eusmecentre.org.cn/content/ict-sector-report-0
6.9. Travel

- With an annual growth rate of 7%, the tourism sector in China is growing quickly;
- In 2011, for the first time ever, the number of outbound Chinese tourists surpassed the number of inbound tourists;
- In the period 2006-2010, the average annual number of domestic tourists reached 21 million, increased by 11.7%.

The Chinese leisure and recreation market has been growing fast in recent years following the increase in disposable income of domestic households. Recreation activities and outdoor trips, in particular, have gained greater popularity as more residents seek to leave the big cities during the holiday periods. According to the China National Tourism Administration (CNTA), the number of outbound travels has increased considerably through the period of the 11th FYP (2006-2010), with domestic tourism revenue reaching RMB 1.26 trillion in 2010, at an annual growth rate of 18.9%.

The tourism industry in China consists mainly of the hotel industry, catering, transportation, travel agencies and tourist attractions management industries, among which the hotel industry, travel agencies and transportation constitute the three pillars. However, China’s current hotel market is highly fragmented and only 15% of hotels have brand affiliation. EU SMEs with product offerings and expertise related to leisure and recreation are well positioned to capitalise on this growing market.

**Specific opportunities**

- Partnering with Chinese service providers catering to tourists bound for Europe
- Serving the inbound market for European visitors with higher quality offerings

Also see:

- *Il Turismo Cinese all’Estero*, Istituto Nazionale per il Commercio Estero (ICE)
6.10. Machinery equipment and components

- The Chinese machinery industry has been growing at a CAGR of around 25% in the last decade;
- By 2011, China was the most common primary manufacturing source of any country (35% of total global output);
- Machinery and transport equipment are the EU’s largest export category to China, amounting to EUR 82 billion in 2011.

The Chinese manufacturing industry’s growth during the last few decades has been exceptional. Benefiting from the huge domestic demand driven by industrialisation and large investments, China’s machinery sector has now become one of the most important in the world in terms of total output value, production capacity, number of enterprises, and exports. Having enjoyed strong support by the government during the period of the 11th FYP (2007-2011), the industry has been undergoing recent economic re-structuring due to a slowdown in the pace of investment. Nonetheless, the on-going industrialisation and urbanisation processes will continue to be growth drivers in the future.

As for Europe, the machinery sector represents one of the largest markets and its participants are mostly small and medium-sized enterprises. With regards to the Chinese machinery equipment and components industry, opportunities for EU SMEs fall within knowledge-intensive and high value-added areas requiring a high level of innovation and customised solutions. A trade study commissioned by the European Commission shows that the export of European machinery equipment and services has, and will continue to be, a very lucrative market for European companies in the foreseeable future.

<table>
<thead>
<tr>
<th>Specific opportunities</th>
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</thead>
<tbody>
<tr>
<td>Innovative, environmentally friendly and advanced technologies</td>
</tr>
<tr>
<td>High-end machine tools</td>
</tr>
<tr>
<td>Basic machinery components</td>
</tr>
<tr>
<td>Technology transfer</td>
</tr>
</tbody>
</table>

Must reads:

- Sector report: The machinery sector in China
  www.eusmecentre.org.cn/content/machinery-sector-report
- Case study: Stavus Machinery & Electrical Equipment - Exporting machinery to China
  www.eusmecentre.org.cn/content/stavus-machinery-electrical-equipment-%E2%80%93-exporting-machinery-china
- Case study: Adira - Entering the Chinese machinery equipment and components market
  www.eusmecentre.org.cn/content/adira-entering-chinese-machinery-equipment-and-components-market
- Case study: Bernard Controls (China) - Entering the Chinese machinery market
  www.eusmecentre.org.cn/content/bernard-controls-china-entering-chinese-machinery-market
- Case study: Metra - Exporting to the Chinese machinery sector
  www.eusmecentre.org.cn/content/metra-exporting-chinese-machinery-sector

Also see:

- Market Survey on Construction Machinery and Construction Machinery Component Sectors in China, Istituto Nazionale per il Commercio Estero (ICE)
Is China on your radar?

Case Study - Stavus: Czech advanced mining equipment manufacturer enters China

Founded in 1992, Stavus - a Czech manufacturer of suspended diesel locomotives - has been successfully exporting its products to China since 2011. Its high level of expertise and technology has made Stavus one of the seven companies in the world capable of supplying highly specialised mining equipment. Through successful cooperation with an experienced local partner (Karrun), Stavus entered the Chinese market with its advanced machineries. After an exclusive sales agreement had been signed by the two companies, Karrun began the procedures to obtain the Mining Products Safety Approval and Certification for Stavus’ mining equipment (which took about 14 months), at the same time targeting Chinese state owned coal mines as possible clients. As a result, the first locomotive was successfully sold in 2011.

Lessons learned: A trusted partner is a major asset; no matter how small the risks, an IPR strategy has to be in place; risks caused by currency fluctuations have to be taken into account: the company is, in fact, minimising foreign exchange risks by getting paid directly in their home currency.

6.11. Renewable energy

- China is the global leader in solar panel production;
- China is the largest wind energy producer in the world, with a total installed wind power capacity of 44.5 GW;
- The renewable energy market grew by 15.5% YOY in 2010.

China’s renewable energy development is part of the government’s long-term domestic diversification and self-sufficiency strategy. According to the 12th FYP, non-fossil fuel energy production is predicted to reach 11% of total domestic energy supply by 2015. Main drivers for the future development of the sector are the already enormous and still increasing energy demand as opposed to a limited supply of fossil fuels. Excluding coal, China has limited resources in terms of both oil and gas. However, although coal is still easily mined in the country, its environmental pressure it causes has become unacceptable. The need to reduce the impact on the environment while at the same time ensuring the country’s energy supply will shape the future development of the renewable energy market in China.

Currently, due to overcapacity in both the wind and solar industry, the market is seeing a downturn. However, the government still provides strong support to local Chinese players and as such any EU SMEs with unique expertise in this sector should be able to find eager Chinese partners and buyers.

Specific opportunities

- Components for the wind, solar and biomass industries
- Cleaner conventional energy
- Energy efficiency
- Clean water
- Solid waste management

Must reads:

- Sector report: The green tech market in China
  www.eusmecentre.org.cn/content/green-tech-market-china
6.12. Retail and logistics

- Although still relatively underdeveloped and fragmented, China’s logistics and retail sectors have been growing at a very fast pace recently;
- Retail sales have been increasing by on average 18% over the last decade;
- In terms of food and groceries China has already become the largest retail market in the world.

China is the world’s fastest growing retail market. Since the country joined the WTO (2001) retail has been an encouraged sector by the government. It is expected to become the world’s third largest logistics market by 2016, driven by rising incomes, pro-consumption government policies, increasing access to finance, continuing urbanisation, growing domestic demand for raw materials, demand for better servicing, infrastructure investments in second and third tier cities and increasing outsourcing from corporations.

Particularly outstanding has been the development of e-commerce, which is having a major impact on the retail sector. Online sales of fashion goods, cosmetics, home appliances, commodities, food and baby products are very strong, all product groups in which European goods are competitive and in demand.

**Specific opportunities**

**Retail**
- High growth retail products include cosmetics and toiletries, apparel, furniture, washing machines and other white goods, organic foods and computers
- Online sales of popular European goods

**Logistics**
- Improved quality and service
- Optimisation systems
- Diversified, reliable, secure, innovative and value-added services
- Servicing fast growing regions

**Must reads:**
- Sector report: *Selling Online in China*
  [www.eusmecentre.org.cn/content/selling-online-china](http://www.eusmecentre.org.cn/content/selling-online-china)
6.13. Transportation

- In 2010, China accounted for 20% of aircraft deliveries globally with Beijing being the world’s second busiest airport;
- By the end of the 12th FYP, the total length of the highway network will reach 83,000 km;
- By 2015, the total length of the high-speed railway will reach 45,000 km.

China’s transportation market is developing fast, mainly due to government intervention in the sector. The Medium and Long-Term Rail Network Plan, for example, set ambitious goals in terms of infrastructure development, aiming at doubling the length of the high-speed rail network - now covering 8,400 km and thus already the longest worldwide.

Similarly, the number of airports will rise from 175 today to 220 by the end of 2015, as indicated in the 12th FYP. The same document also sets precise objectives in terms of clean energy and sustainability that will certainly have an effect on the domestic transportation sector, as it is a significant carbon emitter. The need to incorporate green technology in order to meet the low carbon emission targets represents a challenge for Chinese enterprises but an opportunity for foreign companies, especially for EU SMEs in the sector that have reached high levels of expertise and possess advanced technology.

**Specific opportunities**

- Cleaner internal combustion engines
- Fleet electrification
- E-vehicles
- Green transportation related technologies and services
- Qiongzhous Strait bridge (Hainan)
- Wuhan port expansion (Hubei)
- Construction of 45 new airports throughout the country

**Specific projects**

- Hefei urban rail transit system (Anhui)
- Kashgar-Gwadar railway line (Xinjiang)
- Second trunk railway line (Xinjiang)

Also see:

- *China’s 12th Five Year Plan: Transportation and Logistics*, KPMG
6.14. Textiles and apparel

- China has been the biggest textile and apparel (T&A) exporter in the world since 1994;
- In 2014, the Chinese textile and apparel market is forecast to have a value of USD 473 billion, an increase of 75.2% from 2009 (CAGR 11.9%);
- China and the EU occupied 40% and 29% of world T&A exports respectively in 2010.

China enjoys a strong position in the production of textiles and apparel, occupying 40% of world exports in 2010. Although China dominates the global low- to medium-end market, the domestic luxury market has been recording an impressive development, by now second only to Japan (according to the World Luxury Association, China is expected to surpass Japan as the world’s largest luxury market in 2015, accounting for more than 30% of the global share).

Growth of the Chinese textile and apparel market will be driven by an increase of disposable income, new applications of textiles and a fast growing online fashion market. It is innovative design, outstanding quality and application of the latest technologies that will give European SMEs the advantage when entering the Chinese market.

### Specific opportunities

- Special fibres and yarns for functional textiles
- Eco-dye for eco-friendly textiles
- High-end fabrics
- Textile machinery and equipment
- Design and development
- Specialty boutiques

### Must reads:

- Sector report: Textiles and apparel market in China
  [www.eusmecentre.org.cn/content/textiles-and-apparel-sector-report](http://www.eusmecentre.org.cn/content/textiles-and-apparel-sector-report)
- Case study: Müller Textil - A leader in functional textiles crossing over to China
- Guideline: Introduction to Chinese textiles & apparel standards
  [www.eusmecentre.org.cn/content/introduction-chinese-textile-apparel-standards](http://www.eusmecentre.org.cn/content/introduction-chinese-textile-apparel-standards)

For more examples of specific sectorial opportunities, please visit China-Britain Business Council’s business opportunities website:

[www.cbbc.org/what_we_do/china_business_opportunities/business_opportunities](http://www.cbbc.org/what_we_do/china_business_opportunities/business_opportunities)
7. Key challenges for EU SMEs in China

China's business environment has improved in many areas in recent years. If we look at the indicators provided by the World Bank's *Doing Business* report, China has made significant improvements since 2005 in the administration for starting a business, obtaining construction permits, obtaining credit and paying taxes. Overall, EU SMEs will still find the business environment challenging however, as it ranks 91 out of 185 economies; so although having come very far, there is still room for improvement.

**How far has China's business environment progressed?**

*Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each Doing Business indicator since 2005. The measure is normalised to range between 0 and 100, with 100 representing the best performance (the frontier). The overall distance to frontier is the average of the distance to frontier in the 9 indicator sets shown in the figure.*

*Source: Doing Business 2013, World Bank*

Getting a better understanding of the regulatory, cultural and operational challenges they might have to face is a prerequisite for EU SMEs entering the market. A better understanding of these challenges will lead to a more realistic perception of the actual costs of doing business in China and will also provide insight into how the ensuing risks can be reduced.

**Regulatory:** The regulatory environment in China is complex and continuously changing. In some sectors foreign companies are required to form joint ventures or are limited to minority stakes. When selling products in China EU SMEs will also have to be aware of the standards and conformity assessment requirements which will have to be met before their products can enter the market.

**Bureaucracy:** Overlapping responsibilities, delayed processing times and red tape exist in China as well, just like in many other countries.

**Lack of transparency:** Decision making processes are not always clear. For example, some companies competing in public procurement complain that decisions are often made before the tender is even announced and that the criteria for selection are unclear.

**Language and culture:** Chinese is a hard language to learn to speak fluently and most Chinese speak
little or no English. Confucian cultural aspects such as “guanxi” (relationships) and “face” (respect) still play a role in today's modern China.

**Intellectual property rights (IPR):** Protection of intellectual property rights is a major concern for companies. In some cases, companies feel obliged to reveal their intellectual property in order to win contracts, enter the market or form partnerships. In other cases, it is simply taken from them once they have entered the market – and sometimes even before. EU SMEs should ensure that their trademarks, copyrights and patents are registered in China. Visit the China IPR SME Helpdesk website for more information at [www.china-iprhelpdesk.eu](http://www.china-iprhelpdesk.eu).

**Human resources:** The single biggest operational issue that companies face in China is HR related. Rising labour costs, high expectations and high turnover are a challenge for all companies. China's labour law is strongly employee-focused.

EU SMEs need to weigh the benefits of doing business with China against the costs including time, money and the challenges of a rapidly growing economy that is in constant transition. However, it is precisely these changes that are creating some of the biggest opportunities.

Also see:


- *Intellectual Property Systems: China / Europe Comparison,* China IPR SME Helpdesk  

- *Guide to Patent Protection in China,* China IPR SME Helpdesk  

- *Guide to Using Contracts to Protect Your Intellectual Property Rights in China,* China IPR SME Helpdesk  

- *Employment and HR Trends China January - March 2012,* Hudson Recruitment (Shanghai)  
8. Going forward

While the road to success is not an easy one, the Chinese market is more accessible and lucrative than ever before.

Many innovative, environmentally friendly and high-quality goods and services by EU SMEs offer solutions to the economic, social and industrial challenges and opportunities that China is facing.

The high growth rates in Central and Western China coupled with infrastructure needs represent significant opportunities, resembling the ones Eastern China offered twenty years ago. Likewise, China's developed cities have acquired tastes and demand for more and more European products and services.

As China’s markets become more mature, the possibilities for niche players like SMEs is accentuated. The reality is that most EU companies in China are at least as profitable as they are elsewhere. 70% of European companies, which includes SMEs, report that their in-China profits are as high or higher than their global average.

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.

EU SMEs can be successful if they take the time to research their opportunities, understand the steps necessary for exporting and investing and carefully develop a market entry strategy that suits China’s needs and their capabilities.

As a next step, we invite you to:

- Read the sectoral reports highlighted in this report and available on the EU SME Centre website.
- If you have not done so already, complete the online quiz Gauging your readiness and see how you score on questions relating to all aspects of market entry in China. To see some example questions, please refer to Annex 9.3. on page 37.
- Read reports two to four of the EU SME Centre diagnostic kit and learn about different ways to enter the Chinese market, the importing process of goods, services and technology to China and due diligence (all available on the EU SME Centre website).
- Continue to browse through other practical papers and case studies of successful European SMEs in China on the EU SME Centre website.
- Contact the EU SME Centre directly by email or phone if you have any questions (first-line advice is provided for free).
- Research where the greatest demand for your goods and services in China exist by reviewing trade statistics & 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 who can support your market entry and operations in China on the EU SME Centre’s database.
- The Centre also has an exhibitions database which you can use to search for industry related exhibitions in China. Exhibitions are an effective way to present your products and services to the Chinese market and meet potential partners.

European Business Confidence Survey 2012, European Chamber of Commerce in China
Visit China to meet with support organisations such as the EU SME Centre and chambers of commerce, visit trade shows and organise meetings with possible local business partners.

Use the ‘ask the expert’ service at the EU SME Centre if you have any questions on accessing the Chinese market. [www.eusmeCentre.org.cn/ask_expert](www.eusmeCentre.org.cn/ask_expert)

These steps will help you to make an informed decision on whether or not you should enter the Chinese market. If you decide that there are indeed opportunities for your company in China, keep the following in mind:

- Protect your IPR or strategically decide what you are willing to trade-off. Contact the China IPR SME Helpdesk ([www.china-iprhelpdesk.eu](www.china-iprhelpdesk.eu)) for more information.
- Check which standards and conformity requirements apply to your product.
- Understand the administrative procedures and timelines that it will take to set up in China. You can find English translations of many of the required documents online, some available on the EU SME website.
- Take the time to understand the political, regulatory and cultural environment as well. 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. Take your time to develop a relationship with your counterpart.
- Do your due diligence: Before signing any agreement with a potential partner or customer, make sure you carry out sound due diligence by making sure that their administrative, legal, financial and operational records are intact. Make sure that contractual arrangements are in place if things go wrong. Use the services of a Chinese lawyer.
- Be patient, focused, flexible and pro-active. Nothing will be as easy as it sounds at first, things will change, but with persistency, hard work and a bit of luck it will pay off.
9. Appendices

9.1. EU SME business sentiment in China

The European Chamber’s business survey provides statistics on EU SMEs in China. Below are the highlights from the SME strata of information collected from 344 SMEs. The key findings are:

- 33% state that their Chinese revenue accounted for more than 25% of their global revenue, and 42% for less than 5%.
- 39% saw their China revenue increase substantially (>20%) compared to last year.
- 71% consider China as one of their top three destinations for new investment today.
- 55% plan on making new investments in China over the next two years.
- 23% consider shifting investments to markets outside PRC.
- 88% declare their top priority for improving their profitability margin over the next twelve months is to increase revenue rather than to decrease costs.
- 42% see discretionary enforcement of broadly drafted laws as being a significant regulatory obstacle when doing business in China, and 32% state intransparent local implementation of Chinese standards to be a significant hindrance.
- 41% feel government policies towards foreign-invested enterprises (FIEs) are less fair now than they were two years ago, and 1% feel they are more fair.
- 32% state high expectations on salary is the top challenge they face in attracting expats.
- 54% feel this is the top challenge when it comes to attracting local employees.

Source: European Business Confidence Survey 2012, European Union Chamber of Commerce in China

9.2. Sample questions from the online quiz Gauging your readiness

The online quiz Gauging your readiness, which accompanies the four reports of the EU SME Centre’s diagnostic kit, will help you gauge your knowledge of the Chinese business environment. Here are some sample questions:

- Do you have any evidence that there is a growing demand of your product in China?
- How much do you know about your competitors in China?
- Do you know in which cities you should be selling your product?
- Do you know which distribution channels to use?
- Do you know your customers?
- Have you confirmed that your product can be sold in China?
- Do you know how to find the legal/technical requirements for your product?
- Have you already decided what would be the best way to access the Chinese market?
- How much are you ready to invest upfront?
- Do you understand the possible legal structures in China?
- What do you know about the availability of your required human resources in China?
- Have you found a Chinese partner to distribute your products?
- Do you know how to perform preliminary due diligence in China?
Are you ready for China?

- What are your expectations in terms of time to achieve your goals?
- Do you have previous experience in accessing other markets?
- What is your strategy to protect your intellectual property in China?

To find out more about the online quiz *Gauging your readiness*, please go to www.eusmecentre.org.cn/quiz

### 9.3. European Member States supporting organisations

#### Austria

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#### Belgium

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<td>Brussels Enterprises Commerce and Industry</td>
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<td>Wallonia Export &amp; Investment</td>
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#### Bulgaria

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#### Cyprus

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Is China on your radar?

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Czech Republic

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Denmark

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Germany

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# Is China on your radar?

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## Luxembourg

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## Malta

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<td>Netherlands Council for Trade Promotion</td>
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## Poland

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<td>Polish Agency for Enterprise Development</td>
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<tr>
<td>Polish Craft Association</td>
<td><a href="http://www.zrp.pl">www.zrp.pl</a></td>
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## Portugal

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Website</th>
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<tbody>
<tr>
<td>Embassy of Portugal</td>
<td><a href="http://www.embaixadadeportugalempequim.com">www.embaixadadeportugalempequim.com</a></td>
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</table>
### Are you ready for China?

<table>
<thead>
<tr>
<th>Organisation</th>
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<tbody>
<tr>
<td>Institute for the Support of Small and Medium-sized Enterprises</td>
<td><a href="http://www.iapmei.pt">www.iapmei.pt</a></td>
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<tr>
<td>Portugal Global</td>
<td><a href="http://www.portugalglobal.pt">www.portugalglobal.pt</a></td>
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<tr>
<td>Portuguese-Chinese Chamber of Commerce and Industry</td>
<td><a href="http://www.ccil-c.com">www.ccil-c.com</a></td>
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<tr>
<td><strong>Romania</strong></td>
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<tr>
<td>Organisation</td>
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<tr>
<td>Bucharest Chamber of Commerce and Industry</td>
<td><a href="http://www.ccib.ro">www.ccib.ro</a></td>
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<tr>
<td>Embassy of Romania</td>
<td><a href="http://beijing.mae.ro">http://beijing.mae.ro</a></td>
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<tr>
<td>Chamber of Commerce and Industry of Romania</td>
<td><a href="http://www.ccir.ro">www.ccir.ro</a></td>
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<tr>
<td><strong>Slovakia</strong></td>
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<tr>
<td>Organisation</td>
<td>Website</td>
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<tr>
<td>Business and Innovation Centre Bratislava</td>
<td><a href="http://www.bicsk">www.bicsk</a></td>
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<tr>
<td>Embassy of the Slovak Republic</td>
<td><a href="http://www.mzv.sk/peking">www.mzv.sk/peking</a></td>
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<tr>
<td>National Agency for Development of Small and Medium Enterprises</td>
<td><a href="http://www.nadsme.sk">www.nadsme.sk</a></td>
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<tr>
<td>Slovak Investment and Trade Development Agency</td>
<td><a href="http://www.sario.sk">www.sario.sk</a></td>
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<td>Organisation</td>
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<tr>
<td>Chamber of Commerce and Industry of Slovenia</td>
<td><a href="http://www.gzs.si">www.gzs.si</a></td>
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<tr>
<td>Embassy of the Republic of Slovenia</td>
<td><a href="http://beijing.embassy.si">http://beijing.embassy.si</a></td>
</tr>
<tr>
<td>Public Agency of the Republic of Slovenia for Entrepreneurship and Foreign Investment</td>
<td><a href="http://www.japtisi">www.japtisi</a></td>
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<tr>
<td><strong>Spain</strong></td>
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<td>Organisation</td>
<td>Website</td>
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<tr>
<td>ACC1Ó</td>
<td><a href="http://www.acc10.cat">www.acc10.cat</a></td>
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<tr>
<td>Embassy of Spain</td>
<td><a href="http://www.maec.es/subwebs/Embajadas/Pekin">www.maec.es/subwebs/Embajadas/Pekin</a></td>
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<tr>
<td>Madrid Confederation of Employers and Industries</td>
<td><a href="http://www.ceim.es">www.ceim.es</a></td>
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<tr>
<td>Spanish Chamber of Commerce in China</td>
<td><a href="http://www.spanishchamber-ch.com">www.spanishchamber-ch.com</a></td>
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<tr>
<td>Spanish Institute of Foreign Trade</td>
<td><a href="http://www.icex.es">www.icex.es</a></td>
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<td><strong>Sweden</strong></td>
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<td>Organisation</td>
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<td>Business Sweden</td>
<td><a href="http://www.business-sweden.se">www.business-sweden.se</a></td>
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<td>Website</td>
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<tr>
<td>Center for Environmental Technology</td>
<td><a href="http://www.centec.se">www.centec.se</a></td>
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<tr>
<td>Embassy of Sweden</td>
<td><a href="http://www.swedenabroad.com/sv-SE/Ambassader/Peking">www.swedenabroad.com/sv-SE/Ambassader/Peking</a></td>
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<tr>
<td>Swedish Chamber of Commerce in China</td>
<td><a href="http://www.swedishchamber.com.cn">www.swedishchamber.com.cn</a></td>
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**United Kingdom**

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<tr>
<td>British Chamber of Commerce in China</td>
<td><a href="http://www.britishchamber.cn">www.britishchamber.cn</a></td>
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<tr>
<td>British Embassy</td>
<td><a href="http://ukinchina.fco.gov.uk">http://ukinchina.fco.gov.uk</a></td>
</tr>
<tr>
<td>China-Britain Business Council</td>
<td><a href="http://www.cbbc.org">www.cbbc.org</a></td>
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<tr>
<td>UK Trade &amp; Investment</td>
<td><a href="http://www.ukti.gov.uk">www.ukti.gov.uk</a></td>
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**European Union**

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<td>China IPR SME Helpdesk</td>
<td><a href="http://www.china-iprhelpdesk.eu">www.china-iprhelpdesk.eu</a></td>
</tr>
<tr>
<td>Enterprise Europe Network</td>
<td><a href="http://portal.enterprise-europe-network.ec.europa.eu">http://portal.enterprise-europe-network.ec.europa.eu</a></td>
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<tr>
<td>EU SME Centre</td>
<td><a href="http://www.eusmecentre.org.cn">www.eusmecentre.org.cn</a></td>
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<tr>
<td>Eurochambres</td>
<td><a href="http://www.eurochambres.eu">www.eurochambres.eu</a></td>
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<tr>
<td>European Committee for Standardization</td>
<td><a href="http://www.cen.eu">www.cen.eu</a></td>
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<tr>
<td>European Union Chamber of Commerce in China</td>
<td><a href="http://www.europeanchamber.com.cn">www.europeanchamber.com.cn</a></td>
</tr>
<tr>
<td>International Network for Small and Medium Enterprises</td>
<td><a href="http://www.insme.org">www.insme.org</a></td>
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</table>
The EU SME Centre assists European SMEs to export to and/or invest in China by providing a comprehensive range of free, hands-on support services including the provision of information, confidential advice, networking events and training. The Centre also acts as a platform facilitating coordination amongst Member State and European public and private sector service providers to SMEs.

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- Legal – legal information, initial consultations and practical manuals
- Standards – standards and conformity requirements when exporting to China
- HR and training – industry and horizontal training programmes
- Access to a service providers directory and information databases
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