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UK  
TRADE &  
INVESTMENT



# OPPORTUNITIES FOR UK BUSINESSES IN CHINA'S REGIONAL CITIES

*Fast track to the world* <sup>UK</sup>

### **Acknowledgements**

This report is the outcome of research collaboration between the China-Britain Business Council (CBBC) and the Centre for International Business University of Leeds (CIBUL). Quantitative analysis of secondary data was conducted by Professor Peter Buckley, Professor Jeremy Clegg, Mr Adam Cross and Dr Hinrich Voss of the University of Leeds, while the CBBC teams in the UK and China carried out in-depth interviews and fieldwork.

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### **Important Notice**

This research report is prepared by the China-Britain Business Council (CBBC) and the Centre for International Business University of Leeds (CIBUL) on behalf of UK Trade & Investment (UKTI). While UK Trade & Investment commissioned this work, the views presented are those of CBBC, CIBUL and the individuals and companies interviewed, and are independent of Government and do not constitute Government policy. Whilst every effort has been made to ensure accuracy, no responsibility can be accepted for errors and omission, however caused. The information contained in this publication should not be relied on, or be regarded as a substitute for detailed advice in individual cases. No responsibility for any loss or damages caused to any person acting or refraining from action as a result of material contained in this publication is accepted by UKTI, CBBC and/or CIBUL. Opinions expressed in this publication are subject to change without notice. This report is written as a general guide only. It should not be used as a substitute for professional advice.

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# EXECUTIVE SUMMARY



This document presents the findings of a research project conducted in the spring of 2008 by the China-Britain Business Council (CBBC) and the Centre for International Business University of Leeds (CIBUL) on behalf of UK Trade & Investment (UKTI).

The main objectives of the research were:

- (i) to identify those regional cities in China that offer the greatest potential to UK companies as business locations;
- (ii) to evaluate the opportunities presented by these cities for UK companies in seven priority sectors (Financial and Professional Services, Environment and Climate Change, Energy, Infrastructure, Life Sciences, Information Communication Technology, and Advanced Engineering);
- (iii) to make recommendations on how UK companies might gain more business in these cities; and (iv) to make recommendations on how the UK Government might further support the market entry and operation of UK business in these cities.

Traditionally, business interest from UK companies has generally focused on a small number of large established cities such as Beijing, Shanghai, Shenzhen and Guangzhou. However, these markets are maturing, competition is intensifying and factor input costs (especially in relation to labour and land) are increasing. As a consequence, companies are increasingly willing to consider alternative locations in China for business expansion and development. These emerging cities are also fast becoming the target of local and foreign investments as we witness their impressive rise following China's economic development.

Of the 274 municipalities in China with a population in excess of one million, 35 were identified by this study as being 'regional' cities on the basis of their economic size, economic growth rate and population. These cities were then ranked and

grouped on the basis of a number of indices calculated using data published by China's National Statistics Bureau, the World Bank and other sources. These rankings and groupings capture the relative attractiveness of the short-listed cities as business locations for UK companies in terms of the general business environment they offer, and their attractiveness for four different types of business activities, namely local sales, production to supply domestic markets, production to supply export markets, and research and development activity. A further set of groups was devised to provide an indication of the opportunities presented by each regional city in each priority sector. Finally, an overall city-attractiveness index was calculated.

To augment the quantitative analysis, the research team also collected primary data using an online questionnaire survey (completed by more than 80 companies) and through more than 60 interviews conducted with UK and international companies and trade promotion organisations (TPOs) with extensive experience of operating in China.

The key findings of this research are as follows:

- Collectively, the rapid rate of urbanisation, expansion and economic growth of regional cities in China offer considerable opportunities across a range of industrial sectors and business activities for UK companies.
- The key characteristics shared by the regional cities include rapid economic growth, low input costs, large and developing consumer and industrial markets, and strong local government support and policy momentum in regional economic development. Combined, the short-listed 35 regional cities account for around 16 per cent of China's population and 36 per cent of China's Gross Domestic Product (GDP).

- The majority of regional cities are concentrated in the economically advanced regions of the Bohai Rim (and, in particular, the Shandong Peninsula), the Yangtze River Delta and the Pearl River Delta. The remaining short-listed cities are distributed more widely in the Northeast, Central, Northwest and Southwest regions, where strong government policy and infrastructure investments are helping to promote economic growth.
- In the coastal provinces of China, a number of economically inter-connected 'city clusters' are developing, where several regional cities can be found in relatively close proximity to an established city and/or each other. For instance, the cities of Suzhou, Hangzhou, Nanjing and Wuxi now provide clusters of manufacturing and services activities to complement the industrial structure of nearby Shanghai.
- UK companies locate in China's regional cities in order to follow existing clients, explore new markets (gaining early-mover advantage) and reduce costs. Cities such as Dalian, Dongguan, Hangzhou, Qingdao, Shenyang, Suzhou, Tianjin, Weifang, Weihai, Wuhan and Yantai offer the best overall business environment, although, because of their heterogeneity, the location attractiveness of each city varies somewhat depending upon the business activity and industry sectors concerned.
- Although wide-ranging business opportunities exist, UK companies face a variety of challenges arising from government policies, market forces and operational barriers.

We conclude that companies need to be well informed and prepared in order to execute their strategies successfully in these markets. More importantly, companies must adopt a long-term and prudent view to how they develop their businesses in China away from traditional locations, and they will need to adopt an open-minded and flexible approach.

The research also found that UK companies already active in Chinese regional cities would like to see continued and further support from Government and trade promotion organisations (TPOs) in a number of areas. These include lobbying and representation (especially to raise the profile of UK businesses in regional cities), improved access to city-level business networks (including local government and businesses, TPOs and other UK companies), and better access to general city-level market intelligence and business information (especially about sector-specific business opportunities).

UK Trade & Investment and its partners in China, such as CBBC, already provide much of this assistance, information and support. However, it appears that information on these services needs to be centralised and better marketed to UK companies.

# 1. INTRODUCTION



China continues to register solid GDP growth averaging 10 per cent per annum, despite the weak global economic environment. China's economic growth has been largely driven by the creation of a vibrant non-state sector. The country has made massive economic progress over the last three decades and continues to undergo major reforms (made more crucial by its accession to the World Trade Organisation in 2001) to transform its centrally planned system to an open, market-oriented economy. It is currently the world's fourth-largest economy and is anticipated to overtake Germany as the third largest by the end of 2008. Given this backdrop, it is not surprising that China's markets are attracting considerable interest from international firms.

Much of the recent impressive growth of China's economy can be attributed to a rapid acceleration in the rate of urbanisation. This process is set to continue. Presently, around 600 million Chinese live in cities, and this is predicted to increase to one billion by 2030 (McKinsey Global Institute, 2008). The surge in urbanisation presents acute challenges for the Chinese authorities, and opportunities to UK businesses, in a number of areas, including education, housing and infrastructure, healthcare, environmental protection and financial services. At the same time, consumer markets are becoming increasingly sophisticated and demanding. Historically, China has had a comparative advantage in the manufacture of low-cost products, but this is increasingly becoming a thing of the past. The pressure on firms to develop higher value-added products and services is growing rapidly, although still at a nascent stage. UK businesses can capitalise on this: delivering high value-added products, services and technologies is where we have considerable competitive advantage.

Traditionally, business interest from UK companies has generally focused on a small number of large established cities such as Beijing, Shanghai, Shenzhen and Guangzhou, not least because of their political and economic importance, and because of the amount of foreign business they have attracted over the past two decades. However, these markets are becoming saturated, competition is intensifying and factor input costs (especially in relation to labour and land) are increasing. As a consequence, companies are increasingly willing to consider alternative locations in China for business expansion and development.

Currently, there are around 270 cities in China with a population in excess of one million. Rapid economic growth, a low-cost production base, large but underdeveloped markets, unexploited new opportunities and local government support and policy momentum in respect of regional development are key characteristics shared by these cities.

At the same time, however, these cities demonstrate considerable variety in terms of, for example, the level of economic and social development, industry structure and business environment. This heterogeneity can make it difficult for firms to choose between

different locations in China beyond the more familiar established cities. The choice of city will be influenced greatly by the strategic objectives of the company and the types of activity it wishes to undertake. The purpose of this report, therefore, is to help UK companies identify where the best opportunities can be found among China's regional cities, taking account of activity type and industrial sector.

### 1.1 Research Aims and Objectives

The aim of this research is to identify where, and how best, UK business can take advantage of the opportunities presented by the ongoing growth of China's regional cities. Specifically, the objectives of the research were to:

- Identify those regional cities in China that offer the most promise as locations for UK companies, taking account of the different types of business activity that might be conducted
- Map these opportunities against specific capabilities of UK companies, focusing on seven key priority sectors identified by UK Trade & Investment (namely, Financial and Professional Services, Environment and Climate Change, Energy, Information Communication Technology, Life Sciences, Infrastructure and Advanced Engineering)
- Recommend how UK companies should best capitalise on the business opportunities presented by regional cities in China
- Suggest to UK Government how the entry and operation of UK companies in these cities can be better supported

The research, which was carried out by the China-Britain Business Council (CBBC) and the Centre for International Business at the University of Leeds (CIBUL), comprised both quantitative and qualitative data collection and analysis.

#### 1.1.1 Quantitative Data Collection and Analysis

In order to focus attention on those regional cities most likely to be of interest to UK companies, a quantitative-based city-screening process was implemented using secondary data obtained from China's National Statistics Bureau (in particular, China City Statistical Yearbooks 2004-06), the World Bank and other sources). This screening process was implemented in three stages (details can be found in Annexes 1 and 2).

In the **first stage**, a preliminary screening was conducted in order to short-list a number of cities for more detailed analysis. Annual data were collected on gross domestic product (GDP), GDP growth rate, population and GDP per capita for each of the 274 cities in China with a population in excess of one million (in 2005). These data provide an indication of market size and potential. The established cities of Beijing, Guangzhou and Shenzhen were omitted at this stage, and Chongqing was also excluded because of its familiarity to UK Trade & Investment and UK companies. These data were then converted into a score



which was weighted and summed to produce an attractiveness indicator for each city. Thirty five cities progressed to the second stage of our analysis.

In the **second stage**, a number of location-attractiveness indicators were calculated for each short-listed city. Separate indices were computed for overall business attractiveness and general business environment, as well as for four different types of business activity which UK companies are likely to conduct in China, namely local sales, domestic market-oriented production, export-oriented production and R&D. A broad range of secondary data was collected, standardised and benchmarked against equivalent data for Shanghai. Shanghai was chosen as the benchmark city because of its familiarity to business, helping comparisons to be drawn. We then categorised each of the short-listed cities into one of six groups, from Group A to Group F (Group A being the most attractive), for each of the six indices calculated.

In the **third stage**, a further set of indices was calculated to capture the attractiveness of each city for seven business sectors in which UK companies demonstrate international competitive strength. These priority sectors include Financial and Professional Services, Environment and Climate Change, Energy, Infrastructure, Life Science, Information Communication Technology (ICT) and Advanced Engineering. Again, the short-listed cities were categorised from Group A to Group F (Group A being the most attractive), for each priority sector on the basis of the calculated indices.

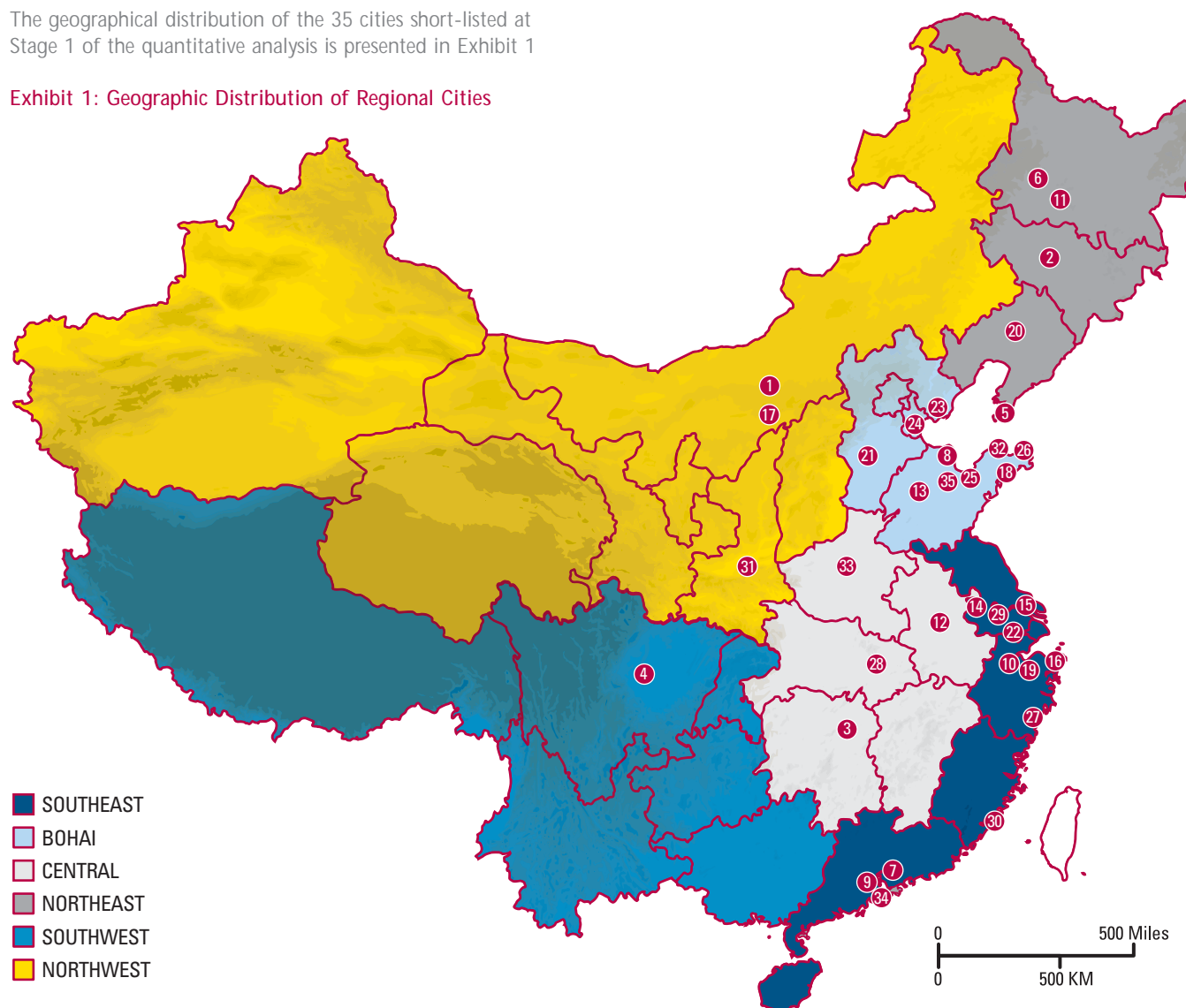
#### 1.1.2 Qualitative Data Collection and Analysis

To complement the quantitative analysis, interviews were conducted with 60 UK and international companies and trade promotion organisations (TPOs), many of whom have operations in at least one of China's regional cities, in order to understand the reasons why particular cities were chosen as business locations and the types of challenges that are faced by companies when operating there. In addition, corporate members of the British Chamber of Commerce in China and CBBC were invited to provide information about their experiences of the China market by completing an online survey. Responses were received from more than 80 companies and the findings from this, which are presented in Section 4, further informed our analysis.

## 2. SHORT-LISTED REGIONAL CITIES IN CHINA

The geographical distribution of the 35 cities short-listed at Stage 1 of the quantitative analysis is presented in Exhibit 1

Exhibit 1: Geographic Distribution of Regional Cities



No	City	No	City	No	City	No	City	No	City
1	Baotou	8	Dongying	15	Nantong	22	Suzhou	29	Wuxi
2	Changchun	9	Foshan	16	Ningbo	23	Tangshan	30	Xiamen
3	Changsha	10	Hangzhou	17	Ordos	24	Tianjin	31	Xi'an
4	Chengdu	11	Harbin	18	Qingdao	25	Weifang	32	Yantai
5	Dalian	12	Hefei	19	Shaoxing	26	Weihai	33	Zhengzhou
6	Daqing	13	Jinan	20	Shenyang	27	Wenzhou	34	Zhuhai
7	Dongguan	14	Nanjing	21	Shijiazhuang	28	Wuhan	35	Zibo

This table lists the cities in alphabetical order



## 2.1 Geographic Distribution

Exhibit 1 shows that the short-listed cities tend to be concentrated in the more economically advanced coastal provinces of China. To a large extent, this reflects historical foreign trade and transportation linkages, and the economic reform policies of the 1980s and 1990s, which led to market opening and liberalisation in numerous economic development zones and 'open' cities along the coast.

It is also possible to discern the development of 'city clusters', in which a number of regional cities have expanded in close proximity to an established first tier city. Thus, Tianjin (an important seaport and the traditional gateway to China's capital), Shijiazhuang and Tangshan each fall within a 170-mile radius of Beijing; Zhuhai, Dongguan and Foshan are less than 65 miles from the provincial capital of Guangzhou; and Suzhou (49 miles), Wuxi (73 miles) and Hangzhou (102 miles) are developing in close proximity to Shanghai. The city of Ningbo (93 miles) will also benefit from the building of the new Hangzhou Bay Bridge, which has reduced the travel time by car to Shanghai to less than two hours.

A further significant cluster of regional cities (without a core established city) can be seen in the Shandong Peninsular of the Bohai Rim. Here, the greatest distance between the four cities

of Qingdao, Yantai, Weifang and Weihai is 175 miles, while two other short-listed cities, Zibo and Dongying, are less than 65 miles from Weifang.

The clustering of regional cities has important implications for companies because it means that multiple city-level markets can potentially be served from a single or small number of business location/s, thus reducing transportation and communication costs, and minimising issues that might arise from cultural differences across wider geographical territories of China. It also means that companies need to be sensitive to changes to China's industrial structure as a consequence of the emergence of city clusters. Already, a large number of component manufacturing and assembly operations has shifted from Shanghai to the nearby cities of Suzhou, Wuxi and Hangzhou for cost reasons.

The remaining 13 short-listed cities not located in the coastal provinces are distributed widely across a range of developing provinces, mainly in the Northeast (5 cities), Central (4), Northwest (3) and Southwest regions (1) of China. These cities (often the provincial capital) benefit from strong economic support policies implemented by the Chinese government. It is likely that the current growth trajectories of these cities will continue in the future.

Exhibit 2: Regional Distribution of Regional Cities<sup>1</sup>

Region	Province	Cities	No of cities
Northeast	Heilongjiang	Daqing, Harbin	5
	Jilin	Changchun	
	Liaoning	Dalian, Shenyang	
Bohai	Hebei	Shijiazhuang, Tangshan	10
	Tianjin	Tianjin	
	Shandong	Jinan, Qingdao, Dongying, Weifang, Weihai, Yantai, Zibo	
Southeast	Jiangsu	Nanjing, Suzhou, Nantong, Wuxi	12
	Zhejiang	Hangzhou, Ningbo, Shaoxing, Wenzhou	
	Fujian	Xiamen	
	Guangdong	Dongguan, Foshan, Zhuhai	
Central	Anhui	Hefei	4
	Henan	Zhengzhou	
	Hubei	Wuhan	
	Hunan	Changsha	
Southwest	Sichuan	Chengdu	1
Northwest	Shaanxi	Xi'an	3
	Inner Mongolia	Baotou, Ordos	

1: Regions are defined as follows: Northeast (Heilongjiang, Jilin and Liaoning provinces); Bohai (Beijing and Tianjin Municipalities, Shandong and Hebei); Southeast (Shanghai Municipality, Jiangsu, Zhejiang, Fujian and Guangdong); Central (Anhui, Henan, Hubei, Hunan and Jiangxi); Southwest (Chongqing Municipality, Tibet, Yunnan, Guizhou, Guangxi, Sichuan and Hainan); and Northwest (Shanxi, Shaanxi, Inner Mongolia, Ningxia, Qinghai, Gansu and Xinjiang)

## 2.2 City Attractiveness Groupings

In this section, we present and discuss five groupings of cities devised using a number of attractiveness indices that were calculated from official secondary data. Our discussions are informed by primary data obtained through interviews and the questionnaire survey.

### 2.2.1 General Business Environment

Sixteen variables were used to calculate a general business-environment index for each of the 35 short-listed regional cities (see Annex 2, Table A1). In calculating this index, emphasis was placed on the role of economic size, foreign-trade levels and inward foreign direct investment (FDI) volumes as indicators of market size, liberalisation and openness to international businesses.

Exhibit 3: General Business Environment Grouping					
Group A (most attractive)	Group B	Group C	Group D	Group E	Group F (least attractive)
Dongguan	Dalian	Foshan	Changchun	Changsha	Baotou
Hangzhou	Ningbo	Nantong	Chengdu	Dongying	Daqing
Qingdao	Tianjin	Nanjing	Weifang	Ordos	Harbin
Shanghai*	Wuxi	Shenyang	Wuhan	Jinan	Hefei
Suzhou	Xiamen	Shaoxing	Zhengzhou	Shijiazhuang	Wenzhou
Weihai	Yantai	Zhuhai	Zibo	Tangshan	Xi'an
* Note: Shanghai is included for benchmarking purposes.					

Exhibit 3 reveals that the most favourable business environment (according to our index) tends to be found in cities located in the coastal provinces, especially those in the Shandong Peninsular and those in the vicinity of Shanghai and Guangzhou. We find that short-listed cities in the central, northeast and northwest provinces have a relatively less favourable business environment, in general.

## 2.2.2 Attractiveness by Business Activity

China's position in the international strategy of businesses is evolving. Historically, companies tended to use China as a low-cost manufacturing base from which to supply export markets. Increasingly, companies are now able to supply local markets from operations both within and outside China. For this reason, we calculate separate city indicators to capture

the relative attractiveness of each city for four different types of generic business activity likely to be conducted by UK companies in China, namely: local sales of imported products, domestic-oriented production, export-oriented production and research and development. Exhibit 4 summarises the findings (see Annex 2 for methodology).

Exhibit 4: City Attractiveness by Business Activity*		
Business Activity	City Profile	Cities Highlighted
Local Sales	<ul style="list-style-type: none"> <li>Higher-than-average disposable income</li> <li>Strong retail sales</li> <li>Good retail infrastructure</li> <li>Lower-cost access to seaports</li> </ul>	<ul style="list-style-type: none"> <li>Dalian</li> <li>Dongguan</li> <li>Hangzhou</li> <li>Qingdao</li> <li>Suzhou</li> <li>Tianjin</li> </ul>
Local Production for Domestic Markets	<ul style="list-style-type: none"> <li>Good logistics network</li> <li>Low labour costs</li> <li>Good labour availability</li> <li>Comparatively low energy costs</li> <li>Preferential government policies</li> <li>Changchun</li> </ul>	<ul style="list-style-type: none"> <li>Shenyang</li> <li>Tangshan</li> <li>Weifang</li> <li>Weihai</li> <li>Wuxi</li> <li>Xi'an</li> </ul>
Local Production for Export Markets	<ul style="list-style-type: none"> <li>Easy access to seaports</li> <li>Strong concentration of multinational manufacturers</li> <li>Large pool of educated workers</li> <li>Good manufacturing infrastructure and facilities</li> <li>Reliable energy and transportation infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Dalian</li> <li>Hangzhou</li> <li>Ningbo</li> <li>Qingdao</li> <li>Suzhou</li> <li>Tianjin</li> <li>Weifang</li> </ul>
Research and Development (R&D)	<ul style="list-style-type: none"> <li>Large pool of university-educated workers</li> <li>Reputable universities and science and technology facilities</li> <li>High government spending on science and education</li> <li>Concentration of high-technology development zones</li> </ul>	<ul style="list-style-type: none"> <li>Chengdu</li> <li>Dalian</li> <li>Hangzhou</li> <li>Harbin</li> <li>Suzhou</li> <li>Tianjin</li> <li>Wuhan</li> <li>Xi'an</li> </ul>
* Note: Shanghai is deliberately omitted from this table		

Exhibit 4 reveals that, of the short-listed cities, those in the coastal provinces generally offer the most attractive domestic market opportunities and, because of their good infrastructure, close proximity to international transport hubs and high-quality human capital, have strong locational advantages as export-oriented manufacturing bases. However, companies looking to produce in China in order to serve local markets or locate to conduct R&D activity should also consider inland cities such as Chengdu and Xi'an, which offer locational advantages in terms of labour-force quality and government support of education and science and technology-related initiatives.

### 2.2.3 Overall Attractiveness Grouping

In addition to our general business environment and business-activities groupings, we also present in Exhibit 5 a grouping based on cities' overall attractiveness.

This is a composite index which incorporates elements of each of the aforementioned indices, except for the indicators we use to proxy export-oriented production. Export-oriented production indicators are omitted because this would involve double-counting

of a number of variables we used to calculate the domestic-oriented production index, which itself is included (see Annex 2, Table A2).

Both our quantitative and qualitative analyses reveal Dalian, Hangzhou, Qingdao, Suzhou and Tianjin as consistently outperforming the other short-listed cities on all of our indicators, except for domestic-oriented production. This finding reflects the importance of the coastal provinces in China's economic development.

Exhibit 5: Overall Attractiveness Ranking

Group A (most attractive)	Group B	Group C	Group D	Group E	Group F (least attractive)
Dalian	Dongguan	Changchun	Chengdu	Harbin	Baotou
Hangzhou	Shenyang	Foshan	Dongying	Nanjing	Changsha
Qingdao	Yantai	Jinan	Shaoxing	Nantong	Daqing
Shanghai*	Weifang	Shijiazhuang	Tangshan	Ningbo	Hefei
Suzhou	Weihai	Wuxi	Xiamen	Zhengzhou	Ordos
Tianjin	Wuhan	Xi'an	Zhuhai	Zibo	Wenzhou

\* Note: Shanghai is included for benchmarking purposes.

**'CHINESE STATE OWNED ENTERPRISE REFORM, RISE OF PRIVATE SECTOR BUSINESSES AND INFLUX OF FOREIGN COMPANIES ARE CONTRIBUTING FACTORS OF THE GROWING ECONOMY IN CHINA'S REGIONAL CITIES. THERE ARE MANY OPPORTUNITIES AND KPMG EXPECTS MORE POTENTIAL CLIENTS IN THESE CITIES.'**

**EDDIE SO, PARTNER, KPMG**

# CASE STUDY 1

## AWI GROUP

A UK SME manufacturer of steelwork and steel-framed buildings – AWI Group. Tom Goldberg, Chairman

### Background

AWI Group is a UK-originated SME specialising in steelwork and steel-framed buildings. We design, manufacture, supply and install steel-framed building packages, used typically in warehouses, factories, schools, stadia and retail centres. AWI Group currently has operations in UK, China, Poland, Germany and Ukraine.

AWI first began doing business with China in 1994, exporting pre-fabricated steel-framed buildings from UK to an international and local customer base, particularly marketing to foreign companies setting up plants and operations.

### Regional city selection strategy

The early strategy for AWI was to set up sales and customer services representation (through an Agent) covering Beijing, Shanghai and Guangzhou, the main Chinese economic centres. AWI supported the Agent in establishing offices in Shanghai and Beijing, only quickly to discover that the Beijing end was not properly supported, due to a lack of conviction, cost commitment and management presence.

We learnt an important lesson, namely that China cannot be considered as a single market. As an SME, we have to concentrate our resources and stay focused.

AWI readjusted and set up its own Representative Office, which we then turned into a Wholly Foreign Owned Enterprise (WFOE), registered in Shanghai's Free Trade Zone of Waigaoqiao, which had various advantages. Our business in China soon took off, as we could concentrate on the opportunities mainly in and around Shanghai, developing partnerships with clients, contractors and designers.

With increasing local competition, and changes in the import waivers from 1997, exporting to serve the China market became less sustainable and so AWI's business model gradually evolved, from exporting from the UK to local manufacturing serving the local market, or a combination of the two.

We have therefore established Atlas Ward Structures Shanghai Ltd, which now serves as a contracting and outsourcing operation, covering China, South-East Asia and the Middle-East market. We have also established (with western partners) a manufacturing base in Ningbo, a portal city in Zhejiang province. Ningbo was chosen because of the advantages of its facilities, lower manufacturing costs and access to export destinations.

With the Ningbo-Shanghai Bridge being completed in 2008, we can bring customers and partners to both of our facilities within two hours.

Zhejiang is a convenient choice, as our Group's offices in the UK are in Yorkshire, and Yorkshire & Humber are 'twinned' with Zhejiang: we have met delegations during their visits to UK, giving us the chance to make very useful government and business contacts in Ningbo and Zhejiang. We were greatly supported and accepted as a business from Yorkshire.

AWI's China operation now plays a significant role in our global business and supply chain, contributing ten per cent of our global turnover and supplying structural products to other Group companies in Europe, as well as exporting to potentially large markets in Australia and US.

### Challenges and Recommendations

Competing with Chinese companies and achieving global quality standards are the most difficult aspects in doing business with China. Chinese steel fabricators usually have a lower cost base and are primarily competing on price. Despite the lower quality standard, they are learning fast. Foreign-invested companies are increasingly managed by locally engaged managers and there is a gradual market acceptance of locally fabricated steel-framed buildings. AWI has maintained a very high manufacturing quality, in order to serve international markets. The company is in process of qualifying for the EU standard.

UK companies should also be aware of the potential operational barriers, as regulations (and interpretation of the regulations) can be updated regularly and it is important to comply with rules and legislation. For instance, foreign-invested companies in China were allowed to engage in import-export activities in 2006, and we achieved significant savings by obtaining the licence.

The "China Challenge" is now greater for UK companies, particularly SMEs. In general, some of the business opportunities are already being explored in the main coastal cities and one could face greater local and international competition. The economic boom will drive the growth of the less-known cities inland. Larger city regions surrounding the main economic centres will also emerge. This trend should not be ignored in a company's forward planning.

UK companies should focus and follow opportunities in areas where they could have a first-mover advantage. We have to be bold and respond to these significant developments proactively.

# 3. SECTORAL OPPORTUNITIES IN CHINA'S REGIONAL CITIES



In this section, we focus attention on opportunities for specific priority sectors within China's regional cities. More in-depth discussion of the opportunities by city can be found in the city and industry profiles presented in Annexes 5 and 6 of this report.

UK Trade & Investment has identified seven core priority sectors in which UK companies have particular strengths when conducting business with China. These are: Financial and Professional Services, Environment and Climate Change, Energy, Information Communication Technology, Life Sciences, Infrastructure and Advanced Engineering.

Separate city groupings were produced using a range of secondary data to devise industry-specific proxies and indicators to indicate each city's attractiveness for a particular sector. These were applied, in combination with the general business-environment index, to categorise each city into one of six groups, as before. Drawing on this quantitative analysis and the primary data collected in interviews, the following sectoral opportunities are identified by city.

**'OPPORTUNITIES LIE IN THE  
ECONOMIC STRENGTH OF THE  
CITY AND THE CONSUMERS'  
PURCHASING POWER.'**

**B&Q**

Exhibit 6: Sector-Specific Opportunities

Sector	Specific Opportunities	Cities Highlighted
Financial and Professional Services	<ul style="list-style-type: none"> <li>• SME banking and trade financing</li> <li>• Wealth management</li> <li>• Consumer products/loans</li> <li>• Credit cards</li> <li>• Insurance and pensions</li> <li>• Private equity</li> <li>• Securities</li> <li>• Legal and professional services</li> <li>• Financial services education, training and qualifications</li> <li>• Banking technology and outsourcing solutions</li> </ul>	<p>City Profile: High concentration of foreign and domestic businesses, and wealth:</p> <ul style="list-style-type: none"> <li>• Suzhou, Hangzhou, Nanjing and Wuxi are thriving manufacturing bases.</li> <li>• Tianjin has plans to become a regional financial centre, which is strongly supported by government.</li> <li>• Dalian, Qingdao and Ningbo are important seaports and offer good opportunities in maritime finance.</li> <li>• Dongguan and Foshan are important manufacturing bases for multinationals.</li> <li>• Chengdu is a preferred location for domestic-oriented outsourcing activity.</li> </ul>
Environment and Climate Change	<ul style="list-style-type: none"> <li>• Air pollution reduction</li> <li>• Wastewater treatment</li> <li>• Solid and hazardous waste treatment</li> <li>• Environmental monitoring and analysis</li> <li>• Environmental consulting services</li> <li>• Clean Development Mechanism (CDM)</li> </ul>	<p>City Profile: Strong manufacturing and industrial base; evidence of local government implementing environmental policies and directives:</p> <ul style="list-style-type: none"> <li>• Rapid economic growth presents environmental challenges across all short-listed regional cities.</li> <li>• Cities with highly polluting sectors (such as chemicals or energy) are seeking advanced environmental technologies and solutions.</li> <li>• Hangzhou and Suzhou have high volumes of wastewater discharge, but are also important tourism destinations with natural water features as key attractions.</li> <li>• Dongguan, Foshan and Zhuhai are key manufacturing bases, with strict directives for tackling climate change issues in place.</li> <li>• Tianjin's spending on environmental protection is second only to Shanghai.</li> <li>• Wuhan was chosen as the first pilot 'Sustainable City' by UK and Chinese government, to collaborate on environmental technologies and practices.</li> </ul>
Energy	<ul style="list-style-type: none"> <li>• Clean coal</li> <li>• Oil and gas enhanced recovery technologies</li> <li>• Offshore deepwater oil and gas exploration and production</li> <li>• Design and manufacture of components for nuclear plant technology</li> <li>• Consulting and safety training for nuclear plants</li> <li>• Windpower component manufacture, training, technology licensing</li> <li>• Renewable energy</li> </ul>	<p>City Profile: Access to natural resources and strong government policy to develop clean and efficient energy.</p> <ul style="list-style-type: none"> <li>• Baotou, Ordos, Tangshan, Shenyang, Changchun and Zhengzhou have established mining industries.</li> <li>• Daqing, Dongying and Chengdu have rich oil and gas resources.</li> <li>• Dongguan and Hangzhou have nuclear power stations nearby.</li> <li>• Tianjin and Nantong have wind-turbine generators whilst wind-turbine manufacturers are based in Baotou and Ordos.</li> </ul>

Exhibit 6: Sector-Specific Opportunities		
Sector	Specific Opportunities	Cities Highlighted
Infrastructure	<ul style="list-style-type: none"> <li>• Construction</li> <li>• 'Intelligent' building</li> <li>• Urban regeneration</li> <li>• Training and consultancy</li> </ul>	<p>City Profile: High investment in fixed assets; high average wage in infrastructure sectors; good rail and road transport links.</p> <ul style="list-style-type: none"> <li>• Opportunities are wide ranging, with regional cities at various stages of development.</li> <li>• Nanjing, Suzhou and Hangzhou have particularly high levels of infrastructure development.</li> <li>• Numerous reconstruction projects available following the earthquake in Sichuan province.</li> </ul>
Life Sciences	<ul style="list-style-type: none"> <li>• Hi-tech medical devices</li> <li>• Over-the-counter medicines</li> <li>• Pharmaceutical R&amp;D</li> <li>• Biotech manufacturing training and consultancy services</li> <li>• Co-operating with Traditional Chinese Medicine (TCM) companies to identify new compounds</li> <li>• Clinical trials</li> </ul>	<p>City Profile: High investment in healthcare infrastructure; high industrial output of medical and pharmaceutical products; high per capital spending on medical services.</p> <ul style="list-style-type: none"> <li>• Rapid urbanisation increases the need for more and better healthcare services in all regional cities.</li> <li>• Hangzhou, Suzhou and Ningbo have had particularly large investment in healthcare infrastructure and a strong output of medical products.</li> <li>• Tianjin has seen rapid growth in the healthcare sector and has a large number of hospitals. Average spending on healthcare is high.</li> <li>• Chengdu has a large number of hospitals and is a centre for TCM manufacturing.</li> </ul>
Information Communication Technology	<ul style="list-style-type: none"> <li>• Telecommunications equipment manufacture and supply</li> <li>• Electronics and IT, including chipset design and electronic sensors</li> <li>• Application software and solutions for key industries</li> <li>• IT outsourcing</li> </ul>	<p>City Profile: Relatively advanced telecoms infrastructure; national software industry bases and strong pool of IT talent.</p> <ul style="list-style-type: none"> <li>• Hangzhou and Suzhou have seen heavy investments in their telecommunications infrastructures.</li> <li>• Dongguan is one of the most important sites for computers and telecommunication equipment manufacture.</li> <li>• Xi'an (communication) and Wuhan (Optic-electronics) also have strong ICT clusters.</li> <li>• Well-known service outsourcing centres include Tianjin, Dalian, Hangzhou and Chengdu.</li> </ul>
Advanced Engineering	<ul style="list-style-type: none"> <li>• Design and technical consultancy</li> <li>• Project management-based consultancy</li> <li>• Sector-specific software for design and management</li> <li>• Key component manufacture</li> <li>• Tooling and machinery</li> <li>• Training</li> </ul>	<p>City Profiles: High gross industrial output of technology-intensive manufacturers; good stock of science and technology personnel in engineering-oriented state-owned enterprises and institutions.</p> <ul style="list-style-type: none"> <li>• Shenyang, Harbin, Xi'an and Chengdu make up China's aviation industrial base.</li> <li>• A large number of cities have developed automobile and components manufacturing clusters. They include Changchun, Tianjin, Hefei, Zhengzhou, Nanjing, Suzhou, Hangzhou, Wuxi, Ningbo, Wuhan and Xi'an.</li> <li>• Dalian, Qingdao, Weihai and Ningbo have industrial clusters for shipbuilding.</li> <li>• Changsha and Wuhan have concentrations of heavy machinery manufacturing capability.</li> <li>• Baotou, Dalian, Qingdao, Wuhan, Hangzhou and Jinan have iron and steel manufacturing and processing industries.</li> </ul>



# CASE STUDY 2

## ENVIRONMENTAL RESOURCES MANAGEMENT (ERM)

**'TO SUCCEED, YOU NEED TO REWRITE YOUR ROADMAP EVERYDAY WHIST THRIVING TO ACHIEVE A GENUINE MUTUAL BENEFIT WITH ALL LOCAL PARTNERS – AND CONTINUOUSLY BE ON THE LEADING EDGE TO KEEP THIS POSITION.'**

**JOHNNY BROWAEYS, ERM**

An international Environmental, Health and Safety (EHS) consultancy. Johnny Browaeys, Regional Manager & Senior Consultant of ERM (China), Chengdu Office

### Background

ERM is one of the world's leading specialist providers of environment, health and safety -related consulting services and support for business and government organisations. Currently, ERM has a presence of over 140 offices in 42 countries and employs more than 3,500 staff, 110 of which are based in China.

ERM's China-entry strategy firstly aims to serve the existing global clients in the China market. Secondly, in terms of first-mover advantage, ERM was the first major international EHS company in China. This strategy led to the formation of a Beijing joint venture (JV) company with a Chinese partner in 1994, which was changed to a Wholly Foreign Owned Enterprise (WFOE) in 2002. Currently, ERM has four offices, in Beijing, Guangzhou, Shanghai and Chengdu.

### Regional city selection strategy

Due to the growing operations of ERM's clients in the Western China region, it was decided that ERM needed to expand away from the increasingly expensive and saturated East Coast area. The Chengdu office was established in 2006 because key clients had chosen the city as their base of operations for Western China. Apart from Western China's abundance of local natural resources, the local consumer market is a leading business centre and supported by a welcoming government. ERM was also attracted by the wealth of local HR resources and the excellent East/West China accessibility offered by Chengdu and Chongqing municipality, due to its vicinity to the Yangtze river.

ERM's strategy was also influenced by government policies. In June 2007, both Chengdu and Chongqing were approved as 'Pilot Reform Cities'. As a result, the local governments of these two cities have been given greater leeway in establishing their own development strategy and preferential policies.

### Challenges and Recommendations

The central government has prioritised the issue of China's commitment to a cleaner environment. As a result, there have been many new regulations and international standards introduced recently, which local companies and industries must all observe.

In China's growing environment sector, it is also important for foreign investors to realise that the recent shifts in policy and the fast pace of regulatory change are also challenging for the local authorities. Key performance indicators for Chinese officials are now aligned with China's policy goals of sustainable and harmonious development. In the past, attracting investment was the priority. Today, it is more important to attract sustainable investment which helps to address regional environmental and societal challenges. For example, the increasing popularity of the Equator Principles ([www.equator-principles.com](http://www.equator-principles.com)) as a guideline for project appraisal by international lenders shows how environmental and social issues are also beginning to break through in China's capital markets.

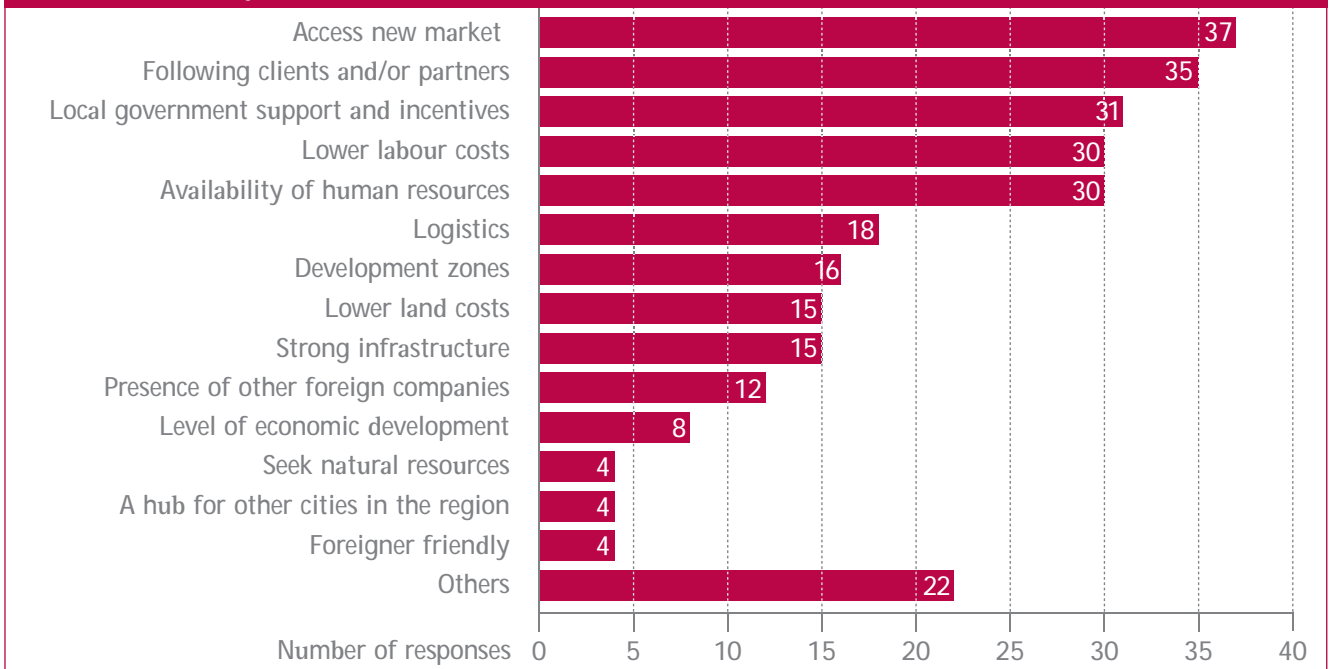
To be successful in the market, ERM recommends that foreign investors should emphasise the environmental and social benefits of their investment, so as to help local governments meet their new targets. Recently, there have been several examples of where a well thought-out strategy to address regional environmental, health, safety and community issues has helped an investor to build their case and beat other competitors to the deal.

In terms of general entry strategy and establishing a base in China, choosing the optimum business entity model is a very important stage and requires expert financial, legal and environmental advice and support. To operate effectively in the China market, decision makers must be open-minded, flexible and willing to update and adapt their business strategy continuously, while targeting a genuine mutual benefit with local partners is the key to maintaining a competitive edge.

As a major global leader in a growing regional city, ERM believes that there should be more support in the small localities - for example, in the provision of up-to-date local information and networking opportunities with other international companies. There is also a lack of information related to expatriate living in the localities, which is a major drawback in attracting needed, skilled workers to the regional cities.

# 4. DOING BUSINESS IN CHINA'S REGIONAL CITIES

Exhibit 7: Market-Entry Drivers



In order to understand why UK companies establish operations in China's regional cities, primary data were collected on market-entry motivations, by interviewing and surveying leading UK and international firms. The results presented in Exhibit 7 show that market-related factors are the principal drivers, together with cost, government and institutional support, and the quality of human capital.

#### 4.1 Access to new markets.

Companies report that many established city markets are maturing and competition is high. Rising income levels and consumer purchasing power among the fast-growing regional cities offer important growth opportunities for companies looking to expand their operations in China. However, competition in consumer and industrial markets is likely to intensify over the next few years as foreign and domestic companies direct greater attention to these cities. Respondent companies reported that having early-mover advantage will be key to establishing a market position successfully. Access to new markets was found to be especially important for service companies.

#### 4.2 Following existing clients and/or partners.

As companies increasingly extend activities to encompass regional city markets, it is natural that their established (and prospective) suppliers will consider following suit. This strategic response is found to be the second most important market-entry driver in our survey. This finding highlights the importance of operating within established business networks in China. It also

suggests that companies should monitor foreign direct investment and business relocation trends in their sectors at a city level in China as part of their sub-national location strategy.

#### 4.3 Cost-related factors.

China's changing economic landscape means that new and more competitive manufacturing locations away from the traditional 'hotspots' are becoming increasingly accessible to foreign companies. Many foreign manufacturers in China are shifting their operations to regional cities in order to cut input costs, especially in relation to land, labour and energy, which are rising appreciably in the more economically advanced coastal regions. This is clearly evident in our survey, with labour cost and availability factors both appearing in the top-five market-entry drivers identified by respondent companies.

#### 4.4 Incentives and government policy.

Many of the respondent companies indicated that government incentives and preferential policies were important considerations in relocating to a particular regional city, but only as an additional benefit or bonus to their core motivation, which was typically market or cost-related.

The eastern coastal provinces and cities benefited the most from the 'market reform and opening up' policies introduced since the 1980s. More recently, the Chinese State Development and Reform Commission (SDRC) has set out a number of strategic campaigns, in order to attract more domestic and foreign

business and investment to help stimulate economic growth and demographical development in the underdeveloped regions of China's central and western provinces. There are three such major programmes:

**'Go West Campaign':** This was launched in 2000 and targets the western regions. (Chongqing Municipality, plus nine other provinces, namely Sichuan, Yunnan, Guizhou, Shaanxi, Ningxia, Gansu, Qinghai, Inner Mongolia and Guangxi).

**'Northeast Regeneration Campaign' (Northeast revitalisation):** This was launched in 2003 with an agenda to regenerate China's old industrial base – the Northeast region (specifically Heilongjiang, Jilin, Liaoning province and the north-eastern part of Inner Mongolia).

**'Go Inland Campaign' (Go Central):** This was launched in 2006 and targets six provinces in China's central region (Shanxi, Henan, Anhui, Hubei, Hunan and Jiangxi).

Thirteen of the regional cities identified by our research fall within the supported regions. They are typically distant from China's eastern coast and are often overlooked by businesses and investors. However, many of the cities in these regions have significant location advantages because of their strong natural resource endowments, well-established industry clusters and (typically) lower input costs.

Foreign businesses and investment are very much welcomed in these regions. It is more likely for foreign companies to be able to negotiate preferential treatment and incentives here (such as tax breaks, discounted land usage and energy prices, as well as accelerated approval of licences, particularly if the foreign partner involves itself in high/new technology or matches with the promoted industrial sectors) than in the more economically advanced areas of China.

Although the Chinese government has been raising the profiles of the central and western provinces, our research found that the number of foreign companies established in the 13 short-listed regional cities located in these regions is low. Infrastructure improvements (e.g. transportation and telecommunications) and a greater sophistication of city-level markets in these areas are needed for foreign investors seriously to consider relocating there. Nonetheless, it is recommended that companies investigate the various regional options and relevant government incentives available to them, because this may make relocating to a central or western city quite attractive.

#### 4.5 Availability of human resources.

The recruitment and retention of suitably qualified staff is one of the biggest – if not the biggest – challenge faced by companies in China today. The problem is particularly acute when looking for middle to upper managers who can be entrusted to steer the business. In

general, there is a strong preference amongst Chinese to work in established cities such as Beijing and Shanghai. However, a 'war for talent' across many sectors is creating significant retention problems and high wage inflation and the ability to access pools of talent better is becoming an increasingly important driver. The number of universities with capabilities and specialisations in particular industrial sectors provides an important indicator of a city's potential to meet HR needs and should be considered in a location strategy. Also important is the willingness of current employees to relocate to a particular city, should this be required. Companies will need to demonstrate how working in a regional city is aligned with career progression in order to attract staff to these areas.

#### 4.6 Logistics.

The research shows that logistics issues are important for many respondent companies when considering locating to China's regional cities, not least because locating production to inland cities will impact on the time and cost of transporting goods to market destinations inside and outside China. Manufacturing companies in particular need to balance cost savings carefully against additional logistics costs when considering relocating production away from the coastal regions of China.

#### 4.7 Supporting infrastructure.

Companies need to be confident that the infrastructure (especially communications, energy and water supply) offered by a regional city location will be sufficient to meet their requirements, and this is highlighted by our study. Many regional city governments are investing heavily to improve the business-supporting infrastructure. All of the short-listed cities have one or more economic development zones, where facilities and infrastructure have been put in place to support the growth of key industries such as automotive, electronics and life sciences.

Because the types of incentives vary by city depending on the industry concerned, companies should take care to assess the relative attractiveness of the development zones available to them in their city location strategy.

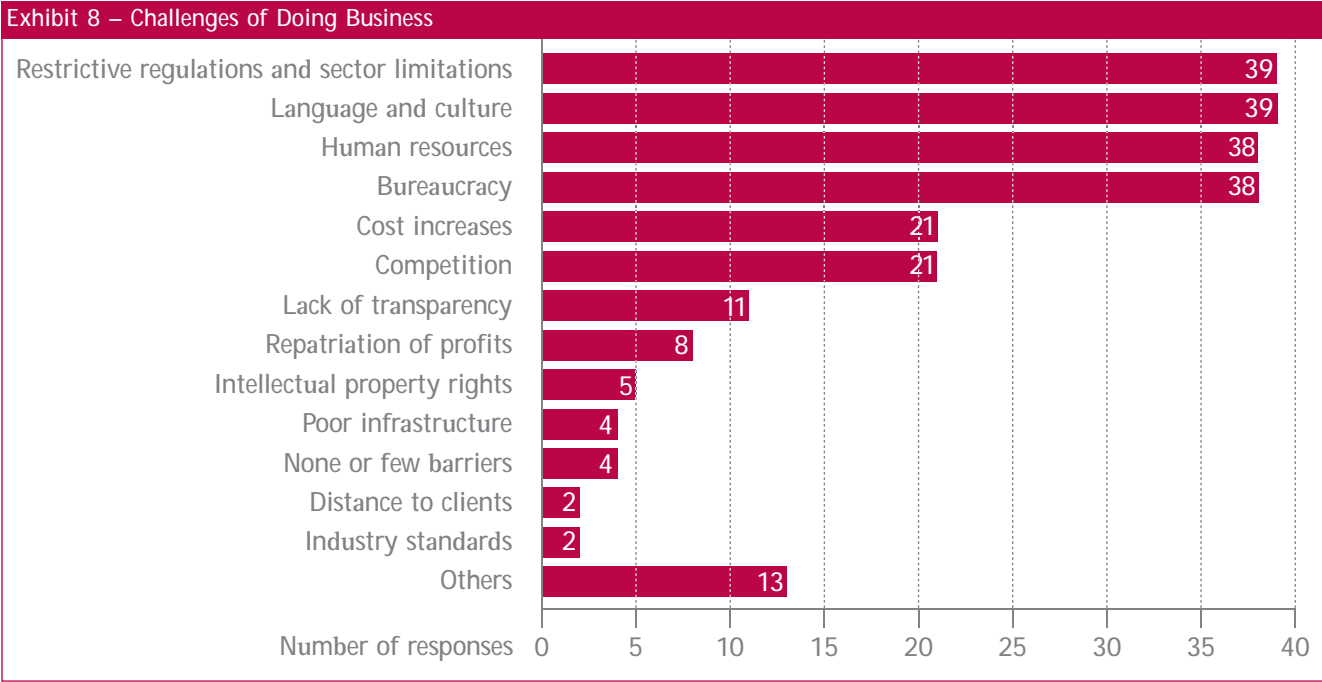
#### 4.8 Resource seeking.

For resource-oriented companies (e.g. metals, minerals and oil and gas), the presence of sufficient resources within an area to meet their demand requirements is a prime motivator. However, this factor is seen as being of less relevance to respondents that took part in our survey compared with market-related and cost-related factors.

Interestingly, it appears that only a small number of companies considered the level of economic development and the ability to use a location hub to serve other proximate cities as a key entry driver. This behaviour, however, is likely to become of greater importance in the future, especially amongst small and medium enterprises (SMEs).

# 5. CHALLENGES OF DOING BUSINESS IN REGIONAL CITIES

Our research reveals a number of challenges confronting UK companies as they seek to exploit opportunities in China (see Exhibit 8). Many of these challenges are reflected across the country, although certain issues are more acute in regional cities. In particular, because local governments are not as experienced in dealing with foreign companies compared with the established cities, bureaucratic difficulties tend to be more prevalent.



In Exhibit 9, the key challenges of doing business in China are grouped into three types by source (central and local government, operational barriers and market forces), and suggestions for how companies might mitigate them are made.

## Exhibit 9 – Key Issues and Suggested Responses

Type	Key Issues	Suggested Responses
Central and local government challenges	<ul style="list-style-type: none"> <li>• Restrictive regulations and sectoral limitations</li> <li>• Lack of transparency</li> <li>• Variations between national and local policies</li> <li>• Bureaucratic obstacles</li> </ul>	<ul style="list-style-type: none"> <li>• Seek legal advice on current regulations and how they are applied by local authorities.</li> <li>• Talk to the local branches of UK Trade &amp; Investment and CBBC to understand local policy variations.</li> <li>• Notify UK diplomatic posts of any significant difficulties that can be brought to the attention of central or local government.</li> <li>• Build and nurture effective working relationships ('guanxi') with local government authorities, including custom officials.</li> <li>• Contact foreign companies familiar with particular cities to gain a picture of local operating and administrative conditions.</li> </ul>
Market challenges	<ul style="list-style-type: none"> <li>• Understanding business environment</li> <li>• Competition</li> <li>• Language and culture</li> <li>• Lack of brand recognition</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct market research prior to entry. UKTI's Overseas Market Introduction Service (OMIS) can help with market intelligence and business meeting arrangements for UK companies in particular cities.</li> <li>• Educate the market and localise your product.</li> <li>• Do not assume that what sells in the UK or elsewhere in the world will sell in the same way in China. Consider sub-national variations in China, too.</li> <li>• Consider working with reputable local partners in particular cities.</li> <li>• Use local professional services to conduct due diligence on potential local partners.</li> </ul>
Operational challenges	<ul style="list-style-type: none"> <li>• Recruitment and retention</li> <li>• Language and culture</li> </ul>	<ul style="list-style-type: none"> <li>• Consider HR policies carefully, giving special thought to career-progression plans, training, personal development plans and wage strategies that are appropriate for particular city-level labour markets.</li> <li>• Appreciate that standardised HR policies may need to be adapted for particular city locations.</li> <li>• Consider the mix of local to expatriate staff.</li> <li>• Consider recruiting staff with background from Chinese-speaking markets such as Singapore and Hong Kong.</li> <li>• Consider recruiting Chinese staff with overseas education and working experience.</li> </ul>
	<ul style="list-style-type: none"> <li>• Cost increases</li> </ul>	<ul style="list-style-type: none"> <li>• Consider locating away from traditional investment 'hotspots', where lower labour and land costs can be enjoyed.</li> <li>• Location studies should take account of transportation costs and business disruption due to power failure etc, in addition to labour and land costs.</li> <li>• If appropriate, consider hedging against RMB appreciation by pricing products and services in the local currency.</li> </ul>
	<ul style="list-style-type: none"> <li>• Business set-up</li> </ul>	<ul style="list-style-type: none"> <li>• Evaluate the most suitable market set-up strategy according to business objectives.</li> <li>• Seek advice on the benefits and restrictions of different options, e.g. for joint venture, wholly foreign owned enterprise (WFOE) or representative office.</li> <li>• Conduct thorough due diligence on potential business partners.</li> <li>• Ensure that your interests are protected through robust agreements and contracts.</li> </ul>

Exhibit 9 – Key Issues and Suggested Responses continued

Type	Key Issues	Suggested Responses
Operational challenges continued	<ul style="list-style-type: none"> <li>Intellectual property protection</li> </ul>	<ul style="list-style-type: none"> <li>Register your IP in China.</li> <li>Ensure that you are familiar with national IPR laws and seek legal advice.</li> <li>Carefully select employees and local partners with protection of intangible assets and proprietary knowledge and information in mind.</li> <li>Safeguard key technologies and components, e.g. by separating manufacturing functions.</li> <li>UK Trade &amp; Investment and CBBC can provide up-to-date guidelines on IP protection in China.</li> </ul>
	<ul style="list-style-type: none"> <li>Corruption</li> </ul>	<ul style="list-style-type: none"> <li>Maintain company values and governance systems.</li> <li>Communicate company's code of conduct to suppliers and customers in China.</li> <li>Report any instances of corrupt practices to the British embassy or consulate.</li> </ul>

**‘BARRIERS ARE COMING DOWN, HOWEVER COMPETITION FROM BOTH FOREIGN AND CHINESE PLAYERS IS INCREASING’**  
INTERNATIONAL SOS

# CASE STUDY 3

## PFB ASSOCIATES CONSULTANCY (CHINA) LTD

A small foreign consultancy and trading company  
Peter Bloxham, Chairman

### Background

PFB Associates Consultancy (China) Ltd is an educational services and business consultancy partnership co-operation company, with a background in agri-food. It was established in 2003 in Beijing because of its proximity to known contacts and universities.

Over the last few years, PFB has diversified its business focus to include consultancy services in the environmental services sector (introducing reed-bed technology to China), importing premium British beers and market research. Our latest market research will support the UK health beverages franchise, Go Go Juice, enter the China market.

### Regional city selection strategy

In the education field, PFB focused on establishing links with outstanding educational institutions specialising in agri-food-related studies. The company has been successful in building relationships between Harper Adams University College in the UK and various Chinese agri-food specialist universities, a discipline which is gaining popularity in China. Aside from Beijing, the company has developed links with universities in Taizhou, Wuhan and Hohhot.

Recently, a five-year training agreement was signed (on behalf of Harper Adams University College) with the Ministry of Agriculture in Beijing, which includes both in-country and UK-based training covering areas such as the WTO, the global food supply chain and issues relating to food quality and safety.

PFB's most successful venture to date has been the importation of premium British beers. We have the sole distribution rights for Greene King beers in China and are selling 4,000 bottles a month in Beijing, with 8,000 bottles per month targeted by the end of the year.

The company receives the imported goods in Tianjin, whereupon they are transported and stored locally in warehouse facilities in Beijing, ready for immediate distribution. For other cities, we are establishing relationships with local distribution companies through contacts that have been developed over several years.

As a premium, high-end beverage, the product is targeted at China's growing expatriate market and the rapidly increasing number of upper middle-class Chinese. Reviewing recent economic developments, PFB is currently in the process of establishing sales channels in Tianjin, Qingdao, Chengdu, Wuhan and Shenyang, and has recently opened a market in Jinan. These regional cities are all considered by PFB to be attractive investment destinations for foreign companies.

### Challenges and Recommendations

Although PFB has come across its fair share of challenges in doing business in China, particularly regarding the bureaucracy involved in establishing a company and dealing with the local banks, we believe that these challenges are easily offset by the entrepreneurship and 'can-do' attitude in the China market. So much so, that we feel that doing business in China is easier than doing business in the UK.

To overcome the shortcomings inherent in the China market, we strongly recommend the use of professional company registration agents, banking with an international bank and having a good business network in order to keep up-to-date with the changing rules and regulations. Furthermore, in the initial stages of entering the Chinese market, the company and management must be small and tightly controlled in order to adapt to unforeseen and changing market traits unique to China.

As a small business owner in the China market, PFB believe that there is a need for up-to-date information on the regional cities so that they can better decide where to concentrate their investments.

# 6. GOVERNMENT SUPPORT

**'THERE ARE OBVIOUSLY GREATER RISKS IN LESSER KNOWN CITIES, BUT ALSO GREATER POTENTIAL RETURNS GIVEN THE RELATIVE LACK OF COMPETITION. NO REGIONAL CITY CAN BE DISCOUNTED WITHOUT RIGOROUS RESEARCH BEING FIRST CARRIED OUT.'**  
GUY DRU DRURY, CHIEF REPRESENTATIVE, CBI

During the research, companies already active in China's regional cities were invited to comment on how the UK Government might improve the services it offers to new entrants and existing firms. It was found that they would like to see continued and further support from Government and TPOs in one or more of the following areas:

- **Lobbying and representation:** This is seen by companies as a key benefit of working closely with the UK Government and its agencies in China. Firms report that they would like more support, to help raise the profile of UK businesses in China's regional cities.
- **Access to networks:** Companies would like UK Government to help them to access existing support networks within individual cities, including key contacts with local government and businesses, TPOs and other UK firms. One way to achieve this would be to continue to strengthen and exploit the civic, education and cultural links that already exist between UK and Chinese cities.
- **Access to information:** Companies would like to have better access to general city-level market intelligence and business information in China. To achieve this, UK Trade & Investment and its partners could work together to create a structured and accessible portal that is centralised and contains up-to-date and comprehensive information. This facility would need to be marketed effectively.
- **Awareness of commercial opportunities:** Companies would like to have better access to information on sector-specific business opportunities and need to be better directed to existing information (e.g. on UK Trade & Investment's China portal). UK Trade & Investment and its partners should be more proactive in collecting and disseminating this type of information through appropriate technologies (e.g. email alerts) and services provision (such as briefings, workshops and organised visits and missions).
- **'Handholding' services:** A few companies reported that new-to-market SMEs would benefit from 'handholding' services. UK Trade & Investment should be able to explain to companies where reputable providers of these types of services can be found.

UK Trade & Investment and its partners in China already provide much of this assistance, information and support requested by companies. However, it appears that information about these services needs to be centralised (so it can be found more easily) and better marketed to UK firms.



# 7. CONCLUSIONS

**'SHOW THAT YOU ARE GENUINE, PERSISTENT AND PATIENT, OTHERWISE DOING BUSINESS WITH CHINA COULD BE A FRUSTRATING EXPERIENCE. WE'VE BEEN TOLD NOT TO GO TO URUMQI, BY VARIOUS CHINESE CONTACTS. BUT WE DID GO AND DEVELOPED A GENUINE BUSINESS PROPOSITION AND INDEED RECEIVED REVENUE FROM THAT VENTURE. I RECOMMEND UK COMPANIES BE BRAVE AND INVESTIGATE THE LESS KNOWN REGIONS WHERE OPPORTUNITIES DO ARISE. STEVE BELLIS, DIRECTOR, LYNX GROUP INTERNATIONAL**

It is apparent from our research that the regional cities in China offer a wide range of opportunities across a broad number of sectors to UK companies. Clearly, those companies seeking to serve local consumer markets in China will be attracted by the economic expansion, rising purchasing power and growing populations that the rapid urbanisation of China's regional cities is bringing about. For such firms, the regional cities in the more advanced coastal regions (such as Dalian, Dongguan, Hangzhou, Qingdao, Suzhou and Tianjin) probably offer the most attractive business opportunities at present. However, the location opportunities for those companies looking to manufacture or conduct R&D activity in China are more dispersed, and a number of central and western cities such as Chengdu and Xi'an now enter the frame. For resource-oriented firms, the opportunities are highly sector-specific and will be driven by the nature of the resource endowments of individual cities. In this respect, the location options are likely to be more constrained for these types of firms.

Because of the heterogeneity and fast rate of development of China's regional cities, the relative locational advantages of individual cities need to be carefully assessed against current and future strategic objectives of companies on an ongoing basis. This report provides a framework for understanding the current state of development of China's regional cities and the opportunities this presents to UK firms.



# 8. UK TRADE & INVESTMENT SERVICES

## HOW CAN WE HELP YOU

UK Trade & Investment is the lead government organisation that supports companies in the UK trading internationally. The China-Britain Business Council (CBBC) is the UK's leading source of China business information, advice, consultancy and services for UK industry. Our extensive partner network available through the British Embassy in Beijing, the British Consulate-Generals in Shanghai, Chongqing and Guangzhou, and through the eleven China-Britain Business Council offices across China, can assist UK companies by providing advice and information on primary and regional cities.

Trade development services provided and delivered by UK Trade & Investment and CBBC are structured around providing advice and support, information and opportunities and making it happen.

- **The UK Trade & Investment High Growth Markets Programme:** helps UK companies to capitalise on major commercial opportunities in some of the world's fastest growing markets, including China.
- **Overseas Market Introduction Service (OMIS):** a chargeable service tailored to the requirements of the client, to access market and industry information, to identify potential contacts in-market, to schedule meetings for visiting the market or to assist in planning an event in-market, like a product launch or networking reception.
- **Passport to export:** an assessment and skills-based programme that provides new and inexperienced exporters with the training, planning and ongoing support they need to succeed overseas.
- **Events and seminars:** market and business issues addressed in events and seminars across China and the UK.

- **Missions:** Outward missions to China allow UK companies the opportunity to be supported in visiting the market, with group activities and meetings organised. Inward missions from China allow UK companies to meet with Chinese companies visiting the UK, as potential business partners or as potential investors to the UK.
- **Business Opportunities:** opportunities arising from China are shared with UK companies, to match their products and services to those requested by Chinese companies.
- **Market information and sector reports:** available through [www.uktradeinvest.gov.uk](http://www.uktradeinvest.gov.uk) and [www.cbcc.org](http://www.cbcc.org)
- **Export Communications Review:** assessment of your company's export communications followed by practical recommendations for improvement (managed by British Chambers of Commerce).
- **Export Marketing Research Scheme:** this service provides companies with the facility to collect systematic and objective market research to assist in the development of a market entry strategy (managed by British Chambers of Commerce).
- **Commercial enquiry service in China and the UK:** dedicated telephone number and email account.
- **Practical support:** translation, interpreters, meeting arrangements and logistic advice.
- **Establishing a presence in China:** CBBC's services of Launchpad and Representative Office handholds UK companies in establishing a presence in China.

More information on how to access these services through our network of International Trade Advisors is available at [www.uktradeinvest.gov.uk/ukti/appmanager/ukti/ournetwork](http://www.uktradeinvest.gov.uk/ukti/appmanager/ukti/ournetwork)

# USEFUL CONTACTS

UK Trade & Investment  
[www.uktradeinvest.gov.uk](http://www.uktradeinvest.gov.uk)

British Diplomatic Posts in China  
[www.uk.cn](http://www.uk.cn)

China-Britain Business Council  
[www.cbbc.org](http://www.cbbc.org)

British Chamber of Commerce in China  
[www.britcham.org](http://www.britcham.org)

New - China Business Guide  
[www.uktradeinvest.gov.uk/ukti/fileDownload/ChinaGuide2ndEd.pdf?cid=414175](http://www.uktradeinvest.gov.uk/ukti/fileDownload/ChinaGuide2ndEd.pdf?cid=414175)

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