SMALL FISH IN A GREAT SEA:

White Paper on Swedish and European SMEs in China

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1. Introduction and Methodology

This white paper aims to give a brief overview of some of the key issues surrounding entering and expanding in the Chinese market for Swedish and European Small and Medium-Sized Enterprises (SMEs). Swedish and other foreign companies have been facing a hardening market climate in China during the past years, and previous optimism regarding the Chinese market has partially diminished. The current global economic downturn, the lingering effects of the pandemic, geopolitical tensions, and toughening competition from local companies are all contributing to a more negative outlook on entering the Chinese market among Swedish and European companies. SMEs have been particularly affected in recent years, as they oftentimes lack the resources and experience to deal with drastic changes in the Chinese market and business climate.

Despite these developments, the Chinese market continues to offer foreign SMEs many of the same opportunities that it has for the past decades, as well as new opportunities for those that are already present with operations on the ground. While there has been a recent downturn in consumption, the Chinese market remains as one of the world's largest, and it is increasingly becoming an epicenter of innovation and technological development within many sectors. Successfully entering and navigating the Chinese market offers Swedish and European SMEs the potential to tap into a massive and dynamic market, and it can lead them to learn and develop within the Chinese ecosystem of technology and innovation.

The purpose of this white paper is twofold. First, it is to act as a supporting document for any Swedish or European SME that is considering entering the Chinese market. It is also meant for those SMEs already present and looking to expand or upgrade their operations in the Chinese market. For those purposes, this white paper gathers information and insights from renowned experts on various aspects of the Chinese market, as well as the experience of a few select Swedish SMEs that have managed to succeed in the Chinese market. This has been achieved via conducting interviews with five institutions or companies that are experts on various aspects of the Chinese market and with five Swedish SMEs currently present in the market. Out of the five participating Swedish SMEs, three chose to remain anonymous.

1. Introduction and Methodology

Roughly half of the approximately 210 member companies of the Swedish Chamber of Commerce in China employ fewer than 250 people. They therefore achieve at least one of the three EU criteria of the SME definition, the other two being related to turnover and the balance sheet. We hope that many Swedish and European SMEs present in China will benefit from the insights, information, and recommendations of this white paper. In covering many aspects of the Chinese market and how to succeed as a foreign SME in the Chinese market, we also hope that this white paper will be useful and insightful to readers from many other backgrounds and companies.

The primary data used for this white paper was gathered through a combination of written questionnaires for the participating SMEs and in-person interviews held over video-calls for the participating experts. The questions asked were as a rule open-ended and were purposefully formulated in a neutral way, to allow the participants to give both narrow and broad answers that reflected their views on the Chinese market. The few closed questions that were asked had open-ended follow-up questions to allow the participants to expand on their answers. Due to the style of the interviews conducted, and because only ten interviews were conducted, the focus of this white paper is qualitative rather than quantitative. Because the Business Climate Survey for Mainland China by Team Sweden China and the Business Confidence Survey from the EU Chamber of Commerce in China both present extensive quantitative and statistical analysis of the business climate in China, this white paper can hopefully act as a complementary document that further explores some aspects of the Chinese business climate for Swedish and European SMEs using a qualitative method. The secondary data collected for this white paper was taken from previous research and publications from trusted institutions with expert knowledge on the relevant topics.

1.1 Participating Experts and Companies

EUSME Centre

ARC Consulting

Wikborg | Rein

Välinge

China IP SME Helpdesk

Lyckeby

Vinnova
Sveriges innovationsmyndighet

Participating Experts

1. **EU SME Centre**

   The EU SME Centre is an institution primarily funded by the EU Commission with the purpose of supporting European SMEs in China with information and advice on how to navigate the Chinese market. They offer free training sessions, one-to-one calls, and tailored advice. In addition, the Centre works on joint publications such as position papers and policy environment reports.

2. **China IP SME Helpdesk**

   The China IP SME Helpdesk was created in 2008 and the project is funded by the EU. They focus solely on IPR in Mainland China, Hong Kong, Macao and Taiwan, and support European SMEs and SMEs from countries participating in the Single Market Programme with IP protection, management, and enforcement by providing free first-line advice and services such as trainings and publications.

3. **Vinnova**

   Vinnova is Sweden’s innovation agency, under Sweden’s Ministry of Climate and Enterprise. Vinnova’s mission is to strengthen Sweden's innovative capacity and contribute to sustainable growth. Vinnova works to ensure that Sweden is an innovative force in a sustainable world.

Participating Experts

4. **Wikborg Rein**

Wikborg Rein is a Norwegian law firm established over a 100 years ago, with 20 years of experience in the Chinese market. They work with an extensive range of companies in China, with both foreign and domestic clients ranging from large companies with a long history in China to SMEs looking to establish themselves in the Chinese market. Wikborg Rein assists international companies across all phases of their business operations in China and with a multitude of legal issues such as corporate and transactional work, compliance, IP questions and dispute resolution as well as derisking, crisis management and so on.

5. **ARC Consulting (ARC)**

ARC Consulting is a consultancy firm with a focus on the Asian market, helping their clients with a multitude of issues such as sourcing and supply chain management, mergers and acquisitions, market entry and market expansion, and transformation and restructuring. They have an office in Beijing and have a long history of supporting Swedish and European SMEs in the Chinese market.

Participating Companies

1. **Välinge**

   An innovative provider of flooring, furniture and surface technologies and solutions.

2. **Lyckeby**

   A Swedish food company developing, producing and selling starches and potato fiber.

3. Anonymous Swedish company in the Events and Sports Marketing Business (Swedish Sports Marketing Company).

4. Anonymous Swedish company in the Industrial Information and Communication Technology sector (Swedish ICT Company).

5. Anonymous Swedish consulting firm specialized in Process Improvement and Business Model Transformation (Swedish Consulting Firm).

2. Summary: Key Points & Recommendations

2.1 Key Points

1. The pandemic and supply-chain disruptions acted as major factors in altering the risk perception of China for many foreign companies, as company operations were disrupted, and many foreign nationals left China. Recently, economic slowdown and geopolitical tensions have led to disruptions in business operations and to considerable uncertainty.

2. The current accessibility and attractiveness of the Chinese market is largely dependent on which sector a foreign company is operating in, as business prospects and entry barriers can vary greatly.

3. The immense size of the Chinese market combined with the speed and level of innovation are two enduring pull-factors for Swedish and European SMEs.

4. China leads in several innovation indicators, such as patents, trademarks, and industrial designs by origin, and is an attractive destination for Research and Development (R&D) for Swedish and European SMEs.

5. Swedish SMEs are well-known leading players in innovation and sustainability, which can make them well-positioned for succeeding in the Chinese market.

6. Competition in China has generally become much stiffer in recent years. European SMEs looking to enter the Chinese market need a great business case to ensure they can sustain the competition.

7. The gap in technological development and skilled labor costs that previously existed between Europe and China has been dramatically reduced in the past decade. The narrowing of this gap is one of the main causes of hesitation for European SMEs looking to enter China.

8. The Chinese business climate is becoming more similar to the European one in the sense that due diligence and compliance are receiving greater importance. With this development, legal risk mitigation in China is becoming more burdensome, as there are more increasingly strict laws to comply with.

9. In China, it is not uncommon to place a heavy focus on informal agreements and interpersonal relations in addition to formal agreements, which makes being physically present in China and getting to know your partners of crucial importance.

10. While there are difficulties to access financing for ventures in China, China has taken measures to reduce the financial burden for SMEs. Additionally, local government support in China for domestic and foreign businesses that can bring revenue to the local government is likely unparalleled in recent times.

11. The protection of Intellectual Property Rights (IPR) in China has improved in recent years and is generally seen as adequate by surveyed European companies, although it remains an area where improper handling can cause devastating effects for European SMEs in the Chinese market.

12. Foreign SMEs are legally entitled to receive the same equal treatment as Chinese companies in regard to their dealings with local government actors in China. In practice however this is not always the case and can depend on multiple factors. Two important factors are whether the specific sector your company operates in is considered strategic by the Chinese government, and whether your company has production or R&D operations within China or mostly imports your own products from abroad to be sold in China.

2.2 Key Recommendations

1. Before entering the Chinese market, analyze the region at large and understand which consumer segment you are targeting. Assess the viability of your company succeeding in the Chinese market and compare that outlook with the viability of other markets. You should also analyze local development plans, such as five-year plans and other actions plans, to identify which specific municipalities and provinces are in more need of the specific technology or product you are offering.

2. Different regions of China have varying business cultures and market opportunities. It is important to research the benefits and drawbacks associated with different regions before deciding where to enter or expand in the Chinese market.

3. Research which market access requirements apply to your product in China, and which regulations you will have to comply with.

4. Approach China with flexibility and an open mind and make an effort to understand both local culture and business practices, so that you can efficiently adapt your business to the Chinese market.

5. Do proper due diligence on your Chinese business partners, as this choice can often make or break ventures into China. This should not be regarded as a one-off exercise when entering into a partnership, but rather a regular exercise even if the cooperation is proceeding well. The aim is to identify potential red flags and vulnerabilities.

6. If possible, maintain a strong presence in China to keep pace with the innovation and technological development in the Chinese market. It is also important to be in close and regular contact with your partners and suppliers in China, in order to build and maintain good relations and to have a clear overview of your operations for risk management purposes.

7. Ensure that your China operations are receiving sufficient focus and attention; the Chinese market generally requires a deeper level of commitment compared to other markets. This is the case both for the process of entering China, as well as for maintaining continued success once established.

8. There is often an information-disconnect between those who are present in China and those who are back at HQ in Europe. To minimize this information-disconnect, aim to maintain a good flow of information from your China office to HQ, arrange frequent visits to China, and try to understand the short- and long-term risks using all available information.

9. Having to simultaneously comply with multiple legal frameworks can mean that European SMEs end up being squeezed between different, and sometimes fragmented and overlapping, legal frameworks. Map and analyze your operations in China and identify vulnerabilities and potential areas of non-compliance with legal frameworks, perhaps by seeking assessment and advice from external experts.

10. In China, the “first to file” principle applies for trademarks and patents. It is extremely important to secure your IP even before entering the Chinese market, and to conduct proper research and preparations regarding IP protection.

11. Be attentive to your relationship with the local government, and if possible have at least one employee responsible for dealing with Government Affairs. Maintain an awareness of potential risks and unequal conditions within your industry and observe changes in the situation attentively.

3. Organizations that offer support to Swedish SMEs in China

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For Swedish and European SMEs aiming to enter and maintain success in the Chinese market, support from experienced and knowledgeable institutions can be crucial. Below is a list of some of the organizations that Swedish SMEs can contact for support in China. Most of the listed organizations also offer support to European SMEs.

1. The EU SME Centre - info@eusmecentre.org.cn

2. China IP SME Helpdesk - question@china-iprhelpdesk.eu

3. Vinnova - vinnova@vinnova.se

4. Business Sweden

5. Access2Markets – European Commission DG Trade

6. EU-China Energy Cooperation Platform - info@ececp.eu

7. China-Europe Water Platform - seppo.rekolainen@mmm.fi

8. Seconded European Standardisation Expert in China - assistant@sesec.eu

4. Results and Analysis

4.1 *Attractiveness of the Chinese market*
4.2 *Entering the Chinese market*
4.3 *Access to financing*
4.4 *Risks for SMEs in China*
4.5 *Legal risk management and common issues*
4.6 *Intellectual Property Rights (IPR)*
4.7 *Equal treatment from local government actors*
4.8 *Outlook on the future*

4.1 Attractiveness of the Chinese market

It is difficult to make definitive and generalized statements regarding the attractiveness of the Chinese market for Swedish and European SMEs at the current moment, as conditions vary by sector (EU SME Centre). In some regards, the attractiveness of the Chinese market has deteriorated in the last few years. The European Union Chamber of Commerce in China's (EUCCC) 2023 Business Confidence Survey reported that roughly two-thirds of respondents saw the business climate in China worsen in 2022 (EUCCC BCS, 2023, p.3). According to the 2023 Team Sweden Business Climate Survey, last year's business climate in China was the worst in at least a decade, with under half of respondents reporting a positive outlook for the next three years regarding the business climate (Team Sweden BCS, 2023, p.4). There is some variance between sectors. Consumer companies are the most positive with 56 % expecting the business climate to improve within the next three years (Team Sweden BCS, 2023, p.9). Industrial companies and professional services companies generally reported a less positive outlook (Team Sweden BCS, 2023, p.9). For companies currently present in the Chinese market, SMEs reported a more positive view of the Chinese business climate than large Swedish companies did (Team Sweden BCS, 2023, p.9).

As for the reasons to why the outlook of the business climate in mainland China has deteriorated, the surveys from Team Sweden and EUCCC mention a few different factors. In the Team Sweden Business Climate Survey, access to skilled labor was ranked as the greatest challenge facing companies in the Chinese market by 30 % of respondents (Team Sweden BCS, 2023, p.12). Following that, the main challenging factors were protection of intellectual property rights (IPR) (21 %), government policies that disadvantage foreign companies in their sectors (18 %), obtaining licenses/permits/government approvals (17 %), and corruption (16 %) (Team Sweden, BCS, 2023, p.12). Out of these factors, this white paper discusses IPR and government relations, and to a lesser extent to corruption as a risk factor that can result from not having adequate oversight of your China operations.

The EUCCC BCS Business Confidence Survey reflected other issues among the main challenges facing European companies in the Chinese market, with the Chinese economic slowdown ranked as the primary negative factor by 19 % of respondents (EUCCC BCS, 2023, p.9).

Following this, the other top challenges facing European companies in China were the global economic slowdown (17 %), COVID (12 %), the US-China trade war (9 %), and decoupling (4 %) (EUCCC BCS, 2023, p.9). The focus of the respondents of the two different surveys are clearly quite different, with the EUCCC survey reflecting difficulties that exist more on a macro level compared to the Team Sweden survey. This white paper will also address issues related to economic slowdown and geopolitical risks, primarily in the sections regarding risks (4.4) and the future outlook of Swedish and European SMEs in China (4.8).

However, while there certainly have been some negative developments, there still are ample opportunities for Swedish and European SMEs in the Chinese market. Although profits in 2022 had gone down for Swedish companies in China compared with 2021, 61 percent of companies did still report profits for 2022 (Team Sweden BCS, 2023, p.5). According to the EU SME Centre, two primary factors that remain strong are the immense size of the Chinese market, as well as the speed and level of innovation (EU SME Centre). This allows for new products and technologies to be constantly introduced to the market, with consumers willing to experiment. Ultimately, this allows companies to learn and grasp new trends, which can end up being integrated into their products sold in other countries, even in Europe (EU SME Centre).

Many of the primary trends that initially brought Swedish SMEs to China remain to this day (ARC). The Chinese economy is still growing steadily, there exists a maturing middle class that has a demand for high-quality foreign products, and there is a persistent demand for variety and novelty (ARC). The same can be said for industrial products, as the maturing Chinese economy has built up a higher level of demand for industrial quality (ARC).

Some Swedish and European companies do aim to reduce their presence in China, or are aiming to localize their presence in China, making their operations in China legally completely separated from their global operations (EU SME Centre). While this is the case, and ingoing investments to China from Europe have also shrunk, the sheer size of the Chinese economy remains an important pull factor for Swedish and European SMEs.

4.1 Attractiveness of the Chinese market

Apart from simply offering a massive market, China also leads in several innovation indicators, such as patents, trademarks, and industrial designs by origin (EU SME Centre PER, 2022, p.17). China is, despite the upheavals of the last few years, an attractive destination for Research and Development (R&D). China's innovation ecosystem has been regarded as positive by a significant part of the EUCCC BCS respondents in the past few years (EU SME Centre Policy Environment Report, 2022, p.18). The pace of innovation and technological development in the Chinese market can translate into real benefits for Swedish and European SMEs that choose to enter the market.

For those companies that already have active operations in China, one benefit of maintaining a presence in the Chinese market is to keep pace with the innovation and technological development. In the past, the general formula was that Swedish and other foreign companies could easily bring their ideas and technology to China for the purpose of leasing their technology or directly entering the market. Today, it is not uncommon to see the direction of the export of technology and ideas going in the other direction (EU SME Centre). There are multiple examples today of Chinese clients requesting technological and digital solutions that European manufacturers are not able to provide. Some European companies in China are being outcompeted because their Chinese competitors have become more technologically advanced and innovative, or simply because they are able to react faster to changes in the Chinese market by virtue of having a stronger presence in China (EU SME Centre). In this sense, not being present in the Chinese market can come with a real opportunity cost. This is particularly true for SMEs that are working in industries where China is leading, such as Artificial Intelligence (AI), Information and Communication Technology (ICT), or Electric Vehicles (EV) (ARC).

4.1 Attractiveness of the Chinese market

The opportunities available to Swedish SMEs in China, as well as some of the challenges that exist, are reflected in the answers given by the SMEs interviewed for this white paper:

Swedish ICT Company

"China is still one of the big markets for manufacturing, also increasing demand for Energy and Infrastracture. We have both opportunities and challenges for our business and operations in China. The solution will be finding a good balance between localization and strength as a global leader. For an SME, I believe it has flexibility so it is easier to be adaptable and agile, it will be a benefit to develop in a changing era".

Swedish Sports Marketing Company

"The market remains attractive in that sense that an increasing number of Chinese people have realized the benefits of exercise and healthy living. The increased demand for travel among Chinese citizens is also a contributing factor, combining sports, travel and healthy living. There is increasing competition from domestic players and especially increasing bureaucracy and paperwork with local authorities".

Välinge

"The Chinese market remains attractive for our industry in the long term, although the current economic situation is not so good. In the meantime, we do hope the tension with the US and EU, plus geographic issues, etc., can be improved. As a regional hub for Välinge, we expect Välinge China to play an important role in the area".

4.1 Attractiveness of the Chinese market

While the Chinese market can be challenging for many reasons, Swedish SMEs are well known for being leading players in innovation and sustainability, which can make them well adapted for succeeding in the Chinese market. China has substantial challenges in the energy sector, with ambitious goals of reducing carbon emissions and maintaining energy consumption (ARC). These challenges offer opportunities for Swedish SMEs, who often are at the forefront of developing new sustainable technologies. The rapid technological development that China displays in sectors such as electric vehicles and battery technology also creates opportunities for SMEs who can act as suppliers of niche products and components (ARC).

However, one of the main issues faced by Swedish and European SMEs is the toughening competition from local Chinese SMEs (ARC). Many SMEs have seen their growth in recent years outpaced by the growth of the market, and in practice their market share has been diminishing (ARC). The competition for high-technology premium products has especially increased in recent years, and not all companies manage to keep up (ARC). In previous years, the perception of China among European companies was often as an opportunity with low competition and high profit margins (Wikborg Rein). During the past decade however, China has developed drastically in terms of innovation and technological capacity, and the technological gap that often existed between Swedish companies and their Chinese competitors has shrunk, in many cases quite substantially (Vinnova). The competition in China has gotten much stiffer, and it is not clear that it is always the correct choice for Swedish SMEs to enter the market (Vinnova). For those SMEs that are unwilling or unable to attempt to enter the Chinese market, it may be advisable to look toward entering other parts of the Asia-Pacific region, or to expand within Europe or other regions that better fit their business model and capabilities. For Swedish and European SMEs entering the Chinese market today, it is critical that they actually have a great business case to sustain the market competition in China (Wikborg Rein).

4.2 Entering the Chinese market

As we are currently seeing a reduced interest in inbound investments to China from Europe, and a reduction in European companies of all sizes moving into the Chinese market, one can assume that entering the Chinese market has become more difficult and riskier in recent years. The reduction has been particularly visible among SMEs. According to a report from the Rhodium Group, this can be largely attributed to high barriers to access and higher risk aversion among smaller companies (Rhodium Group, September 2022). While this assessment is essentially supported by all the participants of this white paper, no one who contributed to this white paper would want to dissuade all Swedish and European SMEs from attempting to enter the Chinese market. However, they all stressed the increased importance of bringing a higher level of commitment and focus to your operations in China than was required in previous years.

Entering the Chinese market has undoubtedly become more difficult for the average European SME. While in the past Swedish and European companies generally had sufficiently extensive technological and operational advantages compared with their Chinese counterparts to be able to enter the Chinese market, the reality is much harder at the current stage (EU SME Centre).

The idea that your company is more technologically advanced than local competitors can be a perilous misconception; assuming the superiority of your product can lead to miscalculations on your likelihood to succeed in China (EU SME Centre). Furthermore, local players know the market and its players better than you, so in practice the situation is even tougher (EU SME Centre). According to the EU SME Centre, the narrowing technology gap is reflected in the hesitation many European companies now have on attempting to enter the Chinese market (EU SME Centre).

Before taking the decision to enter China, it is important to make an analysis of the region at large and understanding the consumer segments you are targeting (ARC). It is crucial to make a proper assessment of the viability of your company to succeed in the Chinese market, and to compare that outlook with the viability of other potential markets (ARC). Before committing to entering the market, it is essential to have a good business case and a clear plan of what you are aiming to achieve in China (Wikborg Rein). You also need to carefully map and analyze the market access requirements for your product to enter China.

4.2 Entering the Chinese market

It may well be that you need to make some adaptations to comply with Chinese regulations and standards, or obtain a mandatory certification (e.g., the Compulsory China Certification, CCC) which could be time-consuming and costly (EU SME Centre). In certain sectors, for instance medical devices, it may take 1 to 3 years and high costs to get approval for your product (EU SME Centre).

Entering the Chinese market often has a deeper commitment requirement than other markets that are more accessible and similar to the Swedish market. Not being aware of this can lead to a serious mismatch between expectations and results. It is not uncommon for companies to enter the Chinese market with short-term expectations of profitability, which may not materialize. It can be expected that “everything you do in another country, you need to multiply by three in China” (EU SME Centre). This refers to everything from the duration of your business plan, your expectation for when you become profitable, the necessary investment in time and finances, and so on. Wikborg Rein makes a similar observation, stating that “most Norwegian companies take about 3-5 years to become profitable after entering the Chinese market, and it is important to keep in mind that going into China should not be seen as a short-term investment” (Wikborg Rein). This point is also reflected in the 2023 Team Sweden Business Climate Survey, which found that over half of Swedish companies in mainland China experienced a need to tailor their solutions and operations to the Chinese market, mainly in supply chains and their online presence (Team Sweden BCS, 2023, p.4). Entering the Chinese market often requires extensive planning and high levels of commitment.

The EU SME Centre advises foreign SMEs to give their operations in China sufficient attention to succeed by extensively studying the market as well as industry regulations and standards. They also highlight the need to visit China to create solid connections and gain an understanding of the culture, and to approach China and the Chinese market with an open mind (EU SME Centre). It is important to avoid the mistake of projecting your beliefs and preconceived notions onto China. Rather, you should be ready to study and learn from the Chinese market (EU SME Centre). The political situation is different, the market is not entirely analogous to other markets Swedish SMEs may be familiar with, and there are cultural and legal differences that one need to be aware of (EU SME Centre).

4.2 Entering the Chinese market

Part of what it means to develop a better understanding of China is to gain the ability to tailor your operations in China in a way that works well for your company. An issue observed by the EU SME Centre is that many European companies, particularly SMEs, tend to export their company culture and practices wholesale and replicate the operational procedures from their HQ to their Chinese subsidiaries (EU SME Centre). Rigidly transposing company culture and practices onto Chinese subsidiaries and partners can be unsuitable, and may impact decision-making speed and effectiveness, ultimately leading to misunderstandings, frustration and employees leaving or companies choosing other partners (EU SME Centre). The advice for European SMEs operating in the Chinese market is therefore to remain flexible and open-minded, and to make an effort to understand the local cultural and corporate practices in China, so that you are able to efficiently adapt your business to the Chinese market (EU SME Centre). At the beginning, it might be hard to convince HQs to grant the local subsidiary more autonomy and decision power, but if you bring results, you will gradually gain trust from HQs (EU SME Centre).

In China, it is not uncommon to place heavy focus on informal agreements and interpersonal relations in addition to formal agreements, which makes being physically present in China and getting to know your partners of crucial importance (EU SME Centre). To succeed in China, you need to consciously build positive relationships with local actors, both from the government and with business partners (Wikborg Rein). European SMEs looking to succeed in China should show that they are a serious partner who is committed to building a long-term presence in China (Wikborg Rein). This can include both a regular or permanent physical presence in China and building up solid relationships.

Of course, the aspect of good and constructive relationships goes both ways, and it is highly important that European SMEs entering the Chinese market do their proper due diligence on who they partner with in China, as according to Wikborg Rein “choosing your partners carefully can make or break a lot of ventures into China, no matter if you are big or small”. In their experience, many of the common disputes can be avoided, or resolved more easily, by maintaining closer working relationships and building trust with business partners in China (Wikborg Rein).

The pandemic made maintaining these relationships more difficult of course, but now that the world has opened back up, it is recommended that Swedish and other foreign companies with a presence in China make an effort to build and maintain relationships and connections with their partners in China (Wikborg Rein). If the local partners and employees feel like they are being left alone and constructive relationships are not being built, they may put less weight on that relationship, and also look for other opportunities (Wikborg Rein). Even though China is incredibly digitalized and remote work is possible, doing business fully remotely simply is not enough most of the time if you wish to succeed in China (Wikborg Rein).

The Chinese market is of course very large, and its many different regions offer varying market opportunities and also have different business cultures (Wikborg Rein). One recommendation is that European SMEs looking to enter the Chinese market first research the benefits and drawbacks associated with different regions before they make a decision on where to enter (Wikborg Rein). In general, the two regions that Wikborg Rein would recommend are the Shanghai and Guangdong regions, as the business environments there are generally more favorable to foreign SMEs compared with other regions, and many of the foreign companies already in China are based in these two regions, which can be an advantage also to new entrants (Wikborg Rein). Of course, market conditions will differ upon your industry and connections, and so other regions may be worthwhile to investigate. Two other regions that have developed and favorable business environments are also Jiangsu and Zhejiang, which also have the added benefit of being near Shanghai (EU SME Centre). Other less well-known regions can also be worthwhile to look into, such an Anhui, Sichuan, Chongqing and Hubei in particular. Competition might be less fierce there and local authorities might be highly supportive, through subsidies or administrative support, as they often have KPIs for the number of foreign companies they could attract (EU SME Centre).

The main takeaway is that meticulous research and planning prior to entry into the Chinese market is key for maximizing chances of success. Proper research and investigation may also result in a SME realizing that they are perhaps not best-suited for the Chinese market, or that the market entry barriers and costs are too high to be worth it, and instead look to expand in another country that requires a lower commitment and has less of a barrier of entry.

4.3 Access to Financing

The first key recommendation of the newly published European Union Chamber of Commerce's Position Paper's section on SMEs is to "Provide European (…) SMEs in China with Better Access to Financing" (EUCCC Position Paper, 2023, p.78). However, another key recommendation the Position Paper gives is to "increase foreign SMEs' awareness of and accessibility to government incentives and funding instruments from local administrations" (EUCCC Position Paper, 2023, p.78). This reflects the central point of this section, which is that while there are issues for Swedish and European SMEs when it comes to accessing financing for their operations in China, having a better understanding of China and what types of financing are available can greatly improve financing prospects.

Swedish and European SMEs looking to enter China are currently having a harder time accessing financing compared to previous years, which is reflected in the EU SME Centre's Policy Environment Report. The primary reason for this is that they are usually seen as high-risk and low-return investments (EU SME Centre Policy Environment Report, 2022, p.6). This is the case both when seeking investments from European investors, and from local Chinese governmental or institutional investors (EUCCC Position Paper, 2023, p.81). For those Swedish and European SMEs already present in China, accessing credit in China remains possible but challenging (EU SME Centre). In addition to additional guarantees needed from banks outside China, which typically require additional risk assessment, the most important issue remains the borrowing gap (or foreign debt quota), namely the maximum amount that can be borrowed based on the difference between the total amount invested and the minimum amount of required capital corresponding to the investment (EU SME Centre). Intercompany loans are also challenging, which is a difficulty the EUCCC Position Paper also highlights as an area where increased flexibility is needed (EUCCC Position Paper, 2023, p.50). Recent developments appear to finally address this issue, with a possible relaxation announced in May 2023 by PBOC and SAFE, and measures in January 2023 by MOFCOM and MOST specifically targeting R&D centers. However, to date, it remains a major issue (EU SME Centre). This was especially visible during the pandemic, in particular for SMEs in Shanghai who were running out of cash during the lockdowns (EU SME Centre).

In addition to these difficulties, during the last year, the world's capital markets have come under strain, with higher inflation, higher interest rates, and reduced growth in many countries (ARC). Financial conditions like these generally drive capital toward safer investments with prospects of short-term returns (ARC). As risk appetites are lowered, investments for projects in China become harder to secure (ARC).

However, one key point to keep in mind according to ARC is that there often exists a disconnect between those who are in China and those who are back in the boardrooms in Sweden, where those not physically present in China may view China as more high-risk than those present (ARC). In order to minimize the information-disconnect between your team in China and your HQ in Sweden or some other European country, it is advised to maintain a good flow of information from your China office, arrange frequent visits to China, and try to understand the short- and long-term risks using all available information. This may also aid in making a better case for expanding or entering in China to any potential investor.

Wikborg Rein also states that one main reason for the weaker enthusiasm seen in Europe about investing in China is related to the information gap that exists between Europe and those who are working and living in China. They argue that the view of China in Europe is often based on outdated information and dramatic headlines and does not necessarily reflect the full reality of the risks and opportunities associated with the Chinese market. When it comes to conducting business in China, the effects of political developments and geopolitical tensions that many people in Europe may associate with China are often overestimated (Wikborg Rein). Citing many European companies active in the Chinese market, "business is business" (EU SME Centre).

Although enthusiasm in Sweden and Europe for investments into China has weakened, China has taken measures to reduce the financial burden for SMEs, with tax relief measures, postponements in loan repayments, reduction of administrative charges, and temporary reductions in the rent of eligible small businesses (EU SME Centre Policy Environment Report, 2022, p.9-10).

4.3 Access to Financing

The fact is that local government support in China for domestic and foreign businesses that can bring revenue to the local government is probably unparalleled in recent times (Wikborg Rein). This is usually especially the case for those lesser-known regions that often have a high demand for attracting investments and foreign companies (EU SME Centre). If you have a strong business case for entering China, now may be an opportune time to do so, according to Wikborg Rein. There also exists opportunities for Joint-Ventures with Chinese companies, as well as gaining access to financing from Chinese investors.

However, while there are many opportunities and there exists an information gap between companies present in China and investors back in Europe, the risks associated with the Chinese market do certainly exist. If a Swedish or European SME does choose to enter the Chinese market and succeeds in receiving financing, there are many potential pitfalls and risks to be aware of, which is the topic of the next section.

4.4 Risks for SMEs in China

The pandemic acted as a major factor in altering the risk perception regarding China for many foreign companies, as company operations were disrupted, and many foreign nationals left China (ARC). SMEs are also more exposed to disruptions in the economy and were thus more affected by the COVID-19 pandemic than larger companies (EU SME Centre Policy Environment Report, 2022, p.4). Disruptions in supply chains and extended delivery times resulted in an increased focus on supply chain risk management among foreign companies in China, and also generally increased the perceived risk of the Chinese market (ARC). Recently, economic slowdown and geopolitical tensions have led to disruptions in business operations and to considerable uncertainty (EU SME Centre Policy Environment Report, 2022, p.4). In addition, there have also been crackdowns on tech and education companies, an ongoing property crisis is causing wide uncertainty, and China is still affected by energy shortages (EU SME Centre Policy Environment Report, 2022, p.4). When it comes to doing R&D, licensing or generally doing business in China, there also exists the risk of unintended technology transfers, IPR issues, and risks surrounding data transfers (EU SME Centre). These concerns are however more specific to larger companies, or SMEs working in certain sensitive sectors such as healthcare, pharmaceuticals, or digital technologies (EU SME Centre). European SMEs suffer from some particular setbacks in addition to these shocks in the Chinese market, such as market access issues, red tape, exodus of foreign employees, and general difficulties connected to attracting and retaining talent (EU SME Infrastructure Centre Policy Environment Report, 2022, p.21). These last two points are something that some of the SMEs interviewed for this white paper have experienced:

Swedish Consulting Firm

"Hiring foreign talent has become more difficult in China, as a result of stricter policies imposed by local authorities. When it comes to local talent there exists other issues, such as escalating salary expectations and lack of hands-on experience outside of simply having the correct education".

Swedish ICT Company

"There are difficulties in being able to find the correct talent, as they need to fill multiple requirements, such as good grasp of English, industrial background, communication skills, etc".

4.4 Risks for SMEs in China

The topic of hiring talent is also one where there often exists a serious information gap between those companies present in China and those who are outside the market, since there still exists a common perception in Europe that China is a country with cheap and easily available labor (EU SME Centre). This is not the case, and HR costs in China are often comparable or even higher than in Europe, particularly for engineers or scientists who are in high demand in the Chinese market (EU SME Centre). Because of this high demand, Swedish or European SMEs have to be prepared to offer high levels of compensation to hire the right talent, and there is always a potential risk of employees being convinced to leave for another company, often a Chinese competitor (EU SME Centre). This of course creates risks connected to IP, which is why it is crucial to have proper Non-Disclosure Agreements in labor contracts, as well as taking measures to protect your IP in China (EU SME Centre). For more in-depth information on IP issues in China, please see section 4.6.

According to the EU SME Centre, there has been a general increase in risk avoidance measures taken by European companies in China (EU SME Centre). However, there exists a tendency among SMEs to underestimate the risks associated with doing business in China, partially because they lack the risk mitigation procedures and risk analysis structures that larger companies have access to (EU SME Centre). There also sometimes exists the incorrect perception among SMEs that they are shielded from certain risks by virtue of their small size (EU SME Centre).

While perceived risks and risk management efforts have increased in recent years, there are many Swedish and European SMEs who are not overly dissuaded by this development. The question of when risk outweighs opportunity is one that depends on the particular situation of any given company, as well as which industry they are operating in (EU SME Centre). There are still reasons not to let these potential risks completely shut down any potential prospects of trying to enter the Chinese market, or to drive a company present in China to exit the market.

4.4 Risks for SMEs in China

Many of the commonly perceived risks in China can be overstated, referring back to the previously mentioned points regarding the information gap and the difference in risks associated with different sectors.
This is another reason to do proper research before attempting to enter the Chinese market, and to ensure you understand which risks can potentially affect your business in China, and how you can manage these risks.

One aspect highlighted by both ARC and other participating experts is the importance of an actual physical presence in China as a method of risk management. The risk of becoming a victim of corporate fraud is not insignificant, and it is a risk that is severely heightened by not having a good overview of your company's actual operations in China (ARC). Cases of corporate fraud can of course have devastating consequences for the affected company, with potentially severe monetary losses and reputational damages (ARC). A few key methods for avoiding such an outcome is to have a clear understanding of your partners in China, doing proper due diligence regularly, planning your operations carefully, and ideally having a perpetual or frequent physical presence in China.

While there is a strong focus on the political or legal aspects of worsening business prospects in China for foreign companies, another reason why entering and succeeding in the Chinese market may have become more difficult in recent years is the tougher domestic competition from Chinese companies (Wikborg Rein). The point is to not become too dissuaded by cases of companies exiting the Chinese market, and instead to do proper research on what your specific business can achieve in China. It is important to continuously learn from other companies, both foreign and local, that are managing to compete and succeed in China (EU SME Centre). Of course, it is also important to monitor the political and economic landscape through the media, reports, and various case studies, and understand why those companies that failed in China were unsuccessful (EU SME Centre).

4.5 Legal Risk Management and Common Issues

Understanding proper methods of risk management is crucial for maintaining success in the Chinese market. When it comes to maneuvering in the Chinese market, the legal aspect is certainly one where both large companies and SMEs face different challenges (Wikborg Rein). Larger companies usually already have a presence in multiple jurisdictions and have already set up compliance systems for different sets of laws (Wikborg Rein). For an SME without an in-house legal department and experience with multiple jurisdictions, particularly outside of Europe, entering the Chinese market will come with many additional legal challenges (Wikborg Rein). In addition, there are also new challenges emerging for Swedish and European SMEs when it comes to doing legal research and due diligence for the Chinese market from abroad (EU SME Centre). Many Chinese databases and legal information platforms, such as Qichacha and WIND, are becoming inaccessible from outside China (EU SME Centre). This of course heightens the need for foreign companies to have a stronger presence in China and makes navigating the Chinese legal space more difficult for foreign SMEs in particular.

Currently, the Chinese business climate is becoming more similar to the European business climate in the sense that due diligence and compliance are receiving higher importance for companies (ARC). As the legal environment of China is becoming more robust, there is a drive toward an increased focused on legal risks and compliance (Wikborg Rein). With this development, legal risk mitigation in China is becoming more burdensome, as there are more increasingly strict laws to comply with (Wikborg Rein). According to Wikborg Rein, this should however not necessarily be seen as a negative development. An increased focus on rights, obligations, protection of personal information, and compliance with correct business practices is a process that is ongoing in many countries globally and can be seen as an improvement of the business climate in general (Wikborg Rein).

4.5 Legal Risk Management and Common Issues

The global trend of increasingly stringent regulations however has one major downside for foreign SMEs operating in China. Having to simultaneously comply with multiple legal frameworks can mean that foreign SMEs end up being squeezed between different, and sometimes fragmented and overlapping, legal frameworks (Wikborg Rein). This is especially the case for sectors such as Information and Communication Technology (ICT), healthcare, and certain fields of manufacturing (EU SME Centre). Of course, any resulting non-compliance within either legal framework can result in large penalties. One of the SMEs interviewed for this white paper has experienced difficulties surrounding this exact problem, facing issues with internet regulations in China, as their global IT systems are not compatible with working in China (Swedish ICT Company).

A lack of transparency in the exact meaning of legislation is a common legal issue faced by foreign SMEs in China, or any company for that matter (Wikborg Rein). It is not uncommon for laws to be drafted using vague language, which is not a uniquely Chinese phenomenon (Wikborg Rein). Just recently, there have been new legal developments that have created a stir in the international community present in China, such as new espionage laws and privacy laws that foreign companies have to comply with (Wikborg Rein). This is in addition to previously existing issues such as broad or vague definitions of certain terms in Chinese national legislation, such as “national security” or “secure and controllable products”, which in practice leaves ample room for authorities to intervene (EU SME Centre).

Nordic SMEs are acutely aware of this risk, and often experience uncertainty regarding how to best interpret Chinese laws that apply to them (Wikborg Rein). For this reason, they often seek assessment and advice from external experts to help them confirm whether or not they are working within the framework that the Chinese government wants them to (Wikborg Rein). One example of laws to keep track of is the Personal Information Protection Law (PIPL), which essentially is the Chinese equivalent of the EU’s GDPR (Wikborg Rein).

4.5 Legal Risk Management and Common Issues

The trend of increasingly stringent regulations can be seen as a positive development in some respects, but the formulation of the laws and the requirements imposed can be challenging for foreign companies (Wikborg Rein). This is especially the case for SMEs, that most of the time lack a big legal department at their headquarters or in their China office (Wikborg Rein). When entering China, they find that they are subject to many laws, and that non-compliance with these laws can result in serious consequences (Wikborg Rein). In addition, these laws are frequently amended or updated, and new legislation is being introduced continuously (Wikborg Rein). Because of this, keeping pace with rapid and massive regulatory development is challenging and costly, particularly for SMEs who might not have in-house experts (EU SME Centre).

Having a good overview of your company's activities in China is also crucial when it comes to avoiding risks related to cross-data border transfers (EU SME Centre). It is important to have a clear mapping of all your data transfers, including transfers happening between your local partner to other external partners, to understand potential areas of non-compliance and potential vulnerabilities (EU SME Centre).

While complex, navigating the Chinese legal system is manageable if done in the proper way. It is recommended for Swedish and European SMEs entering the Chinese market to both do their own research on what laws they need to be aware of and to identify vulnerabilities and potential areas of non-compliance, as well as seek advice from experts and other companies already present in the Chinese market. Research and timely preparation is arguably particularly advisable when it comes to IPR, which is the focus of the next section.

4.6 Intellectual Property Rights (IPR)

IPR Protection in China has improved in recent years, and over half of European companies viewed the IPR enforcement in China as adequate or excellent in the 2022 EUCCC Business Confidence Survey (EU SME Centre Policy Environment Report, 2022, p.16). According to the China IP SME Helpdesk, China has improved drastically when it comes to Intellectual Property Legislation (China IP SME Helpdesk). The types of IPR in China are also generally similar to those found in the EU, and so are not too unfamiliar for Swedish or European SMEs in their structure (China IP SME Helpdesk). This is particularly true for the IPR in China that concerns trademarks, copyrights, and patents (China IP SME Helpdesk). While there are many similarities, there are however still important differences and potential issues to be aware of. The EUCCC Position Paper emphasizes the need for improving IPR enforcement at the local level, and states that the Chinese IP protection system still poses a challenge for European companies (EUCCC Position Paper, 2023, p.84).

IPR remains an area where improper handling and planning can cause devastating effects for foreign company in the Chinese market. This issue can often be especially damaging for SMEs, as they tend not to have any in-house lawyers or people with a deep knowledge of how Chinese IP law works (China IP SME Helpdesk). As we will show in this section, it is of crucial importance to familiarize yourself with the Chinese IP law system and to make sure your IP is properly protected in China, even before entering the market. According to the China IP SME Helpdesk, a majority of the European SMEs that fail at establishing themselves in the Chinese market do so because they did not properly protect their IP rights (China IP SME Helpdesk). The consequences of failing to protect your IP rights can range from protracted legal disputes, goods being blocked at customs, inability to fulfill orders, and ultimately going out of business either in China or completely (China IP SME Helpdesk).

Some of the main IP issues foreign SMEs can face in China are malicious trademark registration, which is registering the trademark of another company before they get the chance to do it themselves, patent infringement, and copycat IPR (China IP SME Helpdesk). In China, the “first to file” principle applies for trademarks and patents, which can make the process of reclaiming your IP in China costly and difficult if some other company has already claimed your IP (China IP SME Helpdesk).

This point is extremely important and is a reason why research and preparation regarding IP protection in China is crucial even before beginning to enter the market. There have also been cases where European companies have discovered that Chinese companies have copied certain aspects of their products and displayed them in tradeshows, even though they do not have the patent rights to the copied product (China IP SME Helpdesk). Displaying your products during tradeshows also puts you at potential risk of IP infringement and copying, which is why it is important to register your patents, designs and trademarks before taking part in a tradeshows in China (China IP SME Helpdesk). It is also advised to monitor Chinese e-commerce platforms and other platforms, as it is not uncommon to discover copyright infringements on such websites (China IP SME Helpdesk).

While these are some of the most common categories of IP-related problems, issues with IPR are case-based to a large extent, meaning that there is no standard scenario to describe (Wikborg Rein). The advice from the China IP SME Helpdesk is to register your IP in China as soon as possible, even before entering the Chinese market. To help you with this, the China IP SME Helpdesk offers free consultations and learning material for how to protect your IP in China. It may also be advisable to get in contact with legal experts or other companies with experience in the Chinese market to ensure that your IP is fully protected.

Although it is difficult to predict the future of China's IP development, there's reason to remain positive, as the internal demand from the IP-intensive Chinese companies drives the authorities to constantly improve the IP laws and regulations as well as the enforcement practices. (China IP SME Helpdesk). There has been a clear increase in success rate for foreign companies fighting against malicious trademarks in China, and European SMEs can generally get justice in China if they manage to collect sufficient evidence (China IP SME Helpdesk). Oftentimes, the enforcement of cases of IP infringement can take a long time, and it is therefore advisable to hire a professional investigator or lawyer to assist with cases of IP infringement (China IP SME Helpdesk).

4.7 Equal Treatment from Local Government Actors

Foreign SMEs are legally entitled to receive the same equal treatment as Chinese companies regarding their dealings with local government actors in China, which is also explicitly stipulated in China's Foreign Investment Law (EU SME Centre). European SMEs are also not supposed to experience any different treatment compared to other foreign companies, such as Japanese or American companies in China (Wikborg Rein). This state of affairs is also reflected in the interviews conducted with two of the SMEs that took part in this white paper:

Välinge

"There is no big difference for SME versus multinational companies, even local Chinese companies as far as I know. You can say we were treated equally".

Lyckeby

"In the food industry, it's not involved politics or policy controlling from government".

In practice however this is not always the case (EU SME Centre). As with many other things, it is hard to make general assessments regarding the degree that European and Swedish SMEs experience unequal treatment in China. Individual cases often depend on the specific company's relation with the local administration and the industry they are operating in.

For companies in certain sectors, equal treatment may not always happen in practice. One area where there is a clear legal distinction between domestic and foreign companies operating in China is regarding access to certain industries. Industries such as social media, tobacco and publication are generally restricted to Chinese companies, or at least joint ventures with a majority Chinese ownership (Wikborg Rein). Competition is also skewed in favor of local companies in certain industries such as Electric Vehicles (EV), as they are subsidized by the local government (Swedish Consulting Firm). This creates a severe pricing pressure for foreign manufacturers, or even multinational manufacturers in China (Swedish Consulting Firm).

4.7 Equal Treatment from Local Government Actors

The requirements regarding limited access to certain industries are in general quite transparent however, which makes it easy for foreign companies to plan and operate accordingly. Domestic Chinese companies may also receive preferential treatment when it comes to public procurement, particularly within certain sectors such as medical devices, construction testing, certification services, etc. (EU SME Centre).

One important factor regarding the treatment a Swedish or European SME receives in China is whether their products are considered “imported products” or “domestically-made products” (EU SME Centre). In the experience of the EU SME Centre, the level of equal treatment is also largely dependent on whether the company has manufacturing or R&D operations in China or not. Companies that do are effectively considered domestic manufacturers, and are thus eligible for public procurements, VAT exemptions, and facilitations to import or export certain scientific equipment or materials to be used for research (EU SME Centre). If not, they are excluded from any sort of equal treatment regarding both import and public procurement (EU SME Centre). This is especially prominent in certain sectors, such as the medical sector (EU SME Centre).

Foreign SMEs therefore have to be aware of potential political risks and unequal conditions within their particular industry and observe changes in the situation attentively (Wikborg Rein). The advice of Wikborg Rein is however to not be dissuaded by the lack of fully equal treatment compared to Chinese counterparts, and rather to look for practical and comfortable solutions for being able to establish yourself or to continue your operations in China. As the relationship with the local government is generally so crucial, the EU SME Centre emphasizes the importance of having at least one person at your company who handles Government Affairs (GA), and who is responsible for building and maintaining a constructive relationship with the local administration (EU SME Centre). This can also affect prospects for receiving subsidies, as European SMEs have varying experience when it comes to receiving, and being informed, of government subsidies and incentives (EU SME Centre).

4.7 Equal Treatment from Local Government Actors

One main “home-field advantage” that local competitors have compared with foreign SMEs is an understanding of the local culture and access to local connections (Wikborg Rein). In China, it is arguably more important to build up personal relations, both with government actors and local partners, than it is in northern European countries particularly (Wikborg Rein). In this regard, local companies will usually have an easier time and have advantages over foreign competitors. For this reason, establishing connections and building relationships with the local administration is usually an important step for entering the Chinese market as a foreign SME. The key is to build trust with the local administration and show them that you can actively and positively contribute to the local economy and their KPIs (tax revenue, R&D projects, new patents obtained, people hired, etc.). If you help them, they will help you, but you need to give first before you are actually able to take (EU SME Centre). Local administrations can be highly supportive, especially in areas other than first-tier cities where the presence of foreign companies is scarcer (EU SME Centre). Having a strong focus on maintaining good relations and actively researching and staying up to date with political risks and other factors that may affect the treatment you receive from local government actors is also crucial. This will depend somewhat on which sector a company is in and how their China operations are structured, and the importance of government affairs for any specific SME is of course case-dependent.

4.8 Outlook on the Future

According to the EU SME Centre, the outlook for European SMEs in the Chinese market is not extremely positive. It should be noted however that the outlook for European SMEs is quite sector-dependent (EU SME Centre). The narrative in political discourse surrounding China in the West has certainly deteriorated over the last few years, which has affected both the interest in entering the Chinese market for European SMEs and made it harder to persuade management to secure the necessary resources to enter the Chinese market (EU SME Centre). The increasingly negative narrative is of course not the only issue. The many market entry obstacles and regulatory barriers make it hard, time-consuming, and costly for newcomers to enter the market (EU SME Centre). There also exists barriers and challenges for those companies already present in China, who find themselves competing in an increasingly hostile and competitive environment, and one which requires increasingly high effort and costs for compliance (EU SME Centre).

Wikborg Rein also reflects on the current state of perceptions of China in Europe, stating that it is currently more difficult than previously for many European SMEs to enter the Chinese market as a direct result of increasingly negative narratives regarding China (Wikborg Rein). As the view of the Chinese business climate and future market prospects in China have deteriorated in Europe, there is a lower willingness to invest in entering the market (Wikborg Rein). For this reason, inbound business to China from Europe will likely remain quite low compared to the previous decade, at least in the short term. It will take time to restore a more positive view of China among European companies, and it is not certain that we are heading in that direction (EU SME Centre). If you have a strong business case, are operating in an industry which is considered a priority in China and manage to secure solid resources and connections, there are still ample opportunities in China.

There does exist potential geopolitical risks, as has been shown with the political dispute between Lithuania and China, which effectively shut out all Lithuanian companies from the Chinese market (EU SME Centre). Despite this, the growth of the Chinese market is still great, and it is something that many European SMEs should consider trying to be part of. Companies of all sizes can get caught up in larger political events, but the connection between business and geopolitics is in most cases weaker than what many may think (Wikborg Rein).

4.8 Outlook on the Future

The focus should primarily be whether your technology or product is needed in the Chinese market, rather than calculations connected to the current geopolitical climate or the short-term economic outlook of the Chinese market (Wikborg Rein).

For those companies that are not regionally focused, and whose industry and competition extends globally, it may be advisable to have a presence in China, both for strategic and commercial purposes (ARC). As innovation and technological development continues to advance rapidly in China, it could be seen as necessary to be present in China in order to keep pace with the competition, and perhaps even aim to acquire Chinese competitors (ARC). Because Chinese actors can also be found along the supply chain in most industries, being in China is a good choice in order to optimize supply chains by being close to clients and suppliers (EU SME Centre). However, maintaining a presence in China today requires more dedication than in previous years; it has become harder to be half-committed to China for foreign companies in general (ARC). Competition from local companies was less tough in the past, and the mark of quality associated with being a foreign brand has diminished somewhat (ARC). Today, foreign SMEs almost have to become partially Chinese in order to effectively operate in the Chinese market, or at least have a deeper understanding of China than what was previously required (ARC). Having a local team in China is almost essential, as it allows for faster responses to changes in consumer demand or market competition (ARC). In addition, a local presence allows for better connections with the local government.

4.8 Outlook on the Future

SMEs that participated in this study also shared some of their views on future trends in China, and how they view the outlook for Swedish and foreign SMEs in China:

Swedish Consulting Firm

“We believe the future is still bright for our industry in China, and that there exists many business opportunities in China for Swedish SMEs here. The Chinese market is still big enough to support new foreign SMEs to demonstrate their value-adding business. The focus for foreign SMEs should be to figure out more creative ways to provide better and more value adding services to the local customers in China. Sustainability requirements are becoming more stringent, and many companies within manufacturing and other industries are requesting that their suppliers invest further into sustainable practices. There is a clear trend in China of moving further toward an increased focus on sustainability”.

Välinge

“Business is always connected to the evolving geographic and political trends. We as a company are continuing to strive for our partners and clients in the China/Asia Pacific region, and do hope that the Chinese economic situation can improve and return to a state similar to pre-Covid, in terms of real estate, industrialization, employment rate etc”.

Swedish Sports Marketing Company

“In general, the business environment has become more and more local and the earlier advantages of overseas branding and overseas storytelling are dwindling”.

4.8 Outlook on the Future

While the outlook may have worsened in some regards, doing business in China as a Swedish or European SME is still an option for those companies who are able to navigate the market and to face the competition from both local and foreign competitors. We hope that this white paper can be helpful for any Swedish or European SME that chooses to brave the hardening business climate and attempt to enter or expand in the Chinese market.

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