

GOING GLOBAL
ACCESS ASIA
**EXPORTING TO
MAINLAND CHINA**

A guide for clients



#GlobalAmbition



Capital city

Beijing



Currency

Renminbi



Population

1.39 billion¹



GDP per capita (2018)

€7,755²



GDP (2018)

\$13.6tn³



GDP Growth Rate (2018)

6.6%⁴



Unemployment rate (2018)

4.4%⁵



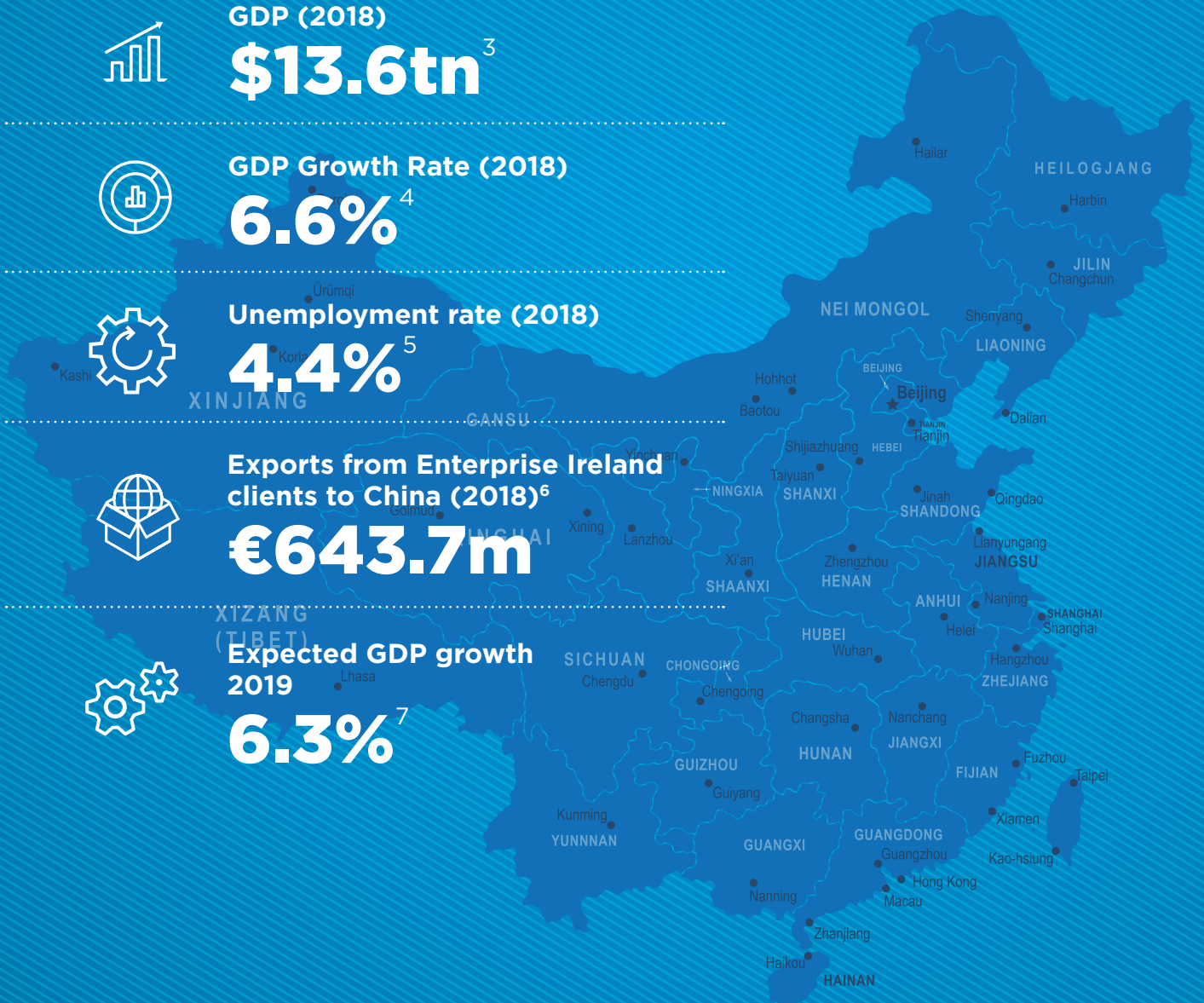
Exports from Enterprise Ireland clients to China (2018)⁶

€643.7m



Expected GDP growth 2019

6.3%⁷



WHY EXPORT TO MAINLAND CHINA?



China is not only an economic superpower but one of the most diverse and exciting countries in the world. It is a vast country with the world's largest population, highly developed cities, a rich cultural heritage, breathtaking countryside and, of course, its treasured pandas.

In recent years China's economy has grown in both size and importance and the country has transformed into a highly developed nation. As the economy transitions away from investment and manufacturing-driven growth to a model based on services, the opportunities for foreign companies increase. The ambitions of both the Government and the private sector to improve the competitiveness of Chinese products drives demand for foreign technology and expertise to satisfy gaps in the domestic market. This, too, creates opportunities for overseas businesses.

Enterprise Ireland client companies are currently selling into China across a broad range of sectors. China is currently the sixth largest export market for Enterprise Ireland client companies and HSBC forecasts that Irish exports to China will grow by approximately 6% year-on-year between 2016 and 2030⁸, making China Ireland's fourth biggest export market.

REASONS TO INCLUDE MAINLAND CHINA IN YOUR EXPORT STRATEGY

China currently has the world largest **e-commerce market**.



China is the **largest mobile phone market** in the world.⁹



In 2015, China overtook Japan as the **world's second largest pharmaceutical market**, and is expected to sustain growth of 11% CAGR over 2013-2019.¹⁰



China is a world leader in the **clean energy market** with clean energy investment at over €35 million in 2017.¹¹



During 2017, more than **500 Chinese cities** started their "smart-city" transformations.¹²



China accounts for 42.9% of the Asia-Pacific **aerospace and defence sector**.¹³



Three Chinese universities are placed in the **top 50 universities in the world**.¹⁴



The Chinese Government's **R&D expenditure per capita** is among the highest globally.¹⁵



GET READY TO DO BUSINESS IN CHINA

Travelling and geography

In June 2018, Hainan Airlines launched the first direct flight between Dublin and Beijing. This is a game changer for Irish companies interested in business opportunities in China. From June 2018, Southern China will be serviced by a direct flight from Dublin to Hong Kong operated by Cathay Pacific.

China is a vastly diverse country, with wide geographic variations in language, ethnicity, industrial specialty and level of development. The wealthiest cities, such as Shanghai and Shenzhen, rival many European cities in modernity. But driving a few hours into the countryside shows that China is still in parts, a developing country. China's transport infrastructure has experienced major growth in recent years, with comprehensive air and rail networks facilitating travel between cities.

Business culture

Building good business relationships takes time in China. Many businesspeople emphasise interpersonal relationships as key to successful business there. Chinese business culture puts an emphasis on maintaining harmony and the "face" of others. Open conflict is usually avoided, as it would cause one party to "lose face". "Giving face" is as important as not taking it away and such actions as politely ignoring a mistake, showing humility and giving a toast are all ways of "giving face".

Language

Standard Chinese, which is a form of Mandarin Chinese, is the official national spoken language for the mainland and serves as a *lingua franca* within the Mandarin-speaking regions. But as China continues to develop, more and more people are learning and speaking English, making it a more accessible country for foreign nationals. Approximately 390¹⁶ million people in China claim they either speak English or are in the process of learning it.

Routes to market

Direct presence

Having a physical presence in China can be part of a long-term strategy to enter the country. It can be done relatively easily within a few months. A representative office has been traditionally used as a first step to gaining a foothold in China. Having local staff on the ground can help generate business leads and provide a good understanding of the culture,

supply chain and business relationships. Once a company has progressed in China they may consider setting up a Wholly Foreign-Owned Enterprise (WFOE). Enterprise Ireland can advise and connect companies with the relevant experts to assist in this.

Outsourcing sales

Outsourcing sales involves working with a Chinese import agent or distributor to establish a sales network, selling products directly to the end user. The choice between using an agent or a distributor depends on the level of control a company wishes to maintain, the level of risk it is willing to take on, and the profit margin they are seeking. But whichever route is selected it is crucial that the company performs extensive due diligence on the chosen agent or a distributor and gives careful attention to the proposed contractual agreements, particularly with respect to payments and Intellectual Property (IP).

Selling online

Most local and international brands selling into China have some form of e-commerce presence. The number of online shoppers in China has been increasing exponentially from below 34 million in 2006 to over 361 million users in 2014. Depending on the level of commitment and capital available, Irish companies can consider several options when choosing to sell online in China. China's cross border e-commerce sector has also been experiencing exponential growth, with the Chinese Government setting up several free trade zones and preferential tax policies to attract international companies to sell in China.

Joint ventures and mergers

A joint venture with a Chinese partner can provide access to an otherwise restricted industrial sector or quick access to resources and assets such as a distribution network, brand reputation, a special manufacturing process or other tangible assets such as land or special licences.

In recent years foreign investors have made increasing use of M&A strategies with established Chinese entities. This approach not only allows investors to forego lengthy set-up processes, but enables them to better understand the market and any problems they may encounter ahead of entry. However, when entering into a M&A in China it is important to remember that irrespective of the ownership, the company and its staff are inherently Chinese. Trying to bring in new practices and procedures could hinder progress and create problems in the long term.

THINGS TO CONSIDER

While every situation will be different, there are several key considerations Irish companies should take into account before entering the Chinese marketplace.

Market landscape

The Chinese economy is growing at approximately 6.5% annually and this is expected to continue until 2020. The country's economy is currently in a period of transition. Previously high levels of foreign investment and a large labour force with low average wages meant China was in a prime position to undergo a manufacturing boom as it opened up its economy. However, as the country's economy expanded at double digit levels, rising wages and other factors, including pollution levels, have resulted in the Chinese Government becoming increasingly intent on focussing less on the secondary manufacturing sector and more on the tertiary sector.

The Chinese Government has started to put into place several reforms intended to support the desired transformation from a manufacturing orientated economy to a service orientated one. Good policy, the formation of funds to be utilised by companies operating in the tertiary sector and reforms allowing foreign services company to enter the Chinese market with greater ease are just a few of the measures it is enabling this transition. This new direction of "supply-side structural reform" aims to boost consumption by reducing the supply of low-end goods and boosting that of mid to high-end goods. The reforms hope to reduce inefficiency and emphasise quality over quantity.

Market segmentation

With the world's largest population and a huge landmass, treating China as one large market is difficult. It is important that companies have a clear understanding of where their niche lies both demographically and geographically. Regardless of which method you choose, market segmentation strategy in China is critical to identify, evaluate and target potential consumers.

Market research

Being prepared is vital to success in the Chinese market. This preparation should start with thorough market research to identify niches and how a company can exploit them. Foreign SMEs that fail in China share common characteristics; a lack of market knowledge being one. These companies base key decisions or transactions by trusting content they have read on websites or people they have met after one or two visits to China, rather than doing their own "on the ground" research.

Customer service

Customer service expectations in China have evolved in recent years due to increased incomes, higher levels of education, more opportunities to travel abroad and the increasing availability of goods and services from overseas. Since 2013, the Teleperformance Customer Experience Lab (CX Lab)¹⁷ has undertaken research in several countries around the world, including China, across 15 industries. Overall, it found that customers in China are generally more satisfied than in previous years with their service experience and as a result are more likely to recommend a brand and remain loyal to it.

KEY GROWTH OPPORTUNITIES IN CHINA

There are many key sectors in China offering Irish companies opportunities. While food products currently represent a large proportion of Ireland's exports to China, exports in sectors such as education, Information and Communications Technology (ICT), medical devices and Agritech have grown strongly in recent years. The opening up of China's economy affords increased opportunities for foreign companies in the Chinese market.

Education

China is the world's largest source of international students and this continues to grow at a steady pace. In 2017, approximately 662,100 Chinese students went abroad to study.¹⁸ China's youthful population, its rising income levels and increasingly service-oriented economy fuel demand for high quality education. Although traditionally Chinese students studied abroad predominantly for postgraduate education, today the numbers of postgraduate and undergraduate students studying abroad are the same.

This continued growth has created favourable economic conditions for students to travel abroad to pursue an international education. Irish higher education institutions have invested time and resources into building long-term, strategic relationships with Chinese counterparts, with the aim of securing a consistent and predictable intake of Chinese students. With the tightening up of the policies surrounding joint programmes and colleges, however, some institutions are looking at the possibility of diversifying their offerings to include foundation programmes and academic training to the staff of Chinese universities keen to develop their own internationalisation strategies.

ICT Sector

China is both the largest importer and the largest exporter of electronic/ICT products. China's ICT market receives considerable Government support, in line with its "Made in China 2025" campaign which set ambitious goals for the development of China's high-tech industry, innovation, R&D capabilities and information systems. There are exciting opportunities for Irish companies in such key subsectors as mobile, e-commerce, Internet of Things (IoT), software and Traveltech.

Mobile: Already the largest mobile phone market in the world, it is estimated that by 2019 China will have over one billion mobile phone users.¹⁹ It is also, arguably, the most developed and competitive mobile phone market in the world. In China, four of the top five mobile phone manufacturers are Chinese, with Huawei occupying the number one slot in the market with 26% of the market in 2017.²⁰ OPPO, Vivo, Apple and Xiaomi all follow closely behind. The Chinese mobile space holds exciting opportunities for international companies and is a sector in which Irish companies have already prospered.

E-commerce: China has overtaken the US as the world's number one online shopping market. Over the last five years through 2017, industry revenue has been rapidly rising at an annualised rate of 35.3%. This high growth is due to the increasing penetration level of e-commerce in China and the development of online businesses and the services they provide. The Chinese B2C e-commerce market is made up of cross border and inland e-commerce and is currently dominated by third party platforms such as Alibaba, JD, NetEase, Ctrip and Tencent. The opportunities for Irish brands in China are increasing, as signalled by the increasing number of cross-border e-commerce pilot zones in China. This creates an opportunity for companies to access the world's largest online shopping market. There are a growing number of cross-border e-commerce platforms which seek to exploit this growing market.



Smart cities/Internet of Things (IoT): IoT in

China opens many opportunities for international companies, from connected cars and connected healthcare to smart cities and home automation. At present, Government support is the main driving force of China's IoT industry, with smart cities a key example of this. Many local Governments see smart city applications as a solution to administration challenges. More than 500 Chinese cities started their smart city transformation in 2017.²¹ As construction of smart cities accelerates, the scale of related markets is expected to hit €12.75 billion.²² There is great enthusiasm about the establishment of smart cities across China, which will provides opportunities for Irish companies with the required capabilities in the IoT space.

Software: The Chinese software market has experienced strong growth in recent years. It is predicted that future growth will be driven in particular by increasing revenues from key business segments, including enterprise mobility management, software infrastructure and information management. While domestic Chinese companies have a significant presence, international software companies dominate the higher end of the market. It is estimated that for the past three years the industry has grown between 15% and 18% a year to reach almost €791 billion at the end of 2017,²³ with domestic firms enjoying 50% of that revenue. Chinese software companies are increasingly looking to gain access to new technological developments through partnerships. Such relationships can be mutually beneficial for foreign companies, affording access to the Chinese market and providing local knowledge and expertise.

Traveltech: With growing household incomes, more Chinese consumers are traveling, leading to robust growth of both domestic and foreign trips, car hire and short-term housing rentals. By 2020, the Chinese Government expects domestic tourists will spend €735.7 billion per year.²⁴ Airlines are starting to invest in their own platforms to drive growth through direct bookings. However, despite recent improvements, Chinese airline's platforms are still

developing by international standards and their ancillary revenue strategies are underdeveloped. Ireland has a wide range of advanced data analytics and ancillary revenue solutions that can help these airlines increase their profit margins and improve the customer experience. Irish companies operating in this space have world-class capability, strong customer references and significant resources.

Healthcare, medical devices, pharmaceuticals

Healthcare: With a population of 1.37 billion, including an elderly population of around 138 million, China's medical and health development is crucial to people's livelihood. The Government is striving to develop a highly effective medical system. It has deepened medical reform to establish a basic medical and health system covering both urban and rural residents with a view to ensuring that everyone can enjoy safe, effective, convenient and cheap basic medical and health services.

As a result, there has been rapid expansion of China's healthcare infrastructure, with a sharp increase in the number of general and specialist hospitals. Of its 28,000 hospitals in 2017, more than half are designated as private, in line with the Government policy of placing greater emphasis on the role of the private sector in delivering healthcare services. Government announcements, such as the two-child policy, and increased emphasis in its 13th Five-Year Plan on expanding healthcare access in less-developed areas creates a range of opportunities for Irish companies operating in the healthcare industry.

Medical Devices: The Chinese healthcare equipment and supplies industry has experienced very strong growth. The Chinese health care equipment and supplies market grew by 9.3% in 2017 to reach a value of €39.15 billion²⁵. By 2022, the market is forecast to have a value of €65.7 billion, increasing it 67.8% since 2017. China relies on imports for its medical supplies and devices, especially for high-tech and high-price items, creating opportunities for Irish Medtech companies.

Pharmaceuticals: The growth in China's pharmaceutical sector will continue to be very strong over the coming decade. Increasing domestic demand and greater openness to foreign companies should facilitate strong growth into the future. This is helped by rapid increases in spending on healthcare, even though traditional Chinese medicine remains popular. China aims to provide basic healthcare to every citizen by 2020 as part of the "Healthy China" initiative and this will help to align standards between international and Chinese laboratories.

The Chinese Government's "**Made in China 2025**" strategy is an initiative to comprehensively upgrade Chinese industry. This strategy is creating opportunities for Irish companies in many sectors including **ICT, Agritech** and **Medical Devices**.



Agritech/equine

Agritech: In September 2016 the Government allocated €387 billion to be spent over four years to develop Chinese agriculture industry. This includes grants for modern equipment, intended to help achieve a target of a 70% mechanisation rate of production by 2020. While the country's "Made in China 2025" strategy aims to ensure that 90% of agricultural machinery used in China is domestically-produced, the target for domestic production of high-end farm machinery, an area in which Irish producers tend to specialise, is much lower, at 30% by 2020. Irish manufacturers can benefit, therefore, by maintaining and developing business links with their counterparts in China.

Equine: China's professional horse sports and leisure industry has benefited from an increase in middle class disposable income. From 2017 to 2018, 926 new equestrian clubs were opened across China bringing the total to 1,992. The average annual growth rate of equestrian club memberships in China is 68%, reaching just under 1 million members by the end of 2017. At its current rate of growth, club membership will surpass many European countries in just a few years and with no signs of slowing. 20,416 horses were purchased by Chinese equestrian clubs in 2017 and this is projected to grow year on year. 63% of horses owned by Chinese equestrian clubs are imported from overseas²⁶. China, therefore, already plays an important role in the global equine market and offers good opportunities for Irish equine products and services²⁷.

LEGAL AND TAXATION INFORMATION

Visa requirements

- Irish citizens require a visa and a passport valid for at least six months to enter China, as well as proof of onward travel intentions (e.g. a return air ticket) and hotel details. There are several types of Chinese visas, the most common being tourist (L) and business (M) visas, which are issued with different lengths of stay and have different requirements.
- For requirements and an application form, check with the Chinese Embassy in advance of travelling. A visa can take up to five days to process at the Chinese Embassy in Dublin.
- For more information see the Embassy of the People's Republic of China in Ireland website: (<http://ie.chineseembassy.org/eng/>).

Import rules and regulations

- Any required product or service certification will need to take place prior to commercialisation in China. Chinese product certification standards are not vastly different from those in Europe, as they are mostly in alignment with the International Standards Organisation (ISO) and American Standard Test Methods (ASTM). However, companies must be aware that China has its own applications for testing procedures that must be conducted in a licensed Chinese laboratory. UL, ISO or ASTM certification may not be recognised.
- For services, such as engineering and architecture, there will be verification of home country documentation and companies may be required to have appropriately licensed Chinese staff within the applying company.

Data & Intellectual Property Rights (IPR)

- In recent years there have been a number of improvements in China's data and Intellectual Property (IP) laws. Several standards and general practices have been implemented to help to further protect businesses and consumers based in China.
- During China's current Five-Year Plan (2016-2020), China's State Council released an ambitious plan to increase Intellectual Property Rights (IPR). The launch of the State Council's updated IPR Plan came closely after the release of The World Intellectual Property Organization's (WIPO) 2016 Indicators Report, identifying China as the first national patent office to receive over one million applications in a single year. With China on course to becoming an IP powerhouse, it is hoped the move will improve and strengthen the IP environment in China.

Chinese labour law

- Chinese labour law is designed to protect employees based in China. Among other stipulations, it includes detailed regulations on contracts, so consulting a professional on this matter is advised. Rising wages and improvements in the quality of life means China is increasingly protecting its citizens from poor employment conditions.
- Most private sector employees in China are hired on fixed-term contracts and the length of contract to be offered to each staff member is a key consideration for employers. A fixed-term contract can be of any duration and can be used for part-time or full-time workers. The length of the fixed-term contract offered has a major effect on the employer-employee relationship because it determines the maximum length of the probation period that can be required. Furthermore, it can only be renewed once, effectively becoming a non-fixed-term contract on a second renewal.
- More and more companies are turning to third parties to handle their payroll in China to increase efficiency, accuracy and confidentiality of salary information.

Key Taxes

There are a wide range of taxes, including income taxes (corporate income tax and individual income tax), turnover taxes (value-added tax, business tax and consumption tax), taxes on real estate (land appreciation tax, real-estate tax and urban and township land-use tax) and other taxes, such as stamp duty, custom duties, vessel tax and resource tax.

When a non-resident enterprise provides services to a Chinese company, the service fees are subject to a varying range of VAT, where applicable, and surcharges. The surcharges include the urban construction and maintenance tax, education surcharge and local education surcharge, which amount to an additional 12% on the total indirect tax liability. Indirect taxes are withheld by the Chinese service recipient when it remits the payment to the foreign service provider and are paid to the tax authority.

If you have any legal or taxation questions or issues, working with a consultant or law firm who have local market access and knowledge is vital. Enterprise Ireland in China can link you with consultants/law firms who will be able to assist you navigate the Chinese legal system.

HELPING YOU WIN IN CHINA

Enterprise Ireland is committed to assisting and supporting clients to enter new markets and expand in their current markets. Our team of experienced marketing professionals in our overseas offices are ready to help you. Enterprise Ireland offers flexible solutions for client needs, as well as business supports for success in the market. This includes our Market Research Centre and local market supports, our experience in building selling capabilities, and our assistance with trade events and missions.

In Greater China, we have three offices in Shanghai, Beijing and Hong Kong, servicing key sectors for Irish companies.

Pre-visit support

Prior to engaging with an overseas market, client companies should engage with their Development Adviser (DA) and the Enterprise Ireland Market Research Centre in Dublin to ensure they leverage the full range of possible supports in preparation for engaging with the Enterprise Ireland team in the market.

- General market and country level information
- Sector overview
- Validation of the opportunity for your product or service
- Evaluation of your market entry strategy
- Suggested channels to market
- Competitor analysis
- Relevant contacts/suggested itinerary
- Summary of relevant market information resources

In-market support

- Introductions to buyers and decision-makers
- Identification of potential partners
- Facilitation of buyer visits to Ireland
- Assistance with product launches/workshops
- Securing reference sites

International trade events programme

Every year, Enterprise Ireland organises an extensive programme of events to support your business abroad. These include:

- Inward buyers' missions to Ireland
- Group stands at important international trade fairs
- Overseas trade missions
- Study visits to gain knowledge of overseas markets
- Client knowledge events including seminars and workshops
- Networking events to build and enhance relationships with market contacts
- Further information is available at:
www.enterprise-ireland.com/events

International market contacts

Enterprise Ireland has built up an excellent network of individuals in China who are able to work with Irish client companies on developing their business. This includes market and sector specialists, business accelerators and members of Irish business associations.

Additional supports

- Access to translation and interpreting services
- Introductions to specialist expertise such as legal, recruitment, public relations and taxation
- Access to mentors

Enterprise Ireland's Market Research Centre offers client companies access to market intelligence in the form of company, sector, market, and country information to explore opportunities and compete in international markets.

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