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**NovelBaltic**

# Guidelines for Market Entry Strategy: Entering the Chinese Market with NTFPs

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## Authors:

Heidi Ann Erbsen (University of Tartu, CASS)

Siim Espenberg (University of Tartu, CASS)

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# Guidelines for Market Entry Strategy:

## Entering the Chinese Market with NTFPs

### Purpose of these Guidelines

This document serves as a guide for SMEs who are taking their first steps in entering the Chinese Market. While this project focuses on NTFPs, the tips here can be used across other economic sectors as well.

### Content

The following guidelines combine classical export plan components and local strategies using conducted surveys.

### Traditional Export Components

#### Economic Component

##### General Factors

China is the world's most populous country with around 18% of the global population. At the same time, it is the fourth largest territory with the second largest economy and number one exporting economy in the world. It is no news that China's economy has been a quick growing one for the past half century with around 10% increase in annual GDP for the last four decades. World Bank and IMF indicators also show that China is now a middle-upper-income country; however, the population and economic activity are highly concentrated in the eastern provinces (Figure 1), and GDP per capita, productivity, and employment rates remain relatively low compared to high income or other middle-income countries<sup>i</sup>. Furthermore, GDP per capita varies significantly from region to region (Figures 2 and 3) and these differences continue to grow.

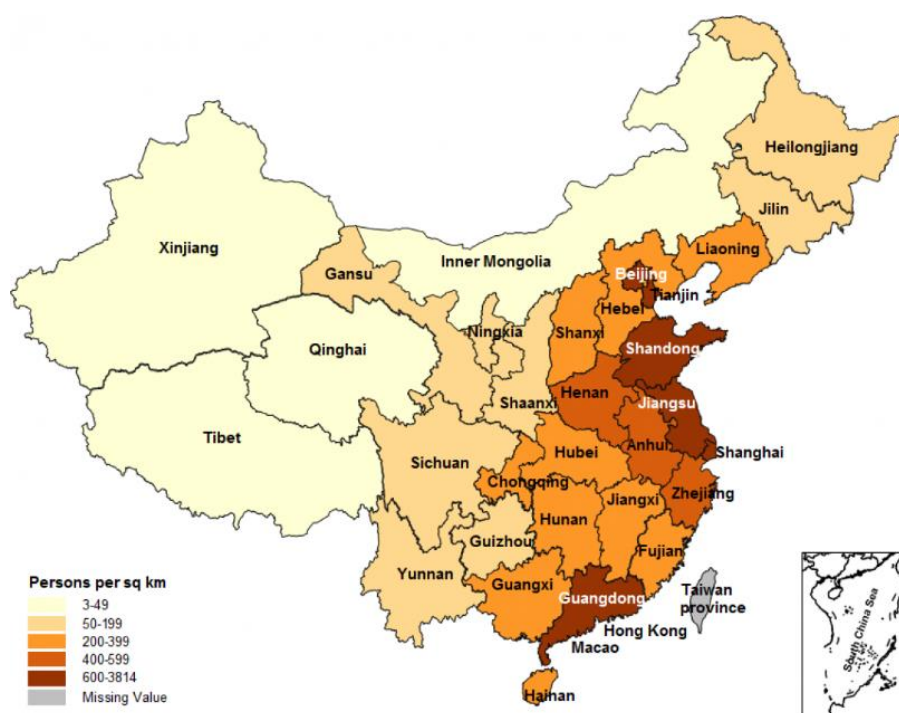
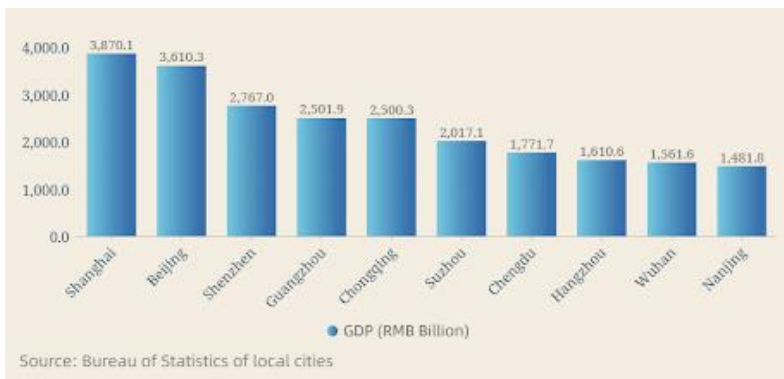


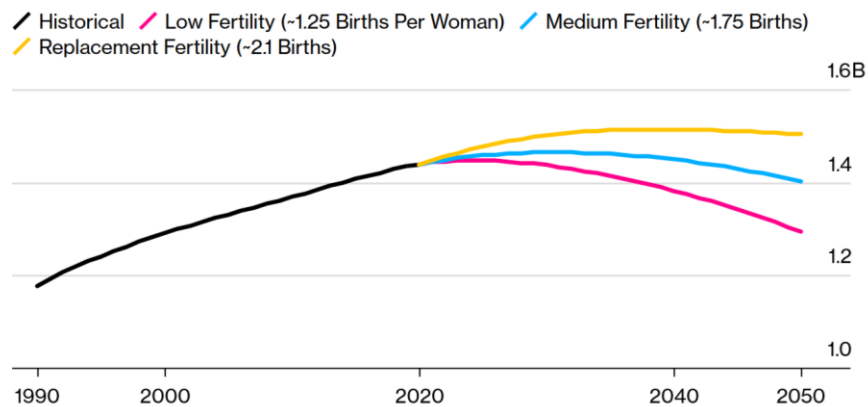
Figure 1: Population Density by Province, 2017 (UNICEF)<sup>ii</sup>

**Figure 2: GDP per capita in China 2020<sup>iii</sup>**



**Figure 3: Top 10 Chinese Cities by GDP in 2020<sup>iv</sup>**

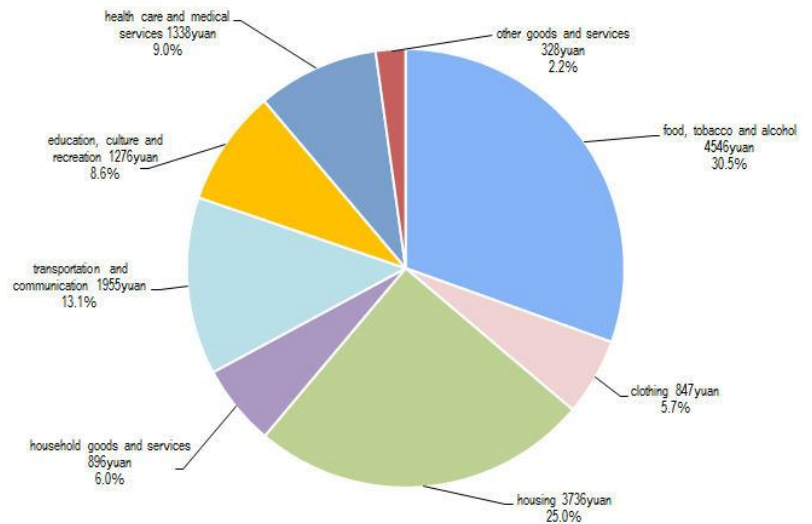
Although individual wealth has increased in China, the projected slow in population growth (Figure 4) will have significant implications for impot markets to China. On the one hand, a shrinking population could provide more opportunities for specialized markets that countries with decreasing populations simply cannot afford to produce themselves. On the other hand, this does mean a smaller and thus more competitive market in the future.



**Figure 4: Projections for China's shrinking population<sup>v</sup>**

While China itself makes up 25% of the global share of NTFP's<sup>vi</sup>, a growing middle class in China means that the demand for different kinds of unique health and food products is also increasing. In the first three quarters of 2020, during the peak of the first wave of Covid 19, consumer spending in China decreased *with the exception of* food, tobacco, and alcohol products which increased 5.5%<sup>vii</sup>. Furthermore, the increasing demand for eco-friendly, green, and health products (see Business and Product marketing in the accompanying handbook) provides a unique opportunity for countries seeking to import NTFPs to China.

*Despite an increase in savings, surveys of consumer trends in China post-pandemic show that around 70% of Chinese consumers plan to "spend more time and money purchasing safe and eco-friendly products"<sup>viii</sup>.*



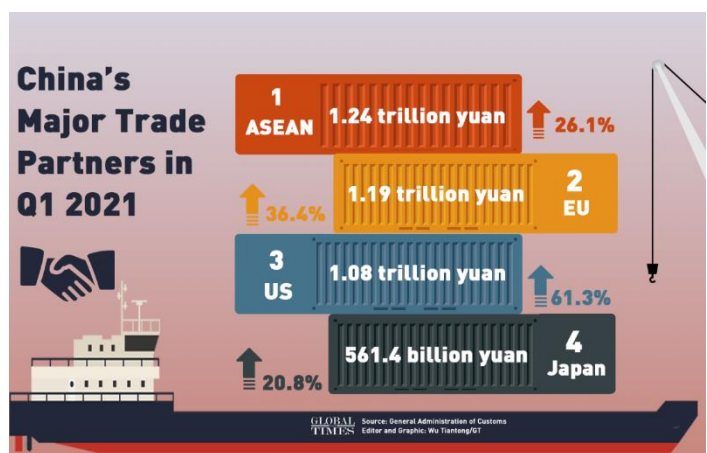
**Figure 5: Chinese Income and Expenditures 2020 (idib, Households' income)**



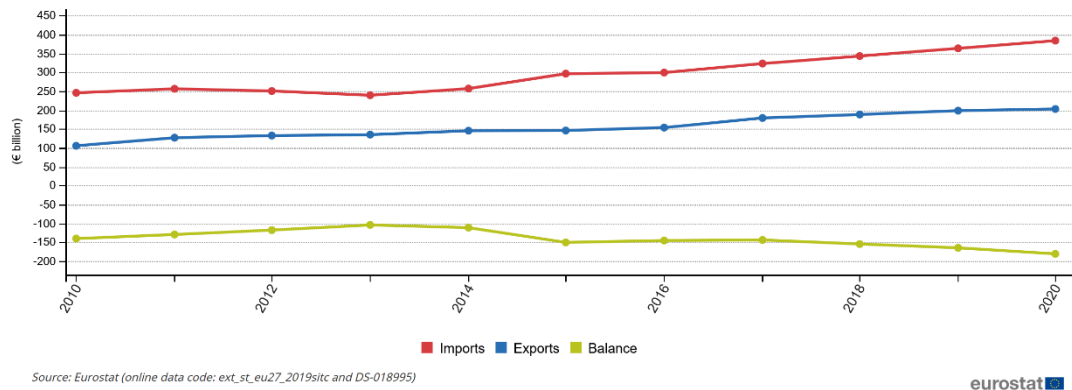
In general, Chinese foreign trade trends remain robust (See Figure 6) with an increase in trade between China and its main trade partners (Figure 7).

**Figure 6: Chinese Trade in Q1 2021<sup>ix</sup>**

**Figure 7: China's Main Trade Partners 2021 (idib, Global Times)**



The trade balance between the EU and China has remained consistent with a slight shift favoring imports to China (Figure 8). See more on the specificities of EU and Nordic country-specific trade patterns with China in the final section.



**Figure 8: EU trade in Goods with China 2010-2020<sup>x</sup>**

### Doing Business in China

While the global coronavirus pandemic and subsequent economic crisis have increased the inequality in the regions affecting the overall market (Ibid), China is still the world's number two import economy, and thus a huge market of entry. Moreover, according to the IMF, the ease of doing business in the country has greatly improved.

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*The ease of doing business in China has significantly increased in recent years, with the World Bank Group naming China as one of the economies with “the most notable improvement in doing business in 2020”<sup>xi</sup>.*

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### **Ease of Doing Business Considerations Based on General, Global, and Historical Economic Factors**

- Chinese reforms have improved the process to:
  - Start a business
  - Deal with construction permits
  - Obtain electricity
  - Protect minority investors
  - Pay taxes
  - Trade across borders
  - Enforce contracts
  - Resolve insolvency
- Chinese reforms have ***not yet*** improved the process to:
  - Register property
  - Obtain credit

Before deciding to enter the Chinese market, it is essential for businesses to first have a local presence in their home country, and the personnel and resources to invest in a new market. Entering the Chinese market usually requires intermediaries for legal support, translations, and distribution. Furthermore, it is imperative for a business to have copyrights and registrations ready in advanced to protect their products and technology. So, while the Chinese market presents a huge export market, it also requires a significant amount of preparation, network development, and careful considerations of the cost and benefits of making the big step to export products to China.

There are three main types of businesses in China to consider: a wholly foreign owned enterprise (WFOE), a joint-venture, or a private enterprise. The main differences in these options are the partnership structure and capital required (See handbook pg. 19). Establishing a business in China usually takes 2-4 months, but it is important to note that businesses are required to register under one of three main categories (manufacturing, trading, consulting) and establish their primary focus in the registration. If this focus changes, the business will have to reapply or close and reopen, and the procedure for closing a business could take years. Businesses considering a joint venture also need to conduct background checks and confirm that their Chinese partners have the capacity and resources needed to take on a new partnership. Joint partnerships also require some additional paperwork to ensure the division of labor and profits, but this can pay off in terms of gaining the local know-how in the case of a supportive partnership.

#### *Global Factors*

Many of the improvements in the ease of doing business in China can be credited to the country's economic reform and integration into the global economy. Today, China is not only well integrated into the global market as a member of the World Bank and International Monetary Fund (since 1980) and the World Trade Organization (since 2001), but it has established itself as an economic leader. This integration has generally decreased tariffs and encouraged Chinese compliance with international trade norms and peaceful trade dispute settlements.

Although this increased global cooperation has helped China's trade economy to surge, it has also been met with challenges in the international community for economic and political reasons. Since 2019, the EU has referred to China as a systemic competitor signaling a change in policy from opportunistic to strategic. Tension between the US and China in international trade agreements, tense relations with China, Hong Kong, Taiwan and subsequent international partners, and ongoing speculation of and reaction to human rights violations<sup>xii</sup> also continue to influence not only China's image abroad, but subsequent partnerships. For example, due to these concerns, and in response to what the EU considers unfair Chinese subsidization policies, the EU, China's largest trading partner<sup>xiii</sup>, has suspended work on an EU-China free trade agreement.

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*Further deterioration of Chinese relations with the United States and the EU could see an increase in tariffs and other obstacles to trade<sup>xiv</sup>.*

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In November 2020, China joined 14 other countries (not including the United States) in signing the Regional Comprehensive Economic Partnership (RCEP). This agreement, which is the largest trade agreement in term of the populations, covers trade in goods, services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement, e-commerce, SMEs and more<sup>xv</sup>. So, while Chinese trade with the EU and the United States remains strong, in recent years China has increased its regional partnerships in APEC (Asia-Pacific Economic Cooperation: member since 1991) and with ASEAN (Association of Southeast Asian Nations). Even though China is not a



member of ASEAN, the association surpassed the US as China’s second largest trade partners in 2020, and with the signing of RCEP, this trend can be expected to continue<sup>xvi</sup>.

## Frameworks of major Asia-Pacific trade deals



Source: Compiled by Nikkei Asia

Figure 9: Major Asia-Pacific Trade Deals as of 2020<sup>xvii</sup>

### Economic Historical Factors

When considering the current economic situation in China, it is important to factor in historical influences and misconceptions. China is generally considered to be a centralized economy, but since it is largely the local governments which control resource allocation, entrepreneurs should consider that *the region of doing business* plays a large role in the Chinese market.

*“China is an administratively planned but not a centrally planned economy. It is regionally de-centralized and local governments manage local economies.”*

*Professor Chenggang Xu (Cheung Kong Graduate School of Business)<sup>xviii</sup>*

While the currency is regulated by the central bank and economic subsidies do play a major role overall, regional distinctions still exist. More information about these distinctions can be found in the government factors and traditional sectors sections (See Figure 20).

### General, Global, and Historical Considerations for Entering the Chinese Market

- ✓ Obtaining credit and registering property are still more challenging in China
- ✓ SME’s can determine the right type of business based on 1) their existing networks (locally and in China), 2) any restriction on the product they want to market (see Political Components for more information), and 3) regional preferences (see Banking Factors and Traditional Sectors)

- ✓ Keeping up to date on China's international partnerships and global integration can help businesses predict more and less favorable market conditions.
  - **Resources to keep up to date:**
    - OECD: <https://www.oecd.org/economy/China-economic-snapshot/>
    - World Bank: <https://www.doingbusiness.org/en/data/exploreeconomies/china>
    - IMF: <https://www.imf.org/en/Countries/CHN>
    - ASEAN: <https://asean.org/asean/external-relations/china/>
    - European Commission: <https://ec.europa.eu/trade/policy/countries-and-regions/countries/china/>
    - RCEP: <https://rcepsec.org/>
    - US/Chinese Relations: <https://www.state.gov/u-s-relations-with-china/>

### Banking Factors

The Chinese banking system has been drastically transformed in the past few decades, and this transformation is expected to continue.

#### This section highlights:

- ✓ Basic currency information
- ✓ Bank accounts available for businesses
- ✓ An overview of the banking system
- ✓ Currency fluctuations, bank stability, and credit sourcing (*which is a challenge for international businesses*)
- ✓ Inflation rates, Interest rates, and consumer spending

### Chinese Currency (Stability)

The Chinese currency is known by two names: The Renminbi (RMB), which is the official currency of China, and the Yuan, which is the unit of Renminbi used for everyday transactions. The Yuan is the name of the notes generally used for payments, and Jiao and Fen are smaller units: 10 Jiao making up one Yuan and 10 Fen making up one Jiao.



**Image 1: Chinese Currency Bank Notes and Coins<sup>xix</sup>**

The Chinese currency has been pegged to the US dollar since 1994 and is largely considered to be inflexible to market changes. Although this inflexibility has supported growth, it has made China’s economy vulnerable to cyclical global depression. As a result, and in response to the global coronavirus pandemic, China’s central bank has increased the flexibility of exchange rates and become more comfortable with currency fluctuation<sup>xx</sup>.

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*Increasing flexibility in Chinese currency or government controls to curb this flexibility impact the exchange rate and profit margin of import markets to China.*

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### **Opening a Bank Account**

Businesses can (and in most cases will need to) open a bank account in China once they have been registered. For the latest information about requirements to open an account, SME’s should consult their networks, check with their local chamber of commerce, or consult The People’s Bank of China’s (China’s Central Bank) webpage: <http://www.pbc.gov.cn/en/3688006/index.html>

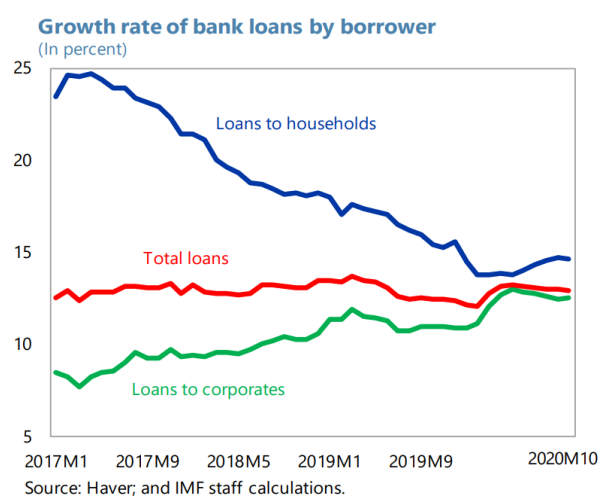
As with many aspects of doing business in China, opening a bank account and general banking practices may differ from region to region.

**There are four basic accounts business owners should be aware of:**

- ✓ **Capital bank account:** one time use for making the initial investment in the company
- ✓ **RMB account:** for day-to-day transactions
- ✓ **Foreign Currency Exchange Account:** allows to receive money from a parent company overseas
- ✓ **Foreign Trade Account:** allows businesses to hold different currencies (*available only in free trade regions- see Figure 10 in Government Factors*)

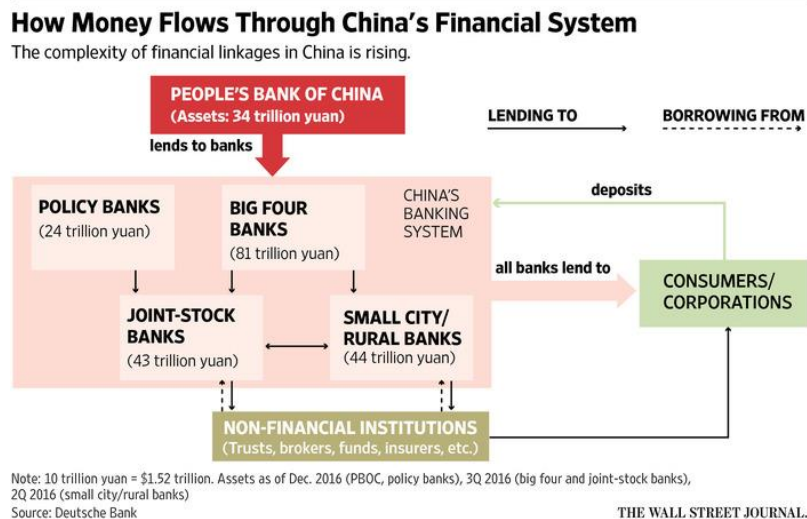
On a larger scale, the top priority for the People’s Bank of China, China’s central bank, is growth, and the fiscal and monetary policies in the country reflect this priority.

Since 2017, Moody’s Investor Services have maintained an A1 rating with a stable outlook for China’s credit worthiness<sup>xxi</sup>. China has the world’s largest bank reserves, most profitable banking system, and the four largest banks in terms of capital as well<sup>xxii</sup>. Moreover, while private lending has decreased, corporate loans has notably increased suggesting that monetary policy is geared towards business lending.



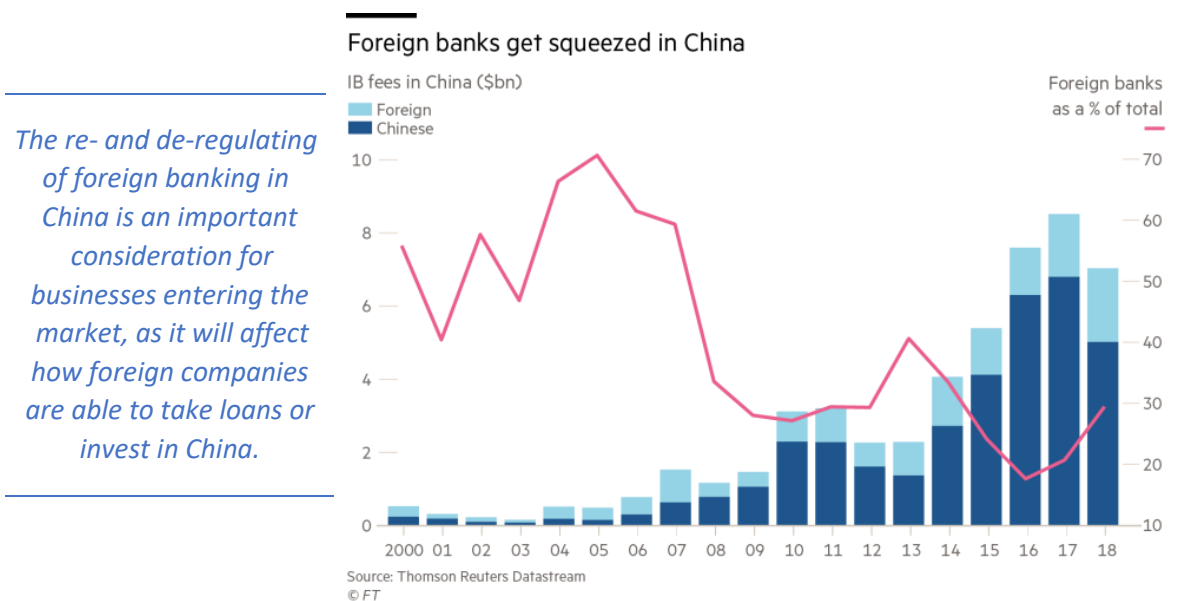
**Figure 10: Bank Loans by borrower<sup>xxiii</sup>**

For the past few decades, the Chinese banking system has gone through several reforms. These reforms have diversified the system from a centralized one where their central bank conducts the majority of operations to a multi-level system with five specialized banks, three policy making banks, a dozen joint-stock commercial banks, over a hundred city commercial banks and rural banks.<sup>xxiv</sup> Foreign banks have also been allowed to open branches.



**Figure 11: Chinese Banking System<sup>xxv</sup>**

Due to the increase in local banks and ongoing trade wars between the US and China, the percentage of foreign banks remains relatively low. While Chinese authorities have lifted the ownership cap to allow foreign companies to own more than 50% of a bank operating in China, the regulations for entering the Chinese banking market remain challenging<sup>xxvi</sup>. Recently, in response to ongoing trade disputes with the US and European Union and the economic consequences of Corona, new restrictions have been put in place on foreign banks which restrict the amount they can transfer into China from abroad and require them to make fewer loans<sup>xxvii</sup>.

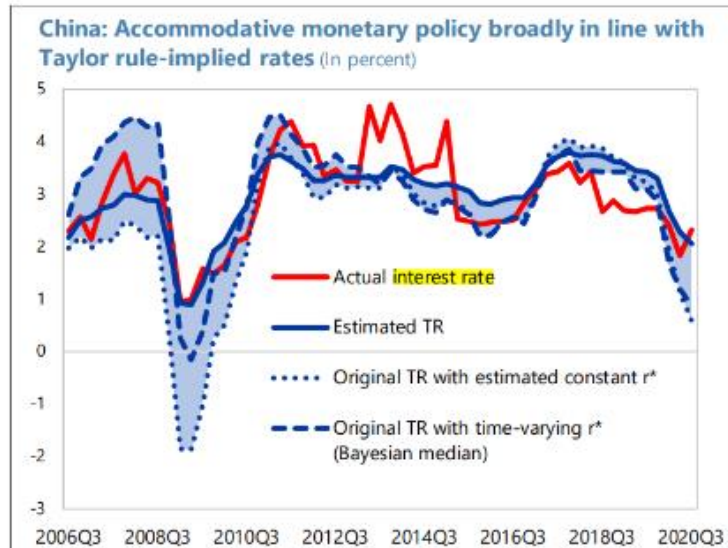


*The re- and de-regulating of foreign banking in China is an important consideration for businesses entering the market, as it will affect how foreign companies are able to take loans or invest in China.*

**Figure 12: Foreign Banking in China: Financial Times (idib)**

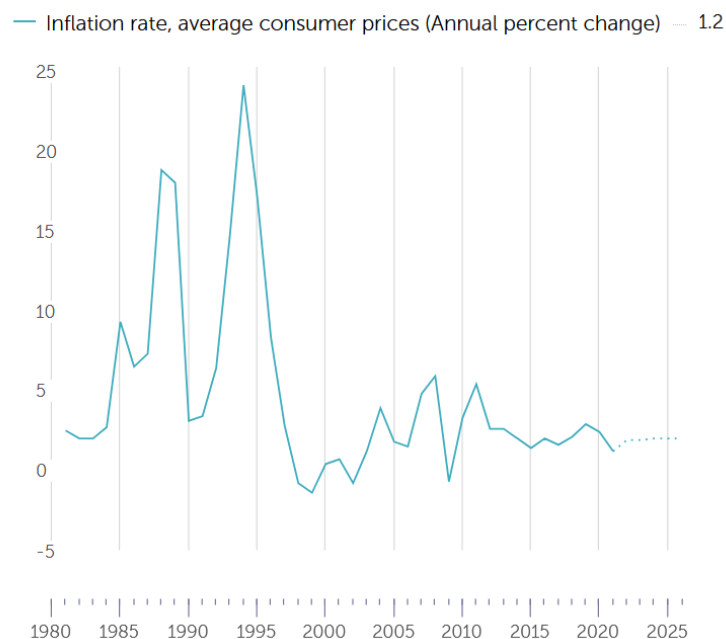
Shadow banking (lending outside of the official banking sector) has also increased rapidly in China creating a range of benefits for the Chinese economy in terms of finding credit sourcing. At the same time, it has increased the risk of financial instability since these activities have limited financial safeguards and transparency<sup>xxviii</sup>.

Interest rates in China have been generally predictable, and in times of economic downturn (2008 and 2020 for example), are lowered to support investments.



**Figure 13: Interest Rates (IMF idib)**

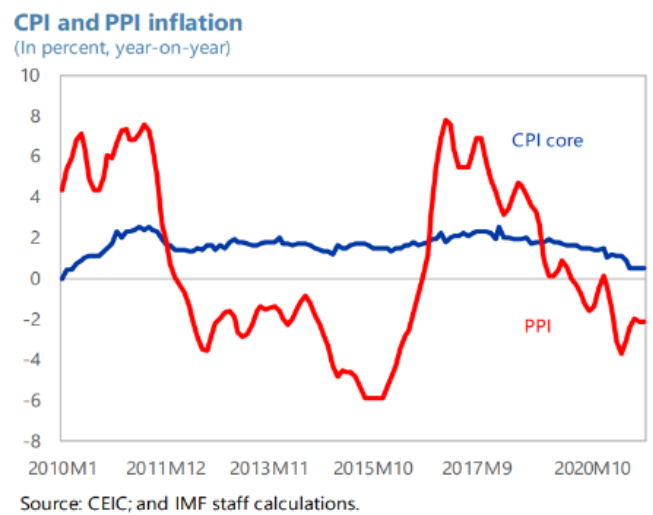
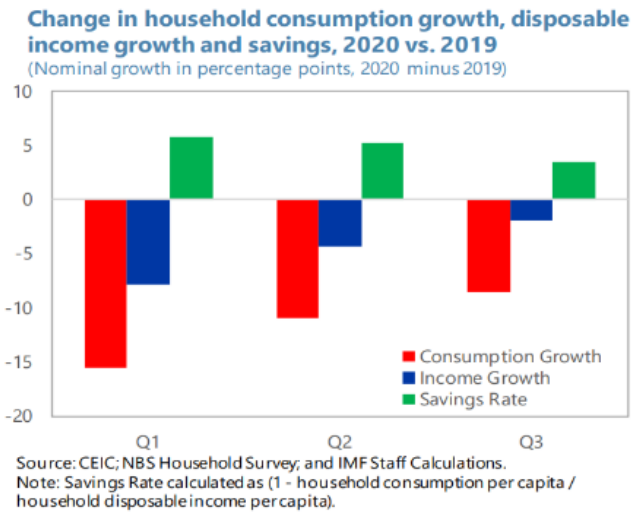
At the same time, while inflation rates are not a major concern for the Chinese government, they have been a topic of speculation when it comes to doing business in China. The price of goods has risen globally due to the Corona pandemic, and this trend is also true in China. Compared with previous decades however (Figure 14), the rate of inflation has stabilized.



**Figure 14: Inflation Rate, Average Consumer Prices (IMF DataMapper)<sup>xxix</sup>**

Consumer spending in China has been slowly but steadily increasing, but not at the rate that Chinese authorities would like. Several initiatives have been put in place to improve the situation and encourage consumer spending (See Government Factors), but in general, savings rates are higher, and this was especially true during the pandemic. While the consumer price index (CPI core) in China have remained stable due to price regulation measures, producer price indexes, which influence costs for businesses in China, do fluctuate much more (Figure 16).

**Factors of consumer spending and saving**



**Figure 15 and Figure 16: Household spending and Inflation (IMF idib)**

**Summary of Banking Factors and More Information**

- ✓ The Chinese currency may become more or less flexible. Businesses can keep up to date on currency and banking reforms via:
  - The Chinese Central Bank Policies via the banks website: <http://www.pbc.gov.cn/en/3688006/index.html>
  - IMF exchange rate monitoring reports: <https://www.imf.org/en/Publications/WP/Issues/2019/03/07/Chinas-Evolving-Exchange-Rate-Regime-46649>
- ✓ The region of doing business can also determine which banking options are available.
  - Consult network contacts or financial intermediaries
  - Seek information from the European Chamber of Commerce: <https://www.eurochamber.com.cn/en/home>
- ✓ Consumer spending remains low and savings high.
  - Consult World Bank and IMF monitoring or the European Chamber of Commerce in China (<https://www.eurochamber.com.cn/en/home>) for up to date information on financial factors in China.



**Image 2: 13th National People's Congress at the Great Hall of the People: New York Times, July 2020<sup>xxx</sup>**

Although Shanghai is considered to be the business capital of China and is where the main stock market is located, the political capital is Beijing. In addition to these two hubs, two other municipalities are controlled by the central government: Chongqing, and Tianjin<sup>xxxii</sup>.

The current president of China, leader of the Chinese Communist Party, and commander-in-chief of the Chinese military, President Xi Jinping, was elected in 2013 and re-elected in 2018.

Terms are five years, and there are currently no term limits for the Chinese Head of State. Leading up to and during Xi Jinping's time in office, the Chinese government has become increasingly centralized and consolidated in power<sup>xxxii</sup>. This centralization of power is considered to be a result of the Chinese Communist Party's (CCP: The only ruling political party) initiatives to improve domestic infrastructure and increase China and the party's image abroad (idib).

This means that the government plays an increasing role in state bureaucracy, the media, online speech, religious groups, universities, society associations, and businesses<sup>xxxiii</sup>. The government's role in business adds a few specificities to establishing a business presence in China. These include complying with various levels of regulation and navigating through complex legal structures. For this reason, several import/export markets to China consider intermediaries to aid them in registering their business and ensuring that the products they sell are properly licensed. Internal growth has been a long-term goal of Chinese authorities, and the government has even established Free Trade Zones (FTZ) as areas of less restriction and fewer customs and tax obligations for businesses.

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*Knowing the regulations and product preferences of the national and local administrations is an important step in deciding where to register or conduct your business.*

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# China Free Trade Zones

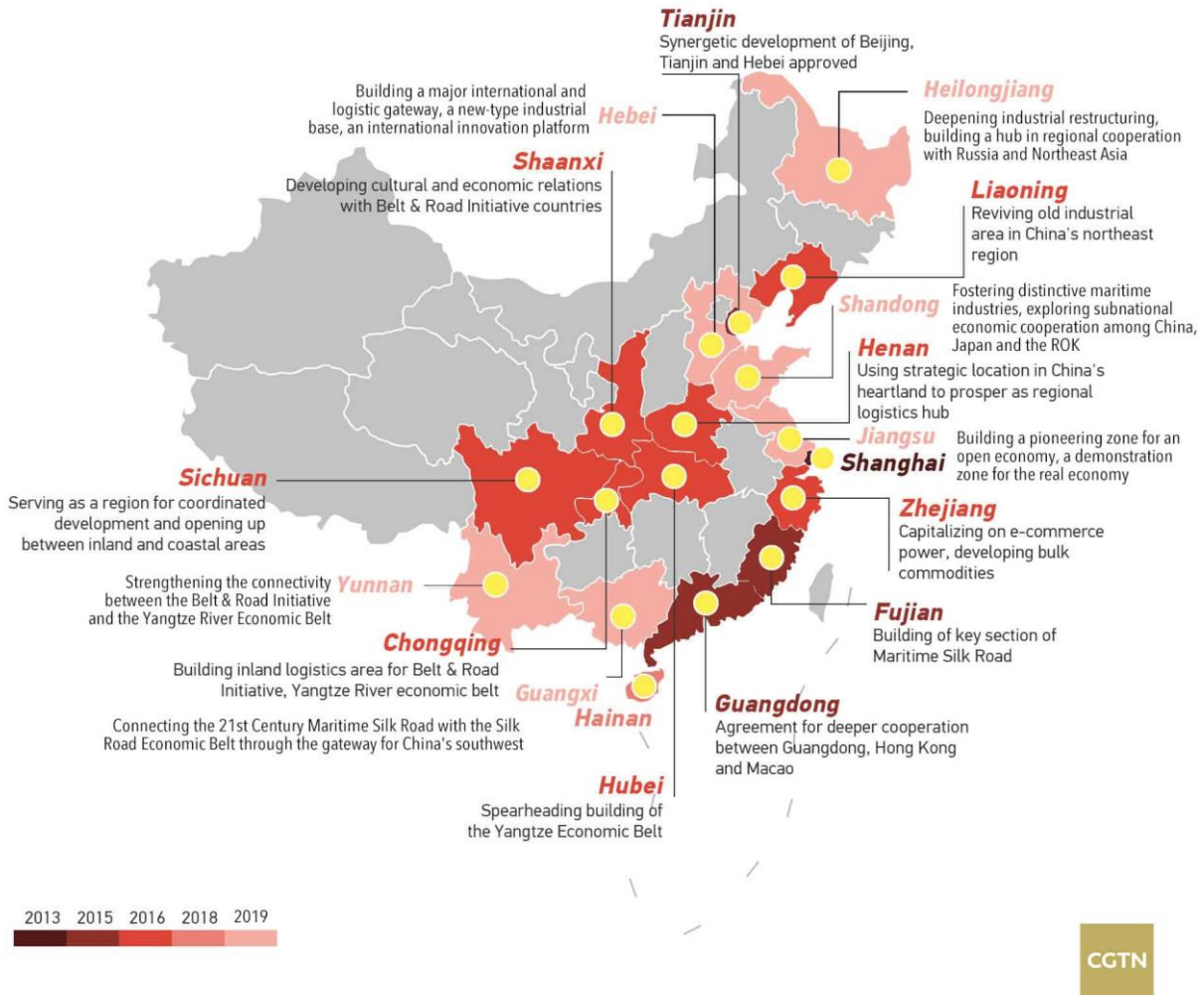


Figure 17: China Free Trade Zones<sup>xxxiv</sup>

Since local governments play a large role in promoting certain industries in their region, SMEs should be aware of both national and local administrative priorities. The Chinese government publishes a 5-year-plan with outlines the leading party's main objectives, and local administrations also make their goals within this framework. Entrepreneurs should keep an eye out for local government events to participate in and need to stay updated on new agendas. The Global China Daily (<http://global.chinadaily.com.cn/>) could provide one resource do so.





**Figure 18: Major targets of China's 5-year plan (2021-25)<sup>xxxv</sup>**

Other resources for small entrepreneurs without local presence in China include local chambers of commerce and the EU chamber of commerce which can work to lobby on behalf of the entrepreneur to Chinese local officials.

To support growth, the Chinese government has also significantly increased its subsidization of certain industries including agriculture, energy, transportation, and production<sup>xxxvi</sup>. As China has received backlash by international trade partners for the use of what are considered to be unfair subsidization schemes, the party has worked to increase its favorable presence externally through external investments. As a result, the government has focused on larger foreign investment projects such as the Belt and Road Initiative (an infrastructure project across several economic corridors including Russia, Mongolia, Eurasia, etc.) and compiled a development strategy to become “a modern socialist power in economic, technological, and other fields by 2035”<sup>xxxvii</sup>. One primary aim is to maintain growth while improving the Chinese social policy and achieving high income country status by 2035.



**Figure 19: Highlights of the fifth plenary session of the CPC: Gobao Times, 2020**

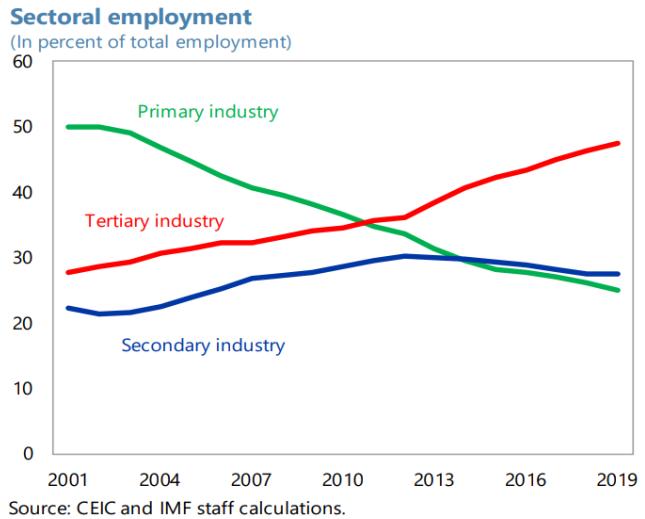
At the same time, China does import a lot, specifically in key areas of agriculture, food products, and technology (which are all essential for the Chinese economy to sustain growth). Having a network of contacts known as “Guanxi” 关系 is essential for businesses to navigate these priorities; however, these networks do look different depending on whether a company is large enough to have a local presence in China or whether the company relies on external support.

Also important to consider when it comes to the Chinese government, are the “One China” and “one country, two systems” policies with Taiwan and Tibet, and Hong Kong and Macau respectively. The international political tensions created by these policies and the Chinese government’s policies internally and externally can cause internal and external opportunities or turmoil and impact the ease of doing business in the import market.

*Awareness of the priorities stated in these growth policies, and knowledge of the domestic and regional relations are pivotal for entrepreneurs entering the Chinese market to create a cohesive business strategy.*

*Traditional Sectors*

In general, China has continued to move from an agricultural economy to a product and service based one, and this strong movement can create challenges for importers to the Chinese market. While China’s primary, raw material industry has declined in recent years (see Figure 20), the ability to produce refined goods and provide services cheaply and effectively has been on the rise. This means that Chinese imports tend to favor raw materials, and product goods, particularly luxury goods, take more time and investments to convince distributors and consumers to buy these goods.



**Figure 20: Changes in Traditional Sector Employment**






















With this transition in mind, it is important to account for regional distinctions since one product may be prioritized by the local government and consumers than others (See figure 21). Trade shows are an important aspect of the Chinese economy that businesses might want to consider in order to learn about and understand these priorities and consumer preferences. The largest import and export fair is the Canton Fair in Guangzhou (<https://www.cantonfair.org.cn/en/>), but several smaller fairs take place in every region.

*Even though trade fairs can be primarily focused on exporting and selling Chinese products internally and abroad, entrepreneurs can use them to gauge the market, assess competition, and possibly even find new channels for distribution.*

Province	Industry
Shanghai	Petrochemicals, chemicals, pharmaceutical, automobile, electronic apparatus, financial
Beijing	IT, communications, electronics
Guangzhou	Automobiles, electronic appliances, textiles, apparel, toys, petrochemicals, chemicals
Jiangsu	Chemicals, textiles, communications, petrochemicals, steel, foods, auto parts, biomedicine
Shenzhen	IT, semiconductors, biomedicine, communications, electronics information
Zhejiang	Light industry, plastics, textiles, apparel, toys, metallurgy, household electrical, furniture, kitchenware
Shandong	Agricultural, oil & foodstuffs, pharmaceutical

**Figure 21: Industry in Selected Cities (B2B International)<sup>xxxviii</sup>**

At the same time, the Chinese government still maintains a list of restricted industries (See Figure 22) which significantly affects import markets. This list is renewed with each Governmental 5-year plan, and the number of restricted industries has steadily decreased; however foreign businesses entering a more restricted industry should be aware of what these restrictions entail and might consider a joint-venture business to comply.

2020 MA Negative List: Number of Restrictive Measures in Each Industry		
Sectors		Number of restrictive measures
 Agriculture, forestry, animal husbandry, fishery		11
 Mining		1
 Manufacturing		19
 Production and supply of electric power, heat, gas, and water		1
 Construction		1
 Wholesale and retail		7
 Transportation, warehousing, and postal services		7
 Accommodation and catering		1
 Information transmission, software, and information technology services		5
 Finance		10
 Real estate		1
 Leasing and business services		6
 Scientific research and technical services		8
 Water, environmental, and public utility management industries		6
 Residential services, repairs, and other services		2
 Education		2
 Health and social work		4
 Culture, sports and entertainment		7
 List of Investment Projects Approved by the Government (2016 Edition)		10
 Licensing Items in the Internet Market Access Prohibited Licensing Director		7
 Other		2
Total:		118

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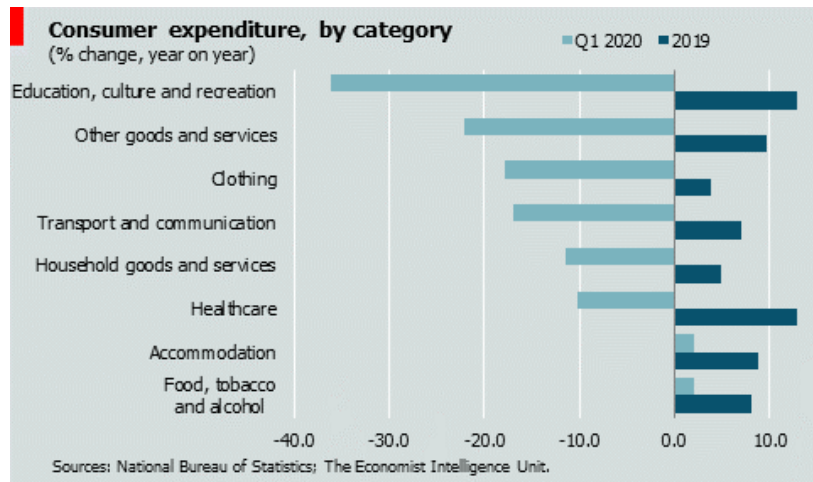
**Figure 22: Number of Restrictive Measures in Each Industry<sup>xxxix</sup>**

### Financial Forecast and Crisis/Risk Analysis

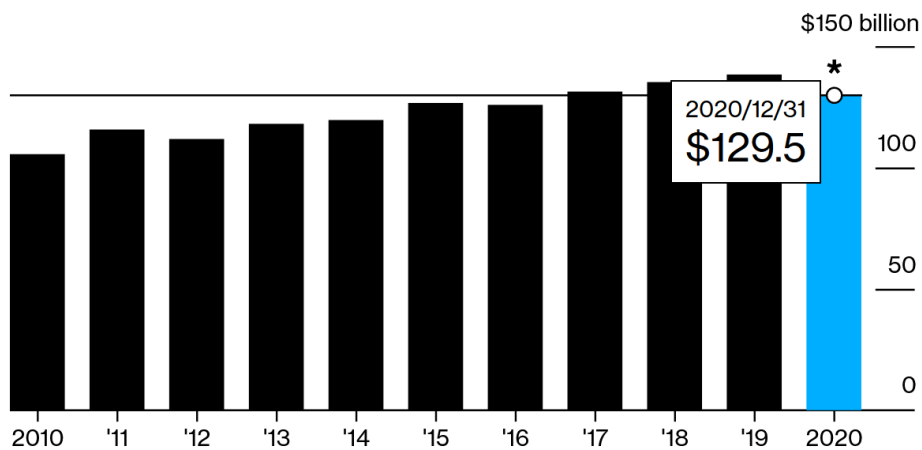
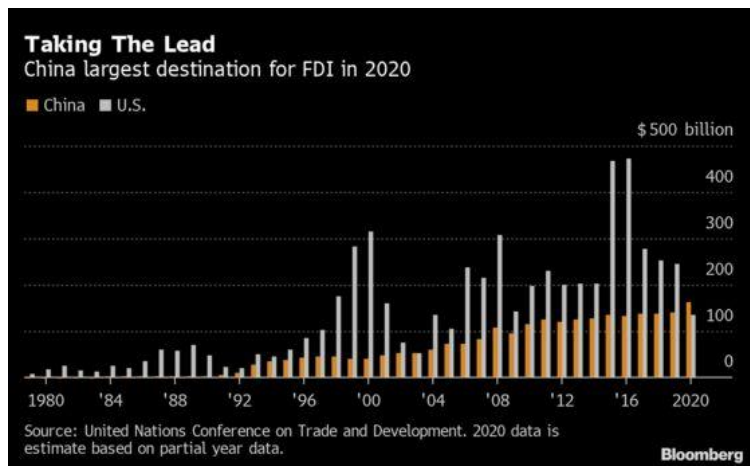
Although China's 5-year plan for 2021-2025 aims at maintaining 6% growth, the IMF forecasts that China's GDP will continue to grow by 8% in 2021 and into the next few years as well. China's economic recovery post Covid, which focused on supporting small businesses and supply chains, has been seen as largely successful on the production side; from the consumer side however, recovery has been relatively slow. Due to the fact that individual households in China tend to save around 25% of their income and gross GDP savings are around 35-50% annually (Worldbank, idib), Chinese recovery has focused on small business loans, debt forgiveness, and sectoral subsidies. This means that while there are relatively few barriers in supply chains, little has been done to encourage consumer spending. Yet, since the disposable income of the average household in China has increased and is projected to continue to increase, demand for non-essential goods (such as imported food products, cosmetics, and clothing items) is expected to continue to increase as well.

*Slow growth in consumer spending in China pre and post Covid could prove challenging for new markets.*

**Figure 23: Consumer spending in China by category 2019/2020**



Despite a slow recovery in consumer spending, China has received an increasing amount of foreign direct investment showing that there is still a firm network for investing in China on both the sending and receiving end.



**Figure 24: Foreign Direct Investment in China<sup>xl</sup>**

## Social Component

### *Cultural Factors*

In addition to the previously mentioned economic, banking, governmental, and sectoral factors, cultural factors are another reason businesses might strongly consider employing local Chinese staff to manage their import market to China. While Chinese culture is fairly direct, it is also a strong value to be polite, especially in international negotiations. It takes time to test a new product, and entrepreneurs need to take extra steps to gain meaningful feedback about the potential success of their business venture. This is an area where having local staff or a translator who is also able to interpret the mood of a discussion is pivotal.

### *Ethnic and Linguistic Demography*

The Han ethnic group makes up around 91% of the Chinese population, and there are considered to be 55 other minority groups in China. Among these are: Uighurs, Tibetans, Zhuang, Miao, Hui, Yao. Most minority populations live in the less densely populated area of China (recall Figure 1)<sup>xli</sup>

### Chinese ethnolinguistic groups

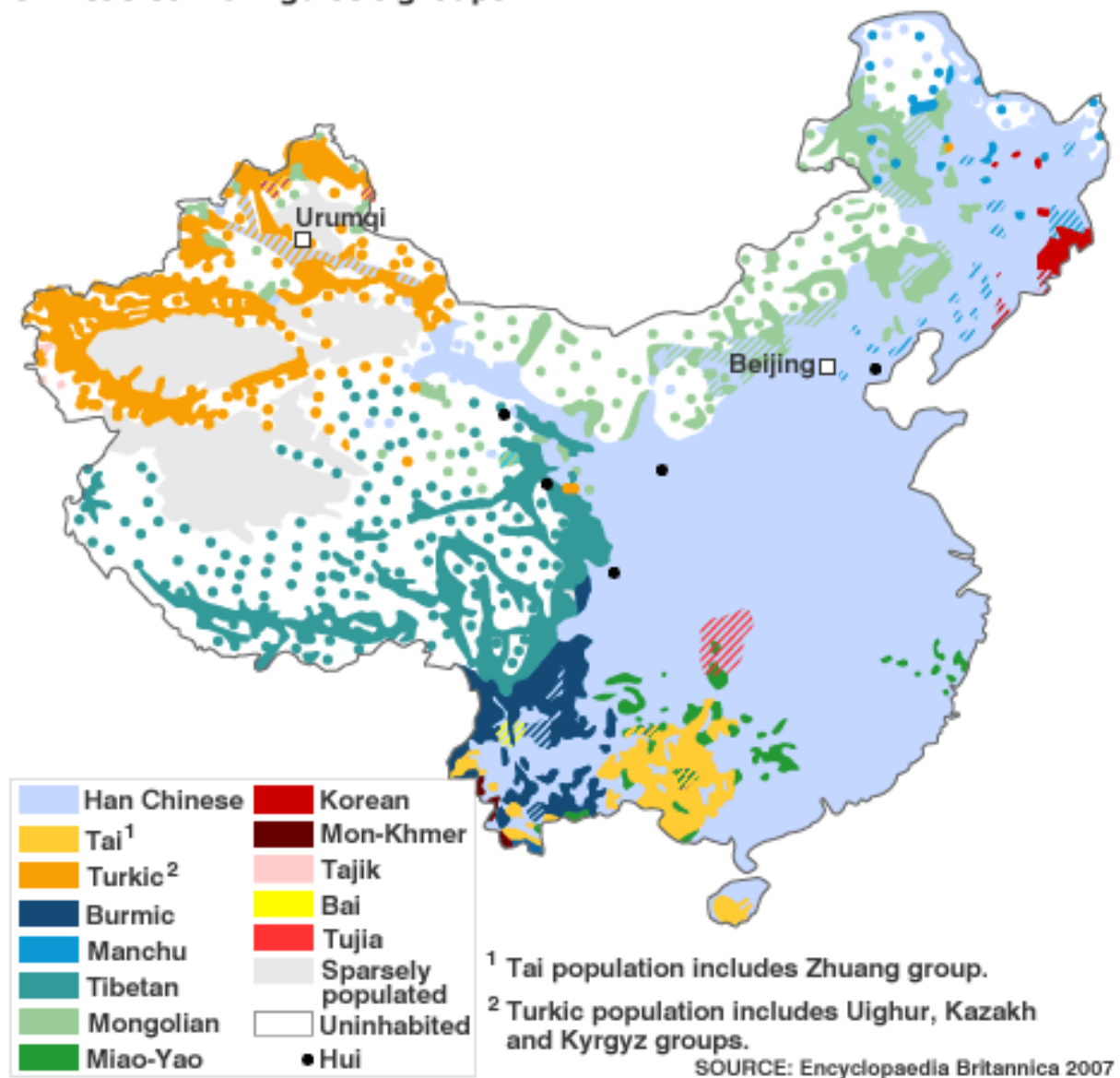


Figure 25: Main Ethnic Minorities in China (idib)

Mandarin (also referred to as standard Chinese) is the primary language used for business interactions, media, education, and government, and around 71.5% of the population speaks some form of it. However, China is a rather linguistically diverse country with 6 additional varieties of Chinese (See figure 26) and a wide range of other regional and foreign languages. Cantonese is the second most common language and is used in Hong Kong, Guangdong, and Macau. A variety of regional languages and foreign languages are also recognized in different regions.

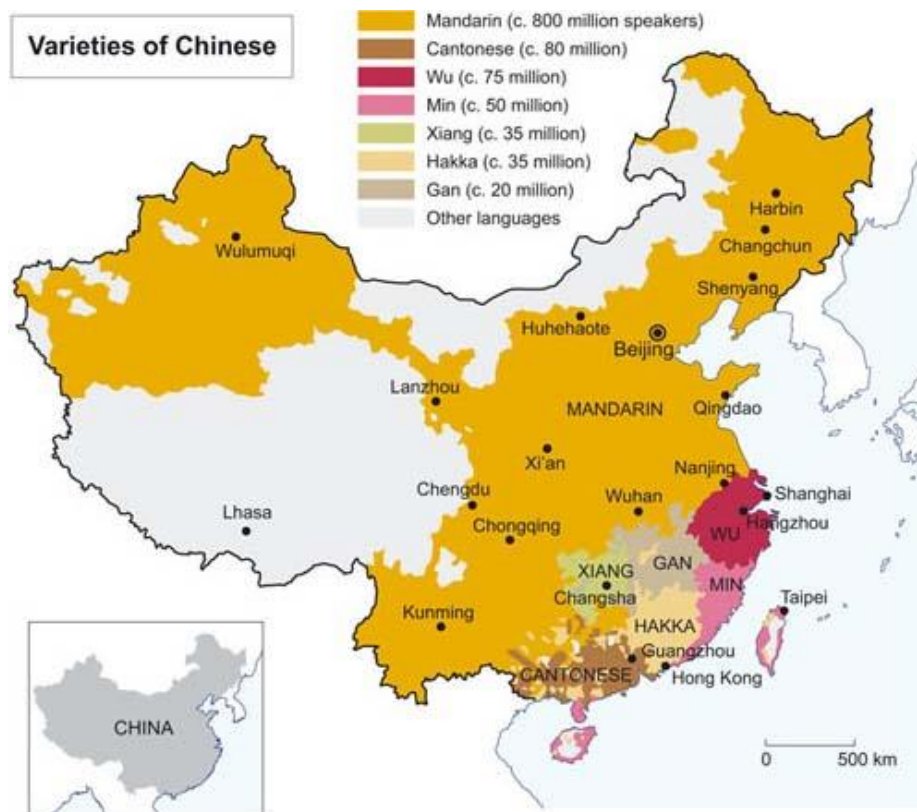


Figure 26: Variations of Chinese<sup>xlii</sup>

English and Portuguese are also important foreign languages. English is an official language in Hong Kong and the main language for China’s involvement in international relations, and Portuguese is the official language of Macau (idib). English is spoken by around 10 million people (roughly 1% of the population) mainly in urban centers.

*Since it cannot be expected the local population speaks English, communication is one area where intermediaries may be needed for translations.*

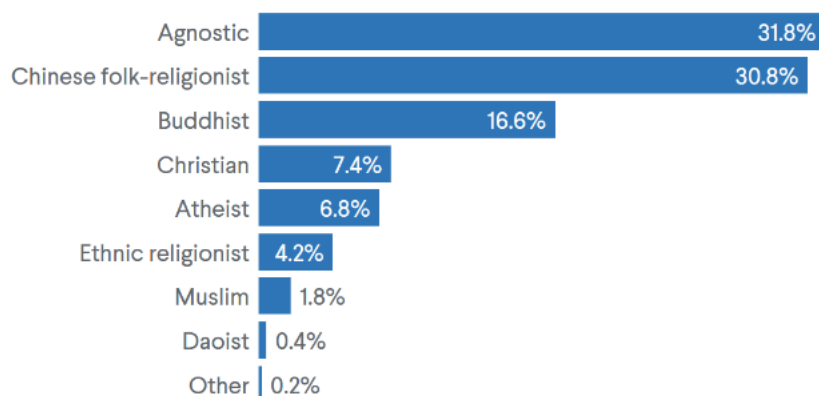
Rank	Languages in China
1	Standard Chinese (Mandarin)
2	Yue (Cantonese)
3	Wu (Shanghainese)
4	Minbei (Fuzhou)
5	Minnan (Hokkien-Taiwanese)
6	Xiang
7	Gan
8	Hakka
9	Zhuang
10	Mongolian
11	Uighur
12	Krygyz
13	Tibetan

Figure 27: Language Spoken in China<sup>xliii</sup>

### *Ethical Convictions/Beliefs*

The Chinese Communist Party claims China to be an officially atheist country, but it has a vast history of religious and cultural tradition that have left a mark on Chinese culture. It is considered that Confucianism, Taoism, and Buddhism have shaped ancient and modern Chinese culture, and still today China is home to the world’s largest Buddhist population<sup>xliv</sup>. Five religions are currently recognized by the government: Buddhism, Catholicism, Daoism, Islam, and Protestantism. International news media coverage of conflict between religious groups in China and the Communist Party has been an ongoing challenge for China since this coverage influences the external perception of, and willingness to cooperate with, China in international partnerships.

Percentage of population in 2020



Source: World Religion Database.

COUNCIL ON  
FOREIGN  
RELATIONS

**Figure 28: Religious Affiliation in China: Council on Foreign Relations (idib)**

### *Public Holidays and Important Celebrations*

It is important for businesses to know about Chinese holidays, including three-day weekends, in advanced.

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*Considering China’s large population, it is no surprise that during all holidays and long weekends businesses can expect delays.*

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It is advisable that any shipments, deliveries, or business transactions be completed prior to these days, particularly the Chinese New Year (which takes place between January 21<sup>st</sup> and February 20<sup>th</sup>), Golden Week (October 1-7<sup>th</sup>), and Singles Day (November 11<sup>th</sup>).

The largest weeklong celebrations are the Spring Festival (also known as the Lunar or Chinese New Year) and the Fall Festival (the previously mentioned Golden Week). Chinese New Year can create challenges for entrepreneurs as families travel to celebrate, shoppers scramble to buy gifts, and businesses close for the holiday. In general, the week prior to the holiday is a peak for consumption, and the two weeks during and after the holiday are a dead period when business, for the most part,



is not possible. In China, this is the period when businesses “re-group, re-strategize and re-staff for the upcoming year”<sup>xlv</sup>. Similarly, Golden Week includes China’s national day and was established as a week-long holiday to encourage internal tourism.

Finally, Single’s Day was originally established by the Chinese e-commerce company Alibaba to celebrate individuals who are not in a relationship. It has grown to be the largest single day for consumption globally, and a large portion of sales continue to take place online. In China, the days leading up to November 11<sup>th</sup> are prime time for advertisement and deals to promote new products.

### Demographic Considerations

China’s GDP per capita continues to grow steadily and is predicted to increase for at least the next five years. At the same time, GDP per capita is slow compared to overall GDP growth. This is an issue monetary and fiscal policies in China are working to address in order to make China a high-income country by 2026.

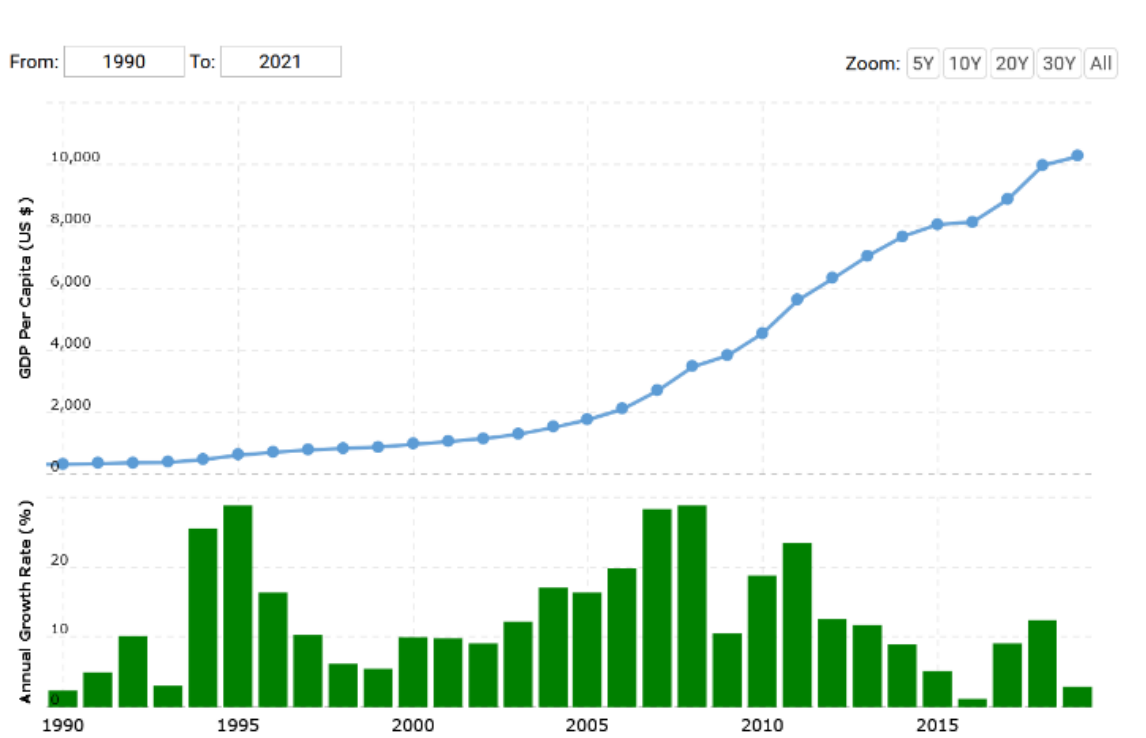


Figure 29: China’s GDP per capita growth<sup>xlvi</sup>

### Level of Education

Educational levels have greatly improved in China in recent decades with the ruling communist party making free and accessible primary education obligatory and encouraging continuing education. In 2018 the literacy rate was 97% (World Bank idib), and although 80% of the school age population live in rural or suburban areas, overall access to education has increased<sup>xlvii</sup>. Yet, the level of education of potential employees in China may not be reflected in an individual’s language skills.

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*Businesses looking to hire locally should have a strategy for attracting the best individuals for each position and might consider that this does not always mean the potential employee who speaks the best English<sup>xlviii</sup>.*

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## Political Component

### *International Agreements*

In addition to the agreements previously mentioned (see Global Factors), recent US-China decoupling plans which would work to separate US and China supply chains across multiple sectors, could have a huge impact on import markets and costs. Considering the Chinese Government's priority of improving the image of the ruling party, these international agreements (with the US and the EU) and regional agreements (with ASEAN and RCEP) will determine the ease of doing business in general and affect which types of trade are possible and profitable for European businesses ventures.

### *Taxes, Laws, and Regulations*

Tax rates, laws, and regulations are ever changing in China as the country continues to respond to new global circumstances and open up economically. For this reason, businesses seeking to enter the Chinese market should consult their network to find a reliable accountants and legal consultants in the region of China where they are considering doing business. Even though, as previously mentioned, the ease of doing business and ease of filing taxes in China is improving, China still ranks 105<sup>th</sup> out of 190 countries in ease of paying taxes<sup>xlix</sup>. However, there are some general patterns SME's can consider while assessing their readiness to enter the market.

As in many countries, in China there are three types of taxes businesses in China typically pay. Value Added Tax (VAT) is usually paid by trading companies or businesses that provide services on a smaller scale. Goods are usually taxed from 9-13% and services 6% (as of 2020). The tax-free minimum income for individuals is 300,000 RMB (around €39,000) per quarter. Companies can be registered as general taxpayers or small-scale taxpayers and may choose to declare income monthly or quarterly. General taxpayers must start paying VAT from day one, and small-scale taxpayers only need to pay once their income exceeds the tax-free limit.

Corporate income tax is paid quarterly and is 5% net profit for up to 1 million RMB (around €113,000) (this has been reduced to 2.5% due to economic easing until December 2022). This tax rises to 10% for profits from 1-3 million and to 25% for profits over 3 million RMB. Employment tax is the third type of tax that foreign businesses with a physical presence in China will have to pay. 5,000 RMB (around €650) per month is the tax-free minimum for individuals. Above this, individuals (including businesses owners employing themselves in China) can expect to pay a progressive tax. For employees, businesses pay 35% on top of the gross salary for social benefits, so businesses expecting to hire locally should factor this in.

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*As previously mentioned, there are several favored and restricted industries in China, and these may differ regionally.*

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More generally however, importers will need to apply for an automatic import license which is renewed annually. In case of importing a restricted good (fresh food products for example), businesses may have to pay a higher tariff rate to import certain quantities. In general, European business leaders report being twice as likely to face indirect market restrictions than direct ones (idib). To help account for these restrictions, importers to China should compile their product list and consult the Foreign Investment Negative List (FINL) and the Market Access Negative List (MANL) which outlines the sectors and goods which are subject to import caps or require special permits.

## Technological Component

### *Technological Levels*

China is a largely digital society, and businesses and consumers rely heavily on technology for day to day purchases and communication. In fact, China has the largest e-commerce market globally and this is projected to increase in coming years<sup>1</sup>. Electronic payments and online sales are the norm making it financially beneficial for foreign companies to consider onboarding with one of the large digital commerce platforms in China (see following digitalization section).

### *Digitalization*

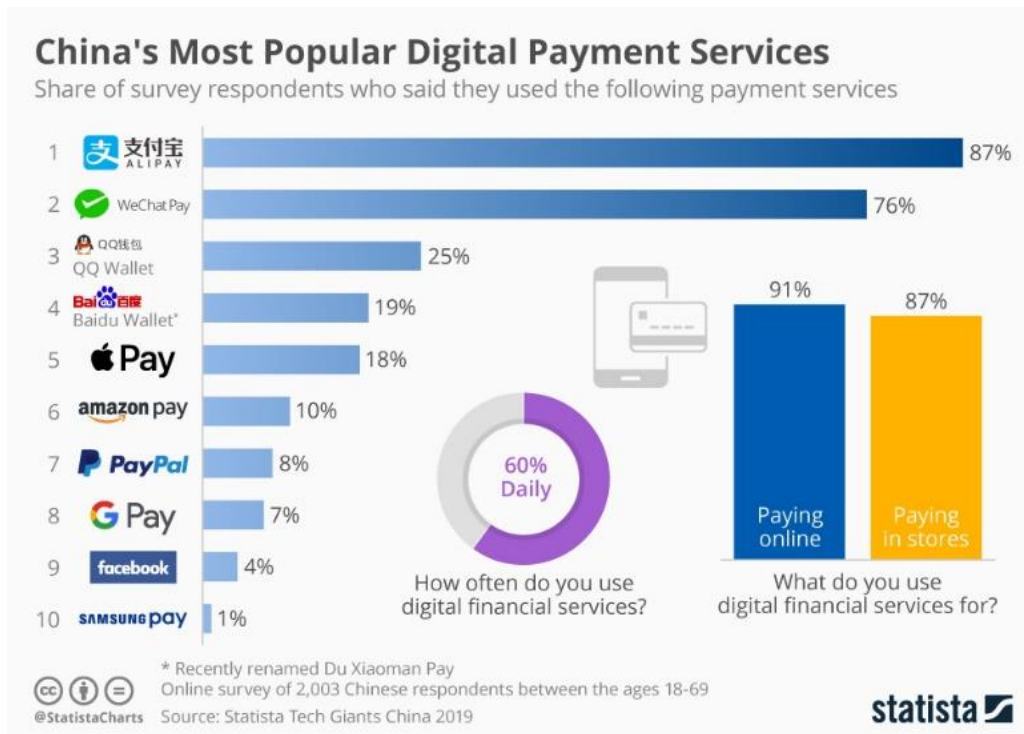
While the Chinese market is highly integrated with social media, many companies exporting to China rely on distributors for this purpose. Alibaba and Tencent are the two tech giants in China which own most of the e-commerce outlets. Alibaba owns TMall and Taobao and Tencent owns WeChat and is a large investor in JD.com. Each of these platforms has its own requirements for selling and target audience, and it is important to consider the costs and benefits of each before using them. On the one hand, since China's market is highly digitalized, these platforms can provide a virtual testing ground for understanding the potential success of a new product to the Chinese market. On the other hand, however, some of these options are costly and burdensome for entrepreneurs since they require communication in Chinese and a deeper understanding of the platforms target consumer. At the same time there are several services available to help open an e-commerce store for companies that have the financial capacity and interest.

Alibaba		Tencent	
TMall	Taobao	WeChat	JD.com
Business to Consumer	Consumer to Consumer	Social Media and Communications	Business to Consumer (Quality delivery focus)
Costly startup	Highly Competitive	Based on Recommendations	Distribution requirements
Brand Names and Big Businesses	Everyone	Food, Drink, Cosmetics, Etc.	Electronics, car parts, international products

**Figure 30: Main e-commerce platforms in China**

Whether or not a company decides to use an e-commerce platform, it is important to note that Chinese costumers are used to fast paced delivery of goods and services. Many e-commers platforms (JD.com in particular) have rules about how quickly products need to be dispatched and where they can be returned.

Furthermore, companies investing in China should be prepared to use digital payment services since many customers, relators and distributors do so.



**Figure 31: China's most popular digital payment services<sup>li</sup>**

Additional technological aspects SME's should know about and consider in their business implementation plan are Baidu, which is the largest search engine in China, and Didi which is the preferred Taxi app and delivery service in China.

### Ecological Component

China is still a developing country and the number one emitter of greenhouse gas emissions globally. The levels of air pollution and other environmental challenges caused by industrial policies have created challenges which Chinese officials have begun to address more and more seriously. Under the Paris Agreement, China has pledged to focus on renewable energy and be carbon neutral by 2060. China also has an increasingly urbanizing population. Considering that the government still relies on and subsidizes raw materials, environmental concerns and urbanization could shift the economic priorities in various regions and across the country.

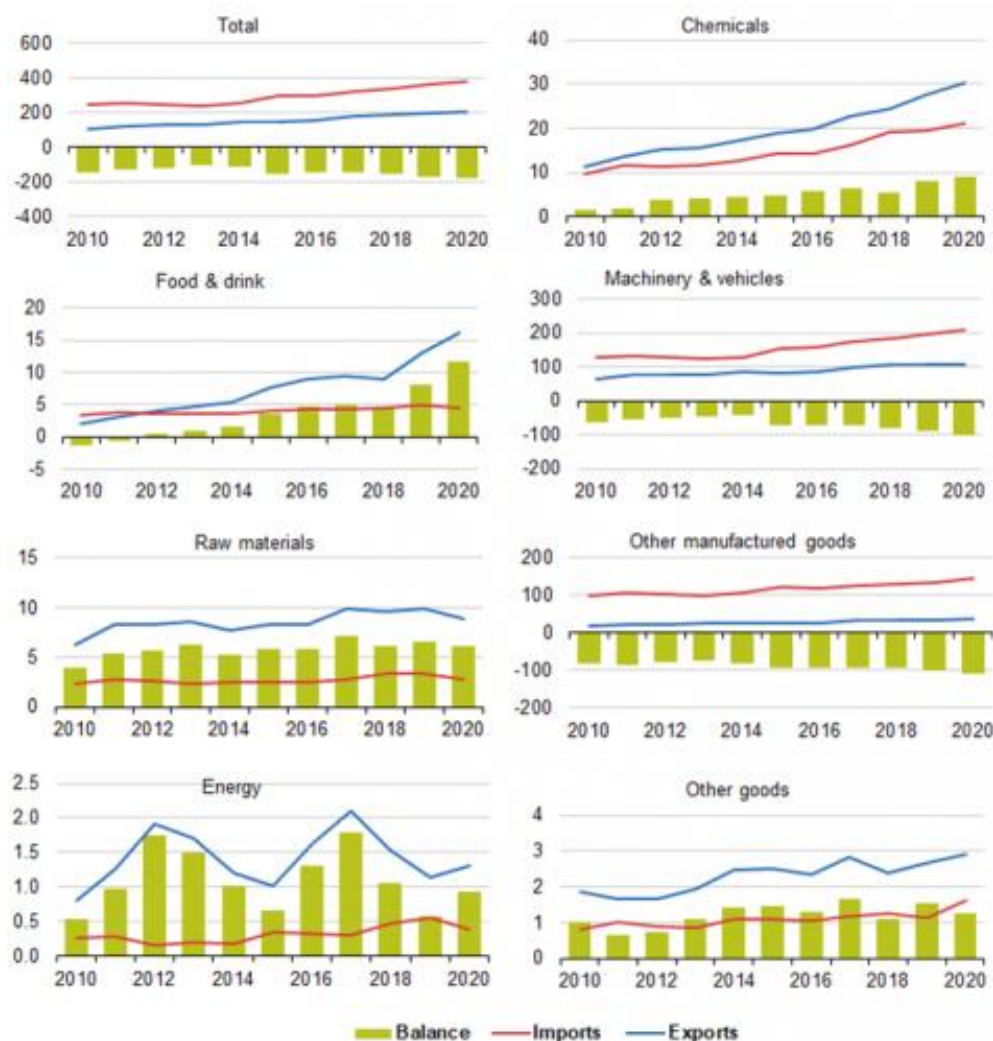
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*Businesses should be aware of how the government works to meet new ecological and technologically innovative goals since this could affect market priorities.*

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## Local Strategies for Nordic Countries in the NTFP Business

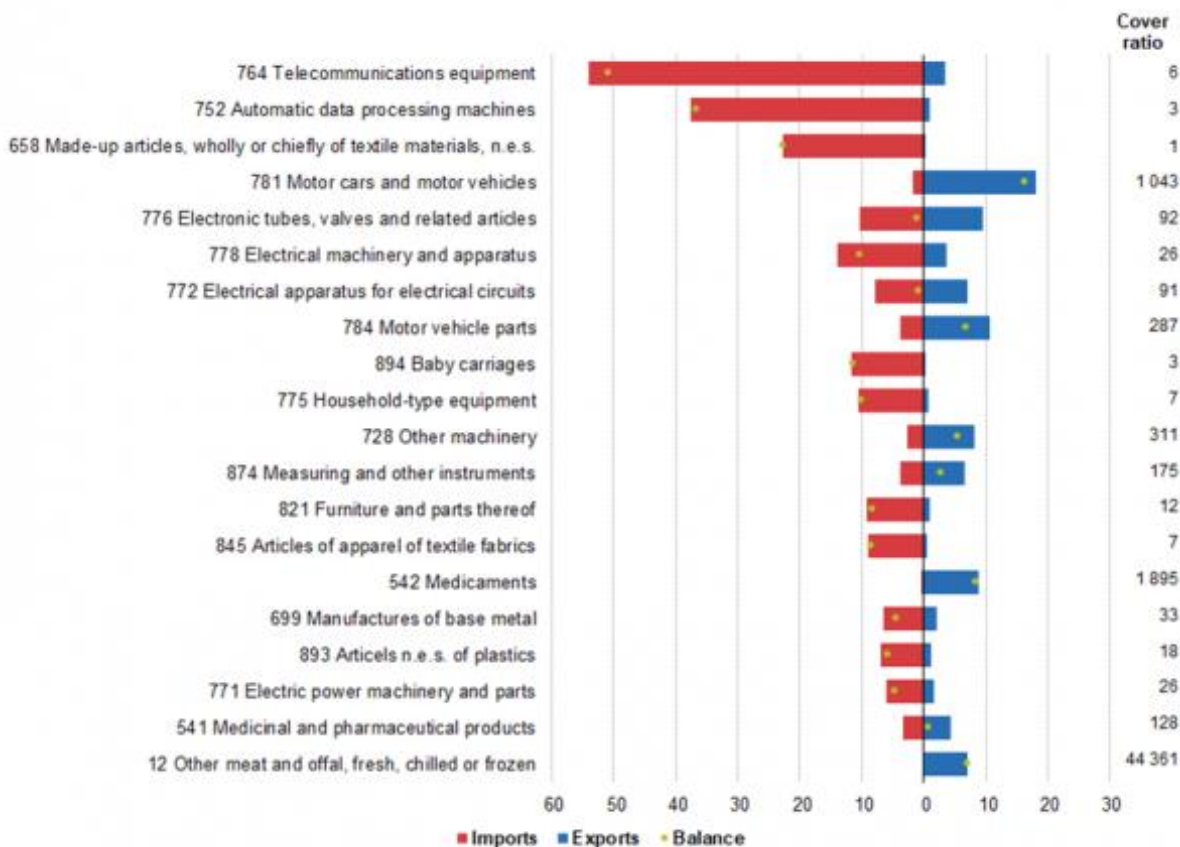
When comparing the import markets to China from the EU, there has been a quite positive trend in the imports of food and drink (See Figure 32). Even though food and drink products are not among the *most traded* between the EU and China, medicaments, which include products that restore health such as elixirs or healthy remedies, and medicinal and pharmaceutical products are (See Figure 33). These trends suggest that there is a growing market for food and drink products with healthy or healing properties. This section gives some basic considerations specific to Nordic countries in the NTFP industry in order to maximize on these and similar positive trends and meet seen or unforeseen challenges.



Source: Eurostat (online data code: ext\_st\_eu27\_2020sitc and DS-018995)



Figure 32: Import/Export Markets between China and the EU<sup>ii</sup>



**Figure 33: Most Traded Products between the EU and China, 2020 (idib)**

### **Local Strategies for Nordic Countries exporting NTFPs to China**

- ✓ Establish a chain of communication:
  - 1: National business support system
  - 2: Business network and companies or actors already active in the Chinese market
  - 3: Individual business testing of product and customer on the Chinese market (see Business and Product Marketing in Handbook)
  - 4: Cooperation with EU-China partnerships
- ✓ Carefully compare the Chinese market and your product
  - Where is the demand for your product? Who are your customers in China?
  - What Chinese competing or similar products already exist?
  - What similar European products exist?
  - What will your selling point for Chinese customers be?

#### 1: National Network

It is never too early to begin communicating and cooperating with national institutions in the local market to gain insight and experience in China. Each country has a range of options. These entities are a first point of contact for businesses looking to enter the Chinese market since they are a primary source of information about local business priorities, export rules, preferred products, and accessible markets. Start forging or strengthening these ties by taking part in activities and fairs organized or promoted by national institutions.

*National Nordic Agencies:*

**Norway:** The Industrial Development Cooperation of Norway <https://www.regjeringen.no/en/id4/>

**Finland:** Business Finland <https://www.businessfinland.fi/>

**Estonia:** Enterprise Estonia <https://www.eas.ee/?lang=en>

**Latvia:** Investment and Development Agency of Latvia <https://www.liaa.gov.lv/en>

**Lithuania:** Lithuanian Business Support Agency <http://lvpa.lt/en/veikla>

## 2: Business Network

In the national or Nordic-China export ecosystem, it is likely that networks already exist to support your product and business model. Actively seek out these clusters through the previously mentioned national agencies, national chambers of commerce, or personal networks. Often times members of these networks may be seeking collaboration for new products and already have the infrastructure in place to forge a mutual share of information and know-how when it comes to the Chinese market. Search for these networks and make a list of criteria needed for your particular business.

*Examples of Nordic Network Initiatives:*

**Finland:** Healty Food to China <https://www.marketopportunities.fi/home/2021/healthy-food-to-china?type=business-opportunity&industry=food-and-beverage#stored>

**Nordea:** Business insights for Nordic Countries <https://insights.nordea.com/en/>

**NBCCD:** Nordic-Baltic China Cooperation Development <https://nbccd.fi/>

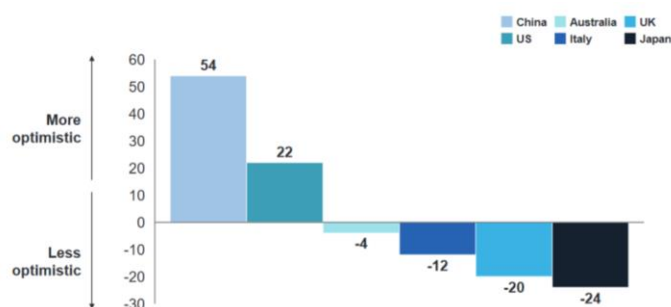
## 3: Company Product Research

Using national agency and business network contacts, work to create a China specific profile for your product to answer questions about who your Chinese consumer is and how your product will compete in the Chinese market. Follow the business and product marketing sections in the accompanying handbook to assess your company readiness, select your product, set prices, and assess demand. Also keep up to date on export trends to China from your country. Overall fluctuations in your country's exports to China may be indicative of your product success.

**Tool for comparing national exports to China:** *Limited free use*

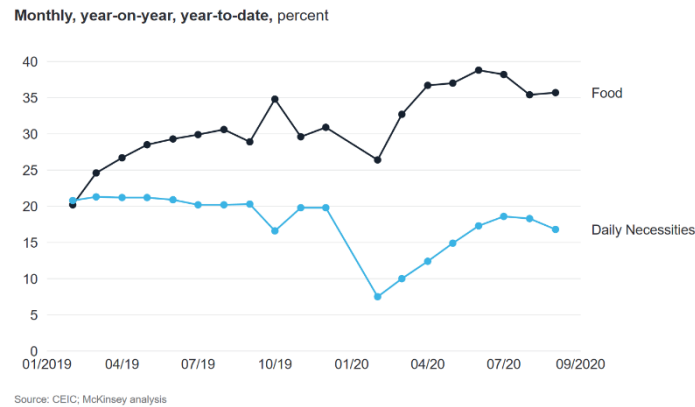
<https://www.ceicdata.com/en/indicator/estonia/total-exports-to-china>

Considerations of economic recovery and stability in China also play a part in assessing the market for NTFPs in China. Generally, Chinese consumers have remained optimistic about the country's economic recovery post-Covid 19 (See Figure 34).



**Figure 34: Optimism about China's Economic recovery after Covid-19<sup>iii</sup>**

At the same time, Chinese consumers have increased their online purchasing of food compared with daily necessities. This trend provides a unique opportunity for Nordic countries seeking to sell food or health products online. Offline sales however (with the exception of pharmacy and health store sales) have taken longer to rebound, so the purchasing trends in different regions is an important question to consider in a market entry strategy.



**Figure 35: Online Retail of Food and Daily Necessities in China (idib)**

#### 4: EU-China Partnerships

Once a business has attempted to establish a local network and conduct product and market research, seeking EU-China Partnerships may also prove helpful. There are several EU institutional or cross border cooperative organizations with the sole purpose or a main agenda of assisting European businesses in China. While these organizations may have a larger scope than dealing with NTFPs from the Nordic region in China, they can provide more general business tips and may be able to support with more specific network building as well.

*EU and Nordic Network Resources*

**EU SME Centre:** <https://www.eusmecentre.org.cn/>

**EU Chambre of Commerce:** <https://www.eurochambres.eu/>

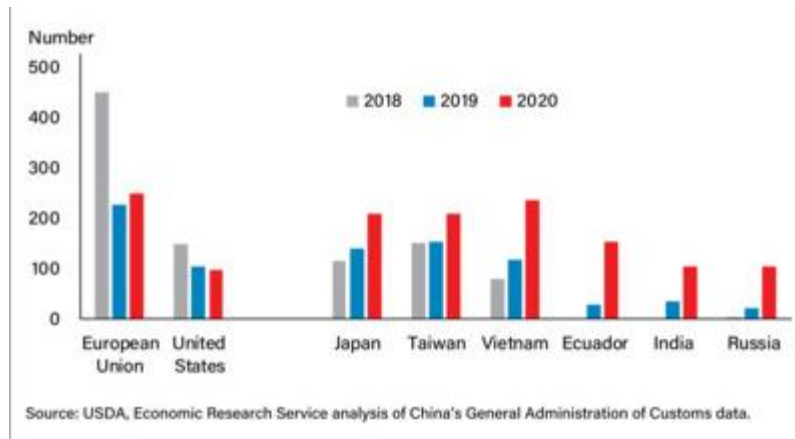
**EU China Business Association:** <http://www.eucba.org/en/>

**Nordic Council:** Nordic-China Cooperation [http://nias.asia/sites/default/files/news\\_files/nordic-china\\_cooperation-report-0a.pdf](http://nias.asia/sites/default/files/news_files/nordic-china_cooperation-report-0a.pdf)

#### Preparing your product and network for the Chinese Market

While building a network, SMEs will gain insight to help create a plan for their product and market in China. The accompanying handbook will go more in depth with this process, but in general businesses should consider that China is itself a large country with a vast NTFP market. Nordic companies seeking to enter the Chinese market must carefully consider the uniqueness of their product to the Chinese market, gauge how consumers will receive this product, factor in how the product will be marketed and sold, and understand Chinese import restrictions on certain products (Refer to Government Factors). Even though imports of food, drink, and health products to China are on the rise, it is important to consider that strict regulations still challenge many specific products (See Figure 36).





**Figure 36: Number of Food Products Refused for Import to China<sup>iv</sup>**

Making a strong business implementation plan (which the accompanying handbook will help with), building networks, and staying up to date on economic import factors (which this guidebook facilitates) will help your company mitigate risks and prepare to enter a new market.

## Conclusion

In conclusion, the Chinese market is a large, diversified, and expanding market. While there are many direct and indirect challenges to entering the Chinese market with a new product, there are also significant opportunities. Businesses looking to make the first steps to enter the Chinese market need to pay due diligence to their local networks and recourses, and compile a comprehensive implementation plan that accounts for potential challenges. After assessing local resources, and comparing product readiness for the Chinese market, businesses will need to work to build and maintain their Chinese networks as well. These partnerships take time, and it is essential for businesses entering the Chinese market to commit to their local partners, whether these partners be local contacts, distributors, employment agencies, other intermediaries, or joint venture partners.

### The main takeaways of this guidebook can be summarized in 9 Points:

1. Stay up to date on demographic trends in China, the Chinese 5-year-plans (which specify national goals), and international relations with China. All of these will continue to influence the ease of doing business in China.
2. Know your location and regional differences when doing business. Keep in mind that different regions have various consumer preferences and preferred industries which will influence market access and success.
3. Keep an eye on Government regulations or easing of the Chinese currency and subsidies. Currency stability and subsidization policies could not only impact overall access to and profit in the Chinese market, but this can also be an area for international tension between China and global trading partners.

4. Track trends in consumer spending and saving and be sure to monitor shifts in consumer preferences. While Chinese consumers do tend to save more than European consumers, specific industries (particularly health and wellness) have and may continue to be an exception. Identifying these trends and exceptions may provide businesses with a notable advantage in marketing a particular product.
5. Know where the free trade zones in China are and consider carefully which type of business, bank account, and distribution will be used to sell the product effectively and reach the target market.
6. Research import restrictions on your product in China and use network and legal recourses to check these restrictions regularly.
7. Be prepared to adapt your business culture to cooperate with Chinese partners, whether they be business partners, network contacts, distributors, or consumers.
8. Learn to use technology effectively for the Chinese market and seek guidance about the most productive way to market and sell using online platforms or marketing.
9. Maintain national, regional, and European networks to help share information, monitor trends in competitiveness and consumer preferences, and gain faster information about changing regulations for European countries importing NTFPs to China.

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