Global Growth CHINA 19.12.2022

CHINA MARKET ENVIRONMENT AND OUTLOOK FOR BUSINESS

- China is among two largest economies in the world. Economic growth has been the driving factor behind China's polices in the past decades. This has resulted in China lifting from a relatively poor developing market into top two economies in the world in a record time in history. However, the growth in China has been slowing down for a long time already.
- Also China's policy towards the growth has changed. Today the drive for innovation, sustainability and more equal share of wealth are behind the policy decisions, instead of growth only. China is looking for ways to increase its self-reliance, especially in strategic areas.
- There are many reasons behind the growth slowdown in China, which are linked with long term structural problems in the economy. Efforts to curb the growth of record high debt are impacting recently especially the construction industry, which used to contribute up to one fifth of China GDP in the past. Consumer consumption - further hampered by China's long zero-Covid policy – remains at stubbornly low level of about 40% of GDP only.
- The development of productivity in China economy has been unsatisfactory. The fact that the role of State Owned Enterprises (SOE's) in business is increasing, is not encouraging from the productivity development point of view. The earlier policy of promoting private sector as the major contributor to growth is no longer valid.
- Still on the long run, China has a lot of growth potential. Its GDP per capita today is less than half of the same in Finland.
- In China the government has a stronger role in directing investments than in developed market economies. It exercises its power to direct investments especially through the state-owned sector. Private enterprises also take China's 5-year- and governmental plans into consideration when making their investment decisions in the local level.
- Several new industry sectors are expected to grow fast in the transition described in government's 14th 5-year plan. Future growth areas are - among others - in carbon reduction (including energy transition, bio- and circular economy), health care, industrial digitalization, and sustainable consumption.
- During the past few years China has increased regulation on businesses with number of new policies. Although regulations have industry specific variations, in overall, new policies have created ambiguity and increased uncertainty. In 2017 published Cyber Security Act - and the following data protection regulations - have added risk and cost of operating in China, especially for foreign companies.
- Geopolitical competition between US and China continues. EU is introducing new regulations impacting European companies operating in China. Compliance related issues will require increased

attention, and companies need to have robust risk management processes in place for addressing sustainability and human rights issues.

- Foreign Direct Investments (FDI) from EU to China have not increased recently, and investment projects are initiated by a handful of industries and companies. Decoupling of supply chains is an increasing trend, where companies – foreign and Chinese alike – are shifting operations to other markets. At the moment the biggest beneficiaries are in South-East Asia (Vietnam, Malaysia) and India.

KEY MESSAGES TO FINNISH COMPANIES

- China will remain among two biggest markets in the world. China continues to grow, although the years of fastest growth are likely behind.
- Finnish companies established in China are mostly performing well and their businesses continue to grow in the market despite the challenges. Majority expects to continue investing in China. Yet, at the same time, increasingly many consider also other markets in Asia - and globally - as alternative areas of operations. The trend is increasingly about "operating in China for China". The role of China as a regional or international hub is declining.
- China understands the importance of global collaboration in achieving its targets in long term. Foreign technologies and solutions are encouraged to enter China market in areas, where China does not have in-house capability. This will open up new opportunities for Finnish companies, but also alleviates the importance of choosing right strategy for market presence.
- In China market shares are often decided at the early stage of introducing new technologies. Right timing for market entry is essential. Next 3-5 years are important in capturing market share in many new China's future growth areas highlighted in current 5-year plan.
- As the risks in China market are increasing, the right "go-to-market" strategy to China requires more detailed planning and industry specific scenario-based risk analysis.
- Team Finland has a strong presence in China market. Finland's diplomatic missions together with over 30 Business Finland advisors provide regional support to Finnish companies in Beijing, Shanghai, Guangzhou and Hong Kong.
- Established Finnish companies in China are also networked within four (4) Finnish Chambers (FinnCham's) in Beijing, Shanghai, Guangzhou and Hong Kong. They are additional contacts for any Finnish company planning to enter China market.
- Business Finland has also set up a company in Shanghai (FinChi), which operates soft landing industry park for Finnish companies entering in China. During the past 17 years FinChi has been the first step for over 150 Finnish companies entering the market.