

China Britain Business Council

SME China Forum Speech

“The Opportunities for SMEs in China and the UK” by the Chairman, Dr. Johnny Hon, United Kingdom, 22nd September 2015

Fellow Delegates and Distinguished Guests
Ladies and Gentlemen

It is a great pleasure to join you all today and for my company, the Global Group, to be the Gold Sponsor of today's Forum.

The CBBC plays an indispensable role in the promotion of the trade and economic relations between the United Kingdom and China. We are always pleased to support its activities and proud to be members.

SMEs are in many ways the backbone of the UK economy and I am pleased to be able to speak from experience in saying that CBBC places them at the centre of its work. This SME Forum has become a key part of CBBC's annual programme and the attendance of so many people here today, from up and down the country, shows how much that work is appreciated and how alive the UK business community is to the opportunity, promise and challenge of the China market.

I want to express my special thanks to Mr Wang Jianhou, the Vice-Mayor of Ningbo, and to Mr Kong Weiwei, the Director of the Ningbo Foreign Affairs Office, for making the long journey to be with us. Ningbo is my ancestral hometown and hence it occupies a special place in my heart. I therefore also welcome the companies from Ningbo who have joined the Vice-Mayor and the Director here today. I hope you have good meetings, find the right partners among today's audience, and I hope to speak to as many of you as possible.

The UK and China have vastly different but complementary economies. However they have one crucial point in common. In both countries SMEs play a vital role.

In the UK, SMEs account for 60% of private sector employment, while in China that figure is 80%. SMEs are the lifeblood of any thriving economy, creating and innovating in every conceivable sector and in ways that the large corporations very often do not. Yet all too often, SMEs are still overlooked and so struggle to compete and to realise their full potential. Let us all work together to rectify that situation!

As you all know, growth in the EU is currently virtually flat, so SMEs need to pay more attention to emerging markets and especially to China, even though we know that those markets, too, are not without their problems. Fortunately, it has been reported that a quarter of UK SMEs now see China as a market where they would seek to grow their business.

With China's economy slowing down to the "new normal", the Chinese government is seeking ways to shift growth away from an over-dependence on low cost manufacturing towards higher value services and consumption. These developments represent potentially great opportunities for UK SMEs seeking to enter or expand in the China market.

For its part, the Chinese government appreciates that adjusting the country's economic model requires enhancing the role of SMEs. At the end of last month, the State Council, China's cabinet, announced that it would create a 60 billion RMB national development fund for SMEs, which will help overcome the still prevailing hesitancy to lend to them on the part of the major commercial banks.

The State Council also announced that it would relax requirements for fixed asset investments, including lowering minimum capital requirements.

Over the last decade and a half, the Global Group has accumulated rich experience of both investing in SMEs in the UK so as to help them expand in to China and also of investing in SMEs in China and then helping them to 'go out', that is to expand to the UK, as well as to other markets, both developed and emerging.

For UK SMEs seeking to enter the China market, perhaps the single most important piece of advice I could give would be to do your homework and to find the right partner. Indeed, in addition to our investment activities, this is a key area for the consulting and strategic advisory services provided by Global.

There are now many SMEs and entrepreneurs in China with large amounts of capital to invest. The UK side has to make its own pitch and hone its strategy accordingly. Your prospective Chinese partner's deepest desire is to be enabled to go global – whether by introducing premium products from overseas or by taking his own business to the international marketplace.

The Chinese business sector is now cash rich, but all too often its management capability is low, its innovation is weak and it lacks brand awareness and recognition. Fortunately, these are all areas where the UK SME sector excels. There is a natural synergy here waiting to be exploited for "win win" outcomes.

You do however need to stay patient and have a long-term plan. The more time you take to research the market, to find the right potential partners and to build relationships, the greater your chances of success.

Moreover, what works here in the UK may not necessarily work in China. You will need to adapt to the domestic market and to local tastes.

In looking at the tremendous opportunity that is today's China market, UK SMEs should also factor in the country's rapid urbanisation. For the first time in China's thousands of years of history, the majority of her people now live in towns and cities. Besides the first tier cities that are becoming global household names, I would strongly advise you to pay attention to the dozens of second, third and fourth tier cities across the country, many of which have

populations in the millions, bigger than all but the greatest UK cities, and where you can enjoy competitive advantage.

Closely related to this rapid urbanisation is the growth of a new middle class, hundreds of millions strong, which is hungry not just for international brands, but increasingly for niche products. This group of people is increasingly sensitive to food hygiene and environmental issues and seeks green, organic and sustainable products along with the latest technology. They are also responsible for propelling the tremendous growth prospects not just in consumer goods, but also in such areas as sports, leisure and services. According to figures released in July this year, the service sector now accounts for 49.5% of the Chinese economy.

Ladies and Gentlemen, at this exciting time, Global looks forward to working with CBBC and with all of you to grasp the China SME challenge for mutual benefit.

Thank you for listening to me this morning.

Dr. Johnny Hon
22/09/2015