



Engineering Sector in China

The first in-depth report investigating opportunities for British companies in the vibrant Chinese engineering sector has highlighted several important factors for firms wanting to do business in the country. And the message is clear; companies could be doing better.

The report was commissioned by UK Trade and Investment (UKTI) and carried out by Cambridge based China specialists, China Business Solutions (CBS). It is aimed at small and medium sized businesses (SMEs) who are looking to take advantage of this expanding sector and need comprehensive business information before undertaking any investment.

China offers one of the most exciting opportunities for British companies, but also one of the most challenging. That's partly due to its size but also due to the complexities and subtleties of doing business there. The report breaks down the country by engineering sector and region and offers valuable information on each.

The sectors covered are; process and packaging technology and machinery; machine tools; gauge and tools (die and mould); ceramics machinery; control and instrumentation; plastics processing machinery, whilst the regions selected are; Beijing; Shanghai; Guangdong; Sichuan; Chongqing.

In each case the report presents an overview of the sector, identifies the characteristics and assesses the levels of opportunities by region.

The key findings of the report make essential reading for any SME thinking of investing in China. Ting Zhang from CBS, who was responsible for the study, says, for example, "That the country is still a major importer of manufacturing machinery. Almost all of its optical manufacturing needs, 95% of its medical device manufacturing needs and 85% of the country's semiconductor manufacturing equipment still come from abroad."

This huge requirement offers major and numerous opportunities for UK companies, but Ting Zhang cautions that China is intent on becoming more competitive in terms of new technology and product development. "It is the government's strategy to move from a position of 'made in China' to one of 'made by China' through strengthening the country's R&D and innovation ability and as such, the long term prospects for exporting machinery may be limited."

If those days are numbered, the prospects for other sectors are more promising. The latest five year local and national plan, which was launched in 2006, identifies chemicals, equipment manufacturing and hi and new technology industries as the focus for most regions. As a result, foreign companies wishing to invest in these areas are particularly welcomed.

As well as identifying the sectors most likely to welcome approaches from British companies, the report also indicates the regions best placed to make such approaches. "As you might expect, Shanghai is the top region for all sectors, along with Guangdong," says Ms Zhang. "Beijing also scores highly, particularly in ICT.



Sichuan is also strong in ICT as well as scientific equipment whilst Guangdong is catching up Shanghai in the automotive stakes.”

Although each sector may have different industrial strengths, the report says they share a number of common factors. Chief among these are that much of the production is based on low-end products, where there is intense competition. Most high end products are still imported into China, so there is obvious export scope there.

Equally, whilst the country may be under resourced in terms of manufacturing machinery, in terms of employees, China is extremely well catered for. Each year 300,000 engineering graduates pour out of the country’s universities and, with low labour (and capital) costs, the opportunities of relocating production to China as well as exporting from the UK is attractive.

“But be wary of taking qualifications at face value,” says Ms Zhang. “Up to 40% of information on CVs could be fraudulent and it’s easy to buy a diploma on the street.” Whilst the opportunities in China are numerous, however, it seems that British companies are being left behind in the race to exploit them.

Many of our competitors such as Germany, America, Japan, Spain and Italy are already active in the Chinese market and some of their companies have been high successful.

“British firms, by contrast, are not so well represented in any of the six sectors,” says Ms Zhang. “Our engineering industry has a relatively low profile in the China compared with other developed countries, which already have relatively well established operations.”

But all is not lost, as the Chinese are keen to know more. Our products and technologies are perceived as advanced and Chinese companies are keen to know more about the identity of key British firms and what we can offer the Chinese market. Despite this potential welcome, we don’t seem to be pushing hard enough. Several of the Chinese firms interviewed in the report felt that British companies weren’t being proactive enough in their approach to doing business in China. SMEs in particular need to improve their profile and the report suggests several ways of doing this.

“Firstly,” says Ms Zhang, “It’s important to realise that pricing is not the primary element in purchasing decisions, particularly at the middle and high end ranges. Brand perception, quality and technology are all seen as more important, as, crucially, is knowing how to do business in China.”

This last point is critical and may include an understanding of the business culture, the pros and cons of different market entry mechanisms and policies and regulations about the sector firms wish to enter.

“In general, doing business in China requires the customer and supplier to build a good relationship first. Be aware that this can take some time, especially with state owned firms. When meeting potential customers, try and identify how their purchasing process operates and who are the key decision makers. There is an assumption that imported technology is world class.”



Advice is available from the public and private sector for all of these different areas. But there are other factors which will determine whether a UK company will be successful in China.

Exploring possibilities of co-operation with SMEs in China can achieve a win-win situation by, for example, transferring technology and production over there, whilst keeping the UK's core skills such as innovation and customer services over here.

Equally, being responsive to Chinese customers' specific requests is important. The ability to customise machinery and systems is still highly prized and British firms could win more work than they do by offering more tailored solutions.

Companies from the UK could also be more aggressive and focused on marketing in China. There are trade associations in both China and Britain and local partners are available to support other marketing activities including attending tradeshows and roadshows.

As tempting as it is, the report also advises against indulging in head on competition with established international players. "Concentrate instead on core strengths such as niche technologies or products and explore alternative geographical areas to those where other companies are already strong," says Ms Zhang.

In any event, the report advises that establishing a representative office is a relatively inexpensive and quick first step, whilst buying a company complete can be a good way round some of the red tape provided that effective due diligence is undertaken.

For British companies with drive, flexibility and innovation, there are enormous opportunities to be had in China. But we need to make the most of them before our competitors do.

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