Investing in China: still room for growth

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Theme

Despite recent economic turbulence in China, the investment case for Spanish companies remains strong. It is still not too late to enter the Chinese market but investors need to be clear on their value proposition and realistic about how they will execute their plans.

Summary

Recent attention has focused heavily on economic uncertainty in China and the potential effects of a Chinese 'hard landing' on the world economy. This view has been compounded by rough-handed attempts to manage the stock market and by unexpected currency fluctuations in August 2015. However, looked at in the medium term, the Chinese market continues to post strong growth rates, there are signs that consumer demand is holding up and changes in policy are creating new avenues for inbound foreign investment. This paper argues that there remain good opportunities in China for Spanish investors.

Analysis

It has long been clear that China is increasingly important as a global economic power. This has become more evident over the past few years, as China has sought to rebalance its economy to drive consumer demand and improve the position of Chinese companies in global supply chains. At the same time, business and the regulatory environment in China have also been changing rapidly, creating new and interesting opportunities for investors despite a tougher competitive environment within China.

Historically, Spanish companies have been underrepresented in China compared with US, UK, French and German companies. Only 0.27% of foreign direct investment (FDI) received by China in 2013 came from Spain, a level 6.5 times lower than Germany, two times lower than France and slightly less than the UK.[1] Moreover, China is only the 17th largest destination of Spanish FDI, totalling €4.5 billion and accounting for 1.35% of total Spanish FDI.[2]

[1] Ken Davies (2013), 'China Investment Policy: An Update', OECD Working Papers on International Investment, 2013/01, OECD Publishing.

[2] Secretary of State for Trade – Datainvex database, http://datainvex.comercio.es/.

(1) China's strong investment fundamentals

Much has been made of the Chinese economic slowdown, recent state interventions in the stock market and the devaluation of the Renminbi (Yuan). For instance, GDP growth has fallen from 9.7% in the 1st quarter of 2011 to 7% in the 2nd quarter of 2015 and manufacturing output is lower. There can be no doubt that the events of August have also created an environment of heightened uncertainty for investors.

However, it should be borne in mind that the reduction in GDP growth is not an economic free-fall, but rather a controlled exercise to reduce pressure on the economy and thereby reduce social and environmental pressure as well. There is also a desire to drive a more sustainable and qualitative growth based on private consumption rather than investment and a commensurate shift into promoting greater value-added activities –both at home and abroad–.

Thus, the effects of market instability this summer should not be overstated. Clearly, activities to support the stock market and to devalue the currency were both unexpected and not completely successful. However, the medium-term impact on growth and investment opportunities is not perceived to be large, for several reasons. The exposure of the consuming classes to the stock market is relatively low: it is estimated that only one in four of the Chinese middle class, roughly 90 million, invest even part of their savings in the Shanghai and Shenzhen stock markets.[3] While a degree of confidence in government may have been lost, there are no significant signs that the near term uncertainty has impacted longer term growth in demand.

The wider transition to a higher value added, consumption and innovation based economy is a significant challenge – and is critical to the nature and level of future economic engagement of China with the rest of the world. Critics have rightly questioned whether China can execute this transition successfully – and this, as with much in China, is not yet fully clear. However, medium term investment indicators remain very strong and the 'new normal' is in itself economically attractive. According to data from the Ministry of Commerce of the People's Republic of China (MOFCOM), during the first eight months of the current year, foreign investments (excluding the financial sector) have grown by 9.2% compared with the same period of last year, totalling US$85 billion.[4]

Three key trends are worth highlighting. First, the Chinese middle class is growing rapidly and consumption remains strong. Secondly, private investment is continuing to increase significantly, commensurate with a relaxation on regulations impacting domestic and foreign companies. Thirdly, engagement with the rest of the world is critical to the performance of the future Chinese economy, whether via foreign investment into China or the development of Chinese interests overseas –both of which are growing rapidly, also enabled by a relaxation of controls in a number of areas–.

[3] 'La bolsa china se colapsa en su pero sesión en ocho años', *Cinco Días*, 27/VIII/2015, http://cincodias.com/cincodias/2015/07/27/mercados/1437991825_053164.html.

[4] 'Official from the Department of Foreign Investment Administration Comments on China's Input of FDI in January-August', 14/IX/2015, http://english.mofcom.gov.cn/article/newsrelease/policyreleasing/201509/20150901111088.shtml.

Starting with the first trend, the rise of the middle classes and consumption, it is estimated that China's middle class will account for around 93% of the urban population by 2030 due to income growth and rapid urbanisation.[5] According to the OECD, Asia will account for 85% of the world's middle class by 2030, 4.9 billion people, of which China will be the main contributor.[6]

The desires of the Chinese middle class are stimulating a solid growth in consumption. For instance, nationwide expenditure per capita grew from ¥3,200 (€1,609)[7] in 2013 to ¥4,491 (€1,778) in 2014. The second-quarter 2015 figure of¥7,546 (€1,093) also gives cause for optimism about the robustness of Chinese demand.[8]

It is clear, too, that current investors continue to see this potential. In the midst of the Chinese stock-market crisis, Tom Cook, CEO of Apple, took the unprecedented step of speaking outside of the results cycle to remind investors that demand for Apple products appears to remain undiminished, with the App Store reporting record figures in August 2015. Additionally, Cook affirmed that 'China represents an extraordinary opportunity over the long term'.[9]

When it comes to the second trend, private sector investment is growing, up by 18.1% in 2014, and 2.4 percentage points higher than the overall fixed-asset investment growth rate.[10] This brought the share of total fixed-asset investment up from 63% in 2013 to 64.1% in 2014, indicating that the private sector is becoming more active than the state-owned sector. In the first eight months of 2015, investment in fixed assets (excluding rural households) reached ¥33,897.7 billion, up 10.9% year-on-year in nominal terms.[11]

The third trend, inward and outward investment for Chinese growth is very much linked to economic flows with the rest of the world. In 2014 China became the largest recipient of FDI worldwide, overtaking the US for the first time, with record inflows of US$119.6 billion. This represented 1.7% growth compared with 2013. Importantly, FDI into the service sector grew by 7.8%.[12] Within this, European companies' investments in China

[5] 'OECD Yearbook 2012 – Better policies for better lives'.

[6] Homi Kharas (2010), 'The Emerging Middle Class in Developing Countries', OECD Development Centre Working Paper, nr 285, January.

[7] ¥/€ exchange rates used: 8.20 (2013); 8.15 (2014); 6.90 (2nd quarter 2015).

[8] National Bureau of Statistics of China, http://data.stats.gov.cn/english/easyquery.htm?cn=B01.

[9] Brian X. Chen (2015), 'Apple Stock Reacts After Tim Cook Email Praises China Sales', *New York Times,* 24/VIII/2015, http://www.nytimes.com/2015/08/25/technology/tim-cook-of-apple-seeks-to-quell-china-fears-in-email-to-jim-cramer.html?partner=rss&emc=rss&_r=0.

[10] Ministry of Commerce Website (2015), 'China's 2014 fixed-asset investment growth further cools', 20/I/2015, http://sg2.mofcom.gov.cn/article/chinanews/201501/20150100872324.shtml; 'China's Economy Realized a New Normal of Stable Growth in 2014', *NBS*, 20/I/2015, http://www.stats.gov.cn/english/PressRelease/201501/t20150120_671038.html.

[11] National Bureau of Statistics of China, http://data.stats.gov.cn/english/easyquery.htm?cn=A01.

[12] MOFCOM (2015), 'Spokesman of the Ministry of Commerce Comments on China's Foreign Investment Utilization Ranking First in 2014', 2/II/2015, http://english.mofcom.gov.cn/article/newsrelease/policyreleasing/201502/20150200896328.shtml.

grew by 25% between 2009 and 2013, demonstrating the importance of Chinese-European trade and investment relationships and underlining the continued opportunities ahead.

Similarly, China's 2014 ODI (outflows) grew by 11.3%, reaching US$120 billion last year.[13] Again, Europe was a critical growth region, with an increase of Chinese ODI of 77% between 2009 and 2013.[14]

Interestingly, the target industries for Chinese ODI reflect the wider shift in priorities discussed above, with higher value-added areas becoming much more attractive. For example, two sectors that have not been on the radar of Chinese companies for most of the last decade but which have seen rapid growth recently are agriculture/food and commercial real estate –both reaching €5 billion in outbound investment in the past two years–.[15]

Enabling this growth in investment there has been a significant liberalisation of controls on FDI. To be clear, though, this process of liberalisation has not been completely transparent or linear. In fact, the current system of regulation remains complex and difficult to interpret –and changes are implemented over long periods, sometimes in ways which are not predictable–. For this reason, and despite liberalisation, many investors continue to feel that regulation is a high barrier to entry, both in its complexity and in its uneven implementation. For example, in a recent survey of US investors by the American Chamber of Commerce in China, 65% of respondents indicated that non-transparent or inconsistent rule-making limited their ability to invest in China, and 57% believed that foreign companies were being 'singled out'.[16] Similarly, George Magnus, one of the most distinguished voices in respect of China, has indicated that 'we should expect progress to be slow or limited'.[17]

Nonetheless, there has been a recent simplification of investment procedures and new sectors have been opened to foreign involvement. While change is slow and unpredictable, there is definitely a shift taking place. The new 2015 'Foreign Investment Catalogue' reduced the number of restricted sectors from 79 to 38 and significantly opened up investment in a number of key areas including telecommunications (especially e-commerce), finance, real estate and insurance companies, hospitals and care for the elderly, mining, oil field exploration and auto/airplane parts.[18] Clearly, the new catalogue fits with the broader trend of increased liberalisation, more openness and

[13] MOFCOM (2015), 'Statistics of FDI in China in January-December 2014', 27/I/2015, http://english.mofcom.gov.cn/article/statistic/foreigninvestment/201504/20150400942402.shtml.

[14] National Bureau of Statistics of China, http://data.stats.gov.cn/english/easyquery.htm?cn=C01.

[15] Mercator Institute for China Studies (MERICS) (2015), 'Chinese FDI in Europe and Germany, Preparing for a New Era of Chinese Capital', June.

[16] AmCham China (2015), 'China Business Climate Survey Report'.

[17] George Magnus, 'China's Silk Road Financial Diplomacy Takes Shape', *International Banker*, http://internationalbanker.com/finance/chinas-silk-road-financial-diplomacy-takes-shape/.

[18] Lan Lan (2015), 'Foreign investment restrictions to be cut', *China Daily*, 14/III/2015, citing the new Catalogue, http://usa.chinadaily.com.cn/us/2015-03/14/content_19812026.htm.

fewer restrictions for foreign investors, all of which should have a welcome effect on the investment climate in China.

Changes for financial services companies are especially worth noting. The 2015 catalogue has reclassified foreign investment in financial companies, trust companies, currency brokerage companies and insurance brokerage companies from the restricted to the permitted category. Additionally, the limitations on foreign shareholding and the business scope of securities companies have been relaxed.

This change of policy reflects China's determination and effort to make the financial sector more competitive and free-market through the presence of foreign investors. This opens up a wide range of opportunities for foreign players in a market with a growing banking penetration due to the migration of millions of people from rural to urban areas. There are also great opportunities since the Chinese rapidly adopt new technology, which is likely to boost financial inclusion and drive the transformation of banking platforms. However, financial activities in China still remain highly regulated and the market continues to be dominated by local companies. This is expected to change but near-term opportunities are likely to be limited.

Overall, in the coming few years, there should be a greater degree of cooperation between Chinese and foreign companies to boost growth in Chinese on-shore economic activities and, importantly, to develop technologies, processes and assets that will foster a higher growth and diversification in key segments in China. This policy change creates specific opportunities for foreign investors to access all of these sectors more effectively than before.

(2) The opportunities for Spanish companies

In general, the Spanish 'brand' is generally well regarded in China and political relations between Spain and China are strong. The establishment of a Comprehensive Strategic Partnership in 2005 and Spanish support in the EU are clear examples of this sentiment. Moreover, it is not unusual to hear from Chinese representatives that 'Spain is the best friend of China in Europe'.

Looking specifically at areas of strength for Spanish enterprises, a number of them align very well with the developing interests of Chinese companies –and Chinese consumers–

Food/agribusiness

Spanish food and beverage products tend to be well-regarded in China. There are opportunities in the mass subsector (due to the significant growth in potential customers) but also in higher value niche areas –eg, gourmet or organic–. Due to wider concerns about food safety in China, healthy and organic products of western origin are particularly of interest to the Chinese middle classes. Bodegas Torres was one of the pioneers to enter China in 1997, first through a joint venture (JV) and two years later opening its own branch. Since then, China has become its main market outside Spain.[19] Similarly, Chinese investors have been very interested in Spanish companies –Fosun, for example, taking a stake in Grupo Osborne–[20] with a view to accessing the Chinese market in partnership or –as in the recent acquisition of Miquel Alimentació by Bright Food– to market Spanish products in China and improve its know-how in the European Fast Moving Consumer Goods (FMCG) sector.[21]

To put it into perspective, China is expected to become the world's leading consumer of pork on a per-capita basis, surpassing the EU by 2022.[22] At the same time, China is already the biggest importer of milk, but the country's continued strong demand is expected to drive a further 60% increase in dairy product imports over the next decade.[23]

Consumer brands

The Chinese urban middle class, with its growing income, aspires to consume the same products as Westerners, and for this reason Western brands are highly regarded. Most notably, the fashion and leisure sector has a huge potential. For instance, the Chinese market is very important for Inditex. With 514 shops of all of its brands, China is the fashion company's second-largest market after Spain. Pablo Isla, president of Inditex, recently said: 'we look forward to open a significant number of new shops in China this year and the next one. Our business in China continues to be strong, and our sales are performing positively. We are continuing to see big expansion opportunities'.[24] There are good examples among smaller companies as well. In the luxury-accessories field, Abbacino –a family-owned company from Mallorca– has established several points of sale, including corners and own-brand shops in Shenzhen, Beijing and Shanghai.[25] This demonstrates compellingly that there are opportunities across the retail and consumer sectors.

A key part of Beijing's plan to boost consumption-driven growth in China is the construction of increasingly upmarket shopping malls, and enticing more and more people to spend money in them. According to a recent report, 44% of all global shopping

[19] 'Bodegas Torres continua su expansión en China y tendrá 37 tiendas este año', *La Vanguardia*, 5/X/2011, http://www.lavanguardia.com/economia/20111005/54226794047/bodegas-torres-continua-su-expansion-en-china-y-tendra-37-tiendas-este-ano.html; 'Torres China se consolida como la segunda importadora de vinos', *GastronomiaAlternativa*, http://www.gastronomiaalternativa.com/ga-8_1576-torres-china-se-consolida-como-la-segunda-importadora-d.html.

[20] Gemma Martinez (2014), 'El gigante chino Fosun compra el 20% de Osborne y entra en el consejo', *Expansión*, 19/VIII/2014, http://www.expansion.com/2014/07/18/empresas/1405709516.html.

[21] Lluís Pellicer (2015), 'El gigante chino Bright Food cierra compra de Miquel Alimentació', El País, 30/IX/2015, http://economia.elpais.com/economia/2015/09/30/actualidad/1443621690_477079.html.

[22] OECD-FAO (2013), 'Agricultural Outlook 2013', OECD Publishing, http://dx.doi.org/10.1787/agr_outlook-2013-en.

[23] *Ibid*.

[24] Miguel Jiménez, '¿En qué países está abriendo más tiendas Inditex este año?', El País, 17 September 2015 http://economia.elpais.com/economia/2015/09/17/actualidad/1442472265_816142.html

[25] 'Los complementos de Abbacino aceleran en China y Estados Unidos', Modaes.es, 25 June 2013 http://www.modaes.es/empresa/20130625/los-complementos-de-abbacino-aceleran-en-china-y-estados-unidos.html

market completions last year were in China, home to nine out of the top 10 cities for mall space under construction.[26]

Civil infrastructure

The urbanisation process underway in China is generating opportunities in infrastructure and engineering fields such as energy and power, transport and telecommunications, water supply and sanitation and environmental protection. Técnicas Reunidas, an international engineering and construction company for oil and gas production, refining and petrochemicals, and power generation projects, arrived in China in the mid-80s. Twenty-five years after its first project, it has been awarded a further 25 contracts.[27] A further instance is Gamesa, a global technological player in the wind-energy industry that has been the first foreign company to receive certification from the National Energy Administration of China.[28]

The idea, foundation and leadership of the Asian Infrastructure Investment Bank is a clear example of how important the investment in infrastructure is for the future of China. With a capital stock of US$100 billion, the new multilateral institution has been designed to provide financial support for infrastructure development and increased interconnectivity in the region.[29] This is expected to result in significant future projects.

Tourism

According to the World Tourism Organisation, China will become one of the world's leading tourist destinations for both local domestic tourism and foreign visitors. It is expected that the tourism sector will increase its share of Chinese economic growth significantly: the direct contribution of travel and tourism to China's GDP is expected to be 7.4% for the period between 2014 and 2024, a large increase over the 2.6% registered in 2014. China's tourism industry already ranks 3rd in the world in total contribution to GDP and it is expected to continue to grow.[30]

The hotel industry has already been open to foreign investments for more than two decades and studies show that Chinese hotels managed by foreign brands have

[26] Patti Waldmeir, 'China leads the way for shopping malls', Financial Times, 28 June 2015 http://www.ft.com/cms/s/0/916b2fb0-157c-11e5-be54-00144feabdc0.html#axzz3qEPcllGh

[27] '25 aniversarios del primer proyecto de Técnicas Reunidas en China', Fundación Consejo España China', 28 March 2013 http://www.spain-china-foundation.org/es/noticia/25-aniversario-del-primer-proyecto-de-tecnicas-reunidas-en-china

[28] 'Gamesa certifica su turbina G97-2.0 MW según estándares chinos', Europa Press, 15 October 2015 http://www.europapress.es/economia/noticia-gamesa-certifica-turbina-g97-20-mw-estandares-chinos-20151015102634.html; Enrique Utrera, 'Gamesa se derrumba un 10%', Expansión, 20 August 2015 http://www.expansion.com/mercados/2015/08/20/55d59cacca4741ec3a8b4580.html; 'Gamesa firma dos nuevos contratos en China', Expansión, 8 January 2015 http://www.expansion.com/2015/01/08/empresas/energia/1420702072.html

[29] Gavriel Wildau, 'AIIB launch signals China´s new ambition', The Financial Times, 29 June 2015 http://www.ft.com/cms/s/0/5ea61666-1e24-11e5-aa5a-398b2169cf79.html#axzz3qXdWXGKa

[30] Travel & Tourism – Economic impact 2015 China; World Travel & Tourism Council

achieved a better financial performance than those managed by local brands.[31] NH Hotel Group, through a JV with HNA, is operating six hotels with 1,300 rooms in Beijing, Haikou and Tianjin. The idea of the partnership is to increase hotels under management to reach 30 hotels in the next five years.[32]

The opportunity is not limited only to China as a destination but also as a source of millions of tourists overseas. China has been the largest outbound market in spending terms since 2012, with US$129 billion spent overseas in 2013.[33] According to a recent report by the Fung Business Intelligence Centre and China Luxury Advisors, Chinese spending abroad increased by 23% in 2014 –by 2020 this is expected to double, reaching €422 billion–. In 2020 the prediction is that there will be almost 235 million Chinese travellers.[34] Tourism to Spain is expected to follow the trend. Current tourist levels are relatively low: in 2014 only 287,873 Chinese tourists visited Spain, but this accounted for 13.8% more than the previous year.[35]

It is expected that Chinese tourists abroad will increasingly prefer independent, high-quality travel, in contrast to the recent trend for escorted experience/shopping trips. The trend is beginning to show in Chinese outbound FDI –Fosun's acquisition of Club Med is another example of the attractiveness of the European leisure sector for the growing Chinese middle class–.[36]

(3) Key challenges and points for consideration

Although the growth figures look attractive, there are clearly significant challenges to entering or expanding in China, and access to a fast-growing market is in itself not a guarantee of success. The competitive environment is maturing rapidly and the playing field is not always seen to be level. The regulatory environment is complex and often not transparent to newcomers. For many products and services there is not a single Chinese market –demographics, consumer tastes and operating models can differ significantly across the country–. Reliable market and customer information is often more difficult to obtain, requiring local knowledge and significant analysis. Cultural differences –in ways of working as well as customer trends– always require extra attention. And, importantly, change is occurring rapidly across all of these dimensions, requiring flexibility and adaptation at a pace unfamiliar to many European companies.

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[31] ICEX - http://www.icex.es/icex/es/navegacion-principal/todos-nuestros-servicios/informacion-de-mercados/paises/navegacion-principal/invertir-en/sectores-de-oportunidad/index.html?idPais=CN

[32] 'NH arranca su ofensiva sobre China junto a HNA con seis hoteles en 2015', Preferente.com, 25 September 2014 http://www.preferente.com/noticias-de-hoteles/nh-arranca-su-ofensiva-sobre-china-junto-a-hna-con-seis-hoteles-en-2015-249100.html

[33] United Nations World Tourism Organization, 'Over 1.1bn tourists travelled abroad in 2014', 27 January 2015 http://media.unwto.org/press-release/2015-01-27/over-11-billion-tourists-travelled-abroad-2014

[34] Kevin Rozario, 'Chinese retail spend to hit $422bn by 2020', The Travel Retail Business, 18 October 2015 http://www.trbusiness.com/regional-news/international/chinese-overseas-retail-spend-to-almost-double-422bn-by-2020/96608

[35] 'Los turistas chinos que visitaron España en 2014 se incrementaron un 14%', hosteltur – citing Turespaña, 18 March 2015 http://www.hosteltur.com/110257_turistas-chinos-visitaron-espana-2014-crecieron-14.html

[36] Denis Cosnard, 'Club Med to focus on wealthy Chinese travellers after €939m takeover', The Guardian, 13 January 2015 http://www.theguardian.com/world/2015/jan/13/club-med-holiday-sale-france-china

These challenges require an approach to business in China which is well-thought through and very specific to the local/regional environment. For those seeking to make a new entry, there are three key points:

1. Be clear on the value proposition and the planned operating model. A detailed and local market assessment is essential to understand customer needs and be sure that the proposition is viable. Constantly testing assumptions is critical: very rarely can a proposition and operating model be imported successfully to China from other geographies with minimal change.

2. Invest time, effort and cash in developing and sustaining the new business. The time required to be successful in the Chinese market is often longer than for other markets and greater investment is usually required at the early stages to demonstrate proof of concept and build local relationships –perhaps before the business case has been proved–. It is essential to invest time in *guanxi*, the kind of personal networking needed to open doors that would otherwise remain closed. Ongoing changes to business models are not uncommon as adaptation occurs. IKEA, for example, had to change its stock (eg, bed sizes), pricing policy and store layout to match the expectations of customers. Constant monitoring of consumer trends is necessary to 'future proof' the model, given the pace of change in Chinese demographics and living styles.[37]

3. Local partnering in a formal sense is essential and will, in itself, require a degree of investment. Even in industries where partnering is not required, there has been a new resurgence in JVs –though the basis of mutual benefit has changed–. For foreign investors, JVs offer local insight and often access to less-penetrated markets. For the Chinese partners, a JV brings access to brands, technologies and expertise, as well as mechanisms for their own expansion to markets outside China. There are several examples in different sectors of JVs between Chinese and Spanish companies: HNA and NH in hotels, Santander and Bank of Shanghai in finance,[38] Euskaltel with ZTE in IT,[39] Mapfre and PICC in insurance[40] and Repsol and Sinopec in oil and gas.[41] There are likely to be many more in the near future.

[37] Paula M. Miller, 'IKEA with Chinese Characteristics', China Business Review, 1 July 2004 http://www.chinabusinessreview.com/ikea-with-chinese-characteristics/

[38] Ángeles Gonzalo Alconada, 'Santander se refuerza en China al firmar un acuerdo estratégico con Bank of Shanghai', Cinco Días, 11 December 2013 http://cincodias.com/cincodias/2013/12/10/mercados/1386694452_464547.html

[39] Javier Vadillo, 'El grupo chino ZTE crecerá con Euskaltel por el sur de Europa', Cinco Días, 17 November 2014 http://cincodias.com/cincodias/2014/11/17/tecnologia/1416253512_030571.html

[40] Moncho Veloso, 'Mapfre aspira a facturar más de 30.000 millones en tres años con su expansión global', ABC, 14 March 2014 http://www.abc.es/economia/20140314/abci-mapfre-junta-plan-expansion-201403141428.html

[41] 'Repsol vende a Sinopec el 40% de su filial de Brasil a un precio récord', Cinco Días, 2 October 2010 http://cincodias.com/cincodias/2010/10/02/empresas/1286026779_850215.html

As with any JV, it is critical to ensure that expectations are aligned and that both parties are gaining –in many recent cases the benefit offered to Chinese partners must go beyond financial investment–. As shown by a number of the JVs mentioned above, access to Western or Latin American markets and co-development of technology are increasingly important.

China can be a complicated and cash-consuming experience for many companies, but the market also continues to show great potential. As with other developing countries, it is essential for the long-term sustainability of the internationalisation process to have local knowledge and support to understand the local environment, enable the development of workable business models and minimise risk.

Conclusion

In summary, China remains an important, if complex and changing, market. The investment potential for Spanish business remains strong, and there are particular opportunities emerging now for industries in which Spanish companies are very strong –such as civil infrastructure, food and beverages, tourism and consumer goods. A carefully planned approach to 'looking East' should be a serious part of the Spanish corporate strategic growth agenda.