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A profile of Spanish firms in China: reasons to set up business and future perspectives

Perfil de las empresas españolas en China: razones para establecerse en este país y perspectivas futuras

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I. CHINA TODAY

Today China represents the world's most attractive emerging market. Most economic indicators agree on this: GDP is thriving, urban population is growing, private and public spending is on the increase, and the middle class is burgeoning (Kharas, 2010). Consumers in India and China are the new kings and queens of the new economy (Silverstein, 2012). However, Spanish exports to China are still low, and Spain as a whole is not taking full advantage of the opportunities that are arising.

China is the world's largest exporter, having overtaken Germany in 2009, and the second importer. In the world ranking, Spain occupies number 21 for China's exports, while it occupies spot number 36 as an importer (a very low position in the ranking). In fact, imports to Spain are still five times larger than its exports. However, the difference is changing favourably towards Spain year by year.

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EXECUTIVE SUMMARY

Our objective in this paper is to analyse which Spanish businesses are operating within China, what their reasons are for being in this country, study their difficulties and list their priorities for the coming years. Reasons for satisfaction and dissatisfaction are also analysed. Spanish firms operating in China are mostly in the services sector (56%), in particular, in the areas of professional services, such as advertising, legal advice, consulting, etc. Almost half of the Spanish businesses have established themselves in the Shanghai area. Contrary to what is usually believed, most firms set up business in China to access the market, and not to employ low cost labour. In terms of continuity, the answer is almost unanimous: most Spanish firms plan to stay in the country for the next few years. Their main interest lies in accessing the opportunities of this vast market.

RESUMEN DEL ARTÍCULO

Nuestro objetivo en este trabajo es analizar las empresas españolas que están operando dentro de China, cuáles son sus razones para implantarse en este país, el estudio de sus dificultades y la lista de sus prioridades para los próximos años. También se analizan sus razones para estar satisfechas o insatisfechas. Las empresas españolas que operan en China pertenecen en su mayoría al sector servicios (56%), en particular, a las áreas de servicios profesionales, como la publicidad, la asesoría jurídica, la consultoría, etc. Casi la mitad de las empresas españolas se han establecido en el área de Shanghai. Contrariamente a lo que suele creerse, la mayoría de las empresas establecen un negocio en China para acceder a su mercado, y no tanto para emplear mano de obra de bajo costo. En cuanto a la continuidad, la respuesta es casi unánime: la mayoría de las empresas españolas tiene previsto permanecer en el país en los próximos años. Su interés principal radica en el acceso a las oportunidades de este gran mercado.

Spanish exports grew by 32%, in 2011, and imports grew by only 2%. As such, even though the trade balance is still very negative for Spain, the situation is shifting. Along with this trade picture, we can appreciate an important growth of Foreign Direct Investment of Spain in China in 2010 and 2011 (after dropping dramatically in 2008 and 2009 due to the recession in Spain). This will be source of future exports.

For years and even decades, many Western companies off-shored their production to countries with low cost labour, such as China. Today, these same companies, regardless of where they manufacture, are seriously considering accessing the emerging markets. In the case of China, we are talking about a market of over 1,300 million people, with a purchasing power, albeit limited, on the increase. How can companies try to start marketing their products there? It is an arduous, slow task and it can be very expensive with many potential pitfalls. The company that intends to access this market should consider well its strategy in order to succeed.

There are several hundred Spanish firms regularly doing business in China. The main objective of this paper is to shed light on the profile of these companies: which sectors they operate in, why they set up business in China, which were the main difficulties they encountered, and, finally, what their main priorities for the next few years are.

For years and even decades, many Western companies off-shored their production to countries with low cost labour, such as China

2. FINDING THE SPANISH FIRMS, OUR FIRST GOAL

The first problem we faced when analysing Spanish businesses in China was to define exactly how to tackle the subject of our research. We needed to select companies that:

- have been working in this specific geographic area for a certain period of time;
- have some sort of physical presence (an office, a production plant, facilities of another kind);

That would, therefore, exclude those Spanish firms that have occasionally exported to China but have no facilities in the country.

Taking this into account, we found that the most comprehensive and up-to-date database of Spanish firms in China is the 2010 Directory of the Official Chamber of Commerce of Spain in China. This list has been updated with more recent information taken directly from

the website (2012) of the mentioned Chamber of Commerce. On the other hand, ICEX has another directory (the ICEX Database of Spanish firms in China) that has been used to complement the former. Combining both and filtering the results by removing duplicates and Chinese or other foreign firms, we found that in 2012 there were 360 Spanish companies established in China, all of whom were sent a questionnaire. Such form was sent to the highest representative of the firm in China, which could be the Chinese person responsible for the operations in China, or an expat leading the off-shore facilities.

KEY WORDS

Chinese market, Access to market, Spanish firms, Internationalization, Market access

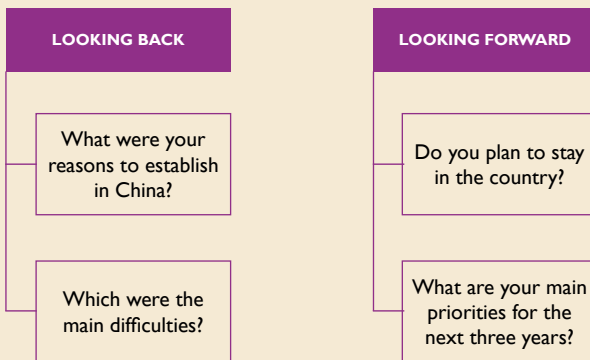
PALABRAS CLAVE

Mercado chino, Acceso al mercado, Empresas españolas, Internacionalización

Our research takes a dual approach:

- a. It **looks back** and analyses the reasons for setting up business in China and the main difficulties encountered.
- b. Next, **looking forward**, it asks: what is the level of satisfaction after this period? Does the firm plan to continue in the country and if so, what are the priorities for the next few years in China?

Figure 1. **Definition of the perspective taken to develop our survey**



Source: author.

How the survey was carried out: Table 1 below summarises the methodology and the different procedures followed to achieve an acceptable number of answers, together with the dates when each phase took place.

Table I. Summary of survey methodology

CONCEPT	DATES
Initial launch of survey	January 2012
Reminder Schedule	15 th February 1 st March 15 th March 2012 Some preliminary results were sent to all to encourage further answers in May. Throughout the period, telephone calls were combined with emails to expedite responses.
Survey Population	360 firms from two databases: Spanish firms belonging to the Spanish Chamber of Commerce in China plus the ICEX Database of Spanish firms in China.
Chief Obstacles	The main hurdle in obtaining useful answers from businesses was their reluctance to give information. This difficulty was overcome by re-sending the questionnaires, use of phone calls as reminders, and sending some preliminary results to all respondents ^(a) .
Sectors	All sectors are represented, from industrial products, construction and civil engineering, to services.
Location in China	All firms in China were considered, regardless of the geographic area, although three areas were clearly better represented: Bay of Bohai (Beijing Area), Yangtze River Delta (Shanghai Area) and Pearl River Delta (South China).
Number of Questionnaires sent	360
Number of answers received Percentage of Response	78 21.7%

Source: author. (a) There were no significant differences between early and late-respondents. Also, a control was carried out between respondents and non-respondents and no significant differences were found in terms of firm characteristics (such as sector of activity, size or origin).

3. GENERAL PICTURE OF THE 360 SPANISH FIRMS ESTABLISHED IN CHINA²

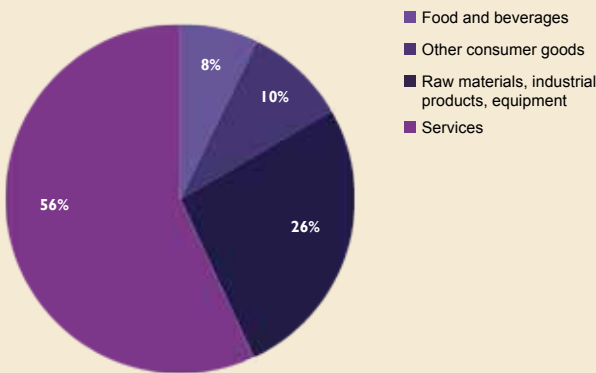
3.1. Sector of activity

By way of a start, in what sectors are Spanish businesses operating? To answer to this question, first, a broad classification was carried out. It can be deduced that:

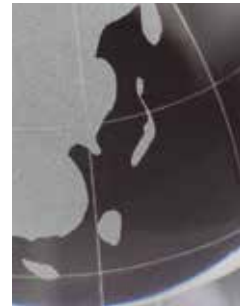
1. Most Spanish businesses (56%) are operating in the services sectors, such as transportation and logistics, professional services, consulting, financing, legal, quality control, advertising and other services (health, education, art, culture, etc.).

2. In the second place, we have industrial equipment and intermediate goods (26%), mostly supplies to Chinese industry (metal, machinery, equipment, raw materials, etc.).
3. In the third position, we have other consumer goods (10%), such as textiles, fashion, footwear and other consumer goods.
4. Not included in other consumer goods and in a category of its own, we find food and beverages, which occupy the fourth position with 8% of the total.

Figure 2. **Spanish firms in China classified by large sectors: the vast majority are in services. 2012**



Source: author.



3.2. Location in China

After a general overview of the main sectors, we can analyse the specific activities in more detail and the specific area in China chosen to locate in (see **Table 2**). Although in most cases firms prefer the Shanghai area, the building and construction, tourism, information and communication, and energy and renewable energies sectors prefer to be located close to the capital: these are strategic sectors in which firms are required to be established around the area of Beijing.

Looking at the Table 2, it can easily be seen that, on one hand, there are a large number of firms that are dedicated to production: metal, machinery, textiles, other manufacturing industries, etc. Then there is another large group of businesses that provide

Table 2. The 360 Spanish firms in China classified in detail by sectors and geographical area

GEOGRAPHICAL AREAS (A)	BEIJING	SHANGHAI	SOUTH CHINA	TOTAL
SECTOR				
Food and beverages	9	14	9	32
Textile, fashion and shoes	7	8	8	23
Chemical industries, pharmaceutical and plastics	1	9	6	16
China, ceramics and glass, building materials	1	7	2	10
Metal, metal products, machinery and equipment	18	30	7	55
IT products, electronics and optical products	7	7	0	14
Vehicles and transportation. Train, car, aircraft and ancillary industry	6	9	0	15
Other manufacturing industries (electrical products, lighting, printing, fire protection, promotional sector, furniture, antiques, toys, others)	6	14	11	31
Water supply, sanitation, waste management and decontamination	3	0	0	3
Building and construction, architecture and engineering	11	7	1	19
Transport, logistics and storage, distribution and ports	9	19	6	34
Tourism, hotels, restaurants, sport activities	9	3	0	12
Information and communication	10	2	0	12
Financial activities and insurance, real estate	9	12	1	22
Professional services: advertising, legal and consulting business services, QC, import-export	32	48	15	95
Health, education, art, culture, administrative activities and other services	12	11	4	27
Energy and renewable energies	12	9	1	22
TOTAL	162	209	71	442(b)

(a) Area of Beijing: Bay of Bohai; Shanghai: Yangtze River area.
(b) Totals can be over 360 when firms declare more than one answer.

Source: author.

professional services to Spanish and Chinese firms: services related to consulting, advertising, legal matters, quality, trading, etc. Finally, there are some firms, smaller in number but growing in importance,

that are highly professional, often technology-based, that are not so much linked to Spain, but are global start-ups.

3.3. Objectives in China

Almost one quarter of the firms have as their main objective to sell in China (whether they produce there or not). Only 7% of the firms' main objective is to purchase in Asia in order to export to the Spanish market.

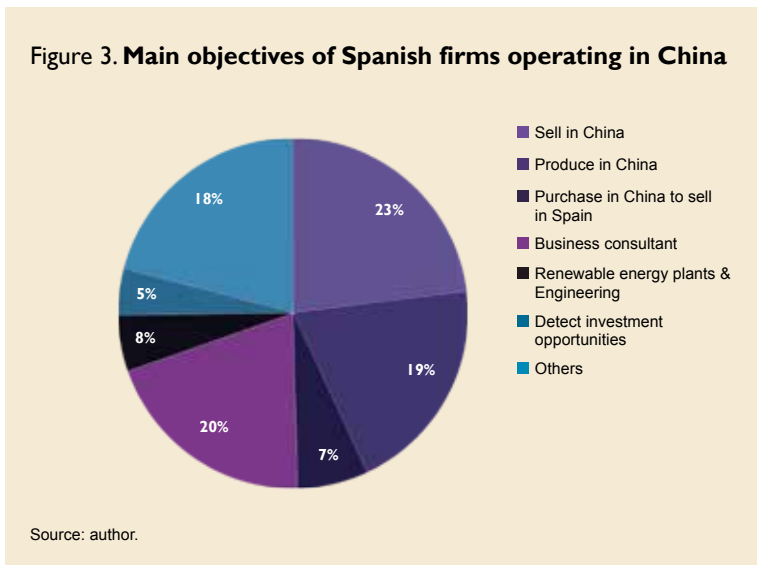


Table 3 shows in more detail the main objectives Spanish firms have when establishing in China. While in the recent past firms mostly moved to China to produce cheaply, nowadays, most firms are there:

- Either to sell their products (consumer goods or capital equipment)
- Or to sell their services, mostly professional, in fields of trade, logistics, quality control, law services, advertising, etc.

Only a third of businesses consider their main objective to be manufacturing. This represents a fundamental change in the point of view of the firms, who have stopped considering China as a source of cheap labour, and now consider it an interesting market worth investing in.

Table 3. Main objectives for the 360 Spanish firms for setting up business in China

MAIN OBJECTIVES IN CHINA	BEIJING	SHANGHAI	SOUTH CHINA	TOTAL
Access Chinese market	47	57	25	129
Business consultant (in trade - logistics - HR - quality and certification - legal - marketing, etc.)	29	66	17	112
Production in China (with or without own plant)	37	55	19	111
Procurement to export to Spain (or elsewhere)	11	17	11	39
Detect investment opportunities operations	15	12	4	31
Develop solar/ wind power plants/ projects and subsequent technology transfer	12	9	1	22
Engineering Consultancy Turnkey Projects incl. Railways	12	13	0	25
Environmental technologies and water treatment	12	4	0	16
Banking & insurance projects	4	7	1	12
Promote the exchange and development of art, culture, language	5	4	2	11
Promotion of tourism in Spain	5	3	0	8
Organise events, sports events and promote sports	3	3	2	8
Develop IT systems, software, mobile contents	7	0	0	7
Tours, tourism guides in China	4	2	0	6
Restaurants, hotels, hotel services	3	3	0	6
Strategic alliance with Chinese firms (e.g., Telefonica, Roca, mining, elevators)	1	4	1	6
Promote training and research	3	1	1	5
Real estate promotion	1	4	0	5
Removals	1	3	0	4
Passenger transportation	2	0	0	2
Internet business incubator	0	1	0	1
Cinema and TV production	0	1	0	1
TOTAL (a)	214	269	84	567

a)Totals can be over 360 when firms declare more than one answer.

Source: author

From here onwards, all results refer to the questionnaire sent to Spanish firms in 2012.

3.4. Looking back: Reasons for setting up business in China

The reasons for a business to establish in a foreign country can be numerous. Normally, the most common reasons can be either related to access to resources (raw materials, intermediate goods, labour and/or technology) or access to the market. In the case of China, the access of raw materials does not play a part, simply because it is not a country with significant natural resources. In general, it can be said that there were two main reasons for setting up business in China: first, access to cheap labour and second, access to the market.

- In the past (in the 1990s, 2000s), the main reason was to manufacture low-cost products using a cheap and unqualified workforce in China. After production, the goods were normally transported back to Spain for their consumption.
- Lately, the trend has varied as to whether firms may or may not continue production in China. However, the main reason for being there is related to accessing the domestic Chinese market (the reasons are numerous). This second reason has surpassed the first in importance.

Our survey confirms this position. When asked why they set up in China, reasons included access to cheap labour, access to raw materials, access to Chinese and other Asian markets, detecting business opportunities, following competitors, or establishing in China as a mandatory requirement.

a. Access to labour

In the following sections, we analyse the importance of each of these reasons. Starting with access to cheap labour, 40% consider this factor has little or no relevance whatsoever, whilst 60% believe that it is of some or great importance.

For most companies interviewed, the cost of labour has some importance, but contrary to what is generally thought, its importance is somewhat limited. In fact, labour cost is only considered as the fifth most important reason, after market access, identification of business opportunities and so on. Only 18% of the companies considered it very relevant: as expected, this importance has a

direct correlation with manufacturing businesses, where labour costs currently represent a competitive edge. In the past, the importance of labour cost was much higher, due to businesses externalizing their production to China. Nowadays, as the importance of services grows, other reasons are becoming more relevant.

b. Access to the Chinese market

Firms consider China as a market full of opportunities, which explains why 77% of the firms consider market access as either relevant or very relevant when explaining why they set up business in this country. This means that these types of businesses view China as an interesting market in which to commercialize their manufactured products (regardless of where this takes place) rather than viewing it as the world's factory.

c. Access to other markets in Asia

Accessing markets is always a priority for businesses, the market being China itself or others in Asia. For half of the firms surveyed, accessing other Asian markets is very or quite relevant.

d. As a mandatory requirement

Mandatory requirement refers to the requirement that is imposed on firms working in industrially strategic sectors in China where the government or state firms require production or part of the production of foreign companies to be located in China, as a prerequisite to buying the goods or equipment. Metalocaucho is an example of this requirement: they have set up production plants in China (and in India as well) to be able to access the train transportation sector. Sourcing directly from Spain was not allowed and the production had to be located in China.

In this case, the answers are more evenly spread because while in some cases this requirement may be crucial, in others (most services, for instance) there is no mandatory requirement whatsoever.

e. Access to raw materials

This is the least important of the reasons for most companies. In fact, it is of no relevance or little relevance for over 55% of companies. China is not a country rich in raw materials and it is not the main reason to establish there.



f. Detecting new business opportunities

The importance of looking for business opportunities is, after access to the Chinese market, the second-most selected answer. This is understandable since detecting new business opportunities is a very general reason that could be related to the growth of the economy, rising demand, specific businesses that appear at a certain moment, changes in technology, legislation, and so on.

g. Strategic move to follow competitors

For 15% of the companies interviewed, the strategy of following competitors may be very relevant, but it is not considered so in most cases. It has some importance for many, which is to be expected, but it is not normally the sole reason for establishing in China. It would be an important supporting factor when considering setting up in China, but not the main rationale (see **Figure 4**).

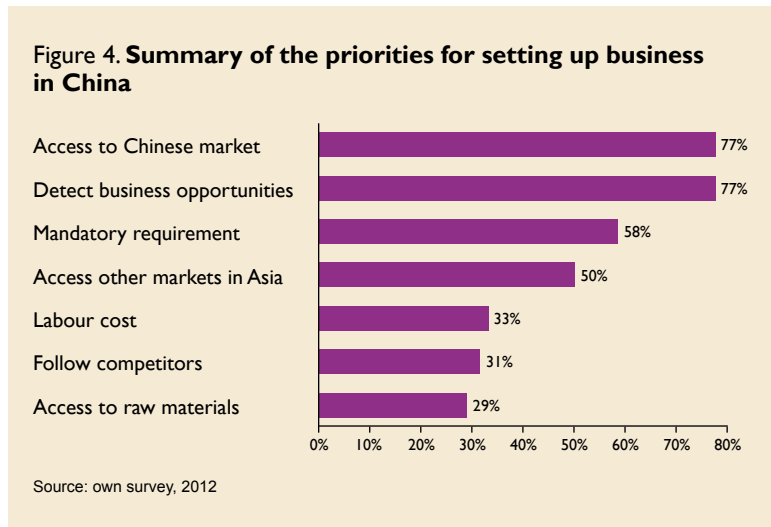
h. Other reasons

The survey included an open-ended question to give people the opportunity to add other reasons for being in China. Some answers included:

- To follow customers: if one wants to serve customers properly and they are located in China, the full-service supplier is often expected to be there too.
- To get to know new suppliers that could be used for Spanish headquarters as well.
- To access the Chinese market and get to know it well by monitoring its trends.
- To develop projects (as a consultant or as a contractor), one has to be physically present and able to do the follow-up.
- For firms that have outsourced their production, it is advisable to have some physical presence in the country to follow up the production process and the quality control.

To conclude with the main reasons for setting up business in China, it can be stated that they are, by order of importance: first and foremost, market access, whether in China or, via this country, other Asian markets. In parallel, it is important to have a base in China to be able to identify potential business opportunities in this vast country. For some firms, having a presence is a mandatory requirement to sell without which it would not be possible to access

the market. On the contrary, accessing resources, whether labour costs or raw materials, are not considered relevant reasons for most firms.



3.5. Looking back: Difficulties encountered when doing business in China

When firms look back, they can identify the main complications when they first decided to set up business in this complex country.

These difficulties can be organised around four different factors, as we can see in **Table 4** below: difficulties in accessing the market, troubles adapting to the country, cost management and issues concerning Human Resources:

Problems are often related to the lack of knowledge of the culture, dealing with human resources, the legal system or the local authorities. These are viewed as the most difficult obstacles.

The choice of staff (whether expats or local Chinese staff) is the key factor in having a successful venture. The accent is mostly put on the local staff: choose the right people, train them, give them autonomy to develop projects, integrate the staff in a Western approach of business, and make the most of local personnel to resolve problems related to the Chinese environment, which is not accessible to foreigners.

As well as having competent and trained local human resources, it is very important to develop a solid *guanxi*. In many cases establishing

Table 4. Difficulties encountered when setting up business in China

DIFFICULTY TYPE	SPECIFIC OBSTACLE	LEVEL OF DIFFICULTY
[1] Related to accessing the market	Finding distributor(s)	*
	Creating a distribution channel	**
	Competing with competitors' prices	**
	Lack of market knowledge	**
	Geographical distance	*
[2] Related to the country	Adapting to local culture	***
	Adapting to the language	***
	Adapting to national / local legislation	***
	Adapting to administrative procedures	***
	Intellectual Property (IP)	*
[3] Related to costs	Required initial investment	*
	Travelling costs	*
[4] Related to Human Resources (HR)	Local HR	***
	Expatriate HR	**

Level of difficulty:

*: not difficult or little difficulty

**: some difficulty or quite difficult

***: very difficult

Source: own survey, 2012

alliances with local partners is also a great advantage.

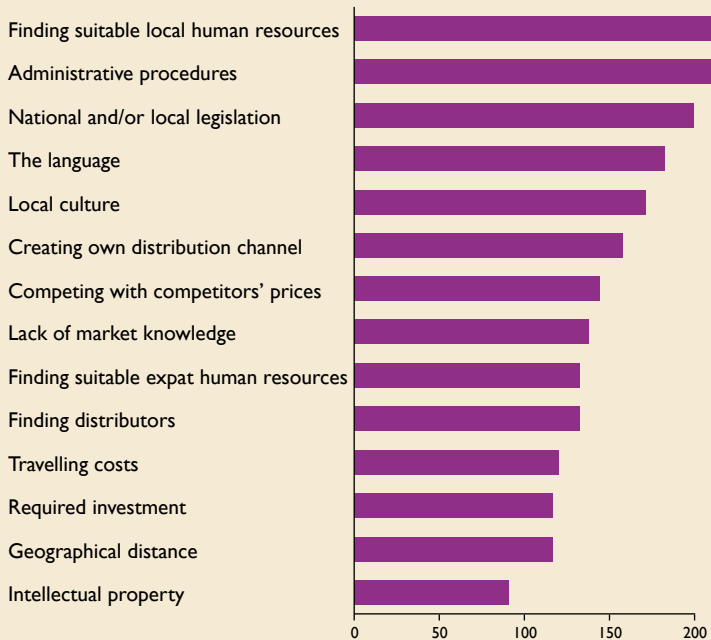
Flexibility is another factor highly valued by Spanish firms, and it refers to many fields, in particular, being flexible with the culture, with the pace of change, with market peculiarities. In a world that is undergoing substantial changes, the ability to adapt to change can be a source of competitive advantage. In China, where changes happen much faster, it is the only way to survive.

Other difficulties explicitly stated by Spanish companies include:

- Very strong competition;
- China is probably the most demanding market in the world;

- Since first setting up business in China in 2002 until now, the country has changed enormously. Difficulties have varied in this time and the difficulty has been in adapting to changing difficulties;
- Transferring technical know-how: identifying reliable suppliers of mechanical and technical services that are needed and which are hard to find.
- Irregularities in the quality of supplies between batches of the same raw material from the same vendor;
- Arriving too late when the market share was already allocated to American, German, Italian and other firms. Now it is difficult to break in and gain sales.
- If price is a relevant factor to consider in any market, in China this is even more so: price, price & price.

Figure 5. Level of difficulty of the obstacles encountered when setting up business in China



Based on own calculations, the sum of 0 to 4 points depending on the difficulty perceived.

Source: own survey, 2012

The main conclusion of the survey in this respect is that the main obstacles when setting up business in China are clearly related to the difficulties associated with the country: the culture, the language, the administrative procedures and the legislation. The lack of knowledge of such matters is the biggest impediment when doing business in China. Related to this is recruiting (and then retaining) suitable local human resources, which is considered the most difficult aspect of them all. Only through knowledge of the culture can a Western firm succeed in doing business in this market. Whilst this is true when working with any new market, it is even more so in China, due to its complexity for Europeans.

3.6. Looking forward: Priorities of Spanish firms in China for the next three years

From the answers to our survey, twelve priorities were identified by Spanish business people for the following three years. We will analyse one by one the extent to which they were considered to be an absolute priority, not very relevant, or somewhere in between.



Table 5. Levels of priority for Spanish business in China, for the next three years

PRIORITY	LEVEL OF PRIORITY
Divesting from the country	*
Mergers & acquisitions	*
Outsourcing	*
Investing in R&D	**
Distribution consolidation	**
Implementing Western culture	**
Expanding initial investment	**
Optimizing costs	***
Improving quality	***
Entering new markets	***
Brand consolidation	***
Improving customer satisfaction	***

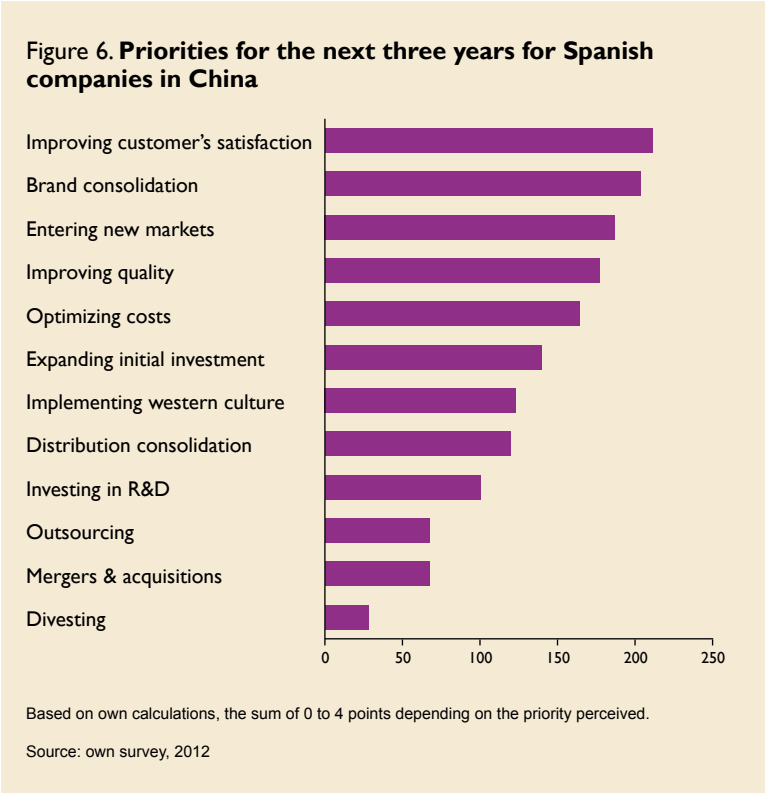
Level of priority:

*: no priority at all or little priority

**: some priority

***: absolute priority

Source: own survey, 2012



As we can see, the main priorities are directly related to the market: improving customer satisfaction, consolidating the brand and opening new markets. They are all related to increasing sales. Next in priority are those related to production, such as cost optimisation, quality improvement and expanding investment.

It is interesting to note that for most businesses divesting from China is not at all a priority (as we will see in the next section, they wish to remain in China), nor are ventures (merging or acquiring other firms), or even outsourcing.

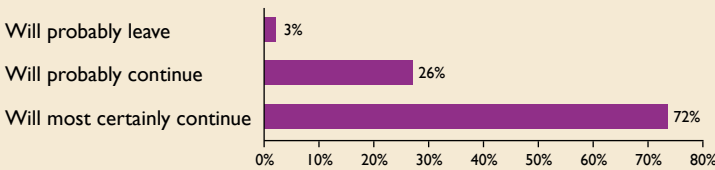
3.7. Looking forward: Continuity plans and level of satisfaction

Regarding continuity, the answer is almost unanimous: most Spanish firms surveyed plan to stay in the country for the next three years: 72% believe they will remain for certain, while 26% believe it is most probable that they will continue. Only 3% of those questioned have doubts. It is possible that those firms planning on

leaving the country most likely did not fill in the questionnaire in the first place, but we can see that the level of optimism is rather high. For most companies, coming from a domestic market with a declining demand, to being in a growing, albeit difficult, market confers a remarkable advantage.

We can affirm that, following our survey, Spanish firms are in China to stay.

Figure 7. Continuity plans for the next three years. Surveyed Spanish companies in China

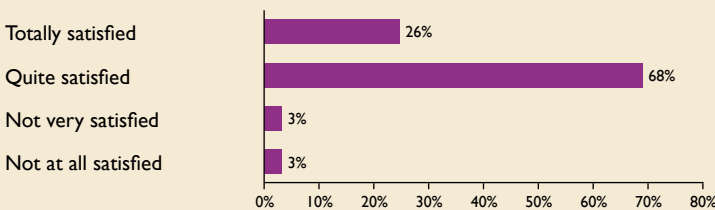


Source: own survey, 2012

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Most firms will continue because their satisfaction level is high. While only 6% are either not at all satisfied or not satisfied, in general, they perceive the situation as satisfactory (68%) or even very satisfactory (26%). Therefore, overall, we can affirm that due to market opportunities, most firms are satisfied with their development in China and will remain in the country for the coming years.

Figure 8. Level of satisfaction of Spanish companies established in China



Source: own survey, 2012

It is most interesting to analyse the reason why firms are satisfied or not with the results obtained. **Table 6** below shows the answers

Table 6. Main reasons for satisfaction and dissatisfaction

REASONS FOR SATISFACTION WITH THE RESULTS	REASONS FOR DISSATISFACTION WITH THE RESULTS
Sales objectives achieved	Country with great opportunities but huge price competition. Many difficulties in the beginning.
After a few years with the production in China mostly dedicated to exports, finally the distribution within the Chinese market is starting to develop.	We have not been able to access the market. We do not sell in China.
We have kept our presence in China for some ten years. This is a success in itself.	Certifications for official public processes are very slow and unclear, so it requires in-depth knowledge of these entities and very good contacts with the internal officials who draft them.
Well-established roots + robust order process = right level of required quality and service	We have taken too long (18 months) to produce good quality with no excessive wastage.
China has given us, for more than a quarter of a century, real business opportunities.	We missed the train. We should have come here some years ago. Now access is very hard because the market is mature.
Expectations have been met: not only in consolidating our services for Spanish companies but in the recruitment of a growing critical mass of Chinese investment in Europe and South America.	
1. Big network in China, covering tier 1, 2, 3 cities. 2. Development of a geographical advantage in China to explore new connections, e.g. China and East Europe. 3. Good brand reputation in China.	
After the effort of many years we are now consolidating and reaping the benefits. The market is growing and it is an opportunity.	
The growth of sales and profits, as well as opportunities for present and future business in the local market and markets of the Asian area	
We have achieved our objectives in a progressive and serious manner.	
The benefits we have obtained are more intangible than money. You just have to be there.	
It has been an important opportunity for our company in Spain to become a reference in the management of Chinese projects but it is still difficult to compete in the local market here.	
This is not the goose that lays the golden egg. Competing with local plus international companies is increasingly more difficult. The results are positive but not grandiose.	
Satisfied by positive results, in the sense that more investment is not required and production has improved. However, we are not satisfied because the yield is very low and quality is still a problem.	

Source: own survey, 2012

given by Spanish companies. The reasons for dissatisfaction are related to the obstacles we discuss in the section 3.5: high competition, very demanding market, difficult procedures, slowness in yielding results and problems with quality.

With regard to reasons for being satisfied, the main ones can be classified as:

- Firstly, the opening opportunities that have allowed for increasing sales and profits. For many, being in China has compensated the declining domestic market in Spain (or the EU); It is refreshing for a company to be in a growing market with highly optimistic expectations after experiencing only recession and pessimism in the Old Continent;
- Interesting connections from China to other strategic areas of the world, such as other Asian countries, Eastern Europe or Latin America. This is no longer about a country, but more about world regions. In this sense, China becomes a hub from which to operate in a global world. In this sense, the whole planet becomes a pull of resources in which businesses can select where to produce, where to assemble, where to sell.
- Intangible results in terms of recognition, reputation, know-how, beneficial not just for the Chinese operations, but also for future business elsewhere. The game does not only revolve around immediate sales but about creating medium and long-term opportunities to ensure a long-lasting presence in Asia.

Accessing the Chinese market is not easy, as we have seen. But we feel we have proved that it can be done. We will finish with a sentence that represents very well the difficulty and dangers that it involves: “Entering the Chinese market is like opening your first company. You have no idea of what is happening and everything looks like the Wild West”³.

4. CONCLUSIONS

Many Spanish firms have been successful in China. It was not until the 1990s, and even after 2000, that a significant amount of Spanish businesses decided to establish a permanent base in the country. Four veteran companies in this market—ALSA, Técnicas Reunidas, Nutrexpa and Bodegas Torres—and two companies that have arrived relatively recently—Gamesa and Inditex—constitute the core of a business presence that has produced some very positive results.

The presence of Spanish companies in China has grown by 70% in the last five years despite the legal insecurity, the geographical distance and other obstacles. They were forced to enter this new market when they saw their domestic market vanishing due to the economic recession. These include, in addition to the six mentioned above, other highly recognised ones such as Mango, Roca, Cosentino, Santander, Telefonica, Mapfre, Acciona, Indra, Fagor, Nutrexpa, Simon or Freixenet, to name but a few.

However, apart from these highly recognised brands, there are many other smaller firms that operate in China and are not so visible to the public. They operate mainly in fashion, design, habitat, food and wine, tourism and leisure, renewable energies, equipment and machinery, banking and finance or education. It is clearly not enough, but it is a good start.

In general, it can be stated that Spanish firms have been relatively late in accessing this market when we compare them to other EU countries such as Germany, France, United Kingdom or Italy, which were physically present in the country many years before. Spain has generally been more connected to other world areas such as the EU, for geographical reasons, or Latin-American, for cultural reasons. Asia has been historically ignored, unknown, feared and neglected. Therefore we can conclude that Spain is not yet fully exploiting the opportunities that are opening in China. However, there is room for optimism when we look at the evolution and future potential.

Spanish firms operating in China are mostly in the services sector (56%), and particularly in the areas of professional services, such as advertising, legal advice, consulting, quality control, etc. The remaining 44% operate in different industries: metal, machinery and equipment, food and beverages, textiles, vehicles and transportation and other manufacturing industries. The increased presence of Spanish firms is also noticeable in hi-tech sectors, project management, engineering in energy and renewable energies, water treatment, waste disposal, and also in services, art, education and culture.

Almost half of Spanish businesses have established themselves in the Shanghai area, due to its economic power, but also thanks to the attractiveness of its cosmopolitan atmosphere and the high percentage of foreigners residing in this city. Although recruiting and retaining “expats” is difficult in China, in the case of Shanghai,



it is becoming easier. The Beijing area offers many opportunities due to its status as a capital and it is certainly more relevant for certain strategic sectors where contacts with the government are especially important. Regarding the south of China, the proximity to Hong Kong has helped the development of production facilities that manufacture goods that satisfy the demand for cheap products in the EU.

Why do Spanish companies establish a subsidiary in China? The main reasons for setting up business in China are, by order of importance: to access to the market, whether in or other Asian markets using China as a base. Together with this, having a base in China provides a platform from which to detect potential business opportunities in this vast country and Asia. For some firms, being physically there is a mandatory requirement to sell, without which it is not possible to access the market. On the contrary, accessing resources, whether cheap labour or raw materials, is not considered as relevant reasons for most firms.

Our survey assesses the priorities for Spanish firms in China for the next three years:

- Firstly, to improve customer satisfaction, consolidate the brand and open new markets. These are all related to increasing sales;
- Secondly, to improve production related matters, such as cost optimisation, quality enhancement and increased investment;
- Finally, for most businesses, divesting from China is not at all a priority.

In terms of continuity, the answer is almost unanimous: most Spanish firms plan to stay in the country for the next three years. 72% believe that they will remain for certain, while 26% believe it is most probable that they will stay. Only 3% have doubts. For most companies coming from a domestic market (Spain) with a declining demand, being present in a growing market, albeit a difficult one, confers a significant advantage. Spanish firms are in China to stay. Most firms will continue because their level of satisfaction is high. While only 6% are either not at all satisfied or only a little satisfied, in general, Spanish firms in China perceive their situation as satisfactory (68%) or even very satisfactory (26%). Therefore, overall, we can state that thanks to market opportunities, most firms are satisfied with their development in China and will remain in the country for the coming years.

Three proposals to end the conclusions:

1. Country branding:

The brand of Spain is competing with all the other European countries, but it is insufficiently known in China. In order to boost Spain's commercial success, it is crucial to create a branding program that strengthens the brand of Spain. Spain was late to come to China and it remains an unknown and far-away country, more recognised for its sports than for its businesses or technology. To change the perception and promote the country's branding, it is necessary to have the cooperation and involvement of all stakeholders, including representatives of Government, business, the arts, education and, most importantly, the media.

2. Economic sectors:

There are opportunities in many economic sectors, such as renewable energies, water, project management, technology and equipment, e-commerce, food, wine or olive oil. Furthermore, there is a large opportunity to attract Chinese tourists to Spain. Not so much the so-called sun & sea tourism, but one that is based on arts and culture and shopping in the Spanish cities.

3. Business policy and Strategic Management:

The beginning of the 2000s saw a sudden "fashion" for Spanish businesses to move to China. Many SMEs went to China on "pseudo-business" trips which resulted in genuine disasters. Fortunately, the recession acted as a "cleaning" agent that made clear who was in China as a real business strategy. Businesses must set up in China only if: (1) it corresponds to a strategic decision, (2) the project is planned properly in advance, (3) resources are provided and (4) company leadership is therefore totally committed. Any other adventures are not at all advised.

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NOTAS

1. Contact autor: Universitat Abat Oliba CEU; Dpto. CCEE y Empresariales; C/ Bellesguard 30; 08022 Barcelona; Spain.
2. Data extracted from 2010 Database up-dated with information on the Chamber of Commerce website 2012.
3. From Bowei Gai, co-founder of CardMunch, later acquired by LinkedIn.

