

COMPETITIVENESS OF EUROPEAN COMPANIES IN CHINA: A SWOT ANALYSIS

Aldis Bulis

University of Latvia/ Faculty of Economics and Management
Aspazijas bulv. 5, Rīga, LV-1050, Latvia
aldis.bulis@balticvisiongroup.org

Roberts Skapars

University of Latvia/ Faculty of Economics and Management
Aspazijas bulv. 5, Rīga, LV-1050, Latvia
roberts.skapars@lu.lv

—Abstract —

In the 21st century there are a growing number of scientific studies on various aspects of a company's competitiveness and strategies in the People's Republic of China (China) and there is a growing interest by European companies to enter the Chinese market.

The objective of this study is to investigate the competitiveness of companies from the European Union in the Chinese market. The Chinese market is attractive for foreign companies because China is a growing economy and its domestic demand is growing. The GDP of China has been growing by at least 8% per year in the 21st century and there are more than 1.3 billion potential customers in China.

A literature survey has revealed that the efforts of European companies to enter into the Chinese market have not always been successful. This study by applying a SWOT analysis and literature survey shows the strengths, weaknesses, opportunities and threats for the operation of European companies in China.

Key Words: *China, competitiveness of companies, European companies, SWOT*

JEL Classification: *D21, D22, F23*

1. INTRODUCTION

The competitiveness of companies is one of the forms of competitiveness. The competitiveness of companies differ from the competitiveness of nations, the

competitiveness of industries, the competitiveness of regions and the competitiveness of cities because the competitiveness of companies cannot be measured the same way as other forms of competitiveness.

The objective of the study is to investigate the competitiveness of companies from the European Union in the Chinese market. The tasks of the study are to analyse the theoretical concepts for the assessment of companies' competitiveness in the Chinese market and to analyse the competitiveness of European companies in China. The object of the study is the competitiveness of European companies in China. The methods of the research are systematic, logical and comparative analysis of scientific literature, analysis of statistical data and SWOT analysis.

The important point in the discussion about the operation of European companies in China is the differences of market potential and cultural differences between Europe and China. A company entering the Chinese market may face a number of obstacles that affect the operation of company: government intervention, cultural differences and management of those differences, highly competitive and unpredictable business environment; the forcing by the Chinese government for foreign companies to establish joint ventures with local companies as a condition of market access. China's 12th Five-Year Strategic Plan is related to opportunities and risks for the operation of foreign companies in China because it provides a rebalance of the economy by encouraging domestic consumption, developing the service sector, shifting to higher value-added manufacturing, conserving energy and cleaning up the environment.

2. LITERATURE REVIEW

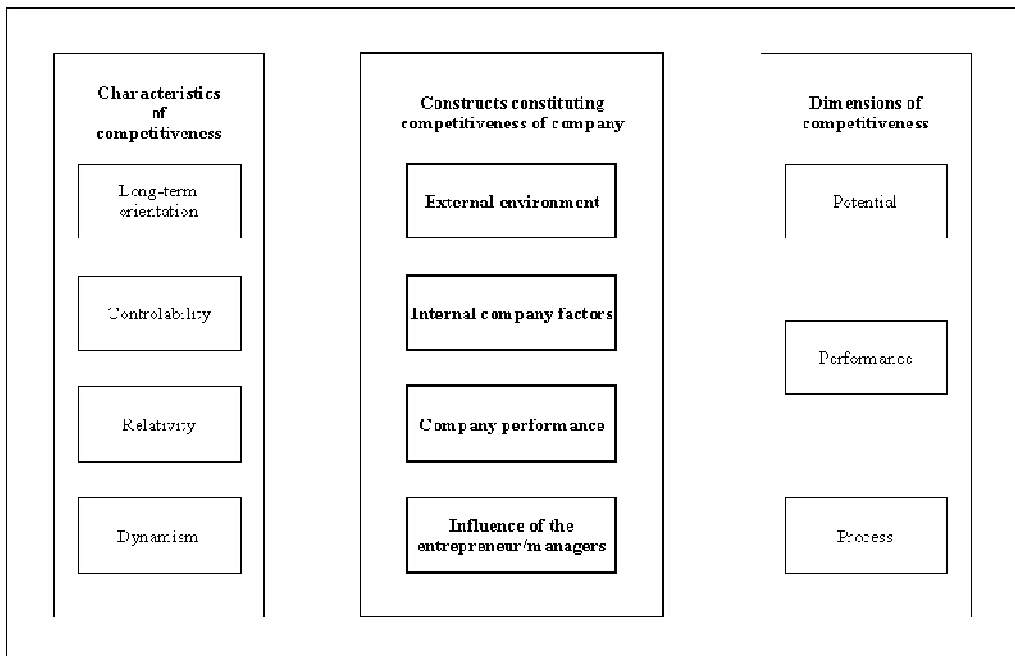
2.1. Competitiveness of companies

The competitiveness of companies differs from the competitiveness of nations, the competitiveness of industries, the competitiveness of regions and the competitiveness of cities because each form of competitiveness has its own specific indicators that are used for its measurement. Companies and business units are associated with the micro level of competitiveness. Competitiveness of companies means that companies compete for markets, and it is measured by looking at market shares or profitability (Kao, Wu, Hsieh, Wang, Lin, Chen, 2008: 613).

The evaluation of the competitiveness of companies is economically important for various reasons: firstly, it enables one to identify the strong and weak points of the economy in order to ensure sustainable and harmonious growth; secondly, it determines the preconditions for creating efficient stimulation instruments for market participants, as it reveals the competitive advantages of products, services, resources, business processes, management strategies, etc.; and thirdly, it enables one to forecast the ability of companies to survive under competitive pressure (Malakauskaite, Navickas, 2011: 50).

Man, Lau and Chan in reviewing the relevant literature on company competitiveness suggest that the competitiveness of a company, especially SME's competitiveness, can be conceptualised as having four constructs (external environment, internal company factors, company performance and influence of entrepreneur/managers), three dimensions (potential, process and performance), and four characteristics (long-term orientation, controllability, relativity, and dynamism) (Figure 1).

Figure-1 Competitiveness of a company



Modified model, adopted from: Man, Lau and Chan: 2002: 131.

In terms of competitiveness it is important to consider not only the resulting performance or the potential/asset to generate this performance, but also the process for doing so. The characteristics of competitiveness are, firstly, long-term orientation, because competitiveness is long-term oriented, focusing on long-term performance rather than short-term competitive tactics such as “dumping”, where the market share is gained by selling products at unprofitable prices. Secondly, competitiveness is controllable, relating to the various capabilities and resources of company rather than simply the favourable external conditions leading to competitive advantage. Thirdly, competitiveness is a relative concept associated with how competitive a company is compared to the rest of the industry. Fourthly, competitiveness is also dynamic in nature, because a company to sustain competitiveness needs to be able to continually create new forms of competitive advantage.

Different constructs of the model are based on these dimensions and characteristics of competitiveness. The external environment highlights the scope for action and growth, which indicates the availability of opportunities to generate increased long-term profitability inherent in the external environment. SMEs are more vulnerable to external influences than larger companies. Internal company factors are human, financial and technological resources, organisational structure and systems, innovation, productivity, quality, image and reputation, culture, product/services variety and flexibility, and customer service (Man, Lau, Chan, 2002: 129). There is the influential role of the entrepreneur in affecting the performance of a company, especially when the company remains small. The performance of the company has to be long term and characterised by success or growth.

2.2. Competitiveness of foreign companies in China

The unique characteristics of the Chinese market are argued in the scientific literature. Bontempi and Prodi point out: „The Chinese market is extremely complex, hard to describe, and not easily interpretable with the same theoretical and analytical tools applied to other developed/developing countries. As far as its dimensions, institutional assets, development rate, data availability and quality are concerned, China is a case by itself” (Bontempi, Prodi, 2009: 11-12).

The foreign companies can operate in China in different forms. They can export their goods to China or produce goods in China holding a representative office or a Joint Venture or a Wholly Owned Enterprise in China or entering with product

in Chinese market in other legal forms. The main motivations of foreign companies to enter the Chinese market can be looking for new markets, seeking natural resources, restructuring existing production through rationalisation and finding strategically related assets (Chen, Reger, 2006: 414).

The competitiveness of foreign companies in China is investigated in the framework of competitiveness of companies and industry competitiveness. The competitiveness of a particular company or group of companies in China is studied in the framework of the competitiveness of companies. The study of industry competitiveness means that a foreign company's competitiveness in specific industries in China can be studied where, e.g. there are numerous studies on the architectural and engineering industry, the real estate industry, the consulting industry, the chemical and pharmaceutical industry. A wide range of theoretical tools are used in the study of the competitiveness of foreign companies in China, e.g. diamond model study, SWOT analysis, Transaction Costs Analysis and different models for the assessment of company competitiveness.

3. COMPETITIVENESS OF EUROPEAN COMPANIES IN CHINA

3.1. Strengths of European companies in China

The competitiveness of European companies in China are studied both in the framework of company competitiveness and the competitiveness of industries. The previous literature recognises the efforts of European companies to enter the Chinese market and these efforts have not always been successful.

The strengths of European companies' competitiveness in China identified in theoretic literature are innovative and technological potential, trade in services, international competitiveness and the internationalisation strategies of European companies (Figure 2). European companies mostly allocate more resources to R&D than Chinese companies and at the moment European companies still have innovative and technological primacy over Chinese rivals (e.g. Chang, Park, 2012: 2; Zhao, Zuo, Zillante, Zhao, 2012: 364). European companies are still mainly ahead their Chinese counterparts in terms of proven safety, quality, reliability and after-sales services, as well as have a better reputation and global experience, for instance, in wind turbine manufacturing industry (Zhang, 2012: 3908).

Figure-2 SWOT matrix of competitiveness of European companies in China

Strengths	Weaknesses
Innovative and technological potential International competitiveness Internationalisation strategies Exports of services	Difficulties in understanding Chinese heritage and culture Difficulties entering into the Chinese market
Opportunities	Threats
Growing demand More than 1.3 billion potential customers Initiatives included in 12 th Five-Year Plan	Constantly changing competition environment Government intervention Diversity among regions in China

Source: authors' own figure

EU companies have a positive overall trend in trade in services with China. EU had a surplus of 6 billion euros in the trade in services with China in 2010. The positive trade balance in services was also in 2008 and in 2009 (Table 1).

Table 1: European Union trade in services with China 2008-2010 (million euro)

	Exports			Imports			Balance		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Total	20 414	19 236	22 436	15 312	13 746	16 445	5 102	5 490	5 991

Source: Eurostat (all data for China presented exclude Hong Kong).

The surplus in 2010 was due to surpluses in other business services (+3.1 billion euro), royalties and license fees (+1.9 billion euro), computer & information services (1.2 billion euro) (Eurostat, 23/2012).

3.2. Weaknesses of European companies in China

European Union trade in goods with China has grown over the last decade rising from 26 billion euro in 2000 to 113 billion euro in 2010 (Table 2). Despite this the EU trade deficit with China in goods increased from 143 billion in 2000 to 159 billion in 2010.

Table 2: European Union trade in goods with China 2000-2010 (million euro)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Exports	849 739	884 707	891 899	869 237	952 954	1 052 719	1 160 100	1 240 984	1 309 218	1 097 990	1 349 610
Imports	992 698	979 145	936 972	935 241	1 027 522	1 179 569	1 352 787	1 435 083	1 566 379	1 207 810	1 509 092
Balance	-142 959	-94 438	-45 073	-66 004	-74 567	-126 850	-192 686	-194 099	-257 161	-109 820	-159 481

Source: Eurostat (all data for China presented exclude Hong Kong).

The weaknesses of European companies in China are difficulties of companies to understand Chinese traditions and difficulties to enter into the Chinese market. Company establishment approval, registration and bankruptcy proceedings are very complicated, expensive and time-consuming in China (Zhu, Wittmann, Peng, 2011: 8). European companies have difficulties entering into the Chinese market, especially SMEs which often don't have the knowledge and experience about the Chinese market, as well as having a lack of capability to register and distribute their products in China that negatively affect opportunities to export to the China market (Bulis, Skapars, 2012: 29-30).

Foreign companies entering and operating in Chinese market have to respect the local heritage and culture, for instance, there is a crucial role in maintaining a balance between innovative design and the retention of local heritage and culture operating in architectural and engineering design industry (Zhao, Zuo, Zillante, Zhao, 2012:363). Chinese culture is largely different from the culture of western countries. Lack of assessment of cultural differences can lead to conflicts between the local clients and the foreign company.

3.3. Opportunities for European companies in China

Opportunities for European companies in China are provided by a growing demand and initiatives that are included in 12th Five-Year Plan, as well as more than 1.3 billion potential customers who are living in China. The GDP of China grows at least 8% per year in 21st century and there are more than 1.3 billion potential customers in China; domestic demand is growing and infrastructure projects laid out in 12th Five-Year Plan will help to sustain its growth (OECD, 2012: 175-176).

Regarding the 12th Five-Year Plan, China is going on to spend 1.5 billion dollars (USD) in key-technologies like nuclear power, high speed railway systems, aerospace, energy efficiency, environmental friendly technologies, biotechnologies and information technology (Pollmann, 2012: 3). China's 12th

Five-Year Plan provides for rebalancing the economy by encouraging domestic consumption, developing the service sector, shifting to higher value-added manufacturing and a green economy, conserving energy and cleaning up the environment. These initiatives give opportunities for European companies in the Chinese market.

3.4. Threats for European companies in China

The threats for the competitiveness of European companies in China are diversity among regions in China, government intervention and a constantly changing competition environment. The government plays a critical role in the Chinese market both with the regulatory system, and there are state-owned companies in many industries affecting overall competition. The Chinese market is highly competitive. There is a high concentration of foreign MNCs in the Chinese market and dynamic competition from local companies. Chinese local companies are strong in the domestic market and they challenge foreign companies with low costs, wide distribution channels and managerial flexibility (Chang, Park, 2012: 2-4).

Climatic conditions in China vary significantly because of its vast geographical area. For instance, for the construction industry it means that companies should be more cautious of local conditions and technical standards and the consequences on the design concept and materials used (Zhao, Zuo, Zillante, Zhao, 2012: 363). China consists of heterogeneous regional markets with different income levels, different tastes and business practices (Chang, Park, 2012: 13).

4. CONCLUSIONS

This study characterises the competitiveness of companies from the European Union in the Chinese market, using a SWOT analysis. The study shows that the competitiveness of European companies in China is insufficient because the European Union has an extensive negative trade balance in trading with China (-153.49 billion euro in 2010) and there are numerous weaknesses in the competitiveness of European companies in China.

The weaknesses of European companies' competitiveness in China are difficulties in understanding the Chinese heritage and culture and difficulties in entering into the Chinese market. The strengths of European companies in China are innovative and technological potential, international competitiveness, internationalisation

strategies and exports of services. Opportunities for the competitiveness of European Companies in China are the growing demand and more than 1.3 billion potential customers in China, as well as initiatives included in the 12th Five-Year Plan. Threats are the constantly changing competition environment, government intervention and diversity among regions in China. Competitiveness is a dynamic phenomenon, and therefore the competitiveness of European companies in China has to be studied theoretically and empirically in the future.

BIBLIOGRAPHY

Bontempi, Maria Elena and Giorgio Prodi (2009), “Entry strategies into China: The choice between Joint Ventures and Wholly Foreign-Owned Enterprises: An application to the Italian manufacturing sector”, *International Review of Economics and Finance*, Vol. 18, No. 1, pp. 11-19.

Bulis, Aldis and Roberts Skapars (2012), “Competitiveness of Latvian companies in People’s Republic of China”, *Humanities and Social Sciences: Latvia*, Vol. 20, No. 1, pp. 23-33.

Chang, Sea-Jin and Seung Ho Park (2012), “Winning Strategies in China: Competitive Dynamics Between MNCs and Local Firms”, *Long Range Planning*, Vol. 45, No 1, pp. 1-15.

Chen, Xiangdong and Guido Reger (2006), “The role of technology in the investment of German firms in China”, *Technovation*, Vol. 26, No 3, pp. 407-415.

“China” (2012) (in: *OECD Economic Outlook*), Vol. 2012, Issue 1, pp. 175-178.

Eurostat (2012), *International Trade Database*, http://epp.eurostat.ec.europa.eu/portal/page/portal/international_trade/data/databases [Accessed 13.02.2012]

Eurostat (2012), “EU27 exports to China up by 21% and imports by 5% in the first ten months of 2011”, *Eurostat Newsrelease*, 23/2012, http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/6-13022012-AP/EN/6-13022012-AP-EN.PDF [Accessed 15.07.2012]

Kao, Chiang, Wann-Yih Wu, Wen-Jen Hsieh, Tai-Yue Wang, Chinho Lin, Liang-Hsuan Chen (2008), “Measuring the national competitiveness of Southeast Asian countries”, *European Journal of Operational Research*, Vol.187, No.2, pp. 613-628.

Malakauskaite, Asta and Navickas Valentinas (2011), “Contribution of Clusters to the Competitiveness of Companies: Revelation and Evaluation”, *Engineering Economics*, Vol. 22, No. 1, pp. 50-57.

Man, Thomas W.Y., Theresa Lau and K.F.Chan (2002), “The competitiveness of small and medium enterprises: A conceptualization with focus on entrepreneurial competencies”, *Journal of Business Venturing*, Vol. 17, No. 2, pp. 123-142.

Pollmann, Olaf (2012), “Quick and sustainable growth: European and Chinese developments”, *Society and Economy*, Vol. 34, No.1, pp. 3-11.

Zhang, Sufang (2012), “International competitiveness of China’s wind turbine manufacturing industry and implications for future developments”, *Renewable and Sustainable Energy Reviews*, Vol. 16, No. 6, pp. 3903-3909.

Zhao, Zhen Yu, Jian Zuo, George Zillante and Xiao Jing Zhao (2012), “Foreign architectural and engineering design firms’ competitiveness and strategies in China: A diamond model study”, *Habitat International*, Vol. 36, No.3, pp. 362-370.

Zhu, Yanmei, Xinhua Wittmann and Mike W. Peng (2011), “Institution-based barriers to innovation in SMEs in China”, *Asia Pacific Journal of Management*, DOI 10.1007/s10490-011-9263-7