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CONNECTIONS BETWEEN SME'S – CONSIDERATIONS FOR FUTURE MOBILISATION OF THE SMALL TO MEDIUM ENTERPRISE SECTOR

**Submission to CHINAFTA
June 13th 2005**

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Executive Summary:

As recently stated by the Central Communist Party (CCP) the private sector in China is set to overtake the foreign direct investment (FDI) sector at a major player in the future as one of the fastest growing business sectors. The emergence and rapid growth of the SME sector could well be of great benefit to the Australian SME sector if there is a pathway and clearer process for development of this sector between the two countries. Clearly the SME sector in both China and Australia require capacity building and mobilisation strategies if they are to move into this competitive and growth market. The benefits to Australia of placing an emphasis on the SME sector could be to provide private business owners and entrepreneurs' with strategies to build confidence in the support network and pathways for their initiatives. Through trialling, mapping, modelling and documenting processes, mobilising strategies can be tested and developed in a blueprint for future SME development in the region. Through capturing current processes and knowledge, skills and attitudes of the SME owners in the respective countries a master process of a typical SME building a successful enterprise can be tapped to ensure efficient capacity is built in this sector. This submission will firstly identify the stakeholders in the sector that could be part of some research, trial and mapping or modelling process and secondly provide a pathway to develop the necessary strategies required to meet the goal of developing the SME sector in the two countries.

Preamble:

Drawing from an expert from the recent FTA report this submission aims to build on the development of the service sector between Australia and China, "*China is a significant export market for Australian services exporters and is already Australia's largest market for student enrolments. The market potential remains enormous as the Chinese economy and disposable*

incomes continue to grow. Australian services exports have more than trebled over the past decade, reaching almost A\$1.3 billion in 2004, driven by growth in education, tourism and transport services. China was our seventh largest services export market in 2004. China's demand for services is strong, fuelled by increased economic growth, the growing sophistication of the economy and the increasing disposable incomes of the population. "With 10 per cent of the Chinese population now estimated to be entering the middle class, demand for professional services is expected to grow rapidly." Warwick Smith, President, Australia-China Business Council, 11 March 2005.....FTA negotiations would provide opportunities to seek improvements in market access conditions and to explore ways to address the operational difficulties confronting Australian service providers in China.

Assumption:

It is assumed that the reader is fully aware of the history and the reforms that underpin the development of small to medium business enterprise (SMEs) in China.

Discussion:

Since the explosion of growth of the small to medium business sector the popularity and success of many participants has resulted in this sector being of major importance to the overall economic development of China. A considered FTA would surely need to make provisions for this sector by demonstrating processes and procedures that assist to mobilise businesses in these industries. This submission will argue that serious consideration is required to foster relations and engage in this sector to strategically position future opportunities within the countries.

In China the operators of this sector can come from individuals who are Returning Chinese, Unemployed, Privatised State Owned Enterprise operators or well coordinated and networked communities such as township enterprises. It is well known the operators are active in the marketplace and flexible to adapt to the changes currently being experienced in the growing market in China. As these operators have the knowledge and networks to adapt and expand and to take advantage of the opportunities presented in this dynamic marketplace it is important to have, as a minimum, an understanding of the processes and principles needed to move into this sector.

Currently Australian SME's either seek a Joint Venture partner or attempt to 'set-up' a representative office through the network and various assistance offered by the Australian infrastructure. Other methods of market entry have of course been attempted. Some ventures are more popular and often the 'war stories' remain largely untold. As Australian businesses

continue to either have success or fail in China, so many of these stories are not documented. These stories could provide a blueprint to the future development of a market entry model for business development in the service sector in China.

Furthermore the development of the service sector in China is developing in conjunction with other sectors. Practically, this means that the service sector has often emerged as a result of a request from foreign direct investment or from quick expansion of a supply chain that includes FDI companies. The market entry model would then need to consider different modes of SME start up for services firms and a historical research perspective would be helpful to provide a foundation for the blueprint.

It is also important to consider the network as a major influence upon development of this sector. A network analysis is critical to provide some practical tips about access to the marketplace that may well be seen as a series of conduits rather than a marketplace. This network consideration aims to provide more than an analysis as it will uncover the cultural nuances that dramatically effect the legal and politically regulations required to start up a SME.

SME owners in China are also expanding their businesses domestically through geographical expansion. They are well connected to gain relevant approvals in the major regional centres. Their network provides a major source of their income and they often learn western processes and practices from FDI companies. The physical location of many indigenous Chinese SME businesses is often on the periphery of the Economic and Technological Development Zones(EDTZ) where they operate both in the EDTZ and through and with their local network. If Australian SME's are provided the opportunity to strategically position in these networks, it could assist the development of future trade relations in other sectors apart from SME.

The process of feasibility to move forward in the planning process to assist the Australian SME service sector the opportunity to develop in China could consist of the following steps:

1. Collect data to provide a historic perspective of the development and growth of the various SME sectors in each country (including service sector, creative industries and business support services)
2. Select participants from each industry in the sector and gather information about strengths and weaknesses of conducting business in their specific industry.
3. Development numerous business models for conducting market entry and business start up in the service sector.
4. Develop a criteria list for industry members in each industry sector.

5. Choose particular industry members (using the criteria) to participate in a pilot study.
6. Test the models of process to start up and develop a service organisation as an SME.
7. Document and report on the process of model testing with a view to developing a template for market entry for SME between China and Australia.

Conclusion:

The major cost of doing business in the SME sector in China is the time taken to establish and maintain networks to start up and develop a sustainable business. As the SME operator in China is emerging as a powerhouse of the future, incentives for Australian SME's to be involved in this sector should be encouraged. The FTA negotiations aim to provide opportunities to seek improvement in the market access conditions and explore ways to address the operational difficulties confronting Australian service providers in China. The process of researching, documenting and then designing models prior to testing these for effectiveness will surely provide the FTA task force with a well prepared and strategically considered market access process for SME's.

Something about the Author:

Pamela Jackson, a consultant based in Brisbane, specialises in providing service productivity improvement for public and private enterprise. Combining marketing and general management business experience with eleven years consulting experience Pamela also has formal qualifications of MBus BBus GradCertEd DipExptMgmt AssDipBus.

Her expertise in linking the operations and human resources functions has awarded her contracts with businesses in Australia, Singapore and China. Her advisory and facilitation strengths are with business development in the context of management and marketing in a cross-cultural environment. Pamela also lectures part time with universities in Queensland.

Pamela first visited China in 1997 and since has immersed over 400 people for potential business development activities. Her client list and success stories as a small business are available however in 2004 Pamela obtained a grant from the Australian China Council to access stories from small business entrepreneurs in Suzhou. The stories collected provide the basis for the discussion to CHINAFTA that is attached. The broader aim of this project is to mobilise and capacity build SME operators in both Australia and China.