



QConcepts

CONNECTIONS BETWEEN SME'S

Submission to CHINAFTA

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Executive Summary:

Taking a position from the **Small to Medium Business (SME) sector in China and Australia** with specific reference to the emerging business support service industry the following information supports an earlier discussion held with CHINAFTA representatives in Brisbane in 2004. The benefits to Australia of placing an emphasis on the SME sector would provide private business owners and entrepreneurs' confidence that there is support and a pathway for their initiatives. As SME's are one of the fastest growing business sectors in China, currently, SME owners are well placed to assist trade development in the future. The knowledge, skills and attitudes of the SME owners in the respective countries should be tapped to ensure capacity is built in this sector.

Preamble:

In day-to-day operations in Australia and China the SME activity may often be undervalued because of the comparatively small contribution it offers to the countries overall economic status. As Foreign Direct Investment utilising Economic and Technological Development Zones is the widely believed model for economic development in China, SME's may not provide the same potential for bottom line profits as other industries however, 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.

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 (SME's) in China.

Discussion:

SME development in China is now surging in popularity and success. **Returning Chinese, Unemployed and Privatised State Owned Enterprise** have provided many of the participants in this sector. The **tertiary sector** offering business support services is now strategically positioning and the members of this sector are motivated, focused and striving to be successful. They are **active** in the marketplace and **flexible** to adapt to the changes currently being experienced in this market.

Indigenous Chinese in SME's plan strategically less than five years in China, as they are ready to **adapt** and **expand** to take advantage of the opportunities presented. The SME's are expanding in number however more importantly the size of the individual SME's is also extending as they learn about business practice and over time, create more opportunity for their business. This could be due partly to the confidence and knowledge of the SME ability to deliver however the owners are quickly gathering the knowledge and skills to 'do business' in this sector with FDI companies domestically and internationally.

In answer to the commonly asked question "Will FDI in China decline in the future as SME's grow?" could be considered as the local indigenous Chinese learns how to conduct business in China the growth of SME's will be at the detriment of continued growth of FDI operations. Therefore SME's will provide another option as a **market entry strategy** for Australian investors. SME's, through their strong network capability will help mobilise the "push to the west". Therefore it is important to be active in the business support sector as it mobilises other sectors. An FDI operation has a regular need for stationary, office fit out, logistics, staff meals, housing relocation and employment. Indigenous Chinese SME's offer these services and the businesses operators are learning western business methods. There is a need to be involved with the Chinese SME's and Australian SME's could provide the potential through an incentive based approach linked with SME's in China.

At present FDI companies are providing the platform of training and idea generation for SME's through observation and copying of concepts. SME's are growing in number and expertise. Perhaps the model of economic development in China from Ireland and Wales could be considered where an **entrepreneurial model** was cast and a collaborative approach was facilitated. Interestingly during 2004 a large contingent of Irish SME owners entered the Yangtze Delta region of China.

A large percentage of SME's in the Yangtze delta basin are run by either **Returning Chinese, Unemployed and Privatised State Owned Enterprise**. Could the owners of some of these private businesses be future leaders in China? Certainly the returning Chinese with foreign experience are well connected and many privatised SOE's managers are well positioned with superior internal procedural knowledge and networks. As these groups have both foreign and internal knowledge it is important to have a presence in this sector for **strategic purposes**.

SME owners are expanding their businesses domestically by opening more locations and then trading internationally. They are **well connected** to gain licences in the major regional centres of Shenzhen, Shanghai and Beijing. Their **network** provides a major source of their income and they learn from FDI companies. SME's do not prioritise business with FDI companies over business with their own network. The physical location of many of these businesses is on the periphery of the Economic and Technological Development Zones were they operate in the EDTZ but also in the local network. If Australian SME's are provided the opportunity to position in these networks, strategically, this could assist the development of future trade relations in many sectors.

Conclusion:

The major cost of doing business in the SME sector in China is the time taken to establish and maintain networks however the benefit of this future sustainability of FDI and SME business. The SME operator in China is emerging as a powerhouse of the future and incentives for Australian SME's is recommended.

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 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 small business entrepreneurs in Australia and China thus building trade relations.