



Foreign firms eye China's rural markets

Foreign multinationals in China looking to expand are gearing up for its rural markets. Where are the opportunities and will the government facilitate their efforts?

Foreign multinationals are setting their sights on China's countryside, enticed by strong economic growth and favourable government regulations, says Andrew Cainey, Managing Director for Greater China at management consultancy Booz & Company.



Foreign companies that started their businesses in China's tier one and tier two cities "see the need and the opportunity to move down and meet the rest of the demand in China, which is growing so rapidly", says Cainey, who has been based in Shanghai since 2005.

Indeed, Booz & Co expects the countryside market, which includes lower-tier cities and rural areas, to grow the fastest in the next decade.

For its part, Beijing is encouraging foreign firms to set up shop in the countryside, as it would foster economic growth and reduce the economic

disparities between the urban and rural areas. Towards this end, the government has been providing favourable regulations and financial incentives to entice domestic and foreign companies to operate in rural areas with relatively smaller populations of half a million people to a million people, Cainey adds.

"As multinationals seek to move into these other markets that are rapidly growing markets, they will be encountering new competitors who are already there," says Cainey.

"They may not have heard of these companies before, but they will find them to be fierce and aggressive competitors. So multinationals that are seeking to move into these new markets will have very clear value proposition, products, delivery systems that meet the needs of those segments, often at lower cost.

"But we certainly see a lot of opportunity there, in medical equipment for example, in consumer products, in automotive, a wide range of businesses. There is opportunity to go in there and compete on the same turf as the Chinese."

While some foreign companies have succeeded in China, others have found it difficult to thrive. The difference between succeeding or failing, says

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Caine, is having the ability to understand “the local context, the differences, the alignment with some of the government development objectives for the country and the distinct needs of the customers there”.

And while many major foreign multinationals are looking to move “much more broadly” into China’s countryside, to succeed there will require companies to adopt approaches different to those they have taken in cities like Beijing and Shanghai, Caine told INSEAD Knowledge.

Despite Beijing’s encouraging signals to foreign companies, many are bemused about China’s openness to foreign investment, with even the European Chamber of Chamber recently questioning China’s stance, Caine notes. And although China has always pursued a strategy of building its own economy and the capabilities of its domestic companies, there are still major opportunities for foreign firms in China, he adds.

Asked what he thinks about General Electric CEO Jeff Immelt’s recent claim that China is increasingly hostile to foreign multinational firms, Caine says: “I imagine there’s a range of issues he’s touching on around China’s openness, around business environment in the US, which reflects some of the questions still around the indigenous innovation policy and what form that will actually take.”

I think similarly there’s now been a set of quite responsive statements by the Chinese around taking into account the needs of global business, so it will be an ongoing discussion to make sure that China remains an attractive place for foreign business, which I believe is important to the Chinese. And that the Chinese see themselves developing successful enterprises meeting the needs of their customers, the consumers and their population.

Andrew Caine of Booz & Co, Greater China, spoke to INSEAD MBA students in Singapore taking part in a China Strategy MBA elective.

This article was written by Kevin Tan based on an interview for INSEAD Knowledge.

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