BUSINESS SWEDEN

THE SWEDISH TRADE & INVEST COUNCIL

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EXECUTIVE GLOBAL INSIGHT

CHARTING NEW WATERS

How Chinese companies are redefining competition in the Global South

A NEW WAVE OF CHINESE COMPETITION

Strategic investments, multi-year government directives and a renewed entrepreneurial drive are propelling the People's Republic of China's economic growth and industrial capabilities towards opportunities outside of the country.

China's evolution from being a labour intensive and low-cost outsourcing destination to a knowledge intensive and often highly automated manufacturing powerhouse is the result of careful planning by the omnipresent state, and a strong focus on rapid iteration. The result is that the country, home to more than 17 per cent of the world's population in 2025, has over the years emerged as a viable leader across various industry segments. But that's not all.

Although international competition from Chinese companies is not a new phenomena, international observers and business leaders alike – especially outside of China – have been caught by surprise by the pace, scale and capabilities of this new wave of Chinese competition. The Global South – referring broadly to developing economies in Central and Latin America, Asia, Africa and Oceania – has become a key battleground.

As the technology gap between Chinese and western companies is narrowing in many cases, and against the backdrop of escalating geopolitical tensions and trade friction, Chinese exports have shifted away from the European Union, the US and Japan to developing economies. What's more, China is ramping up its efforts to strengthen relations and expand trade with the Global South (see previous EGI report *The Rise of BRICS+*) and disruptive impacts are likely to be felt as the decade continues.

So, what does this mean for Swedish companies doing business in the Global South? While the exact shape and form of future Chinese competition on the global stage and in the Global South is difficult to predict, it is clear that it will intensify as China's industrial capabilities continue to advance. This reality is a double-edged sword as Swedish companies need to sharpen their competitive edge and also look for opportunities as Chinese customers expand internationally.

Based on insights gathered from interviews with business leaders in the transport and industrial sectors, this report uncovers how Swedish business leaders should prepare for a new competitive playing field as China's advance pushes forward and adds new complexity in the Global South.

KEY TAKEAWAYS

- Developing economies in Central and Latin America, Asia, Africa and Oceania – collectively known as the Global South – are becoming key battlegrounds for Chinese companies. Today, China exports more goods to developing economies than to the EU, Japan and the US combined.
- The increasingly competitive landscape in the Global South comes from long-term Chinese industrial capacity building, driven by industrial policies and an entrepreneurial mindset with fast development speeds.
- Leading Chinese companies are expanding their market offerings beyond products, building strategic partner networks in new markets and, in some cases, are expanding into financing and other services.
- Swedish companies need to build on their competitiveness in the Global South by closely monitoring market changes and emerging competitors, while also strengthening local partner networks.
- The global expansion of Chinese companies should not only be viewed as a threat to the sales and growth ambitions of Swedish companies; it could also be an opportunity for growth for those who can leverage the scale and reach of the Chinese companies as their partners or suppliers.

4 STRATEGIC RECOMMENDATIONS

1

Monitor China's progress:
Closely monitor and assess China's development and implications on current and future competitiveness among competitors and customers.

2

Track geopolitical events:
Stay ahead of geopolitical developments and policies that can have short and long-term implications for competitiveness.

3

Define your action plan:
Outline ways of strengthening your internal capabilities to best address increased competition from Chinese competitors – and take action.

4

Leverage partners and networks:
Develop a strategy for how to leverage partners and other external networks in the best way to boost your competitiveness.

Read more on page 17.

SHAPING AN ECONOMIC SUPERPOWER

Since the 1980s, China has been the fastest growing economy in the world and is today a global leader in manufacturing, technology and science. Here's a look at the key development milestones.

China's economic growth and influence in the world have continued at pace and made remarkable progress. In 2018, the country's nominal GDP surpassed that of the Eurozone, making it the world's third largest economy after the EU and US. Two years later, in 2020, China achieved its first centennial goal by doubling its GDP and per capita income from 2010 levels for both urban and rural residents.

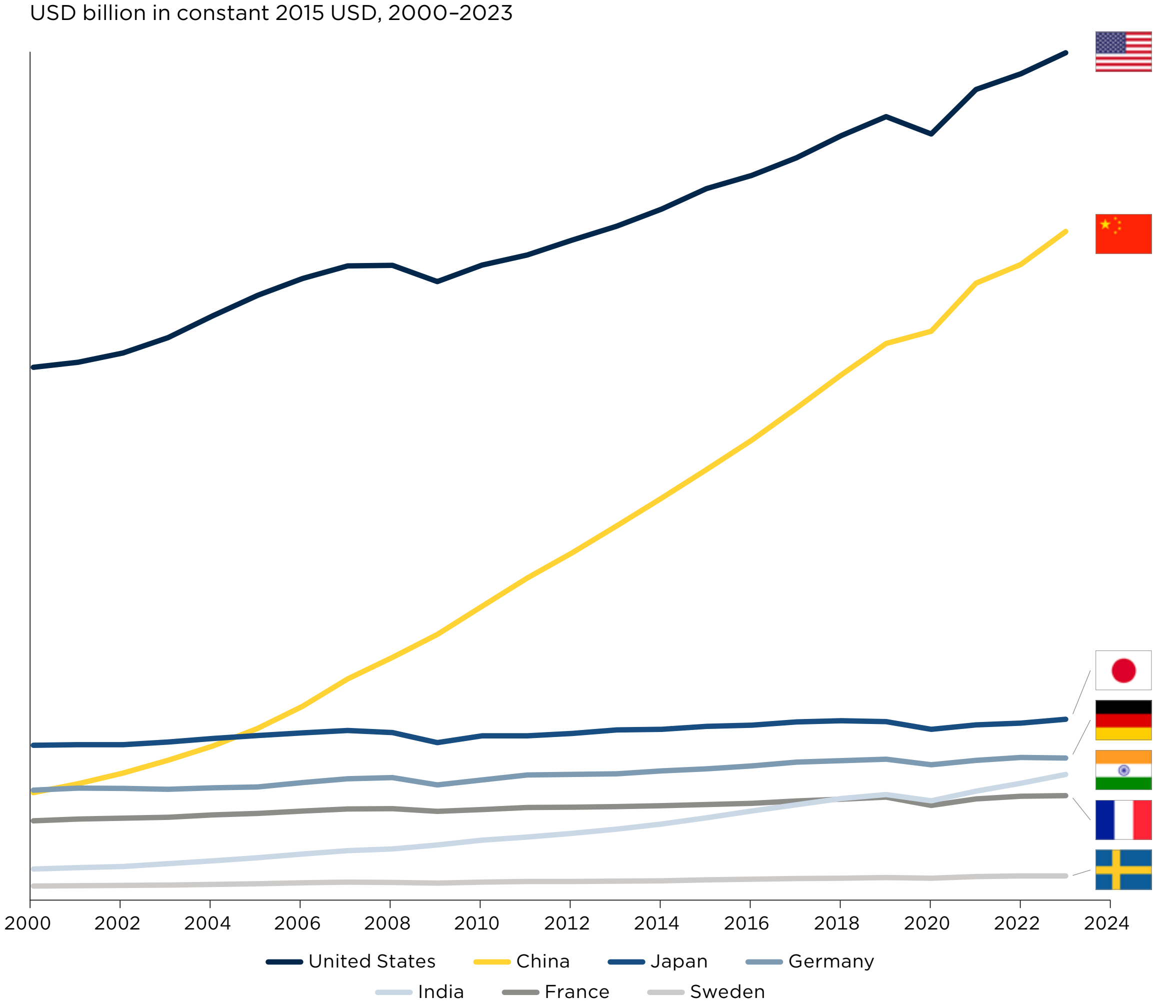
This growth has largely been driven by substantial investments in infrastructure, production capacity, and other critical areas that have helped establish China as a strategically vital market from both supply and demand perspectives. As a result, multinational companies have increasingly invested in China over decades to capitalise on the rapidly growing market potential, not least Swedish companies.

Today, numerous listed Swedish companies report that a significant portion of their global sales come from China, with many achieving over 10 per cent of their total sales in this market alone.

POLICY-DRIVEN MODERNISATION

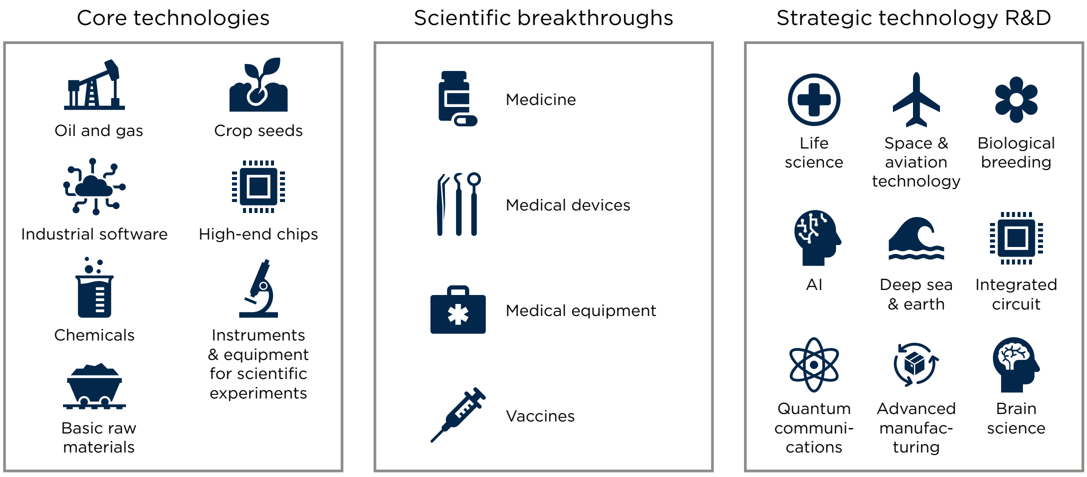
The Chinese government has played a pivotal role in efforts to accelerate the country's industrial development. Through several multi-year plans, China has outlined strategic objectives that have been followed up by detailed industry roadmaps and policies to guide national development.

GDP DEVELOPMENT IN CHINA COMPARED WITH OTHER SELECT ECONOMIES
USD billion in constant 2015 USD, 2000–2023



Source: The World Bank, Business Sweden analysis

FOCUS AREAS IN CHINA'S DEVELOPMENT PLAN



"By 2020, we will build a number of world-renowned automobile brands, and the safety performance of commercial vehicles will be greatly improved.

In 2025, the production and sales volume of several Chinese automotive brands will enter the global top 10."

China's Medium and Long-term Development Plan for the Automobile Industry (2017) (paragraph 2.3)

The multi-year plans form part of a broader strategy and are backed by substantial resources to enhance China's domestic industrial capabilities. Already in 2006, the government introduced the concept of 'indigenous innovation' as part of its 15-year *Medium-to-Long-Term Plan for the Development of Science and Technology*. Its objective was to harness the potential of homegrown innovation to become more self-sufficient and end its reliance on foreign technologies.

Policies and initiatives have since been put in place to strengthen domestic industrial capabilities, among them 'Made in China 2025' which caught global media attention when it was introduced back in 2015. Like Germany's 'Industry 4.0' and other similar initiatives in Europe and the US, China aimed to transition from a producer of low-tech goods into a technology-intensive powerhouse with value-added capabilities. The initiative remains in place and represents a significant step forward in upgrading domestic industrial capabilities.

As part of its efforts to expand outwards, China identified strategic sectors of national importance for further investment. Building on the indigenous innovation concept, seven sectors were identified in 2010 based on their estimated economic development potential, among them New Energy Vehicles (NEV).

The Chinese NEV sector has since benefited from various policies, subsidies and guidelines aimed at increasing global competitiveness. These have resulted in the rapid rise to prominence of China's global players within the value chain, such as electric vehicle makers BYD and NIO and battery specialists CATL.

Chinese companies have also made significant strides in other sectors where Swedish companies also have a strong presence. These include construction and mining (typified by heavy equipment manufacturers SANY and XCMG), industrial equipment and tools (Sinomach, Haier), medical equipment (Mindray) and telecommunications (Huawei) where products have become more sophisticated.

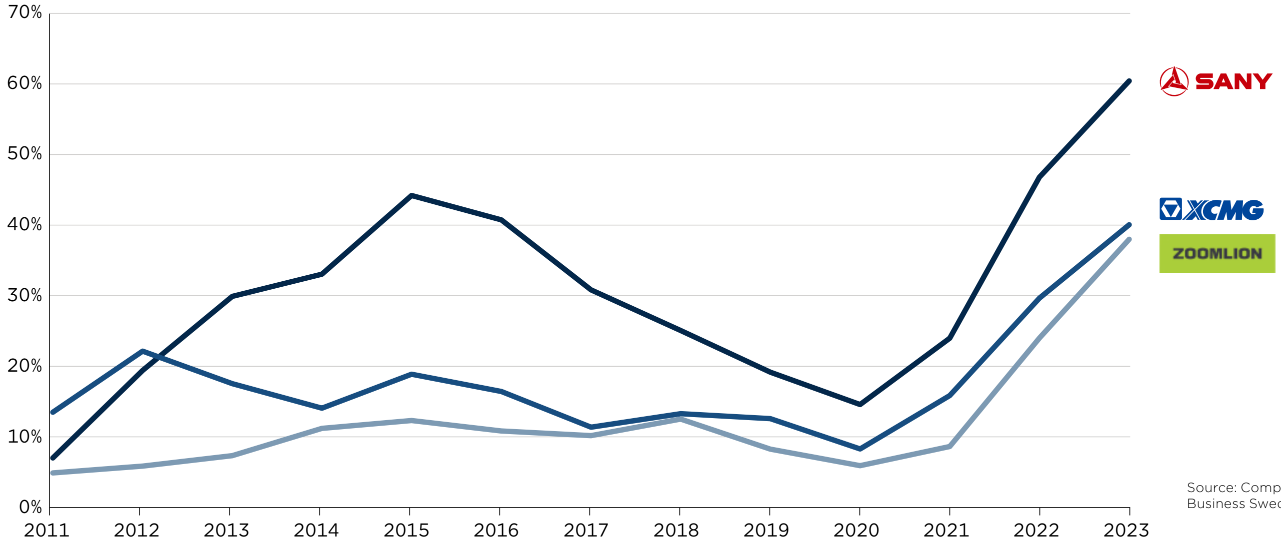
CHINA'S SEVEN STRATEGIC SECTORS OF NATIONAL IMPORTANCE FOR FURTHER DEVELOPMENT (PRESENTED IN 2010)

1. New energy auto industry
2. Energy-saving and environmental protection industry
3. New generation information technology industry
4. Biology industry
5. High-end equipment manufacturing industry
6. New energy industry
7. New material industry

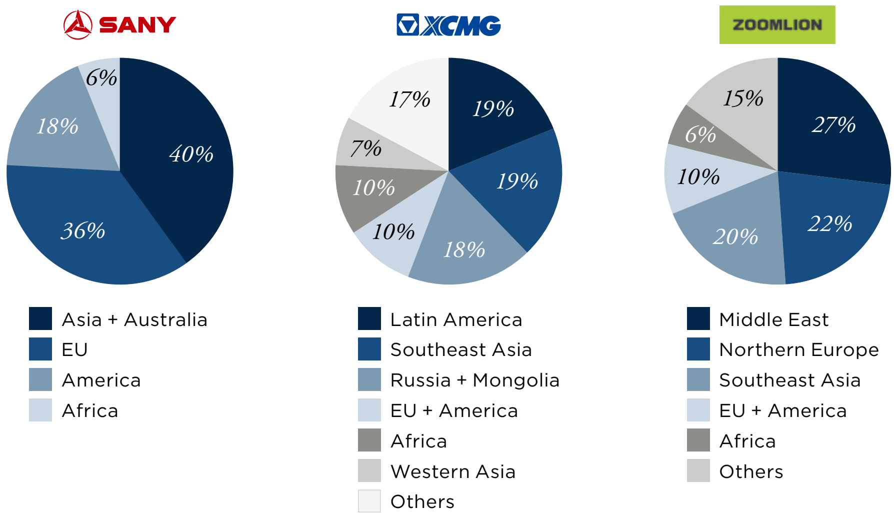
Read more in Business Sweden's report Technologies of power.

Source: China's 12th *Five-Year Development Plan for National Strategic Emerging Industries*, Business Sweden analysis

SHARE OF OVERSEAS SALES AMONG LEADING CONSTRUCTION EQUIPMENT PLAYERS
Percentage share of sales coming from overseas markets



Source: Company annual reports, Business Sweden analysis



TAKING POLICIES AND PARTNERSHIPS GLOBAL

The Chinese government has long encouraged domestic enterprises to expand internationally and to contribute to global economic cooperation and competition. Formalised in 2000 with the 'Go Out' strategy, the government actively encouraged large, state-owned enterprises to invest in exports and set up factories overseas.

China has also leveraged multiple bilateral and multilateral collaborations to support its companies in their internationalisation efforts and has established programmes to help drive outward direct investment (ODI). One example is the Belt and Road Initiative (BRI), which aims to connect China with the rest of the world via land and maritime networks.

The plan involves six corridors of activity designed to strengthen China's political influence and commercial relationships through investments in primarily developing countries.

China has also leveraged ODI to support its national strategies, such as the securement of the supply of minerals. Originating in the 1970s, China's critical mineral strategies focused initially on rare-earth minerals and have since expanded in scope as technological development has intensified.

External analyses suggest that China now has investments in projects and productions across the Global South, a move which gives Chinese companies a new springboard to internationalisation.

Over the five decades since the critical mineral strategy was launched, the Chinese government has implemented various other policy measures to support the international ventures of its companies. These measures have to date included streamlining export processes, reducing costs, enhancing efficiency and providing tax reductions or rebates to alleviate financial burdens for Chinese companies expanding abroad.

SPOTLIGHT ON FOUR KEY SECTORS

ENERGY

China launched its 14th Five-Year Plan for The Energy Sector in 2022, outlining the planned direction for 2021-2025. The aim was to help accelerate the development of a clean, low-carbon, secure and highly efficient energy system in China. Following this, a focus on hydrogen energy and energy storage was introduced with goals of reaching 50,000 hydrogen-fuelled vehicles on the roads by 2025 and 100,000-200,000 tons of hydrogen produced from renewable energy per year.

TECHNOLOGY

China is the largest destination for semiconductors and accounts for more than half of the global semiconductor market. Export controls have been imposed by the US on advanced computing and semiconductors, limiting China's ability to import advanced chips and manufacturing technology.

While Chinese companies are working to get around these controls with a clean break from US technologies, its equipment manufacturers are struggling in areas such as measurement, coating, lithography and ion implantation. China has accelerated its plan to become self-sufficient with three investment rounds amounting to a total of around 95 billion USD, to encourage breakthroughs in high-end semiconductor development.

HEALTHCARE AND MEDTECH

China is ramping up its focus on innovative medical devices, focusing on both imports while encouraging domestic companies to scale up their capabilities. Several policies and a detailed strategy have been launched, including the 2024 document Catalogue for the Guidance of [Pharmaceutical] Industrial Structure Adjustment. This encourages the innovation and development of cutting-edge MedTech technologies including new gene, protein and cell diagnostic equipment, AI-assisted medical equipment, surgical robots and other high-end surgical equipment and consumables. Chinese MedTech companies such as Mindray have sprung up as strong competitors on the global stage.

TRANSPORT

With the continuous progress of core technologies such as batteries and the continued implementation of the Chinese government's support policies for the EV industry, China's NEV market is growing rapidly. The automotive industry has gone from electrification of passenger cars to electrification of heavy trucks in the space of just a few years. In a policy document released in 2023, the Chinese government sets targets of no less than 80 per cent EV for all new buses, taxis, municipal logistical vehicles and municipal LCV in key air-pollution control regions. It also promotes zero-emission freight in the industrial sector and logistical hubs. The maritime sector is also seeing strong momentum – 60 per cent of global shipbuilding orders are expected to go to China, and China has put forth ambitious goals. Development plans such as the *Action Outline for Green Development of Shipbuilding Industry* (2024–2030) aims to make green power ships using liquefied natural gas and methanol exceed 50 per cent market share by 2025.

MOVING UP THE GLOBAL VALUE CHAIN

Chinese companies have transitioned from playing catch-up to becoming veritable tech leaders – using rapid innovation as their competitive tool.

The gap between international and domestic players has narrowed in China thanks to improvements in know-how, efficiency, scale and infrastructure. In addition, leading Chinese companies are adopting agile practices with rapid development and product adaptation cycles.

A core characteristic of the new breed of Chinese companies is their ability to combine an entrepreneurial mindset with an iterative approach to product development and quick product launches. This stands in stark contrast to the stereotypical Western mentality of striving for near-perfect products before launch.

With its historic reputation of producing low-quality products and services, this agile way of working enables much quicker development cycles. Using replacements and having engineers on site allows companies to mitigate operational issues whilst delivering product releases in a quick succession.

Intense working practices in China boost productivity and the pace of development. Employees in the country typically work longer hours and more days per month than their Western counterparts. The 996 working hour system of working from 9 a.m. to 9 p.m. six days a week accurately described the working practices in place at many Chinese companies before it was made illegal in 2021.

In all, these factors have helped many Chinese companies to shorten development time significantly compared to competitors in developed markets.

Insights gathered from interviews for this report demonstrate how development time in some extreme cases has been slashed to months, compared to years for some Western competitors. They also reveal that adaptations to tender requirements are made and delivered in a much shorter timeframe.

INDUSTRY UPSKILLING

International companies operating in China have directly or indirectly contributed to the expansion of capabilities of China's industrial sector. They have done this by employing and training local employees and suppliers in their own production lines, sales and other functions.

Traditionally, employees would leave a company for other ventures and to learn new skills. A new emphasis on upskilling has led to the emergence of new companies who, strengthened by the newly learned capabilities and know-how, have set up new competing enterprises. This is not unique to China and reflects how industries evolve in many countries, but the speed of change in China has been remarkable.

Through factors such as know-how, joint ventures, acquisitions and partnerships, hard work and a novel approach to research and development (R&D), the developmental pace of Chinese industries has exploded. In 2023, China's R&D expenditure amounted to around 460 billion USD (2.65 per cent of total GDP and an 8.1 per cent increase from 2022 levels), of which 77.7 per cent were derived from Chinese companies.

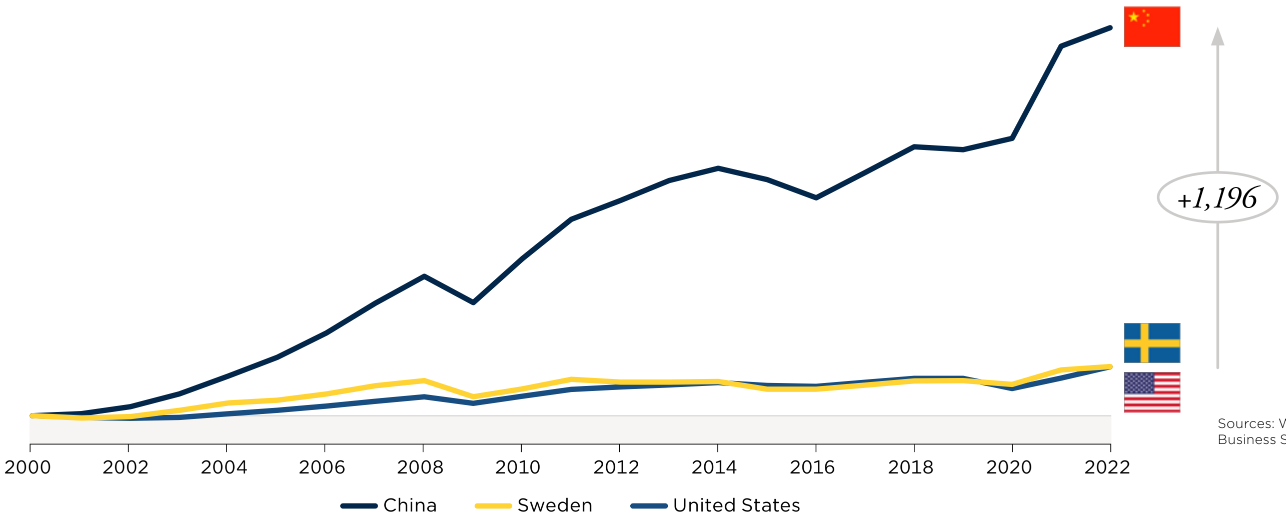
"In China they know how to fail fast and learn fast. That's why things are moving at a very quick pace."

China representative of large Swedish industrial company

"Chinese companies have a completely different speed in their product development. They work very quickly when there is a goal to work towards and launch products that may not be quite ready but make it work."

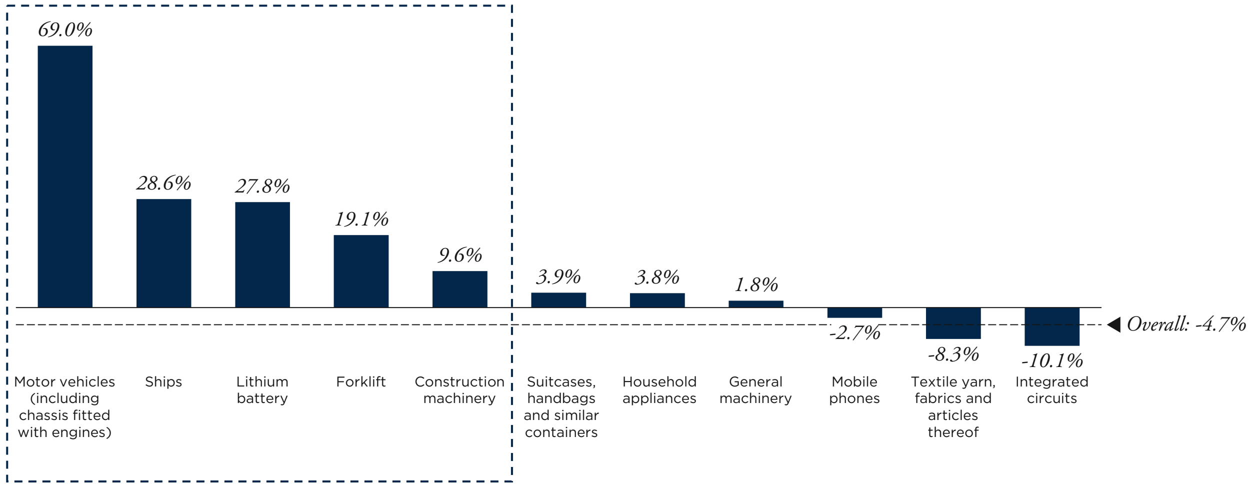
Representative of large Swedish industrial company

CHINESE EXPORTS COMPARED TO SWEDEN AND THE US, 2000–2022
Export value in current USD, index 2000=100



Sources: World Bank, Business Sweden analysis

CHINESE EXPORTS OF FINISHED GOODS (2022–2023), YEAR-ON-YEAR GROWTH



Source: Statistics from Customs of the People's Republic of China, Business Sweden analysis

As part of this development, new ecosystems and clusters have formed and entire value chains, from R&D to final assembly and use, are now consolidating.

This clustering of ecosystems results in closer proximity between suppliers and customers, enabling shorter development cycles and close partnerships with distinct vertical integration opportunities as suppliers build their business on large customers within their clusters. This helps attract talent to the clusters–both from the domestic market and from overseas. The result is increased competition and a surge in salaries for top talent. The modern metropolis Shenzhen is working to position itself as the 'City of Innovation', announcing in 2023 a list of some 30 measures to attract high-quality talent to its companies.

RAMPING UP EXPORTS

China's upgrading of domestic industrial capabilities has strengthened its export capabilities and infrastructure. Chinese exports have grown drastically over the last 20 years, surpassing the export growth in the US and Sweden by a large margin. China's imports have decoupled from growth in exports and have even shrunk as a share of GDP.

Chinese companies have increasingly looked beyond the domestic market for continued growth following the Covid-19 pandemic lockdowns, further spurred on by the slowdown in the domestic market. Factors such as improved regulatory environments, growth of industry clusters and targeted government policy support have become crucial in helping Chinese companies towards global expansion and increasing exports.

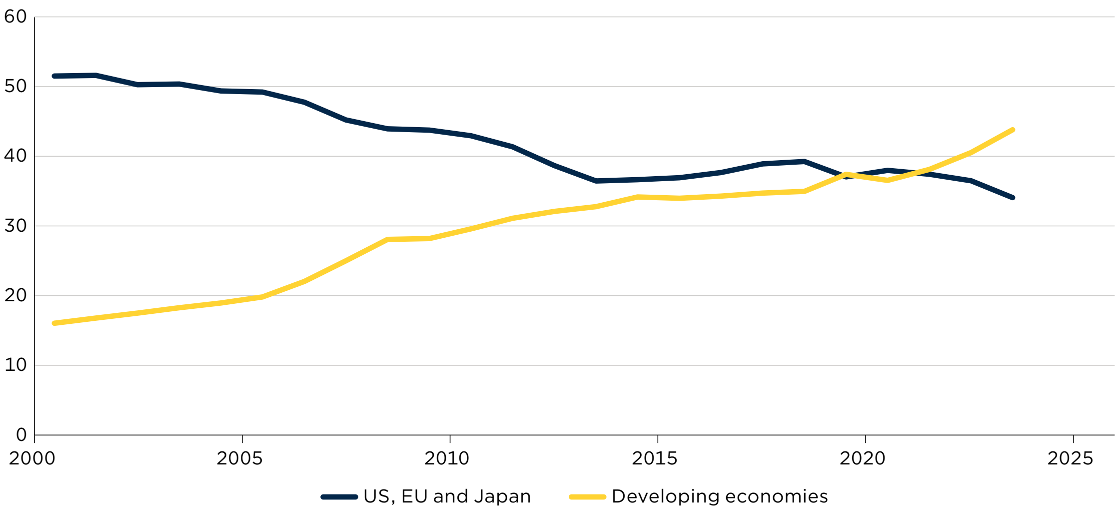
Export growth follows China's emerging role in the global supply chains and the increased export of finished goods – ranging from those sold on platforms like low-cost online retailer AliExpress to high-end manufacturing products and cars seen on streets across the developed world.

The strongest export growth is in areas where Chinese competition is increasing the most: automotive, EV batteries, industrial equipment and shipping.

"We haven't been competing in the same field, but now we do. There are companies that still make products of low quality, but also others making very good products. They have learned to source the best machines internationally while refining their craft over many years."

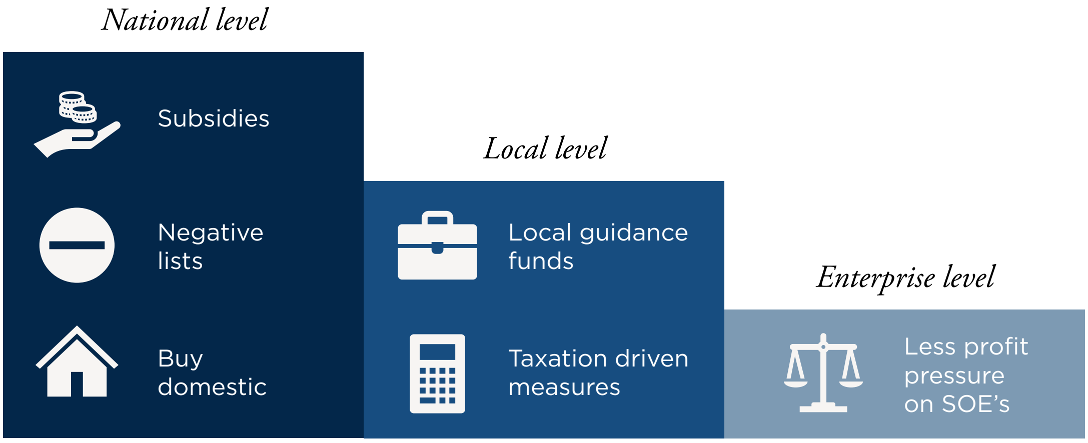
China representative of large Swedish industrial company

SHARE OF CHINA'S EXPORTS TO US, EU AND JAPAN VERSUS DEVELOPING ECONOMIES (PER CENT OF VALUE)



Sources: Macrobond, Business Sweden analysis

PROTECTIONISM OF LOCAL COMPANIES IN CHINA



Source: Business Sweden analysis

Government support has extended to Chinese exporters via a range of policies and financial support–as well as initiatives designed to protect Chinese businesses from potential losses in volatile markets. For exporting companies, this has partly come in the form of expansionary business support, subsidised loans and grants, tax incentives, export credit insurance and political risk insurance.

Chinese exports have shifted towards developing economies where the share of total exports surpassed that of exports to the EU, Japan and the US for the first time in 2019. Since then, apart from a downturn in 2020, this trend has continued, with developing economies assuming an increasing share of Chinese exports. Consequently, the Global South has become a key battleground for Chinese companies who leverage private and public investments.

Not all technologies have been part of Chinese companies' export focus as international regulations limit export potential within some areas. Autonomous vehicles often face problems when it comes to local regulations, data legislations and the availability of training data.

According to company statements, these restrictions have limited export potential and leading Chinese automotive manufacturers have since stated that they will focus on the domestic market for the initial launches of advanced autonomous driving functionality.

NEW BREED OF CHINESE COMPETITORS

The global reach of Chinese companies is well established. Both state-owned and private Chinese enterprises have been active participants in international markets and trade fairs for decades. But there is now a notable shift in their influence in global markets.

Today, large and well-known Chinese companies are not the only players to be reckoned with – smaller and more agile competitors are also emerging in significant numbers. And many Swedish companies have been caught off guard – not just by the scale of this trend, but also by the rapid pace at which developments have unfolded, even during the pandemic.

According to our interviews, perceptions around the rise of Chinese competition differ between business units in China and those overseas, as well as in company headquarters. Although not always the case, business leaders indicate that global business units and those stationed at company headquarters were more surprised by the increased presence of Chinese companies on the global stage, especially after the pandemic.

For entities in China, however, this has not come as a surprise. They have been forced to face the evolving competition and decreasing technology gap over the years in the Chinese market and have been working to find ways to compete locally.

"It was no shock with the big ones, but what has been surprising is how many companies that have become so good. They grow furiously fast."

Representative of large Swedish industrial company

CATALYST FOR EXPANSION

China's growth on the global market and enhanced competitiveness in high-end manufacturing sectors has not solely been driven by its maturing and developing industry, or by subsidies and policies, but also by a substantial domestic market. Export and international growth are also supported by subsidies and policies.

The vast domestic market has created an environment in which large Chinese companies have grown into leaders by becoming the dominating players in their local markets. With development and sales often originating in cities or provinces, expansion has involved competing against and outperforming other upcoming players. The objective has been to gain scale, volume and cost competitiveness while reinvesting into R&D and moving up the technology ladder. They have started out local and branched out to become provincial frontrunners and then national, regional and finally global leaders.

"It was like companies outside of China woke up after the pandemic, not realising that China hadn't been standing still."

Representative of large Swedish industrial company

As part of this process, emerging industrial clusters with consolidated supply chains and opportunities for vertical integrations with supplier bases in their vicinity allow for shorter lead times and opportunities for closer collaborations. Important for the local governments, these industrial hubs are commonly also set up, or attracted by local beneficial subsidies, to help strengthen the local industry with the aim of winning market shares, and hence work opportunities in the region.

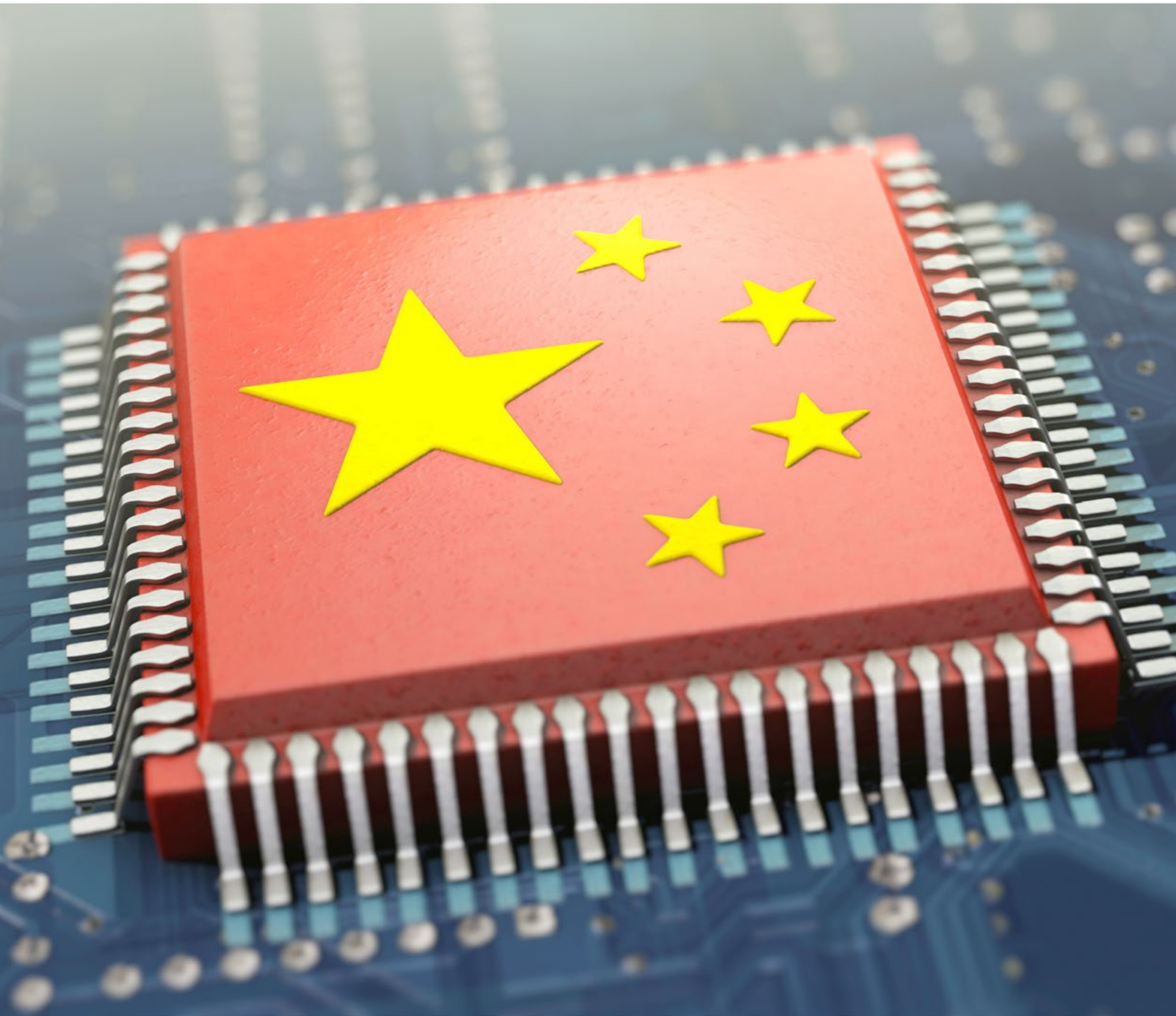
Investments have also been made to scale up capacity and volume to reduce production costs and win market shares – with generally lower profit pressure on larger private and state-owned enterprises. Instead, these companies have commonly been measured on market share gains rather than high profitable growth targets.

With a large domestic market base behind them, Chinese companies can leverage economies of scale, overcapacity through historic investment in manufacturing, and proximity to supplier clusters to produce products at a low cost. With price points often higher than those in China, further boosted by efficient infrastructure and lower freight costs as well as preferential policies and subsidies, Chinese companies can often obtain higher margins abroad than they do domestically.

While exact numbers are unavailable outside of China, Business Sweden's analysis and other reports suggest that many Chinese firms can charge significantly higher prices in their export markets compared to the domestic market for the same products – particularly in sectors such as transport.

"So far, China automakers are not deeply undercutting foreign rivals. Instead, they're maximising profits on exports by charging double or more, compared to the China price, for the same vehicles."

Reuters, *How China's EV Makers Aim to Beat Tesla, Legacy Automakers in Europe*, 2024



CHINA'S RISE IN THE GLOBAL SOUTH

In a world ruled by geopolitics, doing business in Western markets has become increasingly complex for Chinese businesses. But opportunities abound in the Global South.

Competition from Chinese companies in the developed world has been felt for a long time, as they leveraged their own establishments and sales networks to drive sales across the various regions and markets where there is demand.

But in a rapidly changing global landscape and as domestic growth has slowed, Chinese businesses have accelerated their efforts to go global not only through exports but also through extended footprints – to get closer proximity to new and existing markets, clients and other important stakeholders.

By strategically locating manufacturing hubs and expanding them around the world, Chinese companies have been able to leverage local beneficial policies and free trade agreements (FTAs) to nearshore production, but also to get around specific import tariffs as shown recently. Leading companies are also expanding their footprint beyond sales and manufacturing to leverage partnerships, networks and governmental relations to a higher degree than before.

Outward and non-financial direct investment flows from partnerships, networks and governmental relations have been supported by state-owned as well as private enterprises in equal measures in recent years.

In contrast, the geographical and sectorial focus varies by industry and market. Manufacturing was once the largest sector in Europe and the US, while construction and mining were the largest in Africa and Oceania respectively as of 2023.

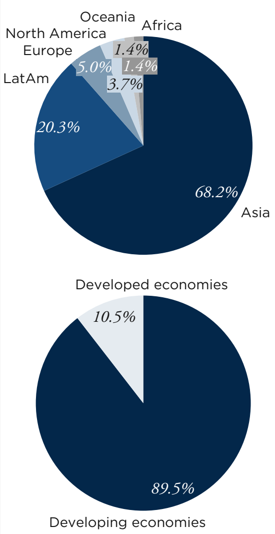
While developed markets still present many opportunities for Chinese companies, rising geopolitical tensions have made business more challenging. As such, markets along the BRI as well the Global South – in regions where China has long been active – are now attracting more and more interest from Chinese companies looking to make new investments.

Here's a brief overview of how Chinese companies are capturing market share in three key regions.

> *"Chinese companies have often entered or partnered with strong local companies, but with large Chinese capital behind them."*
>
> Representative of large Swedish industrial company

CHINESE ODI STOCK BY REGION, ECONOMY AND SECTOR

Outward FDI stock by region and economy by end of 2023



Outward FDI stock by region and sector by end of 2023

	North America	LatAm	Europe	Africa	Asia	Oceania
Manufacturing	26%	10%	30%	14%	7%	5%
Mining	20%		14%	22%	5%	41%
Finance	22%	9%	18%	12%	11%	12%
Leasing and business services	7%	43%	11%	5%	44%	18%
Wholesale and retail trade	7%	11%	6%		17%	
IT/software and IT services		14%				
Real estate						7%
Construction				35%		
Others	18%	13%	21%	12%	17%	17%
Total	100%	100%	100%	100%	100%	100%

Note: Top 5 sectors highlighted per region (rest of sectors consolidated into *Others*)

Source: *Statistical Bulletin of China's Outward Foreign Direct Investment*, 2023, Business Sweden analysis

AFRICA

Through primarily state-owned companies, China is starting to dominate the African market in several sectors in terms of investments as well as operations. China has become sub-Saharan Africa's largest trading partner, accounting for around 16 per cent of the region's imports and 20 per cent of exports. Chinese ODI to the region reached 63 per cent of the ODI concentrated in ten countries in 2020: South Africa, Democratic Republic of Congo, Zambia, Ethiopia, Angola, Nigeria, Kenya, Zimbabwe, Algeria and Ghana.

Following the launch of the BRI in 2013, Chinese investment in Africa grew from 26.19 billion USD in 2013 to 43.4 billion USD in 2020. The top three sectors receiving Chinese investment during this period were construction, minerals and manufacturing. Of the 17 mining operations in Democratic Republic of Congo that China has invested in, 15 were connected to the BRI.

Today, approximately 31 per cent of infrastructure projects in Africa requiring investments of 50 million USD or more are funded by China. The Export-Import Bank of China (EXIM Bank) has provided substantial loans to African countries for infrastructure projects, often tied to the purchase of Chinese equipment. Furthermore, this funding from Chinese banks has often been done through low-interest loans in exchange for mineral exploitation rights in African countries that are rich in resources – providing mineral security but often also opportunities for Chinese equipment manufacturers to increase sales.

In addition to funding, another approach that has been connecting mining with infrastructure is the linking of mining interests with infrastructure development promises in mineral-rich regions. By building strong consortia and capabilities, and committing to develop the infrastructure in the region, Chinese companies can position themselves as a one-stop shop for African clients, winning tenders by offering more competitive prices than their Western or African counterparts.

Often with the support of the Chinese government through activities such as high-level visits and BRI summits, contracts are awarded to Chinese state-owned contractors and financing agreements are signed between Chinese and African governments, with loans quickly provided by Chinese banks.

Some Chinese finance deals are tied to the use of Chinese contractors, who already benefit from established supply chains and labour in Africa, further boosting the Chinese presence in the region. According to European International Contractors (EIC), Chinese contractors have been known to undercut market-dependent businesses from other regions by up to 20 per cent in open competitions.

Aside from Chinese government support, another key success factor for Chinese companies within e.g. heavy machinery in Africa has been localisation. The distance from China can result in supply cycles of up to four months, which can negatively impact infrastructure project timelines if spare parts are not available when needed. To ensure reliable supply service, Chinese companies are increasingly also establishing local or regional warehouses, maintenance and service networks, as well as spare parts suppliers and networks in Africa. SANY as one example established a parts warehouse in Abuja in 2007 and built a 4S store in Lagos in 2017, integrating sales, service, spare parts, and survey (customer feedback). This has significantly shortened the supply cycle of parts and improved customer service.

Localisation efforts extend beyond operations also to products. Many construction machinery providers have introduced electronic fuel injection (EFI) engines with Euro III emission standards, which have become popular in many countries. Meanwhile, the low quality of local fuel in Nigeria poses challenges that lead to frequent blockages in EFI engines. SANY continues to export excavators with Euro II direct injection engines to Nigeria as they are better suited to the local market conditions.

"In Africa, they work a lot with availability – products on the ground, good financing so they can be bought, and good quality in relation to price."

Swedish industrial company

CASE

MOMBASA–NAIROBI STANDARD GAUGE RAILWAY

A key benchmark project under the BRI in Africa is the Mombasa–Nairobi Standard Gauge Railway which was completed in 2017. This 472-kilometre railway, built to Chinese standards and using Chinese technical equipment, was financed by EXIM Bank and constructed and operated by China Road & Bridge Corporation, a subsidiary of China Communications Construction.

LATIN AMERICA

China has emerged as a crucial trade partner for several Latin American markets and is the region's second largest trading partner after the US. Simultaneously, China is the leading source of imports for nine markets in the region (among them Brazil, Argentina, Chile, Colombia, and Peru are some) and 22 countries in Latin America and the Caribbean (LAC) have signed onto the BRI.

In 2022, trade between Latin America and the Caribbean and China reached record levels. In 2022, imports from China amounted to approximately 265 billion USD, dominated by electrical machinery and equipment (23 per cent), machinery and mechanical appliances (14 per cent), and motor vehicles and parts (8 per cent).

Most recently, investments have moved towards manufacturing, strategic materials such as lithium and rare-earth minerals and renewable energy. Over the period of 2020–2023, the raw-materials sector represented 34 per cent of the Chinese investments in the region, down from 81 per cent of the investments in the early 2000s [1], where mergers, acquisitions and strategic partnerships were notable levers.

Chinese EV manufacturers face growing pressures in the EU and the US, forcing them to look to Latin America as an export destination as well as production hub. Leveraging local government support and incentives, Chinese EV manufacturers have benefited from local policies, tax incentives, subsidies and infrastructure development to encourage EV adoption in the region.

As of 2022, 35 per cent of total Chinese ODI in Latin America was directed towards the EV industry. Significant investments in EV and battery manufacturing were recorded in Argentina, Brazil and Mexico – three countries with robust industrial sectors and high import tariffs. For other markets such as Chile, Colombia and Peru, the strategy among Chinese players has mainly focused on exporting equipment and products.

Growth for Chinese companies in Latin American markets has been further supported by efforts to strengthen networks with service partners,

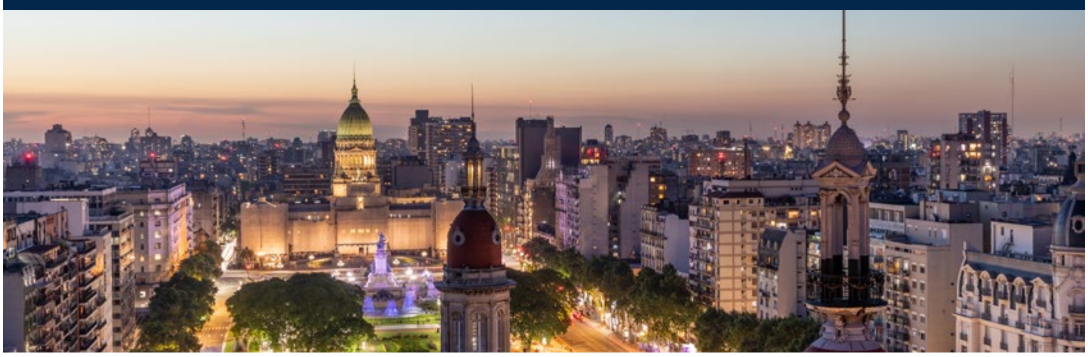
CASE

LITHIUM PRODUCTION IN ARGENTINA AND BOLIVIA


China has long had interest in the Latin American mineral reserves and some of the larger deals in recent times have been focused on the Argentinean lithium sector. A notable example is battery producer Ganfeng Lithium's acquisition of Argentinean company Lithea in 2022 for 962 million USD to develop the Pozuelos-Pastos Grandes project. Another is Zijin Mining Group's acquisition of Neo Lithium for 737 million USD to exploit the Tres Quebradas deposit [1].

Strategic partnerships have also been leveraged. In November 2024, battery manufacturer CATL confirmed a 1.4 billion USD investment to help develop Bolivia's untapped reserve of lithium, building on a strategic partnership deal signed between Bolivia's state-run lithium company and a consortium that included CATL. As part of that partnership, CATL committed to invest over 1 billion USD in the first stage of the project in exchange for rights to develop two lithium plants with a combined annual capacity of 50,000 tons of battery-grade lithium carbonate used to produce Li-ion battery cathodes. Although progress since then is uncertain, it still shows the ambition and scale of Chinese investments and interests.

The low threshold for establishing factories in Latin America has presented opportunities for Chinese companies looking to expand in the region to reduce costs, localise supply chains, and cater to specific market needs. Free trade agreements with Latin American countries and parts of North America have further motivated local production for these regions in the past, although the latter has been recently undermined by the Trump administration's introduction of tariffs.



[1] From the 2024 *Dialogue Earth* article *How is Chinese investments in Latin America Changing?* in *Dialogue Earth* by Javier Lewkowicz
[2] From the 2024 *Dialogue Earth* article *How is Chinese investments in Latin America Changing?* in *Dialogue Earth* by Javier Lewkowicz

CASE

MANUFACTURING IN MEXICO

In an interview in 2023, a deputy commercial director at industrial equipment manufacturer Zoomlion Brazil revealed that the company was looking to move a part of its aerial access equipment factory to Mexico. Mexico was deemed to offer smoother entry into the US market than China due to 'brand issues' and benefits from the USMCA agreement.

Source: Construction LatinoAmericana

financial solutions partners and other strategic alliances. Financial support is recognised as a key success factor for Chinese companies in CAPEX-heavy industries. For instance, XCMG, as part of its regional expansion strategy, established Banco XCMG in Brazil in 2020 and a financial leasing company in Chile in 2024 to provide financing solutions to local customers and neighbouring markets.

This holistic approach has enabled Chinese companies to offer comprehensive solutions comprising financing, after-sales support, maintenance and spare parts availability, thereby building trust and customer satisfaction.

Local product adaptation has also been seen as key competitive advantages amongst the Chinese players. Given Latin America's status as the third-largest pick-up truck market in the world, Chinese automobile companies such as BYD, Changan, JMC and Maxus (SAIC) have focused efforts on pick-ups, an uncommon product in the domestic market. Chinese bus manufacturers have also demonstrated the ability to quickly adapt products to meet local tender demands.

SOUTHEAST ASIA

Southeast Asia has become a natural extension of Chinese companies looking to jumpstart their international expansion, partly due to geographical and cultural proximity.

Southeast Asia has also become the target destination for China's greenfield investments given the large potential in the region of renewable energy and the supply of critical minerals. China has established a strong presence in Southeast Asia by supporting market development while also working to secure strategic interests within areas such as minerals.

Outward-directed initiatives have facilitated numerous Chinese-funded and owned projects in the region, particularly in mining, energy, construction and infrastructure–where most large projects are financed by the Chinese government. As part of China's strategy to secure critical mineral resources, it has invested heavily in countries such as Laos, Indonesia and Cambodia where most mining concessions today are operated by Chinese or Vietnamese contractors, who often bring machinery, equipment and labour from their home countries.

Southeast Asia is also becoming a key element of Chinese expansion strategies considering the growing geopolitical uncertainties and friction between China and the West. In response to rising trade barriers targeting products made in China, Chinese companies are also expanding their manufacturing operations to Southeast Asia to circumvent trade tariffs. This has led to countries such as Malaysia urging Chinese companies in late 2024 to avoid using it as a base for circumventing US tariffs following further increased export restrictions and concerns about a US-China trade war.

The choice of location for footprint expansion and investment varies by industry. Thailand, Indonesia, Vietnam and Malaysia stand out for some of the more prominent investments. Leveraging the experience obtained from manufacturing in low-income countries is still common, where production requires lower capital expenditure and where cheap materials, and labour can be used.

The transport and EV segments have recently seen a boost in Chinese investment. Thailand has become one such destination partly due to its government subsidies and tax incentives[3]. In Thailand, Chinese EV manufacturers including BYD have invested more than 1.44 billion USD to set up factories. In early 2025, BYD opened its first EV plant production hub in Southeast Asia to be used for export to ASEAN, a political and economic union of 10 states and elsewhere.

In addition to establishing their own operations, Chinese companies have also pursued mergers and acquisitions in the region, particularly in the pharmaceutical and mining sectors.

[3] Thailand has put in place subsidies and tax incentives to help the country reach its 2023 target of converting 30 per cent of its annual production of 2.5 million vehicles into EVs.

CONCLUSION

GETTING READY FOR THE CHALLENGE

Rising competition from Chinese companies in developing markets brings new risks and complexities. While Swedish companies clearly need to prepare, there can also be a silver lining – new potential partnership opportunities.

China's growing influence in Global South countries is only set to intensify as its footprint expands and as geopolitical turbulence continues. But more and more international concerns around security, sustainability and unfair market conditions should also be expected.

Allegations of subsidies and overcapacity driving low prices within the EV automotive sector have prompted international debate where EU, among others, has expressed concerns and conducted investigations to create a more level playing field, resulting in import tariffs on many EV passenger cars exported from China to Europe. Since the 2024 US election, the Chinese government has announced that it is exploring how to best support its exporting companies.

Protectionism through means such as leveraging import tariffs, together with global geopolitical friction, will likely continue to increase and impact trade. Tech conflicts have already accelerated China's determination to become self-reliant and develop domestic capabilities.

China is now trying to break through technology bottlenecks in areas such as high-end semiconductors, precision instruments, advanced AI and industrial robotics.

While Chinese companies have largely managed to avoid tariffs by leveraging their ever-growing global footprint, the new US administration and a tougher stance in the Eurozone means that indirect Chinese exports to the West will likely be more closely scrutinised moving forward, with implications for China's global footprint.

Although the scale of China's domestic market and support via subsidies have generated a growth engine, the question remains how many companies will remain successful in the long run. How many will disappear when the influx of money tapers off and market share gains drop?

HOW ARE SWEDISH COMPANIES IMPACTED?

Leveraging scale, innovative capabilities, growing competitiveness, and by strengthening efforts in existing and new markets, Chinese companies are increasingly looking to position themselves as key players globally. And in the Global South, the EU is trying to catch up in terms of developing governmental relations, funding and investments.

A milestone took place in late 2024 when the EU finalised the Mercosur trade agreement with the governments of Argentina, Brazil, Paraguay and Uruguay. Following ratification, the deal is expected to impact the export and import of goods to and from the EU to a value of up to 1,300 billion SEK per year.

The European Global Gateway also has the potential to strengthen European competition in the Global South with 300 billion EUR, to be raised by 2027. This is expected to finance high-quality and sustainable infrastructure across Asia-Pacific, Latin America and the Caribbean and Africa – the latter of which is expected to receive half of the funds.

"There is a risk with increased duties and tariffs from the EU and the US that Chinese companies need to offset volume to other markets."

Representative of large Swedish industrial company

As leading Chinese players increasingly focus on the developed world and the Global South, competition is not deemed to lessen in the short term but rather continue to grow. However, China's growing competitiveness is not only necessarily a downside risk for Swedish companies. Many large Chinese players have strong manufacturing and procurement bases in China.

Although many of these, especially state-owned enterprises, may prefer domestic suppliers due to policies such as Buy Domestic, foreign companies in the value chain who succeed in becoming suppliers can reap major rewards from China's scale and global reach. Much like the positive gains of becoming an OEM for leading EU or US manufacturing firms.

ACCESS TO INNOVATION

Rapid development cycles in China not only present a new type of challenge for global competitiveness, but also many important learnings. While certain development processes cannot, and should not, be changed, Swedish companies can still learn valuable lessons from Chinese practices and tap into the Chinese innovation ecosystem.

These benefits can later be integrated into local or global development processes to strengthen competitiveness. That's why Swedish companies need to identify how they can leverage their own China operations and experience from dealing with competitors in China and from serving Chinese customers.

Many Swedish companies with a local brand portfolio have been reluctant to let these companies expand internationally due to fears of cannibalisation on their other premium brands. But rather than viewing it as a threat, this can be an opportunity to rethink competitive strengths which also improves prospects when targeting markets in the Global South.

When it comes to the green transition, many Global South countries have set ambitious sustainability targets as part of their climate goals. In this context, Swedish companies should leverage Sweden's position as a pioneer in sustainability to align with the Global South's aspirations for development and building more sophisticated economies. This means promoting innovation, develop relationships, emphasizing environmental and social factors where it adds value in tenders and deals.

4 STRATEGIC RECOMMENDATIONS

To navigate the evolving landscape, adapt to new Chinese competition and capture opportunities, Swedish companies should:

1 MONITOR CHINA'S PROGRESS

Closely monitor and assess China's development and implications on current and future competitiveness among competitors and customers.

Understand how these developments could affect the future competitiveness and direction of Chinese industries, considering their industry plans and actions. Lastly, carry out risk and opportunity assessments for both Chinese competitors and customers.

2 TRACK GEO-POLITICAL EVENTS

Stay ahead of geopolitical developments and policies that can have short and long-term implications for competitiveness.

Develop an understanding of geopolitical trends and how they impact your markets and segments. Identify which markets may see increased or decreased competitiveness due to factors like geopolitics, policies, tariffs, and bilateral agreements.

You should also explore how local public affairs efforts are linked to global impacts, and build the necessary capabilities within your organisation to manage complexities and potential ripple effects.

3 DEFINE YOUR ACTION PLAN

Outline ways of strengthening your internal capabilities to best address increased competition from Chinese competitors – and take action.

Leverage insights from your operations in China to compete in other markets. Assess the potential of expanding your local Chinese brand portfolio to other price-sensitive markets in the Global South.

Enhance your value proposition by offering value-added services in addition to product quality. In addition, focus on delivering what customers want without raising prices unnecessarily, such as incorporating sustainability when it provides a competitive advantage.

4 LEVERAGE PARTNERS AND NETWORKS

Develop a strategy for how to leverage partners and other external networks in the best way to boost your competitiveness. Utilise Swedish and EU trade and development programmes such as Global Gateway and leverage support from organisations such as the Swedish Export Credit Corporation (SEK) and the Swedish Export Credit Agency (EKN) to boost trade in the Global South.

It is also important that you reinforce and maintain your local partner and service networks. Explore collaboration opportunities with Chinese companies if appropriate, while considering risks related to sanctions, entity lists, and other potential negative impacts.

"Avoiding China is not the solution. Everything happens there, just like in the rest of the world, only at a faster pace. Understanding and accessing China's innovation system is often key, and you need to be present in the market to do so."

China representative of large Swedish industrial company

"Always consider what matters most to the customer and work with the advantages you have. Product and price are not the only factors at play. Chinese companies are not always successful in building up sufficient service networks and many are still very trading-focused."

Representative of large Swedish industrial company

BUSINESS SWEDEN CAN SUPPORT YOU

Business Sweden's team of advisors in Mainland China and across the Global South can help you develop local strategies for adapting to the new competitive landscape as new Chinese competition speeds ahead.

We provide tailored market insights, consultancy services and a vast contact network that will help you navigate challenges and capture new partnership opportunities across the developing world.

With a unique mandate from the Swedish government and the business sector, our global advisors offer strategic advice and practical support in more than 40 markets worldwide.

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We help Swedish companies grow global sales and international companies invest and expand in Sweden.

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