



Doing Business in CHINA

Market Overview

The eastern coastal areas of China are the core areas for national economic development, with average annual economic growth of nearly 12 percent, and contribute more than 60 percent of the overall GDP. Meanwhile, the central and western regions have showed signs of great potential. In 2007, the GDP growth rate of the central and western regions is 1.79 percent above the national average.

Thanks to China's real GDP growth and good performance in the 2007 stock market, the population of the Chinese upper class has increased by 20.3 percent. By the end of 2007, the Chinese upper class possessed 22.3 percent of the fortune in the Asia-Pacific area.

Domestic products dominate the middle and low-end markets. They mostly cater to the price-sensitive consumers in local markets. Foreign products and services are perceived as superior to local substitutes.

In most industries, a small number of large State Owned Enterprises (SOEs) dominate the local markets.

Opportunities

- China is a developing country building infrastructure in virtually every area of its economy, including telecommunications, roads, ports and rail.
- After more than ten years of double-digit annual growth, China has emerged as the world's second-largest aviation market.
- China is one of the biggest agro-chemical consumers and a large agro-chemical importer. Agro-chemical exports to China ranked as the top destination for U.S. fertilizer exports until 2003. In 2006, China imported \$337 million in fertilizers and \$40 million in pesticides from the U.S., accounting for 13.57 percent and 19 percent of total imported fertilizers and pesticides, respectively.
- China's rapid economic growth has been accompanied by widespread pollution and environmental degradation. This situation, combined with limited energy resources and inefficient use of energy, has caused the central government prioritize clean technologies and energy efficiency since 2005. Therefore, there are enormous opportunities in the environmental protection market in China. Some best prospects in this field are listed as follows:
 - Municipal and industry wastewater treatment technology (sludge, auto-control)
 - Hazardous waste and medical waste treatment technology
 - Waste-to-Energy technologies
 - De-SO_x and De-NO_x technologies
 - Air and water monitoring equipment



Distribution and Sales Channels

China is a very diverse market with varying levels of development and regional industrial strengths. Careful research is required to find out the best entry strategy.

DIRECT SALES

Requires extensive knowledge of the Chinese market and strong understanding of the targeted regions within China.

DISTRIBUTORS

Chinese firms and consumers prefer to deal with local distributors because of their strength in local knowledge and network of relationships. Mutual understandings of certain underlined and unique situations between partners are essential.

AGENT/REPRESENTATIVE

Experienced and well qualified agents and representatives are efficient for reaching large SOEs as well as regional or niche markets.

WHOLESALE

This is an efficient resource for consumer products. With the exception of a few SOEs, most wholesalers are regional. In most cases, first tier cities, such as Beijing and Shanghai, have multiple wholesalers.

FRANCHISING

Historically, franchising as a concept has not been well received in China. Firms who tried to enter the Chinese market with pure franchising have yet to find success. The franchisers have found it very difficult to control the franchisees. On the other hand, companies have been successful in the market in using modified franchising, which pays special attention to quality control and product consistency.

Opening an Office in China

Establishing a representative office has become the most common means of creating a long-term presence in China. Chinese law restricts the scope of activity undertaken by such offices to “indirect business activity.” A representative office may act as a liaison with Chinese contacts, implement contracts signed outside China by the home office and undertake market research. Such offices may not engage in trade, receive fees for service, sign contracts or directly generate income.

The policies and regulations regarding foreign-invested firms in China are complex and frequently modified. It is best to have a local agent or business service company to help firms establish the right type of entity.

Essential Factors for Success

- Diverse markets require careful research
- Find the right partner
- Personal relationships or “Guanxi”

Import Requirements

Import licensing in China can be divided into three categories:

- Import license administration: applicable to all the products subject to import restriction, including chemicals that may be used for military weapons, toxicants, drugs and ozone-depleting materials.
- Automatic import licensing: applicable to products free from import restriction, but the importation of which needs monitoring, including poultry, vegetable oil, wine, tobacco, asbestos, copper ore and concentrates, coal, terephthalic acid, plastic raw material, natural rubber, synthetic rubber, waste paper, synthetic fiber cloth, cellulose dictate filament tow, copper, aluminum, mechanical and electrical products, iron ore, crude oil, processed oil, alumina, chemical fertilizer, pesticide, sliced or chipped polyester, automobile tire, ethylene, steel and steel billet.



- Import tariff rate quota administration: applicable to grain, cotton, sugar, wool, wool top and chemical fertilizer.

BUSINESS AND CULTURAL PRACTICES IN CHINA

- Experienced travelers understand that patience is the most important skill needed to do business in China. The Chinese are very good at figuring out when a foreigner is under pressure from a tight deadline, and they turn that to their advantage in negotiations.
- If possible, avoid traveling to China during the Lunar New Year. Also called Spring Festival, this is China's most important national holiday, and it lasts approximately a week. Tradition demands that every Chinese return to his or her home during the lunar New Year. With so many migrants to the cities, this means that there are millions of trips taken by car, bus, train, or airplane during the festival.
- Networking is an aspect of doing business around the world, but it takes on added importance in a society with a complex bureaucracy and a weak legal system. "Guanxi", or personal relationships, help firms navigate China's bureaucratic and distribution challenges. Firms need to make sure the local partners they choose have appropriate and useful "Guanxi."
- It is also critical that companies make sure that their partners are reliable and that they have the right motivation. Make certain your client or partner is able and willing to do all he says he will do in the contract. Ensure that it is in your partner's best interest to perform as agreed. It is in his interest to assist you to protect your brand or other intellectual property rights. Check the reliability of information on your partner or customer via independent sources.
- Unlike the U.S. government, which places few restrictions on business, the PRC government plays a significant role in business in China. Thus, it's extremely important to establish good relationships with the Chinese government.

Punctuality, Appointments, and Local Time

- Punctuality is very important in China, not only for business meetings, but for social occasions as well. Lateness or a cancellation is a serious affront.
- Be sure to establish contacts in China before you invest in a trip. Your government's Department of Trade or Commerce can usually assist in arranging appointments with local Chinese business and government officials and can identify importers, buyers, agents, distributors and joint venture partners.
- The best times to schedule business trips are April to June and September to October.
- Do not plan business trips during the Chinese New Year, since many businesses close for a week before and after the festival. The date of the New Year varies according to the lunar calendar.
- Chinese write the date differently than most North Americans. The year is written first, then the month, and then the day (e.g., December 3, 2010, is written 10.12.03 or 10/12/03).
- China is eight hours ahead of Greenwich Mean Time (G.M.T. +8), or thirteen hours ahead of U.S. Eastern Standard Time (E.S.T. +13). Despite the immense size of the country, it has only one time zone.



Negotiating

- Avoid slang or jargon, especially figures of speech from sports. Use short, simple sentences, and pause often to make sure that your exact words are understood.
- Never exaggerate your ability to deliver, because the Chinese believe humility is a virtue, and also because they will investigate your claims.
- Be patient. Expect to make several trips to China before negotiations are final. The Chinese are cautious in business matters and expect a strong relationship to be built before they close a deal.
- Familiarize yourself with all aspects of China before you arrive. The Chinese appreciate Western visitors who demonstrate an interest in their culture and history.
- Be patient, expect delays, show little emotion and do not talk about your deadlines.

For more information on doing business in China or how to export to China, contact your Trade Specialist in Atlanta or the State of Georgia China office:

Atlanta Office-International Trade
Georgia Department of Economic Development
75 Fifth Street, NW, Suite 1200
Atlanta, GA 30308 – USA
T: +1 (404) 962-4122
F: +1 (404) 962-4121
E: exports@georgia.org

China Office
Beijing Georgia Business Advisory Center
Yingjia Center, 12F
10A Dongsanhuan Middle Road
Chaoyang District, Beijing, 100022 – CHINA
T: +86 (10) 6567-9890
E: msu@georgia.org

