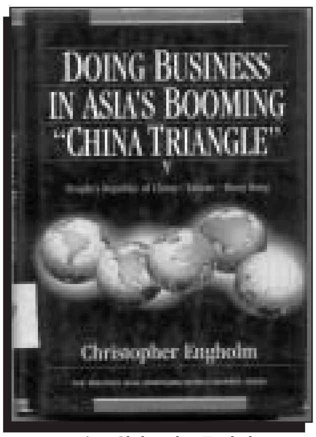
Perspectives on China

Doing Business in Asia's Booming "China Triangle"

The book encapsulates the ways and means of doing business with China, and the opportunities out there. It reveals how China has transformed itself for the investors by creating a friendly environment; but, nevertheless, cultural and social aspects must not be forgotten while dealing with them.



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The book is divided into four parts. They are:

- The China Triangle,
- Trading with China,
- Investing in China and
- Dealing with Chinese.

This book on "China Triangle" encourages foreign businessmen to invest here, as it has gone through different economic reforms. China Triangle, here, stands for People's Republic of China, Taiwan and Hong Kong. These countries are now united commercially and their people are coming together to do business. Examples of this are:

- The Chinese town of Shenzhen, with skyline crammed with office towers, has been financed by Hong Kong banks.
- Hong Kong firms employ five million workers in South China and 70% of the foreign investment flows into Guangdong province.
- Taiwan is upgrading its production technology while Hong Kong is improving its finances, transportation, and telecommunication infrastructure.
- People's Republic of China is expanding its share in export markets and as per recent data of 2005, China already has trade surplus.

Earlier, the Chinese were reluctant to do business with other countries. Its share declined with America even after Sino-American trade was only 2 or 3% of America's total trade. But America was always forward in capturing the market of China Triangle. Even before China's economic reforms, American tobacco tycoon captured the Chinese cigarette market. Till 1970s, trade between America and China was very less and it was ceased because of the Korean War. In 1972, Richard Nixon opened relations with China and, thereafter, many US companies such as Kelloggs, Coca-Cola entered China after signing contract deals. By the year 1979, China opened its door to foreign companies to get foreign technology and direct investment. It also encouraged a wholly foreign-owned subsidiary like 3M. Thus, the period between 1970-80s was the golden period for America to enter the Chinese market. By mid-1994, the US companies had invested in more than 10,000 Chinese ventures; worth $114.4 bn. Approximately three lakhs jobs in the US are dependent on the US-China business. But during this period, China was not only dependent on America but also always intended to position itself to get the much-needed technology and expertise in economic modernization.

Changing Business Environment Scenario in China

Chinese economic system, 1979 aims to be the largest economy in the world by 2020. China hopes to achieve this target by increasing its GDP on an average of 9-10%. Hong Kong, Japan, the US, Germany, South Korea and Russia are the main countries to which its products and services are exported. But Chinese relation with the US has always been criticized because of China's restrictive measures such as tariffs, import ban, licensing, etc. However, the main cause of Chinese economic growth is its town and village enterprises, FIIs and exploding capital. Moreover, Chinese-friendly environment with Hong Kong as strategic partners is one of the success factors, whereby, Hong Kong became a part of China in 1997 in order to make Hong Kong a capitalist enclave by 2047. Now, China is a big investor in Hong Kong and provides the territorial integrity. Taiwan has small and family-run businesses, which is a big source of its employment. On the other hand, Taiwan has also shifted its business from labor-intensive production to value-added and more capital intensive production. Taiwan encourages its citizen to invest a greater proportion of savings in the domestic economy. In China, Liasoning province, Shanghai municipality and Jiangsu Province are the main success drivers. The Chinese had high tariffs (two types: minimum tariffs and non-tariff barrier), licensing agreement etc., which used to discourage the investors, but the recent entry in WTO has changed its brand image. Joint ventures have been encouraged in Special Export Zones. The business in China can be better run on trust, dependency and obligation and unlike other countries, bureaucrats can participate directly in commercial dealing with local firms. According to the author, they are following five-part market opportunities in China:

- For foreign technology like in civil aviation, computer technology, electronics and medical equipments
- For capital goods like electronics, telecom, building materials
- For consumer goods/health product such as TV, working machine, refrigerator
- For service industries such as banking, insurance, legal services, accounting, retailing, etc.
- For tourist ventures like travel service management, skill and technology.

About the Author

Christopher Engholm is a nationally known expert on China and the Director of Marketing at Rowland & Associates, a corporate training consultancy. He is also a member of the speaking faculty at the University of Southern California's Pacific Rim Management Program and the government sponsored Asia-Pacific Business Outlook Program. He authored five books on doing business in Asia. He lives in San Diego, California.

Doing Business with China

It is always advisable to enter into Chinese market as joint venture, instead of wholly owned venture, as the tax in wholly owned venture is almost 20-40%. On the other hand, the international financing institutions such as the World Bank, the Asian Development Bank, the Overseas Economic Cooperation Fund of Japan, the Exim Bank of the US are important sources of funds.

Entering the foreign country always needs a strategic planning and a careful future layout. An enterprise may conduct the market research or can get the needful information from Ministry of Commerce of The People's Republic of China (MOFTEC)/State Statistical Bureau for data on Chinese market. The product can be sold directly by the local bureaus, complete decentralization, appropriate foreign trade corporations, Hong Kong-based agent, Chinese–based entity, references, cold calling, or employing consultants. The entire market information of China may be obtained from:

- The US Department of Commerce/ International Trade Administration office
- Foreign Commercial Service Officers
- The US Department of Commerce
- Export-Import Bank of the US
- Overseas Private Investment Corporations
- American Chamber of Commerce
- Embassy of the People's Republic of China
- Bureau of Export Administration.

Regarding shipping and documentation, the author suggests that Chinese enterprise should be asked to take care of shipping; otherwise the delay in shipping may lead to bad relationship. For the same, the exporter may contact Chinese foreign trade corporations, which is cost-effective and creates an efficient means of trans-shipment of goods. The price for the US traders are quoted in the US dollars. Other usual things in export, like letter of credit, are almost the same as that of the international standards. While exporting products, the insurance of the products may be done, which helps the exporter in mitigating risk. The Bank of China's documentation requirements for letters of credit include commercial invoice, ocean bill of landing, packing list, weight memo, manufacturer's certificate of quality, copy of exporter's notifications of shipment, insurance certificate, the US export certificate and certificate of origin. The foreigner may take insurance against counter indemnities, contract frustration, exchange repatriation, foreign risks insurance, etc.

According to the author, the following are the smart strategies for investors:

- Manufactures for export
- Developing and exploiting natural resource
- Sharing the burden of R&D
- Holding ground in a new market
- Acquiring new technology
- Transplanting corporate rivalry into a new market
- Co-opting the competition
- Penetrating a new market
- Purchasing state-run corporations and converting it into joint ventures
- Purchasing shares on China's stock markets.

The process of selling to a Chinese enterprise may be a combination of following steps:

- The foreign company may establish its subsidiary or export company or direct representative or branch office in Hong Kong/China
- The foreign company can communicate by phone, product exhibitions, technical seminars and foreign service corporation
- The product may be introduced to the end user
- The product may be approved by supervising organizations (bureau, ministry or industrial corporate.)
- Next approval is needed by Planning and Economic Commission.

- Approval by local branch of MOFTEC is needed
- Negotiation with end user together with Federal Trade of Commissioner (FTC) on price, terms, shipments, etc.
- Signing of the sales contract with the FTC
- Approval by local branch of State Administration of Exchange Control
- Open letter of credit from the Bank of China.

Advertisement and Promotion

Till 1978, China had banned advertisements for the last three decades. In 1978, Shanghai Advertisement Company was reopened and the Chinese government allowed advertisements on its TV, radio, billboards and in printed publications; thus, moving China from capitalist tool to sales tool. In 1992, approximately 57% of the advertisements were on TV and in newspapers. It is seen that the Chinese are more loyal to their established suppliers and buys on logo recognition. The advertisement cost was more at 19:40 hours on weekends. It is suggested that advertisements in China should be in Chinese dialects, precise presentation, proper name to pronounce, free from political and sexual innuendo, as well as cultural stereotypes. The company must focus on the durability and quality of the product and the follow-up of the sales must be done on all direct customer response. There must be a good translator, who must be able to avoid any meaningless theme of the said slogan in the Chinese language.

Communication, Negotiation and Etiquette with Chinese

The last section deals with how to deal with the Chinese. The author has discussed three ways i.e., communication, negotiation and etiquette. The right communication is very important while doing business with the Chinese, as there are different meanings for the same things in the Western and the Asian countries such as distance, touch, facial expressions etc. Therefore, there must be an interpreter and one should never jump to any conclusion and always be patient. Stress should be given on the words and sentences one wants to communicate, as the Chinese don't mind listening to sentences twice. Sentences should be short and crisp. This is important not only in case of informal communication but also in formal communication. In some cases, Taiwan and the Republic of China want to get the signature on contracts in both Chinese and English languages and so there is no need to lose patience. Always be sympathetic to the Chinese as they communicate less directly. The foreigners should not mind if a Chinese stare at them long and hard on the street, and, are too cold in business places. It is always recommended to present the details of the product in the English language and to have visual presentations.

Moreover, while negotiating with the Chinese, it is always recommended to get straight to the points of discussion and not to beat around the bush. While negotiating, they use the following things as negotiation tools:

- Mediators
- High bargains
- Smart use of both time and venue as weapons
- Want to realize individual benefit in a deal
- Exploit others' weaknesses, etc.

A foreigner must not forget to offer gifts for their festivals or if a Chinese invites him to his home. Always be cautious in dealing with the Chinese. Never smoke in the seminar place and never drink alone.

Conclusion

Thus, this book is a guide not just for the investors, but for students, faculties and researchers who want to know the Chinese business in detail. It also tells how China has transformed itself in the last few decades. It may be a benchmark for Indian policymakers, while formulating and implementing the laws and regulations.

— Deepak Kumar
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The ICFAI University Press,
Hyderabad.

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