

# ACCESS CHINA



A Guide to Doing Business  
in CHINA



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# 1. Introduction

**“The greatest challenge that SMEs face when approaching the Chinese market is access to reliable information.... The lack of information means that many SMEs are either dismissing the market or rushing in too quickly.”**

**Chris Cheung, Director at EU SME Centre**

China is the world's second largest economy and the most populous country in the world. With a population of over 1.35 billion, the sheer scale of the potential consumer market in China offers enormous opportunities for Irish companies. In the 30 years following reform and opening-up in 1978, China's economy developed at an unprecedented rate, averaging about 10 per cent growth per annum. In the first quarter of 2013, however, its growth rate slowed significantly to 7.7 per cent on an annual basis. Although lower than expected, this growth rate signals a few encouraging trends: first, China is prepared to sacrifice fast growth for long-term economic reform; second, China wishes to move towards a mass-consumer society that relies more on the services sector, which would mean more opportunities for foreign companies prepared to offer their products and services in China.

Throughout the last three decades, Irish firms have seen sales grow, relationships become stronger and awareness of Ireland increase in China year after year. The sheer size of China's economy provides a wealth of opportunities for determined Irish companies. There are a growing number of young professionals with significant disposable income in the major coastal cities who aspire to higher standards of living. Also, in their drive to address export markets, Chinese businesses are developing an appetite for technology, systems and infrastructure that cannot be satisfied by domestic suppliers.

## Why this market is important

In 2011, trade between Ireland and China hit €8 billion, an 8.6 percent increase over the previous year. The bulk of this trade constituted exports from Ireland that included services, chemicals, pharmaceuticals, office machinery and software; and textiles and office machinery imports from China. HSBC Bank's latest Global Connections trade report for Ireland predicted that exports to China will grow by 11 percent a year during 2016 to 2030. China is expected to become Ireland's fourth biggest trading partner by 2030. For the upcoming years, the priority would be to increase the export of agricultural products, food and drinks, high quality educational services and financial services to China.

## Purpose of the report

The objective of Access: China is to give practical and up-to-date information on the market for Irish companies. Here you will find useful, easy-to-digest advice on the critical aspects of doing business in China for companies at all levels of business development. This guide covers:

- How to get started
- China's business culture
- Market research
- Routes to market
- Key legal issues, tax, and recruitment considerations
- How to sell to State-owned Enterprises (SOEs).

## How it was compiled

This report is based on the practical experience and knowledge of highly successful people in the market and by specialists in areas such as law, taxation, and market entry and research. It is informed by the lessons learned by the many Irish business people who have succeeded in China. The report also includes commentary from a number of these people.

Access: China is intended to be of use to a wide audience, from companies thinking of exporting to China for the first time, to those already selling in the market and wishing to examine strategic options for further growth. Compiled from May to July 2013, this report is up-to-date with the latest available research and findings.



## 2. Critical Success Factors

***“How you enter the market is a key point. If you come in too quickly, you can get burned and if you come in too slowly you can miss opportunities. So understanding the market in advance of any financial commitment is essential. Our partnership allowed us to establish our brand and reputation locally, and gain a more detailed insight to the market without the full financial commitment of a stand-alone business.”***

**Niall O’Loughlin, General Manager - China, PM Group**

### Introduction

The key to successful market entry is “doing your homework” and developing an understanding of the new market. This is no different in China. While others have emphasised the difference between Western and Chinese culture and the way they do business, there are in fact surprisingly many similarities between Irish and Chinese culture, some of which we highlight below.

### Business culture

Chinese business culture is largely based on relationships, and emphasis is placed on maintaining harmony and the “face” of others. Open conflict is often avoided, as it would cause one party to lose face. Giving face is equally important as not taking it away and actions such as politely ignoring a mistake, showing humility and giving a toast can all be considered ways of giving face.

Relationship development – including relationships with business partners - takes time in China and is often done over the course of several years. Many businessmen strongly describe relationships as a key to successful business in China. Beyond pure time commitment, developing a relationship is largely built on gift giving, favours, shared meals and otherwise providing for physical comfort and convenience.

Chinese banquets are a common way for future business partners to get to know each other. They tend to be elaborate affairs, with courses of cold dishes, followed by several rounds of hot dishes and often a soup. Drinking at such occasions is a major part of relationship building, especially among businessmen. Some of the local alcoholic drinks that may be offered to you at or after business meetings (e.g. baijiu) are extremely strong - take care! Frequent toasts to the other party and going “bottoms up” upon request are related to the idea of giving face to the other party.



## NEED TO KNOW

Before you visit potential Chinese partners, you may want to translate your business into Chinese simplified characters to demonstrate your professionalism and dedicated interest in the Chinese market. Double-check the translated text by asking the opinion of a second translator to ensure accuracy and no misinterpretations. Translating titles/positions is generally helpful, as the interpretation of your position might be important to communication and negotiations. English addresses are normally left in English, as are websites and emails.

Some individuals choose to have their name translated into Chinese, either as a purely phonetic translation to aid with pronunciation, or as a similar-sounding common Chinese name (generally 2-3 characters) to aid with memory. The latter often creates a topic of small talk with Chinese, who are generally quite curious about the origin of your Chinese name and eager to discuss the meaning of the Chinese characters with you or inform you of others who share the name, in part or whole. If you choose to translate your name, ask a Chinese friend to assist - online searches might land you with some spectacularly strange options.

## Business meetings in China

- Chinese meetings are often long and sometimes without clear objectives. Very often the meeting is an exercise in relationship building and the aim of the meeting is to move the relationship, rather than any specific business task, forward.
- Presentations are often similar, with the idea of “giving face” to the presenter just as important as the topic at hand. In general, speakers are not interrupted with questions and politeness to the speaker is essential.
- The Chinese are often excellent at negotiations. Prepare for a long negotiation process and, if possible, engage a professional advisor, i.e. local or international law firm and consulting firms based in China, to assist with contracts and negotiations (refer to [The Legal 500 rankings](#) or contact Enterprise Ireland for referrals).
- Brief your translator well. Make sure that your translator is fully familiar with your product requirements in advance. Take time to conduct a full briefing, including a checklist of technical terms, if needed.
- Address the person in power. Orient yourself towards the person with the power. Too often the tendency is to address the junior staff that have excellent English skills but very little decision-making power. It is quite likely they will have to submit the contracts to higher level people before they can be signed. Some people advise to never negotiate with anyone at a lower level than general manager.
- Remember that your counterpart is not a native English speaker and make sure that all details of contracts are fully understood. Furthermore, in certain circumstances, only the Chinese version of a contract will be legally binding.
- Negotiations can continue even after the contracts are signed. The reasoning behind this is that circumstances will change in the future and that partners must be flexible in their agreements to meet the changed conditions.



## NEED TO KNOW

The extent to which foreign companies translate written information into Chinese varies widely, depending on the extent of the company's involvement in the Chinese market. Translation should be taken extremely seriously – Chinese is a complicated language with a great deal of subtlety to it and misinterpretations of meaning are common.

For a company conducting a limited amount of business in China, company names are generally left untranslated, though a Chinese name is required to establish a legal business presence.

The selection of this name should be carefully done, as the pronunciation of characters in the Chinese language can be similar between words with dramatically different meanings, some highly unfavourable. The most commonly used example of this are the words “four” and “die,” which are both pronounced si, the only difference in pronunciation being tone.

## CASE STUDY: Importance of understanding the Chinese market

### Niall O'Loughlin, General Manager – China, PM Group

PM Group was established in 1973 and has grown to become one of the most respected engineering design, architecture, project and construction management firms in the world. Employing 1800 people across the globe, the company is celebrating its 40th anniversary this year.

<http://www.pmgroun-global.com>

#### How did PM Group enter into the Chinese market?

“When we were founded in 1973, we focused on servicing foreign direct investment into Ireland and since then we have worked with multinational companies investing into foreign markets; by now, we can go as far as to say it's in our DNA.

Our expansion into overseas markets has always followed a series of very logical steps – Ireland to the UK, from where we moved into mainland Europe, and then more recently we expanded into Asia, the Middle East and the United States.

In existence for 6 years now, our Asia practice is still developing. Once again, we followed a logical route, opening an office in Singapore in 07, and progressing onto India and China within a few years.

We entered China having already established a clientbase there through our European client network. We also partnered with international and local firms to assist our multinational clients deliver their projects. This helped to position us strongly as we already knew who was investing in our selected sectors, how the market worked, and how our business model worked. We knew who the local and international competitors were, so we had a pretty sound understanding of the market.

Our chief advantage was that we had a detailed and viable understanding of the market in China prior to our entry. In particular, we assessed just how much of the market was really addressable.

When it comes to technically complex projects, PM Group is one of the world's best design and project management firms so we differentiated ourselves in the market and determined the business model we wanted to follow.

In the rest of the world, we work within 5 or 6 different business sectors. When we came into Asia we deliberately restricted ourselves to the Life Sciences and Food sectors, which gave us a select number of clients to target. Finding the right decision-makers and developing relationships with them both locally and at HQ level is fundamentally important. Not only do we keep ourselves in a

very focused part of the market, we put an emphasis on relationship building in that very small area, both in and out of the country.

**Is the majority of your work with multinationals or are you building relationships with local firms?**

Right now, our business is 95% multinational and 5% local. I'm sure we will increase that by about 5% per year, and maybe in 10 years it could be 50/50. It might be sooner. However if multinational companies decide to slow their investments, we may have to push more quickly into local business.

**What did you learn from easing into the market with a partner firm?**

How you enter the market is a key point. If you come in too quickly, you can get burned and if you come in too slowly you can miss opportunities. So understanding the market in advance of any financial commitment is essential. Our partnership allowed us to establish our brand and reputation locally, and gain a more detailed insight to the market without the full financial commitment of a stand-alone business.

**Initially how many staff did you have?**

In 2006, we started working on projects in Suzhou and brought in 5 or 6 experts. They're all still here, and they became the core of the team that developed our Shanghai office. All the hiring since then has been local.

**How do you find the local talent you need?**

It's difficult because you need people with experience. Our clients want the best expertise available and having the right people with the right experience has always worked for PM Group. Finding people who are open to challenge, discussion, and dialogue is essential. A lot of the people we've hired have been working with multinationals or on multinational projects over the past 5 or 10 years, so we know that they already understand our business needs.

Importantly, PM Group also has a strong culture in developing graduates, and we've got an excellent group of graduates here in Shanghai now. Graduates are the future of our business. So if we can recruit really good graduates and invest in them, they quickly become valuable members of any design team. This is a key part of our recruitment strategy.

**Have you faced a turnover issue?**

We've been very lucky: our turnover rate is actually zero, which is very rare in China. Why? We give employees opportunity; our job is to empower them. We've hired them because they're good enough. Consequently, we can put them in situations where they can deliver and grow.

**Why do you think that is?**

One reason is that we've had great success in hiring. Initially, we used headhunters, and worked with them until they understood our needs and the kind of people we really wanted. We also searched out individuals, people with the right personality, who would contribute and grow with the team.

We look after our people and give them good opportunities, but we've also been winning a lot of work. We've got a great reputation in the market. Everybody sees that and they want to be a part of it. The staff members here are very ambitious and they want to be with the winning team. We have a very highly motivated, hardworking team ethic. We let people be themselves; we want personalities in the office.

**How have regulations restricted your business options?**

There are certain areas that we simply do not enter because of technical restrictions on our licence. In that way, the business we operate here is different from Singapore, India or Ireland, and we've had to change our business model. We understood that up front and built it into our execution process. It is possible to obtain those licences in time, but we've found it to be a prohibitively expensive process in terms of both time and money. We've formed strong relationships and

partnerships with other entities so we can execute the full life cycle in a seamless fashion, while all the time we oversee the quality. So, yes, there are some restrictive regulations but we can work around them.

So far it has worked smoothly. It's a mixture of local and multinational partners. We've been flexible in that sense. We treat every client and every project differently. There's a different solution for each project and therefore we have to be flexible to give the right solution to clients.

**How important is it to understand China's unique culture and language?**

It's crucial. We work with a lot of multinationals and usually they prefer to speak English. Having said that, our local team on the ground speaks Chinese. There are certain cultural aspects you must observe. For example, you must show respect, but I don't think it's any more or less than you would in any other country. If you're decent, polite and respectful, you won't encounter problems.

**Any final words?**

For businesses that want to come to China, you must be very clear about what you're selling, why you're selling it, and to whom you're selling. You have to believe that you're better or that you're different, otherwise you'll never compete. Every engineering company in the world has a firm in China. The environment is extremely competitive. You really have to believe in what you're doing.”

# STARTING IN THE CHINESE MARKET



## 3. Starting in the Chinese market

**“The Chinese market can be difficult and requires a lot of time, effort and resources if it is to pay off. China has a relationship-driven business culture, which requires a lot of face time with local partners and customers, if it is to succeed. As a rule of thumb, companies should have some sort of scale and good market penetration and experience in other markets, before taking on a market as varied and complex as China.”**

**Ray Moroney, Founder of Moroney & Associates**

### Introduction

Before coming into the Chinese market, Irish enterprises, like any foreign entities, need to be on the top of their game in Ireland with market proven performance. Coming here with products/services that are newly developed is not a good idea because there has to be a track record of success in Ireland, or other countries, in order to substantiate their being able to add value in China. Initially selling their services or products in Ireland, and then to France, Germany and the U.S. adds credibility. New technology that is not proven abroad is a tough sell.

To promote themselves here, it is necessary for Irish enterprises to understand that they are not promoting themselves to an agent or partner, but rather to a market. Comprehending the current market dynamics as to what qualities are in demand, why are they not being currently served, and what price points the market will accept to fulfil them is highly important.

### Geography

China is an incredibly heterogeneous country, with vast geographic variations in language, peoples, industrial specialty and development level. While the wealthiest cities in the country can give European cities a run for their money in terms of modernity, driving a few hours into the countryside will reveal that China is still, in fact, a developing country.

China watchers joke that there are so many geographic differences that the country is, in fact, a continent. There are many ways to divide China into more manageable pieces based on shared characteristics, and one way is to look at its city groupings. Many foreign SMEs have had to withdraw from China prematurely because they tend to treat China as one big market, instead of focusing on particular regions, provinces and/or second/third/fourth-tier cities, where they would have a better chance of getting traction with fewer competitors.

There is no official definition of what constitutes a “first-tier,” “second-tier” or “third-tier” city in China. First tier cities generally include China’s largest cities with the largest urban populations, including Beijing and Shanghai, Guangzhou, Shenzhen and sometimes Chongqing. These cities have significantly higher average salaries (and disposable incomes) than second and third tier cities and the highest purchasing power for foreign goods and services. First tier cities have been targeted by international players for many years now, making the market for selling in these cities highly competitive. Nonetheless, with the high average salaries (and disposable incomes) of residents, most international players will enter into one of these cities to gain a feel for the market before entering into second-tier cities.



The line dividing between second-tier and third-tier cities is not precise. Second-tier cities are often defined as the 23 provincial capitals and special administrative cities, and third-tier cities generally include prefecture level or county-level capitals. Economic growth, area and even high-grade transportation facilities can influence classification as well. Second- and third-tier cities, e.g. Suzhou, Ningbo, Hangzhou, Dongguan, Wuxi and Wenzhou, have smaller markets than their first-tier competitors, but competition is less fierce, although these circumstances are beginning to change. While salaries (and disposable incomes) are on average lower than first-tier cities, the average salaries in second- and third-tier cities are increasing quickly, as are Government-mandated minimum wages. As competition increases in first- and second-tier cities, opportunities may arise in the third-tier cities.

## Market research

The key to being successful in China is preparedness, and this starts with thorough research of the market to identify whether there is a niche for your company and how you can go about exploiting it. Foreign SMEs that tend to fail in China usually share some common characteristics, such as being ill-prepared, having done little or none of their own market research on the ground, preferring instead to base key decisions/transactions by trusting content they read on websites or people they have met after one or two visits to China. They make ill-informed assumptions about the market by choosing to forego seeking local advice in China, seeing it as an unnecessary cost. Some come in speculatively, expecting a quick return with little investment of time and resources in this market.

In addition, some SMEs under-estimate the cost benefits of retaining staff with a local presence in China (such as recently returned Chinese students educated in Ireland with some business experience) to act as their representatives and conduct market research on their behalf. Such employees tend to be very loyal and can provide critical and honest feedback in real time on changing market opportunities and, where possible manage certain aspects of the supply chain performance and relationships, assuming proper support and training is provided from the outset.



## NEED TO KNOW

Enterprise Ireland's Market Research Centre offers client companies access to market intelligence in the form of company, sector, market, and country information to explore opportunities and compete in international markets. Please visit [www.enterpriseireland.com/en/Export-Assistance/Market-Research-Centre/](http://www.enterpriseireland.com/en/Export-Assistance/Market-Research-Centre/) for more information on the market research facilities available, and for a database of sector-specific information that will indicate whether there is research available for the market you wish to target.

## CASE STUDY: Entering the Chinese market

**Frank O'Mahony, Managing Director of Wilson Architecture, Cork, Ireland**

Wilson Architecture set up an office two years ago in Dalian. Wilson (Dalian) Architecture is a joint venture company with a local partner. It recently won a design contract for a twin high-rise tower office complex in Dalian in April 2013.

<http://wilsonarchitecture.ie>

### **How did you get started in the Chinese market?**

“I first came here in 2010 to investigate the market as our workload had diminished in Ireland. We saw that there were opportunities here for European architects who can produce high quality design work. Initially, I went back and forth between Ireland and China for a period of 6 to 7 months, spending one week at a time in China. We spent a lot of that time trying to get an understanding of Chinese business culture and in arranging meetings with potential clients.

### **How did this opportunity to bid in the design for the office complex in Dalian come about?**

The client is a large Beijing development company, and they invited our firm along with three other firms that are French, Austrian and US-based to compete in the bidding, and we ultimately won the design contract. The fact that we had a permanent office set up in Dalian was a big help in getting this project.

### **What factors do you think are critical to succeeding in the Chinese market?**

You have to be on the ground in China; it does not work to serve the market remotely from Ireland. Currently, I spend about 60 per cent of my time here. We have 2 or 3 Irish designers here at all times, along with a number of Chinese staff.

### **What are the regulatory restrictions you face?**

Foreign architects are not permitted to do construction drawings in China, and so we work with a large local profession design firm that converts our design drawings into construction drawings and delivers them to building contractors for pricing. We are involved in the supervision of this process.

### **What are your suggestions for other Irish enterprises who want to enter the Chinese market?**

I would like to share several points as follows:

- Every system here, including the banking and legal systems, is different from that in Ireland. It is virtually impossible to do business here without being very familiar with how the system works.

- It is important to find a local business partner who is compatible with your business. They will be important in making business connections and assisting with local regulations etc.
- The biggest barrier is language and important points may be missed in translation. I have spent some time studying basic Chinese which is appreciated here, but it is also vital to use a reliable translator.
- The 7-hour time difference between China and Ireland works towards our advantage - when the Chinese office closes at 6pm, the Ireland office has just started work, and you can pass the work from one office to another, meaning you have a 16-hour work day every day.
- In terms of the business culture, like Ireland, people here are friendly and enjoy socialising. They need to get to know you and trust you before they decide to do business with you.
- There are many opportunities here but also major risks. You need to research the market properly and check if there is demand. And you need to be very professional and work very hard as Chinese people here work very hard.
- There is the risk of taking on too much work in the beginning and not knowing what to focus on. For any work you take on, you must ensure you sign contracts very early on to protect yourself and ensure that you will get paid.”

## CASE STUDY: Entering the Chinese market

### Paschal Nee, Director, Consulting at Mobile Travel Technologies

Established in 2005, MTT is based in Dublin, Ireland and is the leading mobile specialist for the travel industry.

[www.mttnow.com/](http://www.mttnow.com/)

#### Could you describe your business involvement with China and how it got started?

“We launched a mobile application this year for Jinjiang Hotels, which is an implementation of a product called Eleventh Hour. Someone on the marketing side of our company met them at a trade show. Jinjiang has a Western CEO, so they’re obviously more outward looking.

#### How much time did it take to finalise the deal and what obstacles did you encounter in the process?

The cooperation moved rather quickly. We did some development on the product, which was probably the slowest part of the process. We did encounter a number of surprises in market specifics. For example, the credit card distribution is very different in the Chinese market, with Union Pay being a dominant payment method. This is not really known outside of China. The level of Internet connectivity they have was quite surprising to us. They don’t have instant email at certain points during the day, which would not be the norm in European hotels.

On the contractual side of it, it took roughly around 1 to 2 months to finalise this deal. We did not hire a Chinese legal firm for the contract, because standard Irish law applied. We did have some Chinese assistance in terms of translation and general cultural expectations. There’s a relatively big Chinese community in Ireland, so we found someone who had just moved over and was able to assist.

Specifically for this project, we did not have to designate someone to fly to China frequently to negotiate. Long-distance communication was sufficient. Having been in Shanghai at a trade conference recently, I do have questions about whether that would work for everyone. If we had worked with other hotels, we may have had challenges with the language barrier.

## What advice would you give to other Irish businesses?

Realistically, you would need an office and a very long-term presence in China before you did any major business in this particular sector. For example, the Chinese airlines stipulate they do not do business with you unless you're based in China. We would definitely recommend you visit the bigger trade shows and conferences. It really will open your eyes to what's happening over there. You get a better view than you would from the Western media, with perhaps superficial reporting. So we'd recommend you get on the ground and talk to people before making any big steps. ”

## EXPERT ADVICE: Early-stage market research in China

**Chris Cheung, Director at EU SME Centre**

The EU SME Centre is a Support Service Provider for European Small and Medium-sized Enterprises (SMEs), facilitating market access in China. Funded by the EU, the Centre provides free-of-charge, practical information, advice and business tools to better equip SMEs to develop their business and tackle challenges faced in the Chinese market.

[www.eusmecentre.org.cn](http://www.eusmecentre.org.cn)

### What services does the EU SME Centre provide?

“The key competency of the Centre is our expertise. We have 4 key experts within the Centre, covering the areas of:

- Business Development,
- Legal Issues,
- Standards and Conformity Assessment or Market Access Advice, and
- Human Resources or Training.

We provide practical, business-oriented services through these four areas of expertise. Our core service is providing information and giving advice through our “Ask the expert” channel, which allows companies to send in an enquiry or book a face-to-face consultation. If an Irish SME wants to ask questions such as, how can they get their products into the China market? What are the standards applicable to it? Is there indeed a market for their product? Or, if they want to invest in China, how do they find staff, retain them, and keep them motivated? They can ask our experts and expect to receive an answer within 7 working days.

The second type of information service the Centre provides is in the form of market reports, guidelines and case studies. These publications, which are free to download from our website, highlight specific opportunities across diverse sectors and offer step-by-step guidelines on legal issues and technical aspects relating to standards and conformity issues. If an Irish company wants to learn about the green tech market, the machinery or the food and beverage industry, for instance, they can find accurate and up-to-date information from our reports. The Centre has also published other tools to support SMEs with their internationalisation efforts, including a diagnostic kit designed to get SMEs ready for China.

The Centre also organises training, both online and offline, covering a wide range of market access issues. All of the Centre's services are available for free and can be accessed from our website at: [www.eusmecentre.org.cn](http://www.eusmecentre.org.cn)

### What are the common issues that SMEs have to deal with?

The greatest challenge that SMEs face when approaching the Chinese market is access to reliable information and this is the prime reason for the existence of the EU SME Centre. The lack of information means that many SMEs are either dismissing the market or rushing in too quickly. We provide the information and expertise that will allow SMEs to make rational business choices.

A second challenge is finding the right partners. SMEs entering the market should take the time to understand their agent, distributor, joint venture partners in order to minimise misunderstandings and risk. The Centre has published a diagnostic kit that helps companies to ask the right questions. The fourth part of this kit 'Knowing Your Partners in China', addresses the issue of carrying out due diligence and is a must-read for any SME engaging in business in China.

### **Once a company enters China, do you provide any more services?**

Once a company enters China, there are many services that the Centre can provide. Firstly, the Irish SME can have a face-to-face consultation with one of our in-house experts, they can attend one of the many training events that we carry out in China, and once they are here, they can also make use of our hot-desking service and meeting rooms.

We then work very closely with trade promotion partners, for instance Enterprise Ireland, who provide complementary services such as tailored research and access to finance. ”

## **Trade fairs**

Trade fairs are good places to find Chinese representation and learn about trends in your area of business. There are hundreds of trade fairs of different sizes and of different sectors all across China. You'll meet lots of suppliers eager to trade, the majority with significant exporting experience.

Don't make any commitments at trade fairs without first considering all the options available to you. You can find out about forthcoming trade fairs and exhibitions at websites on the Internet, such as [www.ccpit.org](http://www.ccpit.org). Enterprise Ireland is happy to advise on the suitability of trade fairs.

## **Certification**

Any required product or service certification will need to take place prior to commercialisation in China. The China product certification standards are not vastly different than those in Europe as the Chinese are pretty much in alignment with the European International Standards Organisation (ISO) and American Standard Test Methods (ASTM), but have their own applications for testing procedures that must be conducted in a licensed Chinese laboratory. Coming in with UL, ISO or ASTM certification will not be allowed. For services, such as engineering and architecture, there will be verification of home country documentation and may require having appropriately licensed Chinese staff within the applying company.

All market research firms can take interested applicants through the pathway for certification. The processes are usually fairly perfunctory. It is simply a matter of guiding the client to and through the Government agencies that provide the testing and certification services. The processes are no more expensive than elsewhere, but are very time-consuming. The time frame varies by the certification processes. For products, there may be only one necessary test, or a series performed in multiple labs. For professional licensing, approvals from several Government agencies will be required.

## **Sourcing**

China is a manufacturing powerhouse and remains the world's leading producer of many items, including high-technology goods. China manufactures and sells more televisions, refrigerators, mobile phones and laptop computers, for example, than anywhere else in the world. It is also still a source of less glamorous, inexpensive and low-technology production.

### **Second sources**

If it is possible, it is very useful to find two suppliers of each product you are sourcing from China. It can help to keep costs down and the quality high if there is an element of competition between the suppliers.

## **Supplier Management**

You cannot reasonably expect to go to China to develop a new supplier or new product, negotiate a price, then sit back and wait for the product to arrive on time as ordered, with no complications. Even the simplest of transactions requires close contact between the buyer and seller. The best option is to have a reliable person acting on your behalf locally to ensure smooth order fulfilment. Problems will arise and when you are trying to conduct business from the other side of the world, communication, time and distance complications are exacerbated. Depending on your order size and your level of integration with the supplier, you may need to consider the following general options to meet the need for field presence:

### **The long-distance relationship**

It is possible to manage suppliers from overseas given well-established communication channels, knowledge of spoken and written Chinese in your home office and a firm understanding of each other's needs. However, you will never know for sure if the product is exactly what you ordered until it arrives at the destination port. If the order is wrong, you may be able to send it back, but that means you will miss orders and have to quickly find a new source of supply.

At the very least have a digital picture or express mail package of samples of the final product sent to you for approval before it is shipped out of the factory. Depending on your agreed method of payment, you may be able to make last-minute adjustments.

### **Outsource management**

Locally-based companies can act as your buying agent in China. They deal with the headaches of day-to-day supplier management and ensure that you get what you want, when you want it. Depending on level of involvement, fees for these services can run from €1,000 to €20,000 per month. These costs are justified when errors in production and shipping are unacceptable and/or the costs and time it would take to set up your own office in China are prohibitive. Such an agent should be chosen with care.

# ROUTES TO MARKET



## 4. Routes to Market

**“There are obstacles every day – it’s the most competitive marketplace in the world and it’s crowded. Domestic companies are very aggressive and they work hard. You have to be a very disciplined operation. The pace at which the marketplace moves here is much faster than it is back home. We have to refine our operational plans on a daily basis. One of the biggest dangers is being viewed as a foreign company with no real interest in China other than a profit motive. What makes you successful is developing loyalty from the team and combine your experience with the local operation. You are not going to win in this market by coming in and thinking you could become more operationally efficient overnight. You have to be ready to invest the time and effort it takes to be successful here.”**

**Ciaran Lally, CEO Asia at Saon Group**

### Introduction

In this chapter, we look at some of the possible ways to sell to the Chinese market, including direct sales from Ireland, via distribution and online fulfilment. When it comes to deciding the optimum route to market in China, take your cue from how your competitors sell in the same sector.

### Direct export from Ireland

Direct export requires the company to dispatch employees to China, or to hire Chinese import agents and distributors to establish the network and sell their products directly to end-users, which involves much higher cost as well as much more time and effort compared to the indirect export method. It is therefore not a recommended route.

### Distribution

China is a highly fragmented market and it is easy to bite off more than you can chew. Consider a regional approach based on your product’s target market and opportunities.

SMEs with limited budgets for branding and marketing often turn to regional agents or distributors to create a sales network. These agents and distributors bring their existing sales networks and can be helpful in terms of responding quickly to market changes and keeping track of policy and regulation updates. Many of the larger Chinese trading companies have offices abroad, as well as a significant network throughout China.

Before meeting with potential partners, have at least a general idea of how you would like to structure an agreement dealing with issues such as profit-sharing, sales territory, advertising support and scale of investment. Don’t be afraid to ask questions about a potential partner’s sales volume, market reach, or sales force. Verify the answers you receive to determine who is the best agent for your product.

Also, review the business licence of your providers and investigate whether the services they offer your business are within their licensed operating parameters. Professional assistance in logistics services is available and should not be overlooked.

Patrick Yau, Manager of Enterprise Ireland's Hong Kong office, notes that among the most common mistakes made by Irish companies is the failure to sufficiently monitor, supervise, support or train the distributors they appoint. This applies to exporting physical goods, but also to services, where they would wait for the reseller to ask them for information, instead of going with the reseller into the market.

In addition, they are over-trusting of local partners, failing to undertake the most basic due diligence prior to appointing agents or sole distributors for their products/services, often with disastrous consequences when expectations are not met. They also have no actual presence on the ground in China, or have little appetite to travel to China frequently, tending to over-rely on distributors and local partners to develop their business, in the belief they can remotely manage the Chinese market from their home country.

## Selling online

China's online market is very highly developed and could prove to be a useful channel for your product. In 2012, China's population of internet users rose 10 percent to 564 million, with its e-commerce market increasing by 66.5 per cent to RMB1.3 trillion (€145 billion) worth of transactions. These transactions accounted for 6.1 percent of total retail sales of consumer goods in 2012, compared with 5 percent in the US. 242 million Internet users purchased goods online, up 21 per cent from the 203 million recorded a year earlier. This figure is expected to reach 310 million by the end of 2013. This growth was driven in large part by online shoppers who used a mobile device to browse e-commerce merchandise. In addition, social media platforms such as weibo (literally "microblog", the equivalent of Twitter in China) increased exposure of goods and drove e-commerce sales. According to Tech in Asia, an estimated 597 million people are active on social media in China. Each social media user follows at least 8 brands on average, and a large portion of them are interested in products shared by friends or recommended on social networking sites.

The largest portion of China's social media users are aged 26 to 30, constituting 30 per cent of the total users. Clothes and shoes were the most frequently items purchased online, with general merchandise and consumer electronics each accounting for approximately 30 per cent of sales. Large enterprises are also processing more and more purchases and sales online. Meanwhile, the adoption of e-commerce by small- and- medium sized enterprises (SMEs) is increasing rapidly.

The legal framework of e-commerce in China is still far from comprehensive and China is now in the process of setting up a centralised monitoring system for e-commerce activities, which aims to be operational in 2013.

## Joint ventures and mergers

It is crucial for foreign investors to understand the purposes of joint ventures and whether their Chinese partner is capable of fulfilling them. The partner should have something tangible to offer. The first main reason for going into a joint venture with a Chinese partner is usually because they can be an entry vehicle into an industrial sector otherwise restricted to 100 per cent foreign investment – the PRC Government still requires Chinese company participation or control in some sectors. Alternatively, they are used because they have resources and assets such as a distribution network, brand reputation, a special manufacturing process, or other tangible assets such as land or special licences.

Although it used to be more popular for foreign investors to establish FIEs in China from scratch, in recent years there has been an influx of foreign investors using M&A strategies with existing entities. In the current Chinese market there are many benefits of using M&A over establishing new companies. Investors are not only able to forego lengthy set-up processes, but are able to analyse the situation, know the existing problems and prepare for the exact market they are about to enter.

## Financial due diligence

Financial due diligence is an investigation into the financial standing of a company to confirm the reliability of a company's financial statements before entering into an agreement or transaction.

Financial due diligence is vital for investment in China to limit the possibility of unexpected surprises after an agreement is finalised.

The Chinese business environment is not as developed and standardised as in most Western countries, especially in the realm of financial reporting and auditing. In many businesses, Chinese laws in regard to the proper maintenance of accounts are misunderstood, wilfully neglected in order to present a better situation than reality, to cover up fraud (such as missing inventory) or to avoid tax. A further common complaint is the inability to prepare a local audit report in English, and the report's non-conformity with international forms and standards.

A two- to three-day site visit by an experienced, impartial auditor should be enough to provide an opinion on whether accounts and financial statements presented by a Chinese company are indeed a true statement of fact or whether there are areas within them that warrant further investigation or explanation.

For mergers and acquisitions, double-checking the tax compliance of the target company is a must. If a company's tax filings are not being conducted appropriately, then a company may have an unpaid tax liability.

In addition, for investors who are not familiar with Chinese accounting standards, a re-statement of the financial information might need to be conducted in order to get a better understanding of the actual situation.

Throughout financial due diligence, the following common practices should be kept in mind:

- Accounting undertaken on cash or invoice basis rather than an accruals basis

Cash or invoice basis cannot truly present the liability of the company and is quite easy to be abused. This could lead to cut-off issues, under-statement and over-statement of assets, liabilities, income and expenses. When two sets of books, one internal and one official, are being maintained, this issue causes particular problems.

- Weaknesses in accounts receivable

Accounts receivable mainly deals with the transactions of the company. Two common weaknesses often occur: many businesses in China cannot prepare aging analysis, which helps determine the loss on bad debt, due to poor communication between sales and finance; and it is common practice for businesses in China to attempt to hide sales to reduce taxable income, which means that many accounts receivables are often under-reported.

A typical weakness in other accounts receivables is that many irrelevant transactions are often recorded. For example, there may be an internal loan between two related companies recorded into the other's receivables and not listed as a transaction in the investment account.

- Bad inventory control and management

The inventory control and management practices expected by Western investors are often a far cry from the reality of the stock rooms of Chinese companies. In many cases a company cannot update inventory movements in real time. Variances between actual stock and book figures have to be made manually. It happens very often that physical stocktaking is not conducted thoroughly, and any investigation work is not soundly performed. In many cases, there is simply a lack of communication between the shop floor and the accounting department in relation to stock control.

- Deficient accounting management

Often the internal financial and accounting staff of Chinese companies is simply not equipped to undertake more than just a "book-keeping" role. They lack up-to-date knowledge of accounting principles, treatments and standards including international GAAP rules. Furthermore, there is often a gap between the accounting and financial staff and the operating divisions resulting in a lack of coherence between the financial statements and the operating

results of a company. In foreign-owned local companies, there is the perpetual problem of communication difficulties between the head office and the Chinese subsidiary.

- Two or more sets of financial accounts

Multiple sets of financial accounts are far more common in China than you may imagine. While these multiple books are quite often used to avoid tax, they are also sometimes used to cover up other inappropriate financial behaviour within the company itself. Moreover, often the official set of accounts is prepared electronically whereas the other set is maintained manually, and accordingly, it is often very difficult or impossible to reconcile these accounts.

- Revenues received pushed into the next reporting period to defer tax

Similar to tax avoidance, pushing revenue into the next reporting period by delaying the issuance of invoice is a common method of deferring tax, but is nonetheless a poor accounting practice that prevents outsiders from seeing a company's real financial standing.

- Phantom assets and contracts; assets of the company owned privately by the shareholders

Case after case of due diligence reveals that the list of assets on the books is often quite different from the assets a company actually holds. This ranges from simple mis-reporting to cases of complete fraud. Often, a company's assets will become "mixed" with those of a shareholder, senior executive or related/associated company, and vice versa. This discrepancy can go both ways – under-statement or over-statement. Of particular note is the review of the major contracts of a company to ensure validity, enforceability and even existence.

The [EU SME Centre](#) has published a diagnostic kit, the fourth part of which is "Knowing Your Partners in China", which addresses the issue of carrying out due diligence and is a must-read for any SME engaging in business in China. You can also engage a local or international law firm or consulting firm based in China to assist with conducting due diligence.

## Recruiting in the Chinese market

Historically cheap costs for China's huge labour force are rising rapidly and in addition to cost, labour supply is an issue for certain types of workers in China. Companies find it easier to recruit blue-collar workers and administration staff, but more difficult to recruit bilingual engineers, sales people and middle management staff in China than in Europe.

Retaining qualified personnel is seen as equally, if not more, challenging in China than in Europe. In their attempt to build stronger company loyalty, firms offer deferred bonus payments, special rewards like housing allowances and mortgages for longer serving employees, early promotions, external training programmes and other incentives.

Keep in mind that Chinese Labour Law is designed to protect the employee. Among other stipulations, it includes very detailed regulations on contracts, so consult a professional on this matter.



## NEED TO KNOW

Peculiarities of employment in China include the *dangan* and the *hukou*, which each add a layer of bureaucracy into the hiring of staff and have a tangible effect on the total cost of employment. The huge, nationwide All China Federation of Trade Unions also affects hiring practices.

- A *dangan* is a personal file containing details of a person's life, education and career. An employer is responsible for updating and holding this *dangan* or paying a Government sponsored job centre or HR agent to do so.
- A *hukou* is a kind of domestic passport that designates a person's home. The *hukou* system can have a dramatic influence on the day-to-day activities of Chinese, including social security benefits and the ability to purchase property and travel abroad.

The salary range for employees might vary, and is primarily influenced by a number of factors introduced below.

Language skills are an important factor. Recruiting an employee with good spoken and written foreign language knowledge will usually come with a significant salary premium. In terms of depth of technical know-how, a candidate with applied technical expertise will also require a higher salary. Obviously, seniority also plays an important role; the more years of relevant experience the candidate has in the industry, the higher will be his salary expectations. Interestingly enough, salary expectations in China are also greatly influenced by the location of the employment.

Candidates in first-tier cities (such as Beijing or Shanghai) will probably have higher salary expectations than in second-tier cities (such as Harbin, Tianjin, or Dalian) or in third-tier cities (such as Xuzhou or Luoyang). Lastly, it is necessary to mention the job content specifications, since job titles are not used consistently across companies. Therefore, the actual job content and responsibilities of a position should be the basis for the salary discussion. The following three tables present information on back office, engineering and sales staff. The salary is for Chinese nationals with working English knowledge in Beijing.

### Salaries for Back Office Positions (Admin, HR, etc.)

Years of Experience	Salary before tax (RMB)	Salary before tax (Euro)	Additional related expenses
1-3	5K-10K	620-1,240	13th month salary and 1-2 months bonus
3-8	10K-18K	1,240-2,230	13th month salary and 1-2 months bonus
8+	18K-40K	2,230-5,000	13th month salary and 1-2 months bonus

## Salaries for Engineering Positions (Engineer, Technical Sales, Product Manager)

Years of Experience	Salary before tax (RMB)	Salary before tax (Euro)	Additional related expenses
1-3	7K-12K	868-1,487	13th month salary and 1-2 months bonus
3-8	12K-20K	1,487-2,479	13th month salary and 1-2 months bonus
8+	20K-45K	2,479-5,577	13th month salary and 1-2 months bonus

## Salaries for Sales Positions (Business Development, Sales, etc.)

Years of Experience	Salary before tax (RMB)	Salary before tax (Euro)	Additional related expenses
1-3	8K-13K	992-1,611	13th month salary and a big bonus around 10K-30K
3-8	13K-22K	1,611-2,727	13th month salary and a big bonus around 30K-60K
8+	22K-60K	2,727-7,436	13th month salary and a big bonus around 60K-250K



### NEED TO KNOW

Reference checks are carried out to verify information gathered about candidates during CV screenings and interviews. It is usually conducted after the final assessment interview and prior to making an offer to the candidate. Reference checks are particularly important in China because:

1. It is not common that candidates possess written evidence of previous employment or letters of recommendations; and
2. CV and credentials fraud is more commonly practised to enhance individual competitiveness in China compared with other markets.

No statutory law exists against conducting reference checks. However we recommend that companies should use a third party, usually a recruitment firm, to perform activities including cold-calling to contact candidates, collecting background information and doing reference checks to improve efficiency and avoid any direct connection to the company.

In China, the most common practice to conduct reference checks is via the telephone. Due to the frequent job changes of professionals in China, former management may no longer be with the same company, making the process of validating reference checks more complex.

## CASE STUDY: Recruiting in China

### Ciaran Lally, CEO Asia at Saon Group

Saon group is an international recruitment company based in Ireland. It has about 500 live websites around the world across four continents. Saon group came to China in about 2006.

[www.saongroup.com](http://www.saongroup.com)

“When the business came to China, our market entry strategy was to acquire a smaller local online recruitment company in eight different cities, two of which were Beijing and Shanghai, in addition to several other tier two cities. By 2008, the business had around 600 employees. Between about 2008 and the end of 2012, the business expanded its operation and a number of things happened. Firstly, we developed a brand of the business that brought all of those businesses together under one common brand, which we called myjob.com. The business then started to roll into new cities. By the end of about 2012, we had just over 2000 employees in 179 cities, mostly focused on Tier Two to Tier Four cities in China, and we grew from number nine in the market to number four. The market was dominated by three larger companies, one of those companies, ChinaHR, was owned by a business based in the US called Monster Worldwide. In February 2013, Saongroup acquired China HR and merged it with myjob.com, which is the business we are currently running today. Now we are number three in the market place, and we have got just over 3000 employees.

#### **What are some critical factors contributing to Saon's current success in the China market?**

There are a number of things. One of the things that our shareholders did well at the market entry point was not overthinking things, as China is so complex that you can actually talk yourself out of ever entering into the marketplace. Our shareholders took a very aggressive approach by learning about the market, acquiring the business and getting into the market. The advice I'd like to give to people is don't overthink your market entry because the problems you are going to encounter is probably not what you think it is going to be, and you are not going to figure out what your problem is until you are in the market. So come over, keep the risks low, learn the market, apply your model, and when you have got a model that you think will be successful, then you can look at how you scale it up at the right time.

The second part would be the operational knowledge and expertise, which needs to be closely tied to the Chinese market. Our business is always managed by a very strong and deep local management team. Our website is developed in China by Chinese developers. Our analytic data all came from the local market. Our managers including myself are stationed at all times in China. We were not juggling any other priorities. You must stay very close to the operation engine of your business. Understand your data, understand your market, and understand your competitors very closely.

Managing our people is also crucial. China is a very dynamic market place and there are lots of opportunities. What was critical for us was that we could provide a compelling reason to our staff as to why they should remain with the business and why the business should earn their loyalty. We needed to be able to show them a very clear vision of the company's future. We need to be able to invest in their training and development and create a work environment that they want to be a part of.

#### **What are some obstacles you have encountered?**

There are obstacles every day – it's the most competitive marketplace in the world and it's crowded. Domestic companies are very aggressive and they work hard. You have to be a very disciplined operation. The pace at which the marketplace moves here is much faster than it is back home. We have to refine our operational plans on a daily basis. One of the biggest dangers is being viewed as a foreign company with no real interest in China other than a profit motive. What makes you successful is developing loyalty from the team and combine your experience with the local operation. You are not going to win in this market by coming in and thinking you could become

more operationally efficient overnight. You have to be ready to invest the time and effort it takes to be successful here.

### **Can you share some advice on recruiting?**

The first thing is to make sure that you talk through why somebody should join you. When I interview people, we take time to explain to people the type of company that we are, why they should join, what we have to offer the employees. We give them a very clear view of what they can expect from working with us. You have to be able to explain why they should give you that much. And it's only at that point that we start talking about compensation. Get the right person with the right attitude and find the person you want to work with first, make sure that they have the same visions as the company and then train them accordingly. It takes a lot of effort to train a team and that's why we are working 16-20 hour days six to seven days a week”

### **EXPERT ADVICE: Recruiting in China** **Chun Liew, Partner, Direct HR**

Direct HR specialises in recruiting professionals in China for the following practice areas: Engineering & Operations, Sales & Marketing and Finance & Accounting. Direct HR is ISO 9001:2008 certified and has been recognised by Wolters Kluwer (China Staff Awards) as one of China's Leading Recruitment Firms and one of China's Most Promising HR Service Providers in 2012. The company has offices in Beijing, Shanghai, Shenzhen, Dalian and Ningbo.

<http://www.directhr.cn>

### **How much time and money should a foreign SME budget for the hiring of one employee?**

“Including the notice period (by default 1 month) of the newly-hired employee, a foreign SME should budget eight to sixteen weeks for the hiring of one employee. Assuming the company would involve a recruitment service provider such as Direct HR, which is a common practice for companies setting a new operation in China, the recruitment service fee would be 25% of the first year's gross before-tax remuneration of the candidate.

### **At what stage of the set-up of a foreign SME should they start recruiting?**

As the time required for finding a suitable employee is often eight to sixteen weeks, it is a common practice and advisable to start the recruitment process once a formal decision has been made to set up an operation in China (assuming the planned start date in China would be within the next 6 months).

### **What have you encountered as the most challenging issues when recruiting for a foreign SME?**

When foreign SMEs have not yet had sufficient practical China experience (e.g. actually running an operation in China for 3 years), there is a common misperception that because the absolute quantity of professionals in the market is high, it should not be that difficult to find a suitable candidate for a job. The reality is that there is a high market demand for the type of professionals most foreign SMEs are looking for in China, resulting in a relative high number of difficult-to-fill job roles.

Foreign SMEs often look for multi-lingual professionals. Identifying Chinese professionals who are fluent in English and Mandarin is often a default requirement, which I would not define as a critical challenge. Identifying Chinese professionals with a particular background who are also able to speak other languages such as German and French are extremely scarce in the market.

Foreign SMEs by default have high expectations with regards to in-depth technical and industry know-how but often have to lower their expectations due to the size of the talent pool in China that actually fulfils these criteria. Finally, foreign SMEs regularly have to be reminded that Chinese professionals often have had less international exposure and are often less familiar with global best practices compared with their counterparts in the home countries of most foreign SMEs.

## What should a foreign SME do to retain the quality personnel recruited?

My recommendation would be to focus resources on the work-related items which employees value most. According to a study by Mercer in 2012, employees in China prioritise the value of work-related items differently based on their age-group as follows:

### 16-24 Years Old

1. Career Advancement
2. Training Opportunities
3. Base Pay

### 25-34 Years Old

1. Career Advancement
2. Base Pay
3. Training Opportunities

### 35-44 Years Old

1. Base Pay
2. Career Advancement
3. Supplemental retirement savings plan

### 45-54 Years Old

1. Base Pay
2. Supplemental retirement savings plan
3. Bonus / other incentives

### 55-65 Years Old

1. Supplemental retirement savings plan
2. Base Pay
3. Career Advancement

While this provides a nice reference, I would advise foreign SMEs to listen to how each individual employee prioritises his/her own work-related items and invest resources accordingly. The advantage foreign SMEs have over large multinationals is that they are often able to facilitate more flexibility with regards to how employees are treated at an individual level. ”

## Social Insurance

Social security (also called “social welfare” or “mandatory benefit”) payments are contributions to Government-run funds for an individual. There are five such funds – pension, unemployment, medical, occupational and maternity – plus a mandatory housing fund (which is considered separate, as it is not strictly considered a type of social welfare).

Both employee and employer make mandatory contributions to these funds and it is generally the case that the employer is responsible each month for withholding the contribution of the employee from gross salary and making their contribution together with that of the employer.

Exact calculations of social security payments are quite complicated (percentages are not technically based on the employee’s monthly salary, but rather of a theoretical “base” salary calculated based on a given formula) and required percentages for each fund vary by region, but for an employer social security payments typically add approximately an additional cost of between 30 and 45 per cent of an employee’s salary for that employee each month.

## Mandatory Welfare Payments in Selected Cities (October 2012)

C = Company I = Individual

	1 Beijing		2 Shanghai		3 Guangzhou	
	C	I	C	I	C	I
Pension	20%	8%	22%	8%	20%	8%
Injury	0.5%	0%	0.5%	0%	0.25 - 0.75%	0%
Maternity	0.8%	0%	0.8%	0%	0.85%	0%
Unemployment	1%	0.2%	1.7%	1%	2%	1%
Medical	10%	2% + RMB3	12%	2%	8% + RMB12.45	2%
Housing fund	12%	12%	7%	7%	5% - 20%	5% - 20%

### Example: Total Expenses, Net Salary and IIT by Social Insurance Contribution Payment Party

A company pays an employee a monthly salary of RMB10,000 per month. The company's social insurance contribution is 39% of the employee's monthly salary, which the employee's contribution is 21%.

	Company pays only social insurance contributions required of the company	Company pays social insurance contributions required by both company and employee
Gross salary for the employee	$\text{RMB}10,000 \times (1 - 21\%) = \text{RMB}7,900$	RMB10,000
IIT for the employee	$(\text{RMB}7,900 - \text{RMB}3,500) \times 10\% - \text{RMB}105 = \text{RMB}335$	$(\text{RMB}10,000 - \text{RMB}3,500) \times 20\% - \text{RMB}555 = \text{RMB}745$
Net salary for the employee	$\text{RMB}10,000 - \text{RMB}2,100 - \text{RMB}335 = \text{RMB}7,565$	$\text{RMB}10,000 - \text{RMB}745 = \text{RMB}9,255$
Total expenses for the employer	$\text{RMB}10,000 + (\text{RMB}10,000 \times 39\%) = \text{RMB}13,900$	$\text{RMB}10,000 + (\text{RMB}10,000 \times (39\% + 21\%)) = \text{RMB}16,000$

# LEGAL ISSUES IN CHINA



## 5. Legal issues in China

**“Every system here, including the banking and legal systems, is different from that in Ireland. It is virtually impossible to do business here without being very familiar with how the system works.”**

**Frank O'Mahony, Managing Director, Wilson Architecture, Cork, Ireland**

### Introduction

China's legal system started to develop in 1978 when China began its gradual transformation into a market economy. Today, it is still evolving at a quick pace and is in the process of developing into a truly sophisticated system. Investors should keep in mind that the interpretation of broad tax and legal rules can vary by tax bureau and location.

China ranks 91<sup>st</sup> out of 185 economies in the World Bank's 2013 ranking for ease of doing business.

### Setting up a direct presence

Setting up a company in China is a complex and bureaucratic process, much more so than in the EU or North America and you should not contemplate doing so without taking expert professional advice. Foreign investors have several choices for structuring a China enterprise:

- Representative Office;
- Service Company; and
- Trading Company.

These structures have different features, so choosing the appropriate vehicle from the outset will be invaluable for the long-term success of any investment.

#### Representative Office (RO)

ROs are permitted to engage in (i) market research, display and publicity activities that relate to company products or services; and (ii) contact activities that relate to company product sales or service provision and domestic procurement and investment.

ROs have no legal status, but are an extended arm of overseas parent companies that can only interact with Chinese businesses indirectly. They do not require any capital injections, but are funded according to their needs and act as cost centres. ROs are usually taxed on gross expenses with the overall tax burden around 11.75 per cent of total monthly expenses; however, these rates may be increased by the relevant tax bureau according to the industry. From 2010 on, companies that intend to register a RO must be at least two years old.

While an RO is relatively easy to establish and maintain, they often are fairly limited in terms of operational scope since they cannot actually issue invoices or sign contracts. More importantly, operating an RO can become often very costly, and that 11 per cent to 12 per cent tax on top of expenses can in some cases be significantly more than simply being taxed on profits as a limited liability company.

Representative Office in Beijing Monthly Expenses Forecast Sheet		
	Running expenses	Amount (RMB)
1	Office rental and management fee	12,000.00
2	Salary for Chief Representative	25,000.00
3	Salary for two local employees (RMB4,000 and RMB10,000)	14,000.00
4	Social insurance for employees	11,221.15
	Pension insurance (20%)	5,603.20
	Medical insurance (10%)	2,801.60
	Injury insurance (0.4%)	112.06
	Unemployment insurance (1%)	280.16
	Maternity leave (0.8%)	224.13
	Housing fund (12%)	700.00
	FESCO fee	1,500.00
5	Other miscellaneous (i.e., telephone, office utilities, etc.)	6,000.00
6	Bank charges	1,500.00
7	Stamp duty	500.00
8	Individual Income Tax	4,010.59
	for Chief Representative	3,687.59
	for local employees	323.00
9	Driver	1,768.26
10	Apartment rental	4,000.00
	<b>Total Monthly Operating Expense</b>	<b>80,000.00</b>



### NEED TO KNOW

An RO will be allowed to hire only a maximum of four foreign employees. Foreign staff working for ROs should have an employment relationship with the parent company abroad, and any disputes should be settled under the laws of that country. Chinese staff working for an RO, although not limited in number, must be employed through a human resources agency that will sign a contract with the RO on the one hand and with the Chinese staff on the other to ensure social security and housing fund contributions are paid on a regular basis. The reason for restricting the right of an RO to employ staff directly is quite simple. An employee must have the right to claim against their employer, and employees cannot make claims against ROs since they are not considered capitalised legal entities in China. By forcing ROs to employ staff through agencies (which are capitalised legal entities in China), the interests of the employee are protected.

### Service Company

A service company is a limited liability company that has as its core activity the provision of services to third parties. Foreign investors use this type of company to provide market and supplier research, quality control, product development, design, and logistical support services, among others. A service company is the easiest type of limited liability company to establish, as it requires a shorter time frame to establish and a lower capital requirement compared to a trading or manufacturing company.

Service companies have proven to be great alternatives to ROs, especially when an RO's operations start to grow and its costs begin to rise. Since ROs are taxed on expenses while service companies are taxed on profits, it is clear that ROs eventually reach a point where they are no longer the most cost-effective option available to foreign investors. As China's RO regulations have

become stricter since 2010, many foreign companies have decided to upgrade from an RO into a service company. A basic review of expenses and available business model alternatives will highlight how this type of structural change may help reduce tax burdens, while also increasing the flexibility of its operations.

## **Trading Company**

To engage in import and export activities as well as domestic distribution (i.e., retail, wholesale and franchising trade activities) in China, a trading company - also known as a foreign-invested commercial enterprise (FICE) - may be established.

## **Company registration process**

The application process to create a company in China can be divided into two parts:

- Pre-registration – what happens before the company formally exists
- Post-registration – what happens after the company formally exists

### **Pre-registration**

#### 1. Name registration

The name can be translated from English by meaning and/or phonetically. The relevant authority is the State Administration for Industry and Commerce (SAIC). Verification of feasibility of the proposed name by SAIC will take a few working days. Only the Chinese name will be legally binding – the English name is not legally relevant for Chinese authorities. The word “China” cannot be freely included in the Chinese name.

#### 2. Issuance of Approval Certificate and Business Licence

The authorities will issue the Approval Certificate and Business Licence after assessing the following documentation:

From the investor:

- Business licence (certificate of incorporation - please note that depending upon locations, this may need to be notarised in the investor country of origin then translated into Chinese)
- Bank statement to demonstrate credit worthiness (from relevant bank in country of origin then translated into Chinese), and
- Photocopy of passport of the Legal Representative of the investor company.

From the new company:

- About the new business - name of the company, business scope, registered capital, business term, lease contract
- About the Legal Representative – photocopy of passport and passport-size photos
- About the directors – CVs, photocopies of passports and passport-size photos
- Feasibility Study Report
- Articles of Association, and
- Environmental Protection Valuation Report.

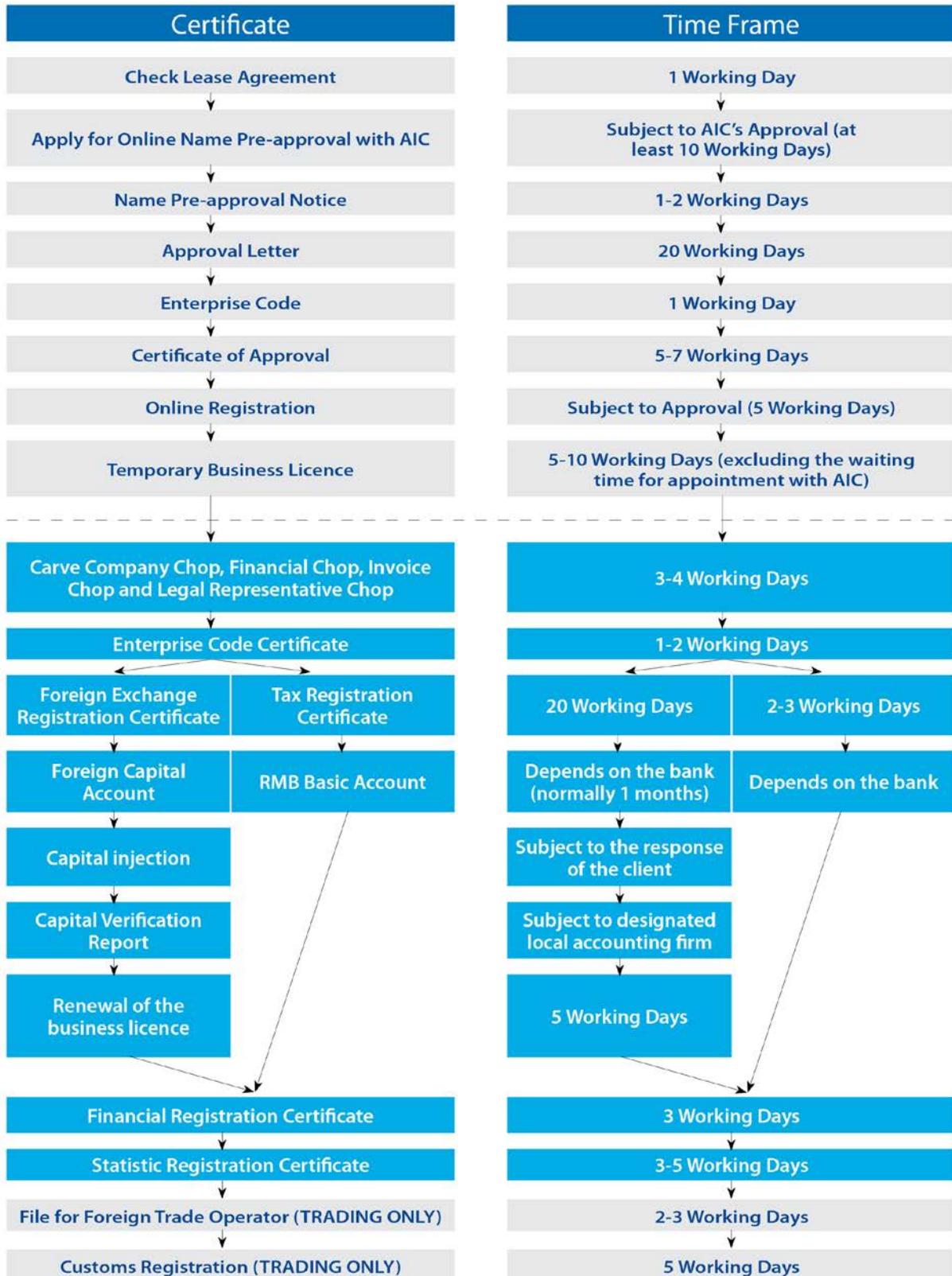
The Approval Certificate will be issued by the local office of the Ministry of Commerce. Upon issuance, there is a 30-day limit for the registration of the company with the local office of the SAIC, which then issues the Business Licence.

The company now legally exists.

## **Post-registration**

1. Approval for making chops issued by the Public Security Bureau (various chops are required in China for the administration and management of the company to legally authorize documentation)
2. Enterprise code registration with the Technical Supervision Bureau
3. Office inspection by the tax bureau and tax registration
4. Apply for a RMB bank account opening permit from the People's Bank and opening the RMB bank account
5. Registration with the State Administration of Foreign Exchange
6. Opening foreign capital bank account
7. Injection of capital and capital verification report
8. Renewal of business licence by SAIC after capital has been injected
9. Financial registration
10. Statistics registration
11. Application for general tax-payer status, and
12. Customs registration.

## Company Set-up Process



## Tax

The People's Republic of China levies a wide range of taxes including income taxes (corporate income tax and individual income tax), turnover taxes (value-added tax, business tax and consumption tax), taxes on real estate (land appreciation tax, real estate tax and urban and township land-use tax) and other taxes, for example, stamp duty, custom duties, vessel tax and resource tax.

The main taxes of concern are:

- Corporate income tax
- Withholding tax
- Value-added tax
- Business tax
- Consumption tax

### Corporate income tax

The income tax rate for all companies in China, both foreign and domestic, is 25 per cent. Corporate income tax is calculated against the net income in a financial year after deducting reasonable business costs and losses. It is settled on an annual basis but is often paid quarterly with adjustments either refunded or carried forward to the next year. The final calculation is based on the year-end audit. Industry-based tax incentives exist; for example, enterprises involved in the high or new technology sectors are subject to reduced tax rates.

### Withholding tax

Withholding tax is a PRC tax levied on overseas companies providing services to China-based businesses. The withholding income tax rate for non-tax resident enterprises in China is 20 per cent (currently reduced to 10 per cent). Companies based outside of China are required to pay taxes on the income they derive from supplying services to the client in China (including a China-based subsidiary). This tax is withheld by the client by deducting the amount payable from the gross invoice amount.

### Value-added tax

VAT is a turnover tax levied on all units and individuals engaged in the following transactions within the territory of China:

- The sale of goods
- The provision of processing, repair or replacement services, and
- The importation of goods.

In addition, a VAT pilot reform to merge business tax (BT) with VAT commenced in Shanghai and other provinces in 2012 and is expected to be implemented nationwide starting August 1, 2013 in various service sectors, including:

- Transportation services
- R&D and technology services
- IT services
- Cultural and creative services
- Logistics auxiliary services
- Tangible movable property leasing services
- Authentication and consulting services, and
- Broadcasting, film and television services.

VAT taxpayers are divided into the two categories of "general taxpayers" and "small-scale taxpayers". For general taxpayers, the normal tax rate is 17 per cent; however, tax rates of 0 per cent, 6 per cent, 11 per cent and 13 per cent are applied to certain items. The current VAT rate for small-scale taxpayers is 3 per cent.

The VAT payable by general taxpayers is the balance of output tax for the period after deducting the input tax for the period. Output tax is levied on selling of the goods. Input VAT is VAT paid by a general taxpayer to suppliers when purchasing raw materials. No input tax deduction is allowed for small-scale taxpayers.

### **Business tax**

This is a tax payable against turnover by all enterprises and individuals undertaking the following business:

- Providing taxable services (including communications, transport, construction, finance and insurance, telecommunication, culture, entertainment and service industries)
- Transferring intangible assets, and
- Selling real estate.

Rates of business tax vary considerably, dependent on industry, but are generally between 3 per cent and 5 per cent for most services, with some special entertainment services up to 20 per cent.

As mentioned above, China has implemented a nationwide pilot reform to merge BT with VAT.

### **Consumption tax**

This tax applies whenever certain luxury or other goods are manufactured, processed or imported. Tax rates vary considerably with the product and the tax paid is computed directly as a cost and cannot be refunded.



#### **NEED TO KNOW**

When a non-resident enterprise provides services to a Chinese company, the service fees are subject to a 5 per cent BT, or a varying range of VAT where applicable, and surcharges. The surcharges include the urban construction and maintenance tax, education surcharge and local education surcharge, which amount to an additional 12 per cent on the total indirect tax liability. Indirect taxes are withheld by the Chinese service recipient when it remits the payment to the foreign service provider and are paid to the tax authority.

## **Chinese employment law**

Chinese Labour Law is designed to protect the employee. Among other stipulations, it includes very detailed regulations on contracts, so consult a professional on this matter.

The key point to consider for employers is what length of contract to offer each staff member. The vast majority of employees hired in the private sector in China are given fixed-term contracts. A fixed-term contract can be of any length. Generally the contracts are for full-time positions (although they do not have to be). The length of fixed-term contract offered to an employee has a major effect on the subsequent employer-employee relationship because:

- The length of the fixed-term contract will determine the maximum length of the probation period that the company can offer to the employee:

Maximum Probation Periods by Contract Period	
Contract Period	Maximum Probation Period
Less than 3 months	None
3 months to 1 year	1 month
Over 1 year, less than 3 years	2 months
3+ years (or open term contract)	6 months

- A fixed-term contract can only be renewed once. On the occasion of the second renewal the contract effectively becomes an open-term contract.



### NEED TO KNOW

After the second renewal of a fixed-term contract, or once the employee has worked for the employer for a consecutive period of ten years, an employer is obligated to offer the employee an open-term contract. Effectively, this means that the employer no longer has any opportunity to terminate the contract of the employee without a valid reason. Employees with open-term contracts are well protected by the law. Employers should try to ensure that only productive, responsible employees are rewarded with the security offered by such contracts.

Also, note that overtime payments in China can be quite steep – 150 per cent of basic hourly salary for weekdays, 200 per cent for weekends, 300 per cent for public holidays under the standard work hour system.

More and more companies are turning to third parties to handle their payroll in China to increase efficiency, accuracy and confidentiality of salary information – the latter not fully accepted among many Chinese staff – in addition to decreasing liability through incorrect filing and staffing costs (HR/IT/managerial resources).

## Visa

In order to enter China, you are required to have a visa and a passport with a validity of at least 6 months. You also require proof of onward travel intentions (a return air ticket) and hotel details. There are several types of Chinese visas, the most common being tourist and business visas, which are issued with different lengths of stay and have slightly different requirements. For requirements and an application form, check with the Chinese Embassy in advance of travelling.

A visa can take up to 5 days to process at the Chinese Embassy in Dublin. For more information, please visit the [Embassy of the PRC in Ireland website](#).

## Data protection

China has just recently started building a comprehensive framework for personal data protection. In December 2012, China released the “Decision on Strengthening Online Information Protection,” which states no organisation or individual may obtain personal digital information of citizens by stealing or other illegal means, nor sell or illegally provide such information to others.

On February 1, 2013, China’s first national standard on personal information protection, namely the “Guideline on Information Security Technologies for the Protection of Personal Information in Public and Commercial Service Information Systems,” came into effect. The guideline divides personal information into “general personal information” and “sensitive personal information,” and clearly states that sensitive personal information can only be collected upon the express consent of the individual concerned.

On April 10, 2013, China's Ministry of Industry and Information Technology took a concrete step by releasing the "Draft Rules on the Protection of Personal Information of Telecommunication and Internet Users" and the "Draft Rules on Identity Information Registration of Telephone Users." The former applies to the collection and use of users' personal information during the provision of telecommunication services and Internet services in China. The latter provides that applicants for landline numbers, cell phone numbers and wireless Internet services are subject to the "real name system," where they have to hand over their personal identity cards to service providers to sign up for the services.

## **EXPERT ADVICE: Intellectual property protection in China**

### **Ray Moroney, Founder of Moroney & Associates**

Moroney & Associates is a Hong Kong based consultancy and business advisory service for SME's operating in China, with an IP protection focus. Having worked in Beijing for over 11 years before recently relocating to Hong Kong, Ray's business specialises in assisting companies reduce their risk and exposure to challenges common to the Chinese market.

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“China is a first-to-file jurisdiction, which means that whoever files their trade mark (TM) application first, regardless of their previous association with the brand, is given priority. Currently it takes approximately 18-24 months for a straight forward TM registration.

Many companies in Ireland attend trade exhibitions in China to assess market potential and meet with potential local partners who might be interested in distributing their products and services. Given the current economic climate, a lot of these companies naturally are very cost-conscious and prefer to wait for potential interest to develop through these local channels, before they consider allocating resources to register their trademark(s) in China.

However, in adopting this approach, such companies unwittingly expose themselves to huge risks prior to applying for or registering their various IP rights. If they have strong brand penetration in other markets, they may already be known in China. In such cases, one of the many distributors or customers they meet may conclude there is a potential for the product and will attempt to register the trademark themselves, in addition to the most commonly used Chinese domain names i.e., ".com.cn" or ".cn" associated with the brand. If so, the opportunity is lost for the Irish company to capitalise on developing the product/service, if it succeeds, but is not prepared to go to the expense of rebranding in that market.

### **For Irish companies coming to attend trade shows, when should they begin the process of applying for their trademarks in China?**

In general, if at any point your company is considering to potentially source, assemble or otherwise sell to the Chinese market in the future, you need to register your IP rights well in advance to avoid disappointment. The costs are minimal compared to a situation whereby you no longer have this option. Ideally for foreign companies entering the market, the process should start so the relevant IP right application is already in the queue (i.e. in the process of registration) well in advance of an attendance at their first trade exhibition and/or arrangements for meetings around such exhibitions or factory visits with potential distributors/local partners. This significantly reduces the risk of unauthorised third parties filing your TMs.

More importantly, your ability to display Chinese IP registration certificates (or documentation to demonstrate you have already embarked on an IP application process in China) gives a lot of confidence to distributors/local partners at a first meeting where first impressions are important. This signals your intent to genuinely support your brand and give the appearance of being somewhat adept in the market. Some Irish companies request their distributors or local partners to register trademarks and other IP rights on their behalf. This is a risky policy as they tend to do so in their own name, so that they actually own their trademark rights for China, and can easily fob off any criticism for doing so by claiming miscommunication or translation problems.

In my experience, in a number of cases, some clients' designated regional distributors or parties they were in discussions with have registered their local TMs. Using the best case scenario (assuming the distributor is compliant), it can take approximately 1-2 years to register an assignment of the TM with the Chinese Trademark Office (CTMO), back to your company. By that time they might no longer be your authorised distributor, not to mention the additional expense involved. Companies then have to ask themselves whether this is a risk worth taking.

### **What is the remedy if someone has registered your trademark in China?**

Trademark squatting has become a very profitable business model for local and international companies alike and is rife in this fiercely competitive market. Trademark squatters, like any TM applicant, simply need to spend the equivalent of just under €1,000 to file a TM in one class, with the CTMO. If successful it acquires ownership of a brand in China, assuming the relevant mark has not already been registered (or is similar to a previous TM application pending registration).

The implications for the original brand owner are grim, if after being put on notice, they cannot successfully oppose the offending TM application within the limited time window for initiating that process. The consequences are that they may have to go to the considerable expense of rebranding for the Chinese market. Alternatively, they can attempt to negotiate with the Trademark squatter to acquire the TM at a huge premium, a process of registration by a third party which is often referred to as a bad faith registration.

Up until now, foreign brand owners, who for varied reasons have not been successful or failed to register their TM's in a timely manner in China, have had a second chance to acquire their TM rights by challenging third party and/or bad faith TM applications and registrations through utilising the TM opposition (pre-TM registration phase) and TM cancellation (post-TM registration phase) administrative procedures. They both require a lot of evidence and additional resources to be spent, expense which could have been saved if the relevant trademark was registered in sufficient time in the first place.

The proposed third revision of the Trademark Law of the People's Republic of China (PRC), which is expected to be enacted next year, may have a significant impact on the ability of foreign rights owners to continue to rely on these means to re-acquire the TM rights in China. Of the many proposed changes in the latest draft amendment, new provisions allow for the removal of an opponent's right to appeal a decision of the CTMO in TM opposition proceedings which, if implemented, may favour TM squatters.

Such developments make it increasingly important for Irish companies to get their TM strategy right, and their TM applications for China made as early as possible to avoid any of these challenges coming to pass.

### **How should I go about registering my TM in China?**

Ideally when seeking to file a TM application in China, get local advice. There are huge differentiations in quality of the service providers on offer, so try and get a list of recommendations of tried-and-trusted TM filing agencies, either through your own network, or through organisations such as Enterprise Ireland and Bord Bia, who have offices in China.

Alternatively, some of the IP specialist firms in Ireland usually have a relationship with a local service provider in China, although this may work out a bit more expensive than instructing a local agent directly, once you have got a recommendation. It is possible to conduct trademark registration without coming to China, through an entity like ours – as we in turn manage the process by instructing our trusted service providers to do the actual filing work and liaise with you on any pertinent queries. Alternatively, your own Irish TM attorney can instruct a local firm.

When applying for trademarks for the first time, or when considering an international (Madrid) filing for your TM's in different classes under the auspices of the World Intellectual Property Office (WIPO), request your local TM agent to designate China, amongst other countries you wish to register in, which will give you an earlier priority date should you decide to actually file in China (within 12 months of your base filing). There are many benefits to using this procedure, which I will not go into here. The Madrid system also simplifies greatly the subsequent management of the

mark, since it is possible to record subsequent changes or to renew the registration through a single procedural step.

### **How much money and time should a company budget for registering their trademarks in China?**

It depends largely on what brand they wish to market in China and in what class of goods. A straight forward TM application in one class, itemising 10 goods within that class or sub-class, would normally cost somewhere between €1-2,000 depending on whether additional advice is required, such as:

- TM searches and any blocks to your TM application(s) that may be revealed (i.e. such as prior applications or registrations of identical or similar TMs)
- Defensive filings (strategically registering your mark in another class to stop competitors)
- Advice on what (other) classes for registration need to be considered, and/or
- Local branding (using Chinese characters in your mark) if you have not filed a TM before.

When selecting which class in which to register your TM, you should be aware that China has a system whereby they have certain subclasses of goods which are unique to China and may not necessarily correlate with the goods described in your existing TM registrations elsewhere. Your local service provider should be able to assist you with this.

### **What is the status of trademark enforcement in China?**

Despite negative press that may allude to the contrary, there is a system of IP enforcement in China which can work adequately, provided you have prior registered rights in China. While there are limitations, especially when compared with similar practices in Western countries, these should not be taken out of context. In addition, there are inconsistencies in the level of the effectiveness of enforcement depending on which part of the country the infringement occurred. But these quite often can be attributed to the manner in which a particular rights owner has gone about enforcing their rights and the management of their expectations on what can realistically be achieved. The practice of individual companies sending warning letters to alleged offenders in English via email should be discouraged, as they will not be heeded, having no basis in PRC law, and can often prove counter-productive and act to the detriment of the rights owner. In all such cases, get local advice from a reputable IP specialist law firm on your options, before deciding to take matters into your own hands, and expose yourself to greater risk in so doing.

The status of effective enforcement can depend on other factors such as a company's presence in China. If infringement of their TM occurs, the TM owner or their designated representative(s) need to obtain evidence of infringement, including proof that a certain company is the source and is actively marketing it (such as collecting samples and receipts, clearly identifying the supply chain of the infringing item). A firm which specialises in IP enforcement will also need to be instructed, and can usually assist with these matters, and manage the enforcement on your behalf.

Part of our services incorporates our experience, coupled with knowing the reputable service providers and managing them on your behalf in real time, to meet your objectives in the most cost-effective manner. Usually in the cities, the enforcement can be quite good, but the client will have to spend resources on investigations on identifying where the infringer is located, whether there is infringing stock, so that when enforcement action is taken, the stock is there and can be seized. Otherwise, if they turn up at the wrong time, a lot of money has been spent with nothing to show for it.

### **How do you monitor trademark infringement?**

In order to do that you will need some sort of presence in China. Recruiting Irish graduates, i.e., Chinese students who spent time in Ireland, to do some business development in specific cities and monitor infringement for you in China can be very helpful and a relatively inexpensive resource.

It is normal to find terms in the relevant legal agreement whereby your designated distributor or authorised retailer/reseller, is obliged to notify you of any suspected infringements. However, to succeed, one needs to have sufficient resources and take action to defend your brand because if you don't, your distributors and customers alike will lose confidence in the product and the brand.

### **What are some other enquiries you have received?**

I have had a lot of Irish companies enquire about copyright protection for software codes as well as others seeking guidance on registering their industrial designs in China. Due to the absence of an Industrial Design Law in China, there is no equivalent method of registering or recording industrial designs in China at present. The closest thing to such IP rights would be design patents and/or copyright records of those designs.

Irish companies have the option to file industrial designs with a central European agency (OHIM), which gives them protection in most EU countries. When applying for an OHIM industrial design application, they also have the option to make an application for a design patent in China, if certain criteria are met, which will give them an earlier priority date (in China). Such a process would need to be done using a local Chinese patent specialist firm, but must be instructed within six months of the OHIM filing date. Typically in China, there is no substantial examination for approving design patents, making them vulnerable to invalidation by third parties for lack of novelty or prior publication.

### **If an Irish enterprise develops a mobile app and adapts it for a Chinese partner, how should it protect itself from an IP perspective?**

The Irish company should understand what, if any, IP they can protect in that product under PRC law. If it becomes a popular product and they want to sell it to other Chinese companies, they should determine or instruct a firm like mine to assist, if there is something in that product that can be protected, such as copyright record and so on. If they don't bother to check, their local partner might decide to replicate their product and sell it as their own platform to other companies. If the Irish company is coming into the market seeking to have a one-off sale without understanding the key value in their own product, then there is a risk there and infringement is a very real possibility. Although you are not obliged to register your copyright in China, it is recommended you do so, because it means that you have an IP right, and a copyright record doesn't take as much time as a design patent or TM to get registered. ”



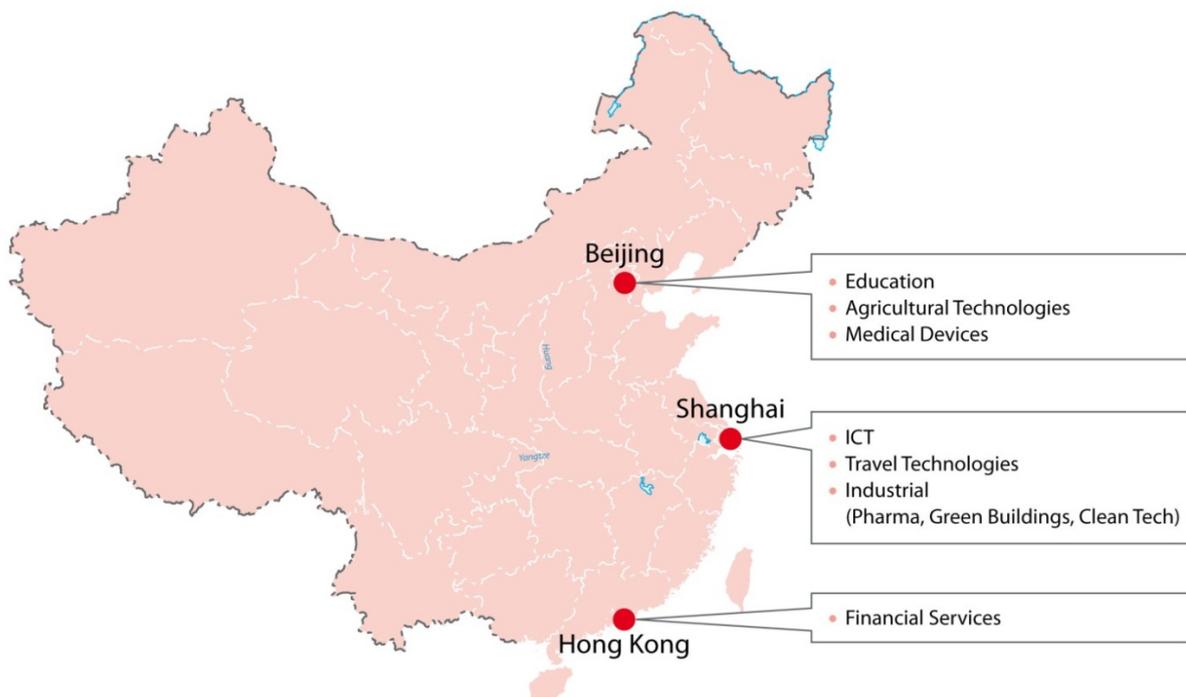
## 6. Growth Sectors

**“We have identified six clusters in China where we believe there are significant market opportunities and where we have recognised centres of excellence. Ireland has strong capabilities in areas such as food security, agricultural technologies, ICT, education, life sciences, financial services, and clean technologies. Enterprise Ireland looks to proactively link to those opportunities.”**

**Gary Fallon, Country Manager, Greater China at Enterprise Ireland**

### Introduction

Enterprise Ireland has identified several key areas of opportunity where Irish companies are well placed to deliver products and services, and these are outlined below.



### Food, agriculture, food safety

#### Agricultural machinery

The total industrial output value of China's agricultural machinery industry reached RMB338.2 billion (€40 billion) in 2012, ranking first globally. The agricultural mechanisation of China has developed into the intermediate stage. In 2011, the comprehensive agricultural mechanisation level (ploughing, planting and harvesting) reached 54.8 per cent, up 20.5 per cent from 2004. The figure for 2013 is projected to be 58.5 per cent. Mechanised wheat harvesting now exceeds 90 per cent, while mechanised rice harvesting is at over 60 per cent. The mechanised corn harvesting rate is at about 30 per cent.

## **Food safety**

As one of the largest food producing and consuming countries in the world, China is starting to pay increased attention to food safety issues. The growing unrest over food safety in China reached a climax in early 2007. As a result, China has implemented a series of plans and taken various actions with respect to food safety issues in recent years.

In 2012, the General Administration of Quality Supervision, Inspection and Quarantine of China seized sub-standard products valued at RMB6.13 billion (€736 million) in 20,000 food safety cases. It also launched overall quality tests on 3,421 batches of imported dairy products, which covered almost every brand and variety imported into China.

## **Opportunities for Irish companies**

Chinese people are attaching more importance to health today as they become more affluent. Modern agriculture featuring deep processing or "organic" is becoming more and more popular among consumers. Opportunities exist for Irish companies to provide quality and healthy food products to the Chinese market.

The central government launched the agricultural machinery purchase subsidies to improve farm efficiency in 2004. Chinese governments at all levels are providing machinery purchase subsidies to farmers to boost agricultural mechanisation, and farmers can receive approximately 30 per cent of the entire cost of machinery purchase in addition to extra preferential policies from local governments. In addition, agricultural machinery service organisations are increasingly expanding, with service capabilities ever improving. Irish companies are well placed to deliver agricultural machinery and relevant services that are in demand by the Chinese market.

China has also begun to establish food safety control mechanisms, including regulatory, supervisory, and science and technological systems. China will accelerate its pace in setting up national standards of food safety by the end of 2015 in order to better safeguard the public's wellbeing. Irish food companies have opportunities for encouraging best practices in this regard.

## **Education**

The trend of Chinese students going abroad to study is expected to increase rapidly in the upcoming years. A recent report showed that the number of Chinese students studying abroad has surpassed 400,000, with a 21.8 per cent increase year-on-year, and accounts for about 14 per cent of the study abroad population globally. According to the Director of the Beijing Overseas-Study Service Association, the number is expected to hit 550,000 to 600,000 in 2014.

Students born in the 1990s and 2000s are the main participants in this flood. English-speaking countries such as the United States, Britain, Australia, New Zealand and Singapore are the top options. Business, such as finance and accounting, continued to be the top majors pursued by Chinese students, followed by majors in the science field, such as information technology, engineering and natural sciences.

Compared with previous years, there is a clear sign that Chinese students are studying overseas at a younger age. Previously, the majority of Chinese students went abroad for Masters or PhD degrees. This situation has changed. Currently, more and more Chinese high school students and their parents consider studying abroad at a younger age as a good investment for the children's future. They believe that going abroad could cultivate the young students' independence and adaptability, which will greatly help the young in their future development, something that is lacking in the Chinese education system.

According to the Ministry of Education, 9.57 million Chinese high school students registered to take the college entrance exam in 2010, which was about 650,000 less compared to 2009 and 930,000 less compared to 2008. Choosing to study overseas was one major reason for candidates to cancel registration, especially for urban students.

With China becoming the world's second-largest economy and with Renminbi (Chinese Yuan) appreciation, more Chinese families can afford sending their children to study abroad; meanwhile,

due to the international financial crisis, many Western countries have loosened their visa policies and earmarked international students as an important revenue earner for their education system.

### **Opportunities for Irish companies:**

There are ample opportunities for Ireland in the educational services sector, particularly in attracting students from China for courses ranging from English language studies to third-level degrees, postgraduate and business studies (MBA; EMBA).

Ireland and China have been expanding education cooperation and exchange for years. In 2006, the two countries signed the China/Ireland Agreement on Mutual Recognition of Higher Education Qualifications and in 2008 established the Memorandum of Understanding between the China Scholarship Council and The Irish Universities Association on PhD Cooperation. Ireland also has partnerships with Chinese higher institutions such as Beijing Foreign Studies University and Fudan University.

## **CASE STUDY: Opportunities for Irish education institutions in China**

### **James Aldridge, Executive Director – China, Grok Education Services**

Grok Education Services is an international education management company that works with universities, colleges and government organizations to support institutional initiatives in Asia. With its China offices in Beijing, and through a partnership with Sannam S4 in India, Grok delivers its services in both key markets.

[www.grokglobal.com](http://www.grokglobal.com)

### **What do you see are the opportunities for Irish education institutions in China?**

“There is consistent, strong growth in the number of Chinese students studying abroad in recent years, and an increase in the number of overseas providers. Ireland is definitely a niche market in China. We recognize that institutions in Ireland may not have a massive number of international students or a huge recruitment budget to fund fancy initiatives. As such, we need to be careful, creative and very strategic about doing the right thing and the right activities at the right time in order to fund the goals they have. With a sensible strategy and strong messaging, there is tremendous opportunity in China for Irish institutions.

### **What advice would you give to Irish institutions that are relatively new to international education or the China market?**

Well, first I always encourage institutions to look internally at what their international vision is and what their goals are before they take that plunge into China. Irish institutions in particular will want to make sure that they identify what their goals are in China, and we can help them with that. They should also have a sense of why they are getting involved in China and why now. We work with every institution on an individual basis so we sit down in the very beginning and talk about what their experiences have been and what their goals are.

While there used to be a unidirectional flow of Chinese students to the West, we are seeing more and more schools that would like to do two-way exchanges, academic exchange, collaborations and partnership, two plus two and dual degree program set up. There are many different ways we can go about creating a comprehensive program, such as internships for students studying in China. There may be institutions that decide they do not want to recruit individual students through agents at all. They want only to recruit through other channels, through partnerships and what not, that's one way to go.

There is a lot to do up front to be ready for the China market. One of the things I always recommend is that you get good advice about aligning the internal processes at your own institution

back in Ireland to be ready to accept the inflow of international students that good recruitment will bring.

What we find is sometimes they will go out and do good marketing and recruitment, and then the systems are not set up to handle the difference in admissions and orientation, handle language issues and support services for international students such as housing. It doesn't take long for a bad reputation to develop and the reality of social media usage in China means that bad news spreads quickly, so be sure that you have already made the adjustments necessary to properly service the international students on campus.

Another thing is to really understand the Chinese mindset and the Chinese student. The implications of the "One-Child Policy" are very real. I am talking about the fact that one young person going abroad to study may be supported by two parents and potentially four grandparents and everybody pooling a lot of resources, putting a lot of pressure on one student. It's a huge family decision to make, and you really need to learn whatever you can about how the family makes their decisions.

Chinese agents see the individual student and the family as their customers and the education institutions as their partner, not the other way around. Some education institutions make the mistake of thinking they are the customer in the eyes of the education agent in China. That's not the case, the family is the customer first and they are serviced first.

The other thing is to understand is how Chinese family and Chinese agents evaluate a good school. There is a specific combination of things, but ranking and reputation are very important in China. Also important are the strength of their marketing materials, how the school articulates their merits to the family in China appropriately, and are those communicated in Chinese. We still strongly recommend that all of our customers do produce a local version of their promotion materials in Chinese. The third thing is how well the school does to support the agent and being involved and supportive. In terms of an agent evaluating a school, help them view the education institution as being one that takes care of their international students.

At the current point in time, institutions are also thinking about secondary and tertiary markets – where else can we go in China, what should our next move be, etc. Our research team helps these universities in a major way when making decisions like this, and they often approach us for this service.”

## Renewable energy

China's rapid economic and social development has caused various issues such as energy shortages, resource depletion and environment pollution. Accelerating the development and use of renewable energy is deemed an effective and efficient way for China to increase energy supply while minimising environmental impact.

According to the 12th Five-year Plan, by 2015, the annual renewable energy consumption will reach 478 million tons of standard coal equivalents, representing nearly 10 per cent of the overall energy mix. Meanwhile, electricity generation from renewable sources will account for 20 per cent of total electricity generation by 2015.

In 2012, China's renewable energy sector attracted €48.7 billion investment, a 20 per cent rise from 2011, against 11 per cent global decline. According to a report published by the International Energy Agency in 2012, China will lead the world's renewable energy development, accounting for 40 per cent of the growth from 2011 to 2017. In addition, China will account for almost 40 per cent of the 710 gigawatts of new global renewable electricity capacity expected, followed by the US, India, Germany and Brazil. China will also actively participate in global energy management.

## Energy efficiency

The energy-saving and environmental protection industry is one of the country's seven "strategic industries", according to China's 12<sup>th</sup> Five-year Plan. The Plan aims for this industry to generate a total output of RMB4.5 trillion (€0.5 trillion) by 2015. It also highlights important areas of the sector,

including the application of semiconductor lighting, industrial waste utilisation, water desalination and the promotion of related technology and infrastructures.

In June 2012, the Nation Development and Reform Commission announced it would allocate RMB2 billion (€0.2 billion) in fiscal funding for 2012 to promote the energy performance contracting service sector and reward companies who performed well in energy conservation. China's ambition to shift to a greener economy is expected to provide more than €235.5 billion in investment opportunities over the next five years for the country's burgeoning energy-saving sector.

### **Opportunities for Irish companies:**

The 12<sup>th</sup> Five-year Plan promotes the fusion of renewable energy and conventional energy systems, and encourages investment in technology innovation and core technologies. According to the China Energy Policy published in 2012 by the State Council, for a fairly long time to come, international energy trade will remain the major way by which China utilises foreign energy sources. China will improve policies for fair trade and optimise the trade structure, and conduct energy imports and exports in accordance with the WTO rules. China will also diversify the modes of trade and use such methods as futures trade, long-term agreements, entrepot and barter trade. In 2013, the State Council released another white paper on China's clean energy policy, stating that China will actively develop hydropower, solar power and wind power generation capability, seek safe and efficient ways of developing nuclear power, and utilise biomass energy and other types of renewable energy. Irish companies are well placed to provide energy conservation technologies to the Chinese market.

## **Healthcare, Biomedicines, Medical devices and Pharmaceutical**

### **Healthcare**

According to official reports published in June 2012, total Government investment in the healthcare system has exceeded €142 billion since China's radical healthcare reform plan began in 2009. From 2012 forward, the annual investment is expected to stabilise at €47.5 billion. The health care spending will continue to focus on the following areas: reduce the cost of medical services; upgrade infrastructure and facilities; enlarge insurance coverage; and reform the distribution model. The generous Government spending in healthcare is likely to benefit various sectors of the pharmaceutical industry.

### **Biomedicine**

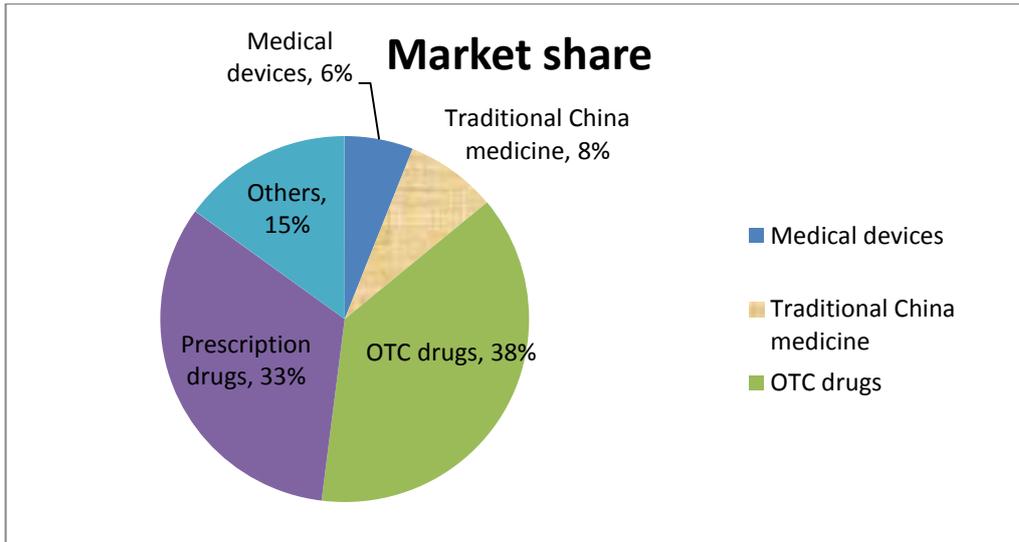
In 2012, the biomedicine industry saw a 19 per cent growth, with industry size reaching €180 billion. Among all the sub-segments of China's pharmaceutical industry, biomedicine was the most profitable segment in 2012, said Mr. Zhu Jianying, the chief analyst in the China National Pharmaceutical Industry Information Centre. According to the Bio-industry Development Plan published by the State Council in 2012, the average annual growth of the market will exceed 20 per cent in the 2013-2015 period.

### **Medical devices**

According to a research report compiled by PharmaLive, a consulting firm, China is expected to overtake Japan as the world's second largest market for medical devices in five to seven years, and to dominate 25 per cent of the world market by 2050. Huge demands for upgrading medical devices in Chinese hospitals will spur rapid growth in the medical device market.

### **Pharmaceutical**

In 2012, China became the world's third largest pharmaceutical market, with market size reaching €219.6 billion. In 2015, China is expected to become the world's second largest pharmaceutical market, and in 2020, the total size of the market is expected to exceed €474.72 billion. Despite the vast size of the industry, global and domestic players operate in a crowded and competitive environment. More than 1,000 international players vie for space, along with an excess of 5,000 domestic companies.



Source: KPMG report

### Opportunities for Irish companies:

Out of all medical devices in the country's 175,000 health institutions, 60 per cent were installed before the mid-1980s, and 15 per cent in the 1970s. These need to be replaced with new ones, according to a China Med 2013 press conference. Irish enterprises can explore opportunities in exporting medical devices in demand by the Chinese market.

## Financial Services

China has successfully tackled the rigorous economic situation in 2012 by implementing an active fiscal policy and moderate monetary policy, stabilising the macro economy, and encouraging the financial market with the speeding up the opening of capital market, money market, financial service market, insurance, and investment management. By far, the Qualified Foreign Institutional Investor (QFII) programme in the capital market and the banking sector of the financial service market are the most highlighted segments for foreign investors.

### Capital market

The Chinese capital market primarily includes bond market, stock market, and mutual fund market (excluding money market fund that is classified as the instrument of money market). The China capital market aims at efficient capital allocation and well-established corporate governance to strengthen the industries and the individual companies.

China launched the QFII programme in 2002, and UBS AG was awarded the first quota in mid-2003. Under the QFII programme, foreign institutional investors may submit the application to the China Securities Regulatory Commission (CSRC) for the QFII licence to invest in China's securities markets. CSRC is the primary securities regulatory agency in China.

On July 27, 2012, the CSRC modified the rules governing the QFII programme, which represent a continuous opening of China's securities markets to foreign investors. Specifically, the rules:

- Increase the total investment quota by €37.4 billion
- Expose the QFII programme to a wider range of financial services companies by lowering the qualification requirements to QFIIs, and
- Offer QFIIs with greater investment activities latitude and improving availability of asset management.

As of the end of December 2012, the CSRC had approved 202 QFII licensed investors, and QFIIs had been allocated approximately accumulated €25.1 billion of investment quota by the State Administration of Foreign Exchange (SAFE). An additional €1 billion investment quota for QFII had been approved in May 2013.

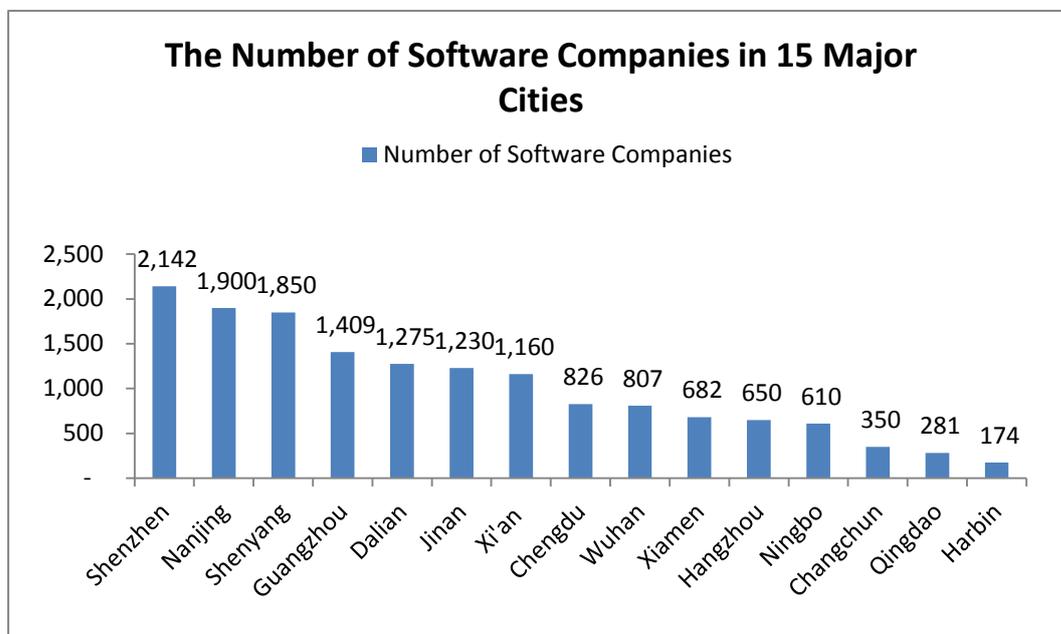
Gui Minjie, the Chairman of the Shanghai Stock Exchange (SSE), stated at the 12th National People's Congress (NPC) held in March this year that the SSE can attract more foreign investors into its blue-chip security market. Shanghai local government also encourages the QFII programme, seeking to engage the QFII scheme to other financial markets such as swap market and derivative instruments.

**Opportunities for Irish companies:**

Both the banking and insurance markets in China and Hong Kong are facing increasingly strict regulations and tough compliance after the Western financial crisis. They need different kinds of solution for dealing with the compliance cost and to monitor activities to meet compliance requirements, which Irish companies can provide.

**Software**

Despite sluggish market demand due to an economic slump at home and abroad, China's software industry showed a strong growth. In 2012, the revenue of China's software industry reached RMB2.48 trillion (€298.74 billion), growing by 28.5 per cent from 2011 according to the Ministry of Industry and Information Technology (MIIT). Driven by the rising demands from Internet development, data processing and SaaS (Software as a Service) contributed to 17.1 per cent of the total revenue with the highest growth rate of 35.9 per cent. Another growing momentum was from the major 15 Chinese cities, including Beijing and Shanghai. The revenue of software in these 15 cities was up to RMB1.36 trillion (€163.82 billion) last year, representing 55 per cent of the total software revenue, with a growth rate of 31.4 per cent - 2.9 per cent higher than the sector's national growth rate.



Source: Ministry of Industry and Information Technology (MIIT), January 2013

## **ICT**

The development of China's next generation conventional and mobile Internet technology brings emerging opportunities for ICT industry investors. In 2012, the Chinese Government formulated a series of policies for the research, development and application of these technologies. In February 2012, the path and timetable for the development of IPv6 were finalised; the strategy of "Broadband China" was discussed and proposed by the MIIT; and in May 2012, the 12th Five-Year Development Plan for Communications Industry was issued, which set development targets and plans for new services such as popularisation of broadband, Internet of things, and cloud computing. In June, the policy regarding the gradual opening up of the telecommunication markets for private investors was issued, which will introduce more competition in the market and change the long-standing State-owned companies' dominance in the industry.

## **Telecom**

China continued to promote the development of 3G, with 234 million users by the end of 2012. It is projected that a large number of 2G users will turn to 3G services in 2013. The commercialisation of 4G TD-LTE technology also progressed with 13 pilot cities' deployment.

The 12th Five-Year Plan of Telecommunication was issued on May 4, 2012, which set forth specific goals for the industry's development by 2015:

- The telecommunication industry shall achieve revenue exceeding RMB1.5 trillion (€179.4 billion)
- The number of total telephone users shall exceed 1.4 billion, in which the number of mobile phone users shall be over 1.2 billion
- The number of Internet users shall exceed 250 million, with access speeds to reach 20Mbps in urban areas and 4Mbps in rural areas
- "Broadband China" shall be developed and implemented to accelerate the development of broadband access in the country.

To speed up the industry's development, MIIT issued the policy to encourage private capitals' entry into this State-run monopoly sector. Private investors are allowed to get involved in the areas such as Internet hosting, telecom value-added services, Information network system integration, telecom infrastructure construction, etc.

## **Mobile Internet**

By the end of June 2012, based on China Internet Network Information Centre (CNNIC) data, there were 388 million mobile Internet users in China. It was the first time that mobile phone users surpassed desktop computer users in number. Mobile phones have become the primary internet accessing terminal in China. By the end of December 2012, the number of mobile Internet users increased to 422 million, 64.4 million more than that at the end of 2011.

Some of the reasons for the increasing number of mobile Internet users are a result of the growing multi-functionality and lowering prices of smart phones, as well as the development of various applications. One such application is mobile videos. The number of China's Internet users who watched videos online or downloaded videos on mobile phones was 130 million by the end of 2012. Another fast-growing application is mobile online shopping. The number of mobile shopping users was 2.36 times that of the end of 2011.

## **Opportunities of Irish companies:**

E-commerce is growing rapidly in China, and Irish companies can provide good payment solutions in this area.

## Air and Rail Infrastructure

Along with China's rapid urbanisation, China is expanding and improving its inter-urban air and rail transportation.

### Aerospace

China has become the world's second largest national air travel market, trailing only behind the United States. According to the 12th Five-year Plan, the number of civil aviation airplanes is projected to increase from 1,597 to 2,750 by 2015, and the increase in civil aircraft is estimated to grow from 1,010 to over 2,000, representing respective annual growth rates of 11 and 14 per cent. The number of municipal airports is projected to grow from 175 to over 230 in the same period, thus improving access to air transportation.

For decades, China has purchased much of its civil and general aviation aircrafts from foreign producers such as Bombardier, Boeing and Airbus. In recent years, components for these OEMs have been successfully produced in joint ventures in China. These productions have had to meet the stringent requirements for international approvals such as the European Aviation Safety Agency (EASA) and the American Federal Aviation Agency (FAA).

Now, China is developing some independence in the production of both civil and general aviation aircraft. The State-owned Aviation Industry Corporation of China (AVIC) and Commercial Aircraft Corporation of China (COMAC) are currently in the early production stages of COMAC's C 919 and AVIC's ARJ 21 commercial aircraft. Some critical parts, such as engines, hydraulic systems, electronic navigational systems and other key components that require international approvals are being imported or produced in China through licensing and joint ventures. Both the C 919 and ARJ 21 are being built with engineering design and components from international producers such as Honeywell, General Electric, Pratt & Whitney, Bombardier, Rolls Royce, and several other smaller European, North and South American companies.

### Rail

During its 11th Five-year from 2005 to 2010, China invested RMB7,220 billion (€875.2 billion) in domestic overland transportation construction. Currently, China's urban light rail systems cover 18 cities (Hong Kong included), with a combined length of 2,100 km, placing China with the world's largest light rail systems. The goal by 2015 is 3,000 km. According to the 12th Five-Year Plan for Comprehensive Transportation Systems, China plans to increase the length of railways from 91,000 km to 120,000 km. To achieve these goals, inclusive of highway construction, additional investment of around RMB7,725 (€936.4) billion would be made.

China's high-speed rail (HSR) network has been developed with considerable foreign participation from Europe and North America. Such firms as Siemens of Germany, Bombardier of Canada and Kawasaki of Japan constitute the foreign suppliers of engineering and components supporting what is now the world's longest HSR network of currently over 11,000 km, to be extended to 18,000 km by the end of 2015.

### Opportunities for Irish companies

Opportunities are unfolding for ground support equipment for airport operations and maintenance and repair (M&R) facilities. For example, Pratt & Whitney and China Eastern Airlines have already opened a joint venture engine M&R facility in Shanghai. Other such international ventures are encouraged through the Chinese government's policies as well.

Foreign participation has also been encouraged in the development of rail safety equipment, monitoring systems, tunnel ventilators and other performance enhancement equipment. Alignment for contracting for both domestic and foreign firms is done through the China Railway Construction Corporation and its subsidiaries.

# SELLING TO STATE-OWNED ENTERPRISES (SOE) IN CHINA



# 7. Selling to State-owned enterprises (SOEs) in China

## Introduction

Since China started its reform of State-owned enterprises (SOEs) in the late 1990s, the number of enterprises under sole State ownership has declined significantly. Many state-owned enterprises turned into State-holding enterprises (enterprises in which a majority of shares is held by the State) or enterprises with minority shares held by the State. These enterprises contributed considerably to China's remarkable growth over the past few decades.

These privatisation efforts provide these enterprises with more flexibility in making business decisions to keep pace with the changing market, and simultaneously enjoy Government financial support and access to favourable policies. However, these advantages carry with them some notable constraints. Government control and impact over State-holding enterprises is still intensive and infiltrative, which impedes the general operation, including the decision-making process of these companies.

## Framework

Due to the continuous privatisation reform of SOEs, some of the large SOEs are becoming more like private or public corporations in a general sense. They are listed in stock exchanges, hold board of directors and shareholder meetings, and set up marketing departments to observe the changing business environment. However, these changes are largely cosmetic, and do not reflect the mostly unchanged influence of the State and local government. Corporate culture and management tone, which were established long before the start of SOE reform, also remain relatively untouched.

Most large-sized SOEs are overseen by the State-owned Assets Supervision and Administration Commission of the State Council (SASAC), an institution directly subordinate to China's State Council. SASAC is at the forefront of the decision-making mechanism of SOEs and has the final say on all the major movement of the business operation of SOEs.

For example, according to the 2012 annual report of China Petroleum & Chemical Corporation (Sinopec), one of the biggest-listed SOEs, 75.79 per cent of its shares are held by Sinopec Group, which is 100% owned by the State and takes orders directly from SASAC; while 19.21 per cent of shares are held by shareholders traded at Hong Kong Stock Exchange. Other shareholders are companies like Industrial and Commercial Bank of China Limited (ICBC), PICC Life Insurance Company Limited, and Bank of Communications, all of which are SOEs and are directly overseen by SASAC.

The SASAC supervises the party committee, the board of directors and the supervision committee of an SOE. The Company Law of China requires all Chinese companies to establish a Communist Party organisation within the company, usually referred to as the "party committee". Typically, the members of the party committee comprise a certain percentage of the directors of SOEs. The secretary, i.e. the head of the party committee of a company usually has the final say in major decisions in management, and may be prioritised even over the chairman of the board. In practice, the secretary of the party committee and the chairman of the board are very often the same person. All party committees in SOEs are under the supervision of the party committee of SASAC.

All SOEs in China are also required to set up a labour union, overseen by the party committee, to represent its members in disputes with management over infringement of the rights and interests of the employees. At least one employee director, subject to approval from SASAC, will be elected through a general meeting of the representatives of staff members held by the labour union. Although the employees can vote for their own director to participate in the decision process through the labour union, the procedure may be cumbersome because of the influence from the

party committee, and since the director in question must also be approved by SASAC, it only allows employees a nominal amount of influence over the workplace.

## Decision-making culture and process

The influence from the State tends to lead to top-down management of SOEs, similar to the structure of the Chinese Government. The senior executives discuss and make decisions in their own small group meeting, and then turn to more junior workers for implementation of those decisions.

Unlike regular companies, in which most of the internal meetings require the input of employees and staff to solve problems, almost all internal meetings in SOEs are just a formality for the managers or supervisors to deliver the decisions that have already been made by the upper level. Hence, managers who have the power to make decisions are highly respected and rarely challenged, at least formally. Employees who contribute ideas or opinions to managers will usually talk to their direct supervisor in private first, and then the supervisor decides whether or not to pass it on to the upper level.

Most of the employees at SOEs, including the senior executives and those junior to them, are not encouraged to improve existing processes or to conceive of new initiatives that can increase the company's revenue. Their chief goal is to avoid making errors. Innovation and major changes in daily routine are also uncommon, and risk avoidance is the modus operandi of most employees.

Although the largest SOEs have adopted performance management practices for employee appraisal, which will determine the employees' yearly bonus (SOEs usually offer very generous year-end bonuses to employees), the final score of performance depends in large part on the opinion of their direct supervisor instead of more objective measures.

According to personnel at a prominent SOE in China,

*High-level managers in SOEs tend to act more like Government officials than entrepreneurs. SASAC reviews the work performance of senior managers on a yearly basis. Should they make some notable errors in running the company, the consequences are not likely to be directly financial, as they would in a private company. SOE managers will instead suffer some penalties to their political situations. For instance, they might be dismissed from their respective positions and transferred to some post with less responsibility and less potential for growth. Such an environment dissuades them from changing day-to-day operations in order to keep from making that crucial mistake. Before making any decision that can impact the company, they therefore tend to consider every possible angle of the current situation.*

SOEs maintain close contact with the Government in a variety of ways, many of which the average investor – or even employee – is unaware. Political considerations are a key and omnipresent concern for them in all decisions. Before making any systemic decisions likely to effect change to the company, the senior executives of SOEs must consider whether or not the decision is suitable for the company's political objectives and fits the long-term development strategy of the Chinese Government. Once a project fits in the blueprint of government, it will be much easier for SOEs to get access to the vast financial and operational resources that additional government support will provide to them. According to the SOE member:

*When making business decisions, it is considered as an SOE's social responsibility to consider political objectives or strategic goals set by the Government. However, this consideration can only be taken into account in a limited capacity, since the top priority is still the profitability of the project. Sometimes, SOEs will use the ideas from the Government as a tool to procure more resources from the former, since accessing that support is simpler when something is in accordance with the "Government's will".*

Government departments and SOEs are will also prioritise cooperation with other SOEs over other entities because of the common ties they share, and sometimes Government policies even require them to do so. For instance, SOEs often enjoy a much lower interest rate on loans from State-owned banks such as Bank of China (BOC), China Construction Bank (CCB), or ICBC. An example

in a different sector would be Roewe, a subsidiary of the State-owned SAIC Motor Corporation. Recently, Roewe became the Shanghai Government's biggest supplier of cars, mostly because the Shanghai Government wants to support its local brand (SAIC Motor is a Shanghai-branded SOE).

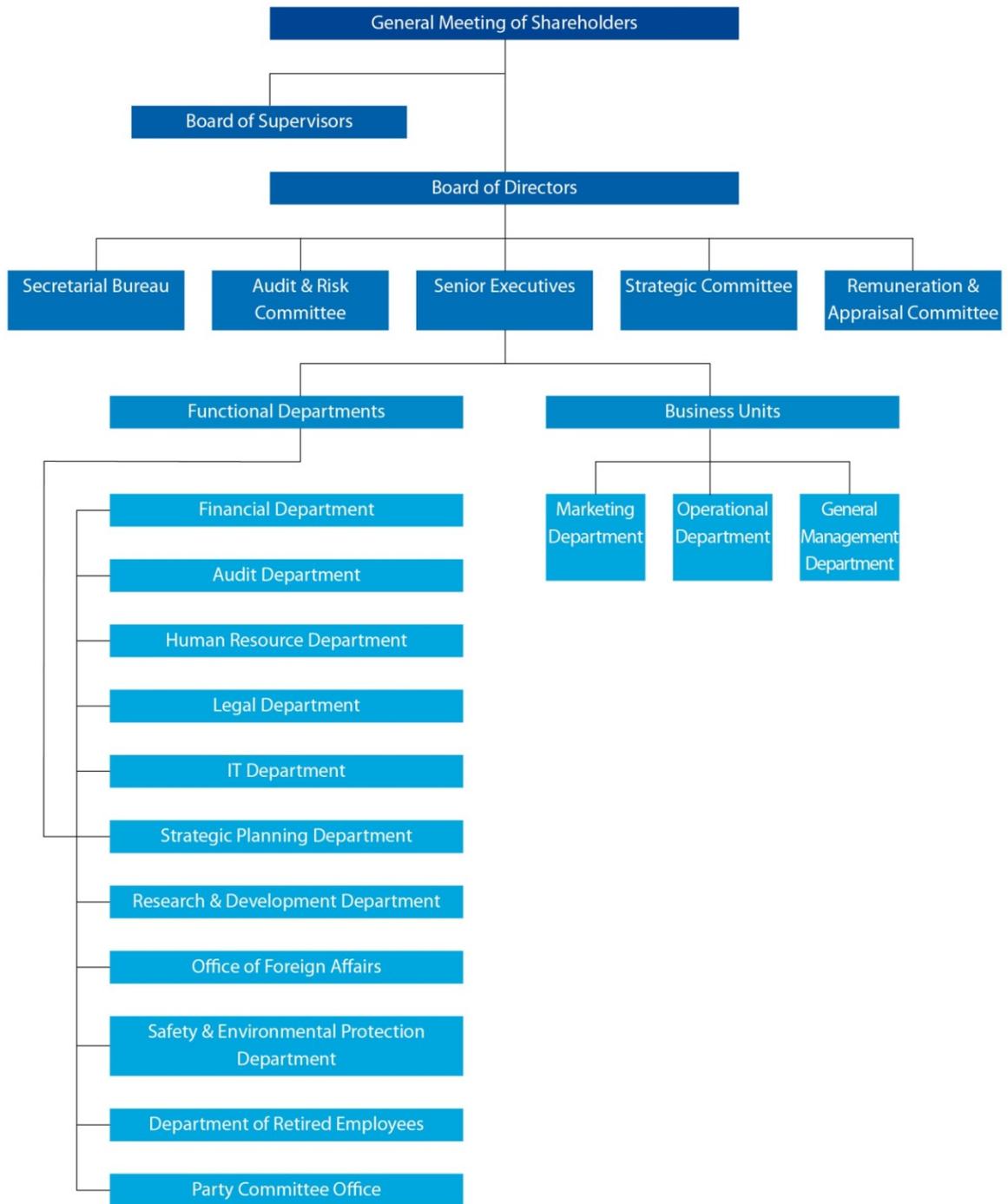
## How to approach an SOE

According to the SOE personnel member who has worked with Irish enterprises, a major advantage that Irish enterprises have to offer is their willingness to explore new markets together and share risks with their partner. He said:

*High level managers in China's SOEs are usually very busy and prefer to vet collaboration opportunities only after they have undergone a thorough screening by their subordinates. A viable course of action would be to make contact with an employee at the operating level first, who will usually work in the market or business department. Ideally, this contact will be familiar with technical details and can evaluate your product's value to their company. Once your products are approved within their department, they will help you demonstrate your products to their bosses and push the process forward. They will also arrange meetings for you with high-level managers in a position to finalise a partnership.*

He also suggested talking to a young person in the organisation because he/she is more likely to be more open-minded as well as motivated and incentivised to push good products forward.

# SOE Organizational Structure



# HOW ENTERPRISE IRELAND CAN HELP YOU SUCCEED IN CHINA



## 8. How Enterprise Ireland can help you succeed in China

Enterprise Ireland is committed to assisting and supporting our clients in entering new markets and expanding in your current markets. Our team of experienced marketing professionals in our network of overseas offices are ready to help you. An overview of our service offering is listed below:

### Pre-visit support

Enterprise Ireland can provide:

- A sector overview
- A validation of the opportunity for your product/service
- An evaluation of your market entry strategy
- Suggested channels to market
- Competitor analysis
- Relevant contacts/suggested itinerary
- Summary of relevant market information resources.

### In-market support

Services available include:

- Introductions to buyers and decision-makers
- Identification of potential partners
- Facilitation of buyer visits to Ireland
- Assistance with product launches/workshops
- Securing reference sites.

### International trade events programme

Every year, Enterprise Ireland organises an extensive programme of events to support your business abroad. These include:

- Inward buyers' missions to Ireland
- Group stands at important international trade fairs
- Overseas trade missions
- Study visits to gain knowledge of overseas markets
- Client knowledge events including seminars and workshops
- Networking events to build and enhance relationships with market contacts.

Further information is available at: [www.enterprise-ireland.com/events](http://www.enterprise-ireland.com/events)

## International market contacts

Enterprise Ireland has built up an excellent network of individuals in China who are able to work with Irish client companies on developing their business. This includes market and sector specialists, business accelerators and members of Irish business associations.

## Additional supports

We can offer additional supports in the following areas:

- Access to translation and interpreting services
- Introductions to specialist expertise such as legal, recruitment, public relations and taxation
- Access to mentors.

**For further information on the services of Enterprise Ireland overseas, please go to [www.enterprise-ireland.com/en/Export-Assistance/](http://www.enterprise-ireland.com/en/Export-Assistance/)**

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## DISCLAIMER

Compiled during June and July 2013, this report is up-to-date with the latest available research and findings. Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice.

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