

# Doing Business with China

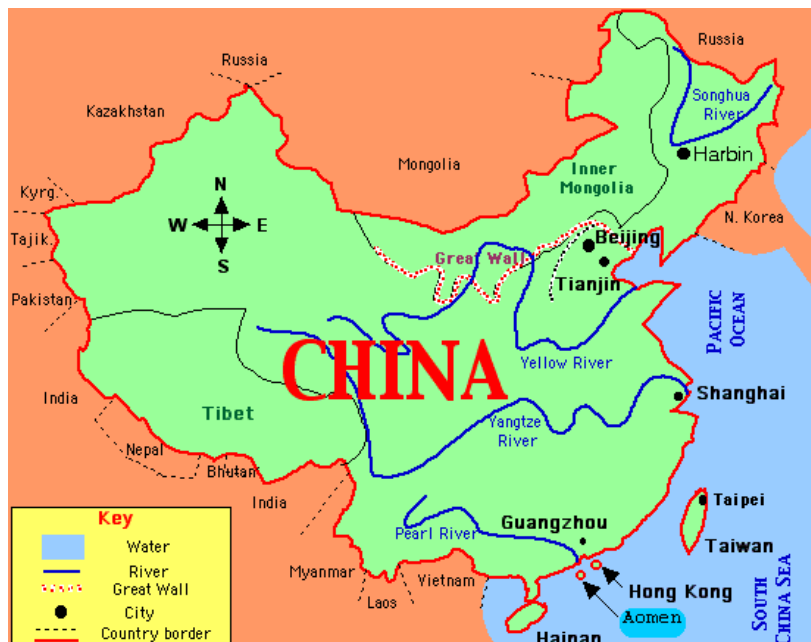
China – Breath of the Dragon

Critical Horizons Conference

27 March 2008

Bunbury

# Overview of China



- 9.6 million sq km
- 1.3 billion people
- 56 ethnic groups
- 28 provinces/ 4 municipalities / 2 SARs
- 5000 years history
- Putonghua / dialects
- GDP +11.4% (2007)
- 2-way trades: US\$2.2 T

# Chinese History

<b>Yellow Emperor Dynasty</b>	2698 -2208BC
<b>Xia</b>	2205 – 1780 BC
<b>Shang</b>	1783 – 1122
<b>Zhou</b>	1134 – 771
<b>Spring-Autumn / Warring States Period</b>	770 – 221
<b>Qin</b>	221 – 206
<b>Han</b>	206 BC – 220 AD
<b>Three Kingdoms</b>	220 – 265
<b>Jin / Southern &amp; Northern Dynasties</b>	265 – 589
<b>Sui &amp; Tang</b>	581 – 907
<b>Five Dynasties</b>	907 – 960
<b>Song</b>	960 – 1279
<b>Yuan</b>	1271 – 1368
<b>Ming</b>	1368 – 1644
<b>Qing</b>	1644 – 1911
<b>Republic of China</b>	1911 – 1949
<b>People's Republic of China</b>	1949 - present

## Key Elements of Chinese Culture

- I-Ching (Book of change)
- Confucianism
- Daoism
- Buddhism

## Challenges Faced by Foreign Companies

### Cross Cultural

- Language
- Culture

### Evolving business environment

- Centrally planned to market economy
- Regulatory environment
- Complex tax regime

### Government's role in business

- Macro economic control
- SOE
- National versus Provincial
- Multi-stakeholders

# Chinese Business Culture

## Relationship base

- Trust
- Guanxi
- Mutuality
- Equality

## Long term focus

- Partnership
- Mutual help
- “give and take”
- Non-legalistic

## Commercial minded

- Tough negotiator
- Honour commitment
- Profit oriented
- Competitive
- Centralised decision making

## Government influence

- Bureaucratic
- Policy & procedural Control

## FOREIGN DIRECT INVESTMENT (FDI)

	2006	2007	Inc/Dec
<b>Utilized FDI (US\$ Billion)</b>	65.8	74.8	13.60%
<b>No. of Projects Approved</b>	41473	37871	-8.70%
<b>Source (by value)</b>			
Asia	55.0%	55.4%	0.20%
EU	8.3%	5.1%	-3.10%
North America	5.2%	4.0%	-1.20%
Free Port Areas	25.1%	30.3%	5.10%
Others	6.3%	5.2%	-1.00%

Source: Ministry of Commerce, PRC



## Form of FIEs (2002 figures)

Equity JV	30.4%
Contractual JV	4.7%
Wholly Foreign Owned	64.9%
Shareholding JV	0.1%
Joint resource exploration	0.0%

Source: PRC Ministry of Commerce, based on no. of approved contracts



## FIE Trade Volumes in 2007

	US\$ Billion	% of total	Growth vs 2006
<b>Export Value</b>	695	57.1	23.40%
<b>Import Value</b>	559	58.4	18.40%
<b>Total trades</b>	1254	57.7	21.10%

### Top FIEs by Sales in China:

- |                         |                             |
|-------------------------|-----------------------------|
| 1. Fox Conn (Taiwan)    | 8. Honda (Japan)            |
| 2. Volkswagen (Germany) | 9. Samsung (SK)             |
| 3. Motorola (USA)       | 10. Dalian Refinery (HK)    |
| 4. Nokia (Finland)      | 11. Daye (Taiwan)           |
| 5. Toyota (Japan)       | 12. Flextronics (Singapore) |
| 6. GM (US)              | 13. Nissan (Jpn)            |
| 7. Inventec (Taiwan)    | 14. Hyundai (SK)            |

Source: PRC Ministry of Commerce

## Hallmarks of successful FIEs in China

- Long term commitment
- Preparation/China expertise
- Right JV partners
- Leveraging on local partner's strength
- Control of business
- Adaptability
- World-class business practice
- Patience & perseverance

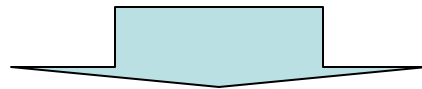
### Successful FIEs in China:

**Volkswagen**  
**Nokia**

**Motorola**  
**WalMart**

## Sino Gas & Energy

- Small mining service company leapfrog into energy league in 2 years
- Key success factors:
  - Preparation
  - Use of consultant
  - Selection of markets / customers
  - Contacts & relationship building
  - Seizing opportunity, establish local rep office
  - Commitment
  - Timing



**An Emerging Energy Company Operating in  
5500 KM2 CBM blocks in China**

# Critical mistakes to avoid

- Rush into a deal
- Inadequate preparation & understanding of China
- Over reliance on Guanxi
- Wrong choice of local partner
- Lack of control of business in China
- Poor relationship with local partner / government
- Lack of appreciation of policy trend
- Impatience

## Promoting SW Region Business with China

- Excellent Sino-Australia Relationship
- Complementary characteristics versus China
- Sister State/City relationship
- Promote cooperation in areas of mutual interest
- Areas of interest to China:
  - Resources
  - Agriculture
  - Wine
  - Tourism
  - Technology: environmental, agricultural and mining

## Training Courses

WA China Consulting offers two one-day courses in Perth:

20 May 2008	China – Understanding Cross Cultural Challenges
27 June 2008	How to Develop Successful Business with China

Details can be found at [www.chinaconsulting.com.au](http://www.chinaconsulting.com.au)

Discounts are available for those who register early or in group of three or more.

Register on-line early at our website.



## Back-up

- **Bunbury's sister city: Jiaxing (2007 stats)**
  - Population: 4.08 million
  - GDP: RMB 159 billion (+14.4%)
  - Per capita GDP: US\$6000
  - Total import / exports: US\$16B (export: \$11.7B)
  - Attracted 211 large FIE projects (inv. Value>US\$10m)
  - Utilized FDI: US\$1.7B +36%
  - Port handling volume: 24.18 million tons
  - Manufacturing base of Fox Conn (IT)
  - Target to be R&D and Hi-tech centre of the Province
  - Highly educated population