Poslovanje s kitajsko – ali se da izogniti težavam – izkušnje slovenskega podjetnika

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1. Introduce China

China is one of the most sought-after markets and a global financial player that has lately helped with shaping the most important decisions of the world's politics. It is one of the so called BRIC countries (Brasil, Russia, India and China), also named The big Four, countries that are in a similar stage of fast growing economies. Chinese economy is the third in the worl according to the GDP per capita ($ 6600 in 2009.). GDP growth in the year 2009 amounted to 8.7 % (in 2007 up to 13% all years after around 9 % as opposed to other countries that showed a drop after 2008).

1.1. The Development of Foreign-Funded Enterprises in China

As of 2009, the total actual foreign investment in China is up to 1.14 trillion U.S. dollars. According to the official report of The Ministry of Commerce of the People's Republic of China, the industrial output value of foreign-funded enterprises accounted for around 29% of the national industrial output value; the tax revenue accounted for 21% of the national tax and exports accounted for 55% of the total exports. Nowadays, there are more than 40 million employees worked for the foreign-funded enterprises in China. Thus, foreign-funded enterprises in China has become not only an important force in the economy, but also for the harmonious development of Chinese society which has made important contributions, and at the same time, enterprises also have been due return, achieve win-win situation.

As more and more foreign enterprises enter China, they adopt different approach to do business in China. However, recently, as In response to the adoption of the "go global" policy, China's FDI abroad has increased rapidly during last decade. In 2008 alone, Chinese multinational, mostly stated-owned, invested an estimated 41 billion U.S. dollars overseas. Up to end 2007, Asia had received around two thirds of the cumulated Chinese FDI, which is valued at 118 billion U.S. dollars.

2.Why going to China? Is China the promised land?

A. Because of trade (export/import),

B. Because of production,

C. Because of connections – indirect investments of Chinese investors (investors from the developed western world are not large in numbers anymore; this the possibilities of Chinese investments)

The market is demanding and there are new challenges for individual companies: Trading with and export to China means facing a measures for closing Chinese market. This includes introducting new controls for imported products, requests for checking patents, different analyses of imported goods and non-transparent local regulations of chinese provinces. The role of the country is to speed up the home consume, which they do by supporting local, chinese products. Foreign companies that are already present in China have a chance to adjust to the slow reformation of the Chinese trade legislation. The new companies must double check their plans. The golden age of the export to China is getting to an end.

Every time a developing economy starts growing fast, richer countries accuse it of "cheating" by keeping its wages and exchange rate artificially low. But this isn't cheating; it's a natural stage of development that comes to an end in every country, as it will in China. China has grown in much the same way as other economies we now view as mature, including Japan, South Korea and Taiwan. China is hitting that spot now: with young workers more scarce, wages have nowhere to go but up. . China still has plenty of workers moving from the countryside to the cities, but the age of ultra-cheap Chinese labor will soon be gone. Proprietors, looking for cheap workforce, started looking toward other countries years ago (Indija, Pakistan, Vietnam...).

2.1. Foreign Investment in Key Industries in China

Foreign-funded enterprises have strengthened the development of R & D center in China which will bring more advanced technology. In recent years, foreign-funded enterprises set up R & D institutions in China setting off a boom. Up to now, foreign companies set up nearly 1,200 R & D centers in China with a total investment amount of more than 50 billion dollars. The research and development mainly focus in the automotive, communications, computer software, machinery, electronics, biomedical, semiconductor and automation, chemical, electronic digital products and other high-tech industries. According to the statistics of 2010 from Shanghai Commission of Commerce, Shanghai has absorbed 15.307 billion U.S. dollars of contracted foreign capital, an increase of 15.1% over 2009. Which 12.407 billion U.S. dollars has been invested in the services industry, accounting for 81% of the total contracted foreign investment, an increase of 15.7%. Among them, the financial services industry grew by around 28%, and trade industry grew by about 32%. At the same time, information technology, new energy, new materials, energy saving and environmental protection of strategic and emerging industries become the new foreign investment growth source.

In China, the foreign-funded enterprises compete in setting up regional headquarters, R & D center, marketing center and procurement centers which has become a new trend. The new economic pattern - headquarters economy has formed a good momentum of development. Under the financial crisis, the foreign-funded enterprises are adjusting their development strategies to choose the areas with low-cost, high efficiency and development potentiality as their investment regions and regional headquarters. More importantly, the political and social stability, the domestic market potentiality, complete infrastructure and industry and the preferential policies which the local government formulated attract a large number of regional headquarters of multinational companies moving to China, but not in Beijing and Shanghai and Guangzhou only.

Why did these foreign companies transfer to the second and third tier cities from Shanghai, Beijing, Guangzhou and other big cities with a fast pace? In addition to expanding the market coverage, the low-cost regions, closing to partners or factories and more accessible to talent people are all advantages for the foreign-funded enterprises.

2.2. The Western Development

China Western Development is a policy adopted by the People’s Republic of China to boost the less developed western regions. The police covers 6 provinces (Gansu, Guizhou, Qinghai, Shaanxi, Sichuan, and Yunnan), 5 autonomous regions (Guangxi, Inner Mongolia, Ningxia, Tibet, and Xinjiang), and 1 municipality (Chongqing). This region contains 71.4% of mainland China’s area, but only 28.8% of its population, as of the end of 2002, and 19.9% of its total economic output, as of 2009. Shaanxi Province (as an example)

3. How to approach Chinese market – some basic topics

The society and the economy in China are huge; one cannot oversee them. Also, the data about the market is not overseable either – suppliers, competitions, legislation are hard to get by. Data is not available on the internet. If provided, it is only in Chinese. The legislation and rules change quickly but are difficult to follow. Two contacts are important if one wants to enter China: Customs and VAT area and the question of protecting intelectual property: one needs to follow local authority for Customs General Administrations of Customs and State Intellectual Property Office-SIPO.

3.1. Something about Tax system

Under the current tax system in China, there are 26 types of taxes, which, according to their nature and function, can be divided into the following 8 categories:

- Turnover taxes. This includes three kinds of taxes, namely, Value-Added Tax, Consumption Tax and Business Tax. The levy of these taxes are normally based on the volume of turnover or sales of the taxpayers in the manufacturing, circulation or service sectors.
- Income taxes. This includes Enterprise Income Tax (effective prior to 2008, applicable to such domestic enterprises as state-owned enterprises, collectively owned enterprises, private enterprises, joint operation enterprises and joint equity enterprises), Foreign Investment Enterprise and Foreign Enterprise Income Tax ("FEIT"), and Individual Income Tax. These taxes are levied on the basis of the profits gained by producers or dealers, or the income earned by individuals. Please note that the new Enterprise Income Tax Law of the People's Republic of China has replaced the aboves two enterprises taxes as from 1 January 2008.
- Resource taxes. This consists of Resource Tax and Urban and Township Land Use Tax. These taxes are applicable to the exploiters engaged in natural resource exploitation or to the users of urban and township land. These taxes reflect the chargeable use of state-owned natural resources, and aim to adjust the different profits derived by taxpayers who have access to different availability of natural resources.

- Taxes for special purposes. These taxes are City Maintenance and Construction Tax, Farmland Occupation Tax, Fixed Asset Investment Orientation Regulation Tax, Land Appreciation Tax, and Vehicle Acquisition Tax. These taxes are levied on specific items for special regulative purposes.
- Property taxes. This encompasses House Property Tax, Urban Real Estate Tax, and Inheritance Tax (not yet levied).
- Behavioural taxes. This includes Vehicle and Vessel Usage Tax, Vehicle and Vessel Usage License Plate Tax, Stamp Tax, Deed Tax, Securities Exchange Tax (not yet levied), Slaughter Tax and Banquet Tax. These taxes are levied on specified behaviour.
- Agricultural taxes. Taxes belonging to this category are Agriculture Tax (including Agricultural Specialty Tax) and Animal Husbandry Tax which are levied on the enterprises, units and/or individuals receiving income from agriculture and animal husbandry activities.
- Customs duties. Customs duties are imposed on the goods and articles imported into and exported out of the territory of the People's Republic of China, including Excise Tax.

However, the taxation policies vary in different regions or provinces in China. In the less developed regions in China, the foreign investors could enjoy the land lease discount or taxation exemption or decrease for several years. The investors who are going to invest in environment friendly industries, agricultural and husbandry industries and bio-food processing industries could benefit from the special promotion policies in taxation according to both state or provincial policies.

3.2.Can a company awoid loses because of Intellectual Property Thiefs?

Every year European companies lose millions of Euros due to infringement of their Intellectual Property Rights (IPR), i.e. infringements of trademarks, patents and copyrights. A solid knowledge of your intellectual property, as well as an adequate IPR protection strategy, is essential to business success in China. If you are considering entering the China market or sourcing from China, what is your strategy to protect your intellectual property?

Since joining the World Trade Organization (WTO), China has strengthened its legal framework and amended its IPR and related laws and regulations to comply with the WTO Agreement on Traded-Related Aspect of Intellectual Property Rights (TRIPs). Despite stronger statutory protection, China continues to be a haven for counterfeiters and pirates. According to one copyright industry association, the piracy rate remains one of the highest in the world (over 90 percent) and U.S. companies lose over one billion dollar in legitimate business each year to piracy. On average, 20 percent of all consumer products in the Chinese market are counterfeit. If a product sells, it is likely to be illegally duplicated. U.S. companies are not alone, as pirates and counterfeiters target both foreign and domestic companies.

Though we have observed commitment on the part of many central government officials to tackle the problem, enforcement measures taken to date have not been sufficient to deter massive IPR infringements effectively. There are several factors that undermine enforcement measures, including China’s reliance on administrative instead of criminal measures to combat IPR infringements, corruption and local protectionism at the provincial levels, limited resources and training available to enforcement officials, and lack of public education regarding the economic and social impact of counterfeiting and piracy.

For specific fields of help it is worth mentioning: China IPR Helpdesk: The objective of the help desk is to support EU SMEs in both the protection and enforcement of their IPR in or relating to China, through the provision of information and services, targeting their needs and supporting their decision making. The IPR helpdesk does not act as a substitute for a law firm and information provided by it is not legally binding. The information is free. EU-CHINA Trade Project (EUCTP): The EUCTP organises a range of activities including conferences,seminars and workshops, training programmes and studies as well as study visits to Europe and internship placements.

4. CASE

4.1. SETTING UP A SMALL COMPANY IN CHINA - A Slovene entrepreneur in China

INTRODUCTION

Our business cooperation with private Chinese export companies, specialized in marketing metal and alloy started in 1998. After establishing a company in Slovenia for the production, based on our own knowledge and domestic raw materials, we soon saw the need for developing purchase and sales markets. China, at that time only at the beginning of their extreme development, presented a huge challenge. The first contacts with potential business partners were set-up at the Professional Fairs in Europe.

Phase 1

Despite modern means of communication, long-distance marketing and cooperation did not work. The main weakness of purchasing materials in China was in the first period not knowing the market and the lack of information about it. An important factor was also the non-personal “computer” contact with Chinese business partners. With time, the development and growth of our company in Slovenia became more and more dependent on Chinese materials. Due to a tough competition a new strategy had to be prepared for a successful development of the company and continued cooperation with the Chinese producers of suitable materials. We decided to go joint venture to China. The operations of Chinese, at that time relatively small, merchants, and backward producers was completely in line with the famous Mao line: “let foreign knowledge serve the Chinese”. This orientation was connected to the already known Chinese business cunningness that was caused the increased cooperation and improvement of business relationships as well as an increase of our purchase in China.

SPIN

Advantages:

- maintaining a specific knowledge and the newest innovation in the production of silicon calcium and cored wire (which was the most important and the decisive advantage)
- good knowledge of the Chinese and the world purchase market
- good knowledge of the European market

- our own production of cored wire in Slovenia: we stooped our production of silicon – calcium in Slovenia

Weaknesses:

- not knowing and not understanding the Chinese business practices and interpersonal relations (that was in connection with the financial resources the basic weakness of the project)
- unsuitable local co-workers in the project
- bad Slovene and Chinese advisors at project preparation and management
- lack of finances

Opportunities:

- business and professional orientation at the Chinese market (this was an important opportunity that was realized)
- introduction of technology – production of silicon-calcium and cored wire, at that time not known to China; thus ensuring the competitive advantage at an international market
- establishing a position on the Chinese sales and purchase market of raw materials and cored wire
- extending the production line on the basis of advantages, offered by the Chinese market.

Threats:

- lack of financial resources(this was an important threat that later on considerably influenced the development of the project)
- Chinese misuse of interpersonal trust, contracts and agreements
- not understanding each other due to not knowing the culture, customes and language
- not knowting the typically Chinese way of work and making business
- rigid and disinterested apparatus and local VIPs and other important people
- bad cooperation with the project financer

PHASE 2

The basic idea was to establish a mixed Chinese-Slovene company for the production. Project realization included three phases:

- acquisition of a strategic partner for financing the project and later regular production
- acquisition of a strategic partner in China
- joint and defined, partly separate performance on the Chinese and international market.

Due to some coordination problems between three partners and completely different interests of those three partners, it was later necessary to modify the project into several phases and sub-phases; adjusting to changing circumstances. The project was bound to fail due not respecting the basic agreements and tries of the European investors to completely oversee the Chinese and take over the project. Due to the lack of finances, we had to find a suitable business partner in Europe that would take over finances. Conditions were bad, but we had no other option. The location and partners were chosen and modified company started. It was obvious that Chinese partners are not interested in Joint venture and taking any risk. They went for small and quick profit only. As a technical specialist we were not a owner of the company. As well most of our technical suggestion was not respected. Inside the company few interest groups grow up, coordination among them soon become impossible. We were aware that after getting the knowhow, the owners of the new company can just say "Good bye", so the transfer of know how was precisely controlled. At the crucial stage of launching a new product line we asked for change of the contract. That was not accepted. Our technical team left the place. On that location after one month the whole production stopped and was never started again.

In the meantime we were searching for new partners and start to set up a production in another province. Due to rigid legislation we soon forgot the idea about set up a joint venture. Even here after few promising months the Chinese part started to take their own politics and avoid taking any business risk. As well they wanted to relay on foreign investments completely. Even with basic contract of cooperation we daily faced difficulties with export papers as well. At the moment the business is on stand by.

4.2. WHICH ARE BASIC FACTORS OF OUR CHINESE EXPERIENCE

1. Know How transfer to China. Know How protection is rather unknown field in China, what place specially SMEs in a very unfavorable position. As well Chinese are hungry for knowledge, without really be ready to invest in.

2. Project Financing. As SME we are not in a strong financial position, what is the biggest banner in our project. We were half of the time busy with searching for sources around the world, but Chinese part was not interested in helping in that.

3. Business Environment Despite lower investment money needed in China, than in Europe, the business environment is unpredictable and a big risk factor. Even when the Chinese part was interested into cooperation the great obstacles were beaurocracy and unclear legislation. As working in the inner land province the business level is much lover as in some provinces on the coast or in Beijing, where there are used of cooperation with foreign companies. China is a big country and cooperation with SME for most of the parts is not their main interest.

4. Differences in Culture At the beginning of our steps into China the differences in culture stopped us many times. The negotiation way is far different from European. Even when the agreement was set, the Chinese part mostly act very free in fulfilling the contract or change it without information or warning. There was constant problem with translators. They act as somehow coordinators and soon as secretors of the Chinese part.

And conclusion: I believe even SME can find the comparative benefits to work with China. But indeed a lot of time, good nerves, financial background and detailed preparation and control over each step are needed. The top-5 suggested activities are as follows:

- Information on business opportunities in China.
- Business networking and use of official network and support (EU and Slovenia)
- Provision of legal information and information on Chinese standards
- Provision of legal assistance to SMEs
- Assistance to overcome formal and informal trade barriers

It is must to work with guides, interpreters and local domestic partners, learn as much Chinese as possible or have a real translator, that will be on your side.

Based on this a reliable partner in China is necessary – His Strategies for Foreign-funded Companies Entering China are: The aim of strategies of foreign-funded companies is to make full use of their capital, technology, marketing and other advantages to enter China. The first step is entering the market, further expanding the market, and finally controlling the market:

- Optimal allocation of global resources, and integrate China's business into its global strategic layout. On one hand, provide raw materials and products to each other and become mutual market. On the other hand, for further "beachhead" in China and lay a good material base.
- Followed by the changes in the government policy, at every step, using all time and the opportunity to seize the high ground in China.
- Accelerating the pace of investment, increasing investment and expanding the area of investment.
- Large-scale investment projects, systematic, investment location base and industrial park.
- Investment diversification, from the trend of holding owned joint venture, mergers and acquisitions.
- Focus on market research and occupy the market with high-quality, diversified and differentiated products to win the market by specialization, standardization and personalized services.
- Cooperate with the famous domestic enterprises to strengthen brand awareness.
- Make use of technical means to strengthen protection of intellectual property monopoly advantage to expand their market share of brand.
- Speed up the operation and management of localization.

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