PEOPLE'S REPUBLIC OF China

COUNTRY STARTER PACK

Asialink Business

pwc

China at a glance

POPULATION - 2014

1.361 BILLION

GNI PER CAPITA (PPP) - 2014*

US$13,130

INCOME LEVEL

UPPER MIDDLE

*Gross National Income (Purchasing Power Parity) World Bank

GDP GROWTH 2014

7.4%

GDP GROWTH FORECAST (IMF)

6% (2017), 6.3% (2020)

CAPITAL CITY

BEIJING

RELIGION

BUDDHIST 18%, CHRISTIAN 5%, MUSLIM 2%, FOLK RELIGION 22%, UNAFFILIATED 52%

CLIMATE

EXTREMELY DIVERSE

TROPICAL IN THE SOUTH TO SUB-ARCTIC IN THE NORTH

CURRENCY

RENMINBI (RMB)

FISCAL YEAR

JAN-DEC

CALENDAR YEAR

TIME DIFFERENCE TO BEIJING

2 HOURS BEHIND (AEST)

AUSTRALIAN IMPORTS FROM CHINA (2013-14)

A$52.1 BILLION

AUSTRALIAN EXPORTS TO CHINA (2013-14)

A$107.5 BILLION

EXCHANGE RATE (2014 AVERAGE)

(RMB/AUD)

A$1 = RMB 5.560

SURFACE AREA

9.6 MILLION SQUARE KMS

GDP 2014

US$10.35 TRILLION

POLITICAL STRUCTURE

COMMUNIST STATE

GENERAL BANKING HOURS

MONDAY TO FRIDAY
8AM TO 5PM

INTERNATIONAL DIALLING CODE

+86

STOCK EXCHANGE

SHANGHAI STOCK EXCHANGE (SSE)
SHENZHEN STOCK EXCHANGE (SZSE)

OFFICIAL LANGUAGE

MANDARIN (CHINESE)
Pu tōng hǔà 普通话

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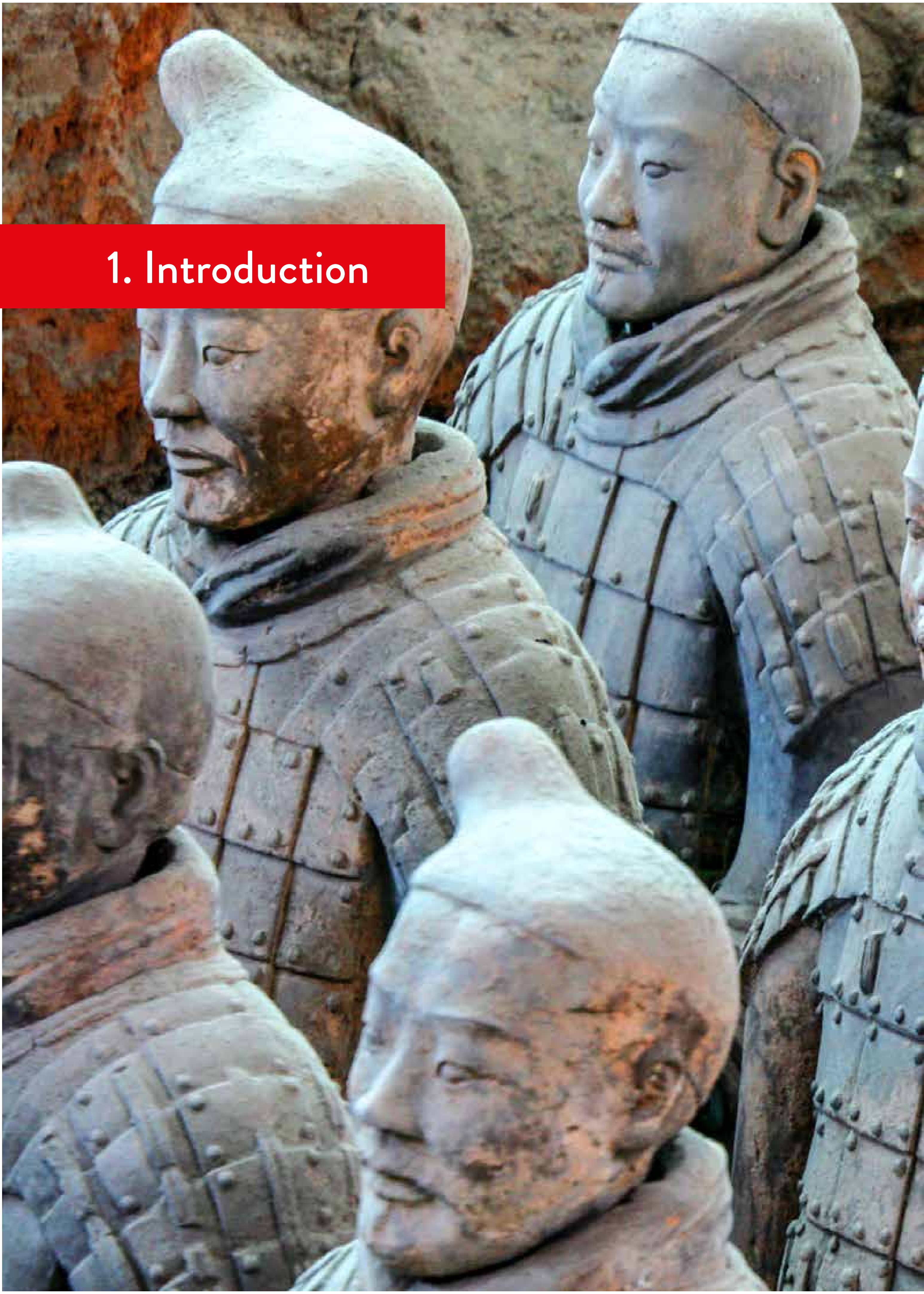
1. Introduction



1.1 WHY CHINA? OPPORTUNITIES FOR AUSTRALIAN BUSINESSES

Is there any label that can do justice to modern China? Asian giant, global powerhouse, economic phenomenon – all are true, but somehow inadequate descriptions for the extraordinarily powerful position that the People's Republic of China has come to occupy in the world economic order. Forty years ago, after a long period of economic stagnation, China was not in the world's top eight economies. Today, thanks to a breathtaking social and economic transformation that began in the late 1970s, China is on track to overtake the United States as the world's number one economy within a few decades, if not sooner. By some measures, it has already done so. We are living in what many are now calling 'The Chinese Century'.

The irresistible rise of China has implications and consequences for us all on so many levels. But for the purposes of this guide, it largely comes down to one word: opportunity. For Australia, and Australian businesses in particular, has there ever been an opportunity like China?

Consider some key facts:

- China is home to more than 1.36 billion people – or about 56 times the population of Australia
- China is the world's number one trading nation and manufacturer by output
- In 2014, Chinese GDP topped $10 trillion, second only to the United States
- China's GDP growth rate over the past three decades has often bypassed 10 per cent, and consistently exceeded seven per cent
- As the Chinese economy matures, annual GDP growth is still tipped to exceed five per cent
- Household incomes in China are soaring, with more than 300 million people now considered middle class
- China's urban middle class population is expected to exceed 600 million within a few years
- China is Australia's biggest trading partner by a huge margin.

The stats say it all: when it comes to business and trade, China is the main game on the planet. On almost every measure, it is now bigger than the rest, and getting bigger every year. As such, China can scarcely be ignored by any business looking to expand operations beyond its own domestic market.

For Australian businesses, opportunities in China have sprouted across a huge – some might even say bewildering – range of industries, market sectors and geographic locations. Rapidly rising income levels in China and mass migration from rural to urban areas have created an abundantly large class of urban consumers demanding improved housing, a cleaner environment, overseas travel, better education, a higher protein diet and an enhanced choice of financial services. From the sophisticated consumers of developed cities such as Beijing, Guangzhou and Shanghai, to the growing middle classes in lesser-known inland cities, the newly industrialised China is a veritable smorgasbord of opportunity.

This is not to say that doing business in China is without unique challenges and complications. Apart from language and cultural barriers, which can be considerable, foreign businesses must navigate issues ranging from complex bureaucracies, challenges in intellectual property (IP) law enforcement, to quality control and the sheer, overwhelming size and diversity of the country. There is also the overarching challenge of the different way that business is conducted in China compared with other countries, the large and highly competitive market housing both domestic and foreign businesses, and the complexity of understanding and selling to the Chinese customer.

The rewards can be immense for Australian businesses willing to put in the necessary preparation and hard work to address these challenges and successfully establish in China. The Chinese Government has continued to introduce policies aimed at raising standards and encouraging more trade and investment, both inbound and outbound. In this context, it is hoped that the recent signing of the China Australia Free Trade Agreement (ChAFTA) will provide major new opportunities for Australian businesses in China. Years before the landmark agreement was signed, China had already taken over from Japan as Australia's largest trading partner. In 2014, annual two-way trade between China and Australia reached almost $160 billion. Iron ore and coal make up the bulk of Australian exports to China (more than $59 billion), but Australian service industries – led by education and tourism – are a growing part of the trade relationship. China is also the largest foreign buyer of Australian agricultural products, with imports totalling $9 billion in 2013-14. Australia's main imports from China are manufactured goods, which was worth more than $17 billion in 2014 and is led by telecommunication equipment, IT products and textiles.

The implementation of the free trade agreement in 2015 is set to broaden and deepen the trade relationship. New service sector opportunities are already opening up, with Australian financial and legal firms now able to do business in China for the first time, and many other services industries permitted to set up wholly-owned Australian subsidiaries there. Australian agricultural produce exporters will also reap competitive benefits from a number of tariff reductions. Tariffs will be removed on 85 per cent of Australian goods imported into China when the agreement is implemented, rising to 95 per cent once it is fully enforced.

There is no reason to think that the resources sector won't continue to dominate Australia's trade relationship with China for a long time to come. But opportunities outside the traditional export areas are booming. Australian businesses should particularly consider some of the following sectors:

Considering doing business in China?

1. **Do your Research**
   - Speak to industry experts
   - Connect with Australian businesses operating in China
   - Go to industry events & information seminars
   - Seek professional advice.
2. **Become aware of cultural differences and ways of doing business in China**
   - Gain an understanding of your customer & local business partners
   - Be flexible & open to difference
   - Understand the local culture and prepare before meeting with local business partners
   - Practice Chinese business etiquette.
3. **Building relationships is crucial in Chinese culture, but it can take time**
   - Be patient with developing relationships
   - Follow up and maintain contact with your networks.

Education: China is Australia's largest source of international students. In 2014, there were 152,898 Chinese students enrolled in Australian education institutions (including schools), representing 28 per cent of all international enrolments. Just over 90,000 of these were in higher education institutions, including universities, while 13,158 were in vocational education. As levels of disposable income continue to increase in China, Chinese parents are increasingly choosing to send their children abroad for secondary education in preparation for foreign university. In 2014, there were 8,386 Chinese students enrolled in Australian schools. In contrast, the latest figures highlight only 2,145 Australian university students went to China to study in 2012.

Tourism: China is Australia's second largest inbound tourist market (as measured by arrivals), and the largest when measured by tourism expenditure. More than 750,000 Chinese visited Australia in the 2013-2014 financial year and were the largest source of tourism expenditures into the Australian economy. These numbers appear likely to continue growing, particularly after the introduction of provisions in ChAFTA for easier visa access for Chinese visitors. These provisions include working holiday visas for 5,000 young Chinese aimed at assisting Australian rural areas.

Aged care: China's ageing population and underdeveloped aged-care sector represent a potentially big opportunity for Australian businesses. In 2014, China had more than 200 million people aged over 60, accounting for 14.9 per cent of the total population. A year earlier, the Government identified improving the aged care industry as a key priority. It plans to provide 35 to 40 aged care beds per thousand elderly people (which would amount to seven to eight million beds) and a workforce of 10 million by 2020. ChAFTA permits wholly Australian-owned hospitals and aged-care institutions to be established in China. This potentially opens the way for Australia's private health sector to significantly expand its provision of services in East Asia.

Financial services and investment: A key prospect for Australian business is the provision of financial services to China's burgeoning middle class population. As Chinese incomes rise, more people will need banking, insurance, investment products, financial planning and various other consultancy services. Increasing numbers of Chinese will be employed in the financial services sector, rather than in manufacturing or agriculture, as the economy transitions. Australian financial services providers have both experience and expertise, and are well placed to become significant players in China's financial services sector, particularly with the implementation of ChAFTA. Market access has been enhanced in the banking, insurance, funds management, securities, securitisation and futures sectors. With recent growth, banking and wealth management have now become the biggest areas of Australian direct investment in China.

Legal services: Negotiations with ChAFTA have benefited Australian law firms by permitting them to be the first foreign entrants able to establish commercial associations with Chinese law firms in China. This will specifically occur in the Shanghai Free Trade Zone (SFTZ). Australian law firms will be allowed to offer Australian, Chinese and international legal services through a commercial presence, without restrictions on the location of clients.

Information communication technology (ICT): Huge growth in e-commerce in China has resulted in massive opportunities for innovative Australian businesses across the IT and communications sectors. The annual value of Chinese e-commerce is expected to pass $650 billion in 2015 and, by 2020, to exceed the combined e-commerce of the United States, Britain, Japan, Germany and France. The e-commerce boom is directly linked to the explosion in internet connections across China, both via computers and smartphones – at the last count there were more than 600 million internet users, including 500 million mobile internet users. The Chinese Government's target is to connect 1.2 billion people (85 per cent of the population) to 3G or 4G mobile internet by 2020. To meet these targets, China is expected to engage foreign companies to assist with infrastructure and services.

Agriculture and processed food: China buys more Australian agricultural produce than any other country. In 2014, Australian farmers and the broader agricultural sector sold more than $9 billion of produce to China. Trade is growing strongly, but untapped opportunities still abound. The Australian Department of Agriculture predicts China will account for 43 per cent of global growth in demand for agricultural products to 2050. The primary increase in demand is predicted to be for foods such as beef, lamb, dairy, fruit and vegetables. Australian products have an enviable reputation for being clean, safe and high-quality – which positions Australian exporters strongly to take advantage of China's growing demand for quality produce and its need for food security. There are also big opportunities for agribusinesses supplying inputs such as animal feeds and genetics, as well as productivity enhancing services such as education and technology.

Infrastructure development: Infrastructure investment in China has increased significantly in recent decades, becoming a significant driver of economic growth and improved standards of living. China's plans for further rapid urbanisation over the next decade will have a massive impact socially, environmentally and economically. A more urbanised China presents substantial environmental challenges – and opportunities for businesses with experience and expertise in environmental technology and urban development management. China's need for more efficient buildings, more sustainable energy use, the transition from fossil fuels to less environmentally harmful sources of energy, and new transport infrastructure all offer good partnership opportunities. Some Australian companies are already working in these areas; numerous prospects exist for others.

ChAFTA Overview of Benefits for Australian Businesses

Australia and China signed the China Australia Free trade Agreement (ChAFTA) on June 17 2015 with it expected to come into effect on January 1 2016 – although this is not confirmed. The trade negotiations secured numerous future gains for Australian business with Australia's largest trading partner – China. Those engaged in agriculture, manufacturing, services, investment, and resources and energy will particularly benefit. China has also agreed to a special clause recognising Australia as a 'most favoured nation' (MFN). This provides Australian businesses access to the same deals that China strikes in free trade agreements with other nations (such as the USA) that may offer better access to the Chinese market.

Key outcomes include:

- China providing Australia with its best ever services commitments
- Reduced labour mobility barriers and improved temporary entry access
- Duty-free entry on 95 per cent of Australia's goods exports on full implementation of the Agreement
- Within four years of the Agreement, almost all of Australia's manufacturing, energy and resources exports will enter China duty free.

ChAFTA – benefits for Australian services firms:

China is already Australia's largest offshore market for services. In 2014 our services exports to China were valued at $7.5 billion. With the signing of the China Australia Free Trade Agreement (ChAFTA), opportunities for Australian service providers are set to grow in coming years. Specific areas of opportunity in China include:

1. Improved market access for Australian banks, insurers, securities and futures companies, law firms, education services exporters, health-care providers, aged-care providers, construction firms and telecommunications businesses.
2. Increased business and skilled worker mobility. The Chinese Government is reducing barriers to Australians working in China.
3. Wholly Australian-owned companies will now be allowed to establish in China. This will benefit firms in areas such as telecommunications, tourism and hotels, health and aged care, manufacturing, maritime transport, real estate, and research and development.
4. Australian architectural and urban planning firmswill be allowed to obtain more expansive business licences to undertake higher-value projects in China.

ChAFTA is discussed in more detail in Chapter 5.

Tariffs/Import duties under ChAFTA:

BEEF	The removal of tariffs of **12-25%** over nine years.
SHEEP MEAT	The removal of tariffs of **12-23%** over eight years.
HORTICULTURE PRODUCTS	The removal of tariffs ranging **up to 30%** most within four years.
BARLEY	The elimination of the tariff of **3%** immediately.
SEAFOOD	The removal of tariffs including **5 & 15%** respectively on rock lobster and abalone, over four years.
LEATHER	The removal of tariffs of **5 to 14%** on hides, skins and leather over two to seven years.
PROCESSED FOODS	The removal of tariffs across a range of processed foods including fruit juice and honey.
WOOL	An Australia-only duty free quota for wool in addition to continued access to China's WTO wool quota.

Another reason to consider China: Apart from the intrinsic merits of doing business with China, there is another important reason to consider making it your first port of call in Asia. China in recent decades has become a global business hub: it provides access to some of the largest markets in the world. It has 12 free trade agreements in force, including with ASEAN, Switzerland, Iceland, Pakistan, Chile and Singapore. Several more are under negotiation, including a proposed deal with the EU. Its geographically central position has also made it a global transport hub. It houses six of the world's 10 leading seaports, and has freight rail links to Russia, the Middle East and Western Europe.

1.2 CHINA AT A GLANCE

Geography

China is the world's fourth largest country by land area (after Russia, Canada and the US, followed by Australia as fifth) covering about 9.6 million square kilometres. East to west it measures more than 5,200 kilometres, and from north to south more than 5,500 kilometres. Its geography is highly diverse, with hills, plains and river deltas in the east, and deserts, high plateaus and mountains in the west. Two-thirds of China is covered by mountains, hills and plateaus. Of the world's 12 highest peaks, China has seven. Its two major rivers, the Yellow and the Yangtze, both in the southeast, track through much of China's main population and agricultural regions.

Because of the huge differences in latitude, longitude and altitude across the country, China has an extremely diverse climate, ranging from tropical in the far south to sub-arctic in the far north and alpine in the higher elevations of the Tibetan Plateau. Southern regions experience a monsoon season between April and October, with severe rainstorms that can bring flooding and mudslides – and interruption to essential services. Typhoons can occur along the southern and eastern coasts between May and November. More northern regions experience four distinct seasons – spring from March to May, summer from June to August, autumn from September to November, and winter from December to February. Within China, the warmest city is Haikou on the southern island of Hainan, which averages 24.4°C for the year. The coldest city is Changchun in the northeast, near the Russian and North Korean border, which averages 5.5°C for the year.

YEARLY AVERAGE TEMPERATURES IN °C

	Beijing	Shanghai	Guangzhou
January	-3.9	4.1	14.1
February	-1.5	5.1	14.9
March	5.4	8.9	18.3
April	13.6	14.6	22.3
May	19.8	19.6	26.1
June	24.3	23.8	27.9
July	26.2	28.2	29
August	25	28.1	28.9
September	20	23.9	27.6
October	13.2	18.5	24.6
November	4.9	12.7	20.1
December	-1.8	6.5	15.8

Greater China includes a number of other high-profile regions in addition to the mainland, notably the delicate, political matter of Taiwan, and the areas of Hong Kong and Macau, which were formerly European colonies and have operated with varying degrees of autonomy since being returned to Chinese rule.

Hong Kong and Macau

Hong Kong and Macau are classified by Beijing as Special Administrative Regions (SARs). Hong Kong Island was acquired by the British in 1842 as part of the Treaty of Nanking at the end of the First Opium War, followed by the Kowloon peninsula in 1860. The entire area, now known as Hong Kong, was leased to Britain from 1898 to 1997, when ownership returned to China. Under the 'one country, two systems' agreement between Beijing and Hong Kong, which extends to at least 2047, Hong Kong's Chief Executive and legislature are able to make independent decisions for the region. Hong Kong has its own currency, government, separate customs territory and an independent legal system that continues to follow British law. However, there have been recent tensions in regards to Chinese control of Hong Kong particularly with the Chinese Government introducing electoral reforms associated with the Chinese Communist Party in the democratic Hong Kong. Concerns of Hong Kong citizens in regards to their civil rights and liberties resulted in the 2014 peaceful but extensive protests known as the 'Umbrella Revolution' (due to rain not deterring the 100,000 people protesting). This brought international focus on the future of Hong Kong and the approach Beijing has taken to address it.

Macau became a defacto colony of Portugal in 1557 but remained under official Chinese authority and sovereignty until 1887, when the Sino-Portuguese Treaty of Peking gave sovereignty to Portugal. Macau returned to official Chinese control in 1999. The constitution of Macau stipulates that its social and economic systems, lifestyle, rights and freedoms are to remain unchanged until at least 2049. This includes the legal operation of casinos, which are banned in China. Like Hong Kong, Macau's 'one country, two systems' agreement provides a high degree of autonomy. Macau also maintains a separate currency, legal system and customs territory.

Taiwan

The status of Taiwan is a highly sensitive political issue in China. Beijing considers it to be an inalienable part of China. Australia adheres to Beijing's one-China policy, which means it does not recognise Taiwan as a country. The Chinese Government will not have any dealings with another government that does not agree with and adhere to the 'One China' principle.

Due to their differing government systems, economic profiles and business opportunities, Hong Kong, Macau and Taiwan will be examined separately in individual guides. This guide specifically focuses on mainland China, including the island of Hainan.

History

China has a very long and illustrious history with major achievements in which present day Chinese take great pride. China has been one of the world's major centres of trade for more than 2,000 years, dating back to the establishment of the historical 'Silk Road' in around 200 BC, when Asia was connected with Europe and Africa through trade routes. Since that time, great Chinese inventions – including the compass, gunpowder, fireworks, silk, noodles, various spices, moveable type printing and papermaking – have been introduced to the rest of the world. The Chinese were also the first to document astronomical phenomena such as comets, sunspots and new stars. Before Europe's industrial revolution, Chinese agriculture was more advanced and productive than the West's, and its craftsmen were at least the equal of Europe's. China was considered a dominant world power in trade and technology.

Recorded Chinese history began about 3,600 years ago, and the imperial dynastic system of government was established as early as 221 BC. Imperial China is divided into two periods, beginning with early imperial China that spans the Qin Dynasty (221-207 BC) through the Tang Dynasty (AD 618-907) and later imperial China from the Song Dynasty (AD 960-1279) through the Qing Dynasty (AD 1644-1911). Despite the rise and fall of many dynasties and occasional periods of disunity, the imperial age was remarkably stable and marked by a sophisticated governing system. Each dynasty had its own distinct characteristics which encountered various foreign cultural and political influences as a result of ongoing territorial expansion and immigration.

By the mid-19th century China had fallen into serious decline due to a combination of military defeats (by countries looking to open China up) and corrupt and incompetent feudal rule. In 1911, the last dynasty was overturned, bringing an end to imperial China with the abdication of the Qing child Emperor Puyi. Hopes for stability with the subsequent formation of the Republic of China were short-lived, with years of civil war and invasion by Japan in 1931. At the end of the civil war in 1949, the Communist People's Republic of China was created by Mao Zedong, otherwise known as Chairman Mao, who led China until his death in 1976.

As Mao and the other Chinese Communist Party leaders set out to unite China and improve living standards, all opposition was suppressed. In 1958, under the banner 'The Great Leap Forward', Mao introduced a series of reforms aimed at mass mobilisation of labour to improve agricultural and industrial production. Despite initial success, it ultimately led to a significant decline in agricultural output, which in turn created a national famine and weakened Mao's position. This led to the fateful Cultural Revolution from 1966 to 1976, which aimed to revive the nation's revolutionary spirit and during which capitalist and traditional elements were purged from Chinese society. The movement came at great economic and social cost, with much of the country's cultural heritage destroyed, as many as 1.5 million people killed, and the nation largely closed off to trade and other contact with foreign non-communist nations.

Following the death of Mao in 1976, the 11th National Congress of the Communist Party in 1977 set China on a new path that ultimately led to its current economic boom. New leader Deng Xiaoping combined socialist ideology with a more pragmatic adoption of market principles and practices, reopening China to the world and allowing limited private competition. His reforms are largely credited with setting China on the course that has led to its preeminent position today.

Culture

Chinese civilisation is among the oldest in the world, with a rich cultural tradition that has influenced much of Asia for at least 3,000 years. The writing system, estimated to be around 4,000 years old, is a major unifying force for dozens of different ethnic groups and 250 language groups and dialects that exist across China. The Han people, who number under 1.3 billion, are by far the largest ethnic group, with the others accounting for approximately 100 million people combined. The largest minority groups are the Tibetans (Tibet Autonomous Region), Mongolians (Inner Mongolia Autonomous Region), Uighurs (Xinjiang Uighur Autonomous Region) and the Zhuang (Guangxi Zhuang Autonomous Region).

Each ethnic group has its own specific cultural influences and values. However, the primary core value of Chinese culture is founded on Confucianism – the social teachings and ways of thinking of the philosopher Confucius, who lived some 2,500 years ago. The strong emphasis in China placed on relationships, family, hierarchy, nationalism and the importance of 'face' stems from Confucian teachings. A particular element of Confucianism that has arguably had the largest impact on modern China is the Five Great Relationships:

1. Ruler to subject
2. Father to son
3. Elder brother to younger brother
4. Husband to wife
5. Friend to friend

In each of the first four relationships, the first person mentioned is in an implied position of authority over the second, while the fifth relationship denotes equality between friends. This conceptual framework, also evident in other Asian cultures, gives rise to hierarchical social roles within households, workplaces and society generally, with the hierarchies based on the seniority of age, social obligation, care for the elderly, and the strong value placed on respect and loyalty.

Relationships are everything in China. While you are building and nurturing your business relationships, you may be asked to share stories and information of a surprisingly personal nature. Don't be concerned when a Chinese person you are meeting for the first time asks, for example, "how much money do you make?", "what is your partner's Eastern astrology symbol?" or "what are your religious beliefs" – it is all about building a relationship, an essential part of doing business in China. The Chinese call it *guanxi* (关系). This refers to having personal trust and a strong relationship with someone, and can involve moral obligations and exchanging favours. Sometimes incorrectly perceived in Western business as bordering on unethical behaviour associated with corruption (i.e. awarding projects to a friend's company rather than the most qualified firm), it is a core part of doing business in China (see Chapter 4 for further information).

Chinese culture value system

CHINESE VALUE	EMPHASIS WITHIN MODERN CHINESE SOCIETY				
CONFUCIANISM Foundation of Chinese cultural value system. Consists of core values: • Etiquette & politeness • Respect & care for elderly & parents • Honesty & trustworthiness • Humanity towards others • Loyalty to state & authority.	HARMONY	FAMILY OBLIGATION	CONFLICT AVOIDANCE	IMPORTANCE OF RELATIONSHIPS	MORAL VALUES
	HIERARCHY	ORDER IN SOCIETY 1.2.3.	COMPASSION	RESPECT & LOYALTY	HONOUR & FACE
PATERNALISM • Stems from Confucianism: '5 Great Relationships' • Focuses on patriarchal family-like relationships.	RESPECT FOR AUTHORITY	HIGH REGARD FOR SENIORITY	STRONG DISCIPLINE	MORAL INTEGRITY	NATIONALISM
PERSONALISM • Ruling by a person rather than law • Derived from Confucianism emphasis • Founded on importance of relationships and doing the right thing by others.	HIGHER IMPORTANCE PLACED ON PERSONAL RELATIONSHIPS THAN THE LAW	SENIORITY & HIERARCHY 1	COLLECTIVE SOCIETY	LOYALTY	FACE
GUANXI (关系) • Chinese term for the role and importance of personal relationships and trust, especially within business.	COMPLEX NETWORK OF MUTUAL OBLIGATIONS AND SOCIAL CONNECTIONS	NEED TO BUILD TRUST AND A RELATIONSHIP PRIOR TO CONDUCTING BUSINESS	CANNOT EXPECT TO BE INSTANT OR ASK FOR FAVOURS, NEED TO DEVELOP FIRST	ASKING A FAVOUR REQUIRES ONE IN RETURN	

As in other Asian societies, face is central in the Chinese business environment and plays an important role in inter/intra company communication, business negotiations, and the development and maintenance of social relationships. Everyone is aware and respectful of each other's position and role. With more senior people placed on a 'higher pedestal' than in Western contexts, more respect and acceptance is expected. Through social etiquette and behavioural norms, Chinese people aim to preserve a harmonious environment in which a person's *miànzi* (面子)– face – along with their social standing and reputation can be upheld. The best way to manage miànzi is not to demand 'yes' or 'no' answers in business meetings, but to accept the need for slow, consensual decision-making and relationship-building. Contradicting someone openly, criticising them in front of others or patronising them will all result in *diūliǎn* (丢脸) – loss of face – and are sure ways to lose business and employees, as well as ruin relationships. Always be mindful of maintaining face and harmony with Chinese people through sincere compliments, showing respect, or other actions that tend to raise the self-esteem of others. You should particularly show respect to older people and to those in more senior positions than you.

Social change and its influence on Chinese culture

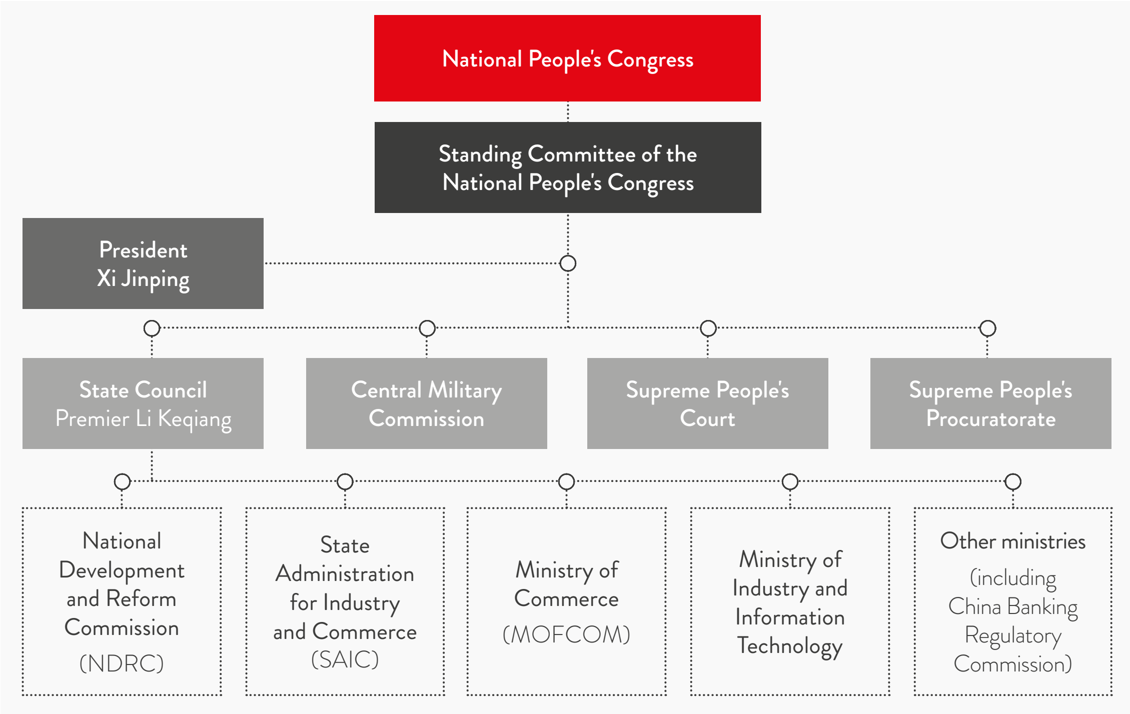
Significant social and cultural changes that have occurred in China over the past 70 years should not be underestimated when doing business there. In particular, socialism and communism have resulted in a more unified China and a much bigger emphasis on gender equality. Contradicting the Confucian-influenced patriarchal model, Mao pushed for greater social acceptance of women in the workplace from the 1950s. Today, females make up 46 per cent of the Chinese workforce – the highest rate in Asia. And around a quarter of China's business entrepreneurs – some 29 million people – are estimated to be women. Forbes magazine's annual billionaires list consistently highlights the fact that a majority of the world's self-made female billionaires are from China. The high status of women in Chinese business means Australian women conducting business there are able to be less mindful of their gender as a potential issue than they must be in other Confucian-based cultures such as Korea and Japan.

China's one-child policy – introduced in 1978 to control population growth – and the surge in economic growth of recent decades, have both brought changes that are challenging Chinese cultural norms. Unlike other East Asian cultures, the Chinese do not automatically expect women to resign from their jobs once they are married and raising children. Instead, it is widely accepted for mothers to return to work while grandparents look after children. Having grandparents, particularly paternal grandparents, living with young families is a long-standing Chinese tradition that reflects collectivist values and provides an in-family aged-care system. But the imperative for mothers to return to work and leave children in the care of grandparents is now stronger due to increasingly high living costs in urban areas and a growing focus on providing high quality education for 'only-children'. Although the one-child policy has helped to stem population growth, it has had its downsides – including widespread concern about generations of "spoilt" single children, the pressures on those children to care for their parents and grandparents when grown, and a low birth rate that now threatens long-term economic growth. China's total workforce is expected to decline by as much as eight million people per year from 2023 onwards as a result of an ageing population. To counter this, the Government replaced the one-child policy with a two-child policy at the end of 2012. However, only 50 to 60 per cent of the one-child generation say they want second children because of the high cost of raising them and the desire for a higher living standard.

Globalisation and the introduction of foreign values in recent decades have brought profound change in some aspects of Chinese business and employment culture. One notable example of this is the decline of the 'iron rice bowl' – a term that refers to how communist state-owned enterprises would provide for the broad life needs of their employees. The enterprise would provide meals, uniforms, often schooling for employees' children and even housing (although typically in dormitories). The system included lifelong employment, with promotion based on seniority rather than performance, and strong Confucian values reflected in strict hierarchies, top-down management styles and sometime authoritarian discipline in the workplace. This system survived well into the 1990s, but has been in decline since foreign multinational businesses started entering China and bringing with them Western management and employment systems. However, many older Chinese managers and businessmen still adhere to the old mindset when conducting business and managing employees. The increasing diversity in styles can be challenging for Australian businesses: the key is to try to recognise the generational differences within and between enterprises in China, and adapt accordingly.

China has for centuries had a great diversity of religious beliefs and practices. For much of the 20th century, however, religion was actively discouraged and suppressed by the Government. During the Cultural Revolution (1966 to 1976), the major religions were effectively banned, many churches and temples were destroyed and religious leaders and teachers were sent to factories and farms for re-education. In more recent times, the Chinese Government has implemented a policy of freedom of religious belief; redressing the unjust, false or wrong cases imposed on religious personages, and reopened sites for religious activities. The Government particularly encourages traditional Eastern religions such as Buddhism and Taoism to promote their role in building a harmonious society. After the religious repression of the 20th century, many Chinese are still hesitant to acknowledge or discuss their beliefs, resulting in a shortage of information on the level of religious

CHINESE GOVERNMENT STRUCTURE



observance. Recent studies estimate that 18 per cent of Chinese are Buddhists, around five per cent are Christian and up to 52 per cent are non-religious. There is broad respect and harmony between religious believers and non-believers. But in contrast to some other Asian countries, religion generally does not play a big part in social and business contexts in China. The primary sources of values remain traditional Chinese culture and Confucian thought.

Politics and government

The Chinese Government is a highly complex organisation that reaches into many aspects of Chinese society. An understanding of the workings of the central government is essential to a good understanding of China's business culture. While this section details government at a national level, businesses seeking to operate in China should also have some awareness of the roles of provincial and municipal levels of government.

Chinese Communist Party (CCP)

The Chinese Communist Party was founded in Shanghai in July, 1921. On October 1, 1949, after defeating the Kuomintang in the Chinese Civil War, Mao Zedong announced the founding of the People's Republic of China (PRC) at Tiananmen Square. The Communist Party has ruled continuously ever since, crafting all major social and economic initiatives and directing the course of China's development. Today the party claims a membership of over 85 million people.

Chinese Government Structure

The Communist Party serves as the overarching political authority in China and is headed by the General Secretary (who also has the title of President). Since March 2013, the roles of President and General Secretary have been held by Xi Jinping. China's military, the People's Liberation Army (PLA), is also directly under Communist Party oversight. The PLA is overseen by China's Central Military Commission.

The President: Chinese presidents serve five year terms, with a maximum of two terms.

State Council: The State Council serves as the administrator and regulator of China's day-to-day government functions. It comprises ministries, bureaus, commissions and agencies, and is headed by Premier Li Keqiang.

Political Bureau (Politburo): The Standing Committee of the Politburo is China's most powerful political entity. It effectively controls the direction and pace of China's economic development.

Central Committee of the Communist Party: The Communist Party takes its direction from policies devised by the highest governing body in China, the Central Committee of the Communist Party, which is further guided by the Standing Committee of the Politburo.

National People's Congress: China's parliament, the National People's Congress, debates and ratifies the policies set by the Central Committee of the Communist Party and the Politburo. It also ratifies laws and has oversight and appointment authority for the State Council and courts. The congress is elected for a term of five years and meets once a year.

Plenums

Plenums are meetings of the Chinese Communist Party Central Committee which are usually held on an annual basis for the five years of the serving National People's congress. All Plenums are as important as each other. The First Plenum introduces the new leadership, the Second Plenum tends to be personnel- and Party construction-focused, while the Third Plenum is usually seen as the point where the new leadership has consolidated power and introduces a broader economic and political agenda. The Fourth Plenum in 2014, focused on the Chinese government dedication to following 'rule of law' in order to continue China's economic growth. This includes the government recruiting "lawmakers, judges and prosecutors who are qualified lawyers and law experts" rather than selecting officials based on loyalty. To promote accountability, officials will now be assessed in their delivery of the law with emphasis on minimising corruption through improving government efficiency and legal support for the market regulatory environment.

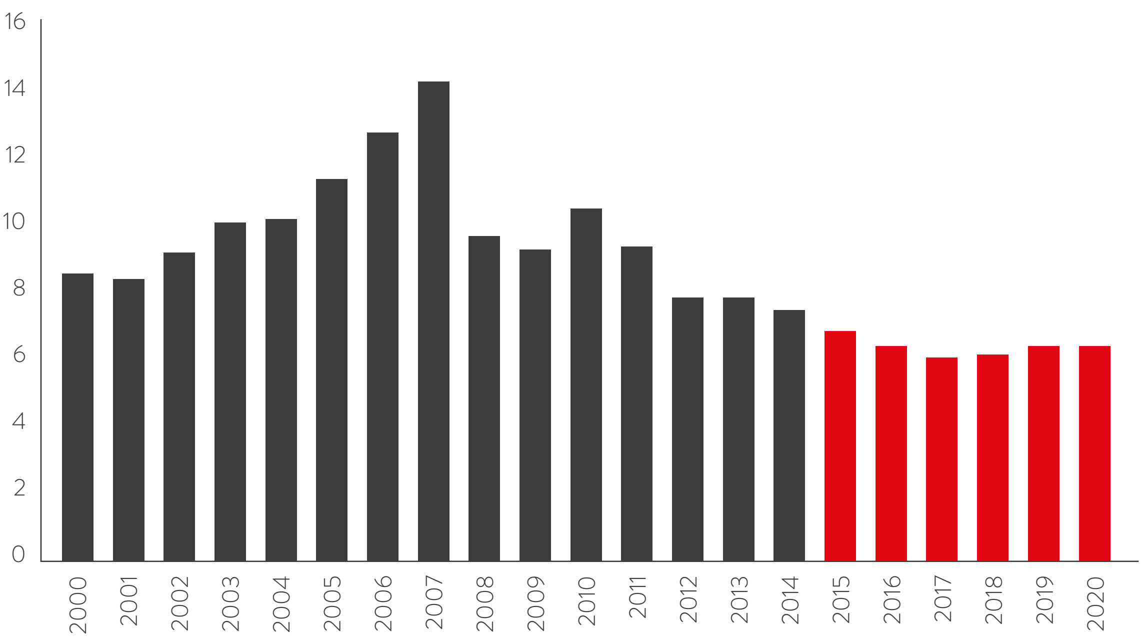
Five-Year Plans

Five-Year Plans indicate how China's economic, social, environmental, geographic and legal landscape is likely to evolve over the coming five years. Neither a law nor a regulation, the Five-Year Plan serves as a road map of government priorities and interests. China's 12th Five-Year Plan covers 2011 to 2015, and the 13th plan will cover 2016 to 2020. Discussion and details on this are expected in late 2015.

Economy

China's economy is the second-largest in the world, behind only the United States. But after three decades of spectacular growth, China is now moving into a slower growth phase – an inevitable result of its transition from a developing economy to a more mature, developed economy. In the 1980s, 1990s and early 2000s, China's annual GDP growth frequently exceeded 10 per cent, with 2014 growth of 7.4 per cent. In coming years, the International Monetary Fund (IMF) estimates China to continue growing at a rate of 6.8 per cent in 2015, 6.3 per cent in 2016 and in 2012. These forecast figures still put it well ahead of most other major economies' growth rates and keep it on track to eventually overtake the US as the world's largest economy. Manufacturing, services and agriculture are the largest sectors of the Chinese economy – employing the majority of the population and making the largest contributions to GDP. Since 1949, the

CHINA REAL GDP GROWTH %



Source: IMF World Economic Outlook Databases

Chinese Government has been responsible for planning and managing the national economy. But it was only after 1978 – when paramount leader Deng Xiaoping began market-based reforms –that growth began to take off, averaging 10 per cent annually for some 30 years. During that period, the size of the Chinese economy grew by roughly 48 times, from US$168.367 billion (current prices) in 1981 to US$10,355 trillion in 2014.

Since the introduction of Deng Xiaoping's economic reforms, China has what economists call a socialist market economy – one in which a dominant state-owned enterprises sector exists in parallel with market capitalism and private ownership. It was the active encouragement of private enterprise from 1978 that enabled China to kick-start the long expansionary boom that continues today. Private businesses now produce more than half of China's GDP and most of its exports. They also create most new jobs.

Despite the recent rise of private enterprise, state-owned enterprises remain prominent and play a pivotal role in the success of the economy. Chinese authorities have recently boosted their support for state enterprises in some sectors deemed important to economic or national security and to create 'national champions'. According to the State Assets Supervision and Administration Commission, what qualifies as a 'key sector' is broad, spanning real estate, metals manufacturing, shipping, science and technology, mining, telecoms and petrochemicals. Foreign investment in these sectors is subject to close scrutiny and often restricted or prohibited.

Although we tend to speak of one Chinese economy, it can also be usefully viewed as a decentralised collection of several regional economies, with large wealth imbalances between the rural and urban populations. The eastern provinces, which contain most of the manufacturing, are the wealthiest. Central China is more agriculture-focused and not as wealthy, although low-end manufacturing is increasingly moving into the region. Western China is the least economically prosperous region, although it has significant natural resources. The three wealthiest and most important economic regions are all on the east coast: the Pearl River Delta, close to Hong Kong, the Yangtze River Delta surrounding Shanghai, and the Bohai Bay region near Beijing.

Under the socialist-market model, the Chinese Government plays a direct role in managing the economy through its five year plans that set goals, strategies and targets. The five year plans in the 1980s and 1990s focused on market-oriented reforms, while the past two five year plans have focused on promoting more balanced growth, better wealth distribution and improved environmental protection. The current five year plan focuses on increasing China's competitiveness through more efficient and increasingly advanced manufacturing on the east coast, attracting labour-intensive

manufacturing to central provinces and increasing domestic demand. Economic growth, which has in recent decades been driven by export-led manufacturing, is now becoming more reliant on domestic consumption. The resulting increase in consumption spending represents a major opportunity for Australian businesses that are able to successfully target their products and services to an increasingly affluent Chinese public. There is also encouragement for foreign businesses to invest in key areas such as advanced manufacturing, energy saving, environmental protection and modern services. Tightened regulation on energy conservation and environmental protection also presents an opportunity for Australian businesses.

China's trade growth and foreign direct investment particularly intensified when it joined the World Trade Organisation (WTO) in November 2001. Under the WTO, tariffs on agreed products were reduced and market access to various industries was gradually phased in. Sectors opened up include trade and distribution, franchising, advertising services and many more. This led to increasing global engagement including hosting the 2008 Beijing Olympics and the 2010 World Expo in Shanghai. From 2003 to 2010, the Chinese economy experienced near-uninterrupted double-digit growth. This excludes the period during the global financial crisis years of 2008 and 2009 where the Chinese economy still managed to post impressive growth figures of more than nine per cent.

The perception of China since the 1980s as a predominantly low-cost manufacturing hub, where it effectively served as an inexpensive producer for global brands, is changing as the economy grows. Increasing labour costs and an ageing workforce have caused manufacturers' profit margins to decline steadily. As a result, while cost rationalisation is still an attractive feature of the China market, global and local businesses are now starting to change strategies to tap China as an engine for growth. Currently, approximately one-third of global business leaders rank China among their top three regions for generating growth over the next year.

Manufacturing: Manufacturing's percentage share of Chinese GDP has been slipping in recent years, but it remains a major sector, accounting for 43.9 per cent of GDP in 2013. The sector employs about 30 per cent of workers in China, and has ensured China remains the world leader in gross value of industrial output. On the more developed Chinese eastern coast, the focus has increasingly moved to advanced manufacturing, while lower cost and more labour intensive manufacturing is increasingly located further inland.

Services sector: China's services sector has doubled in size over the past two decades. In 2013, it overtook manufacturing as the largest sector of the economy, accounting for about 46 per cent of GDP. Major industries within the services sector include transport, storage and post (five per cent of GDP), wholesale and retail trades (10 per cent), hotel and catering services (two per cent), financial services (six per cent) and real estate (six per cent). The services sector is the largest employer in China, with 38.5 per cent of workers.

After years of intense focus on manufacturing, the Chinese Government has given higher priority to the increasingly dominant services sector, including in its current five-year plan. Although the sector has been growing spectacularly, its share of GDP in China remains much lower than countries such as Australia (70.7 per cent), the US (79 per cent), Japan (73 per cent), Brazil (69 per cent) and India (57 per cent).

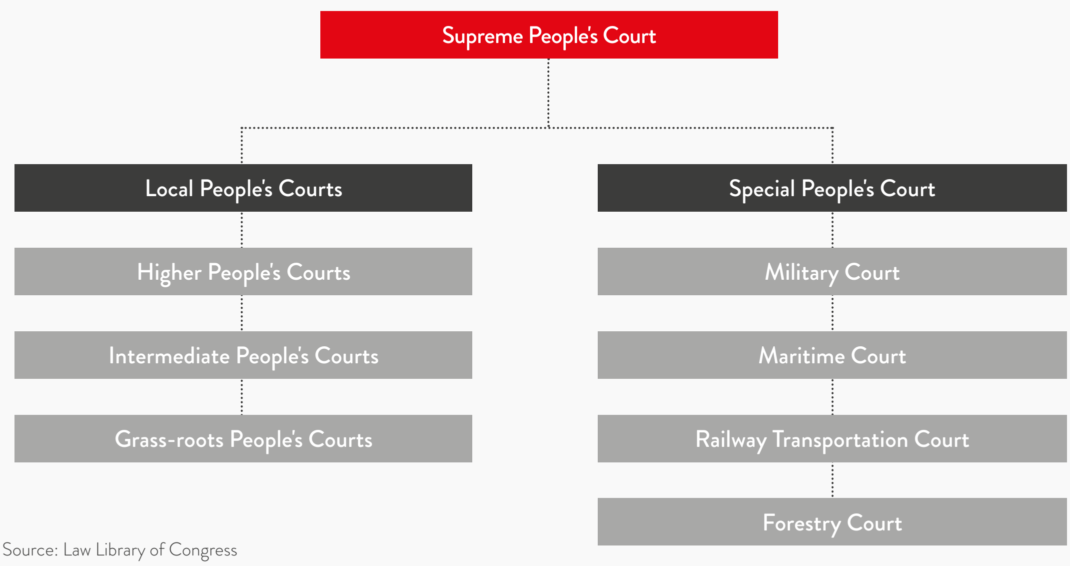
Agriculture: China is the world's largest producer of agricultural products – ranking first for rice, wheat, potatoes, sorghum, peanuts, tea, millet, barley, cotton, oilseed, pork and fish. Economic reforms introduced from 1978 led to a dismantling of the collectivist system and tremendous gains in production. Today the sector accounts for 10 per cent of Chinese GDP, but employs 31.4 per cent of the labour force, or close to 300 million people.

Legal system

The Chinese legal system is one of the oldest in the world – although it has evolved particularly over the past century due to war, changing political systems and globalisation. The current legal system is primarily based on civil law, with the Constitution of the People's Republic of China being at the core.

While China is continuing to make significant improvements to its legal system – particularly in commercial law – doing any form of business in China can present foreign businesses with numerous challenges. In common law jurisdictions, such as Australia, court judgments generally have binding legal effect. However, Chinese law follows a civil code system which involves a legal system founded on a combination of national laws, and national and local regulations, supplemented by court interpretations, departmental notices and, importantly, local practice. Although there is an official

THE CHINESE COURT SYSTEM



Source: Law Library of Congress

hierarchy of legislation in which national laws take priority over sometimes inconsistent lower-level regulations, in practice different interpretations of the same regulations are often applied. Uncertainty is often influenced by local protectionism, variable enforcement and a lack of transparency, particularly in less developed areas. It is therefore essential for anyone looking to establish or operate a business in China to secure impartial and well-informed legal advice before taking the plunge.

The Chinese legal system has two overarching elements – the Supreme People's Court and the Supreme People's Procuratorate (the highest legal supervisory body). In addition, the National People's Congress and its Standing Committee exercise national legislative power, and the State Council is authorised to adopt administrative regulations and measures in accordance with the Constitution and national laws. China also has a system of provincial and municipal governments, each with a People's Congress that may make local regulations, provided they do not contravene the Constitution or national laws. All citizens are equal regarding application of the law.

Supreme People's Court: The Supreme People's Court is the highest judicial body in China. It oversees the administration of justice by local people's courts, military courts and other special courts. The people's courts try all cases publicly, except cases involving state secrets, individual privacy or minors.

Under China's constitutional structure, courts are subject to the supervision of the People's Congresses (e.g. provincial, municipal, county) and do not exercise the power to determine the validity of laws and regulations. The Supreme Court also supervises the local people's courts with special courts existing to handle such matters as maritime and military issues.

Supreme People's Procuratorate: The highest legal supervisory organ in China, reporting to the National People's Congress and Standing Committee. It supervises the activities of the other State departments and officials as well as the power to ensure official and agencies are in line with government rulings. This includes authority overseeing treason, attempts to divide the country and other important criminal cases. It examines the cases after investigation by public security organs, and decides on arrests and prosecutions while also supervising public security organs, courts, prisons, reform through unions.

Infrastructure

Infrastructure investment in China has increased significantly in recent decades and has been a key driver of economic growth and improved standards of living. Despite the expansion, China's infrastructure continues to develop and expand. Infrastructure development has lagged behind what was envisaged in the Chinese Government's five year spending plan. The Chinese Government has flagged plans to address the national infrastructure shortfall from 2015, accelerating 300 projects valued at RMB seven trillion ($1.41 trillion).

Infrastructure ratings

2014 World Economic Forum's transport rank out of 144 countries, 1 being the most developed system:

ROAD 49TH	PORT 53RD
AIR 58TH	RAIL 17TH

Policy makers hope this will help shore up China's annual GDP growth amid indications that it is set to slip below seven per cent.

Much of China's recent infrastructure development – including rail networks, ports, telecommunications, airports and roads – has been focused around major urban centres on the east coast. When reviewing China's various elements of infrastructure, including rail systems, seaports, telecommunication, airports and road networks, it is important to understand the geographical vastness of China and that a predominant amount of the infrastructure development is on the east coast around the major cities.

Transportation has attracted about a quarter of total infrastructure investment, with a large component going into **roads**. This has led to China's highways and expressways expanding from one million kilometres in 1990 to more than 4.3 million kilometres today. But only 54 per cent of roads across the nation are paved (compared with 78 per cent in Japan, 98 per cent in the US and 50 per cent in India). A National Trunk Highway System links all provincial capitals and cities with populations of more than 200,000. About 70 per cent of the system is expressways.

China has in recent years significantly expanded and modernised its **rail networks** within and between its major population centres. The biggest urban rail systems are in the major cities of Beijing, Shanghai, Guangzhou and Shenzhen. New lines are currently under construction in the biggest Chinese cities and other metropolitan areas along the eastern seaboard.

When it comes to inter-city high speed rail, China is a global leader. Its passenger-dedicated high-speed rail network extends for 12,000 kilometres – making it the biggest in the world. More lines are currently being built and upgraded to eventually connect all cities of more than 500,000 people.

2013 Seaport World Ranking

* TEUs: Twenty-foot equivalent units, standard cargo carrier = two TEUs

China is also at one end of what is now the world's longest railway link, which carries freight trains all the way from China to Spain. The route, which officially opened in December 2014, covers 13,000 kilometres and is an extension to China's preexisting rail link with Germany, which runs freight between Chongqing, in southwest China, and Duisburg, and between Beijing and Hamburg. The new Yixin'ou cargo line to Spain, dubbed 'The Silk Railway' and the '21st Century Silk Road' leaves the coastal town of Yiwu in Zhejiang province. It passes through Kazakhstan, Russia, Belarus, Poland, Germany and France before arriving in Madrid. It takes 21 days to get freight from China to Spain via the rail route, compared with six weeks by sea and is more cost- and carbon emissions-efficient.

China's **ports** play a major role in the nation's international trade. There are about 200 ports and container terminals, including 34 major ports engaged directly in international trade, and other ports along many of China's rivers and waterways systems. The World Shipping Council ranks six mainland Chinese ports among the world's 10 busiest, including the number one – Shanghai. This does not include Hong Kong – ranked fourth – which has seen its container traffic decline in recent times due to foreign ports undertaking more direct trade with the mainland.

China's **air transport** infrastructure is expanding rapidly, in line with the growth in civil aviation. The nation has 183 civilian airports (excluding Hong Kong, Macau and Taiwan), which, according to the most recent figures, handled 679.77 million passengers and 11.94 million tonnes of cargo in 2012. The Chinese Government plans to increase the total number of civil airports to 244 before 2020. The top five airports in China (all international airports in Beijing, Shanghai, Guangzhou and Chengdu) in 2012 each serviced at least 31 million passengers, ranging up to almost 82 million passengers at Beijing Capital International Airport. Four of China's international airports were also ranked in the top 50 of the Skytrax World Airport 2014 Awards. Beijing was ranked 7th, Shanghai Hongqiao 15th, Haikou 34th and Guangzhou Baiyun 42nd.

Modern telecommunication facilities – fixed line telephones, mobile phones and access to the internet – are available across most of China, but services are superior in urban areas. There are more than 900 million telephone connections, including some 641 million mobile and 340 million fixed line subscribers. The development of telecommunications infrastructure, although rapid, has been unevenly distributed, with provinces along the eastern seaboard accounting for almost half of China's telecom users. China's western provinces and rural areas are still greatly under-served, and the Government is encouraging investment into these areas.

China's internet penetration rate is soaring. About 44 per cent of the population, or more than 591 million people, were believed to be connected in 2014. By 2016, mobile broadband users are predicted to outnumber fixed line subscribers at 543 million to 246 million. China Telecom, the state-owned and largest telco in China, has built a nationwide 3G network covering all cities and more than 96 per cent of villages and towns. It has also established the world's largest optical fibre network, which spans more than 83,000 kilometres.

With the expansion of internet usage, the Chinese Government has implemented the world's most sophisticated online censorship system, commonly referred to as 'the Great Firewall'. It blocks many social media websites, such as Twitter, Facebook and YouTube, along with numerous foreign sites including those of human rights activists and some foreign media agencies. The system also provides the Government with the ability for extensive monitoring of the population's internet usage, including emails and online data software management systems such as clouds. The blocking of websites may vary from day to day, depending on both domestic and international current political and social discussions. As a result, more people are trying to circumvent the censorship system with virtual private networks (VPNs), while Hong Kong is becoming a popular cloud computing hub because it is beyond the jurisdiction of the censorship system.

Another area of infrastructure in which China faces continuing challenges is **water** and **sanitation**. According to the World Bank (2014), only 65 per cent of China's population has access to reliable sanitation facilities. About 98 per cent of urban populations have access to reliable water facilities, but only 85 per cent of rural people have basic safe water facilities. More than 99 per cent have access to **electricity**.

1.3 CHINA AND AUSTRALIA: THE BILATERAL RELATIONSHIP

The Australia and China bilateral relationship has developed significantly over the past 30 years. Two momentous events in the 1970s set in train changes that would lead to China becoming what it is today: the economic and political powerhouse of Asia, and Australia's number one trading partner.

The first big game-changing event for China came when Western nations, including the US and Australia, established formal ties with Beijing in the mid-1970s. Soon after came the drastic economic reforms of the Chinese Communist Party under Deng Xiaoping. China opened its doors to the world, encouraging trade, investment and knowledge sharing. It released China from isolation and economic stagnation and set it on course for decades of consistently phenomenal growth and prosperity.

The stunning rise of China has brought substantive benefits, not just for hundreds of millions of Chinese people who no longer live in poverty, but for much of the world. Most countries have reaped big rewards from China's emergence as a low-cost manufacturer of almost everything, and from its huge demand for raw materials and other products and services.

Australia has arguably benefited more than most countries. Through a combination of good fortune and good management, we have positioned ourselves as one of China's key partners during its amazing economic transformation – a position that is now set to be greatly enhanced by the signing in 2015 of a historic free trade agreement between the Australian and Chinese governments.

The China Australia Free Trade Agreement (often referred to as ChAFTA) will open up unprecedented access and opportunity for Australian businesses, across a wide spectrum of industries, that want to embrace the opportunities in the world's most populous nation. It will add momentum to what is already a very broad and strong economic, strategic and cultural relationship between our two nations.

How strong is the relationship? Consider, first, the China-Australia trade numbers. Two-way trade in goods and services in 2014 reached over $160 billion, with Australia buying roughly $52 billion in merchandise (mostly manufactured) imports from China and the Chinese spending about $90 billion on Australian exports (goods). This makes it by far our biggest two-way trade partnership, China having surpassed Japan in the number one position back in 2009.

It is well-known that Australia's most valuable exports to China come from the ground. Our mineral and fuel exports to China last year were worth more than $60 billion – well over half the total value of our China exports. But mining is far from the whole story, and in future years is likely to be relatively less important as China's economy matures, its growth slows and its demand for mineral resources tapers off.

Already, thanks to a burgeoning population of urban middle-class Chinese consumers, Australia is finding growing markets for its agricultural produce, processed food, tourism, education, and more specialised professional services and advanced manufacturing. Australia will increasingly need to build on these non-resource export opportunities in future as an economic cushion against the end of the mining boom. ChAFTA is set to greatly assist in this aim, providing much easier access to the Chinese market for Australian service providers, and removing tariffs on most of our export goods as soon as it comes into force.

Although China's growth will inevitably slow as it matures into a more advanced, developed economy, Chinese GDP is still expected to grow at an extraordinary (by Western standards) five to seven per cent in coming years. As this is happening, the surge in the urban Chinese middle-class population — they are expected to number about 400 million by 2022 — should also drive further growth in consumption expenditure for years to come, and in doing so fuel potential new demand for non-mineral Australian exports.

The prospects for agricultural and processed food exports are particularly bright. Annual Australian agricultural exports to China have almost tripled in five years to about $9 billion, and more growth is in the offering as Chinese consumers increasingly demand quality produce, and Australia trades on its 'clean and green' image.

In addition, ChAFTA will provide greater market access to China with the staged removal of Chinese tariffs on a multitude of Australian exports, including dairy products, beef, lamb and seafood. Tariffs will also be progressively removed from Australian wine and a range of processed foods including fruit juice and honey, along with pharmaceuticals and other manufactured products.

Education is another big part of the growing China-Australia relationship. Australia has an international reputation for the quality of its education sector, and over 150,000 Chinese students are now enrolled in Australian universities, schools and other institutions, accounting for more than a quarter of the multi-billion dollar education export sector. The sector will be a beneficiary of the free trade agreement, with new rights to market directly to Chinese students.

AUSTRALIA'S TRADE AND INVESTMENT RELATIONSHIP WITH CHINA

Australian merchandise trade with China 2014	A$m	Total share*	Growth (yoy)
Major Australian Exports, 2014 (A$m)	**90,061**	**33.9%**	**-4.9%**
Iron ore & concentrates	50,579		
Coal	8,326		
Gold	7,023		
Copper	2,077		
Major Australian Imports, 2014 (A$m)	**52,078**	**20.6%**	**10.2%**
Telecom equipment & parts	5,642		
Clothing	4,996		
Computers	4,948		
Furniture, mattresses & cushions	2,295		
Total trade (exports and imports)	**142,139**	**27.4%**	**0.2%**

Australian services trade with China 2013-14			
Major Australian service exports, 2013-14 (A$m)	**7,487**	**13%**	
Education-related travel	4,142		
Personal travel excl education	1,909		
Major Australian service imports, 2013-14 (A$m)	**2,050**	**2.9%**	
Personal travel excl education	803		
Transport	512		

Source: Department of Foreign Affairs and Trade's China fact sheet 2014
* Total share of Australia's International Trade

Other service industries that have previously not featured in the Australia-China equation could also come into play as a result of ChAFTA. Australian private hospital and nursing home operators, for example, will be allowed to enter China at a time of major potential growth as the Chinese population ages and expenditure on health soars. There will also be new or improved market access for Australian banks, insurers, securities companies, law firms and professional services suppliers, construction, manufacturing and telecommunications services businesses.

One major service industry that has thrived under the previous expansion of the China-Australia relationship is tourism. Just two decades ago, very few mainland Chinese tourists came to Australia. Today they are our second biggest source of arrivals, and the biggest single source of tourism expenditure. In 2014, 784,000 Chinese tourists came to Australia, spending almost over $5.7 million combined. Their numbers have been growing by as much as 18 per cent a year, and Tourism Australia believes we could be earning as much as $9 billion a year from Chinese tourism by 2020.

Australian tourism operators could be set to additionally benefit from ChAFTA with a guarantee from China that Australian suppliers will be able to construct, renovate and operate wholly Australian-owned hotels and restaurants in China. Australian travel agencies will also be able to establish in China wholly Australian-owned subsidiaries for tours within China. Another huge growth area in the China-Australia relationship that could receive a boost from ChAFTA is investment. Chinese investment in Australia has already been growing strongly, and currently stands at around $64.5 billion. At the same time, many Australian businesses have successfully invested in the Chinese market, with banking and wealth management the largest sector of Australian direct investment in China. ChAFTA will improve opportunities for investors in both countries.

Our relationship with China is often dominated by trade and economics. But much of what has been achieved on those fronts would not have been possible without the background work of successive governments in Canberra and Beijing to build and sustain the bilateral political relationship and to collaborate on regional issues of common interest. Australia has an extensive diplomatic network in China, including the Embassy in Beijing and Consulates in Shanghai, Guangzhou and Chengdu. There are several Austrade offices across greater China, assisting Australian businesses to enter markets and promote Australia as an investment, tourism and education destination. Australian state governments are also widely represented in China's leading commercial centres. Australia and China share over 80 sister-state/province and sister-city relationships and people to people links between our two countries continue to flourish.

It is openly acknowledged in Australia's political engagement with China that we do not agree on absolutely everything. Australia's approach to manage differences is constructive and based on dialogue. Apart from our different histories, societies and political systems, we have differences on specific issues – particularly human rights and the Tibet Autonomous Region – although Australia acknowledges that Chinese people enjoy greater personal freedom than they did in previous decades. Australia's long-term strategic relationship with the United States also presents some ongoing complexities in terms of the roles of major powers in the region.

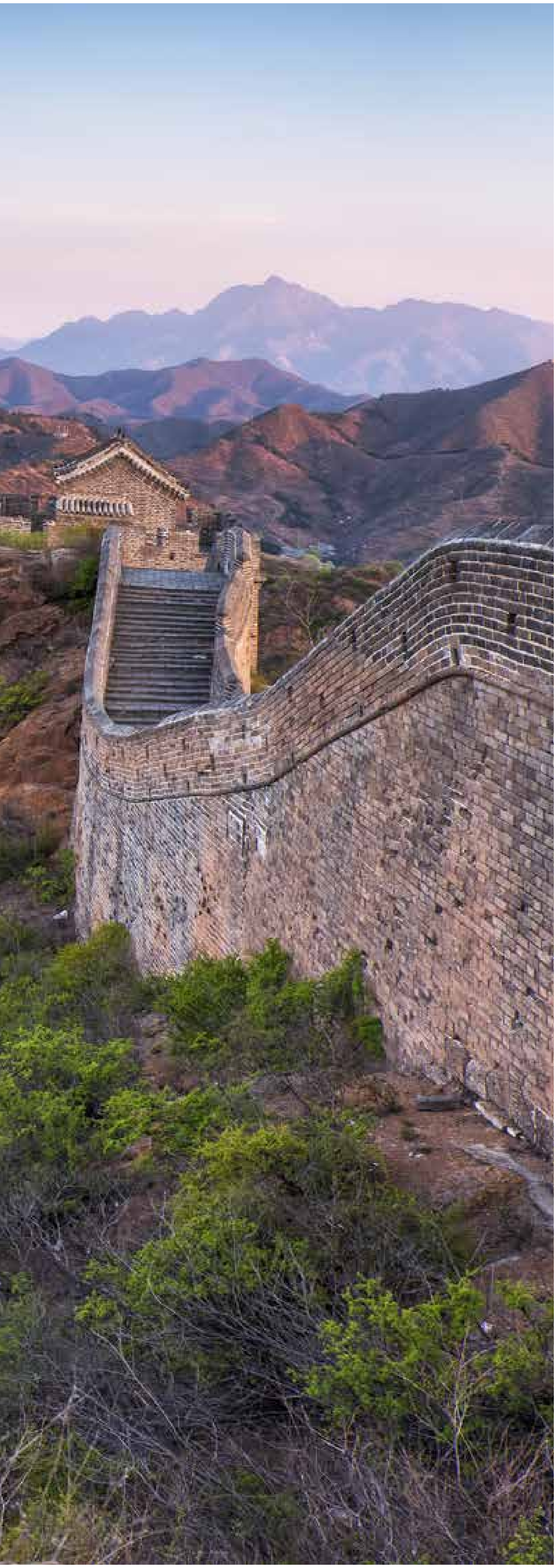
Australia and China have established consultation mechanisms to advance cooperation and manage differences. Under the Australia-China comprehensive strategic partnership, there is an annual meeting between our Prime Minister and the Chinese Premier. Other dialogues cover bilateral, regional and global issues, including trade and economic cooperation, defence, regional security, disarmament, development cooperation, human rights and climate change. Australia has also strengthened its defence relationship with China in recent years, through senior-level dialogue, educational exchanges, naval ship visits, and humanitarian assistance and disaster relief exercises. Australia and China have also pursued increasing collaboration in multilateral and regional forums, including the G20, which Australia hosted in 2014, and Asia Pacific Economic Cooperation (APEC), which China hosted in 2014. Australia and China share an interest in increasing the G20's focus on economic challenges and opportunities in the Asia-Pacific, including removal of trade barriers.

The signing of ChAFTA between China and Australia demonstrates the potential value of constructive collaboration between governments that do not always necessarily see eye-to-eye. Moreover, the deal may be a very timely tonic for Australia-China trade just as we enter a new era of slower (although still spectacular) growth rates in China.

In 2014 and 2015, we have seen significant falls in the international price for our iron ore exports in anticipation of slowing Chinese GDP growth. In this context, ChAFTA provides new opportunities to rebalance our exports to China, particularly through improved access to China's burgeoning agricultural, retail and services markets.

It is imperative for our nation's future prosperity that more Australian businesses take advantage of the extraordinary opportunities that will continue to open up in the new China in coming years. For both China and Australia, this is a big partnership with so much upside.

2. Getting started in China



Now that you have decided to launch your business in China, you must carefully plan your first moves. And one of the first things to do before entering any overseas market is research – lots of it. Market knowledge is one of the keys to succeeding in business overseas; inadequate research could be your pathway to failure.

In the case of China, you will need to become informed on a wide range of subjects, from industrial relations and tax provisions to labour regulations and a host of other variables. You should also take time to become familiar with the culture, language and business practices of China, as well as developing an understanding of the specific market you're considering and your targeted customer.

This chapter provides detailed information on how to go about researching the Chinese market – what to look for and where to find it. It also includes advice on key considerations and decisions to be made before launching your business venture – choosing a location, hiring interpreters, assessing the potential risks of operating in a foreign environment, and potential business structures.

China's business environment can be challenging compared with Australia's. This was highlighted in the 2015 Australian International Business Survey (AIBS), in which 47 per cent of respondents said it was more difficult to do business in China than in Australia, and 23 per cent said it was much more difficult. The single largest barrier the participants experience in doing business with China is: local language, culture and business practices (37%). This is in addition to understanding local regulations (10%) and payment issues (9%).

Where should I set up my business?

Factors to consider:

1. Are there other Australian companies there? Why did they choose a particular area?
2. Can you use an existing Australian relationship there (e.g. sister city)?
3. What are the local costs (e.g. land, labour, utilities)?
4. Is it within a free trade zone that offers tax and other incentives?
5. What is the skill level of the local labour force?
6. Can you leverage off an existing marketing or distribution network?
7. Is it close to your chosen market and suppliers?
8. Do you have a good agent/distributor or business partner there?

Careful planning is crucial to any China strategy: Make sure you are fully prepared and committed before investing. The reality of China is often several degrees more nuanced and complex than new market entrants or investors initially expect. Careful attention must be paid to on-the-the ground risks with practising effective due diligence crucial to succeeding in the Chinese environment (see Chapter 3 for further information).

Fully assess your markets and risk: Invest time and effort in getting to know your customers and partners, your government contact points and stakeholders. When incorporating risks into strategic planning, you should examine every level of risk, throughout all business functions. Often these risks are intertwined, and such analysis affords a bird's eye view of the local business environment and practices. An integrated China strategy must therefore address risks that stem from both creating value and protecting it.

Find business partners that are open to fresh thinking and new ideas: They must have enough experience in the local industry and familiarity with differences in local consumer and industry segments to see how to carry through with new ideas. Above all, your business partners must possess resources and relationships that complement yours. But alliances come with their risks. Trust and regular communication through the relationship cycle are essential and the need for practising due diligence cannot be emphasised enough.

2.1 WHAT YOU NEED TO CONSIDER

Doing business in China may seem rather daunting for newcomers. Taking a strategic approach is one of the keys to making the process manageable. In particular, it is important to:

- Avoid going into China cold – get a foot in the door first by making connections and conducting research before travelling there
- Take care with your choices of advisers, partners and contractors
- Allow time for bureaucracy – both filling in forms and waiting for approvals
- Choose a business structure based on research specific to your industry, objectives and your product
- If establishing your own business there or in a partnership, make sure you are directly involved in the setting-up process.

China is not a single market. Profound differences can exist from region to region, from industry to industry, and market to market. The most successful foreign companies in China are flexible, and adapt quickly to the realities of their particular industry and market.

Location

China is a country of great regional diversity. Wide differences in income levels, wealth, culture, language, market preferences, education and skill levels, infrastructure, and development levels are found across the country. Your choice of location is therefore critical, and will depend in part on whether you are entering China with a product or service to sell, or wanting to source products there.

Different locations and regions are also becoming increasingly specialised in their economic and business functions, rather than trying to offer all things to all customers. For example, Beijing has become a hub for IT companies and software development, whereas Qingdao is increasingly becoming a financial centre attracting both local and foreign banks.

While the eastern seaboard generally has the most well-developed infrastructure, it has the disadvantage of relatively high labour costs. Until recently, the simple solution to this issue had been to locate your business further inland, where resources and the general cost of doing business are lower. Although a differential remains, wage inflation and new social security requirements have reduced the inland advantage. Inland locations can also involve shortages in supply chain and management talent; inconsistent infrastructure and regulatory limitations; fragmented distribution systems; and limited adoption of technology. Some companies address this by having some of their manufacturing process in China then undertaking final assembly and customisation processes in regions closer to the location of their customers.

Central and local government incentives and regulations should be considered when choosing a location for your business. Under a regional development strategy, the Chinese Government has vowed to give high priority to developing infrastructure in rural areas. It will also invest more in areas with ethnic minorities, border regions and other underdeveloped locations. Foreign investors wanting to reap benefits from preferential government treatments will need to consider moving their labour-intensive industries to western and central parts of China.

Common reasons why some Australian businesses fail in China

- **Going it alone**: lack of understanding and knowledge of the Chinese business environment, culture and regulations can be a core reason for failure.
- **Limited preparation and research prior to entering China:** some Australian businesses make the critical mistake of assuming that business in China is just like at home. Do your research on the market, industry and primary competitors.
- **Dealing with the wrong people:** it is vital to connect and develop relationships with the key decision-makers. Negotiating with people in senior hierarchal positions is essential in Chinese business deals.
- **Neglecting to seek professional, experienced help in China:** a basic understanding of the Chinese regulatory environment is not sufficient. To launch successfully in China, businesses must engage professional services firms to help with legal advice on regulations and strategic issues such as marketing.
- **Don't understand their Chinese business partner:** some Australian businesses have failed to be proactive in developing and maintaining a relationship with a Chinese business partner. Time and money must be invested to help you understand your business partner's expectations and ways of doing business. Communication and setting clear expectations are essential.

Industry hubs of China

CHINA IS THE WORLD'S LARGEST

GOLD PRODUCER

FOOD PRODUCER

COTTON PRODUCER

SOLAR PANEL PRODUCER

AND PRODUCES

49% OF THE WORLD'S STEEL (2014)

95% OF WORLD'S RARE EARTH MINERALS

BEIJING - Zhongguancun Science Park - China's Silicon Valley

Beijing is home to Zhongguancun Science and Technology Park. Companies such as Nokia, Ericsson, Motorola, Sony, IBM, Sun, Oracle and BEA have a presence in the park.

13,000

The number of high-tech start-up businesses launched in Zhongguancun in 2014 (twice as many compared to 2013).

98

The number of Fortune 500 firms including Intel, Microsoft and Siemens, that have set up branches and research institutes in the park.

43,793

The total number of patents applied for in 2014 by Zhongguancun enterprises.

SHANGHAI - China's automotive industry capital

5.6 MILLION

The number of vehicles sold in 2014 by Shanghai Automotive Industry Corporation (SAIC), the largest auto manufacturer in China.

22 MILLION

The forecast number of vehicle sales by 2020, bigger than either the European or North American markets.

GUANGZHOU & SHENZHEN - China's fashion capitals

800 BILLION

The amount of RMB China's fashion industry is expected to be worth by the end of 2015, doubling since 2010.

1.3 TRILLION

The forecast RMB value of China's fashion industry by 2020.

QINGDAO - China's finance capital

Qingdao is a financial services hub with a high density of foreign financial institutions. It has a complete financial industry chain incorporating banking, insurance, securities, trust funds and other financial services.

$£ €

193

The number of financial institutions operating in Qingdao including 13 foreign commercial banks. International banks in Qingdao include Bank of East Asia, HSBC, OCBC Bank, Standard Charter, Yamaguchi Bank, Shinhan Bank.

¥

11.5 BILLION RMB

Is the estimation of total premium revenue of the 45 insurance institutions in Qingdao.

CHENGDU, SUZHOU & CHONGQING - China's manufacturing leaders

Suzhou is a centre for nano-technology innovation. Chongqing's economy continues to grow faster than China's national average, averaging double-digit growth in recent years. Chengdu is an IT and services outsourcing hub with SAP, NEC, Cisco, EMC, Philips, Dell, Ubisoft, Maersk, Siemens, Ericsson and DHL present.

25%

The number of the world's laptops Chongqing produces.

FORTUNE 500

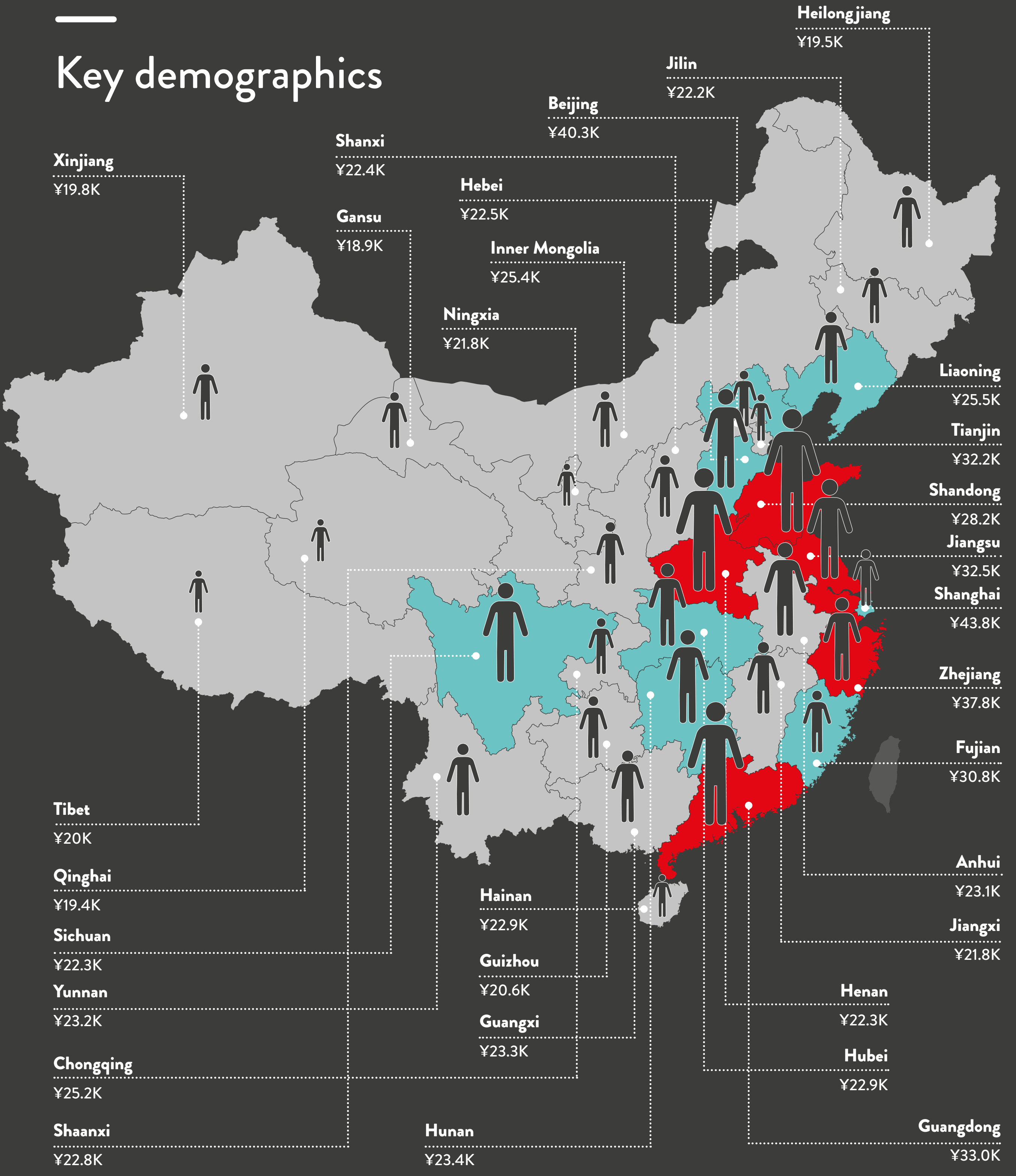
225

The number of Fortune 500 companies with a presence in Chongqing in 2013, most from the IT sector (up from 93 in 2008).

20%

The number of the world's computers Chengdu produces.

Key demographics



POPULATION (million)

GROSS REGIONAL PRODUCT (RMB)

- < ¥2 trillion
- ¥2-3 trillion
- ¥3+ trillon

PROVINCE AND INCOME

Province

Per capita disposable income (RMB)

Source: China Statistical Yearbook 2014

Factors to consider when deciding where to locate:

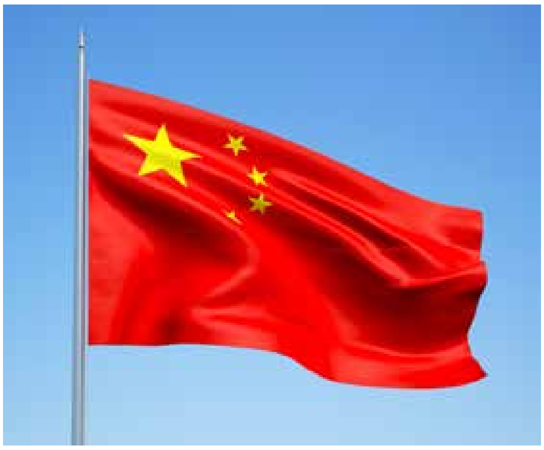
- Proximity to market and suppliers
- Quality of logistics and labour skill levels
- Costs – for example land, labour, utilities
- Reliability of local infrastructure, particularly the power supply and access to water
- Availability of a good agent or distributor
- Fast growth and high costs versus low costs and low competition
- Demographic factors such as income levels, market size and preferences
- Availability and duration of tax or other incentives
- Coat-tailing on someone else's existing marketing and distribution network
- Leveraging off an existing Australian business or a sister-city relationship
- The level of local authority support for foreign businesses
- Using a foreign trading zone, trade development zone or special economic zone
- Why another Australian company selected a particular entry point.

Your level of need for skilled workers may be a consideration in your choice of location. Among the consequences of China's rapid growth are a high demand for skilled staff and resulting skills shortages across various sectors and regions. In certain industries there are also restrictions on the employment of expatriates, which can add to the challenge of finding experienced, skilled workers for your business. Thus, your choice of location may be vital to securing a ready supply of skilled workers.

The central and provincial governments have launched a variety of free trade zones, special economic zones, export processing zones and technology development zones. Depending on the nature of the zone/region, foreign businesses receive various administrative and trade incentives such as easier licensing processes, tax concessions and advanced infrastructure to encourage the establishment of businesses and industries. There can also be advantages relating to trade barriers, tariffs, quotas and bureaucratic requirements. In your research, it might be worth checking with your Australian state trade office to see if your state or city has a relationship with a special trade zone in China (such as a sister city arrangement). It may also help to talk to successful Australian businesses in China about how they came to choose their location.

One of the special zones that could be of particular interest to Australian businesses is the Shanghai Free Trade Zone (FTZ), which was launched in September 2013. This zone is listed in ChAFTA as a key area for innovative and liberalised Australia-China cooperation. It is in an area where the Chinese Government is trialling policies and regulations that encourage administrative innovation, as well as stimulating trade and investment with plans to expand these regulations across China. Measures being trialled within the Shanghai FTZ, such as liberalised regulations, simplified business registrations processes and taxation benefits, have the potential to significantly open up the services sector to foreign investors. Critics have complained of slow progress, but this has not deterred a significant number of local and foreign enterprises establishing in the zone in the anticipation of more favourable policies in the future.

Based on the model of the Shanghai FTZ, three more FTZs will be established in China in 2015. These will be set up in Tianjin city, Guangdong province and Fujian province. Each is to make full use of its geographic location and carry special local features.



Using interpreters

The official language of China is Mandarin (otherwise known as *pǔ tōng huà* - 普通话). But for many Chinese, their native tongue is their local dialect. English language skills are encouraged, particularly in major cities where many business people – particularly younger – have studied it in high school or at college level. But English is not widely spoken among the general population in smaller cities and rural areas. It can be useful to have an interpreter during business visits, particularly when you need to discuss technical aspects of your operation. In practice, many Australian businesses hire bilingual Chinese staff to attend meetings and negotiations, assist with interpretation and understand context. There are also increasing numbers of Australian business people who speak Mandarin. It is strongly recommended that you make an effort to at least learn basic phrases to assist in building relationships and rapport with Chinese people, as well as establish before going into a meeting if an interpreter will be required.

If you decide to hire an interpreter, you should make sure that:

- The interpreter is professionally trained and experienced
- You have trust and confidence in the interpreter's communication and presentation
- The interpreter has an effective technical understanding of your business and approach. They should be fully briefed before meetings and, when necessary, provided with a list of terminology well in advance.

Translators: Interpreting and translating are two different professions with totally different skills. Interpreters are for oral interpreting and translators are for written translation. Although many people have both skills, some of them specialise in one discipline. Decide which one you want.

Finding an interpreter or translator: The best way to find the right translator or interpreter is to rely on the recommendation of someone you trust who has used them before. It's not advisable to hire an interpreter or translator straight off the internet or a trade directory unless they have reputable third party endorsements.

What it costs: The cost of hiring an interpreter may vary depending on the nature of the meeting (informal, such as a factory visit, or more formal), the duration of the meeting and where it is (e.g. Beijing or Shanghai). Interpreters charge for a minimum of half a day, even if it involves just an hour's work. The cost of an interpreter for a meeting in Beijing or Shanghai can vary between $700 and $1,200 per day.

Financing your Chinese business venture

Understanding the additional costs associated with conducting business overseas is essential to making an informed decision on whether you are ready to take the plunge. The main differences in China compared with operating in Australia may include:

- A longer cash flow cycle, which could increase the pressure on cash flow and working capital
- Being further away from clients, this can increase the risk of non-payment and make it more difficult to collect debts
- Risk of non-payment in China is generally higher than other countries in Asia, even if you have a presence there
- Getting paid in other currencies, which can expose you to foreign exchange risk and affect profit margins
- Greater difficulty accessing finance, as Australian banks are often reluctant to accept overseas assets as security for loans
- A longer timeframe to recover the upfront costs of establishing operations, which can reduce the cash flow and working capital available for domestic operations.

Adequate funding will be critical to your success, and a detailed financial plan is crucial. Your financing options could vary according to whether you are exporting, importing or investing. A wide range of funding options exists, with various grants, venture capital and equity sharing deals increasingly commonplace. However, banks remain the easiest and most approachable source of funding, with most of them offering tailored services. Your existing bank manager may be your best first port of call.

Venture capital could be an attractive alternative financing vehicle if you are comfortable with a third party taking an equity stake – and a share of the profits – in your business. As a first step to research the venture capital market, go to the Australian Private Equity and Venture Capital Association Limited website at www.avcal.com.au.

Government assistance – both federal and state – is available to Australian businesses wanting to expand overseas, especially exporters, through a number of grants, loan facilities and reimbursement schemes. These include Export Finance Insurance Corporation (Efic) – the Australian government's export credit agency (go to www.efic.gov.au) and the Export Market Development Grants (EMDG) scheme, administered by Austrade. Full information can be found at www.austrade.gov.au/EMDG.

Individual state and territory government websites also contain information on what financial assistance they can offer. Other sources of finance you could consider early on include:

- A joint venture arrangement with a trusted partner in China
- Receiving an equity investment from a sophisticated individual investor or 'angel investor'.

Is China a viable option?

Have a detailed financial plan that considers:

- Regular visits to the market and possible provision of samples
- Hiring dedicated staff in China to assist with start-up
- Business advisory services and legal consultants
- Updates and adjustments as you collect more data and knowledge
- Contains scenario planning and risk mitigation approaches.

Risks

Your research into any overseas market should include careful assessment of the risks associated with doing business there. While Asia presents Australian businesses with numerous opportunities for growth, going offshore entails increased risks that need to be identified, managed and reduced as far as possible. Due diligence also has to be actively practised, with particular care taken to protect intellectual property (IP) when doing business in China.

China can be a challenging destination for Australian businesses, and in some respect can be more difficult than other Asian countries. Before entering the market, you need to understand China's distinctive banking, taxation and legal systems. To mitigate such risks, Australian businesses should get professional advice where appropriate and thoroughly investigate the issues in entering the market and establishing business relationships. There are many people and organisations you can turn to for help. Choosing the right partners and the right professional advisers is a major step in mitigating risk. Your bankers, lawyers, insurers and accountants should also be able to give you knowledgeable advice about the risks you may face. The information provided here is simply an overview of the complex business

Common areas of risk

When doing business overseas, Australians must consider multiple areas of risks and associated potential difficulties. These include:

Political risk: how stable is the market politically, economically and socially?

- Government and international enforced trade embargos may affect the flow of goods and services and could affect your delivery of goods and getting paid
- Another potential consideration is whether the country complies with international law requirements, such as on human rights, trade sanctions and recognition of personal property rights.

Legal and regulatory risk: Challenges may arise due to differing legal and regulatory systems. For example:

- Common law systems versus civil law systems, IP issues, taxation and auditing requirements
- Differences in contract law: get tailored advice on contract terms due to differences with contract laws
- Access to courts and dispute resolution mechanisms: some countries may not permit local litigation or place restrictions on the types of claims that can be made.

Bribery, graft and corruption risk:

- Bribery, graft and corruption are illegal in most countries. Under Australian law (*Division 70 of the Criminal Code Act 1995)* you can face criminal prosecution in Australia for bribing a public official in another country.

Exchange rate risk: How will adverse movements in exchange rates impact on your profits?

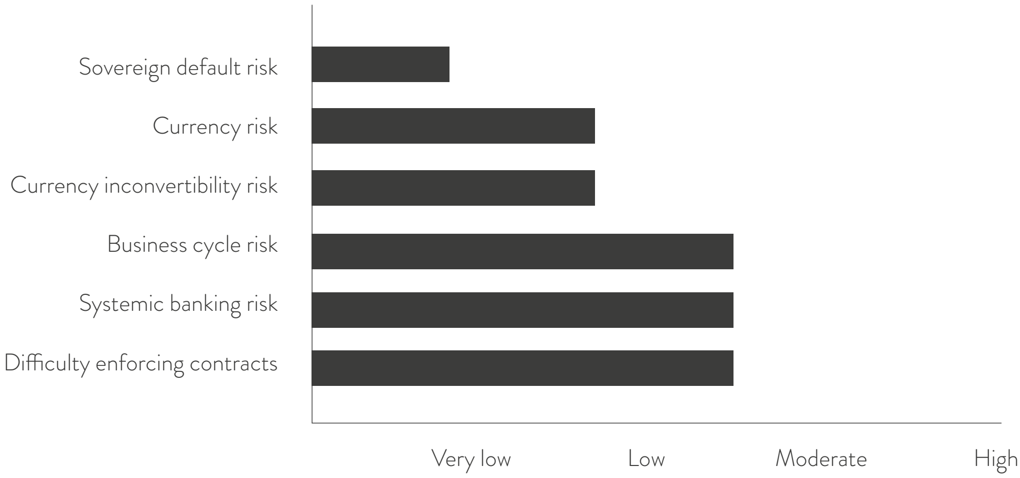
Non-payment risk: What is the likelihood of your suppliers or customers defaulting or becoming insolvent?

environment that is China. Efic highlights China's key risks as the evolving banking system and business regulations. This is in combination with a weak judicial system that makes it more difficult to enforce contracts. Other challenges include rigidities in infrastructure and labour markets and a potentially volatile currency – all accentuated by the devolution of power to regional and local bodies.

While corruption is a significant concern, the Chinese Government is actively focusing on improving transparency and due diligence across government and business. Transparency International's Corruption Perceptions Index 2014 ranked China 100th out of 175 countries in 2014 on the perceived level of public sector corruption (1 being least corrupt and 175 most corrupt). China was ranked ahead of Indonesia (107) and Vietnam (117) but behind other Asian countries such as Thailand and the Philippines (both 85). China's sovereign risk is considered reasonably low, with a credit rating of AA-/ Stable from Standard & Poor's.

Difficulties with getting construction permits and initial set-up processes can be a particular concern for Australian businesses in China. The World Bank's *Doing Business Report* ranks different countries according to how easy or difficult it is to open and run a small to medium-size business when complying with relevant regulations. In 2015, China was ranked 128th out of 189 countries (1 being the best) for starting a business, and a very low 179th for obtaining construction permits. However, China was ranked 90th for doing business overall, up three places from 2014. It rates quite good on enforcing contracts (35th) and registering property (37th). And relative to other large, developing countries, it ranks well for trading across borders at 98th. India was ranked 126th and Russia 155th.

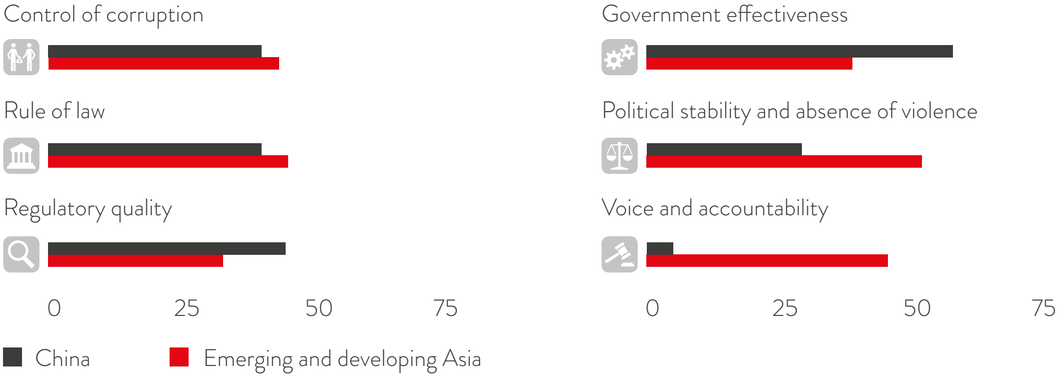
KEY RISKS TO EXPORTERS AND INVESTORS



Source: Efic

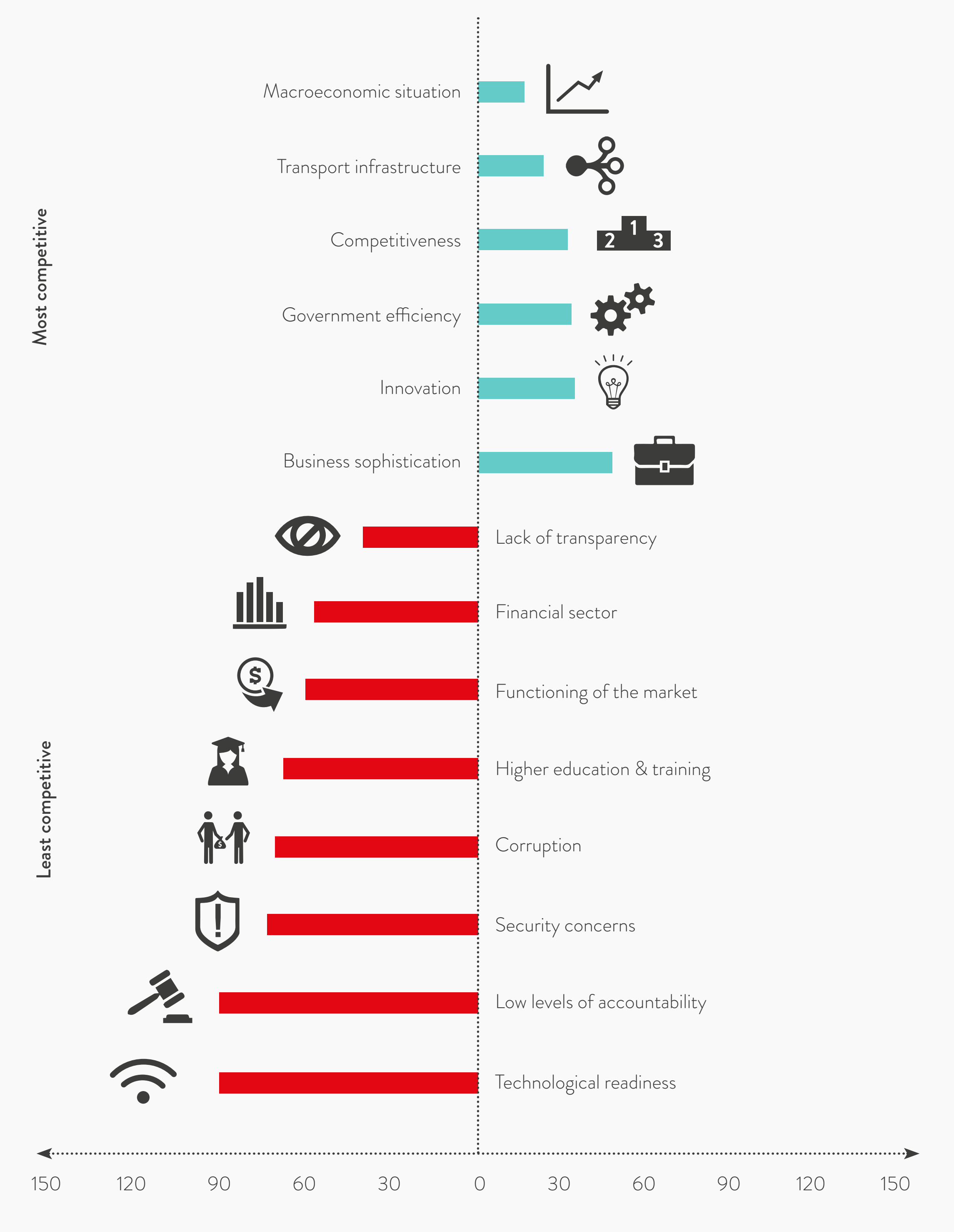
2013 BUSINESS CLIMATE INDICATORS*

GOVERNANCE INDICATORS



Source: World Bank & Efic
*Country percentile rank

INTERNATIONAL COMPARISONS OF COMPETITIVENESS*



Source: The 2014 World Economic Forum Competitiveness Report
*Ranking out of 144 countries

Rank out of 144 countries: 1 being the most competitive.

10TH

The **macroeconomic** situation remains favourable with inflation below three per cent and a low public debt-to-GDP ratio at 22.4 per cent.

21ST

China boasts good **transport infrastructure and connectivity.**

28TH

China ranks number 28 for **competitiveness** in 2014-15.

31ST

Government efficiency is improving.

32ND

China is becoming more **innovative** but it is not yet an innovation powerhouse.

43RD

Business sophistication is improving (up two).

43RD

A lack of transparency continue to weaken the institutional framework.

54TH

Problems endure in the **financial sector** due to the relative fragility of the banking industry. Access to loans remains very difficult for a large number of SMEs.

56TH

The **functioning of the market** (up five) is also improving, but various limiting measures and barriers to entry, along with investment rules, limit competition.

65TH

China is creating a more conducive ecosystem for **entrepreneurship and innovation** with improvements in higher education and training (up five).

66TH

Corruption remains prevalent.

68TH

Like other countries, China faces **security challenges** with borders, domestic unrest, access to natural resources and environmental concerns.

80TH

Low levels of accountability continue to weaken the institutional framework.

83RD

China ranks poorly on **technological readiness.**

Some useful public data sources on the Chinese market include:

- National Bureau of Statistics
- China Internet Network Information Centre
- China Greentech Report, produced by the China Greentech Initiative.

Intellectual property (IP)

Intellectual property (IP) rights have been notoriously difficult to enforce in China. Despite recent improvements in the ability to both register and protect IP, some companies reportedly continue to suffer commercial losses due to problems in this area. Counterfeiting, for instance, is estimated to result in approximately 20 per cent revenue loss for many global products, while estimated losses from piracy and counterfeiting of movies and software can be as high as 90 per cent.

China is one of 10 countries on the US Trade Office's 2014 Priority Watch List, which targets countries that do not provide an adequate level of intellectual property protection or enforcement, or market access for anyone relying on IP protection. Overall, however, protection of IP rights in China has improved in recent years thanks to the passage of new laws. Enforcement campaigns have also been stepped up, although this effort has not been sustained.

Regional risks

Australians wanting to do business in China should also be aware of regional tensions involving China that may contribute to business risk. China's relationship with Japan is at times difficult due to historical grievances and an ongoing territorial dispute over the Diaoyu/Senkaku Islands. These can be sensitive issues for Chinese business partners and are best not to be discussed. Large-scale protests that occur during heightened tensions with Japan are unlikely to target Australians or Australian businesses, but can be disruptive. Protests also occur in some parts of the country where there are internal tensions including regional areas requesting independence. These can be disruptive for businesses.

Rival territorial claims in the South China Sea are another source of tension between China and some of its neighbours, including Vietnam. There is also ongoing sensitivity with Taiwan, which varies in intensity depending on the state of political discussions. Elections in Taiwan can particularly lead to increased tensions with the mainland.

2.2 RESEARCHING CHINA

Comprehensive research is crucial when entering the Chinese market because of its unique features, including:

- Geographical size and cultural complexity
- The speed with which the market can change and evolve
- Rapid change in rules, regulations and the focus of enforcement authorities
- A lack of consumer information and vague regulations.

Your market research should cover a very wide field, from import duties and other regulations to market-specific issues such as distribution channels, market size and growth, competition, demographics and local production. Gathering this information is usually straightforward but it is easy to get overwhelmed by research and all the information that exists. This section aims to condense the main areas that can assist you. However, do not limit your Chinese market investigation to this guide.

When researching China, you need to be focused on the needs of the Chinese market, not your own company's needs. As discussed earlier, it is vital to take into account the different geographies and markets within China. Even urban markets in the same province can differ significantly. Compare Guangdong's Shenzhen, with its young migrant population of predominantly Mandarin speakers, with Guangdong's Guangzhou, and its older, more family-centred composition of Cantonese speakers. Each region must therefore be researched before entry, as customer preferences, as well as regulatory and value chain considerations, vary. There exists a broad spectrum of income levels as well, and new types of Chinese consumers are emerging, exhibiting unique spending behaviours. Plans are subject to change, though, and some flexibility will be needed to account for the change in dynamics of these disparate markets and the shifting needs and tastes of Chinese consumers.

Information available on the internet can only get you so far. You may need to commission your own professional China-based research and visit the market in person numerous times to develop crucial relationships. Data availability and reliability are also important considerations for any market study. The urban migrant population can be difficult to track, while some Chinese consumers are becoming more reluctant to disclose personal details. Market statistics might either be region-specific or industry-specific or too broad or out-of-date to be useful. Researchers should also note that much of the useful market information may be in Mandarin.

Getting help

A variety of research organisations in China, including large international professional and accounting firms such as PricewaterhouseCoopers (PwC), can be a major source of information. Austrade, which has a significant presence on the ground in China, provides a range of services for Australian firms seeking to go offshore, including:

- Information and advice with market entry and business expansion
- Help with location selection
- Access to local contacts and networks
- Identification of specific business opportunities and follow-up
- Market research services across a wide variety of sectors.

In addition to Austrade, the Queensland, South Australian, Tasmanian, New South Wales, Victorian and Western Australian state governments have representative offices throughout China and may be able to assist with further information. The Australian Government's Export Market Development Grant (EMDG) scheme can help meet these costs and state and territory governments may provide grants too.

Market visits

After doing as much research as possible in Australia, you will need to visit China to confirm the results of your research, develop a deeper understanding of potential markets, establish relationships and eventually negotiate contracts and agreements. Business visits to China require patience, understanding and commitment.

Determine where and when to visit: There are no fixed rules about when to visit a market – except that you should do so before entering into any agreements. This includes with prospective agents, distributors or other business partners that could influence your future dealings. Consider meeting with several to give you a basis for comparison. Always leave the most prospective contact until last. Meet with them once you have a better understanding of the market and standards and are more prepared to handle questions and strategic options. Concentrate your effort on only one or two markets at first to ensure a much better chance of success.

Plan your trip at least six weeks in advance: To ensure a successful trip, you should arrange in-country assistance for the planning and setting up of your program. This will help you see the right agents and customers who will be briefed and screened for interest and suitability. Take note of holidays and religious festivals that occur at the same time as your planned visit. Also have all your required paperwork completed before departing for China, including your relevant visa, and take with you (if applicable) any necessary legal documentation such as financial documents and information on regulations. Having company and product information and business cards is also vital for developing business relationships.

Do some background reading: If you don't know much about China and have never been there before, begin by doing some research on the internet. You could also find out something about China and its way of life by reading news articles and travel books. Consider how you would treat someone who has no experience of Australia visiting to do business with you. This initial research is not to develop a judgement of China; rather, it is to enable you to ask better-informed questions and have a more knowledgeable commercial judgement about the people you meet. Starter guides like this one and others from different sources focusing on more specific business topics can also be beneficial.

Have a good website before you go: A website is your corporate brochure. Prospective customers and agents will usually go straight to it to check you out. Therefore, the website needs to be informative and attractive – not overloaded with information, but cleanly laid out with interesting graphics. If applicable and possible, use customer or client endorsements and photographs to show your products or services. Make sure that contact details are easy to find and use – preferably a direct email with a photo of the staff member and have your website also accessible in Mandarin. Be aware of the national firewall in China and make sure your website is appropriate for it, ensuring that you don't rely on links to sites such as Facebook, YouTube or Twitter as these are not accessible in China. Some web domains and some email accounts (such as those related to Google) are not permitted.

Given the importance of safeguarding IP in China, make sure your website content is copyrighted and any IP is patented. Chinese domain names end with 'cn' and are registered with the China Internet Network Information Centre (CNNIC).

Trade shows and exhibitions: One of the best ways to meet potential customers or business partners is the numerous trade shows and exhibitions that take place across China throughout the year. However, to use your time most effectively, ensure in advance to arrange appointments to meet pre identified contacts at industry events. Austrade and state governments organise trade missions to China on a regular basis, some offering sector specific programs. Check with your state government for upcoming trade missions.

An easy-to-navigate, well-constructed and up-to-date website is crucial.

It allows you to:

- Present your product to your overseas potential customers and business partners in cost-effective ways.
- Project the impression of a professional and trustworthy business.
- Convey that your business is "modern" and uses new technology.
- Avoid problems with time differences.
- Introduce and promote new products while selling directly to customers.
- If possible, have a website with content in Mandarin. Make sure translations are done correctly.
- Design your website for a Chinese audience. Consider seeking professional help to do this.
- To make it easier for Chinese users to find your website, host your website in China. You will need to obtain an ICP licence from the Ministry of Industry and Information Technology.

Building relationships and making connections

To make the most out of your visit to China, you need to be well prepared before you arrive. Don't waste valuable time in China doing what you can do back in Australia. Various organisations have training courses or seminars that can expand your knowledge about doing business in China. These include Asialink Business, Austrade, Export Council of Australia (ECA) and the various state and territory governments. Attending such seminars and courses will enable you to establish networks and speak to experts with experience in China before you enter the market.

Make sure to prearrange as many of your meetings as possible and reconfirm them one day in advance. Have addresses for the meetings and information on the people you are meeting with. It is vital to take business cards with you and to follow up with people who have provided you with their cards. It is recommended that, within 48 hours of your appointment, you send an email thanking your contact for the meeting and providing any follow-up information – noting also, if necessary, that you will get back to them within a specific time period on further requests. This will leave a good impression by demonstrating your reliability and professionalism.

Joining a business association is another great way to learn more about what is going on in the local business community and to meet colleagues.

Many Australian cities have sister-city relationships in China. These provide additional assistance such as networking events and a network of existing relationships. Some have representative offices in China. Check with your local government for more details.

In the major cities such as Beijing, Shanghai and Guangzhou, there are several well-established country-specific business associations with memberships of hundreds of people. These include the Australian Chamber of Commerce (AustCham) which exist in Beijing, Shanghai and Guangzhou. By representing a broad cross-section of Australians and Australian companies, AustCham plays a critical role in cultivating Australia-China business relationships. The Chambers also maintains a good working relationship with the Australian Embassy and with the various Australian Government departments in China. Joining a business association, such as AustCham, is a great way to learn more about what is going on in the local business community and to meet colleagues. Please see the Resources and Contacts section for further information.

CASE STUDY

Manage China

Tim Lyons, Director, ManageChina

Normal business networking reaches a new level of sophistication in China, where it is impossible to be "across" a vast, diverse and complex market.

Australian Tim Lyons, who set up ManageChina nine years ago to provide "non-core" services to businesses, says newcomers to China need to hit the ground running.

"You need networks wherever you go but in China you almost need an instant network when you land. The chambers of commerce in China are more important than anywhere I've worked before. The first thing you should be doing is reaching out to the local chamber of commerce and asking how to get involved and building your network out from there. It's a starting point, a kick-off. It's mission critical."

Chinese business processes can be complex, and been-there-done-that information is invaluable, says Lyons.

"I read a PricewaterhouseCoopers report about 'triangulating' your information in China and that's what we do in our business, we ask someone, check in over here then check a third time because it's not as clear a system as Australia's. You find yourself reaching out to others to seek clarity and they're doing the same. So there's always a need in China to reach into your network."

"I worked with an Australian service provider who landed about 18 months ago, and from the very beginning he registered his trademark, made sure all his staff were employed properly, had the company completely legally set up before he started anything, did Chinese lessons, paid his taxes on time. All the things you would do in a business in Australia he did in China, and he won."

Not all newcomers are as diligent, says Lyons. Oversights might not be deliberate, but operating in an unfamiliar environment is not an excuse.

"The number of people who don't do any of it is extraordinary, it still amazes me. People probably do need advice around those things but they make too many presumptions and then start pulling their hair out and saying 'why are things like this?' It just is like that.

"The fact is, the Chinese are very clear about what your obligations are. We're allowed to set up companies in our own right and in most cases they don't require a business partner. Being able to do that in a country like China is extraordinary, in many Asian countries it's not like that. China gives us the opportunity, we need to be respectful of that and follow the rules and they're not very difficult rules to follow."

ManageChina provides services including legal, administration, customer service, HR and IT. Lyons is understandably an advocate for "doing it right".

www.managechina.com

2.3 POSSIBLE BUSINESS STRUCTURES

Now that you have decided to set up a business in China, there are many elements you need to consider. What type of business will you have – a joint venture with a Chinese partner? A wholly foreign-owned enterprise? Or simply a representative office? There is no single business structure that holds the key to unlocking the China market. In fact, there is no single China market. As discussed earlier, the different markets, geographies and industries within China can be as diverse as each company. Local regulations and local enforcement of central regulations can also differ greatly. So cultivating a wide network of local contacts in government, while gaining an understanding of local practices, will help lower your compliance risks and assist you in choosing the most appropriate business structure.

There are multiple channels of entry open to foreign investors; the one you choose must fundamentally be supported by your company's business objectives. Knowing what you'd like to achieve in China will help to determine the entry vehicles that can help take you there. Unlike other countries, China has a regulation process that can have an impact on the structure you choose – this includes the scope of your business and registered capital.

Setting up a business in China overall generally takes three to six months and involves various government authorities and procedures that may differ depending on the industry your business is in and the structure you have chosen. The primary Chinese Government authorities involved are:

- Ministry of Commerce
- State Administration of Industry and Commerce (SAIC)
- State Administration of Foreign Exchange (SAFE)
- State Administration of Taxation
- General Administration of Customs
- State Bureau of Quality and Technical Supervision
- National Bureau of Statistics.

The four primary options Australians businesses can choose from to set up a foreign investment enterprise (FIE) are: representative offices (RO), wholly foreign owned enterprises (WFOE), joint ventures (JVs) – of which there are two types – one being foreign invested partnerships (FIP).

Your **business scope** should be clearly defined early on in the process, as it is what will appear on your business licence in China. Your business can conduct activities in China only within its business scope. Keep in mind that further application and approval is required if you want to make any amendments to the scope, which can be very time-consuming.

Registered capital is the initial investment in the new business required to fund the operation until it is in a position to fund itself. The official requirements vary for registered capital depending on the industry and region.

Representative offices (RO)

The easiest and simplest type of business structure to establish in China is a representative office (RO). It is therefore popular with Australian businesses that simply want to get a feel for the Chinese market and environment and make business connections. There are no registered capital requirements for a representative office, but it does have a limited business scope. An RO is not permitted to engage in any remuneration or profit-making activities and cannot issue receipts or accept payment for services. An RO can only partake in market research and public relations activities that directly relate to the business's products or services, as well as contact activities that relate to provision of the product and domestic procurement and investment.

Other requirements include:

- The parent company must have been established for a minimum of two years.
- It cannot directly hire local employees. Rather, it must engage an official Chinese employment agency.
- The registration certificate is issued for a one year term, subject to annual renewal.
- It cannot restructure into a more comprehensive form of foreign investment enterprise.

After an increase in the number of foreign businesses abusing the representative office non-profit requirement, the Chinese Government has adopted stricter measures to stop illegal activities. These include new rules on the taxation of ROs, including annual reporting obligations that encompass an official audit done by a third party accounting agency.

To establish an RO, the parent company must first apply for a business licence by submitting an application with the SAIC, followed by registration with other relevant authorities. In certain industry sectors, an approval from relevant authorities is required prior to submitting the SAIC application. The SAIC registration process generally takes between three and four months and is quite time-consuming when submitting directly to authorities. Therefore Australian businesses may prefer to engage a consulting company which has more in-depth procedural knowledge to submit the application.

All applications must be submitted in Mandarin and additionally can be written in English. Documents in both languages shall have equal validity. Approval permits are usually issued within one month of application submission.

Advantages and disadvantages of using a wholly foreign-owned enterprise:

Pros

It allows for complete control over business decision-making, without considering a Chinese partner.	It is a more effective means of protecting technical information and trade secrets.
It can formally engage in business activities; issuing RMB invoices to clients and receiving RMB revenues.	It allows full authority over staffing.
Profits can be converted to foreign currency for repatriation.	It can engage in product sales both domestically and internationally.
In many cases, it requires only one director (although there may be additional directors required in some cases), who can be of any nationality and reside anywhere outside of China.	It requires only one investor, who can be of any nationality and reside anywhere outside of China. Corporate investors are also permitted.

Cons

Establishment is complex and time-consuming, with approvals required by multiple authorities.	Incorporation is expensive: 15 per cent of the investment is required within the first three months.

Wholly foreign-owned enterprise (WFOE)

A wholly foreign-owned enterprise (WFOE) is a limited liability company that is entirely funded by one or more foreign entities. WFOE is the most popular business structure chosen by foreign investors as it permits the most freedom in business management. A large amount of capital is required to establish a WFOE but the benefit is that it creates an independent legal entity that can engage in profit-making business, and manage the business in its own way while also allowed to create subsidiaries. A business license is usually issued for 30 years with shorter or longer terms allowed as well as extensions.

It is critical that both the business scope and total investment are accurately defined at the initial application phase to receive government approval as, once established, the WFOE is legally obliged to remain within the parameters of its business scope and meet its financial commitments.

The process of establishing a WFOE in China generally takes between three and four months. An office space must be leased for future business before beginning the WFOE application process. It is recommended that a clause be added to the lease voiding the contract without penalty should the WFOE application be rejected.

The WFOE's investors must pay 15 per cent of the registered capital within three months of the business licence being issued, with the balance due within two years. The minimum legal requirement is RMB30,000 if the WFOE has two or more investors, or RMB100,000 if the WFOE has only one investor. Authorities, though, will assess on a case-by-case basis the amount of registered capital taking into consideration the proposed business activities and location. The amount is then written into the company's articles of association.

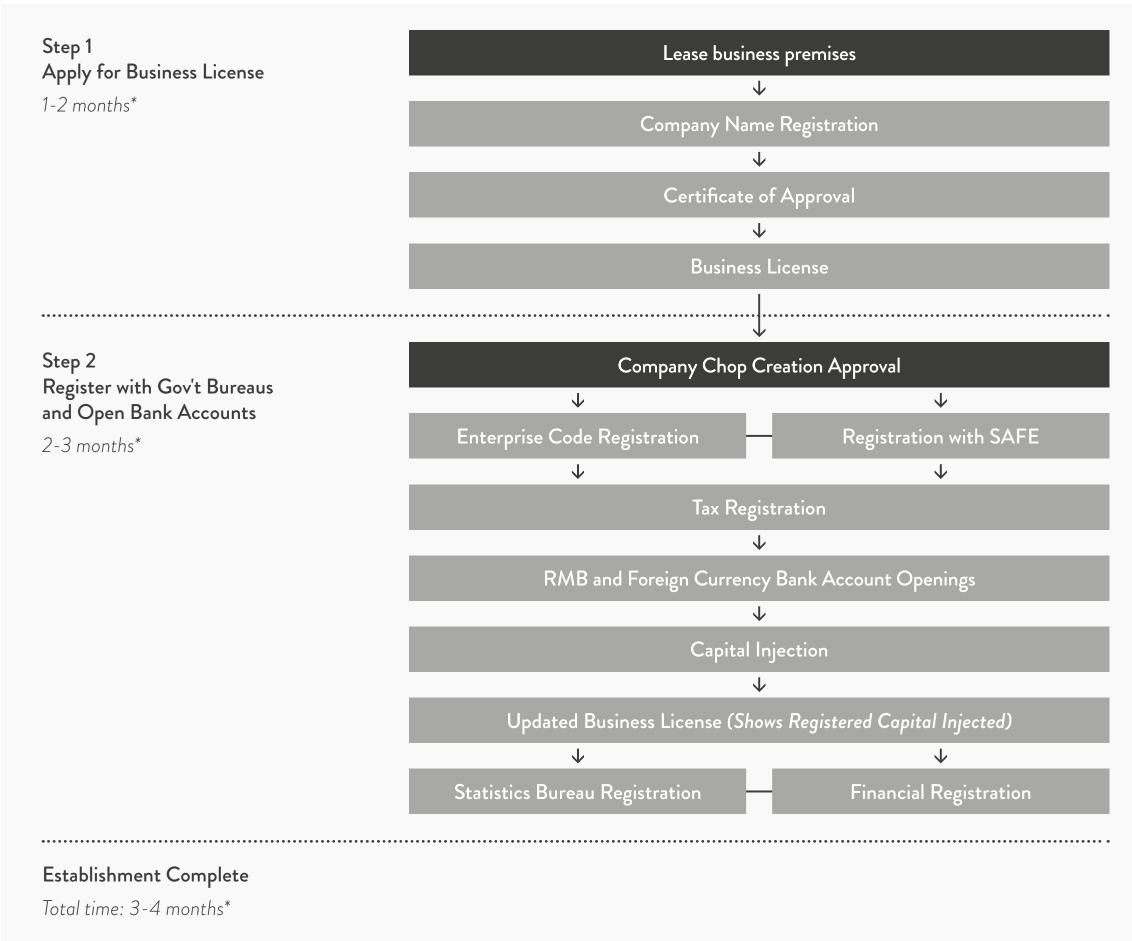
Joint venture (JV)

A joint venture (JV) is created through a partnership between foreign and Chinese investors, who together share the profits, losses and management of the venture.

For foreign investors, there are two major reasons for choosing to establish a JV; these include government requirements for specific industries, and the local partner being in a beneficial position to assist with market knowledge or established networks. It is strongly recommended that you consult with the foreign partner of an existing JV in order to better understand the advantages and disadvantages of the structure before progressing to establish a JV. Due diligence is essential in choosing the correct partner. See Chapter 4 for further information on due diligence in China.

There are two types of joint ventures in China – equity joint ventures and cooperative or contractual joint ventures, which differ predominantly in the ways in which profits and losses are distributed. Like WFOEs, JVs must pay 15 per cent of the registered capital of the venture within three months of the business licence being issued, with the balance due within the first two years. The same minimum investment requirements and consideration by the Government apply to JVs as WFOEs.

ESTABLISHING A WHOLLY FOREIGN-OWNED ENTERPRISE



Source: Asia Briefing and Dezan Shira & Associates
*General estimation

Equity joint venture (EJV)

An equity joint venture (EJV) is the second most common structure used by foreign companies to enter China and the vehicle most preferred by the Chinese Government and Chinese businesses. EJVs are usually established to exploit the market knowledge, preferential market treatment and manufacturing capability of the Chinese side, and the technology, manufacturing know-how and marketing experience of the foreign partner. They have a duration limit that can range between 30 and 50 years.

The key attributes of an EJV are:

- Profits and losses are distributed between parties in proportion to their respective equity
- Limited liability as a Chinese legal person
- The foreign partner must hold at least 25 per cent of the equity interest in the registered capital.

Cooperative or contractual joint venture (CJV)

In a cooperative joint venture, also known as contractual joint venture (CJV), there is no minimum foreign contribution required to initiate the venture, allowing a foreign company to take part in an enterprise where they prefer to remain a minor shareholder. Investors' contributions are not required to be monetary, and can be 'in kind' support such as labour, resources and services. Profit and returns are therefore not based on investment share. Rather, they are divided according to the specific provisions of the joint venture contract. A CJV also allows greater flexibility in the structure of the organisation, management and assets. There is a duration limit for CJVs, although contracts may be renewed subject to the consent of the parties involved and approval from the examination and approval authorities. The foreign investor is also permitted to withdraw all or a portion of their registered capital from the CJV during the duration of the CJV contract.

Foreign-invested partnerships (FIPs)

There are two other foreign investment options that you may consider for setting up a business in China. Foreign-invested joint stock companies (otherwise known as foreign-invested companies limited by shares) are not very common in China and tend to be for larger organisations. The other is the recently introduced foreign-invested partnership (otherwise referred to as a general partnership or limited partnership). FIPs have different benefits not offered by WFOE, including a set-up process without registered capital verification, tax savings, the options of domestic and foreign ownership (both corporate and individual) and hiring of foreigners. The challenge with FIPs is the unlimited liability of the general partner.

Establishing holding companies in Hong Kong or Singapore

Another option for setting up in China, preferred by some Australian businesses, is to establish holding companies for their Chinese entities in the jurisdictions of Hong Kong or Singapore. This permits Australian businesses to partially avoid China's regulatory environment, which is tougher and has more extensive procedures. Holding companies also allow for a layer of protection between the parent company and Chinese subsidiary from potential risks and liabilities. Benefits include:

- Tax advantages such as limited tax exposure on capital gains and reduced withholding tax rates on repatriation of profits
- Relatively stable and sophisticated banking and legal systems in both Hong Kong and Singapore that can also be used to hold offshore profits earned in China
- The ability, if needed, to easily reinvest profits (if held in Hong Kong or Singapore) into China or expand into the Asian region
- Easier procedures to sell the Chinese business or introduce a third-party partner or shareholder.

So how does China rank relative to other countries for ease of establishing a business? The World Bank and International Finance Corporation in their *Doing Business Report 2015*, have compared 189 nations on nine specific measures related to establishing a business.

China was ranked 128th out of 189 economies for ease of doing business, an improvement on last year's ranking of 151. It takes 11 procedures to establish a corporate entity in China (compared with the OECD average of five) and an average of 30 days to complete. Further categories are discussed on the next page.

Nine areas to consider when setting up a business in China

STARTING OFF

It takes 11 procedures to establish a corporate entity in China and an average of 31 days to complete.

CONSTRUCTION PERMITS

Construction permits take an average of 244 days to acquire and involve 22 procedures.

ELECTRICITY CONNECTION

Electrical connection takes on average 143 days and five procedures.

REGISTERING PROPERTY

It takes four procedures and 19 days to register property in China.

GETTING CREDIT

China is ranked 71st in the world for ease of getting credit.

PROTECTING INVESTORS

China is ranked a low 132 out of 189 nations for investor protection.

PAYING TAXES

Tax obligations are one of the more laborious aspects of doing business in China, taking an average of 261 hours of company time per year to deal with.

TRADING ACROSS BORDERS

Exporting a container of goods on average requires eight documents, takes 21 days and costs US$823.

ENFORCING CONTRACTS AND RESOLVING INSOLVENCY

Enforcing contracts takes an average of 453 days, requires 37 procedures and, on average, costs 16 per cent of the value of the claim.

Source: World Bank Doing Business Report 2015

2.4 MANUFACTURING IN CHINA

China is the world's largest manufacturer, sometimes referred to as 'the world's factory'. It has been an attractive destination for manufacturing in recent decades thanks to its low labour costs, technically skilled workforce and good infrastructure. But China's competitiveness and manufacturing profile are changing, with more developed regions moving up the value-chain and labour-intensive manufacturing moving inland. Businesses are increasingly choosing to manufacture in China to service the growing Chinese market, rather than use it as low-cost option to manufacture export items.

Advantages of manufacturing in China include access to increasingly sophisticated Chinese research and development (R&D) and science and technology, as well as incentives offered by local, provincial and central government agencies. Another positive of manufacturing in China are the efficiency gains thanks to larger economies of scale in China. However, rising labour costs, skills shortages and intellectual property protection are significant issues to be considered when looking at manufacturing in China. Other concerns and challenges when manufacturing in China are the current development stage and inconsistency with application of commercial law in China and variable quality of logistics and infrastructure systems. Using contracted manufactures or subcontractors may also cause serious difficulties that have to be strictly managed. These include the need for rigorous quality control, possibility of leak of products to the domestic and international market, production overruns and ethical and corporate socially responsible manufacturing.

There are a number of ways for foreign businesses to go about manufacturing in China. Contract manufacturing is a popular option for both large and small businesses across various industries. Australian businesses can also choose to invest directly in a factory in China, either independently as a wholly foreign-owned enterprise or as part of a joint venture with a Chinese company. For more information on setting up a business in China, see the previous section 2.3.

Location is another key consideration for manufacturing in China, with the Chinese Government encouraging investment in different types of manufacturing in different regions. On the more developed eastern seaboard, where wages are higher and the infrastructure is better, the Government encourages investment in high-end, low-polluting manufacturing. Further inland in China's central and western provinces, where labour is cheaper and infrastructure less developed, the Government encourages investment in more labour-intensive manufacturing. Some cities and provinces specialise in certain industries and producing specific goods.

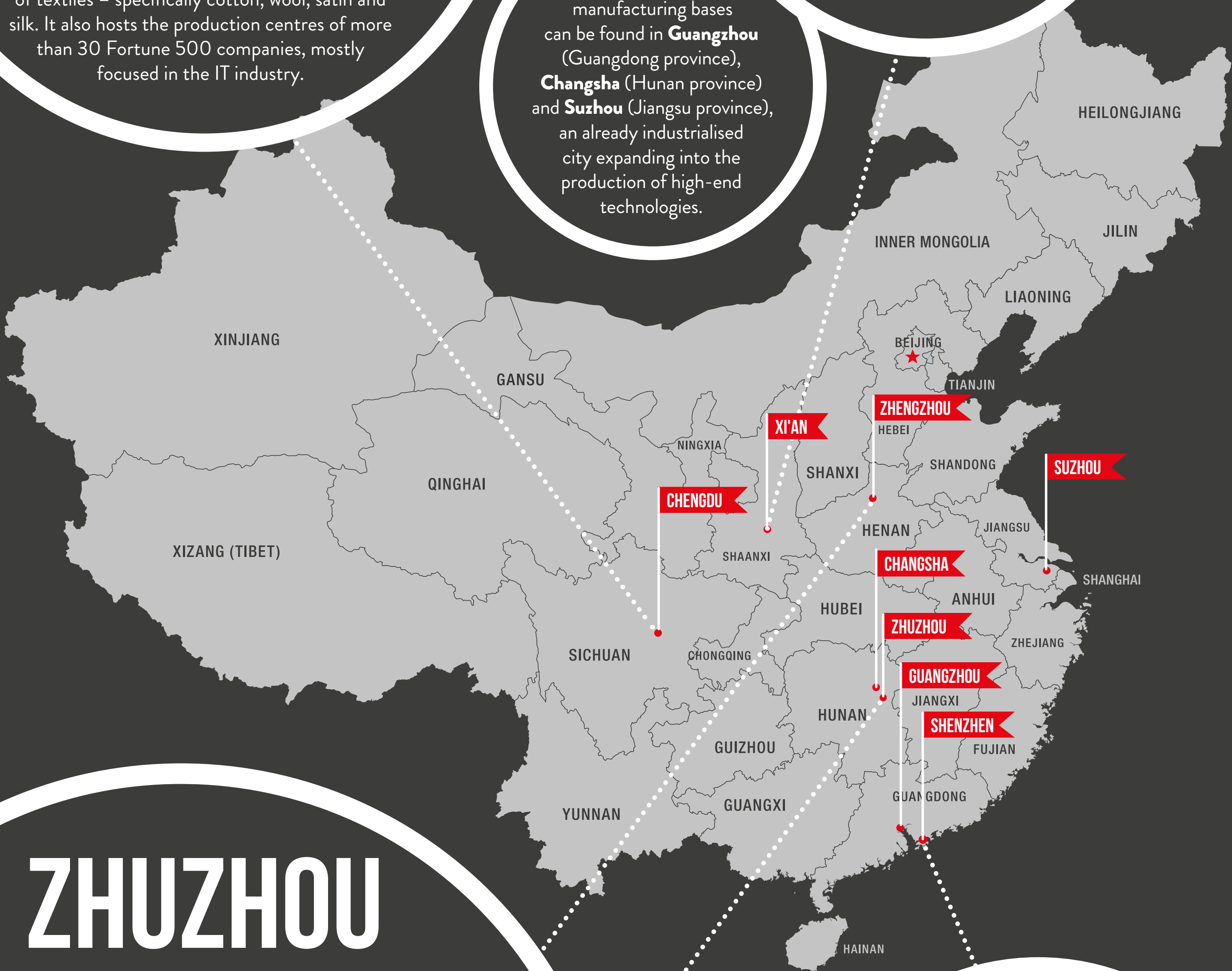
CHENGDU
(SICHUAN PROVINCE)

has developed a reputation for the manufacturing of textiles – specifically cotton, wool, satin and silk. It also hosts the production centres of more than 30 Fortune 500 companies, mostly focused in the IT industry.

XI'AN
(SHAANXI PROVINCE)

is a hub for the manufacturing of aviation, space and telecommunication equipment.

Other significant manufacturing bases can be found in **Guangzhou** (Guangdong province), **Changsha** (Hunan province) and **Suzhou** (Jiangsu province), an already industrialised city expanding into the production of high-end technologies.



ZHUZHOU
(HUNAN PROVINCE)

is known for its biotechnology and food processing capabilities.

ZHENGZHOU
(HENAN PROVINCE)

is known for manufactures textiles, machinery and locomotives.

SHENZHEN
(GUANGDONG PROVINCE)

is a special economic zone and home to the largest outsourcing industry in Asia. It is a major manufacturing base for many of the

WORLD'S HIGH-TECH COMPANIES

including Hewlett-Packard and Sony. With its status as the most advanced manufacturing city, wages are comparatively higher.

Quality control

Quality control is an important consideration when choosing to manufacture in China. There have been high-profile cases in which poor quality control by Chinese manufacturers – usually sub-contractors – has caused significant problems for international brands, ranging from clothing to toys and food products. Make sure you have robust quality control mechanisms in place and perform due diligence. See Chapter 4 for further information.

Contract manufacturing in China

Contract manufacturers provide engineering and manufacturing services to companies and brands that do not want to own and operate their own factories. Chinese contract manufacturers range in size from the giant Foxconn to small sewing shops in rural areas. Contract manufacturers are typically experts in manufacturing and can quickly adopt your products into their manufacturing lines and schedules.

Michell Wool

Peter Michell, Executive Director

Expanding manufacturing facilities to countries such as China not only opens doors to one of the world's largest markets, it can also ease access to goods restricted by Australian import regulations or tariffs. But it is not without challenges, chief among them sourcing talent, staff turnover, quality assurance and cultural differences.

In 2006, 145-year-old Australian family business Michell Wool opened their 14,000-square-metre Suzhou factory for carbonising wool – a required process to clean the wool. They bought a 220-metre-long machine from a Taiwanese competitor that was closing down, and transported it to mainland China in 86 shipping containers.

"The Chinese factory wasn't to replace the Adelaide factory, but rather was to increase capacity through providing access to imported wool from countries such as France and South Africa, an opportunity not permitted in Australia due to quarantine regulations," says Peter Michell, executive director of Michell Wool. It also moved them closer to one of the world's largest pools of textile manufacturers – China's direct buyers of carbonised wool.

The process of establishing and running a wholly foreign-owned enterprise (WFOE) has been challenging at times, particularly due to the different work ethic in China.

"In China, don't assume when it comes to occupational health and safety. The Chinese perception is often production first, not safety," explains Michell. "Contractors and factory workers are getting used to Western OH&S requirements but you still need to demonstrate how it is done, particularly from the top down."

Michell Wool does this by sending their Australian managers to China to train staff, and bringing Chinese senior management to Adelaide for training and development. This helps create a corporate culture that reinforces safety.

Cultural sensitivities can also be problematic in the factory environment. "When you're the foreign boss, to save face, they often won't tell you if something is wrong or if they need help. For this reason it is vital to make the right decisions in front of them so they can see and follow you as an example," highlights Michell. "There have been times where something hasn't been fixed that was meant to be on my last trip to China, and I have had to shut down the whole factory to reinforce the importance of repairing it despite costs. Safety and quality have to come first."

Retaining staff can also be a problem, particularly around Chinese New Year when many employees return to their family homes in western China, and don't always return after the holiday.

But as years pass, Michell Wool is developing a capable workforce. "There was a lot of training in the beginning, but our managers are now becoming a lot more affluent and we are hiring more local Suzhou staff than when we first opened as the area develops," says Michell.

Having a good relationship with Australian government officials in the area, such as consulate staff, has also eased Michell's Chinese operation. "We open our Suzhou doors whenever an Australian official visits, which helps demonstrate to Chinese government officials that we are well connected and respected at home. The guanxi we display from Australia is often as important as our local guanxi."

www.michellwool.com

3. Sales and marketing in China

How can you sell and market your products (or services) in China? Should you sell online, or through an agent? Should you set up a franchise? What are the labelling requirements? There are many options for getting your products marketed, distributed and sold in the Chinese market, and these will be examined in this chapter.

The most common method for Australian businesses seeking to sell and distribute products within China after selling directly from Australia, is to use agents and distributors located in market. Online sales are also becoming increasingly popular due to lower risks and costs than having a physical presence in the market. Australian businesses are strongly advised to conduct due diligence and careful research, beyond this guide, into the marketing and sales strategies that will best suit their business strategy and objectives.

3.1 AGENTS AND DISTRIBUTORS

Most Australian firms rely on agents or distributors to represent their businesses and sell their products in international markets. The roles of agents and distributors are often confused, so it is important to understand the difference between them. The definition and responsibilities of agents and distributors can also vary depending on the country or industry in which you are involved, so you will need to confirm their specific roles and responsibilities. The information below is of a general nature. It is therefore important to make sure you have the role of the Chinese party clearly defined and confirmed in the individual agreement (contract) you have with them and not assume they will take on all activities that an agent or distributor may generally perform in Australia.

Agent: An agent is a representative of the supplier, but does not take ownership of the goods. An agent is generally paid a commission based on an agreed percentage of sales value generated. Agents tend to be based in China and often represent numerous services or product lines. They may operate on an exclusive basis, where they are the sole agent for a company's goods or services in that market, or as one of a number of agents.

Distributor: A distributor takes ownership of the goods by buying them and reselling them in China, either to local retailers or consumers directly. In some cases, the distributor may sell to other wholesalers who then sell to local retailers or end users.

Why use an agent?	Why use a distributor?
Generally cheaper than a distributor.	You can pass a great degree of risk onto them.
You have greater control over terms of sale and marketing, and choice of customers to deal with.	A distributor has greater incentive to sell your product as they also have to cover the costs of holding stock.
Direct contact between manufacturer and customer.	Only have to monitor distributor's accounts rather than all customers.

Why not use an agent?	Why not use a distributor?
It may involve tax implications (check the relevant laws for that area).	Less control over marketing, terms of sale etc.
Maintaining stock inventory can be costly.	The credit risk is with the distributor rather than with customers.
An agent may be selling products that compete with yours.	Distribution agreements regulated by local competition law.

Distributors may carry complementary and competing lines and usually offer after-sales service. They earn money by adding a margin to product prices. Distributor margins are generally higher than agent fees because distributors have larger costs, such as for storage of inventory. Australian businesses considering a distributor in China should note that although in other international markets, a distributor will generally take on the role and responsibility of marketing, this is rarely the case in the Chinese context. Marketing needs to be discussed in detail with a potential distributor – confirm if the distributor will do marketing and what their role will be to market the product. Often Australian businesses find it more suitable to engage a specialist marketing firm.

Choosing an agent or distributor: The most important consideration when choosing an agent or distributor is to ensure that you can establish a close working relationship; you must be able to build high levels of trust and regular communication. Before making a final choice, meet with a potential partner in their own market. This allows you to get to know them better and observe their knowledge and presence in their own market. Also ask your potential business partner for trade references and consider using a professional credit checking agency to confirm their financial stability.

When assessing potential agents or distributors, consider:

- Do they have good networks and contacts? Do they have *guanxi* (relationships) with the right people?
- What is their experience in that sector? Do they have good knowledge and have they represented a similar product previously? Can they help with marketing?
- A well-established company with a good network of contacts may not be flexible or open to your ways of business.
- A young, energetic company will tend to be flexible, innovative and trying to prove its worth. The downside is it may have limited experience or contacts.

Many Chinese agents and distributors work for trading companies that are authorised to deal in a wide range of products. Some of the larger companies have offices in other countries, along with a network of offices and affiliates in China. However, large agents and distributors sometimes manage so many products that yours may not get enough attention.

China's size and regional diversity also mean you may need to engage several agents to cover different areas. Remember, payments can only be repatriated easily if the goods were imported. If they are China-produced, agents can only repay funds after end-of-year tax has been paid.

Contracts

If you are going to use agents or distributors in China, make sure you have detailed and well-constructed contracts in place. As there are no laws or regulations covering agents and distributors in China, you will have to rely on contracts to define the relationship and enforcement.

Contracts with agents and distributors should:

- Allow you to keep your options open. Agents and distributors will likely want exclusive access to your products, even if they cannot cover the whole country. Agreeing to exclusivity may limit your access to markets. It is recommended not to engage in exclusivity until there is mutual trust and a track record of doing business together.
- Include escape clauses in case you wish to change agent or distributor and be conservative with payment terms.
- Manage risks in areas such as transportation, warehousing and intellectual property. Also include a mechanism for arbitration in case of dispute.
- Set the terms of standard individual sales order.
- When dealing with distributors establish that you have ownership of approved labels after the verification process.
- Set sales volumes for agents.

CASE STUDY

KeepCup

Katherine Underwood, International Account Manager Asia Pacific

Many people when they consider selling a product in China think of offering low prices. When Australian business KeepCup realised their distributors in China were selling their products for three times the recommended retail price (RRP) they were astounded and wanted to know why. It was simple – "Our pricing which is calculated on an index of the local price for a cup of coffee, was way too low for China and impacting sales." says Katherine Underwood, KeepCup International Account Manager for Asia Pacific.

Established in 2009 as a family business, the organisation's objective is to reduce disposable coffee waste through the world's first barista standard reusable cups. Manufactured in Melbourne, and now selling in over 60 countries, the company recognised the value that locally producing in Australia could bring, while allowing them to retain quality and reduce their environmental footprint. "It is vital to get your price right, don't undervalue your product." outlines Katherine. "China is an interesting market, on the one hand they are price sensitive, on the other, a lack of trust exists among Chinese consumers towards Chinese manufactured goods. There is this strong desire for manufactured Western goods, particularly Australian."

The three Chinese distributors, each focused on a different type of market – café, retail and corporate clients, expressed that the product was undervalued and needed to be sold at a premium. To price otherwise, would encourage the Chinese consumer to perceive the product as manufactured in China and consequently of lower quality, a perception not valued highly by the target market of specialist coffee drinkers.

Having sold over three million cups globally since 2009, KeepCup trusted and listened to their Chinese distributors keeping the higher price. With the efforts of the distributors, sales have tripled in China over the past six months with the brand growing across the country in the last year.

However, as a result of the Chinese economy's rapid growth, distributors can be sensitive and worried of losing control of their market. A strong and trustworthy relationship with your distributors is fundamental in China but is an ongoing and sometimes challenging process. "You need to make them feel imperative to your brand and to do so from the beginning. They have to all feel reassured that everyone is working together, not against each other." reinforces Underwood.

KeepCup does this by providing along with their standard distributor agreements, a 'Letter of Authorisation' for each distributor, making it official with the company stamp which distributor is responsible for a certain Chinese market. "Communication is also key which we do regularly with phone calls and using WeChat." says Underwood. "Nonetheless, we need to maintain control of our product from Australia so being reactive to market demands and handling our brand marketing, while setting sales targets to maintain growth is crucial."

www.keepcup.com

3.2 ONLINE SALES

With around 632 million internet users, China is the fastest-growing and largest e-commerce market in the world. It is estimated that China's e-commerce sales make up 3.2% of the country's GDP, this is compared to 2.7% in the US. Australian businesses can take advantage of this to reach a potentially huge number of Chinese customers, even with a minimal in-country presence. Chinese government regulations do though regularly change with the possibility of restrictions being introduced in the future in this area; therefore ensure you are up to date with current legalities associated with online sales.

The number of online shoppers in China is expected to reach 350 million in 2015, and e-commerce sales are predicted to reach $840 billion by 2020. In 2014, China's National Bureau of Statistics estimates sales grew by 50% from 2013, exceeding half a trillion Australian dollars. The increasing usage of mobile phones for online shopping is a key contributor to these trends. With 520 million Chinese mobile phone internet users, online sales in China via mobile phones grew from 1.5 per cent of sales in 2011 to eight per cent in 2013. If current trends continue, mobile payments are likely to account for 20 per cent of online transactions by 2016. To capture Chinese consumers using internet on their mobile phones, ensure you have a mobile friendlily website - in Mandarin - built into your home page. Its' also strongly suggested having a China domain website which assists your page being picked up on China's leading search engine - *Baidu*. Top categories for online purchases include cosmetics, women's shoes and apparel and accessories, and foreign luxury items.

How China is different

The Chinese e-commerce landscape is very different from Australia's. Australian businesses need to adapt and tailor their offerings in China as the Chinese use different search engines from us and different payment methods as well as dissimilar preferences. Some key characteristics of the Chinese e-commerce market identified by Boston Consulting Group are:

- Chinese shoppers begin their research for buying a product generally online.
- A quarter of Chinese online customers' demand is for products consumers can't find in physical stores.
- Social networking sites are the main form of accessing product reviews.
- Price is not everything. Many online shoppers are concerned with finding unique products that are not available offline, as well as wanting better service, convenience and the fun of the online discovery process.
- Chinese consumers buy a wider range of products online than their Western counterparts. The top five categories of purchases account for only half of the Chinese market, compared with 70 per cent in leading Western markets.

China's Leading Online Market Places

天猫 TMALL.COM

Tmall and Tmall Global
www.tmall.hk

Owned by one of China's leading e-commerce groups – Alibaba, Tmall is China's largest online market place with Tmall Global providing access for foreign businesses/individuals to sell to online Chinese consumers. Over 600 foreign merchants use Tmall Global which has a specific English-speaking support team.

JD.COM 京东

JD.com and JD Worldwide
en.jd.com

JD.com is China's largest online direct sales company, having recently launched JD Worldwide in Australia in July 2015, it allows Australians to sell directly to customers in China. This platform enables the merchant to have individual online shopfronts with a licence to import shoes, apparel, and food and beverage products from Australia.

Yihaodian
yhd.com

China's biggest online retailer for food and beverages, YHD is licensed to import from overseas markets and provides China with one third of all imported UHT milk purchased online. In addition to YHD selling products as an entity, merchants can also set up online shop fronts with products such as apparel and shoes.

Others:

- Suning.com
- VIP.com
- Gome.com.cn
- Amazon.cn
- Yixun.com

Alibaba.com is the largest e-commerce company in China. It dominates the B2B (business to business) market and its Tmall and Taobao websites also enjoy the biggest market share of the B2C (business to consumer) and C2C (consumer to consumer) markets respectively. Tmall Global allows foreign businesses without a presence in China and a Chinese business licence to create an online store and sell online in China. Australia Post recently signed an agreement with Tmall Global, specifically aimed at supporting Australian SMEs selling in China. For more information on the agreement, contact Australia Post. Other e-commerce companies in China include Jingdong, Dandang and Yihaodian.

Chinese consumers usually use local search engines, such as Baidu, rather than Google. This is due to censorship and sometimes blocking of Google content by the Chinese government firewall. Many other websites familiar to Australians are not available at all in China. These include Facebook, YouTube and Twitter. There are, however, Chinese equivalents that are effective channels for engaging Chinese consumers.

Online sales payment

Chinese consumers rarely use credit and debit cards to pay for online purchases, with cash on delivery and third party payments the most popular options. This is because of Chinese consumer concerns around credit card fraud and being sent bogus goods.

- Cash on delivery is cash, a cheque or money order payment made directly to the shipping company's representatives when goods are delivered. This is popular in China as it allows consumers to check the quality and authenticity of products before they pay for them. Higher costs and longer wait times for payment are negatives for sellers.
- Third party payments are made through independent companies such as Alipay, Tenpay and 99Bill, which are similar to PayPal in Australia. Payment is made to the licensed third party and when both the buyer and seller are satisfied, the funds are released to the seller.

3.3 DIRECT SELLING

Making direct contact with buyers and end users is another option for selling your product in China. Although low cost and relatively low risk, direct selling is not an easy route to market because of strict regulations that constantly change. Until recently, direct selling was illegal in China due to widespread pyramid schemes. Under the relevant laws that now permit the practice, only certain types of products can be sold directly. These include cosmetics, cleaning supplies, health and exercise equipment and small kitchen products. Seek professional advice if you are considering direct selling in China which can also assist you to understand Chinese tax and import duties requirements.

How to set up a Tmall Global online store

1. Submit a company and product information form (about 17 working days for verification).
2. Receive an invitation from Tmall Global.
3. Register an Alipay overseas account (around 7 to 10 working days).
4. Sign the agreement with Tmall and pay security deposit and service fee (7 to 10 working days).
5. Register a Tmall platform international account. Fill in company and product information.
6. Launch online store.

Note: your online content may need to be translated into Mandarin.

The benefits of doing it yourself include eliminating middlemen and gaining a better understanding of buyers' or end users' technical needs and an ability to customise accordingly. However, not having a physical presence in the market can make it difficult to conduct direct sales in China. Some Chinese clients will not always be prepared to do business with a company that has no local presence or representation. Companies in China that have successful direct selling strategies tend to employ a high number of direct sales agents who cover diverse geographical areas. Be aware that selling directly to end users involves being responsible for all market research and marketing, distribution, shipment, warehousing and delivery, customer and after-sales services and the sales order, billing and collection processes from Australia.

Australian exporters may sell directly to Chinese retailers or retail chains when consumer products are involved. To do business this way, Australian exporters must travel to China and make contact with retailers. This should be supported by direct mail material such as letters, brochures and catalogues. There should also be follow-up contact with retailers to ensure they know your products well and can sell them effectively. The retailer may have input on the development of products, pricing and marketing. Selling directly to retailers generally reduces commissions, reduces travel and reaches the market more effectively. You can also use an agent or distributor to get your products to a retailer.

TAILORING YOUR ONLINE SALES TACTICS FOR THE CHINESE CUSTOMER

- The Mandarin term for 'Sale!' is: 打折! (dǎ zhé!).
- Discounts are demonstrated differently in China (both in store and online). The Chinese advertise a sale price by the proportion of the total price placing 折 (zhé) at the end. For example if is 20% off –it is demonstrated as 8 折.
- Get involved with popular seasonal promotions. Key dates include:
  - Chinese New Year (generally Jan/Feb) – the primary time of the year for gift giving
  - Valentine's Day (February 14)
  - Children's Day (June 1)
  - Dragon Boat Festival (June)
  - Mid-year promotions across all platforms (Mid June)
  - Mid-Autumn Festival (September/October) – the second most popular gift giving time in China
  - Christmas.
- Chinese consumers tend to prefer to buy large quantities of one item when shopping online so multiple item deals can be popular.
- Free delivery is common among major online retailers.
- Detailed product information (in Mandarin) is generally sought after by Chinese consumers including country of origin and customer reviews.
- If your product has a strong presence in Australia or won any type of awards – make sure you promote this to build a reputation.
- Be aware that if you get customer enquiries – they more than likely will be in Mandarin and will require a Mandarin response.

打折!

DISPLAYING DISCOUNTS IN CHINA

10% - 9 折	60% - 4 折
20% - 8 折	70% - 3 折
30% - 7 折	80% - 2 折
40% - 6 折	90% - 1 折
50% - 5 折	

PUSH YOUR SALES IN CHINA WITH

- 2 for 1 deals
- Limited time offers
- Gift with purchase
- Gift packs – especially during peak seasons e.g. Chinese New Year

CHINA'S BIGGEST ONLINE SHOPPING DAYS

SINGLES' DAY '11/11'

- The world's largest one day online sale – breaking global consecutive sales records since the inaugural Singles Day on November 11, 2009.
- Originally a university holiday, Alibaba pushed to make it a shopping festival – now their registered trademark, Singles' Day generates more than two and half times the amount of sales as the US's equivalent – Cyber Monday. Alibaba sites (including Tmall) attracted 402 million visitors in 2014 compared to Cyber Monday's 133 million American visitors. Following the five year trend of dramatically increasing sales volumes, in 2014, sales surpassed RMB57 billion in 24 hours with the day's first minute sales accounting for RMB116 million.

DOUBLE 12 '12/12'

- Alibaba's new shopping festival – however with a focus on SME business and promoting their products online.
- Double 12 was originally promoted on Alibaba's Taobao and has spread to other online platforms including jd.com, suning.com and amazon.cn.
- It's estimated that over 2 million online retailers take part.
- In 2014, Alibaba moved the shopping festival to be offline with consumers able to take advantage of sales in retail stores by paying through 'Alipay' (similar to Paypal).

For more detailed information about selling your product online in China, refer to Austrade's E-commerce in China: A Guide for Australian Business at www.austrade.gov.au/Export/Export-Markets/Countries/China/Doing-business/e-commerce-in-china.

3.4 FRANCHISING

For Australian brands looking to bring their goods and services to China, franchising is a popular and proven expansion technique. Franchising provides access to local capital and local knowledge of consumer habits, retailing practices and real estate opportunities. Franchising has become very popular in China, particularly in the food and beverage industries and in retail and business services. Franchising regulations are relatively new and are continually evolving, so you should seek legal advice before setting up a business as a franchise.

Australian businesses looking to franchise in China must:

- Be a business with a registered trademark or patent.
- Have two directly operated outlets running for over a year. This is referred to as the '2+1 Requirement'. The two outlets do not have to be in China.

3.5 MARKETING

China became the world's second largest consumer market in 2014 and is expected to become the largest in coming years. China's population of middle-class consumers is estimated to top 500 million by 2030. But it is a complex and diverse consumer market, and it is vital to tailor your marketing strategies and even your products to local preferences. In addition to intense competition from both domestic and international companies, you must consider the diversity of cultural backgrounds, differing levels of wealth and sophistication, and the sheer size of both the population and land mass.

The best way to deal with the complexities of the Chinese market for marketing and advertising purposes is to invest in and hire local knowledge. Both Chinese and international companies specialise in marketing in China. A comprehensive marketing plan is required that considers core elements such as your brand, stakeholder management, public relations, media (including digital and social media), and your product/brand value proposition. Be aware, however, that you will need to continually reassess your marketing strategy and plan. The Chinese socioeconomic environment is constantly evolving and expanding, which in turn impacts on consumer choices. You should be particularly mindful of factors including:

- **Brand awareness:** Chinese middle-class consumers place strong significance on brands, particularly luxury brands. Status is a key factor – many people will buy luxury goods not because they necessarily like them, but because they are representations of success. Make sure to have a specific strategy focusing on brand localisation, brand building and awareness creation. New entrants to the market with a recognised brand may wish to consider a product launch or media conference to announce their arrival in China.

- **Price consciousness:** Price is an important consideration for Chinese consumers, particularly at the lower middle-class and lower income levels. As opposed to status items on which Chinese consumers are willing to spend more, non-status items are likely to be chosen based on price. This can impact on even well-known brands, whose makers may have to develop a lower cost alternative to their most popular products to address China's price sensitivity.
- **Demographic dynamics:** In addition to vast variation in income levels across rural and urban areas, China's household consumption has been impacted by the one-child policy. Single children are often lavished with attention, consumer goods and high-quality food. This is producing strong demand not only for imported and 'safe' food items such as milk formula, but also high-status goods for children. Younger Chinese consumers are also more willing to spend than their parents and grandparents, making them the driving force behind the Chinese consumer market. They are driven by peer perception, and are regularly informed of new trends through social media. Market segmentation and positioning is therefore crucial with marketing strategies tailored to the specific targeted group.
- **Logistics:** China is still a developing country with a less developed logistics capacity than Australia. More limited infrastructure in some poorer regions may cause delays in getting goods to markets and consumers. This should be considered when deciding where and how to sell in China, particularly for perishable items.

Given the size and diversity of China, it should be viewed as a series of markets, each with thousands of different outlets for goods and a broad mix of channels, including large chain stores such as Walmart, traditional trade (local mum-and-dad stores), and on-premises (restaurants, schools, and internet cafes). Be aware that different regions have different tastes. Eastern cities such as Nanjing and Shanghai, for example, have more sophisticated and educated consumers with high incomes and a desire for the latest trending items, relative to western regions with the lowest income levels and underdeveloped transportation infrastructure.

Most popular Chinese social networking sites and apps:

- **Weibo** – similar to Twitter – 310 million users
- **Pengyou** – social networking site – 200 million users
- **Qzone** – social networking site – 550 million users
- **QQ** – instant messaging/social network – 700 million users
- **Weixin/Wechat** – instant messaging/social network – 100 million users
- **Sina Blog** – biggest blog service in China, with 10 million registered users including many celebrities
- **RenRen** –social network similar to Facebook – 219 million users
- **Youku and Tudou** – video sharing portals similar to YouTube.

Useful information at the city and provincial level, such as main industries and GDP per capita, is available from the Hong Kong Trade Development Council. For more information visit its website and follow the link 'Retail Hubs': **http://www.hktdc.com/en-buyer/**.

Trade shows and exhibitions: An effective way to reach potential new customers is to visit one of the many trade shows and exhibitions that are frequently held across China. Although consumers may come to look at your product, you still need to persuade them to buy it. You should have your sales and product literature and technical specifications translated into Mandarin when advertising in trade journals, participating in trade shows or organising technical seminars. It is also strongly advised to have a bilingual representative or interpreter at your stall, and a senior representative of your business. This can establish your reputation and trustworthiness in the eyes of Chinese consumers.

Product and service adaptations: You may need to adapt your product to meet Chinese preferences or requirements. Adapting to local regulations, tastes and cultural preferences vastly improves your chances of success.

Brand marketing and advertising: Chinese language, culture and symbolism need to be considered when marketing and advertising in China. Your company or product name may have an embarrassing or negative meaning when directly translated into Mandarin. This can have a substantial impact on sales, with customers, distributors and agents all avoiding your product. Seek professional advice when translating your business or product name into Mandarin to avoid these problems.

Symbolism is strongly emphasised in Chinese culture, with meanings associated with numbers and colours. Colours red and gold and numbers 8, 6 and 9 are seen as positive whereas black and white and the numbers 4, 14 and 24 are viewed negatively.

The Chinese writing system also poses challenges and opportunities for marketing your business or product in China. The Chinese writing system is based on characters representing words and ideas. How Chinese characters are written, also known as calligraphy, is an important consideration when communicating to a Chinese audience. Be aware that calligraphy is covered by intellectual property, which can cause issues.

Australian businesses should aim to have names with auspicious meanings, such as longevity, good health, luck, happiness and wealth. Given the different symbolism, writing system and cultural nuances, you should consider engaging an advertising or marketing company that has had success in China.

Advertising is subject to significant regulation in China. Advertisements must "be good for the physical and mental health of the people" and "conform to social, public and professional ethics and safeguard the dignity and interests of the state". It is recommended you engage experienced China specialists as the laws governing advertising can be applied inconsistently throughout China.

How to advertise and use media: In addition to seeking guidance from a local advertising company, Australian businesses should also consider Chinese-language publications to promote their products and services.

Category	Name
TV News	National level: CCTV; Xinhua News Agency
General Newspapers	National level for the government: People's Daily, Reference News, China Youth Daily National level for the public: Southern Weekend, Global Times
Business/ Economics Newspapers	Economic Observer, 21st Century Business Herald, China Business News, Economic Daily
Business/ Economics Magazines	Caijing Magazine, CBN Weekly, China New Century Weekly, Caixin – China Economics & Finance
English Newspapers	China Daily, Global Times, (South China Morning Post and Shanghai Daily are available in Hong Kong and Shanghai)

3.6 LABELLING REQUIREMENTS

China has strict rules for product labelling, particularly when dealing with food safety. Labelling requirements vary between two primary product categories – food and beverages (which have to meet regulations of the Food and Safety Law), and non-food and beverage (which have to have China Compulsory Certification).

The inspection of import labels is the responsibility of China Inspection and Quarantine (CIQ) offices at the port of entry. Requirements often change and can be complex to interpret. Australian exporters are encouraged to re-confirm labelling requirements and other product certification with their importers in China or relevant departments, prior to dispatch of goods. You must get labelling verification from CIQ before packaged goods are imported or distributed in China. The process should take one to two weeks.

Items required for labelling verification are:

- Completed application form of Import Food Labelling Verification
- An explanation of the original English label in Chinese. The National Standard of the Labelling of Foods (GB7718-1994) states that the label should include:
  - Certificate of origin
  - Registration information and qualifications of distributors or dealers
  - Samples of Chinese label
  - Product sample for inspection.

On the Chinese label you must include:

- Name, trademark and country of origin of the product
- Ingredients, storage instructions and usage instructions
- Net weight, solid content and batch number
- Name, address and telephone number of manufacturer and packer or distributor
- Production date in Chinese date order (year/month/day), and storage period (year/month/day) or quality guarantee.

Always consult closely with your importer or distributor. For marking and barcodes, China follows the international EAN system.

For details about wine export standards from Australia to China, visit the Australian Grape and Wine Authority website: www.agwa.net.au. For further information about the import regulations specific to food, refer to the relevant authorities.

China Compulsory Certification (CCC)

China Compulsory Certification (CCC) is a mandatory certification system for a wide variety of products exported to or sold in China. As the statutory safety certification, the CCC mark informs Chinese consumers that a product has met the minimum safety requirements. Manufacturers are required to obtain the CCC mark before exporting to or selling products covered in the CCC catalogue in China. If your product does not have the CCC mark, it may be held at the border by customs and be subject to penalties.

The Certification and Accreditation Administration (CNCA) is responsible for administrating the CCC mark and the China Quality Certification Centre (CQC) handles the CCC mark application process. There are 20 main categories of products with 135 kinds of products listed. These include such items as toys, agricultural machinery, small power motors, automobiles and related components, and decoration and fitting products. The CCC catalogue is regularly updated so check it often to find out if your product requires a CCC mark.

Whilst you can manage the CCC mark application yourself, it is advisable to seek assistance. As with most processes in China, seek advice from those who have in-country experience. Agents and consultants will be able to assist you, or you can ask your Chinese partners for help. Alternatively, your importer or distributor may take responsibility for managing the CCC mark process.

4. Conducting business in China

Having chosen your strategy for establishing your business, you must consider how to conduct business in China. This includes understanding Chinese business etiquette and culture, developing business relationships, choosing business partners, negotiating, holding meetings and carrying out due diligence.

4.1 CHINESE CULTURE AND BUSINESS ETIQUETTE

The Chinese are strongly influenced by Confucianism, which emphasises respect for education, authority and age. Although modern urban Chinese may not adhere to Confucian principles as rigidly as previous generations, these principles continue to underpin many customs and business practices. The deeply rooted importance of family and respect for parents is still very apparent today. The Chinese have a saying: *fù zhī guò* (父之過) meaning it is not your fault, but rather placing the blame and therefore the shame on your parents. However, the significance of the opinions of peers is growing, particularly with the one-child policy generation. This also ties in with China's 'collectivist' philosophy, which emphasises relationships, looking after each other, sharing responsibility and that everyone is a part of a hierarchy. The need to belong to and conform to a unit – a family, a political party or an organisation – is a fundamental element of modern Chinese culture. This often translates into the Chinese business culture, in which people highly value positions of authority, the maintenance of harmony via saving face, and the feeling of belonging in a workplace that is comparable to a family environment.

Building good business relationships and trust are very important in China, so expect to spend plenty of time at meetings and banquets with your potential business partners. Often these will be done out of business hours with karaoke (KTV) being a favourite medium for developing relationships or at business dinners. Chinese business people prefer to establish a strong relationship before closing a deal and never start a discussion or meeting by getting straight to the point about business. Like other East Asian cultures, the Chinese like to develop a personal connection first. So expect to be asked, and to ask questions, about family. Try to find a connection with your Chinese counterpart and make a note to remember it. For example, if they have a son, remember his name and ask each time you see them how he is.

Key success factors for conducting business in China

- Learn and understand the culture
- Having a Chinese person's perspective and insider knowledge is valuable
- Be adaptable and have flexible plans if things don't go your way
- Research everything – location, competitors, the market, business partners, negotiation plans
- Build relationships with key decision-makers
- Practise due diligence.

Chinese cultural values to note when doing business:

- *Relationships:* The need to develop and maintain relationships is essential in all contexts, including business dinners, emails, meetings and negotiations.
- *Hierarchy and respect:* People are valued based on their title and seniority. Show respect at all times.
- *Guanxi:* It's all about your relationship with someone. Don't ask a favour without giving one in return.
- *Loss of face:* Encourage harmony and maintain face by complimenting others. Never publicly criticise anyone, refer to their mistakes, show anger or disagree with a superior.
- *Trust:* It is built through personal connections. Be open and don't be concerned if your Chinese partner is interested in your personal life and discusses it in business meetings.

Greetings and titles: A handshake is becoming the standard way to greet men and women in a business setting, whatever their age or seniority. Note that the Chinese respect their elders and an extra display of courtesy in the presence of an older person will go down well. Often people will slightly nod or bow their heads when shaking hands, particular with senior people. Business cards are then generally exchanged before seating.

When meeting Chinese business people, it is also useful to know some Mandarin. Simple phrases such as: *nǐ hǎo* (hello, for all times of the day) – or *nín hǎo* for someone older, and saying *xièxie* (thank you) and *zàijiàn* (goodbye) can go a long way. Be aware that surnames are placed first e.g. Mr Yao Ming should be addressed as Mr Yao. Married women tend to keep their maiden names, so don't assume that their title is Mrs. If you are introduced to a woman as "*Zhen Xiao*" it is best to refer to her as Ms Zhen unless otherwise directed.

Business cards: Míng piàn (名片) are essential when conducting business in China and must be handled with respect. You should have your card translated into Mandarin on the reverse side as well as having a Chinese mobile phone number. It is also becoming increasingly popular to have your WeChat name listed (WeChat is a Chinese phone app incorporating calls, texting and social media). Make sure your business card also emphasises your title and that you take plenty of them – it is not uncommon to give out tens of business cards in one night at a networking event.

The Chinese place a strong emphasis on symbolism. It is therefore important to ensure that your Australian business card uses appropriate colours, and when choosing your Chinese phone number – make sure to choose one that has minimal 4s and plenty of 8s. Red and gold signify good luck and wealth, and are therefore popular on business cards.

When presenting your card, do so with both hands holding the card in between your thumb and index finger at the top of the card with the Chinese face up. Never place the business card in your pants or skirt pockets, even if it is in your wallet in your pants pocket – this symbols that you're sitting on the person. Instead, spend a few moments examining the business cards, providing positive feedback with a smile and exclamation of perhaps the title. Then place the card either in your chest pocket or in front of you at the table (putting it away at the end of the meeting either in your chest pocket or business card holder, as long as it is not put in your pants pocket).

Dress code: Conservative, unpretentious and modest clothing should be worn in China, particularly in the business environment. Avoid large, flashy or otherwise loud accessories. Conservative professional attire is expected in the business setting, although this can differ depending on the season and the city. Men should generally wear a suit (with tie) and women should wear a business dress or a suit with a blouse (not low-cut and, in the case of skirts, not too short). In summer, however, it is more acceptable for men to wear sports coats, with slacks and open-necked shirts being generally suitable. Women should avoid wearing heavy makeup, exposing their backs, wearing shorts and having excessive jewellery.

Guanxi: Often translated as "connections", "relationships" or "networks", none of these terms do justice to the fundamental and complex concept of guanxi and its central role in Chinese culture. Guanxi can also be used to describe a network of contacts, which an individual can call upon when something needs to be done, and through which they can exert influence on behalf of another. These networks can have a direct impact on conducting business in China, including market expansion and sales growth. Maintaining open 'bureaucratic relationships' can also help businesses set up with minimum delays. But it can also bring challenges. For example, some legitimate guanxi building may lead to corruption, such as the awarding of a contract to someone in guanxi networks instead of the bidder with the best qualification. Australian businesses might understandably struggle to integrate guanxi into their business practices. The key is to remain diligent and be aware that that the reciprocal nature of guanxi also dictates an informal obligation to 'return the favour'.

Tips

Present your business card by holding it in both hands between your thumb and index finger at the top of the card. If you have it translated into Mandarin - have that side face up.

- You may be applauded when you first meet your Chinese contacts. This is common in Chinese greetings and should be reciprocated.
- If you are asked "Have you eaten?" you are not being asked if you are hungry, but rather "How are you?"
- Don't use red ink when writing as this implies you are severing ties.
- The number 8 is considered the luckiest number whilst the number 4 is considered unlucky due to it sounding similar to the word for death.
- Direct questioning is common in China so don't be offended if you're asked how old you are and how much money you make. Privacy, especially of one's personal life, is generally not practised in China.
- Draw on the informal personal relationships you have with local cultural informants to understand the hierarchy.
- Observe who are the key decision-makers from the Chinese side in meetings or negotiations by who walks into the room first, who opens the discussions in the meeting, who sits in the middle of the table and who the delegation defers to.

CASE STUDY

Orient Group

Christopher Neil, Managing Director

Speaking the local language – whether a few words of Mandarin or simply understanding the Chinese way of doing business – is a huge advantage for foreigners trying to move into the Chinese market, according to Orient Group's Australian managing director Christopher Neil. "I've listened to so many speeches here in China and someone gets up on stage and even if they say 'nihao' or a few words in Chinese the audience loves it," Neil says. "They love that someone's making an effort, it doesn't matter if they make a mistake as long as they're giving it a go. They really respect that."

Orient Group helps foreign organisations entering the Chinese market, conducting due diligence, facilitating partnerships, and also working with Chinese companies operating overseas. Its International Properties Luxury Lifestyle division offers property investment and immigration services to Chinese buyers.

Neil is a 20-year veteran of the Chinese business world and says Australians entering the market need to seek good advice, team up with the right people, and take it slow. "We have a problem in the West of trying to get down to business too quickly. It's important to get to know the people you're doing business with, get to know their family and understand what motivates them. If you don't understand them you're just trying to sell them something, and you have to have something pretty damn good for them to buy because there are so many competing products in the market."

"You have to respect China and the Chinese, it's one of most important things, you have to be very humble in your approach, and you have to be patient. It can take some time to get an understanding of the market and trust from the market, to build your brand up.

"Australia has a very good image in the Chinese market, a very clean, green, organic image so you have to market that and trade on that Brand Australia that we have."

www.Orient-Group.org

4.2 BUILDING RELATIONSHIPS WITH THE CHINESE

Investing in relationships is critical to succeeding in China. The strength of business relationships can determine many aspects of commercial life, including gaining credit, procurement and contracting, and the timeliness of bureaucratic processes. Investing in business relationships often involves large amounts of face-to-face time with a person of similar age and status, with a strong emphasis on loyalty and trustworthiness within the relationship.

Australian businesses should also explicitly consider the impact of age, gender, educational and marital status on the formation of personal and commercial relationships in China. For example, younger people are often excluded from decision-making processes in China, and are expected to defer in language and attitude to older people.

General knowledge of China: Relationships can be aided and built by some general knowledge of China and its culture; it can assist to establish an immediate connection to a new Chinese contact. For example, an ability to demonstrate knowledge of Chinese geography when someone tells you where they were born could immediately give them more trust in you and lead to them being more open in communicating than they otherwise might be. Travelling around China to develop a connection with the country could therefore serve you well in a business context.

Formal introduction: With the emphasis on guanxi, Chinese prefer to do business with people they have a personal connection with. It can help if you are introduced to a prospective business associate through an intermediary. The higher the social status that your connection has, the more successful you are likely to be at being introduced to the right people and key decision-makers.

Conscious effort: Relationships in China are more trust-oriented and personal than relationships elsewhere, therefore a conscious and continued effort is required to develop and maintain them. It will require frequent visits, almost daily communication (preferably CEO/company director to CEO) and plenty of socialising. Always stay at least one night in each Chinese city where you have a meeting to allow for social events. After you have established your business, you should still send the most senior executive you can to conduct business in China to avoid insult and to nurture and sustain positive relationships.

Gifts: Giving gifts is an important aspect of doing business and building relationships in China. Australians should provide at least some overtly 'Australian' gifts, such as koala toys. Gifts that have your company emblem will also be well received. Gifts should be given and received with both hands and should not be opened in the presence of the provider. It is wise to carry several gifts with you on your trip to China for unexpected meetings.

When you receive a gift, you should generally reciprocate with a gift of a similar value. Therefore, try to avoid giving expensive gifts that will make the receiver feel obliged to reciprocate. Gifts are best wrapped in bright colours such as yellow or red, not dark colours in sets of four, or red writing as these are seen as symbols of death. The same applies to knives and scissors. You should also note:

- Be prepared to exchange gifts with your Chinese business colleagues at the initial meeting to prevent the business relationship starting off on the wrong foot.
- You may want to give a gift from your company to the host company. This should be presented to the most senior delegate.
- To give individual gifts to the Chinese delegation – do so in the order they were introduced to you by. It is always best to either give gifts to all the delegation or, if you do not have enough, only to the most senior person.
- Older Chinese usually refuse a gift at first to be polite so ensure you offer a second time.
- Always bring a small gift (such as chocolates or cakes) for the hostess if you're invited to a person's house.

Dining and entertainment: Once you have established relationships in China, you are likely to be invited to dinners and other forms of entertainment including golf, nightclubbing or karaoke. If you are invited for dinner at a business contact's house (which is generally a reserved honour) – arrive on time, remove shoes before entering and take a gift. Karaoke venues normally have a good selection of English songs, and almost everyone is expected to sing and give a performance. Businesswomen attend such events but spouses are not usually included in business entertaining; however, business people may bring their secretaries.

Dining is commonly used to gently probe positions without any formal commitment. Business is generally not discussed during meals; the focus is rather on building trust and relationships. However, business may be discussed if your Chinese counterpart initiates it. Business breakfasts and lunches are becoming more popular in parts of China, but they are generally seen as less important than dinners. So if you want to impress your Chinese counterparts, ask them to dinner. If you attend a working lunch, be aware that they are more formal than in Australia and are more similar to an Australian dinner meeting.

The Chinese are great and generous hosts, often putting on 12-course banquets to welcome foreign business guests and having frequent toasts. Foreign guests should reciprocate the meal near the end of their visit. Invite everyone with whom you have dealt with. Hosts are generally expected to pick up the bill for dinner or other entertainment, however, as a guest, you can insist on paying the bill a couple of times, but know when to give in and offer to pay the bill next time. Always arrive exactly on time; arriving early might suggest that you are hungry and could cause loss of face. Seating is also very important. The guest of honour is always placed at the head of the room facing the door and should be the first to begin eating or they will tell everyone to start. Leave some food on your plate during each course of a meal to demonstrate your appreciation of the host's generosity. It is bad manners for a Chinese host not to keep refilling guests' plates or teacups.

You should also be aware that:

- The more noise made at dinner demonstrates one's appreciation for the meal provided. Therefore, don't be surprised if your Chinese counterparts slurp their soup or belch.
- If using a toothpick, always cover your mouth and never put bones etc. into your rice bowl. Rather, place them on the table or side plate.
- Chopsticks are used for all meals – dishes will come with their own chopsticks to be used to serve the food – do not use your own chopsticks on a shared dish. It is considered rude to tap your chopsticks on the table, point with them or stick them vertically in a bowl of rice.
- Place your chopsticks neatly on the table or on the chopstick rest when you finish your meal.
- If you're hosting the meal, order a dish for every person plus an additional dish.
- No-one leaves before the guest of honour. If you are the guest of honour, you may like to leave shortly after the meal is finished.
- Dishes served at home will be done so all at once, with the host placing portions of each on everyone's plates. Be sure to try each dish as a sign of respect.
- Eating rare beef is considered barbaric by the Chinese.
- In some parts of China it is considered poor form to serve rice before the end of the meal. It is felt that guests should fill up first on the expensive dishes, and that rice is there at the end if you're still hungry. But be careful not to eat too much of it if the rice comes at the end of the meal, as this can cause loss of face for your host.

Be prepared to make toasts for all occasions – the first toast usually is done by the host during or after the first course. The guest should reciprocate after the next course. When toasting, you should say *'Gānbēi!'* which literally means 'dry glass' and is an invitation to empty your own glass alongside the person proposing the toast. It is customary for individuals to toast others collectively or individually throughout the meal. If toasting individually, usually the host or chief guest is toasted first, or the person sitting next to you. Making a toast towards lasting friendship is a sign of good faith. As toasts are plentiful, you may choose to toast with a lower alcohol content drink if you do not want to drink too much. If you prefer not to drink alcohol, make it clear at the beginning of the dinner as it is acceptable to toast with tea, water, juice and soft drink. Another option is sipping the drink, rather than downing it in one, by saying "*suíyì*", which means "at your own discretion". If you start drinking alcohol, you will be expected to continue. As ganbei is a way to build and test comradeship and an important bonding ritual among Chinese businessmen, foreigners will often be encouraged to join in. It is common at dinners and banquets for each diner to have three glasses: one for beer or mineral water; one for wine; and a small one for a grain spirit, which is what you toast with. Be aware that *báijiǔ* a popular Chinese spirit or rice wine, can range between 80-120 proof. It is rare for Chinese women to drink but it is acceptable for Western women to do so moderately.

Business partners

It is important to build relationships of trust with Chinese partners and maintain regular contact, including going to China. Ensuring the most senior executive of the Australian company is available to the China partner avoids insult. If this creates difficulty, one way to deal with it is to give the individual with the most knowledge on the issues a high-status title. Some Australian businesses have also found that using Skype or video conferencing, rather than telephone calls, has helped them to develop trust with Chinese partners.

Chinese entrepreneurs are becoming increasingly confident and business savvy. They are growing successfully on their own and many feel they don't need foreign partners, particularly when it comes to serving the rapidly expanding domestic market. Those that fared well during the last Asian financial crisis can be particularly demanding in negotiations. For Australian businesses, these changes can mean that Chinese companies in general are more reluctant to enter partnership or are demanding higher priced and higher value deals. Locals are also reluctant to give up majority control or a large share of future profits when they feel that their own product offerings or business models are as good, if not better, than those of their foreign investors.

Therefore, to find willing partners, Australian businesses need to offer more than just deep pockets. These days, Chinese companies have numerous alternative sources of domestic financing available to them, including domestic private equity. Australian businesses that offer technology or know-how may fare better when seeking Chinese partners, particularly in fields currently being promoted by China as 'encouraged industries'. These include high-tech, green-tech and new energy, as well as certain segments of the auto industry. Australian businesses may also attract Chinese partners by offering access to a strong brand or to foreign markets to help their partners gain a competitive advantage in China or to expand overseas. There is a growing focus on emerging markets in central and Southeast Asia, as well as Africa.

To find the right partner, it may help to have a designated team including on-the-ground professional advisers and agents to seek out appropriate targets. The team's primary functions will include conducting a market analysis of players, meeting stakeholders and officials, and building the relationships necessary to begin discussions for any deal.

When seeking partners in China, Australian businesses need to think ahead to issues that may occur post-deal finalisation such as local talent recruitment, management and retention, and building flexibility and adaptability into their business models. Seek out partners that have enough experience in the local industry and familiarity with differences among local consumers and industry segments to see how to carry through with ideas. Above all, these partners must possess the resources and relationships that complement yours. But alliances come with their risks. The importance of trust and regular communication cannot be over-emphasised.

Bundaberg Brewed Drinks

John McLean, CEO

China's food and beverage industry has been growing annually by 30 per cent in recent years, while sales of imported products have been growing by 15 per cent a year. It is clearly a great opportunity for Australian food and beverage businesses. Bundaberg Brewed Drinks – maker of the popular Bundaberg Ginger Beer – found the potential for success in China irresistible. "China presented a real opportunity for Bundaberg with a rapidly emerging middle-class, large disposable incomes and an increasing appetite for imported food and beverage products," says Bundaberg CEO John McLean. "However, what we learnt the hard way is that you really need to take your time."

Bundaberg entered the Chinese market in the early 2000s, taking on a local partner with limited research or preparation. The relationship quickly proved very one-sided. Bundaberg was unhappy with the partner's lack of transparency on sales, distribution and customer details. Different values, business ethics and a lack of control also raised concerns. Bundaberg had no input into product promotion and sales, and no ability to manage quality or contribute to strategic direction. Eventually it terminated the partnership. "Go slow – it is harder to fix the mistake from rushing rather than making the right decision in the first place," McLean says.

Having learned from its initial mistakes, Bundaberg is now focused on finding a Chinese partner that meets its stringent selection criteria. The company's acquired knowledge of the complexities of the Chinese market has led it to consider having several partners across various regions of China. The experience has also prompted Bundaberg to become more rigorous in due diligence with partner selection in Asian markets generally. Values such as honesty, strong business ethics and commitment to quality are crucial.

It is an ongoing challenge for the executive team to find a partner that supports these values from among the numerous partnership requests that Bundaberg receives each week. "I want a partner who I would gladly invite to come and stay at my house as a guest," says McLean. But many Chinese partners are reluctant to be transparent about local market figures and their major business relationships. Another obstacle is the limited market knowledge of many potential partners. Most partnership requests are from Chinese entrepreneurs who lack established market relationships, let alone any experience in importing and distributing high-quality food and beverages in the region. Bundaberg's Chinese engagement will be an ongoing learning process, but with its commitment to going slow, and building strong partnerships, it aims to build on existing regional success.

www.bundaberg.com

Local government and authorities

Rules and regulations can be subject to local variations in interpretation and enforcement. While regulations are introduced centrally in China, enforcement is conducted at the provincial and city level. This means foreign businesses need to cultivate relationships with local government officials. While building connections with an official that goes beyond pleasantries can be helpful for future dealings with the government, be aware that not all relationships are immediately relevant to a company's needs.

Business should not underestimate the value of any one relationship. Different civil servants have different areas of responsibility, and they may come into play at any time. You should research the various government agencies to determine which ones will have an effect on your business interests. Among the bodies that are likely to play the most important roles are the National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM), which both heavily influence the nature and direction of foreign investment into China.

The following is a list of the main government agencies and their areas of licensing authority for Australian businesses looking to do business in China:

- **General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ)** is the head authority for supervising quality inspections on imports and exports. AQSIQ promulgates a Catalogue of Goods that are subject to statutory inspection annually. Imports and exports that are not listed in this catalogue may still be subject to random inspection by local AQSIQ offices.
- **China Banking Regulatory Commission (CBRC)** regulates Chinese state-owned commercial banks, joint-stock commercial banks, city commercial banks, urban credit cooperatives, rural credit cooperatives, rural commercial banks, locally incorporated foreign banks, policy banks, postal savings banks, asset management companies, finance companies, trust companies and financial leasing companies.
- **China Insurance Regulatory Commission (CIRC)** regulates life insurance and property and casualty insurance companies.
- **China Securities Regulatory Commission (CSRC)** regulates securities companies, funds, futures companies, and equity and corporate bond insurance companies.
- **Ministry of Commerce (MOFCOM)** and its local subsidiaries are the major government authorities that deal with matters relating to foreign investment in China. They have authority over the approval of enterprises with foreign participation and import of technology. MOFCOM and its local subsidiaries are likely to have the most contact with foreign investors.
- **Ministry of Finance (MoF)** is responsible for formulating the accounting practices for foreign-invested enterprises operating in China.
- **National Development and Reform Commission (NDRC)** has responsibility for overall macroeconomic planning and policy. It studies and formulates policy for economic development.
- **People's Bank of China (PBOC)** has ministry-level status and reports directly to the State Council. Its main responsibilities include drafting and enforcing relevant laws, controlling the money supply, forming monetary policy, and regulating financial markets, including the RMB exchange rate, the state foreign exchange and gold reserves.
- **Securities Association of China (SAC)** is a non-profit self-regulatory organisation with 'legal person' status subject to the guidance, supervision and administration of the CSRC and the Ministry of Civil Affairs. The members of SAC include securities companies, securities investment fund management companies, financial asset management companies and securities investment consulting agencies.
- **State Administration of Foreign Exchange (SAFE)** functions as part of the PBOC. It is responsible for setting foreign exchange policies, making recommendations, establishing/regulating current and capital account funds transfer activities, and overseeing the implementation of rules and penalising rules breakers. In practice, SAFE performs a supervisory function for foreign exchange transactions conducted by foreign-invested enterprises.
- **State Administration of Industry and Commerce (SAIC)** is responsible for regulating domestic day-to-day commercial activities. Foreign representative offices are required to register with SAIC. All commercial entities in China must register with SAIC and submit annual or tri-annual re-registration documents to local SAIC offices as required by law.
- **State Administration of Taxation (SAT)** is responsible for the collection of taxes and enforcing tax laws. These laws are enforced and administered on a day-to-day basis by one local government tax bureau and another bureau under the SAT in Beijing. These tax bureaus are responsible for ensuring that the policies laid down by SAT are implemented in accordance with local conditions as well as for tax assessments, collecting tax payments, performing tax audits and conducting tax negotiations with taxpayers. SAT is responsible for making tax policies for the whole country (including drafting new tax laws or revising existing laws and regulations) and for acting as the appeal body for disputes between the tax bureaus and taxpayers.

- **Trademark Office of the SAIC** is responsible for trademark registration and administration nationally. The local Administrations for Industry and Commerce (AICs) supervise the use of trademarks and deal with trademark infringements. In most cases, the party to file first will secure rights to that mark in China, so file as early as possible. For instance, a Shanghai snack maker owns the name and logo of the computer game, Angry Birds, while the trademark for Facebook is registered for a variety of products. The Trademark Office maintains a free, searchable database online.

4.3 NEGOTIATIONS AND MEETINGS

When it comes to conducting business meetings and negotiations, the Chinese have a completely different mentality and approach to Australians. This needs to be well understood by businesses that want to succeed in China. A business that can negotiate well by understanding the 'Chinese style' will have a very strong competitive advantage. So before entering negotiations or making any arrangements, you should develop an understanding of the ways and protocols of meetings in China.

Managing Chinese business meetings

Setting up a business meeting: The first thing to do when arranging a meeting in China is to check the Chinese calendar and avoid national holiday periods when the whole country can shut down for longer than the actual holiday (particularly during Chinese New Year and around May 1 and October 1). Be prepared well in advance of your meetings; this includes having a detailed proposition containing the value of your company and product to provide to your Chinese counterpart, who will also have one for you. It is important to send them as much information as possible in advance. Providing details about the topics to be discussed and your company information in Mandarin ensures that the people you want to meet will actually attend the meeting. Be aware that Chinese businesses often meet with numerous foreign firms seeking to establish relationships; you may not get a second meeting if you are unable to capture their attention at the first. Note that it is not uncommon for the Chinese to only confirm a meeting and its time and place at the last minute. This occurs because Chinese business people tend to keep their diaries fluid and plan only a few days in advance. Australian businesses will particularly experience this as well as find it difficult to secure meetings with senior company representatives or government officials.

Before the meeting, make sure you know the language capabilities of your hosts. It is generally advisable to have your own interpreter (even if an official one is offered by the host) as most business meetings are held in Mandarin. Your own interpreter can be briefed in advance on the objectives for the meeting and technical terms that may be used. If you have specific requirements for a meeting room set-up (e.g. projector and screen), be sure to tell your hosts in advance so they can accommodate your needs.

Introductions: Never be late – punctuality is crucial. If you are hosting the meeting, it is proper etiquette to send a representative to meet the participants outside the building or in the lobby and personally escort them to the meeting room. The host should be waiting in the room to greet all attendees. The most senior guest should enter the meeting room first (this is a must for high level government meetings but is occurring less in regular business meetings). Assume that the first group member to enter the room is the delegation leader. The senior Chinese person welcomes everyone. The foreign leader introduces his or her team, and each member distributes business cards and vice versa.

Meetings often start and end with handshakes. Note that the Chinese place importance not on the grip of the handshake but the length. Ensure that you are not too aggressive with your handshake. And if the meeting went well, or if you want to emphasise the importance of the person you're meeting, don't be shy in prolonging the handshake. As seniority is highly valued in China, it is important to address your counterparts by their titles (chairman, director etc.). After establishing who the most senior person in the room is, address them first. When introducing yourself, say your name clearly, and remember to state both the company you work for and your position as these are important in China during the introduction process.

Seating arrangements: There is a detailed protocol associated with Chinese business meetings. Formal meetings usually take two forms – either around a conference table or participants sit in a semi-circle in armchairs (less formal meetings). The armchairs are arranged in a horseshoe shape. If the Chinese are hosting, the Chinese host will take the seat at the left-hand side at the centre of the horseshoe, while other Chinese participants will be seated on the left hand side of the semi-circle. The most senior Australian guest will be escorted to the right-hand side of the centre of the horseshoe with the remaining Australian guests seated on the right hand side of them. Interpreters normally sit behind the host and chief guest.

If you're at a meeting table, the host will always sit at the side of the table opposite (facing) the door, which is considered a position of power. Each team occupies a single side of the table. Chinese hosts generally take the lead, and you will likely have a name card or designated seat. The most senior people tend to be seated in the middle of the table. Always ensure you sit in rank opposite the similar rank of your Chinese counterpart. If you are the host and it is a reasonably important meeting, consider hiring a formal meeting room in a hotel.

Structure of the meeting: The Chinese don't launch directly into a business discussion at meetings. They begin with small talk to make everyone feel comfortable, followed by the host initialising a generally formal and long introduction of the delegations. The discussion normally begins with general topics, before turning to more specific topics, followed by the purpose of the meeting. You are expected to reciprocate, and the chief guest should prepare key messages for delivery and have some researched points to discuss, such as areas of China to which the group is travelling and looking forward to seeing. This helps build relationships and demonstrates your interest in the country. Note that discussions are primarily between the two leaders, although either may elect to include others in the exchange. Select one person – usually a senior team member – to be your group spokesperson. It is important for Australians to follow the similar protocol that the Chinese parties engage in even though your usual approach may be quite different. Lower ranked members do not generally speak unless invited to by the most senior delegates – this is an important aspect to observe in meetings as positions of authority can be easily identified as well as those with certain expertise. When speaking, do not use your index finger or point. Use short, simple and jargon-free sentences.

Ensure in meetings that you do not interrupt another when they are speaking as this is perceived as quite rude. Also, don't put anyone on the spot by asking them to provide information they seem unwilling to give, or by challenging a person directly. Doing so may lead to them being embarrassed and losing face. The Chinese will often nod their heads or make affirmative utterances during meetings. This signals that they are listening and understand what is being said – it is not agreement.

Ending a meeting: If the Chinese are hosting, the end of a meeting is normally signalled by the Chinese by making an appreciative remark about the discussion or commenting on your busy schedule while in the country. Your interpreter and senior leader should listen carefully for those comments. Unless you are the host and the meeting is not progressing, there is generally no need for you to be the one to close the meeting. A simple handshake and goodbye *(zàijiàn)* is enough to conclude a meeting, with guests expected to leave prior to the hosts. Gifts may be exchanged at this time if it is the end of the first formal meeting.

Negotiating – the 'Chinese style'

The Chinese word for negotiation, *tánpàn* (谈判), contains two elements: 'to discuss' and 'to judge'. Negotiation in China is primarily seen as a process to build trust – so that the two parties can together achieve an outcome benefiting both, while building long-term trust and relationships. Unlike the Western concept of negotiation – which tends to focus on quick deals, task-orientation and designing an effective contract – negotiations in China are part of an ongoing, dynamic process that is often slow paced and founded on developing interpersonal relationships.

Negotiations can be lengthy, especially when dealing with key deal terms and pricing. Expect to encounter delays or frustration during your business dealings, but it is important to remain patient and polite. The Chinese don't like to 'lose face' so losing your temper or showing frustration will only set you back. Chinese negotiators generally are aware that foreigners prefer quick, straight to the point meetings and want to have everything finalised before returning home, thus will prolong meetings as a technique of wearing the Australian side down. It often can take several meetings and trips to China before coming to an agreement. Be sure that interpretations of any business deal are consistent and all parties understand their responsibilities.

Fundamentals to negotiating in China

- Be able to see the 'big' or 'whole' picture
- Listen and be proactive in building trust through dinners and social events
- Preserve 'face'
- Be patient and persistent
- Control emotions and expectations
- Be respectful, trustworthy and sincere
- Have a well-prepared team with senior executives of your company and preferably an intermediary
- Putting more time and money into the negotiation stage – such as travelling to China, bringing the Chinese partner to Australia – can be more beneficial in the long term
- Screen your partner before entering negotiations and research their capabilities
- Be aware of Chinese negotiation tactics and don't feel insulted by them
- Identify the key decision makers in the Chinese party – this can be difficult so ensure you build rapport with all stakeholders to help you identify their motivations and decision making process and structure.

Australian businesspeople will encounter a number of significant challenges when negotiating in China. Do your research, understand the environment and perform due diligence (see the next section 4.4) as early as possible during the deal process. Some key aspects and principles of the negotiation process in China include (but are not limited to):

- *The intermediary* – It is good to have one who has extensive Chinese insight and is a native Mandarin speaker, which helps build connections. Often these are the people who facilitate the negotiation process.
- *Have a unified team* – It is important that you never openly disagree, question each other, or discuss any internal issues in front of your Chinese counterparts. Saying less is always better than saying too much. Generally there is one designated speaker from each side.
- *Social status is key* – Choose wisely whom you send to the negotiations. Make sure you have a team that includes people in high positions and authority and that this is comparable to those the Chinese side is sending. Having some lower level members attending is useful for note-taking and numbers.
- *Trust and interpersonal harmony* – These are more important to Chinese business people than a piece of paper. Expect to attend various dinners and social events where substantial amounts of alcohol are consumed. At these events, generally everything but business is talked about to develop interpersonal connections.
- *Clear bottom line* – Before going into the negotiation, ensure you have a clear figure that would be your minimum amount you will accept. Also be aware of your value proposition. More than likely there will always be another business that can do a cheaper price than you so ensure you're able to reinforce why your Chinese counterpart needs your particular service or product.
- *Doing business with a competitor* – Don't be alarmed if you encounter the common Chinese tactic of threatening to do business elsewhere. The Chinese don't want to create mistrust, and will state the obvious that they are in talks with your direct competitor or another business. This often insults foreign business people but it simply is part of the Chinese business culture of haggling.
- *Holistic thinking* – The Chinese tend to think in terms of the whole and the long term, whereas Australians think sequentially and individualistically, wanting to discuss one topic at a time before moving onto the next (such as price, then payment, then delivery). Chinese negotiators will tend to discuss the various elements and issues of a deal all at once, jumping from one to another in what seems like disorder.

- *Questions* – Chinese holistic thinking is often accompanied by the asking of numerous questions and long descriptions of context. Be patient and answer the questions even if you have done so several times. It is often useful for Australian negotiators to ask questions to clarify points for themselves, which also demonstrates interest and trust. If the Chinese ask continuous questions about the same point, it is worth voicing your acknowledgment that this is important to them and asking them to state again why this is so. Remember the Chinese admire and respond to relentlessness.
- *Price and silence* – Both are powerful Chinese negotiation tools, particularly when the Chinese are trying to haggle on price and force the foreign counterpart into an awkward position. Don't be put off by these tactics; they expect both sides to make concessions eventually. Rather than demonstrating frustration, be patient and ask such questions as: "How did you come up with this amount?" Query which competitor has offered that price or warranty etc. This will assist you to determine the basis for their figure and how to respond emphasising your value proposition without loss of face for either party.
- *Staged moves* – Be aware of two common Chinese negotiating tricks. Staged temper tantrums and a feigned sense of urgency are often displayed in the middle of deal negotiations to make you agree to concessions. They also may try to make foreign negotiators feel guilty about setbacks; they may then manipulate this sense of guilt to secure certain concessions.
- *Don't force the Chinese to say "no"* – This can be disastrous for negotiations and business relationships. They are more likely to say "maybe" or "we will see" to save face. Putting pressure on them to finalise negotiations or respond quickly can be detrimental, so refrain from using this common Western negotiation tactic. If the Chinese side no longer wish to pursue the deal, they may not tell you. To save their own face, they may become increasingly inflexible and hard-nosed, forcing you to break off negotiations. In this way, they may avoid blame for the failure.
- *Guanxi* – Remember that it's not instantaneous, so don't expect immediate results or the immediate return of favours. Guanxi personal relationships and networks will pay off in the future – it is an ongoing practice and a function of thinking long-term rather than now.

Positive indicators that the negotiation is on the right track include: the attendance of higher level Chinese executives, focused questions on specific areas of the deal, the Chinese calling for more meetings, requests to bring in the intermediary, or enquires on additional options or 'extras' such as overseas trips or training. Keep in mind that a contract is considered a draft subject to change – even if a contract is signed, the Chinese do not perceive it as binding and negotiations may continue or the Chinese may change their mind.

4.4 DUE DILIGENCE AND AVOIDING SCAMS

China has an evolving legal system that is attempting to address issues with the Chinese tradition of informal business practices. Nevertheless fraud, scams and corruption are ongoing challenges that Australian businesses wanting to operate in China need to be aware of. Due diligence is crucial for interactions with Chinese businesses to protect your own reputation and your business.

Australian firms planning to operate in China should commit to the highest level of corporate behaviour and familiarise themselves with Australian laws and penalties for bribery. Australian individuals and companies can be prosecuted in Australia for bribing foreign officials when overseas.

There are various ways to carry out due diligence in China. Some are tailored to the mode of entry you choose for China and the business structure. This section covers common risks to be aware of when conducting business in China and where extra caution may need to be exercised. It is strongly recommended that you seek professional advice to develop specific strategies for your business's individual situation. China has a large number of professional services and legal firms that can assist with due diligence – including PricewaterhouseCoopers (PwC). These range from leading international audit, tax and advisory specialists to private business consultants who have lived in China for some time and understand the processes associated with robust due diligence procedures required for the Chinese business context.

Your due diligence process should begin with a basic background check to ensure you carefully choose your suppliers. Request basic inquiries on their existing customers and inspection of their operations – if they will not oblige then you may want to reconsider your choice of business partner. For an extra level of security, buyers can request audited statements from the supplier or confirm the supplier's registration at the local SAIC. This leads to the next vital step for all potential Chinese business partners, distributors, suppliers, contractors etc:

Check their registration: Get a copy of their business licence – something all official Chinese businesses will have. Note that these licences are in Mandarin, so you may need it translated. Check that the information on the business licence matches what you already know. If it does not, find out why.

Examine their finances: Once you are confident that you are dealing with a legitimate company, you should find out more about its financial standing. This can be quite daunting considering the different legal and banking environment in China, so it is recommended that you engage professional assistance.

Due diligence – check your potential business partner's Business Licence. This will outline:

- The legal representative of the company
- The name and address of the company
- The amount of registered capital, which is also its limited liability
- The type of company
- The business scope
- The date the company was established and the period covered by the licence.

- For a listed company, look into the equity structure, percentage of shares, capital availability ratio, forms of investment and major shareholders.
- Financial statements and cash flow statements are hard to access in China with Chinese companies often holding multiple sets of books and accounts. But balance sheets, which provide useful information on current assets, current debts and long-term liabilities, can be obtained. This may require the use of third parties.
- Review documents such as their bank statements, bank loans or credits with any financial institutions or private lenders, debt records, promissory notes, letters of credit, government grants and subsidies.
- Consider if the Chinese business has the means to pay you. The best indication of a Chinese company's ability to pay is if they are able to raise a letter of credit from a bank. If a company can produce this, the bank will have investigated its financial standing.

Review their references and get a third-party evaluation: Just like in Australia, well-established businesses in China should always be transparent and ready to provide references. Consider references of suppliers, customers and even competitors. Note that more risk will be associated with a Chinese company with a single supplier or limited market. Depending on the nature of the potential transaction, it would be useful to learn about your potential Chinese partner's procurement processes including quality and frequency, information on their engaged market including sales channel, market segments and customer numbers and relationships, and their guanxi and connections with key official parties such as the customs authority. You should also get a description of their business dealings with foreign companies, request names of coordinators, and if possible speak to referees that speak English.

You also need to be on the lookout for **counterfeiting**, which is one of the main forms of fraud in China and can include not only fake consumer goods, but money and documentation. This means that adequate investigation and thorough research is required beyond simply reviewing all documentation when considering potential business partners. Fake bank confirmations, *fapiao* (tax receipts), credit card receipts and other supporting documents are all relatively easy to acquire. Use of fake fapiao and supporting documentation is the most common mechanism to extract cash from firms, either as fraud to enrich employees or as a means to fund bribes, which may constitute a violation of Australian law. These fake documents, including fapiao, generally have a fake chop (company seal) on them. The best way to investigate the authenticity of chops is to visit the company or local authorities and ask whether the person holding the seal is the authorised person to sign and stamp the documents in question. Since local authorities rarely open their files to private individuals, you can hire a local service provider, a licensed lawyer or a due diligence company to investigate on your behalf. If you're planning to conduct deals in cash, you may want to consider measures to minimise your exposure to counterfeit money. Due to the widespread circulation of counterfeit cash, most retail stores in China have counterfeit money detector machines to assess RMB100 notes.

Conducting due diligence can assist you to ensure that the companies you are dealing with are actually who they say they are. It also can assist you to identify **parasite companies**, which have an excellent relationship with a governmental decision-maker and rely exclusively on that relationship for its business activities. While a good relationship is not a bad thing for business per se, being overly dependent could be problematic and risky, especially when a company relies on a single influential figure for its success. The company may find itself operating in a legally grey area.

Chops – Chinese Company Seals

Chops are key components in genuine business operations in China.

All legally registered companies in China are required to apply for official company chops from the local Public Security Bureau (PSB). The PSB will keep specimen chops for any future dispute or fraud verification. The company chop is used on all official documents such as contracts, bank account applications and labour contracts. Companies may also have their own financial chop, contract chop, and legal representative chop.

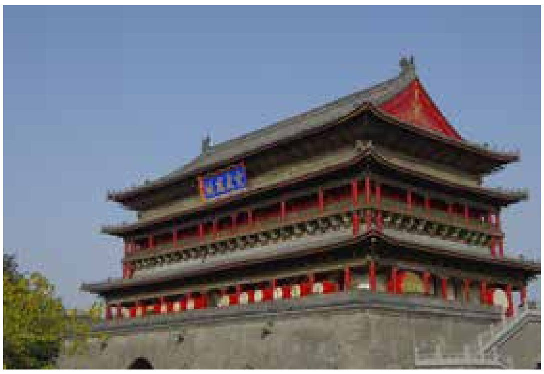
A key part of due diligence in China is to ensure that the chop is legitimate and being used in an authorised manner by an authorised person.

Keep in mind, too, that **accountancy standards and procedures** are different in China than in Australia. Chinese accounts are unlikely to be audited to the standards routinely expected in Australia, and companies may provide different sets of accounts and financial reports to different parties. As a result, it is advisable to use such data with reference to information obtained elsewhere, such as from professional services firms.

Intellectual property (IP) protection is another primary area of concern for Australian businesses. See Chapter 5 for IP-specific information.

Local laws and regulations

If you are doing business in China, you need to be aware of both national laws and local laws, which can vary from province to province and city to city. Criminal charges have been laid against Australian businesspeople for activities that do not constitute crimes in Australia – for example, misstating registered capital or having undocumented loans. These charges can result in lengthy prison sentences. If you are unsure about the legality of certain business activities under Chinese law, you should first seek professional legal advice.



Due diligence and contracts

China's legal system is complex and comprises a multitude of national laws and local regulations, supplemented by court interpretations, departmental notices and, importantly, local practice. The Australian Government recommends that you should obtain specific legal advice on the terms, nature and content of the contract no matter its size or complexity. This advice should also be consistent with the legal structures of China and structured for a fair result that protects your interests and avoid any issues regarding language (both English and Mandarin).

In most major cities in China, there are networks of law firms offering a range of legal services. Some of the larger firms now offer a full service package and are capable of assisting clients with complex and large scale commercial activities in and outside China. If engaging professional legal advice either in Australia or abroad is beyond your company's financial means, you may need to reconsider doing business in China. Austrade can provide referral lists of China-based law firms that have a track record of working with Australian companies.

If you're entering into a contract to export goods from China, ask to receive small trial shipments to ensure product quality and legitimacy. Austrade suggests employing a good local agent to consolidate, sample and verify goods prior to export to ensure that what you have ordered is what you get.

It is also strongly recommended you understand not only the individual sector you will be operating in but also your Chinese partner's goals and objectives as they may be vastly different from yours. For example, a state-owned enterprise's focus may be providing employment to the local community rather than increasing profit. Additionally, ensure the person you are dealing with has the authority to do so by requesting to see copies of powers of attorney and other corporate authority evidence. Limit your exposure in contracts by conducting a thorough risk analysis – be realistic about the level of risk you're willing to engage in. Set milestones for performance and have an escape strategy for each stage of the project, even though you don't plan to use it. Additionally, ensure that you take a proactive role in the business venture as projects and sales in China need constant attention and reinforcement for foreign partners. It is also vital to have the governing law agreed and listed clearly in any documentation.

Dispute resolution: Companies involved in international commercial disputes should seek appropriate legal advice in Australia or overseas. Austrade can provide referrals to legal service providers upon request. A number of international arbitration commissions exist to facilitate international dispute resolution. Deciding which arbitration body best suits your commercial needs is complicated, and requires the balancing of many considerations. Australian companies should seek legal advice when deciding on an arbitration body. The decision will depend on a combination of convenience, cost and the facts of the particular case. While the Australian Government supports the use of arbitration as a method of commercial dispute resolution with foreign companies, it does not endorse one arbitration body over another – whether in Australia or overseas. Common regions foreign companies operating in China generally choose for arbitration include: Hong Kong and Singapore, or a Chinese city that the Chinese party does not have strong ties to. An example is choosing Shanghai when the Chinese company is based in Beijing. If a Chinese city is chosen, Australian businesses should be aware that Chinese courts are likely to find in favour of a local company rather than a foreign company.

Before getting to the stage of arbitration, it is vital for you to consider the cultural and local business customs, which include negotiation being fundamental to dispute resolution in China. Many commercial contracts in China will contain a standard clause stipulating that negotiation should be pursued before other dispute settlement mechanisms. A failure to adequately acknowledge this cultural expectation may be interpreted as a lack of courtesy, goodwill or cultural sensitivity. This has the potential to exacerbate, rather than help to resolve, a commercial dispute. It is best to raise the problem with a Chinese partner and gain their agreement that it needs to be addressed.

Always maintain the focus on finding solutions and your commitment to finding a middle ground by maintaining communication and explaining the difficulties that the issue is causing your company.

To try to avoid commercial disputes in addition to conducting due diligence:

- Make sure you have clearly defined contract terms with all the parties' key rights and obligations outlined and ask for the Chinese party to apply its official company seal (chops).
- Specify in the contract the applicable dispute resolution procedures with the intention of litigation or arbitration as the last possible option.
- Agree on which language version of the contract is to prevail in the event of a discrepancy. Careful and thorough translation is imperative.
- Make certain your project is economically viable on its own terms. Do not rely on promises of subsidies, special considerations or non-market sources of income to generate a profit. Beware of generous local incentives as these may not be legally enforceable.
- Pay careful attention to method and time of payment. If you have agreed to be paid in RMB, verify that you can convert profits to Australian dollars or another major foreign currency. Use Letters of Credit or other financial instruments to protect yourself.

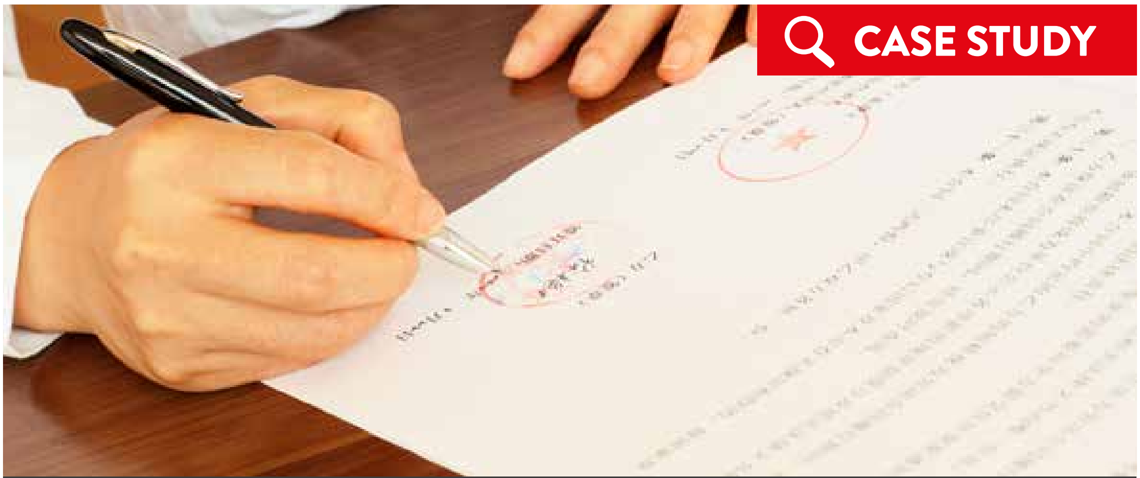
Scams

A number of websites alert consumers and businesses to scams, both in Australia and overseas. Watch for scam alerts at **www.scamwatch.com.au** for suspect schemes that can affect your business here in Australia. If you believe you have been contacted by a scammer, ignore the emails and delete immediately.

There are countless scams in China, with many targeting foreigners and foreign businesses due to their lack of knowledge of the Chinese context. Australian businesses should be aware and cautious of the following, which have been identified by the Canadian Government's Department of Foreign Affairs, Trade and Development as scams targeting foreign businesses:

- **Change of bank account details scam** entails scammers, masquerading as legitimate suppliers, advising of changes to payment arrangements. It may not be detected until the business is alerted by complaints from suppliers that payments were not received.
- **Come to China scam** involves an unsolicited approach from a Chinese company placing a large order for a product or service. They ask a representative to come to China to sign the deal. When the representative arrives they are asked to pay a notary fee, host a banquet and buy expensive gifts. On returning from China, the representative finds out there was no company and no purchases are made.
- **Fake company scam** comprises Chinese entities pretending to be legitimate legal or due diligence firms, trademark, copyright, domain registration or patent agents, and freight forwarders. One of the more sophisticated scams involves non-Chinese individuals acting as employees of the fake Chinese company.

Regardless of the different tactics, the scammer's goal is to extract money from foreign companies without providing anything in return.



North Head

John Russell, Director

Persistence, adaptability and a sound business plan are vital for newcomers hoping to break into China's unfamiliar business environment, according to Australian communications specialist John Russell.

"Most Australians are great travellers, they seem to have the ability to adapt," says Russell, managing director of strategic communications and public affairs company North Head. "In China they will deal with distinct cultural differences, business processes and ways of operating but if there's persistence there are good prospects for success."

Chief among those cultural differences is the practice of "guanxi", or building relationships.

"The Chinese business model tends to be less contractual and more based on trust and the guanxi so there can be a sense of frustration. It's slower to build relationships, but having said that, once trust has been established the Chinese partners and entities normally want to move very quickly," says Russell. "An understanding of those relationships is necessary for success, but increasingly with economic reform and changes in China guanxi is no longer sufficient for success."

That change is a constant factor throughout the business world.

"There's no such thing as the status quo in China," says Russell. "It's the land of opportunity because of its growth, the size, the dynamism. What you see now was not really there five or 10 years ago and you get the sense the market will look very different in the coming five to 10 years. That can be very disconcerting to many business people, but there are enormous opportunities in the opening up of segments and new markets very quickly.

"You have to fit in with the broad objectives of what the government is trying to do and if you work to the rhythm of the economy and its development here, whether it's green tech or the growth of healthcare and education services, if you're fitting into the priorities of the government and economy you're running with the tide and have more opportunities. If you're trying to do it without understanding what's happening with the broad market direction you can be caught out badly. This is not a market for carpet baggers."

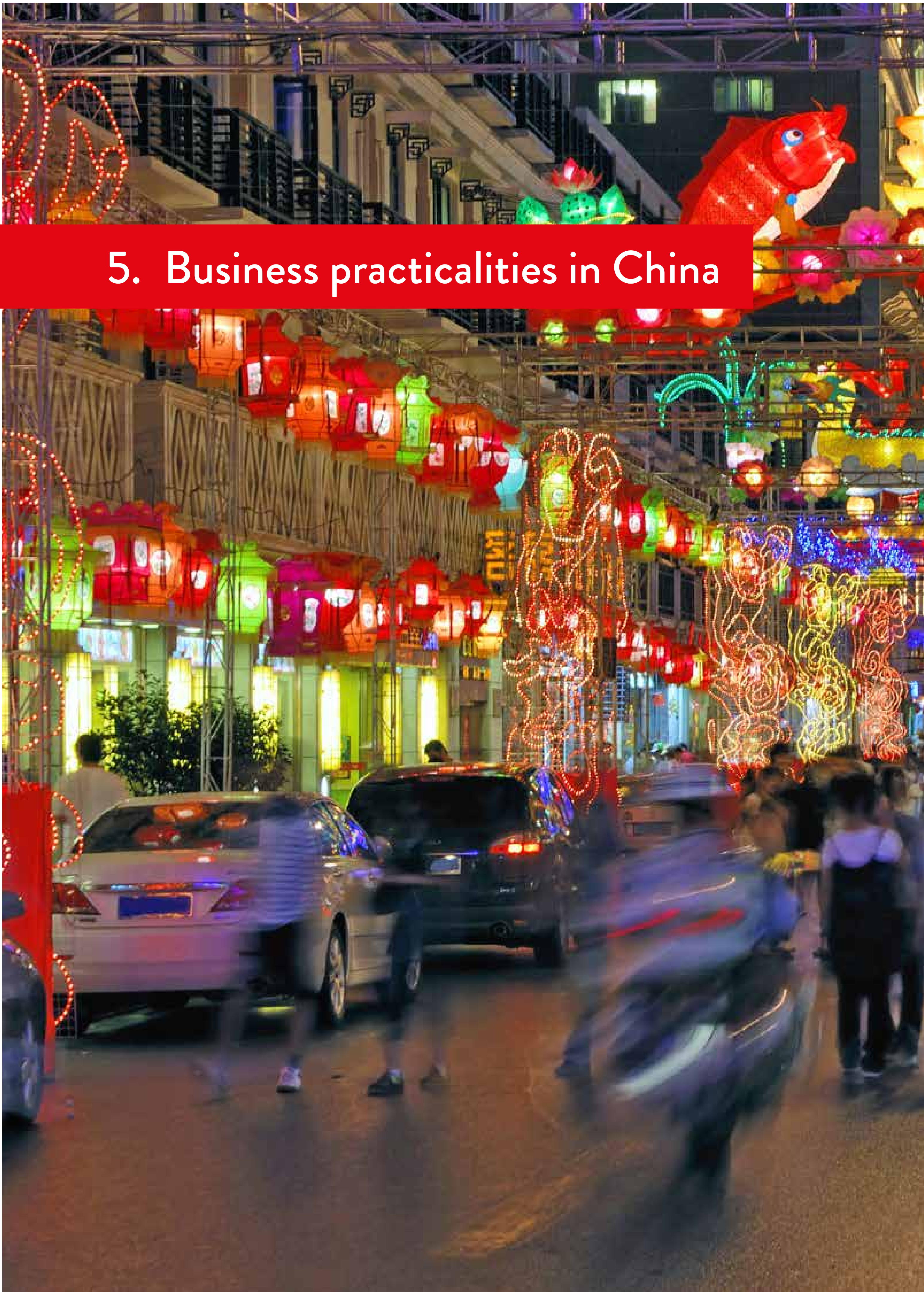
Due diligence and a sound business plan set genuine players apart from those chasing a quick buck, says Russell.

"It comes back to the need to do due diligence. Many times I've seen people come here who will spend more on hotels and airfares than they will on doing proper due diligence, taking the time to understand the partners and market dynamics. There are many differences of the east from the west, the north from the south; and drilling down to various provinces and city markets.

"What is required is what I call not an interest in the Chinese market but a commitment to the Chinese market. You hear lots of bad stories of people doing short trips up here, they meet someone who seems OK, get into a business relationship that then falters and turns into a bad marriage, a loveless marriage, an antagonistic marriage, so it requires work, effort and commitment."

www.northhead.com

5. Business practicalities in China



Understanding legal regulations and the practicalities of tax law, employment law and other relevant provisions are among the main challenges for Australians conducting business in China. This chapter provides an overview of the main areas that need to be considered in the Chinese business environment. However, it is strongly recommended that you also seek professional advice in the area for which you require specific information. The various laws and regulations that may apply to your business in China are subject to constant revisions and change as the Chinese government moves to improve and attract foreign investment and operations to China.

5.1 LAWS AND REGULATIONS

Investment rules

China's foreign investment system has evolved considerably in recent years, with many reforms stemming from the country's accession to the World Trade Organisation (WTO) in 2001. The top three industries for foreign direct investment are: manufacturing, real estate and leasing, and commercial services. Every investment project requires specific government approval, with restrictions and regulations varying across industries and regions and subject to regular change. There are a number of key ministerial departments that foreign businesses will encounter when planning to invest in China. These are the National Development and Reform Commission (NDRC), the Ministry of Commerce of the People's Republic of China (MOFCOM) and the State Administration of Industry and Commerce (SAIC), the State Administration of Foreign Exchange (SAFE) and the General Administration of Customs (Customs). In addition, special industry bodies include the China Banking Regulatory Commission, the China Securities Regulatory Commission, the China Tourism Administration and the Ministry of Communications, which are also responsible for granting pre-approval for industry-specific foreign investment proposals.

The NDRC and MOFCOM (or, when applicable, its local counterparts) are chiefly responsible for granting permission for foreign investment projects. The relevant authority (NDRC or its local office and Commission of Commerce) for dealing with applications is determined by the proposed amount of total investment and its categorisation as determined by the Investment Catalogue. Generally, projects with a total investment of US$100 million may require national level approval (triggering a process that is likely to be more complicated and requiring more time).

The Investment Catalogue – shorthand for The Foreign Investment Industrial Guidance Catalogue (2011) – is one of the fundamental legal documents in the regulatory regime of foreign investment in China. Therefore, it is usually the first piece of regulation to which prospective Australian investors should refer when planning to establish a business in China. The catalogue classes industry sectors according to three categories: encouraged, restricted and prohibited. Necessary approvals and the types of incentives available to foreign investors vary according to the classification, while investment in any sector that is not included in the catalogue is automatically permitted. In addition, the catalogue identifies sectors and activities for which a Chinese partner is required and (where applicable) the minimum shareholding that the Chinese partner must hold.

The NDRC released the latest revised draft of the catalogue on November 4, 2014. The draft catalogue was approved at the Third Session of the 12th National People's Congress and is effective from April 10, 2015. The service and manufacturing sectors are now more accessible to foreign investors, with the new catalogue reducing more than half the number of 'restricted' industrial sectors from 79 to 38. Furthermore, the new catalogue significantly cut the number of industrial sectors restricted to joint ventures and partnerships (from 43 to 11) and halved the number of industrial sectors requiring a Chinese majority shareholder (44 to 22).

With the Chinese Government committed to improving and developing certain sectors and industries, a large number of the proposed changes contained in the revised draft replicate liberalised policies implemented in the pilot Shanghai Free Trade Zone (FTZ). The Investment Catalogue underscores China's determination to extend the benefits gained from the Shanghai FTZ across the nation by allowing expanded market access and the lifting of the cap on foreign ownership. This includes applying nationwide the simplified foreign investment enterprise (FIE) incorporation procedures and regulations. It includes the law governing joint ventures (JVs) and wholly foreign-owned enterprises (WFOEs) that are currently in place in the Shanghai FTZ.

The revised catalogue permits WFOEs (rather than JVs with Chinese partners) in the following industries:

- Technology for oil exploration and development
- Automobile parts and electronics
- Manufacture of civil aircraft and vessels
- Construction and operation of subway, railway and international maritime transport
- Accounting and auditing.

Other sectors added to the 'encouraged' list (which carries possible exemptions from tariff and import value added tax (VAT) for imported equipment, as well as a lower threshold of required government approval) include:

- Investment in aged care institutions
- Development of clean coal technology
- Culture and creative industries (incorporating industrial, architectural and fashion design).

Proposed key changes for the Investment Catalogue include significant easing of the restrictions on general manufacturing. The following sectors stand to be removed from the 'restricted' category, meaning foreign investment would be permitted and could be carried out without restrictions on shareholding or investment forms: beverage manufacturing, chemical raw material and products manufacturing, chemical fibre production, general machine building, special equipment manufacturing (excluding those under the 'prohibited' category such as arms and ammunition), transportation equipment, communication equipment, computers and other electronic equipment manufacturing.

Investment rules governing the finance industry will be relaxed, with caps on foreign investment no longer applying to trust and finance companies, or to currency and insurance brokerages. They also pave the way for less onerous or restrictive rules for investment in securities companies with foreign entities to be allowed to hold up to 49 per cent (previously 33 per cent) of Chinese companies underwriting and sponsoring RMB-denominated local and foreign equities, government and corporate bonds, as well as those involved in securities trading.

On top of this, restrictions on China's burgeoning real estate sector are to be abolished, opening the prospect of greater foreign involvement in the construction of commercial ventures ranging from hotels and convention centres, to offices, theme parks and key infrastructure such as energy grids, as well as land development more generally. Restrictions on investment in real estate brokerages will also be removed, while foreign entities for the first time will be able to partner with Chinese companies 50:50 in owning and operating hospitals. The revamped rules will also permit foreign investment in e-commerce exceeding 50 per cent, and up to 55 per cent in such business operating within the Shanghai FTZ.

Against a general trend towards liberalisation, the revised Investment Catalogue imposes new and tighter restrictions on investment in regards to vehicle manufacturing and education. Accordingly, in a JV that produces vehicles, the local partner must retain a controlling stake. Further, such enterprises will only be allowed to make up to two of any passenger vehicles: commercial vehicles (such as trucks or those used in construction) or motorcycles. Similarly, higher education and day care operations will face the same ownership constraints, having been added to the 'restricted' category, meaning foreign investors can only play a role through a JV that is majority-owned by a local Chinese company. High school investment remains restricted, while foreign investment in compulsory education (for example, primary schools) is prohibited.

It is important to note that regulations can also differ depending on whether a business is operating in the Shanghai FTZ or inside any of the other special economic zones or free trade zones. The implementation of ChAFTA could also influence investment rules applying to foreign-backed operations. It is therefore strongly recommended that prospective investors consult professional advice tailored to their situation when considering investing in China.

Land and property rights

The scale and lack of familiarity with the Chinese real estate market combined with the need to negotiate a myriad of new legal and financial rules, as well as cultural and language difficulties, make finding, buying or leasing premises one of the key challenges in establishing a business beachhead in China. While ownership of land for Chinese nationals is currently under review, no foreigner can currently own land in China. Generally, Australian businesses can get land use rights through a WFOE or a JV.

Land and buildings are designated industrial, residential or commercial in China. Requirements for leasing property will depend on the business structure of the venture being set up. For example, WFOEs must have their planned place of business leased prior to submitting an application to establish a business. These regulations are becoming increasingly strict. Few jurisdictions or types of entities allow for the use of 'virtual offices' (effectively, letter boxes), so the investor may be required to rent in the district in which they are registered. It is vital to review all of the regulations prior to signing leases as these can be very difficult to break and authorities can be inflexible. Real estate agents can be very helpful not only in finding, leasing or buying commercial or residential premises, but also in undertaking registration, sourcing furniture and fittings, and completing installation. There are many international and local Chinese agencies from which to choose, but investors should always check that the agency they are considering engaging has a licence. Furthermore, they should seek to make direct contact with the agency rather than using third parties that will charge a commission. Law firms can also help with translating lease documents. Such translations may not be enforceable in a court, but it is critical for prospective foreign investors to ensure they understand what they are signing.

The use of serviced offices in China is an option for people starting up a business, especially for those who have a limited budget. These established offices are often accompanied by bilingual secretarial support that takes care of routine needs such as communications, mail and courier services, freeing up executives to focus on establishing their business.

To lease premises (which is a requirement for WFOEs and representative offices), it is necessary first to ensure that the nominated office or building is allowed to be used in this way. Most cities only allow representative offices in top-quality buildings. Investors should also make sure that the location is in an area approved for carrying out the type of business proposed. It is recommend that before entering into any negotiations that businesses research all aspects including market rental trends (particularly in the chosen areas), best locations and projected property developments. Note that leases generally run for two or three years.

Intellectual property (IP)

China is well known for a business environment that carries significant risks of counterfeiting and infringement of intellectual property (IP) rights. For this reason, the US has put China on its Priority Watch List of countries having "serious intellectual property rights deficiencies." Nevertheless, the Chinese Government is concentrating on improving IP law and its enforcement, including the introduction of legal and regulatory incentives for Chinese companies to file patent applications. Improvements include aligning the relevant legislation to the minimum WTO requirements of the Trade-Related Aspects of Intellectual Property (TRIPs) protocol, which outlines general standards for the enforcement of IP rights. Overall, China's legal framework for IP protection meets international standards, though implementation and enforcement are areas of concern.

Australian businesses need to have in place formal legal protection of IP rights well before entering the Chinese market, including a well-researched and executed strategy to protect their IP. Be aware that the process of registering IP rights in China is more expensive and far slower than in Australia. For example, trademarks take 18 months to be granted, design patents six to eight months and copyright recordal procedures three months. Another critical difference is that China has a first-to-file system requiring no evidence of prior use or ownership, leaving registration of popular foreign marks open to third parties, who register famous marks ahead of the legitimate owner. There have been cases of well-known Australian companies whose brand had been registered in China by an unaffiliated Chinese party even before the firm considered entering the Chinese market. It can be difficult, time-consuming and expensive to recover these marks, so it is far better to register trademarks early. This should not in itself distract potential investors from the potential of the Chinese market. Risks, such as IP theft, can be managed, while the regulatory processes in China are improving.

Clearly, the administration and enforcement of IP laws in China are quite different from that operating in Australia, and enforcement of IP rights in the former are possible through both administrative and judicial avenues. But unless foreign entities have a residential or business address in China, applications must be filed through Chinese agents or attorneys.

Foreign investors can register IP in China for trademarks, patents, designs and copyright. However, each of these is administered by a different government body. The primary law in China pertains to copyright. This protects copyrighted works of foreigners that are either first published in China or in countries that are signatories to the World Intellectual Property Organisation (WIPO) copyright protection treaty, which includes Australia. Apart from the Copyright Law, other key laws are the Trademark Law and the Patent Law, with customs authorities also playing a role in China's enforcement of IP laws.

Registering IP rights ahead of entering the Chinese market is essential because without doing so, an Australian business would be unlikely to be able to enforce them later. There are various methods for registering IP, depending on its type. The Australian Government's IP Australia website outlines the following information for Australian businesses operating in China:

Trademarks

- Trademark applications must be filed with the Chinese Trademark Office (CTO), which is part of the State Administration for Industry and Commerce (SAIC).
- It is essential to conduct a trademark search prior to registration.
- The trademark should be registered in both Mandarin and English.
- Other related rights, such as domain names and company names, should also be secured through registration.
- It is advisable to file trademark applications in China as soon as possible due to the 'first-to-file' rule.
- Three-dimensional shapes and colour combinations can be protected as trade marks in China. Other non-traditional marks, such as sounds and smells, are not yet able to be registered, although extending protection to these marks is currently being considered.

- Enforcement of a trademark without registration is possible, although the process tends to be more expensive and less predictable.
- Since 2004, customs recordation of IP rights has offered cross-border measures to help protect IP.
- Trade mark registrations may be removed from the register if they are not used for three or more consecutive years after registration.

Patents

- The State Intellectual Property Office (SIPO) is responsible for administering patents.
- Two forms of patent protection are available in China: invention patents (equivalent to Australian standard patents, with a term of 20 years) and utility models (for lower level inventions, with a term of 10 years). Inventors may apply for both patents for the same invention.
- The patent examination process in China tends to be longer than in Australia.
- Certain types of subject matter are not able to be patented in China.
- SIPO regional offices provide administrative enforcement.
- Registration should be made through a registered patent agent in China.

Designs

In China, designs are registered through SIPO. Protection is available for 10 years. Known as design patents, they do not undergo substantive examination and can be obtained relatively quickly.

Copyright

Unlike Australia, it is possible to register copyright in China. The National Copyright Administration Office is responsible for administration of copyright. No registration is required but registering copyright with the authorities is advisable.

Trade secrets

- Trade secrets are technical or management information that is unknown to the public, but which is of practical value and can bring economic benefits to the rightful party. Product and brand elements such as unique names, packaging and ornamentation are also perceived to be trade secrets.
- In China, trade secrets do not require registration.
- The principal law governing trade secrets is the Anti-Unfair Competition Law.
- The principal administrative enforcement agency is the Fair Trade Bureau of SAIC.

Plant varieties

Plant varieties are protected in China for a period of 15 or 20 years, depending upon the type of plant.

Technologies

Since October 1, 2009 China has placed restrictions on the cross-border transfer of certain technologies.

Violation of your IP

Australian businesses should be prepared to act quickly and decisively to enforce their IP rights should they be infringed.

There are several enforcement options for dealing with violation of IP:

- Administrative enforcement
- Civil litigation
- Criminal law enforcement
- Cease and desist (C&D) letters.

Administrative enforcement

The main way to deal with infringements is to file a complaint with one of the Chinese enforcement agencies that have specific powers to enforce IP rights:

- Patents: SIPO
- Trademarks: SAIC
- Copyright: National Copyright Administration Office

Customs and other agencies such as the Technology Supervision Bureau also have powers to deal with counterfeit goods. While their powers vary, these administrative agencies can usually fine offenders, seize goods or equipment and issue penalties. However, they do not have powers of arrest and cannot award compensation.

While the administrative enforcement is usually very quick and low cost – it does not require any court procedure – it can be a limited deterrent and fines may be small. For complex IP cases, businesses may need to use the courts and for very large cases, may want to pursue a criminal prosecution. An administrative action can cost between $4,400 and $8,900.

Civil litigation

Companies can take civil action through a local People's Court or an Intellectual Property Tribunal. The courts are suitable for dealing with:

- More complex cases that cannot be handled by administrative authorities
- Breaches where aggrieved parties seek damages, or want to send a strong message to the infringer.

Civil litigation is more suitable where the infringer has assets and has the ability to pay damages. Though slower and more expensive than administrative action, companies increasingly are choosing the litigation path. Although damages awards for IP infringement are much lower than might be expected in Australia, they have been rising in recent years.

Businesses seeking to bring a case to the courts should do so in larger cities, such as Beijing, Shanghai or Guangzhou, rather than in local courts which may have less IP expertise or which may be vulnerable to local bias.

It is possible to combine administrative and civil action, so that an administrative 'raid' can be conducted first, followed by a civil suit to claim compensation. Costs for civil litigation can vary considerably depending on the complexity of a case, but may vary between $22,000 and $44,000.

Criminal prosecution

China's criminal law allows for prosecution of serious cases of piracy and counterfeiting. Only cases that are relatively large-scale, and where trademarks or copyright have been copied exactly, are eligible. The threshold for prosecution is based on a specific monetary value of the case, although valuing the case (by the number of counterfeit goods sold or seized) can be challenging. The police, as in many other countries, have limited resources and may be reluctant to investigate cases that they consider minor.

Generally, the aggrieved party needs to prepare the details of the case in advance and report to the police, who do not simply act on preliminary leads. It is common for a case to be transferred from the administrative authorities if it's considered large enough.

Criminal cases require investment of time and resources to investigate leads and guide the case through the prosecution process. Costs can range from $22,000 to $44,000.

Cease and desist letters

C&D letters can be an effective way of putting a stop to infringement, if the infringer is too small in scale or not serious enough to warrant spending a lot of money. For example, traders on the internet are a suitable target for C&D letters demanding that they take down any infringing online products or logos.

To be most effective, the letter should be written in Mandarin, sent by a Chinese law firm and followed up with telephone calls. While C&D letters are not likely to be effective against a hardened counterfeiter, the impact of a simple letter should not be underestimated.

5.2 IMPORT DUTIES, TARIFFS AND REGULATIONS

Australian businesses exporting goods to China should be aware of the various import duties and taxes that may apply, and other import regulations with which they must comply. The terms tariff and duty are often used interchangeably and refer to the applicable taxes. However, a tariff is a tax applied on imports only, whereas duty is a tax that also applies to domestic products. For Australians exporting to China, tariffs and duties are calculated on the complete shipping value, which includes the cost of the goods, freight and insurance. This section will outline core information on tariffs, duties and other taxes that may affect Australian businesses, as well as providing an overview of import regulations.

Tariffs, as well as import regulations, are frequently revised and subject to change without notice. Therefore it is strongly recommended that businesses reconfirm these before selling goods to China. China also has a broad range of import regulations that differ depending on the industry concerned and the products that are being brought into the country. This section will review the paramount China Food Safety Law. However, it is not possible to consider every aspect of this given the vast and varied application of China's constantly changing recommendations. Prospective importers should seek professional advice about the product they are looking to import and refer to the appropriate ministerial website for the most up-to-date regulations. These include:

- In Australia:
  - Australian Government Department of Agriculture – Manual of Importing Country Requirements (MICoR) www.micor.agriculture.gov.au/
- In China:
  - General Administration of Customs english.customs.gov.cn/
  - General Administration of Quality Supervision, Inspection and Quarantine www.aqsiq.gov.cn/
  - Ministry of Agriculture english.agri.gov.cn/
  - Ministry of Commerce english.mofcom.gov.cn/

Tariffs and import duties

Currently, Australian goods imported into China are subject to China's standard tariffs. However, once the China Australia Free Trade Agreement (ChAFTA) comes into force, products meeting the Agreement's requirements will be subject to preferential tariff rates.

Custom duties: A business planning to import goods into China from a country other than Australia should note that custom duties may apply. Custom duties are calculated on either a quantity base by applying an amount of duty per unit, or on an ad valorem (by value) basis – by applying an applicable set rate based on value. Import duty rates can be divided into the two categories: general and preferential tariff rates. Preferential tariff rates apply to products that originate from those countries recognised by China as having MFN status (such as Australia). General tariff rates apply to imports from all countries with which China does not have an MFN relationship. These rates can differ, so importers need to check the rates for the country from where their goods have originated.

Additional taxes on imported goods: There are other taxes that may apply on goods imported into China. These may differ if the importing occurs through certain customs jurisdictions (where regulations are met), such as Free Trade Ports and the Shanghai FTZ. The main two additional taxes on imported goods are:

- **Value Added Tax (VAT)**: VAT is payable on the day of customs clearance, which is levied at 17 per cent for most goods and 13 per cent for some goods.
- **Consumption Tax (CT):** Items subject to CT include luxury products such as high end watches, non-renewable petroleum products such as diesel oil, and high energy consumption products such as passenger cars and motorcycles. Import CT is collected either on a by value (ad valorem) basis or quantity basis, with a significant variance in tax rates and amounts. CT should be paid within 15 days from the day that Customs issues the Import CT Bill of Payment.

ChAFTA outcomes for Australia's resources, energy and manufacturing sectors

Australia's resources, energy and manufacturing sectors exported over $90 million worth of products to China in 2013-14. This is meant to substantially increase in coming years with ChAFTA securing the removal of tariffs across the following range of products:

- Up to 10% on pharmaceuticals including vitamins and health products (either on entry into force or phased out over four years)
- On all resources and energy products (varying from implementation to within 2 years)
- On transformed resources and energy products (many removed on entering into force)
- 'Other manufactured products' including:
  - Car engines (up to 10%)
  - Centrifuges (10%)
  - Plastic bottles (6.5-14%)
  - Diamonds & other precious stones (3-8%)
  - Pearls (21%)
  - Orthopaedic appliances (4%)
  - Aluminium plates and sheets (6-10%)
  - Make-up and hair products (6.5-15%).
  - This is in addition to zero tariffs on major exports including: gold, liquefied natural gas (LNG), iron ore, and crude petroleum oils.

On full implementation of ChAFTA – 99.9% of Australia's resources, energy and manufacturing exports will enter the Chinese market duty free.

ChAFTA Regulations

For all Australian goods exported to China under ChAFTA, preferential rules of origin (ROO) will apply. These are agreed criteria utilised to ensure that only goods originating in either China or Australia get the benefit of reduced duty. Preferential ROO are used to prevent transhipment, whereby goods from a third party are redirected through either China or Australia to avoid the payment of import tariffs or duty.

ROO for Australian export products require goods to be:

- Wholly obtained in Australia
- Produced entirely in Australia from exclusively Australian materials
- Manufactured in Australia using materials from other sources, while meeting ChAFTA's product -specific requirements
- Any item that contains non-originating materials must have undergone "substantial transformation" as per the outlined ChAFTA conditions.

For this reason, a certificate of origin (COO) or declaration of origin is required if importing goods into China from Australia under ChAFTA, to demonstrate the ROO have been met. As of July 2015, the authorising bodies for ChAFTA COOs were not confirmed, although a sample COO document is available online.

For the latest information on ChAFTA, go to: **dfat.gov.au/trade/agreements/chafta/Pages/australia-china-fta.aspx**; or for further tariff rates: **ftatool.com.au/countries/china/**.

ChAFTA - an overview for Australian goods exporters

The benefits for Australians exporting goods into China are extensive and range from removal or reduction of tariffs, larger quotas for certain restricted items and streamlined custom processes. Overall, 85 per cent of tariffs on Australian goods exported to China will be eliminated at the initial enforcement of ChAFTA and 95 per cent on its full implementation. Essentially, the negotiated terms have provided Australia with a strong competitive advantage in the Chinese marketplace over some of our leading competitors such as the USA, Canada, the EU and New Zealand, particularly for our agriculture and processed food sector.

BEEF

The removal of tariffs of

12-25%

over nine years.

Australia is China's primary supplier of beef, having a 57% market share and a strong reputation for quality. Gradual complete removal of up to 25% tariffs will assist Australia to have a competitive advantage over other large beef exporters. By 2030, the total benefits for the Australian beef industry is estimated to be $3.3 billion.

SHEEP MEAT

The removal of tariffs of

12-23%

over eight years.

Like beef, China's demand for sheepmeat is rapidly growing with the Chinese market - Australia's most important sheepmeat market valued at $446 million in 2013-14. Elimination of applicable tariffs will assist Australia to compete with China's largest supplier – New Zealand, who in 2016 – due to their FTA – will have duty-free lamb entering the Chinese market.

With the removal of tariffs, annual growth for the Australian sheepmeat sector is expected to be more than $150 million by 2024.

SEAFOOD

The removal of tariffs including

5 & 15%

respectively on rock lobster and abalone, over four years.

The removals of tariffs on Australian seafood exports to China will create extensive opportunities for Australia with exports currently valued at $37 million (2013-14).

Key outcomes include the **eliminations** of the following tariffs on Australian seafood within four years:

- 15% on rock lobster
- 14% on crabs, oysters, scallops and mussels
- 12% on southern bluefin tuna, salmon, trout and swordfish
- 10-14% on abalone
- 8% on prawns.

DAIRY

10-19%

tariff removal across all Australian dairy products within 11 years.

China is Australia's largest market for dairy exports. Nevertheless, the market is fiercely competitive with key suppliers such as New Zealand, the EU and the US. The elimination of tariffs across **all** dairy products within 11 years will assist Australia to increase their current market share valued at $443 million 2013-14.

The following tariff eliminations are primary outcomes for Australia's dairy industry:

- 15% on infant formula (within four years)
- 15% on liquid milk (within nine years)
- 10-19% on ice cream, lactose, casein and milk albumins (within four years)
- 10-15% on cheese, butter and yoghurt (within nine years)
- 10% on milk powders (within 11 years).

WINE

Tariff removal of

14-20%

within four years.

In 2013-14, Australia's third largest export market for wine was China – worth $942 million. The Chinese overall market has doubled in recent years, now valued at over $1.6 billion. The removal of 14-20% tariffs on Australian wine exports under ChAFTA within four years will enable Australia to compete with Chile and New Zealand – both of which under their FTAs, have preferential wine access to China.

BARLEY AND OTHER GRAINS

The elimination of the tariff of

3%

immediately.

Australia's exports of grain to China have significantly grown recently, particularly with barley (worth over $1 billion in 2013-14) and sorghum (valued at $240 million 2013-14).

ChAFTA has secured the following tariff eliminations on Australia's grain exports to China:

- 15% on cotton seeds (within four years)
- 10% on malt and wheat gluten (within four years)
- Up to 7% on pulses (within four years)
- 3% on barley (day one of the agreement)
- 2% on sorghum, oats, buckwheat, millet and quinoa (day one of the agreement).

PROCESSED FOODS

The removal of tariffs across a range of processed foods including fruit juice and honey.

Australia's reputation for high-quality and safe food combined with ChAFTA's key outcomes, provides extensive opportunities for Australia's processed food sector.

Such outcomes include elimination of the following tariffs within four to seven years:

- Up to 30% on fruit juices
- 7.5-30% on orange juice
- 15-25% on canned tomatoes, peaches, pears and apricots
- 15-20% on biscuits and cakes
- 15% on natural honey and up to 25% on honey-related products
- 15% on pasta
- 8-10% on chocolate.

HORTICULTURE PRODUCTS

The removal of tariffs ranging

up to 30%

most within four years.

The benefits for Australia's horticulture product industry that exports to China (valued at $66 million in 2013-14) are significant under ChAFTA. China applies some of its highest tariffs on horticulture; however, ChAFTA outcomes have secured elimination of all tariffs on Australian horticulture products as well as customs processing for perishable goods.

This incorporates the following tariff removals, generally within four years of enforcement:

- 11-30% on oranges, mandarins, lemons, and all other citrus fruits (within 8 years)
- 10-25% on macadamia nuts, almonds, walnuts, pistachios and all other nuts
- 10-30% on all other fruit
- 10-13% on all fresh vegetables.

WOOL

An Australia-only duty free quota for wool in addition to continued access to China's WTO wool quota.

60% of China's wool is supplied by Australia, with 71% of Australia's wool exports destined for the Chinese market. Australia receives under ChAFTA an exclusive quota of 30,000 tonnes clean wool in addition to the WTO quota of 287,000 tonnes. This will grow annually by 5% up until 2024 with the wool imports all being duty free.

HIDES, SKINS AND LEATHER

The removal of tariffs of

5 to 14%

on hides, skins and leather over two to seven years.

The Chinese market is Australia's leading trade market for skins, taking 80-90% of exports with total hides, skins and leather exports worth an estimated $942 million in 2013-14.

ChAFTA has secured the outcome of elimination of **all** tariffs on hides, skins and leather exports ranging from 5-14% over a two to seven year period, with some tariffs on leather products removed on day one of the agreement.

China food safety law

One of the biggest opportunities for Australians considering exporting goods to China is in the area of food and beverages. China's food and beverage industry has grown annually by 30 per cent over the past five years, with an annual growth rate of 15 per cent for imported food products. These figures are expected to continue to climb as China's consumption of imported food and beverages rises to meet the demand of the growing middle class. Consumers in China increasingly are looking for:

- Confidence in food safety and ingredients' integrity
- Higher quality
- Better nutritional value
- Enhanced lifestyle through greater varieties of food and beverages
- Modern packaging
- Freshness
- Convenience.

Businesses wanting to import Australian food and beverages into China, need to meet the strict regulations of China's Food Safety Law. The law includes stricter monitoring and supervision, tougher safety standards, the forced recall of substandard products and severe punishment for offenders. The law covers:

- Production and trading of food and food additives
- Packing materials, vessels, detergents and disinfectants for food and equipment used in food production
- Food additives and food-related products used by food producers and traders
- Safety management of food, food additives and food-related products.

The Food Safety Law also covers all imported food products, which are subject to the national food safety standards of China. All foreign food distributors and producers that import food products into China are required to register with the state entry-exit inspection and quarantine authorities. Importers must record the foods imported and distributed in China and must retain these records for at least two years.

Ingredients or components not registered in China must be registered as new-to-China components. Any food or food ingredient or component that has had an import history prior to the new Food Safety Law should be allowed entry even if there is no Chinese standard. The law requires all foreign food manufacturers to register with the General Administration of Quality Supervision Inspection and Quarantine of the People's Republic of China (AQSIQ). On the spot accreditation by Chinese Government officials may also be required.

Manufacturers of dairy products, particularly infant formula, meat and seafood are subject to even stricter accreditation for the registration process. Certification and Accreditation Administration of the People's Republic of China (CNCA) publishes up-to-date lists of approved foreign manufacturers or facilities of dairy products, infant formula, meat and seafood.

Decree 55 was issued by AQSIQ covering a wide range of products under the jurisdiction of the AQSIQ Food Safety Bureau and includes prescribed food commodities such as:

- Meat and meat products
- Aquatic products
- Egg and egg products
- Dairy products
- Bee products
- Other non-prescribed foods such as biscuits and beverages.

This decree requires Australian exporters and agents, as well as Chinese importers, to complete an online registration form. While the detailed manuals contain step-by-step instructions on how to complete the registration process, it is currently only available in Mandarin . Exporters are encouraged to work closely with their importers to provide the necessary information.

5.3 TAXATION

China's taxation system includes a wide range of imposts on businesses and individuals including income taxes (corporate income tax and individual income tax), turnover taxes (value added tax, business tax and consumption tax), taxes on property (land appreciation tax and real estate tax), as well as taxes such as stamp tax, customs duties, motor vehicle acquisition tax, vehicle and vessel tax, and urban construction and maintenance tax. This section will provide an overview of the primary taxes Australian enterprises need to consider when establishing a business in China. It is important that they seek professional advice from firms such as PwC to discuss the various taxes that may apply to their business and its specific situation. Not all applicable taxes are covered in this starter pack and the information that is provided should only be used as a guide. China's laws and regulations, which underpin the nation's tax system, are currently in a state of transition and discussion drafts looking at various aspects, including the Taxation Collection Administration Law (TCAL), and the VAT and Business Tax systems.

Tax laws and policies are developed jointly by the regulatory bodies of the State Administration of Taxation (SAT) and the Ministry of Finance. The SAT is the body charged with collecting tax and enforcing compliance and is assisted by the state and local tax bureaus at the provincial level and below. Applicable tax laws and policies will vary depending on the city and province in which a business is operating as there can be additional local surcharges that may apply based on provincial tax regulations.

Overview of China's taxes for businesses

Corporate income tax rate, branch tax rate and capital gains tax rate	25 per cent
Taxable income	Worldwide
Double taxation relief	Yes
Tax consolidation	No
Transfer policy rules	Yes
Thin capital rules	Yes
Tax year	Calendar year
Advance payment of tax	Yes
Return due date	Within five months of the end of the tax year
Withholding tax for non-resident enterprise	10 per cent
Social security contributions	Up to about 40 per cent of employee's base salary
Business tax	3 to 20 per cent
VAT	3 to 17 per cent
VAT grouping	No
Consumption tax	1 to 56 per cent

Corporate income tax

The Corporate Income Tax (CIT) Law: This took effect on January 1, 2008, consolidating into a single regime two separate income tax regimes, one applied to domestically-invested enterprises and the other set for foreign-invested enterprises (FIEs) and foreign enterprises (FEs). CIT applies to what is officially called a tax resident enterprise (TRE) of China. This is deemed to be a company that is established in China or a foreign company that has its effective management located in China. Effective management is defined as substantial and overall management and control encompassing business and manufacturing operations, financial, human resources, and property aspects of the entity. The standard CIT rate is 25 per cent on the global income of a resident enterprise. Non-resident enterprises are also subject to tax on income made in China and income that is connected with an establishment in China. Lower tax rates are available for companies qualifying as state encouraged enterprises, including thin-profit enterprises (20 per cent) and new high-technology enterprises (15 per cent).

A company's taxable income is that amount remaining out of gross income after the deduction of allowable expenses and losses. Profits, passive incomes including interest, rents and royalties, capital gains and received dividends from a foreign entity are normally considered to be part of taxable income.

Corporate tax is calculated in renminbi (RMB), with foreign currency income converted into RMB for tax purposes. Exchange rate gains or losses are generally taxable or deductible regardless of whether they were realised or unrealised, unless otherwise prescribed by the tax regulations.

Thin capitalisation rule: This was introduced to disallow interest expense arising from excessive related party loans. The safe harbour debt-to-equity ratio for enterprises in the financial industry is 5:1 and for enterprises in other industries, 2:1. However, if there is sufficient evidence to prove that the financing arrangement was executed at arm's length, these interests may still be fully deductible even if the ratios are exceeded.

Withholding income tax (WHT): This is applicable to non-resident enterprises at the rate of 10 per cent on dividends, interest, rental income, royalties and other forms of passive income such as capital gains from the sale or transfer of real estate or property, land use rights and shares in a Chinese company. WHT rates may be lower than 10 per cent or the tax exempted under a treaty.

Tax for non-tax resident enterprises: Under the double tax treaty, if the Permanent Establishment (PE) is constituted, the profit attributable to the PE shall be subject to CIT. The Chinese tax authorities may assess a taxable income if the enterprise cannot submit complete and accurate documentation of its costs and expenses to enable its taxable income to be calculated, Normally, a deemed profit percentage is applied to its gross income or turnover. This deemed profit percentage will vary depending on the industry in which the enterprise operates and will usually be between 15 per cent and 50 per cent for non-TREs.

In addition, gains (or losses) of all direct transfer or indirect transfer (including debt restructuring, share transfer, assets acquisition, merger and spin-off) shall be subject to CIT when the transaction takes place. Fair value shall be used to determine the gains or losses. Restructuring transactions meeting certain prescribed conditions are eligible for concessionary treatment, such as the realisation of the gain arising from the corporate restructuring that may be deferred wholly or partly to later years, and the resulting tax liabilities may be effectively deferred. As such the related tax implications should be well planned before the restructure or transfer.

Tax Treaty: China and Australia have a tax treaty that aims to eliminate double taxation and provide for reduced rates of withholding tax on dividends, interest payments and royalties. A tax residence certificate is required to claim benefits under the China-Australia tax treaty. This certificate is issued by the tax authorities of the country where the recipient is resident, and must be submitted with supporting evidence of residence in that country.

China does not have a separate corporate capital gains tax. Instead, a company's capital gains and losses are usually considered part of operating income and taxed at the normal corporate tax rate; with Land Appreciation Tax applying to any gains made on real property (net of development costs).

Wage tax and social security contributions: As in Australia, employers are responsible for withholding the correct amount of income tax from their employees and sending it to the relevant authorities. Employers must also contribute to a number of state-administered social security insurance funds covering areas such as work-place injury, unemployment, medical and maternity costs. On top of this, employers are levied around 20 per cent of payroll expenditures for a state-run retirement fund. This may add up to a sizeable contribution, potentially totaling 40 per cent of an employee's base salary. Employees also contribute a portion of their monthly salary to these funds at a percentage set by local authorities which varies across the country. Australians working in China will also need to contribute to social security funds in China.

Indirect taxes

Value added tax (VAT): This is a national tax levied on the sales or importation of goods and the provision of repairs, replacement, and processing services. VAT is applied at two levels: small-scale VAT payers and general VAT payers. Entities engaged in manufacturing or providing VAT-qualifying services with annual sales not exceeding RMB500,000 per year are regarded as small-scale VAT payers. Wholesale and retail trade businesses with sales of less than RMB800,000 are also small-scale VAT payers. Small-scale VAT payers incur VAT at the rate of three per cent. General VAT payers, who are considered to be all other tax payers, pay at the standard VAT rate of 17 per cent, except on goods considered to be necessities, such as agricultural items, water, gas and so forth, which carry the tax at the reduced rate of 13 per cent. For general VAT payers, input VAT incurred may be credited against output VAT in deciding the correct amount of VAT that is payable.

Exporters of goods from China may be entitled to a refund of VAT that has been incurred on materials purchased domestically. The refund rates range from 0 to the full 17 per cent. There is a prescribed formula for determining the amount of any refund, under which many products do not obtain the full input VAT credit and suffer different degrees of export VAT costs. All general VAT payers must register for VAT purposes with the local tax authorities. A non-resident company is not required to register for VAT.

Business tax (BT): Enterprises may be liable to business tax instead of VAT, depending on the business or assets involved. Business tax (BT) is imposed on services provided by enterprises, except for a few prescribed services, provided that the service provider or the service recipient is within China. In addition, the transfer of immovable properties and intangible assets in China are also liable for business tax, which is levied on gross turnover at rates of between three and 20 per cent. The most common rates are three per cent or five per cent. Limited exemptions from business tax may apply in the case of some services.

It is important to note that China's VAT and BT systems are currently in a state of transition. The pilot VAT reform program launched in Shanghai in 2012, and expanded nationwide in 2013, aims to shift service industries away from paying business tax to paying VAT instead. Up to now, the VAT reform has covered modern services, rail transportation, post and telecommunications and entertainment services. By the end of the 12th Five Year Plan period (2011-2015), the VAT reform is expected to expand to cover all other sectors currently still subject to business tax (i.e. real estate, construction, consumer services and financial services).

Other taxes

Consumption tax: This is levied on manufacturers and importers of specified categories of consumer goods, including tobacco, alcoholic beverages, ethyl alcohol, cosmetics, jewellery, fireworks, gasoline and diesel and certain petroleum products, automobile tyres, motorcycles, automobiles, golf equipment, yachts, luxury watches, disposable chopsticks and wooden floorboards. The tax liability is calculated based essentially on sales volume and on the type of goods concerned. Consumption tax is imposed in addition to applicable customs duties and VAT.

Urban construction and maintenance tax: This is levied at varying rates on the indirect tax liability (i.e. BT, VAT, and consumption tax) of the taxpayer.

Stamp tax: All enterprises and individuals who execute or receive 'specified documentation' are subject to stamp tax (known in Australia as stamp duty). Rates vary between 0.005 per cent of the value of on loan contracts to 0.1 per cent on the value of property leasing and property insurance contracts. A flat amount of RMB5 applies to business licences and patents, trademarks or similar rights.

Real estate tax: This is a tax imposed on the owners, users or custodians of houses and buildings. The tax rate is 1.2 per cent of the original value of the buildings. A tax reduction of 10 per cent to 30 per cent is commonly offered by local governments. Alternatively, tax may be assessed at 12 per cent of the property's rental value.

Motor vehicle acquisition tax: This is levied at a rate of 10 per cent on the purchase and importation of cars, motorcycles, trams, trailers, carts and certain types of trucks.

Vehicle and vessel tax: This tax is levied on all vehicles and vessels within China. A fixed amount is levied on a yearly basis. Transport vehicles are generally taxed on a fixed amount according to weight, with passenger cars, buses and motorcycles being taxed on a fixed unit amount. Vessels are taxed on a fixed amount according to deadweight tonnage.

National education surcharge and local education surcharge: The former applies to entities and individuals who are subject to BT, VAT or consumption tax and is applied at a rate of three per cent. The local education surcharge is similar to the national surcharge but is applied at the discretion of local government at a rate of two per cent in all provinces.

Compliance

Tax year and tax returns: The tax year in China is the calendar year. Annual tax returns must be filed on or before May 31 the following year (subject to local variation). Provisional reporting and payments must be made on either a monthly or quarterly basis, determined by jurisdiction. Provisional payments are usually settled within 15 days of the end of each month/quarter.

Consolidated CIT filing: TREs in China are not allowed to file consolidated returns on a group basis unless prescribed by the State Council. Until now, the State Council has not yet issued any regulation to allow group consolidated CIT filing. However, a non-TRE having two or more establishments in the PRC may select one establishment for combined tax filing and payment upon approval by the appropriate tax authorities. That establishment must meet the following requirements:

- It assumes supervisory and management responsibility over the business of the other establishment(s)
- It keeps complete accounting records and vouchers that correctly reflect the income, costs, expenses, profits and losses of the other establishment(s).

Individual (personal) income tax

Individuals domiciled in China are subject to China's individual income tax (IIT) – normally referred to in Australia as personal income tax – on their worldwide income. Being domiciled refers to an individual who usually or habitually resides in China for household, family or economic reasons.

Foreign individuals residing in China for less than one year are subject to IIT on their China-sourced income only. Remuneration from foreign employers to individuals working in China is exempt from tax if the individual resides in China for less than 90 days in a calendar year, provided that the remuneration is not borne or paid by an establishment in China. This 90-day period may normally be extended to 183 days if the individual is entitled to protection under a relevant tax treaty/tax arrangement.

Overview of China's taxes for individuals

Income tax rates	Wages and salaries: 3 to 45 per cent. Detail in table below Business profits: up to 35 per cent
Capital gains tax rates	From 0 to 20 per cent
Taxable income	Global Income
Double taxation relief	Yes
Tax year	Usually calendar month
Return due date	For business profit tax return and for individuals whose annual income exceeds RMB 12,000 within three months of calendar year. Foreign-source income tax return within 30 ends of end of calendar year. Wages and salaries withholding returns within 15 days of the month following the month in which income is earned.
Social security	Varies

The employees of foreign employers can reduce their IIT liability and be taxed based on the actual number of days residing in the PRC if they meet certain criteria.

Individuals who are not domiciled in China but reside in China between one and five years may, with approval, pay tax only on their China-sourced income and non-China sourced income, the payment of which is borne by Chinese enterprises. They will be taxed on their worldwide income for each full year residing in China from the sixth year onward.

Income from wages and salaries is taxed according to the following progressive rates, ranging from 3 to 45 per cent:

Monthly taxable income* (RMB)	Tax rate %
1,500 or less	3
The part > 1,500 ≤ 4,500	10
The part > 4,500 ≤ 9,000	20
The part > 9,000 ≤ 35,000	25
The part > 35,000 ≤ 55,000	30
The part > 55,000 ≤ 80,000	35
The part > 80,000	45

*Monthly taxable income is calculated after a monthly standard deduction of RMB3,500. For foreign individuals working in China (including residents of Hong Kong, Taiwan and Macau), the standard monthly deduction is RMB4,800.

Where an individual's income tax liability is borne by the employer, the tax liability is calculated on a grossed-up basis and a different tax rate table will be used to reflect the tax-on-tax effect.

Taxable income from employment: For IIT purposes, taxable income refers to "wages, salaries, bonuses, year-end bonus, profit shares, allowances, subsidies or other income related to job or employment". Certain employment benefits for foreign individuals could be treated specifically as not being taxable under the IIT law if certain criteria can be met. These include:

- Employee housing costs (with supporting invoices – *fapiao*) borne by an employer
- Reasonable home leave airfares of two trips a year for the employee (with supporting invoices)
- Reasonable employee relocation and moving costs (with supporting invoices)
- Reasonable reimbursement of certain meals, laundry, language training costs and children's education expenses in China (with supporting invoices).

Any cash allowance paid to cover expected work-related expenditures (such as an entertaining or travel allowance) will be fully taxable to an employee. IIT may be reduced by reimbursing specific work-related expenses incurred by an employee (which may include entertainment, health or social club fees, local travel, newspapers and journals, telephone costs, etc.) instead of paying an allowance. The expense reimbursement may not be subject to IIT if prescribed administrative procedures are followed.

Income other than employment income: Income earned by individuals from privately-owned businesses, sole proprietorship enterprises or from the operation of a business on a contract or lease basis is generally subject to IIT at progressive rates from five per cent to 35 per cent. The 35 per cent marginal rate applies to annual taxable income (gross revenue less allowable costs, expenses and losses) over RMB100,000.

Income from interest, dividends, the transfer of property, royalties, rental income and other income is normally taxed at a flat rate of 20 per cent. However, IIT may be reduced or exempted for certain income meeting certain prescribed conditions.

Compliance

Tax year and tax returns: IIT is normally withheld from wages or salaries by employers and paid to the tax authorities on a monthly basis. IIT returns must be filed within 15 days after the end of each month.

Annual IIT self-reporting requirement: Individuals are required under the following circumstances to perform annual self-IIT reporting with the Chinese tax authorities:

- When annual income exceeds RMB120,000
- When receiving income from two or more employers in China
- If receiving income from outside of China
- When receiving income without paying tax
- Other conditions set by the State Council.

Foreign individuals may be exempt from this obligation in certain situations.

5.4 AUDIT AND ACCOUNTANCY

Companies in China are required under the law to file their annual income tax returns and statutory audited financial statements to local tax authorities within five months of the end of the tax year (which is the calendar year). The audit has to be conducted by a certified public accounting firm registered in China.

Foreign-invested enterprises (FIEs) are permitted for global consolidation reasons to prepare financial statements in accordance with other accounting standards or in other languages. However, Australian businesses should be aware that the relevant Chinese authorities will only accept accounts prepared according to Chinese accounting standards and in Mandarin. Listed Chinese companies are required to follow the Chinese Accounting Standards for Business Enterprises (ASBEs) which align with International Financial Reporting Standards (IFRS) except for certain modifications that reflect China's circumstances and environment. The Chinese Government is dedicated to convergence with international standards; thus, other Chinese enterprises are encouraged to apply the ASBEs.

The accountancy laws stipulate that companies must keep three kinds of primary accounting records: journals, a general ledger and subsidiary ledgers, as well as appropriate supplementary memorandum records. Computerised accounting systems, if utilised, can be regarded as the business's accounting records.

All accounting documents, books and statements prepared by a FIE must be written in Mandarin. However, they may also be written concurrently in a foreign language. Companies are required to keep accounting records, financial statements and supplementary memoranda for at least 15 years.

Books and records should be referenced in RMB, unless agreed otherwise by relevant authorities and partners. If a foreign currency is used, the financial statements must be converted into RMB at year-end for the preparation and auditing of the annual financial statements. Typically, most foreign-invested enterprises choose to record their books in RMB because their income and expenses are largely denominated in the local currency.

Audits are required under company law, accounting regulations and income tax laws in China, and audited financial statements should be filed with the tax authorities, together with the annual income tax returns. FIEs are required to provide the auditors with all of the enterprise's documents, books and reports. The financial statements to be submitted for an annual audit include the balance sheet, income statement, statement of changes in owners' equity, statement of cash flows and relevant supporting notes. Audited financial statements must be submitted to a number of government authorities, mainly:

- The local offices of the State Administration of Industry and Commerce (SAIC)
- The State Administration of Taxation (SAT)
- The local Finance Bureau.

Audited financial statements must be submitted to the relevant authorities within four to six months of the year's end, depending on local government requirements.

Accounting Standards for Small Enterprises

The Accounting Standards for Small Enterprises (ASSE), issued by the Ministry of Finance in November 2011, is only applicable to small enterprises that have not yet adopted CAS 2006. It came into effect from January 1, 2013. The ASSE's main objectives are to simplify the bookkeeping of small enterprises and to eliminate differences between the books and taxes as much as possible.

The criteria for qualifying as a small enterprise, mainly in terms of the size and nature of the enterprises, are set out in a regulation issued jointly by five ministries under the State Council (including the Ministry of Finance and the Ministry of Industry and Information Technology). Moreover, small enterprises that fall into one of the following three categories are not allowed to adopt ASSE:

- Small enterprises that issue publicly-traded shares or bonds
- Small enterprises that are financial institutions or have the nature of financial institutions
- Small enterprises that are parents or subsidiaries within a consolidated group (for this purpose, the parents or subsidiaries only refer to those companies incorporated within China).

Under ASSE, accounting treatments are more in line with tax laws and regulations. For example, assets are stated at cost and provision for impairment is not allowed.

5.5 EMPLOYING WORKERS

Labour market

China's labour market is constantly evolving and, like other aspects of doing business in China, will vary between cities and regions. Various factors are at play in this shifting landscape, such as increased access to education (both domestically and internationally), growing numbers of private enterprises entering an environment once dominated by state-owned ones, expanding foreign investment, the nation's intensifying economic growth, and the development of more comprehensive labour laws.

Once known for its abundance of incredibly cheap manufacturing labour along its eastern coast, China's economic revival has led to improved wages, rising living costs and higher skill levels. In turn, these changes are driving China's manufacturing sector inland to rural areas and western towns and cities that offer both cheap labour and lower set-up/running costs. The shift is also forcing China to compete with lower cost South Asian countries, such as Bangladesh, in a bid to continue attracting foreign investment in manufacturing. The working-age population is also continuing to decline, further cutting the supply of low skilled labour.

Although China produces around seven million university and college graduates annually, competition for talent is fierce, particularly in larger, more developed cities. The Chinese Government is aware that large numbers of graduates do not have practical business skills or those aligned with the working requirements of large Chinese companies or multinational firms. It is therefore attempting to address this mismatch with its National Talent Development Plan. The WTO and major firms operating in China have also highlighted this as potentially compromising China's ability to continue to attract foreign companies into high-skilled fields.

Retention of talent within China has also been identified by local and foreign firms as one of the biggest challenges for companies operating in China. Companies that are able to attract, recruit and develop talent must then address the issue of how to secure it. Australian businesses planning to operate in China need to be aware that talented workers will not only be constantly approached and poached by competitors, but also by firms operating in entirely different industries. In more rural areas and in the case of less-educated talent, employees often will change jobs for as little as RMB100 per week more, so companies need to monitor what other employers are paying workers, while facilitating better communication with their own staff. It is more cost-effective trying to retain talent in the first place, and understanding the motives of those who resign, than simply letting them go. In the case of better-educated talent that is available in more developed cities, a key motivating factor for switching jobs is not only higher salaries, but also training and development opportunities.

For this reason, organisations need to invest in career development structures and training with effective succession planning. A healthy work-life balance is also increasingly sought after by young managers in China, a reality that is best considered when hiring.

Australian businesses may be surprised to learn that Chinese companies, and increasingly foreign ones who are localising their staff, often promote employees faster than most companies operating outside the country. A contributing factor for this is the lack of middle-aged managers in China's labour market as a result of the Cultural Revolution, which led to an entire generation having little education and skills only suitable for labour-intensive jobs. This means that Chinese managers are generally short on experience and knowledge compared with their international peers. The average age of a Chinese chief executive is just over 47 years, almost 10 years younger than bosses in Europe and the US. This also means that newly-promoted managers will often miss out on the guidance of experienced senior management, which can place additional pressure on them. Many of these managers end up leaving, as higher salaried jobs with less responsibility are easy to find elsewhere. This is another reason why the development of skills in managerial positions is crucial for businesses wanting to retain staff.

Another issue facing Australian businesses wishing to expand or establish operations in China is the limited supply of experienced employees in rural and developing cities, and in the interior regions of the country. Relocating managers to these locations, which are likely far from family and where standards of living are comparatively low, requires a robust raft of incentives and benefits that could be in the form of hefty salaries and promotion. It is suggested to target and send managers originally from such locations as they may be more willing to relocate to be closer to their families. Finally, reverse transfers, or moving top performers from China to developed markets for a short period to improve their credentials or to undertake 'cross training', have become a very popular retention and development measure.

Ultimately, the importance of 'family' should not be underestimated when hiring staff in China. Australian businesses will not be used to the sort of parental involvement in the careers of children, particularly with under-25s who may be working away from their home town. For example, some Australian expatriate general managers have reported receiving phones calls from angry parents when their child may have been given a performance management talk or is stressed by a work deadline. Chinese managers and employees will also resign if their family does not like the role they are in or their job title or placement, or if their family believes they could make more money elsewhere. It is, therefore, important to consider how a business can ensure any family concerns are addressed swiftly, including those around work-life balance.

Tips to hiring, developing and retaining Chinese staff:

1. Family-focused benefits and perks can help retain workers with ageing parents or children.
2. Begin succession planning early. Identify promising staff and devote sufficient resources to their development, while integrating them into a global mobility program.
3. When selecting managers to send to developing cities within China, consider staff with local roots in those regions or ones requesting to develop their skills and go on secondment.
4. Training programmes must be culturally sensitive for locals and expatriates, as well as Chinese staff returning from overseas.
5. Make sure there's a clear path for career development and advancement, as well as sufficient opportunities.

Human resources and employment law

China introduced workplace laws more than 20 years ago. The Labour Law of the People's Republic of China of 1995, along with the subsequent Employment Contract Law (2008) and other employment-related amendments and rules that have been introduced over the past several years, underpins employment laws applying to both private and public sectors. Foreign-owned enterprises and joint ventures are similarly covered.

The 2008 legislation essentially encourages employers to enter into contracts with their employees either for non-fixed or long terms, that set outline clearly regulations for terminating employment. Amendments introduced in 2013 incorporated, among other things:

- Specific penalties for companies not having signed employment contracts with employees

- Limits on the use of fixed-term contracts
- Specific processes for consulting with employees over company rules and regulations
- Wider protection for employees hired through job agencies.

China's labour laws and regulations are enhanced often by regulations applying in different local jurisdictions. Provinces, big cities and original special economic zones (such as Shenzhen in Guangdong Province) impose their own employment contract rules. But Australian businesses entering China need to be alert to a host of other laws, such as the Employment Promotion Law and Labour Union Law, as well as laws pertaining to Mediation and Arbitration of Employment Disputes and Entry and Exit Control (Immigration Law).

Hukou: When hiring in China, Australian businesses should consider a potential employee's *hukou*. Hukou, a system of family and population registration that has its origins in ancient China, was appropriated by China's authorities following the 1949 revolution as a means of preventing rural citizens from flooding heavily populated cities. Codified in 1958, the law identifies each individual as either an agricultural or non-agricultural worker, while specifying their local authority of residence. This system of categorisation works effectively as a form of domestic visa, indicating where a Chinese citizen may live, be schooled and work. This can only rarely be changed, and the process for gaining permission difficult. Subsequently, it is estimated that as many as 150 million migrants could be living in China's cities illegally. Most of the people forming this class tend to be working in manufacturing and other labour-intensive industries.

The Chinese government has heralded reform of this unique system to more easily match labour market demand and supply, with citizens expected to soon be given permission to move freely to towns and smaller cities. Hukou restrictions placed on medium-sized cities are also expected to be gradually lifted. However, migration to China's teeming metropolises will remain strictly regulated. The system of hukou will also affect an employee's access to government services and the rate of their social insurance contributions, and in particular their children's access to education and medical benefits.

Representative offices: A foreign entity's representative office cannot hire staff directly. Rather, domestic staff must be drawn from an agency that will substitute as the official employer, as a representative office is not a capitalised entity in China. This is partly in recognition of the fact that local employees have the right to make a claim against an employer. Foreigners working for a representative office in China are assumed to have an employment relationship with the parent company and that any disputes would be adjudicated according to the laws of the country in which that corporation is based.

Wages and salaries: There is considerable freedom for enterprises operating in China to set remuneration, including compensation and benefits. A provision, established in China's Labour Contract Law, is that wages of staff cannot be lower than the prescribed minimum wage applicable for the location in which the company is registered. Enterprises may also offer incentives to staff, such as sales targets, and a range of performance bonuses in the form of stock options and the like, in a bid to attract and retain top employees. This is particularly relevant for management and sales positions, which are often critical to a company's performance and, consequently, fortunes. Reflecting cultural aspirations and practice, companies will usually offer staff a bonus at Chinese New Year, generally equal to one month's salary. This is usually paid either in a one-off lump sum or in the form of a double wage in the last month of the lunar calendar. The provision of a bonus is routinely included in an employee's contract, so it rarely comes out of the blue, with some companies stipulating that it is based on the performance of the team or company itself, while others may base it on the employee's position within the company (say, senior manager, or supervisor or rank and file).

Companies normally pay staff in regular intervals: at least once a month in local currency. The date for paying staff is usually agreed between the company and its workers, with companies risking a financial penalty should they fail to meet this commitment without good reason. As in Australia, employers are required to withhold individual income tax from the gross pay of employees.

Businesses contemplating establishing operations in China should be aware that, despite long-held perception, average wages in China have been climbing on the back of the country's economic emergence, to the point where it is less a low-cost hub as it is a dynamic and complex economy. However, the recent cooling of the Chinese economy has blunted the wages surge after a double-digit increase in 2009, as noted by the International Labour Organisation. Nevertheless, average real wages in state-owned and other urban-based enterprises grew by nine per cent in 2012 and 7.3 per cent in 2013, while those of workers in private enterprises climbed 14 per cent (2012) and 10.9 per cent (2013). Reflecting the Chinese 'boom' was the more-than trebling of the average annual salaries of city workers from RMB14,000 in 2003 to RMB51,500 a decade later. Accompanying this new wealth, however, were sharply increased living costs.

Working hours: Working life in China is usually centred on a 40-hour week spread across five days (most often Monday to Friday). A standard working day is eight hours long. Alternative working hours and systems are allowed under Chinese labour laws, but require government approval. These are categorised under the Comprehensive Working Hours System or the Flexible Working Hours System.

Overtime and overtime payment: Under standard employment arrangements, employees who work more than eight hours a day or more than 40 hours in any week are entitled to compensation:

- Overtime on work days – 150 per cent of the normal wage rate
- Overtime on rest days – compensatory leave or 200 per cent of the normal rate of pay
- Overtime on statutory holidays – 300 per cent of normal rates of pay.

Also, employers need to consult with their employees and the relevant labour union before having workers do overtime. Generally, extra hours should not exceed one hour per day (or three hours under special circumstances), and no more than 36 hours per month.

Leave: Employees in China legally must be given at least one day off per week as well as public holidays, according to law. Those who have worked for one continuous year are entitled to five days' annual leave. However, businesses are not obliged to grant leave to employees who have yet to work a full year. In most cases, employees are given weekends off. Foreign-invested companies typically give employees 15-25 days' annual leave.

Social welfare contributions: Both employers and their workers are required under Chinese law to participate in the country's statutory social benefits system. These contributions are dictated by schemes operating in the locale of the enterprise. For much of the workforce, this will amount to on-costs equivalent to as much as 35 to 40 per cent of their salary cost. Exact percentages will differ from city to city and according to an individual employee's hukou. Businesses should consult local professional advisors on requirements specific to their business. Social insurance programs incorporate a variety of benefits, including:

- Pensions
- Medical insurance
- Unemployment insurance
- Work-related injury insurance
- Maternity insurance
- Housing subsidies.

To be able to participate in social insurance programs, corporations must first register with the relevant labour bureau, establish an account with a social insurance management authority and pay the required insurance premiums on a monthly basis. On top of this, employers are required to deduct their employees' insurance premiums from their salary before forwarding the payments to the authority. In the case of representative offices, these premiums should be paid via the authorised employment agency.

Unions: Chinese workers are all covered by the one trade union, the All-China Federation of Trade Unions (ACFTU), with independent unions not allowed. Local chapters of the ACFTU oversee factories. However, unlike unions in Western nations, the ACFTU is not a symbol of democracy, working to improve the lot of its constituents, as it is an arm of the Chinese Communist Party. Its members tally more than 280 million, making ACFTU by far the biggest union in the world, though this is not matched by muscle. Its leaders are appointed by the government and workers' rights to collective bargaining and striking are restricted by law. Given this structure and its history, it is hardly surprising that China's sole legal labour union has at times found itself accused of putting economic development ahead of worker welfare, and industrial harmony ahead of campaigning for better employee conditions.

The ACFTU is organised into provincial, municipal and national divisions, which attract varied regulatory oversight. For example, in some cities companies with fewer than 25 employees must register their employees with the union and pay a monthly levy equal to two per cent of payroll (including expatriate employees). In practice, this is not imposed uniformly or nationally, with many companies (both foreign and domestic) not registering their workers with the federation. Business operators in doubt should seek professional advice on the matter to determine how their business is classified for union purposes.

In addition to the seemingly benign involvement of the ACFTU in industrial relations, unions may be responsible for distributing wages, bonuses, housing and other benefits to employees in many foreign companies operating in China. Also, union representatives have the right to attend a company's board meetings when labour matters are being discussed and are also at liberty to negotiate with management on behalf of individual workers.

Termination of employment: A further issue is the difficulty often found in ceasing to employ a worker in China, which can prove more expensive than in many other countries. This is because China's labour laws offer a high degree of protection regarding job security. For example, employees may not generally be terminated under the following circumstances (unless by mutual agreement or if they qualify for immediate termination):

- Maternity – including during pregnancy, delivery of the child or breastfeeding (defined as lasting until the infant is one)
- Sickness – during the stipulated treatment period for a sick or injured employee
- Work-related injury – either while an employee is being assessed to determine whether they have suffered a work-related injury or once confirmed to have lost some or all ability to work due to a work-related injury

- Employment history – when an employee has worked for the same company for at least 15 years and is five years away from retirement.

Dismissal without notice is possible under the following circumstances: when a worker does not meet requirements during a probationary period; when company regulations are seriously breached; when they display a serious lack of discipline or are derelict in their duties; or should they be found to be involved in graft, favouritism or any activities that seriously damage the reputation or viability of the employer. An employee can also be sacked on the spot for more serious matters or offences. Should an employer find it necessary to terminate an employment contract during the probationary period, they must offer an explanation to the worker.

In circumstances where an employer is legally able to dismiss an employee, they must offer one month's notice or one month's salary in lieu of that notice should the employee be deemed incompetent despite training or attempts to reassign them to other tasks, or should there be major operational or production difficulties. The trade union must be notified 30 days in advance of such action. Employees dismissed for the latter reason must be given priority should that same company need to recruit employees within the following six months.

On the flip side, employees have the right to leave a job provided they give 30 days' notice. During their probation, just three days' notice is necessary. In certain situations, such as an employer failing to pay wages or social insurance, employees may quit on the spot without serving any notice period.

Employing expatriates: In similar fashion to most countries, foreigners may be hired to work in China when a company is able to show that the expatriate possesses particular skills or attributes that are not readily available domestically. In such instances, a company must obtain approval from relevant local authorities and follow the strict protocols of a comprehensive licensing system. This system, which involves employment permits, professional visas and residence permits, can be difficult to negotiate. The regulations for hiring expatriates are subject to change but adhering to them is important for companies not wanting to slip up. Breaking the rules can be a criminal offence.

For expatriates intending to work less than three months, a Chinese Employment Contract is not required. However, employees (excluding some specific foreign engineering or technical roles) who have been recruited for longer periods should sign a labour contract as prescribed by law and obtain both a foreigner's residence permit and a work permit. Increasingly, foreign-owned companies are localising roles, paying their expatriates in local currency, and having them pay income tax in China. Should this be the case, the employee will need a local employment contract. Expats are also required to have an F/M (business) visa (see Chapter 6 for more details) in conjunction with the relevant permits.

Generally, employment contracts and residence permits are valid for a maximum of one year but certain classes of foreign workers – such as, advisers and consultants working for the Chinese government, high-level managers and expatriates seconded to Chinese companies with foreign investment of more than $US3 million – are able to apply for a maximum five-year residence permit.

Recruiting staff

There are a variety of ways of recruiting staff in China and the effectiveness of each option will depend largely on the required level of expertise as well as the type of job vacancy being filled. Some common methods used by Australian businesses in China include:

- Tapping key China business contacts and industry associations, as well as inviting recommendations from a local partner. This personal approach can work well in identifying highly skilled or industry-specific talent.
- Searching online executive and other job sites including www.linkedin.com, www.lietou.com (Chinese) and www.michaelpage.com.cn (especially for finance and legal roles). For mid-level and junior roles: www.zhaopin.com, www.chinahr.com and www.51job.com are starting points.
- Advertising via online or industry-specific publications and through wider media. While reasonably inexpensive, advertisements can miscue if not accurately worded and the recruitment process undermined if applicants are not screened carefully with the help of local professionals. Also, there is no guarantee that the advertisement will reach the ideal candidate.

- Using a recruitment company. This is by far the most expensive method for recruiting talented employees, and can cost as much as 35 per cent of salary. But it can be stress-free by comparison, with the recruitment company driving the effort by refining job descriptions, building personal profiles of potential recruits, and tapping experience and contacts within the labour market during the search. On top of this, hired recruiters screen applicants to build a short-list of top candidates and can carry out private reference checks of CVs and qualifications to narrow the field and thwart fraudulent practices. Recruiters can also ensure that contracts being offered to potential employees are in place ahead of signing.

Managing a Chinese team

Australian businesses need to develop and adapt their management styles to suit local preferences and conditions. In recent years, their ability to meet intercultural challenges has been improving as China's workforce is exposed increasingly to Western business practices through the various degrees and training courses in modern management techniques being offered locally and the growing number of Chinese workers gaining overseas work or study experiences.

Much of the information that exists on how to manage a Chinese team is founded on traditional Chinese cultural values and mannerisms embraced in past Chinese management styles, particularly those practised by state-owned enterprises. However, depending on the region in which a business is operating, it will be important for employers to adapt management styles based on the demographic of their workforce – that is, job positions, education levels and ages. The overseeing of workers born from 1978 onwards, and the management of their expectations in the workplace, will differ vastly from that appropriate for workers born prior to 1978. This is simply due to the social and economic environment in which these older workers were raised. The following is an overview of key points to be mindful of when managing Chinese teams, but it is also recommended that Australians engage with other expats and managers in China to understand how they effectively manage their local teams.

Communication in the workplace

Business in China is more formal than in many Western countries and to ensure successful cross-cultural management businesses need to be alert to strict protocols that must be observed. Chinese people adhere to a strict chain of command, which comes with expectations on both sides. In order to keep others from losing face, communication is often non-verbal, so you must closely watch the facial expressions and body language of people while conducting business. Younger employees, in particular, tend to thrive on more proactive communication with their managers; however, they can still respond in non-verbal ways when trying to save face. Remember that Chinese are non-confrontational and personal relationships are crucial to conducting business. Relationships are based on mutual respect and trust. It takes time to develop a comfortable working relationship and patience is a necessary cross-cultural virtue. The first meeting with a Chinese team may often take place over lunch or drinks as a means of allowing Chinese colleagues an opportunity for getting to know their boss. On such an occasion, business will not be discussed.

The role of a manager

Cross-cultural communication will be more effective when working in China if managers keep in mind that each person has a very distinct role within the organisation, and maintaining that role helps keep order. In China, as in other hierarchical societies, managers may take a somewhat paternalistic attitude towards their employees. Younger workers, though, tend to expect a lot more of expatriate managers and thrive on building a relationship with them, which can seem slightly confronting to expats. Employees show respect and deference to their managers and, in return, managers know their subordinates' personal situations and offer advice and guidance wherever it is needed. In more entrepreneurial companies, this may be changing.

Approach to change

China can be hidebound by traditions, with workers' intercultural competence and readiness for change low. Chinese culture's conservatism means that change can often be seen as a threat to society. Effective management in China means understanding this and taking into account that change will take longer to implement than in their home country or even other countries in the region. It is important to deploy carefully any change management strategy to ensure smooth transitions.

Approach to time and priorities

Deadlines and timescales are fluid in China. Patience is therefore crucial for successful intercultural management. Essentially a relationship-driven culture, taking the time to get to know someone will always take precedence over timelines. Foreign businesses should resist any temptation to rush the relationship-building process or they risk jeopardising any future business dealings. When working with the Chinese, it is advisable to reinforce the importance of the agreed-upon deadlines and how that may affect the rest of the organisation or the team. However, it is not unusual for a manager in China to avoid confrontation over a deadline in order to maintain a positive relationship within the team. Globalisation and increasing cultural interaction mean that some Chinese managers may have a greater appreciation of the need to enforce timescales, with agreed deadlines more likely to be met as a result.

Decision-making

Many older Chinese companies still adhere to a rigid hierarchy, although this is starting to change in many multinationals and entrepreneurial companies, and those that do business with foreigners on a regular basis. Younger managers in China, in particular, prefer to be kept informed of decisions that will impact the group and to be involved in decision-making processes, whereas in the past, top-down management was enforced and only senior executives were involved.

Boss or team player?

Because of hierarchical structures in China, it is important that a manager maintains their role as 'boss' and engenders the necessary respect from within the team. When the manager needs to work collectively with their team, however, then it is important that the need to work collectively is stated and that the team is encouraged to operate openly in a non-threatening environment. Should an individual make contributions that are seen as not helpful or necessary, then the manager will need to address this sensitively. It is essential that the individual does not feel shamed in front of their colleagues and that the rest of the group feel able to continue participating and offering contributions. Expat managers should also encourage social interaction in and out of the workplace. This is a key requisite in China's collectivist culture where the importance of being part of a collective or team is valued highly by employees.

5.6 BANKING IN CHINA

Banking environment

It would be fair to describe China's banking and regulatory environment as still nascent. Nevertheless, it is fast changing and, as a result, so is the business landscape in China. Indeed, change would appear to be the one constant, with Beijing flagging further deregulation for the banking sector, particularly in Shanghai's FTZ and in the context of the China Australia Free Trade Agreement (ChAFTA). Given the nature of such changes, PwC envisages China overtaking the US as the world's largest banking market by 2023, based on the projected growth of domestic banking credit assets.

At the pinnacle of China's banking system stands the nation's central bank, the People's Bank of China, which is responsible for monetary policy and regulating financial institutions. But key partners in the oversight of the financial sector include the State Administration of Foreign Exchange (SAFE) and China Banking Regulatory Commission (CBRC). The sector itself is dominated by four State-owned players – the Agricultural Bank of China (ABC), the Bank of China (BOC), China Construction Bank (CCB) and the Industrial and Commercial Bank of China (ICBC), which account for more than half of all banking assets, with the rest controlled by city-based commercial banks, privately-owned financial institutions and credit co-operatives. Foreign banks won a toehold a decade ago, in December 2006, when China opened its doors to foreign competition. By the end of 2011, more than 180 banks from 45 countries and regions had established a presence, among them nearly all the world's banking behemoths including Citibank, HSBC and Standard Chartered. Australia's big four banks (ANZ, CBA, NAB and Westpac), along with the Macquarie Group, were among the first to seize the opportunity. In return, China's five leading banks have opened headquarters in Australia, complementing China-Australia business links and making it easier for Australian companies to access China-specific financial expertise.

Australian businesses entering China and looking to maximise opportunities will need to work with local banks. This is becoming increasingly easy as local banks, eager to grow internationally, welcome the opportunity to lend to foreign companies and will usually have greater capacity to advance credit than most local offshoots of foreign banks. Advantages of using domestic banks includes them having extensive networks, relationships with the state institutions generally, SAFE in particular, as well as their entrenched position within Chinese society. They will likely have better capabilities within China to process local – as well as foreign exchange – transactions. Foreign banks on the other hand have the benefits of being more developed and advanced in the areas of technology, relationship management, transparency and global reach and expertise. These advantages are slowly but surely being whittled away as China's banks grow beyond the nation's borders to embrace international opportunities.

For now, developing a working relationship with China's domestic banks can be challenging, and Australian businesses must understand the differences. A key difference to banking in Australia can be the often apparent disconnect between a bank's head office and its branches. Working with different branches can seem like working with completely separate banks. The operations of domestic banks can lack sophistication and are still evolving, with services, technology, customer support and relationship management models falling short of the standard of those of their foreign counterparts. Also, banks' policies and practices can vary wildly. Choosing the right bank for a business model can be critical: for example, some may require businesses to move their money by 3pm each day, while others may have a later cut-off time. Technological expertise varies too, with some branches fully automated, others are not. Fees and charges may also differ.

Business and banking

It is important when operating a business in China to have a clear-cut and effective bank account structure that complies with the various local regulations but does not impinge on the drive for efficiencies and the ability of a business to operate effectively. Several account types will be necessary; for starters, a local currency (RMB) account and a foreign currency one. These can be opened with local Chinese banks or foreign-owned banks that have a licence to operate RMB accounts.

Australian enterprises need to complete regulatory requirements and show their business licence to a bank before they can open any accounts. The rules vary. For example; for a wholly foreign-owned enterprise (WFOE) a capital account is necessary and the required capital remitted before local trading accounts can be opened. A note of caution, however: not all foreign banks operating in China are able to open capital and RMB accounts. Choosing the right bank to match the needs of a business can be critical and some businesses will consider holding accounts at a number of banks to guarantee flexibility and reduce the risk of disruption to their operations. This approach can sometimes be dictated by customer and regulatory needs: the former, for instance, may require a company to have an account with a bank at a particular branch, or a local tax authority may prefer that an account be opened at a certain location, even if such an account would not be strictly required under regulation.

Dealing with banks in China can be a frustrating experience. For a start, bank branches can be overcrowded and service slow. Australians, used to swift access to bank employees with authority, can sometimes feel in a time warp. Such delays underscore the value of building a good relationship with a local branch manager.

Bank accounts

A company will need to set up different types of accounts depending upon its structure. JVs and WFOEs must have certain book accounts, including foreign currency (FCY) accounts, RMB basic accounts, and RMB general accounts (which cannot be opened with the same bank that holds the company's basic accounts). Banks can open both RMB and foreign currency accounts, depending on usage.

The main accounts Australian businesses may need to open are:

Overview of Chinese RMB and foreign currency (FCY) accounts

RMB accounts		FCY accounts	
Account type	Purpose	Account	Purpose
Basic account	Cash withdrawals and salary payments	Current account	Trade and non-trade transactions settlement account
Regular account	Onshore payments and collections	Capital account	Capital contribution
Special purpose accounts	Loan, tax, customs duty, RMB reinvestment capital verification etc.	Loan accounts	FCY intercompany (including parent's) and bank loans

Documents needed: The documents required to open a bank account may vary depending on each banks' rules. Nonetheless, some of the basic documents commonly required include:

- Approval Certificate issued by government bodies authorised by the State Council (that is, Ministry of Commerce or the relevant provincial or municipal people's government)
- Legal Person Business Licence issued by the State Administration for Industry and Commerce
- Certificate of Legal Personal Code and Organisation issued by the State Bureau of Quality and Technical Supervision
- Valid foreign-invested Enterprise Foreign Currency Account Opening Approval Documents (if applicable) and Foreign Exchange Registration IC Card issued by the State Administration for Foreign Exchange
- Identification documents of the legal representative, directors, authorised personnel and principal shareholders and beneficial owners
- Company seal or chop and special seal or chop for finance
- Account application and other relevant documents provided by the bank
- State and Local Tax Registration Certificate (original)
- Memorandum/Articles of Association and amending supplements
- List of directors (with the company's official chop or signature/chop of the legal representative)
- Completed mandate/board resolution
- An organisational chart showing shareholding percentages of each entity and each stage in the ownership chain of the corporate structure
- Basic information for enterprises issued by State Administration for Foreign Exchange with company's official chop (for the enterprise required to conduct Balance of Payment reporting).

As well as providing the required documents, most banks require authorised signatories to be present when opening an account. Some banks, however, have alternative rules that accommodate the absence of authorised signatories. For businesses establishing offices in different cities, accounts need to be opened for each within the registered city and according to local regulations. Key personnel can be approved as signatories for accounts in different cities.

Foreign exchange controls

WFOEs and JVs being set up in China must register with the foreign exchange authorities – SAFE – within 30 days of securing a business licence. The entity can then buy and sell foreign currency (including exchanging RMB) at authorised banks for current account items, such as importing or exporting goods and services. But sufficient documentary proof of each transaction must be made available. Authorisation is needed from SAFE for capital account transactions – those that change a company's capital base, such as new loans, direct investment or investment in securities.

While China has promised to end such foreign exchange controls, little change is likely in the near future. As a general rule, controls are more strictly applied to funds being moved out of the country rather than funds flowing into China, although China in recent times has sought to temper the latter in a bid to take the steam out of the economy.

Financing

A distinction that puts representative offices in China at a disadvantage is that they are not permitted to borrow money in China, so all working capital must be remitted from Australia. Further, Australian WFOEs tend to fund their activities by using cash flow from China, or by tapping a loan facility from a foreign bank with offices in both Australia and China. While it is possible to secure financing from a Chinese bank, this tends to be the preserve of very big corporations. International banks will lend for domestic purposes too, where they may already have an established relationship with – or can potentially develop one – the Australian parent of the WFOE operating in China.

Business overdrafts are not used in China. Instead, banks prefer to top up the working accounts of entities by drawing on a parallel loan account at regular intervals (essentially, at three, six or nine months).

Paying business expenses in China

In most circumstances, supplies must be paid for in advance or on delivery using cash or credit cards. It may be a long time before a Chinese supplier extends credit to a newly established business and certainly not before they have a well-established relationship. It is common, too, to be asked to pay a deposit for utilities such as office telephones. Cheques, once the most common form of payment in China, have been superseded with more than 90 per cent of payments now sent electronically. Bank acceptance drafts (essentially post-dated cheques) remain common practice in certain industries, and their use will tend to increase or decrease depending on the state of the economy and general liquidity. Managing these variables and idiosyncracies effectively, given the impact on finance and risk, is a major factor in a foreign entity's success or failure in China. While cash is still king in some sectors of the economy, the rapid growth of credit and debit cards is changing the payment landscape. For now, however, only a small fraction of China's several million merchants and retailers accept credit cards and ATMs for cash advances are few and far between even in major cities. Things to note:

- The commission paid to credit card companies by retailers can often be added to bills. For example, paying for travel in China by credit card can incur a 2.5 to four per cent additional charge.
- Representative offices and WFOEs can open US dollar accounts and RMB accounts for paying local expenses. When paying overseas bills, an invoice must be provided (or other evidence) to be able to remit money out of China.
- To pay salaries, companies will need to open a payroll deposit account.

5.7 REPATRIATING PROFITS AND GETTING PAID

Australian businesses need to tread carefully to ensure they meet regulatory requirements when setting up in China, or they risk running into taxation or other compliance issues when seeking to repatriate profits. They should also devise a clear strategy for minimising the risk of their customers defaulting on payments, as chasing debts through China's legal system is difficult, time-consuming and costly. Local Chinese attitudes towards contracts and contracted prices can jar with Western ideals and Australian businesses will not want to find themselves cornered into renegotiating prices of goods once they have been dispatched.

Repatriation of funds

Foreign entities operating in China can repatriate up to 90 per cent of their profits. But this can be stymied by carelessness if, when establishing a business, it fails to comply with all regulations. At worst, a company could be denied the necessary approvals needed to send profits out of China.

Before remitting profits, a corporation must have filed its fourth quarter tax return with SAT, confirming its liability for Foreign Enterprise Income Tax. Once calculated, net profit can be declared, freeing funds for sending out of the country. However, not all of a company's profit can be repatriated. Instead, a portion (at least 10 per cent in the case of WFOEs) must be placed in a reserve account, which is capped at 50 per cent of the company's registered capital. Repatriating the rest requires a board resolution authorising distribution and the lodging of an application with SAT (in Mandarin) that includes an annual audit, tax receipts and other documents. In turn, SAT will issue a Foreign Enterprise Income Tax Payment Certificate, which enables the bank to convert RMB and then remit funds.

How to repatriate funds

Step 1:
Annual audit and confirming amount of funds available.

Step 2:
Record filing at State Administration Tax office.

Step 3:
Submit application to a designated foreign exchange bank.

Step 4:
Remit funds.

Getting paid

How a business is to be paid by its customers will differ depending on the type of business structure deployed in the China-based entity. But almost universally, Australian businesses operating there nominated obtaining customer payments in Austrade's International Business Survey (2015) as a key challenge.

Without an on-the-ground presence (a representative office, a WFOE or a JV), payment must be remitted to an Australian bank account by an agent or distributor or by the customer himself if the business is selling directly to Chinese consumers. Access to either a WFOE or JV allows the business to open local bank accounts into which payments can be made for goods and services. Access to a representative office, allows the business to still open local bank accounts, but these cannot be used for trade or service purposes. Rather, they can only be used for administrative purposes. Again, note that when invoicing a customer for payment, many Chinese companies prefer to be invoiced in US dollars, particularly if they are already doing business with the US, although the currency will be determined by the contract.

Choosing the right payment option

When competing to win contracts, the payment terms can make a significant difference to the outcome. The best payment option at any particular time will depend on various factors:

- How much can the buyer be trusted and how much is known about the company?
- Is this a first transaction? Or does it involve a company which has a track record and is trusted?
- How much risk is the business prepared to take in a deal of this nature?
- How large is the transaction?
- Is there an opportunity to bargain for more favourable terms with this buyer?

Banks can assist in determining the most appropriate payment terms to engage in when doing business in China. These main payment terms are:

- Letters of Credit
- Document Against Acceptance, or Documents Against Payment
- Cash in advance
- Open account

Letters of Credit (or documentary credit, import credit, export credit)

These guarantee payment and receipt of title from an independent party – the bank. They are therefore recognised internationally and are the least risky way of securing payment from new customers. Most Chinese commercial banks and foreign banks with licensed Chinese branches can issue a Letter of Credit. Generally, there is no problem with Letters of Credit from Chinese banks being accepted by Australian banks, although this should be checked first, particularly if the transaction involves a Chinese regional bank. Also, it is worth ensuring that all Letters of Credit are received via SWIFT (the Society for the Worldwide Interbank Financial Telecommunication).

It is very important that the documents submitted to banks comply exactly with the strict conditions of the Letter of Credit. It has been estimated that half of all Letters of Credit are rejected by banks at first presentation because they do not meet stated conditions. The Letter of Credit should be checked against the terms of the purchase contract and, if necessary, a buyer can be asked to make any necessary amendments before the Letter is presented. Documents that contain discrepancies should not be lodged unless these have been pre-approved through the banking system. Businesses failing to do so risk losing the protection of the Letter of Credit.

Documents Against Acceptance, or Documents Against Payment

These are used in ongoing business relationships and provide some protection – but also some risk – for both parties. They are easier to use and less costly than Letters of Credit. With Documents Against Payment, the documents needed to obtain the goods are only delivered to the importer after they have paid for the goods. With Documents Against Acceptance, the documents needed to obtain the goods are delivered to the importer *after* they have accepted the exporter's bill for payment at a fixed later date. Needless to say, the latter involves greater risk for the seller. Under the former arrangement, the buyer only gets the goods

after they've paid for them. Trade insurance can be taken out to cover the risk of default where Documents Against Acceptance are used.

Cash in advance

This payment method is only used once a Chinese buyer has developed a trustful working relationship with the foreign seller.

Open account

Perhaps the least desirable option, this method involves the buyer agreeing to pay for the goods within a certain period after shipment, generally 30, 60 or 90 days. This far from secure form of payment would leave Australian exporters to China fully exposed in the event of the buyer defaulting on payment. Companies using open account would in most cases routinely cover their exposure with trade insurance.

Reducing risk of non-payment and slow payers

Predicting or identifying who will be good or bad payers in China can be fraught. Instead, Australian businesses would be better off from the outset trying to negotiate the most secure form of payment possible when negotiating a contract. When dealing with a new customer, it is best to insist on Letters of Credit to ensure payment, while carrying out due diligence on them and making sure an enforceable contract is in place. However, in the case of very small contracts, the costs associated with securing a Letter of Credit may render the option unviable. In such cases, the financial consequences of the contract not being honoured need to be weighed against the opportunity for developing the business.

Having a long-standing relationship with a customer may make a merchant more comfortable using an alternative payment method such as a Document Against Acceptance. Even so, trade insurance against risk of a default would be prudent.

Letters of Credit or Documents Against Payment that guarantee payment before goods are delivered also safeguard against slow payers, which can often be the case with municipalities and local government operations. Should a less secure payment method be deployed, it is important to deal with the problem of a slow payer as soon as the payment is overdue. A conduit such as a China-based agent should be in contact with the buyer and seeking payment immediately. An alternative is to make direct contact with the buyer from Australia, or using a business associate or influential 'friend' in China to get in touch.

Legal action is a last resort, but sometimes necessary despite the cost and effort required. As well, arbitration is increasingly being used to settle disputes between Chinese and foreign companies.

6. Visiting China

Visiting China is a crucial part of doing business there. This chapter will review all the relevant information you need to know about travelling to – and within – China. This chapter also covers health and safety in China.

6.1 VISAS

China does not issue visas on arrival, so you will need to get one before travelling there, regardless of the purpose of your trip. You should apply for your visa early to leave enough time before you travel. You should also ensure that your passport is valid for at least six months from the date of arrival in China. Generally, a transit visa is required for a stopover in China, except in certain cases (for example, when a foreigner directly transits through China by air and remains in the airport for no more than 24 hours).

For Australians travelling to China, there are a number of different types of visas that vary according to the purpose of your visit and the length of time you will spend there. The M Visa is for business-related visits (for Australians not working full-time in China and who are travelling there for business meetings, trade shows or negotiations). The F visa is for non-commercial visits and the Z visa is required for foreigners working in China. There are also L visas for tourists and X visas for students. You may apply for a multiple entry visa, but this will depend on the purpose of your visit and how often you plan to visit China. The specific rules and policies for issuing L or F visas vary depending on the particular embassy or consulate. In January 2015, new visa requirements were introduced for foreigners visiting China and participating in work-related activities for fewer than 90 days.

The website of the Embassy of the People's Republic of China – au.china-embassy.org/eng/ – in Australia contains detailed visa information for Australians planning travel to China. For Australians already travelling or residing in China, all visa queries should be directed to the Foreigners Entry and Exit Administration Section of the local Public Security Bureau in China. As visa and other entry and exit conditions can change at short notice, you should always contact the nearest Chinese Embassy or Consulate for the most up-to-date information, including the current visa fees. In Australia, you can apply for any of the visa types at the Chinese Embassy in Canberra or at one of the Chinese Consulates in Sydney, Melbourne, Perth or Brisbane. Note that the visa processing times may vary between embassies and the various consulates. Express applications attract higher fees.

VISA TYPES	
Z-visa • Athletic training with a local sports organisation (athletes, coaches) • Tasks involving technology, research, management or guidance with a local partner • Filming • Fashion shows, photo shoots • Foreign-related shows and performances for commercial ends • Additional categories can be added at the authorities' discretion	Considered short-term work
M-visa • Maintaining, installing, testing, disassembling or training and guidance for machinery and equipment • Guiding, supervising and inspecting a project that has won bidding in China • Dispatching personnel to work at a branch, subsidiary or representative office (RO) • Participating in sporting events (coaches, athletes, assistants)	Not considered short-term work
F-visa • Unpaid or volunteer work paid for by a foreign institution • Performances approved by the Department of Culture	Not considered short-term work

To apply for an M visa you must have an invitation letter from a company registered in China. This can be either your Chinese business partner or a foreign-invested company in China. You can engage agents to manage the application process on your behalf if you're unable to get an invitation letter (for example, if your business hasn't been officially established in China yet). The invitation letter should contain:

- Information on the applicant (you) and your relationship with the inviting individual or entity
- Information on the inviting entity or individual, such as name, contact telephone number, address, official stamp, signature of the legal representative or the inviting individual
- Information on the planned visit – its purpose, arrival and departure dates, where you are visiting.

A sample invitation letter is available with further information on the Chinese Embassy's website.

Applying for the Z visa (otherwise known as a work visa) is a more complicated process that varies according to whether it is for short-term or long-term work. First, the sponsoring company must apply for an employment licence and offer a justification for why a local employee is not being hired. The company must then apply for an invitation letter, and the prospective visa applicant must undergo a health check. With the preceding documents completed, the applicant applies for the visa at the local Chinese Embassy or Consulate. Once the visa is approved, the applicant has three months to enter China. Once you have arrived and registered in China – registration can be done at your hotel or local police office – you then apply for a residence permit (which is generally organised by the company and is valid for one year).

Chinese authorities strictly enforce penalties for entry and exit visa violations. Australians should ensure they depart China before their visa expiry date unless they have correctly renewed it. Penalties include a daily RMB500 fine (maximum RMB5,000) and possible detention for between five and 30 days.

Obtaining a visa in Hong Kong: Another option is to apply for a Chinese visa in Hong Kong (although only certain types of visas can be processed there). Most major hotels and travel agencies in Hong Kong offer a China visa service (service fees apply) – generally for L or F visas with a turnaround time of one to two days. Alternatively, you can apply through the Consulate Department Office of the Commissioner of the Ministry of Foreign Affairs of the People's Republic of China in Hong Kong. This takes longer but is cheaper. For further information, contact the Chinese Embassy in Canberra or your nearest capital city consulate before travelling to Hong Kong.

6.2 CURRENCY

The Chinese currency is the Renminbi (RMB) calculated in yuan (commonly called 'kuai') then into smaller units of jiao and fen. 1 yuan = 10 jiao (also known as mao) and one jiao = 10 fen (100 fen = 1 yuan, similar to 100 cents equals a dollar). The official symbol for yuan is ¥.

Major foreign currencies can be exchanged for RMB by banks and authorised money exchangers at airports and in most of the major cities in China. It is advisable to pay for your everyday items (including meals) in RMB cash. However, for your safety, you should probably not carry more than a couple of days' worth of cash at a time.

The Chinese currency is the Renminbi (RMB)

calculated in yuan (commonly called 'kuai') then into smaller units of jiao and fen

¥ The symbol for yuan is ¥.

元 However the Chinese character is often used in stores and in markets.

角 ¥1 = 10 JIAO (角).

分 1 JIAO (角) = 10 FEN (分) (100 fen = 1 yuan, similar to 100 cents equals a dollar).

Renminbi comes in the following notes:
Yuan (元) - 100, 50, 20, 10, 5, 2 and 1
Jiao (角) – 5, 2 and 1.

Renminbi comes in the following coins:
Yuan (元) – 1, Jiao(角) – 5 & 1
Fen(分) – 5, 2 and 1.

Due to the existence of counterfeit money scams in China, your cash will be closely inspected when handled and often run through a counterfeit detector to establish its authenticity. One scam that you should be alert to involves taxi drivers targeting foreigners. Offending drivers will take your Chinese yuan notes then hand it back to you and demand a better note, claiming the first was too dirty or worn. When this occurs, the driver generally has switched your note for a fake one – which may be rejected the next time you try to use it. If this happens to you, it is best to refuse to take your note back and don't provide another.

ATMs that accept foreign credit and charge cards for cash withdrawals are widely available at airports, in large cities and in the lobbies of major hotels. Major cards such as Visa, MasterCard, Cirrus, Maestro, American Express and JCB are all accepted. All the ATMs have English instructions – an 'English' option will appear on the screen after you insert your card. Note that Chinese ATMs dispense cash before returning your card, not after you have removed it (as in Australia).

Credit cards are widely accepted in major cities, particularly in international hotels and restaurants. In smaller cities, using international cards may be more difficult. To protect the security of your card, you should be particularly careful when paying for goods or services in smaller, non-reputable hotels, restaurants or stores to not allow your card to be taken out of sight.

6.3 AIR TRAVEL AND AIRPORTS

Airports

China has several international airports and numerous domestic airports, all varying in size and class. Most Australians enter China via the principal hubs of Beijing Capital Airport or Shanghai Pudong International Airport. Guangzhou Baiyun International Airport is the main access point for southern China if you are not travelling via train or road from Hong Kong into Shenzhen. Arrival and departure taxes for international airports are built into the cost of airline tickets. When flying to, or within China and using taxis to get to your final destination, be sure to allow time for city traffic congestion (getting across Beijing sometimes takes up to three hours). Always go to the official taxi rank outside the terminal (follow the signs) and never engage with people hustling in the arrivals hall offering cheaper taxi fares. You should have your hotel address (or other destination) written down in Chinese characters to show to your taxi driver. Hotels will often have this information at the bottom of their reservation confirmation email or letter. If not, ask them to send it to you.

Beijing Capital Airport is approximately 25 kilometres from the city centre. The trip should take about 40 minutes if there is no major traffic congestion. Taxis are a good option if it's your first time in Beijing. Some hotels run shuttle buses to and from the airport, or alternatively you can hire a driver limousine service. There is also an express airport train between the two airport terminals and two major stops in Beijing – Sanyuanqiao and Dongzhimen – which in turn connect to the major Beijing subway lines or you can get a taxi from there to your destination. Fares are RMB25 with trains running frequently between 6am and 11.30pm. A second international airport is currently being built in Beijing and is expected to be operational in 2018.

Shanghai Pudong International Airport is the new international airport for Shanghai. It is about 50 kilometres from the centre of Shanghai, and should take about one hour in a taxi, depending on traffic. A cheaper option is the shuttle buses that travel frequently to leading hotels, but you may need to wait for up to 30 minutes. Check with the information desk at the arrivals hall for the next shuttle bus departure. Another option is the super high-speed magnetic levitation (MagLev) train, which takes just eight minutes to complete the 30 kilometre trip to Longyang Road station on the Shanghai subway line 2. The MagLev train costs between RMB50 and 160, depending on the class travelled. These run regularly between the hours of 6am and 11pm.

Shanghai Hongqiao International Airport is the domestic hub for Shanghai and a standby airport for international flights. Hongqiao Airport is about 13 kilometres from the centre of Shanghai and the trip should take about 30 minutes without major traffic congestion. Taxi is the best method of transport.

Guangzhou Baiyun International Airport is about 12 kilometres and less than 30 minutes by taxi from the centre of Guangzhou. There are frequent shuttle buses to different locations across the city, most taking about 45 minutes. You can also take the metro from the airport to the city.

Domestic flights: For domestic air travel, China's 'big four' airlines are Air China, China Eastern, China Southern and Hainan Airlines. Flights to Hong Kong, Macau and Taiwan are all classified as international flights.

Mobile phones

Australian mobile phones can be used in China but international roaming charges, including for data, can be very expensive. Depending on the length of your stay, it may be much cheaper to buy a Chinese SIM card from a local provider (such as China Unicorn, China Mobile or China Telecom). Costs are relatively cheap, varying in price from about RMB100-300 for a prepaid SIM. If you plan to put a Chinese SIM card in your Australian phone, be sure to check with your Australian telco carrier before you leave Australia that the phone is unlocked.

SIM cards can be purchased at international airports and at many locations in Chinese cities from convenience stores to telecommunication stores. You will need some form of identification to buy a card. Not all SIM cards include data allowance, so be sure to ask for it if that's what you want. In smaller cities, you might encounter difficulties buying a Chinese SIM card if the store assistant speaks no English. In such cases you could ask your hotel concierge to help.

Chinese and Australian power sockets are very similar, so in most parts of China you will not need to use an adaptor. But you should still carry a China-appropriate adaptor for areas that have different sockets.

6.4 GROUND TRANSPORT

Taxis

Taxis are plentiful and inexpensive in Chinese cities. However they may get stuck in traffic congestion, particularly in major cities and during the peak times of 8-9am and during lunch and dinner, which can cause delays of many hours. However, taxis are usually a good option:

- In off-peak times
- If you're going to an area in the city that is not near a metro or subway line
- If you're unfamiliar with the location to which you're going.

Fares for Shanghai taxis start at RMB14 for the first three kilometres, RMB2.4 per kilometre up to 10 kilometres, and RMB3.5 per kilometre after that. Beijing fares are similar at RMB13 for the first three kilometres and RMB2.3 per kilometre after that. If a journey goes longer than 15 kilometres the fare rises to RMB3.45 per kilometre. Surcharges or higher flagfalls are generally applied after 11pm in most cities. Another option is to hire a taxi for a day (for a pre-negotiated price, which will vary according to the city you are in and where you are travelling to). You could also hire a limousine with an English-speaking driver, which can be arranged through your hotel or a car rental company.

Always take a legal taxi with a running meter displayed in the front (unless you have organised with your hotel to hire a taxi for a day). Legal taxis will have their taxi photo licence displayed at the front of the cab and are required to be metered. If your taxi driver refuses to use the meter or no licence is displayed, then you should get a different taxi. Different cities have differently coloured taxis. It is advisable to research the appearance of legal taxis in the city you're travelling to before arriving. As most taxi drivers do not speak or read English, it is useful to have your destination written in Chinese characters. Note it is not necessary to provide a tip. Hotels generally have a card that has directions written in Chinese to popular areas and the hotel itself to guide taxi drivers. Taxis will also generally have a phone number displayed for you to ring to speak to an English translator. It is useful to have a Chinese SIM card in your phone in these circumstances, so you're not charged international roaming rates. Sometimes taxi drivers will phone an English-speaking friend to help you communicate your destination details. The local metered rates will also be displayed in the taxi – generally on a sticker on the back passenger windows.

A receipt (*faipiao*) will usually be offered when exiting a taxi. It is a good idea to hold onto this as it has the taxi's details on it – making it easier to track down if you leave something in the taxi or have an issue with being overcharged.

To drive in China you are required to have a Chinese driver's licence.

Rail transport

Most of China's major cities have well developed and continuously growing mass transit rail systems. They are generally cheap, reliable and safe. However, they can also be very crowded and, although there are often designated queue lines, everyone will push to get on the train once it arrives. Do not rush to get on the train when the door closing alarms sounds. The doors are designed to not reopen if anything is in between them. There have been cases of people having arms or legs crushed in closing train doors.

Chinese cities with extensive train systems include Shanghai, Beijing, Guangzhou, Changchun, Chongqing, Dalian, Foshan, Hangzhou, Kunming, Nanjing, Shenyang, Shenzhen, Suzhou, Tianjin, Wuhan and Xi'an. Most of the subway and metro systems in China have a 'transportation smart card', similar to Melbourne's Myki or Sydney's Opal card. These can be bought at stations along with a mandatory deposit, which is refunded when you return the card. The cards can be recharged at a majority of stations. Most major subway and metro train stations in China will also have security checks for bags when entering the station.

On some city trains you may encounter beggars (usually playing traditional Chinese music on a speaker) who will often approach foreigners. It is best to keep your head down when you see one and not make eye contact – they will eventually move on. Giving them money can encourage them to beg for more and can be a risk for pickpocketing.

Shanghai Metro: The Shanghai Metro is ever-expanding, and is now the world's longest subway system. The system currently has 14 operational lines, with more under construction. The Metro is fast, cheap, air conditioned and fairly user-friendly, with most signs and station arrival announcements in Mandarin and English. Fares range from RMB3-9 depending on distance. There are also one-day cards available for RMB18 (24 hours valid after their first use) as well as rechargeable metro cards. Automatic ticket vending and metro card recharging machines take notes and some coins with instructions in Mandarin and English. Make sure you have cash for tickets or card recharging. Only some lines have people selling tickets; most of the newer lines have machines only. Metro stations can be identified by red and white signs with an M in a circle. Most stations are underground.

Beijing Subway: The second-largest subway network in the world, and a great way to get around the city quickly. There are 18 lines, with more to be constructed and existing lines to be expanded. Tickets cost from RMB3-9 per trip based on how far you travel. Trains can be extremely crowded during peak times, when many popular stations have outdoor queues. Subway station

entrances are marked by large signs with a white stylised letter G wrapped around a smaller letter B on a blue background. Single tickets can be purchased at vending machines (with English instructions) that accept RMB1 coins or RMB5 or RMB10 notes. You need to know the name of your destination in order to calculate the correct fare. Subway trips are limited to four hours.

Guangzhou Metro: Guangzhou has a constantly expanding Metro system. It covers much of the city centre, and some lines reach into the outer suburbs. Fares range from RMB2 to RMB12 depending on length of the journey. Most signs and announcements are in Mandarin and English.

Inter-city rail: China has an extensive national rail network that connects just about every town and city in the country. Train travel between cities is reliable and economical. Tickets are available in 'soft' (more expensive) and 'hard' (less expensive) varieties. On longer trips you may also choose between seats or sleepers (bunk accommodation). Australian business travellers would be well advised to pay the extra for a 'soft sleeper' ticket when travelling overnight. In rural areas, particularly during busy periods such as near Chinese New Year, be aware that when you pay for a seat, you still may end up standing or sharing your seat with others. Depending on the journey and ticket type, they can range between $65 and $150 (prices are subject to change).

Train tickets can be bought at stations, online and from some hotels. In major cities like Beijing and Shanghai, there are English-language ticket sale counters.

High-Speed Rail Network (HSR): China has a large and rapidly expanding high-speed rail network connecting major cities such as Beijing, Shanghai, Qingdao, Hangzhou, Hebei, Wuhan, Guangzhou and Shenzhen. A ticket from Beijing to Shanghai will cost around RMB550 ($100) and will take from five to six hours. Tickets for 'G' trains are the fastest between the two cities, whereas 'D' tickets are for the slower bullet trains.

6.5 HOTELS AND DINING

The Chinese hotel industry is one of the world's largest, with most budgets catered for. International chains such as Marriot, InterContinental, Accor and Starwood operate in most major Chinese cities. International travellers should note that star ratings of hotels in China, particularly among Chinese hotel companies, do not necessarily equate to the same ratings in Australia. For example, a five-star Chinese hotel may be the equivalent of a 3.5 star hotel in Australia. It is common to smell cigarette smoke remnants in non-smoking rooms or areas. Most major five-star hotels offer wireless internet in addition to a fitness centre, sauna, business centre, restaurants and cafes. At some hotels you will have to pay extra for certain facilities.

Staying in Shanghai

Shanghai is the commercial centre of China and the country's most cosmopolitan city. It is large and densely populated, with more than 24 million people over an area of approximately 6,340 square kilometres. The CBD is divided by the Huangpu River, with Pudong to the east and Puxi to the west. Pudong is a special economic zone of banks, skyscrapers and new residential compounds, with several major five-star hotels catering to foreign business travellers. The renowned waterfront area, 'The Bund', lies on the historic Puxi side of the Huangpu River and looks across to the new skyline of Pudong business district. This is at the end of the famous East and West Nanjing Road, with its brightly lit shops ranging from convienence stores to luxury foreign brands. The eastern end is a major mall area and at the western end is a collection of Western-style restaurants and bars. Continuing south-east across Shanghai is Xujiahui with its massive shopping intersection. Western Shanghai is dominated by Hongqiao, a zone of hotels, conference centres and offices. Consider staying near where your meetings will be held to avoid being delayed by traffic. Alternatively, choose a hotel with easy access to one of the Metro lines for easy access to your business meetings.

Staying in Beijing

Formerly known as Peking, Beijing is the capital of China with an extensive imperial past and a population of more than 21 million. Covering an area of 6,487 square kilometres, central Beijing is divided into five districts. The Forbidden City and Tiananmen Square are landmark focal points, from which the city expands outwards with concentric ring roads numbered from two to six. If you are interested in sightseeing, you should stay within the Third Ring Road. As the seat of China's Government, Beijing has many embassies, with the majority located along Dongzhimen Road in the Chaoyang district in the inner east. Nearby the embassies is Sanlitun, an area popular with expatriates and young Chinese which hosts numerous international brand stores, bars and restaurants. Most international business offices are in the Chaoyang District, which also encompasses the areas of Guomao, Dawan lu, Wangfujing and Chaoyangmen. The CBD is in Guomao. Many technology companies have offices in Wangjing, a sub-district in Chaoyang located in the northeast and Zhongguancun, which is in Beijing's northwestern Haidian District. The headquarters of most of China's largest state-owned companies are also in Beijing. Like Shanghai, it is good to stay in a hotel in an area near your meetings due to the frequent traffic jams in Beijing. The Subway is generally quicker, cheaper and a more reliable option to get to your destination on time. However, it is extraordinarily packed during peak hour.

Staying in Guangzhou

Guangzhou, formerly known as Canton, is the third-largest city in China with a population of more than 12 million. It is in the southern province of Guangdong, which borders Hong Kong through the city of Shenzhen. A centre for manufacturing, Guangzhou is divided into ten districts. Yuexiu and Liwan are the old city centres and Zhujiang New Town in Tianhe is the new central business district, home to the city's biggest shopping malls and highest skyscrapers.

Business dining and entertaining

A great deal of business in China is conducted over dinner, where you may encounter very senior people who did not attend previous negotiations, but who are key to the approval of a business deal. Dinners or lunches can indicate a general warming of a relationship and their importance cannot be overstated. Further information about business protocol during dining can be found in Chapter 4.

The online site 'Travel China Guide' has information on a selection of restaurants, which are also detailed in the following popular magazines:

- Shanghai: *That's Shanghai or Smart Shanghai*
- Beijing: *That's Beijing*
- Guangzhou: *That's PRD*

Tipping

Tipping is not customary, but is gradually becoming common practice. Although tipping in restaurants is not required, it is now common practice to tip hotel staff who help with your luggage. It is a personal choice when you tip and depends entirely on the service you receive.

Useful Smart Phone Apps to use in China:

- **WeChat** – free messaging service
- **Uber** – driver app for Beijing & Shanghai
- **Didi dache** – popular mandarin Taxi app but easy to use
- **Pleco** – Chinese-English dictionary
- **Air Quality China** – Real time Air Quality Index (AQI) for all major cities in China
- **Ctrip** – China travel and accommodation service app
- **Metroman Beijing/Shanghai** – comprehensive metro maps can be used offline
- **City Weekend Beijing/Shanghai** – based on popular expat magazine, lists popular venues, restaurants and events
- **Google Translate** – useful as shows Chinese sentences in pinyin and in Chinese characters
- **China Trains** – can plan journeys, book tickets and ask advice on train travel across China
- **Explore Metro Maps** – essential subway app for cities such as Beijing, Shanghai and Guangzhou
- **Google Maps** – useful for getting around
- **China Daily News** – China's leading news app
- **Learn China Mandarin Phrases** – over 3000 Chinese phrases – no internet connection required
- **Waygo Visual Translator** – translate Chinese signs, menus etc by taking a photo on your phone

6.6 HEALTH AND WELFARE

Most of the following information on health and welfare in China has been provided by the Australian Government's Department of Foreign Affairs and Trade (DFAT) as general advice. Australians should always consult DFAT for up-to-date information on travelling to China, particularly on health risks and personal safety, before travelling there. Before travelling, Australians should also register on DFAT's website in case of an emergency and consult www.smartraveller.gov.au, which provides regularly updated advice for business travellers and tourists visiting China.

Health insurance

Before visiting China, Australians should take out comprehensive travel insurance that will cover any medical costs. They should confirm that their insurance covers them for the entire time they will be away, and check what circumstances and activities are not included in the policy.

Health risks

There are a number of basic health precautions to reduce the risk of illness while visiting China:

- Check with your doctor about recommended immunisations and general health matters prior to visiting China.
- No special vaccinations are required, but people travelling from an infected area before arriving in China should have vaccination records available. You should ensure that all your general vaccinations, such as hepatitis and tetanus, are up to date.
- Do not drink local tap water. Bottled water is readily available from supermarkets and convenience stores, and should be used even when brushing your teeth. Avoid buying bottled water from street vendors, as this may have been reused and filled with local tap water, then resealed.
- Uncooked food (vegetables and meat) or unpeeled fruit should be avoided, as well as ice.
- Travel to high-altitude areas such as Tibet is not recommended for those with pulmonary or heart problems.
- To reduce the risk of airborne disease, avoid crowded public transport, particularly in rural areas.
- Carry prescription documentation for medicines you have been authorised to take by your doctor in Australia.
- Bring your own basic medical kit for travel outside the major cities and carry sufficient quantities of any necessary prescription medications.
- Pollution levels are a serious health concern in most major cities in China. You should consider carrying masks with built-in air filters. These can be purchased before your trip to China. When in China, you can check pollution level indexes online or on phone apps. Some apps use statistics from the United States Embassy in Beijing, which are the most accurate.

Hospitals and medical services

Western-style medical clinics can be found in Beijing, Shanghai, Guangzhou and some other large cities. Major local hospitals also provide a reasonable standard of emergency healthcare for foreign visitors at inflated prices. Some major cities also have 'international' or 'American' hospitals aimed at expatriates with foreign doctors and English-speaking staff.

United Family Hospitals is a Western-style healthcare operator that has a number of clinics and hospitals across China, including Shanghai, Beijing and Guangzhou. All of its clinics and hospitals are at an international standard and have English-speaking staff.

Shanghai has a number of clinics and hospitals that cater for expatriates and international visitors. They can be expensive, so you may want to be certain that your insurance will cover the costs. American Medical Centre, Global Healthcare Medical and Dental, Parkway Health and Shanghai East International Medical Centre are among the city's private medical centres. All have expatriate or internationally-trained staff fluent in English. Major state hospitals in Shanghai include Huashan Hospital, Renji Hospital and Zhongshan Hospital. Some have English-speaking staff, but it is not guaranteed that you will get an English-speaking doctor.

Beijing has a number of international hospitals and clinics. Bayley and Jackson Medical Centre, International Medical Centre-Beijing, Vista Medical Centre and International SOS Clinic all provide a range of medical services and have English-speaking staff. Major state hospitals in Beijing include People's Hospital Affiliated to Beijing Medical University, Beijing International Friendship Hospital and Peking Union Medical College Hospital.

International private medical centres that cater to expatriates and international travellers in Guangzhou include: Global Doctor Clinic Guangzhou, Guangzhou Can-Am International Medical Centre, Bellaire Medical Centre and Clifford Hospital. Major state hospitals in Guangzhou include Fuda Hospital and the First Affiliated Hospital of the Guangzhou Medical University.

Personal safety

Useful numbers for emergencies include: Police 110, Ambulance 120, Fire 119, Traffic Accidents 122. 110 can be used in all emergencies. Shanghai Police offer a special number for foreigners in English: 021 6357 6666. Some cities, including Shanghai and Beijing, have English-speaking operators when you call 110 – once you hear the operator answer just say 'English please' and they will transfer you if possible.

Useful numbers for emergencies include

If you can only remember one number or are in doubt, call **110**.

POLICE	110
AMBULANCE	120
FIRE	119
TRAFFIC ACCIDENTS	122

Always treat Chinese with respect and stay alert. The Australian Government advises Australian nationals to exercise normal safety precautions in China and use common sense and look out for suspicious behaviour, as you would in Australia. It is also best to monitor the media and other sources for changes to local travelling conditions.

Civil unrest/political tension: You should steer clear of all demonstrations and protests. Demonstrations without prior approval from the Chinese Government are prohibited and protestors can be arrested. Protests are usually not reported in China so you may unexpectedly encounter them while travelling. Avoid photographing, filming or participating in protests or other acts that could be seen as provocative by authorities in China.

Xinjiang Uighur Autonomous Region (Xinjiang): The Australian Government says Australians should exercise a high degree of caution if travelling to Xinjiang. The security situation in this region is volatile due to heightened ethnic tensions. Violent incidents have occurred in the capital of Urumqi and in the city of Kashgar. Restrictions may be imposed on movement and communications in Kashgar and nearby areas with little warning. You should avoid any protests or large gatherings.

Tibet: The Australian Government recommends a high degree of caution if you are travelling to the Tibet Autonomous Region. In the past, protests have occurred with little warning and turned violent, resulting in deaths and injuries. You should not attempt to travel to Tibet without permission from the Chinese authorities. Foreigners wishing to travel to Tibet across a Chinese border must apply for a Tibet Entry Permit issued by the Tibet Tourism Bureau in Lhasa.

Terrorism: Terrorist attacks by groups opposed to the Chinese Government are possible. Attacks could be indiscriminate including in places visited by expatriates and foreign travellers. Australians could inadvertently become victims of violence directed at others. Areas where terrorist acts have occurred in recent years include Urumqi, Xinjiang and randomly in Guangzhou and Kunming, Yunnan.

Crime: Foreign travellers should be alert to the possibility of petty crime directed at them – particularly pickpocketing, purse snatching and theft of laptop computers, passports and mobile phones. Resistance can lead to violence or injury. Travellers have been targeted on overnight and other long-distance trains and buses and on public transport. Foreigners have been assaulted and robbed, particularly in areas popular with foreigners, including the bar and shopping precincts of Beijing, Shanghai, Guangzhou, Shenzhen and other major cities.

Scams: Foreigner travellers have been targeted by scams in China. Tourists can be approached, particularly in major tourist attractions such as at Tiananmen Square, and invited for a drink at a teahouse, cafe or bar nearby for reasons including 'to practise English'. The tourist is then presented with a vastly inflated bill (even in thousands of dollars) and is prevented from leaving until the bill is paid by credit card. Physical violence, including serious assault when resisting, and credit card skimming or duplication has occurred. You should also note:

- Travellers have been asked to carry goods concealing narcotics out of China.
- There have been reports of foreign travellers being drugged and robbed after accepting offers of food, drink or transportation from strangers.

- Fake ATMs have been used to steal people's cards. It is best to use ATMs when in the company of someone else, inside a secure location such as a bank, and during daylight hours.
- If you are the victim of petty crime or a scam, you should report it immediately to the local police. Even though they may not be able to retrieve your money or goods, they can issue you with an official loss report for insurance purposes. For further information on how to reduce your risks from various types of scams, visit the Australian Competition and Consumer Commission's SCAMwatch website at www.scamwatch.gov.au.

Penalties for drug possession and other crimes

Drug offences: Penalties for all types of drug offences – including use, possession, manufacturing, selling or trafficking – are severe, and can include life imprisonment or the death penalty. These laws are strictly enforced, even for small quantities of 'soft' drugs. Recently, Chinese authorities have executed foreign nationals found guilty of smuggling drugs. The Australian Government cannot override the laws and penalties of another country and is not able to intervene or interfere in the Chinese judicial process. Under Chinese law, there is very limited scope to appeal for clemency for any Australians sentenced to death. You should never carry parcels or luggage for others unless you are certain that the contents are legal. Australians in China should understand the serious penalties for all forms of drug offences and comply with local laws in full. Other serious crimes may also attract the death penalty.

Other legal issues (identified by DFAT)

- Demonstrations without prior approval from the Government are prohibited. These laws are strictly enforced and, if arrested, you could be jailed or deported.
- Gambling and prostitution are illegal in mainland China.

USEFUL PHRASES FOR GETTING AROUND CHINA

Phrases	Mandarin Characters	Mandarin Phonetic
Hello	你好/您好	Nǐ hǎo/nín hǎo
Good morning	早上好	Zǎoshang hǎo
Good afternoon	下午好	Xiàwǔ hǎo
Good evening	晚上好	Wǎnshàng hǎo
Good night	晚安	Wǎn'ān
Good/Bad	好/不好	Hǎo/bù hǎo
Thank you	谢谢	Xièxie
My name is	我的名字是.../我叫...	Wǒ de míngzì shì…/wǒ jiào…
I cannot speak Mandarin	我不会说中文	Wǒ bù huì shuō zhōngwén
I don't understand	我（听）不懂	Wǒ (tīng) bù dǒng
I'm sorry/Excuse me	对不起	Duìbùqǐ
How much?	多少钱？	Duōshǎo qián?
(Too) Expensive	太贵了！	Tài guì le!
Help!	请帮助我	Qǐng bāngzhù wǒ
Straight on/ continue	直走/继续	Zhí zǒu/jìxù
Turn left/Turn right	左转/右转	Zuǒ zhuǎn/yòu zhuǎn
Stop here	停在这里	Tíng zài zhèlǐ
Slow down	慢一点	Màn yīdiǎn
Change to the left hand lane	向左变道	Xiàng zuǒ biàn dào
Change to the right hand lane	向右变道	Xiàng yòu biàn dào
U-turn	掉头	Diàotóu

- Photography of military or government buildings may result in a penalty. You should seek permission from local authorities before taking photographs.
- All foreigners, including long-term residents, are required to register their place of residence with the local Public Security Bureau (PSB) within 24 hours of arrival, and at each change of residential location. This can be done by visiting the nearest police station and presenting your passport and valid Chinese visa. Foreigners staying with family or friends in a private home are required to register with the PSB. Failure to do so could result in fines and detention. If you are staying at a hotel, this is done as part of the normal check-in process, after the hotel verifies your passport and valid visa. Foreigners with residence permits are now required to register after each re-entry.
- You should carry evidence of your identity at all times and present it upon demand of police authorities. Your passport or a Chinese residence card is an acceptable form of identity. Failure to carry ID or comply with the registration requirement could result in fines and detention.
- Restrictions apply to certain religious activities, including preaching, distributing literature and associating with unapproved religious groups. Falun Gong activities are banned in China. If you participate in a Falun Gong-related demonstration or activity, you could be arrested, imprisoned and/or deported.
- Some Australian criminal laws, such as those relating to money laundering, bribery of foreign public officials, terrorism, forced marriage, female genital mutilation, child pornography and child sex tourism, apply to Australians overseas. Australians who commit these offences while overseas may be prosecuted in Australia.

Climate and clothing

China is a large country with a wide range of climatic conditions. Beijing is very cold in the winter and hot in summer. Shanghai has cold winters with very hot and humid summers. Guangzhou is located just south of the Tropic of Cancer and has a sub-tropical climate, remaining relatively warm and humid all year round. Make sure you pack appropriate clothing.

Dress to the local conditions. Women should observe what local women wear and avoid short shorts and singlets, especially in the far western regions of China, which has a large Muslim population.

Public holidays in China

In China, weekends are 'moved' next to holidays that fall mid-week to give people more time off. Workers are then required to work the original weekend days. This system can be confusing for foreign businesses with little exposure to China. In some instances additional days are taken as holidays nationally which are not listed holidays. Check with your Chinese counterparts to make sure your visit does not coincide with public holidays.

If a public holiday falls on a weekend then the following weekday is taken as a public holiday.

Name	2015	2016	2017
New Year's Day	Jan 1	Jan 1	Jan 1
Chinese New Year**	Feb 19	Feb 8	Jan 28
Qingming	Apr 5	Apr 4	Apr 4
May Day	May 1	May 1	May 1
Dragon Boat Festival	June 20	June 9	May 30
Mid-Autumn Festival	Sep 27	Sep 15	Oct 4
National Day**	Oct 1	Oct 1	Oct 1

* Public holidays are announced by the General Office of the State Council at the start of each year. These dates are approximate.

** These holidays go for three days.

7. Engage with us

Asialink Business

Asialink Business provides high-calibre opportunities for Australian businesses to build the Asia capability of their executives and team members.

Our business-focused cultural competency programs, professional development opportunities and practical research products allow businesses to develop essential knowledge of contemporary Asian markets, business environments, cultures and political landscapes.

Supported by extensive market research and customer intelligence, Asialink Business is uniquely positioned to provide tangible support to Australian businesses wishing to maximise their economic opportunities.

To start a conversation about how we can help build Asia capability in your business, please get in touch.

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Victoria 3010 Australia
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Web: www.asialink.unimelb.edu.au/asialink_business

PwC

PwC Australia helps organisations and individuals create the value they're looking for. We're a member firm of a network of firms in 157 countries with more than 195,000 people who are committed to delivering quality in assurance, advisory, tax & legal, and private client services.

If you're looking to grow your business into China, we bring a combined knowledge of markets and our connected international network to help you succeed. Our experience and deep cultural understanding is how we help our clients to navigate the opportunities and challenges involved in investing away from home.

Web: www.pwc.com.au/asia-practice

Resources and contacts

Australian Embassy, China
21 Dongzhimenwai Dajie
Sanlitun, Beijing 100600
Tel: +86 10 5140 4111
Fax: +86 10 5140 4204
Web: www.china.embassy.gov.au/

Embassy of the People's Republic of China
15 Coronation Drive
Yarralumla, ACT 2600
Tel: +61 2 6228 3999
Fax: +61 2 6228 3990
Web: www.au.china-embassy.org/eng/

China Australia Free Trade Agreement
dfat.gov.au/trade/agreements/chafta/Pages/australia-china-fta.aspx

General Administration of Customs People's Republic of China
english.customs.gov.cn/

Invest in China
www.fdi.gov.cn/

Ministry of Foreign Affairs, People's Republic of China
www.fmprc.gov.cn/mfa_eng/

National Bureau of Statistics of China
www.stats.gov.cn/english/

State Administration of Taxation of the People's Republic of China
www.chinatax.gov.cn/

State Council of the People's Republic of China
english.gov.cn/

State Intellectual Property Office of the People's Republic of China
english.sipo.gov.cn/

Useful websites

In addition to the websites mentioned in this country starter pack, these websites may be useful for establishing a business in China.

Asian Development Bank
www.adb.org

ADB offers good background data on its member countries. Click on the "Regions and Countries" tab at the top of the home page.

AustCham Beijing
www.austcham.org/

The Australian Chamber of Commerce (AustCham) has a number of branches throughout China.

AustCham Shanghai
www.austchamshanghai.com/

AustCham Guangzhou
(also referred to as AustCham Southern China)
www.austcham-southchina.org/

Australia China Business Council
www.acbc.com.au/

Australia China Business Council has branches in every state and territory in Australia. They hold regular networking events and roundtables.

Austrade
www.austrade.gov.au/industrycountry

Austrade has a number of offices throughout China. Austrade's website provides country and industry data as well as links to other sources.

China Briefing
www.china-briefing.com/

China Briefing provides reports and business intelligence on China for an international audience.

China Law Blog
www.chinalawblog.com/

China Law Blog discusses the practical aspects of Chinese law and how it impacts business there. Their aim is to assist businesses already in China or planning to go into China on how to navigate and use the Chinese legal system.

CIA World Fact Book
https://www.cia.gov/library/publications/the-worldfactbook/index.html

Detailed and up-to-date country profiles.

Digitalbusiness.gov.au
www.digitalbusiness.gov.au

This website provides guidance for small businesses, not-for-profits and community organisations to establish and/or enhance their online presence so that they can access the benefits of participating in the digital economy.

Export Council of Australia
www.export.org.au/eca/homepage

The Export Council of Australia is the peak Industry body for the Australian export community.

Export Finance and Insurance Corporation
www.efic.gov.au/

Efic provides information on overseas markets and support to Australian businesses looking to expand overseas.

Global Edge
globaledge.msu.edu/resourceDesk/

International business portal providing country guides, links to global information resources and a discussion forum.

Hong Kong Trade and Development Council
www.aboutus.hktdc.com/en

HKTDC support small to medium enterprises in Hong Kong. They hold regular events to support business and their website is a useful source of information on China.

IBIS World
www.ibisworld.com

Produces reports on a range of industries.

Made-in-China
www.made-in-china.com/

Made-in-China.com provides detailed, accurate and up-to-date information on Chinese products and Chinese suppliers available. It is a world leading B2B portal, specializing in bridging the gap between global buyers and quality Chinese suppliers.

Nielsen
www.nielsen.com/cn/en.html

Nielsen is a global marketing company with offices in Australia, China and many other countries.

Ozforex
www.ozforex.com.au/

Provides current and historical exchange rates for a variety of currencies.

World Bank Doing Business Report
www.doingbusiness.org/

The annual World Bank Doing Business Report measures business regulations in 189 economies and selected cities. It ranks countries on areas such as infrastructure and approvals processes.

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Australia China Business Council

Booz&Co

British Chamber of Commerce in China

Canadian Trade Commissioner

Forbes Media LLC

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International Labour Organisation

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John Russell, Managing Director, North Head

Katherine Underwood, International Account Manager, KeepCup

King & Wood Mallesons

McKinsey Global Institute

National Bureau of Statistics of China

New Zealand Trade and Enterprise

Organisation for Economic Development and Cooperation

Peter Michell, Executive Director, Michell Wool

Tim Lyons, Director, ManageChina

Transparency International

United Kingdom Trade and Investment

United States Trade Office

University of Sydney

World Bank

World Economic Forum

World Intellectual Property Organisation

World Shipping Council

Note on currency

All money amounts are in Australian Dollars unless otherwise indicated. Exchange rate used is the 2014 average from Ozforex.

A$1 = US$0.9028

A$1 = RMB 5.5603

Disclaimer

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