

# **CHINA BUSINESS CULTURE FIELD REPORT** **2010**

## **Introduction**

This report is designed to support and complement existing cultural information available through the UKTI posts in China (see [www.uktradeinvest.gov.uk](http://www.uktradeinvest.gov.uk)). It adds value in that it provides evidence and information from discussions and interviews with those 'out in the field' with regard to Chinese business culture. Its primary purpose is to help better prepare UK businesses for approaching the Chinese market for the first time.



The information contained in this report is based on a number of sources, including the UKTI China culture workshops held in Cambridge (2007 - 10) which included discussions with companies and business support agencies in China, information from the UKTI China pod cast, an interview with David Owen (UKTI) and Chris Cotton (CBBC), discussions with Simon Rodwell of the company Hunter Rodwell; and several visits by RLN East project staff to China between 2006 & 2010 as part of its UKTI activity.

Thanks also goes to Tom Fairley of Taylor Vinters, Joan Zhou from EEDA, and Amy Tan from Encocam for their valuable contribution of information which can be found in this report. The report complements the comprehensive information already available on China (see UKTI, BIS, CBBC and British Consulate websites) in that it aims to answer some of the more practical questions that arise when travelling to China on business for the first time, as well as providing an insight into Chinese business culture.

This report is divided into seven parts – part 1 is the combined wisdom of those we met in relation to the questions immediately below, part 2 is an interview with Chris Cotton of CBBC, and part 3 are practical tips and first impressions of the logistics of visiting Eastern China. Part four is first impressions and practical advice, part five is sector specific information on advanced manufacturing and China. Parts six and seven are sector specific questions asked by businesses from the East to a panel of experts and we have also included top tips and links to websites containing key information on China and leads for your business to use in the business market of China.

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## **Part One**

### **The latest Facts and Figures:**

1. China has the 2nd largest economy
  2. • Largest Asian market for UK exports
- Projected GDP growth: 11.9% in 2010 and 9.9% in 2011
3. • Exports from Britain = £5,129 billion in 2009.
  4. • 44% increase in exports of goods in first 8 months of 2010 to £4.5 billion.
  5. • Shift from export led economy to domestic demand

#### **Good product or service**

- Clear requirements / design – build in flexibility for localising
- Build relationships with partners – understand them
- Plan on committing the resource
- Allow time
- Consider your IP – and how to protect it
- Use “best practice” business tools – but be aware of cultural differences and ensure you are understood

#### **Treat it as a Continent, not a Country**

Guangdong Province 85 million people

- Sichuan Province 83 million
- Jiangsu Province 74 million
- Zhejiang Province 47 million
- Chongqing 31 million
- Shanghai 17 million
- Beijing 14 million

## **Part Two** **CLIENT QUESTIONS**

The following questions were asked from the companies and organisations present at the workshops. There were also discussions which arose from the panel at the November 11<sup>th</sup> 2010 workshop, held north of Cambridge. The panel comments and reflections are incorporated into the below questions and answers.

1. What was your first impression of doing business in China?
2. What in your experience are the main barriers or frustrations that UK companies face in China?
3. What top 3 tips would you give companies wishing to do business in China for the first time?
4. Is there a difference between generations in terms of how business is done?
5. What are the key cultural issues companies face when working in China for the first time?
6. What is the general perception of the British in China?
7. From your experience, is English widely spoken by those in the business community that you deal with?
8. Have you ever learned Chinese and, if so, did you find it difficult?
9. To what extent should companies adapt their marketing and web materials to the Chinese market

### **Chinese Business Culture**

The questions and answers below are a summary of the conversations I had with companies and organisations in Shanghai and Beijing. They express the views of those I met. The reader will understand that when tackling such a subject, generalisations are unavoidable. At no time are any of the statements intended to offend.

#### **1. *What was your first impression of doing business in China?***

The Chinese market is very large and very complex. There are many opportunities in China, but also lots of potential pitfalls. On one side, there is extreme wealth, on the other side extreme poverty. China has a population of 1.3 billion, but only 250 million have any disposable income. Business in China centres around relationships and people. It takes time to get to know each other and to build up a relationship of trust which is the basis for any business. This can be rewarding, but also very frustrating at times. Things move at a different pace and patience is required. Complicated government rules and paperwork can make a start very difficult.<sup>1</sup> Despite the communist structure, the society, particularly in Shanghai is mainly money-driven.

#### **2. *What in your experience are the main barriers or frustrations that UK companies face in China?***

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<sup>1</sup> This applies particularly where companies have opened a branch in China.

The barriers that companies face can vary according to whether a company is setting up its own presence in China or whether they operate through an agent/partner.

- Lack of cultural understanding (concept of “face” – concept of time)

Whether you set up your own company or operate through an agent, Chinese business culture is very different from UK business culture. It is important to understand “how the machine works”. For instance, in Western culture we expect instant action and results. In China, things work at a different, much slower pace. Projects can take 3 times as long and cost 3 times as much than in the UK/Europe to get off the ground.<sup>2</sup> Deadlines have a different meaning in China!

Also, and most importantly, in Chinese culture personal relationships are paramount and come before business. The concept of “face” can also be a major obstacle. It means that situations should be avoided where your Chinese partners are put in a situation where they “lose face” (for example by contradicting them or exposing them publicly). Chinese culture is based on the principle of “shame” (Confucianism) as opposed to the Western culture which is based on the principle of “guilt” (Christianity). When there is a problem or something goes wrong, your Chinese partners are very likely not to tell you as this would bring shame upon them.

- Laws and regulations/bureaucracy

Laws and regulations are generally complex and difficult to understand/interpret. Chinese law is advisory only. It is often down to the local authorities to interpret and apply them. This can lead to great uncertainty. This problem affects particularly those companies who are setting up a presence in China. They also face the problem that business activities can be very restrictive. Companies need to apply for a business license and must not operate outside that license. There are many levels of regulations and permits and industry restrictions.

- IPR / Confidentiality

Although the problem seems to be improving gradually (WTO obligations are starting to take hold), there is still a major problem with copyright and intellectual property. Companies are strongly advised not to transfer any know-how without having their copyright registered locally and before having signed a contract. If in doubt, seek professional advice!

- Corruption

Corruption is still wide-spread, although the government is starting to crack down on it. For large foreign companies it is less problematic, but for small companies it is much more difficult to resist.

- Human resources

Those companies with offices in China have told me that there is a big staff retention problem. Talented and qualified (and at the same time loyal!) Chinese individuals are very sought after. They are constantly being head-hunted and do not hesitate to change jobs after a short time if a better paid alternative presents itself. Whilst in the Western culture frequent job changes can have a negative impact on a CV, this does not seem to be an issue for Chinese employees.

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<sup>2</sup> According to the British Chamber of Commerce in Shanghai

### 3. **What top 3 tips would you give companies wishing to do business in China for the first time?**

- Do your homework and have a strategy

China is vast and complex market. Carry out a thorough analysis of your business case. Make sure that your products/services are suitable for the Chinese market and adapt your business model if required (China is not a single market). Apply the same good business principles that you would apply for a project at home. (In other words, don't leave your business sense at home!) Start small and depending on success build up from there slowly. Set yourself a target and do not lose sight of it.

NB: If you are using the help and support of the UKTI commercial officers the British Consulate, give them plenty of notice for setting up market visits and meetings (approx. 12 weeks) as they are extremely busy people.

- Invest time and money

Be prepared that things take longer. Be patient, diligent and invest time and money in your Chinese venture.

- Understand the culture and invest in relationships

Be polite and show that you understand the culture. Find a reliable partner to look after your interests. Sometimes you can be lucky and that person will be bilingual and understand both Chinese and Western culture. But the language factor should not be the decisive element. It is more important to find the best partner for the Chinese market. The language barriers can be overcome by using translators.

Show interest and commitment by visiting your contacts/agents frequently. Take nothing for granted and try to stay on top of things at all times. Where manufacturing is concerned, it may be a good idea to get a 3<sup>rd</sup> party involved for quality control in order to ensure that the products comply with the expected standard.

If you build up a presence in China, localise at the right time (not too soon, not too late) and firmly establish your company culture (integrity and communication). Networking is very important, therefore participate in as many events as you can. And carry plenty of business cards with you – in Chinese! These are always exchanged and this should be done with two hands, as a sign of respect.

- *You need to visit China to do business there. You cannot expect to do it all from the UK.*
- *Show respect. Paying attention to culture and the Chineseway of doing things pays dividends.*
- *For faster progress, try looking for a good Chinese business partner and/or employ a local manager*

### 4. **Is there a difference between generations in terms of how business is done?**

Yes, there is a difference. The younger generation which has been raised in a society where China is increasingly opening itself up to the rest of the world, is more and more outward looking. Thanks to the availability of the internet and the modern media the younger generation is also extremely well informed. They are generally well attuned to Western life. The downside though is that having grown up after the

Cultural Revolution during which the old values, including religion, were widely abolished, younger people have generally embraced money as their new ethics. Employers deplore a lack of morals which can manifest itself in low levels of trust, lack of community spirit, lack of loyalty and greed. The government, having realised this trend, is now trying to re-introduce traditional values.

(Interestingly, the one-child policy has a big part to play as well: As Ian Crawford of the British Chamber of Commerce put it “the hopes of four grand parents and two parents focus on one child”.)

However, there is still deep rooted respect for the older generation which still embraces the more traditional values and is not as profit orientated. Senior people are “paraded” at official events as grey hair symbolises influence and respect. Consequently, it is advisable to send senior staff to important events. This also “gives face” to the hosts by demonstrating that they are being taken seriously.

## **5. What are the key cultural issues companies face when working in China for the first time?**

- Communication issues – concept of face (see above under 2)

Throughout my meetings and discussions, the main recurring issue was the concept of face (explained under 2 above). One should be very careful not to expose or challenge someone in public. This applies particularly to the older generation. This does not mean, however, that differences of opinion or dissatisfaction can never be expressed. There is a fine balance to strike between being perceived as being weak on the one hand and causing someone to lose face on the other hand. Confronting someone does not necessarily mean insulting him or her. There are ways of doing it, for example behind closed doors and in a polite manner and mixing criticism with praise. At the end of the day, the rules of good behaviour apply like everywhere else! Particularly for those dealing with staff in China, it is a fine but necessary art since poor performance sometimes needs to be addressed.

The impact of the “shame principle” (Confucianism) has been explained above. People will not admit mistakes or problems for fear of shame. It is important to encourage honesty and communication and also to keep staff motivated.

- Guanxi

The principle of “Guanxi” (connections) is very important in China. It runs like a red thread through a person’s life, starting at family level and continuing through school, university and employment. It is a system of favours and relationships that is hard to duplicate! Rather than trying to reproduce Guanxi, try to be polite at all times and to treat people courteously. Also, don’t forget to mix business and pleasure. Celebrations and banquets are very important! If you cultivate your contacts and make an effort to understand the culture and your partner, your connections will develop automatically.

It is also important to remember that Guanxi influences a Chinese person’s decisions. There are situations where social acceptance is more important than individual desires. For instance, an offer may be declined because accepting it would mean to upset the family or social circle.

- Bribery and corruption

Unfortunately, these still seem to be part of the business culture. Whatever the circumstances, stick to your principles and don’t be bullied into compromising your business ethics.

## **6. What is the general perception of the British in China?**



The British are generally very well liked and respected in China. They are admired for their technical expertise and organisation skills. They are perceived as efficient, yet sufficiently laid back! Chinese people are intrigued by the Royal Family and English traditions. The British are also acknowledged for their investment into China.

There also seems to be a strong affinity with Germany. Apparently, German companies were one of the first Western companies to invest in China approx. 10 years ago. Being German myself, I was absolutely amazed about the number of Chinese contacts who spoke to me in German.

**7. *From your experience, is English widely spoken by those in the business community that you deal with?***

Young people generally start learning English at primary school. However, their reading and writing skills tend to be far better than their spoken English. The main reason for this is a lack of practice. Those companies I met seem to be able to operate in English without too much of a problem as it is widely spoken among the Shanghai business community. This is also due to the fact that the ability to speak English greatly increases career prospects. The local Chinese customer outside the big city, however, is unlikely to speak English. All companies have emphasised to me the importance of learning the language, at least to some degree, particularly those living and working in the country.

**8. *Have you ever learned Chinese and, if so, did you find it difficult?***



It is extremely difficult and time consuming to learn Mandarin and one should be realistic about reaching any real degree of proficiency. All of my contacts were learning Mandarin and most of them can get by in every day's life. All agreed that it was essential to learn the language in order to understand the culture, particularly when living in China. Only one contact spoke Mandarin fluently in a business context and was able to liaise with his production manager in fluent Mandarin. I was told however, that if you speak Mandarin fluently, it is quickly taken for granted and your Chinese partners may forget all too easily that you are not operating in your mother tongue. This can lead to

misunderstandings. – A common problem that does not only apply to the Chinese language. At any rate, speaking the language to some degree shows interest and commitment and will be very positively received by your Chinese contacts. For those living in the country, it is a necessity on a personal and a social level.

**9. *To what extent should companies adapt their marketing and web materials to the Chinese market***

Translation and localisation of brochures and websites is very important. Chinese people are extremely keen on the internet. They are generally very well informed and know exactly what is what. When translating the website into Chinese, it is also important to “make it look Chinese”. That means that the entirety of the available space should be used so that the page appears very full. If you can, get your Chinese contact to check the translation.



## DIVERSITY and CHARACTERISICS

'The following generalisations were taken from the workshop in Nov 2010'



Straightforward  
 Clever & Farsighted  
 Decisive & Full of Stratagem  
 Honest & Sedate  
 Forthright & Generous  
 Reasonable & Loyal  
 Open & Direct  
 Upright  
 Unhurried  
 Warm hearted

BEIJING & TIANJIN  
 SHANGHAI  
 GUANGDONG  
 FUJIAN  
 SHANDONG  
 JIIN  
 HUBEI  
 SICHUAN  
 YUNNAN  
 TIBET

### Part Three

#### **DISCUSSION BETWEEN DAVID OWEN (UKTI) AND CHRIS COTTON (CBBC)**

This interview was conducted by David Owen, International Communications Manager for the East of England, on 2 August 2006 however Items from this interview have been updated during the course of writing this report. It aims to provide East of England companies with a 'case study' of experiences of supporting companies looking to establish themselves in the Chinese market, and of taking UK companies on market visits to China. It should be read in conjunction with the PowerPoint presentation of 'Negotiating with the Chinese' available on [www.rln-east.com/culture](http://www.rln-east.com/culture).

#### ***Chris, could you tell us how you first became interested in working in China?***



I decided to do Chinese at university so I took a degree in Chinese Studies from 1986 to 1990 at the University of Durham. For my year abroad I was based at the People's University in Beijing, and the main aim was to ensure that my Chinese language skills were brought up to as high a level as possible. The degree was structured in such a way that we could later concentrate on the cultural aspects of the country. It was an excellent course, and was ideally suited for use with my first job in the Far East. I was based in Hong Kong for six and a half years, organising trade shows in mainland China and other parts of Southeast Asia. I was dealing with fairly senior government departments and trade associations as well as government ministries, persuading them to partner with us and organise defined sector events.

#### ***Did you travel much to other parts of China?***



Yes, significant amounts of travel mostly to Beijing and Shanghai - and I used to go to 'middle of nowhere' places on holiday. Since my time in Hong Kong (1992-1998), there have, of course, been major changes – and the speed and scale of change is incredible. One obvious example can be seen in Beijing where the majority of the Olympic facilities are already complete for the 2008 Games. The Chinese are excellent at rallying resources and thus can achieve results extremely quickly.

#### ***Did you only deal with companies which were state-owned?***

Now that things have opened up much more, there is a more encouraging mix. Companies will still find that they may have to deal with state-owned enterprises (SOE) or an organisation that was once part of a SOE. However, added to these, there are young, entrepreneurial, go-getting companies that you need to work with in a different way. It is also a much more crowded market due to the increased opportunities there and everybody 'flocking to the China door'. However, there is a rapidly diminishing window of opportunity, and I am not sure that the majority of businesses in the UK are awake to that fact yet. Complacency is not an option.

***In your experience of taking companies to China, what is generally their first impression?***

That would have to be the scale of the place with much being different to the UK. There can be a danger of feeling disorientated and somewhat overwhelmed when you first visit China. If you are in that frame of mind - and you are jetlagged too - we have come across instances of company representatives who seem to abandon their usual sound commercial principles. In other words, they have agreed to things with Chinese partners which they might not have agreed to elsewhere. China is still a tremendously exciting place to visit, though.

***Is English widely spoken in the business community?***

The level of English varies hugely. Many people will have some knowledge of English but can often be shy or reluctant to use it, as they get it wrong. If you don't speak Chinese, we always recommend hiring a competent interpreter for business meetings. There are definite advantages to it shows you language can be things in Chinese well. If a business in China, I would encourage its representatives to make an effort to learn some of the language.



have some to use it, as they get it wrong. If a competent advantages to it shows you language can be things in Chinese well. If a business in

In the main commercial centres in China there will be signs in English and there is a huge effort to get things into English. There is also a growing interest by people to learn to speak English.

***What about East of England companies learning the language?***



Mostly it is Mandarin which is spoken, as it is the official language of China, but there are numerous dialects. Business meetings are usually conducted in Mandarin, but can be heavily accented.

I have talked with representatives of companies trying to learn Chinese, and I can honestly say they have felt it to be a positive experience - particularly once they have had the chance to use it with the Chinese themselves. Their pronunciation may not be perfect, but it has always gone down very well and all those I have met have benefited from the experience. Chinese grammar is simple compared to German, for example, but where it gets complicated is when you start to learn the characters to read and write. The actual structure of the language is easy, but it is a tonal language, so if you get the tone wrong you can be saying all sorts of things!

***Some people say that China as a market is more suited to the bigger players, and that it can be too large for an SME to enter. What would be your take on that?***

The bigger UK companies are certainly likely to be there, but if your product or service is right for the market you can succeed. We work with companies large or small - even two-person operations - which provide a service the Chinese are prepared to pay for. However, all companies that are successful in China have

recognised the need to devote significant time to the market. It is not a market for a quick win, and you need to build into your business plan time to establish & nurture your contacts. The rewards are there if your product or service is right and you persevere.



To help with this there is a lot of support from a whole host of different organisations. UKTI's International Trade Teams should be the first port of call, and they have links with the various posts in China. We work closely with these International Trade Teams and CBBC carries out most of the OMIS reports for UKTI in China.

We are constantly encouraged by the large number of delegations we host from China, and, all other things being equal, Chinese companies still have a willingness to work with British companies. The British seem to have an affinity with the Chinese, and we still tend to have a good reputation in China. We are admired for playing by the rules, and certain aspects of UK culture are similar to Chinese - for example, the reluctance to blow your own trumpet; not wanting to embarrass people in public - and we tend to understand the concept of saving face better than some other nationalities.

### ***What are the main barriers or frustrations that UK companies face in China?***

Frustrations can occur when companies travel a long way to get there and spend a not insignificant amount of money, and then there is an over-eagerness to get results quicker than is likely to happen. For example, negotiations tend to drag on or stall, or follow-up doesn't happen as quickly as you would like. Relationships are the key - you need to persevere with relationships, and not lose your cool. Devote time to this & accept the different pace of things. Sometimes you wonder where it's all going when suddenly the pace will pick up for no obvious reason.

There are different cultural niceties, but there's really very little that you can do that will really cause offence.

- 'Correct' behaviour is expected during interactions
- Education is celebrated
- Businessmen expected to behave responsibly in the community
- Reluctance to resort to formal legal proceedings

Chinese very sensitive to western criticism in politics and business.

### ***And what about the system of 'guanxi'?***

Yes, 'guanxi' – sometimes termed as 'value-laden' which means the building up of a network of contacts succeed in all aspects of life in China. This is harks back to ancient Chinese beliefs and ways of it can be a complicated concept for Western people moot point as to how much real 'guanxi' Westerners themselves.

*Do companies you deal with stick mainly to the larger venture out into the provinces?*



relationships' - to help you something that doing things and to grasp. It's a can build up

*cities, or do they*





As costs continue to rise in the major centres, companies are starting to go into the provinces, but there is still a keenness to focus on the main cities such as Beijing, Shanghai, Guangzhou etc. However, our role is to help familiarise the company with the best possible options for its business. Setting up a facility elsewhere may have better tax breaks or may be a cheaper, more effective option. It is important to remember, however, that you are not dealing with a single marketplace or cultural identity in China and there are often subtle differences between cities, regions & provinces.

### ***What top 3 tips would you give companies travelling to China for the first time?***

Keep a business head on, and don't be overwhelmed by scale and the obvious differences. Sooner rather than later you will encounter a Chinese banquet and these are great fun - eating all sorts of interesting things! - and the banquet is a crucial element of doing business in China. It is a ritual that you need to go through and, hopefully, enjoy although it is a bit of theatre. It used to be something of an endurance test, but now they follow much more of a pattern with a steady procession of dishes, with toasts at various points. Don't drink too much! It can be easy to get carried away and get drunk especially if drinking the local firewater such as 'mao-tai'. You also don't have to empty your glass when you 'ganbei'.

If you really don't want to eat something, say so politely but don't make song and dance about it. If you have been invited to a banquet and you are a vegetarian or have specific dietary requirements, do let your hosts know in advance. It is polite and will avoid any unnecessary embarrassment.

At the meal, you don't need to finish everything on your plate, as your hosts may think you haven't had enough. They assume that you are still hungry and that they haven't done their job as a host to feed you adequately.

### ***What are the Chinese like with telephone communications?***



The Chinese telephone manner can be confusing, as there are various aspects to it. Mobile phones are always on, and are always being answered, and this is not regarded as being rude in any way. If you're back in the UK trying to call Chinese partners we recommend that if you have got someone who can speak Chinese to use them - it can be frustrating trying to get through, being put on hold, or people just not coming back to the phone as they don't fully understand who you want to speak to or what you want to discuss.

*In my experience there has been the occasional exaggeration of competence or scale when Chinese company is presenting one's business – have you ever come across this?*

There can sometimes be the odd exaggeration or over promise in a keenness to get your business. But it can also work the other way.



### ***Is IPR (Intellectual Property Rights) still a problem in China?***

Yes, there are problems. China actually has some of the best IPR laws in the world, but there can be problems with enforcement.

There are growing instances of Chinese companies having their IP stolen by other Chinese companies, and there is a growing eagerness by the Chinese to sort this out.

Companies must build the danger of IPR infringement or theft into their risk assessment before going into China. You need to have a game plan in place to protect yourself as far as you can before it becomes an issue.

With other legal issues, if a dispute arises, our suggestion is that you try to resolve it without recourse to the courts, but there will be occasions where this is not possible. It is common for disputes to be resolved without going to court, and this is where the whole 'guanxi' thing comes into effect, with mutual contacts acting as mediators.

### ***Chris – any final comments?***

Our top five tips for doing business in China can be summarized as:

1. Do your homework. Before anything else, carry out proper, in-depth research on the market for your product or service in China.
2. Gain an appreciation of the cultural niceties of doing business in China. Try and learn some Chinese.
3. Visit the market. See firsthand the opportunities for your company in China.
4. Cultivate the best contacts you can in China and take time to develop and nurture this network.
5. With the right product, all small or medium sized companies have as much chance of success in China as the big organisations.

*Chris, we're very grateful for all your input, and thank you once again for your time.*

David Owen and Chris Cotton between them have 35 years' experience of working in China and dealing with Chinese business culture.



## **Part Four**

### **First Impressions and Practical Advice**



Socialism - with Chinese Characteristics

**“It doesn’t matter if a cat is black or white, so long as it catches mice”**  
**“Poverty is not socialism. To be rich is glorious...Let some people get rich first”**  
-- Deng Xiaoping

The information below is based on the first impressions of a member of RLN East staff visiting Eastern China in 2006. We have updated the information where necessary in Nov 2010.

#### **1. Travel and arrival at Pudong International Airport, Shanghai**

The flight takes between 11 and 12 hours. The local time is +8 Hours GMT. It is advisable to allow at least one day to recover from jet lag before attending any important meetings.

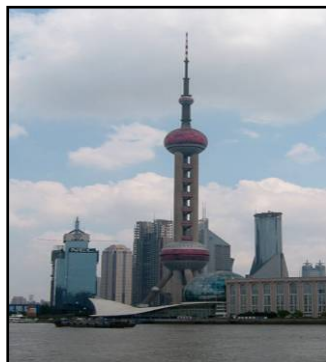


For entry into China, you will require a business visa which is easily obtainable either directly from the Chinese Embassy visa service centre in London or through intermediaries, e.g. Transworld Visas ([www.transworldvisas.com](http://www.transworldvisas.com)).

On arrival, the visitor is immediately struck by the scale and modern design of Pudong International Airport which was opened in 1999 and is one of the most modern and largest airports in the world with a capacity of 60million passengers per year. (By the way, it is one of the few airports where visitors are allowed into the

control tower). The airport was designed to symbolise Shanghai's progress as the fastest growing centre of economic development.

The airport is approx. 25 miles from the city. The Maglev Train, a magnetic levitation train and the fastest in the world, connects the airport with central Shanghai (journey time 8 minutes). The journey by taxi takes approx 40 minutes and is likely to cost between 120 – 150 yuan (approx. £10).



The airport is located in the Pudong New Area on the eastern bank of the Huangpu River. Skyscrapers are springing up all over the area. The new financial centre is located here. It is Shanghai's ambition to become one of the leading financial centres of the world. The major scenic spots include the Oriental Pearl Tower and the financial centre tower, the second highest tower in the world. Apparently, one third of the world's building cranes are in Shanghai. Seeing the skyline it is not hard to believe. It is a simply overwhelming sight!

Shanghai has a population of 17 million people. There are motorways on several levels, cars, people, bicycles everywhere! It is noisy, fast moving, crowded and polluted. The traffic is very dense and drivers are beeping the horns of their cars incessantly. It is not for the faint-hearted!

## 2. Local currency

The local currency is the Reminbi (Rmb) or yuan.

1.00 EUR = 9.29859 CNY

Travellers cheques in GBP or USD are accepted at all major hotels. But local currency can also be obtained at the airport or at cash machines which accept most major credit cards.

## 3. Moving around in Shanghai

Shanghai has a rapidly expanding subway system, but an alternative convenient means for visitors to get around Shanghai is by taxi (or by bicycle, if fit enough!). There are approx. 40,000 taxis in Shanghai. They are all registered and generally very reliable. Taxis congregate at the major hotels, but they can also be easily hailed in the street. Most taxi drivers do not speak English. Ask the concierge at your hotel to write the address down in Mandarin. Generally, the porter/doorman in charge of the taxis will translate the address to the driver. Make sure you always carry a business card of your hotel with the address in Mandarin so that you can show it to the taxi driver when you want to get back. Taxi journeys are rather inexpensive. During the day I rarely paid more than 18 – 20 yuan for a taxi journey which lasted up to 20 minutes. At the end of the journey, pay the amount indicated on the meter. The receipt will be automatically printed. Tips are not expected!

A word of caution: The driving style of the Shanghai taxi drivers needs some getting used to. It is a bit of a roller coaster and I can recall several instances when I thought that my last hour had come. But don't worry, they generally know what they are doing....

If you walk in the streets, please take utmost care when crossing a road. Often, there are traffic wardens who wave you over the road and stop the traffic. But in most cases, the traffic, and particularly the millions of motorised bicycles, pay absolutely no attention to them. The traffic seems to come from all directions and it never stops. We were advised to try and cross the street

surrounded by a crowd of locals – that way you won't be first on impact! This method worked quite well.

#### 4. Hotels

After a stressful day in this very hectic city it is very comforting to come back to a comfortable hotel (Our group stayed at the Hotel Equatorial). It is money well spent to stay at one of the major hotels. It is unusual to tip at the hotel and visitors should stick to this rule (so as not to spoil it for the locals.....).

Telephone calls from the hotel are inexpensive. This applies even to phone calls within China. I made a phone call to Beijing which lasted over 12 minutes and cost merely 2.60 yuan!

NB: Do not drink any water from the tap in Shanghai. The major hotels will provide bottles of water in the bathroom which you can use when brushing your teeth.

#### 5. Shopping

China is famous for its silk, jewellery (pearls/jade), embroidery, calligraphy, antiques, tea and electronics. There are many street markets and traders. Be prepared to haggle for goods from small store vendors. This is expected by the seller. As a guideline start by offering approx. a fifth of the asking price, or less. It is good training for your bargaining skills and part of the Chinese experience! In contrast, a major consumer goods industrial estate has been established in the formerly sleepy town of Yiwu in Zhejiang province. This is considered one of modern China's development 'miracles'.

Shanghai is generally very safe and there is no problem with walking in the streets at night. However, like in every major city, there are pickpockets around, so please be careful.

#### **Addendum – Suzhou business parks**

I was deeply impressed with how modern and sophisticated China is (at least in the big cities). They have got all the latest technology. In many instances it seemed to me that we can learn from them rather than the other way round!

We had the opportunity to visit two of the Suzhou which is located approx. 70 miles from Yangtze River Delta. Many Western companies there since the price of land is lower than in infrastructure is excellent. The Chinese constantly trying to attract foreign investment and all the support to make it as easy as possible for investor. There are so-called "one-stop" shops paperwork can be dealt with – in English of



industrial parks in Shanghai in the have factories Shanghai and the government is has put in place the foreign where all the course!

There is an enormous area of land available for factories, with all the necessary supply lines in the ground, ready for connection. You will not be surprised to learn that Tesco has purchased a major site in Suzhou and is just about to build a mega store there. However, the industrial parks are not only for big companies and multinationals, small and medium-sized companies are also welcome.

For more detailed information about these industrial parks, please see the websites as stated below:



Suzhou Industrial Park [www.sipac.gov.cn](http://www.sipac.gov.cn)

Suzhou National Hi-Tech Industrial Park [www.snd.gov.cn](http://www.snd.gov.cn)

Apart from its technological marvels, Suzhou is a beautiful old city with many canals and is called the “Venice of the East”. It has many famous old gardens which are listed as world cultural heritage by the UNESCO. We had the pleasure of visiting the “Garden of the Humble Administrator”.

Suzhou is also famous for its silk and we were able to visit a silk factory.

China is a fascinating country, not only from a business perspective, but also very much so on a cultural and historical level. It looks back on over 5000 years of history. The Chinese people are very proud of their country and quite rightly so – there is much to discover and admire.

## **Part Five** **Manufacturing and China**

### **6. Sustainable China**

China has selected thirteen sustainable cities which are showcases for sustainable and environment projects. Geographically, the programme should target locations which are included in the ‘thirteen sustainable cities’ list and also have a local automotive industry. There is a need substantially to increase Chinese understanding of UK skills and capabilities in new-energy vehicles and these cities are identified as open and interested to hear from UK manufacturing companies.

Beijing  
Changsha  
Dalian  
Hefei  
Kunming  
Shanghai  
Wuhan  
Changchun  
Chongqing  
Hangzhou  
Jinan  
Nanchang  
Shenzhen

Most promising Business opportunities: November 2010

- The most promising business opportunities are to be found thorough:
- The provision of technology and engineering expertise to support Chinese customers’ development programmes. The current low volumes and the pressure to manufacture within China makes component supply a less plausible option
- Working with those larger Chinese VM’s identified as ‘leaders’ in this report who have long-term, adequately financed new-energy vehicle programmes



- Focusing on mainstream hybrid and pure electric technologies. Chinese companies are less interested in more radical or long term new energy solutions
- Begin able to offer proven solutions, and to demonstrate a record of proven success. Chinese customers are reluctant to act as a new technology test bed
- Addressing areas of specific Chinese weakness e.g. engine and battery management systems, integration systems and software, advanced transmissions.

***‘China has not yet found a solution to the extra costs associated with new-energy technologies’ UKTI  
China Manufacturing report 2010***

## **Automotive Sector**

China consumers generally prefer products that have a proven track record of reliability, and secondly they will want re-assurance that new-energy vehicles can be maintained and serviced as easily, and economically, as their conventional rivals. Concerns are also expressed about the unproven safety of NEV's and the potential for fire within battery systems. The Chinese will make decisions on what to buy based on economic grounds rather than through altruism or the desire to be seen as a trendsetter. Full information and details on the automotive sector in China can be found at UKTI website:

<http://www.ukti.gov.uk/export/countries/asiapacific/fareast/china/sectorbriefing.html>

UKTI has published report on China and the manufacturing sector, the report is very detailed and extensive and covers topics such as, doing business guide, FCO updates, sector information, country information, overseas security information for businesses (osib). It also includes a general introduction, preparing to export tips and information, how to do businesses, what the challenges are and business etiquette and tips on how to invest in China. The report is available for free at:

<http://www.ukti.gov.uk/export/countries/asiapacific/fareast/china/doingbusiness.html>

In recent years, the government in Beijing has become increasingly vocal in its support of clean energy. China has expended vast sums of political and economic capital to ensure that it dominates the global clean energy sector. To that end, in 2009 China invested \$34.6 billion, almost twice as much as the US, ranking it for the first time number one for overall finance and investment into clean energy. With 52.5GW of renewable energy, China is second in the world for installed capacity, just behind the US. Although not bound by the Kyoto Protocol, and having led a merry dance with the equally recalcitrant US in Copenhagen last December, China has set its own voluntary targets to install 30GW each of wind and biomass energy by 2020 (as well as 1.8GW of solar). Under its current Five Year Plan, China expects to produce 15 per cent of its total electricity output from renewable energy by 2020 – which it is well on course to achieve. Within this unprecedented level of activity, the opportunities for nimble-footed foreign players are many and varied. Sunshine

In the solar sector, China has already emerged as a powerful developer and manufacturer. Suntech Power, a Chinese company centered in Wuxi and the world's largest producer of photovoltaic cells, has completed projects throughout the world, in Spain, the US, Abu Dhabi and even on the Golan Heights.

The opportunities for foreign solar companies lie in partnering with Chinese solar companies – in joint R & D activities, and in cooperating on the installation and maintenance of solar projects. Tax policies can be an attractive incentive – as part of its fiscal stimulus package, the Chinese government has undertaken to award grants of up to 50 per cent of the installation cost of PV power plants in China. Wind Power – clearer

outlook? Although in 2009 China doubled its wind capacity to 12.2GW, behind the headlines wind power currently presents a challenge to foreign investors. Completed wind projects can wait anything up to 18 months to be connected to the grid in China – which is fatal to any foreign developer looking to recoup its investment. This problem arose under the previous (2006) Renewable Energy Law which required grid operators to purchase all grid-connected power produced from renewable energy sources. Unfortunately, the tariffs set by the Chinese government for renewables-generated power were substantially higher than for coal-generated power (Coal = RMB 0.40 per kWh; Wind = RMB 0.51 to 0.60 per kWh). Consequently, grid companies were disincentivised and dragged their heels in plugging wind farms into the national grid.

To address this problem, the Chinese government introduced the Revised Renewable Energy Law that came into force on 1 April 2010. As a result, a new incentives regime has been rolled-out to encourage faster grid connectivity. It is clearly hoped that the backlog of finished wind projects will rapidly disappear, and that foreign wind power developers will be able to participate confidently in the Chinese wind market. The Chinese government knows that its 2020 renewables targets will only be achieved with substantial overseas and private investment. Restrictions on foreign investment Under Chinese law, certain types of foreign direct investment (FDI) into wind power and solar energy are ‘encouraged’ which means that the approval authorities are generally less demanding and investment restrictions are fewer.

However, FDI into some energy sectors in China is ‘restricted’: for example, foreign investment into PV, biogas power and wind turbines of over 1.5MW must all be structured as Sino-foreign joint ventures. It is worth noting, then, that many investments into the Chinese renewables market will require some form of tie-up with a local partner. In addition, to qualify for CDM (clean development mechanism) accreditation, foreign ownership is capped at 49 per cent. Opportunities China is emerging as a skilled player in all areas of clean tech – not merely the traditional industries of wind and hydro, but also the new technologies of solar and biofuels. Foreign investors from Warren Buffet down are already actively engaging in this new market, and China’s domestic talent is daily growing in confidence. With the right team in place and some good training, English companies should get off the sidelines and join the game.

### **China manufacturing speeds up despite flat exports**



Manufacturing output unexpectedly expanded again in October despite a week-long holiday China's manufacturing sector picked up more speed in October, despite exports remaining subdued, two reports show. The official purchasing managers' index (PMI) rose to 54.7, from 53.9 in September and 51.7 in August. Readings above 50 indicate expansion.

The result was driven by rising transport and general equipment orders, thanks to strong state-sponsored

investment in infrastructure. The trends were confirmed by a separate report from HSBC bank.

### **Price pressures**

The official report has remained above 50 - indicating expansion of the manufacturing sector - for all of the last 20 months, as the government pushed an investment splurge to offset the effect of the global recession.



Spending on new projects in the first nine months of this year was up 25% on a year ago. The data was particularly strong as it coincided with an annual week-long national holiday, which normally causes a small drop in the index during the month of October. Stock markets reacted well, with the Shanghai Composite index ending the day up 2.5%, while Hong Kong's Hang Seng rose 2%. But it will add to concerns about rising inflation at China's central bank. The People's Bank of China raised interest rates by 0.25% last week, in the hope that - along with moderate strengthening of the yuan - this may stabilise rising prices. However, the CFLP report showed that manufacturers continue to report a high and rising cost of raw materials, particularly for cotton and rubber.

Source: 1<sup>st</sup> Nov <http://www.bbc.co.uk/news/business-11663740>

## **Part Six** **CHINA PANEL RESPONSES**

At the workshop held in Cambridge for Advanced Manufacturing Companies in the East there was a Q&A session for business to ask a leading panel of experts



### **The panel members:**

Taylor Vinters, Tom Fairley,  
Chris Cotton, CBBC,  
David Owen, UKTI,  
Steve Toogood, UKTI  
Amy Tan, EncoCam,  
Joan Zhou, EEDA

**Overview of the panel discussion is found below:**

1. There is no official UK government payment protection scheme to protect companies from bad debt in China, however there are the usual export credit guarantee schemes which financial organisations run.
2. The Chinese are very brand hungry, and there is a sufficiently large urban population of wealthy families who can afford to buy branded goods. It is a status symbol which sets them apart from everyone else. However, brands would need to be focused on those geographical areas which are more economically advanced. IPR and brand infringement cases are more Chinese-on-Chinese than overseas business driven, and enforcement is becoming tighter.
3. There are few shortcuts to doing business in China, although the combination of OMIS and EMRS (UKTI core services) are helpful in developing a structured and informed approach to the Chinese market. Most UK exporters the panel had come across experienced clients exporting via a local agent or partner rather than directly to the customer.
4. It is highly recommended to visit China, preferably more than once, before committing to the market. It is worth considering towns further inland from the coast, as cities in these areas are of interest to the Chinese government in terms of development and investment. CBBC has started to establish offices outside the 'traditional' favorites such as Beijing, Shanghai & Guangzhou. For instance, there are now offices in Hangzhou, Wuhan, Nanjing and Chengdu.
5. 'Honest and open dialogue' occurs at all times, in particular however once relationships are build with Chinese counterparts and they feel more confident in their dealings with others. Chinese may first wish to develop a sense of friendship before feeling confident in business. This is demonstrated in the use of former classmates or family connections in business.

## **Part Seven**

### **Events and Exhibitions**

Latest information, news and events visit UKTI website at the link below:

<http://www.ukti.gov.uk/export/countries/asiapacific/fareast/china.html>

### **Websites of Interest**

[www.ukti.gov.uk](http://www.ukti.gov.uk)

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

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

National buro of information

[www.uktradeinvest.gov.uk/ukti/chinacities](http://www.uktradeinvest.gov.uk/ukti/chinacities)

<http://www.chinese-embassy.org.uk/>

**Latest contacts for China from CBBC as of November 2010**

**China-Britain Business Council East of England**

If you are a company investigating opportunities to develop your business with China, contact us using the details below. The following areas are covered by CBBC East of England: Bedfordshire, Cambridgeshire, Essex, Hertfordshire, Norfolk and Suffolk.



**Chris Cotton**  
Director

Tel: +44 (0)178 731 0245

Email: [chris.cotton@cbbc.org](mailto:chris.cotton@cbbc.org)

CBBC has a network of partners throughout the UK. We have a presence in 11 Chinese cities in strategic locations across the market in Beijing, Shanghai, Shenzhen, Qingdao, Wuhan, Chengdu, Nanjing, Hangzhou, Shenyang, Guangzhou and Chongqing. This means you can draw upon CBBC's contacts and expertise in all the major business regions of China. CBBC's largest office in China is located in the British Centre in Beijing where we share facilities with the British Chamber of Commerce in China. We look forward to working with you and enabling your company to achieve its objectives in China.

For information on the contacts at each of the 11 cities please visit:  
[http://www.cbbc.org/about\\_cbbc/index.html](http://www.cbbc.org/about_cbbc/index.html)

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