

# DOING BUSINESS IN CHINA

## Raymund Gradt

AUSTRIA IST ÜBERALL.







KNOW THE COUNTRY



# CHINA - EUROPE

## Population (mio.):

China: 1.382

Austria: 8,7

EU 27: 510

## GDP (bio. USD):

China: 10.866

Austria: 374

EU 27: 16.229

## GDP/capita (USD):

China: 7.925

Austria: 43.444

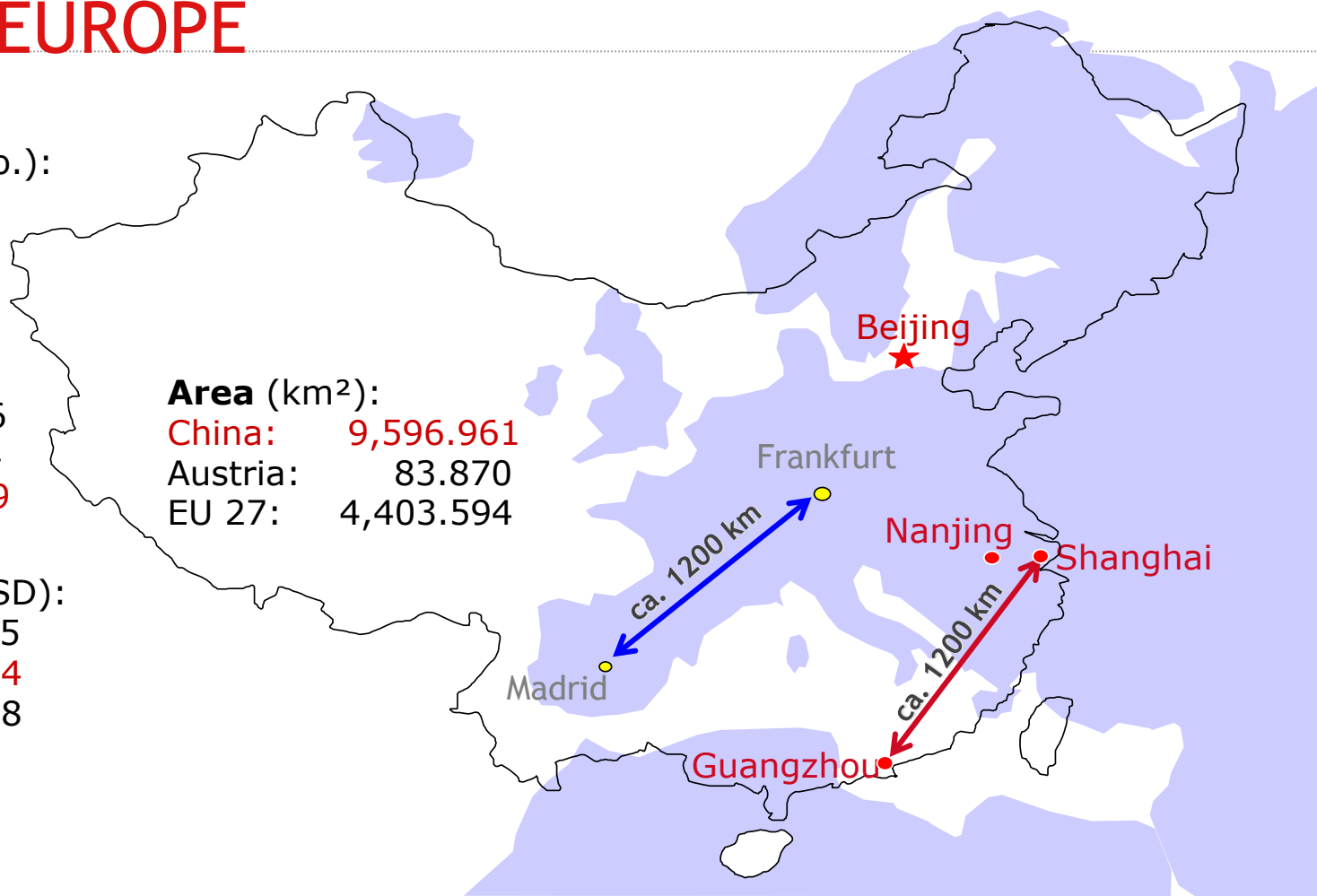
EU 27: 31.918

## Area (km<sup>2</sup>):

China: 9,596.961

Austria: 83.870

EU 27: 4,403.594



Source: World Bank

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# CHINA'S 2 FACES

- Backlog in economic development and infrastructure
- Low incomes



- Rich coastal region
- 92% of export goods are manufactured within 150km to the shoreline
- Modern infrastructure
- Fast rising incomes
- Fast growing middle class
- Demand for Hi-Tech products and luxury goods

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# CHINA 2016

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- Second largest economy worldwide (surpassing Japan in 2010), due to its enormous population China might be No. 1 in the future
- Export champion (overtaking Germany in 2009)
- High GDP (10,9 trillion USD) with still rather low GDP per capita → strong growth potential

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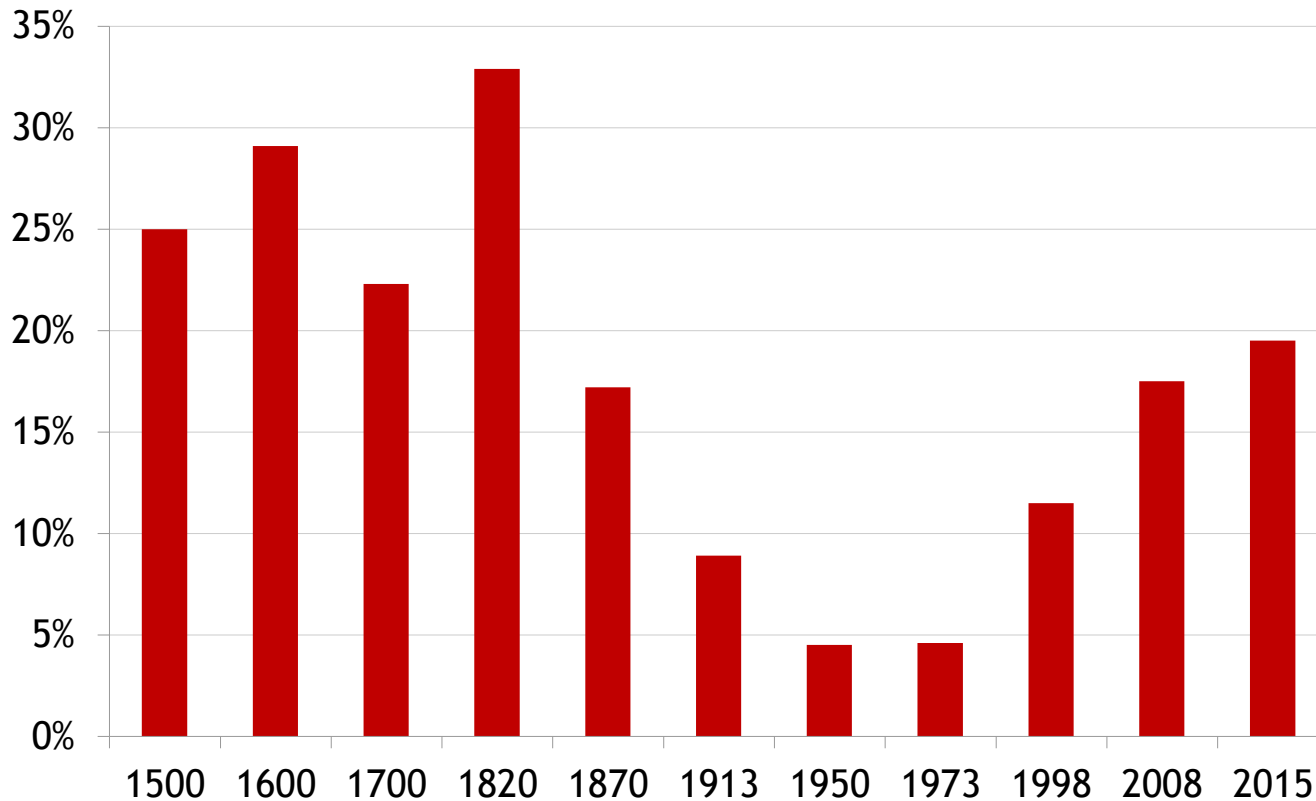
# CHINA 2016

- Still rather young population -> enormous consumer base and large number of workers
- High savings rate and still rather low private consumption -> Room for growth → Growing middle class
- By far largest foreign exchange reserves in the world
- China is the winner of globalization

# CHINA: MAJOR ECONOMIC POWER AGAIN

China's Share in global GDP:

Source: Angus Maddison, OECD



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# STAGES OF CHINA'S ECONOMIC DEVELOPMENT

- **Until 1978:**
  - Very low production capacity
  - China could not even supply everyday necessities in sufficient quantity
- **1978 - mid 90ies:**
  - Huge number of cheap and willing labor
  - Relocation of labor-intensive production to China (coastal region)
  - China as the world's extended workbench („verlängerte Werkbank der Welt“)



# STAGES OF CHINA'S ECONOMIC DEVELOPMENT

## ■ Mid 90ies - 2013:

- Enormous number of foreign direct investments and huge investments in infrastructure in China's coastal region
- Due to labor shortage in coastal regions millions of Chinese migrant workers from the country's interior regions
- Thriving economy and increased wealth
- Fast growing wages
- Switch of FDI's from exporting to serving the needs of the Chinese market

# STAGES OF CHINA'S ECONOMIC DEVELOPMENT

- **2014 begin of a new stage:**
  - Migrant workers return to their home provinces
  - Labor shortage in coastal regions
  - No room for further wage increases in production costs
  - Relocation of Low-Tech production to the interior provinces
  - Coastal region: Focus on Hi-Tech, Labor substitution by industrial automation and capital

**Complete change of China's economic model:  
Model based on exports should be replaced by domestic  
consumption oriented model**

# CHINA'S ECONOMIC CHALLENGES

- Lower economic growth in future caused by demographic trends
- Ageing population due to One-Child-Policy
- Shortcomings in education and training (focus on checklists, avoidance of assuming responsibilities, lack of social skills)
- Succession problems at privately owned companies
- Hi-Tech should be the growth engine, but lack of innovative strength
- Still important role of foreign FDI's  
(Designed in China, Made in China, by Foreigners?)



# CHINA'S ECONOMIC CHALLENGES

- Wages in Chinese coastal regions will surpass those in some Eastern European countries soon → China's role as the world's extended workbench will be diminished → Exports cannot yet be replaced by private domestic consumption as growth engine, public and private investments have to help out
- High regional disparities in income
- Go West or Go Elsewhere?  
Relocation of labor-intensive production to other countries (e.g. India, Indonesia, Bangla Desh, Maghreb countries)?
- Danger of Middle Income Trap in case of lower economic growth rates → drop in wage increases accompanied by rising inflation → lower consumer spendings

# CHINA'S ECONOMIC CHALLENGES

- State-owned financial sector → low level of competition  
→ interest rates for savings accounts low and nearly everywhere the same
- Chinese private investments in real estate → fast growing real estate prices → millions of apartments are untenanted and do not generate adequate returns
- Risk of real estate bubble
- Cheap loans to municipalities and state-owned enterprises
- Huge level of indebtedness of provinces and municipalities via „special vehicles“ (1,7 to 3 trio. Euro)  
→ 1/3 might be bad loans

# CHINA'S ECONOMIC CHALLENGES

- Huge rise in USD loans (880 bio. USD). What might happen if Federal Reserve's loose monetary policy might change? Debt burden of companies might grow enormously.
- Over-capacities in many industrial sectors
- Low margins → changes in exchange-rate policy might lead to huge number of insolvency cases
- Trade sanctions
- Corruption
- Environmental problems (air, traffic, water, sewage)  
→ 25% are already arid areas



# CHINA'S ECONOMIC CHALLENGES

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**CHINA: WELCOME TO REALITY !**

**“THE NEW NORMAL”**

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# SINO-AUSTRIAN ECONOMIC RELATIONS



# TRADE

- China is Austria's 5th largest trading partner worldwide and 2nd largest overseas
- Austrian Exports 2015: 3.305 mio. Euro (-2,2%)
- Austrian Imports 2015: 7.910 mio. Euro (+8%)
- Austrian Exports of Services 2015: 537 mio. Euro (-10,2%)
- Austrian Imports of Services 2015: 288 mio. Euro (-10,3%)



# AUSTRIAN DIRECT INVESTMENTS IN CHINA

- Current Level of Austrian Direct Investments in China:  
3.466 mio. Euro
- Number of Employees at Austrian Direct Investments in China:  
17.301
- Focus: Chinese market  
Make in China -> Sell in China (and few other Asian countries)
- Current Level of Chinese Direct Investments in Austria:  
308 mio. Euro
- Number of Employees at Chinese Direct Investments in Austria:  
353

# AUSTRIAN DIRECT INVESTMENTS IN CHINA

Appr. 900 establishments of 650  
Austrian investors (including  
Hong Kong, Taiwan and Macao)  
In Eastern China: 400  
(another 200 in the pipeline)  
Appr. 135 Production facilities

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KNOW THE PEOPLE



# CONFUCIAN TRADITION

Strictly hierarchical society:

- The subordinate is subservient to his superior
- The younger person respects the older person
- The wife obeys her husband
- Children respect and obey their parents

# CONFUCIAN TRADITION

- Seniority is important: Old age means wisdom, experience and decision-making power
- Top-down decision-making process
- Status is important
- Giving face (Mianzi): relative status (honest conduct)
- No open criticism, mistakes will not be easily admitted

# HARMONY AND POLITENESS

- Consensus in negotiations and compromises in disputes should be sought
- No strong views! Control your emotions, no expressive movements or gestures
- Yes means: Yes, I listen but not necessarily Yes, I agree. No direct No.
- Requests will be indicated only very subtly
- Offers will be declined once or twice



# GUANGXI

- Network of personal relations to important people
- Key to business success
- Intermediaires are very important

# FIRST ENCOUNTERS

- Order according to hierarchical position
- Handshake not too firm
- Exchange of name cards (in Chinese)
- Photos
- Exchange of gifts (no Made-In-China)

# NEGOTIATIONS

- Solid preparation:
  - Clear strategy
  - Detailed documents and materials
  - Team leader should not be too young
  - Allocation of roles within negotiation team (one person is designated speaker)
  - Preparation of your own translator
  
- Clear and simple language, Illustrations



# NEGOTIATIONS

- Patience is a virtue in China: learn to listen more and speak less
- Negotiation exists primarily as a mechanism for building trust so that two parties can work together for the benefit of both.
- Trust is built through dialogue that lets each party judge or evaluate the partner and the partner's capabilities and assess each other's relative status.
- In negotiation team one person is designated speaker. If other team members speak, show corporate consensus. Team members should never openly disagree, question each other, or air unresolved internal issues in front of the Chinese partners.

# NEGOTIATIONS

- Be polite, but firm and careful what you are saying! Spoken word equals written contract
- Identify the real decision maker
- Welcome remarks - Courtesy exchange - Smalltalk: Create a positive atmosphere

# NEGOTIATIONS

## ■ Austrian way:

- Main statement or argument at the beginning
- Looking for alternative arguments
- → Repeat main argument!



## ■ Chinese way:

- At the beginning incoherent and vague statements
- Circular approach to main topics
- Usually most important message is at the end of the negotiation!





# NEGOTIATIONS ARE NEVER „OVER“

- Chinese-style negotiation is the process of building and tending relationships to produce benefits for both sides. It is a process that does not end unless the relationship is severed. This approach to negotiation differs greatly from the view that the negotiation ends when the contract is signed.
- From the Chinese perspective, the contract signing indicates the formal beginning of the partnership and with it, the commitment to the ongoing negotiation.



**KNOW THE MARKET**



# OPPORTUNITIES AND RISKS

| Opportunities   | Risks   |
|---|---|
| <ul style="list-style-type: none"><li>• High market potential</li><li>• Fast rising income and prosperity</li><li>• Relatively free market</li><li>• High demand for high-quality goods</li><li>• High level of urbanity</li><li>• Consumers are younger than in Europe</li></ul> | <ul style="list-style-type: none"><li>• Difficult, heterogenous and quite often intransparent market</li><li>• Difficult acquisition of information and uncertainty of data</li><li>• Legal uncertainty</li><li>• Poor payment record of Chinese customers</li><li>• Price sensitivity</li><li>• Cultural and language barriers</li></ul> |



# CHINESE MARKET ENTRY

- Direct export → recommended only in very few cases
- Agent / Importer:
  - Chinese or foreign owned company
  - No capital requirements
  - Use of market knowledge
  - Limited influence on marketing, price structure, margins and sales promotion, no direct access to final customers
  - Exclusivity versus non-exclusivity
  - Contractual freedom according to Chinese Contract Law
  - Minimum sales should be stipulated
  - Secure IPP rights!

# CHINESE MARKET ENTRY

- Representative office (RO):
  - Full control of marketing and market research
  - Setting up your own customer network
  - No capital requirements
  - Limited business scope (forbidden from engaging in any profit-seeking activities)
  - No income but payment in RMB
  - Complicated registration process
  - Tax disadvantages

# CHINESE MARKET ENTRY

## ■ Distribution Subsidiary:

- Full control of marketing, sales and distribution
- Setting up your own customer network
- Income in RMB
- Own market knowledge necessary
- Capital requirements
- Complicated registration process
- Expenses for setting up own sales and distribution network
- 100% owned (WFOE) or Joint-Venture



# CHINESE MARKET ENTRY

## ■ Production Subsidiary:

- Utilizing lower production costs
- Faster response to customer requests
- Local Content rules → Production in China requested by customer (e.g. automotive industry)
- High capital requirements
- Complicated registration process
- Difficult labor market
- 100% owned (WFOE) or Joint-Venture

# CHINESE MARKET ENTRY

## ■ Licensing:

- Use of market knowledge and distribution network of partner
- Low capital requirements
- Risk of unwanted technology transfer
- Difficult control of licensee

# CHINESE MARKET ENTRY

## ■ Franchising:

- Fast market penetration
- Low capital requirements
- Finding and evaluating master franchisees is tough
- IPP problems
- Local managers lack strong management skills
- Franchise system has already to be successfully implemented in other important markets





**WKÖ / ADVANTAGE AUSTRIA IN CHINA**

# The Austrian Federal Economic Chamber

- Entrusted with governmental responsibilities: statutory obligation to promote foreign trade
- Financed through membership contributions (**not** tax revenue)
- Creation of a customer-oriented service organisation

## ADVANTAGE AUSTRIA

Austria's official trade promotion organization

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# ADVANTAGE AUSTRIA

## Facts and figures

- More than **110** offices in 70 countries
- **800** employees
- **80** nationalities
- **1,200** ADVANTAGE AUSTRIA events
- **1,000** ADVANTAGE AUSTRIA publications
- **27,000** Austrian clients
- **70** years of experience
- **Global business support**

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# ADVANTAGE AUSTRIA

## Our Services

### Coaching

Market research  
Legal information  
Import procedure  
Identifying  
potential  
distributors

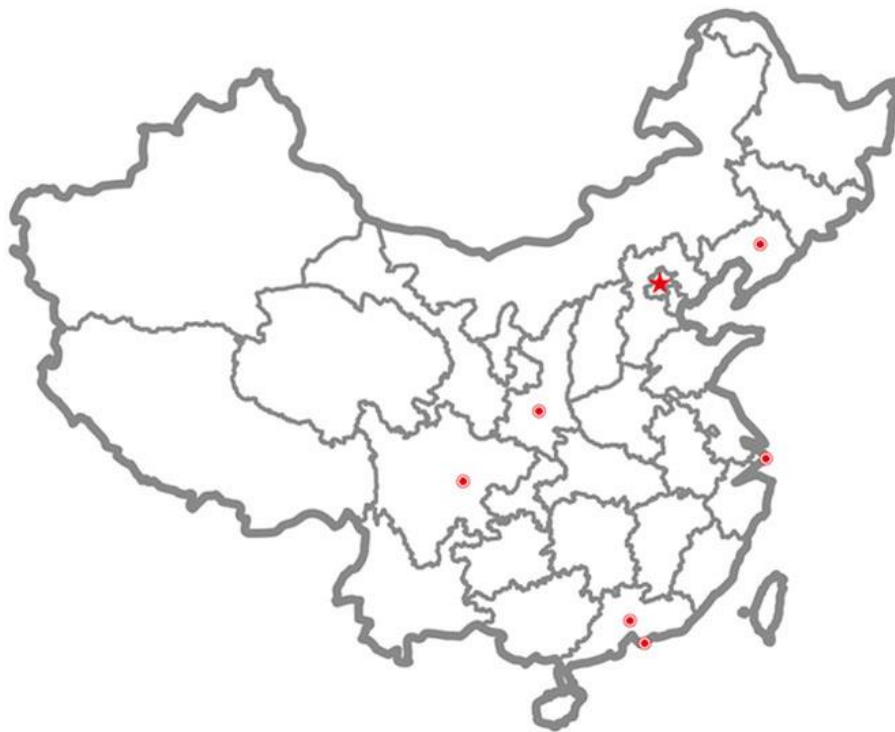
### Information

Wko.at  
Advantageaustria.  
org  
Newsletters  
Various  
publications

### Events

Trade Mission  
Austria Showcase  
Group Exhibition  
Forum  
Matchmaking  
events

# ADVANTAGE AUSTRIA IN CHINA



## 4 Trade Commissions

- Beijing
- Shanghai
- Hong Kong
- Guangzhou
- Chengdu (2017)

## 3 Marketing Offices

- Shenyang
- Xi'an
- Chengdu

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Thank you for your attention!  
Any questions?

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