EUSME Centre

Ways to enter the Chinese market

Are you ready for China? - Report 2

www.eusmecentre.org.cn

Published by:

EU SME Centre
Room 910, Sunflower Tower
37 Maizidian West Street
Chaoyang District, Beijing 100125
P.R. China

Phone: +86-10-85275300
Email: enquiries@eusmecentre.org.cn
Internet: www.eusmecentre.org.cn

The EU SME Centre is a project funded by the European Union

1. Broad methods of market entry

As one of the fastest growing economies in the world, China continues to attract companies of all shapes and sizes to its markets. One of the most challenging questions for companies, however, is how to best enter the China market. This report aims at explaining the main ways of entering China including:

Direct exporting

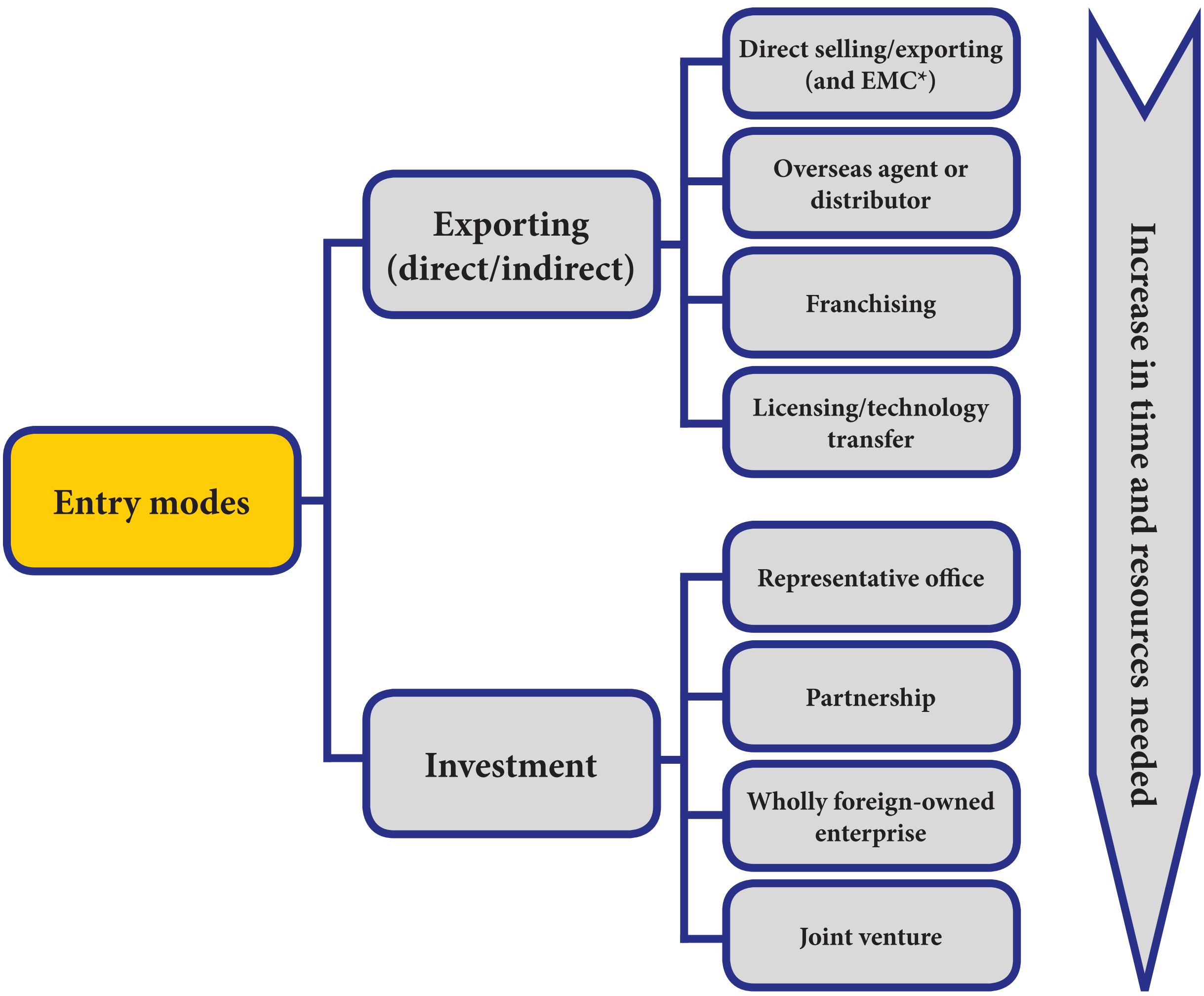
Referring to the exporting of goods and services from one country to another directly to the final customer

Indirect exporting (using an intermediary)

Referring to selling goods to an intermediary based in your target market, who in turn sells your products to customers. Such intermediaries may include agents, distributors, licensors, franchisees etc.

Investing directly

Referring to the establishment of a legal entity in another country for the purpose of expanding operations and/or production. Such entities may include wholly foreign-owned enterprises (WFOE, commonly known as WOFE), joint ventures (JV) and partnerships.



* EMC = Export management consultant

Introduction to the EU SME Centre diagnostic kit

To help European SMEs entering the Chinese market to make an informed decision, the EU SME Centre has published a series of diagnostic business tools entitled *Are you ready for China?*. Four reports introducing different aspects of market entry are accompanied by an online quiz tailored to help entrepreneurs check their level of readiness regarding the market and pointing them towards further resources to improve their understanding of less well-known business areas. The series is designed to work as a step-by-step introduction to the Chinese business environment, allowing SMEs to gauge their preparedness in doing business in China.

This report, *Ways to enter the Chinese market*, is the second in the series of four aimed at helping EU SMEs understand and ideally enter the China market. It provides an overview of different modes of entering the Chinese market, from exporting to investing, from joint ventures to wholly foreign-owned enterprises. It also offers a variety of case study examples, practical recommendations and references for further information.

Online quiz - *Gauging your readiness*: An electronic learning module to help you assess your knowledge of the Chinese business environment.

Report 1 - *Is China on your radar?*: A general introduction to China's macroeconomic framework and what it means for European SMEs, including specific opportunities by industry sector.

Report 2 - *Ways to enter the Chinese market*: An overview of different modes of entering the Chinese market, from exporting to investing, from joint ventures to wholly foreign-owned enterprises.

Report 3 - *Exporting goods, services and technology to the Chinese market*: A closer look at import regulations and processes, including practical tips and best practices.

Report 4 - *Knowing your partners in China*: A concise guide to due diligence in China. From verifying a company's administrative and legal standing to checklists for visits to the partner's premises, it covers all areas basic due diligence is concerned with.

To find out more, please visit www.eusmecentre.org.cn/content/diagnostic-kit

While each mode of market entry offers its strengths and weaknesses, most companies develop a gradual approach based on available time and resources and the market response they receive along the way.

Considerations on which mode of entry is most suitable for your business plan should be based on:

- The size of your firm;
- The nature of your products;
- Previous export experience and expertise;
- Business conditions and regulations (both exporting and investment requirements) in China;
- The need for on-the-ground representation (i.e., marketing, after-sales services);

- The need for control of your product and intellectual property rights (IPR) protection;
- The time and resources of your company.

Each section below provides a brief description of each mode of entry and a look at its advantages and disadvantages.

Note: Before exporting your goods, services or technology, make sure that all your IPR are properly registered in China.

2. Exporting

For companies that wish to do business with China, but without wishing to invest in the country directly, exporting offers the potential for high profit gains, but will also require considerable time investment.

For a more detailed look at exporting to China please refer to the third report of this diagnostic kit, entitled *Exporting goods, services and technology to the Chinese market*:

- www.eusmecentre.org.cn/content/exporting-goods-services-and-technology-chinese-market

2.1. Direct export

Direct exporting refers to the shipment of goods, provision of service across borders or transfer of technology from one country to another directly to the end customer. The seller of such goods, services and technology is referred to as an "exporter" who is based in the country of export whereas the overseas-based buyer is usually referred to as an "importer".

Exporting of goods to China always involves engagement of a company which has a licence for import/export according to Chinese laws. Such a company has to be registered in China. Therefore, the term "importer" in Chinese trade terminology usually refers to the registered company in China possessing an "import/export licence". Such a company can be a buyer and thus importer in the general sense, but most often it is only a service provider/intermediary assisting with import (bringing the goods across the border and facilitating international payment).

Practically speaking, direct export is suitable for unique products of smaller quantity where a developed distribution network is not necessary, or for export of services or technology.

The higher gains come from cutting out any middlemen (intermediaries, agents etc.) and avoiding the costs of setting up in China. However, such companies will also have the responsibility for doing their own market research and carrying out all the necessary administrative requirements, such as ensuring that their goods, services and technology can enter the market, meet relevant standards and certification requirements and meet necessary labelling and licensing requirements. Companies will also have to handle relations with freight forwarders, banks and all customs procedures (if not handled by the Chinese import/export company). The result is that companies will develop a deeper understanding of their customers, the processes and the market itself.

Advantages of direct exporting

- Greater potential profit;
- Greater degree of control over all aspects of the transaction;
- You know who your customers are;
- Your customers feel more secure in doing business directly with you;
- Faster and more direct feedback on your product and its performance in the marketplace;
- Better protection for your trademarks, patents and copyrights;
- You present yourself as fully committed and engaged in the export process;
- You develop a better understanding of the marketplace;
- As your business develops in the foreign market, you have greater flexibility to improve or redirect your marketing efforts.

Disadvantages of direct exporting

- You have to handle, or be actively involved in, all the logistics of the transaction (licences, standards, certification, labelling, shipping, customs related requirements as described in part 4 of the EU SME Centre diagnostic kit Exporting goods, services and technology to China;
- Requires more "people power" to cultivate a customer base;
- Demands more responsibility from every level of your organisation;
- You may not be able to respond to customer communications as quickly as a local agent can;
- If you have a technological product, you must be prepared to respond to technical questions, and to provide on-site start-up training.

2.2. Indirect export

Another method to enter the China market is through an intermediary (i.e., an agent or a distributor) in China.

2.2.1. Agents

An agent is your company's direct representative and is normally paid a monthly management fee and/or a commission to help represent and sell your product.

An agent works more closely with you whereas a distributor works more closely with your customers.

For small and medium-sized companies, entering the China market through a well-known agent or distributor is also one of the easier ways to enter China. Localised agents possess the knowledge and contacts to promote foreign products and help overcome barriers such as language and culture.

In addition, sales agents and distributors can assist in keeping track of policy and regulation updates, both locally and nationally, collect market data, and quickly respond to change. They are effectively your eyes and ears on the ground.

However, finding a dedicated, reliable, professional and credit-worthy agent/distributor requires work. Your embassy and chambers of commerce are often contacted by agents who offer services. Check with the commercial department and see if there is any specialised agent who has been introduced to them. Likewise, many agents and distributors will advertise their services online and can be met at relevant trade shows.

In China, you cannot hire an agent as an employee from overseas but he/she can enter into a service contract if he/she has his/her own company.

Advantages of an agent

- The principal (i.e., you) has greater control over the terms of sale;
- Freedom to choose customers with whom to deal;
- The agent will report on the competition;
- The agent will focus on your best selling products with the highest margin;
- The agent will advise you on new products to be launched;
- Greater control over methods of marketing;
- The manufacturer is able to retain risk of stock;
- The commission paid to an agent is typically lower than the margin of profit a distributor will make.

Disadvantages of an agent

- If the agent's work is not reviewed on a regular basis, your sales may not increase;
- Controlling the agent's work needs a lot of communication;
- If you decide to end your cooperation with the agent, he may go to the competition;
- Sometimes a principal will be treated as trading in a territory if he has an agent there, which could have tax implications. Consideration should be given to local law and double taxation;
- Maintaining stock inventory can be costly;
- An agent may be selling similar products as yours.

Criteria for finding a good agent

- Knowledge of your product/service and its market;
- Good references and previous experience (you should check to make sure);
- Language skills including at least English and Mandarin, and preferably Cantonese and local dialects as well;
- Strong networks and geographical coverage;
- Support team, staff, sub-agents;
- Soft skills and sales experience;
- Ability to work with incentives (i.e., commission-based and subject to customer's payment first);
- Strong work ethic, such as the ability to prepare and submit reports and marketing plans, conduct training, work with limited marketing budgets and translate honestly related marketing materials,

travel, respect the professional image of the company and be transparent about any potential conflict of interest.

Companies should also be on guard against agents that pro-actively approach them to be their representative. In some cases, these can be scams aimed at cheating the company. Companies should also be clear whether their agent represents any other companies and should consider starting with smaller tasks to see how he/she performs at the beginning.

2.2.2. Distributors

A distributor buys your products and then sells them on to customers through a third party or directly. Their income comes from the difference between their buying and selling price.

Using a distributor can also be a cost-effective and relatively easier way to enter the market. It is not recommended to have only one distributor for the whole of China. Not only is this highly difficult to execute (in fact, there are only a few companies which may claim they have a distribution network covering all of China), but you will also be completely in the hands of your exclusive partner.

Advantages of using distributors

- The supplier (your company) can pass a greater degree of risk to the distributor;
- Greater incentive for the distributor to sell the product;
- Avoids the need for the supplier to have an established place of business in the territory (reduces costs);
- The supplier only needs to monitor the accounts of several distributors rather than for each customer.

Disadvantages of using distributors

- Loss of control over activities of the distributor;
- An exclusive distributor focuses the supplier's entire credit risk on one entity rather than spreading it over a large number of customers.

CAUTION: Some foreign companies will export their goods to Hong Kong and sell them knowingly (or unknowingly) to individuals who work on the black market. These individuals then rely on personal connections in order to smuggle goods into the mainland. Companies should ensure that they are not implicated in any illegal trading activities. To minimise the risk, due diligence should be performed. To learn more about preliminary due diligence, please refer to the fourth report of the EU SME Centre diagnostic kit, *Knowing your partners in China*:

- www.eusmecentre.org.cn/content/knowing-your-partners-china

Environment SA is a European company that started out working with a distributor but decided to set up there own company in China.

Case study: Environnement SA

Industry leader in high-precision air quality monitoring who successfully exports to China, initially by using a distributor, but eventually decides to set up a WOFE.

- Environnement SA's CEO was able to conduct first-hand market research and confirm the demand and potential in the Chinese market;
- Targeting high-end demand, the company does not compete with local vendors offering cheaper alternatives;
- In the beginning, Environnement SA used a Chinese private company as a distributor;
- In 2009, the company decides to establish a WOFE in Beijing, but maintains a good business relationship with its former partner;
- The General Manager of their China office has over 10 years of China experience;
- Getting through the bureaucracy of setting up a WOFE was difficult and took a year;
- It now offers a wider range of products in China and is showing strong growth.

For more information, see the full version of this case study on the EU SME Centre website:

- www.eusmecentre.org.cn/content/environnement-sa-–-selling-air-quality-and-emissions-monitoring-systems-china

Note: In the section on indirect exporting, we look at the use of intermediaries in the target country as a way to support companies. However, companies may also consider using domestic (European) intermediaries such as export trading/management companies in their own country, leaving all of the market research/administrative and logistical burden (as well as a share of the profit) to such companies that specialise in exporting. This is the easiest and least involved way to begin exporting. You can find such export trading management companies by searching online or contacting your government's export promotion office or your local chamber of commerce.

3. Licensing and franchising

Before engaging in any form of licensing and/or franchising, companies are strongly advised to ensure that their IPR is registered not only in their home country, but also in China.

3.1. Licensing

Licensing is a permission granted by an exclusive owner of Intellectual Property Rights (i.e., technology/patents, trademarks, copyrights etc.) to another party to use such IPR on agreed terms and conditions (including, for example, the payment of royalties), while the IPR owner continues to retain ownership of the IPR.

As a company grows and develops its reputation for quality products and services, its intellectual property becomes more valuable. Today, licensing and franchising is no longer just for multinationals and smaller or niche-market businesses that have popular products or services can benefit from licensing and franchising agreements, too.

Licensing IPR can cover several areas:

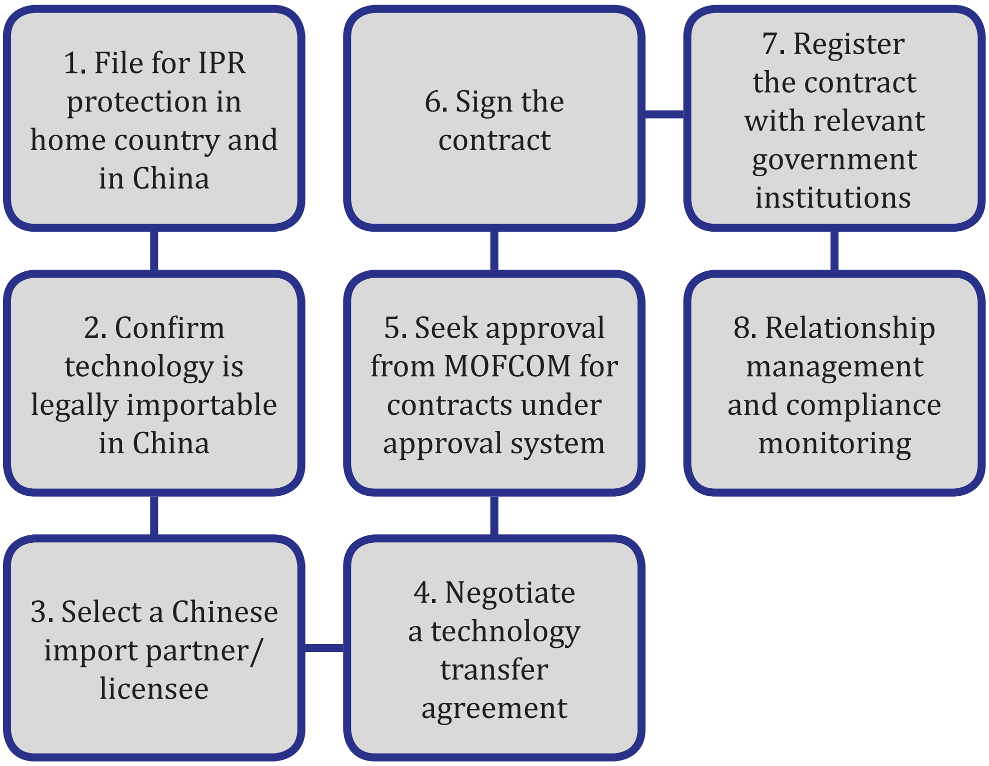
- Technology transfer - Including patents (innovation), designs, software, and know-how;
- Copyrights – Original works of authorship fixed in any tangible form;
- Trademarks – Words, names or symbols identifying goods made or sold, distinguishing them from others.

A **technology transfer** is the process of transferring knowledge, technologies and know-how from one institution – owner of the technology – to another either by way of selling the technology or by licensing the technology to enlarge the range of users who have access and the ability to use the technology.

Different ways to export your technology to China

1. Licensing the technology to an unrelated Chinese company;
2. Investment together with technology transfer: Some companies may wish to combine technology transfer with investment through a joint venture or through WOFE. In the case of WOFEs, IP risk should be managed by reducing or preventing leaks by employees and business partners.

Steps for licensing technology



Note: Although most technologies can be imported into China, to be sure, you should consult the *Catalogue for Prohibited and Restricted Technology Imports* (the 'Technology Import Catalogue'), published by the Ministry of Science and Technology (MOST) and the *Catalogue for the Guidance of Foreign Investment Industries* (the 'Investment Catalogue'), jointly published by the Ministry of Commerce (MOFCOM) and the National Development and Reform Commission (NDRC).

Licensing contracts must be approved by and registered with the Ministry of Commerce. Use of confidentiality agreements and non-compete agreements are important.

Documentation generally required for patent licensing

1. Patent licensing request;
2. Patent licensing agreement;
3. Patent certificate;
4. Identification documents of the licensor;
5. Identification documents of the licensee;
6. Power of attorney;
7. If the agreement has not been filed within three months, an additional declaration of the effectiveness of the agreement will have to be produced;
8. Proof of official change of name if the one used now is not the same as the one used in the agreement.

General provisions for trademark licensing

- A clear description of the mark;
- The purpose or purposes of the licence (i.e., for merchandising);
- The territory and/or distribution channels to which the licence applies;
- Whether the licence is exclusive or non-exclusive;
- A statement or statements that no other right title or interest in the mark is granted beyond the

terms and conditions specifically set forth in the licence;

- The term of the licence;
- The royalty to be paid and the terms of payment;
- Audit rights;
- Proper use of the mark and the licensor's rights of prior approval;
- A non-assignment clause;
- A hold-harmless clause with indemnity/insurance for product liability claims involving the products or services on which the mark is used;
- Conditions under which the licence may be terminated and post-termination rights and duties.

The China licensing market is the world's fastest growing (at 16% annually). It is expected to grow even faster in the years to come.

For more on exporting technology to China, please see the third report of the EU SME Centre diagnostic kit, *Exporting goods, services and technology to the Chinese market*.

- www.eusmecentre.org.cn/content/exporting-goods-services-and-technology-chinese-market

For more on technology transfer, please visit the World Intellectual Property Organisation's website:

- www.wipo.int

3.2. Franchising

Franchising is a method of distributing products or services. At least two levels of people are involved in a franchise system:

1. The franchisor, who lends his trademark or trade name and a business system; and
2. The franchisee, who pays a royalty and often an initial fee for the right to do business under the franchisor's name and system.

Technically, the contract binding the two parties is the "franchise", but that term is often used to mean the actual business that the franchisee operates.

Franchise requirements

In February 2007, China's State Council published the revised *Regulation on Administration of Commercial Franchise*, which includes rules applying to both domestic and foreign franchisors who engage in commercial franchising in China. The regulations provide that only enterprises, i.e., not individuals and other entities, may engage as franchisors. A franchisor must own a developed business, which can provide a long-term commitment, technology support, business training and other services. The regulations also require that a franchisor must have former experience in terms of ownership and operation of at least two outlets for at least one year before he/she can establish their own franchise in China. The regulations additionally require foreign companies that intend to establish a franchise engaging in commission trade, wholesale, retail and franchising in China, to do so through a foreign-invested enterprise within China.

Franchise agreement

A franchise agreement is generally valid for no less than 3 years, unless it is otherwise agreed upon by the franchisee. A franchisee may terminate the agreement if the franchisor holds back relevant information from or provided false information to the franchisee.

- Main contents that must be included in a franchise agreement include:
- Basic information of franchisor and franchisee;
- Contents and term of the franchise;
- Type, amount and payment method of franchise fees;
- Provisions of operational guidance, technical support and training;
- Quality and standards requirement for product or service and guarantee provisions;
- Promotion and advertising of products or services;
- Protection of consumer interest;
- Amendment, rescission and termination of franchise contract;
- Liability breach of the contract;
- Dispute resolution mechanism;
- Any other matters agreed between the parties.

The regulations require a franchisor to submit the following documents within 15 days after executing its very first franchise contract:

- Business licence or enterprise registration certificate;
- Sample franchise contract;
- Franchise operation manuals;
- A marketing plan;
- Written undertaking and evidence that the franchisor's qualification requirements have been met;
- Other documents and materials as required by the commerce department under the State Council.

Tips for new-to-China franchisers

- **Register your company name and trademark when entering China at inception** - An official registration IN CHINA is needed to avoid difficult situations where competitors try to register your trademark for themselves;
- **Seek local partners that can navigate the local business environment** - It is very important to choose a franchise partner in the same industry with channels of distribution, industrial connections and good relationship with government organisations. See the fourth report of the EU SME Centre diagnostic kit, *Knowing your partners in China* for more information:
- www.eusmecentre.org.cn/content/knowing-your-partners-china
- **Adjusting market access strategy to cultural differences** - A foreign franchiser should fine tune its products to accommodate different habits. McDonalds, KFC, and Starbucks have all developed products for the unique tastes of their Chinese customers;

Advantages of licensing and franchising

- Lower costs of market entry, e.g., no need to build a distribution network;
- Increased business opportunities - Franchisee provides local knowledge which might help in reaching new markets and finding new partners Increased revenues in the form of royalty payments from the company to whom the licence/franchise is granted ("licensee"/"franchisee");
- Branding/reputational impact;
- Wider exposure/advertising for the licensing/franchising company's brand/technology/work;
- Uniformity of procedures in case of franchise, which reflects on consistency, enhanced productivity levels;
- Franchisee is usually self-motivated since he has invested much time and money in the business;
- Risks are spread by multiplying the number of locations through other people's investment;
- A larger and more powerful licensee in a new market can provide instant market access and deter competitors and imitators;
- A licence can be used to enable products to be supplied locally where there is no opportunity to manufacture in the locality.

Disadvantages of licensing and franchising

- Potential IPR infringement risk;
- No contact with end customers;
- Initial investment in terms of training staff, technical assistance;
- Lower control over the business model. It is important to ensure that there are proper control provisions in the licence;
- Risk that trade name will be spoiled by dubious partners;
- Franchisor has to have solid business model and one year of operation of at least two outlets;
- By disclosing your business model you are opening doors for franchisees to "amend" the model and establish their own business;
- In the long term, royalty payments from a licence may not provide the maximum for a licensor. It could be that setting up locally can generate better profits in the long run.

4. Selling online

There are four different methods for a business to sell online and therefore directly to its consumer in China:

- Standalone website outside of China;
- Standalone website in China;
- Third-party platform outside of China; and
- Third-party platform inside China.

4.1. Standalone website outside of China

An existing standalone website outside of China may be the easiest method of selling online, but it is likely not to be the most effective. At a minimum, companies who wish to use this approach should develop a Chinese language version of the website and also arrange for Chinese credit card payments (using Chinese third-party payment platforms such as Alipay or Tenpay). An additional downside is that the consumer will have to endure longer shipping times, transportation and import costs if the products are manufactured in Europe.

Finally, in some cases the Chinese government has blocked online selling websites because they do not hold a China ICP licence. By law, a „Commercial Internet Content Provider (ICP)" licence is required to provide commercial Internet information services. However, following Notice No. 272 issued by the Ministry of Industry and Information Technology, where a company sells its own products via the Internet, then this activity does not constitute „commercial Internet information services". In these instances a non-commercial ICP licence will be sufficient.

4.2. Standalone website in China

Building a standalone website within China solves issues such as overseas delivery fees and import taxes, assuming the company and its goods are in China. However, in order to build and maintain a website within China, the company must be a legal registered entity in China to receive the necessary ICP licence (see above).

Advantages of a standalone website

For Chinese consumers

- Faster delivery speed.

For EU sellers

- Provides targeted offering to Chinese consumers.

Disadvantages of a standalone website

For Chinese consumers

- Trusted less than third party platform.

For EU sellers

- Need to tailor website to Chinese consumer;
- Effort required to generate traffic;
- Site must be registered to a company established in China;
- IT maintenance costs;
- Need for an import agent.

4.3. Third-party platform outside of China

In China, selling through a third-party platform based outside of China such as Ebay or Amazon is likely to have limited success. Chinese consumers prefer to purchase goods on local Chinese websites such as Taobao or Alibaba where they are sure their credit cards are accepted and there is no language barrier.

Advantages of a third party platform outside China

For Chinese consumers

- Access to goods not available in China.

For EU sellers

- Familiarity of platforms and their services;
- Low costs.

Disadvantages of a third party platform outside China

For Chinese consumers

- Language barrier;
- Use of Chinese credit cards problematic;
- Long delivery time;
- High shipping costs and risk of damage;
- Custom tariffs;
- No after service.

For EU sellers

- No targeted market access.

4.4. Third-party platform inside China

Assuming the company's operations are based in China, delivery costs are lower and logistics in general are easier to follow than when selling from outside the country. Chinese consumers are used to purchasing goods online on Taobao and Tmall, and will likely continue purchasing through these websites in the foreseeable future.

In general, there are no restrictions for foreign companies to sell online in China through a third-party platform. Each platform has its own specific requirements concerning its sellers, such as requesting sellers to have their own registered company in China.

Advantages of a third party platform inside China

For Chinese consumers

- More likely to trust;
- Easier online payments;
- Faster delivery;
- After service.

For EU sellers

- Low costs;
- Benefit from platform's existing traffic.

Disadvantages of a third party platform inside China

For EU sellers

- Marketing on an unknown platform in a foreign language;
- Company registration in China necessary;
- Certification requirements.

For more information on online selling, please see the EU SME report *Selling online in China*:

- www.eusmecentre.org.cn/content/selling-online-china

5. Representative office

Having an actual physical presence in China can be part of a long-term strategy to enter China and can be done relatively easily within a couple of months. A representative office (RO) has been traditionally used as a first step to gaining a foothold/presence in China.

An RO is not a legal entity but rather a liaison office for the company's headquarters' in the home country. As a liaison office, the RO is actually prohibited from engaging in profit-making activities.

Its main functions are to conduct market research, promote products of its headquarter i.e. the foreign enterprise, conduct business activities on behalf of the foreign enterprise, liaise with European clients that have a presence in China and encourage technology exchanges.

ROs may only undertake limited activities due to the fact that the foreign enterprise is responsible for all liabilities that may arise. For example, ROs cannot issue receipts or sign contracts on its own behalf since all legal actions are done on behalf of the headquarter.

The lack of a minimum capital requirement to register an RO in China ensures the company will not engage in market activities and only manage existing relationships. Moreover, ROs must undergo an annual inspection conducted by the local Administration of Industry and Commerce and tax authorities and are taxed in accordance with relevant regulations.

Representative office business scope

A representative office in China may carry out the following functions:

- Conduct research and surveys for its headquarter i.e. the foreign enterprise in the local market;
- Liaise with local and foreign contacts in China on behalf of the foreign enterprise;
- Conduct research and provide data and promotional materials to potential clients or trading partners;
- Act as a coordinator for the foreign enterprise's activities in China;
- Make travel arrangements for the foreign enterprise representatives and potential Chinese clients;
- May only engage in non-profit making activities.

Under no circumstances may a representative office do the following in China:

- Directly engage in any business for profit;
- Represent any firm other than its headquarter i.e. the foreign enterprise;
- Collect money or issue invoices within China for services or products;
- Buy property or import production equipment.

Representative office approval process

To register and establish a RO, a foreign company must register with the Administration of Industry and Commerce, a process that takes about three months.

Representative office employment of staff

An RO may hire employees from foreign countries which are considered to be representatives. A RO may also hire local Chinese employees, but in most cases they should be hired through an employment service agency authorised by the government. Moreover, ROs may employ no more than four foreign nationals and must apply for each foreign national's residency.

Representative office taxes

Under normal circumstances ROs are subject to enterprise income tax for the income attributable to them and business tax and value-added tax for their taxable income . The same rate of enterprise income tax that applies to equity joint ventures will generally be applied to an RO.

ROs in China are limited in their legal and operational status. The major advantages and disadvantages of setting up a RO are as follows:

Advantages of a representative office

- ROs are one of the quickest and easiest methods of establishing a presence in China;
- No restrictions on type of business;
- No minimum capital requirement.

Disadvantages of a representative office

- ROs are taxed even though they cannot generate profits;
- Cannot easily be transformed into a WOFE;
- Must undergo annual inspection;
- Limited to four foreign staff members.

For more information on setting up a representative office please see the EU SME Centre report *Establishment and operation of a representative office in China*:

- www.eusmecentre.org.cn/content/establishment-and-operation-representative-office-china

6. Investment

6.1. Investing

In addition to setting up a representative office, foreign investors have several other choices when entering the China market, including:

- Partnerships;
- Wholly foreign-owned enterprises (WOFE);
- Joint ventures: equity joint ventures (EJV) and contractual joint ventures (CJV).

Activities which are allowed to be performed by foreign investors under the Chinese law are listed in the *Catalogue Guiding Foreign Investment 2012* (the 'Investment Catalogue'). For more information see the first report of the EU SME Centre diagnostic kit, *Is China on you radar?*.

- www.eusmecentre.org.cn/content/china-your-radar

Comparing types of foreign direct investment

Type	Chinese partner	Advantages	IPR	Human resources	Investment risk	Government issues	Purpose
Rep office	No Chinese partner	Traditionally easy to establish	Marketing and R&D activities only, IPR kept by headquarter	Limited to four expatriates	Low	Increasingly strict enforcement to ensure compliance with regulations	Liaison with home office / relationship building and market research
Partnerships	One or more	Easy to establish No corporate tax	Optional	To be decided by parties	Low, no capital requirements. However, unlimited liability and subject to individual income tax	New regulations are encouraging	Option for smaller businesses looking for an easy set-up, willing to have a partner and take on unlimited liability
Wholly foreign-owned enterprise	No Chinese partner	Efficient in operations, management and future development; easier to terminate than JVs	More control over IPR and technology	Full control of human resources	High investment risk, no Chinese partner, FICEs (foreign-invested commercial enterprise) have higher capital requirements	In some cases, government incentives more difficult to obtain without Chinese partner	Manufacturing Services FICE: Commerce, retail, distribution
Equity joint venture	One or more	Foreign partners can gain market knowledge, contacts, preferential market treatment and manufacturing capability from their Chinese partner	Chinese partner will gain full access to the foreign IPR	Advised to retain key positions in board of directors and management (risk management, finance, HR) Use of local talent	Risk based on the equity shares of each partner (foreign and Chinese)	The foreign partner must contribute a minimum of 25% of registered capital (there are exceptions for some restricted industries)	Only option in some sectors according to the Investment Catalogue Establishment of a close partnership
Contractual joint venture	One or more	Depend on terms set in the contract	Based on the contract	Based on the contract	Contributions can be made in form of labour or property	No minimum contribution to be made by the foreign partner	Only option in some sectors according to the Investment Catalogue Establishment of a close partnership

China's foreign direct investment

	2005	2006	2007	2008	2009	2010	2011
Total FDI (billion USD)	53	70	83	92	90	106	116
WOFE	73.4%	72.7%	78.0%	81.4%	80.0%	80.6%	80.8%
EJV	23.8%	24.6%	20.2%	16.8%	18.3%	18.1%	18.1%

Source: MOFCOM

6.2. Foreign-invested partnership (FIP)

In 2010, the Administrative Measures on Establishment of Partnership Enterprises by Foreign Enterprises or Individuals in China was published by the State Council. The measures opened the door for the first time for foreign individuals and entities to invest directly in partnerships in China. A foreign-invested partnership (FIP) is an unlimited liability business entity without minimum requirements on registered capital.

The investors/partners of an FIP can be comprised of

- Two or more foreign enterprises or individuals, or
- Foreign enterprises or individuals and Chinese natural and legal persons or other organisations.

The measures governing the formation of partnerships are similar to partnership arrangements in other countries. Two forms are recognised: general partnerships and limited partnerships.

FIP business scope

In recent years FIPs have become the easiest and most convenient way for foreign investors to set up a business in China. In addition to be open to all "encouraged" sectors of the Investment Catalogue and restrictive sectors subject to reviews, FIPs have been particularly attractive for private equity funds.

FIP approval process

Registration of an FIP will be subject to the following requirements:

- An FIP is not permitted to invest in "prohibited" industries stated in the Investment Catalogue;
- An FIP that seeks to invest in "restricted" areas stated in the Investment Catalogue will be subject to a close examination by the State Administration of Industry and Commerce (SAIC), who could seek the opinion of relevant departments examining regulatory purview;
- An FIP is prohibited to invest in industries which are "restricted to joint ventures" or where a Chinese party has to hold a controlling interest.
- The establishment of an FIP must be approved and registered with the industry and commerce departments of the province, autonomous region, municipality directly under the central government or sub-division where the investors are seeking establishment;
- There is no need for annual re-registration for FIPs as with representative offices. An FIP has a term of 15 to 30 years.

FIP capital contribution and profits distribution

When establishing an FIP there is no minimum requirement of registered capital. However, they are required to submit a confirmation of agreed consideration signed by all parties or an assessment certificate of consideration issued by a statutory agency in China. The measure permits the FIP's partners to contribute capital in convertible or local currency. Parties of the FIP may also contribute to the FIP's capital in terms of intellectual property, land use rights and other property rights including labour investments. However, only the general partner may make capital contributions by labour service and according to relevant regulations. A foreign general partner making contributions by labour investment shall submit employment licences for all foreign employees to the competent branch of SAIC.

Profits of an FIP are distributed in the following sequence: (1) as agreed in the partnership agreement (2) in accordance with the decision of the partners through consultation; (3) following the percentage of capital contribution made by each party; or (4) equally among all the partners. Generally, an FIP is considered to be a flow-through entity and therefore income tax is imposed at the partner level. A legal person partner is subject to corporate income tax for the profits distributed to it.

FIP management structure

FIPs are managed by partners with a high degree of participation. All decisions are approved amongst the partners, including changing the name of the enterprise, business scope, location of business, real estate, transferring or disposing intellectual property and appointing management on behalf of the partners.

6.3. Wholly foreign-owned enterprise (WFOE/WOFE)

A wholly foreign-owned enterprise (WFOE, commonly known as WOFE) is a limited liability company owned by foreign nationals and capitalised solely by one or more foreign investors. The WOFE is an appropriate structure for companies whose main activities in China are manufacturing and selling products or provide services such as research and development or business consultancy.

Companies wishing to engage in trading, retail and distribution of imported goods may also do so under a WOFE, but must be registered as a specific type of WOFE known as a foreign-invested commercial enterprise (FICE).

According to WOFE regulations, "foreign investors are permitted to set up a 100% foreign-owned enterprise in industries that are conducive to the development of China's economic benefits, and not prohibited or restricted by the China government." A complete list of these categories is found in the Investment Catalogue.

WOFE registration procedures

To be able to complete the registration of a WOFE a business licence is required. Only after the application for such a licence has been approved can the process be completed. The whole process will take a minimum of four months, but can take up to a year depending on the business scope, investment amount and timely and accurate submission of relevant documents.

WOFE capital contribution

Registered capital is the amount of capital that is required by the law to set up a company. The amount may vary, depending on the local administration, the region and industry sector and the intended size of the business of a newly established company.

According to Chinese law, the minimum registered capital for a single shareholder company is RMB 100,000. For a multiple shareholder company the minimum registered capital requirement is RMB 30,000. Mandatory registered capital for a FICE is much higher. The minimum registered capital required for trading (import/export) rights is RMB 1 million, for wholesale distribution rights RMB 500,000, and for retail distribution rights it is RMB 300,000. In reality, local authorities will review the feasibility study and approve the investment on a case-by-case basis.

Registered capital together with foreign exchange loans (usually from the parent company) constitute the "total investment". Total investment is the maximum amount of money the parent company is allowed to transfer to its Chinese-registered subsidiary. It is the only source from which the operations of a WOFE can be financed until it generates profits on its own. The amount of total investment is strictly limited and supervised. It is therefore crucial to prepare a business and financial plan and set the amount of total investment with a clear view on future costs and revenues until the WOFE can support itself from its own profits.

WOFE office address and choosing a company name

Prior to submitting the application to establish a WOFE, the foreign investor must rent an office space for the WOFE, as a lease contract is one of the documents necessary for registration. The lease contract can be concluded by the parent company and later changed to the WOFE's name. The office of the WOFE cannot be placed in a residence building.

The official business name of a WOFE in China must be in Chinese. The official name shall be registered with the local Administrative Bureau for Industry and Commerce (SAIC).

WOFE taxation

WOFEs are generally subject to a 25 percent corporate income tax, but some might be eligible for tax benefits. Preferential tax rates or temporary tax exemptions might be applicable depending on the industry, location, profitability and size of the WOFE. For example, the corporate income tax for small companies usually amounts to 20 percent. In case the company deals in innovative technology, it might be lowered to 15 percent, though. Where applicable, WOFEs are additionally subject to business, consumption, value added, and import and export taxes. All enterprises are required to report to the Tax Administration Department monthly, quarterly, and annually. For more information please see the EU SME Center guideline on China Enterprise Income Tax.

WOFE terms

In China, the typical life span of a WOFE is between 15 to 30 years. It is possible to obtain an extension of the WOFE's duration in cases where the capital is large, the construction period is long and the return on investment is low, or where sophisticated goods using advanced or key technologies provided by the foreign partner or internationally competitive products are produced. A WOFE may be extended up to an additional 50 years with approval from the State Council.

For more information on foreign-invested enterprises, please see the EU SME Centre guideline *Establishment of a foreign-invested enterprise in China*:

- www.eusmecentre.org.cn/content/establishment-foreign-invested-enterprise-china

Advantages of incorporation of a WOFE include but not limited to:

Advantages of a WOFE

- Protection of proprietary technology and other IPRs;
- Exclusive management control over all decisions and profits of its parent company without the involvement of the Chinese partner;
- Sole recipient of investment vehicle profits, ability to issue invoices to customers in RMB and receive revenues in RMB; and
- Full control of human resources.

6.4. Equity joint ventures and cooperative joint ventures

A Joint Venture (JV) can present advantages when it comes to gaining access to an already developed network of distributors, the need for a strategic local partner or simply the desire to share operational costs.

There are two types of joint ventures (JVs) in China: the equity JV (EJV) and the cooperative JV (CJV), also known as the contractual JV. JVs are very often the only type of company that allow foreign investors to engage in restricted industries in China, as stated in the Investment Catalogue, such as auto manufacturing, life insurance or telecommunications. JVs are required even for some businesses within encouraged industries.

6.4.1. Equity joint venture (EJV)

An EJV is a legal entity created by Chinese and foreign partners that hold joint operations and ownership of a limited liability corporation and agreed on management and the division of risk. Companies in an EJV share both revenues and risks according to their respective registered capital contributions.

The foreign investor's capital in an EJV must account for at least 25% of the registered capital (with exceptions). According to the Investment Catalogue, in some specific industries the Chinese party is required to have control over the JV, in which case the foreign party is not allowed to own more than 49%. Profit is distributed in the form of dividends to the parties in proportion to each party's respective ownership interest.

EJV approval process

The steps of the EJV approval process are generally the same as for the WOFE mentioned above. The list of documents required will differ since in this case a JV contract is required. The necessary steps also depend on the industry your company is active in and the special permits needed. The time needed to establish an EJV is usually longer compared to the establishment of a WOFE.

MOFCOM's approval is generally granted at the central level, but a proposed EJV may apply to the provincial bureau if it meets certain requirements, listed below:

- Business scope is aligned with the encouraged categories listed in the Investment Catalogue;
- Total investment is less than 1 million RMB;
- The EJV is self-financed;
- It does not affect foreign trade quotas; and
- It does not require China to allocate additional raw material.

For more information on EJV please check the EU SME Centre guideline *Establishment of a foreign-invested enterprise in China*:

- www.eusmecentre.org.cn/content/establishment-foreign-invested-enterprise-china

6.4.2. Cooperative joint venture (CJV)

A CJV is a partnership between a Chinese enterprise or organisation and a foreign enterprise, organisation or individual. A CJV can have a form partnership based on an incorporated arrangement with a limited liability company or a be based on contractual cooperation agreement (real CJV). There are not many real CJV – those established on contractual basis at the present and the main reason is unlimited liability of partners in this structure. Foreign parties to a CJV enjoy considerable flexibility when negotiating the details of the CJV, including profit sharing, management structure and capital investment, with Chinese partners CJVs with legal person status require at least foreign investment of 25% of the registered capital while there is no limit for the Chinese partner's contribution, and are determined by MOFCOM.

Ownership and profits or losses of a CJV are usually not shared based on equity or capital contributions but are handled on the basis of contractual agreement. .

CJV capital contribution

The CJV contract must state each investor's obligations in terms of invested capital and timeline. If an investor fails to fulfill his/her contract obligations, SAIC will set a new timeline for carrying out the obligations. An investor who fails to fulfill his/her capital engagements may be charged with breach of contract.

Each CJV is required to have registered capital, i.e., the total amount of capital registered with SAIC at the time of establishment of the CJV. The registered capital should be stated in RMB, unless there is a foreign currency both parties agreed upon beforehand.

Case study: Metazet

Dutch high-tech design and project management SME enters China's horticultural sector:

- Metazet was already operating internationally in Europe and North America before entering the Chinese market;
- As the Chinese horticultural industry is still immature, Chinese customers contacted Metazet to bring their technology and know-how to China;
- Through market research Metazet confirmed that China's horticultural industry is growing rapidly;
- Since the Catalogue for Guiding Foreign Investment in Industries lists agriculture as a restricted sector, a JV structure is needed for any foreign company seeking to enter China;
- Metazet therefore established a JV subsidiary in partnership with a Chinese company;
- The company also enlisted the help an experienced and well-established distributor;
- The Chinese government is actively promoting the industrialisation of the horticultural sector and was therefore supportive of Metazet bringing its technology to China;
- As this sector is relatively new, patience, trust and understanding must be fostered;
- Strategically, Metazet entered in China for long-term investment, with corresponding long-term rewards.

For the full case study on *Metazet – Design and project management of greenhouse building projects*, please visit the EU SME Centre's website:

- www.eusmecentre.org.cn/content/metazet-design-and-project-management-greenhouse-building-projects

7. Using Hong Kong as entry to Mainland China

Supervision from Mainland China

Hong Kong was the traditional gateway to doing business in China and, in many ways, it still is. In 1997 Hong Kong was returned to China. Since then it has been administered by mainland China as a Special Administrative Region (SAR) under a "one country, two systems" policy, thereby allowing Hong Kong to continue to maintain its favoured legal and economic structure. English is still an official language and Hong Kong remains one of the most liberal market-based economies in the world.

While many larger multinationals continue to use Hong Kong as their Asia Pacific (APAC) headquarters, most EU SMEs nowadays will bypass Hong Kong and enter China directly, particularly if they are exporting. However, there are a variety of particular reasons for EU SMEs to consider having a legal entity in Hong Kong, depending on the sector, size of the company and nature of the business. Below are some examples and a listing of advantages and disadvatanges of this option.

Example reasons for setting up a company in Hong Kong:

- Setting up a holding company to protect the parent company from any negative legal issues that may arise with its business in mainland China;
- Benefiting from certain tax/financial systems including easier profit repatriation and a lower corporate tax;
- Using a Hong Kong shell company in order to set up a representative office in China (which requires an office outside of China). This is necessary for European entrepreneurs in China without an office in Europe;
- Getting a quick leg up – you can establish a legal entity in Hong Kong very quickly (two weeks versus at least 3 months in China).

China and Hong Kong's Closer Economic Partnership Arrangement (CEPA)

The CEPA partnership arrangement is a bilateral free trade agreement between mainland China and Hong Kong, which came into effect in January 2004. Under the agreement, China has agreed to eliminate tariffs for all products of Hong Kong origin and allows preferential treatment to Hong Kong service suppliers in certain service sectors. Foreign companies registered in Hong Kong are eligible to benefit from CEPA rules. 40 service sectors fall under CEPA as of January 1 2009, but some requirements have to be fulfilled in order to enjoy preferential treatment. For example, the company has to be established for at least three years before it is recognised as Hong Kong-based.

In short, it is no longer necessary to have a presence or link to Hong Kong to be able to succesfully operate in Mainland China. However, companies should consider getting further legal advice if in doubt about the optimal approach regarding their own situation.

For more information on the advantages of Hong Kong or for specific enquiries, you can contact the Hong Kong Trade and Development Council at:

- www.hktdc.com

They also operate an SME centre that provides specific information and services for SMEs:

- www.hktdc.com/mis/smecentre/en/HKTDC-SME-Centre.html

Advantages of Hong Kong

- Legal system with long continuous tradition:
  - Independent judiciary;
  - Many international law firms;
  - Level playing field.
- More predictable regulatory framework with less frequent changes in regulations;
- Tax and financial infrastructure:
  - Well regulated;
  - No foreign exchange controls;
  - Profit repatriation easier.
- Opportunity to use holding companies and still set up legal entity in China (WOFE, JV, etc.):
  - Approx. EUR 2,500 necessary to incorporate plus EUR 1,000 to renew annually;
  - Helps reduce liability risks to the parent company;
  - Makes registering in China somewhat easier as PRC officials recognise many of the documents from Hong Kong more readily.
- Simple tax system:
  - No capital gains tax;
  - Inbound or outbound dividend not taxed;
  - No VAT or sales tax;
  - No estate duty;
  - Lower corporate income tax (17.5% vs. 25% in China - but costs may be higher in HK);
  - Ability to use transfer pricing techniques.
- Ownership transfer can take place without government approval in most cases;
- Visa-free entry for most countries;
- Regional headquarters for over 3,000 companies;
- Better protection of IPR if some component or assembly takes place in HK; regional hub for licensing.

Disadvantages of Hong Kong when doing business in China

- Tax implications (a company registered in Hong Kong but conducting business in China constitutes non-compliance with Chinese tax regulations);
- Products that do not originate in Hong Kong cannot benefit from the Closer Economic Partnership Arrangement (CEPA - see below);
- Higher costs of Hong Kong may not justify the lower tax rates and other benefits.

Advantages of Mainland China

- Closer to your market including consumers, competitors, partners, PRC authorities, supply chains, industry clusters etc.;
- Local tax benefits (normally 15% - 24%) and incentives for over 200 special economic zones and some encouraged sectors;
- Easier relationship building, business development, and networking;
- Lower labour and other costs.

Case study: EGGsist

European IT consultancy and app maker EGGsist used Hong Kong as a stepping stone:

- Through extensive legal research the team determined that China was one of the world's fastest-growing ITC markets and well-suited for market entry;
- Upon multiple visits and legal advice from a Hong Kong law firm, they first set up a company in Hong Kong;
- One of the largest challenges they faced was human resources – the hiring, development and training of well-qualified engineers and mid-level managers, who usually prefer to work for larger companies;
- By involving employees in the business side of the company and building trust in the leadership they were able to gradually build up a suitable team;
- They eventually narrowed their customer base to foreign companies instead of local Chinese companies or SOEs, which tend to be risk-adverse and reluctant to hire SMEs;
- As the company became more profitable, EGGsist set up a WOFE in Mainland China to handle management and operations.

For more on this case study, please see the full case study *EGGsist – Succeeding in the IT consultancy sector* on the EU SME Centre website.

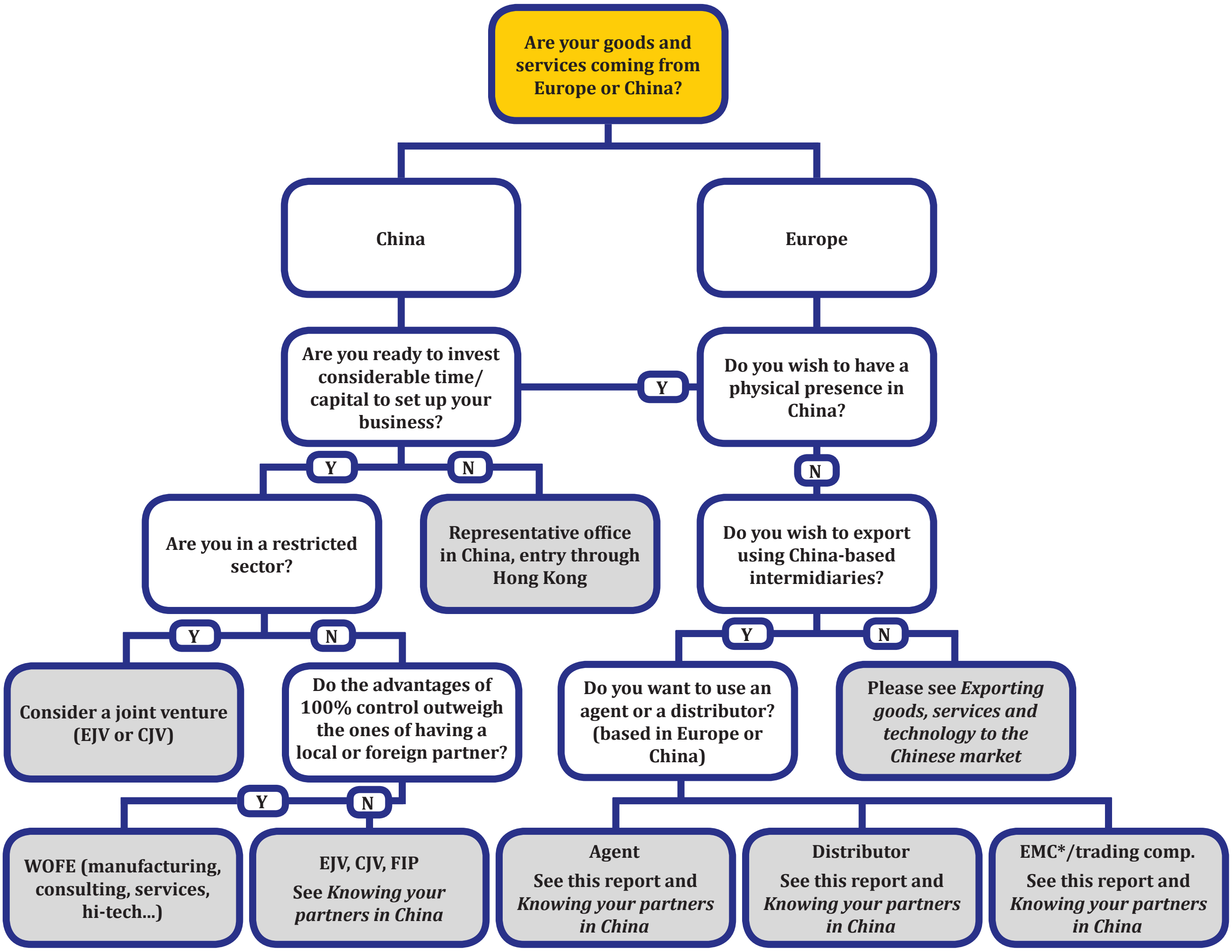
- www.eusmecentre.org.cn/content/eggsist-succeeding-it-consultancy-sector

8. Applicable legislation

- Catalogue for the Guidance of Foreign Investment Industries;
- Catalogue of Advantageous Sectors for Foreign Investment in Central and Western Regions;
- Law on Chinese-Foreign Equity Joint Ventures and its Implementation Regulations;
- Law on Chinese-Foreign Contractual Joint Ventures and its Implementation Regulations;
- Law on Wholly Foreign-Owned Enterprise and its Implementation Regulations;
- Law on Foreign-Invested Enterprises;
- Regulation on Administration of Commercial Franchise;
- Administrative Measures on Establishment of Partnership Enterprises by Foreign Enterprises or Individuals;

- The Company Law of the People's Republic of China;
- Law of the People's Republic of China on Enterprises Operated Exclusively with Foreign Capital;
- PRC Corporate Income Tax Law;
- The Catalogue of Import-Export Commodities Subject to Compulsory Inspection and Quarantine;
- Measures for the Administration of Prohibited and Restricted Import of Technologies;
- Foreign Exchange Control Regulations of the People's Republic of China;
- Enterprise Income Law of the People's Republic of China;
- Catalogue of Technologies Prohibited and Restricted from Import.

9. Recommendations on the best way to enter the Chinese market



EMC = Export management consultant

Note: In all the cases, creating an entity/holding company in Hong Kong may have some value and using online platforms as a sales channel may be a viable strategy.

10. Appendices

10.1. Relevant reading materials

EU SME Centre guidelines

China enterprise income tax

- www.eusmecentre.org.cn/content/guideline-china-enterprise-income-tax

Establishment and operation of a representative office in China

- www.eusmecentre.org.cn/content/establishment-and-operation-representative-office-china

Establishment of a foreign-invested enterprise in China

- www.eusmecentre.org.cn/content/establishment-foreign-invested-enterprise-china

Export of goods to China

- www.eusmecentre.org.cn/content/export-guideline

EU SME Centre reports

Individual income tax in China

- www.eusmecentre.org.cn/content/individual-income-tax-china

Selling online in China

- www.eusmecentre.org.cn/content/selling-online-china

Tax liability for non-resident enterprises engaging in service provision

- www.eusmecentre.org.cn/content/tax-liability-non-resident-enterprises-engaging-service-provision

EU SME Centre case studies

CS Wines - Importing wine in China

- www.eusmecentre.org.cn/content/cs-wines-–-importing-wine-china

Environnement SA - Selling air quality and emissions monitoring systems in China

- www.eusmecentre.org.cn/content/environnement-sa-–-selling-air-quality-and-emissions-monitoring-systems-china

Everwines and Organic Farm - Going online in the F&B sector

- www.eusmecentre.org.cn/content/everwines-and-organic-farm-–-going-online-fb-sector

German Biogas - Design and construction of biogas plants

- www.eusmecentre.org.cn/content/german-biogas-–-design-and-construction-biogas-plants

Linet - Exporting medical beds to China

- www.eusmecentre.org.cn/content/linet-–-exporting-medical-beds-china

Müller Textil - A leader in functional textiles crossing over to China

- www.eusmecentre.org.cn/content/mueller-textil-–-leader-functional-textiles-crossing-over-china

Stavus Machinery & Electrical Equipment - Exporting machinery to China

- www.eusmecentre.org.cn/content/stavus-machinery-electrical-equipment-–-exporting-machinery-china

Taste Spain - Setting up shop in the food industry

- www.eusmecentre.org.cn/content/taste-spain-–-setting-shop-food-industry

10.2. Additional case studies

Case study: Müller Textil

A German-based manufacturer of hi-tech functional fabrics decides to enter the Chinese market:

- The company followed two of its key customers to China in 2006;
- Management decided to target Chinese manufacturers in the automotive and consumer industry, the same industries it targets in its home market;
- After extensive market research, chose to use an experienced market consultant to help establish a WOFE in the Langfang Economic and Technical Development Zone in Hebei province, which is close to an airport, a port in Tianjin and its two key customers;
- Raw materials are imported from Europe and processed in China;
- In the beginning, nearly 60% of Müller's output in China was exported overseas, exempting them of the 10% import duty on raw materials and allowing for a lower VAT;
- IPR is protected through difficult to copy machinery, production know-how and building trust in employee relationships;
- Employee turnover is high in China and Müller works hard to retain staff;
- Sales are managed through a locally trained team of Chinese employees;
- Müller China has been profitable since its establishment in 2006.

To access the full case study on German Biogas, please visit our website.

- www.eusmecentre.org.cn/content/mueller-textil-–-leader-functional-textiles-crossing-over-china

Case study: Taste Spain

Taste Spain, a Spanish food vendor, set up two WOFEs to meet growing demand for wine and food products:

- Through market research the company discovered that China's demand for consumer food and wine products is great but supply is limited, creating vast opportunities for newcomers;
- Taste Spain initially set up a WOFE with the business scope of importing and selling wine;
- Found that distribution network was fragmented and time-consuming to navigate;
- Found that warehouses were badly managed, so decided to set up their own storage facilities for greater quality control;
- After increased demand from distribution partners, they decided to set up another WOFE to import and distribute Spanish agricultural goods and food;
- From submitting a sample for inspection to receiving approval from AQSIQ, the entire process for labelling approval took three to four months;
- To protect its IPR, Taste Spain registered its trademark with the China Trademark Office (CTO) in both color and black-and-white versions. The entire trademark registration process took about 18 months.

To access the full case study on Taste Spain, please visit our website.

- www.eusmecentre.org.cn/content/taste-spain-–-setting-shop-food-industry

Case study: German Biogas

Well-established company in the biogas sector sets up a WOFE in China:

- Biogas technology remains underdeveloped and fragmented in China;
- It took about a year to obtain all the approvals to open their first plant;
- Chinese law required them to partner with a Chinese design company;
- After conducting surveys to assess the market demand for biogas, it opened a WOFE in 2009;
- Because of low awareness there is currently a lack of competitors and market opportunities, but both are expected to increase in the future, especially if the government redirects policy in support of biogas;
- Chinese companies are adept at copying foreign IP, but foreign companies often need their help to expand their business. Since German Biogas was required to find a local partner, the company sought to mitigated its IP risk by partnering with a large Chinese state-owned enterprise (SOE) whose core business is unrelated to biogas;
- Joint ventures can be risky where high-tech IP is involved;
- The long-term strategy is to win market share before opportunities increase and Chinese competitors emerge.

To access the full case study on German Biogas, please visit our website.

- www.eusmecentre.org.cn/content/german-biogas-–-design-and-construction-biogas-plants

10.3. Sample questions from the online quiz *Gauging your readiness*

The online quiz *Gauging your readiness,* which accompanies the four reports of the EU SME Centre's diagnostic kit, will help you gauge your knowledge of the Chinese business environment. Here are some sample questions:

- Do you have any evidence that there is a growing demand of your product in China?
- How much do you know about your competitors in China?
- Do you know in which cities you should be selling your product?
- Do you know which distribution channels to use?
- Do you know your customers?
- Have you confirmed that your product can be sold in China?
- Do you know how to find the legal/technical requirements for your product?
- Have you already decided what would be the best way to access the Chinese market?
- How much are you ready to invest upfront?
- Do you understand the possible legal structures in China?
- What do you know about the availability of your required human resources in China?
- Have you found a Chinese partner to distribute your products?
- Do you know how to perform preliminary due diligence in China?
- What are your expectations in terms of time to achieve your goals?
- Do you have previous experience in accessing other markets?
- What is your strategy to protect your intellectual property in China?

To find out more about the online quiz *Gauging your readiness*, please go to

www.eusmecentre.org.cn/quiz

The EU SME Centre assists European SMEs to export to and/or invest in China by providing a comprehensive range of free, hands-on support services including the provision of information, confidential advice, networking events and training. The Centre also acts as a platform facilitating coordination amongst Member State and European public and private sector service providers to SMEs.

The Centre's range of free services cover:

- Business development – provision of market information, business and marketing advice
- Legal – legal information, initial consultations and practical manuals
- Standards – standards and conformity requirements when exporting to China
- HR and training – industry and horizontal training programmes
- Access to a service providers directory and information databases
- Hot-desking – free, temporary office space in the EU SME Centre to explore local business opportunities
- Any other practical support services to EU SMEs wishing to export to or invest in China.

To find out more about our services visit the EU SME Centre website at

www.eusmecentre.org.cn

To download up-to-date and practical market reports, guidelines and case studies for free, go to

www.eusmecentre.org.cn/content/knowledge-centre

To post your business enquiries to our in-house experts and receive an answer within seven days, click the ask-the-expert button on our website or send an email to

enquiries@eusmecentre.org.cn

Disclaimer

Published by:

EU SME Centre
Room 910, Sunflower Tower
37 Maizidian West Street
Chaoyang District, Beijing 100125
P.R. China

Phone: +86-10-85275300
Email: enquiries@eusmecentre.org.cn
Internet: www.eusmecentre.org.cn

The EU SME Centre is a project funded by the European Union