

Doing Business in China



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Dynamics Unique to Doing Business in China

- The Chinese government plays a significant role in the economy, and businesses must navigate regulations and policies that can change rapidly.
- China has a vast and rapidly growing consumer market. The middle class is expanding, leading to increased demand for various products and services.
- Relationships and networks are essential in Chinese business culture. Building and maintaining personal relationships can be as important as the business deal itself.

Dynamics Unique to Doing Business in China

- Chinese companies often have better local market knowledge and may receive government support, making competition fierce for foreign businesses.
- China is a leader in certain technologies such as e-commerce, mobile payments, and AI. Businesses must be prepared to adapt to and leverage these technologies.
- Trade Entry Modes:
 - Indirect Trade
 - Direct Export

Challenges for Trade Creditors

- Rising tensions in US-China relations
- Regulatory & compliance risks
- Changes in political policies or economic conditions can impact businesses suddenly. Trade creditors should stay informed.
- Currency Fluctuations are subject to government controls, which can affect trade settlements and pricing.
- Concerns about data security

Challenges for Trade Creditors

- Payment terms in China can be longer than in other countries, and the concept of creditworthiness can differ. Trade creditors need to understand local payment customs and expectations.
- Language and cultural differences can lead to misunderstandings and miscommunications. Clear and effective communication is essential to managing credit risk.

Best Practices For Doing Business in China

- Connection, connection, connection
- Invest time in developing personal relationships with Chinese partners. Trust and mutual respect are foundational in Chinese business culture.
- Learn about Chinese culture and etiquette. Understanding cultural nuances can prevent misunderstandings and build rapport.
- Keep up-to-date with local regulations, market trends, and political developments. This knowledge can help anticipate changes and adjust strategies accordingly.

Best Practices For Doing Business in China

- Hire local staff or engage a local partner to help navigate the market. They can provide valuable insights into local regulations, customs, and business practices.
- Establish strong relationships with local banks. They can provide financial support, facilitate transactions, and offer insights into local financial conditions and foreign exchange control.
- Depending on the industry, it is helpful to engage a third party (servicing entity) to help facilitate the business

Ways to Mitigate Risk and Accommodate Business

- **Know your customer**
 - Conduct thorough due diligence on potential partners and customers. Verify their business credentials, financial health, and reputation.
- Utilize resources (Chamber of Commerce, Consulate, Banker and Consulting firm, People in industry).
- Understand the laws and regulations. Learn the interpretation behind it.
- Spread risk by diversifying your customer base and suppliers. This reduces dependency on any single entity.

Ways to Mitigate Risk and Accommodate Business

- Contract Protection: Use clear and detailed contracts to outline terms and conditions. Consider including arbitration clauses to resolve disputes outside the Chinese court system.
- Invest in trade credit insurance to protect against non-payment and political risks.
- Adapt products, services, and business strategies to meet local preferences and regulatory requirements.
- Negotiate payment terms that balance risk and competitiveness. Use letters of credit or partial payments to secure transactions.