

Break Through the Chinese Wall

**- Legal and practical guidelines
for establishing a company in China**

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About the book

“Break Through the Chinese Wall” is an accessible handbook which provides an introduction to the fundamental rules, regulations and common practices related to establishing and running a business in China. The handbook provides answers to the most frequently asked questions from our clients.

The handbook has been jointly written by Capital Associates and NCO China. Capital Associates is a Chinese law firm specialised in providing commercial legal services and assistance to foreign companies investing in and trading with China. NCO China is a consulting firm that offers corporate services with regard to the establishment of an enterprise in China, Hong Kong etc., and provides accounting, tax and HR services to foreign investors in China. Both Capital Associates and NCO China serve a variety of clients; from large multinational companies to small and medium sized enterprises.

China’s rapid development means that regulations and practices are constantly changing. The handbook is meant to be an introduction to the current laws and practices in China. Updates and further information regarding the subjects covered by the handbook can be obtained from our offices or websites. Please refer to the contact information in the back of the book.

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Chinese business customs and mentality

Despite the fast economic development in major parts of the country, and the increasing appetite of Chinese people to adopt western lifestyles, China is still a country with its own very special character. Many first time visitors to the "middle kingdom" will without doubt find the Chinese mentality and culture interesting but also challenging.

Considering the differences between Chinese culture and the "western way of doing things", the success of your business efforts in China may very well depend on how well you understand and get along with your Chinese counterparts. Insight into Chinese traditions and habits and careful preparations prior to important meetings are essential.

How to negotiate in China

- It is a good idea to bring your own Chinese interpreter when negotiating. The interpreter can help you understand everything that is said in a meeting, both explicitly and between the lines, which is especially useful when English is poorly spoken or when Chinese is the language used.
- Expect to make several presentations and to different levels of the other party, as the structure of Chinese organizations tend to be hierarchical.
- Expect that meetings can be arranged and cancelled with short notice and that you may have to attend a meeting during the weekends.

- Chinese people love colours and impressive numbers and figures. Presentation materials should be eye-catching and there should be enough copies for everyone.
- Chinese businessmen rely largely on subjective feelings and personal experiences. First hand impressions are therefore very important.
- In Chinese business culture one of the most important concepts is “saving face”. Making a Chinese person lose face is the same as saying that you don’t owe the person your respect. Causing embarrassment or loss of composure, even unintentionally, can be a disaster for successful negotiations.
- A meeting begins with the ceremonial exchange of business cards. In Chinese business culture, this is the formal way to determine who the key-person(s) in the decision making process are. Business cards should therefore always show your full professional title(s).
- To make a good impression, have business cards made with English on one side and Chinese on the other side. Make sure the Chinese characters are precise and correct.
- Chinese people are keen on things that demonstrate prestige and prosperity. If your company has a reputation of being the oldest, biggest or best, or if you are recognized as a supplier of a royal family, don’t forget to mention it on your business card.
- Always remember to present your card with both hands, pretending to give away something precious. The business card is your face and should be treated with respect. Likewise, when you receive a business card, show your appreciation by reading the card carefully, praise the design and content, and place it

gently in your time manager, breast pocket, or on the table in front of you.

- There is a strong emphasis on hierarchy in Chinese business culture. Always remember to think of hierarchical orders when you and your colleagues enter the meeting room, shake hands, speak aloud and lead discussions. Subordinates are not supposed to lead the way or interrupt any discussion.
- At the end of a meeting, the guests are expected to leave the room first and in hierarchical order.
- In China, humility and politeness towards foreigners is a true virtue. Chinese find it very difficult to say “no” directly, instead ambivalent answers such as “I need to think more about it”, “maybe”, “I am not sure”, etc. are often used.
- Chinese business people have a reputation of keeping negotiations going on “forever” in order to tire you out and gain advantage. Try to set up a deadline, albeit don’t expect your Chinese counterparts to take too much notice of it.

Business meals

- Business lunches and dinners are popular in China. Business breakfasts, however, are not a part of the Chinese business culture.
- Dinners start between 6.00 p.m. and 7.00 p.m. and rarely last for more than a few hours.
- Chinese seating etiquette is based on hierarchy; therefore always wait to be seated. Generally, the seat at the middle of the table, facing the door, is reserved for the guest of honour or most

important person (senior member). Usually, the host sits besides the guest of honour to the left. Other guests are seated in descending order of status.

- Remember not to begin eating or drinking before the host.
- The Chinese have a keen interest in food and the process of eating can best be described as a social event. By using your chopsticks you nibble at one dish after the other. It is perfectly all right to reach in front of each other, although the revolving glass plate on which the dishes are located usually will bring your chosen dish well in reach. You may experience that the host as a courtesy places food for you to taste on your plate.
- During a meal, expressing enthusiasm about the food is normal social behaviour.
- Alcoholic drinks in form of wine and beer are common and your Chinese host may try to test your ability to handle alcohol by serving various local strong liquors. The reason for this is that the Chinese believe that alcohol brings out your true face.
- During the meal it is very common that the host makes a toast by giving a little speech appreciating your mutual friendship and business relationship. You may experience that the host ends the speech by saying “ganbai” which means “bottoms up” or “empty the glass”. You are expected to return the toast by giving a little speech later. It also quite often happens that the other participants in the meal approach you one by one in hierarchical order to have a private toast with you. In this situation, you are also expected to return the toast individually.
- Smoking is fully acceptable, both during and after a meal. Remember to offer cigarettes to the rest of the table.

- The serving of fruit and the presentation of hot towels signals that it is time to leave the dining table. According to Chinese business etiquette, it is the guest who should make the first move, as the host will not initiate a guest's departure.
- It is well seen to reciprocate the hospitality of your Chinese host by hosting a business lunch or dinner yourself. Despite your obvious interest in making a good impression, do not surpass your Chinese counterpart by arranging a more lavish gathering. This may cause your Chinese counterpart to lose face.
- Chinese people love Chinese food. Take them to a good Chinese restaurant rather than a fancy Italian restaurant, unless you are very sure that your Chinese counterpart has a true taste for western food.
- Generally, tipping is considered an insult in China rather than an expression of appreciation. Do not tip unless you are in an international restaurant or a big hotel.

Public behaviour and addressing

- Initial greetings are done by a handshake. Do not attempt any intimate contact such as hugs or kisses on the cheeks, unless your Chinese counterpart initiates such gestures.
- On formal occasions, most Chinese people should be addressed with their official title and name. Alternatively, "Mr.", "Madam", and "Miss" in conjunction with the last name will normally also do. You may find many Chinese names difficult to pronounce and remember. If a Chinese has adopted an English first name, which is very popular among young people, you can also use this name.

- If you are invited to workplaces, conferences or other places with many Chinese people gathered, it is likely you will be welcomed with applause. Show your gratitude by applauding back.
- If you wish to give a present or pay for a meal, you will need to insist on it at least three times before Chinese people will give their acceptance. This is the Chinese way of showing hospitality and friendship. Don't forget to show equal reluctance if it is you who are offered something.
- The concept of Chinese politeness can sometimes be difficult to understand for foreign people. Because it is so essential in Chinese culture not to lose face, many Chinese people will rather tell you to go a wrong way than admitting that they don't know the way. You may also find that people do not open the gift you presented in front of you because according to Chinese custom it may be considered as showing greediness.

Small talk and conversation

- Chinese people prefer to chitchat before turning to serious talks or negotiations. Expect to be asked about your journey and your opinion on the city, the Chinese people, the Chinese food etc.
- Chinese people are easy to impress if you can demonstrate a little knowledge of Chinese history, culture, geography, or topical issues. Do a little preparation, e.g. by reading Chinese newspapers on the Internet.
- Be aware that certain topics are sensitive in China. Avoid initiating any discussions on the Tibet issue, the China-Taiwan dispute and the communist party.

- Learn a few Chinese words. Your Chinese host will appreciate your initiative, even if he/she finds your pronunciation difficult to understand.

Useful links

Help and advice when establishing a FIE in China

- www.capitallaw.cc
Capital Associates' website.
- www.ncochina.com
NCO China's website.

Government and organizations

- <http://english.gov.cn/index.htm>
The official website of the Chinese central government.
- www.ebeijing.gov.cn
Official website of the Beijing Municipal Government.
- www.shanghai.gov.cn
Official website of the Shanghai Municipal People's Government.
- www.china.org.cn
Government portal site to China that offers broad access to news about China.
- www.fdi.gov.cn
Website of the Chinese Ministry of Commerce directed to foreign investors. The site comprises government news and information about investment directions, economy, statistics and law.
- <http://english.mofcom.gov.cn/>
Official website of the Chinese Ministry of Commerce.

- www.chinainvest.com.cn
China International Electronic Commerce Centre's website. Contains investment news and information about investment projects in China.
- www.tdctrade.com
Hong Kong Trade Development Council's website. Provides information about CEPA.
- www.tid.gov.hk/english/cepa/
Website of Hong Kong Trade and Industry Department. Provides full text documents on all CEPA agreements and annexes.
- www.adb.org
Website of the Asian Development Bank.

Other sources of information about China

- www.transparency.org
Website of Transparency International, a coalition against corruption.
- www.hoover.org/publications/clm
Website of the Hoover Institution of Stanford University. Provides information about China's leadership politics and its foreign and domestic policies.
- www.chinaeconomicreview.com
China Economic Review is a monthly magazine published in Hong Kong covering business, finance and economics in China.
- www.worldbank.org/transitionnewsletter
World Bank newsletters on developing economies.

- www.cia.gov/library/publications/the-world-factbook/
U.S. CIA World fact book.
- www.expatsinchina.com
A guide for foreigners living in China.

Logistics

- www.maps-of-china.com
Maps of Chinese cities, provinces and regions in the principal areas of China.
- www.primecargo.com
Website of the international transportation and freight forwarding company Primecargo.
- www.dsv.com
A transportation company that offers end-to-end transport and logistics solutions.

News in English

- www.chinadaily.cn
Website of China Daily, the Chinese government's official mouthpiece.
- www.scmp.com
Website of South China Morning Post, which is a little less censored than China Daily.
- www.shanghaidaily.com
Website of the local Shanghai newspaper
- <http://english.peopledaily.com.cn>.

Chambers of commerce

- www.amcham-china.org.cn
The American Chamber of Commerce in China.
- www.europeanchamber.com.cn
The European Chamber of Commerce in China.
- www.pek.britcham.org
The British Chamber of Commerce in China.
- www.ccifc.org/
The French Chamber of Commerce in China.
- www.dccc.com.cn
The Danish Chamber of Commerce in China.
- www.swedishchamber.com.cn
The Swedish Chamber of Commerce in China.

Abbreviations

AIC	Administration of Industry and Commerce
AMEA	Anti-Monopoly Law Enforcement Agency
ASBE	Accounting Standards for Business Enterprises
BLTB	Beijing Local Tax Bureau
CAS	Chinese Accounting Standards
CBRC	China Banking Regulatory Commission
CCPIT	China Council for the Promotion of International Trade
CEPA	Closer Economic Partnership Arrangement
CIETAC	China International Economic and Trade Arbitration Commission
CJV	Contractual or Cooperative Joint Venture
CO (CEPA)	Certificate of Hong Kong Origin (CEPA)
COFCOM	Commission of Commerce
CPA	Certified Public Accountant
CSRC	China Securities Regulatory Commission
DTT	Double Taxation Treaty
EJV	Equity Joint Venture
EPZ	Export Processing Zones
FESCO	Foreign Enterprise Service Corporation
FIE	Foreign Investment Entity
FIP	Foreign Invested Partnership
FR	Factory Registration with TID (CEPA)
HKTDC	Hong Kong Trade Development Council
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
LoI	Letter of Intent
MII	Ministry of Information Industries
MOFCOM	Ministry of Commerce
MOLSS	Ministry of Labour and Social Security
NDRC	National Development and Reform Commission
NPC	National People's Congress

PBOC	People's Bank of China
PRC	People's Republic of China
RMB	Renminbi
RO	Representative Office
ROOs	Rules of Origin (CEPA)
SAFE	State Administration of Foreign Exchange
SAIC	State Administration for Industry and Commerce
SAR	Special Administrative Region (Hong Kong and Macau)
SAT	State Administration for Taxation
SIPO	State Intellectual Property Office of the PRC
TID	Hong Kong Trade and Industry Department
TRIPs	Trade-Related Aspects of Intellectual Property Rights (agreement under WTO)
WFOE	Wholly Foreign Owned Enterprise
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

References

We have found inspiration for the handbook on the websites listed under “Useful links”. In addition, various materials from events and presentations together with “Danmarks Nationalbank, Quarterly Review 1, 2009” have been used.

Last, but not least, we have drawn on the long experience of Capital Associates and NCO China in advising clients.

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