



CHINA FACTS

- 1.3 billion people
- Capital is Beijing
- Official language is Mandarin
- Exchange Rate is A\$1=6.0047 Yuan (Sept 2006)
- 600 million potential consumers
- Foreign Direct Investment into China grew from USD44.25 Billion in 2001 to USD60.25 Billion in 2005.
- GDP growth in 2006 – average 10.75%
- Ranked in terms of GDP, China is the 6th largest economy in the world
- On current forecasts, China will overtake the UK and France and become the world's fourth largest economy by 2007.
- China has entered the WTO
- China's largest export market is the US at 21.4% of total exports in 2005.
- The Principal source of Imports in 2005 was Japan at 15.2%

Source: Market Information & Analysis Section, DFAT



Welcome to the first issue of "China Focus". "China Focus" is a periodic newsletter that is produced by China Trade Gateway and designed to provide anyone interested in conducting business in China with the latest facts, information and insights on this amazing market. The newsletter is intended to dispel some of the myths about doing business in China and reveal the opportunities that exist for Australian and New Zealand Businesses.

China is rapidly becoming one of Australia's and New Zealand's most important trading partners and businesses who don't take advantage of the opportunities presented will find themselves on the back foot as their competitors make the first move. China has advanced considerably from the times where many observers wrote China off as a money pit for foreign companies. In fact a recent survey of 250 foreign companies in China found 75 per cent of them were profitable. This represents a sharp turnaround from even a couple of years and signals a promising future for Australian and New Zealand companies who seize the opportunity.

We hope you find this issue informative and look forward to continuing to keep you informed on conducting business in China.

**Damian Geleyns – CEO
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Setting Up Your Business in China Market Entry Options for Foreign Companies

Australian and New Zealand looking to do business in China have a number of options as to the business model they choose to adopt. The option you chose will be determined by the level of resources you are prepared to commit and the risk you are prepared to take. Your options include:

Agents

With careful selection, training and constant contact a local agent can provide you with good market representation in China. Choosing an agent who can handle internal distribution and marketing is the most cost effective and low risk approach to entering the Chinese market. However most agents represent a wide range of products and so may not provide your products with the same amount of focus as you yourself would.

Representative Offices

Representative offices are the easiest type of operating model for foreign businesses to set up in China. However, they are limited by law to performing "liaison" activities. They are not able to sign sales contracts, directly bill customer or supply parts and after sales service for a fee.

Joint Venture

A joint venture with one or more Chinese partners avoids many of the legal restrictions for a foreign company doing business in China. (ie. import restrictions and high tariffs.)

Joint Ventures provide for greater control over both marketing and management but require constant monitoring of area such as finance, personnel and basic operations.

Wholly Owned Foreign Enterprises (WFOE).

A WFOE will help you avoid import restrictions and higher tariffs whilst giving you greater management control and intellectual property protection.

Current laws require foreign firms to provide advanced technology or be primarily export oriented, and restricts or prohibits them in a number of service and public utility sectors. However with joining the WTO, many of these requirements are being phased out.

Licensing

Licensing your technology to a local company offers you short term profits but runs the risk of creating long term competitors. To mitigate this risk some firms attempt to license older technology, promising higher level access in the future as part of JV.

Franchising

China has no laws on franchising as yet and may foreign companies are establishing multiple retail outlets which for all practical purposes operate as franchises.



Tips for Successfully Conducting Business in China

1. Make sure you have conducted your market research. Be sure that China offers a market for your product or service. Don't be fooled by what appears to be a huge consumer market.
2. Seek qualified legal and financial advice. Getting your financial and legal structure right in China is important right from the start.
3. Halve your expectations, and double your time and budget.
4. Talk to other Australians with experience in China. They can provide insights that will help you avoid some of the more common mistakes of doing business in China.
5. Guanzi (relationships) is important – however be wary of those promising the world. You will find that most Chinese claim to have senior level connections. Once again do your due diligence.
6. Make sure you give all your projects and sales in China constant attention. Never let your partners assume you have forgotten them.
7. Never agree to pay bribes of any kind. No contract is worth the potential negative outcomes of bribery.
8. Make sure you know your partner or customer. Check the reliability of the information on your partner or customer from independent sources. Do your due diligence.
9. Make sure you have clear contact terms with regard terms of payment, performance standards and time lines. Further, make sure you use your own legal representative with a presence in China.
10. Make sure you use professional interpreting and translation services.
11. Respect Chinese cultural and business etiquette.



CHINA TRADE GATEWAY

China presents immense opportunities for Australian businesses. China Trade Gateway has been formed to help Australian and New Zealand companies more effectively and profitably access this market.

Working with strategic partnerships in China we work closely with Australian and New Zealand companies to access the opportunities presented by China by providing services in the

- following areas:
- Market Research
 - Market Entry Strategies
 - Market Development
 - Product Sourcing
 - Contract Manufacturing
 - Facility Set Up/Fit Out
 - Investment
 - Printing & Packaging Solutions
 - Translation Solutions



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Australia- China Trade Facts

- Australia was China's 14th largest export market in 2005
- Australia was China's 9th largest source of imports in 2005.
- Australia's exports to China in 2005-2006 were A\$18,093m
- Australia's imports from China were A\$23,202m
- Australia's major exports to China are in iron ore, wool, copper ores, lead, manganese and other ores.
- Australia's major imports are in clothing, computers, telecommunications equipment, toys, games & sporting goods.
- Australia's export of services to China were A\$3212m in 2005-06.

Market Information & Analysis Section, DFAT

International CEO Views On China

James Truchard, CEO of National Instruments
"In the year 2020, China will be our largest nation for exports. We are committed to the Chinese market, and we are investing there."
Austin American-Statesmen, May 25, 2000

Daniel Carp, CEO of Eastman Kodak

"As for China, we've invested over US\$1 billion there, and the results have been everything we hoped for. China is now our No. 2 market for roll film. It ranked about 17th in the mid-1990s. I'm certain China will become our biggest market for roll film in my career."

Delta's Sky Magazine Interview, August 2001

John Chambers, CEO of Cisco Systems

"China is going to be a major force in the global economy... I've been coming to China for 15 years. It would not surprise me if it was our second largest in terms of volume after the US, looking out several years... We anticipate hitting a billion dollar run-rate by the end of our fiscal year."

CNN Interview, January 19, 2001

Jorma Ollila, CEO of Nokia

"China is our second largest market, with total sales of US \$2.8 billion last year. We have set up 12 parts factories in Beijing. Our China-based R&D center caters to not only Chinese users but also the global market."

China Business Information Network, May 16, 2001

