

EXPAND YOUR BUSINESS IN CHINA

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1. INTRODUCTION

Background:

- Overseas investing is the result of globalization.
- China is popular and attractive for European investors.



1. INTRODUCTION

Q: What do you need to pay attention to when you come to China?

- ✓ Chinese business culture
- ✓ Chinese governmental policies



1.1 Business culture

- Relationship is important in Chinese business culture.
- Chinese businessmen tend to find long term partners.
- Punctuality.
- Banquets are always important when reaching agreements.



1.2 Governmental policies

New Silk Road

Free Trade Zones

New Foreign Investment Law

Cybersecurity Law



1.2.1 New Silk Road

“The new silk road is close to 3 billion people and represents the biggest market in the world with unparalleled potential.”

—Xi Jinping

Stipulating policies for New Silk Road:

- Infrastructure completion –airport, highways, railways, etc.
- Finance –Asia Infrastructural Investment Bank
- Market –Free Trade Zone establishment, such as Tianjin, Shanghai, Fujian, etc.
- Culture-Cooperation with other countries, such as Belgium, England, Russia, Denmark, etc.



1.2.2 Free Trade Zone

- Shanghai Pilot Free Trade Zone:
established on 29th September 2013
- Chances for foreign investors----
in FTZ the foreign investors or companies
can invest in 19 more key sectors, such as
salt industry, high speed railway, oil
exploitation, etc.



1.2.3 New Foreign Investment Law (draft)

- Background: supposed to be published at the end of 2018.

Significance for foreign investors---

- ✓ Broad scope for investment;
- ✓ Easier access permission in investment sectors;
- ✓ Simplified process for application.



1.2.4 Cybersecurity Law

- Background: became effective on 1st June 2017.

Significance for foreign investors---

- ✓ Broader scope of “network operators”;
- ✓ Critical information infrastructure operator (CIIO) shall store personal info. and important data within the territory of China;



2. Ways to expanding business in China

- To expand your business in China, you can choose to:
 - Set up companies in China;
 - Find the partners or suppliers for your industries.



2.1 Set up in China

- To set up a company in China, you may choose the following entering modes:
 - Wholly Foreign Owned Enterprise (WFOE)
 - Joint Venture (JV)
 - A. Equity Joint Venture
 - B. Cooperation Joint Venture
 - Foreign Invested Partnership
 - Representative Office (RO)



Characteristics	WFOE	JV<CJV/EJV)	RO	Foreign Invested Partnership
Control and Management	100 % control	Share with parties	Dependent on mother company	Share with partners
Issue Invoice	Yes	Yes	No (no profit making)	Yes
Liability	Limited	Limited	Mother company responsible	Limited (general partnership) or Unlimited (limited partnership)
Investment Capital	Total foreign direct investment	No registered capital limitation	No paid capital required	No minimum request on registered capital
Establishment	Complicated in establishment procedures	Complicated / based on the agreement between parties	No legal personality / quick registration	Less procedure

2.2 CHOOSING YOUR PARTNERS

- **TIP 1: INVEST TIME**

Choosing a suitable partner takes time.

Saving time by working with the first company you find might cost you much more time in the end...



2.2 CHOOSING YOUR PARTNERS

▪ **TIP 2: GO TO CHINA**

Before your trip:

- Pre-select a few companies you would like to visit
- Ask people in your network to advise you
- Select a reliable translator

In China:

- Visit the companies
- Go several times
- Try to go again without notice



2.2 CHOOSING YOUR PARTNERS

- **TIP 3: BUILD THE RELATIONSHIP AND TRUST**

Chinese people do business with people they trust.

Important for you to be honest on:

- What you are looking for
- What you expect from your partner
- What you can provide him

➔ Goal: to show him how the relationship will become a win-win cooperation

It does not imply to disclose everything!



2.2 CHOOSING YOUR PARTNERS

▪ **TIP 3: BUILD THE RELATIONSHIP AND TRUST**

How to be sure that you can trust your Chinese partner?

- Nobody is never 100% sure (from both sides)
- Still important to reach a good level of trust
- ➔ Try to understand what the real plan is, by asking apparently meaningless questions



2.2 CHOOSING YOUR PARTNERS

- **TIP 3: BUILD THE RELATIONSHIP AND TRUST**

KTV, Baijiu, gifts, etc.
are part of Chinese culture



Up to you to decide to which extent you would like
to integrate these aspects in your relationship.

What about your own culture?



2.2 CHOOSING YOUR PARTNERS

▪ **TIP 4: YOU HAVE THE CHOICE - COMPETITION**

China is a big country and growing economy.

There are many suppliers and potential business partners.

- ➔ Be sure to negotiate with the decision-maker;
- ➔ You can be strong on several aspects of negotiation depending on competition in your industry sector;
- ➔ If you are not satisfied, look for a new partner until you find the right one.



2.2 CHOOSING YOUR PARTNERS

▪ **TIP 5: HOW TO OBTAIN GOOD QUALITY?**

Chinese factories can produce at high quality standards levels.

- ➔ Make sure your requirements are clear and in compliance with quality standards for importing in EU;
- ➔ Assess the production line and quality of products that your partner already produces;
- ➔ Agree on a small order (as test) first.



3. COOPERATION WITH PARTNERS

▪ TIP 1: PROTECT YOUR IP FIRST!

Before entering the Chinese market to avoid unlawful use of your rights by Chinese partners.

Protect your IP rights in China even though you do not sell your products on the Chinese domestic market.

e.g.: Do not believe a partner who suggests to register your trademark/patent/copyright for you, he will probably register it in the name of his own company.



3. COOPERATION WITH PARTNERS

- **TIP 2: SIGN A NON-DISCLOSURE AGREEMENT**

In order to prevent your partner from disclosing your business secrets and confidential information.

Suggest to sign the NDA in Chinese (and English).



3. COOPERATION WITH PARTNERS

▪ TIP 3: ASK FOR THE BUSINESS LICENSE

Official document of registration of the company

- Ask a copy of the **business license** and control the validity of registration.
- Ask for a copy of **ID card** of your partner

➔ Necessary information
in case of problem



3. COOPERATION WITH PARTNERS

▪ TIP 4: SIGN AND SEAL AGREEMENTS

Article 32 of Chinese Contract Law:

« *Where the parties conclude a contract in written form, the contract is established when it is **signed or sealed** by the parties.* »

➔ The contract must be signed and/or chopped by all the parties in order to become valid.

- signed : between individuals
- sealed: between companies



3. COOPERATION WITH PARTNERS

■ TIP 5 : ASK FOR CONFIRMATION LETTER

If goods are ordered through email exchanges, always ask for a confirmation letter.

Very common in international trade, can also be used in China (recommended)

Article 33 of Chinese Contract Law:

*« Where the parties conclude the contract in the form of letters or data-telex, etc., one party may request to sign a **letter of confirmation** before the conclusion of the contract. The contract shall be established at the time when the letter of confirmation is signed.»*



4. Conclusion

- Think over before making decision.
- Make research and preparation for your industry.
- Seek professional and legal guidance.



THANK YOU FOR YOUR ATTENTION

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