

# GPS Roadmap for Starting & Operating A Business in CHINA

在中国把经验化为利润

*Kenneth Lam*

*Helen Law*



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## 在中国把经验化为利润

By Kenneth Lam & Helen Law

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# Prologue: Purpose of this Book

By Helen Law

If you often visit Chapters, Amazon.com or even Airport Book Stores, you may find quite a few books written on China investment and trade; why then do we need yet another book on the same topic?

Who are these authors – Kenneth Lam and Helen Law? College professors, Chinese Government officials or investment bankers?

If these questions have crossed your mind, it's perfectly natural.

## **Why Another Book on China Business**

For thousands of years in history, China was regarded by the outside world as a kingdom of long history, culture and wealth in the Far East. People were curious and marveled over the exotic goods such as fine porcelain, tea and silk brought back from this Central Kingdom. Nonetheless, the Silk Road was the only gateway on land linking the Western world with this Central Kingdom; kings and heads of states could glean only very sparse information about this mysterious regime came from explorers such as Marco Polo who took the Silk Road to China. In a way, these travel stories could be regarded as initial forms of “China Business Guides”, and the Silk Road was the China trade gateway for the Western world.

There is a popular riddle that says: “In modern China, everything is impossible but anything is possible”; Old China Hands all quite agree that this is a vivid summary of the “China Phenomenon”. What it means is that according to the books, there are hundreds if not thousands of regulations and restrictions governing business and life in China; nonetheless, at the same time if you have good advice or “back-door

guan-xi", almost any objectives can reasonably be achieved. No wonder that some foreign executives come to the conclusion after working for a while in China that "to become a China expert is more strenuous and horrendous than obtaining a Harvard PhD"! On one hand, China seems to be waving its hands to the outside world, with promises of buckets of gold for dare devils with entrepreneurship, creativity and adaptability; on the other hand, China seems to be a market too confusing and ever-changing, altogether very difficult for foreigners to come to grasp with. Indeed, without a reliable GPS device, it is likely that a good portion of foreign business people would feel lost in surfing the modern Silk Road.

The authors of this book are "Old China Hands" who have been living and working in China for over 15 years, with hands-on experience in establishing and operating professional consulting firms. In due course, they have paid expensive tuitions and learnt many lessons first-handedly regarding the pitfalls, difficulties and problems associated with establishing and operating a business in China. In writing this book, the authors wish to share these experiences with those who intend to explore the China market or who have already landed in China but feel somewhat drowned by waves of imperfect and conflicting information in the market. The authors hope to provide not only basic information which readers can obtain via other "official channels" such as Government websites, but more importantly the readers can learn about pragmatic tactics through actual experiences which the authors share in this book. The ultimate aim is to save them part of the pain, trouble and costly mistakes which foreign entrepreneurs may likely suffer in China if they operate without candid advice and assistance.

Hope you find this book a reliable GPS device as you travel along the modern Silk Road! The authors cannot pretend that this book is as powerful as the Auto-drive function of a Cadillac sedan — that your China business journey will be smooth as silk after reading this book, but at least this GPS device can point you to the correct general direction and save you the risk of going completely the wrong way.

Enjoy your reading, and bon voyage for surfing the modern Silk Road!

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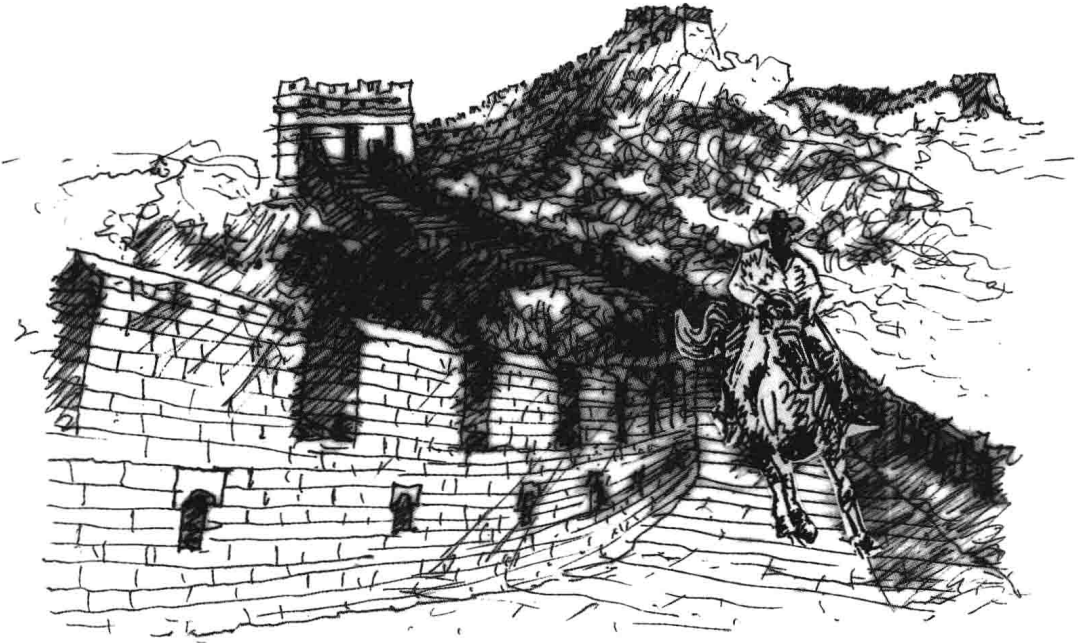
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Notes: 1. **Time period:** This book is based on information publicly available on or before January 01, 2012.

2. **Pin-yin Romanization:** Romanized pin-yin is used in this book for proper names of places, persons and objects of which there are no proper English equivalents. For names of 1<sup>st</sup>-tier cities, their generally accepted Pin-yin names are used. For provinces, the Chinese Pin-yin names are used with a one word to represent each consonant and a space between two or more consonants. For other pin-yin names with two or more words, hyphens are used to separate each consonant for easy reading and pronunciation.

# Part 1: Before Starting Your Business in China

By Helen Law



始

| Bon voyage along the Silk Road! |



## 1.1 Understanding China: A Country of Vast Regional Differences

### 1.1.1 Historical Background

China can be regarded as “one united country” only after **Shi Huang-di** (秦始皇) of the Qin Dynasty some 2200+ years ago. Before that, China was divided into a number of warring states with no unified regime, no common language, let alone similar social culture. Some of these warring states did not originate from the Yellow River and were regarded as barbarians and non-members of the “Middle Kingdom”; some of these “barbaric regimes” were nomadic tribes with goods barter as the only form of “trading” activity, while the Middle Kingdom people were much more civilized with a formal monetary system (based on gold, silver and copper) within an agricultural economy context. In time, as these “barbarian states” were conquered and became part of what we call “China” today, the barbarians were assimilated to live like authentic “Middle-Kingdom” citizens. Nonetheless, it was unavoidable that some of their original customs and heritage have been preserved till modern days. That is why people say: China is not a single culture but an amalgamation of numerous sub-cultures and micro-economies.

### 1.1.2 Regional Differences

Surely, like the case with any large nations, regional differences are expected, and all the more so for China, due to the historical reason as explained above. These regional differences are found in all aspects: ranging from basic Mother Nature issues such as topography and climate, to socio-economic issues such as consumer behavior and key industries. These regional differences, no matter how subtle they may seem to the foreign entrepreneur, should never be overlooked. Indeed, these regional differences imply that key factors which can make some businesses successful in certain regions are not applicable to other areas.

Take real estate development as an example. Since 2001, China has been undergoing a long cycle of robust property development, and many foreign entrepreneurs have dreamt about making the first bucket of gold in China through real estate development.



Indeed, a handful of Taiwanese investors have made windfall profits in Fujian Province and are laughing their way to the bank. If a new comer envies them and try to copy the same formula and go ahead to build luxury villas in North Eastern China with high hopes of reaping handsome profits like the Taiwanese in Fujian, s/he may very well be disappointed: Fujian people are known to care about the house and are willing to spend most of their savings and earnings on home purchase and household improvements; on the other hand, Armani suits and Prada bags are not their cup of tea. As for people in North Eastern China, they typically spend 80% on dining out, entertainment and fashion; their propensity to save up for home purchase is very low, and they don't seem to have the need for luxury living. Even the well-to-do bourgeois in North Eastern do not necessarily live in garden villas. Consequently, luxury villas in that region have very poor demand.

Indeed, to assume that China is one country, one culture and one people is indeed an over-simplification.

As another example to illustrate China's regional differences, let's look at the fashion and fine jewelry market. Over 95% of these luxury goods sold in China are imported; World-renowned LV and Patek Philippe started their flagship store in Shanghai a few years ago. No wonder many foreign entrepreneurs in this business never cease to eye the China market. Shanghai is regarded as the most internationalized cosmopolitan city in China, and Shanghai ladies in general are known to stay atop of world fashion. Nonetheless, if a foreign jewelry dealer opens a shop in Shanghai, chances are that the business will not be as successful as s/he imagined it to be. Why?

Yes, Shanghai does not lack consumers with deep pockets, and yes, Patek Phillipe has no trouble selling limited edition time pieces for US\$500,000 a piece, and people come out of LV's Shanghai flagship store with several US\$6000-bags. How come the foreign jewelry dealer can't laugh his way to the bank? The secret lies with regional difference in consuming behavior over various regions in China. Yes, it is commonly recognized that Shanghai ladies are very conscious about their personal grooming and outfit, but their priority is to spend money on cosmetics, fashion clothes, bags, and watches; jewelry is relatively low on their priority list. Say, for instance, a Shanghai lady