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## **Doing Business in China**

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1. Homework
2. The Law
3. Joint ventures and acquisitions
4. The government
5. Reading the runes
6. Classic pitfalls



# 1. Homework, homework, homework

- China repays homework (continuous)
  - You know this already, but it needs repeating
- The situation is often opaque and fluid and the “picture” can vary depending on personal experience
  - Tastes, customs, business practices and interpretation of regulations subject to enormous regional variation: China is not one market
- Your China team must be thorough, well co-ordinated, get the inside track and gather as many “touchpoints” as possible to form a rounded view
  - Consult industry experts, industry associations, embassy / chambers of commerce, advisors

## In Healthcare areas to watch:

- Reform of provision – role of large state-owned groups – still the favoured sons?
- Doctor mobility
- Shift of primary care away from leading hospitals

- China's laws are broad and non-specific, providing latitude and power to the government official that interprets them
  - Try to identify what lies behind national, regional and even individual agendas
  
- Almost everything requires approval or registration, and interpretation and enforcement varies widely throughout the country
  - Change on the way?
  - Move to a negative list – maybe, but bureaucracies usually v reluctant to cede power
  
- Positioning your proposition correctly makes a difference and it is always advisable to seek, rather than avoid, government endorsement
  - Play to the central government's agenda where possible
  - Don't be afraid to consult the regulators
  
- **When the going gets tough: if you can't solve a problem using influence and well deployed relationships, then the chances are that the legal system won't help either**

### 3. Marry (or buy) in haste, repent at leisure

- China moves so quickly that acquirers are still surprisingly often bounced into “once in a lifetime” deals they need to close tomorrow
  - Often the most obvious partners or targets are unsuitable, unavailable or both
- In an economy that changes quickly, there will always be other “once in a lifetime” opportunities...
  - and, with your homework completed, you can move forwards quickly with confidence
- Once your mind is made up, try not to waver
  - re-initiating contact in China is much harder than in Anglo-Saxon economies
- Understand what a partner or acquisition target brings
  - Distribution; access to key input (raw materials; access to management (engineers; doctors?); technology; low cost manufacturing base

#### In Healthcare, areas to watch:

- State-owned enterprises (SOEs) vs private businesses (or POEs)
- Institutional approach

## 4. The Government: friend not foe

- China has a large and fragmented government that exercises enormous power and influence
  - Will continue to hold sway despite reforms
- Government officials can often be a useful source of advice and access to the best commercial partners or targets
  - But they need to be approached in the right way
- Establishing your own independent relationships with the important parts of government/ Party will pay dividends at some point
  - It is often the most effective investment protection weapon in your armoury
  - Particularly important in highly regulated sectors and inland from the more developed Eastern seaboard

### In Healthcare, areas to watch:

- Reform trends and policy changes at both central and local level
- Degree to which private / foreign sector will be allowed to play a role
- Hidden catches / barriers to entry

# 5. Reading the runes

- Strong listening skills and an ability to read the signs is crucial for a project leader in China
  - Don't be afraid to use silence
  - Use open questions
- Miscommunication is often deliberately used to avoid a tricky issue or point indirectly to a problem
  - Interpreting is a highly skilled role and should be performed by an experienced deal maker
- Be wary of those who claim to be well connected throughout China
  - This is most unlikely in a country that is similar in size to the whole of Europe or the US

- **The financial statements will be wrong, it is just a question of degree**
  - This normally stems from the endemic practice of “mitigating” taxes
  
- **Corruption**
  - Understanding exactly how the distribution channel really works is crucial
  
- **Land use rights**
  - Often bought at a discounted price on the basis that the company qualifies as “hi-tech”
  - Sometimes incorrect category



### ■ Where's the chop?

- A company's chop (seal) binds the company come what may

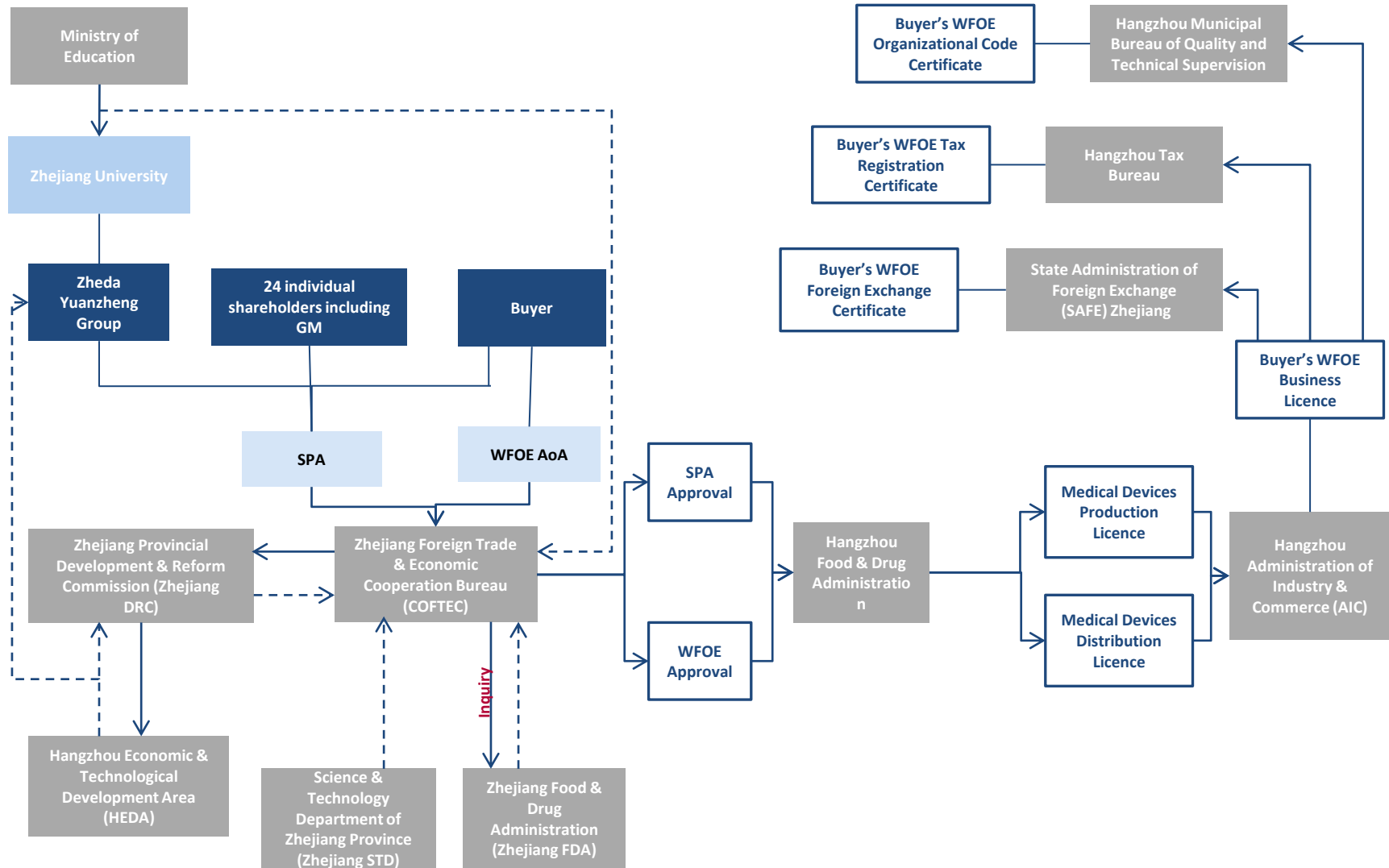
### ■ Over dependency on certain individuals

- Always try to institutionalise relationships / keep key functions in-house – e.g. government relations
- Avoid “silver bullet solutions” – they almost never are

### ■ Licences

- Ensuring that the required licences are obtained and maintained needs upfront planning and effort
- Particularly important when structuring asset deals to avoid possible hidden liabilities...

# Sample Approval Roadmap



Thank you

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