

Tips on Undertaking Joint Ventures in China

The size of China's market — 1.3 billion consumers — and its fantastic rate of growth have attracted a lot of international attention.

For over four decades, China was a closed, state-driven economy and, although it is opening to the world, business practices are often different from what North American companies are accustomed to.

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Joint ventures are usually necessary and companies must realize that this is a complicated undertaking that requires patience and careful planning.

Companies should ask lots of questions before deciding to commit money and time.

The fact that China is attracting so much international money and attention these days is no reason for companies to abandon their general business procedures.

The best strategy is to prepare a list of questions and get as many answers as possible from different angles.

The first question you need to ask is what a joint-venture actually means to your Chinese partner. In English, the phrase simply means cooperation in a venture. The Chinese equivalent of the phrase means 'joint capital'.

When considering a joint-venture in China, you must be prepared to put down a certain amount of capital or the equivalent of capital. Commonly, the Chinese partner will contribute land, buildings, labour and some cash flow.

The foreign partner is expected to bring technological know-how, equipment and initial capital. The Chinese partner will be responsi-

ble for local sales and the foreign partner will look after international marketing. A detailed budget of what is involved will facilitate your decision.

Next, you should determine the benefit of joint-venturing in China.

When discussing joint-ventures, you will be presented with a package by your potential partner, or a Chinese consultant. Tax incentives, low labour costs and the massive market of one billion people will be presented as some of the benefits.

On the surface, this may sound like an unbelievable opportunity, but don't be easily wooed.

To help you make an accurate decision, you need to determine the labour costs in relation to productivity and the hidden cost related to social benefits, such as housing and schools.

As well, you need to look beyond a market of a billion people for a more logical analysis of market segments and distribution channels.

Also, don't hesitate to ask what the incentives are for your Chinese partner to enter the joint-venture. This will enable you to put things in perspective.

Another important consideration is finding a good local partner. You will have to rely on a partner before and after the joint-venture is set up.

It is a lengthy procedure to apply for joint-venture permission, to register the company, to negotiate with the local authorities and to install the facilities.

This takes not only time and energy, but requires a certain level of knowledge about the system to go through all the necessary steps.

A good local partner can be very valuable in this process.

Once the venture is operating, it will, of course, require good man-

agement and aggressive marketing.

It is especially important to watch your operating costs and ensure your share of the profits exist. Even if you send somebody to China to represent your interests, you still will need a competent partner you can trust.

One of the difficulties some Canadian companies have encountered is obtaining information on a particular market's potential, or the best distribution channels for their products.

Your Chinese partner will need your help to develop a framework that can be followed to collect the information and data you require to make a decision.

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There are many other questions deserving consideration:

What will be the cost in setting up the joint-venture? Are there laws and regulations to protect me? What social facilities do I have to provide for the employees? What will be the real profit after the foreign exchange rate?

It is beneficial to present these questions to your local partner, even if you assume you know some of the answers.

Not only will you have a clearer understanding of the risks involved, but it will also help you and your Chinese partner reach common ground.

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