Beyond Beijing and other tips:

How smart businesses thrive in China

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Sometimes, the devil really is in the details. For businesspeople in particular, understanding the granular insights in China may be the difference between success and failure.

Yet the speed of China's rise and the sheer breadth of its geography mean that traditional advice about entering the market can quickly devolve into platitudes. 'Doing your research' and 'investing in long-term relationships' is sound guidance. But to truly thrive, smart businesses must look deeper.

That is important because the Chinese opportunity significantly outweighs the challenges breaking into the country presents.

With a middle class that is expected to reach three quarters of its 1.4 billion strong population by 2022, according to McKinsey, and annual two-way trade with Australia reaching more than $150 billion, China represents an enormous prospect for Australian business growth.

Telstra's tips from the top to thrive in China

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The reality of China is often more nuanced and complex than new market entrants initially expect.

As a 28-year veteran of the Chinese market, Telstra has an array of tangible tips to empower Australian companies to get a leg up on the competition and thrive in China.

1 Beyond Beijing – understanding China's industrial geography

Entry to China used to mean dipping your toe into Hong Kong before looking toward Beijing or Shanghai. But these big cities - called tier-one cities - aren't necessarily indicative of the country at large.

As KPMG noted, "The first realisation made by new entrants is that China is actually comprised of numerous markets, with each having vastly different requirements and niche characteristics."

The largest, most famous cities, called tier-one cities, are the most visited by enterprises. Normally comprising Beijing, Shanghai, Guangzhou, Shenzhen, Chongqing, Tianjin and Chongqing , tier-one cities sit at the centre of market entry strategies.

But considering those names alone would be a mistake. Second-tier cities have GDPs between USD$68 and $299 billion. And with more than 1 billion people living outside the tier-one city limits, it pays to expand your horizons.

So what are examples of cities beyond Beijing where Australian organisations should be exploring?

- **Chengdu** is a major business and cultural centre in Western China with a particular focus on pharmaceutical and communication businesses. According to the local government, 299 Fortune 500 companies are located in the city. It is quickly developing a strong relationship with Australian businesses by launching direct flights to Sydney, opening trade offices and establishing state-level relationships. Situated in the less-travelled West of China, its Hi-Tech Industrial Development Zone has attracted investment from companies such as Intel and SAP and offers a range of investor incentives.
- **Xiamen** is a busy port in Fujian province, and is regularly noted as one of China's most liveable cities – especially important to attract and retain talent. It has a GDP per capita higher than that of tier-one cities such as Chongqing, with an economy based on the industrial pillars of electronics, machinery, and renewable energy. Xiamen's position on the coast and designation as one of the country's first Special Economic Zones has provided greater accessibility for international companies.
- **Wuhan** is one of inland China's wealthiest cities, away from the razzle-dazzle of the Eastern seaboard. With more than 10 million people – the most populous in central China – and a GDP per capita higher than that of Shanghai, it serves as a transport hub from its location spanning the Yangtze River. It is focused on the auto sector as well as agriculture and engineering, and has several special industrial zones and clusters, including its own innovation aping a more famous US equivalent, the so-called 'Optical Valley'.

"Business and trade relationships with big population centres like Beijing or Shanghai are mature, and competition is as fierce as anywhere in the world. That's why many businesses are beginning to explore the growth opportunities outside the biggest cities."

"That includes second- and third-tier cities like Chengdu and Xiamen, but also even smaller cities. Manufacturing, engineering, innovation, and logistics industries are all spreading strongly across China. While the investment and regulatory infrastructure for an initial entry into the Chinese market is best established in major cities, China's vast scope offers a multitude of options for Australian businesses."

Nick Coyle
AustCham Beijing CEO

Second- and third-tier Chinese cities don't necessarily translate to second-tier opportunities for Australian companies. They are the growth engines of its economy, often providing greater accessibility to talent and customers, especially considering the less tapped resources in the West. So what can Australian businesses do? We recommend checking in with local trade offices first and foremost, but in-country experiences can never be beaten. Fact-finding missions to big cities, especially tier-two cities, is a helpful starting point.

2 Keeping up with compliance

Success in any new market requires a concrete understanding of the local regulatory landscape, and China is no different. A good understanding of relevant legislation, local and national differences, and alignment with official policy is essential to beget success.

There are a number of steps to take in the first instance:

- First, we recommend organisations take stock of 'The Investment Catalogue' – shorthand for The Foreign Investment Industrial Guidance Catalogue. This is one of the most important documents for any foreign company investing in China, outlining how industries are permitted, regulated, and incentivised, and where Chinese partners are required. The Airport Economist series is a good place to start to understand such joint ventures and wholly owned foreign entities (WFOEs).
- Second, Australian companies should understand the opportunities afforded by ChAFTA, the China Australia Free Trade Agreement, which was signed in late 2015. The agreement lowers barriers to trade and removes tariffs for the majority of Australian goods, as well as opening the market to more service industries like the financial and legal markets. Keeping your finger on the pulse is essential, especially as the agreement is expected to be upgraded in the coming year.
- Be aware that China is pushing to meet the goals it laid out in its "Made in China 2025" proposal, which aims to boost manufacturing innovation and promote home-grown products by increasing the domestic content of what it calls 'core materials' to 40% by 2020. Part of that programme is the 'Internet Plus' initiative, incorporating the Internet into supply chains through the Internet of things and big data analytics.
- Finally, it's important to note that regulations can differ if you are in a free trade zone (FTZ) similar to the one in Shanghai. The Shanghai FTZ is listed in ChAFTA as a key area for liberalised Australia-China co-operation, trialing policies and regulations that encourage administrative innovation and stimulate trade. All FTZs have special local features to spur investment and trade in different ways, so be aware different locations have different rules.

Governmental relationships at all levels are especially important in China. Aligning local organisational strategy with official policy is the most effective way to create and maintain effective relations, while working with local partners to share best practices on the regulatory landscape.

3 Building networks of long-term relationships

As AustCham Beijing CEO Nick Coyle says, "While so-called guanxi has been important in the past, China is an overwhelmingly sophisticated and globally-minded country these days. Relationships in business are important wherever you are in the world, and China is no different."

"Business in China is based on relationships and it's important you understand the cultural nuances involved. Building and maintaining trust is at the core of all Chinese business dealings and vital to maintaining a successful long-term relationship. Not only do you need to make sure your partner feels valued, significant time and effort should also be invested in building strong relationships with key business, industry and government stakeholders in order to get things done."

Ruey-Bin Kao
Telstra's Greater China CEO

So, how do you build long-term relationship in China?

- **Get your introduction:** Networking is often based on being introduced through existing relationships, ensuring you do business with people you know and trust. Working with a trusted partner to get the right introductions is the first important step.
- **Get the basics right:** The simple things are important. Be sure to put in effort to understand facets of general Chinese culture, such as formal introductions or knowing a few words of Mandarin. Equally, have enough business cards, and ensure you order a generous number of dishes at business meals as a show of respect to your guests. Watch this Airport Economist video for a good refresher.
- **Actions speak louder than words:** While communication is important, long-term relationships require proactive activity to really shine. Acts such as making small concessions in deals will not go unnoticed by the other party, and will demonstrate your sincerity in building up the relationship.

4 Partner to achieve success

It can take time to achieve a certain level of success in China. But one way to speed up that process is by working with local partners.

Strong relationships with in-country Chinese firms are not only useful for working through foreign investment complexities, but can also provide insight into local markets, access to local innovations, and access to customers and local supply chains.

Above all, partners should possess resources and relationships that complement yours. By seeking out partners with experience in the local industry and familiarity with differences in consumers and verticals in different regions, you will be able to share knowledge and best practices, and even begin to extend your network through introductions.

Ruey-Bin Kao, Telstra's Greater China CEO, recommends creating digital partnerships – defined as alliances between two or three players, cross-industry networks or loosely organised ecosystems based on a dominant technology platform. They are essential to serving the booming middle-class in China, as mobility and e-commerce begin to dominate business requirements.

By setting expectations with digital partners, building trust over time and investing to create value in a win-win relationship, digital partnerships not only create mutual economic benefit, but also contribute toward new, innovative ideas and reducing time to market.

Take advantage of Australian connections

China can seem a daunting prospect, but Australian organisations occupy an envious position when it comes to taking advantage of its various opportunities.

In addition to a range of Chambers of Commerce, trade organisations and advisory bodies, there are numerous multinational companies with long histories in China with the expertise to support the market entry and expansion of organisations new to the country. Telstra itself has nearly 200 staff in China through its local joint venture PBS, which has 32 points of presence across 27 of China's biggest cities to provide connectivity to Australian organisations expanding into the country.

By taking advantage of these connections and drilling into the details of the Chinese market, Australian organisations can truly thrive in China.

Find out more at telstraglobal.com/company/telstra-in-china