

# Table of Contents

Foreword .....	ii
Preface .....	iii
Acknowledgements .....	v
Table of Contents .....	vi
List of Figures .....	xii
List of Tables .....	xiii
Abbreviations .....	xiv
<b>1. INTRODUCTION: THE CHINA VENTURE.....</b>	<b>1</b>
<b>2. THE CHINESE BUSINESS ENVIRONMENT.....</b>	<b>4</b>
2.1 THE CHINA REFORM STORY (BY MATTHIAS WEIBEL).....	4
2.2 THE LEGAL SYSTEM IN CHINA (BY DR. MICHAEL LORETAN) .....	6
2.2.1 Chinese Legal History .....	7
2.2.1.1 Traditional Chinese Law .....	7
2.2.1.2 Modern Chinese Law .....	8
2.2.2 Governmental structure .....	10
2.2.3 Legal structure.....	11
2.2.4 Judicial Structure.....	12
2.2.5 Current problems of the operating legal system.....	14
2.2.6 Foreign Investment Law.....	15
2.2.7 Contract law .....	16
2.2.8 Company Law .....	17
2.2.9 Conclusion.....	18
2.3 BUSINESS FINANCE IN CHINA (BY CINDERELLA FREIIN VON DUNGERN) .....	19
2.3.1 Financial framework for foreign direct investments .....	20

2.3.1.1	Financial sector development in China .....	21
2.3.1.2	Financial institutions .....	23
2.3.1.3	Legal framework for financial structuring .....	30
2.3.1.4	Instruments of financial control in China.....	32
2.3.2	China's financial markets.....	35
2.3.2.1	Stock market.....	36
2.3.2.2	Bond market .....	37
2.3.2.3	Foreign exchange market .....	38
2.3.2.4	Interbank money market.....	38
2.3.2.5	Short term debt securities market .....	40
2.3.3	Instruments of financial management .....	40
2.3.3.1	Equity financing .....	42
2.3.3.2	Debt financing .....	45
2.3.3.3	Currency management.....	48
2.3.4	Conclusions.....	50
<b>3.</b>	<b>PRE-ENTRY STRATEGIC CONSIDERATIONS TO MAXIMISE BUSINESS POTENTIAL.....</b>	<b>53</b>
3.1	PRE-ENTRY CONSIDERATIONS: NEED FOR BUSINESS SELF-EXAMINATION (BY KLAUS KUKOVETZ) .....	53
3.1.1	General Readiness to Venture Abroad.....	54
3.1.2	Specific Fit with the New Environment: Products and/or Partners .....	54
3.1.3	Practical Illustrations.....	55
3.1.3.1	Case Study 1: A Swiss labelling and labelling systems company (LLSC) ...	55
3.1.3.2	Case Study 2: Swiss printing systems company (SPSC) .....	57
3.2	MAXIMISING POTENTIAL THROUGH STRATEGIC FIT WITH POTENTIAL PARTNERS (BY RAINER G. KIRCHHOFFER AND STEPHAN LECHNER) .....	61
3.2.1	Issues and Scope of this Paper .....	61
3.2.2	Changes in China's Attitude towards Investors .....	62

3.2.2.1	The Chinese Government.....	62
3.2.2.2	Creation of Special Economic Zones (SEZ), Free Trade Zones (FTZ), and High Technology Development Zones.....	64
3.2.3	Foreign Governments.....	66
3.2.3.1	Export Risk Insurance .....	66
3.2.3.2	Special Funds for Setting Up Businesses .....	66
3.2.4	Environment for Investors.....	67
3.2.4.1	Tax Holidays, Customs Liberation, and Other Incentives .....	67
3.2.4.2	Loans and Guarantees by the State.....	68
3.2.4.3	Legal Framework for Foreign Investment.....	69
3.2.4.4	Legal Provisions Concerning Land Use.....	69
3.2.4.5	Intellectual Property .....	70
3.2.4.6	Guanxi .....	71
3.2.4.7	Environmental Protection.....	72
3.2.5	Forms of Foreign Investment in China .....	73
3.2.5.1	Sino-foreign Equity Joint Ventures .....	74
3.2.5.2	Co-operative Joint Ventures (CJV) .....	74
3.2.5.3	Wholly Foreign-Owned Enterprises (WFOE).....	74
3.2.5.4	Chinese Holding Companies .....	75
3.2.5.5	Comparison between Investment Vehicles .....	76
3.2.6	Strategy Planning .....	78
3.2.7	Risk Analysis .....	79
3.2.8	Key Success Factors in Chinese Investments .....	80
3.2.9	Profiles of Partners Participating in an Investment in China .....	83
3.2.9.1	Ideal Profile .....	83
3.2.9.2	Dimensions of the Profiles .....	84
3.2.9.3	Profiles of the Partnering Companies.....	87
3.2.10	Fund Raising for the Investment in China .....	97
3.2.10.1	How can the Swiss Government Support SME's Investing in China? .....	97

3.2.10.2	How can Swiss Banks Function as Partners? .....	98
3.2.10.3	Which Fund Raising Strategies should SME's follow for Investment in China?.....	98
3.2.11	Management of Human Resources .....	100
3.2.11.1	Managing Labour Law .....	100
3.2.11.2	Human Resources as a Cost Factor .....	100
3.2.11.3	Local Staff versus Expatriates .....	101
3.2.11.4	Expatriates and Intercultural Management Skills .....	101
3.2.12	Management of Relationship .....	102
3.2.13	Case Study: Swisstec, Lyss .....	105
3.2.13.1	Company Profile.....	105
3.2.13.2	Motivation for Founding Swisstec .....	105
3.2.13.3	Choosing the Partners and Establishment of the Company.....	106
3.2.13.4	Human Resources.....	106
3.2.13.5	Summary.....	106
3.3	<b>MAKING A HIGH - TECH MARKET ENTRY (BY MATTHIAS KÄSTNER)</b> .....	107
3.3.1	The Choice of the Market Entry Mode: A Framework.....	108
3.3.1.1	Internal Determinants .....	109
3.3.1.2	External Determinants.....	110
3.3.1.3	The Role of Technology.....	111
3.3.2	SME's Objectives for China Activities.....	111
3.3.2.1	Objective 1: Exploiting Domestic Sales Opportunities.....	112
3.3.2.2	Objective 2: Exploiting Existing Know-How and Proprietary Technology .....	113
3.3.2.3	Objective 3: Exploiting Comparative Cost Advantages.....	114
3.3.2.4	Objective 4: Providing After Sales Service and Maintenance .....	114
3.3.2.5	Objective 5: Research and Development .....	115
3.3.3	Assessment of Bargaining Situations for SMEs .....	115
3.3.3.1	Bargaining Situation I: SME – Local Chinese Authorities .....	118
3.3.3.2	Bargaining Situation II: SME – Chinese Joint Venture Partner.....	120

3.3.3.3	Bargaining Situation III: SME – Trading House / Distributor .....	122
3.3.3.4	Bargaining Relation IV: SME – Chinese Technology Recipient.....	123
3.4	<b>NEGOTIATING FOR A JOINT VENTURE: STRATEGIC CONSIDERATIONS (BY BRIGITTA JOHO AND JÜRGEN MÜLLER)</b> .....	125
3.4.1	<b>Culture</b> .....	126
3.4.1.1	National Culture .....	126
3.4.1.2	Business Culture.....	127
3.4.1.3	Corporate culture .....	127
3.4.2	<b>Comparison of Business and Culture between Germany/Switzerland and China</b> .....	127
3.4.2.1	Understanding of Confucianism.....	128
3.4.2.2	Guanxi and the importance of family and friends.....	129
3.4.2.3	Self-Presentation.....	129
3.4.2.4	Conversation at the first meeting.....	130
3.4.2.5	Negotiation process and its communication problems.....	132
3.4.2.6	Yes and No .....	134
3.4.2.7	Further Differences between Germany/Switzerland and China.....	134
3.4.3	<b>Experiences of European Companies with Joint Ventures in China</b> .....	135
3.4.3.1	Interviewed Companies .....	135
3.4.3.2	Interviews .....	136
3.4.3.3	Important Factors.....	136
3.4.3.4	Evaluation of the Interviews.....	140
<b>4.</b>	<b>POST-ENTRY STRATEGIC CONSIDERATIONS</b> .....	<b>141</b>
4.1	<b>POST-ENTRY CONSIDERATIONS: NEED FOR RE-EVALUATION AND RE-POSITIONING (BY KLAUS KUKOVETZ)</b> .....	<b>141</b>
4.1.1	Introduction .....	141
4.1.2	Case studies.....	142
4.1.2.1	Luxury goods company in China (LGC).....	142
4.1.2.2	Consumer goods company in China (CGC).....	144

Epilogue ..... 148

**5. REFERENCES ..... 149**

**6. APPENDIX..... 159**

6.1 FACT SHEET PEOPLE’S REPUBLIC OF CHINA ..... 159

## List of Figures

FIGURE 2-1:	DEVELOPMENT OF FOREIGN DIRECT INVESTMENTS (IN BILLION USD) COMBINED WITH KEY EVENTS IN CHINA, 1976 - 2000.....	6
FIGURE 2-2:	STRUCTURE OF CHINA'S FINANCIAL SECTOR.....	24
FIGURE 2-3:	STRUCTURE OF CHINA'S BANKING SECTOR.....	25
FIGURE 3-1:	ORGANISATION OF THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA.....	63
FIGURE 3-2:	MAP OF CHINA.....	65
FIGURE 3-3:	PRELIMINARY STRUCTURE OF THE "SINO-SWISS PARTNERSHIP FUND" ...	67
FIGURE 3-4:	MANAGEMENT CONTROL VS. FINANCIAL EXPOSURE OF VARIOUS INVESTMENT VEHICLES.....	76
FIGURE 3-5:	DEVELOPMENT OF FORMS OF CO-OPERATION IN CHINA.....	78
FIGURE 3-6:	IDEAL PROFILE OF A COMPANY INVESTING IN CHINA.....	84
FIGURE 3-7:	PROFILE OF A TYPICAL SMALL OR MEDIUM ENTERPRISE.....	88
FIGURE 3-8:	PROFILE OF A CHINESE JOINT VENTURE PARTNER.....	89
FIGURE 3-9:	PROFILE OF FOREIGN BANKS AND GOVERNMENT INSTITUTIONS.....	90
FIGURE 3-10:	PROFILE OF BUSINESS PARKS.....	91
FIGURE 3-11:	PROFILE FOR THE OPTIMUM COMBINATION OF ALL POTENTIAL PARTNERS.	92
FIGURE 3-12:	PROFILE OF SUZHOU MFN EMBROIDERY CO. LTD.....	93
FIGURE 3-13:	PROFILE OF SUZHOU NOVE FASHION & CRAFTS CO. LTD. ....	95
FIGURE 3-14:	PROFILE OF SWISSTEC.....	96
FIGURE 3-15:	THE WAY TO "GOLDEN TOWN".....	104
FIGURE 3-16:	DETERMINANTS FOR THE CHOICE OF THE MARKET ENTRY STRATEGY ....	109
FIGURE 3-17:	INTERNAL DETERMINANTS.....	110
FIGURE 3-18:	THE CHOICE OF MARKET ENTRY STRATEGY.....	112
FIGURE 3-19:	THREE LEVELS OF CULTURE.....	126

## List of Tables

TABLE 2-1:	THE AREAS OF THE FOUR SPECIALISED BANKS.....	26
TABLE 2-2:	DIFFERENCES IN BANKING SERVICES.....	29
TABLE 3-1:	SWOT ANALYSIS FOR SPSC IN RESPECT TO MARKET ENTRY IN ASIA.....	58
TABLE 3-2:	INCENTIVES FOR FOREIGN INVESTORS.....	68
TABLE 3-3:	OVERVIEW OF INVESTMENT VEHICLES IN CHINA .....	77
TABLE 3-4:	STRATEGIC QUESTIONS FOR SME'S PLANNING TO INVEST IN CHINA.....	79
TABLE 3-5:	RISK ANALYSIS OF INVESTMENTS IN CHINA .....	80
TABLE 3-6:	KEY SUCCESS FACTORS CONCERNING PRODUCTS AND MARKETS.....	81
TABLE 3-7:	SUCCESS FACTORS CONCERNING CHINESE PARTNERS .....	82
TABLE 3-8:	KEY SUCCESS FACTORS CONCERNING COMPANY STRUCTURE AND ADMINISTRATION .....	83
TABLE 3-9:	QUALIFICATION PROFILE OF MANAGERS WORKING IN CHINA .....	102
TABLE 3-10:	MEMBERS OF THE SWISSTEC ORGANISATION .....	105
TABLE 3-11:	EXTERNAL DETERMINANTS .....	110
TABLE 3-12:	TECHNOLOGY DETERMINANTS.....	111
TABLE 3-13:	RELATIONS BETWEEN A SME AND ITS BARGAINING PARTNERS .....	117
TABLE 3-14:	INTERESTS, OBJECTIVES AND EXPECTATIONS BETWEEN HIGH-TECH SMES AND CHINESE AUTHORITIES .....	118
TABLE 3-15:	INTERESTS, OBJECTIVES AND EXPECTATIONS BETWEEN HIGH-TECH SMES AND CHINESE JV PARTNERS.....	120
TABLE 3-16:	INTERESTS, OBJECTIVES AND EXPECTATIONS BETWEEN HIGH-TECH SMES AND DISTRIBUTORS.....	122
TABLE 3-17:	INTERESTS, OBJECTIVES AND EXPECTATIONS BETWEEN HIGH-TECH SMES AND CHINESE TECHNOLOGY RECIPIENT .....	123
TABLE 3-18:	COMPARISON OF VALUES AND BEHAVIOUR.....	129
TABLE 3-19:	PRESENTATION OF THE OWN PERSON .....	130
TABLE 3-20:	COMMUNICATION BEHAVIOUR AT THE FIRST MEETING .....	131
TABLE 3-21:	MANAGER-THINKING: COMPARISON OF GERMANY/ SWITZERLAND AND CHINA .....	134