



Public Agency of the
Republic of Slovenia
for Entrepreneurship
and Foreign Investments

Export to China

Challenges and Opportunities

Ljubljana, February 2, 2012



- A rapidly growing economy: an annual GDP growth rate of around 10% over the last five years
- Key drivers:
 - ✓ a strong trade balance
 - ✓ increasing FDI: \$105.7 billion in 2010 (+17.4%)
 - ✓ urbanisation of China's population: 49.7% now live in cities, compared with just a ~20% in 1982. From 2010 to 2025, 300 million Chinese now living in rural areas will move into cities (Ministry of Housing and Urban-Rural Development)

Numerous critical challenges

➤ Environmental

- Heavy pollution
- Lack of water

➤ Energy

- Reliance on coal
- Massive electricity shortages

➤ Social

- Aging
- Disparity of revenues

- "Overall urban air quality is good with relatively heavy pollution in some cities. The acid rain distribution region remains stable with some relatively heavy acid rain pollution..."
- Among 471 cities, 3.6 percent met grade 1 air quality standard, 79.2 percent met grade 2, 15.5 percent met grade 3 and 1.7 percent failed to meet grade 3."
- *Interpretation: Almost one in five cities still fails to meet the low passing grade set by the government on an annual basis. Far more would fail if the standard was raised to the level recommended by the World Health Organisation (J. Watt).*

- Mainland China has only a per-capita share of 2700 cubic meters per annum, $\frac{1}{4}$ of the world's average. $\frac{2}{3}$ of China's 660 largest cities face water deficits. Beijing is among the cities most affected.
- "Surface water pollution across the country is still relatively grave... 59.9% of rivers were grade 3 or better, 23.7% of rivers were grade 4 or 5 and 16.4% failed to meet any grade standard. (*China State of the Environment 2010*)

Grade 3: minimum standard for drinking water

- China's coal consumption in 2010 was 3.2 billion metric tonnes
- Mainly for production of electricity (73%)
- Also by some industries (Steel...)

- Power shortages yearly since 2004: insufficient generating capacity, fuel shortages, blackout ordered to meet a year-end energy-efficiency target...
- Deficit of 30 million kilowatt hours last summer
- Deficit also forecasted for this winter

- Aging: By 2020, over 17 percent of China's citizenry is expected to be over age 65 (People aged 65 and older currently constitute 8.87% of the population)
- Disparity of revenues: per-capita annual income in urban areas was about \$2,500 in 2010, more than three times the \$750 in rural areas

Challenges = market opportunities

- Emissions control and measurement systems
- Equipment for green building
- Medical equipment
- Pharmaceuticals
- Energy efficient products
- Electric equipment
- Home decoration
- Consumer goods (not only luxury)
- Travel

- **Verify the reality of the market for your product:**
 - Right to sell your product
 - Need to conform to standards
 - Pricing

- **Do market research:**
 - China is not a market, but many markets
 - Visit a professional exhibition

- **Be cautious**
 - Due diligence of the prospective partners
 - Do not sign any contract after just one meeting
 - Do not give any exclusivity
 - scams

- Assessing the legal existence and reliability of the Chinese business partner:
 - Simple check by requesting a copy of the business license containing the following information in Chinese language: the company name and the address, the legal representative, the registered capital and the paid-up capital, the business scope; and the operating period.
 - Online search on basic company registration information on the homepage of the Chinese authorities Administration of Industry and Commerce (AIC)
 - Thorough due diligence on your potential business partners, e.g. financial standing, ability to pay, professionalism, experience of working with foreign companies etc., should be done by a specialized company.

- Avoiding scams:
 - Notarization clause
 - Visa invitation
 - Commission, cash payment or gift

- Make sure you have the means to tackle the challenges
- Select a limited geographical area and/or a specific sector
- Take all the help you can get: EU SME Centre, Embassy, IPR Helpdesk, consultants, law firms...

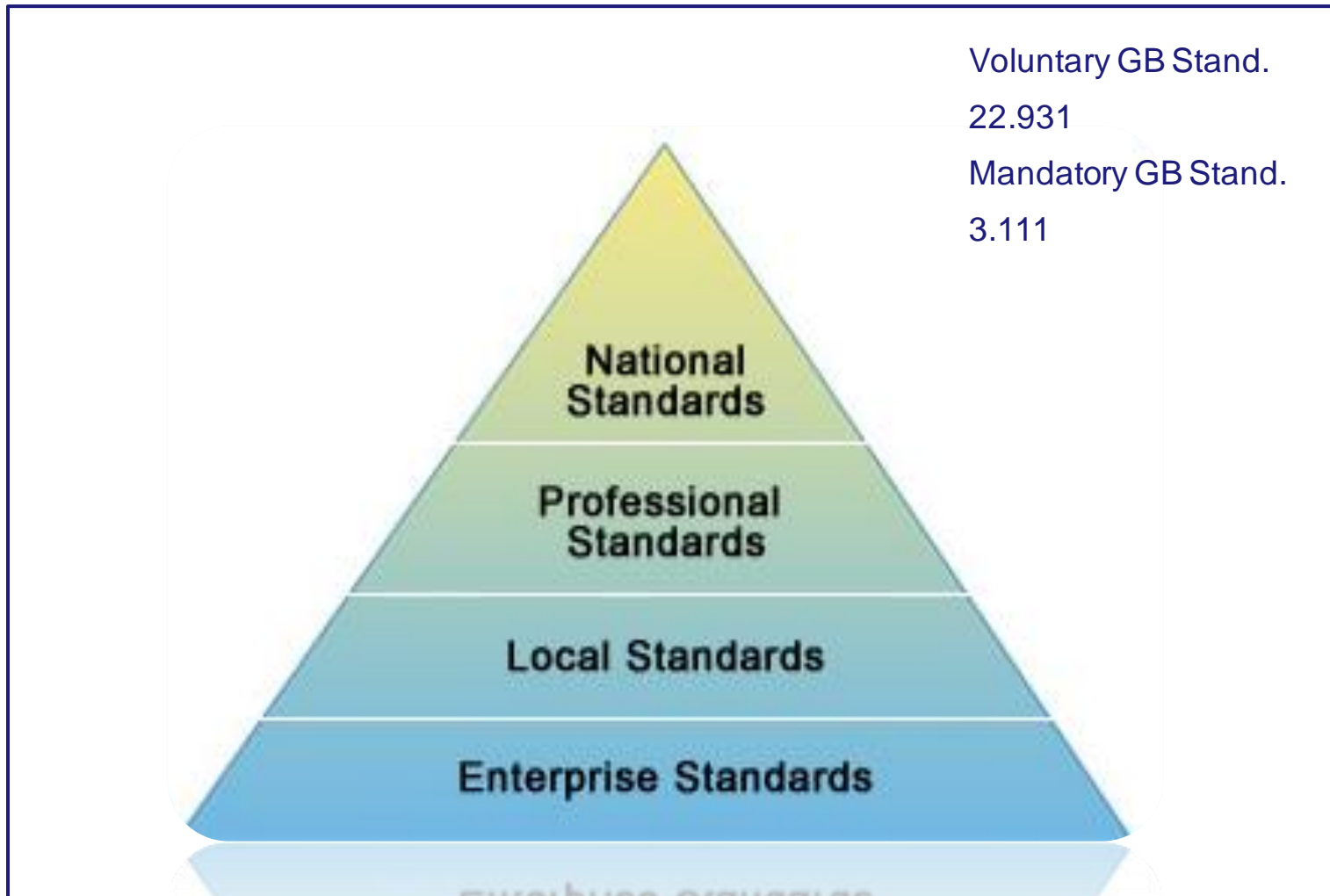
Standards

Why are Chinese standards important to European exporters?

- ✓ Chinese standards identify the legal requirements for products entering China
- ✓ Most products entering China are covered by mandatory certification
- ✓ Conformity assessment is mandatory and can only be carried out in China
- ✓ Very few international certificates are accepted in China

Many companies assume that Chinese standards are identical to European standards – this is not the case.

4 levels of standards



- ✓ Sold by SAC through the Standards online China
- ✓ Compulsory Standards are free (in Chinese)
- ✓ Generally only Chinese version exists
- ✓ Easy to search, using SAC web portal

Code	Content
GB	Mandatory national standards
GB/T	Voluntary national standards
GB/Z	National guiding technical document

- ✓ Industry Standards or Sectorial Standards.
- ✓ Apply when no National GB Standard exists.
- ✓ Covers all industry sectors - responsibility ministries and administrations.
- ✓ Difficult to search – need to know what to look for.
- ✓ Mostly sold in hardcopy from the publisher.

Code	Content	Code	Content
BB	Packaging	JB	Machinery
CB	Ship	JC	Building materials

- ✓ **Local standards** are usually applied across provinces or a geographical area

ex.: Building standards and construction materials

- ✓ **Enterprise standards** are company specific and often created by State Owned Enterprises (SOEs)

Natural monopoly – important for suppliers wanting to enter the Chinese public procurement market

How do I identify what standards apply to my product?

Own research:

- ✓ SAC national enquiry service – free text search in English
- ✓ Google search for English translations – Baidu for Chinese version

Service providers:

- ✓ Industry Associations
- ✓ Slovenian Institute for standardization (SIST)
- ✓ Translation companies
- ✓ Certification companies
- ✓ EU SME Centre

- If your product is covered by a European standard there is a good chance there will be a Chinese equivalent
- If the applying Chinese standard is mandatory, it is a good indication that compulsory conformity assessment is required

Conformity Assessment

- ✓ Standards outlines the legal requirements for products on the Chinese market
- ✓ Conformity assessment is carried out by a laboratory testing the product
- ✓ Most products entering China are covered by mandatory certification
- ✓ Compliance testing is required before the product is allowed to enter China
- ✓ Testing can only be carried out at designated laboratories
- ✓ Opposite approach from EU's "Presumption of Compliance"

- ✓ Most common is the China Compulsory Certification (CCC)
 - 23 Broad Categories
 - 172 types of Products

- ✓ A number of other Market Access Schemes exists
 - Radio Type Approval (SRRC): mobile phones, broadcasting equipment, RFID, etc
 - Network Access License (NAL): Phones, fax, modems, routers, etc
 - Information Security Certificate (CC-IS)
 - Special Equipment License: Boilers, pressure vessels, elevators, etc
 - Phytosanitary Certificate

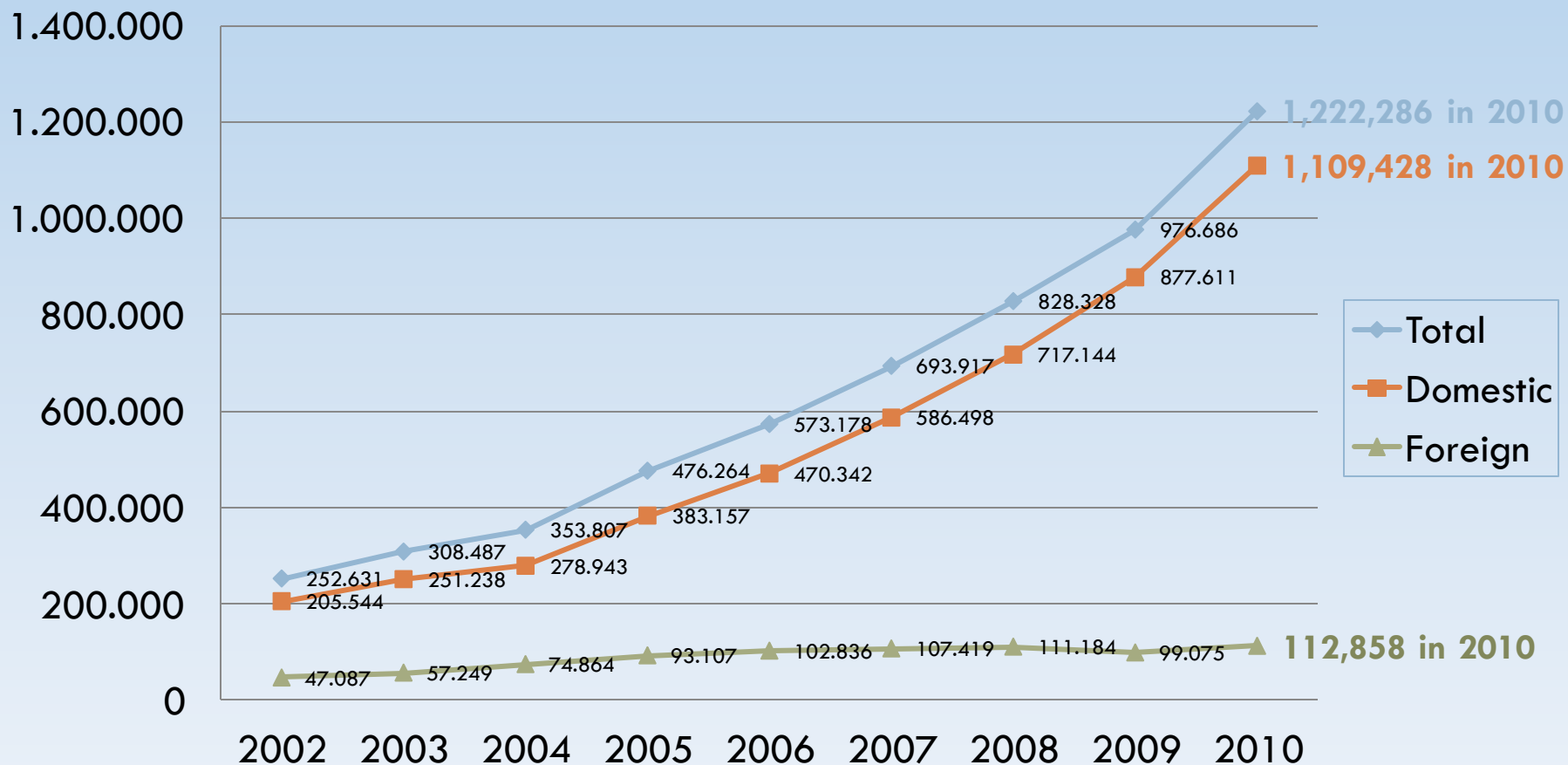
- ✓ Dual certification is not uncommon but improving

- ✓ Labelling Requirements are identified in GB standards
- ✓ RoHS Labelling – on self declaration basis (but mandatory)
- ✓ Energy Label – on self declaration basis (but mandatory)
- ✓ Labelling for F&B products – applying stickers on product offering information about exact content, levels, expiration date, etc.
- ✓ Textiles
- ✓ And many others

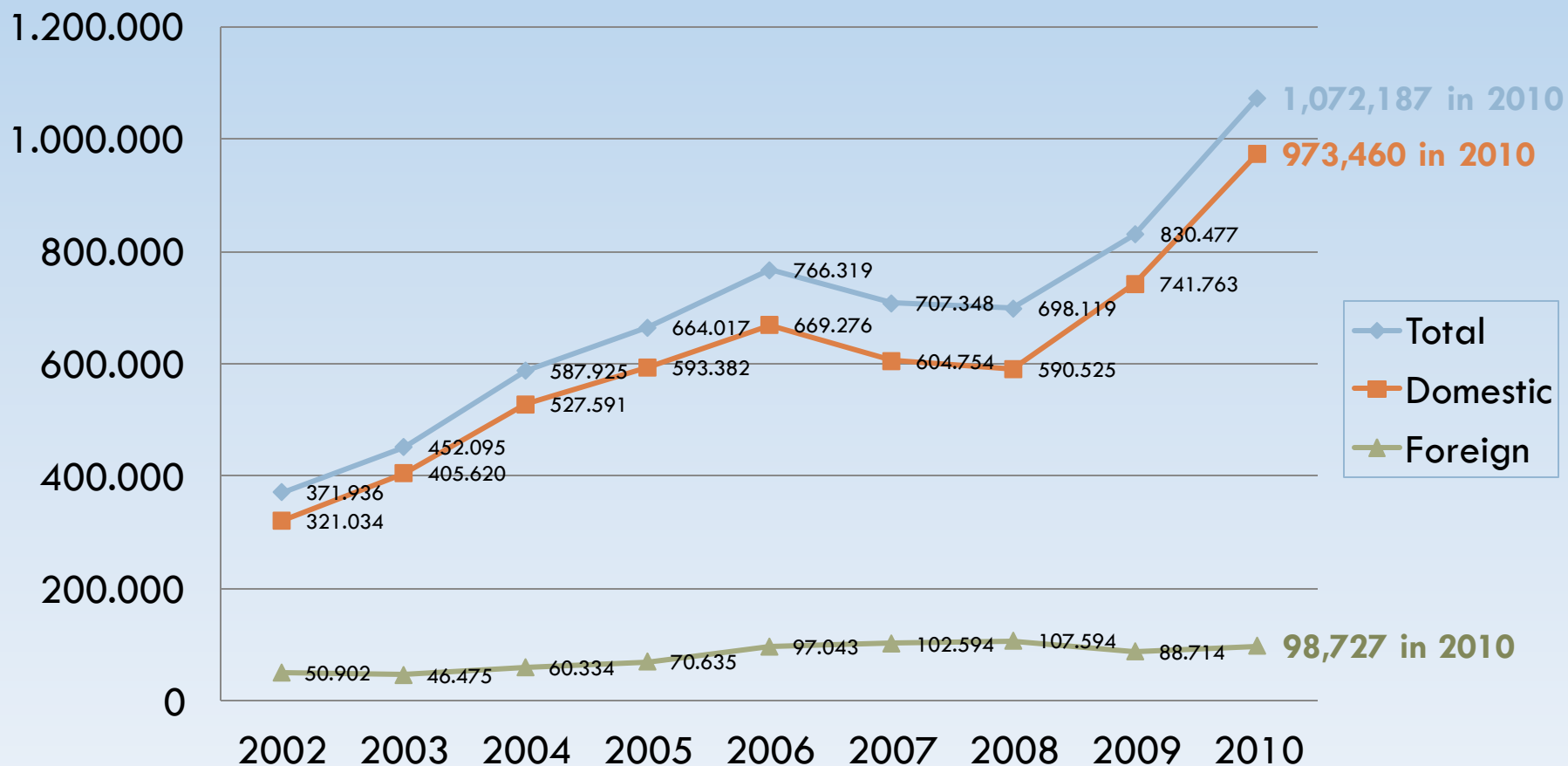
Intellectual Property

Increasing importance of Intellectual Property Rights for Chinese firms

Statistics of Application for Patent in China 2002-2010



Statistics of Trade Mark Application for Registration in China



- Register rights – if you don't own it you can't protect it
- You need to be the first to file IPR in China
- Use contracts & good business practices
- Prevention better than cure
- Be proactive

The logo for the China IPR SME Helpdesk, enclosed in a black border. It features the text "CHINA IPR" in black, a small European Union flag, and "SME HELPDESK" in red below it.

The China IPR SME Helpdesk provides free, confidential, business-focused advice relating to China IPR to European Small and Medium Enterprises (SMEs).

question@china-iprhelpdesk.eu

www.china-iprhelpdesk.eu

Overview of the EU SME Centre

- Support EU SMEs to establish, develop and maintain commercial activities in the Chinese market
- Free, confidential information and advice, and practical support services
- An office in Beijing with an experienced multi-cultural team of 15 persons

Business Development

- Practical information & advice on:
 - ✓ Market (challenges, opportunities,...)
 - ✓ Strategy
 - ✓ Business plan
 - ✓ Marketing

Legal

- Practical legal information & advice (initial consultation)
- All legal topics except IPR (cooperation with the China IPR SME Helpdesk)

Standards

- Practical information & advice on:
 - ✓ Chinese standards and marks
 - ✓ Conformity assessment procedures
 - ✓ Labelling

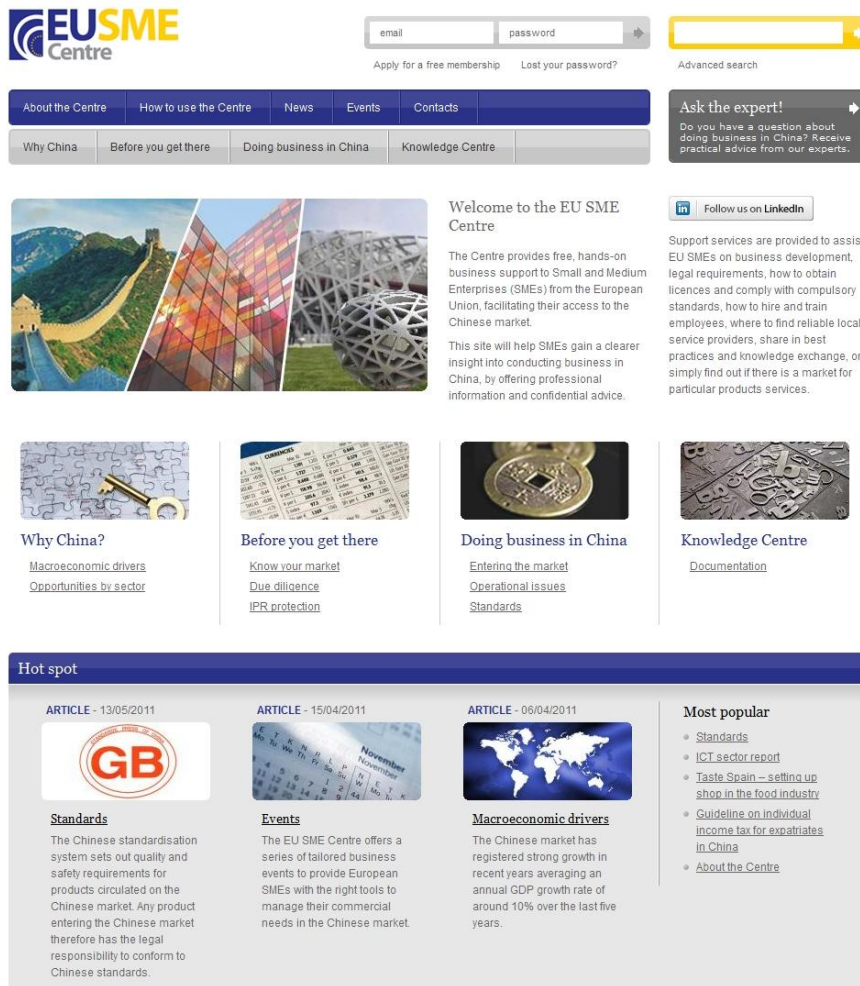
Human Resources

- Practical information & advice on:
 - ✓ Recruitment
 - ✓ Retainment
 - ✓ Labour costs
 - ✓ Intercultural management issues

Other services

- Access to contacts and information databases, including:
 - Documentation
 - Service providers
 - Exhibitions

- Hot-desks: free, temporary office space in the EU SME Centre to explore local business opportunities



The screenshot shows the EU SME Centre website interface. At the top left is the logo. To its right are input fields for 'email' and 'password', and a search bar. Below these are navigation tabs: 'About the Centre', 'How to use the Centre', 'News', 'Events', and 'Contacts'. A secondary row of tabs includes 'Why China', 'Before you get there', 'Doing business in China', and 'Knowledge Centre'. A 'Welcome to the EU SME Centre' section follows, containing introductory text and a LinkedIn link. Below this are four main content blocks: 'Why China?' (with sub-links for macroeconomic drivers and opportunities), 'Before you get there' (with sub-links for know your market, due diligence, and IPR protection), 'Doing business in China' (with sub-links for entering the market, operational issues, and standards), and 'Knowledge Centre' (with a sub-link for documentation). A 'Hot spot' section at the bottom features three article teasers: 'Standards' (dated 13/05/2011), 'Events' (dated 15/04/2011), and 'Macroeconomic drivers' (dated 06/04/2011). A 'Most popular' list on the right includes links to 'Standards', 'ICT sector report', 'Taste Spain - setting up shop in the food industry', 'Guideline on individual income tax for expatriates in China', and 'About the Centre'.

The website aims to be a valuable source of practical information for professionals, companies and trade promotion agencies developing commercial activities in China.

✓ Registration is free and allows users to access the

- Knowledge Centre
- Ask-the-expert service
- Hot-desking service

Radio Type Approval Guideline
Network Access Licence Guideline
CC-IS Guideline
Medical Devices Sector Guideline
China Compulsory
Certification Guideline
Industrial Products Manufacturing
Licence
Special Equipment Licence
General Guideline to Chinese
Labelling requirements
Energy Label Guideline
RoHS Label Guideline

Contract Conclusion Guideline
Individual Income Tax for Expatriates
Taxation of non-resident enterprise
Processing trade
ICT Sector Report
F&B Sector Report
Green Technology Report
ICT Case Study (2)
F&B Case Study (3)
Green Tech Case Study (3)
HR Recruitment Case Study
Textiles & Apparel Sector Report
Textiles & Apparel Case Study



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