

Four Key Points to Remember When Doing Business in China

The Chinese economy has been a powerhouse for many years. With double-digit gross domestic product growth during the late years of last decade regularly on an annual basis, even the “lean” years in China boast hot growth compared to most other developed economies in the world. It has become the elite among emerging economies and plays as big a role in the importing-exporting game as anyone. Its influence and market simply cannot be ignored. That said, it is not the easiest place to do business, as many businesses just dipping their toe into the Chinese credit and business trade waters often find out.

Currency Conundrum

It has been widely held for several years that the Chinese currency has been manipulated by its government. Because it is perceived as significantly undervalued and will continue on that path for a long time even if the Chinese government allows the valuation to rise (it will take years to get to its estimated real worth), it gives companies based in China a significant advantage when it comes to trade. Additionally, the free flow of business information coming out of China has gotten much better, however, the quality and reliability is far from the best in the world, and remains extremely unlikely to change in any quick fashion. Major sea changes in Chinese cultures simply don’t happen overnight.

Local Presence

Having a local presence for your credit and, especially, collections functions is important in the United States, Latin America and European Union, and much more so in places like China and the Middle East. Not having such a presence built on people who are well schooled in the language, customs, etc.—experience learned over years, not days or months—can, and often does, send a perception that their region is not a priority from a business standpoint. That is a business relationship killer.

Vagaries

Navigating one’s way around Chinese law can be tricky. Courts historically apply law on an uneven basis depending on what region a U.S business does business with a Chinese counterpart. It is common for Chinese parties to apply local law instead of agreed U.S. law if there is anything even minutely out of place in documents such as supply agreements. Additionally, China is known for making its list of restricted or banned imports a moving target. And, like the currency, whenever the world community cries foul about import product and services restrictions, Chinese officials tend to dig in harder (the restrictions complained about will likely get significantly worse until the issue fades from public view). In short, volatility is, and will likely be for a long time, the rule not the exception.

Documentation and Due Care

Clearly, credit professionals are going to want to review financials with a new customer based in China. Information can be hard to come by, depending on the region and industry, but the long-term trend is one of slow improvement. However, it’s worth noting that the names of Chinese companies can be extremely similar, meaning the chance of running a search and analyzing the financial health or payment history of the wrong company is and always will be high. Be careful.

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