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**NovelBaltic**

# Entering the Chinese Market with NTFPs

Market Entry Handbook for  
Entrepreneurs

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# Entering the Chinese Market with NTFPs

## Market Entry Handbook for Entrepreneurs

### Purpose of paper:

The main objective of this handbook is to create a practical tool for companies and entrepreneurs to help guide them through the initial steps of entering a distant and culturally different market.

### Content of Handbook:

This handbook covers the typical entry process to the Chinese market for a small business by focusing on relevant phases important to companies who are considering expanding their business activities to China.

*Topics addressed include key questions such as:*

1. Who and where are your main clients?
2. How do you need to adapt your product/service?
3. How can you prepare for visits to China?
4. How can you handle business visits, landmark events, cultural differences?

*The handbook will help in the application of in-depth topics introduced in the guidelines:*

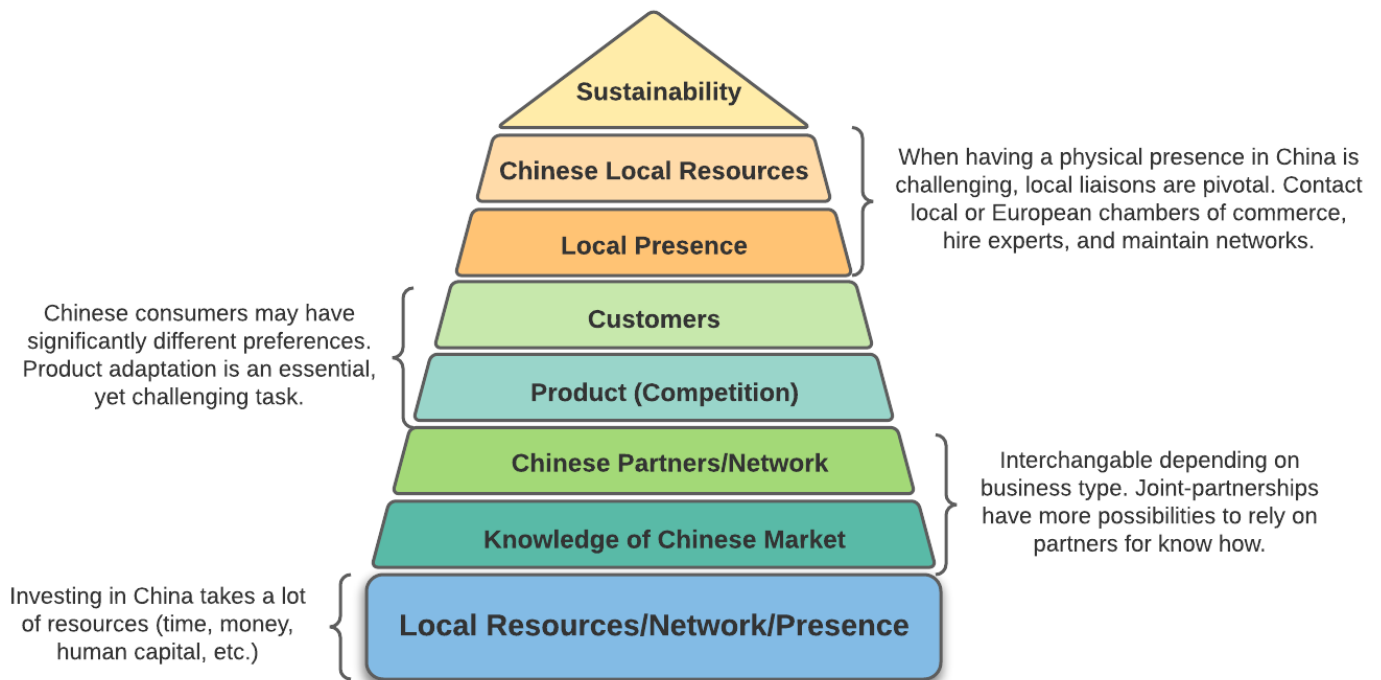
- a) components of exporting
- b) Business and product marketing
- c) implementation plan
- d) distribution channels
- f) establishing local presence

The content of this handbook, which are based on market information, provide a pragmatic toolbox for entrepreneurs to familiarize themselves with opportunities for, assess possibilities of, and develop their own implementation plans to enter the Chinese market. The tips and strategies used here are based on the available existing national and EU support, along with the know-how of entrepreneurs and SMEs which already have business activities in China.

### How to use this handbook

Each of the following sections offers a preliminary assessment with supplemental information, a mapping or research-based task to help businesses and SMEs prepare their Chinese entry strategy, and a reflection or summary to help identify risks and opportunities. Figure 1 here shows the basic building blocks for a sustainable Chinese market entry strategy. While political relations, global environments, and product regulations may change and affect the cost of doing business, the components and exercises in the following sections account for dynamic situations and aim to be flexible in their application. It is also important to note that different businesses do have vastly different products, experiences, and visions for their market in China. Therefore, while it is advisable to consider all factors here, the exercises do not necessarily need to be done in order. Business owners

and entrepreneurs know their business best, and the assessment tasks and exercises here are a tool to help them make the most of their products and innovative ideas.



**Figure 1: Building a Sustainable Chinese Business Strategy**

### Assessment of current business operations

Before deciding to enter the Chinese market, it is imperative for businesses to have a strong local presence, expendable resources, and a broad support network in their home market. Entering a new market, particularly the Chinese market, takes a great deal of resources, and small businesses or entrepreneurs must first take full stock of their current standing and long-term investment plan. As a preliminary assessment of readiness to enter the Chinese market, the EU SME Center provides a 10-minute self-diagnosis tool: “Are you ready for China”. The tool not only assesses business readiness to enter the Chinese market, but it also provides feedback and resources about various parts of the process.

#### Exercise 1: “Are you ready for China” Self-diagnosis tool by the EU SME Center

Take the assessment quiz at: <https://sdt.eusmecentre.org.cn/>

**Note:** The results of your quiz and suggested resources are not saved once you close the browser, so take note of the key take-aways and further goals in the space provided below. Also, in cases this quiz is not available, do check the Center’s website for similar preliminary assessment tools. This will help you to consider which parts of your implementation plan to focus on.

*Notes on preliminary readiness for Chinese market*

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*Which parts of entering the Chinese market are we prepared for?*

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*Which parts of entering the Chinese market do we need to focus on?*

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Apart from the assessment quiz, the EU SME Center offers a number of trainings and workshops, publishes tips and reports, and provides a European network for SMEs working on expanding into the Chinese market. This Center, the European Chamber of Commerce, and individual country Chambers of Commerce are key resources that can help businesses find contacts in China, test their product for the Chinese market, and prepare to meet import and business regulations.

### Chamber of Commerce Resources

- EU Chamber of Commerce: [www.eurochambres.eu](http://www.eurochambres.eu)
- List of individual country chambers: [www.eurochambres.eu/about/members](http://www.eurochambres.eu/about/members)
- European Chamber of Commerce in China: <https://www.europeanchamber.com.cn/en/home>

## Components of exporting (Knowledge of Chinese market)

### Preliminary Assessment

To help determine the differences between local markets and the external export market, consider the five traditional components of the export markets and answer the following questions:

- 1. How do international relations, banking factors, and governmental factors affect the Chinese export market?*
- 2. How much do I know about Chinese language, culture, holidays, and traditions?*
- 3. What do I know about international agreements and domestic policies that influence the Chinese export market?*
- 4. How do the technology levels and use of technology in business compare between the local market and the Chinese market?*
- 5. How do the environmental trends compare in the local and Chinese market, and what influence could this have on my export plan?*

In the following sub-section, see the brief introduction to each export component for the Chinese market, conduct a short research, and compare the Chinese market and the local market. This exercise hopes to help businesses and SMEs assess their strengths and weaknesses more deeply before moving forward with an implementation plan.

**Note:** *It may not be essential to focus on each section, but it is a good idea to be familiar with each and focus more energy on parts of the export market in China which are less familiar.*

### Venn Diagram Analysis of internal and external Markets

Before creating your business plan, it is useful to map the similarities and differences between local and Chinese markets to consider areas where your business may need extra support. In the following sections, brainstorm these factors for each component of exporting using the Venn Diagrams. You

may need to spend more time on some portions than others to research certain factors. Then highlight the key differences and consider how to address these in your implementation plan.

## Economic Factors

### Highlights of economic factors

- ✓ *Promising post-pandemic recovery*
  - According to the European Business in China Business Confidence Survey 2021, post-pandemic China remains profitable for international businesses.
  - In times of economic downturn, the Chinese government supports supply chains since Chinese consumers tend to have higher saving rates. Even in normal economic times, Chinese consumer spending remains low compared with rates in Europe.
- ✓ *Growing individual wealth is a government priority*
  - China is still a developing country with a middle-income economy, but the government is working diligently towards making China a high-income country by 2026. This means that the cost of doing business and hiring local staff or conducting local operations is also likely to increase.
- ✓ *Ease of doing business has improved*
  - According to the World Bank, the ease of doing business in China continues to improve, however registering property, obtaining credit, and other indirect barriers continue to challenge foreign entrepreneurs.
  - International agreements/disagreements and media coverage do significantly impact trade relations between China and Europe or individual countries. Many companies operating in China seek ways to decrease exposure to cross-border disruptions.
- ✓ *The Region of doing business in China matters*
  - There are several free trade zones in China where foreign businesses experience favorable business conditions for certain markets.
  - Despite having a centralized economy, Chinese regions are managed locally, and there are vast differences in product preferences and favorable industries in each region.

### Sources to keep up to date on economic factors in China

#### Economic factors:

- OECD: <https://www.oecd.org/economy/China-economic-snapshot/>
- World Bank: <https://www.doingbusiness.org/en/data/exploreeconomies/china>
- IMF: <https://www.imf.org/en/Countries/CHN>

#### Governmental factors/international relations:

- Chinese Ministry of Foreign Affairs website: [https://www.fmprc.gov.cn/mfa\\_eng/](https://www.fmprc.gov.cn/mfa_eng/)
- The China Daily: <http://global.chinadaily.com.cn/>
- European Commission: <https://ec.europa.eu/trade/policy/countries-and-regions/countries/china/>
- US/Chinese Relations: <https://www.state.gov/u-s-relations-with-china/>

#### Foreign business environment:

- Forbes China country profile: <https://www.forbes.com/places/china/?sh=327cec8538fc>
- EURObiz journal produced by the EU Chamber of Commerce: <https://www.eurobiz.com.cn/>



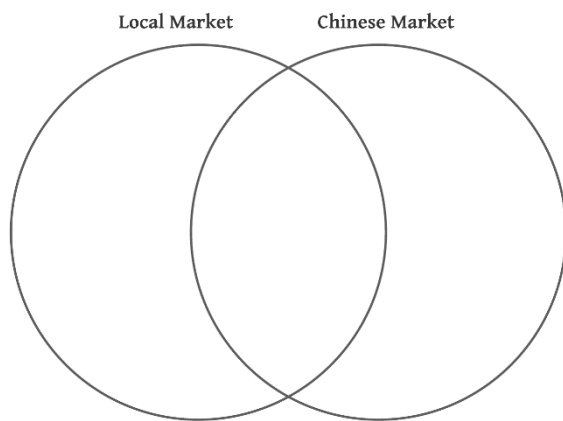
**Regional factors:**

- CGTN (China Global Television Network): <https://news.cgtn.com/news/2019-11-07/China-s-Market-in-Numbers-Different-regions-of-China-Lq9xM0tHlk/index.html>
- National Bureau of Statistics of China: <http://www.stats.gov.cn/tjsj/ndsj/2020/indexeh.htm>

Putting economic factors into practice

The next two exercises challenge entrepreneurs to summarize the main take away from economic factors and put it into practice to find the best region to enter the Chinese market.

**Exercise 1:**



*Key Economic Differences and Action Plan*

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**Exercise 2: Where do you want to conduct your business?**

Choose a region or regions where you would like to conduct business and explore the opportunities and challenges of conducting business there. Fill in the chart below and assess whether these regions are really the best choice, or if more information is needed.

	Region 1	Region 2	Region 3
Local economy (consumer wealth and preferences)			
Local partners/network opportunities			
Main imports/exports			
Free Trade Zone or special regulations			

International business support (EU chamber of commerce office, other EU contacts)			
Local administration contacts/information			
Summary: Is this a viable option for my business?			

*Which region is the best option here and why?*

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*What are the potential downsides of entering the Chinese market in this region?*

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*What information do I still need to commit to this region?*

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## Social Factors

### Highlights of social factors

- ✓ Prepare for holidays and long weekends
  - With a population of about 1.4 billion and a government that incentivizes and prioritizes internal movement and tourism, every holiday and long weekend means a massive movement of people, disruptions in transportation, and possible business closures. Businesses should know not only the calendar dates, but also have an idea about peak travel times within China to better prepare.
  - Some holidays, such as the Chinese New Year and Singles Day, provide unique opportunities for businesses to market their products. Entrepreneurs should plan their marketing strategies for these time periods in advanced.
- ✓ Consider the language beyond words
  - Although the level of English in China may vary from region to region, and it may be challenging to communicate, patience and good translators who can provide information about cultural signals is key.
  - Businesses looking to have local partners and staff should bear in mind that the most qualified partner or employee may not be the one with the best English skills. The responsibility to communicate information and receive feedback from potential buyers, partners, employees, or customers will be on the business.

- ✓ Communication counts
  - From typical greetings to feedback about products, Chinese business culture and communication may differ significantly from what European businesses are used to. Entrepreneurs should take extra time to get acquainted with these to ensure they make a good first impression, maintain positive relations, and gain thorough feedback.
  - A “guanxi” (关系) is a network of trust and obligation which is essential for businesses in China. In general, Chinese people and businesses value trust and personal relationships. The success of any business endeavor in China depends on building and maintaining this network.
- ✓ The rural/urban divide is decreasing
  - Increasing access to education and transport is a priority for the Chinese government. As a result, the Chinese population is increasingly educated and trained for different sectors. While this gives foreign businesses more opportunities to hire locally, it also creates greater competition.

### Sources to keep up to date on social factors in China

#### Holidays:

- Chinese Central Government webpage: [http://english.www.gov.cn/policies/latestreleases/202011/25/content\\_WS5fbe5fab6d0f72576940a94.html](http://english.www.gov.cn/policies/latestreleases/202011/25/content_WS5fbe5fab6d0f72576940a94.html)
- China Briefing: <https://www.china-briefing.com/news/2021-chinese-new-year-how-foreign-businesses-should-prepare-in-the-covid-context/>

#### Chinese Language and Communication:

- Doing business with Chinese: <https://www.culturematters.com/doing-business-in-china-5-things-you-must-understand/>
- China Culture Quiz: <https://www.londonschool.com/lsc/china-culture-quiz/>

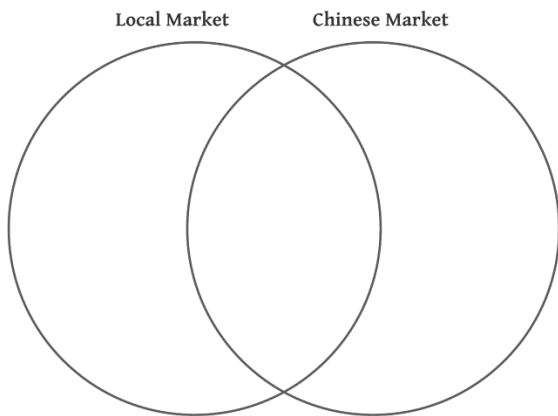
#### Urbanization and Education:

- ChinaFile (China, Journalism, Current Affairs): <https://www.chinafile.com/topic/education>
- OECD Education benchmark China: <https://www.oecd.org/education/benchmarking-the-performance-of-china-s-education-system-4ab33702-en.htm>
- Statista: <https://www.statista.com/statistics/278566/urban-and-rural-population-of-china/>

### Putting social factors into practice

The next three exercises challenge entrepreneurs to summarize the main take away from social factors, test their knowledge, and make their own checklist for future reference.

**Exercise 1:**



*Key social differences and action plan*

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**Exercise 2:**

Take 5 minutes to take these two China business culture quizzes:

**China Culture Quiz (for your business trip to China):** <https://www.londonschool.com/lsc/china-culture-quiz/>

**Doing Business in China Etiquette:** [https://www.commisceo-global.com/resources/quizzes/business-culture-quizzes?view=quiz&quiz\\_id=8](https://www.commisceo-global.com/resources/quizzes/business-culture-quizzes?view=quiz&quiz_id=8)

*What social factors and business culture aspects did we already know?*

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*Which practices or aspects of communication and business culture do we need to learn more about?*

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**Exercise 3:**

After completing exercises 1 and 2, conduct a little extra research (survey your own business partners/team, reach out to experts on Chinese business culture, consult the resources provided here) and make a checklist of the 10 socio-cultural factors individuals in your business should know about and practice in the Chinese market.

- |                                |                                |
|--------------------------------|--------------------------------|
| <input type="checkbox"/> _____ | <input type="checkbox"/> _____ |
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## Political Factors

### Highlights of political factors

- ✓ Image is everything for a government
  - The Chinese ruling communist party has put a lot of energy into improving its global image by committing to green energy initiatives and building regional partnerships and initiatives in Asia.
  - The government and country do face a great deal of negative media coverage and criticism from the global community concerning free trade, human rights, and security. This push-back can influence business relations in China as well.
- ✓ US-China relations have a large impact
  - The US and China are the world's largest economies and increasingly the world's largest competitors. The US, like the EU, has started to consider China a 'systemic rival' and 'economic competitor'.
  - The US proposal of economic decoupling would un-integrate US and Chinese supply chains. Even though there has been serious push back to these decoupling schemes, and experts predict the Chinese economy would continue to grow with decoupling, entrepreneurs entering the Chinese market should keep a close eye on this as it will affect trade.
- ✓ Subsidies and regulations affect foreign businesses
  - Several aspects of doing business in China (including opening a business, filing taxes, banking, enforcing contracts, and cross-border trade) have improved greatly, however the Chinese government's prioritization of export and local production makes importing certain goods (particularly luxury goods) challenging.
  - Every 5 years, the Chinese National Government and Reform Commission (NGRC) publishes a new 5-year-plan outlining the country goals including internal growth, trade, and technological and environmental security. This 5-year plan includes two important lists which specify which types of businesses face restrictions in China: The Foreign Investment Negative List (FINL) and the Market Access Negative List (MANL).

### Sources to keep up to date on political factors in China

#### Chinese global image

- New York Times (on China): <https://www.nytimes.com/search?query=china>
- BBC (on China): <https://www.bbc.co.uk/search?q=China>
- Euronews (on China): <https://www.euronews.com/search?query=china>

#### US/Chinese and EU/Chinese Relations

- US Department of State (relations with China): <https://www.state.gov/u-s-relations-with-china/>
- European Commission (relations with China): <https://ec.europa.eu/trade/policy/countries-and-regions/countries/china/>

#### Government plans and regulations

- National Development and Reform Commission of China (5-year plan): <https://en.ndrc.gov.cn/>

- European Chamber of commerce (Stance on negative lists): [https://www.europeanchamber.com.cn/en/press-releases/3253/stance\\_on\\_the\\_updated\\_negative\\_list\\_for\\_foreign\\_investment](https://www.europeanchamber.com.cn/en/press-releases/3253/stance_on_the_updated_negative_list_for_foreign_investment)
- “Stance on the Updated Negative List for Foreign Investment.” European Union Chamber of Commerce in China Home, 2 July 2020, [www.europeanchamber.com.cn/en/press-releases/3253/stance\\_on\\_the\\_updated\\_negative\\_list\\_for\\_foreign\\_investment](http://www.europeanchamber.com.cn/en/press-releases/3253/stance_on_the_updated_negative_list_for_foreign_investment).

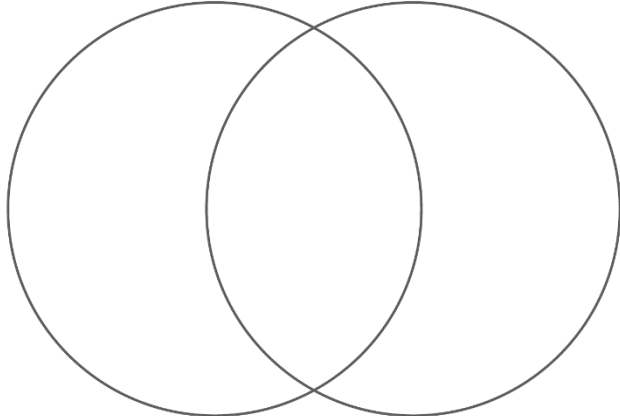
### Putting political factors into practice

The next two exercises challenge entrepreneurs to summarize the main take away from political factors and make their own short list of resources to stay up to date.

#### Exercise 1:

Local Market

Chinese Market



*Key political differences and action plan*

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#### Exercise 2:

The international news media sources above are just some of the bigger news suggestions. Since the media play a large role in political factors and international relations with China, it is useful for entrepreneurs to have a list of 2-3 reliable sources they and their employers can use to keep up to date on political developments inside China and between China and international partners. Take a few minutes and list these national or international sources.

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

### Technological Factors

#### Highlights of technological factors

- ✓ Having a digital presence matters
  - China is the largest e-commerce economy in the world and a great deal of marketing, sales, and purchases are done online.

- Social media accounts are important for business as this is how Chinese customers learn about products.
- Even though many social media and distributing platforms are in Chinese, there are several services available for international businesses to establish their online store or advertise products. Entrepreneurs should familiarize themselves with the different options and chose the best for their target customer and product.
- ✓ Consumers and distributors expect quick responses
  - The Chinese market is highly competitive and many online platforms (particularly JD.com) have rules about distribution. At the same time, Chinese customers are used to quick service and delivery, so even international companies shipping from abroad should be prepared to accommodate this.

Sources to keep up to date on technological factors in China

**Social media platforms in China**

- Statista (social media): <https://www.statista.com/statistics/250546/leading-social-network-sites-in-china/>
- Marketing to China (social media for marketing): <https://marketingtochina.com/top-10-social-media-in-china-for-marketing/>

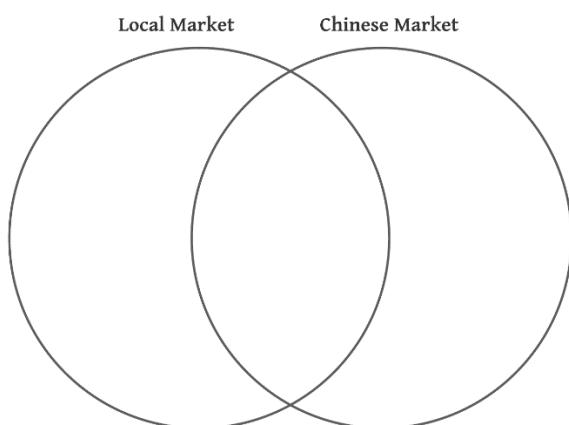
**E-commerce platforms and marketing**

- Statista (e-commerce): <https://www.statista.com/chart/23492/monthly-active-users-on-selected-chinese-social-e-commerce-platforms/>
- EU SME Center (e-commerce checklist): <https://www.eusmecentre.org.cn/report/e-commerce-ecosystem-china-checklist-european-smes-2021-update>
- Registering on China’s cross-border e-commerce platform: <https://www.eurobiz.com.cn/registering-on-chinas-cross-border-e-commerce-platforms/>
- Marketing to China (complete guide for e-commerce): <https://marketingtochina.com/guide-ecommerce-china/>

Putting technological factors into practice

The next three exercises challenge entrepreneurs to summarize what the main take away from technological factors and begin establishing their own online presence in China.

**Exercise 1:**



*Key technological differences and action plan*

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**Exercise 2:**

Choose the right platform for your product and market. Use the resources above and conduct further inquiries as needed to select the best e-commerce and social media platforms to do business in China. Consider which types of products are popular on the different platforms and which customers use them. Be sure to also pay close attention to what types of businesses/individuals are allowed to sell products in each platform as this does vary.

E-commerce/social media platform	Requirements for selling on this platform	Products on this platform	Customers on this platform

**Exercise 3:**

If your business is ready to start an e-store, take the first steps to registering your business or product there. Be sure to check the legal requirements first. Since opening an e-store is just the first step, it is a good idea to write down some basic guidelines for maintaining an active presence on the platform of choice.

*What are 6 steps the business will take weekly to manage and promote its online presence?*

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_
6. \_\_\_\_\_

If your business is not ready to start an e-store or establish an official online presence (whether it is because the business is not registered, the product is not ready, etc.), create a plan for preparing to do so by clarifying what needs to be done in the following areas<sup>1</sup>:

*6 steps to establishing an online presence for your business in China*

1. Market research: Who will buy my product (and which platform do they use)?
2. Which platform is best for my product/customer/business (refer to exercise 1)?



3. What legal obligations do I have to meet to sell on this platform?
4. How much does it cost initially and annually to use this platform as a business?
5. What licenses do I need for, or taxes will I pay on, sales of this product?
6. How will the business navigate this platform (considering that most platforms are in Chinese)?

## Ecological Factors

### Highlights of ecological factors

- ✓ Combating dangerous levels of air pollution is a top priority.
  - Chinese authorities have made great strides to combat serious air pollution problems in China.
  - These initiatives have improved the quality of air but have also had negative impacts on certain industries such as: energy, natural resource mining, automobile, and consumer goods.
- ✓ China has committed to reducing emissions yet has high stakes in maintain growth.
  - Under the Paris Climate Agreement, China has made the goal to be carbon neutral by 2060. The current 5-year-plan in China reflect these goals but maintain the priority to continue growth and make China a high-income country by 2026.

### Sources to keep up to date on ecological factors in China

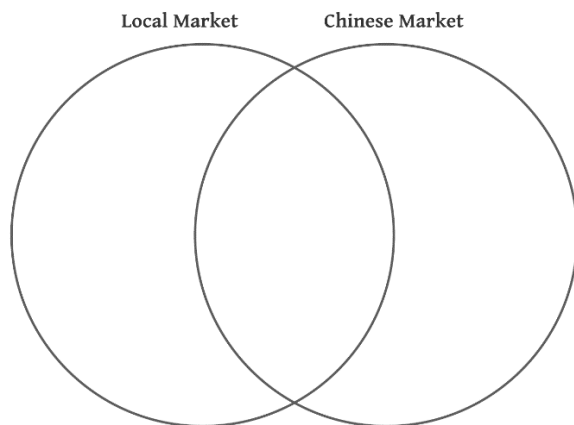
#### Air Pollution:

- Air pollution in China (real time): <https://aqicn.org/map/china/>
- WHO air quality report: <https://www.who.int/china/home/02-05-2018-who-issues-latest-global-air-quality-report-some-progress-but-more-attention-needed-to-avoid-dangerously-high-levels-of-air-pollution>
- Chinese Environment Goals and Business:
- GreenBiz (China's 5-year plan and its impact on sustainable business): <https://www.greenbiz.com/article/chinas-5-year-plan-and-its-impact-sustainable-business>
- Chinese UN representation (environmental protection): <http://www.china-un.ch/eng/bjz/t176940.htm>

### Putting ecological factors into practice

The next exercise challenges entrepreneurs to summarize what the main take away from environmental factors and consider how these may affect business in China. In the evaluation, consider which resources may become more expensive due to green energy initiatives and factor in whether your product relies on polluting production.

### Exercise 1:



*Key environmental differences and action plan*

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### Summary analysis of export components

*What did I already know about these components?*

*What did I learn about the differences between local and Chinese economic factors?*

*Which component of the export market to China do I still need to learn more about?*

*Which components do I see as being the most challenging to navigate?*

*Which differences between local factors and Chinese factors will be the most important to research and/or find expert support?*

### Business and product marketing

Before entering the Chinese market, it is essential for businesses to take stock of their local support network and first determine overall readiness to enter a new market before considering which type of business activities they will conduct in China and how. Businesses with large domestic support networks may be comfortable with going it alone and establish a Representative Office (RO) or a Wholly Foreign-Owned Enterprise (WFOE). Another option is to find Chinese partners for a Joint Venture. There are different advantages and disadvantages to each, and it is important to consider the different regulations before deciding which is right for your business. Familiarize yourself with the requirements and regulations for each using Figure 3 and conducting your own inquiries. In what follows in this section, entrepreneurs will be guided through five important steps in establishing a business in China, deciding on the product, and marketing to Chinese consumers. Use the exercises below to help map out the logical decisions for your business, product, and market.

Type of Entity	Common Purpose	Taxation	Advantages	Considerations
Representative Office (RO)	<ul style="list-style-type: none"> <li>• Market Research</li> <li>• Branch Office</li> </ul>	Based on expenditure	<ul style="list-style-type: none"> <li>• Easiest and inexpensive to set up</li> <li>• No registered capital required</li> </ul>	<ul style="list-style-type: none"> <li>• Restrictions of profit related activities in China. For example, invoices need to be issued from HQ instead of RO</li> <li>• No contract signing. Contract needs to be signed by the parent company</li> <li>• Restrictions on hiring. RO can only hire local staff thru an authorized Chinese agency</li> </ul>
Wholly Foreign-Owned Enterprise (WFOE)	<ul style="list-style-type: none"> <li>• Manufacturing</li> <li>• Servicing</li> <li>• Trading</li> </ul>	Based on revenue	<ul style="list-style-type: none"> <li>• 100% ownership and management Control</li> <li>• Greater freedom in business activities compared to RO</li> </ul>	<ul style="list-style-type: none"> <li>• Registered capital required for selected industries</li> <li>• Restricted from access to certain industries</li> </ul>
Joint Venture (JV)	<ul style="list-style-type: none"> <li>• Enter into restricted industries</li> </ul>	Based on revenue	<ul style="list-style-type: none"> <li>• Allow foreign companies to enter into restricted industries</li> <li>• Local and foreign partners can share assets, Resources, risk and costs between them</li> </ul>	<ul style="list-style-type: none"> <li>• Profit sharing</li> <li>• Share ownership and management Control</li> <li>• Inheriting partner liabilities</li> </ul>

**Figure 3: Types of business entities in China<sup>ii</sup>**

### Step 1: Company readiness to enter a new market

#### Exercise 1:

*Why do I want to enter the Chinese market?*

*(NOTE: Focus on the product and consumer rather than just the population. Sure, China is a huge country and there is a great market opportunity, but this opportunity exists for products that are appealing for the Chinese consumer and market environment.)*

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*What innovative product do I have and why is it appealing to this market?*

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*How will I protect my product, technology, and design?*

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*How will you enter the Chinese market (through e-commerce, using distributors, or with a local presence in China)?*

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*What direct and indirect barriers might your company and product face, and how do you plan to overcome these barriers?*

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*What is my long-term plan for China and what short term steps am I making to implement this?*

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### Step 2: Type of business venture considerations

If your business decides to have a local presence in China, choosing the right type of business, intermediaries, and partners is key. Since the e-commerce business is growing and there are increasing amounts of support there, your business may decide to go the e-commerce route. In this case, take some extra time to review the technological factors in the previous section (and in the companion guidebook). If not however, take some time and consider your reasons for deciding on the type of business you plan to pursue in China. Read about the different types of businesses in China, conduct your own research, and use exercise 2 (below) to take notes on the benefits of your chosen business type.

**IMPORTANT NOTE:** Determining the scope of your business is the first key step in establishing a business in China as businesses are expected to claim a business scope upon registration. It is relatively easy to establish a business, but if the scope of the business changes, it will have to be re-registered. [Unregistering or reregistering a business in China is a lengthy process, so it is wise to consider the entire scope of business operations before moving on to the registration process.](#)

**A Representative Office (RO)** will not be able to conduct trade in China. Rather, it is an entirely foreign owned office, funded by a foreign company, which allows that company to have a local presence, perform quality control, promote products, and essentially represent and lobby for foreign business interests in China. In this type of business, the trade is still conducted outside of China, but the RO helps to establish a local presence, assess the market, and promote the product.

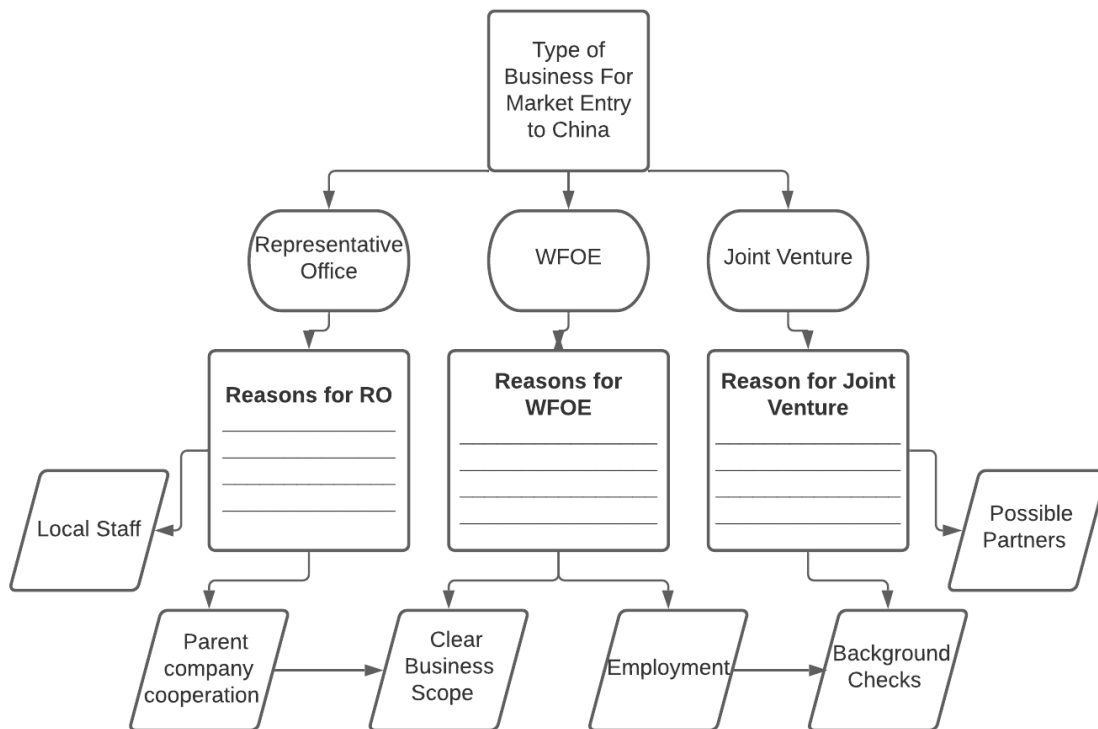
**A Wholly Foreign Owned Enterprise (WFOE)** is essentially a normal ‘Chinese company’ which is owned by a non-Chinese citizen. WFOEs are solely responsible for communicating with local authorities for legal, business, and tax compliance. A WFOE is 100% owned by the foreign individual investor(s) and has the rights to sell in China, remit profits back to their home country, hire local and foreign staff, and enter into contractual agreements in China. This type of business (along with entirely foreign businesses and RO’s) is subject to Chinese government restrictions and quotas on foreign goods. Companies entering as WFOEs in more restricted sectors (consult Figure 22 in the companion guidebook or see the about the FINL and MANL lists in Government Factors here) may have more market access obstacles and choose to find a partner for a Joint Venture to meet these obstacles.

Some industries (consult the FINL and MANL lists) are only possible to enter the Chinese market in the form of a **Joint Venture**. Businesses NOT entering a restricted industry may also consider a joint venture if they find a reliable and trustworthy partner to help support them entering the Chinese market with local market networks and know-how. These types of business operations do take a great deal of pre-work and due diligence to ensure the reputation of the Chinese business partner, agree on profit distribution, and coordinate management structures. The EU SME center is one platform providing partner search and company verification options for businesses considering these routes.

**EU SME Center Partner Search Service:** <https://www.eusmecentre.org.cn/solution/chinese-importer-agent-and-distributor-search>

**EU SME Center Company Verification:** <https://www.eusmecentre.org.cn/solution/company-verification-china>

**Exercise 2:**



**Step 3: Selecting your Product**

While in the process of selecting the type of business, it is also important to specify your product and price. In order to do this, it is a good idea to know where you want to do business and understand the consumer and governmental preferences of different products. There are different licensing regulations for packaged and fresh foods, different quotas for various import types, and specific rules in every region. This is why determining your product, location, and business type is fundamental in developing and implementing your business plan. Use exercise 3 below to conduct your own inquiries about different product options and help decide which products are the most logical for this venture.

**Exercise 3:**

Product	Location	Regulations (with my business type)	Consumer Preference	Competition
Example: <b>Cosmetics (Female skin care products)</b>	<i>E-commerce with goal of Supermarket distribution in Guangdong (China's richest and most populous province) and Shangdong (the second most populous)</i>	-National Medical Products Administration Regulations -Pre-Market approval required. -Cannabis ingredients banned -Foreign company cannot register cosmetic alone -consider Joint Venture!	-Foreign/international brands -Natural, green, and organic products. -Brand names -anti-aging	<i>High: Customers test different brands and upgrade often. There are already many international markets</i>

**Step 4: Setting your price**

When it comes to setting the price of a product in China, businesses must consider that Chinese consumers tend to favor brand name and quality over value for money. At the same time, while the upper-middle class in China is growing and the demand for luxury goods with it, consumer spending is still relatively low. Companies will have to invest in marketing to reach their customers, gain loyalty, and ensure that the quality and price match expectations.

**Exercise 4:**

Use the chart below to compare prices of similar quality goods, lower quality goods, higher quality goods, and complimentary goods to your product in the Chinese market. It is useful to check different online store platforms and supermarket options to get a feel for how product sales and pricing differs across distributors.

My products and suggested prices	Similar Chinese products (e-store) and prices	Similar Chinese products (supermarket) and prices	Lower end Chinese products and prices	Higher end Chinese products and prices	Price of complimentary goods to my products

### Step 5: Assessing the demand for your product

The extent to which Chinese consumer preferences differ from European preferences and even within China (in different regions) may come as a surprise for entrepreneurs just entering the market. If a business is expanding into China from their home market, there may need to be several adjustments in the product itself and the branding strategy to be successful in China. On the other hand, if a business is planning to sell an entirely new product in China, it should be careful to consider the existing competition, demand, and selling points that will challenge or help the success of this product on the Chinese market.

#### Summary: What is my product and how will it perform on the Chinese market?

To answer the following questions, refer back to the price comparison exercise and conduct research about similar products to yours on the Chinese market. Notice how these products are marketed and what their selling points are and consider how a new product might need to be adapted to stand out and create demand.

#### *What is the unique problem my product solves and is this problem as unique in the Chinese market?*

Compare the unique problem substitute or complimentary products already on the Chinese market solve and highlight the strength of your solution.

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#### *Does my product have a strong story behind it that will appeal to my Chinese buyers?*

Factor cultural and lifestyle differences and ask Chinese partners for feedback keeping in mind that criticism or doubts about a product may be phrased politely to save face. Ask follow-up questions and seek suggestions for how to improve.

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#### *What time of year might be the best time to launch my product or expect larger sales?*

Consider that the Chinese calendar and holidays differ from European ones, and this may also influence how marketing is done.

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#### *Does your product contain any restricted materials or components and how can it be adjusted?*

Several common products such as sprays with compressed air or foods with certain dyes, additives, or ingredients which may not be prohibited in European countries, may be banned in China. Carefully check the lists of restrictions in your region of doing business and consult experts to be sure.

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#### *Adjustments/considerations to be made to my product for the Chinese market are...*

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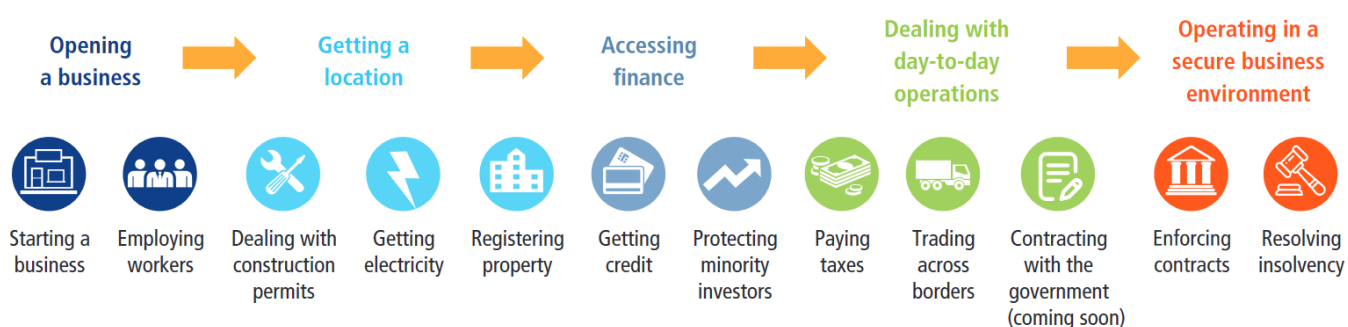
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## Implementation Plan

After doing the background research to decide which type of company, marketing strategy, product and customer a business will focus on, entrepreneurs are ready to start a business, find workers, and register a property. Figure 4 shows the traditional steps measuring the ease of doing business. In the case of China, location and accessing finance are preliminary factors to opening a business since different locations have differing rules and finance may be more difficult to access for foreign entrepreneurs. Furthermore, registering property and getting credit are still significantly more difficult in China according to the World Bank Ease of Doing Business Report (refer to the Guidebook Economic components). Considering these challenges, and compiling the research and exercises already completed, it is time to make a checklist of our product and business readiness and, if ready, move forward with starting operations.



**Figure 4: Ease of doing business at different levels: World Bank Report<sup>iii</sup>**

### Exercise 1: Preliminary assessment of readiness

Check the boxes that the business plan currently meets. If there are some areas which are not quite ready, take some time and work on these before moving on as they are important components to support a successful entry into the Chinese market.

- There are enough local resources, network support, and long-term investment for a new, diverse, and challenging market.*
- There is a clear idea of where to conduct business in China and which regions will be more profitable or easier to enter do to free-trade zones.*
- There is a growing understanding of social aspects which may affect business communications and marketing to Chinese customers.*
- There is a stable and growing network of Chinese contacts and partners which the business venture can work with.*
- There is an understanding of how domestic regulations and international relations may affect a business based on product and business type.*
- There is a clear understanding of restricted or prohibited products in China.*
- There is a plan for which type of business to establish based on the product type and customer.*
- There is a vision of how the business can market its product and adjust it for local Chinese customers using social networks and e-commerce or distributors.*



## Exercise 2: Structure of implementation plan

The final step in entering the Chinese market is to have a clear structure of an implementation plan. This will be especially true for businesses establishing a joint-venture with a Chinese partner as the division of roles, management, and profit shares are all important for a cooperative partnership. This exercise challenges businesses to take the previous exercises and checklist and divide specific functions among the corporate, business, and functional levels. This implementation plan is not only for starting a business, but for achieving a sustainable and adjustable structure once in China. For this portion, be sure to work closely with Chinese partners, management members, and employees who will be on the front line of the new market plan.

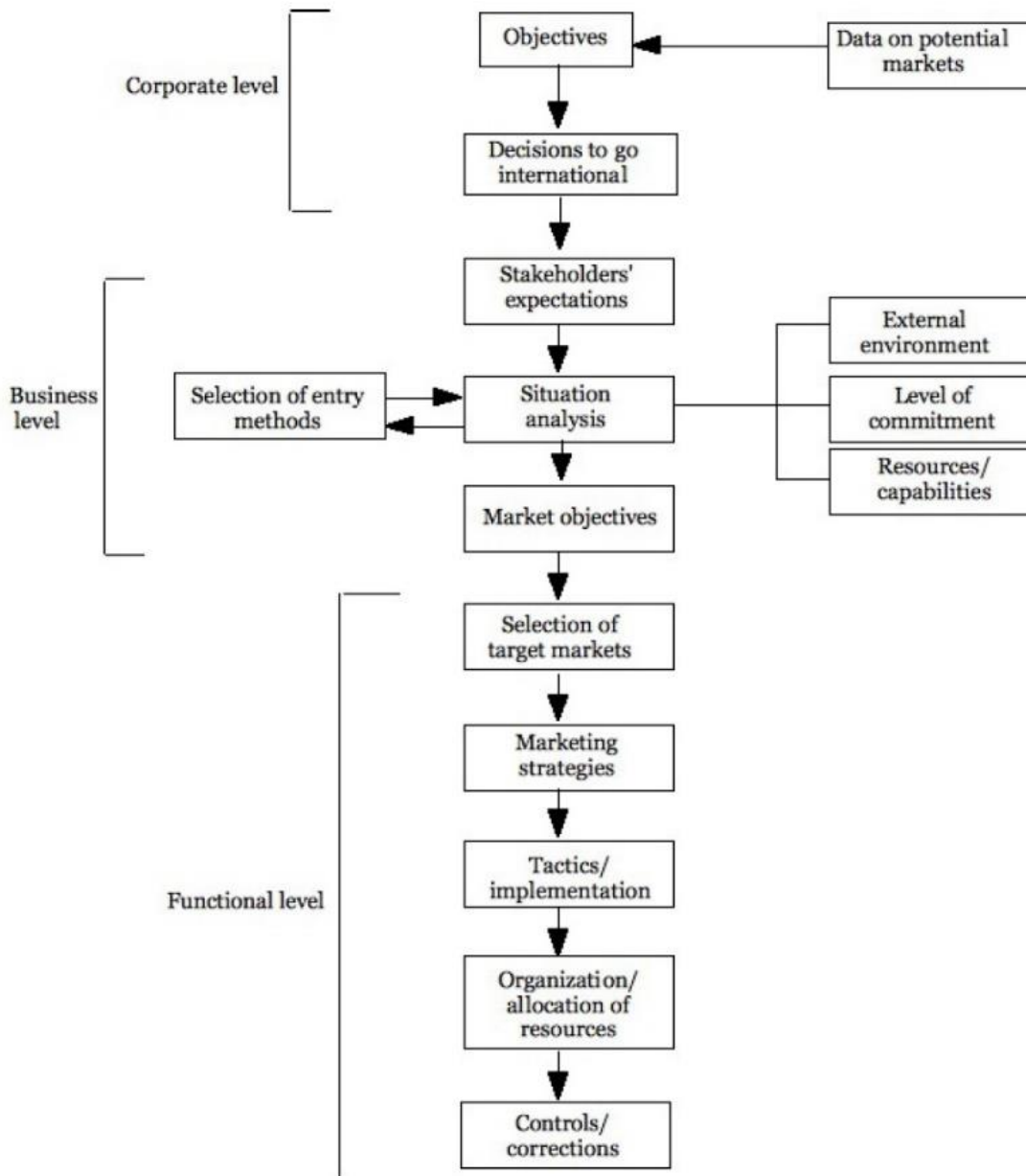


Figure 5: Decision structure in international marketing<sup>iv</sup>

## Distribution channels

Intermediaries may be a key factor for businesses once in the Chinese market. Intermediaries range from agents and distributors, to translators and social media support. While establishing a list of reliable intermediaries in advanced is needed, it is even more essential for businesses to build and maintain relations with intermediaries. Intermediaries involved in the distribution of a product are especially essential since knowing how the distribution process works and receiving feedback will be key for businesses to adjust their product and business plan accordingly.

There are three main ways to distribute a product in China, and the best way will depend on the business structure, region of business, product, and customer. The mode of distribution may also evolve or change entirely once a business has successfully entered and better adapted to the Chinese market.

### Exercise 1:

***Before selecting a distribution channel, it is important to consider<sup>v</sup>:***

- Can the business manage distribution or what expert help and further investments are needed?
- How much control (pricing, marketing, location, ethical consideration) will the business have over the product with this distributor?
- What locations will be covered with this distributor?
- Are multiple distribution channels needed (e-commerce and wholesale for example) and how will these be managed?

### Business to business distribution channels

For companies that need extra help in distribution, a business-to-business distribution channel may be the way to go. This type of distribution helps companies distribute products through a local Chinese distribution company that already knows and can manage the local market. Often times however, distributors in China are regional and do not work across regions for many of the same economic and political reasons that affect international business decisions as well. Furthermore, companies relying on this type of distribution will pay a large share of the profit margin to the distribution company in exchange for facilitating sales.

### Going it alone with direct distribution

For companies with greater resources and know how in the region of doing business, dealing directly with warehouse holding and distribution to shops may be more lucrative. Businesses will pay the cost of storing and transporting goods but will ultimately have more control over the specifications of price, location, and distribution methods. Companies that do not have the know how to go it alone may also consider hiring experts to mediate warehouse storage and supermarket contracts. This will take even more time, people, and financial resources to start with, but in the end could prove beneficial.

### E-commerce distribution

Companies relying on e-commerce for sales and distribution will lower costs since in general they will not have to pay for warehouse space or supermarket sales. Since e-commerce is commonplace in China, this type of distribution has a great deal of potential. However, most businesses will still need to hire experts to help establish an online store and ensure a shipment plan for returned items. Furthermore, there is a great deal of competition for e-commerce space, so a company taking this route should be prepared to adjust their product regularly and compete for e-sales.

## Exercise 2: Practical assessment of my distribution needs

In making the final decision about the distribution plan, conduct a SWOT analysis assessing the strengths, weaknesses, opportunities, and threats of the distribution channel of choice. Keep in mind that multiple distribution channels can be used (e-commerce and business to business distribution for example), but in using multiple channels also consider how these will be managed.

Strengths	Weaknesses
Opportunities	Threats

## Exercise 3: Plan for maintaining distribution channels and relationship with intermediaries

*How regularly is communication needed with intermediaries supporting the distribution channel of choice?*

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*If using e-commerce, what extra resources are available for marketing and managing e-stories?*

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*How will the business receive feedback about the product and distribution process to make adjustments?*

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## Establishing and maintaining local presence

The final step in entering the Chinese market is achieving stability and maintaining the structures put in place while entering the market. Just as with distribution, local presence is one component that will evolve as a business becomes more comfortable in the Chinese market. Initially many companies may rely on agencies or intermediaries to lobby on behalf of the company or product interests. The work entrepreneurs must do to establish a local presence in China will also depend on the type of business structure, distribution, and product. Businesses with a joint-venture partner, direct distribution, or a niche product may automatically gain local presence, however even this business will need to maintain this presence and good relations with partners.

The next three exercises of this handbook encourage businesses to compile two lists and incorporate them into the implementation plan. One list will be of current Chinese contacts and one of experts who would be needed in the future. For these exercises, entrepreneurs will need to review the export components, business and product marketing, and implementation and distribution plans.

**Exercise 1: List the contacts or local presence the company has in the following areas:**

*Region of doing business government:*

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*Region of doing business distributor/intermediary:*

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*Legal/tax advisor for business in China:*

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*Legal advice for contracts and sales:*

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*Sources to learn about business communication and receive reliable product feedback:*

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*Intermediary support for online marketing/e-sales:*

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*Business partners (in case of joint venture or other business support intermediaries):*

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*Sources to advice on local market pricing and competition:*

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*Support employing local staff or supplying visas for foreign staff:*

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**Exercise 2:**

After compiling the lists of contacts for maintaining a network in China, revisit the implementation plan and consider who will be responsible for maintaining these contacts and what steps will be taken to ensure a close and trustworthy relationship.

**Exercise 3:**

Finally, revisit the list of contacts and implementation plan and consider which contacts or experts are missing from your local Chinese network, and devise a plan for filling in these gaps. This is a process that, if revisited regularly, could help invigorate a business venture in China.

## Strategies for Nordic Countries Exporting NTFPs

- ✓ Develop and maintain a network chain of communication
  - Actively engage national institutions that support business and development initiatives.
  - Seek networks with similar regional focus, products, or export strategies.
  - Conduct your own market research to know the Chinese market and receptiveness for your product.
  - Seek advice from European organizations that support entrepreneurs in China.
- ✓ Stay up to date on trends concerning NTFPs in China
  - Be aware of local Chinese production and sales of similar products.
  - Use networks to stay informed about Chinese regulations on particular goods.
  - Assess consumer spending on your product and in your preferred distribution channels.

Nordic countries in the NTFP business could benefit greatly from national and regional networks to help support their product, business plan, and marketing strategy. These connections can help by sharing knowledge and experience about which products and markets are easier to reach in the Chinese market. Thus, the final three exercises of this handbook encourage entrepreneurs to make these network connections and seek information on their product in the Chinese market.

**Exercise 1: Fill in the following chart with support organizations at each level and write a goal for initiating and maintaining this network connection.**

	Organization/Source	Goal to maintain connection
National business support agency		
Similar business in the region with experience in China		
My product in China		
European organizations that support my business type in China		

### Exercise 2: My NTFP in China

Use the contacts above in exercise 1 here or from the previous section (maintaining a local presence) to conduct research and find information about your specific product in China.

*Does the raw material to make my product exist in China? If so, what competitive advantage do I have in my finished product?*

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*Are there other companies (Chinese, Nordic, European, etc. which have similar products? If so, who are they and how will I cooperate or compete?*

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*What challenges have other Nordic countries in my network faced in exporting goods to China? Which of these were related to the NTFP industry and which were not? Do I foresee similar difficulties and how will my company overcome them?*

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*What information do I have about the consumer preference for my product? Why will customers buy it? Where will they most likely buy it from? What have I learned from the experience of other businesses in my network?*

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### **Exercise 3: Reevaluate and revise your product and implementation plan**

After answering these questions, revisit the selecting your product and implementation plan and critique any points to enhance competitiveness.

*What points of your product and implementation plan could use future critiquing?*

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*Which questions do you still have that need answers and which network contacts can help?*

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## **Conclusion**

The Chinese market is a large and growing one. While there are a growing number of opportunities with e-commerce and increasing ease of doing business for foreign companies in China, it is still a huge and diversified country with a growing amount of market consumption and competition. Companies entering the Chinese market should be prepared for the economic, governmental, cultural, political, and environmental factors specific to China and be aware of regional differences that may affect trade, distribution, and the overall implementation plan. In such a huge and diverse market, there is no one size fits all business plan; however, the exercises here and companion guidebook hope to help small entrepreneurs navigate a challenging, yet potentially rewarding new market. Revisit figure 1 and summarize the main points of your business plan to achieve a sustainable presence in China. Then, consider the main summary checklist here and reassess your readiness to enter the Chinese market.

## Summary assessment of readiness for the Chinese market

- Ease of doing business in China has improved and consumer preferences have shifted to favor health products which are convenient to purchase. These considerations have been factored into the implementation plan.
  
- The region of doing business in China matters and I have found a region that is a good fit for my product(s).
  
- Holidays and long weekends are events to prepare for in advance.
  
- Business communication is different and politeness or lack of critique for a product can be expected. It is essential for businesses to seek feedback in a neutral way and work to maintain trust through consistent interaction with Chinese partners.
  
- Staying informed about and rethinking business strategies in response to political factors and international relations is a must, since these can have a significant impact on accessibility in China.
  
- Due to a high level of technology and e-commerce, Chinese consumers expect quick responses and delivery and value consistency in products. Social media marketing and sales are a useful if not necessary tool for doing business in China and it is necessary to choose the right platform for the product and customer.
  
- The Chinese government has taken several steps to curb carbon emissions in China and make the country more resource independent. These initiatives could heavily influence growth in China and lead the priorities for the Chinese 5-year-plans by the government.
  
- There are three main types of business foreign companies typically have in China. The type of business depends on the product and type of presence a company needs to have in China to market and sell that product.
  
- Some products may face different regulations, competition, or consumer preferences in different locations. It is important to choose the target location for doing business in China based on the product and favorable business conditions to market and sell this product.
  
- Distribution channels are an important consideration and businesses should consider how much control they want and can maintain or afford over this process.

- ❑ Establishing a local presence in China is essential whether a business is physically located in China or not. A local presence can be established and maintained through network contacts and Nordic, European, or Chinese partners.
  
- ❑ NTFPs are a unique industry which is already quite large in China. Businesses should consider the natural resources their NTFP consists of and compare how this resource is used and received in China. Cooperation with national, regional, and European businesses or organizations with experience in the region can support in this.



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