

## DEMANDS FOR BUSINESS ACTIVITIES IN CHINESE PEOPLE'S REPUBLIC

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### Abstract

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The article deals with the possibilities of doing business on Chinese market typical for its geographical spaciousness and populousness. There is also included an overview of China's position in relation to 12 selected EU-countries. It is shown that four of 12 selected countries (Hungary, Slovakia, United Kingdom and Poland) do not export to China while People's Republic of China exports into all 12 countries. Dividing the exports to China between the counties, Netherlands stands on the top with the share of 11.54% while Austria participates on the total exports only by 2.47%. In relation to the Czech Republic, China's share on its imports is 10.05%, and only 0.74% on the export. Although the passive balance decreased by 16 232 bill. CZK, in 2009, the balance remains negative. This article looks in detail on the specific standards required by Chinese authorities when Czech company wants to open a representative office there. Also the costs for exhibiting on a machinery-specialized trade fair are calculated. The paper specifies the total time needed to deal with formalities concerning establishing a joint venture and receiving a building permit to build a new plant or reconstruct existing facilities. The financial expenses for a trade fair participation and opening a representative office are average values received from discussion with the top managers of Czech machinery companies exporting their goods or running a production-focused joint venture in the People's Republic of China.

China, Joint Venture, market, import, export, balance, calculations

Expanding onto the foreign markets always requires accomplishment of certain basic conditions. In the first place, it is the competitiveness of produced goods or services. Then there is a short period for adaptation to a different business environment, knowledge of local specifics, mastering business and financial practice and elimination of risks of trade transactions and preparation of successful business dealings. All these are the necessary prerequisites for any entrepreneur who wants to run a business in the second most powerful economy in the world. The listed criteria are generally applicable for any foreign market but are specifically valid for the regions that are still hardly comprehensible for us, and distant in some way, like China.

Chinese market is highly lucrative both on business and financial basis to all entrepreneurs thanks

to its vast area of 9 596 960 km<sup>2</sup> and 1 312 983 300 inhabitants. At the same time it is also capital and operation intensive and demanding on time. The immense area and crowdedness of trade require greater capacities and sufficient time for preparation to fulfil all the requirements and formalities before obtaining the permit of local authorities. Mostly, it is necessary to operate in Chinese language, to know appropriate financial transactions and legal rules.

In the time when the supply tops the demand, when the market saturation grows and the multinational enterprises attempt to gain control of a certain market segment and traders try to offer new benefits and guarantees, the company has to be able to fairly consider whether it is capable to flexibly innovate its production programme, react to the changing competition and market conditions, fulfil the clients ex-

pectations about the exported products<sup>1</sup> and services, quality and mainly price.

„In China the criterion of price often overrules the criterion of quality and cheaper product of lower category is preferred.“ (Vyrubal, 2007) „Chinese partner is more interested in the current price of the goods. He does not think about the future need to change the less quality product every ten years which will make the final price much higher“ (Kučera, 2007).

These theories are supported by the experience of Linet Ltd., a company supplying Chinese market with electrical hospital beds worth from 50 000 CZK to half a million CZK. „The business partner argued that the price for one bunk is too high for Chinese market which is the reason for difficulties with their sales. He did not apprise that the bed is equipped with a weighting module, roentgen or kinetic therapy for the intensive care. These beds are sold more to the doctors in Europe and USA“ (Stingl, 2010). „Those who want to have a business success have to create a plan. Those who want to create one need a prognosis. Those who want to realize the plan on time need to have a conjuncture prognosis“ (Collector, 1992).

### Trade score between Czech Republic and China

However interesting the Chinese market is in its absorbency potential and entrepreneurship (i.e. „comparing the car equipment there are 500 cars for every 1000 inhabitants in France while in China the rate is only 25 cars for each 1 000 citizens“) (Dachary, 2008), it is not possible to presume that it would be easy to sell there an uncompetitive commodities in bulk, no matter how well is China known for cheap footwear, textiles, toys or TV parts. A Czech tradeswoman, economic faculty graduate now in a leather shop business, visited a trade fair in Hong Kong. She was fairly surprised by the material quality, level of processing and design of the presented goods which was entirely comparable to the products from Western Europe. Therefore the decision about the way of entering the Chinese market definitely requires clearly formulated strategy and knowledge of local legal norms and regulations so that the invested resources or deposit payments for future delivery are not spent inappropriately or even needlessly. It is necessary for the company management to build their decisions on quality information which can only be gained in continuous monitoring, analy-

#### I: Aggregate indicators of Czech-China mutual trade

Indicator	Unit of measure	2008	2009	Difference	Index in % 2009/2008
Export	mill. CZK FOB c. p.	13 168	15 855	2 687	120,41
Import	mill. CZK FOB c. p.	212 543	198 998	-13 545	93,63
Balance	mill. CZK FOB c. p.	-199 375	-183 43	16 232	91,86
Turnover	mill. CZK FOB c. p.	225 711	214 853	-10 858	95,19
Export/import share	%	6,20	7,97	1,77	128,60

Source: Czech Statistical Office, authors' calculations

#### II: Import structure

Commodities divided according to the SITC classification		2008	2009	Index 2009/2008 in %	Share in %	
					2008	2009
including	China in total	212 543	198 998	93,63	100,0	100,0
	0 alimentary products and animals	1 773	1 486	83,81	0,8	0,7
	1 beverages and tobacco	30	28	93,33	0,0	0,0
	2 unextractable materials	725	781	107,72	0,3	0,4
	3 mineral fuels and lubricants	13	15	115,38	0,0	0,0
	4 animal and plant oils	5	6	120,00	0,0	0,0
	5 chemicals	3 707	3 115	84,03	1,7	1,6
	6 semi-finished materials and minerals	17 686	12 680	71,70	8,3	6,4
	7 machinery and transport means	139 956	135 955	97,14	65,8	68,3
	8 industrial consumer products	48 646	44 931	92,36	22,9	22,6
	9 other commodities	1	1	100,00	0,0	0,0

Source: Czech Statistical Office, authors' calculations

1 „Often the Czech company has simply not sufficient capacity for the needs of Chinese partner. The product quality and terms can be good but the requested delivery volume is frequently many times larger than the maximal production capacity. And the Chinese partner gives priority to one big supplier rather than to higher number of smaller ones“ (Vyrubal, J., 2007).

III: Export volume in billions CZK FOB in current prices and its structure in %

Commodities divided according to the SITC classification	2008	2009	Index 2009/2008 in %	Share in %	
				2008	2009
China in total	13 168	15 855	120,41	100	100
0 alimentary products and animals	60	87	145,00	0,5	0,5
1 beverages and botacco	8	26	325,00	0,1	0,2
2 uneadable materials	282	1 106	392,20	2,1	7,0
3 mineral fuels and lubricants	27	44	162,96	0,2	0,3
4 animal and plant oils	–	–	–	–	–
5 chemicals	688	1 274	185,17	5,2	8,0
6 semi-finished materials and minerals	1 696	2 292	135,14	12,9	14,5
7 machinery and transport means	9 246	9 284	100,41	70,2	58,6
8 industrial consumer products	1 163	1 742	149,79	8,8	11,0
9 other commodities	–	–	x	–	–

Source: Czech Statistical Office, authors' calculations

sis and synthesis of suitable data. That was also confirmed by a survey run by the Czech Trade agency whose results show that „new Czech exporters mostly fail in market research and in underestimating the importance of marketing communication“ (Kolektiv, 2008.)

The outcomes of mutual trade so far indicate a passive balance even though a mild improvement in 2009 was noticed in the statistics which is seen in aggregate trade indicators in Tab. I.

The table shows that the total Czech export to China in 2009 is 1 524 CZK per capita while the import is 19 134 CZK per capita which makes a significant difference that has to be systematically lowered.

The next table of Chinese import structure to Czech Republic presents a positive progress in 2009 when the import of industrial consumer goods, machinery and transport means, semi-finished products and materials.

A positive upbeat is noted in all commodity categories in export activities but relatively the biggest change happened in non-consumable goods whose export increased by 292% which means 824 bill. CZK. The second place was taken by semi-finished goods and minerals (increase 596 mil. CZK) followed by beverages and tobacco on the third place. However the export still covers import from China only by 7.96%. The increase of machinery and transportation, industrial goods and chemicals export by 634 mil. CZK significantly changed the structure of Czech export to China as can be seen in Tab. III.

#### China's trading position towards EU

China is an important trade partner for some other member states of European Union, too. China's position among the 13 evaluated countries according to the volume of trading activities with

12 EU states published by Czech Statistical Office is shown in Tab. IV.

We consider necessary to point out that the smallest difference between China's import and export was in a relation to France. In contrary, the biggest difference is seen between Chinese export and import volumes to Spain. Chinese absence in the export activities for four evaluated countries can be explained by states' focus on agrarian production. In the intra-EU perspective, Germany is the top importer into 9 countries and the top exporting location for 10 out of 12 reviewed EU countries which makes Germany generally important trading partner. On the thirteenth place in import we can find Canada, Switzerland, Finland and in export category Hong Kong, Mexico, Japan, USA, Turkey and Greece.

#### GOAL, MATERIAL AND METHODOLOGY

The aim of this article as one of the outcomes of a research project, id. code VZ: 6215648904 thematic field 03; „The development of business sphere relations with regard to the changes of purchase behaviour lifestyle of population and to the changes of company environment in the processes of integration and globalisation“ resolved at the Faculty of Business and Economics of Mendel University in Brno, is to clarify the conditions for entry and business<sup>2</sup> of Czech entrepreneurs on Chinese market, to analyse the demandingness of establishing a joint venture and financial costs for opening a representative office and exhibiting on a trade fair.

The material is gained from technical literature, internal website of the Czech Ministry of Industry and Trade, Czech Statistical Office, Ministry of Foreign Affairs and Czech Trade agency. Detailed in-

2 Business has to follow the business performance as a multidimensional indicator. It „has many dimensions for example including profitability, innovation, product execution, quality and growth“ (Pearce, 1995).

IV: *The importance of China to the trading partners*

Country	China's rank		State with the rank number			
	import	export	import		export	
			one	thirteen	one	thirteen
Belgium	7	10	Netherlands	Switzerland	Germany	Switzerland
Denmark	5	12	Germany	Finland	Germany	Japan
France	8	9	Germany	Sweden	Germany	Turkey
Italy	3	11	Germany	Poland	Germany	Greece
Germany	4	8	Netherlands	Spain	France	Russia
Netherlands	7	13	Germany	United Kingdom	Germany	China
Austria	3	8	Germany	Canada	Germany	Hong Kong
United Kingdom	3	–	Germany	Belgium	Germany	United States
Hungary	5	–	Germany	Sweden	Germany	Slovakia
Poland	10	–	Czech Republic	Belgium	Germany	Belgium
Slovakia	4	–	Germany	Switzerland	France	Mexico
Spain	2	11	Germany	Spain	Germany	Russia

Source: Czech Statistical Office

formation about costs connected with the business activities on Chinese market were gained from discussions with the senior managers in machinery companies and from consultations with Chinese agency specialized in dealing with the formalities and documentation required for penetration of Czech companies into China. The methodology is adequate to the goal of the article. More general methods are used as well as quantitative statistics necessary for finding the level of economical and trade indicators.

When entering the Chinese market it is essential to learn about the costs that will a company have to invest before starting any activities in China. Calculation<sup>3</sup> can be described as the basic method for counting costs for calculation unit. In case of company's participation in an exhibition or trade fair as a vital prerequisite for its presentation and researching Chinese traders' response to their products or services, we always use individual items as a base. The same approach is used when calculating the costs for running a representative office. Both horizontal and vertical analyses were applied. The average values of separate items were gathered from information of Czech machinery companies operating in China, from consultations with Chinese consulting agency and law offices in Czech Republic. In these calculations the average values are presented instead of an exact numbers.

## OUTCOMES AND DISCUSSION

The entry to Chinese markets demands a good knowledge of import regulations especially when importing alimentary goods. Chinese customs officials "are uncompromising and follow strictly only Chinese rules. They extract a sample from every delivery which is then sent to the laboratory for testing. If a slightest difference from the prescribed standards is found, the customs stop the whole delivery (container) and foreign company is left with two possibilities. It can either send the shipment back to Europe or liquidate all the food. Both alternatives cost money and time" (Červinka, 2010).

Doing business in China but also elsewhere demands considerable experience. In China there is a routine of paying a deposit of 50% of the total value of the goods exported abroad. In these cases it is necessary for the company to arrange the deal with a serious trader who will secure the transaction. From a marketing perspective he can be perceived as a mediator whose services are paid by a commission included in the sales-price of the product. The reasons explaining the necessity of this approach of the importing company are listed below:

Company's employee who does not speak Chinese cannot be sent to China as a representative during the first contacts and negotiations.

It takes a very long time to obtain a stay and work permit for foreigner from Chinese authorities.

For adaptation to the conditions of a different market one needs a good organizational skills and

3 „Calculation is actually another name for enumeration, enumeration process. In a company industrial practice a calculation means an enumeration focused specifically on the costs spending of which is needed for the emerging result“ (Macík, 1999).

the knowledge of behaviour and actions of Chinese partners.

East Asian market is very specific. „You have to get to know the different cultural world at a close range. We were glad even for the troubles we had to deal with for they were a valuable experience which helped us to understand many things“ (Horák, 2010).

Certification process for certain commodities can take even several months, for example for imported medical technique. Czech company Linet Ltd. has got many experiences with this problem. „To obtain an approval for a medical bed we need from eight to eighteen months which basically makes it impossible to launch a new product. On the top of it, Chinese institutions require a complete technical documentation with all details for the certification. And you can only hope it will not end up in wrong hands. Withal the certification is not cheap. It cost from 300 000 CZK to 400 000 CZK for one product line“ (Horák, 2010).

One of the primary problems when founding a new company which has to be overcome are the demanding formalities needed to get a property and to buy or build a facility. China belongs to the countries with a long period needed for obtaining a construction permit. The financial fees for the permit are high as well, as can be seen in Tab. V. On the other hand, the building registration process is quick.

Consistency and therefore also the demandingness of Chinese bureaucracy is shown in the period needed to register at the financial institutions, to submit a tax return and dealing with tax formalities. Corporate tax rate in China is 25%, whereas in India as another perspective country, the tax rate is 42.5%. However it is necessary to acknowledge what is included in the tax. If we add also social insurance payments, real estate tax, environmental tax, value-added tax and education tax, then the overall tax burden in China is comparable to India. An over-

view of time demands to deal with tax formalities are shown in Tab. VI.

It is possible to say that potential investors and entrepreneurs are not provided with optimal conditions in China with regard to the demands and costs of tax system or building registration. Businessmen only exporting goods to China are in a better position but only if their products have a precise documentation. That involves mainly the consignment note, certificate of origin, trade invoice, customs' declaration of export and a complete list of goods.

Obtaining an import licence for foreign subjects is a little easier in China than in the Czech Republic where the time needed to deal with the authorities is almost double. On the other hand once the licence is granted, the custom clearance of imported products itself is quicker in Czech Republic. This period involves dealing with custom documents, security and technical control of the goods, duty-payment and manipulating with the shipment in the ports and airports. A complete overview of time indicators is provided in Tab. VII.

## Public company

### Joint Venture

Joint venture is the most common form of a corporate business in China. „The purpose and goal of a joint venture is providing modern know-how in a cooperation with foreign partners“ (Kolektiv, 1992). To this fact it is necessary to add that in case of expansion to China it is not only giving the know-how but in the first place it presents a possibility to do business in this territory and then involving know-how together with a chance to sell products of services on Chinese market. Besides joint venture there are also wholly-owned companies with a 100% foreign capital but these are rather rare. Chinese government specified certain sectors in which the majority of foreign capital in companies is not

V: Selected building construction indicators

Indicator	China	Czech Rep.	Differences between China and Czech Rep.
Number of days needed to process a building permit	336	150	+186
Time needed to process the registration of property (days)	29	78	-49

Source: Doing Business, Enterprise Surveys, World Bank (2009), authors' calculations

VI: Basic economic criteria

Indicator	China	Czech Rep.	Differences between China and Czech Rep.
Number of meetings needed to tax offices	14,4	1,5	+12,9
The average time of preparation of tax returns (h)	504,0	613,0	-109,0
Total tax rate (% profit)	63,8	47,2	+16,6

Source: Doing Business, Enterprise Surveys, World Bank (2009), authors' calculations



admissible. For example in the automotive industry the maximum share of foreign capital is 50%, and in the banking sector the limit is only 25%.

Foundation of a company is preceded by several sessions with authorities. Actually these can be understood as gradual steps so called *per partes*. First the Letter of Intent (Memorandum of Understanding) has to be discussed and signed. Then the Chinese partner has to provide technical-economical study which formulates the subject of an agreement, way of financing, capital return and capital participation of individual parties. If this study is approved another detailed technical-economical study follows. During the licensing procedure a special emphasis is put on export of produced goods, equipment of enterprises with modern technologies, training of Chinese workers and other additional criteria.

We see that as a reason why only ten Czech-Chinese joint ventures were established in China so far. Minimal capital necessary for founding a joint venture is 4 000 000 CZK. Companies with foreign participation cannot buy land but only rent it. Operating results are taxed by 25% corporate tax rate. If a company fulfil all liabilities in China it is allowed to transfer the profits abroad.

According to the data from United Nations Conference on Trade and Development (2005) the number of companies with foreign participation in China increased from seven firms in 1980 to 242 284 operating companies in 2004. Detail progress is presented in Tab. VIII.

Rapid growth of joint ventures was supported by China's accession to WTO in 2001 and following reduction of strict protectionist measures. This reduction also positively influenced the share of joint ventures on Chinese exports. Thanks to the more capable management from developed capitalist countries with more experience from trading on the global market and possibilities to use the existing trade networks, the joint ventures perform more successfully with higher profits. This fact is shown positively also in undeniable role of these companies in the tax structure as they create one fifth of total Chinese tax revenue.

The biggest problem of foreign investment flow<sup>4</sup> to China is its irregular allocation in Chinese territory. More than 80 % of all joint ventures invest on the east highly settled coast with developed infrastructure, business bank net and many foreign companies. Problems emerging because of the irregular development of individual regions of China force

#### VII: Comparison of import demands in selected countries

Indicator	China	Czech Rep.	Differences between China and Czech Rep.
Number of documents required for importing goods	5,0	7,0	-2,0
Number of days needed to get an import licence	18,4	32,7	-14,3
Number of days needed to declare imported goods	24,0	20,0	+4,0
Costs for import (CZK/container)	10 900,0	23 300,0	x

Source: Doing Business, Enterprise Surveys, World Bank (2009), authors' calculation.

#### VIII: Number of firms with foreign capital in China

Year	Number of companies		
	abs.	abs.	annual growth %
1980	7	–	–
1985	4 912	4 905	–
1990	25 389	20 477	417
1992	84 371	58 982	288
1995	233 564	149 193	253
2000	203 208	–30 356	–13
2004	242 284	39 076	119

Source: National Bureau of statistics of China

4 As an investment flow can be understood both financial investment as well as transfer of technologies as “a process facilitating the movement of science, research and development results in their both material and intangible form from the place of their origin to the location of their final use” (Malý, 2002). It is important that the technology transfer leads also to the transfer of know-how which is especially beneficial for final financial evaluation.

the government to look for ways how to attract foreign companies and investments to the central and western parts of the country. Nowadays the west cannot compete with the east on its equipment and development. The presence of very cheap workforce in the rural areas is not sufficient to draw the attention of investors. One of the governmental measures was establishing of special zones with a focus on hi-tech products, heavy industry and energetics. Companies operating in these fields are offered certain advantages (usually easier administration or tax allowances).

### Realized joint venture projects

Just like the Czech enterprises seek for a chance to do business in China, Chinese companies are interested in doing business in the Czech Republic. So far it has been in a limited scale. "A joint venture for production and sales of bicycles was established in Lanškroun. Another one, specialized in colour televisions, able to produce one million TVs yearly destined for EU market, emerged in an industrial zone in Nymburk. Cooperation with Czech phone and data operators expands. Again in Nymburk, Chinese company Shanxi Yuncheng Plating Group produces disks for printing machines. Another company Beijing Fight Company bought a plant for crystal glass production in Nový Bor for 12 mil. CZK. Enterprise Shandong Linyi Yuli Foodnuts invested 50 mil. CZK into the nut roasting furnace KK foodstuffs. In Hrobčice in Teplice region a plant producing Chinese luncheon meat and a can-packed ham was built for 400 mil. CZK creating 200 working places. 90–95% of its products will be exported into the EU countries and USA."<sup>5</sup>

Among the biggest projects realized in China is listed „construction of a bio-gas station, production of pencils KOH-I-NOOR, plant for footwear cutting machines, automotive washer production plant or production of machine tools in south Chinese pro-

vince Yunnan. Agrofert Holding Inc., invested into the titanium white production plant in 2006, RA-VAK Inc. into the production of sanitary technique near Shanghai and TESCANA into the scanning electron microscopes in 2009."<sup>6</sup>

### Necessity of contacts and good relationships

It is not enough to enter the Chinese market but also to survive and remain there. That is the key problem for a successful business. Therefore it is vital to have a working informal net of relations which is an inseparable part of Chinese business culture and an important factor for trading. The Chinese call it *quanxi*. Because of a significant autonomy of Chinese local officers and a high level of corruption which is an unwritten rule in doing business and negotiating, it is essential to have the right contacts and knowledge of competences of everybody who is involved in the process. Only then it is possible to influence responsible individuals and secure or at least get better chances to close the deal.

### Trade fair participation costs

The basic prerequisite for a successful penetration to the Chinese market is a presentation of products on a specialized trade fair. From the information received from the managers of Czech machinery companies that participated in specialized trade fairs CIMES and CIME in China, it was possible to create an informative overview enabling to get an idea about financial demands for company's presentation in this type of promotion. The costs are listed in Tab. IX.

In the list above and the total price some costs are not calculated, particularly the expenses for shipping machines which are to be exhibited, their installation or liquidation. These costs are individual according to the exhibit and the way and time of its transportation. Because most machinery products are very heavy and their transport is complicated,

IX: Costs for company's participation in a machinery trade fair in China

Calculation item	Thousands CZK	%
Registration booth 21 m <sup>2</sup>	109	31,50
Materials for promotion	40	11,56
Promotional objects and gifts	10	2,89
Catalogue in Chinese (1000 pieces)	26	7,51
Right banners and other materials	60	17,34
Plane ticket (2 return with fixed)	60	17,34
Company representatives accommodation (2 persons for 5 nights)	18	5,20
Services of an interpreter in the booth	23	6,65
Total	346	100,00

Source: authors

5 Source: *BusinessInfo.cz* [online]. 2010 [cit. 2010-08-26]. Čína: Obchodní a ekonomická spolupráce s ČR. Available from WWW: <<http://www.businessinfo.cz/cz/sti/cina-obchodni-a-ekonomicka-spoluprace-s-cr/7/1000539/>>.

6 Source: *BusinessInfo.cz* [online]. 2010 [cit. 2010-08-26]. Čína: Obchodní a ekonomická spolupráce s ČR. Available from WWW: <<http://www.businessinfo.cz/cz/sti/cina-obchodni-a-ekonomicka-spoluprace-s-cr/7/1000539/>>.

many companies choose rather to bring smaller machines or their models with additional promotion materials. Often Czech enterprises first try to find a Chinese buyer and prepare a trade in advance and the exhibit is shipped to its Chinese owner after the trade fair. Then all the transport costs are calculated in the sales price.

Considerable financial expenses are connected with opening and running a representative office in China. Czech company can use an assistance of Czech Trade agency that has offices in Shanghai and Chengdu and yearly expands for running a representative office when using Czech Trade spaces are presented below in Tab. X.

Representative's job in the office is wide. Last year the Ministry of Public Security of the People's Republic of China tightened the conditions for opening the representative offices, number of its workers and the activities themselves. According to the new legal regulation the work of the office has to be strictly of a marketing nature which has to be entirely separated from any business activities. For a trading action a special permit is required. Some of the conditions that a company has to fulfil when intending to open a representative office are (Červinka, 2010):

- „the foreign company has to exist for at least two years,
- it has to present a statement from the commercial register and a confirmation from the bank for the capital credit,
- all the documents have to be notary attested in the country with company's headquarters and be legalized by a Chinese embassy in that country,
- company has to present several proves of their physical existence,
- the registration will be granted only for one year,
- there can be only four workers employed in the representative office.“

From the list above it is evident that the Chinese part understands the purpose of representative offices strictly from the marketing point of view but not a business one as it was tolerated until recently.

### Perspective industry sectors in China

Business relationship between Czech Republic and China were quite developed in 1950s when, thanks to the political and economical solidarity of communist countries, was Czech Republic actively involved in development of Chinese energetics and industry, especially by exporting large investment units, machinery products and launching of machinery production plants. Although this position in China was lost in 1990s, Czech Republic nowadays picks up on these formerly successful business activities which projects into the development of mutual goods turnover.

Czech Ministry of Industry and Trade analysed five industry sectors that are specifically interesting. These perspective fields include:

#### 1. Energetics

For a growing industrialization and infrastructure building in rural parts of China there is a big demand for expanding and modernization of energetic industry. Especially a large potential is seen in renewable resources that interest Chinese government and number of international organizations operating in China that call for better usability of all energy resources for the long-term fast tempo of industrial production and household consumption.

#### 2. Chemical industry

The possibility to expand to China is great for chemical companies and entrepreneurs processing plastic bottles as a material for further usage. As an example Agrofert Inc. holding can be named.

X: Yearly costs

Calculation item	Thousands CZK	%
Consulting and legal services	65	3,35
Company representant's wage	360	18,56
Plane ticket (year validity)	35	1,80
Representant's accommodation	475	24,48
Board money	328	16,91
Travel costs in China	100	5,15
Year visa fee	3	0,15
Czech Trade agency services	414	21,34
Stationery, telephone, fax	50	2,58
Materials for promotion	40	2,06
Promotional objects and gifts	10	0,52
Catalogue (100 pieces)	20	1,03
Costs for tender documentation	15	0,77
Expanses for representation	25	1,29
Total	1 940	100,00

Source: authors



### 3. Machinery

China is an interesting import territory especially for producers of machine tools. Czech companies can follow a tradition of exporting specialized machinery, many years of experience and high quality. According to the documents of the Ministry of industry and Trade, machinery is the most important industry sector in China which participates on the GDP by 11%. Therefore Chinese government intends to promote this field to the position of the key pillar of state industry by supporting foreign investments and donations to the local companies. Nowadays, China is the biggest importer of machine tools in the world in a long-term perspective. So far Chinese products do not present any threat to a Czech exporter but there is a big international competition from Germany and Japan.

### 4. Water resources and waste industry

With regard to the quick development, consumption and populosity, China has to solve problems with waste materials (its collection, recycling and disposal). This field is becoming a priority to the

Chinese government together with construction of water filter facilities. Also the growing standards of environmental protection, especially in waste recycling and processing secondary material, cannot be ignored.

### 5. Mining technique

Providing an efficient and reliable mining technique and technologies is one of the priorities of Chinese government which creates an opportunity for Czech companies to export machines, equipment and complex technological units.

### 6. Other

Among other fields that are defined as interesting for Czech traders belong modernization and installation of mining technique, transport engineering, infrastructure building and exports of food-processing technologies. Together with slow opening of Chinese market to foreign subject, new sectors are becoming available such as financial, consulting services and tourism.

## SUMMARY

In the end it needs to be noted that no matter how geographically big Chinese market is, company's decision to enter it has to be based on a sufficient number of relevant and quality information. With regard to the distance of the territory and thereby also high transportation costs, it is not possible to settle for separate random facts that can be misrepresented. From the discussion with top managers of Czech machinery companies with experience with trading and operating on Chinese market, it is possible to conclude that the best way of penetrating Chinese market is a direct export through a Chinese agent who is rewarded based on commission-principle. Economically strong enterprises with modern machines and technological entities in their portfolio can later consider further expansion. Based on their experience with exporting they can take another step, either open a representative office or establish a joint venture.

Chinese market can be described as unusual – not only because of its size but also because of populosity, cultural and religious traditions and the language itself. All these criteria demand a very good knowledge and understanding, which can only be achieved by local, professionally and language-skilled interpreters. It has to be mentioned that it is very difficult to find an interpreter with good language skills and specific professional knowledge. Especially because all the negotiations run in Chinese and a dishonest interpreter can cause significant losses. It is useful to translate the negotiations also into English language and have (at least at the beginning) all the documents controlled once more by a trustworthy individual. This approach will increase the costs but will certainly pay off.

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