

Jesa Consulting Ltd.

NEWSLETTER

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What is Jesa?

Jesa is a service company headquartered in Shanghai specializing in facilitating start-up of new industrial productions while providing reliable management and control solutions. We operate 4 main branches in China and a foreign office in Ulaan Baatar (Mongolia). Since 1998, Jesa has built a team of 70 specialized employees in addition to 25 engineers following "in loco" projects. Commercial relationships are exclusive and strictly confidential, ensuring the highest expertise on each single commercial and technical issue. Jesa is a leader in managing manufacturing processes and eliminating any industrial and regulatory problems while helping our clients save financial resources and time.

Jesa is currently expanding its services providing support to those companies seeking to develop distribution network and retail system in China as well as in Mongolia. We also perform HR audit and investment analysis (trouble-shot analysis) to verify performances in support to enterprises already established in China.

Annual Joint Inspection on Foreign Investment in China

All Foreign Investment Enterprises (FIEs) established prior to December 31st, 2007 through their direct investment in China, shall take part into the annual joint inspection and performance evaluation.

The annual joint examination of enterprises with foreign investment has played an important role in improving the soft environment for investment, alleviating the enterprises' burden and strengthening the communication and coordination between the government departments.

All the FIEs shall pass through the following 7 departments of government authority:

1. The department of Ministry of Foreign Trade and Economic
2. State Administration of Foreign Exchange
3. Taxation Bureau
4. Local Economic Committee
5. Fiscal Bureau
6. Statistic Bureau
7. State Administration for Industry and Commerce

Annual joint examination time

The official period for the joint annual inspection of Foreign Investment Enterprises (FIEs) extends from 1st April to June 30th each year. Each department involved in the inspection should endeavour to improve the coordination and cooperation among the various government authorities.

Annual joint examination documents

1. FIEs may download the form from the website of the Ministry of Commerce (www.lhni.gov.vn) or from the State Administration of Industry & Commerce website (www.saic.gov.cn), print it on A4 paper, fill in according to the actual information of the overseas enterprise, and submit it in 3 copies.
2. The downloading should be completed within the stipulated time and the information filled in concerning overseas enterprises shall be true and valid.
3. A copy of the filled document shall be submitted to the departments of foreign trade and economic activities and foreign exchange bureaus.

Annual joint examination contents.

1. Form 1: Enterprise basic information sheet (including company name, address, business scope, registration number and so on)
2. Form 2: Registered capital contribution status sheet (registered capital contribution method)
3. Form 3: Overseas investment status sheet (overseas investment: mean the FIEs as investor to do the investment outside of

- China)
4. Form 4: Subsidiary status sheet (subsidiary shall be put on record)
 5. Form 5: Production operation status sheet of the current year (including sales turnover, total gross profit, total net profit, total assets, total liability, long term liability, import and export status, verification organisation, and enterprise operation status)
 6. Form 6: Enterprise other information sheet (enterprise types, enterprise employees, enterprise approval date, and so on)
 7. Form 7: Foreign exchange status sheet (including overseas loan, overseas debt and interests repayment, and so on)

Punishment to enterprise not attending the annual joint examination

For those failing to declare for annual examination, failing to make faithful reports in the annual examination or committing law-breaking or rule-breaking acts in production or business operation, the departments of annual joint examination shall deal with the punishment the offenders pursuant to the law and regulations.

Chinese Culture: What Westerners Need to Know

By Alberto Lippolis

According to recent studies on the relationships between Chinese culture and work practices in international contexts such as international companies in China, the fact that Chinese culture might create, if not deeply considered, hurdles in the way of working, has proven to be still a real problem for foreign companies approaching China. More precisely some differences have arisen among the more industrialized cities: Shanghai and Beijing.

In the study mentioned above a survey, with the aim of investigating the differences, if any, between the two cities has been conducted on a sample of 100 people working in international companies settled in Shanghai and Beijing.

The differences between the two cities show how the two metropolises approach the international business differently.

The reasons are both historical and political: Shanghai since the first years of 1900 has been populated by international people, and moreover it has benefited from the proximity to Hong Kong, which has been under British control up till 1997, and has been always benefited from a sort of freedom granted by the central government of China. For these reasons the city has always breathed an international air and lots of international companies have chosen Shanghai when deciding where to invest in China.

Beijing as the capital of the People Republic of China has always been more closed to any sort of internationalization and only in the last decade, especially after the adhesion to WTO of China in 2001, has opened its doors to the world. For these reasons this city, as well as the north of China, is more concerned with the cultural differences with the rest of the world. The sensations is that in Beijing Western people are considered more as counterparts rather than partners, while in Shanghai the business like atmosphere is boosting the possibilities for small and medium enterprises to develop and to make money.

Nonetheless the above considerations about the two cities, the Chinese culture is one of the first things to look at when deciding to approach China not only for business but also for pleasure. The most important and peculiar elements to take into considerations are:

1. The concept of face;
2. The concept of *Guanxi*;
3. The value of interpersonal relations;
4. The Chinese negotiation style;
5. The hierarchical structure.

Even if these are only some of the elements of a millenary culture, the Confucian one, we think that it can be a good start to be introduced in the Chinese society without being hurt.

The concept of face is one of the most important aspects of Confucian culture: "Face" is the respect, pride, and dignity of an individual as a consequence of his/her social achievement and

the practice of it, or "face work", is the use of a complex package of social skills to protect his/her face and the face of others in Chinese relational settings.

To better understand the concept of face, the words of one western manager who has been working in China are explicative: "...Chinese employees say they understand you, go off to do the work, then four hours later haven't done it and finally admit they don't know what to do...".

Moreover "face work", and its related concept "*guanxi*", predominantly affects the Chinese behaviour at social, political and organizational levels.

One important thing before going on with this discussion is that all these elements are not a fault of the employees, as one might think reading the words describing face, but are a concentrate stemming from an ancient nation which has emphasized for centuries strict organizational values.

Guanxi is another peculiar element of the Chinese society.

Everyone who wants to gain from his activities in China has to understand the concept of *guanxi*. In a simplistic way *guanxi* means building relationships with the people surrounding you treating them as part of your family or as old friends. Doing so, the access to the Chinese society will be easier.

It is necessary for every Western manager approaching China to create a *guanxi* around him/her. This means that among all the cultural aspects the management of the interpersonal factors is one of the biggest issues to be considered in this scenario. The difficulties encountered in building this kind of network are really high being this aspect not negotiable and a bit mysterious.

A manager interviewed during the studies mentioned above says: "The ones who have bought *guanxi* with money are the ones who have to always spend more money in order to maintain their *guanxi*: these persons do not have a real *guanxi* because they have based their relationships on money and not on trust".

The third element take into consideration is a direct consequence of *guanxi*. The interpersonal relations are something one cannot forgive when going to China.

The fundamental aspect to consider in order to build interpersonal relations lay in some easy but important steps such as the introductory phase and the lunch/dinner.

In China the moment consisting in the presentation of oneself to another person is considered as a really important moment. It is really important to exchange with the person in front of you the respective business cards and smirk making a sort of bow to the person who has already given you his card.

Another important aspect is the moment of lunch/dinner. First of all it is important to say that the meals time is one of the most important moments of the day in the Confucian culture. It is seen as a phenomenon of aggregation where people show their deepest personality and it is thus considered as a moment to deepen the personal relationships with the persons taking part to the meal.

The meal time is also the moment when the negotiations most of the time find their final solution. Very often Western businessmen are instead avoiding this important moment, creating embarrassment in the Chinese counterpart; this attitude might lead to more formal and difficult negotiations and/or relationship.

Here are some aspects of the Chinese negotiation style to take into consideration.

While in the Western vision the negotiation phase is a practice which might make both the counterparts better off, in the Chinese vision it is not.

When a Western manager contacts a Chinese manager to negotiate on something, the Chinese counterpart has always the feeling that the Western manager cannot abstract from making business with China. In this way the Chinese counterpart thinks to be in a superior position even if the conclusion of the negotiation will give lot of advantages to the Western counterpart too. Generally negotiation phase consists of three steps.

The first step of the negotiation entails again the *guanxi* concept. In fact the two counterparts can meet only after a common acquaintance asks them to start the negotiations. In this case the counterparts have to accept the invitation of the acquaintance in order to respect the *guanxi*. Thus the acceptance of a part to meet the other part does not always mean that the negotiations will start.

Another important aspect is that in the negotiation phase the successful conclusion is attributed to the group which has conducted the negotiations, whether in Western culture the results of the negotiations are mainly attributed to the single manager who has conducted them.

Last but not least the concept of time during the negotiation, but also in the overall life and business aspects, is of great importance.

The Chinese have a circular idea of time. This means that for them past is the source of present and future. However this is not seen in an evolutionary way but in a harmonious way: Past, present and future are seen as one unique and harmonious thing.

Thus, when a contract is signed, there always must be a long-time vision of the contract by both the parties. A Western organization, as a consequence, must understand this aspect because signs of rush in concluding deals are badly seen in the Confucian visionary.

Last but not least the concept of hierarchical structure is the mirror of the Confucian culture which has influenced a lot also the communist party and its idealism.

The typical hierarchical structure in China is the Confucian one. In this structure seniority is seen as the fundamental principle followed to assign the power to the members. The senior members are the ones who speak and take decision in a group or in a team, whereas the younger members must listen to the senior members' speeches and can intervene in the discussions only if consulted by an older member.

This is really important to understand in team logic: There are great differences with the Western culture of teamwork around this aspect. In Western companies all prolific ideas are

accepted notwithstanding the seniority of the member who proposed them. In this way the entrepreneurial aspect of every member is choked by the hierarchical structure.

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