

Global Compliance: China

Posted By [Ethisphere.com](http://ethisphere.com) On September 19, 2007 @ 12:35 pm In [ethisphere_magazine](#), issue_003 | [3 Comments](#)



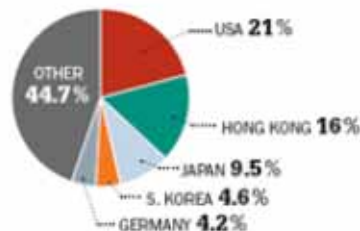
Historically a nation opposed to foreign investment, the Chinese economy has recently shifted into a modern, market-oriented system that caters heavily to international business. Today, the country is a major player in several important industries such as manufacturing, food processing, petroleum and textiles.

Now, business leaders across the world eagerly turn their eyes towards China and notice a country that relishes its newfound power and the attention that comes with it. Such change doesn't come without its share of obstacles - with thousands of years of history come deep-rooted traditions, some of which test the boundary of moral principles as they are understood in the western world. Bribery and corruption, for example, are not just common, but each runs rampant throughout the nation's business practices. In order for Western companies to enter China's booming market, its first necessary to understand the unique cultural and legal processes involved in conducting business in the country.

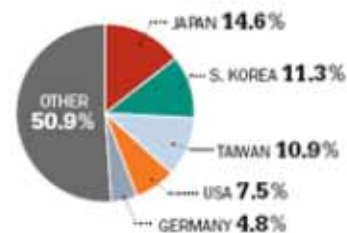
MAJOR INDUSTRIES:

- Mining and Ore Production
- Machine Building
- Textile and Apparel
- Petroleum
- Cement
- Chemicals and Fertilizers
- Food Processing
- Transportation Equipment
- Telecommunications Equipment

TOP EXPORT PARTNERS 2006:



TOP IMPORT PARTNERS 2005:



2006 COUNTRY STATS

POPULATION:	1,321.8 million people
MEDIAN AGE:	32.7 years (men), 33.7 (women)
LIFE EXPECTANCY:	71.13 years (men), 74.87 years (women)
LANGUAGES:	Standard Chinese or Mandarin (Putonghua, based on Beijing dialect), Yue (Cantonese), Wu (Shanghainese), Minbei (Fuzhou), Minnan (Hokkien-Taiwanese).
CAPITAL:	Beijing (15 million people)
LITERACY RATE:	90.9%

GDP PER CAPITA (PPP):	\$7,700
GDP (Purchasing Power Parity):	\$10.7T
GDP (Official Exchange Rate):	\$2.518T
GDP (Real Growth Rate):	10.7%
INFLATION:	1.5%

THE ETHICAL CLIMATE FOR FOREIGN ENTERPRISES

When international business managers and chief executives open dialog about expanding their business to China, they discuss topics such as intellectual property protection, stifling government bureaucracy, lack of product quality standards, discrimination issues and rampant corruption in business dealings. While the government is making attempts at improving these



categories, many concerns remain unaddressed.

Although China has significantly strengthened its intellectual property laws since joining the World Trade Organization (WTO) in 2001, the country still has the highest piracy rate in the world - an estimated \$1 billion is lost each year to Chinese piracy alone. Even though the Chinese government formed the State Intellectual Property Office in 1998 to help enforce patent, trademark and copyright laws, this organization is considered relatively ineffective by outside sources.

The government was also forced to reexamine its quality standard regulations after a series of scandals involving contaminated or harmful toothpaste, pet food and, most recently, toys. New committees were formed to tackle these issues but it remains to be seen how productive they will be.

Discrimination issues run rampant throughout the country. Gender discrimination against women has been documented for years. More complicated are the discrimination issues involving migrant workers moving from rural farmlands to cities and towns. There have even been reports of height and other physical requirements necessary for obtaining certain Chinese government positions.

Business dealings with the government are notoriously strewn with unethical practices, both under-the-table and overt. A strong sense of family and loyalty to ones friends leads to a very nepotistic business environment. Some Chinese refer to the famous philosopher Confucius who surmises in Analects, "The father conceals the wrongs of his son, and the son conceals the wrongs of his father. This is justice." Foreign businesses entering the market with no significant political connections have a considerably more difficult task of integrating than those who do.

Corruption isn't limited to government dealings, however. It's common for Chinese business deals to include various perks and benefits for the buyer, including lavish vacations and expensive electronics, in addition to any negotiated price to help secure important contracts. While the Organization for Economic Cooperation and Development (OECD), whose members include the United States, Japan and the EU, has helped curb corruption in international business dealings in recent years, China has been and remains notably absent from the group.

Ultimately experts believe that China is proactively working to fix its ethical problems. Shanghai is a positive example of a city leading the way in this regard. One theory for the improvements points to the increasing standard of living for many Chinese who no longer rely on shady benefits or under-the-table bribes for their livelihood. As Chinese businesses increase their presence throughout the world, they will consequently bring their ethics with them, good or bad. Politicians and business leaders in China are aware that ethical policies are demanded by consumers in a free-market economy nowadays. If the country and its businesses want to compete with other economically successful nations, the improvements will have to continue.

ETIQUETTE TIPS

YOU SHOULD KNOW BEFORE YOU GO

GREETINGS

In China, it is a sign of respect to greet a person using his or her family name only, such as Mr. Fong or Ms. Li. Unlike in a western environment, the Chinese family name comes first and is usually one syllable. In some cases, multiple names follow the family name which can be difficult for some Westerners. In some cases, Chinese people also insert an English name. It is always a good idea to ask a native speaker which name is the family name if you are confused. To be on the safe side, simply assume the first name is the surname.

BUSINESS MEETING

In China, it is assumed that the first person that enters the room is the head of the group. Try and keep to this approach so as not to confuse everyone. For business purposes, formality is a sign of respect; do not try to become too friendly too soon. Never tell jokes to start a meeting. Meetings in China tend to start slow, don't rush the meeting and talk business right away. Pace yourself. Dress formally in China. Men should wear a suit and tie at all times, despite what can be harsh temperatures. Women should dress conservatively and stick to plain colors. Negotiating in China can be quite interesting. Always remember that negotiations are rarely sequential. It is perfectly possible to "go over old ground time after time. No deal is closed, until it is "signed and chopped."

BUSINESS CARDS

Business cards, or name cards as they are known in Asia, are extremely important. Always have plenty of

them with you, in your pockets, your jacket, and your briefcase. Treat your own business cards with respect, place them in a small leather wallet and protect them. When exchanging business cards, never toss or “deal” your business card across the table. Always hold the card out with both hands with the writing facing the receiver. When you receive a card, don’t slap it into your wallet or in your pocket. Look at the card, treat it with respect, check it over, ask any questions about the card, i.e. “You are based here in Beijing, I see.” This is always a sign of respect and interest in the person you are meeting. At the table, it is acceptable to lay the card in front of you on the table.

GIFT GIVING

Gift giving is becoming less common, particularly as Western companies enforce their gift-giving policies. In addition, many Chinese government officials will not accept gifts after recent crackdowns on corruption. If you have to give a gift, it should be small, customary, thoughtful and always wrapped.

DINNER AND SOCIAL EVENTS

Always be prepared for a very long dinner or lunch engagement. Food is an important part of doing business in China. Be prepared to give a brief and friendly speech in response to the hosts speech at a banquet. When invited for a meal, never just “dig in” as in many Western environments. Always wait either to be served first by your host, or for you to serve your host the food from the shared dishes. It is considered poor etiquette to look after yourself despite others.

Make sure you sample every dish. Sometimes this is hard, but it will greatly impress your host. Always leave something on your plate at the end of the meal or your host might think that you are still hungry.

If a Chinese person gives you a compliment, it is polite to deny it graciously. Modesty is highly valued in China. Keep the above guidelines in mind, but above all, be yourself.

FIVE COMPLIANCE AND ETHICS ISSUES TO CONSIDER

01 // CORRUPTION, BRIBERY AND KICKBACKS

It is often said that doing business in China is an ethics and compliance mine field, with bribery and corruption standing in the way of a successful operation. While there has been some progress in the last few years, in part thanks to new government efforts to fight corruption resulting in some serious sentences for corrupt government officials, the situation is still far from ideal. Corruption is said to be closely related to the “guanxi,” or a network of business relations or connections that creates a basis for social interaction and the development of trust and cooperation.

DEAL WITH IT

To minimize bribery, begin with an understanding of how the Chinese power system, guanxi, works and how you can actually use it to help you. Take time to develop a corporate guanxi; its quite possible to create and sustain relationships with high level government officials without resorting to bribery. Create a policy that, while reflecting the company global values and principles, takes into account and specifically speaks to local traditions. Put gifts and entertainment into context and perspective. Find allies among local management and capitalize on the desire of Chinese technocrats and managerial class to adopt U.S. and European business standards, best practices and “rule of law.” Be polite and firm, but not patronizing.

02 // TRADE SECRETS AND CONFIDENTIAL INFORMATION

Chinas booming economy has encouraged many foreign high-tech companies to open R&D, design or manufacturing centers in the mainland. As a result, more local employees have access to trade secrets, which creates a significant risk of loss and intellectual property infringement. Chinese laws do offer some protection of trade secrets, but they also require the aggrieved party to show evidence of actual damage before pursuing legal remedies.

DEAL WITH IT

The passive and reactive approach to protecting trade secrets by the Chinese law, the lack of preventative remedies and inefficient enforcement creates some serious complications. Take strong proactive steps including: 1) Create a strong and unambiguous confidentiality policy; 2) Require all employees to sign confidentiality and non-compete agreements; 3) Introduce the disclosure procedure to identify conflicts of interest and concurrent employment; and 4) Conduct periodic audits.

03 // CONFLICTS OF INTEREST

Chinese culture offers a somewhat different perspective on conflicts of interest. Favoritism is fairly common. Favoring family and cronies has roots in Chinese Confucian tradition although some counter arguments exist as well. The system of guanxi may also be a contributing factor.

DEAL WITH IT

Evaluate how big the problem is and what the costs and consequences are. If you tackle it, tread carefully; imposing U.S. policies in this area will likely be met with resistance and will not achieve much. Introduce transparent hiring and purchasing processes and criteria. Reward employees for recommending a successful job candidate or a vendor, but remove that employee from the decision-making process. Introduce other ways of favoring family and friends, such as offering discounts and events. Try to make guanxi your ally rather than your enemy.

04 // WORKPLACE DISCRIMINATION

Although there is a ban on discrimination for government posts, Chinese companies routinely refuse to employ people because of their sexual orientation, medical condition or gender. Discrimination lawsuits against Western companies in China are relatively rare, but not unheard of. Nokia China is facing legal action for allegedly turning away a successful applicant in Guangdong because he is a carrier of Hepatitis B (HBV). In a recent case involving giant Chinese appliance maker Galanz, a man hanged himself just days after he was denied employment because of HBV. Not only can discrimination result in costly lawsuits and settlements, the damage to a companies reputation can be significant.

DEAL WITH IT

Zero tolerance, active policy enforcement and training are the best and probably the most cost effective solutions. Apply the same standards you would apply at home. Make sure your local HR and hiring managers understand the importance of an antidiscrimination policy, the benefits of diversity and the consequences for discriminatory conduct. This is a good example of when a Western company can and should apply a higher standard than local business practice.

05 // PRODUCT LIABILITY

In the wake of product recalls and safety scares in the United States and Europe, ranging from dog food to seafood and from tires to toys, product liability risk is suddenly at the top of the agenda for many companies that have their products made in China. The root causes of the problem are multiple, the most obvious being long and often complex supply chains in China, but also an extremely fragmented manufacturing industry, weak manufacturing and quality standards, often inefficient or non-existent quality controls both by the Chinese and by the foreign importers who sometimes put too much trust in their suppliers and differing business cultures.

DEAL WITH IT

Depending on the severity and the nature of risk and the scope and extent of the involvement with Chinese manufacturing, a company may take some of the following steps:

- 1) Make an effort to understand your supply chain in China;*
 - 2) Know your risks by conducting a proper periodic risk assessment on a proactive basis;*
 - 3) Insist that your prime vendors inform you when they change subcontractors or make other product substitutions and pass this requirement along the line;*
 - 4) Introduce quality control standards that your vendors will need to adhere to as the condition of doing business with you and make sure these requirements are passed along the supply chain;*
 - 5) Educate your vendors and help them do things right; most Chinese companies are reputable and care about their reputation and product quality as much as you;*
 - 6) Trust but verify: Implement audit and inspection programs for the vendor facilities and introduce your own quality control for all imports with a proper evaluation for design and manufacturing defects; and 7) Create a comprehensive quality control program. It may not prevent all risks but it may serve as an affirmative defense.*
-