What will we cover today?

1. **Chinese Culture**  
   ~ *the thinking process*

2. **Market Entry Business Models**  
   ~ *contract vs. physical presence*

3. **Challenges to Manage**  
   ~ *being market savvy*

“To open a shop is easy, to keep it open is an art.”

*Chinese Proverb*
The essence of people are their values . . .
Is there **Trust** in China?

Internal & External Conflict

“Collective Group Approach”

“Individualist Approach”
“Guanxi”

“Relationships that open doors”

- Befriend a “Straight Shooter”
  
  *Example: A mistake by a Chinese Association*

- Avoid “Negative Guanxi”
  
  *Example: JV was created as a WFOE*
The Game!

Behavior . . .
- Calm and in control
- Humble - not overly confident
- Patient

Does the thinking process affect negotiations?
The business model for China market entry needs to fit the business goals and bandwidth. . .
Cross-Border Contracts

Products

- Relationship Types
  - Direct Sales
  - Distributorship

- Key Contract Terms
  - Exclusive/Non-exclusive
  - Intellectual Property
  - Payment/Price
  - Dispute Resolution

- Format
Cross-Border Contracts

Services

➢ Relationship Types
  Consultancy & Service
  No Contract

➢ Immigration (Visa Type)

➢ Key Contract Terms
  Tax implications
  Creative Works
  Dispute Resolution

➢ Format
Physical Presence

Liaison Type Office

*No Profit Allowed*

- **Representative Office**
  - Key purpose
  - Registration requirements

- **Registered Office**
  - Key purpose
  - Filing requirements
Physical Presence

Operational Office

Profitability Permitted

- Structural Options
- Location

- Key Establishment Requirements
  - Business Scope
  - Feasibility Report
  - Registered Capital
  - Set Up Process

- Dissolution
Market Entry Approach

INTELLECTUAL PROPERTY REGISTRATION

HOMEWORK & NETWORKING

DESIGN MARKET ENTRY
   - Phase 1
   - Phase 2
   - Exit Strategy

ENTER MARKET SYSTEMATICALLY & OPERATE WITH FLEXIBILITY

EXIT STRATEGY

Proceed with Caution!
Challenges in business exist everywhere . . .
Key Operational Challenges

➢ **Employment**

  PRC Labor Laws and Regulations
  Protective Documents

  *Examples:*
  *Then.* OT claims & Side Business
  *Now.* Concept Theft

➢ **Foreign Exchange ~**

  Funding
  Repatriation of Funds
  Current Restrictions

  *Example:* Annual Distribution
“First to File Rule”

Registration Generally

Examples:
Then. Domain Name – Cyber Squatter
Now. Information Theft – Cyber Security

Stricter Laws & Enforcement
~ for over a decade

*Internet/Network Technology Law
Effective June 1, 2017

You must be protected!
Is Corruption Real in China?

Typical Corruption

Government (Public) Corruption
~ State officials ~

Kickbacks, Gifts & Favors (Grafting)

Fraudulent Entities & Embezzlement

Bribes & Influence

False Documents (Fapiaos)

FCPA & the DOJ’s role!!!
To do business in China, you MUST . . .
. . . get the balance right!

- Do your homework
  - Know the Trends

- Networking
  - Know and trust your team

- Operate with flexibility
  - Think outside the box!
Thank you!

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Addendum 1:
Recent Legislation

Laws creating greater protections in China that are now being implemented
Addendum 2:
Typical Complex Corrupt Structure

US Investors - Cayman
*listed in NY*

US Investors - Hong Kong

Other - Hong Kong

US Investors - WFOE

Other - WFOE

US Investors - Domestic Co
*holds licenses not permitted by foreign companies*

Other – Domestic Co

A - has an **Agent Agreement to introduce customers to US Investors-WFOE**

B - has a **Contract for funding with US Investors-WFOE**