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EMERGING COMPANIES

## China: The great wall of services

Billions of dollars await in Chinese partnerships, but the barriers to Australia's services sector are frustrating would-be exporters.

BY KRISTEN LE MESURIER

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Robyn Logan thought that exporting to China would be easy. Her business, the International Coach Academy, had been selling business coaching in 38 countries for four years. She says: "I had been inundated with e-mails from Chinese business owners for 18 months when I decided it was time to take China seriously. I assumed that putting together an export strategy would take weeks, not years."



ROBYN LOGAN  
Image: Eamon Gallagher

Frustratingly, the negotiations went around in circles. "I had no idea where the other side was coming from. The discussions were stilted and it was always hard to get hold of the decision makers." It took Logan 18 months to find the right partners in China and they are yet to sign. "It was not until April that I had a breakthrough," she says.

Three partners from different regions have agreed to meet Logan in May for a three-day strategy meeting. "This time, we are all going to sit down together and discuss the best way to sell the product in each region. Everything is on the table, even the financial arrangements, so that each party is committed to the agreement."

China is a country of hope and heartache for many Australian exporters. Enticed by extraordinary growth - gross domestic product grew by an annualised 10.2% in the three months to March 31 - scores of business owners are rushing to seize the opportunities. But horror stories slice through the hype. Australian service companies in particular face huge barriers. A scathing report by the Department of Foreign Affairs and Trade on February 9, *Unlocking China's Services Sector*, finds that "an efficient and competitive services economy has yet to emerge".

The report says the Chinese market is open to international products but providers of services are locked out. Australian trade negotiators are fighting to improve the rules. Free-trade negotiations began last year, and late in May Australia and China will begin to discuss specific concessions for market access.

The services sector is crying out for reform. Despite the booming economy, China's trade in services increased from a paltry 5% of gross domestic product to 7% in the 10 years to 2004. Trade in goods soared from 45% to 60% of gross domestic product in the same period. The free-trade agreement scoping study says Australia's economy would grow by \$1.7 billion a year if all barriers in the services sector were removed.

Education and tourism operators have the most to gain. The Australian Bureau of Statistics says those two sectors accounted for 74.5% of the \$2.3 billion in services exports in 2003-04. But Australian tourism operators cannot supply outbound services to tourists from China, and education institutions are not guaranteed the same treatment as their Chinese competitors.

Australian accountants and lawyers are frustrated because professional qualifications are not

mutually recognised and law firms are not allowed to enter into joint ventures with local firms.

In addition to the regulatory barriers, businesses operating in China are concerned about business constraints and a shortage of long-term finance, says a recent survey by the accounting firm Grant Thornton.

Despite these problems, China is the best avenue for growth for Australian exporters over the next two years. Grant Thornton says 28% of owners of medium-size businesses see China as their biggest opportunity, 27% have already increased sales, and 23% either export to China or plan to. An Austrade report says 30% of Australian exporters expect China to be their biggest market in 10 years, and 53% believe that sales to China will increase over the next year.

### **Naive Australians abound**

Experts warn that China is no place for naive exporters. Strategies must be water-tight, says a consultant at Business Strategies International, Vanessa Xing. "It is amazing that businesses run to China thinking they will succeed just by turning up."

Austrade's senior trade commissioner for the region, Laurie Smith, says cities such as Beijing, Shanghai and Guangzhou are extremely competitive. "Smaller exporters should wet their feet in smaller, second-tier markets so they are not head-to-head with the strongest competitors," he says.

Xing encourages all exporters to spend time and money researching China. "The Chinese will always try to bargain. Knowing who your competitors are and appropriate sales prices gives you the power to stand your ground," she says.

Xing says negotiating trips up many Australian exporters, most of whom see a "door opener" in their first contact and waste months negotiating with an ill-suited partner. "It is better to target the best business partner after objectively looking at the market."

Xing says that many Australians walk out on negotiations because of Chinese criticism of the product or service, "[but] they are just trying to push the price down". Smith also says Chinese negotiating techniques put Australians on the wrong foot, particularly by using time to their advantage. "Australians feel a greater sense of urgency and often throw negotiations away because they are frustrated," he says. There are multiple layers of management, so each time a consensus is reached the next manager up the chain becomes involved. "It feels like two steps forward, one step back."

Would-be exporters should flesh out the agreement on paper. A trade lawyer and partner at Hunt and Hunt, Andrew Hudson, urges businesses to ask an Australian lawyer with experience in China to help draft the legal documents. "Don't just go to the phone directory and pick any lawyer," he says.

Smith warns that the English and Chinese versions of the contract must be identical. "You can have a beautiful document in English, but lawyers need to check that the Chinese version is translated exactly in meaning. Word-for-word translations can expose exporters because concepts differ across languages," he says.

Intellectual property is a mine field in China. The Department of Foreign Affairs and Trade says that more than 92% of software used in China is pirated. Logan says the first business she negotiated with copied a competitor's web site overnight. "That rang the alarm bells," she says.

Smith recommends a multi-layered approach to intellectual property. "Patenting and trade marking is essential, but neither comes close to solid protection," he says. Exporters are told to keep valuable technology or processes under lock and key. Xing tells her clients to test their partners before signing contracts. "Give them the opportunity to copy. For example, hand over part of the product and watch what they do with it. Often you can tell whether they intend to copy you," she says.

Once contracts are signed and the selling starts, exporters should not take their eyes off China. Hudson says: "Hire expatriates to oversee the selling in China and report directly to you. Otherwise,

how do you know the Chinese partner is doing the right thing by you? Never assume all is well."

Accounting systems ease the monitoring process. Xing encourages exporters to hire Chinese accountants to audit the flow of money every month. "Those hired by exporters will be loyal to exporters," Xing says.

## **A LONG MARCH**

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- Opaque legal system.
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