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Doing business with China: Managing your company's compliance risks

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This is the final installment of a three-part series on managing your company's compliance risk with China.

A special focus on compliance in China makes sense. It has the world's second largest economy, and business with China touches practically every corner of the developed West. But more importantly, China has changed enormously. It isn't the country it was 10, certainly 20, years ago. It is rising, powerful, and increasingly assertive. Couple these changes with China's unique culture and system of government, and we are presented with compliance challenges that no other country can match. China is truly in a league of its own.

In the first part of this series, we discussed how China's exports have, for decades, created steady work for US trade and product safety compliance professionals. More recently, China's economic strength, combined with its politically sensitive communist government and state capitalist economic system, have created major political compliance risks for Western companies—globally.

In the second part of this series, we looked at financial compliance risk for people and companies doing business with China. These risks included compliance with domestic laws and risks to your company related to its operations in China.

In this final installment, we will look at the things you and your company can do to manage risks arising from business dealings with China. Instead of constructing a catalog of distinct risks, I will do as I advise my clients to do: Divide them into the business dimensions from which they normally arise—the key to correctly identifying them and then managing them effectively.

Business everywhere in the world is conducted along four basic dimensions: (1) commercial, (2) political, (3) legal, and (4) cultural. The first dimension—the commercial—is the dimension we largely occupy when managing a business anywhere. It changes the least of all the dimensions when a business crosses a national border. Sales, fixed costs, marketing, operations—these are commercial concepts common to the management of business, including those in "communist" China.

Managing commercial risk is largely a matter of having the right processes and financial controls in your company. To manage commercial risk unique to China, I generally recommend conducting quarterly third-party audits on the financial records of any unit in the company that does substantial business with Chinese companies—and certainly the records of any unit that operates inside China. Finding out whether your company's Chinese partner, vendor, customer, or investor is on the up-and-up can be done through the Commercial Service of the U.S. Department of Commerce, which has offices in more than 100 US cities and wherever there is a US embassy or consulate in China.[1]

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