DataContent's China for Dummies

First published in April 2009 in Inside Market Data.

10 rules for those seeking to break into the Chinese market for data.

Entering and understanding the market data industry in China poses challenges both in terms of the simple mechanics of doing business, and the cultural intangibles which lead to fears of "putting one's foot in it." In China, the two are entwined far more closely than in Western societies.

The Chinese market seems to be splitting into three separate markets – the retail market, the domestic institutional market, and the foreign institutional market - with a common reluctance to spend money on market data. The retail market often heads to free web sites, some of which siphon data from legitimate providers, while the domestic institutional market rarely pays the premiums their overseas counterparties endure.

Currently, the domestic market is dominated by Shanghai-based Wind Information. However, government-owned Xinhua News Agency - not to be confused with Xinhua Finance - is determined to be China's equivalent of Thomson Reuters. And in Shenzhen, GTA Data, a company that has dominated the market for providing economic data to universities, has entered into the real-time market in partnership with Korea's Marketpoint. The main international vendors are the usual suspects, namely Bloomberg and Thomson Reuters.

All this leaves markets yet to be exploited, since there is demand in China for value-add and original content. Datafeed provider Tenfore (now part of Morningstar) has built a strong track record in China despite lacking local offices, by developing a good relationship with a local partner. Also both Tullett Prebon Information struck a deal for Wind Information to distribute the broker's proprietary data, and then ICAP followed with a similar deal with Xinhua News Agency.

But China is still far from being a straightforward market to crack, so here are some simple rules to not just succeed at doing business in China, but to also enjoy doing business there.

Rule 1: Preconceptions and Expectations

Drop them.

An open mind will bring quicker dividends. Just remember that information in China can be a sensitive issue.

If setting up a sales office in China, accept that it can take time to achieve any meaningful return. If mainland China is not practical, then consider Hong Kong. Chinese organizations understand why you should have an office in Hong Kong rather than China, though they seem to switch off if your regional office is in, say, Singapore or Tokyo.

Rule 2: Aims and Objectives

Do your research and have a plan.

Understand China's financial markets and what they trade. Data on major global markets, energy, and commodities is likely to be of more interest than, say, data on stock markets in Eastern Europe. And importantly, while Chinese businesspeople will quite readily agree to meet, fishing trips without baited hooks are just a waste of money.

Rule 3: Choose Your Partner

China is all about relationships.

For many already operating in China or seeking to enter the market, having a local partner is a fundamental necessity, though not for all. Your partner should have the right contacts and the right local knowledge to make your business work. The most common arrangements work on a commission basis.

Be sure to pick the right partner. For instance, in the over-the-counter markets, SITICO (Shanghai International Trust and Investment Co.) and Tullett Prebon enjoy a strong and increasingly successful relationship. In the market data space, look to companies like Beijing Tradestar, which now represents a strong stable of brands including Factiva and Morningstar in the region.

In a country where, historically, authorities acted capriciously, trust was built through relationships, and relationships are still fundamental to successfully doing business in China. A strong friendship with your Chinese partners is not only rewarding, but will open doors on many different levels.

Rule 4: Relationships and Commitment

No, not dating advice.

Doing a deal in China is not the same as building a relationship with partners. Very often, real business is about getting to know each other, and deals are done over lunch or dinner. Therefore, it is poor form to turn down an invitation. Also, learn to handle chopsticks like a native-business tends to go to those familiar with Chinese dining etiquette.

It's not surprising that those companies who stick it out in China for the long term do better than those chasing a one-off deal, and potential partners will quickly recognize lip service around building long-term partnerships. If you are in China just for the deal, avoid discussing the long term.

Rule 5: Location, Location, Location

Beijing is the country's capital and home to the government, and therefore regulators. The government is actively encouraging Beijing's aspirations to be the major Chinese financial centre, so it is no accident that banks and other institutions set up office on or close to Finance Street in the Xicheng, or Western District, close to the regulator's head office, while market data vendors congregate along Chang'An Avenue.

Shanghai is China's commercial capital and home to the main stock market, with most foreign banks' head offices located in the Pudong New District. It is also home to the Shanghai Stock Exchange and the new China Financial Futures Exchange, plus smaller, more focused exchanges.

Guangdong, China's third financial centre, is home to Shenzhen, which sits across the border from Hong Kong, and is home to China's second stock exchange and the office of Ping An and Tradition's OTC broking joint venture, Ping An Tradition International Money Broking Co.

Rule 6: Translation, Translation, Translation

If you need a translator, do not rely on your hosts: Get a professional.

Business and financial Chinese is very different from standard Chinese, especially when translating technical terms or names for financial instruments. Equally, a good translator will act as a good advisor as to what is being discussed. For good contacts, talk to Hong Kong Exchanges and Clearing, the SGX Singapore Exchange, or the commercial section at your government's embassy in Beijing.

Rule 7: From Contact to Contract

When first arranging meetings, check when the financial year ends, and to maximize value, aim to arrange meetings in advance of when budget decisions are made.

Who you meet is key. If you are not meeting the real decision maker, there is a high chance the person you meet cannot influence a decision in your favour. In China, a lot depends on titles. China is still a hierarchical society, so the title on your business card can dictate the seniority of the person you will meet. As Chinese organizations tend to hire people to fill a role rather than with a view to career progression, the person with whom you first meet usually determines the level of contact you will meet with in future. And once you've made contact, be sure to maintain contact-preferably face to face, but via regular conference calls if meetings aren't possible.

The type of organization you are meeting with can also make a difference to how a meeting will be conducted. Government agencies can send whole armies to meetings, whereas private organizations rely on the boss to both lead and make decisions.

The Western and Chinese concepts of negotiations are fundamentally different. Set your bottom line and walk away if your expectations are not met. Chinese businesspeople always want something for nothing and are surprisingly good at getting it. But treat your counterparty as an equal and ensure they treat you like one. "Face" is still important, and reflects on all parties, so avoid apologising unnecessarily.

The decision-making process in China tends to be long and drawn-out, so perseverance and a good sense of humour are virtues. But most companies buying or re-selling data tend to be entrepreneurial in nature, so if they see value in a deal, the process should be that much quicker.

Once a decision is reached, any contracts will almost certainly be written under Chinese law, requiring an element of trust. It is unlikely that a contract written under another jurisdiction, such as English law, which is commonplace elsewhere in Asia, could be enforced in China.

Rule 8: IPR and Data Ownership

China's markets are still developing, but the regulators are taking a pragmatic approach and are determined to avoid the more obvious mistakes of their Western counterparts, especially in terms of new products and, importantly, the ownership of data sourced onshore.

In China, information and market data are not viewed in the same way as in the West, where data is recognized as having tangible value and where intellectual property rights are protected by law.

Unless you own something unique that cannot be replicated, such as real-time proprietary data, then the issue of IPR will come up at some point. Even real-time data is often re-distributed illegally.

Ownership of information and data originating in China-especially within the financial markets can be a grey area, so do proper due diligence.

Existing grey areas include ownership of renminbi-denominated broker data generated onshore, and use of proprietary data from exchanges to derive indexes. The State Administration of Foreign Exchange and the People's Bank of China both lay claim to broker data, which means brokers must distribute prices only to their clients, which, being RMB traders, are all onshore in China, and any revenue that could accrue from data sales is likely to go to SAFE or the PBOC. It also means this data will remain within China until these issues have been clarified. Equally, the use of exchange data within derived indexes can cause confusion, as the Shanghai Stock Exchange proved when it won a court case against FTSE/Xinhua Index over the use of SSE data.

Off the record, leading Western vendors are vocal in defending and highlighting abuse.

So in financial markets, it is best to adopt the more European approach of "if it is not expressly permitted, then it is not allowed," rather than the Anglo-American approach of "if it is not expressly forbidden, then it is permitted."

Rule 9: Learn About China

If you really want to do business in China, make the effort to learn something about the country, and its fascinating politics and history.

The Chinese rightly consider foreigners to be ignorant of China's rich history and cultural heritage. China is immensely interesting and diverse, and even a basic understanding will not only be insightful, but will help in doing business by providing common ground for discussion over lunch, dinner or other social interaction, since the Chinese are quite open when discussing current and past events. Foreigners with experience and knowledge of China, even those without Mandarin language skills, can have an advantage, including ethnic Chinese from other countries.

If you make a business trip to China, stay an extra day or two and take in the sights. For example, stand on the spot on the Tiananmen Gate overlooking Tiananmen Square where Mao announced the founding of the People's Republic of China; follow in the footsteps of the Last Emperor through the halls of the Forbidden Palace; enjoy the magnificent New Summer Palace, home to the Dowager Empress Cu Xi's constant intrigues; explore the Temple of Heaven where Emperors burned human sacrifices; or walk the Great Wall-and that is all only in the Beijing area!

Rule 10: Be Yourself

Finally, for some reason many people try to adapt to how they think they should behave in China. Just be yourself; it shows far more sincerity.