THE ART OF doing BUSINESS IN CHINA

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THE ART OF *doing* BUSINESS IN CHINA

A Practical Guide to Business Etiquette and Strategies Employed by Chinese Businessmen and Officials in China

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【FOREWORD】

Cigarette smoke whirled to the ceiling filling the room like incense in a Taoist temple. Chessboard silence filled that area of the room not already suffused with cigarette smoke. One could hear the sound of a tea leaf unfolding and expanding in one of the porcelain tea cups as piping hot water was poured from an aluminum flask.

The foreign party's financial controller hammered away at a plastic calculator Their lawyers Mont Blanc pen scratched across a sheet of paper. Somebody on the Chinese side of the table burped. Someone else snored.

The negotiators had been at it since 8:00 that morning. Nobody had left the room all day. Half-eaten club sandwiches and plates of Hainanese chicken rice lay scattered across the room. One of the foreign negotiators stood up and looked out the window of the top floor of this five-star hotel conference room at the traffic whizzing around one of Beijing's ring roads below. It was already dark. He whispered to his colleagues, "When will this be over?... Do you think we will be able to sign this year?"

Finally, the foreign lawyer interrupted the silence. "Gentlemen, I think

we have finally reached general consensus on this one important issue. Now we can begin discussing the details of how it should be carried out. Then we can begin to reword the language of the contract."

"In Chinese or in English?" asked the spokesman from the other side.

Negotiating in China has been described by many as a long and drawn-out process, one which demands patience—a well-known Confucian virtue; persistence—something which comes with time; and survival instincts—something acquired through persistence.

In this era of China's "Four Modernizations" and "Three Representations," many foreign negotiators are realizing that the "way" to negotiate in China may be best sought from the source—China's ancient military classics.

Sun Tzus Art of War, written some 2,000 years ago, is the classic of classics, the ultimate gurus statement of military strategy, which can be applied to all levels of war, negotiation and life. It formed the basis of much of Mao Zedong's writings on guerrilla warfare in the 1940s, and became the favorite textbook topic of a number of professors writing on business strategy in the 1990s.

The Thirty-six Strategies is a collection of thirty-six sayings which capsulize thirty-six stories of strategic prowess in ancient Chinese history. Most of these stories are derived from military ploys applied during the Warring States Period (403-221 BC) or during the Three Kingdoms Period (AD 220-265).

Together, *Sun Tzus Art of War* and the *Thirty-six Strategies* have become a part of the collective consciousness of most educated Chinese. From childhood, the strategies of Sun Tzu and the *Thirty-six Strategies* are learned in school, taught in literature classes, and are even the subject of popular folk opera. They sometimes form the themes of CCTV television serials.

To negotiate in China without at least a cursory knowledge of Sun

Tzus Art of War and the *Thirty-six Strategies* is like walking into a minefield without a map.

This book attempts to apply Sun Tzus Art of War and the *Thirty-six Strategies* to actual negotiating situations in China, both commercial and diplomatic. The book is written for the uninitiated (those who have had little negotiating experience in China) as well as the over-initiated (those who have been negotiating in China for some time and may be suffering from burnout). In either case, the reader should be able to relate to the stories.

The stories are all based on fact. They have been written with the intention of providing not only amusement but also some hope when one is left staring out of the window of a business center conference room in a hotel in China, watching the traffic go by and wondering, "When will they sign?"

【INTRODUCTION】

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THE ANATOMY OF A NEGOTIATION IN CHINA

Friendship and Mutual Understanding

"Yes" is always the first word in a negotiation, not the last, in China. Too often when foreign investors and businessmen hear the word "yes" in China, they assume that the deal is done. In fact, it is only the beginning of what may often be a long and protracted negotiation process.

"Sleeping in the same bed and dreaming different dreams" is an ancient Chinese saying which reflects two thousand years of experience with partners who may have their own dreams, but are only willing to share temporary accommodations in order to get what they want, before they leave. This is too often the case with business deals in China. The two parties have completely different aspirations and motivations about what they want out of the deal. Thus, they end up getting into bed together on a joint venture and find out, too late, that they are stuck in a bad marriage.

The process of entering into a joint venture in China is like getting married. The parties will first sign a "letter of intent," which is a non-legally binding document which serves more as an expression of seriousness than any binding agreement, that the two parties wish to form a joint venture. This document can be considered as something of an engagement ring.

The marriage will be solemnized when the parties actually enter into a joint venture contract. Before entering into such a contract—that is, during the stage between signing the letter of intent and signing the contract—the parties will jointly undertake a feasibility study to make sure that the marriage makes real financial sense and that it is not all hype and romance. Deals often simply fall apart at this stage. While Western businessmen often think that the Chinese joint venture marital process is bureaucratic, it is in fact very practical when viewed from

this perspective.

When the business license is finally issued by the relevant authorities, the marriage is sealed and the only way out is divorce—or arbitration!

Frontline Negotiations

Negotiations in china can be characterized as taking place on two different levels: the public level (or frontline negotiations), the private level (or backdoor liaison).

Frontline negotiations are those that take place in the boardroom, or the smoke-filled conference room of a hotel business center. These are the negotiations which take place on a public level. Everyone is present and everyone has something or, very often, too much to say. This is why frontline negotiations can take a long time and evolve into highly protracted negotiations. This is why it is necessary to get smart and use the backdoor liaison approach.

Frontline negotiations are, in MBA jargon, "process-oriented." That means they take a long time. To some extent, this is a good thing, because only by being patient and proceeding carefully can both sides really understand what the other actually means or wants. Putting it all down in the contract is another matter, because it is not always easy to reflect what both sides want in two different languages and get it right the first time. This all takes more time and even more patience. Thus, we can call frontline negotiations a "process-oriented" occupation.

The Chinese are invariably characterized as being tough bargainers. This is because "face" is always an important factor in negotiations. "Face" is a concept which cannot be translated into any Western language, but which is somewhat similar to respect, honor, fairness and equality, as well as recognition of all these things together. A Westerner can only begin to understand the concept of "face" when he has had to confront the issue enough times that the concept sinks in. The idea is to give your Chinese counterpart "face" at the negotiation table without losing it yourself.

The Chinese party will also always talk as if they were safeguarding

the interests of their company, enterprise, or nation when negotiating with you, especially when there are many people around the negotiation table. This is clearly an aspect of the public level of negotiating. When one thinks that their counterparts are safeguarding the interests of a State enterprise in the atmosphere of a collapsing State enterprise system in a booming market economy and inflation of over twenty percent, one wonders how much the other party is really fighting for the company's or nations interest.

Backdoor Liaison

While negotiations in China often appear to be process-oriented, the Chinese party always has a distinct set of objectives in mind. In this regard, negotiations can be purely goal-oriented if one is able to find out what the Chinese party's actual objectives are and address them accordingly. This, however, will never come out in the open in formal negotiations at the public level. One must therefore find someone on the other side of the table whom they can pull out of the room, or meet on a purely personal level, to find out what the other side really wants.

Western businessmen too often worry about formal presentations and stiff shirt and tie personal appearances, and are generally uptight about business in the way expected in the West and taught in MBA courses in such towering citadels of learning as Harvard and Oxford. Such learning does not get one as far along in China as learning how to drink, smoke and sing karaoke songs, which can actually pull the negotiations out of a stalemate situation and bring them onto a personal level, and where the Chinese party may open up and actually reveal what is really on their minds.

More negotiation is done in dance halls and karaoke rooms in China than at the formal negotiation table. Furthermore, the Chinese like to know on a personal level who they are getting into bed with on a business deal. From a practical, operational point of view, if the relationship is not there, then it does not matter how well the figures balance. In a Chinese context, the parties have to get along before they can work together.

Meanwhile, while the Chinese are chanting about benefit to company and country, it is in moments of relaxed revelry that one will get them to disclose what is really on their mind and what they really want out of the deal, that is, the benefit to them as individuals—and, believe me, there is a benefit somewhere—and how that benefit can best be addressed.

Likewise, while the enterprise managers have their immediate goals—which are usually in the form of cash—the government cadres to whom they report have their own agenda, which usually runs something like, "How much investment can I attract into my province or city? How fast and how big can the projects be, or at least seem to be, to the cadres above me?"

Through the right type of "backdoor" liaison, one can, if necessary, on finding out what the cadres want, use this to leverage the enterprise managers with pressure from above. Likewise, you can use the cadres below if they will not budge, and by going continually upward leverage more pressure downward, and so on.

The problem is, when someone goes so far up the political lobbying process that they lose touch with the people whom they still have to live with at the end of the day—mainly their partners and the local government officials—the whole lobbying process can get out of proportion.

Many multinationals believe that all their problems can be solved by obtaining an audience with Wen Jiabao. This is clearly the wrong approach, as these individuals have so much on their hands that the last thing they will get excited about is every single investment project that is brought to their attention. Furthermore, getting the top officials to approve a project does not necessarily mean that the bureaucrats below will act quickly. The days of Mao Zedong uttering a few words and everyone jumping to attention are more or less over. Nevertheless, good relations at the national level can help. The point is that one needs to establish good relations at all levels in order to get things done effectively in China.

【PART ONE】

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ENTER THE DRAGON: THE ETIQUETTE OF WHAT TO DO & NOT DO WHEN MEETING PRC OFFICIALS

When Entering the Province, One Should Follow the Customs

The fried scorpions sat delicately on a bed of rice noodles. Their pincers were open. Their eyes looked questioningly at the ceiling. "Try one," offered the Chinese host. His Western counterpart, a refined and respected American businessman, grimaced.

"He is the Minister," reminded the businessman's Chinese assistant, who was the company's Beijing office representative. The businessman shakily used his chopsticks to pick one fine fried scorpion up by the tail from the central platter. "You do want the deal, don't you?" his Chinese assistant reminded him. Hearing those words—and with his eyes closed—he shoved the whole fried scorpion down his throat, and let it melt in his mouth.

Proper table etiquette can open or close doors in China. In other words, it is important not to offend your host.

At the same time, Western businessmen often cringe at local etiquette which they find offensive or which they simply do not understand or appreciate. Bears paw, for instance, is an extremely expensive delicacy in China, and one should eat ones designated share whenever it is served.

Likewise, drinking is also a critical part of the whole negotiation "courtship." What one is drinking is not as important as the amount one drinks, and how it is taken, usually by the cupful.

Ganbei means "bottoms up" in Chinese. A proper *ganbei* toast begins with a short speech of about five minutes discoursing on the friendship between the two parties, governments, or individuals, followed by honorific mention of everybody at the table regardless of how friendly they are toward each other, and finally pouring the contents of the glass down ones throat. This is then followed by showing everyone present the empty glass as evidence of the fact that you drank the contents, thereby consecrating the subject of the speech.

One China hand, in order to get through prolonged banquets on successive days, practiced a number of sleight-of-hand tricks—namely pouring the contents of his glass under the table or over his shoulder when everyone was distracted. Unfortunately, this backfired when, on one occasion, he kept hitting the back of the dress of the wife of one of the senior cadre hosts who was sitting at the table behind him.

If your host tops up your cup with fiery Maotai or your water glass with XO, and proposes a toast screaming ganbei, to the chagrin of all the waiters, it is best for you to down whatever is in the glass. Excessive rounds of ganbei (often mixing first Maotai, then Cognac, then white wine, then beer, and then back to the Maotai) often send even the stoutest Western businessman reeling to the mens room.

One must therefore adopt a flexible attitude when embarking on the social aspects of doing a China deal—especially when dining with the power elites who can make or break—in other words, approve or stop—your deal.

The classic case of diplomatic etiquette occurred shortly after the warming of Chinese-US relations, when Theodore White (who was a journalist covering the Red Army during the war against the KMT) returned to China to see his old friend, then Premier Zhou Enlai. At the banquet, a roast suckling pig was brought to the table.

"I can't eat this," exclaimed White, "I am Kosher!"

Premier Zhou Enlai, always the courteous diplomat, placed his arm around White, and pointing at the table explained in a gentle voice, "But look twice, Teddy, it is really a Peking Duck!"

The Dog Acts Fierce When the Master is Present

Addressing your counterpart directly in formal discussions is another mark of respect in China and a sign of an educated man. While China may be a classless society under Communism, some observers have noted that it is also one of the most hierarchical societies in the world today. It is also now one of the most capitalistic.

Chinese officials meet foreigners who are their equivalent in stature and rank. If your company's CEO and President wishes to meet a Minister or even Vice Premier, then this may be possible to arrange. But if he is the Deputy CEO or Vice President, then he will have to be resigned to meeting a Deputy Minister.

Many CEO's of foreign multinationals still have the days of Kissinger and Zhou Enlai at the back of their minds when they go to China, when what Mao said went, and that was simply all there was to it. They think that the China market can be opened to them as simply as US-China normalization could be had on the back of a handshake between Mao and Nixon. This kind of thinking is, to say the least, fallacious.

"If we can obtain a meeting between our company's President and Hu Jintao, will we be able to get approval for everything we want and open up the China market?" asked one US multinationals Hong Kong manager (who had been supervising his company's activities in China for years). This is a highly unlikely scenario. In fact, the most someone like Hu Jintao would say to a foreign multinationals CEO would be (and that is under the best of circumstances), "Please come to China to invest. We welcome you investing in China. As long as you invest in accordance with all of China's relevant laws and policies, we will encourage and support your coming to China to invest."

The key catchphrase is, of course, "all of China's relevant laws and

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Discovery Publisher is a multimedia publisher whose mission is to inspire and support personal transformation, spiritual growth and awakening. We strive with every title to preserve the essential wisdom of the author, spiritual teacher, thinker, healer, and visionary artist.

In *The Art of Doing Business in China*, author Laurence J. Brahm applies Sun Tzu's *Art of War*, the ultimate guru's statement of military strategy, and the *Thirty-six Strategies*, a collection of sayings which capsulize strategic prowess in ancient Chinese history, to modern-day negotiating situations in China, both commercial and political. The stories in the book, all based on actual happenings, will not only amuse but will provide hope to the many foreigners engaged in the often drawn-out and frustrating process of negotiating a deal in China.

Mutual Understanding:
A feeling of disbelief if it can be believed.
Something like Nirvana, which is rarely attained.

Warring States:
A period of Chinese history when everyone fought against everyone else. Not to be confused with your joint ventures board of directors' meeting.

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