



Negotiating and dealing with Chinese business partners

Foreign investors or exporters enter into various business relations with Chinese partners. This interaction often includes both negotiation on business conditions and a non-business part to strengthen the relationship. However, despite initiating the search for suitable partners with the best intentions and being armed with a list of etiquette how-tos, foreign business people often still find it difficult to forge long-term relationships necessary for successful business. In fact, some are concerned that mistakes in handling business negotiations and dealings in China could result in competitive disadvantages or loss of opportunities. Therefore, how to negotiate and deal with Chinese partners is a constant challenge.

To alleviate this situation, this report provides practical guidelines on how to handle some of the most common business situations between Chinese and foreign parties by describing:

- *common challenges faced by European SMEs in China and key stakeholders they will be dealing with;*
- *why cultural differences are important;*
- *essentials of Chinese culture;*
- *how to build and maintain relationships (guanxi) and manage face (mianzi);*
- *how to negotiate with your Chinese partners and manage conflicts;*
- *how to deal with the regulatory and legal challenges in China;*
- *best practices and other practicalities.*

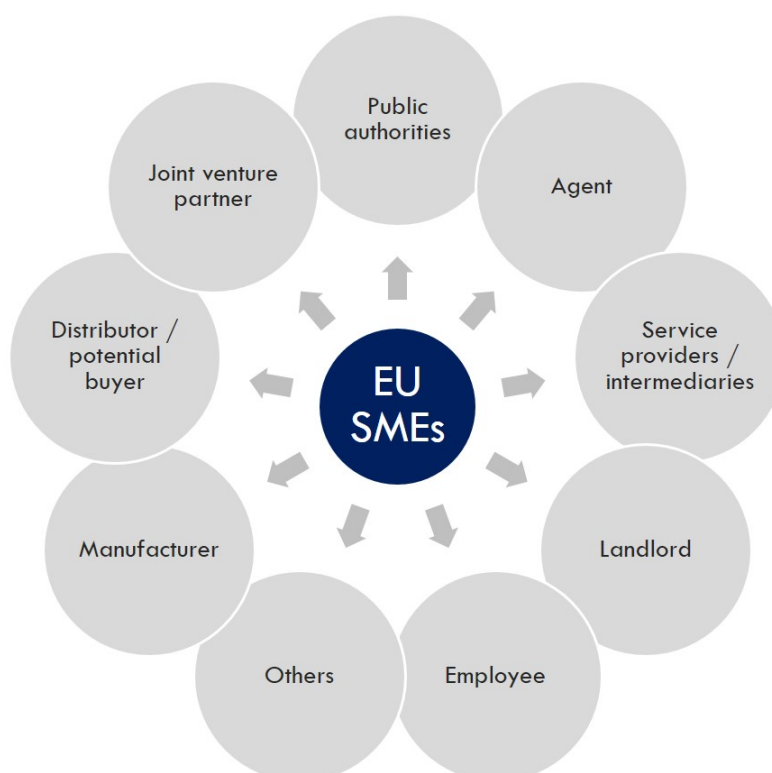
Table of contents

1.	Types of key stakeholders	1
2.	Common challenges.....	1
3.	Why are cultural differences important?.....	2
3.1	Cultural differences create challenges	2
3.2	Culture is hidden	2
3.3	Cultural differences may impact business interactions	3
4.	Understanding Chinese culture	3
4.1	The roots of Chinese culture	3
4.2	Different sets of basic cultural values and ways of thinking.....	4
4.3	Different approaches to the negotiation process	5
5.	Adjust your mind-set.....	6
5.1	Be aware of the differences.....	6
5.2	Go to China if you can.....	6
5.3	Be open-minded	6
6.	Building and maintaining relationships (guanxi).....	7
6.1	Building relationships (guanxi).....	7
6.2	Maintaining relationships.....	8
7.	Managing “face” (mianzi).....	10
8.	Negotiating with Chinese business partners	11
8.1	Do not get lost in translation	11
8.2	Friendship first, business later	12
8.3	Get the matching game right.....	12
8.4	Managing the process.....	12
9.	Managing conflicts.....	12
10.	Best practices	13
11.	Other practicalities	14
12.	Etiquette	14
12.1	Language.....	14

12.2	Saying “yes” vs. saying “no”	15
12.3	Gifts and hospitality	15
12.4	Non-business topics for discussion	16
13.	Laying a solid legal foundation.....	17
13.1	Regulatory challenges	17
13.2	Bureaucracy and transparency	17
13.3	Intellectual property rights (IPR)	17
13.4	Contractual arrangements	17
14.	Last but not least	18
15.	References.....	19

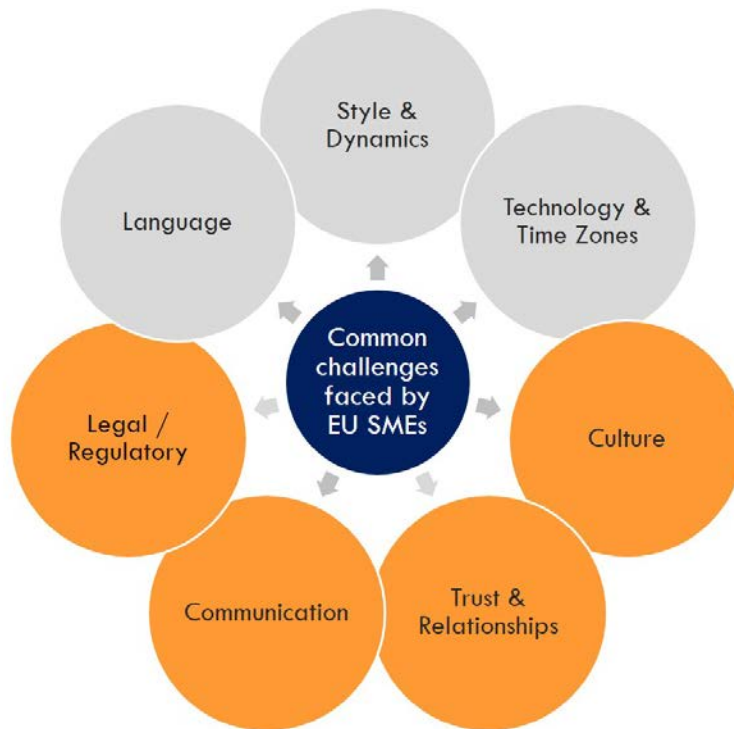
1. Types of key stakeholders

To successfully build a trustful relationship when negotiating and dealing with your Chinese business partners, you first need to know who you are dealing with. The graph below classifies some of the key business partners that EU SMEs may encounter at different stages of their investment. external partners might be agents, intermediaries and service providers, landlords, public authorities, distributors or potential buyers, as well as manufacturers if you are manufacturing locally in China. Internally, joint venture partners (if applicable), employees and any other business partners that you may encounter are common stakeholders.



2. Common challenges

Apart from the common challenges of being involved in international business, there are also some specific challenges faced by SMEs in China. First and foremost there are language differences, cultural differences and challenges arising out of different work styles and dynamics, but also difficulties because employees are working in different time zones and are relying on different types of technologies, problems with effective communication, building trust and relationships, and finally, legal and regulatory challenges. In this report, we will be focusing mainly on problems caused by cultural differences pertaining to building trust and relationships as well as effective communication and some of the aspects related to legal and regulatory challenges.



3. Why are cultural differences important?

3.1 Cultural differences create challenges

To understand how to deal with cultural differences, first, it is important to understand what culture is and why cultural differences are important.

What is culture then? Culture is the software of the mind. It represents the shared values and assumptions of a specific group of people and can be reflected, for instance, as personal values, attitudes, norms, behaviours, and artefacts. It not only provides a sense of identity, belonging, pride, and safety, but also supports efficiency and predictability in everyday interactions.

Therefore, when working with different cultures, one may immediately face challenges, such as uncertainties, tensions, misunderstandings, the tendency to stereotype or label people from different cultural backgrounds, and a mentality of cultural superiority, manifested in dichotomies such as “win-lose” or “us versus them.” In addition, people from different cultural backgrounds may also have different answers to some key questions, such as “what is important?”, “what is worthwhile?”, “what are the priorities?” or “what is ‘reasonable’ and ‘unreasonable?’”.

3.2 Culture is hidden

Yet, culture in this sense is hidden. What can be seen are norms, behaviours and artefacts. In other words, some of the verbal and nonverbal cues, such as facial expressions, gestures, and body language, are visible and easy to grasp. Personal values and attitudes, on the other hand, are less visible, but can

be discussed nonetheless. Cultural values and assumptions, however, are usually not visible at all, often held subconsciously, yet rarely questioned in our daily life.

3.3 Cultural differences may impact business interactions

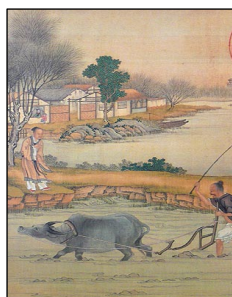
Still, different cultural values and assumptions may have great impact on your business interactions with Chinese partners. The table below shows five major dimensions in which cultural differences may impact your business interactions with others. In this report, we will be focusing on the three aspects that are of most interest to EU SMEs: the impact of cultural differences on relationship and trust building, attitudes toward hierarchy and effective communication.

Time	Process	Communication	Hierarchy	Relationships
<ul style="list-style-type: none"> • Meeting • Project vs. plan • Decision making • Negotiation • Predictability • Deadline • Priority 	<ul style="list-style-type: none"> • Personal vs. professional • Work/life balance • Flexibility • Structure • Monitoring • Holistic vs. sequential 	<ul style="list-style-type: none"> • Face • Style • Verbal vs. non-verbal cues • Ability to understand the context 	<ul style="list-style-type: none"> • Status • Attitudes towards superiors / authorities • Titles and formalities • Connections 	<ul style="list-style-type: none"> • Trust building • Feelings • Who vs. what you know • Long-term vs. transactional

4. Understanding Chinese culture

4.1 The roots of Chinese culture

To understand the impact of culture on business interactions with your Chinese partners, it helps first to get a general idea of the broad context of Chinese culture. To do so, we will introduce three key roots that Chinese culture has developed from on the following page.



The agrarian origin: Despite fast urbanisation in recent years, agriculture is still considered the root of Chinese society. Traditional Chinese society was characterised by peasant farming and even today most of the Chinese population live in the vast rural areas. To survive, people had to rely on each other and collaborate. Therefore, harmony is considered extremely important to this kind of commune-based economy; as is family, the basic unit of society and the point of origin of a clear and strict hierarchy.



Traditional Chinese philosophy: For thousands of years Chinese culture has been heavily influenced by the great Chinese sages and philosophers, the most well-known and influential of which are *Confucius* and *Lao Tsu*.

Confucius emphasised the great importance of maintaining hierarchy to achieve **harmony** within society. Of the five relationships he defined, only one (relationship between friends) is equal, the rest (relationship between the ruler and ruled, husband and wife, parents and children, senior and younger people) are all hierarchical.

Lao Tsu, on the other hand, studied the relationships between different forces, such as the relationship between *yin* (*yin* represents the feminine, dark, and passive force) and *yang* (*yang* represents the masculine, light and active force). While being essentially opposing forces in *Lao Tsu*'s view, they complement each other at the same time. They are seen as inseparable and must be considered as a whole. According to *Lao Tsu*, the key to life is to find the *Tao* – meaning 'the way' between the two forces, the **middle ground, compromise**. Residues of this philosophy can still be found in daily dealings with Chinese partners. Often, they are more concerned with the means than the end, with the process than the goal and compromises are derived through the back-and-forth of the negotiation process.



The Written Chinese language: As the picture illustrates, the characters used in written Chinese evolved from pictograms. Therefore, Chinese characters resemble pictures, as opposed to sequences of letters. This is one of the important reasons why Chinese tend to **thinking holistically instead of focusing on details**.

4.2 Different sets of basic cultural values and ways of thinking

Once you understand the roots of Chinese culture – the agrarian origin, traditional Chinese philosophy and the Chinese language – it is easier to understand the differences in basic cultural values and ways of thinking.

For instance, Europeans tend to be more individualistic whereas Chinese are more collectivistic, Europeans emphasise equality while Chinese value hierarchy, and Europeans are more information- or fact-oriented while Chinese focus on relationships (*guanxi*). Also, Europeans are more reductionist (let's solve one issue after another), while Chinese are taking a more holistic view (no issues are resolved until the whole package is); they tend to prefer linear thinking and address problems in a sequential way, while Chinese think holistically or circular. Europeans tend to seek the truth and are looking for results, while Chinese tend to seek the way and the means are more important than the end.

Last but not least, Europe has developed a culture that values open debate until a consensus is reached, while Chinese tend to demonstrate diligence during the back-and-forth of a bargaining process.

European	Chinese
<ul style="list-style-type: none"> • Individualist • Egalitarian (equality) • Information-oriented • Reductionist • Sequential • Seeks the truth • Argument culture 	<ul style="list-style-type: none"> • Collectivist • Hierarchical • Relationship-oriented (<i>guanxi</i>) • Holistic • Circular • Seeks the way • Bargaining culture

Source: [7] adapted.

4.3 Different approaches to the negotiation process

Such differences in basic cultural values and ways of thinking also lead to different approaches to business negotiations. For instance, during the introductory part (preliminary or small talk on non-business related topics at the negotiation table), Europeans tend to be informal and brief. Usually discussions will move to business after five to ten minutes. In China, this phase can be much longer. Also, whereas Europeans are used to making cold calls, i.e. establishing direct contact without prior introductions by a third party, Chinese rely more on trusted intermediaries. Europeans tend to be more direct, usually have full authority at the negotiation table and enter the negotiations with a detailed proposal prepared in advance, whilst Chinese tend to be indirect and would like to understand or explain the context first. On most occasions, the one who has the full authority will not be in direct negotiation with you. As explained earlier, the Chinese aim at forging a long-term relationship, whilst Europeans are focusing on the transaction at hand.

European	Chinese
Preliminary discussions / approach	
Quick meetings	Long courting process
Informal	Formal
Cold calls	Intermediaries
Information exchange	
Full authority	Limited authority
Direct	Indirect
Proposals first	Explanations first
Means of persuasion	
Aggressive	Questioning
Impatient	Enduring
Terms of agreement	
Forging a 'good deal'	Forging a long-term relationship

Source: [7] adapted.

5. Adjust your mind-set

To compete in the Chinese market, European SMEs have to overcome many different problems, with cultural differences being just one amongst many. As with any other foreign market, China has its own unique “rules of the game”. However, when it comes to pinpointing aspects that make doing business in China especially challenging when compared to other countries, cultural differences are often topping the list. This begs the question if European entrepreneurs actually appreciate the importance of these differences – if not to them, then to their Chinese business partners – and are truly attempting to understand and prepare for them.

5.1 Be aware of the differences

Whether you are considering doing business with China or you are already there, you may be aware of some fundamental differences as compared to Europe. Being aware of, understanding and working with such differences will allow you to make the most out of your partnerships, whereas trying to do it “your way” and thus going against the culture will be a difficult undertaking.

It is simply a fact that Chinese business people behave differently from their European counterparts – the way they speak, the way they think, the way they treat their clients. It is futile to ignore these differences, as they will not simply disappear in time and you will have to deal with them sooner or later.

5.2 Go to China if you can

You may have heard about China, read about China and armed yourself with a list of dos and don'ts before coming to China. But once actually in the country, you realise that things are totally different. Things are moving fast in China and change is the only constant; therefore, go to China to **see it with your own eyes**. As Jim Rogers, a perceptive investor and travel adventurer, says it in his book *A Bull in China – Investing Profitably in the World's Greatest Market*:

Now is the time to engage China and all things Chinese. Go there if you can, or if you've already climbed the Great Wall, go back again to see the great changes.

If you are seriously considering to do business in China, you will have to go there anyways - finding a trustworthy partner in the country can only be accomplished face-to-face. This shows that you are serious and committed, and personal meetings will definitely help build trust, a prerequisite for a long-term relationship.

Of course, the same principle applies to Chinese companies entering the global marketplace or working with foreign companies.

5.3 Be open-minded

To successfully enter the Chinese market, you need to put aside your preconceived notions and embrace what's there. Acknowledge that things are different and try to understand why such differences are important to your business and your success in China and how you can deal with them in an efficient way. Once again, keep in mind that this is not a one-way street – Chinese companies need to consider these factors as well when engaging in international business.

6. Building and maintaining relationships (*guanxi*)

Relationships are essential for successfully doing business anywhere, but especially so in China. Whereas personal and business relations are more or less independent from each other in Europe, the Chinese concept of *guanxi* encompasses a network of personal connections, such as with family members, friends, classmates and relatives as well as with close business associates. It is based on deep mutual understanding, feeling, trust and respect. Understanding, building, using and maintaining such a network remains one of the biggest challenges for foreign business people in China.

These networks are an important social force in China, far more so than business networks in Europe tend to be, and have their specific characteristics:

- They must be mutually beneficial and built on a certain social morale.
- The starting point of such a relationship is friendship, i.e., a personal connection.
- The structure, maintenance and development is complex and subtle.
- They are dynamic and evolve over time. Individual relationships strengthen every time they are “used” properly and weaken when they are abused.
- To establish firm connections requires patience, constant nurturing and the appreciation of moral obligations.
- Once a relationship is established, it is long-term.

6.1 Building relationships (*guanxi*)

How can EU SMEs navigate this complex and unique Chinese social network of relationships and build up their own?

Start with what you already have. Instead of building your entire network completely from scratch, first review your existing contacts. You probably already have a good basis to work with without even realising it. Friends, classmates, colleagues, people you know from your hometown, your accountants, lawyers and other professional service providers, neighbours, suppliers or manufactures – all of these can provide useful introductions. Officials at local chambers of commerce and trade promotional agencies are also great sources of contacts and it is part of their job to make the connection.

Yet, when building your network, be selective. Be smart about who can actually connect you to valuable business contacts and who is just claiming to be able to do so. The quality of your contacts matters more than the number of people you know.

Finally, be ready to help other people. Helping others, whether they are friends, business associates or colleagues, will make access to their respective network more likely.

Question: Is it acceptable to go up to a Chinese person at a trade fair or networking event and introduce myself, or do I need somebody to introduce me?

Answer: Absolutely. Though conventional wisdom suggests that you wait until getting introduced, trade fairs and networking events are specifically arranged for networking purposes. Therefore, it is perfectly okay to go up to someone and introduce yourself. Though, at times, language could be potential barrier for a more in-depth communication. Having said that, if you know someone who could make the introduction, then it makes sense to wait and get introduced.

Question: What is the best way to approach a possible Chinese partner for the first time? Sending a presentation in Chinese and calling them, for example?

Answer: The best way to approach a possible partner depends highly on how well you know each other. If you know of a trusted person who can make the introduction, that would be ideal. In this case you don't take the lead yourself but wait for the introduction. However, you need to make sure that you are using the right connection. Otherwise, you could always try to approach a possible partner directly, for example by giving them a call. It may take more time to build trust and a lasting relationship this way, but it is a first step of a thousand-mile journey.

Try to make the introductory email or letter brief, and right to the point. The purpose of the introductory email or letter is really to arrange an introductory meeting. Therefore, it is not necessary to attach a detailed presentation.

Not all correspondence needs to be in Chinese, since more and more people in China can communicate in English, especially in writing. However, Chinese is the better option when dealing with a smaller local company. Having staff that can speak and write Chinese would be ideal, but if this is not the case English is fine, as the chance that your Chinese partner can find someone who can speak English is very high.

6.2 Maintaining relationships

Relationships in China are usually long-term but require nurturing and maintenance. We have listed some dos and don'ts below, but most of these are common sense really, applicable to almost all cultural backgrounds.

What to do to nurture and maintain a relationship?

- Give before you take – make sure that you are a useful source for others.
- Guard your reputation to maintain your network's respect.
- Check in regularly and spend time with your contacts, for instance over a meal, a coffee or at an event. It takes time and effort to establish a relationship, and it takes even more time and effort to maintain it.
- Be available.
- Be selective – focus on the most fruitful relationships.

- Be patient – don't be pushy if it takes longer than you expected or disappointed if your contacts cannot solve your problem.
- Be appreciative and reciprocal – return the favour even if it is not necessary.

What not to do?

- Showing a lack of respect.
- Braking promises.
- Always asking, rarely giving.
- Overstraining a relationship.
- Being impatient, displeased, aggressive or immodest.
- Causing your contacts embarrassment or loss of face.
- Contacting people only when you need them.
- Claiming credit or demanding quid pro quo.
- Failing to express appreciation for and not reciprocating favours.
- Introducing someone who damages your reputation.
- Burning bridges.

Question: At a trade fair I met a number of businessmen who seemed to be very interested in doing business with me. Everything looked very promising and I was expecting these contacts to develop into a number of contracts and prosperous business. However, after I contacted them via email, none of them replied. What is the reason for this? How do I have to interpret such a situation?

Answer: It is very difficult to speculate on possible reasons for this behaviour since we don't know enough about the context of the situation and how the discussions went. There could be several interpretations:

Situation 1: You may have encountered people whose sole purpose of attending such an event was to collect business cards.

Situation 2: You have encountered people who have no actual interest in doing business with you. Unfortunately, there are still people who don't reply when the answer is "no", whether in China or elsewhere in the world.

Situation 3: Contacts established at a trade fair are similar to cold calling. As illustrated earlier, Chinese prefer an introduction through trusted sources, so they might be reluctant to engage in business negotiations right away. Even so, making contact at all is a first step to a potential long-term relationship. If they don't reply to your email, then call them up to see if you can get through.

Situation 4: Similar to situation 3 above, your new contacts might feel pressured if your follow-up email is too business-focused. It is important that your first email builds on the initial introductions, confirms that you are on the same page, and suggests a meeting to further gain trust and slowly foster the relationship.

7. Managing "face" (*mianzi*)

"Face" (*mianzi*) is a vitally important aspect of Chinese business culture, though it may not be apparent to most Europeans. Understanding what face is and preserving it for both yourself and your Chinese business partners is key to success in China.

In Chinese business culture, face defines a person's place in his or her social network. It combines one's social status or prestige, and one's reputation for integrity and morality. Social position, respect, and personal honour are very important in China. Therefore, your personal image and your effect on the image of those you meet are key to your success. If Europeans cause the Chinese embarrassment or loss of face, even unintentionally, it can be disastrous for business negotiations.

Face can be reflected in many ways, such as wealth, intelligence, attractiveness, skills, position, and of course good relationships (*guanxi*). It can be earned, saved, given, lost or taken away. In reality, almost every conversation or business interaction you engage in involves a negotiation of face between the two parties. Knowing how this works is essential to working with your Chinese counterparts.

In the Chinese hierarchical culture, people tend to be more cautious about giving or saving face for those at higher or similar rank. Breaking promises or displaying impoliteness, impatience, anger, frustration, or even aggression during a business negotiation results in a mutual loss of face and you may be perceived as an undesirable or unreliable business partner. Should you cause a business contact to lose a lot of face at an important occasion, you may have damaged the relationship beyond repair or even made a permanent enemy.

Question: Is it acceptable to Chinese partners if a junior member of a foreign delegation replies or even challenges arguments of a senior Chinese delegation member during a business meeting?

Answer: Two important issues are to be noted here: one is hierarchy, the other is face (*mianzi*). If a situation like the one described above should occur during one of your meetings, you run the risk of letting the senior person from the Chinese side lose face. “Matching” is important in China. Usually, seniors set the tone or guiding principles of the discussion, then juniors carry out the more detailed discussions in a working group.

Before a junior person enters the discussion, use your best judgment to decide: (1) if it is a pressing issue that you need to raise at that point of time; (2) if it is a general issue or one that pertains only to one detail of the overall topic. In other words, you need to decide if the issue is important enough to be discussed at senior level. Next, the question is who should convey the message in which way. A safe way is to always use a senior as a spokesperson and have the junior members remind her/him if some important point has been left out. An intervention by a junior member is also acceptable if initiated by a senior. In general, try to avoid aggression and direct confrontation, negative expressions, impatience, frustration or anger.

8. Negotiating with Chinese business partners

Negotiating business deals in China remains one of the most daunting and interesting challenges for foreign businessmen. Your negotiation skills will be tested again and again, and the ability to adjust and perfect your negotiation skills will be key to your business success. Conducting negotiations in China is more an art than a craft.

8.1 Do not get lost in translation

Successfully negotiating in China first of all requires the ability to understand what is being communicated. Make sure that you use highly qualified interpreters. Being understood is just as important – adjust your presentation to the situation. Experience shows that jokes, subtle or eloquent speech, as well as emotional or dramatic presentations do not translate well and can lead to misunderstandings.

In addition, make sure that you have more than one communication channel, i.e. that more than one person on your team speaks Chinese. This helps eliminating blind spots and getting a more accurate reading of the situation. Relying on one channel only can be fatal to negotiations, especially when there are personal interests or conflicts of interest involved.

8.2 Friendship first, business later

Negotiating in China takes time. Often the first few meetings will involve a lot of seemingly unrelated discussions as participants share information about their families, home towns, leisure activities, and so on. These meetings are not inconsequential, however – they begin the process of forming connections that are essential to Chinese business. The rule is “friendship first, business later”.

8.3 Get the matching game right

Hierarchy is important in China, therefore make sure that you meet the top decision-makers at the early stages of the negotiations. Usually these are the people who will set the tone or guiding principles of the negotiations. As a matter of course, they are also the ones who must be consulted before the final approval can be granted. Having a lower-level working team present is useful as well as they will be the ones working out the details in later stages and they can serve as a buffer for face-saving in case the negotiations take a turn for the worse.

A few words of caution are in order for those who are eager to strike a quick deal: your personal presence at every meeting, even the ones where lower-level staff discuss the details of the deal, will not help accelerate the negotiation process. They simply do not have the authority to make decisions on the spot.

8.4 Managing the process

Don't get stuck or invest too many resources on any particular issue at the outset. Chinese negotiators take a holistic view on negotiations, and nothing is settled until everything is – the focus is therefore more on the whole package than the details. You can always come back to the unresolved issues, just as your Chinese counterparts will likely come back to what seemed to be resolved issues again and again.

It is also very common that even though a project has been negotiated successfully, it will begin tentatively, with a memorandum of understanding for example, and will only accelerate as experience and trust is gained. But once this is the case, the Chinese side will often act with surprising swiftness to make the project happen. Successful negotiations are normally followed by a long night of dining and socialising.

9. Managing conflicts

Conflicts and disputes are an integral part of doing business in China. Business people test the boundaries all the time in order to get the best deal. In a culture where people are used to bargaining, tough negotiations are the norm. Yet, for a variety of reasons, most conflicts do not end up in court.

First, keeping face is extremely important in China. Chinese people don't like to expose their problems to the outside world. They are guided by the principle of “turning big problems into smaller ones, and small problems into no problems at all” (*da shi hua xiao, xiao shi hua liao*).

Second, harmony is an ideal state to reach according to traditional Chinese philosophy. Therefore, Chinese business people tend to avoid conflicts, make concessions and smooth things over so that they can stay on good terms (*xi shi ni ren*).

Third, the essence of the “Chinese Contract” as described by Charles Handy almost two decades ago remains the same:

The Chinese contract ... embodied a principle which went far beyond the making of lasting commercial deals. It was about the importance of compromise as a prerequisite of progress. Both sides have to concede for both to win. It was about the need for trust and a belief in the future. Writ large, it was about sacrifice, the willingness to forgo some present good to ward off future evil, or, more positively, it was about investment – spending now in order to gain later. (Handy, 1995)

Last but not least, legal action in China often drags out and does not necessarily lead to a desirable outcome. Before starting any legal proceedings, SMEs need to be clear about what they seek to achieve and the consequences of doing so.

Of course, the best way of managing conflicts and resolving disputes is to avoid them. If conflict is unavoidable, the best is to negotiate your way out. If you cannot resolve the dispute through negotiation, use mediation through a neutral third party to help resolve the issue. To prepare for cases in which neither negotiation nor mediation work, make sure that you have a clause of arbitration in every contract you enter into in China. Usually it specifies a recognised international arbitration body as agreed by both parties. Try to avoid litigation whenever possible. It is not only costly (both in terms of money and time), but also rarely leads to a desirable outcome. Even if you win, enforcement can be an issue and the ruling can be appealed for years after the initial trial. Finally, keep in mind that the Chinese legal system is still evolving, and at times a court’s decision can be swayed by policy or by local interests.

10. Best practices

- Relationships (guanxi) are important, but don’t overrate them.
- Reciprocity is essential, but may not be immediate.
- Intermediaries help, but be sure that you find the right ones.
- Get the matching game right.
- Do not attempt to do business without first establishing a cooperative relationship.
- Means can be more important than ends, processes more important than the goal.
- Nothing is settled until everything is – the whole package overrides details.
- Concessions from both sides are expected.
- Broken promises, display of anger/aggression cause mutual loss of face – disastrous for any form of business relationship.
- Demonstrate endurance as hard work and long bargaining sessions are often expected.

11. Other practicalities

Time zones

- Be aware of the time differences.
- Schedule meetings at times convenient to both, especially to your partners.
- Different time zones might entail working during times away from the office, including early mornings, evenings and weekends.

The rhythm of business

- Be aware of the major holidays in China, especially the one-week long holidays around Chinese New Year and the National Holiday.
- Respect family / personal time.
- Discuss work expectations during holidays or annual leave in advance.

Cultural adaptation

- Be aware of the differences between external and internal relationships.
- Pay attention to how a message is delivered (formal vs. informal, what you hear vs. the real message).
- Establishing and maintaining trust is key in business relationships in China.

12. Etiquette

12.1 Language

Despite the fact that many Chinese can speak English nowadays, language remains a real barrier to international business in China. Don't just assume that your Chinese partners will understand you, especially when discussing unfamiliar or sophisticated topics, as the resulting misunderstandings might lead to business failure. In situations where communication problems become apparent, try not to lose patience and your sense of humour.

You might come across Chinese business partners of whom you know that they can actually read and understand some English but are still reluctant to speak it with you. To some extent this problem is rooted in the Chinese education system, which focuses on written language and lacks English teachers with sufficient verbal skills. Therefore, even partners who are able to communicate with you in English in writing might be uncomfortable with speaking English because they are afraid of making mistakes. Conversely, you may encounter people who are trying hard to communicate with you in poor English but don't seem to be aware of the fact. Even if this might be a fairly exhausting experience for you, be sure to appreciate the effort and compliment them on their enthusiasm.

Question: I have learned a bit of Chinese and would like to show my commitment to my partners by using it once in a while. I am worried, however, that I will embarrass myself because I am still just a beginner.

Answer: No, you would not embarrass yourself in front of your Chinese partner. Quite to the contrary, your Chinese partner would be pleased to hear it as it shows that you have the interest and curiosity to understand more of Chinese culture and you have made efforts to do so. If you don't know any Chinese words yet, perhaps it is time to learn a few. In the worst case, you and your partners will have a good laugh about it and they would likely be more than happy to help you improve your skills, which translates into one more opportunity to advance your relationship.

How to avoid getting lost in translation then? Make sure that you hire a qualified interpreter/translator or use professional interpretation/translation services. Always use somebody that doesn't have a personal interest in the respective discussions. Where possible, translate presentations and other materials into Chinese. Finally, learning a few Chinese words to show your sincere interest in China goes a long way in establishing a cooperative atmosphere from the start.

12.2 Saying "yes" vs. saying "no"



When dealing with business partners in China, never assume that "yes" means "I agree" or "let's go for it." In Chinese and certain other Asian cultures, "yes" doesn't necessarily mean people agree with you, but only that they understand what you are saying, that they see your point of view. Expressing agreement by saying "yes" can be intended to keep the discussion harmonious by avoiding an outright "no", which may mean that negotiations have completely failed. An expression like "we will consider", on the other hand, can either be a polite way to say "no" or indicate that your discussion partner needs to consult his superiors before committing to anything; as is so often the case, everything depends on the context and the person who says it.

12.3 Gifts and hospitality

Like in most Asian cultures, Chinese often use gifts to show their appreciation. Gifts that reflect the interests of both the giver and recipient are highly appreciated. For instance, Chinese tend to choose gifts with Chinese characteristics or delicacies known in their local area. Therefore, something from your home country or delicacies for which it is famous are usually good choices, as are simple items

for daily use, such as books, pen sets, alcoholic beverages and so forth. Certain gifts, however, are perceived as unlucky and should be avoided; these include clocks and anything related to the number four.

Try to avoid expensive or lavish gifts for two main reasons: first, gifts exceeding a certain value can be considered as bribes; second, they make it difficult for the recipient to reciprocate in kind, thus causing embarrassment on the part of your partner. Last but not least, there is a risk that the recipient will be forced to refuse the gift, which might cause humiliation to a degree that damages the relationship permanently.

12.4 Non-business topics for discussion

Often times, your Chinese partners will invite you for meals, drinks and entertainment. Such social engagements are essential to relationship building in China. A willingness to engage or participate in such activities demonstrates not only respect for your Chinese host but also your desire to deepen the relationship.

A high level of cultural sensitivity and intelligence is necessary when dealing with such occasions. Bear in mind that Chinese people tend to have strong national pride and are patriotic. Therefore, knowledge of Chinese history and culture, and respect for it, is well received and highly appreciated.

Question: Which non-business topics are acceptable at business meetings or dinners and which should be avoided?

Answer: There are no definitive answers to this question. In general, it is better to avoid politically sensitive topics (which often involve patriotism), such as Taiwan vs. mainland China, Tibet, Sino-Japanese relations, the June 4th Tiananmen square event in 1989, human rights related issues, democracy and dictatorship, the role of the communist party and so on.

In recent years, because of ever-increasing materialism, topics such as real estate, stock markets or cars are topping the list of conversational topics among Chinese. Your Chinese partners will likely ask about your family and kids. Other matters that would be considered private in Europe might also be discussed openly, so be prepared.

Chinese are proud of their country and its achievements. Therefore, it is always highly appreciated if you are somewhat familiar with Chinese history and culture. Talking about events that Chinese are proud of, such as the 2008 Beijing Olympics, the Shanghai Expo, or recent sports events – especially winning Chinese teams and athletes – will definitely spark interest, as will accounts of your personal positive experiences in China, such as the trips you have taken and the places you have visited. Your Chinese partners will likely be keen to share their experiences abroad as well, especially if they have been to your home country. If they haven't been there yet, a simple suggestion to come and visit will work wonders.

13. Laying a solid legal foundation

13.1 Regulatory challenges

The regulatory environment in China is complex and continuously changing. Therefore, SMEs intending to invest in China should first familiarise themselves with the laws and regulations, starting with the Foreign Investment Industry Catalogue, to understand if there are any legal limitations for the industry they are in, as the Chinese government classifies all industries as either “encouraged”, “permitted”, “restricted”, or “prohibited,” for foreign investment. Other essential information concerns the type of enterprise to be established, the minimum capital requirements, the registration process for company incorporation, labour costs and labour laws, rental costs and tax rates. The EU SME Centre, national chambers of commerce, embassies and professional service providers are all valuable sources in this regard.

13.2 Bureaucracy and transparency

In general, the Chinese government is very pro-business. Still, China is not unique in the sense that bureaucracy does exist, including overlapping responsibilities, delayed processing times, unclear decision making processes and red tape. There is no use in complaining about inevitable bureaucratic delays, since they are not unique to China and it will not help accelerate the process anyway. Do not attempt to influence officials with lavish gifts, entertainment or cash. Interacting with government officials or local agents requires cultural smarts, patience and a good sense of humour. But once you have demonstrated your commitment to China and have cultivated long-term and trusting relationships, government officials can become your most important allies.

13.3 Intellectual property rights (IPR)

Although gradually improving, protection of intellectual property rights still remains as a major concern for most foreign companies in China. In China, a “first to patent” priority rule is in place, which means that you need to ensure that your trademarks, copyrights and patents are registered in China in a timely manner. Even so, there are concerns that companies may be obliged to reveal their intellectual property during the registration process or in order to win contracts, enter the market or form partnerships. To find your bearings in IPR in China, contact the China IPR SME Helpdesk for initial support.

13.4 Contractual arrangements

It is perhaps redundant to remind European SMEs about the importance of laying a solid legal foundation for their business in China. However, some companies still believe that in China, where the legal system is still in the process of development, relying on relationships (*guanxi*) and handshakes is sufficient. This is definitely not the case and you need to make sure that you have contractual arrangements in place to safeguard against all eventualities.

A case worth mentioning would be the dispute between the French dairy group Danone and its Chinese joint venture (JV) partner Wahaha. Set up in 1996, the Wahaha-Danone JV helped establish Wahaha as one of China’s best-known brands and a major contributor to Danone’s fast-growing business in China. However, despite this success, in 2007 the companies were embroiled in legal

battles and a bitter public feud over Danone's attempt to gain a share of the non-JV Wahaha group companies. The basis for the JV was the transfer of the Wahaha trademark to the JV; however, the Chinese trademark authority did not approve the transfer. The JV should have been contingent on the trademark transfer, giving Danone the right to terminate or restructure the agreement if the approval was not granted. Instead, Danone proceeded and granted the JV the exclusive rights to use the Wahaha trademark by getting around the regulatory barrier through a trademark licence agreement. Exceptions were also granted that allowed the non-JV products and Wahaha group companies to use the trademark. Had Danone chosen a different path and terminated the JV when it first became apparent that trademark issues would arise, the costly and damaging dispute could have well been avoided.

Question: Should we engage a Chinese lawyer to look after our contracts?

Answer: Yes, it is definitely necessary and important to get professional help on the ground to look at the terms and conditions of your contracts. But don't let go of the negotiation process completely. As we all know, lawyers provide professional opinions, but ultimately you are the one who has to take the risks and make the decisions.

14. Last but not least

China is the second largest economy and biggest exporter in the world. Despite the slowing of its economy, China's gross domestic product still grew by 7.8 per cent in 2012 and 7.7 per cent in first quarter of 2013 (compared with its steady growth of 8 per cent over the last years). International estimates predict China to become the world's biggest economy within the next five to ten years, with an internal market of 1.39 billion potential consumers by the end of 2015 [10]. Therefore, the importance of China as a strategic market can only increase in the long run. Still, many European SMEs have yet to realise the potential that exists for business in China.

However, the Chinese market is very complex and research is essential for success. Getting a foothold in the Chinese market takes time and patience. It is all about trust and relationships. Long-term relationships are key to being successful in the Chinese market. Once trust is established, a company can move incredibly fast. Consequently, if you want to make it big in business in China, you are going to need to be patient and invest time in creating the right relationships.

No matter who your partner is in China, whether you are in control or you are a minority partner, make sure that you add value to the partnership. Value addition is really your long-term insurance for success. Yet, the meaning of value has evolved over time. In the past, the primary value was capital, but today capital is down on the priority list. Other aspects like technology, management, branding expertise, corporate finance expertise and operating expertise will be increasingly more appreciated by your Chinese business partners. Make sure you contribute to those.

Like any country in the world, China has its problems and it is not an easy place to do business. Yet, it has been making progress at a much faster pace than most of us realise. Go and see the changes with your own eyes. When you do, keep an open mind and leave your biases and preconceived notions

behind. You must be willing to acknowledge the differences, and you must be ready to understand and work with those differences by:

- Adjusting your mind-set.
- Laying a solid legal foundation.
- Understanding the context that will impact your business.
- Using common sense.
- Acknowledging that compromise is a fact of life.
- Doing the right thing.
- Turning risks/challenges into opportunities.
- Striving to improve constantly.

Only in this way can you be part of China's growth and progress and be successful in the long run.

15. References

1. Hamilton, Stewart and Zhang, Jinxuan (Ann) (2012) *Doing Business with China: Avoiding the Pitfalls*. Palgrave Macmillan.
2. Zhang, Jinxuan (Ann) (2012) *Moutai, the FCPA and Doing Business with China*. Thomson Reuters Westlaw Journal.
3. Christopher Torrens (2010) *Doing Business in China: A Guide to the Risks and the Rewards* (The Economist). Wiley.
4. Plafker, Ted (2008) *Doing Business In China: How to Profit in the World's Fastest Growing Market*. Business Plus.
5. Sanderson, Jihong (2008) *Doing Business in China*. Dorling Kindersley.
6. Rogers, Jim (2007) *A Bull in China – Investing Profitably in the World's Greatest Market*. John Wiley & Sons.
7. Harvard Business School Press (2004) *Harvard Business Review on Doing Business in China*. Harvard Business School Press.
8. Seligman, Scott (1999) *Chinese Business Etiquette: A Guide to Protocol, Manners, and Culture in the People's Republic of China*. Grand Central Publishing.
9. Handy, Charles (1995) *The Empty Raincoat: Making Sense of the Future*. Arrow Books.
10. European Commission website.



Contact the Centre at:

Room 910, Sunflower Tower
37 Maizidian West Street
Chaoyang District
Beijing, 100125

T: +86 10 8527 5300

F: +86 10 8527 5093

www.eusmecentre.org.cn

enquiries@eusmecentre.org.cn

The EU SME Centre assists European SMEs to export to China by providing a comprehensive range of free, hands-on support services including the provision of information, confidential advice, networking events and training. The Centre also acts as a platform facilitating coordination amongst Member State and European public and private sector service providers to SMEs.

The Centre's range of free services cover:

- Business Development – provision of market information, business and marketing advice
- Legal – legal information, 'ask the expert' initial consultations and practical manuals
- Standards – standards and conformity requirements when exporting to China
- HR and Training – industry and horizontal training programmes
- Access to a service providers directory and information databases
- Hot-desking – free, temporary office space in the EU SME Centre to explore local business opportunities
- Any other practical support services to EU SMEs wishing to export to or invest in China.

Disclaimer

This document is provided for general information purposes only and does not constitute legal, investment or other professional advice on any subject matter. Whereas every effort has been made to ensure that the information given in this document is accurate, the EU SME Centre accepts no liability for any errors, omissions or misleading statements, and no warranty is given or responsibility accepted as to the standing of any individual, firm, company or other organisation mentioned. Publication as well as commercial and non-commercial transmission to a third party is prohibited unless prior permission is obtained from the EU SME Centre. The views expressed in this publication do not necessarily reflect the views of the European Commission.

Date: November, 2013



The EU SME Centre is a project funded by the European Union.