

Understanding Chinese-Western Business Relations

By Antonio Fonduca

One of the most ordinary mistakes that Westerners tend to make in interacting with the Chinese is to not prepare enough ahead of time. This is a fatal mistake, as thorough preparation is key. In the very own words of Sun Tzu:

“Victorious warriors win first and then go to war, while defeated warriors go to war first and then seek to win”

It is quite basic really, yet so easy to neglect. To succeed in your business relations with the Chinese it is paramount to learn the ancient cultural forces and traditions that have affected the Chinese mind for thousands of years, and still does today. In fact, there is an emergent need, in general, for a developed understanding of intercultural interactions in today’s dynamic world. We require tools to reduce cultural gaps and to enhance our understanding toward each other.

To avoid mundane pitfalls, we need to:

- Understand the silent language
- Learn how to interpret hidden meanings
- Identify the concealed rules of the game

As most readers are already quite familiar with common themes, such as: face, guanxi and reciprocity, merely a short recap follows:

1. To cultivate trust, it is of essence to nourish personal relationships with the Chinese.
2. As a Westerner, you need to get into the loop. And once there, you remain there by giving face and nurturing long term mutual benefits.
3. The very beginning of the relationship is particularly important. Tread carefully, and be patient to earn trust and boost guanxi.
4. Forego with a good example and the Chinese will reciprocate. Give favors early on and the Chinese will feel obliged to return the gesture.

Preparation comes in many forms. One of the best and most interesting ways of learning is through storytelling. Certainly, to learn from others’ mistakes and be inspired by others’ successes may be among the most effective ways to learn, next to having to go through the experiences ourselves. Therefore, I am going to share a couple of stories from interviews that I have conducted with senior Western executives with vast experiences in Chinese-Western business relations.

This first story sheds some light on differences in Western vs. Chinese viewpoints when it comes to legal agreements.

Some time ago my former boss told me I was lucky. I was set for the first year because he had already signed five contracts for five new stores. Then I started talking to one of our Chinese partners who had signed those contracts, and nothing seemed to be happening. Finally, my assistant told me, “Just because he signed a six-year contract two years ago with your former boss – a person who is not you – does not necessarily imply that he will respect the contract.” That was a big shock to me since the contract was notarized and everything. But we started to re-negotiate, article by article. Five years later, during the

Asian crisis, I invited this same partner to my office and said, "Just because I signed a contract with you does not mean I will respect it. We are in a crisis." He answered, "Fine" and we started to re-negotiate.

What can we learn from this experience? In short:

- Quid pro quo
- Reciprocity goes both ways
- Adapt to the system rather than resisting it
- See opportunities, instead of difficulties

Beware that legal contracts can mean less than a handshake to the Chinese. China is a low trust society, and the Chinese have historically had little faith even in their own government. Rather than relying on legal documents, they trust the person behind the contract, i.e. the relationship. Consider this other story on the same topic:

The difference in contract agreements is that our European and American suppliers always have long contract negotiations, where lawyers are involved and much emphasis is placed on the composition of the contracts. Only in China do we get the original back signed. They can actually take the bunch of contract, spread it out like a fan and then take one big red stamp over that, which leaves a small part of the stamp on every page.

Undoubtedly, Westerners and Chinese have different views on legal agreements. We also have different ways of expressing our respect and discontent. Misunderstandings are common. By being sensible and open minded, however, we can learn, adapt to and exploit these discrepancies to our advantage.

Indeed, understanding the silent language and identifying the hidden rules constitute huge advantages normally exclusive for insiders, but also available to sensible Westerners. As you commence to understand the underlying forces – the cultural values and the traditions – you will appreciate how to effectively interact with the Chinese.