

1 The road to Cathay

it is certain that in the course of time, and at an increasing pace, China will tend to become industrialised. There is likely to be sustained demand for capital goods and, concurrently with it, a demand for consumer goods in which the emphasis will swing in the direction of high quality specialised products as China succeeds in producing more consumer goods for herself. ... In the course of time, a great and profitable trade can flow between our two countries.

Report on the UK Board of Trade Mission to China in 1946

There are few remarks concerning China of which the exact opposite cannot be said with equal truth. The fact is that 'China' and the 'Chinese' are words which embrace so vast a subject that any attempt to deliberate details inevitably obscures the main features of the subject ... China, like statistics, can be made to supply apparent proof for any preconceived notion.

(Stephen King-Hall, *Western Civilization and the Far East*, 1924)

The Board of Trade Report, produced just after the end of World War II in Asia but while Chiang Kai-shek and Mao Zedong were still slugging it out, was remarkably prophetic. It outlines a message for China hopefuls which is just as true more than fifty years later: be sure China wants you. This chapter looks at the first steps to China market entry. Topics covered include research before the first visit; options for visiting; finding business partners; using a staging post (i.e. making a first base in one of the other East or Southeast Asian countries); and the decision to enter.

Research before the first visit

Most businesses thinking of entering the China market already have one of the following:

- a product or service that they think would sell in China;
- a product or service that might be sourced from China;
- both of the above.

In other words, they are extending their current business. Strategically, the least risky option is to take a winning formula and roll it out into another market, adjusting to suit local conditions. It is unusual for a foreign entrepreneur to start his or her first business in China, although examples do exist. As one would expect, Chinese government at all levels and business are much more welcoming to those creating new exports for them than those seeking to enter their market. They are also more welcoming to those bringing goods of strategic value to China – high technology and infrastructure, for example – than consumer brands like drinks. For the purpose of this exposition, we adopt the most difficult case, market entry, leaving the reader to adapt the comments for sourcing. This book therefore assumes that an existing business is being expanded into the China market, but most of the ideas and information are relevant to China sourcing and new start-ups as well.

What sorts of research does the first-time business person need to do? The first thing most people think of is market research. Ideally, of course, when setting up a new business with the aim of selling in China, the manager would want to know things such as the likely demand for the firm's products and services, whether customers will pay the asking price, and whether they will do so more or less on time.

None of this can be discovered for China (or any other export market) by prior market research. It may be somewhat radical, but our view is that market research is largely useless in determining commercial opportunities – how much business there *will* be, or what people *will* buy and at what price. Research can establish *current facts*; it cannot provide hypothetical future data. Furthermore, as we will see in Chapter 7, market research and statistics are less reliable in China than, say, Europe or North America.

Contrary to popular belief, there is never a 'gap' in the market for a new product or service. Rather, good innovations create their own 'gaps'. Research will not provide an answer. If research shows that equivalent products or services already exist, the nay-sayers will tell you that the market is already satisfied. If the equivalent does *not* exist, then they will tell you there can be no demand. In principle China has a market for any good product, though intangible services are more difficult. There are, after all, more than 1.2 billion people in China; and while it is a dead certainty that not all of them will want your offering, some of them probably will. The questions are, how many, and where are they? And (this may be the killer) how much will they pay?

There are, of course, benefits in doing market research before deciding to launch or, better, the appropriate marketing mix for the launch. A snapshot of the present puts future knowledge into perspective. Nevertheless, there can be few, if any, situations which justify commissioning new market

research before the first China visit. Good first impressions require the appearance of being knowledgeable but that can be gained from already published sources – Euromonitor, for example. We have met managers going to China, and even taking up expatriate postings, who have read nothing at all. That is not only foolish; it is rude to Chinese hosts.

First-time business visitors have this problem – they will discover most of what they need to know in China itself. Even if they had the time intensively to study before hand, their study will make little useful impression until they have confronted the reality. Yet no business person, Chinese or otherwise, wants to spend time educating a novice when they could be out making money for themselves.¹ Where is the balance? Apart from the visit arrangements, this or another introductory book, together with a quick review of published market information (see below), should be enough.

Given the competing demands on most people's time, there is always a problem of how much information is enough. If one is visiting the Isle of Man from Iowa, the locals would forgive a lack of grasp of the finer points of the Manx socio-economic situation. If one is visiting Northern Ireland, on the other hand, ignorance of the fundamental political situation could create very serious trouble. China is somewhere between these two extremes: ignorance is unlikely to lead to physical risk, but it will result in loss of face. As the largest country with the longest surviving civilisation, China is, from the perspective of most of its inhabitants, the centre of the universe.

Before the first visit, then, one should therefore achieve (1) a basic understanding of the sector markets in which one is interested, and (2) some general knowledge and an understanding of social sensibilities.

Market facts

Thirty years ago, getting market information for China was almost impossible; today, there is an embarrassment of data but not, unfortunately, of riches. Much of the information is unreliable and one soon learns to ask the same questions of many different people. Accurate statistics about China are notoriously hard to come by, and Chinese analysts will admit to 20 per cent or wider variances. Some see statistics as more of an art than a science: the figures are intended to paint a picture, not to be used exactly.

The problems of getting useful information from the World Wide Web (noted below) reflect a broader problem. Both China itself and the rest of the world publish more statistics about the Chinese economy and trade than anyone can assimilate. They may be out of date or even intentionally misleading. Disraeli famously remarked that there are lies, damned lies, and then there are statistics. Market research companies are now required

to share their findings with the relevant ministry before they show them to clients. The reasoning is obscure, but the suspicion is that the authorities are sensitive to unfavourable findings.

Some places to start include (the examples given are from the UK and the USA, but similar sources are available in most countries and now also on the Web):²

- specialist information providers
- home government
- home embassy in China
- home-country professionals and businesses
- dedicated trade bodies
- Chinese embassies abroad
- Chinese businesses abroad
- The Web

Specialist information providers These include businesses and organisations such as the Economist Intelligence Unit (EIU) and Euromonitor. These will provide a range of special reports and databases.³ For instance, the EIU published a 'China connection series' with guides to the four main commercial regions in the autumn of 1994, though these like so many other published sources are now getting a little long in the tooth. Euromonitor's excellent Directory and Sourcebook are a 'must' for any company entering the market. Occasionally you will find these reports on the shelf or online at business schools or institutional libraries. Many of these organisations also have websites.

Home government Most governments of countries that actively trade with China will provide information and assistance to exporters. In Britain, the Department of Trade and Industry (DTI) has established an Export Marketing Information Centre with databanks, terminals and staff to help.⁴ They provide 'Hints to Exporters Visiting' for most major countries, including China, for around £8 each. The DTI will also advise on any subsidies available for smaller firms wishing to export to China.⁵ The US Department of Commerce offers similar facilities, as do trade ministries in most Western countries. The Great Britain China Centre has a free comprehensive library, and other countries maintain similar resources.

Home embassy in China One of the jobs of embassies abroad is to help their government's nationals make contacts and establish relationships with clients and partners. Some embassies are better at this than others. The US Embassy in Beijing has an extensive commercial section, though the

current level of political tension between China and the USA needs to be considered. The British Embassy in Peking (as they continue to call it; they do not call Rome 'Roma' either) has since the 1980s been proactive and helpful. Again, the current political situation may have a bearing.

Home-country professionals and businesses This category includes banks, lawyers, accountants and consultants, including both specialist 'China' consultancies like Clifford Chance and A.T. Kearney and international firms with a presence in China like Andersen Consulting, Price Waterhouse Coopers and Ernst & Young. How much information they will provide before the meter starts making expensive noises depends on your existing and potential relationship with them. Many of the larger firms (including Clifford Chance, A.T. Kearney, Andersen Consulting and PWC) publish useful reports on business in China, available free or for a small fee. Many of these firms also have excellent websites.

These organisations are also valuable in that they tend to have, on staff or as advisers, people with considerable personal experience of China. Reading about China is one thing; hearing about it from someone who has already 'seen it and done it' is another. For a small fee or sometimes even just the cost of a good lunch, you can learn a lot in a short time. Finally, all the major organisations and many of the smaller ones have representative offices in China, which can usefully provide further information and make introductions during the visit.

Dedicated trade bodies These include both government-sponsored groups such as the US-China Business Council and the China-Britain Business Council (CBBC, previously called the 'China-Britain Trade Group'), and private bodies such as the American Chamber of Commerce in China. These have many of the advantages of the firms we noted above, except their fees tend to be lower. The CBBC, for example, has a compact but comprehensive library (for members), of books, journals, magazines, trade reports and cuttings. Its principal function is to promote British trade through connecting Chinese and British business partners, and to this end it organises business trips to China and helps act as a *hongniang* (go-between) to match British and Chinese firms. Other similar bodies exist in most Western European countries. The reciprocal to these Western bodies is The China Council for the Promotion of International Trade (CCPIT) which is primarily interested in exporting from China, not those wishing to sell goods there.

Chinese embassies abroad The Chinese Embassy is basically there to deal with the host government, not individual businesses, and still less individual

managers. In particular cases, through contacts perhaps, information may be provided. Their subsidiary units may be helpful if the enquiry happens to strike a chord with a current Chinese need. The initial approach may need a contact who can arrange introductions to the right people.

Chinese businesses abroad Once upon a time, the Bank of China and other Chinese businesses abroad, such as import-export corporations, were all affiliated to the relevant government ministries. Under the old system, all imports and exports flowed through them, or at least the paperwork did. Today, the ties to government have been loosened and business deals are done either through Hongkong or Taiwan, or, increasingly, directly with the West. Some have established their own representatives in major markets such as the UK and the USA. Again, a personal introduction is advisable; but if you can make your first direct Chinese contacts before you go, so much the better.

The Web The virtual anarchy which we know and love as the Internet provides some good sites with up-to-date information. For every one such site there are 99 containing rubbish, out-of-date or incorrect statistics, short and fairly useless 'overviews', and rants by various groups of cranks. Squarely in the latter category falls the otherwise useful site put up by the Central Intelligence Agency, whose overviews of the political and economic situation in China nearly always conclude (with a note of wistful hope) that China is doomed.

Some of the organisations noted above, such as the EIU and Euromonitor, have very good websites with useful macro- and micro-level information. The University of Vienna has a useful website with a large number of links to business and economic sources concerning China. *Asia Business Journal* also has a good site, though downloading can sometimes be tricky. Hongkong University also has many useful links.

Websites come and websites go, but at time of writing, some of the most useful sources for businesses are www.business-china.com, www.chinesebusinessworld.com and www.net-trade.com; the latter has a large Far East business directory. The *South China Morning Post's* business pages can be found at www.scmp.com, and useful information can sometimes be gained from *China Daily* on www.chinadaily.com. The Ministry of Foreign Trade and Economic Co-operation (MOFTEC) maintains a website at www.moftec.gov.cn.

What facts should be available from the above sources? The size of the market perhaps, the extent to which products sold in it are domestic or imported, and if the latter, which countries are exporting to China. With luck,

you may discover which companies now lead the market, which competitors are already in China, and how long they have been there. You may also discover which parts of China have been penetrated by the competition. This can be useful, as China is a big place: presence in Guangdong may not inhibit any first-mover advantage in other provinces. Success or failure in one place may not indicate success or failure in another Chinese market.

A favourite topic of many China hands concerns the number of 'markets' there are in China, given the geographical and cultural diversity of the country. While a province-by-province separation is convenient and used by Chinese domestic marketers, even these groupings are so large as to allow many 'markets' to exist within them (see Chapter 2 for more on this). Any cake ultimately divides into as many pieces as you care to cut it into. Realistically, each product has to consider the market characteristics necessary for its own situation (number of consumers, spending power per consumer, extent of competition, likely pricing and costs) in order to assess the minimum size of an entry market. From this starting point, one can then move to consider how many conurbations or other regions in China have the required characteristics, that is, how many markets there are for that product. Then one can start choosing target markets, although with care, and keeping options open. The short answer is that your market should be dictated by the resources available: the fewer the resources the smaller the territory. No matter how clear a picture you may think you have, reality may differ once you are on the ground.

What is less likely to be available? Information about consumers, retailers, pricing, packaging, distribution, availability, promotions and advertising are all unlikely to be found in your home country except in very general terms, unless you are able to network through to market research firms with China offices (see Chapter 7 for more on market research in China). Otherwise, you will need to visit China to see the situation for yourself.

Summary of market information sources

- specialist information providers
- home government
- home embassy in China
- home-country professionals and businesses
- dedicated trade bodies
- Chinese embassies abroad
- Chinese businesses abroad
- the Web

General knowledge and sensibilities

Chinese hosts would prefer (but do not necessarily expect) the visitor to have some knowledge of:

- geography, recent history and economic reform;
- culture and etiquette, notably on matters of the table;
- power, i.e. who is who in organisations, governments and ministries, as distinct from politics.

Readers of international media will find regular briefings on the overall political and socio-economic situation hard to avoid, but these should be treated with care. The Western press irritates the Chinese, and so media coverage provides a good list of topics to avoid. This does not just refer to government and Communist Party officials; as noted above, many ordinary Chinese find Western reportage of events in China biased. This particularly applies to Western press coverage of issues such as human rights, where many Chinese believe the Western media is particularly hypocritical (see Chapter 2 on Chinese attitudes to the West).⁶

Up-to-date geographies of China are hard to find, and many are fairly technical geography textbooks; but even out-of-date works will give information about land forms, climate and so on, should you need to know them.⁷ Basic geographies can be found in many of the best short histories of China.⁸ More detailed geographical information is available in Baedeker, which provides details including population and climate for every province, city and town of any size in China.

Edwin Moise's *Modern China: A History* provides an excellent summary of recent history, while Charles Hucker's *China to 1850: A Short History* covers imperial China succinctly and intelligently (but he uses Wade-Giles rather than pinyin spellings). We also suggest Ray Huang's *A Macro History of China*. Apart from these, good overview histories are hard to come by.

Five books to choose from

With enough time to spare, the following will give a flavour of the past:

Jonathan Spence, *God's Chinese Son*. Fascinating account of the Taiping rebellion that almost destroyed China in the nineteenth century.

T.H. White, *In Search of History*. White had close personal contact

with Mao Zedong, Zhou Enlai and the other leaders of the Communist revolution.

Sterling Seagrave, *The Soong Dynasty*. History of a remarkable family whose members, between them, helped shape the history of twentieth-century China and Taiwan.

Robert van Gulik, *The Chinese Lake Murders*. Fiction set in the Song dynasty, immaculately researched, full of a sense of time and place, and more fun than Pearl S. Buck.

Cao Xueqin, *Dream of the Red Chamber*. The classic Chinese novel of all time, the tale of a wealthy Suzhou family's slide into decay and decline.

Economic reform seems to be another subject on which *everyone* in the West has an opinion. In Chapter 2 we provide a very brief summary of the reform programme to date, and browsing among the works listed in the bibliography will provide more detail. One problem is that, given the pace of reform, even the best books tend to be out of date by the time they hit the bookshelves. This is especially true of central changes: Zhu Rongji cut 50 per cent of the headcount of PRC government ministries within a few weeks of assuming office as prime minister. On the other hand, though, there may be months or years between a reform measure being announced in Beijing and implementation in the provinces.

Food plays an important role in Chinese culture, and it is probably worth acquiring some familiarity with it. No restaurants in any Chinatown will prepare the visitor for food in China though they will provide some idea of the regional variation. They will also help provide dexterity with chopsticks, worth acquiring if weight loss during the first visit is to be minimised.

A lot is written and said by Westerners about alcohol consumption, particularly the practice of repeated toasts during and after a meal. We suggest that the more macho views on this subject can be treated with scepticism. Teetotallers will not be forced to drink, if they simply make their position clear, politely, from the outset. No one will think any the less of them.

Finally, a health warning: briefings and books like this one usually provide long lists stating how much executives must learn before visiting China, to the point of inducing total paralysis. There can never be enough time in a busy manager's schedule to learn all this stuff before departing. (In fact, having fallen into the same trap, we then removed most of our own suggestions while this book was in draft.) There is no need to be over-

prepared. Natural courtesy will nearly always suffice. More important is to be friendly, to be alert, and above all, to keep an open mind.

If time is short, just browse this book and any of the better tourist guides, such as *Lonely Planet*, which cover the essentials.

Options for visiting

Broadly, there are five types of first visits:

- trade missions, led by Chambers of Commerce, trade bodies or trade associations;
- co-operative missions, with perhaps from three to five people from different companies sharing costs;
- fairs, exhibitions and trade shows;
- bought-in expertise;
- individual.

Trade missions

These are a specialism of the dedicated trade bodies we discussed above. They offer several advantages, including both the opportunity to network like-minded businesses from your own country, and access to a wider variety of Chinese contacts than might otherwise be possible. Costs will be lower and may well be subsidised by your own government. Most of the hassle involved in setting up meetings, accommodation and travel is taken care of by the sponsoring body. More importantly, tuition about China is, in effect, provided as one goes along.

Missions have an advantage in that Chinese hosts prefer groups to individuals, though this is becoming less true. An official delegation has a reassuring cohesion and substantive image, particularly if the sponsoring body has good relationships and reputation. Groups tend to have established seniority rankings and go-betweens. This enables the hosts to understand who is who within the group context, and make judgements as to which members are most valuable.

Less good is that time may have to be given to activities and subjects one might rather avoid. As groups are becoming more regional and specialised, keeping distance from direct competitors (welcomed by China of course) increases. A group always travels more slowly than an individual. This will partly depend on the balance of initiative and interest on the Chinese and UK sides. Missions may be organised by trade sector or geographic destination(s). To minimise these problems, schedules are generally tailor-made. In the UK, the China-Britain Business Council

usually meets with companies joining a trade mission for a couple of hours, well before the mission departs for China. The company's entry strategy is discussed (and perhaps challenged), and then personal appointments are made in line with that. The group travels together and meets up in the evenings, but each individual may pursue his/her own agenda.

A trade mission might best be treated more as a reconnaissance than with the expectation of finding the right partner, still less finalising a deal. On the other hand, as the mission sponsor's local offices organise the local arrangements, sensitive briefing can help line up reasonable prospects. Trade missions are usually only a first step, but they can help open doors and establish relationships which will bloom in the future.

It is no bad thing to treat these missions as opportunities for people watching, as distinct from business finding. Try to develop the 'golden eye', the origins of which expression lie in the ancient story of the Monkey King. In essence, the golden eye allows you to distinguish real people from ghosts. Most bureaucracies in any country are filled with 'ghosts'. Of the huge number you will meet on a mission, only some will be 'real' and only some of those may become friends and partners. The ability to use the golden eye is far more likely to determine market entry success than any economic analysis.

As the focus moves from bureaucracies to market trading, group missions are becoming less important.

Co-operative missions

Co-operative missions are similar to trade missions but are more tailored. This means less time spent on boring activities but, probably, less access to top officials. It is unlikely that you will know compatible businesses wanting to visit China at the same time, but there are consultants who will put interested business together and help with the administration. Some of these specialise in working with smaller firms, and will generally do their best to help keep costs down.

Fairs, exhibitions and trade shows

Fairs and exhibitions are the modern equivalent of the markets along the silk road of Marco Polo's day. Handled skilfully, they are not just places to exchange goods or services for money but centres of information and the beginnings of friendships. They can also go horribly wrong; there are plenty of tales of sitting in a cavernous hall for a week, surrounded by people who don't want to know, with nothing to fill in the time except calculate how much this experience is costing. However, a little advance

spadework can avoid this fate. As one tactic, consider organising a reception (perhaps jointly to spread costs) for other compatible exhibitors and potential customers. Send out personal invitations ahead of time, using local business directories; telephone first to try to learn personal names, rather than just inviting 'The Marketing Director'. A formal personal invitation card is highly regarded. Guests will also be favourably impressed if the attention they get on arrival is personal, intensive and enjoyable for them. It should be like an invitation to one's own home.

Companies planning an exhibition in China should always ensure that the exhibition organiser has the right links with the relevant Chinese authorities and that the show has been endorsed at the right (high) level.

In more high-tech sectors, the technical seminar has replaced the fair. Travel is simplified since, in theory, the customers come to you. Government agencies may be able to help defray some of the costs in these cases, as most Western governments are keen to support anything connected with high-tech. Another advantage of technical seminars is the involvement of the ubiquitous Chinese research institutes. These bodies are a bridge between Chinese industry and academia, and provide much of the leading thinking for Chinese commerce. Here, a successful approach in making contacts may be to stress knowledge transfer rather than commerce; this approach is more likely to succeed in getting the more senior and/or more technical brains of the institute to attend. Of course, the potential downside is that one may end up transferring knowledge without generating business for oneself.

The Guangzhou Trade Fair is the grandfather of them all and also the largest, with over 5,000 exhibitors. Many other regional or sector-specific trade fairs have sprung up since the mid-1980s (organisations like Euro-monitor provide lists of these, and some also advertise directly on the World Wide Web). Fairs can be extremely good ways of getting one's foot in the door but, as with trade missions, they do not necessarily result in immediate business.

An associated concept, not really a trade fair, is to participate in or host 'technical' lectures to explain how the products are made, tested and used. There is an insatiable thirst for knowledge, especially anything which can be seen as technology transfer.

Bought-in (or borrowed) expertise

Many larger firms prefer to buy, either directly or indirectly, the expertise they need in order to gain entry. They may prefer to avoid official and semi-official events and visits for a number of reasons. Bespoke tours may be better targeted and more relevant to the company's needs; they will

probably also be more enjoyable. They are almost certainly a better use of time, but they are also likely to be the most expensive option. Bespoke visits and tours can be arranged through:

- consultants, either the major international firms or small China specialists, depending on preference;
- overseas Chinese entrepreneurs with whom contact is already established;
- organisations such as the China-Britain Business Council and others previously mentioned;
- existing businesses in Greater China contacted similarly.

This is the classic Chinese method, using one's existing network to effect new introductions; in other words, developing or using *guanxi* (relationships).⁹ In many circumstances, it is the best solution. Certainly it applies the local system to the local market. However, the hazards are those of any networking solution: the intermediaries may only pass on what they want you to know. Wang's brother in Chengdu is not necessarily the best wholesaler in Chengdu. Objectivity and independence may be hard to achieve. Once the contacts have been made, it may be too late to consider alternatives. Therefore, it is very important to find the right intermediary in the first place.

Selecting the right mode of introduction largely depends on the quality, integrity and relevance of the intermediary, and the cost. McKinsey is not cheap, but then a Hongkong Mr Five Per Cent, a 'bag company' (an entrepreneur whose only asset is his brief case) may ultimately cost more. The expertise and contacts displayed by a sole consultant may be brilliant; they may also be ephemeral or substantive. Again, as a newcomer, it can be very difficult to tell. There is much to be said for joining forces with a compatible business, if you can find one.

The networking approach is potentially the best, but it is also potentially the worst. Getting the right partner from the start can lead to a dream relationship; getting the wrong one can land you in a nightmare of which there are all too many examples. Get to know potential partners well before agreeing anything substantive, still less signing anything; homework on partners is *much* more important than homework on the market. Good partners will keep the new entrant out of trouble and bad ones will land them in it, whatever the state of the market. We discuss this further in Chapters 4 and 5.

Individual

Small firms will not generally be able to buy or borrow expertise described above. However, there is nothing to stop anyone getting on a plane and going.

Solo travel in China is getting easier, and if all you want to do is to go and look around, a tourist visa (depending on where you come from) is the best and cheapest option. Most Western travel companies have relationships with private Chinese agents. If all else fails, the state-owned China International Travel Service will book packages and organise tourist visas. Solo travellers can also contact consultancies or organisations like the China-Britain Business Council whose local offices will, for a fee, organise a translator and a schedule of meetings with their contacts.

For business visits, an official 'host' is still needed for visa purposes. You will need the host in China to issue a letter of invitation, which must accompany your visa application. Be warned that, while you are in China, the government will regard the host company or organisation as responsible for you. If the host is genuinely interested in your mission and provides substantive help, life then becomes much easier.

Finding a host to invite you, though, can sometimes be an adventure in its own right. One of the problems is that, unless one has been properly introduced by suitable intermediaries, one often does not exist in the minds of Chinese companies. Someone answering a ringing phone in a Chinese office will not necessarily feel any obligation to pass on a message or do a favour for an unknown voice. Letters, messages and faxes are unlikely to get any response unless contact has already been initiated. To complicate life, a letter/fax about a future event may not be deemed worth a response until immediately before that event. Silence probably means 'no'; but it may also mean that a reply is not yet necessary.

If introductions can be made from the home country and if appointments have been confirmed, then the individual visit may prove the most direct (and the most cost-effective) mode of entry. Certainly it is the most flexible. China's better hotels now meet all of a solo business person's needs, and transport is fairly easy. Be warned that appointments need to be reconfirmed once on Chinese soil: one materialises from being a foreign 'ghost' only in stages.

Finding business partners

It should be obvious by now that some sort of partnership arrangement is essential in the first instance. As we will discuss later in the book, business in China functions primarily on a relationship basis, whether we are

talking about customers, suppliers, joint venture partners or even local government officials.

What about finding a partner before going to China? As we have seen, desk research and coming up with lists of potential contacts is easy; it is much harder to get a foot in the door so as to actually discuss business with them. Make use of go-betweens wherever possible, such as the China-Britain Business Council or other organisations described above. They have the local knowledge, reputation and *guānxi* to be taken seriously, whereas the visitor is just a ghost.

Ultimately, though, the job has to be done in the field. The first meetings with go-betweens, hosts and other contacts may not yield anything more than a few names. Track these down, using existing relationships to build new ones. Exploit the system: contacts lead to contacts. This will take time, and it will be hard work, but a few days in China will equate to several weeks of research at home. With these new relationships, depth matters more than quantity.

Staging post v. direct entry

One common question is whether to go directly into China, or whether to set up a 'staging post' in another country in the region or in the Hongkong SAR (Special Autonomous Region), and then use this as a base for expansion into China itself at a later date. In the 1980s and into the early 1990s the indirect option was popular, but more recently firms have tended to go directly into China, even in some cases using China as a base for expansion into other parts of East and Southeast Asia.

In part, the decision depends on the firm's future goals and present situation. Which markets matter most and which are most immediate? These are not the same question. If small, quick paybacks are crucial, China will be riskier than other parts of Asia. It would be a mistake to neglect the large and potentially lucrative populations and markets of Taiwan, Malaysia and Thailand, or even the somewhat more difficult cases like Indonesia and the Philippines. When considering potential markets and market requirements as above, these should be put into the mix as well, along with the potential for growth and expansion. Largely, though, this decision is a strategic one, and it needs to be taken with an eye to the longer term.

Firms with existing bases in the region, especially Hongkong and Taiwan, will be tempted to expand into China or other countries from there. They may be right to do so: costs are incremental, existing staff will already have contacts, communication will be easier, distances are less and the administration is already in place.

But there are also problems with this strategy:

- Individual staging posts are usually closely linked to one particular area of China (for example, Hongkong with Guangdong). Too close a tie with one region can obscure vision of the others.
- Mainland Chinese usually prefer to deal direct with American or European firms rather than with their regional branches. China is important; being routed via a branch office rather than dealing directly with headquarters is unflattering.
- Taiwanese, Hongkong and Singaporean, to name but three, are unpopular in PRC and are seen by some Chinese as untrustworthy, arrogant and stupid [!] respectively. These stereotypes are of course ridiculous, but they do affect perceptions and need to be borne in mind.
- The communications channel between headquarters and the China office acquires an extra link. This can lead to inefficiency and confusion.
- There may be conflicts of interest with existing businesses and clients.

Neither option is wholly right or wholly wrong. Certainly where an offshore office already exists, for cost reasons it makes sense for the regional office to do some of the research and preliminary groundwork. The principal contacts, however, tend to be better made directly between the head office and China itself. The decision and the implementation can both be very sensitive on a number of levels, including external politics and internal sensitivities within the firm, particularly if the firm employs a number of Chinese managers and staff. Tread carefully.

Sino Infrastructure

As an encouraging example of diving straight into the deep end, here is what one young man with a brand new MBA achieved straight off the reel.

In 1994, Geoff Mills was preparing to create a new infrastructure development business in China. On the one side, there were many British engineering and building companies and consultancies looking for work in China. On the Chinese side, infrastructure development was welcomed, provided finance could be arranged at a minimal cost. There was some dissatisfaction in the UK construction industry with the Chinese 'opportunity'. Since the advent of the open-door policy, most of the big firms had been involved in tendering, yet most of the contracts were still going to Chinese firms.

After researching the British firms involved, Mills thought he could put together an arrangement which would aid British firms in tendering. However, he faced two principal problems. British firms would only enter into a partnership with him if there was evidence of the arrangement including Chinese customers. The latter, in turn, were interested but would only come on board if British firms were already committed.

Mills needed a partner in China to help him link the two together. He was fortunate in having a well-connected friend in Hongkong who was able to advise him on options. These were:

- team up with a trading company such as Jardine Matheson;
- team up with Chinese contractors in hopes of getting these to establish partnerships with their British rivals;
- team up with 'design institutes', Chinese government offices that oversaw the technical design of projects once project approval had been given;
- team up with the People's Liberation Army, then a powerful and growing commercial force.

Mills himself had no China background, little or no Chinese, and few contacts outside Hongkong. What he had was an idea which he knew would work. Through patience and persistence, he was able to establish links with some of the important design institutes. These, in turn, gave the venture the seal of approval which persuaded both Chinese clients and British contractors to come aboard. Mills's main problem now is how to manage expansion.

The decision to enter

The decision to enter the China market should not be made on the basis of one visit. At best, this visit will introduce key people and increase your stock of knowledge about the country. Leads need following up with further visits. Expect to make three visits before deciding whether China market entry is feasible or desirable. If one visit is all that can be risked, then do not go at all.¹⁰ This is not wasting time; it is building relationships. Deciding *before* understanding the calibre of relationships, however effective that may seem, is unwise. That said, if some non-committing orders can be filled, so much the better.

Establishing a base in China is not to be done overnight. It takes time to build relationships with clients, partners and others with whom mutual

trust can grow. Trust is not an on/off switch. The Chinese use small matters (punctuality, for example) to test commitment. As the tests get bigger and are satisfactorily met, trust grows. The visitor's behaviour and actions on almost every level will be scrutinised by Chinese hosts in an attempt to determine trustworthiness. If suitable relationships are proving elusive, one should consider pulling back and rethinking one's approach. What is putting out the bad vibes? Get help from a Chinese expert.

First encounters with China may be more discouraging than motivating. Sometimes the reverse applies: the welcome mat conceals traps. First impressions in China tend to be even more misleading than usual; after all, this is a culture that itself distrusts first impressions. As one colleague has commented,

In China, you need to check, check and double check everything. If you think everything is going okay, the chances are that you have been misinformed or disinformed ... humility is vital – without being a soft touch – a delicate balancing act indeed.

Last of all, a programme of visits needs a clear and realistic set of desired outcomes. Colleagues need a shared view of the minimum conditions for entry; in other words, what results constitute 'go' and 'no go'. Benchmarks for a visit make it possible to assess whether it has been successful. On the other hand, serendipity must be given a chance. One Western firm went to China to sell cheese-making equipment (optimistic, in a non-cheese-eating society), and came back with orders for a bean curd plant, which turned out to require similar equipment. Amazing things turn up if one is alert to them. Be prepared to seize chances as they come.

China is the largest and most difficult market a business can enter. If it is not also the most difficult decision, you are either very lucky, or you may be missing something. Too often in the past, the latter has been the case. The last two decades are full of tales of firms that thought they had a lucrative business deal in China sewn up, only for the whole thing to evaporate almost before the wheels of their planes had touched the ground back home.

Are we being unduly pessimistic? No: this is realism. The decision to enter the China is fraught with risk. However, there are ways and means of laying off that risk. Success is never guaranteed, but should be more likely with the following:

- Do homework before the visit; not market data and macro-economic conditions, so much as researching contacts. Cultural and historical reading is good but limited by time.
- Work out in advance where to go, and what to achieve.

- Pick a suitable visit type, whether as part of a trade mission or larger group, or as a solo venture.
- Trivial as they may seem, worry about the diplomatic niceties. Pack samples, literature and small gifts. Your contacts will want to take something tangible from your meetings. Get your business cards ('name cards') printed on the back in Chinese – PRC Chinese, not the traditional characters still used by overseas Chinese. **Take a whole box.**
- Be prepared for the process to take time. Don't commit without being as certain as possible about your partners.

Inevitably, many of the details in a book like this will prove ephemeral. Names and facts change fast. At the more fundamental level, though, China does not change at all. The success of market entry depends far more on harmonising these fundamental understandings and values than any passing knowledge of current affairs.

Entering overseas Chinese markets

With some provisos, given the differing political, economic and social conditions in their host countries, much of what was said above applies also to the overseas Chinese business communities elsewhere in East Asia. Although some of these communities are hundreds of years old, all still have much in common with Chinese culture, often more than with their host culture. Conditions for the foreigner can be comparatively easy or comparatively hard, depending on the country. For British and American business people, for example, Malaysia, Singapore and the Philippines offer a greater chance of English being spoken and understood by potential contacts. This can help in the initial stages, though the comments we make later in the book about the importance of translation will still apply here.

Decisions about pre-market analysis and point of entry apply elsewhere in Southeast Asia just as noted above. (Note we are talking here about dealing with the Chinese business communities in these countries only; dealings with *bumiputra* Malay or Javanese Indonesian businesses require a different set of cultural assumptions.) So too does the importance of having at least some background knowledge before you go. Finally, we would stress the importance of developing partnerships in the local community. These are still Chinese cultures, and the emphasis on relationships is at least as strong – indeed, in some cases much stronger – than in the PRC.

Notes

- 1 See Chapter 7 for more on market research in China.
- 2 For a longer list of UK organisations which can offer advice and assistance, see Porter and Robinson 1994. De Keijzer 1994 does the same for the USA. Be warned that both of these are getting a little dated; confirm contact details before trying the suggested organisations.
- 3 It is warned that prices can vary from organisation to organisation; some of these can be quite expensive.
- 4 The address is Room 134, Kingsgate House, 66–74 Victoria Street, London SW1E 6SW.
- 5 We are informed that the quality of the advice varies, but it is worth exploring.
- 6 Everyone has a right to their own opinions on contentious issues such as human rights. We simply urge caution when it comes to when and where you express these views. It is perfectly possible that an injudicious opinion will offend your hosts even if they are broadly in agreement with you. Remember the American saying, ‘My country right or wrong’; it applies in China as well.
- 7 Shabad 1972 is an example.
- 8 Hucker 1978; Moise 1994.
- 9 This is an important concept, developed in more detail in Chapter 4 but referred to throughout the book.
- 10 This advice is more didactic than realistic: China is never so determinist. Luck may strike first time. A Chinese importer may approach the exporter’s home office in the first place, saving the immediate need to travel and search. We are not suggesting you won’t get lucky; we are suggesting you be prepared for a long haul.

2 Through a glass darkly

China from a Western perspective

To regard a nation’s mentality as a fixed monolith is to run counter to the truth that variety is the law of nature.

(Zhou Lisheng in *Westerners Through Chinese Eyes*)

No matter how much is read about China¹ ultimately one has to go there. But on arrival, China is too vast to comprehend. Many of the sights and experiences are too unfamiliar to make sense. Inevitably this brings us back to the books to make sense of it all. In visiting the China offices of expatriates, look at their bookshelves. Those without books on China will not be staying long. Personal experience and macro-level knowledge are complementary; one needs the other. The best learning blends personal experience and the researches and experiences of others in a single mix.

We will return to what is *essential* at the end of the chapter, but for the moment, let us assume the basics outlined in the last chapter. The Chinese, as we said, are justly proud of their long history and great culture, and expect foreigners to respect these things. Here we amplify:

- the *geography* of China (where things are);
- the *history* of China (*why* things are);
- the *ethnic make-up* of China (who the Chinese are);
- the *culture* of China, with reference to particularly important points such as language, food, literature and the arts;
- the current government of China and the *political situation*;
- the Chinese *economy* and its future prospects;
- Chinese *attitudes* to the West (both official and unofficial).

Geography

China’s contrasts are nowhere more visible than on the map. Virtually every extreme of terrain is present, from the rich coastal plains of the east

to the barren mountains and deserts of the west. Contrary to our usual image of a teeming, crowded China, mountains and deserts predominate; much of China is a barely populated wilderness, and only about 13 per cent of its vast surface is arable land.

Geographers, economists and others seeking to segment China have approached the task in different ways. Geographers have tended to divide the country into three from north to south: north China includes the valley of the Huang He (Yellow) River and the north China plain, 'central China' is centred on the valley of the Chang Jiang (Yangtze) River and the coastal provinces around Shanghai; and 'south China', mainly mountainous but with a rich coastal plain, stretches from Guangzhou (Canton) to the Gulf of Tonkin and the Vietnamese border.

Economists also favour a tripartite division, but from east to west. First there is the relatively rich coastal region, which had the first Special Economic Zones (SEZs) and the greatest amount of foreign direct investment; then there is the central zone, which has been slower to develop but is now receiving attention, especially around cities like Wuhan; then there is the west, including Sichuan, which has received comparatively little investment, and the wilderness regions of Tibet and Xinjiang. The major differences between these regions concern things such as economic output and per capita income, both of which tend to be higher in the east than the west. (Though by 1999, 29 of the 31 provinces and municipalities had investment zones (now called 'ETDZ'), averaging about six each. The divisions are beginning to break down.)

Both these divisions have their utility, but for the first-time business person they can still be a bit daunting. After all, we are dealing with a country any one of whose provinces is the equivalent to a fair-sized European state; Sichuan has a population equivalent to France and Italy combined, or all of the states of the USA west of the Mississippi and south of New York combined.

The following breakdown might be more useful. It divides the country a little more exactly by region, with the divisions reflecting some economic and culture distinctions as well. We dwell on this at some length, as there are no good up-to-date geographies of China on the market at the moment. In our scheme, there are twelve distinct regions:

- 1 **The north**, including Beijing and Tianjin cities and Hebei, Shandong and part of Henan provinces. Population: *c.* 250 million. This is the second most densely populated area of China and contains several major cities (including the capital), much rich agricultural land and a lot of heavy and light industry. The climate is temperate, though winters can be cold and harsh.
- 2 **The Huang He valley** and the north-west, including Shanxi, Shaanxi and part of Henan provinces, the eastern part of Gansu province and the Ningxia autonomous region. Population: *c.* 138 million. This is the ancient heartland of China, including in its bounds the 'yellow earth' country where the first Chinese civilisation emerged. The western part of this area has some minority Turkish ethnic groups, and Ningxia is home to a large proportion of China's Hui (Moslem) people. Climate consists of cold harsh winters and hot dry summers.
- 3 **The east coast**, including the city of Shanghai – China's largest – and Jiangsu and northern Zhejiang provinces. Population: *c.* 132 million. This is the most densely populated area of the country, with some of the richest agricultural land particularly in the delta of the Chang Jiang (Yangtze) River. Apart from Shanghai there are also a number of large urban manufacturing centres, including Nanjing, Wuxi, Suzhou and Hangzhou. The cities are growing rapidly, encroaching on the agricultural land as they do so. Climate is generally moderate, though winters can be very wet.
- 4 **The Dongting Hu and the lower Chiang Jiang valley**, including Anhui, Hubei, Jiangxi and Hunan provinces. Population: *c.* 156 million people. This again is rich agricultural land studded with industrial centres, the largest of which is Wuhan. This area was largely overlooked in the first wave of economic growth, but is now receiving increasing levels of investment. The climate is comparatively moderate.
- 5 **The upper Chang Jiang**, including the province of Sichuan. Population: *c.* 130 million. Cut off from the lower valley by the Dabla Shan mountains, Sichuan was once rich and prosperous but has fallen behind in recent years. Current Chinese government efforts are targeted at reviving Sichuan's economy. Sichuan has a distinctive sub-culture, history and cuisine of its own.
- 6 **The southeast coast**, including Fujian and southern Zhejiang. Population: *c.* 58 million. This heavily mountainous region faces the sea, and until fairly recently was almost entirely dependent on shipping and fishing. It too has its own regional sub-culture. Some of the first SEZs were located here, giving a considerable boost to the local economy. Parts of the region are also heavily militarised as Taiwan continues to occupy several islands just offshore.
- 7 **The far south**, including Guangdong and Hainan provinces and the eastern part of the Guangxi autonomous region. Population: *c.* 110 million. This area, almost cut off from the rest of China by the Nan Shan (Southern Mountains) is sometimes referred to collectively as Lingnan (South of the Mountains). Population densities are much

lower than in the north. The economy is booming, thanks in large part to the presence of Hongkong and some early SEZs like Shenzhen, Shantou and Hainan. Guangdong is the centre of the Yue (Cantonese) language region and has its own sub-culture and cuisine. Guangxi is the home of the Zhuang ethnic group. The climate is sub-tropical with heavy rains in the monsoon season.

- 8 **The far southwest**, including western Guangxi and the provinces of Guizhou and Yunnan. Population: *c.* 104 million. This region is very mountainous, ranging from the lower mountains along the Vietnamese border south of Nanning to the high ranges bordering on Tibet to the west. Timber and mining are major industries but agriculture is also important in the deep valleys around Guiyang and Kunming. The area has considerable strategic importance in Chinese military planning. The population includes about fifty different ethnic groups. The climate is sub-tropical in the valleys, harsh in the high mountains.
- 9 **Manchuria** (the northeast), including Liaoning, Jilin and Heilongjiang, provinces. Population: *c.* 124 million. An industrial powerhouse, Manchuria has China's largest oilfields and a number of major manufacturing centres including Harbin, Jilin, Changchun, Shenyang, Fushun, Anshan and Dalian. The Manchu and Han Chinese ethnic groups are effectively intermingled, but there are Mongolian groups in the west and several hundred thousand Russians, descended from White Russian refugees, around Harbin; these retain their own language, restaurants and even vodka distilleries. The climate is harsh and cold in winter, dry in summer.
- 10 **Mongolia**, encompassed by the Nei Mongol autonomous region. Population: *c.* 22 million people. The major centre is the capital, Hohhot; elsewhere, there are scattered towns and mining, but most of the area is given over to pastoral herding much as it has always been. There is a Han Chinese majority, most of whom are comparatively recent emigrants; the rest are of Mongol descent. Hot dry summers give way to bitterly cold winters.
- 11 **Turkestan**, as the West still sometimes calls it, including most of Qinghai and Gansu provinces and the Xinjiang Uigur autonomous region. Population: *c.* 45 million. As in Mongolia, the majority of the population are now Han Chinese, but these are concentrated in cities such as Urumqi. The rural population are largely Turkish. Much of this vast area is almost entirely uninhabited, such as the Tarim Basin and the Takla Makan desert. Again, the climate ranges from hot dry summers to cold hard winters.
- 12 **Tibet**, including the Xizang autonomous region and part of Qinghai province. Population: *c.* 3 million. High, mountains, bleak and largely

uninhabited. Tibet has its own culture and history, and was largely independent until occupied by China in the 1950s; its status continues to be the subject of dispute and protest both inside Tibet and out.

That, briefly and with much generalising, is China in physical terms. The major conclusion is that China is far from being a unified, monolithic whole. There are vast differences in terms of geography, climate, culture and economy between its regions.

Any one of the regions above could possibly make a useful entry point for China; all of them have markets large enough for most companies' needs, at least initially. The question is, which one do you choose?

If these divisions are too complicated, trying the following very quick segmentation:

- 1 **The Beijing region.** Highly populous and relatively well-off, the centre of political power. People are considered rather dull by other Chinese.
- 2 **The Shanghai region.** Very populous, rich and proud of it. Motto: 'In Shanghai we make the money, in Beijing they spend it.'
- 3 **The Guangdong region.** Southern, with different language and different attitudes; considered rather brash and loud by other Chinese. Includes the first SEZs, and a long track record of foreign investment.
- 4 **The Wuhan region.** The central heartland around the lower Chang Jiang valley, well-populated and industrialised, looking forward to catching up to the better-off coastal regions.
- 5 **The west.** Sichuan, distinctive with its mouldering high-tech industries, sub-tropical climate and fiery cooking. Populous and eager to reap the benefits of economic reform.
- 6 **Manchuria.** Often overlooked by Western investors, but rich in raw resources and industry.
- 7 **The rest.** The highlands, mountains and deserts, often empty and desolate, but with some large population centres; many non-Chinese ethnic groups inhabit these regions.

History

A 'concise history of China' is almost an oxymoron, but there are few useful ones to be found in bookshops and on library shelves; we recommended a few in Chapter 1. Most textbooks divide Chinese history into periods determined largely by the ruling dynasty, and the display box below gives a brief resumé of these, with some notes for those too busy to read more deeply. They are, of course, artificial divisions imposed by later historians, but they are widely accepted and do give an easy framework for getting to grips with the vastness of Chinese history.

Western business people are notoriously reluctant to study history, usually citing some version of Henry Ford's dictum that 'history is bunk' (with pleasing irony, Ford himself has now become a major historical figure) and maintaining that the past is not relevant to the needs of modern managers and businesses. Even if this were true, China represents a special case. In China, history is very important indeed, and it is taken seriously by almost everyone. Even more than the need to understand how China became what it is today, the Westerner needs to recognise what historian W.F. Jenner calls 'the tyranny of history', the powerful influence of the past on the Chinese national psyche. The Chinese remember their history well, and react to it.²

This point cannot be emphasised too strongly. In China, history is important if only for the reason that *the Chinese themselves believe it is*. Recognising this is key to understanding China.

Chinese history in a nutshell

- **Ancient period.** Chinese civilisation was established along the Yellow River; the legendary king Huangdi (Yellow Emperor) probably flourished around the 25th century BC.
- **Xian dynasty, c. 21–c.16th BC.** The first Chinese state of note.
- **Shang dynasty, c.16–11th BC.** Bronze working and horse-drawn chariots were introduced.
- **Western Zhou dynasty, c. 11th century–770 BC.** This is the era of the fabled sage-kings of ancient China who so influenced Confucius, King Wen and the Duke of Zhou. This period laid the groundwork for much of later Chinese culture and society.
- **Spring and Autumn period, 770–481 BC.** This period saw China politically divided but culturally rich, with many competing artistic and philosophical schools. Confucius, Mengzi

- (Mencius), Laozi (Lao Tzu) and Xunzi (Guan Tzu) were all active, and many classics of Chinese literature date from this time.
- **Warring States period, 403–221 BC.** The rich and powerful states of north China fought each other for supremacy almost continuously for two centuries. The master strategist Sunzi (Sun Tzu) was active in this period.
- **Qin dynasty, 221–207 BC.** The civil wars ended with the unification of China by its first true emperor, the powerful Qin Shi Huangdi, who suppressed dissent, reformed society, expanded imperial rule into southern China and began works such as the Great Wall. He has been described by some historians as a bloodthirsty tyrant, but modern China still shows many influences of his rule.
- **Western Han dynasty 206 BC–24 AD.** Qin's heirs were not able to keep the throne, and the strong monarch of the Han dynasty consolidated the empire. This was a period of economic prosperity and cultural greatness.
- **Eastern Han dynasty, 25–220.** After the brief usurpation of Wang Mang, the Han resumed their rule, but their power was much weakened. Ultimately the empire slid into chaos and broke apart.
- **Three Kingdoms period, 220–265.** As in the earlier Warring States period, the country was fragmented and several states fought each other for control.
- **Jin dynasty, 265–420.** China was briefly reunited under the dynasty of Western Jin (265–316) before breaking apart again under Eastern Jin dynasty.
- **Southern and Northern dynasties, 420–589.** Several emperors built their dynasties, but could not last. China was fragmented, with much conflict and many smaller states attempting to break away.
- **Sui dynasty, 581–618.** This dynasty reunited China, but collapsed when the Emperor Wen was defeated by the Koreans and the Turks.
- **Tang dynasty, 618–907.** Picking up the pieces after the Sui, the Tang dynasty restored order and its emperors expanded China's power and prestige.
- **Five dynasties and Ten Kingdoms 907–979.** When the Tang dynasty collapsed, China fragmented into more warring states. Foreign invaders, mainly Turkish and Mongol tribes from the north, increased the pressure.

continued

- Song dynasty, 960–1279. The Song were able to reunite China for a time, but the pressure from the northern invaders was becoming intense, and the Jurchen tribe ultimately drove the Song into the south in 1127. China was divided once more.
- Yuan dynasty, 1271–1368. Kubilai Khan's Mongols conquered all of China and united it. This was actually a time of some prosperity, with China opened up to foreign trade.
- Ming dynasty, 1368–1644. After the Mongol empire disintegrated, the Ming dynasty took control and swiftly reunited China. Culturally and economically, China reached a high level during the Ming dynasty.
- Qing dynasty, 1644–1911. The Ming dynasty gradually decayed and was replaced by the Manchu tribes from the northeast, who conquered all of China in a series of military campaigns lasting about twenty years. The first Manchu emperors, Kangzi and his grandson Qianlong, were great figures who between them ruled China for 135 years (1661–1796). Kangzi was a warrior and conqueror, and under his rule China reached its greatest extent, occupying its ancient enemies in Mongolia, Turkestan and Tibet. (The Tibetans were singled out as they had been allies of the Mongols and remained implacable enemies of China.) Qianglong was poet, artist and builder; in Beijing, many of the buildings in the Forbidden City and the Bei Hai park were built to his direction.

After the fall of the empire:

- Republic of China, 1912–1949. Established by Sun Yat-Sen, it quickly collapsed into feuding provinces ruled by warlords, until Chiang Kai-Shek was able to impose a form of unity in the late 1920s. The Japanese invasion (1933–45) then tore much of the country apart. After the success of the Communist Revolution of 1949, the government of the Republic of China went into exile on Taiwan.
- People's Republic of China, 1949–. Established by Mao Zedong and the victorious Communists in 1949, the PRC has undergone many changes, including the Cultural Revolution of the 1960s and 1970s, and the economic reform process which began in 1978.

Beyond the bare framework of names and dates, however, there are some powerful themes in Chinese history, which are still alive today and which do have an indirect and often a direct bearing on the business environment. The following aspects of Chinese history should form essential parts of the business person's body of macro-knowledge.

The integrity of China

Many Chinese, probably the majority, believe implicitly in the territorial integrity of China. They are often rather hazier about where the boundaries should be drawn. The Han heartland of north China has been the core of Chinese political entities for millennia, but the south and especially the southwest, with its large non-Han populations, entered the Chinese fold only later. Other areas, such as Manchuria, Taiwan, Tibet and the Turkish far west, only became attached to China in the last five hundred years. Still other areas once under Chinese rule, like Vietnam, are independent today. Where, then, should the boundaries of China lie? This is a subject for some debate among China's political leaders, and a source of concern in some quarters in the West, especially the USA. It is important to remember that the PRC's claims to, for example, Taiwan are meant seriously and are part of an emotional attachment that many Chinese feel to the integrity of their homeland. Sabre rattling from the West will not change this view over the long term.

The threat from the outside world

Textbooks on business, politics or economics in China seldom miss a chance to point out that many Chinese dislike and mistrust foreigners, referring to them as 'barbarians' or 'foreign devils'. This point is often overstated. In fact, throughout Chinese history there has been a continuous interchange with the outside world in which not only goods but ideas were imported and found a place in some part of Chinese society. In former centuries, Buddhism, Christianity and Islam were imported in this way. In the nineteenth century, critical Chinese saw the weakness of their country, and concluded that its best strategy was to learn from the West and become more like it (a view reinforced by the success of Japan, which did exactly this). The revolution that toppled the Qing dynasty was motivated by the desire of its leaders to make China more 'Western', and the Communists too recognised the need for contact with the West; it was Mao who opined that China should learn from the West, apply that knowledge which seemed relevant to the Chinese situation, and discard the rest. Even

during the height of the Cultural Revolution many Western companies were trading quietly with China.

Setting aside specific examples of distrust (the present Chinese government probably distrusts the US government at least as much as the latter does the former, for example), the major concern of most Chinese is not the presence of foreigners, but the impact they may have on Chinese culture and society. It is important to recognise that China's views of the outside world have been formed over centuries of often unhappy history. In the early centuries, China's primary external contacts were with Turkish, Mongol and Tibetan nomad raiders from the north and west and Japanese pirates to the east. These forces brought disorder and chaos; at times, the invaders even occupied China and ruled it. In fact, for more than half of the last thousand years, part or all of China has been ruled by a foreign power. The Manchus of the Qing dynasty adopted much of Chinese culture but remained a distinct ethnic group who controlled nearly all the political power in the country; in 1912 with the fall of the empire, there were massacres of Manchus in the south, where local Chinese took revenge for two and half centuries of foreign oppression.

More recently, contacts with the West have often been equally unhappy. The Ming dynasty restricted foreign traders to a narrow point of entry around Guangzhou, where they had to do business with local middlemen; this state of affairs lasted until a combination of opium and modern artillery blasted open the doors of China in the 1830s, and the Western nations began to impose their authority. The damage opium did to Chinese society in the nineteenth century has never been properly assessed, but the memory of the opium trade remains vivid today. The Westerners also spread ideas, which could be just as dangerous as drugs. In the 1850s Hong Xiuquan, a young Hakka man from the south who had just failed his civil service exams, had a nervous breakdown and became convinced that he was the younger brother of the Christian God. Armed with a partial Chinese translation of the Old Testament and a series of prophetic visions, he began converting his fellows. The result was the Taiping Rebellion (1853–60), which laid waste to central China and cost at least twenty million lives.

In this century, foreign meddling in China has occurred; US and other Western backing for Chiang Kai-Shek and the Guomindang was bitterly resented by many Chinese, and then came the Japanese invasion with its immense destruction and loss of life. The Rape of Nanking, which may have resulted in as many as 100,000 deaths, was but the best-publicised of many such incidents.

And yet, the foreigner going to China is nearly always treated hospitably and with great politeness. Surely the question should be, not,

why do the Chinese distrust foreigners, but why after the last thousand years are they willing to speak to us at all? The simple answer usually given is that we have things that China wants, such as investment capital and technology; this is true, of course, but is far from being the whole picture.

The Chinese do not hate or fear foreigners. They are, from bitter experience, wary of the influence that foreigners bring. Contact with the outside world can bring instability and chaos, two things that most Chinese fear most of all.

The fear of chaos

China is (we'll say it again) vast and complex, but it is also fragile. The economy was, and to a large extent still is, dependent on agriculture. Foreign invasion, internal unrest and natural disaster can easily disrupt the agrarian economy, and when they did in the past, the result was disaster. At the end of the Han dynasty period, the population of China was about 60 million. By the end of the wars of the Three Kingdoms period, sixty years later, the population had fallen by one half. By the time the Ming dynasty took power, fourteen centuries later, the population was still only 60 million; all the natural increase had been swallowed up in the bloody cycle of war, invasion, earthquake and flood. Small wonder that in classical Chinese thought, heaven is populated by a celestial bureaucracy which attempts to maintain order and keep out the demons who bring chaos.

Order is a primary social and political goal in China; it may even be the most important goal. Government policy on the economy, the reform of state enterprises, the welfare system and many other areas can look inconsistent and changeable, until you realise this simple truth: **one of the government's chief policy goals is the promotion of stability.** The economic reform programme began with this in mind, and economic growth and diversification continue to be focused on this. No organisation – least of all a foreign business – whose activities seriously threaten stability will be tolerated for long.

The authority of the state

To defend against chaos, on earth as in heaven, China has erected formidable government and administrative structures. The Qin emperor, bringing order and unity to China after the chaos of the Warring States period, set the pattern followed by every ruler of China since, including the Communists: a strong, authoritarian administration and bureaucracy, pyramidal in structure, with the emperor himself at its head. In Neo-Confucian thinking (see Chapter 3), the state had a structure similar to that

of the family; the emperor/father owed a duty of care to his subjects, who in turn owed him unquestioning obedience. Only through this mutual bond could order be maintained.

With some modifications, this theory has stood the test of time. Incoming dynasties, or in this century, the Communist Party, usually assumed power with a great deal of moral credit, as they were perceived to be able to clean up corruption, unite the country, oust foreign invaders and so on. Over time, of course, people start to become more cynical about their rulers and the bonds grow weaker. But criticism of rulers in China almost never means that people want to change the system by which they are governed; what they usually want is the same system but a change of ruler. Sun Yat-Sen got this badly wrong in 1912 when he tried to replace the empire with a republic; the experiment lasted just a year before authoritarian rule returned under Yuan Shikai and then Chiang Kai-Shek. Today, some Western observers interpret growing criticism of the Communist Party in China as a desire for democracy. This seems unlikely; what the average Chinese wants is a strong, honest leader who will guarantee stability, peace and prosperity.

The just revolutionary

Paradoxically, despite the fear of chaos and desire for stability, Chinese history is full of revolutionary movements and secret societies, from the Red Eyebrows rebel movement which overthrew the usurper Wang Mang and restored the Han dynasty in the first century AD, to the Buddhist-influenced White Lotus Society which rebelled repeatedly against the Qing in the eighteenth century. As dynasties grow weaker, such groups proliferate; the end of the nineteenth century saw hundreds of such groups springing up around China, the most famous of whom were the Boxers.

With very few exceptions – such as the special case of the Taiping, which was a religious movement apparently seeking radical change – these movements were all conservative. They did not want to change the system; they wanted to remove rulers who were perceived to be incapable of ruling. Most had roots in ancient philosophical movements such as Buddhism, Daoism and Confucian thought. There are strong similarities in ideology/theology, at least, between the White Lotus Society and the Falun Gong, a sect banned in China in mid-1999.

The most successful of the ‘just revolutionaries’ were, of course, the Communists. Their programme did include a radical revision of the structures by which China was governed and ruled, and they were quick to distinguish their form of authoritarian rule from that of the empire. Nevertheless, their goals were largely the same as earlier movements; to

restore stability and stop the forces of anarchy. The same motivation can be glimpsed behind Deng’s economic reforms.

The presence of these movements serves to remind us that although stability is desired in China, it cannot always be guaranteed. Any weakening of central power is nearly always accompanied by local unrest, the purpose of which is usually, and paradoxically, to restore order.

10 key figures in Chinese history

- 1 Duke of Zhou. The ancient sage-king of China, widely referred to by Confucius as a fount of moral authority.
- 2 Confucius. The greatest philosopher of the East, he constructed a moral and social system which continues to serve as the foundation for Chinese society.
- 3 Qin Shi Huangdi. The first true emperor of China, he founded the Chinese bureaucracy and established its long-lasting system of government.
- 4 Zhuge Liang. A counsellor in one of the warring states of the Three Kingdoms era, he has become a legend for his cunning strategy and statecraft harnessed to a strong moral purpose and sense of the duties of the state.
- 5 Zhu Xi. One of the greatest of the later philosophers, his Neo-Confucian synthesis of earlier thought was the basis of the moral and political regeneration of China by the Tang and then the Ming, and remains the basis of modern Chinese philosophy and education.
- 6 Qianlong. Probably the last truly great Chinese emperor, a warrior, poet and builder, who received the first British embassy to China in 1798.
- 7 Cixi. Imperial concubine and later dowager empress who held China together after the Taiping Rebellion and in the face of Western invasions and internal unrest. Her death was the signal for the empire to collapse.
- 8 Sun Yat-Sen. Chinese Christian, married to a Chinese-American wife, he admired the West and attempted to make China into a republic. Many of his followers in the Guomindang movement were descendants of Taiping rebels.
- 9 Mao Zedong. The most important figure in modern China, founder of the Chinese Communist Party and leader of it until his death in 1976. He established the modern Chinese state.

continued

- 10 Deng Xiaoping, Mao's successor and architect of the economic reforms that begin in 1979. He has been demonised by many in the West as an authoritarian and repressive ruler. On the other hand, in China his economic reforms have lifted half a billion people out of poverty. How will history judge him?

Ethnicity and language

China is dominated by the Han ethnic group, both culturally and in terms of numbers, but the country is by no means homogeneous. There are dozens of distinctive ethnic groups. Most are dispersed around the periphery of the country, though there are exceptions such as the Hakka, who still live in central and southern China. The Hakka may be descendants of the original inhabitants of south China before the Han conquest.

Another group worth mentioning are Hui, a generic name for Chinese Moslems (as distinct from the Moslem Turkish population of Xinjiang). Most of the 3–4 million ethnic Chinese Moslems live in the Ningxia autonomous region, but there are several hundred thousand living in their own district in southwest Beijing (you know you have entered the Moslem quarter when the butchers shops begin displaying beef instead of pork in their windows). Huo Da's novel *The Jade King* is an excellent introduction to the lives of the Beijing Moslems.

Ethnicity in China expresses itself most obviously in terms of language. There are 205 living languages in China, more than in Europe. Mandarin, or more correctly Putonghua ('the people's language'), has been the standard dialect of Beijing and lower Huang He regions since the Manchu conquest. It was adopted in the late nineteenth century as the *lingua franca* for the administration and the elite. Hu, spoken in Shanghai and the eastern regions, and Yue, commonly known as Cantonese and spoken in the south, are very widely spoken, but Minbei (spoken in Fujian), Xiang, Gan and Hakka are also common in some regions. Taiwan also has its own language, Minnan (a variant of Minbei), and most overseas Chinese communities speak either Minbei or Yue. Some of these languages have more in common than others. There is considerable difference between Mandarin with its four tones and Yue/Cantonese with six tones; the difference has been described as greater than that between Spanish and French.

There have been attempts to standardise spoken language. In the imperial period, *wenyan*, a very formal and ornate spoken language directly related to the written language, was used by bureaucrats and scholars, but was unintelligible to ordinary Chinese. Late in the nineteenth century

wenyan was abandoned in favour of *baihua*, literally 'plain speech', and it was at this point that Mandarin was adopted as the *guoyu*, or national language. The use of Mandarin as a standard language was continued under the Guomindang and the Communists, and it is spoken by nearly all well-educated people. According to *China Daily* (7 September 1999), Putonghua is now spoken by 80 per cent of people in the major cities. However, it remains a second language for a large percentage of the population.

All this refers only to spoken language. In terms of *written* language, all Chinese use almost the same characters. Thus a Putonghua-speaker and a Yue-speaker may not be able to understand what each other is saying, but they can communicate in writing. This has obvious implications for business, particularly in areas such as advertising.

Culture

The Han Chinese culture is an ancient one, and nearly all Chinese, including many who are not themselves of Han ethnic descent, are extremely proud of it. Unlike in the West, where we see our history as marked by distinctive breaks – the fall of Rome, the Protestant Reformation, the American Declaration of Independence – the Chinese see their history as a continuous process, disrupted but never entirely interrupted by foreign occupation and conquest. The emphasis on stability means that some things such as styles of art and architecture have evolved only slowly over thousands of years.

China has a scientific, artistic and literary tradition that is as old as its civilisation. Bronze working, carving of jade and ivory, silk weaving and embroidery, painting and calligraphy go back at least as far as the Zhou era, and possibly further. Chinese literary traditions span three thousand years, from the ancient classics such as the *Yijing*, the *Daodejing*, the *Analecs* of Confucius, the *Spring and Autumn Annals* and the works of Sunzi, through to the great poets and novelists of the past millennium. Luo Guanzhong's *The Three Kingdoms* (fourteenth century) is an epic tale of the fragmentation of China after the fall of the Han dynasty, focusing on the heroic figure of counsellor Zhuge Liang. *Flowers in the Mirror*, by Li Ruzhen (nineteenth century) is a satire which compares to *Gulliver's Travels*. Most famous of all, the *Dream of the Red Chamber* by Cao Xueqin in the seventeenth century recounts how a great family falls into decay and declines in fortune. The book has remained popular since its inception – in the late nineteenth century, Cixi had several rooms in the Forbidden City decorated with scenes from it – if for no other reason than that its story has been seen as a metaphor for China's own woes.

The Chinese, or at least those in mainland China, tend to think of all Chinese, including the *huaqiao* (overseas Chinese), as being part of the same cultural family. Feelings among the *huaqiao* themselves are a little more mixed, but the majority in East and South Asia, at least, feel a strong kinship with the Chinese of the PRC, even if they may have no wish to be politically associated with it.

Yet again, reinforcing the point above, Chinese culture itself is by no means monolithic. There are regional differences, not only in the various ethnic groups but among the Han themselves. The regions are very proud of their distinctive styles of cuisine, different attitudes to life, different regional histories and so on. Different regions are perceived differently; Guangzhou people are thought of as stylish, outgoing, sometimes brash; Beijing people are perceived as sometimes dull and lacking in sense of humour; Shanghai people are perceived as being industrious and hard-working. These perceptions are about as accurate as similar stereotypes anywhere in the world: the point is, they exist. And they may say as much about the beholders as the observed.

Even managers have to eat

Food is an important part of Chinese culture, so much so that cuisine is sometimes called the ninth art. Eight traditional styles of Chinese cuisine survive, each named after its home region:

- Shandong: from the northeast, this style features seafood and emphasises stir-frying and deep-frying.
- Guangdong: this style, popular in the West, emphasises fresh ingredients and rapid cooking to seal in the flavours.
- Sichuan: this complex style uses many different pungent spices, and can be very hot.
- Jiangsu: the cooking of the Shanghai region, it emphasises salty and sweet flavours, with many stocks, sauces and thick soups.
- Zhejiang: this style features seafood and is noted for its slow-cooked stews.
- Hunan: this style also features slow cooking, stewing or steaming, with food often heavily spiced.
- Anhui: this style uses plenty of oil when cooking, and deep fried and heavy sauces feature.
- Fujian: this style features seafood and often marinates dishes in wine to achieve sour-sweet flavours.

Aficionados of cuisine point out that although Beijing does have a tradition of cooking in the Imperial Court style, it does not have a style of cuisine of its own. This is strenuously denied by Beijing people.

Government and political situation

Since 1949, China has been a one-party state, governed by the Communist Party of China. The central government is in Beijing, but under it there are twenty-three provinces, four self-governing municipalities and five autonomous regions (Guangxi, Nei Mongol, Ningxia, Xinjiang Uygur and Xizang (Tibet)) directly under the central government and one special administrative region (Hongkong). Guangxi and Ningxia were created out of former provinces in 1958, around two major ethnic groups, the Chuang (Zhuang) and the Hui, or Chinese Moslems. Below the level of the provinces there are more tiers of government, at county, township and village level in rural areas and city, district and neighbourhood levels in cities.

This organisation is largely the same as it has been for centuries. At the level of the provinces, there was a bit of cutting and pasting in the 1950s and 1960s: Chinese-majority areas of Mongolia were added to the Manchurian provinces, and several old provinces in the heartland were abolished. Otherwise, the hierarchy of administration is much as it has always been.

Before 1911, China was ruled centrally from its capital (most recently Beijing) by the emperor, whose will was done by the civil service bureaucracy which effectively ran China. The bureaucracy was selected through competitive examinations which were reasonably democratic, though as has been pointed out, only the wealthier families could afford the education needed to pass the exams. Only about 1 in every 2 million Chinese succeeded in joining the ranks of the bureaucracy. The short-lived republic of Sun Yat-Sen attempted to create a Western-style government, but this collapsed in the era of warlordism. Chiang Kai-Shek ran his portions of China any way he could; the Guomindang did establish a bureaucracy, but it was notoriously inefficient and even more notoriously corrupt.

The Communists swept to power, like virtually every revolutionary movement in China before them, promising to restore order, which meant effective government and administration. By and large, they did so. Most unbiased studies of China after 1949 have concluded that, except for short periods of time such as during the Cultural Revolution, China has been

well run. The things that have been important to the Chinese people – peace, safety in their own homes, freedom from crime and, more recently, economic prosperity – have for the most part been delivered.

The economic reform movement has necessarily set in train events that have loosened the ties between the people and the state. Opening up the labour market, for example, has meant greater freedom of movement. The agricultural reforms of 1978 leased farmland to the farmers. The centrally planning system has been gradually replaced by market mechanisms. There were fears from the outset that these freedoms would create the potential for disorder. Certainly there are problems in China today, such as homelessness and rising crime, which were not noticeable two decades ago; these are often blamed on the growing populations of migrant workers in the large cities, rural people who have come to the cities in the hopes of making more money. Increasing economic inequalities are also partly responsible for greater labour unrest; according to some reports, there are around 100,000 industrial disputes in China each year, and a few turn violent. Finally, corruption, though far from universal (and well below the levels found in some Asian countries) is on the increase.

Despite these and other signs, which many Chinese do find deeply worrying, there is at present no great call for the present system to be overturned. In part, this is due to a fear that any alternative system of government might well be worse. Older Chinese remember the Guomindang era, World War II and the Cultural Revolution, and are willing to pay almost any price to retain stability. And, almost everyone can see across the border into Russia, and the dire consequences of a hasty and ill-thought through reform programme. The Chinese have chosen to reform slowly and cautiously, and it is hard to blame them.

Some observers have claimed that the Chinese are fundamentally disinterested in politics. This may be true in part; there is none of the passion for politics that one finds in daily life in Italy or France, for example. To this extent the Chinese may be more like Americans, in that most prefer that politics does not intrude itself into their daily lives and that politicians leave them in peace. This does not mean, however, that the Chinese are incapable of taking an interest in politics; indeed, Mao was able to politicise the Chinese, especially the rural population, very effectively in the years leading up to the revolution. As Chinese history, both imperial and more recent, shows, the Chinese expect certain things of their rulers, and when the latter fail to deliver, they are more than capable of setting them aside.

Will this happen? Privately, many Chinese believe political reform will come ultimately on the back of economic reform; for example, the legislative body, the National Peoples Congress, which formerly did little beyond

rubber-stamping measures introduced by the executive arm of government, is now showing signs of wanting to consider and debate them. Any such change, though, is likely to be very slow. Today's government prefers to stress continuity.

Economy

It doesn't matter if the cat is black or white, so long as it catches mice.

(Deng Xiaoping)

Most books on China devote large sections, even whole chapters, to the Chinese economy. We do not, for three basic reasons:

- 1 there are already plenty of sources on this subject, and for those who desperately want to know, statistics on the gross industrial output of Anhui province can almost certainly be found somewhere on the Internet, if not in print;
- 2 a lot of economic forecasting concerning China is little more than guesswork, and even Chinese economists will cheerfully tell you that the margin of error in their figures could be anything up to 10 per cent;
- 3 in a country and economy the size of China's, macro-economic data are of only limited use for the business person.

This is in no way meant to be offensive to economists (indeed, some of our best friends are economists), but for the business person with limited time to research China, we caution against spending too much of that time trying to figure out what the Chinese economy has done/is doing/will do. Macro-economic data *are* useful in terms of identifying trends, and it is well to keep an eye on things like the inflation figures, especially locally. Really, though, the Chinese economy can be summed up as follows:

- it is big
- it is getting bigger.

The main, and perhaps only, business person's interest in the economic situation is the price, or inflation, and demand relationship. At the time of writing (late 1999) both are stagnating and that has profound consequences for investment and marketing. Media prices, for example, may even drop in 2000 after years of rapid growth but that is driven more by decreasing demand than increasing supply. Five years ago, inflation was the big danger; today it is deflation, with falling prices and consumer demand, but five years hence it will more than likely be inflation once more.

The Maoist approach to economic management was to plan *everything*. Setting quotas and measuring production allowed state planners to allocate resources with a view to matching food production with population requirements. Industrial investment was planned in exacting detail, with resources often dictated by the requirements of military strategy. Key industries were often dispersed over many provinces, so that, should some provinces be overrun by an invader, China would still have an industrial capability. The railway network was rebuilt with a view to moving troops and material quickly from one threatened frontier to another.

Again, by and large, this system worked. China experienced rapid economic growth in the 1950s and early 1960s, faltering during the Great Leap Forward, and then going backwards during the Cultural Revolution disaster; but that was ideological, not economic. However, there were problems. Fast though food production increased, it could not keep pace with the rising population, and by the early 1970s China was importing food. Food could only be paid for if China had something to export, but many of its traditional export industries such as textiles were in dire need of modernisation. Also, largely isolated as it was from the West, China did not have access to much of the technology that its industry and its army needed.

By the end of the Cultural Revolution it had become apparent to many of China's leaders and planners that the planned economy was increasingly unable to meet the needs of the state. So, quite pragmatically, the decision was taken to experiment with market reforms, initially in the tightly defined Special Economic Zones along the coast, then in the coastal areas more generally, and finally on a nationwide basis. It was quickly seen that the market system could deliver more than the centrally planned system. Almost immediately after land reform gave the farmers ownership of their fields and the right to sell their crops for cash, agricultural output doubled. Private industrial enterprises were soon seen to be far more efficient and productive than most (state) firms, and the open door policy allowed foreign investment and technology to provide a further stimulus to the economy.

Deng's statement quoted at the head of this section is often cited as evidence that he was a pragmatist rather than an ideologue. Well aware of the dangers inherent in the free market, he was convinced that the benefits outweighed the risks. (In similar vein, when asked about the prospect of foreign business influences leading to corruption, Deng responded, 'When one opens the door, one must expect that a few flies will get in.')

The important thing for the business person is this: China's long-term goals have not really changed. The aim is still to create a strong, self-sufficient, prosperous, independent state. The free market is encouraged because it delivers these things. If it were to show signs of failing to do so, or if the costs were to start to outweigh the benefits, China's leaders would

likely dump the free market as unceremoniously as they dumped the planned economy. The problems, as noted in the introduction, are corruption and the disparity in incomes. New Socialism in China faces the same ideological compromises as New Labour in Britain.

Over the short term, the government of China faces a number of problems. How it deals with these will impact directly on the business environment.

The problem of managing growth There should have been little doubt that the slackening of controls on foreign investment and internal entrepreneurship would lead to economic growth; that was after all the plan. But the Chinese government was badly wrong-footed by the rapid growth of 1993 and 1994, and now admits that it may have moved too fast. Rigid controls to slow down the overheating of the economy worked, although on the reverse side of the coin they put off some foreign investors. Then came the Asia crisis, and the economy started to slow faster than expected. At the same time, increasing unemployment was reducing consumer confidence. Now, urgent attempts to reflate are underway. The Chinese have discovered that economic management in free markets is largely crisis management. Getting the economy on an even keel is difficult, and will likely become more so.

The problem of regulation This is one of the biggest problems facing foreign businesses. The Chinese government wishes to keep control of the pace of economic reform, to ensure that there is no corresponding social breakdown or unrest. Foreign companies investing in China wish to earn profits. Not surprisingly, the two objectives collide on a regular basis. Equally unsurprisingly, the Chinese authorities use regulation as the principal tool to control the economy. On a single day in 1996, over 140 joint ventures were abruptly terminated by the authorities in the city of Tianjin, for a variety of reasons ranging from lack of profitability, incompatibility between partners and fraud. Increasingly, China's regulations are coming into conflict with those of other countries. China is attempting to harmonise, but this too is a slow and difficult process.

The problem of reforming state industries Economic planning in Mao's China involved the centralisation and concentration of many industries. Ball bearings were concentrated in the Nei Mongol, while defence industries went to Sichuan. Most of these heavy industries were designed to produce goods for internal consumption only. Most were also hopelessly inefficient. The remaining industrial sectors, those depending on agriculture, remain as affected as ever by the vagaries of the weather. Of the heavy and light

industries, there were in 1990 over 11,000 large and medium state enterprises in China. Of these, about 5,000 have now closed or merged. Most of the remaining 6,000 are white elephants. Total state sector output is growing by only 2–3 per cent (against 70–80 per cent output growth from joint ventures and the private sector), and at least 50 per cent of the state companies businesses are operating at a loss; many are probably technically insolvent. Many owe large sums to each other; most are critically short of working capital. See Table 2.1 for a history of the evolution of SOE reform.

As part of the 1998 state reforms, Premier Zhu identified 512 state-owned enterprises (SOEs) as being potentially world class. The rest will pass into local or private ownership or close (bankruptcy) but this may take a long time. Some quite ingenious debt-for-equity swaps are being arranged for those with positive cash flows and modern management.

One of Britain's ministries (DfID), in yet another triumph of hope over experience, has volunteered (1999) to sort out two of these SOEs, at Britain's expense, to show China how to do it. Cognoscenti in both countries are observing this experiment with some amusement. Time may prove the DfID right and it should be seen as part of China's wider plan to retrain SOE managers in best modern practices, preferably at other people's expense. Some of the leading business schools, e.g. Peking University, have special MBA programmes for SOE managers. In September 1996, Rolls-Royce led a consortium of British businesses to create the China-Britain Industrial Consortium (CBIC). Three years on this has developed five training programmes and is looking for new members with the enticement of expanding their *guànxì* with SOEs (*China-Britain Trade Review*, August 1999, p. 17). The five are:

- Annual prestige seminar on e.g. change management.
- Three-week course in UK divided equally between Cranfield School of Management, the City of London and visiting consortium companies.
- MBA and similar scholarships.
- Three- to six-month placements in UK companies for middle managers.
- Experts from consortium members act as week-long consultants on specific problems in SOEs.

Needless to say, the PRC government would like to see this scheme expanded.

China's social security system (if there is one) is simply not able to cope with large numbers of unemployed. In 1994 and again in 1999, reformers backed away from full-scale closure of ailing state enterprises for this reason. There remain, the State Statistical Bureau believes, 80–100 million workers in the state sector who are surplus to requirements, i.e. out of

Table 2.1 SOE reform

1983	SOEs begin to be taxed instead of turning over profits (<i>lì gài shuì</i>); bank lending to SOEs begins to replace allocations from budget.
1984	Manager responsibility system (<i>cháng zhǎng fù zé zhì</i>) and 'above-price' pricing and production autonomy introduced
1988	SOE contract responsibility system begins (performance contract); on the basis of negotiated multiyear contracts, managers' rights of control and obligations to the state defined.
1991	Delegation of direct foreign trade rights to some SOEs; encouragement of enterprise groups and corporatisation, whereby the state's ownership rights take the form of shares managed by state asset administration bureau and state investment companies and the firm has management autonomy. Establishment of the Shanghai and Shenzhen stock exchanges.
1992	New operating mechanism and autonomous rights to SOEs give SOE managers autonomy to 'use and dispose of the property entrusted to them by the state for management and business purpose'; phasing out of production targets and price controls.
1993	Decision on establishing modern enterprise system.
1996	Programme of transforming 100 enterprises into fully autonomous corporations announced; smaller enterprises to be encouraged to merger.
1997–1998	Experimentation with different forms of ownership, including joint-stock shareholding, is declared to be compatible with socialism.

Source: Sachs and Woo (1997)

work. Jobs need to be created at least at the rate of 18 million a year. The search for a solution continues.

The problem of reforming the agricultural sector The agricultural sector, as mentioned, remains dominant in China, and the Chinese economy stands or falls on agricultural prosperity. The agricultural sector remains responsible for nearly 40 per cent of total output. The current crisis in the agricultural sector affects more than just grain and rice crops. The textile industry is facing a crisis of almost equal magnitude. China relies on domestically produced cotton, but land under cultivation for cotton declined from 6.5 million hectares in 1991 to 5 million in 1994 and boll weevil infestation reduced yields in 1994 and 1995. Part of the reform of the agricultural sector involves reducing the economy's dependence on it.

The problem of reducing regional disparities This is part of the developing wealth disparity issue. The economic boom in China has been largely

centred on two regions, the mouth of the Pearl River and the Chang Jiang river delta around Shanghai. More generally, the whole of the coastal belt, which just about includes Beijing, has prospered when the inland regions have stagnated. As mentioned above, rural inflation is rising faster than urban inflation, and this is particularly true in the north and west, less affected by the boom. Despite steady migration to the cities, rural unemployment is rising faster than urban unemployment. But it is the standard of living which makes the greatest difference; in 1996, average urban per capita income increased by 8 per cent to about 3,800 yuan. In rural areas, per capita income increased only to 1,400 yuan.

The Chinese government is alive to these disparities and has made expanding the scale of economic reform a major priority. Regional disparities are already leading to, in the words of one Chinese newspaper, 'warlordism, banditry, clan feuds, uprisings, farmers demonstrations and protests'. Even allowing for exaggeration, these images strike fear into the hearts of many Chinese, especially those who remember past times of chaos. However, the investment required to realise this expansion is huge, many times greater than that which has already been provided. The Chinese economy, and foreign investment and participation, will have to increase by an order of magnitude.

Chinese attitudes to the West

In 1988 a television series called *River Elegy* was shown on Chinese national television. Widely perceived as an attack on China's ancient culture and history, *River Elegy* used a series of images to contrast China's past and its future. The past was shown in brown earth tones, using images of the Huang He (Yellow River), the Great Wall and so on; the future was shown in blue, using images of the open Pacific Ocean, representing freedom and contact with the outside world. The film's message was that China could only progress by jettisoning its own past and merging its future with that of the wider world.

Needless to say, the film generated a ferocious backlash, and several politicians made their careers by criticising it. A decade on, the proponents of closer relations with the West and those who favour an arm's length distance are sometimes known as the Blues and the Browns. The two factions are sometimes defined as modernisers and conservatives, but this is too simple. The Blues, generally speaking, are those who believe that China's future lies in opening up to the outside world, taking a step away from its purely Chinese heritage, culture, history and so on and deliberately becoming more like the West. The Browns are those who believe that

China's heritage must be maintained, as it is the country's primary source of strength, and that China must be strong but independent.

In these two factions, one can see much of the Chinese ambivalence about the West. In the attitudes of the Blues one can see much of the same sense of inferiority to the West, and the desire to reduce that inferiority by imitating the West and becoming more like it, that one saw in the Guomindang and the liberal reformers of the early twentieth century. In the views of the Browns we can see the remembrance of things past, the Opium Wars, warlordism, the Japanese invasion, and the fear that what happened once can happen again.

These are extreme positions; a little Blue and a little Brown can be found in most Chinese. Most people are at once looking forward to the future and apprehensive about what it will bring.

Why all this matters

We come back to the question posed at the beginning of the chapter. What does the business person of today need to know about China? Will an understanding of culture and history be of any assistance when doing business? Will a knowledge of the works of Confucius, or Mao's *Little Red Book*, be useful when negotiating a joint venture?

The answer, as with most knowledge, is that it depends on how it is used. Culture is not an exact science; it is a set of frameworks, which are often intuitive and emotional, within which people operate. As we discuss in the next chapter, we are affected by culture without being aware of it. Our attitudes to hierarchy, the way we make decisions (including purchasing decisions), our attitudes to others, ethics and personal tastes are all to some extent shaped by our inheritance.

This does not mean that culture is a predictor. Within the parameters of a given culture, vast allowances must be made for variations in the behaviour of individuals. With 1.2 billion people in the PRC and another 55 million overseas Chinese, the variations are very numerous indeed.

A study of culture as an environmental factor makes sound economic sense. Some firms seem to approach the world as if all humanity was universally the same. That is soon modified. The next level of simplification is racial, or national, stereotypes. Politically correct commentators are appalled by this but, for most international travellers, they are useful first approximations. The Chinese use them when they meet people from other parts of China. Marketers the world over are trying to get through these superficialities to understand the real people behind them.

Western and Chinese business people routinely misunderstand each other. In these circumstances one can retreat to fixed positions or try to

empathise with the other person's frame of mind. Of course the other person may be trying to rob you, but that cannot be assumed of everyone. More than anything this book is about comparing how Westerners and Chinese see the world so that robbers can be distinguished and friends can come to terms. It is about risk assessment. Understanding the underlying forces gives better preparation.

Finally, and perhaps most critical is the appreciation of the differences between other cultures and one's own. By looking at Chinese culture and asking how it differs from our own, we are forced to start looking at our own culture in more depth. Why do *we* think and behave as we do. Are there any lessons to be learned from this? We can, if we are careful, use China as a mirror; although, as Sir Percy Cradock says, we are looking through a glass darkly, we can nonetheless see something of our own reflection.

Notes

- 1 This chapter deals primarily with 'mainland China', that is to say, the territory of the People's Republic of China. The Chinese communities of East and Southeast Asia will be dealt with in similar fashion in Chapter 9.
- 2 W. F. Jenner (1989) *The Tyranny of History*, Cambridge: Cambridge University Press; Moise 1994.

3 The furniture of the mind

The average Chinese has long been and still is an animist, a Buddhist, a Confucianist and a Taoist with no sense of incongruity or inconsistency.

(Latourette 1934)

Introduction

A comprehensive coverage of the roots of contemporary Chinese business thinking would take a thousand scholars a thousand days. Here, we seek merely to open the door into a room, one that is full of furniture that the occupants of the room themselves have, for much of the time, long ceased to notice. The 'room', i.e. the Chinese mind, is dimly lit. When the Westerner enters it, some pieces seem the same as at home; some are strange, some are old, inherited from ancestors long dead, and some are new. Some may not be noticed in the half light and blundered into, perhaps causing damage.

The Western mind has its own furniture that we likewise rarely notice. The way we think is inherited from Greek, Jewish and Christian patterns of analysis two thousand years and more old. Whether Westerners go to church or synagogue today is no reflection of the influence on our thinking today. With more powerful means of mass communication and a missionary zeal for which there is no apparent explanation, patterns of Western thinking have been more exposed to the Chinese than theirs to us. The lighting, in this metaphor, is thus brighter for the Chinese entrant.

The first focus of this chapter is on philosophies and how they affect the psychology of today's business person. Whether the inheritor of the culture is in the PRC, Singapore or the USA matters about as much as whether the inheritor of European culture is in Europe, Argentina or Australia. Location does make a difference and younger generations feel, as they always have, that they are very different from their parents' age group. We have chosen Latourette's comment above (to which can now be

added Communism) to start these notes precisely to illustrate that point. Why, if every generation is so different, do ways of thinking survive for centuries?

The line between philosophy and school of thought and religion is not as clear as in the West. Confucianism is not a religion in the sense of believing in supernatural powers or beings which should be obeyed. Buddhism is not strictly a religion either, but the ancestor cult may be. Frankly, their classification is immaterial; we are concerned with their impact on modern thinking. This leads to a review of values.

From philosophy and values, we go on to discuss strategy. Sunzi, or Sun Tzu as he is more familiarly known in the West, could be called the greatest strategist of all time. His book *The Art of War* has had a profound effect on military thinking, especially guerrilla warfare. (It seems likely that *The Art of War* is by more than one hand, and like many Chinese classics it was probably added to and amended over many years.) Today, the thirteen chapters provide guidance to business people and generals alike and are too well known to need more than the briefest of recaps here. Another famous text, *The Thirty-Six Strategems*, has also had much influence.

Philosophy

In broadly chronological order, let us look at:

- Ancestor cult
- Daoism (or Taoism)
- Confucianism
- Confucian disciples
- Legalism
- Buddhism
- Neo-Confucianism
- Christianity
- Communism

Chronology is not necessarily the most accurate way of looking at these concepts, since they moved in and out of fashion in no particular order. Confucius may have lived before and/or after the early Daoist philosophers but their thinking seems to have preceded his. Confucianism, however, did not dominate until Han times 300 years or so later, and was followed by Daoism's resurgence.

These schools have supplied much of the furniture of the Chinese mind, but as the pieces have passed from one generation to another so the distinctions have become blurred. In any case, they have much in common. It

is curious that so much philosophy originated in a relatively brief period around 400 BC, right across the world from Greece to China. 'The Pre-Socratic Greeks (Thales and Anaximander of Miletus), Confucianism, Mohism, Upanisadic Hinduism, Jainism, Taoism, Buddhism, Zoroastrianism, and Biblical Judaism' all flowered at about the same time.¹ Daoism and Indian Yoga (Sufism) are not just contemporary but very similar. Whether some of these philosophies inspired each other, or they were inspired separately by some common source is not known.

Ancestor cult

This is both the oldest belief system and the core of Chinese religious observance. For perhaps 4,000 years, all classes of society from emperors to serfs, intelligentsia to peasants, have swept out tombs and left food, drink and lights for their fathers and forefathers, particularly at the Qing Ming Festival (5 April) which is dedicated to this purpose. The beliefs seem to be traceable to Shang times (16th–11th centuries BC). At that time, the worship of royal ancestors was central to maintenance of the dynasty. Certain ancestors were worshipped on certain days, and the pattern of associations of days and observances built up.

The same period seems to have seen the birth of many of the Chinese equivalent of Western superstitions concerning numbers (such as Friday the 13th) and practices (such as walking under ladders), though the origins of these may be far older. Whether such things are rational is beside the point; they deeply affect doing business in greater China today. Eight and scarlet are still 'lucky'. There are right times to do things, such as start a business, or the right way for buildings to face. Fortune telling is strong, just as the West has an undiminished appetite for astrology. *Feng shui* is taken seriously by many. Popular beliefs of whatever type often exercise more influence over popular culture than does formal religion.

Daoism (c. 500 BC)

Dào ('Tao' in older texts) is usually translated as 'the way', although there are many other connotations as well. Daoism is not a religion as such (though there are religious movements based on Daoist principles) but suggests a way of thinking that will bring harmony and wisdom through respecting 'the all-pervading, self-existent, eternal cosmic unity from which all created things emanate and to which they all return'.² The instigator was Laozi (Lao = 'old', zi = 'master'; older Western texts refer to him as Lao Tzu), who is supposedly the author of the immortal classic the *Daodejing* (in fact, modern scholarship has cast doubt on whether Laozi

existed at all); in fact, modern scholarship has cast doubt on whether he ever existed at all. The title *Daodejing* was applied to the work subsequently; the title has been translated as 'the classic book of integrity and the way' (the middle word, *dé*, means integrity or virtue). It possibly began as a collection of oral stories developed over the great period for Chinese philosophy between 600 and 300 BC. Zhuangzi, the greatest of the Daoist writers whose existence can be verified, lived toward the end of that period.

We cannot overstress the importance of Daoist thinking in 'pairs of opposites'. On both sides of every argument, there must be right and wrong. Paradox and ambiguity flow directly from this concept of balance. So does 'and' thinking, as distinct from Western 'or' thinking (either A is right *or* the opposite of A). To a Daoist, the fact that A is right probably means the opposite of A is right too. And both are wrong. This kind of thinking has been referred to as 'the unity of opposites'.³ The Chinese search for such solutions in negotiation baffles Westerners.

For those unfamiliar with the *Daodejing*, it is worth at least dipping into to get the flavour; it can be very enjoyable. Daoism has been accused of being at the root of fatalism in China. If what will be, will be, there is no need to do anything to prevent it. While people will rationalise in all kinds of ways, the charge is unfair. At the certainty of massive oversimplification, Daoism actually encourages people to do what they can do, but not then to do all they could but then worry about the results. This calm in the face of adversity may give the *appearance* of fatalism, but is an unfair reading of the situation. Of course it also leads many people too quickly to disengage and to assume that they have done what they can. Therein lies the danger.

We have looked here at Daoism before turning to Confucianism, whatever the precise chronology, because it provides many of the underpinnings of Chinese thinking which so differentiates it from Western thinking. Specifically, there are the concepts of balance and paradox: for example, 'Heavy is the root of light; calm is the ruler of haste'.⁴ The *dào* is the 'non-being' (*wu*) within which any 'being' (*yu*) exists, and vice versa. The *dào* is the source of all being and non-being. The *dào* is, as, so to speak, the natural laws of the universe from which we spring, to which we return and with which we should be in harmony in the meantime. *Yáng* and *yin* are essential Daoist concepts which we define later. They are not polar opposites so much as complementary halves of the same whole. Even, for example, the selection of a balanced meal uses these two powerful concepts. Food and drink are functional such as red wine (*yáng*) being perceived as good for the blood (which it probably is) whereas white wine (*yin*) is more gentle and romantic (no comment). Thus choosing the dinner wine can have unintended overtones.

Confucianism (551 – 479 BC)

This period when philosophy flowered was also marked by continuous warfare around much of the globe, notably the period of Warring States in China (475–221 BC). Perhaps this was responsible for the intellectual search for a route to harmony. Certainly Laozi regarded war as a last resort: 'the killing of masses of human beings, we bewail with sorrow and grief; victory in battle we commemorate with mourning ritual'. Interstate rivalry changed the selection of senior advisers on the basis solely of hereditary principles to the most (intellectually) competent albeit from within the *shih* (gentleman) class. As a result there was considerable social and intellectual movement. It was also a time of rich cultural flowering, when the Hundred Schools of philosophy debated amongst each other. Only a few of these, including Daoism, survived; others like the Mohists were later suppressed, and of some, such as the Agriculturalists and the Story Tellers, only their name survives; we have no clue as to what their beliefs were.

While Confucius, a member of the *shih* class and a senior civil servant, was certainly affected by the war-filled times in which he lived, his philosophy did not become official orthodoxy for China until about 300 years later, during the Han dynasty. The following traditional Chinese story is used to introduce a discussion of Confucian social philosophy, which is central to efforts to explain and predict Chinese social interaction.⁵

The protagonist, Hsueh Jen-kuei, is an accomplished soldier who left his pregnant wife eighteen years before to fight a distant campaign for the emperor. Returning home, he notices a young man shooting wild geese with great skill. Provoked, he challenges the youth to a test of marksmanship. The rival readily accepts, whereupon Hsueh immediately puts an arrow through his heart, saying 'a soldier like me could not let another live if he was a superior in marksmanship with the weapons in which I excel'.

Of course, it turns out the youth is Hsueh's son whom he had never seen. The remorse of the father is tempered by the fact that the son has violated two cultural imperatives. First, he did not recognise his father: so strong are the bonds of family and the imperatives of filial piety that a son should know his father regardless of any factors which may disguise his identity. Second, the son has committed the cardinal sin in the Chinese tradition: he has challenged his father and thereby affronted social order. In the words of a Chinese proverb, 'In a family of a thousand, only one is the master'. A threat to the family is a threat to the body politic and a violation of heaven's mandate. It must therefore be ruthlessly put down.

Confucianism has been guiding the behaviour of people of all classes since the Han dynasty, irrespective of the criticisms. Under Mao,

Confucianism was officially out of favour even though Confucian thought patterns were too well entrenched to be much affected (and he himself was imbued with them). In 1985, though, a special institute was founded in Beijing for the study of Confucian thought (Laaksonen 1988).

In the time of Confucius, the great problems were how to govern, how to maintain order in society and how to guarantee happiness and prosperity for the people (*plus ça change*). Confucius's solution was that both the rulers and the ruled should be educated. Governing is in the first place education and training, and the ruler should first educate himself and then govern with the help of 'virtues', meaning something close to the Daoist 'integrity' in that the word does not have quite the same connotations of morality that it has in the West.

In this sense, there are 'Five Constant Virtues': humanity, righteousness, propriety, wisdom and faithfulness. These virtues are expressed in 'Five Cardinal Relations': sovereign and subject, parent and child, elder and younger brothers, husband and wife, and friend and friend. Of these five relationships, the first two are the most important in Confucianism but the last virtue, faithfulness, is still seen as necessary, especially in business. Constancy is, as we will see, a key part of *guānxi* (relationships).

Confucius held that all men were alike in nature. He suggested that good and capable people should be appointed to official posts, a proposal that was contrary to the prevailing hereditary rule. Yet he also defended the hierarchy of the nobility. He advocated the elevation of good and capable people, but never opposed the hereditary system and advised people to accept their lot. Confucius saw a world in which harmony could best be achieved by everyone recognising his place in the world. Confucius thus legitimised the strong hierarchical order which dominated the family and the society of his time and throughout much of Chinese history. This is in interesting contrast to Western thinking where liberation of slaves, for example, is associated with the overthrow of the current governance.

Confucius distinguished two kinds of individuals: Jun Tzu (Gentleman, Prince, Great Man or Proper Man) and Xiao Ren (literally Petty Man or Small Man):

- Great Man, being universal in his outlook, is impartial; Petty Man, being partial, is not universal in outlook (Confucius, Book 2).
- He (Great Man) sets the good examples, then he invites others to follow it (Confucius, Book 2).
- Great Man cherishes excellence; Petty man, his own comfort. Great Man cherishes the rules and regulations; Petty Man, special favour (Confucius, Book 4).

- Great Man is conscious only of justice; Petty Man only of self-interest (Confucius, Book 4).

Leadership belonged to Great Man; he need not be of noble birth, but should have the Five Constant Virtues.

Confucius defined filial duty as:

While his father lives, observe a man's purposes; when the father dies, observe his actions. If for three years (of mourning) a man does not change from the ways of his father, he may be called filial.

(Confucius, Book 1)

Both the subject and filial relationships lead to a predominantly vertical structure of relationships. In modern business, a paternalistic management style is thought by some to be a direct consequence in both China and Japan.

According to Bond and Hwang 'the essential aspects of Confucianism in constructing a Chinese social psychology are the following: (a) man exists through, and is defined by, his relationships to others; (b) these relationships are structured hierarchically; (c) social order is ensured through each party's honouring the requirements in the role relationship'.⁶ The Confucian scholar A.S. Cua defines Confucian philosophy as 'primarily a set of ethical ideas oriented towards practice', found on the threefold principles of benevolence, righteousness and propriety.⁷ In essence, Confucianism sets out a framework for interpersonal relationships of all kinds.

Confucian disciples (Mozi, 5th century BC; Mencius, c. 371–289 BC; Xunzi, c. 298–238 BC)

Confucian thinking was the standard against which others pitted their wits. Mohism advocated universal love, which was an extension of the idea of humanity. Mozi, the movement's leading thinker, believed that people with 'virtue' and ability should be elevated and was opposed to inherited wealth or nobility.

Mencius developed a theory of government by benevolence believing that man was born with goodness. In his view, man possessed inherent qualities of benevolence, righteousness, propriety and wisdom which some people were able to preserve and others not. In Mencius's view, every sovereign was able to rule by a policy of benevolence and every citizen was able to accept it.

Xunzi thought that man was born inherently evil, but education can

change man's nature. Further, he emphasised self-improvement and self-fulfilment. was one of the first thinkers after Confucius to focus on the importance of education as a means of developing oneself and reaching self-improvement and self-fulfilment. As he says, 'If an ethically superior person studies widely and daily engages in self-examination, his intellect will become enlightened and his conduct will be without fault' (quoted in Cua 1998). This view, that study can lead to self-improvement, remains current. The educationalist Clive Dimmock, reporting on surveys of attitudes among Hongkong high school students, noted that the prevalent belief was that by studying hard one could improve one's abilities. This was precisely the opposite of the view current among American students at the same time, where studying hard was seen as a way of compensating for *lack* of ability; if you had ability you did not need to study, and studying was unlikely to make you any better.⁸

Legalism (c. 220 BC)

Legalists believed, quite simply, in law and order. Moreover, Legalists believed that the law possessed a virtue that set it above any other human principle; everyone had to obey the law in every circumstance. This was law applied exactly, without exceptions. The Legalists believed that man is amoral and is guided purely by self-interest and the future, not by tradition. People must therefore be coerced by law into doing right. Otherwise, they had to be punished. Thus the Legalists are more or less opposite to the Confucians.

Han Feizi, the most prominent exponent of Legalism, suggested that one may as well coerce everyone, good and bad, to do right. Those few people (if any, in his view) who do right naturally should not object, since that is what they would do anyway. Han's views were adopted by the Qin emperor, Shi Huangdi, and Han himself became the first prime minister of a united China, with full authority to put his philosophy into action.

The Legalists felt that the power of laws should be combined with hierarchical power and the personal power of the ruler or emperor. The people were there for the benefit of the ruler, not vice versa. Precise and written laws should define the rights and obligations of individuals.

Apart from being a convenient doctrine for powerful leaders, this concept never gained much ground, and when the Qin dynasty were replaced by the Han dynasty, Confucian thinking became the norm and Legalism was consigned to the scrap heap. Some traces of Legalism can still be seen in Chinese thinking, particularly on the authority of the state over the individual, and certainly elements of Legalism can be found in some of Mao's writings. But these are influences, not whole systems.

Modern commerce, therefore, exists in an environment where legalism did *not* prevail over Confucian thinking.

Buddhism (c. 4th century AD)

By the third century AD, Confucianism was discarded by the then governing class, had run out of steam as an intellectual stimulus, just as the Han dynasty also began to fail. People Social elites were looking for something new and, as in most cases in China, this meant that they turned to the past to resurrect older, purer forms of thinking. Daoism enjoyed a resurgence. At the same time, Buddhism arrived from India.

Buddhism's official arrival dates to about 70 AD when the Han emperor Ming Ti had a dream of a golden flying deity but it did not become fully established for several more centuries. Why the Chinese were suddenly so open to a foreign religion is not very clear, but it may be that Buddhism and Daoism have enough shared ground to allow the Chinese to see it as meshing with previous belief systems. Certainly Chinese Buddhism quickly evolved away from many of its Indian roots. Although Indian classics like the *Awakening of Faith in Mahayana* were widely read and studied, within a few generations Chinese Buddhist scholars like Fazang and Linji were establishing 'Buddhism with Chinese characteristics'. Perhaps the most famous Chinese Buddhist school was that of Chan, which later took hold also in Japan (where it is known as Zen). The masters of one particular branch of Chan had some unusual ways of teaching. One used to belabour students with sticks during lessons; another would interrupt speakers by shouting at them, 'If you meet the Buddha on the road: kill him!' Needless to say, this was not mainstream, but it does illustrate one of the essences of Chan, namely stretching the mind to think the unthinkable.

By the sixth century the monasteries, largely thanks to imperial patronage, had obtained substantial economic power. Inevitably, excess power led to corruption, and in 845 the Tang emperor Wuzong began a persecution, destroying monasteries, works of art and scholarship. Over 250,000 monks and nuns returned to the laity. Later, the Cheng brothers and Zhu Xi built many elements of Buddhist thinking into their Neo-Confucian synthesis (see below). Today, Chinese Buddhism is so intertwined with Confucianism and Daoism that it is difficult now to tell the consequences of the three apart. Buddhism was largely suppressed after 1949 and many temples closed. In the 1990s they have reopened both as tourist centres and for their traditional purposes.

Neo-Confucianism

Neo-Confucianism appears in the period of imperial revival in the Sung and Tang dynasties. Like many reform movements in China, it sought to make China strong again by ridding the country of foreign and corrupt influences and adopting a purely Chinese philosophy. A group of scholars set out to resolve the apparent contradictions between Confucianism, Daoism and Buddhism and create a unified system of thought. Much of the early work was done by the brothers Cheng Hao and Cheng Yi; the exposition of the final product was the work of the most important late Chinese philosopher, Zhu Xi.

By building a single thought-system which took in all the different aspects of Chinese philosophy and thinking, the Neo-Confucians (the name is a later tag) set a framework for thinking in China. Highly conservative, looking back to the masters (Confucius, Laozi *et al.*), the Neo-Confucians reinforced views on education, self-development and interpersonal relations along largely Confucian lines. This system has persisted until this day.

Christianity (1583 AD)

Exactly when Christianity arrived in China is not known, but there was a Nestorian Christian community in the west of China from at least the 8th century, and in 1289–90 a Chinese Christian called Rabban Sauma visited England and France as an envoy of one of the Mongol rulers. He must have caused a sensation.

Franciscan missionaries followed (or maybe preceded) Marco Polo into China; an archbishopric of Beijing was set up, but converts never numbered more than a few hundred. Matteo Ricci pioneered a Jesuit presence in 1583, even though the Ming emperors had closed China to foreigners. He was well trained in language and Confucian thinking by Chinese in Europe. With modern echoes, the Jesuits' market entry strategy was to make themselves valuable to the Ming emperors through technology transfer (including cannon manufacture) and thus earn import rights for Christianity. Ricci determined that the ancestor cult and Confucianism were 'social' rites, and could thus be incorporated within Christianity, just as Saturnalia had become Christmas.

Initially the strategy worked well, and by the end of the Ming dynasty a substantial foothold, and converts, had been achieved in Beijing and some cities further south. In the 18th century, however, other Catholic orders, perhaps jealous of the Jesuits' Chinese exclusivity, challenged Ricci's acceptance of ancestor cult and Confucianism. One thing led to another, the missionaries were forced to leave and Christians were persecuted.

As the Qing dynasty weakened in the nineteenth century, fresh waves of missionaries of all denominations appeared. Undoubtedly heroic, they made various contributions to health and education at local levels and achieved many converts. Nevertheless the impact on China, and Chinese thinking, overall was minimal, apart from the unintended disaster of the Taiping Rebellion (1853–60) (see Chapter 2). This counterfeit Christianity (intellectual property rights have always been a problem) must have damaged the real thing. During the conservative Boxer Rebellion in 1900, many missionaries were killed by the rebels. Today there are perhaps two million Christians in China; they have little or no influence, certainly less than the three million Moslems.

Communism (c. 1920s)

The history of Communism in China has been well covered elsewhere and does not need repetition here. As a *philosophy*, Communism never really put down roots in China. Mao ruled in much the same way that the emperors had, and so did Deng. Today it operates as ruling *Party*, which is a good enough reason to join, but Communist ideology has adjusted to market pragmatism. The cynical might think that acceptance of the ideology was convenient for providing a rationale for revolution and to get support from Russia. That would be unfair. Mao and his contemporaries had a genuine desire to reform China, and to distribute wealth from the rich and give it to the poor. Corruption and the abuse of power in the thirty years either side of 1900 had advanced to the point where some puritanical doctrine was essential to clean the stables. Confucianism, which respected inherited order, was banned; yet many of the precepts of the two systems, such as the idea that government is for the benefit of the people, coincide, and Confucian ideas continued to infuse practice. Mao's doctrines on education and (early) concepts of government owe more to Confucius than to Marx.

However disastrous it proved and however badly history now judges it, the Cultural Revolution was, at least in part, an attempt to bring the furniture of Communism permanently into the Chinese mind alongside, or in place of, earlier philosophies. Mao noted that, whilst the means of production, both industrial, commercial and agricultural, had wholly been transformed from private family ownership to state ownership, the same old civil servants still seemed to be running the place. The Big Idea was to unleash young idealists, brandishing his thoughts in *Little Red Books* in order to democratise authority. Government would be by the masses, for the masses.

With hindsight, it is hard to conceive a more crass notion. Barring one, perhaps: after the Japanese, Civil and Korean wars, Mao told the Chinese to restock the population, resulting in the overpopulation that now causes China, and the rest of the world, so many worries. Anyway, nothing brings Communism down faster than implementing it.

While Communism, a Western creed in any case, has been rejected, Maoism is still there. Walk in any park and witness the respect accorded to his poetry and literature. We are too close to events to be sure, but we would not be surprised if 'Maozi' was read alongside Zhuangzi a thousand years from now.

Eight key concepts in Chinese thinking

<i>Dào</i>	The Way.
<i>Dé</i>	Virtue. A key Daoist concept which guides people to correct behaviour and away from narrow self-interest.
<i>Lì</i>	Rituals or rites. Sets out the correct form of behaviour in a given situation so as to preserve harmony and face.
<i>Miànzi</i>	Face, including one's self-respect and public dignity. Preserving <i>miànzi</i> is a key goal in most interpersonal relations. Having a 'thick face' means that one is impervious to face issues, i.e. thick-skinned in English, probably because public respect is already eroded.
<i>Rén</i>	Literally 'benevolence'; but in fact covers the traditional ethical code of how one should treat other people. Not to be confused with the same (pinyin but not Chinese) word for a person.
<i>Yì</i>	Rightness or righteousness; the knowledge of what is correct in any given situation.
<i>Yīn-yáng</i>	The two halves of a whole, often in reference to <i>dào</i> . Treated as complementary, rather than polar opposites, <i>yáng</i> and <i>yīn</i> describe two halves of the same whole; they are, so to speak, the sunny and shady sides of the same mountain, but one needs to be careful with analogies. <i>yáng</i> which also means the sun, is associated with positiveness and masculinity; <i>yīn</i> (the moon) is negative and feminine.
<i>Zhì</i>	Knowing or knowledge but procedural rather than factual. In other words, knowing <i>how</i> , not knowing <i>what</i> .

Values

A discussion of values in Chinese society deserves a book in its own right. Here we focus on a few of the most important, including:

- age, hierarchy and authority which are strongly linked
- wealth
- face
- cultural dimensions

Despite the caution introduced with the Latourette quote at the beginning of this chapter, one must recognise that younger managers do not necessarily share the values of their elders. As is also true in Japan, Europe and elsewhere, the younger are more international, more prepared to experiment, more looking to have fun and less dedicated to family, or any other, ties.

Age, hierarchy and authority

Respect for tradition, ancestors and age, stemming from Confucius, were among the main values of people in old China. The respect for age was manifested especially in family life which had a profound effect upon other parts of social life. The hierarchical relations of a Chinese family were determined by age. The names of sisters and brothers follow the age-order of the family members. For example, an older brother is addressed as 'older brother' (*gege*) and a younger sister likewise (*meimei*). Only parents call their children by their given names.

Similarly, industrial workers in old China did not typically question higher authority or seek authority themselves, thus reinforcing the subordinates' subservience and dependence on superiors. Authority in industry and business was viewed as an absolute right of owners and the managers in control. Superior-subordinate relationships were typically personal, subjective and viewed as father-son or master-servant relationships. No two persons were equal in relation to each other. An older person had more authority than a younger one, and a man had more than a woman.

The Qin dynasty (221–207 BC) held the family responsible for the public acts of its members as part of their social pressure on each individual, inculcating obedience to the government and to the social order through the family. This still operates. The one-child rule, for example, is enforced more through family and local community pressures than any legal system.

Wealth

The need for self-sufficiency traditionally bred a savings mentality. Money should be hoarded: if times were good now, they were likely to be bad later. The culture required even the rich to pretend to be poor. *Inside* the PRC, the first-class cabin is likely to contain only the occasional Western business person. But there is paradox here. Whether it was Shanghai in the 1930s or Hongkong more recently, the opposite view was that money attracts money. It should be flaunted. *Outside* the PRC, first-class air travel is taken by some who cannot afford it but must be seen to do it. Here is another warning: do not be taken in by appearances. Old money is more likely to be hidden, new money more likely to be flashed. That does not make one, necessarily, better than the other (nor is it so different from New York, San Francisco, Paris or London).

Face (miànzi)

The pervasive Chinese concept of gaining, giving or losing 'face' focuses on questions of prestige and dignity, reflects surprising vulnerability in self-esteem. The Chinese are acutely sensitive to the regard in which they are held by others or the light in which they appear. Causing someone to lose face can have severe consequences: at the very least, co-operation will cease and retaliation may ensue.

Losing and saving face are well understood in the West. Less so is the concept of giving face, that is, doing something to enhance someone else's reputation or prestige. The heavy use of shame as a social control mechanism from the time of early childhood tends to cause feelings of dependency and anxieties about self-esteem, which produce self-consciousness about most social relationships. As a result, a great deal can be gained by helping the Chinese to win face and a great deal will be lost by any affront or slight, no matter how unintended, especially for older and/or more senior people.

The Chinese concept of sincerity is the opposite of the Anglo-American, in that the Chinese believe that they can manifest sincerity only by adhering carefully to prescribed etiquette, whereas Westerners believe that etiquette obscures truth.⁹ In a sense the Chinese are saying, 'I will show my sincerity in my relations with you by going to the trouble to be so absolutely correct toward you that you will be untroubled about any matters of face.' Again, the form of the interchange is as important as the content, as is laid down by *li*.

Giving face is also closely connected with *guànxì* (see Chapter 4). We are more likely, obviously enough, to establish good relationships with those

who always give us face, and vice versa. That accumulates. If *guànxì* already exists, then giving face increases the opportunity for rewards. Flattery, in short, will get you anywhere.

Cultural dimensions

Geert Hofstede has referred to culture as the software of the mind.¹⁰ In research, which is very widely cited on differences between Eastern and Western business cultures, Hofstede uses four dimensions from Western research and found that a fifth was required when the work was re-run in Hongkong. They are: power distance (hierarchic respect), individualism vs collectivism, assertiveness, uncertainty avoidance and, later, long termism. Since he was measuring IBM managers, the PRC was not included and it is dangerous to make inferences from Singapore, Hongkong and Taiwan. Nevertheless, it is reasonable that the overseas Chinese rated as highly hierarchic and low on individualism, and middle of the road on assertiveness/masculinity. Taiwan felt much more threatened by uncertainty than Hongkong, and Singapore was most confident of all. The PRC was included on the long-term orientation scale, and rated highest of all.

For many people familiar with both China and the overseas Chinese, however, Hofstede's conclusions do not match their own experience. The Hofstede research is not reliable in an oriental context because it falls into the either/or trap. Hofstede is a prisoner of his own (Dutch) culture and, frankly, this type of research is hocus-pocus. The Chinese are not *either* individualist *or* collective but both at the same time. In 1992, Li Huaizu and his colleagues provided what we feel is a more insightful and elegant perspective on Chinese tradition and Western decision-making theory. The authors identify five groups of differences between Chinese tradition and features of Western decision theory: motivation and consequence, unity and diversity, circle and sequence, harmony and self-interest, and certainty and uncertainty. Other writers have commented on a number of elements from Chinese culture that impact on decision-making, including face, the individual-collective dichotomy, hierarchy, equality, self and social role, and personal modesty.

Motivation and consequence

According to Western theory, the manager assembles the possible outcomes from alternative actions, judges the probability of each outcome and then chooses the action most likely to have favourable consequences. In contrast, the Confucianist evaluates the motives and intention of the manager, taking ethical, or moral, principles as the criteria. The consequences examined

are those that arose in the past, facts about past decisions and not estimates about the future. In other words, if the principles worked before, continue with them and do not speculate about the future.

Examples illustrating this are found in classic Chinese doctrines such as 'The gentleman makes much of ethics; the villain of gains and losses' and 'The person who worries about outcomes is no gentleman.' Thus while governments go in for elaborate economic (i.e. Western philosophy) planning, Chinese businesses tend not to have any *financial* plans at all. They do, however, think strategically (see below).

In the 1920s, Li Zongwu's *The Theory of Thickness and Blackness* became an overnight sensation in China. Li argued that successful decision-makers in China are not those who adhere to the Confucian ideals and aim to preserve face and maintain good relationships. Instead, they are those who possess the qualities 'thickness' or 'thick face' (that is, they do not care what others think of them) and 'blackness' or 'black-heartedness' (that is, those who are able to act in their own self-interest without guilt). In traditional style, Li illustrated his work with examples from the Three Kingdoms period. But then, no one would assume that all Chinese act in a purely Confucian (or Daoist, or whatever) spirit all the time.

Unity and diversity

Chinese tradition emphasises synthesis and unitary principle, from which problem-solving attributes are deduced, while the Western approach is to focus on the specific characteristics of the problem whilst permitting a variety of objectives. An example of this thinking is found in the ancient Chinese classic, the *Yijing* (The Book of Changes) which deals with knowledge of the universe as a whole. Minor principles can be deduced from a few major ones, instead of working Western-style from the observation of reality. Having said that, Chinese thinking, obviously, includes the observation of reality as well.

Circle and sequence

Chinese think of nature in terms of closed, spiral or circular systems of interrelated elements, whereas Western decision theory is sequential (for example with linear, exponential, or repeated patterns such as economic cycles). In traditional Chinese thinking, consequence is from many interrelated factors. A circular network is used to highlight the effects as a whole. The more linear Western approach can be presented as a sequence of decisions, such as a 'decision tree', each analysing the problem more narrowly.

Harmony and self-interest

When determining the optimal decision, Chinese tradition is to emphasise harmony and the group, but Western decision theory presumes that the decision-maker will optimise self-interest (maximise subjective expected utility). There are many Chinese sayings which reinforce the idea that a person who stands out from the group will be criticised and may be prevented from reaching his/her goal: 'The tree growing high above the others will be blown down by the wind', and 'The gun fires at the first bird in the flock.' Similarly, the Confucian doctrine of the mean is, 'Take the mean of the two, remain neutral without bias' and the Daoist doctrine is, 'Strive for no fault rather than merit, retreat for the purpose of advancing.' Of course, business people, in search of first-mover advantage, will quite often seek to be first. A Chinese business person may well be embarrassed by being innovative when a similar partner in the West would be proud of it. Being first in China has profound cultural and social difficulties. Imitation, however, gives face.

Certainty and uncertainty

Chinese tradition is oriented towards certainty, not the evaluation of uncertainty that is emphasised in Western decision theory. In their struggle for existence against numerous dangers and disasters, the Chinese felt that the future was very hard to face. As luck and misfortune came from the supernatural, divination was appropriate for decisions. The Chinese value past experiences more highly, depending on these for future action; again, note the importance of history and historical thinking. Past experiences are the guarantee and premise for success (just as they are for many Wall Street analysts, come to that). This view is reflected in sayings like, 'The old finger is hottest', and 'One will pay for it if one does not follow an old man's words.'

Strategy

'Strategy', as most business school students learn at some point, means almost anything anyone wants it to mean. In chess, it refers to broad principles of attack and defence, to parts of the board on which attack will be focused; it does *not* mean the identification of a series of moves that anticipate competitive reaction. Even chess-playing computers can only look a few moves deep. Any decent strategy expects the unexpected.

In business (schools), the word is confused with planning and with marketing. In China, the idea that one can lay out strategic moves, step by

step, in some pre-planned sequence is even more unlikely than elsewhere. One is not even a player surveying the chessboard, just one of the pawns. But that does not mean that Chinese businesses do not think strategically. Quite the reverse. For reasons of space, we will touch here on just two aspects: strategy as warfare, and cleverness or trickery.

Business strategy as warfare

As mentioned above, the period of Warring States (475–221 BC) provided plenty of material for strategist theorists, chief amongst whom was Sunzi. As the people who led the army during war and the government administration during peace were frequently the same people or drawn from the same circle, the same strategic management principles were applied in peace and war. According to Sunzi, the supreme aim of war was ‘not to win one hundred victories in one hundred battles’ but to ‘subdue the enemy without fighting’. In competition either in politics or business, strategy should be aimed at disposing one’s resources in such an overwhelming fashion that the outcome of the contest is determined before it gets started.

According to Sunzi:¹¹

Strategy is the great work of the organisation.
In situations of life or death, it is the Tao of survival or extinction.
Its study cannot be neglected.

Therefore calculate a plan with Five Working Fundamentals,
And examine the condition of each.
The first is Tao.
The second is Nature.
The third is Situation.
The fourth is Leadership.
The fifth is Art.

Or according to another translation, the government, the environment, the terrain, the command and the doctrine.¹² In modern marketing terms, the equivalent would be:

- what kind of business are we/should we be in?
- analysis of the competitive environment
- competitive positioning
- motivational factors
- implementation.

In short, Sunzi describes, in subtle language, the modern marketing plan.

Strategists study these five factors to assess chances of success and calculate their strengths and weaknesses *vis-à-vis* that of their opponents. Deception, speed and concentration of forces are the rules of war. Norman Dixon, whose hilarious account of military disasters *On the Psychology of Military Incompetence* is a must-read, summarises the same principles into focus of firepower (small time and place) and the quality of information, which probably extends to disinformation – a Chinese speciality.¹³

Of the various military metaphors, guerrilla warfare is the most appealing both because marketers usually have too few resources for the task and because it is not just Army A versus Army B: the surrounding population (i.e., end consumers) are usually decisive. Guerrilla warfare, if successful, proceeds through three phases: invisibility, evasion and concentration. In the first, the guerrillas maintain the lowest possible profile and set up their infrastructure and relationships with the surrounding population. In the second, battles/skirmishes are fought only to increase resources at the enemy’s expense. The third stage is akin to classic warfare.

Whether it is in the small wins early or the pitched battles later, all writers point to the importance of focusing energy onto the point of contact so that, in that place and at that time, the enemy is outnumbered, encircled and suppressed. Failing that, at least ensure your positioning occupies ‘the high ground’ whatever that may be in consumer terms. It may well be as simple as a higher price. As far as Mao was concerned, only now could resources be spent, only now could losses be justified by gains. Mao’s formula for deciding on attack is reproduced here:

We should in general secure at least two of the following conditions before we can consider the situation as being favourable to us and unfavourable to the enemy and before we can go over to the counter-offensive. These conditions are:

- i. The population actively supports the Red Army.
- ii. The terrain is favourable for operations.
- iii. All the main forces of the Red Army are concentrated.
- iv. The enemy’s weak spots have been located.
- v. The enemy has been reduced to a tired and demoralised state.
- vi. The enemy has been induced to make mistakes.

He was also fond of saying that his main two mistakes were over-estimating and under-estimating the enemy. That this recent Chinese history echoes Sunzi, is no surprise. Mao was a scholar. He was not just a master

general but a master guerrilla and, in another time, would have been a master marketer or business executive. Brand names and business reputations in China live as long, perhaps longer, than anywhere else. In this long-term game, the Chinese players will have learned from these histories and the application of military game-playing to business is both a major and conscious part of their planning.

Damei embroidery machines

The North China Optical Instrument Factory is one of the largest in South Beijing, designed by the Russians during the 1950s entente cordiale. Part of the China North Industries Group (NORINCO), and therefore MOFTEC, so far as import and export are concerned but also part of the Chinese Light Industry Ministry, it manufactured aircraft control systems in the 1960s and 1970s. With the market reforms around 1980, their ministry asked them to transfer manufacturing to the consumer goods market.

By 1990 they had tried 100 different kinds of new products. There was no science or research. They were blessed with an able production staff, 2,000 strong, and 500 engineers. New ideas were discussed and the most likely ones made and sold. Quite often they just followed others. Computerised embroidery machines, branded Damei, which according to the writer's dictionary means 'achieving something beautiful', proved far the most successful.

The NCOIF market was mostly China (except Taiwan and Hongkong). They were keen on exports, through NORINCO, but not much had developed. They knew they had to take on world competition, largely Japanese and US manufacturers. Due to the size of the Chinese embroidery market, Damei was probably number 5 in global terms.

Industry statistics showed Damei as having about 50 per cent market share with about twenty firms in the market. They saw market share as an important performance indicator. Market research was 'parental rather than scientific' but they had a very large field sales force (120 people) which also conducted research.

Perhaps due to their military heritage, NCOIF executives found strategic thinking, e.g. Sunzi, useful. In particular they saw their township competitors as guerrilla fighters (You Ji Dui), being at an early stage, whereas Damei was a formal army (Zheng Gui Jun).

Guerrillas play a key role in the Chinese economy and NCOIF executives did not wish to look down on or disparage them.

The main formal marketing activity, both domestically and internationally, was trade fairs. The biggest was the China Textile Association Show which took place in Beijing and Shanghai in alternate years. Much attention was given to sales training. 'Customers don't buy eggs, buy chickens.' After-sales service was important and free parts were provided even where the customer was to blame, e.g. using unsuitable material. They have twenty representative offices in China and promise repairs within twenty-four hours as a embroidery machine breakdown brings the customer's, usually small, business to a standstill. No formal breakdown or other service statistics were collected though summer heat seemed to increase their number. The engineers, though, come from Beijing, the local staff of between three and five would not have the latest technical skills.

Trickery / cleverness

We have a semantic problem here: no-one, including the Chinese, likes a word like 'trickery', loaded as it is with negative connotations. At the same time cleverness (better) does not quite convey the legitimate role of disinformation. Context affects meaning: we like to be tricked by a magician at a party, but are angry if we are tricked out of our money by a fraudster. In this section, we refer to business practices which are legitimate but likely to mislead, and thereby outwit, other players. We are not talking about cheating.

We will call it 'cleverness' to avoid offence. The Chinese admiration for tolerance of cleverness in this sense (the monkey is quite a hero) is greater than that in the West. As ever, it is limited by relationships (you do not outwit your own father) and it is also reciprocal (the West is *expected* to be devious even when it is not). The cunning entrepreneur, the crafty businessman who is 'eight sides all wide and slippery', is an admired figure in many circles.

The monkey symbolises this cleverness and features as the hero in many Chinese stories. The view of cleverness or trickery is invariably one-sided. Here is a Chinese view of Western business people, written in a handbook for Chinese managers in 1990:

We have to know the tactics needed for the struggle, know the opponents and ourselves, and be able to see through their tricks. The

foreign capitalists will always try to cheat money out of us by using every possible means including deception.

In China, as elsewhere, cock-up is far more frequent than conspiracy. The papers the other side left on the table when they took a quick break from the meeting may be valuable information, intentional disinformation or completely irrelevant and really left by mistake. The odds on the papers being a plant (especially if they are in English) are probably somewhat higher, but no more than that. This all contributes to the absolute rule for old China hands that no one source of information is reliable. When three independent sources provide the same information, one can begin to take it seriously.

The overseas Chinese

Most of this chapter will apply to the overseas Chinese communities, though with some exceptions. Most importantly, although most overseas Chinese communities had some Maoist sympathisers, especially in the 1950s and 1960s, Maoism was never put into practice in these countries and therefore this philosophy does not really figure strongly in their furniture of the mind. There has also been greater penetration of Western ideas in many cases; there are far larger numbers of Chinese Christians overseas than in China, for example. Finally, through education and the media, many overseas Chinese have accepted some Western modes of thinking along with their own Chinese modes. (This is one of the reasons why many mainland Chinese regard the overseas Chinese with some reserve.)

Be prepared for variations. Many overseas Chinese have become acculturated and even 'Westernised'. Others are strongly conservative in social and mental terms, and can be 'more Chinese than the Chinese'. See Chapter 9 for more on this phenomenon.

Conclusions

The purpose of this chapter has been to explore, and to some extent compare, mental furniture. No single individual, still less 1.2 billion people, thinks exactly like that, nor would anyone expect it. For the purpose of contrasting differences, we have tended to compare China with the West and ignored other parts of the world. Obviously, the closer the cultural and historical links – for example, with Japan, Korea and Vietnam – the

more furniture is shared or similar; yet it does not do to ignore the great differences between modes of thinking in these countries as well.

Notes

- 1 Douglas Mair (1990) *The Scottish Contribution to Modern Economic Thought*, Aberdeen: Aberdeen University Press, 160.
- 2 Ibid.
- 3 Huang Quanyu *et al.* 1997.
- 4 Ibid: 91.
- 5 Bond 1986.
- 6 Ibid.
- 7 Cua 1998.
- 8 Clive Dimmock (1999) *Designing the Learning-Centred School*, London: Falmer, 2000.
- 9 See Pye 1992.
- 10 Hofstede 1991.
- 11 Wing 1988.
- 12 Chang 1976: 74.
- 13 Norman Dixon (1976) *On the Psychology of Military Incompetence*, London: Pimlico.

4 Relationships and regulations

The rules are fixed; the people are flexible.

(Chinese proverb)

We are not sure that this proverb is still entirely true. Rules only seem to be fixed for the moment; they may have been promulgated but overtaken before officials get around to implementing them. If anything, though, this makes the need for relationships all the greater. Foreign businesses in China need local partners in just the same way that they do in any world market. Relationships have to be cultivated with distributors, suppliers, customers, local government and administration, and the community in general.

The question of relationships is more important in China than in many other countries, however, for three reasons. First, government plays a much more direct role in the economy in China than it does in most Western countries or even in many developing economies. As we noted in Chapter 2, in China the economy is seen as being at the service of the state, and the state does not hesitate to intervene when it thinks the economy is going in undesirable directions. This applies to local as well as central government in the People's Republic of China, and to a greater or lesser degree it applies to every government in the region. Cultivating good relationships with government is therefore often a critical factor in assuring the success of a venture.

Second, there are sharply differing attitudes to law, particularly to its aims and purposes, in China than in the West. In the latter (for better or for worse), we tend to see the law as the essential set of rules of conduct governing our society, and also as our primary form of redress when things go wrong. Quite different traditions exist in China; here the 'rules of conduct' are the ethics and standards of behaviour required in a Confucian society. Social pressures rather than legal instruments are used to ensure compliance. Of course this does not mean that there are no laws

in China; but the laws are used in different ways. As we discuss below, many of the issues which Westerners tend to think of as legal issues are better conceptualised in China as relationship issues.

Third, and related to the above, there is the fact that much of Chinese society – including its businesses – is organised on relationship principles. There are three key principles which can be added to the box in the last chapter:

- *Qíngmián*, or 'human feelings'; respect for the feelings of others is of great importance, particularly in relationship management.
- *Hé*, or 'harmony', a very powerful concept which stresses the smooth running of a group or a society. Harmony is seen as good, conflict as bad. *Hé* also means gentleness or friendliness.
- *Guānxì*, which is usually translated simply as 'relationships' or 'connections'. It is no exaggeration to say that relationships are the *modus operandi* of Chinese business. They are how things get done.

After looking more closely at this last concept, this chapter applies it in three contexts – government, legal/contractual and commercial – in all of which relationships are essential for doing business in China and around the region. They need to be considered and developed *simultaneously*. Some types of relationships will, in given circumstances, be more important than others; but over the long term, all three will be necessary and cannot be turned on and off like taps.

Guānxì

This complex concept carries expectations that, sometime, favours will be returned. Nevertheless it is not some form of bank account where net favour indebtedness can be measured. The whole system, *guānxìwǎng*, is a web of subtle, and not so subtle, obligations, not rights. *Guānxì* has both good and bad meanings. In this chapter we intend the good. (*Guānxì* and corruption will be discussed in the 'Ethical interlude' which follows this chapter.) Some business people, especially younger ones, dismiss *guānxì* as old fashioned and being replaced by modern Western methods. That is unwise; the two will co-exist. *Guānxì* is a comparatively new word, entering the vocabulary only in the twentieth century, but the practice goes back to antiquity. *Guān*, from which it derives, means a customs house, gate or barrier. Thus, without *guānxì* the door to business is firmly barred.

Westerners have difficulty with the concept of obligations unmatched by rights. Conversely, the Chinese had no word for, and thus concept of,

'rights' until they had to import *chuan li*, via Japan, for Western translation purposes. *Guànxì* is rooted in Confucianism. Family and social context define the individual as distinct from the Western view in which the individual defines his context. 'In other words, self-individualisation is possible only through a process of engagement with others within the context of one's social roles and relationships ... the self is always a relational self, a relational being'.¹ Mayfair Yang traces the influence of *guànxì* through all forms of social and commercial life in China.² Thus marketing in China, however much influenced by Western theory and practice, can be expected to depend on relationships.

The Chinese classify *guànxì* capital (*ziben*) according to its efficacy (*ling*). The key features are:

- Durability (*naiyong*), meaning unconditionality. Thus the more certain that support will be reciprocated, the longer it can be deferred.
- Hardness (*ying*) *guànxì* refers to the relative importance of the other party: the more senior the 'harder'.
- Connectivity (*lianhuo*) refers to the onward *guànxì* in relevant networks. However strong the relationship may be with a dead end, he is still a dead end.

The last idiom seems to be somewhere between consanguinity and the degree of obligation. The sub-components are 'endowed' (*tianzi*) by birth, whether immediate family (*zhizi qinshu*) or father's relations (*nanfang*). The weaker non-birth varieties are seen as personal savings (*jilei*) which may be pulled over (*laguolai*) for business. Feelings (*ganqing*) built up from shared experience accumulate: the longer, ideally since childhood, the better. Relationships formed within, are for the purpose of, business are the weakest and seen, to some extent, as instrumental (*liyong*), self-interest (*liyì*) and money (*jinjian*) *guànxì*.

The first of those is similar, perhaps, to trust and the last is similar to identity (of interest). This shared identification is sometimes called the *guànxì* base. Each of us is an amalgam of nature (genes) and nurture (experience) and this last idiom directly mirrors that with *tianzi* and *ganqing*. It is interesting, but not surprising, that expatriate Chinese are more likely to deal with other expatriates originating in the same part of China.

Guànxì is a mechanism for dealing with risk. The Chinese may be gamblers but, without *guànxì*, they prefer to miss the opportunity for gaining £1 million. On the other hand, they may prefer to risk losing £100 in order to build *guànxì* for the future. We should not risk what we cannot afford. This is why the Chinese build trust progressively by

introducing more and more risk and seeing how it works out. They are looking backward, not forward.

These components need to be seen in a competitive environment in which they act at two levels: a strong enough relationship gains entry to the consideration set and then the relative *guànxì* affects the probability of doing business. The bigger the risk, the stronger the *guànxì* will need to be. For example, tendering for large contracts in China is rarely the free market auction Westerners expect. The supplier will be determined by *guànxì*; only the terms of that business are determined by the tenders.

We are not alone in seeing *guànxì* as an alternative to contract law; no less a figure than Singapore's Lee Kuan Yew has made the same observation. One could argue that it is also a great deal cheaper; but the US system, for example, and the Chinese system are not easily compared in financial terms. It is wrong to see China as backward in legal terms; they have had a better, or at least a different, system.³

Government

Since economic reform began in 1978, the government of China has consciously orchestrated legal and commercial changes so as to maximise *China's* economic interest, both domestically and globally. Relaxation of rules on foreign ownership and investment, reforming state ownership ('privatisation' is not accepted as a word) and liberalisation of the economy generally are only pragmatic tools. The government sees the free market as a means to its own ends, not as an ideological principle. The rules will change any time they think it suits them.

It is worth cautioning the reader again about the rate of change in China and particularly in government. New rules on foreign investment were announced in September 1999 (*China Daily*, 9 September 1999) and they will not yet be implemented, or they may have been superseded by the time this book reaches the bookshelves. Premier Zhu radically downsized central PRC ministries in the reforms of 1998; fifteen entire ministries ceased to exist. The Ministry of Education considered itself lucky not to be abolished or merged with the Ministry of Science (as in the UK). The total headcount was cut by 50 per cent to 447 employees. Thailand, for example, has nearly ten times that number in the equivalent ministry. In July 1999, Madam Chen, the PRC education minister, was highly amused by her British opposite number having no idea how many civil servants were on his payroll. Or maybe he was just too embarrassed to answer. In rather an enlightened manner, Premier Zhu arranged for free places at MBA schools for redundant civil servants.

The paragraphs that follow, therefore, are tinged with envy rather than criticism. The PRC bureaucratic process works remarkably well, from their point of view. They invented the concept of mandarins, after all, and had centuries of managing the country with very few, but highly intelligent, civil servants. Zhu cut the numbers rather than the work and left the demarcations between and within the new super-ministries unclear, so the frustrations noted below still apply.

Government in China has considerable powers. It can deny approval for proposed projects, and it can withdraw licences from existing ones. On a single day in 1996, the government of one eastern city withdrew licences for over a hundred joint ventures, for reasons ranging from disputes between partners to lack of profitability. Government also has great authority. As distinct from power, this means that government in China often gets its own way without having to invoke its formal powers, by 'suggesting' that companies or individuals should pursue a certain course of action. This is very much in line with the Chinese avoidance of confrontation and preference for arriving at mutually agreed solutions (even if in this case, one party tells the others what they are agreeing to).

It follows that if you have good relationships with the relevant branches of government, you are more likely to get what you need, be it permission to build, develop, sell goods, set up a factory, form a joint venture or whatever. Good relations with government can make the wheels of bureaucracy turn faster, even allowing you to 'jump the queue' and get approval more quickly than you might expect. Poor relationships or none at all, conversely, can put ventures at risk. The most famous example of all is probably McDonald's in Beijing. Having been granted permission to establish a restaurant in a prime location on the south side of Tiananmen Square (ironically enough, almost opposite Mao's mausoleum), a few months later the company discovered its permission had been revoked and the site had been given to a Hongkong-based developer. After three years of wrangling, McDonald's finally recovered the site.

Outside the PRC, governments are also interventionist to some extent. Democracies like Taiwan have more restrictions on the powers of government and more give and take between government and business. In Thailand and Indonesia, on the other hand, government is every bit as omnipresent as in China. (The governments of Taiwan, Indonesia, Thailand, Malaysia, Singapore and several other countries are described briefly in Chapter 9; the rest of this section looks specifically at the PRC.)

Bureaucracy

Sally Stewart suggested that:

It would perhaps be sensible, when introducing a paper on so controversial and complex a subject as the loci of power in the People's Republic of China, to issue a disclaimer to the effect that anyone (the author included) who imagines that he comprehends all the complexities of the situation is probably deluding himself. Nevertheless, it is important for all those engaged in business with the PRC to have some feel for the general nature of the decision-making process; even though the complexity and size of the organizational chain, and the intervention of influential personalities, lobbies or local authorities and the like, may lead to there being endless exceptions to the rule.⁴

Bureaucracy has been a feature of China for millennia. Under the Qin and Han dynasties, strong centralised bureaucracies were developed first as a counterweight to and later as a replacement for the land-owning nobility. They became the elite of Chinese society. Selection was by examination, after a course of study comprised mainly of studying the classics of literature. Bureaucrats were steeped in Confucian traditions and intensely loyal to the state. The 1949 revolution brought some changes, mainly in the nature of education and the way in which bureaucrats were selected; the ideology changed, but the bureaucracy remained.

Any Western business going into China will encounter the bureaucracy, probably sooner rather than later. Again, it is a mistake to think of the bureaucracy as being homogeneous. Stewart lists ten branches of government that participated in 'a relatively low technology project'. This was not unusual, though, as discussed below, bureaucracy is being cut down. Westerners marvel at how decisions can ever be made through so many authorities. Travellers' tales abound with decisions being made by silent bureaucrats who seemed too lowly to take part in the proceedings, or who never appeared at all. (In the 1970s, a joke business card circulated among the Western community in Beijing. Printed in Chinese and English, it bore no name or title, but simply the legend: THE RELEVANT OFFICIAL FROM THE DEPARTMENT CONCERNED.)

Bureaucracy can intervene anywhere it wants but money is increasingly a reason for doing so (China's economic benefit) and for not doing so (cost to PRC government of getting involved). Decisions are intended to be made by consensus and the extent of lateral communication can be remarkable. Normally, the decision process begins with reports from subordinates, which are sent upwards to superiors; decisions then come

downwards from supervising authorities, after substantial consultation both up and down the hierarchy and across different functions and ministries. Individual responsibilities are not as clear as in the West but, since the goal is consensus, they should not need to be. There is much informal reporting and personal relationships play a key role.

Like civil servants the world over, initiative-taking is to be avoided. The aim is to reduce the in-tray by whatever means and react only when one has to.

Every department or agency has its own area of responsibility, but frequently these areas overlap; and, since every department also jealously guards its own privileges and responsibilities (just like in the West), disputes are frequent. One Western firm trying to set up a plant in Lanzhou ultimately gave up in frustration after securing approval from Beijing but then being persistently blocked by local government. *It is not enough to cultivate relationships with one level of government only; you need to look at doing so on several levels.*

This problem is further compounded by the fact that bureaucrats can hold many different positions simultaneously, including some in the private sector. Ian Rae recounts a meeting with a Chinese official at which the official handed out three business cards: according to one he was the deputy head of a government department, a second listed him as the vice-president of a construction company, while the third named him as consultant to an investment bank.⁵ Such people are of course well-connected and make valuable contacts, but they do rather transcend Western thinking about the need for separation between business and government.

In Western perception, bureaucratic subordinates are seen as insecure and reluctant to make decisions. You can never go wrong or be criticised for doing nothing; you are only blamed when you demonstrate initiative. Thus even the most minor matters are referred up the chain of command, and the highest ranking bureaucrats are inundated with minutiae. This does happen, but it would be wrong to suggest it happens all the time. In fact, decisions get passed all around the organisation – up, down and sideways – but not for reasons of insecurity. Rather, the factor at work here is the Chinese dislike of confrontation. Any decision which could result in confrontation (with its possibility of loss of face) is bypassed; either it is handed on to someone else, or it simply ignored. When faced with a problem, Westerners typically feel the urge to resolve it; Easterners do not. Indeed, forcing a Chinese person to make a decision where consensus cannot be achieved may put the latter under real personal stress. (For example, Chinese managers can be very reluctant to fire workers.)

Bureaucrats, like Margaret Thatcher, prefer solutions to problems. And they mostly like the sort of solutions everyone else will like. Persisting in

confrontation can delay the decision for ever as they do not like saying 'no' either.

One important point to recognise is that authority is used differently. In the West, a bureaucrat usually has the authority to say 'yes', whereas in China authority more usually extends only to saying 'no' if the interests of their part of government are threatened. In order to overcome this tendency, business people work out, in advance, the interests of each participating (and possibly competing) branch of government.

Our advice is to start with a map of the network (*guānxìwǎng*) involved. Then, for each network node, list the interests of those involved and see the situation from their point of view. Shape your plans with these interests and viewpoints in mind.

Beijing Air Catering Company, China's oldest foreign-funded joint venture, was set up in 1979 to provide in-flight meals for airlines flying out of Beijing International Airport. At the start, BACC serviced only three airlines, but a decade later this had grown to twenty clients. By then, its staff were preparing up to 12,000 meals a day on antiquated equipment with a theoretical capacity of 4,000. In 1987, the company decided to embark on a second stage of development. The Chinese investor, the Beijing Management Department of the Civil Aviation Administration of China (CAAC), and its foreign partner, the Hongkong Chinese Food Company, injected more capital to build a second production line which was supposed to be ready for the 11th Asian Games in Beijing in September 1990. Eighteen months after the games ended and despite more than 100 stamps of approval from various higher authorities, work had still not begun. Differences between the various government departments, including disputes over the complicated procedures required for the import of much-needed new equipment and other facilities, were the main reasons for the delay. The company was regulated not only by the Beijing Civil Aviation Administration but also by the Beijing Municipal Finance Department, Personnel Department and several others.

Better analysis of the *guānxìwǎng* would have avoided many of these problems.

One great advantage of Zhu's downsizing of ministries is that there are fewer relationships to build. Contacts are also more likely to stay in place; China does not share the Western fondness for incessant job rotation.