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International Business Training Center

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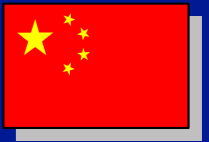


Negotiating With Chinese



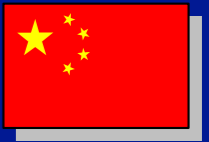
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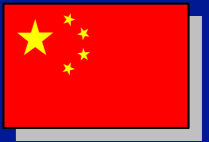
## Negotiating with Chinese

- Power distance is large: 400 years of centralisation result in a tradition of obedience.
- Inequalities are expected and desired.
- Less powerful people should be dependent on the powerful who must protect them and take care of their careers and welfare.



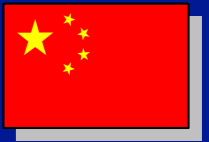
## Negotiating with Chinese

- Parents, teachers, bosses, must all be obeyed.
- Age brings seniority.
- There is a wide salary range between the top and bottom of the organisation.
- Privileges for managers are expected and popular.



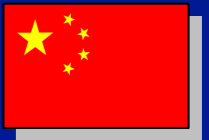
## Negotiating with Chinese

- Subordinates expect to be told what to do.
- Individualism is taboo.
- Relationships are more important than tasks.
- Confrontation is avoided, harmony and consensus are ultimate goals.



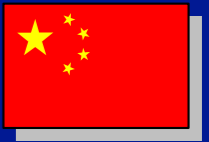
## Negotiating with Chinese

- The search for virtue is more important than the search for truth.
- A and B both be right if both are virtuous.
- Long-term orientation and goals.



## Negotiating with Chinese: Behaviour at meetings and negotiations

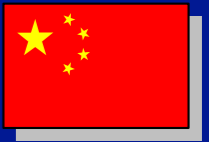
- Chinese prefer meetings to be formal, although dress is usually comfortable.
- Setting will be according to hierarchy.
- Business cards are exchanged.
- The senior man must be shown great respect and attention at all times.



## Negotiating with Chinese: Behaviour at meetings and negotiations

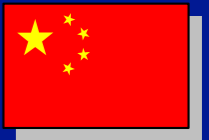
- The deputy or vicechairman is often the decision maker.
- The real decisions will be made outside the meeting, which is principally for information gathering.
- The pace will be slow and repititious.





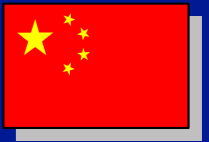
## Negotiating with Chinese: Behaviour at meetings and negotiations

- Politeness is observed at all times.
- Confrontation and loss of face (for both sides) must be avoided.
- A collective spirit prevails, nobody says „I” only „We”.



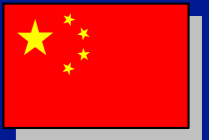
## Negotiating with Chinese: Behaviour at meetings and negotiations

- Negotiations in China are important social occasions during which one fosters relationships and decides if the people on the other side of the table are suitable partners on the long run.
- Chinese negotiate step by step in an unhurried manner.



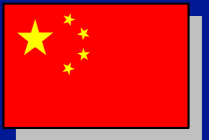
## Negotiating with Chinese: Behaviour at meetings and negotiations

- Chinese dislike US eagerness to sign a contract.
- Chinese prioritise mutual trust in the long term, they are very trustworthy.
- Chinese are thrifty, cautious, patient.
- Chinese combine flexibility and firmness and expect both these qualities in you.



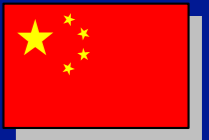
## Negotiating with Chinese: Behaviour at meetings and negotiations

- Play off competitors
  - If the going gets tough, you may let the Chinese know that they are not the only one.
- Be willing to cut your losses and go home
  - Let the Chinese know that failure to agreement is an acceptable alternative to a bad deal.



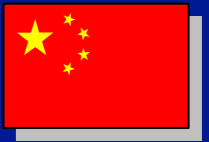
## Negotiating with Chinese: Behaviour at meetings and negotiations

- Take copious and careful notes.
- Pad your price, just as Chinese do.
  - Start out high, and be willing to give a little from there.



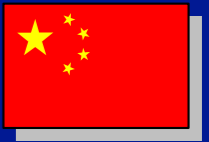
## Negotiating with Chinese: Behaviour at meetings and negotiations

- Remain calm and unpersonal during negotiations.
- Be patient.
- State your commitment to work toward a fair deal.
  - Tell the Chinese that your relationship can only be strengthened of long-term involvement.



## Negotiating with Chinese: Tactics for foreigners

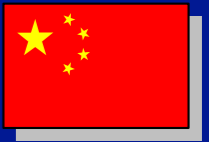
- *Be absolutely prepared:*
- You should have a thorough knowledge of every aspect of the business deal including its technical aspects.
- Be prepared to give a lengthy and detailed presentation on your side of the deal.
- Take care not to release sensitive technological information before you reach a full agreement.



## Negotiating with Chinese: Tactics for foreigners

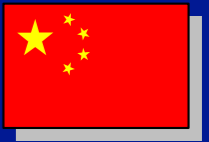
- State your commitment to work toward a fair deal.
  - Tell the Chinese that your relationship can only be strengthened by a mutual beneficial arrangement.





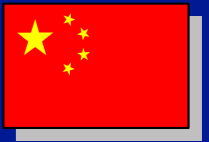
## Negotiating with Chinese: Tactics for foreigners

- Approach negotiations and all business in China from the standpoint of long-term involvement.
- Giving some leeway to the Chinese over a specific issue can result in far greater benefit in the future.



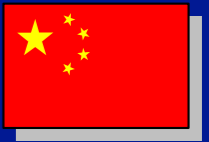
## Negotiating with Chinese: Tactics for foreigners

- Chinese negotiators are shrewd and use many tactics.
- Controlling the schedule and location.
  - The Chinese may appear at the negotiation table seemingly indifferent to the success or failure of the meeting and then make excessive demands on the foreign side.



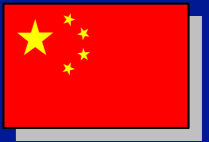
## Negotiating with Chinese: Tactics for foreigners

- Threatening to do business elsewhere.
  - Chinese may tell you that they can easily do business with someone else if their demands are not met.



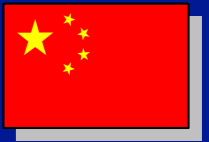
## Negotiating with Chinese: Tactics for foreigners

- Using friendship as a way of gaining one-way concessions.
  - Chinese who have established relations with foreigners may remind them that true friends would aim for an agreement of maximum mutual benefit.



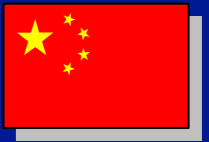
## Negotiating with Chinese: Tactics for foreigners

- Sensing the foreigner's fear of failure.
  - If the Chinese know that you are committed contract and that you are fearful of not succeeding, they are likely for concessions.



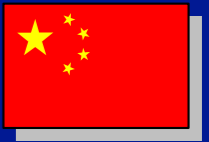
## Negotiating with Chinese: Tactics for foreigners

- *Stamina:*
  - Chinese negotiators are patient and can stretch out the negotiations in order to wear you down.
  - Excessive entertaining in the evening can also take the edge off a foreign negotiator's attentiveness.



## Negotiating with Chinese: Tactics for foreigners

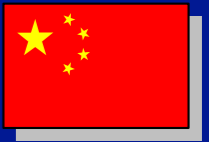
- *Flattery:*
  - Chinese sometimes praise on foreigners either for personal attributes or business acumen.
  - Don't let their skill at stroking your ego give them an advantage.
  - Knowing when you need to leave.



## Negotiating with Chinese: Tactics for foreigners

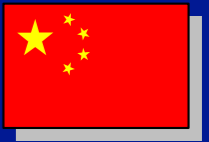
- Using your own words and looking for inconsistencies.
  - Chinese take careful notes at discussions, and they have been known to quote a foreigner's own words in order to challenge his current position.





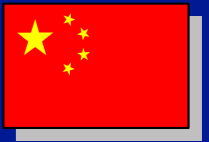
## Negotiating with Chinese: Tactics for foreigners

- Inflating prices and hiding the real bottom line.
  - Chinese may appear to give in to your demand for lower prices, but their original stated price may have been abnormally high.



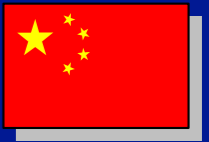
## Economic structure in China

- *Four major economic sectors:*
  - State sector
  - Collective sector
  - Private sector
  - Three funds foreign related enterprises



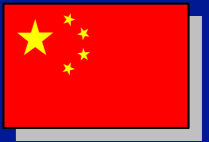
## Economic structure in China: state sector

- State economy includes all enterprises that are funded by governments of various levels.
- It also includes such companies and business entities that once were funded by the state but now receive no state funding.
- Due to the socialist system, most of the companies in this economy is responsible for state planned production, most of them are not profitable.



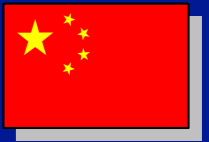
## Economic structure in China: collective sector

- The collective sector is the most dynamic sector in China's economy.
- Companies in this sector are called xiangzhen qiye, or towns and village enterprise.
- They are funded by collectives such as village, or a neighbourhood.



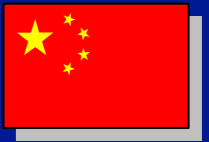
## Economic structure in China: private sector

- In spite of rapid growth of collective enterprises, the quasi private concerns, true private sector is growing but not conspicuously.
- Business in this sector tend to be small because of a variety of disadvantages such as company registration, taxation, sheer jealousy from the society.



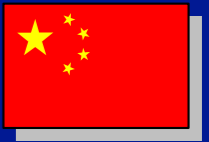
## Economic structure in China: three funds foreign related enterprises

- China prefers foreign investment in manufacturing and in industries which are export oriented or involve technology new to China.
- Since foreign investment is relatively a new thing, laws are not complete.
- In many cases, policies are in the place of laws.



## Economic structure in China: three funds foreign related enterprises

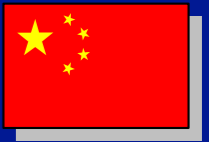
- Three funds enterprises = foreign direct investment in China.
- Three major types.
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## Economic structure in China: three funds foreign related enterprises

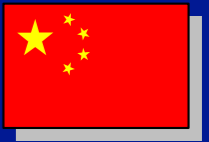
- *Three major types:*
  - The equity joint venture
  - The contractual joint venture
  - The wholly foreign-owned enterprise.





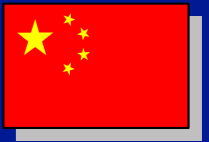
## Economic structure in China: the equity joint venture

- Profit and risk sharing proportionate to capital share.
- Limited access to domestic sales.
- Non-negotiable share holdings.
- Specific requirements for management structure with either party being chairman of the board of directors.



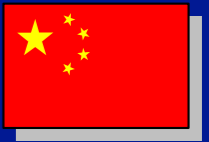
## Economic structure in China: the equity joint venture

- Regulated debt-equity ratios.
- Minimum 25 percent foreign capital contribution.
- Investors restricted from withdrawing registered capital during the life of the contract.
- Each party contributing cash, buildings, equipment, materials, intellectual property rights and land use rights but not labour.



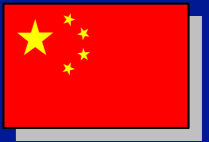
## Economic structure in China: the equity joint venture

- Equity joint venture may only be terminated upon the agreement of the investors and approval of the original investment approval authority.
- From the viewpoint of the Chinese government, equity joint ventures are the preferred form of investment.



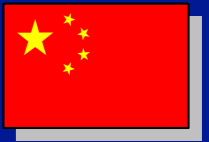
## Economic structure in China: the contractual joint venture

- No minimum foreign contribution is required.
- Contribution is not necessarily expressed in monetary value.
- Profits are divided according to the contract terms rather than investment share.
- Great flexibility in structuring organization, management, and assets are allowed.



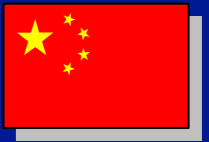
## Economic structure in China: the contractual joint venture

- There are no limits on duration of the joint venture.
- Trade unions are required.
- Foreign investor may withdraw registered capital during the duration of the contract.
- The contractual joint venture is the primary form of small business investment in China.



## Economic structure in China: the wholly foreign-owned joint venture

- *General principles and rules:*
  - The legal status of the enterprise.
  - The conditions for and scope and founding procedure of the establishment.
  - Encouraging and managing the enterprise.
  - Operating and managing the enterprise.



## Economic structure in China: the wholly foreign-owned joint venture

- The company has exclusive management control and enjoys autonomy in operation and management with less Chinese government interference.
- There is no Chinese partner to guide the project through the approval process and other regularity issues associated with construction and operation.



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The End



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