



# BEHIND THE WALL

**HOW TO INFILTRATE CHINA'S  
CLOSE KNIT BUSINESS CULTURE — AND WIN**

*Text and photos by Martin Connelly*



Shanghai, China's largest commercial and financial centre, is also one of the country's most important seaports. It has a permanent resident population of over 14.5 million people.



Shanghai is China's top destination for multinationals. The Fortune 500 companies which have regional headquarters in Shanghai include Vale, Walt Disney and Kraft Foods. Looking to the SMB sector, there are an estimated 330,000 small to mid-size operations in the city, not including unincorporated businesses and individual businesses.

**THE WAY HE TALKS**, you'd think Lee Tseng was an old corporate warhorse, perhaps even a seasoned travelling salesman you might happen to meet in a hotel bar. Someone always ready with a story, or a contact. Someone who's been in the game long enough to have seen it all.

Except, sitting in the Boxing Cat Brewery, Tseng is maybe 30. His shirt is open at least two buttons more than Willie Loman would ever dare. And this is his home turf: the Boxing Cat is his bar.

"I've seen a lot of businesses succeed, and a lot of them fail," says Tseng. "I really feel that at the end of the day, it's about how much homework you've done for yourself. If you come in with a good product, a good plan, and you tweak it so it's in accordance with how the market is

supposed to work? Yeah, you'll have a ton of opportunity. It's an emerging market, and it's great."

Tseng's been doing business in China for eight years, everything from retail to real estate and, most recently, brew pubs. Chinese beer is, by and large, warm and watery. The Boxing Cat's is neither, and he's just opened his second location in one of the trendiest developments in Shanghai.

His secret? A good local team.

"When people come over here, and just jump into something, then you are really only going to survive as long as the team you've been able to build around yourself," Tseng says. "If you come in and have good people who have the local experience, you will have a much higher rate of success."

**WESTERN BUSINESS** people have been working in China for a really long time. Before Marco Polo certainly, though he popularized the Empire as a business destination. Foreigners have been making Shanghai their base in China for a long time too, well before it was divvied up as spoils from the two opium wars of the 19th century.

Today, despite the history, and despite the vestigial imperialist architecture, Shanghai gleams. It looks, more than anything else, like the future. It's home to around 20 million people. There are 106 buildings over 150 metres tall in Shanghai. Canada, by comparison, has just 47.

It is every inch the modern, international city. But the Shanghai, and more broadly, the China, that you tend to

hear about from Western business people sounds more like something merchants could have described back when it was the Middle Kingdom. They might talk about their Chinese counterparts as “inscrutable” — conjuring, with that one word, images of rickshaws and queues. Or they might bemoan the fact that contracts are virtually meaningless, or that bribery is just another cost of doing business. And it certainly wouldn’t be surprising if they said that the most important thing you can possibly have is not money, or even a good idea. It’s guanxi — connections with Confucian baggage.

So the question is: just how international is China’s business world? How do you cull the good advice from the bad? How do you succeed in a place that seems like another world? And finally, is it even worth it?

“You have to ask yourself, am I really interested in this country?” says Audrey Schroeder, an American leadership consultant who’s been working in China since the late 1980s. “Am I curious to have the adventures that will befall me every day if I come here? And am I willing, when it gets so frustrating, to laugh it off and say, isn’t it so great that I’m here?”

**JOHN CHAN**, a native of Saint John and owner of China Streetsmart consulting, will tell you that not only is China a place you can be, but a place you should be. China Streetsmart started out when Chan published a how-to guide (of the same name) for understanding Chinese business culture. Today, the firm runs workshops and does one-on-one strategic planning, often with companies that have been in China for a long time, and losing money the whole way.

Chan says he always tells people that success in China does not depend on the amount of guanxi they have. “The number one thing is very simple. It’s (whether) you have the right products or services to meet the needs of the local customer? (The) biggest secret to doing business in China, because everybody likes to talk about the biggest secret, is this: there is no secret. It’s common business sense.”

Plenty of others would disagree. Ivy Wang, who runs the Atlantic Canada Business Network, a Saint John-based firm which helps Atlantic businesses make connections in China, is one of them. “China is very much a relationship-bounded business network. They want to take the time to learn about you, your





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# THE CHINESE PERSPECTIVE

## THOUGHTS ON WHAT MAKES FOR A SUCCESSFUL DEAL



**Viki Yu**, Shanghai Bottlelink Packaging Products Co. Yu deals with foreign clients for Shanghai Bottlelink Packaging Products, and also acts as a broker when her clients need to source other products in China. The conversation was conducted in English and Chinese; the following is a translation.

To us, a good client can give you good business, and a good price. And I find they don't have as many strict requirements on quality, you know. Bad clients they will give you a small quantity, but ask for a very low price, and have very strict guidelines on quality.

Usually we don't like bargaining, but some clients we'd like to discount. So we will try to discuss with my factory, and if we can give them a concession we'll try to do it. Maybe one or two per cent — then everyone will be happy.

Not all clients are interested to do business with China. If they don't understand, we can help them understand. We can show them what we can make, and that our prices are good. Of course at first they will be worried about quality and production, but after the first shipment is delivered, they will trust us and establish a long-term relationship.



**Chloe Ding**, Founder of Embrace China, Ding has five years of experience (many of it freelancing) sourcing materials and products, mainly for heavy industry. She studies in London and most of her clients are British and American.

Some clients are easier to deal [with], and because they're not so demanding or picky, they actually find out the whole experience is quite pleasant. Some of them, they have some expectations, and they make things more difficult.

They expect everything will be dirt cheap, and it's not true, or if it's true, then they ignore the other aspects. When it's dirt cheap, it's crappy quality as well. They want to come here and things should be easy, everyone should stand by to serve, and they hope they can get it, and put it on a boat and take it back to sell in their own country and be very competitive as well.

You have to do the work, it's not so easy.



**John Chan**, a native of Saint John and owner of China StreetSmart consulting.

background, your interests and if you are a dependable person.”

Ken Cawkell also swears to the necessity of good *guanxi*. Cawkell is the CEO of Charlottetown-based pharmaceutical company Neurodyn, which just entered into a joint venture with the Shanghai Innovative Research Center. He's been doing business in China for 12 years.

“Chinese business is done through connections,” he asserts. “We've spent years operating in China and really getting nothing for it, if I can put it that way. But during those years of operating in China, we learned the culture as well as you can. And we also were making connections and making connections and making connections. I'm sure you've heard the line it's taken me 15 years to be an overnight success. Well, it takes a long time to develop these contacts over there.”

In a sense, they're all right. You do need good contacts to do business in China, but that's common sense for anywhere you might want to do business. So why do Western business people spend so much time talking about it? Perhaps it's partly because their Chinese counterparts do; a lot of cultural pride goes into generating this kind of national story.

It also depends on your industry. If your company does brand consulting for Chinese luxury goods, you can stand on the strength of your work. But if you need to get government contracts, then yes, good *guanxi* is undeniably important.

Good *guanxi* manifests itself, mostly, as an exaggerated form of wining and dining. Banquets are an expected courtesy, and the often excessive toasting that goes with them. There are reports that some western multinationals bring along fresh faced junior staff, just out of university, to serve as designated drinkers. Respect is shown by purchasing the most expensive liquor (both the local firewater like Maotai and import labels like Hennessy XO), and the rarest dishes (often both bizarre and borderline illegal — shark fin and bird's nest soup are certainly expensive, but hardly the strangest banquet dishes). A banquet for 10 can cost anywhere from \$200 to \$2,000, the later figure being appropriate for entertaining a city mayor or party official.

Katie Lu says such practices are part of the cost of doing business in China. Lu runs PITT services, which serves the Western business community, mostly in Shanghai. She started out doing translation and interpretation but branched into business services when clients asked for help finding qualified personnel. Her business kept growing from there.

She says that her firm is very well connected to the Administration of Industry (AIC) bureau in Shanghai, well enough that she can push documents through faster than the stated wait time by making a few phone calls. But, she's quick to say, it has nothing to do with bribes.

“It's just different forms of showing appreciation or trying to make things go faster. I personally think, for those little things, that's OK. But we're not talking about ... huge bribes, like, I'll buy you a house.”



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## IF THERE'S ONE THING

that most Western business people do seem to agree on, it's that the rules of contract negotiation and fulfillment are fundamentally different in China.

"I find that if I deal with foreign companies," says Lu, "you send them a formal agreement ... before they sign they'll negotiate, 'Can we do this, can we do that?' But for local companies, they sign straight away, but they don't actually follow what's written in it. Because by the time you actually ask them, 'Hey, you need to pay the first payment,' they'll be like, 'Oh, you know, our accountant is on holiday, or she's pregnant.' So contracts don't mean what they mean in the United States or in Canada."

The idea is to set up a good relationship, and then allow contract specifics to change based on market conditions, always keeping in mind that a good deal is one where everybody wins.

Cawkell reports that he was very successful negotiating with his current Chinese partners, precisely because he tried to draft a win-win document. "We wrote a very fair deal, in fact they came over and congratulated me. They said 'This is a very fair deal, in fact, it's so fair, you've done such a good job writing it and we can see that, and we're not even going to change anything in it.' So we just go forward. And that way you earn their trust, and once you've earned their trust, then we become a trusted partner of theirs."

Still, it's not hard to find people who view their Chinese counterparts as exceptionally crafty businessmen trying to milk them for every last penny. John Chan puts it in terms friendlier than most: "There's a famous saying in Chinese, *Tong Chuang Yi Meng*: same bed, different dreams. So the foreign side is thinking, 'I have this great Chinese partner, we're going to have this long marriage, everyone is going to be happy.' The Chinese guy is thinking, 'I've got this great marriage, how do I capitalize on this, to benefit me?'"

His solution? Don't go into a partnership with someone in the same industry. Look for partnerships that could be mutually beneficial, like, production and distribution, rather than finding someone who might work with you for a couple years and then take your design and open a factory down the road. (Don't laugh, it's happened before.)

Chan suggests that it doesn't make sense to assume you understand a new market without some time on

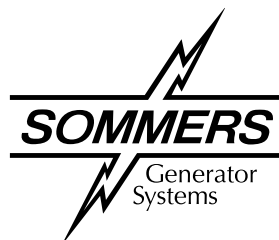
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the ground. "You're already probably a pretty good business person," he says, "because if you're coming over to China chances are you've already been a pretty successful business person in your home market. [But] because you grew up in Newfoundland, and your business partner is from Newfoundland, you understand Newfoundland."

To replicate that success in China, you need to surround yourself with qualified people with good communications skills — people who can get things done, but can also explain why. And you need to find some "old hands," business people who can help you get started, and let you know when someone is trying to take you for a ride. But where do you find them?

During working hours, the Canadian Chamber of Commerce (CanCham) is a good place to start. CanCham has existed in Shanghai (under various names and organizations) since 1996. The organization acts like a matchmaking service for corporate clients and it organizes workshops on everything from human resources to tax law. There are social events too: Hockey Night in China, Christmas, an annual ball and a monthly social called the Canuck Connection.

### AT A CANUCK CONNECTION

event at the Boxing Cat back in February, approximately 40 people came for the beer specials and the chance to mingle.

One food and beverage distributor (there are more than you'd think in Shanghai) whipped an iPad out of the back of his pants to show off the new branding materials he'd just gotten for a line of hard cider. His friend noticed a full sleeve of tattoos that hadn't been there before, and the conversation switched to ink.

In another part of the room, a man who'd come to China to make his fortune recycling ink cartridges spoke to a big money lawyer while two Chinese business guys talked by the pool table. They'd come to "make connections," but were having a hard time fitting in.

As the evening progressed, people drifted in and out of conversations, introduced each other to 'this guy you just have to meet,' and kept going for more than three hours after the event was officially over.

Cards were exchanged, backs were clapped. Everyone in the room seemed excited. Excited that it was Friday, and that the beer was good, but mostly by the fact that they'd made it over the wall. | **ABM**



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