

Chinese people don't talk about politics in public. They don't know the word "no", they need our inventions so they can copy them, they have no appreciation of normal common sense agreements between business partners, they have no experience with capitalism, and they've still got a lot to learn, all round. And beware, because breaches of contract happen all the time. Stereotypical perceptions about the commercial morality of the Chinese and the way they perceive legislation and capitalism are thriving everywhere. In this interview, Chinese-born Tao Yue — founder and managing director of China Cultural Consultancy in the Netherlands — corrects some of our most prevalent mis-conceptions about the Chinese and their way of doing business.

“AS LONG AS WE LEGALLY COVER OUR ASS, WE WILL HAVE NO SERIOUS TROUBLE”

THINK AGAIN: WHEN DOING BUSINESS IN CHINA,
ONLY THE MOST SKILLFUL IMPROVISERS WILL SURVIVE

Interview with Tao Yue, China Cultural Consultancy, the Netherlands
By Christine Højlund Andersen

S *SCENARIO: In your opinion, what is the number one barrier for a European company that wants to cooperate with a Chinese business partner? Is it legal questions, language, the distance or more cultural issues?*

Culture, most generally. Laws, regulations, policies are of course a problem, but these are barriers mainly because European companies are unfamiliar with how to manoeuvre through them. Doing business with China means entering a grey zone — laws and regulations are not as transparent as in the West, and are constantly changing. The boundary between what may and may not be done is fuzzy. Even business contracts are often general and vague, because people are consciously trying to maintain room for flexibility.

This need for flexibility is embedded in the Chinese business environment. It is a crowded market with many competitors, so business decision makers have to move fast, according to how the wind blows. They cannot afford to wait, discuss, make a plan, get approval from the board and finally implement the new decision. China's business environment demands skilful improvisers with

considerable market intuition. Europeans, however, are not comfortable with this high degree of flexibility, which to them means uncertainty. If one cannot deal with this uncertainty, doing business with China will pose a huge problem.

SCENARIO: What is the typical mistake we westerners make when entering the Chinese market either as a production company or a trading partner?

Western companies — in general — are too optimistic. They often take things at face value and presume a good start is half way to success. Doing business with China is intricate. Finding a partner and signing a contract means nothing except good will from the Chinese side. Getting a business up and running depends on many more factors. China is not easy money; it is a long march against uncertainty. As noted, European managers have to get used to the Chinese decision-making style. Never assume Western management style is better, or try to apply it in China. It won't work. And never assume the Chinese do not know about capitalism — they know it inside out!

“Some people compare China to the bus in the movie Speed: it has to keep moving at a certain speed or else it will blow up”.

SCENARIO: Can you pick a country, a company or a sector of industry that seems to be doing well in China regarding these barriers?

Starbucks, IKEA, Unilever, McDonald's ... The consumer products sector seems to be doing comparatively well. China has a large consumer base, especially the growing urban middle-class. These companies target that class. One thing they have in common is that they turn ordinary brands in the West into trendy brands in China.

SCENARIO: As far as growth goes, China appears to be an invincible giant. It's the world's second largest economy and the fastest moving. In recent years, more than 500,000 Chinese students graduated with a degree in engineering, computer science or information technology — which is a lot, even compared with India. What could possibly threaten China's dominant position?

China's domestic problems. China is its own worst enemy. It has many internal issues: the environment, energy supply, wealth distribution, a real estate bubble, unemployment, health care, etc. Many problems are intertwined; any policy move will cause a chain reaction. The government has to keep the GDP growing while trying to solve these problems. Some people compare China to the bus in the movie Speed: it has to keep moving at a certain speed or else it will blow up.

SCENARIO: We often tend to measure the Chinese “threat” by the growth rate, speed and the numbers of engineers. But if we look at the numbers of experienced engineers and experienced managers, isn't it fair to say that China is still young, with a lot of less experienced staff? Is this something European companies can use strategically?

True. Europeans can certainly take advantage of it. China is most interested in European technology and innovation. That's why protecting intellectual property has been so difficult.

SCENARIO: Some might say that children in China aren't raised to think or innovate, but to replicate perfectly — which means that China will always be a market leader in terms of mass production, but not in terms of inventions and patents. Dr Kent Deng from the Economic History Department at the London School of Economics seemed to confirm this point of view in a recent interview.

It is true that Chinese primary education stresses imitation more than invention. But it is wrong to infer that Chinese business is incapable of innovation. Note the Chinese way of learning: when Chinese copy, they copy to learn. Once they understand what they copy, they can then improve it. The learning process goes like this: memorise-copy-reproduce-criticise-invent. Right now China may copy Western products, but will soon invent its own.

Some companies are already very innovative. Take Haier, for example, the big electronics company. It invented a machine to clean vegetables after getting complaints from consumers in rural areas that their washing machines often broke down. It turned out farmers used washing machines to clean vegetables, so Haier redesigned the machine to wash vegetables, and was then very successful.

In addition, China's flexible business environment and company structure make it easier to devise and test new ideas. Take Taobao, for example, China's number one C2C e-commerce company. Its triumph over eBay is legendary. One reason for its success is the way the company encourages intrapreneurship. Employees are free to try out “crazy” ideas; management gives them full support, because employees know best what is problematic — not only technology and products, but also work procedures. So the innovation is both product and management innovation. Western companies, as a rule, take longer to implement new ideas. By the time these new ideas materialise, their Chinese competitors are already ahead.

SCENARIO: If the heart of China's economy is the manufacturing sector, surely the global finance crisis must have influenced this sector, in the light of the fall in exports to the western world? The Chinese government and Chinese companies must have considered new fields to conquer. Which sector will China try to conquer next? And who should be afraid of the Chinese conquistadores?

Look out for automobiles and clean energy. Chinese cars are increasingly popular in world markets, and China is already the world's largest exporter of solar panels.

SOURCES

Janet Carmosky, CEO of the China Business Network: 7 Deadly Perceptions About Doing Business with China, August 2008, <http://tinyurl.com/5krm75>
Geoff Colvin: The rise of engineers in China is leaving the US behind, July 2010, <http://tinyurl.com/343m57d>
Blog post by Phil McKinney: US vs China Parents — What skills do children need to be innovative? <http://tinyurl.com/ybcgt2b>
Blog post: Is china a threat 2 Indian IT companies? February 2009, <http://tinyurl.com/36wk5e9>