

# The Art of Making Friends

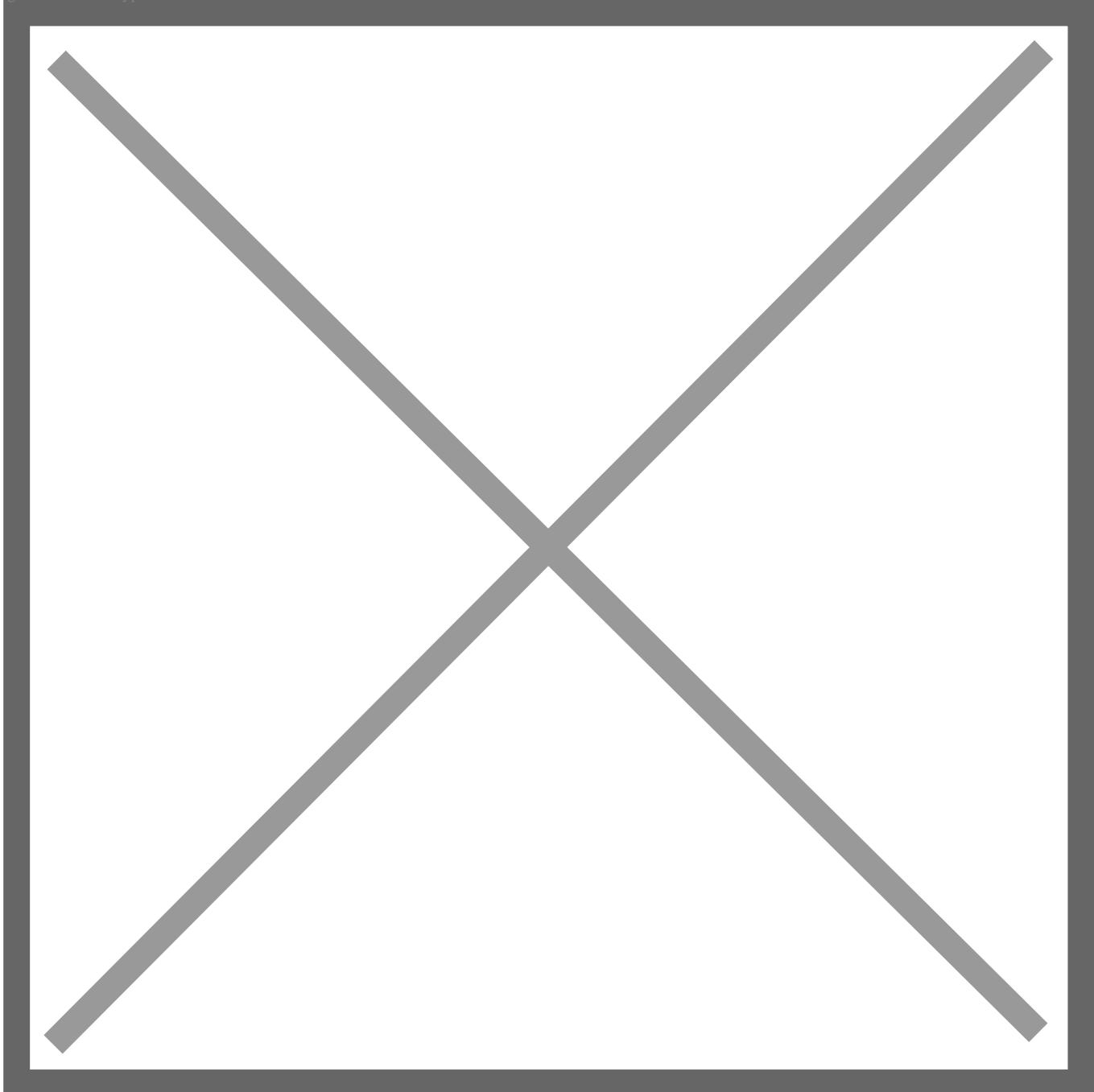
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# Five Tips for Successful Negotiations with Chinese Business Partners

Business negotiations are a national pastime in China. In a marketplace in which many of the smaller shops do not mark the price on their products, buyer and seller alike have to rely on their wits and bargaining skills to reach an acceptable agreement. Even in China's booming internet commerce, "face-to-face" negotiations are of vital importance: not one deal is closed on Taobao, China's largest C2C e-commerce platform, without direct discussions on the details of the transaction via instant messaging services. Essentially, business is done between people, not companies, a fact that differentiates the Chinese business world from the European and causes many of the difficulties European negotiators encounter when dealing with business partners in the market.

## Business Isn't Just Business

Since the distinction between the private and the professional is more fluid, emotions and personal preferences can become decisive factors when doing business in China. The Chinese tend to take a 'holistic' view on business and see this as a central aspect of their culture. Therefore, the terms (guanxi; relationships or networks) and (mianzi; literally 'face', reputation or respect for one's position in the social hierarchy) are part of any entry-level Chinese language class. From an outside perspective, tightly knit networks and awareness of one's relative position in them govern everyday social interaction amongst Chinese to an astonishing degree. Foreigners, and especially Europeans, are usually assigned a rather high position within this social fabric – mianzi therefore oftentimes works to the benefit of the foreign party. Nonetheless, business negotiations can be a daunting challenge for Europeans new to China. Below, we list five tips that will help you level the playing field.

*This article is based on the guideline "Negotiating and Dealing with Chinese Business Partners", which is available to download free-of-charge for European SMEs and intermediaries on the EU SME Centre website. Related resources include: A recording of a webinar on How to Handle Business Negotiations and Establish a Stable Relationship with Your Chinese Partners A recording of a webinar on How to Manage Contract Terms and Reduce Risk in China Our Law Database Our Diagnostic Kit "Are You Ready for China?"*

### 1. Relate

Relationships are essential for successfully doing business anywhere, and especially so in China. Whereas personal and business relations are more or less independent from each other in Europe, the Chinese concept of guanxi encompasses a network of personal connections, such as with family members, friends, classmates and relatives as well as with close business associates. These connections are based on mutual understanding, affection, trust and respect and therefore need to be maintained diligently.

For smooth negotiations and a fruitful and sustainable partnership, you will first need to become part of your business partner's network and he/she will need to become part of yours. This means that you should try your best to become friends, as private relations need to be established before you can start doing business together. To achieve this, face-to-face meetings are essential, so visiting China on a regular basis is recommended. Initially, these meetings will focus on non-business related activities and are likely to involve some amount of wining and dining. If your approach is sincere, however, the real reason for your mutual efforts will enter the equation after a few meetings and negotiations can evolve surprisingly fast thereafter.

## **2. Respect**

As a business owner or upper-level manager involved in international trade, your business partner will command the respect of those around him/her. Admired by friends, colleagues and competitors, they will have come to expect their environment to treat them with dignity and deference. Keep this in mind and act accordingly.

As you are entering into negotiations, you will most likely be awarded a similar social standing. Make sure that this is justified, i.e., always try to match the rank of your Chinese counterpart. Do not send a junior manager to meet the director of your Chinese partner company and likewise do not be satisfied with meeting an accountant if you yourself are managing partner in your company.

At the same time, do not let yourself be lulled into a false sense of complacency by the respect and admiration shown towards you and your company. To a degree, this is a matter of formality and does not necessarily reflect the true feelings of your partner. Also note that modesty is highly appreciated in China, so do not agree with your partner's praises too openly.

## **3. Relax**

Business negotiations can be a drawn-out affair in China. With all the preliminary niceties and noncommittal small talk you might get anxious and try to push for faster progress. Whereas a bit of pressure might help the process along, too much of it will make you seem desperate and therefore make you 'lose face' or, even worse, might be considered an insult, as you are apparently not sincere in your efforts to really get to know your partner.

Showing anger will most likely not be helpful either. It is embarrassing to everybody if a participant in an official meeting displays emotions too openly, and an "attack" on a senior member of the Chinese negotiation team in front of his colleagues is an insult that can ruin the relationship permanently.

## **4. Localise**

To successfully establish business ties in China, local support is essential. A capable and well-connected Chinese team can help you bridge some of the cultural differences, activate their network to support you along the way and develop back channels that might help to keep

negotiations going even in tough situations.

Experienced interpreters committed to your project will also prove extremely valuable, as understanding the nuances of what your counterpart is saying will be important, especially during discussions on the details of the contract.

Finally, the Chinese legal environment and its actual application in day-to-day practice can be hard to navigate for outsiders. Therefore, a local legal counsellor will be of great help.

## 5. Legalise

In China, as anywhere else, you need to familiarise yourself with the legal and regulatory environment before you enter and strictly adhere to it once in the market. A thorough understanding of applicable laws, licences, timeframes and administrative costs will not only help you come up with a realistic business plan, but also improve your bargaining position by preventing your potential partner from exploiting your lack of experience.

No matter how close you think you are with your new Chinese partner after the long courtship and negotiation process, a detailed contract drafted by an experienced lawyer needs to be signed before anything of value changes hands. If your partner is not able to accept that, you should walk away from the deal – no matter how much time and resources you have already invested.

Finally, although the situation is gradually improving, infringement of intellectual property rights is still an issue in China. However, there are ways to legally protect your IP assets in China. To find out how, contact the [China IPR SME Helpdesk](#) and discuss your strategy with an experienced lawyer.

## A Problem Shared Is a Problem Halved

The learning curve for EU SMEs entering the Chinese market is steep, and even experienced negotiators come across situations that leave them baffled on a regular basis. The advice offered here will help you avoid the most common mistakes made by foreigners when negotiating a deal in China, but they are certainly not sufficient to make your entry to the market an instant success. Fortunately, there are many public and private service providers with experience to support you along the way. For an overview, see the first report of our [Diagnostic Kit](#) for newcomers to the Chinese market and the [Service Providers Database](#) on our website.

The right product, a thought-out strategy and willingness to respect the local way of doing things are prerequisites for successful market entry in China; a well-developed business sense, assertiveness and the right support will get you there.