

# *Marketing and Negotiating In The People's Republic of China*

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## **THE U.S. MARKETING ADVANTAGE IN THE P.R.C.**

China is a rapidly changing country with vast undeveloped resources, a population of well over one billion, and by Western standards, a practically nonexistent infrastructure. China's needs are tremendous and much of what it needs will have to be imported. The Mao philosophy of "we can do it ourselves" has been reversed. Under Deng Xiaoping's leadership the viewpoint now is, "If we are to ever catch up, we need and want Western technology and expertise." To pay for this China must export. The Chinese fully realize that the U.S. markets are not only the largest, but also the most open.

As proud people, the Chinese place great value on having, and being associated with, "the best." With rare exception, the Chinese still regard American expertise, technology, and equipment as the best in the world. Chinese officials who have the opportunity to travel abroad regard a trip to America as being more prestigious than to anywhere else in the world. The Chinese still remember and generally regard Americans as the most generous of people, almost to the point of naiveté. Perhaps partially because of this, they also regard Americans as the easiest people with whom to negotiate.

By contrast, the Japanese, even before the strengthening of the yen against the dollar, were somewhat at a disadvantage compared to Americans. The Japanese have a closed economy and the Chinese realize that Japan is unlikely to open up its markets on a large scale to Chinese imports. In addition, the Japanese

are generally more reluctant to provide the technology transfers desired by the Chinese. The Chinese also regard the Japanese as tough, shrewd negotiators with whom they would prefer not to deal. For a long period the Japanese were the only suppliers available and, from the viewpoint of the Chinese, took advantage of the situation by providing second-grade equipment, high-cost spare parts, and inadequate service for the equipment on which the Chinese had become dependent. The Chinese remember this with some hostility that is compounded by historical animosities lingering from World War II and before. As a result, Japanese products do not enjoy the same level of repute as they do in the United States.

With the exception of German products and technology, European goods and expertise do not seem to be highly regarded by the Chinese. Additionally, the export market to Germany, or even to all of Europe, does not offer the same potential as that of the United States.

Political considerations aside, these reasons alone dictate a strong incentive to develop and increase continuing economic relationships with Americans. They provide the competent American businessman an initial marketing and negotiating advantage, both in comparison to other foreign competition and in dealing with the Chinese. However, that advantage can easily disappear unless one is a good negotiator and understands how the Chinese tend to think and behave.

## **SOME BACKGROUND**

Over the past several centuries, the controlling and sometimes oppressive presence of strong foreign powers had intensified an already ingrained distrust of anything foreign. Dealings with the Chinese have consistently reflected this distrust, which has been compounded by over thirty years of virtual international isolation. This isolation produced a generation of individuals who were unsophisticated in procedures and methods commonly accepted by the international community. Certainly not all, but some of the apparent

rigidities encountered by Western companies during the '70s and early '80s, were little more than attempts to cover up the sense of inadequacy resulting from this lack of sophistication.

Fear was an overriding concern of all Chinese who lived under the Mao regime. Failure was severely penalized. Until recently the fear of failure, added to the concerns about appearing unsophisticated, doomed many attempts at negotiation. Though not completely eliminated, the fears concerning failure have been dramatically reduced by the less repressive policies of Chinese leader Deng Xiaoping. Also, over the past few years, the Chinese have become more sophisticated and knowledgeable concerning modern methods of international trade and are thus less defensive in their interactions. They are also becoming more flexible and "realistic" in their demands. The requirement that Chinese nationals working on foreign projects be paid international wage rates is but one example of areas that are much more negotiable today than in the recent past.

Anyone who has traveled to the People's Republic of China to negotiate a business deal prior to the ascendancy to power by Deng Xiaoping may still have serious doubts about concluding viable transactions with the Chinese. After spending over three months in the P.R.C., conducting negotiations for several projects including a U.S. geothermal power plant installation in Tibet and meeting with many senior level political and economic leaders, it became increasingly clear that there is an entirely new operating climate. Opportunities for American businesses are greater than ever. Westerners who experienced the disappointing, frustrating starts and stops of the mid and latter '70s should take another look.

Although China is still a controlled society, Mr. Deng's political, economic, and social reforms have rekindled the industry and entrepreneurial spirit of the country. The socialistic "iron rice bowl" is being replaced with rewards for initiative and production and with penalties for non-production. Economic betterment is no longer considered bourgeois and

counter-revolutionary. In fact, just the opposite is true. Personal betterment is now officially viewed as a proper aspiration and an example for the betterment of the entire society. In recent years this new attitude has resulted in greatly improved quality control and far more timely delivery—a radical change from only a few years ago. The advances in agriculture and energy have been phenomenal. The lessons learned are being applied and adapted, also with great success, to the industrial and commercial sectors.

In traveling throughout the P.R.C., from Tibet to the northern provinces of Manchuria, I observed, firsthand, that the effects are both broad based and extremely popular. From Chendu to Jilin, the people, from all walks of life, were consistently positive and openly communicative in their endorsement of Mr. Deng's policies.

The problems and dangers of rapid change are not to be minimized and there are significant forces opposed to these changes. As with any controlled society, either because of ignorance, avarice, or politics, newfound freedoms are often abused and taken to extremes. With the abuses comes the pressure to reestablish controls. With the rapid testing and trying of new economic freedoms, there will be mistakes and abuses and there will be "adjustments." The adjustments have and will continue to produce occasional back-stepping for both political and economic reasons. None-the-less, Mr. Deng has done a remarkable job of balancing these forces and tendencies while continuing to implement fundamental changes. Even with the eventual passing of Mr. Deng, too much of significance has occurred, with broad popular support, to believe the Chinese people will allow a reactionary return to the insularity of the past or the broad excesses of the devastating and now highly disreputable Cultural Revolution. Despite the frustrating periodic back-stepping, the trend is progressive both for China internally and for an increasing dialogue with the West. China is learning and is proving to be a quick study.

By contrast, the Soviet Union, because of its relative lack of an entrepreneurial history and a longer dependency period under a centralized controlling authority, will find it much more difficult and traumatic when a less centralized and more capitalistic society occurs. Hence, although by no means should the difficulties and dangers be in any way minimized, investment in the P.R.C. offers a significantly better chance of success than in the Soviet Union and will likely remain so for at least the next generation.

## **NEGOTIATING WITH THE CHINESE**

### ***The Importance of Integrity and Trust***

One of the most important aspects to remember in dealing with the Chinese is the extreme importance placed on personal trust and integrity. One must be very careful to always deliver what is promised. The Chinese will be testing constantly to determine the nature and character of the person with whom they will be dealing. Therefore, it is imperative that the American negotiator not only demonstrate personal integrity, but also have enough awareness of the cultural and language differences to avoid misunderstandings due to misinterpretations of what is being promised.

The Chinese, much more than the Westerner, think, act, and live in a longer term perspective. They tend to demonstrate a high degree of loyalty to those who have proven themselves trustworthy. Once the desired credibility has been established, opportunities will appear out of the woodwork and many of the normally tedious bureaucratic delays will be “miraculously” reduced. The Chinese seem uncomfortable with large impersonal corporations and base most of their business relationships on personal trust. Westerners sometimes forget this and rely too much on their company’s reputation and not enough on personal relationship development.

### ***The Importance of Patience and Sensitivity***

Compared to Westerners, the Chinese demonstrate far

more patience. Displays of disappointment, anger, or impatience are regarded by the Chinese as indicative of a lack of maturity or sophistication. Anger, much more than in America, communicates a loss of control. Any sign of impatience is regarded as weakness. They also place far greater value on protocol and manners.

Westerners may be told repeatedly, and will agree intellectually, that patience and graciousness are vital in dealing with the Chinese. Nevertheless, these two fundamentals are continually violated, often at great cost. Too often Westerners, and Americans in particular, with their “time is money” viewpoint, rationalize impatient actions as “getting down to business.” They tend to “react” to any form of delay and in their impatience make one concession after another, all very neatly justified. Realize that in dealing with the Chinese, negotiations can and probably will take unexpected and, as it appears to the Western mind, radical turns. Particularly in initial discussions, expect both unanticipated delays and unanticipated progress. It is extremely helpful to one’s mental state, as well as to the negotiation, to develop a more “oriental” or philosophical attitude about these “ups and downs.” Learn to take them in stride rather be frustrated by them. It is the overall progress with which one should be most concerned, not the momentary shifts.

Culturally, the Chinese are much more group-oriented than Westerners. For all practical purposes, individual responsibility and decision-making do not exist in China. Instead these tend to be part of a shared process much more so than in the West. To the independent, decisive Westerner, encountering this can be a tedious and frustrating experience. It is essential to realize that not only is this an ingrained way of life the Chinese have found to be workable for centuries, but also this generation has experienced the excesses of the Cultural Revolution where individuals were shot for making “bad” decisions. Caution and shared responsibility are viewed as essentials for survival by most Chinese. In negotiations, they are expert at using this to practical

advantage to obtain concessions. They can appear to be sympathetic to your point of view, but then will point out how others (usually faceless and unnamed) will not approve until certain changes, additions, or “corrections” (i.e., concessions) are made.

Learning to say “No” in an acceptable way is an art in dealing with the Chinese. It is vital to realize that the Chinese form of communication is much less direct than that of Westerners and particularly when compared to Americans.

Rudeness aside, American directness can be a liability simply because the Chinese are not familiar with how to deal with a direct “No.” As far as they are concerned, it provides them with no options. They need to be given the opportunity to drop or change their demands themselves. Often this can be simply and graciously handled by patiently listening to their concerns, acknowledging that you understand them and without saying “No,” courteously point out the difficulties involved. Holding this position over time, reemphasizing the difficulties, gives them the message that you mean “No.” They then have the opportunity, on their own initiative, to modify or propose alternatives or, as is occasionally the case, simply not bring up the issue again. Thus they do not have to report a rejection or dilemma to their superiors. You have allowed them a sense of control but have lost none yourself. You have given them the message “No,” but in a way in which they do not lose face. You have avoided a potentially difficult, if not deadlock, situation. They will be acutely aware of your adroitness and you will gain their respect in the process.

While this less than candid approach may be somewhat unpalatable to some Americans, it is not only appropriate in dealing with the Chinese, but communicates an understanding and allowance of their way of communicating and dealing with issues. Not to do so communicates an arrogance and a lack of sophistication concerning the Chinese way of doing things.

The fact remains that Americans, largely because of their impatience and lack of sensitivity, are generally poor negotiators. When you do concede, do so slowly and only in small increments. Realize and apply this principle in any negotiation. Patience is a virtue and no place is this more valid than in dealing with the Chinese.

Polite understanding, combined with patient willingness to hold one’s position, will garner respect and enable one to limit the amount of concessions actually given. When selecting a representative to deal with Chinese negotiators, a consideration even senior to functional expertise, is the individual’s ability to handle any set of circumstances (and some definitely will be trying) with strength, dignity, graciousness, and patience.

### ***Properly Valuing Training and Instruction Factors***

The Chinese want to become knowledgeable and self-sufficient as soon as possible. Therefore, in many cases, training and technology transfer are equally, if not more, important to them meeting functional product specifications. They usually will demand incredible documentation and detailed specifications on all technical product deliveries. On the other hand, they will tend to leave the limits of training and technology transfer, to which you are agreeing, more open-ended. For those Westerners whose main concern has been “getting the sale, there has been a tendency” to brush over generalities in the training responsibility section of agreements. For some, this oversight has been incredibly costly. It is imperative that the limits of training and technology transfers be specifically defined. If this is overlooked, not only can it be costly, but it can be the basis for major upsets and disagreements which could very well adversely affect future relations far beyond the current project’s bottom line.

Chinese technical personnel and engineers usually are very good at addressing problems with very creative

makeshift, but temporary, solutions. They are also very bright on the conceptual side but tend to be weak on long-term practical applications. This becomes obvious when one sees how some of their brilliantly conceived and designed projects can, when completed, function at low levels of efficiency while being badly maintained. There appears to be a conspicuous discrepancy between conceptual and practical application abilities. This can be quite frustrating to the Western project manager, but at the same time it offers opportunities on the educational and training side.

### ***“Typical” Chinese Negotiating Procedure***

From my experience, the following sequence of events is likely to occur in most negotiation situations:

1. The Chinese will try to instill the feeling that you should feel fortunate in even having the opportunity to deal with the China market. Throughout the discussions/negotiations, they will continue to stress that current concessions will reap much larger future rewards. They will also repeatedly make the point that you can afford much more than they.
2. They will generally refuse to say what their budget is and expect the seller to make the first offer while they stress what the competition may offer.
3. Once your price proposal is presented, apparently meeting all of their specifications, they will, without making a counteroffer, expect major price concessions.
4. Once this is accomplished, they will state and hold their price position, add additional demands, and make only relatively minor concessions, if any. When pressed about price they will simply state that paying more is beyond their control because that is all that has been approved. This stage of negotiation does not usually occur until you have invested considerable time, effort, and resources.
5. Now the technical appendices, which you thought had already been approved, are “reviewed” once again. Here it can be predicted that new demands, requirements, and specifications will be added with little, if any, willingness on their part to pay more.
6. By the time the Chinese “finally” get to the signing stage, there will be a tendency for you to gloss over those “minor” details—potentially a very costly mistake. Remember the importance and value of patience. Tactically, the Chinese are excellent nibblers and will attempt yet again to obtain additional concessions at this stage.
7. A signed contract does not mean an end to the negotiations. To the Chinese it simply confirms there will be continuing “negotiations.” Particularly in China, there are no absolutes and no really final agreements. You can be assured that any generality or “loose end” in the contract will be subject to new interpretations and therefore re-negotiations at a later time.

In general, the Chinese are very good negotiators. They do have patience, are not afraid to ask the “impossible” and are excellent nibblers. These should not threaten or pose major difficulties for the Western negotiator provided that he/she is adroit enough to avoid the common mistakes of most “would be negotiators.” Those are: not enough real attention to the needs and viewpoints of the other party; lack of listening and in-depth probing skills; impatience; focusing too much on your pressures and needs; setting goals too low or not adhering to them; fear that not “giving in” will “blow” the entire negotiation; too willing to make the first offer; conceding too fast and in large amounts; not being attuned to varying social, cultural, political

differences; not understanding the need for or how to adapt one's communication to most effectively deal with the other party's actual emotional level. These common mistakes all tend to be compounded when dealing with the Chinese.

Development of more than superficial awareness in these areas and the corresponding application skills is crucial to successful negotiation. Lack of them will not only lead to confusions and frustrations but also invariably be quite costly.

### ***Some Practical Measures***

Be prepared to be provided with very little administrative assistance. Small administrative conveniences, taken for granted in the U.S., are not easily accessible in China. If it's at all feasible, bring your own portable word processor and printer. A small copying machine is also a great convenience. Providing one's own equipment usually is well worth the investment.

An expert Mandarin interpreter on your team can save time and can also help eliminate confusion and upsets. When using an interpreter, address questions and responses to the principals, not the interpreters. Always acknowledge, at every meeting, the graciousness and courtesy of all parties. Learn the protocol of exchange, including the proper response to invitations to banquets and other ceremonial events. At banquets be prepared to toast and be toasted many times. Ensure that you eat enough to be gracious and also absorb the alcohol.

Most importantly, expect the unexpected. Take what comes in stride as well as you can, including the delays. Leave your return schedule and commitments as open-ended as possible.

### **THE BROADER PERSPECTIVE**

It is important to realize the major significance of what is occurring in China today. After centuries of abuse, degradation, confusion, and lack of cohesiveness, the Chinese as a nation are on the move for the first time in their modern history. They feel a new sense

of greatness, potential, and pride in being Chinese—desired in the past but never fully realized to the extent that is now possible. This sense, and with it an urgency, is the motivating force behind the Chinese today. Those who communicate an alignment with this and deliver what they promise will be regarded as “friends of China.” Once so designated, barriers will lower and opportunities will unfold.

Don't confuse or get caught in ideologies (Communism, etc.). The names and structures are only vehicles for the Chinese doing what is uniquely Chinese, and doing so in a way that meets their group needs. Nothing is constant, everything changes. The Chinese are culturally and historically more attuned to this than probably any other nation today. Be very careful, therefore, in expressing any generalizations and political biases. Avoid getting stuck in ideological concepts which may have had different meanings in other countries and other times but actually have little relevance in China today.

Acquire a feeling as to what is happening in the country. Avoid becoming overly submerged in the technicalities and tedium of the project at hand. Keep current by reading the China Daily. Visit not only the standard tourist attractions, but walk the streets, visit the shops and department stores, and observe the actions and attitudes of the people. Demonstrate an interest in more than just the business at hand and the touristy items. Be sensitive to the broader political and social priorities. By doing so you will more easily be able to meet their overall needs, gain their respect and friendship, and make the process a much more enjoyable game.

China is still a poor country with tremendous obstacles to overcome. Significant political and structural changes are rapidly occurring. How it was even a few years ago is irrelevant today. Those who competently play the game and assist the Chinese at this critical point in their history will be remembered. However, China is not for the fainthearted. It does

require patience, perseverance, adaptability, and a long-term perspective. Also, the initial investment will probably not be inexpensive. Nonetheless, the needs are virtually limitless and therefore so are the opportunities. With its size, its resources, and an intelligent and industrious population, China's future greatness is virtually assured.

Integrity, patience, focused intention, and good communication and negotiation skills, with the ability to apply them within a Chinese context, are the key elements to success in dealing with the People's Republic of China. Best wishes. ◆

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Note: Although this article was written in the spring of 1985, its perspective and commentary are still valid today.



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Dr. Morler is a frequent Keynote speaker for conferences and corporate events. He received his B.S. from The Illinois Institute of Technology, his M.B.A. from the University of Chicago, his Ph.D. from the University of Maryland, and he is a graduate of the University of San Diego Executive Management Program. Dr. Morler is founder and president of Morler International, Inc., a California based training firm specializing in customized interpersonal interaction workshops.