Navigating Sino-American Business Relationships

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China has rattled the world in a matter of just a few years; the People’s Republic of China has moved from a poverty-striken nation struggling with an oppressive dictator in 1976 to one of the most powerful and international economies in the world in 2010, only thirty-four years later. According to the World Bank, China’s GDP takes second in the world next to the United States with the annual equivalent of US$11.2 trillion. The far-eastern nation has not only financially exploded, but it has also opened up to the rest of the world in this same short blink of history. Americans observe this great progress, combined with the newfound discretionary income of hundreds of millions of Chinese millennials, and understandably rush to invest and build. However, to fully engage in these great business opportunities China presents to the West, foreigners must learn the complexities of China’s unique financial and social environment.

In order to understand these business relationships at any level, it is important to understand national perspectives that the United States and China have held for each other for the last several decades. A recent article on Sino-American media relations by the *International Communication Gazette* offers an interesting perspective gained by text-mining news articles (i.e., by systematically searching for key words relating to American and Chinese trade and finding patterns in the results). Perhaps the most interesting and applicable find in this research is the conclusion that “the state [of China] has over time repositioned itself in response to challenges posed by competitive world powers, especially the United States.” Surely both the United States and China care about their international statuses, but the previously mentioned article shows line-by-line how China has—in the last forty years—taken itself from the perceived position of a poisonous, toy-making industrial wasteland (which was proven to be unfairly exaggerated and largely a misplacement of blame from the perpetrating toy companies) to “a leader in world commerce in which the United States is one trading partner among many.” In both Chinese and American media, mentions of the issues in China have steadily declined, while the frequency of stories about the industrial capability of China, reminders of America’s trade deficit, and
sharp criticism of US interventionism has spiked. In China, the article notes, this change was strongly promoted and planned by a government eager to promote "traditional communist orthodox views." Freestanding attitudes, the "soft-power" campaign launched by China, and modern nationalistic feelings create a wide range of opinions about Sino-American business relations—opinions that need to be understood for private enterprise to succeed in business dealings.

From a more subjective standpoint, tensions between US and Chinese businesses can be sharp and heated. Legal differences, dissimilar social behaviors, and strong government intervention often frustrate Americans, who hold western ideals as their standard. To understand some of these more difficult moments, I spoke with a businessman who wishes to remain anonymous. His experience as a former US Special Agent with the Department of Justice specializing in international law enforcement in Beijing. In the meeting, Chinese officials reported what they were doing to stop illegal use of American brands and technology in the country and ended the meeting with the assertion that China was rigorously enforcing international law. They further claimed that the results of their efforts were the near-perfect compliance of private businesses. The agent further explained that for the entire meeting, he and his coworkers were irritated at what they considered a clear lie. When the meeting ended, they all exited the building. As the motorcade of government officials left the Chinese government compound, they passed shop after shop selling USA trademarked and official cards, is essential to participation.

At the beginning of each meeting, each attendant will set his or her name card on the table by his or her seat and then spend time casually talking while circling the room and looking at other cards. When the meeting starts, everyone in attendance already knows whom to give deference. One of the key members unique to every important Chinese business meeting is a government representative who always deserves an elevated level of respect because of his or her sway on the political relationships of the company with the Communist Party. These traditions, Dr. Heath explains, clearly stem from ancient Confucian ideals of honoring those in higher rank or authority. The relationships "ruler to subject, father to son, husband to wife, elder to younger, and friend to friend" thus receive the analogous addition of "manager to employee" or "CEO to CFO" in a business setting. To an outsider, this sort of ceremony and placement of respect might seem overly time-consuming, unexplainable, and frustrating. However, to the Chinese, this is a sign of respect to all in attendance and a way to prepare for the business ahead.

These Confucian ideals create another cultural phenomenon often misunderstood by foreigners. To a traditional Westerner with the belief that all people should be treated or esteemed equally, it poses no problem for a worker to appropriately and tactfully disagree with or contradict his or her supervisor. In fact, these types of employees are often lauded as brave and innovative by coworkers as well as by the higher-ups they confront. However, to a twenty-first century Chinese company still heavily influenced by Confucian ideals, suggesting something different from what a manager puts forward is often considered disrespectful, inappropriate, or brazen.

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The Keys of Joint Venture Control

1. The power to appoint and remove the China joint venture's legal representative.

2. The power to appoint and remove the general manager of the China joint venture company.

3. Control over the company seal, or "chop."

true, but that’s what he wants to hear, and I see that every day. They think we’re arrogant punks because we stand up and say ‘wait’ in a group, or school, or public forum or dare question a politician. . . . They would never do that. Never. And it carries over to business where the boss is always right, whether he’s wrong or not.” On this point, the rebellious, independent workforce of the West must simply swallow this difference in ideals to make ground for more important areas of bargaining. In order to cooperate at all with Chinese business, Westerners must learn to do: preserve the boss’s reputation in public and tactfully make suggestions and corrections in private.

Furthermore, foreigners intending to interact with China must learn to overcome dealing with a much stronger and involved bureaucracy. Because China’s financial system is a command economy (an economy where government commands and directs economic activity), top officials of the Communist Party of China commands the China joint venture company.

The power to appoint and remove the China joint venture's legal representative, world’s companies interact as independent entities with intellectual property are exchanged. Whereas the Western financial system is a command economy (an economy with a top-down bureaucracy. Because China’s financial system is a command economy, the China joint venture company must simply swallow this difference in ideals to make ground for more important areas of bargaining. In order to cooperate at all with Chinese business, Westerners must learn to do: preserve the boss’s reputation in public and tactfully make suggestions and corrections in private.

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As foreign investors, they make a mistake that effectively leaves them without control—a mistake that has affected national joint venture law. “In the past, foreign investors have made a mistake that has influenced the experiences and expectations of foreign investors in China,” said an American lawyer who has worked in China for several years. “Our China lawyers are well aware of these rules, and unfortunately often use their more detailed knowledge of them to take advantage of foreign investors. Story upon story is told of companies losing rights to management after the necessary skills and technology of a company are gained by local Chinese forces.”

According to Harris & Bricken, “The Chinese side to a joint venture will typically refuse to give the foreign party . . . measures of control. It will argue that it should control the joint venture for reasons of both efficiency and expertise. In many cases, it also will claim that it cannot bring its political connections, or [guanxi], into play unless its own people fill the legal representative and general manager slots. This argument is usually just a smoke screen for the Chinese side trying to secure the true levers of joint venture control.”

These complexities are made even more difficult when considering the way bosses, superiors, and authorities are treated in Chinese culture. Mr. Kramer reiterated what Mr. Kevin had stated in a previous interview with his own interpretation of Chinese relationships in a company. When asked if he would prefer working for a Chinese boss or an American boss, he responded quickly, “An American.” He discussed his current relationship with his Chinese boss this way: “In most cases, I will follow his orders, even if it is absolutely incorrect or even ridiculous. And I’m pretty sure that 99 percent of Chinese workers will have the same choice as mine. It’s a sad story, but that’s true. Especially for traditional industries. But this is not the case for AI or the computer industry. Because in these industries, the lower level of employees, if they don’t like the boss, they say, ‘Okay, I can quit. I can find a boss who is better and where the pay is better, too.’”

Mr. Kramer is not the only one who has recognized that the times may “be-a-changing” for business in China. As one example, Tesla is expected to be capable of negotiating unprecedented deals for foreign automobile companies in China because of its electric vehicles. Bloomberg states, “A relaxation of the joint venture rule would give companies like Tesla Inc. the opportunity to set up fully owned manufacturing operations in China, the world’s biggest market for electric vehicles.” This would be in line with goals created by party officials to reduce carbon emissions. Business Insider reports: “From China’s point of view, easing the JV rules could spur considerable production of electric vehicles and related infrastructure, as powerhouse western carmakers position themselves to grab new market share. For Tesla, not having to go through the JV process could rapidly accelerate its move into China. But Tesla’s much larger and more China-experienced competitors might not like it. A carve-out for Tesla, even if they also benefit, could lead to charges that Musk and his company gained preferential treatment by avoiding the JV policy.”

At a Tesla store in Hangzhou, China, a native Chinese employee shared his own confidence that the company will continue to spread throughout China and be a strong part of China’s goal to go electric.

Other major changes to Chinese business are seen on the social level with the rise of Chinese millennials. According to a study by Howarth, a global furniture manufacturer that observed employees in AirbnB, IBM, Honeywell, LinkedIn, Shell, and other companies in China, Chinese millennials are set to make changes to the workplace. “They are one of the most unique generations in history, and nowhere is this more pronounced than in China; rarely has so much change occurred in just one generation. Four major factors have influenced the experiences and expectations of the Chinese millenial—Economic Reform, One Child Policy, Technology Boom, and Traditional Systems.” According to the study, the Chinese workplace is set to shift from “standardized to personalized,” from “hierarchy to communal,” and from “escape to embrace” as millennials take charge. Foreign entities can only hope that these changes will help make Sino-American ties more open, understandable, and efficient.

Relationships between American and Chinese companies have never been more important or profitable as they are now. With linguistic, moral, governmental, and legal systems developed entirely independent of each other for thousands of years, these relationships also prove the most difficult and complex to navigate. These associations typically culminate in joint ventures where both parties fight for dominance and control of the company and where Chinese government influence is often used as leverage against the economic strength of American companies. From the car industry’s careful planning described by Jim Allen to international copyright bought by a U.S. Department of Justice agent, it is clear that guanxi, hard negotiation, and clear understanding of law and local officials is vital to enterprise between USA and Chinese businesses.

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—Accounting manager at a top Chinese life insurance provider