

# Chapter 12

## When the East Meets the West: A Retrospect on China's Negotiations with Foreigners

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*In 1996, Hangzhou WAHAHA group, French Danone group and Peregrine Investments Holdings reached an agreement through negotiation to establish a joint venture (later Peregrine transferred its shares to Danone group). Thanks to this transaction, WAHAHA solved a cash flow problem and enjoyed rapid growth; meanwhile, Danone Group enjoyed the benefit of sharing "WAHAHA", which is an excellent brand. Their partnership should have been a role model of "win-win" cooperation. However, in 2007, a battle broke out between WAHAHA and Danone over corporate control. WAHAHA accused Danone of trying to purchase its non-joint venture companies at unreasonably low prices. Danone claimed WAHAHA founder Zong Qinghou took advantage of his control of WAHAHA group to establish a large number of non-joint venture companies under the WAHAHA trademark, which violated the agreement and undermined the interest of the major joint venture. To resolve the dispute, Danone took WAHAHA to court. WAHAHA launched a two-pronged response: it actively responded to the law suit and launched a media campaign featuring nationalism. During the course of this dispute, there was a lot of action on both sides, such as employee representatives and franchisers of WAHAHA openly supporting Zong Qinghou, Danone group accusing Zong Qinghou of forging shareholders' signatures, and much more.*

*The cause of such a "Chinese-style divorce" was in fact changes in the power of both sides of the joint venture during its 10 years of operation. The rapidly growing WAHAHA gradually dropped the "modest" attitude it had at the beginning and began to object to Danone's rude and unreasonable request for revenue increases, fussy bureaucratic reporting and approval system and its arrogant attitude of "free riding". While holding 51 percent of the joint venture, Danone in the beginning took the position of the stronger side, but later had to surrender its power of corporate management to Zong Qinghou. As a result, both sides became dissatisfied with the original contract.*

*From the conflict between WAHAHA and Danone, we can see that negotiation in the general sense is not only about doing business at the bargaining table, but also about wrestling and cooperation away from the table. The negotiation is not only dependent on the negotiating skills of both sides but involves the influence of all stakeholders, such as the*

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*media, employees, third parties and so on. Meanwhile, with increasing operational experience, increasing corporate strength and the widening international horizon of Chinese enterprises, the game between China and the rest of the world has undergone a delicate transformation. Such a transformation directly affects the rules, strategies and outcomes of the negotiation.*

For modern Chinese, the word negotiation used to be serious and heavy. When talking about negotiation, they would initially think of examples in the diplomatic field, such as the negotiations that led to the establishment of diplomatic relations between China and the US in the 1970s, or China's negotiations to enter the WTO, which lasted 14 years. Because of the importance and political nature of the negotiations, the inside stories of these achievements are usually not available to the public. People can only appreciate the wisdom and eloquence of the high-profile individuals involved; their determination to safeguard the national interest, such as Premier Zhou Enlai at the Bandung Conference, or Long Yongtu during China's negotiation to enter the WTO.

More than 30 years since Reform and Opening-up, negotiations at the political level are still going on, but, meanwhile, negotiations in the economic and social fields are becoming more and more important. The backdrop is the dramatic economic growth since Reform and Opening-up. In 2009, China's GDP was more than 3.3 trillion Yuan, the third biggest in the world. The economic growth facilitated an increase in investment and trade. Statistics show foreign direct investment for the past 30 years in total is 800 billion US dollars. By 2009, the volume of imports and exports had accumulated to 2.21 trillion US dollars. China's direct investment in foreign countries also started increasing. Non-financial investment in 2009 reached 43.3 billion US dollars. In 2008, direct investment in foreign countries realized through foreign acquisitions has accounted for 43.5 % of total overseas investment. Growing foreign trade and investment leads to increasing business negotiations. More and more negotiations are coming to people's attention, such as the annual iron ore negotiations, China-US textile negotiations, and Lenovo's sensational negotiation to acquire IBM's PC division. The outcome of such negotiations can affect the development of the enterprises involved or even the national interest.

When negotiating with Western countries, Chinese negotiators went through a process of the two sides getting to know each other's cultural background and enhancing their negotiating ability. In this chapter, we will summarize the Chinese philosophy on negotiation, review business negotiations from the past 30 years, abstract Chinese negotiator's characteristics or strategy, and identify the characteristics that are the result of the interaction of culture and conditions. In Sect. 12.3, we will analyze some key negotiation cases from the perspective of negotiating power, in order to draw a detailed picture of the situation.

## 12.1 Harmony and Victory

Some people use a metaphor to describe the negotiating features of Americans and Japanese. Americans take negotiation as a sporting competition; winning the game is the ultimate goal, punching and attacking are the methods to win. Japanese think negotiation is a family reunion. Members of the family sit together and discuss how to assign everyone's responsibility, therefore family harmony is important. However, whether the Chinese philosophy of negotiation is "Harmony" or "Victory" is still a mystery.

Western researchers usually divide negotiation into two categories: distributive negotiation and integrative negotiation. Distributive negotiation is a bargain that distributes a fixed resource between two negotiators so that the more one gets, the less the other gets, such as negotiations on iron ore prices. Integrative negotiation always includes several items, and both sides have a different priority of interest, therefore a "win-win" outcome can be achieved through the exchange of interests. Negotiators always employ different strategies in pursuing the different categories of negotiation. In distributive negotiation, the purpose of the negotiator is without a doubt "Winning"; whereas in integrative negotiation, the negotiator pays attention to both "Winning" and "Harmony"; in other words, taking care of the interests of both sides, and together making the pie larger.

The negotiation philosophy based on the above mentioned negotiation categories, however, does not suit Orientals. As stated in the beginning of this chapter, Chinese people traditionally take negotiation as an important political or economic activity, usually facing foreign opponents. Therefore negotiation is always a situation of confrontation. Chinese textbooks on negotiation always discuss strategies in terms of how to "defeat your enemy" or how to "play psychological warfare". As a result, Chinese negotiation philosophy has a significant "Winning" characteristic. Quite differently, Western negotiation researchers usually argue from a perspective of culture and value; that due to the influence of collectivism, Chinese people tend to seek "harmony" in negotiations, and tend to take care of the interests of both sides, instead of being competition oriented.

The difference in the understanding of the Chinese philosophy of negotiation is because of the various definitions of "negotiation". Negotiation in Westerners' minds has a broad extension, which can either be political talks in the international community, or be daily discussions among friends. However, negotiation in the Chinese dictionary is quite narrowly defined. It only includes political or important business negotiations. During research conducted by the writer, respondents were asked to state words in relation to negotiation. Phrases like "lash of the tongue", "cheating between each other", and "openly and secretly fighting with each other" were commonly mentioned. This indirectly testifies to the Chinese view of negotiation as unpleasant and hostile, as the word "negotiation" carries a strong meaning of confrontation. Chinese people believe negotiation is not good for relations. In 2009, during basketball star Yao Ming's acquisition of Shanghai Dongfang basketball team, an incident labeled "Negotiation gate" occurred. It concerned whether

Liu Wei, the captain of the team, should stay or not. It is said that Liu Wei set a price to continue playing for Yao's team, but Yao Ming sent his team's agents to negotiate with Liu Wei. This should have been a regular negotiation, but, according to Liu Wei's agent, Liu was deeply hurt by such a gesture because he and Yao had a long, brotherly relationship and he thought Yao should personally take part in the negotiation instead of throwing the negotiation work to his team.

*I said to Liu Wei, you go and make it clear to Yao Ming, I will not get involved, Lu Hao (Yao Ming's Chinese agent) shall not get involved, the negotiation should be between you brothers. If Lu Hao and I get involved, this thing will become a business negotiation, and business negotiations sometimes hurt feelings because you have to achieve business goals through business measures.<sup>1</sup>*

The above remarks reflect Chinese people's common view on negotiation. Therefore, for certain negotiations, people usually change the word to "discuss", "exchange of ideas" or "sit down to have a talk". The slight difference between "talks" and "negotiation" shows the following features of Chinese negotiation philosophy:

### ***12.1.1 The Difference Between Insiders and Outsiders***

Zhixue Zhang and his colleagues say there are three elements in Chinese negotiation, namely competition, cooperation and trust (Zhang et al. 2009). They say "harmony" and "winning" seem to be in contradiction but can be well handled by Chinese negotiators. The guiding principle is Chinese people's distinction between "insiders" and "outsiders".

Fei HsiaoTung believes Chinese people follow the Pattern of Difference Sequence to deal with inter-personal relations. It is like throwing a stone into the lake, ripples are always found. People treat others according to the distance to themselves. The relationship is like a ripple, the further it goes, the thinner it becomes. In negotiation, negotiating with insiders is about compromise, but negotiation with outsiders is a real hard fight. In negotiation philosophy, when discussing with insiders, harmony is always the guiding principle, which doesn't only mean negotiating in a good spirit but also being prepared to compromise and step back on real interests. However, when conducting negotiations with "outsiders", Chinese negotiators always show no mercy and fight really hard. Foreign negotiation experts warn that Chinese negotiators usually take negotiation with foreign companies very seriously, and will use all kind of strategies to "win", so don't think Chinese negotiators will save their power only because they think harmony is important.

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<sup>1</sup> [http://www.nbd.com.cn/newshtml/20091113/20091113222753327\\_2.html](http://www.nbd.com.cn/newshtml/20091113/20091113222753327_2.html)

### ***12.1.2 Harmony First***

Chinese people place different emphasis on “harmony” and “winning” when facing insiders and outsiders, but, no matter whether it is consultation with insiders or negotiating with outsiders, harmony is always important. There are two reasons for this:

Firstly, following the relationship-oriented mentality, people firmly hold the position of avoiding conflict. When negotiation is inevitable, people always hope to maintain the apparent harmony, and the mentality of “never lose your nerve”. As a result, a Chinese negotiator attaches importance to courtesy in negotiation and opposes the negotiation strategy that is too provocative.

Secondly, harmony also serves as a tool in negotiation. Firstly, when in confrontation, stressing harmony can disrupt an opponent's defenses, and win the chance for development. In China's diplomatic fields, the guideline of seeking peaceful development and a win-win situation has been upheld, which shows China's strategy of keeping a low profile to preserve peace when the national strength is comparatively weak. In some circumstances, stressing a win-win outcome is an indirect way of increasing the benefit. In negotiations between China and Western countries, due to a disadvantage in information, overall strength and other aspects, only win-win solutions can be accepted by the other side, therefore it is a practical choice to protect our own interest.

The above description of Chinese negotiating philosophy tells us that Chinese people believe the purpose of negotiation with outsiders is to win, to secure benefits, and the purpose of negotiation with insiders is to reach harmony, to settle problems, to enhance the interests of both sides. But whether to win or to reach harmony, good relations (or seemingly good) is a goal that a Chinese negotiator never gives up easily.

## **12.2 Chinese Way of Negotiation**

In this section, we summarize the major features of Chinese negotiation. Such features, on the one hand are the result of China's distinct culture, such as collectivism, high power distance and so on, and, on the other hand, are also the result of the country's disadvantaged economic situation. Chinese enterprises are in a weak position in all aspects, such as funding, technology, human resources, and management measures. A weaker side's strategy to reverse the situation in negotiations happens to tally with certain cultural characteristics, or such characteristics match the situation of being the weak side, and are fully developed. Therefore, when reviewing these features, we will notice that those features (or negotiating strategies) are the outcome of the interaction between a Chinese negotiator's judgments, based on values and practicalities.

### ***12.2.1 Chinese People's Old Friend***

China is an acquaintance society. Chinese people like to do business with acquaintances. When seeking a foreign partner, they hope to get an introduction from a third party, because they always have doubts about strangers (outsiders). In negotiation, Chinese highly regard the sincerity expressed by the other side; they believe sincerity is the foundation for the success of the negotiation. Once a good relationship has been formed with the other side, Chinese usually hope to maintain it in the long term. For example, in diplomatic negotiations, many individuals have established a deep friendship with China, earning the title, "Chinese People's Old Friend". Dr. Henry Kissinger, the former secretary of state of the United States, who played an important role in the China-US negotiations that established diplomatic ties, is one of them. Because Dr. Kissinger made a great contribution to China-US relations, and shared common views on China-US relations with the Chinese side, the Chinese government accords him high respect and a courteous reception. The Chinese media's comments on him are relatively positive. During a visit in October 2009, Premier Wen Jiabao insisted on escorting and carrying an umbrella for him in Ziguang pavilion at Zhongnanhai. It is worth noting at this point that a Western negotiating guide always warns its readers to be careful about the "old friend strategy" when analyzing the Chinese negotiation style. It believes, once you are called an old friend by your Chinese negotiating opponent, you may forget your interests. It cannot be denied that, in early diplomatic practice, because of the ideological differences, the new China had very few partners, therefore a proper friend-making strategy was necessary: in other words, "to unite with all forces that can be united". But it is still a natural reflection of Chinese people's relationship-oriented mentality to address long-term friendship during negotiation.

#### **12.2.1.1 Roast Duck, Maotai, Summer Palace and Pandas**

If negotiating can be divided into five phases, namely pre-negotiation contact, exchange of information on the project, bargaining, compromise and agreement, American negotiators usually believe the bargaining phase is the most important. They think a deal is a deal, but Chinese negotiators think the first phase is the most important, because this is the beginning of an important relationship. In order to establish a good relationship, Chinese negotiators place a lot of emphasis on many kinds of etiquette. As an old saying goes, "It is always good to have a friend coming from afar." Chinese social rules dictate a host should show hospitality in the form of a solemn welcome ceremony, a long and satisfying banquet, a tour to local places of interest, and the giving of presents. For foreign negotiators coming to Beijing, eating roast duck, drinking Maotai, visiting the Summer Palace and seeing pandas are usually the most important items on the agenda before the negotiations start.

During US President Richard Nixon's visit to China in February 1972, Premier Zhou Enlai expressed a wish to give the US a pair of pandas as a present to Mrs.

Nixon, which was quite a surprise to the US side. The New York Times commented at the time, "Zhou Enlai really touched the heart of the United States", the Washington Post was likewise impressed: "Zhou Enlai conquered the Americans' heart with a pair of lovely pandas". Also, during Nixon's visit, the schedule included a visit to the Great Wall by the US president. But heavy snow fell in Beijing. On Zhou's instructions, the Chinese government mobilized soldiers and civilians to clear the snow from the route from Diaoyutai State Guesthouse to the beacon tower of the Great Wall, to Nixon's great surprise and pleasure. Those moves expressed Chinese goodwill for friendship as well as a determination to remove hostility and reach agreements.

From a Chinese person's view, these moves carry several levels of meaning. First of all, it serves as a lubricant, to show hospitality and consolidate emotional trust. A feast can dilute the hostile atmosphere in business. Secondly, in line with the old saying, "wine in, truth out", Chinese negotiators always expect to find out more about the other side at informal occasions. Thirdly, if the other side agrees to attend such exhausting social occasions, the Chinese think this represents the other side's commitment to and investment in the relationship. Fourthly, they are intended to ease the opponent's nerves through the laughter and drinking.

### 12.2.1.2 Trust Is Important

In Western negotiations, separating the person and the business is always stressed. The focus is on the business not the person, in the belief that "no matter how bad our relationship is, as long as both sides can join hands to face a common problem, we can better coordinate our demand to serve our interests" (Fisher et al. 2009, p. 34). However, Chinese people believe, "be a good person first, then start to do business" and "one should not achieve without credibility". One important aspect for self-review is honesty and credibility. Credibility is the foundation of personal interaction.

In negotiation, negotiators always gauge the credibility of their opponents first, and then consider the business. Sometimes people will stress relations are more important than business, as embodied in the sayings "friends first, business second" and "even if we can't reach a deal, we can still have a friendship".

The purpose of building relations is to build up trust. Such trust is not only recognition of the other side's professionalism and qualifications, but also the emotional acceptance of their character, reputation and so on. The first part is trying to understand the opponents' capability during the process of building relations, the second is to transform an "outsider" into an "insider", so that both sides can follow the "insider's rules", covering honesty, mutual trust and benefit, and a fair distribution of interests.

In 2005, Tan Zhi and the Framedia company under his leadership achieved a "Mission Impossible" in the elevator advertising market, by integrating seven operators in this business in the space of a few months, which gave Framedia 90 % market share and ended vicious price competition. It is widely believed by

business observers that Tan Zhi, as the president of Framedia, made a major contribution to the integration by planning and dominating the negotiations. Head of franchising companies believe Tan Zhi impressed upon them his experience, capability, credibility and trustworthiness. According to a manager of one of the companies that was integrated:

*During our first meeting, Mr. Tan gave me an impression that, although he is not young, he looks very refined. Later on, I found he is very sincere to others. From then on, I started to pay attention to Mr. Tan's background. We also asked a few friends what kind of person Mr. Tan was. As putting the entire company into an unknown business model is like letting our child out of the house, we have to be responsible. When we found out what kind of person Mr. Tan was, we felt reassured. Whatever the business is, the personality of your partner is very important. During our first meeting, I recognized Mr. Tan's sincerity (Xu Yingjing and Li Ping 2008, p. 59).*

Another person had similar remarks:

*Mr. Tan is an easy-going person. He is very good at dealing with people. During the whole process, he made great efforts to work on the people. You have to know, it is the most difficult thing to work on people. They used to be competitors in the market; some of them don't even talk to each other. You can imagine how hard it is to put them together and work on the same project. But Mr. Tan accomplished this project "easily" (Xu Yingjing and Li Ping 2008, p. 94).*

At the early stage of cross culture negotiation, the establishment of emotional trust is more important. As both sides know very little of each other's world, it is very difficult to build trust based on understanding; therefore emotional trust plays a bigger role. Hu Maoyuan, president of Shanghai Automotive Industry Corporation, recalled his first meeting with Phil Murtaugh, president of GM China:

*My first meeting with Murtaugh was at the Detroit Auto Show in early 1996. When we were having a buffet dinner that night, Mr. Murtaugh kept taking care of us, he even served some food by himself. I felt him very friendly and sincere. He gave me a very good first impression. For 10 years after that, we maintained very good relations.<sup>2</sup>*

The trust built by the leaders of both sides in the early stages greatly facilitated the negotiation on a joint venture. Since then, Hu Maoyuan and Murtaugh have developed a deep friendship, Hu even calls Murtaugh his brother, which has further promoted the cooperative operation of the two companies.

### 12.2.1.3 Focus on Face

"Face" is Chinese people's spiritual guideline. Negotiation is an activity containing conflict, but also involves personal interaction; therefore Face is still very important. Chinese negotiating holds it is important for both sides to save each other's Face, to maintain respect for others. The warm hospitality extended to guests is one way to save Face for the others.

<sup>2</sup> <http://auto.sina.com.cn/z/gdfw0811>



If the other side can pay attention to Face, Chinese negotiators are always happy with that. In 1979, Deng Xiaoping paid a visit to the United States as the vice premier, but America upgraded the level of his reception to that of a head of state. Such a move expressed goodwill to China.

*Tang Longbing, who worked in diplomatic protocol fields, sensitively noticed the subtlety in American reception standards: This time, the US side not only broke the conventional practices by sending high level officials to welcome the delegation in Las Vegas, but also raised the standard provisionally when the delegation arrived in Washington. Vice president (Walter) Mondale was sent to welcome the delegation. During Deng's visit to cities outside Washington, other than the constant company of Mr. Woodcock and protocol officer Dubel, special adviser to the president in trade negotiations, three important cabinet ministers, and several senators and house representatives accompanied Deng's visit to different cities at different times. This was a delegated arrangement after thorough research. Ji Chaozhu's memory of this visit to the US proved such a conclusion. This shows the US side knows very well the situation in China... (Li Jing 2009a, b, p. 71)*

During the integration of Framedia, a person in charge of a participating company recalled how he felt privileged to be dealing with Tan Zhi because Framedia was stronger than their company and Tan was much more senior than that person:

*In the end, I told him I needed to go back to consider and talk to the other two shareholders. "But whatever the result is" I said "I feel comfortable to be approached by you personally, because it shows your respect for me" (Xu Yingjing and Li Ping 2008, p. 56).*

Tan Zhi also has an opinion on the importance of Face during the integration negotiations:

*...we always mention one word, in Framedia for the last year, but not the word "acquisition", because in traditional Chinese mentality, being acquired is almost the same as a breakdown. If you say you want to acquire this company, the other side might not feel comfortable because it means I am not capable of saving my company from bankruptcy. So, in Framedia Company, it is forbidden to use the word "acquisition". We changed to another word: "integration". People are getting together, integrated; not I acquired you or you acquired me. It is not about who is incapable, whose company is going into bankruptcy, but about everyone united to do bigger business (Xu Yingjing and Li Ping 2008, p. 61).*

An integrated company manager bore out this point:

*He (Tan Zhi) kept emphasizing that it was integration not acquisition, which is a typical case that reflects his wisdom and capability in working with people (Xu Yingjing and Li Ping 2008, p. 94).*

On the other hand, when a negotiator is in a disadvantaged position, out of a mentality of self-defense, he usually pays extraordinary attention to the respect he receives. During one round of China-US intellectual property talks, both sides agreed to start the negotiation at 9 am, but the US delegation, headed by Lee Sands, didn't arrive until 10 am, after repeated urging by the Chinese side. As a result, the Chinese delegation waited for more than an hour in front of the mass media. Though the US side's move could be interpreted as a strategy to weaken

China's morale, the Chinese delegation viewed it as a humiliation which led to the failure of the negotiations that day (Wu Haimin 2009, p. 121).

As Chinese negotiators place a high value on Face, this characteristic is always used by Western negotiators. In one Western negotiation textbook, the author points out that it is better to negotiate with Chinese face to face than through correspondence, because Chinese are afraid to hurt other people's Face by rejecting the other side face to face.

## 12.2.2 “Feather Fan and Silk Head Dress”

Western researchers believe American negotiators define themselves as the tough guy in US western movies, such as John Wayne. Their characters are independent, tough, and tend to solve all the problems by pulling out a gun and shooting. But for the Chinese negotiator, John Wayne is more like a roughneck. In Chinese people's minds, a negotiator should be a gentleman, who can solve the entire problem easily through his knowledge and wisdom.

### 12.2.2.1 Strategy First

Chinese negotiators see negotiation as a white war, in which strategy is the key. Master Sun's “Art of War” said:

*Therefore one hundred victories in one hundred battles are not the most skillful. Seizing the enemy without fighting is the most skillful. Thus what is of supreme importance in war is to attack the enemy's strategy. Next best is to disrupt his alliances by diplomacy. The next best is to attack his army. And the worst policy is to attack cities. Cities can only be attacked when there is no alternative.*

In other words, strategy is more important than real combat. Ancient classics, such as “Art of war”, “Mo-Tze” and “Intrigues of the Warring States” have served as sources of strategy for Chinese negotiators. American scholar Lucian Pye (1986), who researched Chinese business negotiations, pointed out:

*The Chinese may be less developed in technology and industrial organization than we, but for centuries they have known few peers in the subtle art of negotiating. When measured against the effort and skill the Chinese bring to the bargaining table, American executives fall short (Pye 1986, p. 74).*

According to research, Chinese people use strategies from the beginning to the end of negotiation (Faure 1999, p. 200). For example, compromise is for “throwing a sprat to catch a whale”, asking for negotiations to be held in China is for “luring the enemy away from his base”, intimidating the opponents is for “beating the dog before the lion”. Some even believe the “honey trap” in the Thirty-Six Stratagems reflects the strategy of loosening the other side's vigilance with friendship and

warm hospitality, and “hiding a dagger behind a smile” means obtaining a benefit while maintaining a warm reception to others.

It is also worth noting that the negative outcome of using a lot of strategies would be to leave the impression of dishonesty, because some Chinese negotiators believe the motto in *The Analects* that, “If one does not overstep the bounds in major matters, it is of little consequence if one is not meticulous in minor matters”, and employ some morally questionable measures, such as fraud and lying, to achieve their goals. This also shows the utilitarian aspects of strategies.

### 12.2.2.2 Avoiding Confrontation

Harmony brings business is what the Chinese businessman believes; therefore, they don't like confrontation in negotiation. On the contrary, as Western people see negotiation as a competitive activity, and their heroes are people like John Wayne, they tend to choose more aggressive strategies in negotiation, such as arguing, mocking, interrupting, threatening to withdraw, sending ultimatums, and so on. Chinese negotiators see this approach as a sign the negotiator is running out of alternatives, because a loud voice cannot compete with a clear voice.

Ma Xuezheng is the former financial director of Lenovo group. In 2004, she led Lenovo's negotiation on acquiring IBM's PC division. She recalled one incident during the negotiations on Yang Lan's TV talk show:

*It was Friday afternoon; we were having a meeting somewhere in New York City. The negotiation failed because of one small issue. This was actually a strategy, and all their teams were leaving. They asked us to leave the building and told us clearly, “we are going to talk to another company”. We were in a very difficult position for the whole of Saturday and Sunday.*

It seems Chinese people are not used to such a strategy of confrontation, which might affect the negotiation result with Western enterprises. There are two reasons. One, these measures will hurt the other side's Face, causing Chinese negotiators to feel disrespected; they think such provocative action will ruin the atmosphere and mutual trust. Second, when negotiating with Western companies, Chinese negotiators will refrain from over aggressive action because they feel they are in a disadvantaged position.

When challenged by the other side, Chinese negotiators, following the guideline of being a gentleman, prefer “playing Taichi” to sort out the problems. The following well-circulated but unconfirmed story is a typical example:

*During a US delegation's visit to China, an official commented in front of Premier Zhou Enlai that Chinese people liked to walk with their heads lowered, but American people liked to walk with their heads lifted. Such a comment surprised everyone present. Premier Zhou, however, was not angry and replied with a smile that this was not surprising because Chinese people liked to walk uphill but American people liked to walk downhill.*

Of course, we can't rule out a situation where, when challenged by the other side, a disadvantaged Chinese negotiator will follow the philosophy of “Step back and

have a brighter future” or “A little impatience spoils great plans” and bear the challenge silently for future success.

### 12.2.2.3 Calm, Restrained and Modest but Confident

Chinese people believe in self-cultivation through practicing Taoism. They prefer to remain emotionally neutral, cautious and restrained in response to either honor or humiliation. We often hear from the media, when there is a major international conflict, a foreign ministry spokesman firstly will say, “we call on all parties to exercise calmness and restraint”. In negotiations, people appreciate a calm and reasonable attitude (Kopelman and Rosette 2008, p. 68), believe one should “remain cool even when Mount Tai collapses in front of me” and “maintain a calm face even when there is passion burning in the chest”. Losing one’s temper or striking the table is seen as not being gentleman.

Wu Haimin recalled the performance of negotiator Tong Guangzhi during China’s negotiations to rejoin the GATT (Wu Haimin 2009, p. 30):

*His pipe has a magical function during the negotiation. He uses his left hand to hold the pipe gracefully, blowing a cloud, adjusting his rhythm of talking through smoking. When the most pressing moment comes, the pipe helps him remain calm. Such calmness brings him an imposing manner, makes the opponents feel nervous. In negotiation, it is quite normal to see heated confrontation, Americans like to strike the table or tap the table with a ballpoint pen, but Tong Zhiguang uses his pipe. It looks more civilized to knock with the pipe, because “I was just flicking the ash”.*

Chinese negotiators believe one should be modest but confident. These words constantly appear in some instructive books on negotiation. Firstly, modest but confident shows calmness. Secondly, it means one should conceal his shortcomings, be quiet and patient in looking for attacking opportunities in unfamiliar circumstances. Even when in the weaker position, one should not express concern. This is also an elaboration of the empty fort strategy, one of the Thirty-Six Stratagems.

## 12.2.3 Indirect Communication

The differences in communication between negotiators are most noticeable. In communication, Chinese negotiators have two characteristics, indirect and patient.

### 12.2.3.1 Indirect Communication

Chinese features high-context communication, which means language in communication is part of the message. To communicate and understand the message, you need to get the meanings from the context instead of the language. As a Chinese

saying goes, "There's an end to the words, but not to their message." Chinese Zen is a typical form of high-context communication. From Buddha's gesture to verse, people all need to discern its subtle meanings. Comparatively, most people in Western countries (such as the US and Germany) are more straightforward and frank in communication.

In a high-context culture, people pay a lot of attention to implications in language. During cross culture communication, people can probably overestimate the ability of their counterparts from a low-context culture to catch the implications. Before President Nixon's visit to China in 1972, the Chinese government repeatedly sent out messages of goodwill. However, such messages were too subtle for the US side to understand. Dr. Kissinger related a small story during an interview with Yang Lan:

*Kissinger: Chinese always overestimate our sharpness, and we always overestimate Chinese ability to focus on practical outcomes. For example, in October of 1970, or in 1969, Chairman Mao Zedong stood side by side with Edgar Snow on the stand of honor.*

*Yang: on Tiananmen Rostrum*

*Kissinger: Yes. Mao Zedong thought this move was actually sending a signal of change for better relations between China and us. We were aware of that but, back then, we thought Snow was too friendly to the Chinese Communist Party and didn't take it seriously. We thought China was doing propaganda and didn't pay attention to him. This was in fact a very subtle move made by China but it was a pity we didn't get it.*

By contrast to Mao Zedong, President Nixon expressed his wish to visit China directly to Time magazine. Dr. Kissinger commented, if we say Mao was waving a light sword, then Nixon was holding a big hammer to send his message (Li Jing 2009a, b, p. 43).

Negotiators influenced by high-context culture will prefer indirect communication, such as avoiding sending direct information but beating around the bush. Westerners, especially American negotiators, prefer to take a direct approach in communication. They are used to "putting all their cards on the table" to express their position and preferences on negotiation items.

High-context culture results in frequent silence during negotiation, as Chinese culture underlines the principle of being careful of what you say. Therefore, silence usually is of significance during negotiating. Sometimes silence can achieve a better result; it could be a time of consideration, or an expression that the current terms are unsatisfactory but the negotiator doesn't want to disagree directly for fear of losing Face, or it could be just a strategy. Negotiators from low-context cultures usually fail to interpret these signals. Western negotiation researchers have pointed out that silence in negotiation often makes American negotiators frustrated, which makes them either compromise or keep speaking to fill the gap (and thereby leak more information).

Apart from the cultural influence, indirect communication is a result of Chinese enterprises having less understanding of negotiation rules, the international environment, and the industry situation; therefore, they always take a defensive position and try not to reveal their position as a means to improving their chances of winning.

### 12.2.3.2 Be Patient

Chinese companies usually take a long time in negotiations. There are a number of reasons for this. Firstly, it is because Chinese are mentally oriented to long timeframes, they believe in “more haste less speed” and “with one’s eyes fixed on petty profits, one can hardly succeed in great ventures”.

Secondly, because of Chinese organizations’ long internal command chains, it is always necessary to ask permission from superiors during the negotiating process. If it is a state-owned enterprise, the decision making process is even longer as government approvals will be needed. In the early stage of Reform and Opening-up, when there were inadequate laws and policies, it took a particularly long time. In 1978, SAIC group started negotiating with Germany’s Volkswagen group on introducing the Volkswagen Santana to China. The negotiation didn’t conclude until 1984. Qiu Ke was the former general manager of Shanghai Tractor and Automobile Industry Company, and one of the major negotiators. He became the first president of Shanghai Volkswagen group. He recalled how this negotiation lasted for 6 years:

*30% of the pressure was from outside, 70% of the pressure was from inside. Why? Because the briefing work was quite a lot. In Beijing, we needed to brief 10 ministries, and more than once; if one ministry was not satisfied, the whole project would need to restart again.<sup>3</sup>*

Several representatives of multi-national companies who experienced joint venture negotiations in China have pointed out that patience is the key to business success. In 2003, L’Oreal Group acquired the domestic skincare brand, Mininurse. After 4 years of negotiation, the president for China region of L’Oreal summarized as follows (Xia Xiangrong 2004, p. 47):

*We spent a lot of time communicating with the owner of Mininurse. We told them why we were interested in this brand, why we should cooperate. Such cooperation would bring benefits to the brand, the consumers and even to the Chinese cosmetic market. The merging of two different corporate cultures is difficult; you need a long time to communicate. With communication, our mutual trust was deepened.*

A third reason for long negotiations in China is probably the Chinese people’s appreciation of a spirit for hard work. Classic stories about happiness after enduring long-term hardship are commonplace in China. Western researchers always use the Long March as an example in describing the Chinese people’s ability to endure hardship. So they are able to fight for a long time until they get the best result from the negotiation.

Fourthly, certain strategies will expand the negotiation period. One feature of Chinese negotiation is mobile warfare (or guerrilla warfare) (Faure 1999, p. 200). Using such a strategy, different groups of negotiators will join the talks in a bid to exhaust the foreign side, or ask the same question repeatedly. This strategy is obviously time-consuming.

<sup>3</sup> <http://auto.ifeng.com/culture/culcomposite/20091019/126973.shtml>

### **12.2.4 Focus on Power**

The importance of power distance in the Chinese cultural context is relatively high and can be reflected during negotiations, including in the form of the sensitivity of Chinese negotiators to power, the practice of limited power, and, for foreign negotiators, the importance of government relations.

#### **12.2.4.1 Sensitivity to Power**

Chinese negotiators are very sensitive to power. Many Western textbooks advise that, to negotiate with Chinese, you have to find out your opposite number's title and call him or her by this title. The American style of "Just call me Mary" won't work. Even during official meals, the seating arrangement should be based on titles. If there are government officials, priority should be given to government officials. When conducting important merger negotiations with foreign companies, the Chinese side often thinks the current foreign representative can not make the final call. The final decision will be made when the highest ranking managers of both sides meet. Before the negotiation, both sides should coordinate to make sure the same ranking representatives are being sent. When the negotiation is at the edge of failing, the company president can intervene and solve the problem.

Out of instinctive sensitivity to power, Chinese people even find some seemingly equal negotiations unequal. For example, in a negotiation between seller and buyer, Chinese always think the buyer has the higher position (Faure 1999, p. 199) because the seller should satisfy the buyer. Western research discovered through simulative negotiations that, in the Taiwan region of China, buyers usually gain higher benefit from negotiations, and the benefit is always the manifestation of power.

#### **12.2.4.2 Strategies for Negotiating from a Weak Position**

In negotiation, power (information, alternative plans, status, etc.) determines the final proportion of the benefit. During negotiations between China and foreign countries, especially in the early stage, Chinese negotiators often felt they were in a weak position because of the large gap in national strength, the backwardness of Chinese enterprises in funding and technology, and their unfamiliarity with industry development and international practice. However, some companies can make use of such a weak position to win the game. Basically, there are three strategies that can be used.

The first one is "restrained power". Schelling (1960) pointed out, if well practiced, restrained power can have a positive effect during negotiations (Schelling 1960, p. 27). For example, before the beginning of international negotiations, the weaker country can use propaganda at home to stir up emotions of nationalism, thereby creating domestic pressure. During the official talks, this can be used as

leverage in seeking compromise from the other side. The more common situation in business negotiations is where the representative does not have full power. When negotiating with Chinese companies, foreign negotiators usually find the Chinese representative cannot make a decision on some key issue, but says “we need to report to the supervisors” or “we need to review this at home”. This leads the foreign side to believe it is hard to make the decision, but wins time for consideration. In addition, there are some issues that cannot be resolved due to current national policy; Chinese sometimes use this as a reason to win benefits. Therefore, foreign sides sometimes think Chinese negotiators are too tough and don’t know how to compromise.

The second strategy commonly used is “be ready for change”. In the early stage of attracting foreign investment, many multi-national companies expressed a wish to enter China. Chinese enterprises always take a “shop around” strategy, getting several negotiators to compete with each other. For instance, in 1995, SAIC group sought to joint venture with foreign automobile manufacturers to produce mid and high level cars. After preliminary selection, SAIC group was left with two options, GM and Ford. SAIC’s strategy was to take advantage of the fact that both companies were eager to work with China to seek better conditions during the negotiations and was able to fix those conditions in the principal agreement. This is very similar to the BATNA theory, which is one of the Western negotiation theories.

The third strategy is complementary interest. Chinese negotiators always work very hard to achieve a win-win solution, to maximize their own interest. From the national perspective, Deng Xiaoping pushed forward the “one country, two systems” solution for the Hong Kong issue, which protected China’s sovereignty by replacing the “sovereignty for jurisdiction” proposal raised by British government, while ensuring Hong Kong’s continuous prosperity and stability, so as to achieve win-win outcome. From the perspective of an enterprise, since the early 1990s, Chinese enterprises have adopted the strategy of “market for technology” in negotiating with foreign companies to attract foreign investment, technology transfer and mature management patterns by promoting advantages such as the Chinese market’s potential and cheap workforce. Although such a strategy has proved to have many problems, the ultimate purpose was to achieve a win-win outcome.

#### **12.2.4.3 Government Relations Cannot Be Ignored**

When a foreign company wishes to cooperate with a Chinese company, the local government always needs to help in connecting the two sides, or the foreign company needs to negotiate with the local government. It is vital for the company to maintain good relations with the government.

The CEO of GE China, Steve Schneider, once said, 65 % of his time was spent with government officials and state-owned enterprise leaders (Fernandez and Underwood 2006, p. 225). Some of the time was spent for substantial negotiation



and trade, but at least 10 % was purely for establishing good relations. Establishing government relations doesn't necessarily mean bribery. In a developing country like China, where the laws are not clear enough and there is large room for interpretation, good government relations is helpful in getting the company favorable policy interpretations.

Former Kodak global vice president Ye Ying pushed forward the negotiations between Kodak and the Chinese photographic industry to establish the "98 agreement". Her experience as a US diplomat provided her with good knowledge of how to develop good government relations. She kept expressing Kodak's sincerity and commitment to the Chinese government. With her active efforts, under the framework of the "98 agreement", Kodak secured its exclusive investment in China and integrated the entire Chinese photographic industry.

When SAIC group was conducting joint venture negotiations with Volkswagen, to ensure smooth operation of the joint venture, both sides attracted investment from state banks and government-related groups. Jiang Tao, who was the president of Shanghai Automobile and Tractor Industry Company at the time, recalled (Jiang Tao and Qiu Ke 1998, p. 22):

*... (the German side) had two concerns, one was whether the foreign exchange needed for early operation of the joint venture could be provided, two was whether the government would provide direct support. Joint ventures, especially in the early stage, need foreign exchange to develop; therefore the source of foreign exchange is an important issue. The German side hoped the Bank of China, which manages foreign exchange in China, could get involved to ease the pressure on foreign exchange. We believed this was a reasonable suggestion. We won support from the Shanghai branch of the Bank of China after discussion with their leaders. Approved by the headquarters of the Bank of China, the Shanghai branch invested its foreign exchange and became one shareholder of Shanghai Volkswagen. This has set a precedent for national financial agencies to invest in joint ventures. Regarding securing payment support, this was not a problem, but the German side insisted China was a socialist country and SAIC was a local enterprise, without direct support from the central government, and there would still be obstacles. For this reason, we persuaded Comrade Rao Bing, who was in charge of China Automobile Industry Corporation, which carried the government function, to invest in Shanghai Volkswagen, which played an important role in the success and future development of the joint venture.*

However we have to acknowledge government involvement (such as intervening in the joint venture pattern and long approval process) causes negative effects on the negotiations. With the standardization of the environment, the importance of government relations is gradually reducing.

### **12.2.5 Principle First**

If we divide negotiating style, Westerners negotiate based on interest, with the purpose of solving problems through coordinating interests. But Easterners like to stress position. They prefer to settle the main principle of the negotiation, and then conduct the negotiation with the guidance of that principle. The purpose is to win

the mind game. Putting the principle first is also related to the Holistic thinking of Chinese culture. Chinese people believe everything in the world is connected. You can't take one question separately, but should think of things as a whole. Therefore, negotiators should settle the major principle framework, and stick to the principle. Otherwise, it is impossible to discuss the details. For example, during China-US negotiations to establish diplomatic relations, China insisted the US should end diplomatic relations with Taiwan and US troops should leave Taiwan. On the contrary, many Western negotiators (such as from the US) have no general principle; they think details are the fundamentals of negotiation.

The merit of the principle-first negotiation style is that, as the principle includes several items to be discussed later, accepting this framework means the Western negotiator is accordingly locked into making compromises. The defect in this style is that, as details are not being examined, the negotiation agreement could be very general; therefore, it may not protect their own interests or proceed to good cooperation. Some researchers reviewed Chinese joint ventures and the contracts they signed. They discovered the more detailed the contract is (the more comprehensive, and the more specific the items are), the better the joint venture's performance.

It is undeniable that "principle first" is the result of cultural influence, and also bears the character of that time. Firstly, when a Chinese enterprise is in a weak position, it usually sticks to one or a few pre-fixed stands, which have to be accepted by the foreign side if it wishes to reach an agreement.

Secondly, in the early stage of joint ventures, most Chinese enterprises were short of special qualities, and the understanding of industry practice, management rules, sense of risk and rights awareness. The contracts had to be general. With the increase of negotiating experience, Chinese enterprises went through a learning process and started to be detail- and standards-oriented. In 1996, the former executive director of Hong Kong China Resources Limited, Huang Tieying, conducted the acquisition of C'estbon purified water from Vanke group. He recalls:

*After confirming their intention to sell, we asked for the price range. I found their price calculating formula was quite simple. After my first exploratory price bid, Wang Shi and I took less than 10 minutes to reach agreement on price. This result was quite quick to achieve, but I wasn't surprised, because my experience in acquiring Chinese enterprises was that it was always an easy beginning but a hard ending to acquire Chinese enterprises. It was not only because Chinese businessmen inherited the Chinese culture of "general picture is more important than details", but also mergers and acquisitions were still a brand new topic to China in the 1990s. Not surprisingly, I found the process slow down during the mid-term of acquisitions. Wang Shi complained to me over the phone, asking why your acquisition conditions were so complicated and rigorous. He was mentioning our Hong Kong lawyer's request to Vanke to sign a guarantee letter containing more than 30 items on C'estbon's assets and state of operation. As he kept complaining, Wang Shi was a little angry. He started to accuse us of not trusting Vanke and not being sincere enough for this business. After three days, Vanke signed on the acquisition contract drafted by our lawyer. More surprisingly, during the signature ceremony, in front of his subordinates, Wang looked into my eyes and said, "We should learn from you on future merger and acquisition business. You made us know the difference between professional and unprofessional. Four years ago, we signed a page and half contract to acquire C'estbon,*

*today you used a 30-page contract to buy this company. I wish to invite you to give lessons to us on corporate merging (Huang Tieying 2006, p. 176)."*

It is worth noting that "principle first" firmly protects the user's own position and prevents compromise on certain issues, which may ignore the differences in the point of interest of both sides. Therefore, to a large extent, it reduces the room for maneuver and lowers the possibility of achieving win-win outcome.

Table 12.1 is a summary of characteristics of Chinese negotiators. These characteristics are influenced by culture and values, and carry the features of the time during past 30 years. They are the result of the interaction between culture and context.

### **12.3 The Evolution of Chinese Enterprises' Negotiating**

In recent years, conflicts often happened in Sino-foreign joint venture corporations. Besides the divergence in terms of cultures and management concepts, the more important reason is that small changes happened to the comparative capacities of both parties during cooperation. In the early days of Sino-foreign business negotiations, the Chinese party relied on the foreign partner more. When the comparative capacity of both parties started to change, the previous psychological balance was broken, and changes in the previously arranged benefits were sought. In view of the fact that more and more Chinese enterprises are increasing in power and sophistication, this section will analyze the process of the unbalancing from the perspective of the changes in the negotiation powers of the Chinese and foreign partners. It is expected to provide inspiration for the collaboration of Chinese and foreign enterprises.

#### ***12.3.1 Strong Counterparty vs. Weak Our Side – Trading Market for Technology and Capital***

During transnational negotiations, due to the learning and growth of both parties, as well as increased investment, faster localization, change of environment and other reasons, the overall capacities of the two sides of the negotiation have been changing; thus, the core interests of both sides have also been changing. As this has happened, each party to the joint venture has started to adjust their strategic behavior and sought more management and control.

The negotiation capacity mainly presents as alternative replacement plans, strategies, professionalized management and technology, international support, localized knowledge, logistics channels, capital, shareholdings etc. In the early times of Sino-foreign negotiations, there was a visible imbalance in the above-mentioned capacities between Chinese enterprises and foreign enterprises. We

**Table 12.1** Chinese negotiator's characteristics

	Corresponding cultural feature	Negotiation features when negotiating from a weak position
Chinese people's old friend	Relation-oriented Focus on Face	Showing goodwill during meals and drinks to soften the defensive line; getting to know the other side, and obtaining relevant information
Feather fans and silk headdress	Harmony, avoid confrontation Neutral emotion	Good at strategies Compromising to make a good impression, waiting for opportunity Modest but confident, keep defending
Indirect communication	High context culture Long-term oriented	Withholding of information Keeping silent during negotiation to make others compromise Extending the negotiation to win time
Focus on power	High power distance	Refusal to compromise by claiming "limited power" Achieving complementary benefit by strategies such as "market for technology", "Facilitate negotiation with the aid of government intervention"
Principle first	Holistic thinking	Asking the opponent to accept principle, to win advantage Shortcoming is lack of awareness to rules, the contract formulation is rough; limited negotiation room

could sense this at the GATT conference venue during the early days of China's application to join the WTO:

*The conference venue of GATT is very special: There is a big coffee hall in the middle. People can sit there and drink coffee or beer. Around the circle are many small independent negotiation rooms. The delegations of the United States and European Union were negotiating in the small meeting rooms. Japanese delegations were negotiating with Canadian delegations. Basically, delegations of big countries were negotiating, and representatives of small countries were sitting at the coffee table and waiting. The United States is the most powerful member of the GATT. It had the largest GDP. So, only approximately 30 members negotiated (directly) with China. Another 100 members were counting on the United States to negotiate with China. If China and the United States made an agreement, according to the most-favored-nation clause of GATT, the result would also apply to these 100 countries. Therefore, they just needed to sit there and wait for the news.<sup>4</sup>*

In this uneven situation, the strengths and weaknesses of Chinese enterprises, respectively, are:

<sup>4</sup> <http://www.cnfamily.com/200208/ca499.htm>

### **12.3.1.1 Strengths**

Compared with foreign enterprises, there were only two cards which Chinese enterprises were holding: one is cost advantage, namely using its cheap labor to become the world factory and thereby keeping down the manufacturing cost of international brands, so as to create plenty of room for profit for foreign enterprises; the second is the market status of China. China's huge population made it an attractive consumer market. Setting up in China could provide foreign companies with localized marketing concepts and channels, a lower entry level for foreign products, faster establishment of sales networks, and faster growth of market share. In addition, besides the advantages of local enterprises, the Chinese government also provided favorable tax policies to further attract foreign investment.

### **12.3.1.2 Weaknesses**

However, there were weaknesses that made Chinese enterprises look inferior, even with the above two cards in their hands, and put them in a disadvantaged position in transnational negotiations. The weaknesses of the Chinese side mainly had three aspects: first of all, there was the low technology and management skill. Because of their deficiency in independent research and development capacity and innovation capacity, as well as a lack of efficient and orderly management systems and concepts, Chinese enterprises relied on their foreign partners to bring core technology and advanced management experience; they expected to "trade the labor and the market for the technology and the management skills". The second weakness was insufficient capital. In terms of purchasing advanced equipment, introducing and keeping high tech and management talents, as well as establishing and maintaining high-efficiency logistics and marketing channels etc., most of the domestic enterprises could not compete with those foreign enterprises with solid financial strength. Therefore, at the early stage, central and regional governments used many ways to try to attract foreign capital, including tax exemptions and deductions and other favorable policies. The final weakness was a lack of internationalized brands. Chinese enterprises at the start paid little attention to branding; they did not make an effort to build up and maintain local brands. Their great admiration for foreign brands made the development of a national industry really difficult. In addition, due to low technology and non-standardized quality control, their products were of poor quality and could not compete with foreign brands. Therefore, many enterprises had to give up their own brands and become the factories of foreign companies. The above points show that, at the early stage, Chinese enterprises lacked good alternative replacement plans in terms of the situational factor; in terms of the resource factor, they also urgently needed technology, capital and the support of international brands. Only relying on the local market with a big population and a large amount of cheap labor could not help enterprises effectively integrate manufacturing and operational capacities to reach

the goal of fast development. In this situation, vulnerable Chinese enterprises were more eager to cooperate with strong foreign enterprises.

This imbalance in capacities directly caused an imbalance in the process and results of Sino-foreign negotiations in early times. The negotiation logic of those dominant international companies was “self-centered”; they did not consider the benefits of the weak parties and long-term development. They either viewed the Chinese as a pathway, using the cooperation to ease their entry into the Chinese market or gain more market share; or let Chinese people work for them to decrease manufacturing costs in their global planning. In this situation, the Chinese enterprises, as the weak party, could not obtain the core technology and management experience they wanted; instead, they had to give up more management control and accept the profit and resource distribution shares imposed by the stronger partner. This imbalance ensured Chinese enterprises would seek a more equal “dialogue” after their capacities strengthened. The representative of the Chinese negotiation delegation for entering the WTO, Long Yongtu, once said:

*The reason for difficulties in the negotiations between China and the United States was because, firstly, the US had been very tough; they talked louder because they were richer. The US's attitudes in each years' negotiation had always been: if my requirements are one, two, three, four, then you have to do it exactly; there was no room for negotiation. But Chinese people could not accept this. That's why at the beginning of the negotiation, it was not a substantial negotiation, it was a negotiation of attitudes. It took the Americans five years to finally get used to Chinese people's request for equality in negotiation.<sup>5</sup>*

### **12.3.2 Strong Alliance – The Negotiation of Technology Capacity Combining Skills**

#### **12.3.2.1 Changes in the Negotiation Capacity**

The comprehensive competitiveness of Chinese enterprises has been growing along with the development and expansion of the new national enterprises. They have more confidence and energy to bring to the international negotiation table, as well as more right to speak. In relation to the three weaknesses mentioned above, Chinese enterprises' management skills and technology level have now caught up with, even exceeded, the skills of advanced foreign companies. For example, at the Mobile World Congress 2009 in Barcelona, the mobile heavyweight Huawei Limited displayed the world's first integrated 4G system specifically designed for mobile operators. This put Huawei at the global top level in 4G technology. In terms of capital capacity and scale, there were 70 mainland China enterprises, 39 from Hong Kong and 42 from Taiwan in the Forbes 2008 global top 2,000 enterprises. Six of the top 100 were Chinese. In terms of international branding, Haier, Lenovo,

<sup>5</sup> <http://news.sina.com.cn/c/2001-11-11/396813.html>

Huawei and many more Chinese enterprises are not only deeply rooted in the local Chinese market, but also have expanded their businesses into overseas markets. In addition, China has dropped its different tax regulations for domestic and foreign enterprises, and started to enforce a fair tax regulation covering both domestic and foreign-invested companies.

### 12.3.2.2 Dealing with the Change of Negotiation Capacity During the Joint Venture Process

**The measures of the foreign side.** In today's Sino-foreign joint venture negotiations, foreign enterprises have realized the change in the negotiation capacity of the Chinese side and have changed their previous tough approach. Although some foreign-invested companies were still so used to their preemptive negotiation strategy, they continued to try to negotiate based on their own envisaged results and did not want to lose their advantages. They found that, if they persisted in their aggressiveness and arrogance, it not only created hostility but also resulted in a negative outcome from the negotiations.

*Facing China Mobile, which enjoys daily net profit of more than 200 million RMB, as well as the Chinese market, where service contract phone sales only have less than 10% market share, Apple has to adjust its dominant negotiation style when dealing with the world's top mobile service providers, such as AT&T, T-Mobile and Orange. In the US, Apple sells iPhones with an AT&T service contract and charges 10 to 20 US dollars for each subscriber every month. However, in China, Apple has had to give up its proposal of sharing 20% to 30% of the sales revenue with China Mobile, and had to try a more equal gesture by reducing the revenue share request in order to reach an agreement. It aims to find the best cooperator after patient negotiations with China Mobile and China Telecom.*

**The skills of the Chinese side.** The rising Chinese enterprises are no longer in a disadvantaged position when facing foreign companies. They now have strong potential capacities in local branding, marketing channel establishment, as well as manufacturing and operational concepts. These enterprises are also improving their negotiation styles and methods while growing. Below, we will elaborate by outlining two cases: one is a distributive negotiation case involving the China Iron & Steel Industry Association's iron ore negotiations, and the other is an integrative negotiation case involving Huawei Company's dealing with disputes with Cisco Systems Inc.

### 12.3.2.3 Case One: Flexibly Handling the Negotiation Capacity and Timing – The China Iron and Steel Industry Association Iron Ore Case

As a country which relies heavily on imported iron ore, China's annual iron ore negotiation is critical to the future of the iron and steel and related industries. In the previous iron ore price negotiations, BHP Billiton Ltd., the Rio Tinto Group and

Brazilian Vale do Rio Doce Company – the three global iron ore-producing oligarchs – always worked together as a cartel and harmoniously supported each other. However, the buyers from different countries all worked alone, taking care of their own business, so they could not have a big influence on the negotiation process and results. This left the price of iron ore totally in the control of the sellers, and formed an exchange of unequal values.<sup>6</sup> As the biggest buyer of iron ore in the world, China approached the 2009 price negotiation seeking more favorable iron ore prices for the domestic iron and steel enterprises by adjusting negotiation capacity and seizing the negotiation timing, turning a passive approach into an active approach (Qiu Feng 2006, p. 37).

In terms of negotiation capacity, Chinese iron and steel enterprises have been constantly emerging and restructuring in recent years, and organized an enterprise alliance to further consolidate their strength. This has enhanced the organizational level of China's iron and steel industry; through the strong alliance they strengthened their general capacity and thereby increased their negotiation capacity. They have also established an iron ore pricing center. Therefore, Chinese enterprises were equipped with the power to fight with the three international iron ore oligarchs, and to adjust and influence the iron ore price negotiation.

In terms of negotiation timing, the productivity of the world's oligarchs was reaching its limits, so the Chinese market, as the biggest single market for iron ore, patiently bargained under the general guidance of the China Iron & Steel Industry Association. This put significant pressure on the intense capital chain of the iron ore manufacturers and gained China more bargaining chips. In addition, the China Iron & Steel Industry Association skillfully took advantage of a “spying” incident involving the Rio Tinto Group to break the deadlock in the negotiations, which had run overtime. This solved China's dilemma and sounded an alarm to the Rio Tinto Group and other oligarchs,<sup>7</sup> and finally prompted success in getting a favorable price.

#### **12.3.2.4 Case Two: The Skillful Utilization of Conditional Contracts – Huawei's Dealing with the Cisco Dispute**

The negotiation between Huawei and 3Com provided good inspiration for the coping strategies of joint venture corporations during negotiation reforms. As a telecom equipment manufacturer established in 1988, Huawei in its early days and facing a strong foreign competitor adopted a negotiating strategy of “accept its weak position and trade comparative advantages with the competitors, even if it is unequal trading, to gain long-term development benefits”. The strategy Huawei adopted was nothing more than using its comparative advantages to trade for an improvement in its disadvantaged areas, and through removing the disadvantages,

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<sup>6</sup> <http://www.huanqiu.com/zhuanti/finance/irondeal/>

<sup>7</sup> <http://www.chinanews.com.cn/cj/news/2009/07-17/1779839.shtml>



to increase its overall capacity and gradually occupy a beneficial position in the long and complicated negotiation game. The telecom equipment industry had been dominated by Western companies. As a private enterprise, Huawei continually grew by “using small power to play with the big hunk”, and promoted their products in overseas markets. Huawei's performance gained the close attention of the leader of the international network equipment market, Cisco Systems Inc. In January 2003, Cisco accused Huawei of illegally copying the source code of its operational software. In the face of this sudden major dispute, Huawei did not panic just because the other side was the “big hunk”, Cisco. It made a fast decision to stop selling the disputed products; while analyzing the product disputes. It also established the Huawei-3Com (H3C) Company together with the 3Com Company to challenge Cisco's system. Finally, Cisco backed down in July 2004.

During the battle with Cisco, Huawei's move to align with 3Com was a strategy of “the rocks of another mountain can break the jade”. In addition, Huawei wisely used the strategy of conditional contracting, freely choosing strategies to serve the constantly changing targets of the company during the cooperation with 3Com. At the beginning of the establishment of H3C Company, based on the principles of a “strong alliance” and “joining forces to fight a common outside threat”, Huawei held 51 % of the shares in order to take the initiative in emergencies. After Cisco gave up its challenge, Huawei turned its strategic direction back to the development of its own company. In 2005, it sold 2 % of its shareholdings to 3Com for 2.8 million US dollars; and eventually sold the remaining 49 % for 882 million US dollars in 2006. This move provided the company with a “timely rain” on its capital, giving it the resources to further explore the international market. On Sept. 28, 2007, Bain Capital and Huawei announced their intention jointly to purchase the 3Com Company for 2.2 billion US dollars. Under the deal, Bain would have 80 % of the shares and Huawei the rest. Even though, in the end, the United States government moved to block this transnational purchase on the grounds of national safety, the deal showed H3C had now moved from the previous “trade market for technology” mode to a “trade technology for market” mode. Through the agency of holding the technology advantage, the rising Huawei skillfully cooperated with 3Com, defeated the assault of Cisco, and recaptured its market share in North America. Finally, it attempted to purchase 3Com to plan its future internationalized operation, and created more beneficial space and growing opportunities from a long-term development perspective.

The growth of Huawei is a long-lasting, extremely complicated negotiation history which is full of competition and encompasses situations where one was fighting many and enemies and friends co-existed. The “war and peace” of Huawei and international enterprises fully reflects the unavoidable “competition-cooperation problems” that have existed during the growth and expansion of Chinese enterprises. From Huawei's difficult negotiation journey, we can see that, on negotiation's path towards the top level of international companies, competition in cooperation and cooperation in competition must become the theme for the maturing of Sino-foreign joint venture enterprises. While balancing their own capacities, Chinese enterprises must find the right complementary advantages and

disadvantages of both sides, as well as the point where these meet, skillfully look for a mutually beneficial space and try to avoid contradictions and conflicts to reach a win-win situation that brings long-term benefits.

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