Like A Bull In A China Shop

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Arrogance and lack of experience can often be the downfall of businesses rushing to set up in China, writes Kirsty Needham.

IT IS the new gold rush. Suit-clad gold diggers are pouring into the land of promise at a rate of a billion dollars a week. American, European and Australian investors are certain this is the once-in-a-lifetime opportunity: a billion Chinese customers and inept, rusting, state-owned factories ripe for the picking.

They are confident they have learnt the lessons of the broken capitalist dreams that litter the path before them, nightmare tales of stolen technology and quagmired deals.

Rule No.1: you need a Chinese partner with connections. Rule No.2: don't get screwed.

But have the latest wave of foreign plunderers really learnt anything? And what if China has its own ideas about the path forward as it shakes off the Mao suit?

Over four years, Sydney filmmaker Nick Torrens followed two men's pursuit of the "China deal". The resulting documentary, *The Men Who Would Conquer China*, takes the audience inside disastrous meetings between Western high finance and bored Communist Party officials, and shows the gap in cultural expectations on the new frontier.

Sitting at the kitchen table in his Leichhardt cottage, the family cat perched on a worn but comfortable sofa, Torrens marvels that his two protagonists, Vincent Lee and Mart Bakal, invited him to bring the camera so candidly into their world.

Lee is a Western-educated Hong Kong corporate princeling, poised to take over his father's Tung Tai Group, which pulls in $20 million a month.

Bakal is a New York investment banker who specialises in making "ex-communist countries more Westernised". He has a track record in Eastern Europe but views China as the real game, certain that the same rules apply.

"Mart was totally confident of America's expertise and methodologies," Torrens says.

Lee and Bakal believe they need each other, but their relationship inevitably frays.

Lee cringes at Bakal's arrogant behaviour in meetings and his lecturing of Chinese officials. Bakal wants to spend big money, now. He doesn't understand offers to start small. He wants to take over and run things his way, as if money were all the mattered. And he is stunned to find Chinese factories have state-of-the-art technology, too.

As the years progress, it is Lee's patience and steady rise after joining the Communist Party, leveraging his father's position on the standing committee of the Chinese People's Political Consultative Conference, that proves the more lucrative approach.

"Without political backing in China you will not succeed," Lee tells the camera. He feels he is becoming "more Chinese".

Torrens says he was never refused permission to film a meeting in China, but he learnt not to write in advance for official permission. Instead, he walked in with "absolute confidence", as if all Western businessmen arrived with their own film crew. Shooting did stop on a number of occasions when discussion veered into how to skirt the edge of China's copious red tape.

Two years in, Torrens became concerned that the project would never end: "Mart expected that within a year's time he would have achieved this set-up of one of the first investment banks in China."

Instead, it took four years to form a joint venture merchant bank, but not a single investment was made. Two potential deals that emerge in the film, a dairy and an auto parts company, fall over later.

"The head of the dairy company was arrested, and the lovely man in the meeting who said, 'It is perfectly fine; we just have to work out the details', has been sacked," says Torrens, in a neat postscript.

KEVIN Hobgood-Brown, chairman of the Australia China Business Council and partner at the law firm Deacons, says it is impossible to stereotype the average Chinese business.

"Some are run by the most savvy, up-to-date managers you can find anywhere in the world with amazing technology, while five kilometres away an enterprise in the same business is using antiquated equipment and has hopeless management," he says.

"If you go in thinking [like Bakal] these people need my help, you will be disappointed and frustrated."

Hobgood-Brown agrees with the lesson of Torrens's film: that patience is paramount. Deacons has offices in three Chinese cities and advises its clients to "start off small and learn lessons when less is at risk".

The longer time frame is needed because partners are testing one another out. "Our cultures are quite different and our economies are quite different. Australia's history of the rule of law is different to China's," he says.

The Austrade website's checklist of business practices in China is headed by the warning that bribery of public officials is a crime.

"Australian businesses are frequently baffled by the situation. It should be clear that bribery is illegal," says Hobgood-Brown. "It is a matter of expectation and scale … I have never had difficulty distinguishing between a courtesy gift and a bribe."

If Lee is correct, that success in China can only be achieved through political connections, where does that leave the Australian companies flooding through China's door?

"Everybody who is successful in China develops their own networks. If you open a medium-sized factory in the provinces, it is not necessary to have high friends in China. But you do need to have a good relationship with the officials in your county and, possibly, the province," Hobgood-Brown says.

"These officials need to understand what you are doing and recognise you are a good corporate citizen."

Macquarie Bank's executive director, Warwick Smith, a former federal government minister and former chairman of the Australia China Business Council, says the key to success is "start early and be patient".

"China is a very, very fast-moving market and there is not any sizable country in the world that is not represented there in its business, so it is competitive," he says.

Macquarie set up its office in Beijing in 1994, and Smith says having a lot of Chinese working for the company "is very important because China is a place of joint ventures and doing things together".

But forging political relationships is also important. "Their system is a top-down system. There are 60 million members of the Communist Party. The chairman of the party in Beijing is more important than the mayor of Beijing … So the party

has a prominent position in their

structure," says Smith.

The former NSW premier Bob Carr has joined the bank as a consultant and will focus on China. Smith concedes that being seen to hold domestic political clout has helped Macquarie open Chinese doors.

"It has worked to our advantage, so people in China can better understand what various skills we bring to a problem," he says.

Smith was in Beijing last week as Qantas made its inaugural flight to the city, a trip that involved "meeting with important regulators". He is the author of a recent Australian Government report on Chinese tourism investment, and when he was chairman of the ACBC, he also met the Chinese President Hu Jintao and other visiting Chinese dignitaries.

The Australian Trade Commission's chief economist, Tim Harcourt, has also just returned from China, and says his newly adopted Chinese daughter, Yun Shi, ensures his

permanent personal relationship with the country.

The number of Australian companies exporting to China is "going through the roof", Harcourt says. Austrade is helping 1000 clients through its 23 offices across China, and often acts as a "matchmaker" in finding reputable Chinese business partners for smaller businesses. Harcourt says Austrade employs a lot of "bright young Chinese with MBAs" to smooth the way.

Australian engineering and architectural firms making forays into provinces beyond the bright lights of Shanghai and Beijing have the greatest opportunity, he says. They are also those most likely to need Australian Government help as they deal with parochial officials.

"It is important, if you're trying to tender for a contract in Chengdu, that a senior trade commissioner flies in from Shanghai with you, that there's some government badge."

HOW-not-to guides on doing business in China are a booming category on the book shelf. Tim Clissold's *Mr China*, a misadventure of losing $400 million, has become a must-read for expatriates in Beijing. *One Billion Customers*, written by former Dow Jones China chief executive James McGregor will be published next month in Australia.

A Beijing-based business consultant, Celilia Fan, says whingeing about

dreadful business experiences in China seems to have become trendy. Fan suggests that instead of blaming it all on the Chinese, foreign investors should review their own defects. China is a fiercely competitive market with strong local players, she argues in this month's *Australia China Connections* bulletin.

Les Lothringer, a Melbourne management consultant with 20 years' experience of restructuring Chinese and foreign joint ventures, agrees it is easy to blame the Chinese partner when things go wrong. But Lothringer says that in his experience, the myth of Chinese partners dishonouring contracts is untrue, and often the failing lies with the Western partner trying to impose their will, or with their lack of experience.

Not enough businesspeople realise their Chinese counterparts are far better gut psychologists, he says. "They have an uncanny ability to read each other and have been brought up to read the emotional index of people who have influence … it is a critical survival skill."

"Business executives should be very cautious of deciding to go to China on behalf of their company. Rather than seeing it as a career enhancer, China is a graveyard for careers, marriages and corporate budgets."

He says China is easier than it was when he first arrived in 1986, "but if you don't have your wits about you, you may find yourself cleaned up and out of money. It is easy to go in and start to do business, but it doesn't necessarily mean there will be success."