



Doing Business in the New China: A Handbook and Guide

Birgit Zinzius (Praeger, Westport, CT; 2004; ISBN 0-275-98031-6) \$65

REVIEWED BY PRESTON G. SMITH

The giant is no longer sleeping! China, which for centuries has shunned foreign involvement and economic progress, is now racing to become the number one economic power and trading partner in the world. This will have implications for management consultants whether or not they actually deal with China themselves.

Several books cover this transformation in the People's Republic of China (PRC), but *Doing Business in the New China* lays out the economic changes exceptionally well. According to Birgit Zinzius:

■ From 1978 to 2000, China's economy grew at a compound rate of 9% per year, outstripping the celebrated growth rates of other "Asian Tigers" such as Taiwan and South Korea, and this growth continues unabated.

■ China's foreign trade has risen from US\$20 billion in 1978 to US\$840 billion in 2003, causing it to go from 32nd

to 5th largest among the world's trading powers.

■ Cumulative foreign direct investment in the PRC has grown from US\$5 billion in 1979 to over US\$500 billion in 2003.

■ China now has 400 million consumers with purchasing power roughly equivalent to consumers in the United States, Europe, and Japan.

■ Today, the PRC is the world's largest mobile phone market, surpassing the United States in 2003 with over 200 million mobile phones.

The turning point was around 1978. Chairman Mao's death in 1976 marked the end of the Cultural Revolution, and two years later Deng Xioping was announcing plans for economic growth that have carried through to today. His motto: "to get rich is glorious." Since then, the objective of the Communist Party of China (CPC) has shifted radically. As Yin Mingshan, China's motorcycle manufacturing tycoon with a net worth of US\$113 million, states, "The Party is evolving in line with the changes in China. It is no longer interested in making the whole world believe in communism. Today, the main aim of the Party is to make the country and the people prosperous."¹

Zinzius's driving assumption is that the reader plans to start a business in China. If this is your goal, her book is perfect. If instead you simply wish to understand what is happening in China and how it might affect you, the book's organization is awkward. For instance, the essential concept of *guanxi*, roughly translated as relationships and networking, is not covered until page 182, and then only briefly. But *guanxi* is at the heart of the powerful connections between businesspeople in mainland China and the so-called overseas Chinese—those in Taiwan, the Philippines, Canada, and elsewhere. Thus, *guanxi* fuels the huge foreign direct investment that is enabling China's growth. Consequently, if your goal is more to understand current Chinese business thinking and values so that you can work effectively with any Chinese you encounter, Ming-Jer Chen's excellent book *Inside Chinese Business*² will be more useful.

Zinzius is a German management consultant, now residing in Jakarta, who has authored several other books about China (all in German). Although the current book is well researched and her writing clear, the book suffers some from poor copy editing.

The first chapter, "Going China," starts with 40 pages of somewhat dry

statistics explaining China's growth and the economic motivation for doing business in China. Its remaining 40 pages round out the background material with clear explanations of Chinese values; for instance, the pervading influence of Confucian philosophy. She also covers Chinese names and forms of address, topics of conversation, the role of gifts, and the Chinese view of contracts. Many of these subjects illustrate viewpoints quite contrary to Western norms. For example, a Chinese will think nothing of asking your age or income upon first meeting you, but the weather or politics are taboo subjects. Contracts are never intended to be followed to the letter, but the relationship developed in negotiating the contact and the oral statements made during that process guide their execution.

Chapter 2 describes how to set up your Chinese company and covers many important points for dealing with the Chinese. For instance, Zinzius explains the importance of building, maintaining, and losing face. One implication is that it is pointless to ask a Chinese a question that requires a negative answer, because answering "no" would mean a loss of face for both parties. Similarly, other questions and requests should be phrased to include an "escape hatch" so that the Chinese can respond in a way that does not involve a loss of face.

Chapter 3 moves on to running the business you have created in China. Financial control systems are one area that may be of interest to management consultants. These tend to be pretty leaky, due to a weak legal system and the granting of favors, which is connected with *guanxi*. Another interesting topic is intellectual property, which the Chinese view completely differently

from Westerners. "It is difficult for Chinese to appreciate that immaterial things, including intellectual property, can be the possession of a single person, if he or she is the creator or originator. It is not immoral or even illegal for Chinese to obtain ideas, concepts, methods, or designs and use them. On the contrary, it shows one's eagerness to learn and improve." Zinzius states further that this viewpoint is pervasive and unlikely to change soon.

China is a power to be reckoned with. Back in the 1970s we dismissed Japan as a serious industrial competitor because it produced cheap, low-quality goods. As Japanese quality improved, that role fell to Taiwan. Now China is making the transition to quality goods that command a position in the world market. Virtually every personal computer made today incorporates parts made in Dongguan, an area that was farm country back when we began to appreciate Japanese quality. However, the important difference between Japan and China is that China is ten times larger than Japan. While the eastern provinces are moving up the economic ladder to approach Japan, the western hinterland will remain a source of inexpensive labor, unlike Japan.

With all that China has going for it, it does have some serious hurdles ahead. Its banking system is saddled with a large proportion of nonperforming loans. As the economy becomes more entrepreneurial, some state-owned enterprises have been privatized; but since these were viewed formerly more as social support systems for employees than as profit makers, some entity now has to take over this social burden. Politically, the ruling CPC faces an interesting dilemma: as the people

become better educated and affluent and have better access to the outside world, they may wish to have some say in their government. But the CPC—although it is leading the shift to a market economy—clearly intends to remain in control: witness the brutal repressions in Tibet, in Tiananmen Square, and more recently of the Falun Gong.

Zinzius discusses all these problems, but she omits another serious one. China is highly polluted today; as it grows, as people move into cities and acquire cars and appliances, and as it continues to ramp up production, these environmental problems will mushroom.

In short, China has considerable momentum today as well as some serious obstacles. But when 1.3 billion residents of this planet wake up and decide to join the party, the world business community cannot afford to ignore them. This book will help you to assess how China might affect your practice and your life.

Notes

1. Gerald Leong (Ed.), *Who's Who in China* (Singapore: Inspire Publishing, 2004, p. 49).
2. Ming-Jer Chen, *Inside Chinese Business: A Guide for Managers Worldwide* (Boston: Harvard Business School Press, 2001).

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