



Valuable Advice from Workshop 2

Learning From Chinese Doing Business in New Zealand: *Opportunities and Challenges*

Held on Wednesday 22 July 2015

Chaired by Mark Lowndes, Corporate and Commercial Partner at Lowndes, the workshop was led by three speakers: Chris Tremain, Chairman (New Zealand) of Bank of China; Vicki Slater, Legal Counsel at Huawei and James West, Chief Financial Officer at Martin Aircraft Company.

Mark opened the workshop noting that whilst China has been a big story for New Zealand for a long time, this workshop is focused on the specific issue of Chinese businesses and Chinese business people involved in trading enterprises in New Zealand; what can we learn and how do we best work together?

Chris Tremain

The Bank of China, seventh largest bank in the world, has a global presence providing financial services in 37 countries. Chris described the bank's recent expansion to New Zealand as positive and that it was a natural progression alongside many other expanding Chinese businesses. Following the signing of several memoranda of understanding, Chris emphasized that there are now many compelling reasons for New Zealand businesses to work with the bank and China generally.

Through his experience at the Bank of China, Chris identified some inherent differences between New Zealand and Chinese business. The expectations of both parties, the differing business processes and social and cultural norms can create challenges during all stages of negotiating a deal and post-deal execution.

Both countries tend to engage in business with people who they trust, feel comfortable with and have worked with previously. Chris observed that the Chinese would not cold call and are unlikely to enter into business without forming a strong, trusting relationship. Therefore, utilizing networks of existing relationships and being introduced to a range of contacts is fundamental to facilitate a successful business deal in China.



processes during the negotiation and execution of a deal. Vicki noted four key legal, commercial and cultural differences to consider:

1. **Guanxi:** Vicki explained the importance of foreign businesses understanding *guanxi* which involves the building of influential relationships that facilitate business and other dealings. Historically the law in China has been less important and business deals were typically sealed on a handshake. Compared to Western countries, the relationship between parties in China is paramount, whereas the written word carries less importance. Vicki explained the concept of *guanxi* as the most profound



Mark Lowndes, Chairman (far right), with (L-R) Chris Tremain, James West and Vicki Slater

Despite differences in business and social culture, China and New Zealand will often have a similar end result in mind. Chris encourages both parties to remain patient, flexible and open minded at all stages of a deal. Once cultural barriers are broken down and sufficient trust has been built, the opportunities for raising capital and being introduced to avenues for capital, products and networks are significant.

Vicki Slater

Vicki discussed the social aspects of Chinese business culture and how important it is to understand the norms for a successful business relationship. The size of China and the isolation of New Zealand creates a divide in business

difference between the way China and New Zealand do business. The term represents a genuine long term partnership and relationship of trust. New Zealanders should recognize the significance of building sufficient *guanxi* before signing a deal. Not investing time in this pre-contractual relationship may appear pushy or rude. Vicki recommends staying open minded and patient.

2. **Contract drafting:** The Western tradition is to draft a contract that is watertight, certain, and attempts to cover all possible situations. The Chinese approach is to leave room in the contract for flexibility. Contracts are therefore situational and embody an ongoing relationship for the Chinese. Vicki advises that it is not unusual to receive suggested changes or attempts to renegotiate terms of the contract shortly after execution and it may be detrimental to your partnership if you appear unaccommodating or show a lack of willingness to resolve issues.
3. **Decision making:** Vicki explained that parties should allocate more time to negotiate a contract because decision making in China is typically hierarchical and made further up the ladder than in New Zealand. While New Zealanders collectively make decisions, the risk that the Chinese decision may later be contradicted means it may take longer to get an answer back to you. Vicki added that the Chinese place importance on keeping 'face' in the workplace and will often produce a vague answer as their way of being polite.
4. **Specialisation:** New Zealanders are generalists while the Chinese focus on specialization. Vicki explained through experience that their field of knowledge in a specific area is undeniably accurate and comprehensive, but it may just take a little longer to receive an answer.

In conclusion Vicki highlighted that New Zealanders should not expect the same pace of business with the Chinese. By learning to say a few words in Chinese, appearing flexible by not opposing changes to the contract and investing time in face to face meetings, the *guanxi* and business relationship will be successful.

James West

James discussed the development of the Martin Jetpack over the last 30 years, giving us an insight into Glenn Martin's dream of building the world's first practical jetpack and how the company struck a deal with Hong Kong investment fund, KuangChi Science, worth up to \$50 million. James described the build-up and negotiation of the successful capital-raising deal and observed the integral differences in the partnership.

KuangChi Science, made up of Oxford PhDs, quickly became a major shareholder in the Martin Jetpack company. James described the investors as having a very good understanding of what is required in both China and Western society, which made it easier to communicate business strategy and negotiate a deal for a much-needed cash injection.

James believes the deal was successful because the cultures were closely aligned in this situation and the relationship was strong from day one. He did observe that a lot can still be lost in translation and to combat this KuangChi retained four national Chinese workers in New Zealand to help with mutual understanding. The opportunities that were available after cementing the strong relationship were invaluable to the company and opened up markets that would not have been available otherwise.

Guanxi was also emphasized by James as an essential part of a deal requiring time and patience in order to build the relationship. Once established, the business dealing will be seamless. While James recognised that the deal with KuangChi was accelerated, he believes spending time in China with KuangChi and negotiating the deal while there was fundamental.

The session concluded after Mark Lowndes thanked the panel and all of the participants and sponsors of the second of the 2015 series.

The participant feedback from this workshop was very positive, including:

- Great Speakers!
- Excellent, insightful session, thank you Lowndes.
- Well done, very interesting.
- Fascinating and illuminating insight.
- Another great event – well done.
- Great seminar.
- Very interesting, well organised, good topics & speakers, thanks.
- Nice mix of presenters, well worth attending.

Watch video interviews with our three speakers here: <http://www.business-intelligence.co.nz/2015-workshops/workshop-2/>



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