

U.S./China Differences and Their Impacts on Business Behaviors

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China may be the second largest trading partner of the U.S.,¹ but the road to this increasingly close relationship has not been an easy one. There have been a lot more failures and struggles in these cross-border business interactions than successes. Although it is probably true in the business world as a whole that there will be more failures than successes, the vast differences between the U.S. and China certainly have played a major role in the struggles and failures in U.S.-China business transactions. Understanding and adapting to differences cannot guarantee success but can make the venture a little easier.

Until about five years ago, most U.S.-China transactions involved U.S. direct investment in China, sourcing from China, and outsourcing manufacturing to China. Besides Haier, which established a manufacturing facility in South Carolina in 1999, there was practically no noticeable investment activity from China in the U.S. And even Haier was not a recognizable name to most Americans. That changed in 2005 when Lenovo, a Beijing-based personal computer maker, made its historical acquisition of IBM's personal computers division. In 2006, Georgia saw its first direct investment from a Chinese manufacturer. Ningbo Lehui Food Machinery Co. Ltd., headquartered in Ningbo, Zhejiang Province, formed a joint venture with New Jersey-based W.Y. Industries, Inc. in Newnan, Georgia, to manufacture soy sauce and other condiments. In 2007, two more Chinese companies called Georgia home – Wenzhou-based General Protecht Group announced it would build an assembly and distribution facility for

electrical products in Barnesville, Georgia; and Changsha-based Sany Heavy Industry Co., Ltd. announced it would build an assembly plant for construction machinery and its North American headquarters in Peachtree City, Georgia. With this new wave of cross-border transactions coming from China to the U.S., the differences between the two countries now affect not just those who choose to do business in China. They affect a much larger group of people, including American government officials, companies that do business or looking to do business with the investing Chinese companies, the communities the Chinese employees and executives live in, people employed by the Chinese companies, people who are neighbors to the Chinese, and many more. Differences also impact the investing Chinese companies and the people they bring from China. It is easy to say that the U.S. and China are different. But what are the differences? What are some of the causes of these differences? And how do they affect a company's or an individual's business behaviors? This article attempts to explore answers to these questions, with the belief that understanding differences will make it easier to adapt to them.

I. Different Political Systems.

China has a centralized political system. The structure of government agencies is vertical, from the central government to provincial and local governments. Within the same agency, authorities at lower levels are structurally subordinate to the higher level. A decision made by a higher level government is supposed to be binding on the lower level government. For example, the decision to make Shenzhen in Guangdong Province a Special Economic Zone was made at the top leadership level, without any local input. Once the decision was made, the local government's role was to implement that order.

This is not to say that rules and regulations promulgated at the central government level will be faithfully implemented at the local level. Quite to the contrary, because of the size of the country and the geographical distances between the central government agencies in Beijing and some of the local governments, interpretation and enforcement of rules and regulations are usually quite “localized” – local government agencies decide how to interpret the rules and regulations and what to enforce (or not to enforce). Nonetheless, if the higher level government decides to undertake a project and communicates that decision to the local government, the local government has an obligation to implement that decision. On the other hand, the U.S. follows a federalist system, in which power is shared between the federal government and the state governments, each enjoying its own authority within the federal framework. This is also true between state government and local governments. State governments do not have authority over certain matters that are exclusively reserved within the jurisdiction of local government, such as land use.

This difference may be puzzling to a Chinese company that has been interacting primarily with state officials at the early stage of negotiating its investment in the U.S. when it realizes later in the process that it has to “re-negotiate” the details of certain matters with the local government. Following the practices in China’s centralized political system, they wonder why the state cannot simply tell the local government what to do. On the other hand, this request would be incomprehensible to the state and local government officials, who understand the limits and boundaries of their authority. Efforts made on the state’s part to liaison discussions between a Chinese company and a third party, such as a landowner or a local government agency, can be misunderstood as

negotiations *with* the state. It is hard for a Chinese company to understand that with regard to matters that are outside the state's jurisdiction, the state has no authority to make binding decisions.

II. Different Roles of Government.

China is, in theory and to a certain extent in reality, a Communist country. Until as recently as ten years ago, the vast majority of the country's business enterprises were owned by the state. There was practically no line between government and business. Although China's economy, to a large extent, has been privatized in recent years, the government and Communist Party still maintain strong control and influence over many business activities. Such control is usually reflected in the many layers of regulatory approvals that businesses are subject to. Also, historically, China is a country ruled by men rather than by law. A man of power can greatly influence a company's business decisions and its chance of success. Although China's legal system has improved significantly in the last decade, it is still immature and inadequate for the country's fast growing economy. People are still learning to rely on the legal system to protect their personal and business interests. The result of this transition status of China's legal system is that the government has broad discretion in implementing rules and regulations and in making decisions.

Chinese businesses are accustomed to relying on good relationships with government officials to get things done. With this mindset, dealing with U.S. government officials can be frustrating to the Chinese. For example, if Chinese investors encounter obstacles in their negotiation with a private party regarding a specific matter,

they would naturally expect the state government officials who recruited them to help resolve the issues. They might have a difficult time understanding that the state officials' powers are limited by law and that even with the best intention to help, state officials cannot always direct private business decisions. The frustration is often mutual. From the state officials' perspective, they do not understand why they are called upon and put into the middle of an issue that should be negotiated and resolved between private parties.

III. Different Legal Systems.

While China, under Communist rule, has always had a criminal justice system, the civil legal system has a history of less than 30 years. Modern China did not have any law program in universities until the late 1970s. China did not have any trained lawyers until the early 1980s when this first class of law students graduated.² Judges with formal legal training came even later. Without the protection of a functional legal system, traditionally, Chinese people relied on relationships, trust and gut instincts to protect their personal interests. In connection with China's accession to the World Trade Organization, China started a major reform of its legal system in the 1990s. According to All China Lawyers Association, a self-disciplined professional association of all Chinese lawyers, China has about 110,000 lawyers today.³ Although this number is insignificant compared to the number of lawyers in the U.S., particularly given the population disparity, this is a significant jump from the 5,500 lawyers that China had in 1998.⁴ Moreover, according an article recently published by BusinessWeek online,⁵ in the five years between 2001 and 2004, China promulgated more than 94,000 laws and regulations, almost tripling the new laws and regulations from the previous five years.

Despite these significant improvements, compared to the U.S. legal system, China is still in a toddler stage. Many laws have not had an opportunity to be applied, interpreted and enforced. Many lack meaningful mechanisms for implementation and enforcement. Many conflict with each other. Compared with the size of the population and the economic growth of the country, the number of lawyers is severely inadequate. Moreover, China's judicial system has not caught up with the demands of the country's rapid economic development or the development of the written laws. There are still many judges who do not have formal legal training. Relying on the legal system to protect one's personal and business rights is still a new concept to many in China and can be a risky proposition. As a result, handshakes, trust and gut feelings continue to play a major role in forming business relationships. Understanding what a legal contract creates is different for the Chinese and for the Americans. **For the Chinese, a contract creates a platform upon which a relationship will be built, rather than boundaries of the relationship.** U.S. companies and governments often get requests from their Chinese counterparts to enter into memoranda of understanding, which are usually non-binding. While the Chinese attach great significance to these memoranda, viewing them as an announcement of a formal relationship, their U.S. counterparts usually regard them as goodwill, mere ceremonial documents. There has been much complaint that Chinese companies do not respect binding contracts. There is no doubt that dishonesty and unethical business behaviors are partly to blame for the problem, but another part of the cause is the different understanding of the role a contract plays.

IV. Cultural Differences.

1. Hierarchy.

Cultural differences often reflect on business behaviors. In China, schools of philosophy originated in ancient times continue to have influence on the sense of morals and virtue today. For example, Confucianism, which was developed between 500 BC and 400 BC, teaches that every person has a “proper position” in society. Confucianism emphasizes personal and governmental morality, correctness of social relationships, justice and sincerity. This philosophy explains, at least partially, why there is usually a strong sense of hierarchy within a Chinese entity or organization. Authorities are clearly delineated internally, and proper respect appropriate for each position is expected. Consider an example of how this cultural difference affected the business behavior of a Chinese company. Recently, a Chinese company had an opportunity to be showcased in some photographs that will appear on a conference brochure. The conference would be attended by hundreds of prominent business, political and community leaders from the community where the Chinese company had newly moved to. This would have been a great opportunity for the company to gain significant publicity and recognition among an influential group of people. However, the company turned down the opportunity. The reason is simple and perhaps incomprehensible to Americans. The president of the company was unavailable during the time of the photo shoot, and the vice president did not think it would be appropriate for him to appear without his boss in photos representing the company.

In most private Chinese companies, ownership is highly concentrated in one person or a handful of people. These owners have total decision making power. But they are not always involved in transaction negotiations, which are usually handled by lower level officers, who may not be in direct contact with the owners. As a result, decisions

may be made with incomplete or misinterpreted information. As more information is obtained, these decisions may be modified. For the U.S. parties involved in the negotiation, their Chinese counterparts may appear indecisive and unreliable. The U.S. side may not know whether an issue discussed and thought to be agreed upon at the negotiation table will later be changed.

From a Chinese company's perspective, entering the U.S. market involves more than hiring a team of competent employees, building up a sales network, and establishing sales channels. It also means adjusting to a different culture. Executive officers who are used to being addressed properly by their titles now hear themselves called by their first names by their American business partners and customers, and even employees. They will no longer have a personal driver, which is a standard perk for many executives in China. Companies that enjoy dominant positions back home will often find that they are now just one of many companies in the U.S. And more importantly, they will be learning a new way of building relationships – less wining and dining, more exchanging of information, the workings of a different political and legal system, and how to use the U.S. legal system to protect their rights.

2. Gender Equality.

Because of decades of isolation between China and the United States, there are a lot of misconceptions in the U.S. about the role of women in China's business world. U.S. companies often wonder whether it is appropriate to send their female executives to the negotiating table and whether hiring qualified Chinese women for management positions would hurt their chances of success in China.

According to the Confucius teaching, a girl should defer to her father, a wife to her husband, and a widow to her son. On the other hand, Confucianism also teaches filial piety toward one's parents, including the mother. As a result of these seemingly contradictory teachings, in ancient China women had little, if any, decision making power, even though they were highly respected and even worshipped by their children, and their desires were usually followed by their sons. Women's roles in society obviously have evolved significantly since Confucius' days. When the Communist Party took over China in 1949, Mao Zedong proclaimed that "women hold up half the sky." Women's equal rights are protected by the Chinese constitution. Women stopped taking their husbands' name when Dr. Sun Yet-sen overturned the Qing Dynasty in 1911, long before the Communist takeover. Women started working outside their homes in large numbers in the 1920s. Today, women work in most, if not all, professions and occupations in China. Many successful entrepreneurs are women. However, Chinese women face the same glass ceiling that U.S. women face. The number of women in top leadership positions is extremely low given the size of the population. Habits from thousands of years ago die hard. There is still an unspoken, and sometime unintentional, belief that at a certain level, women are inferior and less intelligent, and that being naïve is a virtue for women.

However, this does not mean that Chinese businessmen would not respect a female counterpart. Because of this unspoken belief that women are inferior, Chinese men usually do not expect much of women, perhaps unknowingly. But when a woman succeeds in what she does, she gains higher respect from men, compared to other men in her position. For example, while it is unnoticeable if a man is a lawyer, a woman lawyer

would be considered outstanding and would earn added respect from men. One may call this a disguised form of discrimination. (This could be a subject for discussion in another forum.) In the context of business dealings, one who understands this perception can use it to one's advantage.

V. Adopting the Differences

There is no question that China will continue to be a major player in the world economy. China has a population of over 1.3 billion. Although its gross domestic product has been enjoying continuous fast growth that no other country has ever experienced, its per capita GDP is far below that of the U.S. and many developed countries.⁶ China possesses such market potential that few other countries can compete. On the other hand, the U.S. is undeniably a superpower in terms of economy, technology, financial sophistication, and many other aspects. The U.S. needs the consumer market that China has the potential to offer, and China needs the capital, technology and other intangibles that the U.S. has to offer. Despite the many difficulties that people have encountered and will continue to encounter, business interactions between China and the U.S. will continue. To a certain extent, they depend on each other to continue their economic growth (or survival). Business people on both sides of the ocean will have no choice but to try to adapt to the differences of the other country if they want to stay competitive and be part of this inevitable bilateral cooperation. Adaptation starts with understanding.

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¹ <http://www.census.gov/foreign-trade/top/dst/2007/09/balance.html>.

² Law programs are undergraduate programs in China.

³ <http://www.acla.org.cn/html/union/englishunion/briefintroduction.html>.

⁴ “China’s Legal System: A Bum Rap?” by Randall Peerenboom,
<http://www.international.ucla.edu/article.asp?parentid=2878>.

⁵ “Debunking Myths about China’s Legal System,” by Steven Dickinson,
http://www.businessweek.com/globalbiz/content/nov2007/gb20071129_851610.htm?chan=search.

⁶ The World Factbook of the Central Intelligence Agency indicates that China’s per capita GDP for 2006 was estimated to be around \$7,800, while the U.S. per capita GDP for 2006 was estimated to be \$43,800. <https://www.cia.gov/library/publications/the-world-factbook/index.html>.