



8 RULES FOR ENGAGEMENT

ON CHINESE INVESTMENT ABROAD



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GLOBAL CHINA PRACTICE

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Throughout China's long-recorded history, it has been a significant global leader in culture and innovation.

MANAGING RELATIONSHIPS ACROSS FOREIGN CULTURES

A Key Factor in Global Success for China's Enterprises



The rise of China as a global economic power over the past 30 years is unprecedented in the history of modern civilization. Never has a major country transformed itself at the pace and magnitude that China has since the economic reforms launched by Deng Xiao Ping in the late 1970s.

While China's growing economic status is new in the modern world, it is not unprecedented for China. Throughout China's long-recorded history, it has been a significant global leader in culture and innovation. The challenges the country faced during the 19th and 20th centuries were the exception, not the rule. In many ways, China is reclaiming its traditional place as a world leader.

China's growth has reaped huge benefits for its population. It is estimated that more than 600 million Chinese people have been lifted out of poverty since 1981.¹ China now has a middle class whose purchasing power is attracting companies from all over the world seeking to take advantage of this huge new market. At the same time, China's domestic commercial sector is growing by orders of magnitude, with many enterprises beginning to look internationally for new opportunities.



A recent study sponsored by the Asia Society in the United States predicted that Chinese outbound investment would reach \$1 to \$2 trillion by the year 2020.²

China's new role in the global economy is a megatrend that will drive significant adjustments, both inside and outside of the country. Economic reform with uniquely Chinese characteristics, while successful within China, has confronted some obstacles when it has encountered more established economies and different business cultures.

¹ <http://www.globalissues.org/article/4/poverty-around-the-world/#WorldBanksPovertyEstimatesRevised>

² An American Open Door?, Asia Society, Dan Rosen & Thilo Haneman



This gap between Chinese and foreign business practice was highlighted in an April 2011 survey by the China Council for the Promotion of International Trade (CCPIT) of Chinese companies contemplating foreign investments.

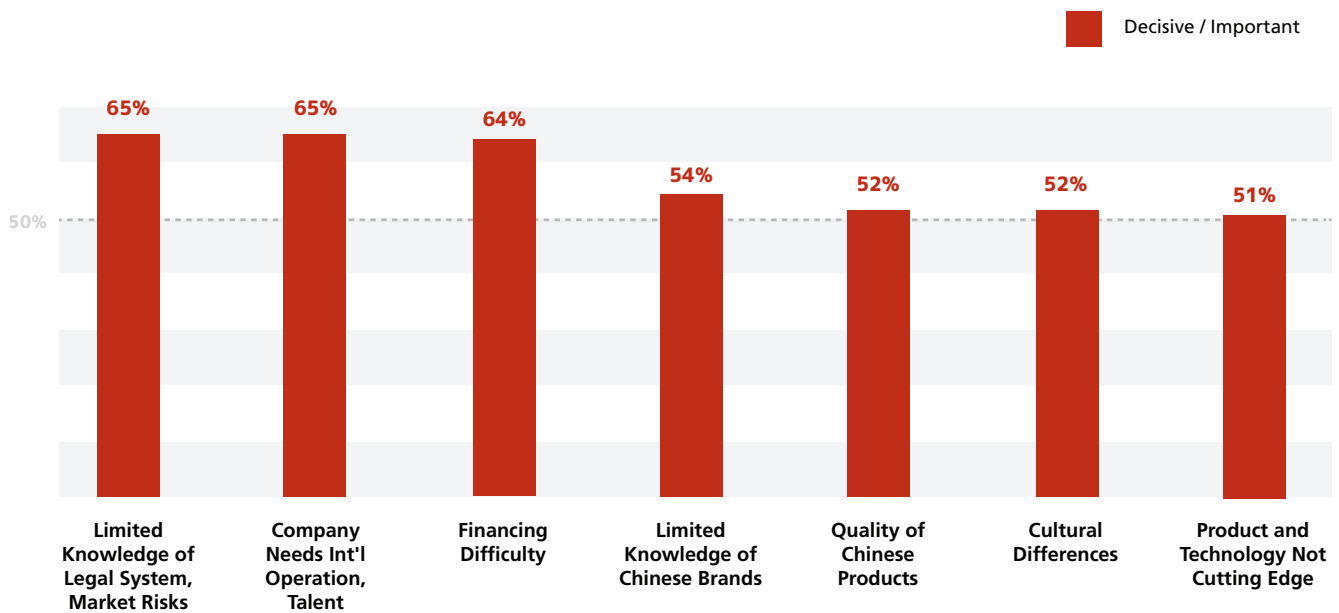
The survey found that obstacles to overseas investment included “limited knowledge of Chinese brands by foreign consumers” and “limited knowledge by the Chinese companies of the legal systems and market risks in the target countries” as either decisive or important negative factors in their decision making. The council also cited “cultural discrepancy” as an important consideration.³

So, while the rest of the world adjusts to the new reality of China ascendant, Chinese companies must also adjust. In order for them to fully succeed in a global environment, they must recognize and acknowledge that actions and behaviors that work in China, might not work globally. This is particularly true when it comes to how companies communicate to their audiences and stakeholders. Chinese companies will benefit from gaining a better understanding of international business communications norms by which other companies have succeeded. The following guidelines will be helpful to Chinese companies as they enter this new era of globalization.

³ Survey on Current Conditions and Intention of Outbound Investment by Chinese Enterprises (2008-2010), China Council for the Promotion of International Trade (CCPIT), April 2011



Negative Factors for China's Overseas Investment



Survey on Conditions, Intentions of Chinese Enterprises for Outbound Investment (2008-2010) CCPIT, April 2011



RULES FOR ENGAGEMENT





BUSINESS GOALS SHOULD DRIVE COMMUNICATIONS

The way a company communicates is a critical factor in its success or failure as a business. Communications is not simply “promotion.” It must be integral to everything a company does. This is particularly true when a company is entering a new market in a foreign country. Anytime a company based in one country seeks to operate in a different country, it begins at a disadvantage. It is simply human nature that people are more open to doing business with local companies with whom they are more familiar. The burden falls on the “foreigner” to show the advantages they bring to the market. And the only way to do that is through communication. Thus, once a company has identified its goals in a new foreign market, it should develop a specific plan for communications strategies and tactics that will advance those goals.

ACCEPTANCE FIRST, THEN PROFIT

Like a guest entering a stranger's house, Chinese companies entering new global markets must, in some respects, earn their welcome. Consequently, it is important that all key stakeholders be identified early in the process. In most countries today, there are concentric circles of stakeholders with customers, employees and investors in the center. Companies must, however, communicate beyond this center circle in order to foster acceptance and welcome. Other stakeholders include government officials at the local, regional and national levels; community leaders where the investment is being made; other local business leaders, social service organizations, union leaders, environmental groups and so on. The key is to understand fully the environment into which companies are entering, and to identify potential friends and adversaries. Companies must systematically strengthen relationships with friends and neutralize potential adversaries in order to achieve acceptance. Acceptance is a prerequisite to profit.



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COMMUNICATION IS MORE THAN TRANSLATION

Words are only part of the way companies communicate when they enter new markets. And words may be the least important. As with every communication, every action delivers a message from the company, whether intentional or not. There is only one opportunity to make a first impression and nothing endures like a good (or bad) first impression. Once a company has identified its key stakeholders, it is essential that a plan be developed for each one. Who to talk to, when to talk to them, what to do, what to say and how to say it, will all communicate a company's intentions and attitude. Done correctly, this process will enhance the prospects for success for years to come. Done incorrectly, it could cause damage that will take a long time to repair.

UNDERSTAND THE STEREOTYPES

The rise of China as a global economic power in the last 30 years has sent shock waves throughout the world. Never in human history has a country so large advanced so significantly in such a short time. Much of the world does not know what to think about this development. Is it a good thing or a bad thing? Opinions differ across the globe and even within countries. Some see China's growth as an engine that will pull global markets out of the economic crisis that continues to plague most of the developed world. Others fear China and believe that its growth represents a threat that must be constrained. For better or worse, Chinese companies carry with them all of these stereotypes and should be sensitive to their implications, particularly the negative ones. In fact, Chinese companies have a great opportunity to reverse the negative stereotypes in the way that they behave and communicate. But they must also guard against unwittingly confirming negative stereotypes.





LET THE SUNSHINE IN

One of the stereotypes associated with China and Chinese companies is a perceived passion for secrecy. Chinese companies are considered opaque and their decision making unclear. Much of this suspicion could be due to cultural differences and some may just be due to language barriers, however, it is a stereotype that is simple for Chinese companies to debunk. By being open and transparent right from the start of an engagement in a foreign country, Chinese companies enlighten local stakeholders and defuse suspicions. The more Chinese business leaders challenge these negative expectations, the more likely the stereotype will erode over time.

IT TAKES A TEAM

The explosive growth of the Chinese economy over the last 30 years means that most Chinese companies investing overseas are relatively new companies. Often times, their founders are still actively engaged in the management of the company. These founders are typically brilliant entrepreneurs whose vision created the successful company seeking to expand internationally. In order to succeed globally, however, they may need to do something that does not come naturally to them: they need to let go. They need to empower people beyond themselves to carry out their vision. They need to build a team and give the members of the team the freedom and authority necessary to bring their full talents to bear in generating business success. Companies should live by the Chinese proverb, "A single tree makes no forest; one string makes no music."





CHINESE WITH A LOCAL FACE

Projecting the right balance of Chinese, global and local is a common challenge for Chinese companies investing overseas. The key is to be authentic. An important element in gaining local acceptance is building local relationships and hiring local employees. But Chinese companies should not - and do not need to - hide their Chinese heritage. While some in foreign markets will attach the negative stereotypes they hold about China to Chinese companies, most people respect others who are proud of their heritage. For each company, the mix of Chinese, global and local will be different and unique. It is simply critical that the “image” reflect the reality.

CONFIDENT, BUT HUMBLE

The Chinese companies at the vanguard of overseas investment have earned the respect and admiration of global economic players. However, within the countries in which companies choose to invest, opinion could be mixed among key stakeholders. Some may fear Chinese companies and some may see threats. Frankly, to the extent that Chinese companies increase competition in certain markets, they may represent a genuine threat to domestic companies or industries that may not be operating at maximum efficiency. The arrival of Chinese companies may force competitors to change in ways that create disruptions. And these competitors may try to exploit stereotypes about Chinese companies to protect their own markets. In order to avoid empowering economic competitors who may try to stimulate such irrational fears, Chinese companies should be confident, but humble. True confidence does not call attention to itself. Chinese companies moving into global markets should let their performance tell their story. In this way, they are more likely to be accepted and prosper.



CHINA: A VIEW FROM THE OUTSIDE



The view of China from the rest of the world is also rapidly evolving. **According to the 2011 edition of the Pew Global Attitudes Project survey, in 15 of 22 nations, the balance of opinion is that China either will replace or already has replaced the United States as the world's leading superpower.** This view is especially widespread in Western Europe, where at least six in 10 in France (72%), Spain (67%), Britain (65%) and Germany (61%) see China overtaking the U.S. In most countries for which there are trends, the view that China will overtake the U.S. has increased substantially over the past two years, including by 10 or more percentage points in Spain, France, Pakistan, Britain, Jordan, Israel, Poland and Germany. Even among Americans, the percentage saying that China will eventually overshadow or has already overshadowed the U.S. has increased from 33% in 2009 to 46% in 2011.⁴

But the survey also finds that, in the U.S., France, Germany, Spain and Japan, those who see China as the world's leading economic power see that development as negative. By contrast, respondents in those countries who name the U.S. as the top global economy consider this a positive. In contrast, in developing countries, those who believe China has already overtaken the U.S. economically generally view this as a positive development. Meanwhile, in China, those who believe the U.S. is still the world's leading economy tend to see this as a negative.

Into this complex picture of economic and business "facts on the ground" are mixed a spectrum of cultural and political attitudes that continue to color attitudes among government, business and general public around the world.

⁴ Pew Research Center, Pew Global Attitudes Project, 2011, [http://pewglobal.org/2011/07/13/china-seen-overtaking-us-as-global-superpower./](http://pewglobal.org/2011/07/13/china-seen-overtaking-us-as-global-superpower/)



Will China Replace the United States as the World's Leading Superpower?

By Percent	Already Replaced U.S.	Will Replace U.S.	Total Already or Will Replace U.S.	Will Never Replace U.S.
U.S.	12	34	46	45
France	23	49	72	28
Spain	14	53	67	30
Britain	11	54	65	26
Germany	11	50	61	34
Poland	21	26	47	31
Lithuania	11	29	40	40
Ukraine	14	23	37	36
Turkey	15	21	36	41
Palestinian Territory	17	37	54	38
Jordan	17	30	47	45
Israel	15	32	47	44
Lebanon	15	24	39	54
China	6	57	63	17
Pakistan	10	47	57	10
Japan	12	25	37	60
Indonesia	8	25	33	46
India	13	19	32	17
Mexico	19	34	53	31
Brazil	10	27	37	47
Kenya	7	37	44	43

Pew Global Attitudes Project Survey, 2011; Pew Research Center

UNDERSTANDING GLOBAL STAKEHOLDERS



Navigating these complexities sometimes requires the perspectives of experts with deep knowledge and experience in these various cultures, to serve as bridges to the promotion of business success for China-based companies. The challenges that Chinese—as well as other international enterprises—report as they seek to expand into new countries and cultures, include limited knowledge of the local populace of their brands, lack of understanding of regulatory and legislative regimes and cultural differences. These challenges all involve communication issues. Who we talk to, what we do and what we say, when and where, are all important elements in building a good business relationship. Creating a welcoming spirit when a business seeks to do business in a different part

of the world requires that same attention to good communication, only on a larger scale. Experienced business management and communications experts understand that entering new international markets for any enterprise begins by creating a solid foundation of good relationships among the audiences whose views and decisions can influence and affect success.

In this context, these audiences are known as “stakeholders” because they have an interest in what the business is trying to accomplish in a new market. Examples of stakeholder groups include, of course, the employees of the enterprise; but also its shareholders, investors or potential investors, elected leaders in the communities where the



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enterprise wants to do business, and government officials whose decisions about regulations and policies can affect the enterprise. In addition, there are other important groups like academics, think tank researchers, and the news media that can exert an influence on the business's primary stakeholder groups.

A foreign business attempting to set up operations in a new country can be helped or harmed by stakeholders in that country. **If stakeholders come to see the new business as being a good potential partner that will bring benefits, such as more jobs and economic activity, then they will welcome the foreign investment, and even actively work to smooth its path of entry.** But if stakeholders see the enterprise in a negative light, as

a company that could force domestic competitors out of business, steal intellectual property, or sell poor quality products, then they are more likely to oppose the company's plans.

Building strong and positive stakeholder relationships in a new country requires at the least three things: time, patience and in-depth knowledge of the new geography and new market. In business, there is no substitute for market knowledge. This knowledge comprises a thorough understanding of each country's politics and the cultural influences that drive views of other nationalities. The mixture of influences is as varied as the languages and societies represented around the world.



REGIONAL STAKEHOLDER PERSPECTIVES

UNITED STATES

The Obama administration strongly encourages Chinese investment, but some Chinese companies have confronted obstacles stemming from bilateral issues between the two countries – issues that have affected some attempts to invest in critical infrastructure and sensitive industries in both the public and private sectors. But at the local and state levels, Chinese companies are more welcomed by elected officials who see the local economic benefits. As a result, Chinese companies seeking to invest in the United States should carefully plan their activities geographically, starting as locally as possible and working outward to create a widening network of strong stakeholder relationships.

EUROPE

In order to differentiate themselves from perceptions that Chinese business leaders do not share European values on such issues as workplace health and safety, employment standards and the environment, Chinese companies need to go beyond simply complying with the relevant laws. In addition to building their customer base, they should invest heavily in developing relationships with key investors, political and regulatory stakeholders, and act in socially responsible ways within the communities in which they operate.



UNITED KINGDOM

Chinese companies wishing to do business in the UK need to consider the importance of political, government and regulatory audiences; developing good communications with these stakeholders can make all the difference by building trust and establishing a reputation for supporting the UK economy through investment, skills, jobs and new technologies. Doing this in an open and transparent way is also crucial, which means being open with these important stakeholders and leveraging the media to illustrate the company's plans to wider audiences.

JAPAN

In general, Japanese firms are interested in establishing stronger partnerships with Chinese firms, but Chinese companies still face nationalistic reactions in Japan, in much the same way as Japanese companies faced difficulties in investing in U.S. firms in the 1980s. This type of phenomenon is likely to happen when an emerging economy invests in a matured economy. Therefore, Chinese firms need to be very careful as well as modest with media and government relations in order to be able to reap the benefits of investments they have made.



CANADA

In recent months, the Government of Canada has redoubled its efforts to attract Chinese investment, and China is an increasingly important part of Canada's trade strategy. While Canada's mining and energy sectors, and particularly the Alberta oil sands, have attracted the bulk of Chinese capital flowing into Canada in recent years, more and more small- and medium-size Chinese businesses are viewing Canada's manufacturing sector as an opportunity.

AFRICA

Africa consists of 54 countries, each with diverse histories; cultures and languages; each maintains a sense of independence and pride in their own unique approaches to business. Therefore, first and foremost, Chinese investors must implement specific investment strategies which address the exact country they intend to target. This means that a one-size-fits all approach to the continent is not likely to succeed.



LATIN AMERICA

The promising trends in trade, investment and overall relationships between Chinese organizations and Latin American markets have created an environment favorable to increasing business ties. Therefore, now more than ever, solid public affairs, government and corporate communications are essential to ensure mutual understanding of priorities and cultural differences between Chinese interests and Latin American stakeholders.

Perspectives drawn from recent commentaries by Fleishman-Hillard senior counsellors in the United States, Europe, Japan, United Kingdom, Canada, Africa, and Latin America.

A Global Leader in Public Affairs & Reputation Management for Companies and Brands

The Fleishman-Hillard Global China Practice offers an experienced worldwide network with a proven track record of promoting understanding, building brands and managing reputations for the growing roster of ambitious Chinese companies seeking opportunities around the world.

Our network comprises highly knowledgeable counselors committed to helping clients clear the hurdles that Chinese companies report as obstacles to their success overseas, such as limited knowledge and awareness of Chinese brands, lack of understanding of regulatory and legislative regimes, and cultural discrepancies, all of which are fundamental communications issues.

Fleishman-Hillard has the breadth and depth to provide the high-caliber strategic communications support that will position Chinese companies as valuable contributors to economic growth, innovation and prosperity all over the world.

Your ninth rule for engagement:

Contact Fleishman-Hillard and start the conversation, today.

For more information about Fleishman-Hillard International Communications and our Global China Practice, visit online and/or inquire, below:

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