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Our relationship with China has been marked by misunderstandings and spats. AAP

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When it comes to China, we don’t get it

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DISCLOSURE STATEMENT

Mona Chung does not work for, consult to, own shares in or receive funding from any company or organisation that would benefit from this article, and has no relevant affiliations.

Prime Minister Julia Gillard returned from her visit to China last month having locked down a series of cooperation agreements between countries – including a $600 million iron ore deal – which many hope will further boost ties between countries.

Australia and China enjoy a strong trade relationship; however there is still substantial effort needed to smooth over a relationship ruffled by a number of cultural and economic spats.

Other than a few analysts, many find it is difficult to understand exactly what kind of relationship Australia and China has.

In fact, most business people find the relationship is confusing – as Rio Tinto might attest.

The relationship is indeed a complex one between the two countries.

Gillard’s $600 million iron ore deal was one of the highlights to come from her China trip. After all, during the depths of the global financial crisis, China played an important role in helping Australia maintain positive GDP growth due to its strong mining exports, iron ore in particular.

Cultural differences

But what mistakes have both the mining companies and the politicians been making? Fundamentally they ignored the importance of cultural differences.

As I’ll explain a little later, Rio Tinto has fallen into the same trap as Foster’s in failing to recognise China’s unique culture and the importance relationships play in doing business in China.
As I examined in detail in my book, ‘Shanghaied: Why Foster’s could not survive China’, the company’s 15 year sojourn in China’s beer market ultimately foundered – like other companies seeking success in China – because it failed to employ bicultural people.

A bicultural person is someone who understands the depth of understanding on both sides of the culture of doing business especially its delicacy when playing with relationships at a political level.

Not only can they communicate fluently but they can understand the communication styles, patterns and the business context.

Bicultural people understand the differences between the Australian and Chinese business approach. They are not just Chinese who speak some English. Someone who speaks both languages is not necessarily bicultural.

**Stern Hu and cultural mistakes**

Both Rio and also BHP have made their cultural mistakes long before Mr Stern Hu was arrested. A highlight of this mistake was the negotiation in 2006 on the price of iron ore.

The method that Rio and BHP used was to force China’s hand by signing the contract with Japan first for a 19% price increase.

This made China lose face big time because of the Sino-Japanese history and China’s desire to lead the market for the first time having just become the world’s largest iron ore importer that year.

Rio Tinto then rejected Chinalco’s offer in 2009, which itself is a huge slap on the face.

The reason that Rio continues to ignore the cultural difference is because it is just not a tangibly visible issue for Rio.

**Not the first**

Rio as an Australian company doing business in China is not the first to ignore strategic cultural planning and the costs may well be similar to the others.

To draw a medical analogy; all seems well on the outside, because culture is the heart of everything and can bring the whole system down because of a massive heart attack.

China is a totally different market place from any other markets in the world. Companies need to take into account that the Chinese government has different levels of power to Western governments.

The Hu incident was merely an opportunity for China to remind Rio who is in charge of this relationship in their own country.

**Unhappy with Australia**

China continues to import large quantities of iron ore from Australia is simply due to the structure of the market with Rio, BHP and Brazil’s CVRD as the three major suppliers.

This does not mean that the success we see so far is sustainable and long-term. Chinese are not happy with Australians on business levels and on political levels.

Mr Steven Smith’s statements to the Chinese diplomats have been seen as impolite and improper by the Chinese general public.
Perhaps Mr Smith doesn't know. Chinese are culturally high-context people, one cannot tell them to mind their own business in one short simple sentence.

One needs to use many more words to deliver the message with the message between the lines. Yes, when the Chinese tell Americans or Australians to ‘mind their own business’, it is fine. It is a low-context message, delivered to low-context culture people in a low context manner.

All time low

The irony in all of this is Kevin Rudd was the first Prime Minister to speak Chinese. He called himself a China business consultant before being elected. He spoke Chinese in Peking University but did mention Tibet.

Then the two sides feuded over Australia’s permission for Uygur separatist leader Rebiya Kadeer to visit in August 2009 despite China’s strong objections.

Australia-China relationship had its lowest point in the history.

The Rio Tinto contest is for the Chinese to demonstrate that they are better at playing business games at a political level than their competitors.

Slap back

While the rest of the world portrays the Chinese as unethical business players, to arrest an Australian citizen on bribery charges is a big slap back.

To ignore cultural differences is simply a suicidal mission for companies regardless whether it is in negotiation, politics, marketing or any other areas.

Both Lion Nathan and Foster’s paid an extremely heavy price for ignoring the cultural differences.

They are not alone. Even as recently as two months ago, Mattel’s six-storey Barbie’s flagship store in Shanghai had to close its doors simply because they refused to adjust their products culturally for the Chinese customers.

Instead of girly, cutie type of dolls which the Chinese consumers like, they insisted on selling the Western sex doll type of Barbies.

As a result, they were rejected by the Chinese consumers just like when they rejected Foster’s together with a range of other non-Chinese brewers.’

Costly laboratory

China has been a costly laboratory for many organisations internationally large or small.

By ignoring cultural differences, many of the non-Chinese groups still seem prone to arrogance about their own ‘business models’ that would have embarrassed 16th-century Portuguese traders.

In short, foreigners who fail to recognise what they do not know will be condemned to an endless and costly round of trial and error, and error after error.
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