



Opening the doors to China

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Executive Summary

It is predicted that the world population will top eight billion by the year 2030, dramatically increasing the demand for food, with fruits and vegetables to play an pivotal role in feeding the world. Following presentations delivered by guest speakers Raymond Jin (Golden Wing Mau Group, Hone Kong) and David Ch'ng (Mosiatic Consultancy) at the recent PMA-ANZ annual Fresh Connections conference in Brisbane, the focus of the report will consider the import of fresh produce into China, the cultural differences in doing business in China and implications for ANZ organisations.

Due to the sheer size of the Chinese market, the closeness in proximity to ANZ and the value placed by Chinese consumers on fresh produce originating from ANZ in terms of quality, cleanliness and being grown sustainably, there is a strong scope for demand. China is the world's fastest growing economy, resulting in an increase in disposable income, which in turn has changed the consumption structure and increased popularity in health food. Increased urbanisation has caused a shift in traditional business channels in fresh produce from the wet markets to the retail supermarkets, predicted to be the most significant channel for fresh produce into the future. Access to China's fresh produce market is still best managed through the wholesale markets with strong supply connections to the retailing network, however simply identifying the best business partners in China is not enough to ensure success in business dealings.

Engaging in business with the Chinese requires ANZ organisations to have a deep understanding of the cultural differences in business practices. Understanding the influence of the communist party, the importance of cross-cultural communication and most significantly interpersonal relationships or *guanxi* is critical should ANZ organisations wish to successfully engage in business with the Chinese. ANZ organisations need to adequately train expatriates to ensure that they meet the business standards set by the Chinese. It is essential that a link in terms of expatriate level in the organisational hierarchy to that of the Chinese counterpart and that

there is the understanding that relationships are not transferable. Should ANZ organisations invest heavily in developing close relationships with their Chinese counterparts they are far more likely to ensure a long-standing successful business relationship.

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Introduction

It is predicted that the world population will top eight billion by the year 2030, which in turn would dramatically increase the demand for food (Barbosa-Cánovas *et al.* 2003). There has been significant progress towards feeding the world in the last thirty odd years. Global population has increased by over 70 percent and per capita food consumption has been almost 20 percent higher. It is also indicated that crop output is projected to be 70 percent higher in 2030 than current output, with fruits and vegetables predicted to play an important role in providing essential vitamins, minerals, and dietary fibre to the world, feeding populations in both developed and developing countries.

The present report considers the issue of import and export of fresh produce as an opportunity to meet the rising world demand, supply and trade of fresh fruits and vegetables. The distance of Australia and New Zealand (ANZ) to most parts of the world presents as a significant barrier for international trade of fruit and vegetables due to their perishable nature, however, Asia, especially China, present as a significant opportunity for the destination of fresh fruit and vegetable trade being closest in distance (Cook 1999). China has a total population of in excess of 1.3 billion people, 40% of which is concentrated in its urban areas, and therefore the scope for demand is significant (FAO 2011). China is the fastest growing economy in the world, with an economic growth that has lifted millions out of poverty (Business Monitor International Ltd 2010a). The greater disposable income has led to a change in the consumption structure, with health food and fruits becoming increasingly popular among the Chinese (Business Monitor International Ltd 2010a; Jin 2011). The culture in China varies greatly from Australia. Therefore it is critical for ANZ organisations wishing to engage in business with China not only to thoroughly understand but also plan for these differences should they wish to successfully conduct business in China.

In light of the presentations delivered by guest speakers Raymond Jin (Golden Wing Mau Group, Hone Kong) and David Ch'ng (Mosaic Consultancy) at the recent PMA-

ANZ annual Fresh Connections conference in Brisbane, the focus of the report will consider the import of fresh produce into China, the cultural differences in doing business in China and implications for ANZ organisations.

Opening the doors to doing business in China.**Importation of fresh produce into China**

China is amongst the world's top producer of fruits and vegetables and is in the top six fruit producers (Barbosa-Cánovas *et al.* 2003). Despite accounting for such a large portion of the world's fruit and vegetable supply, most of the production is destined for domestic consumption and therefore the impact on international trade is minimal (Cook 1999; Barbosa-Cánovas *et al.* 2003). Therefore there is a significant opportunity to import fresh produce from ANZ into China. The sheer size of the Chinese market and the predicted strengthening of the Chinese currency, the RMB, against the US dollar towards 2014 are also in favour of importing into the country (Business Monitor International 2011b; Jin 2011). Further, seasonal fruit production in Australia occurs during China's off-season and is therefore ideal for producing fruit ready for China's fruit season. There is also the general perception by the Chinese that fruits supplied from overseas are better in all aspects of quality, especially those from ANZ, which is perceived to produce clean produce in an environmentally sustainable way.

In order to ensure success when supplying fresh produce to China, it is essential for businesses to find the right partner to work with (Jin 2011). According to the most recent Datamonitor (2010) report on the Chinese fruit and vegetable market, the market remains fragmented, despite the presence of large supermarket chains that use their bargaining power and brand strength to establish their domination. However, at the recent PMA-ANZ Fresh Connections conference in Brisbane, the Chinese fruit market has been described as moving to a more centralised purchasing model, with the largest and most important channel into the future being the retail channel (Jin 2011). Increased urbanisation has accelerated this change driving the switch in traditional sales channels from the wet markets to supermarkets. However, fruit sales in supermarkets are only account for 15% of total fruit sales, which is significantly less than developed nations where sales through the supermarket

channel account for over 70% of total fruit sales. With a population of 1.3 billion people, this gap clearly demonstrates the potential of the Chinese market.

Access to the retail market is best through the wholesale market (Jin 2011). It is particularly important that suppliers understand the Chinese market requirements and only supply that specification. Miscommunication regarding supply specifications at the wholesale market point is often where most disputes arise, and where the understanding of cultural differences in communication is critical. There is much more uncertainty when attempting to supply fresh produce directly to the retail market, where missed specifications are more likely to occur. It is therefore best to establish strong partnerships with local retail suppliers in the wholesale market that have good access to the retailing network.

Establishing strong relationships with government officials is also very important when doing business in China and can significantly shorten the time to market from around six to three years (Jin 2011). The best regions in China to start trade of fresh produce are China's capital cities. Chinese consumers are sensitive to price, quality, taste, appearance, and packaging and are becoming increasingly aware of food safety and traceability. Therefore it is important for ANZ organisation to invest heavily in marketing to build brand awareness and recognition of their products with the end consumer in China. Once the right business partners have been identified there are significant socio-cultural considerations that ANZ organisations need to consider in order to successfully conduct business with the Chinese.

Socio-cultural consideration in China

The influence of the Communist party, importance of cross-cultural communication, and most significantly the critical role of interpersonal relationships cannot be underestimated when attempting to engage in business transactions with the Chinese (Osland 1993; Tsang 1998; Standifirid & Marshall 2000).

Influence of the Communist Party

The most important implication of the primacy of the communist party is that managers must recognize and accommodate difference in the goal of Chinese firms and that of a foreign company, as the Chinese firm must help to advance economic and social goals developed by the Party (Osland 1993; Standifirid & Marshall 2000).

Cross-cultural communication

Being fluent in the local language aids in relationship and trust building between parties (Osland 1993). Heavy reliance on Chinese interpreters can be risky as there is a great potential for misunderstandings. As only 10-20% of information is communicated through language, material objects and non-verbal behavior provide most of the information. In China tangible items inform other's about ones status or power, and knowing who the most powerful decision makes are in Chinese organizations is critical to conduction effective business negotiations. The Chinese culture is dominated by slow messages, and accordingly, it often takes a long time for personal relationships to develop as their depth typically characterizes them. The often Chinese seek close relationships with Westerners and this forms the basis of business negotiations. China can be considered a high-context culture, meaning that the Chinese often have large networks of family members, co-workers and clients with whom they have close relationships. Therefore the Chinese are ore concerned about trustworthiness than legal contracts. Also, messages are often given in indirect ways. This is in contrast to most Western cultures being low context and therefore being more task-orientated. Whilst conducting business, The Chinese tend to function in a monochronic sense (doing one thing at a time) however at a personal level seem to be more polychromic (being involved in many things at once). The most important implication for business here is that word-of-mouth publicity takes on grater significance in China than most Western countries because of the extensive networks of relationships with significant interactions between people. Thus advertising may not be as affective. Also, punctuality is critical for business meetings.

Interpersonal relationship values

In China, business is transacted in the context of relationships (Osland 1993; Tsang 1998). Osland (1993) highlights four values: *guanxi* (connections), group orientation, face and deference to age and authority.

The concept of *guanxi* is a significant driving force in China, referring to ‘..the special relationship between a person who needs something and a person who has the ability to give something’ (Osland 1993; Standifird & Marshall 2000). It is important to note that one party is in a favored position and the other in a dependent one, for reasons out of either’s control. The key to doing business in China is *guanxi* (personal connections). Having the right connections can bring cheap and reliable material supplies, tax concessions, approval to sell goods domestically or for export, and assistance when problems arise. ‘Face’ is a concept closely connected to *guanxi* (Osland 1993). For example, failing to provide favors or assistance in a *guanxi* relationship may cause the person involved to loose face. This has more significance to the Chinese than most Westerners. China’s society is group orientated, where a valuable member of the Chinese society is one who puts group goals ahead of individual needs. In China, age reflects maturity, trustworthiness and seniority. The underlying basis for the Chinese respect for authority extends from Confucius five cardinal relations. Each person has a well-defined role and status, which is revealed through forms of address: “*lao*” for one’s seniors and “*xiao*” for one’s subordinates. A study also revealed that the Chinese prefer authoritarian decision styles, which is in contrast to Western nations.

Why Western organisations fail

Many Western organisations fail when doing business in China because they do not understand the cultural differences in the conduct of business and the overall impact of these differences, in particular the development of long-term relationships bound by trust. The key difference is that priorities of business are in reverse in China compared to the priorities in Western organisations (Ch’ng 2011). Western organisations prioritise business according to a post-industrial system, where there is

the highest priority for law, followed by logic then relationship. As already discussed, in direct contrast, to the Chinese, relationship takes they highest priority followed by logic then law, which is in line with a pre-industrial system. In Western societies, such as ANZ, contractual agreements are bound by law. In China, law enforcement is poor and therefore contacts are not easily enforceable, except by long term relationships built on trust. Trust is critical as under such circumstances the Chinese business partner would fear loosing face if they would not honour the contract, however trust only exists when the relationship among business partners reaches a progressed stage of development.

There are three stages when describing the development of relationship (Ch'ng 2011). The first stage is referred to as an economic relationship. This stage takes 18 months to 3 years to establish and is characterised by lack of trust with no channels for communication. Stage two is referred to as a socio-economic relationship and takes between 3-5 years to establish. It is at this stage of the relationship that an ANZ organisation needs to be with a Chinese organisation in order to conduct business. This is because of the significance of relationship in terms of the priorities of doing business. If you have not established a socio-economic relationship with the Chinese, communication will be difficult as the Chinese will not be able to say 'no' to any business request and this is often the point at which most misunderstandings occur and subsequent business dealings fail. The third and final stage is where the relationship is referred to as a familiar relationship, or 'part of the family'. It is important to note that relationship cannot be transferred within a business. As executives or managers are replaced within an organisation, the new person would need to start from the beginning. Often, the Chinese will call the first person that they dealt with as this is the person with whom they have the long-standing relationship and trust.

Recommendations: What can organisations do?

There are several key steps ANZ organisations can take to maximise success when doing business in China. The first is to ensure that as much time is invested in

building long-term relationships with Chinese Government and business partners to stage two as in efforts to obtain a contractual agreement. If the relationship does not surpass stage one, then the contractual agreement if obtained will hold little significance to the Chinese (Ch'ng 2011). This would require extensive training of designated expatriates in terms of learning the local language and understanding the socio-cultural differences in ways in which the Chinese conduct business (Osland 1993; Tsang 1998). There are development programmes accessible to organisations that specialise in cross-cultural training for expatriate postings in Asia. By ensuring regular contact with their Chinese partners, especially face-to-face interactions, and by maintaining conservatism in all interactions, ANZ organisations can build close and respectful relationships and in this way build a strong foundation for successful business interactions. In light of Chinese values regarding age and seniority, ANZ organisations need to ensure that there is a link between the positions of the expatriate in the ANZ organisation and that of the contact in the Chinese organisation when discussing business matters.

Conclusion

Due to the sheer size of the Chinese market, the closeness in proximity to ANZ and the value placed by Chinese consumers on fresh produce originating from ANZ, there is a strong scope for demand. Consumers are willing to pay the price for the best quality produce. Increased urbanisation has caused a shift in traditional business channels in fresh produce from the wet markets to the retail supermarkets, predicted to be the most significant channel for fresh produce into the future. Access to China's fresh produce market is still best managed through the wholesale markets with strong supply connections to the retailing network, however simply identifying the best business partners in China is not enough to ensure success in business dealings.

Developing long-term relationships based on mutual trust is the basis to all successful business dealings with the Chinese. ANZ organisations need to adequately train expatriates to ensure that they meet the business standards set by the Chinese. Should ANZ organisations invest heavily in developing close relationships with their Chinese counterparts, with a focus on face-to-face interactions, they are far more likely to ensure a long-standing successful business relationship.

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