Five Things To Know When Negotiating Business Deals In China

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This month American payment transfer service MoneyGram announced the collapse of a merger agreement with Ant Financial, an affiliate of the Chinese e-commerce giant Alibaba. And it wasn't a unique case: U.S. telecom firm AT&T may have decided this month against selling handsets by Chinese hardware firm Huawei following pressure from U.S. lawmakers, according to media reports.

Will these two flops start a trend of dropped partnerships between American and Chinese companies or herald the demise of other Sino-foreign deals? They don't have to. Foreign companies do well when they follow these five rules:

1. Make it personal

Play up any connections with individuals in the would-be Chinese partner company, advises Song Seng Wun, an economist in the private banking unit of CIMB in Singapore. If a connection doesn't jump up right away, look for one. For example, Song points out that shared "dialect groups" can often be gateways to business partnerships. Southeast Asian firms run by people with ancestors from China's Fujian province sometimes find a bond with Chinese companies where executives come from that province and speak its dialect, he explains. Fujian ancestry is common in Singapore, Malaysia and the Philippines.

2. Break China into pieces

Foreign firms entering a deal to retail in China should analyze the country of 1.38 billion by segments, as spending habits vary. Otherwise, they may miss the market. Wealthier consumers tend to live in cities, for example, and older ones care intensely about pricing when compared to younger people who don't mind trying new products, the US-China Business Council says. Macy's Inc. had the right idea in 2015 when it formed a joint venture with Hong Kong-based Fung Retailing Ltd. to, in its own words, "develop significant new learnings on customer preferences." Macy's ultimately veered toward e-commerce and by 2016 its representation on China's Tmall Global site had picked up 300,000 fans.

3. Draw a boundary

Western companies that chase a China "dream" end up disappointed without a clear sense of what they want, warns Alexander May, a Hong Kong-based lawyer specialized in China. They might promise shareholders that a deal will deliver on clichés such as selling to the land of a billion consumers. But Chinese partners often negotiate with firms offshore to make up for missing resources or technology, so deals can die once they get what they're after, May warns. Otherwise, Chinese firms often regard big Western ones as rivals. "There's certainly not a lack of money now, so why on earth share with a Western company if they can do it on their own?" May asks. But if a mere toehold in China is what you're after, a short-term deal might work.

4. Learn liabilities

A Western company that agrees to an acquisition by someone in China should know the buyer's past. Plenty of Chinese suitors are looking, according to this Forbes report in 2016. That year, for example, Chinese real estate buys overseas came to $33 billion. Corruption in China, though easing under President Xi Jinping, could leave a Chinese firm with hazardous assets that may infect a purchase deal. The hall-of-fame example here belongs to American machinery maker Caterpillar when it lost multiple millions of dollars five years ago after it acquired a Chinese producer of roof supports. Caterpillar found "deliberate, multiyear coordinated accounting misconduct" by the Chinese side's management to inflate revenues.

5. Know the role of the government

If China and foreign governments consider each other strategic rivals, investment authorities on both sides will keep a close eye on any major tie-ups. China said in 2011 it would begin conducting national security reviews on proposed acquisitions of Chinese enterprises. Its old Cold War foe the United States is extra leery now too as President Donald Trump takes an America-first view of commerce. Ant Financial and MoneyGram couldn't get merger approval from the U.S. Committee on Foreign Investment. Now the United States will charge tariffs on solar product imports, a hit to Chinese industry. China's Ministry of Commerce vented about American "protectionism" after reports of the Huawei-AT&T setback. Chinese regulators might break a deal, says Alicia Garcia Herrero, chief economist for the Asia Pacific with the French investment bank Natixis. So can the other country involved, "especially if developed," she says.

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