

# Chapter 13

## Building a better trading relationship and strengthening ties

We may have made it to the 'front porch to yarn', 'to the sitting room for serious talking', and to the 'parlour for poker and gin rummy' but as a country we are yet to go the extra step and actually 'play mah-jong'.<sup>1</sup>

13.1 Trade agreements are a formal, structured and public way of improving trading relationships. But such arrangements are forged and operate in an environment that may or may not encourage trade. Trade is not solely about economics and there are many factors, including cultural differences and ethical standards, that influence a trading relationship. This chapter examines some of the less transparent but important factors that shape a trading relationship. It looks firstly at Australia's reputation as a trading partner and then specifically at the business culture and practices in China.

### Australia's reputation as a trading partner

13.2 The Australia China Business Council was of the view that Australians have a very good reputation in China—it is 'good to do business with Australians'. Ms Kate Barnett, from the Council, stated:

...we are well regarded and we do not have baggage that some other developed nations have when dealing with Chinese businesses and the Chinese government...It is certainly very well regarded as a destination to travel to...and for sending kids to for study. That is certainly a very good sign of the future for those links.<sup>2</sup>

13.3 Some also argued that Australia's independent identity is a valuable asset.<sup>3</sup> Hunt and Hunt Lawyers emphasised that one of Australia's strengths in its trading relations with China stemmed from its image as 'a friend with its own identity not a messenger conveying the views of others'. It noted further that Australians 'are prepared to engage, listen and understand without being judgmental'.<sup>4</sup> Australia has also established a name as a reliable and dependable trading partner with the mining sector in particular setting a high standard in this regard (see paragraph 7.21).

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1 Dr Noordin Sopiee, CEO, Malaysian Institute for Strategic and International Studies, in Future Summit 2004 Creating a Better World, *Report of the First Annual Future Summit*, Sydney, 6–8 May, 2004, p. 97. He stated that Australia still remains on the outside, and that, while for some time Australia has been welcome to East Asia, there 'are still limits to the relationship'. He made the statement as quoted to indicate that Australia had made progress but there is further to go.

2 Australia China Business Council, *Committee Hansard*, 29 June 2005, p. 13.

3 *Submission P24*, pp. 15, 16.

4 *Submission P24*, p. 18.

13.4 Australia's good standing provides a solid platform from which Australian firms can gain entry to Chinese markets. A trading partnership, however, can be easily damaged especially if the partners misread or misinterpret the conduct or motives of their associates. Such misunderstandings are more likely to occur where the partners come from very different traditions. Mr Reginald Little, a former DFAT officer, made this point. He warned, that Australian business people are in 'grave danger' if they do not know in detail the social, cultural and economic background of the Chinese people they are dealing with.<sup>5</sup> The following section considers the extent to which Australian business people understand China's culture and whether this assists or hinders them to conduct successful business relationships with their Chinese counterparts.

### **Business practices in China**

13.5 As a starting point, many witnesses made the point that Australian business people should have a sound understanding of Chinese culture and values. It would appear that Australians do not necessarily fully understand the Chinese way of doing business, and the Chinese do not fully appreciate the Western way of doing business. Mr Duncan Calder, KPMG, told the committee:

I think China is littered with the carcasses of foreign companies that have paid no attention to the issues of cultural sensitivity, and have tried to sell the Chinese what they think the Chinese need instead of listening to the Chinese and selling them what they want.<sup>6</sup>

13.6 Ms Vivienne Bath noted that Western businesses are generally focused on making money but in some instances the Chinese enterprise may have a different agenda. This is particularly so when dealing with state-owned enterprises that 'may want to do a deal to save jobs, or get a large investment to pump up their statistics'.<sup>7</sup>

13.7 Clearly, Australian companies need to be able to read accurately the messages and signals being conveyed to them in their dealings with Chinese businesses. They also need to know how to respond appropriately and to their advantage.

13.8 In Chapter 4, the committee examined the legal and regulatory framework within which people conduct business in China. It found that since the 1980s China has introduced a raft of legislation to make the business environment for foreign companies more attractive. It noted, however, that in some instances practice was inconsistent with the new laws: that the legacy of the old way of doing things in China often prevails over legislated reform.

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5 *Committee Hansard*, 1 August 2005, p. 44.

6 *Committee Hansard*, 1 August 2005, p. 13.

7 Vivienne Bath, 'Lawyer maps China's business landscape', *Lawyers Weekly*, 12 November 2004.

13.9 The following section looks at some of the special aspects of the business world in China and their role in establishing and maintaining successful business links.

### ***Relationships (guanxi) and building a business in China***

13.10 A number of analysts worldwide have commented on the important function that cultural differences have in influencing trading relationships with China.<sup>8</sup> The Chinese, like business people elsewhere, have their unique way of conducting business. Many China experts refer to a business culture in China that is 'based on strong family networks or cultural ties secured in guanxi [interpersonal] connections that are underpinned by strong Confucian ethics'.<sup>9</sup>

13.11 Mr John Thornton, Director of Global Leadership at Qinghua University in Beijing, noted that relationship building in China is 'absolutely central to success.' In his experience:

...99 percent of westerners don't spend the time necessary to build these relationships. Senior people in corporations often tend to go to China once or twice a year, but that's just not enough. You've got to get inside, which means you've got to spend enough time there, building genuine, honest, candid relationships with those with whom you'll have to work, as well as with those who will work for you. Too many western companies are skipping that step, or they're doing it very badly.<sup>10</sup>

13.12 Mr Jonathan Woetzel, Director in McKinsey's Shanghai Office, supported this view by underlining the need to build relationships with the people who count and have influence.<sup>11</sup> The International Finance Corporation drew similar conclusions about the importance of appreciating China's business culture which is 'largely relationship driven and built on a desire to avoid conflict'. In its view, 'trying to

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8 See for example John L. Graham and N. Mark Lam, 'The Chinese Negotiation', *Harvard Business Review*, October 2003, p. 82. They attributed breakdowns in relationships between American and Chinese business people to 'A failure on the American side to understand the much broader context of Chinese culture and values, a problem that too often leaves Western negotiators both flummoxed and flailing'.

9 Kate Hutchings and Georgina Murray, 'Family, face and favours: Do Australians adjust to accepted business conventions in China?', *Singapore Management Review*, vol. 25, issue 2, Singapore, 2003.

10 McKinsey & Company Leadership Dinner, 'Panel Examines China's Economy', p. 5.

11 McKinsey & Company Leadership Dinner, 'Panel Examines China's Economy', p.8. Ms Grace Wen Pan, who studied business relationships in the Chinese inbound tourism market to Australia, found that guanxi has a significant but not decisive role in the process of developing relationships between Chinese travel agents and Australian inbound tour operators. She noted, however, that guanxi relationships can 'provide added value to the partnership relationships of Australian operators'. Grace Wen Pan, 'Business Partnership Relations in Chinese Inbound Tourism Market to Australia', PhD Thesis, School of Tourism & Hotel Management and School of Marketing and Management, Faculty of Commerce and Management, Griffith University, 2004, p. ii.

impose formal structures on an organization that has traditionally done business in a certain way can lead to insurmountable culture clash'.<sup>12</sup>

13.13 A number of witnesses appearing before the committee expanded on this notion of relationship building. Hunt and Hunt Lawyers was of the view that currently the public and private sectors in Australia 'have a much greater understanding of what is really meant by the Chinese word 'Guanxi' which is at the heart of the Asian way of doing business'. It noted:

Relationships and networks are of much greater significance in China and indeed Asia generally than black letter law or legal agreements.

Australians have done well in coming to grips with this concept, indeed we would venture to suggest that Australia has done better than many other western countries and this explains the successes achieved and is the key to realising future opportunities.<sup>13</sup>

13.14 Even so, numerous witnesses pointed to the dangers that can arise from cultural misunderstandings that may damage a business, in particular the failure to appreciate the significance given to relationships.

13.15 Mr Calder agreed fully with the viewpoint that relationships are of fundamental importance not only in China but in any market. He drew attention, however, to the particular circumstances in China where the significance of relationships can override legal agreements. He stated:

You need to have relationships. Relationships can be more important because of the different importance of legal agreements. I often hear the phrase: 'A contract is merely the start of the negotiations.' When you have that sort of arrangement in place, I think it is important that you do not take the approach sometimes taken by Western companies: 'I have a contract and therefore, if it is in your interest or not, I am going to hold you to it.' I think there is more of an expectation of working to mutual advantage in Chinese culture. That requires a strong relationship focus throughout the term of that relationship, and not just falling back on documentation.<sup>14</sup>

13.16 This observation is pertinent in light of problems arising, as identified in chapter 4, where Australian business people differ in their understanding of a contract from that of their Chinese business affiliates. Evidence suggests that a Western reliance on a black letter law interpretation of a contract may well clash with a broader Chinese construction placed on the arrangement, particularly the nature of the relationship. The Australian party is likely to be concerned with the detail of the goods and services to be transacted, payment, shipment, documentary requirements and

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12 International Finance Corporation, (the private arm of the World Bank Group), *Step by Step: Corporate Governance Models in China: the experience of the International Finance Corporation*, 2005, p. 9.

13 *Submission P24*, p. 4.

14 *Committee Hansard*, 1 August 2005, p. 12.

procedures in the case of any claim or dispute. On the other hand, the Chinese party may be more focused on personal relations and prefer to use the contract as a guide that allows flexibility for negotiation and for any potential claim.<sup>15</sup> Indeed, the Australia China Business Council submitted that 'generally, though not always, contractual disputes are issues of culture rather than bona fides'. It stated:

The historical absence of an independent judicial process in China allowing parties to enforce written contracts means that Chinese companies place far more reliance on building relationships than they do on the written word. Contracts are often seen as evidence of the parties' intentions at the time, a milestone in an evolving relationship, and therefore subject to renegotiation at any time.<sup>16</sup>

13.17 Mr Barry White, International Fibre Centre Ltd, made a similar observation. He told an audience:

It is also worth mentioning that we continue to see cases where Australians have visited China and returned with a Letter of Intent or Memorandum of Understanding which are often misinterpreted as some form of contractual obligation. In reality such documents mean little more than 'let's speak some more about this matter!'<sup>17</sup>

13.18 Clearly, Australian businesses must be aware of the importance of relationships in China and how they influence the understanding and application of law.

13.19 More generally, a survey carried out using a sample of 22 Australian expatriates drawn from a multi-industry background and working in China suggested that while interpersonal relationships are important, the matter of face [mianzi] was a cultural aspect that stood out as distinct from other cultures. Their message was that face was a serious cultural issue. They found:

In respect to the issue of face, the expatriates interviewed replied that this was one area in which they generally believed that this particular cultural characteristic was markedly different from anything practiced elsewhere in the world. They cited the need to give face, to save face, and above all to avoid causing loss of face. They highlighted the fact that in causing loss of face to another then they automatically lost face themselves, and thus they

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15 See for example, Barry White, International Fibre Centre Ltd, 'Doing Business in China and potential barriers to growth', February 2005.

16 *Submission P40*, p. 16.

17 Barry White, International Fibre Centre Ltd, 'Doing Business in China and potential barriers to growth', February 2005.

viewed the saving and maintaining of face of others as essential to their own ongoing success in China.<sup>18</sup>

13.20 Trust [xinyong] and reciprocity or favours [renqing] were also important considerations. The researchers stated that China has its own culturally-specific version of business relationships and suggested that:

...the way in which guanxi is interpreted may need to be modified to take account of the manner in which guanxi plays out differently in large organisations rather than smaller organisations. While the influential larger organisation can steadfastly assert its right to engage in no favours beyond the simple entertaining required in relationship building and maintaining, the smaller company may find itself in a position that requires much more in exchange for maintaining its position.<sup>19</sup>

13.21 They were of the view that organisations could work towards a more successful experience for their expatriates in China and reduce the amount of time spent on developing relationships and understanding the associated concepts of face, trust and reciprocity. Their research suggested that:

...expatriates employed in large companies already have guanxi by virtue of the international importance of their organisations. Thus, it is the smaller companies who do not have such assumed influence who really need to be devoting more energies to preparing their expatriates for working in China and the pitfalls they may encounter in trying to find the balance between acquiescing to China's business practices while maintaining company policy.<sup>20</sup>

13.22 They concluded:

...the importance of being culturally astute needs to be heeded by the smaller organisations and private businesses. Those individuals who do invest time in learning Mandarin and becoming aware of the Chinese

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18 Kate Hutchings and Georgina Murray, 'Family, face and favours: Do Australians adjust to accepted business conventions in China?', *Singapore Management Review*, vol. 25, issue 2, Singapore, 2003. See also John L. Graham and N. Mark Lam, 'The Chinese Negotiation', *Harvard Business Review*, October 2003, p. 90.

Duncan Calder told the committee that the whole issue of preserving face, having respect, dealing with people at the right levels of organisations, and not belittling people when you do not realise that they do not have the power to make decisions are important factors. *Committee Hansard*, 1 August 2005, p. 13.

19 Kate Hutchings and Georgina Murray, 'Family, face and favours: Do Australians adjust to accepted business conventions in China?', *Singapore Management Review*, vol. 25, issue 2, Singapore, 2003.

20 Kate Hutchings and Georgina Murray, 'Family, face and favours: Do Australians adjust to accepted business conventions in China?', *Singapore Management Review*, vol. 25, issue 2, Singapore, 2003.

cultural-specific and country-specific practices will definitely see dividends in their business activities.<sup>21</sup>

13.23 This view is supported by Mr Macmillan who told the committee:

Australian industry has come a very long way in the sophistication of its understanding of the Chinese market. There was a time when that knowledge was concentrated very much in a small number of people. I think that is no longer the case. Obviously, it is important to continue to develop those resources as the relationship continues to grow, but the businesses we deal with have a quite sophisticated picture of what is going on in China as it extends to their core business interests. That is how we would see it, I suppose. But they are big companies, as you can see, and they are very well resourced.<sup>22</sup>

13.24 Professor Goodman, however, warned of going into China with a 'mythologised, rarefied notion of a China which is cutesy and you do not understand that it is a business world first'. He was of the view that the notion of 'guanxi' had been mythologised. He stated:

But business relations in China are pretty much the same as they are—standard—throughout the world. Those special relationships become important because it is not a legal environment like everybody else in the world has. Once that comes in—and it is coming in rapidly now—guanxi becomes much less important. It has always been like that in every society you can think of; there is nothing mythical about it. But, if you read the books about it, you would think it was an inherent part of Chineseness.<sup>23</sup>

13.25 Even so, he told the committee that given the competitive nature of doing business in China, Australians are not going to be competitive with other countries 'unless our businesspeople and our industrialists have that extra cultural knowledge which allows them to come to grips with China'.<sup>24</sup>

### ***Assisting Australian companies to understand the Chinese business world***

13.26 Undoubtedly, Australian companies, especially the smaller to medium sized enterprises and those new to the Chinese market, must give close consideration to, and make the effort to understand, the Chinese business culture. A number of agencies or organisations give particular attention to cultivating in Australian business people an awareness of the peculiarities of the business world in China. The Australia China

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21 Kate Hutchings and Georgina Murray, 'Family, face and favours: Do Australians adjust to accepted business conventions in China?', *Singapore Management Review*, vol. 25, issue 2, Singapore, 2003.

22 S. Macmillan, *Committee Hansard*, 27 June 2005, p. 20.

23 D. Goodman, *Committee Hansard*, 29 June 2005, p. 59.

24 *Committee Hansard*, 29 June 2005, p. 53.

Business Council noted that there is 'a huge wave of SMEs' going into China. It provides information:

...so that people are not just intoxicated by the huge market that is China but going in with adequate preparation and planning. We aim to inform companies developing a China market entry strategy on how to manage the pitfalls and navigate the risks so as to be successful. A number of our members have been in China for over a decade, and they share their experiences with the newbies going into China.<sup>25</sup>

13.27 It detailed a number of initiatives to facilitate the education of the wider business community particularly with regard to two aspects:

One, China has its problems with business integrity and corruption. We are very transparent about that. So they go into that marketplace aware that they need to do their own due diligence. It is really about managing their own risks with regards to their relationships with suppliers and other key stakeholders in that market. Two, under the application of Australian law as it applies to what companies are doing overseas, they could land themselves in hot water again if they are not doing the right thing. We see that Australian companies are keen to be informed. We are sure that they are demonstrating very high ethical standards.<sup>26</sup>

13.28 Dr Davis also informed the committee about the programs the ACCI has in place to help better educate Australian companies on how to conduct business in China:

We do what you would call business culture training on a commercial basis. We put on, say, half-day events out in our state chambers...where we say to business people, 'This is the culture of doing business in these countries.' The training covers such things as when and how you bow; the pecking order; which hand you use; and—especially for ladies travelling abroad—when you do and do not extend your hand and how long your sleeves should be et cetera. These sessions are for the whole world, not just China, and they are very popular.<sup>27</sup>

13.29 Dr Morgan went further. He underlined the importance of having a deep understanding of China: of studying not only the language but the culture so that Australians in their dealings with the Chinese are able to communicate much more effectively. He suggested that education should start at university level:

I think the solution is that we need to provide better support for in-country training during the course of a degree. If there were some provision for special scholarships or partial support—whether it is competitive or not—that would certainly be an area to which the government could contribute in terms of raising capacity. Certainly the universities provide study-abroad

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25 Australia China Business Council, *Committee Hansard*, 29 June 2005, p. 13.

26 Australia China Business Council, *Committee Hansard*, 29 June 2005, p. 16.

27 R. Davis, *Committee Hansard*, 29 June 2005, p. 25.



scholarships, but nowhere near enough for the number of students who want to study abroad across the world—not just in China, Indonesia or India.<sup>28</sup>

13.30 The concept of intellectual property provides an example of why Australians need to have a deeper appreciation of China's history and culture in order to avoid pitfalls. As chapter 4 explained, China has promulgated IP laws to be compliant with international standards. Even so, these laws sit uneasily with traditional and deeply entrenched concepts that undermine the application and enforcement of such laws. Mr Ian Heath, Director General of IP Australia, stressed the point that the IP regime in China is relatively immature in contrast to most Western countries whose IP laws have evolved over centuries. In his view, it would be 'harsh and unrealistic' to expect China to have in place an intellectual property regime that is equal to those in developed countries such as Australia.<sup>29</sup> He explained:

The traditional Chinese concept of intellectual creation and protection differs significantly from what modern intellectual property protection provides. Knowledge, according to Confucian thoughts, cannot be owned or controlled. It cannot be used as a tool for profits.<sup>30</sup>

13.31 The two examples cited in this section—contract law and IP law—highlight how important it is for Australian business people to be aware of the culture and tradition of China and how Chinese values, customs and beliefs influence the interpretation and application of the law in China.

## Recommendation 15

**13.32 The committee recommends that, to ensure there is a pool of highly skilled China experts in Australia ready to advise government and business leaders on developments in that country, the Australian government:**

- **actively endorse and sponsor 'in country' training of students at the tertiary and post graduate level where Australian students are supported in undertaking studies in China;**
- **work with private enterprises, particularly large firms with established business links in China, to provide more scholarships for tertiary students which would include work experience with companies conducting business in China; and**
- **encourage Australian tertiary students, through the use of scholarships and sponsorships, to undertake the study of a Chinese language and/or Chinese culture in combination with another discipline such as law,**

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28 S. Morgan, *Committee Hansard*, 27 June 2005, p. 8.

29 Ian Heath, 'A perspective on Intellectual Property Protection in China', *Growth*, Melbourne, no. 55, May 2005, p. 71.

30 Ian Heath, 'A perspective on Intellectual Property Protection in China', *Growth*, Melbourne, no. 55, May 2005, p. 70.

**economics, commerce, actuarial studies, architecture or engineering (also see recommendation 21)**

## **Understanding the market in China**

13.33 China is a dynamic and rapidly expanding market. As discussed in chapter 2, it faces a number of challenges in maintaining its steady course. These include the difficulties in managing effectively a growing economy, the potential for social and political unrest as the country opens up to new ideas and expectations, the disparity between rural and urban areas and between the rich and poor, China's growing appetite for energy and environmental degradation. Any foreign business contemplating or already trading with China and hopeful of success in their venture must be fully attuned to developments in China and the broader region.

13.34 Mr Little and Mr Flowers were of the view that Australian business had been constructive and proactive in many areas in China and had approached the market with few prejudices or inhibitions. Even so, they found that Australian business often had 'unrealistic expectations and limited strategic vision'. They stated:

Australia's success in developing policies which ensure its security, prosperity and viability seems likely to be largely determined by its capacity to recognize, understand and adjust to the strength of China's traditional culture, which remains today unfamiliar, distrusted and threatening to a large number of Australians.<sup>31</sup>

13.35 Evidence suggests that even those with a sound understanding of the Chinese business world should be cognisant of the changes taking place in a rapidly transforming economy. In their discussions on the importance of understanding China's culture, Mr Little and Mr Flowers touched on other key aspects of China's business world that Australian business should know about. They were convinced that Australia needs to appreciate the growing dominance of East Asia and to understand the cultural underpinnings of this new force. Otherwise, they argued, few Australians would be:

- equipped to evaluate accurately developments and strategies in East Asia;
- equipped to win respect for their behaviour; and
- equipped to negotiate in ways likely to deliver long term benefits in the region.

13.36 In their view, most Australians, and even corporate interests, due to ignorance would insist on policies and priorities that would be self-defeating.<sup>32</sup> They argued that, apart from the institutional constraints, other impediments to trade would arise from:

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31 *Submission P26*, pp. 5–6.

32 *Submission P26*, p. 6.

- inadequate information flows;
- language obstacles;
- cultural misunderstandings;
- contrasting value systems;
- basic incomprehension in products such as food and medicine; and
- generally inadequate reliable media interaction.<sup>33</sup>

13.37 This section looks at the information available to Australian businesses on the Chinese marketplace.

13.38 Professor Goodman underlined the need to understand the complexity and diversity of the Chinese market. He argued that if Australia is going to develop a cultural edge to go alongside its business and entrepreneurial activities, Australia must have:

...research being produced in this country which not only understands that China is not a single culture but delves into it and tells us things we need to know—that you need to know as government officials and that businesspeople need to know—about the different Chinas.<sup>34</sup>

13.39 Dr Stephen Morgan agreed. He added that Australia needs to 'know more about what Australian companies do in China'.<sup>35</sup> He noted that it is important for managing change and managing the development of public policy to facilitate Australian firms' engagement.<sup>36</sup>

13.40 Mr Charles Woodard saw a key role for government in disseminating information on China. He stressed the importance of having a well directed and coordinated approach to China:

Because this is a new era, I hope that orderly and daily exchange of information between people, largely initiated by DFAT, on both the economic side and the political side, would be taking place. I would like to feel that every government department in Canberra that has an interest in China—and a few do not—receives a daily feed of information that they should know of or at least have at the back of their minds. I do not know about state governments, except that I was at a meeting recently where the Victorian representative announced that the Victorian government had a whole-of-government approach to China. I hope that all states have something similar. I hope, therefore, that the processes of consultation between federal and state governments in regard to China would be greatly facilitated by them all having not only the same technique but the same

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33 *Submission P26*, p. 7.

34 *Committee Hansard*, 29 June 2005, p. 53.

35 S. Morgan, *Committee Hansard*, 27 June 2005, p. 6.

36 S. Morgan, *Committee Hansard*, 27 June 2005, p. 6.

philosophy, because it is the will as much as the means which makes it work.

In 1986, I left government service and made an overt across-the-board submission to cabinet on our relations with China. It was my hope at that time that that would be an annual operation. I think China is of enough importance to us for the government to receive an annual submission on it so that it can see the state of the relationship across the board and be able to foresee problems. If a problem is coming up in one area, such as human rights, what do you do about it? Do you strengthen another link in the chain at that time to offset the problem you see coming up? I think that is an obvious and a wise approach for Australia to have.

The Chinese always say that they prefer the broadest possible relationship. Of course, in this regard they think of not only governmental relations but also people-to-people relations and so on. They foresee that there will be problems and they want to be able to take up the slack when those problems arise. So the challenge for us, as we felt it first for Japan and then for China, is to meet the capacity of other major governments to have a whole-of-government approach and to seek the best possible professional conduct in our own relations with those countries.<sup>37</sup>

13.41 Mr Little and Mr Flowers took a similar approach. They suggested that most Australian business could be assisted greatly by more proactive government programs designed to assist small and medium scale operations by facilitating:

- strategic partnerships among Australian entities;
- strategic partnerships with Chinese entities;
- regular published information offering strategic insight, cultural know-how and mentoring guidance;
- language skills support, possibly with Australians encouraged to make an effort in Chinese language comparable to the Chinese effort in English over the past 25 years; a transformation of business culture inspired by Chinese models.<sup>38</sup>

### ***Committee view***

13.42 It is clear that Australian business people and Australian decision makers must have more than a superficial understanding of how the Chinese conduct business. They must be sensitive to cultural differences and be able to convey their ideas and opinions without misunderstanding or misinterpretation. Furthermore, Australian businesses must be well equipped to read and predict trends in China.

13.43 The committee recognises that government agencies and private organisations have taken on board the importance of having well-informed Australian business

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37 C. Woodard, *Committee Hansard*, 27 June 2005, p. 25.

38 *Submission P26*, p. 8.

people operating in China. It believes that the government in particular should devote more resources to ensuring that Australia has a pool of Australians, proficient in the Chinese language and with a sound appreciation of the Chinese culture ready to advise business and governments on business practices in China. This viewpoint is reinforced in chapter 15. Furthermore, Australia should have skilled analysts monitoring developments in China, predicting trends in the market and forewarning of problems. Such a body of experts would be an invaluable asset for Australian businesses and Australian leaders. It sees a necessary role for the Australian government to provide the business community and state and local governments with accurate and up-to-date information on developments in the Chinese market and likely trends.

13.44 The committee also believes that the federal government should have an active role in assisting Australian businesses to form strategic partnerships with Chinese counterparts. Finally, the committee notes the advice tendered by Mr Woodward especially on the need for state and the federal governments to have a well directed and coordinated approach to China and for them to share the same philosophy. The committee believes that the Australian government has the responsibility to ensure that there is a whole-of-government approach to China and that the states and the federal governments together with their respective agencies are working co-operatively as partners in pursuing their particular interests in China.

13.45 These findings align with the committee's view with regard to the government's role in assisting the manufacturing sector. They further reinforce the importance of ensuring that there is a whole-of-government approach to China where the Australian government assumes a central role in promoting Australian business in China, in disseminating market intelligence and facilitating joint ventures.

### **Recommendation 16 (see also recommendation 3)**

**13.46 The committee recognises a need for Australian business, especially small and medium-sized enterprises (SMEs), to be part of an effective communication network so they can benefit from the experiences of others conducting business in China, especially those with established business associations in China. It recommends that the Australian government improve the dissemination of market intelligence about China in Australia by:**

- **providing a forum whereby Australian businesses can meet and discuss their experiences in conducting business with the Chinese;**
- **establishing a more effective communication network in Australia that will alert Australian companies intending to conduct business in China, or already doing so, to the deficiencies in China's legal framework;**
- **increasing the focus on facilitating the formation of strategic partnerships between Australian and Chinese companies; and**
- **reviewing the concerns about the poor quality of data available on Australia's trade in services with a view to identifying ways to improve the current system of gathering statistics.**

**Recommendation 17**

**13.47 The committee recommends that the Australian government adopt a whole-of-government approach whereby all departments that have an interest or involvement in matters dealing with China have China experts on staff who form part of an Australian-wide departmental and agency network.**

13.48 This chapter underlined the importance of giving close attention to the various factors that support a trading relationship, in particular, the need to understand cultural differences and to take account of them when conducting business in China. An awareness of cultural differences and respect for these differences does not mean that a business or trading relationship will not experience discord arising out of these very differences. Indeed, there is the likelihood that such differences will create friction in the relationship especially within the broader political framework. The following chapter examines the potential for disagreements to develop between China and Australia at the political level that, although not directly concerned with trade, impinge on the trading relationship.