

China's Need for
Small Northern European Friends

Dutch Longer Term Value to China

Frans van Gunsteren

 Parthenon

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In this series, Sinologists and other experts describe key aspects of modern China, as they became visible since Deng Xiaoping gave the starting signal for economic reforms and the Open Door Policy in the late seventies. The series includes monographs in the English and Dutch languages and is intended for a wide audience of those interested in contemporary China.

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Contents

List of abbreviations	6
Foreword	7
Preface	9
1. Summary	11
2. Chinese values	13
3. Chinese blocks	44
4. China's needs	60
5. The Dutch from the Renaissance to the present	72
6. Dutch values	77
7. Dutch needs	78
8. Matching the Chinese and the Dutch	80
9. Blocks between the Chinese and the Dutch	84
10. Catalysts between the Chinese and the Dutch	94
11. Why Germany in the short term only?	101
12. Why Scandinavia, Finland, and the Swiss?	104
13. Why not France, Italy, or Spain?	106
14. Why Belgium?	107
15. Why not the UK?	108
16. Why not the USA?	109
17. Why not Japan?	117
18. Why Australia?	119
19. Why not Singapore?	120
20. What about China's neighbours?	121
21. An example: DHV in China	124
22. Summary and conclusions	147
Epilogue / About the author	150
Bibliography	153

List of abbreviations

BBB	Behavior building blocks
BD	Business development
BRICS	Brazil, Russia, India, China, South Africa political organization
BSF	Bechtel – Sinopec Engineering – Foster Wheeler consortium
CNOOC	China National Offshore Oil Corporation
CEFIC	Conseil Européen des Fédérations de l'Industrie Chimique
COO	Chief operations officer
CSPC	CNOOC and Shell Petrochemicals Co. Ltd.
CSR	Corporate social responsibility
EIA	Environmental impact assessment
FDI	Foreign direct investment
GDP	Gross domestic product
HSE	Health, safety, and environment
HRM	Human resource management
IP	Intellectual property
IREP	Internationally recognized expertise position
IT	Information technology
JV	Joint venture
LEED	Leadership in Energy and Environmental Design
LNG	Liquefied natural gas
MNE	Multinational enterprise
NACO	Netherlands Airport Consultants
NGO	Non-governmental organization
O2NC	Openness to non-conformance
P I	Management of simple projects
P II	Management of complex projects
R&D	Research and development
RMB	Renminbi (Chinese currency)
SD	Sustainable development
SME	Small and medium enterprises
SOE	State-owned enterprise
TQM	Total quality management
WTO	World Trade Organization

Foreword

During the past five years, Frans has been a corporate advisor to DHV, a leading international consultancy and engineering firm providing services and innovative solutions in environment and sustainability, general construction, manufacturing and industrial process engineering, urban and regional development, and water management.

Frans's experiences and insights have been a tremendous support to our Chinese and Dutch colleagues. His advice contributed greatly to our success story of developing a consulting engineering company in China. By linking Chinese and Dutch values, coaching our staff and management personnel, both Chinese and Dutch, and contributing to our strategy development, we succeeded in dealing with cultural differences and understanding better where and how we can add value to each other. Frans summarizes our journey in China well in the case study on DHV in China.

I can full-heartedly recommend this book to readers interested in doing business in or with China and to Chinese readers with an interest in understanding the differences between China and the West.

Frans's sharp analyses are often characterized by the directness, clarity, and candour that the Dutch are known for. He is driven by a deep interest in people and how their history, their culture, and their intrinsic culture blocks affect their way of working, and we are grateful that he is sharing his insights with anyone who wants to learn from them.

Arnold Galavazi, Director for Asia, DHV Group

Preface

On December 9th, 2005, my son-in-law, Olivier, asked me to write a book on my experiences in China, because otherwise I would never come back to Holland. Olivier has worked abroad and in China, and he voiced his request on behalf of those interested in understanding more about the Dutch and Chinese and their longer-term connections.

During the construction of the CNOOC Shell Nanhai project, many others had made the same request. Since we had to invent many solutions to surprises in China, we participated in great learning experiences which many of those involved would like to capture for themselves and other newcomers to China.

Our Western project management approach clashed with Chinese practices. In the course of two years starting in 2001, we learned slowly how to get around the various conflicts. From 2003 on, as a community with some six strong leaders, we managed to align ourselves between Western and Chinese best practices. The experiences in cross-learning merit being captured in writing for a wider audience who might benefit when dealing with the Chinese and when learning from Chinese practices.

In my working life, I have been a 'reflective practitioner' (see Donald Schön's book *The Reflective Practitioner*), practicing management intuitively, followed by reflection on 'why and how', and later capturing the new knowledge gained for systematic learning and improvements.

I stayed in China after retiring from Shell in May 2006 and finally decided to write this booklet, intending to cap-

ture the unique experiences of those engaged in Shell's Nanhai project in China and my experiences being part of DHV in China for five years, as well as my own personal learning experiences with the Chinese inside and outside the project, in volunteer work, and during private journeys.

Not being a Chinese citizen, I will never understand the Chinese way of life and how to deal with it, nor how they will deal with the difference with the West when they are outside China. In my retirement phase of life, I am on an amazing journey to find the path towards win-win sustainable cooperation between China and smaller Northern European countries.

Frans van Gunsteren
September, 2011

1. Summary

Chinese culture and Western culture have many differences which will not change in the longer term, so matching needs and added value between China and other countries is not easy. In this booklet, insight is given into these differences. The intrinsic blocks to doing business in the Western way are analyzed. The Dutch can compensate for those intrinsic blocks in areas where they have top expertise that is recognized internationally and can keep that top value by pioneering innovative processes.

The purpose of this book is to help in the learning process to avoid failure by the Dutch – and for that matter other smaller Northern European countries – in China.

Some personal views are given why the Dutch – and for that matter the Scandinavians or the Swiss – can do better than others in the match between what China needs in the longer term and what foreigners can offer.

Smaller countries have three advantages. One is that their domestic market is small, so they need the global market with its demands for top technology and global competitiveness. Secondly, they need to be flexible anywhere in the world to adapt to local practices and culture. Thirdly, they are not a threat politically to leaders in the new order of civilizations, like China.

Those three aspects of smaller countries, together with their top know-how and competitiveness in certain fields, make those Northern European smaller countries sustainable partners for China.

An example is given of a Dutch engineering and consultancy company, DHV, that discovered how things could work out well. It is also recognized that – apart from some multinational companies and small and medium-sized sourcing companies – a number of Dutch companies have failed to get the right match.

2. Chinese values

One year after his arrival in China in July 2001, the construction director of the Nanhai project arranged a team-building session with its single-source marine contractor, which was a consortium between two shareholder-related companies and the First Harbour Design Company. After six months of negotiation and communication, the alignment between all parties was very poor. A team-building session at Shanghai Beach in Daya Bay was therefore scheduled to get better mutual understanding and subsequent alignment with contractual commitments.

The Nanhai project

CSPC stands for CNOOC and Shell Petrochemicals Co. Ltd. It was the largest Sino-foreign joint venture in China in 2000, with \$4.3 billion investment. CNOOC is the China National Offshore Oil Corporation, the third largest state-owned oil company (others are Petrochina and Sinopec). BSF stands for the Bechtel – Sinopec Engineering – Foster Wheeler Consortium, which acted as project management contractor (PMC) for CSPC in the design and construction of the Nanhai project of \$3 billion capital investment. The project got its final investment decision by CSPC on 1 November 2002.

The location of the JV and the Nanhai project is in Daya Bay, close to Shenzhen on the mainland, which is adjacent to Hong Kong. The Nanhai project was completed end 2005, and CSPC started it up in January 2006.

Frans van Gunsteren was construction director of CSPC, and as a member of its management team, he directed BSF on design and construction of the Nanhai project. He joined CSPC in July 2001 and retired in May 2006.

Naomi Wong of BSF, the project management contractor consortium, prepared the session, and as the construction director of CSPC, I volunteered to have a presentation made about differences between East and West. The following list of key Chinese values was presented by Ma Li-Jun as a result of a check of some 25 aspects by a team of two expats and two Chinese to determine which of them are really different between East and West and which are not. The result was confirmed by the body language of many senior Chinese staff. We identified ten key Chinese values that are strong, interdependent, and difficult to change. These are clustered into eight groups:

- history
- respect for status and rank
- survival and defence
- pride
- harmony and contentment
- relationships
- community and group loyalty
- power in leadership

My first observation about these values is that they are strongly interlinked.

Many Westerners asked me whether the list is in order of priority – an interesting leading question. There is no priority, since the interlinkage and balance between values is what counts.

Daily negotiations are influenced by these values – especially power in leadership, use of relations, and survival mindset including cheating – but harmony is always achieved in the end in a practical way.

Everything happens simultaneously. Thinking is not sequential, but parallel.

Many books have been published on understanding Chinese values with reference to business applications. Recent ones are *Business Leadership in China* by Frank T. Gallo (2008) and *China Calling* by Alex McKinnon and Barnaby Powell (2008) (see bibliography). They confirm the picture of Chinese values as given above and place it in a historical context. Basically the values do not change. Although on the surface life looks different and more Western, fundamentally there is no change in the way people live and work.

Survival explains a lot. Compared to the West, China's history has been one of hardship, even in recent times. Economic development, after opening by Deng Xiao Ping, has not changed the survival mindset. Many are still very poor, and on top of this, China has followed the Singapore example of *not* providing social security and has even issued a law that children have to support their parents in retirement. The longer-term intention is to keep it that way, not to 'spoil' the people, thus keeping China competitive globally, which is in the interest of all in China. Hard work driven by survival keeps China competitive. Repetitive work is not a problem; it is even welcome. Education needs are low, and avoidance of risks that might be incurred by new methods provides stability by ensuring enough employment for large numbers of relatively poor people.

The 'iron rice bowl' of working in government or state-owned companies is intended to be cut back by promoting

private enterprises outside the state-controlled areas of energy, raw materials, and security-related business.

So survival is part of China's longer-term stability.

In his book on competitive advantage of nations, Michael Porter sees four phases: (1) factor driven (low labour cost, raw materials, rivalry, demand, infrastructure), (2) investment driven, (3) innovation driven, and (4) wealth driven. The last of these has almost killed the UK. China wants only factor and innovation drive, perhaps with investment as a push, but not wealth-driven models.

Survival leads to copy behaviour because it is the least risky strategy.

Lessons and reminders about China's illustrious history are repeated on TV and in schools. Many watch the same soap many times, and even historical fictional accounts may be repeated many times. This helps Chinese pride, identity, and stability.

Repetitive work is low risk, it gives comfort, and it provides enough pay for survival and education of the one child. The author's experience in his Chinese family proves this point daily. The downside is less creativity and innovation, which threatens the China's longer-term competitiveness.

So in regions like Shanghai and Beijing, the drivers of China's development, education is now allowed to be more creative and is even pushed in the direction of more creativity and less memorization.

With China's elite climbing up the Maslow motivation ladder, this might become a threat to stability and will be watched closely by the authoritarian government.

Pushing and keeping people in survival mode is part of the method of maintaining social stability. So China is saying 'no' to the 'affluent society' of J.K. Galbraith. In daily life, one can see that even more highly educated and wealth-

ier people stick to simple family life with contentment and harmony.

The Chinese see the family as the basis of mutual help and protection. Relations – called *guanxi* in China – are essential for better careers and work.

Guanxi

The word means literally ‘relationship’, but it is used to mean ‘connections’ or the network of relationships formed and used by Chinese individuals to achieve their ends, based on mutual obligation and communal understanding. The purpose of *guanxi* is to:

- facilitate business activity
- generate new clients and retain old ones
- find business partners
- facilitate networking
- serve as a source of information

Guanxi is used as a source of knowledge or information for finding business partners and suppliers. Other reasons for using *guanxi* include getting better relationships in order to create new business and generate new clients. Through referrals, opportunities arise to develop and support usual business. *Guanxi* is used to cooperate, to stay informed, and to retain existing clients. Consulting firms also use *guanxi* to help make business deals, explore the potential buyer’s network, and as a marketing tool.

Someone is described as having ‘good *guanxi*’ if their particular network of influence could assist in the resolution of the problem currently being spoken about.

The Chinese are content with what they have: food, family, and friends. There is no urge to revolt as long as they can survive.

The Chinese accept that the government engages in politics (including bad ethics) and collects taxes. They have little expectation of more support for social security and fairer treatment of rich and poor.

The West is top-down in its values and tries to guide based on principles of the Enlightenment, such as freedom, equality, and the rule of law. The Chinese accept being little as individuals while being part of something big – a nation which also protects them and makes them proud. This is historically rooted in their whole society. The copy approach is also safe; it is a low-cost and no-risk strategy. Copying of values and behaviour is strong.

So in short, these values will not change over time. That is the second observation and the basis for the theme of my book: there is no way one can change these values easily or temporarily.

This was one of the reasons we had problems in 2001 and 2002. As Western management, we assumed the Chinese would adapt to our requirements for our Shell Nanhai project. They were supposed to be ‘educated’ by us. It was a false assumption. The only two areas in which they were willing to be educated were HSE (health, safety, and environment) and SD (sustainable development).

One can easily see why this is so: HSE and SD fit Chinese values well. It was just a matter of demonstrating *how* to meet HSE and SD goals, using the positives in the Chinese values set together with Western experience in HSE management.

Feedback in 2006, after completion of the project, was that the Chinese learned the most in the area of HSE. This was true of all three types of Chinese partners in project

execution: the design offices, the construction companies, and the authorities.

Quality was a completely different battle. A disregard for quality issues is one of the intrinsic blocks resulting from Chinese values. In China, the mindset of survival leads naturally to cutting cost at the expense of quality.

A compounding factor in China is the commonly accepted principle of buyer's liability. Once a buyer pays, he loses his right to claim later for lack of quality. Many things are therefore opened up and checked before accepting the product and making payment. This is the reason why inspections, tests, and checks are so extensive before payment is done.

In the Dutch community for sourcing in China, it is well known that you have to check every delivery 100% before shipping to Europe. Big losses have been experienced by two companies who did not check each container.

The Lego product problems were considered a problem of the buyer. His specs and checks are his responsibility for ascertaining quality in the USA according to USA product standards.

But when people's health was affected by the Sanlu Group milk powder issues, China announced a move towards stricter product safety liability legislation, which is closer to Western practices.

It was interesting to note how we used the values to help expats to better manage frustration in China. Naomi Wong (public affairs and sustainable development) and Roald Rijnbeek (sustainable development) created 200 plasticized cards for all expats with the following text:

Frustrated working on Projects in China?



The following steps may help:

1. Don't be easily irritated
2. Check if Chinese values (see back) are part of the issue. Work with these values
3. When in doubt, seek counsel from your PRC colleagues
4. Look for the best person to help on this issue - consider opportunity costs and receptiveness of all parties involved



CHINESE VALUES

Back of the plasticized card reads as follows:

- History
- Respect for Status/Rank
- Survival/Defense
- Pride
- Harmony/Contentment
- Relationships
- Community/Group Loyalty
- Power in Leadership

Some explanation and clarification with examples is given now for better understanding of the above values.

HISTORY

When presenting proposals in Nanhai to the Tender Board, it proved to be efficient to start with the *full* history of the proposal, outlining previous decisions and showing consistency of current proposals with earlier decisions.

History is known to all people as a consequence of their education. There is an official record of it in the academic world, so there is no personal risk to the individual for referring to it. In China, it is both a saying and a practice that 'one sees the history ahead of one's face and the future at the back of one's head.'

China's history is familiar to many of its people, who enjoy seeing TV programmes and reading books about it as a pastime. Thus there is comfort and harmony provided by their common history and contentment with being part of a community that shares it.

Pride – especially national pride for an individual to be part of a big nation with an extensive history and heritage – binds people in comfort to accept whatever role is required of them in this bigger context.

Power at the top has always been a feature of Chinese history, and this is basically not challenged. There has been nothing in China comparable to the Enlightenment in Europe in the 16th and 17th centuries.

Historically, defence has been more effective than attack in ensuring survival and winning wars. Survival and defence are rooted in Chinese history; they are discussed in more detail below.

Face is important everywhere in the world, but especially in the East. National feelings and face go hand in hand.

When watching the behaviour of the Chinese in the global diaspora, survival and making money appear to have priority over pride. Respecting rank in politics and keeping a low profile in the political arena with low national (mainland) pride has worked well for survival and even for the acquisition of wealth in most of the Asian countries like Malaysia, Thailand, and Indonesia.

Chinese top academics from the USA and UK are now being seduced to come back to the mainland, not so much as a matter of national pride but because of they are needed for a better Chinese future. They in turn are attracted not primarily by national mainland pride but rather by the semi-Western lifestyle in the metropolises of Beijing and Shanghai, combined with good remuneration, research opportunities, and facilities commensurate with the West, and sometimes more academic freedom than in the West.

The party in China pushes for national pride to keep the authoritarian leadership stable and in charge of all aspects of public and often private life, in order to benefit all in China by social stability.

In our Nanhai project we played the national pride card, binding many companies together to give us good deals in our 'national' project.

Pride is a factor that can block harmony, relations (with international friends), and progress in negotiations to get the best win-win outcome.

Solutions are often facilitated by middle men who can bridge the positions of leaders who are stuck by pride and face.

HARMONY AND CONTENTMENT

The two key differences between East and West identified by Hofstede, power distance and group dynamics, both contribute to harmony and contentment in China.

In the hierarchy of needs and satisfactions according to Maslow (see bibliography), the survival mood brings contentment in China for many if they have the 'iron rice bowl' provided by government employment, or enough family income to ensure sufficient food, health, and education.

The secondary effect is that as long as families and their members can survive, there is:

- no hurry
- no ideals
- no guilt
- no change

The teachings of Confucius value:

- age over youth
- past over present
- established authority over innovation

Age over youth often leads to conservatism, which commonly goes with age, giving it an edge over liberalism and new pioneering ventures.

Past over present also pushes conservatism and resist changes.

Authority over innovation creates a slow pace in accepting innovative practices in established entities.

The state-owned enterprises (SOEs) are unable to change their style of management to fit the international practices of the West. An international chemical company confirms that they do not see Chinese design institutes

growing towards international practices, because they are part of SOEs and serve SOEs.

Innovation is copied from the West and innovations in the area of management are adapted to a management style 'with Chinese characteristics'. This creates domestic harmony and contentment while still allowing Chinese enterprises to play an international role outside China.

Private companies in China face the dilemma of splitting their operations into two parts, one for domestic and one for international clients. Most of them stick to the Chinese type of management for both.

The author's experience in a Chinese engineering company is not conclusive on this issue. The younger generation, if they succeed in mastering English, could give the answer.

The book *China's Management Revolution* by Charles-Edouard Bouée (see bibliography) examines these dilemmas and draws conclusions.

The book *China's Megatrends* by John and Doris Naisbitt identifies the pillars for the new Chinese style of management with Chinese characteristics.

So the Chinese government shows patience with the pace of change processes. First of all with economic growth, which has been impressive, and now with other priorities for domestic consumption, health, and environmental protection, especially in the area of water pollution.

Social stability is the dominant factor in the pace of change and is maintained by a strong established authority, accepting inequality in opportunities, daily life, and the family.

The premier allowed discussions of political reform to proceed again after the unrest in the Middle East in the spring of 2011 to resist totalitarian regimes.

In business, power plays and negotiations are common, but guanxi and relationships expect harmony in the end without going to court for justice according to the rule of law. The number of lawyers in China is very low compared to the USA and Europe. Differences are settled rather than prolonged, with power play usually being a means to come to a settlement quickly.

Paying fees and fines is an efficient method in China for discharging guilt and compensating for mistakes. Money talks, and it is a means of communication in relationships, both within the family and in business. Principles do not matter and are not explicitly formulated to be used in disputes as they are in the West.

An example in 2001 was the employment of handicapped staff. There was a legal requirement, so the HR manager proposed paying a fine for not complying with it. It would have been easy to employ handicapped staff in IT functions, where they sometimes perform better than non-handicapped personnel, but paying a fee is common. Often the law is seen as serving the government's need to collect taxes, so paying fees would serve this purpose well.

Another example was that in Nanhai the dumping of dredging spoil some 22 km outside the project in the ocean according to the London dumping convention was done in a diligent and monitored way, so there were no fees to be collected by the government for non-compliance. That was a problem. The permit was withdrawn, and captains were forced to sign for illegal dumping and to pay fines for acts they did not commit. In the end this was solved in a harmonious way by paying for special compliance supervision by the government, which in practice was not executed. In the end, everyone was happy; there was money for the government and no liability for Shell.

In private life, I see the reluctance to change anything. An absence of change gives stability, security, and comfort. In the past when farmers used their houses only for sleeping and cooking, they would get hot water from central water boiler stations. There they would meet people and get their daily ration of hot water for washing and drinking. This promoted social contact in the village. Nowadays with modern conveniences such as electrical heating of water for drinking and even for showering and washing, I see farmers still using the hot water from the central water boiler.

Resistance to change is also seen in toilet practices. People still keep their bucket next to the bed to pee at night, even though the toilet is no longer outside in the cold, but inside with hygienic flushing facilities.

My conclusion is that hardship is not an issue, but change is. Comfort in their local environment and stable relations is more important to the Chinese than changing to more modern and less social habits.

There is an intrinsic reluctance to change. Chinese history and Chinese life are rich enough for everyone to enjoy them, while change brings risks and stress. Growth through trial and error requires that we sometimes accept failure in innovations; this is one of the problems in industry. Copying is the next best thing to no change at all. It is risk free, it fits in a lowest-cost strategy, and it contributes to self-confidence by showing that China can do as well as the West.

In my present advisory job for a Chinese company, the official policy is to implement existing technologies with minor improvements for Chinese intellectual property protection and not to tackle any really new and innovative product developments or services.

Perhaps later, with more confidence in their own ability to change and innovate, this might change in successful

private companies in China. For the time being, foreign direct investment (FDI) and foreign management act as change agents for Chinese companies to copy and take over in the longer term.

RELATIONSHIPS

Without some form of *guanxi*, there is little business, so every one tries to build up personal connections and relationships.

Nepotism has been rampant in Chinese leadership even in the recent past. Outside the top, in the army and the government, many jobs come from building personal connections and relations.

Relations are normally strong within the family, less so with classmates, and even less with colleagues at work.

In combination with power distance and top-down leadership, the nurturing of relationships easily takes the form of 'pleasing the boss' and serving as one would in the army, following instructions in a top-down authority structure. Subordinates cannot say 'no' to a call by their boss, so they do not make any commitment to colleagues till the last minute. In the West this is also an issue, but in Northern Europe the bosses respect their subordinates' commitments to others more and do not interfere except in special urgent circumstances.

Relations in the top ranks are based more on loyalty than on professionalism. Any person can be blackmailed for corruption, so those in power can easily get absolute loyalty.

The fifth-generation leaders in China are chosen more on party loyalty than professionalism. Stability is more important than progress; the guiding principle is 'progress through stability'.

In the middle and lower levels, family relations are dominant. My wife has been cheated by a good friend, because this friend needed to help her brother out of a nasty situation.

Connections and relations can be a benefit but also a burden, because one cannot say 'no' to persons in the family who have seniority and power, nor to people we owe something to because of favours in the past. In my own experience, many of my Chinese colleagues have sooner or later asked for small favours – mainly professional references, but others as well. 'There is no free lunch'.

I want to bring into this discussion of values an aspect of China that is very different from the West and describe how it affects personal relationships.

Holistic thinking is Eastern. It accepts that everything is connected: people, nature, science, business, nations and their history. The West is more dualistic, short term, direct, and simple.

China is paradoxical. Many things have many faces – not only yin and yang, but in many other aspects as well. 'No extremes, but rather balance' is the mindset.

I can give a simple example from the street, where one has to be aware that traffic can come from *any* direction. Even if a traffic light is green, one can encounter someone in an army car who wants to show that he is outside of and above the law and the rules. Bicycles often take a route which runs opposite to the traffic flow of cars, so cyclists can appear from any direction, as can pedestrians. Holistic thinking and defensive driving are necessary to ensure safety when driving.

So to the foreigner arriving in China, traffic seems unsafe and chaotic on the one hand, but with defensive behaviour based on the principle of 'who pays', and with holistic

anticipation that anything can happen, driving becomes acceptable from the safety point of view. I have not had any accidents in my ten years of driving in China.

Another aspect of holistic thinking was a big surprise to me: zero-sum thinking, that is, *no* win-win strategies. Giving in during negotiations in order to arrive at a solution that is better for both parties is not accepted thinking.

Joint ventures are win/lose arrangements, in which the Chinese win in the longer term in China because of power of language, pride, power with the government (*guanxi*), and little recourse to the rule of law. In business, that presents a big problem, because only one party (the West) gives in for compromises, while the other does not, so 'freedom to exit' (see text box) is really the only effective power strategy for Western parties. But once investments have been made, that card cannot be played without a loss.

Freedom To Exit

Saying 'no' is blocking power, and it is generally more forceful and effective than positive power. The ability to stop or to exit is a source of power. Because of this, freedom to exit is important for doing business in China, where the rule of law is less dominant than in the West and power is used in all business transactions and in the preceding negotiations and re-negotiations. A contract is basically the start of a negotiation in China, rather than the end result of one.

In price negotiations, government approvals, and business partnering, the power to have alternatives plays a role in getting results. It is accepted in China to push as far as possible on any negotiation. Walking away in street negotiations is very effective, as many tourists experience.

How can one exit when investments in land and facilities have already been made? Market position and reputation are at stake, so what is the key to getting freedom to exit and not being held hostage by past investments and operations?

Just have enough alternatives in China and outside of China, such as having one's own manufacturing when outsourcing. This has been a practice of Shell, Exxon, Dow, and other global companies for a long time. The outsourcing of internal services has gradually made companies more vulnerable in the supply chain, so keeping one's *own* manufacturing is important for outsourcing. In outsourcing there should always be alternative sources, both inside China and outside China. To be in India or Vietnam as well as in China helps.

Always calculate the 'sunk cost' of leaving and use it in decisions for staying. This cost is to be evaluated again each year, so as not to be surprised by newcomers, whether Chinese or internationals, as competitors in the local scene.

Chinese companies have developed a management and business style that allows them to respond to surprises in an opportunistic and quick way. Global internationals should learn to do the same in China by delegating power from their head offices to their Chinese branches. So bring even business unit management to China, in combination with some research and development work for the Chinese markets. Examples of companies that have done this are GE, Philips, and DSM; there are more in the pipeline. Exit from joint ventures is more difficult than from 100% owned foreign enterprises, so there is a preference for WO-FEs (wholly owned foreign enterprises) as a means to keep the freedom to exit.

Some foreign companies know how to deal with this, but many fail and withdraw in the longer term, making room for their Chinese competitors. The 'all China' policy

is visible in practice for the smart observer. The only respected answer is to play the power cards well in creative alternatives and match the Chinese in power play.

COMMUNITY AND GROUP LOYALTY

In China, there is comfort in chaos. Restaurants in China are noisy and look messy, but they observe strict hygiene in food preparation, and people do go for quality.

Sometimes I observed that chaos was created deliberately to make people more comfortable. In time management that is clearly a factor, as it is in allowing mobile phone interruptions in meetings. It fits the holistic manner of life in which *all* values need to be balanced in some form of harmony.

Chinese people are happy in crowds and avoid empty restaurants. On holiday trips only a few travellers prefer small groups. Most prefer larger tourist groups, even apart from the cost savings.

Even in hospitals, the Chinese feel more comfortable in crowded ones, including administration of intravenous injections in common rooms and sharing bedrooms with others including their families. Western clinics in China provide privacy even in general hospitals, but this is not understood to have any value for the Chinese family.

Problem solving is very powerful in China because of group dynamics based on teamwork with leadership.

Loyalty within the family is paramount, while national pride, friends, and company interests have a lower priority.

Company loyalty is low compared to Japan, so here too the paradox appears that community thinking is dominant in national pride, but when it comes to survival, the family is first, above friends, colleagues, and employer.

POWER IN LEADERSHIP

For China's priority on social stability, power in leadership in government is an absolute must. It is the excuse in the short term for a single-party co-optation government (state capitalism), and it has worked very well in opening up China to a market economy and a global role.

The dangers of such an authoritarian government have been described by Wiener economists F.A. Hayek and Karl Popper and by writer George Orwell. The danger is that it would be the road to totalitarianism, with Stalin's Russia as a historical example. But in China the mix of all values and the subsequent engagement of all people in their common values makes that road less likely. It is the typical Chinese paradox that the government can rule top-down while also listening to the people bottom-up.

The big star in the national flag represents the Communist Party. The four smaller stars represent minorities or four classes of people: workers, farmers, small businesses, and big business.

So the big star and related big business stand for state capitalism, while the other three stars stand for cheap labour and small family businesses working with low cost. It represents the split between big and powerful vs. small and low. State capitalism makes the country efficient and strong, while the 'small and low' triad make the labour cheap and the nation competitive. History has always accepted the difference between the government and the powerful elite vs. the masses at the bottom. There is no egalitarian mindset.

A practical mindset and opportunistic policies make China flexible in reacting to their own development challenges and to global changes. This flexibility is greater with

4. China's needs

In 2004, I was asked by Hans Blom of Shell Chemicals to give my personal view of our experiences in China. In Maurick Castle in the Dutch town of Vught, we had a wonderful afternoon hosted by the Netherlands Association of Chemical Industries, with a mix of Dutch and Chinese speakers. Chapters 4 to 10 of this book are based on my presentation on 16 June 2004, which was well aligned with the presentation by Ari van der Steenhoven, who had been in Japan and China for several decades, carrying out projects for DSM.

China's needs are based on what they already *have*, so let us start by summarizing what they have and how it is relevant to the match with the Dutch.

The Chinese *have*:

- History of commerce and trade
- Land
- Domestic mindset (the Great Wall)
- Big future domestic market
- Russian and Western technology
- No peace with Japanese history
- Good universities
- Eagerness to learn and to work
- Increasing English fluency
- Cost-cutting mindset in everything
- Intention to invest globally
- Non-colonial past

6. Dutch values

Some of the more important and relevant Dutch values and qualities are:

- Stubbornness
- Religious cultural base
- Republican thinking
- Self-governance
- Pioneering spirit
- Academic orientation
- ‘Teachers and preachers’ mentality
- Arrogance on global issues
- Judgmental attitude
- Openness and directness in communications
- Flexibility in trade and business

Part of the Atlantic military alliance, part of the European Economic Union, part of the Northern European mindset. No more colonial thinking in government, except for a nostalgic mood on Indonesia and new, healthy relations with South Africa.

Free thinking and tolerance towards minorities. This has reached its limits and is now a political and social issue involving matters such as immigration, security, and dual nationality.

7. Dutch needs

The needs of the Dutch are based on what they already *have*, so let us summarize what they have that is relevant for matching with the Chinese.

The Dutch *have*:

- Trading tradition
- Shipping and logistics
- Global mindset reinforced by:
 - influence of multinationals
 - small domestic market
 - tradition as pioneers (pirates)
- academic freedom
- religious freedom
- Pragmatic attitude
- Natural gas
- Urban planning

Top know-how in:

- dredging
- water management (Rijkswaterstaat)
- maritime cluster
- environmental engineering
- urban planning
- food, agriculture, and flowers

9. Blocks between the Chinese and the Dutch

Control

China shows control mania (social stability priority). The Dutch are free thinkers, free doers, tolerant for dissenters, and seek *minimum* control.

The role of government in China is completely different from the role of government in the Netherlands and Northern Europe. In China, the government is supposed to lead not only the country but also the economy, with the help of direct control of their big SOE's (state owned enterprises). In Northern Europe, the governments have an enabling role only, with minimum interference in businesses.

Law and rules

The Dutch are embedded in EU/USA legislation. Legal frameworks are transparent and more like the EU with its minimum rules, less like the USA with its strong deterministic rules and litigations. The Chinese have legislation that is simple but not easy to interpret. This is changing rapidly to amalgamate some international practices (e.g. WTO). In the power game in China, the rule of law is seen as giving away power to individuals and curtailing power in government, reducing its authoritarian leadership (see Hayek).

A funny experience of the author's illustrates how the rule of law works in China. He parked at the Holiday Inn Hotel (for swimming) at a spot where there was no sign specifying 'no parking'. Nevertheless, he got a parking ticket. When inquiring on what basis he had been ticketed,

II. Why Germany in the short term only?

Germany fits well in several respects: their orientation more towards land than towards the sea (except for the Hansa towns Hamburg and Bremen), quality compensation, green mindset, and a better attitude than Japan after World War II.

Green thinking is mature and is used as a role model to be copied in China. A corporate social responsibility (CSR) joint project is being executed in China to lead in developing the 'Chinese' CSR.

Solar technology developed in Germany (Siemens) is now being manufactured in China. Siemens has opened its wind turbine plant in China. In architectural matters, green building projects use technical solutions originating from Germany.

TUV, a German quality certifying agency, is well respected and established in China, in healthy competition with companies like SGS, DNV, and Lloyd's that work more globally. In the field of petrochemicals, the BASF joint venture with Sinopec in Nanjing is the most successful in quality assurance processes, where the Chinese respect and use the German mindset and work methods.

Respect for rank and top-down leadership fits. Historically the Germans had an authoritarian leadership culture, strongest in Prussia. Germans would fit well into the non-liberalistic traditions where leadership and authority is not challenged.

F.A. Hayek has described this trait very well and warned that it would be copied by Anglo-American countries during the war. After the war the Germans really changed,

15. Why not the UK?

The British are not trusted. They are diplomats *par excellence* and have achieved the continuation of their 'empire' very well for such a small European country. They did it by language, alliance with the USA, EU games, diplomacy, and global strategy. This implies that they play games, and that is not trusted by the Chinese. Colonial thinking and class thinking are still strong in the UK. This is felt in daily business matters, so that the Chinese do not like doing business with the British as much as dealing with the USA, for instance.

Sometimes communication with understatements and mutual understanding is too difficult for the Chinese, and it is easier to deal with the USA for student exchange, education, business model learning, and market sharing.

The English language is a differentiator for the UK. Many Chinese students are in Britain for that reason. Financial services are top in London, communicating well with New York and Chicago in mindset, historical origin, and ease of travel. London has strong historical links with Singapore and Hong Kong, who inherited part of the British legal system. China wants to develop their own financial system with 'Great Wall' protection and Chinese characteristics. This is done in Shenzhen and Shanghai. So China will copy and develop services themselves and try not to be dependent on Western countries like the USA and UK. This intention shows in their ambition to add the RMB as an international currency like the US dollar is today.

16. Why not the USA?

The USA has many things in common with China: space, land, people (if they allow more immigrants), resources, technology, power, and also the land focus, although both countries have long coast lines. The immigrants in the USA were land focused.

Great Britain has a sea mindset, and they have helped the USA in their marine matters. But the immigrants were mainly farmers and land-focused people. The traders went east, to Hong Kong and to the Caribbean Islands. The farmers went to the USA. China is very much land focused, and historically, since Zheng He in the fifteenth century, it has ignored the power at sea.

But the USA also has intrinsic blocks to synergizing with China.

The USA needs:

- war regularly, as Eisenhower said when he retired as president.
- freedom from addiction to lawyers, litigation, and compliance mania.
- global market
- friends, and harmonious relations between their friends and Israel

It is clear that the inability to master the military-industrial complex, the grip lawyers have on the system, and the need to have friends and global markets present a challenge to the USA in being friends with China.

21. An example: DHV in China

DHV Group

The DHV Group is an international engineering consultancy. Services include consultancy engineering, project management, and asset management, with local delivery of world-class solutions in the fields of transportation, water, and environment.

DHV profiles itself as ‘a company for people from people, working in partnership with clients to deliver innovative, quality solutions for the sustainable development of our living environment.’

Serving clients for over ninety years and comprising 5,300 colleagues, DHV is headquartered in the Netherlands and maintains a network of seventy-five offices in Europe, Asia, Africa, and North America. Annual turnover is approximately €€500 million, with the greater part coming from operations in its ‘home countries’ of the Netherlands, Poland, Portugal, China, India, Indonesia, South Africa, Canada and the USA. Major customers include governments, public and semi-government entities, international development agencies, and private industries, commercial services, contractors, and developers.

DHV actively invests in innovation and collaborates with universities and research foundations to provide leading edge solutions. It seeks to foster a culture of responsibility and partnership through leadership, results, and teamwork. Core values of integrity, respect, and

22. Summary and conclusions

The Chinese need foreign friends and business partners. The Dutch are longer term partners for various reasons, with two main drivers. The Dutch can compensate well for the intrinsic blocks that Chinese values bring about for quality, innovation, and CSR, especially in combination with international businesses in which the Dutch have an internationally recognized expertise position, like water and coastal management, agriculture (Wageningen related), and transport. Basically, the Netherlands stands *pars pro toto* for North-Western Europe, i.e. Belgium, Germany, Scandinavia, Finland, and Switzerland.

Each of these countries has its own internationally recognized expertise position, no big domestic market, and has to a certain extent the same compensation for the intrinsic blocks caused by Chinese values and practices. The smaller ones do not present a threat politically or otherwise to China's policies to be domestically stable, independent, and different from the West. That is why Germany might not be on the list in the longer term.

Another driver in the relationship, especially for the Dutch and Belgians, is 'the gateway to Europe'. The Dutch have Rotterdam as a gateway to industries in Germany, Switzerland, and France, with a very solid tax system and a friendly environment for regional European headquarters. The Belgians have their European Community role in Brussels and a port/trade function in Antwerp.

So all together there are four drivers for both:

Epilogue

My wish is that this book will:

- ✓ take away unjustified fear of China in the West.
- ✓ help Northern European small and medium-sized companies to include China in their global business without false expectations and with proper management for success.
- ✓ support Northern European governments in choosing the right business incentives with China for sustainable realistic business relations in win-win balanced reciprocal modes of operation.
- ✓ enable multinational companies in China to be cautious about imposing Western global concepts and to look for Chinese solutions for Chinese issues with an open and responsive mind for using their domestic market and operations for best global business.
- ✓ make Chinese overseas expansion aware of longer-term win-win opportunities with Northern European business partners.



F.F. van Gunsteren, M.Sc., Ph.D.

Frans van Gunsteren (68) has had forty years of working experience, of which twenty in Asia and ten in China. He graduated in 1969 and did his Ph.D. on Naval Architecture in 1978, after a spell in ship design, hydrodynamic research, and international standards for safety and environmental impact of ships as Dutch delegate to the International Maritime Organization of the UN. For Shell (downstream sector) he worked twenty-five years in technology, maintenance, and projects, with a three-year interruption as a manager of the Dutch engineering company Stork. He has had a leading role in a new joint venture project in Singapore and the Shell Nanhai project in China.

After retirement in 2006, he served Dutch companies such as DHV and Damen Shipyards as an advisor and helped to set up the Guangdong branch of the Benelux Chamber of Commerce.

Van Gunsteren used his experience in Asia and China to capture the longer-term needs by China for Dutch and other Northern European partners. This book aims to help its readers to get a realistic picture of China and to identify win-win cooperative arrangements between China and Northern European countries in the longer term.

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