

## PERSPECTIVE

## The people dealing Australia into China

Go-betweens continue to play a crucial role providing valuable guanxi to Australian companies eager to establish a foothold in China.

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**C**hia Yen On is one of the most respected and experienced of the go-betweens working on the ground to integrate Australian and Chinese business, a process set to accelerate through the coming free trade agreement.

It's an increasingly professional world, but one in which traditional guanxi (networks) continue to play a prime role, sometimes perplexingly to outsiders.

Recently Chia, who is based in Hong Kong but spends much of his time in mainland China, helped a Chinese client to buy a hotel in the NSW Hunter Valley. The client returned from a visit to Australia and told Chia he had a new, exciting business prospect.

This was to replicate an Australian coffee shop franchise by building several hundred outlets in China. The project had been dreamed up by distant relatives: a cab driver in Sydney and a restaurant worker in Dixon Street there. Chia says: "I told him that with all due respect, the company he named doesn't operate a franchise, it just sells coffee powder. He remained convinced he had a potential monster franchise for China in his hands.

"He came down, spent a week in Melbourne, and came back empty handed. He found out they wanted to sell equipment and coffee beans, and didn't run a chain. He'd been led up the garden path by his advisers, but it happens all the time, and now various parties are trying to get money off him."

He has also seen Australian companies do the same, he says. "A Chinese employee at head office has an uncle in Beijing, and the firm gets him involved. People shouldn't suspend their usual processes when they go into China. There's no substitute for proper due diligence."

Ian McCubbin, a Melbourne based partner with Deacons law firm who has spent 20 years focused on China, describes how an Australian company had become utterly frustrated because a major project in China had stalled for 18 months.

He says: "They couldn't get the approval they needed, a Chinese staff member had been jailed for leaking state secrets, and the company's Asia chairman told me he employed an army of people in Australia whose role was to make sure that type of situation didn't happen."

The company was convinced it had made an unwitting mistake that had mightily offended the Chinese authorities. But it was wrong. The issue holding the project up was one inside the Chinese system. The puzzle only became unravelled when a Deacons consultant, Yun Gang, started inviting officials to tea on Saturday mornings. She discovered that two factions inside the state council were at

loggerheads over the project, and nothing would happen until they resolved their own differences.

McCubbin says: "The Australian firm, once it discovered what the obstacle was, rejigged the project in a way that smoothed those differences between the factions, and the approvals were then granted in weeks rather than months.

"But no way would they have learned about the crucial issue from a formal meeting across a table, it had to be unravelled over tea cups."

Yun lived for a dozen years in Melbourne while her son was being educated there, and is now an Australian citizen. But she retains impeccable Chinese credentials. Her grandfather is one of the figures portrayed in the martyrs' memorial in the centre of Beijing's Tiananmen Square, and her father was director of the state planning commission.

"Many of China's business and government leaders are family friends," says McCubbin. "They know her and they trust her. She is the epitome of the person who can play an important role in making things happen. She has a

that some Australians with a better track record than HIH have readily taken on board, in seeking to gain a Chinese foothold.

Former prime ministers Bob Hawke and Paul Keating have famously got involved as intermediaries hired by firms seeking licences or other approvals.

This notion emerged in international commerce through

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the concept of the comprador, the Portuguese word for buyer. The Portuguese established at Macau, across the Pearl River delta from what later became Hong Kong, the first European trading post with China, and Portuguese merchants hired Chinese compradors to act for them in negotiating deals.

Today's compradors tend to be paid a mix of retainers and success fees based on agreed milestones – though this can lead to a stand-off if the company

of China, it's a big new world, the language factor looms as an inhibiting factor, and they hear some of the old stories – mixed with newer ones – about problems and corruption, and there are relatively limited organisational resources to assist them."

The Chinese government demonstrated its confidence in the business council as a key intermediary by asking it to organise an event in Sydney on Monday at which leading officials,

merely paying a licence fee for the use of its name.

Chia says that for big Australian businesses, advisers often virtually select themselves. Manufacturers look first to their accounting firms, banks and insurers to their law firms. Conversely, Chinese companies often first seek people they know, or are referred to.

That's how Robin Chambers, for instance, built his impressive business. About 20 years ago leaving CRA (today's Rio Tinto), for which he had become heavily involved in building the China trade, he set up his own firm at the top end of Melbourne's Collins Street, and soon found his guanxi drawing Chinese clients.

A year ago, he helped negotiate a \$12 billion deal between BHP Billiton and four Chinese steel mills. Chambers was acting for the Chinese. Today he represents Chinese interests on boards and has a mandate from them to seek fresh joint ventures as the country presses to tie up supply of the strategic resources it needs.

Chinese firms tend naturally to seek government support, but if for some reason they are not comfortable with taking this route, they look first to private networks, as Chia's client did in Sydney, to relatives or old student friends.

Chia says he has seen, as a result, company assets being registered in Australia under the "consultant's" name under the pretence only a resident was entitled to ownership. He is on the boards of a couple of Japanese companies helping them with a China strategy, and is also advising private Chinese companies.

Chia flies frequently to regional Australia searching out potential investments in iron ore and coal mines for another Chinese client. "If a Chinese company isn't in mining today, that doesn't mean it

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won't be tomorrow. That's the nature of the private sector in China right now. My role is to make sure both sides are capable of executing what they claim. If you have an asset in China, that doesn't mean you can convert it into cash in Australia."

McCubbin says while there is a plethora of information available about doing business in and with China, "people often have difficulty actually associating their own business activities with the literature." It's crucial for success, he says, to connect with both the right people and the right information.

The other area where go-betweens can prove crucial, he says, is to highlight where potential Chinese and Australian partners suffer from the "same bed, different dreams" syndrome: where they believe they understand each other, but don't.

Typically, he says, Australian firms assume that profits are the core aim in a venture. But the Chinese may place higher value on access to technology, export markets, brands or management expertise, or building reputation.

including parliamentary chairman Wu Bangguo, will speak about the bilateral relationship on the eve of FTA negotiations.

Chia, who ran Austrade's investment arm out of China for a decade and is now operating his own advisory business, says that it's not enough to rely on a name card with a mobile phone number. "It's important if you want to do business with someone to go to their office and check that they are actually running the business."

McCubbin warns, further, that even using a famous name does not always mean a firm has an organic relationship with that business. He discovered that a company he was dealing with appeared to be a subsidiary of a massive Chinese state-owned corporation – but was instead



pretty good understanding of the Australian business environment, and she is utterly at home in Beijing."

In contrast, HIH, en route to perdition, a decade ago lost \$7 million when Ray Williams and Terry Cassidy were fooled by a Chinese contact made on a plane into visiting the ancient capital of Xi'an, where they were met by a limo and police outriders with sirens – readily hired by the hour in much of Asia – for which they later paid the bill, and kept spending for a year without due diligence, until they realised they'd been taken.

Kym Hewett, Australia's senior trade commissioner in Beijing, says: "It's a very Chinese notion that you need to have a person in the middle to oil the connection between two parties." But one

changes its mind about committing to a project.

Hewett says: "Quite often, we are asked if we believe a certain person can help them get home in a particular case. Some of those people operate as universal connection makers, with varying degrees of honesty or capability, including some at a very high level.

"We provide some initial advice, and then we reach a point where our involvement in a transaction must stop. It's a game played at a lot of levels, with whole tiers not visible to foreigners, but on which locally engaged staff can usually shed some light."

Austrade, he says, is receiving increasing inquiries from Australian firms looking to source imports from China, and is building its own data about that market so it can provide advice.