Negotiating with the Chinese: A Socio-Cultural Analysis

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China has been one of the most favorite markets for Western firms for the last decade. However, doing business with China is considered difficult, mainly because negotiating with Chinese counterparts is quite complex. This paper analyses the negotiation process with China from a socio-cultural perspective. A Swedish multinational, Ericsson, is followed for several years and its negotiation process for different Chinese projects in the telecommunication industry is studied in depth. Based on these cases and literature a model is developed and some conclusions are drawn. Finally, managerial implications presented as four Ps: Priority, Patience, Price and People sum up the essence of Chinese business negotiation process.

The People’s Republic of China (PRC) started to open up its economy to the rest of the world in December 1978. Since then, Western business communities have been enthusiastic about China—the world’s largest emerging market with more than one billion consumers. The Western enthusiasm for China decreased somewhat during a period following the Tiananmen Square incident in June 1989. But it rebounded and increased even more vigorously in the 1990s. China’s rank in world trade rose from 32nd in 1978 to 9th today. By the end of 1995, China already approved a total of 258,000 foreign-invested enterprises with contractual foreign investment of US$395.7 billion and actual invested capital of US$135.4 billion. By the year 2000, China was recipient of more than 20% of the total FDI in developing countries and more than 5% of total FDI in the world. This makes China the largest recipient of foreign direct investment among developing countries and the second largest in the world next only to the U.S.A.

However, China is also a difficult and risky market for Western business communities to operate in. The surprises, disappointment, and frustration on the part of Western business people are not strange. China is a special challenge: it is the world’s largest emerging market, largest Communist bureaucracy, and oldest culture. These unique features make
China a unique case in international business that calls for special academic and managerial attention. Now that China has reached an agreement with the European Union and the United States of America about its membership in the World Trade Organization (WTO), the importance of China as a trade partner is going to increase further.

Sino-Western business negotiation is a key dynamic of the Sino-Western business relationship. Knowledge about the Chinese negotiating practices in the Sino-Western business negotiation process will generate insight into the Chinese business mindset, increase the success rate of Western businesses with China, and ultimately, strengthen the Sino-Western business relationship. Based on our in-depth personal interviews, this paper aims to study Chinese negotiating style in the Sino-Western business negotiation process. We are particularly interested in a process view of how the Chinese negotiate and how the Chinese negotiating style can be explained from the Chinese culture. The study intends to answer these questions: What are the meaningful stages of the Sino-Western business negotiation process? What are the main contentious issues in the formal negotiation sessions? How can we understand Chinese negotiating style observed in various stages from the Chinese culture point of view? We also attempt to generate managerial implications for negotiating effectively with the Chinese.

**Empirical Base**

The empirical base of this paper is our investigation of the negotiations of the Swedish multinational corporation Ericsson with Chinese customers in the early and mid 1990s. These negotiations concerned Ericsson’s mobile systems selling and joint venture establishment and operations in China. Ericsson is a world leader in telecommunications. In 1999, it had net sales of US$26 billion and a global market share for mobile infrastructure of 30%, while in China it had 40% market share. Ericsson’s history in China dates back to 1894 when the company made its first shipment of 2000 desk telephone handsets to Shanghai. Ericsson re-entered into the Chinese market in 1984 by delivering its AXE-10 exchange to the Beijing post and telecommunications authorities. In 1985, Ericsson opened its first representative office in China. Since then, Ericsson’s China activities have experienced an explosive growth and the company is now a major foreign player in the Chinese telecommunications infrastructure. Ericsson is particularly advanced in mobile system technology and has had a major market share in China. At the time of the study, it had 53% market share in China’s mobile telecommunications market, while its main competitor Nokia had 15%.

The first author followed one China area manager at Ericsson Radio Systems AB in Stockholm for three years in the early 1990s; a series of in-depth interviews were conducted with him and with one of his colleagues who was functioning as a liaison officer between Ericsson and its Chinese customers. The liaison officer, a native Chinese, was employed by Ericsson and, at the time of the study, was residing in Sweden. The second author conducted,
both in Sweden and China, interviews with more than forty Ericsson managers (Swedes and Westerners) and their Chinese negotiating counterparts during 1995 through 1996. The interviews were unstructured or semistructured and were designed to maximize the understanding of how the Chinese negotiate in the Sino-Western business negotiation process. The rich empirical materials collected from these negotiation processes, events, and situations make it possible for us to use cross-sectional data to synthesize, structure, and describe the Sino-Western business negotiation process to best achieve the aim of this research. While reporting contrasting statements, we will discuss negotiation within the same project and issues.

One specific project that was studied thoroughly was Beijing Ericsson Mobile Communication Co. Ltd. (BMC), a joint venture (JV) agreement between Ericsson and China National Post and Telecommunications Industry Corporation (PTIC), signed in 1995. For the BMC project, Ericsson was competing with Motorola and Nokia. For this case, both Chinese officials and Ericsson managers involved in the negotiation were interviewed. This was the first joint venture in which Ericsson managed to team up with the then most powerful government telecommunications authority, the Ministry of Posts and Telecommunications (MPT). However, the relationship between the parties developed fast, as stated by Dr. Lars Ramqvist, Ericsson President and CEO:

“We have also established a JV for digital mobile telephone systems and in total we have six JV companies in China.”

BMC manufactures and sells products in mobile telecommunications, including GSM (Global System for Mobile Communications) and TACS (Total Access Communication Systems). It is a 50/50 JV and took two years to negotiate. From March 1993 [the signing of Memorandum of Understanding (MOU)] to July 1995 [the BMC contract was approved by the Ministry of Foreign Trade and Economics Cooperation (MOFTEC)].

**Literature Review**

Since the early 1980s, a special area of inquiry has been gradually developed in the literature that deals with international business negotiations between Western firms and the PRC organizations (Blackman, 1997; Chen, 1993; Davidson, 1987; Deverge, 1986; Fang, 1999; Frankenstein, 1986; Hendryx, 1986; Kirkbride, Tang, & Westwood, 1991; Lee & Lo, 1988; Pye, 1982, 1986; Seligman, 1990; Shenkar & Ronen, 1987; Stewart & Keown, 1989; Stone, 1992; Tung 1982, 1989; Warrington & McCall, 1983). The central concern of these works is to arrive at an in-depth socio-cultural understanding of Chinese business negotiating style.

Pye (1982) lays the foundation of the area by publishing his seminal work *Chinese Commercial Negotiating Style*. Three major sources of difficulty in Sino-Western business negotiations are identified: problems that arise from the newness of the relations and the lack of experience on both sides, problems inherent in capitalist enterprises seeking to do business with the socialist econ-
omy in uncertain transition and reform, and problems that arise from the differences between the Chinese and Western cultures. Pye characterizes the Chinese negotiation process into the opening moves and the substantive negotiating session. During opening moves, the Chinese insist on opening negotiation with some general principles which will later be utilized by the Chinese to their own advantage. They manipulate various kinds of negotiating tactics to induce the other party into showing their hand first and then cause “the long wait.” The substantive negotiating session is a stage where the Chinese often display a fascination for tactics and issues are bargained over, discussions held, and agreement reached. In the postagreement stage, Pye cautions that nothing is ever final in negotiating with the Chinese who believe in “continuous negotiations”.

Tung (1982) finds that the differences between the Chinese and American negotiating styles are among the most important factors responsible for the failure of business with China. Her follow-up study (Tung, 1989) suggests that despite the considerably increased contacts between American and Chinese negotiators during 1979 through 1987, marked differences in the Chinese and American negotiating styles still persist and are believed to be “culture-based.” Blackman (1997) also provides insightful cases of Western business negotiations with the PRC. Hoon–Halbauer (1999) studied Shanghai Volkswagen Automobile Co. and the Beijing Jeep Corporation and provided with an excellent account of daily management process of Sino-foreign joint ventures. Although more generic models of international business negotiations (see e.g., Weiss 1994a,b; Ghauri & Usunier, 1996) and negotiating with East Asians and Chinese (see e.g., Tung 1982, 1996) are available, there is hardly any study on specific negotiation process between Chinese and Western firms. We identify five weaknesses in the existing literature: (1) lack of a systematic model; (2) lack of a cultural study of Chinese negotiating tactics; (3) lack of a presence of the Chinese voices in the debates; (4) weak empirical description; and (5) predominance of U.S.-China negotiation literature. To overcome these weaknesses, we propose a model of Chinese business negotiation process to analyze Chinese negotiating style.

The literature review suggests that although reports on Sino-Western business interactions appear rather regularly, empirically based analyses of the Chinese negotiating style in the Sino-Western business negotiation process are still few. This study therefore sets out to look at the Chinese negotiating style from a process view.

A “PING-PONG” MODEL

Given the aim of this paper, we developed a model to structure our analysis of the Sino-Western business negotiation process. Figure 1 presents our “Ping-Pong” model. The model is based on a number of previous studies of international business negotiation and Chinese business negotiating style (Fang, 1999; Frankenstein, 1986; Ghauri & Usunier, 1996; Graham & Lin, 1987; Pye,
1982) as well as our own observations from the empirical studies. The model comprises two major constructs: (1) stages of the Sino-Western business negotiation process and (2) dimensions of Chinese business culture. Using the “Ping-Pong” (table-tennis game) metaphor, we intend to emphasize the continuous back and forth bargaining feature (the Chinese ping-pong style) in the Chinese negotiating style and the Sino-Western business negotiation process (as a result, the negotiation process is bouncing back and forth).

Sino-Western business negotiation process

Negotiation process is a process by which the negotiating parties interact with one another to reach mutual agreements to provide terms, conditions, and guidelines for future behavior. For the sake of analysis, a negotiation process is usually divided into several stages. Ghauri (1996) structures the international business negotiation process in terms of the pre-negotiation, negotiation, and post-negotiation stages. These three stages are influenced by factors such as culture, strategy, background, and atmosphere. Graham and Lin’s (1987) model opens a space for discussion of cultural factors and is considered useful for our study. However, their model does not cover the post-negotiation phase that is particularly relevant for the analysis of the Sino-Western business negotiation process as suggested by the Chinese business negotiating style literature. Combining these two international business negotiation process models with our own investigations, we divide the Sino-Western business negotiation process into three stages from the Western marketers’ perspective: (1) pre-negotiation (lobbying, presentation, informal discussion, and trust building); (2) formal negotiation (task-related exchange of information, persuasion, concessions and agreement);
Chinese business culture

Furthermore, we adopt Fang’s (1999) Chinese business culture framework to analyze Chinese negotiating style in the Sino-Western business negotiation process. This framework consists of three distinctive and interrelated components: the PRC condition, Confucianism, and Chinese stratagems.

The PRC Condition

The PRC condition (guoqing) is a contemporary social and institutional factor influencing the PRC. This is parallel to environmental conditions reported by other authors (Fayerweather & Kapoor, 1976; Ghauri, 1996). It is comprised of eight variables. (1) Politics. China is a socialist state with the Chinese Communist Party as the ruling party. Chinese politics has an all-pervasive influence on every aspect of Chinese life; Chinese business and politics can hardly be separated under the current Chinese social system. (2) Economic planning. Chinese economic structure is rather centralized, which is characterized by strong state planning and government control. Chinese enterprises are essentially not independent economic entities, but rather “factories” of the Chinese government who is the “biggest boss.” For sure, reforms have brought decentralization in many industries. But in all the key industries, like telecommunications and now IT, foreign direct operations are rather restricted. A more open and transparent Chinese economic system is emerging in pace with China’s forthcoming entry into the WTO. (3) Legal framework. China’s legal system is still young, unstable; law is invariably subjected to ideology and influenced by a great deal of human factors. (4) Technology. China is short of modern technology. To import and attract foreign technologies to modernize China and enhance the people’s living standard is the reason why China opened its economy in 1978. (5) Great size. China’s population boasts the world’s largest one. To exchange the large Chinese market for advanced foreign technologies is China’s state policy. (6) Backwardness. China is still a relatively poor country with some 300 million people living under the U.N.-poverty level (one U.S. dollar per day). (7) Rapid change. Reform and importation of foreign technology since the late 1970s have brought about great changes in Chinese society. Maoist ideology, traditional Chinese cultural values, and Western lifestyle exist side by side in today’s Middle Kingdom. (8) Chinese bureaucracy. At the center of the PRC condition lies the theme of Chinese bureaucracy which features red tape (more often, decision making requires consensus at various levels crossing various departments) as well as quick buying (e.g., when politics requires a quick deal and when your products fit in with the government’s priority categories). Chinese negotiators follow the Chinese government’s policies and plans to do business.

Confucianism

Confucianism is a 2500-year-old Chinese philosophical tradition that has exerted a fundamental influence on the
Chinese and East Asian modes of thinking and ways of behaving. The influence of Confucianism on the Chinese style of business can be studied from the six basic Confucian values. (1) **Moral cultivation.** Confucianism emphasizes people’s self-moral cultivation and lifelong learning. Trust and sincerity are among the most important qualities for being human. In Confucian terms, a ruler should govern his state and people by means of moral persuasion and rules of propriety instead of law. (2) **Importance of interpersonal relationships.** Confucianism is a practical teaching of interpersonal relationships and conducts. It sees the human world through the Five Cardinal Relationships (Wulun), which is, the relationships between the ruler and subject, father and son, spouse and spouse, elder and younger brothers, and senior and junior friends. The seniors must be loving and benevolent to gain the respect and loyalty from the juniors, and vice versa. **Guanxi** (the Chinese term for relationships, connections, or contacts) is a major mechanism in the Chinese social psychology. **Guanxi** is closely related to renqing (favor), and li (etiquette, propriety, and rules of conduct) in regulating relationships. (3) **Family and group orientation.** In the Chinese society, family is the most basic and important social unit. In China where there has been lack of a well functioning legal system for thousands of years, the Chinese family shoulders much of the social responsibility. In the PRC, **danwei** or **zuzhi** (“work unit” or “organization”) plays some of the roles traditionally played by the family (e.g., allocation of housing, arrangement of pensions and other welfare programs). (4) **Respect for age and hierarchy.** In the Confucian tradition, age is wisdom and must be respected. Hierarchy is honored through ordered relationships in which every person does his duty to contribute to social harmony and stability. (5) **Avoidance of conflict and need for harmony.** Confucianism stresses the need to achieve harmony in society through moral conduct in all kinds of relationships. Confucius says that a gentleman has no squabbles. When a gentleman is forced to compete, he will then compete like a gentleman. The Confucian ideal is to achieve harmony between Heaven, Earth, and Man. (6) **The concept of Chinese face (mianzi, lian).** Although face is a universal human nature, it is particularly salient for the Chinese culture. Behind the Chinese concept of face, lies the Confucian notion of shame. Confucius teaches a kind of statesmanship that advocates governing people by instilling “a sense of shame” into their mind. Face as a self-regulating moral mechanism has fundamental impact on the Chinese way of life (for interesting discussion on this issue see for example, Earley, 1997; Tong-Toomey, 1994; Weldon, 1997).

From the Confucian perspective, the Chinese negotiators are “Confucian gentlemen” who look more for long-term working relationships to solve problems that may crop up at any time than for a one-off legal deal. However, given the family centered Confucian tradition, the “Confucian gentlemen” may also appear to be formidable negotiators, when they bargain for the interest and face of their “family” or “group.”
Chinese Stratagems

Chinese stratagems, or ji in Chinese, refer to a long-lasting Chinese cultural tradition that shapes the strategic Chinese business behavior. Ji is probably the single most important word in the world’s earliest treatise on military strategy—Art of War—written 2300 years ago by the most famous ancient Chinese military strategist Sun Tzu. Chinese stratagems can be understood as carefully devised Chinese schemes that deal with various kinds of situations and gain psychological and material advantage over one’s adversary. A variety of Chinese stratagems can be found in the Art of War, such as deception, conquering by strategy, creating a situation, focus, espionage, benchmarking, shared vision, extraordinary troops, flanking, prudence, flexibility, leadership, and so forth. At the center of all the Chinese stratagems lies Sun Tzu’s aphorism (Sun Tzu, 1982: 77):

“To win one hundred victories in one hundred battles is not the acme of skill. To subdue the enemy without fighting is the acme of skill.”

Hence, the Chinese assert the superiority of using human wisdom rather than engaging in pitched battles to conquer the opponent. This traditional Chinese strategic thinking is diametrically different from its Western counterpart as shown in von Clausewitz’s On War published in 1832. Whereas the former advocates gaining victory without fighting, the latter teaches winning by applying “absolute forces.”

The Chinese have summarized their thousands of years of experience in dealing with various kinds of people and situations into a 138-character compendium titled The Thirty-Six Stratagems (The 36 Ji’s) (see Table 1). The compendium was compiled by an anonymous Chinese in the late Ming (1368–1644) or early Qing (1644–1911) dynasties. These thirty-six ancient Chinese stratagems are theoretically grouped into six categories: Numbers 1 through 6 to be used when being superior; Numbers 7 through 12 for confrontation; Numbers 13 through 18 for attack; Numbers 19 through 24 for confused situations; Numbers 25 through 30 for gaining ground; and Numbers 31 through 36 to be used when being put in an inferior situation. In practice, however, the stratagems may be flexibly used in any possible situation. The 36 stratagems all appear in the popular form of Chinese idioms, each of which is made up of less than four (inclusive) Chinese characters, arranged so that when recited they produce a rhythmic effect, making it easy even for school children to remember them. These stratagems provide vivid examples of how the Chinese “subdue the enemy without fighting.” Chiao (1981) shows that Chinese stratagems are a strategic force driving the Chinese mind in all Chinese societies the world over, regardless of whether they are Communist or non-Communist. The Chinese can use Chinese stratagems intentionally or unintentionally given the great influence of the stratagem culture on the Chinese socialization process.

The 36 Chinese stratagems provide a useful guide for Western business people to diagnose Chinese negotiating tactics. Linking the concept of Chinese
stratagems with the Chinese business negotiating style literature, we find an amazing fit between the patterns of Chinese negotiating tactics and the recipes of the 36 Chinese stratagems: Attacking the opponent’s vulnerabilities \(\sqrt{\text{Stratagem 2}}\) (“Besiege Wei to rescue Zhao”); Playing home court \(\sqrt{\text{Stratagem 5}}\).

### Table 1

The Thirty-Six Ancient Chinese Stratagems

<table>
<thead>
<tr>
<th>Stratagem</th>
<th>Description</th>
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<tbody>
<tr>
<td>1</td>
<td>Cross the sea without Heaven’s knowledge—Man Tian Guo Hai</td>
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<tr>
<td>2</td>
<td>Besiege Wei to rescue Zhao—Wei Wei Jiu Zhao</td>
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<tr>
<td>3</td>
<td>Kill with a borrowed knife—Jie Dao Sha Ren</td>
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<tr>
<td>4</td>
<td>Await leisurely the exhausted enemy—Yi Yi Dai Lao</td>
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<tr>
<td>5</td>
<td>Loot a burning house—Chen Huo Da Jie</td>
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<tr>
<td>6</td>
<td>Clamour in the east but attack in the west—Sheng Dong Ji Xi</td>
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<tr>
<td>7</td>
<td>Create something out of nothing—Wu Zhong Sheng You</td>
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<td>8</td>
<td>Openly repair the walkway but secretly march to Chen Cang—An Du Chen Cang</td>
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<tr>
<td>9</td>
<td>Watch the fire burning from across the river—Ge An Guan Huo</td>
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<tr>
<td>10</td>
<td>Hide a knife in a smile—Xiao Li Cang Dao</td>
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<tr>
<td>11</td>
<td>Let the plum tree wither in place of the peach tree—Li Dai Tao Jiang</td>
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<tr>
<td>12</td>
<td>Lead away a goat in passing—Shun Shou Qian Yang</td>
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<td>13</td>
<td>Beat the grass to startle the snake—Da Cao Jing She</td>
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<td>14</td>
<td>Borrow a corpse to return the soul—Jie Shi Huan Hun</td>
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<td>15</td>
<td>Lure the tiger to leave the mountains—Diao Hu Li Shan</td>
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<td>16</td>
<td>In order to capture, first let it go—Yu Qin Gu Zong</td>
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<tr>
<td>17</td>
<td>Toss out a brick to attract a piece of jade—Pao Zuan Yin Yu</td>
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<tr>
<td>18</td>
<td>To capture bandits, first capture the ringleader—Qin Zei Qin Wang</td>
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<tr>
<td>19</td>
<td>Remove the firewood from under the cooking pot—Fu Di Chou Xin</td>
</tr>
<tr>
<td>20</td>
<td>Muddle the water to catch the fish—Hun Shui Mo Yu</td>
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<tr>
<td>21</td>
<td>The golden cicada sheds its shell—Jin Chan Tuo Qiao</td>
</tr>
<tr>
<td>22</td>
<td>Shut the door to catch the thief—Guan Men Zhuo Zei</td>
</tr>
<tr>
<td>23</td>
<td>Befriend the distant states while attacking the nearby ones—Yuan Jiao Jin Gong</td>
</tr>
<tr>
<td>24</td>
<td>Borrow the road to conquer Guo—Jia Dao Fa Guo</td>
</tr>
<tr>
<td>25</td>
<td>Steal the beams and change the pillars—Tou Liang Huan Zhu</td>
</tr>
<tr>
<td>26</td>
<td>Point at the mulberry tree but curse the locust tree—Zhi Sang Ma Huai</td>
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<tr>
<td>27</td>
<td>Play a sober-minded fool—Jia Chi Bu Dian</td>
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<tr>
<td>28</td>
<td>Lure the enemy onto the roof, then take away the ladder—Shang Wu Chou Ti</td>
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<tr>
<td>29</td>
<td>Flowers bloom in the tree—Shu Shang Kai Hua</td>
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<tr>
<td>30</td>
<td>The guest becomes the host—Fan Ke Wei Zhu</td>
</tr>
<tr>
<td>31</td>
<td>The beautiful woman stratagem—Mei Ren Ji</td>
</tr>
<tr>
<td>32</td>
<td>The empty city stratagem—Kong Cheng Ji</td>
</tr>
<tr>
<td>33</td>
<td>The counter-espionage stratagem—Fan Jian Ji</td>
</tr>
<tr>
<td>34</td>
<td>The self-torture stratagem—Ku Rou Ji</td>
</tr>
<tr>
<td>35</td>
<td>The stratagem of interrelated stratagems—Lian Huan Ji</td>
</tr>
<tr>
<td>36</td>
<td>Running away is the best stratagem—Zho Wei Shang Ji</td>
</tr>
</tbody>
</table>

*Source: Fang (1999: 166)*.
gem 4 (“Await leisurely the exhausted enemy”); Manipulating friendship and hospitality √ Stratagem 10 (“Hide a knife in a smile”); and Stratagem 31 (“The beautiful woman stratagem”); Playing the competitors against each other √ Stratagem 3 (“Kill with a borrowed knife”), and so forth. From the Chinese stratagems perspective, the Chinese negotiator is Sun Tzu-like strategist who seldom wages a physical business war but rather is keen on a psychological wrestling of wit to create a favorable situation to manipulate his counterpart into doing business his way.

The Chinese are intensely practical people. For them, Confucianism, Taoism, and Buddhism, often regarded by many Westerners as the three religions of China, are more of philosophies than religions. Chinese business culture framework suggests that the Chinese negotiators have a “three-in-one” negotiating style; they negotiate like “bureaucrats”, “gentlemen”, and “strategists.” Trust is a prime indicator showing which role the Chinese are going to play. When mutual trust between the business partners is high, the Chinese will negotiate as “gentlemen”; when it is low, they will negotiate as strategists! The PRC negotiators also negotiate as “bureaucrats,” particularly so when the political wind blows.

Analysis of the Sino-Western Business Negotiation Process

In this section, we use the “Ping-Pong” model to analyze the Sino-Western business negotiation process based on our empirical investigations of business negotiations between the foreign firm Ericsson and its Chinese customers.

Pre-Negotiation

The Chinese negotiation process starts with early contacts with the Chinese government authorities. The Chinese show keen interests in getting to know the other party during these initial contacts. They try to ascertain whether or not the foreign firm has (1) the most advanced technology required for the project; (2) the willingness to sell or transfer it to the Chinese side by way of, for example, joint venture; and (3) the capacity of delivering the products on time. As one of the Chinese negotiators explained:

“Our intention is to import the most advanced technology and to cooperate with large, world-famous foreign companies, because the life cycle of a technology is short. We pay even more attention to the supplier’s houjing (reserve strength) for continuous technological development.”

Lobbying

Lobbying before the Chinese government authorities is one of the most important marketing activities facing foreign firms that want to sell large industrial projects in Chinese key industries like telecommunications. Foreign firms must convince the Chinese that they have cutting-edge technologies that suit Chinese government’s priorities, that they have long-term commitment to the Chinese market, and that they are financially strong. They must present a highly reliable image before the Chinese, making them feel safe to do business with them. The Chinese
said that they liked to do business with “big mountains” like Ericsson that they could trust and rely on in the long run. One Ericsson manager (local Chinese) emphasized that lobbying, though existing in all countries, is particularly important in China. Lobbying must occur not only in Beijing but also in all large cities, both coastal and inland. Lobbying channels include visits to government authorities (e.g., MPT), presentations, technical seminars, advertising in Chinese professional journals and informal channels such as dinner parties.

Presentation

Giving attractive and reliable presentations to let potential Chinese partners know the company, products and negotiating team members, is an important step toward formal negotiation sessions. Presentations aim to convince the Chinese of the sincerity of the company in doing business with China and show the Chinese that the company’s products are an advanced technology with high quality and reasonable price. Foreign firms need to present themselves and their technologies to a number of authorities. Very often one has to endlessly repeat the same things to different negotiators who may suddenly, without explanation, be replaced by another team. From the Chinese point of view, it is done to check the reliability and firmness of the supplier. One Ericsson negotiator said:

“You have to learn how to make presentations...you have to present your technology and company many times to different groups...and sometimes the same group comes back, but of course, they do not remember anything from the earlier presentation...they ask the same questions...I think they do this to check you.”

Ericsson provided all the presentation material in English and Chinese, since most Chinese decision-makers were above 50 years of age and did not speak English. Sometimes the foreign team of 3 to 4 persons had to meet a Chinese team of 10 to 15 people; one interpreter on the foreign team was not enough to help communicate efficiently with the Chinese. As people ask many questions, especially in between the formal sessions, you need to have a couple of people to handle bigger groups. The presentation materials were made available for both potential end-users (e.g., the local post and telecommunication administration, the MPT affiliated plants) and various Chinese government authorities (e.g., State Planning Commission, MPT, and Ministry of Foreign Trade and Economic Cooperation—MOFTEC). It was at times a problem to duplicate high quality presentation materials quickly in China. A portable PC and printer, along with all the information and calculations when visiting Chinese customers is a necessity.

Informal Discussion

Initial and informal discussions with Chinese organizations often occur directly after the presentations. At this early stage, the Chinese already showed a keen concern for technology and price. For example, they were interested in not only the price but also in comparing the price with competitors. In one case, Ericsson succeeded in con-
vincing the Chinese that although its price was much higher than that of the Japanese, its system capacity was more powerful; and its technology was better and would facilitate future expansions.

**Trust Building**

The Chinese attach great importance to trust building in business negotiations. One of the Chinese negotiators explained:

“They [Western firms] want to come and sign the contract quickly and do not know that [if] we do not understand each other . . . there is no business relationship. First, we have to know and trust each other, then we sign the contract.”

Nevertheless, an Ericsson manager observed that it was rather difficult to develop close social relationships with the Chinese. For example, the Chinese seldom invited foreigners to their homes. During the pre-negotiation phase, Chinese organizations sent delegations abroad for fact-finding tours. Being the host, the foreign firm could get many insights into Chinese priorities in industrial policies and development plans. In several instances, the Swedes invited the Chinese to come to Sweden to inspect the technical systems in operation. It proved to be much easier to understand the Chinese priorities and concerns during such visits, because decision-makers were, more often than not, included in the trip. Hosting a Chinese delegation also provides a good opportunity for foreign firms to strengthen friendship with the Chinese. For example, Ericsson invited the Chinese to Sweden not only to show them plants, facilities and technologies, but also to take them sight-seeing and have them participate in social activities such as, inviting them to private houses for dinner and taking them to “midsummer” celebrations. During these negotiations, Swedish pop Group Roxette visited Beijing, and Ericsson invited the Chinese negotiators to go and see them together, which was highly appreciated. These gestures of hospitality turned out to be greatly valued by the Chinese.

We can link the Chinese negotiating style in the pre-negotiation stage with the Chinese business culture discussed earlier. The Chinese change of negotiating team members was seen in this case as maneuvering a typical Chinese stratagem “Steal the beams and change the pillars” (Stratagem 25, see Table 1). In Chinese culture, trust is high within but low outside family and kinship borders. The Chinese constantly find themselves in such a quandary: business can only be done between people who have a high level of mutual respect and trust; however, business partners cannot always be immediate or extended family members. The Chinese “relying on big mountains” mentality also reflects the deep-seated Chinese psychological craving for face: doing business with second-class, technologically weaker, firms would make the Chinese lose face. This behavior can also be explained from the Chinese stratagems perspective: teaming up with a strong foreign partner will help breath new life into “dying” Chinese firms that have many technological, financial and management problems, a stratagem called “Borrow a corpse to return the soul” (Stratagem 14, see Table 1). The Chi-
inese sensitivity to price is well known; the average living standard in the PRC and Chinese companies’ lack of foreign exchange, are main reasons. That the Chinese do not invite foreigners to their homes should not be blamed on a lack of hospitality. In the PRC, every state employee belongs to a danwei, which controls much of the employee’s life. Internal regulations generally do not encourage individuals to receive foreign visitors alone.

**Formal Negotiation**

*Task-Related Exchange of Information*

Formal negotiation starts when the Chinese show a strong interest in “further discussions” and both parties sign a “letter of intent.” The Chinese tend to send a formal document, informing the foreign party of the composition of the Chinese team and ideas for future meetings. In all cases, the following Chinese organizations were involved in the formal negotiation sessions: Managers from national industrial corporations under MPT, managers from MPT-affiliated plants (end users of the technology to be transferred), officials from the Bank of China (foreign exchange controlling organization), design staff from research institutes and sometimes local government officials. On the Swedish side, the negotiators were Ericssons’ China area manager, product/technology manager, in-house lawyer, technical support and an intermediary (a liaison officer). An obvious contrast between the Chinese and the foreign teams was that the Chinese lawyers never participated in the formal negotiation sessions. Five major contentious issues during the formal negotiation sessions are singled out from our investigations: equity share, contribution of each party, management control, technology, price and other financial issues:

- **Equity share.** The Chinese were sensitive to their equity holdings and to start with, they wanted to have a majority share. However, after realizing that they could not achieve that, they insisted on having at least 50% holding, because they believed that majority ownership would lead to management control. The Chinese also considered the equity share a matter of “state sovereignty” having political importance.

- **Contribution of each party.** The Chinese side contributed tangible resources like production premises, existing machinery and equipment, labor, and so forth; while the foreign side, besides initial capital, provided intangible resources like technology, managerial training, marketing know-how, international networking, and so forth. It was relatively easy to estimate the tangible costs but difficult to assess the intangible costs.

- **Management control.** While the Swedes wanted to “teach” the Chinese modern technical know-how through keeping as many senior management positions in the joint venture as possible, the Chinese wanted to share senior management positions with the Swedes exactly in proportion to the parties’ equity share. The Chinese were very interested in acquiring financial manager
and administrative (or human resource) manager positions.

- Technology. The Chinese wanted absolutely to obtain the most up-to-date technology. They were deeply concerned about the Western firms’ willingness to transfer the technology and to train the local Chinese. The foreign side was, on the other hand, very concerned about how to protect its technology and patents. Ericsson spends 18% of its sales on R&D annually. According to one Ericsson negotiator, it was difficult to make the Chinese understand the R&D cost incurred by the foreign firm; they believed that once they had paid for the project they would automatically be entitled to use whatever technologies they pleased.

The term “rolling technology” (gun dong ji shu) is coined by the Chinese to refer to the newer generations of the technology being “rolled” constantly into the joint venture.

- Price. The Chinese demanded very low technology transfer prices, royalty fees, documentation fees, and so on. They thought prices offered by the foreign party were always too high. The Swedes, on the other hand, considered the Chinese the “only take, never give” type. However, the Chinese side considered that they had already given too much—a huge Chinese market—to the foreigners. It seemed that the Chinese keenly knew the value of the Chinese market as well as the value of foreign technology. What the Chinese did was to “trade” the Chinese market for foreign technology. The financial issues such as financing of the project, terms of payment, definition of net sales, countertrade or buy-back tend also to be a bone of contention between the parties. As pointed out by the Swedish negotiator:

“The Chinese were all the time using this tactic and saying, “You know that we are poor and lag behind. We have no technology and you must help us. You will get an enormous market here. China is a vast country with huge buying power, you will sell in huge volume here.”

**Persuasion**

The Chinese use a variety of negotiating tactics to persuade the other party to do business their way during the formal negotiation sessions: flattery, identifying the opponent’s problems, shamming, deception and pitting competing foreign companies against one another. But you must be firm on your offer and build credibility. This can be done in the sessions and also in between sessions. One Ericsson manager gave an example:

“Once one of the Chinese negotiators insisted that our project in Thailand had some problems and that our technology did not work well. I did not say anything, but when I came back to the hotel, I called the head office and asked our office in Bangkok to check . . . there was no problem. Next day, in a private meeting, over the dinner, I told the Chinese Manager that his statement about Thailand was not correct and that I did not say anything in yesterday’s meeting not to embarrass him . . . I gave him the telephone number of our Thai counterpart and asked him to check for himself. After that he became
very friendly and even helped us to get that order.”

In another case, the Chinese were driving parallel negotiations with Ericsson and Nokia. These two Nordic “brothers” had a hard time in those days: they not only took their turns to court the same “bride,” but also happened to stay in the same hotel in Beijing, looking into each other’s heavy-hearted eyes over the breakfast tables every morning.

Concessions and Agreement

The formal negotiation ends with an agreement by the negotiating parties through their concessions or compromise. In this stage, the Chinese show a strong inclination to settle all suspending issues in a “package deal.” The Chinese made concessions too; however, their concessions very often turned out to be a disguised gesture devised to attract the counterpart into making real concessions. For every concession, they wanted a counter concession. As Ericsson’s negotiator for BMC recalled:

“They [the Chinese] often make threats, “You answer yes or no. If no, we will talk with Nokia. Nokia is right here in the hotel, but we do not want to talk to them, we want to talk to you first.”

When drafting the contract, the Chinese weighed words meticulously when it came to the clauses that would affect the Chinese, while treating issues of concern to the foreign party as generally as possible. Agreement was almost always signed in the presence of high-ranking officials from the government authorities and followed by a series of lavish banquets and ceremonies. While enjoying the Chinese hospitality and etiquette, one Swedish negotiator also described a Chinese negotiating tactic:

“A tactic which I believe that the Chinese employ is that . . . they set the deadline on a certain week and arrange a banquet long before the contract is actually ready. They told us that things must be ready on Saturday when the mayor would come to the banquet. In this way, the Chinese applied pressure on us to reach an agreement. This was common. . . . You became a little disappointed the first time you came across such a situation. But, after a while, when you recognized the same thing happening again in other places, you knew that it was a tactic.”

In analyzing the formal negotiation stage, we find that Chinese negotiating teams tend to be large; people from many organizations and departments take part in negotiations and ask many questions. From the PRC condition point of view, Chinese companies are not companies in Western terms; rather, they are “factories” of the Chinese government. “Collective participation”—a large number of people are involved in negotiations and keep asking questions—facilitates communication among the Chinese and in case something goes amiss, the “collective responsibility” would also allow individuals to escape punishment. The Chinese propensity to ask many questions seems necessary given China’s relatively new involvement in international business and their curiosity about foreign technologies. But the same behavior may also be understood from the Chinese stratagems perspective as a tactical move to stim-
ulate the other party to show their hand first: “Beat the grass to startle the snake” (Stratagem 13). The absence of Chinese lawyers at the face-to-face negotiation table could be viewed as a typical Confucian business behavior; legal power does not feature at all in Confucianism. From the PRC condition vantagepoint, the legal framework of the PRC was still young and Chinese lawyers did not have the same status and respect compared with their Western counterparts (though the situation is improving in the recent years). In BMC case we found that Chinese negotiators did communicate with their internal lawyers beyond the negotiation table, but they never showed up during the face-to-face negotiations sessions.

In terms of management control, the Chinese wanted to acquire financial manager and administration manager positions. The PRC condition provides the answer: in state-owned Chinese enterprises, financial and administration/personnel departments assume the most power. Also, the Chinese believed some of the Western management practices would not be applicable in China.

The persuasion tactics used by the Chinese were all of this type: using external forces to influence instead of direct confrontation. For example, the Chinese reference to the Thailand project (a third party) was aimed at attacking the foreign party’s weakness (e.g., quality) to gain more bargaining power on other issues (e.g., price). The prototype of this tactic can be found in the Thirty-Six Chinese Stratagems: “Besiege Wei to rescue Zhao” (Stratagem 2) and “Clamour in the east but attack in the west” (Stratagem 6). It turned out that the Chinese attack was groundless, probably because they had not carefully ascertained their source of information. But “Create something out of nothing” (Stratagem 7) is a Chinese stratagem which serves to gain advantage by conjuring illusions. The Swedish manager did not argue with the Chinese in the formal sessions but rather explained to him informally. This proved to work well; the Chinese certainly felt the Swede was honest and sincere and, most important of all, helped the Chinese save face. Therefore, he also became friendly, helpful, and did favors in return.

The Chinese way of making concessions is to “Toss out a brick to attract a piece of jade” (Stratagem 17) or to exchange their “small things” with the opponent’s “big things” as the Swedish negotiator remarked. In wording the contract, the Chinese style of dealing with details is a direct outcome of the Chinese bureaucracy. In the bureaucratic system, the Chinese are punished if they make mistakes but they are rarely rewarded for their outstanding performance; this rule of the Chinese bureaucratic game prods the Chinese to prefer doing nothing to doing one hundred things with one mistake.

Post-Negotiation

Implementation and New Rounds of Negotiations

Our empirical findings reveal that problems in negotiating with China also exist after the formal negotiations are finished, that is, during the phase of implementation of the agreement. Gen-
erally speaking, the Chinese honor their contracts; however, cases of Chinese nonfulfilment of their obligations do occur. In one case, the Swedish firm entered a joint-venture agreement with the Chinese. It was agreed by the parties that the joint venture would have a Swedish managing director (MD) and that he would be provided with a Western-standard residence in China. Later, when the Swedish MD arrived in China, he was offered a Chinese-standard residence similar to those of other Chinese senior executives, closer to MD’s rank. The Swedish side asked the Chinese to observe what was stipulated in the contract but the Chinese did not agree. The Chinese argued that providing a Western-standard residence for the Swedish MD was unfair to the Chinese senior executives who worked in the same joint venture. The conflict deteriorated to the point that the Swedish side was about to calculate the consequences of terminating the contract. However, the Chinese were stubborn on their stand, reasoning that the Western-style residence demanded by the MD would cost about US$70,000 per year equal to the salaries of some 200 ordinary Chinese workers altogether and the joint venture could not bear such a cost. Finally, a compromise solution was reached through new rounds of negotiations.

The Chinese attitude toward contracting is problem solving based on the changing situations instead of contracts. We believe that the Chinese, in this case, must have known what the Western-style residence meant when signing the agreement. Flatly rejecting the implementation of the agreement certainly violated the “law of Chinese face.” The Chinese side might probably have been “forced” by their superiors to make a “fair” adjustment of the contract based on the market conditions, feelings of the Chinese executives, and the joint venture’s interests. One Swedish negotiator recalls:

“I have worked with Ericsson in different places for 20 years. I have quite a broad negotiating experience with European, Middle Eastern and African countries. The difference between Chinese and these countries [negotiators] was that although one also has tough negotiations there, once an agreement was made the issue was clear and over. Negotiators did not call the old issue into question again. But this was not the case with Chinese. The Chinese could take up and renegotiate whatever whenever they wanted. They did not stand by what they had already said.”

Managerial Implications

Based on the foregoing discussions, we can draw some managerial implications for negotiating effectively with the PRC. Our advice is organized by way of 4 P’s: Priority, Patience, Price, and People.

Priority

Driven by “China fever” and the belief that China needs foreign technologies, Western business people rushed into the Chinese market with various advanced technological solutions. Many succeeded but many others failed. An important reason for the failure is that the PRC condition has not been paid sufficient attention: Chinese government is the “biggest boss” and all
Chinese state enterprises do business according to the government’s priorities, policies and plans. Our research suggests that in negotiating large industrial projects with the PRC, foreign firms should above all be sensitive to the guiding principles of China’s social and economic development set forth by the Chinese Communist Party and the Chinese government, and also, should make a careful study of the Chinese government’s priorities and implementation policies. These policies are often stated in five-year plans and official plans for different provinces and sectors. The priorities are also available in some Western statistics, such as the US Department of State’s Country Commercial Guide. The priorities are also important indicators of what the Chinese want to spend their foreign exchange on. Therefore, it is vitally important for a Western firm to determine whether its project comes into the priority project category or not. If the project is included in the Chinese priority categories, it will interest the Chinese side and negotiations will proceed relatively quickly; if not, there may be problems in everything. Energy, transportation and telecommunications are among the traditional Chinese priorities. Recently, revitalizing China’s deficit-ridden state-owned enterprises is also added to the list of Chinese priorities. Before priorities become public knowledge, foreign firms may still be able to glimpse much of the picture. For example, this can be done by establishing good relationships with the counterpart (Chinese negotiators) and by asking questions about the status of the particular project. The middleman can also be helpful in this case. This study suggests that Chinese delegations’ visits to foreign firms help to provide valuable opportunities for the latter to receive insights into Chinese priorities and preferences.

**Patience**

Patience is the most important qualification for successful negotiations with the Chinese. From the PRC condition point of view, China is large with many yet underdeveloped areas ranging from infrastructure to living facilities and problems of various types are bound to happen. Negotiations in China often take time because different Chinese organizations and different departments within one organization tend to be involved in negotiation processes and decision-making within the Chinese bureaucracy often takes time. From the vantage point of Confucianism, the Chinese will not rush into any serious meetings with someone whom they do not know; trust and a certain feeling of closeness must be in place for any negotiation to start. The Confucian notions of relationship, face, etiquette, harmony, and so forth, are all time-consuming qualifications. Therefore, it takes time to negotiate with the Chinese because it takes time to communicate with the “Confucian gentlemen.” From the Chinese stratagems perspective (see Stratagem 4 . . . await leisurely the exhausted enemy), the Chinese are deceptive negotiators who can use, deliberately or inadvertently, a variety of Chinese stratagems to achieve their objectives. When mutual trust is not very high and the Chinese are exposed to
bureaucratic pressures, tricky situations are but common scenes in negotiating with the Chinese. In an interview, one Ericsson manager said that when getting very upset with the Chinese sometimes, he kept telling himself to be patient, patient and patient to work for the long-term interest of his company. He recalled:

“The Chinese are generally nice. But during the negotiations, sometimes the Chinese team tried to quicken the pace. They showed they were angry. They were shouting, rising from the table, putting on their coats, and leaving the negotiation room... only for the purpose of getting through their terms.”

Price

Price is a difficult and crucial factor in international business negotiations everywhere. But it proves to be even more difficult and crucial in negotiating with the Chinese. On the one hand, the Chinese emphasize trust and sincerity; if a foreign firm reduces its price radically, the Chinese negotiators will get suspicious and the risk is high that the firm will lose its credibility in the eyes of the Chinese. On the other hand, the Chinese are face-conscious creatures; if a foreign firm rejects any Chinese request for a price discount, the Chinese will most probably feel insulted. Once the Chinese feel they have lost face before the foreign “evils of capitalism,” they will certainly try to repay your “evils” by using whatever Chinese strategems are necessary to deal with you in the next round. As a case in this paper suggests, when the Chinese find that the foreign side is “giving face” to them, they will adjust themselves accordingly and be more helpful and friendly in the later rounds of negotiations. Therefore, we recommend that foreign parties calculate prices and bargaining limits carefully, and always reserve certain margins to the Chinese to allow them to gain face.

Our experience shows, that the Chinese negotiators often demand a rebate of 5% - 7% in price at the final stage of negotiations. Then the foreign party should remain firm in the offers, emphasizing features (e.g., technological superiority, high system capacity, room for product upgrading, and convenient postsale service) other than price that may bring special added value to the Chinese. Foreign firms can also adopt other strategies to try to influence the Chinese to negotiate the foreign way. Earlier, we mentioned the Chinese delegation visiting Sweden. In Sweden and other Scandinavian countries, business is seldom done on a bargaining basis (of course, buying houses, cars, and boats are among a few exceptions). Our observation reveals that after the Chinese had stayed enough time in Scandinavia and discovered that Scandinavian people do business in a different cultural ambience, the Chinese could reduce their bargaining tone to a certain extent. Another issue concerns the cost of foreign personnel. The Chinese do not seem to be willing to pay for the huge cost of foreign expatriates. The daily cost of a foreign expatriate could be as much as the yearly cost of a dozen of Chinese employees. We suggest that the parties exchange views on both the PRC and the Western conditions in a frank and supportive manner to find win-win
solutions to the problems. However, they do compare your price to that of the competitors. In one case, where Ericsson was competing with Motorola, the Chinese negotiator recalled:

“We asked both companies to provide their total offer including the price for the system, hand phones, components, kits, and parts. It turned out that Motorola’s offer was really lower than Ericsson’s was. For example, Ericsson offered the license fee at US$1.5 million, compared to Motorola’s US$0.5 million. Ericsson’s price for hand phones was one thousand and several hundred dollars, while Motorola’s price was US$1050... We at PTIC were for Ericsson, but at the factory, people were for Motorola, mainly because of the price.”

People

Because of the deep Confucian aversion to law and orientation toward interpersonal relationships, the Chinese believe in people more than contracts. Foreign firms need to take a people-oriented approach and try to establish a high level of trust with their Chinese partners. A trusting relationship is also the best way to neutralize the Chinese stratagems. Chinese teams’ foreign visits are probably the best time for the foreign party to develop rapport and guanxi with the Chinese decision-makers. Traveling in Western countries is still considered by many Chinese a privilege and, if offered with special hospitality, will be greatly appreciated by the Chinese. According to the Confucian rules of relationships, the Chinese will reciprocate your hospitality when you visit China next time. Relationship marketing with the focus on people has become a buzzword in Western marketing theory since the late 1980s and a competitive advantage sought by many Western firms recently. In China, everyone will answer the question of what marketing is all about without hesitation: Guanxi. Therefore, we highly appreciate the business philosophy of a senior Ericsson executive in China (local Chinese) who said: “To do things in China, you must do people first.” In case of Ericsson, a middleman, a liaison officer, was used to enhance this understanding to establish a relationship with the Chinese. As one Chinese negotiator reported:

“Another very important reason why we finally chose Ericsson was that they had a zhongjianren [middleman], that is, Ericsson’s Chinese employee, a Shanghainese working for Ericsson. He was a very good friend of ours, and had a good guanxi with both sides. He contributed a lot to the success of this project. He was like the matchmaker in a marriage. You know, we are all people that have feelings. Whenever the negotiation deadlocked, he explained to the parties. A friend coming to us to explain is always better than the same work performed by a laowai [foreigner]. This is in fact a question of trust.”

Conclusion

This paper has proposed a “Ping-Pong” model to analyze Chinese negotiating style in the Sino-Western business negotiation process which is divided into three stages: pre-negotiation (lobbying, presentation, informal discussion, and trust building), formal negotiation (task-related exchange of information, persuasion, concessions, and agreement), and post-negotiation (implemen-
The Ping-Pong model is focused on the process of Chinese business negotiation analyzed from the Chinese socio-cultural perspective. As compared to most other “generic” models of international business negotiations, this model provides a more “emic” understanding of negotiating with the Chinese. That is, using indigenous components of Chinese culture to explain Chinese negotiation behavior and tactics. Another feature of this model is that it is process oriented. Few studies have used that approach earlier. We believe Ericsson’s negotiation experience is relevant for all that seek to deal with the Chinese business people and extremely valuable for those that negotiate in Chinese key industries (such as; telecommunication, IT, energy, agriculture, and environment) where government has strong control.

Five major contentious issues in the formal negotiation sessions are identified: equity share, contribution of each party, management control, technology, price, and other financial issues. The Chinese negotiating behaviors observed in the negotiation process are explained from the perspectives of the PRC condition, Confucianism, and Chinese stratagems. We have demonstrated that the “Ping-Pong” model developed by us really works well and captures the essence of the Chinese negotiation behavior while negotiating with Western parties. However, we believe there is a need for further studies on Chinese negotiation behavior and perhaps studies where the model can be statistically tested.

The paper has also drawn managerial implications for effective negotiation with the PRC in terms of 4P’s: Priority, Patience, Price, and People. These 4P’s should be considered in all the three stages of the Sino-Western business negotiation process; yet, some are more stage-specific. For example, a Western firm has to find out, in the pre-negotiation stage, whether or not its China project falls into the Chinese priority category. Patience is required throughout the entire process. Price needs to be calculated as early as the pre-negotiation stage, and to be negotiated carefully in the formal negotiation sessions. Although people and trust building are most critical in the pre-negotiation stage, they should be handled and further developed during the later stages of negotiations.

NOTES
1 In Sun Tzu (1982), ji is translated by Samuel B. Griffith as “strategy”.

REFERENCES


