What You Should Know About Doing Business in China

(But are never told)

In business, knowledge can be as critical to success as capital, sometimes more so. Know your business. Know your competition. Know your market. Most importantly—know your risks.

When it comes to doing business in China, there's one key area of knowledge most people miss, but that can have a lasting impact on China operations: Falun Gong.

That's right, Falun Gong. The spiritual practice that has been the target of a nationwide persecutory campaign since 1999. Be it the discipline's inspirational power, the actions of its 100 million believers, or the pervasive presence of the Communist Party's effort to crush them, Falun Gong today constitutes one of the most influential factors in Chinese society, politics, and by extension, business.

Ignore this factor and if you're not careful, you could quickly find yourself and your business in trouble.

We offer several key tips to bear in mind when navigating the business landscape of China.

NOT JUST BUSINESS AS USUAL: There's often a shadier side to doing business in China. It's best to be prepared, as your principles are on the line.

Know your contacts

Most major industries in China are either run by senior Chinese Communist Party (CCP) officials or heavily influenced by them. This is no secret, and a successful business plan typically involves having a clear strategy for navigating the influence of such officials. But who are these people?

When China's top Party official Jiang Zemin ordered the suppression of Falun Gong in 1999, it not only marked the start of persecution for those practicing it. It also triggered a purging of the ranks within the Party itself.

Those who toed the line or actively advanced the bloody campaign were promoted. Those who refused or stood up for people they knew had done nothing wrong were punished or demoted.

Today, after more than a decade of this warped incentive structure, the vast majority of officials at the city, provincial, and national level have had a hand in suppressing Falun Gong. And some, to alarming degrees.

These officials have spouted hatred against local residents, sent innocent people to forced labor camps, and in some cases, established monetary rewards for torture. In a word, they are complicit in crimes against humanity. The men featured on page 5 (*see "Hand Shaking"*) are but a few examples.

In your business dealings in China, you will inevitably encounter high-ranking members of the Communist Party. Before you reach out to shake their hands, consider where those hands have been and just how much suffering they may have caused.

Know your market

If there's one thing virtually anyone doing business in China agrees on, it's that the market potential of the country's 1.3 billion would-be consumers is impossible to ignore.

But who are the Chinese people really? What do they value, and how does one secure their long-term trust?

With the media tightly controlled and Party officials in charge at every level of society, the Party line on Falun Gong appears dominant, while Falun Gong seems marginalized. But look beneath the surface and a different reality emerges.

Unlike the Communist Party, which was imported from the West and forced upon the Chinese people, Falun Gong arises from the heartland of China. It is quintessentially Chinese—an ancient self-improvement practice whose roots stem from China's 5,000-year-old cultural and spiritual traditions.

So, while fear of punishment or deception by CCP propaganda may have pushed many to initially show support for the Party's anti-Falun Gong campaign, practitioners' grassroots efforts to educate the Chinese public are gaining traction.

In turn, millions upon millions are rediscovering an affinity towards traditional Chinese culture, and Falun Gong's place therein. Increasingly, ordinary citizens are taking a public stand for Falun Gong.

Lawyers who a few years ago didn't dare to take on Falun Gong cases are defying Party orders and actively arguing against the persecution in open court. Villagers who years ago alienated Falun Gong practitioners for fear of collective punishment are now signing petitions demanding the release of their wrongfully imprisoned Falun Gong neighbors.

Meanwhile, despite years of suppression, Falun Gong practitioners themselves—many of them highly educated—remain a potential customer base tens of millions strong.

For anyone looking to build and maintain long lasting market-share in the world's most populous country, what is held in the hearts of its people cannot be ignored. Where a corporation, or any entity, stands—with the ruling Communist Party or with the people and the spiritual heart of China—is of vital importance.

As the CCP's power wanes, this won't be something soon forgotten by the nation's 1.3 billion people—or even future generations.

Know your bottom line

One of the most complex aspects of international business is navigating the governing and regulatory practices of the country where you are operating. In China, this means understanding how to effectively engage with the Communist Party (since all major government posts are held by Party members).

What will this engagement look like? What demands will be put on your business? How far are you willing to go to meet those demands, and at what cost?

Again, Falun Gong arises as a central factor. It's a key issue that Chinese officials often use to test the waters with foreign companies: are they willing to set aside moral and legal obligations to curry favor with the regime and turn a profit? So, be on your guard. Examples of foreign firms in China being pressured to assist the regime in its repression abound (*see sidebar "Business at Your Own Risk"*).

The key point is this: when doing business in China, particularly on a large scale, know that you are operating within a mafia-like system. In this corrupt and violent world, there are rules about whom you must obey. And there are acts you will be asked to carry out, some of which are illegal, morally reprehensible, or may yield deadly outcomes.

Refuse such pressures and yes, in the short-term there may be a lost contract or two. But comply, and in the long-term you will lose much more.

To emerge unscathed from this world, you have to know what your bottom line is—the ethical one as much as the financial one. What is your strategy for not complying with a demand that you'd regret in the future?

In China, you need to know your business and you need to know the market, but perhaps most important of all, you need to know your stance on Falun Gong.

Did You Know?

- Many Chinese officials involved in international business have had a hand in torture and killing
- Millions of potential Chinese consumers oppose the persecution of Falun Gong
- Abuses in China are finding their way into the products we buy

Business at Your Own Risk

Foreign firms in China are routinely pressured to assist the regime in its repression of Falun Gong. Refusing can seem risky, but complying comes with its own consequences.

Yahoo! and censorship
In China, search engines like Yahoo! are required to return only Communist Party-approved results for "Falun Gong."

Wittingly or unwittingly, their censorship contributes to a climate of ignorance and hatred in which innocent people are arbitrarily abducted, abused, tortured and sometimes killed simply for following the spiritual path of their choice.

Google's desire to cease such complicity was one of the reasons for the firm's 2010 withdrawal of its search engine from China.

Mary Kay and discrimination
One of the world's largest distributors of cosmetics, Mary Kay, found itself in hot water in 2003 when news emerged that all of their sales reps in China were being required to sign a form that they did not practice Falun Gong before being hired.

The discovery evoked an angry lashing from members of Congress. Mary Kay was forced into an embarrassing retreat and a protracted public relations effort to repair its image.

Cisco and surveillance
In May 2011, Cisco Systems was slapped with a class-action lawsuit in San Francisco for allegedly pitching, designing, and building technology for Chinese authorities to identify and track Falun Gong practitioners.

Among the evidence cited in the complaint was a Cisco PowerPoint presentation that offered solutions for helping the authorities to capture Falun Gong practitioners.

The suit names several Cisco executives as defendants, including CEO John Chambers. Should the plaintiffs win the case, Cisco will be liable for millions of dollars in damages and its standing in the public eye will be irreversibly harmed.