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1 Chinese negotiation models

十年树木,百年树人
shí nián shù mù, bǎi nián shù rén
Ten years for a sapling to grow into a tree and a hundred years to develop enterprises.
Good wine takes time to mature.

Executive overviews

Global and Chinese business negotiations have become very complex and can take on many different facets. International business negotiations have evolved from the traditional distributive negotiation model to the more modern integrative negotiation model. Chinese business negotiation models have also been evolving in line with international trends. These changes have been driven by the increasingly complex business environments and modern business practices in China. Literature surveys and analyses of relevant business negotiation models show that whilst there are many similarities between international and Chinese business negotiations, there are also important Chinese characteristics and specifics that negotiators need to understand for successful negotiations in China.

International business negotiation definitions and models

Literature surveys and analysis of international business negotiation definitions show that business negotiations have commonly been defined as a discussion between two or more business parties to reach new, sustainable, joint business agreements, which are commercially acceptable plus mutually beneficial for all the business parties involved in the negotiations.

International business negotiations would normally involve various negotiation models and processes comprising different negotiation stages and phases. Normally the different business parties involved agree to sit together to discuss and negotiate all their key business issues and differences, rather than sue each other in courts or have ugly, open disputes.

The different negotiators from the various business parties would normally evaluate the pros and cons for each key negotiation issue and identify their target objectives, prior to starting negotiations. They would also develop appropriate negotiation strategies in order to achieve their negotiation objectives. After appropriate negotiation preparations, the negotiators from the different parties would then sit together and start to negotiate the various key issues to try to reach jointly acceptable agreements. In modern international business negotiations, the different business parties would normally try their best to negotiate new joint agreements which should be mutually acceptable and win–win for all parties.

With the constantly changing global business environment, international business negotiations have been evolving fast with increasing complexities. Literature surveys and analyses of the different business negotiation models being applied in international business negotiations show that there are three main generic classes of negotiation model. These include the distributive business negotiation model, the integrative business negotiation model and the zero-sum negotiation model. The key characteristics and applicability of each of these negotiation models will be discussed in more detail below.

The distributive business negotiation model represents the older, more traditional business negotiation model. The distributive negotiation model is also called the positional or confrontational negotiation model as the negotiators would normally be arguing hard against each other over some key negotiation positions, such as the issue of distribution of benefits to the parties. A gain by one party would then normally lead to a loss or concession to the opposite party. It would often not be possible to make trade-offs based on different preferences as there would be only one major issue at stake. Neither party would like to concede or give up easily or lose their profit and position. Hence the negotiation would often be restrictive and difficult. There would also be little room for expanding the scope of the negotiations to include other important issues. The agreements reached would normally be win-loss agreements which would often be unsustainable for the longer term in the modern business world. The losing party would normally try their best to get out of these win-loss deals as soon as possible.

The late US President John F. Kennedy gave good advice on the distributive or positional negotiation model in his White House radio and television address to the American people on 25 July 1961: "We cannot negotiate with people who say what's mine is mine and what's yours is negotiable." What he has said some 56 years ago is still very much relevant today regarding the distributive or positional business negotiation models.

The integrative business negotiation models are more representative of the newer, more modern business negotiations. Integrative negotiations are also called collaborative negotiations as the negotiators from the different parties would normally try their best to negotiate the different issues on a collaborative basis. The negotiators would be trying to make appropriate compromises and concessions. They would also be trying their best to negotiate and combine their various interests into new mutually acceptable agreements which would maximize values and benefits for all parties. The common objective of the negotiations would be to create maximum lasting value for all parties. This would normally be achieved during negotiations by all the parties by making some important strategic trade-offs and compromises on their different key business issues. These trade-offs would normally be made based on the overall holistic benefits for the new joint venture. The different negotiating parties would normally be negotiating hard to achieve their most valuable business objectives whilst being prepared to compromise on their less important business issues. These would help the negotiators to develop new joint agreements which were acceptable and win–win for all the parties. These win–win agreements would likely be more sustainable on the longer-term basis.

Analysis of modern, high-level business negotiation cases shows that they have been evolving from the older, traditional distributive negotiation model to the more complex, integrative negotiation models. These negotiation changes are in line with the modern, complex international business environments and requirements. In the past, most companies were driven primarily to maximize their profit positions and their negotiations were mostly based on the distributive negotiation models. These negotiations would then result in win-loss agreements which would normally be unsustainable in the longer term. The business parties who felt they had lost out in the distributive or confrontational negotiations would normally try their best to get out of the win-loss deals as soon as possible after getting what they wanted.

With the growing complexity of the international business environment, modern business negotiations generally follow the newer integrative or collaborative negotiation models. The negotiators would normally be trying to trade off different positions during negotiations and make compromises on the different key business issues. These would help to develop new, mutually acceptable agreements which should be win–win for all the parties involved.

A good example of an international and Chinese integrative business negotiation is the Sinopec Apache negotiations on Egypt oil and gas. On 15 November 2013, Apache Corp agreed to sell its 33 per cent stake in its Egypt oil and gas business for US $3.1 billion to the Sinopec Group after long negotiations. Apache agreed to sell their upstream oil and gas assets in Egypt to Sinopec as part of their new global strategy after long, difficult Sino-foreign negotiations. Apache's new strategic thrusts were to rebalance their global portfolio and to reduce their exposure in Egypt amidst the rising political unrest. Sinopec agreed to purchase the upstream assets from Apache under the Chinese government's 'Go Abroad Investment Policy' which encouraged Chinese companies to purchase foreign oil and gas assets to secure extra equity in oil and gas exports to China. These assets would help to support the rising oil and gas imports to China. Apache reported gross oil production of 198,000 barrels per day and gross natural gas production of 912 million cubic feet (MMcf) per day in 2013 from its upstream oil and gas operations in Egypt. Apache and Sinopec negotiated hard on the various key business issues along the integrative model approaches. They were finally able to agree a mutually acceptable win–win deal in 2013, which met both the strategic objectives of Sinopec and Apache.

The zero-sum negotiation models and strategies would normally be applied by companies when they have little common ground for negotiations but have been instructed to carry on negotiating for various special political and business reasons. These bilateral deals would typically be driven by state or national priorities such as international bilateral energy supply deals between countries. With the growth of State-Owned Enterprises (SOEs) in international business, the zero-sum negotiation models would often be applied by some leading SOEs in negotiating difficult, bilateral mega deals, such as major energy deals, which would often be driven by different governments.

Good examples of zero-sum business negotiations would be the international oil or gas supply deals between different producing nations and consuming countries. These bilateral oil and gas supply deals would normally involve complex political and business aspects which would all have to be negotiated. The various state oil and gas companies from the producing and consuming countries involved in these international supply deals would have to go through the complex negotiation process to demonstrate to their key government sponsors the various major business issues and negotiation hurdles. Based on these, the SOE government sponsors would then be able to re-evaluate and weigh up the different political options and costs. They would then try to work with the different political parties and interest groups within their country to develop new, compromised negotiation positions which are acceptable to all the powerful stakeholders. The government leaders would then convert these compromises into appropriate new negotiation mandates for their SOEs. Then the SOE management and negotiator would use these in their next rounds of business negotiations with other international SOEs. Hopefully the SOE negotiators would then be able to, using the new negotiation mandates, undertake integrative constructive negotiations with the negotiators from the other SOEs. These should then generate new joint agreements which would be win–win for all parties and the governments involved. Otherwise the SOE negotiators would have to continue these difficult zero-sum negotiations over long periods. These would then normally result in disappointing lose-lose negotiation outcomes for all the parties involved.

An example of a good business negotiation case is the gas supply negotiations between Russia and China. Gazprom and China National Oil Petroleum Company (CNPC) have negotiated for many years the possibility of a gas supply agreement from Russia to China. These bilateral negotiations were very difficult and proceeded in line with the zero-sum negotiation model with little progress made. Then the international sanctions on Russian gas exports to Europe motivated the Russian government and its gas companies to open up new gas export markets to China and Asia. These new international developments enabled Gazprom and CNPC to make breakthroughs in their negotiations. CNPC and Gazprom were finally able, with their new negotiation mandates from their respective government sponsors, to negotiate and agree a major new joint gas supply agreement for the delivery of 38 BCM of Russian gas by Gazprom over the next 30 years to CNPC in China. The new joint gas supply agreement was a win–win deal for both Russia and China. It helped Russia to diversify its gas customer base from Europe to the fast-growing gas markets in China and Asia. For China and Asia, Russian gas imports would help to diversify their gas supply sources globally which would help to improve the energy security of China and Asia.

High-level businesses negotiations in China have also been evolving in line with international business negotiations. The key drivers influencing Chinese business negotiations, particularly from the Chinese business environment and key industrial sectors, will be discussed in more detail in this chapter.

Chinese business negotiation models and tactics

In Chinese, the word for negotiation is 'tan-pan', which literally means a combination of discussions and judgements. In Chinese business negotiations, it would usually be considered very important for both parties to first build trust with each other before they get into serious negotiations. The build-up of trust between the Chinese and international negotiators would also take time and would normally involve detailed dialogues between the two parties. Each party could then judge and evaluate the other partner's capabilities and relative values. The Chinese negotiators would normally only start to negotiate with the international negotiators after they have decided that the international company could be a trustworthy long-term partner to the Chinese company. Then the negotiators from two parties would start to negotiate the required agreements over many negotiation rounds. The Chinese negotiators would also stress that the negotiation should be along the key principle of 'equality and mutual benefit' for both parties.

The Chinese negotiation process would also support the idea that both negotiating parties can negotiate and reach mutual understanding on specific business issues in a way that both parties feel is 'a mutually beneficial, win–win deal'. The primary objective of Chinese business negotiations would usually focus more on creating a lasting framework for long term co-operations rather than rushing to draft a one-time agreement quickly.

Business negotiations in China are often considered to be a dynamic, ongoing process which have to take into account the actual ongoing business situation with various changes. Many traditional Chinese negotiators would also prefer the dynamic, ongoing negotiation approach to the Western negotiation approach, which would normally focus more on agreeing and drafting written contracts and agreements. Many Chinese negotiators would perceive negotiations that would focus primarily on developing written contracts quickly as more in line with the Western style of negotiations. International negotiators undertaking major business negotiations in China should understand and master these key differences in negotiation culture and negotiation models in order to achieve successful negotiations in China.

Literature surveys and analyses of the different Chinese business negotiation processes and models show that these have also been evolving quickly in response to the changes in international and Chinese business environments. In addition, the rapid economic growth of China and its integration with the global economy have also contributed to more alignment of the Chinese negotiation styles and processes with international negotiation developments.

In the early days of business negotiations in China during the 1960s and 1970s, high-level business negotiations between Chinese and international companies have initially followed the traditional distributive or positional negotiation models.

These negotiations have focused primarily on the key issue of profit and benefit distributions. This was seen to be the most important commercial co-operation issue between Chinese and international companies in the early days of international trade. These negotiations have often resulted in win-loss agreements, as neither the Chinese nor the international partner would like to give up their position and share of the profits or benefits. Many of these contracts have also shown to be unsustainable for the longer term as the partner who felt that they have a losing agreement would want to terminate these agreements as quickly as possible.

Analyses of recent, modern high-level Chinese business negotiation cases show that the modern business negotiation models currently used in China have evolved more in line with international business negotiations. In high-level business negotiations between Chinese and international companies, the traditional distributive negotiation models, which would focus primarily on the key single issue of profit and benefit distribution, have been gradually phased out. One key reason was that these negotiations had usually resulted in win-loss agreements which were unsustainable for the longer term. In addition, there would also be many different business issues that would need to be negotiated in the bigger business deals being negotiated in China at present.

Modern business negotiations in China have been using the integrative or collaborative negotiation models more and more. As China integrated more into the global economy, it has also been adopting more international business and commercial practices. The majority of modern business negotiations in China between Chinese and international companies have also became more complex and multifaceted. The business negotiations in China have been developing in line with the increasingly complex business environments and requirements in China and worldwide. These negotiations would normally involve many complex legal and commercial issues which the Chinese and international negotiators would need to consider, discuss and negotiate. The key business issues would no longer be just profit and benefit distribution, which were the key business issues in the early days of international trade many years ago.

The Chinese and international partners now need to negotiate and consider many other important commercial and legal issues, such as joint venture organization, human resources, staff nomination, talent development, management control, board composition, corporate social responsibility and sustainable development, etc. It is also very important for the Chinese and international business partners and their negotiators to identify their critical ‘win–win cooperative issues’ which they could compromise upon and to share values with their partners during negotiations.

A good example of a successful Chinese and international partner integrative negotiation is the petrochemical joint venture negotiations between Sinopec and SABIC on their major Tianjin petrochemical joint venture. The Chinese and international partners discussed and successfully negotiated the various joint venture agreements and associated contracts for their major new joint venture in Tianjin, the Sinopec SABIC Tianjin Petrochemical Company (SSTPC) Limited. They agreed, after long, complex, integrative negotiations, that the final shareholding ratio would be 50:50 between Sinopec and SABIC. They also negotiated and agreed the sensitive issues of feedstock pricing, board composition plus joint venture staff nomination and planning. After government approvals, the joint venture was established in Tianjin, China with a joint investment of US $2.7 billion. The joint venture successfully constructed and operated a new, world-class petrochemical complex with one million tonnes per annum Ethylene Cracker complex plus associated chemical plants. After successful plant commissioning and start-ups, the joint venture has been successfully producing over three million tonnes of petrochemical products per annum, including Ethylene, Polyethylene, Ethylene Glycol, Polypropylene, Butadiene, Phenol and Butene-1.

Many high-level business negotiations in China for major Sino-foreign business deals and joint ventures in China also involve ‘multiple negotiation parties’. In addition to the main Chinese partner, these negotiations could also include the local government or leading local companies. These local Chinese entities might eventually become minority shareholders in the future joint venture due to the importance of these new joint ventures to the local economies. During negotiations, new strategic alliances may also develop between the different Chinese parties involved in the negotiations. Hence the international negotiators would have to be very vigilant on the ongoing developing relations of the different Chinese parties during their negotiations. New coalitions could form between the different Chinese partners during negotiations. These new coalitions would normally be quite powerful and could seriously influence the negotiation directions.

The famous Chinese military philosopher, Sun Tzu, gave very good advice on Chinese negotiation hundreds of years ago in his famous book, *The Art of War*. He said, “if you do not seek out allies and helpers, then you will be isolated and weak.” These ancient sayings from hundreds of years ago are still very much valid today on the requirements for strong Chinese partner coalitions in negotiation with international companies in China.

A strong example of successful, multi-partner, Sino-foreign joint venture negotiations, involving different Chinese and international partners in the downstream refinery and petrochemicals sectors in China, is the ExxonMobil, Saudi Aramco, Sinopec and Fujian Province Joint Venture. The four Chinese and international partners negotiated and successfully formed a fully integrated refining and petrochemicals joint venture together with an oil fuels marketing joint venture in China. The manufacturing joint venture was agreed to be jointly owned by ExxonMobil at 25 per cent, Saudi Aramco at 25 per cent and Fujian Petrochemical Company Limited at 50 per cent. The partners agreed to build a new world-scale refinery integrated with an 800,000-tonnes-per-year ethylene steam cracker with integrated polyethylene, polypropylene, paraxylene and chemicals units. They also agreed to establish a separate marketing joint venture (JV), owned jointly by Sinopec at 55 per cent, ExxonMobil at 22.5 per cent and Saudi Aramco at 22.5 per cent. The marketing JV would be responsible for marketing the oil fuel products, diesel and motor gasoline, produced by the JV refinery. The marketing JV established a network of oil product distribution terminals with more than 750 oil retail service stations in Fujian and neighboring provinces in southeast China.

Analysis of Chinese SOEs' business negotiations with other international SOEs have also shown that the zero-sum negotiation models have sometimes been applied to difficult complex international negotiations. The zero-sum negotiation models and strategies would normally be applied by China and overseas SOEs when they have little grounds for common agreements but have to undertake negotiations for various special political and business reasons. These massive deals would often be driven by higher state, government or country requirements and aspirations.

The zero-sum negotiation model has been widely used by negotiators from Chinese Energy SOEs in their high-level international negotiations of oil and gas supply agreements with various major oil and gas exporting countries, such as Russia and Middle Eastern countries. These oil and gas supply deals would normally include high-level government to government negotiations. These would involve complex political and business aspects which have all to be negotiated and agreed. The various SOEs and energy companies involved in these deals would have to go through long, complex negotiation processes to demonstrate and highlight to their state and government sponsors the various key negotiation problems and issues. The SOEs would then use these negotiation barriers to ask for new guidance and negotiation mandates from their government sponsors. Based on these initial negotiations, their government sponsors would re-evaluate and weigh up the different political options and costs to the state. The governments would then work with the different interested parties and powerful internal stakeholders in their country to try to develop new, compromised negotiation mandates for their SOEs. The SOEs' negotiators would hopefully, with the new mandates, be able to undertake the more constructive integrative negotiations with other SOEs so as to negotiate new joint agreements which would be win–win for the SOEs and the governments involved. Otherwise the SOEs would have to continue their difficult zero-sum negotiations, which would normally result in disappointing lose-lose negotiation outcomes for all parties.

A good example of a high-level international business negotiation case is the lengthy, but ultimately successful, China Russia Gas Supply Agreement negotiations. For years, CNPC and Gazprom have been trying to negotiate a new gas supply agreement from Russia to China. They have made little progress even after long, hard negotiations. Their difficult negotiations, in line with the zero-sum negotiation model, showed that there were big gaps on many key commercial and political issues. In particular, there were big differences on the gas pricing formulas and gas availability aspects which both China and Russia were unwilling to compromise on. The SOE negotiators also did not have appropriate mandates from their government sponsors to negotiate any compromises until recently.

In 2014, the international and European sanctions enforced upon Russia motivated Russia and Gazprom to actively explore alternative gas export markets and negotiate new gas export contracts for markets outside Europe. Gazprom renewed their gas supply negotiations with CNPC with new mandates from the Russian government. The Gazprom negotiators followed a new, integrative negotiation model approach with CNPC as they were keen to reach a new gas supply deal with

China quickly so as to offset the restrictive effects of the international sanctions on Russian gas exports.

After long and hard business negotiations, CNPC and Gazprom finally agreed and signed a preliminary Gas Purchase and Sales Contract for Russian gas imports to China via the eastern route in May 2014. CNPC and Gazprom then continued tough negotiation on the commercial details and managed to finalize their gas supply deal. There were also high-level political supports and guidance for this very important bilateral negotiation, particularly on the difficult negotiations on the final pricing formula for the Russian gas export to China for the next 30 years. In the end, the Chinese and Russian negotiators were able to make win–win compromises which helped the finalization of the key agreements and closure of the major deal.

On 9 November 2014, CNPC and Gazprom signed a Gas Supply Agreement, during the APEC summit in Beijing, in the presence of Chinese President Xi Jinping and Russian President Vladimir Putin. CNPC Chairman Zhou Jiping and Alexey Miller, Chairman of the Gazprom Management Committee, also signed the Framework Agreement for gas imports from Russia to China via the western route. Under the agreement, Gazprom would transport Russian natural gas to China for 30 years with the gas delivery rates gradually increasing to 30 BCM per year over a period of four to six years.

The analyses of many high-level business negotiations in China to date show that in practice the majority of business negotiations do not strictly follow either the distributive or the integrative model. Most business negotiations between Chinese and foreign business partners would normally be a combination of both the distributive and integrative negotiation models with a complex, non-linear, negotiation process. There would normally be many complex business issues which the Chinese and international negotiators would need to negotiate to create maximum value for both parties as part of their final win–win agreements.

The many complex business issues at stake for these major deals would normally make it very difficult for the Chinese and international negotiators to agree these issues quickly. Many rounds of negotiation would often be required over long periods to reach mutually acceptable and beneficial agreements. In these negotiations, it would be very important for the Chinese and international negotiators to identify the potential 'win–win cooperative issues' where they could make compromises and share values effectively at different stages of the negotiations. Then, during the negotiations, the chief negotiators on both sides could decide the right time to offer concessions to the other side on some of the non-key negotiation issues. These compromises during negotiations would help to build good relations and *guanxi* between the negotiators as well as promoting good negotiation progress. These good relations and *guanxi* would also support future partnership and good co-operations by the partners in the new joint venture.

Looking ahead, the future economic growth of China should continue to create new business opportunities for international and Chinese companies to cooperate and form new joint ventures. Good negotiations between Chinese and international negotiators on these major deals are important for their materialization in the future.

Chinese economic growth and business negotiations

China's economic growth and international trade developments have generated many new potential business opportunities for international companies to cooperate with Chinese companies in China and globally. Good business negotiations between Chinese and international companies would be critical for the successful realization of these new business opportunities in China and globally.

Looking back, China's economy grew rapidly during 2001–2008. The economic growth was characterized by continuous high Gross Domestic Product (GDP) growth rates until the first half of 2008. In the second half of 2008, as the global economy began to weaken, China's economic growth was also seriously affected. In the second half of 2008, there was a significant downturn in China's GDP growth along with reducing investment and exports. However, with the economic counter measures implemented by the Chinese government, China's economy recovered quickly. In 2012, China's nominal GDP reached US $8.2 trillion, making it the second largest economy in the world, after the USA.

Looking ahead, the new norm for China's future economic growth is likely to be single-digit GDP economic growth rates, rather than the high, unsustainable double-digit growth rates recorded during 2003–2007. China's economic growth in the coming years is still likely to remain comfortably higher than other major economies. This should allow China to keep its position as one of the world's key growth leaders, but on a more sustainable basis. China has also made good progress in transforming its economic and industrial growth models and its economic structures. Rising domestic demands and consumption play significantly larger roles in driving China's future economic growth.

China has been able to effectively deal with the challenges of the global economic environment so as to maintain its stable and rapid economic development. China has been working towards achieving most of the economic and industrial goals laid out in the government's 'Five Year Plans'. A good example is how China's Twelfth Five-Year Plan had set a national GDP growth target of 7 per cent, which was slightly lower than the 7.5 per cent target set in the Eleventh Five-Year Plan. With the new Thirteenth Five-Year Plan, which covered the period 2016–2020, China planned to accelerate the pace of economic restructuring and to upgrade its industrial sectors plus improving sustainable environmental developments.

Looking ahead, most analysts have been predicting that China's GDP growth rates would likely decrease to around 6–7 per cent from 2016–2020, within the Thirteenth Five-Year Plan period. For 2021–2025, China's GDP growth rates are likely to further reduce to 5–6 per cent from the highs of 7–8 per cent. The actual GDP growth rates in China will be subjected to future markets and business environment conditions at the time. Taking into account the varying economic and social requirements of employment creation and improving standards of living, China would need to maintain national GDP growth rates which would be neither too high nor too low and be sustainable in the longer term.

The future economic growth in China would also be more focused on the quality and sustainability of economic growth, rather than just on achieving high economic growth rates. China would also be pushing ahead with economic reforms to shift their growth model from their previous export and manufacturing-driven models to a more domestic consumer and service-driven model. Most economists have been forecasting that these reforms would help China to achieve lower but more sustainable economic growth in the future. The eastern coastal region, which has become one of the most industrialized areas in China, would likely experience slower economic growth as it would have to reform and upgrade its industrial sector structures. The central and western regions will likely grow more rapidly with the Chinese government's 'Go West Policy' which promote investments and growth in these regions.

Looking ahead, China's economy will likely overtake the US economy to become the largest global economy during the Thirteenth Five-Year Plan period of 2016–2020. China's national GDP growth rates are likely to grow steadily at slower and more sustainable rates. Many economists have been forecasting that China's national GDP is likely to grow to over US $19 trillion by 2020 and become the largest global economy. The continued economic growth in China will generate many new business opportunities for international companies. These opportunities will require good Chinese and international negotiations to realize and materialize.

The main key risks and challenges to China's economy reforms and growth will involve managing the various economic imbalances on a sustainable basis, such as containing the real-estate bubbles whilst keeping the economic recovery going. These will be especially important given that China could not rely much on monetary policy reforms with their asset price inflations. To stabilize future economic growth, China will likely need to employ more appropriate fiscal measures.

The global demands for China's exports in the coming years is likely to become lower and much more subdued than during the boom years of the 2000s. If the demands for China's exports would continue to decline, then these would have severe repercussions for China's export-led economy. These would be major potential future risks to China's future economic growth, though more of a medium- to long-term risk nature. Similar risks would also apply to other rapidly emerging economies in Asia and globally, as these have also been relying heavily on rising external demands and exports to power much of their economic growth.

In addition, China's investment-heavy, export-oriented model of economic growth is likely to be reaching its limits. Increases in future domestic consumer spending is an essential part of the economic transformation that China needs to promote internally so as to shift its economic growth model away from its heavy reliance on investments and exports, towards more domestic consumptions. The Chinese government has recognized the importance of this re-balancing act. They have been pushing ahead with appropriate reforms on income redistribution and social welfare to encourage more domestic private consumption in China.

If the PRC Government can implement all their planned reforms successfully, then China should be able to successfully engineer a shift from their current economic growth model to a more sustainable consumption-driven model. This should then be able to generate self-perpetuating, long-term, sustainable economic growth for China. In addition, if China's new massive urbanization drives are successful, they could also trigger structural shifts conducive to productivity gains and long-term, sustainable growth. Rising household incomes and benefits would also add help to increase domestic private consumption in China and the growth of the middle class across China.

If China's economic reforms are successful, then these would support more sustainable future economic growth. Economic growth should continue to generate many potential new business opportunities for international companies to cooperate with Chinese companies and partners. Good and effective business negotiations in China are critical for the successful realization of these new business opportunities in China and globally.

With the planned, new, key developments, the negotiation of good manufacturing and supply contracts by Chinese manufacturers with their customers inside and outside China would also become more complex and important. They would have to take into consideration the current demands and pricing trends as well as potential future demands and pricing scenarios. They would also have to consider the possible risks of future trade blocks and their commercial implications.

Energy growth and development opportunities in China

China's energy and industrial sectors have been one of the key drivers for China's economic growth. These sectors have also generated a lot of Sino-foreign co-operations and joint ventures, such as oil and gas exploration and production, petrochemical and chemical manufacturing, etc. Many high-level business negotiations have taken place between international and Chinese companies on the successful establishment of new joint ventures to realize and capture many of these major new business opportunities in different regions of China.

China's energy consumption has been growing fast, in line with its GDP. China has become one of the leading oil and gas importing nations globally. By 2020, many energy planners are forecasting that China could account for 15–20 per cent of the world's total primary energy demands. China would also likely account for almost half of the energy consumptions in the entire Asia-Pacific Region.

China has also been a net importer of oil since 1993. In 2003, China's crude oil imports were only one third (33 per cent) of its total crude consumption. In 2012, China consumed over six million barrels of oil per day, with imports accounting for over half of this. By 2020, it is expected that China's crude consumption will rise by another 33 per cent to over eight million barrels of oil per day. China's crude oil import dependency, which has already grown to be above 50 per cent, is likely to increase further to above 60–70 per cent in the future.

To meet this increased demand for energy, China has been actively diversifying its energy supply sources and types. China has also been accelerating their exploration and development of conventional and unconventional oil and gas resources, including shale gas, in different regions of China. These new oil and gas exploration and production opportunities present new cooperation opportunities between Chinese state oil and gas enterprises with the international oil and gas companies. A good business case example is the PetroChina and Chevron joint venture for gas exploration and production in China. More details of this successful Sino-foreign joint venture will be given later in this chapter.

Coal has been a major part of China's overall energy mix but has also contributed to environmental pollution. China has been actively developing new, clean coal technologies and shutting down poor quality coal mines. These have led to new, Sino-foreign, clean coal joint ventures, such as the Shell Sinopec Coal Gasification Joint Venture in Henan. Details of this joint venture and its negotiations will be given later in this chapter.

Looking ahead, China will also be actively developing new, cleaner sources of energy, particularly gas and renewable energy sources. These will all be important elements of China's continual commitment to environmental improvement and sustainable development. These will generate many new clean energy and green financing business opportunities for international companies to cooperate with Chinese companies.

Clean energy investments opportunities in China

In China's new Thirteenth Five-Year Plan, covering the period 2016–2020, new clean energy developments and investments have been identified to be one of the new, key energy growth sectors. These will be important to support China's global climate change efforts and Paris Agreement commitments.

Key Chinese government authorities have recently announced plans for more than US $360 billion of new investment into the clean energy and renewable sectors in the future. These will lead to many new business opportunities for cooperation between international and Chinese renewable and clean energy companies. Good business negotiations between Chinese and international energy companies will be required to realize these ambitious clean energy investment growth targets.

China has also been actively promoting the development of clean and renewable energy resources across the country in their new Thirteenth Five-Year Plan. The Chinese government National Energy Agency (NEA) has announced that China is planning to invest 2.5 trillion yuan or over US $360 billion into China's renewable sector. They also announced that China, which has become the world's largest energy market, will continue to shift away from coal power generation towards cleaner fuels and renewable power generation. They also forecasted that these clean energy investments in China would help to create more than 13 million new jobs in China. They predicted that the total installed renewable power generation capacity in China, comprising wind, hydro, solar and nuclear power together, would be contributing to about half of the new electricity generation capacities in China by 2020–2030.

The China National Development and Reform Commission said that solar power would receive 1 trillion yuan or over US $140 billion of new investment. China is planning to increase its solar power capacity by five times, the equivalent to about 1,000 major solar power plants across China. In addition, some 700 billion yuan or US $100 billion of new investment is planned to go into new wind farms across China. Another 500 billion yuan or over US $70 billion of new investment is planned to go into new hydro power stations across China. Major investment from China into new tidal and geothermal power generations is also planned in the future.

These massive planned investments into the various clean energy sectors in China will generate many new clean energy financing business opportunities for international companies to cooperate with Chinese companies. In addition, these huge planned investments will generate many green financing opportunities for international banks and finance houses to work with Chinese banks and finance institutions.

Clean coal joint ventures negotiations in China

Coal has been a major part of China's overall energy mix but has also contributed to environmental pollution. China's long, high dependency on coal as a primary energy resource has contributed to serious environmental pollution with associated direct and indirect financial costs. These problems have been recognized by the government who has issued plans to reform and improve the coal sector in China. Looking ahead, coal is likely to continue to be a major contributor to the primary energy mix in China but with stronger controls.

The future challenges for China on coal cover two strategic aspects. First, China needs to improve coal industry management and introduce effective regulatory mechanisms. China has been shutting down poor quality coal mines and reforming their coal companies. Second, China has also been actively developing new clean coal technologies with new research and developments domestically and with international companies. These should help to improve the environmental performance and impact of coal in China as coal currently still makes up almost two-thirds of the country's primary energy mix. These have also led to successful negotiations of new Sino-foreign joint ventures on clean coal technologies.

A good clean coal business case example is the Shell Sinopec coal gasification joint venture. After long, tough negotiations, Sinopec has agreed to license the Shell Advanced Coal Gasification technology to convert coal into syngas. Then Sinopec would use the clean syngas to produce fertilizers. Shell and Sinopec had long and tough negotiations on the different terms of technology licence and technical service agreements. They were able to negotiate and agree a mutually acceptable Licence Agreement and Technical Service Agreement for Sinopec to apply the Shell Advanced Coal Gasification technology at their chemical complex in Henan, China. Their new joint venture successfully constructed and commissioned the new clean coal gasification plant in Henan. Sinopec have been using the clean syngas to successfully produce fertilizers in their downstream chemical complex in Henan.

Chinese oil and gas negotiations

The rising international activities by China's top SOEs in oil and gas, such as PetroChina, Sinopec and CNOOC, in acquiring overseas oil and gas resources is in line with the government's 'Go Abroad Investment Policy'. In addition, these expansions are also in line with their new strategy to globalize and expand onto the international stage.

Energy security has also become a critical high-level policy concern for the government and energy planners in China. China's growing energy needs mean that it has to actively look outside its borders to ensure that its future growth is sustainable with adequate, secure energy supplies. Since the mid-1990s, China has been a net importer of oil, with strong dependency on Middle East crude imports. China has recognized the strategically important requirement to diversify its energy supplies globally, especially crude and gas import sources. China has been implementing its new global oil and gas supply diversification strategy to balance their oil and gas imports from different oil- and gas-producing countries.

A good example is the successful negotiation of the new oil and gas import agreements from Russia to China. The international sanctions on Russia have motivated the Russian government and state energy companies to actively broaden their customer base into the fast-growing Chinese and Asian markets. Negotiations between Chinese and Russian energy companies have resulted in major oil and gas supply agreements. These new Russian oil and gas imports into China will help China to diversify its oil and gas imports away from the Middle East which has traditionally been the largest oil and gas importer into China.

The leading Chinese SOEs, with support from the People's Republic of China (PRC) Government, have also successfully negotiated various complex oil and gas supply agreements with different leading oil- and gas-producing countries, including the Middle East, Africa, Central Asia, Russia and Latin America. These oil and gas supply agreements negotiations would normally be very complex and involve large financial commitments. The Chinese and international negotiators have also to take into account the current and future demand and pricing trends as well as different pricing scenarios. In addition, these agreements would often involve major investments by Chinese SOEs into the overseas oil and gas fields in the various producing countries. Many of these major bilateral deals would also involve major investment from China into new infrastructure and other related support areas in the various oil- and gas-producing countries.

A good, high-level example of a successful Chinese and international oil business negotiation is the Sinopec Kazakh oil purchase agreement. In August 2015, Sinopec completed the purchase of a 50 per cent stake in a Kazakh oil producer from the Lukoil PJSC for an agreed payment of US $1.09 billion. This allowed Sinopec to gain full control of an overseas oil and gas venture with stakes in five big oil and gas fields. The sale of the Caspian Investments Resources Ltd. received the required approval and permits from the Kazakhstan state authorities in late July 2015. The deal was concluded after more than a year of hard business negotiations. After good integrative and collaborative negotiations by the Chinese and Kazakh negotiators, the different partners agreed a final sales price of US $1.09 billion, which was less than the US $1.2 billion initially discussed in April 2014.

The final Sinopec Kazakh oil purchase agreement was a win–win, integrative, non-linear negotiation outcome for the various international and Chinese parties. Sinopec agreed and signed the accord with Lukoil as the deal would help them to secure access to good overseas oil resources. These were in line with the Chinese government's national Go Abroad strategy to diversify energy supply sources abroad to meet the rising domestic energy demands. Sinopec already own, since 2010, the other half of the Caspian Investments Resources, which holds stakes in fields with more than 200 million barrels of proven oil and gas reserves.

Lukoil also achieved its strategic objective of retaining strategic stakes in the Tengiz, Karachaganak and Kumkol oil and gas fields in Kazakhstan and the Caspian Pipeline Consortium. These made Lukoil the largest Russian investor in Kazakhstan. Its share of oil and gas productions in the Central Asian nation was about 4.3 million tonnes of oil and 1.5 billion cubic meters of commercial gas in 2014.

Foreign international companies have also been playing major roles in China's oil and gas sectors developments with large investments. In the oil and gas sectors, foreign companies are actively working with Chinese partners on upstream oil and gas exploration and production, downstream oil product retails, gas infrastructures, plus liquefied natural gas (LNG) imports.

The setting up of successful joint ventures by international companies and Chinese SOEs in the oil, gas and petrochemical sectors would normally involve long, complex business negotiations as these would be massive deals involving major investment by both the Chinese and international partners. These negotiations would in many cases also involve the Chinese and international companies negotiating with the relevant central and local government authorities on these major Sino-foreign cooperations.

An important business negotiation example of Chinese and foreign gas company negotiations and co-operations in the upstream gas sector is the Chevron and PetroChina Joint Venture. In upstream onshore gas, Chevron and PetroChina have been jointly developing the Chuandongbei gas field in Sichuan. After long, complex, high-level business negotiations, PetroChina and Chevron reached agreement on Chevron taking 49 per cent interest and operating the large 487,000-acre (1,969 square kilometer) Chuandongbei natural gas area in the onshore Sichuan Basin. The Chinese and international negotiators also agreed a total investment cost of US $4.7 billion by both PeroChina and Chevron. In addition, Chevron and PetroChina have also been jointly developing the Luojiazhai and Gunziping natural gas fields in China. Construction of the first natural gas processing plant and development of the Luojiazhai and Gunziping natural gas fields have been progressing. Site preparation at the second natural gas processing plant, well pads and gathering system locations were undertaken. The planned maximum total daily natural gas production will be over 550 million cubic feet per day.

Chinese gas and LNG negotiations

Natural gas is central to China's future in terms of sustainable economic growth and environmental improvement. Meeting the anticipated threefold increase in gas consumption in China in the next 10 years will be a major undertaking. This will involve harnessing indigenous conventional and unconventional gas resources, including shale gas resources, in China. They will also need to develop and improve the gas infrastructure and gas pipeline systems across the different provinces in China. China's natural gas and unconventional gas reserves have been relatively underdeveloped. Most of the gas resources in China are located far from the vast gas consumption markets on the east coast. Hence, China would need to, in the foreseeable future, continue to import gas and LNG from different overseas producing countries, particularly from Qatar and Australia, etc.

An important example of an international China LNG business negotiation would be the successful Australia China LNG supply purchase agreements for the large LNG imports from Australia to the Guangdong LNG Terminal in Southeast China. The LNG supply agreements were very complex and it took a long time to negotiate the various key terms so they would be mutually acceptable. The supply period covered a long time period of some 20 years. The financial commitments have been massive for both the Chinese and Australian parties. Hence the LNG agreements have involved long, complex business negotiations between the China SOE buyers and the Australian LNG producers. After long, hard negotiations, they were able to agree mutually acceptable LNG pricing formulae, plus win–win LNG supply contracts which were acceptable to China and Australia. There was also strong support and guidance from both the PRC and Australian governments for the major bilateral LNG supply deal and its negotiations.

China petrochemical and chemical negotiations

There has been rapid growth of petrochemicals and chemicals in domestic Chinese chemical companies, suppliers and new manufacturing facilities. China has already overtaken the USA to become the largest petrochemical and chemical market in the world. Looking ahead, China is likely to remain import dependent on petrochemical feedstocks, especially olefins, plus key chemical products for the foreseeable future. This is likely to be the case, even when taking into account all the planned new major domestic petrochemical and chemical manufacturing projects which should be coming on stream in the near future.

China has also become a major exporter for petrochemical finished products to the global consumer market. The various petrochemical products manufactured from the imported chemical feedstocks have been exported by China to different markets globally, including some going back to the feedstock supply countries. A good business example of this is that the exports of finished products and chemicals by China to the Middle East has been rising steadily to over US $60 billion per year. The details will be discussed further in the next section.

A good Chinese international trade case example is that Saudi Arabia and the Middle East have been the leading oil and petrochemical feedstock suppliers to

China, especially in crude and olefin feedstocks. However Saudi Arabia and the Gulf Cooperation Council (GCC) countries have also been the leading importers of Chinese manufactured products and finished petrochemical products including plastics and chemical products. The accumulated annual value of the Chinese exports to Saudi Arabia and the Middle East have grown to over US $60 billion recently. Looking ahead, the Chinese and Middle East governments have also announced, in recent Sino-Middle East bilateral investment forums, that they are planning to boost their bilateral trade significantly by over three times in the near future. These large bilateral international trades between China and the Middle East involve long important negotiations on all the relevant import and export agreements.

In particular, the petrochemical supply, import and export contracts would normally involve complex business negotiations by the Chinese SOEs and leading Chinese private chemical companies with the overseas international petrochemical companies. In these complex business negotiations, they would have to take into consideration current petrochemical demands and pricings plus future pricing and consumption scenarios. In addition, the negotiators must also take into account the various international trade considerations, including potential future trade blocks and new bilateral Free Trade Agreement implications.

A good example of high level international trade contract negotiations is the China and Middle East international trades and investments. Companies and SOEs in China, Saudi Arabia and GCC countries have been playing important roles in global trade, particularly in oil, gas and petrochemicals. The GCC international trade of oil and gas, plus petrochemical and chemicals feedstocks exports to China have been particularly important and largely handled by the leading regional SOEs, such as Saudi Aramco and SABIC, i.e. Saudi Basic Industry Corporation. Saudi Arabia and GCC countries have been some of the largest suppliers of crude oil to China in recent years. In 2013, KSA supplied 20 per cent of China's total oil imports with a total value of over US $45 billion. China imported around 1,064 thousand barrels of oil per day from Saudi Arabia.

In 2013, Saudi Arabia and GCC countries collectively supplied over 35 per cent of China's crude oil imports with a total value of over US $85 billion. GCC countries supplied over 1,960 thousand barrels of oil per day to China. In addition to oil and gas trades, the SOEs in China and GCC countries also have strong bilateral trades in a wide range of manufactured goods and chemicals. In 2013, China imported from GCC SOEs, in addition to oil and gas, a large variety of feedstocks and goods, including chemicals, metals, salts and Sulphur, with a total value of US $112 billion. Crude imports contributed US $85 billion which represented the bulk of the bilateral trade between China and GCC. However petrochemical and chemicals have also contributed around US $14 billion. Other feedstocks, products and minerals imports from GCC to China have accounted for US $12 billion.

On the other hand, in 2013 China has also exported a large variety of finished chemical products to GCC and Saudi Arabia, including machinery, tires, electrical, plastics, furniture and ceramics with a total value of some US $54 billion.

Chemical products exports contributed US $2 billion and other products contributed US $52 billion.

The associated supply, import and export contracts for these massive bilateral trades between China and GCC countries have involved long, complex business negotiations between Chinese state companies with leading Saudi and GCC companies. There have also been strong supports by the China and GCC governments on fostering good bilateral relationships. These helped to provide the appropriate open international trade environment to support the relevant business negotiations and contracts. In addition, proper governance, integrity and anti-corruption measures were also discussed, negotiated and agreed by the various Chinese and GCC companies and their negotiators in these important bilateral agreements. These will help to ensure higher standards of integrity, transparency and efficiency in the different international trade supply chains and value chains involved in these massive international supply and exports between China and GCC countries.

Foreign international companies have also been playing major roles in China's petrochemical and chemical manufacturing growth. In the petrochemical and chemicals sectors, foreign companies have been actively involved in base, fine and specialty chemicals manufacturing and marketing, plus research and developments with leading Chinese Partners and Institutes.

Setting up successful joint ventures by international companies and Chinese SOEs in the petrochemical and chemical sectors would normally involve long, complex business negotiations as these are massive deals involving major investment by both the Chinese and international partners. These negotiations would, in many cases, also involve the Chinese and international companies negotiating with the relevant central and local government authorities on these major Sino-foreign agreements.

An important and successful example of China and international petrochemical and chemical joint venture negotiations is the Sinopec and BASF Petrochemical Joint Venture in Nanjing. Details of this joint venture will be discussed later in this chapter.

China international trade and investment negotiations

International trade and investment have been major drivers for Chinese economic growth. Long, complex business negotiations involving Chinese and international partners would normally be required to negotiate and agree the major agreements and contracts for the various major deals and investments.

Since 2001, after China had joined the World Trade Organization (WTO) and implemented its WTO commitments, China has been experiencing rapid economic growth. China's nominal GDP values have grown by 6 times from US $1.3 trillion in 2001 to US $7.3 trillion in 2011 and then US $8.2 trillion in 2012. These accounted for over 11 per cent of the world's GDP of US $71.7 trillion, as estimated by the International Monetary Fund (IMF).

China's international trade policies have also become more liberal in a bid to boost its international trade and investments. Since its entrance into the WTO, China has taken several major steps to liberalize its trade policy. China has also expanded its ‘open-door policy’ to make its investment environment more friendly and simple for multinational companies (MNCs) and other prospective investors.

China has witnessed considerable returns in its international trade and investment growth resulting from their ‘open door policy’. China has successfully attracted high amounts of Foreign Direct Investments (FDI) into China. Many Foreign Investment Enterprises (FIE) and joint ventures have also been established, taking advantage of the preferential foreign investment policies in China. The establishments of FIEs and Sino-foreign joint ventures in China would normally involve complex and intense business negotiations between the Chinese and international negotiators. These negotiations will be discussed in detailed in the various chapters of this book.

A good business negotiation case example of a major Sino-foreign petrochemical joint venture is the Sinopec and BASF petrochemical joint venture near Nanjing in China. BASF and Sinopec have agreed to jointly invest and build a new major petrochemical base near Nanjing. The deal has involved over three years of long, complex business negotiations by BASF and Sinopec negotiators. They managed to agree the required joint venture agreement and associated contracts for their Yangtze Petrochemical Company Joint Venture. After approval by the Chinese Central Government, they then successfully established their Yangtze Petrochemical Co. joint venture near Nanjing of Jiangsu Province of China. The joint venture has successfully constructed and started up a world class petrochemical complex near Nanjing. After some years of successful operations, Sinopec and BASF then negotiated and signed new agreements for the BASF and Yangtze Petrochemical YPC Joint Venture Phase II expansions. The expansion projects included the construction of nine new chemical production plants, including a 60 KTPA NIS plant, a 130 KTPA butadiene plant, a 50 KTPA IB plant, a 50 KTPA PIB plant, an 80 KTPA 2-PH plant, an 80 KTPA BG plant and a 60 KTPA SAP plant. BASF and Sinopec have agreed to invest about US $1 billion together for the new expansions.

China has also acted quickly to counter-balance the negative impacts of tough international factors, such as global trade declines, global financial crisis and pressures from foreign exchange rate changes.. The growth in international trade, which has been a key pillar of support for the global economy until the 2008–2009 financial crisis, has also been declining. Looking ahead, international trade growth will likely increase by 5–6 per cent in the next few years. Experts generally agree that the growth is unlikely to return to its pre-crisis peaks of around 10 per cent due to a mixture of different external factors. These include moderate global economic growth, particularly in advanced economies, reduced trade financing availability from banks, plus moderately rising global trade protectionism in different countries.

Chinese Free Trade Agreement negotiations

Internationally, China has also been active in negotiating different international economic co-operation agreements, such as Free Trade Agreements (FTA), with various strategic trading countries. China has also liberalized their international trade with many key countries and trading partners globally. China has successfully negotiated and agreed many new FTAs with key trading countries and partners.

Good examples of the successful FTA negotiations include the China–ASEAN FTA from January 2010, China–New Zealand FTA from April 2008, China–Singapore FTA from October 2008 and China Thailand FTA from October 2003.

China is also in the process of signing bilateral FTAs with several key countries, including Australia, Gulf Cooperation Council (GCC), Iceland, India, Norway, South Korea and Switzerland. These ‘Free Trade Agreements’ signed with the different countries have helped to increase China’s foreign and international trades. These have also helped to boost the foreign trade of different countries with China.

An important international FTA negotiation case example is the successful China and New Zealand Free Trade Agreement. After long, complex negotiations by both the Chinese and New Zealand governments’ negotiators, together with key inputs from their major companies, China and New Zealand agreed and signed their new FTA in April 2008. Since the FTA signing, there have been large increases in New Zealand’s foreign trade with China. The value of the bilateral trade between China and New Zealand has grown by over three times. China has now overtaken Australia to be New Zealand’s largest foreign trade partner internationally.