

Tigers & Flies: A Zoology of Chinese Business

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There is a saying in China: *Shan gao, huangdi yuan*. The mountains are high, and the emperor far away. A modern translation would allude that central power often goes ignored, and that people should choose their own paths. However, in recent years it has also come to refer to the corruption that continues to plague Chinese business. No matter what directives may be ordered from Beijing (and the quality of these is admittedly debatable), if central



authorities can be ignored with impunity then the emperor becomes a pointless figure and the corruption will be allowed to continue. This is the partial reality of China today.

To deny that President Xi has not taken a strong line on anti-corruption is difficult. He pledged to bring down *'both tigers and flies'* (big and small players alike) and it is estimated that over 600,000 people have been brought to some kind of justice so far: over 400,000 officials disciplined for corruption and 200,000 prosecuted. The financial and insurance sectors (including the state regulator) have been targeted and powerful figures such as Wu Xiaohui (of Anbang Insurance) and Liu Tienan (National Development Commission) have not been immune. Now in its third year, there is no sign of the crackdown abating. And for once, it would be incorrect to call this a purge – there has been little sign that Xi has been using this as cover to consolidate a wider position even if, as can be expected, some individuals detained have threatened to blow open even deeper cases of corruption.

However there are still problems, and in the main they are the preserve of the flies, rather than the tigers. For instance. Let us assume a company has a new technology it is looking to develop and bring to market in China. A domestic firm offers to help through investment, expertise and establishment of an IPO and asserts that, if they are to be partners, there is no need for the original company to hide its trade secrets. However this company later finds out – too late – that the investment will never materialise and the domestic company has managed to secure the IP rights. What looked like an investment opportunity was just a long con.

Or, a local partner that has a monopoly in a given region or industry, demanding unacceptable concessions (and/or bribes) to secure even the most basic licence. Such is the size of China and the inability of even the Communist Party to control every aspect of every business in every town, that local government and accompanying SMEs can play the system to their advantage by setting up cartels and incorporating corruption and bribery as an everyday part of life.

President Xi's measures to transform the culture of business, rather than the state itself, are to be welcomed but this long-reaching crackdown does not absolve companies of the need to conduct their own due diligence and reach their own conclusions about the suitability, or otherwise, of the business climate. After all with so many tigers and flies, it's a jungle out there.

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