Managing International Business in China

With the rise of China in the world economy, businesses from all over the world have moved to explore business opportunities in this market. Managing international business in a transitional economy like the Chinese economy is a daunting challenge. Xiaowen Tian presents a practical guide to major managerial issues faced by foreign investors in the China market. These issues are analysed in the light of relevant theoretical models of international business, with reference to current management practices of transnational corporations operating in China. Featuring up-to-date case studies, figures, tables and coverage of new and expanded topics, this second edition can be used as a textbook for undergraduate and postgraduate programmes in international business or other management disciplines, as well as in executive training programmes.

XIAOWEN TIAN is Professor of Management in the School of Management and Governance at Murdoch University in Western Australia. He is the author of four books and has published numerous articles in journals such as the Journal of International Business Studies, the Journal of World Business and Organizational Dynamics.
Praise for the 1st Edition

‘This is a much needed textbook for all business students looking to understand the opportunities and challenges of China. Tian provides the context and insight that those doing business with China need to be successful.’

Michael Barbalas, President, American Chamber of Commerce in China, Beijing

‘This book is a remarkable achievement. It covers the most important issues faced by multinational companies in managing their business in contemporary China. The author adroitly combines illustrative materials and essential theoretical perspectives to explain the dynamics of Chinese business regimes. Students in a range of courses will benefit from its integration of different perspectives and disciplines, as well as the accessible and thorough manner. Practitioners who are interested in systematic thinking will learn a lot too.’

Laixiang Sun, Chair Professor of Chinese Business and Management, SOAS, University of London.
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SECOND EDITION

XIAOWEN TIAN
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Preface (second edition)

Since the publication of the first edition of the book in 2007, much has changed in the Chinese business environment, including the phase-out of government preferential policy on foreign direct investment, the astonishing rise of Chinese companies and their ‘go-global’ rush, and the intensified competition between Chinese companies and foreign companies in China, in the region, and in the world. One thing remains unchanged, however: China has managed to maintain its growth momentum and continue to be the most attractive place for investors from all over the world. The demand for practical knowledge about managing international business in the changing Chinese context has increased. Many scholars from top universities and executives from large transnational corporations approached me, asking whether I might update the book. I did not make up my mind until June 2014 when Paula Parish from Cambridge University Press wrote to me about possible publication of the second edition of the book.

I wrote a revision plan. Paula sent the revision plan, for comments, to a dozen professors who used the book as a textbook. The comments and suggestions from these professors were very helpful and encouraging. The second edition of the book is based on these comments and suggestions. I sincerely thank all the professors who made comments and suggestions on the revision plan. The second edition differs from the first edition in several aspects. First, a new chapter, ‘Think strategically’, has been added to discuss major theories of international business and management and their relevance to China. Second, the chapter ‘Look before you leap’ has been completely rewritten to examine Chinese history, geography, economy, enterprises and political and legal system. Third, a new chapter, ‘Corporate social responsibility considerations’, has been added to discuss CSR issues and the strategies transnational corporations take to address them in China. Fourth, the chapter ‘Managing guanxi strategically’ has been removed and part of it included in the chapter ‘Negotiating with Chinese partners’. Fifth, all figures, tables and cases are updated, and an updated closing case is added at the end of each chapter.
In writing up the second edition of the book, I benefited immensely from a course that I taught for the executive MBA programme at Bond University Business School from 2008 to 2013. The course was titled Global Business Including China Study Tour. As part of the course, I led a group of Australian and European executives to visit China at least once a year. Over these years, we met and interviewed executives of transnational corporations operating in China, including Boeing, IBM, Hewlett-Packard, Nokia, General Electronics, Hyundai, Mary Kay, UBS, HSBC, ANZ, Kompass, Conductix-Wamphler, BlueScope, Covidien, Egon Zehnder, Allen Arthur Robinson, TBWA/GROUP, Sandler, Travis & Rosenberg, Vitalink, Vertex Standard, Starkey, Takahata Seiko and Singapore Suzhou Industrial Park. Moreover, we visited Chinese companies such as Lenovo, Wahaha, China International Travel Services, SkyHire, Credit CN, Strategic Solutions and China Investment and Guarantee Co. Ltd. Furthermore, we visited TNC associations such as the American Chamber of Commerce China, foreign government agencies such as Queensland Government Trade and Investment Office in Shanghai, Chinese government agencies such as the Ministry of Commerce of China and the Department of Commerce of Zhejiang Province, and special economic zones such as the Yangshan Trade Bond Zone and the Zhangjiang High Tech Park. These corporate visits and executive interviews deepened my understanding of the opportunities and challenges that executives of transnational corporations face in China, and the strategies they use to deal with these opportunities and challenges. I incorporated what I saw and heard from these corporate visits and executive interviews into chapters of the second edition of the book. I would like to thank all those who helped arrange the corporate visits and executive interviews. In particular, I would like to thank Michael Barbalas (president of the American Chamber of Commerce China), Marc Allen (vice president of Boeing), Michael Rouse (vice president of IBM Asia Pacific), William Poon (general manager of Hewlett-Packard China), Haiyan Ma (Go Blue general manager of GE Healthcare China), Michael Hussey (production manager of BlueScope China), Alan Tang (general manager of Conductix-Wamphler), Hong Qiao (general manager of Kompass) and Zhijian Zhang (commissioner of Queensland Government Trade and Investment Office in China) for hosting our corporate visits and meeting with us. I also would like to thank all the executives who attended my course for their comments on the corporate visits and executive interviews in China.
Finally, I would like to thank the editorial team of Cambridge University Press for their excellent work. In particular, I would like to thank Paula Parish for her continuing support for me in writing the book and very helpful comments on sample chapters, and Claire Wood for wonderful assistance in the publication process.

Xiaowen Tian
Preface (first edition)

China is the most populous country in the world. Following rapid economic growth and impressive improvement in people’s living standards in recent years, China is now widely accepted as a market with enormous potential. The Chinese market is still limited in per capita terms, but it is precisely this low income per capita that enables China to enjoy a pronounced advantage in cheap labour. Attracted by the huge market potential and the low-cost labour force, investors from all over the world are currently pouring into China to do business.

Doing business in China is not an easy task, however. For some years China has been in the process of transitioning gradually from a command economy to a market economy. This gradual transition has resulted in a complicated and uncertain business regime, which puzzles even the most knowledgeable experts on China. In addition, Chinese culture is different from cultures in other parts of the world, which can often frustrate foreign investors. For foreign investors, therefore, the main challenge is to learn how to manage business in the uncertain, unfamiliar and complicated Chinese environment. Unfortunately, there is no textbook that comprehensively addresses the managerial issues faced by foreign investors in the Chinese business environment. The aim of this book is to fill this vacuum.

The idea of writing the book occurred to me when I was a research fellow at the Centre for International Business at the University of Leeds in 2003, working on a project on transnational corporations in China. Several months later I took up a position as a lecturer at Nottingham University Business School. I decided to design a module on managing transnational corporations in China for postgraduate students in the management sciences. In preparing the module I went through numerous books, journals, newspapers and online sources, and identified a number of key managerial issues faced by almost all transnational corporations doing business in China. These issues involve a wide range of business activities, including entry mode selection, international business alliances, negotiation, production operations management, marketing management, human resource management, the protection of intellectual property rights, corporate finance management and
cross-cultural management. I addressed these issues in eleven lectures, which form the framework of this book.

In delivering the lectures, my thinking was that these managerial issues needed to be discussed in the light of the relevant theoretical frameworks and models of international business and management, with reference to the current business and management practices of transnational corporations operating in China. It was also my belief that these issues should, moreover, be discussed in the context of China’s general business environment and specific international business regimes. In consideration of the fact that international business theories and models have already been investigated in detail in many international business textbooks, I deliberately paid great attention to the experiences of transnational corporations in managing business in the business environment as it actually exists in China. As a result, I used a large number of real-world cases to illustrate the points I wanted to make throughout the lectures. I found it very rewarding to move along this line of thinking: the number of students registered in the module increased from forty-one in 2003 to 124 in 2006! I would like to take this opportunity to thank all the students who participated in the lectures and seminar discussions and made helpful comments and suggestions.

Encouraged by positive feedback from the students, I decided to draft book chapters and contact publishers. The responses from several publishers were very encouraging, in particular from Cambridge University Press, where editors Chris Harrison, Katy Plowright, Lynn Dunlop and Paula Parish showed great interest in the book, and sent three sample chapters to experts in the field for review. The review reports were very helpful; without the encouragement from the Cambridge University Press editors and the constructive comments from the anonymous referees the book would not exist in its current form. I would like to take this opportunity to thank Chris Harrison, Katy Plowright, Lynn Dunlop and Paula Parish for their excellent editorial guidance, and the three anonymous referees for their helpful comments. I would also like to thank Mike Richardson, Phyllis van Reenen and Alison Powell for their brilliant work in copy-editing, indexing and producing the book. Finally, I would like to express my gratitude to Michael Barbalas, president of the American Chamber of Commerce in China, who kindly read through the manuscript and made valuable comments and helpful suggestions.

This book can be used as a textbook for postgraduate students in international business or any management disciplines with an area focus on Asia-Pacific business, and as a textbook for the short training programmes that
are offered to executives who are assigned to China operations. In addition, this book can serve as a major reference book for any foreigners doing business in China, or any university academics doing research into transnational corporations there. I will feel greatly rewarded if this book is of assistance to its readers.

Xiaowen Tian