

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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Contents

	<i>List of figures</i>	<i>page</i> ix
	<i>List of tables</i>	x
	<i>Management focuses</i>	xi
	<i>Preface (second edition)</i>	xiii
	<i>Preface (first edition)</i>	xvii
1	Introduction	1
	The rise of China in the world economy	1
	Development of international business in China	4
	Learning to become a successful TNC manager	11
	The structure of the book	16
	Summary	19
	Closing case: General Motors in China	20
	Further reading	23
	Questions for discussion	23
2	Think strategically	24
	Trading with China	24
	Investing in China	33
	Managing in China	38
	Summary	48
	Closing case: Coca-Cola's China strategy	50
	Further reading	53
	Questions for discussion	53
3	Look before you leap	54
	History and geography	54
	Economy and enterprises	62
	Political and legal systems	75
	Summary	84
	Closing case: Lenovo on the world stage	85
	Further reading	87
	Questions for discussion	88

4	Select an entry mode	89
	Introduction	89
	Entry modes in China	94
	The pros and cons of major entry modes	102
	A combination of entry modes: a solution?	108
	Summary	109
	Closing case: Carlsberg's expansion in China	110
	Further reading	112
	Questions for discussion	113
5	Form an international alliance	114
	International business alliances in China	114
	Partner selection	119
	Control over alliances	125
	Conflict management	133
	Summary	139
	Closing case: Danone–Wahaha joint venture ended in divorce	140
	Further reading	142
	Questions for discussion	143
6	Protect intellectual property rights	144
	Rampant infringement of IPR in China	144
	China's IPR regime	147
	Shortcomings in China's IPR regime	151
	Tips for IPR protection in China	158
	Summary	164
	Closing case: Microsoft's battle against piracy in China	165
	Further reading	167
	Questions for discussion	167
7	Negotiating with Chinese partners	169
	Introduction	169
	The cultural roots of the Chinese negotiation style	172
	Characteristics of the Chinese negotiation style	186
	Tips for negotiating with Chinese partners	193
	Summary	204
	Closing case: The University of Nottingham setting up the first foreign campus in China	205

	Further reading	208
	Questions for discussion	208
8	Marketing management	210
	The Levitt debate	210
	People	214
	Product	216
	Price	220
	Promotion	224
	Place (distribution)	231
	Summary	234
	Closing case: Wal-Mart's bumpy journey in China	236
	Further reading	238
	Questions for discussion	238
9	Production operations management	240
	The siting of manufacturing facilities	240
	The choice of location	245
	Supply chain management	251
	The localization of research and development	255
	Summary	263
	Closing case: Fonterra caught in scandal in China	264
	Further reading	267
	Questions for discussion	267
10	Human resource management	269
	Staffing	269
	Retaining Chinese employees	279
	Managing expatriates	288
	Summary	295
	Closing case: The experience of a foreign recruiting firm in China	296
	Further reading	298
	Questions for discussion	298
11	Corporate finance issues	300
	Taxation	300
	Banking services	307
	The securities market	314
	Accounting	318

	Summary	324
	Closing case: Acquisition of listed companies in China	325
	Further reading	328
	Questions for discussion	328
12	Corporate social responsibility considerations	330
	Major CSR issues in China	331
	Theoretical perspectives on CSR	337
	Opportunities and options for TNCs	342
	Summary	350
	Closing case: Google's decision to withdraw from mainland China	351
	Further reading	353
	Questions for discussion	353
	<i>References</i>	355
	<i>Index</i>	363

Figures

1.1	Share of China in world GDP (1820–2008)	<i>page</i> 2
1.2	GDP growth in China (1952–2013)	4
1.3	Foreign trade in China (1950–2013)	5
1.4	Composition of foreign trade in China (1980–2013)	5
1.5	Foreign trading partners of China (2013)	6
1.6	Foreign direct investment in China (1979–2013)	8
1.7	Country of origin of FDI in China in 2013	9
1.8	Change in entry modes of FDI in China (1992–2013)	10
3.1	Administrative hierarchy	76
3.2	Division of power in Chinese central government	77
4.1	Hierarchical classification of entry modes in China	92
4.2	Growth of foreign investment and exporting in China (1985–2013)	95
4.3	Foreign direct and indirect investment in China (1979–2013)	97
4.4	Composition of FDI in China (1992–2013)	98
4.5	Joint ventures in China (1992–2013)	98
4.6	Composition of foreign indirect investment in China (1992–2004)	100
6.1	Judicial enforcement procedure	149
7.1	The Taoist <i>yin-yang</i> principle	178
7.2	Chinese pictographic language	179
8.1	Distribution channels of transnational corporations	232
10.1	Top reasons to leave a job in China	280
10.2	The most important aspects of company culture for managers in mainland China (%)	287
11.1	Official exchange rate between yuan and US dollar (1981–2013)	310
12.1	The Materiality Principle matrix	347

Tables

1.1	Industry distribution of FDI in China (1978–2013)	<i>page</i> 11
1.2	Regional distribution of pledged and realized FDI in China (1979–2013)	13
3.1	Ethnic groups in China as of 2013	59
3.2	Chinese provinces, autonomous regions, municipalities and special administrative regions	61
3.3	Origin of Chinese foreign affiliates (up to 2013)	68
4.1	Official Chinese classification of foreign investment	96
6.1	Administrative IPR enforcement authorities and their responsibilities	150
9.1	Factors influencing the decision on the siting of manufacturing facilities	244

Management focuses

1.1	Definitions of transnational corporations and foreign direct investment	<i>page 6</i>
1.2	Cost reduction through experience curve economies and location economies	14
2.1	China and the WTO	32
2.2	The capability-based view of TNCs	38
3.1	China International Travel Service	65
3.2	Excerpts from the Guidance Catalogue of Industries with Foreign Investment	73
3.3	China's anti-corruption campaign	82
4.1	Super 8 Hotels (China)	101
4.2	Accor's entry into China	107
5.1	The alliance between Kodak and Lucky Film	117
5.2	Strategic alliance between AB Volvo Group and DongFeng Motor Group	126
5.3	Control arrangements in Shanghai Foxboro Co. Ltd	131
5.4	Two approaches to conflict resolution: BorgWarner and Volkswagen	135
6.1	The Agreement on Trade-Related Aspects of Intellectual Property Rights	146
6.2	Toyota's lawsuit	152
6.3	Silk Alley in Beijing	155
6.4	Anti-counterfeiting at Procter & Gamble	161
7.1	Examples of Chinese stratagems	176
7.2	The debate on the ethics of <i>guanxi</i>	184
7.3	Negotiating with China: General Motors and Ford	197
7.4	Sino-Singaporean Suzhou Industrial Park	199
7.5	The experience of a Canadian negotiator	201
8.1	Economies of scale and economies of scope	212
8.2	Direct selling in China	225
8.3	Covidien China	233
9.1	The location choice of Seagram	250

9.2	Supply localization in Volkswagen	253
9.3	The R & D centre of Procter & Gamble in China	259
10.1	The story of Wilson Wang	274
10.2	In-house training at McKinsey (China)	285
10.3	The story of an American expatriate	289
11.1	The reformed Chinese taxation system	301
11.2	The tax cost of merger and acquisition	305
11.3	China's foreign exchange rate reform	311
11.4	The repatriation of profits from China	313
11.5	The Lucent Technologies bribery case	323
12.1	Apple caught in environmental pollution allegations	332
12.2	Diagnostic Products Corporation caught for bribery in China	335
12.3	InterContinental Hotels Group	340

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