Doing Business in China

How Australian companies make their decisions when entering the Chinese market

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Doing Business in China:
How Australian companies make their decisions when entering the Chinese market

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Executive Summary

This report describes and analyses the experiences of Australian businesses which have established operations or conduct business in China, both successfully and unsuccessfully. The information was collected over the period from August to November in 2007. It involved interviews with 43 respondents from 40 different Australian businesses across both manufacturing and service industries. The project was motivated by the increasing significance of China to Australia's economy (such as the demand for Australian iron and coal exports and the transfer of much of Australia's manufacturing operations there) and its extraordinary growth and development over the past 10 years. Using the contemporary modes of international expansion as a framework, the research considered companies which had entered China through Wholly Owned Foreign Enterprises (WOFEs), Joint Ventures, exporting and other forms such as licensing and agents. Most of the participants had located their operations in China in the eastern region, including Shanghai, Beijing, Guanzhou, Shenzhen and Tianjin.

One of the major findings of this project was that the key motivations for internationalisation into China were growth and market development opportunities. Secondary motivations included cutting costs, following the industry into China or following suppliers, customers or clients. One surprising discovery was that only a minority of the participants entered China based on a strategic plan, as most reacted to opportunities presented through associates, networks or customers. There did not appear to be any relationship between the use of strategy and success (although many of the organisations which did not use a strategic plan for their entry to China, did not monitor the success of the operations carefully), however, it is suggested that such ventures should be planned using appropriate strategic management planning processes and taking into account the resources and organisational design needed.

Location choices were driven by proximity to major cities which were seen as providing large local markets, strong regional economies and more flexible administration. Alternatively, location choices were also driven by proximity to other companies in the industry, such as customers or suppliers.

One important finding is the frequency that cultural gaps have been identified by participants. They emphasised the impact of the differences in cultural norms between their organisations and the local staff that they employed. This suggests that a greater understanding of Chinese cultural norms, particularly those relating to language, communication and relationship building, would reduce the lead times and costs associated with establishing local Chinese operations.

The respondents indicated that their entry modes were frequently affected by the local policies and regulations that they experienced, as well as by the support they received from the Australian and Chinese Government. The Chinese legal system was identified as a (small) barrier to conducting business in China, particularly in relation to understanding law, pursuing legal cases and intellectual property protection (which was weak compared to developed countries). Archaic and complex finance/banking rules and regulations were considered to be small operational issues, which were still worthy of consideration when planning the establishment of a business in China. These regulations principally impacted upon the ease of banking procedures and repatriating funds from China. Possibly because the perceived risk made it difficult for companies with inadequate internal resources to gain internationalisation capital externally, most of the participants had used internal equity resources to fund their Chinese subsidiary establishment.

The publicly listed participants generally utilised transparent business proposals for their international business subsidiary plans, whilst the other participants generally did not anticipate all the costs associated establishing business in China. In particular, participants noted the importance of using due diligence for both acquisition targets or joint venture partners as some Chinese organisations carried surprising financial burdens.

The impact of the currently negotiated Australia–China Free Trade Agreement was perceived by the participants as being neutral or negative, although the impact of China's accession to the World Trade Organisation was considered to have created an improved business environment. In particular, improvements to profit repatriation, improvements in legal conditions, relaxation in FDI investment regulations and the reduction of tariffs were positive features. The current operational issues identified by the participants related to human resource management, such as appropriate recruitment and selection of skilled local staff and the difficulty in retaining them. Most of the participants attempted to limit their use of expatriate staff, preferring Chinese nationals with Western experience or knowledge.

The key implications for business, government and future research identified in this project were:

- Businesses need to create strategic plans considering both the macro environment of China and then micro-environmental conditions in the region under consideration. Factors to be noted include the importance of infrastructure to the business, the role of local suppliers, networks and local customers and cash flow projections. Businesses need to develop contingency and exit plans to ensure a successful market entry.
- Australian Federal government support and encouragement is important for Australian businesses investing in China and should be continued. Government funding and incentives could be provided to help businesses improve their strategic planning for China. It is suggested that the portfolio of services provided by the various international trade support organisations be reviewed to reduce overlap and avoid confusion about their roles.

Many further benefits could be derived from an extension of this research. One of the most fruitful areas for future research in this area would be observing and developing strategic planning process for internationalising into China with particular attention to local environmental conditions, partner matching and subsidiary performance assessment. A second important research project would examine the current operations management issues in Chinese subsidiaries in China, with particular emphasis on human resource issues, technology management, leadership and communication. This project would identify frameworks for subsidiary management under various entry modes and environmental conditions.

Scope exists for an improved understanding of the key drivers of successful Australian businesses in China, which will improve the performance and success rate of Australian company investment in China in the future. Some of this knowledge exists in isolation, however, it must be developed and operationalised so that it can be utilised by all Australian companies considering business opportunities in China.

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Jane is a lecturer in International Business in the Deakin Business School at Deakin University. She has been a lecturer in human resource management at Victoria University, and has taught there in International Management, Human Resource Management and Organisation Change and Development.

Jane was awarded her PhD at Monash University in 2005. Her PhD focused on the participation of women in international assignments in multinational enterprises. Jane co-authored a ‘selected paper’ presentation at the International Human Resource Management Conference, Cairns (2005). Jane has published her work at both national and international conferences, and has received media attention for her research and studies in Australia. Jane’s current research projects are on the issues of repatriation, and the entry mode decisions that Australian businesses make when they enter the Chinese market place. Jane is also interested in internationalisation, generally from a research, practical and consulting perspective. She can be contacted on 0403 157 242 or jane.menzies@deakin.edu.au.

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Dr Mona Chung has an impressive career in cross-cultural business internationally and has in-depth experience working with organisations establishing operations in China. Dr Chung specialises in cross-cultural strategic planning, management and marketing practice for international organisations. Her specific expertise is to short circuit processes and produce results that increase efficiency by between 30 per cent and 50 per cent. Her major contribution in the area of foreign direct investment (FDI) into China is by identifying and overcoming cultural differences as the major obstacles in operations. Her PhD focused on this topic and provided cross-cultural management implications. Her book “Shanghaied: Why Foster’s could not survive China” is due to be published this year. Dr Chung is frequently engaged as a guest speaker at public forums and tertiary institutions. Dr Chung is an author of an extensive list of publications in the area of cross-cultural business studies. Dr Chung teaches in international business, management and marketing. She can be contacted on 0414 271 678 or mchung@deakin.edu.au.

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Professor Orr is the director of the Master of Commerce at Deakin University, previously having directed Deakin's MBA, which is one of the largest MBAs in Australia. He was also the President of one of Australia's fastest-growing large membership associations and the chair of an independent industry research network. He sits on several advisory boards.

Professor Orr has previously worked for other Australian universities and operated a management consulting firm. He is a regular international visitor at universities, such as the universities of Hong Kong, Cambridge and Munich.

Professor Orr's area of teaching and research is strategic and international management. He has been awarded 16 research grants for both Australian and international research projects. He has published extensively in international peer-reviewed journals, as well as magazines, industry reports and teaching texts.
He is also a regular presenter at international conferences.

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1. Background to the Study

As a major emerging market, China offers many companies great potential in their future growth (Economist 2007). China now accounts for 33.79% of the world's crude steel output and 46.6% of the world's pig iron output (Hua 2007). Consequently, as a major minerals supplier, Australia's current mineral boom is largely built on this Chinese demand (Kirk 2004). Australian companies have been pursuing the Chinese market with other international MNCs for over two decades, since Deng Xiao Ping's "Open Door" policy in 1978 (Tian 1986). The result of this pursuit, however, has been inconsistent. In order to gain further insights of how Australian companies have been, and are conducting their business in China, a project was set up with the support from Deakin University. This project was counter-supported by ACBC (Australia China Business Council), Victoria branch.

Australian–Chinese business relationships are important to Australia. China has had a consistent double digit economic growth for the past five years since 2003 (Department of Foreign Affairs and Trade (DFAT) 2008a). Economic growth is forecasted to drop to 9.7 per cent in 2008, due to a weaker outlook for net exports, and to drop to 9 per cent in 2009 (Economic Intelligence Unit 2008). Australian organisations have been actively participating in Chinese related activities. However, little is known about how they internationalise to China, and hence developing a decision model that shows how Australian businesses internationalise to China is worthwhile.

This report provides the findings of the research project on Australian organisations' entry strategies into China. The aim of the report was to present the findings of the project which provides insights to how Australian firms make decisions when entering the Chinese market place, and the impacts on those decisions. Forty Australian businesses with current business activities in China participated in the research. For the research senior executives, directors, managers and consultants who were familiar with their international business activities in China, were interviewed.

This report compiles the findings of this research project. In order to illustrate these factors and their impact, a model was developed that a business could consider when developing strategies to enter the Chinese market. In this model a range of factors which impact on organisations' decisions making processes were identified. Based on the result of the analysis, recommendations are made for companies in their future activities to assist with positive outcomes.

2. Why is China Important for Australia?

China's GDP growth has been consistently around 10% for the past five years (Austrade 2007). The rapid economic growth of China is expected to continue until at least 2011 (DFAT 2006a), and China's growth has been the single largest contributor to global growth over the past five years (DFAT 2007). China is now Australia's largest trading partner (DFAT 2005), and its importance to the Australian economy has grown with China's increasing economic, political and strategic weight in the Asia–Pacific region and global economy (DFAT 2007). In 2006, Australian investment in China amounted to $3 billion, making it Australia's 21st largest destination and China has approved approximately 5000 investments (DFAT 2008b).

By April 2006, 3245 Australian companies were exporting to China (DFAT 2007) in regards to trade. Major areas of opportunity include mining and energy, agribusiness, manufacturing, construction, technology, management, consultancy (for the Olympic Games), regional development, and financial, legal, education, engineering and architectural services (DFAT 2007). Major exports from Australia to China include iron ore, wool, copper ores and coal (DFAT 2006b). Australia's major services exports to China were education and related travel and personal travel, excluding education (for example Chinese visitors to Australia). Australia represents China's seventh principal import source in 2006 (DFAT 2006b). There are approximately 1000 Australian exporters entering the Chinese market each year (Austrade 2007), and there are about 400 Australian businesses operating in China, engaged in manufacturing, property, business services, finance, insurance, education, mineral exploration and information services (ACBC 2007).

To recognise this significance, Australia and China began negotiations for a free trade agreement (FTA) in 2005 (DFAT 2007). The FTA aims to further facilitate Australian exporters and businesses in gaining further and smoother access to this market. Hence, studies of Australia–China's business development is of significant importance to Australia as a whole.

3. The Study

The study was conducted from August 2007 until December 2007. Initially the support of the Australia China Business Council (ACBC) was gained by approaching The Hon Jim Short, who then approached ACBC's board, who gave their approval for completion of the project. The board gave the researchers approval in contacting ACBC members to ask for their involvement in the study. Invitations were emailed to Victorian members. Non-respondents were followed up with phone calls to encourage participation. In addition, research team members' personal contacts were also used in selecting companies who are not members of ACBC. The snowballing method of interview participant recruitment was also used, where interviewees were asked whether they could identify potential interviewees from other companies, who they thought would be suitable to participate in the study.

Once individuals had agreed to participate in the study, the aims and background of the study were explained, and confidentiality and anonymity was assured. A time was then made to conduct the interview. Interviews mainly took place at the interviewees' offices. Interviews lasted approximately an hour on average. Interviews were in the main tape recorded and transcribed by a professional transcriber. One participant wished not to have their interviews taped, and instead copious notes were taken. A total of 43 interviews were conducted in 40 Australian Companies.

4. The Sample

Basic characteristics of the sample, including industry, entry mode and location are provided in Appendix 1[1]. The sample consisted of firms mainly in the manufacturing industry (10 out of 40). Other industries investigated in the study were business and property services (5), building, construction and engineering (4), education (4), agriculture, forestry and fishing (3), and government, administration and defence (3). The remainder of the firms were scattered across various industries such as finance and insurance, accommodation, restaurants and cafes, mining, legal, publishing, information technology and medical.

A variety of entry modes are represented in the sample and some firms are engaged in multiple modes. The modes represented in the study include being project/client based (9), and some with representative offices. Other modes included joint ventures (9), using agents to source customers, Wholly Owned Foreign Entity (WOFE) (9), others had a representative office (1), agency agreements and partnerships (3), supplier relationships (2), others did exporting (2), or provided exporting assistance (1), a memorandum of understanding (MOU) (1), and a strategic alliance (partnership) (1).

The popular areas for location included Shanghai (23), Beijing (15), Guangzhou (10), Shenzhen (5), and Tianjin (4). Various other locations are specified in Appendix 1. Additional choices to location are further investigated in Section 5.3.

1 Only basic characteristics were provided to protect the anonymity and confidentiality of the participants.

5. The Key Findings

The following represents the responses of the participants categorised under key headings identified using a thematic (emergent issue) analysis. The level of knowledge of the participants of all the issues addressed in the research varied and was usually weakest in areas where developments were recent, such as the FTA negotiations between Australia and China. The findings presented in this section faithfully portray the views of the participants as they were expressed to the researchers[2]. Section Recommendations presents a qualified view of these observations which includes allowance for their relative importance and accuracy.

5.1. What Motivated Firms to go to China?

Firms were motivated to go to China for a variety of reasons. Some key reasons included the size of China's market, China's need for Western technologies, marketing related reasons such as: having an international presence, a diminishing Australian market, growth of Chinese market (especially the growing number of new middle-class consumers and their increasing wealth), lack of competition in China, and business growth opportunities. Other reasons were that companies were "pushed" into China because they had existing relationships or customers, or suppliers had moved to China. Firms were also interested in reducing operational costs and some decided to go to China because of China's popularity. Government departments and government-funded bodies were also driven to China because of its increasingly important international economic position, and its growth and market potential.

5.1.1. Growth Opportunities

Growth opportunities were a major driver for Australian companies to enter China. This was especially important for firms where the Australian market was diminishing for them. After 30 years of China's open door policy, it has demonstrated to international companies its stability and suitability as an investment destination. A manufacturer commented that they did not want to invest in China until they knew that China's economy was stable, and growing as predicted:

> *Yes, that took a while to filter through. What drove it was when they finally started managing their economy sensibly and growth started to happen in China … until the economy actually developed to have steam, no one was interested in investing there. But by the time we got to the early '90s, it was evident that that was genuinely happening. The only question was, was it sustainable? No idea the answer to that.*

Others saw huge potential in China's market, but noted that its market was not fully developed yet. As an association in the agriculture industry stated, China's market for the products they promoted was still in a development stage. For example, the consumption of their products for Chinese nationals is 23 kilos per year, and in Australia the average consumption is about 100 kilos per person per year. The world average consumption is 90 kilos per person, suggesting that there is potential for growth in the Chinese market for these products. Growth was also seen in many areas such as building and construction, food, tourism, education, transportation, and manufacturing. Growth had often come about because Chinese consumers increased wealth, and because of their taste for Western products.

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2 Some verbatim quotes/examples are altered throughout the text to maintain the anonymity of respondents.

Other companies commented on the limited market place and population in Australia, and they wanted to focus on China because of the huge population difference; *"So again, we go back to the two primary drivers: our customer base and growth opportunities"*. A finance and insurance organisation considered China to be large, but for the finance industry, China is still not yet fully open to Australian/Western organisations. Although rapid business growth for these firms may be restricted until further policy changes, they still need to be seen "being there" even if it is just a representative office; *"But I think there was always a view that China was somewhere that was obviously big, obviously growing, and we would keep a rep office in place … just to be there"*. This suggests that when policy changes, their knowledge and understanding of the market will assist them in setting up further operations.

5.1.2. Strategic Reasons

Apart from growth potential, other participants mentioned that locating their WOFE in China was part of an *"offensive–defensive strategy"* used if their business in Australia was to dry up. For example, as car manufacturing in Australia may cease as a result of decreased tariff protection, China was seen as the next big location for car manufacturing in the world:

> *In our industry, in the automotive industry, where we looked at where the global growth was going to take place, it's nearly all in the Asia–Pacific Region, and of that in the next few years it's nearly all in China. That, coupled with the fact that we are under extreme pressure in this market with reducing volumes of cars being built, significant pressure on costs, and the threat from the Asia–Pacific competitors to our business, we felt that a defensive strategy (or an offensive–defence strategy if you like) was best to get up to China, get our own position in the market there, and if we then need to bring products out from China we are actually bringing it from our organisation in China and not outsourcing business to another supplier. So for us it was taking advantage of the growth, but also protecting our business here in Australia.*

5.1.3. External Influence and Pressure

A large range of external influence and pressure has served the reasons for companies to move to China. A labour intensive industry such as retail apparel was "pushed" to move their manufacturing basis from Europe to China, because of lower production costs. This trend was also prominent in the car manufacturing industry. This allowed firms to be more competitive as they were able to reduce costs, and their industry was global. This trend or pressure has increased because their suppliers had also moved into China.

An agricultural association commented on how the global industry for the products they are involved in, is positioning itself in China so that they will be ready to exploit the large potential of the Chinese market when it comes to fruition. According to the association, China is also emerging as a primary product producer and that is pushing Australia to position itself more strategically, in regard to China.

> *It's the whole industry's position. We are definitely only following the exporters, but we are also doing our own research and we know that it's a huge market potential there – a lot of opportunities there. So the whole industry agrees that China has got great potential. And now, Chinese are actually the third-largest producers (sic), but in the past few years Australian exporters have realised that, and they have actually moved to high-end products, the more value-added products which China can not produce themselves.*

A finance and insurance firm was motivated to go China, because their business tends to follow natural trade flows:

> *In the end commerce tends to follow more natural business flows and to that extent national borders are an interesting, but not necessarily a compelling business issue and so you know we look at connectivity between Australia and New Zealand and the rest of the world. What is happening now, clearly China is effectively our number one trading country to date, now that wasn't always so, but it was always a significant trading partner, it's just become a very dominant trading partner.*

Lower labour costs were one of the factors that have driven manufacturing sectors to China. For instance a manufacturer of automotive components stated:

> *Wages, they play an important role, but I don't know to what great percentage it plays an important role. Like if we take an average hourly rate for an operator in Australia, it's something like about $15–$18. An average employee in China would be paid $8–$10 RMB, which is $1.50. So it makes a big difference. It's a big difference in the cost.*

The trend of going to China was not isolated to the private sector. Local government departments and government-funded bodies were also seeking links and relationships, sometimes to assist Australian businesses in their own operations. This was sometimes pursued through city sister relationships.

> *Both NSW and Victoria had established sister state relationships. Back in 1980, the then Lord Mayor I think had visited China and felt that we needed to do something and connect with them. There was a relationship between the Port of Tianjin and the Port of Melbourne through some collaboration or cooperation. And it was on the basis of that that the Foreign Affairs Ministry of China suggested that Tianjin would be an appropriate city.*

Even on a very basic level the geographical location can be a simple reason for Australian companies' market exploiting exercise. Some just see China simply as a very popular place to be because other players are there.

5.1.4. Technology

Exploiting technologies that have been developed in Australia was another reason for Australian businesses to go to China. A producer of timber cutting machinery believed that China was a suitable place to use the technology that he developed as highlighted in the following point:

> *I thought China was a good place because I think there is a great need for our technology there and I think they'll like it and understand it, and of course it's a big market so that has appealed to me.*

In summary, the key reasons why businesses went to China was: opportunities for business growth, the economy was perceived to be stable, market development or potential to sell their products, limited market in Australia (because of population), invitation by the government, movement of their industry to China, because their suppliers were cost-cutting, offensive and defensive strategy to remain viable in a global market, strategic objectives to be a global firm or international presence, and ability to invest in China as a result of it being open to foreign investment.

5.2. Planning Processes Used to Enter China

Business publications suggest that businesses should use a formal, rational planning process to expand to international market places. It was found that this was not always the case for business investigated in this study. A number of investigated firms used an "ad hoc" approach when entering the Chinese market. It was explained that this happened because opportunities presented themselves to the business (either from a client, or by colleagues or associates that had business and contacts in China). This type of activity was entrepreneurial. Twelve of the organisations stated that their colleagues, associates or clients led them to China. This also indicates to us that there was little or no research done for a complex market such as China. As the following quote points out:

> *No we didn't have a formal, rational plan. It was pretty much, we talked amongst ourselves here and said that this could be an opportunity. We didn't try and research it like that. We knew that they'd be needing a lot of oxygen and nitrogen and those sorts of things if their industries were growing the way they were reported to be growing, we didn't have to research that. Given that is the case they should require storing of gas and they're going to have transport from one place to another from where it's produced to where it needs to be stored so it can be used in an industrial process. That didn't need to be researched. We didn't know the magnitude of the competition that might be on the ground in China, we just guessed that. I don't know that it could have been researched. I suppose you could have researched these things possibly in China at the time but that looked a far more complicated exercise to us than just jumping in an having a go at it.*

A building and construction firm suggested similarly:

> *It came about with one of our clients that we worked for in Australia. One of our international clients had a project in China that they asked us if we could help them with. So that was in the mid-'90s. So '93 we did some design work for them on their new investment, a new facility that they were setting up.*

Previous research in the area suggests that it is common for business service providers (i.e. taxation advisory, accounting and management consulting) to follow their clients to foreign locations (Czinkota & Ronkainen, 2006), usually to provide the same services to their clients that they did in their home country.

Approximately 18 out of 40 organisations indicated that they had developed some form of a strategic plan to enter to China. Although because of the uncertainty of the Chinese market, some firms preferred not to plan. For example, a firm in the building and construction industry said they did not have a formal business plan, rather just some rough ideas about what they wanted to achieve in China:

> *I wouldn't say we have a business plan, but we have like a series of maybe half a dozen dot points that are our mission in China or what we're trying to do. That's been a good approach for us in the last 12–18 months, because every three months something changes and the dot points kind of become a bit irrelevant after a while. I think that's probably why we haven't gone and prepared a 30-page business plan about everything we need to do when something will happen in three months and you have to change your whole direction.*

Certainly there was no shortage of companies who identified having "no strategies". Therefore, it was a trial and error approach that had led organisations in their activities:

> *I think it's fair to say we didn't have a strategy. We went in tactically, we basically … we were invited in by a business partner on the basis that they were looking for experts in large systems for banks. For several years we worked via that particular partner in China.*

Others suggested that they had existing relationships with the Chinese, and that facilitated them to get their business up and running:

> *So I guess that's how it evolved. But it really came out of the relationship that existed between what the company wanted … and then the ambitions of our companies. Our business had already moved down the logistics space, and a similar business in China wanted to go there, albeit it quite a few years behind in pursuing that.*

Despite some firms saying that they did not create firm plans for their business operations in China, other talked about the need to have formal plans, for either organisational funding and support or capital-raising exercises. For instance, a legal firm talked about the development of a clear business plan that needed to be given to the board of directors, with an explanation of time frames. This was especially important in regard to how long a venture may take to setup:

> *I think a very clear strategic plan – a business plan that they stick to, rather than just going up there and talking to everybody in an optimistic way and everything they hear is optimistic and they come back and they put a good spin on everything for a board of directors – it probably needs to be a bit more realistic about what's achievable. And the timeframe, often I think boards of directors don't understand or are not properly briefed to understand that really. There might not be a return on investment for five years and that's quite a long time in Australian business.*

It is recognised however by some firms that formal planning and research should have been included before starting up an enterprise in China:

> *So obviously you need a strategy. You've got to have a strategy, you've got to have a plan, you've got to have milestones. I want to know the market that we're going to be working in by this date. I want to know who will potentially be our customers by that date. I want to know who will be our suppliers to help us make our product by that date. I want to know who we're going to buy our raw materials from by that date. I want to know what the government due diligence is or the legal, the set up, the registration, insurance – all those things by that date. So, have a corporate business plan supported by a corporate marketing plan, to support a corporate manufacturing plan. If you don't do it in that order … then I believe you will fail.*

In summary it was not investigated whether this lack of strategic planning and research affected the performance of the ventures in China, however, it is suggested that it is important for firms to conduct research and plan their venture, taking into account due diligence processes, even though their plans may change.

5.3. Locational Choices in China

The most frequent locations that the participants chose were major cities, close to their industry, customers or suppliers. Other choices included locating in special economic zones, or areas that had good quality infrastructure.

5.3.1. Major Cities and Proximity to Growth Areas, Industry, Customers and Suppliers

Businesses initially chose locations where there was a high degree of growth and development going on. This was mainly around major cities such as Shanghai, Beijing, and Guangzhou. A producer of steel products indicated they located where there was a large volume of economic development occurring. This included areas such as Beijing, for the 2008 Beijing Olympics, Tianjin, Shanghai and Guangzhou. A building and construction firm noted that most of their projects were in locations such as Tianjin, Beijing and Harbin, and therefore they wanted to have a representative office that had the potential of serving all of those areas. They also wanted to locate in areas where their clients wanted to build.

Large cities also provide the living requirements such as supplies and lifestyle more so than smaller cities. A construction firm talked about having a representative office in Shanghai, because that is where the Managing Director wanted to locate his family. This would allow his wife to have access to a Western lifestyle in Shanghai, and his children to attend international schools. A law firm chose Shanghai, because they believed that was the commercial centre of China and hence where they wanted to be.

Other findings indicated that locating near industry, customers and suppliers were also important. For instance a manufacturer chose Suzhou, because they perceived it to be the biggest industrial area in China, and the industries they wanted to focus on were located there. A retailer who used contract manufacturing said that their suppliers were located in Guangzhou, and that therefore influenced where they went. An automotive components producer stated they chose Ningbo because that was where their customers were located, and another automotive components producer stated they wanted to be in a location where other suppliers were not, so:

> *When we went to China in early 2005, we did a very rapid funnelling of business development opportunities there. There are more than a hundred vehicle manufacturers. We have four here in Australia if you include Mitsubishi. And very quickly we realised that the opportunities for us were probably not going to be in Shanghai or Beijing where a lot of Western companies already existed.*

Therefore, they choose an area where they perceived that competition was low.

Other firms choose locations based on cost. For instance, an IT manufacturer chose Chengdu for their office because they believed that rent was not as expensive as Shanghai or Beijing, but was still in the middle of Shanghai, Beijing and Tianjin, so that they were still able to service those areas.

5.3.2. Special Economic Zones

Firms also choose special economic zones (SEZs), because of the government incentives located in these areas. For example, a firm in the building and construction industry received tax breaks out of locating in Shenzhen.

The People's Republic of China (PRC or China) is the world's third largest country, and has 9.6 million square kilometres of land (Ernst & Young, 2006). It was expected that firms would locate in SEZs because of the incentives and privileges given to foreign investors in those areas. Privileges include reduced corporate income tax rates, tax holidays, lower land use fees and simplified entry and exit (Ernst & Young, 2006).

Table 2: Special Economic Zones in China

Special Economic Zones	Pudong New Area, Suzhou Industrial Park, Shenzhen (including Shekou), Zhuhai, Shantou in Guangdong Province, Xiamen in Fujian Province and Hainan Province, Beihai, Dalian, Fuzhou, Guangzhou, Lianyungang, Nantong, Ningbo, Qingdao, Qinhuangdao, Shanghai, Tianjin, Wenzhou, Yantai and Zhanjiang. The coastal open economic zones are located in Liaodong Peninsula, Shandong Peninsula, Changjiang and Pearl River deltas, and southern Fujian, including Zhangzhou and Quanzhou delta areas.

Source: Ernst and Young Global Limited (2006), "Doing Business in China", Ernst and Young, Hong Kong.

The following is an interesting example of the locational decisions made by a manufacturer of automotive components:

> *Inside China, we compare province to province. So why did we pick Dalian versus Tianjin, Nanjing, Guangzhou? Why Dalian? Dalian was narrowed down to 3. We had Suzhou, Tianjin and Dalian. And of those three, you could have picked any one of them and it would have met all our criteria. But when you get down the specifics in China, it's new and the provinces can influence businesses. Dalian is a new generation area. So when we went up there 5 years ago, the first thing I noticed is yes, I met a communist party member who was the figurehead, but straight behind that is a new generation: young managers. The director is in her 50s and well educated in the UK. She has surrounded herself with young talent. So to me this looked very positive.*

Hence, the business chose the area for the new generation of talent that they could get, those who do not reflect an "old style" work ethic, but had a Western commercial sense of doing business.

5.3.3. Infrastructure and Quality of Partners

Participants also mentioned the impact of infrastructure, and which they would consider when making their choice about which location to go to. They chose to locate where infrastructure levels were good. A resources company talked about the extra shipping costs associated with choosing ports that were further away, i.e. choosing a port that was north that took an extra three days to get to, which increased transportation costs for the firm, but they perceived the infrastructure surrounding it to be better quality.

A university believed that location was not important, as they sought to locate based on where their partners were. They choose partners on quality, reputation, and the quality of the students they can recruit from those universities. One university preferred provincial areas, because they found that the markets of Beijing, Shanghai and Guangzhou were already saturated, and they had better market development opportunities in provincial areas. Similar to the university, a biotech firm chose locations based on the hospitals that they would like to target, and hence chose Chongqing because of the size of the hospital there.

Therefore, in summary the main reasons that influence businesses to locate in particular areas were growth and development opportunities, to be close to industry, customers, and suppliers, businesses wanted to locate where the cost was lower, and universities based on the quality of partners and their students targeted and not location. Other firms were interested in the government incentives provided in SEZs and other intangible benefits, such as having access to "new generation" workers and talent. Final reasons were locating in commercial centres, and infrastructure reasons.

5.4. The Impact of Cultural Differences

Understanding culture is an important issue for Australian businesses in China, because of the pervasive impact that it has on business operations and success. Culture can be defined "as the collective programming of the mind which distinguishes the members of one human group from another. … Culture, in this sense, includes values; and 'systems of values' are a core element of culture (Hofstede 1984, p. 21)". Furthermore, culture comprises values and attitudes, social structure, religion, language and communication (Fisher, Hughes, Griffin & Pustay 2006). In the main, participants in the study perceived culture to be important.

5.4.1. Culture as One of the Most Important Elements

Cultural difference is a major issue for Australian businesses doing business with Chinese. *"The issue takes everybody by surprise"*.

China is a complex market, much more than the Australian market due to its history, and the impacts of it's political, legal and economic systems. Coming from the perspective of Australian businesses, the cultural differences between the two countries are vast, so that the Chinese culture can be referred to as an "alien culture" (Chung & Smith 2007). As indicated in the sections below, many of its fundamental structures are very different and without the understanding of these differences, companies are only going to "stumble in the dark", not knowing how business is conducted. The following service company stated how they see culture as the "core" of doing business in China, as culture impacts on all business elements and fundamentals:

> *Controlling factors? Probably, you'll laugh at me, but I actually think the cultural issues are the biggest controlling factors of all. The cultural understandings of the way to do business are actually the most dominant of all because they are inherent within any business relationship. All of the other things like legal or accounting and all that sort of stuff, they are just imposed, and they are part of a process you follow.*

A government-funded agent believes that Australian businesses do not pay enough attention to the culture factor at all:

> *When you are dealing with China, I don't think there is as much attention placed on those things (cultural issues) as there should be. In an Australian business context, you will find a lot of Australian trading companies and others who might think they understand a bit of the language, but they don't really go out of their way to understand some of the deeper issues. I think there is a lot more that needs to be done about that.*

The result of not addressing the cultural issue means some fail badly and some find it hard to make an in-road into the market place. For example, one company who attempted opening a pizza shop in Shanghai failed because they did not understand the cultural preferences of Chinese consumers and their taste preferences, in addition they also chose the wrong location and food hall for their business. The firm ended up losing approximately A$2 million from 14 private investors in Victoria. Prior research, a better understanding of Chinese consumers, and a more thought-out locale would have prevented this failure.

A manufacturing firm investigated in this study decided to engage a cultural consultant, to try to improve their business practice. This decision ensured that they were able to continue their pursuit of the Chinese market, and the consultant in this situation was able to act as an interface. In response to the cultural consultant's advice, they are now pursuing a WOFE in Shanghai.

> *The role that cultural differences play is huge. I think it's a "misunderstanding issue". One of the problems, (and I always keep trying to highlight some of these things when we have these presentations, but we tend to look at things from our eyes), is the way we think and the way the business is done there, without putting ourselves on the other side. And it's difficult to do that because it's different cultures.*

This suggests that companies take an ethnocentric view to their operations in China that is the tendency to look at the world, from the perspective of one's own culture, and without fully understanding business in China, from a cultural perspective. Ethnocentricity may blur people's views about the ways in which people act and behave, and unless people can put themselves into the shoes of their Chinese counterparts, they may not quite understand why people act and behave in the ways they do.

Although sometimes cultural differences may seem to be a minor issue, nonetheless, companies need to deal with it, or adapt their business conduct, as the following example points out:

> *Obviously the advent of emails have (sic) made things easier, but then there is a cultural difference. Particularly, Chinese officials sometimes prefer to fax. Emails aren't responded to as immediately as they are here.*

5.4.2. Language and Communication Issues

Some firms mentioned the importance of having Chinese language capability of their own, using a translator, or business translator, while others suggested that for what they were doing there it did not matter, as the following quote highlights:

> *When I worked in our Shanghai branch, all of our customers were foreigners, as in non-Chinese. All of our business was in foreign currency. So the need for us as a business was for our staff to be able to speak English – not for me to speak Chinese, because none of our customers were Chinese. But today, the same bank, same branch, there is a stronger need to speak the local language, because we are starting to deal with more Chinese customers.*

Others commented on the "lost in translation" experiences they had:

> *Because a lot of the people we deal with can speak English but it's not their first language and therefore, some things get lost in translation. And then there are groups of people where they don't speak English but they're the senior people we have to interact with. So we have to have everything translated to even engage and have a conversation about some very simple things. And you can think you are actually on the same page and you're not.*

5.4.3. Relationship Building, Cultural Acceptance of Products and Other Issues

An engineering firm commented on relationship building exercises they needed to go through to win business with Chinese buyers:

> *It can affect the way you do business. Although you're selling the same product in the same industry, you might have to … do the business with these people whose contingent on firstly establishing a rapport/relationship with them. No one walks in and says "this is my product" and walks out with a purchase order. And, the cultural differences that exist in various parts of China can impact on how you go about establishing those relationships or the sorts of things you would do to build relationships, some things will work better in other areas than others.*

Some suggested that the culture had impacted on the acceptance of their Western food product: *"you have to understand that this product is not part of the traditional Chinese cuisine and is not in their dietary habits. So it's building up the consumption in the past ten years".* In general, other participants talked about issues around corruption, the different cultural expectations in business dealings, different standards that Chinese businesses used which related to quality and safety which they believed was influenced by culture. Others commented on the knowledge-shortage of Chinese workers, which meant that firms needed to go to great lengths to find skilled workers, who had the knowledge levels required to perform their jobs. To assist with cultural issues firms commented they used local Chinese staff, often with experiences from Western work or education. One respondent commented on the learning that Australian executives now have of the cultural environment:

> *I think there has been a dramatic change. I think there was virtually no understanding in the mid-1980s of cultural factors, and there is still insensitivity to some extent. But there has been a big improvement by Australian business executives. I think they understand that patience is necessary, the relationship is important, although you've mentioned obviously, mistakes are made … and also I think there has been some compromise on the other side, that they don't expect so strongly that everything will be perfect. I can't think of any deals which have been lost because of Australian executives in the last five years misreading the whole situation.*

5.4.4. Expert Assistance is a Must

As indicated previously in Section 5.2, Australian companies are not doing nearly enough homework preparation for entering the market on a strategic level. If culture is being recognised as a fundamental element and the most difficult element in doing business with China, (especially recognising the difficulty in understanding the topic), expert assistance is essential. An Australian service provider commented on his process for working out cultural differences between Australia and China, and his model on how to understand Chinese culture: *"so you've got to work out a) what's different? b) why it's different? c) what are you going to do about it, if anything, and have that conversation in two languages".*

Failing in doing so may see Australians jeopardise their business when in China.

> *I just think our understanding of some of these nitty gritty detail things is a risk for us, in terms of assuming we can put in a logistics model and then finding out later you can't use the labour or you can't do the work.*

Some companies however do recognise the importance of culture and indeed have advised others to pay a great deal of attention to this issue.

> *(Cultural factor) very, very important topic … I would say to anyone who is intending on doing business in China, to go and study the culture – at least the fundamental culture – before you go and attempt to do anything. Akin to moving into any ethnic or religious groups and not understanding what their values and cultures are, you would bring yourself undone very, very quickly. Ignorance is no excuse. You're expected to understand a fair part of their culture before you deal with them.*

Not wanting to seek advice or assistance is a common Australian cultural trait, reflecting high levels of independence: *"I think that … Australians in the majority individual companies like to do it themselves. Hate paying consultants …".* While this may be seen as a positive element of the Australian culture, at times, especially when dealing with the Chinese market, this may be a major impediment. The 'gung-ho' attitude may cause irreparable damage when dealing with Chinese organisations.

A consulting firm who specialises in assisting Australian companies to deal with China reconfirms what the others recognise and stresses again that it would be impossible for Australian companies to ignore the cultural issue. In fact, they recommend that a key person should be put in charge in order to coordinate and to bring the two cultures together, which has not been practiced by many companies. It is recommended that to bring the two together is the key to cross-cultural differences.

> *You are dealing with China, so you must follow Chinese culture. Otherwise, there is no way into China. So a very important point is you should have one company and one person to coordinate and merge those cultures (Chinese and Australian) together.*

It is further stressed that companies who do not manage well in reducing the gap between the two cultures will continue to suffer losses.

> *So very important for some Australian consulting company to do such a job (reduce the difference). Then I think (sic) will reduce Australian company complain, reduce Australian company lost money (sic).*

It is emphasised, that in dealing with the Chinese and Chinese organisations, overcoming cultural differences are essential. It is also recommended that firms adopt an approach that is more cost effective by engaging consultants with expertise in dealing with Chinese.

5.5. The Influence of Political Factors

The Chinese political structure is represented in its governmental levels and structures. Understanding of such fundamentals is essential to the first step of doing business in China. At the highest level, there is the State Council. Its role is to formulate central policies which are based on the Communist Party's ideology and principles (State Council, 2006). The purpose of the State Council's policies is not to be descriptively detailed in regulating the next legislative levels of governments, which follows the following order: the provincial and the four municipal city (Beijing, Shanghai, Guangzhou and Chongqing) governments, city, country and town/village government, it is to be directive in setting the big picture. At each level of the government, policies and rules are set according to the circumstance and situation of each area under the general direction of the State Council (State Council 2006). It is therefore always the policies of the local government that is the final operation ruling. This indeed means that policies of different local government may vary. Further governments also have the autonomy to adjust the policies when they see necessary. This structure is difficult for Australian organisations to comprehend because of the fundamental difference between Australia's structure and the Chinese structure.

5.5.1. Influence of Policies, Regulations, Assistance or Restrictions

It was first perceived that politics would influence entry modes, that is, regulations and rules imposed by the Chinese Government would influence the type of entry mode that a business was able to choose. It was also expected that perceptions of political risk would also influence entry modes. That is businesses would perceive the environment to be risky or unstable and therefore they would seek to reduce their resource commitments, and choose less risky entry modes. It was found that rules and regulations imposed by the Chinese government did influence entry mode. For example:

> *If not for all of the universities in China, and mainly because of all the regulatory restrictions, there is only so much that foreigners can do on their own. So in that regard, we are restricted to using representatives over there who have got licenses issued by the Chinese government.*

It was perceived that political risk would also influence entry modes because of the need to reduce risk, but only a few firms believed that political risk was an issue for them, other firms did not mention it. For a University who mentioned it, they stated that:' *"I suppose there is a lot of risk involved, particularly where you are so vulnerable to the decisions of the government".*

It was found that other's dimensions of politics had an impact on business operation. Firms commented on the transition and fluidity of the Chinese government, which meant that they needed to constantly be up to date with changes, and responding to those:

> *The government in China, at the moment, is extremely fluid – very fluid. Because international pressure is demanding that they have a structure that can deal with foreign investment, and foreign demand.*

Similarly, a building and construction firm stated that they wished they had a greater understanding of the relationships that existed between politicians and cities in China before they went, so as to "not step on anyone's toes", or cause problems because of a lack of understanding.

5.5.2. Chinese Government Assistance

Participants also talked about the assistance provided by the Chinese government. One firm suggested that it made it easier for them to setup their venture, with the assistance of the Tianjin City Council. An agricultural association also commented on the assistance provided by the Chinese government in assisting them with developing the market place. Hence it was important for the association to work with the Chinese government in developing a market for their products by way of educational programs in schools, and other promotional programs:

> *If they (Chinese) have a project, especially if it's in an area that needs developing, the local governments want to attract foreign businesses and things like that. You've got a good chance of getting good support from the government.*

5.5.3. Australian Government Assistance

Assistance provided by the Australian Government was also seen as important. Participants commented on Austrade's role in sending business their way, and having the Ambassador of the Australian Embassy to make introductions, which was perceived to be helpful by these businesses. One finance and insurance organisation commented on the City of Melbourne–Tianjin relationship, and the fact that Melbourne's Mayor was Chinese, and so was Tianjin's, which was helpful for them to identify a partner, and assisted them with other issues relating to business operation. On the other hand a university talked about the confusing support that various Australian government departments provided to universities, and how they were confused as to whom to go to when seeking marketing support in China.

> *There is great confusion between what AEI does, what IDP does, what Austrade does, and to some extent these state government business offices. They are all out there doing their own thing. We have been talking about this for ages, and the Australian government just can't get its act together on this.*

This suggests that the Australian government needs to better manage how it will offer support and services to the university sector so that it is not confusing, or duplicating the services they provide. This is not an isolated situation. The former Austrade chief, Ralph Evans has dismissed the state-run overseas offices as "collectively a substantial waste of money" (Lyons & Fraser 2008).

5.5.4. Government Intervention in Business

A major theme that ran throughout a majority of the interviews was the role of the Chinese government in business and their intervention in the market place. For instance, a publishing company, who licensed a state-owned publisher to publish their books, noted how the content of their books had to be approved by the Ministry of Propaganda for publishing. Where their views were contrary to the Chinese governments, these needed to be adjusted and brought in line with the ministry perspective of the issue. This level of intervention was perceived to be higher in comparison to business conduct to Australia. A mining firm mentioned the intervention of government in pricing and negotiation of resources, which sometimes caused them to get a bad deal in negotiations. An automotive company, who supplies components to car companies in China, commented on the high level of control and involvement the government has in businesses they were involved in China:

> *So much of China's infrastructure and industry is state owned … So for us, ABC Automobile – our main customer, is state owned – mainly by the Province, but also by the local government, but ultimately they are answerable through to the state. And in the hierarchy, in the Western world, the guy who is the CEO of General Motors is king. But when you go to Wu Hu, the guy who is the CEO and chairman of ABC Automobile is actually the number 2 or 3 or 4 in the hierarchy. The local mayor is actually his boss. Then the local Communist Party chairman is actually his boss … and the role of government is far greater there than it is here – certainly in the areas where we've looked to invest.*

5.6. The Impact of the Legal System

In order to have a successful business environment, it is important to have a legal system that works, enforces property rights, and has a reliable procedure to review and make decisions on cases. The Economic Analytical Unit (2005) argues that China's legal system has been reported to be "puzzling", and that members of the Communist party will interfere with court decisions. The Organisation for Economic Cooperation and Development (OECD) (2003) reports that for China to have a transparent legal system they need to have one that is stable, internally consistent and in an understandable form for foreign investors.

5.6.1. Understanding the Chinese Legal System

It was apparent that some firms learn about the Chinese legal system over time, which cannot be said to be the most effective and efficient way. For example, an automotive supplier company stated:

> *If you want to work with your Western lawyers in China, that doesn't work. If you want to work with a Shanghai lawyer setting up a business in the provinces, that sort of works, but rules are different wherever you go. So you have to find the balance of understanding the local rules and regulations and building the right relationships with the people that control those, versus the Western rule of law that we're used to.*

A transport and logistics organisation commented on the incompleteness of the Chinese legal system:

> *… and on how the system operates, how the government and regulatory system operates. But there isn't this well-defined set of laws like we have in Australia, where can look up to the last dot what you're allowed to do and what you can't do.*

A finance and insurance firm commented on the transitionary nature of the Chinese legal system, the rules were constantly changing, and also the lack of legal structure in place, for Western financial services, such as mortgages and personal/home mortgages to occur. The organisation also suggested that because there was a lack of a robust legal systems, similar to what is in Australia, meant that their decision making was limited. To obtain legal advice a manufacturer suggested that it was good to have a Chinese lawyer who is bi-cultural who can explain the problem. He mentioned:

> *The Chinese legal system is completely different to ours. They don't run a common law system. If you're a lawyer I guess you could spend a lot of time coming to terms with what it all means, but I'm not … I don't have the time or the information to start burrowing into the Chinese legal system. What you really need is the same as it is here, you need to have a good lawyer that you can utilise but you've to be able to have someone who can speak in his language and explain the problem, explain what you want to get out of it, how you want to get out of it, and what you want to get out of it.*

A government body commented on the loopholes they utilised to setup their office in China. They said that because only consulates or embassies were allowed to have offices in China, they had to work out another way to setup their representative office. Hence, they registered themselves as a corporation in Australia, and then created a representative office in China.

A university commented on how they thought that the legal system in China was ambiguous, and believed that it was created like this to confuse foreign investors. They suggested that each law was open to interpretation, and any person could interpret it as they wanted, suggesting inequity and ambiguity in the system. They also suggested that they would not want to end up in a court of law, because they did not trust the outcomes that would come out of a court, and hence preferred to sort out their issues based on relationships.

One interesting point was made by a legal firm, who said that the regulations in China meant that they could never be seen as a Chinese law firm and that they are restricted in what they can do by virtue of being a foreign firm. The rules meant that the company cannot sign off on Chinese law, and are not allowed to employee Chinese lawyers. This was seen as an impediment to their business, but they could still provide advice. They believe that if the FTA between Australia and China is passed, a change to these rules will form part of this. According to the General Agreement on Trade in Services (GATS), the "national treatment" principle suggests that foreign service providers should be treated the same as domestic service providers (World Trade Organization, 2008). Since China is a member of the WTO and a signatory to GATS, it is not observing this principle in this situation. In essence, they impose their sovereign right to restrict trade, where they see fit in the industries they choose. It should be noted that the respondent of the law firm thought that despite the FTA to be in the tenth round of negotiations, he believed it would never get created or passed.

A representative from a finance and insurance organisation, commented on how the law in China regulated how much ownership they were allowed to have, which was 20 per cent, hence impacting their entry mode. Others suggested that the legal system in China was *"a minefield"*, or *"full of red tape and bureaucracy"*.

5.6.2. Unenforceability of Contracts and Distrust in using the Legal System

An IT firm made comment on the legal system, which put them off pursuing any type of legal issue through the court system:

> *The laws in China are written very different to here … The real difference is that any decision of any court, within any jurisdiction in China can be reinterpreted by the executive, the top standing committee, the very top level of the communist party. A court in Guangdong somewhere can make a decision and then it can just be overturned by Beijing.*

An exporter mentioned similar comments:

> *That makes sense but the point is in China it's unenforceable, so you're wasting your time. At the end of the day if the relationship goes wrong, I question whether a legal document prepared by a Collins street lawyer in Chinese, is going to rectify the problem. So is it not better to, shall we say, back off the legal side and prepare a gentleman's response.*

On the other hand a manufacturer of automotive components told a positive story about the Chinese legal system:

> *But in saying that, you hear good news too. You hear the system now is catching up. A citizen now does have a say. Smaller companies do have a say. The government is definitely clamping down on corrupt businesses, and companies now have had their businesses shut down, and in some cases repossessed by the government. I think they're making a genuine attempt to do that. But again, you hear stories the other way. But generally speaking, I think they are trying to clean it up. But it is very political on a broad scale, I think they're making good progress.*

5.6.3. Firms Preferred to Rely on Relationships, not Contracts

A manufacturer said that they tried not to rely too much on contracts that were created, because of the weak ability to pursue legal matters through the court or arbitration system, but relied more on relationships that underpinned those contracts. A business consultancy firm also reflected on the non-payment of services, and believed that if someone did not pay them for their work, then they would not trust the legal system to pursue their case. So to cover themselves, they would ensure that the client would pay half the fee up front, which covered their costs, just in case the client was not going to pay.

A manufacturer suggested that for small minor things, such as purchase orders, they would use local lawyers who are well connected to sort matters out. Where as for standard processes, where the firm wanted to be consistent, they would use representatives of their Australian legal team in Shanghai, to do the work. This often meant that legal processes needed to be understood, and then translated into Mandarin. The company stated that for merger and acquisition processes they would use their Australian legal team.

Another manufacturer stated that it was very difficult to do due diligence in China, because:

> *1) financial information is not available; 2) if it is, it's all in Chinese and probably in line with different laws that you are not familiar with; 3) things change so quickly, whatever financial data you're looking at is quite considerably out of date; and 4) you can try and protect yourselves as much as possible by writing up lots and lots of detailed contracts, but ultimately you've got to have a relationship.*

A company in the manufacturing/retail trade area commented on how they preferred not to use legal contracts with suppliers, but used an order-based system, and had supplier partnerships where relationships were developed, as they believed that using contracts would "scare the living daylights" out of their suppliers.

5.6.4. Use a Local Legal Service

China's legal system is different to Australia's, because it is a civil code system in comparison to the common law system used in Australia. Chinese civil code is underpinned by Soviet principles (Linong, 2006). Court judgements are difficult to enforce because property rights regulations are still being developed, and there are a lack of enforcement procedures. The Economic Analytical Unit (EAU) (2005) suggests that firms doing business in China prefer not to use court systems and use the arbitration system instead. It is perceived that this system is improving and used. The arbitration court used for Foreign–Chinese arbitrations is called the China International Economic Trade Corporation (CIETC). Some firms commented on the legal advice that they used for their China operations.

A business and consulting firm suggested that it was important to have a local law firm in China to represent their interests, as they believed they had a better knowledge of Chinese law than foreign firms did. A business in the transport and logistics area, also commented on the need to use local lawyers, and how they had to find a local legal representative in the city they were locating in, to assist them with the due process of their joint venture set up, and for operational reasons. They also suggested that it was better to use a local lawyer, because they perceived that their Australian lawyers in Australia and in China could not give them proper advice on legal matters in China.

It is suggested that is important to have legal representatives in China who know the law, and will act in your interests. Given the findings of the section we recommend that business place more trust on the Chinese legal system, that they can use arbitration courts to pursue cases, rather than writing off altogether the use of it.

5.7. Intellectual Property Issues

China's accession to the World Trade Organisation (WTO) in 2001 meant that it needed to strengthen its legal system and amend its intellectual property law to agree with the WTO's agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) (Economic Analytical Unit 2005). Despite this, piracy and counterfeit rates in China in 2003 were still high at 92 per cent (Economic Analytical Unit 2005), indicating a lack of protection for intellectual property (IP). Given this it was expected that firms would be concerned about their IP in China and everything in their power would be done to protect their designs, products or IP.

The investigated firms commented on IP rights. The first comment, was from a building and construction firm who did architectural design work, stated that if they got ripped off with a design, they probably would not pursue it though the legal system because of the lack of trust in it. They did have an instance where a partner ripped them off, and instead of pursuing the case they chose in the future not to work with them again.

A majority of firms mentioned that IP issues did not affect their business. For example a firm in the mining industry, said that they had nothing to copy, and therefore were not worried by IP issues. A manufacturer said that it would be easy for competitors to steal their designs for their product, but said that part of their competitive advantage, was their quality, and the way they manufactured their goods, which would be difficult for (Chinese) competitors to replicate. Similarly, a firm providing business consultancy services in marketing said that there was potential for software to be copied, but did not think that it was really an issue, especially because they could not control it. They suggested they would charge enough in the first instance to recoup their costs if their IP was stolen. The investigated agricultural association suggested that IP was not a problem for them because of the nature of their business.

A manufacturer of automotive components suggested that China's accession to the World Trade Organisation (WTO) in 2001 meant that China should theoretically follow IP laws, and therefore they were not too concerned. But they did note that they did not want to reproduce one of their patented products in China because they were concerned about having their IP stolen.

A legal firm with an office in China suggested that everyone's fear of IP theft was an overreaction, as the following quote by this individual indicates:

> *It's an overreaction to say you can't do business with China because they don't enforce intellectual property. And we actually recovered a debt in China through the court system for a client recently, so that was quite an interesting step forward. I must check up whether we've actually collected the money, but the main thing is, at least the court gave an order that the Chinese party had to pay over money to the foreign party.*

Alternatively, a company in the IT industry said that they had software-copying protection built into the product, which protected their IP being stolen. Given this, our recommendation for businesses considering entry into China, is to do an analysis of their business and/or products to determine the ability for its IP to be stolen. Where potential is high, we suggest high levels of protection through alternative ways of production. For example, a company who invented surfboard locks decided to split the process up into three sections to source production from three different manufacturers to ensure that their IP could not be stolen by one contract manufacturer (ABC, 2008).

5.8. The Impact of Financial Factors

The financial system may also have an important influence on business conduct from the perspective of having an effective financial system that appropriately controls fiscal measures so that the business and economic environment is stable. The impact and perception of China's financial system was investigated in this study, and key areas that interviewees commented on included the impact of the exchange rate, confusing rules and regulations around sending money and banking procedures, dealing with an archaic banking system, and repatriation of profits issues.

5.8.1. Exchange Rate, Positive and Negative.

It is expected in international business activities that exchange rate fluctuations will have an impact on profit margins, and whether a company is exposed to transaction or translation exposure. The Chinese RMB/Yuan utilises a fixed exchange rate system, where its currency was originally pegged to the US dollar, and is now pegged to a "basket" of hard currencies (Tian 2006). The Australian dollar has moved considerably in the past year, as a result of the current resources boom, and other impacts, from 0.72 USD on 12 March 2007 to 0.95 USD on 14 March 2008[3]. The Australian dollar had reached its all time high in 24 years on 21 May 2008, at 0.956 USD[4]. Due to China's trading history and relations with the US, the majority of import and export contracts are negotiated in US dollars (Tian 2006). Although both Australia and the US have trade deficits with China, the exchange rate impacts more on US trade rather than Australian trade. The US government has continually pressured the Chinese government to re-value its currency in order to ease its own trade imbalance (Tian 2006). That is, a more expensive RMB/Yuan would see Chinese exports also become more expensive. Nine firms in the study commented on the impacts of exchange rate either fluctuating or the system moving to a flexible exchange rate. One of the major issues facing these businesses was impact of the Chinese government floating the RMB. A commentator suggested that:

> *Exchange. The sprinting of the RMB, or the full floating of the RMB. Again, that's good and bad depending on which side you work off. It was originally at 8.26 to the US dollar and it went down to 7.6, 7.5. And likely to go down. They're still talking 6.5.*

For exporters such as universities, the increasing value of the Australian dollar has not had a positive impact. Previously tuition fees were relatively competitive against major competitor countries such as the US and UK, however as the Australian dollar appreciates, the more expensive university education in Australia becomes for Chinese nationals. One respondent from the study commented on the impact of the appreciating Australian dollar on international demand from Chinese students to come to Australia. The Chinese market has been a major market growth for the Australian

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3 *The Australian Financial Review*, (2007), 'Money and commodities', <http://www.afr.com> (viewed 9 March 2007). *The Australian Financial Review*, (2008), 'Money and commodities', <http://www.afr.com> (viewed 14 March 2008).

4 *The Age*, (2008), 'Aussie dollar hits new 24-year high', (viewed 21 May 2008). <http://news.theage.com.au/business/aussie-dollar-hits-new-24year-high-20080519-2fra.html>

education export sector in past years with an increase of 36 per cent in 2007 and an anticipated increase of 50 per cent in 2008 (Economist 2005; Simon 2007). Other exporters also commented on the possible impact of the Australian dollar:

> *If the Yuan is re-valued that might make India and Thailand more competitive. Worst case will be that the Chinese currency will be re-valued and our cost of product will increase, which may affect our competitiveness in other countries around the world with our export pricing.*

5.8.2. Confusing Rules and Regulations.

Participants also commented on the impact of the foreign investment rules and regulations in regard to sending money into the country, and how that was a cumbersome process and an impediment to them conducting business:

> *And the other thing is that when we sent the money in, for our contribution to the joint venture, there are rules around how the operation could or couldn't convert that cash as well. So there are securities and foreign investment rules and regulations that have to be navigated to even just give the money over, and what sort of bank accounts are allowed to be operated and stuff like that. So even in getting that little, what seems like a very simple thing, that is send them the money, actually isn't easy.*

A building and construction company commented on the changes they faced as laws relating to financial issues changed:

> *We have to change with the changes that they instil on you at the time. And it's just changing all the time. One minute you can send foreign currency out or send foreign currency in. The next minute you can't – it's too hard. And then there is no such thing as an Australian bank equivalent, and then there is, and you can use them, but they are limited in what they do. Then three years along, they have more capacity. Insurances change, taxes change, currency remittance laws change. You just have to keep working with it.*

5.8.3. Archaic Banking System

Respondents also commented on the archaic banking system that was still existent. They did mention however that there had been improvements. A building and construction firm talked about how they got professional advice for banking procedures in China, as the following quote is indicative of:

> *We were finding it very difficult to get our head around a lot of that stuff … Even like banking – everything is like it was before I was born. The banking systems are like they were in the 1960s still. It's very archaic technology being used. Not very up to date systems. A lot of requirement on things being stamped and signed and lodged with government agencies and things before you can do anything.*

A respondent from an engineering firm reported that there was still in existence, old communist style banks, but that there were also modern banks in existence which is reflective of the changes in China:

> *The Chinese are very, very iron-wall type of private … they're not telling the world. But you drive past many banks now and they are the Construction Bank of China and the Medical Bank of China and so on. So they are all industry focused. But look, many foreign banks are now working their way into China, and a long with it will come governance, the previous processes and security and all of those things that are common around developed countries.*

Another business commented on the old style antiquated China system:

> *It's very antiquated and it's very difficult. But it's opening up. We are starting to see ATMs in the shopping centres now. So we are seeing change but it's still very antiquated. Most of the companies that operate in China, when you pay their invoices, they don't handle finance in China. Most of their money goes through to Hong Kong or Taiwan, probably for the same reason that it's difficult for them to transact money in and out of China.*

Furthermore, another business pointed out the difficulty they faced with China's banking system:

> *They have a very poor banking system. SMEs, up until the beginning of this year, weren't allowed to take out a loan. An individual couldn't have a credit card. So again, the ability to pay for things or invest in things is tougher. It's a cash society. People don't want to declare their cash to the government, and of course, the finance system does that. It enables the government to have that system.*

5.8.4. Repatriation of Profits

Firms had also mentioned repatriation of profits type issues. For instance, a mining firm perceived that it was difficult for them to repatriate their profits, and hence preferred to reinvest their money back into projects. A business suggested that it needed to use a third-party intermediary to assist them in repatriating profits, when they believed that this third-party was not in fact required. Another company noted that they had problems with moving capital around their Chinese enterprise.

A legal firm also commented on repatriation of profits issues, and stated that previously it was the case that firms could not repatriate their profits, but now they can, and they actually provide advice on how people can:

> *More importantly, they're able to repatriate the funds these days, which used to be very, very difficult. Funds used to be trapped in China, but now you can, if you do it properly. And we give a lot of advice to the clients as to how to set themselves up so they will be able to repatriate profits down the track. And that's quite achievable now. I often have people coming to me where we haven't set it up and they say they can't repatriate, but when we sort things out for them, then they can repatriate.*

A manufacturer of automotive components stated that it was easy to pull money out of the country, as long as the rules were followed, but suggested that the amount of money pulled out would depend on how the company wanted to be perceived by the Chinese government. So if a firm repatriated most of its profits without reinvesting, it was perceived to be a short term prospect. However, if a firm re-invested its profits, then it would be seen as a long term prospect from the perspective of the Chinese government:

> *Obviously there's got to be some money that comes out but again, the government views that favourably. So you do your documents correctly and you pay your taxes accordingly and we don't have a problem. But a lot of companies do. But again, I think the difference there is you're viewed as a bit of a short term. You're there for only the short-term gain. You're pulling money out as fast as you're making every cent. Well, the government likes to see if you have a registered capital, you must have that money there. But again, I don't think it's any different to any other country. A little bit tougher because you've got to go through three departments to get money in and out, which is interesting. Even to put your dollars in you have to fill out a form.*

5.9. Financial Capacity of Firms

Having appropriate financial capability to conduct a business venture is important, as without appropriate type and amount of finance, a business venture would be difficult to conduct. The study investigated how businesses funded their projects and whether they used debt or equity finance because debt finance obviously increases the risk, and places constraints on the firm, but internal equity also has its own costs. The study found that businesses did not always anticipate all the costs of starting up their business.

5.9.1. A Majority of Preferred Companies did not use Debt Finance

We found that the main firms did not use debt finance to fund their activities in China, and preferred instead to use internal equity that paid for their ventures, as highlighted in the following quote:

> *I don't want to get involved in borrowing, even though theoretically I could pay it back, but I'd sooner share with our shareholders, that they take a risk and have debts to pay back than be restricted by banks and that.*

This suggests that borrowed money added to the risk of their business venture, and they preferred to pay for their ventures through internal equity, to decrease the risk of having to service a loan.

5.9.2. Difficulty in Raising Capital

Another respondent commented on difficulty in raising the capital for their business, for instance, as the following quote highlights:

> *Yep. It's also got limitations because we've found it hard to raise capital. We tried to raise capital here, we've done it, but gee it's been hard. So we made an announcement to the exchange about a week ago, that we will be listing our subsidiary on the Hong Kong stock exchange and that's part of the trip up to that. The share price here is $1.30 down from $5.35. People think we're an accounting company. The investors here have been very erratic. So we're going to be listing in Hong Kong and they have a different appreciation for China risk and market and the share price should be better.*

5.9.3. Used Government Funding

A respondent from a Government, Administration and Defence body stated that their venture was originally government funded, and that they had significantly increased their budget, since they originally went from $80,000 to $1.5 million dollars now. An agricultural association commented that they received their money from a taxation levy imposed on the agricultural producers they serve. They also received their money from other sources such as government grants for research and development. This then limited them on how much they could do, and then if they had more money they would do more programs.

5.9.4. Did not Anticipate Costs

A legal firm talked about the cost of setting up the business in China, and stated that it costed their firm much more money then what they thought. Hence, they suggested that firms need to think more about the costs that they would encounter, when planning out their venture.

5.9.5. Transparency of Business Proposals, and Due Diligence

An IT company who produces software, commented on how they needed to be quite transparent with their investment as they were a public company, as the following quote indicates:

> *As a publicly-listed company, we had brought in the analysts and so forth, so you've got to be mindful of the reasons and what you're doing in investments, say, tend to be relatively transparent. There are times when you wish you weren't and were a private company and able to invest as you want. But for us, we've got good financial capabilities – it's a very strong business – but we can't spend it in a silly way. The shareholders hold you accountable.*

Therefore, because their business was public, this meant that this firm needed to have a transparent business proposal that articulated clearly what they were doing with their venture, to get appropriate approvals in their company. A representative from an engineering company commented on the due diligence processes they used to acquire a factory, and whether they thought that paid the right price for the businesses they bought:

> *I hope so. Obviously we did. I think everyone who read the proposal agreed with accord. And that was, within reason it was a fair price. However, particularly with a private company, there is always suspicion. You can go and buy the bakery down the road and they will have four sets of books. Two is not enough today. You need maybe four. So you need to really understand the business that you intend to acquire. You need to understand the markets that that business is servicing. You may not be able to understand or find out who all the customers are, but (with your reconnaissance skill) then you should. In a nutshell, ignorance is no excuse. Don't tell me after we bought the business that we bought a dud.*

This comment suggests that the process of acquiring firms in China is time consuming, requires careful and serious investigation and research, which examines whether the information provided is accurate, and a true full reflection of the value and worth of the business. This respondent talked about how they felt they got slightly ripped off for their acquisition. That is, there were a number of suppliers that still needed to be paid, and that was not revealed in the due diligence process, therefore, that made the acquisition more expensive then was expected. In the future the respondent suggested that they would seek to conduct more detailed analysis of the their acquisitions then by conducting research, and asking more questions to determine if people are telling the truth around the value of the business.

In summary of this section, firms reported that they either used equity or debt finance for business ventures in China. Some firms preferred not to borrow money for their ventures because of the increased risk of borrowing money, and constraints placed on them by banks. Others found the need to raise capital to fund their venture, while others used internal equity. In public firms, business ventures needed to get board approval for their venture, and therefore needed to prepare business proposals that were transparent. Finally, another firm suggested that it was important to conduct appropriate research and due diligence on acquiring other firms in China, because of the potential to pay too much for a business venture.

5.10. The Impact of Previous International Experience

Some respondents commented on the impact of international experience on their strategies and entry modes in China, and found that it allowed them to feel more confident about their venture, as a respondent from a building and construction firm articulated:

> *Definitely. I can't say what would have happened 30 years ago but I know that if we were an Australian company who had never operated overseas, it wouldn't be the first place I'd necessarily go to, so we were able to go there because we feel very comfortable working in that part of the world. Australia now presents less than 20 per cent of our work for our business, and 80 per cent comes from overseas. Out of 2800 staff, there are only 230 in Australian offices.*

A number of firms did not have any international experience, as the following quote specifies by a finance and insurance company:

> *No, I didn't have any international – certainly no experience in China. And the first time I went there I was just gob smacked, blown away by the joint, and completely useless basically. I got lost and went to the wrong airport one time in Shanghai. It's relatively easy once you've been there to find your feet again.*

An IT business commented on the process that they used to learn about the Chinese market, because they had no experience in it, which looked like an experimental approach in entering China:

> *Well, we grew from Australia. So our first steps were pretty tentative steps. Usually a distributor agreement in those countries or cities, and then ultimately we bought out the distributor and grew from there. So we were relatively inexperienced in the early days.*

The findings therefore suggest that professional international experience is important, but may not be the failing of a venture. A lack of experience increases the learning time and the potential for people to make mistakes. The findings also suggest it is important to take a step by step approach to entering China, to minimise resource commitments first, and then increase commitments as experience and knowledge grows.

5.11. The Impact of Free Trade Negotiations between Australia and China

The impact of free trade negotiations between Australia and China were examined to gather their views on this issue. Participants noted positive, negative and neutral impacts of the free trade agreement (FTA). Quite a few participants were fairly neutral about the FTA because, although they thought that it would create opportunities for some companies, participants operating in China and servicing the Chinese market, found that it has no effect either way, as the following quotes point out:

> *… we are selling at a local price, so we need to be locally competitive in RMB, so currencies don't trade … We're not exporting.*
>
> *… we're making a product in China through a local partner, who is selling that product in China. So we don't need to deal with any of those trade issues. So then there haven't been impediments, from that perspective.*
>
> *… they need us, so maybe the tariffs, at this point, are down fairly low [without the FTA].*

One participant noted that even if the FTA was passed, China would impose other forms of non-tariff barriers that would still impede free trade with China: *" … there is no such thing as a level playing field with China. If they remove duties they will impose domestic taxes on imported products".*

One participant thought that the free trade agreement would generally be in China's best interest because of the extra trade it would create and the fact that it is a low threat to Chinese exports, in any case.

> *I think as China continues to enjoy economic and political success on a global scale, I think they'll gradually find it in their interests and not a threat to allow foreign interests to play a role. They shouldn't be worried about it because I think the general way you cut and slice it, foreign activity in China will always represent a minority of whatever goes on in China and I think by and large could play a valuable role and is part of the globalisation of trade and economics.*

Several participants suggested that the FTA should provide them with the same rights in China as a Chinese organisation would experience entering Australia, such as the employment of locally registered professionals. This was mentioned by the legal firm, who had reported that foreign lawyers do not get the same treatment as domestic lawyers. Some participants had even based their Chinese subsidiary plans on the FTA, as the following quote specifies:

> *I think that it's not going to have a massive influence on what we do, but I am very sure that the inception of this program that they are finalising now in terms of tariff reduction etc., has been pretty fundamental to why we exist.*

According to one participant, for large volume exports to China, such as resources, price agreements are negotiated by the Chinese government separately to FTAs. Therefore, the FTA had no impact for them. Others commented on the little effect that the FTA had on them: *" … getting rid of tariffs on stuff, that's sort of very much at the margin"*, or *"Australia is almost free trade now. What difference is it really going to make?"*

Small company participants suggested that the free trade agreement would be binding for them regarding prices.

> *… at the corporate level, you've got no decision to make because you're controlled and governed by the agreement between the two countries …*

Furthermore, another participant pointed out that, because China is currently acquiring large businesses in other countries, there is a fair likelihood that the FTA will be renegotiated if Chinese FDI interests prove to be predominantly in other countries. This could minimise any benefit from the FTA, as some participants suggested that Australia's track record with achieving equity in free trade agreements is poor.

> *One example of free trade agreement consequences with us was the FTA that went in with Thailand. Within two weeks we had notification that we'd lost a fairly significant contract, which was now going to be made up in Thailand.*

> *… we should have exactly the same rights, obligations, access as … we would have if they came into Australia. We think FTAs are probably the only means that we will achieve that, and it's an admission that's never been delivered to date.*

Probably the most negative view offered was the fact that opening free trade between Australia and China is likely to shift the locations of operations even further than at present.

> *If China and Australia had a free trade agreement it would place more of our business under threat here in Australia. But it may potentially enable us to export more out of China.*

An automotive components manufacturer states: *"So for us, the export is not sustainable long-term … that's why we were trying to find a manufacturing base in China."*

In conclusion, the participants were relatively neutral about the benefits of the Australia–China free trade agreement. A number of participants operating and selling in China indicated that the FTA would have no effect on them at all. Negative concerns were based around the fact that tariffs were generally low in most areas and that it was not expected that an equally equitable free trade agreement for Australia would be negotiated. One significant negative feature identified, however, was the likelihood that more Australian operations would move to China and some Australian business would be lost to Chinese organisations with the establishment of an FTA.

5.12. The Impact of China's Accession to the World Trade Organisation (WTO)

The impact of China's accession to the WTO was also examined, among participants. Positive features, negative features and neutral views were identified.

5.12.1. Positive features

In general terms, accession to the WTO was perceived by the participants to be a contributor to China's economic growth, which supported companies importing and exporting from China:

> *… joining WTO is helping their economy and it's opening up a lot of potential opportunities there …*

> *… it's just another tick in the box. I couldn't say how it has improved our business but it makes the climate better.*

... the general things around transparency that come from China now being a member of the WTO, bring the economy along to something that all of us are more used to.

One of the attractive features of China's accession for companies importing into China is the removal of heavy import trade tariffs which will also drive Chinese industry to become more competitive.

WTO means that for them, they can't import heavy trade tariffs on products imported into China, so they can't protect their own industry.

... the WTO agreement, now that has been signed and implemented, is the thing that is allowing foreign banks to compete head-to-head with local banks.

The banking system is freeing up as part of the WTO. So retail banking is now starting to come into China.

One respondent observed that China's accession to the WTO has accelerated the country's infrastructure development. Other respondents believed that the increased international trade arrangement, coupled with increased regulatory certainty when dealing with China, would increase the level of foreign direct and (possibly even) national direct investment:

Now, if those sorts of developments help clarify and simplify and bring China into the normal international trade-type of arrangement, that's good. That would be the biggest hassle. And then policy certainty or regulatory certainty in China would be the next thing.

... the better the market is for Australian industry, the more resources we will put to China. I think that was one of the catalysts for our timing to enter.

The deregulation of China's industry sectors, such as service, could also increase scales of economy in other sectors outside of China and stimulate their development as has happened within the resources industry. In addition, the greater protection for IP under WTO accession conditions was considered to be greatly positive, as the prior risk to IP ownership was high.

China has not had a great reputation or for respect for intellectual property and they now have to.

I think China has now complied with all its WTO obligations. Now, it's still got a way to go in controlling piracy of intellectual property but ...

We've got two granted patents in China already and we've got three pending ones as well.

5.12.2. Negative features

Although China accessed to the WTO in 2001, some participants noted that (non-WTO compliant) trade barrier mechanisms such as exporto-driven tax reductions were still in place, although these were being reduced. One of the major identified concerns that has not been improved by WTO accession, was funds repatriation, which the respondents hoped will be resolved over time.

... the biggest issues are currency and repatriation of funds.

... if those sorts of developments [WTO accession] help clarify and simplify and bring China into the normal international trade-type of arrangement, that's good.

Another concern identified was the continuing misuse of trademarks and industry identifications in China despite having signed WTO agreements to respect these.

> *… they don't police it in China so every little Tom, Dick and Harry is making woollen products, puts the wool mark on them – and they've got synthetics in them and … so it's very difficult.*

5.12.3. General observations

Some organisations operating in China found that the WTO accession observed that it had no visible impact upon their business in and with China.

> *I'd say from a specific practical point of view, it hasn't yet particularly changed any of our activity. We are very conscious of it, but it hasn't led to any specific change to any of our offshore programs that I'm aware of as a result of that.*

> *I haven't heard of it making an impact on us. I don't think so. We don't have any big issues in remitting funds out of China at the moment.*

> *It's not going to have any impact on us. If anything, it's going to accelerate the political system more than anything else. I think it's all pretty high macro level, rather than what we're dealing in. So I don't think it's going to have any impact at all.*

A few participants felt that economic power that China brings to the WTO may also provide an interesting balance to other member countries who are economically powerful, such as the US.

> *I think the WTO scenario is an interesting one because at the moment, people will look at that from the perspective of the impositions that the WTO places on China. I think in the next period of time, we're going to see the impact that China has on the WTO itself.*

Although China's entry to the WTO has reduced trade barriers with many countries, participants observed that when there are changes to the trade protection in countries such as the US or regions such as Europe, it has a flow-back effect on trade with countries such as Australia.

> *When changes in other markets are made to protection, whether it be in Europe or in the States, that obviously affects the whole supply. Trade in other countries will affect trade opportunities here in Australia, as well as in China.*

In conclusion of this section, the data collected indicated that overall, the positive benefits of WTO accession outweighed the negatives. The reduction to significant trade barriers in some areas of trade, the increased transparency in regulations, reduction of funds, repatriation difficulties and increase of IP recognition were seen as positive features. The negative concerns focused primarily on how successful the WTO would be in ensuring that fund repatriation and IP rights, such as trademarks, would be respected at the level necessary to eliminate the current problems in these areas.

5.13. Strategies in the Chinese Market

The strategies used by businesses in China were examined and the following are some key strategies.

5.13.1. Market Development Strategies

Some businesses focused on market development strategies for China. One particular business was focused on finding a joint venture partner to assist in this process of developing the market. It should be noted that another business investigated in this study, a manufacturer, did use a joint venture strategy and found that the minute the Chinese government changed the joint venture law to allow foreign investors to have a WOFE, they left their JV arrangement. Despite this company's preference, a joint venture partner may be able to provide knowledge and insight on how the system works, and choosing the right partner is very important, as the following quote by a manufacturer points out:

> *And then the second part of the strategy is to develop our own business. We've now got a warehouse colour-making facility and we're looking for sales staff now for our operation in Shenzhen who will start going to market and trying to develop it on a local level, at this point selling imported paint. However, we've been looking now for three years for a suitable joint venture partner … our company has got a set of criteria – return on investment and all that sort of stuff. And if it doesn't fit this model, we don't want to.*

The individual then commented on due diligence processes they used when involved in acquisitions, which suggests that buyers should beware of acquisitions that they make:

> *So the strategy is, what we want to do is now we are looking for joint ventures. Green field business in China is risky and very difficult. Manufacturing licenses, all this sort of stuff, are just so hard to get. So you need to buy a company, even if you buy the company just for the basic machinery and that, which is probably worth nothing because our machinery is state-of-the-art. But you might get for a particular province a manufacturing license, and you've got something to work with. But it's very difficult to find people who are, how can I put it? I've been involved in two lots of due diligence. What we saw from the outside and what we saw from the inside and all the palaver that … it looked great: terrific manufacturing, good location, nice this, white boards and data projectors, point of sale material. Fantastic. But when we actually went in we went, "You're kidding!". And blind Freddie could see that … It was a no-brainer. Don't touch it.*

5.13.2. Market Segmentation

Another company talked about the niche strategy they followed in China, which was to examine key market segments:

> *The big issue with China though, is its local production. My colleague can tell you better, but something like 26 million tonnes of product, maybe even higher, 26/28 million tonnes of it is produced locally in China. In contrast, Australia is only a bit over nine million. So it's close to about triple. China makes almost three times as much product from farms as Australia. And it's a very high percentage growth in local production of this product. So all the cheap stuff basically, now can be supplied locally, domestically. So there is less need for lower-value imports. Our main strategy in China is to develop higher-value products, and functional ingredients.*

5.13.3. A Focus on High Growth Areas

A manufacturer of automotive components commented on locating in areas that had high growth:

> *And we've concentrated in the manufacturing operations entirely on making sure that we have extremely capable people who know exactly what we're doing, very well maintained operations. I don't think I've ever seen, let's say, a cleaner and better organised plant in the country. But we're small. We don't really want to get very big. We'd rather stick another three of those around Asia. We've got no chance of doing another one here but we will attempt to continue the growth here. All with the same ulterior motive, if you like, of making sure we're in countries that have high growth.*

5.13.4. Criteria, Market Research and Search Processes

It was highly evident in the interviews that some businesses, not all, had a criterion for markets, areas they were going to, and business ventures they were choosing. A finance and insurance firm commented on the criteria they used when making a choice between countries, and entering a particular market. They focused on markets with high economic growth where the market is undeveloped and is developing. For their strategy to enter, they used a partnership approach, and are required to because of banking regulations in China for foreign banks. For their partner choice, they indicated that their partners needed to have a good footprint in the market, and from their partner's point of view, whether their partner believes that their company can add value. Hence, their aim was to find a partner, who had a similar strategic orientation to them, and that they could assist them with offering better retail banking products. A firm in the publishing industry talked about the extensive process they used to find a partner:

> *We started looking at the market probably in 2003. And our approach was to do some research on the market. We decided that, because of the way the Chinese publishing market works, we needed to retarget an existing publisher. So we looked at about 25 different publishers who may be interested in this sort of product, and then had quite an exhaustive partner selection process by which we sent out a bit of a quite a long letter about who we were and what we wanted to do in China. We basically said, "This is what we want to do, but we're not experts on China. You tell us if you think this makes sense from your part. You tell us if you think you might be interested in talking to us further about opportunities to publish content in Chinese". So we sent that letter to 25 publishers.*

Through this process the publisher received applications from existing publishers in China, which addressed criteria that they had specified. Criteria included items such as organisational culture, strategy and their long term orientation. Based on how well the publishers addressed the criteria, they made a decision on who they thought would be the best licensee for them to deal with. This was perceived to be a positive way on how to screen potential partners.

5.13.5. Developing Strong Agent Relationships

A university talked about having a number of key agents, who they would develop strong and close relationships with, rather than having heaps of agents that might not do their job properly, and understand their university, and so will promote the interests of their university.

5.13.6. Backward Integration

Another firm talked about the backward integration strategy they had. That is, they backwardly integrated their supply chain, by building two manufacturing plants.

5.13.7. Government Invitation

Another respondent commented about how they had no real strategy to get into China, and it was really as a result of being invited by the government:

> *Well, we basically decided to go to China because we were invited to go to China. I mean, we really didn't anticipate going to China. We always felt that part of our business agenda would be to take the brand into Asia and build the brand in emerging markets, and then from that, the developed markets would know us because they are more and more investing into emerging markets.*

5.13.8. Enter Hong Kong First

Before China was open to FDI, a popular strategy for businesses was to use Hong Kong as an entry point to China. Hong Kong played a much more important role before 1 July 1997, when Hong Kong was handed back to the People's Republic of China. Some investigated businesses in this study found it easier to start in Hong Kong rather than in China because of Hong Kong's trade importance, its Commonwealth connection, and the use of the English language. A business in the IT industry for instance, established a business in Hong Kong, which helped them with their research and understanding of China:

> *Well it gave us the opportunity to understand China a little bit more closely before we made the decision, and we have local Chinese people in Hong Kong who assisted. We did our market research prior to going in and that took us about 18 months before we built the business plan and made the decision and got the board support.*

This firm stated that it took them a lot longer to implement their plans then what they thought:

> *Yes, following the plan. It's time to do things, is what most of us tend to underestimate. You assume a certain level of capabilities and capacity, and in China it's just not there, and it just takes you longer to do things.*

In summary of this section, there were a number of various strategies that firms were pursuing in China, and included looking for market development opportunities, selecting particular segments to focus on, having a criterion when looking for businesses, areas or partners to focus on, and other strategies.

5.14. Current Issues in China: Human Resource Management Related

The current issues that businesses are facing were also investigated. It was found mainly, human resource management (HRM) issues were key areas that businesses had problems with. The areas surrounded having quality staff in China who had the skills and experience that was needed, retention and having expatriate staff that are willing and able to go on international assignment. These issues are presented in the next section.

5.14.1. Skills and Experience

Firms commented generally on getting people who are skilled:

> *Access to talent, but everyone says that.*
>
> *In the area in which we operate, there's a very tight supply of qualified and experienced labour and that over the spectrum of employees that you might have from office administrative people or sales people right through into the workshop.*
>
> *It's very hard to find qualified people. There is a real strain on skilled and qualified resources. So that's a challenge … You need the right person to lead the job, and we don't employ (guns-for-hire) in a senior position like that. Clients now, with the maturity of the Chinese market, clients now expect that the person who is leading the project, to have past China experience. You can't just throw in someone who hasn't been there before. And we also have a criteria for that person to be a long-term employee and trusted and capable.*

5.14.2. Retention Issues

A manufacturer suggested that they had the following retention problems:

> *For us it's the people. It's getting experienced, qualified people into your business, which is probably difficult enough in somewhere like Shanghai. It's aggravated by the fact you're in a more provincial area, and then retaining them in your business. So that's a lot in training, but there is not a huge amount of loyalty in businesses in China, because businesses are so young there and they will constantly chase the next job with another Western joint-venture company for a higher salary. And the competition there is getting very high. So for us, the biggest issue we've got is people. And again, if you're trying to impose all the same processes that you use here in Australia for how you employ and motivate and recruit and retain, some of them just don't work in China. People are motivated differently and you have to respect the difference in culture. And so you have to adapt and find your own ways to do that.*

This company is currently pursuing the strategy of recruiting Chinese international students from Australian universities, and then employing them in their local office for six months to a year, and then sending them back home to work in their Chinese subsidiary.

To deal with the retention problem a management consultancy firm stated:

> *It's been quite interesting because first of all, we made sure that we paid them well, that we didn't pay them at the baseline Chinese rate of two yuan a week. We could have but we chose not to. We did that for two reasons: one was that we wanted to ensure our reputation and second, we wanted to make sure that we had really good people.*

5.14.3. Choice of Staffing: Expatriates and Locals

Other companies experienced difficulties with finding Australian expatriate staff who are willing to work overseas:

> *You've got to find people that are willing to go, that are willing to cross the cultural, span the cultural issues even to go offshore. In general terms, I think in my experiences, is that Australians are overseas tourists than they are overseas livers. They're much more timid when it comes to living overseas.*

Firms also commented on their preference to use local nationals, over expatriates:

> *We had quite a deliberate strategy too of recruiting talented locals. We haven't had the sort of model that some of the Western countries adopt of flying huge plane loads of expatriates to run everything.*

When they use Chinese nationals some commented on using one with Western experience or education, but this was not always a preference as the following quote highlights:

> *Their managing director in China is a Chinese-born fella who, at a relatively young age, moved to Canada and then subsequently to the US where he became the employee of this company. Now they've put him in as managing director in China because he's Chinese but I've discussed him with our managing director who was fully Chinese and he's of the view that he's much more American than Chinese. He's lost it.*

A manufacturer commented on the weak middle management they came across in China:

> *Middle management is weak in China. Versus India – very strong, because the English language is common, well educated, and they have an ambition to be management. So it's a hierarchy again. I think that's where there's a generation gap in China. It's just missing. And during the Cultural Revolution, it just went. So you've got this age group that doesn't exist. 35–45 plus, there's not a high concentration of good management. You go under that, a lot of promising. And then you go above that, which is the 50s–65s, they're old school, old knowledge.*

Finally a finance and insurance firm commented on the state of their team in China, and how they were looking at ways to improve it:

> *Yes, well that is something that I will experience first hand poorly. We've used a recruiting agency to recruit the locals that we have at the moment. We've picked up people off local banks and other banks in that market. I'm not sure that we're totally comfortable with the current crowd we're using so we may look at that. So for me, it's been critical to make sure that I get a Chinese local as my relationship manager and a Chinese local as a trade finance specialist, who: speaks good English, but clearly is Chinese and speaks Mandarin, who knows the local marketplace and has a good network of contacts in the local market place, knows how local Chinese banks operate – what are the pitfalls, risks, opportunities. So I am looking for somebody that has got a reasonably real experience, either in a major Chinese bank or in a major international bank in China for some period of time, that can compliment my skills.*

In summary, the key current issues that businesses came across in China, were HR related, relating to being able to find people who had appropriate skills, retention issues and the choice of staff (expatriate or local).

6. Implications for Business, Government and Research

6.1. Implications for Business

The key implication from this research was that investment in China must be planned. A number of the participants did not enter the Chinese market on the basis of well-developed plans. Although some of these organisations were successful in internationalising in China with limited formal planning, internationalising without sufficient advance planning did not allow these businesses to take advantage of or protect themselves from a number of external factors. It is suggested that an emergent approach (Mintzberg 1978) be utilised for planning entry into China, to make allowance for the changes to the local environment which are a significant feature of this environment at present.

It is recommended that businesses include the following in their review of their business plans for China:

- **Consider the motivation to go to China.** Entry plans should include an analysis of what your objective is for going to China. This includes whether to take advantage of the local Chinese market in terms of: growth, seeking new market opportunities, fulfilling an international strategy (e.g. to have a footprint or flag in China), pressure to be in China because industry, suppliers or customers/clients have moved there, to be competitive globally (China having become a key market place/operations location) or simply to take advantage of low cost production and labour.
- **Decide on a range of possible market entry strategies.** There are many entry mode choices including: exporting, importing, licensing, franchising, foreign direct investment (greenfield, acquisition, merger and joint venture strategies), strategic alliances, and representative offices (providing agents and services). Influential factors will include the type of business, products, customers, impact of tariffs, FDI rules and regulations, risk tolerance, the resources available and broader economic factors such as the condition of their economy. Initially, the best choice will usually be a lower risk mode as it is unlikely that all of the issues will be identified the first time as an organisation attempts to enter China. If this is successful, more extensive plans that incorporate further investment and resource commitments can then be considered. If any form of purchase or partnership is involved, it is important to conduct due diligence on partners to ensure that this option will, in fact, provide what is expected.
- **Assess the political environment in China and political support that the Australian Government can provide.** This could include considering the political system and the impact of the one-party structure. Assistance available from the Australian government should be investigated, including examining the services provided by: Austrade (e.g. advice, assistance, business leads, and promotional grants), city offices (e.g. The City of Melbourne have used trade missions in the past to assist business people in getting acquainted with the Chinese environment, to obtain introductions and develop contacts with Chinese government and businesses (City of Melbourne 2005)) and the ACBC network (e.g. asking other members how they entered the Chinese market and the issues they faced, and gaining ongoing relational support from associates).

- **Consider which location is best for your business and develop criteria for choosing that location.** Criteria could include: the location being in a major city or commercial centre of China, close to growth areas where your industry, suppliers and customers have located, in SEZs which have attractive conditions, in an area with high quality of infrastructure, in an area with high-quality local partners, in an area with low-cost labour or alternatively high quality labour depending on your requirements. Also consider local levels of competition.
- **Be prepared for the culture gap.** Many participants identified a greater culture gap with more impact than they expected. A weakness in preparation for a culture gap directly resulted in problems with negotiations at all levels and in operational communications. Although cultural differences between Australian and Chinese operations were mainly expected and is a well known international business issue, there is a tendency to under prepare for the impact of these differences. Considerable time, expense and opportunity are lost as a result of poor cross-cultural understanding. Companies entering China need to acquire the services of a China specialist consultant to assist with planning and invest in training of company members who will operate in or with Chinese subsidiaries. A greater use of local Chinese managers with Western experience will assist with managing the culture gap in China, as well. It is also recommended to use Australian or Western individuals who have extensive experience in China.
- **Understand the legal system and Intellectual Property issues.** An upfront analysis of the legal system used in China, the rules around foreign direct investment, and the support of a local Chinese lawyer to advise on the rules and regulations of business setup in the area under consideration will circumvent legal problems later on. Although the legal system in China is relatively weak and offers lower protection than in Western countries, it is improving in areas many Western businesses will find important, such as in arbitration (which is now functioning fairly well). Local lawyers are critical as foreign lawyers have poor profiles and usually have a limited understanding of the current state of the Chinese legal system. Intellectual property protection is still weak and companies must find other methods for protecting IP (e.g. by keeping key parts of the process outside China or using alternative intellectual property in Chinese produced products). Relationships with customers, suppliers and authorities is still the most important business negotiation and protection tool in China.
- **Understand the financial system and monitor changes.** It is necessary to understand China's banking system (and the changes that are occurring), the fixed/managed exchange rate system that is used and the effect that fully floating the Chinese RMB (at present it is pegged) might have on the competitiveness of the businesses in China. It is also important to understand the rules and regulations for transferring cash into and repatriating money out of China (it may be helpful to construct a flow chart of this process).
- **Plan the type and amount of finance required.** The choice regarding the type of finance used is important, particularly debt versus equity. It is important to ensure that sufficient funding/capital is available for the entire project. Anticipate the costs of business setup over the years and conduct appropriate due diligence of potential joint venture partners or acquisition targets. Create transparent business proposals for project and board support. Budget for trips to China on a regular basis, at least 3–4 trips each year in order to build relationships and trust. Budget for gifts (these do not need to be overly expensive, but a significant number of gifts will be required for each trip) and banquet costs as they are essential in doing business with China. Do not go to China and simply enjoy the hospitality without repaying it.

- **Follow the changes that may be made as a result of the FTA.** If the changes have a negative impact on businesses in Australia currently exporting, look for FDI opportunities in China. It is most likely that, if the FTA is passed, it will have a minimal to negative effect on Australian business exports from China.
- **Understand the impact of China's accession to the WTO.** This has created opportunities for most organisations because of the improvement to the business environment, particularly in introducing a business format that is more easily recognised by Western businesses.
- **Make appropriate staffing choices.** Devise strategies for looking for appropriately skilled staff, and look at ways to retain Chinese staff. Be careful in the decision regarding the number of parent country nationals versus host country nationals. It will usually be preferable to use expatriate staff in key positions only and host country nationals with Western experience or knowledge in most other positions. Employment should be focused on the new generation of Chinese workers who offer potential.
- **Plan for a minimum of two years for market entry.** Ensure that plans ensure contingency features. Given the number of unsuccessful entries into China, an exit strategy is also highly desirable.

Incorporation of all the recommendations above should maximise the likelihood of a successful and profitable entry into China. In many cases, dealing with these issues once they have developed will be much more difficult than establishing the right mechanisms to ensure that they do not occur in the first place. The risk of the negative impact of these factors and the associated opportunity costs warrant this investment in a rapid growth environment such as China.

6.2. Implications for Government

Although this study did not specifically consider the forms of support that government should provide to Australian businesses entering China, a number of implications did arise from this study:

- Both local and federal government should continue to support and encourage Australian businesses entering China by providing funding and/or incentives for the development of Chinese strategic plans.
- The current FTA negotiations should be concluded as quickly as possible, however, should also take into account the negative impact identified which is that the FTA may force some Australian businesses to relocate their operations to China. Support for these businesses should provide funding and incentives to develop effective plans for this relocation.
- The Department of Foreign Affairs and Trade should review the services currently provided by international trade bodies operating from Australia. For instance, the trade bodies that assisted Australian universities in internationalising into China included AEI, IDP, Austrade and state government business offices. It was noted by the participants that the services of all of these bodies either overlapped or even duplicated each other. This could be made more efficient and effective if the services were better allocated across the various trade support bodies.

6.3. Implications for Research

This current project focussed on the impact for the entry mode of the numerous issues facing Australian businesses entering China. It confirmed that the issues Australian businesses face in identifying and managing the entry mode are highly complex. Whilst this research has identified the range of these issues and their broad impact, some of the issues require further and more detailed investigation. In particular, the optimisation of the strategic planning processes of companies planning and changing their internationalisation into China should be examined in greater detail. This examination would involve participation in and assessment of the planning process that these organisations adopted. Associated factors such as due diligence processes and performance assessment of Chinese business activities would also be important aspects of this research.

A number of operational factors influencing the ongoing performance of Chinese subsidiaries, including human resource issues, leadership and communication, also warrant detailed investigation. This research could be used to produce frameworks (taxonomies) for the management of these factors under various entry modes and according to various groupings of environmental conditions, which could provide a valuable basis for the management of such subsidiaries.

7. Conclusions

This research confirms the generally held understanding that establishing a business in China presents some unique challenges. Overall, establishment of a business in China proved to be attractive – in more ways than is generally expected, due to the high levels of technology and trade reforms currently underway. Most of the participants were motivated to enter China by growth opportunities: strategic drivers such as globalisation or internationalisation, external influences, such as customer or supplier entry into China and a desire to exploit technology in China. Many of the participants had not prepared strategic plans for their entry into and operations in China, and instead were chaperoned by clients, associates or business partners. With hindsight, this resulted in slower, more costly and higher opportunity cost entries than were necessary, and it is recommended that a strategic plan be prepared for operations and sales in China, as well as importation from China, considering the recommendations above.

The entry modes of most of the participants emphasised locational choices with most participants choosing to locate in major cities or growth areas, frequently where suppliers or customers were located. Special economic zones (SEZs) were also chosen. Other location factors that affected entry mode choices included local infrastructure, customer characteristics or the proximity of suitable business partners (networks being a key factor in the success of operations in China). The culture gap between Australia and China was also identified as having a major effect on establishing partnerships, contracts and in managing operations. Key cultural issues included the effect of language and communication on shared understandings, modes of relationship building and the cultural acceptance of specific products (for sales into China). Political factors also affected the entry mode, location choice and operations of Chinese subsidiaries. Political factors had both positive and negative consequences, and also varied between locations. Policies, regulations, assistance or restrictions imposed by the Chinese government significantly affected Australian business operations in China. The assistance provided by both the Australian and Chinese governments was mainly perceived as helpful by the participants, who noted Chinese government intervention in their business, was more frequent than experienced in Australia.

The legal environment was also considered to be a significant factor for both the entry mode selected and ongoing operations in China. The respondents were of the belief that contracts were unenforceable and did not rely on the legal system to pursue legal issues, finding that relationships with customers, suppliers and authorities were more effective. Intellectual property rights were a particularly important concern for which the support from the Chinese legal system was still fairly weak. An important factor for success in dealing with the Chinese legal system was the use of local Chinese advisers who generally had more influence and a better understanding of this rapidly changing feature of the environment

Another interesting feature of the current environment in China was the impact upon the price-based attractiveness of operating in China if the RMB/yuan is re-valued or floated. Currently, the value of the yuan is being held below its natural market rate, making Chinese labour and raw materials particularly attractive to Australian companies. Other countries with less artificial currency rates, however, such as Vietnam, offer labour rates that are nearly as attractive as those of China. The revaluation of the yuan would make China less attractive than other countries for some of the participants. In addition, some of the participants found the rules and regulations associated with conducting financial activities confusing, repatriation of profits sometimes difficult and the banking system inflexible and outdated.

To finance internationalisation into China, most of the participants relied on internal equity finance, rather than raising capital through debt. This led to difficulty in generating sufficient capital for some of the participants, whilst others found that they had underestimated the costs associated with establishing and operating their subsidiaries in China. Government organisations generally found that they were able to attract further government funding for internationalisation into China. It is recommended that a transparent proposal be established for the funding of internationalisation to identify these issues. Companies are advised to carefully carry out their due diligence processes. This is to ensure that any acquired Chinese businesses and partners do not introduce unanticipated problems.

As expected, some of the participants possessed previous internationalisation experience and others did not, leading them to a steep learning curve. Both groups generally considered this experience to be important, but did not perceive its absence to be a barrier to internationalisation into China. The business environment in China was found to be rapidly changing and most of the participants had an opinion regarding the current free trade agreement negotiations between Australia and China. Positive views included the fact that this would provide Australian businesses with the same rights as Chinese businesses in China. Less positive views were the fact that the FTA would not reduce tariffs further and would have little overall effect. By comparison, most respondents viewed China's accession to the WTO to be very positive. Generally, respondents felt that this would make Chinese business conditions closer to those of Western countries. Concerns continue to exist, however, regarding the difficulty of repatriation of profits.

When entering China, the respondents focused on a number of different approaches, including market development, supplying specific market segments, seeking high-growth markets, developing effective agent relationships, increasing backward integration, entering mainland China through Hong Kong subsidiaries, being invited to China by the Chinese government, developing existing, but small markets and searching for suitable partners.

This research has determined that entry mode choices for FDI in China were influenced by a range of factors, including those discussed above. Whilst a number of these factors represented impediments for entry into China, generally the conditions there were found to be quite attractive and generally improving. If the yuan appreciates in value, the attractiveness of the local market and local business conditions could be a very important factor in continuing to attract investment in China.

These findings present a number of practical implications for Australian businesses considering an investment in China, not least of which is the importance of strategic planning and the preparation and constant monitoring of the business conditions in China as they develop. Many other areas of the process of internationalising into China, such as an investigation of resources, staff and technology transfer into Chinese subsidiaries, are also worthy of investigation and would provide further useful perspectives for companies entering China.

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9. Appendix

Appendix 1: Basic characteristics of the organisations involved in the study

	Industry type	Entry mode	Location in China
1	Business and property services	Project/client-based	Beijing
2	Finance and insurance	Joint venture	Beijing, Shanghai, Tianjin and Gangzhou
3	Building construction and engineering	Joint venture	Shenhzen, Shanghai
4	Transport and logistics business	Joint venture	Shanghai, Hong Kong, Shenzhen
5	Accommodation, cafes and restaurants	Use agents to source customers	North China, southern China, Taiwan
6	Mining	Joint venture	Shanghai, Beijing and other locations
7	Manufacturing	Wholly-owned foreign entity (WOFE)	Suzhou, Guangzhou, Beijing, Tianjin
8	Manufacturing	Joint venture, now WOFE	Changzhou, Jiangsu province
9	Business and property services	Project/client-based	Hong Kong based, contracts in Shanghai
10	Government administration and defence	Representative office	Tianjin
11	Agriculture, forestry and fishing	Project/client-based	Beijing, Shanghai, Guangzhou, Hong Kong and Taiwan
12	Education	Agency agreements and partnerships	Beijing, Shanghai with agents that have a broad China reach
13	Manufacturing	Supplier relationship	Shanghai
14	Manufacturing	Joint venture	Wu Hu, Anhui province, Changsha, Hunan province
15	Agriculture, forestry and fishing	Joint venture	Kunming, Yunnan province
16	Building construction and engineering	Representative office project/ client-based	Two staffed offices in Shanghai and Beijing, two registered offices in Suzhou and Harbin with projects around China
17	Legal	Representative office, project/ client-based	Shanghai office
18	Manufacturing	WOFE	Office in Shanghai

19	Agriculture, forestry and fishing/business and property services	Project/client-based	—
20	Information technology	Project/client-based	Beijing and Shanghai
21	Business and property services/importer and exporter	Project/client-based	—
22	Manufacturing	Exporting	Shanghai
23	Publishing	Licensing venture	Shanghai
24	Building construction and engineering	WOFE/project/client-based	Offices in Hong Kong, Beijing, Guangzhou, Shenzhen, and Maccau
25	Education	Agency agreements and partnerships	Nanjing and throughout China
26	Information technology	Joint venture	Chengdu (HQ), Beijing, Shanghai, Guangzhou and Hong Kong
27	Manufacturing	Exporting	Shanghai, Shenzhen, Beijing, Guangzhou, Nanjing, Wuhan
28	Manufacturing	WOFE	Dalian
29	Transport and storage	Exporting	Shanghai
30	Agriculture, forestry and fishing	Memorandum of understanding (MOU)	Beijing
31	Medical	Strategic alliances (partnerships)	Shanghai, Guangzhou, Nanjing, Beijing, Tianjin, Xian and Zhangzhou
32	Manufacturing	Acquisition/WOFE	Shanghai and Guangzhou
33	Business and property services	WOFE	Shanghai
34	Mining	WOFE	Northern China (Baichuan), southern China
35	Finance and insurance	Joint venture/WOFE	Shanghai
36	Finance and insurance	Exporting assistance	Shenzhen, Guangzhou, Dongguan, Shanghai, Ningbo
37	Education	Agency agreements and partnerships	Beijing, Jinan, Kaifeng, Changsha, Liaoning, Huang
38	Education	Joint venture	Chengdu, Hunan, Shenyang in Liaoning Province, Kaifeng, Zhengzhou, Jinan. Tianjin, Lanzhou
39	Finance and insurance	Joint venture	Beijing, Shanghai
40	Manufacturing/retail trade	Supplier relationships	Guangzhou