
Appendix B Methodology

This appendix describes how the study was conducted. The first section outlines the methodology; the second provides a sanitized list of interviewees; the third contains a draft version of the questionnaire used as a starting point for the research; and the fourth supplies the matrix into which the results of the research were entered.

The core information presented in this study derives from extensive interviews with expatriate business professionals in China. Because of the diversity of conditions in China and the complexity of the society, Western writers attempting to understand developments there have often found it necessary to amass a broad group of views and then sift through them. Walder provides a good example of this approach in *Communist Neo-traditionalism: Work and Authority in Chinese Industry* (1986), and his description of it applies equally to the present work:

The analysis offered here is based in large part on four sources of information: government documents[,] . . . official newspaper accounts[,] . . . scholarly books and articles[,] . . . and over 500 hours of interviews. . . . The last source was by far the most important, and the number of citations does not adequately convey its overall contribution to the study. The interviews, open-ended and ethnographic in nature and at times leading into oral history, were as much a source of orientation and insight as a source of data. Many of the citations in this book are to published documents but the interviews provided the background that led me to frame the questions and structure the analysis the way I have. (xvi)

Methodology

Setting Up the Sample of Informants

Having decided to pursue a broad assessment of the Chinese marketplace and not a single-sector study, I identified a slate of industries in order to elicit a comprehensive range of important views. These included aerospace, agribusiness, automotive, chemicals, consumer goods, electronics, energy resource development, financial services, law and consulting, media, pharmaceuticals, power infrastructure development, retail, telecom, and textiles and footwear.

US firms known to have a presence in China, and preferably firms with a preexisting good relationship with the Institute for International Economics or the Council on Foreign Relations, were identified for each industry.

Invitations to participate in the study as “core companies” were then sent to the first-choice firm in each industry. If the first firm declined, letters were sent to second choices. I promised that the firm’s identity would be concealed in the study and I asked for access to senior managers with knowledge of the firm’s China activities both at home and in China and for frankness on their part. The invitations were in most cases directed to high-level officers in the companies to ensure access once the firm decided to participate.

In order to explore differences based on home country, firms from outside the United States were also asked to participate. One German firm, two Japanese firms, and one Hong Kong conglomerate joined on this basis. In the course of the research, I realized that it would be too difficult to seriously explore different experiences based on nationality. These firms were therefore treated the same as US firms.

Firms in all industries except automotive, pharmaceutical, textiles and footwear, and retail agreed to participate. The reasons given for not taking part differed; they included strong disenchantment with China (pharmaceutical), preference for a sector-specific analysis (automotive), desire for more control over the content of the study than I was willing to relinquish (textiles and footwear) and no response (retail). However, other firms that did accept included a conglomerate with units in the automotive business in China, a non-US firm involved in textiles, and many firms with considerable expertise on the retail side. The final number of core companies in the sample was 13, although several firms were conglomerates with as many as three separate units in very different sectors that participated individually.

Conducting the Research

Research began in most cases at the firms’ corporate headquarters. Usually I traveled to meet with senior home-country China directors in per-

son; in some cases discussions took place by phone. These meetings were very important in establishing a relationship of trust, thereby facilitating greater openness in China. These home-country managers participated in questioning based on a survey that evolved over time; the latest version is reproduced below.

It is important to note that while a questionnaire was used to structure the research and the interviews with informants, not all interviewees responded to all sections of the questionnaires. Because the questions ranged from corporate philanthropy to profitability to legal structure to human resource policy, very few individuals could discuss the whole slate. Rather, multiple responses from the same firm were used to compile a comprehensive picture.

I had originally hoped to include a chapter titled “Profit and Loss” but decided that the small sample could offer a suggestive conclusion at best on a quantitative matter. Furthermore, while the firms were frank about the ways in which profits could be hidden, they were in many cases less ready to provide up-to-date profit figures for their operations.

It quickly became apparent that the China professionals at the core companies knew of other valuable resources for this study. Therefore, a significant number of individuals—in other firms, private consulting, government, or media—were interviewed because of their unique, extensive, or insightful perspective on Chinese commercial conditions. In all cases they were professionals practicing in China.

Twenty-three interviews were conducted with home-country staff before undertaking research in China. These were not drawn on for the issue chapters in this study but rather were used in preparing to work with interviewees in the field in China and in refining the questionnaires. Eighty-eight interviews were held in China during the summer of 1997. Of these, 46 interviews were with those at core companies and the remaining 42 were with the individuals added; they took place in Beijing, Tianjin, Shanghai, Wuhan, the Guangzhou area, Shenzhen, and Hong Kong. This leaves important parts of China unexamined; but it does cover many of the major areas.

Processing the Information

Having completed the interviews, I then organized the information—some of it regarding predicted points reflected on the questionnaires, but much of it unanticipated—into a usable form. This was done with a matrix listing repeated themes and issues across the top and interviewees down the side, with quotes and comments filled into the grid. Under a given theme—for example, distribution—all relevant comments by interviewees could thus be compared and analyzed quickly by going down a column.

From this matrix the priorities involved with managing each of the business functions addressed were identified. These were grouped together and analyzed in the chapters, where other sources of information were also drawn on. However, the specific issues considered were only those identified by interviewees in the research.

Draft tables of the issues in each business function were circulated to all interviewees in the field, and changes and additions were made based on their comments. Furthermore, I followed up with a large number of the interviewees by phone, fax, and (thankfully) email in order to clarify or substantiate points made during the field research. This feedback was used to refine tables of priority issues to their final form. As these are the real focus of the research, a number of interviewees observed that this volume comprises not case studies of firms but rather case studies of how particular business functions are being handled.

Drafts were sent to individuals at each of the firms involved as core companies and to scholars for review. Two study groups, one in Hong Kong, one in Washington, were held to review and critique the findings.

List of Sources

1. Director of marketing, Shanghai-based distribution consultancy.
2. General manager of the China operations of a major American agribusiness conglomerate.
3. Country controller and treasurer for a major American agribusiness conglomerate.
4. CEO of the China operations of a large, diversified American conglomerate.
5. Country manager for a subsidiary of a large, diversified American conglomerate.
6. Government relations manager of a large, diversified American conglomerate.
7. General counsel and government relations manager for the medical systems subsidiary of a large diversified firm.
8. CEO of a holdings company specializing in apparel manufacturing. Based in Hong Kong, it is a Chinese family-owned business.
9. Director of the financing department of a Hong Kong-based investment bank.
10. Ambassador of a European OECD state.
11. General manager of the business development office for a large American energy and chemical company.

12. Corporate representative and regional vice president for a large American energy and chemical company.
13. Vice president of the exploration department of a large American energy and chemical company, operating out of Guangdong.
14. An attorney representing a large American energy and chemical company.
15. General manager of a diversified American chemical company.
16. Chairman of the China/Hong Kong/Taiwan operations of a large, diversified American chemical company.
17. Director of finance for a diversified American chemical company.
18. Deputy general manager of the agricultural products department of a diversified American chemical company.
19. General manager of the holding company of a diversified American chemical company.
20. Senior managing director of a Western telecommunications firm.
21. Chief executive of a Western logistics and marketing services firm.
22. President of the China operations of a diversified American technology and manufacturing conglomerate.
23. Vice president of a subsidiary of a diversified American technology and manufacturing conglomerate.
24. General manager of a subsidiary of a diversified American technology and manufacturing conglomerate.
25. President of a subsidiary of a diversified American technology and manufacturing conglomerate.
26. General manager of a subsidiary of a diversified American technology and manufacturing conglomerate.
27. Executive vice president of the Asia and Americas division of a large American communications and electronics firm.
28. Senior international counsel for a large American communications and electronics firm.
29. Director and deputy manager of China operations for a large American communications and electronics firm.
30. Assistant country controller for a large American communications and electronics firm.
31. Vice president and corporate director of logistics for a large American communications and electronics firm.

32. Managing director of a China plant for a large American communications and electronics firm.
33. General manager for a subsidiary of a large American communications and electronics firm.
34. Vice president and regional director of human resources for a large American communications and electronics firm.
35. Vice president and director of distribution for a subsidiary of a large American communications and electronics firm.
36. President of China operations for a large American communications and electronics firm.
37. Vice president and China country controller for a large American communications and electronics firm.
38. Managing director for the operations of an American food-processing firm.
39. Director of public affairs for a major American high-technology company.
40. Operations manager for an American food and consumer product additives company.
41. Dean of a Chinese university MBA program.
42. Professional choreographer.
43. US Foreign Commercial Service officer.
44. Business development manager for a Beijing-based, Australian-owned human resources consultancy.
45. US Foreign Service officer.
46. President of an Austrian automotive-sector firm.
47. Chief representative in Shanghai for a US-based financial services provider.
48. General manager of the Shanghai office of a US-based shipping and logistics company.
49. Deputy general manager of a Hong Kong subsidiary of a Chinese provincial-level investment agency.
50. Minister-counselor of the financial section of the embassy of an OECD state.
51. Vice president of equity research for a subsidiary of a major American financial services firm.

52. Vice president and chief regional economist for a subsidiary of a major American financial services firm.
53. Managing director of a Beijing-based, foreign-invested market entry consultancy.
54. Practicing attorney with the Beijing office of a US-based law firm.
55. Director, provincial foreign direct investment office (the only Chinese government employee).
56. Former foreign correspondent of a major Western newspaper.
57. Manager of a Hong Kong subsidiary of a major entertainment conglomerate.
58. General manager of a British automotive-sector manufacturing joint venture.
59. Consultant with a Beijing-based, foreign-owned advisory group.
60. Country corporate officer for China of an American financial services conglomerate.
61. Director of a human resources training consultancy and president of an American Chamber of Commerce in southern China.
62. Director of the regional office of an American commercial advocacy group.
63. American commercial diplomat in Beijing.
64. General manager of a major Japanese trading company.
65. Chairman of a major Hong Kong trading company.
66. General manager of the international affairs section of a large Japanese electronics conglomerate.
67. General manager for the China section of a major Japanese commercial bank.
68. Regional director for an American high-technology company.
69. Director of the China operations of a Japanese commercial advocacy group.
70. Finance director of an American automotive joint venture.
71. Managing director of a Beijing-based consultancy.
72. Managing director of an American chemical company.
73. Hong Kong-based financial journalist.
74. Beijing-based financial journalist.

75. Director of the regional office of an American commercial advocacy group.
76. Director of a Hong Kong-based trading company.
77. Deputy general manager of a Sino-American manufacturing joint venture in north China.
78. Vice president of Asia Pacific operations for a division of a highly diversified American technology and manufacturing conglomerate.
79. Marketing director of a Beijing-based information services consultancy.
80. Executive director of a Hong Kong-based trading company.
81. Manager of Asia Pacific operations for a division of an American conglomerate.
82. Managing director of a division of a highly diversified American technology and manufacturing conglomerate.
83. Commercial director of a Hong Kong-owned distribution company operating in China.
84. Managing director of Hong Kong-based electronics firm with operations in southern China.
85. President of the China operations of an American manufacturing company.
86. Former Beijing bureau chief of a Western daily newspaper.
87. Director of a regional office of an American commercial advocacy group.
88. President of a Beijing-based, foreign-invested market entry consultancy.

Questionnaire

Draft Question Set 2: China Operations— US Firms

Senior China Manager

1. General.
 - A) Have your plans, on average, overestimated the Chinese market, underestimated it, or gotten it about right?
 - B) How do you choose sites? Important factors:
 - proximity to market?
 - proximity to input sources?

- proximity to quality expat accommodations?
 - other expat considerations?
 - reputation of local bureaucracy?
 - local incentives/environmental considerations?
 - presence of foreign community?
 - Chinese preference to direct investment toward site?
 - other?
- C) Discuss.
- D) Do you see China as a single market, or multiple?
- E) Discuss future expansion of operations in China. What are the Chinese restraints on growth and how are those affecting you? What would the failure of China to undertake reforms mean? Could your operations be placed elsewhere and still serve the same market?
- F) Relationship with local, provincial, and Beijing bureaucracies.
 Extent to which each plays an active role in the daily concerns of the firm?
 Regulatory competence at each level and relative effort spent on each?
 Where is policy most and least uniformly applied?
2. Structure. China facilities, date established, type of venture (WFOE, equity JV, etc.).
- A) Decision to use JV/WFOE/etc. structure.
- B) A holding company for China operations? Why all the interest?
- C) Where are China operations run from: China, Hong Kong, United States? What observations on this variable; sector-specific optimality?
- D) Changing dynamics affecting structure optimality as firm develops? as China transforms? Is it more of a problem to constantly adapt in China than in other markets?
3. Motivations for China operations.
- A) Factors of importance:
- new markets
 - regional base
 - base for export to United States/other OECD country
 - meet competitors
 - foreclose competitors
 - romantic mistake
 - shareholder expectations
 - other (explain)
- B) Have the strategic motivations for the firm's activities in China changed over time (challenges, goals, profitability, etc.)?

- C) What would you say about the motivations of other firms in your sector: long-term vs. short-term outlook?
- D) Do you see yourself as an “incumbent”? Does that matter?
4. Negotiations/Setting up operations.
- A) Discuss the things characterizing or dominating your negotiations to establish operations in China; what do you think was most important?
- tech transfer commitments (any relevance in banking?)
 - relationships with Beijing officials
 - relationships with local partners (the “right” partners)
 - FDI commitments
 - other
- B) Have these relationships/commitments/issues been the keys to venture success subsequently?
- C) Level of satisfaction with the Chinese commitment to the agreements.
5. Business.
- A) What are the key elements of your business operations? Industry niches: what needs to be clustered together in order to achieve optimal business structure?
6. Profitability.
- A) Score factors affecting firm profitability
- Chinese domestic market fluctuations
 - regional market fluctuations
 - markets in United States (or other developed countries)
 - presence of competitors entering/exiting markets
 - market share arrangements in China
 - tax/other nonmarket mechanisms (now same domestic and foreign?)
 - other factors?
- B) Are your margins better/same/poorer than year before? Attributed to what?
- C) Do you expect margins to widen or narrow in the coming years, as more competitors find a way into the Chinese market?
- D) Is there concern about vulnerability of profitability to Chinese policy swings?
- E) Customers paying on time and interlocking debt problems. What do you think the solution for China is in this regard?
- F) A number of nonfinancial firms are getting backdoor (or tacit) permission to do financing and loans to their subcontractors, employees, etc. Do you think this is a long-term issue for your firm? Is there enough business to go around, or does the ability to offer such services create an unfair advantage?

7. Productivity.
 - A) Has productivity increased in your venture, on the whole, over the last 12 months?
 - B) What are the major barriers to productivity increases in China?
 - local management/skills shortage
 - language/culture
 - not enough sales/business opportunities
 - resistance to change
 - overstaffing
 - supply problems (foreign exchange or RMB)
 - technological constraints

8. Trading regime and market structure.
 - A) Latest Chinese WTO offers. Would you be in favor of seeing Chinese reforms accelerated? What effect would that have on your operations? Do you think you have incumbency advantages?
 - B) Priority concerns on nontariff barriers, if any?
 - C) Competition policy structure in PRC vs. the United States. Concerns about antitrust. Obviously, it is early to talk about competition policy environment in China, but contestability may be an issue in many areas. Discuss.

9. Effect of bilateral political climate on China operations.
 - A) Are there concerns about allegations that Beijing presses US firms too much to lobby Washington?
 - B) Thoughts on US-China bilateral policy issues; multilateral economic policy stances. Appraise.

10. Globalization debate at home and anxiety about jobs moving to China: a concern?

11. Environmental impact a concern in China?

12. Market information and restrictions on flow of economic data, an issue or a nonissue?
 - A) How does the firm meet its information needs?

13. Does firm have a lobbying function in China per se?

14. The fuzzy line between *guanxi* and corruption. Discuss.

15. Human rights, worker relations, social issues in China.
 - How are you keeping the right senior people? A big issue?
 - Wage costs, changing levels. Discuss

16. Public relations/philanthropic activities.
 - Describe extent and experience. How important?

Treasurer/Finance

1. Financial environment.
 - A) Remitting profits, dividends, and interest. What has been your experience?
 - B) Profitability: discussion of present performance.
 - C) Supply/undersupply of RMB, foreign exchange issues.
2. Structure of finance for China operations.
 - A) Debt vs. equity.
 - B) Limits for FIEs funding their portion of a JV from internal Chinese source is 70 percent? Are such restrictions important? Ignored?
 - C) Valuation of tangible inputs to a venture, fees (such as land use fees), and other peripheral aspects of deals. How do you feel about the arbitrary valuation of these things?
 - D) Different Chinese accounting practice has been an impediment to correct valuation of Chinese businesses. Are they starting to adopt international practice as a result of interaction with you?
3. Legal and regulatory structures for finance.
 - A) Incomplete law governing certain instruments/areas of concern to the firm in the financial area of the China operations? Derivatives, e.g.?
 - B) Unattractive mortgage markets because of still poor governance?
 - C) Other regulatory issues affecting financial operations of China ventures.
4. Tax regimes.
 - A) Discuss tax levels, convergence between foreign tax rates and domestic as a precursor to more wide-open competition. What effect on operations? Similar issues to those in other developing countries?
 - B) Incentives' importance?
 - C) What percentage of potential tax liability is actually paid at present? Is there a lax interpretation of liability here that plays an important role in determining net margins? Is this a future risk in terms of back liability?
5. Noncommercial cash flow issues (worker-related, etc.). A concern?

Legal Issues

1. What legal resources are required by the firm's China operations? Is mandated use of personnel from FESCO (the government legal firm) or onerous legal reporting and proprietary data a problem?

2. How adequate, in general, is the legal system in China for your operations?
 - A) Do you think of incomplete legal and regulatory regimes as a simple commercial risk?
 - B) List priority legal and regulatory concerns.
3. Are there examples of gaps/ambiguity in these regimes working in firm's favor? Is that *generally* the case?
4. Experience with mediation/arbitration/litigation. Weak capacity. Political influence.
 - A) List of cases the firm has been involved in, and outcome.
 - B) Development of mediation services in Beijing and elsewhere; how important?
 - C) Discuss pressures to avoid mediation in China.
5. Informal mechanisms for obtaining legal and regulatory needs security: describe.
6. Local vs. provincial vs. central legal structures, interaction; and focus of firm legal priorities.
7. Firm contributions to local/provincial/central regulatory crafting process? Has your firm helped to craft specific regulations? Give concrete examples.
8. Specific topics.
 - A) What would an OECD antibribery code do to your operations? What experience have you had with FCPA?
 - B) Antitrust, anticompetitive practice concerns?
 - C) Export control regulations?

Matrix for Organizing Responses

The following columns in the matrix were used to organize interview responses:

- A. Interviewee name
- B. Business
- C. Base
- D. Motivations for China operations
- E. Negotiation, setup, establishment issues
- F. Incentives
- G. Export, performance requirements

- H. Distribution
- I. Import regime
- J. Services (financial, etc.)
- K. Investment issues
- L. Relationships' importance
- M. Industrial policy, central government presence
- N. Market structure
- O. Market trends
- P. Firm structures
- Q. Overcapacity
- R. Tax issues
- S. Profitability
- T. Profit issues
- U. Remittances
- V. Holding companies
- W. Productivity
- X. Legal
- Y. Interprovincial trade and barriers
- Z. Beijing-local tensions
- AA. Foreign policy pressure effect
- BB. Chinese structural reform process
- CC. Fiscal and monetary policies
- DD. Corruption
- EE. Intellectual property rights
- FF. Property rights
- GG. Employment, labor, and training
- HH. Maintenance and quality management
- II. Social initiatives
- JJ. Safety and environment
- KK. WTO remarks
- LL. Recommendations