IN SEARCH OF HIDDEN DRAGONS:
AN EXPLORATION INTO WESTERN BUSINESS CHALLENGES IN CHINA

Quinn Collins

TC660H
Plan II Honors Program
The University of Texas at Austin

May 5, 2020

David J. Eaton, Ph.D.
LBJ School of Public Affairs
Supervising Professor

Edward L. Walker, MBA
College of Liberal Arts
Second Reader

ABSTRACT

Author: Quinn Collins

Title: In Search of Hidden Dragons: An Exploration into Western Business Challenges in China

Supervising Professors: David J. Eaton, Ph.D., Edward L. Walker

China became an attractive foreign investment destination after undergoing economic reforms in the late 1970s. Taking advantage of cheap labor and incentives offered by the Chinese government, Western companies began developing local operations that would prove to be profitable. Nevertheless, these companies can still have difficulty operating in a socialist-market economy. So what challenges might foreign companies encounter in China? This thesis answers such a question from three angles: political, cultural, and business processes. Political challenges encompass regulations and directives from the Chinese Communist Party that hamper foreign companies. Cultural challenges arise from companies' unfamiliarity with Chinese cultural practices in business as well as with a unique consumer culture molded by novel technologies. Finally, business process challenges deal with issues that directly impact a company's profitability, such as labor and competition.

ACKNOWLEDGEMENTS

My deepest appreciation goes to my family. Thank you for your support and honesty throughout my project. If we had not moved to China as a family two decades ago, I would perhaps not have found this topic.

I want to sincerely thank my advisors: Dr. Eaton and Professor Walker. I really appreciate your comments and suggestions for my thesis; this project would not have been as enjoyable without you two.

I would also like to thank the experts and executives I had interviewed in China and here in the US. Thank you for being a part of my project and your unique insights on this topic.

Lastly, I would be remiss not to thank the Plan II Honors Program for allowing me to be part of such a great community and giving me the opportunity to do this project in the first place.

TABLE OF CONTENTS

Introduction

China, thanks in part to its large population, is one of the biggest markets in the world for Western businesses. Its centralized political system has nurtured a culture of speed and efficiency—qualities seductive to most companies. Under the rosy business picture, however, is an awkward relationship between the Western world and China that has given way to much misunderstanding on the global stage. The awkwardness arises from the friction between liberal democracies and a Communist state, between free markets and a controlled one. Naively, Western countries assumed that as China became richer, it would see the light of liberal democracy and capitalism and enter multilateral institutions, such as the World Trade Organization (WTO). They were only half right. While China became increasingly prosperous through the absorption of certain liberalistic elements, it has yet to veer from its authoritarian course. In light of the differences between China and the West, it can be difficult for Western companies to do business in China.

This thesis discusses the barriers that have arisen since Western companies entered China in the late 1970s to the present day. There are common challenges that affect many businesses in China. To simplify the many business challenges, they are assigned to three categories: political, cultural, and business processes (see Table 1). There remain challenges that are outside the scope of this thesis, such as capital controls, whose importance should not be discounted.

Table 1

Categories of Business Challenges	
Political	State-owned Enterprises
	Social Credit System
	Market Access

	Intellectual Property Protection
	Data Security and Censorship
	Foreign Investment Law
Cultural	Cultural Integration
	Technology and Culture
Business Processes	Labor
	Competition
	Environmental Regulations

This thesis begins with a brief history of the transformation of the Chinese economy. After Deng Xiaoping took over from Mao Zedong, the first leader of Communist China, Deng instituted economic reforms that infused free market elements from the West and encouraged Western companies to invest in China. After Deng's reforms, China sought entry into the WTO to take advantage of global trade networks. China's rise to global status was not without problems. Oftentimes, WTO rules would conflict with China's internal mode of operation. China would try to resolve each dilemma by instituting measures just vague enough to satisfy the international community yet carry on its preferred mode of operation.

Following an exploration into China's interaction with the WTO is a discussion on the current business challenges in China, segmented by three categories: political, cultural, and business processes. Political challenges deal with government policies and other actions from the central government and local officials, such as preferential treatment. In this section, the greater US-China relationship will be discussed, as the political sentiment that emerges from that relationship can affect business confidence.

Cultural problems deal with cultural differences in work expectations and behavior between Westerners and Chinese people. Many personal anecdotes, obtained either from interviews with foreign executives or books that business leaders have written, will be used in this section; these stories detail the stumbles that Westerners made while working in China. Aside from delving into historical culture, such as Confucianism, that remains a legacy in modern Chinese society, this thesis studies an evolving Chinese consumer culture shaped by rapid technological development.

Business process challenges are issues that directly impact a company's profitability. For example, increasing labor costs in China have become top-of-mind for many companies for the past decade. Growing concerns in recent times have been about Chinese competition and environmental regulations. The former has dented certain Western companies' market share, while the latter has led to supply chain disruptions.

Considering the heavy involvement of the Chinese government in its economy, culture, and society, every business challenge may include some combination of political, cultural, and business process elements. So, the three categories devised in this thesis should not be viewed as exclusive buckets with no connection to one another. The complexity and interaction of these issues come to bear in interviews with executives, business surveys released by trade groups, and news articles.

The relationship between the Western world and China is intricate. There are benefits to collaboration among major world powers, but there are also tensions created from competing spheres of influence and opposing political and economic systems. Companies can be an important conduit between countries, inducing cooperation on global issues. Thus, it is helpful for businesses to understand the scope of past, present, and future business challenges in China, as they venture into a foreign environment.

History of Chinese Economy Before the World Trade Organization

After the establishment of the People's Republic of China in 1949, Mao Zedong, at the helm of China's centrally planned economy, instituted a series of reforms that sought to rapidly industrialize the Chinese economy. He failed miserably. His initial policies, collectively called the Great Leap Forward (1958-1962), led to mass famine and the deaths of millions of people. The Chinese society and economy then began recovering gradually through a rough implementation of decentralized ownership and decision-making. But the recovery was soon quashed in 1966 with the start of the Cultural Revolution, a political purging of purported non-Communist elements in Chinese society. Such an upheaval severely disrupted the Chinese economy.

The death of Mao in 1978 and accession by Deng Xiaoping as paramount leader of China marked the beginning of the Chinese economy's modernization. Deng saw an urgent need to modernize the economy and raise the living standards of the Chinese people. He broke away with Soviet-style economic policies by welcoming free market mechanisms, namely private enterprise and trade with the West. Deng directed economic resources toward four main modernizations—industry, agriculture, science and technology, and military.[1] He recognized the need for China to open up to the outside world to embark on the path of modernization. So in 1986, China formally submitted a bid to rejoin the General Agreement on Tariffs and Trade (GATT)—a global institution that sought to promote international trade—which China first left

[1] Interview with Craig Allen, President of the US-China Business Council

after the country turned Communist. On introducing free-market principles into China's economic structure, Deng's famously said: "Black cat, white cat, what does it matter what color the cat is as long as it catches mice?"[2]

The economic reform of China had great implications for the US. As China and the US established official diplomatic ties in 1979, the American business community saw a bright future in expanding to China. US Foreign Direct Investment (FDI) into China first began to flow in the form of joint ventures (JV),[3] an enterprise that consisted of American and Chinese partners. Most JVs were established in the export-oriented manufacturing sector to take advantage of China's cheap and ample labor. To further attract foreign investment, Deng established 4 Special Economic Zones (SEZ)—Shenzhen, Zhuhai, Xiamen, and Shantou—along the coast of China that operated on free-market policies with tax incentives, such as reduced corporate income tax. Deng would use such policies as experiments, implementing successful ones in other parts of the country. Under Deng, urban infrastructure investment exploded, and the Chinese economy modernized rapidly.[4]

However, trade and investment between China and the US were not unfettered. For example, the American Trade Act of 1974 and the Jackson-Vanik amendment to it were potential legal devices that could obstruct the countries' nascent economic relationship. The Trade Act aimed to promote international trade, while protecting American industries negatively impacted by trade or unfair trade practices by other countries. The subsequent Jackson-Vanik amendment denied Most Favored Nation (MFN) status—an agreement that one country will offer another the

---

[2] Congressional Research Services, "China's Economic Rise: History, Trends, and Implications for the United States," (2019): 34.
[3] Ann Fenwick, "Equity Joint Ventures in the People's Republic of China: An Assessment of the First Five Years" *The Business Lawyer* 40, no. 3 (1985): 5.
[4] Tomas Hirst, "A Brief History of China's Economic Growth," *World Economic Forum,* November 24, 2014. https://www.weforum.org/agenda/2015/07/brief-history-of-china-economic-growth/

best trade terms—to countries with non-market economies, such as that of China, which restricted freedom of emigration and other human rights. While American presidents had routinely waived the requirements to confer China MFN status, the waiver had to be renewed on a yearly basis.[5] The yearly review process meant that there was the looming possibility that US could revoke the waiver at any moment, which is exactly what happened after the Tiananmen Massacre in 1989.

In the late 1980s, a nascent market economy led to wealth inequality between urban and rural dwellers as well as between coastal and inland cities. Accelerated infrastructure and economic growth pushed inflation to grow out of control. Chinese students began worrying about employment prospects amidst economic transformation. All of these issues, combined with corruption and limited political freedom, ignited the Tiananmen Square Protests in 1989. Students, intellectuals, and activists alike demanded democratic reforms. Events took a turn for the worse when the Chinese government used force to quash the protests, ending in the deaths of thousands of protestors.

The gruesome massacre at Tiananmen prompted global backlash against the Chinese government, and the US revoked China's MFN status. President George H.W. Bush subsequently ended high-level exchanges between American and Chinese officials as well as any military sales to China. A sharp drop in US-China trade soon followed. The American business community similarly denounced China's actions, slowing FDI into China. Relations remained sour until 1993, when a tamed inflation in China and Deng's new calls for reform signaled another wave of openness.

[5] Kerry Dunbaugh, "China's Most-Favored-Nation (MFN) Status: Congressional Considerations, 1989-1998," *Congressional Research Service* (1998): 19.

But the time after 1993 was different. The new Clinton administration conditioned China's MFN status on human rights improvement. The newly-infused element of human rights in the US-China relationship created a schism between the administration and the American business community, who warned that a linkage between human rights reform and trade would cost the US billions of dollars in lost business.[6] The New York Times described the concerted lobbying efforts of American businesses as "the most united display of corporate-lobbying muscle on a trade issue" since NAFTA debates in 1992.[7]

Eventually, American businesses succeeded in prodding the US government to once again grant China MFN status despite glacial progress in Chinese human rights reform. This move signified that the administration chose American trade development and the economy over human rights. As his final legislative legacy, Clinton secured a deal with China that granted the latter Permanent Normal Trade Relations (PNTR) in 1999, effectively removing the hassle of annually deciding on China's MFN status. American businesses, which spent millions on TV advertisements lobbying for the agreement,[8] applauded the decision. Conferring PNTR status to China paved the way for China to enter the World Trade Organization (WTO).

China's World Trade Organization Accession

Entry into the WTO began when China secured the PNTR status from America in 1999. An agreement with America made agreements with other WTO countries more palatable. The Chinese leaders at the time, Jiang Zemin and Zhu Rongji, favored an agreement with WTO countries because they believed WTO membership could improve China's international relations,

[6] Jim Mann and Rone Tempest, "US., China Trade Embittered Words on Human Rights," *LA Times*, March 13, 1994.
[7] Neil Thomas, "For Company and For Country: Boeing and US-China Relations," MacroPolo, February 26, 2019. https://macropolo.org/analysis/boeing-us-china-relations-history/
[8] Jordan Weissman, "Waking the Sleeping Dragon," Slate, September 28, 2016. https://slate.com/business/2016/09/when-china-joined-the-wto-it-kick-started-the-chinese-economy-and-roused-a-giant.html

stimulate economic growth, and propel the reform process.[9] They of course recognized the costs as well. They realized that that several disadvantaged sectors, such as agriculture, machinery, and automotive, would face stiff international competition. The Chinese negotiating team made several concessions that other Chinese bureaucrats did not favor—cutting tariffs by an average of 23% and opening China's financial and telecommunications markets, [10] allowing the establishment of joint ventures in those sectors, which was previously forbidden.[11]

At one point, when talks had stalled between the two sides, Zhu appealed to the US business community, which in turn expressed its disappointment over the impasse. Soon after, the Clinton administration reached an agreement with China, as President Clinton intended to include China's WTO accession as part of his legacy.[12] While the terms of the WTO deal to which China agreed were considerably more stringent than those of other entrants,[13] China accepted nonetheless. Many in the West celebrated this event, positing that the welcoming of China to an international rules-based system would gradually transform the Communist country into one that embraced Western values. Others were skeptical. Certain experts recognized the reality wherein barriers to conducting business would continue to exist. Larry Horwitz, senior economist at Primark Decision Economics, stated that "U.S. companies with joint ventures in China find difficulties actually running businesses in China, and that's going to take years to work out, with or without a trade agreement. That's the single biggest problem."[14]

---

[9] Hongyi Harry Lai, "Behind China's World Trade Organization Agreement with USA," *Third World Quarterly* 22, no. 2 (2001): 238.
[10] "China, US Sign Trade Pact," *CNN Money*, November 15, 1999. https://money.cnn.com/1999/11/15/worldbiz/wto/
[11] Ibid.
[12] "An offer from China we shouldn't refuse," *Business Week*, April 26, 1999.
[13] Lee Bransetter and Nicholas Lardy, "China's embrace of globalization," *National Bureau of Economic Research,* (2006): 20.
[14] Nicholas Lardy, "Issues in China's WTO accession," *Brookings Institution*, May 9, 2001. https://www.brookings.edu/testimonies/issues-in-chinas-wto-accession/

China's Interaction with the World

Why is it that even after China entered the WTO, the country was still enacting protectionist policies and other unfair trade practices? Although China agreed to the most restrictive compliance rules (versus any other entrant to the WTO), it is surprising that those rules do not seem to shackle China at all. Major sticking points of China's WTO deal included, among other features, reduced tariffs—industrial tariffs were cut to 9.2% over the period of 2002-10 from 16.3%—opening up services sectors, such as banking and telecommunications, ending export subsidies, and improving intellectual property protection.[15] The liberalization of the Chinese market meant that American business opportunities could increase substantially, especially in areas previously closed to investment, such as telecommunications. Tyler Johnson of Dell Technologies wrote in his book, *The Way of The LaoWai,* "In China, you don't have to go after the whole market; you can find niches within which you can be extremely successful. Just 1% market share in China is a huge number."[16] New niches opened, and US businesses were eyeing them.

Data collected through surveys reflect a friendlier business environment in post-WTO China. A survey conducted by the American Chamber of Commerce in China (AmCham China) revealed in 2005 that 72% of respondents had "increased the number of their products and services available in China."[17] Whereas in 1999, only 24 percent of respondents were able to break into the Chinese market successfully.[18] From 2005 to 2019, an overwhelming majority of companies have consistently reported that their China operations are profitable.[19] In 2019, close

[15] Nicholas Lardy, "Issues in China's WTO accession," *Brookings Institution*, May 9, 2001. https://www.brookings.edu/testimonies/issues-in-chinas-wto-accession/
[16] Tyler Johnson, *The Way of The Laowai* (Austin: Lioncrest Publishing, 2019), 211.
[17] Betül Yüce Dural, "What Has Changed After the World Trade Organization Membership of China," *Anadolu University* (2007): 7.
[18] Ibid.
[19] US-China Business Council, "USCBC Member Survey," 2019.

to half of respondents claim that the profit margin of their operation in China are better than their overall operation.[20] The benefits of conducting business in China are apparent.

Yet the rosy profit picture masks the troubles for businesses on the ground. A disconnect emerges between countries' expectation of China's adherence to WTO rules and the reality of the situation. For instance, as previously mentioned, China was obligated by its WTO deal to open up certain sectors of its economy to foreign investment and joint-venture opportunities. Even so, foreign companies can still find themselves disadvantaged compared to their Chinese competitors. Example disadvantages include "China's use of technical standards, food-safety regulations, licensing requirements and professional qualifications among other non-tariff barriers" to limit foreign access to the Chinese market.[21] Tyler Johnson also recounts in his book that "[the Chinese business environment] isn't an open system, and there is a real lack of transparency as to how governments make decisions."[22] For now, American companies are coping with the challenges due to immense profits coming from China, but this can pose a serious challenge later on, when American companies are pushed out, simply because they have been outcompeted by Chinese companies.

China's accession to the WTO was widely believed to be the country's first step toward shifting to a market economy and becoming an adherent to international rules. President Clinton said, at the time, that the WTO deal was "a good agreement for China and for America and for the world. I think that all of us benefit when the most populous nation in the world is . . . part of a rule-based system that will bring shared prosperity."[23] Many more around the world shared a similar optimism. But they underestimated the Communist Party's ever-tightening grip on the

---

[20] Ibid.
[21] Dural, "What Has Changed After the World Trade Organization Membership of China," 10.
[22] Johnson, *The Way of the Laowai,* 327.
[23] Timothy Webster, "Paper Compliance: How China Implements WTO Decisions," *Michigan Journal of International Law* 35, no. 3 (2014): 549.

Chinese economy and society, and they failed to understand the reality of China's relationship with international rules.

When Xi Jinping ascended to General Secretary of the Communist Party in 2012, he began to consolidate power. By purging political opponents through his ostensibly well-intentioned crackdown on corruption, he amassed power to himself. In 2017, he even enshrined "Xi Jinping Thought" in the Chinese constitution, raising himself to the stature of Mao and Deng. Under his leadership, the party began tightening its grip on the Chinese state. He has actively employed the governance mechanism of "leading groups," which are extra-constitutional organizations that carry out specific state mandates and policy objectives. Less utilized by Xi's predecessors, such groups contributed immensely to reforms of the state-owned enterprises (SOE) in Xi's first five years as leader.[24]

Signaling the government's refusal to transition fully to a market economy, the Chinese government has continued to strengthen the role of SOEs.[25] South China Morning Post reported that the assets of state-owned non-financial enterprises rose 8.4% from a year earlier to $26 trillion at the end of 2018, while profits increased 12.9% year on year to $49 billion.[26] In the 2018 USTR Report to Congress on China's WTO Compliance, the authors write that "the principal beneficiaries of China's policies and practices are China's state-owned enterprises and numerous other significant domestic companies, sometimes referred to as 'national champions.'"[27] As China modernized, many assumed the country would take on the Western model of separation of powers, instead of a consolidation of powers. The West not only

---

[24] Wendy Leutert, "Firm Control: Governing the State-Owned Economy Under Xi Jinping," *China Perspectives* (2018): 29.
[25] Frank Tang and Echo Xie, "China's Reform of SOE Questioned After Beijing Appoints Inexperienced Official to Head Assets Watchdog," *South China Morning Post*, May 21, 2019. https://www.scmp.com/economy/china-economy/article/3011111/chinas-soe-reform-questioned-after-beijing-appoints
[26] Ibid.
[27] "2018 Report to Congress on China's WTO Compliance," *Office of the United States Trade Representative* (2019): 11.

miscalculated China's governance trajectory, but it also wrongly predicted China's relationship with the world.

Looking back on China's international behavior, many scholars have argued that China has extracted all the benefits of being a part of international institutions without paying the full costs.[28] The reality is more nebulous. In practice, China seems to incorporate policies and regulations selectively to not compromise domestic goals.[29] Compliance with the WTO is a prime example. In line with the international body, China has lowered tariffs, improved market access (though there are still restrictions in certain sectors) and strengthened a rules-based judicial system. Yet at the same time, China still lacks transparency in governmental and regulatory procedures, strong intellectual property protection, and the dedication to curb state capitalism—state-controlled economic activity—all of which violate WTO regulations.

The USTR details continuous concerns on China's "shield[ing] massive sub-central government subsidies from the scrutiny of WTO members"[30] and undermining of WTO councils and committees designed to monitor a member's compliance with WTO. They admit that the WTO alone may not be sufficient to enforce China's compliance. The body is designed around members already committed to free-market principles, not for a country that is insistent on maintaining state-led components.[31] The argument of the inability of WTO to rein in China is used as a justification for the Trump Administration's unilateral decision to apply tariffs on China.[32] Aside from blatant violations, China also engages in "paper compliance,"[33] a much subtler form of undermining international rules.

[28] Webster, 527.
[29] Ibid, 528.
[30] Office of the United States Trade Representative, 22.
[31] Ibid, 23.
[32] Ibid, 24.
[33] Webster, 529.

Up until 2014, the Dispute Settlement Body (DSB), WTO's dispute settlement mechanism, has resolved eight cases against China regarding incompliance with WTO regulations.[34] In five of the eight cases, China revised laws to address the complainant's concerns.[35] On the surface, China was receptive to DSB's rulings to change inconsistent measures. Upon closer examination, however, China tinkered with the inconsistencies in a way that minimized the rulings' intrusiveness.[36]

In one instance, the US challenged three aspects of China's intellectual property (IP) protection policies. DSB found two of the claims valid. China then agreed to amend the rules in response to the two valid claims: the unavailability of copyright protection for works not authorized for publication;[37] and the disposal methods for counterfeit goods.[38] For the first claim, before the DSB ruling, China's copyright law read: "works the publication or dissemination of which is prohibited by law shall not be protected by this Law. Copyright owners, in exercising their copyright, shall not violate the Constitution or laws or prejudice the public interest."[39] China then amended the rule to reflect WTO compliance: "[c]opyright holders shall not violate the Constitution or laws or jeopardize public interests when exercising their copyright. The State shall supervise and administrate the publication and dissemination of works in accordance with the law."[40] China removed the first sentence in the original rule and added a new sentence to the revised measure. The new law complies with the DSB ruling: it no longer states explicitly

[34] Ibid, 556.
[35] Ibid, 556.
[36] Ibid, 556.
[37] Ibid, 558.
[38] Ibid, 560.
[39] Hong Xue, "A User-Unfriendly Draft: 3rd Revision of the Chinese Copyright Law," Info Justice, April 25, 2012. http://infojustice.org/wp-content/uploads/2012/04/hongxue042012.pdf.
[40] Webster, 561.

copyright protection is not given to unauthorized works. However, the Chinese government still maintains the power to decide whether a work would be granted copyright protection.[41]

In response to the second claim on not preventing the selling of counterfeit goods, China revised its law to state: "imported goods bearing a counterfeit trademark shall not, except in special circumstances, be permitted to enter the stream of commerce upon merely removing the trademark from the goods."[42] The operative word here is "imported." China is one of the largest producers of counterfeit goods. So by adding the qualification of imported counterfeit goods, China drastically limits the scope to which the law is applied. Such ineffectual revisions put China's commitment to WTO into question.[43] Although the IP challenge is just one example of paper compliance, it shows China's power to circumvent international regulations and should caution foreign countries in expecting China's adherence to a rules-based system.

Political Challenges

Political challenges originate from the Communist Party's (CPC) control over the Chinese economy and its ability to intervene in the operations of individual companies. Reasons for intervention can range from an involvement of politically sensitive topics, such as Hong Kong or Taiwan, to strategically disadvantaging foreign rival companies in order to foster domestic dominance.

The CPC is a byword for absolute control. Western companies are at the mercy of the political directives, and there is almost no way around this issue. If the CPC decided to launch an investigation into a company, it can do so by pulling a justification out of thin air. The Party's

[41] Ibid, 559.
[42] Ibid, 560.
[43] Ibid, 561.

desire for control stems from its need to maintain party legitimacy and establish its power over the country and its citizens. Foreign cultural influence in general is seen as an eroding agent of such power and an ideological threat to China. In 2014, the South China Morning Post reported that ideological threats were considered by a new national security committee in China as an unconventional security threat that needs to be targeted.[44] In such a context, Western companies have to be very careful in navigating the political waters of China. As of this writing, Hong Kong, a Chinese territory, is embroiled in protests over the Hong Kong people's expectations of democratic reforms, among other demands. To mainland China's discontent, many individuals and organizations have taken up the chant of "free Hong Kong" in a show of support for democracy. This type of support comes with dire business consequences.

Perhaps one of the most recent, notorious examples of China's retaliation for organizations supporting the Hong Kong protests happened to an American entity. Daryl Morey, the general manager for the Houston Rockets, a professional basketball team, tweeted out an image that showed support for the protests on October 4th. The Chinese reacted swiftly and furiously. Almost immediately, Chinese broadcasters said they would stop broadcasting National Basketball Association (NBA) games, and the Chinese Basketball Association said they would suspend ties with the Rockets. One tweet put in jeopardy the $1.5 billion deal that the NBA had reached with Tencent, a Chinese media outlet, to stream NBA games in China, which has around 500 million fans.[45] This is only one of many instances.

---

[44] Teddy Ng, "'Cultural threats' among five focuses of new national security panel, colonel says," *South China Morning Post*, January 14, 2014. https://www.scmp.com/news/china/article/1404926/cultural-threats-among-five-focuses-new-national-security-panel-colonel

[45] "Factbox: NBA taking flak in China, a valuable market with 500 million fans," Reuters, October 17, 2019, https://www.reuters.com/article/us-china-basketball-market-factbox/factbox-nba-taking-flak-in-china-a-valuable-market-with-500-million-fans-idUSKBN1WM1WI

The Washington Post reported that Tiffany & Co., a luxury jewelry retailer, had to remove a global advertising image that some in China thought implied support for Hong Kong protesters, "even though the company said the image was taken weeks before the demonstrations began."[46] The same report revealed that Blizzard Entertainment, a video-games company, suspended a professional player for his support of the protests in an interview.

Multinational companies, lest they get shut of the China market, tiptoe around sensitive political issues. Western firms can be caught in the crosshairs if the firm's origin country experiences friction politically with China. FedEx Corporation, a US parcel delivery company with a global presence, is a prime example. As the US-China trade war raged on in 2018, China abruptly, or so it seemed to the West, launched an investigation into FedEx over its accidental misdirection of certain packages belonging to Huawei Technologies Co., a Chinese telecommunications giant. However, Chinese officials deny any connection between the FedEx probe and the trade war. Many Western pundits and editorials argue that China is retaliating against the US for the trade war and the latter's clampdown on Huawei products.[47]

Xi Jinping's rise to power since 2012 has seen the Party strengthen its control over the entire country. Xi has been touted to be the most powerful president since Mao, as no president, other than Mao, has had his ideology enshrined in the constitution of China as "thought."[48] Xi's idea for a new era is that of "rejuvenation of the Chinese nation."[49] To fulfill his vision, Xi Jinping seeks absolute unity at home and influence abroad, exemplified by his Belt and Road

---

[46] Jeanne Whalen, et al., "China lashes out at Western businesses as it tries to cut support for Hong Kong protests," *Washington Post,* October 8, 2019. https://www.washingtonpost.com/business/2019/10/08/china-lashes-out-western-businesses-it-tries-cut-support-hong-kong-protests/
[47] Trefor Moss, "FedEx caught in US-China tensions," *The Wall Street Journal*, June 1, 2019. https://www.wsj.com/articles/fedex-caught-in-u-s-china-tensions-11559404746
[48] "Xi Jinping 'most powerful Chinese leader since Mao Zedong'," *BBC*, October 24, 2017. https://www.bbc.com/news/world-asia-china-41730948
[49] Elizabeth Economy, "China's imperial president: Xi Jinping tightens his grip," *Foreign Affairs* 93, no. 6 (2014): 80.

Initiative. In the name of unity, Xi embarked on an anti-corruption campaign that removed corrupt government officials and military personnel. China observers posited that such a move was a convenient method for Xi to solidify power by purging his opponents.[50]

Such a political move had implications for foreign businesses, especially those in the luxury goods industry. In 2014, Bank of America Merrill Lynch revealed that Chinese GDP in that year could fall by as much as 1.5 percentage points due to declining sales of luxury goods and services—dominated by the likes of Gucci and Louis Vuitton—which officials used to indulge in for special occasions and, oftentimes, buy political favors.[51] Naturally, once the campaign began, government officials became very cautious about over-spending on lavish items and thus decreased their spending.

Political Challenges: State-Owned Enterprises

If Xi Jinping thought is to permeate through Chinese society, it naturally extends to the businesses within its borders. Political control of business is most readily seen among state-owned enterprises (SOE). According to a report by The Economist in 2018, SOEs took up 40% of China's stock market and one-third of its investments.[52] SOEs operate at the Party's direction; their executives are appointed by the Party, and they receive preferential treatment, such as cheaper capital and land. The preferential treatment that SOEs have received, which are unavailable to foreign-invested enterprises and Chinese-owned private enterprises, has been a major contention between Western firms and China. Beginning in 2018, the trade war between

---

[50] Timothy Heath. "The Consolidation of Power in China Under Xi Jinping." *RAND Corporation.* Feb. 7, 2019. https://www.rand.org/content/dam/rand/pubs/testimonies/CT500/CT503/RAND_CT503.pdf
[51] Ibid, 85.
[52] Schumpeter, "Are China's State Giants Reformable?," *The Economist*, March 1, 2018. https://www.economist.com/business/2018/03/01/are-chinas-state-giants-reformable.

the US and China was in part started due to market distortion by the government subsidies to SOEs, which unfairly disadvantage foreign companies.[53]

An analysis of annual business surveys released by the US-China Business Council (USCBC) reveals that Chinese protectionism, regulatory approval, and other issues dealing with unequal treatment between Chinese companies and American companies have consistently ranked among the top 10 challenges for US businesses in the past few decades. Most recently in 2019, 84% of American companies reported some type of protectionism in China.[54]

Even private Chinese companies recognize the favoritism received by SOEs. According to a report by The Economist in 2019, certain private Chinese companies would directly proclaim themselves as SOEs—when in fact they are not—for the purpose of securing loans and investment.[55] For example, China Nuclear Engineering Corporation misled creditors with claims of state connections, when in fact, the company that had real state connections went by the name of China Nuclear Engineering *and* Construction Corporation (spot the difference). Apparently, Chinese banks are much more willing to lend to SOEs as opposed to private enterprises, because they trust that the government looks after its own.

The protectionist measures echo Xi's nationalist political agenda. The president advocates for Chinese self-sufficiency, leading the world in every aspect from technology to military. But it is exactly his vision for China's place in the world that contradicts the business environment at home. In speeches to foreign audiences, Xi touts China's commitment to promoting "multilateral trading systems and free trade."[56] But at home, Xi proclaims the need for

---

[53] Office of the United States Trade Representative, 14.
[54] US-China Business Council, "USCBC Member Survey," 2019.
[55] "Some Chinese companies turn out to have lied about their state pedigree," *The Economist,* November 14, 2019. https://www.economist.com/finance-and-economics/2019/11/14/some-chinese-firms-turn-out-to-have-lied-about-their-state-pedigree
[56] Taken from Xi Jinping's speech at the China International Import Expo in 2018.

SOEs to become "stronger, better and larger."[57] On the one hand, Xi reflects positively on free market policies that have treated China well. And on the other, Xi encourages the continual development of a sector that is inherently incompatible with the liberal international order. It certainly makes one wonder: which Xi is the truthful one?

Xi's seemingly contradictory strategy fits China's post-WTO strategy of utilizing global world order to further its own development. In the 2018 Report to Congress on China's WTO Compliance, the authors concluded:

> "the government and the Party permit market forces to operate only to the extent that they accord with the objectives of national economic and industrial policies. When there is conflict between market outcomes and state objectives, the government and the Party intervene to ensure that the state's objectives prevail."[58]

China does not just seek to extend political influence in its own companies, it tries to do so with foreign ones as well. According to the aforementioned report to Congress, China has attempted to insert so-called "Political Committees" in foreign enterprises. In one example, unnamed German companies were affected. The Federation of German Industries stated in its 2019 Policy Paper:

> "The direct influence of the state or the party in corporate decisions is being expanded through a political upgrading of party cells. These intervene not only in the decision-making processes of state-owned enterprises but also in joint ventures and private enterprises."[59]

Echoing the same alarming trend, the European Chamber of Commerce expounded further that it is not aware of any legal basis for the insertion of party cells in joint ventures.

Fears of the Communist Party controlling foreign firms through party committees may be overblown. USCBC finds that although there is indeed a company law in China that requires any

---

[57] Nectar Gan, "Xi says it's wrong to 'bad mouth' China's state firms…but country needs private sector as well," *South China Morning Post,* September 28, 2018. https://www.scmp.com/news/china/politics/article/2166108/xi-jinping-reassures-chinas-state-owned-enterprises-and-private.
[58] Office of the United States Trade Representative, "2018 Report to Congress on China's WTO Compliance," 12.
[59] Ibid, 13.

company with three or more party members to form a party committee within the company, the law does not give the party organization any specific role of a managerial or decision-making nature.[60]

The reality is that foreign companies cannot escape Party influence if they want to operate in China. All companies entering China must be prepared for the prospect of government interference. As the authors in the 2019 AmCham China White Paper write, "China has shown a distressing propensity to retaliate without legal justification against [foreign-invested enterprises]."[61] In a socialist-market economy where the central government directs the economy, any operation is exposed to the Communist eye. Any foreign company hoping to counter malpractice by government-favored Chinese companies has to proceed at its own risk, as the Chinese judicial system is not fully independent and can pass biased judgements.

Political Challenges: Social Credit System

Perhaps a more intricate form of political control that has serious ramifications for foreign businesses is the social credit system (SCS). SCS is a difficult concept to grasp because of its fragmentation—many cities have different pilot programs testing out various versions of the SCS. SCS can be seen as a mechanism that incentivizes the citizenry to follow rules. For example, one might be penalized for jaywalking, or one might be rewarded with free services for maintaining a high social credit score. According to Jeremy Daum, a senior research fellow at Yale Law School's Paul Tsai China Center in Beijing, another main goal for the government in

---

[60] Jake Laband, "Fact Sheet: Communist Party Groups in Foreign Companies in China," *China Business Review*, May 31, 2018. https://www.chinabusinessreview.com/fact-sheet-communist-party-groups-in-foreign-companies-in-china/
[61] American Chamber of Commerce in China, "2019 American Business in China White Paper," 7.

experimenting with the system is to have unified records of its people among different agencies to enhance interdepartmental communication.[62]

In the West, many media platforms deride the system as Orwellian. Inspired by dystopian science fiction, like Orwell's *1984*, they have set out to further boost the narrative of China as an ominous, mass surveillance state with limited regard for personal freedom. Having an uneducated perspective of the social credit system can affect the hiring practices of foreign companies. Conny Jakobsson, managing director of a Swedish company operating in China, claimed that many foreign executives he spoke to are intimidated by the prospect of working in China because of the SCS.[63] According to Henri Manner, managing director of a strategic personnel solutions firm, a deterrence of foreign executives would impact small to medium-sized foreign companies especially, which hire more foreign executives than bigger companies.[64]

The Chinese government can impose penalties on companies through the SCS.[65] If authorities from one department decide to penalize a company on, say, violating environmental regulations, that penalty could affect the company's relations with authorities from other departments. Previously, as China's commercial system developed, there was not a lot of interdepartmental communication. So even if a company had trouble with authorities from one province, it could operate business as usual in another. Now with the advent of the SCS, communication and record-keeping across authorities could be more organized. Kyle Freeman gave the example that if one owns an export company in an inland province, and the company somehow received a bad social credit score, then the potentially instantaneous scoring system

---

[62] Louise Matsakis, "How the West got China's social credit system wrong," *Wired*, July 29, 2019. https://www.wired.com/story/china-social-credit-score-system/
[63] Interview with Conny Jakobsson
[64] Interview with Henri Manner
[65] Interview with Kyle Freeman, business manager of a foreign advisory firm

could be updated in systems across China and hold up export products in a port city.[66] A major flaw in the SCS as described in this instance is that there is currently no detailed information on how exactly real-time scoring is implemented across authorities.

SCS still has kinks in its process. These kinks have unfairly impacted even companies who have operated strictly in accordance with the rules. For example, Freeman relayed the story of one of his clients, a sizeable German company (unnamed for privacy reasons). The company maintained good internal controls and did not break any laws. Yet, it still received a bad score. It turned out that other, still nameless, Chinese companies had counterfeited the German company's products. Consumers, having bought the counterfeited, shoddy products, ended up complaining to the authorities about the German company, giving it a bad score. But by the time the German company realized what had happened, the window for lodging objections with the scoring authorities had passed. This incident indicates that more work remains to be done in verifying the assignment of scores to companies.

Another implication of the SCS is that it can become yet another tool of market control for the Communist Party. Under a well-developed SCS, the Party can further liberalize market access rules, but still control players in the market with scoring. Currently, the Chinese government subjects companies to random inspections, and there is leeway in negotiating the result. But with SCS and its instantaneous scoring across authorities, negotiation room may be limited. This means that companies will need to be vigilant at all times about their internal controls and in monitoring any changes in regulation. Freeman said that some foreign companies have already hired personnel to keep track of the SCS.[67] For instance, in Shanghai, it is possible

[66] Ibid.
[67] Ibid.

to log onto the local SCS and view one's company score. However, it is still unclear as of yet how local systems will feed into the national system.

Favoring state-owned enterprises and the implementation of SCS are just two specific methods for the Chinese government to gain leverage. The clash that usually occurs between the Party and Western companies results in divergent expectations. Back home in the US or a European country, companies enjoy clearly defined rules with effective enforcement mechanisms. In most cases, the clarity of law has instilled in Western companies a receptiveness to compliance. Looking beyond the home country, companies seeking to expand in WTO member countries—there are 164 of them—usually expect comparable treatment, given that the rules of the WTO, under heavy influence from Western countries, ensure fair and free market conditions. Yet expectations do not apply to a country powerful enough to spurn global rules. Companies that have long enjoyed playing in home court advantage are now realizing that they are no longer in control.

Political Challenges: Market Access

China controls market access, and companies cannot enter whenever they please. The issue of market access has historically been one of the most poignant issues for foreign companies entering China. In the 2019 AmCham China white paper, the authors write that

> "many challenges stem from market access restrictions, which inhibit the business operations of over half of survey respondents; challenges are particularly acute in the Technology and Other R&D-intensive sector, with over 75% of members reporting issues."[68]

[68] American Chamber of Commerce in China, "2019 American Business in China White Paper," 28.

The cited survey refers to an annual business questionnaire that AmCham China sends to companies with operations in China.[69] It gauges companies' opinions about the business environment in China as well as key challenges they tend to encounter. Market access also serves as a basis for the Trump administration as a reason for the trade war.[70]

China employs market access restrictions to develop its own economy and technological capability. Market access restrictions have typically been linked with forced technology transfers. Companies who wish to establish a foothold in China would give up their technology to their local partners in order to operate in the country.[71] Not just induced by the free-market reforms of the late 1970s, China's rapid economic expansion is also fueled by a rapid import of advanced technologies from abroad. In the late 1990s, China had established entities called National Engineering Research Centers, whose purpose was to spur domestic innovation. To that end, they were allowed to "actively import, digest and absorb foreign technologies so as to support enterprises in their technological progress and structural readjustment."[72]

Forced technology transfer (FTT) remains a serious issue to this day. A USTR report concludes that the Chinese government continues to pressure technology transfer from U.S. companies through ownership restrictions, such as joint-venture requirements, and market access status.[73] FTT poses an issue for companies, because strategic innovations can be transferred away to support state industrial policies, like Made in China 2025 (a directive that focuses on high-tech industries, such as artificial intelligence). Alternatively, technology transference can give rise to Chinese competitors, compared to whom the foreign company will no longer have a

---

[69] American Chamber of Commerce in China, "2019 China Business Climate Survey," 2019.
[70] Office of the United States Trade Representative, 15.
[71] Bureau of Export Administration, Office of Strategic Industries and Economic Security, "U.S. Commercial Technology Transfers to the People's Republic of China," *Defense Market Research Report*, January, 1999. 2.
[72] Ibid, 12.
[73] Office of the United States Trade Representative, 17.

competitive advantage. Official studies released by the International Trade Commission, among other agencies, on Chinese practices of FTT have estimated that the losses imposed on US companies have been in the tens of billions.[74]

A recent development in China's economic policies, however, can potentially do away with FTTs. The Foreign Investment Law that passed in March 2019—going into effect January 1, 2020—is supposed to improve intellectual property protection of investors and ban any type of forced technology transfers.[75] Given the brand-new status of the law, it remains to be seen how such policies will fare in practice. There remains the possibility of the government exploiting loopholes within the law to pressure companies to give up their technology.

But even if FTT no longer becomes a problem, market restrictions are not going away anytime soon. In recent years, "Negative Lists" (NL) have been used to direct foreign investment. NLs fall within two main categories: prohibited and restricted. Investors are absolutely not allowed in prohibited industries, such as metallurgy and mining. On the other hand, investors can enter restricted industries only under very specific conditions, like ownership restrictions. For example, the 2019 NL stipulates that the ratio of foreign shares in securities companies cannot exceed 51%.[76] Conversely, there is an encouraged investment catalogue, which one might consider a "Positive List" (PL), that lists the industries that welcome foreign investors. Given President Xi's vision for China to lead the world in cutting-edge technology, PL example industries include electronics and information technology. The lists differ among various geographical regions. For both the NL and PL, there is a national version as well as

---

[74] Lee Branstetter, "China's 'forced' technology transfer problem—And what to do about it," *Peterson Institute for International Economics*, May 31, 2018. 2.
[75] Alex Zhang and Vivian Tsoi, "China Adopts New Foreign Investment Law," *White & Case*, March 29, 2019. https://www.whitecase.com/publications/alert/china-adopts-new-foreign-investment-law
[76] Zoey Zhang, "China's 2019 Negative Lists and Encouraged Catalogue for Foreign Investment," *China Briefing*, July 10, 2019. https://www.china-briefing.com/news/chinas-2019-negative-lists-encouraged-catalogue-foreign-investment/

regional ones. In the NL, a distinction is made regarding foreign investment in Free Trade Zones (FTZ), a class of SEZ that incentivizes foreign investment. Shanghai, for instance, was China's first FTZ.

Because FTZs are friendlier to foreign investment, there are usually fewer entries on the NL in FTZs than national ones—vice versa for PL. In the 2019 Foreign Investment Law, the Chinese government effectively legalized its use of NL and PL to manage trade.[77] Many investors may perceive such a move as government hostility towards the outside world. Analyzing a trend of NL and PL entries paints a different picture. Since 2011, the number of prohibited or restricted industries has steadily gone down from 180 in 2011 to 40 industries in 2019. The number of encouraged industries has increased to 415 in 2019, compared with 348 back in 2017.[78] Considering the long-term trend, the status of market access seems to be headed in a favorable direction for foreign investors.

This phenomenon begs an important question: is China opening up its market out of consideration for foreign investors, or is it opening up because it's confident in the dominance of its domestic companies? To the world, China would most likely express the former. However, the reality may be closer to the latter. The attempt of card payment companies, such as Visa and MasterCard, to enter the Chinese market presents a prime example.

After joining the WTO in 2001, China was expected to allow foreign bank card companies to process payments made in Chinese yuan. The Chinese government refused to do so until 2018, when it finally announced the loosening of entry into the financial sector. Meanwhile, a Chinese company, UnionPay, developed a monopoly in the domestic payment market.[79]

---

[77] Ibid.
[78] Zoey Zhang, "China's 2019 Negative Lists and Encouraged Catalogue for Foreign Investment."
[79] Evelyn Cheng, "China is still reportedly dragging its feet in opening its market to Visa, Mastercard," *CNBC*, January 14, 2019. https://www.cnbc.com/2019/01/14/china-still-slow-in-opening-market-to-visa-mastercard.html

American Express was the first company of its kind to officially enter the Chinese market in 2018, under a joint-venture requirement. At that point, American Express not only had to compete with UnionPay for credit card payments, but it also had to contend with the overwhelming trend of mobile payments, supported by companies, such as Alibaba and Tencent. Over 550 million users rely on mobile payments in all aspects of life, rendering credit cards unnecessary.[80] While mobile payments do not yet cover the entire Chinese population, it is entirely possible that they will. When they do, American Express, along with any other foreign card companies, will have no place in the country.

The case study of card companies prompts the serious question of whether it still matters for China to open its markets. If a certain industry is finally opened up for foreign investment, but the market has already been saturated with Chinese businesses or Chinese consumers have already adopted a behavior unsuitable for foreign businesses, foreign companies would be outcompeted, rendering the "opening" pointless.

Political Challenges: Intellectual Property Protection

For companies operating in China, intellectual property (IP) protection remains a key obstacle. In 2018, the Senate Intelligence Committee released a report that stated for the 7 years leading up to 2018, "more than 90 percent of the Department [of Justice]'s cases alleging economic espionage by or to benefit a state involve China, and more than two-thirds of the Department's theft of trade secrets cases have had a nexus to China."[81] The looming threat of IP

---

[80] Man-Chung Cheung, "China Mobile Payment Users 2019," *eMarketer*, October 24, 2019. https://www.emarketer.com/content/china-mobile-payment-users-2019

[81] John C. Demers, "China's non-traditional espionages against the United States: the threat and potential policy responses," *Department of Justice*, December 12, 2018. https://www.justice.gov/sites/default/files/testimonies/witnesses/attachments/2018/12/18/12-05-2018_john_c._demers_testimony_re_china_non-traditional_espionage_against_the_united_states_the_threat_and_potential_policy_responses.pdf

theft and the general lack of IP protection have deterred many companies from committing further investment and innovation efforts to China. The most recent Business Climate Survey, released by AmCham China, cites that nearly 35% of respondents revealed that a "lack of sufficient IP protection prevents them from increasing innovation in China, up from around 32% in 2017."[82] Over half of respondents claimed that the risks of "IP leakage and data security are greater in China than elsewhere." The perennial worry for IP protection may continue for investors, given that China is now guiding foreign investment toward industries like high technology, where copious amounts of patents originate.

But just like its judicial system, China's IP protection policies have been gradually improving. The General Office of the CPC Central Committee and the General Office of the State Council have jointly issued opinions to allocate more judicial resources toward IP protection;[83] a new IP division was established in the Supreme People's Court in 2019 as well.[84] As China itself embarks on a path of sophisticated innovation, it needs to enhance IP protection for its own benefit. Protecting foreign investors is perhaps just a convenient move, but it could also be a sign that China perceives international pressure to change its IP protection regime. The flurry of 2019 IP-related policies, which emphasizes China's commitment to improve IP protection, comes in the thick of a trade war with the US, one of whose key demands was to have better protection of IP.[85]

---

[82] American Chamber of Commerce in China, "2019 China Business Climate Survey," 2019.
[83] "Opinion on Several Issues in Enhancing Reform and Hearing Intellectual Property Cases," *CCPIT Patent and Trademark Law Office*, March 18, 2018. ccpit-patent.com.cn/node/4880.
[84] "Supreme People's Court to set up IPR Court," *Xinhua*, December 29, 2018. xinhuanet.com/english/2018-12/29/c137707321.html
[85] "China to Raise Penalties on IP Theft in Trade War Compromise," *Bloomberg*, November 24, 2019. https://www.bloomberg.com/news/articles/2019-11-24/china-to-raise-penalties-on-ip-rights-violations

Chinese officials' enforcement of the law may deviate from the letter of the law. As of 2019, China ranks 78 out of 126 countries for regulatory enforcement in the 2019 Rule of Law Index from the World Justice Project.[86] Weak regulatory efforts may be attributed to expansive and vague wording of laws. Local officials across different regions have difficulty performing consistent enforcement of the law, when there is plenty of room for interpretation. Abstract 5-year plans start at the very top and flow downward to delegated departments to craft concrete and specific regulations. Regulators often do not know how to implement the policy directives given to them and may purposely leave room for ambiguous laws to achieve flexibility. Online counterfeiting is an example.

China's growth in the e-commerce space has been rapid. According to McKinsey & Company, a consultancy, in 2019 China's online retail market was close to $1.5 trillion, larger than the next ten markets combined.[87] Foreign businesses, through e-commerce platforms like Alibaba or JD.com, understandably want a slice of the ever-growing pie. Such businesses create a new classification for themselves: foreign companies doing business with Chinese consumers, even if not physically located in China.

A report by the South China Morning Post claimed that in 2015, more than 40% of goods sold online in China were either counterfeits or of bad quality.[88] A new E-Commerce Law (ECL) released in 2019 was designed to bring order to hectic online marketplaces.[89] However, the law still comes with insufficient provisions that may increase the difficulty for foreign companies to combat counterfeiting practices. For example, under the ECL, after an e-commerce platform

[86] "Rule of Law Index," *World Justice Project, 2019.* https://worldjusticeproject.org/sites/default/files/documents/WJP-ROLI-2019-Single%20Page%20View-Reduced_0.pdf
[87] Lambert Bu, et al., "China digital consumer trends in 2019," *McKinsey Digital*, September, 2019.
[88] "Over 40 percent of online goods sold in China fakes or poor quality, says state media report," *South China Morning Post,* 2015. https://www.scmp.com/news/china/society/article/1875198/over-40-cent-goods-sold-online-china-fakes-or-poor-quality-says
[89] American Chamber of Commerce in China, "2019 American Business in China White Paper," 108.

operator receives a statement of non-infringement—essentially a declaration from a seller that its products are proprietary—from a seller, the seller only has a 15-day period to file a complaint against anyone who has infringed on its IP. That is nearly impossible for any foreign IP holder to do, because the process to gather and notarize the right documents would take much longer than the allotted time. According to the 2019 AmCham China White Paper, "the final version of the E-Commerce Law leaves much to be desired and could even potentially incentivize and embolden infringers."[90]

Amidst the general trend of concern for Chinese IP threat, two entrepreneurs stand out. Musa Ato is a Nigerian entrepreneur in Austin who intends to start his own clothing store, League of Rebels, in Chengdu, China. When asked whether he is worried about the infringement of his trademark, he replies no.[91] He takes comfort in the fact that his operation will be small, but also recognizes that he needs to play by another country's rules if he wants to thrive there. He attributes part of his nonchalance on the issue to his familiarity with how Nigeria operates, which is apparently similar to the way China operates. Ato is therefore perplexed by foreign companies' complaints about China.

Dr. Forrest Fabian Jesse is another entrepreneur undaunted in the face of the China challenge. In 2012, Dr. Jesse built XiXuan Laboratory in Beijing as part of his PhD process. XiXuan focuses on high-end technologies, such as neural circuits—a facet of artificial intelligence. Given the IP-heavy nature of his work, one would immediately assume that IP protection is of the utmost concern to him. His calm demeanor on the topic reveals otherwise. he seems trusting of the Chinese IP system and the prowess of his people who are tasked with navigating such a system. He believes that in IP negotiations, local people are needed for "local

[90] Ibid, 109.
[91] Interview with Musa Ato

contextualization." Preparation for potential IP infringement issues to arise is especially key. He believes that "if there is fear [over IP], it just means you're not prepared enough."[92]

Political Challenges: Data Security and Censorship

As intangible assets, such as data and algorithms, become more valuable, an ability to safeguard those assets can become a differentiating factor between boom and bust. As a control connoisseur, China is deeply invested in managing within- and between-country data flows. In the modern era, the success of companies has become reliant on data and information flow, so stringent data regulations could hamper foreign operations. For example, global financial services firms need cross-border data flows to deliver core products to customers, among other services; impeded data flows would be a blow to such firms. According to the 2019 AmCham China White Paper, new data compliance, data localization, and data privacy rules have been implemented without considering the cross-border operational needs of foreign companies, affecting many US companies.[93]

The new rules have affected the companies' outlook on Chinese sentiment toward foreign businesses. In the 2019 AmCham China survey, close to 46% of respondents said that they felt less welcome in China than in 2017, and 34% reported no change.[94] The surveys go on to reveal that "among technology and other R&D-intensive firms, 54% felt they were slightly or much less welcome than before."[95]

A Cybersecurity Law and Counter-Terrorism Law that went into effect in 2017 and 2016 respectively enforce rigorous data storage laws.[96] In particular, these laws subject entities that are

[92] Interview with Dr. Forrest Fabian Jesse
[93] American Chamber of Commerce in China, "2019 American Business in China White Paper," 54.
[94] American Chamber of Commerce in China, "2019 China Business Climate Survey," 2019.
[95] Ibid.
[96] American Chamber of Commerce in China, "2019 American Business in China White Paper," 130.

designated as critical information infrastructure (CII) operators to security reviews if they intend to move data offshore. The government has not yet specifically defined "CII operators," but has instead released a general idea of CII as "if [they were] destroyed, suffering a loss of function, or experiencing leakage of data—it might seriously endanger national security, national welfare, the people's livelihood, or the public interest."[97] In light of this description, CII requirements would apply to companies in industries like internet, telecommunications, and energy.

Many companies have been required to use "secure and controllable" [98] network products, which are mostly made by Chinese companies. This move is seen by many as the government's attempt to promote domestic products over foreign ones. Along with censorship, the Chinese government is careful to construct a controlled environment in which foreign companies operate. Previously, foreign companies would circumvent internet and censorship restrictions using Virtual Private Network (VPN) services. But according to Conny Jakobsson, there are now restrictions on which VPNs companies are allowed to use, ideally to boost the government's surveillance of internet traffic.[99] Additional research reveals that beginning in 2016, the government started cracking down on VPN services, imposing on mainland VPN providers the need to obtain government approval.[100]

Political Challenges: Foreign Investment Law

[97] Graham Webster, et al., "Three Chinese Digital Economy Policies at Stake in the US-China Talks," *New America*, April 2, 2019. https://www.newamerica.org/cybersecurity-initiative/digichina/blog/three-chinese-digital-economy-policies-at-stake-in-the-uschina-talks/

[98] American Chamber of Commerce in China, "2019 American Business in China White Paper," 132.

[99] Interview with Conny Jakobsson

[100] Josh Ye, "China tightens Great Firewall by declaring unauthorized VPN services illegal," *South China Morning Post*, January 23, 2017. https://www.scmp.com/news/china/policies-politics/article/2064587/chinas-move-clean-vpns-and-strengthen-great-firewall

China's 2019 Foreign Investment Law (FIL) has been touted by both Chinese and foreign entities as an improvement on the China business climate. In a previous discussion on forced technology transfer and IP infringement, it was briefly mentioned that the FIL explicitly prohibits forced technology transfers by Chinese entities and improves IP protection policies. As a result, some foreign companies have praised the law. The EU Chamber of Commerce (EUCC), for instance, has said that "[the FIL] is surprisingly accommodating to concerns that [the EUCC] had."[101] But China law experts are pessimistic as to whether the FIL will meet foreign companies' expectations.

According to Steve Dickinson, the central component in the FIL is the concept of national treatment.[102] The idea refers to treating foreign-invested enterprises (FIE) the same as domestic private Chinese companies. FIE, as the law clarifies, is an enterprise incorporated under Chinese laws within the territory of China, and with all or part of its investment from a foreign investor. Previously, distinctions were made within FIEs between wholly owned foreign enterprise, contractual joint ventures, and equity joint ventures. Under the FIL, these distinctions no longer exist and have been uniformly put under the category of FIE.

Deng Xiaoping sought to attract foreign investors by offering various incentives, including tax breaks and discounted land and rent. According to Dickinson, beginning in the mid-2000s, Chinese companies started to complain that foreign companies had an edge over them due to the incentives.[103] So the Chinese government began slowly reducing incentives over the years. The national treatment clause in the FIL may be the "final nail in the coffin."[104]

---

[101] Evelyn Cheng, "EU Chamber says China's new foreign investment law is 'surprisingly accommodating'," *CNBC*, October 21, 2019. https://www.cnbc.com/2019/10/21/eu-chamber-chinas-foreign-investment-law-is-surprisingly-accommodating.html
[102] Dickinson was crucial in the enactment of China's New Company Law in 2006, and he was asked to write on legal matters for the Pacific Rim Law & Policy Journal, a prestigious Asia law journal.
[103] Steve Dickinson, "New China Foreign Investment Law: Not Good News," *China Law Blog*, April 23, 2019. https://www.chinalawblog.com/2019/04/new-china-foreign-investment-law-not-good-news.html
[104] Ibid.

Foreign companies would be subject to the same tax rates applied to local firms, and they would be "entirely under the control of the CPC."[105] With regards to the latter claim, Dickinson gives the example that if Chinese officials mandate that a foreign company turn over its source code and other confidential information under the Cybersecurity Law, compliance will be required. National treatment does not guarantee foreign businesses full access to the Chinese market—Negative Lists are still very much at play. In a way, the existence of the NL negates the national treatment clause, because if there are sectors that only Chinese companies can enter, foreign firms will not be on equal footing with domestic ones.

Overview of Political Challenges

In an economy so intertwined with politics, it is hard to distinguish which issues are political and which are not. The social credit system, market access, forced technology transfer, intellectual property protection, data security, and cybersecurity, among other issues, are variations of how the Communist Party exerts control over the economy and its components. The root of these problems lies in China's political structure. Without the power to incite a political revolution that purges authoritarianism, foreign companies will continue to be under the almighty hand of the Communist Party.

Interestingly, the most recent trade war between the US and China does not add anything new to the conversation on political challenges encountered by businesses, because the Communist Party is still firmly in power. All the tweets, the back-and-forth tariff impositions are just noise. Consider the phase one trade agreement signed on January 15: China pledged to buy $200 billion worth of goods on top of 2017 levels in the next two years, promised to end all

[105] Ibid.

forced technology transfer practices and strengthen IP policies, and agreed to open up the financial services market.[106] Such provisions would barely change the current situation. China can point to its own FIL and say that it has already started fulfilling its promise to enhance IP-related policies, though actual enforcement could look drastically different. China's domestic monopolies in financial services can outcompete foreign firms, rendering an open market meaningless. In an odd nod to the Chinese state-led economic model, which is apparently anathema to Trump, the US compels China to buy a fixed dollar amount of goods—a move that only a state-directed economy can accomplish.

Cultural Challenges

When Fuyao Glass Industry Co. took over a closed-down General Motors (GM) plant in Dayton, Ohio, in 2014, Cao Dewang, the founder and CEO, had a vision of bringing together Chinese people and Americans, jointly working towards the goal of expanding Fuyao's glass parts all over the world. The Ohioans who were previously employed by GM were rehired by Fuyao. They were grateful for the new opportunity. It meant that families who would have otherwise moved elsewhere to find jobs, could stay in their hometown. But a heart-warming story of second chances soon turned ugly because of cultural frictions between Chinese supervisors and workers and American workers in the new Fuyao factory.

This story was the subject of a popular 2019 documentary called American Factory.[107] Through on-screen interviews and exclusive filming of closed-door meetings, among other scenes, the filmmakers capture the value of cultural harmony in a multicultural workplace.

---

[106] "Economic and Trade Agreement between the United States of America and People's Republic of China," *Office of the United States Trade Representative*, January 15, 2020. https://ustr.gov/sites/default/files/files/agreements/phase%20one%20agreement/US_China_Agreement_Fact_Sheet.pdf

[107] Shown on Netflix.

Chinese supervisors could not understand the Americans' emphasis on workplace safety. The Americans could not fathom how tirelessly the Chinese can work day in and day out. Fuyao even paid for some Americans to go to China to learn how Chinese factory workers operate and bring back lessons to teach the rest of the American factory workers. This conflict of values and operating style is not unique to factory work. Multinational companies in any industry will need to contend with cultural issues when working in a foreign country.

Cultural Challenges: Cultural Integration

Human behavior is subject to many cognitive biases. For example, Tyler Johnson, sent to China to manage an international branch of Dell Technologies, professes that the first difficulty he countered was the integration of a different belief system and mindset. Given his expertise, Johnson believed he knew the "best way to do things."[108] He brought business strategies and a management style that worked in America and thought he would continue to propel the same processes in a different country. But these Johnsonian systems did not sit well with the Chinese employees, who had different views on strategies that are more suitable in China. For confidential reasons, Johnson never specified exactly the topics on which he and his employees clashed. Instead of considering his employees' ideas, he continued his own methods and failed miserably. Some of his employees ended up leaving him.[109] Johnson's cultural misstep is believing that what works in the US must suit China.

Dell first became popular in the US through a direct-to-consumer approach, selling computers directly to people and businesses.[110] This strategy was groundbreaking at the time

[108] Johnson, *The Way of the LaoWai.* 269.
[109] Ibid, 271.
[110] Ibid, 297.

because it cut out the need for intermediaries. But doing business in China has culturally required intermingling between "backdoor channels with private dealings,"[111] which sometimes included payoffs. This indirect model has been summarized by a famous Chinese phrase: 搞关系 (gao guanxi), meaning utilizing relationships.

The importance of social connections can be attributed in part to the dominant cultural philosophy in China: Confucianism. It is an idea that emphasizes harmony in society achieved through following certain rituals and moral codes. Deeply ingrained in the philosophy is the promotion of social connections between people.[112] The Communist Party, under Xi, has been active in calling for a "renaissance of Confucianism" in China,[113] even if the Party is really just selecting particular Confucian values that encourage obedience to the state.

Foreign businesses need to understand how to foster relationships with either local business partners or government officials. Especially given China's notoriety for ambiguous laws applied on a case by case basis, knowing the right people can help a foreign business navigate through complexity. Coping with a relationship-driven strategy can be difficult for companies that are perhaps more used to dealing with clear-cut rules of the law. Conversely, companies who do cultural research on China before they enter can make the mistake of over-relying on guanxi-oriented tactics. Xi Jinping's crackdown on corruption several years ago made people more nervous about pursuing deals over dinner tables and other social occasions. That is not to say that social connections are no longer important. Different regions operate differently. In FTZs, such as Shanghai, where regulations and rules align more closely with those of Western countries, it is

[111] Ibid, 300.
[112] June Ock Yum, "The impact of Confucianism on interpersonal relationships and communication patterns in east Asia," *Communications Monographs*, 55:4, 374-388.
[113] Paul Scotchmer, "Is China headed for a clash of cultures as Xi Jinping fuses Confucianism and Marx?" *South China Morning Post*, July 27, 2019. https://www.scmp.com/comment/opinion/article/3017929/china-headed-clash-cultures-xi-jinping-fuses-confucius-and-marx

likely to be more difficult to utilize *guanxi* blatantly to achieve business objectives. In smaller, more in-land regions, rules of engagement might be different.

The difficulty of cultural integration leads to an inharmonious work environment. Any foreign company in China will likely hire Chinese employees. Without an effort to understand how Chinese employees operate, companies may not have a cohesive team dynamic. Cultural integration can require modification of previous conceptions and habits to absorb new cultural information. The natural reliance on habits acquired from one's own familiar culture is perhaps the root cause of many cultural challenges that businesses encounter. For example, Tyler Johnson had to modify his westernized management style to suit his Chinese employees. Back in the US, he was used to instructing his employees to achieve a certain target without telling them explicitly what to do. In China, he resorted to the same, familiar management style. He quickly became confused as to why his Chinese employees were not "motivated to get [the tasks] done" and they would "nod and agree, even though they didn't understand what [he] was asking them to do."[114] In the West, business communication is straightforward and asking questions is not generally frowned upon. In China, however, the concept of "face" can prevent Chinese people from engaging in the same behavior as Westerners in business settings. In the instance described by Johnson, the Chinese employees perhaps did not want to lose face in front of their boss, so they decided to conceal their ignorance.

It is easy to assume the universality of certain cultural rules. For Westerners, the assumption perhaps comes from the dominant presence of Western values and ideals in multilateral institutions and global rules. Foreign companies face a trap of thinking that China will become more like the West as it grows richer. Greg Collins, a former global supply chain

[114] Johnson, *The Way of the LaoWai*, 715.

executive turned professor, argues that perhaps it was out of hubris from the Westerners' point of view that they can enter China and change it according to Western beliefs.[115] The Western world made the assumption that China wants to be changed. Why wouldn't a developing country want to follow the mold of a Western country and grow rich? Collins believes that Westerners underestimate how much China values its history. It is easy to forget the relative youth of democratic institutions and free market principles, compared to monarchical or dictatorial political structures that have dominated much of history. The concept of the Emperor is still very much alive today in China, especially after Xi scrapped the term limits of his presidency and his invocation of important values of the past like Confucianism.

Cultural Challenges: Technology and Culture

While many cultural values from China's long history inform certain business practices and norms today, China's culture is continuously evolving. The emergence of new technologies, such as mobile payments, engenders not only new modes of business operation and strategy but also novel behavior. Already in marketing practices, experts see minimal progress that Western parties are making in China due to an inability to adapt to changing consumer preferences, spurred by the infusion of new technologies in Chinese society. Marketing is a particularly apt arena to explore cultural challenges for foreign companies, because the success of a marketing campaign depends heavily on the companies' grasp on Chinese culture and their ability to tap into the psychology of Chinese consumers. Megan Whitler, assistant professor at The University of Virginia, wrote an article on this very topic in the Harvard Business Review in June 2019.[116]

---

[115] Interview with Greg Collins
[116] Kimberly A. Whitler, "What Western Marketers Can Learn from China," *Harvard Business Review,* June 2019. https://hbr.org/2019/05/what-western-marketers-can-learn-from-china

China has become a mobile-first society: as of August 2019, China had over 850 million netizens.[117] Among all the Internet users, the proportion of those accessing the Internet through mobile phones increased to 99.1% from 98.6% at the end of 2018.[118] This unparalleled mobile phone usage has created a new wave of consumer culture, which promptly revolves around "the creation of shareable, viral content and the presence of dominant, channel-straddling media giants."[119] The dominant media giants mentioned in the quote refer to the likes of Tencent and Baidu, which encompass platforms that span across many spectrums, including social media, gaming, and news media. Such an amount of market power accrued to a select few firms is virtually unheard of in the Western world, in which more stringent anti-competitive laws induce fiercer competition and less market concentration. The prevalence of the media giants in Chinese society means that most online activities that Chinese consumers engage in will be part of the sphere of these companies. According to Kleiner Perkins, a venture capital firm, more than half of Chinese netizens' online activities are within the Tencent ecosystem.[120]

Whitler believes that Western marketers are disadvantaged in a media landscape that is highly concentrated. The relatively greater platform diversity in the West has instilled in its marketers the habit to use a fragmented, multi-channel approach, covering as many targeted users as possible.[121] While it may make sense to spread brand awareness through an inundation of advertisement, tailoring the message to specific users is much harder to achieve. TV, radio, and billboards, among other types of advertisement, generate disparate sources of data that may not be aggregated to construct a full consumer profile. America's internet giants do a much better

---

[117] Xia Xiao, "China has over 854 mln internet users: report," *Xinhua,* August 30, 2019. http://www.xinhuanet.com/english/2019-08/30/c_138351278.htm
[118] China Internet Network Information Center. https://cnnic.com.cn/IDR/ReportDownloads/.
[119] Whitler, "What Western Marketers Can Learn from China."
[120] Ibid.
[121] Ibid.

job at collecting information from a multitude of netizen activities, but still lack in reach compared to their Chinese counterparts.

The dominance in Chinese media platforms manifests not only in the platforms' massive online presence, but also in their ability to shape the preferences of Chinese consumers. For one, the platforms have fostered a mobile environment in which content is king. Content can range anywhere from short, viral skits with famous influencers, or "key opinion leaders," to live concerts where the audience can play around with the products that are being marketed and netizens can be entertained through virtual interaction.[122] The success in such strategies has led Chinese marketers to center their efforts in creating engaging content that can change consumer behavior quickly. "The Chinese approach starts with thinking about content, information, and knowledge that could be engaging and shared," said Danielle Jin, chief marketing officer for Visa Greater China, "it isn't about advertising and price promotions."[123]

Knowledge about consumer behavior and culture is necessary for a foreign company to succeed. Assuming that the marketing styles agreeable to foreign audiences would be equally receptive in China may not work. Danielle Jin points to promotions as a typical Western strategy that unsuitable in China, given Chinese consumers' preference for content shaped by stimulating mobile and in-person experiences.[124]

Another key cultural difference is deployment speed, whether it be products or marketing campaigns. While the difference in deployment speed is not necessarily a result of technological differences between China and the Western world, the former's platforms certainly play a big role in propagating speedy release of content and products.[125] How there came to be a difference

[122] Ibid.
[123] Ibid.
[124] Ibid.
[125] Ibid.

in the value of speed between Western countries and China is tough to pin down. Perhaps because China still considers itself as a developing country—though some may say this qualification is inappropriate for an economy of China's size—its companies are more receptive to a growth mindset dominated by speed. As Whitler writes, "marketers in China make decisions more quickly than their Western counterparts do, mainly because firms in that fast-growing economy need to show momentum to keep investors on board."[126]

Western firms seem to adopt a different model, emphasizing economies of scale, efficiency, and perhaps most importantly, their bottom line. Under such a model, risky behavior that may not be profitable on a short time horizon is likely to be quashed. Whitler has observed that for certain Western firms' Chinese operations, there is tension between local and global management. Local executives "are hampered by layers of global management that tend to slow down decision making, even as they interact with Chinese marketers accustomed to working quickly."[127]

The inertia of business culture is difficult to overcome. Western firms have been so dominant for so long that it is almost natural to carry on using the same strategies. Danielle Jin revealed that as she worked with Western firms prior to Visa, part of her job description tended to be that of planning with the client a year or two in advance to determine upcoming seasonal promotions. Planning far in advance is a rigid process "created over decades," whereas Chinese marketers would consider "creating seamless content that cuts across multiple platforms and was temporally relevant."[128]

---

[126] Ibid.
[127] Ibid.
[128] Ibid.

Finding success in the Chinese market is not just about understanding the cultural history of the country that contributes to modern practices, but also about capitalizing on current technological trends that are shaping the trajectory of Chinese consumer practices. In many ways, such as mobile payments and a bullet train system that spans the entire nation, China is ahead of the Western world.

When foreign executives migrate to China to manage a new operation, they have to deal with the stressful reality that they are in a foreign environment filled with many technologies with which they have a comparative disadvantage. Executives cannot function at full capacity at work if they are having trouble living a completely different lifestyle. Conny Jakobsson and Henri Manner both hinted at such a difficulty. Jakobsson mentioned that some foreigners cannot handle the surveillance and restriction of freedom they feel they will undergo should they go to China.[129] Manner talked of an emerging trend for foreign companies to hire local executives who are more adept at navigating the Chinese business environment.[130] But staffing only locals also has the added risk of reducing diversity of thought and background. Manner and his firm advise local companies against such a practice for that exact reason.[131] Therefore, foreign firms have the responsibility of ensuring that foreign executives are able to manage cultural unfamiliarity and promoting collaboration among local and foreign employees.

Overview of Cultural Challenges

Any foreign company can experience cultural challenges operating in China. The country's cultural context determines how relationships are structured and how communication

[129] Interview with Conny Jakobsson
[130] Interview with Henri Manner
[131] Ibid.

occurs. There is bound to be misunderstanding and a misalignment of expectations in a multicultural workplace. If a foreign company decides to hire only locally for its Chinese operation, that still does not eliminate the prospect of cross-cultural interaction with the rest of the company.

Many historical values, such as Confucianism, inform modern cultural practices and behaviors. For example, Confucian emphasis on personal relationships encourages the utilization of social connections in business settings. In places where the judicial system is weak, knowing the right people can have an outsized effect on business success. Culture also dictates the harmony of a workplace. Foreign leaders in China can have a difficult time adjusting their leadership style to how Chinese workers typically operate. The possibility of a culture clash in the workplace is one of the reasons why foreign companies are turning to developing local talent for their operations.

The culture fostered by China's emerging technologies can be more obstructive to foreign firms than traditional Chinese cultural values. Moving forward, the big question for companies is how they can successfully tap into the psychology of modern consumers through the utilization of unfamiliar platforms, such as WeChat, a powerful platform with many services like messaging and payment. From Kimberly Whitler's research, it is evident that Chinese netizens consume content differently from the West—the former orient toward mobile-phone usage.[132] As China embarks on its new mission of becoming a high-tech hub of the world, leading in technologies like artificial intelligence, a new culture that accompanies technological change may emerge.

Business Process Challenges: Labor

[132] Ibid.

After the economic reforms in the late 1970s, foreign companies began looking to China as a prime destination for foreign investment due to its abundance of low-wage workers. According to one analysis, following the reforms, Chinese wages were 3% of average American wages and were also drastically lower than those of neighboring Asian countries like Thailand.[133] China's low-cost labor coupled with globalization-fueled manufacturing transformed the country into the world's manufacturing base. Supply chain executives focusing on cost-cutting would move factories to China to take advantage of China's cheap labor. Foreign companies adopted an "in China, for the world" strategy, which in turn made China a major exporter. From 1978 to 2017, Chinese exports increased from $10 billion to $2.2 trillion, and the average annual growth rate of China's total foreign trade during that timeframe was far higher than the global average.[134]

As China began to cement itself in the world as a manufacturing powerhouse, it started to manufacture and assembling anything from textiles to high-end electronics. As the country became more prosperous, average incomes and labor costs began rising. A report by the Congressional Research Services indicates that from 2007 to 2018, China's average monthly wage grew by 263%.[135] This rapid increase in wages has become a burden to foreign companies. The business surveys released by AmCham China and the US-China Business Council reveal that labor cost increases have consistently ranked in the top 10 challenges for foreign companies

---

133 Hongbin Li, Lei Li, Binzhen Wu, and Yanyan Xiong, "The End of Cheap Chinese Labor," *The Journal of Economic Perspectives* 26, no. 4 (2012): 57.
134 Kungwang Li and Wei Jiang, "China's 40 Years of Reform and Development: 1978-2018," *Australian University National Press,* July, 2018.
135 Congressional Research Services, "China's Economic Rise: History, Trends, Challenges, and Implications for the United States," 17.

in the past decade. A lot of companies, especially in the apparel industry, have thus moved their production out of China and into Southeast Asian countries like Vietnam.[136]

Some companies do not have the luxury to move their operations outside of China. According to Greg Collins, China's cheap labor built local supply chain ecosystems where suppliers, assemblers, and manufacturers are all in close proximity to one another to reduce inventory costs and lead time—the time between placing an order and delivering a finished product.[137] Collins gives the example of Hewlett Packard (HP) printers. Previously, HP had assembled its printers in Singapore, but low labor costs in China enticed the company to move its assembly plant.[138] Subsequently, HP's major suppliers and component manufacturers decided to move with HP to remain closer to a major client.

Supply chain ecosystems have the benefit of stimulating development of necessary infrastructure, which serves as the base for further innovation and progress in manufacturing and assembling processes. This is especially true for electronics. As workers gain more expertise and as local infrastructure becomes more advanced, it can become substantially harder for a foreign company to seek the same expertise and infrastructure elsewhere.

China's commitment to move up in the value chain of innovation and manufacturing will make finding talent costly. Success in high technology industries requires the proper utilization of skilled positions, which take money and time to develop. As many other rich countries are experiencing, China has a shrinking working population. According to a report by the US-China Business Council, "in 2018, China's employed population declined for the first time ever, falling

---

[136] Sophia Yan, "'Made in China' isn't so cheap anymore, and that could spell headache for Beijing," *CNBC*, February 27, 2017. https://www.cnbc.com/2017/02/27/chinese-wages-rise-made-in-china-isnt-so-cheap-anymore.html
[137] Will Kenton, "Lead Time," *Investopedia*, April 22, 2019. https://www.investopedia.com/terms/l/leadtime.asp
[138] Interview with Greg Collins

by 540,000."[139] The law of supply and demand dictates that as supply of labor continues to shrink, wage rate will be pushed ever higher.

Not only are companies experiencing labor shortages, they are also having difficulty finding the right skills to match their demand. A study conducted by J.P. Morgan Chase (JPM) on thousands of Chinese companies revealed that every firm had a skills shortage of "one degree or another."[140] The report recognized several structural challenges. College graduates, either domestic or overseas, did not possess the skills compatible with their positions. JPM quotes a survey that indicates 70% of companies "believed that what students learned in school had little practical value."[141] Survey results further reflect that the quality of vocational education needs to be improved and that the skill and education level of migrant workers are low, contributing to their incapability to land in high-skill positions that companies need.

China's wage rates are not distributed evenly throughout the country. Wealthier coastal regions, like Shanghai and Shenzhen, have higher wages than more inland regions, such as Anhui.[142] This uneven wage distribution reflects the industries that Shanghai attracts, such as high technology and finance, among other valuable sectors. But because of Shanghai's high living costs and restrictive residency system (hukou), migrant workers tend to favor inland China, creating labor shortages in Shanghai.

Another labor challenge is restrictive labor laws. Such laws make it difficult for companies to fire or furlough employees. The ability to hire and fire people is integral to a company's productivity and its success. Conny Jakobsson mentions a specific example of a joint

---

[139] US-China Business Council, "Minimum Wages in China 2020: A Complete Guide," *China Briefing*, January 2, 2020. https://www.china-briefing.com/news/minimum-wages-china-2020/.
[140] J.P. Morgan Chase, "Skills Shortages in the Chinese Labor Market," October 2016. https://www.jpmorganchase.com/corporate/Corporate-Responsibility/document/skillsgap-in-chineselabor-market-exec-summary.pdf.
[141] Ibid.
[142] Ibid.

venture he had set up with an SOE.[143] Freely firing employees became an issue in this partnership, because the SOE "only cares about whether its people have jobs," but he just wanted to grow the business. Kyle Freeman also agrees that prohibitive labor regulations can become costly for foreign companies to operate.[144]

Labor cost can turn into a competitive advantage for some local companies. In addition to salary, labor cost can include employer social insurance and housing fund obligations. According to the USCBC, these components can add 37.25% to an employee's salary on average.[145] Certain Chinese companies have been able to bring down cost by cutting corners on paying social insurance. According to Kyle Freeman, the amount of social insurance employers pay depends on the salary of its employees. Sometimes companies have to contribute up to 40% of employees' salaries.[146] In such cases, companies would under-report salaries in order to pay less in social insurance, reducing overall cost for company operations. Foreign companies tend to not have this problem due to a high compliance threshold. Given that they are in foreign territory and that they are accustomed to a by-the-book operating style, they are most likely going to strictly adhere to rules. On the other hand, Chinese companies, considering their local relations and familiarity with domestic rules, are more comfortable with exploiting loopholes. If local companies incur fewer costs, they are in a better position to reduce price and in turn push foreign companies out of the market.

Business Process Challenges: Competition

[143] Interview with Conny Jakobsson
[144] Interview with Kyle Freeman
[145] US-China Business Council, "Minimum Wages in China 2020: A Complete Guide."
[146] Interview with Kyle Freeman

A common concern among foreign executives is Chinese competition. Opinions are mixed about whether the competition is spurred by honest and fair processes, or by the condemned practice of utilizing compliance loopholes and state assistance. General statistics reveal that in many markets, domestic Chinese companies have been increasing their market share. For example, according to a January 2020 report by The Economist, Chinese smartphone makers have increased their share of high-end phones from 12% in 2014 to 67% in 2018.[147] Similarly, Chinese car makers, after improving the quality of their cars, have taken a 38% market share in 2018, up 12% from 2014.[148] These increases in market share were accomplished by private Chinese firms, which tend to not receive considerably more favorable treatment than foreign companies. The expanding market shares of such companies may reflect innovation. At the same time, however, Chinese nationalist sentiment in purchasing domestic products should not be overlooked. Xi Jinping has repeatedly tried to boost purchase of local products. For example, the Financial Times reported in December 2019 that the central government has released a directive for all of its agencies to replace any foreign technological products, hardware and software alike, with domestic ones within 3 years.[149]

Regardless of any meddling by the Chinese government, private Chinese companies are becoming fierce competitors to foreign companies because they are becoming more innovative. One potential indicator of this is the rapid increase in the amount of patent filings from China. According to the Center for Strategic and International Studies, China's patent filings in 2016 accounted for 42.6% of the world's patents.[150] The story behind these numbers, more so than the

---

[147] "Despite political woes, America Inc is still thriving in China," *The Economist,* January 2, 2020. https://www.economist.com/business/2020/01/02/despite-political-woes-america-inc-is-still-thriving-in-china
[148] Ibid.
[149] Yuan Yang and Nian Liu, "Beijing orders state offices to replace foreign PCs and software," *Financial Times*, December 8, 2019. https://www.ft.com/content/b55fc6ee-1787-11ea-8d73-6303645ac406.
[150] China Power Team, "Are Patents Indicative of Chinese Innovation?" *Center for Strategic and International Studies*, February 15, 2016. https://chinapower.csis.org/patents/.

numbers themselves, speaks to China's innovative drive. Due to Xi's directive for high-technology development in China, "Made In China 2025," the country is in an innovative frenzy. The Chinese National Intellectual Property Administration (CNIPA), a government agency, considers patent creation to be innovation and has in turn called for government incentives to boost the number of domestic patent filings.[151] To increase the amount of patents, CNIPA has eased the standards for what can be considered a patent.[152] Subtle tweaks and design improvements are now sufficient for a patent filing. Therefore, China's patent number does not necessarily mean that China leads the world in innovation.

Yet the Chinese government is undeniably making it easier for companies to innovate. In a report by Deloitte, a consultancy, on China's innovative landscape, the authors write, "the Chinese government has been actively supporting the development of innovative start-ups by creating a favorable environment for them."[153] Chinese companies are also investing more in research and development (R&D). The Economics of Industrial Research and Innovation, an institution of the European Commission, releases an annual list of the world's top 2500 companies by R&D investment. Not only has the number Chinese companies on such a list been increasing every year, but also the R&D investment by listed companies is growing at a rate higher than the global average.[154] As Chinese companies continue to invest more in innovation, foreign companies will have a much harder time keeping up. Already private Chinese companies have engendered new business models and practices not seen in the Western world. As mentioned previously, Chinese internet companies have created new strategies in marketing and

---

[151] Kanchana Nirupamala, "Intellectual Property: Is China the Global Leader in Innovation," *SPEEDA*, June 18, 2019. https://asia.ub-speeda.com/en/intellectual-property-china-global-leader-innovation/
[152] Ibid.
[153] Deloitte China, "China Innovation Ecosystem Development Report 2019," September 2019. https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/innovation/deloitte-cn-innovation-china-innovation-ecosystem-report-en-191101.pdf.
[154] Ibid, 9.

content promotion that uniquely capture the attention of Chinese consumers. Prevalent digital payment companies have created novel ways for consumers to purchase items and experiences. Because these trends are utterly unfamiliar in the West, foreign companies would have trouble competing with inventive Chinese firms.

Business Process Challenges: Environmental Regulations

China's meteoric rise did not come without costs. By putting economic development first, it failed to protect its environment. In 2007, the New York Times reported that "Chinese cities often seem wrapped in a toxic gray shroud."[155] The article further states that only 1% of city dwellers at the time breathed air that was safe according to EU standards.[156] The extremity of the pollution has led to the Communist Party's prioritization of environmental protection in recent years. National directives were implemented to reduce air pollution in 2013, water pollution in 2015, and soil pollution in 2016.[157] As a result of the government's actions, recent data from 2018 show that air pollution levels in major cities have decreased significantly in the 4 years prior to 2018.[158]

China's environmental measures have affected businesses. Its strict enforcement of environmental regulations has disrupted certain companies' supply chains. For example, AmCham China discusses a phenomenon whereby "in some provinces, during periods of heavy pollution, all factories in certain industries must limit or halt production, regardless of their level of compliance with existing standards."[159] Blanket bans on production out of consideration for

---

155 Joseph Kahn and Jim Yardley, "As China Roars, Pollution Reaches Deadly Extremes," *New York Times*, August 26, 2007. https://www.nytimes.com/2007/08/26/world/asia/26china.html.
156 Ibid.
157 American Chamber of Commerce in China, "2019 American Business in China White Paper," 74.
158 Ibid, 74.
159 Ibid, 74.

the environment can be very costly to businesses and consumers. Conny Jakobsson, whose company owns production facilities in China, has seen firsthand that "a lot of industries were forced to move or close down in compliance with regulations."[160] Kyle Freeman explains that several years ago when environmental regulations came into full effect, "changes occurred overnight."[161] An article released by Kyle's firm further states that as of 2017, more than 80,000 factories have been shut down by the anti-pollution campaign. Employers can face criminal liability should they violate environmental regulations.[162] Municipalities have filed cases against noncompliant companies; Beijing alone filed around 13,000 as of 2017.[163]

In many cases, China's regulations are unusually strict, sometimes technologically infeasible, even according to the standards of developed countries. AmCham China details a prime example in the synthetic resin industry. Strict emission standards have imposed limits on the discharge of wastewater and the chemicals it contains—byproducts of resin production. Evidently, "these standards set the level of phosphorus permitted in wastewater discharges so low that downstream wastewater treatment plants have been forced to adjust the composition of their wastewater treatment agents to comply."[164]

There is an added problem of ambiguity when it comes to regulations in China; environmental rules are no exception. For example, a State Council directive has required 46 directly administered municipalities and cities to separate all waste into four categories: ordinary, recyclable, organic, and hazardous.[165] Many of the details surrounding the policy, such as timeline and precise implementation, have yet to be fleshed out. Nonetheless, such a policy can

[160] Interview with Conny Jakobsson
[161] Interview with Kyle Freeman
[162] Srivinas Raman, "China's Pollution Crackdown and Its Impact on Business," *China Briefing*, December 11, 2017. https://www.china-briefing.com/news/chinas-pollution-crackdown-business-impacts/.
[163] Ibid.
[164] American Chamber of Commerce in China, "2019 American Business in China White Paper," 76.
[165] Ibid, 78.

affect the operations of waste-generating industries, such as tourism and retail, among other industries. Abruptly changing how such industries manage waste currently can expose businesses to unforeseen liabilities that accompany new environmental regulations.

Overview of Business Process Challenges

China became an attractive production base initially because companies were able to take advantage of abundant, inexpensive labor. As the country became richer and began to focus more on higher-value industries, labor cost started to rise. Compounded by a shrinking working population, the cost challenge can only get worse. Considering China's expertise in manufacturing and its infrastructure that grew to accommodate vast operations, China may still be a cheaper destination than its neighbors for industries that require sophisticated supply chains.

An ultra-competitive landscape can be a blow to profitability. Unfortunately for foreign companies, Chinese private companies are on the rise. A nationwide call for innovation has offered incentives for companies to progress rapidly, as evidenced by the growth of Chinese patents and the erosion of foreign companies' market share. Chinese companies also benefit from the growing nationalist sentiment of buying strictly Chinese products, boosting sales. Although a lot of firms are outcompeting their foreign counterparts legitimately, others can be using shadier tactics like underreporting employees' salaries to pay less social insurance.

Strict enforcement of environmental laws can be detrimental to businesses particularly in the automobile, mining, oil and gas industries, among others. The government can take heavy-handed actions, such as inducing unexpected factory closures, which can severely damage a company's supply chain. While China should be praised for its new-found anti-pollution passion, rules should be more clearly defined and companies should be allotted a reasonable period of time to make proper adjustments.

Conclusion

The Chinese market is a huge opportunity for global companies. Its emerging middle-class is a harbinger of growing consumer spending power. Its conviction to be on the forefront of technology makes the country an alluring location for investment. With all of China's attractive features, there are subtle and blatant warning signs to companies and nations. The West has tried to conform China to a liberal democratic model since its accession to the WTO but failed. China has since maintained a socialist economic model sprinkled with free market elements. The Communist Party takes advantage of a rules-based international order to further Chinese interests, complying or circumventing rules where appropriate. China is especially adroit at leaving ambiguity in its laws, which can disorient multinational companies and global organizations alike.

Political challenges arise from policy directives from local and state officials. Various government measures that create barriers, either purposefully or otherwise, to foreign companies were examined in early sections above. Such barriers can manifest in the form of ambiguous wording in laws, like the newly implemented Foreign Investment Law and other regulations, or in the penalties government officials dole out through the social credit system.

Cultural challenges to foreign companies were analyzed within the historical context of certain Chinese customs, such as the Confucian preference of social connections. Personal anecdotes of foreign business executives were relevant in this section, as they relayed the difficulty of adjusting to a foreign culture. For example, Tyler Johnson had to learn the unique communication and work styles of his Chinese employees. New technologies have created novel Chinese consumption habits, posing an obstacle to foreign companies who have never encountered anything similar in the West.

The final section of this paper delved into business process challenges that affect a company's profitability. Labor cost, often the biggest cost component for any business, has become a chief challenge for companies. Aside from cost, maintaining market share, calculated by a company's sales, has become a problem for some foreign companies. Many private Chinese companies, some of whom are becoming more innovative than foreign companies, are eating into the market share of foreign companies which tended to dominate sectors like smartphones and automobiles. A final disrupting force is the Chinese government's inconsistent environment regulation, whereby officials shut down company operations without warning and disrupt supply chains.

Looking Ahead

So what should companies expect about business opportunities in China moving forward? As of this writing, the US and China are deeply involved in each other's economy but are at odds with one another. The Trump administration has been especially hawkish on China. Not only did it initiate a trade war, but it has also restricted exports of US components to Chinese firms, such as Huawei, out of national security concerns. Further hammering Huawei, the President has called on America's allies to ban Huawei from any national 5G contracts lest the Communist Party use backdoors in Huawei's technology to snoop on citizens. Such high-level events are relevant for foreign companies, which include the greater US-China relationship into their business calculations. In the most recent AmCham China business climate survey (BCS), the majority of companies are slightly pessimistic or pessimistic about the US-China relationship in the next two years—a trend that continued from the 2019 BCS.[166]

A common narrative has circulated among pundits, business leaders, and government officials of a potential US-China decoupling. There is evidence that this is already underway. According to analysis by the Rhodium Group, US FDI into China decreased by 51% from 2016 to 2019, and Chinese FDI into the US declined by a staggering 93% during the same timeframe.[167] While the decline in mutual FDI does signify a more fraught relationship between the two countries, a complete decoupling does not seem realistic. Instead, as Lindsey Ford of the Brookings Institute writes, "selective decoupling" is the more likely scenario.[168] China is too important a market for foreign companies to utterly abandon. According to the 2020 BCS, 71% of respondents report that their China EBIT (earnings before interest and taxes) margins are comparable or higher than those of their global operations.[169] From the same survey, 20% of respondents ranked China as their first investment priority and 39% ranked China a top-three investment priority in their near-term plans.[170]

China is so integrated in global supply chains that it can be costly for foreign companies to pull out. Decades of manufacturing and assembly experience have given Chinese workers an expertise in those areas and have induced the creation of sophisticated infrastructure to accommodate complex supply chains for industries like electronics. The supply chain ecosystems in China would be difficult to replicate elsewhere—though companies that do not require complex operations have been relocating production to China's neighboring countries,

---

[166] American Chamber of Commerce in China, "2020 China Business Climate Survey," 27.
[167] Rhodium Group on US-China investment. https://www.us-china-investment.com/us-china-foreign-direct-investments/data
[168] Lindsey Ford, "Refocusing the China debate: American Allies and the question of US-China 'decoupling'," *Brookings Institution*, February 7, 2020. https://www.brookings.edu/blog/order-from-chaos/2020/02/07/refocusing-the-china-debate-american-allies-and-the-question-of-us-china-decoupling/
[169] American Chamber of Commerce in China, "2020 China Business Climate Survey," 32.
[170] Ibid, 30.

which have lower labor costs. For examples on China's importance to global supply chains, look no further than the impact of Covid-19, a novel corona virus that originated from China in December 2019, on multinational corporations. Apple, whose devices are assembled in China, announced on February 17, 2020 that it did not expect to meet revenue forecasts for the second quarter due to a slowdown in production in China.[171] Along similar lines, the New York Times reported that Hyundai, a carmakers, had to shut down production in South Korea due to a shortage of Chines parts.[172] China plays an integral role in many companies' supply chains and will likely continue to do so in the future.

As the US-China trade war tension eased with the signing of a phase one trade deal, China has committed to buying an additional $200 worth of goods and services over the next two years. Given this substantial increase in future commerce with China, the US and China cannot completely sever ties with one another. However, there are signs that decoupling has been occurring. The Trump administration has cracked down on exports, such as semiconductors and chip technology, related to national security. Exemplifying tighter scrutiny on China's investment strategy in the US, Trump signed into law the US Foreign Investment Risk Review Modernization Act (FIRRMA).[173] FIRMMA gives the Committee on Foreign Investment in the United States (CFIUS) greater visibility into investments in the US regarding critical technologies, such as 5G, and allows the CFIUS to block foreign investments, if necessary.

---

[171] Lucas Amelia, "Apple warns on revenue guidance due to production delays, weak demand from China because of coronavirus," *CNBC*, February 17, 2020. https://www.cnbc.com/2020/02/17/apple-warns-on-coronavirus-it-wont-meet-revenue-guidance-because-of-constrained-iphone-supply-and-suppressed-demand-in-china.html

[172] Jack Ewing, et al., "Virus exposes cracks in carmakers' Chinese supply chains," *New York Times*, February 4, 2020. https://www.nytimes.com/2020/02/04/business/hyundai-south-korea-coronavirus.html

[173] White House, "Remarks by President Trump at a Roundtable on the Foreign Investment Risk Review Modernization Act," August 23, 2018. https://www.whitehouse.gov/briefings-statements/remarks-president-trump-roundtable-foreign-investment-risk-review-modernization-act-firrma/

China reciprocates a similar desire to decouple in sensitive technologies. Especially after experiencing export restrictions in important components from the US, Xi Jinping has started to emphasize the importance of China's self-sufficiency. Xi has called for greater efforts in researching and developing core technologies.[174] As the nationalist rhetoric on both sides becomes stronger, selective decoupling will only worsen. Covid-19 just might bring such a prospect to life. Throughout March 2020, China and America have been blaming each other for the virus and trading punches with the expulsion of journalists. The fight has turned particularly nasty verbally with Trump's labelling of the virus as the "China virus" or "Wuhan virus." On March 25th, Business Insider, a news source, reported that G7 countries had failed to deliver a joint statement because the US insisted on using the "Wuhan virus" label.[175] As Xi is eager to improve his own reputation after public anger over government suppression of information related to Covid-19, he will point to the failings of the US and other Western countries in contrast to the temporary success China has achieved in preventing new domestic infections. These tit-for-tat verbal attacks will worsen an already-fracturing US-China relationship.

On the business side, the disruption to global supply chains due to the pandemic is prodding executives to think of new business strategies and risk-mitigation plans. Especially in the early days of the pandemic, when China was the only country on lockdown, global stock markets plummeted, signifying the weight China still has in the operations of many companies. In these unfortunate circumstances, companies will try to diversify their supply chains away from China. As the pandemic is still ravaging the world, it is difficult to know how

[174] Xie Yu, "China's push for technology self-reliance faces reality checks, says economist," *South China Morning Post*, January 17, 2019. https://www.scmp.com/business/companies/article/2182411/chinas-push-technology-self-reliance-faces-reality-check-says

[175] David Choi, "G7 countries failed to deliver a joint statement because US insists on saying 'Wuhan virus' for the coronavirus," *Business Insider*, March 25, 2020. https://www.businessinsider.com/g7-failed-to-reach-agreement-because-of-wuhan-virus-2020-3

diversification will proceed. The hard reality may be that in a post-pandemic world, Western companies will have a much tougher time operating in China.

REFERENCES

"An offer from China we shouldn't refuse". *Business Week*. April 26, 1999.

"China Innovation Ecosystem Development Report 2019." *Deloitte China.* September 2019. https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/innovation/deloitte-cn-innovation-china-innovation-ecosystem-report-en-191101.pdf.

"China, US Sign Trade Pact". *CNN* Money. November 15, 1999. https://money.cnn.com/1999/11/15/worldbiz/wto/

"China's Economic Rise: History, Trends, and Implications for the United States." *Congressional Research Services.* June 25, 2019. https://fas.org/sgp/crs/row/RL33534.pdf

"Despite political woes, America Inc is still thriving in China." *The Economist.* January 2, 2020. https://www.economist.com/business/2020/01/02/despite-political-woes-america-inc-is-still-thriving-in-china

"Factbox: NBA taking flak in China, a valuable market with 500 million fans". *Reuters*. October 17, 2019. https://www.reuters.com/article/us-china-basketball-market-factbox/factbox-nba-taking-flak-in-china-a-valuable-market-with-500-million-fans-idUSKBN1WM1WI

"Over 40 percent of online goods sold in China fakes or poor quality, says state media report." *South China Morning Post.* June, 2015. https://www.scmp.com/news/china/society/article/1875198/over-40-cent-goods-sold-online-china-fakes-or-poor-quality-says

"Skills Shortages in the Chinese Labor Market." *J.P. Morgan Chase.* October, 2016. https://www.jpmorganchase.com/corporate/Corporate-Responsibility/document/skillsgap-in-chineselabor-market-exec-summary.pdf.

"Some Chinese companies turn out to have lied about their state pedigree." *The Economist*. November 14, 2019. https://www.economist.com/finance-and-economics/2019/11/14/some-chinese-firms-turn-out-to-have-lied-about-their-state-pedigree

"Xi Jinping 'most powerful Chinese leader since Mao Zedong'." *BBC.* October 24, 2017. https://www.bbc.com/news/world-asia-china-41730948

Amelia, Lucas. "Apple warns on revenue guidance due to production delays, weak demand from China because of coronavirus." *CNBC.* February 17, 2020. https://www.cnbc.com/2020/02/17/apple-warns-on-coronavirus-it-wont-meet-revenue-guidance-because-of-constrained-iphone-supply-and-suppressed-demand-in-china.html

American Chamber of Commerce in China. "2019 American Business in China White Paper." April 17, 2019.

American Chamber of Commerce in China. "2019 Business Climate Survey." 2019.

American Chamber of Commerce in China. "2020 Business Climate Survey." 2020.

Bransetter, Lee and Nicholas Lardy. "China's embrace of globalization." *National Bureau of Economic Research,* (2006): 1-43.

Bu, Lambert. et al. "China digital consumer trends in 2019." *McKinsey Digital.* September, 2019.

Bureau of Export Administration, Office of Strategic Industries and Economic Security. "U.S. Commercial Technology Transfers to the People's Republic of China." *Defense Market Research Report.* January, 1999.

Cheng, Evelyn. "China is still reportedly dragging its feet in opening its market to Visa, Mastercard." *CNBC*. January 14, 2019. https://www.cnbc.com/2019/01/14/china-still-slow-in-opening-market-to-visa-mastercard.html.

Cheng, Evelyn. "EU Chamber says China's new foreign investment law is 'surprisingly accommodating'." *CNBC.* October 21, 2019. https://www.cnbc.com/2019/10/21/eu-chamber-chinas-foreign-investment-law-is-surprisingly-accommodating.html

Cheung, Man-Chung. "China Mobile Payment Users 2019." *eMarketer.* October 24, 2019. https://www.emarketer.com/content/china-mobile-payment-users-2019

China Internet Network Information Center. https://cnnic.com.cn/IDR/ReportDownloads/.

China Power Team. "Are Patents Indicative of Chinese Innovation?" *Center for Strategic and International Studies.* February 15, 2016. https://chinapower.csis.org/patents/.

Choi, David. "G7 countries failed to deliver a joint statement because US insists on saying 'Wuhan virus' for the coronavirus." *Business Insider*. March 25, 2020. https://www.businessinsider.com/g7-failed-to-reach-agreement-because-of-wuhan-virus-2020-3

Demers, John C. "China's non-traditional espionages against the United States: the threat and potential policy responses." *Department of Justice.* December 12, 2018. https://www.justice.gov/sites/default/files/testimonies/witnesses/attachments/2018/12/18/12-05-2018_john_c._demers_testimony_re_china_non-traditional_espionage_against_the_united_states_the_threat_and_potential_policy_responses.pdf

Dickinson, Steve. "New China Foreign Investment Law: Not Good News." *China Law Blog.* April 23, 2019. https://www.chinalawblog.com/2019/04/new-china-foreign-investment-law-not-good-news.html

Dunbaugh, Kerry. "China's Most-Favored-Nation (MFN) Status: Congressional Considerations, 1989-1998." *Congressional Research Service* (1998): 1-37.

Dural, Betül Yüce. "What Has Changed After the World Trade Organization Membership of China." *Anadolu University* (2007): 1-38.

Economy, Elizabeth. "China's imperial president: Xi Jinping tightens his grip." *Foreign Affairs* 93, no. 6 (2014): 1-87.

Ewing, Jack. et al. "Virus exposes cracks in carmakers' Chinese supply chains." *New York Times.* February 4, 2020. https://www.nytimes.com/2020/02/04/business/hyundai-south-korea-coronavirus.html

Fenwick, Ann. "Equity Joint Ventures in the People's Republic of China: An Assessment of the First Five Years." *The Business Lawyer* 40*,* no. 3 (1985): 1-15.

Ford, Lindsey. "Refocusing the China debate: American Allies and the question of US-China 'decoupling'." *Brookings Institution*. February 7, 2020. https://www.brookings.edu/blog/order-from-chaos/2020/02/07/refocusing-the-china-debate-american-allies-and-the-question-of-us-china-decoupling/

Gan, Nectar. "Xi says it's wrong to 'bad mouth' China's state firms…but country needs private sector as well." *South China Morning Post.* September 28, 2018. https://www.scmp.com/news/china/politics/article/2166108/xi-jinping-reassures-chinas-state-owned-enterprises-and-private.

Garnaut, Ross, Ligang Song, and Cai Fang, eds. *China's 40 Years of Reform and Development: 1978–2018*. Acton ACT, Australia: ANU Press, 2018. www.jstor.org/stable/j.ctv5cgbnk.

Harris, Dan. "Disputes with Chinese Companies." *Harris & Bricken*, December 5, 2018. https://harrisbricken.com/blog/disputes-with-chinese-companies/

Heath, Timothy. "The Consolidation of Power in China Under Xi Jinping." *RAND Corporation.* February 7, 2019. https://www.rand.org/content/dam/rand/pubs/testimonies/CT500/CT503/RAND_CT503.pdf

Hirst, Tomas. "A Brief History of China's Economic Growth." *World Economic Forum.* November 24, 2014. https://www.weforum.org/agenda/2015/07/brief-history-of-china-economic-growth/

Johnson, Tyler. *The Way of The Laowai.* Austin: Lioncrest Publishing, 2019.

Kahn, Joseph and Yardley, Jim. "As China Roars, Pollution Reaches Deadly Extremes." *New York Times.* August 26, 2007. https://www.nytimes.com/2007/08/26/world/asia/26china.html.

Kenton, Will. "Lead Time." *Investopedia.* April 22, 2019. https://www.investopedia.com/terms/l/leadtime.asp

Laband, Jake. "Fact Sheet: Communist Party Groups in Foreign Companies in China." *China Business Review.* May 31, 2018. https://www.chinabusinessreview.com/fact-sheet-communist-party-groups-in-foreign-companies-in-china/

Lai, Hongyi Harry. "Behind China's World Trade Organization Agreement with USA." *Third World Quarterly* 22, no. 2 (2001): 1-240.

Lardy, Nicholas. "Issues in China's WTO accession." *Brookings Institution*. May 9, 2001. https://www.brookings.edu/testimonies/issues-in-chinas-wto-accession/

Lee Branstetter. "China's 'forced' technology transfer problem—And what to do about it." *Peterson Institute for International Economics*. May 31, 2018. https://www.piie.com/publications/policy-briefs/chinas-forced-technology-transfer-problem-and-what-do-about-it.

Leutert, Wendy. "Firm Control: Governing the State-Owned Economy Under Xi Jinping." *China Perspectives* (2018): 27-36.

Li, Hongbin. et al. "The End of Cheap Chinese Labor." *The Journal of Economic Perspectives* 26, no. 4 (2012): 1-62.

Mann, Jim and Tempest, Rone. "US., China Trade Embittered Words on Human Rights." *LA Times*. March 13, 1994.

Matsakis, Louise. "How the West got China's social credit system wrong." *Wired.* July 29, 2019. https://www.wired.com/story/china-social-credit-score-system/

Moss, Trefor. "FedEx caught in US-China tensions." *The Wall Street Journal*. June 1, 2019. https://www.wsj.com/articles/fedex-caught-in-u-s-china-tensions-11559404746

Ng, Teddy. "'Cultural threats' among five focuses of new national security panel, colonel says." *South China Morning Post*. January 14, 2014. https://www.scmp.com/news/china/article/1404926/cultural-threats-among-five-focuses-new-national-security-panel-colonel

Nirupamala, Kanchana. "Intellectual Property: Is China the Global Leader in Innovation." *SPEEDA.* June 18, 2019. https://asia.ub-speeda.com/en/intellectual-property-china-global-leader-innovation/

Ock Yum, June. "The impact of Confucianism on interpersonal relationships and communication patterns in east Asia." *Communications Monographs* 55, no.4 (2009): 374-388.

Office of the United States Trade Representative. "Economic and Trade Agreement between the United States of America and People's Republic of China." *Office of the United States Trade Representative*. January 15, 2020. https://ustr.gov/sites/default/files/files/agreements/phase%20one%20agreement/US_China_Agreement_Fact_Sheet.pdf

Raman, Srivinas. "China's Pollution Crackdown and Its Impact on Business." *China Briefing.* December 11, 2017. https://www.china-briefing.com/news/chinas-pollution-crackdown-business-impacts/.

Schumpeter. "Are China's State Giants Reformable?" *The Economist.* March 1, 2018. https://www.economist.com/business/2018/03/01/are-chinas-state-giants-reformable.

Scotchmer, Paul. "Is China headed for a clash of cultures as Xi Jinping fuses Confucianism and Marx?." *South China Morning Post.* July 27, 2019. https://www.scmp.com/comment/opinion/article/3017929/china-headed-clash-cultures-xi-jinping-fuses-confucius-and-marx

Tang, Frank and Xie, Echo. "China's Reform of SOE Questioned After Beijing Appoints Inexperienced Official to Head Assets Watchdog." *South China Morning Post*. May 21, 2019. https://www.scmp.com/economy/china-economy/article/3011111/chinas-soe-reform-questioned-after-beijing-appoints

Thomas, Neil. "For Company and For Country: Boeing and US-China Relations." *MacroPolo*. February 26, 2019. https://macropolo.org/analysis/boeing-us-china-relations-history/

Office of the United States Trade Representative, "2018 Report to Congress on China's WTO Compliance," *Office of the United States Trade Representative* (2019): 1-183.

US-China Business Council. "Minimum Wages in China 2020: A Complete Guide." *China Briefing.* January 2, 2020. https://www.china-briefing.com/news/minimum-wages-china-2020/

US-China Business Council. "USCBC Member Survey." 2019.
Webster, Graham. et al. "Three Chinese Digital Economy Policies at Stake in the US-China Talks." *New America.* April 2, 2019. https://www.newamerica.org/cybersecurity-initiative/digichina/blog/three-chinese-digital-economy-policies-at-stake-in-the-uschina-talks/

Webster, Timothy. "Paper Compliance: How China Implements WTO Decisions." *Michigan Journal of International Law* 35, no. 3 (2014): 525-577.

Weissman, Jordan. "Waking the Sleeping Dragon." *Slate*. September 28, 2016. https://slate.com/business/2016/09/when-china-joined-the-wto-it-kick-started-the-chinese-economy-and-roused-a-giant.html

Whalen, Jeanne. et al. "China lashes out at Western businesses as it tries to cut support for Hong Kong protests." *Washington Post*. October 8, 2019. https://www.washingtonpost.com/business/2019/10/08/china-lashes-out-western-businesses-it-tries-cut-support-hong-kong-protests/

White House. "Remarks by President Trump at a Roundtable on the Foreign Investment Risk Review Modernization Act." August 23, 2018. https://www.whitehouse.gov/briefings-statements/remarks-president-trump-roundtable-foreign-investment-risk-review-modernization-act-firrma/

Whitler, Kimberly A. "What Western Marketers Can Learn from China." *Harvard Business Review.* June 2019. https://hbr.org/2019/05/what-western-marketers-can-learn-from-china

Xiao, Xia. "China has over 854 mln internet users: report." *Xinhua.* August 30, 2019. http://www.xinhuanet.com/english/2019-08/30/c_138351278.htm

Xue, Hong. "A User-Unfriendly Draft: 3rd Revision of the Chinese Copyright Law." *Info Justice*. April 25, 2012. http://infojustice.org/wp-content/uploads/2012/04/hongxue042012.pdf.

Yan, Sophia. "'Made in China' isn't so cheap anymore, and that could spell headache for Beijing." *CNBC.* February 27, 2017. https://www.cnbc.com/2017/02/27/chinese-wages-rise-made-in-china-isnt-so-cheap-anymore.html

Yang, Yuan and Nian Liu. "Beijing orders state offices to replace foreign PCs and software." *Financial Times.* December 8, 2019. https://www.ft.com/content/b55fc6ee-1787-11ea-8d73-6303645ac406.

Ye, Josh. "China tightens Great Firewall by declaring unauthorized VPN services illegal." *South China Morning Post.* January 23, 2017. https://www.scmp.com/news/china/policies-politics/article/2064587/chinas-move-clean-vpns-and-strengthen-great-firewall

Yu, Xie. "China's push for technology self-reliance faces reality checks, says economist." *South China Morning Post.* January 17, 2019. https://www.scmp.com/business/companies/article/2182411/chinas-push-technology-self-reliance-faces-reality-check-says

Zhang, Alex and Vivian Tsoi. "China Adopts New Foreign Investment Law." *White & Case.* March 29, 2019. https://www.whitecase.com/publications/alert/china-adopts-new-foreign-investment-law

Zhang, Zoey. "How to use China's negative lists and foreign investment encouraged catalogue." *China Briefing.* December 10, 2019. https://www.china-briefing.com/news/china-fdi-policy-negative-lists-encouraged-catalogues/

BIOGRAPHY

Quinn Tang Collins was born in Corvallis, Oregon on October 28th, 1997. After living in the US for a short time, his family moved to Shanghai, China in 2000. Coming back to the US in 2010, Quinn finished middle and high school in Tempe, Arizona. At UT, Quinn majors in Plan II Honors and Economics. He is involved in various intramural sports teams and the Genesis Startup Program, a venture capital organization. After graduation, Quinn plans to pursue a startup career with Venture for America.