

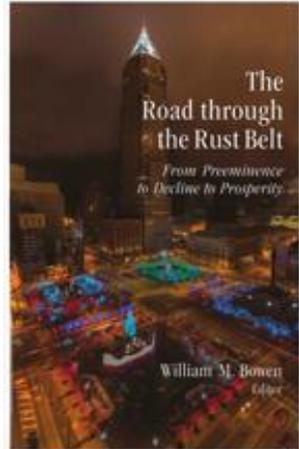
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# Entrepreneurial Initiatives in Chinese Markets: Why They Are Important and What Firms Need to Know

Chieh-Chen Bowen  
*Cleveland State University*



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W.E. Upjohn Institute for Employment Research  
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# 8

## Entrepreneurial Initiatives in Chinese Markets

### Why They Are Important and What Firms Need to Know

Chieh-Chen Bowen  
*Cleveland State University*

*As China's role in the world economy grows, American firms and entrepreneurs—including those in Rust Belt cities—will need to find ways to gain entrée to its growing domestic marketplace. Understanding the culture, language, and economic mechanisms in place are crucial to gain access and establish a foothold.*

Throughout the twentieth century, no single nation or block of nations had nearly as much economic power and influence as the United States. During much of that period, no region had as much industrial might as the Midwest. Now, however, as the early part of the twenty-first century unfolds, the age of total U.S. world supremacy is ending, so has the era of midwestern industrial superiority ended within the United States. China in particular is a vastly more prosperous and vibrant country than it was even 20 years ago. According to the World Bank, between 2007 and 2010 China's real GDP growth was at an average rate of 10.85 percent per year, as compared to 0.54 percent per year over the same period in the United States (World Bank 2012). China is now the second-largest economy in the world and is expected to become the largest around 2016 (Organisation for Economic Co-operation and Development 2013). China's growth and development are an inexorable and major aspect of the economic context within which any renewal in midwestern prosperity must occur.

At current growth rates, China's economy is doubling in real terms every seven or eight years. Between 2001 and 2010 average household income in China grew by more than 125 percent in inflation-adjusted terms (Rodriguez 2012). This was the fastest period of economic growth over a single decade of any nation in recorded history. China's ascendancy is, moreover, not just seen in its growth rate but also in its immensely large population. As a consequence, we have started to witness a totally different structure in the world's economy, in which the United States and all of its cities and regions play a different and less influential role than in the past century.

While the economic context within which midwestern industrial cities must adapt and compete has changed, this is not necessarily a bad thing. It simply means that industry in these cities must take a few steps back and rebalance inside and out. They must become more efficient and successful at anticipating the jobs of the future, moving resources into new areas, redefining prosperity, and putting far more emphasis upon investments and exports to other countries, especially China.

Prosperity is created and renewed at the margin. It requires production and exchange of the goods and services people value. For midwestern industrial cities, this emerging economic context means, among other things, that the renewal of prosperity depends on how well local entrepreneurs and firms understand the economic, legal, social, and political environments in China. Such comprehension is necessary to successfully export and invest in new Chinese markets. In this author's view, export and investment are among the most important keys to renewed prosperity in midwestern industrial cities. The old saw rings true that one can buy in one's own language, but one must sell in the language of the buyer. Nowhere is this more important than when doing business with the Chinese.

This chapter aims to contribute to the renewal of prosperity in midwestern industrial cities by discussing and giving practical advice regarding the culture and traditions one must know about to successfully export to—and invest in—Chinese markets. The implications of understanding this environment are explained using the examples of the failure of Google when it was forced to pull its operation out of mainland China in 2010, and the success of Rupert Murdoch when the Chinese government granted him the first “landing rights” to sell foreign

programs to cable system prime-time slots, then later, rights to provide media content to mobile users.

## **THE GROWING MARKET IN CHINA AND OPPORTUNITIES FOR U.S. AND MIDWEST INDUSTRY**

There are many reasons for the surging U.S. interest in China, involving not only its pace of economic growth but also its sheer size of population, territory, and foreign reserves. China has quickly transformed from one of the largest suppliers of cheap labor and inexpensive goods to one of the largest consumer markets, where multinational corporations compete to grow their market shares (McGregor 2005). The People's Republic of China (PRC) has become one of the most popular host countries for global firms and the most appealing market for foreign investors since 2002, according to A. T. Kearney's Foreign Direct Investment Confidence Index (Laudicina 2010). China joined the World Trade Organization (WTO) in December 2001, as a condition of entering the WTO, China also agreed to open its markets to global producers without requiring technology transfer, a condition on which it used to insist. Thus, PRC's exports and imports of goods and services have been growing explosively. Even during 2009, when the world economy was mired in European economic crises and global slowdowns, PRC's total export value was \$1,898.60 billion, a 20.3 percent increase from the previous year. The total value of imports was \$1,743.46 billion, a 24.9 percent increase from the previous year (Ministry of Commerce of the People's Republic of China 2010). It is also worth noting that the PRC's imports are rising at a faster pace than its exports. This growth in imports signals enormous market needs that are not fulfilled by China's local producers, and its urge to reach outside its borders to purchase goods and services. The rapid growth rate of imports provides evidence of the PRC's interest in growing its consumer economy.

The fast-growing import and export sectors attract many U.S. companies to do business with China. According to U.S. Census data, China has become the second-largest trading partner with the United States; in 2009 the value of imports from China was \$426 billion, and the value

of exports to China was \$110 billion (U.S. Census Bureau 2013). Trade stimulates growth in economic activities and creates jobs. Moreover, as the world economy globalizes, the effects of trade are increasing. In Ohio, 21.2 percent of jobs depended on trade in 2008, up from 10.5 percent in 1992. Also, exporting companies grew faster, paid higher salaries, and had broader consumer bases than did nonexporting companies. Furthermore, overseas competition tended to stimulate higher growth and development rates (Business Roundtable 2010).

China's burgeoning economy and expanding middle class have created a huge appetite for U.S. goods and services, including business technological solutions, construction materials, and consumer products. U.S. exports to China grew from \$27.5 billion in 2003 to \$108.6 billion in 2012, a 294 percent increase in a decade. During the same period of time, Ohio's exports to China grew from \$823 million in 2003 to \$3.656 billion in 2012, an impressive 344 percent increase in a decade. Ohio ranked eighth in exporting goods and services to China among all states in 2012. Other midwestern states also enjoyed a much faster growth rate in exports to China than that of the United States overall, as shown in Table 8.1. In many midwestern states, China ranks third among all foreign trading countries in export markets, trailing only the two large border countries of Canada and Mexico (U.S.-China Business Council 2013).

Knowing that the Chinese people are buying is only the first step. Figuring out what they are buying, exporting it, and selling it to them require deeper understanding of the cultural and social norms in China. Making products and services for the Chinese market necessitates knowledge of the entire business system, including the local social, cultural, legal, and political environment. All of these elements are interconnected, and changes in one are not isolated from changes in the others.

Numerous corporations have entered the Chinese market without substantial knowledge of the nation's business environment and practices, and have thus encountered many failures. The renewal of prosperity in midwestern industrial cities depends, in no small measure, on learning from these failures to improve the chance of success when doing business in China. Consequently, in the following sections, different key aspects of China's economic, political, legal, and social environment will be discussed.

**Table 8.1 Exports to China from the United States and from Midwestern States, 2003 and 2012 (2003\$)**

	United States	Illinois	Indiana	Iowa	Michigan	Missouri	Ohio
2003 (\$, millions)	27,500	1,167	454	566	439	463	823
2012 (\$, millions)	108,600	6,092	2,601	3,151	3,703	2,227	3,656
% increase, 2003–2012	294	422	473	457	743	381	344
China's ranking in export market, 2012	3rd	3rd	3rd	2nd	3rd	2nd	3rd

NOTE: Percentages calculated from unrounded data.

SOURCE: U.S.-China Business Council (2013).

## CHINA'S ECONOMIC ENVIRONMENT

China's economic reform was launched in 1978 by Deng Xiaoping when he pushed to open up and modernize the old and closed communist economy to improve the quality of life for the ordinary people. For the next three decades until 2010, the economic growth rate averaged 10.0 percent per year for real GDP growth (World Bank 2012). China has changed from a centrally planned and organized economy to a market-oriented one. Before the reform, the state directed and monitored a large share of the country's output and production goals, controlled prices, and allocated resources throughout most of the economy. China has also been transformed from an isolated economy with virtually no international trade and foreign investments to the top-ranked exporting country and the second-ranked importing country in global trade, as well as a very powerful player in foreign investment and exchange. Its high level of monetary reserves makes it a major force during worldwide economic crises (Central Intelligence Agency 2013).

The newest five-year economic and social development plan has continued China's commitment to open up the market, optimize foreign trade structure, and develop economic relations with mutual benefits and win-win results (Ministry of Commerce of the People's Republic of China 2012). To get close to this market, many companies have set up operations or joint ventures in China, which are practically impossible without first understanding how business functions in China.

The Chinese people have developed special principles for doing business using their own customs. Chinese business models are quite distinct from those in the United States. Research has shown that failing to recognize cultural differences in doing business is the most frequently cited reason for failures experienced by multinational corporations (Pan and Zhang 2004). Knowing the cultural norms and business practices in China is much more important for U. S. companies today, when they are trying to get a piece of the fast-growing Chinese market, than when they were mostly buying Chinese goods and services.

## CHINA'S POLITICAL ENVIRONMENT

The political system in China plays an important role in controlling business activities. The Chinese Communist Party (CCP) took power in 1949 and has since had a strong hold on the central government. Not only does it control all political activities, it also controls all commercial ones, and runs the All China Federation of Trade Unions at the municipal, provincial, and national levels. Not recognizing and understanding the important part played by the CCP and by central and local government officials and authorities may stall business progress in China (Manners 2005).

Firms are expected to establish and maintain good relationships with governmental officials to ensure business transactions run smoothly. The combination of centralized political power and emphasis on the principle of the “rule of people” creates a potentially ripe environment for government officials to use public power for personal gain (Luo 2008). The principle of the rule of people is the opposite of the rule of law. The rule of people refers to “society operating on cultural norms rather than formal legal rules” (Chew 2005). Unpredictable and arbitrary human indiscretions are likely to enter into authoritative decisions which are made and executed by people at the top of the hierarchy. Therefore, whenever there is a shift in the power structure at the top, there will be major changes in how decisions are made. The uncertain nature of how things get done makes trade, foreign investment, and economic development more difficult than in societies that operate by the rule of law (Chew 2005).

The CCP has tight control over the central government and military and also has an iron fist over business activities, in a way that goes beyond regulation. It presides over large, wealthy, state-owned firms, and it exercises control over the selection of senior executives of all state-run firms, many of which are in the top tier of the Fortune Global 500 list. Multinational corporations are often confused and frustrated by the dual roles of regulator and competitor assumed by the same Chinese governmental agency. On one hand, foreign companies are mandated to disclose information to comply with Chinese regulations, but on the other hand, Chinese competitors can utilize this information to gain an advantage in the market. This conflict of interest is impossible to sort

out when dual roles are assumed by the same individuals (McGregor 2010).

## CHINA'S LEGAL ENVIRONMENT

The Chinese legal tradition developed from both Confucianism and Legalism, two influential, though adversarial, schools of thought. Confucianism assumes human nature is fundamentally good. Social order can be achieved by observing customs, morals, and norms rather than through governmental regulations and laws, which should be used minimally and only for the worst offenses against public well-being. Legalism assumes that moral order is inadequate in maintaining social order because innate human malevolence would constantly drive people into trouble. A well-ordered society can be established and maintained only through a set of formally and publically announced harsh rules. Heads of state had the duty to establish and enforce law with uniformity, certainty, celerity, and severity (Ren 1997). Unfortunately, the influence of Legalism has often been overlooked historically because of its association with despotism and cruelty during the Qin Dynasty, which lasted from 221 BCE to 206 BCE.

In the past, the legal system in China has not played an important role in keeping social order. However, the legal landscape in China has changed rapidly in recent years. More and more business legislation, law offices, and attorneys have emerged in China in the past couple of decades. This trend is due partially to an effort to present Western investors with an image of a stable and predictable business environment with legal protection and security (China Knowledge Press 2004), and partially to fulfill membership requirements of the WTO.

China has strengthened its legal framework and amended its intellectual property rights and related laws and regulations to comply with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights. There have been important updates and amendments regarding intellectual property rights: patent, trademark, and copyright laws. However, both patent and trademark laws adopt the “first to register” rule instead of the “first to invent” rule, even if the first filers are not the original inventors. In a situation where an estimated 20 percent of

all consumer products in the Chinese market are counterfeit, companies are encouraged to file trademark applications with the Chinese Trademark Office and file patent applications with the Chinese State Intellectual Property Office to register their products even when they don't have plans to sell their product in China (U.S. Department of Commerce 2003).

However, having intellectual property rights does not provide necessary protection from commercial piracy. For example, China has more than 950 million mobile phone users. The demand for iPhones is so strong that the smuggling of real iPhones and sales of fakes are skyrocketing. Stores masquerading as real Apple outlets and selling smuggled genuine Apple products have sprouted up everywhere from Beijing in the northeast to Kunming in the southwest (Reuters 2011). The Kunming government eventually ordered two of the fake Apple stores to shut down for operating a business without a license, instead of based on concerns regarding any copyright violation, piracy, smuggling or intellectual property theft (*Today's Zaman* 2011).

In reality, no matter how modernized and Western-like the Chinese legal system may appear, and how similar the structure and process of business arbitration, dispute resolution, and mediation are, laws and business contracts alone will not, in the foreseeable future, bring in successful business deals for multinational corporations in China. The social outcome of implementing a codified law is often determined not by the form and language used in the statute or process that executes law, but by people's attitudes, expectations, and value systems regarding what ought to be restrained and what otherwise ought to be rewarded or compromised (Ren 1997). Legal rights and protections may mean very little in practical terms when legislation in China tends to be vaguely written and rarely enforced (Orts 2001). China's legal system is considered to be underdeveloped (Parekh 2005) and inefficient (Güvenli and Sanyal 2003), and has been criticized for its vague, ambiguous wording for decades (Lee 1999). To survive a weak, ambiguous, and inefficient legal system, the Chinese people tend to stay within a tightly connected group to seek reassurance, support, and protection as well as to adhere to the rule of people (*ren zhi*) principle.

Law in China bears the birthmark of its own history, culture, and tradition. This heritage is sometimes a force more powerful than the rule of law in foretelling the consequences of law and in dictating people's

thinking about the role of law and legal authority (Ren 1997). Even if a company can convince the court and win a judgment, reluctance to enforce arbitration from provincial or district courts is a long-existing problem (*Economist* 2005; Kivela and Leung 2005). It is estimated that, at best, only 60 percent of court rulings are enforced, and that can drop to 10 percent when courts entrust officers in other jurisdictions to enforce rulings for them (*Economist* 2005).

In contrast, Americans tend to accept and, in a relatively large measure, to follow the principle of the rule of law (*fa zhi*) that legal rules are publicly known, consistently enforced, and fairly applied (Orts 2001). Law in the United States is designed to be applicable to everyone consistently. Laws and business contracts tend to be respected as well as enforced in the U.S. business environment. Accordingly, reliance on laws and business contracts guides business activities. The need for clear and explicit business terms and conditions stems from core cultural values. Individualistic Americans are likely to behave in a self-serving manner to maximize their personal gains from business opportunities. Such individualistically oriented social norms allow a wide range of acceptable behaviors for asserting persons' own particular rights (Doney, Cannon, and Mullen 1998). Under the assumption that everyone will maximize their own self-interests whenever they can, business transactions need to be regulated and sanctioned with explicit legal terms to clearly define the boundaries of individuals' rights and responsibilities and to provide equal protection for all parties involved. U.S. firms rely on legal protection and expect to follow contracts to the letter in case of any business disputes (Coulson 1984).

## **CHINA'S SOCIAL ENVIRONMENT**

In Chinese culture, the concept of the self is conceived as an integral part of the collective. This interdependent view grants primacy to the relationship between the self and others. Traditionally, Chinese people do not have an independent individual identity. Their self-identity is heavily interdependent with their family, and this makes them more likely to act in accordance with the anticipated expectations of others (Chuang 1998).

The Chinese are known to be highly favorable toward insiders and extremely guarded toward outsiders. Friendships and trust are the foundations for doing business. Profits may not be the only consideration when making business deals. Extensive connections and trust building with local and central government officials seem to create profitable business opportunities at the right time (*Economist* 2004). Business deals are much more likely to be made with friends or people within the web of connections than with strangers solely based on mathematical reasoning and profit/loss analysis. Lam (2000) mentions that Americans use mathematical reasoning and utility analysis in business negotiation, but the Chinese use feelings, personal connections, and trust. Failing to address these different concerns in doing business may very well leave both sides empty-handed.

The collectivistic Chinese people tend to view themselves as tightly connected in a social web of relations, in which their own self-interests are suppressed and woven into the greater good of the group with which they identify. Overtly self-serving behavior is thus likely to be curbed by social sanctions. People who are perceived as acting solely in their own interests tend to be ostracized for acting selfishly. A narrow range of acceptable behavior is prescribed by one's social roles, and people act in unison to achieve order and harmony (Doney, Cannon, and Mullen 1998). Consequently, there is relatively little need for laws and business contracts to protect individual rights in Chinese societies. Instead, cultivating, sustaining, and maintaining long-term reciprocal relationships with individuals who are a part of a web of relations are guiding principles for business activities among the Chinese people. The Chinese show more subordination to in-group hierarchy than to outside authorities, which they often find ways to circumvent or ignore (Triandis, Brislin, and Hui 1988).

The rule of people principle depicts the basic Chinese social mechanism and can be described as a set of implicit and unspoken guidelines governing social interactions and relationships, and serving as a social control mechanism for survival in a legally, politically, and economically complex and uncertain environment. This set of rules allows social actors to behave in a more or less predictable way, which minimizes unnecessary conflicts and enhances social harmony (Cheng and Farh 2001). Davies et al. (2003) assert that, in Chinese business and social life, rule of people is of paramount importance. This principle is

composed of the following three highly related elements: 1) *guanxi*, 2) *renqing*, and 3) *mianzi*. The boundaries among the three are blurred, as can be seen in the overlapping of each one's definition.

## **Guanxi**

The Chinese characters for *guanxi* can be directly translated as connections and relationships. *Guanxi* is defined as “the process of using personal connections for political, social and economic benefit” (Fan 2002, p. 551). It determines one's place in the social structure and provides security, trust, and a prescribed role (Hammond and Glenn 2004). The art of *guanxi* is defined by Yang (1994, p. 109) as “involving the exchange of gifts, favors and banquets; the cultivation of personal relationships; networks of mutual dependence; and manufacturing of obligation and indebtedness.” The Chinese are thus more likely to favor insiders with whom they have developed *guanxi* than outsiders with whom they have not.

Guthrie (1998) argues that *guanxi* is an inevitable characteristic of most societies, while the stickiness of *guanxi* practice in China, given modernization and globalization, is seen as arising from institutional underdevelopment. The practice of *guanxi* helps form self-sufficient circles of reciprocity and obligations to protect people from state control and reduce their dependency on the state for material resources and social sustenance during periods of political and economic uncertainty or hardship (Yang 1994). *Guanxi* is commonly used as a means of survival as well as obtaining prosperity in Chinese societies.

## **Renqing**

The two Chinese characters for *renqing* can be directly translated as human and affection. *Renqing* is defined as “a normative standard for regulating social exchanges and a set of reciprocity rules to strive for desirable outcomes within a stable and structured web of social relations” (Hwang 1987, p. 946). It is typically based on ingratiation and contains affective components in addition to *guanxi*. To succeed in Chinese society, the receiver must understand and abide by the reciprocity rule and the necessary commitment to pay back in similar kind and extent.

Because of the expectation of future return, the Chinese may dole out renqing to others as a form of social investment, expecting to have more effective interactions with the receivers in the future. Renqing also implies a moral obligation to maintain the exchange relationship. Renqing could be either concrete or abstract, such as money, gifts, services, information, and/or affection (Hwang 1987). Renqing involves deliberated and calculated engineering of social interactions for future personal gains.

### **Mianzi**

The third element is mianzi, whose Chinese characters can be directly translated as face. Mianzi is defined as “an individual’s social position or prestige, gained by successfully performing one or more specific social roles that are well recognized by others” (Hwang 1987, p. 960). It involves constant consciousness of one’s status in the web of social relations, the probability of being accepted by others, and the special power or privilege one enjoys for being recognized by others. In Chinese social relations, maintaining face is essential because it translates into power and influence. A loss of mianzi would likely result in a loss of prestige.

The common thread of these three elements is continuing and complex social interactions. Guanxi, renqing, and mianzi not only are unique and ubiquitous products of Chinese culture, they are also efficient means to maintain social order. The rule of people principle is philosophically in line with Confucius’s teaching to maintain relationships, help those in need, and fully reciprocate favors. It forms the basis for collective pressure to maintain social harmony and thus sets the usually unspoken expectations of cooperation and lowers the transaction costs of doing business. Through implicit mutual agreement, this principle establishes a restrictive, even coercive, power upon every member of the web of social relations. These members enjoy privileges and at the same time incur obligations. The Chinese rely on this concept when conducting their daily activities.

### **The Rule of Law, the Rule of People, and Governmental Influence on Business Activities**

The principles of the rule of law and the rule of people seem to operate at the opposite ends of the spectrum, and it is thus assumed that most people would use one as a substitute for the other. However, people function on different assumptions, traditions, customs, and values in different cultures. It is prudent to rely on empirical evidence instead of common sense when dealing with cross-cultural differences. Bowen et al. (2009) conducted such an empirical cross-cultural comparison between U.S. and Chinese societies on the rule of law, the rule of people, and governmental influence on business activities. The survey respondents were university students from the United States and China.

The results, presented in Table 8.2, show that there are no differences between how Americans and Chinese perceive the rule of law or the governmental influence on business activities. But significant differences exist in the perceptions of the impact of the rule of people. The Chinese perceive the rule of people to be more important than do Americans. A possible explanation for this is that the Chinese are known to be flexible and highly adaptable. They have learned to function in a global environment in which the rule of law principle needs to be respected and followed. In the attempt to modernize the Chinese business environment, the Chinese did not totally abandon the rule of people principle, either. As expected, the Chinese people's daily life is much more tied to the complex web of social interactions than is that of Americans.

Also interesting is that the rule of law and rule of people principles are found to be independent of each other, as illustrated by the correlation of these two principles,  $-0.04$  among Chinese people and  $-0.08$  among Americans. These nonsignificant correlations could be interpreted as the emphasis on trust, reciprocity, and long-term relationships to encourage cooperation may either substitute for or complement the equalizing and homogenizing power of laws and contracts. The empirical data indicate that the rule of law has not replaced the rule of people in modern Chinese societies. In practice, both principles are used as parallel systems to achieve business goals and objectives. The rule of people has worked smoothly in Chinese societies for millennia, and it is reasonable to expect such practice to persist into the future. It is

**Table 8.2 Perceptions of the Influence of the Rule of Law, the Rule of People, and Government Influence on Business Activities, by U.S. and Chinese Respondents**

Scale	U.S. mean (s.d.)	Chinese mean (s.d.)	<i>t</i> -value	Rule of people Chinese correlation (U.S. correlation)	Governmental influence Chinese correlation (U.S. correlation)
Rule of law	3.59 (0.49)	3.59 (0.48)	0.06	-0.04 (-0.08)	-0.30*** (-0.42***)
Rule of people	3.53 (0.34)	3.67 (0.41)	-4.50***		0.44*** (0.26***)
Governmental influence	3.30 (0.57)	3.32 (0.63)	-0.35		

NOTE: U.S. sample size = 233. Chinese sample size = 449. Perceptions were measured by a 5-point Likert scale with higher numbers representing more applicable the concept in the society. \* = significant at the 0.10 level; \*\* = significant at the 0.05 level; \*\*\* = significant at the 0.01 level.

SOURCE: Primary data collected by the author.

valuable for any company that wants to conduct business in China to be familiar with this approach and to learn to practice the basic social mechanisms of *guanxi*, *renqing*, and *mianzi*.

The significant negative correlations in the perceptions of the rule of law and governmental influence among both Chinese and Americans support the belief that when laws are consistently applied to everyone involved, there is little room for governmental influence on business activities. However, the significant positive correlations in the perceptions of the rule of people and the governmental influence on business activities among both Chinese and Americans support the notion that the perception of the rule of people and the perception of governmental influence on business activities usually go hand-in-hand. This pattern is stronger among Chinese than among Americans. The combination of highly concentrated Chinese political power and the rule of people principle makes navigating Chinese markets particularly confusing for foreign companies. I will use two examples of big multinational corporations to illustrate this point.

## Two Contrasting Experiences

There are plenty of examples of successful multinational corporations that sailed into China with unshakable confidence but were defeated either by their Chinese competitors, the Chinese government, or both. One such tale involves Google pulling its operations out of mainland China in 2010 (BBC News 2010). The other tale is

### Box 8.1 Google and Star TV

**Google.** When Google.cn began operating in China in 2006, Google agreed to self-censor and to remove sensitive information before it reached Internet users. Google had to compromise the principle of freedom of speech in order to cash in on the fast-expanding Chinese market.

Four years later, in January 2010, Google's Web site stated that the company had decided to stop internal censoring of Internet search information so that it could provide unbiased and equal access to all of its users. Google waged a public battle against the Chinese government's media censorship (*Economist* 2010).

**Box 8.1 (continued)**

However, the Chinese government insisted that controlling media content was one of its centralized strategic policies along with national sovereignty, and it accused Google of violating a written agreement and politicizing an economic issue. Whenever the Chinese government responded to an event by citing controlling media content and national sovereignty at the same time, it clearly had no intention of backing down. At the end, even under pressure from U.S. Secretary of State Hillary Clinton, China refused to budge. “Foreign companies must abide by Chinese laws and regulations when they operate in China” (China .org.cn 2010). Two months after the standoff between Google and the Chinese government, Google stopped its operation in mainland China and moved it to Hong Kong.

The incident might have had a different outcome had Google executives taken the time and effort to enlist support from high-level Chinese government officials and to frame the win-win benefits resulting from free and open content on the Internet without exerting pressure from the U.S. Secretary of State to evoke the national sovereignty concern.

**Star TV.** The success of another media mogul, Rupert Murdoch, can serve as an exemplary model of doing business in China. His strong financial resources, patience, and adaptability to change proved to be the key to his success in China.

Murdoch’s initial foray into China was disastrous. Shortly after he purchased the satellite broadcaster Star TV in Hong Kong for nearly US\$1 billion in 1993, he made a speech in London that enraged the Chinese leadership. He said that modern communications technology had “proven an unambiguous threat to totalitarian regimes everywhere.” However, the Chinese government promptly retaliated by outlawing private ownership of satellite dishes, which had proliferated on rooftops. Star TV thereby faced a threat to its viability (Kahn 2007). Although it took several years to repair the damaged relationship, Murdoch quickly changed his way of doing business in China. He masterfully selected partners with strong ties to the Chinese leadership and media regulatory agencies. He cultivated political ties to insulate his business ventures from regulatory interferences. Once he gained access to the web of complex social relationships, he abided by the principle of the rule of people and earned social prestige by building trust, reciprocating favors, fulfilling obligations, and enjoying privileges.

**Box 8.1 (continued)**

Murdoch cooperated closely with China's censors and state broadcasters. Star TV mindfully overhauled its programming to suit Chinese tastes. In 1994, it dropped BBC News, which had frequently angered Chinese officials with its reports on mainland China affairs (Kahn 2007). Murdoch adeptly provided highly desired access to Western news media to the Chinese government to present its own face to the world. He showed that Chinese media could become more sophisticated and dynamic without threatening the Communist Party's power. In exchange for permission to broadcast foreign programming in China, he also agreed to broadcast China-made English-language programming to the United States and Britain. Murdoch's helping hand in mentoring and modernizing the Chinese news media was recognized and rewarded by the government by granting him the first "landing rights" to sell foreign programs to cable system prime-time slots, and later, rights to provide media content to its mobile users (Kahn 2007; McGregor 2005).

how Rupert Murdoch expanded Star TV from Hong Kong to Mainland China (Kahn 2007).

**LESSONS LEARNED**

The stark contrasts between Google's and Murdoch's media ventures provide the following lessons for everyone who wants to initiate entrepreneurial effort in Chinese markets.

- It is a good idea to enlist help from people who understand the Chinese culture and have local connections. Neither the Google Translate nor a self-paced international culture software program would be adequate in preparing an American professional to do business in China. Hiring Chinese people educated in the United States seems to be a popular and wise option for

corporate executives in starting this process. Not only do such individuals need to be fluent in both English and Chinese, they have to understand the business and be loyal to the company. Their connections in China might provide an access point into the complex web of social relationships.

- It is important to pay attention to government regulations and to understand that rules can change at any time and that they can either work for or against a company. Politics should be left out of business. Making negative comments about the CCP or the Chinese government in public should be avoided, especially regarding China's sensitive issues such as media censorship, human rights, the Tiananmen Square Incident, Fa Lun Gong, and oppression in Tibet.
- When conflicts arise, they should be dealt with quietly. It is much better to try to solve the conflicts behind closed doors by enlisting help from politically connected insiders privately than it is to enlist help from high-level U.S. officials. An all-out public fight with the Chinese government leaves no room for compromise. The Chinese government is not known to back down on central issues, such as media content censorship and national sovereignty.
- It is important to realize and to bear in mind that both the rule of law and the rule of people are applicable in Chinese culture. Americans who want to succeed in doing business in China should be prepared to invest and cultivate long-term social relationships. Becoming familiar with the rule of people principle and the complex web of social relationships is one of the best ways to enhance opportunities, smooth business processes, and lower transaction costs.

## CONCLUSION

The fundamental business and economic principles for renewing prosperity in midwestern industrial cities are straightforward. The opportunities to generate income and wealth occur through individual

business transactions, some of which start with new products and innovations, and some of which start with identifying demands, producing goods and services people value, and matching the demands with the supply of goods and services. These goods and services are then traded in exchanges in which both parties expect their well-being to improve. Wealth and prosperity within midwestern urban economies will be generated when production and exchange occur over and over again. The top exports to China from midwestern states were crop production, machinery, chemicals, transportation equipment, and second-hand scrap and recycled material, which are used in China for rebar steel and packaging (U.S.-China Business Council 2013). The ascendancy of a vast and wealthy Chinese population brings tremendous possibilities for exports from the Midwest, but only if the basic Chinese social mechanism is understood and accepted as a crucial factor in the social and business environment.

Cultural differences can pose seemingly insurmountable obstacles for those wanting to get into Chinese markets. The basic Chinese social mechanism is a deeply ingrained part of daily life not likely to change any time soon. Westerners seeking to do business in China may find out the hard way that the American business model will not achieve their goals. While it takes relatively large up-front investments of time, effort, and other resources to search out potential business partners, negotiate trades, and close sales with Chinese firms, there is no other path to success in that social environment. The associated costs may be high, but the potential benefits in terms of generating wealth and prosperity are even greater.

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