

I.E.E.M.

F.B.A., UMAC

**ANALYSIS AND STRATEGIC
ADVICE FOR THE OPERATION
OF MULTINATIONAL
ENTERPRISES IN MAINLAND
CHINA MARKET**

AUTHOR: WANG WEICHENG

SUPERVISOR: PROF. RAMON TAMAMES

June, 2000

CONTENTS

INTRODUCTION.....	8
CHAPTER 1: THEORETICAL STUDIES	10
1.1. MOTIVES FOR FOREIGN DIRECT INVESTMENT.....	10
1.1.1. THE RESOURCE SEEKERS	11
1.1.2. THE MARKET SEEKERS	13
1.1.3. THE EFFICIENCY SEEKERS	16
1.1.4. THE STRATEGIC ASSET SEEKERS.....	17
1.2. THE ECONOMIC STRUCTURE OF THE LESS DEVELOPED COUNTRIES	19
1.2.1. HIGH POPULATION GROWTH.....	20
1.2.2. LOW INCOME LEVELS.....	21
1.2.3. HIGH TECHNOLOGICAL DEPENDENCE.....	23
1.3. MODERN FOREIGN INVESTMENT	26
1.3.1. GEOGRAPHICAL DISTRIBUTION	27
1.3.2. SECTORAL COMPOSITION	31

1.4. MAIN VEHICLES OF PROFIT-MAKING IN FDI BY MNES..	33
1.4.1. WHOLLY OWNED SUBSIDIARY	33
1.4.2. JOINT VENTURE	34
1.4.3. LICENSING AGREEMENT.....	37
1.4.4. FRANCHISING	38
1.4.5. CONTRACT MANUFACTURING.....	39
1.5. A STRATEGIC APPROACH TO DECISION TAKING	39
 CHAPTER 2: FOREIGN INVESTMENT LEGISLATION AND POLICY IN MAINLAND CHINA	 42
2.1 THE INITIAL PHASE (1979-1985)	44
2.2. CONTINUOUS DEVELOPMENT PERIOD (1986-1991)	46
2.3. HIGH-GROWTH STAGE: 1992 ONWARDS	49
 CHAPTER 3: FOREIGN DIRECT INVESTMENT IN CHINA.....	 53
3.1. RECENT FDI INFLOWS	53
3.2. THE MAIN VEHICLES FOR FDI	54
3.3. THE PATTERN OF FDI IN CHINA.....	56

3.4. THE UNEVEN DISTRIBUTION OF FDI INFLOWS	58
---	----

CHAPTER 4: THE OBSTACLES FOR MNES' BUSINESS IN CHINA.....	62
---	----

4.1. FORMAL RESTRICTIONS.....	63
-------------------------------	----

4.2. CULTURAL OBSTACLES.....	66
------------------------------	----

4.2.1. LANGUAGE BARRIERS	66
--------------------------------	----

4.2.2. DIFFERENT VALUE PRIORITIES	68
---	----

4.3. LEGAL UNCERTAINTY.....	71
-----------------------------	----

CHAPTER 5: THE INFLUENCE OF CHINA'S ACCESSION TO THE WTO ON FOREIGN DIRECT INVESTMENT	77
---	----

5.1. EFFECTS ON FOREIGN DIRECT INVESTMENT OF REMOVING CHINA'S NTBS	77
--	----

5.2. EFFECTS ON FOREIGN DIRECT INVESTMENT IN SERVICES	79
---	----

CHAPTER 6: STRATEGIC ADVICE FOR OPERATION OF MNES IN MAINLAND CHINA MARKET	82
--	----

6.1. THE CHOICE OF COMPETITION ADVANTAGES	83
---	----

6.2. THE ADAPTATION TO CULTURAL ENVIRONMENT IN MAINLAND CHINA MARKET.....	85
---	----

6.2.1. ENTRY STRATEGY	85
6.2.2. HUMAN RESOURCE MANAGEMENT	87
6.2.3. ACTIVE ADAPTATION TO CULTURAL ENVIRONMENT IN MARKETING STRATEGY	91
6.3. MINIMIZING LEGAL UNCERTAINTIES	93
 CHAPTER 7: THE POSITIVE ROLE OF HONG KONG AND MACAU AS FRONTIERS FOR MNES TO ENTER MAINLAND CHINA MARKET.....	 97
CONCLUSION	99
REFERENCES.....	102