Centre for Economic Development, Transport and the Environment
OULUN YLIOPISTO
UNIVERSITY of OULU

Alazne Cristobalena, Matti Muhos, Lingyun Wang, and Pekka Kess

# Analysis of the Trade Relationships between Spanish and Chinese companies

European Union
European Regional Development Fund
Leverage from the EU
2007–2013

Working Papers in Department of Industrial Engineering and Management 1/2011

UNIVERSITY OF OULU
Working Papers in Department of Industrial Engineering and Management

Alazne Cristobalena, Lingyun Wang, Matti Muhos, and Pekka Kess

# Analysis of the Trade Relationships between Spanish and Chinese companies

**ISBN 978-951-42-9369-6**
**ISSN 1459-2401**

University of Oulu **Abstract**

Department of Industrial engineering and management

<table>
<tr><td colspan="2">Authors<br>Alazne Cristobalena, Lingyun Wang, Matti Muhos, Pekka Kess</td><td>Type of publication<br>Working paper</td></tr>
<tr><td colspan="2"></td><td>Client<br>University of Oulu</td></tr>
<tr><td colspan="3">Name of the report<br>ANALYSIS OF THE TRADE RELATIONSHIPS BETWEEN SPANISH AND CHINESE COMPANIES</td></tr>
</table>

Abstract

This study is part of the CHISU project. Since the late 80s, establishing trade relations with Chinese companies has become increasingly important for some Spanish companies. Some of them have settled manufacturing plants in China in order to enter the Chinese market and offer more price-competitive products. Most of these firms are located in the coastal region of east China. In some cases, they have not been able to choose their location.

The paper is a qualitative study by. The study contains the particular experiences of Spanish firms and their evolution in the Chinese market. The data of the research are collected through several interviews with five Spanish companies that agreed to participate in this research.

The study demonstrates that the preferred way to settle manufacturing plants in China is WFOEs, because of the freedom of decision-making on the management. The study provides much detail information on the topics such as the process of settling in China, the necessary investments, common difficulties firms have to deal with, and the relationship with the clients and suppliers. One of the findings breaks the following myth: “what is manufactured in China has lower quality”. The study illustrates that the subsidiaries of the case companies in China are able to manufacture products with superior quality. One of the important findings in this research is there is no relationship between weak IP protection in China and technology transfer to China. The main priority of the case companies is to keep competitiveness when the companies make decision on technology transfer.

Keywords

Trade relationship, business relationship analysis, Spanish and Chinese companies

Other information

<table>
<tr><td>Name of the series<br>University of Oulu<br>Working Papers in DIEM</td><td>ISSN<br>1459-2401</td><td>ISBN<br>978-951-42-9369-6</td></tr>
<tr><td>Number of pages<br>... + appendices</td><td>Language<br>English</td><td>Confidentiality<br>Public</td></tr>
<tr><td colspan="2">Distributor<br>University of Oulu, DIEM</td><td>Publisher</td></tr>
</table>

# Table of Contents

# Abbreviation

| | |
|---|---|
| CDTI | Centro para el Desarrollo Tecnológico e Industrial |
| COE | Collective-Owned Enterprise |
| CEPA | Closer Economic Partnership Arrangement |
| CESCE | Compañía Española de Seguro de Crédito a la Exportación |
| CJV | Contractual Joint Venture |
| CPC | Communist Party of China |
| CPO | Chinese Patent Office |
| EEUU | Estados Unidos |
| EJV | Equity Joint Venture |
| ERP | Enterprise Resource Planning |
| EU | European Union |
| FDI | Foreign Direct Investment |
| FICE | Foreign-Invested Commercial Enterprise |
| FIFO | First In, First Out |
| FITE | Foreign-Invested Telecommunications Enterprise |
| FLTR | First Levying and Then Rebating Taxes |
| FTC | Foreign Trade Corporation |
| GATS | General Agreement on Trade Services |
| GDP | Gross Domestic Product |
| HKT | Hong Kong and Taiwan |
| ICC | International Chamber of Commerce |
| ICO | Instituto de Crédito Oficial |
| IJV | International Joint Venture |
| IP | Intellectual Property |
| IPP | Intellectual Property Protection |
| IPR | Intellectual Property Right |
| JSC | Joint Stock Company |
| JV | Joint Venture |
| MCC | Mondragón Corporación Cooperativa |
| MNC | Multinational Corporation |
| MNE | Multinational Enterprise |
| MOFTEC | Ministry of Foreign Trade and Economic Cooperation |
| OEM | Original Equipment Manufacturer |
| POE | Privately Owned Enterprise |
| PRC | People's Republic of China |
| PWL | Priority Watch List |
| PYME | Pequeña Y Mediana Empresa |
| R&D | Research and Development |
| RQ | Research Question |

| | |
|---|---|
| SCA | State Copyright Administration |
| SEZ | Special Economic Zone |
| SIPO | State Intellectual Property Office |
| SOE | State-Owned Enterprise |
| TNC | Transnational Company |
| TRIPS | Trade-Related Aspects of Intellectual Property Rights |
| US | United States |
| USA | United States of America |
| USITC | US International Trade Commission |
| USTR | United States Trade Relations |
| VAT | Value-Added Taxation |
| WFO | Wholly Foreign Owned |
| WFOE | Wholly Foreign Owned Enterprise |
| WIPO | World Intellectual Property Organization |
| WOS | Wholly Owned Subsidiaries |
| WTO | World Trade Organization |

# 1 Introduction

This report is based on master's thesis conducted by Alazne Cristobalena, which was made in the Department of Industrial Engineering and Management at University of Oulu in 2010. The study was made as a part of CHISU (Building an internationalization process for Chinese markets) -project funded by European Regional Development Fund (ERDF). The objectives of CHISU -project is to better understand the opportunities and threats in doing business in China, understand the business decisions and actions needed to utilise some of the potential, and to help companies (SMEs) to start collaboration in China.

This study approaches to the experience of Spanish firms developing trade relationship in China. It focuses on Spanish firms that have already settled their manufacturing plants in China. Therefore, the business relations with both clients and suppliers are analysed.

This research will provide the reader firstly with general information of the trade relationship development in China. Later, the experiences of the case companies will be added in the research.

All this previous information will be compared afterwards, and it will also sum up the main ideas that have appeared on this research; the purpose is that the reader has a better understanding of the overall and the firm's situations and can identify their major difficulties, threats, benefits and opportunities they have had. Finally, there will also be some ideas that could help the firms improve their situation in China.

## 1.1 Study Background

The following sections aim to explain very general information of China, which include the trade relations starting between Spanish and Chinese companies and the evolution of these trade relations during the past thirty years. This study is conducted to supply the information, particularly the case of Spanish companies.

### *1.1.1 The reasons to China*

China is a large country with lots of natural resources and has the largest population in the world. For foreign firms, it means a huge potential market. Since China's growth rate keeps increasing, the market potential has been increasing in the past years. The tendency is expected to go on in the next years.

The high development rate and the increasing GDP have attracted considerable amounts of foreign investments during the past years. On the other hand, it pushes China's growth tendencies even higher. Based on the facts China can be considered as one of the developing countries with the best future perspectives.

China consists of different provinces governed by local administrations. The Eastern China is the most highly populated part. The Chinese market is a very dynamic market with developed logistics infrastructures and a high-scale manufacturing industry. Young generations have a high consumer behaviour that benefits foreign exporters.

China has had a spectacular economic growth since the end of the 1970s, which has affected its macroeconomic terms, Foreign Direct Investment (FDI) and GDP growth. These facts with the change of policies in China led foreign firms to consider doing business with Chinese firms.

Since China's "open-up" policy became effective, Spanish firms have increasingly started trade relations with Chinese companies. Spanish companies are mainly attracted by the great potential of the Chinese market and the low costs in China. In the past, cost saving was usually the main reason to China. However, nowadays an increasing amount of firms is aware of the great potential of the Chinese market and the opportunities offered to the company.

It is quite common that companies have trade relations with Chinese firms even though they are not settled in China. Almost half of the companies settled in China have a manufacturing plant in the country, whereas the rest, just have representative offices.

Most of the Spanish companies are located in Shanghai and its surroundings. A number of them are located in Beijing, Guangdong, Hong Kong and Taiwan. Companies select industrialized areas with good logistics. The location of their clients is also an important factor affecting the decision.

The most important reason for companies to settle in to China is usually entering the Chinese market. Its large size, as well as its potential growth rate offer great opportunities to foreign firms. Other reasons relate to costs reduction, such as in the manufacturing process logistics process as close to the distributors and reducing the shipping costs to the nearby countries.

The process of settling manufacturing plants or doing business in China is not easy for foreign firms. Firms must consider carefully the barriers in culture, language and bureaucracy. All companies in China have to deal with these kinds of problems. Other major difficulties include lack of trust with local distributors, hard competition and difficulties to find the qualified suppliers. Firms must balance both pros and cons in order or decide their settling in China.

### *1.1.2 The trade relations evolution*

Previous analysis suggest that China might not be the "world's manufacturing plant" if costs increase for the companies. Instead, other countries in the area such as Vietnam or Indonesia could be the next target countries where firms would settle their production plants. However, China is still the preferred option for settling manufacturing plants for almost all the firms.

Spanish firms with local presence in China are most likely present also in India, either through representative offices or manufacturing plants. For Spanish firms, China is still considered more manufacturing oriented whereas India is more service oriented. Moreover, China is not only to be considered good for manufacturing, but also to be aware of the potential market demand.

So far, the studies carried out in Spain suggest that around 80% (www.ceiss.net) of the firms are satisfied with their experience in China and show their will to keep growing in the country. Not all of the Spanish firms have had a positive experience in China. Those firms suffered economic losses when they did not make a proper market analysis or did not known how to adapt to their new situation. Besides manufacturing in China, these firms also export and sell their products to other countries.

## 1.2 Research Questions and Objectives

The study proposed the following research questions to gathering information of trade relations development between Spanish and Chinese companies:

- RQ 1: What is the development of the demand-supply chain between Spanish and Chinese firms?
- RQ 2: Why do Spanish firms consider that it is a good idea to establish trade relationships with Chinese companies and settle manufacturing plants in the country?
- RQ 3: When did the Spanish firms decide to move to China?
- RQ 4: How do Spanish firms select locations for their manufacturing plants in China?
- RQ 5: What are the most important events in the settling process of the manufacturing plants?
- RQ 6: Which are the key events and difficulties in the development of the trade relationships?
- RQ 7: What are the effects of the global financial crisis on the Spanish firms' performance in China?

The goals of this thesis are to shed some light on these research questions, to gathering the theoretical information on the topics, and to particularizing the topics by the experiences of the Spanish firms.

## 1.3 Research Method and Design

This research is qualitative study. Not so many studies have been done on the particular case of the Spanish firms' situation in China containing the specifications detailed in the research questions. Therefore, no kind of structure has been followed to accomplish this thesis.

This study was conducted by firstly gathering the theoretical information related to the topics exposed in the outline. Then, once all this information was analysed and processed, a questionnaire (see Appendix A) was fixed for the participant case companies. The necessary data collected was determined by the original requirements of this research, which are specified in the research questions.

The most suitable interviewees in gathering the necessary information for this research could occupy different positions in their companies. They vary from the director manager of one business area in the company to the responsible person of a certain function of the business. All of them have had contact with the Chinese market in different cases, some in their position to deal with the initial problems, or taking strategic decisions to affect their Chinese plant, or they were living in China for some years in the past. In the end, the key factor that makes the interviewees suitable for participating in this study is that all of them needed to have a wide knowledge on their firm's experience in the country such as their market's situation, demand-supply chain related issues or even IPR-related problems that the firm had.

The interviews were recorded with the interviewees' permission. All of them were conducted in January of 2010. Four of the interviews were conducted in Spanish and one of them was done in Basque. The questionnaire was translated in Spanish in order that everything can be understood right without any kinds of confusion. The interviewees were provided with the Spanish version of the questionnaire (see Appendix B) in advance, so that they would know the information that would be required for this research.

The data obtained in these interviews was transcribed literally according to the records. Later, the different companies' experiences were collected and the information was classified according to the outline of the study. The empirical study cites the quotes of the interviewees if necessary. In the end, the information obtained from the interviews is compared to the theoretical studies. Some new ideas, most of which cannot be confirmed without further research, are proposed. In addition, some suggestions that might help firms solve or cope with their problems are presented in the end of this research. Finally, the conclusions are made to end this thesis.

The practical part of this research adds value and offers a partially different perspective to the trade relationship studies. It was carried out by conducting interviews with people in different positions working at the five participant case companies. All of these case companies have manufacturing facilities in China.

# 2 Theoretical Background

The sections aim to present the situation in different areas in China based on previous studies. The purpose is to have a better understanding of the country so that afterwards, it is possible to interpret correctly the contents of the empirical part of this research.

## 2.1 Regional Differences

Generally, business negotiations taking place in China require patience, tenacity and knowledge of the Chinese culture, customs and regulations (Shi & Wright, 2003). While Western negotiators aim to make the best business they can for the organization (Blackman, 1997; Chen, 1996; Eiteman, 1990; Pye, 1982; cited in Shi & Wright, 2003), the Chinese counterpart may be in a situation needing to decide whether to do what is best for his Mother Country or do what is best for the company. Awareness of this issue might increase success rates, reduce misunderstandings or even decrease the necessary amount of time spent in negotiations (Shi & Wright, 2003).

However, business negotiators should bear in mind that China is a collection of regions and therefore, what could be a good negotiating procedure in one region might not be so appropriate in another one (Shi & Wright, 2003). Studies suggest that for instance, there is a higher level of national feelings in Guangzhou than in Beijing or Shanghai. This is reason it is so important for negotiators knowing the region they are working at (Atkins, 1996; Graham, 1996; Child & Stewart, 1997; cited in Shi & Wright, 2003). Very often, western negotiators tend to establish short-term relationships that require low trust and usually have individualistic tendencies (Hoecklin, 1995; Scarborough, 1998; Trompenaars, 1994; Williams, 1998; cited in Trimarchi & Tamaschke, 2004).

Since China adopted the “open-up” policy, the PRC has gone through many social, political and economic changes (Raa & Pan, 2005). During these years, China has been the country that has attracted the largest amount of FDI among all the developing countries. For over 15 years, Guangdong has been able to attract more than 30% of the total FDI that China has received mainly because of its proximity to cities such as Hong Kong and Macau, and also to Taiwan. These three locations have heavily invested in the country during the last decades (Huang & Sharif, 2009).

China can be divided into three different regions (Figure 1): eastern, central, and western regions (Liu, 2005; cited in Zhen, et al., 2008). The rapid economic development has increased the living standards, though this has not happened evenly all over China. Thus, it generates wide living standard gaps. The regional differences between the different provinces that constitute China are the reason for this uneven development (Wenheng & Shuwen, 2008). Particularly, the difference among the already mentioned three regions is increasing (Gu, 2004; cited in Zhen, et al., 2008).


**Figure 1**. **Provincial map of China** (obtained from http://www.google.com).

The most outstanding characteristics of the western regions in China can be summarised as (Zhen et al., 2008):

- The growth of GDP is slow and unstable; the case of the province of Sichuan is an exception.
- The distribution of urban population in most provinces is quite concentrated.
- There are not many similarities in the degrees of urbanization in the different provinces.

Studies suggest that the urban economic reform that took place in China made the difference between urban and regional income levels become bigger. Generally, the high wages employees are paid in the cities is one of the main reasons that explain labour migration inside a province. However, in China, people not only migrate within a province, but also, within the whole country. In fact, skilled labour migration has been acknowledged from Western and Central China to Eastern China while unskilled labour mainly moves from Easter China to Central China. In spite of this skilled labour flow, studies suggest that there are still too many unskilled workers in Easter China (Raa & Pan, 2005).

Most of the FDI in China comes from Hong Kong, Macao and Taiwan (Wei & Liu, 2001). For over the past 30 years, Guangdong province of has been the one that has received most of the FDI that China has received (Huang & Sharif, 2009). The fast economic growth during the 1960s and 1970s caused an increase in the labour cost in HKT (Hong Kong and Taiwan), making labour-intensive manufacturing industries become less competitive. China's open up policy encouraged labour-intensive production industries to move to China. Most of them moved to Guangdong province, due to the proximity to the city (Zhang, 2005).

The situation in Taiwan has been different. Political and military conflicts made the Taiwanese government forbid investments into China until 1987. After that, FDIs were approved and the invested amount has been increasing (Zhang, 2005). Later, since the mid 1990s, entrepreneurs operated in Hong Kong have made around half of their investments in Guangdong (Huang & Sharif, 2009).

The fact of Hong Kong as a western colony made it different from Mainland China in many aspects. For example, when people from western countries go to Hong Kong to do business, the trade relationships between them do not need to be as close as the ones established with people in Mainland China. The people of Hong Kong perceive a relationship is close enough to do business earlier (Trimarchi & Tamaschke, 2004). When China assumed sovereignty over Hong Kong in 1997, local innovation and technology policymakers tried to "leverage the Mainland" and paid special attention to Guangdong province (Huang & Sharif, 2009).

Over the past 30 years, Hong Kong has changed from an industrialized city into a centre of manufacturing-related service activities (Huang & Sharif, 2009). The Chinese government, in an attempt to encourage export-oriented FDI has supported HKT investors with measures such as tax exemptions or low land-use fees for instance (Zhang, 2005).

Analysing trade relationships between Western negotiators, Hong Kong intermediaries and Mainland sellers are studied as the economic forces to drive the trade relationships instead of the cultural ties or personal connections (Trimarchi & Tamaschke, 2004).

## 2.2 FDI in China

The process of entering the Chinese market involves many aspects firms have to face. The following sections aim to present a view of the general information of foreign direct investment (FDI) in China.

### *2.2.1 The evolution of FDI in China*

FDI is defined as "a form of international inter-firm cooperation that involves a significant equity stake in or effective management control of host country enterprises". In China, FDI not only implies this, but also, it encompasses other non-equity co-operations like CJVs, compensation trade or joint exploration (Sun, et al., 2002).

China is one of the most promising markets all over the world. It is expected that soon it will become the largest economy in the world. Often, firms feel like they cannot permit themselves not to be present in China because of the large size of its population and the enormous market potential (Beamish & Jiang, 2002). Studies suggest that most commonly foreign firms are attracted by cost of production factors, market size, agglomeration effects, financial incentives and investment environments (Lim, 2001; Ng & Tuan, 2002; Taube & Ogutcu, 2002; Tuan & Ng, 1995; cited in Tuan & Ng, 2007).

Other factors to attract FDI are for instance, the worldwide-extended tax incentive method, which also exists in China (Hadari, 1990; Usher, 1977; cited in Tung & Cho, 2000). Additionally, country factors such as national stability are also important for investors. Particularly, it is more stable in China than in other big emerging markets. Its gradual reform process has permitted the country not to lose control in a massive scale as it happened in Russia (Beamish & Jiang, 2002).

The entrance to the WTO has also positively influenced the FDI inflow to China (Beamish & Jiang, 2002). China has been able to attract a great amount of FDI during the last decade. China was considered the low-cost manufacturing platform of the world's largest organizations. However, China will opt for inward investment in knowledge-intense production in the near future (Oxelheim & Ghauri, 2008). Surveys also suggest that there is increasing interest by global firms to do R&D activities in China (UNCTAD, 2005; cited in Oxelheim & Ghauri, 2008).

The main characteristics of FDI in China include the following ones (Sun et al., 2002):

- Investments are mainly focused on the secondary industry: manufacturing processes, utilities and property development.
- Foreign capital usually flows into China from Asian countries and regions: more than 80% of the total foreign capital comes from Hong Kong, Taiwan and other Southeast Asian countries.
- FDI is not uniformly distributed across the three main regions in China (eastern or coastal, central and western). So far, the eastern region is the one receiving most of the investments (Beamish & Jiang, 2002) (Table 1).

**Table 1. Possible determining factors for FDI distribution (Sun et al., 2002).**

| Category | Proxy |
|---|---|
| 1. Market demand and market size | GDP |
| | GDP per capita |
| | Retail sales |
| | Retail sales per capita |
| 2. Agglomeration | |
| Infrastructure | GDP per km$^2$ |
| | Highway per km$^2$ (Highway) |
| | Railway per km$^2$ (Railway) |
| Degree of industrialization | Domestic investment (INV) |
| | Domestic investment per worker (PERWI) |
| Level of foreign investment | Cumulative domestic investment (CINV) |
| | Cumulative FDI (CFDI) |
| | CFDI/CINV |
| 3. Labor quality | RSET — number of research engineers, scientists and technicians as a percent of the total employees |
| 4. Labor Cost | Average wage (Wage) |
| 5. The level of scientific research | R&D expenditures |
| | Number of patents |
| | Number of universities |
| 6. Degree of Openness | Total trade amount |
| | Import/GDP |
| 7. Country risk | Risk ranking by political risk services |
| 8. FDI substitutes | Foreign portfolio investment |

Nowadays, it is getting more and more difficult for foreign subsidiaries to invest in China profitably. The study shows that the year of subsidiaries established in China explains their performance in a certain level. Studies suggest that subsidiaries established during 1989-1991 performed worse than those set up between 1985 and 1988 did. Tendency is kept until mid 1990s, where companies that set up after this did not have a worse performance than those established in the first half of the decade, because of a slowing down growth rate and an increasing competition in the market (Beamish & Jiang, 2002).

The development of the FDI progress in China can be divided into three stages (Table 2). The first stage starts in 1979, from the moment in which "law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment" became effective (Sun et al., 2002) and is extends till 1986. During this period, the Chinese government focused mainly in trying to provide legal status and legitimacy to FDI related activities; this way, foreign capital policies were implemented on a trial basis (Tuan & Ng, 2004). Since it was a “training” period, several coastal cities and multiple Special Economic Zones (SEZs) were set up for receiving foreign investment. However, due to the high inflation, this boom generated by the incoming foreign investments ended by the end of 1985 (Sun et al., 2002).

**Table 2. Evolution of the legislation of FDI policy in China (Tuan & Ng, 2004)**

| | |
|---|---|
| Stage I (1979–1986) | • Equity Joint Venture Law (1979).<br>• Constitutional Law revision for FDI (1982).<br>• Wholly Owned Subsidiaries (WOS) Law (1986).<br>• Provisions for the FDI Encouragement (1986).<br>• Constitutional Status of Foreign Invested Enterprises in Chinese Civil Law (1986) |
| Stage II (1987–1991) | • Interim Provisions on Guiding FDI (1987).<br>• Delegation on Approval of Selected FDI Projects to more Local Governments (1988).<br>• Law of Cooperative Joint Ventures (1988).<br>• Rules for Implementation of WOS Law (1990).<br>• Income Tax Law and its Rules for Implementation (1991). |
| Stage III (1992–2001) | • Trade Union Law (1992).<br>• Company Law (1993).<br>• Provisional Regulations of Value-added Tax, Consumption Tax, Business Tax, and Enterprise Income Tax (1993).<br>• Law on Certified Public Accountants (1994).<br>• Provisions for Foreign Exchange Controls (1994, 1997).<br>• Insurance Law (1995).<br>• Law of Commercial Bank (1995).<br>• Guideline for FDI (1995, 1997, 1999).<br>• Further Delegation for Approving FDI to Local Government (1996).<br>• Custom Administration Reform (1998).<br>• Regulation on Trial Operation of Foreign Banks in Shenzhen and Pudong (1998).<br>• Law of Land Management (1999).<br>• PRC Contract Law (1999).<br>• Regulation Governing FDI to Domestic Commerce Sector (1999).<br>• Establishment of National Finance and Insurance Commissions (1999).<br>• Accession to WTO (2001) |

The second stage lasted from 1987 to 1991 and it consisted of the expansion of regional openings. At this stage, FDI specific legislation, policies and the till then limited suitable areas for receiving foreign capital were refined. During this period, China accumulated a large amount of FDI (Tuan & Ng, 2004). Because of this policy and legislation refinement taken place during these years, FIEs were allowed to make more independent operations in China. Foreign investors began to obtain certain tax incentives as well. During this stage over 70% of the FDI projects were involved in manufacturing industries. This period ends with the incident that took place in Tianman Square, reducing the FDI growth rate to a single digit rate (Sun et al., 2002).

Finally, the major goal during third stage (1992-2001) was to reach a full-scale economic liberalization and market-openness in order to access the WTO. The aim was fulfilled, and a continuous economic opening took place all over the nation during these years (Tuan & Ng, 2004).

By December 2001, China became a member of the WTO. This same day, the State Council promulgated the Provisions on the Administration of Foreign-Invested Telecommunications Enterprises (the FITE Provisions). However, even though this adjusted to China's commitments under the GATS schedule, foreign investors could only invest in the telecommunications sector through Chinese foreign EJVs (Wang, 2003). Later, in 2003, continuing with the refining of the FDI legislation, the Closer Economic Partnership Arrangement (CEPA) was approved with Hong Kong and Macau (Tuan & Ng, 2004).

### *2.2.2 Barriers of FDI in China*

**Bureaucracy**

Foreign firms' principal motivations to entering the Chinese market are mainly the cheap labour and the support from the Chinese government. In order to improve the local economies, the Chinese government may offer foreign companies with some incentives. Therefore, it is advisable that companies have some knowledge on local policies, business operators in the area, distribution networks, local purchasing capacity, density and centrality of local customers. (Li & Scullion, 2010).

Nowadays, the use of expatriate managers to penetrate foreign emerging markets is inevitable, mainly because of the strategic roles of the managers and the lack of talented executives in these economies (Lenartowicz & Johnson, 2007; cited in Li & Scullion, 2010). Moreover, it is also important that MNCs build up possible expatriate manager's local knowledge (Li, Scullion, 2010).

Once in China, it is vital that expatriate managers focus their efforts on developing and maintaining "managerial ties" (Geletkanycz & Hambrick, 1997; cited in Li & Scullion, 2010). These "managerial ties" refer to the interpersonal connections of top managers between the MNC and external local knowledge holders as for example, local customers, local institutions, strategic partners. (Li & Scullion, 2010). They are based on personal trust and they can only be cultivated through networking activities (Luo, 2000; cited in Li & Scullion, 2010). It is particularly important in China to get market information, since social network and institutional theories suggest that corporations presenting in institutionally less developed economies must rely more on managerial connections (Nee, 1992; Peng & Heath, 1996; cited in Li & Scullion, 2010).

In developing economies, expatriate managers must maintain greater contact with the elite of other organizations, comparing to the situation in other stable economies. Among the managerial ties, the ones with officials of various governmental bodies are particularly important (Li, 2005; cited in Li & Scullion, 2010). The reason is that even though laws and regulations have already been established and are effective in China, they can remain ambiguous and their enforcement is always somehow subjected to personal interpretation (Ahlstrom et al., 2008; Tung, 2002; cited in Li & Scullion, 2010).

According to a Western respondent in a study: "It is important to influence both the end users and people higher up in the bureaucracy . . . The people who have the most friends in the right places, they get the business". To obtain these contacts, foreign companies can employ Chinese workers from their own industry sector. These people have guanxi to buyers and/or governmental organizations. This people may also have contacts while they were students, because of the very specialized and industry specific Chinese educational system (Björkman & Kock, 1995).

The government is usually the buyer of a great amount of business deals, particularly those large infrastructural projects. In China, although final buyers play an important role in the process of sales, very few contracts are signed with these organizations (Björkman & Kock, 1995).

Apart from the FTCs and end buyers, whenever large investment decisions are made, local and central authorities tend to be involved. Sometimes the approval of the State Planning Commission or that of its local units may be necessary. In addition, the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) gives import licenses, and under certain situations, it may give tariff exceptions. It is quite common and necessary to get an approval of the Ministry the end user belongs to. Local governments may influence considerably on investment decisions made by organizations (Björkman & Kock, 1995). Finally, "Mothers-in-Law" (e.g. local regulatory bureaus) can also say over anything taking place within their regulatory area (Child & Lu, 1990; cited in Björkman & Kock, 1995).

In order to make pressure on government decisions, in some sectors, successful firms build geographic stronghold so that it allows synergies in distribution and in economies of scale (Heracleous, 2001; cited in Li & Scullion, 2010). Hence, the tacit nature of the local knowledge is increased because of the complexity of the business environment in such an emerging economy. This is usually caused by the government's influence, great regional differences or the dynamic economic structure (Li & Scullion, 2010).

Finally, foreign organizations should bear in mind that Chinese regional governmental institutions do not often follow the same approach developed by the central government. Moreover, due to the inefficient administration system and the wide geography of the country, it may also be difficult carrying out consistent business activities in China, especially with major Chinese companies (Lord, 2001; cited in Li & Scullion, 2010).

**Custom duties and regulations**

Since China joined the WTO in 2001, the mean of the duties has decreased from 15,3% to 9,8%, according to the year 2007's data. Agricultural product's duties are around 15,2% whereas those for industrial goods are about 8,95%. Regarding custom duties for importing products or materials into the country, the fact that China entered the WTO has meant that duties cannot be increased over the already established rate for each of these products (Secretaría de Estado y de Comercio, 2009).

There are about 81 products, that in the last years have benefited from over 50% reduction in duties. Apart from this, other products such as ceramic materials and tiles have had an important reduction, though less than that of a 50%. Electrical appliances have also benefited from a reduction of duties. On the one hand, small ones have gone through needing to pay a 35% duty to a 17% one; On the other hand, for larger electrical appliances, duties have been reduced from 30% to 15% (Secretaría de Estado y de Comercio, 2009).

Duty exemptions at the point of entry are a vital part of China's exports promoting system (Ianchovichina, 2004). Currently, the country owns 15 free trade and good storage areas. The most important ones are located in the areas around Shanghai Pudong, Tianjin and Shenzhen. Since they are free trade zones, there is no need to pay duties on machinery for production plants (no matter whether it is second-hand machinery or not), office facility materials (air conditioning is also included) and building and decoration materials (Secretaría de Estado y de Comercio, 2009).

Apart from the free trade zones, there are 57 areas in China, which it is possible to export to the rest of the world. In these zones, it is also possible to import goods with privilege duty rates. The main difference of these areas with that of the free trade is no products are in transit. Instead, it is locally produced goods which circulate in these areas (Secretaría de Estado y de Comercio, 2009). For companies located in China, these duty drawbacks permit producers who are export-oriented to operate at world prices (Ianchovichina, 2004).

It is possible that importing materials do not need to be paid any duties if the materials will go through an assembly or processing phase for later export. After all, the necessary duties would have to be paid for the final products exporting. This happens to imports also in China (Chao et al., 2006). It can also happen being charged of duties when importing, and later, when exporting, being discounted the previously charged duties (Secretaría de Estado y de Comercio, 2009).

In the end, although duty policies promote exporting activities, in some cases they can be detrimental to the domestic market since it may be cheaper importing raw products than buying them in the local market, depending on the final products' destination (Chao et al., 2006). In case a temporary importation of goods is required, it will be compulsory to pay a deposit that would be returned when the goods left China. No duties would be applied to the products. However, in any case, these temporary imports cannot exceed a six-month period in China (Secretaría de Estado y de Comercio, 2009).

**Corruption**

Corruption is generally defined as "the exercise of public power for private gain" (Cuervo-Cazurra, 2008). In case the corruption takes place in the government, it is a public employee who (elected or not) is obtaining private benefits by means of his position in the government (Bardhan, 1997; Svensson, 2005; cited in Cuervo-Cazurra, 2008). When corruption is happening at state level, it is considering some politicians and bureaucrats' personal interests and their intervention affects on giving licenses, loans, jobs, services, accepting bribes and so on. (Duckett, 2001).

Back in the early 1990s, before the fiscal recentralization took place, local governments in China first claimed tax revenues for spending them later. Part of this benefit was "donated" to private enterprises. The goal was to increase their income in private enterprises in this way, and to expand the local tax base. Later, when the fiscal recentralization took place, the private sector's growth rate decreased. In general, however, the type of corruption in China is the kind of "helping-hand" corruption for those companies in the private sector. It promotes private investments and in the end, it expands the tax base (Oi, 1992; McKinnon, 1992; Montinola et al., 1995; Qian & Weingast 1996 and 1997; Jin et al., 1999; Blanchard & Shleifer, 2000; cited in Chen, 2004).

Results in China suggest that fiscal recentralization was undertaken both without all the information required by the centre government and with no awareness of the relation between central-local governments' tax-sharing rules. However, after the recentralization, something made Chinese corruption to evolve from being the kind of "helping-hand" corruption into becoming the "grabbing-hand" kind one. The main reason for this is that before the recentralization, the central government did not take into account the local government officials; it simply changed the revenue-sharing rule (Chen, 2004).

Regarding corruption in IP terms, even though an IP framework exists, there is still work to do in order to narrow the gap between TRIPS and the Chinese legislation. Because of this gap, organizations usually find themselves with problems such as an inadequate punishment on counterfeiting, lack of the necessary controls to identify abuses on IP, unreasonable restrictions on copyright holders' rights. (Yang, 2003). Finally, corruption also affects to the investments. In fact, studies suggest that organized corruption reduces the amount of investments made in the country (Campos, et al., 1999; Rock & Bonnet, 2004; cited in Blackburn & Forgues-Puccio, 2009).

### 2.2.3 *Entry modes of FDI*

Usually, foreign investors are allowed to choose their entry mode into the Chinese market. The most common entry modes for foreign countries are wholly foreign-owned enterprises (WFOEs) and joint ventures (JVs). Other less popular modes are contractual (or cooperative) joint ventures (CJVs) (including licensing and technology transfer agreements), joint exploration and cooperative development (Deng, 2001).

In the beginning, CJVs were very popular; however, company's entering mode choice has been changing through the years and consequently, CJVs as an entering mode have become less and less popular (Wei & Liu, 2001). Nowadays, foreign investors seem to prefer WOE because of the high level of experience China has in attracting FDI, the large investment commitment and the possibility to choose a good industrial location. For China, in case the good specific location requirement is not met, companies tend to choose the EJV and joint stock company (JSC) as entry mode (Wei et al., 2005).

Company entry mode selection may also be influenced by the different institutional structures of both the company's home country and China. The very first institutional factor is Chinese legal limitation if it limits the operations of the company in China. In this situation, the privileged investment mode would be a JV (Gatignon & Anderson, 1986; cited in Bontempi & Prodi, 2009).

The situation of Chinese market entry through JVs has been changing progressively (Markarian, 2008). The Chinese government has moderated the limitations to allow foreign enterprises operating without local partners in an increasing amount of sectors. Therefore, the year of companies deciding to invest in China is critical information to have a better understanding of the institutional context and circumstances surrounding the entry mode process (Bontempi & Prodi, 2009).

It is commonly known that Chinese partners have different goals from those foreign partners have. In some cases, these may turn into conflictive situations. It is especially important for companies that are willing to enter the Chinese market as JV, or that already did it because they had no other choice in the past (Liu & Pak, 1999). JVs also can be beneficial to both foreign and local partners. On the one hand, local partners benefit from the technological knowledge, management skills and capital that foreign partners bring (Hu & Chen, 1996). Chinese are particularly interested in foreign capital and technology knowhow, as well as increasing their exports (Luo, 1997). In some IJVs, organizations are just interested in their partner's knowledge, which is something they cannot create on their own (Hamel, 1991; Inkpen, 1998a, 1998b, 2000; cited in Hau & Evangelista, 2007).

On the other hand, MNCs use local partners' connections to increase revenue and reduce risks (Hu & Chen, 1996). Foreign partners are particularly interested in accessing to the market, cheap labour and lax laws on controlling pollution. When foreign and Chinese partners' priorities come into conflict with each other, coordination between partners becomes poor (Luo, 1997; cited in Luo, 1999). For MNCs, JV may be desirable because they decrease the transaction costs of doing business in a foreign market (Buckley & Casson, 1988; Harrigan, 1985; Kogut, 1988; cited in Pan & Li, 1998). Foreign organizations can also choose WFOE to enter the Chinese market. This way, they can protect their proprietary assets such as technological knowledge or marketing skills (Beamish & Banks, 1987; Hennart, 1988; cited in Pan & Li, 1998).

As a result, the most popular entry modes for foreign investors to invest in China have become either WFOE or JVs with most of the shares controlled by foreign partners (Liu and Pak, 1999). In determining the entry mode, MNC companies should pay attention to their objectives for manufacturing in China and to the level of expertise they have in the Chinese market (Markarian, 2008).

Nowadays, WFOE has become the most popular entry mode for foreign investors in China. The most important reasons are the acknowledged disappointments of EJVs, the amount of advantages of WFOEs and the changes in government regulations (Figure 2). Over the past decades, all these factors have influenced and determined MNC's entry mode choice. Moreover, the most valuable factor for MNEs is that WFOEs can be controlled easily and the low dissemination risk related to them (Deng, 2001). The first one provides the chance of making high-speed decisions (Markarian, 2008). The second one gives foreign companies an excellent opportunity to react in time and accurately in the constantly changing Chinese market (Deng, 2001).

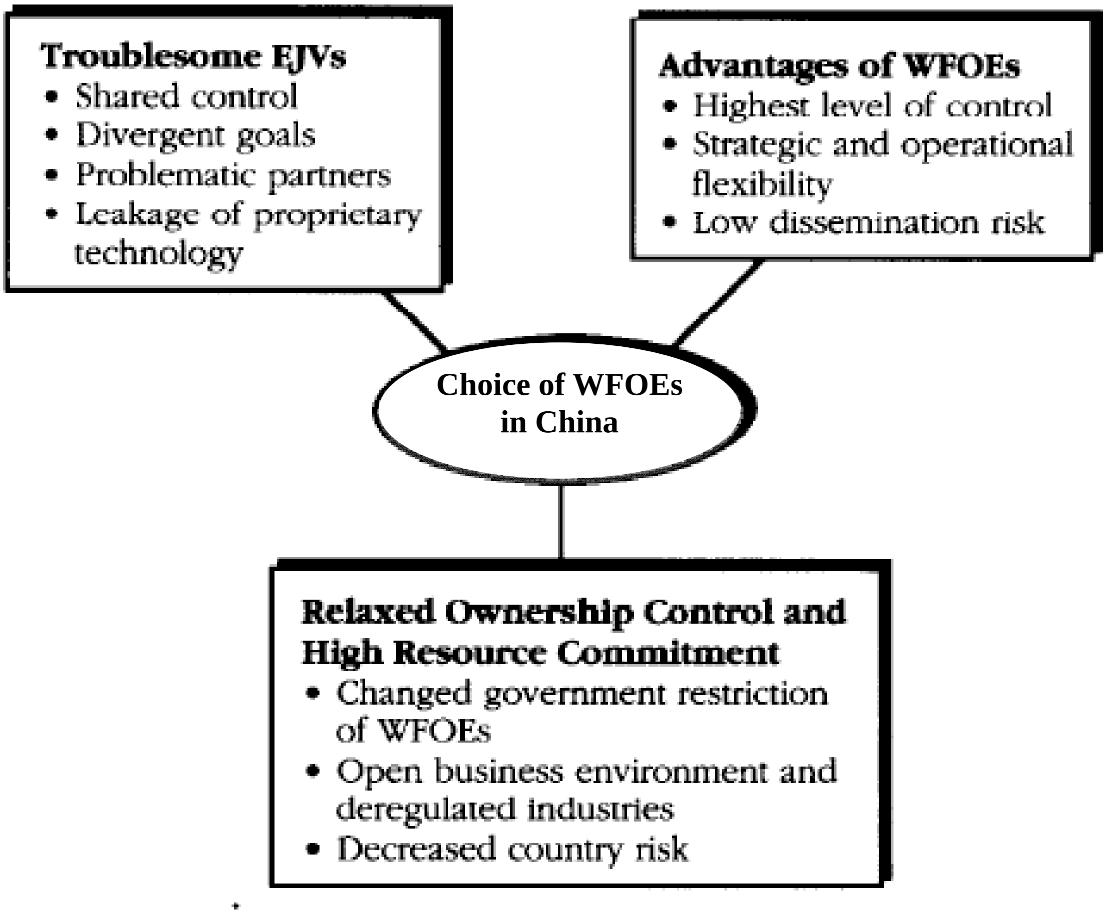


**Figure 2: Framework of choosing WFOEs (Deng, 2001).**

Firms oriented to a high technology, innovation and R&D tend to prefer WFOEs as the investment form in order to protect their know-how (Anderson & Gatignon, 1986; cited in Bontempi & Prodi, 2009). Moreover, MNEs are more prone to transfer newer and more advanced technology to their subsidiaries in China (Deng, 2001). Other factors that make organizations prefer WFOEs are: The size of the company; the larger this one is, the more frequently they will choose investing in China as WFOEs because they are more inclined to taking risks and are less subjected to limitations. The level of internationalization and experience on foreign markets; this makes companies want a higher control over their investments, and thus, select entering the country as WFOEs (Anderson and Gatignon, 1986; Gomes-Casseres, 1989; cited in Bontempi & Prodi, 2009).

### *2.2.4 Intellectual Property Rights*

Globalization has accelerated the internationalization of IP. Internationally, some areas have been discussed for standardization, such as Internet domain, e-commerce and drug access. However, it is not an easy thing to do, since some products require different IP in order to protect them effectively (Yang & Clarke, 2005).

The World Intellectual Property Organization defined IP as creations of human kinds such as inventions, symbols, names, images and designs used in commerce and literary and artistic works (WIPO, 2002). IPR have become commonly acknowledged and are implemented in the current knowledge-based society. (Wang, 2004).

In the development process, China is trying to catch up in many fields of the developed countries (Wang, 2004). Due to the country's rapid economic development, China has had to make big progress in certain areas in order to keep growing sustainably; intellectual property protection is one of these fields (Zhang, 1997). In fact, IP protection may contribute a lot to the development of the economy and thus, the government has paid special attention to it in the last years (Wang, 2004).

One of the main reasons for why the Chinese have implemented IP related laws rapidly in order to attract foreign capital and technology into China (Endeshaw, 1996, cited in Wang, 2004). For knowledge economies, the key to development is innovation of knowledge. The IP system provides the owner of innovation exclusive rights during an established period so that the owner can gain a high quantity of input and gains from the innovation and can keep working for searching further economic development (Wang, 2004).

Intellectual property is divided into two categories: On the one hand, industrial property, which includes inventions (patents), industrial designs, trademarks and geographic indications of origin. On the other hand, copyright, including musical, artistic and literary works. Copyright-related rights include the ones of broadcasters in their television or radio programs, producers of phonograms in the copyrighted recordings and performing artists in their performances (WIPO, 2002).

During the early 1990s, China attempted to enhance the IPP internationally ratified the Berne Convention (1992), the Universal Copyright Convention (1992), the Geneva Convention (1993), the Patent Cooperation Treaty (1994) and the Budapest Treaty (1994) (Yang, 2003). To fulfil the obligations implied by these treaties and conventions, the government promulgated several regulations and laws such as the ''Decision on Intellectual Property Protection'', approved by the end of 1994 (Wang, 2004).

Three aspects reflected the progress of IPP in China. First, China promulgated new IP laws (Copyright Law (1990), the Provisional Statute on the Protection of Computer Software (1991), the Regulations on the Enforcement of Universal Copyrights Convention (1992), and the Anti-Unfair Competition Law (1993) and the Decision on Copyright Infringement Punishment (1994)). Second, previously existing laws were revised, including the Implementation Regulations on the Copyright Law (1991), on the Patent Law (1992), and on the Trademark Law (1993). Third, the Special People's Court System was established in 1992 to handle IP and economic cases (Yang, 2003).

In the 1990s, the WTO created TRIPS to enhance the IPP due to continuous pressure from developed countries. TRIPS made any developing country that wanted to access world markets to introduce and enforce IPP to levels of developed countries, within a period of 5 years (Yang, 2003). China joined the TRIPS in 1995. It became the most important IP and international trade entity (Yang & Clarke, 2005).

Most probably, the Chinese government acceded on Western pressure for IP protection to go further in its process of accessing Western technologies and improving the economy (Bosworth & Yang, 2000). Lately, the increasing internal demands have arisen for more economic, social and technological information, increasing the demands for protecting creative works too. This has made the whole nation to realize of the importance of IP in economic growth to catch up with developed countries (Wang, 2004).

China became a member of the WTO in December of 2001 after 15 years of negotiations. By this time, the most important intellectual property laws and regulations in China had already met the standards of the TRIPs (Wang, 2004). Nowadays, in most developed countries IP protection has been standardized by international organizations as WTO and WIPO. These organizations push developing countries to reach the settled standards for IP protection (Yang & Clarke, 2005).

In general, even though China started paying attention to IP related matters later than other developed nations, it has made lots of progress and it is catching up quickly. Chinese authorities demonstrated to be willing to enforce the IPR (Wang, 2004). Many laws and regulations have been approved to protect the IPRs, though these matters are relatively new for the Chinese government. It is likely that some amendments will need to be done (Yang & Clarke, 2005).

For the international community, it will enhance IPR has gone partly unnoticed due to the lack of actions against counterfeiting and piracy carried out by the government and other institutions in charge of this (Asia Law & Practice, 1995; cited in Wang, 2004). To fight against this, Chinese authorities have publicly destroyed large amounts of pirated material. It is expected to keep happening as long as Chinese people become aware and accept the need to protect IPRs (Yang & Clarke, 2005).

In China, the current IP system is based on administrative control, legislative guidance and judicial enforcement. All these provide the ability to introduce legislations and regulations both to the central government and to the ministerial or provincial one (Yang, 2003). In fact, there are local bureaus of patent, trademark and copyright in the different provinces in China (Wang, 2004). Analyzing these basis, administrative control includes administrative organs and their functions in patent applications, approvals, protections and examinations. Legislative guidance is related to the legislative system and legal mechanisms in guiding patenting activities and protection in the country. Judicial enforcement involves to the court system and its functions in dealing with disputes related to patents (Yang, 2003).

The administrative control is also responsible of the implementation of IPP. Nowadays, three different organizations under the State Council manage the different IP forms present in China. They are the State Intellectual Property Organisation (SIPO), the Trademark Office and the State Copyright Administration (SCA) (Yang, 2003). It is remarkable to mention that SIPO is the one in charge of the patent issues and it coordinates the foreign-related IP issues, measuring and guaranteeing an effective protection of IPRs. Lately, it has also assumed the role of the former CPO. In addition, Chinese Customs are another important administrative organization. They have been authorized to protect IPRs related to imported into and exported goods to China, including patents, copyrights and trademarks (Wang, 2004).

Over the past years, the numerous efforts China has made to create and improve its legislations on patents, copyrights and trademarks have been acknowledged. Furthermore, these efforts have turned into real IPR effective protection measures. Even if some laws are still needed to revise, nowadays the Chinese government must focus on the efficiency of these laws to be obeyed (Wang, 2004). A better IPR protection and an improved legal framework have meant companies making more investments in R&D, and thus, increasing the number of patents that have been registered in China during the last years (Figure 3) (Hu & Jefferson, 2009).

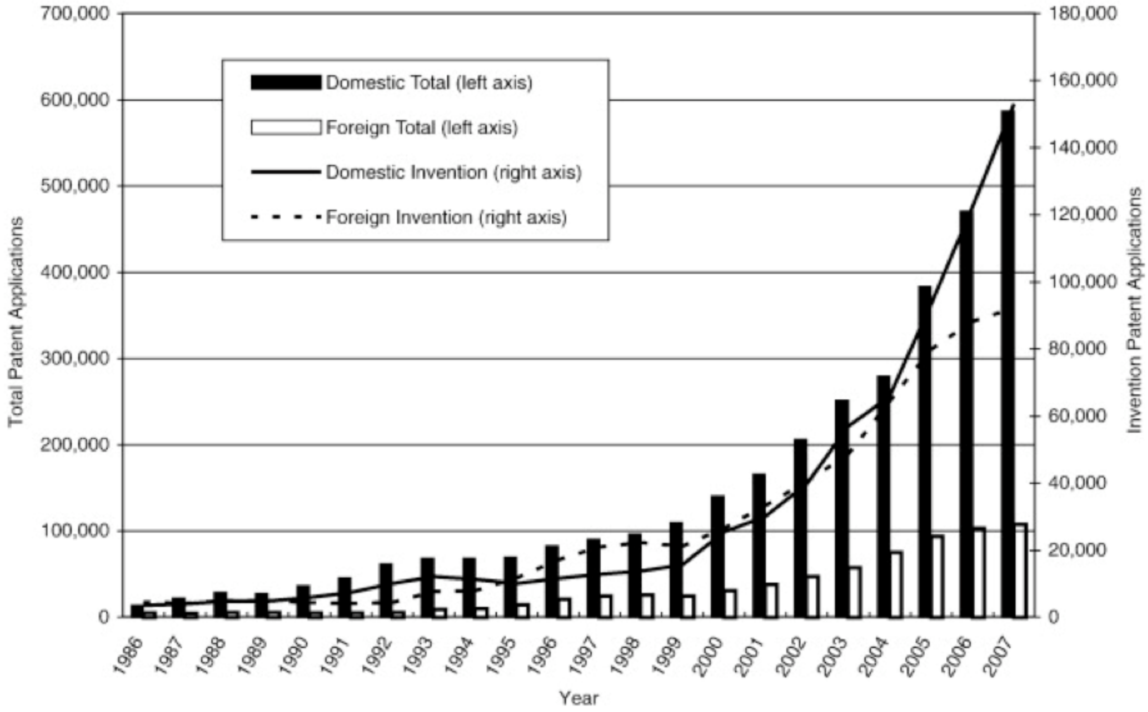


**Figure 3: Chinese patent applications, 1986-2007 (Hu & Jefferson, 2009).**

Over the last two decades, IP-related activities have considerably increased in China. For instance, the amount of applications and grants or registrations of different IP rights awarded to both local and foreigners has increased lately. Most of these grants, around 60%, have been given to Japanese and US organizations operating in China. Other EU countries like UK, Germany, France and Italy also have an important role, and even though collectively their percentage could be compared to that of the US or Japan, as individual countries their presence is more discrete (Yang & Clarke, 2005).

Experience also demonstrates that trademark protection is easier than that of patents (De Meyer, 2001). The reason is that trademark distribution is more segmented than parents are. It can be considered as a new product launch in new markets. Thus, providing the right protection is necessary to guarantee the product's image and the quality of the foreign production (Yang & Clarke, 2005).

The improvement of the IPR protection system implies a promising future for technological progress (Yang & Clarke, 2005). The Chinese government is also becoming aware of the advantage of the Chinese business having a proper IPR protection in the long run. Consequently, government officials have already begun condemning copying and counterfeiting and speaking in favour of IPP (De Meyer, 2001). In addition, the rapid increase in domestic IP creation has led to the creation of more measures to protect IPR. In fact, the number of Chinese technology organization seeking for IPR protection has increased (Massey, 2006; cited in Kshetri, 2009).

### *2.2.5 Tax system*

The major form of taxation from enterprises in China was the turnover tax. In 1979, it was the first time in China to start experimenting with the VAT (Value Added Tax) in sectors with the problems of multiple-taxation. Therefore, the VAT became an independent tax in China in 1984 (Lin, 2008). Since then, the Chinese tax system has evolved and nowadays it reaches agreements with different countries such as Spain. Particularly for the Spanish case, both countries have signed an agreement (since 1990) that prevents companies from being charged twice for the taxes and to prevent tax evasion. In fact, this agreement is valid when applying the VAT and the wealth tax (Secretaría de Estado y de Comercio, 2009).

After the VAT became effective, the Chinese tax system went under another reform in 1994. The most important changes applied to the taxation system were to eliminate the industrial and commercial consolidated tax that used to be imposed on foreign-related organizations and to impose universally the VAT on production, wholesale, retail and import of goods. Consequently, the VAT, the consumption tax and the business tax became the most commonly imposed taxes on enterprises (Lin, 2008).

The VAT is a percentage tax on the value added at each stage of production. There are three VAT types (Lin, 2008):

- GDP-type VAT. For example, the tax base is GDP. This is China's current VAT type. Deductions for capital investment are not allowed.
- Income-type VAT. Here, the tax base would be the income or savings plus the consumption; it is imposed on the net domestic product.
- Consumption type VAT. In this type, investments are excluded.

During the last years, the local governments have introduced a first levying and then rebating of taxes (FLTRT) policy in order to attract capital investment. The way of doing this is by first taxing the usual 33% taxing rate to the companies and later, local tax authorities would rebate part of these taxes, lowering the total amount of imposed taxes to about 15% (Wu et al., 2007). In the past, Chinese entities had to pay a tax rate of about 33% whereas foreign companies had to pay a tax rate of 15%. Currently, the latest law on corporate income taxes, which became effective in 2007, makes both local and foreign companies pay a tax rate of 25% (Secretaría de Estado y de Comercio, 2009).

Tax rules influence company's investment decisions and their organizational form (Scholes & Wolfson, 1989 and 1992; cited in Tung & Cho, 2000). Tax incentives are not only an effective way for attracting FDI to China (Wu et al., 2007); but also influence organizations' choice on the form of FDI (Tung & Cho, 2000). However, the increasing tendency of local governments to use the FLTRT and the imbalance of the industrial structure made the central government to prohibit local governments to apply tax rebates in 2002 (Wu et al., 2007).

The most remarkable changes caused by the appliance of the new law on corporate income taxes include providing certain benefits to some organizations, depending on the sector these companies belong. Opposing to the previous law, in order to take advantage of these benefits the firms' emplacement is no longer an important factor. That is, the latest law on taxes that became effective in 2007, is mainly benefiting companies which the State considers to be high-tech; a 15% tax rate is imposed to these organizations, no matter what their location is (Secretaría de Estado y de Comercio, 2009).

Recently, tax fraud has been discovered to be a problem in China. Particularly, the high amount of claims for the rebate of VAT on exported goods seems to be a serious issue. This fraud requires an intermediary to provide the company with false documentation that would support a rebate application. However, it is remarkable to state that capital punishment could be applied in case of major fraud cases (Hashimzade et al., 2010).

### *2.2.6 Finances*

The most remarkable thing on this topic that might affect Spanish firms in a greater sense is the existing economical-financial treaty between China and Spain.

On October 23 of 2008, in order to substitute a previous cooperation agreement, China and Spain signed a new Financial Cooperation Program valued 380 million euros. Around 300 million euros were assigned for financing industrial-technological value-added and image projects for Spain. Representatives of the ministries of both countries meet every six months to discuss about the progress of this bilateral treaty. During the meetings, lists of priority projects that will be financed with Spanish credit and later charged to the existing financial facilities are elaborated (Secretaría de Estado y de Comercio, 2009).

In case Spanish firms are interested in investing in China, it is possible to get financial aids for their investments through the multiple existing Spanish institutions such as CDTI, ICO, CESCE, etc. Furthermore, either the EU or multilateral banks can also provide potential investors with multiple financing solutions (Secretaría de Estado y de Comercio, 2009).

## 2.3 Supplier-Customer Relationship

Many foreign manufacturing companies have considered China as an opportunity to strengthen their presence in both the fast-growing Chinese market and other Asian countries. In order to meet the needs of multinational customers who are manufacturing in China, many multinationals see the domestic production as the primary option. Other reasons for foreign companies setting up subsidiaries in China include, enterprises' multinational customers being already in China; this makes companies consider setting up plants in the country, to keep being customers' suppliers in China as well (Markarian, 2008).

The most beneficial would be manufacturing facilities in China helping the companies by lowering manufacturing costs so that they can offer more competitive prices of the products. Usually, both local and foreign customers are looking for products that meet international standards of high quality and regulatory compliance (Markarian, 2008).

When companies decide setting up plants in China, several considerations must be bear in mind. The four major problems managers come across when working in China tend to be supplier management on delivery problems, quality of the goods, recruiting and training employees, and achieving an effective business culture (Lihong & Goffin, 1999; cited in Pyke et al., 2000). Many of these problems have to do with the existing cultural gap between China and the origin country of the company. Thus, it is important to know how to go through the cultural differences and thus, manage skilfully in different ways of doing business (Markarian, 2008).

Logistically, shipping takes longer in China than in the West. Most common shipping methods include trucks (if the goods are to be transported locally) or sea carriage for longer distances within the country (Markarian, 2008). Back in the 2000s, China's distribution system was reported to be inefficient due to the convergence of the different functions of multiple administrative organizations, structural factors (inter-provincial and inter-ministerial relationships, for instance) and inefficient administration procedures (Pyke, et al., 2000). However, over the past years, Chinese infrastructure and logistic network have been rapidly developed to increasing transportation efficiency (Markarian, 2008).

Being a low-cost manufacturer and exporting these goods all over the world has been one of the main keys in China's growth so far. Nevertheless, manufacturing costs in the coastal region of eastern China have been rising up. It makes some low-cost manufacturing companies moving either to inland China or to India. In this sense, the Chinese Government is particularly interested in opening up inland China to industry.

Following a similar pattern to what has happened in other parts of the world, as low-cost manufacturing companies migrate, the remaining producers focus in manufacturing higher quality and value-added products. In fact, Chinese manufacturers are moving up, offering higher quality products (Markarian, 2008).

When foreign companies try to integrate local suppliers to their supply chain, generally, there are four stages (Pyke et al., 2000):

- Stage 1 – Sharing information. Some firms may need to communicate with each other about demand or production schedules. It is a general communication. It has nothing to do with new product development.
- Stage 2 – Exchanging decision rights, for instance, allowing the seller to make inventory-stocking decisions.
- Stage 3 – Exchanging work. It would involve for instance, permitting a distributor to perform some final assembly and configuration.
- Stage 4 – Sharing risks and benefits.

Firms communicate with both suppliers and customers, at least in one dimension. For Chinese suppliers, the valuable part of these communications is the initiative of the supply chain. Nevertheless, once contact is established, they might also learn things from Western organizations such as the implementation of the JIT (Pyke et al., 2000).

### *2.3.1 IPR issues in the relationship*

Common problems reported by companies in China include a weak administrative protection, inconsistency in IP applications and registrations and an insufficient judicial enforcement (Yang, 2003). Currently, the strongest type of IP protection is patent protection, because developing a product independently is not a defence to a claim of infringement. Instead, independent development is a way to defend from a claim of copyright infringement or secret misappropriation (Greguras, 2007).

In China, trademarks and patents must be issued to have any kind of protection by international conventions. It is not necessary to register for copyright protection, if it is registered with the National Copyright Administration. There is a presumption of ownership and validity (Greguras, 2007). While the results obtained through R&D (patents, copyrights and trademarks, etc.) are protected through the IPR laws and enforcements. Other property rights protection measures and contract enforcements are the ones to protect investments that are complementary to R&D (Lin et al., 2009).

The weak enforcement of the current laws is regarded as major problem in IP by foreign companies. Both piracy and counterfeiting rates in China keep being high, affecting many products, brands and technologies in many types of industries (Greguras, 2007). The main reasons for companies in China making patents are preventing from copying, using them in negotiations, enhancing their own company reputation and blocking rival patents on innovations. (Hu & Jefferson, 2009).

Multinational firms commonly try to prevent technology leakage and spillage to their local competitors, but it is not so important for them to prevent technology diffusions to upstream sectors (Huang & Sharif, 2009). Nowadays, the most viable legal way to put an end to IP “leakage” would be injunctive relief.  This is a court order dictating the people or entities to stop their infringement. However, due to the long time of lawsuits in China and the small amount attributed to monetary damages, the IP owner should not expect significant monetary recovery. In case of obvious or literal copying or counterfeiting of goods, administrative remedies could be an option, though the fines are not big enough to consider it an effective measure (Greguras, 2007).

In the case of JV, it is essential to choose a trustworthy business partner for R&D services in order to reduce IP risk. This is also valid when choosing a third party service provider or when selecting the management team of a WFOE. In any case, business partners should be carefully investigated, analyzing their track record on IP protection, contract performance and their internal security controls for protecting IP and confidential information (Greguras, 2007).

The main business practices to prevent IP leakage when developing R&D in China are: 1) to register IP rights in China; 2) to separate components of key R&D work so that no one has full access to the whole product or process; 3) to carry out regular audits of an R&D centre and third party service providers in order to look for vulnerabilities that could cause IP leakage; 4) to keep a close eye on departing employees and the competition, while implementing a practice of departure interviews and a written reminder of their obligations to departing employees (Greguras, 2007). It is remarkable that the stronger the property rights protection is, the more the organizations will invest in innovative activities (Lin et al., 2009).

In China, the rights of publication, to retain the integrity of the work and to claim authorship of the work are all included in the author's moral rights. These rights will always belong to the author. Contracts with employees and other service providers must include an express and irrevocable contractual waiver of moral rights, as well as an obligation not to assert these moral rights (Greguras, 2007).

In sum, the IP risks of doing business in China need to be weighed and compared against the generated economic benefits. Nowadays, China is a potential market that cannot be ignored. The best way of protecting companies IP would be developing an IP strategy and implementing business practices to either prevent or reduce IP leakage (Greguras, 2007).

### *2.3.2 Searching for the right suppliers*

Selecting suppliers is one of the most important functions in the supplier relationship management phase. Doing business with a right supplier is highly beneficial for organizations, because they can leverage the company to a higher level of competitiveness (Choy et al., 2002). The most common procedure for finding and selecting suitable suppliers can be divided into two phases. In the first stage, companies make an evaluation of their potential supplier in order to evaluate the quality of the production facilities. Most commonly, companies watch their suppliers' productive capability, the age of the equipment and facilities, quality certificates such as ISO9000 or ISO9001 (Duanmu & Fai, 2007).

In case suppliers do not meet the company's requirements, no commercial relationship is established. If all relevant matters are considered good enough, suppliers are subjected to the second phase. In this stage, the company itself (Duanmu & Fai, 2007) will carry out quality testing of the sample product.

Sometimes companies may come across the problem that supplier firms may not have any or enough previous knowledge of a specific component the company demands. In this situation, companies have to balance their needs and the risks and decide whether it is worth for them to transfer some kind of knowledge to their supplier (Duanmu & Fai, 2007). It is sometimes necessary that foreign TNCs provide their potential suppliers with extensive technological assistance, in order to meet market needs (Dicken, 2003; Dunning, 1993; Halbach, 1989; UNCTC, 1981; cited in Ivarsson & Alvstam, 2005).

### *2.3.3 The necessity to transfer knowledge*

Among the resources of a firm, knowledge is the most strategically important one (Grant, 1996; cited in Wang et al., 2004). Two factors will affect a MNC parent firm's willingness to transfer knowledge, which are the importance of their subsidiary in China and the ownership type. As for IJVs, this willingness mainly depends on the inter-partner relationship, that is, between the Chinese and the foreign partners (Wang, et al., 2004).

Knowledge can be divided into two categories: Tacit or implicit knowledge and explicit knowledge. Tacit knowledge is what exists in employees' minds and behaviours and thus, it is more difficult to find, communicate and replicate (Lazarova & Tarique, 2005; cited in Sánchez, et al., 2007). This is the most valuable kind of knowledge for a company, giving it some kind of competitive advantage and differentiation from their competitors (Argote & Ingram, 2000; Lazarova & Tarique, 2005; cited in Sánchez et al., 2007). By interacting with employees possessing this tacit knowledge, other workers also acquire it little by little. Explicit knowledge consists of words, figures and numbers. It is an objective knowledge, which is relatively easy to share via specifications, data or standard operating procedures.

The amount of technology a parent firm decides to transfer is a strategic decision. In some cases, the lack of motivation to transfer knowledge could be subject to the fear of losing ownership of the knowledge and losing market quote. (Hau & Evangelista, 2007). However, transferring knowledge within the same company is quite common (Duanmu & Fai, 2007). MNC parents tend to transfer knowledge to their operating plant in China. Usually, the amount of the transferred technology and knowledge depends directly on the richness of the former's base (Wang et al., 2004).

When transferring knowledge from the MNC parent to subsidiaries, the greater importance of the subsidiaries, the more knowledge is transferred to it. In addition, the type of subsidiary in China is a critical factor when transferring technology. MNCs are more likely to transfer technology to their foreign owned subsidiaries than to JV subsidiaries (Wang et al., 2004)

Particularly when analyzing JVs, it is remarkable that the better the relationship between the JV-partners, the greater the amount of technology the parents transfer (Wang et al., 2004). The amount of technology that a parent company transfers to its' IJV affects directly the IJV's returns and profitability. Thus, the more technology is transferred, the more efficient and the higher performance the IJV will have (Chong, 2009).

Technology transfer can also be done through the supplier-buyer relationship. It is not always complicated, even though managerial differences in the way of doing business between European and Chinese companies are numerous. Some of the deficiencies pointed out by foreign companies include the lack of quality control and material management. Sometimes, foreign companies are interested in collaborating with their suppliers so that the supplier can provide specific components, which may currently not be able to offer. This usually requires an extra effort from the supplier company, to upgrade their managerial capabilities (Duanmu & Fai, 2007).

As the process goes on, the exact requirements of the products and manufacturing techniques are showed and exchanged to the Chinese supplier by the foreign employees. Chinese supplier staff starts to understand what they are required to do and how they have to do it with their production systems (Duanmu & Fai, 2007). In the end, knowledge acquisition depends on the effort of both sides, especially that of the learners' (Hau & Evangelista, 2007). By working together, a common communication "code" emerges, facilitating the mutual understanding (Duanmu & Fai, 2007).

The main reason for foreign companies assisting Chinese suppliers is to improve the quality and efficiency of their suppliers and allow the supplier to be more competitive and generate larger benefits for themselves. It is a way of offering higher quality and products that are more specific to their customers (Duanmu & Fai, 2007).

In fact, the nationality of the company influences the amount of information and assistance that the company provides to the supplier. Some study found out that Japanese companies are not very active on knowledge transfer, while American and European firms tend to give information more proactively(Giroud, 2002; Duanmu, 2006; cited in Duanmu & Fai, 2007). In addition, Japanese companies seem to be more cautions and comprehensive when assessing their suppliers comparing to American and European firms (Duanmu & Fai, 2007).

No matter how the technology is transferred, qualified employees tend to affect positively the process when MNC parents decide to transfer technology. In case employees would need some kind of help in order to acquire the necessary skills, systematic and comprehensive training programs provided by the parent company would help (Wang et al., 2004). Commonly, companies help their suppliers with either product-related technology or process-related technology. The first one includes product know-how that can be transferred through licenses, patents, technical specifications and so on. The second one involves other things such as quality management, inspection, testing and maintenance, etc. It is also feasible that TNCs can help their suppliers transferring organizational and managerial know-how, as well as offering them training programs (Ivarsson & Alvstam, 2005).

As technical and managerial techniques are transferred to the supplier, the business ideology of the supplier firms starts to change into a more business-oriented one. They begin to become more “professional” in their way of doing business. Also, the skills, techniques, managerial practices and relationships are developed in a specific way, making the supplier become a regular supplier of the company (Duanmu & Fai, 2007).

Emphasizing employees’ training increases the amount of transferred technology to subsidiaries. However, not everyone has the same ability of learning. It is possible to identify two different groups among the Chinese population. The first one includes younger and highly educated Chinese people who work in larger cities. These people are acquisitive and want to learn new things, especially those imported from the West that are new to them. They consider knowledge and skills acquisition to be good for promotions in their future career. The second group includes older and less educated workers. Most of them are located in inland cities. These people prefer to work extra hours instead of learning something (Wang et al., 2004).

When trying to introduce new concepts, it is a key factor to understand the background of employees. Some have worked in a SOE before, and may still have the SOE mentality. This can turn into a real problem when they are required to accept new concepts. The previous working experience makes these employees valuable because of their technical skills, although this previous experience may not be so good for the company if the employees do not adapt properly. To some extent, past experiences can influence these workers’ behaviour making them less hard working, lacking initiative and even less open minded to change and to new ideas. In order to avoid those mentality bad habits, some companies just hire fresh graduates instead of ex-SOE workers (Wang et al., 2004).

If a parent company realizes the effort and effectiveness of their subsidiaries, it is likely to transfer more knowledge. It has been demonstrated that most firms link the reward system to their employees’ performance, while some firms have linked it to the learning results. It is quite effective for improving the employees’ motivation; especially for those employees who had previously worked for a SOE (Wang et al., 2004). When transferring knowledge, it is a key factor that the target persons who are working in the subsidiary or JV are knowledgeable enough to be able to communicate and transfer properly the knowledge. (Hau & Evangelista, 2007).

### *2.3.4 Expatriates*

Organizations are going through an internationalization process due to globalization of economies. Therefore, the number of expatriations is increasing (Sánchez, et al., 2007). The importance of these people is crucial for companies, since the ability of a firm to transfer knowledge depends on these people's skills (Argyris & Schon, 1978; cited in Wang et al., 2004). The role of expatriates is as a mechanism to transfer knowledge (Bossard & Peterson, 2005; Suutari & Brewster, 2005; Welch, 2003; cited in Sánchez et al., 2007) and, therefore, as a key element in the global knowledge development of international companies (Downes & Thomas, 2000; Fink et al., 2005; cited in Sánchez et al., 2007).

The main reasons for companies to send their professionals abroad have traditionally been: Starting-up operations in a foreign country, transferring a national image and competencies to their subsidiaries, controlling and coordinating foreign activities, developing a professional career of executives, developing an international team and compensating for the lack of local talent (Black & Gregersen, 1999; Bonache & Brewster, 2001; Harzing, 2001; Novicevic & Harvey, 2001; Peterson et al., 1996; Welch, 2003; cited in Sánchez et al., 2007).

Some companies provide special training programs to their expatriates in order to ensure their success in the foreign locations (Birdseye & Hill, 1995; cited in Sánchez et al., 2007). In the study on several Spanish companies, the following results were obtained regarding to the repatriates' turnover: 62% of the managers received lower economic compensation in Spain than abroad; 9% that received higher remuneration and 30% obtained a similar pay both before and after their repatriation (Sánchez et al., 2007).

Even though the expatriation package is expensive for the company, international companies keep using expatriates because they are a valuable and strategic tool (Welch, 2003; cited in Sánchez et al., 2007). Most of expatriates are managers to be considered as the essential professionals because of the high expenses associated with expatriates, (Reynolds, 1997; cited in Sánchez, et al., 2007).

One of the principal responsibilities of expatriates is to transfer knowledge and skills to their subsidiaries (Bonache & Brewer, 2001; cited in Wang et al., 2004). First, the expatriates need to be culturally sensitive (Tsang, 2001; cited in Wang, et al., 2004) and be able to adapt the management style to the new situation (Wang et al., 2004). Worldwide-located multinationals may develop a unique knowledge (Eriksson et al., 1997; cited in Sánchez et al., 2007) that guides the companies to innovative and effective ways of combining the existing resources for fulfilling the business goals (Barkema & Vermeuler, 1998; Eriksson et al., 1997; cited in Sánchez et al., 2007).

The companies in telecommunication industry adopted an aggressive knowledge transfer strategy in order to maintain the competitiveness of its subsidiaries in China. Therefore, hundreds of experienced managers from its worldwide operations were deployed to China to develop a competitive, knowledgeable and localized workforce (Wang et al., 2004).

### *2.3.5 Quality*

Finding local suppliers that meet company's quality standards is not always easy in China. Often, firms have problems on material quality of their suppliers. Therefore, sample tests are conducted necessarily (Duanmu & Fai, 2007). If the sample testing shows that the materials are not what the company demanded, they are immediately returned to the supplier to fix it. If the sample products always fail to pass the sample-testing phase, relationships with the supplier would be terminated. A formal relationship between the organization and the supplier is formed if the sample test is passed.

At this stage, suppliers are expected to demonstrate the ability to keep the quality standards of the product within mass production operations (Duanmu & Fai, 2007). Some companies may come across the problem that the performance of suppliers becomes unstable and changes away from the already established and achieved target levels. Frequently, this kind of problem usually begins when the organization quits the activities of supplier development (Lockström et al., 2009).

As a result of getting the ISO certification, management system techniques have helped Chinese suppliers to learn to apply knowledge and experience in their organizations. A better documentation can make it easier for the suppliers in training their operations personnel. In addition, the certification has helped to monitor and trace problems, allocate employees' responsibilities, and reward employees (Duanmu & Fai, 2007).

### *2.3.6 Cultural difference*

The socio-cultural distance can be defined as "the difference among foreign investors and local partners in terms of cultures, management style, business practices, etc." (Hu & Chen, 1996). People living in a same country tend to share similar values and these values are reflected while they are working (Hennart & Zeng, 2002; cited in Hau & Evangelista, 2007). Therefore, it is reasonable to say that firms' values generally are a reflection of the home country culture of the company. Killing (1983; cited in Hu & Chen, 1996) also suggests that understanding and communicating problems might arise in JV, particularly, in contextual situations (Hau & Evangelista, 2007).

There are two main cultural reasons to affect companies in a greater way (Simonin 1999 a, b; cited in Hau & Evangelista, 2007): The first one is caused due to understanding problems between the partners. The greatest barrier is the lack of fluency in the partner's native language. The second one is related to how the cultural distance makes it difficult for the partners to identify values and meanings of nonverbal behaviour of the other members. It is an important factor to have a direct influence on the effectiveness of interaction between partners (Lyles, et al., 1999; cited in Hau & Evangelista, 2007). To ensure the success of an IJV, managers have to develop into an effective and cohesive team (Hu & Chen, 1996).

Partners' different national culture can affect to the collaboration between partners, information flows (Lyles & Salk, 1996; cited in Hau & Evangelista, 2007) and process of the knowledge management (Tiemessen et al., 1997; cited in Hau & Evangelista, 2007). For instance, the information flow can be reduced due to cultural misunderstandings. Thus, the greater the cultural conflict in an IJV, the lower the knowledge acquisition will take place (Lyles & Salk, 1996; cited in Hau & Evangelista, 2007).

However, culture difference affects more managerial knowledge rather than the technological one. The technological knowledge can be applied immediately with either little or no adaptation, because it is less subjected to the influence of cultural and environmental variations (Wang et al., 2004). Usually, Chinese managers have a technical background and thus, they rather acquire technological skills than the managerial ones (Fan, 1998; cited in Wang et al., 2004).

Owing to the existing cultural barriers, foreign companies are looking for a large workforce and reliable Chinese people who can deal with most managerial functions. It is likely to work if they manage to have an effective human resource management (Luo, 1997; cited in Luo, 1999). It is could be easier if the future partner has already had a previous experience with an international firm (Luo & Peng, 1999; cited in Duanmu & Fai, 2007).

The cultural problems can also be illustrated by a brief example. Usually some Chinese firms are hard to understand why a sample product is required such a complex checking and testing process. Besides the quality and technical standards, the checking also involves the materials using for the sample products, as well as the process of production and the quality control systems of the suppliers. If the company found any defective piece in the sample, supplier firms were required to provide product quality reports and devise action plans. Some of the supplier firms did not have those practices and did not know how to accomplish the task. They needed time to adapt to the differences in the business culture (Duanmu & Fai, 2007).

Chinese people emphasize a lot long-term relationships. In this case, their performance is directly related to the length of the relationship cultivated. A sustained relationship brings stability to non-financial returns. This includes an improvement in the levels of trust and confidence, also in the employees' loyalty, having a higher customer retention rate and the same with referral rates. In any case, when trying to assess an IJV in China, the non-financial indicators are the most suitable ones for long-term results. As for the short-term ones, it would be necessary to look to the financial indicators (Chong, 2009).

As for the language, most MNEs use mandarin as their official language, sometimes they also use different "technical" languages (Fai & Piekkari, 2003; cited in Duanmu & Fai, 2007). In fact, it is not possible to assume that somehow there is a universal technical language that is common everywhere. It has originated a kind of forced learning through errors, in some cases. That is, sometimes, technical words are only identified when a firm supplied a sample and this one contained errors because of a misunderstanding. Hence, this is why intensive communication between partners can minimize errors due to differences in language (Duanmu & Fai, 2007).

## 2.4 Effects of the Financial Crisis on the Trade Relations

The latest financial crisis in 2007 is the most vital recession in the world economy since the period known as the Great Depression (1929-1939) (Kenc & Dibooglu, 2009). This crisis has made all of the advanced and many emerging and developing economies go into recession nearly at once (Claessens & Kose, 2010). Unlike the previous crisis, the current one has damaged both banks and households because of the collapse of the housing prices in the US (Zhang et al., 2010).

What started as a credit crunch in July of 2007 spread from the US to a vast majority of the countries, collapsing the financial system (Kenc & Dibooglu, 2009). Surprisingly, and with no precedents, the crisis was transmitted rapidly from the US to the global financial markets; not only through the trade channel, but also through financial linkages that were created during the past decade as part of the global financial integration process (Zhang et al., 2010). Consequently, the international trade flows all over the world were collapsed (Claessens & Kose, 2010).

The interconnection of the global financial market caused the crisis to spread rapidly through the world economies (Kenc & Dibooglu, 2009). Two years after the crisis started, the global economy has started to show signs of growth. Nevertheless, the recovery process is still in a very delicate situation. It is bound to be going to be slow and the consequences of the crisis will be suffered for a long period of time (Claessens & Kose, 2010).

Since 2001, the growth rate of the Chinese foreign trade has been higher than that of the GDP. This increase of the foreign trade has made Chinese economy be export-oriented. Since the US is the biggest world's economy, it is China's largest trading partner. Therefore, it is expected that it will affect the country more violently than the Asian Financial Crisis did before (Yuan et al., 2010). However, even though the trade linkages between advanced countries and the two Asian giants (China and India) are strong, it is supposed that the effects of the crisis are not so strong on them since their business cycles are not as closely aligned as expected (Fidrmuc & Korhonen, 2009).

### *2.4.1 Consequences*

Recessions associated with credit crunch and equity price destruction are more severe because they last longer, cause larger losses and have an international repercussion (Claessens et al., 2008). The worst-case episodes have involved crises in Finland, Japan, Norway, Spain and Sweden. In these countries, there is a drop over 5% on annual output growth and a slower growth rate, which is lasting more than three years (Reinhart & Rogoff, 2008[a]; cited in Kenc & Dibooglu, 2009). As for China, the global financial crisis has caused a decrease in exports, causing difficulties in maintaining a stable growth rate (Yuan et al., 2010).

### *2.4.2 Measures*

The crisis has made major countries design a "fiscal stimulus" package in order to revive the real sector somehow (Kenc & Dibooglu, 2009). In China, the central government has adopted a series of initiatives to rebalance its growth pattern and promote domestic consumption (Zhang et al., 2010). The most remarkable measure is the 4 trillion Yuan ($586 billion) plan announced on November 9 of 2008. The most sensible measures can be summarized as (Yuan, et al., 2010):

- Focus on the financial development in emerging markets.
- Development of the domestic social, health disability and unemployment insurances so that people do not have to over-save "just in case".
- Limitation of leverage to important financial institutions and/or require them to pay premiums to the fiscal authority; as well as ensure that their size is not too big, in case they are declared insolvent and the fiscal authority has to deal with it.

The four trillion Yuan plan was divided into seven action plans. The most important one consisted in 1,5 trillion Yuans that were assigned for large infrastructure projects such as railways, airports and roads. Another trillion Yuan was destined for the reconstruction of the areas that were affected by the earthquake that took place in Sichuan area in May 12 in 2008. The rest was divided between infrastructure, rural welfare, industrial restructuring, environmental protection, cultural and medical development and affordable housing. The goal was to increase the country's economic growth rate (Yuan et al., 2010).

# 3 Empirical Study

Studies are always based on a determinate number of real cases. With the information collected from the case companies, researchers make their conclusions. Sometimes, research limitations can include the theoretical background does not match the reality. The following sections contain the first hand information gathered from the case companies in this research. The case companies are introduced in the next section.

## 3.1 Case companies

Initially, thirteen companies were contacted via e-mail. Five companies were interviewed.

For this research, only those Spanish companies having manufacturing plants in China were considered valid. In order to select these companies, the Chamber of Commerce of Gipuzkoa provided a list of companies from Gipuzkoa (Spain) that already had their own production facilities in China. Thus, the next step was to contact these companies initially by e-mail. The phone contact was used later in order to arrange the dates for the interviews.

A brief introduction of each case company is presented. The goal is to let the readers have a view on the companies such as their sector, products, and the location of their manufacturing plants. This section also illustrates the experiences of the case companies when settling their manufacturing plants in China. The aim is to explain both the similarities and differences from the experience in order to be able to draw some conclusions on this and compare this to the theoretical background.

All these case companies work in different sectors. However, all of them are industry-oriented. Their final products are either for a direct industrial use or as components for industrial manufacturing

**Fagor Arrasate**

Fagor Arrasate is one of the world’s leading firms in the metal forming for machine tools field. It is part of the Mondragón Corporación Cooperativa (MCC). It designs and manufactures turnkey installations. The company is leader in Mechanical and Hydraulic Presses, Sheer-metal Cutting and Processing lines, complete Stamping Systems, Dies and specialised systems for the production on Metal Parts for Household Appliances. The firm’s ultimate goal is to achieve total customer satisfaction.

The company was established in 1957 and currently, it has five production and assembly plants located in areas with a long-standing industrial tradition that also have excellent infrastructures: Mondragón, Zamudio, Markina, San Sebastian (Spain) and

Kunshan (China). Particularly, the focus of the plant in San Sebastian is the design of cutting lines and sheet metal processing lines.

The firm is a world reference in the design and construction of Stamping Systems and Presses, both hydraulic and mechanical, with capacities between 630 KN and 150000 kN. It is a world specialist in designing and producing a range of Sheet Metal Cutting and Processing Lines and systems for manufacturing tubes and roll-formed steel. Fagor Arrasate is also a world specialist in the design, assembly and adjustment of machines, lines and equipment for producing parts for household electrical appliances, metal furniture and construction.

The company is also highly qualified for providing the whole systems for Stamping and Cutting Systems; not only the line or press but also all the necessary peripheral components and requirements. It includes dies, feeding lines and robotization etc. for the Stamping Systems, and stackers, automatic banding and robotization, etc. for the Cutting System. This enables Fagor Arrasate to provide its customers with complete solutions of technical parts.

In August of 2008, Fagor Arrasate moved to its new plant located in a high-density industrial area in Kunshan. This new plant was created with wholly foreign-owned capital. MCC had bought and developed an area of more than 500,000 m² in Kunshan Park with the investment of around 100 million Euros. Since then, companies in MCC have been progressively installing themselves in this area.

During the same year of Fagor Arrasate moving to China to produce automated lines and presses for the automation, household appliance and steel sectors, Fagor Industrial (which is another part of Fagor’s business) also moved to the area to manufacture a full range of equipment for the catering sector. Fagor Arrasate’s new factory allows the company to be able to provide with an increased production capacity to the market demand, as well as a higher capacity to supply both the Asian and the Australian markets, by amongst others, reducing the delivery periods and prices.

**Hine Renovables**

Hine, founded in 1974, is a company that creates all kinds of industrial automation systems with its own engineering. With over 36 years of experience, the company is one of the worldwide leaders in fluid power technology and is considered a high quality brand. The firm consists of six companies that are located all over the world. Hine Industrial, Hine Renovables, Hine Moymsa, Hine Hydraulics Corporation (USA), Hine Hydraulic Technology (China) and BP Hydraulics (UK).

Starting up from its own engineering knowledge, the firm proposes numerous solutions to other companies in industrial and renewable energy areas. Hine provides solutions to sectors such as the renewable energies, iron and steel industry, machine-tool industry, railway, shipbuilding, aeronautics industry, paper plastic industry, mobile industry and others.

The main goal and key of the success of the company is customer satisfaction. It boosts investigation activities in the company to offer new and improved solutions to the clients. In addition, in order to accomplish Hine’s policy of satisfying customers’ needs better, the firm currently has wholly owned manufacturing plants in Europe, China and USA.

Hine Renovables develops global hydraulic solutions for the renewable energies industry. This includes wind power, thermal solar power, solar photovoltaic power, ocean power, biomass and residue, etc. Among the renewable energies, solar power has the greatest development potential.

Over the last 14 years, the firm has developed fluid power solutions oriented to the wind manufacturers. Nowadays, the company is leader in Spain and worldwide, it is one of the first manufacturers of components and hydraulic equipments. Hine is differentiated from its competitors mainly because of its top quality engineering process and its rapid response.

In 2006, Hine decided to move to China with Hine Renovables, founding Hine (Langfang) Hydraulic Technology Co., Ltd, which is 100% owned company. This new factory located in China develops global hydraulics solutions for the renewable energies such as wind power, thermal solar energy, solar photovoltaic energy, ocean power, biomass and residue, etc.

The decision of moving to China was mainly taken because of the fact that one of their biggest clients, Gamesa, was already moving to the country. Since in this renewable energy sector the number of existing clients is very limited, they could not afford losing their most important one. Thus, Hine Renovables strategically set up a factory in Langfang, which is both close to the Industrial Park in Tianjin and to the capital, Beijing, where most of the sales offices of the companies are located.

**Irizar**

Irizar is a luxury coach maker company built on a system of self-management and participation. The firm’s goal is to achieve business excellence through continuous satisfaction of its customers, people, external collaborators and society. It has a wide experience in this sector since it was founded in 1889. The company is currently market leader in Spain. It is also the second biggest producer by volume in Europe and is commercially active in 71 countries. In Spain, it is located in Ormaiztegi, Gipuzkoa. In the past, Irizar belonged to the MCC, although it does not anymore.

The Irizar Group, which was founded in 1998, has multiple partnerships all over the world and employs over 2900 people. The group is constituted by Irizar Tianjin (China 1995), International Hispacold (Spain 1997), Irizar Maghreb (Morocco 1997), Irizar Brazil (1998), Irizar Mexico (1999), Irizar Tvs Ltd (India 2001), Masats S.A. (Spain 2002) and Irizar Southern Africa (South Africa 2004).

The luxury coach-building sector in Europe supplies a market demand of 9,000 units per year. Seven of the manufacturers produce more than 400 coaches per year in Europe. Since 1998, Irizar holds the second position, producing over 1605 coaches per year. Unlike most of its competitors in the European market, Irizar has followed market diversification strategy to focuse its efforts on producing long- and medium- distance luxury coaches since 1993.

The company acquires chassis from the leading industrial vehicle manufacturers such as Mercedes, Volvo, Scania, Ibeco, Man, Renault, Daf and Spartan. After those chassis go through the assembly line, it sells them either to end-users (Spanish domestic market) or to importers (in the export market).

Irizar moved to China to set up a JV, Tianjin Irizar Coach Ltd in 1995. The original goal was to manufacture luxury coaches for Chinese and Asian market. Later, in July of 2002, as a direct consequence of a capital increase, the construction of a new factory of 15,000 $m^2$ that could produce 1000 units/year by the beginning of 2003. This new production plant covers a 60,000-$m^2$ zone that is located in a free-trade area of Tianjin. In 2002, Irizar was reported to be transferring technology of two coach models named Century and Intercentury, which are now manufactured in Tianjin.

In 2002, two new Chinese partners were taken into account. They are Tiambao Ltd. which managing all the activities in the Free Trade Area, and the Automobile Industry Company Ltd that is the number one car manufacturing company with Chinese-only capital. These two partners provided institutional and financial backing for a leading coach factory in China.

**Orbinox**

Orbinox has more than 45 years of experience in designing, manufacturing and distributing knife gate valves, penstocks, dampers and valves for hydraulic works. The firm's goal is to solve the most demanding valve applications. It is present in more than 70 countries all over the world to offer their customers technical advice and to respond to their needs. Nowadays, Orbinox is one of the world's leading producers of Knife Gate Valves.

During 1998-1999, the firm decided to grow in two directions. On the one hand, it would grow backwards installing their own foundry to avoid the bottlenecks in the assembly line because of the lack of these pieces. On the other hand, it would also grow forward by setting up its own commercial network.

Nowadays, the company has manufacturing plants in countries such as Spain, China and India, as well as having representatives in USA, Canada, United Kingdom, France, Germany and Indonesia, and agents all over the world. These manufacturing plants are equipped with the most up-to-date machinery and highly qualified and experienced staff. Currently, around 80% of the total production of the company is exported to foreign countries.

The company provides a wide range of knife gate valves that have different applications in the water, wastewater, pulp and paper, bulk handling and other industries. The firm's goal is to satisfy their customer's needs while keeping improving their products and services throughout teamwork, better performance and training.

Orbinox made its first attempt in China in 2004. The company decided to set up a JV in China with a Chinese-Canadian distributor who had already been working for them in Canada. The original plant was located in Suzhou. However, after around one year running, the JV was abandoned as the firm realised it was not working properly.

Even though the firm was no longer physically in China, their products were still being sold in China. This made the company to decide going to China to sell their own products. In 2007, a Sales Office was set up in Shanghai.

Independently, the company also found that some of their suppliers offered higher quality pieces in China and began importing these pieces directly from there. Due to the irregularities in the quality of the pieces, Orbinox decided to set up a warehouse in Ningbo, to inspect the pieces there before sending them to the manufacturing plant in Anoeta (Spain). Nowadays, the facilities located in Ningbo include not only a warehouse but also a manufacturing plant.

**Orkli**

Orkli was founded in 1982 in Ordizia (Gipuzkoa). The company is part of MCC. The company manufactures and sales components for central heating, domestic hot water, water heating and domestic appliances. There are three business units in the company.

- Heating and plumbing: This unit manufactures air and water temperature control and regulation systems in heating and plumbing installations in the wholesale, dealers and warehouses for heating and plumbing installers sector. Some of the produced products include isolating plates for underground heating systems, pipes, regulators, valves and safety groups, distribution equipment for domestic waters.
- Thermoelectric safety: Oriented to the manufacturers in the domestic appliance sector, safety systems, gas regulation, ignition and flame control. This business unit commercializes magnetic units, actuators, ignition systems and thermocouples.
- Water heating: Commercialized products include water and gas regulation systems, electric water heaters, boilers and water heaters in water heating appliances; customers are usually manufacturers in the domestic appliance sector.

Since the company was founded in 1982, it has been growing, opening new offices in European countries such as Italy, UK or Germany. Sales offices have been opened in other continents. During the past years it has set up new factories in China or Brazil, which making Orkli present all over the world and enabling the firm to practically cover the whole world market.

In 2002, following its worldwide expansion process, Orkli set up its new factory in Ningbo, China. At that moment, the representative of Orkli in China was also running a factory. The person rented a part of his facilities for Orkli using. In this way, one business unit of Orkli has started producing safety parts for gas equipments in China.

As time passed by, Orkli kept growing and these facilities became too small to operate the business unit. In 2007, the company gave up the facilities in Ningbo and moved to the new facilities in the Industrial Park in Kunshan. Here, the new plant began manufacturing thermoelectric safety and valve components for the local Chinese market. Nowadays, the manufacturing plant in China begins to produce the components of the other two business units, though these activities just started very recently.

## 3.2 Life-Cycle of the Demand-Supply Chain

In the introduction of the case companies, they have different final product and are in different industry sector. Therefore, conclusions extracted from this study are difficult to generalize and extend to other companies in the area. Nevertheless, it is possible to obtain certain general ideas from the experience of the case companies. They ca be shared with other organizations who have also installed or planning a manufacturing plant in China.

When companies decide to settle in China, the first decision of the company has to take is what kind of subsidiary the firm wants to have there. In the past, a JV is used to be the most common way for doing this. However, nowadays, companies settle as WFOEs too. A local partner provides the company with local knowledge on how things are done, a chance of accessing the market through its partner’s clients. The partners also have contacts with the government that can help getting the necessary licenses in a shorter time.

Finding trustable suppliers in China is not easy for foreign companies. It is often a matter of good luck for firms finding them. Sometimes it may also require the company to “train” their suppliers so that these can later provide the firm with the qualified materials or components. In some cases, it may be impossible to find the necessary material/product either because it cannot be manufactured there or because it many not meet Western companies’ expectations. Customer search varies totally depending on the sector the firm.

The amount to technology that companies transfer to their Chinese plants depends on the type of subsidiary and on the firm’s worldwide strategy. Sometimes it might not have to do with the country, but with internal decisions of the company for manufacturing certain things in their headquarters or in a specific plant. Therefore, the amount of technology that is transferred to all the plants is different in every company. The following sections will describe the particular experiences of the five Spanish firms in China.

### *3.2.1 Origin of the idea*

A couple of the case companies had trade relations with Chinese companies in the end of the 1980s. Most of the case firms established the trade relations during the 1990s. One case company is not present in China so far as there are few clients in their sector in China.

China offers Spanish companies cost reductions in labour and shipping. Moreover, the big existing market is also the main reason for companies deciding to settle in China. In addition, some of these firms planned to establish in China for later being able to supply their other manufacturing plants from their Chinese plant.

Protecting the local Spanish market has also been one of the reasons for one case company. In its sector, if the company is not able to supply to their customers worldwide, some other competitor is bound to do so. Thus, it is a risk that their current client will stop ordering from them and do it from the global supplier. Sometimes, the idea of settling in China might not be such initially, but circumstances can make it happen. It can be a need of suppliers, having a warehouse there, and the firm's decision to keep growing in China.

Some of the firms have also feared the Chinese government may increase protectionism so that it is difficult to commercialise foreign-imported products in China in the future. One of the interviewees stated the following: "… knowing that in the future, the Chinese government was likely to approve more protectionist laws in order to protect a market that is and would become more interesting for the company, made the organization decide to set a manufacturing plant in China. This way, the firm is going to be able to enter the Chinese market from the inside, and avoid the problems related to exporting the machinery to a country with protectionist policies". In addition, another of the interviewees said: "the main reason for why the firm set up in China was entering the Chinese market".

Most goals of the case companies are to commercialise the products manufactured in China to the Chinese market. Depending on the sector, the Chinese government has different regulations to protect the market, which affect foreign firms either positively or negatively, in a direct or indirect way. For instance, as one of the interviewees mentioned "the company has clients who do not have to pay any taxes if the totality of the product is manufactured in Spain, whereas other customers do not have this tax exemption and thus, are interested in the products to be manufactured in China".

In certain cases, other firms have also influenced Spanish firms when these had to choose whether to go to China or not. One of the interviewees said: "The company also received an order in which part of the production was required to be manufactured in China". Another interviewee stated that "one of the biggest clients of the company, that is also one of the biggest manufacturers all over the world, told the company that they were going to settle abroad, in China, because the European market was becoming too small for them". In addition, one of the companies in this study also admitted that the firm realised that their products were being sold in China; occasionally, even their clients used to ask them to ship them to China.

Some of the case companies have different business areas within their organization. For them, the experience in China has started with one of the businesses producing in China before the company decided whether to start with the other businesses or what to do next. So far, for the case companies, the experience has been good enough. Therefore, these companies are willing to start with their other businesses in China as well.

### *3.2.2 Planning to Settle a Manufacturing Plant in China*

Either because of the potential market demand, or because the competitors were already in countries such as China or India, all the case companies ended up having a manufacturing plant in China. Some of them started having a manufacturing plant in

India first, as one of the participants mentioned; “it is more similar to the western society”.

Before settling in China, most of the case firms made a market analysis to have a better understanding of the situation. As an interviewee stated “Before the firm settled in China, they studied the market, people from the company went to China several times, analysed the location and saw who could manufacture the components the firm needs and who made hydraulic solutions. The firm analysed whether they were going to have any chances for becoming competitive in China or on the contrary, if they would be condemned to always import the necessary products from Europe with the transport and duty costs this requires”. Another interviewee said that “a market analysis was done to have a better understanding of the competence’s and customer’s situation and see who was there at the moment and who was not”.

Companies settled in China in the 1990s had to do it as JVs. The situation varies depending on the sector. One of the reasons for the case companies delayed their settling in China is “…either because they considered other environments to be more attractive than the Chinese one or because once a JV is constituted cooperatives are not the best way to manage it when reaching agreements”. Some firms considered a JV to be a problem when taking corporative decisions.

### *3.2.3 First Steps of Starting Up*

Among the case companies, two different ways for settling were JVs and WFOEs. Pioneer firms that had the initiative to settle in China and manufacture part of their production in China had to do it as JVs first. The reason mentioned in one of the interviewees is that in the past, “the Chinese government still had very protectionist policies and foreign companies were not allowed to have a wholly foreign invested subsidiary in the country”. However, this has evolved throughout the last years and nowadays, in most of the sectors, firms can settle as WFOE, giving them the right to choose the way they want to enter China.

Two of the case firms started in China as JVs. Their experiences of JVs were very different due to their initial circumstances and their market’s situation. One of them went to China with another Spanish firm who was also a potential client. Together with a local Chinese company, they constituted a two-on-one type of organisation, sharing the ownership of the company 50% Spanish and 50% Chinese.

In contrast, the other case firm explained the reasons for settling a JV in China were that “the company was selling a considerable amount of their product in China through one of their subsidiaries” and also, that the half-Chinese distributor “suggested to the organization that they could form a JV in China sharing the ownership of the company equally”.

Nowadays, four of the five case firms are in China as WFOEs established in the 2000s. The experience of each company when settling in China has been different. Starting in China as a WFOE provides companies with the necessary freedom “in order to do things the way the company wants to do; in the end, a certain level of independence is necessary”. One of the case companies started in China “first with agents and then by having a sales office” while getting to know the market, the clients and the suppliers. Other cases include “renting part of the facilities of their representatives manufacturing plant” and having a big client who gave “them the first orders and permitted the newly settled company to survive”.

A couple of these case companies were assisted by consultants to get the necessary licenses, analysis and arrangements so that the firm’s settling process goes smoothly. In any case, as one of the interviewed people stated “It is an error to think that the plant in China is going to be the same as the one in Spain. Customers are different and so is the way of making business; thus, in the end the company has to adjust to the situation in the country”.

It is definitively not an easy process settling up new manufacturing plants. The first problems the case companies came across within China were bureaucracy, building, licenses and suppliers. “It is difficult to find the right way to do things”. For instance, one of the participant firms had problems with the working license because “our Chinese partner had to give us the license though he did not do such thing”, and something similar happened with the necessary license for importing. This person also made it clear that even though “the firm managed to keep working, but we suffered the consequences of these infractions”.

The case companies admit that usually these kinds of problems are not new to them when settling a manufacturing plant in a developing country. Moreover, most of the interviewees agreed with the following words “Brazil is one of the most complicated ones in the world”. Therefore, even though all of them are aware of the difficulties and complications of the Chinese market and bureaucracy, this is not the country putting the biggest obstacles to the firms.

According to the experience over the last years, at least two case companies suggest to employ the services of a consulting group for any new company planning to settle in China. As one of the interviewees mentioned, when starting up in China, “the firm considers that going to China with someone who knows the country is important”. Another interviewee affirmed that “currently, if the firm had to set another manufacturing plant in China, it may consider doing it with a Chinese partner; but initially when they started, the knowledge of a consulting group was necessary.”

**Market strategy in China**

All of the case companies expect to commercialise their products national wide in China, including Hong Kong and Macau. However, it is not possible for some of the case companies because “there are no potential clients in Hong Kong, Macau or other parts of China, since the government has made all of them locate close to Tianjin”. Most of the companies coincide with the fact that they have “customers all over China though most of them are in the Eastern part of the country because it is the most industrialized area”.

The type of manufacturing in China is a market strategy of the firm. In all the cases, the firm has adopted the same strategy as that they have in their other manufacturing plants either to manufacture upon request or to keep a certain stock for some products.

Currently, the goal of two out of the five participant companies is to manufacture in their plant in China everything that they are going to commercialise in the Chinese market. These firms may also manufacture more products that are planned to be sold elsewhere. Other firms in this study are willing to manufacture more components in their plants in China, as one of the participants in this research stated: “The firm aims to manufacture these in China, but so far the potential suppliers have a lot to improve”. In contrast to this, one of the interviewees revealed that “the firm manufactures in China everything that requires a higher quality and a better finishing of their products”. These differences are due to the difference products of these firms and the market they move in.

For all the case companies, it is a reality that the Chinese market is changing. Laws and regulations have been changing in the past years. It makes the companies need to adapt to their new situation. Only one of the interviewees has admitted that the new regulations have benefitted the firm. “Laws on some of our products have changed, making them compulsory in many installations. As a consequence and especially during the last three years the company’s sales in the country have increased considerably”.

This is not an extended situation though. Most of the participant firms are or have been negatively affected by the changes made by the Chinese government. This was confirmed by a couple of interviewees. One of them said, “It is hard to keep selling the product we used to commercialise”.

During the interviews, it was acknowledged that some firms, in order to enter the Chinese market, reduce their quality standards of their products so that the final products' prices are reduced too. The company's image is not affected because the firm names the subsidiary in a different way. However, this strategy would only be valid if the firm wanted this subsidiary to commercialise their products only in China. The problem is that if the plant would not work as it should, the firm would not be able to commercialise their products in the Chinese market.

**Customer search**

Most of these companies found the clients for their Chinese subsidiary by making a market analysis and through contacts. In addition, some of them go to trade fairs or look for new potential clients. When settling in China, only one firm did not have any Chinese customers. This firm has found local clients after settling their plant in China.

For most of these companies, the way of sales in China is different from the way they do in the rest of the world. Depending on the sector, letting clients know about the company can become rather complicated for firms that do not know the Chinese market. In order to make customers know about the company, the firm has to “work with the agents who will introduce the products to the customers, make presentations to the engineering institute, the OEM (Original Equipment Manufacturer) …”

All this leads to situations where, “very often, the final price of the product is not a determining factor for the clients”. In China, “it is very important to let everybody know about your brand”. This statement matches up with this other one got from another interview “The brand is an important thing when customers are about to purchase a firm's products”. In the end, this is what makes the customers get to know about the company and “when they need something, they know where to go”.

As one of the interviewees stated, “There is a kind of snobbishness among some Chinese companies”. Chinese government policies have made in many cases Chinese clients want to buy foreign-manufactured products. Moreover, “sometimes, when public auctions take place, local companies are not allowed to participate because only foreign products are demanded”. It seems that being European has had a positive impact on the case companies' image, since it “gives some kind of better image to the company”. However, this tendency of local Chinese firms demanding foreign products is changing and “it is expected that in the near future things will no longer be like this”.

It has not always been easy for Spanish companies finding Chinese customers. In the beginning, it is specially complicated that the firm is trying to enter the market, because the Chinese clients do not know about the company. “It is necessary to gain the trust of the people you are negotiating with; there are a lot of meetings, treatments with people are more personal and image is also very important in order to be able to access to the market”.

The kinds of products that some of these companies commercialise in China are specifically manufactured for this market and thus, these products are not sold in Spain. However, this is not a problem for the firm in case it wants to commercialise in China products that have been manufactured in Spain.

Companies pay special attention to the quality of the products that have been manufactured in their subsidiary plants because customers are looking for “European quality at Chinese prices”. Thus, quality is a really important factor for Spanish firms that are commercialising their products in China. “Offering quality products to the clients is critical for the company". Moreover, "customers ask for higher quality products to European companies than to local Chinese companies". Controls in their manufacturing processes are usually similar to those they do in Spain.

One of the problems when foreign companies are trying to find Chinese customers is that usually these companies tend to keep similar prices of the products in China. This makes them lose competitiveness in the Chinese market. If prices were reduced, firms would have to face the following problem: Clients from other parts of the world would get to know that the company is selling the same product at cheaper prices in China. Sometimes, they would tend to try to buy it from there. In case this happened, the most advisable solution would be to "redirect the clients to the right sales office and explain them the firm's market strategy".

**Supplier search**

These case companies have mostly found their suppliers by mistake proofing and going to trade fairs, expos or other fairs related to their products. Even though the reasons were different, in the beginning, all these companies used to import most of the materials from Spain or Europe. However, finding local Chinese suppliers has let them, for instance, save money on the taxes the firm has to pay when importing products or components. Little by little, these firms have been incorporating a greater amount of Chinese suppliers, making their products become more price-competitive due to savings in shipping, taxes, and the price reduction for buying it from China. Nevertheless, there are still certain high-quality things that cannot be found in China.

One of the case companies admitted that sometimes, the firm has to distribute the orders among their suppliers so that in the end of the year they are all working and none of them has disappeared. Therefore, price is not always a factor when selecting a supplier for an order. In China, dealing with suppliers is done in a different way to that in Spain. That is, they are usually financed with the money that their clients pay them; thus, "a higher amount of money is paid in advance comparing to the amount of money the firm pays for example, in Spain".

Some companies have also been asked to manufacture at least part of their products in China. The Chinese market is complicated, and once companies settle a manufacturing plant here, they need to become competitive in this market. One of the ways is by reducing the price of the products. "In order to be competitive, the firm has to go increasing the number of Chinese suppliers, always keeping its quality standards". Foreign products will never be as cheap as those manufactured by Chinese firms but price reduction can mean a competitive advantage when customers are looking for quality products.

Other Spanish companies have moved to China, influenced by one of these case companies. In fact, as one of the interviewees said: "The firm has also made some of their suppliers manufacture in China because of the expected growth rates, the possibility to avoid duties, savings in transport costs, etc." On the one hand, this is a good way of keeping the quality of its products since the suppliers are supposed to also offer the same quality products as those in Spain. On the other hand, the final cost of the product will be reduced. "This is a way of becoming more and more competitive in the Chinese market".

Once the company got a good enough supplier, a couple of the participant firms said people from the company go to see the manufacturing plant and consider whether it is possible or not to work with this supplier. In case everything goes OK, several interviewees admitted bringing materials or components to Spain too. One of the interviewees said: "In case the firm finds a good enough supplier, first this is tried from the Chinese plant and if it works, then materials are also brought to the plant in Spain". The case companies coincide with the need of making sure where the products or components have been produced because it could happen that they "might not have been manufactured by this supplier".

After determining the supplier is one the firm can work with, a small batch of products is sent. If everything goes as it should, the suppliers would have to send a pre-series. After that, the firm would finally decide if the supplier firm is good enough to work with the company or not. Still, because either not all the necessary components or products can be found in China or because their quality is very low, most of the case-companies do not buy everything they need for their manufacturing process to Chinese suppliers. "In China, we buy raw materials that are not critical, and currently the company is looking for new suppliers".

In the end, some of these firms have found suppliers that are good enough for the company and now, they are importing these materials from their plant in Spain too. To detect irregularities in the orders or defective pieces, those imported materials are inspected in the Chinese plant.

Nowadays, the subsidiaries of these case companies still import certain materials from Spain because of some specific technological requirements. Some of the materials or goods are bought from Chinese suppliers who are required to keep a certain level in the quality of the supplied items.

The quality of the products that arrive to the manufacturing plants of the case companies is important because it can limit the quality of the final product. Several methods are used to inspect the quality of the arriving products. It can be either by "checking the quality of all the materials", "random sampling of all the materials", "making suppliers verify the components and then, people in the manufacturing plant verify their quality again" or making the order "go through special tests that does not make, for example, to those components bought in Spain". In some cases, case companies have agreed in making the supplier the one who has to check the quality of the materials.

In case defective products or components are detected, the components are taken back to the supplier. In this sense, companies agree "in case there is a problem, Chinese suppliers are capable of fixing it in a very short period of time". A good way for avoiding running out of materials or components would be testing one part of each batch instead of waiting till one batch is finished to start with the next one. That is, avoiding FIFO. It "is a way of making sure they are always going to have the components". In the end, having defective parts may not imply to supply in time to the client firm and therefore, detecting them in time is critical.

It may be a supplier's strategy to lower the initial prices of the products in order to find clients this way. This price reduction however is not something permanent. "Once they see they have a customer, the price starts going up and if the client says that is not interested in buying at that price, so that the Chinese keeps earning money it lowers the quality of the product". The main problem is that the supplied materials do not always match the necessary specifications. In any case, one of the interviewees said "it is an error assuming that materials are going to work properly".

Two of five of these participant companies have lived this first hand in China. Nevertheless, it also happens that a potential supplier provides an initial batch with a good enough quality and later, this supplier cannot keep the quality standards required in the whole order. A good way of avoiding this, as one of the interviewees stated, is "to homologate the suppliers by auditing them".

Generally, Chinese suppliers do not provide the case companies with the products, materials or components Just In Time. Reasons vary from the incapacity to supply JIT, their remoteness, the volume of the order and the components' specifications or even because the firm itself prefers to be traditional in this sense and keep some stocked materials to avoid delays in their client's orders. This makes the firms have a larger stock in their manufacturing plants in China, though it is not a real problem for the case companies.

Depending on the industry sector and the firm's products, problems with suppliers can be either related to the quality of the products, "finding suppliers to whom either the firm's products or the volume of our orders is interesting", or lack of certain materials and components in the Chinese market, "delays when handling the materials". The latter one can also affect the companies even though they do not receive the materials JIT.

Overall, the case companies are satisfied with their Chinese suppliers' performance. Experience has taught some of these companies that "it is not possible to stop looking for new suppliers because the current ones can quit being the firm's suppliers anytime. The supplier may receive an important order, start working on it and "forget" about the other orders. This is something that happens, and suppliers do not give any kind of explanations". This specially happens with products that are personalised and that cannot be mass-produced.

**Common differences in contracts**

Contracts between the Spanish case companies and their Chinese clients are different from those these companies make with other worldwide clients. Most commonly, depending on the company, the difference can be either in the product specifications or in the clauses. Companies pay more attention to the contract when the client is new because it is what both parts commit to in the end.

One of the interviewees admitted that "Chinese people are more demanding when negotiating contracts; theirs are usually longer and more complex" because "since they do not know the company, these contracts tend to include more clauses". In the end, the content of the contract differs depending on the client. In contrast, one of the interviewees said that "the firm does not have any contracts with its clients in China; it does with the ones in Europe though. This is because the way of doing business is different".

Finally, there is a great difference in the way of negotiating contracts and trust plays an important role in this. "There is a tradition of having lunch, drink, party…" Unlike what happens in the western market, "It might be necessary to establish a relation with a certain person and keep it; sales may depend on this relation".

### *3.2.4 Evolution of the Entry Mode*

Time seems not to be in favour of JVs. Two of the five case companies started in China as JVs and one of them was abandoned within one year because it "was not working" due to the fact that "the person who was running the JV there was not the right one". It was "a problem of contacts". This company later attempted to establish a WFOE. So far, everything is going well in WFOE.

Regarding the two-on-one type of JV, the Spanish firm had to arrange with the local Chinese firm to lay off around 400 employees and pay them the corresponding salary during the next ten years. It was done because of the "existing labour overload in their partner's plant" that would prevent the subsidiary from working as the firm does in Spain. After some years, the other Spanish company that was forming the JV abandoned the company and sold its part to the case company in this research. This is how "the JV became a one-on-one type of organization with an equally divided ownership".

Changes did not stop here. For the Spanish company, "the public ownership of Chinese partner was a problem when managing the JV". After negotiating with its partner, the Spanish firm "managed to persuade the Chinese partner to sell their shares to another private Chinese company and let this new investors be in the board of directors of the company". The goal of this business operation was to have a more business-oriented partner. According to the interviewee, "this change happened to be very positive for the company, though if it had taken place earlier, it might have given the JV more chances to survive in the Chinese market to the company".

In any case, given the sector the firm belongs to, it is impossible for the company to settle in China as a WFOE. "There is a still limitation on that only lets foreign companies own a 50% of the plant in China".

Even though this participant company had a bad experience as a JV, some years later, the organization decided to settle in China. First they started settling a Sales Office and later, by settling a manufacturing plant in a different city, where the firm had already a warehouse, and which works independently to the Sales Office. Both of them are WFOEs.

One of the case companies started in China to rent a part of the facilities of one of their representatives. In a period of around five years, the firm kept growing and reached to a point in which these facilities became too small. Consequently, the firm moved to another Chinese city and settled in an industrialized area as a WFOE.

The other two case companies started manufacturing in China not so long ago. Therefore, they have hardly undergone any changes but those related to starting up in China by finding new customers, suppliers and adapting to it.

**Location of the manufacturing plants in China**

All of the participant companies are located in the Eastern part of China, which are in the surroundings of two important cities – Beijing and Shanghai. According to an interviewee, "there are currently four areas that have more future opportunities in China: Tianjin area, Shanghai, which is the financial capital, Shenzhen and the area of Chengdu and Chongqing". These companies settled in their locations not only because of strategic reasons, but also because they had the chance to do it, or even because the Chinese government has made that foreign companies within a sector settle in a determinate area. This would be the case, for instance, of wind turbine manufacturers. All foreign companies in this sector are located near Tianjin.

One of the case companies is located in Tianjin. Another one has manufacturing plant in Langfang, which is between Beijing and Tianjin. Currently, there is an important Industrial Park near Tianjin's harbour. There are "many foreign companies such as Airbus, Samsung, Panasonic, etc." Beijing is also a strategically important location for the companies, since this is "where the representative offices of most companies are". Companies belonging to MCC are located in Kunshan, which is close to Shanghai. It is remarkable to mention in a sense that the cooperative owns an area in the Industrial Park of this city. One of the interviewees of this firm admitted that "no market analysis was done in order to determine whether this area was the most suitable one for the firm". Regarding to the other firm, Kunshan was not its original location. Since the facilities they were renting originally became too small for the firm, they had to reconsider moving somewhere else. Given the circumstances, they had an opportunity to settle in Kunshan.

Finally, another of the case companies has both Sales Office and manufacturing plant in Shanghai and Ningbo, where there is an important harbour. The main reasons for settling here were that the person who helped them settling the manufacturing plant was from this city and that the case company they already had a warehouse in this place.

### *3.2.5 Future Plans*

In the very near future, three of the five case companies have expressed their will to keep growing in China. There are different understandings for this because the situation of all of them in China is different. The interviewees mentioned in this sense that the firm's growing plans in China include "reaching more sectors, increasing the volume of manufactured products in the country, expanding the manufacturing plant…", "begin manufacturing products for the other two businesses" and "start manufacturing another type of machine… arranging logistics and sales matters, training the people and adapting the facilities". The last firm also plans "to diversify the market, selling their products to more Chinese customers and also, take a look at what is happening in India".

So far, only two of the case companies do not plan to keep growing in China. The reasons are very different. One of them, as the interviewee of this firm said, is going to "go a little bit backwards, minimise costs and analyse if the business will be profitable in the future or not". The other interviewee said that "the company has no will of growing in China, because in this sector there is no growing tendency at the moment". However, this is not preventing the firm from keeping evolving in Chin. Furthermore, this interviewee also said that "during this year 2010, the firm wants to increase the variety of machines that is capable to manufacture in China".

The future plans of the firms for their manufacturing plants in China must be considered individually, because each firm's market strategy is different. There are, for instance, firms that do not only manufacture for the Chinese market in their production plants in China, as seen in a previous section. Therefore, one of the interviewees stated that their company "has to decide whether it wants to keep growing in China or, for example, consider settling in India or America where they currently have delegations, though the company does not have any manufacturing plants here". That is, in case the manufacturing plant in China supplying products to other markets cannot make further progress, the firm must have alternatives to keep commercialising their products in these other markets.

In the future, one of the interviewees mentioned that China is expected to join a free trade association formed by ten countries in Asia. This is a motivating factor, since it would allow these companies to commercialise their products in other Asian countries without paying taxes, as long as the trade operations are carried out by China.

## 3.3 Expatriates and Chinese employees

Generally, expatriates have played an important role in the settling process of these companies in China. The expatriates' number of these firms sent to China varies, but they have not been more than three. Usually, the companies send expatriates so that they "start with the building process, get the facilities ready as well as all the systems inside, etc." or "analyse the situation there and acquire local knowledge found other potential clients by looking for them". Later, people are also sent from Spain to China in order to "do some training in the manufacturing plant, so that all the employees learn the way things are done in the plants in Spain".

The amount of expatriates is reduced by the companies as time passes by and the manufacturing plant begins working normally. The case companies, which have not long ago settled in China, have expressed their will to reduce the amount of expatriates. The interviewees declared that "currently the company has three expatriates in China, and the goal is that the number of expatriates in China is reduced to one" and "two of these three people have already returned home, and currently, the managing director is the only person that is working in the plant who is not Chinese".

The role of expatriates is critical for these companies, and their work is recognized. All the expatriates from the case companies are occupying important positions in the Chinese facilities. Here are a couple of statements collected from the interviews that demonstrate this: "The sales technician stayed in China as the managing director of the manufacturing plant located there. Apart from him, two more Spanish employees went to China to become the production managers of two different products that are manufactured in this plant". "The firm has currently an expatriate who has been working in China for the past three years and so far, is staying there as a sales representative and the managing director of the firm's plant in China". In any case, none of the interviewees knew about the firm promoting or giving special privileges to the returnees.

When sending expatriates to China, firms must be very careful so that these people do not burn themselves out. One of the case firms admitted that in order to prevent this, "when expatriates go abroad, they usually have better working conditions than those they have in Spain". Nevertheless, as mentioned in another of the case companies too, the returnees do not have special privileges when going back to Spain.

All of the case companies coincide with having local Chinese employees working in their manufacturing plants in China. Several interviewees stated that "this is exactly the same as it happens in other plants of other countries; in each manufacturing plant, employees are local people from that country". In one of the case companies, even the Managing Director of the manufacturing plant is Chinese.

It takes time to train the Chinese employees. The case companies have to invest time and money in training their employees so that the production processes go smoothly. In order to train their employees, the companies usually carry out a bidirectional training that consists of an initial training in the plant in China and later training in the plant in Spain. The interviewees stated that "employees are brought for one week to the manufacturing plant in Spain so that they see and learn the way people work here" and "experience shows that Chinese people learnt fast all these things".

Bringing Chinese employees to Spain can also work as a motivation booster for these employees. One of the interviewees said that "according to the firm's experience, their Chinese people like going abroad and seeing local things. Moreover, they consider the fact that the company pays them the trip to Europe to be a prize". However, it is not always necessary to bring all the employees to the Spanish plant. Another of the interviewees admitted that "sometimes, local people have where to learn from in China already, and therefore, there is no real need for some of them to go to Spain".

In some cases, some Spanish employees might go to the Chinese plant to make sure the processes are going as the people have been trained to do so. All the companies have stated that the training is not only done with Chinese employees; but also, with other employees in the other manufacturing plants of the companies all over the world. The real goal is to keep a working style that has been successful for the company so far. In the end, it is a matter of increasing the profits of the companies.

In China, high labour rotation can be a real problem for foreign companies. All of the case companies are aware of this. Companies reducing the rotation in their plants commonly try to "keep their employees happy by giving them further career promotion expectations, paying them properly". One of the case companies is even "paying higher salaries than what other companies in the industrial area pay to their Chinese employees". In the end, it may be a matter of keeping them satisfied with their jobs because another of the interviewees said that "the firm has young people working for them, they like team working and are happy with the working environment in the company".

The firms settled in China would like to have a reduced and controlled labour rotation. It is quite understandable since these companies invest time and money in the training of their employees. Therefore, it can become a real problem if there is a high labour rotation. For instance, an interviewee said that “given the type of the company’s product, the firm wants its employees to learn and become familiar to it. This requires about two or three years of experience; thus, with low salaries there is a high rotation and the money the firm invests in training the employees is lost”. The impaction of labour rotation on the companies depends on the position of the person who leaves the company.

Commonly, employees leave the company either because they find another job with better payment, or because they have to go to other town for different reasons and then never come back. In the past, one of the interviewees acknowledged that there is a higher labour rotation when there is a higher growing rate in China. Other problems mentioned by one of the case companies are some of their employees who came from a public company. The interviewee said that “these people did not have the necessary knowledge in managing and did not have a business-oriented mentality”.

## 3.4 Materials and Goods Import

The companies tend either to buy the necessary materials or components in China or import them from any other country in the world. In order to keep being competitive in China, the case companies are finding local Chinese suppliers for their products. However, this is not always possible either because certain materials or components are not manufactured in China or because their quality is too poor for the products. It can be briefly explained by an interviewee “The firm’s philosophy on this is that the Chinese plant will always import goods if it is not possible to find these materials in the Chinese market”.

It is reasonable that “sometimes, certain components are sent to China either from Spain or from other countries in which their suppliers are located”. Internal decisions have to be done when importing parts from the Chinese manufacturing plant. As one of the interviewees said “only the most critical parts for the machines are imported because the quality that the suppliers for this parts offer is not good enough so far. In addition, the company’s strategy includes manufacturing certain critical parts in the production plant in Spain”.

As the volume of imported goods from the Chinese manufacturing plant increases, these firms have began to ask their suppliers to send the goods straight to the Chinese plant instead of sending it to the parent companies. The goal is to avoid as intermediaries who do not add value to the product. As the interviewee said “The aim is that the Spanish plant manages as less as possible about logistics”.

Apart from the critical components, final products or parts of them, as well as semi-elaborated products are also sent to the Chinese subsidiaries, if “it is main components that Chinese suppliers are still not able to produce with the required quality the component needs”.

None of the case companies had major problems when importing goods from their Chinese subsidiaries. These firms are aware of the strict Chinese custom policies, as an interviewee stated “strict custom policies in China make firms detail everything in order to avoid being issued and in case customs detect something that has not been declared, apart from being issued. Next time the goods will be checked more in detail, taking longer.” In addition, “since there is a high imported volume of goods, Chinese people check the incoming containers more and more in detail and this requires time”.

During one of the interviews, it was mentioned: “From time to time, one container can be retained up to a week. This can be a problem if the due date for handling the products is not long enough. Anyhow, usually containers are released within a week or days”. In any case, firms are also aware that Chinese customs are not the most complicated ones in the world. The same interviewee added that “there are other more complicated customs such as the Brazilian one”.

## 3.5 Intellectual Property Rights

Almost all of the case companies have had problems on their products being copied or brand being used by someone else in China. Particularly, one of the interviewees reported that “both in China and Hong Kong, the company has suffered important problems with local companies copying its products”.

In contrast, other companies do not have such a big problem even if they are copied because “so far the quality of these copies has been rather poor. … Therefore, as long as the situation keeps like this, and these copies are not competing with the real products commercialised by the company, it is not worth for them to take anyone to court”. In some cases, the brand of the case companies is copied to add on the Chinese products because it “adds” value to their products. An interviewee said that “the quality is not as good as ORKLI’s products, but it is not so bad either; however, clients expect more of the brand. Thus, they are currently not a real competence for ORKLI, but they are damaging the firm’s image, although this is not a big problem for the company now”.

One of the case companies found that products labelled with their brand, outside China, in Iran. According to the interviewee, “it seemed that a distributor in Iran bought in China similar products to those the company has, and later sold them in Iran as if they belonged to the firm”. In the end, the case company managed to talk with the distributor to solve the problem. The case company was also more aware of the situation. Another interviewee admitted that there are companies copying their product in Spain. The interviewee said that, in their sector, “it is quite common that small companies are generated from a big company”. Nevertheless, this “is not something that only happens in China”.

In order to prevent other firms from copying their products or using their brand, these case companies have several solutions. One case company applied patent for their products in China. As the interviewee stated “The firm has five people in China that work developing products and during the last years, applied patent for the products in China”. In this sense, patents are useful for the firms, not only to avoid being copied, but also to demonstrate that the product is developed in this company. In addition, patents can be useful for calculating the value of a company, because they constitute part of the intangible goods of the firm. They represent the firm’s capacity to develop products.

So far, another case companies has confirmed to be “trying to protect their IPRs; there is a person in the company who is in charge of making contracts, insurances… and the company is currently considering whether to patent their products or not, because there are other manufacturers that do similar things, and thus, it is not possible to patent something that it is not unique”.

Other strategies for foreign firms protecting their IPRs can include not all the employees are allowed to access to all the information of the company, so that “in the end, no one knows all of something”. One of the case companies has also admitted the problems on their brand, which was already registered in China. However, it has been copied too. One of the interviewees admitted that in their “company has not provided their suppliers with many drafts, information or know-how so that it thinks there could be some kind of risk. Not even Chinese employees have had access to documents belonging to high-level projects".

Overall, the case companies do not trust the Chinese laws are going to protect their IPRs. The interviewees had shared feelings such as "the current Chinese laws on this subject are not efficient enough", "I think that the measures that are being taken regarding IPR are more a matter of image than effectiveness" or "the firm believes that there is nothing to do against this". This does not affect negatively to all the case companies since as one of the interviewees said "our sector is mature and the products are not very innovative; instead, the changes are little improvements made to something that already exists".

It is also true that most of these firms do not know how to protect their IPRs efficiently. After all, even patent seems not to "prevent other Chinese companies from copying these products". This makes companies that patent in other countries worldwide not to do it in China, "because it is considered not to be worth".

It is remarkable to mention that being copied is not a real issue for most of the case companies. As one of the interviewees said "this is so far not a real problem for the company".

### *3.5.1 Technology transfer*

The companies tend to keep similar facilities in China as those they have in Spain. "The company tries to replicate the system they use in the manufacturing plant in Spain; thus, the manufacturing process is the same in all the production plants". This does not only happen with the manufacturing plant in China, but also with the others they have all over the world. In some cases, the facilities are still so new that "the company cannot yet decide when a customer gives them an order, whether to manufacture it in Spain, China or somewhere else. Currently these orders are distributed considering the plants' capacity, workload, etc."

Settling in China requires the company to decide how much of the technology they own in the Spanish plant is going to be transferred. This depends on different factors, including what this manufacturing plant is planned to produce. Most of the case companies stated some technology is transferred, though not all of it. None of them reported to have any kinds of major problems when implementing this technology, probably due to the facilities of these companies are new and designed by the companies themselves.. In the beginning, the companies considered that "the most important things were building up the facilities and bringing the necessary machinery from their manufacturing plant in Spain".

In some cases, it is an internal strategic decision of the firm not to transfer the whole technology because the firm may be interested in keeping some processes only in their Spanish plant. In other cases, the firms may be interested in diversifying their production to specialise some of their manufacturing plants in order to produce a specific product in the plants.

Three of the five case companies have not transferred all their technology to their manufacturing plants in China, whereas two of them have done so. The interviewees said that "the assembly lines in the manufacturing plants in China and in Spain are the same; so are the processes and the technology. Everything was transferred" and "all the technology is transferred without making any differences between the manufacturing plants located in other countries. There is no other choice but to transfer everything in order to keep being competitive".

Even though firms are aware of the current counterfeiting and piracy situation in China, it has not affected them negatively when transferring their technology to their plants. Illustrative statements for this are “the current situation in China regarding piracy and counterfeiting has not prevented the firm from transferring all the technology” and “the current Chinese legislation does not affect the firm’s decision when transferring technology or not”.

Several and different reasons have been given by those case companies not transferred the whole technology to China. “So far the firm has not needed to transfer all the technology ... we have been focusing on the quality of the products; only punctual things have been manufactured and therefore, there has not been any real need to transfer everything”. “Processes that are totally automated are, for now, kept in Spain. This is, in part, to avoid being copied at this level and also, it is an internal strategic decision of the firm”. “Critical parts are manufactured in Spain and the product development is also done in Spain; the company wants to keep this as it is the firm’s strategy to do all the engineering things in Spain”.

Generally, the firms had not any problems when implanting their technology. Even the firms who consider transferring technology in the future say that they do “not consider there would be major problems implanting it”. Only one of the firms has admitted to have a problem when trying to manufacture a certain type of product in their manufacturing plant in China.

## 3.6 Experiences of Pro and Con

Going to China has been a new experience for the case companies because it is different with the experience of making business in other country they had been. The firm’s expansion to China has also meant a change for the employees in the plants in Spain. The experiences of each case company are various and unique. Some of them have had similar experiences.

### *3.6.1 Influence of Chinese Government*

Most of the case companies have received aids from the Chinese government, either in the first time they were about to settle in China, or they changed their location. For instance, as one of the interviewees stated, “…has received help from the Chinese government both when settling in China and also later, when they moved to the new plant”, as another one mentioned, “…received aids from the Chinese government for being considered a high tech project. This way, the company had a tax exemption when transporting the necessary machinery to China. Apart from this, the company did not have to pay for any taxes during a period of three years” or “The government has helped during their first two years exempting us from paying taxes”.

Generally, the Chinese government has provided many companies with “good conditions for the very first investments and they received aids were related to lands, investments, etc.” Not only foreign firms have benefitted from these aids, but also local Chinese firms, that in some cases had tax exemptions when purchasing foreign products. Some of the interviewees coincide with the fact that the goal of Chinese government was to acquire products that had been manufactured abroad. One of the interviewees said it clearly in other words: “they were buying technology to copy it later”. This has reduced the differences between foreign and local products, forcing firms to manufacture in China in order to be competitive, and even causing real problems to some firms.

Like the two sides of a coin, there is some negative affection from the Chinese government. Over the last years, the Chinese government has modified several policies and regulations that affect different sectors. In some of them, these regulations have become more protectionists. For instance, the Chinese government “selected the largest 5-8 Chinese companies and gave them the license to manufacture the whole coach. This caused foreign companies that had already invested in chassis manufacturing plants in China to lose their market. In fact, these chassis manufacturers lost their clients, since they had hardly anyone to sell their chassis”.

It is commonly known that in certain sectors, the Chinese government controls all the investments the companies make in China. An interviewee mentioned, in their sector, “when these big companies have been in China for two or three years, the government begins restricting their production. Moreover, public auctions are generally for local Chinese manufacturers, reducing the market for these big manufacturers”.

All these changes in the regulations have generated some distrust towards the Chinese government and the regulations. One of the interviewees said it clearly: “it is obvious that the Chinese government had a clear strategy to attract technology and once Chinese companies had learnt from it, give licenses only to the largest local companies, letting foreign companies totally abandoned. Furthermore, experience shows that all the foreign companies in our segment that have gone to China have had problems due to the government’s policies.”

Changes in the policies have affected negatively two case companies. One of the interviewees said that their company “lost a huge part of its market, since the Chinese companies, because of the advantages that their government offered them, were able to manufacture the whole product while our company cannot do it alone because we have no license to do so”. Another of the interviewees stated that “these kinds of restrictions can affect seriously to these companies, since in this sector, government aids are very important. These restrictions affect to the company’s clients; thus, the firm can still commercialise their products to Chinese customers, though this is also becoming complicated since the Chinese suppliers are also improving the quality of their products and the difference is diminishing”.

Given the circumstances, the affected companies felt the need to adapt to the new situation to try to keep competitiveness. One of the interviewees exposed that the firm “had to choose continuing with the local manufacturers, since foreign manufacturers had already stopped offering their products there, as a consequence to the government’s policies. This devaluated the firm’s final products, making it hard to differentiate between the firm’s products and local Chinese manufacturer’s products.

### *3.6.2 Payment Problem from Customers*

It is quite common in China for foreign firms with the problems on their clients’ payments. This kind of problem can turn out to be quite serious for the company, since it affects the firm’s liquidity. In a larger scale, this problem could also affect the firm’s capacity for paying to their suppliers. In this situation, the companies have usually no more than two options: “Help the manufacturing plant in China from Spain or ask the banks for a loan”.

Three of the case companies had problems on clients not paying to them, although not all of them consider they are critical problems. According to one of the interviewees, “it is not common finding companies that have problems with lack of money. However, it is possible to come across people who do not want to pay, as it has happened to the firm recently, the person who had been in contact with the company was fired and now, there is no person inside the customer firm who is substituting the former contact person. So the difficulty in this situation is to find somebody who can make decisions and sign where necessary".

The problems of the payment from clients have been very different. "Nowadays, the company has an important customer that some years ago had problems with making the payment. This company did not have money to pay and the firm had to decide whether to commercialise to this company more items and try to recover the money, or not to sell them anything else. The former was considered to be a better solution, and currently, this firm is one of the most important clients".

In order to avoid such kind of problems, the firms use different methods such as letters of credit and insuring the company's sales. "Whenever there is the slightest doubt that the client might not pay, a letter of credit is signed to ensure that, in case the client does not pay, the bank will pay to the company. The bank charges a fixed percentage for the transaction, but this way the company is bound to receive the money". An interviewee explained that "before shipping the machines to China, the company charges their clients a percentage of around 80-90% with letters of credit. In case of industrial installations, there is always this 10% missing, which is charged when the machines are installed".

Sometimes, banks do not want to back up a determinate client when signing the letter of credit. In this case, an interviewee said "the company would ask the client to pay a determined percentage of about 20-30% before starting manufacturing anything and later, the customer would have to pay for the rest before the firm supplies the client with the final product". In contrast, another interviewee said "the firm has Chinese clients with which payments have been received even easier than with other German or American customers, for example".

Only one of the interviewees has reported that their firm has recently taken a non-paying client company to court. The result was that "after three or four months, the judge has determined that our company is right".

### *3.6.3 Benefits from the China Experience*

Experience is always a good factor affecting the image of the company. According to an interviewee, "being one of the first companies in Spain settling a manufacturing plant in China and this has increased the company's image and reputation".

"Off shoring has helped the company to grow in the amount of necessary people for the organization, also in Spain", as another interviewee explained. "This experience in China has helped the company when settling in other countries". This has affected positively all the case companies because the off shoring has meant entering more markets, increasing their production capability and being able to supply bigger orders or to more customers. Therefore, the sales volume and the turnover of the firms have increased.

All this makes firms reconsider their strategy. One of the case companies for instance, affirms that "settling manufacturing plants in foreign countries has allowed the company to create its own distribution network and therefore, it is currently possible to manufacture more complex products in the manufacturing plant in Spain and export them to other countries to sell them either through the manufacturing plants or sales offices they have in these countries". In addition, the interviewee of this firm said that the company, as a direct consequence of the off shoring, considered the necessary support for the operation in the subsidiaries from Spain, such as assisting their subsidiaries with marketing, financial, product development, etc.

## 3.7 The Impacts of the Crisis

The financial crisis has stroked the entire world. The case companies have different views on the impacts of the crisis on the trade relationship. Surprisingly, one of the interviewees mentioned the consequences of the crisis on their operations in China are positive. This person explained that: “Thanks to the crisis, suppliers do not leave the company as fast as they used to do when they find another customer that is more interesting for them. It has increased suppliers’ loyalty, and so has the employees’ one”.

The rest of the interviewees focused on the impaction of the crisis on their operation in Spain. On the one hand, one of the interviewees reported the crisis has a positive impact on their foundry supplies because “a couple of years ago, when there was still no crisis going on, our orders were not a priority for the local foundry suppliers. This obliged our firm to have a minimum stock so that we could start working with our customer’s orders, and hope that the rest of the pieces would arrive in time from the foundries. The crisis has helped the company obtaining materials from local foundries in time”.

On the other hand, the crisis has also brought instability to the firm’s suppliers. The situation is that the case companies do not know whether their suppliers work on it when they receive an order, or whether they have disappeared. Therefore, in order to make sure their suppliers working with them, one of the interviewees said that “our firm lets the suppliers know how the crisis is affecting us, and so far, we are transmitting good news. We also ask our suppliers about their situation, in case we cannot count with their products in a short period. So far, we have not had any kinds of problems with this”.

# 4 Discussions

The following sections will not only provide generalised views of this research but also, a comparison of the information between the theoretical study and the empirical study. These sections will provide some managerial implication to help firms solving some problems, or reducing the impact of the problems on their organizations.

## 4.1 Theoretical Study

The rapid economic development of China during the last years has caused the appearance of important differences in the living standards among the difference provinces in the country (Wenheng & Shuwen, 2008). Labour migration has been acknowledged both from the countryside to the cities and from western and central China to eastern China. It means an increasing tendency of people moving to more industrialized areas where higher salaries are paid (Raa & Pan, 2005).

The "open-up" policy has made China go through many political, economical and social changes (Raa & Pan, 2005). Because of the changes on policy, China has become the developing country that receives the largest amount of FDI along the time passing by. Among all the provinces in China, Guangdong has been the one that has attracted the greatest amount of FDI for more than 15 years (Huang & Sharif, 2009).

It is commonly known that China is one of the most promising markets all over the world (Beamish & Jiang, 2002). Foreign firms are attracted to enter the Chinese market for several reasons such as cheap labour, aids or financial incentives from the Chinese government (Li & Scullion, 2010), market size, cost-production factors, agglomeration effects, investment environments (Lim, 2001; Ng & Tuan, 2002; Taube & Ogutcu, 2002; Tuan & Ng, 1995; cited in Tuan & Ng, 2007) and the possibility to offer more competitive prices (Markarian, 2008). Sometimes, firms need to be present because of the size of Chinese population and the potential market; especially China's economic growth rates (Beamish & Jiang, 2002).

Expatriates play an important role when foreign companies are planning to settle in a developing country (Lenartowicz & Johnson, 2007; cited in Li & Scullion, 2010). As they make the most of their experience in China, companies should build up their expatriates' local knowledge beforehand (Li & Scullion, 2010). The reasons for expatiating employees in China include: starting-up operations in a foreign country, transferring a national image and competencies to their subsidiaries, controlling and coordinating foreign activities, developing a professional career of executives, developing an international team and compensating for the lack of local talent (Black & Gregersen, 1999; Bonache & Brewster, 2001; Harzing, 2001; Novicevic & Harvey, 2001; Peterson et al., 1996; Welch, 2003; cited in Sánchez et al., 2007).

While they are in China, expatriates acquire international market knowledge of foreign language skills, foreign cultures, products, customers and market. (Fink et al., 2005; Lazarova & Caligiuri, 2001; Lazarova & Tarique, 2005; Subramaniam & Venkatraman, 2001; cited in Sánchez et al., 2007). It is particularly important that expatriates not only establish managerial ties with representatives of other organizations but also with the officials of various governmental bodies, mainly because of the ambiguity of the currently effective laws and regulations (Li, 2005; cited in Li & Scullion, 2010).

Studies suggest that repatriates tend to leave the organizations in a period between 1-2 years after returning from abroad, to work for the competitors (Suutari & Brewster, 2000; cited in Sánchez et al., 2007). This is generally caused by the important loss in their income and their dissatisfaction with the job not matching their expectations (Sánchez, et al., 2007).

Foreign companies usually choose settling in China as WFOEs or as JVs (Deng, 2001). Nowadays, JV option was less used to entering the market (Markarian, 2008) because the Chinese government allows foreign companies work in China without local partners in many sectors (Bontempi & Prodi, 2009). When settling in China, some companies establish in a specific area because others from their sector are also located there. These companies have the possibility to influence on the government's decisions (Heracleous, 2001; cited in Li, Scullion, 2010).

The situation of IP protection in China is complicated. The government has created multiple legislations on patents, copyrights and trademarks over the last years. However, the efficiency to obeying these laws needs to be improved (Wang, 2004). Currently, the most useful type of IP protection is patent protection. In case a company had an IP "leakage", the most viable legal way is to get a court order that would dictate the implied people to stop their infringement. Administrative remedies are also a solution in cases of literal copying or counterfeiting of goods. However, they are not always effective because of the reduced fines (Greguras, 2007). Previous researches suggest that a better protection of the IP, including technology, know-how and trademarks would increase firm's confidence in technology transfer (Yang, 2003).

In the beginning, companies have problems such as the confusion with the Chinese law system, the lack of mutual trust between the foreign and Chinese management teams in a JV, no accurate market information and high labour rotation (Chen & Reger, 2006). Once settled, the most important problems are generally related to delivery problems with their suppliers, the quality of the products or components provided by the suppliers and training their employees in order to achieve an effective business culture (Lihong & Goffin, 1999; cited in Pyke et al., 2000). Other important problems firms have to face are related to the collection of debts (Liu & Pak, 1999).

Firms should bear in mind that Chinese people have the different concept of doing business with the way of doing it in Western societies. Usually, negotiations that take place in China require patience, tenacity and knowledge of the Chinese culture, their customs and the regulations (Shi & Wright, 2003). Opposed to what Chinese negotiators seek, Western negotiators tend to establish short-term relationships that require low trust (Hoecklin, 1995; Scarborough, 1998; Trompenaars, 1994; Williams, 1998; cited in Chen & Reger, 2006).

Finally, it is remarkable to mention that the global financial crisis we are currently suffering has also affected China. The US is acknowledged the largest trading partner of China, and then it suggests the crisis will affect China more violently than the Asian Financial Crisis did (Yuan et al., 2010). However, given the economic growth rate of China and the business cycles are not so closely aligned to the market of advanced countries, it is expected that the possible effects of the crisis are not going to be so strong in China (Fidrmuc & Korhonen, 2009). So far, the crisis has just caused a decrease in the amount of its exports and decreased its growth rate (Yuan et al., 2010).

## 4.2 Empirical Analysis

The case companies have invested in their manufacturing plants and sales offices that are settled in important cities in the eastern part of China, around Beijing and Shanghai. The main reasons for selecting their current locations have been either a matter of having a chance to do so, or having their own market strategic reasons or being directed to settle in a determinate location by the Chinese government.

Many factors make the case companies settle a manufacturing plant in China. They are the big existing market demand in China; the growth of this market; the possibility of supplying the firm's other plants from their Chinese plant; protecting the local Spanish market; the possibility of non-accessible to the Chinese market in the future from abroad because of the protectionist policies; and the influence from other companies to manufacture part of the products in China. The case companies are working in China usually benefit from cost reductions in labour, the shipment, taxation reduction as well as cost saving when buying goods from China. All these help the case companies to become more price-competitive.

The expatriates have been critical persons for the case companies when settling the manufacturing plant in China. Their functions have been diverse and different due to each one was in a different situation when the companies decided to settle in China. Generally, the expatriates were asked to analyse the market situation, acquire local knowledge, get to know potential clients, start with the building process of the plant, get the facilities ready to work, and do some training of the employees.

Given the importance that expatriates in the functions of the Chinese plant, the case companies have recognized their roles. As a consequence, all of them are appointed important positions in the manufacturing plants in China. Currently, not all of the expatriates still stay in China anymore. Some of them are now working again in the parent companies in Spain. The case companies coincide with not giving their returnees any privileges over the other employees.

The case companies settled in China during the 1990s had to do it as JVs. Initially, two of the case companies started as JVs in China. However, nowadays four of them are present in China as WFOEs. Among those who chose to settle as JVs, one of them did it because they had no other choice due to the Chinese government's policies. Overall, all of the case companies agree that establishing as WFOEs gives the firm more freedom when making business decisions and implement them.

The problems on piracy and counterfeiting are a reality for the case companies in this study. So far, an effective solution has not been reached, even though the companies are trying to figure out how to protect their IPRs and their image. Possible solutions have been tried such as patent registration and not sharing all the information with all the employees, but other Chinese companies keep copying. Given the situation, the companies do not know what to do in order to protect them from being copied. All the case companies show their untrusting attitude to the current Chinese laws to protect their IPRs. However, as the case study revealed, this is not a real problem for most of case companies because the quality of the copies so far has not been good enough to compete with them. Furthermore, this is not a critical factor to affect the firms when deciding whether to transfer technology or not.

These case companies have not undergone major problems since they settled in China, although some of them have the problem on high labour rotation rates in the past, or even clients not paying their debts though these. Even though they are producing in China, some of the firms are concerned about the tough competition with local Chinese companies because they will be able to offer high quality products at cheaper prices.

The way of doing business in China significantly differs from the way in Spain. The experiences of the case companies illustrate many of the different kinds of situations in the business life. The importance of a trust-based relationship is what Chinese people are looking for before initiating any commercial relations. These relations need to be kept in time instead of temporary.

The case study shows that the globally financial crisis seems not to have a great impact on the operations of the case companies in China. On the contrary, the consequences of the crisis have some positive impacts on their Chinese manufacturing plants. The positives aspects include for example reduction of labour rotation and increase of the loyalty of their suppliers.

## 4.3 Research Contributions

The study contributes to the existing study of foreign investment in China by supplying the empirical study on Spanish companies. The case study also provides some managerial implications for the companies developing their business in China.

### *4.3.1 A comparison between the case study and literatures*

The data gathered from the empirical study corresponds partially to the previous researches on this subject. The main reasons for why Spanish firms decide to go to China mainly include cheap labour, entering the Chinese market and achieving better levels of price-competitiveness. Of course, there are companies that also have other reasons for settling manufacturing plants in China, but the three reasons are the most common ones for the firms.

Depending on the year the companies investing in China, the entry mode can be different. Originally, foreign firms could only settle in China as JVs, which the Chinese partner shares a 50% ownership of the company at least, despite how many other foreign partners are in the JV. Even though there is an evolution process of the Chinese regulations, this study reveals that nowadays it is still impossible for foreign companies to settle in China as WFOEs in certain sectors, such as in coach-building sector.

The case study consolidates the existing literature that the firms tend to settle in the eastern part of China. Generally, the big cities in the east coast have good logistics for the firms to easily transport the necessary goods or machinery. The east part of China is also the most developed area. Thus, people in the region have a higher consumption power, which means a potential market in this area. Generally, Spanish firms choose a settling location in China either because their main clients are in the surroundings or because other companies in their sector are located in the area. Sometimes, the location selection is already determined by the Chinese government, either because their clients are obliged to settle in the area or because all the companies in the sector have to do so.

The theoretical study affirms that when foreign firms place manufacturing plants in China, they usually receive aids from the government such as lands using for settlement and tax exemptions. This research confirms that the Chinese government has also given aids to the case companies during the first years. These aids have generally provided the firms with a tax exemption so that they could export the necessary machinery to their manufacturing plants in China. It is remarkable that this research reveals the Chinese government gives more aids to companies in high-tech or some preferential sectors.

The role of expatriates is vital and commonly reckoned according to both previous researches and the results of this study. Either the companies usually send employees from their manufacturing plants in Spain so that they get knowledge of Chinese environment, the market's situation, customers and suppliers; or in a later phase, they train the employees in the production plant in China. All this matches up with the data of the previous researches. In the end, all firms are aware of the expatriates' role in the manufacturing plants. Thus, given their unique knowledge and the work they do there, all of them have important positions in the manufacturing plants. In case there is only one expatriate, it is bound to be the managing director of the plant.

Apart from acquiring knowledge, the expatriates should also establish contacts with important people in other companies and with people in different positions in the government as studies suggest. The importance of contacts with the government or the administration has been acknowledged by all the interviewees, which suggests that the Spanish companies presenting in China are aware of this fact.

The major problems in the case companies also match up partially with previous researches. They are related to the collection of debts, high labour rotation and IPR protection. The study confirms that even though problems on debts collection have not been a major problem for the case firms, Spanish firms are very aware of them. Therefore, some of them are paying special attention to this. These companies usually ask their clients for letters of credit; insure their sales or a high percentage of the final products' price beforehand.

The case study shows that the piracy in China is not a great issue for the companies because the quality of the copies is poor. Therefore, these fake products cannot still compete with the firms' products. However, Spanish firms know that this can become a problem for them in the future. Moreover, one of the case companies has already had serious problems with this, which means that probably other Spanish firms have also had problems with this, depending on their products. As to the problems of labour rotation, the case study suggests that the financial crisis has reduced the levels of labour rotation and has increased the suppliers' loyalty to the firm. The latter is valid both in Spain and in China.

The case study coincides with the previous studies on the differences of doing business in Spain and in China. Moreover, the companies proof that this differences are generally applied to the practices in the Western society. Nowadays, every company is aware of the importance of trust in business negotiations with Chinese clients. However, the personal experiences of the interviewees demonstrate that trust, patience and showing interest are critical factors in the business relationship, though they might not be so easily understood from the point of view of Western culture.

Not all the data collected in this research matches up with the one that previous researches contain. Therefore, the following paragraphs will expose these differences in the Spanish case companies. It is an attempt to show the diversity of the situations of the Spanish companies that have settled in China and make the reader understand the difficulty of generalising their cases.

The fact that Guangdong has been the Chinese province that has attracted the greatest amount of FDI among all the provinces in China has been totally irrelevant when the case companies chose their settling locations. None of the case companies has made any investments in Guangdong. This does not mean that Spanish companies have not made investments in Guangdong. Moreover, it is true that other Spanish companies have done business with local companies in this province. However, the real point of this study is that Spanish firms do not consider where the greatest amount of FDI goes when deciding the location to settle in China.

The previous study suggested that returnees tend to leave the firm they were working for in China when they go back to their home country. This has not been true for any of the case companies in the research. Moreover, the returnees in the Spanish firms have not had any privileges when they have gone back to Spain. This could mean that the satisfaction level of the returnees working for these case companies is high enough. Therefore, these people do not have a big motivation for leaving the company.

Finally, opposing to the previous researches, none of the case companies would transfer technology to China even if their IP was properly protected. The case company pays more attention to their competitive levels in China rather than to the risk of being copied. The main reason for the companies transferring technology to China is to become competitive. The competence usually is transferred to their manufacturing plants in China. The companies have no other choice but to transfer technology to their production plants if they want to be present in the Chinese market.

### *4.3.2 Managerial suggestions for companies*

The case study provides managerial implications to the companies to help them improving their situation in China. Given the various problems, it is difficult to provide a holistic solution definitely. Nevertheless, it is realistic to provide some pre-views that might reduce the problems.

Generally, it takes time for companies to decide where to settle, how to do it, and how to form their market strategy. The companies should build up their expatriate's knowledge before these people leave for China. In this way, expatriates would have a better understanding of the situation and would make a more efficient work for the firm.

Fighting against piracy is not an easy task, not even in developed countries. This problem is magnified in China, because the frequency of copied products is higher and affects diverse products. According to the studies, the most efficient way for fighting against piracy is to develop different responses in the areas such as:

- Proactive approaches: Labelling and packing the products in an easy way for the customers to identify and also in a way in which only people from the company can identify that these products are not fakes, appropriate pricing and monitoring the products from their manufacturing till they are commercialized to avoid producing "extra" products.
- Defensive weapons: Acquiring the production plant that is manufacturing the fake products could be a good solution if the quality of the copies was good enough. In addition, in case this would not be possible, the company would have enough proofs for taking the plant's owners to court.
- Networking means: Companies can gain support from the government, other firms in their sector, international anti-piracy organizations or even from their customers, by not purchasing the fake products.

Some studies point out that patent is one of the most effective ways for companies to protect their IPRs in China. It prevents the products from being copied. However, it is relevantly weak on this point in China. The problems still exist because of the inefficiency on the implement of the laws, even if there are many laws to protect the IP owners. Therefore, firms should try with solutions such as making patents, registering their brands or having trademarks if patent is not enough to protect the IP.

In order to avoid the problem of debts collection, the companies are suggested to use letters of credit and insure their sales or charge a high percentage of the final products' price beforehand from their clients.

Regarding high labour rotation, firms should keep high levels job satisfaction of their employees so that they do not consider changing their job. The most common ways are giving them the chance to have a career promotion in the future; assigning them tasks that allow them to have a certain level of autonomy so that they see their work is valued; and paying higher salaries than what their competitors pay.

To retain the returnees after they finish their expatriation, it also needs to keep a high level of their job satisfaction. In this case, it is important to take care of the content of the job they are assigned, give them autonomy to make decisions when working, show them possibilities of getting a promotion, pay them the correspondent salary to the work they do. In the end, it is a matter of meeting their job expectations.

## 4.4 Research Limitations and Future Study

The first limitation is the size of the samples. Only five Spanish companies are involved in this research. Therefore, the results of the study are cautiously applied to the other context. Related to this, the diversity of the industry sector the case companies belong to makes it difficult to generalise and get overall conclusions on Spanish firms' experience in China.

The second limitation is the unique timeline these companies have followed when settling in China. It most likely also affects their entry and development in China. Thus, it would be mistaken to make general conclusions on the establishment and development of the Spanish firms in China.

The geographical zone in which the research was carried out also might also limit the results of this research. All the case companies are located in a province of Spain called Gipuzkoa. Even though this is a very industrialized area in Spain, the number of case firms that had a manufacturing plant in China was drastically reduced when searching the candidate companies for research. Thus, not so many of them were valid for this study.

Further research can be done in the areas such as the whether the returnees leaving their companies has to do with the factors such as the type of company, the treatment employees receive or their chances to work for another company, and the geographical area in Spain the companies are located in.

There is also a potential research to study the impacts of Chinese government and their tendency to protect the Chinese market. It would be interesting for the Spanish firms to know the possibilities of successful business development in the future.

It would also be interesting to analyse and make a comparison of foreign firms' performance in China and India. The case companies in this research either have a manufacturing plant in India or consider establishing one in the future. Some of them even settled in India before doing it in China. All of them agree that it is easier doing business in India. Moreover, the potential market in India attractive for foreign firms as well, even though the consumption power is more unevenly distributed.

Finally, since the financial crisis did not affect China so much, it is a good idea to make further research on the future consequences of the crisis in the country and compare it to the worldwide situation. The research is supposed to benefit firms settled in China either in the Chinese market or worldwide.

# 5 Conclusions

In this research, the situation of the case companies and the market they are oriented differ significantly. Therefore, it is not a good idea to standardise and define the settling patterns of Spanish firms in China based on this research. For generalisation, further research with a large amount of case companies is suggested to be done. However, some views can be generalized to other companies, due to the theoretical and empirical studies match up each other in a certain degree.

Not so many studies have been carried out on the particular case of the Spanish firms in China. Therefore, this research aims to shed some light on this topic. The study shows that the experience of Spanish firms does not differ much from that of other European firms. They are generally similar on the problems and concerns, as well as the main reasons for settling in China, entry mode and manage practices, although the treaties of trade between China and other countries are different.

Not all the results of the study will coincide with the reality in the future because the authors believe the changes can be made by the rapid economic, political and social development in China. With the time going on, the Chinese government is changing the laws and regulations. Therefore, the new situation will be created. It expects to make foreign firms enter the Chinese market in a more effective way. In addition, these changes might also imply new solutions or problems to the firms that are already settled in China. Therefore, the validity of the results obtained in this research is quite limited to the changes that take place in China.

Overall, once the firms have their operations in China, the major problems they have to deal with are high labour rotation, collection of debts and counterfeiting. However, these are not real problems for most of the case firms in this research. The reasons include they have the solutions for these problems; they have been lucky enough not to come across some of them; and even they have their own preventive measures that allows them to avoid this problem, or at least part of them. In any case, with the IPR-related problems, the piracy copies with bad quality currently cannot be competitive products in the market. However, the threat is the quality of copies is progressively improved. Therefore, it can be a great problem in the future. This is why the companies consider finding solutions before the problems become difficult to handle.

The research found that operating a manufacturing plant in China is becoming increasingly necessary to access the Chinese market. In the past, the manufacturing in China is export oriented. Nowadays the local demand in China is expected to keep growing in the following years. Therefore, it is necessary to manufacture in China in order to have more chances to commercialise products in the Chinese market.

In sum, settling a production plant in China is a long-term strategy given the market situation in China. Not all the firms can be problem free to get benefits from the settling process of their subsidiary. Thus, the necessary works such as a good action planning, a necessary analysis and an expert with the knowledge of China are critical to the process so that companies can survive in the initial phase of settling in China. So far, most of the case companies are satisfied with their manufacturing plants in China. Given the market situation in Spain, the global financial crisis has made the companies realise of the importance of their Chinese plants.

# References


Ahlstrom, D., Bruton, G. D., & Yeh, K. S., (2008). Private forms in China: Building legitimacy in an emerging economy. Journal of World Business, 43, pp. 385-399.

Argote, L. and Ingram, P., (2000). Knowledge transfer: a basis for competitive advantage in firms. Organizational Behavior and Human Decision Processes, 82 (1), pp. 150-169.

Beamish, P.W., Jiang, R., (2002). Investing Profitably in China: is it Getting Harder? Long Range Planning, 35(2), pp. 135-151.

Björkman, I., Kock, S., (1995). Social relationships and business networks: The case of Western companies in China. International Business Review, 4(4), pp. 519-535.

Blackburn, K., Forgues-Puccio, G.F., (2009). Why is corruption less harmful in some countries than in others? Journal of Economic Behavior & Organization, 72(3), pp. 797-810.

Bontempi, M.E. & Prodi, G., (2009). Entry strategies into China: The choice between Joint Ventures and Wholly Foreign-Owned Enterprises: An application to the Italian manufacturing sector. International Review of Economics & Finance, 18(1), pp. 11-19.

Bosworth, D., Yang, D., (2000). Intellectual property law, technology flow and licensing opportunities in the People's Republic of China. International Business Review, 9(4), pp. 453-477.

Chao, CC., Yu, E.S.H., Yu, W., (2006). China's import duty drawback and VAT rebate policies: A general equilibrium analysis. China Economic Review, 17(4), pp. 432-448.

Chen, K., (2004). Fiscal centralization and the form of corruption in China. European Journal of Political Economy, 20(4), pp. 1001-1009.

Chen, X., Reger, G., (2006). The role of technology in the investment of German firms in China. Technovation, 26(3), pp. 407-415.

Child, J., Yan, Y., (1999). Investment and control in international joint ventures: the case of China. Journal of World Business, 34(1), pp. 3-15.

Chong, H. G., (2009). Measuring performance of Chinese joint ventures. Advances in Accounting, 25(1), pp. 81-88.

Claessens, S., & Kose, M.A., (2010). Guest Editors’ Introduction The Financial Crisis of 2008-09: Origins, Issues, and Prospects. Journal of Asian Economics, doi:10.1016/j.asieco.2010.02.003.

Claessens, S., Kose, M.A., Terrones, M., (2008). What Happens During Recessions, Crunches and Busts? Economic Policy, 24(60), pp. 653-700.

Cuervo-Cazurra, A., (2008). Better the devil you don't know: Types of corruption and FDI in transition economies. Journal of International Management, 14(1), pp. 12-27.

De Meyer, A., (2001). Technology transfer into China: Preparing for a new era. European Management Journal, 19(2), pp. 140-144.

Deng P., (2001). WFOEs: The Most Popular Entry Mode into China. Business Horizons, 44(4), p. 63-72.

Duanmu, J.L., & Fai, F, M., (2007). A processual analysis of knowledge transfer: From foreign MNEs to Chinese suppliers. International Business Review, 16(4), pp. 449-473.

Duckett, J., (2001). Bureaucrats in Business, Chinese-Style: The Lessons of Market Reform and State Entrepreneurialism in the People's Republic of China. World Development, 29(1), pp. 23-37.

Fidrmuc, J., Korhonen, I., (in Press). The impact of the global financial crisis on business cycles in Asian emerging economies. Journal of Asian Economics. Accepted for publication, 2009. doi:10.1016/j.asieco.2009.07.007.

Greguras, F., (2007). Intellectual property strategy and best practices for R&D services in China. Computer Law & Security Report, 23(5), pp. 449-452.

Hashimzade, N., Huang, Z., Myles, G.D., (2010). Tax fraud by firms and optimal auditing International. Review of Law and Economics, 30(1), pp. 10-17.

Hau, L. N., & Evangelista, F., (2007). Acquiring tacit and explicit marketing knowledge from foreign partners in IJVs. Journal of Business Research, 60(11), pp. 1152-1165.

Hu, A. G., Jefferson, G. H., (2009). A great wall of patents: What is behind China's recent patent explosion? Journal of Development Economics, 90(1), pp. 57-68.

Hu, M. Y., & Chen, H., (1996). An empirical analysis of factors explaining foreign joint venture performance in China. Journal of Business Research, 35(2), pp. 165-173.

Huang, C., Sharif, N., (2009). Manufacturing dynamics and spillovers: The case of Guangdong Province and Hong Kong, Macau, and Taiwan (HKMT). Research Policy, 38(5), pp. 813-828.

Ianchovichina, E., (2004). Trade policy analysis in the presence of duty drawbacks. Journal of Policy Modeling, 26(3), pp. 353-371.

Ivarsson, I., Alvstam, C.G., (2005). Technology Transfer from TNCs to Local Suppliers in Developing Countries: A Study of AB Volvo’s Truck and Bus Plants in Brazil, China, India, and Mexico. World Development, 33(8), pp. 1325-1344.

Kenc, T., Dibooglu, S., (2009). The 2007–2009 financial crisis, global imbalances and capital flows: Implications for reform. Econonomical. System, doi:10.1016/ j.ecosys.2009.11.003.

Kshetri, N., (2009). Institutionalization of intellectual property rights in China. United States European Management Journal, 27, pp. 155-164.

Li, S., Scullion, H., (2010). Developing the local competence of expatriate managers for emerging markets: A knowledge-based approach. Journal of World Business, 45(2), pp. 190-196.

Lin, C., Lin, P., Song, F., (2009). Property rights protection and corporate R&D: Evidence from China. Journal of Development Economics, doi:10.1016/j.jdeveco.2009.04.006.

Lin, S., (2008). China's value-added tax reform, capital accumulation, and welfare implications. China Economic Review, 19(2), pp. 197-214.

Liu, H. and Pak, K., (1999). How important is marketing in China today to Sino-foreign joint ventures? European Management Journal, 17(5), pp. 546-554.

Lockström, M., Schadel, J., Harrison, N., Moser, R. and Malhotra, M. K., (2009). Antecedents to supplier integration in the automotive industry: A multiple-case study of foreign subsidiaries in China. Journal of Operations Management, 28(3), pp. 240-256. doi:10.1016/j.jom.2009.11.004.

Luo, Y., (1999). The Structure–Performance Relationship in a Transitional Economy: An Empirical Study of Multinational Alliances in China. Journal of Business Research, 46(1), pp. 15-30.

Markarian, J., (2008). Worker health and safety in plastics compounding. Plastics, Additives and Compounding, 10(1), pp. 26-29.

Oxelheim, L., Ghauri, P., (2008). EU–China and the non-transparent race for inward FDI. Journal of Asian Economics, 19(4), pp. 358-370.

Pan, Y., Li, X., (1998). Alliance of foreign firms in equity joint ventures in China. International Business Review, 7(4), pp. 329-350.

Pyke, D., Robb, D., Farley, J., (2000). Manufacturing and supply chain management in China: A survey of state-, collective-, and privately-owned enterprises. European Management Journak, 18(6), pp. 577-589.

Raa, T.T., Pan, H., (2005). Competitive pressures on China: Income inequality and migration. Regional Science and Urban Economics, 35(6), pp. 671-699-

Sánchez Vidal, M.E., Sanz Valle, R., Barba Aragón, M.I., (2007). Antecedents of repatriates' job satisfaction and its influence on turnover intentions: Evidence from Spanish repatriated managers. Journal of Business Research, 60(12), pp. 1272-1281.

Secretaría de Estado y de Comercio, Oficina Económica y Comercial de España en Pekín, 2009. GUIA PAIS.

Shi, X., Wright P.C., (2003). The potential impacts of national feelings on international business negotiations: a study in the China context. International Business Review, 12(3), pp. 311-328.

Sun, Q., Tong, W., Yu, Q., (2002). Determinants of foreign direct investment across China. Journal of International Money and Finance, 21(1), pp. 79-113.

Trimarchi, M., Tamaschke, R., (2004). Coordinations in business interactions between Hong Kong Chinese, mainland Chinese, and Western actors. International Business Review, 13(3), pp. 331-357.

Tuan, C., Ng, L. F. Y., (2004). Manufacturing agglomeration as incentives to Asian FDI in China after WTO. Journal of Asian Economics, 15(4), pp. 673-693.

Tuan, C., Ng, L. F. Y., (2007). The place of FDI in China's regional economic development: Emergence of the globalized delta economies. Journal of Asian Economics 18 (2), pp. 348-364.

Tung, S., Cho, S., (2000). The impact of tax incentives on foreign direct investment in China. Journal of International Accounting, Auditing and Taxation, 9(2), pp. 105-135.

Wang, G., (2003). Foreign investment policies, sovereignty and growth. Telecommunications Policy, 27(3-4), pp. 267-282.

Wang, L., (2004). Intellectual property protection in China. The International Information & Library Review, 36, pp. 253-261.

Wang, P., Tong, T. W., Koh, C. P., (2004). An integrated model of knowledge transfer from MNC parent to China subsidiary. Journal of World Business, 39(2), pp. 168-182.

Wei, Y., Liu, B., Liu, X., (2005). Entry modes of foreign direct investment in China: a multinomial logit approach. Journal of Business Research, 58(11), pp. 1495-1505.

Wei, Y., Liu, X., (2001). Foreign direct investment in China: determinants and impact. China Economy Report. Available at: http://books.google.com/books?hl=fi&lr=&id=Cm4hR6jSjmMC&oi=fnd&pg=PR9&dq=Wei,+Y.,+Liu,+X.,+2001.+Foreign+direct+investment+in+China:+determinants+and+impact.+Cheltenham&ots=Cp5qHxwJZi&sig=WXirYZD_1pS8fexppMhqjRa3L0#v=onepage&q&f=false Accessed: 7 April 2010.

Wenheng, W., Shuwen, N., (2008). Impact Study on Human Activity to the Resource-environment Based on the Consumption Level Difference of China's Provinces or Autonomous Regions China Population, Resources and Environment, 18(4), pp. 121-127.

World Intellectual Property Organization (WIPO), (2002). About intellectual property. Retrieved September 28, 2002, from http://www.wipo.org/about-ip/en/.

Wu, L., Wang, Y., Lin, B.X., Li, C., Chen, S., (2007). Local tax rebates, corporate tax burdens, and firm migration: Evidence from China. Journal of Accounting and Public Policy, 26(5), pp. 555-583.

Yang, D., (2003). The development of intellectual property in China. World Patent Information, 25(2), pp. 131-142.

Yang, D., Clarke, P., (2005). Globalisation and intellectual property in China. Technovation, 25(5), pp. 545–555.

Yuan, C., Liu, S., Xie, N., (2010). The impact on Chinese economic growth and energy consumption of the Global Financial Crisis: An input-output analysis. Energy, 35(4), p. 1805-1812. doi:10.1016/j.energy.2009.12.035.

Zhang, K.H., (2005). Why does so much FDI from Hong Kong and Taiwan go to Mainland China? China Economic Review, 16(3), pp. 293-307.

Zhang, N., (1997). Intellectual Property Law in China: Basic Policy and New Developments. 4 Ann. Surv. Int'l & Comp. L. 1. Abstract from HeinOnline database. Available at: http://heinonline.org/HOL/LandingPage?collection=journals&handle=hein.journals/ansurintcl4&div=5&id=&page Accessed 7 April 2010.

Zhang, W., Zhang, Z., Han, G., (2010). How does the US credit crisis affect the Asia–Pacific economies?— Analysis based on a general equilibrium model. Journal of Asian Economics, doi:0.1016/j.asieco.2009.12.011.

Zhen, L., Yongchun, Y., Yuxiang, L., (2008). Difference among the Growth of GDP and Urbanization of the Provinces and the Cities in West China since the Reform and Opening-up China. Population, Resources and Environment, 18(5), pp. 19-26.

# Appendix A: English version of the questionnaire

Basic information of the company: [Name; Location; Industry; commercialised products; amount of years of trading experience in the Chinese market; export & import datas from 2008/2009 (depends on when has the interview taken place].

Basic information of the interviewee: [Name; Position in the company; Working time (years) for the company; responsibility in the trade relationship].

1 When did the company start trade relations with Chinese companies (year)? How did you come up with the idea (main reasons that made the company establish these trade relations; how did they realise it could be a good idea?)
  - 1.1. What were the very first steps the company had to take when establishing these trade relations? (Investing; market analysis, competitors, finding new clients…)
  - 1.2. How did you select/find clients? How about local/foreign suppliers?
  - 1.3. How did the company adapt to the "expansion"? That is, were there any special measures taken that implied any changes in the company? (Reassigning of jobs, employing new staff, new investments…)
  - 1.4. Where is/are your manufacturing plant/s located (Mainland China, Hong Kong, Macau, Taiwan)? Why did you locate it there?
    - 1.4.1. What was the market strategy you have been following in the Asian market? (Does your manufacturing plant/s in China cover the demand of the different areas in China? Or do you focus for example in Mainland China or any other region?)
      - 1.4.1.1. Do you use your manufacturing plant/s in China to export also to other markets in Asia?
  - 1.5. In what moment did you decide to move part or the totality of the production process to China?
    - 1.5.1. Type of enterprise in China (Joint-venture…)
    - 1.5.2. What were the main reasons for moving? Competitiveness? New partnerships…
    - 1.5.3. Analysis of the main benefits/problems in case of having a mixed capital entity.

2 Who are the principal actors in the demand-supply chain? People from inside and outside the company that have and/or have had an important role in these trade relations.

3 What product/s do you commercialise in the Asian market? (Distribution of the commercialised products in the different markets)

4 Description of the demand-supply chain (as a supplier company; Spanish companies commercialising their products, that have been manufactured in China, to Chinese companies)
  - 4.1. Stages in the original demand-supply chain (contacting, arranging buy-sell treaties, production, quality controls, supply) what were the main difficulties? In which stages did the most frequent ones take place?
    - 4.1.1. Have there been any changes since it began?
  - 4.2. Do you manufacture upon request or do you keep part or the total production in stock?
  - 4.3. How do you control the quality of your products? Do you have any special procedure for this? Is this one of your key factors that allows the company to keep being competitive? (What is your main focus? Productivity, quality…)
  - 4.4. Level of satisfaction with your experience so far?
  - 4.5. Problems and/or anecdotes; is there any big change in the way of doing business?

5 Description of the demand-supply chain (company buying raw materials, in case everything is not imported)
  - 5.1. Are the raw and/or in production materials imported or are they bought in China? What are the reasons for this? (Economical, quality…)
    - 5.1.1. What things are imported? Technology?
      - 5.1.1.1. If imported, is it from the company itself? Or do you find other suppliers?
      - 5.1.1.2. Bureaucracy issues when importing?
      - 5.1.1.3. Current legislation when making payments out of China.
    - 5.1.2. What is it bought in China?
      - 5.1.2.1. To whom? Is it to international companies or to local enterprises? → why?
      - 5.1.2.2. How did you manage to find the right suppliers? (Trying, any previous experience or help from a contact from another company that might have given you the information…)
    - 5.1.3. Have you had any payment problems in de demand-supply chain so far?
    - 5.1.4. How do you inspect the quality of the acquired materials? Do you have any special procedure for this? Are there usually any problems regarding to the quality of the supplied products (supplied by other companies to you)? What is your relationship with the suppliers? (Do you know the contact that gets in touch with the company and provides you the goods?)
    - 5.1.5. What are the main differences in the contracts among European/Western companies and Chinese companies? (Comment the main points)
  - 5.2. Steps in the demand-supply chain of raw and "in production" materials (contacting, buy-sell treaties, are the quality controls carried out in the supplying company or do you have to make them? Difficulties/problems in any steps?
  - 5.3. How long does it take from the moment the customer makes an order till the product is provided?
    - 5.3.1. Have you had any delivery problems? What was their origin? (What caused them?)
  - 5.4. Are the orders received JIT or do you keep some stock?
  - 5.5. Level of satisfaction with suppliers?

6 Has your company invested in China? (Apart from the investment related to installing an operating manufacturing plant in the country) If so, what have you invested in? (Sectors such as wind-power energy…, high-technology…)
  - 6.1. Have you received any kind of help from the government?

6.2. How long have you been investing in China? What have the main benefits and difficulties been?

7 Issues related to Intellectual Property Rights

7.1. Have you ever had any problems related to the IPR? (Products and/or ideas being copied…)

7.2. How does your company protect its Intellectual Property Rights? Is it enough with the current Chinese legislation on this? Have you taken any special measure?

7.3. Does the current situation of the Intellectual Property Rights affect to technology transfer?

7.3.1. If so, how? (Have you transferred the whole technology to the country?)

7.3.2. And why?

7.3.2.1. (If positive 5.3: Competitive advantage in the market…)

7.3.2.2. (If negative 5.3: Cost-related problems, technology copying issues…)

7.3.3. Should there be any changes applied? Who do you consider should make them?

7.4. Historical evolution; how has the situation changed during the last years? Have these changes been something more theoretical (changes in legislation) or is it also affecting to companies in real life?

8 Bureaucracy-related issues:

8.1. Difficulties with official institutions (both Spanish and Chinese)

8.1.1. Getting started: Necessary issues when opening a new plant.

8.1.2. Licenses, paperwork, corruption...

8.2. Difficulties with other enterprises

8.2.1. Competitiveness, “stolen” employees, lack of materials arriving to the company…

8.2.2. In case the company is a Joint-venture, or it has shared capital with other Chinese partners, have there been any problems regarding to decision making and execution time?

9 How do you think future relations are going to be like? Will you keep customers, get new, bigger size in orders, will you be in a bigger part of the market, what is your aspiration for the future?

9.1. What are the company’s goals related to the Chinese market?

# Appendix B: Spanish version of the questionnaire

Información básica de la empresa: [nombre; localización; industria; productos comercializados; número de años de experiencia acumulada en el mercado chino (comercio sin producción incluído); datos generales de importación & exportación con China en el 2009 (2008, si no están disponibles los anteriores)].

Información básica del entrevistad@: [Nombre; Posición en la compañía; Número de años trabajando en la misma; tiempo que lleva en el área comercial en general, y particularizando para el caso de China; responsabilidad ejercida en este área].

1. ¿Cuándo se iniciaron las relaciones comerciales con empresas chinas (año)? ¿Cómo surgió la idea? (Motivos principales que hicieron que se establecieran estas relaciones comerciales; ¿por qué se consideró que podría ser una buena idea?)
   - 1.1. ¿Cuáles fueron las acciones iniciales tomadas a la hora de establecer estas relaciones comerciales? (Inversiones, análisis de mercado, situación de la competencia, encontrar nuevos clientes…)
   - 1.2. ¿Cómo seleccionaron/encontraron clientes? ¿Y los proveedores locales/extranjeros?
   - 1.3. ¿Cómo se adaptó la empresa a la “expansión”? Es decir, ¿hubo alguna necesidad de tomar alguna medida especial que implicara algún tipo de cambio en la empresa? (Reasignación de puestos de trabajo, emplear nuevos profesionales, nuevas inversiones…)
   - 1.4. ¿Dónde está/n situada/s su/s planta/s de producción (Mainland China, Hong Kong, Macau, Taiwan)? ¿Por qué decidieron instalarse en su ubicación actual?
     - 1.4.1. ¿Cuál ha sido la estrategia que han seguido en el mercado asiático? (Cubre su producción actual en China, la demanda total del país? O se centran, por ejemplo, en abastecer a Mainland China u otra región específica)
       - 1.4.1.1. ¿Suministran también desde su/s planta/s de producción en China a otros países asiáticos?
   - 1.5. ¿En qué momento decidieron trasladar parte o completamente el proceso de producción a China?
     - 1.5.1. Tipo de empresa que tienen en China (Joint-venture, empresa de capital íntegramente suyo…)
     - 1.5.2. ¿Cuáles han sido los motivos principales para trasladar la producción o parte de ella? (Mantener o mejorar el nivel competitivo en el mercado, nuevas alianzas…)
     - 1.5.3. Análisis de los mayores beneficios/problemas que hayan tenido en caso de que tengan una entidad con capital mixto en China (ya sea otro socio extranjero o chino).

2. Cuáles son los principales actores en la cadena de demanda-suministro? Personas (cargo) de dentro y fuera de la empresa que han o hayan desempeñado un papel importante en las relaciones comerciales.
3. Qué producto/s comercializan en el mercado asiático? (En caso de que haya varios productos, distribución de los mismos en los diferentes mercados de la zona).
4. Descripción de la cadena de demanda-suministro (como compañía que vende un producto/servicio a otra empresa).
   4.1. Fases en la cadena de demanda-suministro (contacto, negociar contratos de venta, producción, controles de calidad, suministro). ¿Cuáles fueron sus mayores dificultades? ¿Cuál de las fases es/ha sido la más problemática?
      4.1.1. ¿Ha habido algún cambio desde que empezó?
   4.2. ¿Fabrican bajo pedido o almacenan parte o la totalidad de su producción en stock?
   4.3. ¿Cómo controlan la calidad de sus productos? ¿Tienen algún procedimiento específico para esto? ¿Es esta una de las claves que hacen que sean competitivos tanto mundialmente como en China? (De lo contrario, en qué se centran para ser competitivos en China; volumen de productividad, calidad, precios…)
   4.4. ¿Cuál es su nivel de satisfacción con su experiencia hasta ahora?
   4.5. Problemas y/o anécdotas; ¿han notado un gran cambio en el modo de llevar el negocio?
5. Descripción de la cadena de demanda-suministro (compra de materias primas, en el caso de que todo no sea importado)
   5.1. ¿Importan la materia prima o materia en curso del extranjero o lo compran en China? ¿Hay algún motivo para hacerlo así? (Económico, de calidad…)
      5.1.1. ¿Qué tipo de cosas importan? ¿Tecnología?
         5.1.1.1. Si importan, ¿es de la propia matriz de la empresa o de otros proveedores?
         5.1.1.2. ¿Han tenido algún problema burocrático a la hora de importar desde China?
         5.1.1.3. ¿Cómo les afecta la legislación vigente a la hora de hacer pagos a entidades fuera de China?
      5.1.2. ¿Qué compran en China?
         5.1.2.1. ¿A quién compran? (Empresas extranjeras ubicadas en China o empresas locales) ¿A qué se debe?
         5.1.2.2. ¿Cómo consiguieron encontrar con los proveedores adecuados? (Prueba-error, experiencias previas, ayuda de otra/s empresa/s que os hayan facilitado el camino con su experiencia…)?
      5.1.3. ¿Han tenido algun problema con los pagos referentes a sus proveedores?
      5.1.4. ¿Cómo inspeccionan la calidad de los productos suministrados por sus proveedores? ¿Tienen algún procedimiento específico? ¿Es frecuente tener problemas relacionados con la calidad de los productos suministrados por sus proveedores? ¿Cuál es su relación sus proveedores? (¿Conocen a la persona que contacta con la empresa para que les suministre?)
      5.1.5. ¿Cuáles son las diferencias principales entre los contratos con empresas europeas/occidentales y empresas chinas? (Rasgos generales; ¿podrían facilitarme alguno en blanco?)
   5.2. Fases en la cadena demanda-suministro de materias primas y/o materias por elaborar (contacto con proveedores, contrato de compra-venta, ¿realizan los proveedores algún tipo de control de calidad o lo tienen que hacer ustedes? ¿Cuáles son los principales problemas/dificultades en alguna de estas fases?)

- 5.3. ¿Cuánto es el tiempo medio transcurrido desde que un cliente realiza un pedido hasta que se le suministra?
  - 5.3.1. ¿Han tenido algún problema a la hora de que les suministraran sus proveedores? ¿Cuál fue la causa?
- 5.4. ¿Reciben los pedidos cuando van a iniciar el proceso de fabricación (*Just In Time*) o los almacenan?
- 5.5. ¿Cuál es su nivel de satisfacción con experiencia con sus proveedores?

6. A parte de la inversión necesaria relacionada con las instalaciones de su planta de producción en China, ¿han invertido en el país? Si lo han hecho, ¿en qué sector han invertido? (energía eólica, tecnología punta…)
   - 6.1. ¿Han recibido alguna ayuda gubernamental de origen chino?
   - 6.2. ¿Cuánto tiempo llevan invirtiendo en China? ¿Cuáles han sido los mayores beneficios/dificultades?
7. Aspectos relacionados con los Derechos de Propiedad Intelectual (DPI)
   - 7.1. ¿Alguna vez han tenido problemas relacionados con DPI? (Productos, ideas, diseños… copiados)
   - 7.2. ¿Cómo protegen sus Derechos de Propiedad Intelectual? ¿Es suficiente con la legislación vigente en China? ¿Han tomado alguna medida en concreto?
   - 7.3. ¿Afecta la situación actúal en el país a la hora de que transfieran o no tecnología a su planta de producción local?
     - 7.3.1. Si lo hace, ¿cómo afecta? (¿Han transferido toda su tecnología a China?)
     - 7.3.2. ¿Cuáles son las consecuencias de que les afecte?
       - 7.3.2.1. Positivas: ¿Les da una mejor posición competitiva en el mercado…?
       - 7.3.2.2. Negativas: Problemas relacionados con el coste de transferencia de la tecnología, aspectos relacionados con que sea copiada…
     - 7.3.3. ¿Consideran que deberían hacerse cambios en el modo de proteger los DPI? ¿Quién debería realizar estos cambios? (Consideran que deberían ser puntuales, de la propia empresa; a nivel China como país; ¿o cómo?)
   - 7.4. Evolución histórica; ¿cómo ha ido cambiando desde que se instalaron en China? ¿Han notado algún cambio real en el día a día o los cambios han sido más a nivel burocrático?
8. Aspectos relacionados con temas burocráticos
   - 8.1. Dificultades con instituciones oficiales (tanto españolas como chinas).
     - 8.1.1. Inicialmente: En lo necesario para instalar una planta de producción en China.
     - 8.1.2. Licencias, papeleo, corrupción…
   - 8.2. Dificultades derivadas de otras empresas
     - 8.2.1. Competitividad, “robo” de empleados, falta de suministros por algún tipo de impedimento a su planta de producción…
     - 8.2.2. En caso de que tengan una Joint-venture, ¿han tenido algún problema en lo referente a la toma y ejecución de las decisiones según los plazos de tiempo inicialmente acordados?
9. ¿En qué línea se tomarán decisiones de cara al futuro de su planta de producción en China? (Reafirmar su clientela, conseguir nuevos clientes, abarcar nuevos mercados en el continente asiático, aumentar su producción o el número de plantas en la zona…
   - 9.1. ¿Cuáles son sus principales aspiraciones/objetivos de cara al mercado chino?

OULUN YLIOPISTOPAINO 2010

European Union
European Regional Development Fund

Leverage from the EU 2007–2013

Oulun yliopisto
Teknillinen tiedekunta /
Tuotantotalouden osasto
PL 4610
90014 Oulun yliopisto

tel: +359 (0)8 553 2936
fax:+359 (0)8 553 2904

www.oulu.fi

Centre for Economic Development, Transport and the Environment

OULUN YLIOPISTO
UNIVERSITY of OULU

ISBN 978-951-42-9369-6
ISSN 1459-2401