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**Investimento Português na China: um estudo sobre
a importância da Cultura.**

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resumo

Esta dissertação de mestrado pretende discutir o papel da cultura no desenvolvimento dos investimentos portugueses na China. As diferenças culturais entre Portugal e a China são frequentemente mencionadas como uma das causas para o insucesso dos negócios portugueses em território chinês. Porém, ao comparar as características das culturas chinesa e portuguesa, chegamos à conclusão de que é afinal possível concentrarmo-nos nas suas semelhanças e não nas suas diferenças. Esta é talvez a chave para ultrapassar os mais comuns obstáculos. O presente trabalho inclui um estudo comparado de duas empresas portuguesas presentes na China e sugere que a cultura teve um papel relevante na evolução dos negócios.

abstract

The purpose of this MA thesis is to discuss the role played by culture in the development of Portuguese investment in China. Cultural differences between Portugal and China are often cited as causes for the failure of Portuguese businesses on Chinese soil. However, when comparing the cultural characteristics of both Portuguese and Chinese people we understand that it is possible after all to concentrate on their similarities instead of relying on their differences. This is probably the key to overcome the most common obstacles. The comparative study of two Portuguese companies operating in China suggests that culture played a relevant role in the business outcome.

Portuguese Direct Investment in China

The Important Role of Culture

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AEP	Associação Empresarial Portuguesa
BCP	Banco Comercial Português
BES	Banco Espírito Santo
BNU	Banco Nacional Ultramarino
CGD	Caixa Geral de Depósitos
COMECON	Council for Mutual Economic Cooperation
CPLP	Comunidade dos Países de Língua Oficial Portuguesa
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ICEP	Portuguese Trade and Investment Office
ISQ	Instituto de Soldadura e Qualidade
JV	Joint Venture
LTW	Liaoyang Transformers Workshop
RMB	<i>ren min bi</i>
SDG	Simuladores e Modelos de Gestão
SEZ	Special Economic Zone
SOE	State Owned Enterprise
SPI	Sociedade Portuguesa de Inovação
SWOT	Strength - Weaknesses - Opportunities - Threats
TVE	Town and Village Enterprises
WOFE	Wholly Owned Foreign Enterprise
WTO	World Trade Organization

Portuguese Direct Investment in China: The Important Role of Culture

Introduction

China is usually depicted in the minds of the Portuguese as their opposite culture. If Portuguese want to say something is beyond their understanding they will say “This is Chinese to me”. Unsurprisingly, cultural differences are a common complaint when Portuguese businessmen are confronted with the question of why they do not dare investing in China¹.

Over the past two decades, China has been experiencing dramatic changes as a result of its opening up to the outside world and modernizing process. From the European perspective, China provided new opportunities and challenges. However, Sino-Portuguese relations seem to be a promise hard to fulfil.

The picture of the Portuguese Direct Investment in China is grim: according to the European Union statistics², Portugal occupies the last positions in terms of investment in China, when compared with other member states. Culture might be mentioned as an obstacle by the Portuguese, but it does not explain why, for instance, the Spanish and the Italian, just to mention the closest to the Portuguese cultural tradition, have been experiencing growing success in China.

Books and articles about Portuguese presence in China usually start by boasting our early arrival to the Chinese coasts, the brilliant work of our missionaries in the imperial court in Beijing, and our privileged relation through our presence in Macao. But the present situation does not really reveal any sort of ‘first come, first served’. There are very few Portuguese companies in China, very few Portuguese living there, very few Portuguese students studying Mandarin or researching³, and the Portuguese institutional presence is also rather weak⁴. Summing up, Portugal seems not to have noticed that the dragon has awakened.

¹ Along with geographical distance.

² European Competitiveness Report 2004, p. 247, available at http://europa.eu.int/comm/enterprise/enterprise_policy/competitiveness/doc/compreg_2004_en.pdf

³ Which in turn reflects also the lack of enthusiasm and structures for Chinese studies in Portugal.

⁴ Presently there is only one diplomatic and commercial office located in Beijing, though the opening of consular and commercial offices are scheduled for 2005. See Ilhéu (2004).

This trend is only contradicted by some periodic official and trade delegations to China, that at least keep the subject on the daily newspapers, such as the visit to China of Portuguese President Jorge Sampaio last January.⁵

The lack of Portuguese presence in China, the lack of studies on the Portuguese absence, and the common complaints on cultural gaps, made me choose to undertake research on the Portuguese Investment in China and the Important Role of Culture. I thus intend to give an account of Portuguese direct investment in China and study how important was the role of culture in the success or failure of the different ventures undertaken by the Portuguese on Chinese soil. I am aware that there are certainly other reasons to explain the success or failure of Sino-Portuguese business relations, but my focus will be on the role played by culture.

Similar cases may occur between Chinese and other foreigners. The reason why I decided to focus on the Portuguese, beyond the fact that as a Portuguese national I am somehow more involved, was mainly to try to assess whether the cultural gap is as dominant a factor as frequently claimed, or that it is about time to overcome this myth.

The relationship between two countries is conditioned by the idea one has about the other and this blocks learning⁶, for one thinks it already knows the other. What image do we have about China and the Chinese? What image does China have about Portugal and the Portuguese?

Are Portuguese and Chinese that different? My approach will start by identifying what unites us, instead of concentrating on what separates us. A curious appetizer on similarities is provided by History: the two last dynasties of the two countries, the Bragança and the Qing started reigning around the same dates in the 17th century and both ended in very close dates, giving place to Republic in 1910 for Portugal and 1911 for China. Later, in the 20th century, Mao's regime and Salazar's regime, opposite in the political spectrum, ended around the

⁵ The President was accompanied by the largest Portuguese trade delegation ever to visit China, comprising 100 Portuguese entrepreneurs.

⁶ Based on his review of study of joint ventures in China, Jay B. Barnes concludes: "learning has often been cited as a primary motivation for engaging in alliances", ...inasmuch as ... "learning is both very important and very difficult". In Organization Science, "Knowledge Search in International Cooperative Ventures", p. 134.

same dates again: in 1974 in Portugal and in 1976 in China. Culture wise, both Portuguese and Chinese societies are structured upon the very important role played by the family, which necessarily led to some conservativeness. This should trigger other common characteristics.

Every study about how to negotiate with the Chinese will certainly contain at some point the concepts of *guanxi* and *mianzi*. Are these concepts that foreign to Portuguese businessmen?

This thesis will then try to answer the following questions:

- 1) How important is the role of culture in determining the success or failure of the Portuguese investment in China?
- 2) Is the knowledge or lack of knowledge of the culture of the other partner a dominant factor for the success or failure of the venture?
- 3) Does the choice of investing through Joint Venture or WFOE make the role of culture more or less important?

This study is based on field research I carried on in China in 1999-2000. Most of the time was spent in Shanghai, and there I faced a first obstacle: the Chinese Supervisor was not of much help with the research. In order to investigate *in loco* some of the Sino-Portuguese investments I traveled to Liaoyang (Liaoning province), and Hefei (Anhui province) to interview partners, Chinese and Portuguese, and participants involved. The initial idea was to focus on the most important cases of success, comparing their experience so as to determine if cross cultural management contributed for their good results.

I used a questionnaire for interviews conducted with both the Chinese and Portuguese involved in these business ventures, providing real-life, descriptive case studies.

This study also benefited from the relevant literature already published and available in libraries that I visited in China, namely: Shanghai Library, Hong Kong Chinese University Library and Macao University Library.

However, for several reasons, it was not possible to conclude this work before 2005. Thus, several previous remarks should be done concerning the period of time analyzed. The fieldwork in China was undertaken in 1999-2000, but several updates were made through phone interviews in 2001 and 2005. In between, China finally gained access to WTO, in December 2001. The post-WTO period is leading to significant changes in the role of Chinese customs (culture) versus the rule of the market economy. In other words, the rules of the game are changing after WTO (reducing the role of culture); but to what extent things have changed, and how and why, would be a topic for another study. Even so, I believe Chinese culture's influence on business will have a stubborn hold on the Chinese, nonetheless. When finalizing this study, in 2005, I had two options: either "crystallize" the thesis around the period of time when the field study was undertaken, that is, taking 1999 as the limit, or admit that studying the Portuguese Direct Investment was a sort of moving target, and, given the lack of studies on this topic, it would be more interesting to update the data on Portuguese steps in investing in China. I had to reflect on the immediate effects that WTO accession could have on the role of culture, and finally conclude that the thesis would not lose accuracy due to WTO accession⁷, for the behavioral characteristics are still there and, despite market economy mandatory rules, they still apply.

This thesis comprises three chapters: in Chapter One I give an account of the characteristics of the Chinese economy, briefly explaining the evolution it suffered since the initial days of the Reform until the present. I include some information on the legal vehicles to invest in China and finally I present a brief history of the Portuguese investment in China.

Chapter Two approaches the Portuguese and Chinese cultural characteristics that are relevant in a business context. I start by assessing the importance of Chinese culture and History on business. Then, I undertake a critical description of what unites or separates the Chinese and the Portuguese on this issue.

⁷ As it also seems to be assumed by CHAN (2005).

Chapter Three contains my field studies, EFACEC and Featherlands, hopefully providing some evidence of the role played by culture in the business relations and pointing to some conclusions.

Finally, a last chapter contains my conclusions.

China has the reputation of being a market difficult to penetrate; many recipes, prescriptions, guides and strategic plans have already been written to help foreigners do business in China. This is not my purpose, although some of the conclusions of my study might be of help in this regard.

This study simply focuses on the way Portuguese investors have so far conducted their business relationships with Chinese partners. I place an emphasis on the need for mutual cultural understanding, and on acquiring the appropriate language skills by both the Portuguese and the Chinese. How to adapt, rather than being inflexible, will remain our main question throughout this work. We aim to understand possible tensions and misunderstandings that could arise from the different perspectives of the Chinese and the Portuguese when they do business together. Finally, we also hope to be able to show those cases in which compromises between the two business cultures have led to more favorable results.

Chapter One – The fast developing Chinese economy versus the undeveloped Portuguese direct investment in China

1.1 The performance of the Chinese economy

The most populous and the fourth largest country is now the world's sixth economy. If the impressive growth occurred in the last two decades continues at a similar rhythm, within 10 years China will surpass Japan and will be the world's second economy. By 2041, it would leave behind the United States and become

the world's first economy⁸. These facts illustrate the dimension of our subject matter.

The above-mentioned two decades comprise the period known as the Reform Era. This era started in the end of 1978⁹ and marked the beginning of economic reforms and the dramatic increase of the country's GDP. The first obvious explanation is that even if no capital was added, the mere end of Mao's era and of his radical mass campaigns would lead to an increase in output and consequently in growth. However, not only most of the negative measures of the past were abandoned but also a whole new set of positive reforms was put in place. The heritage from the Mao years had certainly many problems in urgent need of solution, but there was no serious macroeconomic and external debt crisis, so no austerity program was required. Deng Xiaoping, at last, had a free hand to impose his economic policies.

The Chinese environment was indeed favorable to reforms: large, young and adaptable work force, reasonably healthy and educated; very low wage rate; closeness to the East Asian economic region; experience in trading with market economies; the cooperation with Hong Kong capitalism.

The successive focus of the reform was the opening up to the foreign sector, to the market, to the industry, to the banking sector, and to the fiscal sector.

The state was no longer the only actor in the growth sectors. It had to buy and sell in the markets and face competition from the newly born private sector. In agriculture, the communes were abolished, household farming was restored and free market regulated most of the crop trade. The possibility offered to the farmers to produce and sell outside of the planning system allowed the existence of an economy outside the plan¹⁰. As a result, with the peasants motivated to produce, the output in the agricultural sector increased dramatically and since it accounted for one third of China's GDP, the national growth rate increased too.

Industry became the leading sector with the creation of the Township and Village Enterprises (TVE). These enterprises had a mixed ownership comprised of

⁸ According to Goldman Sacks.

⁹ With the landmark Third Plenum of the Eleventh Party Central Committee.

¹⁰ Naughton (1996).

local government, private individuals, and peasants investing their surplus, former cadres and other enterprises, meaning that a great percentage of the population became involved in the economy. Many, if not most of the TVEs were in the business of light industry, which typically allows high profit for unit produced. The investment of peasant families in the TVEs made them spread around the countryside and transformed rural areas into industrialized ones.

A brand new sector emerged: foreign trade and investment. It was the end of the Maoist policy of self-dependent economic development, the major responsible for the isolation of China from the international economy. After several problems, namely the canceling of many projects, in the early 90s the "Opening Up Policy" really took off and modern technology and more efficient management techniques were introduced in the Chinese economy. The success of this policy and its impact on the growth rate was mainly due to the investment that came from Taiwan, Hong Kong and the "loyal" overseas Chinese. This originated a new production system involving the textile industries and manufactures, electronics and electrical equipments moved to the Pearl River delta, until the Asian crisis of 1997. Special Economic Zones were created and export-oriented companies were set up in coastal areas.

Thus the sectors usually neglected in a Soviet-type economic strategy were taken care of under Deng. The focus was now on the farmer, the foreigner and the consumer. This change was made rather smoothly due once again to the surplus labor available in China. Otherwise it would not have been possible to concentrate in new sectors without reducing people in the existing ones. In other words, the transfer of labor from one sector to the other would have undoubtedly provoked some turmoil in the growth rate.

Extensive growth continued to be pursued. The change is in the quantity and quality of the savings poured in: they were even higher and became voluntary because of the liberalization of a labor-surplus economy with a high savings rate. These savings assumed now the form of bank deposits. Nevertheless these funds still end up as investments in the state-owned sector. This labor-surplus prevented the rising of the real wage and the high amount of savings prevented the increase in the interest rates.

In the late 90s the Jiang and Zhu era began. Household farming and TVEs are no longer sources of growth and therefore the economic growth rate declines. In this period, China's growth relies mainly upon the foreign sector. Internal demand is stimulated and the Chinese are given two week holidays to spend their money and make internal consumption demand grow. In this phase, the present one, comes a third wave of investment where FDI comes from industrialized countries (USA, Japan and EU), including 400 of the biggest world companies in telecommunications, petrol sector, automobile and machinery already with producing units in China.

The central planners have now to cohabit with decentralized decision-making especially at the province level. The market is a third element, along with the center and the provinces, to correct economic tendencies. An isolated act of a central planner is no longer immediately reflected in the economy because the market might have a word to say. Nevertheless, there is still a role to be played by the plan, which is precisely to ensure stability and guarantee the attainment of some key government priorities. At the enterprise level, the responsibility is given to the manager.

In what concerns demand, it is stated above that now the savings that will be used for investment are voluntary. The large amount of household savings stabilized the economy and reduced the inflation. The demand is somehow freed and inflation is less likely to happen because of pressures from it.

The opening up to the international economy, from where some instability might have been induced, was very cautious as well. Imports were restricted, exchange rates maintained, the RMB is not convertible and the trade was not so closely tied to COMECON bloc and thus not so much affected by the crisis in the area.

Finally, the legal framework and judicial institutions helped to institutionalize the reforms and create a more stable economic environment.

When comparing the Maoist period with the Reform, one has to be aware that under Mao politics determined the direction of the economy. Economic laws were not attended and political utopia overshadowed the economic reality of the country. Any political idea was immediately put in practice at the national level.

Experiment and reality occurred simultaneously; a bad idea would immediately become a bad policy with bad results. In the Deng era, economic liberalization and development is the ultimate goal to be achieved and is clearly ahead of political objectives. Most of the new policies were first rehearsed in local experiments and only after proven successful extended and applied nationwide.

China's surplus labor was able to support all the changes in the direction of the economic strategy. The entrepreneurial tradition and skills of the Chinese people also contributed to it. However, perhaps the most striking feature of the last 50 years in China is that the leaders, Mao, Deng, Zhu and Jiang always had the country under control. The Chinese economy can rely on several inner characteristics that allow it to have a strong growth potential, but without effective political control the remarkable economic achievements of the last 50 years would probably not have been possible. The Chinese modernization is based on the monopoly of the Communist Party and on economic growth and social stability.

As a result of the opening up policy of the last 20 years, the industrialized world has been watching the impressive increase of the Chinese presence in the world trade, due to the growth of foreign direct investment. The EU is now China's biggest trading partner: in 2004, trade between the two amounted to almost \$210 billion, an increase of 35% over 2003.¹¹

China has been called the "factory of the world": countless industries were moved there, with a significant impact in several sectors and regions. Initially, only traditional industries were installed in China, but presently also high-technology ones: labor is abundant, cheap, disciplined and more and more qualified. Infrastructures have improved, expertise was obtained in high tech sectors. Also, universities are gaining prestige due to scholars trained in foreign universities, and to investigation costs lower than the European.

Since 1978, China grew at 8% on average every year. The economy has grown 9.1% in 2003 and 9.8% in the first quarter of 2004. In 2002, the Chinese leaders have set the objective of four folding the GDP, which would need an annual growth of at least 7% during that period¹². The need for energy has

¹¹ "The reds in the West", *The Economist*, January 13, 2005.

¹² According to the Economist group.

become even more dramatic, the environmental aggressions have been deeper. Even if we question the accuracy of the Chinese statistics, anyone visiting the country will not have the slightest doubt that the rhythm of its economic growth has been huge.

Since 1998, public investment has supported growth. This growth has been much more rapid in the coastal areas and in the east, where 60% of the population live. In particular, the Guangdong province, in the 80s and 90s, and the Fujian have benefited from important investments from Hong Kong and Taiwanese companies. Recently, the national authorities have supported the Yangtze delta growth, with Shanghai (the new Hong Kong) at the head.

There was the expectation, which did not happen, that this development of the coastal areas induced the development of the inner regions. It caused, instead, the migration of dozens of millions of workers to the eastern provinces. Several development plans for the inner regions have been elaborated to diminish the huge unbalance between regions and social status. In Shanghai, the GDP per capita in 2002 was US\$ 5000 and for most of the country wasn't bigger than US\$750.¹³

One of the major challenges faced by the present Chinese leadership is the reform of the state sector: the less dynamic companies are the state-owned. In 2002 they only accounted for 15.6% of the industrial production, whereas in the 70s they accounted for more than 80%¹⁴. Some companies were closed or integrated in others, part or the totality of the companies has been sold in the domestic and international markets, and the number of its employees has been cut.¹⁵

The importance of FDI is also felt in the rhythm of growth of the exports: the production of the companies of foreign capital that in 10 years – from 1992 to 2002 – grew from 20% to 52% of the total export.

¹³ *ibid*

¹⁴ However, if we consider not only the companies that are 100% state-owned but also those that have some participation from the state, the percentage is of 41%.

¹⁵ Between 1998 and 2002 more than 26 million workers were fired, and between 1995 and 2002, the number of state-owned companies was reduced from 118 000 to around 41 000, according to the Economist Group.

The growth of the Chinese economy has also direct implications in the consumption of raw materials: in 2003, China consumed 25% of the world production of aluminum, 27% of steel, 30% of ferrous metals, 31% of the coal and 40% of cement, which made the price of raw materials suffer a dramatic increase in the world markets.

The emergence of the country as a real economic force happened only after joining the World Trade Organization (WTO) in December 2001, after more than 10 years trying to get access to the multilateral body. Accession to WTO meant assuming 82 compromises, many of which should be accomplished at the end of 2005¹⁶. Serious obstacles to China becoming a real market economy remain: the inefficiency of its capital markets, the existence of too many bad debts in the banking system, and the heavy governmental intervention to rule the market. Bureaucrats make the decisions, not the market forces.

There are good signs that Chinese economic growth will continue at the present rhythm. There are certainly still some risks of overheating and the government already had to adopt very strong measures, such as credit control and price control.

The big uncertainty in the future is whether the development of a market economy, with the attached rules, will promote the development of the rights of the economic agents, consumers, companies and workers.

1.2 Brief introduction to foreign direct investment in China and its legal forms

Foreign direct investment accounted for US\$ 40 billion annually in the end of the 90s and in 2003 reached 53 billion US\$. 2003 was the second consecutive year in which China was the first world destination of FDI, passing the USA.¹⁷

As I have showed above, the Chinese rapid economic growth can be characterized by three waves of investment, different and successive. Until the

¹⁶ At least two will be extremely difficult to respect: IPR infringement and secondly the opening of the bank sector to foreign banks. This would allow foreign banks to give credit and accept deposits of private persons, which could lead to the financial sinking of the country due to the dimension of the bad loans.

¹⁷ According to the World Bank.

end of the 80s, it was basically due to the industrialization of the rural areas and the possibility offered to the farmers to produce and sell outside of the planning system. In the beginning of the 90s, foreign investment came mainly from Taiwan, Hong Kong and overseas Chinese. The third phase includes FDI from industrialized countries such as the USA, Japan and the European Union.

In general terms, during the 1980s, China tried to attract foreign investment particularly in the infrastructure and productive sectors in which China needed a complete overhaul. To this effect, Special Economic Zones (SEZs) were established in the coastal regions. In the 1990s, these policies were extended to the interior of China, and investment redirected to those sectors that the Chinese economy required the most. Subsequently, China moved into an export promotion economic model, whereby investment is encouraged particularly in those sectors that will help China's exports. In general terms investors are encouraged to invest in infrastructure projects, primary industries, high technology, technical transformation of old enterprises, and export-oriented production¹⁸.

Since the 1979 Law on Joint Ventures, there were many improvements introduced in foreign investment laws and regulations. Along with these improvements other factors¹⁹ have made foreign investment much easier. Firstly, the decentralization of the examination and approval rights, one of the measures taken by the State Council to facilitate the process. This move empowers the local governments to approve the establishment of foreign-funded enterprises in the coastal areas as long as they respect the conditions. Secondly, the preferential tax treatment applied to the production-oriented enterprises in the SEZs or in the economic and technological development zones (15% of income tax rate instead of 33%), and to the productive projects in open coastal cities (24%). Income tax exemption, 50% income tax reduction, and customs duties exemption were also applied in some cases. Thirdly, measures for foreign exchange balance were implemented to compensate for the non-convertibility of the *renminbi*. Regulations promulgated in 1986 concerning the balance of foreign exchange in income and expenditures by joint ventures allowed enterprises to utilize their *renminbi* earnings in such a way as to generate foreign exchange income. Purchase domestic goods

¹⁸ Brahm and Daoran (1996).

¹⁹ Zhao (1998).

for export, substitution for import products, swapping *renmimbi* and foreign exchange between related joint ventures, pricing for foreign exchange to limited markets, and reinvesting *renminbi* in China were the measures adopted by the state. Following the establishment of a national foreign exchange market in 1988, similar markets sprang up in provinces and municipalities to facilitate foreign investors in buying or selling their foreign exchange.

A fourth change consisted in the readjustment in investment orientation. Investment established on sectors on which it was encouraged, but at the same time restrictions were introduced in some areas (since 1992, these restrictions have been gradually eased out). Another modification consisted in widening up the geographical area. Besides the SEZs, preferential policies were also offered to coastal open cities and economic development zones in those cities, as well as in areas further inland.

There are three major ways for investors to enter China: equity joint ventures, cooperative joint ventures, and wholly foreign-owned enterprises.

The Joint Venture Law, promulgated in July 1979²⁰, was the first law on direct foreign investment since the Chinese opening to the outside world. It established the basis for investing in China through the form of a Chinese-foreign equity joint venture, a structure modeled along the lines of a company, with board of directors, a separate legal personality, and liability limited up to the contributions made by the parties to the joint venture.

In April 1990, the law was revised, demonstrating China's willingness to improve its legislation continuously, taking into account the concerns of foreign investors. The revised law allows the foreign party to appoint the chairman of the board of directors and permits multiple parties to be participants in a joint venture. Shortly thereafter, the implementing regulations were amended to allow 50-year period joint ventures. In some cases an unlimited period of operation can be approved, especially when the transfer of advanced technology is involved.

Joint ventures are traditionally established to take advantage from the knowledge of the market acquired by the Chinese partner, as well as its

²⁰ The regulations, implemented in September 1983, provided procedural details for establishing joint ventures, such as contributing capital, transferring technology, and the operations of the board directors.

manufacturing capability. The foreign partner brings technology, manufacturing know-how, and marketing experience.

A minimum of 25% of the capital must be contributed by the foreign partner(s). There is no minimum investment for the Chinese partner(s). Equity can include cash, buildings, equipment, materials, intellectual property rights, and land-use rights but cannot include labor. The value of any equipment - materials, intellectual property rights, or land-use rights - must be approved by government authorities before the joint venture can be approved.

The Joint Venture Law stipulates that an equity joint venture established within the Chinese territory must be approved by the Chinese Government and registered accordingly. If it is a small enterprise it may only require local official approval, but if it is a larger one, central administrative approval by the Ministry of Commerce is required. After a joint venture is registered, the entity is considered a Chinese legal entity and must abide by all Chinese laws. As a Chinese legal entity, a joint venture is free to hire Chinese nationals without the interference from government employment industries as long as they abide by Chinese labor law. Joint ventures are also able to purchase land and build their own buildings, privileges prevented to representative offices.

In April 1988, the Chinese-foreign Cooperative (Contractual) Joint Venture Law was adopted, establishing a relatively more flexible form of cooperative operation. The terms concerning the size of the project, the amount of capital invested and the period of time are less ambitious than for the equity joint venture. Cooperative operations are suitable for industries that do not require too much technology, and are used mostly for low value-added export-processing operations. In a cooperative venture, the parties involved may operate as separate legal entities and bear liabilities independently rather than as a single entity.

There is no minimum foreign contribution required to initiate a cooperative venture, allowing a foreign company to take part in an enterprise where they preferred to remain a minor shareholder. The contributions made by the investors are not required to be expressed in a monetary value and can include labor, resources and services. Profits in a cooperative venture are divided according to the terms of the cooperative venture contract rather than by investment share,

allowing a more flexible schedule for return on investment in cases where one investor provides cash while the other party's investment is primarily in kind.

Greater flexibility in the structuring of a cooperative venture is also permissible, including the structure of the organization, management and assets. The term of the cooperative venture contract may be renewed, being subject to the consent of the parties involved and to approval from the examination and approval authorities. The foreign investor is permitted to withdraw their registered capital or a portion thereof from the cooperative venture during the duration of the cooperative venture contract. Because of the unique privileges and added features offered to the foreign party in a cooperative venture, trade unions must be allowed to represent the employees in employment matters to protect the interests of the employees.

Under the Contractual Joint Venture structure, a foreign investor does not need to set up a new corporation in China. The foreign investor and the Chinese partner participate in the joint venture by doing business using the Chinese business license under a cooperative, contractual arrangement. Originally, this legal form was limited to export oriented companies. Recently, this form of foreign investment has been used to allow foreign investment in areas where foreign participation via the formation of a joint venture would violate Chinese regulations.

The Contractual Joint Venture structure is also widely implemented in land and hotel development. Often, a joint venture might be unreasonably encumbered by costly transfer taxes payable once the Chinese partner transfers their interest in a parcel of land into a joint venture company. Under the Contractual Joint Venture, the land stays in the possession of the Chinese partner, and no transfer taxes are due.

The law on wholly foreign-owned investment enterprises was adopted in 1986 and shows how the Chinese legal system became more liberal. According to the law, this category of legal entities is to engage in activities involving either technology transfer or the export of the major part of its production. They are now the most common legal form adopted by foreign investors in China.

Wholly Foreign-Owned Enterprises enjoy exclusive management control of their business activities and have autonomy in their operation and management

with less interference from the Chinese government. Since there is no Chinese partner to guide the project through the approval process and through the other regulatory issues associated with construction and operation of the enterprise, the logistics of establishing a wholly foreign owned enterprise can be difficult and costly.

A wholly foreign owned enterprise is considered a Chinese legal entity and must abide by all Chinese laws. They must employ Chinese labor in accordance with local and central government labor laws and are encouraged to establish trade unions.

The foreign company can also consider the options of a branch office or of a representative office. These two forms should not be confused. A representative office does not have the power to engage in manufacturing operations or in the sale of products on its own behalf. The employees of the representative office can engage in sales negotiations, but when it comes the time for an order, technically an officer from the foreign company (not a representative) should sign the sales contract. The sales must all be invoiced and shipped from overseas (usually requiring companies to have operations in Hong Kong). The representative office does not have the power to import products or keep inventory. In this respect, a branch office is much more powerful than a representative office because under the Company Law they have the power to participate in all of these activities.

Most firms choose to start their presence in China through a representative office, in order to gain experience and acquire a better understanding of the size and potential of the market in China. They use this representative office to lay out their long term goals and oversee their other business operations or joint ventures in China. The mission of a representative office is thus to act as a liaison between the home office and trade organizations or related industries in China. Often, representative offices engage in market research and establish contacts with prospective customers and potential partners. A representative office is restricted from engaging in certain activities and may not receive fees for services they provide, directly generate income, or sign contracts that generate income. Representative offices are allowed to negotiate contracts, which are later signed in the name of the home office located outside China.

Frequently, the office serves no other purpose than to present an image to the prospective Chinese customers and potential partners. The location and furnishings of a representative office are very important in China because the Chinese are often unable to visit the home office of the foreign company and are only able to judge the viability of a company by their operations in China. As a consequence, foreign representative offices occupy the most expensive real estate in Beijing.

1.3 Common obstacles faced by foreign investors in China

The impressive data on the increase of FDI in China does not obviously mean that it is an easy place to invest in. On the contrary, many have been the obstacles faced by foreign investors when entering this market. In many cases the difficulties appear when the process begins, with the investment approval system and the negotiations for permission to establish a business in China. The existing formal process acts as an entry barrier to many foreign firms, whether directly or indirectly.

Another problematic issue concerns the gaps in pertinent market information, as a result of a rapid transformation of the economy since accurate statistics are difficult to collect. Chinese statistical data at all levels are also sometimes subjected to both intentional and non-intentional biases²¹.

To make the process even more difficult, local firms tend to use privileged information to monopolize commercial opportunities. Lack of information on the intentions of rivals from other countries constitutes other concern, leading sometimes to rushed agreements, poor planning and excessive concessions on critical points. Potential investors are also uncertain about the behavior of other foreign firms in China, especially if they are forming collusive business-government partnerships to foreclose markets. Much of the information that the firms depend on is gleaned from inside or informal sources - Chinese partner companies or sympathetic overseeing authorities provide the enterprises with the

²¹ Rosen (1999).

privileged information they need to exploit profitable opportunities and to avoid wasting time. Such interactions are part of the system of *guanxi*.²²

Yet, foreign enterprises are not entirely innocent for their lack of intelligence. Ignorance and error hamper foreign investors as they try to understand Chinese politics, psychology and culture. Some mistakes are not caused by the lack of available information; they come from mismanagement and wrong establishment of the process²³.

Concerning all these aspects, in many cases to have a Chinese partner is very helpful. The careful selection of strategic partners will facilitate information gathering; thus, the need for inside information is one of the main reasons why partnering is so important.

Before 1995, when the first Provisional Regulations for Guiding the Direction of Foreign Investment (the guidelines) were promulgated, sectoral investment priorities were treated as internal information and were not formally available. Concerning the actual regulations in its latest 2002 version²⁴, unlike in the 1980s, most rules governing foreign investment and investors are now published and known. In spite of the fact that the guidelines state publicly a top-level design, by industry, for approving and disapproving the establishment of foreign investment enterprises (and describe four categories of projects: encouraged, restricted, prohibited and permitted), in practice vague language in the restricted category permits central authorities to arbitrarily reject projects they object to, in the same way investment in encouraged sectors can also be blocked²⁵.

Even when the intentions of central authorities are generally clear, local authorities can always circumvent them, constituting a difficult question to deal with and solve. As a result, foreign investors are denied rights of establishment for political or economic reasons in important sectors. From the perspective of a potential foreign investor, therefore, China is not, in practice, wide open.

²² Ibid.

²³ Ibid.

²⁴ On the Foreign Investment Guidelines, see Randall Peerenboom's overview, available at http://www1.law.ucla.edu/~peerenboom/FDIguidelinesedit_1_.pdf

²⁵ Rosen (1999).

1.4 Choosing the legal form to invest

After having in mind the possible problems that might appear when dealing with Chinese authorities, it is convenient to choose the most suitable type of ownership. Choosing the form of ownership is very important because it affects control over the business. WOFEs can offer better control over dissemination technology, provide incentives for staff, select distributors and other partners and determine the share of returns to reinvest into operations. WOFES also have the advantage of not inheriting prior obligations since they are planned from the start.

It prevents, as well, a foreign investor from delegating too much responsibility to Chinese partners who overstate their capacity to handle it. However, in many sectors foreign investment is prohibited from using a WOFE structure.

On the other hand, lacking a Chinese partner could be very complicated, as seen earlier. In spite of this, shared ownership can affect foreign control over the venture, in terms of both long-term strategy and daily management, while a carefully negotiated contract can provide greater management control at any level of ownership. Having this possibility of greater control, it must be kept in mind that the risks of taking on an absentee partner are higher than having a partner who wishes to run the operations.

In many cases, the way to approach the Chinese market is with the creation of a joint venture. It escapes the lengthy assessment of the enterprise to the relevant government authorities prior to applying to the investment approval authorities. This step represents a very big task for the foreign investor, and can be largely assumed by the Chinese partner. Partners can also be very helpful “in getting in pushing projects through higher level hurdles or can get a vague statute interpreted in a manner favorable to the venture” – *guanxi*²⁶.

After choosing the most suitable form of investment, the company must consider other issues, namely the strategic choices about operations, involving questions like market proximity and geographic location. Today, regions are competing to attract investment, offering special incentives. Although the foreign

²⁶ Rosen (1999).

investor can benefit from such rivalry, zones sometimes offer incentives that they do not have authority to grant.

For an export-oriented company, the best would be to be located nearby port infrastructures, but for targeting domestic consumers, the joint venture must be close to those markets, and probably to the railway system, as it is the best option for moving goods nationally. Another factor concerning location is the desirability of clustering. According to Rosen, reliable suppliers and business partners are critical factors to succeed.

Nevertheless, the commercial culture of southern China is more entrepreneurial and freewheeling than that of the north²⁷, resulting from the proximity to Hong Kong and the distance from bureaucratic Beijing (the strict enforcement of regulations decreases with the distance).

Besides location, attention must also be paid to specific tactical details during negotiations, such as management control, labor, finance, phasing, incentives, etc. Concerning labor, human resources' success depends mainly on what has been stipulated during the negotiation phase. Stable employee salaries and non-salary costs, control over worker's incentives, training, and being able to fight against overstaffing and low-quality staffing are key factors for success. Negotiations can also bring down considerably the duty rates on the mundane imports needed to set up an operation.

Investors have to face considerable business risks when they invest in China. Before doing so, they must study carefully the program of policies relating to the sector in which they intend to invest. Although China has developed a rather elaborate legal system to provide protection for foreign investment, at the same time the system is often subject to policy parameters that are established at the central level. So, investors must foresee the policy directions currently in force and seek the support of government officials and concerned ministries²⁸.

Also, one of the causes of the failure of many foreign enterprises is that they lack sophisticated knowledge of bureaucratic politics. The hunt for favorable

²⁷ As the Chinese saying goes, in the south "the sky is high and the Emperor is far away".

²⁸ Brahm and Daoran (1996).

interpretations of the law is a common practice, and might work favorably or against foreign enterprises²⁹.

Foreign investors, while negotiating, must also have in mind that in spite of all the changes occurred recently in China, and the effort that has been made in changing and introducing new business skills, China is in a transitional stage³⁰, where traditions still have a profound meaning.

Concerning joint ventures, the most critical factor for success is the confidence and trust between the partners, so it is worthwhile to spend time, and sometimes a lot of money, to find a capable and responsible partner before actual investment. A key determination that must be made is whether the Chinese partner will remain a collaborator or will instead use transferred technology and know-how to become a competitor of the foreign company.

1. 5 Portuguese investment in China

As I have showed above, it is not only China that has awakened. So have millions of foreign companies: they have awakened to China. However, Portugal seems to be sound asleep, still dreaming of its glorious past in the Far East a few centuries ago.

The Portuguese presence in China is very weak. Despite good relations on the political side, economic ties remain almost insignificant. In 1992, the original program to support the internationalization of Portuguese firms did not include China as a priority. It is only in 1997-1999 that the new policy identifies China, as well as other Asian markets, as a target market³¹, although results of this change are of minor significance. Obviously, the public policies become insufficient if the companies are not willing to go to China. As an example, there is a credit line³² that was never used by Portuguese investors.

²⁹ Rosen. (1999)

³⁰ The Reform Era is still going on.

³¹ Neves (2000), p.150-151.

³² Fernandes, Moisés Silva *Após Macau: perspectivas sobre as relações luso chinesas depois de 1999*, IV Congresso Português de Sociologia. The credit line was established in 1994 between Bank of China and BNU (presently absorbed in CGD), see also Pereira (2004), p.8.

Several waves of institutional visits and trade delegations have been to China, but the outcome has not been brilliant. In 2004, the former Portuguese Ministry of Foreign Affairs, Ms. Teresa Gouveia, went to China and several bilateral agreements were signed³³. Also, a promise was made to open a Portuguese Consulate and an ICEP office in Shanghai.

More recently, in January 2005, the Portuguese President, Mr. Jorge Sampaio, took the largest trade delegation so far to China. Around 100 Portuguese businessmen toured Beijing, Shanghai, and Macao and made us believe that China was high on the Portuguese agenda by the daily news we were offered on the Portuguese newspapers.

As I mentioned in the Introduction, there are very few studies or even articles on the Portuguese Direct Investment in China. The ones I have identified remain the valuable source of information for this chapter³⁴.

In the years of 1994 and 1995 there were not disinvestments, but this situation changed and disinvestments increased gradually from 2001 to 2003, and did not change at least until 2003, as confirmed by our data shown in the following table:

Chinese Direct Investment in Portugal vs. Portuguese Investment in China³⁵

Thousand Euros

	1997	1998	1999	2000	2001	2002	2003
Chinese investment in Portugal	- 124	103	- 6	- 2	18	1444	-26

³³ See Pereira (2004).

³⁴ Ilhéu, Fernanda (1996); Pinto, Mariana da Palma Carlos (2001); Neves, Miguel Santos (2000); Pereira, Rui (2005); Monografia da China (2004); Matias, Leonor: *Portugal com défice de imagem* in **Diário de Notícias**, 28-02-2004

³⁵ Adapted from *China – Análise da Situação Económica*, Ministério das Actividades Económicas e do Trabalho, Gabinete de Estratégia e Estudos, July 2004, p.13, available at www.gee.min-economia.pt/resources/docs/publicacao/Outras/Monografia_da_China.pdf

Portuguese investment in China	258	220	-2298	993	-553	-456	-416
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When there is “-“ the disinvestment was bigger than the investment

When I contacted ICEP³⁶ in Beijing in 2000-2002, Wu Bin, the then Trade and Investment Officer promptly answered several questions related to Portuguese direct investment in China. Giving account on the main reason why there is little presence of Portuguese companies in China, he explains that the Portuguese companies are not interested in the Chinese market as “around 83% of Portuguese go to EU markets and as a result China is not the 1st priority of Portugal according to the philosophy and practice of the most Portuguese enterprises”, he says. Wu Bin also suggests that an international business person should “learn the Chinese culture including its language, customs, way of living, philosophy and business practice by visiting the country as the 1st stage of on-spot study”. This last issue is related to cultural problems that undermine business practices, an important factor to achieve success or not in Chinese market and it will have our attention further on when discussing cross cultural practices.

Five years passed since this research started and many projects assigned to China were not accomplished. I have “dozens” of newspaper articles saying that contacts between Portuguese and Chinese are expected to flourish in the short run. Bombastic headlines such as “Chinese people interested in Portuguese products”³⁷ are a result of missions organized by AEP³⁸ to China, where Portuguese businessmen always get a collection of business cards for future business contacts that will never happen. Julio Teixeira, from this organization and responsible for several business missions to China, told me that in 1998, the previous year to my research’s starting point, 54 representatives of Portuguese

³⁶ Governmental agency for the promotion of Portuguese trade and investment abroad.

³⁷ In **Jornal de Notícias**, 21-12 1999.

³⁸ AEP, the Portuguese Business Association is responsible for connections with international markets.

enterprises³⁹ went to Beijing (“Portugal in Beijing 98”), and none gave positive results or possible agreements. This is why I consider suspicious to mention projects that are only at a planning stage or that are going to be launched. When dealing with China, things change and evolve rapidly or they simply do not happen. Even in those sectors on which Portugal is traditionally stronger, namely shoes and wine, the Portuguese investments in China never really took off.

According to ICEP, there are currently 14 cases of Portuguese direct investment in China with different stories and success rates. Three out of these 14 are banks (BES, BCP, and BNU) that have opened a representative office; 4 are consultant enterprises (SPI, SHIPEC, SDG, ISQ); 1 is a research center (Welding R.C) and the other 8 cases are distributed among various business sectors, namely chemistry, carpets, down and feather products, energy and cork.

1.5.1 Banking sector

a) BES is a Bank located in Shanghai since 1997 and it is settled as a representative office. According to ICEP, it plays an active role in China and employs 3 persons in this office. The bank operates as a form of “liaison” between the two countries, in order to support the internationalization of the Portuguese economy.

b) BNU is a WFOE and works within the banking system. 7 persons work for this Bank that is located in Zhuhai, Guangdong province, since 1993. The situation of this office is classified as active.

c) BCP is a financial institution and works as a representative office in Guangzhou since 1997. The available information does not specify if this institution is still active or not. At the time of this survey 2 persons worked in the office.

³⁹ The main sectors present were: Wine and food stuff (14 companies); building materials and related equipment (12); home decoration items (5); leather and shoes (12); Chemicals (1); information and communication technologies (3); industrial fibres – pulp and paper (2).

1.5.2 Consultants

a) SPI is a consulting enterprise that first opened an office in Shanghai in 1999 and in 2004 moved to Beijing. As a representative office they provide industry analysis, evaluation projects and other personalized services to the client. The company is active in the Chinese market and 2 persons work there.

b) SHIPEC provides service consultant, training, power engineering installation and testing. The company is established in Zhuhai, Guangdong province, since 1999 as an equity joint venture. Its situation is reported as non-active, since it is engaging in a training program and it is within an undergoing share transfer of the Chinese partner. The company employs 9 workers in the office. The Chinese partner is a merger of two Chinese SOEs companies (Zhuhai Electric Power Group. Ltd with 28% of the share and Guangdong Electric Power Design Institute with 24%). The total amount of workers in these two companies is 1120 (400 in the 1st and 720 in the 2nd)⁴⁰. The Portuguese investor is EDP group with 24% of the share. The information provided by ICEP is supposed to include Portuguese investors' comments if they wish to do so. In this case they have said: "It is crucial to choose Chinese partners with powerful economic strength and willing to invest in the project"⁴¹.

c) SDG is a Portuguese consultant enterprise. Beijing CDS Information Consulting Co. Ltd has cooperation projects with SDG providing

⁴⁰ The problem of foreign ventures engaging in partnerships with Chinese SOEs is well known. Usually, foreigners complain about the large number of employees inherited with the contract and also about the lack of competition of the Chinese partner. Although this issue is also connected with foreign direct investment in China, it is beyond the scope of my work.

⁴¹ There is nothing particularly Portuguese about this statement. It could also come from a Chinese source. This issue is related to differences or similarities between Chinese and Portuguese in the cultural field, as I will try to assess in the next chapter.

market research and information consulting. The company is established in Beijing since 1994 and works with 20 technicians⁴².

d) ISQ (Instituto de Soldadura e Qualidade, Beijing Office) is a consulting enterprise established as a representative office since 1995, engaged in research and technology services. 3 persons work in this office with a “just so-so” performance in the Chinese market.

e) Guangdong Hua or Melding Research Center is an equity joint venture established in 1995 in Guangzhou, Guangzhou province. It provides scientific research, quality inspection and life assessment, technology transfer and services. This office has around 10 employees and its performance is not satisfactory according to ICEP. This partnership is established between the ISQ (referred above) and The South University of Technology in Guangdong.

1.5.3 Chemistry; Carpets; Down and Feather products; Energy; Cork

a) Beijing Biosani Medical & Health Products. Ltd is a WFOE established in Beijing (the year of foundation is not referred). It works with manufactured products such as healthcare and skin-care products. 18 persons work in this company. The situation of the company in China is described as “just so-so”.

b) Weihai Moreira’s Carpet Co. Ltd is a WFOE established in Weihai, Shandong Province since 2000. The company manufactures handmade carpet production and counts with one technician in the office. The situation of the company is considered active.

c) Featherland Ltd is a WFOE established in 2000 and its main activity is the production and marketing of down and feather products. Featherland operates in Tongling, Anhui Province. The factory works with 100 employees and its situation in the Chinese market is considered active.

⁴² SDG organizes the Global Management Challenge. It consists of a Management Simulation in which each team runs a Company, with the objective of getting the highest company share price on the simulated Stock exchange.

On their comments on the Chinese market they refer the need to have skilful workers, “especially highly experienced sewers”⁴³.

d) Lyaoyang Efacec Electrical Equipment Co. Ltd. is an equity joint venture established in Liaoyang, Liaoning province in 1994. Registered as a manufacturer, this company works with various and special power transformers⁴⁴.

e) YanTai Kylin Packaging Company Ltd is an equity joint venture established in China in 2000. The company has 80 workers and its business scope is the production of cork stoppers. The company is the result from the partnership between the Portuguese investor, Vinicor Indústria de Cortiça, and the Chinese partner Chang Yu Group Ltd., Co. Yan Tai China.

f) Sobrinca International Trading (Shanghai) CO. Ltd is a trading company with an office in Shanghai since 1998. 6 sales persons work for this company trading baby products, chocolate and clothes for pregnant women. The company is having a “just so-so” activity. The Portuguese investor is Sobrinca Portugal, a manufacturer company. At the bottom of the ICEP’s report one can read the comment of this Portuguese investor on the Chinese market: “Be patient. It takes time for high-class foreign products entering Chinese market “.

From the companies listed above, I had the opportunity to visit 4 from which 2 are my case studies for this thesis⁴⁵. I have also collected information from the other two⁴⁶ (BES and SPI), which can give some more insights on the Portuguese direct investment in China.

⁴³ Featherland was a WOFE until 2002 and was established as a joint venture after that. Featherland is one of my case studies and therefore more information will be provided in Chapter 3.

⁴⁴ Efacec is my other case study, see Chapter 3.

⁴⁵ See Chapter 3.

⁴⁶ Efforts were made to contact Sobrinca’s Portuguese manager but there was no feedback. In China the Chinese person responsible for Sobrinca’s Shanghai’s office did not want to be interviewed. Problems involving the establishment of the enterprise led to the total abandon of the building project of a factory in China.

BES' situation is described as "active" in the ICEP's report, but at the time of my visit in Shanghai in 2000, David H. Y. Pan, the chief representative, complained about the office inactivity. "It is a mere representation and a desk where I sit and have nothing to do", he says. He also put forward a number of constraints more related to cultural problems and different perceptions of time in doing business.

When I visited SPI's representative office in Shanghai, Prof. Liaoly, the chief representative, and Prof. Augusto Medina, the general manager, drew the picture mentioning that Portuguese investors were not responding well to the Chinese market call. SPI's Executive Vice-President, Prof. António Moreira, said that he was looking forward to see Portuguese business people grabbing the Chinese market, considering it as a priority.

All three suggest that Portuguese are familiar with other places as Europe, Brazil, and Portuguese-speaking countries where they feel at home, and that the Chinese market is not attractive to them. Another problem, according to their opinion, has to do with the way Portuguese people export their image abroad, to China in this case. There is a problem connected with the unknown labels that arrive at the Chinese market as, for example, a chocolate brand⁴⁷ or a Portuguese mattress factory⁴⁸ that contacted SPI to approach Chinese market but found it difficult to understand. In fact, Prof Liaoly explained Chinese people prefer to do business with other Europeans rather than with Portuguese people. "Portuguese people are at the bottom of the list for doing business", he said. This indicates that when a small or even a medium-sized investor tackles the Chinese market without some preparation, he generally does not succeed.

Portugal's public policy to support the internationalization of Portuguese companies lacks a strategic thinking about the Chinese market and "still has a long way to go in terms of acquiring and diffusing information on the Chinese

⁴⁷ Vieira de Castro is a food products factory in the Portuguese village of Gavião. The chocolate brand's image is not significant in the international market.

⁴⁸ João Roberto M. Queirós, Viana do Castelo, Portugal

market and business culture”⁴⁹. It is a reality that a small country like Portugal does not have famous products internationally renowned as other small countries have, like for example Nokia from Finland, Shell from Holland or Nestlé from Switzerland, just to name a few. But even our medium-sized companies that have a leading position in Portugal and have invested in China lack a more active internationalization strategy.

Nicolau Santos expresses his opinion about the internationalization of Portuguese firms⁵⁰ saying that Portuguese enterprises have a problem of image abroad in spite of the quality of their products; and the institutions responsible for our image outside the country do not help at all. He mentions TAP, the Portuguese airline that usually picks old ladies and wagons for its magazine covers revealing an “old, backward and sad country”, in his own words.

From the above account, it seems clear that there is no public policy support to facilitate the entrance of Portuguese enterprises in China.

The situation of the Portuguese direct investments can be summed up as follows: 5 are “active”; 3 are “just so-so”, 1 is “not satisfied” and about the other five we simply have no information according to our data⁵¹.

Chapter Two

Business with Chinese and Portuguese Characteristics

2.1 Doing business in China today: the importance of Chinese culture and history

Every travel guidebook has a section on “do’s and don’ts”, linking what the average reader could be expected to do and how it will be perceived by the “native”. If knowing the local culture is assumed as something important for a mere tourist, who is by definition only “passing by”, should not every international business manual include a cultural guide? Investing in another country is a

⁴⁹ Neves (2000), p.150-151.

⁵⁰ Santos, Nicolau. (vice-director of *Expresso* in 2000); in FIEP: “Internacionalização. Fundamentos e caminhos para estar no mundo”, 2000, p139.

⁵¹ These are the exact terms used in ICEP information.

commitment for a longer period of time than a “hop-on-hop-off” circuit in a sightseeing bus.

Investing is also more than importing and exporting. It involves creating a structure abroad, which will necessarily be the stage where a new team comprising at least two cultures will meet. Different cultural background will be the new element to be taken into account when managing the team. In this sense, the local culture is very likely to have a direct impact in the way the business is run.

At least two plans can be identified in a person: the individual level and the social/cultural level. Just like genetics play a deterministic role at the individual level, it is also possible to affirm that almost every person comes with his own “cultural DNA”. The behavior of a businessman will necessarily be influenced by the interference of these two plans and probably a third: its formal education⁵². Maybe business cards should include the culture where they somehow belong⁵³.

The importance of culture in business has already been assumed by many companies, which found out that briefing its expatriate personnel on the local culture might bring many benefits. At the individual level, the foreigner will feel more knowledgeable and thus more confident when facing the new environment. This will probably reflect in less anxiety – since the fear of novelty is somehow appeased - and more productivity. On the other hand, depending on the depth of such courses, they might provide the foreigner with a valuable tool to identify the cultural reasons behind some apparently inexplicable conflicts in the company.

It is now undeniable that the cultural factor is increasingly seen as a key element for successful management in China. But there is a risk in considering the local culture as the only subject for study: one tends to forget that common sense can be amazingly universal, and generalizations are just generalizations. The other should not be seen as “irremediably” different.

The risk is always in adopting extreme positions: either culture is not taken into account at all or it is studied with all the emphasis put on the differences. The danger here is that the foreigner starts to act in a complete foreigner way to himself: so concerned with not offending the local people, he might assume

⁵² A very recent article discusses the merit or demerit of business schools, see “Business Schools: Bad for Business?”, *The Economist*, February 17, 2005.

⁵³ Which may obviously differ from their nationality.

attitudes that are neither his own nor the ones local people would adopt. It will be both exhausting to him and still incomprehensible to others.

The effort of academicians and researchers to understand and suggest possible ways to transfer certain management practices from one country to another have helped to enrich the study of comparative management⁵⁴. Understandably, the diversity of interpretations surrounding the complexity of joint ventures' management in China has caused a strong interest in the subject among researchers. Many aspects of Sino-foreign joint ventures have been analyzed from different perspectives involving the knowledge of several disciplines; the failure to include any of these disciplines will lead to an unlevelled interpretation of research results:

“That is, researchers with an economics background would tend to give more weight to and offer richer explanation concerning the economic aspects of the society that influence management practices, while another researcher who has a psychology background would probably attribute the differences in management systems across boundaries to the mentality and behavior of different peoples”⁵⁵.

We should avoid absolutely deterministic concepts when dealing with different cultures and peoples, and this might be especially true when talking about such an impermanent society as China is today. Cultural and historical background are also flowing day and night⁵⁶ and one is committing a mistake either by completely ignoring culture and history or by assuming a definitive cause-effect relationship between behavior and cultural and historical background. History and culture can, however, be most useful to know which subjects should be avoided during a business meeting. Taiwan, Tibet, Xinjiang and Falungong should be censored issues when the parties have just met.

Surely, we should learn about Chinese history and culture before we engage in doing business in China. Five thousand years of history, the Middle Kingdom, the authority of the Emperor, unequal treaties, *guanxi* and *face*⁵⁷, are most likely to be the first concepts that our westerner will learn about China. It is

⁵⁴ Vong C.K., Fanny. (1996); Trigo, Virginia & Wong Benjamim (1994); Cuyvers, L; Pelsmacker, P.De; Rayp,G; Buckle, D. Van Den.(...) Chan Kwok-Bun (2005).

⁵⁵ Vong (1996), p.38.

⁵⁶ Confucius, referring to a river: “it is always flowing, day and night”.

⁵⁷ *Guanxi* and *Face* will be discussed in the next section.

easy to be overwhelmed and this can be dangerous because it will sometimes lead to the feeling that a westerner will never be able to fully understand China. And the Chinese will be glad to help the foreigner feel this way. The westerner sometimes forgets that probably the Chinese feel the same way about us.

A history of 5000 years is a very understandable reason for the Chinese to feel so proud about their country and culture. The Middle Kingdom concept puts China above any other country on earth. The Emperor was the Son of Heaven, the middleman between heaven and earth. Superiority brought self-induced isolation, for China did not need other countries. The other countries would, instead, demand China as tributary states. The Opium Wars severely damaged the Middle Kingdom concept and the *barbarians* forced China to sign the so-called unequal treaties under humiliating conditions, allowing foreigners to occupy and rule over Chinese soil. With the Communists, China stood up and isolation took the form of self-reliance. Foreigners were kept out again. Later on, the Reform Era invited foreigners in, a VIP card around the neck and red flowers in the lapel.

Arrogant, nationalistic or even xenophobic attitudes by the Chinese can be the result of this colonial and communist legacy. Or, in the other extreme, and probably much rarer, an exaggerated humbleness and admiration toward the foreigner, brought in by the stress of opening up to the outside world policies and the discovery of the *wonders* of the western world. The western business person might sometimes feel there is some exaggeration in the way he is being treated by some local authorities, and experience some kind of similarities with a zoo attraction. Often, these local authorities try to use the foreigner to promote themselves to their superiors. Chinese politicians will also know how to take advantage of nationalism. It is too easy to focus on how bad the foreigners are, when some domestic problems cannot be controlled. This might have serious consequences for foreign businesses. Therefore, special attention should be paid by the foreign businessman to political developments.

The Emperor was at the apex of the pyramid. The source of his power is morality. The leader rules by benevolence and it is his manpower, intelligence, morality and personality that makes for his authority and reverence in the people's

minds. In business, this is converted into the importance of understanding who really is the person who has the decision making power.

The Emperor at the apex of the pyramid did not mean that all others below him were equals. Communism was not powerful enough to abolish a deep reverence for hierarchy. The Confucian world still exists and it is even being revived⁵⁸. Every Chinese belongs to a group and it is fundamental to find out exactly which position he or she holds in that group. A Chinese is not just a sister, a brother, an aunt or a grandfather. He or she is older, younger, from the mother side or the father side. I will always remember the frustration of a Chinese friend of mine, working for an American company, which decided not to mention its employees' position in the name cards.

The respect or even fear for people in positions of power is balanced by arbitrariness of rules and regulations. The Chinese are likely to appeal to unknown or secret rules. The foreigner should double-check every information, for the Chinese may only be using false authority.

Another surprise for those who read stories about the bound feet women and the masculinity of Chinese society is the number of Chinese women involved in business in China today. The foreigner should be ready to deal with Chinese high heels shoes as well, that can sometimes be even tougher negotiators than their male counterparts.

After taking notes on the characteristics of the Chinese culture, maybe it would be a good idea to change positions and think about what the Chinese are being told about our own cultural features and implications of historical background. What are we reflecting with our attitudes and how can that be perceived by the Chinese should be permanent questions in the foreigner business person's mind.

Finally, what seems too obvious to be mentioned can be a tool of great help: not all the Chinese are the same. The foreigner should try to know as much as possible about the individual story of the Chinese business people he is dealing with.

⁵⁸ See Martins (2004).

2.2 Business with Chinese Characteristics: The Art of War?

The first remark to be made here is to define who are the Chinese I am referring to. I will not debate whether there is the same Chinese essence in mainland Chinese, Hong Kong Chinese, Taiwanese, American-born Chinese, or Overseas Chinese, just to mention a few variants of the general category “Chinese”. I will simply choose the mainland Chinese since I am interested in studying the Portuguese direct investment in mainland China. I will also deliberately leave the Chinese from Macao out of this study⁵⁹, because the special situation of a Chinese territory that was under Portuguese administration will necessarily have an impact on the way both cultures interact, and this is beyond the scope of this work.

China has the size of a continent and it is only natural that its people are very diversified as well. I am aware of the danger of generalizations that may distort reality. I will try to focus on characteristics that are widely accepted as general Chinese characteristics and I will explore some themes necessary to understand Chinese culture namely harmony, time and patience, flexibility, trust and collectivism, communication, the concept of *face*, with special focus on the role of *guanxi*.

On the other hand, it is important to bear in mind that since China has been opening its doors it has also become vulnerable to the unexpected and unavoidable influences of what the Chinese understand as the “outside world”⁶⁰. The complexity of studying culture is also due to the fact that in an increasingly globalized world there are few examples of “cultural virginity”. Cultures do mingle, and the result is probably a new cultural reality.

a) Harmony

⁵⁹ For a comparative research on Portuguese and Chinese from Macao, see Vong (1996).

⁶⁰ Many financial and industrial centers, like the coastal regions or Special Economic Zones, may appear more Westernized than most other regions of China. However, their culture is still very much Chinese.

The Chinese believe success is only achieved if one is at harmony with oneself and the elements of the Universe. In the face of conflict, the priority for a Chinese is to maintain harmony between the opposing parties. However, there is a limit to everything (over or under doing something will disrupt the balance); thus discipline is required to maintain the balance. This discipline goes along with the extended military tradition of the Chinese. In contrast with the opinion of many Western scholars, they are capable of violence and swift retaliation; the countless wars through Chinese history reveal this fact. If Confucius was the “father” of the Chinese culture, then Sun Tzu, the Chinese strategist, was the “model” for strategic thinking with strong references to war⁶¹.

b) Time and patience

The Western view of time as money gives the Chinese the impression of Westerners always being in a hurry. The Chinese, on the other hand, favor patience and calm, which they take as manifestations of sincerity, seriousness, competence and self-control. Thus, avoiding confrontation must not be mistaken for a sign of weakness. According to the Chinese strategist, time, when used correctly, can be a powerful weapon and patience can also place oneself in a superior position.

c) Flexibility

The stereotype image of the Chinese shows them as inflexible. This misunderstanding comes from lack of interaction. In the Chinese context, flexibility also demands the ability to use reason in a desperate situation and to yield if necessary. Chinese also think that nothing is impossible unless someone doubts of his own abilities. In Sun Tzu’s words:

”Just as water shapes itself according to the ground, an army should manage its victory in accordance with the situation of the enemy. Just as water has no constant shape, so in warfare there are no fixed rules and regulations...Therefore, do not

⁶¹ Chee et al (1998).

repeat the tactics that won you the victory, but vary them according to the circumstances".⁶²

d) Trust and collectivism

The Chinese only listen to the reason of those they trust. Trust is very important and it seems to be the only passport for an outsider to enter the Chinese community. Before he is accepted, an outsider should expect constant suspicion, resistance, and endless probing. People have to prove being worth of it⁶³. It is very hard to earn trust; the individual is surrounded and involved in relationships where it is very difficult for a stranger to enter. The Chinese culture stimulates hierarchical interrelationships based on ideas of interdependency. Chinese are "collective oriented", meaning that in their society collective needs take priority over the individual needs. In order to ensure the survival of the majority, the Chinese will sacrifice the minority. Also, the Confucian dynamism characterized by "long-term versus short-term orientation" can be associated with the Chinese collectivist and distrusting nature, which views outsiders as short-term players who do not fit in their long-term plans and who are not easily accepted⁶⁴.

The level of trust between individuals often dictates the way they communicate.

e) Communication

Chinese communication is multi-leveled. The Chinese preach the virtues of self-restraint, thus Western body language movements can be frightening to the Chinese, appearing to be an expression of lack of self-control. Since misinterpretation can lead to misunderstanding the choice of words is important when communicating with the Chinese. Although the Chinese do not deliberately hide the truth, they frequently do not offer it in a straightforward western way, because they think the earlier is more polite and less confrontational.

⁶² *ibid.*

⁶³ Trompenaars (1993).

⁶⁴ Hofstede's five cultural dimensions will be discussed in the next section.

f) The concept of *face*

Face stands for respectability, reputation and pride. The traditional class system gave place to the status system where a person who loves his own face takes care of how he or she is seen in public. Performance is partly determined by the loyalty and affection shown by the subordinates and which in return is displayed. Apart from addressing each other by the family name, Chinese also include the title. Titles are very important because they symbolize achievement and demand recognition. A Chinese has “face” when addressed by his title by superiors, peers and subordinates alike. Many believe that the loss of “face” only occurs when a Chinese is criticized, humiliated or ridiculed in public. This is not true. The Chinese go to great lengths to avoid calling attention to anything that might cause embarrassment to themselves or others. As a result, they are unlikely to act spontaneously and will carefully consider all the possible implications of a decision. They seldom call attention to a mistake, nor do they single out individuals for criticism - or praise - since doing so would separate the individual from the group. Therefore a manager should always proceed with caution, discretion and tact, otherwise he will make the employee lose face whether the subjugation is conducted publicly or privately.

g) *Guanxi*

It is a very familiar term among those in contact with the Chinese society. *Guanxi* is described as fundamental in directing social and personal behavior in China as a relationship between people or organizations, which implicitly indicates assurance, understanding and mutual obligation. It could be translated in western language as “you scratch my back and I’ll scratch yours”. Lucian Pye describes it as the “special relationship individuals have with each other in which each can make unlimited demands on the other”. Thus, “*guanxi*, which is closely linked psychologically to the Chinese sense of dependency and of face, rules that if there is some kind of a bond between two people, whether as close as blood relation or

as distant as being classmates or co-provincials, or even having grandparents who were friends – then each can tax the other and expect automatic consideration”⁶⁵.

Scott. D. Selligman refers to *guanxi* as “the grease for the wheels of China”, i.e., establishing the connections with the right people. His study⁶⁶ underlines the importance of *guanxi* as a vital way of getting things done in China. The first order of business is to establish *guanxi*. Chinese work hard on their relationships to build a network for help. *Guanxi* prevails because of the “relative lack of a reliable legal system” but it can also be a problem if the relationship between the people is not balanced. Sometimes Chinese do not often distinguish clearly between the “world of personal and organizational”, which means that a person may ask for an organizational favor in the scope of friendship. Chinese feel free to ask for favors earlier than westerners. Also, while Westerners usually feel uncomfortable when asked for personal favors involving the use of organizations, the Chinese feel at ease in helping out if they have the power to do so.

Guanxi should not be seen as a form of corruption just because it is more focused on building interpersonal relationships than the public relations practiced in the West. There are a number of benefits coming from *guanxi* as it can serve as an information gathering mechanism; it can act as a means of securing access to important resources; it smoothes the process of gaining privileges such as government licenses and so on; it is often used to enhance company reputation; it can serve to open doors once firmly shut. In China the use of *guanxi* is the quickest and surest route to accomplishment. Acceptance and trust walk together with its use. However, *guanxi* is a delicate rule-governed tool.

Douglas Guthrie advances a number of important points about *guanxi*. While other scholars view it as rooted cultural fact of society, he understands it as an institutionally defined system, i.e. “a system that depends on the institutional structure of society rather than on culture – that is changing in stride with the institutional changes of the reform era”⁶⁷. *Guanxi* and *guanxi* practice (*guanxi xue*) are viewed as distinguishable institutions in the economic transition. Clear distinction is made between “establishment of good business relationship

⁶⁵ Pye (1992), p.101.

⁶⁶ Selligman (1999).

⁶⁷ Guthrie (1998).

relations” and using social relations to take care of procedures in economic and political situations, the latter considered the “back door”. Guthrie asserts that many managers of large and industrial organizations increasingly view *guanxi* practice as unnecessary and dangerous in the light of new regulations and prohibitions against such approaches to official procedures. His argument goes for the Chinese process of constructing a rational legal system at the state level and formal rational bureaucracies at the firm level after the economic reforms. In the early stage of the process, before any of these legal structures took place, people began to turn to *guanxi* and *guanxi* practice to get things accomplished. However, “as the state places more and more responsibilities directly on the shoulders of firms, there is increasing pressure from markets constraints; in the face of self-responsibility policies (*zifu ying-kui*) and tightening fiscal constraints, organizations can no longer afford to favor personal relationships and ignore the imperatives of price and quality”.⁶⁸

Guanxi practice should be seen as an inherent evolving process of the institution of *guanxi* (Confucian context), grounded in the personal relationships and “human sentiments”. As *Guanxi* practice is an “instrumental manipulation of the relations and sentiments”, its influence is declining in the urban industrial economy. Often seen as an alternative path to formal bureaucratic processes and procedures, an organizational force that subverts the authoritarian state’s hierarchy, the *guanxi* practice, in Guthrie’s study, is becoming secondary according to the market imperatives and economic transition progresses.

Guthrie also remarks that he is not arguing that *guanxi* and the gift economy are of less importance. However, “whether these institutions are important for all types of commercial transactions and whether its importance has increased at an accelerated rate in the economic transition are empirical questions of the reform era”⁶⁹. It is possible to argue that *guanxi* is both declining and increasing in the Reform Era. Declining because legal structures and institutions are put in place, increasing because the new structures are not to be trusted by the people who still prefer to rely on their connections.

⁶⁸ Idem p. 264.

⁶⁹ Idem. p. 282.

2.3 Conversation in a Brazilian Restaurant

Brazilian Restaurant in Shanghai: “Brasil Steak House” (personal interview).

The goal of this study is to contribute with one small example to show how *guanxi* works in a specific situation or in a type of business. Both partners (Chinese and Brazilian) “confess” their interdependency on *guanxi*. Although the profits are equally distributed (50% to each side), the Chinese “investment” (contribution) might be seen here as someone who opens the door.

Luis is a Brazilian man who worked in Japan for five years. Afterwards, he decided to experience the Chinese job market, and went to Shanghai. He started as an employee of a Brazilian restaurant called Latina. Two years later he was starting his own restaurant. It opened its doors on the 1st of December 1999. It only took 4 months to get the government approvals and the restaurant. Why so quickly? Luis goes straight to the point: “My partner has good connections with the police”. Luis seems to know how difficult it is to do business in China without Chinese “help”. He talks about a “closed Chinese system” which he calls “their system”.

Luis also refers the problems of finding the right partner. “This restaurant first started because there was trust between the people”, he says. Luis seems not to trust Chinese people in general. According to his experience there are many dishonest people among Chinese businessmen, although “a person with bad reputation will not get rid of it easily, so everybody knows about it”.

He agrees that the Chinese market is difficult to penetrate because of the “time and patience” needed. If he did not have a partner with the right connections, it would take “one to two years” to register a firm. Without the “*guanxi* network” he would have to face the usual problems concerning bureaucracy. Luis also mentions that “they (the Chinese) have different traditions” from his own. When asked to explain it better, he brings up the concept of face. He understands it as a mask, something that the Chinese use to face the westerners. According to his opinion, “we, the foreigners, also have something similar in our own cultures, but our codes are not so strongly emphasized”, he explains. He goes further and says

that the concept of face might not be easily understandable because it can have the opposite meaning to westerners' thinking, "in a certain situation I never 'lose face' as they would consider they lose, for example, when confronted with direct questions or opinions, it is very different".

Both Brazilian restaurants (Latina and B. Steak House) in Shanghai serve typical Brazilian food, basically grilled meat (barbecue), the famous traditional "rodizio" which means that there is a fixed price and people can have as much helpings as they wish. This means that both Portuguese and Chinese managers know they have to be competitive with the other restaurant in order to succeed.

Luis' opinion is that most women are best in doing business than man because "they are faster and more pragmatic". The Chinese partner is a woman. She seems very concerned with her business. (As she does not speak English very well, her husband is the translator. It is obvious that they work as a team). The Chinese are much more interested in discussing the business itself than about the relation between both partners. It looks like they are afraid of talking. (Luis had mentioned before that his Chinese partners, as Chinese in general, should not be confronted at all, whether in business or in other subjects. Only after some time they were able to speak "openly" about all matters).

The husband explains how they settled the price for the food in the restaurant. "I asked 10 friends who are used to go out and eat in restaurants, what they thought of as a fair price for this kind of restaurant. After several meetings discussing the prices with each friend individually, I reached a conclusion. All of them said the price should be between 60 and 70 *yuans* because it was a competitive price with the other restaurant and also profitable. We decided to start with the price of 66 *yuans* per person, drinks not included".

When talking about their obvious success in this business, the Chinese woman explains that it is very important to find a good location for the restaurant - Huai Huai Road was their choice (in fact, one of the three main streets in Shanghai). Also important is "to have very well trained personnel". "I meet with my staff every day to teach them. The staff managing is very difficult", she admits. Afterwards, she finds that the most important thing is to reunite "price, quality and

service”. She also talks about the advertising campaign she was in charge of: “it was not based on money. It is a deal I have with my friends...”

According to the Chinese couple, the food management is also one of the secrets for success (“price, quality and service, altogether”, she stresses). Luis takes care of the food department. She is happy with his experience in this kind of business. According to Luis, it is very important that foreigners always show to Chinese people that they will exchange skills and commercial experience for their contacts. “Foreigners are aware of difficulties overcoming the language barriers”, Luis says, “if one is able to sell them a well structured business idea and make them believe that foreign currency will come, they will do everything for the money”.

In fact, the Chinese businesswoman mentions that before China opened its doors to foreigners, “the Chinese were more important... but, nowadays, the government tells us to do business with foreigners. Foreigners became more important. We are interested in saving money to have more money to invest”.

[There is a silence. It seems that the interview is reaching its end. Suddenly, the Chinese woman wants to know what I think about the relation “price, quality and service” in her restaurant. She remembers that I have eaten there. I give my opinion. Doing that, I am exchanging my knowledge for their interview. Confidence is restored, I believe. As a result, they answer the questions previously asked but avoided until that moment].

They talk about the difficulties in the negotiation process, how different are their opinions from Luis’ points of view. They mention the problems about the language; not only the language itself, but also codes of understanding seem to be different in their opinion. When asked about how they overcome those problems, they say that fortunately they have a mutual Brazilian friend who has lived in China for many years. He speaks the three languages (Chinese, Portuguese and English) and understands both mentalities. It seems that he is the one building the bridge between both cultures. Further on, they talk about the most important thing in a partnership, which is trust. They tell me that they know Luis for more than a year and that they became friends, “it does not matter if it is a Chinese or a foreigner, what really matters is the person’s character”, he adds.

Both Janny and her husband speak openly about the Chinese cultural concepts' evolution, "people changed a little... no, they changed a lot", they remark. "Chinese culture was always based on the concept of business 'face to face'. Nowadays it is not only 'face to face'"... He says that "Chinese people are becoming cleverer and less selfish towards foreigners because they must consider the other part if they want to succeed in their business". On *guanxi* they say: "The relationship with foreigners is more fair and equal. It is a relationship that offers a longer time for business". They conclude.

We do not know for how long this restaurant will prosper. Probably it will last as long as both parties continue to learn from each other. In fact, "culture is both give and take"⁷⁰. This restaurant is far from being a complex case when compared to big investments in China, establishment of multinational and other enterprises facing real competitive markets:

"All people behave in a way that is normal and consistent for them because that is the way they have been grown up and that is the behavior that has been rewarded for. However, in order for people from one culture to another to communicate with and to manage people from other culture background they must first understand how their own values may confront with the values of the other culture"⁷¹.

2.4 Business with Portuguese Characteristics

When talking about other cultures, especially the most different ones, the Portuguese always act as if their culture was easily understood by the others. I wonder how we would feel supposing there was a book on how to deal with the Portuguese⁷² or a master's degree in China, taught by American professors on Portuguese studies. We are used to having this kind of courses but on topics as harmless as literature and history.

⁷⁰ António (1996), p. 35.

⁷¹ António (1996), p. 50.

⁷² There are some books in Chinese on how to deal with the foreigners. See He, Mingjian, *Zhongguo yingyong liyi da quan*, Shanghai Culture Press, Shanghai 1993; Ge, Lun Zui xin shiyong choushi da quan, Lijiang Press, Lijiang 1992; Mao, Jianhua Wusha, Longpao, *Datang – Zhongguo gudai guanchang xisu*, Sichuan renmin chubanshe, Chengdu 1993; Zhong, Gouwen, *Zhongguo liyi quan shu*, Anhui kexue jishu chubanshe, Hefei 1993.

As I looked for material about Portuguese⁷³ and Chinese characteristics I reached the conclusion that it was easier to find books and articles on the Chinese. What follows is just an attempt to analyze the Portuguese using the same categories we used for the Chinese.

a) Harmony

Most Portuguese identify themselves with the Catholic religion and believe in God. Consequently, harmony and happiness consist in the supremacy of the well being of the other over their self-interests. People can find the best of themselves through prayers in the church or meditation. It is difficult for a person to think just about himself without considering the others' needs. But not all Portuguese people live in harmony, and the Catholic altruistic ideal does not always materialize. Envy is another Portuguese characteristic (religion also implies sins). However, people counterbalance this with guilt. Guilt complex is a sort of psychological flagellation connected to religious punishment. Among these contrasting feelings, Portuguese people awkwardly find their balance and harmony. At work, there is this profound unwillingness to challenge authority and the status quo. In order to live in harmony, Portuguese avoid confrontation in their working place. But they are also capable of yielding and stand for their point of view if the situation is less formal.

b) Time and patience

Portuguese have a strong faith and believe in miracles. Countless stories through Portuguese History reveal this. Although pessimistic in everyday life, Portuguese always believe that the destiny will bring something good. There will be always something that will solve the problem. This way, Portuguese are very optimistic and patient. Portuguese trifle time away. If "time is money", Portuguese throw money away. "Tomorrow is another day" sounds optimistic but is usually an excuse to delay compromises. Portuguese do not take punctuality seriously and

⁷³ For a very recent analysis of Portugal and the characteristics of its people see Gil (2004).

boast about not being on time. It is 'cool' to be late. This is especially catastrophic for business meetings with foreigners unaware of Portuguese culture.

c) Flexibility

Portuguese are frequently said to be an easily adaptable people. In fact, Portuguese always find a last minute solution for a problem. However, Portuguese are also labeled as being very conservative and traditional. Portuguese need rules to bypass them precisely because they know how to be flexible. The ability to adapt to new circumstances and avoid change and innovation sounds a little contradictory. This can also account for "Portuguese flexibility". For example, at work Portuguese may accommodate if the business environment is not competitive. However, if there is a challenge, they will react to it. Portuguese are willing to learn from others. Usually, Portuguese people respect and admire foreigners from more organized countries because of their methodology and structure. However, when either the Portuguese do not adapt to this stricter environment or the foreigner cannot cope with the Portuguese chaos, the foreigner will immediately be labeled as square-minded. And the virtues of Portuguese improvisation shall be praised.

d) Trust and collectivism

To trust is fundamental for Portuguese people. Not long ago, business in Portugal was signed not with a pen but with a man's word. That is probably why in Portugal written documents are not as important as they are in other countries. China's approach to trust is similar. Honesty is also important for Portuguese people. They like to stress their honesty so that they can be trusted.

The Portuguese society is collectivist although it is changing to a far more individualistic stage⁷⁴. The family is the center and the basis for Portuguese life and also a source for business relationships. Portuguese culture still stimulates hierarchical relationships with strong emphasis on power and loyalty to superiors.

⁷⁴ This issue will be discussed below in section 2.5.

Due to the small and medium size of the companies the working place is very informal, but Portuguese people are formal. Power is only attributed to those who are trustworthy, preferably from the family circle. Usually there is a close personal relationship among the people that occupy higher positions.

Portuguese prefer to close a deal with a friend than with an adversary regardless of profits. Friendship is very important.

e) Communication

Communication is linked with trust. The way Portuguese communicate has to do with their level of intimacy. Body language also reflects the way people interact in society. Generally, Portuguese do not use a lot of body gestures but when compared to Chinese they are much more extrovert. Social behavior is often seen as communicative creating close relationships, which helps when doing business. Portuguese are friendly hosts and helpful towards people because of their need to interact.

f) The concept of face

Preserving one's face is also to maintain a person's dignity by not embarrassing another person in front of others. In this matter, however, Portuguese are not really concerned about not humiliating others. They are more worried about themselves and their family. Portuguese are afraid of being ridiculous and avoid exposing themselves in public. To build a respectful image within the community is essential. Portuguese need to be welcomed by others. To be accepted is very important because of the lack of self-esteem that characterizes Portuguese society⁷⁵.

Based on Hofstede's cultural values, Correia says that "Portuguese are not so pragmatic; they are rather proud and for them to admit an error is a sign of weakness and shame. People frequently do not assume mistakes. They prefer to have ready excuses. An element of luck, usually the absence of it, is commonly

⁷⁵ Gil (2004).

blamed for something less pleasant that happened”⁷⁶.

g) Guanxi (business friendship)

”The act of recommendation or using an influential intercede is called the “C” factor, the Portuguese word for this is “*cunha*”. Meaning that those who have good connections and relations are usually able to get some favors, like outrunning more qualified people for a job or at least to have preference over them”⁷⁷.

Gifts Favors and Banquets is a book about Chinese business etiquette⁷⁸, where the notions of business friendship also apply to the Portuguese. Doing business is very much about pulling the strings for favors and returns. Relationships are very important and they prevail over duties. If a person does a favor, Portuguese are always concerned about “paying” it back; until then they will be in debt. However, both for the Chinese and the Portuguese, in real friendship one gives without thinking about the returns. The author distinguishes between the “heart to heart friends” and the “drinking buddies” as groups that are more or less reliable within Chinese society, which is very similar to what happens between Portuguese people.

At lunch, the Portuguese want to know the business partner as a person. Portuguese love chatting at mealtime, not necessarily about business issues.

2.5 Thinking through Comparisons: Portuguese and Chinese

This thesis is about culture and the importance of understanding the differences between cultures. Hofstede wrote an article entitled “The business of international business is culture”⁷⁹ where his famous definition of culture is quoted as “the collective programming of the mind which distinguishes the members of

⁷⁶ Correia (1998), p. 125.

⁷⁷ idem, p.117.

⁷⁸ Mayfair Mei-hui Yang (1994), p.117.

⁷⁹ Hofstede, G., “The business of international business is culture” p.381 in Buckley, P.J. & Gauri, P.N. (eds.) *The internationalisation of the Firm: A Reader*, Thomson; London, 2nd Edition, 2002.

one category of people from another”⁸⁰.

Hofstede is, in my opinion, still difficult to avoid when studying culture. Therefore, I will try to elaborate on a comparison between Portuguese and Chinese cultures based on the four dimensions (Power-Distance, Uncertainty Avoidance, Individualism vs Collectivism, Masculinity vs Femininity)⁸¹ identified and applied to both China and Portugal countries by the author.

This survey was conducted 30 years ago, between 1968 and 1973. Although there are cultural values that do not really change, they surely evolve. Thirty years later, Portugal is no longer under Salazar’s regime and China is no longer under Mao’s rule. Another prior remark to Hofstede’s study is that it is sometimes difficult to understand where do “culture” and “corporate culture” overlap or not, or where is the “man” and where is the “manager”. It seems hard to impose limits on these concepts. Probably everything is as borderless in theory as it is in life. Notably, Hofstede remembers, “managers are human and children of their culture (...)”⁸².

According to Hofstede’s IBM study⁸³, Portugal has a higher Power Distance score when related to other countries. This indicates that Portugal is more autocratic and paternalistic than other societies that exhibit low Power Distance. Power decision has to do with rules and high hierarchy that is in the hands of family and friends. From this standpoint, Portuguese are defined as being respectful towards their superiors but distrustful and less cooperative than countries scoring lower on Power Distance.

China has a significantly higher Power Distance scoring 80: other Far East Asian countries have an average of 60 whereas the world average is 55, according to Hofstede’s survey⁸⁴. This indicates that China, like Portugal, shows a high level of inequality of power. Hofstede goes further by saying that countries with

⁸⁰ *ibid*, *ibidem*, p.381.

⁸¹ Power Distance; high power distance; low power distance: to what extent people accept unequal power distribution. Individualism vs Collectivism; Individual more important than the group versus group more important than the individual; Gender; Masculinity vs Femininity; the way “traditional” gender roles are assigned in a culture. Uncertainty Avoidance: to what extent a culture values predictability. Long Term vs Short term Orientation: to what extent the group invests on the future and is patient.

⁸² *Ibid*, *ibidem* p. 387.

⁸³ Geert Hofstede analyzed a large database of employee values scores collected by IBM between 1967 and 1973 covering more than 70 countries.

⁸⁴ Hofstede’s Scores Countries, available at http://www.geert-hofstede.com/hofstede_China.shtml

high power distance are willing to accept the fact that inequality in power is normal. Subordinates accept and expect this unbalance; which suggests “society’s level of inequality is endorsed by the followers as much as by the leaders”⁸⁵. This attitude has to do with people’s social background and personal life according to their national cultures.

Hofstede focus on the family, school and the work situation. In large power distance societies parents are treated as superiors and children are educated to obey. The teacher represents the order and learning is absorbing without questioning. In work hierarchy means that people are unequal. Finally, the boss is like the good father, the benevolent autocrat⁸⁶.

In this study, Portugal ranked very high for Uncertainty Avoidance. In this particular issue, Hofstede’s findings were questioned by Correia: “this dimension is perhaps the most sensitive to the timing of the survey and the changes in the political and other environmental instability may well explain why the results changed so dramatically”⁸⁷. Correia refers that Hofstede is aware of this possibility but that he still believes that Portuguese avoid changes. In my opinion, Portuguese are no longer so rigid in life, but they still carry with them much of the catholic dogmas, nonetheless. Portugal is a country that likes rules, a country where people look for stability and fixed patterns of life. We can go even further by saying that Portuguese avoid risky situations and are resistant to changing. Changes are challenges and Portuguese avoid them because they like to work in a traditional (safe) environment. However, Portuguese conservativeness does not lead to organization or planning, as it could be predictable. Instead, people in charge avoid schedules because they are ironically seen as a waste of time.

Uncertainty Avoidance was found in China’s case as moderate. Hofstede refers that the Chinese Empire knew the centralization of power but it lacked a fixed system of rules because it was governed by men and not by laws⁸⁸. A medium or low score means the level of the avoidance of risks and ambiguity within the society. According to this study, Chinese are more relaxed about

⁸⁵ Hofstede (2002), p. 381.

⁸⁶ idem, p.382.

⁸⁷ Correia (1998), p.122.

⁸⁸ Hofstede (2002) p.385.

change and innovation.

Regarding Individualism versus Collectivism, Portugal is a low individualistic country according to Hofstede. Here, it is important to remember that, after 1974, Portugal is following what have been the world trends encouraging Individualism⁸⁹. On the other hand, China presents low Individualism ranking - the lowest of the Asian countries. This high level of emphasis on a Collectivist society may be attributed to the role of the communism in China during the Mao era. We know that Chinese are collectivist because of their cultural heritage, paradoxically due to both Confucian legacy and Communist rule⁹⁰. But one can say that Chinese are both collectivist and individualist as two sides of the same coin. We are talking about China where a communist rule and a capitalist system “easily” coexist.

It is relevant to retain that, on the Collectivist category, both Portuguese and Chinese have and encourage strong family ties combining work and family. Loyalty is of paramount importance in both.

As described by Hofstede, Feminine societies put strong emphasis on relationships. In them, there is no competition and conflict resolution is achieved through negotiation. These countries strongly preserve their values and stress equality and solidarity. Masculine oriented societies tend to be assertive and competitive while looking for material success and progress. There is also a greater division between the sexes where males dominate females and detain power⁹¹. Once more it is difficult to define Portugal as a completely Feminine society. Although males are not that assertive or competitive in Portugal, they are expected to fit in the old “macho latino” image. This way, there is a deep-rooted male society along with a feminine work role model. As the saying goes in Portugal “em casa manda ela e nela mando eu”, which would translate as “She rules the house and I rule her”. However, Portuguese women are becoming more self-sufficient following men’s patterns of competitiveness.

China is Masculine-Oriented, according to the survey. This is also not completely true. According to my experience in Shanghai, women are becoming more independent following the foreign patterns. It is usually said, “behind a great

⁸⁹ Hofstede's study has been subjected to several criticisms. See Correia (1998), p. 116.

⁹⁰ On the similarities between Neo-confucianists and Communists see Martins (2004)

⁹¹ Hofstede (2002), p.384.

man stands a great woman". Well, in Shanghai or in other developed cities I would dare to say, "behind a great woman there is a great man". Hofstede also observes that in Masculine Oriented countries women behave more like men being assertive and competitive, although to a lesser extent. From my point of view, both characteristics are incompatible: independence and domination. Concerning the family, China is also like Portugal, that is, more feminine-oriented. Actually, family in China is of extreme importance.

China fits into Hofstede's findings when we talk about a masculine society that assigns big responsibility to the individual. Such is the case when rewarding the student's performance. "Student's failure at school is disaster, may lead to suicide"⁹². In China, pursuing a successful career is of utmost importance. On the other hand, in Portugal, the average student is the norm and failure here is a minor accident.

On Long-Term versus Short-Term Orientation, China has the highest-ranking factor. This dimension indicates how Chinese perceive time and how, with perseverance, they manage to overcome obstacles. This dimension was originally called "Confucian dynamism" and was created for Eastern societies through the Chinese Value Survey instrument, although it can also be applied to other countries. The ideas of Confucius still have great influence in China⁹³. The country embraces values of long term commitment and respect for tradition⁹⁴. Long-Term Orientation is associated with the national economic growth of the last 25 years. In the author's own words what "led to economic success of the East Asian economies in this period is their population's cultural stress on the future-oriented values of thrift and perseverance"⁹⁵. Portugal, on the contrary, is considered as a Short-Term Oriented Country. According to Correia, the values associated with Short-Term Orientation (adaptation of tradition to a modern context, persistence, face protection and personal control) are seen as obstacles to the economic growth⁹⁶.

Finally, what is significant to note is that these dimensions are important

⁹² id., ibid.

⁹³ On the revival of Confucian values, see Martins (2004).

⁹⁴ Hofstede (2002), p. 384.

⁹⁵ idem p.387.

⁹⁶ Correia, Pedro (1998), p.126.

only when cultures confront with each other, when different cultural backgrounds have to live and work together. Hofstede believes that when moved to work abroad, people should work in environments that are not too different from their original ones. Otherwise the cultural shock is inevitable and becomes a barrier for common goals.

Through this attempt to compare the Portuguese and the Chinese we hope it becomes understandable that the two cultures are not that different, except in what concerns the fifth dimension (LTO vs STO). In Higher Long-Term oriented societies like China, business may take longer to develop, especially for foreigners. If this dimension alone is determinant for the Portuguese success in China, then maybe it is advisable that Portuguese investors re-evaluate their way of operating in the Chinese market⁹⁷. Or, in other words, if the Portuguese want to avoid certain mistakes rooted in cultural misperceptions, they could well spend more time acquiring a wider knowledge on the people they are dealing with.

Considering Hofstede's findings, Chinese and Portuguese have similar characteristics that fit into the several dimensions mentioned above. Cultures, especially eastern and western ones, will always differ from one another. But I am convinced that to focus on their differences is to stress the cultural gap and make it a definitive obstacle.

To conclude, I propose a game: people with high scores of collective values are attached to their families, show respect for hierarchies, avoid conflict and love titles in personal business cards. Are we describing Portuguese or Chinese people here? You decide.

Chapter Three

Case Studies: Featherland and EFACEC

In this chapter I will present two case studies involving two Portuguese companies that invested in China: EFACEC and Featherland. I will try to show

⁹⁷ This issue will be further discussed in the next chapter.

how differences and similarities between the Portuguese and the Chinese cultures materialized in these two business contexts.

Some previous remarks should be done. As I have stated in the Introduction, the field study in China took place in 1999-2000. It was completed in 2001 and 2005 with phone interviews. What seemed to be a difficult way of giving coherence to my study turned out to be an interesting assessment of how the Portuguese investments evolved.

Regarding the EFACEC case study I should mention here that I give a brief introduction on the parent company and provide some data on EFACEC's Macao branch (Orient EFACEC). The information collected from the interview with the Portuguese manager intends to explain the solid structure of EFACEC's company in the international market and his opinion on Macao's role in the Portuguese direct investment. It is also to be noted that for the Portuguese, an ability to manage successfully in Portugal and other markets does not necessarily combine with rapid success in China. Finally, I will present EFACEC's case study in mainland China, which is the scope of my work.

To obtain the information directly from the sources, I used a questionnaire previously faxed to the enterprises. The choice of the format to present the interviews might differ in the two case studies mainly because it was not possible to use the same strategy for both companies, due to their different dimension. Featherland is a smaller company when compared to EFACEC, which implied a friendlier approach. The tone also differs according to whether the interviewee was Portuguese or Chinese. Featherland's Chinese partner was not familiar with the idea of being "inquired". Instead, he decided to speak informally. EFACEC's Chinese partner showed up for the interview two days later, which apparently gave him enough time to find an interpreter and bring a lawyer. The Chinese partner was rather formal and did not speak freely. This explains why the presentation of the field study's results will follow the patterns of the vivid situations.

The information was gathered from both Portuguese and Chinese managers of the Enterprise Featherland Ltd (WOFE) and of the Sino-Portuguese joint venture LEEC. The study is focused mainly on "objectives", "ownership",

“control” and “performance” of the enterprises in order to understand the differences between “mutual perceptions and working style” in management practices and the cultural problems related with the history of the companies.

In my visit to Featherland in July 2000, English was the language used in the interview. John, (the Chinese “partner”) spoke English very well. The Portuguese manager and I also spoke in English. It was very difficult to speak with John alone. We were always the three together, because John did not feel comfortable being alone with me. He answered all the questions in his associate’s presence.

In LEEEC (EFACEC), which I also visited in July 2000, Portuguese language was used when interviewing Portuguese people. Mandarin Chinese was the language used by the Chinese manager and an interpreter was required. The Chinese partner delayed the meeting several times and I had to wait until he was available. When we finally met, as I mentioned above he brought a lawyer along with the interpreter. Making an effort to understand his native language and trying to communicate in Chinese surely broke the ice. Anyway, the interpreter was indispensable. The interviews were conducted separately with the different people involved.

3.1 The “Featherland” Scenario

3.1.2 1999: The 1st interviews

a) Interviewee: Mr. Alexandre Miguel Pereira Lima

Position: Sales manager

Date of the interview: July 2000

“I hope to clarify some of the main features of a foreign investment in China, focusing on the market in which the company is developing its activity: the down and feather market. I also want to provide a better understanding of the Chinese environment from which a corporation can never be separated as it deeply influences the decision-making process”, says Alexandre.

Featherland Ltd is a factory established in 1998, which operates in Anhui Province, in the Tongling Eco-Tech Development zone, located in Tongling and with the main office in the Provincial Capital, Hefei. Featherland is a solely Portuguese-owned investment.

Its main activity is the production and marketing of down and feather products, such as quilts, pillows and featherbeds.

The enterprise (Featherland) is a natural result of a long-term cooperation between a Portuguese and a Chinese entrepreneur, which began more or less eight years ago after a very informal meeting at the Canton fair. The Portuguese and Chinese businessmen were doing export/import business together during all these years in the textile area: garments, clothing, raw materials and yarn. The business started developing between the two partners until one and a half year ago, when a major step was taken. The idea was to invest and build a new factory in China, becoming the first real international experience for the medium-sized Portuguese group.

“The main purpose was to ally the long experience of the Chinese partner and the Portuguese capital in order to take advantage of the potential of the Chinese industry, making the manufactured items more competitive in the consumer markets”, says Alexander.

In March 1998, both the Portuguese and Chinese partners decided to establish this Sino-Portuguese agreement in China. Together they were able in the space of less than 3 years (5 or 6 months to register the enterprise) to open the doors. None of the parts involved had any international venturing experience. John was working in a State Owned Enterprise (SOE) in China for 8 years dealing with the “down and feather” business market.

Today, the Chinese “partner” provides know-how, technology, market experience, connections and contacts with local Chinese and production planning.

The capital invested (1 million US dollars) is Portuguese. The partner also provides contacts with European clients, sales and distribution, supportive structures, facilities, promotion and tutoring regarding management.

The Portuguese partner already had experience with international trading mainly with the European markets in England, Norway, Sweden and Germany.

Both partners shared their experience during the past years when working together. At the present moment (2000), Norway, Sweden, Denmark, Portugal, England, Germany, Holland, and USA are the main targets in the marketing of the products of the Joint Venture.

The factory started production in 1999/2000 and, as a matter of fact, some of the facilities are still under construction⁹⁸, although the main building and the back up area are already built. It took one and a half year to construct everything. The completely new factory is settled on land with a total area of 10.000m², with the buildings occupying 5.500m². There are four different buildings⁹⁹. All the equipment used is new and made in China, although some of the machines were acquired from local joint ventures, which means that the technology is not totally Chinese.

The factory is managed locally by the Chinese “partner” and in addition there is also a vice general manager and a production manager, both Chinese. The distribution tasks belong to the Portuguese investor who is in charge of promoting the sales of the products abroad and planning the firm’s production.

“The main purpose of this investment is to take advantage of the unquestionable low sourcing costs the Chinese economy offers, in order to produce more competitive products and gain market share in the consumer markets”, clarifies Alexander.

The length of contract is not stipulated because it is a “long term investment”, which both partners define as their business commitment.

To achieve the strategic goals, Alexandre thinks that “permanency” is required to achieve satisfactory results. After working there for 4 months, Alexandre has changed his opinions concerning the strategic benefits of the company between the time it was formed and the present time.

⁹⁸ This study takes place in 2000.

⁹⁹ The main building – where most of the production process takes place; warehouse – where the raw materials and fabrics are stored; washing and boiler machines building – where the raw materials are prepared; back-up facilities – which include the meeting and samples room, the dinning-hall and some other facilities.

The priority goals at the formation of the enterprise were: low-cost sourcing, low labor cost, and the opportunity for quick profit. After some months of experiencing China, Alexandre changes his opinion and considers Long-term profit instead of quick profit. He also adds to his former priorities, to gain strategic position in China and to learn how to do business in China.

Although this investment represents a very big 'leap' forward for a medium-sized Portuguese enterprise group, the management structure is very simple. It consists of two departments: the production and the sales departments. The Chinese "partner" is in charge of the production department, whereas the foreign investor manages the sales. "The trust and reliability between both partners is extremely important to the achievement of our goals", concludes Alexander when talking about "control" and "influence".

Concerning their mutual perceptions and working style there are some dissimilarities. The Portuguese and the local managers do differ in some aspects concerning the management of the company. The Chinese working style is a learning process and their attitudes are different from the Portuguese. When describing the character of the Chinese partner, the Portuguese manager underlines the following words: pragmatic, practical and informal. "We (the Portuguese) can also be pragmatic, practical and informal, but only when there is considerable managing experience, which is my father's case (20 years doing business with foreign markets)", said the Portuguese sales manager. "In China, life is a negotiation and an adjusting process", continues Alexandre.

Cultural differences were the main difficulties the Portuguese manager faced when doing business in China. "I had difficulties trying to make them understand what we really want. It is very hard to get things running. I studied Chinese language but I am not fluent. Yet I try to speak English with the same Chinese pattern of logic. I have to build images to make an idea understandable in their mind and also make myself understood." This way, he tries to make them reach their own conclusions about a certain matter, bringing the Chinese around to his way of thinking. "Patience is required", he says.

Alexandre confesses that he was very surprised and did not expect that his Chinese "partner" had the ability to remember all the details after a long time.

“Their memory is amazing. They reproduce precisely all the facts after several months”, and then he smiles.

Finally, Alexandre says that, although this enterprise is a WOFE, it works like a joint venture because everything is negotiable and people are equally interdependent, “but this is not written on the paper”, he concludes.

b)Interviewee: Mr. Xu Xiang Ping (John)

Position: General Manager

Date of the interview: July 2000

As it was already mentioned before, John avoided direct contact with me. It was not possible to ask him the same questions, although the questionnaire was designed for both partners involved in the business relationship, i.e. for both Chinese and Portuguese. The conversation took place after 2 days. During this time we had dinner together (the Portuguese “partner”, the Chinese manager and myself); we visited the office in Hefei; we traveled together by car to visit the factory, 70 miles away in Tongling, and we had lunch together... I presume that trust was somehow built. However, he did not talk about the enterprise. I did, however, understand his view of “doing business in China”, as well as the several problems that might arise if a foreigner meets up with the “wrong” Chinese partner. He was implying that the Portuguese is fortunate to have him as a partner, of course.

I will use his speech because it is so full of hidden meanings, i.e., the Chinese way of saying things.

“Snake way”, he suddenly says. “The way to do business in China is a snake way”, insists the Chinese manager. He goes on to explain: “There are many twisted people in China.” “I keep silent, although I know that this is not nice. There is corruption. Many dinners. And money involved. While chatting and drinking, people ask for favors. One small example: a certain guy told me to ‘change’ with him \$500 dollars. Implicit is the demand for the money. Business is like a “game of pieces”; if you want to touch this thing you must understand that it is always connected with others.” “We have the problem of having in China self-centered

people (Zhong Guo). There are no clear borders defining the “power limits to power”. People go beyond their say. It is very hard to build trust. In China, for many Chinese, only money is valuable. If foreigners come for a short-term investment it is not good. It is only for profit. I believe in commitment, giving *face*, and long-term investments. In China, the *guanxi* is the only way to get into business. To have good connections with the local Party means that they will leave you in peace. And that is very good because they can make for a lot of problems. Doing business in China is like moving in mud. China is beyond your (western) imagination. Only by being in China can you begin to understand it. Doing business with foreigners is learning from them.” “Alexandre surprises me because he is fast. I like his speed”, he concludes.

3.1.3 Some remarks

This case study leads us to think that in China business begins with people. In this enterprise, the family structure seems very simple, and reliable. This working team (Alexandre, sales manager; his father, the Portuguese investor¹⁰⁰, John, the General Manager and Mr. Wu, responsible for the finance department) developed their own goals and decided which values and behaviors would best help in order to meet those targets. At the time of the interview, in July 1999, Alexandre was visibly present in the company and shared his vision and direction. Several times he emphasized the need to live in China so as to achieve his objectives.

Hefei and Tongling were the right places to locate the business but not the easiest place (for him) to stay. Away from the more “westernized” locations, life can be very hard in China for a Portuguese entrepreneur who is alone. The family is the basis of Portuguese life and the desire to go back to Portugal was very strong for him. Portuguese people do not quickly embrace change and innovation, but some try to overcome this characteristic and succeed, others do not.

Alexandre was doing his best to create his “corporate” culture in the enterprise, trying to build a new atmosphere in the working place and melting both

¹⁰⁰ As stated in Chapter Two, in both Portugal and China, it is very common to see the family running a business.

cultures through exchange of knowledge and experience. But doing business in China means accepting business with Chinese characteristics.

The Portuguese sales manager stayed in China for almost a year. He realized that the management of the enterprise was almost entirely in Chinese hands. He confessed that sometimes it took several months for the Chinese partner just to accept (to understand) a new idea for production.

It is interesting to note that this form of investment and ownership in China known as WOFE gives the right to exclusive management control with autonomy in operation and management and less Chinese Government interference. But is this feasible for a small/ medium enterprise in a complex and diverse business market like China? One way or the other, the Portuguese must always depend on the Chinese whether from a Chinese consulting entity or an individual who, just like John, plays the role of the “partner” in this WOFE. Unlike other foreigners who speak good Mandarin and can thus deal directly with the Chinese, Portuguese people just realize how important it is to acquire language skills once they are engaged in business and do not understand anything of what is happening around them. Alexandre realized this and began to learn how to speak and even how to write Mandarin. Chinese people like that and business negotiations get smoother.

Nevertheless, Alexandre said that he was satisfied with the company’s performance, although he had changed his perspectives from those he had in the beginning. One year in China was the time for learning from the Chinese the way to adapt to their system. He was also able to improve and change many things according to the concept of “time” from a Chinese perspective. Time, in China, is money but one should not forget the cultural differences and the need to understand Chinese traditional values like the concepts of *guanxi* and *face* (as John mentioned) when working in China. On money and trust we build our business, one could say.

3.1.4 2001: The 2nd interview

In August 2001, two years later, I contacted Alexandre in order to know how his business in China was doing. He told me that he goes back to Tongling once a

year and stays there for 2 months. He was very satisfied with the performance of the company. He is exporting his product to several countries like Holland, England, Ireland, Norway, Switzerland, Denmark and Finland, in the order of their importance. He secured a leading position in the Portuguese market in the big commercial outlets like Feira Nova and Jumbo (Auchan group). He also got a slice of the market in Carrefour and Continente.

The company is developing a new strategic approach to the market and the alternative solution is to work with “diversity”, i.e., a greater variety of products. They started working with different materials and they now produce plastic covers for featherbeds; they also manufacture garments and have become familiar with the clothes industry. This new approach is to respond to the “down and feather” market that is very seasonable.

One of Alexandre’s strengths is his ability to explain his point of view in a thorough and sensible way. Regarding his experience in China, he said that he was successful because he was able to answer criticisms or control his frustration. He had the ability to explain the underlying reasons for doing things in a certain way and the benefits that it would bring to Chinese economic goals. “John and I, we sit somewhere and we settle everything. Our business meetings are very peaceful and informal. It is very difficult for some people in Portugal to understand this because they are not familiar with Chinese negotiation style”, he explains.

When I was in China, I saw that Alexandre’s attitude was far from being arrogant or dictatorial. Alexandre thinks that the Chinese respect and admire foreigners who are low profile, somewhat humble. And it is important to remember that Chinese lose face when westerners flaunt their superiority in technology and systems.

Concerning the *guanxi* issue, Alexandre learned how to play the game. Officials from the local Party or representative people from the Chamber of Commerce or other organizations were invited to come to Portugal in 2001. When they arrive, Alexandre provides his guests a wonderful time (lunches, dinners, visits to factories around Oporto, travelling around and so on), further consolidating the personal relationship. This way, he can show his social and family background at the same time that Chinese people may verify with their own

eyes his Portuguese way of living. One should keep in mind that in China there is always suspicion towards foreigners.

Finally, when I asked him if he should not be more independent from his “partner” and retain the control, he told me that they need each other. He explains that the good thing about a wholly foreign owned investment is that the commercial and production parts are independent. The first part takes place in Portugal and the second in China. “They do not know how profitable our business is in terms of numbers. But everything is a matter of money and we cover their livelihood costs”, he concludes.

3.1.5 2005: The 3rd interview

In January 2005, I contact Alexandre to know how the business has evolved since the last time we spoke on the phone. Three years later, Featherland changes from a WOFE to a JV. Those with some experience in China should already be used to these Chinese surprises. The latest foreign investment trend is to approach China using the WOFE form¹⁰¹. By presenting this conversation I hope to clarify why this Portuguese investor has moved in the opposite direction.

Alexandre explains that the company’s situation changed in 2003. In this year, John first raises his participation in the investment up to 33%. Later in the same year, “the partner invests more money in the company and increases his percentage to 70% of the total capital. The Portuguese part remains with 30%.” “Why did conditions change?” I ask. Alexandre states, “we were doing already our level best to stay in China but we could not stand the strain”. Alexandre is disappointed with China’s “evolving process and not really with the company’s performance”. He says that, although they do not detain the power, the level of trust between both parts remains the same. Alexandre does not seem worried about the situation of who is in charge. In his opinion, Featherland is performing well. They have more 110 employees than when they have started (in 2000). Until 2003, profits increased 30% every year. In 2003, profits reached 6 million euros per year. In 2004, profits decreased partly because of the bird flu, which

¹⁰¹ As stated in Chapter One, page...

necessarily affects the down and feather market. “The perspectives are even worse for 2005”, Alexandre remarks.

The Portuguese manager attaches importance to the strong competitiveness in the Chinese market and how purchase decreased. “China is like a bubble, many people are going to lose money there”, he says.

Considering the textile business market, Alexandre advances some hints about China’s future competitors. He says that China is going to be “swallowed by Bangladesh, Vietnam, and Indonesia, that can be really competitive, although in China there are high quality production standards”. He thinks that China is still on the edge because of the State’s support. He considers the Chinese market overloaded and that there is surplus of investment in China. According to him, the “big war” will be between the Chinese themselves, “it is the American dream. The young generation is very complex, very problematic”, he says. “Why?” I ask. He tells me that after all these years China, it is not the same country that I visited in 2000. I agree because that was easy to predict. “The problem is that you can not really imagine how everything is so different”, he replies. Alexandre raises his voice when talking about all the changes that he was able to witness. At this point he sounds ravished. Curiously, Alexandre is not overwhelmed by the company’s poorer performance as mentioned above. I try to find out what are his future plans in China, starting by asking how far this agreement is positive for both parts; if John changed his attitude after changing positions; if there are any sort of conflicts; and what he has learned from this experience.

Alexandre mentions again that trust benefited both parts involved in this business. He explains that John’s attitude towards business relationship did not change but he (John) has changed, which means that nowadays he shows his ambition. “John spent more than 100 000 euros last year. He built a luxurious house. The architects came from Shanghai and designed a mansion really American style. He also bought an excellent car... John is now an entrepreneur and proud of being the “boss”. His power was materialized with the acquisition of the enterprise. He needed that”, Alexandre concludes.

Concerning China’s future plans, he keeps saying that China is no longer the same country. “China is living a crazy time and now it is too late to go back.

China is no longer the golden egg hen.” He recalls that he spent the last five years going to China. At first, he lives there for almost 2 years. Then he keeps going to China every year, where he spends two or three months. He explains that he cannot delegate responsibilities to other people because the Chinese would not trust anyone else. “For twelve¹⁰² years that we have been in China and we know nothing about it”. Concerning future plans, Alexandre is evasive. However, one might conclude that he will not stay longer in China when he states: “China is for the Chinese!”

3.1.6 Some remarks

To sum up, five years went by since Featherland was established. From the phone conversation I had with Alexandre one might say that the Portuguese investor is tired to swim against the stream. We become aware of the several obstacles than Alexander considers determinant for his general disappointment. First, China represents geographical and psychological distance for any Portuguese and Alexandre is no exception. Portuguese are too much attached to their place of origin and China obliges people to spend there more time than anywhere else to be able to get the overall picture.

Secondly, Featherland is a medium-sized company based on a family structure, which is the traditional Portuguese way of conducting business. Once in China, the investor can clearly see how strong and competitive his business structure at home is. Somehow China represents the mirror for the western reflection. When investing in China, Alexandre puts a lot of hopes on the Chinese market, (the “golden egg hen”), but China also had expectations about him. It is clear that they do not match.

Thirdly, Alexandre is simply overwhelmed by “the ongoing” process of doing business in China. We do not discuss here if doing business in China is the same as everywhere else as some people argue¹⁰³, but it is surely more intense.

¹⁰² as mentioned above, Featherland was established between 1999 and 2000 as a result of business negotiations in the last 8 years between Alexander’s father and John.

¹⁰³ This is the argument of the then Portuguese director of EFACEC in China. See section 3.2.3-c)

Concerning the cultural aspects of investing in China, Alexandre succeeded in overcoming the cultural barriers. There were no conflicts with his partner (harmony and trust). The *guanxi* factor is also in place through the business process. Featherland's case clearly shows that problems do not arise from the partnership. The conflict happens between Alexandre and China. One may ask if China is a good partner for Portuguese investors. And one may say that China is a long-term business country where Portuguese people should reevaluate their concept of time.

At a first stage, Alexandre went to China dreaming about quick profits, as we have seen. Chinese also want to see quick profits but they care for long-term relationships, while Portuguese want to do business in a shorter time. It can be a considerable cultural shock the different notion of time in business transactions. It is clear that the Portuguese manager's frustration comes from all the efforts made so far (time spent there; lunches and dinners with the local Party) versus the low profits coming out of it. At the present time, Alexandre is restructuring the company in Portugal because, for long commitments in China, it is surely necessary to have a stronger business structure than Featherland's.

Alexandre thinks that his partner will get his returns in about 10 or 12 years. This is way too long for him to wait.

3.2 EFACEC

3.2.1 The EFACEC Scenario

EFACEC, Empresa Fabril de Máquinas Eléctricas, is a Portuguese company and was established in 1948. Its activity includes the manufacturing of a wide and diverse range of electric and electronic equipments and also the execution of power systems, electric traction as well as automatic robotics.

In the 70's, EFACEC in Portugal started to export electric motors and transformers. At the beginning of the 90's, with the first traces of the global world economy policy, EFACEC started an internationalization plan in order to create an

international sales network of agents, branches and subsidiaries to sell its products and systems in Europe, Africa, America, Middle and Far East, covering more than 50 countries. This position was hard to sustain, while maintaining all the manufacturing only in Portugal.

Therefore, in order to be more efficient in strategic markets, EFACEC decided to set up competencies in these markets by establishing joint ventures with local partners. As a result of this strategy, some joint ventures are running in Asia, like EFACEC Orient Ltd in Macao and LEEEC in China.

EFACEC Orient Ltd is a subsidiary firm of EFACEC, S.A of Portugal, whose office was registered in Macao in 30 May 1990. The office building and factory is located in Taipa Island. The factory's major activity is the manufacture of oil type and silicone type distribution transformers.

In addition, EFACEC Orient is also represented in Asia by the EFACEC Group, which promote and supply a diversified range of products and systems to: Cambodia, China, Hong Kong, Indonesia, South Korea, Laos, Macao, Malaysia, Philippines, Singapore, Taiwan, Thailand and Vietnam.

In August 1999, I interviewed Mr. Paulo Costa, Orient EFACEC's deputy general manager, in Macao. He explains that the company was established in 1999, which, in his opinion, is late for the Portuguese investment to reach the Asian market, "we arrived late but we arrived", he says.

Paulo's approach to negotiating is much connected with the Macao's specific situation¹⁰⁴, but he also gives important clues on what Portuguese should do to overcome their lack of strategic attitude. In other words, I would say that Portuguese should do their homework before leaving the country. Paulo thinks that the main problem has to do with the Portuguese image abroad. "It is not sufficient to say that our product is better. We the Portuguese are not known in the market. We do not have a name," he explains." What we have is good prices and we assure the same quality as the other suppliers. We have to concentrate on this and prove it. In Hong Kong, people see us as Europeans, which is an image that works usefully", he concludes.

Finally, Paulo reveals that it is wrong to presume that to know well the

¹⁰⁴ As mentioned before, Macao's business issues are not the scope of this work.

business market in Macao is to understand the Chinese business market. Macao might not be a bridge to succeed in Mainland China as we Portuguese might assume.

Considering this issue of Portuguese image mentioned above, I was at least surprised when businessmen in Hong Kong (Macao's neighbors) see EFACEC's Portuguese representatives as Europeans. It sounds weird that not even our history in Macao raises our Portuguese image. Therefore, it becomes clear the absence of a consistent Portuguese image and also of national pride.

3.2.2 LEEEC Liaoyang – EFACEC Electrical Equipment CO., LTD.

I will start to present EFACEC's study in a slightly different manner than in the previous case study because I will include two articles that I found particularly relevant to explain the changing process of the company. One article is written by Rui Paiva where he expresses his optimistic views about the company. The second one was written four years later and announces Efacec's failure in China. I could not resist including both here and contrast them.

In 1997, a confident Rui Paiva, the Deputy General Manager wrote a text entitled "Eastern Pearl, Bright and Colourful"¹⁰⁵, under the theme "success in Liaoning" and about LEEEC's investment project. As we will see, the word "success" does not make sense anymore. In this text, Rui says the following¹⁰⁶:

"For me it is a great experience, professional and personal, to work in China, a country with ancient civilization and trading history. This good opportunity was created by the open door policy reform, which woke up the dragon. Indeed I believe the Dragon is back, hungry to take her place as the economic and cultural superpower of the 21st century. (...)

Our Joint Venture has been in formal operation for less than 3 years. With the advantages from both parties, LEEEC is running already with good

¹⁰⁵ Paiva, Rui (1997).

¹⁰⁶ Italics are mine.

performance, both in Chinese market and international market. We are making our product competitive not only in Asia and Africa, but also trying to sell it to Europe. EFACEC (Portuguese parent) is confident enough for our cooperation and intend to cooperate with us in other areas.

LEEEC will be a good example for Sino-Portugal JVC.

What we are concerning are advanced technology, scientific management and good investment environment. Both parties are making their best efforts in order to realize our lofty ideal. *Some difficulties occurred on our way to success. But we found out that there is not any difficulty that cannot be overcome with our joint effort.* We still have a certain way to go in order to make LEEEC product worldly known. Our employees are working hard in order to suit the various requirements from our clients and changeable market. I believe LEEEC will satisfy the customers with high-quality product. I hope, with our friendly cooperation, LEEEC will be the real bright and colorful Eastern Pearl”.

“XAO XAO CHINA” was an article published in a Portuguese magazine¹⁰⁷ that reveals that, in 2001, EFACEC’s administration announced that it was going to abandon the project in China (LEEEC) because this unit was in terrible condition and had accumulated big losses.

A source from EFACEC attributes this failure to the fact that EFACEC was a minority shareholder and, for this reason, was unable to exercise the control needed to guarantee the levels of quality required. On the other hand, a Portuguese worker who went to China and experienced the LEEEC operation said that this experience had a very positive aspect, although EFACEC suffered a substantial loss. He mentions how much he had learned and experienced there.

BPI Private Equity (also associated with the joint venture) confirms and underlines the unsuccessful results of this approach to the Chinese market. In their opinion, “ignorance about the local reality, manufacturing inexperience and lack of strong connections at the local level” led them into a quagmire and to the ultimate failure of the venture.

¹⁰⁷ David, Rui Paulino. “Xao Xao China” in *Ideias e Negócios*, no 39 Setembro, 2001.

In EFACEC's case (Portuguese parent company) the situation it is hard to understand, given the size of this group and their significant presence in the Asian market. A visit to EFACEC in Macao made me think that the Portuguese were doing well in their approach to the Asian market. A slow process as expected, but not stagnant at all. A project to build another EFACEC branch in the south of China was being planned as the next step.

At the time the interview took place (July 2000) in LEEEC in Liaoyang, there were no clear indicators that this was going to happen, although the company was under pressure to change. Is it possible to say that restructuring a company is a symptom of its unprofitable situation? Some argue that this is true but that restructuring is a healthy process if it is done well. In EFACEC's case, however, restructuring seemed to be a risky business.

Although the recent news about EFACEC pulling out of China was unexpected, we will follow the evolution of the Company in China in the last years and their consequent approach to the Asian market hoping to learn the reasons for their failure.

3 2.3 The LEEEC Scenario

a) Interviewee: Dr. Rui Paiva

Position: Deputy General Manager

Date of the interview: July 2000

The Chinese company Liaoyang Transformers already existed and worked with distribution transformers in China. It is located in the heart of one of the industrial areas in Manchuria.

In October 1994, the negotiations started the process to form the alliance. In 1997, the Joint venture started operating and began production immediately. Success in China means to face challenges. One of the main goals was to produce a greater quantity in less time. "Chinese hunger about business", he says.

During the negotiation period, the working conditions were already settled. “The main difficulties were resolving disagreements. Major problems were the attribution of costs, supply of technology, expertise, know-how, and the prior demands of the Chinese culture”, Rui explains.

LEEEEC is a large-scale transformer manufacturer, which can produce power transformers, oil immersed and dry type distribution transformers, with the application of computer aid techniques and integral information system. The total amount of investment is 29.488 million USD and its registered capital is 11.9 million USD. It possesses a production area of 90000 m² and its annual production capacity is 5000MVA.

Rui Paiva went to China to work for LEEEC in 1997. He is an economist and he is responsible for the company’s financial department. Rui is in charge of the sales department and controls the distribution channels as well. The product price is always negotiated and the major concern is to assure quality and that the product is delivered on the scheduled time. He confesses that in terms of his professional development in this field he did not improve very much. His major function was just to teach them how to do things and there is nothing for him to learn from.

Concerning the important steps to achieve success at this point, he enumerates the following: “providing leadership of the team; unifying our thoughts; control; manage diversity; fight for profitability; the notion of representing the image of our country; Portugal.”

“When I arrived in 1997, I was demanding that the production levels be met and was very thorough when the issue was about control. Today, I say that they (the Chinese) do it better and do everything we want if we show them money, «the red blood»”, he says.

For Rui Paiva, the most important items that describe the strategic benefits are (in order of importance): attraction of Chinese market; gain strategic position in China vis-à-vis competitors; opportunity for good long-term profit.

Concerning the “mutual perceptions” and “working style”, Rui says, “Chinese people do not know how to do planning. They do not program their day. How can they think in the long run? ”It is very difficult for my assistant (responsible

for the finance reports) to understand the need of method and planning”. Rui explains that he “gives face” to the Chinese telling them they did a good job when everything was done by him.

In his opinion, there is no such thing as planned economy in China: “It is like 7 dogs fighting for one bone”, he says.

A good relationship with the Party is very important for the companies’ success. It is the “pictures’ frame” for the business, as he calls it. The institutional cooperation and the relationship with the partner are the most important issues when dealing with China’s business environment, he comments.

“It is very important to know how to manage difficulties, which requires malleability”, says the general manager.

Rui Paiva thinks that the limitations and barriers come with the cultural differences; the problem comes along with the language and the writing.

When asked about the *guanxi* schemes, he says that the enterprise runs according to personal relationships and what is written on the paper does not always matter. “I always prove what I say with what is written but what in China is important is the way of establishing the dialogue: it works like a reference that can change everything”. The *guanxi* factor also works with the relationship with governmental institutions, “people get favors if they do favors. A good institutional relationship is what counts”.

b) Interviewee: Engineer Casimiro

Position: production manager

The Chinese parent company was LTW (Liaoyang Transformers Workshop). The joint venture’s formation gave birth to LEEEC. The joint venture has the Chinese market as its main client, as is true for their biggest opponents. Siemens and ABB are their direct competitors.

For Casimiro, the main difficulties in establishing a joint venture in the Chinese market is to match up the current western standards for the recruitment of staff, their performance and remuneration, as well as the technical aspects of

business with Chinese business practice and the main goals of the Chinese partners.

The Chinese wanted to put as many of their staff on the payroll of the joint venture as possible while the Portuguese wanted to employ as few people as possible. Casimiro explains that they support 800 workers because of the legacy of the Chinese State Owned Enterprise that became that partner. Of these 800 workers, only 450 are active. “The company is fully responsible for those workers that stay at home, providing social and medical security and even pays their central heating at home”.

Casimiro explains the operation profile of the company specifying that the raw materials are Chinese and the company is subject to the protection laws of the Chinese market. Referring to the new equipment, he says that it was bought in Portugal and other European countries and there is also old Chinese equipment from the previous LTW.

Concerning the location, he considers that it is very favorable because of its climate; that it is dry and it helps on the production of transformers. In his opinion, humid climates are a problem for this kind of production.

When pointing out the main difficulties in operation concerning control, the production manager affirms: “control must be exercised permanently”. Casimiro has worked for the EFACEC group since 1987. When comparing the Chinese and Portuguese production speed, he says that in China the rhythm is much slower. Although he recognizes that people are skilled for the job, he thinks that they are always waiting for the rules that come from above. “It is very hard to keep the engine of this hierarchical pyramid working”, he complains.

After this conversation, I visited 4 huge main buildings where the construction of the transformers takes place. Different phases correspond to different buildings. Casimiro is always on the go and regularly visits the manufacture and production line. “The work is very manual. Chinese people like to work in a team. Sometimes, one person is enough to perform a certain task. But three join in and work together. And there is nothing we can do about it”.

When I ask him about cultural and management differences he replies, “the Chinese are very passive. They do not like to lose face and it is very hard to

attribute responsibilities to the individuals. Chinese lack initiative, they do not compromise because of the work hierarchy”.

Casimiro is aware of the problems of communication, although he always uses an interpreter. It is very hard to overcome the language barrier, because using a different language gives rise to misunderstandings. “The mental codes are different, the way information goes from one person to another has always to be checked. It is impossible to rest and rely on confidence”, he concludes from his own working experience.

c) Interviewee: Engineer Silvestre

Position: Director

Engineer Silvestre arrived in China to occupy the position of director two months before this interview took place (July 1999). At that time, another Chinese replaced the Chinese chairman. Engineer Silvestre was very enthusiastic about the future of the company and how he would succeed with his new strategic approach.

He started to give a brief introduction of the company’s set up. He described how important it was to choose the right geographic location, the right partner and the right business contract negotiations. They began negotiating in 1992 and it took two years to reach an agreement.

Silvestre says that China is an evolving market. “In China there are still only a few private enterprises. The distribution chain is restricted by several rules...” He confesses that he is aware that the company’s position was not brilliant. But he was confident for the next year because LEEEC was going to conquer a big slice of the market.

In order of importance, Silvestre chose two points to better describe their approach: gain strategic position vis-à-vis competitors; facilitate international expansion.

Regarding the problems and developments in the history of the joint venture, the new director analyzes the company’s evolution and, while referring the company’s approach to the market, he talks about passivity. He understands

that an aggressive positioning in the market is the right approach to achieve his goals. He does not feel intimidated by what is called “the Chinese mentality”: “It has always been like this, why should it be different now?” When asked about the differences between the Chinese market and other markets he says, “there is no difference at all”. He says that he does not understand why the aggressive strategy has not been applied, the same kind of aggressive strategies have always been successful in other markets: “It seems that people here do not know other markets...”

Engineer Silvestre wants to improve and change the company’s positioning. He believes that everything is possible if people want things to happen. He thinks that people created the idea that the governmental arranged things and that every step is useless. “Why should we privilege a certain client? Because people say that everything is done according to political agreements”, he disagrees.

In his opinion, joint ventures created this terrible routine and it is important to break from people that bring this way of thinking from the past. The director does not see the State Owned Enterprises as a threat: “even if they have the control, the market is the same everywhere: in the market people want to know who is who. We are the company that offers trust, quality, image and products with higher quality and reliability”.

For Silvestre, the new positioning of the company is a question of short time: “it is only a small slice of the market that still reacts as in the old days”. Silvestre sees China also as a strategic territory to reach others.

“Do you agree that China changes but only gradually and only up to a certain point?” I ask. Silvestre believes that China changes according to the market rules. “It is competition that will force China to change. China is joining the WTO (at that time China’s accession was being negotiated) and China’s opening to the western markets is happening. Industries like ours will develop fast”. Silvestre’s view is that other countries have the ability of establishing their companies successfully in China and he points out the case of the Spanish approach to the Chinese market.

When asked, what, after all, is the problem with Portuguese investment in China, he states that:” We are much alike the Chinese. We do not know how to be

aggressive or competitive. Portuguese politics are dissociated from business. We do not have any strategy towards other markets. Portuguese do not have an expansionist strategy at commercial level”, he argues.

“So, what do you have to say about EFACEC?”, I enquire. Silvestre says that EFACEC is the same company everywhere. He continues by saying that the problem in China is that they are the minority in the equity. Other problems come with “lack of political support and lack of transparent information. Nobody likes to go to bed with an elephant”, he adds.

d) Interviewee: Mr. Wu

Position: Chairman (President)

The Chinese partner took his position in the company 50 days before this interview took place (August 1999). He was working in the Chinese State Owned Liaoyang Machinery Bureau, which had control of 20 enterprises and has 15 years of working experience.

From his point of view, the benefits of working with the Portuguese people come from their technological advantage. He also recognizes that Portuguese people work hard. In his opinion both partners share equally the inputs on contracted resources such as management systems, product design, production technology, professional services, and training.

Mr. Wu comments on the fact that some areas of “control and influence” are exercised differently by the foreign and the Chinese partners:

	Degree of Control or Influence	
	Foreign party	Chinese party
The allocation of profit	Some	
Allocation senior managerial positions	Some	Considerable
Setting strategic priorities	Some	Considerable
Product pricing	Considerable	
Training and development policies	Some	Some

Reward and Incentive	Some	
Financial control	Dominant	
Re-investment policy	Some	
Purchasing policy	Considerable	

Concerning the achievement of strategic objectives, Mr. Wu chooses his priority goals in order of importance: technology; transfer learning; management expertise; obtaining of foreign cash; developing export opportunities; learning how to export; helping to expand the Chinese market and establishing strong business presence/credibility in China.

Mr. Wu emphasizes the importance of money because it means improvement and solving problems easily. Establishing a strong business presence in China also means creating a good image for the company.

Mr. Wu thinks that the strategic benefits have not been achieved. After 4 years of work he thinks “the targets should be higher than what was achieved”. His assessments are as follows:

Profitability	Not very satisfied
Growth	Did not achieve what was required. Very slow
Technological development	Fully satisfied
Development of local staff	70% satisfied.
Market share	More or less satisfied with the domestic market. Not satisfied with the international market.

When inquired on the possible problems and developments in the history of joint venture, Mr. Wu says simply: “the Chairman is «white color»”.

Mr. Wu views many differences in the way the Portuguese and the Chinese run their business in both leadership and regulations: “workers follow the leader and the scheduled time should be the same for both workers and leaders”. He agrees that there are cultural differences, but he believes that people are equal:

“high level does not mean that a person is higher”. “The language is the biggest cultural barrier”, he says.

Differences in management also exist, “it is not possible to adapt one single management concept. Portuguese management is old management”.

Chinese and Portuguese also disagree over of the “importance of the salesman”. Chinese view is that the salesman is very important is the company. On the contrary, Portuguese wanted to reduce 50% of these men. Mr. Wu considers this a big problem because he wants to increase the number of workers and was not able to succeed in doing so.

Finally, he says that the Chinese final objective is to “smooth differences”, to avoid problems and work together in the same direction. He also mentions that the Portuguese were trying to renegotiate their position in the company once they were minor partners in the alliance, but he does not go any further.

3.2.4 2001: Update

Between 2001 and 2002, the situation of EFACEC totally changes in Asia both in Macao (EFACEC Orient) and in mainland China (LEECC). Apparently, the business closes its doors and for a certain period its future is uncertain. When in 2001 a Chinese delegation from Liaoning visits Portugal promoting investment in their province, I tried to find out what was the development of the Portuguese business situation in this particular case. Though evasive, they tell me that Portuguese participation works as a ‘silent partner’.

In the next section, I will present the reasons why the Portuguese people from the parent company seemed to behave in a Chinese way, letting time pass therefore waiting patiently and persistently to achieve their goals.

3.2.5 2005: 2nd Interview

Interviewee: Engineer Armada Lobo

Position: International Representative Chief of EFACEC, Vice-president of LEECC

Armada is the responsible for the EFACEC branch in Asia. He works in EFACEC's parent company and goes several times to China to visit both enterprises in Macao and Liaoning province. In 2005 I contact him to know about the past, present and future path of the company.

He explains that in Macao the production activity finishes in 2002 because they lose a contract with an important client from Hong Kong: "at the time that the contract should be renewed, other company wins the tender. Macao is an expensive territory and the production scale did not justify to continue to produce".

In what concerns the branch of EFACEC in China, LEEEC, a lot can be said about the changes and the evolution of this company. Before I report what Armada has to say about LEEEC it is useful to recall that the company works as a Joint venture and consequently two parts are involved. The Chinese partner detains more than fifty percent of the total share. In 2000, when I went there, the Portuguese partner had 22.6% of the share. At that time the enterprise was being restructured. As mentioned before, the chairman (Chinese) was being replaced by a Portuguese (engineer Silvestre). One could not have foreseen what was going to happen. In 2001 the Portuguese team (financial manager Rui Paiva, production manager Casimiro, and the president Silvestre) return to Portugal as a decision of the parent company.

Armada explains that until 2003 there were "severe problems". In 2002 they think about closing the doors. However, in March 2003 things change when they meet "a private group, a group of very good professionals that today represent the Chinese part in the company. We, the Portuguese, detain 36% of the investment (five hundred thousand dollars) and have two roles: we give technology and help with the strategic plan of the enterprise. We have one Chinese technician working with us in Portugal who gives technical and marketing support through Macao. Armada says that 2004 was the first profitable year in the history of LEEEC. "The results were positive for the first time", he says and attributes the failure of the previous years to "bad management and performance of the Portuguese team sent to China and also the incapacity to control the business from a distance. As a

result, LEEEC shows abrupt fall on sales and purchase orders. There was a quality problem”, he explains.

Armada stresses the importance of the Chinese person working with the Portuguese side. I ask him where this Chinese stands when dealing with the companies' Portuguese interests. He says that is a very difficult question to answer but advances: “well, he is our employee. We pay him his salary. He speaks the Portuguese language, which is very helpful. But he is Chinese...”

Regarding the Portuguese investment in China I ask him what are the chances in his own opinion. He says that projects are according to the enterprises' dimension. If it is a large company, then the investment should run at 100%, settling a multinational. However, Portuguese scale is small and we need partners. It is very important to be careful when choosing the partner and it is of much importance to settle the common goal. Giving LEEEC example he says, “Things really changed after 2003. Before this year, we had a ‘politician partner’. They knew nothing about business. They knew about politics. Their approach to the market was to get foreign currency and export. The Chinese market was growing and we wanted to have a significant quota in the market. With such different strategies we reached nowhere. Surprisingly, working with a private partnership gives us the benefit to obtain more political support than before. We have a strong relationship with the general secretary and the Mayor. Our factory is equal to others in a manner that there are 250 players like us. We occupy the 20, 30 in the ranking in China. Once the problem of quality is solved, we will be a good equipment supplier in the long run. From the economical point of view, it will be very interesting. “It seems that the Portuguese part is using the Chinese tools to work in China”, I argue. “We have to be persistent so as to achieve our goals”, Armada says. He explains that the LEEEC process has been very polemical because everything had to be re-evaluated. “During all this time we have been working on the back stage resulting on a new strategic position of investment in China. After 2001/2002 (‘silent partner’ position), the business evolved in a fantastic way. We believe that in the end it will be very profitable because we have already settled several agreements with clients. And we rely on our strategic support. As soon as the conditions improve we will develop more the enterprise in

order to spread all over the world. Nowadays we are still responding to the internal market”.

When asked if they want to send another working Portuguese team to China, he promptly says “no”. “Why?”, I ask. He says he prefers to control things from a distance through computer system because they are very well equipped as they were never before.

I remind him that all the written theories about how to do business and succeed in China have one thing in common; that it is undeniable that one should go to China, run his business there, work, live and eat in China. He replies that the daily business is in good hands because the Chinese are good professionals and partners giving the right information and feedback about the enterprise. “We do not want to go to China. And we do not want to be the greater number in the partnership position. We could reach to the 50% but never more than that”, he states.

“In short, what will be the next steps and what will be important to do for the future success of the company?”, I inquire. “The partners’ good performance; the increasing support from Macao; to work on the internal market; to build an image for the company. We need to be pragmatic. There is no need to have dreams about this. This is our plan until 2008. After that, we can think about the new step. In China we must be careful otherwise we fail”, he concludes.

3.2.6. 3rd interview: 2005

Interviewee: Rui Paiva

Position: Former Deputy General Manager of LEEEC

In 2005, I contacted Rui Paiva, the LEEEC ex-financial director, in 2000. At the present moment, he is working in EFACEC parent company and living in Portugal. Asserting about what happened in LEEEC, Liaoyang EFACEC in China and also in EFACEC in Macao, he immediately says that in China the “Company still exists but the Portuguese counterpart finished”. Asked about the reasons that led to this failure, he says that it is hard for him to state that it failed because

EFACEC in Portugal did not end this process. “It is an interregnum time“, he explains. He also adds that in Macao there is no production activity. There is just an office with 2 or 3 employees of the enterprise.

To explain all the company’s process in China, Rui talks about the internal problems of the parent company EFACEC in Portugal, and expresses his ideas by images to make himself clear: “it was necessary to stop the bleeding, the hemorrhage, to solidify the business in Portugal. In China the results were not satisfactory and the demands of sustaining a structure over there for the Portuguese people to work and live there did not balance the investment. It was necessary to reunite the troops at headquarters”. Which means that EFACEC in Portugal wanted its employees back to Portugal in 2001, also the time that EFACEC entered a period of restructuring and changed presidency.

Rui Paiva lived four years in China when working in LEEEC and does not regret the time spent there. He says that it would have been impossible to stay in Liaoning all that time if he did not like China. He gives his example saying that he went to work to EFACEC branch in Mozambique (Portuguese ex-colony) and did not like it so much although he stayed there for one year: “it was easier in Mozambique, but I adapted better in China because I enjoyed it more”.

He also clarifies that a very good professional may go to China and fail in his area just because he probably does not fit in the spirit of the company in China. This happened with engineer Silvestre who is one of the best technicians in the company and did not succeed in his job in China. “So is there a cultural gap?” I ask. “How much is that determinant or not for the failure?” I add. Rui advances: “realities are very different. We must be very tough to deal with the ‘Chinese way’. How to find the appropriate behavior is very difficult. It is very unclear how a person that is excellent in his job in Portugal arrives in China and performs badly”.

I ask what is the right approach in China to what he hesitates to answer. “Maybe when we (the Portuguese) go to do business in China we adopt a skeptical and distrustful attitude since the beginning, ‘one foot is always behind’. There is this idea that we are talking about two different worlds”. “And do you believe in that since you were living in China? Portuguese people seem to be very adaptable to other cultures”; I tempt him. “Well, it is about two different worlds

where there are many things in common. For example, Chinese 'die' for money and if they do not have feedback about their goals, they close themselves in a shell. In order to have financial results they do all that 'flirting', dinners, and banquets, having always in mind some profit even if it is in the long run. "But it is not like this everywhere else?", I ask. "China is very particular in the way they (the Chinese) do things. We are the ones that must adapt to them because the contrary will never happen", he concludes.

Concerning the present situation of the company I ask him if there are any future plans. He thinks that it is important to be in China to run a business although to be present in a market that is so far away implies high costs and investments that are not returnable in the short run. And the 'house here is on fire' (EFACEC in Portugal); it is important to concentrate the energies here (in Portugal) and no added value is coming from China", he explains.

To conclude I ask him to focus on the reasons for the failure and briefly try to enumerate them. We talked on the phone but I could imagine his face just because of his silence. I presume he was confused what proved to be true. He begins with items; saying, "investment funds... (pause) The money... Well, the money is important... (pause) and... (pause) it is not ... (pause) a house (a company) that is not well ruled if we invest more money there we lose it. So it is not really just a question of money... the cultural issue, the language barrier... (pause); competition. We won the internal market, the local suppliers were responding well. Location? But the location was ok... (pause)".

After these hesitations, he goes on: "in China, what is important is to 'do with and not against'. Foreigners should go to China in order to have profit but they should respect Chinese people and their salaries. These people discovered the gunpowder and the paper. They are rising now after being asleep. Chinese people are really optimistic about their future, contrarily to the Portuguese people, who are pessimistic. They are going to dominate in the long run. The World Bank predicts that in 2020 they will surpass the USA. The Chinese imperial culture is more and more stressed. They rely on their historical dimension", he finally says in a moment without a 'pause'.

3.2.7 Some remarks

After 5 years, the report on EFACEC in China is useful to understand the evolution of a Portuguese company in Chinese land. The result of my research is by no means conclusive on the Portuguese investment in China. However, it is possible to say that in China "one size does not fit all". We remind here what Engineer Silvestre said at the time of the Chairman's replacement in 2000 that doing business in China is just the same as doing business anywhere else.

There are certainly many differences between China and Portugal (or the West): in history, philosophy, politics and society. And because "doing business" is also a social process, there are differences in the way of conducting business as well. This study tries to show how two different approaches can be used in a complementary rather than in a conflicting manner to explain the purpose of Portuguese investment in China or at least its possibility. Chan Kwok-bun (2005) works on the "convergence theory", i.e. he argues that "the conflict resolution process witnesses all parties engaging in a process of purposeful learning and unlearning and creating a [new sinified corporate culture](#) that best suites the evolving business culture and social milieu in China today – as China toys with the idea of developing socialism with Chinese characteristics"¹⁰⁸. This cross-cultural innovation in China is based in the appropriation of the essential elements of the western corporate culture into Chinese traditions to sustain Sino-western economic cooperation. On the other hand, what the westerners are doing to adjust in China serves to apply to their experience in the rest of the world producing in a global perspective an "alternative cultural globalization".

China changes very rapidly and facts become obsolete information the day after. Thus, the lessons learned from the case studies presented here cannot be taken as absolute truths.

Concerning EFACEC, during 2 years the Portuguese company remains a "silent partner" finding a new strategy to integrate the market using much of what they have learned from the Chinese: to wait patiently, to go step by step; to be careful in order not to fail (in Armada's words).

¹⁰⁸ Chan (2005).

We have seen Rui Paiva's opinion on the problematic issues in management-labor relations. People continue to address these issues in terms of cultural differences or animosity between the East and the West rather than viewing it as inherent structural limitations. Very often, the salary dispute or higher position as we have seen in EFACEC's case or even in Featherland's assume a bigger dimension when turned into cultural differences or antagonisms between two nations. Rui Paiva mentions this problem in his statement (salary problems), and also Alexandre (Featherland's Portuguese manager) says that one must play Chinese rules otherwise there is no game. Therefore, he chose to have his meals with his staff, which was considered awkward from the Portuguese point of view. In Chan's words, "the attempt to institutionalize a set of western values in China in total disregard of the local cultural peculiarities is bound to run into trouble"¹⁰⁹. We may add to this argument that if Portuguese people go to China in total disregard of their own cultural features they also might run into trouble.

3.3 Final remarks

Yanni Yan suggests that "foreign partners should aim to have substantially more than 50% equity share, while giving priority to a long term involvement in China, rather than short term profit".¹¹⁰ In LEEEC the Portuguese partner had 22.6% and pursued the long-term commitment instead of a short-term business practice.

We can imagine a number of possible reasons for the collapse of this joint venture, but it is hard to arrive to a conclusion. According to Yanni Yan there are basic factors that need to be present in order to avoid internal problems and all lead to the problem of ensuring control. At first, it is important for foreign partners to know where they really stand in the joint venture, particularly when they may not have the equity share to ensure that control. At the moment, China still lacks transparent policies and regulations and it is difficult for joint ventures to operate according to acceptable rules and traditional practices.

Secondly, foreign parties should gain more control by investing more non-

¹⁰⁹ idem, p 21.

¹¹⁰ Yan (2000), p. 239.

contractual ownership resources. In this way, providing technology and management training on a non-contractual basis will provide more control and influence in the operational areas of joint ventures. Yan claims that foreign parties usually occupy the senior positions and the board is normally organized in a way that foreign partners fit into the existing Chinese organizational structure. Controlling key positions is a way to ensure foreign control and influence.

In LEEEC, key positions were under the Portuguese people control. A Portuguese manager replaced the Chinese Chairman a few months before these interview were conducted (it was clear that this situation was a source of tension).

The finance manager and technology manager were also both Portuguese. Even though the Portuguese occupied control positions they did not actually exercise the power of control, they were minority share-holders in the joint venture. And money is power, especially in China.

We saw in the 1st case study how much the Portuguese investor depended on his “go-between” Chinese manager, although the investment was 100% Portuguese. This might be explained with the lack of previous information and preparation of Portuguese businessmen in dealing with China. Portuguese people believe in their capacity to adapt, and many strategic business guides underline this item as the key to the front door for business negotiations in China. But adapting is as important as to have the ability of creating and innovating. Above all, it is necessary to be sensitive in the exercise of power and to respect the most important characteristics of the host country.

Final conclusion

Conclusion is a frightening word when writing about China. What characterizes the country is exactly the opposite: an immense energy that makes it permanently renew itself and keep moving. For some reason the Reform Era is still the label for the period after 1979, suggesting a never-ending work in progress.

If we add topics such as culture and especially the results of cultural interaction, the difficulty double-folds: they share this inner feature of moving targets with China.

The picture becomes even more blurred if we add Portuguese investment in China to the two topics. It is a third factor of instability in our conclusions, for it is almost by definition a precarious, unstructured, one-step-forward-two-steps-backward approach to China. The proof is that the reason why I chose to study both companies, EFACEC and Featherland, was because of their relative success. In 1999, they could indeed be considered as good examples in the immense list of minor and aborted attempts of Portuguese investors to go to China. If this thesis had been concluded around that period, its final remarks would differ: EFACEC and Featherland would be labeled as success stories and a reason to be hopeful on the future of Portuguese investments in China. However, five years later, the evolution of the companies' situations obliges our conclusions to accompany their U-turn. I have to say that this 180° change was a disturbing factor for this work's pursuit. The original intention was to focus on the positive situations as I have just mentioned. When [these few examples fall into the grey list](#), there is reason for disappointment. I could have picked recent examples of relative success in China, as it seems to be the case of Vinocor. I chose to accompany the two companies I started working on, for a matter of coherence. I will leave Vinocor for another study that hopefully will have an expiry date longer than five years.

Nevertheless, I will dare present my conclusions taking into account that when I mention the success or failure of the ventures, it is mostly failure seasoned with some drops of success during a given period.

I believe in a way that my conclusions are exactly in the sense of destroying former conclusions about these issues, or better said, former dogmas that were implicit in the three questions I formulated in the Introduction.

First of all, the complete opposition of Chinese and Portuguese culture. As I have showed in Chapter Two, many are the similarities between the two countries. The most striking ones are the following: the importance of the family, the trust and *guanxi* or business friendship.

A cross-cultural business relationship implies that each culture underlines its strengthened points such as values, attitudes and beliefs. Afterwards the ability to combine these features instead of confronting them contributes to the success of doing business in China. It is absolutely outstanding that what is called the Chinese cultural barriers seems to be their flaws turned into qualities. Harmony, face, *guanxi*, time and patience, flexibility could also have other less positive meanings (passiveness, secrecy, false friendship, opportunism, disorganization), if Chinese were not self-conscious of their own culture. Many of the Portuguese and Chinese similarities are seen from different perspectives. What works for the Chinese as an added value, for the Portuguese is seen as a disadvantage.

Regarding the importance of the role played by culture in determining the success or failure of the Portuguese investment in China, I consider that my two case studies show that culture was an important factor. It is certainly not the only one. Lack of financial strength has a decisive role in the case of Portuguese investments in China. The ideal will be to combine the right balance between money and culture.

The perspective about time is the most significant cultural difference between Chinese and Portuguese. Although both look for quick profit, the Chinese know how to wait while the Portuguese showed a short-term orientation in their business approaches. From my case studies, it is clear that in both situations the expectations of obtaining good results in a considerably short period of time turned out to be huge disappointments. In China, if you are looking for quick profit you will be throwing away your money.

Concerning the importance of knowing the culture of the other partner as dominant factor for the success or failure of the venture, both EFACEC and Featherland interviewees were positive on the importance of acquiring knowledge about China. They were probably not as conscious on the need to be aware of their own Portuguese cultural features and on how they could combine with the Chinese characteristics.

Cultural problems are widely accepted as barriers, just like market barriers. However, the latest are usually considered temporary barriers that can be overcome through studies and adjustments, whereas the former are most of the

time considered as though they were permanent barriers. The homework on cultural issues is however to be started with the SWOT analysis of the investor's culture.

Finally, the choice of investing through a Joint venture or through a WOFE does not seem to be determinant in making the role of culture less important. Certainly, if the foreigner has more control over the management of the company, he can also avoid some cultural blocks at the management level. But he will always be working with Chinese people and in Chinese soil. The working environment will always be Chinese. In Featherland case it was extremely interesting to see that a WOFE became a Joint venture. The Chinese collaborator in the WOFE was so important that he took over the company and became the boss. In Featherland, it is obvious that the Portuguese investor could not accompany the rhythm of the Chinese partner.

Is culture a threat or an opportunity in the context of Sino-Portuguese business relations?

I believe that it is possible to make it become less of a threat and more of an opportunity. To achieve this result the first change has to be in the approach: focusing on the similarities and make them clear for the Chinese partner. This certainly implies a lot of homework to know and to compare both cultures. However, this does not seem desperately lost or completely Chinese to me in the way that what is Chinese is awkward. When dealing with a different culture, the first thing to remember is to set aside the idea that the culture we come from is the standard. The other's behavior should never be assessed in terms of deviation. Intercultural relationships are bilateral or multilateral. We will sometimes know more about our own culture when we are abroad than about the culture we are "visiting". Keeping ourselves in perspective and try to permanently assess the image we are reflecting is a valid strategy.

Another usual mistake is to start by assuming everything is different. A good exercise would be to start by identifying the common issues. For example, when approaching a Chinese, a Portuguese, instead of asking the usual question "Do you really eat dogs?", could rather start by saying: "You eat as much rice as

we do”. We are often too concerned about what separates cultures, but finding out similarities on the other side of the world can be as exciting.

While at a seminar in Lisbon organized by SPI¹¹¹ on opportunities for Portuguese companies in China, when one company representative asked the Chinese speaker on how to go to China since it is such a different and distant place, the Chinese replied pointing his finger and visibly tired of these sort of excuses: “the problem is not the distance, the problem is your mentality”. I would combine both sentences and say that the problem is the Portuguese mentality of focusing on the difference and the distance. Because as I mentioned in the introduction, the Spanish are in China and they do not seem to have found some kind of shortcut to get there.

The Portuguese are individualistic in the way they approach their work. I believe that due to the sheer size of China when compared to our more modest dimensions, the only way to approach going to China is to combine efforts. I wonder how many Portuguese investors that one day think that going to China is a good idea do really know or try to know similar stories among other Portuguese investors. There are few studies on this, but probably most important for less academic-inclined investors, there are few structures to promote the encounter, a sort of “Portuguese China Anonyms”, where the Portuguese could discuss these issues. China is not a place for experiments.

A common complaint the Portuguese businessmen have is on the lack of strategy by the Government to help the business. This is especially true in the creation of an appealing image for the country. “Take a break from the world”, was the last campaign to promote Portugal as a destination. Planned to build the image of a safe haven in a time of global insecurity, it somehow worked the other way round: Portugal as a place where nothing happens. A much more interesting proposal to the bidding was that of considering Portugal as Europe’s west coast, thus abandoning our tendency to want to be included in the south.¹¹²

¹¹¹ “O Mercado Chinês e as Oportunidades para as Empresas Portuguesas”, SPI, Tagus Park, Oeiras, Portugal, November 2004.

¹¹² Bandarra, P. “Europe’s West Coast”, Público, August 28, 2003.

However, one conclusion should be drawn from the lack of initiative of the Portuguese authorities: the businessmen have to concentrate on their own initiative.

A curious and incredibly strategic move by the Chinese has been to assign a very special role to Macao as the platform for the Portuguese-Speaking Countries Association (CPLP). In terms of business, Brazil is already China's biggest partner in Latin America and China has been touring some Portuguese speaking countries in Africa, to look for commercial agreements not only in petrol¹¹³. Contradictory as it may seem, the Chinese are creating a sort of image for the Portuguese-speaking world. It is admirable that the center of the Portuguese-speaking world has always revolved around the Atlantic and is now "delocalized" to Asia. During the days of the Portuguese Empire, Macao and Timor were always the less wanted colonies.

Though I maintain that Macao does not play an essential role in the Sino-Portuguese relations, I believe Portugal should be more actively involved in this Sino-induced Portuguese world based in Macao. Either Portugal finds another centrality for the CPLP or it should get involved with the Chinese efforts.

Finally, an interesting project could be the study of Chinese investment in Portugal, to check whether some of the conclusions do also apply.

A sound approach to China could ideally produce a new blend of especially trained Portuguese people: the Portuguese with Chinese characteristics.

Filosofia

¹¹³"China's business links with Africa A new scramble", *The Economist*, November 25, 2004 . On China's interest in East Timor's oil, see "Petrochina looks at East Timor's oil and gas fields", *South China Morning Post*, December 28, 2004.

Construo o pensamento aos pedaços: cada
Ideia que ponho em cima da mesa, é uma parte do
que penso; e ao ver como cada fragmento se
torna um todo, volto a parti-lo, para evitar
conclusões.

Nuno Júdice

Pedro, lembrando Inês

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