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Human Resource Management in the Restructuring of Chinese Joint Ventures

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Human Resource Management (HRM) is essential to building business strategy in China. Through their knowledge and competencies in developing personnel and facilitating organizational process, HR professionals contribute to achieving enterprise goals around the globe. In the People's Republic of China (PRC), this contribution is crucial because HR is the node where business, culture, and politics overlap.

Foreign investors in China are often faced with inadequate infrastructure and inefficient work practices, as well as corruption and autocratic local management. Even so, many have entered into Joint Ventures as a "must", to prove their lasting commitment to China, to keep up with global competitors, to establish a foothold in the "huge" Chinese domestic market. This "calling card" attitude to Joint Ventures began to change only in 1995, with the general disenchantment at that time, and deepened sharply as the surrounding Asian economies faltered from summer 1997. Other countries in Asia, some of which have more highly developed infrastructure, looked like cheaper and easier places to invest than in China. Restructuring of investments in China, explicitly to make the ventures more efficient and profitable, attempt to retrieve China's advantage. But restructuring is extra difficult in the PRC due to the legal and political complexities and the long time it takes. These delays prolong uncertainties. In China, the Joint Venture rife with rumors and worry, deflating morals in the workplace and dragging business down generally, while from abroad, investors push to settle or to give up. Central to the task of Human Resource professionals is to help design and facilitate practical change processes while also keeping operations functioning.

This paper discusses the developing role of HR practitioners in Joint Venture enterprises in China. The paper begins with a description of the Chinese context in which Sino-Foreign Joint Ventures operate, and the issues brought to these ventures by foreign investors. It then reviews the development of the Joint Venture as an investment structure and lists some of the problems encountered in their management. By focusing on the role of the Human Resource practitioner, this paper explores the levels of knowledge necessary for bringing about change effectively, and examines the pressures under which practitioners work in China.

Current cases of Human Resource intervention in Joint Ventures illustrate the way that larger issues are relevant to the process of change on the ground. These examples are from recent consulting projects engaged in by me as Managing Director of Salzer John Lynton Ltd., a strategic Human Resources consultancy based in Beijing. Half-American and half-German, I was raised in India and America before working in Germany for thirteen years, and have been based in China since early 1993. My upbringing and my academic background in Anthropology and Organizational Behavior are the cultural and personal filters I bring to my work and to this paper. One of my preferences is extracting rules of thumb from experience rather than fitting cases to a framework; another is my orientation to practice rather than to theory.

References to cases that are commonly known or have been published use the actual company name. In all other cases, the company being discussed has been disguised so as to protect confidentiality. This means names, locations, and industries may be changed but the events and situations have been factually described here. Text using case materials is indented.

The Context

The Chinese Background

China is transition from a centrally planned economy to a market-oriented one. More so than in most countries, in China politics, business and the economy are tightly interlocked. Accentuating the fact that the political processes in centralized governments generally tend to be opaque, in China this is combined with a cultural heritage of secrecy and a millennia-old tradition of achieving goals through the use of personal relationships. These are only two of the multiple areas demonstrating value differences between Chinese and the cultures of most Joint Venture partners.

Chinese society is hierarchical and relationship-based. For Chinese people, their interlocked web of relationships with relatives, schoolmates or colleagues, and including those who share the same hometown, forms the relational fabric of their world. It is through this network of relationships that a person obtains housing, a job, access to government bureaus for passports, residence permits and the like, or an introduction to a good medical doctor. Life is neither straightforward nor logical, information is not easily available, and relationships grease the wheels. It is of utmost importance for each individual to know where he stands in this network. The emphasis on status is reflected, and reinforced, by the Chinese language, which has no word for brother or sister, but many words for older brother, younger brother, older sister, younger sister and the like. Confucian philosophy was built around correct behavior, and what was correct depended on one individual's status relative to another. The cultural norms have thus influenced significantly the legal system and leave no room for the concept of one rule applying equally to all. In such a relationship-based society, the way a rule is applied depends on the authority's relationship with the person in question.

Although Communist philosophy espoused the idea of equality and introduced the term *tongzhe* or comrade, the Party hierarchy was in fact Confucian. This is illustrated by the structure of the communist *danwei* or work unit, in which individuals must use their networks of relationships to obtain access to or favors from superiors who are Party leaders. Those higher in status do not dispose of absolute power in that their positions are dependent on fulfilling their obligations to help those below them.

Workers in the PRC were raised in a system of cradle-to-grave employment, the so-called "iron-rice-bowl" system, "iron" because it was thought that nothing could break the bowl. Within that system, the individual had little control, but also few existential fears. The *danwei* determined educational possibilities, agreed to proposed marriages and divorces, allocated the right to bear a child, and provided housing, a basic income and extras at festivities. The right to a work unit apartment was often passed on to a surviving spouse and even, in some cases, to the original employee's child. In the transition to a market economy, few workers have understood the notion of performance-based employment — or unemployment. The latter is all the more difficult as the PRC has just written, but has yet to implement, a national social security law. Pensions are still tied to the individual work unit or, at best, to the locality. Most workers regard a job is an inalienable right of every individual.

Value clashes between foreign investors and Chinese authorities, and between management and employees are, therefore, endemic because they stem from basic differences in views of the nature of the person, the role of relationships, legal structures, and social and individual goals and, specifically, on the overall social responsibility of employers. Economically rational, non-personal management practices and systems are difficult to apply in China, yet this must occur if the goal of foreign invested enterprises (FIEs) is to become internationally viable.

In the PRC, the interlinkage between economy, business and politics is close and dense. Decisions affecting business strategy, such investment structures, sector development, plant location, the further development of the labor market, and the regulatory environment are tied to political decisions. While this close tie characterizes planned economies and centralized authority structures generally, in China traditions make it less transparent than elsewhere. This makes it more difficult and yet essential to map out power structures in governmental organizations at all levels. This applies to local, municipal, provincial and national government bodies and also to the bureaus running specific industrial sectors and their many regulatory agencies. It is also important to understand the parallel political structure that exists in the form of the Chinese Communist Party (CCP).

For building and maintaining these necessary relationships with government officials and potential or actual Chinese business partners, it is essential to seek support from individuals. In the past, many FIEs developed quickly through cultivating their relationships with a few high officials. The efficacy of that strategy has weakened and will keep waning as second and third ranked officials who were previously ignored move up the power structure. Of more basic importance are developments in the government itself, which recent change in leadership have pushed through quickly. There is now substantial restructuring, and top officials who previously handed down decisions are increasingly relying on information and recommendations from their staff. This means that achieving goal congruence and consensus from both top-down and bottom-up has become essential and that relationships must therefore be carefully tended at all levels.

Processes, regulations or habits that reigned yesterday may be different by tomorrow. Being successful in this situation demands continuous probing, gathering and processing of information and high flexibility in personal and business relationships. Successful foreign investors have learned to navigate the Chinese system, adapting to cultural differences both within and external to their own enterprises and also mapping the processes of specific political units, be they bureaus, municipal governments or national ministries.

The Foreign Investors' Perspective

Most foreign investors in China are international businesses, which have developed and prospered by paying attention to the bottom line. They come to China because they see the possibility of making a profit, if not now, then in the future. Yet this very focus on financial results leaves them open to trusting in apparently logical business plans which may be based on false assumptions.

Joint Venture contracts negotiated early in China's economic opening tend to share similar structural weaknesses, many of which were the result of inexperience with this form of investment. Already in the early 1980's, many Chinese were adroit negotiators, expert at overpricing their own contributions of land and employees while wearing down their opponents. Often however, the defective contracts were due at least as much to the odd suspension of common sense on the part of Westerners when entering the China market. The lure of 1.2 billion consumers who only need to buy one drink or one pair of shoes each for a company to be rolling in profits is still a fable leading the unaware to their peril. This ignores the current problem of overcapacity in China in product lines as diverse as washing machines, automobiles and many types of chemicals, which underscores the need for detailed market research prior to investment. Repeatedly, firms are left to grapple with the weak structures put in place through Joint Venture contracts negotiated by teams not familiar with Chinese systems. Both human frailty and lack of knowledge typically play a part in these negotiations.

With many companies viewing their China Joint Venture as a medal to be displayed, executives from Headquarters abroad are often more concerned with their positions on the Board and the ensuing "high profile" meetings with provincial or even central government officials than in their effect on day to day operations. They pride themselves on getting along famously with their Chinese counterparts, with whom they come to quick agreements on how to solve the problems at hand. After many banquets, including innumerable toasts to international friendship, and meetings at which difficulties are raised or innovations introduced without a single Chinese objection, the Westerners leave for the airport feeling that everything is on track. Their parting thought may be that they cannot understand why the China-based expatriate team is always making a fuss about the difficulties of working with their Chinese partner. Only slightly tongue-in-cheek, this description is of events that are unfortunately common. The Chinese treatment of guests, especially high-ranking guests, flatters many a foreigner's ego. This is not a trick but a cultural difference that becomes misleading. Likewise the Chinese hesitation to disagree directly in meetings is not meant to deceive but rather to allow for more polite ways of solving problems. Most Westerners barge ahead, assuming that silence means agreement. When the on-site staff later reports difficulty with the same issues, the directors may well believe their own staff incapable. "But I heard Mr. Wang say it was an interesting idea with my own ears."

The result of impressions made on such short visits is that headquarters may give negotiators little or no backing to push hard points, such as claiming the General Manager position. Later on, when the Joint Venture is in operation, the same directors may continue providing little support for difficult decisions.

The same suspension of disbelief is evident in the current wave of localization encountered in virtually every foreign corporation with operations in China. Headquarters have decided that management positions in China are to be filled with Chinese - on the whole a commendable goal. However, when asked how long it takes to hire a university graduate, take him into the business and teach him to be a manager in their American or European home base, most professionals agree the answer is 7-10 years. Yet the same people expect this process to take only 2-3 years in China, with its radically different culture and language, a lack of well developed business and management educational programs, and a tradition of respecting the authority of seniority. These situations leave the on-site management team, including the HR practitioner, the very people best informed of the possibilities for action on such issues, uncomfortably stuck between their Headquarter's view of China and the daily realities of working in the PRC.

From Guaranteed Employment to Unemployment: the Threat of Social Unrest

The Chinese government is concerned about social unrest in a country where independent analysts assume 30% overemployment in State Owned Enterprises and officials now publicly admit unemployment rates of 9% in cities and 20% in the countryside, with an additional 20 million working in money-losing enterprises.

The Bankruptcy Law, written for at least two years now, is effectively on hold as the government fears the rash of bankruptcies that will follow putting it into effect. There have been only 11,800 legal bankruptcies in the last five years. Most State Owned Enterprises are rated only "just" insolvent and therefore can continue to employ their labor force, yet at the recent 15th Party Congress, it was announced that 15% of State Owned Enterprises qualify for merger, acquisition or bankruptcy and that 30% have larger deficits than assets. The current policy is to force successful State Owned Enterprises to acquire unsuccessful ones – whether this will raise the overall level of success is doubtful.

Formally, with the Party Congress openly discussing lay-offs, the political climate for downsizing has improved. This means that officially sanctioned changes in State Owned Enterprise employment structures may therefore be useful as models in explaining to Chinese Joint Venture partners that foreign enterprises also need to be economically viable. However, the pressure of large-scale unemployment has become fearsome especially in the face of active labor unrest in areas such as Sichuan and Shanxi and strikes in Joint Ventures in Shanghai, Zhejiang and other provinces. Whether the government can carry through its courageous reform plan is yet to be seen.

Joint Ventures in the PRC

Since the early reforms of the Chinese economy starting in 1978, the Joint Venture has been the predominant form of foreign investment. Partly due to restrictions in some sectors for Wholly Foreign Owned Enterprises (WFOEs), this preference is also reflected in the view of the Joint Venture as an ideal structure for combining international technology and production know-how to Chinese local knowledge of distribution and sales channels. The export statistics speak for the high competitiveness of Joint Ventures: in 1996, the latest year for which data is available, 47.3% of the total volume of exports from the PRC originated in Joint Ventures, even though foreign invested firms account for only 12% of total industrial production. Their export volume is up from 39.1% and 37% in 1995 and 1994 respectively. Since 1997 there has been a wave of restructuring of foreign investment, especially of Joint Ventures. They continue to be favored because they combine Chinese local knowledge, workforce and market with international technological know-how and management practices. Like a marriage, a Joint Venture is rarely easy and many problematic issues and structures become clear long after the wedding night. That said, there are also other difficulties, which can be traced to the starting date of a particular Joint Venture.

Formal Structure

Until 1996, foreign investors were limited to only three ways of participating in China. First, foreigners could invest directly in Cooperative Joint Ventures (CJV), Equity Joint Ventures (EJV) or Wholly Foreign-Owned Enterprises (WFOE), the products and sales of which are restricted. (A brief overview of the structures of CJVs, EJVs, and WFOEs is appended to this paper.) Second, foreign companies could establish representative offices licensed to do liaison work. Third, foreign companies could enter into contractual agreements, especially licensing agreements, with Chinese enterprises. These possibilities are all widely used, with many companies utilizing all three channels simultaneously.

Since mid-1995, it has also been possible to establish Holding Companies, constructed as umbrella organizations able to own a variety of enterprises in China such as joint ventures, branch or sales offices, and so on while centralizing functions such as marketing, legal departments, and Human Resource management. Only large companies with substantial investments in the PRC have been allowed to establish holding companies. The attraction of a Holding Company is that it allows the foreign investor to raise money and improve the cash flow for all its investments in China, to promote the products of all its Joint Ventures and other facilities, and to standardize procedures across China. However, one of the primary reasons for establishing a Holding Company, the ability to raise and move money within the Holding Company group including its Joint Ventures, has proven elusive. In 1996, MOFTEC (Ministry of Foreign Trade and Economy Commission) was told by the People's Bank of China that such transfers would be legal only under a separately established identity, termed a financial holding company. By April 1998 only one foreign investor, Siemens, had its application for a Financial Holding Company approved by the People's Bank of China, so there is, as yet, no experience in how such a structure actually functions.

Management Problems in Joint Ventures

Systematic formal differentiation of corporate functions from government functions began only in the late 1980's. Changes in government policies and regulations still affect state-owned enterprises' policies, planning, import and export, and cost and return on profit. Although the Board of Directors of a Joint Venture is supposed to be the decision-making body, some joint ventures report interference by both local governments and/or the Chinese joint venture partner companies in the appointment and dismissal of personnel and in the financial management system. Suspicion of divided loyalties on the part of all joint venture staff is a common complaint from both partners.

The internal management differences in Joint Venture structures are often the most difficult to resolve. After more than 25 years spent developing enterprises in the PRC for the Swiss company BBC, which merged and became the Swiss-Swedish energy group Asea Brown Boveri, and now Asian head of the German conglomerate VIAG, Mr. Henk van der Tak concludes that "95% of all joint venture problems are essentially people problems". Clashes in management styles and differing expectations of management by international employees and local colleagues prove to be ongoing hurdles.

Early contracts usually resulted in vastly inflated workforce size, low foreign management control, and inadequate provisions for transformation or adaptation to the market. Joint Ventures negotiated more recently tend to still be weak on management control by the foreign party, have inadequately outlined marketing responsibilities, and overvalue the Chinese assets. Regardless of starting date, value and style differences and lack of goal congruence virtually guarantees that certain management difficulties will arise.

The division of management authority is a locus of conflict. In contract negotiations, for instance, both sides may agree to the principle of joint management, but they understand the concept differently. Typically, the Chinese side retains control of the personnel department while the foreign partner claims control of finance. Each partner believes he has kept the most powerful area in his own hands. That mistake becomes clear when the foreign partner pushes for the formalization of personnel policy and the procedures for recruiting, appraising and training employees, and the Chinese partner often feels his sphere of influence has been invaded. Moreover, any formal-rational systems would often be at odds with the fast-changing current context. For instance, while the iron-rice-bowl provisions are no longer dominant, it is still difficult to lay off workers even when they prove unable or unwilling to fulfill their tasks. Previously, under the planned economy, personnel affairs were directly under the control of the Communist Party, so the new contractual system for state-owned and joint venture companies represents a major step towards defining the obligations and commitments of employees. Bit in practice the change will take time, patience, and steady persistence. Studies confirm that a lack of congruence and expectations continues to be the major source of conflict in Joint Ventures.

Restructuring for Greater Control

Following early disappointments, foreign companies in China have been interested in restructuring their investments since the early 1980's, in particular for greater control. As an example, almost 80% of the joint ventures approved in Shanghai in 1994 were majority owned by the foreign party. At that time, the issue of restructuring centered on changing the scope of the business license, transferring technology and land use rights, and taking control of labor issues. These concerns have not changed in the past five years, but the sheer numbers of restructurings has grown sharply. In 1997, they proceeded in two ways. Either the foreign companies bought some or all of their Chinese partners' stake in the Joint Venture, thus gaining majority control or changing the legal status to a Wholly Foreign Owned Enterprise (WFOE). Or he raised the registered capital of the Joint Venture (usually to provide funds for an expansion or overhaul of production facilities). Since the Chinese partner often lacks the cash for such expansion, the foreign side provides most or all of the new funds and the Chinese' stake is diluted. The Chinese authorities now approve such changes providing they meet criteria set in advance.

A 1997 McKinsey & Co. study of 150 international alliances and Joint Ventures concludes that two-thirds ran into serious managerial or financial trouble within the first two years of operation. The key conclusion of the study, "The Way to Win in Cross-Border Alliances", is that "the hallmark of successful alliances is their ability to evolve beyond initial expectations and objectives". Many multinationals consider restructuring part of the normal growth process. Edward Neunuebel, Asia Counsel and Joint Venture negotiator for Dow Chemical Asia-Pacific has concluded that "Joint Ventures do not last for more than seven years without having to be completely retooled".

Restructuring for a Country-Wide Strategy

From the foreign investor's point of view, one truly positive reason for restructuring Joint Ventures is to build them into a pan-China business strategy. Many foreign investors began their businesses in China quickly, piecemeal, and often without detailed and realistic market research or due diligence procedures. Many of these deals involved them with inappropriate or bankrupt partners or, not uncommonly, with competitors.

Building on these mistakes, restructuring for a pan-China strategy now has three goals: to stop a company's own Joint Ventures from competing against each other or the mother company; to produce goods where the distribution system is viable; to select profitable enterprises. Implementing such a strategy is, however, fraught with difficulties.

> One of the best known German companies, Siemens, provides a typical case of a company that entered China with a scatter approach, including such diverse sectors as medical equipment, energy, consumer electronics and telecommunications. By 1998 they had thirty-nine Joint Ventures and five WFOEs across China and across sectors, each set up for its own reasons, such as needing a partner for manufacture in a restricted industry, or desiring better market access. Each of the Chinese partners competes against the others in their sector, and the sales and distribution networks of each partner are geographically limited. Now, to rationalize their business Siemens formed a strategic plan for sharing responsibilities between the Siemens Holding Company and the Joint Ventures. In the implementation of this plan however, Siemens met with unexpected resistance both from the individual Joint Venture partners and from the authorities necessary for approval of the change. While the individual partners were reluctant to give up the autonomy of their particular Joint Venture, the approval authorities were reluctant to see the Chinese partners subsumed into the identity of the foreign company's structure. Although Siemens had expected disagreements with their Chinese partners, they had not prepared for this brand nationalism at an official level. The establishment of the Siemens Financial Holding Company in April 1998 and the planned Siemens International Trading Company are new attempts to manage the problems of implementing a pan-China strategy.

Basically, while developing a country-wide investment policy makes immediate business sense from the perspective of the foreign investor, it looks very different from the perspective of any one of the investor's multiple Joint Venture partners. Located in different towns and provinces, they are often direct competitors who see no advantage in cooperating with one another. On the contrary, whereas a multinational rationalizes the sales organization, for instance, so as to approach the customer with a single face but bearing a portfolio of products from all of the Joint Ventures, the Chinese partner in each individual Joint Venture may be far more interested in keeping control of the sales of his particular product.

Other issues in developing a pan-China strategy are how to develop a brand identity, how to implement consistent policies and processes, and how to move high-performing staff between the JVs so as to raise the quality of them all. The foreign partner finds these rationalizations desirable, their varied Chinese partners do not. Finding a way to satisfy some of the very different concerns and goals of foreign and Chinese partners while maintaining a clear business strategy is a major challenge.

A list of the most common impetuses for restructuring China Joint Ventures , then, includes:

- Endemic management disagreements
- No further need for Chinese partner's relationships
- Joint Venture partner insolvency
- Joint Venture profits insufficient to finance expansion
- Joint Venture is not profitable = shareholder disenchantment
- Change in business scope
- Desire for control of labor/ HR
- Irreconcilable disputes
- Moving from experimental market entry strategies to development of pan-China strategies

Most items on the list reach back to the political strategy developed two decades ago by government authorities for whom business strategy was not first priority. Now, virtually all restructuring includes changing the balance of management control, introducing new systems and often reducing the size of the labor force.

The HR Professionals' Role in Restructuring Joint Ventures

Human resource professionals in multinational companies and Joint Venture enterprises in the PRC today must be politically and culturally astute as never before. In addition to the standard tasks of both routine and strategic HRM, practitioners are faced with swiftly changing laws, economic structures and socio-political pressures.

Intercultural differences both within the business organization and in the external political and social environment greatly affect the practice of HRM. Effective international human resource practitioners have learnt to understand the local level of cross-over between economy and politics, to deal with clashes between values of the host country and of the foreign investor, and to work with differences in power structures within organizations. In China they have also learnt to develop and maintain the relationships so essential to getting things done, relationships with government organizations and with individuals. Important anywhere, these issues are particularly salient in the management and change of Joint Ventures.

In most cases, human resource issues are inextricably tied to the restructuring process. The foreign partners usually attempt to restructure the Joint Venture to meet their overall business goals more fully. Often the difficulty of obtaining approval for the restructure from local, provincial and national approval authorities, however, is tied to overarching people issues. Given the link between unemployment rates and these political issues, human resource personnel often become involved as mediators between Joint Venture partners and with the authorities.

Strong HR expertise and involvement are needed in all three major directions of current restructuring: downsizing, moving from an iron-rice bowl mentality to a performance-based system, and implementation of a pan-China business strategy.

Downsizing

While the Labor Law makes some provisions for redundancy, neither the local management and workers nor the various labor bureaus and levels of government involved in approving plans are accustomed to cut-backs. The common pressures brought to bear on local governments by workers are further complicated by some cultural traits in China. One pattern is that no confidentiality is possible in business matters, so that all negotiations must be conducted on the assumption that all significant discussions and decisions will be generally known within 24 hours. Once recognized, this can be deliberately utilized to spread information or rumors, to test the waters unofficially and to put pressure on decision-makers. Another difference comes with negotiating under stress. Chinese may continue to display calm, and foreigners may misunderstand when negotiations seem to go smoothly.

> A Western MNC negotiated to increase its equity in a poorly performing manufacturing Joint Venture and to reduce the work force by 35%. This received all the necessary approvals. The managers commenced the dismissal procedures and were met with full co-operation, in fact were overwhelmed by workers wanting to take redundancy. The explanation: all the workers expected the redundancy to provide them with full salary and benefits until they died, just as it would have under their previous employer, a State Owned Enterprise. When they realized this was no longer the case, none of the workers wished to leave and the Labor Union used its influence with the local government bureaus to rescind their approvals.

Politicians and officials in Beijing are now publicly discussing the problem of widespread unemployment, but have received little attention around the country. The lack of concrete outcomes accounts for some of this, also that politicians have said many things and life remained much as before. Actual downsizing therefore necessitates particularly clear communication with all those affected; in fact it requires education. For instance, since in the past virtually all workers were assigned their jobs, they now need education in how to look for another position themselves, what benefits they stand to receive, and so forth.

Local loyalties set other kinds of problems. In business negotiations with mainland authorities, overseas Chinese are often exhorted to be loyalty to their true motherland. Joint Ventures experience similar pressures locally.

In 1996, a Scandinavian Joint Venture in an inland province was considering downsizing. A major strain had come with fulfilling its contract of employing 1200 workers, approximately 40% more than necessary to run the plant. Just then, the municipal government requested that they hire an additional 90 workers. When the foreign General Manager refused, saying he was already paying people to stay at home, the local authorities continued to insist, referring to possible benefits of complying. Pressed, the mayor's representative admitted his superiors' fear of social unrest due to unemployment and begged the Joint Venture to take on workers, thereby doing its 'patriotic duty'. The HR professional recognized that the mayor's request made sense within the old Chinese system of worker allocation and social over mere economic responsibility. Again, education is a major requirement — that the foreign management explain their own value system and then lay out the disastrous effect of an excessive workforce on business results. Only when they realized that the JV would close down if it lost too much money, did the municipal government rescind their demands.

Since the new Premier, Zhu Rong Ji, underscored his commitment to restructuring the State Owned Enterprises in March 1998, some provinces have taken radical steps towards change. The northern province of Liaoning, for instance, has hired a Belgian economist to direct the restructuring, downsizing and capitalization on stock exchanges of their outmoded heavy industry. One of their new regulations allows enterprises, including Joint Ventures, to lay-off employees by literally returning them to the state for a one-time fee per head. Payment of the fee, currently about two thousand US dollars, relieves the company of all future obligations including social insurance and pension payments. Other provinces may follow this example, a development that would make downsizing a far simpler process.

All aspects and phases of downsizing require the determined pursuit of clear goals and flexibility within the applicable legal framework, current political trends, cultural patterns and the communication channels of their fellow negotiators. Not a task for either the fearful or the arrogant, if approached with care, downsizing negotiations can leave a Joint Venture both healthy and still in good rapport with the local authorities.

Moving from the iron-rice-bowl to a performance mentality

The most common complaints from foreign partners involved in Joint Ventures is that their Chinese staff take neither responsibility nor initiative and that they do not work effectively but still expect their pay and bonus. This has become known among foreign investors as the State-Owned Enterprise mentality of 'I breathe, therefore you pay me'. To move from this to a performance-based compensation system is a common goal of Joint Venture restructuring, and that makes HR professionals responsible for much of the internal change. The following case, described at length, can illustrates the central role of HR in coordinating production, legal, safety and personnel issues in restructuring.

A global leader in producing high technology packaging materials, the US based manufacturing company Packem (not the actual name) had embarked on a Joint Venture in a Western province of China in 1995 with three Chinese partners - a packaging manufacturer, a paper company, and the local municipality. Although an internationally known company, Packem had actual production experience only in the United States, Europe and one plant in South America, and corporate headquarters was focused on the US. The senior managers sent to negotiate the Joint Venture were new to Asia and to China. The contract was not favorable to the US partner; as an example, despite their majority share, Packem did not hold the position of General Manager. During the first two years of operation, expatriates in the Joint Venture were few and came only for short stays; changes they wanted to make met with resistance from the incumbent Chinese GM and the workforce's expectations of the Joint Venture were disappointed.

After two years, Packem's executive team in the US changed and the new decided to restructure the Joint Venture; it would either attain world standard production and efficiency levels or close down.

Packem brought in HR consultants familiar with the situation in the PRC to manage the internal change process. Working with an executive committee made up of the American and Chinese senior plant management and reporting to the Board, the consultants worked closely with the Chinese HR manager and his team.

An initial analysis of the situation demonstrated poor if not openly antagonistic relations between the Chinese and American partners, and particularly focused on difficulties with the non-cooperative Chinese GM. Production was neither on schedule nor up to standard, plant security and safety regulations were deficient or not enforced. Work practices, legal agreements with employees, and compensation systems had not changed from the inherited State Owned Enterprise system, neither had the physical work environment and the employees' housing situation. Worker morale was low, and there was little communication between management and workers.

It became increasingly clear to the consultants that the Chinese partners were divided but would not admit this to the outside. With American directors and managers, the GM, Mr. Wu, was pliant and listened carefully, stated his interest and agreement with plans for change, and threw fun dinners. With time it became apparent that he was saying one thing to the foreigners and the opposite to his employees, most of whom had worked under him in the State Owned Enterprise. Investigations of how the workers would react to planned changes showed that they actually desired change but were under great pressure not to rock the boat. Mr. Wu reminded them that he had been there before the Joint Venture began and would be there still when the Americans left, and that supporting the Americans on any issues would be counted against them. He also assumed the power to distribute new housing, although technically that came under the jurisdiction of the personnel department.

The head of personnel was himself eager for change. At age fifty-five, Mr. Liu had little to prove and was fed up with the current situation. The consultants found him a rich mine of information and helpful in adapting new systems to the company situation. Mr. Liu came from the paper company, but was surrounded by ex-employees of the Chinese packaging company. He was therefore an outsider to the primary partner and had little stake in maintaining the old system. As a "paper man" he also came from the more successful Chinese company, which had shown that it understood profits and some modern management. In both respects, he made an ideal internal change agent.

Next, several processes went into motion simultaneously. The Board of Packem pressured all responsible for the China Joint Venture to finally get things going or leave. Those who had realized that the GM was blocking change called for his head. Efforts to increase production became frantic and 30 operators were sent to the US for training. A new executive committee proposed changes to the Chinese board members, using typically American flashy overheads, mission statements, and unrealistic schedules for change. The Chinese only nodded, and Mr. Wu continued to tell the workers that the Americans were unreliable. The Packem group agreed to bide their time while exploring ways of removing him. At one point they seriously investigated appointing him for a newly-created program in the US for two years — a common face-saving way of removing obstructive individuals who can otherwise create far more expensive trouble.

The consultants, the American management on site, and the Chinese personnel manager together agreed that there had to be a clear end to the old system. Before the workers would believe that change would now truly take place, something drastic had to happen. This would be done by actually closing the old plant and reopening it as something new. This plan came to be known as the Xin de kai duan or 'brand new day'. The first step, chosen for its high visibility, was to build a new wall around the factory area, and post security guards at the only gate, around the clock, to check those entering and leaving. This immediately affected both security and safety: materials no longer and children stopped dropping by and walking through workshops. Each job position was identified, and written job descriptions were the basis for grading and classifying them for pay and benefits. This degree of transparency was novel for Chinese companies, but the classification also reflected Chinese culture in that some positions considered lower status in the West were accorded higher status in the Joint Venture. Also some political realities: the head of the Labor Union, for instance, who actually did little advanced work was given high status.

To step up work performance, a system of worker certification was started, with safety training as the first step. Thereafter, every three months, each worker receives certification - or not - depending on traits such as punctuality, consistent use of safety equipment, wearing of uniform, cleanliness of work area, and so forth. Certification gave status and increased pay, while a large performance-related bonus system became an integral part of the compensation system. There were other compromises to fit the Chinese environment. After gathering a list of all the current subsidies, some, e.g. years of seniority, were linked to tiny additional allowances. This in itself was a Chinese-type solution.

As the details were designed and instituted, the collective labor agreement was reviewed and revised, and new individual labor contracts between the Joint Venture and each employee were written and signed. The Chinese HR manager, Mr. Liu, took the lead in documenting the changes in handbook for all employees. For the first time, Chinese workers could see in print their rights and obligations. The handbook laid out regulations such as safety and health rules, rights such as days of vacation and rules concerning overtime pay, and the expectations of the company regarding work behavior. Mr. Liu saw the handbook as a tool for moving from personal relations-based management to a task based system of management.

During the process of restructuring the compensation and benefits system, other changes were being made. A full-scale investigation of the housing situation revealed not only sub-standard housing but also the great pressure experienced by Joint Venture workers who were surrounded by neighbors still working for the State Owned Enterprise. Jealousy of the higher wages earned in the Joint Venture was coupled with the resentment by the Joint Venture workers of the lower expectations of work in their old company. The Joint Venture workers were not receiving the same extra bonuses as before, such a bag of detergent here or a sack of rice on a holiday. The American partner initiated a program to renovate housing and construct some new housing for employees. Though this took over a year to complete, it demonstrated right away that the Joint Venture cared for its employees, and was committed to carry out the Joint Venture, and eager for its workers to excel. It had the added advantage of transferring some powers held by the old Chinese management to the Joint Venture itself.

Concomitantly with the changes introduced on the Human Resource side, production systems were being changed. Engineers from the US helped install and adjust machinery while providing on-the-job training to the operators who did not go to the States. Production schedules went from one shift to two and then three. Quality standards were set and explained repeatedly, reinforced with frequent checks.

Attention went next to improving communication within the management team and between management and workers. The Board and the management team, Americans and Chinese, embarked on an intercultural teambuilding program, to experience the value of each as a member of the team and also to get acquainted as individuals. They focused on their culturally very different communication patterns and developed ways for improving current structures; the Board asked an intercultural specialist to facilitate its meetings for one year.

As a matter of deliberate policy, the flow of information between workers and management greatly increased. For instance, based on the Chinese tradition of introducing campaigns such as safety-campaigns, improve-our-company campaigns and so forth, the Brand New Day was publicized at large meetings, through slogan posters and through pictures. Emphasis was laid on the actual closing down and reopening of the factory - this held high symbolic value because 'one doesn't close a factory'.

Only slowly did the workers begin to show consistent interest in these changes. As contact continued, they showed themselves to be of two minds. Yes, they wanted change, but they were also nervous about what the change might bring. They knew there would be a new compensation and benefits system, but they did not know what it meant. Many remained sceptical for long. Changes in housing had been talked about before, so they waited to see what would come of this round; new production schedules and new quality standards had been proclaimed and then come to nothing. Here, Americans held speeches about the coming changes and then, in smaller meetings, the Chinese GM warned that the Americans would not keep their word. So workers waited to see what would actually be delivered.

About removing Mr. Wu as GM, the Americans took advice and, through a series of relationships, approached the town mayor. Any mayor is a powerful person, in addition this mayor had a direct interest in the Joint Venture, since the municipality was a small shareholder. The town depended on the factory importantly for both employment and tax income. The relationship was still not straightforward, given the interlocking family relationships in town, but the appropriate messenger was found to explain the serious damage Mr. Wu was causing and the threat that the Americans might leave if a solution were not found. This was tricky, because a foreign investor can only bluff once. Packem was aware of the risk they were taking and were willing to bear the consequences. A Chinese solution was found: Mr. Wu was recalled to his previous employer and given a major promotion in title. This was accompanied by great apologies to the Joint Venture and public explanations of how desperately the Chinese company needed the return of Mr. Wu's expertise. Once he was in his new position, Mr. Wu's opportunities to interact with the Joint Venture were carefully cut off by the Chinese. Mr. Wu's new title cost the Chinese partner little, and the process saved his face. All parties understood these meanings but said nothing. Plans for the Xin de Kai Duan continued apace under the American Deputy GM.

The action plan went into effect; on Day One, November 1, the plant was closed down. The following, Day Two, all management and supervisory staff reported to work. That day passed with orientation sessions to the new compensation and benefits structures, and to the quality and safety systems and with the issuing of new uniform coats. The policy handbook was distributed and explained, then the supervisors discussed the impact of these changes on their staff. On Day Three, all employees were brought into the factory and greeted by the management. They too were introduced to the new systems, especially the certification process, were issued uniforms and safety equipment and attended quality and safety training as appropriate. On Day Four the plant went into full operation. Four months later, the factory is truly different. Workers are concerned to remain certified and so wear their safety gear and maintain their equipment. The production area is clean, and workers look visitors directly in the face. The move from one shift to two has gone smoothly and the plan for implementing a third shift, that is, to go on to full production, is on schedule. The atmosphere of the entire company has changed.

None of this was magic, nor all linear. When the new compensation and benefits system was introduced, the Chinese management almost backed down. Many people remained at the same level or received some raise, but those remained quiet, not wanting to attract jealousy. There were some whose jobs were graded so much lower that they lost salary. These people were extremely vocal, and approached managers not in the habit of explaining decisions, especially not on the basis of objective criteria. The emotional burden for management was very high and the learning painful. It was important to coach and support the managers through this process of implementing results-oriented, non-relationship based decisions. In the end, however, only the visible success can convince them that the difficult process of change was worthwhile.

This case outlines the broad range of human resource competencies needed in restructuring and illustrates some of the overlaps of areas and levels of analysis with which HR practitioners deal; it exemplifies the way politics and culture overlap with business considerations in regulatory, organizational and structural frameworks, as well as in social and personal dimensions. At the regulatory level, the central Ministry of Labor, the Provincial Labor Bureau, the municipal government, and the Labor Union were all involved in the review of collective and individual labor contracts and in approval of the new policies for workers. Political and cultural influence were also evident in the social and organizational traditions of the iron-rice-bowl, including employee housing and the inattention to performance standards. The GM, Mr. Wu, was able to use personal relationships and power to scare his staff, and also to use the xenophobia taught in the 1970's, with its emphasis on distrusting foreigners. Traditional management structures placed full authority in the hands of the top man. Being deep-rooted, they can be changed only slowly.

The HR practitioner in such a case must be conversant with the changing labor regulations as issued by different levels of authority while maintaining good relations with the Labor Union and local bureau staff at minimum. The practitioner also needs the ability to build solid collegial relationships with the Chinese managers. This is often difficult due to cultural and communication difficulties and mistrust, but is absolutely essential if the outsider is to understand what is actually going on around him, to learn the history of past relationships, and to gain Chinese support for proposed changes. Here the HR practitioner must be inter-culturally sensitive and knowledgeable and possess skills in organizational development and design.

Supporting a Pan-China Strategy

The implications of a pan-China strategy for Human Resource management are multi-faceted. One challenge is to implement unified personnel policies across the country. This simple-sounding task is actually massive and complex. When Human Resource departments try, for instance, to standardize contracts, they are confronted not only with different Chinese partners and types of organizations, but also with a wide variety of local, municipal and provincial regulations, and social insurance systems depending on locality. The same hurdles appear in attempts to unify business processes and standards; again the HR professional must convince and satisfy multiple partners and multiple bureaucracies.

Most MNCs depend on an international core of highly trained professionals who move between locations as needed, setting up operations and transferring skills. This is part of the corporate culture of many large organizations. Important investors in China have reached the point of also wanting to develop such elite teams within the PRC. The purpose is to provide start-up operations with management and specialists who can hit the ground running and can transfer skills learned in one Joint Venture to other, newer Joint Ventures in China. While this benefits the Joint Ventures, it is also in the long-term interest of employees, who want to round out their experiences with different projects and so develop their abilities. An added advantage is that individual employees who move with the same company develop knowledge of and loyalty to the company as a whole rather than to a specific enterprise. This encourages the growth of a common corporate culture and uniformity of business processes and standards.

The difficulties involved in relocating Chinese personnel domestically, however, are numerous and surmounting them is costly. There is little clarity on questions regarding the proper transfer of personnel files and residency permits. Moreover, individual Chinese are usually not happy to relocate into the hinterland - where most new Joint Ventures are located - and demand 'local expatriate' packages including R&Rs and trips home. A more exotic problem is the culture-gap between Chinese from larger urban areas and those in second and third-tier cities, who have hardly been exposed to foreign systems of management and technology. In responsibility, such as for maintaining machines, or taking decisions, most lag far behind their more cosmopolitan colleagues from Beijing, Shanghai or Guangzhou. The staff brought in from other enterprises may also be sidelined and harassed by local staff in ways that most foreigners neither imagine nor see. Therefore devising the most efficient method of introducing and paying the outsiders is of utmost importance.

> A European car-parts manufacturer in a small city in northeast China was faced with complicated labor contracts and the need to implement fresh structures that included writing job descriptions and determining competencies. While the local population could provide staff with basic skills and eager welders, operators, and some accountants, no one in the area had any background in personnel management. As there was great reluctance to see a foreigner in this position, the firm hired a Chinese Human Resource professional from Beijing, who was willing to move into the country.
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> The Chinese General Manager announced to this new HR manager that they, the Chinese partners considered him to be 'one of the Europeans'. Employees in many departments refused to provide him information on the content of the jobs. Standard company files in the personnel office simply disappeared. When an anonymous letter accusing the personnel manager of staying in overly expensive hotels on business trips and squandering the Joint Venture's money was slipped under the hotel room door of a visiting division head of the European partner, the personnel manager gave notice. The Europeans have abandoned hope of finding a replacement and all the old difficulties continue.

Other firms have had their 'local expatriate' personnel thrown out of rented apartments in the middle of the night and even bodily threatened by local staff who felt their positions and networks were being put at risk.

The difficulties of moving staff within China are partly politically determined, with a range of local and provincial authorities enforcing contradictory regulations on the moving of social security benefits and pension plans, residency rules and so on. They are however also partly cultural, demanding that outsiders understand even intra-cultural tensions such as those between the coastal cities and the hinterlands. The importance of in-group relationships in China cannot be overestimated; however occasionally an outsider can enter into existing networks with success. Judging where, when and with whom this is possible is tricky even for Chinese.

The Packem case illustrates the strategic contribution a local HR manager, a Mr. Liu, can make — local, somewhat marginal to the structure, eager for change and also very competent. Finding, recruiting, and then also empowering such an HR manager is worth much effort. Significant early involvement from the strategic planning process phase onward can yield yield important dividends by alleviating or preventing work stoppages, improving workforce morale, and devising culturally acceptable methods of solving problems and developing in-country capacities, including pools of experts in new venture set-ups.

The Role of HRM in China's Transition

Foreign investors in China are increasingly reevaluating their enterprises in the PRC using global measuring sticks. As a result, foreign invested enterprises are being restructured, consolidated and reshaped into a whole pan-China strategy. HR professionals in the PRC play a particularly important role in attaining these business objectives of rationalization and of raising financial and production results to meet international standards. To accomplish these goals, major foci in the near future will be the rationalization of work force allocation, enhancing worker productivity in individual enterprises and reducing friction in the area of labor relations. Reaching these goals in the context of Premier Zhu Rong Ji's three year plan for revamping the state sector and State Owned Enterprises, especially in the face of massive unemployment and an increasingly vocal and angry populace, will be an arduous task. The changes demand the highest talent possible and a reconsideration of the role of HR practitioners in the executive team.

HR professionals in China today are increasingly playing an integrating role, as illustrated in reference to the three most important business changes currently occurring in FIEs in China: downsizing, restructuring, and integration into a pan-China strategy. In the process of downsizing, the HR professional is a mediator between the employees, the enterprise management, the labor union and the relevant labour bureaus. The success of such mediation depends on the HR professional's ability to balance differing expectations, his knowledge of the changing legal context, and his cross-cultural communication skills. The process of restructuring a Joint Venture usually involves moving a workforce from an entitlement to a performance-based mentality and into a compensation system supporting that change. The case of restructuring Packem's Joint Venture is an example of the integrating function played by internal and external HR practitioners in organizational change in China. In the pan-China rationalization process, HR professionals play key roles from hammering out the initial strategy through the daily implementation of country-wide policies, and in carrying a company's global corporate culture into the Joint Ventures. In these three areas, success depends on knowledgeable and flexible agents of change.

The role of the HR practitioner in restructuring Joint Ventures is that of an acrobat balancing on a tightrope; this is the role anthropologists have titled 'the culture broker'. The culture broker is someone who, for a variety of personal reasons, is open to being a bridge between cultures. In traditional anthropological fieldwork, the culture broker was the native who took time to explain his people's customs to the strange scientist. In cases of culture change, the culture broker is often someone who has left his tribe, seen other peoples and places, and returns with new ideas. In all cases, the culture broker pushes the limits. This person does not fully belong to any one culture because he is different, he has ideas that are outside the usual box, and therefore has less invested in maintaining the old system. Mr. Liu in the Packem case is such a culture-broker. He came from the least involved Chinese partner, so he was an outsider to the packaging partner, and he was old enough to ignore most of the internal status plays. Consultants are often brought in expressly to work from this role, which provides a freedom of movement not usually possible for internal players.

HR professionals in China often play the part of culture broker. Ideally, they can bridge traditional Chinese values including the communist iron-rice-bowl mentality and the new values of international business. In their daily practice, many HR practitioners walk the thin line of negotiating, cajoling and influencing different Chinese authorities, while balancing the goals of the enterprise and the good of the employees. As corporate, China-based HR professionals, they are also bridges between Joint Ventures in China and the culture of the foreign investor, communicating the policies, procedures and goals of the China office to the individual Joint Venture employees and feeding their concerns back into policy making. And as the bridge between a company's China operations and their Headquarters in the West, HR professionals explain global goals and changes to their Chinese employees while explaining the Chinese situation to the management back home.

Nonetheless, HR does not receive the corporate respect it deserves. At a 1997 conference on HR issues in China, a panelist asked the more than 200 participants whether any of their companies had considered the HR situation in China before deciding on their investment strategy. No one answered positively. Yet surveys show that senior management spends more than 75% of their time on HR and people-related issues, and labor-related difficulties are frequently listed as one of the foremost problems with FIEs in China. Why does HR continue to be seen as a problem, without there being an associated focus on those professionals who engage in it?

Individually and collectively, many HR professionals in China need to sharpen their skills, especially in organizational development and business strategy, so that the rest of the executive team will perceive them as true professionals. Many HR managers need encouragement to delegate the routine side of their tasks, partly to administrators and partly to new electronic programs that allow employees to add routine entries directly to their files. There is a challenge in the air but — in many cases, not yet concrete support from top management. This is a time for HR professionals to hone and demonstrate their skills.

Whether or not the Asian financial crisis becomes a Chinese recession, FIEs are already faced with the cut-backs and downsizing necessary to save short-term profitability. At such a time, however, it makes equal business sense to focus on developing long-term competitive advantages. Around the world, flexible, highly trained and networked teams herald corporate success, and achieving such a corporate culture rests largely on HR professionals working cooperatively with functional managers. In the PRC, developing team attributes in the workforce necessitates changing longstanding cultural patterns of authoritarian albeit paternal management in closed systems with little information flow. The transformation demands a middle level of culture-brokers, including international and Chinese HR practitioners to facilitate organizational development. The Chinese practitioners will need to be of different age groups, so they can understand and reach workers and managers whose past experiences are radically different from the new structures being introduced. To be effective in this integrative role, HR managers must receive support, both internally from colleagues and management, and externally in the form of professional associations in which practitioners can learn from others' experiences.

To further develop HR capacity within China, it is important to find and engage people with the ability to be or to develop into culture-brokers. It is essential to identify the Chinese able to translate back and forth between East and West, and between traditional and new systems. Those too young, especially those from the large coastal cities, never fully experienced the old system, while those too old or from rural areas may not understand the new one. Identifying models would be a beginning – why are some Chinese who have studied and worked abroad able to become effective change agents on their return, while many returnees are arrogant and therefore cut off by their local colleagues? Why are some PRC managers from large cities acceptable to Joint Venture workers in small towns, while others are disregarded as "city slickers"? Once some of these questions are answered, it will be easier to identify high potential candidates for guiding the process of change.

Once identified, HR managers in China need training, not just in theory but in practice, including mentoring by older practitioners and sharing of experience with peers. Continuing education will play an important role, as will professional associations for sharing, linking and fostering new generations of HR managers. One long-term result of such nurturing may well be that these associations can become involved in developing and reworking the laws and regulations that influence HRM, comparable to industry lobbies that influence, for instance, environmental regulations.

In particular cases, where conflict is unavoidable, the use of external HR professionals will remain beneficial. HR consultants are brought in as "hatchet men" to carry out operations such as downsizing or assessments globally and in the PRC. This has the advantage of turning hostility to people who will eventually disappear, leaving internal personnel still effective. Particularly in the PRC, external HR professionals also take the role of mediating between China-based offices and their Headquarters overseas. Consultants are asked to evaluate the local applicability of global policies when a corporations' own China-based expatriates and managers are seen as holding too large a stake in the outcome to be objective; a typical case is the question of how extensively and at what speed expatriate management positions can be localized in the PRC. On this issue, expertise from external professionals who can compare experiences across industries and companies carries heavier weight than an internal report to Headquarters. Separating external supporting roles from internal building roles will be useful in dividing HR tasks and clarify the internal HR manager's role to his colleagues.

Overall, the challenges and burdens for HR managers in China can only increase in the coming years. Changes on the political, economic and social arenas will all impact on HR professionals. Restructuring of State Owned Enterprises and foreign investments, and the ramifications of accompanying changes in the labor market, will raise the risks of HR practice while demanding far greater creativity in crafting solutions acceptable to internal and external interest groups and governmental authorities. Demonstrating this creativity may be central to increasing the influence of HR professionals to inform the business strategies of their firms. The current situation demands flexibility, innovation, and an ability to mediate. HR professionals can help provide those talents.

Attachment: Overview of Investment Forms

Chinese partners are always considered State owned and their assets are state owned assets.

There are Cooperative Joint Ventures (CJVs) and Equity Joint Ventures (EJVs).
The 1979 PRC, Sino-Foreign Equity Joint Venture Law stipulates that the foreign party must contribute at least 25% of registered capital, that there is no ceiling on foreign investment outside pillar industries and it stipulates a fixed Debt/Equity ratio.

The 1988 - PRC, Sino-Foreign Cooperative Joint Venture Law defines two forms of Cooper-rative Joint Ventures: a "hybrid form" including the establishment of a separate legal entity with limited liability, and a "true form", which has no separate entity and no limited liability; it also does not require a Board of Directors but this is rarely implemented. According to this law, CJVs can be formed with no minimum contribution from the foreign partner, and the partners determine the division of profit and time of sharing according to contract. The law allows for vagueness, which is both a drawback and an advantage depending on the carefulness with which the contract between the parties was negotiated.

Changes in legislation regarding CJVs have removed most of the advantages of that form. The 9.1995 PRC, Sino-Foreign Cooperative Joint Venture Implementing Rules legislate that unanimous board approval is necessary to any number of changes in a CJV including reduction or increase of registered capital, amendments to articles of association, mortgaging of assets, or entering liquidation. In addition, it specifies joint management for the CJV.

The original CJV laws did not specify these articles but in localities such as Beijing, the EJV rules were all applied by reference or approval was not possible. Following the Implementing Rules, CJVs left with essentially only three benefits to distinguish them from EJVs : a few long term tax benefits, the possibility for the foreign investor to recover his investment early or in a proportion that does not reflect equity division if the Chinese partner is left holding all the equity, and the possibility of a unilateral right to liquidate. For uncertain investors, this is an attractive difference.

Wholly Foreign Owned Enterprises (WFOE) are governed by the 1986 - PRC, Wholly Foreign Owned Enterprises Law, the 1990 - PRC, Wholly Foreign Owned Enterprises Law Implementing Regulations, and the 1994 - PRC, Company Law. According to these laws, a WFOE is a wholly owned subsidiary of a foreign parent and also a Chinese legal entity with limited liability. Following payment of taxes etc, profits may be remitted to the parent company. WFOEs are encouraged to engage in high technology production processes and they should export at least 50% of the goods produced, however exceptions to this rule are increasingly common. The rules applied are variable by sector and province and WFOEs are forbidden or restricted in some industries. In any case, there are no Chinese capital, partners, or management involved in a WFOE.