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U.S. Trade with China: Programs, Practices, and Opportunities for Taiwanese Firms*

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As China's economic reform deepens and the Chinese market becomes more liberalized, trade between the United States and mainland China, particularly in the area of U.S. exports to China, will continue to expand. This paper argues that the prospects of growing trade between the United States and China represent enormous opportunities for Taiwanese firms, given the unique strengths that Taiwanese firms possess. This argument is made first by reviewing U.S. government programs and company practices in the area of trade with China. Then, specific opportunities and strategies for Taiwanese firms to form alliances with U.S. firms in exploring the market in mainland China are discussed.

Keywords: Taiwan's trade; U.S.-China trade; Taiwanese firms in mainland China; Chinese market; export promotion

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Despite periodic tension between the United States and China, trade between the two countries has grown rapidly in recent years. In tandem, trade between mainland China and Taiwan has also increased dramatically.

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Many Taiwanese firms are in fact directly involved in the economic relations between the United States and mainland China through various avenues, the most notable being manufacturing in the mainland and exporting to the United States.

As China's economic reform deepens and the Chinese market becomes more liberalized, trade between the United States and mainland China, particularly U.S. exports to China, will continue to expand. The prospects of growing trade between the United States and China represent enormous opportunities for Taiwanese firms, given the unique strengths that Taiwanese firms possess. Economically speaking, based on the current production factor endowments and economic development stages, trade between the Untied States, mainland China, and Taiwan is complementary. Culturally speaking, due to their ethnic and cultural bonds to the mainland and knowledge about American society, Taiwanese businessmen are a natural link between the business communities in China and the United States.

The purpose of this paper is twofold. First, it reviews the U.S. government programs and company practices in the area of trade with China to provide some background regarding the potential for increased involvement of Taiwanese firms in U.S.-China trade. Second, it discusses specific opportunities and strategies for Taiwanese firms to form alliances with U.S. firms in exploring the market in mainland China. The paper is organized as follows. First, it reviews U.S. government programs and activities in promoting U.S. exports to China. It then summarizes some observations on the practices and experiences of U.S. companies doing business in or with China. The unique positions of Taiwanese firms in U.S. trade with China, their opportunities, and the possible forms of strategic alliances between U.S. and Taiwanese firms in exploring the Chinese market will be discussed in subsequent sections. The last section will provide a brief summary and some general recommendations.

U.S. Government Programs and Activities in Promoting Exports to China

Together with policy-level maneuverings to increase the access of

U.S. firms to the Chinese market, the U.S. government has engaged in various programs and activities to promote U.S. exports to, and investment in, China. The following section highlights the key features of these activities.

U.S. Government Lobby Efforts on Behalf of U.S. Firms

It appears in recent years that high profile bilateral visits made by U.S. and Chinese government officials have often been accompanied by lucrative business contracts for U.S. firms. Many felt that the main thrust of late Commerce Secretary Ron Brown's visit to China in October 1995 was to place the commercial relationship, buffeted by the Taiwan issue, firmly back on track.[1] One of his main priorities was to advance the interests of larger U.S. corporations (such as those in the power sector) whose projects, worth up to US$1 billion, were often mired in China's bureaucratic red tape. Visiting China in September 1994 as the flag-waving head of a higher-powered business delegation, Brown oversaw the signing of US$6 billion in contracts for items ranging from the sale of Boeing passenger jets to power station agreement.

U.S. Commerce Secretary William M. Daley made his maiden trip to China in early October 1997 to attend the Sino-U.S. Joint Commission on Commerce and Trade. Like the late Ron Brown, Daley's mission was to drum up business for U.S. companies. Commerce Department officials had drawn up a list of "deliverable" deals for Daley to push during his week of meetings. These projects included as much as US$1 billion in power, environment, and electronic sales, plus US$1.5 billion in Boeing aircraft sales. Daley was also to push Chinese leaders to use U.S. technology to rebuild their aging airports.[2]

It is well known that the U.S.-China summit between Bill Clinton and Jiang Zemin in October 1997 brought in businesses for U.S. firms. During Jiang's visit, China and Boeing Company signed an order valued at US$3

[1]Tony Walker and Nancy Dunne, "Brown's Beijing Trip Calls for Deft Footwork," *Financial Times*, October 16, 1995.

[2]Ian Johnson, "Daley to Barnstorm China, Pushing Contracts for U.S.," *The Wall Street Journal*, October 3, 1997.

billion for fifty jet aircraft. Clinton called it "the largest sale of airplanes to China in history." The order was nearly twice as large as what the company was expecting. Clinton also said that he would open the way for Westinghouse Electric Corporation and other U.S. firms to help develop nuclear power plants in China, where there is an estimated US$60 billion market for such projects.[3]

Government Resources and Programs

The U.S. Commerce Department maintains specific resources and regular programs to promote exports to China. The major functions of these activities are to collect, compile, and disseminate trade-related information. The National Technical Information Service (NTIS) provides basic marketing documents on China, including *Foreign Economic Trends* (*FET*) as well as numerous *Industry Sector Analyses* (*ISAs*) and special reports. The National Trade Data Bank (NTDB) provides a database of more than 100,000 documents containing the most up-to-date information on foreign trade and export promotion from the collections of seventeen government agencies. It contains all of the documents on China available from NTIS, in addition to many others. The Trade Opportunities Program (TOP) provides companies with current sales leads from international firms seeking to buy or present their products or services. The Commercial Information Management System (CIMS) contains a database (including name, address, and contact information) on most of China's major trading companies. U.S. exporters can access CIMS to obtain a list of trading companies, distributors, or agents that may be able to represent their firms in China. The Trade Information Center (TIC) is charged with the mission to guide businesses through the export process and through the myriad of exporter assistance programs available from the nineteen federal agencies that have a role in trade promotion. TIC provides export counseling covering a wide range of topics, including export initiation, export financing, documentation, seminars and conferences, and overseas trade events.

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[3]Robert Greenberger and Ian Johnson, "U.S.-China Summit Brings in Business," ibid., October 30, 1997.

The United States and Foreign Commercial Service (US&FCS) offers a range of standard market exploration services. One is the Customized Sales Survey (CSS) which provides a customized assessment of a client's given product line. The CSS provides succinct answers to some basic questions about the Chinese market. Another service is called the Gold Key Service, an appointment service for businesspeople who plan to visit China. There is also an Agent/Distributor Service (ADS) program that can help U.S. exporters find appropriate sales agents in China. The Office of China, Hong Kong, and Mongolia in the Commerce Department provides specific information on the Chinese market and commercial environment, bilateral policy issues and initiatives, and upcoming trade events. The office also publishes reports on economic and business conditions in China. In addition to these regular programs, the U.S. Commerce Department often organizes or helps organize seminars and training programs that are directed at promoting trade and investment in China.

Many other U.S. departments and federal agencies also have various resources and programs that help U.S. firms export to China. Some U.S. state and local governments have their own programs to facilitate local exports to China.

U.S. Embassy and Consular Offices in China

The U.S. Embassy in Beijing and its consular offices in other major cities in China play an important role in promoting U.S. exports to China. Among the specific activities are the compilation of the *China Country Commercial Guide*, and the publication of the *China Commercial Brief* which includes commercial news and short market research reports. The U.S. Embassy helps organize regular seminars for American businesspeople stationed in Beijing. The Foreign Commercial Service (FCS) officers posted at the Embassy and consular offices are able to provide American businesspeople with up-to-date information on local business opportunities and conditions, and on the current economic and political situation in China.

Some U.S. departments and agencies have offices in China to help promote exports of specific products or in specific areas. For example, the U.S. Department of Agriculture's Foreign Agricultural Service (FAS) has agricultural trade offices (ATOs) in Guangzhou, Hong Kong, and Shanghai. They are available to help U.S. exporters link up with Chinese importers and can provide assistance in hotel and meeting arrangements, menu promotions, in-store supermarket promotions, as well as a wide range of other services.

Some Adverse Aspects of U.S. Policies

While there are so many resources and programs that help promote U.S. exports to China, U.S. firms trying to sell in China are still faced by the acute challenge posed by Japanese and European development assistance to China. Even before 1989, the United States was the only industrialized country without a concessional loan or mixed credit program for China.[4] Substantive U.S. programs to promote U.S. trade and investment in China had been limited to three very modest programs: lending and loan guarantees through the U.S. Export-Import Bank (Eximbank); investment guarantees by the Overseas Private Investment Corporation (OPIC); and technical assistance through the Trade and Development Agency (TDA).

Moreover, some U.S. sanctions (including the suspension of OPIC and TDA) against China imposed in 1989 still remain today despite the fact that every other industrialized country has long since lifted them. Due to these sanctions and export controls, the United States has effectively blocked U.S. firms from supplying high-tech products, including nuclear power generation equipment, to China. In addition, because of the U.S. administration's interference, the U.S. Eximbank has refused to consider the financing of U.S. equipment for the Three Gorges project in China, although such projects are not within the confines of the sanctions. Another major impact of the trade sanctions or the threat of sanctions is that both the U.S. exporters and the Chinese clients feel uncertain about the future prospects for the bilateral trade and, understandably, become hesitant in developing long-term business relations.

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[4]Nicholas R. Lardy, *China in the World Economy* (Washington, D.C.: Institute for International Economics, April 1994), 120.

Trade Practices of U.S. Companies in China

It is difficult, if not impossible, to generalize the trade practices and experiences of U.S. companies in China. Rather, this section of the paper will provide a few observations in this respect.

Working with Governments

U.S. companies have played an important role in the formation of U.S. trade policies toward China, as exemplified in the disputes over intellectual property and China's most-favored-nation (MFN) status.

Nintendo of America in 1994 estimated that 20 million counterfeit Nintendo hardware units had been sold in China within the past few years and claimed to have lost US$1.2 billion or more (counting both hardware and video games) to Chinese counterfeiting. Nintendo, along with many independent American developers of Nintendo games and owners of intellectual property used in the alleged counterfeit games, asked the U.S. Trade Representative (USTR) office to use its "Special 301" powers under the 1988 Trade Act to designate China a Priority Foreign Country.[5] A country so designated is vulnerable to retaliatory trade sanctions if it does not stop the theft of intellectual property. The USTR investigation led to the 1995 agreement between the two countries to enforce intellectual property rights (IPR) protection laws in China and to open China's audio-visual products market. According to a *Wall Street Journal* report, in the midst of the 1996 IPR disputes between the two countries, Microsoft Corporation caught a Chinese factory counterfeiting compact disks, providing evidence that copyright piracy still continued in China.[6] Local government officials and Microsoft representatives raided the factory.

Every time that MFN has come up for renewal in Washington since 1989, U.S. companies doing business in and with China have staged tremendous lobbying efforts in favor of MFN for China. American business-

[5]Howard C. Lincoln, "Huge China Market, a Mirage," *The Wall Street Journal*, March 23, 1994.

[6]Craig S. Smith, "Microsoft Finds Pirated Software in Raid in China," ibid., May 1, 1996.

men are the biggest backers of MFN for mainland China as they do not want the U.S. government to alienate China and allow the vast mainland market to fall completely into the hands of competitors based in other countries.[7]

U.S. companies have also exerted their influence over the Chinese government. Prompted by the reduction of customs revenue due to tariff reforms, the Chinese tax authorities decided in 1996 to eliminate tax exemptions for foreign companies. General Motors and other foreign companies complained to China's top authorities that the loss of tax and duty breaks threatened to make investment projects economically unfeasible. In September 1997, Zhu Rongji, then China's vice-premier, said Beijing will "reintroduce" investment incentives. The about-face shows that intensive lobbying by foreign companies, backed up by provincial-level officials eager for foreign capital, can sometimes change the minds of central government leaders.[8]

Adapting to the Chinese Market

In 1979 Coca-Cola became the first foreign carbonated beverage company to enter China since 1949. PepsiCo followed three years later. Coke was due to have twenty-three bottling plants set up by the end of 1996; Pepsi had twelve plants with plans to construct six more by 2000. By 1997, Coca-Cola and its two Asian partners—the Hong Kong-based companies Kerry Group and Swire Pacific—have invested US$500 million in China. Pepsi plans to invest a similar sum by 2000. In 1995, Coke had a market share of 19 percent in China compared with Pepsi's estimated 7 percent.

However, Coca-Cola and Pepsi are not just selling cola in China. Both also ply other international soda brands such as Coke's Diet Coke, Sprite, Fanta, Hi-C and Bonaqua mineral water, and Pepsi's 7-Up, Mountain Dew and Atlantis mineral water.[9] In addition, the Asian preference for ready-

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[7]Jeffrey Koo, "MFN for China Is Also Good for Taiwan," ibid., May 7, 1996.

[8]Joseph Kahn, "China to Give Back Some Perks to Foreign Firms," ibid., September 23, 1997.

[9]Economist Intelligence Unit (EIU), *Multinational Companies in China: Winners and Losers* (Hong Kong: EIU, January 1997), 110.

made canned coffee has prompted both to bet China will be a big market, with Coke pairing up with Nestle to sell Nescafe and Pepsi tying up with Philip Morris's Kraft Foods to market Maxwell House coffee.

The success of Coke is obvious to anyone traveling in China, being so dominant in China's market that sometimes Coke is easier to find than traditional Chinese tea. The American cola makers have been so aggressive that an unsuccessful motion to restrict the expansion of Coca-Cola and Pepsi was submitted to the Chinese National People's Congress last year. In response to government concern, both companies are now nurturing, promoting, and developing local Chinese brands. According to an American Embassy commercial briefing in August 1997, Coca-Cola created a carbonated soft drink called "Smart" for the Chinese market. The drink would be available in five fruit flavors and would be the first carbonated beverage created by a foreign company with the Chinese consumer in mind.

Another example is the American shoe manufacturer, Nike. Nike is famous for stomping into new foreign markets with ads that are irreverent and considered by some to be sometimes downright rude. Now in a radical departure, the shoe maker is tiptoeing into the world's largest potential sneaker market. In new commercials now running in China, the sneaker giant has benched its global messengers Michael Jordan and Charles Barkley and its trademark brashness. The sneaker giant's ads, the first ones it has developed specifically for the Chinese market, star local athletes and make earnest appeals to Chinese nationalism. China's two billion feet could carry Nike far. By using native athletes, Nike is "letting people know in China we see them as heroes."[10]

Targeting Customers

There have been two contradictory misperceptions among foreign companies about the Chinese market. One is overly optimistic about a market of 1.2 billion potential consumers, assuming everyone in this market

[10]Sally Goll Beatty, "Bad-Boy Nike Is Playing the Diplomat in China, " *The Wall Street Journal*, November 10, 1997.

has a similar purchasing power as those in the developed countries. The opposite overlooks the progress that China has made so far, asserting that "a large country does not necessarily mean a large market." Those holding this view tend to underestimate China's market capacity. Of course, neither is realistic. Businesspeople with the first opinion often find themselves disappointed when they cannot strike a "gold mine" immediately. Those with the latter view often find themselves left behind in penetrating the market.

U.S. companies that have been successful in selling in China have adopted different strategies toward the market. For most Chinese consumers, a pair of sneakers selling for US$60 to US$100 looks excessive. Yet, Nike is not targeting the majority of the consumers. Currently their target is the top 2 percent of the population who can afford this luxury. Procter & Gamble (P&G) has a very different approach. P&G achieved success largely by ignoring the common-sense Sinology: only affluent Chinese could afford foreign brands. Marketing expert told them that nobody could afford P&G's branded Head & Shoulders. P&G ignored these "standard ideas" and pursued the Chinese market "as a national market." It gained a strong start by targeting a common malady, dandruff, against which few Chinese shampoos were effective. Spotting the potential, P&G used advertising to draw attention to the condition. It introduced Head & Shoulders in 1988, and within three years the anti-dandruff product became China's best-selling shampoo. P&G's appeal in China was not price: its shampoos commanded a 200 percent premium over local brands. Yet its three brands together won an astounding 57 percent market share in the three major cities where surveys were conducted in 1995. P&G was claimed as the largest daily-use consumer-products company, domestic or foreign, in China in 1995. Its shampoo and detergent sales in China reached US$450 million in fiscal 1995 and were still growing by the day.[11]

Committing to the Market

There are a number of factors one often hears from U.S. business-

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[11] Joseph Kahn, "P&G Viewed China as a National Market and Is Conquering It," ibid., September 12, 1995.

people and government officials that prevent U.S. firms from entering the Chinese market: "There are no rules" or "We don't know the rules"; "Things there are done under the table" (no transparency or corruption); "National distribution won't develop until China builds new transportation system sometime in the twenty-first century"; "[The Chinese] government will never let local companies fall behind [foreign competitors]." While perceptions reflected in these statements scare away some U.S. companies, the experiences of other U.S. firms doing business in China have proven that "where there is a will, there is a way." Many companies recognize the characteristics and business opportunities that are inherent in a developing country and have thus taken a much more positive and aggressive approach toward the Chinese market.

Procter & Gamble is a good example. Many believed that the Chinese government traditionally attached greater importance to capital goods than to consumer products. Therefore, P&G did not face the same bureaucratic obstacles as did General Motors Corporation or General Electric Company.[12] To deal with the distribution problems, the P&G executives besieged the market with a strategy resonating with Persian Gulf War rhetoric. One former P&G manager called the strategy "early application of overwhelming force": Salesmen ("ground troops") attacked secondary cities after an advertising campaign ("air cover") had cleared the way.[13] The company took traffic maps of the 228 Chinese cities with a minimum population of 200,000 and pinpointed the locations of both small mom-and-pop shops and the big department stores. Divisions of its "ground troops," often wearing white sports shirts with the slogan "Winning Team" written on the back, "blitzed" each locale. Millions of city dwellers received free shampoo and detergent samples which proved a master-stroke: many who tried the brand liked it and could afford the sample sizes. Another distribution ploy was that P&G spent nearly half of a million dollars to hook up with washing-machine manufacturers, who passed out free Ariel and Tide boxes when customers took delivery of their machines. By 1995, P&G's nation-

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[12] Ibid.
[13] Ibid.

wide distribution system was perhaps the best in the country. The success of its seven-year-old China push quelled longstanding doubts about the ability of Western brands to make real headway in China.

Johnson & Johnson adopted a similar strategy. Inadequate transportation, infrastructure, information, and sales force resources all caused both serious delays and cost overruns. At one point, the company was forced to rent public buses to ensure product deliveries. Despite such problems, the company was determined to succeed in the market. In order to become the market leader, Johnson & Johnson has even been willing to continue to lose money in this market.[14] The firm gave elaborate gift packs to every new mother in a Chinese hospital (thus providing a growing direct response database). It paid physicians to give professional endorsements to Johnson & Johnson products during hospital lectures. The company supported child-care, public education, and health care projects through the Ministry of Public Health in China. The firm has even begun exploring the eventual integration of Chinese medicine into its product line.

Building Reputation and Market Share

To many Chinese consumers American goods represent good quality and thus many Chinese prefer American goods to other foreign brands with similar attributes. Taking advantage of this, many U.S. firms have been aggressive and persistent in building a good image for their companies and in promoting their products. According to a recent survey by Gallup, a U.S.-based polling and marketing research company, many U.S. products have achieved high recognition among Chinese consumers. Table 1 provides a few examples.

Name recognition helps increase product sales. Travelers in China today, particularly in major cities, can easily find consumer products bearing American brand names, ranging from Marlboro cigarettes to Kodak film. Walt Disney sold more than one billion pieces of bubble gum in China in 1994, about one for every man, woman, and child in China. Coca-Cola's

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[14] Elizabeth Castronovo, "The Chinese Economy: Details and Examples of Lessons Learned" (Unpublished research paper, the George Washington University, Washington, D.C., Summer 1997).

Table 1
Name Recognition for U.S. Companies/Products in China, 1997

Product/Company	Recognition Rate (%)
Coca-Cola	81.00
Head & Shoulders	72.00
Pepsi-Cola	57.00
Motorola	39.00
General Electric	30.00
General Motors	28.00
Colgate	26.00
Nike	25.00

Source: Economist Intelligence Unit (EIU), *Multinational Companies in China: Winners and Losers* (Hong Kong: EIU, January 1997), 110.

soft-drink sales jumped 38 percent to 188 million cases from 1994 to 1995, with similar growth expected in the future.[15] Many U.S. products have achieved dominating market shares in China. Table 2 shows some examples of the market shares for selected American products based on a market survey for consumer products conducted in thirty-two major cities in China in October 1997.

Cultivating Potential Customers

Many U.S. multinational companies use training programs for Chinese managers and technicians as a marketing tool for their products. General Electric Company (GE) initiated a China Management Training Program in the mid-1980s with the Chinese government. Since then groups of business decision-makers (selected Chinese business executives and government officials) were brought to the United States for training. In a typical training program, the participants would first receive a period of intensive classroom instructions covering various business subjects. Then the participants would be dispatched to the various GE businesses, where po-

[15]Kathy Chen, "Young Chinese Loosen the Purse Strings," *The Wall Street Journal*, July 15, 1996.

Table 2
Market Share of Selected U.S. Products in China, 1997

Product	Market Share (%)	Rank
Motorola	48.32	1
Coca-Cola	43.68	1
Kodak	40.44	2
Sprite	26.26	2
Pepsi-Cola	12.20	3
Maxwell	11.46	2
Compaq computer	6.77	2
Apple computer	6.02	3

Source: "1997 Consumption Survey of Urban Residents in China," *People's Daily* (Overseas edition), December 22, 1997.

tential links between business counterparts would be developed. Many participants in the various GE training programs are now holding key positions at different places in China. AT&T and other companies have hosted similar programs in the past few years.

Some Reflections on U.S. Trade Practices with China

While many U.S. companies have made serious efforts and achieved success in the Chinese market, other U.S. companies at times seem to fall short of sincerity or long-term strategies toward the Chinese market. AT&T's experience in China is thought-provoking. According to a *Wall Street Journal* report in 1994, the world's most powerful telecommunications giant was trying to recover from a huge blunder it had made fifteen years ago: AT&T rejected an invitation to sell its most advanced switches to the Chinese government.[16] "The Chinese never forgot that," the chairman of AT&T China was quoted as saying. Some years later, the company erred again, deigning to provide a system but neglecting to adapt it to China's traffic patterns and local equipment. The switches worked terribly.

[16] John J. Keller and Marcus W. Brauchli, "Gold Rush: Job of Wiring China Sets Off Wild Scramble by the Telecom Giants," ibid., April 5, 1994.

The Unique Positions of Taiwanese Firms in U.S. Trade with China

Growing U.S. exports to China will provide opportunities for Taiwanese firms, given the unique position Taiwan enjoys in the trade and economic relationship between the United States and China. The following paragraphs will discuss the position of Taiwanese firms in U.S. trade with China from economic, cultural, and managerial perspectives.

An Economic Perspective

Mainland China, Taiwan, and the United States all have comparative advantages in different economic sectors.[17] China and the United States are respectively the largest developing and developed countries in the world. Taiwan, moreover, is one of the newly industrialized economies, falling into the high-income economy category according to World Bank standards. The comparative advantages for the United States lie in high-tech and capital goods, as well as agricultural products. The major competitors to U.S. firms in the world market are Japanese and European firms, as has been exemplified in the Chinese market over recent years. China's comparative advantage is with labor-intensive products and its major competitors are the low-income, developing countries in Southeast Asia. Taiwan is somewhere in between the two extremes, resembling developing countries in that it exports labor-intensive manufactured goods and resembles industrial countries in that it exports technology/capital-intensive manufactured goods. Moreover, Taiwan is also a major importer of agricultural and industrial raw materials.

Based on the current production factor endowments and economic development stages, trade among the three economies is inter-industry in nature. Inter-industry trade refers to trade in which imports and exports fall into different sectors of the economy, such as U.S. importing labor-intensive shoes from China and exporting capital and technology-intensive

[17] Zhi Wang, "The Impact of China and Taiwan Joining the World Trade Organization on U.S. and World Agricultural Trade: A Computable General Equilibrium Analysis," *Technical Bulletin*, no. 1858 (Washington, D.C.: U.S. Department of Agriculture, May 1997).

airplanes to China. Alternatively, intra-industry trade refers to two-way trade (exports and imports) of the same or very similar goods, such as the United States exporting automobiles to Japan at the meantime it imports automobiles from Japan. Intra-industry trade stems from a relatively high level of economic development and represents competition among firms in similar economies. Inter-industry trade, on the other hand, reflects the dissimilarity in the economies of trading partners. Therefore, trade among the United States, mainland China, and Taiwan theoretically should be highly complementary.

The disparity in economic development between the United States and mainland China and the resulting trade patterns should provide enormous opportunities for Taiwanese firms. First, while the United States can provide mainland China with high-tech and capital goods, Taiwanese firms may have more experience in adapting U.S. products and technology to local economic development. Second, given the technical skills of workers at present, the vast local industries in mainland China need machines and equipment with the appropriate levels of technology. Taiwanese firms can help identify and transfer the appropriate technology. Third, due to historical reasons, Taiwanese firms may have more established business relations with U.S. firms, and be more familiar with the U.S. market and U.S. products. Given these advantages, Taiwanese firms can play an important role in bridging the gap in economic development and in technical skill between the United States and mainland China.

A Cultural Perspective

Cultural differences are an important issue in international business. It can be very time-consuming, economically costly, and sometimes frustrating to confront cultural barriers. These barriers may discourage many firms from engaging in international trade. According to a market development report, a mutual lack of understanding between the Chinese and American business communities continues to baffle and frustrate individuals on both sides of the Pacific.[18] Unfulfilled expectations and thwarted

[18] Alcinda Hatfield, "China and the United States: Business in a Vacuum," *Market Develop-*

Yet the perception of risk in a particular country depends on many different factors. In a study of Korean investment in Southeast Asia, Chol Lee and Paul W. Beamish state that Korean firms found the cultural environment, traditions, and behavior patterns to be similar to Korea.[19] Such perceived similarities may lead to reduced hesitancy to enter the foreign market as Koreans may perceive less risk than do other foreign investors. In a study of Korean direct investment in China, Si Joong Kim finds that Korean investment in China has been dominated by small and medium-sized firms or individuals who regard investment in China as being more manageable than investment in other countries.[20] Kim cites geographic and cultural proximities and the existence of ethnic Koreans in China as a possible explanation of why Korean investors often look favorably on the Chinese market.

Taiwan has emerged in recent years as a major investor in mainland China. Moreover, compared with its investment in other parts of the world, Taiwan's investment in mainland China has demonstrated some unique characteristics.[21] While the total investment volume is large, the average individual investment size is fairly small and while the investments are widely disbursed across industries, they are geographically concentrated in a few coastal areas. Political caution is often cited as a main reason for the moderate individual investment size;[22] however, it does not seem to explain the large number of investment cases and the overall investment volume by Taiwanese firms in the mainland. Therefore, factors other than political caution should be at work. The dominance of small and medium-size firms in the Taiwanese economy may be a major factor. If small and medium-sized Taiwanese firms find business in China manageable, why do

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[19]Chol Lee and Paul W. Beamish, "The Characteristics and Performance of Korean Joint Ventures in LDCs," *Journal of International Business Studies* 26, no. 3 (Third Quarter 1995): 637-54.

[20]Si Joong Kim, "Korean Direct Investment in China: Perspectives of Korean Investors," in *Emerging Patterns of East Asian Investment in China*, ed. Summer J. La Croix, Michael Plummer, and Keun Lee (Armonk, N.Y.: M.E. Sharpe, 1995), 199-216.

[21] Jiawen Yang, "The Emerging Patterns of Taiwanese Investment in Mainland China," *Multinational Business Review* 5, no. 1 (Spring 1997): 92-99.

[22]Lee-in Chen Chiu, "The Pattern and Impact of Taiwan's Investment in Mainland China," in Croix, Plummer, and Lee, *Emerging Patterns of East Asian Investment in China*, 143-65.

small and medium-sized American firms not do the same? Obviously, Taiwanese firms have an advantage in managing the cultural and social aspects of the business environment in mainland China.

Opportunities for Taiwanese Firms in U.S. Trade with China

Taiwanese firms can take advantage of their unique strengths described above to play an increasingly important role in U.S. trade with China. As Taiwanese firms become more involved in U.S.-China trade, they will gain more experience and become even more cost-efficient through learning by doing. Given the economic development in the mainland and Taiwan and the prospects for U.S. exports to China, Taiwanese firms will face even more business opportunities.

Identifying Investment Needs and U.S. Suppliers

There exists a mounting regional disparity in economic development in China. The coastal areas, where most of Taiwanese investment is located, are developing very fast. Inland areas, however, are being left behind. The Chinese government is now putting more efforts to develop these inland areas. As the need for capital goods and the associated technology levels differ across regions, Taiwanese firms can work with local firms and governments to identify investment opportunities and determine their specific needs for capital products. Then the Taiwanese firms can sort out the appropriate suppliers in the United States and facilitate deals. Such opportunities may already be rare in major cities on the east coast in China, but are still plenty in inland areas in China.

Processing and Assembling the Appropriate Products and Technology

Once the investment opportunities and the appropriate product needs are identified, Taiwanese firms may buy semifinished products or parts from the United States and process them either in Taiwan or the mainland, instead of sourcing the finished products directly from the United States.

This approach may have several advantages. First, the products are more affordable to the local customers as the processing cost may be lower in Taiwan or the mainland than in the United States. Second, the local workers are able to learn the technology through processing. Third, the Taiwanese firms get or share the value-added to the product through processing or assembling.

Moving Up the Technology Ladder

It is important to realize that the Chinese government particularly encourages foreign investment in some key sectors of the economy including agriculture, industries representing high and new technologies, infrastructure, and export-oriented programs. As more and more Taiwanese firms move their labor-intensive products to the mainland, competition in this area is bound to increase. Firms that can quickly adopt new skills and move up the technology ladder will be more promising in the future.

Market Research and Trade Intermediation

Many U.S. firms want to sell to China while many Chinese customers want to buy from the United States. Yet, some U.S. firms are unwilling or unable to allocate resources to study the Chinese market or to learn about the potential Chinese customers' needs. They treat China as a residual market. When their general sales are low, they begin to think about the market and want immediate results. When their production is at or near full capacity, some even do not respond to business inquiries from China. On the Chinese side, information about American products and potential suppliers is often not readily available. The lack of communication and market information between the two sides has in the past given many Hong Kong firms the opportunity to serve as an entrepôt for U.S.-China trade. In many cases U.S. firms are more accustomed to doing business with Hong Kong-based firms due to mutual trust built over time. Taiwanese firms can very well play the same role. In addition, Taiwan has a much larger industrial base than that of Hong Kong and in many aspects is in a better position in terms of market research and trade intermediation for industrial goods. The prospect of trade intermediation may not be viable, however, until there is direct trade between Taiwan and the mainland. According to one Taiwanese official, the cost of shipping goods from Taiwan to the mainland could be reduced by 40 percent if Taiwan allowed direct cross-Strait trade.[23]

Exploring the High-Grade Consumer Products Market

In a 1997 nationwide survey of attitudes and lifestyle trends in China, a Gallup report stated:

> The rapid pace of change in China continues to surprise—and at times confound—even the Chinese themselves. According to the results of this comprehensive nationwide survey, the China of today is one where increasing affluence, access to new products, and changing fashions have made the possessions and habits of this generation unlike any before.[24]

There has been an unprecedented boom in consumer products in China over recent years and, as described earlier, many U.S. companies with consumer products have seen increased market sales. The boom for consumer products is due to a number of reasons. First, people have become wealthier and thus can afford many of the consumer goods beyond their reach a few years ago. Second, although earnings are higher, saving to buy a car or a house is still out of reach. Thus spending on consumer goods such as household appliances, entertainment electronics, and furniture is an alternative method of improving their standard of living. Third, many Chinese consumers, particularly young people, are adopting the "lavish spending habits of the West."[25] These young people, the main customers at glitzy department stores, snap up expensive cosmetics, clothes, and other consumer goods.

The potential for the high-luxury consumer products market has yet to be exploited. China's current distribution system and market channels are still lagging behind the booming market. Taiwanese firms can combine their knowledge of U.S. consumer products and experiences in building distribution network in order to tap this growing market.

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[23]Neil L. Meyers, "Setting Sail Across the Strait," *China Business Review* 24, no. 2 (March-April 1997): 21-25.

[24]See a 1997 Gallup survey: "Consumer Attitudes and Lifestyle Trends (China)" (The Gallup Organization, October 1997), at http://www.gallup.com.

[25]See note 15 above.

Financing U.S. Exports to China

For many potential buyers in mainland China, financing remains a key obstacle. With appropriate financing, the potential for U.S. exports to China is enormous. U.S. firms and financial institutions often require very stringent conditions for financing U.S. exports. Their Chinese clients usually cannot meet these requirements—not because of the lack of ability to service the debt, but rather due to poor logistics. For example, U.S. financing institutions often insist on acquiring voluminous documentation from the potential customer, such as information about the management team as well as accounting statements, simply in order to satisfy procedural requirements. Many of these documents are not readily available for the Chinese customer due to differences in accounting and business traditions. Financial institutions in Hong Kong and other Asian financial centers have been more flexible, focusing on the real debt servicing capacity of the Chinese customer. If Taiwanese firms provide financing to local buyers, this will be a big plus over pure match-making between U.S. exporters and Chinese buyers. Caution should be exercised, though, in evaluating the credibility and capability of the customer.

Possible Forms of Strategic Alliances Between U.S. and Taiwanese Firms

Given the current business practices of U.S. firms toward China and the unique position of Taiwanese firms, Taiwanese businesses can form strategic alliances with U.S. firms in exploring the vast opportunities in the mainland market.

Joint Ventures

Many international joint ventures fail because of conflicts of interests, management styles, business practices, and cultural differences. Still, multinational companies form joint ventures with local partners due to the native partners' knowledge of the local market environment and other specific advantages that only the local partners possess. Compared with partners in mainland China, Taiwanese firms have the added advantage of being more accustomed to business practices of multinational firms and more knowledgeable about the products or services concerned. Therefore, joint ventures between U.S. and Taiwanese firms should be an effective way of helping U.S. firms penetrate the Chinese market. This may be particularly true when a proven successful joint venture in Taiwan branches to the mainland market.

Licensing, Franchising, and Subcontracting

For various reasons, many U.S. firms desire to keep their presence in the Chinese market but try to avoid committing to specific aspects. For instance, Nike did not have any production facility in China until 1996, although it has been operating in China for many years. Nike subcontracts with Taiwanese and mainland firms to produce its athletic footwear. These subcontractors buy Nike's patented air cushions from Nike's U.S. manufacturers for inclusion in the assembled shoes in China. The air cushion is a sort of footwear equivalent to Coca-Cola's secret concentrate, the critical ingredient from which all true Coke is born.[26] Nike shoes made in China are now sold in over one hundred countries around the world. Over 5.5 million pairs of Nike shoes are produced in China every month—one-third of the world production of Nike shoes.[27] It is believed that Nike is doing well in China.[28] Exactly why Nike does not undertake production by itself in China is not publicly known. But such a subcontracting arrangement must be mutually beneficial. Similar arrangements may be viable for Taiwanese firms with other U.S. firms in other products and services.

Technical Service Agreements

Many U.S. products being sold in the Chinese market need regular after-sale maintenance and services. Such services are sometimes indispensable but can be very expensive for U.S. firms themselves to render. Taiwanese firms that have the necessary skills, expertise, and experiences

[26]See note 9 above.

[27]*Background and History of Nike in China* (Beijing: Nike's Representative Office, October 1996).

[28]See note 9 above.

may enter into service contracts with the supplying U.S. firms to promote sales in China.

Marketing and Distribution Agreements

Many U.S. firms are baffled by the distribution systems and market channels in China. Taiwanese firms can help through marketing and distribution agreements with U.S. manufacturers or suppliers.

Alliances with Small and Medium-Sized U.S. Firms

One distinctive feature of China's economic reforms when compared to many other emerging economies is that there exist immense initiatives at the grass-roots levels in China to vitalize their local industries. As reported by an Oxford-based research group, China's phenomenal economic growth since 1979 was fuelled initially by agricultural advances and more recently by the development of thriving private and "township and village" enterprise sectors.[29] These local industries need a substantial amount of capital collectively, but in most cases each investment opportunity can only absorb a limited amount of capital. Since these local projects do not require large investments, they are easily approved by local authorities. While such projects may not attract large multinationals, small and medium-sized investors are in a particularly advantageous position to dovetail the needs of local industries in the mainland. Taiwanese firms have impressive accomplishments in this area and similar opportunities exist for small and medium-sized firms in the United States. Taiwanese firms may serve as liaisons for correspondent U.S. firms to enter the mainland market.

Concluding Remarks

This paper has highlighted the general environment for U.S. trade with China, U.S. government promotion programs, the business practices

[29] The World Bank, "Reform of China's State-Owned Enterprises: A Progress Report of Oxford Analytica," *Transition* 6, no. 11-12 (November-December 1995): 16.

and experiences of U.S. firms doing business with China, and the opportunities for Taiwanese firms to help U.S. firms in exporting to the mainland market. China is the largest emerging market with a high growth potential. With the promising prospect of China soon joining the World Trade Organization (WTO), and with the imminent lifting of existing U.S. sanctions against China, trade between the two countries will increase at an unprecedented pace, particularly for U.S. exports to China.

Taiwanese firms possess some unique advantages in facilitating U.S. trade with mainland China. They can help by forming various forms of strategic alliances with U.S. firms as well as through independent efforts in bridging the gaps between the U.S. and Chinese markets. Moreover, there are many more opportunities for Taiwanese firms and more forms of strategic alliances than those described in this paper. Commitment and perseverance are the key to success in the mainland market.

It is important to note that the mainland market has become increasingly competitive as the market rapidly integrates with the global economy. Therefore, establishing business strongholds and commercial credibility will be crucial to the success of Taiwanese firms in the mainland in general, and in promoting U.S.-China trade in particular.