

Recruiting Chinese Investment

- A Roadmap for Developing A Sustainable Relationship

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USC Marshall School of Business

Raymond Cheng
President & CEO
SoZo Group



- Good Afternoon, I am honored to have this opportunity to share with you our ideas and work on Recruiting Chinese Investment for the Southern US, in particular Greenfield Investments. I am also humbled to be in the presence of Sidney Rittenberg, who knows this subject better than anyone else.



The Chinese Are Coming: Good or Bad?



- Some of you may have attended this morning's panel, The Chinese are Coming, Good or Bad?, please bear with me as I setup this seminar by first discussing some of the points we covered this morning. The Chinese Are Coming, Good or Bad?



Good:

- Brings capital Investment
- Creates employment
- Reduces risk of conflicts
- Increases bilateral trade opportunities
- Over 10,000 people traveling between the 2 countries by air everyday



- The Good:
 - Doing it right, it will bring much needed capital and investment to the US
 - In many cases, it can protect jobs, such as in the case of successful M&A, and create many new jobs, such as in Greenfield Investments.
 - From a geo-political standpoint, increased mutual foreign direct investment create synergies and similarities of goals that can have a long lasting effect of reducing the risks of conflicts between the 2.
 - As China evolves from being the 2nd largest economy to a massive market by itself, the demand for American products increases and thus so does bilateral trade opportunities
 - Even tourism is positively affected, and itself has a huge positive impact -- there are some 10,000 people traveling between the US and China everyday

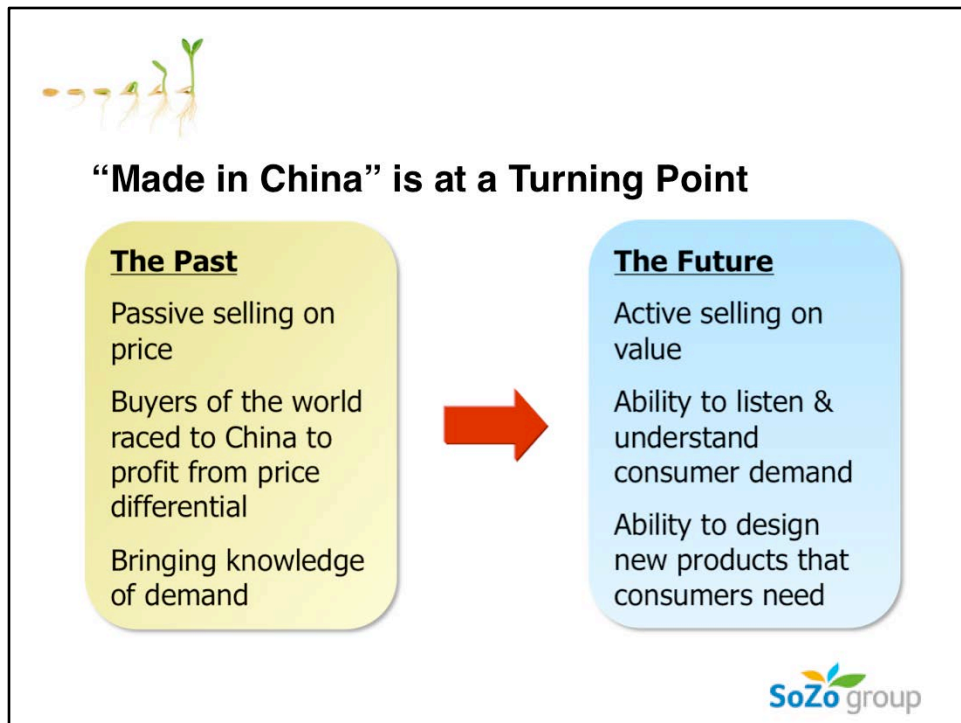


Bad:

- Failure can devastate a community
- Lack of trust and lack of patience
- Failure can turn public opinion against all Chinese investment



- So how can this be bad?
 - Failure of any of these Chinese investments, especially in rural communities, can devastate a community.
 - There is a lack of trust, and even more problematic, a lack of patience, on both sides. From the American side, many communities hear that China has large reserves of money to invest; on the Chinese side, entrepreneurs are accustomed to moving ahead on projects and investments without clearly defined processes and often with unrealistic expectations.
 - As there is a “trust gap” and a level of misunderstanding between the two countries and their vastly different cultures, any failure can be overstated and turn public opinion against future investments.



- Let's look at some of the prime drivers of China's decision to "Go Global"
 - "Made in China" is now at a turning point
 - In the PAST, Chinese Manufacturers sold purely based on price
 - They did not need to understand their buyers' needs;
 - They did not need to worry about market characteristics, size, location, etc.;
 - Buyers of the world beat their door down seeking the cheaper products.
 - In the FUTURE, and in fact now, most if not all manufacturers will need to sell on VALUE
 - As they move up the value chain, they will need to understand
 - what the market wants; and
 - what the consumer wants; and
 - the size and dynamic of the market place.
 - So they will need to design new products to meet consumer needs.
 - Quite a shift.

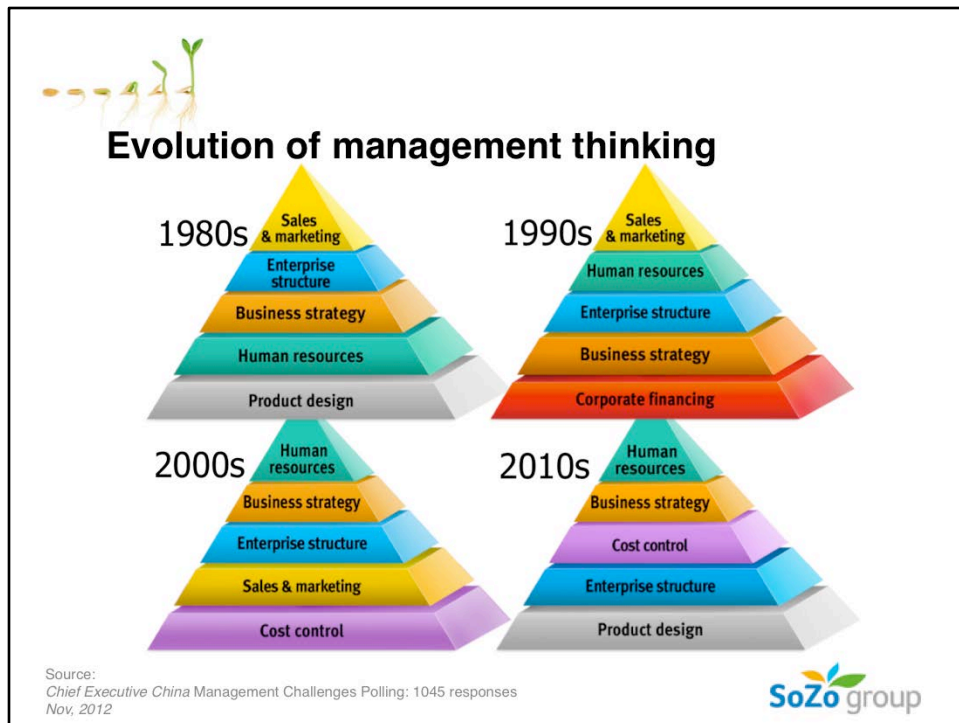


“Made in China”

- Changing from a price-based model to value-based model
- Not unlike the history of American manufacturing, just much faster and
 - *the productivity is almost 10 times less than US*
- Evolution of management thinking which reflects the changing business environment and may well predict the future.



- In addition, there is a evolution of management thinking as well
- Global Source has just delivered a survey spanning 30 years of Chinese Management Thinking that may well predict the future.



Sales & Marketing:

Sales and marketing was the top challenge in 1980's as China was emerging from a planned supply-side economy (no marketing needed)

Human Resources:

Human resources has always been critical, but with different concerns. The 1980's focused on incentivizing staff. Now the concern is staff retention and development.

Cost Control:

Cost control became a relatively new concern in the 2000s as China began implementing its labor contract law, on top of escalating raw material costs and labor costs, as well as an appreciating yuan

Product design:

Design issues reappeared in 2010's but far different in meaning from the 1980's – China must now design products that justify higher price points



China Going Global 走出去

- Attitude and positioning
 - From going out to sharing wealth



- China Going Global
 - The latest maturation of Chinese manufacturing is going global – expanding markets, resources, supply chains, and product development. It is really in its infancy
 - Think about how China’s economy has evolved over the past 30 years. The Chinese “miracle” of double digit growth and increased sophistication has lifted hundred of millions out of poverty, and fundamentally is shifting geo-political positioning and power. It is still evolving and growing.
 - China Going Global has become a reality because of
 - Need – it is critical for the future development of advanced manufacturing in China; and
 - Progressive China Central Government policy supporting Chinese manufacturers.
 - Chinese globalization started with a slogan -- “Going Out”
 - Recently Xi Jinping, China’s new president, subtly refocused the movement as “China sharing it wealth” – a “soft power” Initiative.



China Going Global 走出去

- Trends



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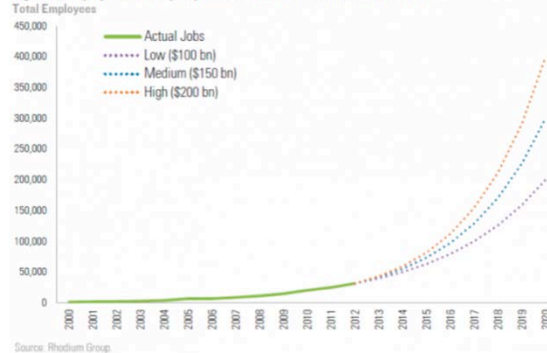
- The trends are clear
 - According to the Asia Society in its report “An American Open Door,” there will be up to \$2 Trillion Dollars invested in the US market alone
 - However, currently the US lags behind the billions already invested by China in other parts of the world such as the EU and Africa.
 - At the same time, the Chinese Central Government clearly intends for China to stay relevant and move up rapidly on value chain
 - During the Asian manufacturing Association’s Forum in December 2012, the Minister of Industry and Technology spent a considerable amount of time discussing “The Third Industrial Revolution” detailed in a special report by the *Economist*
 - There is a clear intent to guide Chinese manufacturers up the value chain and provide assistance
 - I have visited some of the new industrial and research parks, and indeed, these industrial parks are proof that China is putting money where its mouth is.
 - The big question is:
 - There are over 110 Million people employed in the manufacturing sector in China, compared to about 12 million people in the US. Yet, their output is close to the same, which means the US is still far more productive.



China Going Global 走出去

- Employment Impact in the US
 - Chinese investment currently employs 27,000
 - Projected to employ 200,000 - 400,000 by 2020

Figure 3: Employment at Majority Chinese-Owned U.S. Affiliates, 2000-2020



Source: Rhodium Group

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- What about the employment impact?
 - Again, this is only the beginning, since the investment is still in its infancy, the impact is small, estimated at anywhere between 11,000 to 27,000 employees in the US.
 - As compared to Japanese investments, with a 30+ year head start, currently employed over 800,000 in the US
 - However from all indications, doing it right, and hopefully without going through much of what the Japanese investments have gone through in the early 80's (82-87% failure), it is projected that Chinese Investment will employ 200,000-400,000 persons in the US by 2020.



China Going Global 走出去

- The Motives
 - Government initiatives
 - Satisfying quotas and leadership's political agendas
 - Personal – asset protection and family
 - Jumping through protectionism barriers
 - Closer to consumers, new markets
 - Acquiring technologies and knowhow
 - Obtaining natural resources
 - Learning/acquiring new technologies and knowhow



- Now, let's take a look at the motivations behind China Going Global
 - Government Initiatives as discussed earlier
 - There is a disturbing motive which doesn't make business sense, and it happens mostly in SOEs. Which is satisfying quotas and leadership political agendas. At best this is designed for touting short term "numbers," but long term generates greater risk of failure
 - There is still a level of distrust with the system. Often the motives are personal.
 - Some of the more successful and larger manufacturers are now facing protectionism barriers, such as anti-dumping tariffs and import duties.
 - One strategy to avoid this is to set up operations in the US and become an "American company"
 - The goal, if done correctly, is to avoid or limit these import duties by competing within the US market.
 - Innovative companies understand they need to be closer to consumers and new markets
 - There is still a gap in technologies and knowhow
 - Through M&A, joint ventures, and contractual arrangements, Chinese companies hope to bridge the gap
 - Most often reported and sometimes badly misunderstood, is that



How can this be bad?

- Failure rate is ultra high
- With limited past experience, anecdotal evidence of problems, especially early, will be magnified (no limit on US media)
- There is and will continue to be great pressure on “quick” success even though investing companies must take a long view approach



- So again, how can this be bad and what are the challenges?



Gaps & challenges for Chinese companies

- Cultural and trust gap
- Learning – and using - Western management practices and developing an expected level of transparency
- Lack of understanding of the US legal system
- Lack of understanding of US political systems and lobbying efforts



- We believe that increased global investment, even with challenges, is not only good, but essential, as mentioned many times during this conference. The US-China Relationship is the most important relationships in our generation, perhaps the next generation.
- The problem is there is huge gaps and challenges.
- Mutual investment in each other is not only a big step toward a better relationship, but I must add, successful investments
- The challenges are:
 - There is a huge trust and cultural gap
 - Examples
 - There is also a large gap in management practice
 - Examples
 - There is a lack of understanding of the US legal and regulatory systems, as well as a lack of experience with similar systems
 - Examples
 - There is also lack of understanding of the US government and political systems, special interest groups, lobbying efforts, and the US media
 - Examples



What is the US counter part doing?

- “Slam Dunk” mentality
- Equally as short term in thinking
- Lack of patience and understanding
- Competing agendas
- Fear of job loss (1990’s manufacturing exit is still fresh on many Americans’ minds)



- What about the US part:
 - A lot of what the US counter part is doing doesn’t help !
 - To some US business executives, the “Chinese are Coming” = Quick Cash! -- “Slam Duck” -- quick profit.
 - At the same time, US communities (especially those hurt by the 1990’s outsourcing of manufacturing) badly need capital investments and job creation and either cannot afford to take a long term view or also lack patience and understanding.
 - There is little understanding of Chinese investments, and even less experience with such in the US
 - US counterparts often fail to consider Chinese investment in context with prior waves of international investment; for example, not putting it in historical context (Japanese investment)
 - Competing agendas are almost always evident in Federal, State and even local levels.
 - While the US Government should be clear on its positions regarding US China Policy, it often sends mixed messages (Examples)



The Sustainable Process:

- Localized **Communications**
- Provide **Education** on all levels
- **Bridge** the **Trust** gap, experience
- **Enhance** public opinion
- Have lots of **Patience**
- Have **Empathy**
- Find Local **Sponsor(s)**
- Follow **Best Practices** and **Processes**
- Lead with **Transparency**
- **Engage**, engage, engage



- As mentioned before, we approach the whole recruitment process quite differently.
 - We believe that economic development, community development, recruitment, and international investment must be sustainable in order to have a net positive impact, create jobs and be long lasting
 - We believe that especially at this early stage, Chinese investments in the US must succeed and spawn further investments.
 - Our humble recommended process:
 1. Communications
 2. Education
 3. Bridget the Trust Gap
 4. Enhance Public Opinions
 5. Patience
 6. Empathy
 7. Recruit and work with local sponsor (s)
 8. Embrace and enforce best practices and processes
 9. Transparency
 10. Engage Engage Engage



The Sustainable Process:

- Localized **Communications**



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- Here are some examples
 - Most Chinese entrepreneurs, especially those in leadership positions, lack English language skills
 - So how do you communicate effectively with American business and government officials?
 - How many of you have in language web sites and materials?
 - While this is the same as China, most English materials are “Chinglish” and inaccurate
 - In our Symposiums in 2012, we work with smaller local newspapers, such as the *Monroe Journal*, to print the front page of its weekly publication, and a special section inside, in Chinese.
 - Imagine the shock when local residents open their newspaper in the morning
 - Imagine how welcoming the Chinese guests felt -- more importantly, they received the right message



The Sustainable Process:

- Provide **Education** on all levels



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- Education – Examples
 - We need to start with education on all levels
 - Not just business skills, but language and cultural skills for both sides to communicate
 - As an example, working with an extremely generous sponsor, we are providing Chinese language lessons in at least one local primary, high school, and community college.
 - We are also developing a series of both online and in person training courses for enterprises intending to invest in the US



The Sustainable Process:

- **Bridge the Trust** gap, experience



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- Building Trust
 - We need to be creative in finding ways to bridge the trust gap
 - Simply holding talks and written communications will not by themselves bridge the trust gap
 - Hence we focused our efforts in experiential events
- During the past 18 months, we have:
 - Invited top Chinese Journalist to visit Alabama, during which attendees
 - Joined Alabamians in traditional Thanksgiving celebrations
 - Attended the “Iron Bowl” – one of the largest college football game rivalries in the US
 - One of the two teams has gone on to win the national championship in the US for each of the past four years
 - Chinese journalists joined their American friends in learning the cheers “Roll Tide” and “War Eagle”
 - The Town of Monroeville came out in hundreds to welcome Chinese Visitors
 - Newspapers (as mentioned before), signage covered the town welcoming Chinese visitors in both Chinese and English
 - Two large Symposiums where held in 2012 including panel discussions, presentations, music, performances and outdoor activities



The Sustainable Process:

- **Bridge the Trust** gap, experience



- We knew it worked when most of our Chinese guests spontaneously climbed the stage to sing and dance at the end of our symposium



The Sustainable Process:

- **Bridge** the **Trust** gap, experience



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- *To Kill A Mockingbird* was a Pulitzer Prize winning novel written by Harper Lee in 1960. Since its initial publication, it has never been out of print, selling at least a million copies each year since it was first published
- It was adapted into an Oscar winning film in 1962
- Since 1990, a play based on the novel has been performed annually in Harper Lee's hometown of Monroeville, Alabama.
- To further the experience and again through the generous donation of a local sponsor, we brought the play "*To Kill a Mockingbird*" to Hong Kong in October 2012



The Sustainable Process:

- Enhance public opinion

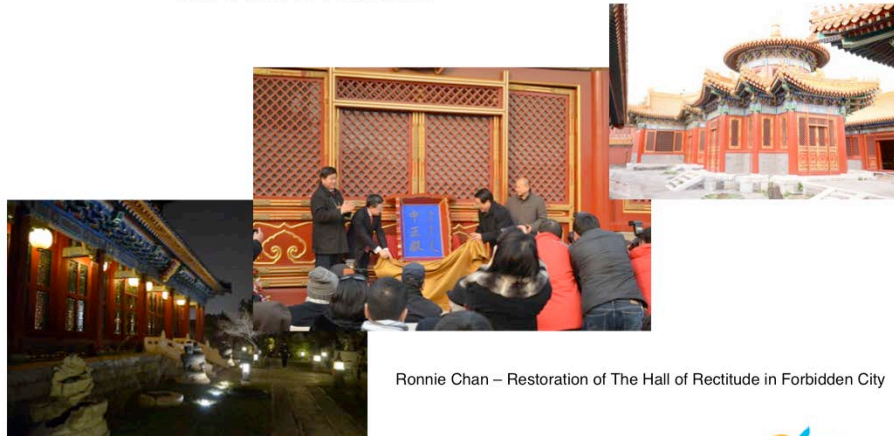


- There is a important role the media can play in building the bridge as well, and we were very fortunate that major members of the international media have taken up this effort.



The Sustainable Process:

- Have lots of **Patience**



Ronnie Chan – Restoration of The Hall of Rectitude in Forbidden City



- Patience pays
 - Our Keynote speaker at the 2013 APBO, Ronnie Chan, often says he has 2 sons and 2 daughters.
 - One daughter being Asia Society Hong Kong Center, which took 13 years to restore and build
 - The other being parts of The Forbidden Palace in Beijing which took 18 years to restore
 - This part of the Forbidden Palace, called the Jianfu Palace Garden, was destroyed by fire in 1923.
 - Ronnie founded to China Heritage Fund to finance the restoration.
 - It is important to note that while the funding to perform the reconstruction was very important,
 - more importantly, the patience and foresight, through hundreds (I am sure painful) meetings, Ronnie's team not only completed the restoration with complete loyalty to traditional means of building and restoration,
 - but in the process, transformed thinking and transferred the much needed technology to carry on future restoration.



The Sustainable Process:

- Have Empathy

7. 您认为以下哪些因素最有可能导致法庭做出“不公正”的判决：(多选)

Response	Count	Percent
您的公司被视为“非本地”企业	62	47.7%
您的公司缺乏法院方面的人脉，不能对判决结果施加有利的影响	94	72.3%
法官或裁决机构对法律法规的理解和应用水平较低	43	33.1%

/desktop.vovici.com/analysis/generatepublicreport.aspx?esid=389821&subaccountid=88524

Recent Survey
of Attitude on
Chinese Legal
Systems

EFM Analysis: 中国商业现状与国际竞争力

检察机关行为不当或有偏向性	69	53.1%
审理过程中出现贿赂官员现象	80	61.5%
您公司的委托律师应诉不当	28	21.5%
以上皆否	11	8.5%



- Empathy
 - Empathy is often a misunderstood word. We need to appreciate each other's background, history and situations.
 - A good example is the Chinese Legal System
 - One of our strategic partners, Global Source, has recently conducted a survey on Chinese Entrepreneurs' attitude towards their legal system, which in itself is a concern, so when we discussed "Rule of Law" to them, it takes on a different meaning
 - Many more examples:



The Sustainable Process:

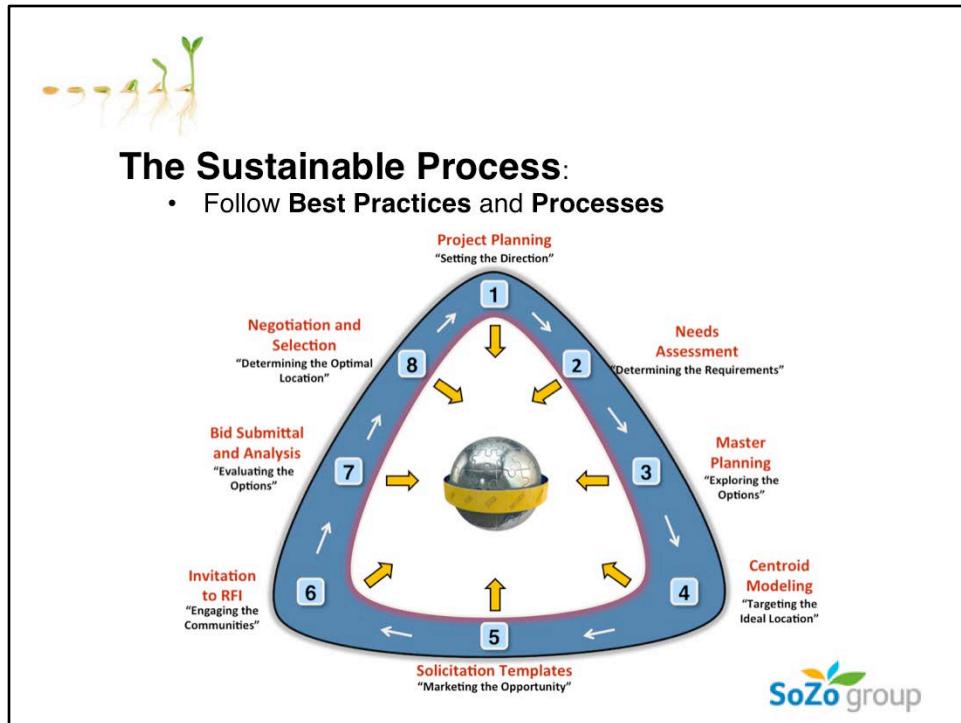
- Find Local **Sponsor(s)**



George Landegger



- Find passionate, able, local sponsors
 - There are various individuals who are able, resourceful and passionate about building strong and positive US-China relationships
 - A good example is what George Landegger is doing for Alabama
 - Chinese Teaching
 - Symposiums
 - To Kill A Mockingbird Play



- Best Practices and Processes
 - Many "best practices" and processes accepted by western management are unfamiliar to Chinese entrepreneurs
 - Even if they seem to talk about it, there are often different definitions and expectations arising from such practices and processes
 - It is Important to work with Chinese enterprises to learn and adhere to these practices and processes, and when necessary, sometimes simply accept them. The push back often is "we have been successful in China, Africa and even South America", why can't we do the same in the US
 - We work with WIPFLI to deliver these practices and instill these ideas with Leadership Training Programs before they even consider investing



The Sustainable Process:

- Lead with **Transparency**



- Transparency
 - Perhaps the toughest concept and expectation to get across
 - First by being transparent and demanding the same



The Sustainable Process:

- **Engage**, engage, engage



- Last but not least, it is a tough, frustrating, often long road. It is however, essential and worthwhile.
- Encourage engagement on all levels.
- Invite Chinese Entrepreneurs to visit
- Tour and learn about China, its culture, and its history.



The Sustainable Process:

- **Engage**, engage, engage



- Another good example
 - US Senator Jeff Sessions – who is the ranking member of the Senate’s powerful Budget Committee in Washington, left the podium on stage to discuss issues important to Chinese guests in an intimate setting



The Sustainable Process:

- **Engage**, engage, engage



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- China – US Congress Live Dialog at the Asian Manufacturing Association 6th Annual Forum in Beijing
 - With Senator Jeff Sessions - <https://vimeo.com/55840242>
 - With Congressman Jo Bonner - <https://vimeo.com/55840241>
 - With Commerce Secretary Greg Canfield - <https://vimeo.com/56050306>



The Sustainable Process:

- **Engage**, engage, engage



Hon Dr. Zbigniew Brzezinski



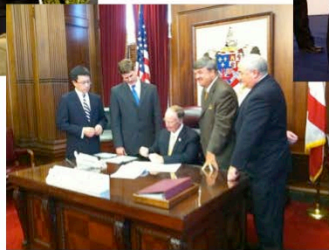
Ambassador Nick Platt



- Old China Hand Engaging
 - Dr Zbigniew Brzezinski - <https://vimeo.com/62230059>
 - Ambassador Nick Platt - <https://vimeo.com/62229928>



Win-Win



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