Project Materials: Animation Transcript

Introduction to AT&T in China

China, an emerging trading partner in global markets. AT&T, a dominant force in telecommunications.

AT&T was a monopoly that dominated the telephone business in the United States, controlling both the manufacturing of telecommunications products and all local and long-distance phone services. But the telecommunications market was changing. Growth in the United States had slowed to single digits as the market became saturated.

In 1984, the court-ordered breakup of AT&T yielded seven regional companies in addition to AT&T. The smaller companies, referred to as "baby Bells," took control of local service in their respective regions, while the new AT&T retained its hold on long-distance services and much of its manufacturing capabilities.

With market growth slowing and the increase in competition, the new AT&T looked to international markets for expansion. China provided a unique opportunity. In 1978, under the leadership of Deng Xiaoping, China initiated reforms in agriculture, politics, trade, and technology. A major goal of the technology reform was to implement a telecommunications infrastructure that could support the population of China. To meet this goal, the Chinese government invited AT&T and many of its competitors to enter into joint business ventures in China.

Then, in 1989, U.S. and China relations became strained over the Chinese government's handling of pro-democracy protests in Tiananmen Square which resulted in the death of many students. Shortly after the incident, AT&T pulled out of China, even though many of its non-U.S. competitors stayed. Responding to AT&T's withdrawal, China passed State Council Directive 56, a policy that excluded AT&T from future involvement in China's telecommunications.

In 1992, after three years of improving relations, the two governments signed a trade agreement. The following year, China repealed State Council Directive 56, allowing AT&T to reenter the Chinese telecommunications market. AT&T signed the Memorandum of Understanding with China, which outlined a "long-term partnership" to develop China's telecommunications infrastructure.

The year is 1993. As AT&T faces the prospect of returning to China, it will face several strategic challenges: What are the important environmental factors AT&T will face? What is its strategy for capturing the Chinese market? How should AT&T structure its organization? These are some of the key questions AT&T will have to answer.

Introduction to Globalization: Animation Transcript

Introduction to Economies, Industries, and Markets

A growing trend affecting business today is the globalization of economies, industries, and markets, pressuring firms to expand beyond their domestic borders.

How will this globalization affect your firm?

Globalization can occur in three separate arenas—economies, industries, and markets.

In each arena, globalization presents both opportunities and threats to your firm.

Globalization can open up new markets for your firm; at the same time, your competitors can also take advantage of these new markets.

You should understand what drives the globalization of economies, industries, and markets to understand these opportunities and threats to your firm.

You will learn more about these drivers in the "economies," "industries," and "markets" animations within the learning resources.

Globalization of Economies: Animation Transcript

Globalization of Economies

The globalization of an economy is measured by the flow of trade across its borders relative to the flow of trade within its borders.

Additionally, an economy whose trade is highly dispersed throughout different regions of the world is more globalized than one whose trade is concentrated in a limited area.

There are many drivers that push economies to globalize:

- A government's desire to offer its citizens access to less expensive goods produced abroad
- A government's active role in capturing benefits from trade for its domestic firms
- Reduced trade barriers that emerge as a result of shifting government policies and economic philosophies
- Reduced transportation costs due to better roads, improved ordering and distribution processes, improved communication networks, and increased availability of airline transportation
- Technological improvements that facilitate the exchange of products and services
- The increasing prevalence of English as a standard business language

It is important for the firm to understand why economies globalize and how this globalization impacts the firm.

Globalization of Industries: Animation Transcript

Globalization of Industries

The globalization of industries is achieved when there are a set of firms, or key players, that are competing around the world in all the major markets, and when each firm maintains a similar strategic approach in all of those markets.

Several forces drive the globalization of industries. Each driver ties directly to the competitive strategies of the key players in these globalized industries.

...industries whose key players see opportunities to take advantage of economies of scale.

...industries whose key players see opportunities to take advantage of resources that improve capabilities or lower production costs.

...industries whose key players seek to advance their own unique competitive advantage to capitalize on opportunities and to establish themselves as first movers, or gain access to materials and resources that may be in short supply.

Because firms are commonly forced to respond to a globalizing industry, it is important for the firm to understand why industries globalize and what potential opportunities and threats occur through globalization.

Globalization of Markets: Animation Transcript

Globalization of Markets

A market is globalized when significant price differentials for a product cannot persist across geographic regions.

There are several catalysts that drive the globalization of markets:

- The evolution of global tastes and preferences that converge or become the same around the world
- Reduction in formal and informal trade barriers
- Lower transportation costs that drive prices down and open new markets in previously hard-to-reach locations
- A reduction in costs to search for information, due to an effective worldwide communications network, which forces sellers to set uniform prices

It is important for the firm to understand why markets globalize and how this globalization impacts the firm.

OES Framework: Animation Transcript

OES Triangle

Managers responsible for developing global strategies face increasing complexity as their companies explore opportunities beyond domestic borders. Many companies have attempted to globalize, only to fall short of their performance objectives.

A significant underlying cause of the shortfall is the misalignment of the firm's organizational structure and strategy with its new environment.

The OES triangle gives managers a framework for understanding the interdependence of the components: organization (O), environment (E), and strategy (S), and the importance of their alignment with one another.

As a firm expands beyond domestic borders, the key to its success lies in its ability to assemble the right balance, or fit, of the OES triangle.

This course identifies and analyzes the issues presented by each component of the OES triangle and provides tactics for reconciling misalignments among components.

The first component of the OES triangle is organization. The discussion of organization focuses on identifying the appropriate structure and culture that will facilitate a firm's strategy in an environment. The discussion addresses the locus of control for decision-making in the organization and the balance between global efficiency and local responsiveness.

The next component of the OES triangle is the environment. The environment includes market and nonmarket factors that can affect a company's ability to generate a profit. The section on the environment focuses on identifying the buyers, the suppliers, the competitors, and the power dynamics among them. It also addresses substitutes, complements, and barriers to entry that can affect a firm entering a new environment.

The final component of the OES triangle is strategy. The discussion of strategy focuses on identifying the firm's competitive advantage, goals for leveraging the competitive advantage, the scope of the firm, and the logic that articulates why the firm will succeed, given the other three elements.

The final section of the course focuses on the fit among the different components of the OES triangle. This section defines poor fits between each component and others and identifies tactics for alleviating those poor fits.

OES Focus on the Environment: Animation Transcript

Determining PIE

It is important to understand the factors that can affect a company's profitability as it chooses to globalize.

How much market share can a firm capture in the non-domestic environment? To answer this question, a manager must first determine the potential industry earnings, or PIE, for the environment.

PIE is the greatest amount of profit an industry can earn in an environment. It is measured in terms of the price buyers are willing to pay for a product, and the number of units produced by the entire industry.

To calculate PIE, first determine the demand for the entire industry in the new environment. The demand curve represents the maximum price that a buyer in the new environment is willing to pay for each additional unit. Next, determine the cost of the inputs required for the industry to produce each unit. The area between the demand curve and the cost curve is the potential industry earnings for the new environment.

Take a look at an American-based pencil manufacturer that is expanding production and sales into Australia. Assume that in the Australian pencil industry, the maximum price a consumer will pay for a pencil is $5.

Assume the minimum cost of the inputs to produce a pencil in the Australian industry is $.50 per pencil, and the number of pencils produced without going below cost is 100,000 pencils. What is the potential industry earnings for the Australian pencil industry?

The PIE for the Australian pencil industry is $225,000. This is the greatest amount that the industry could earn if each pencil was sold for the maximum price that each Australian consumer was willing to pay.

When determining the size of the PIE for a non-domestic environment, it is important to understand that the factors that determine the relative position of the demand curve in the domestic environment may not have the same effect on the position of the non-domestic demand curve. The same is true for the cost curve.

Assume that demand curve A represents the demand for pencils in the United States, and demand curve B represents the demand for pencils in Australia. Why is demand curve B relatively farther out? One reason may be that pens (a substitute for pencils) are relatively expensive in Australia, increasing the demand for pencils.

Now assume that cost curve C represents the cost of inputs to produce pencils in Australia, and cost curve D represents the cost of inputs to produce pencils in the United States. Why is cost curve D higher than cost curve C? One reason may be that graphite is plentiful in Australia, making the cost of inputs required to produce pencils in Australia relatively less expensive than the cost of inputs in the United States.

When a firm in an industry enters a new environment, its managers must identify the potential industry earnings for that environment and the factors that affect demand and costs for the industry in the non-domestic environment.

The Market Environment: Animation Transcript

Dividing PIE

Determining the potential industry earnings for an environment identifies only the maximum profit the industry can earn. The next question managers need to answer is, How much of the PIE can my firm capture?

In any market environment, the potential industry earnings will be divided among buyers, suppliers, and producers in the industry.

Take a look at the buyers. Although the demand curve shows what buyers are willing to pay for a product, buyers often pay less than what they are willing to pay. The stronger the buyers are, the better the price they can negotiate. Take a look at the pencil industry.

Suppose the pencil industry is currently able to sell its pencils at $1 per pencil. On the demand curve, you can see that some buyers are willing to pay up to $5 per pencil. The area between what buyers are willing to pay, and what they actually do pay, represents the piece of PIE the buyers capture.

Now look at the suppliers. Although the cost curve shows the minimum cost for producing each unit, suppliers often charge more than the minimum cost. The stronger the suppliers are, the better the price they can negotiate for their products. Take another look at the pencil industry.

Suppose that pencil producers in the industry are paying suppliers 75 cents per pencil for the inputs required for production. The suppliers capture the value between the minimum cost of the inputs and the price they are charging producers for these inputs.

Once you have determined how much of the PIE the buyers and suppliers have captured, the next step is to determine how much the producers can capture. The PIE that is not captured by buyers and suppliers is divided among the producers, or the firm and its competitors. Take a final look at the pencil industry.

If pencil producers in the industry are paying 75 cents per pencil for the inputs required, and buyers are purchasing each pencil at $1 a pencil, then the firms in the industry will divide the 25 cent profit per pencil for each pencil sold.

How much industry profit each producer will capture depends on many factors, including the competitive conditions in the industry and the competitive strategies of each producer or firms and its competitors.

The Nonmarket Environment: Case

Interest-Group Activism in Agriculture

The genetically engineered food industry has been shaken in the past few years by interest-group activism. Consumers, in particular, have made their displeasure known with respect to the practice of genetic engineering. Consumers in European countries have strongly resisted what they see as untested, potentially dangerous modified foods, and consumers in the United States are following suit.

After the StarLink corn incident in the United States, whereby corn intended for livestock feed was cross-pollinated with corn destined for human consumption, genetic-engineering leader Monsanto struggled with negative media and expressions of outrage by consumers and farmers alike.

Unorganized but angry consumers responded negatively to Monsanto's actions, and the price of Monsanto's stock fell to a third of its value. In the wake of the Monsanto controversy, the largest bank in Germany, Deutsche Bank, actively sought to warn investors away from purchasing stock from companies that engaged in production of genetically modified organisms (GMOs).

Nongovernment organizations, such as Food First, continue to disseminate anti-GMO information on their websites.

The Nonmarket Environment: Case

Activist Pressure in the Apparel Industry

The apparel industry, in particular firms that produce officially licensed collegiate sportswear, have been profoundly influenced by the efforts of the anti-sweatshop interest group No Sweat! Pressured by students and alumni, several large universities in the United States have agreed to license only those items of sportswear that are produced in what is considered to be safe, appropriate conditions.

These conditions include worker access to restrooms, scheduled breaks, a "living wage," and a prohibition on child labor. Universities that have joined the Workers' Rights Consortium, drafted by No Sweat! include the University of Illinois and Indiana University.

OES Focus on the Environment: Info

Most buyers usually pay less for a good than what they are willing to pay. For example, assume the price of a movie ticket is $7. Some people would be willing to pay $15 to see the movie. To get buyers to pay what they value, firms price discriminate; that is, they charge different prices to different buyers based on their willingness to pay.

Price discrimination is the reason that on a commercial airline, you may have 100 passengers paying more than 10 different fares. This concept is important because it affects the extent to which competitors are able to capture value in an industry.

Project Materials: 1978-1993 Timeline

The graphic below illustrates selected historical events that occurred between 1978 and 1993 in China, AT&T, and the U.S. telecommunications industry. Below each time line (China, AT&T, and U.S. Industry) you will see several prisms. Click on each prism to view a brief description of events that occurred in AT&T, China, or the telecommunications industry during a particular time period.

This interactive content is only available online

Project Materials: China's Market History

By the early 1990s, China had emerged as a force in the global economy. In boardrooms of multinational corporations across a variety of industries around the globe, senior managers were evaluating the significance of China in developing their global business strategies. For some multinational corporations, China was emerging as a tremendous market opportunity in its own right. For others, China was seen as a possible low-cost manufacturing base for products to export to other Asian and foreign markets around the world. Many saw their global competitors making investments in China and contemplated how such investments might change the landscape of their industries.

The Path to a More Global Economy

In late 1978, Deng Xiaoping took power on the heels of the economically disastrous Cultural Revolution (1966-1976) and put China on a path toward a socialist market economy. At the time, China was predominantly an agrarian-based economy. Most workers were subsistence farmers on communal farms. Under Deng's leadership, China's economy saw a remarkable transformation.

The transformation and market reform in the post-Cultural Revolution era occurred in fairly distinct stages and included the following:

- Rural reform (1978-1984): Move from communal farms to property ownership
- Urban reform (1985-1988): Growth in individual and township enterprises and joint ventures with foreign companies (mostly through Hong Kong); special economic development zones began to flourish
- Price reform (1989-1991): Nonstaple price reforms; opening of stock exchanges; increase in rate of investment in multinational corporations
- Confirmation (1992-1993): Deng Xiaoping confirms future as socialist market economy; foreign direct investment begins to escalate

The economic results of the reforms between 1978 and 1993 were astounding, and growth was expected to continue. The economy was almost four times as large in 1993 as it was in 1978 and was expected to double again by the early 2000s. Foreign trade grew by the low double digits and exports increased fivefold.

The Chinese government targeted certain industries (including the telecommunications industry) as high priorities for technology transfer and the development of the country's infrastructure. Foreign direct investment in China also exploded during this period—foreign entities invested almost $100 billion between 1984 and 1993, and the growth of investments was increasing quickly.

Multinationals See Opportunity in China

Multinational corporations had long coveted China for its sheer size—a potential market of more than 1 billion people could not be ignored. In addition, with economic growth, purchasing power was increasing each year, making the Chinese market one of the fastest-growing markets in the world. Experts predicted that by the early 21st century, more than 250 Chinese cities would have citizens with sufficient disposable incomes (more than $800 per capita annual disposable income) to support consumerism. More than 160 of these cities were expected to have populations exceeding 1 million people.

Multinational corporations also found China attractive. The following product-penetration levels underscore the attractiveness of these markets. The telephone penetration rates in 1992 were 2.2 per 100, compared with 40-50 per 100 in the developed Asian economies of Singapore, Japan, and Hong Kong. Likewise, despite having approximately one-fourth of the world's population, China's beer consumption represented only 6 percent of total global beer demand in 1990. Many consumer durable goods companies, such as General Motors and Whirlpool, watched their growth prospects slow in more developed markets and saw China as the world's last huge growth market for their products.

Consumer Demand

Consumer demand in China in 1993 largely revolved around basic products such as food, toiletries, and bicycles, but demand for big-ticket items such as automobiles, appliances, telephones, televisions, and personal computers was also on the rise.

By 1993, Chinese consumers had embraced a number of U.S. and Japanese brands, including McDonald's, Coca-Cola, Pepsi, KFC, and Sony. Coke and Pepsi had entered the Chinese market within a year of each other in the early 1980s and within 10 years were the market-share leaders in the Chinese soft-drink market. Other global consumer packaged goods companies, such as Procter & Gamble and Unilever, entered the Chinese market in the late 1980s and were beginning to make significant inroads by 1993. Many other consumer durable goods industries were further behind, partially because of the Chinese government's desire to exercise more control over those industries and partially due to higher threshold income levels required to purchase those goods.

Opportunities Bring Competition and Challenges

As many multinational corporations discovered, success could be fleeting for consumer goods suppliers in China. By the early 1990s, the escalating influx of new product choices, combined with limitations on disposable income, meant that competition could come from a number of sources, including completely different product categories. Chinese consumers faced an ever-expanding number of choices. Stories abounded of rapid growth and market-share gains followed by reversals and losses as new "hot" products entered the market to attract consumer interest. Regional differences in tastes could also be quite diverse. China's vast geography, difficult infrastructure, and historical cultural and economic differences across regions ensured that China was by no means a homogeneous market.

Supply issues

Cost and supply considerations also presented both opportunities and challenges. The abundance of low-wage labor was attractive to multinational corporations, particularly those seeking to manufacture goods in China for export to other markets. Low-cost labor, however, was in many cases offset by low productivity, as many Chinese companies were not highly efficient and many experienced "over-employment." Most multinational corporations quickly discovered that laws restricting management's flexibility in dealing with lifetime employment expectations and the myriad company-provided social services would be slow in changing.

Staffing issues

Finding appropriate technical and managerial staffs was also a sometimes challenging issue for MNCs expanding into China. Older managers in many joint venture companies relied heavily on Cultural Revolution ideologies and were often reluctant to loosen their formerly close and influential ties with the government. High employee turnover was also an issue for MNCs to grapple with, as the influx of new companies lured younger, more skilled managers to their companies with promises of great opportunity.

Manufacturing issues

Considerations for manufacturing in China included the limited number of established, quality local suppliers for component parts. High import tariffs and other protectionist barriers made it imperative for multinational corporations to use local suppliers whenever possible, but local suppliers experienced productivity and quality issues as finished goods manufacturers.

Distribution issues

Physical distribution of goods—often an afterthought in developed markets—posed another supplier-related issue for multinational corporations in China in the early 1990s. The barriers to transporting goods to market in a timely and secure fashion were considerable, as bicycle or foot transportation was often the last part of the supply chain. Infrastructure problems with roads, rail, and water transportation were immense.

The Chinese government recognized these issues as an impediment to the nation's future economic growth and, by 1993, was investing heavily to upgrade the infrastructure. Yet even as new roads were under construction around the country, transporting goods took roughly four times longer in China than in more developed markets. Modern warehouse facilities were also virtually nonexistent.

Competition from Chinese Firms

Although competition varied by industry, local Chinese competitors were typically regional and focused on a single product. Most were state-owned enterprises—subsidiary entities of central or provincial government ministries—that grappled with productivity and quality issues. Although a large number of these state-owned enterprises produced goods that were of substandard quality by measures of developed markets, many priced their goods at levels that were difficult for for-profit enterprises to match. Government subsidy, artificially low (non-arm's-length) transfer prices, and preferential access were all pervasive practices with state-owned enterprises.

Summary

This is a historical overview and snapshot of the market environment facing multinational corporations planning to enter or expand operations into China in the early 1990s. Although individual multinational corporations faced many industry-specific issues not addressed above, many of the overarching considerations that were discussed affected multinational corporations across industries.

Project Materials: China's Nonmarket History

From the early 1950s to the late 1980s, the Chinese Communist Party dominated interests, institutions, and information in China. In the late 1980s, as market-reform initiatives gained momentum, other interests (Chinese workers in state-owned enterprises), institutions (local and provincial governments), and information (human rights abuses) began to increase in importance.

With the number of changes occurring in China in the late 1980s, multinational corporations planning to enter China in the early 1990s faced a quite complex nonmarket environment. These complexities can be best described as a combination of market-reform policies of the previous 15 years overlaid on four decades of Chinese socialist policies overlaid on centuries of cultural influences.

A number of important cultural issues and values that affect business transactions warrant discussion. Among these are the practice of *guanxi*, deference to authority, and the autonomy afforded regions and provinces throughout China.

Guanxi

Guanxi is best described as favoritism resulting from long-cultivated relationships. In Chinese business transactions, *guanxi* is frequently used to circumvent the formal institutional system—Westerners often misunderstand the practice as cronyism.

Multinational corporations in China can be victimized by *guanxi*, or they can use it to their advantage. For example, a company could further its interests by using relationships for such things as gaining favorable access to an overburdened rail system, getting goods cleared quickly through customs, or circumventing tariffs for imported goods.

Deference to Authority

Deference to authority is another important issue that often combines with *guanxi* to impact MNCs in China. Many multinational corporations entering into joint ventures with Chinese state-owned enterprises have found that managers from their joint venture partnerships maintain strong loyalties to their former government superiors. This has the potential to create conflict within some partnerships because some Chinese managers believe an essential part of their role is to keep government institutions informed of every external and internal business transaction conducted by the company.

Regional and Provincial Autonomy

An issue with historical roots that dramatically affected the ability of multinational corporations to conduct business in China was the relative autonomy of regions and provinces throughout the country. China's history includes centuries of attempts (whether in Imperialist or Communist China) to consolidate power and authority centrally. Despite these attempts at central control, China has a long history of regional autonomy and diversity. It is important for MNCs conducting business in China to understand the implications of this autonomy. For example

- Government relationships must be cultivated at both the central and provincial/local level.
- Some provincial governments put barriers in place to protect local companies from competition outside the province.
- Economic development and government support for market reforms vary considerably from province to province.
- Most industries are characterized by local or regional competitors rather than by national competitors.
- Roads, rail, and other infrastructure have historically been developed for regional or provincial purposes rather than for the national movement of goods.
- Differences in dialect make communication difficult from region to region.
- Cultural differences drive differences in consumer preferences from region to region.

Other Nonmarket Considerations

Socialist policies and institutions put in place by the Chinese Communist Party from the early 1950s up to the onset of the market reforms initiated by Deng Xiaoping in 1978 provide the backdrop for other significant nonmarket considerations affecting multinational corporations in the early 1990s.

State-owned enterprises

Chief among these considerations is state ownership of large enterprises. State takeover of large enterprises began to gain momentum in the 1950s and continued until only the smallest of street vendors remained as entities independent of government control. State-owned enterprises accounted for 55 percent of industrial output in 1990. Most of the remainder of the economic output came from urban collectives and a combination of rural collectives and private rural enterprises.

For multinational corporations entering or expanding operations in China, the role of state-owned enterprises is important for a number of reasons. First, state-owned enterprises dominate most industrial sectors. Second, in most cases, the Chinese government requires multinational organizations to enter the Chinese market via joint ventures with local companies. Because of this requirement, most multinational organizations must partner with state-owned enterprises to gain access to the market.

State-owned enterprises can present problems for multinational organizations because they can be poorly managed, highly subsidized, inefficient, and unprofitable. In addition, workers are permanently assigned to companies and, in exchange for their loyalty and hard work, are provided with lifetime employment, housing, child care, and health care. The issue many multinational organizations faced as they contemplated joint ventures in the early 1990s was that most state-owned enterprises had thousands more employees than were necessary for an efficiently run operation, and lifetime employment made it very difficult, if not impossible, to terminate excess labor.

Other important considerations

Other important characteristics of the Chinese socialist system that play a role in the nonmarket environment include the following:

- The government plays a "gatekeeper" role in approving market entry, and it regulates activity across industries.
- Government policies promote meeting market demand with locally manufactured products; high import tariffs discourage foreign goods.
- Government rules and regulations change quickly at the discretion of the Chinese Communist Party.
- Many government policies related to human rights are at odds with Western values.
- Protection of intellectual and other property rights is rarely enforced due in part to the government's involvement in business.
- China's legal system has difficulty dealing with such things as property and contractual disputes.

Nonmarket Reforms

Several reforms that began with the onset of China's move to a socialist market economy in 1978 were discussed in the historical perspective on the market environment. A number of these deserve further discussion as they are important changes that occurred in China's nonmarket environment over the 15-year period (1978 to 1993) of China's economic reforms. These include

- China's establishment and expansion of "special economic zones"
- Promotion of foreign direct investment (joint ventures)
- The Chinese government's focus on technology acquisition and infrastructure development
- Gradual shift in power from the central government to local/provincial governments

China established four special economic development zones in July 1979 in southern China. Among other reforms, foreign investment was cultivated with low-wage labor and preferential tax and tariff treatment. At the outset, most foreign investment came through Hong Kong-based companies. Gradually, other multinational organizations began to invest. In the 1980s, the central government granted special economic zone status to other coastal cities. By 1993, foreign direct investment (mostly through joint ventures) was escalating at a fevered pitch.

Almost any direct investment in China required a joint-venture arrangement. Variations of joint-venture structures that the central government allowed included the following:

- Equity joint venture—A Chinese company and a foreign partner both participate in day-to-day management; risk is split in proportion to capital contribution (approximately 60 percent of all joint ventures are equity joint ventures)
- Contractual joint venture—Risk is divided by contract rather than by capital contribution (about 15 percent of joint ventures are contractual)
- Wholly foreign-owned enterprise—This structure provides both the greatest control and the greatest risk for foreign firms; the Chinese government promotes this structure for technologically advanced and export-oriented industries

Technology transfer and physical infrastructure development were key enablers for continued economic growth in China. Industries offering the prospects of technology transfer and/or providing help in developing the country's infrastructure were targeted as priorities. Multinational corporations in those industries received special treatment in the approval of investments by the

Chinese government.

As China has implemented its market reforms, power has shifted to provincial and local governments. Increasingly, provincial and local governments act independently of the central government, adding complexity for multinational corporations attempting to gain a foothold in China.

Significant Historical Factors

Finally, a discussion of the historical factors influencing the nonmarket environment in China must include changes in China's relationship with Western governments, particularly with the U.S. government. Former president Richard Nixon's visit to China in 1972, coupled with formal recognition of China and the subsequent granting of most favored nation trading status, provided a gradual improvement in relations that paved the way for direct investment in the country by multinational corporations. The 1989 Tiananmen Square incident cooled relations a bit, but investment in multinational corporations continued. A significant nonmarket environmental issue facing multinational corporations in 1993 was tying renewal of most favored nation status to human rights concerns, which was insisted on by the administration of former president Bill Clinton. Few thought most favored status would be denied, but most CEOs of U.S.-based multinational corporations considered the Clinton administration's policy to be a persistent problem.

WhiteRiver Task 1 Overview: Other Resource

This image is larger than the page size and is only available online

I just wanted to follow up with you on the AT&T research project. I have already read the case and I anticipate that we will face the same interrelated challenges that Bill Warwick, the CEO of AT&T China, faced in building a business there. We need to examine the AT&T case closely to understand AT&T's strategy, its organizational structure, and China's business environment.

I would like you to look into AT&T's strategic reasons for entering China in 1993. What was driving the globalization of the telecommunications market and industry, and the globalization of China's economy? I would also like to know how the globalization of each of these arenas had an impact on AT&T.

In addition to summarizing the factors that pushed China to globalize, you should identify the market and nonmarket issues AT&T faced as it entered China. I'm particularly interested in learning about the buyers, suppliers, competitors, and distinguishing features of China's market. My preliminary research tells me China can be a complex environment, given its political and economic history. The complexity of the environmental issues is what concerns me most—and we can't address the issues if we aren't aware of them.

I will send you information about China's market and nonmarket history. You might find this background information interesting and useful.

I look forward to your report.

Regards,

Sharon Voit