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When Local Beat Global: The Chinese Beer Industry

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This article is about a rare example of failure by the world's biggest global brand companies. In the 1990s the world's top beer producers tried to set up in China. After years of failing to break into the market, many of them have recently been cutting back, even selling their new state-of-the-art production facilities to local brewers. A few, however, have succeeded in entering the China market. This article discusses how they did so and the lessons their experience holds for other companies looking to invest in China. China's long-anticipated entry into the WTO has made this issue important even for companies which have hitherto ignored it.

Expatriate veterans of the China beer wars of the 1990s were so traumatized by their experiences in the world's second-largest beer market that they talk about them in linguistic shorthand. "It was the corporate Vietnam," says Tim Murray, a former sales and marketing manager for Australia-based Foster's, the brewer that led the foreign charge into China in 1993. "It's hard to get over." (Lawrence 2000)

In the mid-1990s, dozens of foreign brewers entered the Chinese market. They were lured by 1.25bn Chinese consumers with increasing affluence, a rapidly-growing beer market, and relatively low consumption rates per capita which they interpreted as indicating huge future potential. They made multi-million dollar investments in state-of-the-art production facilities. A few years later, most of them were still operating at a loss, and many wished they had never entered China. Their once-promising ventures were sucking funds into a black hole.

A minority of foreign brewers managed to succeed in this hostile marketplace, against intense competition, with different rules of the game than in developed markets, and razor-thin margins. Why did most foreign brewers fail, and how did the few who succeeded do so? What competitive strategies were involved in each case? What should foreign companies do now?

The failure of the global giants has been highlighted by the success of local brewers. In spite of older plants, generally untrained management, problematic human resources, lower product quality and weaker marketing capabilities, local brewers seem to be winning the competitive game. As foreign brewers started retrenching in the late 1990s, many local brewers took advantage of this situation to acquire leading edge technology on the cheap. So far, the Chinese beer market belies the widespread belief that the onward march of global brands is inevitable.

Eastern Promise

In 1995-2000, the average annual growth of the world beer market was 2.6%. Sales were almost flat in Western Europe and grew by only 1.2% in North America. The Asia-Pacific market, by contrast, grew at 7.7% pa during the same period. According to the report by Goldman Sachs from which these data are taken, the future for the Asia-Pacific region in 2000-2004 looks equally rosy: at 8.1%pa, growth is expected to exceed every other region except Eastern Europe (15.5%). China is the largest market within Asia Pacific, accounting for two-thirds of consumption. Table 1 shows the size of the world beer market in million litres, with actual and projected growth rates.

Table 1
Size of market and Growth Rates of Beer Industry

Region/Country	Litres (mn)	1995-2000E %	2000E-2004E %
Western Europe	30,996	0.1	1.2
Asia Pacific*	28,521	7.7	8.1
North America	26,084	1.2	2.1
Latin America	23,727	3.7	4.9
Eastern Europe	13,410	5.6	15.5
Japan	7,073	(4.3)	(0.9)
Africa & Mid East	6,523	2.4	4.7
World	***136,334***	***2.6***	***5.2***
China	**18,516**	**8.6**	**6.7**
Other Asia Pacific**	2,963	12.2	21.8
Australia	1,779	0.7	1.0
South Korea	1,957	7.8	5.0
Philippines	797	0.7	4.0
Vietnam	796	17.4	8.3
India	552	9.4	11.9
Taiwan	490	(1.2)	1.4
New Zealand	314	(3.1)	(1.4)
Indonesia	168	(1.3)	11.5
Malaysia	131	2.0	3.5
Singapore	58	2.4	5.9
Total Asia-Pacific	***28,521***	***7.7***	***8.1***

* Asia-Pacific figures include Australia and New Zealand but exclude Japan.
** 'Other Asia Pacific' includes countries not listed in the Table.

Source: Goldman Sachs 2001

One reason for the growth of beer consumption in emerging Asian markets is their favourable demographic profile. The higher the proportion of younger people, the higher the beer consumption growth potential. In the 1990s, 50% of the population of China, and over 60% in the Philippines, Malaysia, and India, was under 30 years old. The figure is 38% in the UK, 35% in Japan, and 33% in Germany. Low actual per capita consumption was interpreted to indicate high potential for growth. Annual beer consumption was around 85 litres per capita in North America, and close to 70 litres in Western Europe. Even the world average was around 20 litres. But in the Asia-Pacific region, consumption was less than 10 litres. Growing per capita GDP in Asia was also expected to fuel consumption growth, since beer consumption and expenditure in emerging markets were income elastic. Whereas the income elasticity of beer expenditure in developed countries was only 0.4, in emerging markets it was 1.35, indicating that a 1% increase in GDP per capita would lead to a 1.35% increase in beer expenditure. China's economy was healthy and was expected to remain so in future: the average rate of China's GDP growth throughout the 1990s was 10%; and projected GDP growth for 2001-2005 is 8%.

In contrast to many countries, the structure of the industry in China was also promising. Globally, the top five beer producers had only 28% combined market share in the mid-1990s, as compared with 94% for the soft drink industry, and 43% for the spirits industry. In most countries, the high fixed costs involved in beer production had created national oligopolies controlled by local companies. In Korea, for example, the top three players controlled 99% of the beer market, in Australia and the Philippines 96%, and in the US 80%. This consolidation led to big economies of scale and high levels of profitability, which, with few exceptions, was positively correlated with national consolidation levels.

China was different. In the mid-1990s over 800 producers competed for market share. As they considered whether to invest in China, the big global players knew that they did not have to face well-entrenched local oligopolies. Compared to some other industries, the Chinese Government was also relatively welcoming to foreign investment.

The Lemming Rush

The Chinese Government's open-door policy may have been a mixed blessing. From only four foreign brewers in China in 1992 (San Miguel, Asia-Pacific Breweries, Pabst, and Beck's), the number grew to 16 in 1995 and continued on upwards. By 2001, major foreign brewers operating in China included Annheuser-Busch, Heineken, South African Breweries (SAB), Carlsberg, Interbrew, San Miguel, Kirin, Lion Nathan and Foster's. In the words of Tim Murray, a former Foster's executive:

> *"1994 was the lift-off time, when everyone came and looked around and saw no branded products ... The trouble was, 80 other companies did the same thing on the same day. And there still isn't a premium market."*

Most of these companies built state-of-the-art breweries and promoted their global brands. Almost all plants ran at a loss due to low capacity utilization and low selling prices which depressed margins. This situation took its toll. Foster's, for example, sold two of its three Chinese breweries in August 1998 following heavy losses. Its last brewery, located in Shanghai, was recently running at a 40% utilization rate, suggesting the potential of a full-scale market exit from China. By the end of the 1990s, all the top ten brewers in China, representing around 21% of market share, were local companies (Everatt and Nawar 2000). What went wrong? And why did a select few like SAB and Kirin do better than the rest?

Market Entry and Differentiation Strategy of Foreign Competitors

Li Giurong, the Chairman of Tsingtao (see box), has highlighted the differentiation strategy of most foreign competitors and its associated problems:

> *"When they came in to invest, they brought the best equipment and the best technology ... The quality really was good. But they had to sell high-priced beer to get high returns." (Lawrence 2000)*

Vast distances and weak infrastructure, combined with consumers' preference for their local brew, made China's beer market extremely fragmented. In spite of the fact that the level of taxation on the beer retail price in China was one of the lowest in the world at 19% (as compared with South Korea at 53.5%, Australia at 52.8% or the UK at 44.6%, for example), beer producers in China found it hard to make a profit, generally operating at capacity utilization levels of just 50-65%. The problems faced by foreign entrants can be summarized under four heads:

- The high price-sensitivity of consumers.
- A high level of loyalty to local brands.
- The difficulty of converting brand awareness into actual purchases.
- The notoriously underdeveloped distribution systems.

Tsingtao: Local Hero

Tsingtao is one of the oldest and most famous Chinese breweries, and the first mainland company to list on the Hong Kong stock exchange. It is one of the better-managed local brewers, in an industry often characterized by firms with non-existent quality control systems, sloppy, unhygienic and unsafe operational practices, and human resources steeped in the historical mentality of a centrally-planned economy where pay had no relation with performance and employees were rarely motivated to contribute beyond their specific job scope (Gleave et al 1998).

Tsingtao was one of the local competitors which took advantage of the difficulties of foreign entrants. It made several acquisitions, over 30 by early 2001, more than doubling its production volume to around 1.5m tonnes, and easily beating the second largest competitor, Yanjing, by 400,000 tonnes. Tsingtao chairman Li Guirong believed that volume was critical to gain competitive advantage, and that despite the company's 53% gearing there was still more scope for expansion:

> *"Taking over companies, you do have to spend money ... But our debt burden is just 53% ... so we still have some maneuvring space. Plus, we have good credit with the banks, and the interest rate on loans is very low. So we can do more investment ... If you don't have a certain market share, if you aren't of a certain scale, you can't talk about having overall competitiveness."* (Lawrence 2000)

One of the company's most publicized acquisitions was its purchase in mid-2000 for US$18m of a 75% stake in a Shanghai brewery owned by Denmark's Carlsberg. The plant had assets worth US$66m, much of it in state-of-the-art imported production equipment. According to the Chinese press, the brewery had been running up losses of over $10m a year.

Price sensitivity

Selling expensive beer was always going to be problematic in a country where consumption of premium beer was at most 5% of the total, and where beer sometimes sold cheaper than soda. In effect it is a commodity product. The price of local beer in China was an average of US$0.20-$0.30 throughout the 1990s. Foreign brands were priced around 400-500% more expensively than local brands. But price was important to consumers. According to analysts, "no factor contributes more heavily to local brewer dominance ... than pricing" (Steinman 1999). The leading local brewers, for their part, appeared to be consciously using their volume efficiencies to engage in predatory pricing and to exploit consumers' price sensitivity.

Local loyalty

As in the rest of the world, beer consumption in China had an intensely local nature, with patriotic feelings attached, which potentially meant that global beer brands could remain nothing more than a passing curiosity (Benson-Armer et al 1999): According to Li Guirong,

> "*Chinese have a very strong sense of home place ... If I live in a place, I want to drink my local brand ... I don't go into a place and say, 'My Tsingtao beer is better than your beer. My quality is better than yours. So why don't you drink me?'*"

Failure to convert brand awareness

Foreign brewers employed competitive weapons that worked well in the West, and were strongly advocated by management consultants as the right thing to do (Benson-Armer et al). These included building global brands through expensive advertising campaigns aimed at differentiating premium beer in the eyes of consumers and loading the product with emotional associations. In China, such campaigns mostly proved a waste of time and resources. They created significant awareness but not the desire or the ability to pay the premium price for the beer. For example, Bass launched its Tennent's lager in Beijing and Shanghai in 1996, "to a fanfare of bagpipes and kilted Scotsmen", (www.chinaonline.com 2000) only to discover that Chinese consumers stuck to their local brews which were selling at around 20-25% of Tennent's price. A local consumer stressed that "I've heard of Tennent's, but local people should drink local beer!"

Distribution difficulties

According to Chinaonline.com, Bass also suffered from China's notorious distribution problems:

> *Bass faced distribution problems caused by local protectionism. Refused licenses to sell bottled beer in certain cities, the brewery had to focus on draft beer, despite the lack of on tap facilities. Even nature was against them – besides regular floods blocking road and rail, winters at –35C froze the beer in the draft piping.*

Bass was not alone. Distribution problems were common in most industries in China. It is exceedingly difficult to find reliable distributors in this huge country. A study by McKinsey found that the typical distributors in China scored either "very poor" or "low" on all indicators of quality: physical delivery, sales, merchandising, promotion, and collection (Ayala and Lai, 1996). Pending China's entry into the World Trade Organization (WTO), analysts predicted that "the most profound change wrought by WTO membership will be the opening of China's distribution channels" (Perkins and Shaw 2000).

How One Foreigner Succeeded

South African Breweries (SAB), the seventh largest competitor globally, is one of the rare success stories among foreign brewers in China. According to the company's 2000 annual report, its beer sales in China rose by 38% over the previous year. It made direct equity investments in the local brewer making one of the country's oldest brands, Snowflake, in the northeastern industrial city of Shenyang. Today, SAB controls 90% of the Shenyang market. In 1999 the company increased capacity by 40% at its breweries in four different cities and made new investments in three new breweries in other cities. During 1999, SAB and its local partner also purchased the Foster's failed Tianjin brewery.

SAB entered China in 1994 via a joint venture with a Chinese venture-capital firm, China Resources. China Resources has been important to SAB's success in China, providing knowledge of the local environment, and guanxi (relationships and connections). According to SAB's managing director for Asia:

> "*Our partners are the China experts. They have experience of doing business there. As a result they have amazing contacts that can cut the red tape surrounding many issues: they can*

> *bring their other commercial operations to bear in a number of areas, they have access to people, they know the market and understand the rate of change required. We have been able to harness our knowledge of the beer industry with their knowledge of China and come up with an awesome team.*"
> (Everatt and Nawar 2000, p10)

The company had substantial experience of competing in less developed countries, which proved to be a key ingredient of their success. According to the managing director for Asia:

> *"SAB International had a solid understanding of the dynamics of less advanced economies through its experiences in other developing markets, including sub-Saharan Africa and eastern Europe. SAB International managers were accustomed to managing factories with unreliable energy sources, inconsistent supply and delivery of inputs, unskilled labour pools, and the use of older technology and plant infrastructure"*

In addition, SAB quickly learned some of the peculiarities of competing in China:

> *"China cannot be regarded as a single country because of the distances, differing levels of wealth and sophistication, weather patterns and fierce parochialism. Very quickly we decided on a process of building geographic strongholds. This would allow synergies in distribution as well as allow economies of scale to be effected ..." (Everatt and Nawar 2000)*

SAB's strategy has consistently been to use local brands, rather than global ones; to aim at the low end of the market using a competitive strategy of cost leadership; to skilfully employ local allies; to dominate specific local regions and then move outwards to more regions; to make conservative and measured capital investments; and to carefully try to understand local consumer behaviour and tailor its strategy to it. This strategy paid off. SAB has operating profit margins of around 13%, rapidly expanding sales and growing market share, a far cry from most of its loss-making competitors.

The Future

In 1999, the top three competitors controlled only 9% of the market. Although some 500 brewers and 1,500 beer brands were still eagerly competing for a share of the pie in 2001, this was well down on the over 800 competitors in the mid-1990s, before the wave of bankruptcies and consolidation started (Granitsas 2001). Consolidation is expected to continue, reducing the number of competitors to around 325 by 2004 (Everatt and Nawar 2000). Commentators predict that given this rate of consolidation the total number of

SAB's China Strategy

SAB's 2000 annual report (p21) summarizes its China strategy:

> *"SAB continues progress in its Asian stronghold: the north east provinces of Liaoning and Jilin. SAB's investment with its Chinese partners, CRE, began in 1994 with the Shenyang Snowflake brewery. Consumption in the north-east, traditionally a beer-drinking region, is amongst the highest in China at 22 litres per person. We have three breweries in Shenyang: Snowflake, Winery and Wanghua producing in total around 5 million hl per annum and serving a market place which has a population of around 7 million. Our strategy has been to stimulate demand and then follow with incremental increases in capacity, thereby managing our capital investment prudently. The marketplace is a developing one and by helping to improve the quality and consistency of the local beers, we have developed trust and credibility with the consumer. This is critical to developing a wider brand portfolio. Currently only around 10% of beer sold is consumed out of the home, providing scope for increased sales volume as the on tap trade develops. It has been crucial to our success that we have focused on the local beers (rather than brewing other SAB brands), and by creating consistency of product it has been possible to establish rational pricing in the market place, improved volumes and market share gains. In Shenyang we have around 90% market share and we are confident that we shall see further gains, on all measurements, in the years ahead."*

brewers may reduce to just 100-200 in the longer term (Steinman 1999). Some even predict that the global players will ultimately defeat the locals: "ultimately, a handful of giant players – beer's equivalent of P&G and Nike – will dominate the industry and capture most of the available profit" (Benson-Armer et al 1999, p9).

Competition in this market will be intense and unforgiving. Competitive battles in the short and medium term will be fought on two dimensions: the low end mass market, and the race for market share, volume and consequent economies of scale though both acquisition and organic expansion. High marketing expenditures and significant brand awareness of global beer brands has not proven sufficient to encourage enough Chinese consumers to pay the huge price differentials charged by foreign entrants. Local consumers have preferred to stick to their local brews; also demonstrating their patriotism by doing so.

Foreign brewers build their hopes on future economic conditions. GDP growth is projected to continue at an average of 8% from 2001 to 2005, with consumer price inflation of less than 3% over the same period (up from 2% during 1996-2000). GDP per head in 2000 was equivalent to $870 ($4,670 at purchasing power parity). China's business environment rankings were set to improve slightly from an average of 5.33 out of 10 during 1996-2000, to 6.06 during 2001-2005 (EIU 2001). Table 2 below gives a summary of important aspects of China's business environment for the period 2001-2005.

Achieving brand awareness and increased market share will be crucial for the success of foreign entrants in the Chinese beer industry, but patience may prove even more important. How long, however, should foreign brewers stay in China and keep losing millions of dollars per year? Will a premium market develop soon enough to save their fortunes? Should they change their strategy to compete in the low end of the market, and give up on promoting their global brands? Should they focus on making equity investments in local beer companies with brands unknown in the West and sub-standard technology? Which is the right way to go?

Table 2
China's Business Environment at a Glance

Policy towards private enterprise and competition	
2001-2	Improved competition from the break-up of state monopolies. WTO membership opens access to restricted markets.
2003-5	Consolidation of leading state-owned industries undergoing state-sector restructuring. Greater role for the private sector. Increased access for foreign companies and products. Strong residual protectionism in some key sectors.
Policy towards foreign investment	
2001-2	Foreign investment encouraged in strategic sectors. Restrictions remain in many areas.
2003-5	Gradual opening of previously protected areas of the economy in line with WTO commitments.
Foreign trade and exchange controls	
2001-2	Limited realization of the trade regime. Restriction on capital flows remain.
2003-5	Further easing of tariff and non-tariff barriers. Limited relaxation of restrictions on capital flows.
Taxes	
2001-2	Improved collection, tightened assessments and audits. Crackdown on tax fraud and evasion. Introduction of rural tax reforms to replace ad hoc levies and fees.
2003-5	Broadened tax base. Gradual ending of unequal tax treatment, but some preferential rates and concessions retained inland. Rural tax reform extended nationwide.
Financing	
2001-2	Efforts to put state-owned banking system on a more commercial footing. Greater opening of the financial sector to foreign participation.
2003-5	Continuing efforts to rid state banks of bad loans. Foreign financial institutions granted access to the same customers as state banks.
The labour market	
2001-2	Large, poorly skilled workforce. Deficiencies in quality.
2003-5	Persistent shortages in skilled labour and expertise. Marginal increase in supply of highly skilled workers.
Infrastructure	
2001-2	Accelerated development of the interior. Persistent bottlenecks.
2003-5	Continued improvement in all areas, and a number of major projects completed or nearing completion. Infrastructure remains inadequate for the size of the country.

Source: Country Forecast: China. *Economist Intelligence Unit,* April 2001, p3

Issues and Lessons: Doing Business in China

Only a minority of firms that try to profitably penetrate China succeed, and those that do often need several years, local knowledge and deep pockets to build viable competitive positions. Many multinationals view China as the last frontier of globalization, and have either entered it or plan to enter it in the near future. Beer is in some ways a special case. But the problems experienced by foreign entrants to this market and success of the SAB's localized strategy helps to place in perspective the perils and uncertainties of competing there.

In the beer industry, tailoring the competitive strategy to the local environment proved the most important factor for success. Unsuccessful foreign competitors attempted to compete based on differentiation (premium pricing and superior product quality). While this strategy can be successful in more developed markets, in this case firms failed to appreciate the particular features of the China market: the high price sensitivity of consumers; the high level of patriotism when it comes to drinking beer; the difficulty of converting brand awareness to actual purchases; and the notoriously underdeveloped distribution systems. The high level of fixed costs involved in beer production exacerbated the situation.

The minority of foreign competitors who succeeded, on the other hand, followed a low cost strategy (low production costs, merely acceptable product quality and low selling price) combined with the following: careful understanding of local consumer behaviour; investment in local brewers and local brands; gradual raising of quality standards and the technological competence of local brewers they invested in; proceeding cautiously in terms of investment levels and pace; and learning from prior experience in developing countries.

None of the above strategies is inherently better than the other; their effectiveness depends on the industry and macro-level context. The features of the mainland Chinese context meant that the beer market was not developed enough to accommodate and respond to Western-style competitive tactics such as advertising blitzes aiming to build emotional/lifestyle associations with the product, and reliance on powerful global brands. Table 2 illustrates several features of the Chinese context, especially with regard to labour markets and infrastructure. These should be taken seriously and planned for by foreign entrants. In addition to these macro-environmental features, the story of the Chinese beer industry shows that foreign entrants should try to gain a deep understanding of consumer behaviour in the particular local market.

However, the situation in the beer industry, where a low-cost strategy was more suitable, does not mean that foreign firms attempting to build a differentiation position will necessarily fail, as the example of Coca-Cola illustrates (see box overleaf). In the context of technology-related ventures in particular, the Chinese government is demanding the transfer of state-of-the-art technology from foreign partners, before giving approval to joint ventures (Meyer 2001). Studies in the electronics industry, in addition, show that firms that enter China using a capital and technology-intensive strategy tend to perform better than firms entering with a labour-intensive strategy (Li et al 2000).

The case of the beer industry also illustrates the limits of strategic planning in uncertain and volatile environments. Most foreign market entrants built state-of-the-art breweries with high production capacity, based on the robustness of China's economy, the expected growth of the Chinese beer market (Table 1), and their confidence of capturing a significant share. There were too many unknowns, however. Several other foreign competitors were either doing or planning to do the same thing shortly after. Almost all foreign entrants were chasing the same, tiny premium beer segment. Competitive tactics proven to be successful in the West were of questionable validity in China. Unforeseen problems cropped up, relating to such things as distribution infrastructure, apathetic workforces, political obstacles and local protectionism. This situation highlights the limits of strategic planning but also the virtues of flexibility and learning from experience.

The experience of foreign brewers in China also illustrates the inflexibility of strategic commitments and the high price that has to be paid if the wrong commitments are made. For example, foreign brewers who had been losing tens of millions of dollars annually could not afford to wait until a viable premium market segment developed. They felt they had to sell their state-of-the-art assets at bargain basement prices. This strengthened their competitors who bought those

Coca-Cola in China

Coca-Cola has been making profits in China since 1990, having built its first bottling plant there in the 1930s (Weisart 2001). Much of its success in China has to be attributed to the fact that it entered the country with one of the world's best-known brands. Coke encapsulated a lifestyle that was aspired to by most of the inhabitants of this planet. This advantage allowed Coca-Cola to succeed in China with a premium, differentiated strategy. Nevertheless, it also did the right thing in terms of local adaptation.

It currently has ownership stakes in 24 bottling joint ventures, and two factories producing concentrate. Most of Coca-Cola's joint ventures are with Chinese government agencies, an example of the crucial importance of having good government relations in China (see also Sanyal and Guvenli 2001). It has followed a localization strategy in all aspects of its operations, including marketing, supplies and distribution. Instead of simply promoting its flagship brand, it has also developed local brands through Tianjin Jin Mei Beverage Co, a 50-50 joint venture formed in 1993 with a government agency. Its Tianyudi (Heaven & Earth) and Xingun (Smart) brands have been phenomenally successful and outsell its flagship Coke, Sprite and Fanta brands. The company spent US$26m on advertising in China during 2000. In 1984, it was the first foreign firm to advertise on CCTV, the national television station. In 1996 it enlisted retired neighbourhood officials to promote its drinks, increasing its brand awareness in the process. 98% of Coca-Cola's supplies are procured domestically. The company has provided local suppliers with financial assistance and technical advice to help them improve their quality standards and reliability. On distribution, the company has built at least one sales centre with its own fleet of trucks in each town with over 1m population. It also launched a program called Partnership 101, providing around 900 wholesalers with training and management assistance in selling its drinks. The result is that Coca-Cola's drinks reach 80% of China's 1.25bn people.

The average consumption of Coke in China is eight 250ml servings per person annually, as opposed to 400 servings per person in the US. This is thought to indicate the huge potential of this market. Coca-Cola commands around 47% market share of China's carbonated drinks market, as opposed to 19% held by its rival, Pepsi (Gilley 2001). The company aims to double its sales in China over the next five years.

assets, making any future success even more unlikely and creating a vicious circle for themselves. Should they have stayed in China instead? The problem is that there is no adequate data for making rational investment calculations. Any assumptions on the timeframe required to build a viable presence in the premium beer segment, for example, would be little better than wild stabs in the dark. In this context, the more conservative approach of brewers following the low cost/localization strategy was more suited to this environment because it did not bind the firms to inflexible strategic commitments that would drag the whole market penetration strategy down.

One final point: foreign entrants also need to take care who they partner with. Most firms enter China through joint ventures with local companies, as illustrated in the cases of Coca-Cola and SAB. Local companies usually offer local knowledge and connections, while foreign firms contribute capital and technology. But striking an alliance with the wrong partner can open up a can of worms. Differences in each partner's strategic goals can create destructive conflicts. Foreign partners almost always have a longer-term outlook and want to invest in such things as brand-building, distribution capabilities, or upgrading of operations. Local partners may be more interested in quick profitability. Research suggests that foreign firms entering China through joint ventures with local firms should try to gain decision-making control of critical business functions, develop and retain an effective sales force, develop and retain capable Chinese managers, and be able to understand and influence government decisions (Osland and Cavusgil 1996).

With South African Breweries, relationships with the Government were handled by their joint venture partner, China Resources. Guanxi – long-term relationships or connections, with implications of reciprocal favours (Tsang 1998) – is still invaluable in China, not least because of inconsistencies in government policy and the underdeveloped and unreliable legal system. Guanxi can help firms in navigating the maze of central, provincial and local government bureaucracy and being able to obtain redress in commercial disputes. However as China enters the WTO, opens up its markets further, develops its institutional frameworks, and begins respecting intellectual property, the importance of guanxi may decline in the longer term. The one certainty is that China's anticipated entry into the WTO, which is expected to make it more accessible to foreign investment, means that a deeper appreciation of its competitive environment is more critical now than ever before.

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