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When Is A Joint Venture A Joint Venture? The Classification of Sino-foreign Strategic Business Alliances

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When Is a Joint Venture a Joint Venture?
The Classification of Sino-Foreign Strategic Business Alliances

Sino-U.S. strategic business alliance research is impeded by several obstacles: (1) various alliance types are confounded; (2) alliance data are aggregated regardless of life cycle stage; and (3) there is a dearth of reliable data about these alliances. We distinguish various alliance types and joint venture life-cycle stages, then synthesize these to provide a comprehensive classification scheme applicable to systematic prescriptive research into this growing phenomenon.

The People's Republic of China (PRC) is a relatively new frontier for U.S. and other foreign business, her doors have been cracked open for only a decade. China's assumption that rapid and effective modernization is dependent on expanded foreign interaction has resulted in, such foreign economic policy reforms as the Open Door Policy, the 1979 Joint Venture Law, and subsequent foreign investment related promulgations. As a result of these foreign economic policy reforms the Chinese have entered into various business relationships with foreign firms ranging from arms length (spot market) transactions to strategic business alliances. "Arms length" transactions include complete plant or turnkey imports and buying technology through, for example, patent licensing agreements. Strategic business alliances, which account for over 95% of all foreign investment (Teagarden & Von Glinow, 1989), include compensation trade--both counterpurchase and countertrade, long term licensing agreements, dynamic technology transfer agreements, coproduction agreements, exploration and research consortia, and contractual and equity joint ventures. Despite a continuous increase in the number of these alliances, Sino-foreign strategic business alliance research remains a particularly difficult ball of thread to untangle.

Research into Sino-foreign business alliances is severely impeded by several obstacles which include confounding of the various alliance types, confounding of the developmental stages of these alliances, and a dearth of reliable data about these alliances. The following classification scheme is one solution to the confounding of Sino-foreign alliance data. Use of this scheme will facilitate accuracy in research analysis, and thus enhance generalizability of these data. However, this scheme will not address the basic lack of access to, or availability of data about these alliances. We suggest that use of a common analytical frame of reference, such as the following classification scheme, followed by data sharing and collaboration among Sino-foreign business alliance researchers can provide the basis for development of a more reliable Sino-foreign cooperative alliance data base, and thus indirectly address the impediment presented by lack of robust data.

A PROFILE OF SINO-FOREIGN BUSINESS ALLIANCES

China engages in business alliances with over thirty countries. Hong Kong has been the largest investor by far in China, followed by the U.S., Japan, and Britain. Despite the fact that over 30 countries have investments in the PRC, no other country has invested more than 2% of the total foreign commitments. Manufacturing, accomodation (tourism), and construction projects are the targets of most of this investment (Beamish & Wang, 1989; A.T. Kearney, 1987; Grow, 1988). Table 1 presents data on the ten countries with the largest investment commitments.

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In addition to significant variations in levels of investment among countries investing in the PRC, there are proportional differences in the use of various alliance types, as shown in Table 2. U.S. firms use equity joint ventures much more frequently than other foreign firms, and contractual joint ventures much less frequently. However, the value of these equity commitments is much less than other foreign firms, while the value of contractual veture commitments is almost equal to the total commitment by other foreign firms. In addition, U.S. firms are the largest investors in wholly foreign owned subsidiaries, and by far the largest investors in oil exploration consortia.

Put Table 2 here

Despite country differences in levels of investment and the proportional use of various types of alliances, examples used in the following discussion are drawn from Sino-U.S. strategic business alliances because of our access to and familiarity with these data. However we conclude that the alliance types presented, the life cycle phases identified, and the classification scheme developed are representative of, and equally applicable to all Sino-foreign alliances based on the across-country alliance similarities identified in the literature we have reviewed (Beamish & Wang, 1989: Campbell, 1986; Davidson, 1987; Grow, 1986; A.T. Kearney, 1987; Pegels, 1987; Teng & Wang, 1988; Wang, 1984). We suggest that once all alliances are consistantly classified, then cross country comparative research can identify the underlying reasons for differences in, for example, patterns of investment, motivations to interact, alliance performance, duration, structure, compostion and other topics related to the development of prescriptive research into is growing phenomenon.

WHEN IS A JOINT VENTURE A JOINT VENTURE?

The Chinese government, through the Ministry of Foreign Economic Relations and Trade's Foreign Investment Administration (MOFERT), reports that the cumulative U.S. business investment in China between 1979 and 1986, $2.7 billion, was invested in 304 projects, and that for this same period 2654 equity joint venture projects were approved (A.T. Kearney, 1987). As shown in Table 3, seven of these projects, valued at $6.27 million were wholly foreign owned; the balance was invested in business alliances such as equity and contractual joint ventures and oil exploration consortia, investment forms that will be described in the latter part of this paper. These investment data identify 219 equity joint ventures and 53 contractual joint ventures operating in China at the end of 1986.

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However, these official Chinese data are not consistent other data sources, and while there is general consensus that Chinese data collection is imperfect, these discrepancies are quite large. Roos (1986) identifies 138 Sino-U.S. equity joint ventures formed by the end of 1985, a figure that approaches the Chinese data cited above. Beamish and Wang (1989) identify 59

Sino-U.S. joint ventures formed by 1984, a figure used by MOFERT (National Council for U.S.-China Trade, 1987) to represent the total of all types of contracts signed by 1984. Pye (1986) states that approximately 1700 Sino-U.S. joint ventures were formed between 1980 and September 1985, a number significantly higher than those cited by others, and significantly lower than the number of project approvals (2654) cited by MOFERT for the 1979-1985 period. Discrepancies such as these certainly impede interpretation of existing data and systmatic research of this phenomenon.

These discrepancies would certainly lead researchers to ask very basic questions: "How many Sino-U.S. joint ventures are there? 140? 272? 1700?"; "Which alliances are joint ventures, and which are other alliance types?"; or even "When--at what stage--is a joint venture a joint venture?" Identification and differentiation of the various business alliance types addresses one form of confounding, erroneously identifying different types of Sino-foreign alliances as joint ventures. A framework that incorporates the entire joint venture life cycle addresses a second form of confounding, the aggregation of venture data across life cycle stages. Finally, synthesis of the types and life cycle framework provide a comprehensive classification scheme applicable to systematic prescriptive research into Sino-foreign strategic business alliances. In addition to research utility, the classification scheme offers the practitioner a rudimentary map of the China business frontier.

SINO-FOREIGN BUSINESS ALLIANCE TYPES

Ninety-eight percent of the U.S. investment in China, as represented in Table 3, is done through some form of strategic business alliance. However, broad application of the Joint Venture Law, vagueness in Chinese definitions of various foreign investment forms, uneven record keeping, and lack of clear identification of joint venture partners result in the categorization of various types of Sino-foreign business alliances as "joint ventures." An example that demonstrates this confusion is cited by the National Council for U.S.-China Trade (1987). Caltex, a U.S. based multinational, was instrumental in setting up a chain of gas stations in Shenzhen. Caltex facilitated the establishment of the joint venture through their Hong Kong franchisee, supplied a substantial loan to this franchisee for use in the venture, and even has a member on the joint venture's management board. However, Caltex has no equity investment in this venture. Nevertheless, the Chinese count this alliance as a Sino-U.S. equity joint venture, not the more accurate designation, Sino-Hong Kong contractual joint venture.

The Chinese divide foreign investment into five categories: 1) wholly foreign owned enterprises; 2) equity joint ventures; 3) contractual joint ventures; 4) offshore oil exploration; and 5) compensation trade arrangements. Wholly foreign owned enterprises, like the 3M-China Ltd., are clearly defined and protected by the 1986 Law of the PRC on Wholly Foreign-Owned Enterprises. Both the number and level of investment of wholly foreign owned enterprises are small, however they are anticipated to grow sharply in the near future. These are unilateral foreign investments in China, the first socialist country to pass a law governing the establishment of such enterprises, and as such are clearly not joint ventures. The other four categories represent various forms of collaboration, and we have seen attributions made of each of these types of alliances as joint ventures.

Equity joint ventures (EJVs) are separate entities from their parents, usually limited liability corporations, in which profits, costs and risks are shared in proportion to each partner's equity investment. This definition mirrors the common use of the term in both domestic and international strategy literature (cf. Harrigan, 1984, 1985; Beamish & Banks, 1987; Contractor & Lorange, 1988). One significant difference, however, is that Sino-foreign EJVs are commonly formed with the explicit intention of dissolving the relationship at a specified date, a criteria usually applied to fade-out, contractual joint ventures (Wright, 1981; Beamish & Banks, 1987). The average duration of EJV agreements is approximately fourteen years (National Council for U.S.-China Trade, 1987).

Sino-foreign EJVs are operating ventures (Harrigan, 1984; 1985) that "carry out a productive economic activity" in which "[e]ach partner takes an active role in decision-making, if not also in the child's operations." This active decision-making role means that operating ventures are more interdependent than other alliance forms (Contractor and Lorange, 1988). Beijing

Jeep Corporation, Foxboro-Shanghai, and Parker Hannifin China, are three examples of Sino-U.S. EJVs. Beijing Jeep Corporation manufactures Jeeps and is perhaps the most publicized Sino-U.S. EJV. BJC has a twenty year contract life and was formed by American Motors Corporation (AMC) and the Beijing Auto Works (BAW) in 1983. With an investment of US$ 51 million, AMC holds 31.4% of the equity and BAW holds the balance. Foxboro-Shanghai Company Limited, frequently referred to as the most successful Sino-U.S. EJV, manufactures process control instruments. Formed in 1982 with an investment of US$ 10 million, Foxboro holds 49% of the equity and Shanghai Instrumentation holds the balance. Parker Hubei Seals Company, Ltd. which manufactures O-rings is another early Sino-U.S. EJV, formed in 1981. With an investment of US$ 1 million, Parker Hannifin holds 49% of the equity and Hubei Automobile Industry Corporation holds the balance.

Contractual joint ventures (CJVs) are sometimes called non-equity joint ventures, and sometimes coproduction agreements. Unlike EJVs, in CJVs the proportion of benefits received from the venture are negotiated in a contract, not necessarily in proportion to the level of investment in the venture (Wang, 1984; National Council for U.S.-China Trade, 1987). We define CJVs as operating ventures because, like EJVs, they also "carry out productive economic activity" and "[e]ach partner takes an active role in decision-making, if not also in the child's operations"--operating venture criteria identified by Harrigan (1984; 1885). CJVs are distinguished, however, by the fact that they do not create a separate entity, a third operating venture criterion identified by Harrigan. We contend that the first two operating venture criteria are the crux of the distinction. Like EJVs, CJVs are formed with the explicit intention to dissolve the relationship at a specified date. The average duration of Sino-U.S. CJVs is 12 years (National Council for U.S.-China Trade, 1987). We are hard pressed to identify an average 14 year duration as long term, and an average 12 year duration as short term.

Examples of CJVs include the Sino-U.S. joint production of McDonnell Douglas jets and the coproduction of Bell Helicopter Textron helicopters. In these CJVs the U.S. parents contributed equipment or technology to a Chinese plant for the production of specific products which, once manufactured, were sold to the Chinese (Wang, 1984). Another CJV example is the Encyclopedia Britannica alliance with the Greater Encyclopedia of China Publishing House to produce the Chinese language Concise Encyclopedia Britannica. In this CJV Encyclopedia Britannica had an active editorial role in the production and received royalty payments, called consulting fees by the Chinese, in return (Gibney, 1985).

Offshore Oil Exploration agreements (OOEs) account for almost half of the U.S. investment in China (Clarry and Xianfang Liu, 1987; National Council for U.S.-China Trade, 1987; Wang, 1984). Unlike EJVs and CJVs these are passive ventures. Passive ventures are defined as those where some of the alliance partners "are not involved in the new entity's strategic business decisions" (Harrigan, 1984, 1985). Harrigan's (1985) examples of passive joint ventures include real estate partnerships where one or more partners (passive investors) are excluded from strategic business decisions, limited partnerships undertaken to drill for oil or make movies where financing partners are passive, and interfirm arrangements that do not create a separate entity. In Sino-foreign OOEs, some partners provide financing only, some sophisticated technical know-how, and some participate in actual exploration. The Chinese government's contribution, through the CNOOC (China National Offshore Oil Corporation), is permission for the foreign firms to explore for oil in exchange for substantial profit or other options from any fields developed. While these are collaborative alliances that involve joint activity some partners take passive roles in the venture operation, therefore we suggest that OOEs not be considered joint ventures.

The fourth type of collaboration identified by the Chinese is the compensation trade arrangement (CTAs) which includes countertrade and counterpurchase agreements. In countertrade, a variation of barter, the importation of equipment, machinery and technology "can be paid for over a number of years by the resultant products or by un-related products" produced or offered by the Chinese partner (Wang, 1984). An example of a countertrade agreement is General Motors Trading Company's exchange of diesel engines valued at $300,000 for cutting tools and other products of an equivalent value (Wang, 1984). Counter-purchase, only slightly different than counter-trade, is where "a Chinese purchase is balanced against a foreign purchase in a separate contract (Wang, 1984)." Examples of counterpurchase include the Chinese purchase of aircraft parts from McDonnell Douglas in exchange for their purchase of hams, lightbulbs and woodburning stoves (Wang, 1984). Like OOEs, CTAs are also passive alliances and should not be considered joint ventures.

A fifth type of Sino-foreign business alliance is the production/assembly and buyback agreement (PABs) in which the foreign partner frequently provides manufacturing technology (often through use of a license), raw materials or components, and a long term buyback contract for the resultant product. Nike has had a series of long term licensing agreements with Chinese manufacturers in which Nike has provided training, equipment, and components to produce shoes which are bought back from the sources and exported (Aguilar, 1988; Teagarden, 1989). Again, like OOEs and CTAs, these passive collaborative agreements should not be considered joint ventures.

Dynamic technology transfer agreements (DTTs) represent a sixth Sino-U.S. strategic alliance form. Sometimes called know-how licensing (Contractor & Lorange, 1988), DTTs can be differentiated from patent licensing based on the higher degree of interdependence found in DTTs. This interdependence results from transferring soft technology, such as management or design know-how, in addition to hard technology, such as patent specifications; and from the dynamic nature of the licensing agreement which usually specifies that, for the life of the agreement, future product or process improvements be transferred. Westinghouse has a 15 year licensing agreement with the Ministry of Machine Building Industries (MMBI) to transfer technology for turbine generators with a goal of training the Chinese to produce the whole product so that they would not be dependent on Westinghouse. This agreement included provision for technology transfer of product and manufacturing process improvements for the life of the contract. Fulfilling this agreement has required the extensive transfer of paper (specifications), three stages of training (product training, systems design training, and more product training), and consultation (Von Glinow, Bhambri & Schnepp, 1988) which represent significant interdependence between the partners on an ongoing basis.

Although all six types of alliances have been called joint ventures in the Sino-foreign literature and by the Chinese, the joint venture process discussion that follows refers only to EJVs and CJVs. We extend the common use of the term joint venture when we include CJVs in our discussion. As stated earlier, we contend this is warranted because of the intent to jointly carry out economic activity and the high level of partner decision making involvement in these CJVs, operating venture criteria stressed by Harrigan (1985) and required by the Chinese consensual decision-making structure. Also, Sino-foreign EJVs and CJVs are both most commonly formed as fade-out ventures, with the explicit intention to dissolve the relationship at a specified date. We are hard pressed to identify an average 14 year duration as long term, and an average 12 year duration as short term. In these specific alliances, the similarity in duration blurs other distinctions made in the joint venture literature (Beamish & Banks, 1987; Wright, 1981).

A JOINT VENTURE LIFE CYCLE FRAMEWORK

The following Sino-U.S. joint venture life cycle framework is an ideal: It is a comprehensive framework that incorporates a life cycle perspective (Kimberly, Miles and Associates, 1980), and was developed based on interviews with firms having China experience and the extant literature (Gomes-Casseres, 1988; Harrigan, 1984, 1985; Kogut, 1988; Tomlinson, 1970). The joint venture process is not as tidy as this framework would indicate: This is an overly parsimonious representation of an extraordinarily complex process. Nevertheless, a differentiation of the life cycle stages enables a higher level of precision in comparison and aggregation of Sino-foreign joint venture data. Our intention is to identify the joint venture stages, not to explore them in depth, an endeavor worthy of a separate paper.

There are four basic stages in the joint venture process: Pre-Entry, Formation, Operations, and Conclusion. The framework, presented in Figure 1, is described from the U.S. parent's perspective, and facilitates differentiation of the venture based on its maturity in the life cycle. While conceptually discrete, there is some evidence that stage boundaries can blur. For example, considerable evidence exists to support the contention that renegotiation can frequently occur in alliances well into the formation stages (Von Glinow, Schnepp & Bhambri, 1988).

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The Pre-Entry Interaction Stage

Pre-Entry Interaction is initiated as a result of parent strategies. This stage of the process includes a series of steps: Pre-Entry Education, Prelimimary Investigation, Partner Selection, Commitment Analysis, and concludes with Contract Negotiations.

Parent Strategies. The joint venture process begins with the strategic objectives of the venture's parents. Common U.S. motivations for investigation of and entry into the China market include: growth and internationalization objectives; a desire to be first to the "billion plus market" (Daniels, Krug and Nigh, 1985); and "China fever" which is a desire to enter China based on fad, everyone else is. While most U.S. parents in these alliances express a distinct preference for using other forms of engagement with China, especially export or wholly owned subsidiaries, they are persuaded that the joint venture form is the best available option given the current context in China (Teagarden, 1989).

Pre-Entry Education. Most analysts claim that inexperienced firms can benefit greatly from talking with those who have had China experience. Beyond talk, this entails systematic education of intercultural factors, including, but not limited to educating individuals charged with the preliminary investigations in the economy, government, general legislation, and the prevailing competition from other foreign and domestic sources (Campbell, 1986; Davidson, 1982; Grow, 1986; Killing, 1982).

Preliminary Investigation. The preliminary investigation of opportunities in China can be very difficult, if not impossible, costly and time consuming. Nevertheless, there is a consensus among China veterans that an attempt at preliminary investigation is important because of the direct and indirect benefits it provides. This step usually requires relatively extensive contact with the Chinese to discover opportunities, and more importantly, to develop an understanding of each sides' expectations (Davidson, 1987). This contact is represented in Figure 1 by the dotted line connecting the Pre-Entry Stage for both parents. An important indirect benefit provided by this extensive contact is the opportunity to build industry relationships that are critical to the success of the venture being considered, or other ventures that might be pursued in the future.

Partner Selection. The partner selection process is commonly perceived as being an "arranged marriage" (Pye, 1986). However, some China veterans and researchers (Beamish & Wang, 1989; Campbell, 1986) suggest that this is not so. Campbell (1986) and some China veterans suggeest that if a satisfactory Chinese partner is not initially presented, the U.S. parent should refuse to continue, and both veterans and researchers suggest that the likely outcome is presentation of a more satisfactory partner. Beamish and Wang (1989) suggest that, firms considering small investments, "for which a higher degree of decentralized decision making power exists in China," have a wide range of partner options including "each potential province, major municipality, coastal city or SEZ [Special Economic Zone]...." based on a basic lack of coordination between these regions.

Commitment Analysis. This process is driven by response to the following, "Will China entry with this partner contribute to our strategic objectives?" Parents assess their internal capabilities and willingness to commit required resources to enter an alliance they have identified as feasible. Once a decision is made to commit to an alliance with this partner, venture formation can begin.

Contract Negotiations. Negotiations are usually held in China and the U.S. partner should have a firm grounding in the Chinese negotiating style for both offensive and defensive purposes (DePauw, 1981; Pye, 1982,1986). Pre-Entry Investigation should prepare the U.S. partner to deal with the complex bureaucracy, all of the ministries and bureaux that must be dealt with in securing approval for venture formation; the complex decision-making process they experience; and the lack of decision making autonomy the venture will encounter once formed. Previous strategic commitment decisions established parameters that guide the U.S. partner's resource commitment, duration of commitment, definition and limitations of the scope of technology transfer, structuring of the venture, and related issues.

The Venture Formation Stage

Joint venture Formation includes two steps: Venture Formation, and Initial Resource and Technology Transfer.

Venture Formation. Venture formation is different for EJVs and CJVs. In the EJV case, the Joint Venture Law has provisions for formation of the Board of Directors, which will become the legal entity involved in establishing and operating the newly formed joint venture. Once the contract is signed and the Board of Directors is formed, the venture is a legal entity and can proceed with the initial transfer of resources. In the CJV case, a separate entity is not formed. However, terms of the agreement are formalized by signing a contract, and once signed the initial transfer of resources begins.

Initial Resource Transfer. The initial resource transfer includes the transfer of capital, personnel and technology hardware and software. Hardware includes design and material specifications, drawing, process descriptions, and plant or facility modifications. Software includes management and marketing skills, and general production "know-how." The transfer mechanism frequently involves extensive training of the Chinese staff and is an iterative and highly interactive process (Von Glinow & Teagarden, 1988). Once the initial resource transfer is completed the venture moves into the operations stage.

The Venture Operations Stage

Operations includes production start-up and the institutionalization of production and manufacturing processes.

Start-Up. In Start-up technology is first applied and prototypes such as verification units are built. Start-up provides feedback on how well the technology is transferring and it affords the opportunity for "bugs" to be ironed out, for information to be clarified, and for additional information to be provided, if necessary.

Institutionalization. Institutionalization, the underlying rationale for the venture, is where the venture begins production or service delivery on a regular basis. The venture is likely to remain in this ongoing operations mode until it reaches Conclusion.

The Venture Conclusion Stage

Conclusion is the final stage in the process. Most contracts are negotiated for a specific duration, but can be terminated earlier. At the end of the specified duration, partners may renegotiate the contract; spin the venture off as an autonomous entity, independent of control by either parent; or dissolve the venture. Most ventures, however, have not yet reached this point.

A synthesis of the business alliance types presented earlier and the life cycle stages provides a comprehensive and specific classification scheme for categorizing different Sino-foreign alliances.

A SINO-FOREIGN BUSINESS ALLIANCE CLASSIFICATION SCHEME

The six alliance types can be arrayed against the four life cycle stages to provide a twenty-four cell matrix into which Sino-foreign business alliances can be classified. In response to the question "When is a joint venture a joint venture?", we suggest that the term joint venture only be applied to EJVs and CJVs in the Formation and Operations stages of the life cycle, as represented by the shaded area in Figure 2. We suggest that only operating ventures, EJVs and CJVs, be called joint ventures because of the high degree of decision-making interdependence shared by these alliance partners as compared to partners in OOEs, CTAs and LTAs. OOEs, CTAs and LTAs are cooperative alliance, and as such have activities in common, however, they lack the high degree of interdependence found in EJVs and CJVs.

In addition, we suggest limiting the life cycle stages to Formation and Operations since partners have little obligation to proceed with the venture relationship in Pre-Entry since they are not legally bound. There is ample evidence to support this contention--almost 70 percent of the letters of intent to form a venture signed never culminate in venture formation (The Economist, 1986). In the Conclusion stage a venture ceases to exist, therefore we suggest that it only confounds research to include these as joint ventures. Given the newness of the Sino-foreign alliance phenomenon, however, we do not believe that this specific aggregation has contributed to significant counfounding.

Put Figure 2 about here

The utility of this classification scheme is not limited to joint venture discussion. It is an equally useful scheme for classification of other alliance forms, for example, oil or research consortia; or to focus on a phenomenon common to all alliances at a particular stage of the life cycle, for example contract negotiations in business alliances. Perhaps the scheme will be most useful by simply providing an approach that will begin to let us unravel a particularly tangled ball of thread.

CONCLUSION

We believe that the classification scheme provided by this synthesis offers an analytical mechanism that can serve as a common basis for systematic prescriptive research into the Sino-foreign business alliance phenomenon. Systematic use of a common analytic mechanism is a starting point for the introduction of reliability and generalizability into Sino-foreign business research. Aside from its utility for future discussion and analysis of Sino-foreign alliances, this classification scheme can also be used to reconcile discrepancies encountered in the comparison of existing data relating to these alliances. In addition, we believe that identification of the various business alliance types, discussion of the joint venture life cycle, and the classification scheme all provide useful information for practitioners about to venture into the China frontier.

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Table 1. Ten Largest Sources of Private Investment Capital Commitment in the PRC, 1979-1985

Country	Commitment Value (US$ millions)	Percent of Total Foreign Investment
Hong Kong	10,628.96	63.8
United States	2,177.01	13.1
Japan	1,628.63	9.8
Britain	378.30	2.3
France	262.50	1.6
Sweden	202.40	1.2
Singapore	192.50	1.2
West Germany	162.10	1.0
Italy	137.40	0.8
Australia	105.20	0.6

Source: U.S. Joint Ventures in China: A Progress Report. National Council for U.S.-China Trade, 1987.

Table 2. Proportions of Foreign Investments in China, 1979-1986

Investment Form	Number of Contracts U.S.	Number of Contracts All Foreign	Value of Commitment U.S.	Value of Commitment All Foreign
Equity Joint Ventures	72.0%	41.3%	12.2%	20.6%
Contractual Joint Ventures	17.4%	56.4%	40.9%	49.3%
Oil Exploration Consortia	8.2%	0.5%	44.1%	16.7%
Wholly Foreign Owned Affiliates	2.3%	1.8%	0.2%	3.1%
Compensation Trade	***	***	2.6%	7.5%
Other	***	***	***	2.9%

Note: Adopted from U.S. Joint Ventures in China: A Progress Report. National Council for U.S.-China Trade, 1987.

Table 3. Cumulative U.S. Investment in China: 1979-1986

	1979-85		1986	
	Projects	Value ($US)	Projects	Value ($US)
Wholly Foreign Owned	7	6.27 million	2	.85 mil
Contractual Ventures	53	1.07 billion	15	185.00 mil
Equity Ventures	219	528.10 million	81	263.00 mil
Oil Consortia	25	1.03 billion	4	68.00 mil
Total	304	2.70 billion	102	511.85 mil

Note: Adopted from <u>U.S. Joint Ventures in China: A Progress Report</u>. National Council for U.S.-China Trade, 1987.

Figure 1. Joint Venture Life Cycle Process Framework

```
|---------------|           |---------------|
|   PRE-ENTRY   |- - - - - -|   PRE-ENTRY   |
|  INTERACTION  |           |  INTERACTION  |
|---------------|           |---------------|
       |                            |
       |       |------------|       |
       |-------| FORMATION  |-------|
               |------------|
                     |
               |------------|
               |OPERATIONS  |
               |------------|
                     |
               |------------|
               |CONCLUSION  |
               |------------|
```

PRE-ENTRY INTERACTION
-Parent Strategies
-Pre-Entry Education
-Preliminary Investigation
-Partner Selection
-Commitment Analysis
-Contract Negotiations

FORMATION
-Venture Formalization
-Initial Resource Transfer

OPERATIONS
-Start-up
-Institutionalization

CONCLUSION
-Venture Concludes
-Venture is Extended
-Spin-offs

Figure 2. Sino-U.S. Business Alliance Classification Scheme

	TYPE					
STAGE	EJVs	CJVs	OOEs	CTAs	PABs	DTTs
PRE-ENTRY						
FORMATION	XXXXXX XXXXXX XXXXXX	XXXXXX XXXXXX XXXXXX				
OPERATIONS	XXXXXX XXXXXX XXXXXX	XXXXXX XXXXXX XXXXXX				
CONCLUSION						

Note: The term joint venture should only be used to refer to Sino-U.S. alliances falling in the shaded areas above.

EJV= Equity Joint Venture
CJV= Contractual Joint Venture
OOE= Offshore Oil Exploration Agreement
CTA= Compensation Trade Arrangement
PAB= Production/Assembly and Buyback Agreement
DTT= Dynamic Technology Transfer Agreement