

International Joint Ventures in China

- The Risks Analysis Perspective

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Research Significance

- ◆ Providing a valuable guideline for foreign investors engaged in Sino-foreign joint ventures.
- ◆ Extending knowledge in managing conventional organizations and the application of Western theory.
- ◆ Providing empirical evidence for further theorizing.

Literature Review

1. Sino-Foreign Joint Ventures

- ◆ 'Hybrid' nature leads to difficulties for management
- ◆ Transitional environment increase the hardness for management

2. Risks

- ◆ Agency Risk
 - ◆ Goal difference between principal and agent
 - ◆ Attitude difference toward risks between principal and agent

Literature Review

- ◆ Goal difference between partners
- ◆ Attitude difference toward risks between partners
- ◆ Financial Risk
 - ◆ Investment is eroded by administrative factors in host country
 - ◆ Financial risk in China is high due to its political and institutional environment
 - ◆ In relation to host country's fiscal policy, such as interest rate, exchange rate, etc

Literature Review

- ◆ Resource Deficiency Risk
 - ◆ Resources are insufficient for IJV's operation
 - ◆ Underdeveloped administration on resource allocation in China leads to the increases of risk
- ◆ Market Risk
 - ◆ Over-estimated market opportunities
 - ◆ Imperfect market competition system
 - ◆ Cultural and political influence

Research Question

“How these four types of risk involve in the operations of IJVs in contemporary changing environment of China?”

Method

Qualitative Research Method

- ✦ In-depth Interviews
- ✦ Field Observation
- ✦ Cross-cases study

Results Analysis

Table 1: Foreign Partners' National Origins

Country of Origin	No.	%	Foreign Partner's Nationality	No.	%
Eastern Countries	9	64.29	Japanese	6	42.86
			Korean	2	14.29
			Japanese & Korean	1	7.14
Western Countries	5	35.71	American	2	14.29
			French	1	7.14
			German	1	7.14
			Australian	1	7.14

No.: number of IJVs;

%: percentage within total number of participant IJVs.

Results Analysis

◆ Agency Risk

✦ Normative Agency Risk

- ◆ Between partners and their delegates (GM/DGM): through regularly replacement of delegates to reduce the risk

✦ Unique Agency Risk

- ◆ Between one partner's delegate and the counter partner: long-term cooperation increase mutual trust, and hence reduce the risk

Results Analysis

◆ Financial Risk

- ✦ Comparatively low than some other Asian countries
- ✦ Stable fiscal policy and economic situation, such as low interest rate, unfluctuate exchange rate and local currency value

◆ Resource Deficiency Risk

- ✦ Comparatively higher than expectation, especially in natural resource
- ✦ Directly affects IJVs' operation

Results Analysis

◆Market Risk

- ✦ Market potential is huge
- ✦ Government policies increasingly liberalize the market
- ✦ Imperfect market system leads to comparatively high risk on credit transactions

Any Question?