

International Economic & Technological Cooperation

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FOREWORD

International economic and technological cooperation [IETC] sounds familiar to us Chinese. Yet, with China's economic restructuring and opening to the outside world intensified, the stagnation in China's studies of IETC has been limiting her on range and intensity of the participation in international competition. More than a market, IETC is an arena. Although cooperation is what IETC players look forward to, yet, the process of IETC itself is competition in essence. Our ignorance of the rules of the play, the practice of our counterpart and the incompetence of language to use will exclude us from the competition.

Since IETC is too extensive a subject to go into, the author in the book deals with only two topics: 1) International Technology Transfer [ITT]; 2) International Business Negotiations, Interviews and Presentations. Such preference of the topic is out of the following consideration: first, ITT is one of the three integral parts of international investment [other two are fund-mobilizing and fund-utilizing]; second, many contracts for high-level IETC nowadays are obtained through business negotiations, interviews and above all, presentations which are seldom heard of in China.

The author is trying to make the book stand out among books on the same subject with two characteristics: First, the author examines ITT in the perspective of the market. He stresses that ITT is a seller's market. In this light, the focus of study should be laid on the seller — the Multinational Enterprise [MNE], its ITT mechanism, operation, strategies, and above

all, the aggregation of them — International Technology Transfer Pricing System [ITTPS]. In the meantime, he also intends to enhance the ITT theoretical study on the side of China as a less developed country [LDC]. Second, combining the international business practice with cultural differences, the author introduces to readers the occasions where international business negotiations, interviews and presentations are required, the behavior and performance of businessmen from different cultures and the suggested counter-measures to take.

This book aims to train a generation of highly competitive Chinese professionals capable of using English as a tool to conduct high-level IETC studies and operations. So, the book may serve as textbook both for senior students and graduates of international investment, finance, trade and other international studies and management, and for reference to professionals already engaged in IETC studies and operations.

The author wishes to express his indebtedness to academic authorities of Wuhan University for their recognition and encouragement of the book. They hold it self-evident that the prospective IETC professionals should be taught in English the latest knowledge in their fields. He is also grateful to Mr. You Jinghai of Wuhan University Press for his constructive efforts to the publication of the book. Though the course has been taught in English for years in Wuhan University, the author is positive that there may still be some inadequacies in the book and he is heartily open to any suggestions from readers.

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PART I INTRODUCTION

CHAPTER 1 CONCEPTS ASSOCIATED WITH IETC

A. BASIC CONCEPTS OF IETC

IETC [International Economic & Technological Cooperation] refers to postwar long-term economic and technological coordinative activities conducted by national governments of different sovereignty, international organizations and cross-border natural persons, which is out of the common interests and centres on the transfer, allocation and recomposition of the production factors in production domain. The factors include capital, technology, labor, land, management and information, the coordination of nations' economic policies is also an important part of IETC contents.

1. IETC in Broad Sense

It refers to all cross-border economic activities, including

the commerce and trade among nations and other forms of economic exchanges.

2. IETC in Narrow Sense

It stands for various economic and technological exchange activities that occur on a voluntary, equal and mutually beneficial basis among sovereign states, state groups or international economic organizations. In the past, we simply referred it to international labor service and project contracting.

3. Macroscopical IETC

It refers to economic coordination among national governments and the economic coordination between the national governments and the international organizations.

4. Microscopical IETC

It stands for the economic activities conducted in internationally generally accepted fashion by natural persons and legal persons with different nationalities, mainly the economic activities among enterprises or establishments of different nations.

B. MAJOR FORMS OF IETC

1. Direct Investment covering JV [Joint Ventures], Cooperative Ventures, WOS [Wholly Foreign-owned Subsidiaries], Compensation Trade, Processing with Imported Materials, Manufacturing with Foreign Drawings & Samples, Assembling with Imported Parts;

2. Technology Transfer;

3. Labor Service & Project Contracting;
4. International Leasing;
5. Joint Research & Development;
6. International Consultation.

C. THE RATIONALE OF IETC

The causes for IETC can be attributed to the difference in nations' endowment of factors, namely natural resources, capital, quality of laborers and technology.

D. THE ESSENCE OF IETC

The essence of IETC is the economic activities conducted by the sovereign states through competition and coordination on a voluntary and mutually beneficial basis, in accordance with internationally accepted general practice and with respect for participants' cultures, customs and municipal laws.

E. 4 "C" LAW OF IETC

Competition → Contradiction → Coordination → Cooperation.

IETC is embodied by activities in various international markets. Each market is now, as foreign economists termed, an arena which is filled with competition and even traps. The cooperation, in fact, is only the objective. Participants or players have to seek cooperation in competition or struggle with most efforts devoted to studying the laws and rules for competition to over-

come the contradiction or conflict and to achieve coordination. Any cooperation regardless of the facts is but wishful thinking and is doomed to be knocked down.

CHAPTER 2

THE OBJECTIVE & COVERAGE OF THE BOOK

Based on studying laws and rules of the competition in specific international market and players' lessons and experience as well, this course is designed to equip students --- prospective I-ETC players with necessary and practicable knowledges and strategies.

In a sense, IETC is the most challenging course for Chinese students and their instructors in that the course is designed more for developing students' competence in prospective highly competitive international operation than for pure academic study. What's more, it is hard to identify the essence of the course from such a traditionally narrow, vague and somewhat misleading topic.

IETC is not unfamiliar to Chinese. However, today's IETC has completely different implications from that under past planned economy. China's IETC began with former USSR and other socialist countries. Its main contents were international assistance mainly out of political consideration. The nature of I-ETC was cooperation rather than competition. No doubt, four decades later, radical changes have taken place in our world. First, China is in the transition from planned economy to the so-

cialist market economy so that China's economy can go in line with the world's and participate in international competition in real sense. Second, with the rapid development of technology, the international division of labor is intensified. None of the nations can achieve the highest growth without IETC with other nations since there exists difference in nations' factor endowment. That China's national economy is left behind is to a remarkable degree because China used to be isolated from real international competition for decades. The losses are not only economic profits but also the overseas markets and knowledges in I-ETC.

Given readers of the book have acquired the relevant knowledges concerning investment, the book is to fall into two major parts: 1) International Technology Transfer; 2) International Business Negotiations & Presentations.

Our selection is based on the following considerations: First, International Technology Transfer [ITT] is one of the three ingredients consisting of international direct investment which covers mobilization of funds, utilization of funds and cross-border transfer of technology. That is to say, ITT is indispensable to international direct investment in any sense. In the past, we frequently heard of the term, in fact, we knew little of it in real sense. With China's more intensified and more extensive participation in international economic competition and the changed implication of IETC, an objective study of ITT can not be further delayed. Second, international business negotiation and presentation, as the high-leveled and direct operational activities are most challenging and demanding to Chinese students of business. As the most important key link in doing internation-

al business, negotiation is seriously taught in business schools of American and European universities, such as Business School of Harvard University which is famous for the course taught with rehearsals. We Chinese heard our national presentation for the authority to host Olympic Games 2000 in Beijing only. In fact, the presentation is more extensively in international business competition. It is taught not only to students of business but also to students of engineering, such as students of architecture in their senior years. They have to defend the concept and function of their designs. In international consultation, which is part of I-ETC, in order to obtain the right to design and supervise a large project, the designer has to make a presentation to the client's reviewing board as a kind of generally accepted practice in the world. Both business negotiations and presentations are performed at a higher level in IETC, since they involve knowledge about business in question, laws involved and technical problems. There have been books in Chinese on business negotiation published in the past, yet such books are far from meeting the needs in present IETC. Remember, the negotiation and the presentation we are to study in this book will be done in English which differs strikingly from that done in Chinese. By "in English", we mean the teaching should pay regard to not only the English language, the correctness and fluency but also the culture and international general practice which are not likely to be properly taught in the Chinese language. In a sense, the negotiation and the presentation are processes of marketing oneself or having oneself accepted by the business counterpart. A nation's bargaining power determines her business chances and returns. There are many factors affecting a nation's bargaining power, to

a remarkable degree, her negotiators' overall qualities are one of the key determinants. Such jobs are highly professional and operational. Since IETC market is universally termed as "arena", without proper training, the participant will be easily beaten before he knows. In the book, the negotiation should be taught in English with full regard to cultural differences in the world; the presentation may be the first to be taught in English in the Chinese classroom as a sort of experiment.

Finally, it is safe to say that the economic growth is, to a great extent, determined by the range, intensity and the competence of a nation's participation in IETC. A case in point is South Korea's economic development in the past decades. South Korea spent four decades developing herself from an agricultural nation into present one of the world's economic powers. She has an economic growth that is 3 or 4 times faster than ordinary industrialized nations. A close study of South Korea's economic success reveals that the success can be mainly attributed to her most successful importation of foreign advanced technology and her powerful overseas project contracting. From 1950s up to 1980s South Korea made use of immense foreign capital, of which 55% was expended on acquisition of foreign technology and equipment [4049 technology items from 1962 to 1986]. Her licence trade has outdistanced foreign direct investment, and her acquisition of foreign know-how has far outnumbered that of foreign patents. South Korea's overseas project contracting used to rank the second, only next to the U. S. A. in the world, which generated sufficient foreign exchange for her technology importation and contributed to her home industrial restructuring, employment and overall economic growth.

Despite China's remarkable economic growth since the implementation of the policy of opening to the outside world, China's products are far from competitive in international markets. To a degree, China remains a closed economy, especially her hinterland provinces. Take Hubei province for example, in 1990, the province's export only made up 5% of her GNP, with only 7.08% dependence on foreign trade. Foreign direct investment was small in scale [average project was \$ 300 000, while nationally average project was \$ 1 000 000], low in grade with more than 75% engaged in hotel and medium and low grades processing enterprises, 85% engaged in labor-intensive industries, repeated in project construction. The products of the province's businesses using foreign investment were mainly for home sale, simply incapable of international competition. In developed countries, large and medium sized enterprises hold more than 80% of nation's foreign trade, while medium and small sized businesses make up about 10%. Things in China are completely opposite. The township enterprises in China's coastal regions dominate the nation's foreign trade, while large and medium sized state-owned enterprises with more than 80% of the nation's fixed assets only make up about 10% of the nation's foreign trade. China's large and medium sized enterprises are now in a dilemma owing to the facts that their equipment, technologies and technological process are alarmingly out of date. However, participation in international competition is inevitable to China's large and medium sized enterprises.

China needs large sum of funds for technical replacement and transformation of her state-owned large and medium sized enterprises. Such strategic objectives can be achieved by direct