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Overcoming the 'Ugly American' stigma

A list of 10 commonly-held negative preconceptions and suggested remedies for overcoming them

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Anyone associated with a US company doing business in foreign markets is likely to encounter negative local preconceptions. Rarely are these associated with the quality of US products or services but arise instead from the way Americans conduct their business dealings in foreign countries. The extent to which negative preconceptions towards the United States as a country will impact a business deal will vary from country to country, and can be influenced by random developments such as political tensions. However one country that such issues are more likely to emerge as a materially disruptive factor in comparison with many others is China.

The team at XportReporter have compiled a list of ten potential obstacles to US companies developing good trading relationships. The items on this list were gathered during the course of hundreds of interviews with Chinese officials and/or businesspeople which were conducted over the past year. In many cases these issues are misconceptions or biased notions and are not accurate reflections of how US businesses really think or operate. However, we believe that it is important for American companies to be aware of what these perceived issues are so that they are better able to position themselves as viable trading partners and avoid letting them escalate into unnecessary deal breakers**.**

1 - American bureaucracy and export restrictions

US companies have a reputation for being inflexible in terms of expecting local companies to adopt their legal contracts and other documentation while other exporters are willing to be more flexible. One Chinese businessman complained that the import of US products requires a Chinese company to get certification by the relevant US industry association. This is often left for the importer to take care of and can even require the importer to travel to the US to get it.

The US Department of Defence (ITAR) bureaucracy is perhaps the most infamous example of an American government institution hindering US exports because of the restrictions it puts on any US product with a military-related element to it.

The context within which this issue arises from is the nature of China's trading relationship with the US, which largely consists of the former's export of household products to the latter. China, in turn, is primarily interested in the import of US technology and equipment which will enable its economy to upgrade the level/value of the goods it produces. However, the export of US technology often creates controversies for fear of its adaptation for military applications and its re-export to regimes that threaten the US and its allies.

The fact is that most sizable companies in China are state-owned enterprises (SOEs) which have business connections with companies and institutions based in countries which are sanctioned by the US Treasury's Office of Foreign Asset Control (OFAC), such as North Korea, Iran, Sudan, and Syria. Meanwhile, most small private companies in China are reliant on outsourcing orders from these large SOEs. US and western companies do not engage in trade with OFAC-sanctioned countries and, therefore, many such OFAC countries are monopolized and lucrative markets for Chinese-made goods. If Chinese companies want to import goods from the US, they are forced to give up their existing business in OFAC-sanctioned countries to become eligible. This obviously presents Chinese companies with a major commercial dilemma.

2 - Transaction/payment-related issues

The issues that have been raised by Chinese companies in this extremely important aspect of trade are wide-ranging. There is a real/perceived tendency for American companies to insist on being paid 100% cash in advance, while companies based in other countries which are more experienced in international trading take advantage of services like trade insurance and greater government support for exports in the form of loans in ways that allow them to offer more flexible terms, ie: 30% up front with balance upon delivery.

Another issue to be taken into consideration is that the Chinese government has capital account controls in place which severely restrict the ability for Chinese companies to remit large sums of money outside the country. American companies would benefit by being able to offer their Chinese trading partners the ability to pay for their goods directly in their local currency via the establishment of an account at a Chinese bank with international operations.

3 - US exporters less accommodative in terms of shipping/logistics

US firms have a reputation for being less accommodative when it comes to arranging for the delivery of their goods than is the case with companies from other countries. Some Chinese businessmen say that they expect the importer to take care of all the shipping arrangements, often using the Ex Works (EXW - named place of delivery) method, whereby the seller makes the goods available at its own premises. This term places the maximum obligation on the buyer and minimum obligations on the seller. The buyer pays all transportation costs and also bears the risks for bringing the goods to their final destination.

Exporters from European countries have better reputations in this regard, often being willing and able to provide goods on a Free on Board (FOB) or Free Carrier (FAC) basis. The former means that the seller must load the goods on board a vessel nominated by the buyer. The cost and risk are divided when the goods are actually on board of the vessel and the seller must clear the goods for export. In the latter type of transaction, the seller is responsible for arranging transportation, but he is acting at the risk and the expense of the buyer. Where in FOB the freight forwarder or carrier is the choice of the buyer, in FCA the seller chooses and works with the freight forwarder or the carrier.

4 - America's ethical dilemma (FCPA)

US companies have a reputation for being too rigorous or even hypocritical in terms of their business standards. One Chinese businessman described his American counterparts as having unrealistic expectations when conducting business in China. He said that they often expected Chinese businessmen to be what he called "Mr. Clean Morality" to the point where it became dysfunctional. Americans doing business in China need to be aware that the concept of bribery is viewed differently. According to many Chinese businessmen it is generally considered to be acceptable for them to offer a politician a gift, usually in the form of hard cash, with the intention of receiving a benefit for their business/family in return. Americans should also keep an open mind as regards the view held by many in China that the disapproval/criticism Americans have of such practices is hypocritical. They argue that bribery exists in the US as well, but it takes place in disguised forms. They cite the practice of US businessmen paying lobbying fees to firms owned/managed by people with close relationships to US government officials/policy-makers, or the donations made to charities or organizations that benefit such policy-makers, as being examples of such disguised bribery.

Most business relationships in China involve the exchanging of reciprocal favors. And while people in the west may view this as "direct bribery", many Chinese nevertheless expect westerners to play by their rules when doing business in China. This difference of views represents a significant potential litigation risk for US companies which have to conduct business in line with the Foreign Corrupt Practices Act. America's rigorously-enforced FCPA, which was established in the 1970s during the administration of Jimmy Carter, is widely-regarded as being Draconian in comparison with the regulations that companies based in other advanced economies operate under. This often puts US companies in a materially competitively disadvantageous position.

5 – The American company's alleged' 'Cold War mentality'

US companies have a reputation for being intransigent in terms of the transfer of technological know-how for fear of having their IP stolen (an issue which is exacerbated by the potential re-export of dual use technologies to OFAC-sanctioned countries). This often manifests itself by way of a limited localization strategy, with US companies having less of an on-the-ground footprint than foreign competitors as well as limited after-sales servicing abilities.

One high profile example of this can be illustrated by juxtaposing the willingness of the Franco-German commercial aerospace firm, **Airbus** (a subsidiary of **EADS**), to have its single-aisle A320 aircraft manufactured in China, with the production processes of its US defence and aerospace rival, **Boeing.** The latter, despite sourcing a number of key components from companies based all over the world, maintains the final assembly stage of all its civilian aircraft in the US.
Airbus has continued to develop the relationship with its Chinese partners by increasing the production of A320 rudders at the **Hafei Airbus Composite Manufacturing Centre** (HMC) in 2011, which is a joint venture it formed with **AVIC HAFEI** and other Chinese firms. And just recently Airbus agreed to work with **Sinopec**, China's largest fuel supplier, to develop cleaner jet fuel in the country.
Airbus' example is not an exceptional case. In June, this news service reported that the management of the Chinese energy equipment manufacturer, **Harbin Electric,** had become increasingly concerned about the limited technological cooperation it was being offered by **GE** in relation to the wind turbine blades being manufactured as part of the two companies' **HE-GE Wind Energy** joint venture. A source at Harbin contrasted this situation with the one that existed between **Shanghai Electric** and its German partner, **Siemens**, where the Chinese party was able to do design work. The source had said at the time that Harbin and GE had begun holding talks with the aim of attaining more intimate cooperation.
But there is growing evidence that American companies have been adapting to the environment as they gain greater exposure. **Veeco Instruments**, a highly-successful US manufacturer of the equipment used to make LED chips, was the firm where the accusation that it possessed a 'Cold War mentality' was made by a former employee (see Case Study in this section dated 24 December, 2011 entitled, '*Do your homework'*). However, as chronicled in the Case Study, Veeco had over the past few years actually gone to great lengths to address this issue by establishing a customer training center and other local after-sales services in China. By doing so, the company succeeded in captured a majority of the growing market for its equipment in China and displacing a well-entrenched German competitor in the process.

6 – Ignorance of China’s trade mark registration system
Many US companies seem to be unaware of the fact that China’s trade mark system is separate and closed. And if they are aware of it, they do not respect it or perceive it to be as legitimate as their own. However, the fact is that even the world’s best known trademarks, such as the Ipad, need to be separately registered. For example, **Proview Technology (Shenzhen) Co, Ltd** had registered the “Ipad” trademark before Apple Inc. applied for the Ipad trademark registration in China. **Apple Inc** was ordered by the Shenzhen Intermediate Court to pay USD 60m (CNY 378m) to purchase the Ipad trademark from Proview . Some Chinese companies believe they can operate in China with no litigation risk as long as they do not establish business relationships with the owner or connected parties of that trademark in the US or use the trademark outside China. To search for a trademark registration in China use the following website below (it is in English and the search is free of charge): **http://www.saic.gov.cn/sbjEnglish/**

7 - American companies as ‘solutions providers’
Some Chinese businessmen and officials view American companies as only being limited to supplying technological solutions as opposed to physical equipment/technology. This complaint, which appeared in a recent report published by this news service, was made by a manager at **Luoyang Bearing Science and Technology Co**., a Chinese high-speed rail components manufacturer, who was explaining why the company had purchased production equipment from German and French, as opposed to US companies. While this particular example may have been misrepresentative of American industry as a whole because the comment was made with reference to a sector where American companies have a limited presence in comparison with European/Japanese firms, the view that was articulated is nevertheless not uncommon.

Regardless of whether this applies specifically to US companies, such a product development strategy may well have merit. The general manager of **Honeywell Building Solutions** in North Asia, Aldous Wong, was recently cited as saying that Chinese property developers were increasingly looking beyond the hardware aspect and into the software that controls and optimizes the energy efficiency of a building. Mr. Wong made the comments with reference to the American industrial technology company's Auto Demand Response technology, which can be programmed to moderate energy consumption at times of peak demand, and consequently reduce costs. Honeywell's product has deployed in the city of Tianjin in a project which forms part of the Sino-US Energy Cooperation Program.

Even so, the need to be aware of this perception should not be underestimated. Chinese businessmen and officials remain less inclined to pay for, or ascribe a fair value to, intellectual property as opposed to physical assets than is the case in many other advanced economies.

8 - American products not developed for local markets

A view often encountered in China is that American companies come to the market with products they have developed in the US market which they then try and sell in the local market without having given much thought to adapting it so that it is better suited to the needs of local consumers. If this is a material issue, it is likely due to the fact that US companies, particularly those at the mid-market level, have less experience operating in foreign markets than other foreign companies. Other foreign companies operating in China have developed ways of making their products seem more local. Hiring western-educated Chinese nationals for key managerial positions is an easy win which many American companies also employ. And while there is never a substitute for substantive measures, in many cases it is simply a question of foreign companies making gestures that help to ease local sensitivities about being dominated by more advanced western technologies.

Osram AG, which is working hard to establish a major LED lighting presence in the competitive Chinese lighting market via the establishment of 100,000-square meter assembly plant in Wuxi, has astutely sought to address such sensitivities by adopting the marketing slogan, 'In China, for China'. The Wuxi plant, which is located in East China's Jiangsu province, is scheduled to be completed by late 2013 and will comprise the German lighting firm's fifth production base in China.

9 - Resentment of perceived American ignorances

Americans are, rightly or wrongly, widely viewed by the Chinese and many other nationalities as being less knowledgeable of foreign cultures and of having a limited ability or willingness to learn foreign languages. A Chinese businessman recently said with regard to his American counterpart's ignorance of Confucian business mannerisms: “We made the effort to learn about your culture now it's about time that you did the same!”

10 - Resentment of perceived American 'imperialism'

The simple fact that the US is the dominant military, economic and cultural power in the world – and the perception that it tries to make other countries adopt its culture and ways of doing business – can create barriers to business. The perception of US imperialism is often cultivated by Chinese government policy, as China has more security concerns in terms of its strategic relationship with the US than it does with countries with limited military capabilities, such as Germany.