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On the Road away from Mandalay: Heading West along the "Silk Road" as China Moves Its Investments into Europe, around Russia

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Abstract: China appears to be resolved to pouring Foreign Direct Investment (FDI) into the Central and Eastern European Countries (CEEC) over the next decade, despite the many trepidations of Western Europe, articulated most loudly by the United Kingdom (UK) and more quietly but aggressively by the Russian Federation. This will construct a modern "Silk Road" heading West in reverse direction compared to Rudyard Kipling's famous poem, "On the Road to Mandalay" and its reflection on the trade route that led Europeans to China in search of silk and other exotic products beginning in the Han Dynasty (206 B.C.E.-220A.D.) and continuing for centuries later such as with Marco Polo in the Ming Dynasty (1368-1644). Although European traders came to China and left, returning to Europe with the goods they had purchased, contemporary Chinese plan to move into Europe to reside as expatriates. Predictably, they are encountering trans-cultural obstacles in their work environment. Some obstacles will be inevitable, others can be avoided or overcome through awareness and careful planning by the Chinese themselves or their European partners. Outlining that plan to avoid or circumvent cultural obstacles along what one might call this modern "Silk Road" leading Westward into Europe is the aim of this article.

Key words: FDI; China; CEEC; Europe; cultural dimensions
JEL codes: F1, M1

1. Introduction

The People's Republic of China ("China") revealed its plan to infuse at least USD 10 Billion as Foreign Direct Investment (FDI) into the Central and Eastern European Countries (CEEC) across the second decade of the 21st century in a speech its former premier, Wen Jiabao, delivered in Warsaw, Poland on 26 April 2012 (Wen, 2012) that the author attended by invitation. This speech was applauded by most CEEC officials and many CEEC entrepreneurs, but was lamented by leaders of both the public and private sectors of Western Europe, lamentations that have been echoed by some leading UK academics (Clegg & Voss, 2012). Whether Western European trepidations add up to protectionism only or to an accurate forecast of trans-cultural obstacles that may prove to be insurmountable in the future remains to be seen.

What this will construct is a "Silk Road" heading in reverse direction compared to Rudyard Kipling's famous poem "On the Road to Mandalay" (Jones, 2001, p. 431) and its reflection on the trade route that led Europeans to

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China in search of silk, export porcelain, tea and other exotic products beginning early in the Han Dynasty (206 B.C.E.–220 A.D.) and continuing for centuries thereafter (Foltz, 1999). Although European traders came to China and left, returning to Europe with goods they had purchased (Boulnois, 2005), the Chinese plan to move into Europe to reside, but predictably they are encountering trans-cultural obstacles, in their work particularly. Some such obstacles will be inevitable, others can be avoided or overcome through awareness and careful planning by the Chinese themselves and their European partners, or preferably by both the Chinese and the Europeans working together harmoniously. Outlining that plan to avoid or circumvent cultural obstacles is the objective of this paper.

At the moment, this paper will consider some trans-cultural challenges that already have posed embarrassment and financial loss to Chinese managers visiting Europe, as well as to their European counterparts trying to host them. Unless reconciled through trans-cultural cooperation, such challenges are likely to become more pronounced and to lead to more deleterious results in future. All this should be preventable through appropriate training and periods of apprenticeship. Different experiences and skill sets are required to properly run a company within an international compared to a domestic environment.

2. Cooperative Recalcitrance

The starting point from which to assess cooperation between the European Union (EU) and China is the absence of major Free Trade Agreements (FTAs) rather than their presence. This trend began when the EU signed an FTA with the Republic of Korea (ROK), known as "South Korea", its first FTA with an Asian country, on 15 October 2009, which became effective on 01 July 2011, pending ratification. In signing with South Korea, the EU bypassed not only China but also several other countries of Asia stronger than South Korea, such as Japan, Malaysia, the ASEAN countries generally, and the territory of Chinese Taiwan.

Although not labeled as a retaliation, the first FTA China signed with a European country was with Iceland on 30 April 2013, followed soon afterwards by China's first FTA on the continent of Europe with a second non-EU nation, Switzerland, on 06 July 2013. All this does signal at least the appearance of cooperative recalcitrance between China and the EU as a supra-national community, and possibly also cooperative recalcitrance between China and at least some EU member states at different times and for different reasons. Examples are trans-cultural conflict between China and France when a major stakeholder at Carrefour supermarkets criticized China for allegedly marginalizing His Holiness the Dalai Lama (Jones, 2010).

The United States has focused much attention on the Trans-Pacific Partnership (TPP) FTA recently, undoubtedly because of its implications to play America's largest supplier, China, against China's potential competitors across Asia and Latin America. Western Europe, led by the UK, has focused its attention on building a second FTA, the Transatlantic Trade and Investment Partnership (TTIP), undoubtedly to strengthen its leverage with the United States, also seemingly against China, in retaliation for two real or imaginary Chinese "sins": alleged "dumping" of Chinese cellular panels in Europe[1] (Emmott et al., 2013), and Chinese reluctance to give

[1] The European Commission accused China of "dumping" and "subsidizing" Euro 21 Billion worth of cellular panels on the European market below cost of manufacture the European Commission contends is 88% higher, and consequently imposed a 47% counterveiling duty on Chinese cellular panels effective 18 July 2013. This prompted China to retaliate by accusing the EU of "dumping" and "subsidizing" European wines on the Chinese domestic market, and threatened to impose similar counterveiling duties. "EU Slaps Levies on Chinese Solar Panel Imports", *Associated Press*, 04 June, available online at: http://www.nwcn.com/news/world/210063681.html. All this follows a smaller trade war between the EU and China over allegations that China was dumping textiles and shoes in Europe. For a chronology of complaints filed by/against the EU and China, see "Dispute Settlement", World Trade Organization, http://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm#disputes. It is important

EU firms access to domestic capital markets and telecommunications markets inside China, largely controlled by "red families" or "red nobility"[2] headed by "princelings".[3] All this contravenes legitimate expectations both China and the West harboured when on 11 December 2001 China joined the World Trade Organization (WTO). It is very interesting, albeit patently counterproductive, that both the TPP and the TTIP appear bent on excluding Chinese participation entirely in either the TPP or the TTIP, presumably because the Western Alliance considers China to be dwarfing or stunting Latin American development (Gallagher & Porzecanski, 2010). What may be needed most of all is a Trans-Continental Eurasian Partnership (TCEP) specifically joining China in duty free trade with the countries of Europe including but not limited to the EU, but this is only being whispered in most geopolitical circles. So it is hardly surprising to witness the Chinese folding up shoppe in China and moving into Europe, despite obstacles.

In fact, the People's Republic of China has embarked on its own trans-global commercial encirclement. This is evident from the recent announcement that the Chinese Overseas Food Company, Limited (COFCO), a State Owned Enterprise (SOE), will purchase a 51% controlling interest in the Noble Group, Limited, headquartered in Hong Kong, ranked 76 on the Fortune 500 list, and traded on the Singapore Stock Exchange (SGX) for USD 1.5 Billion (Thukral & Flaherty, 2014), giving COFCO and China control over a vast fraction of the world's food supply and indirect admission to both the TTIP and TPP, through the back door. The vast expanse of the Noble Group on all continents is evidenced by that firm's map, characterized as a "fully integrated value chain" on the COFCO website.

This acquisition is subject to regulatory veto, unlikely because China is the largest creditor of the United States, and because this joint venture does not invest COFCO or Noble Group with a typically unacceptable market share in any given industry, unless another recent joint venture between Noble Group and Cargill that created the world's largest sugar producer impacts this joint venture with COFCO.

3. The Large, The Small

Size of enterprise makes a considerable difference in the way companies and their managers view the TPP, the TTIP, and the modern "Silk road." In Europe, Small and Medium Size Enterprises (SMEs) seem not to be concerned at all about trans-oceanic partnerships, appearing to presume rather ignorantly that they have little to gain or to lose there from, and possess the inaccurate impression that the sole beneficiaries of such trans-oceanic partnerships will be transnational corporations (TNCs) and multinational corporations (MNCs).[4] Why they are

to note that former Chinese premier Wen Jiabao attempted to halt subsidies on cellular panels, but failed amidst strong opposition from local Chinese governments. Local officials reap huge benefits when subsidies are used by manufacturers to purchase land, a form of graft that is rampant in China.

[2] For an interactive map of the descendants of China's "Eight Immortals", see Whiteaker Chloe, Danny Dougherty, Fan Wenxin, Michael Wei, Phil Kuntz, 2012, "Mapping China's red nobility", Bloomberg.com, 26 Dec., available online at: http://go.bloomberg.com/multimedia/mapping-chinas-red-nobility/.

[3] The capital markets sector of the domestic Chinese economy is controlled by several "red families" or families with strong historical ties to the leadership circles of the Chinese Communist Party (CCP), including families headed by the sons of high ranking CCP politicians such as Chen Yuan, governor of the China Development Bank (CDB) and a "princeling" because he is the son of Chen Yun, considered to have been one of the five cofounders of the People's Republic of China with Mao Zedong. China's leading telecommunications provider, China Netcom Telecommunications Limited, is controlled by Jiang Mianheng, son of former Chinese president and CCP general secretary Jiang Zemin, see Lin, Feng, 2012, "How Jiang Zemin and son profited from corruption", *The Epoch Times*, 29 Jun, available online at: http://www.theepochtimes.com/n2/china-news/how-jiang-zemin-and-son-profited-from-corruption-258872.html.

[4] This matter was a topic of discussion at a conference entitled "Transatlantic Trade and Investment—a GREAT Opportunity", sponsored by the Centre for European Strategy, demosEuropa, British Embassy, Warsaw, Poland, 17 July 2013.

wrong is that SMEs produce raw materials or unassembled parts for much of what larger companies export abroad from Europe. From the viewpoint of the EU, as articulated by Polish secretary of state Adam Jasser, a successfully implemented TTIP will be an important "game changer" for Europe in significant industries such as energy procurement in which some regions of Europe currently are heavily dependent upon the Russian Federation.[5] What will limit or even eliminate value added from the TTIP will be the "red lines" some countries seem ready to draw to dilute its impact, according to UK minister without portfolio Kenneth Clarke, UK prime minister David Cameron's trade representative.[6]

Similarly, stakeholders of Europe's SMEs appear not to be frightened of Chinese moving into Europe with their own SMEs, although perhaps the Chinese have noticed what has escaped European SME attention: that the TTIP will create an entirely new market for European SMEs, including Chinese SMEs doing business from Europe. It is the other purpose of the TTIP that appears to be the reason behind EU leadership's recalcitrance to embrace Chinese businesses: the hope that with the TTIP will emerge a global "community of values" patterned on the core values of the Western Alliance, especially across Latin America, although they seem not to want to visibly exclude China from joining the TTIP or the TPP.[7]

4. Shrouded Taxation

Viewing cooperative recalcitrance more deeply, and quite likely because of it, the Chinese and the Europeans circumvent the thorny issues of taxation, and frequently the underlying taxes themselves, much as onlookers regard a corpse beneath a shroud: they know it is there, but they pretend not to look at it lest they be forced to acknowledge, and afterwards be haunted by, its unpleasant details. In fact, taxation is an issue even the Europeans prefer not to reconcile themselves. The EU Value Added Tax (VAT) mischievously changes form one member state to the next. Pursuant to EU Directive 2006/112/EC, each member state is required to have a minimum 15% VAT (except on a few designated products, and there to have a minimum 5% VAT), but no ceiling exists. The highest current VAT is 27%, imposed by Hungary (Summaries of EU Legislation: Taxation, 2013).

In China, the Provisional Regulation of the People's Republic of China on Value Added Tax is set at 17% across all provinces by the State Council decision of 13 December 1993 that became effective on 01 January 1994. The standard VAT is reduced to 13% on a few agricultural and petroleum products. The VAT in China is divided between levels of government, with 75% going to the central government and 25% to local governments (Beijing Local Taxation Bureau, 2013).

Taxes in China are higher than in Europe, however, which explains probably why many Chinese Small to Medium Size Enterprises (SMEs) plan to relocate to Europe. One reason is that China sells more of its products abroad than at home, and so to the managers of Chinese SMEs it appears beneficial to "add value" in Europe where they expect to sell products, and in that way pay only one VAT, to Europe, rather than one to China and another to Europe, not to mention the additional cost of transporting products from Asia to Europe. More importantly, the brunt of Chinese taxation is at the local level of government.

[5] *Ibid*

[6] *Ibid*. Kenneth Clarke, former Lord High Chancellor of England as well as a former UK justice minister and chancellor of the exchequer, pointed blame at France.

[7] At the "Transatlantic Trade and Investment" conference held in Warsaw on 17 July 2013, moderator and president of demosEuropa, PawełŚwieboda, said Europe would welcome China joining the TPP, in response from a question by the only Chinese national present, Hanzhen Liu, University of Warsaw doctoral student, enquiring why China has been excluded?

Not all Chinese taxation at the local level is "above" the table in taxation approved by the State Council. Some is simply graft, with local officials making telephone calls to local business managers asking them to contribute to this or to that. Such requests cannot be turned down, because then reprisals will almost surely occur, such as electricity or water being shut off on one pretext or another. Some entrepreneurs with whom this author has spoken have alleged that the actual cost of doing business is 90% of turnover or higher when everything is taken into account. They survive almost entirely on subsidies they receive from government at one level or another. Thus, of course, one could contend that one hand feeds the other: Chinese government at each level gives and takes. This system works differently in Europe.

5. A Confusing Regulatory Environment

The early 21st century Chinese economy is under-regulated to say the very least. Far from classical "communism", it resembles "pure" capitalism, a system in which the aggressive entrepreneur is capable of doing what he pleases most of the time without fear of penalty, provided the end result does not generate adverse publicity embarrassing to China abroad, particularly in the international press. Scandals involving food products such as baby food and milk promptly provoked reactive regulation (Fenby, 2013; Foster, 2011). If China is under-regulated, the EU is over-regulated.

Over the past several decades, largely since the administration of President Ronald W. Reagan, the United States has "fully or substantially deregulated trucking, intercity busing, the airlines and railroads, natural gas, telecommunications, and cable TV, as well as various financial markets" (Jones, 2013, p. 43). At the same time, at a different level of governance and in different sectors, states in the United States deregulated telecommunications then energy sectors through "restructuring" (Ibid). The EU did the opposite, increasing rather than decreasing regulation across many of the same industries over the same time period through a complex increase in the number of instruments including regulations, directives, decisions, recommendations and opinions[8] from the Council of Ministers or the European Commission (TSPAKB, 2010). In reality, Chinese managers setting foot in the EU are wading from China's shallow regulatory waters into the much deeper regulatory rivers of the EU that contain powerful undercurrents in which Chinese managers have been ill-prepared to swim.

5.1 Supply Chain Management Restrictions

The EU requires significant proportions of supplies to be used on projects awarded from public procurement to be purchased from designated providers. The Chinese Overseas Engineering (Group) Corporation (COVEC) discovered this after the fact as it encountered difficulties meeting rising cost of materials to complete Poland's A2 highway running between Warsaw and Gdansk over 29 km and 20 km in 32 months at a bidding cost of PLN 1.3 billion (at time of award USD 472 million). The cost of materials rose significantly between the time the contract was awarded and time of performance. When COVEC decided to source materials less expensively from China, Poland objected. This reflects a difference in cultural perspective: the Chinese are accustomed to purchasing the least expensive raw materials; the Europeans at least profess to demand the highest price to performance ratio (PPR), meaning optimum rather than lowest pricing, justified on the pretext of promoting "green", or "innovative", or "socially responsible" public procurement strategies (Kahlenborn, 2011, p. 7).

[8] A **regulation** is a binding legislative act that must be applied in its entirety across the EU. A **directive** is a legislative act that sets a community-wide goal but leaves to each member state discretion to determine how. A **decision** is a government order that is binding on its addressee (member state, entity, individual) only. **Recommendations** and **opinions** are not binding, but they might forecast legislation of the future that will become binding (Craig & de Búrca, 2008, pp. 82-86).

5.2 Labour Preferences, Social Security

The EU requires public procurement contractors to discriminate in favour of European workers. COVEC brought 500 Chinese labourers to work in Poland in January 2011, planning to bring another 300 in May 2011, but soon found protectionism in the ranks of Polish subcontractors and the Polish Road Builders Chambre of Commerce that advanced two positions: that COVEC planned to pay its Polish workers poorly, and that Beijing never would permit EU workers to construct a highway in China (Cragg, 2010). Under EU directive 2004/18/EC of the European Parliament and European Council (Official Journal, 2004) when conducting business in the EU pursuant to public procurement, the Chinese company will have to hire a high proportion of its workforce from the ranks of the EU labour market, not expect to employ only or even mainly Chinese workers.

Also, the Chinese firm must expect to pay European Union minimum wage salaries, regulated by each member state, and to pay all workers, Chinese or European alike, appropriate wages and fringe benefits that include healthcare and retirement, usually amounting to over 30 percent of gross salary but sometimes (as in Estonia) as high as 59 percent of gross salary. This increases cost structure and diminishes profit margins, but its objective is to improve quality. In 2012, call went out for reform in the form of a new EU public procurement directive that, supposedly, will simplify that process (NHS European Office, n.d.).

Some European Union member states, notably Germany, allow a works council dominated by labor unions to assume authority over corporate management rivaling that of supervisory and management boards.[9] *SocietasEuropaea* began as a plan for the "harmonization" of labour and management by extending the works council requirement across Europe, although that was delayed for several decades. Now it is possible to create a *SocietasEuropaea*, or EU company known as an "S.E.", under the laws of any EU member state, such as The European Company, SocietasEuropaea, GP06 in the UK under its Companies House guideline.[10]

5.3 Record Keeping

The EU requires detailed record keeping, and companies are required to file annual financial reports certified by licensed accountants. This is a part of the important core EU principle known as Transparency, a core principle that interfaces with Proportionality, another important core EU principle. Corporations are required to keep and file many documents such that the public and their competitors will be able to review their business records. Transparency and Proportionality have been used as the bases for documenting cartels, or relationships between or among two or more companies that may cause a restraint of trade leading to monopoly or price fixing. Transparency is controlled in principle by European Commission (EC) Regulation 1049/2001 that is intended to permit public access to documents filed in the EU institutions including the European Parliament, Council, and Commission. In a case involving banking cartels, *VereinfürKonsumenteninformation v. Commission* [2005] ECR II-1121, the Court of First Instance (CFI) of the EU annulled a Commission decision to withhold information that some Austrian consumers contended showed they had been charged excessive bank interest, ruling that despite its large size this trove of documents was necessary to enable consumers to individually assess public documents (Craig & de Búrca, 2008, pp. 564-565).

5.4 Banking

Chinese banking institutions that are doing business in the EU should be aware of the EU requirements for

[9] At the European Community level of governance, see Directive 94/45 EC of 22 September 1995 as well as the European Involvement Council Directive 2001/86/EC that expands and clarifies Council Regulation (EC) 2001/2157 that is the Statute for a European Company.

[10] Version 2.7, May 2013, http://www.companieshouse.gov.uk/about/gbhtml/gpo6.shtml#ch1.

Transparency and Proportionality. This applies especially to the Industrial and Commercial Bank of China (ICBC), the world's largest bank but arguably China's most corrupt, that recently opened offices in Poland and elsewhere across the EU, apparently to service Chinese FDI that is inward bound into the CEEC. ICBC has been investigated by the Chinese Hong Kong Securities and Futures Commission (SFC) as a result of alleged insider trading in a HK$ 2.75 Billion initial public offering of Powerlong Real Estate Holdings through a joint venture of ICBCI, its subsidiary, with the Bank of East Asia (Rovnick & Yam, 2012). Before that, ICBI was investigated by Hong Kong's Independent Commission Against Corruption (ICAC) resulting from the prosecution of two ICBC Asia managers for accepting bribes to approve improper real estate loans (Young, 2010). This behavior failed to work in Hong Kong and will not work at all in the EU regulatory framework. What is reflected here is the widespread willingness of Chinese business executives to give and receive bribes, a part of the Chinese business culture that is changing rapidly now even in China itself with President Xi Jinping's war on corruption. In the very beginning of his administration, President Xi targeted corruption as being his single most challenging and important obligation as China's president (China to Target Corruption, 2012).

6. Employee Harassment or Accountability?

An area that should be of concern to Chinese expatriate managers, their partners in the EU and their lawyers everywhere is employee harassment. This matter provoked controversy in the United States when a Chinese expatriate manager there directed Host Country National (HCN) [American] workers at a Camden, South Carolina plant operated by Qingtao Haier [maker of refrigerators, washing machines, and other "white goods" for the kitchen] to step forward to receive public criticism in front of their peer employees for mistakes they made the previous day, a traditional Chinese practice the Americans felt to be humiliating (Wei & Lyles, 2008).

It is important to compare some Chinese and Western managerial practices, in order to realize that not every Chinese practice is wrong. When misinterpreted, as in the example of the Camden Haier case, on deeper analysis it appears the managers should have explained the reason behind their requirement for public confession, and its intended outcome. Haier's chairman and chief executive officer, Zhang Ruimin, is famous when, at age 36 in 1985, he discovered 76 faulty refrigerators in storage at Haier and ordered them destroyed with sledge hammers, as a symbol of his commitment to quality, remarking at that time: "If we don't destroy these refrigerators today, what is to be shattered by the market in the future will be this enterprise!" (Opinion, 2001). Zhang Ruimin has been labeled as China's Jack Welch (Business, 2005) but, in reality, he appears more to be China's version of W. Edwards Deming in view of his commitment to openness and quality.[11]

7. Cultural Dimensions

Amongst the more valuable variables to consider in comparing China to Europe are the cultural dimensions designed by Geert Hofstede. These are the Power Distance Index (PDI), Individualism vs. Collectivism, Masculinity vs. Femininity, the Uncertainty Avoidance Index (UAI), and Long-Term vs. Short-Term Orientation

[11] John F. ("Jack") Welch was chairman and chief executive officer of General Electric Company for two decades, 1981-2001, and is credited with pioneering what has become known as "The GE Way". W. Edwards Deming was chosen by Gen. Douglas MacArthur to re-engineer Japanese industry following World War II, which he did brilliantly before returning to the United States in the 1980s and coining the expression the "Fourteen Points of Quality" (Deming, 2000).

(LTO), reflected on a country-specific basis in Table 1 and Table 2 below.[12] What the author has done is to control for China in relation to the Western European Union countries listed in Table 1 on which Hofstede collected cultural dimension data, first without Norway and Switzerland that have not joined the EU, then with them, then controlled for China in relation to the CEEC, and then controlled for China in relation to the Russian Federation, the largest Eastern European country

Why such cultural dimensions are important is because of the assumption that it is easier to conduct business efficiently within countries that have similar rather than different cultural dimensions. An important threshold question is exactly what region of Europe is the most compatible with China, and what regions appear to be the least compatible. Figure 1 below reflects Hofstede's five cultural dimensions (5Ds) for the Central and Eastern European Countries (CEEC) that were studied. Figure 2 below reflects Hofstede's same five cultural dimensions (5Ds) for Western European countries that Hofstede studied, including Norway and Switzerland that are not member states of the EU presently. Notice how China compares with the CEEC mean scores on the 5Ds in Figure 1, and contrast this with how China compares with the Western European Union (WEU) mean scores on the 5Ds in Figure 2.

Geert Hofstede identified five cultural dimensions published in his 2001 book, each explored below briefly:

Power Distance Index (PDI) measures the extent to which within a given culture authority is exercised from the top to the bottom on an hierarchical or "tall" basis in contrast to laterally on a "flat" basis. Said differently, PDI measures the extent to which people of a given culture accept inequality, particularly from ascribed rather than achieved criteria including ancestry, class, gender, race, skin tone, wealth. The PDI of China is high at 80, followed by the mean CEEC PDI at 68 and trailed by the WEU PDI at 45.

Individuality (IDV) measures the extent to which each person within a given culture places herself/himself at the forefront of attention and concern, in contrast to Collectivism, where individuals subordinate their personal interests to what they feel is best for their society, reflecting a higher degree of interdependence. With a score of 20, China is viewed as being a highly collectivist culture, compared to Russia at 39, CEEC at 48, and WEU at 65, confirming an increase in individualism as one moves across Europe from East to West.

Masculinity (MAS) measures a culture's commitment to achievement through competition, in contrast to Femininity that focuses more on social care and quality of life. China ranks high at 66 on the masculinity index, 12 points higher than CEEC at 54 and 22 points higher than WEU at 44, reflecting what the author contends to be China's "pure capitalist" spirit driven by a quest for success in contrast to socialism and in stark contrast to communism.

Uncertainty Avoidance Index (UAI) measures the extent to which members of some cultures seek to avoid uncertain outcomes by trying to take destiny into their own hands more than members of other cultures tend to do. China has a low UAI score at 30, meaning that the Chinese subscribe to determinism in some respects, evidenced by the Chinese business person's allowance for rules to be broken when deemed pragmatically necessary, and consistent with the Chinese tradition of family owned SMEs that reflect an entrepreneurial spirit. Uncertainty avoidance in China is much lower than it is in Europe generally at 70, but on this cultural dimension CEEC at 76 is higher than WEU at 68.

Long Term Orientation (LTO) measures the extent to which members of some cultures look forward to the future as a time for achievement, in contrast to other cultures that seek rewards in the nearer term. China has a

[12] A sixth dimension, Indulgence vs. Restraint, appears in Hofstede, Geert et al., 2010. *Cultures and Organizations: Software of the Mind.* New York: McGraw Hill, 3rd (revised) edition. Insufficient data is available therein that pertains to the countries studied in this article, so that sixth cultural dimension is not included here.

very high LTO at 118, undoubtedly driven in part at least by its Confucian heritage and societal tradition of working hard and saving rather than spending money earned. China's rank on LTO contrasts sharply with Europe at 35 in general, with WEU at 33 and CEEC at 41, although Hofstede included only four CEEC countries (Czech Republic, Hungary, Poland, and Slovakia) when studying LTO, and omitted three WEU countries (Greece, Luxembourg, and Malta). Hofstede himself has noticed that this reflects China's preference for governance by men in contrast to the European insistence upon the rule of law, and Hofstede has explained LTO as the basis for China's 21st century fixation on real estate speculation (Hofstede Center, n.d.).

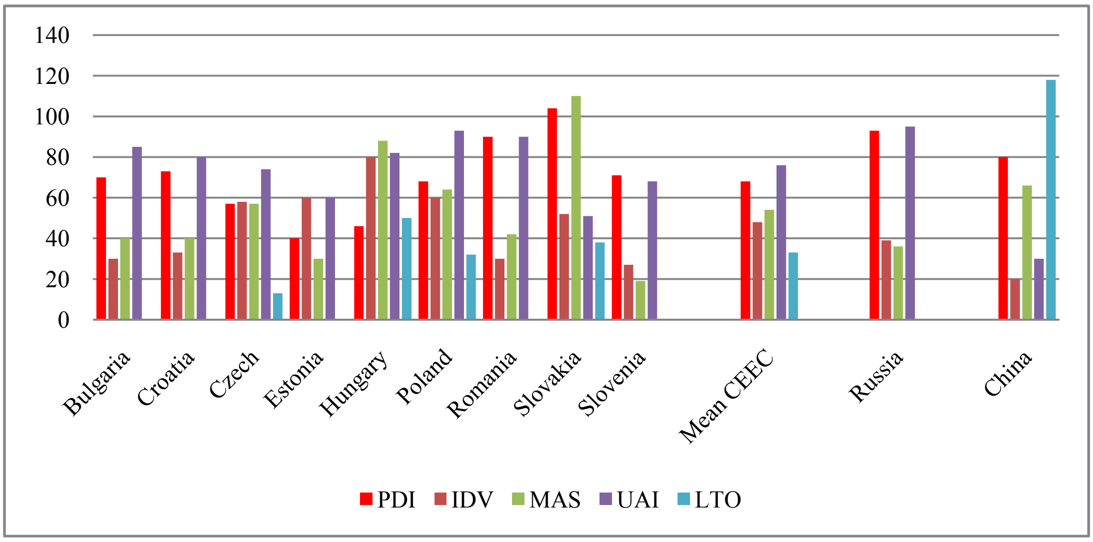

Figure 1 Hofstede's Cultural Dimensions (5Ds): Central and Eastern European Countries (CEEC)
Source: Hofstede Geert (2001). *Culture's Consequences: Comparing Values, Behaviors, Institutions, and Organizations across Nations*. Ventura, CA: Sage Publications. Graphics by this author.

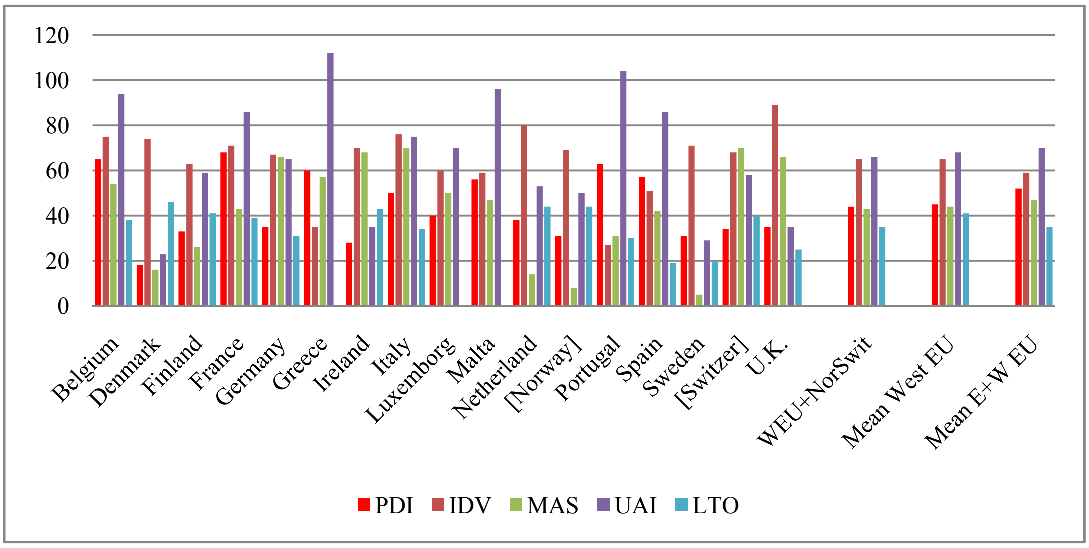

Figure 2 Hofstede's Cultural Dimensions (5Ds): Selected Western European Countries
Source: Hofstede Geert (2001). *Culture's Consequences: Comparing Values, Behaviors, Institutions, and Organizations across Nations*. Ventura, CA: Sage Publications. Graphics by this author.

Notice that scores on Hofstede's cultural dimension variables in Figure 1 that Russia is closer to China than most other European countries, and that when Norway and Switzerland, the two Western European countries Hofstede studied that have not joined the EU, are added to the EU mean, the difference is insignificant. This shows once more that on most of Hofstede's 5Ds cultural change is evident as one focuses one's attention across Europe from East to West, arguably another justification (also a possible reason) for China's determination to increase its FDI in CEEC this decade. Table 1 and Table 2 reflect specific data for each European country for which cultural dimension data is available.

Table 1 Central and Eastern European Countries (CEEC), by Cultural Dimension Scores

Country	PDI	IDV	MAS	UAI	LTO
Bulgaria	70	30	40	85	
Croatia	73	33	40	80	
Czech	57	58	57	74	13
Estonia	40	60	30	60	
Hungary	46	80	88	82	50
Poland	68	60	64	93	32
Romania	90	30	42	90	
Slovakia	104	52	110	51	38
Slovenia	71	27	19	68	
Mean CEEC	68	48	54	76	33
Russia	93	39	36	95	
China	80	20	66	30	118

Source: Hofstede Geert (2001). *Culture's Consequences: Comparing Values, Behaviors, Institutions, and Organizations across Nations*, Ventura: Sage Publications. http://geert-hofstede.com/china.html, Tables constructed by author.

Table 2 Western European Countries by Cultural Dimension Scores

Country	PDI	IDV	MAS	UAI	LTO
Belgium	65	75	54	94	38
Denmark	18	74	16	23	46
Finland	33	63	26	59	41
France	68	71	43	86	39
Germany	35	67	66	65	31
Greece	60	35	57	112	
Ireland	28	70	68	35	43
Italy	50	76	70	75	34
Luxemborg	40	60	50	70	
Malta	56	59	47	96	
Netherland	38	80	14	53	44
[Norway]	31	69	8	50	44
Portugal	63	27	31	104	30
Spain	57	51	42	86	19
Sweden	31	71	5	29	20
[Switzer]	34	68	70	58	40
U.K.	35	89	66	35	25
WEU+NorSwit	44	65	43	66	35
Mean West EU	45	65	44	68	41
Mean E+W EU	52	59	47	70	35

Source: Hofstede Geert (2001). *Culture's Consequences: Comparing Values, Behaviors, Institutions, and Organizations across Nations*. Ventura: Sage Publications. http://geert-hofstede.com/china.html, Tables constructed by author.

8. Competition and Consumer Protection

The European Union regulates both competition and consumer protection at its various levels of government including the “community” (EU-wide) level. This is evident from the posture of the EU on combinations in restraint of trade (“monopolies” and other unfair trade practices). Although the United States and many other jurisdictions lean toward consumer protection, the EU bends to buttress competition even if in doing so the end result becomes expensive for consumers. This does not mean at all that Europe forsakes consumer protection. On the contrary, products such as electrical machines are subject to rigorous inspection and standards, as most Chinese exporters know well, and a two-year warranty is required that is twice as long as the minimum one-year warranty the United States requires. It means that the EU endeavours to protect competition more rigorously than much of the rest of the world does. The Chinese firm doing business inside the EU should expect to encounter even more rigorous micromanagement from community and member state regulators, especially on matters deemed necessary for public safety including not only the first purchaser of a product but anyone who may use or be affected by it thereafter such as a business or social guest in one’s office or home or a buyer of used products.

The EU is *supra*-national, and so community laws exist side by side with laws of each member state, known as “municipal” or national laws. In Poland, competition is enforced by the Office of Competition and Consumer Protection, deriving its legal competence (jurisdictional authority) pursuant to the Act on the Protection of Competition and Consumers (1987). It is important for the foreign investor to take notice of the fact that EU Competition Policy is different from that of other jurisdictions, such as that of the United States for example, where competition protection is subordinated to protection of the consumers. The EU Competition Policy evokes three distinct goals: (1) to control market conspiracies such as the formation of cartels,[13] (2) the prevention of rising monopolies,[14] and (3) the prevention of the accumulation of market shares that are too large, generally resulting from unfavourable mergers and acquisitions.[15] In order to fulfill these objectives, EU Competition Policy closely watches all forms of state aid to business (all “subsidies”), but does not restrict state aid *per se*.[16]

Proof of guilt where allegations of having violated EU Competition Law have been advanced comes in the form of a “confession” by the accused corporation. For example, where the European Commission contends there have been multiple instances of simultaneous price raising (“price fixing”) by two or more corporations in restraint of competition, the first co-conspirator to confess becomes immune to fine, but subsequent confessions receive a fine reduction to 50% of the volume of sales, which in turn reduces to 30% once the Commission has uncovered additional information, and this in turn reduces to only 10% during formal enquiry itself (Blumenfeld et al., 2006, pp. 2-3). The penalty upon conviction without conviction will be the full amount of the errant firm’s volume of sales, and the European Commission may seek additional damages, as is evident from the most recent opinion of the European Court of Justice (ECJ) on this subject matter involving to major participants in an “elevator cartel”, United Technologies Corporation (UTX) and ThyssenKrupp, AG (TKA) (Bodoni & White, 2012). Current EU competition infringement penalties will likely become more onerous as “teeth” are added to them soon in the form of a proposed new directive that is designed to quantify harm in antitrust cases and reduce discretion over penalties (McGrath & Reddy, 2013).

[13] Treaty on the Functioning of the European Union (TFEU) [ex Article 81, Treaty Establishing the European Community (TEC), formerly known as the Treaty of Rome but renamed in the Treaty of Lisbon, 2009].
[14] TFEU, Article 102 [ex. Article 82, TEC].
[15] Council Regulation 139/2004, also known as the “Competition Regulation” of 20 January 2004.
[16] TFEU, Article 107 [ex Article 87, TEC].

9. State Aid or Subsidies?

Article 87 of the EC Treaty recites the test for "state aids" including state funding of private firms. This article is divided into three sections. Article 87(1) adopts the principle that state aids to private companies is incompatible with the common market but it does not define what is meant by "state aid". Article 87(2) identifies some derogations (exceptions) to the rule against state aids as articulated in Article 87(1), such as where the state aids neither distort nor threaten to distort competition, as in a state's efforts to return a region to normalcy following a natural disaster. Article 87(3) identifies specific situations where state aids might be compatible with the principles of the common market, such as state aid to correct an abnormally low standard of living in a rural area, or to rectify serious unemployment or under-employment. This reflects priorities contained within EU social policy that aims to reduce unemployment, particularly along the EU periphery in contrast to its more affluent core, by reducing regional disparities (McDonald & Dearden, 2008, pp. 197, 233). In addition, this reflects priorities of The European Social Fund that include reducing age and gender inequality, improving entrepreneurship and increasing the potential of science and technology (218).

It is possible that on this issue China has received excellent local legal advice, and it will seek to justify state FDI in Central and Eastern Europe in consideration of the relative poverty still visible in many regions thereof. Since 2000 and especially since 2006 the European Commission has made an open effort to tie approval of state aids to the new "Lisbon Agenda" for improving economic growth and jobs across depressed areas of the EU, largely along its periphery (Craig & de Búrca, p. 150, n. 23).[17]

10. Supply Chain Management

At least two separate but potentially interrelated ramifications for China have emerged from the crisis that engulfed Ukraine's Crimean Peninsula as the year 2014 unfolded. Back in 2012, either the Ukraine government at Kiev persuaded China, or China persuaded Kiev to allow China, to invest in the construction of a huge deep water port near the Crimean village of Frunzi in the Saski Region that, once completed, would provide a shortcut for 140 million tonnes of Chinese made products each year to bypass both Russia (no need to risk hijacking from boxcars on the Russian Railway) and Hamburg, Germany (no need to make sea voyages to Central or Eastern Europe go through Gibralta and then up to Hamburg), this trade estimated in 2010 to be USD 1.1 trillion annually and rising at ten percent each year (Snytkova, 2013). This enlargement of infrastructure would come at the expense of Oseno [Lake] Bagayly that would cease to exist once the land separating it from the Black Sea would be removed to make way for this project that is rather environmentally unfriendly. Russia seems to deem it politically unfriendly unless it controls it: the title of the article is: "China Breathes Fire on Ukraine's Crimea" published in *Pravda*, the Russian Federation's flagship newspaper.

Is this the real reason Russian Federation president Vladmir Putin determined to occupy the Crimea, so it will no longer be "Ukraine's Crimea," and possibly to provoke withdrawal by China of its investment, presently offered as a half and half public/private partnership by the Ukrainian government and the Beijing Interoceanic Canal Investment Management Co., Ltd.? Stated differently, is the Russian Federation in fear of itself being encircled by China and the West, much in the manner that China complains that it is facing encirclement from

[17] See Working Together for Growth and Jobs: A New Start for the Lisbon Strategy, COM (2005) 24, as discussed briefly in Craig & de Búrca, 150, n. 26.

India to Japan across the Russian Federation (Thorp, 2012)? Alternatively, does the Russian Federation want to go forward with the deep water port project but simply transform it from a Sino-Ukrainian to a Sino-Russian joint venture? If the latter, the end game will stand to reinforce the mathematical rule: "change the sign of the subtrahend then proceed as in addition", because instead of becoming less encircled China will be more encircled.

In November 2013 at the second summit of the prime ministers of China and Central and Eastern European Countries (CEEC) China announced it earmarked USD 10 Billion as FDI in 16 European countries including Albania, Bosnia Herzegovina, Bulgaria, Croatia, Macedonia, Montenegro, Romania, Serbia, and China financed a Euro 150 Million power plant in Montenegro to be completed in 2016, and is finalizing plans to construct a rail line to link Budapest with Belgrade (Sieff & Borisova, 2014). This USD 10 Billion is in addition to the USD Three Billion China is committed to spend on the Crimea Peninsula to construct the first phase of its deep water port as part of China's design for a "New Silk Road" connecting China to the European Union (Snytkova, 2013). In Bulgaria, Chinese construction companies have announced plans to build the Cherno More highway to link Varna and Bourgas, Black Sea cities near to Russian-speaking areas of Southwestern Ukraine, Moldova, and the largely unrecognized Transniestia Republic, and China has already implemented its plan to open a Great Wall auto plant in Bahovista near Lovech, that will be the first Chinese auto making facility built in the European Union (Sieff & Boriskova, 2014).

11. Conclusion

Many opportunities await China as well as other countries desiring to pour FDI into Europe, but threats exist also that require sorting out. European laws are changing, and such changes need to be noticed and understood by foreign investors, particularly by investors from foreign countries such as China that have significant differences as measured by Hofstede's cultural dimensions or related variables. Hofstede's research suggests that as one moves Westward from China into Europe at least proverbially along what used to be the "Silk Road", one encounters cultural dimensions that will become progressively more diverse. Russia is different from China, but less different than Poland or other nations in the CEEC grouping (except on Masculinity, where CEEC are closer to China than Russia is), and the Western European nations as a group in turn are more different from China and Russia than are the CEEC. What this may portend is that China has made a good decision to locate much of its projected FDI in the CEEC region where differences on cultural dimensions are less pronounced, rather than Western Europe where such differences are greater, although some initial reactions seem to reflect that this decision has miffed Western Europe and the Russian Federation. Only time will tell whether Chinese managers will be up to the task of bridging gaps that exist between Chinese and European business cultures sufficiently to survive and hopefully to thrive in Europe whilst keeping Russian relations calm. Part of this burden will need to be shared by Europeans in all regions and by the Russian Federation.

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