BRIDGING THE GAP: ATTRACTING VENTURE CAPITAL TO HANGZHOU

An Interactive Qualifying Project Report

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Abstract

Over the last decade, China's economic landscape has both grown and fluctuated, impacting investment prospects. 5CGroup, located in Hangzhou, is a consulting firm which helps companies attract venture capital. Through reviewing literature, interviewing experts, and examining questionnaires, we assessed the state of Western investment in Hangzhou and found that culture, laws, historical conflict, communication, and market factors impede trust between investor and investee. From this we developed a set of recommendations for 5CGroup to assist their clients attract Western capital.

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Executive Summary

This report focuses on helping 5CGroup acquire more Western capital for their Chinese startup clients. The city of Hangzhou is home to many successful businesses which have received venture capital, secured in part by 5CGroup. The district has been named one of the best investing environments by the Japan Trade Vitalization Organization due to factors such as its educational facilities, its efficient public transportation system, and its continuous focus on urbanization ("Zhejiang Province Government", 2012). However, according to 5CGroup, there is still a need to increase the amount of venture capital, specifically from Western investors. In order to provide even more assistance to Chinese companies, 5CGroup hopes to attract venture capital from the United States, as well as other Western countries.

Goal and Objectives

The overall goal of this project was to develop a plan for 5CGroup to attract more Western capital to their clients, especially in Hangzhou. The project team constructed three objectives to help complete this goal:

1. Investigate the current state of venture capital investment in China and the West
2. Identify specific Western preconceptions about Chinese investments and the current state of venture capital investment
3. Identify specific Chinese perspectives about Western investors and examine what the major barriers are to Chinese companies seeking Western investment

The above objectives were completed using a four step methodology including investigation, communication, comparison, and development of a final report for 5CGroup.

The main focus of the investigation portion of the project was formulating an understanding of current trends in venture capital using reports, books, articles, and websites. The background research included looking into the current state of venture capital in China and Hangzhou, a literature review regarding business differences, and research of the historical and lingering conflicts between China and Western countries.

The second component of the project was to communicate with Western investors and Chinese businesses who have sought or were currently seeking external venture capital investment. This communication involved distribution of questionnaires to businesses on both sides of the investment process to understand the nature of the problems with foreign investments. In the process, answers were sought for the following three overarching questions:

1. What qualities make a business a good investment?
2. What makes foreign investors wary of investing in Chinese businesses?
3. What do Chinese startups need in terms of foreign investment?

The questions asked in each questionnaire and interview have been included in Appendices A and B associated with this report. These questions were selected to provide the project team with an understanding of the difficulties of interactions between Chinese businesses seeking investment and Western investment firms.

The responses from the interviews and questionnaires were then analyzed and compared to show any trends in the experiences of Western Investors and Chinese startups. In addition, the general conceptions of businesses from China and the United States were recorded to outline possible sources of the problems with the investment process.

To develop a final result, we analyzed the major roadblocks preventing Chinese businesses from acquiring Western venture capital. These roadblocks and the processes to find them were provided to 5CGroup in the form of this report, as well as a stand-alone ten-page summary to be translated into Chinese and displayed on their new website, in order to better educate potential clients. This final element of this research process also included developing a summary of the new trends in venture capital pertaining to both China and Western countries.

Results: Major Challenges

From both the literature review and responses from Chinese and Western business and consulting representatives, the project team found that there was an underlying problem of mistrust between Western investors and Chinese businesses. The lack of trust manifests itself in the form of five major roadblocks: historical conflict, differences in business culture, communication, laws, and the current state of the Chinese market. As such, this issue of trust can only be fully rectified once the five other barriers are solved.

The historical relationship between China and the West has continued to negatively affect relations between the two parties to this day. For China, there used to be a significant amount of animosity toward the West resulting from the Opium Wars, "embarrassing symbols" of Western imperial domination in China (Hanes & Sanello, 2002). On the Western side, Cold War era stereotypes and anti-communist beliefs continue to affect how China is perceived by Western investors. However, the questionnaire results and a study from Pew Research Center in 2012 have shown that the historical conflict is perceived among businesses to be the least influential roadblock involved with investments, and is steadily decreasing in influence among newer generations.

Differences in business culture between China and the West also compromise the relations between companies and their investors. Unfamiliar practices and ways of thinking cause Western investors to feel wary about investing in Chinese companies and Chinese companies to feel wary about working with Western investors. These differences serve to impede the growth of trust, and can take many forms. For instance, Chinese business negotiations are often based on unwritten social contracts, as compared to the direct legal documents preferred by Western businesses ("Business Etiquette in China", 2015). Furthermore, Western investors often misunderstand or lack the social *guanxi* and networks that form the basis of Chinese business culture, and therefore have difficulty working with Chinese businesses effectively. Of all the roadblocks, culture was perceived by Westerners and Chinese businesses to be the biggest challenge with international investing.

In addition to cultural differences, there are communication issues which make it difficult for investors to invest in Chinese start-ups. First, much of Chinese business is done using the Chinese language. Although the working languages of many successful businesses is English, many small businesses primarily use Mandarin in China (Sonmez, 2014). Small businesses therefore can have difficulties in finding Western investors because they cannot effectively communicate using English. Beyond language alone, communication is drastically hindered by the shear distance between China and many Western investment firms. It is difficult for investors to adequately monitor and track their investments if they cannot easily travel to the investment and work with their clients in person, and as such many are wary of entering into investments that they cannot manage directly. Besides culture, communication was seen as a major factor by Chinese businesses and Western business representatives. It should be noted that Chinese businesses believed that language had a large impact on investing, while Western business representatives believed that human and computer translators are quickly overcoming this hurdle.

Another challenge to attracting Western capital is the fluctuating legal system in China. The business laws are changing rapidly due to China's modernizing legal and economic standards. According to David Gibbs, directing manager of CIT Group, many American investors do not invest in Chinese start-ups because they do not understand the legal structures in place. They do not want to take the time and resources to understand the current legal structures, which will inevitably change, in order to invest in what is already a relatively risky investment. Also, unlike most Western countries like the United States, China does not have laws which enforce businesses to publicize their reports on annual growth, sales, and other figures used to describe a start-up business. Without this information, many Western investors would be uneasy sending capital to Chinese businesses. The laws and governments of Western countries and China were found to be perceived as a significant roadblock by both sides.

Hangzhou is a growing epicenter for the e-commerce, food processing, and organic agriculture industries. In these areas, it is expected that there will be an influx of new businesses within the city, and a corresponding need for investment resources.

The final roadblock is the Chinese market. The Chinese stock market crash in 2015 caused a disruption to the upward trend in the market that lasted from 2011 to 2015. The MSCI China Index had steadily increased from 2011, but became stagnant since mid-2015 (MSCI, 2015). According to Gibbs, the fact that the market has slowed so much recently caused many investors to turn away from Chinese investments. In addition to the slow market, Chinese freezes on all Initial Public Offerings (IPOs) throughout the country in 2012, and again in July of 2015 following the stock market crash, make investment in Chinese businesses both difficult and unappealing for Western Investors ("China Freezes IPOs in Attempt to Stem Stock Market Bleeding", 2015). The market and other recent economic issues were brought up in the interviews as reasons to not partner with international investors.

Recommendations for 5CGroup

Based on the results of our research, interviews, and analysis, we recommend the following to 5CGroup:

- Ensure that all content on their new web platform is consistent between languages with easily accessible and understandable information on the legal, cultural, and governmental practices of all involved countries. In order to bring in new clients to use this platform, videos and other corporate media can be used to advertise 5CGroup's corporate message and humanize them as consultants.
- Seek partnerships in major international business sectors with investors and consulting firms. This would create an extensive global network that would get 5CGroup's name out into the world, bring in new clients, and assist with the understanding of foreign policies. New clients would be able to supplement their own *guanxi* network with that of 5CGroup, making it easier for investors and companies to connect and interact.
- Establish global connections with investors and other consulting companies that have experience working in Hangzhou's rising pillar industries: e-commerce, food processing, and organic agriculture. This would allow 5CGroup to target Western investors with experience and expertise working with projects related to the industries that are expected to grow exponentially in the future.

Authorship

All members of the team worked together to develop and revise all sections of the paper. The names listed for the following sections represent main and secondary authors for each portion. All team members reviewed, edited, and added minor contributions to all sections.

Abstract – Goodman
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1 - Introduction

China’s economy is one of the fastest growing in the world. There has been an average increase in China's GDP of 10% every year since 1978 (“China Overview”, 2015). However, outsourced manufacturing from other countries has been the primary fuel for their growth. Instead of building off the existing marketplace, Chinese entrepreneurs are starting to create transformative innovations to break into new markets. China's economy is transitioning from a value-added, export economy to a knowledge-based economy like many Western countries. To continue progressing, China must focus more on fostering its own innovations and putting its own products on the global market. To accomplish this goal, many Chinese companies require the assistance of venture capital firms and investors to give advice and fund their research and development.

Venture capital can be a useful way for new companies to gain a head start in creating a business. According to the U.S. Small Business Administration, venture capital consists of investments that are provided in exchange for a percentage of corporate ownership. Venture capital can come from many sources, including friends, governments, and designated firms. Venture capital firms invest in companies in hopes of receiving a profit. To make an investment, investors must be able to trust the companies' employees, strategies, and vision.

For the past several years, Chinese startup companies have grown increasingly interested in attracting venture capital and investors to their organizations. Consulting companies such as 5CGroup are actively seeking foreign venture capital to bring into China to increase the investment pool. Many Chinese companies such as Baidu, Suntech Power Holdings Co., and Focus Media Holding Ltd. received foreign venture capital funding in their early development stage (Ding & Zhang, 2009).

Although some companies have acquired foreign investors, venture capital can be difficult to attract in an unstable and unpredictable environment such as the Chinese economy (Ahlstrom, Bruton, & Yeh, 2007). However, there has been a dramatic increase in venture capital within the last few years. In 2012 China issued a freeze on all Initial Public Offerings (IPOs) throughout the country due to economic downturn, making it difficult for existing companies to distribute equity to investors. As a result, seed funding was scarce for several years, only beginning to recover in early 2014 (Perkowski, 2014). Shortly thereafter, in January of 2015, the National Venture Capital Fund was established to fund seed-stage startups (Shu, 2015). As a result, venture capital investment grew significantly during early 2015. Yet a few months later, as reported on the Bloomberg website, the IPO freeze was reinstated due to a nation-wide stock market crash ("China Freezes IPOs in Attempt to Stem Stock Market Bleeding", 2015).

The lifting of the 2015 freeze brought widespread uncertainty regarding the Chinese market, and investors are currently using China's consumer price index, trade figures, inflation numbers, and corporate borrowing information to assess the current state of the market. The freeze, while detrimental to the growth of Chinese startups, helped to stabilize the stock market by halting the transaction of all corporate shares (Wu, 2015). As a consulting company, 5CGroup attempts to assist Chinese businesses recover from the loss of investment.

The objective of this project was to provide the sponsor, 5CGroup, with data and recommendations surrounding the recent trends in venture capital to increase private funding from Western investors for businesses in Hangzhou. Hangzhou is a growing epicenter for the e-commerce, food processing, and organic agriculture industries. 5CGroup expects an influx of new businesses within the city in these areas, and a corresponding need for investment resources. 5CGroup is a Chinese based consulting company that aims to be a leader in sponsoring innovation and developing these new Chinese business.

To help 5CGroup, interviews were conducted with Western investors and Chinese companies, thanks in part to resources and contacts provided by 5CGroup. This data was then analyzed and compared to findings from published literature to provide 5CGroup with a better understanding of the nature of venture capital and investing in China's, and specifically Hangzhou's, current political and socioeconomic environment. The specific suggestions and analysis provided to the sponsor are recommendations to assist 5CGroup's companies attract international venture capital that would allow Chinese innovators to flourish.

2 - Background

In this chapter, we establish a frame of reference for venture capital in China and Hangzhou. We also present current and future trends relevant to the goals of the sponsor company, 5CGroup. These trends include major economic activities in Hangzhou, private and public support mechanisms for startups, and small and the activities of medium-sized enterprises (SMEs) in other regions of China. The discussion in this chapter is based on printed and online sources, including recent newspaper reports on current economic trends as well as peer-reviewed academic journals on the historical context of this research topic.

2.1 - Introduction to 5CGroup

5CGroup is a Chinese company based in Hangzhou, China, that consults with SMEs and with international companies that wish to expand into Chinese markets. The firm's end goal is to establish a global presence in which they can create a worldwide network to facilitate the growth of companies. As stated on the 5CGroup website and brochure, the core services offered by the group are communication, collaboration, consulting, coaching, and control. They claim this five step model is the core to their successful business history. Some of the company's notable successes as promoted by 5CGroup include Powerhinge Automation Inc. and We4Ce B.V., both of which are now major corporations in the global wind turbine manufacturing industry.

The city of Hangzhou is home to many successful businesses which have received venture capital, secured in part by 5CGroup. However, according to 5CGroup (2015), there is still a need to increase the amount of venture capital, specifically from Western investors.

2.2 - Introduction to Hangzhou

Home to 8.8 million people and stretching 17,000 square kilometers, Hangzhou is a thriving hub of technological innovation. According to the National Bureau of Statistics of China, Hangzhou is the ninth richest city in China, with a GDP of over RMB 834.35 billion (USD 130.79 billion), and is home to many of China's most successful companies, such Taobao, Alipay, and NetEase. The city has been named one of the best investing environments by the Japan Trade Vitalization Organization due to factors such as its educational facilities, efficient public transportation system, and continuous focus on urbanization (“Zhejiang Province

Government", 2012). Additionally, Hangzhou has been praised by Forbes magazine as being China's best commercial city and is home to some of China's largest startup organizations, especially those in the e-commerce, organic agriculture, and food processing industries ("Capital of E-Commerce in China", 2009).

E-Commerce

In recent years, Hangzhou has become famous for its bustling e-commerce industry, even being called the "center for e-commerce in China", due largely to the Alibaba Group ("Capital of E-Commerce in China", 2009; Jacobs & Gough, 2014). Alibaba is China's largest online e-commerce platform and was founded in Hangzhou in 1999 by Jack Ma, China's wealthiest entrepreneur (Osawa, Mozur, & Winkler, 2014). Hangzhou's entrepreneurial engine is powered greatly by Ma, who established a college in Hangzhou for those interested in entrepreneurship (Yan, 2015). Alibaba also promotes entrepreneurship, as many of its employees have since gone off to start their own ventures. In 2014, Alibaba went public with an initial public offering of USD 25 billion, one of the largest in history. Many Alibaba employees began working on their own ventures, mostly in the e-commerce and internet industries (Chen, 2014). Since 2004, Alibaba employees have helped spawn 130 internet companies (Jacobs & Gough, 2014).

The same year that Alibaba went public, e-commerce in Zhejiang province reached $90.1 billion, an increase of 46% from the previous year. In addition to economic aid provided by Alibaba's shareholders, this dramatic increase can be traced back to changes in Hangzhou's official e-commerce policies ("Venture Capital Report", 2015). The government approved Hangzhou to establish China's first "cross-border e-commerce pilot zone." This change will allow for companies in Hangzhou to set the standards for e-commerce with respect to everything from tax refunds to customs clearance. Additionally, taxes on online transactions for goods such as wine will be reduced and quality standards will be more heavily enforced (Jing, 2015).

Due to its innate interdependence on goods and services, e-commerce can heavily influence many industries. In China, one of the largest industries e-commerce affects is agriculture, which will be explored in the next section. As of 2015, one third of all agricultural goods produced in China are sold online. To increase sales, the Chinese government announced its plan to invest RMB 140 billion by 2020 to provide Internet access to at least 50,000 villages throughout China. This will further promote e-commerce infrastructure in the agricultural industry, where a shrinking labor population and lack of access to loans has resulted in reduced earnings and a rural economic downturn (Xinhua, 2015).

Organic Agriculture

Inspired by government efforts to encourage urban agricultural development, China's organic agriculture movement was described by the *Washington Post* as “young urban professionals … giving up high-paying salaries in the city and applying their business and internet savvy to once-abandoned [farm] properties.” (Wan, 2010). In 2009, Hangzhou’s tea, flowers, fish, livestock, and vegetable sectors collectively output USD 2.9 billion, accounting for nearly 70% of the city’s total organic agriculture output according to the Hangzhou Municipal Government.

In nearby Shanghai, the agriculture industry has grown even more rapidly. In 2006, Shanghai had only three organic farms. By 2009, that number had grown to thirty farms, exhibiting a growth of 900% in only three years (“Organic foods a growing trend”, 2009). One year later, Tony Agriculture Development Company acquired a USD 10 million venture capital investment to create the largest agriculture farm in Shanghai (“Organic Agriculture Leader Tony's Farm Secures US$10M from Tsing Capital”, 2010).

There are five key factors indicating the future growth of the organic agriculture sector. These include an increase in disposable income of the average Chinese citizen, an increase in negative press about unhealthy food, cheaper costs of organic food due to better technology, cheaper land costs to grow organic food, and higher and more reliable industry standards for organic food (“BFA predicts organic growth spurt”, 2010). There have been many companies taking advantage of these factors and have acquired investments in early and growth stages. The companies are found in all parts of China, including Shanghai, Beijing, and Hunan.

Food Processing

China has always required immense amounts of food to support its large population, but with families now being allowed to have two children, demand is expected to grow even more. Wang Pei’an of the National Health and Family Planning Commission estimates that by 2030 China's population will reach 1.45 billion people (“China's population”, 2015). To keep up with this growth, Li & Wang (2013) project that, by 2030, China must produce 34.6% more grain per hectare than it currently produces. This new demand will provide ample opportunity for companies new and old, with startups already preparing for expansion.

One of the current food processing giants is the Hangzhou based Wahaha Group, ranked second in the Chinese food processing and manufacturing sector (“Food Production”, 2011). Originally selling milk at an elementary school in 1987, Wahaha now dominates the Chinese beverage market, selling bottled water, milk products, nutritional drinks, and sodas, with its Future Cola even competing with the Coca-Cola Co. and PepsiCo, Inc. The group plans to expand further into international markets, with products currently sold at specialty stores all over the world (“Wahaha”, 2004). Wahaha is growing to match demand, increasing their annual revenue by 23% in 2013 and ranking 19th in sales revenue out of all of China's private enterprises. The Wahaha group is the poster-child of the food processing sector in Hangzhou's economy, as well as a good indicator for the growth of the food processing business (“Today's Wahaha”, 2012).

Although Wahaha has brand recognition, there are many food processing companies within Hangzhou, such as Fuchun Food Additives and Huahe Food. Fuchun was founded in 1995 and earned RMB 11 million creating soy additives and food emulsifiers (“Hangzhou Fuchun Food Additive Co., Ltd”, 2014). Huahe specializes in fruits and vegetables, focusing on wines, salted vegetables, juices, and similar products (“Hangzhou Huahe Food Co., Ltd.”, 2014). Both companies are small and growing, export their products worldwide, and are prime examples as to the companies which may be able to work with 5CGroup to attract Western investment.

2.3 - Support for Startups

It is necessary to investigate tools which have been successful in attracting external capital to businesses in other locations in order to determine the nature of the problem. These tools and strategies have been proven beneficial in other places, and may be useful resources for 5CGroup. In this section, methods will be examined that small businesses can look to for financial, social, and business support as they grow.

Accelerator Programs

Popular among startups are accelerator programs, which provide a small initial investment along with short-term mentoring and training to seed stage startups. Accelerator programs give burgeoning companies the knowledge they need to structure their business and attract larger investors (“Accelerator Program”, 2014). Two prominent accelerators are Microsoft Ventures and Y Combinator.

Microsoft Ventures has seven main locations, including one in Beijing, and assists companies through a three to six-month program complete with free software tools and long-term consulting. According to Microsoft Ventures, their Beijing location has worked with 106 companies with an average financing of RMB 28 million, or USD 4.4 million.

Even more ambitious than Microsoft Ventures is Y Combinator, a similar program which has funded over 800 startups and helped secure over USD 30 billion since 2005. The accelerator invests USD 120 thousand in as many as 85 companies semi-annually, and pays to bring the founders and CEO to Silicon Valley for an intense three month training period. At the end of the training every company gets to present themselves to an audience of potential investors. By taking such a small cut of the companies and leaving all of the control in the hands of the original founders, Y Combinator allows for these businesses to get off the ground and then go in whichever direction they see fit.

Government Support

Small businesses make up a large portion of economic activity in all first-world countries (Zeng, 2005). Most member countries of the Organization for Economic Co-operation and Development (OECD) have a governmental agency in place to serve small and starting businesses as a means to foster economic growth. (OECD, 2015). For instance, the United States has the Small Business Administration (SBA) whose main goal is providing assistance to small businesses through loans and counseling (Carland et al., 1984). Similar agencies exist in other countries, such as the Small Business Service in the United Kingdom and the Small and Medium Business Administration in South Korea. These agencies exist in part to supply necessary funds to starting businesses, the lack of which is the major impedance to their growth.

In addition, China has its own agency for supporting its small businesses, the China Small and Medium-sized Enterprise Department (SMED). Like the United States' SBA or the

United Kingdom's SBS, the SMED provides guidance for small businesses and helps network them with other countries. However, unlike the United States and United Kingdom, the responsibility for acquiring funds lies more heavily with local governments as opposed to federal agencies (Ding & Zhang, 2009). Although the political and economic structures in place in China are different than in other countries, there are government agencies already in place to assist small businesses.

The Torch Program

In the early 1980s, the Chinese government developed the Torch Program (Torch High Technology Industry Development Center, 2014), a plan to accelerate the development of high-technology startups and industrialization within China through Venture Capital Guiding Funds (VCGFs), seed funding programs, Technology Business Incubators (TBIs) and technology parks. VCGFs serve as governmentally subsidized partnerships between investors and Chinese businesses, whereas seed funding programs such as InnoFund provide direct state seed funding for innovative startups. TBIs form a structure by which startups can receive funding and business consultation with decreased risk to investors. Technology parks provide a structure by which communities of technology companies can grow and gain legitimacy as a function of proximity to other companies. As of 2012, Torch has involved the establishment of 105 new high-tech development zones (“Torch High Technology Industry Development Center”, 2014).

Venture Capital Guiding Funds

Venture Capital Guiding Funds, such as the State Venture Capital Fund created in 2007, are governmentally operated funds focused on attracting non-governmental investment toward SMEs. These funds do not involve direct government funding of entrepreneurial firms, but rather subsidize and support outside investment in businesses (Wang, Wang, Ni, & He, 2013). They involve public-private partnerships (PPPs) in which Chinese government programs mobilize capital to support high-tech startups, which are generally considered high-risk borrowers from most banks, making funding difficult.

InnoFund

InnoFund (The SME Technology Innovation Fund), formulated in 1999 by the Ministry of Science and Technology, involves direct funding at the state level of technology SMEs, in contrast with VCGFs (Wang et al., 2013). Through loan interest subsidies and seed financing of businesses and start-ups, InnoFund directly supports the growth of Chinese SME innovation and therefore the knowledge economy as a whole.

Technology Business Incubators

Technology Business Incubators (TBIs) are platforms which exist to assist startups in their early stages of development and foster innovation. Throughout both China and the West, TBIs provide a combination of collaborative office space, management assistance, and access to a network of contacts for professional growth and financial assistance. Within Hangzhou, there exists the Hangzhou High-tech Enterprises Incubator, established as part of the Torch Program to provide office space and support the growth of SMEs in the local area through preferential economic policies for high-tech businesses.

Technology Parks & Development Zones

Found in China's larger cities, technology parks also facilitate technological and regional development, allowing for technologically minded communities of businesses, along with higher education and research institutions. Technology parks combine all of the other components of the Torch Program to foster innovation and promote the growth of startups within specific geographic locations. Tan (2006) describes the key characteristic of technology parks as the development of a formal connection between knowledge and technology based organizations, allowing for transfer of technology and business knowledge between the on-site organizations.

Zhongguancun Science Park

Zhongguancun Science Park, located in northwestern Beijing, is considered the “leading technological and most innovative region” in China (Liefner, Hennemann, & Xin, 2006). The explosive growth and success of Zhongguancun is both reflected in and impacted by the sheer quantity of groups which are a part of it. Zhongguancun contains a high concentration of top-level universities and research institutions such as Tsinghua University, Peking University and the China Academy of Sciences (Zhongguancun Science Park Administration, 2013) and over

7,000 high-tech companies in a wide variety of different industries, from electronics and software to biotechnology and advanced manufacturing (Liefner et al., 2006). Furthermore, Zhongguancun accounts for almost a third of China's total venture capital investment (Zhongguancun Science Park Administration, 2013).

The governmental backing of the park's businesses through the Torch Program, and the Beijing Experimental Zone for New Technology Industries (BEZ) which came from it, provides legitimacy and structure for technology startups and businesses in the area. The BEZ serves as a regulatory institution, developing systems for trade, taxation, investment, and intellectual property, among other necessary developmental frameworks to support the area's innovative SMEs. This development also involves providing initial capital, references, and managerial guidance to startups to develop the basic infrastructure of new businesses (Liefner et al., 2006).

Along with BEZ, the Beijing Zhongguancun Finance Group also serves to manage a technology incubator platform by which startups can receive funding and form a *guanxi* involving venture capitalists and members of other technology-based companies (Beijing Zhongguancun Finance Group, 2014). This government-sponsored TBI has formulated a standard system through which business leaders and entrepreneurs can submit information about their company and apply for funding. After an evaluation period, if a startup fulfills the criteria established by the Beijing Zhongguancun Finance Group and potential investors, they receive funding from both governmental and investor resources. If they do not meet the necessary criteria, the group works with the startup to further improve their business, and provides training such that they can pass the evaluation in the future. Through this well-defined system for providing startups with both funding and consulting, the group has created a means by which new businesses can grow with minimal risk for both the startup and any potential investors.

Through the coalition of different businesses within Zhongguancun and the structure developed by the BEZ and Beijing Zhongguancun Finance Group, new startups are able to emerge and flourish as spin-offs from already established businesses in the area. These spin-offs develop through a combination of innovation, shared resources, and unfilled market need, and can take advantage of the services available through the science park. As more spin-offs emerge and expand, they further serve to supplement the technological innovation of the park, resulting in the exponential growth that brought success to Zhongguancun and other districts like it.

Hefei High-Tech Industrial Development Zone

Four hours south of Zhongguancun lies another example of a highly successful innovation site, the Hefei High-Tech Industrial Development Zone (HHIDZ). Since its founding in 1991, the HHIDZ has been providing key financial services to the local businesses including a network for venture capitalists and angel investors, rewards for outstanding innovation in technical, business, and scientific fields, and government sponsored grants ("Chnindustry", 2011). The area is home to more than twenty venture capital businesses, more than fifty patent, law, and copyright consultation firms, and over four thousand businesses. Many of these businesses were started using the resources provided by the HHIDZ government, but more importantly they contribute to an environment which makes new businesses more appealing to investors.

Another reason why the HHIDZ is successful at attracting Western Capital is that it is not only a source of economic activity, but also intellectual activity. There are over fifty universities which surround the HHIDZ, as well as more than three hundred science and research organizations. Some of these universities partially form the Hefei National University Science Park (HNUSP). The HNUSP's primary goal is to foster research which can be developed into financially successful products and services which will in turn foster economic growth for China. Similar to the local government in HHIDZ, the HNUSP helps foster the growth of local businesses through networking and funding. They provide tools such as an incubator to help starting companies, an accelerator to promote the growth of early-stage companies, and university resources which include developing research ideas, university students for internships, and committees of professors and scientists to assist with the development of technological innovations. Through both the HHIDZ and the HNUSP, it is clear that two key resources to building strong startups are networks and funding. 5CGroup and the government of Hangzhou could emulate the practices found in the HNUSP and HHIDZ to be more successful in attracting venture capital.

Hangzhou Economic and Technological Development Zones

Hangzhou is home to multiple special economic zones including the Hangzhou Economic and Technological Development Zone (HETDZ), Hangzhou Export Processing Zone, and

Hangzhou Hi-Tech Industrial Development Zone (HTIDZ). The main goal of these zones, like those in Beijing and Hefei, is to promote innovation and entrepreneurship and bring economic prosperity to the region.

HETDZ was founded in 1993 and has since earned an “AA” ranking (“China Knowledge Press”, 2011a), making it one of the most attractive places in China for businesses and investors. In 2013 the zone had a GDP of over RMB 42 billion, an increase of 10% from 2012 (Zheng, 2014). This growth is what interests major investors such as Toshiba, Coca Cola, and LG, who are promoting the key industries of the zone, including electronics, machinery, and food processing. The zone itself contains smaller industrial parks, such as Modern Logistics Park, Innovation Industrial Park, and the Singapore-Hangzhou Science and Technological Park, where 5CGroup is based. Although HETDZ has advantages like human resources and a close proximity to the Export Processing Zone, foreign exchange rates are a problem for export-oriented companies, and operating and labor costs are relatively high (Hong Kong Trade Development Council, 2015).

Another key advantage of HETDZ is its Xiasha Higher Education Park, which is home to over 120,000 students and 14 universities and colleges. HETDZ's governing committee is attempting to make use of this abundant knowledge resource, funneling its resources into expanding knowledge intensive enterprises such as technology and research (Zhejiang Province Government, 2012). HETDZ is a prime example of how China is transforming itself into a knowledge based economy with technology-intensive industrial focuses.

Also within Hangzhou is the aforementioned HTIDZ, which was founded in 1991 and has since received an “AA” ranking from China knowledge for its first-tier recommendations and attractiveness (“China Knowledge Press”, 2011b). This zone encourages investment in the information technology, biochemical, and pharmaceutical industries. In 2010, the GDP of the zone was growing at 13.1%, and it contributes 5.7% of Hangzhou's total GDP. The zone contains more than two-thirds of Hangzhou's high-tech companies, which in turn produce over half of the zone's total GDP. The HTIDZ is even attractive enough to bring in investments from foreign enterprises like Nokia, IBM, and Microsoft. However, the biggest player in the region is China's own Alibaba group. (Zheng, 2014). Overall, the zones are fertile places for companies to receive special government support and attention from investors in order to expand.

2.4 - Current Policy Changes

Recently, as a function of President Xi Jinping's "One Belt, One Road" initiative, China has been expanding its reach toward the West in hopes of developing a new Silk Road. This initiative was proposed in September 2013, and involves the development of Eurasian infrastructure, specifically railways, highways, oil and gas pipelines, power grids, internet networks, and aviation routes. The hope is that the development of this infrastructure will allow for close economic ties between Chinese provinces and Europe. A large part of this plan is the creation of the Asian Infrastructure Investment Bank (AIIB) to finance infrastructure projects. As of October 2015, there are 57 prospective founding members of the AIIB, both in China and in the West (Li & Wang, 2015).

One of the main gateways between China and Europe is Chengdu, which has become a hub for Chinese economic development as a function of its location and transportation infrastructure. Rated by Fortune magazine as one of the 15 best emerging business cities, Chengdu has a GDP of over RMB 1 trillion, and is home to 268 Fortune Global 500 companies (Yu & Chao, 2015). A large part of Chengdu's recent success is related to the "One Belt, One Road" initiative and its transportation infrastructure facilitating trade and economic growth. In 2014, the Chengdu Shuangliu International Airport handled over 37.5 million passengers, and has a second airport scheduled to begin construction in 2015. Richard Tams (2015), the British Airways Executive Vice President for China, stated that "Chengdu is a key route for British Airways as it broadens our network in China, in addition to our existing routes from Beijing and Shanghai."

In the collaborative spirit of the "One Belt, One Road" initiative, China has also announced its intention to take part in the European Union (EU) Investment Plan, which is in development as a method of improving the European economy (Li & Wang, 2015). This plan was proposed by Jean-Claude Juncker, the president of the EU Commission, and involves the creation of a 315 billion Euro investment fund. This will begin with a 21 billion Euro reserve, and the commission and the European Investment Bank (IEB) hope to mobilize the 315 billion Euros within three years ("Juncker reveals giant EU investment plan", 2014). The European Union Commission has embraced China's global outreach, wishing to "deepen [their] economic relations with China in the context of the investment plan, as well as the "One Belt, One Road" initiative, to promote connectivity between EU and China" (Chen, 2015). By taking part in this

Euro-centric plan, China has demonstrated a desire to engage more fully in the global economy and work collaboratively with Europe.

2.5 - Conclusion

In conclusion, the amount of foreign investors in Hangzhou can be increased through an analysis of the social and cultural relationships between investors and investees. In order to uncover the underlying issues that divide Western and Eastern business, current factors and practices both inside and outside of China must be considered. In order to understand the success and failures of American and Chinese entrepreneurial and business practices, it was important to gather data that addresses the objectives of the project. In the next section, we discuss the methods used for collecting data in both China and the United States. Based on this data, we then provide analyses and recommendations to increase Western venture capital investment in Hangzhou. Success in this project was defined as being able to identify and clearly explain the major problems for attracting investment to Chinese SMEs, and subsequently verifying the findings through multiple interviews with companies and persons from varying backgrounds. An analysis of relevant literature and background research provided us with insights about the roadblocks to Western investment.

3 - Methodology

The overall goal of this project was to assist 5CGroup in attracting more Western venture capital and gain a better understanding of the current state of venture capital in China. This project goal was divided into a set of three main objectives:

1. Investigate the current state of venture capital investment in China and the West
2. Identify specific Western preconceptions about Chinese investments and examine what the major barriers are to Chinese companies seeking Western investment
3. Identify specific Chinese perspectives about Western investors and the current state of venture capital investment

Overall, these objectives were met using a variety of different methods. To investigate the current state of venture capital, we conducted a literature review and background research. To validate and reinforce the findings from a Western perspective, we distributed questionnaires via email, and interviewed business representatives. Similarly, to strengthen our findings from a Chinese perspective, we distributed questionnaires via email and interviewed business representatives. Using the data gathered from these methods, we then synthesized a list of major roadblocks for international venture capital investment and highlighted key solutions to these obstacles.

3.1 - Investigate the State of Venture Capital

The first objective for completing the project goal was to investigate the current state of venture capital investment in China and the West, as well as the economic history and foundation leading up to the present. These details included data surrounding the legal, political, social, and economic infrastructures in China and the United States, especially with regard to startups and investment. Much of the specific data gathered through the literature review was discussed in the background section of this report. This research formed the foundation of the team's conclusions concerning the roadblocks impeding Western investment in Chinese businesses. It also provided the team with an understanding of venture capital, allowing for the smooth communication with Western investors, educators, and Chinese businesses that was used to verify the team's hypotheses.

While interviews are useful tools for inquiring about the effects of laws or cultural differences in specific cases, research through journal articles, books, and websites is more suitable for finding factual details regarding venture capital as a whole. This method of research focused on developing an understanding of the following three elements of the project:

1. The historical economic environment within China, and Hangzhou in particular
2. The causes of difficulty attracting Western Venture Capital to China
3. Approaches which have been taken to attract external capital to start ups and small to medium sized businesses in the past

By examining the literature, we were able to understand the main barriers to Western investment in Chinese businesses. However, a literature review itself has limitations. The data gathered can only be so up-to-date, and even reliable sources can have inherent bias or censorship. To balance these flaws and garner a well-rounded data set, we also distributed questionnaires to companies and met with representatives for interviews. We found there were gaps in the literature with respect to up-to-date significance of key issues impacting Chinese businesses and Western investors, such as the impact of the 2015 IPO unfreeze. These gaps were addressed in the latter portion of the methodology using interviews and questionnaires.

3.2 - Identify Western Preconceptions

To gain a better understanding of how businesses can attract Western venture capital and how 5CGroup can better assist their clients, we gathered real-world data through correspondence with businesses and industry professionals who have had experiences with Western venture capital culture. Afterwards, qualitative analysis was done to identify the challenges involved with investing in Chinese businesses and possible methods for conquering the challenges. In order to highlight the possible barriers in attracting Western venture capital to China, we investigated the preconceptions that Western investors have of Chinese businesses, and how these investors feel about providing capital to growing Chinese companies.

We emailed a questionnaire to Western investment companies and consulting firms in order to acquire up-to-date information on Western business' perspectives on venture capital investment in Chinese businesses. The Western investors were chosen through online research and personal networking, and were contacted during September and October of 2015. This online research consisted of searching the internet for reputable investment companies based in Europe and the United States, then contacting the company either via email or via the company's official website. A short questionnaire was emailed to fifty western investment companies identified through online lists such as Forbes' 50 Most Trustworthy Financial Companies and the European Securities and Markets Authority's comprehensive list of European Investment Firms. The data gathered from the questionnaire was used to verify the results of the literature review by seeing if there was overlap in the responses, or if any key ideas that were missed.

We also conducted proxy interviews via a personal contact with two representatives of CIT Group, a Fortune 500 American financial holding company, to expand on their questionnaire responses. These interviews were held with David Gibbs, directing manager, and Adam Seiden, a second year analyst. The representatives provided Western opinions on investing in Chinese SMEs and the investment process in general. In both the questionnaire and interview methods, the participants were asked the same series of questions (see Appendix A). The data collected from the Western questionnaires and interviews helped us understand what Western investors think of Chinese businesses and the investment process as a whole.

When attempting to achieve a wider range of responses, email correspondence was more fitting, as it allowed for the ability to contact investment firms which were representative of all Western countries, not just those nearby. However, in some cases emails can go unseen or be flagged as spam, reducing the response rate. In addition, many of the target firms were quite large and receive a large volume of email correspondence every day, and as such are not able to respond to every request. Therefore, the data gathered from the study is biased based on which companies actually responded. We sent out fifty emails to various investment and consulting firms and received a response from only two of those fifty companies, a response rate of 4%. The low response rate was not caused by the questionnaire itself, but by the inherent limitations of the distribution method and limited number of personal contacts in the industry.

To support the data received from the businesses, an interview was also held with Professor Gina Betti, the Associate Director of the Collaborative for Entrepreneurship and

Innovation at Worcester Polytechnic Institute's School of Business. Unlike the other responses gathered, an in-person interview was conducted instead of email correspondence or proxy interview, as it allowed us to ask follow up questions to gain a deeper understanding of the topics discussed. During the interview with Betti, we asked nine questions regarding business education and the Chinese economy, using WPI as an academic benchmark (Appendix D). Though the responses from Betti cannot be said to be the consensus among American intellectuals, they still allow for a better understanding of the Western educational and business perceptions of Chinese/Western investment interactions. The information gathered via interview confirmed and reinforced the data on Western perspectives gathered in the literature review and questionnaires to companies.

3.3 - Identify Chinese Perspectives

The final objective of the project goal was to determine the needs and experiences of Chinese businesses for attracting venture capital investment to their projects in China, with a particular focus on businesses in Hangzhou.

In a similar fashion to the questionnaire for Western investment firms, we provided a questionnaire via email to Chinese companies who have had experience attempting to attract external venture capital investment. The networking procedure involved reaching out to personal contacts at 5CGroup and Hangzhou Dianzi University, and asking if they were aware of any clients or local start-ups that would be willing to participate in an interview concerning their experiences in attracting outside venture capital for their projects. Through 5CGroup, the questionnaire was sent out to twenty companies, and full responses were received from eight. Additionally Nodir Egamberdiev, Vice General Manager of 5CGroup, was interviewed to gain a better understanding of the market and general business environment in China. The interviewed companies were all asked eleven questions that can be found in Appendix B. Follow-up interviews were also conducted in person with representatives of two of the questioned companies: Jingtian Chen, CEO of electric bike startup Letu, and Li Min, the CEO of Qiao Ai Culture Company ltd., translated by 5CGroup team member Yuzhou Feng.

The purpose of using this questionnaire was to understand the investment process from the perspective of Chinese startups. When constructing the questions, we made a point to not directly present the barriers to Western investment that we had identified through research. One of the reasons behind interviewing the Chinese companies was to see if those same challenges arose from their own experiences. As such, the questions used did not reflect the problems that were already identified, but asked the business representatives to identify the problems they believed were more important. In addition, the responses provide an answer as to whether or not Chinese startups are actively seeking Western investment, and if any are having problems acquiring financial support. Through all of the interviews and research, we were able to answer three core questions important for understanding venture capital in China and the West. These three questions are as follows:

1. Do Chinese start-ups want Western investment?
2. What are the problems preventing more Western investment?
3. What is the source of these problems?

3.4 - Develop Extended Summary for 5CGroup

When all elements of the analyses were completed, the final report was condensed into a ten-page summary of the current trends in venture capital between China and the West for 5CGroup's own use. The purpose of this stand-alone deliverable was to provide 5CGroup with a useful product which could help them acquire more Western venture capital by informing potential clients about the current market and nature of venture capital in China. The shortened length was meant to facilitate ease of translation and readability.

Due to the qualitative and subjective responses to all of the questionnaires and interviews, we carefully examined each individual response to see if there were any significant trends. Data gathered regarding the industry sector, country, and beliefs of the companies was investigated. Because the amount of responses was relatively small (less than 20 responses), we did not need to use any pattern finding software such as Weka to find trends, but instead used Excel to display correlations.

In summation, each part of the methodology individually contributed to strengthening our understanding of current trends in venture capital. The literature review and interviews identified the major issues involved with Chinese businesses seeking Western investment. The research also reflected the recent trends in the process of attracting venture capital for startups and small to medium sized businesses. The responses to the interview questions sent to both Western investors and Chinese startups were analyzed to determine if there are any correlations between a business that is successful in acquiring Western capital and the procedure it followed to acquire the investment. Our final deliverable to 5CGroup was an extended summary of venture capital trends in China and the West that 5CGroup can use to better assist their clients. The extended summary assists 5CGroup in attracting Western venture capital as it allows for an understanding of the main problems for Chinese SMEs seeking Western venture capital, the main inhibitions for Western investors, and the differences between what Westerners and the Chinese value as a good investment company.

4 - Results and Analysis

This section of the report describes the results and findings gathered through the literature review, interviews, and questionnaires. The overall goal of these methods was to gather relevant data that could be used to identify the major challenges involved with acquiring Western investment, as well as the possible solutions to the problems. We found that there were several challenges which impede Chinese SMEs from attracting venture capital investment from the West. These challenges are discussed first, and a series of recommendations to those challenges are subsequently proposed in the Conclusions and Recommendations chapter. The analysis includes an in-depth comparison of the results gathered from the various methods. Finally, overarching conclusions that can be drawn from the data gathered are presented.

Through a detailed review of published literature and peer-reviewed articles, we identified trends that allowed for a greater understanding of the barriers that stand in the way of Chinese SMEs seeking Western investment. These trends were then verified and confirmed through correspondence with Western investment professionals, scholars, and Chinese SMEs. One major underlying theme was an issue of trust between Western investors and Chinese businesses. The lack of trust was caused by the numerous challenges involved with the investment process. The challenges that were found take the form of five main problems: historical conflict, business culture, communication, laws, and the current state of the Chinese market. We formed the list of challenges by clustering related answers from the questionnaire and compared them with the data collected in the literature review and interviews. For a full list of responses in both Chinese and English, see Appendix C. What was made clear, regardless of industry, location, or stage of investing, was that all eight of the Chinese businesses that were questioned agree that there is a need to increase the amount of Western investment in China in order to bring in more contacts and a larger pool of capital. However, as presented in the pie chart below (Figure 1), only 25% had sought it, indicating a present and urgent need to tackle the problems identified and work on solutions for the future. As Chen said in our interview, “We have no chance. They want to [work with foreign investors] but cannot find a way, we don't know how to contact with outside investors.”

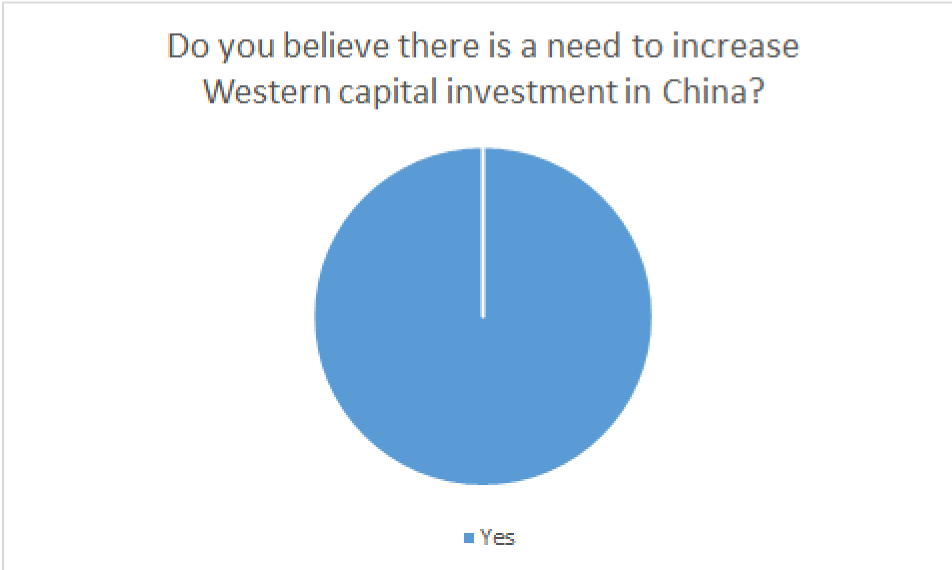

Figure 1 – Do you believe there is a need to increase Western capital investment in China?

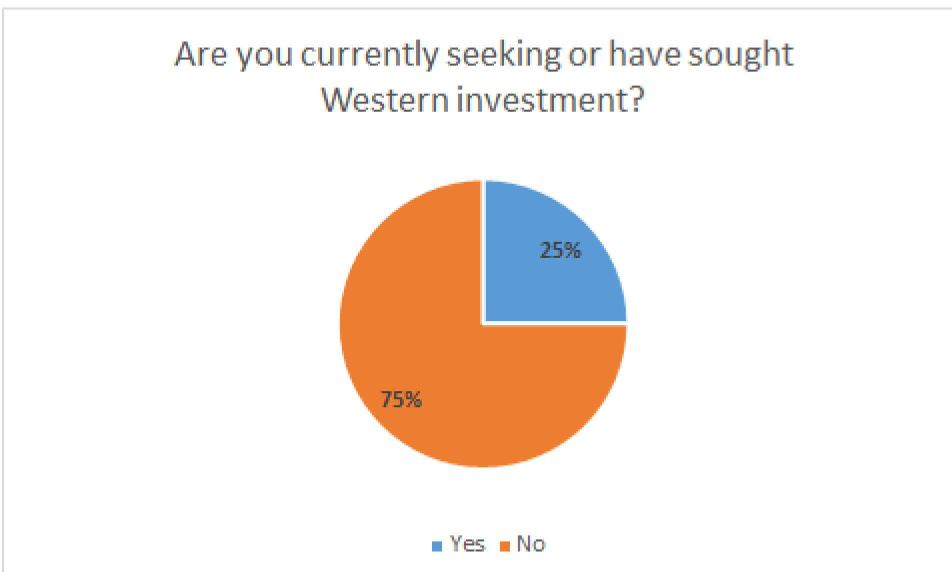

Figure 2 – Are you currently seeking or have sought Western investment?

4.1 - Trust

An underlying source of tension preventing Chinese businesses and Western investors from cooperating fully is a general lack of trust. We found that both Western investors and Chinese companies do not completely trust one another. In our interview with Jingtian Chen, he said that trust was one of the key problems preventing him from acquiring Western capital.

However, he was one of the only business leader and industry professional that cited mistrust directly as a barrier to their attempts to garner Western venture capital. In a majority of responses from both China and the United States, including those of Professor Gina Betti, Adam Seiden, and David Gibbs, trust was not cited directly, but arose as an underlying factor of other major issues which make investors and businesses wary. Furthermore, Nodir Egamberdiev, a representative of both Chinese and Western business experience, believed that trust was only an issue on the corporate level. He said in our interview that "on the government level, on the economy level ... the relationship between China and the West ... is quite stable" but "on the corporate level there are a lot of frictions." It is our belief that there is an unfounded prejudice among both parties which causes mistrust. As Jingtian Chen said, "because [I am] Chinese and [the investors] are foreign, why should I believe them?" This mistrust does not go as far as to halt business between the people, but it is enough to be a significant barrier to business.

A 2012 study produced by Pew Research Center found that 68% of the U.S. public believe that the U.S. cannot trust China "too much or at all," and that only 26% believe that China can be trusted "a great deal or a fair amount." Furthermore, the Pew study claims that of five expert groups of government officials, retired U.S. military officers, scholars, business and trade leaders, and news media professionals, 65% of respondents believe that China cannot be trusted. Mistrust causes numerous problems between investors and investees, from doubting the profit claims of Chinese businesses to a reluctance toward meeting or sharing information. Although investment in Hangzhou is greatly encouraged by companies such as 5CGroup, business will not occur in the absence of mutual trust.

We found that this mistrust of Chinese businesses by Western investors can be linked in part to the legal, cultural, and economic differences between China and the West. Trust is a major problem that arises from the other roadblocks. However, each subsequent factor has its own impact independent from trust as well. The impacts of these factors will be discussed in-depth later.

4.2 - Historical Conflict

Dating back to the Western expansion of the 19th century, China historically has held a significant amount of animosity toward the West, resulting in poor foreign relations between the two parties. Such hostility stems from a number of incidents, one of the most prominent of which being the Opium Wars that occurred in China during the mid-19th century. Described by Hanes & Sanello (2002) as “a dramatic narrative of power and corruption, of human frailty, greed, and stupidity”, the Opium Wars were fought from 1839-1842 and 1856-1860 after the Chinese government attempted to stop Britain's attempt to trade and distribute opium in China. Countless war crimes were committed, and the wars have since been described as “embarrassing symbols” of Western imperial domination in China and an example of how poorly the West has treated the East throughout history.

While the Opium Wars may have caused the Chinese to believe Westerners were a hostile people, the Cold War era resulted in Westerners developing a similar attitude towards the Chinese. During the Cold War, vigilance against communism had become a national priority for the United States, who had begun to enforce anti-communist and McCarthyian ideals through the public media (Whitfield, 1991).

After conducting our literature review, we postulated that this history of conflict between China and the West impacted business relations between the two parties as one of the significant factors impeding Western investment in Chinese businesses. However, we found that although this has been a roadblock for Western investment in the past, history is progressively becoming less of an issue as China transitions into a more Western economic model and as a younger generation of entrepreneurs enters the business world with a fresh view of international relations. The fact that our interviewees did not raise historical conflicts as an issue suggest that this is no longer an important issue.

As China continues to adopt a more capitalist economic model, the perspectives of Westerners are beginning to shift. In the aforementioned 2012 survey held by the Pew Research Center, 43% of Americans between the ages of 18 and 29 trust China a “great deal,” whereas a much smaller minority of older Americans trust China. This represents a significant social shift as younger Americans are less influenced by the historical tensions between China and the West and lack the personal context of conflict between the two nations. Therefore, the rising generations are more likely to trust one another and work together.

Through our research, we found that there are few recent sources which support the influence of historical conflicts. Also, historical conflict went unmentioned by the Chinese interviewees and questionnaire respondents, supporting the conclusion that it is progressively becoming less of a direct issue. The impact of the Cold War and other historical conflicts is becoming more and more insignificant compared to the other roadblocks, especially in the rising younger generation of business-people who claim they are 34% more likely to trust China, based on the Pew Research Center survey.

4.3 - Business Culture

In addition to preexisting conflicts, deep cultural gaps between China and the West directly affect the business relations between companies and their investors. Chinese business negotiations are generally based upon unwritten social rules, whereas Western businesses focus on specifically designed contracts that can be enforced under that country's legal system (Pukthuanthong & Walker, 2007). As found in our interviews, this fundamental difference in business culture not only leads to mistrust, but also influences business relationships, which can lead to misunderstandings with regard to the details of business negotiations. The results from our questionnaires and interviews also revealed that both Westerners and Chinese business representatives value the same traits of good businesses, things like teamwork, market positioning, branding, etc. We believe that any minor differences in values are trivial and that the critical cultural issue is *guanxi* and its relevant business practices.

Chinese business culture is based on *guanxi*, the network of relationships that a businessperson maintains within and outside their company. According to Pukthuanthong and Walker, Western investors in general have a poor understanding of how one must develop their *guanxi* to best suit both their investments and themselves. They also claim that investors must do extensive research into the *guanxi* of firms considered for funding in order to decide where to invest. This claim is supported by our interview with Nodir Egamberdiev, Vice General Manager of 5CGroup, who stated that *guanxi* can be the most important part of an investment in China; *guanxi* can sometimes be more important to acquiring investment than actual ability or potential profitability.

However, when a company's *guanxi* network does not include Westerners, it is difficult for the Chinese companies to acquire Western investments. As stated in our interview with Li Min, CEO of Qiao Ai Culture Company ltd., “the challenge, for this stage company, is the network. They have a very narrow network of investment, people investment community.” Similarly for many other Chinese companies, their network does not include Western investors.

It is simply far easier to use already existing contacts to get Chinese investors, who are within their network and share their ideals about *guanxi* and doing business negotiations.

There is an incongruity with regard to how Chinese and Western investors decide which businesses to invest in. In our interview with Jingtian Chen he stated that although Chinese investors put a large focus on *guanxi* and personal relationships when examining investment prospects, foreign investors are much more interested in the specifics of the business model. Without any Western contacts, it can be difficult for Chinese businesses to find, communicate, and work with Western businesses. Half of the interviewed companies stated that they had difficulty acquiring contacts or communicating with potential investors.

Although *guanxi* has many benefits within Chinese business relations, the unwritten and trust based nature can cause problems for both Chinese and Western business professionals, as described by Chen and Egamberdiev. Unlike with Western investment, Chinese investors give money without explicitly restricting what that money can or should be used for. The West has binding contracts with written instructions on exactly what the invested capital can be spent on. Because of this, Westerners trying to invest in China might not be confident that their money will be spent in the way that they want it to. In the interview at Qiao Ai Culture Company, Egamberdiev spoke for Li Min stating "There's a lot of suspicions when it comes to the [Chinese style] [Chinese style] investment, because it becomes a lot more of human factor, not the business factor." On the other hand, as mentioned by Betti, Chinese businesspersons often feel overwhelmed by all of the restrictions and choices forced on them by American society. Overall, there are large differences with how negotiations are conducted and comped in Chinese and Western cultures.

In addition to the large differences in business culture, there exist differences between Chinese and Western businesspeople when it comes to their way of thinking. One quarter of the Chinese companies questioned said that the biggest barrier working with Western investors was the differences in the way of thinking. These seemingly minor incongruities, such as how a meeting is held or how a presentation is constructed, can have substantial impact on how two parties perceive each other and whether or not a deal is made. As shown in the pie charts below (Figure 2), of the Chinese companies interviewed, 75% responded that there are significant cultural barriers in acquiring investment, and 75% also responded that culture or way of thinking is one of the largest barriers when it comes to working with Western investors. This same sentiment was expressed by Betti, indicating that this hurdle affects both sides; cultural differences are major roadblocks for both Chinese companies acquiring investment and Western investors looking for investments.

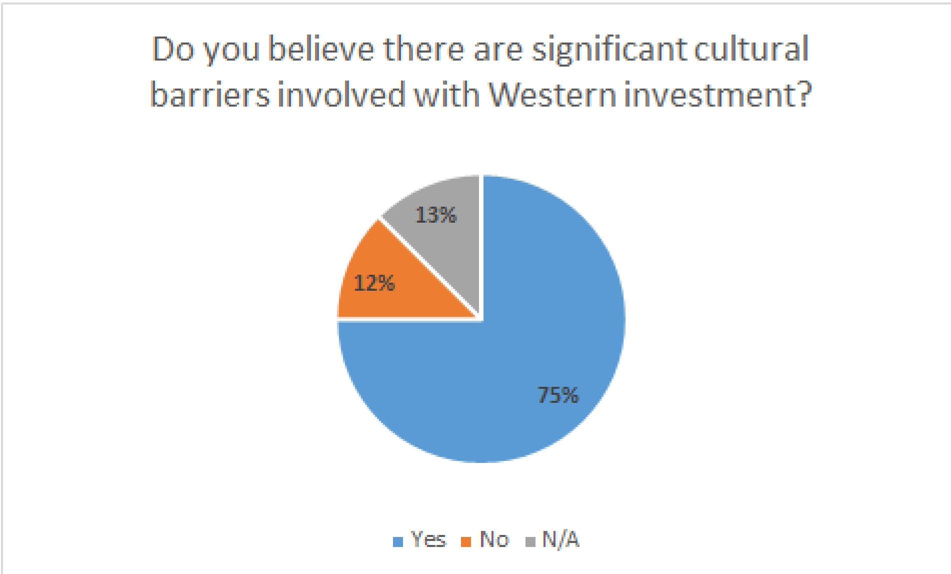

Figure 3 – Do you believe there are significant cultural barriers involved with Western investment?

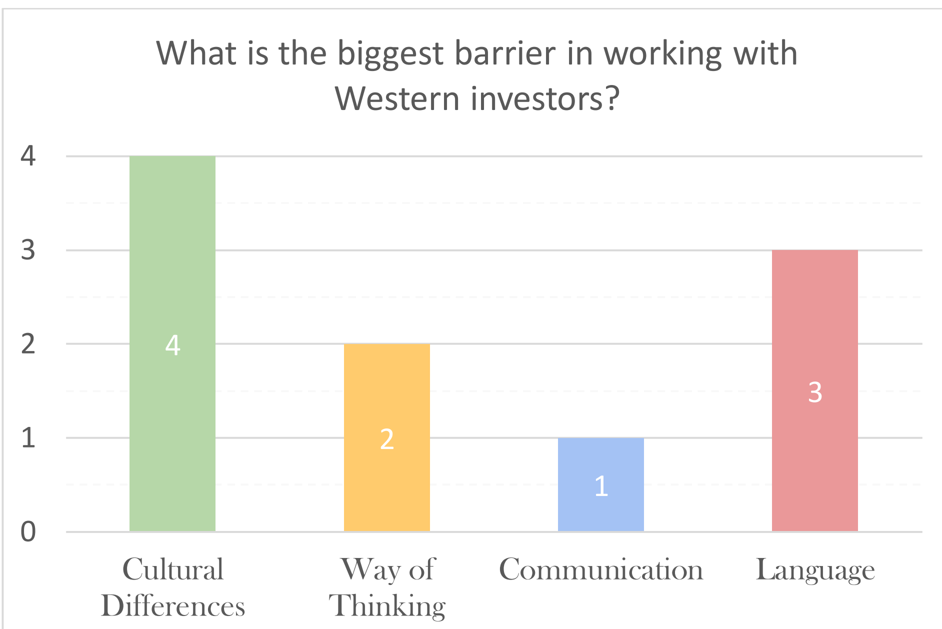

Figure 4 – In your opinion, what is the biggest barrier working with Western investors?

4.4 - Communication

Another factor inhibiting Western investment in China is the general lack of communication between the West and China. We postulate that this factor consists of three different but interrelated communication challenges: the inherent language barrier that exists between China and the West, the physical distance between Chinese businesses and possible Western investors, and Chinese business practices which involve the withholding of information.

The majority of business in the United States is English, while the majority of business in China is conducted in Mandarin Chinese. According to Harzing & Feeley (2008), international business communication relies heavily on a “shared language,” a common context in which all international business relationships should be held. Percy Barnevik, former CEO of the Switzerland-based ABB Group, identified the lack of such a language as his company's “single most severe operation problem.” Half of the questioned Chinese companies also cited language as one of the greatest challenges in working with Western investors. In the context of Chinese business, overcoming this barrier can seem especially difficult, considering most Westerners are not familiar with Mandarin Chinese. On the other hand, both Betti and Chen claim that since translators, both human and electronic, are readily available, the issue of language is no longer very significant. In our interview with Betti, she believed that “the language is not a barrier because there are technologies that translate. Google translates for you, you can hire a translator.” Similarly in our interview with Chen, he argued that “the problem is not English, because you can find so many Chinese guys who can speak English in China right now... the problem is like, the way to communicate, or to find the foreign investor.” From this, we believe that language is a deterrent to initiating contact and finding investors, but it is not a particularly significant factor preventing or inhibiting communication once contact is established.

The second significant difficulty involved in communication is the distance and time required to travel between China and the West. Betti remarked that a significant factor in the decision to invest in a specific company is the ability for the investor to monitor their investment to ensure its success. In addition to monitoring an investment, forming strong relationships with business partners is also important to ensure success. Both asset monitoring and the formation of *guanxi* are made difficult by the distance and travel time between investor and investment. Although video calling is becoming more commonplace for long distance business meetings, it has yet to fully replace all of the benefits of an in-person meeting or presentation. As it is inconvenient to repeatedly travel between China and the West or permanently station an investor in China; many investors prefer not to engage with businesses that they cannot adequately monitor. As stated by Betti, it is "just a matter of organizing and communicating what is available in terms of investment opportunities" and "being able to meet face-to-face whenever possible to go over what the opportunities are."

Finally, China's private, or even secretive, business culture has made it difficult for Western investors to gather the information needed to safely invest in the Chinese market. According to Seiden, information is "one of the most important factors when it comes to making an educated investment." However, Egamberdiev claims that information is not as important to Chinese investors. Simply put, Chinese investors care more about who is investing in the company and what their reputation is rather than all the statistics surrounding the company's profitability. As a result, China's trend of withholding information from the public may not impact Chinese investors much due to the investing culture, but has led American investors to be wary of investing in Chinese firms.

Overall, communication is a definite barrier when it comes to connecting Western investors with Chinese companies. The Chinese business must have contacts that it can trust and effectively communicate with in order to secure an investment. But even more importantly, Western investors must be assured through concrete facts and statistics that their investment is going to the best company and is being used in the right way. By meeting in the middle, the two sides can work together smoothly, although compromises must also be made when it comes to both countries' legal structures.

4.5 - Laws

The next major challenge to attracting Western capital is the legal system in China. We found that Chinese law is a problem for many Western investors due to its unfamiliarity, lack of regulations, and instability, while simultaneously interfering with business operations. In our interview with David Gibbs, directing manager of CIT group, he stated "there are different regulatory, political, and legal structures in place there so it is difficult for American investors who have little knowledge of those different systems to invest."

On a national scale, China's legal and economic reforms since 1979 have caused institutional changes that have paved the way for modern business (Child, 1994). Especially in recent times, business laws are changing relatively quickly due to China's modernizing legal and economic standards. According to Gibbs, many American investors do not invest in Chinese startups because they do not understand the legal structures in place. As Jiang (2006) points out, “dramatic policy shifts by the Chinese government can suddenly transform the business conditions” that a manager operates in, and that “it is not surprising that North Americans have had problems when doing business in China.” Jiang and Gibbs claim Americans and other Westerners do not want to take the time and resources to understand the current legal structures, which will inevitably change, in order to invest in what is already a relatively risky investment. In addition, the investors have to fully understand and cooperate with their own country's laws as well as China's, which can limit the amount of opportunities to make a profitable, trustworthy investment.

Unlike most Western countries such as the United States, China does not have laws which enforce businesses to publicize their reports on annual growth, sales, and other figures used to describe a startup business. According to Mallin & Rong (1998), “the whole concept of corporate governance and reporting as it is generally perceived in the West, is probably not well understood in China.” Without stable laws or laws enforcing the release of key information, many Western investors would be uneasy sending capital to Chinese businesses.

Western venture capitalists must also be aware of how government intervention may affect their interactions with the companies that they invest in. Chinese companies have to work directly with the government, and Chen and 25% of the questioned companies claim that government regulations can hinder the investment process. Steinfeld (1998) claims that this intervention is caused by the government's fear of social instability developing as a result of the shrinking state sector combined with a large, increasing population, potentially resulting in a rise in unemployment. Bruton, Fried, Manigart, & Sapienza (2002) extrapolate that this fear tends to result in overproduction and over-hiring which Western investors must take into account. Western venture capitalists often struggle to achieve the same level of success with Chinese investments that they do with Western investments because the cultural environment and need for broad networks is different from that of the West.

In addition, the loose enforcement of intellectual property laws in China makes it difficult for investors to ensure that innovative concepts or technology will not be immediately reproduced and pushed out of the market by competing products. In 2001, China was recorded as having a 92% software piracy rate, caused largely by the fact that personal computer malls across China sell their products with pirated software pre-loaded on their systems (BSA, 2002). In addition, Baidu, China's most used search provider, has been flagged by the US as a “notorious pirated goods market” due to the number of piracy websites it includes in its search results (“US says China's Baidu is notorious pirated goods market”, 2011). In recent years, piracy still accounts for almost half of the consumer market. According to China's Xinhua newspaper, over 40 percent of goods sold online in China in 2014 were either counterfeits or of bad quality (Song, 2015). Wang (2004) attributes China's pirate culture to the “inability to create a multi-dimensional, all-around deep understanding of intellectual property protection”, as many Chinese citizens are not aware that piracy is illegal and continue to make a living selling pirated goods. It is this tolerance and lack of awareness that causes investors to fear that their investments might be reproduced or pirated, thus resulting in a lower return on investment.

4.6 - Market

The final roadblock that we identified from our data is the Chinese market itself. General market instability and government involvement such as IPO freezes are clear hurdles that Western investors must take into account, however the situation as a whole does seem to be improving and does not pose as much of a problem as the prior issues.

The Chinese stock market crash in 2015 disrupted the upward trend in the market that had begun in 2011. The MSCI China Index had steadily increased since 2011, but became stagnant in mid-2015 (MSCI, 2015). According to Gibbs, the fact that the market had slowed so much caused many investors to turn away from Chinese investments. Nonetheless, Chinese small businesses can display their success to investors, claiming 39.6% higher average growth from startup and growth stages than their US counterparts (Cumming, Firth, Hou, & Lee, 2015).

In addition to the slow market, Chinese freezes on all Initial Public Offerings throughout the country in 2012, and again in January of 2015 following the stock market crash, make investment in Chinese businesses both difficult and unappealing for Western Investors (“China Freezes IPOs in Attempt to Stem Stock Market Bleeding”, 2015). The freezing of IPOs supports Adamski's (2015) claim that the legal framework for venture capital in China through initial public offerings is flawed. He believes that “the party-state's incremental implementation of convertible preferred stock provisions reflects Western expressions of economic autonomy while also reflecting counteracting socialist goals of state supremacy," and that the incremental approach is better than simply copying the methods in place in the United States. Even though China is adapting many of its policies to be more like Western nations, the Chinese government is still impeding the ability for international business to be done freely through IPOs because this type of investing is fundamentally against the social goals of the state.

Egamberdiev claims that the Chinese economy as a whole is advancing. For the early part of the 21st century, China was seen as the manufacturing center of the world. However, it is slowly losing its advantages in markets like textiles and electronic manufacturing to other countries in South East Asia. Instead, China is now focusing its legal and economic policies on transitioning itself into a knowledge-based economy, as opposed to a value-adding export economy. Exports are losing their value in China; businesses based on the old ideology are not as profitable as they once were. Currently, China is in flux and the market reflects its instability. Nonetheless, as China moves forward with a more modern, independent economy, it will be able to flourish under its own power.

China's recent economic troubles will improve as the economic fluctuations settle. Chinese companies have already begun meeting the needs of the new knowledge-based market. This is supported by the fact that China is home to many new, successful companies, such as Tencent, Alibaba, and Wahaha. In addition, policies have been put in place over the past few years to help stabilize and grow the economy. Although economic instability and limited growth at this time are unavoidable and inevitable given the current state of the market, we believe that the hindrance of the fluctuating Chinese market will become less important as China continues to invest in infrastructure and move towards a knowledge-based economy.

5 - Conclusions and Recommendations

In this chapter, we give final conclusions on the data gathered from our interviews, questionnaires, and literature review. Based on these conclusions, we then give our recommendations on how 5CGroup can improve to better assist their clients in attracting Western venture capital.

All of the Chinese companies that were questioned believed that there is a need to increase Western investment in China, but only 25% of these companies were actively seeking capital from Western investors. As stated by Jingtian Chen, “[We] have no chance... [We] want to, but [we] just have no way [of attracting Western Capital].” This indicates that an outside party, such as 5CGroup, needs to start the process of bringing in Western investment, as it is clear that Chinese companies want to work with Western investors but do not know how to attract them. 5CGroup is currently working on projects that will assist their Chinese clients, such as a complete overhaul of the company website. The new 5CGroup web platform will allow for investment seekers to post projects and ideas that investors will then be able to peruse and, if interested, pursue. This will greatly ease the difficulty of initial contact between Chinese companies and Western investors, but on its own will not help with anything before or after first contact, at least not without 5CGroup's further assistance.

Trust is the underlying barrier to Western investment in China that we found from our data gathered from our questionnaires and interviews. In the questionnaire responses, all businesses identified communication, business culture, and way-of-thinking as the most important sub-issues of trust, providing clear targets for 5CGroup to focus their efforts. Two other proposed hurdles, the current state of the Chinese market and historical conflict, were found to be less of a concern as they are progressively becoming less significant in the minds of investors. China and the West will each require somewhat different assistance, as they do not perceive exactly the same issues.

As found through the questionnaire, Chinese and Westerners alike heavily value market positioning, planning, research, reputation, and team building. As Egamberdiev pointed out, the West and China work well together on a macro level; the governments cooperate and historical conflicts are not a major concern. Instead, the conflicts arise at a corporation level due to interpersonal issues such as *guanxi* and communication barriers. Since *guanxi* is so important in China, it is crucial for Chinese companies to be able to communicate directly with potential investors, not just see a block of text or some statistics one might find on a company's website. If 5CGroup can establish itself as a reliable and trustworthy middleman, their recommendations might make Chinese businesses more willing to work with a foreign investor despite being unfamiliar with them.

As pointed out in the interview with Li Min, as long as there is an investor, she as a Chinese businessperson does not care where they come from. For the most part, acquiring investment in China from Chinese investors is easier than with foreign investors. Obviously there are more Chinese investors in China than foreign investors, but there are legal, economic, cultural, and geographic barriers that are keeping Western investors out. As a result, it is common for Chinese companies to avoid Western investment outright as it requires more effort with little perceived benefit. However, there are many advantages to Western capital. If 5CGroup can amass a large pool of contacts from the West who are interested in working on Chinese projects, they could distinguish themselves from other consulting groups. The Western investment style also has advantages, such as clearer business terms, more emphasis on the business concept and its profitability, and a faster investment process overall. 5CGroup, by working as a middleman between the West and China, can bridge the cultural and legal gap and bring Western investment into China.

On the other side, Western firms have several major reservations regarding investment in the Chinese market. Although many do view China as a rapidly expanding and innovative marketplace, issues such as the stock market crash in 2015 and the loose enforcement of intellectual property laws have resulted in a severe reluctance towards investing in Chinese enterprises. Additionally, Western investors want to be able to keep close tabs on their assets and be sure that their capital is being utilized properly. Trust must be well-established through the company's corporate image, making it clear to clients that investment through 5CGroup is both safe and manageable.

In order to address the roadblocks discussed in this report, we have created a set of recommendations for 5CGroup to assist them in attracting Western venture capital for their clients. The recommendations fall into three categories: web platform, corporate media, and partnerships in international business sectors.

5.1 - Web Platform

A trustworthy corporate image for 5CGroup can be achieved via improved marketing tactics, starting with the continued development of their website. 5CGroup is currently in the process of developing a new web platform to connect investors with projects to invest in, providing detailed information and business data concerning the projects of their clients. Currently, the company's website is unintuitive, based on outdated website design principles, and should be updated to promote 5CGroup's reputable image. It is important to ensure that the content of this platform is the same across languages to promote trust and communication between investor and investee. Furthermore, the platform would benefit greatly from an actively maintained and monitored web forum to answer questions and keep open lines of communication between 5CGroup and their clients.

In addition, the website should clearly outline the different business, legal, and cultural assumptions in all relevant countries and regions. Ease of access to information regarding foreign laws and government regulations would make foreign markets much more attractive to investors. Although *guanxi* might always be more accepted in China than binding contracts, understanding other business practices is crucial for companies doing international business. The challenge of cultural differences can only be solved if Westerners and Chinese alike are both willing and able to compromise with each other.

5.2 - Corporate Media

With this improved web platform, 5CGroup's corporate image could be communicated through videos and other media to provide a more human, personal connection to the company. More than just updates on 5CGroup's clients, the data presented on the website should give visitors a full picture of who 5CGroup is, what they do, and what they stand for. In order to pull in new contacts, investors, and clients, 5CGroup will need to be more active in the promotion and marketing of their corporate mission. This could be achieved in part through these kinds of corporate media, translated into multiple languages to reach out to global partners. During this marketing campaign, 5CGroup should emphasize that it can appeal to and operate with both Chinese businesses with *guanxi* and Western investors with contracts.

5.3 - Partnerships in International Business Sectors

Seeking partnerships in major international business sectors with investors and consulting firms would supply 5CGroup with an extensive global network that would increase their global name recognition. New clients would be able to supplement their own *guanxi* network with that of 5CGroup, making it significantly easier for investors and companies to interact, greatly reducing the communication roadblock. In addition, this network would give insights as to how the regulatory and investment processes work for various foreign countries, since most government agencies all have their own procedures and criteria for giving loans, loan guarantees, and grants (Ding & Zhang, 2009). 5CGroup can use this knowledge to improve their decision making process when determining which small businesses to fund and advise. By using other agencies' processes, 5CGroup can in turn make their investments more profitable, lessening the need and urgency for more Western capital.

Furthermore, these global partnerships should be established with investors and other consulting companies that have experience working in Hangzhou's rising pillar industries: e-commerce, food processing, and organic agriculture. This would allow 5CGroup to target Western investors with experience and expertise working with projects related to the industries which are expected to grow exponentially in the future. In doing this, 5CGroup would position themselves as a leading consulting firm for Hangzhou as these economic sectors grow and flourish.

This recommendation is in line with the general trend of the "Online to Offline Paradigm" which is working in both China and the West. The general idea is to have partners in different geographic regions of the world to take advantage of the key resources of each place, both physical and intangible, to better serve the customer. This strategy replaced the outdated idea of satellite offices, whereby a physical office is needed to be built. By partnering with other companies, 5CGroup would be able to expand their sphere of influence, physical resources, and network all across the globe without expending unnecessary capital.

5.4 - Limitations of this Study and Suggestions for Further Study

Throughout this study, a few limitations and targets for further study became apparent. These could be addressed in order to gain a better understanding of the future of venture capital investment within Hangzhou and the specifics of garnering Western investment in particular.

The limited number of businesses that we could contact was a limitation during this project due to factors such as time restrictions, limited knowledge of the area, and lack of willing contacts. One of the main elements of further research should be to gather a larger and more precise data-set by communicating with a larger pool of businesses who have sought Western venture capital.

Furthermore, we attempted to conduct one interview in Chinese, so that the interviewee would not be restricted by their knowledge of English. However they were not satisfied by the translated transcript of the interview and retracted their statements. In the future we recommend that interviews be conducted either in English or with an on-the-spot, official translator, to avoid any possible difficulties.

It may be useful to have more research specifically focused on each of the outlined rising pillar industries in Hangzhou to determine exactly how to best attract foreign investors with experience in each of those areas. Research should revolve around the state of these industries globally and what successful businesses in these sectors have had in common in other locations. Through this research, 5CGroup would be able to better target their efforts to seek funding for the industries which expect the most growth in the future.

One other possible area for future investigation would be the possibility of collaborating with local universities to establish a program by which student entrepreneurs can work with 5CGroup to grow and seek external financing for their projects and businesses.

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Appendix A. Questionnaire for Western Consulting Firms

1. What distinguishing qualities or features you feel makes a business a good investment?
2. Has your firm or business ever invested in the Chinese market?
3. Do you believe, on the whole, that Chinese start-ups exemplify the aforementioned qualities as compared with their American counterparts?

Appendix B. Questionnaire for Chinese Businesses

1. What industry is your company in?
2. Where is your company based?
3. What stage of financing is your company in?
4. What do you believe makes a good company to invest in?
5. How does your company exemplify the traits of a good company for external investment?
6. Do you believe there is a need to increase Western capital investment in China?
7. Are you currently seeking or have sought Western investment?
8. If yes, what difficulties did you experience with this process?
9. In your opinion, are there cultural barriers in acquiring investment?
10. Has the process to acquire investment changed in recent years? If yes, how has it changed?
11. In your opinion, what is the biggest barrier working with Western investors?

Appendix C. Questionnaire Responses from Chinese Businesses

Questions	Response1	Response2	Response3	Response4	Response5	Response6	Response7	Response8
what is the name of your company and what industry is your company in?	sales	costume design	electric cars	creative design	brand marketing	software development	industrial	culture
where is your company based?	Hangzhou	Hangzhou	Hangzhou Xiasha	Hangzhou	zhejiang xiaoshan	Hangzhou	Hangzhou	Shanghai
what stage of financing is your company in?	not financing	angel investing	early stage	angel investing	free financing	angel investing	angel investing	not financing
what business characteristics do you believe makes a good company to invest in? how does your company exemplify the traits of a good company for external investment?	positioning,planning, value	market positioning+ planning+market research	brand recognition, maximization of economic goals and benefits	team, problem solving	teamwork, creativity, design presentations	teamwork	concentration on essentials, teamwork, toughness, insights, exercution, and energy	brand recognition, maximization of economic goals and benefits
do you believe there is a need to increase western capital investment in china?	yes	yes	yes	yes	yes	yes	yes	yes
are you currently seeking or have sought western investment?	yes	yes	no	no	no	no	no	no
if yes, what difficulties did you experience with this process?	view of value	cultural differences	writing	resource channels	communication	resource channels	n/a	n/a
in your opinion, are there significant cultural barriers in acquiring investment?	yes	yes	yes, communication	no, perceived cultural barriers related to media	n/a not financed so far	yes, collaboration due to cultural differences	yes	yes, government
has the process to acquire investment changed in recent years? if yes, how has it changed?	immature market	no	virtual, not physical assets	no	market fluctuates, evaluation process changes market absorption capacity and evaluation	no	no	yes, government regulations
in your opinion, what is the biggest barrier working with western investors?	way of thinking	way of thinking	language, culture	communication	cultural differences	language	cultural barriers	language, cultural barriers

Appendix D. Interview Transcript with Gina Betti

Conducted in the Hagglund Room of the WPI Campus Center
Worcester, Massachusetts
October 14, 2015

Question List

1. Have you ever had any Chinese students come to you looking to start a business? What were their strategies? Were any of them business majors?
2. Has American ever issued an IPO freeze? What effect does this have on the market?
3. Chinese have been known for poor enforcement of IP law. What actions would you say China needs to take to cultivate innovation?
4. What are the biggest selling points investors look for when making an investment and why?
5. Do Western investors generally invest in foreign countries or are most investment firms specific to the nation they are in?
6. Would you say language can act as a barrier between business partners?
7. Would you say that Western investment strategies, such as accelerator programs and investment clubs, are an efficient way to secure funding? What is your opinion on them?
8. What are your thoughts on innovation zones, both in China and their counterparts in the United States?
9. Why would you say major "startup cities", such as SF or NYC are successful at fostering startups?

Transcript

BETTI

Okay, so I'm Gina Betti and I'm the Associate Director of the Collaborative for Entrepreneurship and Innovation for 15 years here at Worcester Polytechnic Institute and it is October 14th.

NICKERSON

Okay, so have you ever had Chinese students come to WPI looking to start a business? What were their strategies for getting up and running? Did they wish to stay here? Did they go back to China? How successful were they?

BETTI

I can tell you that we have a number of Chinese students that come to the entrepreneurship program here and also enroll in the entrepreneurship courses. They're very interested in starting businesses in the United States. They're very interested in the "how to do that" aspects. They put together either a business model canvas or a business plan and they bring it to us and we provide mentoring services to help them refine their ideas so that they can go out and talk with potential customers and then we ask them to check in with us after we set some milestones. We like them to be on a timeframe so that we see that they're making progress in the right direction. Or, they may learn they need to pivot and go in a different direction and we help them figure that out. Most of the students would like to stay in the United States when they start a business. I am not aware that there are a lot of success stories to share at this time. Students do, because they're foreign, need to go out and get work experience related to their area of study, so that is a barrier for them to work full time on a venture, which, if you're trying to launch a company, is very time consuming, so it can be very exhausting and can wear anybody down, whether you're American or Chinese or Russian. We have served a great diversity of students here that are international and they do desire to stay in the United States and start a company.

NICKERSON
Anyway, and you said America has not issued an IPO freeze.

BETTI
Not that I'm aware of, I'm not an expert.

NICKERSON
Right, and I mean, we can always research that. So China has been known for re-engineering products that currently exist and have proven to be successful. What would you say would be the next steps for China in terms of fostering more innovative products that aren't modeled as heavily off of what is currently in existence?

BETTI
Well, I could say that they could begin by looking at the American model of education from kindergarten through 12th grade, and then at the university level. Very hands-on approaches are typically used in American education systems versus pure lecture, so I think looking at different types of education models, but then you run into barriers of these teachers maybe not wanting to change the way they have been teaching for a long time, perhaps even a lifetime. So, that's one way. I think another way we could stimulate innovation would be to reward risk taking. It requires society accepting failure as something that's not bad for a venture, so someone who starts a venture and does not succeed the first should be encouraged to try again and should not be looked down upon for the efforts that they tried. And then, I think, creating favorable business environments for businesses that perhaps can spin out new ventures and receive support from the government at large. Then the government within the city or the region, to stimulate this type of activity, could provide rewards for those companies that can innovate and give them perhaps a tax break or some kind of recognition by the media for their efforts and make it a rewards system. You have to find out what's rewarding to them. That's a cultural thing, what makes one person feel very proud is very different from country to country. So figuring out a rewards system and how to implement it is very important.

NICKERSON
The next question is what are some big selling points for investors looking to make investments and what are deal breakers for investors when it comes to investing in a new venture?

BETTI
It depends on if it's an early stage or seed investor, which is very low amounts of money, and typically very high risk, but they know that going into those deals. Or, if it's a venture capitalist or venture capital group that has tens of millions to go in they generally take less risk in a venture, so if we're talking about early stage investment we're looking at the quality of the idea or if they've got a quality prototype of they've got some customers, some early customers, that's very attractive to an investor. A good solid team of founders is very important because investors typically invest in the team and then again how much momentum you have in terms of customer adoption of your technology or product or service. And then again, the other attractive part of the investment is the market and how much is accessible for the particular product or technology or service that the new company will be providing.

NICKERSON
Great.

BETTI
Deal breakers would be the opposite.

NICKERSON
Yeah.

BETTI
So small market, niche, poor team, poor execution, no customers, can't make a great pitch. I mean, some of those are obvious-

NICKERSON
Right.

BETTI
- And don't need to be further explained.

NICKERSON
(Laughs) Just watch Shark Tank.

BETTI
Yeah, just watch Shark Tank. *(Laughs)* Be Kevin O'Leary.

NICKERSON
So, do you, actually, I think you said you would need to research this, if Western investors typically invest in foreign or if their investments are generally local to the-

BETTI
Are you talking about venture capitalists and angels?

NICKERSON
Ah, yes, more or less, so like-

BETTI
Yes, there are some investment firms that have invested overseas. I would need to do some research on that. I know that one of them is in Boston and I'm sure more on the west coast because they're closer. That's six less hours in the air from San Francisco to over China than it is from Boston. So yes, and I will state again that there are a lot of immigrants that come here and are either founders or cofounders of companies that United States venture capital firms and angel groups have invested in, and there is a pretty good size percentage of their portfolio where there is an immigrant that is a founder or cofounder.

NICKERSON
Um, and I think the case with most of those, for the most part, I mean from what I've seen, is they come here and develop companies that generally stay out in California or Boston, and local, and what we would be going after with this project is convincing Western investors that like, [this is] a poor example, because I think it strays slightly away from the kind of people that 5CGroup works with, but if we said there's a music app that just launched in China and it's only accessible to Chinese people, and talk to a Western or West-Coast investment firm saying "Hey, you guys should invest in it." Are things like that common, in which you'd be investing in something that would stay local to a separate country?

BETTI
No, because, I think that's fine. I think there's a lot of Chinese population, more than we have, so there's more opportunity there, more problems to solve, more customers potentially to gain. It's a very young country. They are very forward-thinking. They want these technologies, especially the younger Chinese population, so I think there are a lot of opportunities there. It's just a matter of organizing and communicating what is available in terms of investment opportunities, and I'm not sure that has been done to best of possibilities for others, outsiders, to learn. The way that that is done is you pick up the phone or email and you communicate, so it's

really strong communication skills and being able to meet face-to-face whenever possible to go over what the opportunities are. Also, you're going to find venture capital firms, again, on the west coast that are probably more interested than venture capital firms on the east coast. Or hedge funds, they're another investment group. So it depends again on the level of investment that is being sought and the types of companies that are seeking investment capital and if there are middle men that are taking a share, like they may be taking 25 or 50 percent of that investment as a fee. I don't know how they do these transactions in China so it would be important to know that and to disclose what's accepted in that culture to outside investors so they understand what they're going into before they make these commitments.

NICKERSON

And that kind of leads into the next question which is how big of a barrier would you say that international business language and regular language plays in business relationships, so Chinese men versus-

BETTI

Again, the language is not a barrier because there are technologies that translate. Google translates for you, you can hire a translator. It's not the language that's the barrier because the real barrier is what is done in execution. If it's not followed to the contact or the agreement then you run into issues there, and that's not a language issue, that is an attitude issue. So whether or not you've conveyed every, you know, you've dotted all the I's and you've crossed all the T's, and both parties are in agreement and you've got a contact and it's got a deadline and that deadline passes, what are you going to do about it? That wasn't the language that was the barrier. It comes in the execution. So again, that goes to cultural roots and their customs and their expectations in the country that you're going to be investing in. You've got to have an understanding of that going in and not have surprises coming out.

NICKERSON

Alright. So switching to Western investment strategies, or mostly Western, there are some in Asia, what are your opinions on accelerator programs and investment clubs? Do you feel they're an efficient way to get startups off the ground or are there things or techniques that could be used to improve the efficiency of these programs?

BETTI

No, I think the accelerator programs that have a curriculum are very good and I would not include co-working space as one of those types of environments where you go to start a company. I think the accelerators that have a track record are important to explore and look at, what is their model of getting these companies out the door? They actually take off inside the accelerator and they don't grow enough to leave. If that's the case, and you're in an incubator for three years, you may not succeed in that fourth year if you leave that incubator space. So you need to have very well-established incubator and accelerator curriculums and processes that work to get those new companies out the door.

NICKERSON
And-

BETTI
And sustainable...

NICKERSON
Right.

BETTI
...on their own.

NICKERSON
Now, what are your thoughts on innovation zones? You said that there are some in America, although they go by different names. In China they're referred to as innovation zones. What is your opinion on those?

BETTI
Well, I don't know anything about innovation zones in China. I would need to do some research on that and find out what the purpose of them are, what the incentives are, and if there are any innovation zones that have proven track records, if there are innovation zones that have failures behind them. We learn more from the failures than we learn sometimes from the success stories. So I think they need to be researched and compared. I think that the model of an enterprise zone in the United States where the enterprise zone being where a company is given some kind of incentive to either stay there because of reduced taxes or more services, or maybe the city comes in and fixes up the streets, provides more policing, better lighting, then the foot traffic goes up and the business does better. Usually these are small storefront kinds of areas and they serve a very small part of the overall economy in the city. So again you have to look at the reason a particular area was chosen to be an innovation zone or an enterprise zone. In Boston, you see the seaport district where they've got all kinds of new companies going in there. I don't know if Boston provided tax incentives for them. They're called tiffs. They may have a new name today. That's an old term, tax incentive. So, well, I'm not quite sure what the seaport district has there but it's got some kind of appeal, because boy, I'll tell you, the cranes are putting buildings up left and right and there's a lot of new companies going in there. They're not all necessary startup companies, some of them are young companies, but they have momentum already. They've got customers, they're full steam ahead with operations. So, again, it's an individual city-by-city case and it needs to be researched in terms of how effective they are, and again, they may have

an entirely different mission and goals and objectives, so those have to be compared to determine whether or not those are successful.

NICKERSON

Alright, and the final question, which is, and I think this goes well with innovation zones, why would say major cities in America such as San Francisco and Boston and New York are conducive to entrepreneurship and startup culture?

BETTI

Well, I think they are because they have large populations, so again we talk about opportunities. If there’s no foot traffic, nobody’s going to stop in your store and buy the candy bars. So, these are areas where there are universities, there are venture capital organizations, there are accelerators and incubators, and there are favorable regulations around startups in all of these cities. So that is encouraging the entrepreneurship culture and innovation culture, and they get critical mass of people coming in, so it’s like contagion. It really works like a contagious disease does. It spreads. So I think because of the large populations, something maybe about the water, all of those areas have access to water. So who knows? Maybe it’s the ocean air.

Appendix E. Interview Transcript with Nodir Egamberdiev

Conducted in at 5CGroup's Hangzhou Office
Hangzhou, China
December 3, 2015

Questions List

1. What is your name and what is your role at 5CGroup?
2. The subject matter of our research consists of two sides, primarily China and the West. But as someone who's not originally from China, who is currently working in a Chinese company, do you feel you represent a third party? Do you identify with a certain side?
3. What is the ultimate goal of 5CGroup? What does it hope to achieve? What is its mission?
4. How do your clients become involved with the 5CGroup program? You had talked about redoing the website, for people who want to get involved and enter these markets. Do they just contact you and then you just freely work with them?
5. So do you think that the lack of, I mean clearly there's investment in China among Chinese companies, but do you think that the lack of Western investment is a very prevalent issue? And how do you think a rise in Western involvement in Chinese markets, or how do you feel a rise in Western involvement might impact the Chinese markets?

Transcript

NICKERSON

We'll start by, what is your name and what is your role at 5CGroup?

EGAMBERDIEV

Right, my name is Nodir Egamberdiev, and I myself am from Central Asia, as I mentioned, from Uzbekistan. And my role in 5CGroup is I work as the Deputy General Manager, and mostly I am responsible for undertaking projects, all projects related for this consulting company. So in this role I'm responsible with my team members, responsible for sourcing the projects, evaluating the projects, and of course looking for suitable financing for these projects.

NICKERSON

Alright so, the subject matter of our research consists of two sides, primarily China and the West. That's how we structured our whole paper. But as someone who's not originally from China, who is currently working in a Chinese company, do you feel you represent a third party? Do you identify with a certain side?

EGAMBERDIEV

You know, I had this feeling before, I think. I've been in China for five years now, and back when first I arrived in China I was working as a representative for Ansher Holding Company. Later on I was representing them in China also. At that time I was kind of feeling that I was representing a third party, no feeling, no emotion. But later on I realized, because of the proximity of Central Asia and then the history and background is more or less similar. And of course, given the business ethics and business style is a little bit different, between China and Central Asia. But now I'm kind of, more or less I feel that I'm more close to China than the West. But still, you know sometimes I feel I'm kind of on both sides. Why? The reason is if you go, if you happen to go to Central Asia you might find out that we're people who are striving more to the West rather than the East. So in that case, when it comes to my role, I think in my role I should not take a third position, as a foreigner. Why? The reason is if you're taking more of China's side you're forgetting about the Western side of business and how these people are thinking. Because the intuition, the behavior of people of a certain community, of a certain society, must be studied before you go. And as a consultant, because in the 5CGroup we're talking about being international consultants. So think about, you have a segment to another country, so when you leave your country to a third country, being a third party, definitely I think for some time you forget about all these feelings, emotions, kind of become like alone or isolated as a third party. But I think later on, when you're settling down more, you realize that you have to balance both sides. That's where you find your, like, I can say, the golden middle or win-win situation, for yourself actually, and for the work that you're doing. So in my case I think these five years were more or less enough to me to catch up with all of this, and try to balance myself on both sides. Yes sometimes more I go for West, sometimes more I go for China. Because some of these things you might find out in China, little bit not acceptable in terms of business ethics, and the West does not accept. But if you look from the Western perspective, you see actually Western perspective is saying the truth, that's how it should be. But then you try to find out, try to explain to both sides how this game should be played, and finally you find out, ah, okay, that's how it is. And then you come up to certain consensus and then parties start working out. Then you find out that you are a kind of, even if you are from third country or other country out of China, you are trying to play a role which makes people bond with each other, and that's, I think, what the true person or true consultant should be like. Because now everyone is talking about globalization, globalization. What is globalization? I mean, getting communities, getting societies, getting businesses to work with each other closer and closer, with no boundaries, okay. Everyday many foreigners are coming to China, many Chinese going to West. A lot of Chinese going to West. So how's it going to be at the end? So anyway they should have some sort of way of communication. That's why in the past, when we had this, when I first arrived in China as a representative, I was actually representing most of the Central Asian companies, okay? But then later on I realized, we need to study the Chinese demand also. Why these Chinese are not going? We put up our, you know, criteria. Central Asians companies they are putting up criteria for cooperation but Chinese are not accepting. So when you go back and put yourself into their shoes and you find out, oh, okay, actually the Chinese people are sort of also right, given their real situation. Then you go and start thinking about some sort of solution, to make this work happen. So later on I started focusing, you know, helping Chinese companies get into the Russian market. For the Russian market, again, the Chinese were close, I mean from the historical perspective. You have to think all about history, what happened in history definitely it will be tracking the present, tracking the future. That's how it will be shaping the generations. Now their relationship is good, they really want to go to Russia, but problem is okay, communication again. So that's where I start, you know, matching these people to each other. And at that time I was in Guangzhou, that's very south of China and all of this culture, history is most of the rare finance, trading, most specifically. So then I find out like, for the person being from other country out of China or out of West, bridging these people together is becoming, like, you have to be able to balance. Then you have to be, then you can arise as a consultant and achieve what you expect to achieve as a person and as a professional career. Okay?

NICKERSON
So what is the ultimate goal of 5CGroup? What does it hope to achieve? What is its mission?

EGAMBERDIEV
In my opinion, for 5CGroup, since we are already adjusted our moral to be in accordance with China's "One Belt, One Road" policy. So in my opinion the ultimate goal of 5CGroup would be being a global platform. Actually our vision, if you see our presentation, you will see we want to be global platform that will be matching East and West. So that's our, actually the ultimate vision. So given this vision, in fact, it's not only matching from the investment perspective, but rather in matching the people, matching the societies. Because once you go to overseas, given this "One Belt, One Road" perspective, most of the Chinese companies are not aware of the overseas perspective. What is the overseas country is expecting of them? It was a certain case last time I explained to you, a lot of Chinese companies are going to United States. They are failing on one side but winning on the other side, in terms of understand of the business ethics of a foreign country. Yes indeed, most of the Chinese companies are not that educated and they are not ready to cope with the business ethics in an overseas country. And it will happen and happen and happen. That's why I think the ultimate vision of 5CGroup should be, not only assisting a certain company, Chinese company to go overseas and find project and do this project and do investments, but rather educating these Chinese companies. Because once you start to educate these Chinese companies, definitely they will do more than investment. And in this case actually they will be more bonding at all levels, municipal level, the government level, and local level. So that the Chinese company going to invest in overseas and doing a certain project will be, people should find out, people in that country should find out like, okay, Chinese investments will bring not just the not just taking away kind of notion, but rather yes indeed Chinese and our country is being friendly, they are helping the investment, helping to promote and help us with the economy development. So ultimate goal should be for 5CGroup, again I say, to help the

Chinese companies in their overseas expansion, but at the same time educate these people, educate these, I would say, the CEOs of these companies, to give them the right direction and to build, not only in China but overseas, good companies, I mean new emerging champions. And definitely in that case, the companies from West still have a lot of room to grow in China. So once there are Chinese companies going overseas and they can find some good partners who can help to find some good partners, at the same time definitely we'll be working on helping Western companies to penetrate, continue to penetrate the Chinese market. There are a lot of opportunities in China that are not yet tapped. So by this, we want to be a global platform that will help Chinese companies entering the overseas and Western markets, and Western companies entering Chinese markets. By this not only helping with the investment, with the legal consulting services, but rather from the human perspective helping them to get along with each other, so that the economies of these two countries will have impact, I mean positive impact. And the people, local people, if they feel this investment is bringing value, the Chinese investment bringing value, or foreign investors feeling foreign investment is bring value to China, that's the core work we're trying to achieve in 5CGroup.

NICKERSON

Just quickly, how do your clients become involved with the 5CGroup program? Because I know you had talked about redoing the website and whatnot, for people who want to get involved and enter these markets. Do they just contact you and then you just freely work with them?

EGAMBERDIEV

Involvement with 5CGroup starts, actually, yes indeed now we are, the first thing is the place we are looking at is important, carries importance for us. Here, being located in Hangzhou, we are not sitting in downtown where it has a financial street, as I mentioned before, but rather we are more located in the economic zone, economic industrial zone. We are between, among these companies. We are one of these companies. We are one of these industries. And we're looking to these industries, how they're developing, and what issues they are facing, what problem they're facing. From this perspective, this helps us to have the pulse on our hand, to know how these companies are breathing. Now this is the first thing where they approach us. We are close to them so they can talk to us directly. Indeed we have strong cooperation with the local government, and we have our status within the local Hangzhou government so that different investment promotion events and this and that, every time they are there, we try to arrange ourselves these kind of promotion events. Now another thing is that we pushed so far since we changed our model to follow "One Belt, One Road", is to totally modify our website. Because making our website as the O-to-O model, so it's like online-to-offline, where we have, you see we are receiving a lot of investment projects from different parties in China, saying that, okay, they want to go overseas, they want to expand overseas. This is their criteria, this is their plans. A lot every day we receive. Now what we're trying to do is, we're trying to put up a platform, a unified platform where interested investors not only from China, but also from overseas, can put their projects and on the other side the investors can look at this. So the project owners and the investors can meet within the certain platform, within this 5CGroup platform, and definitely if this investor is interested we'd be very much happy to assist them, to have this all due-diligence regarding the project, connect this project, discussing the perspectives of this project if they are interested in investment, talking about the investment structure of this project. So we can say from A to Z the whole full package of services we will be ready to provide. That's why quite soon we'll be launching our new website where all of these issues will be integrated, and we hope that the vision that we're talking about, like having a global platform will be accelerated using our website.

NICKERSON

So do you think that the lack of, I mean clearly there's investment in China among Chinese companies, but do you think that the lack of Western investment is a very prevalent issue? And how do you think a rise in Western involvement in Chinese markets, or how do you feel a rise in Western involvement might impact the Chinese markets?

EGAMBERDIEV

That's a little difficult question, it depends on how we approach this perspective right? So far we can see that the emerging investment class in China, we'll call it the wealthy class, it accelerated so much, especially in the Zhejiang province. Every thousandth person has now, is estimated to have about one to two million RMB of personal income. So that means they are already kind of considered a wealthy person, a rich person right? And the Zhejiang province is one of the, I would say, SME bases. So it is a big nest for SMEs to grow, to develop, and to expand to overseas markets. That's why there's no doubt that the emergence of Alibaba started out taking root in Zhejiang province. Because even for that guy, when he moved to Ningbo and to other cities, when he started promoting these SMEs, he found not a lot of role. So now what we're talking about is, most of these starters, SMEs, who started their businesses back ten years ago, they are becoming themselves investors. They have their free capital to invest in projects, they're interested, they're looking for the projects. Now, on the other hand, we're seeing that the investment from the West will, in my personal opinion, the investment from the West is kind of reducing. But on the other hand we can see one, I can say, good aspect that China, the State Commission, they have Qualified Institution Investment Program, okay? So what is this? The Qualified Institution Investment Program allows overseas funds, allows especially the Western funds, to enter China. These funds, these investments, these institutions, I would say, they will be applying for this program. Once they meet the requirements for this program, they will be eligible to set up funds in the China mainland or targeting China. And then they can move their funds to China and they can start investing in the different projects, and they will be looking for different kinds of projects. Of course, it depends on their engagement industry, engagement focus, geography. I know some of the funds from the West, they only focus on central part of China, three or four provinces, enough for them. Because it depends on how you manage your portfolio at the end. Some of them they will be focusing on the southern part of China, such as Guangzhou or Zhejiang province. So it all depends on the investment policy of the fund. But talking about the rise of Western investment in China, I would say, I would accept it as a positive signal. Why? Because the investment institution began its development far, far back, earlier than in China. Now in China, with the development of this, definitely it will be following these Western policies. If you look to the Chinese investment institutions, they are adopting a lot of policies from the West. There's no doubt. Investment policies, how the investment funds should be run, because they are learning everything from the West. So I think the involvement of the West should be more in the part of the Chinese economy, but I think their involvement, they should think of the way, the right way that they get involved. Not like traditional way, okay, here we are, we are going to invest in China and this and that. I think that if there is a joining of hands with the local Chinese funds, personally I would think that the 5CGroup will be assisting to do that thing also. Then I think the partner in China would be more helping these overseas funds in terms of selecting targets, in terms of thinking on how to approach investors. Because even the simple due diligence that the Western PEs do usually for their targets, is a little bit different than the Chinese investment teams due diligence. Even from that you can see that the capital is the same, only difference is the currency. This is in Chinese currency, this is in United States dollars, and this is maybe in British pounds, or this is in different, different currencies, Euros, it doesn't matter. But the whole process of investment is more or less the same, 99% is the same for Chinese investor, for Western investor, and then for other investor. Okay? But what makes the sense at the end would be like, how are you going to approach these Chinese companies, from which perspective? From the Western perspective, Westerners are more or less direct, quite direct they say, okay, these are the finances, this is the situation, okay you're not meeting our requirement, so more or less the framework is already in it. For the Chinese investment funds, indeed they know you might have a small company, probably this here is a loss. But more or less they have another human factor, human approach, more they focus more on human approach, rather than they see only the financial, see the numbers, and then they say okay. In the West yes indeed we would talk about the team, this is a priority. It's more or less the same for China, but in China the concept of team is there, but they are more intangible point that the Chinese investor would be focused on more. I think that's, in that case, maybe the Chinese would be winning more in this market than the Westerners. But that doesn't mean the Westerner cannot enter the Chinese and then help the Chinese. I think that it should be two way investment. Because if China would be directly investing overseas but there's no investment from the outside, it's also not good for the Chinese economy balance sheet, right? So it should be balanced, incoming and outgoing investments should be balanced, that's why you have the balance. That's why China, I am sure the Chinese government will be promoting the investment from the West, but now it depends on the West, how they will be adapting to the new changes that are happening in China. That's the only way I see it.

NICKERSON

So uh, to what extent do you believe the West trusts China, and vice versa, to what extent do you think China trusts the West, and what factors do you think would influence this trust?

EGAMBERDIEV

Well, I think the trust comes in different forms, right, and different levels. I think the… if you talk, uh… in my opinion, when we analyze this question, you should do like, a top down approach. On the government level, on the economy level, I think the relationship between China and the West, and the West and China, is quite stable. On the business level, we go to the... so this is the micro level, talk about the micro level… go for the firm level, corporate level. On the corporate level there are a lot of frictions, a lot of frictions. Why? Uh… again talk about competition, and… uh… as we know, I would think everyone knows that China usually… uh… subsidizes a lot of companies when they go abroad, overseas. So most of the time, the Western businesses, they complain on this issue. It is unfair competition, why should China subsidize these companies? Well… uh… the main reason I think is that there are a lot of frictions at the corporate level, but I think that in the overall case, if you talk, still the… the West, in terms of investment is still optimistic about the China market, whether it is cooling down, or whether it is bringing up new and unexpected solutions to the outside community. But I think this is only because, one, is China was so fast, like within ten years, to come up… to achieve this level that the West has to go through this large period of development. That's why that a lot of… being in China, you can find out that a lot of, you know, economic aspects, and then the… uh… firms aspects, needs to be adjusted and adjusted and adjusted and adjusted to a higher level. China is… is the number two economy in the world, but if you look from the inside, it doesn't look like it. It's obvious, it doesn't look like it. The only comparison would be the numbers from the economic perspective, that is where you can see that China is becoming global, is becoming strong. However, we should not forget that from the… uh… the strong economy is not only based on the money and the investment that they accumulated. You should have the technology, the strong technology where you can compete, eventually. You see, most of the countries that go through the development, first it starts from the resource-based, you'll be very much reliant on exporting a lot of resource overseas. And then, more or less, you become, like a value added country. You start adding value to the resources, so you start manufacturing everything here and you start… um… selling or exporting the goods, which are ready made goods, right, so you are value adding. So that means that your export value is increasing. And then you start improving your technology. Okay, so finally, the final step, would be a knowledge-intensive economy. For any country, in any country's business development, if you see the… uh… development style, the development mode, is… uh… knowledge intensive. What do I mean by this? Now, China is go out from the resource-based economy quite… uh… like, a few years ago. I mean I think from last years, China said, we're not a resource-based economy anymore, we're not an exporter. I think, if the global… uh… structure, was like… uh… would be the same just like before 2007… if there's no global crisis, I would believe maybe that China's economy would still be still, you know, on this commodity-based. Because China is a… was a large exporter to the United States, a large exporter to the West and Europe. The… uh… especially in the textile industry, right. Now China gives up all these competitive advantages to the… Vietnam, to the neighboring countries, Laos, and this, and this. So, now China is saying, okay, they need to move further. So now they start putting more emphasis on the value added part. What are they going to do? They're trying to develop their own technology. So, only with the finance, only with the investment that they make up from the export value, they cannot be competitive for a long time. That, any country can understand. And the West can understand this very well, okay. So, in this case, for the China (sic.), they also see, they have to cool down, have to stop with this export… export stuff, or they have no choice. Because, we can see that the global economy is not stable anymore, and there are a lot of imbalances happening in the… with the structuring, a lot of restructurings. Even though China, like recently their currency was included in the reserve currency basket of the IMF that was announced like a couple of days ago by the IMF. But still, I think… the real currency, the Chinese currency, Chinese yuan, RMB, is not fully convertible still. So, it means China achieved this economy development within a very short time, but within the economy, there are a lot of, a lot of, a lot of economic formations, restructures to be done in order to make this currency actually… to be fully convertible. First thing. That's why now China is mostly based there on the technology part. So I think the West understands this part. Some of them they don't accept, but some of them they have to accept. Because, you know, you cannot make it… you cannot compare China and the United States. If you compare from the financial perspective, okay we say China is stable and this. But, we should… we should analyze it not that way. We should analyze wherein China stands from the competitive advantage point of view. Commodity based? No, China lost already this competitive advantage. Financial? We cannot stand too much… we cannot rely mostly on your money. Money should be tied up to some certain assets that bring you value eventually on the future part. So now, China invested a lot in infrastructure. So they have… uh… accumulated national debt. How you can revive you economy (sic.)? Because you tie up a lot of assets, fixed infrastructure development, highways, bridges, roads. Yes, China is surviving because it is one of the largest consumer markets in the world. So, the West knows this. That's why in this perspective, the West understands that the… for the China… still there are a lot of opportunities in China. And when they go… when they go to the… uh… when you travel, for example, to different provinces in China, you can see… you don't feel like China is the second… the second world's largest economy. And because from the analysts perspective, you can see that a lot of changes need to be happening in China. And the China were talking only about the investment that China accumulated by the use of their exporting power. Now, exporting power is not the advantage for China, this is gone already. We are talking about the technology. China is not talking about technology. We need to move our technology to overseas, to more… to less developed countries where they are trying to catch up with… uh… with developed countries in terms of the technology. So now in the second phase, in the second ten year period, I think that China will be catching up with the technology. They're trying to compete based on the technology, on their own proprietary technology. You see recently in Indonesia, China was competing, bidding with Japan, for the construction of the high-speed railways. China have (sic.) shown to the world that they can build, they can manufacture, and the can run the high-speed trains much more efficiently than any country can do. Okay, so now they go and they win bidding first in Indonesia and then they start. So that means that a lot of technology will be going out to Indonesia, they are helping these countries around China… helping with the technology. By this, they will be boosting their own technological capability. Then later on, I think they will be moving on more on the knowledge-intensive. It means they will be pushing more the services, like… uh… financial services, insurance services that will be more on the service-based competition. Because, if this is not done, I don't think the west would be… uh… looking at china the same way the West was looking at China, like five years ago. And China is the same. China is understanding that their value from the export is going down, that the export is not a solution anymore. So now they are looking for different options. But the overall picture, I think the West is very optimistic about China, China is very optimistic on the West, in different perspectives. There are a lot of opportunities for China for example in a given economic situation to help the western companies, and by this China could get a lot of technology. That is only one way that China is trying to do. Why are there a lot of Chinese companies going to Germany? Why are a lot of companies going to France, or the United Kingdom, or the United States? One reason now… one main key point would be understanding and obtaining and exchanging the technology. By this, China will be developing their own technology. Asia was the same. If you look at the development of Thailand, Malaysia, Singapore, except the Hong Kong, these countries definitely… they… they were copying the technology… Japan… they were copying the technology, from the West, from the United States. Later on they were building their own technology until… unless, okay they have a much higher level of technology. Now they are competing mostly on the technology part. So China would be on the same path of development. That's why I believe this… uh… for the China and for the West, the opportunities are there, but it depends on the state of the economy and the state of the global economy how they will be… I mean… adjusting to these trends.

NICKERSON

Alright, Um so let's do this… uh... so in 2015, um and I think 2011 as well there were IPO freezes because of the rough state of the Chinese economy to help stabilize the stock market. And this, from my understanding, this made it very hard to give investors equity and whatnot um, or it complicated the process, uh, to say the least. And uh, several investors seem to be, um, waiting out , uh, China getting all of this sorting out especially with the stock market, um, complications. And so in terms of, um, in terms of inviting people from the west to invest and whatnot, how do you think this will uh affect their opinions or um affect their decision to...?

EGAMBERDIEV

I would put this like this way: the reason to freeze IPOs and everything in the stock market is fluctuations. The first reason was that, I believe and I my observation OK? Uh I also play actually stocks, so I also follow the stocks. But I don't follow Chinese stocks. I only follow them but I don't invest them. The only reason is that in China the market when you talk about the stock market in my opinion most of the Chinese citizens are not educated like in the West. In the West, for example, if you invest in certain stocks, we look in the financial of certain company. I look at the P, I look at the revenue, I look at the news, I look at the uh… I try to make my forecast. And I look at the research analyst reports. What the analyst is saying about the certain stock, what are the at least 5 or 6 analysts they're talking about this stock, and then I put up my own understanding and analysis and then I decide to buy or not to buy the stock and then follow with this stock. Besides in the western stock exchange, in the United St…, in the NASDAQ stock exchange, New York stock exchange, American stock exchange, or if you talk about, if you are talking about the London Stock Exchange, German stock exchange, 100% of the information is already reflected. So what, you learn from the books, when you say the theories, say a stock is listed, all the information about the company should be reflected on its stock price. That means that certain news will be, you know, have an impact on the stock price. Uh… And uh that's the rules of the uh... stock market. Now when it comes to China, it's not like this unfortunately. The reason being is that for example, in China, the market is huge, OK, and uh… you can see lots of security… Brokers I would say… lots of brokers, even here small broker houses. And the trend is that… you know… in China… Uh… Now you have everything on your phone. You open a software, your software is linked to your third party payment account, and within a second, you make a decision. And in China, everyone is dependent on their friends, on their parents, on some relative's decision to by a certain stock. So if I say uh, "Hey John this is good stock. I just bought it, just buy it." And they trust in you, they just buy it, they don't do any analysis. Now these happens, so this means uh… the Chinese uh… investor, so called, they are not so much educated. I am not talking about the… if you talk about the age range found in... I mean if you are the let's say… in the mid-thirties, then probably the trends are changing, then maybe you are looking at the news, so the new generation so… but we are talking about… if you talk about people after forties, and they're retired people. You know how they are playing they're stocks, they go directly and they go buy a stock they like. And they just see stocks that have been performing more or less stable within two three years, you just buy it out. No further analysis. In China, the numbers financing unfortunately, does not make that big role in decision making to buy a stock. So, recently what happened in the stock market was that… a lot of uh… broker companies they know this issue. They know that the Chinese audience, when they buy certain stock, they are very flexible to make a decision and faster in making a decision. Especially when it comes when you have everything on your software, you go to a certain broken, certain broker will advise you to download their certain their own software, and from their software will be linked to a bank account, it's very easy. So within a seconds, you make a decision to buy a stock, 10,000 of shares, 50,000 shares. Now you follow, and what if it fail, what if you lost money. So my, so what happens is they, they appear to be in the stock market, certain companies. That are started move… uh… You know just now I mentioned that the uh… price should be reflected. All the news all the insider information. And now should be reflected, in the stock price. Unfortunately for China it's not like this. For the stock crash, the main reason was the uh… financial journalists they appear to have start writing a lot of news articles about promoting certain stocks. You know if, uh… if a certain person who is working a stock industry, stock market industry, they know that… the usually these kind of reports should be written by analyst. And that analyst should be credible within their company when they're giving an opinion on a certain stock, and they should be very careful. So there are certain guidelines when you give… but in China, when these financial journalists… they just write a general opinion but then… this is paid research. In the West we call this paid research. Someone paid for this research to promote certain stocks. So, other people start buying these stocks. They see good signal. So this is actually a fake signal that they are signaling to buy these stocks. Why? Core reason is the people who are involved with this company, they are trying to promote their stocks, probably their stocks, their company, financial situation are not so good so they are trying to raise some quick cash from the stock market. By this they are pushing a lot of people, people are buying a lot of… so they theirs uh you know, the flow in the stock market starts fluctuating up until they were 5 or 6 companies, brokers, that were uh… faking a lot of news about a lot of companies. And then what happened is the whole market start shaking out. It happens in the West also, but it's *very rare,* because the security in exchange commission for example, in the United States, very strict. And they have certain guidelines for the companies to issue a certain news, or related news to the company. But also the guidelines guiding the analyst reports, they allow analysts working following the stock, they issue the, you know, they issue the initiation reports, and they issue the uh… when it comes news… certain reports… it's all paid research, I understand. They uh all the news will be reflect in the stock. But in China unfortunately the insider information is not reflected fully. So some people will have more news than you when they… and then they start investing… and a lot of things go wrong, and people lose money.

And in another aspect I think was… the connection of shanghai stock exchange with Hong Kong stock exchange. Hong Kong stock exchange is one of the global exchanges, shanghai is not that global. So uh… The opening the gates to connect these two stock exchanges it actually created a lot of flow of hot money into shanghai stock exchange. So some certain brokers they use this to promote a lot of stocks. So the investors who invest in Shanghai or through Shanghai, they can buy the stocks directly so this created a lot of imbalance also. Now, talking about whether the West will be impacted or not, the last… part would be… the stock market returned back. Definitely a lot of people lost their money. It is estimated that within a week, China lost about 30 billion dollars in the stock market. 30 billion dollars just vaporized, gone. And China's secure and exchange commission they put up a lot of money, and they opened up the pension funds. Uh… Before pension funds was not allowed to invest in the stock market. Now they put up a lot of, they free up a lot of cash from the pension funds to invest in the stock market. They try to balance back the whole stock market. Now the stock market is back and they found out that a lot of these brokers, faking a lot of news, faking a lot of… so they were removed. Licenses were removed. So the stock market became back. But I think the Western investor also understand this part. And that's why, in my perspective, the… a lot of Western investors would be refraining, still refraining to go to China to invest in the listed companies stocks. But I think on the private equity part, because… think about it like this way, if you have a certain investment, so , uh… thirty percent of investment you will be allocating for the private equity project. Seventy percent you will be allocating for public equity. So they you go and by stocks. So I think maybe after this, West some of the investors in the West, they try to change, to allocate more for the private equity than the public equity. Public equity is more secure, in a sense that the… you should you assume that all the information will be reflected to you. However after this kind of situation and after this kind of events, then you find out actually *nah*! I'd rather invest in… Still I think they will be going for investing in Hong Kong, because Hong Kong is quite more transparent. Is very transparent than the Shanghai market or Shenjin market, is even transparent. I think it will be transparent for much longer time. So, for the West their interest I think they'll be still there. And they know China will be doing their best to return everything to their normal. They are returning it, they promise, they return it. Everything is back. The shanghai stock exchange, and everything is trading on a good levels. People lost their money, a lot of people got rich, a lot of people lost their money. But the situation is I think for the West, they wait for the period, they wait for the time. And I think they will try to adjust what percentage they try to allocate and prob- most probably they will reduce their allocation to the public equity markets until everything is come back to its normal. And they try to look for the private equity projects. So I think this kind of change will happen from the Western perspective as an answer to this kind of stock exchange, but China needs a lot of change in the policy of the stock market. And after this events, like uh… a week ago China allowed about uh… 25 IPOs. They were on the waiting list for this year, they just give a green signal, green light, so the IPOs will continue go ahead with the Shanghai stock market. There are some coming up in the Shenjin stock market, and I think you know the China launched the OTC same like OTC they call it (CHINESE) third party market, Shenjin stock market its getting hot again.

NICKERSON

And so the last written question is: I know that China… um… has considerably loose enforcement of intellectual property, as well as some other… um… some other laws and regulations that we mentioned in our paper about not requiring certain companies to list certain information which doesn't help the whole trusting of the company, and so… uh… how do you think that these… this kind of regulation complicates the investment process for Western investors, or maybe even your clients. How does 5CGroup…

EGAMBERDIEV

Well, in fact, the situation… like pretty much improved since the past five years when it comes to information, when it comes to intellectual property. Pretty much improved. Yes, indeed, when I was working, when I was going on the fields analyzing the investment projects, there was a lot that Chinese third parties would not be, you know, willing to issue you, or would be hiding you, or this. But, in terms of intellectual property, a lot of things changed and a lot of policies are being promoted. But, again, China is big so it depends on the provinces, depends on the cities. Like, we are talking about the first tier cities, second tier cities and third tier cities, so this process is going slow. First tier and second tier cities, this process… I think… is pretty much occupied. And… uh… companies, the CEOs, the teams, they understand this pretty much, and from the investment perspective, if you happen to go, if you go out for the field-trip, for the due diligence, for the project. Now, the good part is that most of the Chinese companies… they are pretty much aware of what IPO is, and what financing is, and what kind of documents most probably, the investor coming into the company would be asking. So, I think… uh… about 60 to 70% of the companies that I met, like, uh… I can say 80 companies that I met in the past, like two years, they are very much ready with these documents. Either they will be looking to be listed in the [Chinese], I mentioned the Shenjin stock exchange, or they will be looking to be listed in the Shanghai [unintelligible] market, I would call it, not the main board, but the [unintelligible] market. So, in this case, there are a lot of things that they already know regarding the documents, and regarding the disclosure, and they also understand that if they don't disclose certain information and an investor comes in, eventually the investor becomes part of the shareholders, so definitely in any case, this information will be coming up, and… uh… this they understand. So that's why when there is an investor, a reliable investor who is already willing to invest, who issues a letter of intention to invest in this certain company, the local Chinese company, now they are much willing to give you most of the information that you need. And I think that in the coming year, given, for example, the options for financing would be increasing in terms of [Chinese] and in terms of this other market, so I think the Chinese would be more improving this information sharing basis and they will be more willing to discuss with the investors. Because for Chinese companies, the… actually from one perspective, the challenging… time is challenging. Because the Chinese government is pushing more these Chinese companies to go overseas to an investment, to tapping projects, and earning, you know. So… uh… from another perspective, it is hard to look for the financing first to get this project done. So that's why the time is quite challenging for Chinese companies. That's why, in my opinion, they will be trying to deal with their… uh… what would we call it… corporate governance issues, shortly saying. So in this case I think they… a lot of CEOs I met, they are pretty much already, you know, settling for corporate governance, and then their responsibilities are clear, the information sharing… the system for information sharing is all clear, and then if you ask this project related information they are pretty much willing to share with you if you represent as a consultant, or they know you're a proper investor. So, the situation is pretty much good now.

NICKERSON
Alright, and so lastly, are there any topics we haven't discussed regarding just 5CGroup in general or the mission to bring… uh… Western venture capital to China that you would like to talk about?

EGAMBERDIEV

My… uh… my understanding… because uh… from the investor point of view, where we are now thinking of working and setting up our own investment fund too. Now these days we're working on that one. I think probably next year we're going to have ours. If we successfully raise funds for our own investment fund, because we have the 5CGroup Global Asset Management and now we are in the process of raising… that company is quite a new company that we set up in Hong Kong. Under this company we are trying to raise funds. And… uh… once we accomplish… uh… my objective, our objective would be is that since a lot of Chinese companies are willing to go overseas, right, so this… we would like to use this fund along with the foreign funds that… uh… are willing to invest in the Chinese companies, in the Chinese story, as I said, China's story, then I think it would be a kind of win-win cooperation for us and for our Western partners because you see, we are based out of China and we are representing most of the Chinese companies that are willing to go overseas, and… uh… now that I discuss with a lot of Chinese companies, the overall situation is "yes, I want to go overseas, but I don't want a risk," and uh… several of them are saying "yes, I have the finance, but I don't want a risk." Some of them are saying "yes, I want to go overseas, but I don't have finance." Now, in this case, what I can do… is… in both of the situations, I would like to say… um… yes we are there, we have a source for a project, we can arrange you with all the consultant services, international legal consulting, to analyze this from… to do legal due diligence, to check this project is real, to check this party is a legally reliable partner, and then do the market advisory. Not any country… but what kind of country, you are… we are advising you to be an appropriate country, an appropriate industry, an appropriate business, and this is market advisory. From a financial part, estimating… okay this project will bring you a value, not only economic value, but also financial value for your investment. But if you are still hesitating I will be also a minority investor in this project. So this fund that we can… we will raise will help to do a minority investment. Now, the thing about it, if we have this fund, this minority investment… right… then think about this investment is going to be in the United States, in any state of the United States. So I would discuss with the funds over there back in the United States, so that they say "let's get along together and do some investment," because if you cooperate with local funds, definitely they have a vast knowledge of this area, of their area, they have been investing for a long time. They can advise you a good portfolio of companies, target companies, to invest. And then by this we can kind of share a risk of investing in certain projects overseas. Now the structure of investment can be different. Let's say the Western investor is willing to invest in China. Okay, we can use this fund to source these investments into China. And they can… these funds can be invested in China, and then they can use the funds in their overseas projects, or these funds can be channeled directly to the project… overseas project, and then once the return… the return can be shared with three parties: 5CGroup, let's say U.S. investor and Chinese partner, Chinese local company. So, now when we talk about the investing in China, or bringing investment in China, that's why we need to talk about the different angles that I mentioned, because the perspectives are changing, so the investment policy that these will be adopting should be changing. If we go to somewhere in Romania or Bulgaria or something like Eastern Europe that China thinks now is a… is a star country for China. Why? There's a lot of things to be done in Bulgaria and Romania, and Eastern Europe rather than Western Europe: infrastructure development, private equity projects. Okay, we go to Bulgaria, we try to look for a fund to be jointly investing in, a European fund, still a United States fund that has a region of investment to be targeted like… European… doesn't matter, it would be totally fine. But, at the end, what we have is a… these overseas funds, they invest in the Chinese company, they have already a Chinese story. So they are a part of Chinese story anyway. So by this, they can have a more so-called sense to the Chinese company. OK? I see. They can think of their policy how they will change their policy, how they will change their investment policy, so by this as a 5CGroup, we bring investment investing part also. We try to give full package of services, consulting services, project sourcing, oversea advising, plus now part of financing where we can case by case think, do minority investment, and also introduce the oversea partner to these investors, and let's do this investment together. You get returns, we get returns. But with the quick part is, he help us with the project monitoring. Overseas company coming to China, talk to you to talk to 5CGroup, Why? The only reason is we are a local company and we can understand these company better. The same way, when we go overseas, we help a Chinese company but we tackle these local funds, we say, these guys know pretty much about their own region. Fine, let's talk. Maybe the targets we choosing, not so much properly. From their perspective. So they can advise us, more better choices. But the good part is, we have the investment, and they have the investment here the Chinese company do the majority of the investment. These two parties investors and minority, by these we are bridging the gap. Chinese are OK, but we introduce these two funds, they are ready to invest. Definitely, they will be willing to go over there. One, as long as 5CGroup will be a minority investor sitting in different projects in different geographic regions, then for sure most of the Chinese companies will be willing. Regardless, there is an infrastructure project, regardless there is a simple media or relationship or advertisement or communications or movie making you know, so all projects can be touched upon. And uh… there are so many industries in China that are experiencing slow growth. Different industries. Textile industry is dying. In China it is dying. The Zhejiang province where we are now, is a home for 80% of textile products are exported from Zhejiang province. I think the uh… think half of the textile companies have been shut down. And the other half, they are working at half capacity. 40 or 50% capacity, why? The export era is coming to an end for China. Value added should be done. Yes, Chinese manufacturing clothing and this, that, they are the home for textile industry. But I think they should move their manufacturing to other countries also. And to let others provide jobs and provide economy and help with the economy and this. But how they do it this, they company CEO will not think further. Here we should talk to him, tell him what opportunities are there for them. You cannot do textiles? OK. These companies need clothes part of this country maybe we will be targeting some niche provinces or niche cities. Only manufacturing for this city. Only manufacturing for this geographic area. Why? Price difference. It's still cost effective for them to produce and outsource from China. But how are they going to do it? Exporting, marketing, market channeling, sales, everything, who is going to help them? They don't have that kind of budget. OK I help you with your financing, you seed, you check it, and most probably I help you to build that new factory. Move part of your factory there, in Bulgaria or Romania, your own factory there, you manufacture there. And there are like funds from Europe who can put some money into 5C, but we provide this channel so you move out. Here, they get a subsidies from the government also. But there some financing from our funds for example, or the funds a European investor would be investing in. Ultimately what happens is we are trying to impact the economy, we are not only talking about making money here, but you talk about Society, that area would be improving. So this company will see a lot of opportunities. And probably, at the end, the companies from Eastern Europe will be doing some different business. There are some things that are not in China but can be brought from Western Europe. Especially the car manufacturing. A lot of people now are interested in Cars from Eastern Europe. Some Chinese companies are trying to go to Eastern Europe who are setting up their factories to sell their cheaper cars. So we can it depends, but this is what I see. The work of our fund I think it will be a great help to a lot of companies. We can start from Zhejiang province, but then you know, the scope may not be limited. A lot of companies, say for the company, even for the person, you think about from your side, you have never been to a certain country. You only have your information, your knowledge is limited, what you search out from Google, or search out from Baidu. Right? But when you go the reality of this country, the real picture, everything is different. Now, that's why the same, you talk about the corporate level. They send their people. They send their representative. They send their sales managers. Sales manager may not be so optimistic. Why? They just say, hmm I checked we cannot sell there. Why? Limited budget. We need to do a lot of advertising. And other factors. So, in this case, if they are very much prominent, Ok we have help. Then we can link this through the Western funds. Also joining our hands together. So rather than this investment goes through to China, from China it goes directly to the project. Anyway the other countries will be, they can consider them part of the China portfolio. I think by this, the West will create some sort of cross border portfolio in a sense that for example mostly any investment company will have a portfolio projects they will already invest in and they are monitoring. So, we can create a lot of merging position opportunities. Portfolio companies. This company was interested to do a company in China. What can they do? Special bottling for example. Fine, in China you cannot find it. But China is quite big. You can set up in certain province, in a certain city. Where in China, one thing is good, if an Investor is coming the geographic advantage is very important. If you set up in the city, so this city have 50 million population. By this you don't have to complete in the China mainland. Only compete in this area. And you can earn very significant profits. So they will see opportunities for their portfolio companies. By this, I think the West through us, and we will help with them. We can also create a lot of opportunities for companies in the west. Bring in the investment to China. And Chinese bringing companies to the East. This is my perspective and our plan.

Appendix F. Interview Transcript with Jingtian Chen

Conducted at the offices of Letu
Hangzhou, China
December 4, 2015

Shortly after the interview began, Jingtian Chen received a phone call. During his absence, Yuzhou Feng and Nodir Egamberdiev debriefed the team on the company.

FENG
Okay. His company was established around 2010 and focuses on the e-bicycle industry, and they've spent two years developing a kind of battery technology that makes the bicycle much more safe and effective.

GOODMAN
Efficient?

FENG
Efficient, yeah, yeah, but they currently know this industry does not have any high requirements because it's just an e-bicycle. So they are searching for the new business model, selling bicycles, and you can go out and access many of the rental stations they have in different locations in this area. You download the app from the Apple store or the Android store, and then you can use this app to scan a [QR] code at one of the stations when you want to rent bicycle. When you're done, you can return it to any nearby station. This is their ideas about their business in the future. He also mentioned a little bit about the size of this market. Usually China will sell about forty million bicycles each year.

GOODMAN
E-bicycles or just bikes in general?

FENG
(Laughs) Hmm, he didn't mention that. But this size is around forty million per year, and yeah, that's all I got.

EGAMBERDIEV
And this industry's already being quite competitive with the e-bikes and e-bicycles because, you know, we should understand one thing: there's a lot of companies, a lot of competitors that are doing this, so the market is much more competitive. Yesterday we were talking about location advantage. So this guy, this company's in Hangzhou, and he's not talking now about his plans, as they are not about China as a whole. It's not possible, because if you go to Guangzhou, or you to Shenzhen, for example, they're more-or-less pretty much advanced, so most of the ideas that

he's speaking, that he's talking of now, quite most of them are already implemented. They're working. Like e-stations, e-bicycle stations, more advanced, with bar codes and this for this, with things, and what is not enough in Hangzhou, and particularly for Hangzhou. You see a lot of bicycle stores in Hangzhou. His idea is to extend that. I mean, once you've run it out, there's an option, for example, that once you rent, you can take that bike and you can fold it and you can take it for the picnic and this and this. So still, you are able to ride that one, because the e-bicycle is more convenient, right? You can fold it, you can put it, so it's, uh, more of extending the product line and the product offering. So by this he's trying to give a kind of [competitive] edge compared to the others, because given to Hangzhou, most of the e-bikes, the current production of e-bikes, the core is the battery. That's what they're working on now. The core is the battery. In any case, if you look in what we call it the e-industry, whether its e-car, or e-bicycle, or e-bikes, there's a lot of e-bikes, as you have seen, as you have noticed, the battery is important. In Hangzhou, there are three or four, even in this industrial area, there are three to four companies in Xiasha itself manufacturing industrial batteries, I mean, e-batteries. So they're constantly improving their battery because eventually the whole competition will be on the battery. Who has the good battery? I've seen a couple of new models they have come up with since last time I visited. They're trying to make this battery more durable, more light and more compact so it can be not only makes the bicycle more efficient and quite light, but it's more fashionable, not noticeable. People like fashion. Fashion, right? So that's where they're working. Yeah, they're capacity is quite small. So the *(laughs)* last time we discussed, because we know this company pretty much well, and later I will send you the presentation also, we've received his presentation, his updated presentation, in English.

GOODMAN
(Laughs) Good.

EGAMBERDIEV
So, from there we can also that what they're trying to achieve is competition based around the battery. So this guy knows and he's been meeting with several VCs in Shanghai, as Shanghai and Hangzhou are quite close, and they are partners. We are shaping that presentation to them and we're preparing this offer to them also, this financing offer. That's why the core aim would be, currently their business model is a- they have their small assembly line where usually the parts, they just bring out the parts, are not like 100% assembly, but rather like 70% assembly, because some of the parts they will definitely be outsourcing, especially the batteries. You just order the battery and outsource. Their idea is to make it 100% in-house production, first thing, and then they can use the money for RND. Definitely for RND. So in this stage, most of the companies will be focusing on the RND, pushing more money to RND and pushing more money for the marketing, for the sales and marketing channel, building their own marketing and sales network. For them, the core sales and marketing network would be the city of Hangzhou for the first time. So by this, now you look at the bicycle stations that we have now in Hangzhou. They are quite

obsolete and his idea to replace all of them. Because these projects have been invested by the Hangzhou government, the e-bicycle, you can find only in Hangzhou this kind of bicycle station, and in Shenzhen, and a recently in Guangzhou. Beijing, you don't find this kind of stuff because, again, because of the policy of the government, of the China government, making the position of every city in the China is different. The position of Shanghai is the financial hub, you position Hangzhou as the cultural hub, as the center for culture. Because the Song dynasty, the south Song dynasty, and most of the dynasties had Hangzhou as the capital at that time, and then they're culture, the whole culture developing here. They tried to push this "e-stuff" all to Hangzhou. So you see a lot of trees, and this, and the environment, so, uh, at that time Hangzhou government invested a lot of the bicycle. What they're trying is eventually to take up all these bicycle stations, to replace with more modern e-bicycles, because those bicycles, the pure use of these bicycles that you see in the bicycle stations is not long, because this was a project by the Hangzhou government, and government still needs to maintain-

GOODMAN
When was all of this started?

EGAMBERDIEV
I think, four or five years [ago], even maybe more. So you can think about how long you can ride this bicycle, public bicycle, and then you have to maintain, check the tires, and this and this, and no one is looking for that. There are a lot of bicycles you cannot use all the time. I mean, yeah you have the card, you put 200 RMB on a card, you want to use a good bicycle, but you don't get that service. So then here he comes, and he like, maintains everything. He will do everything. So, the Hangzhou government, if they can reinvest the whole thing, they will remove the whole thing, but they will replace everything will the e-bicycles that they have, but they will provide full maintenance services. They will make sure that it's customized services, customer-oriented, I mean, not like, oh okay, public. So there's a feeling to the people to like to push them to use more of the bicycles. "Hey people, you see?" "Yeah, it's good, it's like customized, it's good for environment".

GOODMAN
Yeah.

EGAMBERDIEV
And then, I think eventually what they want to do is they want to create their app just like we have DD (due diligence), so they're to include where you can see the bicycles and from where you can get the nearest bicycle, from where I mean you can use, and I think it then depends on like, because last time he was talking about this picnic stuff. I mean, the summertime, a lot of Chinese and foreigners, they like to take a bicycle and ride the Qiantang River, to watch the Qiangtang River.

At this point, Chen re-enters the room.

CHEN
(Speaking in Chinese)

FENG
So, for the like, for the forty million bicycles sold in the whole industry, including the traditional bicycle and the e-bicycle.

EGAMBERDIEV
You can ask questions directly.

GOODMAN
So, Nodir was telling us you had sought some venture capital, are you able to tell us more about-

EGAMBERDIEV
(Speaking in Chinese)

FENG
(Speaking in Chinese)

CHEN
(Speaking in Chinese)

FENG
Uh, okay, when they got the investment, they were for establishing the bicycle stations, and because, due to the business model, it should require a lot of stations, just like a net in the city, it will require a lot of stations everywhere. So it is for them to need the money, and also, if this net is ready or almost done, they can keep adding like the ATM or self-drink machine or self-cooling machine just next door.

GOODMAN
Um, so have you or your company tried seeking any kind of Western investment, or purely from Shanghai or China?

FENG
(Speaking in Chinese)

CHEN
(Speaking in Chinese)

FENG
They have no chance, only in Shanghai. For themselves, they want to but they just have no way and don't know how to contact with the outside.

CHEN
(Speaking in Chinese)

FENG
The boss says he thinks for the foreign investor, they are more for the business itself, for the business model itself. When he gets in touch with the Chinese investor, it's a much better relationship, and the businesses are much more complicated.

GOODMAN
So would you say the major roadblocks or major challenges you're describing are communication, contacts, and the business culture?

FENG
Uh, could you repeat? Yes.

GOODMAN
So would you say that the major roadblocks in attracting Western investment would be communication, contacts-?

FENG
(Speaking in Chinese)

CHEN
(Speaking in Chinese)

FENG
The thing is, the problem is not English, because you find so many Chinese guys who can speak English in China right now, so he thinks the key problem is the way to communicate or to find the foreign investor, and it also depends on trust.

GOODMAN
Trust?

FENG
Trust, yeah. Because he's Chinese and you guys are foreigners, so why should he believe you? So he thinks, so I would say so, it is very important to know both sides if you want to seek foreigner investment.

GOODMAN
Are you able to elaborate more on the importance of guanxi? Like, relationships, business relationships?

FENG
(Speaking in Chinese)

CHEN
(Speaking in Chinese)

FENG
Yeah, yeah he said yes, it's true. Mostly by the introduction of friends.

GOODMAN
Are there any recent changes in the market or recent economic activity that has affected your business?

FENG
(Speaking in Chinese)

CHEN
*(Speaking in Chinese***)**

FENG
(Speaking in Chinese)

CHEN
(Speaking in Chinese)

FENG
Okay. Okay, he said, because this is a kind of half-traditional industry, there haven't been too many big changes recently. One thing he wanted to point out is that just one year ago, in 2014, the Chinese government issued a regulation, which, starting in 2017, will require public transportation to take up 80% of the city in any Chinese city with a population greater than 10 million. Then the model is like a 8 - 4 + 2 strategy. The eight is just like the large public

transportation systems, the minus four is the private car, and the plus two is the bicycle. This is a kind of a long-term strategy, and now the problem is, at least for most of the Chinese investors he's met, most of them like to focus more on the short term profit, and that's the problem. So for the e-bicycle business model, it's very hard to profit in the short term, but if you take a look to in the long term, it's a very good project with a lot of potential because it's not only profitable, but it's also good for the environment or something else.

CHEN
(Speaking in Chinese)

FENG
The first goal is repairing the regulations, the new regulations. Right now in China there's only around two hundred fifty cities have the public bicycle transportation system. But uh, if we follow the regulations, over ten million cities need them, and we still have about a 3,000 city gap.

GOODMAN
That's a lot of cities.

FENG
Yeah, it's a very large market. Also, the reason why is because this policy has been issued over the course of many years, so this is why only a few cities have the public bicycle system. The main problem is this is a government-led project, so it's like, you know, not expensive in the station they, because they needed the government [sic], and the currency is very unreasonable, because they said the cost for one bicycle, for example in Hangzhou, the cost of one bicycle is just 350 RMB for one bicycle. But the price, the bicycle company selling to the government is-

EGAMBERDIEV
10,000

FENG
10,000 RMB

EGAMBERDIEV
(Laughs)
Someone's making money.

FENG
Someone will make money, yeah.
(Laughs)

CHEN
(Speaking in Chinese)

FENG
And now, just in Hangzhou, there are around 87 thousand bicycles and 2,300 stations. The daily use range of the bicycles is-

CHEN
(Speaking in Chinese)

FENG
They use, is around-

EGAMBERDIEV
6 million.

FENG
6 million, yeah. Yeah, 6 million. Around 6 million. So the capacity is very large.

CHEN
(Speaking in Chinese)

FENG
And because the first hour is free, everyone can use the bicycle for free, and they will only charge you after the first hour. So the only profitable percentage of the daily use is only 8%. Only 8% is profitable.

CHEN
(Speaking in Chinese)

FENG
And also, the second hour is only 2 RMB, and after the second hour it is 3 RMB, 3 RMB, 3 RMB for each hour.

GOODMAN
Um, you had mentioned that there were going to be around three thousand or more so cities that are going to require public transportation, which may include bicycles. Did you plan to move into the other cities as well, or did you plan to stay in Hangzhou and how would you foresee working with the government during this process?

FENG
(Speaking in Chinese)

CHEN
(Speaking in Chinese)

FENG
(Speaking in Chinese)

CHEN
(Speaking in Chinese)

FENG
First, yeah. They said like, the long term strategy is [to provide e-bicycles to] all [of] China, all of the cities right now. However, right now they are only focusing on the Hangzhou city market because their capital is very limited. Also, if this model is successful in Hangzhou, they can easily just copy, copy, copy, copy, and push it to the rest of China's cities. Now, you also mention how you communicate with the government, right?

GOODMAN
Right.

FENG
Yeah, he mentioned it. Right now, the government-led model is kind of unreasonable and ridiculous given the price. For most of the Chinese city government, like city hall, they are not very rich, unlike like the eastern cities near the sea. But his idea is "I can give you the bicycle bike free, but I have to have the right for other protection and management." So kind of, "I can get the project and also you can get a free e-bicycle system to reach the 2014 regulation." It's a kind of double-win strategy, and then he explains a lot about the profitable point in this business model. In Hangzhou, the yearly rental revenue is around 20 million RMB.

GOODMAN
In Hangzhou?

FENG
Annually.

GOODMAN
Annually, okay.

FENG
It’s just the rental revenue. There is also the other tax revenue, just around 60 million RMB annually. So the total revenue from this project is almost 80 million RMB, not including the deposit.

GOODMAN
Right.

FENG
Right now, for every bicycle they use, the city then should pay like a 200 RMB deposit into their transportation costs. This money is not very exact but should be around 0.9 billion RMB. This only the deposit. Governments didn’t use this capital very well, and he believes if we can take this project, this kind of fake deposit, they can still have a lot of work they can do to become profitable, like investment or something else.

EGAMBERDIEV
So the point is, start from Hangzhou as a benchmark, because a lot of incentives the Hangzhou government is giving. So the other point I mention is, you see currently, the bicycle stations that you see in Hangzhou, what you’re gonna do is value-added service. So you have the repair service at the same station, you have the shop, you have this, you have that, but the key revenue that will be deriving definitely will be from the advertising. So his point is like, okay, you guys like the cost of the bicycle, to put up the bicycle over there, it’s like 350, or let’s say 400, round number 400. Now the bicycle companies that negotiate with the government is like [the] Asian— style of doing business. So “I give you, how much you give me back?” Like, so called. So he’s trying to break this gap, right? And he’s saying “I’m gonna have to put up that much of money from your pocket, from the government pocket, let me put up that money but I’m gonna own the whole thing, advertising and this and this.” Besides, the good part is the deposits system. Think about it. In China, any card you have you have to put up the number as like a deposit, you go to the repair shop, you have to put up the money, and suddenly, a month later you find out that shop is gone, and you cannot use that card anymore. Well his idea is like, “Alright, we have the money and the card too”, so he can also be more flexible with the cash so you can use the cash for efficient investment services. Because even these guys have collected like 200 or 300, you don’t see the bicycle station upgrade or stuff like this, that’s a key point.

CHEN
(Speaking in Chinese)

GOODMAN
You had said that a bike from the government could cost upwards of 10,000 RMB, when it would actually be about 350 here in Hangzhou. Are you able to elaborate more on how these government practices might interfere or how you do better than the government models?

FENG
(Speaking in Chinese)

CHEN
(Speaking in Chinese)

FENG
So he said, like he said, this work you take by yourself. They can minimize the cost for stuff, and like a much better price to the government, but you know doing business in China is not only for good price as they think about many relationships, many different people, many things to think.

EGAMBERDIEV
If they are great, this cost is gonna be around 1,000 of what he said just now, because you have to do all of this investment with APP and stuff, upgrading, and so it's not only about the bicycle stuff, it's more about added, extended product, but still it's gonna be maximum 1,000 RMB, it's not 10,000. So that's quite more cost-effective from any perspective. That's what he's trying to push, but however, the problem is with the government is like, who has the better guanxi? Who's that guy? That guy wins. So he's saying even your bicycle might not be good enough, and then say "okay, hey, no problem." For Asia.

CHEN
(Speaking in Chinese)

FENG
Okay, he said because he thinks they feel kind of, there are no too many safety.

GOODMAN
There's too many what?

FENG
Safety. The feeling of safety.

CORBEN
Safety.

GOODMAN
Safety, safety. Oh okay.

FENG
Not just for the hurt, or the dangerous, or the terrorist, it's okay, but just because, due to the whole society as a leading society, even right now you've got your company, you've got your stature, you've got you industry or something else, but if the Chinese government say no-

GOODMAN
You have to stop.

FENG
You're gone.

EGAMBERDIEV
What he's trying to say is the more rich you are, the government's going to catch you, and this and this. That's the perception of different people, but in fact it's overruled if you're saying the growing wealthy population of China is unstoppable. So the government will not like just cut you down while you're growing and making money.

NICKERSON
Yeah.

EGAMBERDIEV
It's just like, maybe at because this is at such an early stage of development, he's thinking "we don't feel safe, so we need to immigrate, immigrate, immigrate".

NICKERSON
I mean, on one hand the more wealth you have, theoretically the more influence you have.

EGAMBERDIEV
Exactly.

NICKERSON
I understand why that would be a concern, especially in China.

EGAMBERDIEV
Yeah, that's a little misunderstanding.

FENG
(Speaking in Chinese)

EGAMBERDIEV
Just a general discussion. This is a general discussion.

FENG
(Speaking in Chinese)

EGAMBERDIEV
In the United States, it's like, the more money you have the more influence you have. He's saying, this guy is saying.

CHEN
(Speaking in Chinese)

FENG
In America, it's more focusing on the person's ability, but in China, ability's not the first one. The first one should be guanxi.

GOODMAN
Do you feel it's a problem in Chinese business culture or is it a good thing?

FENG
This is hard to say. It depends, has the better thing or the good thing, and like he mentioned, in America everything depends on ability and the company size, so most of small business company won't have too many chance for development. In China, there are some companies, yeah. We have the guanxi, we've forgotten it, we still have many chances and opportunities to get more projects and to push all the industries to approve, so it depends.

GOODMAN
That's good insight.

Appendix G. Proxy Interview Transcript with Li Min

Conducted at the offices of Qiao Ai Culture Co., Ltd.
Hangzhou, China
December 4, 2015

Shortly prior to this interview, Li Min had to step out of the office to tend to personal affairs. Nodir Egamberdiev answered in her place.

Transcript

EGAMBERDIEV
Last week when I talked with her, she said they have a plan, a quite feasible plan, regarding the Silk Road, because her understanding of the media is like, since they do a lot of promotional events, but these promotional events mostly oriented to the silk industry, how they can put the silk industry in a different way. You know, there is a famous silk company Wensly, W-E-N-S-L-Y. This is a famous silk production company in Hangzhou is one of the largest in China. The product they're doing is like, they're printing the pictures on the silk clothes now. That's a factory they have in Hangzhou also. What she's trying to do is to create new kinds of products that are related to the Silk Road, and to promote along with culture. She'd like to expand overseas with other cultures. Say 5CGroup, 5CGroup buys into certain companies, there's culture everywhere. So they'd be pushing the Silk Road culture, the Silk Road history, since it's developed from China, to give a better understanding to different countries. One way they earn money is, typically they use investment to make this product and eventually they will be earning money through the events, right? They will do simple events in different countries and they will do a lot of advertising on the half of Chinese companies over here, because they would like to use the name of the silk road to say okay, to help to promote local media for all these companies, like Chinese small companies, to get a better understanding about the product, solutions. So by this way they're trying to also push the company, [which is] going to make it easier too. That one, they're looking for investment, so for that one they don't need. She doesn't care about Chinese-

GOODMAN
It doesn't matter where, so long as it's money.

EGAMBERDIEV
It doesn't matter. And as long as she can obtain these funds, she can begin to use this state of the manner.

GOODMAN
Okay.

EGAMBERDIEV
This is the main idea that they have in here. The idea is like, yeah, they do the website development for mostly Chinese clients and international binds. So that's what basically they are doing. And uh-

EGAMBERDIEV
(Speaking Chinese to associate)

EGAMBERDIEV
This is the fourth year in business. So their media company is media and lens company, have separated from these companies, have already split into two, so now they're working quite hard to raise financing. Because when I visited them before they were only company. Now they've split-

GOODMAN
Into two.

EGAMBERDIEV
Into two, because that is specifically based on the events and projects and how they want to promote it in the Silk Road. Another is more of like, design and development and traditional kinds of designs, but at its core, [future efforts to raise] money [and] venture capital [will be focused on] the second company. [The] media and technology company, she also talk[ed] about. And, uh, what else? I mean, given from the questions that we were talking [about] at the hour meeting. For her, it definitely, the relationship with Hangzhou government, and for the events, the [many] events that she attends, definitely, as she said, [are] why it is very important for her. Because if we go for Silk Road, what we're trying to do is "yeah, we have a good relationship with these companies along the silk road." She's trying to use this network also to build up her media and technology [to] proper[ly] introduce her products through these networks. Uh, what else? So, ultimately she's trying to create a media silk road, we call it media and technology silk road, not only to promote silk stuff and China, but put it more in a- which is mostly being used by the Chinese companies, will be expanding along the silk road to promote them, to promote their services. They just like advertising their services, but along the Silk Road, but in a, uh, more untraditional way, which is more cost-effective for Chinese companies because she'll be contacting with local media companies but, [how are] they going to put up for the branding of the Chinese companies? International advertising and this and this? That's a long way to go for them. So she's thinking about this. But for this idea to come up, she's looking for investment and I'm not sure that the numbers she came up for, that's the core of what she wanted to do starting from next year. That's where we were discussing 5CGroup, how we can do this together. And that's, that's, that's all. And uh, what else? A thing you can ask?

GOODMAN
Well, let's see. You mentioned the importance of *guanxi*, which is something we wanted to expand upon in the paper. Do you know if she's tried actively to seek Western capital and if there's any difference in the process?

EGAMBERDIEV
She never sought Western investment. She sought mostly Chinese investment [sic]. Because, you see, the problem, not the problem, the challenge, for this stage company, is the network. They have a very narrow network of investment, people investment community. So what they mostly rely on would be like key people she thinks might be useful to finance her projects or to accept her idea and then further to finance it. That's a key problem. That's why she never go for the West, but she talked to me about this idea, whether this idea can be tangible. But in order [for] the Western investor, VC to make up this story and to keep the stories hard, it's not hard, it's a time consuming part. First thing is, these companies [are] quite small somewhere in Hangzhou, there's about three hundred companies over here, five, ten, technology compan[ies] [are] different. There's quite a bit of challenge, and that's why she mostly focused on her own network, to seek for financing. Partially, she found financing. At little part she found financing, to start up with this idea, but recently she told me like, it doesn't matter the way how the project will be financed eventually. But regardless, this is the Chinese party's giving money or the Western VC's coming for her, now she's very indifferent. Because some of the CEOs, they say they have these specific guidelines, they say "oh you guys." It happened to me two years ago, they said "I don't want Chinese investor, I want Western investor." A lot, I've met a lot of Chinese companies [who ask] why, because one thing is you get the investment in foreign currency. That is key, because for most of the, for example, venture capital of PE, they might be investing in technology, if it's a technology company, and they need to acquire some sort of technology from overseas, so in that case they can directly use the foreign currency to buy from overseas quite easier. [Due to several] financial restrictions, they have to exchange for RMB, you have to pull, if you're a small company, you have to show up your credit history, your credit history is not enough, you have to apply for the bank for the exchange it takes like a week, and you have to look for the technology and this and this, so there's a lot of this technical difficulties you have to go through. If it's a larger company, they have a larger quota, they have a larger relationship with the bank.

GOODMAN
Mhm.

EGAMBERDIEV
I mean, credit history.

GOODMAN
Right.

EGAMBERDIEV
So then the bank was like, "okay, no problem, you're a good client, a good standing client." And then you can exchange, and then they give you [funds]. So that's for some of them. And it's easy to control even the Hong Kong currency in their Hong Kong account and they can use it more and more freely, and it's more clear. They put it in Chinese bank, you have to exchange it, you have to convert it, there's a lot of financial variables. So this is first, the second thing is, they like the Western style because some of the CEOs, either they have themselves a Western education background, so they would prefer to attract Western investor, that might be a solution, or even if some of them have never been to overseas, they think that Western investment is more accurate in terms of steps, okay? And is more reliable and is more straight like the one the topic we were discussing, like we invest in you, but we have a strict guideline in terms of regulating this investment, how to use of this investment. In China, if you talk with Chinese, like the guy said, Mr. Chen, the bicycle CEO-

GOODMAN
Right.

EGAMBERDIEV
For the West, the guidelines are quite strict and are quite open and quite clear. It put out, you say we invest, we invest, we don't invest, we don't invest. Go. In China it is not like this, you have to take time, you have to go for *guanxi*, you have to talk, and then once you invest and then the people say "this guy's got to use this money appropriately or non-appropriately", when or how you're going to use this money. There's a lot of suspicions when it comes to the investment, because it becomes a lot more of human factor, not the business factor. As in business factor, you have the numbers, you put down everything [in] number[s], and you have to follow the strict guidelines. So some CEOs like this. So two years ago when I met about ten CEOs they said "I need a Western investor because China is too complicat[ed]." But, uh, in the case of her, if she's thinking about this project, this idea of silk road media technology to other silk road countries, [what this] means for her, I mean utilizing in terms of Western capital or Chinese capital, it doesn't matter.

GOODMAN
That's very interesting.

EGAMBERDIEV
Yep, so any other questions?

GOODMAN
No, I think that was great. Thank you.

Appendix H. Extended Summary for 5CGroup

BRIDGING THE GAP: ATTRACTING VENTURE CAPITAL TO CHINA

A summary of the current state of Western venture capital in Hangzhou, China.

Written by undergraduate students of the

WORCESTER POLYTECHNIC INSTITUTE

With the assistance of 5CGroup

by

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Date: December 15, 2015

Introduction to Hangzhou

Home to 8.8 million people and stretching 17,000 square kilometers, Hangzhou is a thriving hub of technological innovation. According to the National Bureau of Statistics of China, Hangzhou is the ninth richest city in China, with a GDP of over 834.35 billion yuan (130.79 billion USD), and is home to many of China's most successful companies, such Taobao, Alipay, and NetEase. The city has been named one of the best investing environments by the Japan Trade Vitalization Organization due to factors such as its educational facilities, efficient public transportation system, and continuous focus on urbanization ("Zhejiang Province Government", 2012). Additionally, Hangzhou has been praised by Forbes magazine as being China's best commercial city and is home to some of China's largest startup organizations, especially those in the e-commerce, organic agriculture, and food processing industries ("Capital of E-Commerce in China", 2009).

E-Commerce

In recent years, Hangzhou has become famous for its bustling e-commerce industry, even being called the "center for e-commerce in China", due largely to the Alibaba Group ("Capital of E-Commerce in China", 2009; Jacobs & Gough, 2014). Alibaba is China's largest online e-commerce platform and was founded in Hangzhou in 1999 by Jack Ma, China's wealthiest entrepreneur (Osawa, Mozur, & Winkler, 2014). Hangzhou's entrepreneurial engine is powered greatly by Ma, who established a college in Hangzhou for those interested in entrepreneurship (Yan, 2015). Alibaba also promotes entrepreneurship, as many of its employees have since gone off to start their own ventures. In 2014, Alibaba went public with an initial public offering of 25 billion USD, one of the largest in history. Many Alibaba employees began working on their own ventures, mostly in the e-commerce and internet industries (Chen, 2014). Since 2004, Alibaba employees have helped spawn 130 internet companies (Jacobs & Gough, 2014).

The same year that Alibaba went public, e-commerce in Zhejiang province reached $90.1 billion, an increase of 46% from the previous year. In addition to economic aid provided by Alibaba's shareholders, this dramatic increase can be traced back to changes in Hangzhou's official e-commerce policies ("Venture Capital Report", 2015). The government approved Hangzhou to establish China's first "cross-border e-commerce pilot zone." This change will allow for companies in Hangzhou to set the standards for e-commerce with respect to everything from tax refunds to customs clearance. Additionally, taxes on online transactions for goods such as wine will be reduced and quality standards will be more heavily enforced (Jing, 2015).

Due to its innate interdependence on goods and services, e-commerce can heavily influence many industries. In China, one of the largest industries e-commerce affects is agriculture, which will be explored in the next section. As of 2015, one third of all agricultural goods produced in China are sold online. To increase sales, the Chinese government announced its plan to invest 140 billion yuan by 2020 to provide Internet access to at least 50,000 villages throughout China. This will further promote e-commerce infrastructure in the agricultural industry, where a shrinking labor population and lack of access to loans has resulted in reduced earnings and a rural economic downturn (Xinhua, 2015).

Organic Agriculture

Inspired by government efforts to encourage urban agricultural development, China's organic agriculture movement was described by the Washington Post as “young urban professionals … giving up high-paying salaries in the city and applying their business and internet savvy to once-abandoned [farm] properties.” (Wan, 2010). In 2009, Hangzhou’s tea, flowers, fish, livestock, and vegetable sectors collectively output 2.9 billion USD, accounting for nearly 70% of the city’s total organic agriculture output according to the Hangzhou Municipal Government.

In nearby Shanghai, the agriculture industry has grown even more rapidly. In 2006, Shanghai had only three organic farms. By 2009, that number had grown to thirty farms, exhibiting a growth of 900% in only three years (“Organic foods a growing trend”, 2009). One year later, Tony Agriculture Development Company acquired a 10 million USD venture capital investment to create the largest agriculture farm in Shanghai (“Organic Agriculture Leader Tony's Farm Secures US$10M from Tsing Capital”, 2010).

There are five key factors indicating the future growth of the organic agriculture sector. These include an increase in disposable income of the average Chinese citizen, an increase in negative press about unhealthy food, cheaper costs of organic food due to better technology, cheaper land costs to grow organic food, and higher and more reliable industry standards for organic food ("BFA predicts organic growth spurt", 2010). There have been many companies taking advantage of these factors and have acquired investments in early and growth stages. The companies reside in all parts of China, including Shanghai, Beijing, and Hunan.

Food Processing

China has always required immense amounts of food to support its large population, but with families now being allowed to have two children, demand is expected to grow even more. Wang Pei’an of the National Health and Family Planning Commission estimates that by 2030 China's population will reach 1.45 billion people ("China's population", 2015). To keep up with this growth, Li (2013) project that, by 2030, China must produce 34.6% more grain per hectare than it currently produces. This new demand will provide ample opportunity for companies new and old, with startups already preparing for expansion.

One of the current food processing giants is the Hangzhou based Wahaha Group, ranked second in the Chinese food processing and manufacturing sector ("Food Production", 2011). Originally selling milk at an elementary school in 1987, Wahaha now dominates the Chinese beverage market, selling bottled water, milk products, nutritional drinks, and sodas, with its Future Cola even competing with the Coca-Cola Co. and PepsiCo, Inc. The group plans to expand further into international markets, with products currently sold at specialty stores all over the world ("Wahaha", 2004). Wahaha is growing to match demand, increasing their annual revenue by 23% in 2013 and ranking 19th in sales revenue out of all of China's private enterprises. The Wahaha group is the poster-child of the food processing sector in Hangzhou's economy, as well as a good indicator for the growth of the food processing business ("Today's Wahaha", 2012).

Although Wahaha has brand recognition, there are many food processing companies within Hangzhou, such as Fuchun Food Additives and Huahe Food. Fuchun was founded in 1995 and earned 11 million RMB creating soy additives and food emulsifiers ("Hangzhou Fuchun Food Additive Co., Ltd", 2014). Huahe specializes in fruits and vegetables, focusing on wines, salted vegetables, juices, and similar products ("Hangzhou Huahe Food Co., Ltd.", 2014). Both companies are small and growing, export their products worldwide, and are prime examples of targets for Western investment.

Government Support for Startups

Small businesses make up a large portion of economic activity in all first-world countries (Zeng, 2005). Most member countries of the Organization for Economic Co-operation and Development (OECD) have a governmental agency in place to serve small and starting businesses as a means to foster economic growth. (OECD, 2015). For instance, the United States has the Small Business Administration (SBA) whose main goal is providing assistance to small businesses through loans and counseling (Carland, Hoy, Boulton, & Carland, 1984). Similar agencies exist in other countries, such as the Small Business Service in the United Kingdom and the Small and Medium Business Administration in South Korea. These agencies exist in part to supply necessary funds to starting businesses, the lack of which is the major impedance to their growth.

In addition, China has its own agency for supporting its small businesses, the China Small and Medium-sized Enterprise Department (SMED). Like the United States' SBA or the United Kingdom's SBS, the SMED provides guidance for small businesses and helps network them with other countries. However, unlike the United States and United Kingdom, the responsibility for acquiring funds lies more heavily with local governments as opposed to federal agencies (Ding and Zhang, 2009). Although the political and economic structures in place in China are different than in other countries, there are government agencies already in place to assist small businesses.

The Torch Program

In the early 1980s, the Chinese government developed the Torch Program (Torch High Technology Industry Development Center, 2014), a plan to accelerate the development of high-technology startups and industrialization within China through Venture Capital Guiding Funds (VCGFs), seed funding programs, Technology Business Incubators (TBIs) and technology parks. VCGFs serve as governmentally subsidized partnerships between investors and Chinese businesses, whereas seed funding programs such as InnoFund provide direct state seed funding for innovative startups. TBIs form a structure by which startups can receive funding and business consultation with decreased risk to investors. Technology parks provide a structure by which communities of technology companies can grow and gain legitimacy as a function of proximity to other companies. As of 2012, Torch has involved the establishment of 105 new high-tech development zones (Torch High Technology Industry Development Center, 2014).

Hangzhou Economic and Technological Development Zones

Found in China's larger cities, technology parks also facilitate technological and regional development, allowing for technologically minded communities of businesses, along with higher education and research institutions. Technology parks combine all of the other components of the Torch Program to foster innovation and promote the growth of startups within specific geographic locations. Tan (2006) describes the key characteristic of technology parks as the development of a formal connection between knowledge and technology based organizations, allowing for transfer of technology and business knowledge between the on-site organizations.

Hangzhou is home to multiple special economic zones including the Hangzhou Economic and Technological Development Zone (HETDZ), Hangzhou Export Processing Zone, and Hangzhou Hi-Tech Industrial Development Zone (HTIDZ). The main goal of these zones, like those in Beijing and Hefei, is to promote innovation and entrepreneurship and bring economic prosperity to the region.

HETDZ was founded in 1993 and has since earned an "AA" ranking ("China Knowledge Press", 2011a), making it one of the most attractive places in China for businesses and investors. In 2013 the zone had a GDP of over 42 billion RMB, an increase of 10% from 2012 (Zheng, 2014). This growth is what interests major investors such as Toshiba, Coca Cola, and LG, who are promoting the key industries of the zone, including electronics, machinery, and food processing. The zone itself contains smaller industrial parks, such as Modern Logistics Park, Innovation Industrial Park, and the Singapore-Hangzhou Science and Technological Park, where 5CGroup is based. Although HETDZ has advantages like human resources and a close proximity to the Export Processing Zone, foreign exchange rates are a problem for export-oriented companies, and operating and labor costs are relatively high (Hong Kong Trade Development Council, 2015).

Another key advantage of HETDZ is its Xiasha Higher Education Park, which is home to over 120,000 students and 14 universities and colleges. HETDZ's governing committee is attempting to make use of this abundant knowledge resource, funneling its resources into expanding knowledge intensive enterprises such as technology and research (Zhejiang Province Government, 2012). HETDZ is a prime example of how China is transforming itself into a knowledge based economy with technology-intensive industrial focuses.

Also within Hangzhou is the aforementioned HTIDZ, which was founded in 1991 and has since received an "AA" ranking from China knowledge for its first-tier recommendations and attractiveness ("China Knowledge Press", 2011b). This zone encourages investment in the information technology, biochemical, and pharmaceutical industries. In 2010, the GDP of the zone was growing at 13.1%, and it contributes 5.7% of Hangzhou's total GDP. The zone contains more than two-thirds of Hangzhou's high-tech companies, which in turn produce over half of the zone's total GDP. The HTIDZ is even attractive enough to bring in investments from foreign enterprises like Nokia, IBM, and Microsoft. However, the biggest player in the region is China's own Alibaba group. (Zheng, 2014). Overall, the zones are fertile places for companies to receive special government support and attention from investors in order to expand.

Current Policy Changes

Recently, as a function of President Xi Jinping’s One Belt, One Road Initiative, China has been expanding its reach toward the West in hopes of developing a new Silk Road. This initiative was proposed in September 2013, and involves the development of Eurasian infrastructure, specifically railways, highways, oil and gas pipelines, power grids, internet networks, and aviation routes. The hope is that the development of this infrastructure will allow for close economic ties between Chinese provinces and Europe. A large part of this plan is the creation of the Asian Infrastructure Investment Bank (AIIB) to finance infrastructure projects. As of October 2015, there are 57 prospective founding members of the AIIB, both in China and in the West (Li & Wang, 2015).

One of the main gateways between China and Europe is Chengdu, which has become a hub for Chinese economic development as a function of its location and transportation infrastructure. Rated by Fortune magazine as one of the 15 best emerging business cities, Chengdu has a GDP of over 1 trillion yuan, and is home to 268 Fortune Global 500 companies (Yu and Chao, 2015). A large part of Chengdu’s recent success is related to the One Belt, One Road Initiative and its transportation infrastructure facilitating trade and economic growth. In 2014, the Chengdu Shuangliu International Airport handled over 37.5 million passengers, and has a second airport scheduled to begin construction in 2015. Richard Tams (2015), the British Airways Executive Vice President for China, stated that "Chengdu is a key route for British Airways as it broadens our network in China, in addition to our existing routes from Beijing and Shanghai."

In the collaborative spirit of the One Belt, One Road Initiative, China has also announced its intention to take part in the European Union (EU) Investment Plan, which is in development as a method of improving the European economy (Li & Wang, 2015). This plan was proposed by Jean-Claude Juncker, the president of the EU Commission, and involves the creation of a 315 billion Euro investment fund. This will begin with a 21 billion Euro reserve, and the commission and the European Investment Bank (IEB) hope to mobilize the 315 billion Euros within three years (“Juncker reveals giant EU investment plan”, 2014). The European Union Commission has embraced China's global outreach, wishing to "deepen [their] economic relations with China in the context of the investment plan, as well as the One Belt One Road initiative, to promote connectivity between EU and China" (Chen, 2015). By taking part in this Euro-centric plan, China has demonstrated a desire to engage more fully in the global economy and work collaboratively with Europe.

Identify Western Preconceptions

In order to highlight the possible barriers in attracting Western venture capital to China, we investigated the preconceptions that Western investors have of Chinese businesses, and how these investors feel about providing capital to growing Chinese companies.

We emailed a questionnaire to Western investment companies and consulting firms in order to acquire up-to-date information on Western business' perspectives on venture capital investment in Chinese businesses. The Western investors were chosen through online research and personal networking, and were contacted during September and October of 2015. This online research consisted of searching the internet for reputable investment companies based in Europe and the United States, then contacting the company either via email or via the company's official website. A short questionnaire was emailed to fifty western investment companies identified through online lists such as Forbes' 50 Most Trustworthy Financial Companies and the European Securities and Markets Authority's comprehensive list of European investment firms. The data gathered from the questionnaire was used to verify the results of the literature review by seeing if there was overlap in the responses, or if any key ideas that were missed.

We also conducted proxy interviews via a personal contact with two representatives of CIT Group, a Fortune 500 American financial holding company, to expand on their questionnaire responses. These interviews were held with David Gibbs, directing manager, and Adam Seiden, a second year analyst. The representatives provided Western opinions on investing in Chinese SMEs and the investment process in general. The data collected from the Western questionnaires and interviews helped us understand what Western investors think of Chinese businesses and the investment process as a whole.

To expand on the data received from the businesses, an interview was also held with Professor Gina Betti, the Associate Director of the Collaborative for Entrepreneurship and Innovation at Worcester Polytechnic Institute's School of Business. Unlike the other responses gathered, an in-person interview was conducted instead of email correspondence or proxy interview, as it allowed us to ask follow up questions to gain a deeper understanding of the topics discussed. During the interview with Betti, we asked nine questions regarding business education and the Chinese economy, using WPI as an academic benchmark. Though the responses from Betti cannot be said to be the consensus among American intellectuals, they still allow for a better understanding of the Western educational and business perceptions of Chinese/Western investment interactions. The information gathered via interview confirmed and reinforced the data on Western perspectives gathered in the literature review and questionnaires to companies.

Identify Chinese Perspectives

The final objective of the project goal was to determine the needs and experiences of Chinese businesses for attracting venture capital investment to their projects in China, with a particular focus on businesses in Hangzhou.

In a similar fashion to the questionnaire for Western investment firms, we provided a questionnaire via email to Chinese companies who have had experience attempting to attract external venture capital investment. The networking procedure involved reaching out to personal contacts at 5CGroup and Hangzhou Dianzi University, and asking if they were aware of any clients or local start-ups that would be willing to participate in an interview concerning their experiences in attracting outside venture capital for their projects. Through 5CGroup, the questionnaire was sent out to twenty companies, and full responses were received from eight. Additionally Nodir Egamberdiev, Vice General Manager of 5CGroup, was interviewed to gain a better understanding of the market and general business environment in China. Follow-up interviews were also conducted in person with representatives of two of the questioned companies: Jingtian Chen, CEO of electric bike startup Letu, and Li Min, the CEO of Qiao Ai Culture Company ltd.

The purpose of using this questionnaire was to understand the investment process from the perspective of Chinese startups. When constructing the questions, we made a point to not directly present the barriers to Western investment that we had identified through research. One of the reasons behind interviewing the Chinese companies was to see if those same challenges arose from their own experiences. As such, the questions used did not reflect the problems that were already identified, but asked the business representatives to identify the problems they believed were more important. In addition, the responses provide an answer as to whether or not Chinese startups are actively seeking Western investment, and if any are having problems acquiring financial support. Through all of the interviews and research, we were able to answer three core questions important for understanding venture capital in China and the West. These three questions are as follows:

1. Do Chinese start-ups want Western investment?
2. What are the problems preventing more Western investment?
3. What is the source of these problems?

Roadblocks Inhibiting Western Investment

Through a detailed review of published literature and peer-reviewed articles, we identified trends that allowed for a greater understanding of the barriers that stand in the way of Chinese SMEs seeking Western investment. These trends were then verified and confirmed through correspondence with Western investment professionals, scholars, and Chinese SMEs. One major underlying theme was an issue of trust between Western investors and Chinese businesses. The lack of trust was caused by the numerous challenges involved with the investment process. The challenges that were found take the form of five main problems: historical conflict, business culture, communication, laws, and the current state of the Chinese market. We formed the list of challenges by clustering related answers from the questionnaire and compared them with the data collected in the literature review and interviews. What was made clear, regardless of industry, location, or stage of investing, was that 100% of the Chinese businesses that were questioned agree that there is a need to increase the amount of Western investment in China in order to bring in more contacts and a larger pool of capital. However only 25% had sought it, indicating a present and urgent need to tackle the problems identified and work on solutions for the future. As Chen said in our interview, "We have no chance. They want to [work with foreign investors] but have no way, we don't know how to contact with outside investors."

Trust

An underlying source of tension preventing Chinese businesses and Western investors from cooperating fully is a general lack of trust. We found that both Western investors and Chinese companies do not completely trust one another. In our interview with Jingtian Chen, he said that trust was one of the key problems preventing him from acquiring Western capital. However, he was one of the only business leader and industry professional that cited mistrust directly as a barrier to their attempts to garner Western venture capital. In a majority of responses from both China and the United States, including those of Professor Gina Betti, Adam Seiden, and David Gibbs, trust was not cited directly, but arose as an underlying factor of other major issues which make investors and businesses wary. Furthermore, Nodir Egamberdiev, a representative of both Chinese and Western business experience, believed that trust was only an issue on the corporate level. He said in our interview that "on the government level, on the economy level ... the relationship between China and the West ... is quite stable" but "on the corporate level there are a lot of frictions." It is our belief that there is an unfounded prejudice among both parties which causes mistrust. As Jingtian Chen said, "because [I am] Chinese and [the investors] are foreign, why should I believe them?" This mistrust does not go as far as to halt business between the people, but it is enough to be a significant barrier to business.

A 2012 study produced by Pew Research Center found that 68% of the U.S. public believe that the U.S. cannot trust China "too much or at all," and that only 26% believe that China can be trusted "a great deal or a fair amount." Furthermore, the Pew study claims that of five expert groups of government officials, retired U.S. military officers, scholars, business and trade leaders, and news media professionals, 65% of respondents believe that China cannot be trusted. Mistrust causes numerous problems between investors and investees, from doubting the profit claims of Chinese businesses to a reluctance toward meeting or sharing information. Although investment in Hangzhou is greatly encouraged by companies such as 5CGroup, business will not occur in the absence of mutual trust.

We found that this mistrust of Chinese businesses by Western investors can be linked in part to the legal, cultural, and economic differences between China and the West. Trust is a major problem that arises from the other roadblocks. However, each subsequent factor has its own impact independent from trust as well. The impacts of these factors will be discussed in-depth later.

Historical Conflict

Dating back to the Western expansion of the 19th century, China historically has held a significant amount of animosity toward the West, resulting in poor foreign relations between the two parties. Such hostility stems from a number of incidents, one of the most prominent of which being the Opium Wars that occurred in China during the mid-19th century. Described by Hanes & Sanello (2002) as "a dramatic narrative of power and corruption, of human frailty, greed, and stupidity", the Opium Wars were fought from 1839-1842 and 1856-1860 after the Chinese government attempted to stop Britain's attempt to trade and distribute opium in China. Countless war crimes were committed, and the wars have since been described as "embarrassing symbols" of Western imperial domination in China and an example of how poorly the West has treated the East throughout history.

While the Opium Wars may have caused the Chinese to believe Westerners were a hostile people, the Cold War era resulted in Westerners developing a similar attitude towards the Chinese. During the Cold War, vigilance against communism had become a national priority for the United States, who had begun to enforce anti-communist and McCarthyian ideals through the public media (Whitfield, 1991).

After conducting our literature review, we postulated that this history of conflict between China and the West impacted business relations between the two parties as one of the significant factors impeding Western investment in Chinese businesses. However, we found that although this has been a roadblock for Western investment in the past, history is progressively becoming less of an issue as China transitions into a more Western economic model and as a younger generation of entrepreneurs enters the business world with a fresh view of international relations. The fact that our interviewees did not raise historical conflicts as an issue suggest that this is no longer an important issue.

As China continues to adopt a more capitalist economic model, the perspectives of Westerners are beginning to shift. In the aforementioned 2012 survey held by the Pew Research Center, 43% of Americans between the ages of 18 and 29 trust China a "great deal," whereas a much smaller minority of older Americans trust China. This represents a significant social shift as younger Americans are less influenced by the historical tensions between China and the West and lack the personal context of conflict between the two nations. Therefore, the rising generations are more likely to trust one another and work together.

Through our research, we found that there are few recent sources which support the influence of historical conflicts. Also, historical conflict went unmentioned by the Chinese interviewees and questionnaire respondents, supporting the conclusion that it is progressively becoming less of a direct issue. The impact of the Cold War and other historical conflicts is becoming more and more insignificant compared to the other roadblocks, especially in the rising younger generation of business-people who claim they are 34% more likely to trust China, based on the Pew Research Center survey.

Business Culture

In addition to preexisting conflicts, deep cultural gaps between China and the West directly affect the business relations between companies and their investors. Chinese business negotiations are generally based upon unwritten social rules, whereas Western businesses focus on specifically designed contracts that can be enforced under that country's legal system (Pukthuanthong & Walker, 2007). As found in our interviews, this fundamental difference in business culture not only leads to mistrust, but also influences business relationships, which can lead to misunderstandings with regard to the details of business negotiations. The results from our questionnaires and interviews also revealed that both Westerners and Chinese business representatives value the same traits of good businesses, things like teamwork, market positioning, branding, etc. We believe that any minor differences in values are trivial and that the critical cultural issue is guanxi and its relevant business practices.

Chinese business culture is based on guanxi, the network of relationships that a businessperson maintains within and outside their company. According to Pukthuanthong & Walker, Western investors in general have a poor understanding of how one must develop their guanxi to best suit both their investments and themselves. They also claim that investors must do extensive research into the guanxi of firms considered for funding in order to decide where to invest. This claim is supported by our interview with Nodir Egamberdiev, who stated that guanxi can be the most important part of an investment in China; guanxi can sometimes be more important to acquiring investment than actual ability or potential profitability.

However, when a company's guanxi network does not include Westerners, it is difficult for the Chinese companies to acquire Western investments. As stated in our interview with Li Min, "the challenge, for this stage company, is the network. They have a very narrow network of investment, people investment community." Similarly for many other Chinese companies, their network does not include Western investors. It is simply far easier to use already existing contacts to get Chinese investors, who are within their network and share their ideals about guanxi and doing business negotiations.

There is an incongruity with regard to how Chinese and Western investors decide which businesses to invest in. In our interview with Jingtian Chen he stated that although Chinese investors put a large focus on guanxi and personal relationships when examining investment prospects, foreign investors are much more interested in the specifics of the business model. Without any Western contacts, it can be difficult for Chinese businesses to find, communicate, and work with Western businesses. Half of the interviewed companies stated that they had difficulty acquiring contacts or communicating with potential investors.

Although guanxi has many benefits within Chinese business relations, the unwritten and trust based nature can cause problems for both Chinese and Western business professionals, as described by Chen and Egamberdiev. Unlike with Western investment, Chinese investors give money without explicitly restricting what that money can or should be used for. The West has binding contracts with written instructions on exactly what the invested capital can be spent on. Because of this, Westerners trying to invest in China might not be confident that their money will be spent in the way that they want it to. In the interview at Qiao Ai Culture Company, Egamberdiev spoke for Li Min stating "There's a lot of suspicions when it comes to the [Chinese style] [Chinese style] investment, because it becomes a lot more of human factor, not the business factor." On the other hand, as mentioned by Betti, Chinese businesspersons often feel overwhelmed by all of the restrictions and choices forced on them by American society. Overall, there are large differences with how negotiations are conducted and comped in Chinese and Western cultures.

In addition to the large differences in business culture, there exist differences between Chinese and Western businesspeople when it comes to their way of thinking. One quarter of the Chinese companies questioned said that the biggest barrier working with Western investors was the differences in the way of thinking. These seemingly minor incongruities, such as how a meeting is held or how a presentation is constructed, can have substantial impact on how two parties perceive each other and whether or not a deal is made. Of the Chinese companies interviewed, 75% responded that there are significant cultural barriers in acquiring investment, and 75% also responded that culture or way of thinking is one of the largest barriers when it comes to working with Western investors. This same sentiment was expressed by Betti, indicating that this hurdle affects both sides; cultural differences are major roadblocks for both Chinese companies acquiring investment and Western investors looking for investments.

Communication

Another factor inhibiting Western investment in China is the general lack of communication between the West and China. We postulate that this factor consists of three different but interrelated communication challenges: the inherent language barrier that exists between China and the West, the physical distance between Chinese businesses and possible Western investors, and Chinese business practices which involve the withholding of information.

The majority of business in the United States is English, while the majority of business in China is conducted in Mandarin Chinese. According to Harzing & Feeley (2008), international business communication relies heavily on a "shared language," a common context in which all international business relationships should be held. Percy Barnevik, former CEO of the Switzerland-based ABB Group, identified the lack of such a language as his company's "single most severe operation problem." Half of the questioned Chinese companies also cited language as one of the greatest challenges in working with Western investors. In the context of Chinese business, overcoming this barrier can seem especially difficult, considering most Westerners are not familiar with Mandarin Chinese. On the other hand, both Betti and Chen claim that since translators, both human and electronic, are readily available, the issue of language is no longer very significant. In our interview with Betti, she believed that "the language is not a barrier because there are technologies that translate. Google translates for you, you can hire a translator." Similarly in our interview with Chen, he argued that "the problem is not English, because you can find so many Chinese guys who can speak English in China right now... the problem is like, the way to communicate, or to find the foreign investor." From this, we believe that language is a deterrent to initiating contact and finding investors, but it is not a particularly significant factor preventing or inhibiting communication once contact is established.

The second significant difficulty involved in communication is the distance and time required to travel between China and the West. Betti remarked that a significant factor in the decision to invest in a specific company is the ability for the investor to monitor their investment to ensure its success. In addition to monitoring an investment, forming strong relationships with business partners is also important to ensure success. Both asset monitoring and the formation of guanxi are made difficult by the distance and travel time between investor and investment. Although video calling is becoming more commonplace for long distance business meetings, it has yet to fully replace all of the benefits of an in-person meeting or presentation. As it is inconvenient to repeatedly travel between China and the West or permanently station an investor in China; many investors prefer not to engage with businesses that they cannot adequately monitor. As stated by Betti, it is "just a matter of organizing and communicating what is available in terms of investment opportunities" and "being able to meet face-to-face whenever possible to go over what the opportunities are."

Finally, China's private, or even secretive, business culture has made it difficult for Western investors to gather the information needed to safely invest in the Chinese market. According to Seiden, information is "one of the most important factors when it comes to making an educated investment." However, Egamberdiev claims that information is not as important to Chinese investors. Simply put, Chinese investors care more about who is investing in the company and what their reputation is rather than all the statistics surrounding the company's profitability. As a result, China's trend of withholding information from the public may not impact Chinese investors much due to the investing culture, but has led American investors to be wary of investing in Chinese firms.

Overall, communication is a definite barrier when it comes to connecting Western investors with Chinese companies. The Chinese business must have contacts that it can trust and effectively communicate with in order to secure an investment. But even more importantly, Western investors must be assured through concrete facts and statistics that their investment is going to the best company and is being used in the right way. By meeting in the middle, the two sides can work together smoothly, although compromises must also be made when it comes to both countries' legal structures.

Laws

The next major challenge to attracting Western capital is the legal system in China. We claim that Chinese law is a problem for many Western investors due to its unfamiliarity, lack of regulations, and instability, while simultaneously interfering with business operations. In our interview with David Gibbs, directing manager of CIT group, he stated "there are different regulatory, political, and legal structures in place there so it is difficult for American investors who have little knowledge of those different systems to invest."

On a national scale, China's legal and economic reforms since 1979 have caused institutional changes that have paved the way for modern business (Child, 1994). Especially in recent times, business laws are changing quickly due to China's modernizing legal and economic standards. According to Gibbs, many American investors do not invest in Chinese startups because they do not understand the legal structures in place. As Jiang (2006) points out, "dramatic policy shifts by the Chinese government can suddenly transform the business conditions" that a manager operates in, and that "it is not surprising that North Americans have had problems when doing business in China." Jiang and Gibbs claim Americans and other Westerners do not want to take the time and resources to understand the current legal structures, which will inevitably change, in order to invest in what is already a relatively risky investment. In addition, the investors have to fully understand and cooperate with their own country's laws as well as China's, which can limit the amount of opportunities to make a profitable, trustworthy investment.

Unlike most Western countries such as the United States, China does not have laws which enforce businesses to publicize their reports on annual growth, sales, and other figures used to describe a startup business. According to Mallin & Rong (1998), "the whole concept of corporate governance and reporting as it is generally perceived in the West, is probably not well understood in China." Without stable laws or laws enforcing the release of key information, many Western investors would be uneasy sending capital to Chinese businesses.

Western venture capitalists must also be aware of how government intervention may affect their interactions with the companies that they invest in. Chinese companies have to work directly with the government, and Chen and 25% of the questioned companies claim that government regulations can hinder the investment process. Steinfeld (1998) claims that this intervention is caused by the government's fear of social instability developing as a result of the shrinking state sector combined with a large, increasing population, potentially resulting in a rise in unemployment. Bruton et al. (2002) extrapolate that this fear tends to result in overproduction and over-hiring which Western investors must take into account. Western venture capitalists often struggle to achieve the same level of success with Chinese investments that they do with Western investments because the cultural environment and need for broad networks is different from that of the West.

In addition, the loose enforcement of intellectual property laws in China makes it difficult for investors to ensure that innovative concepts or technology will not be immediately reproduced and pushed out of the market by competing products. In 2001, China was recorded as having a 92% software piracy rate, caused largely by the fact that personal computer malls across China sell their products with pirated software pre-loaded on their systems (BSA, 2002). In addition, Baidu, China's most used search provider, has been flagged by the US as a "notorious pirated goods market" due to the number of piracy websites it includes in its search results ("US says China's Baidu is notorious pirated goods market", 2011). In recent years, piracy still accounts for almost half of the consumer market. According to China's Xinhua newspaper, over 40 percent of goods sold online in China in 2014 were either counterfeits or of bad quality (Song, 2015). Wang (2004) attributes China's pirate culture to the "inability to create a multi-dimensional, all-around deep understanding of intellectual property protection", as many Chinese citizens are not aware that piracy is illegal and continue to make a living selling pirated goods. It is this tolerance and lack of awareness that causes investors to fear that their investments might be reproduced or pirated, thus resulting in a lower return on investment.

Market

The final roadblock that we identified from our data is the Chinese market itself. General market instability and government involvement such as IPO freezes are clear hurdles that Western investors must take into account, however the situation as a whole does seem to be improving and does not pose as much of a problem as the prior issues.

The Chinese stock market crash in 2015 disrupted the upward trend in the market that had begun in 2011. The MSCI China Index had steadily increased since 2011, but became stagnant in mid-2015 (MSCI, 2015). According to Gibbs, the fact that the market had slowed so much caused many investors to turn away from Chinese investments. Nonetheless, Chinese small businesses can display their success to investors, claiming 39.6% higher average growth from startup and growth stages than their US counterparts (Cumming, Firth, Hou, & Lee, 2015).

In addition to the slow market, Chinese freezes on all Initial Public Offerings throughout the country in 2012, and again in January of 2015 following the stock market crash, make investment in Chinese businesses both difficult and unappealing for Western Investors ("China Freezes IPOs in Attempt to Stem Stock Market Bleeding", 2015). The freezing of IPOs supports Adamski's (2015) claim that the legal framework for venture capital in China through initial public offerings is flawed. He believes that "the party-state's incremental implementation of convertible preferred stock provisions reflects Western expressions of economic autonomy while also reflecting counteracting socialist goals of state supremacy," and that the incremental approach is better than simply copying the methods in place in the United States. Even though China is adapting many of its policies to be more like Western nations, the Chinese government is still impeding the ability for international business to be done freely through IPOs because this type of investing is fundamentally against the social goals of the state.

Egamberdiev claims that the Chinese economy as a whole is advancing. For the early part of the 21st century, China was seen as the manufacturing center of the world. However, it is slowly losing its advantages in markets like textiles and electronic manufacturing to other countries in South East Asia. Instead, China is now focusing its legal and economic policies on transitioning itself into a knowledge-based economy, as opposed to a value-adding export economy. Exports are losing their value in China; businesses based on the old ideology are not as profitable as they once were. Currently, China is in flux and the market reflects its instability. Nonetheless, as China moves forward with a more modern, independent economy, it will be able to flourish under its own power.

China's recent economic troubles will improve as the economic fluctuations settle. Chinese companies have already begun meeting the needs of the new knowledge-based market.

This is supported by the fact that China is home to many new, successful companies, such as Tencent, Alibaba, and Wahaha. In addition, policies have been put in place over the past few years to help stabilize and grow the economy. Although economic instability and limited growth at this time are unavoidable and inevitable given the current state of the market, we believe that the hindrance of the fluctuating Chinese market will become less important as China continues to invest in infrastructure and move towards a knowledge-based economy.