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Entry Mode (D): Occidental's Accident—Joint Ventures[1]

China's growing economy was attractive from a business standpoint, but the country's economic, political, and cultural differences posed challenges to many foreign firms. It was critical for these firms to choose the right entry mode in order for expansion into China to be successful.

In 1979, China instituted an "open-door" economic policy, which permitted international trade and direct investment for the first time in many years. At the time, firms that wanted to do business in China were required to do so through either direct sales or joint ventures authorized by the Foreign Investment Control Corporation. Foreign partners could hold 25% of a joint venture and were required to provide equipment and to transfer technology. In the early 1980s, China's coal reserves were estimated at 900 billion tons, but the country lacked the capital and technology to be able to extract enough coal to meet its growing energy needs. China's leaders knew they needed to develop the country's energy sector, and they viewed the open open-door policy as the answer.

The Occidental Petroleum Corporation (OPC), a California-based oil and coal exploration company, was intrigued by the opportunity to enter China. Founded in 1920, the firm had operations in the Middle East, North Africa, and Latin America.[2] In addition, OPC's CEO, Armand Hammer, had an impressive international track record. He successfully negotiated the first trade deal between the U.S. and the U.S.S.R. in the 1930s and had years of experience working in Eastern Europe.[3] Hammer saw China's open-door policy as an opportunity to expand OPC's overseas operations and gain first mover advantage in what was sure to be a huge market.

A fifty-fifty equity joint venture, the Antaibao Project, was established in 1982 between OPC and a coalition of firms led by the Chinese National Coal Development Corporation (CNCDC). Initially, the joint venture appeared to be a win-win situation. However, it soon became clear that the partners had different strategic goals. The CNCDC's goals were closely linked to their government's priorities: validating and promoting the new open-door policy, attracting foreign investment, and securing the transfer of new technology. On the other hand, OPC, whose earnings had stagnated, was looking to China as an opportunity to increase profit. Driven by its hope of future earnings, OPC began to make big promises and lost the

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