Autocratic Brews:

Small Firm Politics in China's Craft Brewing Industry

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Abstract

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What is the set of available strategies available to small firms vis-à-vis both the government and its rivals in emerging markets? What drives firms to stay out of the formal economy? Why do some jealously guard trade secrets while seeking to aggressively hurt competitors' reputations while others are generally cooperative? Do these strategies change over time? To answer these questions, this dissertation introduces an original, firm level dataset of Chinese microbrewers that I composed after several excursions into the field over several years. It exploits a rich source of quantitative information provided by a careful and thorough investigation into firms' thinking, behavior, and outcomes, as well as qualitative data gleaned from hundreds of interviews conducted in brewpubs, restaurants, and industry trade shows. The evidence supports the argument that prior negative experiences with the government or rivals, relatively large firm size, and early entrance status decreases the probability that a firm will use cooperative strategies. On the other hand, small and sometimes informal firms have a higher probability of using cooperative strategies. I argue that this is because small firms must make alliances in order to survive in nascent emerging markets.

To Gavin and Max,

for reminding me what matters most

Acknowledgments

In the preface of *Vodka Politics*, Shrad (2014) states that his book about vodka politics in Russia is a good post-tenure topic. However, given that alcohol plays an essential role in the culture and politics of many societies, not to mentioned a primary source of revenue for many governments, it is an important topic to study seriously. This project started out with a single connection to the craft brewing industry in China, but the project and my graduate studies were completed thanks to the help and support of many.

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Anne Greenleaf also provided feedback and editorial suggestions to many of my papers and chapters, including my dissertation. As Doris, Anne, and I were on fieldwork at the same time, I had the unique experience of visiting field sites, doing factory tours, and meeting new potential interviewees. This not only enriched my research but also my experience in China. Additionally, Anne provided a huge amount of personal support to me, answered (and still answers) late night nervous text and voice messages regardless of time zone. I am so grateful that we became such good friends outside of work.

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In addition to life being generally hard, graduate school is a special sort of difficult, especially PhD work. It is stressful and anxiety inducing, often to a point that is unwarranted given the relative lack of importance of much of the work. This imposes real costs (monetary and non-monetary) on many graduate students, including myself. It can hurt mental health and put immense pressure on relationships. To that end, I would also like to thank Christopher Kemp. Though our relationship could not survive my graduate school career, I am grateful of our years together, including the move to Seattle, and so appreciative of all of the support while I was in this program.

My friends and family encouraged me to finish my dissertation in the darkest hours (or years, rather) of my graduate studies. I have missed funerals, birthdays, anniversaries, weddings, holidays, and myriad other important events due to graduate school and they never took it personally. They listened to my rants and worries, dealt with various symptoms of Impostor Syndrome, and loved me even when my mental health was completely shot. I am particularly grateful to my Mom, Tina Fenton, and sisters, Jessica Noveck and Ashley Ortiz, whose unconditional love and tolerance for academia surpassed my own abilities. Kuntheary Reth Macdiarmid and Matthew Miller are also deserving of immense gratitude, for listening, for being present, and always being there. Along with my sisters and

Mom, their support is probably the only reason that I was able to survive some of the toughest years of my graduate school career: the death of my nephew Gavin Ortiz in 2011, my parents divorce in 2012, and my own divorce in 2016.

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Contents

List of Figures

List of Tables

Chapter 1

Introduction

1.1 Motivation

In 2012, a Chinese musician from Beijing befriended an American graduate student from Oregon who was studying abroad in China[1]. True to his home state, the American was a skilled home brewer; he soon taught his Chinese friend how to brew beer on a small scale. Eventually, this unlikely duo forged a business partnership. A mere verbal agreement sealed the deal: while the student would contribute basic instruction and recipes for brewing, the musician was tasked with producing and distributing the resulting beer. To make this happen, the musician rented a ramshackle space in a factory zone on the outskirts of a city in Central/Western China where he shared the third floor with workers who produced everything from shoes to auto parts.

Soon this microbrewery, which I will henceforth refer to as "Zhang Wei" was off to the races. It obtained small brewing tanks from a domestic manufacturer, identified a domestic supplier of grains, malt, and hops, and began brewing full time. Zhang Wei soon connected with other brewers in major Chinese cities and began distributing beer in pony kegs to local bars. A small, unmarked van made its deliveries. A family member helped keep the books.

This was all done while flying under the government's radar. Zhang Wei procured no permits or licenses to produce or distribute beer in China. It did not pay taxes. According to the musician, "you

[1]Please contact the author for the most up to date version or with questions at jnoveck@gmail.com.

should never deal with the government if you do not have to; it is less trouble to find the right person and just pay them to either help you do what you want or to evade formal regulations and required processes that are burdensome and have long wait periods" (Interviews #1, 13). Fortunately for the partners, Zhang Wei managed to avoid run-ins with local authorities-at least for a while.

While deep distrust of local authorities motivated Zhang Wei to continue to find ways to circumvent the formal economy, it chose an aloof approach when dealing with its growing competitors. According to several industry insiders, Zhang Wei was not in the habit of participating in the industry's vaunted rumor mill. Even when competitors brazenly poured Zhang Wei beer from their kegs and bottles, passing it off as their own, and later rented space adjacent to its upgraded taproom, Zhang Wei refrained from gossiping about its competitors, let alone spread innuendos and false accusations. Nor did it try to fight off its new neighbors. To the contrary, Zhang Wei openly shared information about its brewing process and business practices (Interviews #1, 23, 36).

As demand for local beer skyrocketed, and investors grew increasingly interested in China's beer and wine industry, Zhang Wei steadily grew and expanded. Despite the fact that it remained part of the underground economy and adopted a "live and let live" approach to its business rivals, it thrived. By 2015, business was booming.

Not every microbrewery in China developed in the same manner, however. Many entered the formal economy and followed the letter of the law. Some dealt with their competitors in a more adversarial manner.

Consider the following example. In 2010, two foreign investors teamed up with a silent Chinese partner and secured space for a restaurant and microbrewery in a trendy suburb on the outskirts of a city. This brewery, which I will refer to as "Wang Fang," followed the formal rules and procedures, including obtaining the necessary permits and licenses from the relevant government bureaus. In terms of how Wang Fang engaged with its competitors, it vigilantly protected its trade secrets: information about where to acquire hops, yeast, and good quality brewing tanks was kept under lock and key. Wang Fang also regularly spread rumors, often malicious, about fellow brewers and the quality of their beer. Wang Fang belittled less experienced outfits and complained that too many players in the industry did not know how to brew the "right way," and did not conduct business the "right way" (Interview #52, 75, 82, 85, and 91).

The big differences separating Zhang Wei from Wang Fang motivate several questions about the behavior and fate of small firms in emerging markets such as China. What is the set of available strategies available to small firms vis-à-vis both the government and its rivals? What drives firms such as Zhang Wei to stay out of the formal economy? What drives firms such as Wang Fang to jealously guard trade secrets while seeking to aggressively hurt competitors' reputations? Do these strategies change over time? That is, do firms such as Zhang Wei at some point decide to join the ranks of the formal economy? Do firms such as Wang Fang go from being nasty to their competitors to playing nice?

This dissertation seeks to address these questions. To do so, it introduces an original, firm level dataset of Chinese microbrewers that I composed after several excursions into the field over several years. It exploits a rich source of quantitative information provided by a careful and thorough investigation into firms' thinking, behavior, and outcomes, as well as qualitative data gleaned from hundreds of interviews conducted in brewpubs, restaurants, and industry trade shows.

The acquisition of both the quantitative and qualitative components was made possible by my command of the Mandarin language and a deep dive into the sociology and anthropology of the fledgling microbrew industry in China. As I researched its key players and locations, I fully immersed myself in its unique business ecosystem and culture. This allowed me to view the industry from the perspective of an insider. And my considerable time spent in the field allowed me to adopt a dynamic lens by which to view a rapidly evolving industry that has not received much attention hitherto, let alone any academic interest.

As such, this dissertation contributes to multiple political economy literatures. These include the political economy of regulation, in general, and food regulation, in particular, which itself encompasses food safety and the retail food and beverage industry. The insights also pertain to how small firms operate in emerging markets, regardless of sector, because it "brings politics back into" literatures such as management and business strategy studies.

When property rights are insecure and regulations are opaque and their enforcement is partial and politicized, as is the case in the Chinese food and beverage sector today, small businesses such as microbrewers and restaurants are forced to navigate the shifting sands of highly uncertain returns on their investments. Regular business risks at the micro-level, such as volatile input costs and changing consumer tastes, along with those at the macro-level, such as changing interest rates or unpredictable exchange rates, are amplified by insecure property rights and a capricious, ever-evolving regulatory landscape. Moreover, the latter risks may express themselves differently at different levels of government: central, provincial, municipal, and district.

Along those lines, this dissertation's chief contribution is to highlight the fact that, in the developing world, a small firm's profits, if not its very survival, often depends on honing a strategy vis-à-vis its competitors that is adapted to the unique challenges posed by insecure property rights and capricious government officials. To be sure, when it comes to dealing with rivals, small firms must worry first and foremost about other firms' competitive advantages, including their penchants for innovation, cost structures, and pricing and marketing strategies (Porter 2008).

However, in the context that I explore here, i.e., the food and beverage sector in China circa 2015, firms are also vulnerable to the whims of politicized and changing government regulation. One of the indirect effects this has on their business strategy and behavior is that rival firms can exploit the vacuums created by weak property rights and uneven and unstable regulation to cooperate with them or harm them, if not destroy them. In particular, the government's competition policy and intellectual property rights regime-or lack thereof-creates space for unorthodox business strategies to emerge. These range from the cooperative,"open source" approach practiced by Zhang Wei to the scheming, underhanded approach practiced by competitors such as Wang Fang.

1.2 Small firms in emerging markets

1.2.1 Why is this important?

This project is important, first and foremost, because emerging markets make up a significant portion of the global economy. Emerging economies account for half of the top ten foreign direct investment (FDI) recipient countries (UNCTAD 2015, 4). Moreover, FDI outflows are also increasing from developing economies to the rest of the world, hitting nearly 40 percent of all FDI outflows in 2015 (UNCTAD 2015, 6). Understanding the nuances of how firms from developing countries behave in their own backyard may be crucial to understanding how these firms "think" and behave once they go abroad.

Small firms are also important to the global economy, in general, and to emerging markets, in particular. Within emerging markets, there are 25 to 30 million formal small and medium sized firms, 55 to 70 million micro firms, and 285 to 345 million informal small firms (World Bank 2015). According to the International Labor Organization (2017), "there is broad agreement" within the international community that small and medium sized firms "are vital to achieving decent and productive employment" because they account for two thirds of all jobs globally and also create the majority of new jobs. The World Bank (2015) notes that formal small and medium sized firms contribute up to 45 percent of total employment and up to 33 percent of GDP in emerging economies.

Given their importance to both the global economy and developing countries, nearly every major international development organization has a program focused on promoting small business development and/or entrepreneurship training and development. For example, the Millennium Challenge Corporation (MCC), the American governments official foreign aid agency, has projects that are intended to increase and improve property rights and land rights. Property rights are essential to small business development because secure ownership and increased certainty allow for more entrepreneurial activities and encourage investment (MCC 2017). Indeed, these factors may matter much more to small, nascent firms. The latter are capital-constrained and lack access to government officials. Conversely, incumbent firms with retained earnings can employ highly paid lobbyists and finance political campaigns, if not place their own envoys in government agencies.

Governments and international organizations are spending billions of dollars per year to promote small business development, it is surprising how little is still known about small firm behavior in emerging markets. Once firms gain access to credit, how do they respond to new entrants seeking out the same benefit? Do they encourage competition to make their products better and help enshrine a market based on innovation? Or do they engage in rent-seeking by pushing for barriers to entry or by creating cartels? What is their relationship to their local governments, and how do they stay in business given the myriad unorthodox challenges they face at every turn? How do they learn about what permits they need to operate? How do they decide which government officials to pay bribes to, in order to keep the lights on and the doors open? How do they keep rivals from stealing their intellectual property rights?

1.3 Review of relevant literature

1.3.1 Small firms in emerging markets

What do we know about small firms in emerging markets? How can this knowledge help us gain traction on the questions posed above?

The majority of research about small firms has been undertaken by Western researchers and has, unsurprisingly, focused on firms operating in the United States and Organization for Economic Corporation and Development (OECD) member countries. Therefore, I will first review what we know about small firms generally.[2] I will then discuss insights from the literature on large and foreign firms in developing countries, while highlighting the important gaps in our knowledge that remain.

[2]In this dissertation, firm size will primarily refer to the firm's production volume. Firm size should not be conflated with the number of firm employees, given the productivity gains associated with technological advances and changes in the structure of global supply chains. Consider that tech and software firms are small in terms of their number of employees, but are often not small in regards to several other capacities. For example, Instagram only had thirteen employees when it was acquired for $1 billion (Josefy et al. 2015, 717). While Instagram would be considered small by definitions that rely upon number of employees, Instagram is not small in terms of value, profits, or brand legitimacy and brand recognition. Additionally, technological upgrading can mean a reduction in the number of employees in some industries. This does not mean that the firms are actually becoming smaller, but that their organizational capacities have changed.

The lion's share of research on small firms is focused on the United States and European countries. These industrialized countries have developed and mature financial and economic institutions, which should make it easier for small firms to survive and even thrive. Yet, initial research in the 1970s and 1980s highlighted important obstacles faced by small firms (see Josefy 2015, 740). Hannan and Freeman (1977, 1984) found that smaller firms were less reliable and their products varied more in quality. The literature has also found that small firms have more difficulty accessing capital (Aldrich and Auster 1986), trouble establishing external legitimacy (Baum and Oliver 1991), more difficulty gaining market power (Bain 1956), and trouble creating economies of scale (Jovanovic 1982; Mansfield 1962). Unsurprisingly, smaller firms have higher mortality rates (Baum and Oliver 1991; Freeman et al. 1983).

It is also not all that surprising that small firms are more vulnerable to economic shocks than large firms (Rainnie 2016), and respond more slowly to attacks or challenges from rivals than their larger counterparts (Josefy et al. 2015). Larger firms also tend to have fewer information problems (Haunschild and Beckman 1998), are less likely to have resource allocation constraints, (Lin et al. 2007), and they gain legitimacy in the industry and with consumers more easily (Pfeffer and Salancik 2003). The bottom line is that large firms have many advantages over small firms.[3]

What about firm behavior and outcomes in emerging markets? The majority of research remains focused on large, multinational, Western firms doing business in other developed markets. Of course, emerging economies have become more important recipients and even senders of foreign direct investment (UNCTAD 2017; Wright et al. 2005, 22), a trend that accelerated after the fall of the Soviet Union and the opening up of the Chinese economy.

In parallel, a still-evolving literature chronicles the numerous challenges and hardships multinationals have weathered in emerging markets (see Wright 2005 for a review). Their larger size, while helpful in some regards, cannot protect them from every market failure or negative externality, which tend to be more common in the developing world. And despite their many advantages and clout, share-

[3]To be sure, newer research has found that small firms do have some potential advantages. For example, because larger and more profitable firms are more visible, they are more likely to be imitated than small firms (Haunschild and Miner 1997; Haveman 1993).

holders and investors in large firms still rely upon governments to protect and enforce their property rights, which are less well-defined and more inconsistently enforced in the global South than their industrialized home bases (see Menaldo 2016 on both these points).

While this research provides some interesting insights into firms operating in emerging economies, it has several shortcomings. First, many emerging economies are at very different stages of economic development, making it hard to extrapolate statements and conclusions about the average developing country or emerging market to specific countries.[4] Second, when identifying and explaining firm strategies for dealing with competitors, which is this dissertation's main contribution, an industry-specific analysis is always preferable to a cross-national study or even a country case study (see Porter 1980, 2008). Finally, the extant literature focuses on large, foreign firms, not small, domestic ones, let alone ones operating in retail sectors such as food and beverages.

Nevertheless, insights from the literature on business history and firm strategy are helpful when it comes to the study of how small firms navigate challenging waters in emerging markets. Much work has looked at the effectiveness of firms' governance mechanisms, including board structure, compensation, and changes in control (see Denis and McConnell 2003, 44). Some of this literature reaches conclusions that accord with the patterns and findings uncovered in this dissertation. Klapper and Love (2004, 723), for example, find that even when firms improve their investor protections and corporate governance schemes, they "cannot completely compensate for the absence of strong laws and good enforcement" and are "unable to completely replicate a good legal environment on their own" in emerging markets. LaPorta et al. (1998, 5) similarly argue that the degree to which property rights are protected and enforced"are the most basic determinants of the ways in which corporate finance and corporate governance evolve in that country." Denis and McConnell (2003) further note that both legal structure and legal systems in emerging economies are important and at least partial drivers of

[4] For example, according to UNCTAD's (2017) definition, Egypt, Venezuela, and China are all emerging economies. China has the highest inflow of FDI in the world, has been relatively politically stable for decades, and is a relatively prosperous country. Egypt, on the other hand, recently experienced a failed revolution and has suffered years of economic stagnation. For its part, Venezuela is in the midst of a wrenching political and economic crisis in which current President Maduro has consolidated power by gutting the country's democratic institutions and the economy is in free fall after being among Latin America's most affluent. Millions are starving and have taken to the streets as civil violence increasingly engulfs the country. In this volatile environment, firms face unorthodox challenges not faced by firms in China and Egypt, including not only price controls and import restrictions but vandalism and ever-shrinking demand for their services.

firm outcomes, including corporate governance systems. Likewise, Doidge et al. (2007) found that country characteristics explain more variance in governance ratings (39 to 73 percent) than any of his firm-level variables.

To put it simply, the variables that were identified as important for firm behavior in the United States are no longer significant when tested in developing economies.[5] To a comparative political scientist this is an unsurprising, but important, insight. The lacunae about how small firms behave in emerging markets therefore help justify this dissertation's focus on an unexplored niche of the Chinese market. In that vein, several insights about how this economy works and how its smaller firms operate are helpful in addressing the questions that motivate this dissertation.

Previous work has shed some light on the context in which Chinese firms, large or small, are operating. Many Chinese firms are still working with limited resources and an inefficient capital market and stock markets. According to Bai et al. (2004, 601), not only is the stock market inefficient but the share prices are "purely driven by speculative activities and bear no relationship to the fundamentals of the firm." Tan and Peng (2003) argue that these market failures are more damaging for small firms because they are much less likely to raise the required amount of capital they need, especially for riskier investments, in China.

Li et al. (2008, 129) finds, contrary to their own predictions, that there is no relationship between market-orientation and firm performance in China. This is the opposite in developed economies. The explanation that they offer for these counterintuitive findings is that the Chinese economy has a high degree of uncertainty, partially-developed capital markets, and still-evolving institutions. However, they never fully explicated description of exactly which institutions matter to small firms in emerging markets.

Peng et al. (2001, 2003), Meyer and Peng (2005), and Peng et al. (2009) have also pointed to the importance of context for emerging markets and the Chinese economy specifically. They argue that "market-based institutional framework has been taken for granted and formal institutions (such as laws and regulations) and informal institutions (such as cultures and norms) have been assumed away

[5]Minimally, they lose substantial explanatory power.

as 'background"' by the management and firm literatures (Peng et al. 2009, 66).

This is problematic because small firms in China face many problems that are generated by inefficient or weak political and economic institutions. Some may have inherited resources but "many local firms do not possess many of the normal resources of Western businesses" and thus in the early stages must be able to adapt existing resources and develop new ones (Meyer and Peng 2005, 610). Even when firms do overcome barriers to entry in emerging markets, they often "have to operate without effective formal market-supporting institutions" and "smaller firms are disproportionately affected by market imperfections," driving them to "intensify their networking activities" and "seek informal institutional support, such as... informal credit, and bartering, to substitute for formal institutions such as courts" (Meyer and Peng 2005, 612).

Informal institutions therefore "play a larger role in reducing uncertainty, providing guidance, and conferring legitimacy and rewards to managers and firms" when formal institutions are weak or unclear (Peng 2009, 68). This is because smaller firms "experience the world as a given - one out of their control" and have to seek out alternative methods for dealing with competition (Fligstein 1996, 663). I agree with these arguments, however this literature falls short because it primarily focuses on formal market institutions or the importance of *guanxi*. Explicit details about the political economy of regulation in China are largely absent from most analyses.

1.3.2 Food and beverage regulation in emerging markets

While small firms may help drive economic growth in developing countries and reduce unemployment, food safety is a serious issue for every government. Food safety and regulation affects firm behavior regardless of size, and not necessarily in the same ways across geographic and political contexts, time, or even within the same industry. In 2015, the World Health Organization (WHO) reported that, based on their 2010 data collection, thirty-one foodborne hazards had caused thirty-two diseases, resulting in 600 million cases of foodborne illness and 420,000 deaths. Given these staggering figures, food standards are increasingly important for global health issues and the development of a healthy global food system.

In the case of China, a country that has weathered thousands of famines, food security has been a top priority of the Communist Party from its earliest years. Food security and food shortages continue to be a concern, as China's proportion of arable land continues to decrease and it relies to a greater degree upon foreign food imports to feed its massive population. Even in 2007-2011, the Chinese government scrambled for solutions as the price of pork soared and they worried about unrest and political discontent (Hornby 2011; Barboza 2011). This concern is exemplified by the fact that by 2005 "if all types of food standards were counted, there would be over 3000 laws, regulations, rules, and food standards in China" (Ni and Zeng 2009, 1990). After the 2009 and 2015 laws, this number is much higher. [6]

Yet, food and food safety is definitely political in China. Specifically, Chinese ministries and goverment bureaus have an interest in maintaining a fragmented regulatory system in the food and beverage industry (and likely many others). This is because regulatory authority provides officials with the ability to extract revenue from firms and even directly profit. Even though small firms rarely interact with government officials, these politics trickle down all the way to the craft beverage and food producers. In the next chapters, I will explicate exactly how this happens and why it matters. To contextualize that task, a quick review of the political economy of food regulation is instructive.

1.3.3 The political economy of food regulation

Food safety regulation, which covers production, processing, distribution, sales, and preparation of food for consumption, is intensely political everywhere. This is counterintuitive, considering the fact that food safety seems as though it could be the one area of regulation that may be largely bereft of politics. Consumers do not want to eat tainted food or get sick. Firms do not want to damage their reputations, or pay for expensive recalls. Governments do not want to lose citizen trust or have to deal

[6] According to Liu (2010, 244), there are three distinct food safety regimes in China over time. The first is the old regime of command and control (1949-1977), the second is an intermediate regime with mixed regulatory mechanisms (1978-1992) and the third is the newest regulatory governance regime (1993-ongoing).

with a public health scare.

However, government officials face an array of conflicting interests and incentives that make food regulation much less straightforward. Nestle (2015, 44) argues that "foodborne illness is more than a biological problem; it is strongly affected by the interests of stakeholders in the food system - the food industry, government ... and consumers." She goes on to provide myriad examples of how multinational food companies have paid American political candidates handsomely for favorable regulation that promotes the industry and does not "obstruct it with demands for extensive safety testing before products get into the food supply or for labeling of products" (Nestle 2015, 20).

Swinnen and Vandemoortele (2015) note that, since the 1990s, and with the opening of many new markets in the global economy, the focus of research shifted to examine the relationship between trade and types of food standards. Most concludes that food standards are protectionist in nature and used to create barriers to trade that favor domestic producers (Fulton and Giannakas 2004; Roe and Sheldon 2007; Schleich 1999; Fischer and Serra 2000; Anderson et al. 2004, Sturm 2006; Vogel 1995). Food and beverage firms operate just like any other business and prioritize shareholder profits above all else, including public health.

How do food regulatory systems affect firm behavior? Regulations change the benefits, costs, and opportunities faced by firms operating in this sector. They may also improve macro outcomes, such as reducing food borne illnesses and thus expensive litigation. Firm may also react by pushing to further reduce market competition in order to increase their profits (Coglianese 2012, 8).

In many cases, the impact of regulation on firm behavior may vary according to the size of the firm (in terms of total production capacity). Large firms, following Stigler (1971), have a consistent response to regulation: they use every resource available to capture the system by which they are supposed to be constrained. Large firms have more resources and are therefore more likely to successfully lobby for favorable regulations. In this vein, the political economy of food regulation literature finds that multinational food companies, of which there is now only a handful in the world, influence government regulation to create barriers to entry and eliminate competition. Small firms in emerging markets simply do not have the resources to engage in these types of activities.

They also advance their economic interests by dedicating firm resources to lobbying efforts and generous campaign donations (Nestle 2015). This is because in the food and beverage industry generally, multinationals largely determine their own regulations. The default approach taken by many governments and even the United Nations is an "industry-operated, voluntary self-regulation" approach, which coincidentally also happens to be the preferred mode of regulation for all food multinationals (Moodie et al. 2013, 6).[7]

Indeed, it gets worse. It is important to note that multinational food firms have been using the same strategies as the tobacco industry to deal with competition and regulation for quite some time. These strategies include intentionally biasing research findings, co-opting health professionals and policymakers, lobbying politicians to oppose any regulation, and encouraging voters to oppose public health regulation (Moodie et al. 2013, 4-5).[8] Large food companies have also taken part in an escalating race to acquire and merge. According to Daneshkhu (2016), food companies are merging with other large food companies to achieve economies of scale, further consolidate the industry, and cut costs. They are also attempting to respond to the changing preferences of young consumers who prefer local healthy options to processed foods and drinks by acquiring local start-ups.

What about the political economy of the type of small firms operating in food and beverages that is the focus of this dissertation? The extant literature mostly elides the role of small firms in retail food and beverage sectors. Even in work about consumer movements, such as the "go local" and organic food movements, the focus is on small farmers or community farmers. Small restaurants and bars that are unarguably "local" are strangely absent. However, what we do know is that food regulatory systems give preference and privilege to mass-producers and that small businesses in the industry often struggle. For example, Cohen (2015, 124) argues that, in the American food regulatory system, craft food

[7] The lobbying by powerful industry associations and food multinationals has had a global impact on the politics of food safety regulation. In 2016, during his presidential campaign, Donald Trump promised to eliminate the "FDA food police" (Erbentraut 2016). As of May 2017, the FDA remains open, but Trump has thus far refused meet with any food safety consumer groups, signed multiple Executive Orders aimed at further reducing regulatory restraints on firms, reduced school lunch quality regulations, and filled his cabinet with CEOs from multiple multinational firms (Erbentraut 2017).

[8] Moodie et al. (2013, 5) provide a chilling example of the power of large food companies vis-à-vis their regulators. According to their account, in 2009-2010 the Sugar Association threatened the WHO by saying that it would lobby the American government to withdraw all funding to the WHO because the WHO had developed a strategy that highlighted a strong link between sugar and non-communicable diseases.

production "lost out due to a series of political and regulatory choices that helped to entrench mass production over time." The rise of large-scale production in the United States "generated centralized and hierarchical regulatory institutions that both mirrored and served to regulate the corporate form" (Cohen 2015, 127).[9]

The main takeaway point here is that small firms cannot really affect the regulatory ecosystem and instead are forced to respond to it. And, moreover, this ecosystem is crafted by larger firms with their own agendas; as outlined above, these agendas are rarely about promoting food safety and often about increasing profits. According to Fligstein (1996, 663) "challenger firms are smaller and frame their actions in terms of the largest firms. But, they will experience the world as a given - one out of their control."

What about the political economy of food regulation and production in the developing world? While the research on this topic is scarce, what we do know is that multinationals are currently attempting to conquer developing markets. In fact, "tobacco, alcohol, and several categories of packaged food... are rising most rapidly in low-income and middle-income countries" (Moodie et al. 2013, 2). But, much more work remains to be done to better understand food regulatory systems in developing countries. This dissertation is but a first step.

1.4 General contributions to the field

This dissertation's contributions are both theoretical and empirical. It fills two major gaps in the political economy and business literatures. The first gap concerns applicability. To date, neither of these approaches to classifying and explaining firm behavior has seriously explored firm strategies for firms that are small and sometimes informal. Instead, they have been developed to examine formal firms of

[9] Contradicting received wisdom; researchers and myriad consumer groups assert that mass production of food and drinks does not enhance food security or food safety. For example, Nestle (2015) and Moodie et al. (2013) make numerous damning claims against large multinational food companies. They argue that the alcohol industry and the "ultra-processed food and drink industries use similar strategies to the tobacco industry to undermine effective public health policies" (Moodie et al. 2013, 1). They also provide staggering statistics of the public health impact as the consumption of ultra-processed foods has been linked to diabetes, childhood obesity, long-term weight problems, high blood pressure, and cardiovascular disease (Moodie et al. 2013, 2).

a certain size: those that have surpassed a critical threshold of revenues or other size milestones. Many studies focus on large multinational corporations. Yet, the majority of small firms operating in the developing world do not satisfy these criteria, even if they are formal. And they are even less likely to have the necessary resources to engage in "orthodox" strategies if they remain informal.

Within China, the informal economy is especially important to consider. This is because 1) it is a source of alternative employment and income for workers who lost jobs in the post-privatization period, 2) it is an important source of income for workers that are unemployed or underemployed, and 3) it remains an important source of employment and income for workers that lack skills. Furthermore, informal workers are often members of vulnerable groups, including women, children, minorities, and migrant workers.

Recent events in China make examining the strategies that small firms employ to deal with competition in an emerging market all the more relevant, as small firms are increasingly called upon in developing countries to fuel economic development. Xi Jinping's economic reforms have explicitly sought to encourage small business development, as well as entrepreneurs. In 2015, China's central government reformed regulations to reduce red-tape that made it difficult to set up new businesses and decreased upfront financial requirements.[10] Within six months, more than 1.76 million companies registered, an increase of 68 percent over the previous year (Butler and Halder 2015). However, many of these small firms report it is still "too frustrating" to do business in China (Levin 2015; Shanghai American Chamber of Commerce 2015, 2016). Ahead, I will shine light on why that is the case.

The second gap this dissertation fills concerns the question of firm strategies in emerging markets with weak property rights. This matters for several reasons, including the fact that foreign investors are keen to enter the Chinese market, as well as that of many other developing countries, but the investment environment remains risky and uncertain. I address several questions about the causes and

[10] For example, for some industries, in order to register a business you must have a Chinese bank account with a minimum balance of 500,000 RMB. This requirement was such a hurdle that a new industry was created to work around this legal requirement. These new pseudo-banking firms, for a fee, will temporarily deposit the required amount of money into the business owner's bank account. Once the government verifies that the capital requirements are met, the funds are withdrawn. This becomes an issue if the firms are audited later on because they must provide receipts proving that they spent the funds on related business expenses. This, in turn, fuels another shadow industry that is entirely focused on obtaining officially approved (with a red stamp) receipts, as well as collecting any and all relevant officially-marked receipts from friends and family on a regular basis.

consequences of that phenomenon ahead. Are small firms in emerging markets more or less likely to use unorthodox strategies that deviate from those identified by the business and political economy literature? If so, what are they? If these strategies are harmful, can they somehow be mitigated? Are these firms complying with local laws? Why or why not? Are business regulations helpful to firms, or are they primarily hurdles to doing business without sufficient compensating benefits?

It is important for governments, investors, and consumers to know what type of behaviors to expect from firms operating under these conditions. If the obstacles that small firms are facing in emerging markets are so significant that it hampers growth across different industries, or it motivates firms to engage in risky and illegal strategies to cope with government authorities and their competitors, then the identification of the reasons behind these behaviors is imperative. It will recommend policies and regulations that encourage the development of small, formal businesses that 1) compete with each other in a manner that is good for consumers, by reducing costs and increasing variety, 2) pay their taxes, and 3) comply with reasonable regulations that advance the public good.

1.4.1 Preview of empirical findings

What does the evidence tell us? Using a unique data set of craft breweries in China, I find that prior negative experiences with the government or rivals, relatively large firm size, and early entrance status decreases the probability that a firm will use a cooperative strategy. All else equal potential investors and rival small firms should expect larger incumbents to respond aggressively. While some of these behaviors may seem irrational or counterproductive, Chapter 4 demonstrates that there is a statistically significant relationship, though weak, between using uncooperative strategies and firm performance. Chapter 5 further elaborates on why two firms that used uncooperative strategies were able to remain open and even prosper. I also provide a mini case study of a firm that I refer to as "Mao Mao Pijiu." Even with fairly decent resources and better information than most, or so they thought, Mao Mao failed. This was due not only to the fact that a partner of the firm disappeared but also because Mao Mao had been uncooperative with his local rivals. When the partner left, Mao Mao had no one to turn to for help.

I therefore also find that the smallest firms are most likely to use cooperative strategies despite sometimes engaging in illegal activities or informal business practices. They are more likely to use cooperative strategies because given the chaotic institutional environment, severe information asymmetries, and regulatory predation, many firms would not survive without cooperation.

Many governments in developing countries focus on attracting foreign direct investment by large multinationals rather than supporting small business development. When governments encourage multinational investment by designing regulations specifically for their benefit, small firms suffer, so much so that some small firms will either never get off the ground or, if they do, they remain informal. This is a potentially huge loss for many emerging markets and developing countries. The government receives no tax revenues from these businesses, and therefore has less to spend on improving infrastructure and public services, both also critical to healthy economic development.

1.5 Methods

1.5.1 Why focus on China?

China has become a global economic superpower. In 2015, China was the largest recipient of FDI in the world. In 2015, three out of five of the highest-earning firms in the world were Chinese (Cendrowski 2015).

But its development has not been costless, nor is it guaranteed to continue. China's position as the world's largest manufacturer and exporter makes it particularly vulnerable to other countries' economic cycles, especially the United States and other OECD countries. This has incentivized the Chinese authorities to cultivate domestic consumption and put a greater focus on the non-tradable sector, of which food and beverages is a growing and promising subsector.

Indeed, it is questionable if China's so-called National Champions, Chinese government-backed and owned multinational corporations, can help address a host of problems that beset the country and threaten the Communist Party's hold on power. Though astonishing in its rapidity, economic development has been uneven across industry and geographic location, and gaps between urban and rural incomes have persisted over time (Wildau and Mitchell 2016; Picketty et al. 2017), and in some cases have become even more acute (He et al. 2016; Wang et al. 2014). Inequality in general has increased sharply, with one percent of the Chinese population owning one third of all wealth in the country by 2014 (Wildau and Mitchell 2016). The environment - air, land, and water - has been absolutely devastated.

Therefore, while the Chinese economy can continue to grow in the short term under its current, top-heavy economic model, most predict that it is not possible for China to continue on its current growth trajectory unless it creates more inclusive economic institutions and continues to liberalize many industries, including banking and other financial services (Naughton 2007; Setser 2017). In this vein, Xi Jinping has said that small business development is an essential part of his economic plan for China; however, many have complained that, so far, his administration has fallen short on fulfilling that promise (Buckley and Bradsher 2017). This dissertation may help shine light on why that is the case.

This dissertation also focuses on China because it is an ideal laboratory to explore questions about emerging markets. China exhibits substantial variation between and within industries and, to remind readers, an industry case approach is particularly appropriate for studying firm strategies and behavior. And recent Chinese history suggests that the retail food and beverage sector is the right mix of an older, command-and-control regime practiced by the Chinese Communist Party and a new, more liberal regime, in which market rules and norms are still fluid. What's more: the market is evolving at a rapid clip, and it continues to gain new entrants that recruit hybrid strategies to cope with not only the government, but their competitors.

Unlike some Central and Eastern European economies, the Chinese economy did not liberalize overnight. The central government slowly deregulated specific industries and then granted private investment rights in specific geographic areas of Mainland China, starting with just four industrial zones. Eventually, factories spread across many of the central coastal states, while rural areas and certain industrial sectors continue to lag behind. This creates a unique opportunity to observe industries develop from an early stage, when their mortality rates are highest.

Despite liberalization, many industries still have stringent rules about who is allowed to own a firm (even as a minority shareholder with limited powers), and who is allowed to make investments in the industry. Some require joint ownership with a Chinese partner owning the majority of shares. In other industries, such as telecommunications and tea, foreigners continue to be barred completely from investing. If you are not a Chinese national and want to invest in a diamond mine in Central Xinjiang, the answer remains no.

National Champions also receive an immense amount of favor and support from both central and local governments in China. This privilege directed towards multinationals and state-owned firms confers costs on smaller businesses with few resources that struggle against bigger competitors and receive almost no support from the central government, or even access to local governments. This is the trying context in which the Chinese breweries I analyzed for this dissertation are born, compete in, and sometimes die.

Finally, I have chosen China because China challenges nearly every assumption of Porter's theory of competitive firm strategies (1980; 2008), which is detailed at length in Chapter 3. As I explain there, Porter's approach to understanding firm strategy and behavior is perhaps the most influential approach that exists in the strategy literature. It remains the pillar of what business school students learn about this topic and is widely cited and respected. Yet, it is ill-suited for making sense of how firms think and behave in emerging markets, and especially those competing in the food and beverage sector as both producers and retailers.

1.5.2 Why the beer industry?

This dissertation focuses on the beer industry and zeroes in on small firms: craft breweries and brew-pubs. The Chinese beer industry is interesting because, though it is quite old, it was, until recently, stagnant. The development and growth of the commercial beer industry, led first by multinationals, did not begin until the 1990s.[11] Small craft beer breweries and craft beer bars did not exist until after 2008. The fact that the craft beer industry is less than ten years old provides a snapshot into the behavior of small firms in emerging markets in new or immature industries. Most importantly, China's craft beer industry exhibits significant variation in terms of business setup and the strategies that firms employ to deal with competition. This is relevant to any developing economy. It also allows me to make policy recommendations to governments, firms, and international organizations by identifying what types of regulations work or do not work for small business development.

Conclusions drawn from an exploration of the beer industry are also generalizable to other industries for several reasons. First, it illustrates the complex web of agencies, bureaus, and levels of government that have parallel, identical, or even conflicting regulatory authority over the production and distribution of manufactured consumer goods within China. Second, the industry also offers a unique opportunity to observe the effects of China's food and safety regulations, as well as other regulations, on firm behavior, and particularly on the behavior of small firms.

Third, the Chinese government has worked hard to change Chinese citizens from passive savers into vibrant consumers. As a result, many industries that were previously limited or stagnant have developed quickly alongside the growth of the middle class and their pent-up demand for new products, including beer, wine, and coffee, as well as their desire for more variety. These developments may well push policymakers to remove obstacles for small firms. Ideally, that may mean promoting the rule of law and a larger formal economy.

Lastly, alcohol has been an important industry to societies and economies for thousands of years. Historically, it has also been an important source of revenue to many governments throughout the world. This is as true in China as anywhere. The beer industry should therefore be of broad interest to the field of comparative political economy and the study of regulation in general.

[11] In this dissertation commercial, mass-producer, and multinational corporation are used interchangeably.

1.6 Introduction to cases

Within the Chinese beer industry, I categorize craft breweries into three major groups: those that use cooperative strategies vis-à-vis their rivals, those that use uncooperative strategies, and those that use a mix of both types of strategies. These categories capture the variance of my key dependent variable and allows for an in-depth examination of the characteristics of the firms as well as the reasons why certain firms use the strategies they do over time and place.

The first group of firms primarily engages in cooperative behavior. This can include working with other firms, co-hosting events, and brewing collaborative beers. These firms may also share vital information about the industry with their rivals or potential entrants, including information about other firms, reliable equipment sourcing, and where to get reliable quality ingredients. Zhang Wei, whose story I shared at the beginning of this chapter, is an example of a firm that falls into this category.

The second group uses mostly uncooperative strategies. While some of these are the typical and mundane, such as not sharing information or intentionally scheduling separate events on the same date, others are more malicious. For example, one firm that falls into this category, which I will refer to as "Hao Sheng," consistently spread rumors about other establishments, their staff, and the quality of their beers. Gossip about Hao Sheng was also pervasive and was distributed by those that had been treated poorly by Hao Sheng. They detailed the uncooperative strategies that Hao Sheng had used, such as stealing valuable rental spaces from other breweries, taking advantage of their own staff, and even preemptively buying up website domains and patenting names of potential rivals.

The final group of firms is those that use a mixture of cooperative and uncooperative strategies. These firms are more selective in their strategy deployment and tend to vary their strategy based upon the type of competition and, even more specifically, whom they are dealing with. In some cases this may be partially attributable to personality clash, where a firm is mostly cooperative except when it comes to a certain rival. However, the main difference between this firm type and the other two is that they do not have generalized strategies that all rivals or potential entrants are subject to.[12]

[12] Interestingly, within both the uncooperative and cooperative groups there are firms that sometimes use strategies that are non-violent but technically illegal.

1.7 Fieldwork

I used a mixed-methods approach for this dissertation. Data was gathered primarily through interviews with key informants and document collection in the craft beer industry in Mainland China in 2013-2014 and spring 2015. I carried out a total of 105 interviews in 2013- 2014 and in 2015 over 30 follow-up interviews were conducted. In 2016-2017, more than 50 follow-up interviews were completed. Interviewees included brewers, brewing community members, journalists, relevant academics, industry insiders, restaurant owners, and local government officials.

In addition to my qualitative work, I coded my interviews and fieldwork notes in order to create a unique quantitative data set. I used multiple sources, including extensive field notes and interviews completed in Beijing, Chengdu, Nanjing, and Shanghai. I also conducted participant observation of multiple beer festivals and brewers conferences in 2013-2015. This dataset includes the entire world of craft /micro breweries in China, to the researcher's knowledge, starting in 2008, when Gao Yan, a captain of the Chinese brewing industry, returned to Mainland China and started home brewing through approximately January 2017. In addition to interviews and field observation, I confirmed and supplemented this information with industry reports, industry magazines, expat websites and blogs, beer blogs, as well as consumer publications, in both Chinese and English.

In Spring 2015, I also had the privilege of co-leading a Northeastern University Dialogue of Civilizations short-term study abroad program with Dong Hua, a language instructor and documentary filmmaker, in China. The focus of this program was food. Alongside eighteen undergraduates, we learned from locals and experts about food production and culture, food safety and sustainability, and the green movement in China. In Beijing we learned how to make dumplings (*jiaozi*). At a Nanjing Vocational School, high school-aged students and their instructors taught us how to make steamed buns (*baozi*), mapo tofu (*mapo doufu*), and a sesame seed dessert soup (*zhima tang*). Outside of Beijing we visited a traditional producer of stinky tofu, an organic sustainable farm, and a small farm-fresh café that only uses organic ingredients. We also had talks with food safety bloggers, environmental regulators in Central China, and visited the largest mosque in Nanjing where we discussed the problems of certifying halal food in China and had a self-guided local tour of Uighur food. This experience looked at many different aspects of food culture, production, distribution, and safety in China and contributed greatly to the chapters on industry and regulatory history in China.

1.8 Roadmap of the dissertation

The rest of this dissertation proceeds as follows. Chapter 2 provides a brief history of brewing, selling, and consuming beer in China. As this dissertation undertakes industry analysis, and because China has organizational and governmental actors that are not necessarily in its sister industries in other countries, it is important to provide contextual information before delving into the theory. Chapter 3 lays out the analytic framework of this dissertation, beginning with a description of the relevant actor groups in the Chinese beer industry and their motives and interests. It then moves on to discuss the literature on firm strategies in emerging markets. I then lay out my own, original theoretical framework. Chapter 4 attempts to establish quantitative connections between my dependent and independent variables of interest.

To further provide evidence for my argument, Chapter 5 provides three qualitative cases of three different types of craft breweries that currently exist in Mainland China. As a large part of the explanation for small firm behavior lays not only in the industry structure, as Porter (1980; 2008) argues, but also in the regulatory history, Chapter 6 examines the contemporary institutions that govern the brewing industry in China and further analyzes how those institutions influence small firms. Finally, Chapter 7 concludes by discussing the broader implications to rule of law and small firm compliance with domestic laws. It also discusses potential policy implications for the Chinese economy as well as discusses what the findings of this dissertation mean for the development of emerging markets and the promotion of small firms in developing economies. Finally, I discuss areas of interest to future researchers of small firms, emerging markets, firm competitive strategies, and firm behavior generally in less-than-democratic settings with weak property rights.

Chapter 2

The History of Brewing and Selling Beer in China

> China has been called the"birthplace of alcohol" (*jiu de guxiang*) and the"kingdom of alcohol" (*jiu de wangguo*) ... These assertions underline the depth and breadth of the history of alcohol, or *jiu*, the standard Mandarin pronunciation of the character used to refer to all forms of alcohol, from distilled spirits, such as yellow wine (*huang jiu*), to grape wine (*putao jiu*) and beer (*pijiu*) (Smith 2012, 9).

> You can't be a real country unless you have a beer and an airline - it helps if you have some kind of football team, or some nuclear weapons, but in the very least you need a beer (Frank Zappa quoted in Zappa and Occhiogrosso 1989, 231).

2.1 Introduction

Brewing has a long history in China. In fact, one of the oldest known beers in the world was discovered in China in the early 2000s. *Jiahu*, named after the Neolithic site in Henan province where it was discovered, was brewed over 9,000 years ago (Roach 2005).[1] It is also believed that the most common lager yeast used to brew beer today, *Saccharomyces eubayanus*, is native to the Tibetan plateau (Corbin 2015; Bing et al. 2014). Indeed, to recognize China's important role in the history of beer brewing,

[1]Archaeologist Patrick McGovern (2009, 38-39) found traces of liquid in unearthed pots; after testing its chemical composition, he found that the liquid was made of "grape and hawthorn-fruit wine, honey mead, and rice beer ... a Chinese extreme beverage or Neolithic grog, which combines several exotic ingredients."

Dogfish Head, a Delaware brewery, replicated *jiahu* in 2005. Likewise, in 2015-2016 a CCTV crew began working on a documentary that replicated the kiln and ceramic pots originally used to make *jiahu*. This effort was led by prominent Chinese brewers who I had the opportunity to meet and interview during my fieldwork, and who will make cameos further ahead: Gao Yan, a Nanjing-based brewer and owner of Master Gao brewing company, and Li Wei, President of the Beijing Homebrew Society and owner of Peiping Machine Brewing.

Understanding the development of the beer industry in China over a long sweep of time is not just a self-indulgent exercise. It helps shine light on the topic that lies at the heart of this dissertation: why small breweries have turned to the sometimes unorthodox and even illicit competitive strategies they exhibit today. I argue that, in part, small firms in the brewing business exhibit a mindset and behavior that is shaped and distorted by a regulatory system that has always been designed for large commercial breweries, especially joint ventures between the state's National Champions and multinational oligopolies. And it has almost always been designed to give them advantages over their potential rivals and at the expense of consumers.

2.1.1 Chapter roadmap

This chapter therefore outlines a general history of the domestic Chinese brewing industry starting in 1900, and continuing up through early 2017. It ends with a short review of the literature on Chinese consumers, their patterns of consumption, and the relationship between Chinese consumers and the beer industry over time. Both help to contextualize the theoretical framework outlined in the next chapter, which seeks to explicate how small firms operate in emerging markets such as China's, and which is specialized to help make sense of the microbreweries that rise, survive, and die in China's peculiar market today.

2.2 Brewing during a period of change and instability, 1900-1948

Despite the fact that Chinese beer production has a long and storied pedigree, China has been plagued by a belated start to modern, commercial-scale beer production, consumption, and sales.[2] Following a series of trade agreements imposed by its colonial masters during the final years of China's Imperial Period (221 BC-1910 AD), businessmen from Germany, Poland, and Russia began to build breweries in the Northeast corner of the country. European and Russian brewers and businessmen flocked to that region because of its close proximity to Russia, and because it offered cheap labor, cheap coal, and high-quality water (Smith 2012). Indeed, the Russians are credited with opening the very first Chinese brewery there, Ulubulevskij (now Harbin Brewery), in 1900 (Smith 2012, 24). More than twenty factories producing alcohol soon followed, and opened up shop in Harbin in the early 1900s (Smith 2012, 25). This includes Tsingtao Brewery, which was established in 1903 by German owners.

Early beer production was not without obstacles, however. According to Smith (2012, 24), Russian farmers began to cultivate hops in China in 1918, but faced several difficulties:

> The importation of hops from Czechoslovakia and Germany remained necessary; breweries in Fengtian, for example, used German products exclusively. Severe winters meant that bottles had to be secured with special coverings and stored or transported in heated storages or cars. These factors added to the costs of production. But despite such challenges, Harbin became one of the major centres for the production of alcohol in the Northeast and one of the biggest markets for beer in China. Incredibly, less than ten years after their founding, Harbin's breweries produced over 1 million bottles of beer annually.

Before World War II, China, similar to most Asian countries, did not have a good source of domestically grown and roasted malt or hops, and "beer was viewed primarily as a foreign product" (Alexander 2013, 1). World War I and the Russian Revolution caused major slumps in the alcohol industry due to marked slowdowns in demand, as well as difficulties procuring grain. For example, in 1914 the sales of beer fell to one-third below 1913 levels (Smith 2012, 27).

Later on, in the early 1930s, after Japan invaded China and occupied Manchuria, local producers were driven from the market. The Japanese military administration also allowed its major brewery,

[2] Similarly, and famously, the Chinese also made major innovations in shipbuilding and the development of gunpowder, but did not put those technological advances to wide use.

Dai-Nippon, to buy Tsingtao (Smith 2012). Because Japan was a beer-loving country and had troops stationed across Asia, China's beer sector grew under Japanese occupation, primarily to serve Japanese soldiers (Smith 2012). Chang (2010, 52) reports that, for the 1938-1944 period, most industrial trends stayed consistent across the board, unless they were chemical products or industries that responded to military demands. In Northern China, the production of alcohol therefore made rapid advances.

After Japan surrendered to the Allies and exited China in 1945, the larger breweries were returned to China and came under various ownerships until the Communist victory in 1949. The Nationalist government in Nanjing briefly oversaw the industry for four years, though it allowed Harbin Brewery to temporarily come under control of the Soviets, from 1946-1950, before the state took it over (Alexander 2013; Smith 2012).

2.3 Brewing under Mao, 1949-1976

Through the Mao period, 1949-1976, China saw slow to negative economic growth, limited industrialization and development, and mass starvation due to failed economic policies and brutal campaigns like the Great Leap Forward and the Cultural Revolution. When the Chinese Communist Party (CCP) took power in 1949, private and foreign firms were nationalized, rural areas were collectivized, and private investment by citizens or foreigners was prohibited. Private firms and capitalism in all forms were demonized extensively by the CCP, leaving many Chinese consumers distrustful of private firms and managers long after Mao's death.

While this did not bode well for the overall economy, alcohol production proved an exception. Spirits were "a star performer in an economy crippled by dogma, and output doubled between the start of the Cultural Revolution and its conclusion" (Gately 2008, 90). The majority of increased production and consumption came from traditional Chinese liquors (such as *baijiu* and *huangjiu*), but about 10 percent of the increase is attributable to beer. New breweries were built all over China, except for Tibet, in this time period (Gately 2008, 91). Field (1986, 630) confirms that the output of beer, then considered light industry, grew roughly 13 percent between 1966 and 1975. Moreover, by the time multinationals began to enter the Chinese market in 1992, more than 800 breweries had been built all over the country (MacMurray and Woetzel 1994; Heracleous 2001).

Breweries were built locally across China because nationwide distribution systems were poor or nonexistent. Villages and towns without their own breweries had to rely upon the command economy to supply whatever they could not produce themselves. During this time period, "a leading brewery in Beijing would simply brew and bottle its beer and then sell 85 percent of its output to the local state distributor, which covered only the city's western districts" (MacMurray and Woetzel 1994, 64). This likely means that the vast majority of the population went without, especially since beer is a non-staple food item. Multiple informants confirmed this suspicion during my fieldwork, and some reported that they do not remember ever even seeing beer in China until the 1980s[3] (Interviews #5, 8, 27).

There are several reasons why beer production did not disappear, and in fact was relatively high, during Mao's time. The beer industry survived the Cultural Revolution in part because it was not banned alongside other "imperialist fluids" or "capitalist poisons." However, Chinese brands were the only option available for most citizens, if they had an option at all, during this period. Importation of foreign liquors, beers, and wines was restricted until well into the Reform and Opening period (Guo and Huang 2015). A steady increase in beer production can also be attributed to China's steady population growth. Finally, starting in the early 1970s, the central government adopted agricultural reforms aimed at increasing grain output, which in turn increased the availability of malt.

China's beer industry experienced steady progress despite the fact that Chinese beer's quality and taste "hit a dismal low point in the early Communist years" (Anderson 1988, 161). Many attribute the low quality of Chinese beer to the fact that the industry was

> often characterized by firms with non-existent quality control systems, sloppy, unhygienic and unsafe operational practices, and human resources steeped in the historical mentality of a centrally-planned economy where pay had no relation with performance and employees were rarely motivated to contribute beyond their specific job scope (Heracleous 2001, 39).[4]

[3]This lack of public visibility may also explain why beer was not banned during the Cultural Revolution.

[4]Good hygiene is essential to brewing quality beers. For example, dirty lines (the tubes that transfer beer through various tanks and to bottling or canning machines) can give beer a harsh metallic taste. Most small breweries recommend cleaning lines after every use, if not multiple times per week, and definitely before a brew. Informants report that, even in 2017, commercial breweries may only clean their lines once a month due to the massive amount of water required.

There were two important precursors to the liberalization of the Chinese beer market in the 1990s. In 1972, *Maotai*, a strong alcoholic beverage distilled from sorghum and named after the Guizhou village where it is produced, became internationally known when Mao Zedong toasted President Richard Nixon with the beverage during his surprise visit (Perkins 2013, 316). That same year, China's most well-known beer, Tsingtao, was exported to the United States for the first time in order to try to help reduce the Chinese trade deficit (Gately 2008).

2.4 Local brands win the 1990s

Though China's storied "Reform and Opening" began in 1978, rapid changes to the Chinese beer market and industry did not start until the 1990s, when foreign multinationals attempted to enter the market en masse. Given a promising industry infrastructure and its massive and increasingly affluent population, many multinationals were desperate to enter China's beer market. And they believed that they had the numbers-in terms of potential revenues and profits-to justify their bullishness about the Chinese market. In the 1990s, McKinsey estimated that the 800 breweries in China at the time would be consolidated to around 100 breweries, resulting in a handful of mass-producers and a submarket of specialized local or regional producers, though "infrastructure bottlenecks" could delay the process (MacMurray and Woetzel 1994, 66).

Indeed, the multinationals had the wind at their back in more ways than one. Most of China's state-run breweries were old, had untrained management and lower-quality products, and were hobbled by weak to nonexistent marketing capabilities. Accordingly, the McKinsey Quarterly reported in 1994 that Chinese SOEs operating in the beer industry were losing market power in the face of heated competition. To prove their point, they gave the example of one leading Beijing producer that was facing a local collective that was

> stealing away share[s], international companies are entering the market, the state distributor has been disbanded, and the brewery has to repay the substantial debts incurred for a recent acquisition, manage its own distribution, and build a marketing function from

scratch (MacMurray and Woetzel 1994, 64).

Moreover, the "big global players" believed "that they did not have to face well-entrenched local oligopolies" and "the Chinese government was also relatively welcoming to foreign investment" in the industry (Heracleous 2001, 38). To boot, the multinationals had better technology, better-trained employees, considerable resources, and more knowledge of the beer industry generally. The early numbers bear these advantages out. While in 1992 there were only four foreign brewers in China (San Miguel, Asia-Pacific Breweries, Pabst, and Beck's), by 1995, there were sixteen (Heracleous 2001, 38).

Yet, while considerable consolidation did occur, Western consulting firms and their multinational clients made incorrect or, minimally, misguided predictions about the behavior of Chinese firms. Many multinational beer companies left China altogether, selling their new production facilities off to local brewers (Heracleous 2001). Indeed, only "a minority of foreign brewers managed to succeed in this hostile marketplace, against intense competition, with different rules of the game than in developed markets, and razor-thin margins" (Heracleous 2001, 37).

On the whole, large multinationals failed because they attempted to enter an emerging market that they had little information about. While these companies believed the size of the market alone made it extremely suitable to sizable investments, many companies charted a market strategy based on generic information provided by consultant firms such as McKinsey, which had little experience actually helping Western firms penetrate the Chinese market. Multinationals faced very steep fixed costs, weak infrastructure, a fragmented beer market, price sensitivity, distribution problems, and an unfamiliar consumer culture. Due to the combination of market fragmentation and price sensitivity, most multinationals failed to convert the consumer interest they generated into actual purchases (Heracleous 2001, 39-40). Distribution problems were exacerbated by poor infrastructure (Ansar et al. 2016). Finally, Chinese SOEs proved to be more formidable challengers than anticipated.

Additionally, Chinese breweries addressed their disadvantages with alacrity. They made inexpensive technological upgrades, acquired smaller neighboring breweries, and increased their overall production capacity. They also acquired better ingredients as access to foreign markets continued to improve and open up. Yanjing and Tsingtao were particularly successful in building their brands and were aided by nationalistic consumers who preferred their local brews and by consumers who were price-sensitive (Heracleous 2001).

Of the multinationals that stayed in China, South African Breweries (SAB) was among the most successful. SAB entered the market in 1994 as a joint venture with China Resource Enterprise Holdings (China Resources)-it held a minority equity stake. According to Chong (2013, 164), SAB's pairing with China Resources was a "leap of faith" that made Snow beer, the primary beer brand produced by China Resources, the country's best-selling brand. By 2006, it was the largest brewery in the world, at least by sales volume.

More than a mere leap of faith, setting up shop in China as a joint venture proved to be SAB's saving grace. China Resource is supervised by China Resource Holdings, which was under the supervision of the Ministry of Foreign Trade and Economic Cooperation from 1983-1999. In 1999, it went under state management and, in 2003, its official supervisor became the Chinese State Council's State-owned Assets Supervision and Administration Commission (SASAC) (China Resources 2017). China Resources is now considered a National Champion (*yangqi*), meaning it is among the largest of China's remaining state-owned firms.

While the degree of protection and favorable regulation that this status affords China Resources is significant, and will be further discussed in Chapter 6, consider several of the more pedestrian benefits provided by China Resources. It shared invaluable information with SAB regarding the Chinese market, including its knowledge about consumer habits and tastes. China Resources also provided SAB with important relationships and connections, which were sometimes necessary to do business in China (Heracleous 2001, 40). Having local partners enabled SAB to "cut the red tape" and "harness [their own] knowledge of the beer industry with [China Resources'] knowledge of China" (Heracleous 2001, 41). Furthermore, unlike many other multinationals, SAB and China Resources focused their efforts on second-and third-tier cities in Northern China, and later in Sichuan Province, while others instead attempted to use a "premium brand strategy" in first-tier cities such as Beijing and Shanghai (Chang 2015). This "avoided cannibalization and achieved a clear branding strategy" (Chang 2015, 117).

In summary, SAB needed to know and understand the political economy of doing business in China. SAB succeeded by "localizing," according to Heracleous' account (2001). Despite the level of difficulty that multinationals faced when entering China, competition only intensified between multinationals between 2000-2016.

2.5 National Champions and multinational consolidation in the beverage industry

During the 2000s, food and beverage multinationals continued to consolidate the industry globally and enter new markets. These firms began to conquer the Chinese market. In 2004, SABMiller, with the support of China Resources, made a hostile bid to takeover Harbin Brewery (Chong 2013, 164).[5] Anheuser Busch InBev SA/NV (AB InBev), another leading multinational, also made a bid for a 29 percent stake in Harbin for $139 million (Milwaukee Business Journal 2004). SABMiller then made a counteroffer to buy all shares it did not own for $4.30 per share in Hong Kong dollars, which Harbin rebuffed as hostile, saying that SABMiller ownership did not provide any benefits for the brewery. It then welcomed an offer from AB InBev, noting that it has been successful in promoting its Budweiser brand throughout China (Milwaukee Business Journal 2004).

AB InBev managed to spread their brand to every corner of China. Consider that, in December 2006, AB InBev plastered nearly the entirety of the Dalai Lama's now-dilapidated Summer Palace, Norbulingka, with cheap posters of its infamous Clydesdale horses. These horses appeared alongside culturally appropriated, and sexualized, images of women in traditional Tibetan clothing. This is a testament to the fact that China's beer market was changing at warp speed.

Ultimately, SABMiller's bid was rejected, and AB InBev acquired the remaining stakes of the oldest brewery in China. This intimates that the Chinese Ministry of Commerce, which at the time granted approval to foreign investments for joint ventures, believed that SABMiller had been an ineffective

[5]SAB acquired Miller Brewing in 2002 to form SABMiller.

partner that was incapable of building up the Snow brand or Harbin brand internationally. However, the Financial Times interpreted this decision as being part of "Beijing's long-standing policy of allowing foreign involvement in the beer industry while trying to promote national champions" (Dickie 2006).

Though SABMiller and China Resources lost the bid on Harbin, they continued to build networks by increasing equity stakes in smaller breweries, acquiring others, and building new breweries throughout China. In 2008, Snow beer surpassed Bud Light as the largest producer of beer in the world. By 2011, they operated 80 breweries in 21 regions (Chang 2015, 118), and SABMiller had acquired a 49 percent stake in the firm, with conglomerate China Resources holding the majority 51 percent. In 2012 alone, "Snow sold 110 million hectoliters of beer; which is enough to fill around 12 Olympic-sized swimming pools with beer every day. For a year" (Kuo 2015). By 2016, five firms (SAB-China Resources, AB InBev, Tsingtao, Yanjing and Carlsberg) controlled 70 percent of the Chinese market (Chaudhuri 2016).

During the same time period, distributors from every major multinational beverage corporation began to export beer to China. They also set up sales teams for marketing and local distribution in major cities, including Shanghai, Beijing, Chengdu, and Guangdong. This included well-known Belgian beers and German beers, as well as American, British, Australian, and Japanese craft beers, to name but a few. Within a few years, consumers in China went from having almost no variety, in terms of both beer brand and beer style, to having access to hundreds of foreign beers and craft beers, including new local craft beers in many major cities. By 2016, China Resources ranked 91st on the Global Fortune 500 list (Fortune 2016).

This does not mean, however, that foreign firms operating in the Chinese beer industry experienced a walk in the park. Distributors, in particular, confronted a dicey situation. They faced a fragmented market, as well as consumers who had little knowledge about beer, let alone an appreciation for craft beer. They also had to learn how to deal with the government authorities that regulate, inspect, and label foreign imports in China, as well as wait times at ports that are sometimes long enough, and hot enough, to spoil the incoming beer piling up at the docks.[6] And craft beer is even more problematic to import into China, as craft beers are more fragile and difficult to transport; indeed, even when properly stored, some last less than six months.

Today, multinationals are also having trouble reaching their desired profit levels in China. For example, the industry's overall output declined by five percent in 2015 (Team 2015), and even though SABMiller and China Resources Snow accounted for nearly 20 percent of the global production of beer, SABMiller reported that they only receive two percent of their operating profit from China (Chaudhuri 2016). Furthermore, according to the Chaudhuri and Maloney (2017) the amount of Snow beer consumed in China started to stagnate circa 2012.

China Resources' response has been to mimic AB InBev's long-term strategy of creating and promoting premium versions of their brands and employing celebrity spokespeople for marketing.[7] They also reportedly paid up to $100,000 in listing fees to the "hottest spots" in Beijing and Shanghai to sell their beer (Chaudhuri 2016).

In my fieldwork, I also found that multinational distributors would offer bars and restaurants many types of benefits to carry their beers, advertise them, and/or sell their brand and line of beers exclusively. Some built cold storage refrigeration units at no cost to the retailers, which very few bars, restaurants, or even brewpubs currently have in China (another problem that results in spoilage). They often offered their products, which were sometimes expired or spoiled, at bargain basement prices for high volumes. They had events where they gave products away to consumers for free to expose Chinese consumers to their brands.[8] They also built beer garden tents with their brand logos prominently

[6]Worse, the majority of the distributors, multinational or craft, which I interviewed, reported that they used unrefrigerated containers, because these were about half the price of a refrigerated one. Multiple representatives from import and logistics companies confirmed this fact, and said that they only recommend refrigerated containers for luxury foods or foods that will spoil in less than two months (Interviews #3, 54, 61, 75, 76).

[7]AB InBev reported in 2015 that profitability of these so-called premium beers is nine times greater than their mainstream products (Wei and Chang 2016). Further ahead I discuss what distinguishes "premium" beers from "ordinary" ones in China.

[8]In the mid 2000s in Shanghai a well-known cider brand gave away so much product for free that they, unsurprisingly, had to shut their doors. This illustrates how little this company knew about China and Chinese consumers. Many municipal governments have actually prohibited sales that are time limited, like Black Friday, due to numerous incidents where people were trampled and killed. Buffets and all-you-can-eat deals are also rare, with the exception of some small restaurants that tailor events to American expats, because they are not profitable otherwise. Chinese consumers literally raid them. For example, when I lived in Nanjing 2006-2007, Pizza Hut did not have an unlimited salad bar but a single trip salad bar. By 2013, Chinese consumers had "killed the salad bar with their ingenuity" by making gigantic salad towers so that they could

featured. Some of these advertisements were, and are, so huge that they entirely obscured the bar or restaurant's name and location.

Interviewees who knew foreign distributors also reported that multinational representatives explicitly targeted (and are continuing to target) bars and restaurants that carry not only multinational competitors' brands, but also local craft Chinese beers. In one social media post in 2015, a multinational distributor posted a photo of their office desk that featured a post-it note with a list of local craft breweries they needed to "go after." This was a bold move considering that the distributor had numerous craft brewer followers who could view the post, including those who were on the list.

At the end of 2016, China's beer industry landscape changed yet again, when AB InBev paid $108 billion to take over SABMiller. This move has caused the firm antitrust problems in many countries. As a result, SABMiller agreed to sell its shares of China Resources back to China Resources for $1.6 billion dollars in order to ease the acquisition and to "satisfy regulators" (Serafino and Chang 2016). According to the Chief Financial Officer of China Resources, once the deal goes through China Resources is likely to buy so-called "small" regional breweries as a strategy to increase market share.[9] Potential targets include the country's 4th-largest commercial beer producer (by volume), Yanjing, which is backed by the Beijing municipal government (Wei and Chang 2016).

China Resources' market share appears large, with just over 20 percent of the market (by volume) in comparison to the regional breweries that average about two percent (Serafino and Chang 2016; Wei and Chang 2016). However, this is likely a function of the size of the Chinese population. Snow beer continues to be less profitable due to its extremely low prices. It also has limited brand recognition compared to other multinational beer brands because it sells almost no beer outside of China. According to one analyst, it is likely that Snow will maintain their market share in volume because

> "... their average selling price is still lower than Tsingtao," Chen said. The owner of Snow Beer has been able to achieve about 5 to 10 percent increases in average selling prices per year by shifting focus to smaller bottle sizes and cans, as well as introducing premium products, he said. The company is selling beers for as low as 3 yuan (0.5 cents) per bottle and as much as 25 yuan for their so-called super premium brews (Wei and Chang 2016).

make the most of the single trip (Ashcraft 2013).

[9] They are only small by market share and relative to other multinationals. It does not necessarily relate to actual firm size (in terms of number of employees or the volume of output).

Exactly how China Resources, as well as China's other successful brands, are able to keep their mainstream products so cheaply priced will be further detailed in Chapter 6.

2.5.1 The birth of the Chinese craft beer industry, 2008-present

It was in this turbulent context, in which mass producers were battling each other to gain market share and further consolidate, that home brewing and craft beer brewing took off in China. In 2008, Gao Yan , a chemist trained at the University of Puerto Rico, moved back to his hometown of Nanjing after living in New England and working for pharmaceutical companies for more than ten years[10] Upon his return to China, Gao pined for the variety of beers he had grown accustomed to in the United States, including his much-beloved Sam Adams. This inspired Gao to start brewing his own beer, initially for his own consumption. He then translated a home brewing guide into Chinese; published in 2010, this is now an important resource for educating young Chinese home brewers (Interviews #2, 35, 96) (Meyers 2016).

While Gao Yan was starting up his brewery in Nanjing, at least four other entities were working to establish craft breweries or brewpubs of their own. Of these four, two developed independently of each other though in the same city: Wang Fang, whose story I told in Chapter 1, and a brewery that I will refer to as "Gan Bei." These breweries had separate investors and owners, mostly foreign. Gan Bei built a full brewpub with a restaurant, as the regulatory requirements were less strict than manufacturing beer and distributing it (Interviews #46, 48, 49). Wang Fang acted similarly; however, the initial brewery and brewpub were both located in a somewhat remote suburb. They brewed in a separate location and then transported the beer to their restaurant locations. According to their interpretation of Chinese distribution regulations, they were compliant because they were only distributing to restaurants with the same owners.

The other two early entrants to the industry I refer to as "Hao Sheng" and "Kuai Pijiu." Hao Sheng started as a small homebrew operation. As home brew equipment was nearly impossible to get in

[10] I use Gao Yan's real name for details that have been publicly reported in major news sources. Information provided to me through interviews in confidence, by Gao and all other informants, is always discussed using aliases.

China in 2010, the Hao Sheng brewer built his own kit and eventually made enough to sell out of a small alley shop (Interview #52). Kuai Pijiu, on the other hand, found a location on the outskirts of a large city with amenable local officials, and set up a full-scale brewery with a tasting room in the city.

Unlike Wang Fang and Gan Bei, these two breweries developed in a more adversarial manner. Hao Sheng was determined to be the first craft brewery in China and rumors continue to fly about how they were able to do so. Some informants reported that they stole Kuai Pijiu's proposed brand name. Others reported that Hao Sheng spread rumors about Kuai Pijiu's legitimacy and legal status, as well as the quality of their beer. Regardless of Hao Sheng's strategies, by the end of 2010 all four breweries, plus Gao, opened their doors to the public (Interviews #3, 13, 20).

Figure 1 illustrates some basic characteristics about early entrants to the craft beer industry. First, the dark blue bar furthest to the left shows the mean value of strategies used. The mean for early entrants is .45. This means that in comparison to those that came after 2011, early entrants lean towards uncooperative strategies. They also are more likely to have had conflict with the government, as well as their rivals. This could be due to the fact that, as shown in the final light blue bar on the right, they also have had past operations that included some level of informality. This could range from being completely off the books to having all the permits but a quality and safety mark (or QS code), which is required for distribution, yet still distributing. Finally, their relative sizes by 2016 were among the largest in the industry, with a mean of 1.9 (2 being the largest).

Ingredient and equipment obstacles for early entrants

These Chinese craft beer pioneers reported that they faced many obstacles, including ingredient sourcing, technology sourcing, information asymmetries regarding regulation, and property rights enforcement, including problems with the theft of their intellectual property. For example, Wang Fang and Gan Bei both reported that in the early days they were forced to use a Chinese ingredient-sourcing

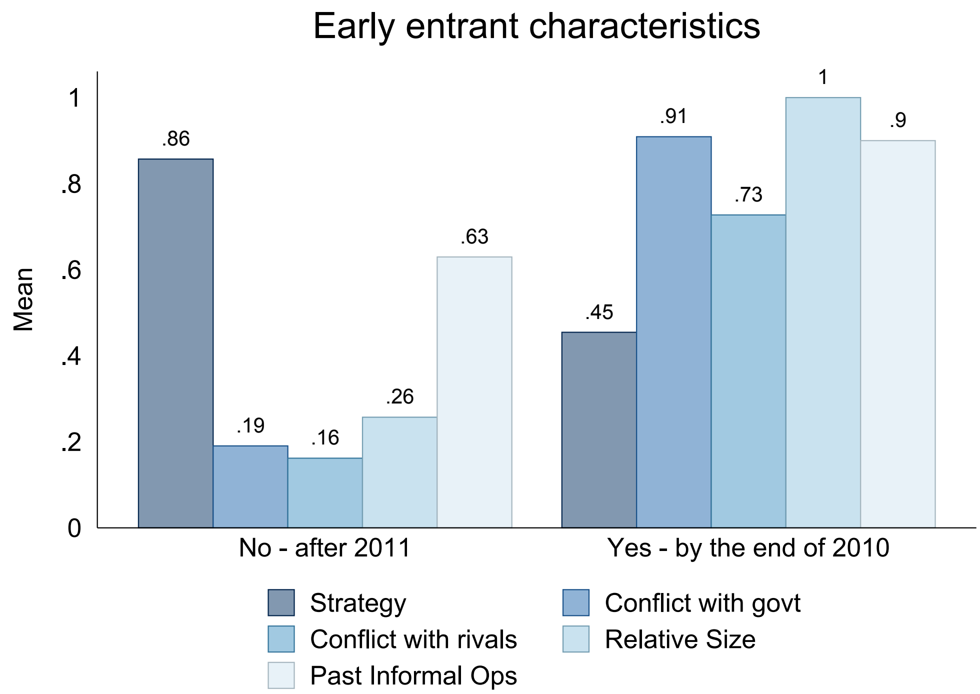

Figure 2.1: This figure compares the mean characteristics of early entrants (those who entered by 2010) and later entrants (post 2011).

expert that they referred to as "Beer Sam.[11]" During this time, the only way to get certain ingredients was through Beer Sam, so much so that when a brewer for Gan Bei attempted to get some ingredients from a new, higher-quality source in 2014, Beer Sam refused to procure any other ingredients for the brewery. This left the brewery in a precarious situation. Fortunately one of the brewers had forged a relationship with a competitor, who provided information about sources for those remaining ingredients (Interviews #84, 87).

Aside from accessibility of ingredients, the quality of ingredients that brewers could get their hands on for a reasonable price was also questionable. The hop industry was extremely limited in the early days and most of the brewers could only afford to buy either Chinese hops or hop pellets, which most brewers typically consider to be inferior in quality in comparison to American hops (or even Australian, British, or New Zealand hops). Importing hops was, and remains, expensive and risky.

[11] It is still a mystery exactly who Beer Sam is – very few informants interacted with him directly, particularly after 2012-2013 when the larger craft breweries started to become more adept at finding their own sources for ingredients and equipment. He was never at any events that I attended nor was he a regular patron of any of the brewpubs he sold ingredients to. Those who were newer to the industry had never even heard of him.

Multiple informants reported that when they started importing hops from the United States, many directly from the Yakima Valley, their orders were held up at Chinese ports. Hops are a delicate product and very susceptible to mold. Sitting in a Chinese port mid-summer for up to three months nearly guaranteed that the hops would be unusable by the time they reached the brewery. This happened to Wang Fang, as well as many of the microbreweries that developed soon after. After the initial import process, which is lengthy and rigorous, this problem was somewhat allayed but only if the brewery imports the exact same hop from the exact same producer. If a brewer decides to use a different sort of hop, as most craft brewers are wont to do, the entire import process has to be restarted. Thus, the risk of spoiled hops continues to be a problem.

Obtaining quality malt, unless backed by wealthy investors, was also a problem for many early entrants. Chinese crystal malt is available; however, it is notorious for its poor quality. Ideally malted grains would have even malting – meaning that any ten grains should all be the same color. During my fieldwork I was able to examine the malt at many breweries and I found that Chinese-produced malt was very inconsistent, with some grains being only lightly roasted and others being nearly burnt. This is partially due to the fact that the malt industry in China is underdeveloped in terms of technology as well as the training required to properly produce malt, which is quite involved.[12] Some early entrants, like Wang Fang and Hao Sheng, therefore imported foreign malts. Others, such as Zhang Wei (discussed in the Chapter 1), attempted to malt grains themselves in toaster ovens. The result was similarly uneven roasts and poor quality.

Finally, like many other food and beverage products in China, some domestic ingredients that Chinese brewers have tried have turned out to be fake or unusable. Gao reported that he received bags of Chinese malt that were open and of extremely spotty quality, which meant that he and his staff had to inspect every single bag that came into the brewery. They sent back any bags found to be unusably low-quality. Once relationships with malt producers were developed, he reported that the overall malt quality improved.

[12]Malt is a germinated cereal grain, usually barley, that has been soaked in water and then halted from additional germination by exposing the grains to hot dry air. This modifies the grain's starches into different types of sugar, as well as proteases, which breaks down proteins in the grain and can be eaten up by yeast to produce alcohol. This process is quite specialized and just as there are Brewmasters, there are specialists in malt making, called Malt Masters.

There are still serious questions about overall quality of domestically-sourced malt. Informants reported that many of the grains used for malting in China come from Australia. Early entrants and newcomers reported that they had heard rumors that the barley Chinese malt makers were using was feed-grade barley (meant for livestock, not human, consumption), meaning that it was of much lower quality and met fewer safety standards than food-grade barley (Interviews #7, 50, 67). This rumor was confirmed in an interview with a commodities importer who said that the increase in grain sales from Australia to China is primarily driven by feed-grade grains, not food-grade (Interview #97). Furthermore, all five of the early entrants reported that they had heard rumors that other breweries, who were less knowledgeable about sourcing domestic ingredients, also had received orders of fake hops or fake hop pellets (Interviews #9, 23, 50, 67). This obviously creates problems with beer quality and taste, as well as consistency in taste for core products.

Two more technological issues presented serious problems for early entrants and continue to plague the entire industry. One is that the majority of restaurants and bars in China lack cold storage facilities. As previously noted, one way that multinationals have tried to get a leg up on competition in China is by building cold storage units for bars and restaurants, as well as providing somewhat regular maintenance of the system, including sanitizing the lines (tubes) that flow between kegs and the tap. However, this exchange of technology for pouring multinational beer was not available to most craft breweries or brewpubs, or if it was, most refused the offer.

The other issue with sourcing was finding reputable sources of quality CO_2 that carried a QS code, as this certification is required for any product being used in food and beverage production. Again, while this problem was particularly acute in the early days, it remains a problem for many home brewers and craft brewers who keg their beers. Brewers at Wang Fang and Gan Bei both reported that they only knew of two sources for CO_2 and that neither were good quality; however, there were no other sources.

Multiple informants also reported that this problem extended beyond the craft industry. One common story was that AB InBev had nearly been shut down in China. As the anecdote goes, AB InBev had purchased carbon dioxide from a supplier in Wuhan since landing in China during the

Reform and Opening period. Eventually the company decided that they would acquire facilities and technology to manufacture their own carbon dioxide to save money, energy, and be more environmentally friendly. The CO_2 supplier's response to losing this business was retaliation – they notified the department that issues QS codes. The department's inspectors then contacted the AB InBev factories all around China and told them to halt production until an inspection could be done, without regard for the thousands of brewery employees who would lose their jobs (or at least several paychecks). This lasted nearly six months. Most interviewees were outraged and somewhat discouraged by this story because if the government was willing to shut down a multinational due to one resentful complaint, what would they be willing to do to smaller craft breweries who provided them with very few, if any, benefits? This grounded their belief that authorities only care about protecting their positions regardless of the economic or social costs of enforcing the regulation (Interviews #10, 24, 50, 51).

Regulatory and investment obstacles for early entrants

The smallest of the early entrants faced additional problems that were a direct result of Chinese food safety regulatory reforms, explored in depth in Chapter 6. For example, Gao reported that after 2009, all food and beverage companies, including beer, were required to gain approval from the National Development and Reform Council (NDRC), which falls directly under the purview of the Chinese State Council. Gaining approval from the NDRC was problematic for the smallest of early entrants because the fees that went along with these applications were much more than most could afford. Therefore, many of the smallest microbreweries, such as Hao Sheng, ran informally at the beginning of their development. This continues to be true for many new entrants.

The new rules also required that any small brewery have certain testing equipment and identical brewhouse layout plans, including a specialized and separate sanitation room. Not only are these requirements restrictive for small-scale breweries in terms of cost, the requirements seem to have been made without any brewing knowledge; brewers consistently complained that the layout requirements were problematic. They required walls that separate certain beer processes, forcing breweries to run hoses between tanks in inefficient ways and subsequently also creating potential hazards for workers, the equipment, and the beer. To meet these requirements, craft breweries had to spend approximately 400,000 RMB (about $67,000 US). This is in addition to permit and licensing costs, equipment and ingredient costs, rent, as well as the costs associated with opening the actual brewpub or bar where the beer is served.

An additional ongoing requirement was to file spec sheets for every single new beer type that is brewed (e.g., if the brewer used any new ingredients or processes to make the beer). Each spec sheet costs approximately 5000 RMB each (just under $1000 US). For craft breweries, some of which make dozens of different beers, this adds up quickly. Gao, Gan Bei, and Wang Fang all reported that they were uncertain what the government actually did with these spec sheets and many early entrants, as well as more recent newcomers, worried that their recipes might be stolen, sold, or given to multinationals or National Champions who were desperate to gain new niche products and expand their portfolios. Some, such as Gan Bei, Wang Fang, and Hao Sheng, complied with this regulation. Many more refuse to send in spec sheets due to fear of intellectual property theft, simply because the cost is prohibitive, or both (Interviews #4, 50, 76).

Despite these problems, these early entrants all managed to survive and grow, including Gao. New breweries also began to pop-up all over China – in Guangzhou, Shenzhen, Xiamen, Qingdao, Suzhou, Chengdu, and even in areas as remote as the Tibetan areas in Western Yunnan province. Figure 3 illustrates the geographic distribution of craft breweries in China as of 2016, with the highest concentration in Shanghai and Beijing. This concentration is unsurprising as some initial demand for better beer and more variety came directly from the expat community, of which Shanghai and Beijing have the highest populations. Additional details on the craft industry and the regulations that constrain it will be provided in Chapters 3-6, including in-depth case studies within the industry in Chapter 5.

The figure above showing the distribution of breweries in China by location could be an indication that 1) it is easier to do research in Shanghai and Beijing, and/or 2) that craft breweries got their start in first-tier cities and are in the process of spreading to second- and third-tier cities.

Another major obstacle for craft breweries is Chinese consumer behavior and educating the Chi-

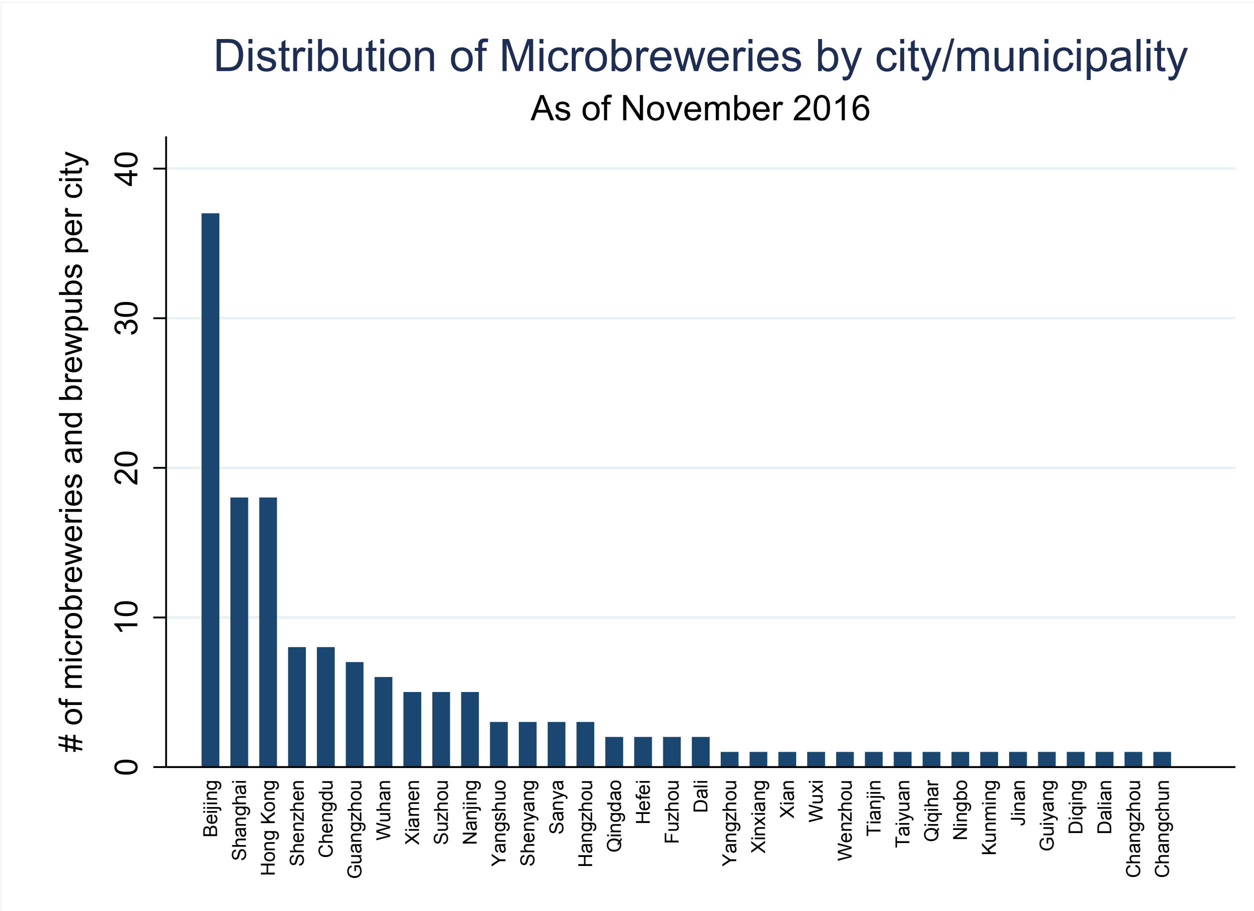

Figure 2.2: This figure shows the distribution of micro/craft breweries in China based on the author's data set. As small breweries in China may remain informal, particularly in second- and third-tier cities, it should be assumed that the number is higher. However, if these firms do exist they are flying under the radar of important Chinese brewers and industry insiders. For example, in 2017 there have been rumors that there are some small breweries in Xi'an, similar to Beijing and Shanghai in the early days. This was not happening even just two years ago.

nese population about craft beer.

2.5.2 Chinese consumers

As the Chinese economy has exploded, so too has the income of many Chinese consumers, including ordinary citizens. Though inequality has increased massively, and the exact size of the middle class is unknown (it is often argued to be between five and twenty-five percent of the population), Chinese consumption patterns have changed drastically. Because changes in Chinese consumption patterns, as well as consumer beliefs and knowledge about beer, have proved a continuing issue for the beer industry in this country, a brief review of what we know about Chinese consumers is pertinent.

The rapidly changing preferences of Chinese consumers

In the 1970s there were few differences in material wealth in urban China. The primary disparity that existed was in the benefits that people received from work units (Davis 2000, 5). Schell (1984, 3-4, quoted in Hanser 2008) describes the streets of Mao's China as "crowded, but with silent, purposeful people, buying bare necessities of life from dreary state-owned stores." Interviewees that could recall the period before Mao died confirmed this reality. To illustrate the dearth of material wealth, more than one provided an anecdote – no one locked their doors, some until the mid-1990s, because no one owned anything worth taking (Interviews #1, 5, 17). In addition to the general shortage of goods and the lack of material wealth, consumption was, and remains, political. It was further politicized during the Cultural Revolution and the availability of merchandise was "further reduced by political campaigns aimed at cleaning society of all the hallmarks of a bourgeois lifestyle" (Hanser 2008, 33).

In 1978 the per-capita income in China was just $156 US (current dollar value), but by 2015 it was over $8000 US (World Bank 2017). Real standards of living have improved greatly in many parts of China and so has the amount of disposable income for non-essential goods. This has coincided with a slowing Chinese economy, which has driven the central government to focus on increasing consumption and reducing saving, believing it to be "the antidote to the stagnant national economy and hope for future globalization" (Ngai 2005, 474; Stevenson 2015). For a population that weathered centuries of famine, political instability, and a harsh brand of authoritarianism that focused on anti-capitalist rhetoric for thirty years, this has proven difficult.[13]

As noted earlier in this chapter, Chinese consumers remained price-sensitive and preferred local brews to foreign-made or imported beers through the 1990s (Heracleous 2001, 39). However, this is changing. According to Higgins (2012, 19), Chinese consumers are drinking more and beer sales increased by 29 percent between 2007-2012. Some of this has been for so-called "premium beers." This pattern is consistent a more general trend of Chinese consumers increasingly demanding foreign brands and luxury goods.

One reason that the demand for foreign food and drink products has increased is due to numerous food safety scandals and ongoing problems with fake products and subpar imitations, chemical contamination, and so on. This has caused deep concern among Chinese consumers about the reliability and safety of Chinese-made products. While many Chinese consumers are still very price-sensitive, those that have reached (or nearly reached) middle-class status often prefer to buy foreign brands, especially for products such as milk and meats. The assumption is that foreign products are safer, more trustworthy, and of better quality. The impact of food safety concerns on Chinese consumer behavior cannot be understated and will be further detailed in Chapter 6.

In addition to distrusting Chinese brands, many Chinese consumers buy foreign brands in order to demonstrate to their peers their social status and that they are modern global citizens rather than country bumpkins (Ngai 2005, 474). This is especially true of groups who have an unclear position in the new social order, such as migrant workers or even college graduates who came to university from rural areas (Hanser 2008, 51).

Luxury goods also serve as a marker of class and wealth. Cars, homes, condominium amenities,

[13]According to Towson and Woetzel (2015), the rate at which the Chinese save (specifically savings as a percent of GDP) is overblown. While the savings rate is decreasing, if we use this metric, we also need to remember that the denominator is (or at least had been) growing at a faster rate. They note that from 2000 to 2010, the size of the economy doubled and consumption grew from $650 billion to $1.4 trillion RMB. Therefore, even though the percent has decreased, the volume of consumption has increased.

and expensive trips abroad are now regular demands of China's richest. During my research I tutored the middle-school-aged daughter of a wealthy conglomerate owner. In less than a nine month period, the family traveled to the Maldives, drove a yacht around Hainan island, bought their tween daughter a brand new gold iPhone, installed two chandeliers in their Shanghai home (they own a minimum of five, one being in Vancouver) that cost nearly $1 million US in total, paid cash for their older daughter's college tuition abroad, and promised to buy the middle-schooler a Slow loris if she improved her grades.[14] This family was not unique – they lived in a complex with more than twenty identical buildings that were all eighteen stories high, surrounded by pools and lush landscaping on the outskirts of Shanghai.

Consumer demands for high-end products and foreign products extend to food and drink items, including beer, wine, coffee, specialty foods, top-tier fine dining, as well as branded luxury and unique experiences (Yu 2014, 71). This is a drastic shift, especially considering that in 1998 the Chinese food processing industry was still trying to achieve food security, never mind quality food products (Meng and Jen 2017, 44).

Educating Chinese consumers

However, what has been slow to develop is consumer knowledge about the actual products. Within the auto industry, for example, many luxury car brands have seen increased demand for their cars over the past ten years. However, it has not been easy. A common rumor about Ferrari in China was that when they entered the market they consistently lost money due to unaccustomed consumers. Potential buyers would walk into Ferrari's showroom ready to pay cash for a purple car on the spot that day. This is not how buying a car with Ferrari works. The company produces limited models of their cars in limited colors and they must be ordered in advance. Ferrari therefore lost out on a lot of business. On top of that loss, of those Chinese consumers who were patient enough to actually obtain a Ferrari,

[14] A Slow loris is a nocturnal primate that is distantly related to lemurs and can be found in Southeast Asia and Yunnan province in China. They are not good pets as they are difficult to care for because they die easily from infections, poor diet, and so on. They are also considered vulnerable, bordering on endangered, by the International Union for the Conservation of Nature (IUCN 2016). Fortunately for the Slow loris population her grades did not improve much.

most did not know how to drive them and within a short period of time they would end up back at Ferrari's office with a broken transmission. Ferrari's solution to this problem was to build a track and provide free driving lessons for customers.

The same has been true for the craft beer industry. As with wine, there is a lot of information about beer that one should know if one desires to be a connoisseur. The first major gap in knowledge, based on my interviews and participant observation, is that very few Chinese consumers know the difference between craft beer and premium beers. Many assume that a higher price means higher quality. However, this is not true. Often times multinationals simply create a new bottle design and label, then mark up the price accordingly. Furthermore, as previously stated, most beer snobs, including this one, do not believe that a "premium" category even exists.

The second major knowledge gap is about different styles of beer. Since the first brewery was built in China, the main product has been a low-alcohol lager (with alcohol content hovering around three percent). Stouts, IPAs, and other beers that normally appear in a craft brewery line up are completely unknown to the majority of Chinese consumers. Those that know that different styles exist usually do not know what actually distinguishes these beer styles from one another (e.g., aging, ingredients, brewing process).

Finally, many Chinese consumers have set perceptions about beer and its value in terms of conferring social status. Many interviewees reported that they preferred to drink wine, particularly French or Italian wines, as it is more refined and cosmopolitan than other forms of alcohol. They also have set perceptions that are based on questionable information. For example, some reported that beer was only popular in the Northeast of China. This is no longer true. Other consumers also said they believed wine to be more healthy than beer and that beer causes gout and other health problems, conveniently exempting from their analysis that any beverage with alcohol in it can have deleterious effects on health if over consumed.[15]

This is an interesting omission of facts, especially as many Chinese businessmen and officials par-

[15]Gout was a consistent factor that interviewees brought up as evidence that beer was less healthy than other forms of alcohol. It is not beer itself that leads to gout – it is the yeast therein that breaks down into purines, an excess of which can cause gout.

take in heavy excessive drinking as part of doing business.[16] One interviewee, a wealthy entrepreneur, reported that he had to attend dinners four to five nights a week and that he rotated what he drank (*baijiu*, beer, or wine) in order to be healthier. He also regularly invited friends that could hold their liquor to business dinners in order to lighten his own drinking requirements (Interview #8).

A major step to improving Chinese understanding and knowledge about beer has come from the craft industry. Some improvements are the result of a growing interest in home brewing. Most major cities in China have home brew societies now, some with mixed Chinese and foreigner membership; others have entirely Chinese or entirely foreign membership. Increasing consumer knowledge has also come from craft brewers, like Gao Yan, who have spent considerable amounts of time educating young Chinese brewers via books and blog posts. Other craft brewers have also contributed by offering home brew classes and special tasting sessions.

Some multinationals like Vandergeeten, a food and beverage distributor that specializes in bottle and draught beers, have also contributed by offering free magazine publications about beer in both Chinese and English. This is not out of charity or because Vandergeeten wants to help out the craft industry. The intent is that increased exposure to beer generally – even craft beer specifically – will lead to more beer consumption generally (Interviews #51, 52). This has worked to their advantage. As of 2016 Vandergeeten boasted carrying over 90 brands and being one of the most active distributors in China (BusinessWire 2016).

The education process has been, and continues to be, an uphill battle. Educating consumers takes time and costs money with no guaranteed or direct return on investment. Many craft breweries cannot dedicate the resources required to educate their local population, let alone the Chinese population generally, about their products. Some brewers also do not want to spend time on educating consumers; they just want to brew beer and have as little interaction with customers as possible. Therefore, a lot of information that Chinese consumers do have about beer continues to be from multinational companies like AB InBev or local mass-produced beer brands like Tsingtao and Yanjing. Most craft beer

[16]Alcohol consumption continues to be essential to doing business in China. Anthropologist John Osburg (2013) argues in his book *Anxious Wealth* that the majority of business deals in China are made while consuming vast quantities of alcohol over the bodies of women, as a bonding and trust building ritual. My fieldwork supports many of Osburg's observations and claims.

lovers believe this to be unfortunate and problematic for the industry, as it is basically akin to a foodie having to get their information from McDonald's.

2.6 AB InBev acquires two Chinese craft beer companies in 2017

In addition to acquiring SABMiller, in late 2016 and early 2017 AB InBev acquired its first two Chinese craft beer companies. One is a craft beer brewpub called Boxing Cat Brewery, which has multiple locations in Shanghai (Cendrowski 2017). The other is considered a craft beer bar, though with a heavy Belgian beer presence, called Kaiba (White 2017). Kaiba also has multiple locations in Shanghai. According to informants, these deals represent a two-pronged strategy by AB InBev to take over the Chinese market. The acquisition of Boxing Cat represents the multinational strategy of acquiring local brands to cater to niche markets, as their own commercial beer sales wane. The acquisition of Kaiba, on the other hand, is more about creating brick-and-mortar locations and increasing distribution for AB InBev products throughout China, including their other craft beer brands (Interview #136).

These acquisitions tell us that multinational corporations realize the value of craft beer generally, and in China specifically. They see China as a potentially profitable market that they must gain access to, primarily through acquiring craft subsidiaries. Craft breweries or brewpubs that are interested in maxing out their profits and payoffs may therefore start to design their strategies in hopes of attracting multinational investors. As Chapters 4 and 5 will show, this may lead to even fiercer, more hostile competition between craft breweries.

However, not all craft breweries are happy about these two deals. On message boards, in massive group chats, and in conversations with Chinese brewers, I found that many craft brewers viewed these acquisitions negatively, as "selling out." One informant posted, "just to clarify and call a spade a spade, Kaiba is now owned by InBev." This stirred up a heated debate about taking money from multinationals, with some in the community arguing that multinational acquisition could help the craft industry in China because "it is almost impossible for a craft brewery to survive in China." Others argued that this allows AB InBev to control the development, growth, and ultimately the profit of the craft industry in China.

2.7 Conclusion

There are many moving parts and important actors in the Chinese beer industry. One constant throughout the history of Chinese brewing since 1949 is that the brewing industry has been heavily affected by regulatory changes and reforms over time. This brief introduction to the history of the industry has shown why small breweries have turned to the sometimes unorthodox and even illicit competitive strategies they exhibit today. Small firms in the brewing business display behavior that is both shaped and distorted by a regulatory system that has always favored large commercial breweries, especially joint ventures between the state's National Champions and multinational oligopolies. These advantages come at the expense of potential rivals, potential and new entrants to the industry, as well as consumers. This problem is exacerbated by the fact that a Chinese beer culture is still in the early stages of development. Many Chinese consumers continue to be unable to distinguish between mass-produced, low alcohol content lagers and specially made, carefully crafted microbrews.

Many of these problems are a direct result of China's domestic political situation. Starting in the late 1800s through 1949, foreigners dominated the brewing industry. Under Mao, the industry struggled, as did most of the Chinese economy, but did see some minor growth in comparison to other manufacturing industries. Local breweries popped up all over China due to a lack of infrastructure and nonexistent distribution networks, most poorly-trained and poorly-equipped, and all state-owned. After the Reform and Opening began, a consolidation process occurred among local Chinese breweries, while multinationals struggled, and many failed, to get a piece of the Chinese market. However, SABMiller was able to gain a foothold, as did Vandergeteen, and later AB InBev.

Despite the regulatory restrictions and obstacles, the Chinese craft beer industry started up in 2008 and by 2017 AB InBev saw enough promise in the industry that they acquired two craft beer companies in Shanghai – Boxing Cat Brewery and Kaiba. How has this quickly-changing environment, which is bogged down by regulations and overshadowed by multinationals and National Champions, affected the strategies craft breweries use to deal with their rival competitors? The following chapter addresses this question head on.

Chapter 3

Theoretical Framework

To wash and rinse our souls of their age-old sorrows,
We drained a hundred jugs of wine.
A splendid night it was ...
In the clear moonlight we were loath to go to bed.
But drunkenness overcame us;
And we laid ourselves down on the empty mountain,
The earth for pillow, and the great heaven for coverlet.
- Li Bai[1], translated by Shigeyoshi Obata (1922)

3.1 Introduction

Among other objectives, this dissertation aims to answer a deceivingly simple question: when dealing with their competitors, why do small firms in emerging markets favor a given strategy over its alternatives? As readers may recall from Chapter 1, in the case of craft brewers in China circa 2015, some of these strategies are quite peculiar and surprising. The Zhang Wei brewery eschewed participating in the industry's rumor mill and, in general, adopted a quite passive strategy in the face of rivals that went as far as to pilfer its intellectual property. Conversely, while vigilantly protecting its trade secrets, the Wang Fang brewery seemed to relish spreading untoward rumors about its competitors. Both thrived during this period; in what pertains to issues of business strategy, however, they were oceans apart.

To help explain this type of firm-level variation, this chapter offers an explanation circumscribed

[1]Along with Du Fu, Li Bai was one of the most important Tang Dynasty poets. Many of his poems were about drinking and alcohol. In fact, his love for alcohol ran so deep a common story about his death was that he was drunk, fell from his boat into a river, and drown.

by stringent scope conditions. I put forth a specific political-economic mechanism that applies to small firms in the food and beverage industry in emerging markets governed by non-democratic governments. In doing so, this chapter offers a corrective to the hegemonic model usually used by academics and consultants to explain firm strategy. To be sure, the latter's chief virtue is its simplicity and universality; it tenders predictions about firm behavior based on generic structural features of the marketplace that are divorced from contextual attributes such as politics, history, and culture. While these are laudable attributes in some respects, they are not well-suited to explain the variation in the strategies exhibited by craft brewers that I observed in China during my fieldwork. Similarly, I also suspect that, in general, this problem holds when trying to make sense of how smaller firms in the developing world usually behave.

This chapter continues as follows. I first provide some scaffolding. I outline and review Michael Porter's (1979; 2008) seminal and extraordinarily influential work on business strategy. His research represents what is perhaps the canonical methodology that scholars use to address how firms' strategies vary. In the process, I also identify the assumptions that his model is predicated upon, and argue that many of these assumptions do not travel well to emerging markets; much less emerging markets in non-democracies. Indeed, they are woefully inappropriate for understanding most Chinese industries.

I then introduce a novel theoretical framework that proposes several testable hypotheses. I begin by laying out the relevant actors involved in creating the distinct ecosystem in which small firms operate in typical emerging market economies. Taking each actor in turn, I discuss their interests and incentives. I then move on to discuss what type of strategies are available to small firms, given these incentives and interests. But I also contextualize this template to reflect the current state of the Chinese beer industry, as discussed in the previous chapter. Next, I explicate the trappings of small firm behavior in emerging markets in non-democracies. In the chapters that follow, I test the hypotheses introduced here, and also adduce evidence for the mechanisms that connect my theoretical framework's causal nodes.

3.2 Porter's Five Competitive Forces

Within the literature on competitive firm strategies very few works, perhaps none, loom larger than Michael Porter's (1979, 1980, 2008) Five Competitive Forces (FCF) Model. Porter's (1979) original article in the Harvard Business Review titled "How competitive forces shape strategy" has been cited over 4,500 times. Since 2012, Google Scholar (2017) has counted 135,023 citations of Porter's published work, almost all of which examines competitive strategies and the effects of competition on national economic development.[2]

Indeed, Porter's "writings on strategy are considered their own sort of gospel" (McGinn 2010). His work is a business school staple and forms the core of strategy studies. Business strategy consultants and firms, such as McKinsey & Company, also use Porter's FCF Model in order to evaluate any given firm's strategic position within an industry and to make recommendations about the future competitive strategies that a firm should employ, given its particular position. This is all to say that Porter's work is highly important and influential within academia, the business world, and the policy world.

According to Porter's FCF Model, any given industry can be examined through the prism of five generic forces that transcend place and time. These are: 1) the degree of rivalry among existing (incumbent) firms, 2) the threat of new entrants, 3) the bargaining power of suppliers, 4) the bargaining power of customers, and 5) the availability of product substitutes or services. When all five forces are combined, it "defines an industry's structure and shapes the nature of competitive interaction with an industry" (Porter 2008, 2).

Let us unpack each of these forces in turn. The degree of rivalry is typically assessed by the number of firms in the industry, as well as by examining what each is capable of doing. Rivalry is considered to be high when the industry is expanding, there are only a few businesses selling the same product, and substitute products are easily and cheaply accessible. Threat of new entrants is assessed by the ease with which competitors can enter the industry. If barriers to entry are low, then the threat is high. The availability of substitutes is typically measured by the number of products, as well as their prices and

[2]To put this into perspective, consider that, during the same time period, Daron Acemoglu, an incredibly prolific scholar who is perhaps the leading authority on political and economic development today, was cited 53, 953 times.

quality. The bargaining power of suppliers is important because it assesses how much control suppliers have over prices, which will affect profitability. Likewise, the bargaining power of consumers basically considers the ability of consumers to influence a product's price. When the number of consumers is low, and there are lots of sellers, consumer bargaining power is high. Bargaining power is low, conversely, when there are not many sellers or products and there are a lot of consumers. It is also low when consumer demand is relatively inelastic (summary drawn from Arline 2015 and Porter 2008).

How does this relate to a firm's strategy vis-à-vis its rivals? Porter (2008, 3) argues that the five forces drive how firms respond to their competition. They determine both the suite of possible strategies available and what strategy is ultimately chosen. In particular, based on his five factors, Porter (1980) identifies three generic strategies that firms can recruit.

These strategies are referred to as cost leadership, differentiation, and focus.[3] Firms can choose whether "to serve broad or narrow market segment and whether to seek advantage through low costs" (Kim et al 2004, 571). They also have the option of emphasizing uniqueness.

Strategies beyond these three have also been identified by cognate theories that emphasize the five factors outlined above; for example, they include exploiting an "information technology strategy" or a "human resource strategy."

As an example of how to deduce a firm's strategy from the underlying market structure, consider the high performance (high-end) road bicycle industry.[4] Consider, in particular, Shimano, a Japanese firm that occupies a "midstream" position within this industry. Shimano provides highly specialized machined components. These add the most value to the final product. Drivetrains, pedals, and brakes are where most of the innovation valued by consumers lies, as these components largely determine a bike's performance: its rideability, speed, and reliability. This is a segment of the industry characterized by relatively high fixed costs and high research and development (R&D) spending because there are several potential innovation margins (several dimensions for several components) and high

[3]Porter's (1990, 127) so-called Diamond Framework is a bit more nuanced. It combines his theory of firm strategy with factor conditions, demand conditions, related and supporting industries, as well as the role of chance and the government. Theoretically and empirically, it is possible that the "chance" variable is picking up many contextual factors that his earlier work, the work he is most known for, ignores. Chance is quite difficult to conceptualize and measure, however: as Porter conceptualizes it, it is really an unspecified "error term" instead of a full-fledged variable.

[4]This example is taken from Saloner and Chang (2006).

churn. This means that there are high barriers to entry and reputational advantages in the production of components for this industry.

By extension, Shimano commands a greater share of the profits from any particular bike sale than the upstream and downstream firms operating in this industry. Those include firms that provide the raw materials that go into its products; those that manufacture a road bike's frame; and those involved in the bike retail business. Shimano commands considerable bargaining power vis-à-vis its suppliers, because the aluminum, plastics, and rubber used in the manufacturing process are generic commodities. It also commands considerable bargaining power vis-à-vis its customers, which are downstream bike manufacturers, retail shops, and bike enthusiasts who purchase its components directly. There are relatively few substitutes for its products, and the demand curve for high performance road bicycle components is relatively inelastic among hardcore enthusiasts. Moreover, there are fewer barriers to entry in the assembly of road bicycles and in the bike retail space: witness the proliferation of mom-and-pop bike shops on every corner of the typical college town.

What about Shimano's relationship to other firms operating in the high performance road bike component space? We can also avail the FCF model to explain this strategic dynamic. Shimano's rivals are Campagnolo and Shram. Shimano conditions its R&D strategy (which involves a mixture of patents and trade secrets) and level of investment spending on what it expects these firms will do. Because of significant barriers to entry, it worries less about potential entrants, although this fear is moderated by the fact that Shimano anticipates that the high profit margins in the bike component space may lure new entrants in.

Shimano also invests heavily in market differentiation, in part by leveraging its reputation as an innovation engine. It heralds its heavy R&D spending and markets its constant tinkering and improvements by, among other things, sponsoring the upper echelon of road bike athletes as its spokespeople, including Lance Armstrong when he was in his prime. These strategies afford Shimano an enviable degree of market power over its rivals.

For this reason, Shimano tends to eschew engaging in price competition. Price competition is likely to occur if the products of rivals are identical or perishable (Porter 2008, 9). Because Shimano has invested so much in R&D, and in a reputation for constant innovation around highly valued features of high performance road bikes, it has cultivated a cult like following among bike enthusiasts.[5] In more technical terms, Shimano supplies a different demand curve than Shram and Campagnolo: one that is more inelastic. Meanwhile, its market leading innovation has allowed it to reduce the elasticity of its supply curve without a commensurate reduction in prices, allowing it to capture a great share of the market surplus.

3.2.1 Applying Porter's Framework to Craft Brewing

As in the case of Shimano, product specialization is an integral part of brewing craft beer; indeed, many brewers would themselves argue that product specialization is the industry's beating heart. While in the case of craft beer the product is very perishable, and different beers may seem identical to the average consumer, subtle differences set craft beers apart among discerning consumers, even within the same beer style. While beer is perishable, the products are not identical (different beer styles, different malts, hops).

Microbreweries therefore typically have more selection, including styles of beers, than commercial breweries: lagers, pale ales, session ales, rye ales, Belgian-styled beers (tripels, dubbels, lambic, saisons, and others with higher alcohol content), German style beers (dunkels, helles, hefeweizen, etc.), India pale ales, blonde ales, porters, stouts, sours, barley wine, wheat beers, and so on. Moreover, within each beer style category, there are infinite combinations of hops, wheat, malt, and other spices, fruits, and bittering agents that can be used to arrive at completely different beers.

Conversely, commercial breweries primarily mass-produce low-alcohol content lagers.[6] Special-

[5]Consider another representative example that is perhaps a bit more sophisticated. Using Porter's FCF model, Tavitiyaman et al. (2011) find that hotels in the American hospitality industry with low customer bargaining power and a low threat of new entrants are likely to use human resource and information technology strategies. For hotels that already have an advantage over competitors, however, they do not find any systematic relationship to these strategies because "different hotels define competitors with various criteria such as proximity and price" (Tavitiyaman et al. 2011, 648).

[6]This is true unless they have acquired a microbrewery (or multiple microbreweries). For example, AB InBev is the manufacturer of Budweiser, a low-alcohol mass-produced lager. They have recently purchased ownership shares in multiple American microbreweries (Elysian, Goose Island) and therefore technically produce more types of beers, or least their subsidiaries do. It should be noted, however, that many no longer consider the purchased microbreweries to be microbreweries, as they are now owned by a commercial manufacturer that produces huge volumes of beer and uses their global

ization therefore helps craft beer producers curry consumers who demand variety, or who identify themselves as foodies or beer snobs.

Specialization also allows microbreweries to compete based on quality instead of price. Commercial brands tend to sell their products at bargain basement prices, even if it sacrifices taste in the process. Conversely, there does not tend to be a lot of variation in beer prices between microbrewing firms, and price-cutting does not seem to be a primary strategy for dealing with rivals among small breweries. Microbreweries instead tend to compete amongst themselves by attempting to produce the best tasting beer, or at least the most unique beer, in any particular category (Murray and O'Neill 2012).

The craft beer industry is also known for constant industrial and technological upgrading. Like specialization, this process is endemic. Homebrewers or nanobreweries that attempt to increase the demand for their product must eventually scale up and upgrade their equipment to increase output.

3.2.2 Porter goes abroad?

Strategic management is an American invention that has been widely exported abroad (Pettigrew et al. 2002, 4). Accordingly, there are thousands of studies that use Porter's FCF model outside of developed countries. It has been applied across all manners of markets, legal systems, and regime types, and largely without modification. These analyses do everything from developing survey instruments inspired by the FCF paradigm to using it to analyze firms and industries of all shapes and sizes.

Consider some examples. Jaradat et al. (2013) apply Porter's model to food companies in Jordan. Specifically, they use Porter's forces as independent variables; their dependent variable is a nominal category that captures the three types of business strategies outlined above: cost leadership, differentiation, and focus. Looking at the Hong Kong banking industry, Chan and Wong (1999) perform a factor analysis based on a survey of the industry, and focus exclusively on Porter's three strategies. Herciu (2013) also looks at Porter's five forces and strategies for the Romanian economy, but does not

network for mass distribution, which no small brewery could rival on their own. One of the only exceptions to this rule, which is hotly contested, is Sam Adams.

quantitatively test or assess the relevance of the forces or strategies to Romania's particular situation. Similar studies using Porter's model have been conducted on the Spanish urban transport system (Ortega et al. 2014), the biomass power generation industry in China (Zhao et al. 2016), the Istanbul hotel industry (Ucmak and Arslan 2012), the Filipino elevator and escalator industry (Wu et al. 2012), and the Chinese shale gas industry (Wu and Yang 2014), to name but a few.

Of course, this is not to say that FCF imperialism has gone unchecked. Some studies have poked holes in Porter's supposed forces of nature.

For example, Kim et al. (2004) ask if Porter's model is applicable to e-business. According to their analysis, e-business is different from other industries because e-business can overcome physical boundaries, target more specific consumers, obtain fine-grained information and data from customers more easily, and have very low operating costs in comparison to other industries (571-572). They find that while cost leadership and differentiation are still relevant strategy options for e-business firms, focus strategy is more specific to "traditional business contexts" (Kim et al. 2004, 582).

Jones (1996) explicitly calls for revising the FCF model to include a sixth force: the government and pressure groups. Porter (2012, 223) rejected these claims and responded

> Government is not best understood as a sixth force because government involvement is neither inherently good nor bad for industry profitability. The best way to understand the influence of government on competition is to analyze how specific government policies affect the five competitive forces.[7]

The implication is that "the five forces are fundamental, like gravity, whereas government policy is better seen as something transitory, like the prevailing winds" (McGinn 2010).

More broadly, Porter's five forces determine an industry's structure *irrespective of contextual factors*. In turn, they ultimately determine more epiphenomenal phenomena such as firm strategies and its ultimate degree of market power and profits. This occurs regardless of whether "an industry produces a product or service, is emerging or mature, high-tech or low-tech, regulated or unregulated" (Arline 2015).

[7] Porter uses the same logic when arguing against adding "complementarity" to the model. He argues that government is not a sixth force because it does not necessarily have a good or bad effect on profitability.

3.2.3 Porter's Assumptions, their Implications, and Critiques

For students of how business is done in the developing world, this view simply cannot be correct. At its core, the FCF model explains firm behavior when firms are operating in countries with relatively free and efficient markets. Transaction costs are low. There is mostly free entry and exit. The barriers to entry that do exist are structural, rather than imposed by governments.

From these assumptions, many others follow. There are secure and well-enforced property rights, including intellectual property rights, and impartial contracts. There are also market-based allocations of inputs to the production process. Credit markets are efficient and thus allocate capital to its best market use. Creditors, suppliers, and buyers are assumed to not interact or collude (Porter et al. 2002). Similarly, antitrust authorities exist and have the capacity and incentives to mitigate cartels, price-fixing, and monopolies. Finally, the FCF model is based upon the idea that uncertainty is low and information about the industry's market is freely available, easily accessible, and understandable (Coyne and Subramaniam 1996).

Why does this all matter vis-à-vis my main question of interest? How do these assumptions pertain to smaller firms operating in emerging markets and, in particular, in the small producer and retail space that characterizes China's craft beer industry? The assumptions outlined above animate predictions about how firms make strategic plans. In the FCF model, a firm's investment, production, and marketing plans are centered on perceived competition, and are ultimately a response to the behavior exhibited by rival firms or potential entrants. In turn, a firm's response to its rivals is predicated on access to information about the market and its participants, and predictability about the market's underlying structure, which presupposes regulatory predictability.

In many emerging markets, none of these assumptions should be taken as a given. Instead, we observe considerable change in market rules and structures over time, high variance among firms, and unpredictability. Consider the still nascent and rapidly-changing markets that characterize most emerging economies, as well as organizational heterogeneity. The latter includes unorthodox forms of firm ownership (including state owned firms or firms that are heavily subsidized by the state). Across these markets we also tend to observe serious information problems, especially in the Chinese case (see Whiting 2006).

Emerging markets are also characterized by consumers who have less experience in competitive market spaces. They are usually more price sensitive than consumers in advanced, industrialized countries. These consumers also face greater (unresolved) market failures due to information asymmetries and common pool problems.

All of this adds up to volatile market structures that introduce additional forces in their own right. Governments may be important actors; indeed, they might qualify as firms' most salient rivals. Furthermore, regulations in many developing countries are highly variable and often erratic, with uneven enforcement, making markets more fluid and less competitive.

Therefore, while the "vanilla" approach outlined above may be necessary for explaining firm strategy and firm success, they are insufficient in explaining why small, privately-owned businesses in less-than-democratic states with weak property rights choose the peculiar strategies they do to cope with competition. Instead, in these challenging and changing contexts, the suite of strategies used by firms for addressing market forces is broader. They may even include behaviors such as bribery and other illicit tactics. This also holds for firms' strategies regarding how to deal with competitors.

The FCF model seems especially dubious when applied to small firms operating in emerging markets. Not only do small firms struggle in terms of developing competitive strategies, Welter and Smallbone (2003, 7) find that a hostile business environment "where market reforms have been slow or only partially installed plays a major role in constraining SME development" more generally. These problems, coupled with low bargaining power, can lead firms to view the environment as one out of their control (Fligstein 1996).

Indeed, Wright et al. (2005, 2) are skeptical that even large firms from developed economies can extend their "traditional global strategy" to emerging markets with only minimal changes. They then go one step further, and maintain that firms probably cultivate unique strategies tailored to each market. If multinationals have difficulty implementing their own strategies in emerging economies, it is not a big leap to assume that this problem is even more severe for small firms working under the same conditions.

Furthermore, firms do not have an unlimited choice of strategic actions in developed or developing economies. They "choose from a defined set of legitimate options as determined by economic opportunity, resources, and institutional forces within an industry and country" because they are "embedded in social frameworks of norms, values, and rules of exchange that define appropriate economic behavior and influence strategic choices" (Hitt et al. 2004, 174). Put another way, firm strategy sets are limited by formal and informal institutions. Therefore, if these institutional arrangements vary across emerging markets, which they most certainly do, so too will the strategic actions that firms can and will take.[8]

In short, Porter's paradigm makes many heroic assumptions that call into question its applicability to non-US industries and firms. Therefore, in order to describe and explain the variation in (smaller) firm strategies observed across emerging markets, I relax Porter's assumptions. I also bring in context and, most importantly, politics.

The rest of this chapter therefore calls for repositioning government and politics from the background to the foreground. The government determines policies that explicitly interact with and distort at least some, if not all, of Porter's five forces. And, in these contexts, they are so determinative of the five forces that they render them qualitatively different from how they operate in more mature markets: where property rights are well-defined and secure, there is ready access to credit, and the rule of law forecloses several unlawful or unethical firm strategies.

3.3 A political economy approach to firm strategies

The institutional context, both political and economic, that firms operate within is essential to explaining firm strategy and behavior. Politics determines property and contract rights, regulations, public and private information about business, as well as government and business transparency. In a perfect world, where the rule of law is strong, property rights are clearly assigned and regularly

[8] Peng (2002; 2003) has emphasized the importance of examining institutions in emerging markets generally and China specifically.

enforced, there is complete information, transaction costs are low, it makes sense that the primary strategies a firm would rely upon to both survive and thrive in a market would be focused on those identified by Porter: specialization, prices, technology, and potentially lobbying regulators within the four corners of the law. However, in insecure and uncertain settings, governments, firms, and other economic actors develop unconventional mechanisms and institutions in order to survive and increase profits.

How do we best move politics to the front and center of the study of firm strategy in developing countries? Such an exercise might achieve two objectives. The first is to recognize forces beyond the orthodox five that the FCF paradigm privileges. The second is to make room for firm strategies that fall outside of the conventional set identified by Porter and his followers. The political economy literature offers some insights that can help guide both of these objectives.

As for other factors that might be important to driving firm strategy beyond the much vaunted five that Porter focuses on, one might consider the Global Competitiveness Report of 2012 as a start (Schwab 2012). It identifies fifteen "problem" factors related to domestic governments that can harm firm competitiveness. These include tax regulation, tax rates, inadequate infrastructure, restrictive labor regulations, inefficient government bureaucracies, corruption, access to finance, inadequately educated workforces, crime levels, foreign currency regulations, inflation, government instability, policy instability, poor public health, and poor work ethics (Herciu 2013, 276). At minimum, it could be the case that, especially in the developing world, these other factors interact with Porter's five factors in important ways.

In turn, this may drive firms to indulge in unorthodox, hitherto neglected, strategies. One such example is vertical integration, which is the merging together of different (upstream and downstream) businesses required to manufacture a product. This may be a response to high transaction costs and, in particular, the fear of holdup in which one party to the production process violates a contract to gain an opportunistic pecuniary advantage (Coase 1937). Indeed, holdup is a particularly common fear in the perishable food business (Haber and Menaldo 2011).

Another impetus behind vertical integration may be insecure property rights. In return for secure property rights and perhaps privileges that shelter them from competition and bestow them with monopoly rents, vertically integrated firms can reciprocate by providing political support to incumbent governments, as well as tax revenues (Haber et al. 2003). This allows firms to both eliminate competitors altogether and minimize the dissipation of the ensuing rents.[9]

How would this look in the industry that is the focus of this dissertation, beer brewing? Vertical integration in the beer industry could include a merger of the beer manufacturers, bottle makers, and distributors. It could also include the acquisition of businesses that are further upstream: firms that produce inputs, such as equipment manufacturers, or even hop and wheat growers, malting companies, and so on. In fact, there is a precedent for this: in Porfirian Mexico, beer manufacturers were vertically integrated with bottle makers, who were awarded the only patent in the industry to manufacture glass bottles and bottle making machinery (Haber et al. 2003).[10]

The firm strategies discussed so far have been primarily focused on ordinary business functions. Even vertical integration qualifies as such. However, some strategies identified in the political economy literature are characterized by deception, collusion, coercion, evasion, and other illegal activities. According to de Certeau (1988, xvii, 37 quoted in Mackay and Zundel 2017), when firms lack formal power to change their situation, they may resort to "ingenious, cunning or deceptive responses performed autonomously." Similarly, Gans-Morse (2012) finds that, in Putin's Russia, firms that make products that are difficult to observe are more likely to use violence or corruption and less likely to use formal institutions, such as courts, to resolve business disputes. He also finds that small firms operating in smaller markets are more likely to use violence and corruption.

Other studies have identified similarly non-traditional firm strategies. These include coordination between players within an industry, via associations or cartels, which may be formal and legal or not;

[9] Vertical integration in a monopolistic market (where there is no horizontal alternative) eliminates the so-called double marginalization problem, in which each firm involved in the production process (upstream, midstream, and downstream) sets its price independent of the other firms. This therefore leads to a "stacking" problem that ultimately erodes profitability by unduly reducing demand. Conversely, if all the firms to the production process vertically integrate, they internalize the negative effect associated with marking up the price and instead settle on the monopoly price that maximizes overall revenues.

[10] Interestingly, Corona still uses the Porfirian-era bottle design, which is unique among beers. During my research, multiple informants reported that Corona was one of the least reliable imported beers, in terms of quality or even being fake alcohol, because there is a black market for the glass. Purchasers keep the bottles, refill the bottles with other liquids and resell it, passing it off as Corona.

bribery, in the form of bestowing public officials with gifts, favors, and banquets (Peng and Heath 1996; Steidlmeier 1999; Hokisson et al. 2000); private coercion; threats; criminal protection rackets such as mafias and gangs (Finckenauer 2004; Shaw 2008; Frye and Zhuravskaya 2000); and employing state aggression in the form of expropriation and extortion (Gans-Morse 2011, 2012; Frye et al. 2009).

Along these lines, an informal mechanism that has been identified as very important to doing business, by researchers and laypersons, in China is *guanxi* - the forging and cultivation of personal relationships (Yang 1994; Geng et al. 2017; Chung et al. 2015; Yen et al. 2016). *Guanxi* has been pointed to as a reason why firms tend not to comply with regulations and engage in corruption (Tsang 1998; Fan 2002; Millington et al. 2005; Dunfee and Warren 2001). The logic is that networks and connections are activated by firms in order to secure preferential treatment. This includes persuading local bureaus to favor firms and their associates and seeking out special favors at the highest echelons of the Chinese government. Favors may include gaining exemptions from regulations, doling out bribes in exchange for permits and licenses, securing the re-zoning of districts for industrial and commercial uses, or receiving sweetheart real estate deals when purchasing land from the state, to name but a few.

While the industrial organization and political economy literature is helpful to gaining purchase on firm strategy in the Chinese craft brewing industry, it is wanting in several respects. First, it is centered on large firms operating in non-retail industries. However, the majority of small firms, especially those operating in the retail sector, do not have the resources 1) to create or coordinate a legal cartel in the long-term, 2) to employ individuals or the state to commit violence on their behalf, or 3) to curry favor with high-level government officials.[11] Indeed, even vertical integration is unlikely: while it is an option for larger firms, small firms simply do not have the resources required to acquire other businesses in the necessary industries.[12]

These explanations also fall short because they are confined to formal, registered businesses. If you

[11] Some have the resources and connections to court local officials. This is more likely with Chinese brewers and owners than foreigners, all else equal.

[12] As of May 2017, no microbreweries in China were vertically integrated. In China there is not a clear, neutral third-party enforcer available to arbitrate and protect property rights. Even if we believed that the Chinese government could fulfill this role, it certainly would not be neutral and would likely favor commercial, partially state-owned beer manufacturers over small businesses. As detailed later in this chapter, local and central government have incentives to favor large firms, MNCs, and SOEs, over small firms. These firms employ more potential supporters and also are a much larger potential source of revenue than small firms.

are running your firm off the books, many of these strategies are simply unavailable to you without risking exposing the illegality of the business. Finally, it is doubtful that in the Chinese craft beer industry *guanxi* is an exceptionally helpful option for the firms I am interested, even those that could hypothetically afford to influence government officials. Indeed, it is doubtful how helpful *guanxi* actually is to any firm in any industry in China. Consider that, to varying degrees, social networks and kinship matter to economic activity in any industry, and in any country (Fukuyama 2012). Chinese firms and business people are not exceptional or unique when it comes to their deployment of networks. Though small firms in China often rely upon some informal mechanisms to deal with competition, this does not mean that they all engage in corruption, criminal activity, or bribery of officials. I therefore submit that *guanxi*, on its own, does not play an important role in determining firm strategies. It also does not explain firm success, on its own, among small firms in new industries.

I therefore now turn to outlining a novel way to think about the strategies that small firms in the retail industry in emerging markets exploit to deal with competition. This includes identifying what strategies are available to small firms in emerging markets, as well as my explanation for strategy choice. While this framework is tailored to China's craft brewing industry, it provides lessons for other, similar industries and other developing countries.

3.4 Actors and their incentives in the Chinese context

I begin with a brief discussion of the actors involved in this process. This section highlights the differences between the actors involved in Porter's idealized world of developed markets and the actors involved in emerging markets with autocratic governments, such as China. In the OECD context, the primary actors that are typically accounted for in strategy research include the government, firms, and consumers. In China, however, there is a greater number of salient actors, including central government officials, local government officials, multinational corporations, state-owned enterprises, small firms, and consumers.

For each actor, I discuss their political and fiscal interests and incentives. This illustrates that, even if an actor falls into the same category (e.g. central government or multinationals), they do not always have the same interests or incentives across different contexts. Furthermore, by explicating the incentives that each actor faces, we can better understand why they behave the way that they do and under what conditions.

3.4.1 Central government incentives

Political Incentives

Two major interests influence the Chinese central government. The first is political survival. In order to stay in power, the central government must continue to achieve economic development. Meaning; they must create an environment in which the Chinese population can continue to improve their own living standards and thus continue to support the current government.

Economic performance is therefore tightly linked to the legitimacy and power of the CCP (Shambaugh 2008; White 1986; Downs and Saunders 2012). After Mao's death and the horrible experiences of the Cultural Revolution, the CCP lost much of its ideological legitimacy. In the wake of an extremely poor economic situation, the central government adopted policies to attract much-needed capital and technology (Gallagher 2004). These reforms eventually led the communist authorities to transition towards a market-based economy, rendering socialist ideology even less important to the majority of China's population.

Because the central government is deeply concerned about economic performance, government authorities are very sensitive to scandals that could damage China's international reputation and reduce investment. This is especially the case with regard to food and medicine (Blanchard 2008; Volodzko 2015). China has assumed the role of the world's manufacturer. If either consumers or foreign governments grow to doubt the safety of products made in China, this could dry up demand for these products. By extension, Chinese factories will experience a decrease in orders and, ultimately, the Chinese economy will suffer.

The central government has gone to great lengths to protect China's image. For example, in 2007 the former head of China's State Food and Drug Administration (SFDA), Zheng Xiaoyu, was executed for corruption and dereliction of duty. According to official reports, he had taken bribes from 1998-2005 in exchange for allowing firms to skip a rigorous registration process and other requirements (Kahn 2007; China Daily 2007).[13] Less than one year later, in 2008, milk and milk products were intentionally contaminated with a chemical called melamine. This led to over 300,000 sick infants, 53,000 hospitalizations, and six infant deaths (Branigan 2008; Macartney 2008; McDonald 2008).

The result of the melamine scandal was increased regulation, arguably hyper-regulation, of the food and beverage industry. Specific regulatory changes that were undertaken by government authorities will be discussed further in Chapter 6. This scandal also precipitated the creation of a revamped China Food and Drug Administration (CFDA), which supplanted its predecessor, the SFDA. Unlike the latter, the CFDA's parent organization lies at the pinnacle of authority in the Chinese government – the State Council. This is telling, since the State Council's chief objective is that the CCP maintain its grip on power.

Fiscal incentives

Aside from political incentives, the central government of China also has fiscal incentives. First, due to reforms in the Chinese taxation system, local governments are responsible for their own revenue collection and most have revenue-sharing agreements with the central government. This means that the central government is reliant upon local governments for a portion of their revenue. Economic reforms in the 1990s and 2000s were therefore designed explicitly to encourage investment by Fortune 500 companies, as these companies bring the largest amount of capital into the Chinese economy and they produce the highest payout (Oi 1999; Chen et al. 1992; McMillan and Naughton 1992; Bai et al. 2006; Xu and Berney 2015).

[13]Of course, the execution of a top level official for failing to carefully monitor and implement Chinese regulations could subject subsequent food safety leaders and central government officials to cross-cutting and even self-contradicting incentives. To prevent new bouts of food contamination or the dissemination of unsafe prescription drugs, some public officials may have been incentivized to enforce regulations more strictly. For others, however, Zheng's execution may have incentivized them to become better at covering up their shortcomings to avoid such a severe punishment.

Furthermore, the PRC is an autocracy. This means that at its heart not only is the central government predatory, it is even more predatory than states with strong and inclusive political and economic institutions (see Olson 1996; Levi 1989). Central government officials have personally profited from China's Reform and Opening. CCP leaders including Wen Jiabao, Hu Jintao, and Xi Jinping, as well as their families, have accumulated significant wealth as a result of being in power.[14] They therefore have an interest in continuing to profit from their control of the Chinese government and economy as much as possible.

3.4.2 Local government incentives

Because China has a decentralized government, enforcement of regulations is left to local authorities. While the central government has prioritized food safety and continues to amend and write stricter laws regulating the industry, local governments are charged with the implementation of the laws. Most local governments have limited budgets and only a small numbers of inspectors who are responsible for a large number of firms.

Aside from financial constraints, local officials have conflicting interests in upholding and enforcing Chinese law because of the cadre evaluation system. The cadre evaluation system (CES) was created in 1979 under Hua Guofeng's leadership. By 1983, the CES changed from a system that was focused on monitoring and altering political attitudes of cadres to one that assesses cadres based on work performance and achievements (Whiting 2004). The system was further reformed in the late 1980s and early 1990s in order to create competition among local officials at the same level based on "quantitative measures of performance on the main 'social, economic, and cultural' targets" (Whiting 2004, 104).

These criteria can include: the gross value of industrial output, industrial profits, profit rate on

[14] In 2012 the New York Times produced a graphic visually illustrating "The Wen Family Empire," exposing the various actors in Wen's network who have accumulated billions of dollars. Wen was born into an extremely poor family, but by 2012 when the articles were written his 90 year old mother alone had a net worth of at least 120 million US dollars. Not only did the Chinese government deny the charges (Rabinovitch 2012), after the information was released, China later kicked the New York Times out of the country, leading many to speculate that it was in retaliation for publishing the articles.

total capital, total value of exports, GDP, number of new jobs, maintenance of the consumer price index, secure public order, levels of energy consumption, and environmental protection (Whiting 2004; Wang 2013). Each criterion is assigned a point value and points are awarded based on how closely local officials come to meeting the target.

The exact performance criteria of any evaluation vary and are determined by the immediate superior level of government. In theory, local officials who get the best score should be rewarded with promotions or other material benefits, and officials who score poorly are penalized and even demoted. Furthermore, due to the rotate-and-transfer system, most cadres also only have three to five years in any given position or place, which means that they generally have short-time horizons.

As part of securing public order and safety, which is also a CES criterion for most locales, officials may have incentives to crack down on threats to food safety and public hygiene. For example, they may target unlicensed informal food carts and restaurants for closure, increase restaurant and brewpub inspections, or enforce equipment and volume requirements for production permits and licenses. They may also send in *chengguan*, China's hated local city-level pseudo police force, to harass consumers, close businesses before normal closing times, or even confiscate everything from informal street carts or pop-up shops, including the merchandise, carts, bikes, tables, chairs, and anything else needed for the business.

We can readily infer how CES criteria would lead a local official to favor or disfavor the interests of small private firms versus multinationals versus Chinese National Champions. Local officials have incentives to favor large firms based on their desire to maximize production, employment, and public revenues. Attempts to increase the gross value of industrial output should lead them to favor large producers, as they can generate more daily output than small businesses. A greater volume of investment may also create more jobs, and lower unemployment rates, leading local officials to favor multinationals and large firms. The desire to increase industrial profits and increase the total value of exports will also lead them to favor large suppliers. And by making local officials responsible for the majority of their own revenue generation and expenditures, China's fiscal decentralization compounds the favoritism they should bestow upon large firms.

3.4.3 State-owned enterprise incentives

Many of the MNCs in China that mass-produce beer are partially state-owned. As noted in the industry history chapter, the two major powers in the beer industry, SABMiller and AB InBev, have now merged. However, until 2016 both were minority shareholders of the two largest breweries, by volume, in China, Snow and Tsingtao.

SOEs and their employees are primarily interested in ensuring their own continued relevance and power, from which they have historically received numerous economic, social, and political benefits (Cai 2002; Hurst and O'Brien 2002). With the Reform and Opening also came the disintegration of China's Iron Rice Bowl, a term used to describe China's guaranteed employment, income and social welfare benefits for urban citizens (Cook 2002; Hughes 1998; Sheehan et al. 2000). Hu Jintao's harmonious society policy discourse, *hexie shehui*, was created in response to the unrest stemming from grievances related to the removal or lessening of benefits from the state to SOE workers (Li et al. 2013; Warner and Zhu 2010).[15]

While the Iron Rice Bowl commitments never really existed in rural China, or anywhere outside of major urban state-owned enterprises, for that matter, since the 1990s both the countryside and urban areas have been hit hard by privatization and China's regressive social welfare policies (Wong 2009; Rosenthal 2001). Furthermore, after accession to the World Trade Organization and mass privatization, some of the most volatile social issues in China are unpaid pensions for state retirees, the lack of a national health insurance plan, and soaring medical costs (Salditt et al 2008; Li and O'Brien 1996; Hurst and O'Brien 2002; O'Brien and Li 2006).

In September 2015, Beijing released information on its plans to further reform its biggest SOEs. According to Leutert (2016, 84), many state firms prefer continued restrictions on competition and focus instead on merging SOEs, at the risk of long-term profits and efficiency. However, "new reforms

[15] The harmonious society concept was introduced during the Hu Jintao and Wen Jiabao administration. Supposedly, this indicates that the CCP has shifted its focus: from exclusively privileging economic development to addressing increasing social problems and rising tensions. For more on Hu's harmonious society discourse see Zhang Zhiping (2006) and Lou and Wang (2008).

will not succeed without targeted policies at the firm level to align executive incentives, strengthen internal oversight, and overhaul during cadre culture," as each of these factors have been an obstacle to improving efficiency and productivity (Leutert 2016, 85).

It is unclear what the reform of jointly owned SOEs will look like. Will a reform of cadre culture mean that SOEs will move towards the multinational's corporate culture and interests, or will their incentives continue to be skewed towards advancing state interests? In the case of the beer industry, the largest producers of beer, by volume, are majority state-owned, with a foreign multinational holding the remaining 49 percent stake prior to the AB InBev takeover (Kwok and Geller 2016). As noted in chapter 2, to meet regulatory requirements governing its acquisition by AB InBev, SABMiller had to sell its shares of Snow beer back to China Resources. This made Snow 100 percent state-owned.

While policies are still being developed and experimented with, the preferences of SOE managers and employees remains the same. They want to keep the status quo: they prefer to keep the firms state-owned and maintain the benefits of being state-owned, including pensions and healthcare for long-term employees, as well as subsidized prices for inputs and ingredients for the factories. However, the firms also have incentives to stay competitive with non-SOE firms in the beer industry so that they can prove their worth to the central government and stay in business.

3.4.4 Multinational incentives

The primary motivation for firms of all sizes is profit. Because profits often revolve around both the volume of product that is produced and keeping costs low, multinationals involved in food and beverage production and distribution have incentives to acquire cheap raw materials, cheap labor, and engage in mechanized production for the mass market with a quick turnaround time. Multinationals in China now enjoy not only cheap production and labor costs, but also access to a huge and still growing domestic Chinese market. Indeed, AB InBev, SABMiller, various national brewing associations, hop associations, and malt associations all estimate China to be the new and largest market for growth in the beer industry in the next ten years (Scipioni 2016; Holliday 2014; Chaudhuri 2015).

Multinationals such as AB InBev (e.g. Budweiser, Stella Artois, Beck, Miller Light, Peroni, Leinenkugel, etc.), Heineken, and Carlsberg are also concerned about their reputation as global brands. Multinational beer company reputations rest, in part, on the consistency of their products' flavor. For example, Bud Light drinkers expect that every can or bottle of Bud Light that they drink will taste the same, regardless of where they buy it. Furthermore, if batches of beer become flat, spoiled, or contaminated, trust in the product will decline, as consumers turn to more reliable and safer products. In turn, sales and profits will also decline.

Therefore, it is in the interest of multinationals to standardize production and distribution as much as possible. This implies avoiding major scandals. Reputation influences the relationship that multinationals have with central and local governments. If a multinational is found to have violated Chinese laws, or more specifically food and safety regulations resulting in the illness or death of citizens, it may not only lose the permits and licenses required to produce at one brewery, but production at every facility may be halted. In China, a foreign multinational could even be banned from the country completely.

Given the stakes involved, the precautionary principle is operative. It follows that it is in the interest of MNCs to avoid conflict with the local and central governments as much as possible.

Because local officials and central governments share many of the same interests as multinationals, the three may collude over regulatory implementation. All three actors prefer to maintain a positive reputation with consumers and the international community so that they can achieve their ultimate goal: increasing profits. Collusion with multinationals may include governments selectively relaxing regulations for MNCs, granting subsidies and tax breaks, and guaranteeing them access to cheap labor. These behaviors have been observed in many other Chinese industries, including garments and electronics (Berliner et al. 2015).

Finally, commercial brewers are primarily concerned with potential entrants that can threaten to their market share. As of 2017, small craft breweries are not yet considered to be major competitors of MNCs in China. Likewise, craft breweries do not see themselves as competing with the big brands, though they do wish to poach commercial beer drinkers and convert them into craft beer lovers.

Nevertheless, MNCs are incentivized to either repress the growth of small firms in the industry or to acquire them as subsidiaries to cater to local consumer tastes and preferences. This is consistent with the fact that small firms that gain popularity in China have become acquisition targets for larger firms (Buckley 2016).

After buying their ninth craft brewery, AB InBev reported that "they aim to gain greater exposure to a consumer-led movement away from mass produced beers in favor of locally produces ales," particularly as the commercial beer market stagnated between 2012-2016 (Kell 2016). Some even installed flow meters in various bars and taprooms in major cities in China in order to monitor the sale of other beers in real time (Cendrowski 2017b). AB InBev moved toward their goal when they purchased a craft brewpub and a craft beer bar, both with multiple locations, in the first few months of 2017 (Cendrowski 2017a).

3.4.5 Small private firm incentives

Small, privately owned breweries face many of the same incentives as the multinational corporations identified above. Most, though not all, are concerned with profit, or at least breaking even if brewing is a hobby or a secondary source of income.

They also care about their reputation, though in a different way than MNCs. First, most microbreweries explicitly want to have reputation for being small with carefully produced and curated beers, using high quality ingredients, and providing unique flavors and tastes. In some markets, the smaller and lesser known the brewery and beer, the more highly prized and valued it is by connoisseurs (Murray and O'Neill 2012; Orth et al. 2004). Minimally, affiliation with multinationals or "selling out" to commercial beer companies is perceived negatively, both by rival firms and by consumers of craft beer.[16] Within the Chinese craft beer community, many Chinese brewers identify with and find them-

[16]The sale of the Elysian Brewing Company in Seattle to AB InBev in 2015 provides a case in point. The sale led to harsh criticism of the local brewing company by its own employees, competitor firms, and consumers. It also eventually led to the resignation of the head brewer. Criticisms may have been exacerbated by the fact that Elysian had previously coordinated with other local Seattle companies, including music label Sub Pop, to produce a beer called "Loser Pale Ale: Corporate Beer Still Sucks."

selves surrounded by artists, musicians, writers, and may be involved with other artistic and inventive projects. They view brewing as form of art or a creative venture. Some also view brewing craft beer as a way of resisting the establishment and multinational corporations. These beliefs about craft beer confer a perceived, and sometimes monetary, value to craft beer that mass-produced beer can never have.

Further, while large size can be an asset, the quality of the beer and the real or perceived training of the brewers are also important to maintaining a good reputation. Rumors, industry gossip, and insider evaluations of a brewery's beers or evaluations of the practices and skills of those breweries are very important. In nascent industries, word of mouth and community gossip can matter much more than any official evaluations or reviews (especially when official or mainstream accounts are considered illegitimate or biased). It is not always clear if negative rumors help or hurt small firms in the long-run, as seriously negative reviews may make some consumers feel the need to test out the product and see for themselves. Also, in many small new firms and industries, talk and press are generally good, regardless of if it is positive or negative, because it is more important for consumers to know about your brand.

The majority of regulation in China is not designed for entrepreneurs or small firms. Therefore many of the regulations and requirements that the Chinese government sets are very difficult, if not impossible, for small firms to meet. Even if small firms have incentives to try to follow the rules, as well as the knowledge required to do so, some may simply not have the capacity or resources to actually comply with the law.

For example, in order to get a permit to distribute beer in kegs or bottles, by law all beer must be filtered and pasteurized (USDA Foreign Agriculture Service 2015; Food Safety Law 2015). No food or beverage products that are made and distributed domestically are permitted to have any live cultures or microorganisms present at the point of sale. This is problematic for any food or beverage that has live cultures as a core ingredient of the product, such as yogurt and beer. Furthermore, most craft beer is not filtered, and almost none is pasteurized.[17]

[17] One notable exception to the filtering rule is beers brewed with fruits and spices. Beers that have retained too much yeast may also be filtered; however, it is not harmful if some is ingested. At worst, it may result in a mild upset stomach

This means that order to stay competitive and grow small breweries are often incentivized to find ways around regulations that they view as inimical to their success. One such regulation is the license to distribute, noted in the figure below. Distribution of the product can make or break a brewery, particularly if the brewery does not have its own brewpub or bar. Basically, if you cannot distribute your product, you cannot get it into the mouths of paying consumers. This is not sustainable.

Figure 1 outlines the steps to setting up a brewery or brewpub in Mainland China legally. Given that there are so many requirements and agencies to deal with, businesses often have trouble knowing all of the requirements and where to file the applications. It is also possible for a violation to occur at any step 1-10. For example, an individual could choose to locate their brewery or brewpub informally without consideration for if the space was commercially zoned or not (in the case of a brewpub) or if it was industrially zoned (in the case of a brewery).

By designing regulations that cater to mass produced food and drinks, regulators not only make it difficult for small businesses to follow the rules, they actually provide incentives for small firms to evade regulators and violate Chinese law. It is therefore typical for small firms to blatantly ignore or circumvent regulations. Chinese microbrewers are no different and therefore many distribute their beer illegally. Another coping mechanism is to try to work around regulations by subcontracting with larger breweries that already hold all of the necessary permits and licenses. Still other craft brewers produce and bottle their beers outside of China, and then import the bottles, because imports are not subject to the same regulations as domestic products.[18]

Moreover, most small firms operating in non-democratic and developing countries such as China do not have any meaningful access to any level of government. That means that it is very difficult, if not impossible, for them to maintain their property rights or settle disputes. The problem is worse for firms that operate in the shadow economy. How can a court uphold property rights claims for a business that is illegally owned and operated? How can an informal firm give donations to political campaigns or politicians if they have no tax-identification information? Said firms simply cannot

due to the probiotic activity of yeast.

[18] I identified these behaviors and observed their frequency during my extensive fieldwork, including interviews and being present during some of them.

Brewpub or Brewery Business Registration Process (corresponding regulatory agency)

1. Find location, rent space (State Council, local government)
2. File company name registration (Administration for Industry and Commerce)
3. File company business license application (Administration for Industry and Commerce)
4. File tax registration (local Tax Bureau)
5. Obtain special licenses for food and beverage producers
    a. File food production license application (食品生产许可证) (Administration of Quality Supervision, Inspection and Quarantine for licensing, Quality and Technical Supervision Bureaus for local administration)
    b. If serving food, file catering license application (餐饮服务许可证) (China Food and Drug Administration and local branches)
    c. If intending to distribute outside the venue, food distribution license application (食品流通许可证) (Administration for Industry and Commerce)
6. After food and hygiene permits obtained, file for an alcohol permit (Alcoholic Drink Circulation Administration Office*)
7. If a microbrewery or bar, depending on the nature of services, registration of entertainment venue (local Bureau of Culture**)
8. Environmental protection approval (local Environment Protection Bureau)
9. If bottling or canning beer, special approval is required (State Council and National Development and Reform Commission of China)
10. Establish a Wholly Foreign Owned Enterprise, a Joint Venture entity, or a private domestic firm (gain approved from the Ministry of Commerce, then approval taken to Administration for Industry and Commerce to complete registration)

*Except in Shenzhen city, however firms are required to have a license to sell alcoholic drinks wholesale
**Except in Hunan province, where all bars are required to register regardless of services

Figure 3.1: The many steps required to set up a brewpub legally in China. Created by the author with help from Shu et al. 2014; Wright 2015.

engage with formal legal institutions, let alone lobby local officials, because this could expose their business's illegality.

A knock on effect is that small firms already operating in the shadows or at the margin of legality have reduced inhibitions when it comes to how they deal with their competitors. On the one hand, many small firms focus their strategies on what they can control, or what they believe they can control, which is rival firms and potential entrants. On the other hand, they have less to lose from indulging in blatantly aggressive, underhanded, and illegal behavior. I will explore that issue further below.

3.5 Theory of small firm strategies in emerging markets

3.5.1 Strategies available to small firms

Before going any further, and even though I have used the term "strategy" repeatedly in this dissertation already, it is useful to provide a clear definition of what I mean by strategy. Hitt et al. (2004, 174) argue that "in order to enhance their likelihood of success, [firms] choose from a clear set of legitimate options as determined by economic opportunity, resources, and institutional forces within an industry and a country or region." Furthermore, firms are "embedded in social frameworks of norms, values, and rules of exchange that define appropriate economic behavior and influence strategic choices" (Hitt et al., 174). To this I would add that these frameworks are themselves embedded in political contexts.

Hereafter, I also use the term strategy to refer to actions that others would label as tactics. Tactics are often seen as lower down on the decision hierarchy: "opaque, bothersome minutiae that lack the clarity, rigor, and significance of strategy formulations" (Mackay and Zundel 2016, 1). However, some consider tactics as being potentially powerful in situations where "groups with less formal power but superior information may employ tactics to influence strategic decisions and thus 'correct' deficiencies in legitimate and formal systems of control" (Mackay and Zundel 2016, 2).

Rather than stake out a clear position in this debate, I tend to lump examples of both strategies and tactics in the same behavioral set. In situations characterized by large power differentials between the government and firms or between larger players and small players, as well as significant information asymmetries, strategies do not have to be calculated and planned over the long term. The strategy set may even include tactics because small firms often use short-term actions, some on the fly, some as petty slights, as a response to new information. Indeed, to varying degrees, this seems to be the case in most emerging markets.

I therefore define firm strategies as a set of options that actors within the firm have, which may directly or indirectly increase the likelihood of revenues and profits. They may also maximize other benefits, such as adding customers, engaging in marketing, enhancing bargaining power, earning status, and burnishing a reputation.

Small firms in emerging markets have a surprisingly broad and rich menu of options when it comes to dealing with competitors. Let us focus on Chinese craft brewers as a way of fleshing out how this is the case, keeping in mind that some of the details may of course vary according to the industry and country. On one side of the spectrum are firms that engage in ruthless and even illegal competition centered on lying, scheming, and stealing. On the other side are firms that engage in pretty strong cooperation with their rivals and potential entrants.

I therefore argue that small firms in emerging markets primarily rely upon strategies to deal with rivals that vary along two axes. The first ranges from uncooperative to collaborative. The definition is straightforward. "Collaborative firms" view competition in new industries positively, or as a situation where "a rising tide lifts all boats." These firms work with rival firms and potential new entrants, and believe that they are helping expand the industry, make consumers more knowledgeable, and personally benefiting because more customers are generated in the process. Examples of this behavior include sharing trade secrets, scheduling co-sponsored events, or working on a special promotional project together.

What is interesting is that this behavior accords with Porter's five forces. The orthodox literature on firm strategy based on this paradigm recognizes that this type of behavior is possible in nascent industries in which educating consumers, with the intent of growing demand, is an important feature.

Conversely, uncooperative firms view all competitor firms, and potential new entrants, as threats.

On the one hand, they attempt to block these firms' growth if the firm is already established. On the other, they take actions to block initial investments and momentum if a new firm is looking to enter the market. They withhold information from them, spread negative rumors about the individuals or firms, and sometimes steal their intellectual property rights or even their real estate.

These strategies are more aggressive and range from the mundane to openly hostile and potentially harmful. The more passive strategies include price-cutting, not participating in certain events, and ignoring requests for information from new brewers or potential entrants. From there strategies ratchet up to spreading rumors about competitors, blatantly copying event or product ideas, and scheduling events on the same day as competitors. Some may issue threats directly (written and verbal), and some use business associations to further bolster and legitimize their threats.

The second axis of variation for strategies is legality. Here, legality specifically refers to the degree to which the *strategy* of the firm is compliant with domestic laws, ranging from legal to illegal. Withholding information and spreading rumors about other firms is uncooperative, but legal. However, other tactics, such as distributing products without a license, or smuggling in higher quality inputs, is illegal. It is important to note that while running a firm informally is illegal, here I am only concerned with the legality of the specific strategies or actions taken against competitors. Thus an informal firm could use a legal strategy such as sharing information or an informal firm could employ an illegal strategy like stealing trademarked logos.

This differs from extant political economy accounts. For example, while Gans-Morse (2012) focuses on the legality of force or violence used to protect property rights claims, I have found no evidence that violence, legal or illegal, exists in the universe of craft beer breweries currently in China. Cases of criminal protection rackets, illicit private security agencies, and use of state coercive powers happens in many industries and countries, including China, but not in the craft brewing industry. Figure 2 below provides examples of firm strategies that fall within each quadrant.

Let us now examine the logic to small firm strategy choice and behavior. The top left quadrant of Figure 2 describes strategies that are uncooperative. The guiding logic for firms that use these strategies is first and foremost to block potential entrants and to make doing business hard for existing rivals,

- Price cutting - Copy products - Copy marketing - Copy events - Plan events for overlapping dates - Spread rumors about rivals - Hide trade information - Patent potential rival names and logos in advance - Turn rival firms in to the authorities for noncompliance - Boycott events	- Collaborative products - Co-sponsored events - Collaborative input buying and warehousing - Share trade information - Teach potential new entrants relevant skills - Subcontract with larger firms
- Issue verbal or written threats to potential new entrants	- Import prohibited materials and inputs - Share information for unlicensed distribution - Use fake permits or permits of other firms

Figure 3.2: This chart describes potential firm strategies for dealing with competition among small firms in relatively new industries in emerging markets with limited property rights. These strategies vary in along the lines of cooperation and legality.

by creating conditions that further disadvantage them. One strategy that this type of firm takes is to choose to not provide information to other competitors or potential new entrants. They are under no legal obligation to do so. They can refuse to meet with newcomers for tours of their facilities, keep their equipment suppliers a secret, and not disclose where they get quality ingredients. They may even provide false information.

Some of the other strategies listed in the left quadrant involve questionable to bad business ethics that actively antagonizes rival firms. One example is starting rumors about other firms in order to harm their reputation. Another is blatantly copying rival products, duplicating or using competitor product names, pre-emptively patenting logos and names that rival firms may have been planning on using, or buying up potential rival website domain names. Some resort to turning in rivals or potential rivals to various authorities for noncompliance. For example, a firm might call the local Food Safety Bureau and provide anonymous tips about the lack of licensing or illegal distribution. They may also call the police on small, new (and usually informal) operations in residential neighborhoods, leading to their closure, sometimes temporarily, sometimes permanently.

Towards the bottom of the left quadrant we find strategies that are uncooperative but also illegal in nature. The primary example includes using informal, unregistered cartels and business associations to issue verbal and written threats against rivals or potential entrants. Firms use this strategy in order to make their threat appear more severe and more legitimate. Now, this could also be perceived as an act of cooperation - with the other cartel members. That is partially true, however, the cartel is primarily a mechanism for member firms to lash out at non-members and create an air of exclusivity. However, the threats only work with rivals or potential entrants who believe the organization to be legitimate in the first place. Some may recognize the informality of the association and not heed any additional attention to the threat.

In contrast, firm strategies that fall into the bottom of the right quadrant require cooperation for the purpose of undertaking illegal activities. It is important to distinguish the difference between informality, as it is used in this dissertation, and illegality. Firm that are not officially registered and licensed to operate their business are informal. While running informally, they may opt to partake in other illegal activities, such as distributing without a permit. This behavior is not limited to informal firms, as formal firms that have the required permits and licenses can also have illegal dealings, such as bringing live yeast over the border and not declaring it with customs authorities.

The logic of this strategy is that the illegal activity is worth the risk because it will create additional benefits to the colluding parties. These benefits cannot be achieved by using other strategies. For example, firms import prohibited ingredients and share information about informal distribution networks so that both firms can earn profits above and beyond what they normally would, resulting in an advantage over competitors. In relation to the beer industry, beers made with live yeast are believed to be superior to those made using dry yeast. Sharing informal distribution networks also favors these firms by forcing competitors to spend valuable resources to develop their own (and potentially get caught in the process). The benefits outweigh the risks so much so that even the supposed rule followers occasionally employ these strategies.

Not all strategies are antagonistic or for the purpose of blocking entrance and growth in the industry. The upper right quadrant of Figure 2 captures firm behavior that is more collaborative in nature. It can include co-sponsoring events, developing a jointly produced and marketed product, and sharing information about the industry. They may also do cooperative buying and warehousing to save costs on expensive imports. Some even teach newcomers.

The logic of firms who use cooperative strategies is that working with community members and potential entrants will, at the end of the day, help grow and develop the industry. Additionally, some firms that lean towards cooperation believe that they do not have to behave in a cutthroat manner because of China's huge population and number of potential consumers. Working together means everyone can profit.

I now turn to explaining the variation in the firm strategies outlined above.

3.5.2 Explaining why firms choose the strategies they do

How can we broadly make sense of the set of behaviors outlined in Figure 2 in the context of emerging markets governed by non-democratic regimes? It is not surprising that small firms in the Chinese economy, in particular, have honed several unorthodox strategy repertoires not captured by traditional approaches to explaining firm strategy in OECD contexts. These small firms operate in contexts where property rights are insecure, their trade secrets are at risk, there is no predictable or reliable regulation, and access to reliable and cheap credit is limited at best.

Scope conditions

Continuing with what was said above, I assume that there are some scope conditions to my argument. First, this theoretical framework applies to relatively small firms and firms operating in the informal economy. My argument is unlikely to apply to large, formal firms because they have more staff and resources available to them to use other strategies, including lobbying or cultivating (expensive) relationships with local officials via their involvement in banquets and gift giving. Second, my argument is most likely to apply to firms that are relatively new in industries that are young and relatively small.

As readers know, I test my argument on Chinese firms operating in the craft brewing industry. It is therefore in this context that my conclusions most strongly apply. While I am confident that my theoretical framework applies elsewhere, until it is actually tested elsewhere it makes sense to think about these scope conditions using the Chinese context. Consequently, below I delineate these scope conditions according to the details I acquired during my fieldwork in that country, studying both that industry and others that can serve as a point of comparison.

Consider that mature and well-developed industries, such as electronics, face different obstacles; moreover, the firms operating in them have different goals. During my fieldwork, multiple interviewees in the electronics industry reported that the primary problem their firms faced was taxation.[19] Therefore, their business strategies were often designed around tax avoidance and the procurement of subsidies and other favorable policies. This included searching for locations with low tax rates, or cajoling local officials to subsidize their inputs, provide housing for their workers, and even recruit new workers or interns. Smaller firms in newer industries typically do not have the resources required to invest in these types of strategies, or the potential for future revenues that would attract local officials to take up their cause in this way. More mature industries also have fewer problems with securing equipment or garnering knowledge about the production process. Similarly, they have fewer problems acquiring permits or licenses to do business in China. Often, they have simply had enough time to solve many of these problems. Indeed, some, like Huawei, have reached the stage where they are investing heavily outside of China: in Africa, Europe, and even North America.

Finally, more mature industries face fewer information asymmetries. This even obtains in emerging markets with less-than-democratic governments. For one, they have the resources to dig up information from reliable sources, which may include government officials, consulting firms, and lawyers; or they are adept at conducting their own, on-the-ground research about industry conditions. At this stage, China's electronics industry, to continue the example, has accumulated fairly good information about industry conditions that has become freely available and accessible in both Chinese and English. Small firms simply do not have the capital or manpower required to acquire this information, and thus continuously function with less than full information (and sometimes no information at all).

In short, my argument applies to *small firms* in *young* industries in *emerging markets*.

[19] In addition to interviewing individuals in the beer industry I also interviewed about 30 individuals from various types of electronics firms (specifically firms that produce mobile phones, cellular towers, and appliances).

3.5.3 On Cooperation

Before proceeding to my explanation for why some firms cooperate and others do not, game theory (particularly the Prisoner's Dilemma) and theories of cooperation provide some guidance. Per the classic Prisoner's Dilemma, there are two players . Each player has the option to either cooperate or defect. They choose simultaneously. If both players cooperate, they get a *reward for mutual cooperation*, and for the sake of clarity, that is a payoff of three US dollars. However, if one player cooperates and the other defects, the defector receives five US dollars and the cooperator receives zero (the *sucker's payoff*). If both defect each player only gets one dollar, or a *punishment for mutual defection* (Axelrod 1984,8-9; Kuhn 2017).

Axelrod (1984, 9) notes that the Prisoner's Dilemma

> is simply an abstract formulation of some very common and very interesting situations in which what is best for each person individually leads to mutual defection, whereas everyone would have been better off with mutual cooperation.

The same logic can be applied to firm behavior. In the case of small firms in emerging markets, mutual cooperation can provide a multitude of mechanisms for firm and industry growth, as well as profit for all firms. In new industries, cooperation is especially important because cooperation means elevating the status of the entire industry and everyone will profit. Cooperation can also offset the costs associated with doing business in emerging markets and provide mechanisms for dealing with market failures or distortions. For example, if craft breweries cooperate to buy and import a large amount of hops from a quality source, warehouse the hops, and use them as needed, they will 1) get better quality hops, 2)pay a lower price, and 3)have a reliable and steady supply of hops. The positive externalities may even extend to the brewery making higher quality beer and thus attracting more customers and more profit. By not cooperating, every small firm must import on their own. Some firms cannot afford the cost of importing on their own and will therefore be forced to use a domestic source of lower quality. This is a sub-optimal outcome.

3.5.4 Explaining uncooperative strategies

What then explains why some small firms in developing countries turn to ruthless, if not illegal, strategies to deal with their competitors, such as stealing intellectual property? These are the strategies found in the left quadrant of Figure 2. There are several reasons.

First, firms who have experience with government authorities and business rivals that are characterized by conflict are more likely to use uncooperative strategies. This could involve a history of being shut down by the government for not complying with Chinese regulations or because they believe that multiple competitors are actively stealing and copying their product ideas, business designs, and relative monopoly on the craft beer market. In Prisoner's Dilemma terms, they therefore are trying to avoid the sucker's payoff with every interaction.

These negative experiences have a profound impact on how firms perceive the environment they operate within. They believe the world to be one in which their hard work and investments can be taken away at any time by either the government or deceitful rivals. Indeed, at the end of the day, the Chinese government can take property in whatever form, at any time, from whomever they want. So, these beliefs about the government are not irrational. They underscore the fact that there are good reasons why firms should be cautious and wary, if not paranoid, when dealing with authoritarian governments (see Haber et al. 2003).

Similarly, a history of conflict and confrontation also makes these firms less likely to rely upon government officials or bureaus for arbitration and enforcement. In their eyes, the authorities either do nothing, or make the situation worse. This makes sense in light of the fact that 1) the regulation of the food and beverage sector in China is geared towards larger firms, often multinational firms or state owned enterprises–or hybrids–and 2) centered on avoiding scandals involving food safety and health. Craft brewers in China are therefore in a sort of vacuum or purgatory, in which government authorities either neglect them or harass them, depending on political vagaries and the idiosyncrasies of the locality they operate in and the government officials they come into contact with.

Firm membership in informal cartel or business association also makes it more likely that the firm will use uncooperative, and sometimes illegal, strategies. This is not considered cooperative behavior (joining the cartel) because cartel membership is exclusive. In particular, member firms are more likely to use threats backed by the cartel or association in order to signal to new entrants, industry insiders, or others that they have the weight and support of other breweries behind them (and therefore somehow their threat is more credible).

Strategy choice is also impacted by when the firm entered the industry. Early entrants are more likely to use uncooperative strategies against rivals. One reason for this is indirect: if the firm was an early entrant, it (obviously) has been in business for longer, and thus is more likely to experience conflict with rivals and the government. The direct reason is that early entrants believe themselves to be the leaders of the industry, and stake their reputation and branding on this fact. They therefore have valuable turf to defend.

However, and perhaps paradoxically, these early entrants tend to fetishize rule following. These firms employ (or are owned by) foreign brewers who believe that they have more to lose than Chinese brewers and predominantly Chinese firms if they violate the law. Therefore, it is more likely that they will engage in uncooperative strategies that are nonetheless lawful instead of illegal.

Finally, strategy choice is also driven by 1) the size of the firm and 2) the degree of formality with which the firm does business. The largest (by sales and volume produced) among small firms that operate completely on the books are more likely to use antagonistic strategies against rivals and potential entrants. This is because they have less to fear: having fulfilled the nominal regulations required to operate, they use their formal status as a shield to harm competitors, potentially those who are more vulnerable and can be easily blackmailed because they themselves operate in the shadows or are susceptible to being shut down by government authorities. Therefore, relative size and the degree of formality alter the payoffs of cooperation. For larger formal firms, the payoff decreases because they perceive themselves to be less at risk. Smaller firms and informal firms, however, have an increased payoff for cooperation.

3.5.5 Explaining cooperative strategies

What explains why some small firms in developing countries use cooperative strategies, such as willingly sharing information about technology and inputs? Those are the strategies found in the upper right quadrant of Figure 2. The logic is the converse of that outlined above for uncooperative strategies.

Firms that have not had negative experiences with government officials do not tend to believe that all potential entrants or rivals are out to get them or unfairly profit from their hard work. They therefore do not perceive every competitor as an enemy, and are more likely to use cooperative strategies. This may include scheduling collaborative events, or creating a joint product with another firm. They may also share information with competitors, such as where to acquire reliable inputs and the best technology, or how to find skilled employees. They may even lend competitors equipment that they are not currently using, or that they have replaced and upgraded.

Of course, they might agree with the firms that engage in uncooperative strategies one an important belief: that their environment is uncertain and volatile, and rife with political risk. After all, they exist and compete in an emerging market with insecure property rights and less-than-ideal market conditions. But their experiences are what ultimately dictate their behavior, and these uncertainties do not translate into endemic fear or rational paranoia.

By the same token, and bucking their usual modus operandi, some firms tend to deviate from non-cooperative strategies under certain conditions. Early entrants are more likely to use collaborative strategies, although sometimes illegal ones, with other early entrants or perceived equals. Among small firms, the largest (by sales and volume produced) small firms that operate completely on the books (e.g. formality is high) are also more likely to use collaborative but illegal strategies with other larger and more formal firms.

Finally, the smallest, newest, and least formal firms are most likely to use cooperative strategies. This occurs for different reasons.

On the one hand, due to their lack of resources, most new and/or small firms may rely on other firms for information. If they are antagonistic or ruthless towards a competitor, then it is unlikely that said competitor will share information with them or help them in the future. New entrants and small firms need all the help they can get in a context in which the government cannot be trusted and may prove a nuisance, if not an unforgiving predator.

On the other hand, operating informally carries several risks, one of which is a rival learning of your informal status and using that information against you. They may rat you out to the authorities, spread rumors about the lack of professionalism with which you do business, block your membership to a cartel or industry association, or even cut you off completely from the community.

Smaller firms may also be more likely to use collaborative but illegal strategies, such as sharing information about a distribution network that is profitable and functioning, despite the fact that everyone in the network lacks a distribution license. This is partially attributable to the fact that some of the smallest firms are already operating informally, and thus they may be more willing to take risks, such as engaging in illegal practices, in the first place. It is also partially driven by the fact that the smallest firms cannot usually satisfy onerous or shifting regulatory requirements, particularly those related to the volume of beer produced or factory layout specifications, to acquire a distribution license. Their only other option is to not distribute at all.

3.6 Conclusion

This chapter has outlined a theoretical framework for making sense of how small firms in most emerging markets behave, especially in regards to their competitors. Drawing on different literatures, including business strategy, political economy, and industrial organization, I provided a basic typology of strategies that are available to some small sized firms in emerging markets with weak property rights, hyper-regulation, and erratic regulatory enforcement. In doing so, I have gone beyond the canonical approach in the literature on business strategy: Porter's so-called Five Forces paradigm.

If we consider that approach in the context of the Chinese beer industry, which is the industry that I have applied my theoretical framework to, and which will serve as the laboratory in which I test it in the following chapter, we find that the industry is characterized by 1) a high level of inter-firm rivalry, 2) a strong threat of new entrants (domestic or foreign), 3) a plethora of product substitutes, 4) high bargaining power of suppliers, and 5) high bargaining power of consumers. Yet these factors are not sufficient for explaining the sometimes unorthodox strategies that firms in that industry choose when dealing with their competitors.

Instead, I argue that their unpredictable and risky context drives much of their strategy, creating a broader repertoire of possible behaviors. Their beliefs are an indirect channel by which this occurs. They are a product of the political economy of emerging markets. Emerging markets are unstable and uncertain. Emerging markets governed by authoritarian leaders are even more unstable and uncertain with more negative externalities. If firms duly believe that every rival is planning on stealing their customers, profits, and ideas, they are more likely to have aggressive and paranoid behaviors.

In the following chapter, I explain why small firms choose the strategies that they do by identifying specific explanatory variables that are relevant given the framework outlined above. I then test my claims using an original firm-level data set that I created after several months of in-depth field work in which I was “embedded” in several craft breweries and was able to acquaint myself with their thinking and was privy to their rich and often surprising behavior.

Chapter 4

Quantitatively assessing the determinants of strategy choice and its effect on firm performance

Just because you're paranoid, don't mean they're not after you. - Nirvana

4.1 Introduction

Early entrants to China's craft beer industry set up shop between 2008-2011, a time when the industry totaled less than ten microbreweries or brewpubs.[1] Even though only a handful of firms opened their doors during this embryonic period, competition quickly grew intense. Firms that yearned to claim that they were one of China's first craft breweries had their work cut out for them; some of them engaged in quite shady practices to make that happen. Consider that one of these precocious firms, Hao Sheng, trademarked several rivals' names with the Chinese government, thus making their preferred names off limits. This proved to be a costly problem for many of those firms; indeed, some had already started to develop marketing and communication materials using the pilfered names and logos.

As the industry grew and gained attention, Hao Sheng's aggressive behavior continued. For exam-

[1]The paragraphs that make up this section draw on my extensive fieldwork and are based on both eyewitness accounts and interviews with industry players, including microbreweries and other important actors in the craft brewing science.

ple, it used an unofficial business association to issue threats to a journalist who published an unfavorable article about it. Multiple industry players quickly learned about Hao Sheng's attack, because it made sure to widely broadcast it, and even brag about it, within China's burgeoning craft beer community. The logic was simple: Hao Sheng wanted to let it be known by everyone in the industry that they were not to be trifled with; if they were ever crossed, retaliation should be expected. In short, Hao Sheng invested resources in cultivating a reputation for toughness and its underhanded strategies for dealing with both rivals and other players in the craft beer industry clearly spoke to this desire. (Interviews # 4, 8, 12, 24, 71, 74, 75).

However, many rivals viewed Hao Sheng's gambits as ridiculous: the unnecessary antics of a schoolyard bully. They described this strategy and others like it as "tainting the well" of an otherwise friendly community. As a result, some developed defiant attitudes and started using more antagonistic strategies vis-à-vis Hao Sheng, but not necessarily their other rivals.

Bad blood spilled into other arenas as well. For example, Hao Sheng - along with other microbreweries, such as and Wang Fang, which was described in Chapter 1- allowed feuds and resentments to infect the beer festivals that served as forums for microbrewers to gather, exchange information and industry news, and showcase their products. For example, while Hao Sheng briefly attended some of the earliest beer festivals put on by AB InBev, it refused to participate in later events sponsored by multinationals. This was in part due to its strong dislike of certain commercial beer companies and products, and especially because they disdained local distributors.

More importantly, boycotting these events served a strategic purpose: it signaled to other craft breweries that they should fall in line or be considered as untrustworthy, and painted with the same brush as the hated multinationals. The larger threat was that they would be ostracized by the craft beer community. This was also a veiled attempt to assert control over beer festivals, which Hao Sheng believed was their exclusive territory (Interviews #4, 48, 49, 71, 74).

However, not all breweries approached beer festival attendance in the same way. Some breweries participated in both multinational and smaller, craft brew beer festivals. These firms sought to gain greater brand recognition, and believed they could contribute to building a beer culture in China by projecting a united front. Participation in a multinational sponsored beer festivals was a great opportunity to do just that, especially given that the majority of commercial beer festival goers by late 2015 were mostly Chinese consumers, not foreigners. Indeed, while they were ostensibly cooperating with the enemy - multinational beer companies and their distributors - by participating in these corporate sponsored affairs, they managed to signal that their true loyalty lay with craft beer and the craft beer community.

These examples illustrate how the Chinese craft beer industry can provide unique insights about small firms' behavior in emerging economies. They provide a rare look at the strategies and tactics that small, and sometimes informal, firms use in order to remain competitive and profit. Some firms choose to go through the formal process of opening up a business and gaining all of the necessary permits and licenses through officially sanctioned channels. Others choose to evade one or more of these regulations and operate informally. When it comes to competition, some collaborate with their rivals, while others use malicious strategies, such as spreading rumors or providing false information.

Why do some firms use strategies characterized by cooperation while others use strategies that are antagonistic and hostile? And how do these choices affect the firm's success? I argue that an uncertain and risky context drives much of small firm strategy, creating a broader range of possible behaviors. The beliefs that actors have are an indirect channel by which this occurs. They are a product of the political economy of emerging markets, which are unstable and tenuous. Emerging markets governed by authoritarian leaders are even more unstable and uncertain with more negative externalities. If firms duly believe that every rival is planning on stealing their customers, profits, and ideas, they are more likely to have aggressive and paranoid behaviors. If they believe, however, that competitors are not enemies and view them more as equals, or partners even, they are much more likely to use cooperative strategies. Aside from past experiences and beliefs about their environment, relative size, timing of market entrance, cartel membership, and experience with prior informal operations also affect strategy choice.

To answer these questions and test the argument above, I collected, created, and coded data about every known microbrewery in China starting in 2008, when the first was established, extending through the Fall of 2016. This dataset is based on fifteen months of fieldwork in Mainland China. I now use this data to test several empirical implications generated by the theoretical framework introduced in the previous chapter.

The results confirm much of my argument. Specifically, the smaller, informal firms that entered the market after 2010, and who have less conflict-ridden experience with the government or their rivals are more likely to use cooperative strategies vis-à-vis competitor firms. On the other hand, large craft breweries that were early entrants, and who may also have a history of informal operations, are more likely to use uncooperative strategies against their rivals. Contrary to my argument, CCBA membership does not seem to have a consistent affect on strategy choice. Finally according to preliminary tests, firms that use uncooperative strategies may be acting rationally as there is a relationship, albeit weak, between using these strategies and having multiple locations (the proxy used to measure firm performance).

The remainder of this chapter proceeds as follows. Section 2 outlines the empirical implications as a series of testable hypotheses. A description of the data and methods is presented in Section 3. My statistical modeling strategy follows in Section 4. Section 5 discusses the results and Section 6 provides a discussion of the chapter's limitations and discusses potential avenues for future research. Section 7 concludes and provides some preliminary policy implications.

4.2 Testable implications from the theoretical framework

According to Porter's FCF Model (2008, 9), market-based strategies used by firms to remain competitive include specialization, price competition or price cutting, and industrial and technological upgrading. They also include lobbying governments in legally prescribed manners. As readers should now be aware, there are multiple problems with extrapolating these generic strategies to small firms doing business in emerging markets such as China; these were discussed at length in the previous chapter. As a corrective to those problems, I introduced a theoretical framework that suggests several testable implications.

Those empirical implications can be articulated in the following falsifiable manner:

H_1: Early entrants are more likely to be uncooperative when dealing with rivals or new entrants than later entrants, all else equal.

H_2: Larger craft breweries are more likely to be uncooperative when dealing with rivals or new entrants than smaller or informal craft breweries, all else equal.

H_3: Breweries that consider themselves to be members of unofficial cartels or business associations are more likely to be uncooperative when dealing with rivals or new entrants than non-members, all else equal.

H_4: Breweries that have past experiences involving conflict with either rivals or the Chinese government or both are more likely to be uncooperative than breweries that do not have a history of conflict, all else equal.

H_5: Breweries that operate formally are more likely to use uncooperative strategies than less formal, informal, or illegal breweries, all else equal.

4.3 Data

To test these hypotheses, I created an original dataset of craft and locally franchised breweries in China. This data set includes the entire world of craft /micro breweries in China to the researcher's knowledge starting in 2008, when Gao Yan returned to Mainland China and started home brewing, and ending in approximately November 2016. This dataset was developed using multiple primary sources, including nearly fifteen months of ethnographic research in Beijing, Chengdu, Nanjing, and Shanghai. I drew from over 185 interviews with brewers, brewpub and brewery owners, distributors, and beer enthusiasts (such as homebrew association members, unassociated home brewers, and beer bloggers). I also conducted participant observation in multiple beer festivals and industry conferences during 2013-2015. Finally, I gathered firm information from firm websites, expat websites and blogs, beer blogs and newsletters, and various news sources and industry reports in both English and Chinese.

Because this industry is relatively new, there is very little official firm level data or government data that is specific to the industry.[2] Thus, it was essential that I create my own. The lists and websites that dedicate their time to identifying China's microbreweries and reviewing beers are geared towards creating information for foreign and Chinese consumers, not investors or the firms. Thus, no other data set exists at the firm level. The ones that do are not comprehensive, nor are they intended to be used for academic purposes or analyses.

The dataset includes more than twenty-five variables for over 150 breweries in Mainland China and Hong Kong. These variables capture characteristics of firms that may influence firm strategy. These include brewery location; ownership type; brewer's nationality; owner's nationality; foreign investment in the brewery; their role in beer festivals (organizer, attendee); the types of consumers the breweries serve; if the brewery has ever engaged in illegal operations in the past or present; if they are a member of the past or present incarnation of the Chinese Craft Beer Association (CCBA); their role in providing and seeking out information about the industry; if they have reported any conflict with rival firms or the government; and a variable that codes if there are negative rumors about the brewery or brewpub and if those rumors were self-reported or not.

I have also included franchises in the dataset. However, both franchises and firms located in Hong Kong are dropped from my statistical models because firms operating in Hong Kong face different challenges (e.g. lack of space, high rental costs) and a different political and economic environment.

[2] The Chinese government has no data, or not data that is publicly available, that is specific to small beer producers. The only data that exists is aggregate data that includes commercial breweries engaged in mass production of beer. Furthermore, as of November 2016, the State Administration on Industry and Commerce (SAIC) has no consistent quantitative data on the number of licenses given, denied, or repealed to the food and beverage industry generally or the beer industry specifically. The municipal level SAIC for Beijing and Shanghai also do not have this data publicly available. The State Administration of Taxation also does not provide information regarding the amount of revenue that they extract from craft or microbreweries. The Chinese Food and Drug Administration provides some information on inspections and reports of food poisoning and safety violations, however, these data are also not specific to the craft industry either. Furthermore, any data that these websites do provide is not at the firm-level, but at the city, municipality, provincial, or national level only.

Franchises are also qualitatively different from small microbreweries because, in most cases, they have secured the backing of a multinational that provides them with many resources unavailable to small firms.

Finally, given the immense geographic and regional variation in China, the dataset also includes city or municipal level controls, which were drawn from Chinese Statistical Yearbooks (the most recent year available for any given variable). I describe the variables relevant to my argument in the section below.

4.3.1 Variables

Dependent variable 1: firm strategy

As noted in the previous chapter, I define firm strategies as a defined set of options that actors have, which may directly or indirectly increase profits (or other benefits, such as customers, marketing) within an industry. I remind readers that these strategies do not have to be calculated and planned over long time horizons: I also include behaviors that Carney (2009) refers to as tactics; small firms, in particular, often turn to short-term actions as a response to their context and the flow of new information.

I hasten to emphasize that Chinese microbrewers do obey some of the behaviors implied by Porter's five factor model of firm strategy discussed in the previous chapter. They engage in specialization and marketing behaviors that are sometimes common across firms in fledgling industries. In such callow industries, a firm's prime objective is often to push the demand curve out, even if it means undertaking costly investments, rather than focusing on cutting costs when a known customer base is already given.

While some of these behaviors are subsumed under the cooperative category I code and employ below, it is helpful to explain their logic in relation to the Chinese craft beer industry. Specialization is a popular strategy that they rely upon when competing with other breweries. While the vast majority of China's mainstream, commercial breweries charge between 10-20 RMB for a pint of beer, craft brewers tend to charge a premium because they produce barrel-aged beers that require more resources, time, knowledge, and care than a basic lager. Accordingly, Chinese microbreweries sell a broad plethora of beer types and styles.[3] These include lagers, pale ales, session ales, rye ales, Belgian-styled beers (tripels, dubbels, lambic, saisons, and others with higher alcohol content), German style beers (dunkels, helles, hefeweizen, etc.), India pale ales, blonde ales, porters, stouts, sours, barleywine, wheat beers, and so on. In China today, a discriminating consumer can find a rich combination of hops, wheat, malt, spices, fruits, and bittering agents. In short, China is steadily catching up to cities around the world worshipped by beer connoisseurs, including Portland, Oregon, and Boulder, Colorado.

Yet, most Chinese cities, including Beijing and Shanghai, are not quite there yet. In order to further develop the Chinese beer market, some breweries or brewers seek to spread knowledge about beer and brewing in order to cultivate new Chinese consumers for their products. Those intrepid Chinese craft brewers therefore engage in activities that aim to foster a genuine beer culture in China, including participating in festivals, concerts, symposia, and industry conventions. Most believe that their participation is required to really tap into the Chinese market and expand the craft industry.[4]

Chinese craft brewers are also no slouches when it comes to innovation. When craft breweries use technology as a mode of competition in China, upgrades result in higher volumes of beer and, sometimes, better quality beer. However, brewers gain more from technological upgrading than just increased volume and higher quality product - they acquire in-depth knowledge about equipment manufacturers and establish long-term relationships with companies that provide quality equipment and services. This information is valuable because, frankly, there is a lot of badly constructed, low quality equipment and technology in China. Unless you are an expert in that technology specifically,

[3]The price for some Chinese brands can be even lower in retail shops. Likewise the price can also be marked up considerably at restaurants. I have observed 10-12RMB bottles of beer run upwards of 50RMB at restaurants. At tourist locations, such as Yellow Mountain in Anhui province, the same bottle could be more than 100 RMB.

[4]There remains a lot of work to do in terms of educating consumers, however, including introducing them to the products (Tsang and Li 2016; Zhong 2017). As noted in Chapter 2, the majority of the Chinese population does not drink a lot of beer. And those who do drink beer primarily drink local cheap brands such as Tsingtao and Yanjing. Furthermore, other traditional liquors and spirits have dominated the Chinese market for hundreds, if not thousands, of years. The result is that average Mainlander knew little to nothing about beer or believed all beer to be similar to Tsingtao or Budweiser, until the past decade. While it is in the interest of small firms to educate new consumers about their products, educating millions of Chinese consumers is time consuming and expensive. Most microbreweries and brewpubs simply do not have the resources or motivation to partake in these activities.

it is easy to suffer from buyer's remorse: to get duped or buy something that you later need to replace.

Technological upgrading therefore requires a lot of knowledge about the equipment and the trustworthiness of manufacturers. Some brewers are highly skilled at making their own brewing kits for homebrew or nano operations. However, the jump from homebrew to craft requires serious scaling up. This includes obtaining bigger brew kettles, fermenters, larger brite tanks, building cold storage for kegs, potentially a bottling or canning line, not to mention acquiring more space, water, and electrical requirements for all the new equipment. Most Chinese craft brewers learn what equipment is good quality by buying and using the equipment of technology to brew beer, not by doing independent research. They then decide, strategically, to share this information regarding technology with their competitors or not.

In terms of unorthodox strategies that are not used, I can report several surprising facts. The overt use of *guanxi*, namely, the cultivation and maintenance of personal connections to gain an advantage, is relatively rare among Chinese microbrew industry. While some firms obviously maintain relationships with other firms, very few reported regularly maintained efforts to establish relationships with government officials. In fact, the majority of brewers and owners that I interviewed continually emphasized that their ideal situation was to have no contact with any government officials or bureaus for any reason. The relationship was described as costly, a burden, a hassle, and something to be avoided whenever possible. Even for those who desired a connection with the government, the majority of small breweries do not have the resources required to court high-level officials in China. They also have little to offer revenue hungry local officials due their firm's small size and the industry's relatively small size.

I have also found no evidence during my research that craft breweries in China use private or state-backed violence to deal with competition or to improve firm performance. Some argue that this is because there is no longer a need to rely on violence, as firms now have access to formal legal mechanisms to cope with their competitors. Indeed, the rate at which firms employ litigation and turn to courts to protect their property rights and enforce contracts in China is steadily increasing (Li 2013; Cui 2015). And, according to Long et al. (2015), in places where foreign investment is higher, the rule of law in China is strengthening as well.[5] Regardless, I found little evidence that small breweries rely upon formal legal mechanisms to enforce their property rights claims vis-à-vis their rivals, foreign or domestic.

Keeping all of this in mind, I developed a binary variable that measures if a firm used uncooperative or collaborative strategies. This variable was constructed based on interviews and discussions with industry members and beer enthusiasts and consumers (see the Appendix for a complete codebook). Firms were coded as 0 if the majority of the strategies that they used were uncooperative (Figure 1). They were also coded as 0 if the main strategy employed were both uncooperative and questionably legal, including issuing threats via an unregistered business association (Figure 1 bottom left quadrant). Those that primarily used cooperative strategies with their competitors (Figure 1 upper right quadrant) were coded as 1. If they used collaborative, but illegal, strategies, they were coded also coded as 1 (Figure 1 bottom right quadrant). I also coded firms that use a combination of strategies but that lean cooperative as 1, and those that use a combination of strategies but lean uncooperative as 0.

The reason that this variable is coded as binary rather than as an unordered categorical variable is that firms typically only use the illegal strategies (bottom half of the quadrant) in conjunction with other strategies (upper half of the quadrant). They do not use these illegal strategies exclusively. I coded this variable based on the following information: 1) if an informant reported a strategy used (directly or indirectly), 2) if I directly observed the strategy being used, or 3) if I found other evidence of strategies used in other sources such as news articles or blog posts. The coding scheme is further detailed at length in Appendix.

[5]Unfortunately, we still lack a clear mechanism that can adequately explain exactly why foreign investment improves the rule of law. Do foreigners demand formal mechanisms of arbitration, and due to the importance or size of the firms they have considerable leverage over the local officials if they want continued investment and production in the district? Or are locals simply more willing to use courts and so on when it involves foreign investment? Do firms still use these formal mechanisms if they are dealing with other domestic Chinese firms? Or do they only use them when dealing with other foreign firms?

Dependent variable 2: firm success

An extension of the primary puzzle of this dissertation asks if these strategies are beneficial in the medium to long run for firms. Put simply, does use of any strategy, or strategy set, lead to good or bad outcomes for firms? Here, firm success is defined by the typical market measurements: share of the market, leadership on price and quality, profit rates, and so on (Mahon and McGowan 1996, 3).

Logically, one could assume that firms use strategies that lead to growth and increased profit rather than the opposite. Ideally, I would measure firm success using firms' financial data (assets, gross revenue, net revenue, growth, etc.) and I would do so over time. However, in practice, this is next to impossible. While privately owned firms are required to report earnings and revenue to the State Tax Administration in China, the bureau does not publish the data freely, and small firms are not required to make this information public.

I therefore constructed a proxy that indirectly captures the financial well being of firms: if that brewery or brewpub has multiple locations. Multiple locations indicate that the firm is doing well enough to expand – to pay more employees, to buy additional equipment, to obtain more permits and licenses, and so on. It also shows that the firm can afford to lease another space, which is increasingly expensive throughout China: it could easily run upwards of 50,000 RMB per month (over $7000 US in June 2017) in Beijing and Shanghai. These locations are not easy to come by, and it requires a significant amount of fortitude and manpower to find and lease prime real estate in any major city in China. This variable is also binary, and breweries are coded as 0 if they do not have multiple locations (or have no known, public multiple locations) and 1 if they have more than one location.

Key independent variables

As for my key explanatory variables, I created a binary variable for conflict with the government and conflict with rivals. Conflict with rivals is coded as 1 if the brewer, owner, other staff, or other informants reported that the brewery has had conflict(s) with one or more competitor firms or brewers. Zero indicates that no one reported conflicts with other breweries with regards to that particular firm, and that I found no evidence in my additional research to suggest conflict. The variable for conflict with the government is coded the same way.

While I have argued that *guanxi*, on its own, is insufficient in explaining firm strategy decisions, networks and associations may also serve alternative purposes such as potentially increasing the credibility of a firm's threat or to send an aggressive signal to the broader community and industry. To capture this, I created two binary variables that indicate membership in the original China Craft Beer Association (CCBA) (2010 - 2015) and the new revamped CCBA (2016 - present). I include membership in the original CCBA as a key independent variable. This is a binary variable with a value of 1 indicating that the brewery or another informants reported that they were a member of the original CCBA. Zero indicates that they or others report them as not partaking in the original CCBA.

I chose to include only the original CCBA membership because membership in the new CCBA is so recent it is hard to say or predict what effect it will have on firm strategies or firm growth. Neither the original nor the new CCBA are or were registered industry associations in Mainland China.[6]

For early entrants, firms that claim to be established by 2010 are coded as a 1, and those after 2010 are coded as 0. Similarly, the degree of formality with which the firm operates is measured by a binary variable that is coded as a 1 if there were any known or reported illegal activities by the firm in 2016, and 0 if there were none reported. I also created a variable for informal or illegal activities prior to 2016, as some firms start off informally and gradually formalize over time (or as a result of problems with the government). This is coded using the same rules. Past illegal operations were not included in the models because, as I argued, firms may choose a strategy based upon the immediate perceived level with which the rival operates. I assume that this can change over time and therefore past informal strategies are irrelevant to current strategy choice (though may explain past choices).

Finally, though all of the firms in my sample are small craft breweries, I code a variable for size relative to other craft breweries in the industry. The largest small firms, who may have multiple locations, the most employees, the most types of beer, and who produce the largest amount of beer, are

[6]Organizing and legally registering the association via Hong Kong had stalled out by late 2016 or early 2017. It is unclear if any of the firms will push forward with this strategy or not, and many informants reported being skeptical of the functionality and effectiveness of such an organization in Mainland China. As of June 2017, it remains unregistered and mostly inactive.

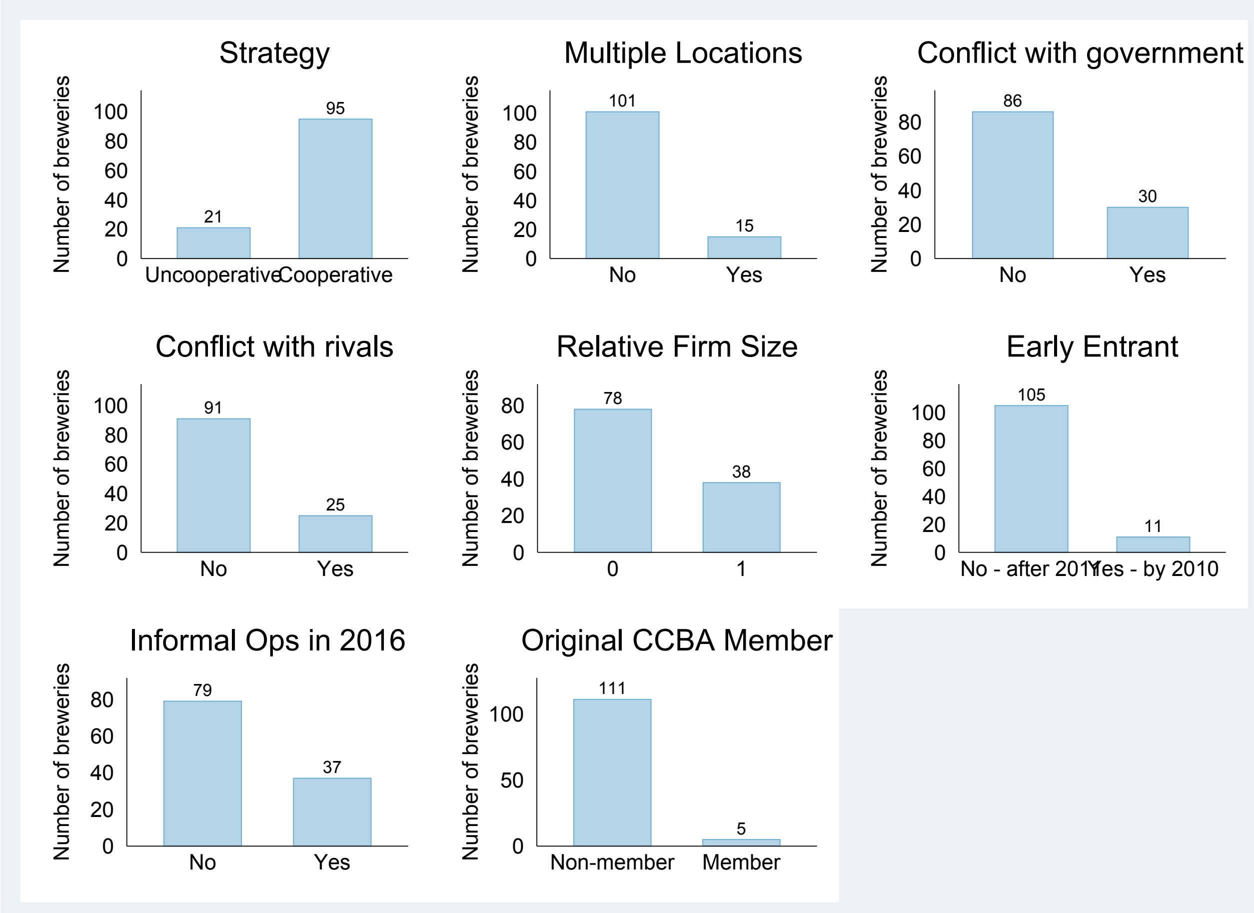

Figure 4.1: This illustrates the distribution for each variable of interest. From these figures it is evident that both the original CCBA variable and the early entrant variable are quite skewed due to the low number of firms that were coded as 1. This is not surprising as the value of CCBA membership is in part due to its exclusivity, and therefore uncooperative, nature. There were also a limited number of early entrants.

coded as 2. Firms are coded as 1 if they are smaller than the largest firms on all of these criteria but larger than the smallest firm. The smallest, sometimes informal, firms are coded as 0. The distribution for each of these variables of interest are illustrated in the frequency figure below. As for the firm performance dependent variable (proxied by having multiple locations), the key independent variable is firm strategy, described above.

Control variables

Firm level controls

In addition to these key independent variables, I also control for myriad factors that may influence firm strategy and/or performance. Summary statistics and sources for these variables can be found in Table 1. From the firm-level variables, I control for the nationality of consumers, brewers, and firm owners. I do this because there is research that suggests that nationality of firm owners may influence the behavior of firms and firm outcomes (Erramilli 1996; Fabbri et al. 2003). Many researchers and marketing experts also believe that Chinese consumers have unique, if not inimitable, tastes and decision-making processes (Zhou and Belk 2004; Zhou et al. 2010; Schmitt 1997).

Therefore, I control for the nationality of the majority of the patrons to any particular brewpub. Many breweries that have been in place since 2010 have seen shifts in their consumer types (from primarily foreigners or Chinese to a more mixed breakdown). Thus, this variable should be interpreted as a time-specific snapshot as of August 2015. The consumer nationality variable is a categorical variable that ranges from 0 to 2. A value of 1 indicates that the majority (more than 50 percent) of the consumers of that brewery's beer were reported to be foreigners. Zero indicates that the majority of consumers are not foreigners (and thus are Chinese). A value of 2 indicates a mix of foreigners and Chinese are patrons of the brewery. Breweries that are unknown to most foreigners or that cannot be found using English language web searches, and also cannot be found on various expat sites and beer blogs, are assumed to be primarily Chinese and are coded as 0. Brewer nationality is a binary variable, with values coded as 1 indicating that the current head brewer as of August 2016 is a foreigner. Zero indicates that brewer is not a foreigner (and therefore has Chinese nationality). Owner nationality is also binary, and similarly coded. Unfortunately brewer nationality and owner nationality both have a high degree of missingness (N=54 and 47, respectively).

Municipal level controls

I also control for many municipality or city level variables drawn from Chinese Statistical Yearbooks. The first control is gross domestic product (GDP); similarly, I control for GDP per capita at the municipal or city level. As most political economy of development research indicates, GDP can explain many outcomes of interest, including, but not limited to, the strength of the rule of law and democracy and democratization (Rodrik et al. 2004; Keefer and Knack 1997; Helliwell 1994; Barro 1996, 1999; Baum and Lake 2003).

It is possible that GDP influences both strategy type and firm growth. If higher GDP is associated with stronger rule of law and higher state capacity, it could be the case that firms in those areas are more compliant than lower GDP areas because the threat of punishment by the local government is higher. Additionally, higher GDP may indicate that the firm has more resources to begin with (as it would cost more to start and run a business in a more wealthy city than a poor city). However, it is unclear how GDP will shape the behavior of firms. Additional resources may influence the firm to use more formal strategies because they have additional money and time to spend on procuring permits and licenses through the proper channels than a firm in a poorer area with fewer resources. Higher GDP, which is likely the result of multinational investment, could also mean that local officials pay even less attention to small firms as their revenue potential is negligible. Higher GDP could force firms to be more cooperative in order to survive. It could also make the environment even more unstable and uncertain for small firms, resulting in fiercer competition and more aggressive, uncooperative strategies.

On the contrary, I do expect that if there is a relationship between GDP and firm success at all, it should be positive. The richer the local area is, the more discretionary income consumers have, which would lead to higher levels of consumption, particularly of specialized and luxury products, such as craft beer, which is significantly more expensive than commercially produced beer in China.[7] In short,

[7] As previously mention, in 2015, a pint of mass-produced beer such as Tsingtao or Snow ranged from 5-20 RMB in major cities in China on average. Outside of major cities, these beers sell for even less. However, a pint of craft beer starts at around 30 RMB ($5 US) (at happy hour), and can easily cost up to 90-100 RMB (over $15 US) during the same time period.

to capture these possibilities, I control for both raw GDP and GDP per capita when running regressions on both dependent variables.

Another fact that may be important for strategy and firm performance is the amount of foreign direct investment (FDI) in a city or municipality. Long et al. (2015) argue that in locations in China with higher levels of FDI, there is a stronger rule of law. If this is true, one would expect that higher levels of FDI would be associated with more compliance and lower FDI with noncompliance. We would similarly expect that higher FDI increases the likelihood that a firm will use a cooperative, and legal, strategy. Likewise, FDI inflows have also been associated with firm growth (both positive and negative (Konings 2001; Smarzynska 2004); thus, one would expect that higher levels of FDI should lead to more financial success (leading to the expansion to multiple locations).

Given China's massive population, the population of urban areas and municipalities could have an effect on firm behavior. In areas areas with higher population there are more potential customers and consumers. The effect could go in either direction. Larger populations may incentivize firms to cooperate in order to turn potential consumers into actual consumers. It is also possible that in less populated municipalities firms are more likely to use uncooperative strategies because there are fewer consumers and looser enforcement. On the other hand, a large population may allow small firms to better hide from the government (since there are more people, and therefore more businesses and more workers to monitor), thus allowing, or even encouraging, firms to use uncooperative or illegal strategies.

To capture these potential effects, I use multiple indicators as controls including total population, population density, and the non-agricultural population. I do this because it is unclear in this case exactly what aspect of population is relevant and important to determining firm strategies or firm success. Raw population may influence firm strategies for two reasons. First, when the population is larger, there are more potential consumers. Second, when the population is larger, it could be argued that this increases the capacity required of local governments to monitor and sanction firms for noncompliance of various regulations and laws. If the location has a big population, but lower state capacity, then it is likely that there will be fewer inspectors, fewer inspections, and it will be easier overall for firms to be noncompliant with impunity.

Many Chinese cities are also enormous in terms of geographical size, and cities with larger geographical areas are likely to vary in terms of the rule of law at the district level (which is the next smallest level after the municipal level). Districts can even vary in terms of procedural requirements (such as permits and licenses required for doing business), taxation rates, production quotas, investment targets, and so on. If this is the case then population, via its effects on geography and the rule of law and regulations, could have negative or positive effects on compliance, as well as firm success.

In the event that the important aspect of population is not the sheer size, but its density, (and thus the density of homes and businesses), I have also controlled for population density across the regression models that follow. My expectations are the same for population density as they are for population: it is not clear if density makes compliance or noncompliance harder or easier. It is also unclear how it would impress upon a firm's strategy choice.

Nor is it clear if density makes it more likely for firms to succeed and grow. It is possible that population density would increase the number of locations one firm has because they need more locations to satisfy demand in highly dense areas. On the other hand, people who live in highly dense areas may also have a larger variety of beers, bars, and brewpubs to choose from, and thus population density actually causes firms to more easily lose business to its competitors. Likewise, the composition of the population may be more important than the size of the population. To control for this possibility, I have also tested the non-agricultural population. This is a potentially important control because the non-agricultural population in China is much more likely to have the income required to purchase craft beer regularly than the agricultural population.

I also control for local government revenue. Local government revenue can have a major impact on firm behavior as well as firm success. This is because local government revenue increases are linked to increases in taxes, especially corporate taxes, as well as other barriers to entry such as licensing and permit fees. Local government revenue could therefore have a positive or negative effect on firm strategies and firm success. If local government revenue is higher due to higher levels of taxation and even predation, it could mean that firms are forced to take short cuts to avoid paying, and are thus

Variable Name	Obs.	Mean	SD	Min	Max	Variable Type
Firm level variables						
Strategy	116	.82	.39	0	1	Binary
Multiple locations	116	.13	.34	0	1	Binary
Conflict with government	116	.26	.44	0	1	Binary
Conflict with rivals	116	.22	.41	0	1	Binary
Relative size	116	.33	.47	0	1	Binary
Early entrant	116	.09	.29	0	1	Binary
Original CCBA member	116	.04	.2	0	1	Binary
Illegal operations 2016	116	.32	.47	0	1	Binary
Firm level controls						
Foreign Brewer	54	.5	.5	0	1	Binary
Foreign Owner	47	.49	.51	0	1	Binary
Primary Consumers	115	.27	.45	0	1	Binary
Municipal level controls						
Population (millions)	110	7.46	4.55	.58	13.51	Continuous
Non-agricultural population (millions)	110	7.42	4.53	.58	13.47	Continuous
Population density (per km^2)	110	1518	722	303	3651	Continuous
GDP (billions of RMB)	110	103.14	63.55	2.84	189.72	Continuous
GDP per capita (thousands of RMB)	110	144,500	85,300	40,000	430,000	Continuous
Budget revenue (billions of RMB)	110	164	128	4.58	339	Continuous
FDI (billions of USD)	110	5.58	3.52	.00952	12.61	Continuous
Distance to Beijing (kilometers)	116	1134.69	911.85	0	3365	Continuous

Figure 4.2: Descriptive Statistics for the Dependent, Independent, and Control Variables. Firm-level variables created by author. See Appendix for the dataset codebook. Municipal level variables shown in this table have been re-scaled for readability. All municipal level data is from the Chinese Statistical Yearbooks for 2011.

noncompliant. It could also mean that firms are more likely to experience conflict with government and thus more likely to use uncooperative strategies vis-à-vis their rivals.

On the other hand, higher government revenue could indicate higher levels of fiscal capacity, and potentially other forms of capacity that come along with fiscal capacity such as legal capacity (Besley and Persson 2012). If higher revenue indicates higher state capacity, then the local government should be able to command compliance more easily than governments with low revenue. This might steer firms away from uncooperative strategies as well as illegal strategies, as they are monitored more closely.

As for firm success, higher government revenue could mean that the firms located in these areas are overall performing better than lower revenue areas and thus the government is able to extract more from them. Alternatively, higher government revenue could again indicate that those local governments are more predatory, to the extent that they worsen firms' performance. Therefore, it is possible that local government revenue could either be positively or negatively associated with both firm strategy and firm success.

Finally, I also control for the distance to Beijing. Distance to Beijing has been used as a control in many studies (Qiu and Hudson 2010; Jia and Nie 2017; Liang et al. 2015; Wang 2016); their logic is that, the further away the political jurisdiction is from the central government's headquarters, the looser the regulatory control and/or oversight exercised by central government authorities. For the purpose of this chapter, that means that, as this distance increases, we should see higher levels of informality, as well as higher frequencies of uncooperative and potentially illegal strategies being employed.

I do not have a prediction for how the distance to Beijing may influence firm success. On the one hand, a shorter distance to Beijing could have a negative effect on firm performance, due to increased government interference or meddling. On the other hand, close proximity to central government authorities might be beneficial for some firms, particularly if they are able to access those officials for favors and special privileges. However, as small firms generally do not have the resources to have access to the central government, there could also be no effect.

4.4 Firm strategy models and results

As my dependent variable is binary, I use logistic regression models to test my hypotheses. Logit models differ from Ordinary Least Squares (OLS) in that the conditional distribution of y | x is a Bernoulli distribution, meaning the dependent variable is binary and independent variables are continuous or categorical. Logit assumes independence of observations and mutually exclusive categories for the dependent variable. My dependent and independent variables meet these assumptions. Logit models have the benefit of producing consistent covariance matrix estimates, whereas OLS models with a binary dependent variable are inconsistent (Harrell 2015; Menard 2005). It also allows us to predict the probability that a certain strategy will be chosen.

It is important to mention that sample size is relatively small, and therefore the degrees of freedom are very limited. To help address this issue, for both dependent variables, I move from a simple to more complex structure. Specifically, I start by estimating the binary relationship between the dependent and independent variables. I then add controls individually to each model to establish if the variable of interest remains significant.

4.4.1 Bivariate logistic regression results

Coefficients are reported in the Appendix. Logit coefficients indicate the amount of change expected in the log odds when there is a one unit change in the predictor variable. Therefore, if conflict with government and conflict with rivals moves from 0 to 1 (no conflict to conflict), then there is a decrease in the log odds of a firm using cooperative strategies rather than uncooperative strategies. The same is true for relative size (moving from smallest to largest), early entrant status (moving from not having early entrant status to being an early entrant), and informal operations (moving from not having informal or illegal operations in 2016 to having them).

The results of the bivariate logit models confirm many of my predictions. To start, the variables for conflict with government, conflict with rivals, size, early entrant status, and informal or illegal operations in 2016 are all negative and significant. Membership in the original CCBA is also negative, but insignificant.

Because it is difficult to interpret log odds, I have also calculated the odds ratios, as well as the marginal effects of the key explanatory variables. The marginal effects of each predictor variable are reported below. From the marginal effects results it is evident that conflict with government and rivals has a significant effect on strategy choice. Specifically, the predicted probability of firms changing from uncooperative strategies to cooperative strategies decreases by .31 when there is a history of conflict with the government. When firms have a history of conflict with rivals, there is similarly a decreased probability that they will use cooperative strategies by .30. As for size, the predicted probability of a firm using cooperative strategies decreases by .18 and, similarly, decreases if the firm was an early entrant to the industry by .27. Finally, the probability of a firm using cooperative strategies also decreases by .18 if they have had any informal or illegal operations in 2016.

Why might CCBA membership not have a significant effect on strategy? First, there were only four to six members of the original CCBA, depending on who you talk to. Therefore, it is likely that this outcome is being driven by the fact that the majority of observations are coded as a 0 for non-members. Another possibility is that relying upon or using the original CCBA was only a signaling mechanism for the members, rather than a strategy. My intuition is that both possibilities are true, and I will further explore the role of the original CCBA in Chapter 5.

In the following section, I test if these five variables remain significant once control variables are added. If they do remain significant, I similarly calculate the odds ratios and marginal effects of each. The bivariate odds ratios can also be found in the Appendix .

4.4.2 Logistic regression with controls results

Many of the results remain significant once controls are added. Due to the high number of tables, all of the coefficient tables can be found in the Appendix, as can the odds ratios. For the remainder of this section, I will discuss the marginal effects for each key independent variable as controls were added. Because CCBA membership was insignificant in the bivariate tests, I do not include CCBA membership in these models or in this discussion.

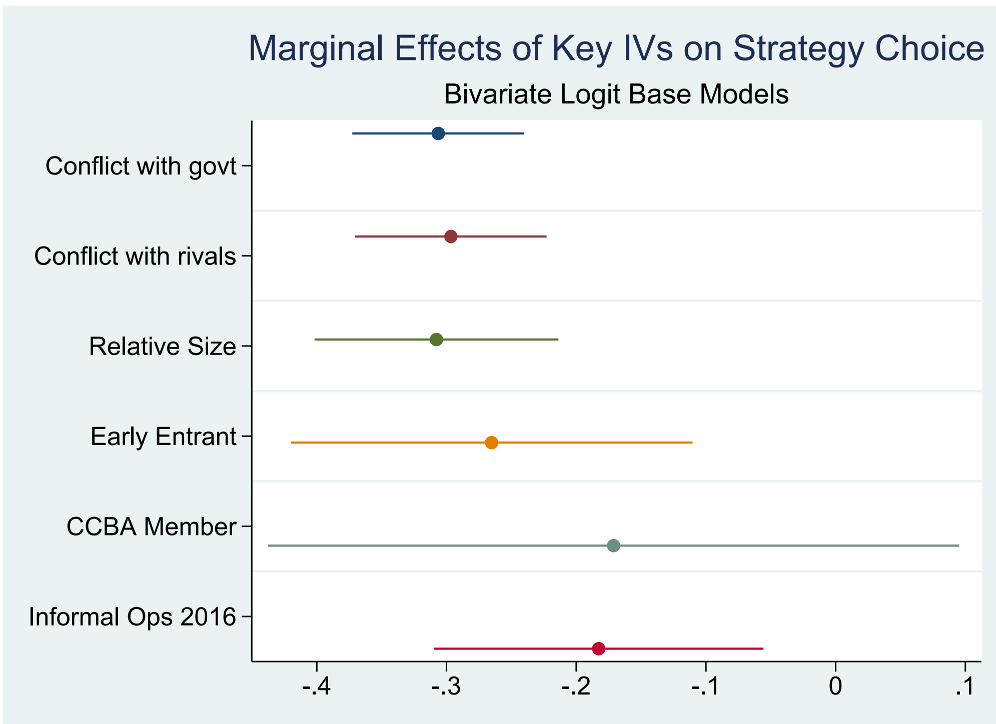

Figure 4.3: This figure illustrates that in bivariate tests several of the key independent variables put forth here have a significant negative effect on the likelihood that a firm will choose a cooperative strategy. The red vertical line is at zero and the only variable that has confidence intervals that cross zero is membership in the original CCBA.

The relationship between conflict with the government and strategy choice holds in all thirteen models. The coefficients of all of the models remain negative and significant at the p<.001 level. This variable is robust to controls for FDI, GDP, GDP per capita, consumer nationality, the distance to Beijing, all three population controls, and local government revenue. Of these control variables, the only variable that was significant was FDI at the p<.05 level. Interestingly, the coefficient is negative. This means that as FDI increases, the likelihood of a firm using a cooperative strategy decreases. The marginal effects of select models, including the baseline bivariate model can be found in Table 1, below.

In each of the control models, the marginal effects of conflict with government stays negative and significant with values ranging from a maximum of -.27 to a minimum of -.51. This means that the predicted probability of a firm using cooperative strategies decreases by anywhere from .27 to .51 when the firm has a history of conflict with the government. In every control model the marginal effects of conflict with government is significant at the p<.001 level. Interestingly, the highest marginal effect value is found in the model that controls for GDP per capita and FDI, consumer nationality, and foreign ownership, with an N of only 40. Overall, these results confirm my claims that a history of conflict with the government has a serious effect on strategy choice and firm behavior.

The conflict with rivals variable performs similarly. The coefficients in all models remain negative; however, in two models the significance drops. First it drops to p<.05 in model 6; which, again, includes GDP per capita, FDI, consumer nationality, and foreign ownership. Then it reduces below conventional levels of significance when foreign brewer is added. I again suspect that this is due to the small sample size.

The marginal effects of conflict with rivals remains negative and significant for every model, though it drops to p<.05 in models that include consumer nationality and foreign ownership, with an N of 44 and 40, respectively. The marginal effect ranges from a maximum of -.26 to a minimum of -.36. In other words, when conflict with rivals moves from 0 to 1, the predicted probability that the firm will choose a cooperative strategy (value of 1) decreases by anywhere from .26 to .36.

In the conflict with rivals models, the majority of controls have insignificant coefficients. FDI

	Bivariate Model	Model 2	Model 3
Conflict with govt	-0.31	-0.31	-0.48
(Upper CI)	-0.24	-0.27	-0.3
(Lower CI)	-0.37	-0.35	-0.65
N=	116	110	44
Conflict with rivals	-0.3	-0.29	-0.36
(Upper CI)	-0.22	-0.36	-0.17
(Lower CI)	-0.37	-0.23	-0.55
N=	116	110	44
Relative Size	-0.31	-0.28	-0.29
(Upper CI)	-0.21	-0.18	-0.06
(Lower CI)	-0.4	-0.39	-0.52
N=	116	110	44
Early Entrant	-0.27	-0.29	-0.28
(Upper CI)	-0.11	-0.14	-0.01
(Lower CI)	-0.42	-0.43	-0.55
N=	116	110	44
Informal Ops in 2016	-0.18	-0.2	-0.21
(Upper CI)	-0.06	-7.	0.05
(Lower CI)	-0.31	-0.32	-0.46
N=	116	110	44

Table 4.1: Model 2 includes GDP per capita as a control, Model 3 includes GDP per capita, FDI, consumer nationality, and foreign ownership as controls.

registers as negative and significant at the p<.05 level in four models. These are models that control for GDP per capita (or GDP), FDI, consumer nationality, and population (or non-agricultural population) and budget revenue. Intuitively, it makes sense that FDI would influence strategy choices, as increased FDI may increase the number of firms and thus the intensity of competition, leading to more conflict with rivals, and uncooperative strategies. FDI is negative and significant at the p<.05 or p<.01 level in most models for early entrant, size and informal operations. Distance to Beijing also registers as significant and negative, although the coefficient is basically zero. Moreover, Distance to Beijing is not significant in any other models with any other key independent variables.

Size also has a big impact on firm behavior. Similar to conflict with rivals or government, the size variable coefficient remains significant and negative in all models, except models that control for foreign owner and foreign brewer. This finding, however, could again be due to the fact that the sample size is so small in these models (N=44 and 40).

To return to the marginal effects of size, size also performs consistently in the models with controls and the marginal effect remains negative and significant at the p<.001 level for most of the models. The only exceptions are, again, models that include the variables for foreign ownership and foreign brewers. The marginal effect of size is, however, a bit smaller than conflict with rivals or government, with values ranging from -.31 to -.24. This means that the predicted probability of a firm using cooperative strategies decreases as size increases, which also confirms my prediction that the probability of the smallest firms, relative to other small firms, using cooperative strategies is higher than the largest small firms. They choose more cooperative strategies because they are smaller and potentially informal, making them even more vulnerable to the uncertainties of Chinese politics and economics.

Early entrant status also, generally, has a negative effect on the likelihood that a firm will use cooperative strategies. Though this coefficient's sign and marginal effects are negative as expected, it drops in significance. Early entrance loses significance completely in the models that includes both foreign ownership and/or foreign brewer. However, this still provides strong confirmation hypothesis regarding the relationship between a firm being an early entrant and its use of uncooperative strategies.
The marginal effects results indicate that the predicted probability of using cooperative strategies de-

creases by .24 to .29, depending on model specification, when a firm is an early entrant. The marginal effects are significant at the p<.001 level, higher than the coefficients, for the baseline bivariate model and some of the control models. However, significance is reduced, again in models that have a low number of observations.

Finally, what effect does a firm having informal operations in 2016 have on the likelihood that they will use uncooperative or cooperative strategies? Of all of the key independent variables tested in this chapter, this one performs the worst, but generally still confirms my argument that firms that engaged in illegal activities or informal business practices in 2016 are more likely to be cooperative and less likely to be uncooperative because they do not want to risk exposure or retaliation. Out of the thirteen models with controls added, the marginal effects for informal operations is negative and significant in eleven models, but at the p<.01 level. While it is also negative for models that control for foreign ownership and/or foreign brewer, informal operations is no longer significant in either model.

As for the marginal effects of informal operations on firm strategy outcomes, all but the same two models are negative and significant at the p<.01 level. The effects demonstrate that if a firm moves from not having informal operations to having informal operations, the predicted probability of the firm using cooperative strategies decreases by anywhere from .18 to .2. The models that include foreign ownership and brewer nationality are negative, but again drop below significance.

Given that size, early entrance, and informal operations all fall outside the conventional range of statistical significance when foreign ownership and brewer nationality are controlled for, it is possible that these variables are picking up on some underlying factors. Perhaps foreign owners and foreign brewers do business differently, and thus choose different types of strategies, than locals. The literature on firm behavior, and firm behavior in China specifically, generally support this finding–firms that are foreign owned operate differently than private domestically owned firms. While I will further discuss this possibility and provide a potential mechanism linking foreign ownership and brewer nationality to strategy choice in the following two chapters, it is also possible that the controls themselves do not perform significantly due to the small number of observations.

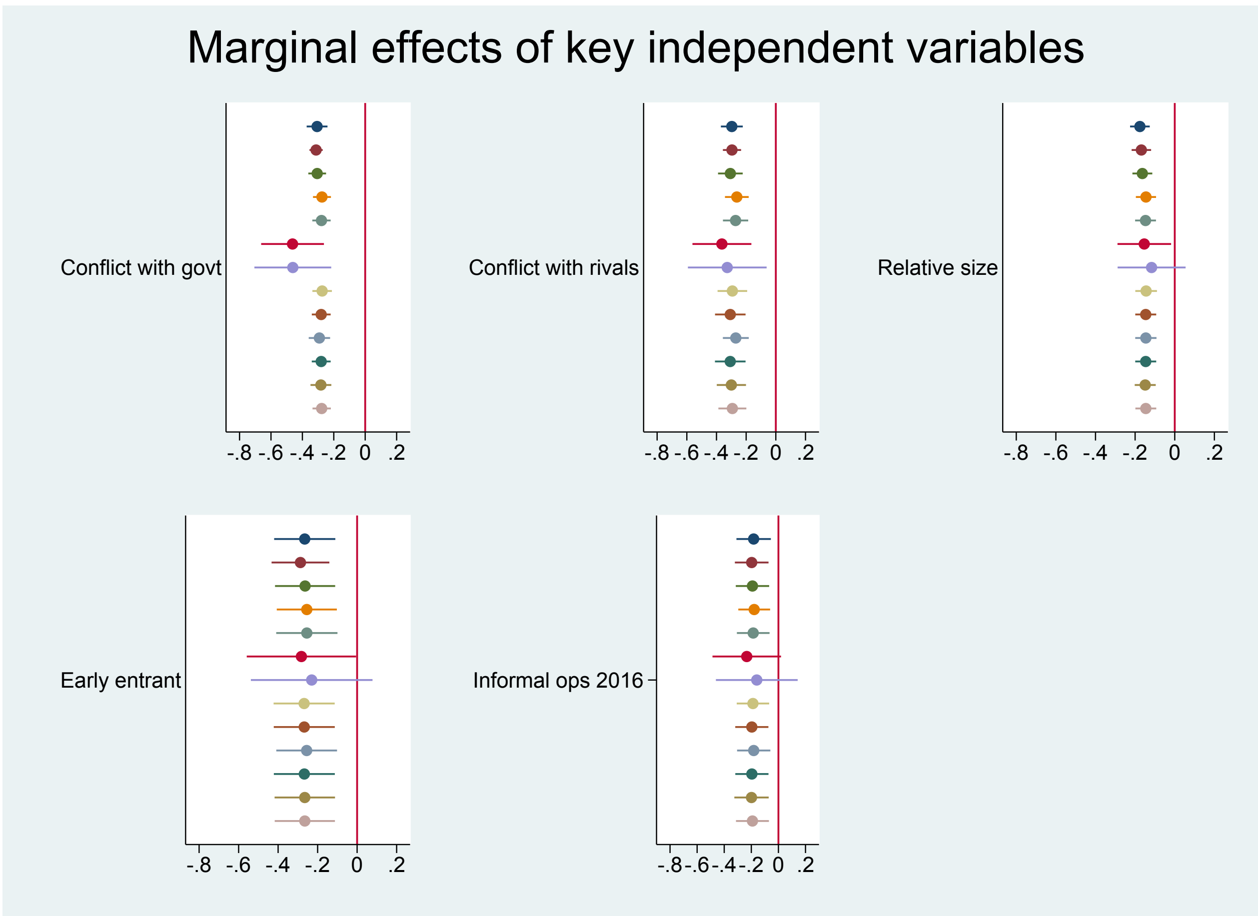

Figure 4.4: This plot illustrates the marginal effects of any given variable (on the left hand side, along the Y axis) on firm strategy choice. From this we can see that some of the models have quite significant, and always negative, marginal effects on strategy. For each variable we can also see that the models with the low number of observations (those that include brewer and owner nationality) in each also has the widest confidence intervals and actually crosses the reference line for relative size, early entrance and informal operations.

4.5 Firm performance models and results

Before turning to the qualitative cases, however, it is important to answer the question about the relationship between strategy and firm performance. Do firms choose strategies based on the perceived advantages and likelihood of success? Or does something else motivate them? I also use logit models for the firm performance dependent variable, which, as I explained above, is a proxy variable that measures if a firm has multiple locations or not. I find that in the bivariate model, as well as the models that control for GDP and GDP per capita, the strategy variable has negative coefficients and is significant at the $p<.05$ level. In all other models the coefficients are negative but insignificant. The coefficient tables for firm performance can be found in the Appendix.

As for the marginal effects, the values are also consistently negative, but also mostly insignificant. The only models that have significant marginal effects at the $p<.05$ level are the bivariate model, the two models with either GDP or GDP per capita as a control, and, interestingly, in Table Y, model 6. This model controls for GDP, FDI, consumer nationality, nonagricultural population, and the municipal governments revenue. However, it is also clear that in these few cases the predicted probabilities are relatively low. Specifically, if a firm moves from using an uncooperative strategy (value of 0) to cooperative strategy (value of 1), the predicted probability that they will have multiple locations decreases by .13 to .16.

It is not surprising that firms would use uncooperative strategies if they are somehow linked to better firm performance, as proxied by having multiple locations. To be blunt, some firms use uncooperative strategies because they work. They somehow help them stay in business and even expand.

I suspect, however, that these results may be driven by the lopsided distribution of relative size in the dataset. Of the 116 observations in the full dataset, 78 are coded as 0, 22 as 1, and only 16 as 2. Likewise, only 15 observations in the dataset are coded as having (or being one of) a multiple location. In short, the vast majority of firms that are in the Chinese craft beer industry are informal or very small, and only a few firms can be considered relatively large; only a rarified few have multiple locations.

Another potential explanation for these results is that contextual factors, outside of the firm's control, contribute more to firm performance and success than their strategy choice. As the next chapter will detail, the levels of regulatory instability, uneven enforcement, and unique consumer market are major factors in determining if firms can even stay open, let alone profit.

4.6 Limitations and future research

Firm behavior when dealing with competitors and local governments are likely to change across space and time in ways that quantitative data cannot capture. There are therefore limits to what country level, sub-national, and even firm-level quantitative measures can tell us about firm behavior, especially for measures that exist for only one point in time. Nonetheless, the results presented in this chapter highlight some underlying factors that influence how firms behave vis-à-vis rivals when they are functioning in a competitive environment with weak property rights and other pathologies associated with developing countries. The mechanisms through which this happens will be further detailed in the following qualitative chapter.

In addition to the previously stated limitations of the dataset, the overall limitations of this study are numerous and generate interesting opportunities and questions for future research. In a fantasy world where data falls like manna from heaven, and in the People's Republic of China at that, we might be able to better answer these answers with time series data. However, neither the government nor the firms systematically collect data on my variables of interest at the firm level over time. This process would either require waiting years or the reconstruction of strategies used over time based upon informant memories or record keeping of permits, fines, and inspections incurred.

Even this could prove difficult, however, because the changes are rapid in this nascent industry, and in China generally. It is quite possible that several key actors that possess important institutional memories are no longer with the same firm; indeed, some may no longer remain in China. Furthermore, it is unlikely that the Chinese government would even be able to collect pertinent and truthful firm-level data. Many firms in China do not keep written records intentionally; nor do they willingly give information to the government about their activities unless they are legally required to do so.

An additional limitation of this chapter is that the models are underspecified due to my small sample size and limited degrees of freedom. While I control for GDP, GDP per capita, population, population density, non-agricultural population, FDI, local government revenue, brewer nationality, consumer nationality, and the distance to Beijing, there are other controls that should be tested in the future. These include the concentration of firms in any particular city or municipality, if the owners or brewers have past experiences successfully doing business in China, language abilities of the firm's leadership team and staff, brewing training, and brewer and owner education, to name but a few.

Additionally, these models leave out many interesting and important details. To be sure, we now know what firm strategies are correlated to in the Chinese craft brewing industry. However, these regressions cannot outline the sequence of events; nor do they confirm the mechanisms at work. Also, I have not (yet) been able to diagnose the direction of causation. Do firms use uncooperative strategies and therefore have conflicts with the government and rivals, or do they use uncooperative strategies because of conflict with the government and rivals?

In order to deal with issues of timing and endogeneity, the chapters that follow provide detailed qualitative case studies and a thorough history of regulatory instability and change. I believe that this more fully explains why and how small firms behave in the real world.

4.7 Policy implications and concluding thoughts

The results of this chapter have illustrated that prior negative experiences with the government or rivals, as well as size, early entrance status, and having some informal operations decreases the probability that a firm will use a cooperative strategy rather than an uncooperative strategy. I expect that when these firm characteristics exist in combination, firms will be even more likely to go one way or the other. The largest, formal firms that have had conflict with both the government and their rivals are the most likely to use uncooperative strategies, while the smallest and sometimes informal firms that have no history of conflict with either the government or their rivals are most likely to use cooperative strategies.

These findings have implications for how small firms do business in the developing world, as well as how governments in emerging markets regulate new industries, small businesses, and entrepreneurial endeavors. First, newcomers should be aware that they are going to face a great deal of difficulty early on. Not only does the brewing industry require specialized knowledge, but contextual knowledge of China, and the specific location where the brewery is to be located, is crucial. Firms that have difficulties with the government or past negative experiences with rivals are likely to respond negatively to potential entrants. As we also know, that early entrants are more likely to use uncooperative strategies.

Positioning a new brewery, even if small or informal, next door to an older, more developed, incumbent may make it easier to attract customers. But it will likely come at price. A potential solution is for embryonic craft brewers to open up shop in cities that do not already have well-established incumbent firms.

As for governments, the policy implications are somewhat counterintuitive. The smallest firms, even informal ones, are most likely to be cooperative and work together than larger small businesses. Rather than subjecting small firms to multinational standards that they cannot comply with, the relevant authorities should make it easier for small businesses to start, develop, and grow. Governments should also seriously consider the benefits of making formalization easier and more attainable for the majority of the population, given local living standards and costs. They should do this because these firms are willing to cooperate to grow.

While uncooperative strategies may be connected to business success, these strategies are only normatively acceptable because of the emerging market and authoritarian context in which they reside and do business. Furthermore, I do not believe that uncooperative strategies are sustainable over time for myriad reasons. Consumers are fickle and can change their minds quickly about what products they desire. A negative rumor about a brewery, who likely has employed some sort of uncooperative strategy against a rival firm, could drive customers away, especially as more and more options become available. It is also not sustainable because if the industry continues to grow whereby informal firms become very small firms then become small firms and so on, eventually the number of informal and smallest firms will outnumber the larger, more formal firms that use more aggressive, and frankly more immature, strategies when dealing with competitors. Eventually, they may find themselves with no allies - a death knell in an emerging market governed by an authoritarian government.

Finally, while the rule of law is undoubtedly important to economic development, small and informal firms jumpstart many new industries. Development organizations need to not only support policies that make doing business easier for small firms, but also must consider the trade offs between pushing the rule of law while the country struggles to develop economically. Put simply, when firms are operating real, legitimate, and otherwise legal businesses, but do not have the resources to get a stamped piece of paper that says as much, they should not en masse be evicted or punished. Instead, they should first be given an opportunity to formalize. If many firms are still unable to formalize, then the situation should be reassessed and reformed so that formalization is achievable for more small firms.

As the next two chapters will illustrate, regulation that is appropriate for small firms almost guarantees that firms will not be fully compliant with the law. This in turns nearly guarantees a run-in with the local government, rivals, and sometimes neighbors, resulting in firm strategies that are overtly hostile and counterproductive, which could eventually limit growth in the industry.

Chapter 5

Firm-level Case Studies

5.1 Introduction

Chinese craft breweries are the result of their institutional environment. While the CCP has provided more stability and potential for economic growth than many other autocratic regimes, the simple fact remains that property rights remain insecure and enforcement of regulations remains uneven across place and time. Doing business in China continues to be mired in obstacles and frustrations. According to a recent survey from the American Chamber of Commerce (2016), firm owners and investors are still reporting that they face widespread systemic problems, including issues with financial services and obtaining credit, finding affordable and secure real estate, and slowed research and business processes due to continued internet and media censorship. Businesses also report persistent day-to-day hindrances to growth and efficiency.

In Chapter 4 I laid out hypotheses that connected negative experiences with the Chinese government and their rivals to strategy choice. Other firm characteristics that were linked to firm strategy include a history of informal production, cartel membership, relative size, and early entrant status. The quantitative findings indicated a negative relationship between all of these variables and firm strategy, with the exception of cartel membership.

Given that the number of observations used in the analysis is just over 100, the qualitative case studies that follows will 1) provide more evidence for and confidence in my quantitative results, 2) allay some issues of endogeneity, and 3) identify mechanisms that connect experiences of conflict with government and rivals, informal operations, relative size, early entrant status, and cartel membership to the dependent variable, strategy choice. This chapter also illustrates how important context is to evaluating the behavior of firms in emerging markets.

Qualitative case studies also allow me to demonstrate the diversity of approaches to doing business in China, even within the same industry. For each case, I begin by giving some preliminary information about how the brewery started and provide details about their relationships with competitors. This information is based on original data I collected during my fieldwork. I interviewed all types of industry participants at their businesses, at beer festivals, and at craft beer conferences. Between 2013 and 2014, I conducted hundreds of interviews with owners, staff, beer lovers and first time consumers, distributors, investors, potential entrants, and other industry insiders.

I use aliases for all business names in each case study. I also do not provide exact location information. While some may argue that location is important, I have not found that location determines strategy choice nor does it accurately reflect variance in how these breweries conduct business. To be sure that this is the cases, I tested a variable in the prior chapter that measured the distance from Beijing. It did not come up as significant in any of the models. Finally, I keep informant identification anonymous. As the industry is still very small, using real names or providing locations would make it too easy to identify informants. Therefore, I also provide information in the aggregate where possible and refer to firms rather than specific informants or actors.

5.1.1 Roadmap for the chapter

This chapter is structured as follows: in the next section I start by describing some of the general attributes and characteristics of firms that use uncooperative, cooperative, or mixed strategies. I then provide three mini case studies of firms that rely primarily on uncooperative strategies: Hao Sheng, who has been discussed in previous chapters, and two others that I refer to as "Gan Bei" and "Mao Mao Pijiu." The following section has three more mini case studies of firms that are primarily cooperative with their competitors. These cases include Zhang Wei, also discussed in prior chapters, and two other firms that I refer to as “Wu DF’ and “Xiao Niao.” Finally, the last section looks at firms that use a combination of both cooperative and uncooperative strategies. The two mini cases I provide additional detail for are Wang Fang, whose stories were also shared in past chapters, as well as a firm I call “Ning.”

From there I provide a discussion that attempts to answer questions that the quantitative chapter could not regarding timing and process. Are firms cooperative or uncooperative to start with? Or do they become so only after they experience conflict (or not)? Does size and level of formality matter over time, particularly if these characteristics change over time? Do they become more uncooperative as they grow? Why or why not? Finally, I discuss the implications of these findings on my theory and argument, then conclude.

5.2 General characteristics of uncooperative and cooperative firms

Examining the relationships among general characteristics of craft breweries provides important context to frame the case studies. Figure 1 illustrates the mean values of the six key explanatory variables tested in Chapter 4: conflict with government, conflict with rivals, informal operations in 2016, CCBA membership, relative size, and early entrance status. From Figure 1 we can see that firms who employ uncooperative strategies have a higher mean values for conflict with government and rivals, at .76 and .67. This is much higher than firms who generally use cooperative strategies, whose mean values are only .15 and .12, respectively.

Uncooperative firms also have higher mean values for each of the other key explanatory variables: being a CCBA member, having a history of informal operations, relative size, and early entrance. This means that firms that use uncooperative strategies, on average, tend to be bigger and are more likely to be early entrants.

The mean value for having past informal operations is less stark. Firms that have uncooperative strategies have a mean value of .83, whereas those that use cooperative strategies are .64. This indicates that it is possible that both uncooperative and cooperative firms are influenced by their histories with

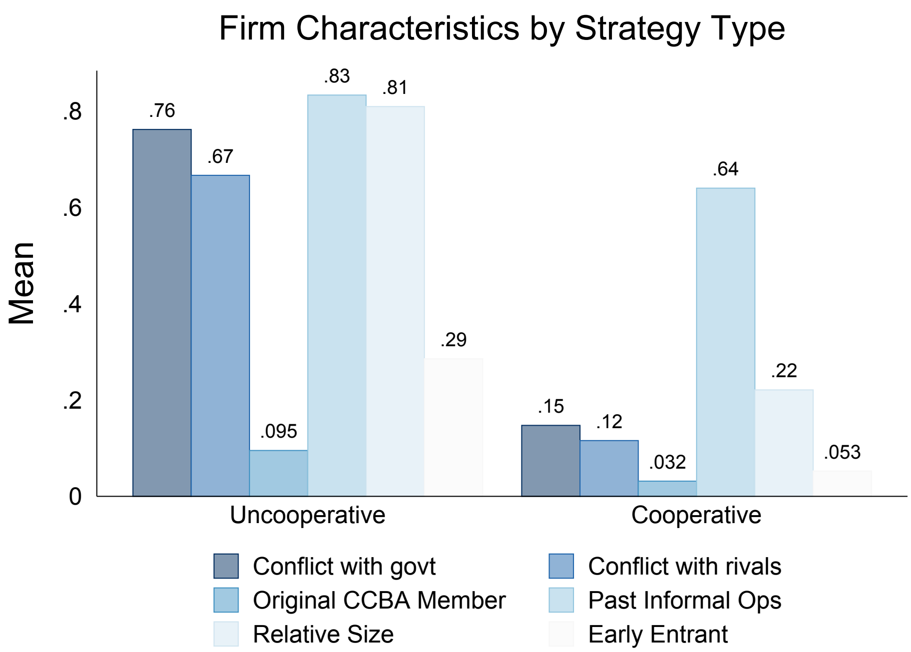

Figure 5.1: This plot illustrates the the mean values of the six variables tested in Chapter 4, by strategy type.

informal operations; however, before examining the case studies, it is unclear why or how that history should impact their behavior. Finally, firms that use uncooperative strategies have a higher mean value for original CCBA member – it is still very small (.095), though smaller yet for cooperative firms (.053). This is likely due to the small number of original CCBA members. What else do we know about firms that use uncooperative strategies? A comparison of the mean values of other variables suggests that firms that use uncooperative strategies are much more like firms that use cooperative strategies. For example, uncooperative firms have mean values of .44 and .47 for having a foreign brewer and foreign owner. The means for cooperative firms are .53 and .50. Though these differences are small, they mean that firms observed to be uncooperative are more likely to have a Chinese brewer or Chinese owner. Likewise, cooperative and uncooperative firms differ little in their mean values of consumer nationality (.47 vs .5). However, it is unclear if these similarities in mean values between the two groups are actually meaningful in terms of causation. It is also unclear what mechanism connects these attributes to strategy outcomes.

For the last three variables in Figure 2 there are more discernible differences between the two

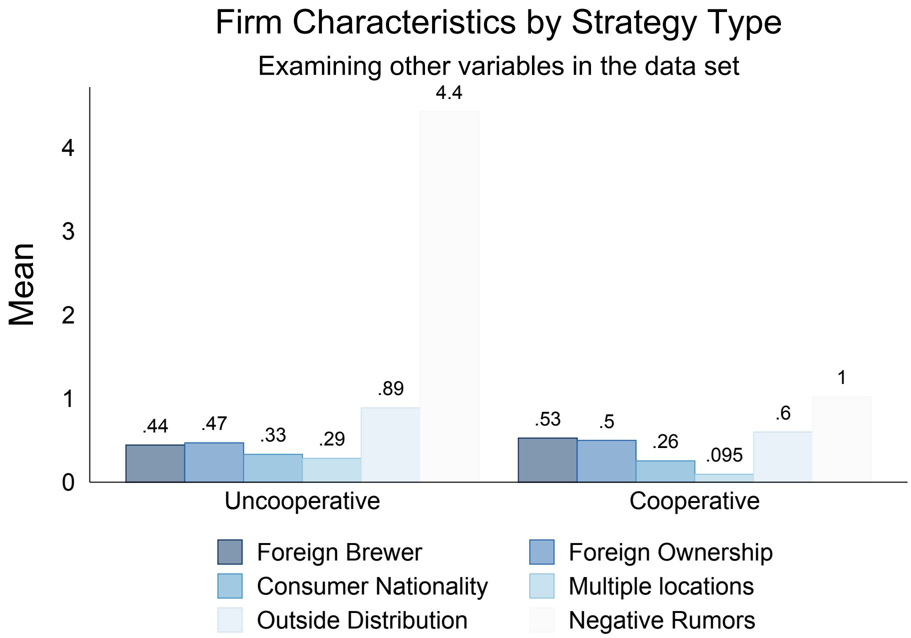

Figure 5.2: This plot illustrates the the mean values of the other variables in the unique data set, created by the author, organized by strategy type.

groups. Uncooperative firms have a mean value of .29 for multiple locations, whereas cooperative firms only have a mean value of .095. Likewise, uncooperative firms have a higher mean when it comes to distributing their products outside of their own brewpub or brewery. Uncooperative firms also average 4.4 (out of a possible 7) on negative rumors, whereas cooperative firms only average a score of 1.

Therefore, the characteristics can be summarized as follows. Uncooperative firms tend to be larger early entrants with multiple locations that distribute outside and tend towards conflict with rivals and government. This is somewhat counter intuitive because one might expect that conflict, in general, does not bode well for firm growth or success. Yet, uncooperative firms tend to be larger firms (they either grew or started large) and are more likely to have multiple locations (they are performing well).

This presents a few important questions related to the central puzzles of this dissertation. First, why are firms that have conflict and are generally uncooperative doing well enough to have multiple locations? Second, because uncooperative firms tend towards being early entrants, does that mean that conflict, size, and growth are merely a function of time? If newer firms survive, will they perform the same way? Third, is the primary reason that firms rely upon uncooperative strategies because uncooperative strategies lead to success? If not, why do they engage in this behavior in the first place?

These case studies provide preliminary answers to some of these questions. First, uncooperative firms can still profit because the industry is small and new. This means that consumers still do not have a wide range of choice, so even if they have heard gossip about the firm, they will still patronize the bar. Another potential reason that uncooperative firms profit is because their strategies are working – they are blocking out new entrants and deterring potential rivals.

It is possible that every firm will eventually have to use uncooperative strategies in order to stay competitive and survive. Real estate is only going to become more expensive over time so obtaining prime locations with enough space for a brewpub will require more resources. Because there are no substitutes for real estate, this could encourage otherwise cooperative firms to engage in cutthroat behavior in order to secure locations. Another issue is that as the visibility of the industry is elevated, firms will face increasing scrutiny from consumers and the government. It is not clear how this will affect behavior.

As more and more firms realize gains from cheating, even if they would be better off being cooperative in the long-term, more and more firms are likely to turn towards uncooperative strategies. Surviving in the craft beer industry is tough and will not become any easier as the number of firms increases. The possibility of acquisition by a multinational company, such as China Resources Snow or AB InBev, may also alter the behavior of firms. Finally, some firms do use uncooperative strategies because they believe that their firms will benefit and their position will be improved. Other firms use uncooperative strategies merely out of spite.

In the following sections, I provide some details about each firm as well as examples of the strategies that they used when dealing with competitors. At the end of each section I discuss why each firm chose its strategy and compare its reasoning with the other firms that use similar strategies.

5.3 Firms that use uncooperative strategies

5.3.1 Hao Sheng

Hao Sheng was an early entrant to the craft beer scene in China. After a long stint in the corporate world – which is not an uncommon background in the industry – one of the owners was inspired to take up a hobby and pursue a genuine passion. That hobby was home brewing. As previously mentioned, at the time there was not much home brew equipment available in Mainland China. There were no home brew stores in any of the major Chinese cities yet, and the now-infamous Taobao, where you can buy almost anything, was still being developed. So, the brewer had to make his own equipment. While this is impressive, at a home brew level, the tools required to brew beer are actually quite elementary.[1] Similar stories were common in the early years of American craft beer, as well (Interviews # 32, 33, 34, 59).

After home brewing for a short amount of time, Hao Sheng started to share some of their brews with people in their neighborhood. Eventually this blossomed into an informal craft beer bar in a residentially-zoned area of the city. According to informants, another craft brewery was in the works around the same time – Kuai Pijiu was also finding investors, a brewer, and a location to brew craft beer in the same city (Interviews # 34, 38, 57).[2] At that point, the city had very limited options for beer, even imported, and there were no craft beer bars, brewpubs, or breweries. The industry was wide open for new entrants and investors. However, Hao Sheng went to great lengths to lay claim to being the first craft brewery in China and used uncooperative strategies to prevent rivals from making the same claim (Interviews#3, 32, 57, 59).

Many informants reported that the strategies Hao Sheng employed to get this label were unnecessarily aggressive and ruthless. Some of the strategies were intended to tarnish the reputation of

[1] In the United States you can buy a basic kit that will brew approximately twenty-four bottles' worth of beer: a five gallon bucket, some tubes and siphons, cleaning solution, a bottle capper, a bottle filler, and some basic starter ingredients — dry yeast, liquid malt, and other flavorings (North Brewer 2017). Thus, a very basic home brew kit is actually quite simple and inexpensive. That being said, the upgrade from home brewing to craft brewing, technologically and skill-wise, is huge.

[2] I intentionally do not specify what Chinese city any of these breweries are located within because it would be too easy to identify the actual brewery, brewers, and owners. I only talk about municipalities or cities in the aggregate to avoid revealing identifying information for any one brewery

competitors. For example, Hao Sheng spread rumors that new entrants were doing business wrong, that the firms were informal, and that their informality and bad practices threatened everyone in the industry. In interviews with Hao Sheng owners and staff, they continually mentioned the problem of licensing and distribution and what they perceived to be other firms' flagrant disregard for the rules (Interviews #2, 25, 57). They were convinced that other craft breweries were not registered as formal businesses, let alone properly licensed to produce, sell, or distribute beer. This was always framed as a threat to Hao Sheng's own well-being: if anyone was caught by the authorities, everyone in the industry would be punished.[3]

Interestingly enough, Hao Sheng started off informally. The initial home brew setup was in a residentially-zoned area, not a commercial or retail area. Unsurprisingly, consumers reported that the brewery faced regular interaction and trouble with the local police and *chengguan*, as well as angry neighbors who complained incessantly about the noise (Interviews # 2, 34, 38, 51, 56, 57)

In interviews, many described conflict with the government as mundane and typical – the norm for doing business in China. For example, when asked if the government ever gave them trouble one interviewee replied, "Of course, we are hassled almost every week, what can you do?"[4] Problems with police, neighbors, and other authorities were a constant (Interviews #2, 34, 51, 57, 63, 65, 71). However, more than one informant reported that they thought that Hao Sheng came very close to being fully shut down by the government. This is significantly more serious, if true; however, informants for Hao Sheng never admitted to or reported this claim.

Given Hao Sheng's own experience with informality and conflict with the government, the preoccupation with rule-following is strange and also hypocritical. Why would Hao Sheng harp on this issue so relentlessly if they themselves did not start off without all the proper licensing and permits?

First and foremost, they used the alleged informality of rival firms as a justification for using hos-

[3]This is not a mindset that is peculiar to Hao Sheng or the craft beer industry. In interviews with an employee from a small foreign chemical company, the employee said that they also attempted to go "above and beyond" Chinese regulations so that if a problem did come up, such as lake pollution, they would be beyond reproach by Chinese authorities. They believed if they did not, they would be among the first to be shut down. This is, in part, due to the belief that foreign firms (or firms with some foreign ownership) are more likely to be targeted by local government officials during crackdowns.

[4]The typical Chinese phrase informants would use to describe interference from the authorities was *mei banfa*, a phrase that literally means something like "there is no other way."

tile strategies against them.[5] Second, Hao Sheng also used rumors about informality to delegitimize startups as well as other incumbents. They spread gossip to other brewers, owners, and even to consumers. Informants suggested that Hao Sheng used these rumors in an attempt to control the direction of the industry, as well as who could enter (or exit) the industry.

For example, at one craft event, Hao Sheng introduced Zhang Wei, who was at the time relatively new, as being a great example for others in the industry. This was because they were fully on the books (they actually were not, as will be detailed later in this chapter). The message was clear: every other craft brewery should fall in line and do the same; if you are not able to do so, then do not even enter the industry. This is fairly typical firm behavior: block entrance, reduce the legitimacy of rivals, and tarnish their reputations. It is also uncooperative and questionably necessary or directly beneficial in this case. Most informants that were present at this event were irritated and reported that they felt this behavior was being condescending and bossy.

In addition to having major conflict with other early entrants, more recent entrants to the industry reported conflict with Hao Sheng. For example, an informant from within the brewery Mao Mao Pijiu stated that they had approached Hao Sheng for advice on equipment and sourcing as well as the business registration process. To the informant's genuine surprise, Hao Sheng not only refused but also was openly antagonistic (Interview #82, 83).[6] According to the Mao Mao informant, almost everyone else in the industry had been kind and helpful, some even reaching out to newcomers.

It is important to note that Hao Sheng was not, and still is not, under any sort of obligation to share information with rivals or potential entrants. At the end of the day, they have gathered information by trial and error and research. Rivals and potential entrants are free to do the same.[7] However, this also does not diminish the fact that Hao Sheng was just as uncooperative with newcomers as they were with incumbents.

Hao Sheng used a few specific incidents to justify their secrecy. The first, Hao Sheng claimed,

[5] I say *alleged* informality because Hao Sheng did not have hard proof of informality. They had never seen the licenses or permits of the other firms (or lack thereof). Therefore, their accusations were speculative.

[6] In classic bully fashion, Hao Sheng's strategies often became personal and sometimes included physical threats.

[7] In fact, Hao Sheng had a somewhat antiquated view that new firms needed to go through the same painstaking and costly process that they had if they wanted to enter the industry in China, like a hazing ritual.

occurred during the early stages of business development. A rival firm, which I refer to as "Xiao Niao," attempted to trademark Hao Sheng's brewery name and logo. In all of my interviews no one else confirmed this story, or even made reference to it. Many informants, however, reported that Hao Sheng had actually been guilty of committing that exact offense against Kuai Pijiu. Some even said that they checked with the Chinese registry and that this rumor was true – Hao Sheng had actually trademarked Kuai Pijiu's name (Interviews #2, 54, 78, 91). This information quickly reverberated through the entire community.

My own observation regarding this quarrel is that it was in fact an overblown misunderstanding. There were, indeed, similarities between some of the Chinese craft breweries branding and marketing. However, it is questionable whether this was an intentional strategy akin to intellectual property theft. I believe that it was done, in part, due to the discourse among community members and consumers about the coming "Chinese Craft Beer Revolution." As China has decades of revolutionary images and sayings to draw upon, more than one brewery has used elements from Chinese history in logos, firm names, beer names, and marketing materials.[8]

Similarly, many of the craft breweries have made, and still make, beers using "traditional" Chinese ingredients, including jasmine flowers or tea (*molihua cha*), goji berries (*gouqi*), Sichuan peppercorns (*hua jiao*), watermelon (*xi gua*), and chestnuts (*li zi*), to name but a few. These are not an attempt to copy Hao Sheng, but an attempt to use Chinese culture and history to attract Chinese consumers.[9] Despite this very real possibility, Hao Sheng continued to use uncooperative strategies against their rivals.

Another strategy, and area of conflict for Hao Sheng, is regarding beer festivals. Though the brewery has attended at least one corporate-sponsored beer festival, they quickly decided that not only did they not want to support multinational endeavors, but they themselves would put on a "proper" craft

[8]This is a phenomenon that I found peculiar in some cases, as neither the Great Leap Forward nor the Cultural Revolution have positive associations in the minds of many, if not most, Chinese consumers. Nevertheless, many beer labels and logos include icons such as hammer and sickles and iron fists. At least five craft breweries have a beer, usually a simple lager or pale ale, which has the word 'workers' in the beer name as well.

[9]Many Chinese consumers and home brewers expressed that they thought that this was also evidence of a lack of creativity and understanding about not only Chinese history but also consumer behavior. They did not care enough about this fact not to consume beer with this style of marketing, though.

beer festival. They worked to convince rival craft beer firms, and their brewers specifically, not to participate because the other festivals "were not really about craft beer." Many informants speculated that this was just another strategy employed by Hao Sheng to control the development of the industry (Interviews #2, 25, 34, 54, 78, 91)

Regardless of their motivations, it was still uncooperative. They also scheduled at least one festival so that it overlapped with another previously scheduled festival. This confirmed most informants' beliefs about their rival. Minimally, the behavior was territorial, and definitely inspired a debate over who had, and has, the right to put on craft beer festivals. For dedicated craft enthusiasts, craft festivals should not be sponsored by, let alone organized by, multinational firms.[10] Though some in the Chinese industry, and others around the world, might agree with this sentiment, it came off as a decidedly hostile strategy.

Due to Hao Sheng's aggressive reputation in the industry, many of the craft breweries continued, and still continue, to participate in the multinational beer festivals. Those that do not participate in them do sometimes opt to participate in other craft breweries' festivals rather than Hao Sheng's; others try to participate in both to keep the peace. However, participation is expensive and transporting kegs for longer distances is expensive and difficult. This makes it difficult to discern if some firms were not attending due to financial constraints or due to conflicts with Hao Sheng.

Hao Sheng has also occasionally hosted invite-only beer festivals in order to exclude some craft breweries, as well as any multinational beer company. Exclusion was based upon perceived low quality of the beer made at that brewery, knowledge of a firm's informal operations, attendance at multinational events, and on occasion, simple personality clashes.

To be sure, Hao Sheng's reputation is that they are the most difficult firm to work with amongst almost everyone in the industry, including consumers. A casual consumer of craft beer in the city reported

> When they started off, their beer was okay. I went to their small shop a few times with friends and spent quite a bit of money there, but [the brewer and owners] were rude to

[10] To be fair, in subsequent interviews with a festival organizer, they continually emphasized that the company's main service was events and entertainment, not craft beer. The company was also able to claim that they did in fact provide a wide variety of beers, as multinationals have a quite diverse portfolio of products at this point. And, of course they care about craft industry growth, because that meant growth for the beer industry generally.

> customers. They even yelled at them and made customers feel stupid. I decided that even if their beer was okay and not much else was available that I did not want to support them (Interview #56).

But according to one of the owners, they were only aggressive towards those who deserved it – particularly customers or other brewers that they believed to be spying on their business, taking photographs of their equipment set up, and so on. According to their framework, they were first on the scene and they had to battle every single new entrant to prevent them from stealing their ideas, recipes, branding, marketing, and business. They also believed that early entrance status, or being among the first breweries established, gave them an informal leadership status (Interview #67).

It is important to note that this leadership role was only by virtue of being an early entrant and was not recognized by everyone in the industry. For example, though the firm did have some interaction with Chinese homebrew associations, they badmouthed the home brewers, their brewing acumen, and their beers. This was reciprocated in kind by the home brewers, many of whom openly refused to patronize Hao Sheng's establishments. Though this may appear to be petty behavior, home brew associations are important to the development of the craft beer industry in China and any other market. Home brew associations draw in members who have an interest in beer and make them devotees. It drums up domestic interest in learning more about brewing and even motivates some home brewers to become craft brewers. Thus, this behavior was not merely trifling; it was hostile and uncooperative. It also stifles creativity and optimism about the industry.

Despite being consistently uncooperative with others in the industry, Hao Sheng expanded quickly. By 2014, Hao Sheng had grown out of the home brew side street setup and had built up multiple locations within the city. Each location had a full bar and restaurant, with visible brew tanks in the space. Reportedly they set up their brewpubs in this way so as to make it easier for themselves to comply with regulations. Having a brewpub was, in terms of regulatory burden, much easier to set up and run than a full-on brewery (Interviews #67, 75). They also believed that having physical locations where they served their beer was proof that Hao Sheng was committed to the Chinese industry for the long haul. They chided others who did not do the same for potentially violating the law and not really being "all-in."

It is unclear if these protectionist and bullish strategies actually aided in the growth of the firm or if it was a matter of luck and timing. Hao Sheng was one of few craft beer options early on, meaning, consumers did not have much to choose from.[11].

5.3.2 Gan Bei

Of all of the breweries in China that I contacted, Gan Bei was the only brewery that never returned any of my emails, texts, or phone calls. Even after getting personalized referrals, which is sometimes necessary when doing research, they did not respond. Outside informants rarely referred to the owners by name and many had never met them. This even included owners and brewers of other craft breweries in the same city. Indeed, their avoidance of me aligned with a consistent pattern of behavior of not participating in the community. Informants regularly spoke about Gan Bei as an outsider, but still a craft brewery, with their brewers and other staff being integrated (or not) into the craft community on a case-by-case basis. Fortunately I was finally able to interview an employee of Gan Bei (Interviews #3, 10, 15, 51, 67, 78).

Like Hao Sheng, from the start Gan Bei was uncooperative. However, their uncooperative strategies were more passive and non-participatory. Informants reported that Gan Bei never shared any information, did not correspond with other brewers or owners, and had no relationship with the local home brewers' association. They regularly opted themselves out of cooperating with other the early entrants. For example, informants reported that during the early stages of development the firm relied solely upon domestic sourcing for ingredients and equipment. They would not share their sourcing information, nor would they consider cooperative buying and warehousing. This was problematic for many of the firm's brewers, particularly the foreign brewers, as they felt that the owners not only restricted their creativity, but also dampened, if not completely sacrificed, the quality of the beer.

This meant that the brewery cycled, somewhat quickly, through brewers and assistant brewers, all of which have been foreign men. Of the few inside informants that I was able to interview, most reported that the brewers were trying to gain experience in brewing and wanted to stay at Gan Bei

[11] As Comcast illustrates, if consumers have no choice, the product does not have to be good quality, nor does service have to be quick or reliable.

long term. However, they were not sure how long they would last because they felt as though the ownership were not letting them do their job. Brewers that pushed hard against management and the owners either quit or were eventually fired (Interviews #56, 81).

The brewery sometimes participated in craft beer festivals; however, it did not always attend the "right" beer festivals. For example, Gan Bei attended at least one beer festival whose primary sponsor was AB InBev. They sporadically attended beer festivals hosted by other craft breweries but were inconsistent in their support and attendance (Interview #58). Gan Bei's variation in beer festival attendance, according to my observations and multiple informants, showed Gan Bei's ownership preferred to attend corporate events because they wanted to be seen as a larger brewery with more productive capacity. They also believed that because Chinese consumers are very brand-conscious, and attend the corporate beer festivals at a higher rate, that it was more fruitful to attend multinational-sponsored events. Given the large number of attendees, primarily Chinese, Gan Bei regularly sold out of all of its beer by the end of the corporate festivals. Combined with the fact that their brewpubs are often packed, it is hard to say that this loner strategy has not paid off, at least in the short term.

Finally, aside from this passive uncooperative attitude, informants consistently reported that Gan Bei did not have any troubles with the local government, or at least did not have any conflict that informants were aware of. This is rare. Almost every owner of a beer bar, brewpub, or brewery reported problems with, minimally, the police and *chengguan* on a continual basis. Nearly every informant assumed this was due to a longstanding relationship between the local government officials and the older European investors, who had, through other business in the city, obtained "good old boy" status.

To prove their point, many pointed to the fact that Gan Bei was apparently not asked to close its doors on the date of a high-level government meeting when all the other rival firms were required to do so.[12] This was only speculation as it is just as likely that Gan Bei was outside of the radius impacted by the meeting, and thus was left alone.

Gan Bei was able to stay in business, despite sub par quality, for a few reasons. First, the busi-

[12] It is not uncommon for roads and businesses to be shut down during high-level government meetings, international or domestic. Sometimes the closures are temporary, sometimes they are permanent. The Chinese government has also extended this courtesy to various international sporting events.

ness was, and continues to be, in a central location with a lot of restaurant space (in terms of square footage). This is extremely hard to come by in many Chinese cities. The rumor was that the older European investors had secured real estate in the area many years prior, when foreigners were first investing in China. No one outside the firm seemed to quite know if this was true or not. There may be some truth to this claim. However, after my fieldwork research ended I discovered, independently of my informants, that Gan Bei had previously been a subsidiary of Carlsberg, and was sold to Tsingtao due to its poor performance. Gan Bei is, therefore, actually a subsidiary of a multinational beverage company that occasionally makes a few craft beers.

Second, while Gan Bei's beer would not cut it with most American craft beer snobs, their beer was drinkable and no worse than most Chinese brands. Thus, their brewpubs were often full of both Chinese and foreign consumers. Similar to Hao Sheng, they are seen as unhelpful and uncooperative with the rest of the industry. Dissimilar to Hao Sheng, however, is that their isolation from the rest of the craft community and industry may not have a negative effect, as they are actually owned by a multinational.

This case illustrates some important points. First, any information that is received by actors in the industry is considered potentially true. Nearly every single informant that knew of Gan Bei believed that the firm was in the craft industry. Second, knowledge within the industry about the status of other firms, in terms of ownership and intentions, remains thin. While some in the food and beverage industry may have known that Gan Bei had been owned by Carlsberg in the past, newcomers and even some veterans did not. Employee turnover combined with the quickly changing terrain of the industry meant the loss of organizational history and information. Paradoxically, the fact that so few in the industry knew that Gan Bei was owned by a multinational may have actually worked in their favor.

5.3.3 Mao Mao Pijiu

Investors of Mao Mao Pijiu entered China in 2014 with the specific intent of starting a craft brewery. Unlike Hao Sheng, Mao Mao was not started by a home brewer and unlike Gan Bei, it was not owned or invested in by a multinational. Mao Mao was the product of a foreign investor intentionally seeking out a Chinese partner to start a craft brewpub. The foreign investor could not speak Mandarin and the Chinese partner could not speak English. An informant reported that often other brewery staff would have to translate when the two interacted. It was unclear if the two were joint partners or if the Chinese partner was the majority partner ((Interviews #43, 75).

The foreign investor was directly involved on site: choosing a real estate location, renovating the space, hiring staff, as well as working in the brew house and learning how to use new equipment from other brewers. The investor was not a trained brewer, nor did he have home brewing experience. In interviews with the investor, he was quite positive and believed that the industry was wide open with huge potential for profit. He interested in the industry as a smart investment, not as hobby or passion.

The Chinese partner, however, was largely absent throughout the setting up of the brewpub. He was reported to have disappeared for several weeks at a time, and later for months at a time. Despite these internal communication problems, the firm proceeded with developing the business. They bought tanks and fermenters, found a real estate space, rented it, filled it with new brewing equipment, and renovated the entire space. They had even hired a brewer and began to buy ingredients. They were ready to open their doors and start brewing. However, they were stuck waiting on the partner to provide the licenses. After months of delays and no movement, the brewer quit. The business quickly fell apart soon after (Interviews #62, 84)

This firm is an interesting case. Unlike Gan Bei and Hao Sheng, Mao Mao's internal firm-level problems were so intense that they contributed to their strategy vis-à-vis their rivals. They also ultimately caused the firm to fail.

For example, Mao Mao contributed to both the local and national industry rumor mill. They disparaged the local incumbent firms, quite publicly, primarily about the quality of their beer (Interviews #42, 91, 93). This strained their relationship with rival firms and, in the end, the investor had no one to turn to for help when the Chinese partner deserted the project. While most of the neighboring rival firms were smaller operations than Mao Mao, their local understanding and industry knowledge could have helped Mao Mao's investor find a new partner, or at least introduced them to some interested parties. This is not unrealistic or unlikely. Reporters, distributors, and potential investors contact many Chinese craft breweries almost daily.

In addition to treating rival firms poorly, before the business opened, informants from inside and outside of the firm reported that Mao Mao had had conflict with the local government. They had difficulties in obtaining the necessary permits to brew beer legally and they also had problems with the state-owned energy provider who refused to provide the operation with the amount of power required to use the brewing equipment. According to the investor, he paid a sizable bribe to a local official in order to get gas lines put in (Interview # 92).

Why did this influence Mao Mao to be uncooperative with their competitors? According to informants, as well as my own observations, the bribe was a point of pride for the investor. They readily told many in the industry, in order to demonstrate that they knew how to do business in China and could "throw their weight around." Basically, because it involved a large sum of money and it went undiscovered and unpunished, it emboldened Mao Mao to act out against rivals. Unfortunately for Mao Mao, the bribe proved yet another useless loss in the end.

5.3.4 Analysis of uncooperative firms

What, then, explains why Hao Sheng, Gan Bei, and Mao Mao, three very different firms, used uncooperative strategies vis-à-vis their rivals? Did increased size make Hao Sheng aggressive? This remains unclear. In the case of Hao Sheng, they used uncooperative strategies even as a small, informal craft beer bar. They were hostile from the time that the business started. Mao Mao and Gan Bei, unlike Hao Sheng and many of the more cooperative craft breweries, started off relatively large.

What about early entrance status? Not necessarily, because then we would expect more early entrants to behave similarly. However, two firms behaved in an uncooperative manner while the remaining early entrants were mostly cooperative, or at least used a mix of strategies. This raises the question: does early entrant status carry any meaningful effect on firm strategy and behavior over time?

For Hao Sheng, early entrance meant that they could claim leadership status and this belief has had a long-term effect on the competitive strategies that they use. To the contrary, Gan Bei does not place much importance on their early entrance. It is not advertised and they make few claims to the industry. This is likely influenced by their history as a subsidiary of foreign multinational firms.

On the other hand, Mao Mao attempted to enter the industry at least five years after Gan Bei and Hao Sheng. Mao Mao's behavior was somewhat influenced by the fact that they were not early entrants. They believed that they had more information, better information, newer equipment, and therefore better chances at success than their predecessors. Like Gan Bei, they therefore did not put much stock in developing relationships with other local breweries or in cultivating consumer knowledge. Mao Mao did, however, attempt to forge relationships with other important actors in the industry, with the exception of Hao Sheng.

One glaring difference between Gan Bei and other breweries that use uncooperative strategies is that Gan Bei is owned by multinational. Gan Bei therefore had less of an incentive to developing ties to the industry, as the owners of the subsidiary viewed the brewpub as just one investment of many. This also explains their lack of interest in craft beer as anything other than a profit generator, as evidence by their treatment of their own employees and their decision to continue to buy low-quality ingredients even as better ingredients became more accessible and somewhat more affordable.

Hao Sheng and Mao Mao, on the other hand, had left their previous occupations or businesses to start small craft breweries and be entrepreneurs. Hao Sheng believed that they had put everything on the line for the business and, therefore, they vigilantly guarded their business as such. Their problems with the local government and local rivals fueled and justified more aggressive strategies.

Hao Sheng's situation was quite different from Mao Mao, though Mao Mao did not have other investment plans or businesses either. Mao Mao was able to enter (or nearly enter) the market as a full-fledged, relatively large, brewpub with state-of-the-art equipment and easily-accessible ingredients. Hao Sheng started off small and had very little help in their setup process. At the time, no one knew where to get quality ingredients domestically and importing ingredients was outside of their budget.

Therefore in Mao Mao's case, uncooperative strategies were partially due to their overestimation of their knowledge of China and, maybe more importantly, an overestimation of their position within the industry. They perceived bribing a local official to be proof of their business acumen and business power. If they could "handle" the Chinese government, which they regularly mentioned to competitors in casual conversation, then other firms should be weary. However, to many, bragging about bribing an official was actually evidence that they lacked critical contemporary knowledge of Chinese politics and business.

Xi Jinping had already started his anti-corruption campaign, prior to Mao Mao's attempt to enter the craft market. Informants in the food and business industry noticed a shift in official behavior. One veteran explained that through the early to mid 2000s, officials from various bureaus would show up around Chinese New Year expecting a red envelope filled with cash – the implicit meaning being that if you pay up, then you would be less likely to have problems with that particular official or department in the upcoming year. By time of my fieldwork in 2013-2014 this was no longer a regular practice by government officials. However, rent-seekers do not stop being rent-seekers overnight. Some officials and bureaus figured out more clever ways to extract rents. For example, while inspecting brewpubs or bars the fire bureau would ask if they wanted to buy fire safety manuals. Many firms complied with the request, purchased multiple manuals, and promptly retired them either to the trash or a storage closet.

This is all to say: context matters, and in order for firms to be successful they need up-to-date information on the business environment. Doing business in emerging markets can be more nuanced than in OECD contexts. Conditions can also change quickly.

While Mao Mao and Hao Sheng were aware that their behaviors were uncooperative, it is important to emphasize that they also believed that the strategies were within the bounds of the law. However, in many cases, firms neither understood nor knew all of the relevant regulations that govern the industry. Many firms, and the actors within them, therefore base their understanding of the laws that regulate the beer industry upon information that they received from other brewers or firm owners. Indeed, the Chinese regulatory system creates an environment that causes confusion even to leading experts and scholars. The rules are dysfunctional, hard to know and even more difficult to follow, and thus are often elided by firms when doing business.

For example, according to an informant from inside a firm I refer to as "Ning," discussed in detail below, to their knowledge it was not possible to get a distribution license and therefore, they believed that they were not breaking any laws by distributing to restaurants and bars that they did not own. The law does state that products can be distributed legally, without a QS mark or distribution license, within firms that have identical ownership. So, if a brewery owner owns another restaurant, they can brew at one location and transport kegs to serve at another location of theirs legally. However, they cannot distribute outside of their own business(es) and any firm that distributes or sells alcohol must have a permit to do so. Even if the likelihood that a craft brewery would be able to obtain a distribution license is zero, distributing without a license to outside firms remains illegal.

Another common misconception was that if a real estate owner would lease a craft brewery a space, it was legal for them to produce and sell beer from that location. To the contrary, owners often lease spaces that are zoned for residential use only even though, according to Chinese law, they should be in a building zoned for commercial use.

Some of this misunderstanding stems from the fact that zoning laws, like many others, are unevenly enforced in China. For example, a popular drinking street in Shanghai was residentially zoned. All of the buildings were apartments and the owners would lease out the bottom two floors to various bars, bottle shops, and restaurants. However, other residents complained incessantly. However, the local government allowed the businesses to remain open for years and interference was largely mundane. *Chengguan* regularly patrolled the street and forced bar patrons indoors after ten o'clock at night in order to reduce noise complaints from residents. Residents retaliated by dumping trash and water out their windows on to unsuspecting consumers. For most of the businesses, this was an irritant but an acceptable equilibrium due to the profitability of the industry. As time went on, and no one was closed down or fined, the community sentiment was that they were, mostly, in compliance with the law. Otherwise, why had the Chinese government not come for them?

In 2016 the district government issued a notice that they were cracking down on the businesses on the street. All firms were threatened with increased taxation for operating commercial businesses, which also indicated that the street was either going to be re-developed and/or rezoned to be more profitable. Some firms were threatened with fines for operating without the proper permits, with an emphasis on those that did not have the proper license required to sell alcohol. Other firms closed voluntarily before they could be punished or subjected to additional taxes. Nearly all of the firms and many consumers expressed shock about what they perceived to be sudden and arbitrary enforcement. While the local government's enforcement of regulations regarding commercial activity in residentially zoned areas was somewhat out of the blue, the fact remains that many of these firms were not following basic regulations regarding zoning and many were engaged in informal or illegal operations. Just because the government did not enforce the law did not change the fact that the firms were indeed violating regulations.

These cases highlight a problem that is unique to emerging markets, and emerging markets working under autocratic governments in particular. Uneven enforcement of regulations can create a false sense of security among firms. Small firms in immature industries, who may have less sophisticated knowledge due to information asymmetries or lack of training, are disproportionately affected by these problems. The cases also demonstrate that small firms in emerging markets often rely upon others in the industry for information, or informal sources of information, and this may include potentially incorrect information regarding legal compliance.

5.4 Firms that use cooperative strategies

5.4.1 Wu DF

Wu DF, like Hao Sheng, started off as a small homebrew operation. As it expanded, eventually Wu DF needed to upgrade their equipment and apply for the necessary licenses and permits. As the home brewer did not want to run a restaurant, he applied to register his business as a brewery. They bought equipment, sourced materials domestically, and started to brew. Though the government had previously granted the various licenses to the business, the regulations governing the food and beverage industry changed. An informant from Wu DF explained,

> Their terms change every year. It could be a short in their brain, or they heard rumors on the street. Whatever they feel like. When we first started up a small size brewery, it was okay. Sent the application in, then we got approved. This was 2008. So we find a place, then we get all the licenses, we bought the equipment, we start a brewery. A year later in June 2009 there is a new law, called the Food Safety Law. In that law, it stipulated all food manufacturers, including beverages, need to get a QS logo – every brewery needs to get a QS. So we need to get a QS as well. Then we go back to the [expletive] me department[13], and say we need approval. Then the department said look the law has changed, we are no longer giving permission or licenses to small breweries of your size. No more. So we can't get a license. We run into that obstacle pretty hard. In the next year, at the end of 2010 there is another bureau, called Quality Inspection Bureau, who is in charge of quality. Like food, they are the ones that give the QS logo. They came to inspect us and they find out that we are selling some beer to some bars, illegally, so they shut us down (Interview #25).

As part of this shut down the department issued a fine of 240,000 RMB. However, Wu DF stood their ground and refused to pay, in part because they did not have the funds to do so, and shut down the business. The government then threatened to confiscate the brewery's equipment. Wu DF explained their response to this conflict with the government:

> My strategy is if they come I will give them a hard time. I will even insult them. I will make sure that they do not want to come back anymore. I want them to know I am a hardball to play with Here's what I did. My rent is 10,000 RMB, I said I will give you a month to take my equipment. The fine against us did not say anything about breaking walls or pipes. I said 'alright, if you break my wall, this wall is going to be 10,000 RMB, this pipe is going to be 10,000 RMB, and here are the total costs, I will give you a month. And if you do not take the equipment away, I will charge you that amount plus my people's salaries.' So they look at it but they did not have anything to move [the equipment], because the fermenters are huge. If they take it, then they have to store it and they cannot use it [because they do not know how]. I knew if they took [the equipment] away they would put it on auction. I told them if they did that that I would just buy it back and I would tell everyone else to not bid on it. I will buy it all and I can get away without paying fine. I already closed the business. So after six months I sent them a bill and that bill was already more than fine that they gave me. I already told them 'here is your money, I have given you warnings, six months later you owe me money now.' It has been two years. In two years they did not do anything. The brewing equipment is still there (Interview #25).

The local authorities attempted to enforce the law and fine Wu DF but they ultimately failed. The equipment was never taken and the fine was never paid. Why exactly they did not follow through on punishing the firm, however, is a more complicated question. Wu DF's assessment that agency did not have the capacity to seize and store the equipment is likely true. The inability of regulators to do their

[13]More formally known as the AQSIQ.

jobs due to a lack of resources is a common problem still in China, and most emerging markets, and will be further discussed in the next chapter. However, why the government did not freeze other assets and bank accounts when Wu DF refused to pay the fine is unclear. The Chinese government maintains strict control over the banking industry and authorities have frozen accounts for lesser infractions or even simply during investigations with no cause provided. Another potential explanation is that the regulatory authority had bigger fish to fry (and likely to profit from). Regardless, by 2010-11 Wu DF was back to brewing (Interviews #25, 43, 51).

Despite being a 'hardball' when dealing with the Chinese government, and clearly having a very serious conflict with local authorities, the strategies that Wu DF has used, and continues to use, to cope with its competitors are generally cooperative and collaborative. To start with, Wu DF has provided many rivals and potential entrants, as well as interested investors, with a plethora of information. They have shared information on: where and how to source affordable ingredients, which sellers had higher quality ingredients and more reliability, as well as trustworthy equipment manufacturers. Aside from this valuable information, Wu DF often answered technical questions from home brewers and those new to the industry regarding the art of brewing. They regularly interacted with other brewers, of all skill levels and nationalities, and sometimes hosted private beer tastings. According to Wu DF, they believed that this was essential to developing a beer culture in China. Consumers needed information and exposure, but so did those interested in entering the industry (Interviews #25, 26).

They also collaborated with other brewers, participated in many different types of events and beer festivals, and were inclusive in their efforts to host events. This includes participating in some multinational-sponsored events, as well as cooperating with multinational sponsors for their own events. They made efforts to visit new breweries, attended conferences and meetings, and worked to encourage ingredient producers, including hop growers from Yakima, Washington, to export to the Chinese market at reasonable prices. These strategies were inclusive and many were mutually beneficial. They even helped to raise funds for Zhang Wei after a fire (Interview #25).

Hao Sheng claimed that Wu DF was not doing any of this out of altruism, but to promote their brand. This is not necessarily untrue. However, it is also implies that the intention was entirely selfish.

That is untrue. Wu DF informants continually emphasized that they believed that the entire industry needed to grow and that everyone, including incumbent firms, could benefit from more transparency and open-source information (Interviews #25, 31, 34, 43). An owner reported to me that they thought there were enough spoils to be had by all and "a rising tide lifts all boats."

Hao Sheng's assessment also fails to recognize that many of the craft brewery employees and brewers developed collaborative business relationships, and even friendships. This was certainly the case with the relationship between Wu DF and Zhang Wei. Cultivating these relationships, working with other brewers, and sharing information require significant time, resources, and effort. Many rivals were either unable, or unwilling, to do the same.

However, this patience was not limitless and though Wu DF primarily used cooperative strategies, there were occasional exceptions. One of those exceptions, unsurprisingly, was when dealing with Hao Sheng. Hao Sheng not only spread rumors about the quality of Wu DF's beer, but also about their business practices, their intentions, and their abilities. Wu DF therefore selectively refused to be in attendance at more than one of Hao Sheng's events (Interviews #25, 26, 31). It is important to note that, as previously mentioned, many otherwise cooperative firms responded similarly to Hao Sheng's bullying. Therefore, this behavior was not specific to Wu DF nor can the generalization be made that Wu DF was uncooperative.

Like Hao Sheng, Wu DF's strategies have paid off. They managed to circumvent the authorities and regulations by sub-contracting with larger manufacturers who already had the necessarily permits and licenses to distribute beer (usually kegs, but increasingly bottles or cans), including the QS logo.[14] Wu DF has also had a surge in interested investors and has been able to expand their distribution to other cities. They also now have multiple locations and over 80 staff members.

[14] Like nearly every choice that a craft brewer can make, this method too has been the subject of criticism and debate. In truth, it is not a perfect solution as sub-contractors may deprioritize craft beer production due to its low volume (and therefore less profitability). This could lead to delays in production and some have speculated that it most certainly comes with major quality control problems, a fact verified by Wu DF and at least two other sub-contracting firms. Finding the right sub-contractor and a trustworthy sub-contractor is also not easy.

5.4.2 Xiao Niao

Another brewery that used cooperative strategies is a firm I refer to as “Xiao Niao.” Xiao Niao is a partnership between two Chinese partners – both with some experience brewing but neither formally trained. At their brewpub, Xiao Niao regularly hosted primarily Chinese consumers. They led home brew tutorials for interested consumers, shared brewing tips and techniques, and provided information about the industry quite freely (Interviews #57, 58)

Xiao Niao, like Zhang Wei, was sometimes the subject of rumors in the industry; however, they also rarely spread rumors themselves. In fact, they did not even respond to Hao Sheng’s accusations about copying their trademark and logo. When asked in interviews, Xiao Niao informants simply replied that it was untrue and that Hao Sheng was always accusing someone of something. Like many others, they described Hao Sheng as paranoid and wanting to control the industry.

Despite these attacks, Xiao Niao regularly attended beer festivals, including Hao Sheng’s. According to one of the partners, they were focused on the beer and creating a beer culture in China, which was expensive and therefore, they believed, it had to be collaborative (Interview #76). Not attending certain beer festivals out of spite was not worth limiting their exposure to a huge number of Chinese consumers, nor was it worth wasting the opportunity to contribute to a thriving community.

Wu DF, Xiao Niao, and Zhang Wei also participated in numerous craft beer group chats on the popular Chinese app Weixin[15], relaying information about their own events, answering questions for newcomers, sharing information about where to get certain beers, and new brewpubs. This contrasts sharply to firms, such as Hao Sheng and Wang Fang, who often publicly belittled and mocked participants that asked questions they felt were too basic or stupid.

Being cooperative, however, came at a cost for Xiao Niao. This is not to say that the time spent educating consumers, attending beer festivals, and teaching young brewers will not pay off or that it is valueless. However, Xiao Niao has grown much more slowly than its competitors. When they expanded to two locations, the quality of the beer suffered. This was primarily because the new location

[15]WeChat in the rest of the world.

was not well-monitored nor were the staff well-trained.[16] The new location was in a prime nightlife area and, in theory, should have been easily filled with patrons. However, it was often empty.

Why would Xiao Niao use these strategies, knowing the costs, but remain cooperative anyway? Among some home brewers, Xiao Niao was an important and respected Chinese craft brewery. They were generous in their time, and in their demeanor, and they were willing to talk with just about anyone just so that they could introduce them to their beers. Xiao Niao also did not use its early-entrance status to claim leadership; they just made beer and helped other people learn how to make, and be passionate about, beer. Xiao Niao's behavior indicates that, for some, there is value in craft beer that goes beyond monetary value.

5.4.3 Zhang Wei

As discussed in the introduction, Zhang Wei approached their business and the industry with an air of aloofness and always, without exception, used cooperative strategies when dealing with competitors. The firm sent representatives, who traveled quite far, to participate in some beer festivals and conferences. It did not matter whose festival or conference it was. They also did not contribute or participate in any industry rumors, nor did they make complaints about rival firms (some beer bars or bottle shops, not necessarily breweries) who were supposed to be featuring their beer but poured it as either their own or an unnamed local beer, conveniently served in a glass with the rival firm's name on it. For even the most cooperative of firms, including Wu DF and Xiao Niao, this would have been an over-the-top encroachment. It was also a serious violation of community norms. However, Zhang Wei shrugged it off, kept their noses to the grindstone, and kept producing beer (Interviews #1, 3, 13).

As previously noted, even Hao Sheng, who had negative comments or gossip about nearly everyone in the industry, praised Zhang Wei. Hao Sheng used Zhang Wei as a model firm, one that everyone should imitate because they were formal and had secured the various required licenses and permits.

[16] Actually staff training, and in particular Chinese staff training, was lacking at almost every firm I visited. Bartenders, waiters, and waitresses rarely knew the difference between beer types, which is not ideal when the consumers are being served new products that they know nothing about. It is also suboptimal when dealing with consumers that actually know about beer, as they often were frustrated because staff were unable to recommend, or even describe, the products available. Other problem areas concerned the temperature to properly store and serve the beer, carbonation levels, clean keg lines, and pouring techniques.

Unbeknownst to Hao Sheng, Zhang Wei did not, in fact, have the proper licenses and permits, but they were distributing beer in more than ten cities nationally.

Approximately a year after Hao Sheng's praise, likely due to the growing visibility of the firm, the authorities halted operations at Zhang Wei. The firm was fined for distributing without a license and was ordered to stay shut down until the fine was paid. Hao Sheng, and other firms that pushed formality, had very little to say regarding Zhang Wei's self-inflicted situation. The business closed for a bit while Zhang Wei weighed their options. Eventually they decided that they would just pay the fine and accept the loss in order to keep the business. A few short weeks after they paid, the factory caught fire ((Interviews #3, 15, 91, 97).[17]

Many craft breweries offered up kegs and beers to help fundraise for rebuilding efforts. This was definitely a result of Zhang Wei's cooperative behavior towards their competitors. As previously noted, Wu DF led the effort to help Zhang Wei rebuild. Since the government shut and their reopening, Zhang Wei has not changed their strategy. They remain hesitant and avoidant of all government authorities, but their approach toward competitors remains the same. They continue to be cooperative. They participate in events and informants consistently reported that Zhang Wei never made any attempts to hurt the reputation of other firms or start trouble of any sort. The firm even continued to sell their beer to the firms that took credit for producing their beer. When asked about why they would not take action, a Zhang Wei informant made the point that "the government already puts enough obstacles in our way, we do not need to create our own."

5.4.4 Analysis of cooperative firms

Why, despite very serious run-ins with the Chinese government, did Wu DF and Zhang Wei continue to use cooperative strategies? And why was Xiao Niao cooperative, possibly to the extent that they slowed growth of their firm? The answer to this question is actually quite simple. Though Wu DF and Zhang Wei were extremely wary of the Chinese government, this combative mode of thinking did not apply to (most) rival firms. The government was the real problem.

[17] The source of the fire came from a neighboring factory and there was no suspicion of arson.

All three firms started off small and informal, which also made them sympathetic, and thus helpful, to potential entrants and other small craft breweries. Wu DF and Xiao Niao's main problems with rivals were with Hao Sheng. They did not have serious conflicts with any other firms.

Interestingly, Wu DF and Zhang Wei have fared well in terms of firm performance. Both have expanded and attracted outside investors. Unlike the case of Xiao Niao, being cooperative did not seem to have any negative effect on Zhang Wei's growth. Why, then, did Xiao Niao not fare quite as well? One explanation that I have put forth is that they spread themselves too thin by committing to educating consumers and neophyte brewers. This is not only a thankless task, but almost no craft breweries in China have been able to seriously engage in these tasks and somehow profit.

Another possible explanation is that Wu DF and Zhang Wei have prospered due to the influx of much-needed capital by outside investors. This was required for new (and larger) real estate, equipment, higher-quality ingredients, and more staff. Without investment, it is very difficult to stay afloat as a small firm in China and many in the business were acutely aware of this fact. When a rival firm was bought out by multinationals, Wu DF commented that many of the craft breweries could barely keep their doors open, let alone profit, so other firms should not be so quick to judge them for their decision to "sell out."

To my knowledge, Xiao Niao has not had any outside investments and they continue to struggle to grow, though they are faring better than smaller, more informal, and newer firms. It is unclear if their situation is due to lack of trying or lack of interest. Unlike multinational corporations, the logic of some craft breweries is usually not global expansion of production, distribution, and profit. Some small breweries want to stay small and focus on perfecting their favorite styles of beers. Others see brewing as a creative venture and prefer to stay small but have the freedom to experiment with new flavors and ingredients.

Finally, each of these firms, including Xiao Niao, viewed problems with the government as part of doing business. They explained the authorities as a perpetual nuisance, sometimes in the form of annoying cops giving them trouble and sometimes in the form of high-level government officials fining the firm some quarter of a million RMB.[18] They understood that this came with the territory in their new industry under an authoritarian government. Their assessment of this environment was that if anyone was an enemy, it was first and foremost the government and, in some cases, multinational beverage companies – not other craft breweries, who should be their allies. Given their belief that that the Chinese government and the regulations they produce are unfair and obstructive, it unsurprising that many of the more cooperative firms were also the least compliant with regulations. This observation supports arguments put forth by Levi (1988; 1997) regarding compliance: when citizens believe governments or regulations to be legitimate and fair, they are more likely to be compliant.

5.5 Firms that use a combination of strategies

5.5.1 Ning

A relative newcomer to the industry, Ning, has a background story similar to Hao Sheng and Mao Mao. The partners had previously worked corporate jobs, were bored, and wanted to try something new. They forged a relationship with some local food and beverage entrepreneurs in their area and bought some small-scale equipment and started brewing in a shared space. In a few months they were distributing kegs throughout the city. In less than a year's time they were distributing outside of the city (Interviews #67, 68).

This puzzled many rivals, particularly firms that faced problems with securing distribution permits. They wondered – why, exactly, was Ning able to get a distribution license so quickly? Everyone in the industry struggles with this problem and for most, the only solution is to remain small and/or to distribute informally. How did Ning manage that feat? As a result, some firms, particularly relatively large firms like Hao Sheng and Wang Fang, became suspicious of Ning (Interviews #25, 32, 67, 68).

When Ning first started, many informants alleged that Ning was operating completely off the books, without even having registered the business. While no one had hard proof of Ning's licensing or permits, more than one insider at Ning reported that they definitely did not have a license to dis-

[18] The phrase that was often used to describe the everyday harassment was '*gei women mafan*.'

tribute. As noted in the discussion above, Ning reported in interviews that they believed that they did not need a license to distribute and that the law only applied to large multinational corporations that mass-produced and mass-distributed their products.

Suspicion was not allayed by some of Ning's strategies vis-à-vis their competitors. For example, as soon as Ning started making beer, they started participating in beer festivals. They were selective and attended some multinational-sponsored events and some craft-sponsored events. Informants reported that they participated in the craft events in order to make gains with other firms so that they could get information. While this is a basic yet savvy business tactic, Ning did not reciprocate by providing information to other firms or potential entrants.

In addition to not sharing information, multiple informants reported that some of Ning's staff was giving out misinformation about the correct business registration process to rivals (Interviews #45, 48, 63). They were also spreading rumors about nearby competitors and many felt that their participation in craft festivals was solely for the purpose of attracting consumers to their brewery and away from their competitors. In part, this was true. Ning's *modus operandi*, which informants reported and I observed on more than one occasion, was to extract as much information from firms or individuals as possible but never contribute to the community. They had no relationship with any home brewers and they did not work with their local home brew association. They only used group chats and message boards to promote their products and events, but never answered any technical questions. Because Ning had a friendly disposition but still used uncooperative strategies, some of the cooperative firms reported that they felt that Ning was duplicitous. However, most firms were generally cooperative with Ning and they now distribute to even more venues and opened a standalone brewpub of their own.

5.5.2 Wang Fang

As an early entrant, Wang Fang had knowledge of the food and beverage industry in China, as well as the nascent craft brewing industry. Informants from within Wang Fang gave the impression that Wang Fang was an open book and more than willing to share the information that they had – particularly about equipment and ingredients. Indeed, they regularly worked with other craft breweries, making collaborative brews and planning co-hosted events (Interviews #5, 6, 12, 13, 87, 89). However, in subsequent interviews with home brewers, new entrants, and incumbent rivals, even more informants expressed that they believed Wang Fang to use more repressive and malicious strategies than they admitted to.

In particular, interviewees engaged in informal operations continually reported this dual nature of Wang Fang. Like Hao Sheng, Wang Fang denounced informal operations. They claimed that they tried to politely sway various individuals at other firms to either stop operations immediately, formalize, or to at least be careful. A Wang Fang informant stated

> The underground, unlicensed stuff really does concern me. I cannot, it is not my jurisdiction to tell someone how they should do it, especially if they are the owner, but I do try to have a conversation with people once in a while, like 'Hey you know, it is not really how we are supposed to do it.' You know if this becomes a problem because of what they are doing, the unlicensed firms, if they get caught, I am pretty sure eyes are going to be on everyone, not just them. I kind of try, a few of us try to take that leadership role, like 'Hey, be careful' (Interview #12).

While this quote indicates a friendly and casual approach to addressing this issue of informality in the industry, other informants reported that it was neither friendly nor cooperative. One home brewer, with a particularly large and advanced operation, expressed that they felt restrained by Wang Fang and their allies. The home brewer stated

> You know, if you do not have their support and approval, you are not going anywhere. You cannot do anything without their permission. If they do not like you, you are done. They are like the mafia, with their own set of rules that everyone has to follow. I am never going to be able to set up a craft brewery here [in this city] (Interview #69).

This was a sentiment that was not uncommon, particularly among young foreign and Chinese brewers that had had interactions with staff at Wang Fang. For example, another home brewer, who also owned a small beer bar, said that they had no plans of expansion because there was no point. Cognizant of Wang Fang and Hao Sheng's deriding of informal business, they believed that their operation did not have important community support and therefore saw the task as insurmountable. Furthermore, they were well aware that both firms regularly spread rumors about competitors. They did not want to be the subject of their rumors, or be targeted with other uncooperative strategies, and thus were careful not to give out much information about the operation or products to anyone, including me (Interviews #2, 5, 12, 45, 63).

Wang Fang can therefore be categorized as selectively cooperative. They typically used cooperative strategies with relatively large and formal firms, such as Hao Sheng, though a few were known to be distributing beer without a license, such as Ning, discussed below. However, they had minimal contact with smaller or informal firms. They extended information in a very limited fashion and sometimes acted territorial (Interviews #25, 43, 73, 87). For example, an employee of a distribution company reported that Wang Fang wanted control of the craft market and were suspicious of the distribution company doing the beer festival without their explicit approval and participation (Interview #13).

This, in fact, turned out to be true. Wang Fang was suspicious and worried. This was a sentiment that was shared not just between firms that use uncooperative strategies. Many of the more cooperative firms, if not the majority, also expressed the need for the industry to resist being dominated by any multinational drink company. Brewers, in particular, were afraid the quality and diversity of beer would decline immediately (Interviews #1, 23, 25, 34, 67). They were also concerned about cultivating consumer tastes and educating Chinese consumers. They did not want to make the same beer every single day. These are behaviors and beliefs consistent with employees in other "go local," or small-batch, high-quality niche food and drink industries in the United States and Europe. It also mimics the development of the American craft industry in many ways.

Despite these concerns, Wang Fang did little to provide information to newcomers or competitors unless it was in their interest. And though they claimed that developing a beer culture was important to the craft industry, they were very exclusive and did little to develop the community. They had little to do with home brewers and certain staff regularly derided young Chinese brewers who were learning the ropes of brewing and new to the craft industry. In the end, Wang Fang's use of both uncooperative and cooperative strategies paid off and they now have multiple locations.

5.5.3 Analysis of firms that use a mix of strategies

On the one hand, Wang Fang's explanation for taking offense to multinationals controlling craft beer festivals struck the right chord with the craft community. They argued that multinationals do not actually know or care about craft beer.[19] In particular, many felt that a multinational controlling craft beer festivals, which critically includes exposing Chinese consumers to craft beer, many for the first time in their lives, would be akin to McDonald's being in charge of identifying, and exposing consumers to, hot new sources of locally-sustained independent restaurants.

As the Xiao Niao case illustrates, this also suggests that some in the craft beer industry see value in craft beer that is not monetary and, by definition, cannot be provided by multinationals. Some value the process of making the beer – as an art or as a science. Mass production diminishes this value. Many also value the quality and diversity of craft beer. There are millions of potential options and combinations. Consumers could taste 100 pale ales, if they so desired, and it is possible that they would all taste quite different. Mass production requires standardization in order to have economies of scale.

Multinationals can, however, widen their portfolios, to suit many types of consumer demands and tastes. This includes acquiring craft breweries as subsidiaries. As noted in Chapter 2, this is the explicit strategy of AB InBev, the world's largest beverage company. However, the simple fact remains: in the minds of craft beer lovers, multinationals – even their subsidiary craft breweries – are not creative ventures. They exist solely for profit, mass-production, and mass-consumption. Therefore, the beers that they make and sell are no longer perceived to be "true" craft beer, nor are they valued and respected as such.

In terms of firm performance, two firms in this chapter were less successful than their competitors: Mao Mao and Xiao Niao. As I previously explained, Mao Mao used aggressive strategies with their local competitors, in part due to an inflated sense of power and position. Ultimately the business venture collapsed and because Mao Mao was an uncooperative braggart; they could not turn to their local competitors for help, or even advice. They ended up retreating with their tail between their legs.

Xiao Niao's firm performance problems were also, at least somewhat, related to the strategies that they used vis-à-vis competitors. However, unlike Mao Mao, they primarily used cooperative strategies. If Xiao Niao were aware that their cooperative behaviors were detracting from firm profitability, why

[19] Actually many of the sales representatives for multinationals that I interviewed were some of the most knowledgeable people in the industry – about the Chinese craft scene in particular and beer generally.

would they keep using those strategies? The simple answer, again, is that Xiao Niao saw value in craft beer and creating a beer culture. They also saw value in developing and curating Chinese consumer tastes and encouraging young Chinese home brewers to learn more and even receive formal training. This value is more than simple profit.

In a young industry and in an emerging market with very few knowledgeable consumers, this is an incredibly important and valuable strategy in the long-run. Creating craft beer lovers and snobs guarantees growth in the industry because craft beer drinkers are always looking for new beers to try and experience. It will therefore be interesting to observe if, over time, Xiao Niao performs better due to loyal patrons. It will also be interesting to see if using cooperative strategies is sustainable for Xiao Niao in the long run, or if they will eventually resort to uncooperative strategies used by their more successful rivals, such as Hao Sheng, Wang Fang, and Ning.

This actually constitutes a major difference between firms that used cooperative strategies (Wu DF and Zhang Wei) and firms that used mostly uncooperative strategies (Hao Sheng, Gan Bei, and Mao Mao). Firms that were cooperative also had leadership that were serious about creating a beer culture, and community, in China. While the uncooperative firms believed that educating consumers needed to be done, they rarely partook in these activities themselves, and they viewed consumer education as an avenue to attract consumers. Some firms reported that Hao Sheng, Gan Bei, Wang Fang, and Ning were free-riding on the backs of Wu DF and Xiao Niao.[20] Others reported that they believed those firms did not participate in community-building efforts was because they did not understand Chinese consumer behavior. Still others, however, reported that it was not their responsibility, and furthermore, the task was too daunting. The result, however, is that Chinese consumers are still relatively uninformed about craft beer and beer generally.

5.6 Conclusion

Why do firms like Hao Sheng and Mao Mao use uncooperative strategies while others like Xiao Niao and Zhang Wei use cooperative strategies? I have argued that the uncertain, quickly-changing environ-

[20] I informed them that, indeed, their behavior was the exact definition of free-riding.

ment of emerging markets, particularly those under autocratic governments, can not only distort firm beliefs about their competitors but also shape the way that they behave within the industry. Firms that accept government interference as inevitable do not see rivals as their primary problem. They see the authorities and regulations as their primary obstacles to doing business, and therefore are more likely to be cooperative with competitors. Firms that are small and that engage in informal or illegal activities are therefore more likely to be cooperative. This could partially be attributed to their knowledge of the Chinese regulatory landscape. However, they also may be aware that because they are informal and small, they are vulnerable and, eventually, they will have problems because they are doing something illegal. This supports Fligstein's (1996, 663) argument that small firms, particularly those in emerging markets, experience the world as one largely out of their control. They therefore focused on what they could control and what they ultimately valued – creating a beer culture in China.

On the other hand, I have argued that relatively large above-board firms are more likely to use uncooperative strategies. I also argued that conflict with the government makes it more likely that a firm will lean towards aggressive or hostile behaviors. However, this was not the case for either Zhang Wei or Wu DF. Zhang Wei responded to government interference by paying the fine and moving on. Wu DF responded to government interference by challenging them and continuing operations. Both continued to cooperate with rival firms, for the most part.

However, in emerging markets where the government can offer no protection, only negative interference, it is in the interest of small firms to cooperate. Without cooperation, they have to weather the regulatory environment, on top of all of the costs of operating a brewery or brewpub, by themselves. For those that do not have the resources to expand, or to even formalize, the likelihood of failure increases dramatically without cooperation.

Why then did the conflict with authorities influence Mao Mao and Hao Sheng to use uncooperative strategies rather than cooperative ones? Neither Mao Mao nor Hao Sheng were motivated by the desire to create a craft community and develop the industry. They also had more resources to begin with and this may have led them to believe that they did not need to curry favor or make alliances in order to succeed. Both firms had leadership that left other jobs and decided to pursue craft brewing.

In the case of Mao Mao, they were primarily motivated by the profit potential of the Chinese market. Hao Sheng, on the other hand, did claim to be passionate about craft beer. They also wanted to be a leader in the industry, but did little to contribute to growing the community or curating consumer knowledge. However, they did work hard, opened multiple locations, and have profited handsomely.

These cases also illustrate how excessive regulatory and fragmented authority over regulation can cause confusion, create deep information asymmetries, and allows for misinformation regarding compliance to spread through industries. Wu DF's account of the reasoning behind their shut down implicates the 2009 Food Safety Law. As will be detailed in the following chapter, this may not actually be the cause. First, prior to 2009 China had thousands of food safety standards on the books. The 2009 FSL primarily changed the level of authority and the distribution of authority among various ministries. Second, the AQSIQ was put in place in 2001, not to mention its historical predecessors. This means that rules regarding informally producing, distributing, and selling food and drink products have been in place for quite some time.

An additional example of how the Chinese regulatory system has impacted information and thus behavior within the industry is Ning's claim that they did not actually need a distribution license. Confusion regarding compliance lends itself to naïve noncompliance. It also allows for firms and actors to claim ignorance, even when actors have full knowledge of the rules, when the authorities finally come knocking.[21]

Finally, chaos of the regulatory system, quick turnover of staff and firms, and the pervasiveness of informality within the industry contribute to community-wide misinformation. The fact that no one, out of more than a hundred interviews, know that Gan Bei was not a craft brewery and was owned previously by Carlsberg and now Tsingtao, is telling.

[21]On multiple occasions I observed informants denying knowledge of the law and lying about their operations to authorities, rival firms, and consumers. This is a common tactic used against legal enforcement and it applies far beyond the realm of business. For example, as the CCP still tracks and monitors the locations of foreigners in the country and all foreigners are required to register with the local Police Security Bureau (PSB) within 24 hours of arrival. Hotels can do this (and some have been punished for not doing so), but if you have your own apartment or stay in an Air BnB, you are responsible for going to the PSB and registering on your own. Many foreigners violate this rule, however, few are punished. When helping a mutual friend who had failed to register for more than six months, an informant told them that when they went to the PSB that they should 'never tell them the truth, just say no or that you do not know to every question they ask you. Tell them you arrived today. If you admit to anything or tell the truth, it will only cause more problems.' They followed these instructions and were able to register without incident.

Policy implications can be drawn from these findings. For example, when firms use uncooperative strategies, the behavior of potential entrants is altered; they may become less willing to make investments or become an entrepreneur. Multiple home brewers and young brewers expressed their desire to be involved in the budding industry. However, many also lamented that their business would not go anywhere between the costs of regulatory compliance and the hostility of uncooperative firms. Brewing would, at best, remain a hobby.

This is problematic because it means that the behavior of just a few small firms could limit investment into a potentially very lucrative and profitable industry. If small firms behave similarly in other industries, this could mean a large potential loss of investment and ultimately economic growth.

An obvious policy implication and recommendation for the craft industry in China is that small firms need to be considered when regulations are being designed. Many firms never open in China because the regulatory requirements are impossible for them to comply with. Other small firms struggle to keep their doors open due to the high costs of inputs, continued price sensitivity of some Chinese consumers, and a consumer base that is still learning about beer. If small firms are to be an engine of economic growth, then regulations cannot simply be designed for large multinational corporations. A potential solutions to this problem is to reduce the costs of compliance – first, by reducing the costs of licensing and permits and second, by making the regulatory system more transparent and easier to navigate. Small business owners should not need a degree in Chinese law in order to comply with the regulations.

As such, in order for the craft industry in China to grow, the licensing requirements for the QS logos should be revised so craft breweries can afford the license. The production volume requirements are nonsensical for a craft industry, as nano- and micro-brewing is entirely based upon small-batch, high-quality products. If they make more, they will no longer be considered craft breweries. Volume requirements should therefore be eliminated. Having the ability to distribute beyond their own firm will increase profits and likelihood of success of craft breweries in China.

Another regulatory requirement that needs to be reformed is the brew house design commitments. Many craft brewers that have tried to comply with these specifications pointed out that these requirements actually made their factory space less efficient and less safe. Brewers and operational managers, who understand the process and requirements of brewing and brewing safely, should therefore decide (or at least be consulted) when designing brew house layouts based on their technical knowledge and experience.

This relates to bigger problems with regulation in China. Bureaucrats should not arbitrarily decide upon these regulatory requirements, nor should they be applied broadly to every single industry. Regulation, particularly when it comes to food and beverages, needs to be informed regulation. This is in the interest of consumers and public health, as uninformed regulation almost always results in negative externalities. Furthermore, the regulations do not help improve food safety if firms that produce food and beverage are unable to comply with the regulations merely because of their size and resources.

In most countries in the world, those with power and authority design regulations to benefit themselves and to favor their supporters. In the case of China, industrial policies have heavily favored multinational corporations and National Champions, particularly in the food and beverage industry. Chapter 6 addresses this issue.

Chapter 6

China's Predatory Regulatory Regime

> The central government has shifted its emphasis away from pure economic performance and now weighs economic performance and food safety performance with the same level of importance (Ni and Zeng 2009, 1990).

> China Drinking Association thinks that beer is under their control too, so they should help the Quality Inspection Bureau to set up their standards. They think it is their business. They came to talk to me for help and I said [expletive] you both. They all try to change the situation. The problem is there are too many people to who want to play roles, leading roles, because once you are a [government] leader, you get money (Interview #2).

6.1 Introduction

Leading up to the CCP takeover in 1949, China was characterized by many in the West as a "land of famine." According to Mallory (1924) China suffered close to 2000 famines between 100 B.C. and 1879. The North China famine of 1876 to 1879 affected over 100 million people in five Chinese provinces and, at the time, was considered one of the biggest mortality crises ever (Li 1982, 687). Instances of famine did not end, however, with the CCP coming to power. It is estimated that between 15-20 million people in the countryside may have died from famine during the aftermath of the disastrous Great Leap Forward in 1958. Famine, along with issues of agricultural resources and development, are important factors in explaining China's demographic trends over time (Lee 1982; Rawski 1975). It is thus reasonable that food security, or lack thereof, has deeply influenced Chinese culture, society, and politics. Given this history, food safety scandals, especially those in the past decade, have also left a lasting impression on consumers and regulators.

Thus it is counterintuitive that the regulation of the food and beverage industry in China, or anywhere, would be disputed or political. However, it is, and this mirrors international experience regarding the governance of food and drink. According to van Waarden (2006, 35), this is due to the fact that

> the interests of producers diverge. Different countries have different food industries. Some specialize in large-scale mass production and others in smaller and more specialized high-quality niches; accordingly, their dependence on chemical additives or exclusive quality seals may differ. And thus they develop different interests with respect to food standards.

Governance and regulation, in many parts of the world, also reflect national preferences regarding food and drinks. van Waarden (2006, 26) also argues that culture determines what populations find tasty and acceptable and thus “vary in the priority they give to different criteria, such as composition, origin, safety, healthiness, taste, freshness, nonperishability, exclusiveness, quantity of price.”

While consumer culture is certainly important, the most relevant factor for the regulation of the food and beverage industry in China is not the history of famines nor is it Chinese consumer tastes and preferences. Instead, China’s current situation is a reflection of the CCP’s historical use, and continued use, of regulatory authority to benefit the Party and Party members at the expense of citizens and firms. Therefore, the regulatory system remains fragmented – in which multiple regulatory agencies control different aspects of food production, distribution, sale, packaging, importing or exporting. Each agency has an interest in maintaining control because along with regulatory authority comes the possibility of revenue and rents.

This is true for many industries, including beer and other alcohol; however, it is particularly problematic and dangerous when it comes to food and beverage regulation. Bernauer and Caduff (2006, 89) argue that “food is a credence good: consumers are rarely able to reliably assess on their own the safety of food products.” Meaning, often times people are either unaware or lack information about production and distribution of food and drink products. For example, the average person cannot look at a product and know that it has life-threatening microorganisms multiplying within it. Consumers may also lack knowledge regarding proper storage, cooking, and consumption recommendations of food and drinks. This makes the regulation of food and beverage by a neutral third party essential to public health and safety.

According to Hong-Gong and Zeng (2009), the Chinese government realizes this fact and has therefore elevated food safety, which includes the regulation of the production and distribution of beer, to the same status as economic growth. If this is the case, logic dictates that food safety and quality are perceived to be as crucial as economic development to the continued legitimacy and power of the CCP. Examining how the Chinese government and its various ministries use their authority to regulate the food and beverage industry is thus key to understanding firm behavior in emerging markets. It is also relevant to the development of the craft beer industry in China because many of the regulations are applied in a blanket fashion to the majority of food and drink products. Beer, and other alcohol, is also subject to additional scrutiny and regulation from the Ministry of Health, as a product that concerns public health. It is therefore also subject to additional taxation.[1]

Although government entities and academics have claimed that the Chinese government has prioritized food safety, the findings of this chapter are less optimistic. First, the agencies involved with the regulation of food and beverage actively contribute to food safety problems by irresponsibly and unfairly granting some of the largest food and drink companies exemption from safety and quality inspections and quarantines. The melamine-tainted milk scandal in 2008, detailed below, highlights that the highest level agency in the country granted exemption to at least four dairy companies that were directly implicated for buying and selling tainted milk products to Chinese consumers, which resulted in the death of at least six infants and made more than a quarter of a million babies ill. The Chinese government is, therefore, not a neutral third party enforcer.

Second, as illustrated by the final quote at the beginning of this chapter, Chinese regulatory agencies compete viciously for control over supervision of various industries. This is because they know that along with authority and power comes profit. Chinese officials are, first and foremost, profit maximizers. Chinese officials at the highest level have subordinated the Chinese populations' public health interests and economic interests to their own financial interests.[2] As such, it is unsurprising

[1] The WHO (2004) encourages member countries to implement taxes on consumer goods, such as tobacco and alcohol, that are harmful to public health. They, and many others, also consider alcohol and alcoholism to contribute to social problems, such as domestic violence.

[2] Ironically, Mao Zedong (1972) commanded, "at no time and in no circumstance should a Communist place his personal

that China's best efforts to unify its food safety regime thus far have failed. The regulatory system remains fragmented, inefficient, and incapable of ensuring the quality or safety of products sold or made in China. As profit maximizers, it is also no surprise that the regulations that authorities develop tend to explicitly support the largest firms, which typically are the most profitable, while simultaneously disadvantaging the smallest and typically least profitable. This means that most regulatory authorities in China would grant preference to AB InBev or Tsingtao over Xiao Niao, Hao Sheng, or Zhang Wei, and other craft breweries discussed in Chapter 5.

Fragmentation, confusion, and conflict over the authority to regulate the food and beverage industry remain major problems for the government, consumers, producers, distributors, and retailers. Small firms in the industry are disproportionately impacted by regulatory requirements. They are also often caught between myriad authorities that seek to control them when it is beneficial to their offices (usually in the form of revenue from penalties, fines, and licensing fees) but shirk responsibility when it is not. Many interviewees reported that they perceived the authorities to be lazy – they prefer to do nothing unless it is profitable or if their job is on the line (Interviews #25, 34, 36, 47, 51, 53).

I have argued that firm behavior and competitive strategy in emerging markets is largely guided by their political environment and their experiences with the government. Size also matters in that small firms are disproportionately harmed by regulatory requirements because the costs of compliance are high. Paradoxically, though larger firms have more resources to account for these compliance costs, and thus are able to manage the costs more easily, many large companies have been awarded selective exemptions from China's many legal requirements. This includes large domestic companies and multinational brands headquartered in China.

As illustrated by Chapters 4 and 5, in the craft beer industry, craft breweries that use uncooperative strategies vis-à-vis their rivals tend to be relatively larger. They also have a history of conflict with rival firms and are less likely to be informal. On the other hand, breweries that use cooperative strategies tend to be smaller, are more likely to be informal (i.e. operating without a business license

interests first; he should subordinate them to the interests of the nation and the masses. Hence, selfishness, slacking, corruption, seeking the limelight, and so on, are most contemptible, while selflessness, working with all one's energy, whole-hearted devotion to public duty, and quiet hard work will command respect.

or formal registration), and less likely to be early entrants to the industry. As regulation is designed to benefit CCP officials and larger firms, it is no surprise that the smaller, sometimes informal, firms must find ways to cooperate in order to stay in business.

6.1.1 Chapter Roadmap

This chapter therefore examines the contemporary regulatory institutions that govern the brewing industry in China and further analyzes how those institutions influence small firms. In the following section, I outline the primary ministries and institutions that governed the food and beverage industry role from 1949-1977. In particular, I focus on detailing the CCP Alcohol Monopoly, the role of the Ministry of Light Industry, and the role Ministry of Health. I then move on to the Reform and Opening period and discuss various attempts by the government to centralize food and drug regulation, first with the 1995 Food Safety Law, then the consolidation of the Administration for Quality, Inspection, Supervision, and Quarantine (AQSIQ) by the Ministry of Commerce in 2001.

In the final section, which begins after China's accession to the World Trade Organization (WTO) in 2001, I discuss the failure of the Chinese government and its various regulatory authorities to protect consumers and promote small and medium size firms, climaxing in the milk powder scandal in 2008. I then discuss the resulting Food Safety Law of 2009 and the restructuring of the ministerial-level Chinese Food and Drug Administration in 2013. I conclude by outlining how small craft breweries have been impacted by these various regulatory authorities and reforms and provide policy recommendations.

6.2 Food safety, production, and distribution in a command economy (1949-1977)

6.2.1 The CCP alcohol monopoly

Under the old system of command and control from 1949 to 1977, regulation of the food industry involved multiple economic sectors and many ministries that shared control over regulating production and distribution. Ministries included the Ministry of Light Industry, the Ministry of Food, the Ministry of Agriculture, the Ministry of Chemical Industry, and the Ministry of Commerce. According to Liu (2010, 249), the relationship between the ministries was "a hierarchical system within the government rather than one of regulatory supervision ...primary regulatory power was held by the industrial ministries rather than" the Ministry of Health or other relevant regulatory issue area, such as food safety or environment.

Alcohol, including beer, was also subject to additional regulation. In 1951 the Ministry of Finance issued the Provisional Regulations on Monopoly and established "unified management" over the alcohol industry, which included spirits, wine, and beer (Guo and Huang 2015, 21-22). The central government created the monopoly because the high rate of alcohol consumption meant a potentially large source of government revenue. The monopoly was also supposed to enable the central government to control the amount of grains directed towards the alcohol industry as they attempted to guarantee food security in China. During food shortages grains (wheat, barley, rice, sorghum) can either go to people for food or to produce alcohol, including beer.

Between the failure of the state to provide basic food security and the inability of manufacturers to meet consumer demand in the 1950s and 1960s, rural areas and "other units reverted to crude methods of brewing," which included bootlegging low-quality products, usually high-alcohol spirits (Guo and Huang 2015, 22). In 1963 the State Council issued a notice regarding implementation of the alcohol monopoly, indicating that they had been unable to fully consolidate a monopoly on alcohol production or revenue. It is unclear if this notice actually truncated local informal production operations or not, however, the State Council issued another notice in 1978. Later in the same year the Ministry of

Commerce also issued a directive to local authorities to create local monopolies, consolidating personnel, production, distribution, and retail activities related to alcohol.

According to Guo and Huang (2015), even though the central government had difficulty ensuring its monopoly between 1949-1978, it generated a lot of income and revenue for the government. Even stranger, agricultural productivity was low through the 1960s, for grains and cereals in particular.[3] This is a bit contradictory, as one would assume that if agricultural outputs were low that smaller amounts of grain would be allocated to the production of alcohol, thus reducing the amount of revenue that could be extracted.

6.2.2 The role of the Ministry of Light Industry

During the Mao period, monitoring the quality of alcohol and other fermented beverages produced in state-owned factories was primarily the responsibility of the Ministry of Light Industry. After production and during allocation and distribution process, however, "general food quality control" fell under control of the Ministry of Commerce. The All China Federation of Supply and Marketing Cooperatives (ACFSMC) monitored rural areas separately (Liu 2010, 247).

Liu (2010) also notes the policy tools to ensure food production and safety were not the most scientific nor did they rely upon economic, political, or legal enforcement mechanisms. Instead, the ministries primarily used ideological education, mass campaigns, quality competitions, and some administrative sanctions rather than penalties and fines, prosecution, or judicial review. While one might assume that regulators and consumers during this period suffered from acute information asymmetries, Liu (2010, 250) argues that the structure of the command "softened financial constraints" and thus "decreased commercial drive through deliberate cheating." Meaning, information asymmetries between producers and regulators, as well as between consumers and producers, were not so severe. As such, food safety problems were not rampant.

However, the evidence for Liu's (2010) assertion is unclear; if we consider the incentives of pro-

[3] Guo and Huang (2005) also state, but do not provide any direct evidence, that the use of grain for alcohol production was a main cause of the famine during the Great Leap Forward. Others, such as Lardy (1978) argue that reduced agricultural output combined with increased exports of grains between 1951-1965 was a major cause of food shortages and the resulting famine.

ducers during the early Mao period, it also seems unlikely. For example, Walder (1983) argues that the changes in industrial policy away from the Soviet-style system after 1956 created a ripple effect in social patterns among state-owned enterprise employees. The new industrial policy incorporated a "distinctive reward system, initially designed to undergird Party-directed mass mobilization," which he argues "is the key to these underlying social patterns, because it has had a pervasive but little-understood impact on the exercise of authority in Chinese industry" (Walder 1983, 51).

In particular, rather than being guided by economic incentives, workers were rewarded "for their loyal response to the Party's calls to work hard, to make sacrifices, to develop a deep commitment to Party policies, and to exhibit this commitment in the factory's organized political life" (Walder 1983, 52). Their immediate superiors subjectively evaluated workers on their political activism and attitudes rather than objective indicators of their job performance. Expertise was not valued in this system. This is highly problematic for industries, such and food and beverage, which require expert knowledge to manufacture and distribute products safely. While Liu (2010) may still be right that food and drink safety problems were uncommon, it is also possible that the CCP covered up or did not document these incidents either due to weak capacity or to protect the Party's reputation and legitimacy.[4]

6.2.3 The role of the Ministry of Health

As part of their efforts to regulate the food industry, in the 1950s the Ministry of Health established *weisheng fangyi zhan* (WFZs), or sanitation and anti-epidemic stations, to deal with food hygiene issues. WFZs were intended to be agencies of "preventative, routine health supervision and infectious disease control" with tasks that included environmental, labor, education, and food hygiene (Zhang 1991, 67 quoted in Liu 2010, 247). They were initially established in prefectures and counties, and then were expanded to the township-level by 1959. However, food safety was not a primary focus of WFZs until the 1980s. Despite this, according to Liu (2010) and Ni and Zeng (2009) the majority of cases of food poisoning reported during this period were primarily related to consuming bad or spoiled foods due

[4]The CCP has continually silenced and covered up documentation and research on the extent of the famine during the Great Leap Forward, which resulted in the death of millions. It is therefore not a stretch of the imagination to consider the possibility that they would also want to cover up poisoning citizens that had access to food.

to lack of consumer knowledge, not due to contamination or intentional tampering by producers and manufacturers.

6.3 Alcohol and food regulation early in the Reform and Opening period (1978-2000)

6.3.1 Shifting responsibilities of the ministries

In 1979 the Ministry of Health enacted the Food Hygiene Control Ordinance. This law came about as a result of China's opening in 1978. Within a short period of time, the number of food producers and beer producers skyrocketed, as did distributors, processors, retailers, and restaurants. According to Zhou (2017, 79), a major aspect of the 1979 Ordinance was that it included provisions for a national licensing system for food hygiene, which would be a requirement for any producers or sellers. The government had an interest in licensing because it would allow them to keep track of the food products, producers, as well as the types of ownership that new businesses worked under. The act also prohibited intentional contamination of food or using food additives or packaging that were potentially harmful.

It was eventually "deemed unsatisfactory" due to the "ambiguous description of the role of the judicial and regulatory agencies and its weak sanctions" (Liu 2010, 250). Zhou (2017, 80) claims that the act also increased conflict between food regulators and caused further fragmentation of the regulatory system. Local governments contributed to the ineffectiveness of the law by blocking the inspections to protect their local food industries. Unsurprisingly, food safety deteriorated quickly.

In 1982, authoritative power over food safety regulations was handed over to the Ministry of Health. The Food Hygiene Act of 1982 recommended that manufacturers and other businesses be required to obtain a food safety license as a precondition to obtaining a business license. It also issued additional regulations on food additives and packaging and made it a punishable offense to intentionally add poisons or pathogenic materials to food (Liu 2010, 249). According to Liu (2010, 252), this development was significant for the food and beverage industry because it transformed China's food safety regulatory regime into a third-party regulatory regime, where the role of the local "government was not to interfere with the business activities of companies, but simply to supervise and regulate." In the sections that follow, I argue and present evidence that this assessment regarding China's current regulatory regime is far too optimistic.

In 1990, however, due to the "appalling alcohol management system" the State Council Bureau of Legislative Affairs, the Ministry of Light Industry, as well as other government departments met "to analyze the conspired downfall of the alcohol monopoly management system ...and to determine if it was necessary to revive the system or not" (Guo and Huang 2015, 22). To be clear, these government agencies found the lack of an alcohol monopoly, which would allow their agencies to control and tax any alcoholic beverage, including beer, to be problematic and wanted to reassert control over the industry. This did not stem from concerns regarding quality or safety of the alcoholic beverages being produced. The findings of meeting were used to draft the Alcohol Management Ordinance in 1991; however, it was never implemented and national-level regulations that would standardize alcohol management, including production and distribution, were not established. At the National People's Congress (NPC) in 1991, representatives proposed a draft of a tobacco and alcohol monopoly and in 1995 representatives again suggested that there was a need to draft a law. All attempts to re-monopolize failed.

As part of the administrative reforms that occurred during the Reform and Opening, in 1993 the State Council also abolished several industrial ministries, including the Ministry of Light Industry. According to Luo (1993, 414), the official reason given for elimination was that production and supply was primarily decided by the market, with few large-scale state-owned enterprises remaining, making the ministries that governed them under the command and control economy obsolete. On the surface, this seems plausible. According to Zhou (2017), in 1992 there were 45,000 alcoholic beverage production facilities (of which only 200 were large operations), but by 2013, 5000 had gone bankrupt due to intense competition.

Contrary to their own reasoning for eliminating the ministry, the number of production facilities was further reduced through the 1990s due to explicit policies by the central government that encouraged consolidation. In the 2000s, the central government also provided multinationals with favorable regulations that made it difficult for smaller, less efficient facilities to compete.

Other ministries continued to vie for authority over alcohol production and distribution throughout the 1980s and 1990s. Despite the fact that the Ministry of Health had been given power over food safety regulation in 1982, it was not until the abolition of the Ministry of Light Industry in 1993 that the central government granted legal authority to the WFZs, as well as the legal and supervisory status to the Ministry of Health.[5] This illustrates that even within Chinese ministries, power and authority was granted in an ad hoc fashion, which contributed to fragmentation and confusion over agency responsibilities.

6.3.2 The Food Hygiene Law of 1995

The Food Hygiene Law implemented in 1995 integrated "100 management methods and 500 standards on food hygiene," which the Ministry of Health "adapted and revised" after China qualified to be a World Health Organization (WHO) member (Wang et al. 2009, 426). For example, the 1995 law required the AQSIQ's predecessor to inspect imported and exported food and food additives, packaging, containers, as well as instruments and equipment used in food production. The law also required that any new products needed to submit information to the government regarding the product.

The 1995 law does not include any provisions that are specific to alcoholic products. However, these legal requirements impact the production of beer, particularly among small firms, because craft breweries have more diverse product lines and regularly make new types of beer. If a brewery wants to produce a beer that is different from the beers that have already been registered, in terms of either ingredients or production process, then they are required to submit new spec sheets to the government. As noted in Chapter 2, this is not free and each submission costs roughly $800-$1000 US (Interviews #2, 39, 43, 51).

The majority of the changes implemented between 1979-1993 were not preceded by any scandals

[5]As of 2017, the Ministry of Health remains charged with risk monitoring and assessment of food safety, drafting food safety standards, and reviewing the safety of food, food additives, new materials, and any related products. The ministry also deals with health issues that are related to alcoholism and alcohol-related illnesses.

or major cases of food poisoning, but were instead influenced primarily by economic reforms to industrial policy, as well as the changing structure of the food and beverage sector (Liu 2010; Zhou 2017). Regulatory changes were also deeply affected by government agencies competing for authority over various aspects of the food and beverage industry. With regulatory authority comes the ability to extract revenue and rents from firms and industries. As a result, problems with regulating the production and distribution of the food and beverage industry not only continued but also became more severe throughout the late 1990s and 2000s.

6.4 Post World Trade Organization accession (2001-present)

As the Reform and Opening process continued, China moved towards WTO accession in 2001. China had been a candidate for WTO membership for fifteen years, starting when they applied to join the General Agreement on Tariffs & Trade (GATT). The main aspects of WTO membership were based around opening trade and market access to various industries, though a large component of negotiations were regarding concessions about what industries the Chinese government would maintain strict control over. Through the 1990s grain outputs increased and the food supply was much improved by 1992, thus freeing up grains to be used for alcohol production (Chen 2007, 11). Additionally, many import restrictions, tariffs, and taxes were reduced, increasing the availability of many types of alcohol, including beer and wine. This was, in part, due to explicit policies by the government to encourage consumption. It was also due to the growing disposable incomes of many Chinese citizens, as described at length in Chapter 2.

The result of increased production and consumption of alcohol created tensions within Chinese society as well as within the Chinese government and between the various agencies that claim regulatory authority over various aspects of the production, distribution, and sale of alcohol.

6.4.1 The brief life of an anti-alcohol movement

According to Gillette (2000, 168-169) during the 1980s and 1990s, as more alcohol became available, particularly from the West, the consumption of alcohol was associated with modernization. For Muslims residing in China the growing availability and consumption of alcohol was problematic, as alcohol is one of four products banned by the Qur'an. In her anthropological research in in Xi'an, Gillette (2000) found that small private food businesses proliferated and became quite profitable, partially due to their sale of alcohol, in an area of the city called Barley Market Street. An active anti-alcohol movement developed in response, primarily led by the Hui population, though was also supported by some Han restaurateurs in Hui districts of the city.[6]

The Barley Street Anti-alcohol Committee "condemned alcohol consumption as immoral and causing uncivilized behavior" (Gillette 2000, 184). Though religious concerns were a driving force for prohibition demand, she also argues that members of the anti-alcohol movement used membership to "build their reputation as devout and civic-minded businessmen" and restaurants and factories that purported to be anti-alcohol were very profitable (Gillette 2000, 176-177).

Why is this relevant to the regulatory history of the beer industry? Because ultimately, according to Gillette (2000, 184), alcohol prohibition "worked against modernization" and "restricted and had the goal of totally eliminating a form of consumption that generated money for the economy." This also "challenged the CCP's monopoly on progress and morality," and by June 1997 "the government had quashed the threats posed by anti-alcohol movement and muzzled those who had usurped the official role of 'building a civilized society'" (Gillette 2000, 190-191).

The quick founding and demise of this movement illustrates two important factors that contributed to changes in the alcohol industry, including beer. It demonstrates that the Chinese government explicitly encouraged consumption, including that of alcohol, in order to stimulate the economy and "modernize." It also is an example of the government's continued attempts to shape the Chinese economy and society through mechanisms of authoritarian control, including the regulation and promotion of alcohol.

[6]The Hui people are a minority group in China, the majority of whom are Chinese-speaking Muslims.

6.4.2 The development of the AQSIQ in 2001

With increased consumption came more problems regarding the quality and safety of Chinese products – particularly food and beverage products. In April 2001 the AQSIQ (*Zhonghua renmin gongheguo guojia zhiliang jiandu jianyan jianyi zongju*) was established with a merger of the old quality supervision and inspection department and the exit-entry inspection department. The AQSIQ's primary function was, and still is, to supervise the inspection of imported and exported food and food additives, food containers and packaging, as well as the equipment used in food production (Wang et al. 2009, 426).

As mentioned earlier in this chapter and in Chapter 2, the Chinese government has favored National Champions, large domestic firms, and multinationals in a variety of ways. For example, by the end of 2001, the AQSIQ issued their 12th law regarding "brand supervision." This included the creation of the China Brand Strategy Promotion Committee (*Zhongguo minpai zhanlue tuijin weiyuanhui*), which is supervised by AQSIQ and operated by the China Federation of Industrial Economics (*Zhongguo gongye jingji lianhe hui*).The committee includes government officials, state industry representatives, and industry experts. Companies submit applications to the Brand Promotion Committee to be awarded the status of a "Top Chinese Brand." These applications are evaluated by the Bureau of Technical Supervision and the committee, and given a technical assessment (AQSIQ 2009).

According to the law and Chinese news sources and the AQSIQ, the intent of the committee was to improve the image of Chinese brands abroad and encourage higher-quality production (AQSIQ 2001; Shen 2008). However, a Top Chinese Brand certificate also entitles firms to exemption from some "quality inspections by different departments in different regions" as well as all export inspections by AQSIQ (Esquel 2005). Top Brand products are also prioritized for protection by the government against counterfeiting. To summarize, within eight short months of establishment, the government department in charge of inspecting products for sale or export had written a law that allowed them to bestow the privilege of exemption to select Chinese firms.

In 2005, for example, the AQSIQ awarded Top Brand status to twelve Chinese beer companies: Chongqing Beer, Fujian Xuejin Brewery, Fujian Yanjing Huiquan Brewery, Golden Lion Brewery, Harbin Beer, Hubei Jinlongquan, Jiangsu Regal Beer, Jinwei Beer, Jinxing Beer, and Tibet Lhasa Beer

(AQSIQ 2005). Therefore, each one of these breweries was exempt from at least some inspections domestically and completely exempt from export inspections by Chinese authorities. Given the cost of inspections, in terms of time and money, this awards a huge advantage to Top Brand companies.

Unsurprisingly, affording hundreds of companies per year exemption from inspection did not result in a decline in food safety issues in China. In 2004, the State Council issued an act named the "Decision on Further Food Safety Management." The intention was that different agencies be given control over monitoring different parts of food and drink supply chains, rather than different kinds of food products. It was at that time the AQSIQ was given the authority to issue permits, referred to as the Quality and Safety (QS) mark (*shengchan xuke)*, for the production and distribution of all food and beverage products, including beer.

According to Bai (2007, 483) "the tag of the QS is not only an admission ticket to the market but also an important marker for consumers to discern if products are safe or not" and "to boost consumers' confidence in China's food industry." Bai (2007, 483) goes on to say that this system supposedly "compels a lot of individual workshops under worse operating conditions to wash out from the market." However, Bai (2007, 483) also notes that in surveys from 2001 to 2003, the AQSIQ found that 70 percent of China's food enterprises were firms with fewer than ten workers and therefore enforcement would not be able to eliminate that many firms from the market. Aside from capacity problems, there are also obvious concerns about eliminating 70 percent of consumer food options. This could create food shortages, not to mention that it goes against the central government's policy to promote consumption at all costs.

In addition to using the AQSIQ to serve the interests of themselves and Chinese firms, the AQSIQ has engaged in other behavior that is, at a minimum, questionably helpful for improving food safety and quality in China or promoting small firm growth. For example, one of the first cases filed after China's 2008 Anti-Monopoly Law was passed was against AQSIQ. On the surface this was confusing, even to legal scholars, as monopoly charges are typically filed against firms, not government ministries.

According to Weishaar (2011, 102-103), in 2008 several Beijing and Shanghai companies brought a suit against AQSIQ alleging the government office was operating an administrative monopoly. [7] The conflict started around 2005 when AQSIQ started to promote and eventually forced companies to use an electronic quality control system called the Product Identification and Authentication Tracking System (PIATS). China Credit developed PIATS and the company was, at the time, 30 percent owned by AQSIQ. AQSIQ was then using the money from PIATS to purchase, interest-free, more China Credit shares from its majority shareholder. AQSIQ even went so far as to assign their Deputy Minister as the Chairman of China Credit. As these profits flowed into China Credit's pockets, and thus ASQIS's, competition in the industry was seriously curtailed.

By August 2008 there were 68,500 firms in China using this system for a fee of 600 RMB each. At the time, the Los Angeles Times quoted a lawyer in the lawsuit as saying that this was not just a lawsuit, but also an attempt to fight corruption within government agencies (Lee 2008). The case went nowhere as the court rejected it for procedural reasons (in this case for being beyond the statute of limitations, which was two years from the start of the infringement) (Weisharr 2011, 105).

This perfectly illustrates why Porter's Five Forces, on their own, are insufficient for understanding the nature of competition, and thus competitive firm behavior in emerging markets. Regulatory authorities, such as AQSIQ, in emerging markets may be actively creating market distortions and biasing competition in a much more dramatic way by implementing inefficient, exclusive, and extractive policies. In the case of China, many regulatory authorities and government agencies have found ways to hold onto their monopolies, or create new ones – by charging high prices, forcing sales and purchases of certain products, promoting certain firms over others, or even granting firms exclusive rights to product databases (Weisharr 2011, 103). Furthermore, in autocratic settings with weak rule of law, there is little to no recourse for the firms who have been adversely affected by cheating.

To take this point further, Song and Chen (2010) look at two firm-level surveys of exporting enterprises that comply with foreign food safety regulations between 2008 and 2009. Unsurprisingly,

[7] According to Weishaar (2011, 100) administrative monopolies, and laws against them, are unique to China. He draws on Wang (2008), who says that there are four types of administrative monopolies: 1) local protectionism in the form of local governments using their power to limit access to the market (goods, capital, technology, or labor), 2) government section protection, in which government bureaus provided favoritism for companies under their supervision while obstructing firms that are under the supervision of other government offices, 3) forced trade (requiring purchasing or selling specific goods or services), and 4) when administrative offices establish their own companies and give them exclusive rights.

they report that compliance costs increased over time.

> Building renovation, technological innovation, and testing equipment were major components of total compliance costs. The results of surveys also showed that compliance costs of domestic private enterprises were more than that of foreign-funded enterprises. The compliance costs of small-scale enterprises were more than that of big- and medium-scale enterprises (Song and Chen 2010, 429).

Regulatory authorities, therefore, systematically disadvantage small firms. The AQSIQ decides who gets permits for production, distribution, and sales. They also decide which firms they want to promote to become global brands. AQSIQ has favored, and is likely to continue to favor, firms that they directly profit from or own. Unless a small firm is capable of generating a lot of profit for AQSIQ or becoming a global brand, AQSIQ has no interest in awarding them a QS code nor does it have an interest in granting them select privileges. In fact, they have incentives to intentionally dampen competitiveness and block small- or medium-sized firms from entering the market at all. This runs in contradiction to China's 2003 Law on the Promotion of Small and Medium-Sized Enterprises, which requires local governments to support smaller firms in a variety of ways (Xinhua 2017).

In the 2000s Zhan (2007) argues that there were still five major problems with the Chinese food safety regime, including the regulatory institutions, inspection equipment, industrial structure, enforcement capacity, and financial provision. The following section will highlight some of these issues and discuss how the 2009 Food Safety Law was supposed to fix them.

6.4.3 Food Safety Law of 2009

From 2005 to 2010, the growth rate of the Chinese food industry was 26.2 percent in terms of gross value output (Zhang et al. 2015, 2). Along with growth came increasing problems and concerns over food safety and products made in China, with 2003-2006 being particularly severe. However, China has many national, industry, provincial, and corporate standards for the food and beverage industry generally. Ni and Zeng (2009, 1990) estimate that there were 3000 laws, regulations, rules, and food standards issued prior to 2009. Wang et al. (2009, 428) argue that there were even more, including over 1800 national standards and 2900 standards for the food industry, of which 634 were compulsory.

Though the number of regulations is high, many were outdated and lagged behind the rest of the world. For example, by 2006 the United Kingdom and the United States had banned the use of penicillin, tetracyclines, and pyrimethamine as food additives. Chinese food manufacturers, however, were still legally permitted to continue using those products (Wang et al 2008, 432). Furthermore, many raw materials for certain food products were obtained from "millions of small, poor and uneducated traditional farmers and government support and encouragement for growth but with little emphasis on inspection and safety issues" (Xiu and Klein 2010, 463). At the time, some suggested farmers' and industry associations, as well as "moral persuasion," could help solve the safety problem.

The shortcomings of China's regulatory system came crashing down on Chinese officials and the food and beverage industry in 2008 when the Chinese government was forced to recall infant milk powder that had been tainted by melamine, a chemical that is often use in plastics. In total more than 300,000 babies were poisoned, over 100 of whom experienced acute renal failure, and at least six babies died (Xiu and Klein 2010, 463). Not-so-coincidentally, multiple Chinese dairy companies, including those that bought and sold the tainted products, Sanlu, the Yili Group, Mengniu Dairy Company, and Shanghai Bright Dairy and Food Company, had all at some point been given Top Brand status by the AQSIQ Brand Strategy Promotion Committee. Sanlu, Yili, and Mengniu were stripped of this status after the melamine milk scandal due to their involvement (Dowdle et al. 2013, 206). In this case, conferring preferential status onto these firms not only distorted the market and harmed competitors, but also contributed to a major food safety incident that had long-lasting and wide ranging implications.

Numerous countries banned imports of products that contained Chinese milk as a result of the scandal. More importantly, however, Chinese consumers were outraged and consumer confidence in Chinese products dropped drastically. In a small survey Qiao et al. (2010, 194) found that consumer confidence rebounded quickly after the scandal. However, there is evidence that trust in Chinese dairy brands, and particularly those that produce infant formula, has still not recovered. For example, the amount of formula that was exported from Hong Kong was so high after the melamine scandal that in 2013 the Hong Kong government amended the Import and Export law to prohibit the unlicensed export of milk powder or baby formula to China. It also prohibited individuals from carrying more than "a reasonable quantity" for a child's (age under 36 months) consumption during their travels. If no child is present upon departure, then the total formula must weigh less than 1.8 kilos (Import and Export Regulation 2013). [8]. This suggests that many consumers remained distrustful of Chinese baby formula for at least five years after the incident.

As a result of the melamine scandal and growing distrust of Chinese food products domestically and internationally, the NPC Standing Committee passed the first comprehensive Food Safety Law (FSL) to go into effect on June 1, 2009. Under the 2009 FSL, the central government delegated authority to local governments at the county level or above to supervise and administer food safety, as well as to establish coordination mechanisms between the regulatory authorities locally, improve food safety networks, and share food safety inspection and technical resources (Chapter 1, Article 2). According to Liu (2010, 245) this law was “an attempt to reform the inefficient and fragmented regulatory regime.”

However, according to the 2009 FSL, multiple ministries remain in charge of various aspects of food production and distribution regulation and food safety regulation, including the Chinese FDA, the Ministry of Health, the Ministry of Commerce, the SAIC, and the AQSIQ. Any of these organizations, at the county level or above, are authorized to 1) enter production or trading sites for inspection, 2) conduct sampling inspection, 3) review, copy, seize, or detain contracts, documents and book, and any other relevant information or data from firm, 4) seize and detain any unsafe foods, foods that use illegal additives, or raw materials or contaminated equipment and tools, 5) seize and detain any equipment or tools used for illegal production, 6) shut down illegal production or trading facilities (FSL 2009, Article 77).

Article 80 also requires that “upon receiving any inquiry, complaint, or information from a whistleblower” these ministries must “accept, promptly verify, and deal with” the information and “transfer matters beyond their duty and authority” to the relevant department or higher level of government. They can fine those that produce without a license or using illegally produced equipment anywhere from 2000 RMB to ten times the total value of the commodity (if the commodity value exceeds 10,000 RMB).

[8]Import and Export Regulation 2013 Amendment - Quantity of Powdered Formula for Persons Departing from Hong Kong

Wu DF's shutdown, as discussed in Chapter 5, was a direct result of these regulations. It is important to note, however, that though the authorities did attempt to follow and enforce the regulations, they still fell short. The fine as never paid and the equipment was never confiscated. However, it did have an effect on Wu DF's business operations. The firm is now fully registered and licensed, though they never were granted their own QS code for distribution. Rather than go through the regulatory rigmarole, and likely still be denied, Wu DF opted to sub-contract with larger production facilities that already had all of the necessary permits for distribution.

One potential reason for this slippage is that the FSL of 2009 did not assign clear legal responsibility among departments or ministries regarding the supervision of small production facilities and vendors. Jia and Jukes (2013, 238) note that the AQSIQ is supposed to be responsible for food production and the SAIC is responsible for food trading, however, neither would like to accept the task "as they are concerned about possible incidents occurring." Furthermore, the fines under the FSL 2009 for illegal activities were "still not enough to worry a big enterprise," leading some to suggest that the best penalty may be ejection from the industry altogether.

However, criminal charges can be brought against firms and if they are convicted the penalties can be severe. In addition to the execution of Zheng Xiaoyu, the former head of the FDA, in 2007, two people were executed in connection with the tainted milk powder scandal in 2009. Zhang Yujun was executed for selling 770 tons of tainted product and Geng Jinping, a manager of a milk production center, was executed for supplying melamine-tainted milk to Sanlu and other dairy companies (BBC 2009). Nineteen more individuals were tried and sentenced to prison for terms ranging from two to fifteen years. One individual received a suspended death sentence and three others received life sentences, including the former Sanlu Chairwoman, Tian Wenhua (LaFraniere 2009). Many have speculated, however, that criminal charges are not meted out equitably, let alone in every case of illegal production and distribution or intentional contamination, but rather only in response to cases that inspire public outrage.

The 2009 FSL and the execution of those associated with the infant milk powder scandal appear to not have had an immediate effect on deterring mass-scale food contamination. Zhang et al. (2015, 2) provide myriad examples. In 2006, 2009, and 2010 people were hospitalized after eating meat products tainted by clenbuterol, a chemical that accelerates fat burning and muscle growth but in large doses can lead to death. Later, in April 2011 Shenyang police seized 40 tons of bean sprouts that had been treated with sodium nitrite, urea, antibiotics, and a plant hormone (6-benzaladenine) in order to make the sprouts grow faster and look shinier (Foster 2011). These chemicals are not safe in large doses. Sodium nitrate is often used as a preservative in processed meats and has been linked to cancer and heart disease (Mayo Clinic 2017). Likewise, urea can be found in many foods, but consuming high levels is not advisable for people with kidney issues.

In 2013 and 2014, rumors – on Chinese blogs and via word of mouth – of food tampering and contamination spread quickly among Chinese consumers and were reported by multiple interviewees: eggs that were synthetically manufactured using chemicals, strawberries and meats injected with dyes to appear more red and thus more appealing to consumers, and most famously, restaurants using gutter oil (Interviews #61, 62, 65, 72, 73, 80).

At the same time, the alcoholic beverage industry, as well as bars and restaurants, were plagued with accusations and problems regarding the production, distribution, and sale of fake alcohol. There are two primary ways that this alcohol is produced in China. The first is by reusing branded bottles and refilling them with cheaper alternatives and selling them. The other, which is much more dangerous, is by mixing random dyes and chemicals such as isopropyl alcohol, ethylene glycol, or methanol (Arnstein 2016). Methanol, for example, is highly toxic to humans and overdoses can lead to blindness, coma, and death (New York Times 2013).

Counterfeit alcohol continues to be a massive problem. In 2013, Beijing police raided an operation and seized nearly 40,000 bottles of fake alcohol destined for Sanlitun, a popular expat bar district in Beijing (Melchoir 2013). In 2016, police in Guangzhou busted a ring of fake alcohol producers and confiscated 4000 bottles of counterfeit Remy Martin products, estimated to be valued at three million RMB (Wang 2016). Mostly recently, in 2017, a video went viral of individuals taking empty Budweiser cans, filling them with an unknown liquid from a dish washing container, and resealing them. Aside from selling fake alcohol, many more bars, restaurants, bottle shops, and other retailers sell expired beers, liquors that have been watered down, or pass off top-shelf brands with cheap alternatives.

This is problematic for craft breweries in at least two ways. First of all, sourcing raw materials domestically is not only risky due to the potentially low quality, but also because the raw materials could be contaminated or intentionally tampered with. Therefore many foreign brewers and foreign-owned craft breweries prefer to source ingredients internationally. This increases the price of craft beer dramatically and drives away price-sensitive consumers. It also creates potentially large gaps between breweries that are forced to use domestically-sourced ingredients due to cost and those that can afford to import ingredients. Second, if small firms did receive a batch of tainted ingredients, unbeknownst to them, and they use those ingredients, they could unintentionally poison consumers, which would undoubtedly ruin their reputations and likely put them out of business.

However, one potential positive externality of declining consumer confidence in mass-producers is increased consumption of locally manufactured products or hand-made products. Specifically, as craft beer is marketed as being carefully handcrafted, concerned consumers may turn towards craft beer, believing it to be a safer alternative.

In 2013, further revisions to the structure of food safety regulation resulted in the creation the China Food and Drug Administration (CFDA), which replaced the State Food and Drug Administration (SFDA), and elevated it to a ministerial-level agency. The CDFA was also put directly under the control of the State Council, which is the chief administrative authority of the PRC. Other regulatory institutions that fall directly under the State Council include the China Banking Regulatory Commission, the China Securities Regulatory Commission, the China Insurance Regulatory Commission, and the State Electricity Regulatory Commission. Some may interpret this elevated status may illustrate the importance of food safety to the central government. However, I argue that this is more evidence that the central government remains either unwilling or unable to control its ministries and bureaus, as the system remains fragmented.

6.4.4 Contemporary efforts to regulate alcohol

In 2003, the NDRC convened with various departments, some liquor-, beer-, and wine-producing firms, and the China Brewing Industry Association. As a result, a research plan was issued to determine if there was a need to establish "a complete set of feasible alcohol management approaches" and "found that the monopoly system did not address the situation in relation to national development," leaving the 'free' market to improve the industry (Guo and Huang 2015, 23). Many opposed restarting the alcohol monopoly and due to conflicting interests in maintaining control over different aspects of alcohol regulation and management, no unified alcohol regulatory system has been agreed upon or implemented.

There are many other policy areas related to alcohol that are currently regulated, however. As discussed at length in Chapter 2, there is also a licensing system for retail sales and production. There are no restrictions on off-premise sales in terms of hours, days, or places, there is no legal minimum drinking age, and there are no regulations regarding alcohol-free environment (i.e. there are no open container laws or dry campus and school regulations). The Road Traffic Law outlines restrictions and punishments regarding drunk driving and enforcement falls under the purview of the police.

There are also restrictions on advertising practices per the Regulation of Alcohol Advertising. Specifically, statements encouraging people to drink more or suggesting that drinking is good are prohibited. Alcohol advertisements are also not to show young people drinking nor are they to visually illustrate people drinking while driving. Companies also cannot make unscientific claims about the outcomes of consuming alcohol. There are also restrictions on advertising based on the type of media. Television companies are only allowed to show two alcohol ads from 7 to 9 pm per channel per day and at most ten ads per channel per day all other times. Radios are only permitted to play up to two ads per channel per day and newspapers are prohibited from putting alcohol ads on their front page[9] (Guo and Huang 2015, 25).

Finally, there is a consumption tax on alcohol in China. Beer is subject to a consumption tax (220 RMB per ton) because it falls into one of the five product categories: products whose over-

[9] It is unclear if this includes home pages of Internet news sites.

consumption is harmful to health, public order, and the environment. Aside from beer this also includes products such as tobacco and fireworks. Beer is also subject to the value-added tax (VAT) (Ministry of Finance 2006). According to China Briefing (2016), in 2015 alone the Chinese government received 890.7 billion RMB in consumption tax revenue (close to 150 billion US dollars).

In terms of taxation, imported beers and domestically produced and distributed beers face similar costs.[10] Both are subject to a consumption tax (for imports the rate is 250 RMB per ton if the price after the VAT is paid is less than 370 US dollars per ton, or 220 RMB per ton if it is less) and VAT taxes (17 percent) (ITD 2017). Unlike wine and distilled spirits, beer and malted drinks are not subject to import taxes. The fact that imported beers face taxation levels that are similar to domestic products combined with the enormous population are major reasons why consulting firms and brewing associations have identified China as a market with immense potential.

However, imported beer does face some different costs as part of the import inspection and quarantine process. There are extensive labeling requirements and all labels must be translated into Chinese. The AQSIQ charges importers a fee for translation and for every single label printed and placed on a product. They also require: a commercial invoice, customs value declaration, proof of freight insurance, a packing list, a certificate of origin, a certificate of health, and a certificate of authenticity. All of these documents have associated fees and costs. For example, an American firm would need to pay for the United States government to sign the certificate of origin and they must get a certificate of health completed and signed by an entity other than the supplier or producer. The AQSIQ is also responsible for licensing all importers and exporters of beer (TTB 2017).

6.5 Conclusion

The Chinese government has failed to create a unified system of authority to regulate the alcohol industry, the food and beverage industry, and product safety generally. This failure stems from the fact that government agencies in China, such as the AQSIQ, the SAT, the Ministry of Commerce, and so

[10] The exception being that most beer that is imported is in bottles, which increase the weight and thus consumption tax significantly, and beer that is domestically distributed is not. This is an additional incentive for companies that want to export beer to China to start canning their beers.

on, have a distinct interest in maintaining a fragmented system of authority. Fragmentation allows government agencies to selectively grant rights and privileges to actors or firms so that they can maintain political support and continue to extract revenue and rents. Under the current regime, therefore, stricter standards are unlikely to improve food safety and will likely continue to hinder small business development.

Porter's (1980; 2008) model does account for firms lobbying the government in order to sway regulations in their favor by creating barriers to entry or granting protectionist policies. What his model does not account for is the possibility that the regulatory authorities are directly profiting from the enforcement of regulation through administrative monopolies. Protecting local firms by blocking out competition is a regular occurrence in most emerging markets, and is particularly pervasive in decentralized settings with autocratic governments. More so, Porter's model does not account for the fact that regulatory agencies themselves may own businesses, which they can use to enforce regulations and accumulate even more profit, as in the case of the AQSIQ. Furthermore, because Chinese authorities have an interest in keeping the regulation of the food and beverage, and alcohol in particular, fragmented so that they themselves can profit, these agencies may not be serving the interests of firms, industries, markets, or consumers. This further distorts the market, makes it difficult for small firms to navigate the system and survive, and potentially endangers consumers. The scale of harm that regulatory authorities can commit in emerging markets under authoritarian regimes is much larger than developed markets functioning under democratic government.

One way that many small firms and foreign firms in China have tried to cope with uneven enforcement is by implementing their own standards of operation. According to Bernauer and Caduff (2006, 9) firms do this because "stricter standards may also help firms in shielding themselves from the vagaries associated with changing government regulation and variation in enforcement over time and jurisdictions." This may help explain why Hao Sheng and Wang Fang target small and informal firms with uncooperative strategies who they believe are operating informal – an indirect tactic to defend themselves against the whims of the Chinese government. As previously stated early in the chapter, informants from various types of firms in many industries in China have reported that they adhere to higher labor standards, environmental standards, and so on, because they believe that if there is ever a problem with the authorities or a government crackdown within their industry that this will somehow protect them.

Firms like Zhang Wei and Wu DF, on the other hand, continually emphasized the arbitrary nature of enforcement. As noted in Chapter 5, when an informant from Wu DF was asked in an interview about why they thought inspectors came to shut them down, they replied that it could have been due to a jealous rival snitching on them, but then added "it could be a short in their brain or they heard rumors on the street. Whatever they feel like" (Interview #25). The arbitrary and unfair nature of regulation may therefore incentivize small firms to not comply with the law, because they do not understand it, it is too costly, and/or it is too difficult. This puts firms and consumers at risk.

In order to cope with this risk, the smallest craft breweries and breweries operating informally therefore using cooperative competitive strategies. Multinational corporations, National Champions, and other large domestic Chinese brands, combined with the extractive nature of the regulatory system make it nearly impossible to succeed otherwise. Though larger than most craft breweries, Mao Mao failed before it even opened. It is also likely that Hao Sheng's uncooperative strategies would have been much more costly if they did not have outside investors to buffer their operations and help them grow. Wu DF, Zhang Wei, and Xiao Niao all may have had to close their doors if it were not for their cooperative efforts.

If the central government wants to protect consumers and encourage small business development, more constraints need to put on all government agencies. The AQSIQ, nor any other regulatory authority, should be permitted to own businesses, nor should any government officials be individuals with clear conflicts of interest. Government agencies should also not be allowed to grant exemption to firms in industries that could potentially put the public, or the environment, at risk. Self-regulation of firms is not in the interest of public safety, nor is it in the interest of further developing markets in China, as it will only cause more distortions. The current situation amounts to little more than corruption at the highest level – officials and the agencies that they run are using public positions of authority and power for private gain.

Chapter 7

Conclusion

> New cases keep appearing. And they not only continue but have a snowball effect: the more it is seen that such things can be gotten away with, the more attractive they become to entrepreneurs who exploit the weak as means to get rich and to the interest groups, including corrupt local officials, who stand behind those entrepreneurs by providing them with protective umbrellas in return for a slice of the profits … the truth is that in China the underworld and officialdom have interpenetrated and become one. Criminal elements have become officialized as officials have become criminalized (Liu Xiaobo 2012, 102).

> Regulation and competition are rhetorical friends and deadly enemies: over the doorway of every regulatory agency … should be carved: Competition Not Admitted (Stigler 1975, 183).

Stigler's (1971; 1975) theory of regulation continues to play out in developed and emerging markets. Actors regularly capture the very regulatory agencies that are supposed to be monitoring and inspecting them. As much of the world has experienced a period of deregulation starting in the 1980s, including the United States, China has experienced hyper regulation. Indeed, many of the observations and findings in this dissertation corroborate Hseuh's (2011, 3) argument that "China only appears to be a more liberal state" and though it must comply with WTO requirements, its ultimate goal is to maintain control over the economy. In the case of food safety and alcohol policy, while the markets have opened up and there is no official alcohol monopoly, it is clear that the central government and its various ministries are doing anything but allowing an Invisible Hand guide and develop the market.

Further, while Liu Xiabo's (2012) quote was in reply to a question regarding how and why the Chinese government could allow child labor and continual labor rights violations to happen, his logic can be applied to many other policy areas. How did the Chinese government, with its huge amount of regulatory requirements and bureaucratic hold-ups, miss the melamine-tainted milk? Local officials and their related agencies granted permission and protection to large dairy firms by exempting them from inspections and ignoring the problem until it was too late. Action by any one of the authorities to truly supervise and monitor these companies, or even conduct a single product inspection, could have saved the lives of six babies and would have prevented hundreds of other babies from having life-long health problems associated with the poisoning.

This relates to small firm behavior in emerging markets, particularly those in the food and beverage industry, in a multitude of ways. First, food safety scandals and public have encouraged Chinese authorities to create new legislation and edit existing laws. Small firms rarely have a direct line to these offices and therefore there are serious information problems that contribute to the continuing informality of many firms in the food and beverage industry, including restaurants, bars, and craft breweries. Second, large firm-government collusion provides incentives for large firms to cheat the system because they know they will be protected. It also provides incentives for small firms to cooperate because they know that they will not protected by the government. They are at such a disadvantage within the market that the smallest firms will not survive unless they either cooperate or happen upon outside investment.

The puzzles that motivate this dissertation First, what explains small firm competitive behavior in emerging markets? Why do some firms lean toward cooperative strategies, working with rivals to share information and knowledge while other firms refuse to take part? On the one hand, uncooperative strategies should be assumed and should be the norm. Under systems of anarchy, with no coordination mechanisms, actors rarely cooperate (Axelrod 1984; Axelrod and Keohane 1985). Why would firms cooperate then, especially if others are being uncooperative by cheating and scheming their way to larger and larger profits? Are cooperative firms naïve? Will they die out or change their strategies as time goes on?

I have argued that firms in China use cooperative strategies when they are small and/or informal because of the myriad obstacles the regulatory system has generated. The costs of compliance are too high and large firms receive many privileges not afforded to small firms. Small firms therefore must cooperate in order to survive. Those who do not cooperate must have other significant advantages, in terms of early entrance status and larger size, or an influx of investment.

Firms that are uncooperative but survive and prosper are rare. Hao Sheng's callous and hostile treatment of other firms has isolated them from many in the industry. Despite this, business is booming. How did that happen? Hao Sheng does have occasional cooperative interactions with other firms, but only with a select group of larger, formal firms that were also early entrants. This behavior could also be perceived as uncooperative by other firms due to the exclusivity associated. Either way, it is possible that their very limited amount of cooperation may have played a role in in their success. In this case there was also a large investment.

Yet, other firms that used uncooperative strategies, like Mao Mao, have not fared as well. Mao Mao failed despite the fact that they had more resources than many of their rivals. Their bold, haughty attitude with local firms ultimately meant that Mao Mao had no one to turn to when one of the partners disappeared. This again illustrates the necessity of cooperation. On the other hand, Gan Bei has remained open and profitable since Tsingtao bought it from Carlsberg. Why then be uncooperative? As a multinational subsidiary, they have little interest in developing the craft industry in China. They are therefore very likely to continue using uncooperative strategies as they do not need alliances with small firms to stay afloat or build their business.

This dissertation has also contributed a large collection of information on the craft industry in China, as well as a data set of craft breweries in China through the end of 2016. Using this data set, Chapter 4 provides quantitative evidence that prior negative experiences with the government or rivals, as well as relatively large size and early entrance status, decreases the probability that a firm will use a cooperative strategy rather than an uncooperative strategy. Some behaviors may seem irrational or counterproductive..Chapter 4 also demonstrates that there is a statistically significant relationship, though weak, between using uncooperative strategies and firm performance. In this case, firms that use uncooperative strategies are more likely to have multiple locations, a proxy used to approximate financial well-being or growth.

The current regulatory regime imposes many negative externalities upon small firms. It is chaotic and fragmented and characterized by multiple government actors who are all trying to grab a piece of revenue and profit from the industry and the firms within it. This system of dividing the spoils between different government bureaus results in 1) high costs for small firms, which many cannot afford, 2) incentives for small firms to be noncompliant, and 3) incentives for informal firms to remain informal. This jeopardizes the potential of small firms to grow in the long-run. It also decreases the ability of the state to enforce rule of law. If firms do not register, who do they inspect? And what is worse, what do they do if the majority of the restaurants and shops that people go to are informal, as Bai (2007, 483) suggests? If they closed them all down, there would be food shortages.

Many governments in developing countries focus on attracting FDI from large multinationals rather than supporting small business development. One positive externality of this favoritism is that it encourages small firms to cooperate. Without cooperation, many small and/or informal firms would quickly die off.

The Wu DF case illustrates many of these points.They were subject to interference from multiple agencies. Wu DF did apply for a production and distribution license, indicating that they initially attempted to run the brewery according to the law. Despite that, within one year the rules had changed, and different agencies began to try to assert their claims on regulating the firm. The result was that Wu DF initially operated informally and distributed to many bars and restaurants without a license, which eventually lead to a shut down.

How Wu DF survived being shut down illustrates some important points about small firm behavior in emerging markets. First, Wu DF refused to back down. They were not afraid of the authorities and even claimed to have insulted them. Second, they also threatened to bill the authorities for any damages to the brewery or equipment, as well as lost wages for their employees. This worked – the government never seized the equipment and Wu DF never paid the fine that they were charged. This shows that even when authorities in China do attempt to enforce the law they are not always successful. In fact, the perceived unfairness of arbitrary enforcement may embolden some actors to continue to violate the rules on principle. Thus, there are myriad ways that the central government and its regulatory authorities encourage noncompliance with their own standards.

7.1 Predatory Chinese regulatory agencies

The struggle to unify control of the Chinese alcohol industry, including craft beer, stems from an interest by the central government to increase their revenue. Regardless, the system remains fragmented as multiple authorities within the Chinese government battle for a piece of the profits that are being reaped from increased alcohol consumption since the 1990s.

In the early years of Mao's reign there were at least eight government bodies who held some sort of responsibility related to the regulation of food and alcohol: the State Council, the Ministry of Finance, the Ministry of Light Industry, the Ministry of Chemical Industry, the Ministry of Food, the Ministry of Agriculture, the Ministry of Health, the Ministry of Commerce, and the ACFSMC. Because the number of state-owned breweries was limited, infrastructure was weak or nonexistent, and distribution networks were poor, many local areas created their own breweries for spirits, wine, and beer. Many of those small firms only had contact with their local governments and minimal contact with the other ministries. Later, in the 1990s, local governments fought tooth and nail to protect their local breweries from outside competition.

In contrast, in 2017 a small craft brewery will interact with no less than ten authorities: the State Council, the Ministry of Agriculture, the SAIC, the Ministry of Commerce, the AQSIQ, the Ministry of Health, the State Administration for Taxation, the Chinese FDA, the State Administration for Film and Television, to name but a few. Meaning, a brewery operating in China during the supposed process of liberalization has to deal with more government agencies and regulations than firms operating under complete state control prior to 1979. Unlike the Mao period, I found no evidence in interviews, news sources, or government documents that municipal level governments or district-level governments have made protectionist policies or policies that privilege small businesses and grassroots entrepreneurship. Rather, they continue to support and try to attract investment from Fortune 500 companies in order to meet CES promotion targets and get a share of the returns that these multinationals will surely reap in China.

Large multinational food and beverage companies and large domestic brands have been able to profit handsomely and have greatly contributed to China's development. Nonetheless, the astronomical growth was, at least in part, made possible by unfair practices, cheating, and favorable regulation. Selective rights were and still are regularly granted upon multinationals: fewer taxes, fewer inspections, less trouble qualifying for production and distribution licenses, a cheap labor supply, to name but a few benefits. If we look outside food and beverage, local governments continually make exceptions for multinationals. For example, to attract Foxconn to their local areas, local governments built worker dorms, recruited workers, attempted to (illegally) use interns for free labor, and granted the firm tax exemptions (Berliner et al. 2015).

The tight relationship between multinational firms and National Champions is evident in the beer industry as well. In 2009, the then Chairman of Tsingtao Brewery, Jin Zhiguo, proposed his own alcohol policy to the NPC. Though this law referenced the responsibility of alcohol producers to go green, the law was primarily with regard to alcohol counterfeiters. He noted that the counterfeiting problem must be addressed more seriously by the central government because there were public health issues involved with the production and distribution of fake alcohol in China. This law was publicly supported by other large domestic companies in the liquor and beer business including: Maotai, Wuliangye, Yangjing Brewery, and Changyu Wine (Sohu Business 2009).

This is a policy that is in the interest of the craft beer industry in China, as brewers continually reported that they worried about intellectual property theft and counterfeiters. One informant explained that he dealt with this problem by not complying with regulations requiring firms to send in spec sheets of every new brewery. They stated

> I never send in the spec sheets. I do not even save my recipes on my computer. I make one, print it, delete it, and keep a paper copy hidden somewhere, not at the brewery. I don't know what the government will do with them – give them Tsingtao? Or Snow? (Interview #3)

Tsingtao, Maotai, and the other large firms were motivated by the enormous potential loss of profit due to damaged brand reputations and direct sales to bars, restaurants, and other retailers. The potential loss of revenue is huge. As readers may recall from Chapter 6, a single bust by the Beijing police resulted in the seizure of counterfeit Remy Martin products valued at nearly three million RMB (Wang

2016). While this is a serious problem, the problems that small firms face in emerging markets and in China are qualitatively different. Craft breweries, and other small firms, struggle to comply with basic regulations and to keep their doors open. Making millions, or hundreds of millions, of RMB per year is an unreachable fantasy for most.

This is not to say that small firms have not benefited in any way from the Reform and Opening. While the gap between the rich and poor and urban and rural areas continues to widen, it is undeniable that standards of living have improved and hundreds of millions of Chinese citizens have been pulled out of abject poverty (primarily by their own hard work and ability to *chi ku* or eat bitterness). In fact, it is almost hard to imagine how different China was just 70 years ago – the days of state-run grocers, ration tickets, and constant product shortages are gone. Rather than a land of famine, for many Chinese citizens China has turned into a land of plenty and opportunity. Indeed, the loosening of the economic restrictions exacted on Chinese population allowed millions to transform their lives. It is also why craft breweries and other small private firms are able to exist in China, much less prosper.

But prospering is still harder than it needs to be for small firms. Many craft breweries reported in interviews that they did not make a profit for anywhere from one to five years after opening (Interviews #2, 3, 5, 12, 23, 41, 52, 53). Others reported spending time on events, such as beer festivals and tastings, or other activities such as teaching Chinese people how to brew, which were neither profitable nor sustainable (Interviews #4, 43, 47, 78). Surely, during the 1990s even multinational beverage companies, such as AB InBev and Carlsberg, struggled to gain a foothold in Mainland China. Initially, it appeared that local Chinese brands were going to be the big winners of liberalization. They knew Chinese consumers, many of whom were price sensitive and loyal to their local brands, and they were able to make technological improvements and increase productivity quickly by cheaply acquiring and consolidating other local breweries.

Despite these terrible hardships, AB InBev has managed to become the largest multinational beverage company in the world. As of 2017 it is so large that it currently stands in violation of antitrust laws of multiple countries. Further detailed in Chapter 2, after buying out SABMiller, AB InBev was forced to sell its shares of China Resources Snow back to China Resources, making the largest single producer of beer in the world, by volume, a state-owned enterprise. In order to expand its portfolio and address consumer demands for better beers and different style of beers AB InBev has also acquired craft breweries and craft beer bars in the United States and China. Goose Island now has taprooms in multiple cities in China and Shanghai's Boxing Cat Brewery and Kaiba are now AB InBev subsidiaries. How deeply these acquisitions will impact the craft beer industry and small brewery behavior in China remains to be seen.

We do know that small firms in every industry face regulatory pressures and restrictions. If the restrictions continue and small business development stalls out, it is possible that the constantly changing regulatory system is setting the Chinese economy up for a huge loss. The government receives no tax revenues from informal businesses, and therefore has less to spend on improving infrastructure and public services, not to mention economic development. Furthermore, given that small firms are a major source of job creation according to both the ILO and the World Bank, this also risks much needed employment for citizens.

Granting preference to select multinationals and National Champions results in a standardization of product that many consumers are increasingly uninterested in. As the beer culture grows in China, consumers will not be seeking out Tsingtao and Yanjing. They will be seeking out new beers from Wu DF, Zhang Wei, Xiao Niao, Wang Fang, Hao Sheng, Gan Bei, and other small breweries that can brew unique products for the changing and increasingly sophisticated tastes of Chinese consumers. The only way that multinationals can provide this service is by acquiring craft breweries. As previously stated, for diehard craft lovers this is a suboptimal outcome as most favor independent small craft breweries.[1]

[1]Firms in the United States that have been acquired by multinationals are, of course, doing financially well. This is primarily because AB InBev can provide a massive distribution network for their beer, which not only increases their sales but also exposes a broader population to their products.

7.2 Porter's performance in an emerging market under an authoritarian regime

While some aspects of the craft brewery experience reflected in Porter's Model do play out in the case of the Chinese craft industry, it falls short in several ways.

Property rights, contract rights, and intellectual property rights are regularly violated in China, including in the craft industry. When these rights are awarded and enforced, the Chinese government does not act as a neutral third party arbitrator. Instead, it enforces selectively and for its own benefit. Government officials and the agencies that they work under regularly interact and collude in order to eliminate competition and extract more profits. The model does not account for the possibility that the government itself may be a co-conspirator. Thus, even if government policy changes, the environment that governments create for emerging markets strongly influences firm behavior.

As discussed in Chapter 2, the Chinese government intentionally created a high degree of rivalry between some firms in the 1990s and 2000s by encouraging consolidation and the elimination of hundreds of small firms. The intention was to stifle competition and discourage new entrants (in the 1990s foreign multinationals, in the 2000s small breweries). The government has intentionally limited the number of products on the general market by refusing to grant small craft breweries licenses to distribute outside of their businesses. The Chinese government has also thus far been unable to curtail counterfeiting of alcohol, which further distorts the market and the perceived availability of products and services.

China implemented an antitrust law in 2008, but so far it is unclear if the law will have a major impact on the behavior of large multinational companies and National Champions. AB InBev was still able to acquire two small craft operations in Shanghai, though they did lose part ownership of China Resources Snow. China's antitrust law can be used to control and constrain government agencies from selectively and unfairly awarding property rights and special statuses to some firms. It could also be used to stop ministries and bureaus from using their public positions to generate profit for their own businesses. This is may be the only way that administrative monopolies will end.

Finally, a major problem with Porter's model is based upon the idea that uncertainty is low and information about the industry and regulatory authorities are correct and freely available. This is absolutely untrue in the Chinese case. In fact, information and misinformation problems in the craft beer industry incentivize many to stay informal, to not comply with other laws, and to engage in other illegal behaviors.

7.3 Eager Investors Beware

For those interested in investing in the craft beer industry in China, a few lessons should be clear. First, though the Chinese economy has liberalized in some ways, the craft beer industry is small and markets in China are new and imperfect. This means that the conditions of the market and industry can quickly change. Second, consulting a lawyer, or at least experts in the Chinese food and beverage industry, is highly recommended. Information from the community is valuable, particularly regarding domestic sources for quality ingredients and equipment. However, it should not be relied upon for investment decisions or ensuring that everyday operations comply with Chinese law. Misinformation is common and often not to the fault of the smart and talented individuals who work within the industry. The rules change quickly and local authorities vary in the amount of power they wish to exert over the craft beer industry, which makes generalizations and certainties very difficult.

Third, there are serious information asymmetries between small firms and the government due to the fragmented nature of regulatory authority when it comes to the food and beverage industry, including beer. As noted above, investors in the craft beer industry should expect to deal with no less than ten different government authorities.

Fourth, small business owners and entrepreneurs should expect that enforcement of regulations to be uneven, even if arbitrary or inapplicable to small firms. Information needs to be gathered for every local area – not just regarding competitors, but also regulations specific to that location or product. Firms should also not get too comfortable and assume that the rules will never be enforced. One certainty in China is that as soon as it is beneficial for any one of the many ministries to interfere or enforce the rules, they will. The experiences of Mao Mao, Wu DF, and Zhang Wei should all serve as cautionary tales: do not get too comfortable, do not assume you know everything, and always expect trouble, in one way or another, from the Chinese government.

On a positive note, the craft beer community is quickly growing and a beer culture is slowly developing in China. Educating consumers will pay off in the long run if small craft breweries can manage to stay open, improve the quality of their products, and attract more consumers. Consumption patterns have shifted towards luxury goods as well as unique experiences – including those that can be found in the food and beverage industry. There is still huge potential for growth and development, but investors and owners should not underestimate the ability of the Chinese government to intrude on a business however they please.

7.4 Policy Recommendations

7.4.1 Small Firms

With regards to small firms as an engine of national-level growth, many policy recommendations can be drawn from the findings of this dissertation. First and foremost, if China is serious about small business growth and development, the central government must stop exempting large Chinese companies from the regulatory requirements that are applied to smaller or less well-known firms. These privileges are given to firms in order to encourage and support them in their efforts to become global brands. However, this sort of regulatory manipulation and blatant favoritism, which can hardly called a form of healthy capitalism, suppresses competition and makes it difficult for small firms to comply with the law. It also makes it hard for small firms to remain open.

Xi Jinping announced in 2012 that the promotion of small businesses was a vital part of the government's plan for continued economic growth. This cannot be done under the current regulatory system. Bureaus at every level need to have incentives to encourage the growth of small firms. One way to do this is by including small firm growth, small firm development, and small firm employment numbers on cadre evaluations. Local governments could also aid small firms by lowering tax rates or providing them with credits for creating a certain number of jobs.

Most importantly, the CCP needs to seriously consider what types of legal and political institutions they can create to constrain the ministries and other government agencies from predating on small firms. They also need to restrain ministries from selectively granting preferable regulations to multinationals, large Chinese brands, or even firms that the ministry itself owns. This is key not only for small business development, but also for the reduction of government corruption at the highest level.

7.4.2 Food Safety

The largest firms should shoulder the cost of ensuring compliance and guaranteeing a safer food and drink supply for the Chinese population. Mass-producers have the largest reach, the most consumers, and the deepest pockets. They can easily absorb the costs of compliance; small firms cannot. Given the huge distribution networks that food and beverage multinationals have created, contamination or intentional poisoning involving mass-producers also means that these firms could adversely affect a huge number of people.

Not only should multinationals and National Champions shoulder the costs of compliance, but authorities must also not exempt mass-producers from routine inspection and supervision. As stated, mass-producers have the opportunity to contaminate food that reaches millions, if not tens of millions, of people. We observed this exact phenomenon with the melamine milk scandal. If Sanlu had not been given Top Brand status and their products had been regularly inspected and tested, it is possible that the scandal would have never happened. Nearly 300 million infants would have not gotten sick and six babies would still be alive.

Small-scale operations do not have this ability due to their low production capacity as well as limited distribution networks. The risks of small firms when it comes to food safety are therefore much less than their multinational counterparts. If a few kegs get too warm and go bad, it will taste bad to consumers, but it will not kill them. This is not to say that there are no risks with small firms, which is why regulations regarding safety should be applied equally to firms of all sizes.

Finally, this means that more food safety regulations or alcohol regulations by themselves are unlikely to improve food safety in China. There are already thousands of standards on the books. Laws have been written and rewritten. The language of the laws, or the details of the standards, is no longer the problem. Instead, the fragmented authority that officials have over the food and drink industry is the problem. This is bad for firms and, most importantly, it is bad for public health.

7.4.3 Craft Beer Industry

As for policy recommendations regarding the craft beer industry in China, there are two regulations that serve as nearly insurmountable barriers to entry for most firms. The first is the inability of small craft breweries to obtain a QS code in order to legally distribute their product outside of their place of business. If craft breweries do not have the ability to distribute, it makes it very hard to introduce new consumers to their product.This also means that firms have to rely on the loyalty of their local patrons for continued growth, which is unreliable as consumer preferences can change quickly. Craft beer lovers are always seeking out new breweries and new beers to try out. Inhibiting the distribution of craft beer products to a wider audience stunts firm growth. It also hampers the creation of a beer culture on a national level. Therefore, the requirements to obtain a QS code should be tailored to the specific industry and adjusted so that small firms can afford the QS mark. Arbitrary restrictions such as production volume need to be adjusted so that the regulation does not automatically eliminate small firms from consideration by default.

The second policy recommendation is to remove restrictions on brewery design and layout. This will make craft breweries, and the production process, safer for employees and more efficient. It will also reduce some of the costs associated with compliance, which is likely to increase compliance with regulations. Easing these two restrictions will allow for huge gains to be had by small craft breweries. It may also result in the formalization of more firms, which would allow authorities to monitor firms more closely and to reap additional tax revenue.

7.5 Concluding Remarks

There are many potential paths for future research on this topic. Studies on strategy often ignore important variables such as firm size and the institutional environments that government's create in emerging markets. As highlight by Chapter 6 of this dissertation, the regulatory regime that firms are operating is vitally important to understanding why they behave the way that they do. While government may not be a force similar to gravity, governments still play a huge role in determining Porter's (1980; 2008) Five Forces. Therefore, future studies should further analyze the role of formal and informal political and regulatory institutions that change the nature of competition, and thus strategy in emerging markets.

Furthermore, future research should also identify a variable (or variables) exogenous to firms and their environment that could potentially explain strategy choice. This study is riddled with endogeneity problems, however, I do not believe that that devalues the findings. Firm strategy choice is complicated and this dissertation is reflective of that fact. There are still important lessons to be drawn regarding the behavior of small firms in emerging markets.

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Appendix A

Appendix A: Chinese Brewery Data Set Code Book

brewery - This variable is the brewery name. If there are multiple locations in different cities, they are counted as separate breweries and listed as the brewery name plus the city name. This is justified by the fact that they will have different management and brewers, as well as different competitors and local governments to develop strategies for cooperation or conflict. Breweries that have multiple locations in one city but only one city are only counted once. If district level financial data was available, then this would warrant listing them multiple times. In order to count for this issue, I have also created a variable called multiple_locations, which is coded 1 if the brewery has multiple locations within the same city and 0 if not.

brewery_location - This is a string variable and is the name of the city / municipality that the brewery is located within.

strategy_bi - This is a binary variable, with values coded as 1 indicating that the brewery was observed directly or reported by an informant to use uncooperative strategies, as defined and detailed in Chapter 3. Values coded as 0 were cooperative strategies that were either directly observed or reported by one or more informant.

brewer_nationality - This is a string variable, with values coded as the country nationality of the current head brewer / brewmaster as of August 2016. This does not account for assistant brewers and other brewery workers (the majority of whom are Chinese).

brewer_foreigner - This is a binary variable, with values coded as 1 indicating that the current head brewer as of August 2016 is a foreigner. 0 indicates that they are not a foreigner (and therefore have Chinese nationality).

brewer_owner - This is a binary variable, with values coded as 1 indicating that the current head brewer as of August 2016 is also the majority owner of the brewery and/or brewpub. 0 indicates that the brewer is not an owner, just an employee of the brewery / brewpub.

owner_nationality - This is a string variable, with values coded as the country nationality of the current head owner(s) as of August 2016.

owner_foreigner - This is a binary variable, with values coded as 1 indicating that the current head brewer as of August 2016 is a foreigner. 0 indicates that they are not a foreigner (and therefore have Chinese nationality).

foreign_investors - This is a binary variable, with values coded as 1 indicating that the current head brewer as of August 2016 is a foreigner. 0 indicates that they are not a foreigner (and therefore have Chinese nationality or use Chinese nationality for their business).

beerfest_organizer - This is a binary variable, with values coded as 1 indicating that the brewery has ever held or put on a beer festival and were the primary (or a primary) organizer, not just a participant. 0 indicates that they've never held their own beer festival as of August 2016.

beerfest_attendant - This is a binary variable, with values coded as 1 indicating that the brewery has ever participated in a beer festival since 2010. 0 indicates that they've never participated in beer festival as of August 2016.

multiple_locations - This is a binary variable, with values coded as 1 indicating that the brewery or brewpub has multiple locations with the same city. 0 indicates that they do not (thus only have one location in that city). This variable can also serve as a proxy for the financial well-being of the firm (as it requires resources to expand).

negative_rumors - This is a categorical variable with a range from 0 to 6. Values 1-5 indicate that negative rumors about the brewer, owner, the quality of their products were reported about that brewery in interviews or other interactions with informants. As indicated by the name of the variable, these rumors may or may not be substantiated by other evidence. This can include self-reporting (the brewer or owner or other staff report the negative characteristics themselves).

This variable is meant to gauge the degree to which others in the craft beer community views its rivals. 0 indicates that no negative rumors have been reported / are unknown to the researcher, if they exist. A value of 1 indicates that one or more informant reported negative rumor(s) about the brewer. A value of 2 indicates that one or more informant reported negative rumor(s) about an owner (many have multiple investors). A value of 3 indicates that one or more informant reported negative rumor(s) about both the brewer and at least one owner. A value of 4 indicates that one or more informants reported negative rumor(s) about the quality of the beer at the brewery. A value of 5 indicates that one or more informant reported negative rumor(s) about the legality (or illegality) of that brewery's operations. A value of 6 indicates that one or more informant reported negative rumor(s) about the brewer, an owner, and the quality of the beer. A value of 7 indicates that one or more informant reported negative rumor(s) about the brewer, an owner, the quality of the beer, and the legality of that brewery's operations.

Examples of negative_rumors:

1. That brewer doesn't know what he's doing.
2. The owner is a jerk and doesn't care about beer, so we can't get quality ingredients and equipment.
3. The owners have usurped real estate out from under from other breweries.
4. That brewery doesn't have any permits.
5. That brewery bottles and distributes illegally.
6. Their beer is gross and poorly made.

self_reported_rumor - This is a categorical variable, with values coded as 1 indicating that the negative rumor(s) were self-reported by current or former staff, a brewer, or owner(s) of that brewery. 2 indicates that negative rumor(s) were self-reported and reported by external sources. 0 indicates that they did not / the rumor was reported by an external source, if it was reported at all. This variable allows for source identification and thus should not be shared. It was created to use in conjunction with negative_rumors, to determine if claims are substantiated directly by an internal source (assuming informants are being truthful to the extent of their knowledge) or not.

consumers - This is a binary variable. A value of 1 indicates that the majority (more than 50%) of the consumers of that brewery's beer are foreigners as of August 2016. Many breweries that have been in place since 2010 have seen shifts in their consumer types (from primarily foreigners or Chinese to a more mixed breakdown), thus this variable should be interpreted as a time-specific snapshot. 0 indicates that the majority of consumers are not foreigners (and thus are Chinese).

illegal_ops2016 - This is a binary variable with values coded as 1 indicating that the brewery or other informants reported that they have some informal operations. 0 indicates that they and others report them as not partaking in informal operations as of August 2016.

Examples of illegal_ops2016:

1. Brewery bottles without a bottling permit
2. Brewery distributes outside their own firm(s) without proper distribution permits
3. Brewery serves homebrew beer
4. Brewery produces beer in a space not designated for food and beverage production

past_illegal_ops - This is a binary variable that when coded as 1 indicates that the brewery has engaged in some illegal operations in the past (prior to January 2016), as reported by them or other informants. 0 indicates that they or others report that they never engaged in informal or illegal operations.

CCBA_member - This is a binary variable with values coded as 1 indicating that the brewery or other informants reported that they were a member of the unregistered Chinese Craft Beer Association. 0 indicates that they and others report them as not partaking in the CCBA as of August 2016.

new_CCBA_member - This is a binary variable with values coded as 1 indicating that the brewery or other informants reported that they were a member of the revised and registered (in HK) Chinese Craft Beer Association. 0 indicates that they and others report them as not partaking in the CCBA as of August 2016.

solicit_foreign_brewers - This is a binary variable with values coded as 1 indicating that the brewer, owner, other staff or other informants reported that they solicited advice and help from a foreign brewer. In particular, this advice is regarding equipment, ingredients, and other set up processes. It may also include brewing questions. 0 indicates that neither they nor anyone else reported information requests.

solicit_chinese_brewers - This is a binary variable with values coded as 1 indicating that the brewer, owner, other staff or other informants reported that they solicited advice and help from a Chinese brewer. In particular, this advice is regarding equipment, ingredients, and other set up processes. It may also include brewing questions. 0 indicates that neither they nor anyone else reported information requests.

solicit_other_foreigners - This is a binary variable with values coded as 1 indicating that the brewer, owner, other staff or other informants reported that they solicited advice and help from a foreigner. In particular, this advice is regarding equipment, ingredients, and other set up processes. It may also include brewing questions or other communication and marketing questions regarding the foreign market. 0 indicates that neither they nor anyone else reported information requests.

provide_info - This is a binary variable with values coded as 1 indicating that the brewer, owner, other staff or other informants reported that they were solicited to provide advice and help to a brewer or (would-be) owner. In particular, this advice is regarding equipment, ingredients, and other set up processes. It may also include brewing questions. 0 indicates that neither they nor anyone else reported being solicited with information requests.

conflict_rivals - This is a binary variable with values coded as 1 indicating that the brewer, owner, other staff or other informants reported that the brewery has had conflict(s) with one or more competitor firms or brewers. 0 indicates that no one has reported any conflicts with other breweries or brewers.

Examples of conflict_rivals:

1. Purposefully scheduling beer festivals at the same time
2. Reporting dislike of brewer or owner for any reason

3. Refusing to work with competitors or specific brewers
4. Spreading rumor(s), substantiated or not, about competitors
5. Others reported some form of conflict between that brewery and themselves or others

conflict_gov - This is a binary variable with values coded as 1 indicating that the brewer, owner, other staff or other informants reported that the brewery has had conflict(s) with one or more government officials or offices. 0 indicates that no one has reported any conflicts with the government.

Examples of conflict_gov:

1. Government officials requested or were given a bribe (typically not cash, though may be)
2. Government officials frequent the place of business for inspections
3. Government officials (including ??) have forced the business to close at a certain hour or on certain non-holidays (e.g. for international government meetings or visits from a Head of State)
4. Government office has rejected application for permits
5. Government office has shut down the brewery or brewpub (for any reason)

closed - This is a binary variable with values coded as 1 indicating that that the brewery has been closed for any reason. 0 indicates that the brewery is still open as of August 2016.
Examples of reasons for closed:

1. Went out of business for financial reasons
2. Owner or brewer left the area (possibly left China) and closed the business as a result
3. Shut down by the government
4. Landlord refused to renew lease
5. Too few patrons

6. Bad location

shut_down - This is a binary variable with values coded as 1 indicating that that the brewery (any branch) has been shut down by the local government at some point in time for any reason. 0 indicates that the brewery or brewpub (any branch) has never been shut down by the government as of August 2016. This is binary because it is not always clear what exact combination of reasons led to the shut down of the brewery (and not just to the researcher, but often also the informant).

Examples of reasons for shut_down:

1. Food safety violations
2. Fire safety violations
3. Lacks proper permits to brew
4. Lacks proper permits to distribute
5. Failure to pay appropriate taxes and fees
6. Failure to have appropriate permits to serve (any) alcohol
7. Eviction by local government due to operating in improperly zoned areas (i.e. residentially zoned, agriculturally zoned, or otherwise)
8. Changes in government policy and requirements

distribute_outside - This is a binary variable with values coded as 1 indicating that the brewery distributes outside of its own firm(s). 0 values indicate that they do not. This is based on information provided by informants, their websites, and/or other restaurant and bar offerings (featured as a guest tap/beer or regular, etc.).

size - This is a binary variable that measures the relative size of the firms in comparison to each other (not every firm in the industry or economy, only other craft breweries). A value of 0 indicates that the firm is of the smallest size and lowest volume of production. It could be a homebrewer or a nanobrewery. It may or may not be informal. A value of 1 are breweries that are bigger than nanobreweries, including the largest craft breweries. Larger breweries may have more than one location, more than 15 staff members, and have the largest volume of production in the craft beer industry.

early_entrant - This is a binary variable with values coded as 1 indicating that the brewery was an early entrant to the craft beer industry in China. In this case that means that they were open for business by 2010. Breweries opened in 2011 and after are coded as 0.

Appendix B

Chapter 4. Appendix B: Firm Strategy and Performance Coefficient Tables

Table B.1: Logit Results Continued: Key IV - Conflict with Rivals

	(1) Strategy	(2) Strategy	(3) Strategy	(4) Strategy	(5) Strategy	(6) Strategy	(7) Strategy
Strategy							
conflict_rivals	-2.726***	-3.166***	-3.398***	-2.792***	-3.388***	-3.215***	-3.256***
	(-4.84)	(-4.08)	(-3.99)	(-4.12)	(-3.99)	(-4.03)	(-4.04)
GDP per capita		0.0976	0.101	0.0879	0.103		0.0659
		(1.39)	(1.45)	(0.95)	(1.47)		(0.90)
FDI		-0.128	-0.340*	-0.0702	-0.339*	-0.301*	-0.300*
		(-1.36)	(-2.23)	(-0.62)	(-2.22)	(-2.01)	(-2.13)
Consumers		0.0360	0.288	0.0918	0.295	0.365	0.359
		(0.05)	(0.37)	(0.12)	(0.38)	(0.48)	(0.45)
distancetobj		-0.000845*					
		(-1.97)					
Population			0.282				
			(1.85)				
Pop Density				-0.000297			
				(-0.60)			
Non-ag Pop					0.285	0.0355	
					(1.85)	(0.16)	
GDP						0.0151	
						(1.04)	
Budget Revenue							0.00822
							(1.72)
_cons	2.485***	3.246**	1.390	2.434	1.342	2.719***	2.355*
	(6.32)	(2.78)	(1.38)	(1.87)	(1.32)	(3.65)	(2.31)
N	116	109	109	109	109	109	109

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table B.2: Logit Results Continued: Key IV - Conflict with Government

	(1) Strategy	(2) Strategy	(3) Strategy	(4) Strategy	(5) Strategy	(6) Strategy	(7) Strategy
Strategy							
conflict_gov	-2.919***	-3.410***	-3.467***	-3.651***	-3.456***	-3.315***	-3.419***
	(-4.96)	(-4.65)	(-4.69)	(-4.56)	(-4.68)	(-4.60)	(-4.71)
GDP per capita		0.135	0.132	0.155	0.132		0.124
		(1.35)	(1.34)	(1.21)	(1.34)		(1.15)
FDI		-0.188*	-0.273	-0.240	-0.272	-0.270	-0.219
		(-2.00)	(-1.64)	(-1.94)	(-1.62)	(-1.71)	(-1.38)
Consumers		-0.231	-0.213	-0.377	-0.208	-0.130	-0.202
		(-0.29)	(-0.27)	(-0.48)	(-0.27)	(-0.17)	(-0.26)
distancetobj		-0.000393					
		(-0.84)					
Population			0.106				
			(0.70)				
Pop Density				0.000546			
				(0.83)			
Non-ag Pop					0.105	0.00164	
					(0.69)	(0.05)	
GDP						0.00834	
						(0.86)	
Budget Revenue							0.00162
							(0.33)
_cons	2.785***	3.095*	2.433	2.094	2.404	3.970***	2.747*
	(6.04)	(2.21)	(1.83)	(1.28)	(1.80)	(4.49)	(2.01)
N	116	109	109	109	109	109	109

t statistics in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table B.3: Logit Results: Key IV - Conflict with Rivals

	(1) Strategy	(2) Strategy	(3) Strategy	(4) Strategy	(5) Strategy	(6) Strategy	(7) Strategy
Strategy							
conflict_rivals	-2.726***	-3.060***	-3.087***	-2.769***	-2.770***	-2.211*	-1.911*
	(-4.84)	(-4.90)	(-4.53)	(-4.21)	(-4.16)	(-2.56)	(-2.10)
GDP per capita		0.0698		0.100	0.0996	0.0147	0.0229
		(1.07)		(1.02)	(1.00)	(0.17)	(0.26)
GDP			0.00157				
			(0.30)				
FDI				-0.108	-0.108	-0.112	-0.123
				(-1.15)	(-1.12)	(-0.94)	(-1.03)
Consumers					0.00573	-0.825	-0.638
					(0.01)	(-0.80)	(-0.62)
Foreign Owner						1.009	0.824
						(1.11)	(0.87)
Foreign Brewer							0
							(.)
_cons	2.485***	1.871*	2.621***	2.058	2.064	2.161	1.905
	(6.32)	(2.08)	(4.09)	(1.78)	(1.74)	(1.47)	(1.31)
N	116	110	110	110	109	44	40

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table B.4: Logit Results Continued: Key IV - Conflict with Rivals

	(1) Strategy	(2) Strategy	(3) Strategy	(4) Strategy	(5) Strategy	(6) Strategy	(7) Strategy
Strategy							
conflict_rivals	-2.726***	-3.166***	-3.398***	-2.792***	-3.388***	-3.215***	-3.256***
	(-4.84)	(-4.08)	(-3.99)	(-4.12)	(-3.99)	(-4.03)	(-4.04)
GDP per capita		0.0976	0.101	0.0879	0.103		0.0659
		(1.39)	(1.45)	(0.95)	(1.47)		(0.90)
FDI		-0.128	-0.340*	-0.0702	-0.339*	-0.301*	-0.300*
		(-1.36)	(-2.23)	(-0.62)	(-2.22)	(-2.01)	(-2.13)
Consumers		0.0360	0.288	0.0918	0.295	0.365	0.359
		(0.05)	(0.37)	(0.12)	(0.38)	(0.48)	(0.45)
distancetobj		-0.000845*					
		(-1.97)					
Population			0.282				
			(1.85)				
Pop Density				-0.000297			
				(-0.60)			
Non-ag Pop					0.285	0.0355	
					(1.85)	(0.16)	
GDP						0.0151	
						(1.04)	
Budget Revenue							0.00822
							(1.72)
_cons	2.485***	3.246**	1.390	2.434	1.342	2.719***	2.355*
	(6.32)	(2.78)	(1.38)	(1.87)	(1.32)	(3.65)	(2.31)
N	116	109	109	109	109	109	109

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table B.5: Logit Results: Key IV - Early Entrant

	(1) Strategy	(2) Strategy	(3) Strategy	(4) Strategy	(5) Strategy	(6) Strategy	(7) Strategy
Strategy earlyentrant	-1.974**	-2.327**	-2.308**	-2.243**	-2.236**	-1.505	-1.256
	(-2.96)	(-3.25)	(-3.25)	(-2.86)	(-2.82)	(-1.75)	(-1.45)
GDP per capita		0.0603		0.160	0.160	0.0572	0.0637
		(1.04)		(1.27)	(1.26)	(0.54)	(0.61)
GDP			0.000194				
			(0.21)				
FDI				-0.228*	-0.229*	-0.226*	-0.228*
				(-2.56)	(-2.54)	(-2.11)	(-2.13)
Consumers					-0.0380	-0.552	-0.271
					(-0.05)	(-0.56)	(-0.27)
Foreign Owner						0.976	0.640
						(1.16)	(0.72)
Foreign Brewer							0
							(.)
_cons	1.792***	1.107	1.875***	1.311	1.323	1.487	1.289
	(6.42)	(1.45)	(5.92)	(1.01)	(1.01)	(1.02)	(0.89)
N	116	110	110	110	109	44	40

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table B.6: Logit Results Continued: Key IV - Early Entrant

	(1) Strategy	(2) Strategy	(3) Strategy	(4) Strategy	(5) Strategy	(6) Strategy	(7) Strategy
Strategy							
earlyentrant	-1.974**	-2.428**	-2.399**	-2.267**	-2.390**	-2.355**	-2.382**
	(-2.96)	(-2.95)	(-2.96)	(-2.86)	(-2.96)	(-2.98)	(-2.96)
GDP per capita		0.136	0.130	0.139	0.133		0.120
		(1.30)	(1.21)	(1.14)	(1.23)		(1.05)
FDI		-0.250**	-0.342*	-0.186	-0.340*	-0.336**	-0.332**
		(-2.94)	(-2.54)	(-1.87)	(-2.52)	(-2.61)	(-2.63)
Consumers		-0.144	-0.0124	-0.0288	-0.000164	0.0363	0.0376
		(-0.20)	(-0.02)	(-0.04)	(-0.00)	(0.05)	(0.05)
distancetobj		-0.000626					
		(-1.65)					
Population			0.135				
			(1.13)				
Pop Density				-0.000354			
				(-0.82)			
Non-ag Pop					0.135	0.00930	
					(1.12)	(0.22)	
GDP						0.0106	
						(1.35)	
Budget Revenue							0.00433
							(1.14)
_cons	1.792***	2.419	1.278	1.876	1.223	2.743***	1.682
	(6.42)	(1.82)	(1.09)	(1.28)	(1.04)	(4.28)	(1.35)
N	116	109	109	109	109	109	109

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table B.7: Logit Results: Key IV - Size

	(1) Strategy	(2) Strategy	(3) Strategy	(4) Strategy	(5) Strategy	(6) Strategy	(7) Strategy
Strategy size	-2.706***	-2.542***	-2.600***	-2.690***	-2.682***	-1.632*	-1.264
	(-4.45)	(-4.10)	(-4.18)	(-4.01)	(-3.98)	(-2.02)	(-1.49)
GDP per capita		0.0292		0.0988	0.0998	0.0157	0.0281
		(0.60)		(0.94)	(0.93)	(0.18)	(0.31)
GDP			-0.000140				
			(-0.19)				
FDI				-0.252**	-0.252**	-0.232*	-0.231*
				(-2.77)	(-2.76)	(-2.13)	(-2.15)
Consumers					-0.0782	-0.763	-0.528
					(-0.11)	(-0.78)	(-0.53)
Foreign Owner						1.221	0.905
						(1.35)	(0.95)
Foreign Brewer							0
							(.)
_cons	2.918***	2.460**	2.902***	3.244*	3.246*	2.610	2.192
	(5.68)	(2.97)	(5.41)	(2.49)	(2.48)	(1.71)	(1.42)
N	116	110	110	110	109	44	40

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table B.8: Logit Results Continued: Key IV - Size

	(1) Strategy	(2) Strategy	(3) Strategy	(4) Strategy	(5) Strategy	(6) Strategy	(7) Strategy
Strategy							
size	-2.706***	-2.634***	-2.677***	-2.695***	-2.668***	-2.711***	-2.693***
	(-4.45)	(-3.85)	(-3.95)	(-3.97)	(-3.94)	(-4.01)	(-3.96)
GDP per capita		0.0897	0.0926	0.0978	0.0934		0.0847
		(0.96)	(0.95)	(0.93)	(0.96)		(0.86)
FDI		-0.265**	-0.302*	-0.213*	-0.300*	-0.312*	-0.321*
		(-2.89)	(-2.11)	(-2.02)	(-2.08)	(-2.20)	(-2.36)
Consumers		-0.155	-0.101	-0.0675	-0.0984	0.0448	-0.0693
		(-0.21)	(-0.14)	(-0.09)	(-0.14)	(0.06)	(-0.10)
distancetobj		-0.000236					
		(-0.61)					
Population			0.0562				
			(0.45)				
Pop Density				-0.000344			
				(-0.70)			
Non-ag Pop					0.0547	0.00268	
					(0.43)	(0.07)	
GDP						0.00633	
						(0.73)	
Budget Revenue							0.00270
							(0.67)
_cons	2.918***	3.685**	3.181*	3.575*	3.162*	4.143***	3.383**
	(5.68)	(2.61)	(2.56)	(2.57)	(2.53)	(4.87)	(2.70)
N	116	109	109	109	109	109	109

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table B.9: Logit Results: Key IV - Informal/Illegal Operations in 2016

	(1) Strategy	(2) Strategy	(3) Strategy	(4) Strategy	(5) Strategy	(6) Strategy	(7) Strategy
Strategy							
illegal_ops2016	-1.317**	-1.524**	-1.563**	-1.529**	-1.515**	-1.095	-0.692
	(-2.64)	(-2.85)	(-2.94)	(-2.70)	(-2.66)	(-1.47)	(-0.89)
GDP per capita		0.0440		0.115	0.117	0.0409	0.0518
		(0.87)		(1.02)	(1.01)	(0.45)	(0.57)
GDP			0.0000552				
			(0.07)				
FDI				-0.240**	-0.244**	-0.247*	-0.239*
				(-2.76)	(-2.76)	(-2.29)	(-2.24)
Consumers					-0.190	-0.877	-0.522
					(-0.30)	(-0.93)	(-0.54)
Foreign Owner						0.889	0.547
						(1.05)	(0.61)
Foreign Brewer							0
							(.)
_cons	2.051***	1.652*	2.250***	2.312	2.354	2.266	1.744
	(5.79)	(2.18)	(5.42)	(1.76)	(1.76)	(1.48)	(1.14)
N	116	110	110	110	109	44	40

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table B.10: Logit Results Continued: Key IV - Informal/Illegal Operations in 2016

	(1) Strategy	(2) Strategy	(3) Strategy	(4) Strategy	(5) Strategy	(6) Strategy	(7) Strategy
Strategy							
illegal_ops2016	-1.317**	-1.597**	-1.663**	-1.496**	-1.647**	-1.661**	-1.626**
	(-2.64)	(-2.70)	(-2.78)	(-2.61)	(-2.76)	(-2.83)	(-2.75)
GDP per capita		0.102	0.0934	0.105	0.0948		0.0808
		(1.14)	(1.07)	(0.94)	(1.08)		(0.86)
FDI		-0.263**	-0.364**	-0.221*	-0.360**	-0.349**	-0.343**
		(-3.18)	(-2.72)	(-2.24)	(-2.69)	(-2.72)	(-2.76)
Consumers		-0.239	-0.153	-0.189	-0.148	-0.130	-0.115
		(-0.37)	(-0.24)	(-0.30)	(-0.23)	(-0.21)	(-0.18)
distancetobj		-0.000578					
		(-1.55)					
Population			0.137				
			(1.19)				
Pop Density				-0.000187			
				(-0.45)			
Non-ag Pop					0.136	0.0112	
					(1.17)	(0.16)	
GDP						0.00907	
						(1.10)	
Budget Revenue							0.00403
							(1.12)
_cons	2.051***	3.289*	2.302*	2.648	2.264	3.449***	2.720*
	(5.79)	(2.52)	(2.00)	(1.81)	(1.95)	(4.47)	(2.22)
N	116	109	109	109	109	109	109

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table B.11: Logit Results: Firm Performance Key IV - Strategy

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	ML	ML	ML	ML	ML	ML	ML	ML
ML								
Strategy	-1.341*	-1.516*	-1.306*	-1.568*	-1.476*	-1.367*	-1.225	-1.239
	(-2.25)	(-2.45)	(-2.03)	(-2.54)	(-2.32)	(-2.14)	(-1.86)	(-1.84)
GDP per capita		-0.0380						-0.115
		(-0.68)						(-0.85)
Population			0.153*					
			(2.02)					
Non-ag Pop				0.00221				
				(0.17)				
Pop Density					0.000234			
					(0.56)			
Budget Revenue						0.00469		0.00475
						(1.89)		(1.13)
FDI							0.138	0.0396
							(1.67)	(0.28)
_cons	-0.916	-0.301	-2.304*	-0.794	-1.208	-1.840*	-1.903*	-0.731
	(-1.90)	(-0.35)	(-2.42)	(-1.56)	(-1.30)	(-2.31)	(-2.18)	(-0.48)
N	116	110	110	110	110	110	110	110

t statistics in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Appendix C

Chapter 4. Appendix C: Marginal Effects Tables

Table C.1: Marginal Effects of Key IV - Conflict with Government

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Conflict w gov	-0.306***	-0.313***	-0.317***	-0.275***	-0.276***	-0.479***	-0.502***
	(-9.06)	(-14.56)	(-12.12)	(-9.41)	(-9.39)	(-5.40)	(-4.54)
N	116	110	110	110	109	44	40

t statistics in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table C.2: Marginal Effects of Results of Key IV - Conflict with Government, Continued

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Conflict w gov	-0.306***	-0.271***	-0.278***	-0.292***	-0.277***	-0.284***	-0.275***
	(-9.06)	(-8.47)	(-9.16)	(-8.37)	(-9.21)	(-8.32)	(-9.30)
N	116	109	109	109	109	109	109

t statistics in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table C.3: Marginal Effects of Key IV - Conflict with Rivals

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Conflict w rivals	-0.297***	-0.295***	-0.304***	-0.262***	-0.265***	-0.363***	-0.342**
	(-7.88)	(-9.44)	(-7.22)	(-6.43)	(-6.24)	(-3.76)	(-2.71)
N	116	110	110	110	109	44	40

t statistics in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table C.4: Marginal Effects of Results of Key IV - Conflict with Rivals, Continued

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Conflict w rivals	-0.297***	-0.283***	-0.307***	-0.265***	-0.306***	-0.301***	
	(-7.88)	(-5.55)	(-5.44)	(-5.99)	(-5.46)	(-5.57)	
Early Entrant							-0.267***
							(-3.42)
N	116	109	109	109	109	109	109

t statistics in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table C.5: Marginal Effects of Key IV - Early Entrant

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Early Entrant	-0.265***	-0.287***	-0.288***	-0.255**	-0.256**	-0.279*	-0.243
	(-3.36)	(-3.84)	(-3.81)	(-3.28)	(-3.23)	(-2.02)	(-1.61)
N	116	110	110	110	109	44	40

t statistics in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table C.6: Marginal Effects of Results of Key IV - Early Entrant, Continued

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Early Entrant	-0.265***	-0.267***	-0.269***	-0.257**	-0.268***	-0.268***	-0.267***
	(-3.36)	(-3.37)	(-3.41)	(-3.28)	(-3.41)	(-3.41)	(-3.42)
N	116	109	109	109	109	109	109

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table C.7: Marginal Effects of Key IV - Size

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Size	-0.308***	-0.284***	-0.292***	-0.260***	-0.262***	-0.292*	-0.243
	(-6.42)	(-5.50)	(-5.65)	(-5.54)	(-5.46)	(-2.45)	(-1.66)
N	116	110	110	110	109	44	40

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table C.8: Marginal Effects of Results of Key IV - Size, Continued

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Size	-0.308***	-0.256***	-0.260***	-0.261***	-0.259***	-0.267***	-0.261***
	(-6.42)	(-5.07)	(-5.33)	(-5.35)	(-5.32)	(-5.30)	(-5.34)
N	116	109	109	109	109	109	109

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table C.9: Marginal Effects of Key IV - Informal/Illegal Operations in 2016

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Informal Ops 2016	-0.183**	-0.197**	-0.204**	-0.179**	-0.179**	-0.208	-0.139
	(-2.82)	(-3.11)	(-3.19)	(-2.99)	(-2.94)	(-1.61)	(-0.92)
N	116	110	110	110	109	44	40

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table C.10: Marginal Effects of Results of Key IV - Informal/Illegal Operations in 2016, Continued

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Informal Ops 2016	-0.183**	-0.181**	-0.192**	-0.176**	-0.190**	-0.194**	-0.188**
	(-2.82)	(-2.97)	(-3.09)	(-2.86)	(-3.06)	(-3.13)	(-3.06)
N	116	109	109	109	109	109	109

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Appendix D

Chapter 4. Appendix D: Odds Ratios Tables

Table D.1: Odds Ratios: Key IV -- Conflict with Government

	(1) Strategy	(2) Strategy	(3) Strategy	(4) Strategy	(5) Strategy	(6) Strategy	(7) Strategy
Strategy							
conflict_gov	-2.919***	-3.616***	-3.468***	-3.440***	-3.431***	-3.708**	-3.524**
	(-4.96)	(-5.03)	(-4.96)	(-4.75)	(-4.73)	(-2.98)	(-2.74)
GDP per capita		0.0887		0.133	0.133	0.0251	0.0270
		(1.33)		(1.19)	(1.19)	(0.27)	(0.29)
GDP			-0.0000538				
			(-0.05)				
FDI				-0.172	-0.176	-0.220	-0.218
				(-1.86)	(-1.88)	(-1.76)	(-1.77)
Consumers					-0.247	-1.768	-1.663
					(-0.32)	(-1.37)	(-1.28)
Foreign Owner						1.506	1.429
						(1.36)	(1.27)
Foreign Brewer							0
							(.)
_cons	2.785***	2.149*	3.267***	2.583	2.671	4.113*	3.913*
	(6.04)	(2.24)	(5.33)	(1.88)	(1.91)	(2.15)	(2.03)
N	116	110	110	110	109	44	40

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table D.2: Odds Ratios Continued: Key IV – Conflict with Government

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Strategy	Strategy	Strategy	Strategy	Strategy	Strategy	Strategy
Strategy							
conflict_gov	-2.919***	-3.410***	-3.467***	-3.651***	-3.456***	-3.315***	-3.419***
	(-4.96)	(-4.65)	(-4.69)	(-4.56)	(-4.68)	(-4.60)	(-4.71)
GDP per capita		0.135	0.132	0.155	0.132		0.124
		(1.35)	(1.34)	(1.21)	(1.34)		(1.15)
FDI		-0.188*	-0.273	-0.240	-0.272	-0.270	-0.219
		(-2.00)	(-1.64)	(-1.94)	(-1.62)	(-1.71)	(-1.38)
Consumers		-0.231	-0.213	-0.377	-0.208	-0.130	-0.202
		(-0.29)	(-0.27)	(-0.48)	(-0.27)	(-0.17)	(-0.26)
Distance to BJ		-0.000393					
		(-0.84)					
Population			0.106				
			(0.70)				
Pop Density				0.000546			
				(0.83)			
Non-ag pop					0.105	0.00164	
					(0.69)	(0.05)	
GDP						0.00834	
						(0.86)	
Budget revenue							0.00162
							(0.33)
_cons	2.785***	3.095*	2.433	2.094	2.404	3.970***	2.747*
	(6.04)	(2.21)	(1.83)	(1.28)	(1.80)	(4.49)	(2.01)
N	116	109	109	109	109	109	109

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table D.3: Odds Ratios: Key IV - – Conflict with Rivals

	(1) Strategy	(2) Strategy	(3) Strategy	(4) Strategy	(5) Strategy	(6) Strategy	(7) Strategy
Strategy							
conflict_rivals	-2.726***	-3.060***	-3.087***	-2.769***	-2.770***	-2.211*	-1.911*
	(-4.84)	(-4.90)	(-4.53)	(-4.21)	(-4.16)	(-2.56)	(-2.10)
GDP per capita		0.0698		0.100	0.0996	0.0147	0.0229
		(1.07)		(1.02)	(1.00)	(0.17)	(0.26)
GDP			0.00157				
			(0.30)				
FDI				-0.108	-0.108	-0.112	-0.123
				(-1.15)	(-1.12)	(-0.94)	(-1.03)
Consumers					0.00573	-0.825	-0.638
					(0.01)	(-0.80)	(-0.62)
Foreign Owner						1.009	0.824
						(1.11)	(0.87)
Foreign Brewer							0
							(.)
_cons	2.485***	1.871*	2.621***	2.058	2.064	2.161	1.905
	(6.32)	(2.08)	(4.09)	(1.78)	(1.74)	(1.47)	(1.31)
N	116	110	110	110	109	44	40

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table D.4: Odds Ratios Continued: Key IV – Conflict with Rivals

	(1) Strategy	(2) Strategy	(3) Strategy	(4) Strategy	(5) Strategy	(6) Strategy	(7) Strategy
Strategy							
conflict_rivals	-2.726***	-3.166***	-3.398***	-2.792***	-3.388***	-3.215***	-3.256***
	(-4.84)	(-4.08)	(-3.99)	(-4.12)	(-3.99)	(-4.03)	(-4.04)
GDP per capita		0.0976	0.101	0.0879	0.103		0.0659
		(1.39)	(1.45)	(0.95)	(1.47)		(0.90)
FDI		-0.128	-0.340*	-0.0702	-0.339*	-0.301*	-0.300*
		(-1.36)	(-2.23)	(-0.62)	(-2.22)	(-2.01)	(-2.13)
Consumers		0.0360	0.288	0.0918	0.295	0.365	0.359
		(0.05)	(0.37)	(0.12)	(0.38)	(0.48)	(0.45)
Distance to BJ		-0.000845*					
		(-1.97)					
Population			0.282				
			(1.85)				
Pop Density				-0.000297			
				(-0.60)			
Non-ag pop					0.285	0.0355	
					(1.85)	(0.16)	
GDP						0.0151	
						(1.04)	
Budget revenue							0.00822
							(1.72)
_cons	2.485***	3.246**	1.390	2.434	1.342	2.719***	2.355*
	(6.32)	(2.78)	(1.38)	(1.87)	(1.32)	(3.65)	(2.31)
N	116	109	109	109	109	109	109

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table D.5: Odds Ratios: Key IV - Early Entrant

	(1) Strategy	(2) Strategy	(3) Strategy	(4) Strategy	(5) Strategy	(6) Strategy	(7) Strategy
Strategy earlyentrant	-1.974**	-2.327**	-2.308**	-2.243**	-2.236**	-1.505	-1.256
	(-2.96)	(-3.25)	(-3.25)	(-2.86)	(-2.82)	(-1.75)	(-1.45)
GDP per capita		0.0603		0.160	0.160	0.0572	0.0637
		(1.04)		(1.27)	(1.26)	(0.54)	(0.61)
GDP			0.000194				
			(0.21)				
FDI				-0.228*	-0.229*	-0.226*	-0.228*
				(-2.56)	(-2.54)	(-2.11)	(-2.13)
Consumers					-0.0380	-0.552	-0.271
					(-0.05)	(-0.56)	(-0.27)
Foreign Owner						0.976	0.640
						(1.16)	(0.72)
Foreign Brewer							0
							(.)
_cons	1.792***	1.107	1.875***	1.311	1.323	1.487	1.289
	(6.42)	(1.45)	(5.92)	(1.01)	(1.01)	(1.02)	(0.89)
N	116	110	110	110	109	44	40

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table D.6: Odds Ratios Continued: Key IV - Early Entrant

	(1) Strategy	(2) Strategy	(3) Strategy	(4) Strategy	(5) Strategy	(6) Strategy	(7) Strategy
Strategy							
earlyentrant	-1.974**	-2.428**	-2.399**	-2.267**	-2.390**	-2.355**	-2.382**
	(-2.96)	(-2.95)	(-2.96)	(-2.86)	(-2.96)	(-2.98)	(-2.96)
GDP per capita		0.136	0.130	0.139	0.133		0.120
		(1.30)	(1.21)	(1.14)	(1.23)		(1.05)
FDI		-0.250**	-0.342*	-0.186	-0.340*	-0.336**	-0.332**
		(-2.94)	(-2.54)	(-1.87)	(-2.52)	(-2.61)	(-2.63)
Consumers		-0.144	-0.0124	-0.0288	-0.000164	0.0363	0.0376
		(-0.20)	(-0.02)	(-0.04)	(-0.00)	(0.05)	(0.05)
Distance to BJ		-0.000626					
		(-1.65)					
Population			0.135				
			(1.13)				
Pop Density				-0.000354			
				(-0.82)			
Non-ag pop					0.135	0.00930	
					(1.12)	(0.22)	
GDP						0.0106	
						(1.35)	
Budget revenue							0.00433
							(1.14)
_cons	1.792***	2.419	1.278	1.876	1.223	2.743***	1.682
	(6.42)	(1.82)	(1.09)	(1.28)	(1.04)	(4.28)	(1.35)
N	116	109	109	109	109	109	109

t statistics in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table D.7: Odds Ratios: Key IV - Size

	(1) Strategy	(2) Strategy	(3) Strategy	(4) Strategy	(5) Strategy	(6) Strategy	(7) Strategy
Strategy size	-2.706***	-2.542***	-2.600***	-2.690***	-2.682***	-1.632*	-1.264
	(-4.45)	(-4.10)	(-4.18)	(-4.01)	(-3.98)	(-2.02)	(-1.49)
GDP per capita		0.0292		0.0988	0.0998	0.0157	0.0281
		(0.60)		(0.94)	(0.93)	(0.18)	(0.31)
GDP			-0.000140				
			(-0.19)				
FDI				-0.252**	-0.252**	-0.232*	-0.231*
				(-2.77)	(-2.76)	(-2.13)	(-2.15)
Consumers					-0.0782	-0.763	-0.528
					(-0.11)	(-0.78)	(-0.53)
Foreign Owner						1.221	0.905
						(1.35)	(0.95)
Foreign Brewer							0
							(.)
_cons	2.918***	2.460**	2.902***	3.244*	3.246*	2.610	2.192
	(5.68)	(2.97)	(5.41)	(2.49)	(2.48)	(1.71)	(1.42)
N	116	110	110	110	109	44	40

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table D.8: Odds Ratios Continued: Key IV - Size

	(1) Strategy	(2) Strategy	(3) Strategy	(4) Strategy	(5) Strategy	(6) Strategy	(7) Strategy
Strategy							
size	-2.706***	-2.634***	-2.677***	-2.695***	-2.668***	-2.711***	-2.723***
	(-4.45)	(-3.85)	(-3.95)	(-3.97)	(-3.94)	(-4.01)	(-4.02)
GDP per capita		0.0897	0.0926	0.0978	0.0934		
		(0.96)	(0.95)	(0.93)	(0.96)		
FDI		-0.265**	-0.302*	-0.213*	-0.300*	-0.312*	-0.320*
		(-2.89)	(-2.11)	(-2.02)	(-2.08)	(-2.20)	(-2.32)
Consumers		-0.155	-0.101	-0.0675	-0.0984	0.0448	0.0850
		(-0.21)	(-0.14)	(-0.09)	(-0.14)	(0.06)	(0.12)
Distance to BJ		-0.000236					
		(-0.61)					
Population			0.0562				
			(0.45)				
Pop Density				-0.000344			
				(-0.70)			
Non-ag pop					0.0547	0.00268	
					(0.43)	(0.07)	
GDP						0.00633	0.000851
						(0.73)	(0.14)
Budget revenue							0.00312
							(0.65)
_cons	2.918***	3.685**	3.181*	3.575*	3.162*	4.143***	4.258***
	(5.68)	(2.61)	(2.56)	(2.57)	(2.53)	(4.87)	(5.04)
N	116	109	109	109	109	109	109

t statistics in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table D.9: Odds Ratios: Key IV – – Informal/Illegal Operations in 2016

	(1) Strategy	(2) Strategy	(3) Strategy	(4) Strategy	(5) Strategy	(6) Strategy	(7) Strategy
Strategy							
illegal_ops2016	-1.317**	-1.524**	-1.563**	-1.529**	-1.515**	-1.095	-0.692
	(-2.64)	(-2.85)	(-2.94)	(-2.70)	(-2.66)	(-1.47)	(-0.89)
GDP per capita		0.0440		0.115	0.117	0.0409	0.0518
		(0.87)		(1.02)	(1.01)	(0.45)	(0.57)
GDP			0.0000552				
			(0.07)				
FDI				-0.240**	-0.244**	-0.247*	-0.239*
				(-2.76)	(-2.76)	(-2.29)	(-2.24)
Consumers					-0.190	-0.877	-0.522
					(-0.30)	(-0.93)	(-0.54)
Foreign Owner						0.889	0.547
						(1.05)	(0.61)
Foreign Brewer							0
							(.)
_cons	2.051***	1.652*	2.250***	2.312	2.354	2.266	1.744
	(5.79)	(2.18)	(5.42)	(1.76)	(1.76)	(1.48)	(1.14)
N	116	110	110	110	109	44	40

t statistics in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table D.10: Odds Ratios Continued: Key IV – Informal/Illegal Operations in 2016

	(1) Strategy	(2) Strategy	(3) Strategy	(4) Strategy	(5) Strategy	(6) Strategy	(7) Strategy
Strategy							
illegal_ops2016	-1.317**	-1.597**	-1.663**	-1.496**	-1.647**	-1.661**	-1.626**
	(-2.64)	(-2.70)	(-2.78)	(-2.61)	(-2.76)	(-2.83)	(-2.75)
GDP per capita		0.102	0.0934	0.105	0.0948		0.0808
		(1.14)	(1.07)	(0.94)	(1.08)		(0.86)
FDI		-0.263**	-0.364**	-0.221*	-0.360**	-0.349**	-0.343**
		(-3.18)	(-2.72)	(-2.24)	(-2.69)	(-2.72)	(-2.76)
Consumers		-0.239	-0.153	-0.189	-0.148	-0.130	-0.115
		(-0.37)	(-0.24)	(-0.30)	(-0.23)	(-0.21)	(-0.18)
Distance to BJ		-0.000578					
		(-1.55)					
Population			0.137				
			(1.19)				
Pop Density				-0.000187			
				(-0.45)			
Non-ag pop					0.136	0.0112	
					(1.17)	(0.16)	
GDP						0.00907	
						(1.10)	
Budget revenue							0.00403
							(1.12)
_cons	2.051***	3.289*	2.302*	2.648	2.264	3.449***	2.720*
	(5.79)	(2.52)	(2.00)	(1.81)	(1.95)	(4.47)	(2.22)
N	116	109	109	109	109	109	109

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table D.11: Odds Ratios: Firm Performance Key IV - Strategy

	(1) multiple_locations	(2) ML	(3) ML	(4) ML	(5) ML	(6) ML	(7) ML
ML							
Strategy	-1.341*	-1.516*	-1.566*	-1.132	-1.136	-0.770	-0.351
	(-2.25)	(-2.45)	(-2.54)	(-1.72)	(-1.72)	(-0.96)	(-0.41)
GDP per capita		-0.0380		-0.0823	-0.0798	-0.213	-0.267
		(-0.68)		(-0.84)	(-0.81)	(-0.98)	(-1.14)
GDP			-0.0000316				
			(-0.04)				
FDI				0.160	0.158	0.0509	0.0897
				(1.82)	(1.80)	(0.45)	(0.74)
Consumers					-0.0915	-0.914	-1.494
					(-0.12)	(-0.96)	(-1.46)
Foreign Owner						2.039*	2.654*
						(2.13)	(2.52)
Foreign Brewer							0
							(.)
_cons	-0.916	-0.301	-0.769	-1.038	-1.033	1.111	1.353
	(-1.90)	(-0.35)	(-1.53)	(-0.82)	(-0.80)	(0.44)	(0.51)
N	116	110	110	110	109	44	40

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table D.12: Odds Ratios Continued: Firm Performance Key IV – Strategy

	(1) ML	(2) ML	(3) ML	(4) ML	(5) ML	(6) ML	(7) ML
ML							
Strategy	-1.341*	-1.220	-1.253	-1.169	-1.128	-1.212	-1.239
	(-2.25)	(-1.81)	(-1.87)	(-1.77)	(-1.71)	(-1.83)	(-1.84)
GDP per capita		-0.0863	-0.116	-0.0889	-0.0828		-0.115
		(-0.76)	(-0.77)	(-0.85)	(-0.85)		(-0.85)
FDI		0.152	0.0198	0.189	0.161	0.143	0.0396
		(1.62)	(0.13)	(1.71)	(1.82)	(1.66)	(0.28)
Distance to BJ		-0.000273					
		(-0.66)					
Population			0.165				
			(1.20)				
Pop Density				-0.000239			
				(-0.47)			
Non-ag pop					-0.00224	-0.000215	
					(-0.10)	(-0.01)	
GDP						-0.000384	
						(-0.22)	
Budget revenue							0.00475
							(1.13)
_cons	-0.916	-0.638	-1.119	-0.744	-1.021	-1.890*	-0.731
	(-1.90)	(-0.42)	(-0.70)	(-0.52)	(-0.80)	(-2.15)	(-0.48)
N	116	110	110	110	110	110	110

t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$