ECONOMIC REFORM AND WHOLLY FOREIGN-OWNED ENTERPRISES IN CHINA: MARKETING LESSONS FOR SAUDI ARABIA IN IMPLEMENTING ITS OWN ECONOMIC REFORMS

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ABSTRACT

This research report focuses on wholly foreign owned enterprises or WFOE in China as part of China's overall policy of economic reform referred to as Kai Fang. The contention is made that WFOE were an integral part of China's economic reform following the conclusion of the Cultural Revolution and the death of Mao Tsetung. As such, the assertion is that this successful inclusion of the WFOE into China's economic reform framework can be applied to Saudi Arabia and its own economic reform initiatives away from petroleum dependence. This research report first describes the Mao era in China and its ill-advised economic policies. The discussion this shifts to Kai Fang and its economic policies that were devised to diversify China's economic apparatus from a centralized, state-owned infrastructure to a distributed, privatized system of ownership. Consequently, these lessons are then grafted onto Saudi Arabia's own economic policies as a means to identify areas in which it can utilize WFOE more successfully. One of the key areas in which this analysis takes place is in the retail sector of China's economy where it has experienced the most success. Much of this success in China as well as for Saudi Arabia is observed to be in the still emergent online retailing sector. The conclusions are such that Saudi Arabia can benefit immensely from WFOEs just as China did but especially within the retail sector where online retailing and its upstream components can rapidly diversify an economy.

Keywords: WFOE, Retail Industry, Saudi Vision, Economic Reform, Kai Fang.

INTRODUCTION

This report examines the issue of wholly foreign owned enterprises (WFOE) in China as one element within its decade's old policy of kai fang or opening up. The intention is to develop a better understanding of its economic reforms implemented in the late 1970s with intent to gain some insight into Saudi Arabia's own reform and opening up. Prior to kai fang in China, these types of foreign enterprises were simply not allowed under the aegis of the Communist government. However, once the Chinese government began to open up its economy to more capitalist elements in order to join the global economic framework, it began to allow some foreign ownership. Since these early attempts at opening up economically, WFOEs are now fairly commonplace within China though. Yet, they are also still relatively limited by comparison to the rest of the economy and how firms are traditionally organized.

This issue of WFOEs in China is examined in the context of identifying how WFOEs developed as a mechanism of economic reform in China's kai fang. This includes understanding better the ways in which their current status can be leveraged by outside markets such as Saudi Arabia as it implements its own period of economic reforms. This is a way guide Saudi Arabia in developing its domestic retail marketplace by being able to attract foreign investors and international competitors. Saudi Arabia's growing trade relationship with China is largely viewed as a means to compete within the retailing and marketing sectors globally but it also establishes important relationships in China that can lead to cross-market investment opportunities.

This growing relationship points to one way in which foreign investors and international retail competitors can be attracted to Saudi Arabia as a potentially profitable and long-term growth market. This is because kai fang and its reforms, policies and removal of foreign ownership barriers results in sustainable growth as seen in China's retail sector. Furthermore, because of the long-term effect of kai fang, most retail segments are viewed as still being in their mid-developmental stages within China which further demonstrates that these kinds of economic reforms are effective over the long-term. In fact, the Saudi government has earmarked more than $18 billion in investment dollars to both attract foreign investment into the Saudi market and to partner in investments made in overseas markets such as China (Jones et al., 2018). Of course, this amount is comprised of Saudi's sovereign fund network which is an integrated component of its Vision 2030 program designed to produce economic diversity in the national economy. The ultimate intent is produce economic diversification of Saudi Arabia's economy that produces measurable movement away from its dependence on petroleum.

The Mao Era in China

Contemporary China has its political and economic roots in the establishment of the People's Republic of China (PRC) which followed the conclusion of the Chinese civil war. In the late 1940s the Chinese nationalists lost the civil war against the communists led by Mao Zedong who established the PRC in 1949. At its establishment, Mao stated that the mission of the party and the government was to instill: 1) a unified national state, 2) pervasive socio-economic policy changes and 3) removal of all foreign influence in the state (Pepper, 1999). Consequently, from its earliest establishment, the PRC considered the limiting of foreign enterprises to be one of its core objectives. Of course, WFOEs were completely off-limits because of this inherent skepticism of foreign entities of any kind.

Throughout the 1950s the Chinese Communist Party (CCP) relied on vast economic initiatives in order to develop economically. These vast initiatives were almost all a mix of both social and economic policies meant to lead to higher degrees of economic centralization. For instance, what is referred to as the First 5-Year Plan, Mau and the CCP sought to align the Chinese economy more with the Stalinist economic model. This 5-Year Plan led to the nationalization of all heavy industry and massive collectivization in the countryside such that by 1955 some 15% of all peasants were operating in cooperative farms (Johnson, 1988). This type of effort is indicative of Mao's somewhat socialist tendencies which affected his economic policies albeit in often unpredictable ways. For Mao, it seems, economic reform had to be accompanied by social reforms in order to be effective, sustainable and in-line with the CCP's vision for the state.

What makes these observations important from Saudi Arabia's perspective is that the type of isolation in China prior to kai fang is counter-productive to economic development. This insight provides the rationale to support Prince Mohammed bin Salman's effort to develop economic initiatives embodied in the Vision 2030 program that not only diversify the Kingdom's economy but that also transform society within the nation (Foreword, 2018). China's reform and opening up policies would not have been as effective without the social reform elements that accompanied the economic initiatives.

Kai Fang and Economic Policies

Mao Zedong is responsible for many characteristics of Chinese society that are still extant throughout contemporary China. However, he was also responsible for many socio-economic developments that modern China had to leave behind as well. Thus, two years after Mao's death in 1976 which also officially ended the Cultural Revolution, Deng Xiaoping instituted what he referred to as the gaige kai fang or the reform and opening up policy (kai fang) which was established in 1978 during the 3rd Plenum of the 11th Central Committee gathering of the CCP in China (Hayter & Han, 1998). Kai fang was perhaps more revolutionary than anything Mao ever could have imagined from both a sociological and economic perspective within China. Kai fang was a series of socio-economic reforms that were intended to bring China's economy in-line with the other major leading economies in the world. However, it also had several other important objectives as well necessary if the economic component was going to be effective at transforming the country. Firstly, it was meant to also ensure that its population benefited from such economic reforms. This general benefit to society would then reflect back positively on the CCP. This is because the people would view the CCP as being generally responsible for their newfound socioeconomic opportunities resulting from the policies.

This same pairing of social policies with economic ones is and should be reflected in Saudi Arabia's Vision 2030 reforms. Indeed, they largely are reflected in this policy as promulgated at the behest of the Crown Prince. The fact the Vision 2030 reforms are aligned with the principles found in kai fang are evident in its socially oriented objectives: 1) enrich the nation's culture and entertainment profile, 2) promote more healthy lifestyles in the country, 3) improve the design of the nation's metropolitan centers such as traffic systems, green spaces and crime rates, 4) promote and achieve environmental sustainability within the nation (Vibrant society with fulfilling lives, 2018). The Crown Prince understands the importance of relating economic development with social reforms which is a lesson learned in the framework of China's kai fang policies. It was always understood at the highest levels of government that some degree of social reform is necessary to institute a true market-oriented economy on a grand scale.

Kai fang consisted of not only enormous structural changes to China's economic policies but also conceptual shifts in how its central government viewed its role within the country. In essence, kai fang was such a significant change in direction for the state that Mao's influence on the country had to ideologically preserved but also completely abstract in context. This is because kai fang was, in essence, a complete rejection of everything Mao stood for and thus he had to be relegated to an ideological figurehead while the CCP and the leading politburo took China in a completely new direction. Kai Fang at its core was summarized through a series of 4 modernizations as they were referred to: 1) economic decentralization, 2) market-driven mechanisms such as currency controls, 3) fiscal and monetary administration prioritized above social administration, and 4) ongoing liberalization of business operations, ownership and property controls (Hayter & Han, 1998). Many of these socio-economic policies within kai fang were implemented in a series of stages over time. The emphasis was on ensuring that there was a more gradual economic development that occurred pervasively throughout the nation rather than just in the larger metropolitan centers across the country.

Initially, in 1978 kai fang policies were centered on the de-collectivization of agriculture across the countryside. Collectives, communes and forced relocations were all mechanisms that had been widely adopted in Mao's China. Thus, the subsequent de-collectivization after he died and kai fang was implemented included the closing down of communes and forced relocations of workers, the permitting of private farming activities throughout the nation and in 1979 special economic zones or SEZs were established in key areas such as Shenzhen (Das, 2012). The point of these radical (for China at the time) changes is that the government understood that its previous socioeconomic policies were not only ineffective but actually detrimental to its economic growth and expansion.

It must be understood that kai fang did not just appear in 1978 in its complete form. Rather, kai fang was always understood to be more of a process rather than a project in which processes are not time-constrained whereas projects are time-constrained. Hence, throughout the 1980s the ongoing reforms consisted of removing mandated pricing controls and throughout the 1990s the emphasis was on establishing free market mechanisms such as a functioning stock exchange, a convertible currency and easier bank lending regulations (Wei & Wang, 2009; Ghosh et al., 2018). Kai fang has continued throughout the 2000s which saw China admitted to the World Trade Organization (WTO), the end of the Yuan's peg on the US dollar and, key for this present research, the removal of foreign ownership rules and limitations. Of course, this last element in the reform and opening up theme regarding WFOEs is most relevant to Saudi Arabia's diversification policies currently being implemented.

The result of kai fang in China's case has been a complete restructuring of the entire economic fabric and, to some extent, the social fabric of China. It would not have been enough for the Chinese government to simply support economic growth through the removal of barriers to ownership and enterprise. Instead, the government also had to develop a consumer mentality predicated upon the underlying growth in wage incomes that would support such consumerism. Evidence of this revolutionary shift in China's socioeconomic fabric can be seen in a simple summary of its economic metrics in which: 1) it maintains the largest global foreign reserves balance at more than $3.1 trillion, 2) it has the 2nd largest gross domestic product or GDP at some $11 trillion in value, 3) is top 3 in the amount of foreign direct investment or FDI at an estimated $170 billion (Li & Tian, 2018). All of these economic achievements are remarkable considering where China as a market started from. This starting point is what can only be described as humble beginnings in 1978 at the introduction of kai fang and its accompanying policies. For instance, in 1978 China's economy was responsible for just under 2% of global economic activity while by 2018 it has come to account for almost 20% of global economic activity.

From a retail perspective especially, the reform and opening up policies from the late 1970s and 1980s and thereafter have been very effective. The Chinese consumer market responded well to the economic and social policies introduced during this era. The data indicates that the national GDP has grown year-on-year more than 9% largely on the back of consumer spending, production and manufacturing within the retail sector (Bulman, et al., 2017). A range of activities within the retail sector has driven growth throughout the country since economic reforms were implemented. Firstly, China became known as the world's manufacturing center because so many consumer product goods companies relocated their manufacturing and production to China following its inclusion into the WTO.

RESULTS AND DISCUSSION

It is expected that Saudi Arabia's economy will eventually respond well to its own reform and opening up socioeconomic policies contained in the Vision 2030 platform. The need to diversify economically and transform the national economy from a resource producer nation to a consumer-driven society is evident in an analysis of the nation's dependence upon petroleum. This petroleum dependence is known to contribute to upstream and downstream price instability across the economy presented in Table 1 (Banafea & Ibnrubbian, 2018).

Table 1
PETROLEUM DEPENDENCE AND PRICE INSTABILITY

	Plans	% Change to national private GDP	% Change to petroleum prices	Gap in % change to private GDP	Gap in % change in petroleum prices
1970–1974	1st reforms	0	0	0	0
1975–1979	2nd reforms	131	103.6	131	103.6
1980–1984	3rd reforms	43.2	77.7	−87.8	−25.9
1985–1989	4th reforms	−8.2	−51.8	−51.4	−129.5
1990–1994	5th reforms	11.2	−29.5	19.4	22.3
1995–1999	6th reforms	15.7	−14.1	4.5	15.4
2000–2004	7th reforms	25.1	62.9	9.3	77
2005–2009	8th reforms	54.5	51.4	29.4	−11.5
2010–2014	9th reforms	46.8	64.8	−7.7	13.4

It seems clear that for Saudi Arabia, economic diversification must be the central theme in its own economic transformation. A key element in achieving this diversification is, necessarily, allowing international firms to fully own the enterprises that they establish or purchase in the country. This type of WFOE works to promote investment because it removes much of the risk in the marketplace for firms that desire to protect their intellectual property, repatriate revenues or devise their own in-market strategies (Albassam, 2015). All of these benefits of economic diversification work to promote in-country investment in all sectors of the economy except for those held-backs for government oversight such as the defense industry.

These types of manufacturing and production activities contributed to China's rapid domestic growth in the retail sector as well. This happened because its population slowly became aware of and capable to purchase many of the products that were being manufactured for global markets. Some estimates state that the percentage of retail related activities to GDP is 36% and up although declining exports could damage this percentage (Liu, 2018). Regardless, from an environment where major industries were state-owned and the economy was centrally managed, to the current environment where private ownership fuels growth, retail opportunities abound. The retail sector within China is one of the world's largest and fastest growing. Research has valued the retail sector in China to be more than $5,781 billion which is a supremely massive figure with 19% of this value being generated through online channels (Total retail sales in China, 2017). The opportunity for new entrants within this type of robust growth environment is endless given the appropriate entry strategy for competitors coming from Saudi Arabia and beyond.

Retail Sector Ownership in China

Presently, establishing a WFOE is fully permissible within China and is an outcome of the opening up economic policies begun during Kai Fang. WFOEs are an attractive option for retailer intent on entering into the Chinese marketplace that desires to retain its core brand identity, retain strategic control over the firm and also retain in-country profits as well. In order for a retailing entity to establish a WFOE in China, it must apply to the local government office in the area in which it intends to set-up operations and provide a very well-defined scope of its business model, business plan and business operations to the local authorities (Establishing a wholly foreign-owned enterprise in China 2018). Thereafter, if approved, the entity cannot venture beyond this scope of operations without running the risk of having its WFOE approval revoked. There are avenues available for WFOEs in China to expand their presence or to enter different markets. Yet, this requires essentially revision to the original WFOE and an infusion of additional registered capital or a new WFOE entirely (Teiwes & Sun, 2016).

The issue of registered capital is central to the establishment and approval of a WFOE in China. The amount of registered capital that each WFOE is required to submit depends on the type of business, the industry and the composition of the company. The regulations state that: 1) RMB30 thousand for WFOEs with more than one investor or 2) RMB100 thousand for WFOEs with just a single investor (Establishing a wholly foreign-owned enterprise in China 2018). This is the basic guideline for registered capital and the final amount is entered into the firm's formal articles of incorporation within China. However, in practice, the amount of registered capital fluctuates substantially based on the type of firm, the industry and the scope of the business. The Table 2 below illustrates the most commonly seen registered capital requirements for WFOEs in China (Establishing a wholly foreign-owned enterprise in China 2018).

Table 2
REGISTERED CAPITAL REQUIREMENTS IN PRACTICE

Firm Type/Industry	Registered Capital
Consulting Firm	RMB100 to 500 thousand
Service Firm	RMB100 to 500 thousand
Technology Firm	RMB100 to 500 thousand
Retailing Firm	RMB500 thousand to RMB1 million
Food/Beverage Firm	RMB500 thousand to RMB1 million
Manufacturing Firm	RMB1 million & up

As this Table 2 illustrates, the local and regional authorities have significant latitude in the funding requirements necessary to establish a WFOE.

Additionally, each WFOE must also have non-registered capital resources in place. Non-registered capital is simply the amount of debt-financing that the WFOE is allowed to acquire in-market. Furthermore, whatever the pre-approved and pre-determined amount of non-registered capital is decided on by the local authorities cannot be exceeded by the firm in question. Combined, WFOEs must meet certain investment thresholds between their registered capital and the amount of their non-registered capital presented in Table 3 (Establishing a wholly foreign-owned enterprise in China 2018).

Table 3
REQUIRED INVESTMENT THRESHOLDS FOR WFOES

Investment Threshold	Capital Requirement Ratio of registered capital to non-registered capital
US3 million & under	7/10th of combined investment
US3.1 million to US4.2 million	US2.1 million
US4.2 million to US10 million	50% of combined investment
US10.1 million to US12.5 million	US5 million
US12.6 million to US30 million	2/5th of combined investment
US30.1 million to US36 million	US12 million
US36.1 million & up	1/3rd of combined investment

These figures indicate just how careful Chinese authorities are in developing their policies for foreign direct investment. By ensuring that the capital requirement ratios maintain these general ratios, they are ensuring that these international retailing firms contribute in a positive way to China’s overall economic growth and development.

The actual process to gain approval of a WFOE is quite involved which can prove a challenge for the smaller retail operators. This is because smaller retailers may lack the organizational resources to manage this type of market entry strategy effectively. This process, if managed efficiently, still requires some 4-6 months from start to finish but can easily go beyond this time-frame if there are any issues encountered anywhere along the process. The steps in gaining WFOE approval can be broken down into a pre-licensing phase and a licensing phase which are detailed in the following points:

Pre-licensing Phase

a. Entity must gain local approval for the intended corporate name from the local authorities in the Administration for Industry & Commerce or AIC office.
b. If fixed capital assets (land and/or buildings) are required, the local National Development & Reform Commission (NDRC) offices must be consulted.
c. If the WFOE operates in a regulated industry such as education, healthcare or similar, the pertinent government ministries must be consulted.
d. Application to the local Municipal Commission of Commerce (MCC) office with the following elements in place:
    i. AIC preapproval of the intended entity name.
    ii. Complete proposal for the business with scope.
    iii. A feasibility study listing: investment amount, managerial structure, overall number of employees, requirements for utilities, supply chain model, pro forma estimates of cash flows and expenses.
e. Formal articles of incorporation.
f. A certificate of incorporation certified by the Chinese embassy with passport copies of all officers.
g. Certification for all capital from the banking institution of each investor.
h. Lease instrumentation if applicable or certificate of ownership for real estate.
i. A formal letter of authorization.
j. Annual report and/or audit of the company if pre-existing.
k. All MCC forms fully completed.

Licensing Phase

a. Business license application at the AIC with a copy of the MCC approval certification.
b. Completion of all AIC application forms.
c. Registration of the WFOE and its formal seal with the Division of Entry & Exit Administration as well as the local Public Security Bureau agency office.
d. Certification from the Technical Supervision Bureau complete with its own unique code number.
e. Certification by the local tax bureau offices.
    i. Corporate taxes must be submitted to the local Tax Administration Department monthly, quarterly and annually.
f. Registration with the Administration of Foreign Exchange which establishes accounts for foreign currencies.
g. Establishment of an in-country bank accounts.
h. Certification from the Bureau of Statistics.
i. Certification from the Finance Bureau.
j. Official import-export licensure from the local Customs House agency.

It is clear that establishing a WFOE is time-consuming and resource dependent. Establishing a WFOE requires real commitment on the part of the retailing firm but typically retailers that are intent on entering into China do have the requisite in-house resources and are able to source experts that can shepherd them through this process.

For Saudi Arabia, this very detailed process for allowing WFOEs in the China can be transferred to its own economy. This type of staged process for establishing WFOEs ensures that Saudi Arabia's Ministry of Commerce retains ultimate authority over and rights to review all WFOE applications. The Kingdom's Ministry of Commerce is tasked with developing and implementing commercial policies that promote economic diversification through

> *"Commercial systems and regulations", "means of supervising the development of domestic trade markets…",* and *"to…develop non-oil exports…and provide access to new markets"* among others (Tasks of ministry, 2018).

The evidence suggests that China's existing WFOE framework could easily be adapted to Saudi Arabia's ongoing economic reform initiatives as a means to further open up its economy to foreign investment.

The Future of Foreign Ownership

The suggestion is made in this present document that China's market will only become more open to foreign enterprises. This ongoing expansion of WFOEs in China is an indication of the Kingdom's own need to do the same. This openness can be characterized as being one that promotes WFOEs resulting in retailers that are fully independent, autonomous and less regulated over time. This in turn promotes even further interest in the marketplace as outside firms witness competitors' own experience with economic success in Saudi Arabia's retail marketplace. The only caveat to this observation relates to the 2018 trade war China is currently engaged in with the US (Yan, 2018). While not instigated by China, it has been forced to retaliate tit for tat with the US in implementing new tariffs on an increasing number of imports because of the large number of new tariffs adopted on the US side with the entire mix of Chinese imports into the US potentially being threatened with tariffs.

It seems clear that this trade war in 2018 is having a significant repressive effect on new entrants into the China marketplace but the hope is that some type of agreement can be made between the two markets. Yet, incidentally, the trade war presents a significant opportunity for SA to further expand its FDI activity in China and especially in the automotive related industries:

> *"China…will scrap foreign ownership limits on local auto firms by 2022, boosting companies such as Tesla*

which may wish to have a wholly-owned subsidiary…" (Lee & Ren, 2018).

As this passage demonstrates, any interference on free trade that China has with the US can only be a positive for Saudi Arabia because of its recent $1 billion investment in the Lucid Electric Car Company. This newly deregulated industry in China means that any vehicle company manufacturing solely electric vehicles as well as hybrids that can be plugged in can be wholly owned as soon as 2018. This same removal of restrictions will, as mentioned previously, be made available to all vehicle manufacturers by 2022 barring issues with the ongoing trade war with the US.

Perhaps the most important lesson that can be gleaned from the existing research relates to the element of change. The research on the future of the China retail market is that the only constant in the marketplace is change and the pace at which change occurs. From Saudi Arabia's perspective, its economic reforms should be focused on both the promotion of WFOEs in its own market and encouraging its own domestic retail competitors to themselves engage in this strategy in markets such as China. Those firms that are intent on entering into the Chinese retail market would be well served to identify how the retail sector has responded to foreign competitors that have established themselves in the market. This is because since the country's acceptance into the WTO, the WTO entry has acted to complete the economic revival of the country through developing economic parity between China and other major markets. Many international firms, prior to the removal of all barriers to WFOE status, could not compete on an even playing field in China despite kai fang and its economic initiatives. The retail marketplace in China has evolved dramatically not only from the earliest period of kai fang but also just from entry into the WTO. It has even experienced enormous shifts in composition just from the 2010s with the ascension on online retailing and retailers. All of these outcomes in China's retail sector can be expected to be mirrored, to one degree or another, in Saudi Arabia as it promotes its own WFOE related policies.

Online and web-based retailing is supported throughout China by a range of technologies from social networks to payment applications and so forth. The official data suggests that the online shopping category in China grew almost 40% which boosted retail sales in general by some 32% from the previous 12-month period with web-based sales being valued at Yuan7.18 trillion (Statistics, 2018). Hence, it is certain that any foreign investment by Saudi competitors or partnerships invested in must consider the ways in which the online sector will continue to influence how retail develops in China. Based on some observations gleaned from relative literature, the following observations can be summarized: The trials and triumphs of foreign retailers in China. (2017)

1. The data indicates that by 2017, about 70% of the top 50 retail companies in the world had entered the Chinese marketplace-Saudi Arabia should have its own retailers well-established as well.
2. Traditional retailers in China experience significant fluctuations in revenues with large international retailers like Carrefour posting a 12.3% decline of revenues in 2015 but a 25.9% increase in 2016 for instance-Saudi firms must be aware of and mitigate for such volatility in the marketplace.
3. The Chinese retail marketplace can support enormous numbers of retail locations with brands such as Adidas maintaining more than 10 thousand unique locations throughout China which produce in excess of $3.3 billion annually.
4. There is significant room in the luxury spectrum of the retail marketplace because the country only produced 4% growth recently but globally the growth rate was just over 7%. Additionally, Chinese consumers actually are responsible for almost 30% of all luxury sales internationally and thus this indicates that if China could repatriate many of these luxury transactions, its luxury marketplace would be massive.

These four points regarding where the Chinese retail marketplace currently is and what directions the trends appear to indicate, reveal some useful insights for Saudi retailers.

Essentially, Saudi retailers entering into China must recognize that Chinese consumers are infinitely more sophisticated than they were even just 10 years ago. Additionally, that value and brand identity are privileged above price within the marketplace by Chinese consumers.

One useful tool for Saudi investors and firms to rely on when considering WFOE status in the retail space involves the practice of benchmarking. Benchmarking can take several forms, but one valued method is to simply see which large retailers are successful in China who was already or who have become WFOEs. Just identifying which large firms have had success at establishing WFOEs in the milieu of socioeconomic reforms points the way to greater economic diversification for the Kingdom. A list of some relevant benchmarks of retail success for WFOEs is presented in the points below: (Doland, 2015)

1. Hershey's: the firm adopted the acquisition approach by buying a large, established domestic confectionary firm, the Shanghai Golden Monkey Food company in 2014 which became wholly owned when all closings were completed.
2. Ikea: Ikea has managed to thrive in China due to its unique retailing format. Ikea has experienced sales revenue growth of as much as 25% annually at times due to its novel format that encourages consumers to feel and utilize its products in-store and to offer cheap snacks and a carnival atmosphere.
3. Starbucks: the company has been enormously successful in China with more than 1600 locations and it has built its success on its capacity to localize its products in order to appeal to local consumers. Additionally, it has managed to do this through associating the firm with an aspirational brand identity
4. Apple: Apple is both an aspirational brand in China and a luxury brand simultaneously precisely by remaining a vertical enterprise in the market.

These firms have leveraged their ability to control their own destiny in China's retail space as it were. In prior eras, they would not have been able to determine best practices for branding purposes, marketing collateral or pricing policies vis-a-vis their product or service mixes.

DISCUSSION AND CONCLUSION

China's economic reforms and opening up instituted in the late 1970s and culminating most recently in the removal of all barriers to WFOE status have a great deal of relevance for Saudi Arabia. Saudi Arabia is engaged in its own reform and opening up period as spelled out within the context of its Vision 2030 initiatives aimed at achieving economic diversification. Like China's kai fang, the Kingdom's diversification plan is inherently dependent on social reforms as well. Socioeconomic reforms are vital in order for any economic policies to be fully effective. In Saudi Arabia's case, it has learned the lessons that China discovered during its own kai fang. Firstly, the economic reforms must be associated with a core economic principle.

For instance, kai fang was associated with the economic principle of decentralization while Saudi Arabia's economic reforms are associated with the economic principle of diversification. Additionally, where China's kai fang removed barriers to private ownership, Saudi Arabia's diversification efforts have been accompanied by the removal of barriers to economic participation. Finally, the most important lesson for Saudi Arabia is that in free market operations, WFOEs must be promoted or major international retailers will not commit to the marketplace because they cannot control their brand strategies, branding efforts or related strategic activities. The overarching idea is that economic isolation is typically accompanied by social inequalities where both act to undermine or limit economic growth (Chen, 1992).

Another aspect of kai fang as a template for Saudi Arabia rests with the fact that the national economy depends on a single natural resource. Furthermore, such economic dependence causes other economic disruptions as well such as pricing volatility across virtually all markets due to supply chain and logistics links to the use of energy. Also, as China loosened up its controls over foreign ownership in the retail sector culminating with the recent removal of almost all such controls, it experienced a renaissance in retailing activity. The kai fang policies had elevated the quality of life for millions of Chinese and instead of being content with having jobs making consumer product goods, the population now desired to purchase them as well. WFOEs promote purchasing power parity within an economy on a macroscale. Furthermore, China's existing policy apparatus to qualify WFOEs can be used as a template for Saudi Arabia's own emergent WFOE policies. In some sense, the promotion of WFOEs results in a kind of self-fulfilling economic prophecy in those allowing WFOEs as a means to stimulate economic growth stimulates further economic spending which results in even greater demand for WFOEs in the marketplace.

There are a few cautionary observations in the literature as well. The continuing shift in the retail space towards online shopping and purchase habits is a concern in the retail sector globally and this is certainly true for the Kingdom as well. Still, it is just as certain that some WFOEs approved to operate in the Kingdom's retail sector will be focusing on the online space. The four observations discussed in the literature all can be applied to Saudi Arabia's own retail marketplace:

1. The top 50 retailers will want to establish WFOEs in the Kingdom.
2. Some volatility in the marketplace can be expected as these WFOEs develop their strategies.
3. Recent social reforms are promoting consumer spending in the marketplace.
4. The luxury segment in the retail space in Saudi Arabia is an attractive space for WFOEs.

Understanding how these points relate to the Kingdom's own socioeconomic reforms provides a useful rationale for expansion of its Vision 2030 economic diversification policies.

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