Case Studies on

China Inc.: Going Global

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OVERVIEW

Many names from the Far East – the likes of Lenovo, Haier, TCL, Huawei, CNOOC, Nanjing Automotive, CNPC and China Mobile – are reverberating in all the international business meetings. All the top execs who are now enthused to know about these companies would have let these names go unrecognized, a little while ago. Now, though, they shall have to miss these rising global giants at the cost of their own fortune – and no more is the Far East far-off. The Fortune Global 500 – the most acknowledged list of global companies – figured 24 Chinese companies in 2007, more than doubled in a span of 5 years. During the same period the value of overseas acquisitions completed by Chinese companies has increased five-fold. It is time for the Chinese companies to make a global impact and achieve high performance, after their Asian counterparts from Japan and Korea. The main reasons for the growing presence of Chinese companies in the global business arena have been the country's rapid economic growth and its economic integration with the rest of the world.

Economic Growth and Economic Integration

In the last quarter of the 20th century, China's economic growth was phenomenal – due to its growth in exports, infrastructure spending and gradual market liberalisation – which resulted in China's entry into the World Trade Organization (WTO) in 2001. This further enhanced the country's growth rate and economists predict – though dates vary from 2025 to 2050 – that China's economy will surpass the size of the US' to become the world's largest economy. China's GDP has multiplied by 7 times in the 20 years through 2005, much faster than the US and Japanese GDP growth during their early stages of economic development. China's GDP growth is projected to maintain annual growth rates of at least 7-8% till 2015 and beyond.

China has become the world's fourth largest exporter, with high-technology products such as telecommunications equipment, computer and electronic products and electronic components accounting for a major share in total exports. It is now the largest exporter of information technology products surpassing the US in 2004. Not in just exports, China is also a leader in attracting FDIs (Foreign Direct Investments). Foreign companies have invested more than $700 billion, with $32.9 billion in first half of 2007 alone, making China the world's third largest recipient of FDI. WTO membership eased many restrictions on operating in the Chinese backwaters and offered access for foreign companies. The membership acted as a double edged sword for China, it not only helped boost economic growth but also enhanced the position of their companies overseas. It helped china's 'national champions' to build up their capabilities and compete with foreign competitors effectively.

Chinese Companies going Abroad

China's Outward Direct Investment (ODI) and cross-border M&A has been traditionally abysmal by western standards. To bring about a change in this and encourage Chinese companies to expand overseas (or 'Go Global'), the Chinese government has announced many initiatives in 2000. These initiatives coupled with the country's entry into WTO, resulted in a number of Chinese companies acquiring foreign firms. Failure in some of these acquisitions raised questions about whether Chinese businesses are prepared to operate on the international arena, but this could not deter them in their international ventures.

Further, the Chinese administration announced some relaxations on some of the financial controls that govern ODIs in 2006. Earlier, the government capped a total ODI of $5 billion per year and the companies, which intended to invest more than $10 million, had to seek special approvals. Relaxation on these is expected to boost ODIs to reach around $60 billion by 2011.

The macroeconomic picture is just a part of explanation for why the Chinese companies are going global. The next part is that some companies with their home market dominance are looking for new opportunities in the global arena. They want to win a place in the global market through acquiring established international brands and technologies, rather than building from scratch. Lenovo's acquisition of IBM's PC division, to become the world's third-largest PC- maker, is a classic case in point – though the success of the move is awaited. However, some similar moves by the Chinese national champions (in their respective fields), have failed in a short span of time. BenQ acquired Siemens' mobile phone business in October 2005, but by December 2006, the company had to call it a failure, due a host of reasons – after announcing an € 800 million loss. Another quotable example is the deal between TCL Multimedia Technology Holdings and Thompson, the French video-technology giant. A Joint Venture(JV) called TTE Europe has been formed by these companies in August 2004 and TCL aimed to expand its presence in Europe and North America through the renowned Thomson brand. In the first three quarters of 2006, TTE Europe posted a net loss of around € 159 million and eventually in October, the JV closed most of its European television-making operations and returned the Thomson trademark.

Some of the Chinese companies have failed even to close deals in foreign countries due to non-economic challenges like political or security concerns. In 2005, CNOOC, the arm of state-owned China National Offshore Oil Corp, failed in its attempt to acquire Unocal, due to opposition from US Congress. The bid of CNOOC was worth $18.5 but the rival bidder Chevron, a US company, could scoop Unocal for $17 billion. Similar fate welcomed Chinese white-goods manufacturer, Haier, when it offered $1.28 billion for Maytag, one of the most famous consumer brands in the US. The US media professed that Haier would move production to China and downsize Maytag's head count. The competing bidder Whirlpool acquired Maytag and announced closure of three Maytag plants and laid-off 4,500 employees. Despite these hostile failures, many Chinese companies believe that they can operate on the global arena and emerge victorious, by putting a premium on higher value-added products and services.

No More Low-cost Manufacturers

For various reasons, Chinese companies' aspirations to make themselves big on the global level can be compared with that of Japanese's in the 1970s and of Koreans' in the following decade. During that period Japan and Korea, morphed from low-cost manufacturers to providers of high value-added products and services. From 2000, Chinese companies are acquiring the necessary technology and skills to transcend to global companies. Many of them are not shy to experiment with their own brands in foreign markets. The Chinese companies are just primarily targeting Asian markets but they are also spreading into the US and Europe.

China's globalisation efforts have some unique features too, compared to that of the Asian precedents. The major differentiating factors are China's volumes – unlike Japan's and Korea's – and rapid growth in the early stages of economic development. Also, China opened its domestic markets to foreign competitions much earlier than the other two. While China's WTO entry has carried the vices of the increased foreign competitions in domestic market, it also has the virtues of exposure to global management concepts, overseas talent, technologies and best practices provided by MNCs investing in China.

The differences do not end here. Japan's and Korea's carefully orchestrated industrial policies nurtured global champions such as Samsung, Sony and Toyota. China placed much emphasis on industrial restructuring as part of its transition to a market economy, rather than encouraging only the national champions. The Chinese companies will be put to an acid test on the global market and will have to face a more challenging environment than their Japanese and Korean counterparts did during their early years of going global.