

**INTERNATIONALIZATION OF CHINESE COMPANIES:  
THEORETICAL EXPLORATION AND  
STRATEGIC IMPLICATIONS**

by  
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## **ABSTRACT**

The subject of foreign investment of China has received a great deal of attention in the past twenty year. During the time, most of literature has been primarily focused on foreign multinational companies (MNC) and their business activities in China, while little attention has been given to investigating Chinese investments overseas and business practices of Chinese companies in the world market. However, with China's economic development, international activities of Chinese-based multinational corporations have become substantial and significant. It is the intention of this project to provide a systematic understanding of internationalization of Chinese companies and prepare domestic companies better for worldwide growth.

In this project, the evolution and prospects of Chinese foreign investments are discussed based on both conventional theories and empirical observations well. With such understanding, the study analyzes characteristics of China's outward foreign investment and addresses opportunities and challenges implied for Chinese companies to venture abroad. Further to this, the experience of Haier Group's successful international expansion has been examined. A set of strategic implications are derived from Haier's case to prepare domestic companies with competition in global market and facilitate the development of their strategic response. One of key findings is that decisions on pathways of internationalization should be made on the basis of companies' competitiveness, risk-tolerance level and strategy plans.

## **DEDICATION**

To My Dear Parents, and Zhou, Cheng

## **ACKNOWLEDGEMENTS**

I would like to thank Dr. Merchant for his help and guidance of this project. I also would like to express my gratitude to my family and all those who offered support and encouragement throughout completion of this program.

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# 1 INTRODUCTION

Since its reform launched at the end of 1970s, China's economic take-off and the impact of such a take-off on the global economy has received wide attention. With its economy gradually integrated into the global economy, China has been noticed as extremely successful in attracting foreign direct investment. It is by UNCTAD that: "China may for the first time overtake the US to become the largest FDI host country in the world" (UNCTAD, 2003). Accordingly, foreign investments in China, foreign owned multinational companies and their business activities in China have been well documented.

On the contrary, little study has been done on the foreign investments by China and business activities of Chinese multinational companies. In fact, the growing Chinese economy is outreaching through unprecedented amount of outward foreign investments: according to statistics released by the Ministry of Commerce in 2003: China had set up 6,960 enterprises overseas with a total investment of US\$13.7 billion by the end of 2002, of which US\$9.3 billion was invested by Chinese side. (China Daily, April 11 2003). The international activities of Chinese-based multinational corporations have also become substantial and significant. Both the Far Eastern Economic Review and the Wall Street Journal put into their headlines the acquisitions of oil and gas fields by PetroChina and the China National Offshore Oil Corporation (CNOOC) in Indonesia in the first quarter of 2002. (Wall Street Journal, 2 May 2002; Far Eastern Economic Review, 28 March 2002). Therefore, the outward internationalisation of Chinese companies has been

imperative issue and need immediate attention. However, lack of understanding on critical issues of China's foreign investments and internationalisation of Chinese companies will be a crucial limitation to for Chinese companies to grow multinational.

This paper aims to provide a systematic understanding of internationalisation for Chinese corporations who seek to invest internationally or expand multinational. It investigates China's outbound foreign investments against the background of the country's growing economic development, which provides a macro understanding of internationalisation of Chinese corporations. Due to China's comparative advantages, industry development level and market competition, Chinese manufacturing companies have turned out to be most potential group to go internationalisation. By studying the successful story of the Haier Group, strategic implications at firm-level are addressed to prepare domestic companies with competition in global market and facilitate the development of their strategic response.

The following section is mainly literature review, in which academic theories concerning determinants of FDI and multinationals are discussed, providing theoretical explanations of foreign investment by China and its prospect. Also the trend of foreign investments by Chinese companies is prospected basing on an empirical observation. Section three analyses characteristics of China's outward foreign investment and addresses opportunities and challenges implied for Chinese companies to venture abroad. Last section is firm-based investigation. The experience of Haier Group's successful international expansion has been examined. A set of strategic implications for Chinese would-be multinationals is derived as the main findings of paper.

The paper uses aggregate data published by the UNTAD, IMF and other international organizations, the report by state official department, for example, Chinese Ministry of Foreign Trade and Economic Cooperation (which is now Ministry of Commerce and Trade). Significant amount of data and information on Haier Group were collected through interviews with Mr. J.Z. Xie<sup>1</sup>, general manager of Business Promotion Dep of HMS Shanghai Centre, Haier Group. The rest come from other public available resources. (E.g. newspapers, periodicals, etc.)

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<sup>1</sup>Translated from the Chinese: 解居志: 海尔集团商流推进 HMS 上海中心总经理

## **2 LITERATURE REVIEW**

### **2.1 Definition**

Economists are not in agreement as to how multinational or transnational corporations should be defined. Multinational corporations (MNC) have many dimensions and can be viewed from several perspectives (ownership, management, strategy and structural, etc.) According to Root (1999), an MNC is a company that:

1. Engages in foreign production through its affiliates located in several countries,
2. Exercises direct control over the policies of its affiliates,
3. Implements business strategies in production, marketing, finance and staffing that transcend national boundaries (geocentric).

More generally, the term is used to refer to global chains of affiliated companies managed and controlled from a headquarters located in a specific country. (Kumar, 1999) Sometimes, MNC is defined in a more restrictive fashion. It has been suggested that multinational requires operations in a minimum number of countries, usually five or six, or a multinational corporation should be a certain size before it can be called an MNC. However, most researchers prefer a broad definition with either of above restrictions. (Jones, 1996) Because even the company has only one affiliate overseas, its operation has gone beyond the border. It may utilize host country's resources and market opportunities; it will also have to deal with problems and challenges that won't be encountered if its activity happens in domestic market only. Although many MNCs are very large; they can

actually be of any size, even very small by any definition. (Jones, 1996) Specifically, this paper focuses on issues that Chinese companies will encounter when venturing across the border. In this paper, the broader approach mentioned above is taken to define multinationals. Therefore, Multinational corporations refer to corporations owning and controlling production or other value-adding activities in more than one country/economy.

Foreign Direct Investment (FDI) is the distinctive feature of MNC. It is an ownership interest or equity in an enterprise located in one country that is held by residents (usually another enterprise) of another country. FDI is the extension of an enterprise from its home country into a foreign host country. (Kumar, 1999) A company is not a MNC if its sole international involvement is the exporting of goods or services from its home base. The essence of the multinational concept is that the firm owns value-added assets and conducts management control in at least two countries. (Jones, 1996) Management control is the critical factor for MNCs. MNCs can acquire value-added assets by both portfolio investment and FDI. However, portfolio investment involves acquisition of foreign securities but with no management control. Therefore, MNCs engage in FDI because they can both own and control assets in foreign countries by management. FDI is conventionally used as a proxy to measure the extent and direction of MNC activity. This convention is used in this paper.

It is necessary to clarify that China's investment in Hong Kong (and Macao) has always been defined as outward foreign investment both before and after 1997 (1999 when refers to Macao). Hong Kong (and Macao), although whose territory is now part of China, remain an independent economic entity under the framework of 'one country two

systems.’ Mainland China and Hong Kong are following two different sets of economic principles, using respective currencies; business in the two economies is still subject to widely different regulations. As a consequence, Beijing and Hong Kong still regard economic activities between each other as ‘foreign’ and compile statistics accordingly. As such, it is reasonable to view Chinese direct investment in Hong Kong the nature of foreign direct investment.

## **2.2 Theoretical Explanation**

Before any further discussion of overseas investments by Chinese companies, it is necessary to understand what the determinants of MNCs are. What makes companies engage in foreign investment? And what enables companies to go multinational and compete in the foreign market where local companies usually possess advantageous positions?

### **2.2.1 Conventional theory**

Conventional economic theory used to rely on a model of portfolio investment to explain the international movement of capital as a factor of FDI by MNCs. This theory postulates interest rate differences among countries as the cause of international capital movements. It offer an explanation for international capital movements of portfolio capital but can not answer the question of why MNCs choose to involve into overseas operations and productions by direct investment other than invest in foreign securities on the international capital market to earn a higher income. (Root, 1999) It was in his PhD thesis in 1960, Stephen Hymer made the very breakthrough of modern theorizing about MNCs. Hymer asserted that FDI involved the transfer of a whole package of resources

and not simply finance. The package involved technology, management skills, entrepreneurship, etc. By transferring this package of resources to a foreign country, the MNC gains a comparative advantage over local firms. Meanwhile, such transferring required the company ability to take risks of operating in alien markets and pay the high cost of searching information, negotiation and learning. (Dunning 1993: 73) As is evident in Hymer's theory, firms who seek to go multinational have to possess some kind of comparative advantages and can afford the cost and risk to exploit them.

### **2.2.2 Eclectic paradigm (OLI)**

Such comparative advantages were further elaborated in the eclectic paradigm by John H. Dunning to explain the international investments of multinationals. The eclectic paradigm maintains that the FDI activities of MNCs depend on the interplay of ownership, location and internalisation advantage.

*Ownership advantages* are those that enable specific companies to grow and compete more successfully than others at home or abroad. These advantages are based on the company's own investments in creating intangible assets such as advanced technology, brand names, marketing skills or efficient organizational structures. A significant edge in at least one of these areas is a necessary condition for a firm to set up production / operation facilities in a foreign country and compete with local companies, which enjoy lower costs of communication, broader market contacts, deeper legal knowledge and other intrinsic advantages.

*Location advantages* arise at the country level rather than the company level. It determines the sites at which ownership advantages will be exploited. Such site sections



are determined by the possession of specific resources, infrastructure, favourable policies etc.

*Internalisation advantages* determine whether specific advantages are exploited by selling to unrelated companies, say, to foreign markets by exporting or foreign companies on license, or exploited by the original holder through FDI and overseas affiliates.

According to Dunning, the propensity of companies for engaging in FDI is determined by the extent and pattern of the ownership advantages of domestic companies relative to foreign companies; the location advantages – of that country, relative to those of other countries; and the extent to which domestic companies choose to utilize their ownership advantages jointly with the location advantages of their home or foreign countries through internalising the cross-border market for these advantages. (Dunning, 1988, 1989)

### **2.3 Prospect of China's Foreign Investment: Theoretical Analysis**

Basing on his eclectic paradigm, John Dunning forwarded the investment development path (IDP) model, which related foreign investment activities by a country with its economic development. By applying the model, the emergence of FDI by MNCs from China as a late-industrialized country can be explained and predicted in an evolutionary context. Furthermore, the competitive advantages that MNCs develop as economy grows can be identified as well. (Dunning, 1996)

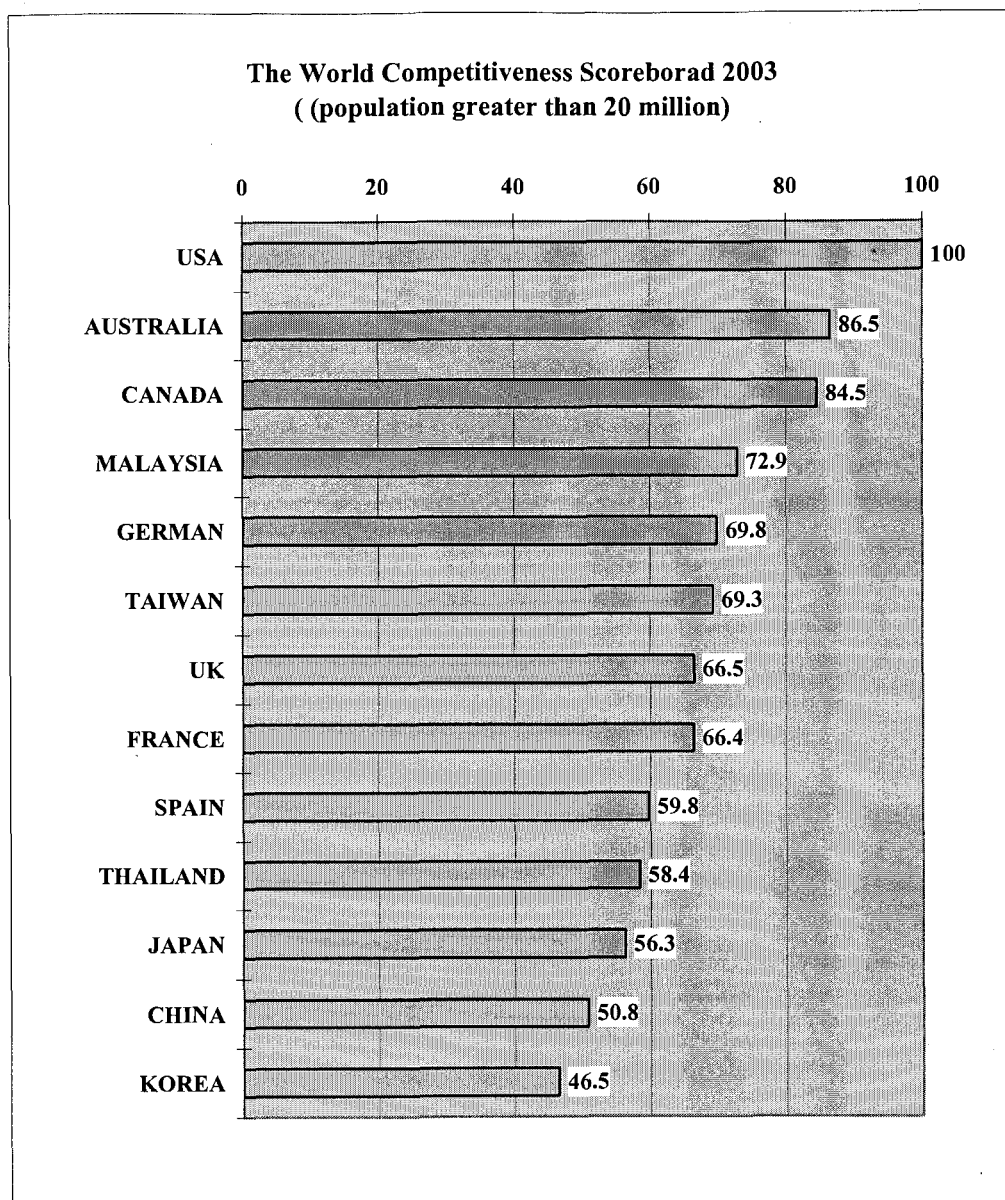
According to IDP model, the relationship between foreign investments by any country goes through predicable stages of evolution as the economy develops. It proposes

that there is a U-shape relationship between economy development and the country's net outward investment position. As economic development proceeds, net outward direct investment will first decline and then grow. In the early phase, the countries are characterized as having very low level of income. Both inward and outward investments are low, because: domestic companies lack ownership advantage, and the infrastructure is inadequate to attract inward FDI even with low labour cost. However, as economy develops, inward FDI will increase for low production cost. It will take a longer time for companies in backward regions and countries to accumulate company-level asset to enable them to engage into outward FDI. Over the time, learning-by-doing and income accumulation will evolve; domestic companies and the outward FDI emerges. At the same time, the country's absolute cost competitiveness will erode, which reduces the inward FDI seeking for low production cost. Other inward FDI seeking for technology or market may expand, however, as the economies become wealthier, domestic companies will seek to secure their competitiveness by engaging in outward FDI in foreign market as well. (Dunning, 1988, Caves, 1996)

According to statistics from National Bureau of Statistics and World Bank, in the past 25 years, Chinese economic annual growth rate was an average of 9.3%, and in terms of comparable price, Chinese GDP in 2002 was 8.5 times higher than that in 1978 when the reform and opening just began. (China Statistic Yearbook, 2002) China is a country with the rapidest economic growth and a rare case of lasting rapid economic growth in the world. With its increasingly economic growth, it is safe to say that China has bee already reached a media level of industrialization and competitiveness in the world (Figure 1), where the country still has advantage of low-cost labour but has

accumulated adequate capital and asset to enable domestic companies to engage in outward FDI. Meanwhile, learning-by-doing will also promote this process to evolve.

**Figure 1: The World Competitiveness Scoreboard 2003**

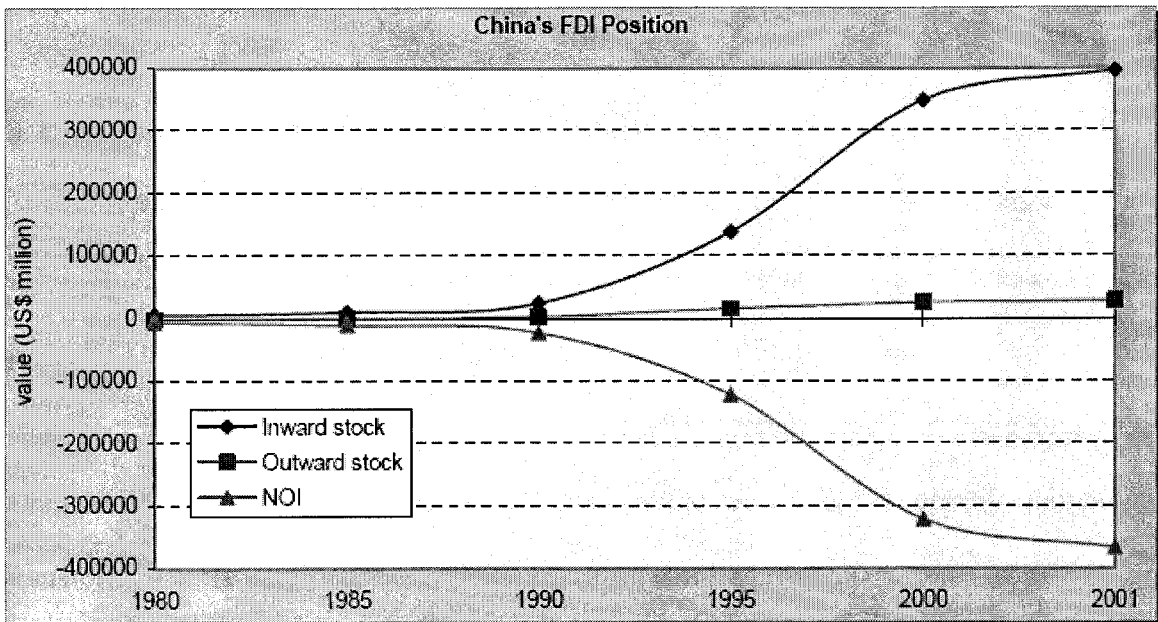


*Data Source: International Monetary Development Yearbook, 2003*

Explained by IDP model, China's inward FDI has risen greatly from the initial low level because of improving location advantages, such as low-cost force, inexpensive

land, growingly improved infrastructure, huge market size, while its outward FDI emerges as a result of the growing ownership advantages of domestic companies but is yet sufficient to offset the growth rate of inward FDI. Consequently, China is currently experiencing net inward investment (Figure 2), which indicates the country has been currently in-between the stage 2 and 3 of IDP model. As outward FDI represents a high stage of economic development during the process of industrialization, growth rate of outward FDI will further increase towards the latter phase of the country's development.

**Figure 2: China's FDI Position**



*Data Source: UNCTAD. World Investment Report, 2002*

### **3 CHINA'S OUTWARD FOREIGN INVESTMENT**

Following the conventional wisdom about a country's outward investment, this section offers a brief overview of foreign investments from China since the beginning of economic reform, and profiles Chinese multinational companies at current stage. Growing overseas investments and international business practices of Chinese companies have implied both opportunities and problem, which domestic companies should take into consideration when planning their venture abroad.

#### **3.1 Evolution of China's Foreign Investment**

According to Dunning's model, foreign investment activities of companies are substantially influenced by the country's economic development and industrialization process. The model provides a theoretical explanation of FDI by Chinese companies that is subject to further growth through various stages. Through exploring the evolution of Chinese foreign investment against the background of China's economy and policy transform, a more empirical observation reveals a similar prospect.

It was economic reform starting in 1978 and a series of policy innovations thereafter promoted and stimulated the internationalisation of Chinese companies. For analytical convenience, the process will be divided into 3 stages: 1978~1985: the inception; 1985~1993: modest growth and adjustment; mid-1990s~now: steady growth.

### **3.1.1 The first stage: a new start**

In the early stage of the open-door policy, the scale of China's investment projects was relatively small and concentrated in a limited number of industries. From 1979 to 1985, there were 189 foreign investment projects approved by central government, with total investment amounting to about \$197 million. The average projects investment was only \$0.95 million. (IMF, Balance of payment statistics yearbook: various years) It reflected that at initial stage of reform, the development priority was domestic restructuring, as both market condition and capital resource were inadequate to support foreign investment. Most of above overseas investments were in foreign trading or trading-related, mainly in finance, consultancy and trading services, for example, China Chemical Imp / Exp Inc. The early outward FDI activities were conducted by state-owned enterprises at central or regional government level. (Tseng, 1996) Those investments were motivated to a great extent by government's political incentives rather than profit maximization. The objectives of establishing such overseas plants includes expanding the area of foreign collaboration, establishing international trade relationships and enhancing China's international political and economic influence. To give an example, central government promoted prominent investments in Hong Kong to boost and serve the state's interest. In 1977, Beijing prodded the BOC to expand and compete in the Hong Kong market. Expansion took the form of aggressive branching and the BOC Group overtook the Chartered bank as second largest banking group in Hong Kong in the late 1970's. (Sung, 1996)

### **3.1.2 The second stage: adjustment**

Starting in the mid-1980s, however, there was a big jump in China's FDI outflow. In

1985, it reached \$628 million, almost five times that of the previous year and by 1990 it increased to \$830 million. From 1985 to 1990, a total of 577 Chinese foreign affiliates (non-trading) were established, the figure was over three times that for the period 1979~1985. The Chinese foreign affiliates covered 90 countries and economies, including many developed countries. (IMF, Balance of payment statistics yearbook: various years)

Following the decentralization of the economic system after 1984 and a new directive released in 1985, private companies were allowed to invest overseas with specific procedures and foreign exchange regulation. Some big transnational companies emerged during this period, such as China Metals and Minerals Import and Export Corporation, and China National Chemical Import and Export Corporation. Chinese companies commenced to overseas investments for profit maximization and strategic development. Extraordinary investments were made in natural resource exploration and development, which reflects the growing demand of resources as a result of domestic industrialization. (Table 1) The provincial and municipal governments played a role in pushing overseas investment activities to obtain capital, technology and other trade support for local development strategies. As a result, manufacturing started engaging into overseas investments. The primary included such industries as textile and clothing, footwear, bicycles, and simple electrical appliances; by which relative simple technology is required and Chinese companies are advantaged from low-labor cost.

**Table 1: China's large overseas investments, natural resource development (US\$ million)**

	Investor	Amount of investment	Destination
1984	China National Fishery Corp.	36	USA
1984	China Forestry Int. Co.Corp	3.85	Brazil
1984	China Fishery Co. Ltd.	30	USA
1987	China Metallurgical Industrial Corp	117	Australia
1987	China Metallurgical Imp./ Exp. Corp.	38.15	Australia

*Data source: Zhan (1995:78-9), Zhang, Y.G (1997: 32), Wall (1996:56)*

### **3.1.3 The third stage: steady growth**

Entering the 1990s, Chinese outward FDI experienced booming development. Beginning in 1993, with some problematic signals emerging during the previous development, such as high inflation rate, poor operation and management of state-owned enterprises, Chinese government implemented economic restructuring, which tightened up the over all control of economy. Even though more rigorous screening of overseas investment was undertook, the annual average of China's FDI outflow substantially increased from \$54 million in 1984~89 to \$2,429 million 1990~94. Since 1995 the number of overseas investments projects started to raise again with policy of central government shifting back to foster. China's outward FDI in the whole 1990s reached an annual average of over \$2 billion, surpassing other major countries and economies. (Zhang, 2003)

Corresponding to the rapid growing volume of Chinese FDI outflows, there has been a drastic increase in the number of Chinese transnational companies and their affiliates abroad. While in 1983 there were only 61 Chinese foreign affiliates in about 30 countries, the number of Chinese foreign affiliates was estimated to be over 6,000 in 1998, spreading over 180 countries and economies (China Daily, May 12 1999).



With further decentralization, the government's role in foreign investment activities turned to provision of concessions in areas like finance, taxation and foreign exchange. The most remarkable increase since the 1990s has been in China's manufacturing investment. As Chinese enterprises have accumulated capital, relevant technology and experience of international business, higher value-added industries and upgrading operation are involved. Examples of companies producing their own products and promoting their own brands include China No.1 Automobile Imp/Expo Corporation, Jingcheng Motorcycle Group Corporation and the Luoyang Tractor Corporation. Another salient feature of this stage is the rising of private enterprises, especially in coastal provinces, given their abundant resources and the presence of inward foreign ventures, promoting international business.

#### **3.1.4 Summary**

As Chinese economy is becoming increasingly integrated with global economy, foreign investment from China are emerging and growing since 1978. By exploring its evolution since the economic reform, we predicted Chinese OFDI to develop continuingly within the year to come basing on following macro-economic factors.

First, the continuing progress of general economy development provides very favourable conditions for overseas investment from China. The main factors include accumulated domestic capital (Table 2), intensive industrialization and enhanced civil intelligence. Secondly, Chinese companies have accumulated sizeable assets, both capital and technology, and international experience. Their competitiveness in the international market has been substantially increased. Thirdly, to keep the impetus of domestic economy development, Chinese government has an increasingly strong political

commitment to deepen liberalization of its economic system and integration into the regional and global economy. With these contexts, outward FDI has become of strategic importance to the country's further development, which suggests a flourish of Chinese multinational companies in the year to come.

**Table 2: Gross domestic product of selected countries (US\$ billion)**

	1980	2001		1980	2001
China	201.69	1159.03	Spain	213.31	581.82
US	2709.00	10065.27	Russia		310.00
Japan	1059.25	4141.43	India	186.39	477.34
Germany		1846.07	Indonesia	78.01	145.31
UK	537.38	1424.09	Thailand	32.35	114.68
France	664.60	1309.81	South Korea	62.54	422.17
Italy	449.91	1088.75	Mexico	223.51	617.82
Canada	266.00	694.48	Brazil	235.03	502.51
Australia	160.11	368.73	Argentina	76.96	268.67

*Data Source: World Bank, World Development Indicators 2000, 2003.*

## 3.2 Motives

As mentioned earlier, although political considerations were very visible during early stage, economic considerations have now become the primary engine of Chinese companies pursuing foreign operations.

### 3.2.1 Resource seeking

Gaining security over access to raw materials is a more often reason for Chinese companies to invest overseas. Such investments, notably in oil, minerals and forestry are usually in a large scale and actually involving a majority of Chinese foreign assets. (Table 3) The increasing demand brought by rapid industrialization and growing

domestic market makes companies in those industries invest to secure a continual supply of the needed material for their industrial operation. Those investment projects establish foreign operations for the raw materials that are entirely or mainly exported to China. A good example is Shanghai Bao Steel Group Corp, who has invested in six joint ventures in Australia, Brazil and South Africa covering both iron-ore mining and steel marketing. From 1990 to 1994, over 10 million tons of mineral were shipped back to domestic plants. (Deng, 2003)

**Table 3: Chinese multinational companies among the top 50 largest MNCs from developing countries, 2001 (ranked by foreign assets)**

Corporation	Industry	Foreign Assets (US\$ million)	Total (US\$ million)
China Ocean Shipping Group	Transportation	9,382	16,926
China National Offshore Oil Corporation	Petroleum	4,814	8,635
China State Construction Engineering Corporation	Construction	3,739	8,099
China National Cereal, Oils and Foodstuff Imp / Exp Corp	Trade	3,707	5,014
China National Petroleum Corporation	Petroleum	3,350	83,254
China National chemicals Imp / Exp Corp	Trade	2,788	4,928
China Capital Iron & Steel Corp	Steel and iron	969	6,675
China National Metals & Minerals Imp / Exp Corp	Trade	729	2,797
China Harbor Engineering Company	Construction	520	3,271
Shanghai Baosteel Group	Steel and iron	383	19,389
Haier Group	Consumer electronics	328	3,188
ZTE Corporation	Telecommunication	17	1,205

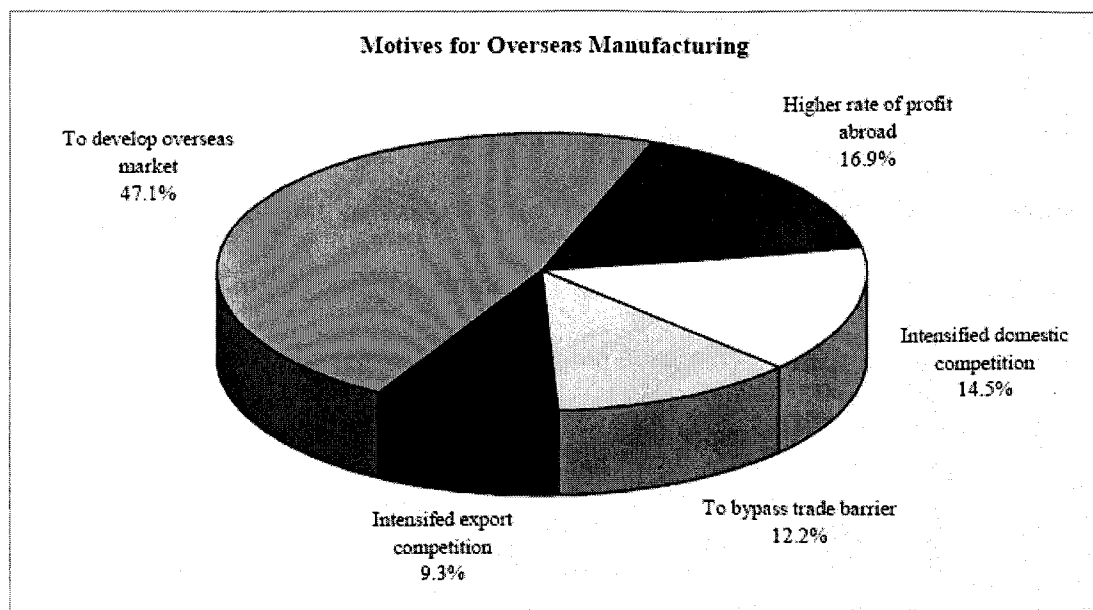
*Data Source: UNCTAD: World Investment Report 2002.*

### 3.2.2 Market seeking

Many Chinese multinational companies invest abroad to seek, maintain or expand export markets for their own products. (Figure 3) Some traditional industries, such as consume durables, are suffering with lean profit margin due to saturation of domestic market. Additionally, the opening policy and industrial liberalization have intensified

competition in domestic market. On the other hand, Chinese companies are often faced with a variety of trade barriers when they seek to overseas markets. Quantitative restrictions and anti-dumping cases have been severe to Chinese exports, especially in manufacturing industries. In 2000, for example, U.S. alone launched six anti-dumping cases against products 'made in China'. (MOFTEC, Almanac, 2000/01) The protectionism and trade barriers against export from China lead to an increasing need for domestic manufacturers to circumvent the tariff and non-tariff barriers to exports. It has become a crucial reason for Chinese companies to establish factories abroad. One of the main reasons for Haier Group to establish manufacture facilities in U.S was to avoid the quota restriction and potential anti-dumping risks. On the other hand, production bases in some developing countries usually facilitate penetrating into a third country market, such as European countries and United States. For example, the subsidiary of Shanghai Knitting Corporation in Turkey has become the company's main channel to export T-shirts to the European Union. Xian Cotton Mill acquired a garment factory in Mauritius, as garments production can be exported from there to U.S. without any quota restrictions. (Deng, 2003)

**Figure 3: Motives for overseas investment by Chinese manufacturing**



*Data Source: Li (2000)*

### **3.2.3 Technology seeking**

Parallel to the resource-seeking investment, Chinese enterprises have urged to obtain access to advanced foreign technologies and managerial know-how so as to renovate the inefficient and over-manned domestic enterprises. Particularly when there is frequent complains again inward FDI in China has been the failure or unwillingness of foreign partner to introduce state-of -the-art technical expertise in their Chinese operations. Such knowledge is often acquired by establishing joint ventures with those foreign companies. For example, in 1994, Shenzhen Electronic Group invested HK\$230 million in joint venture with Hong Kong partner, to develop a plant of special-use integrated circuits with intensive technology content. (Taylor, 2002) Another channel will be assimilating advanced technology parts and components from foreign companies into domestically produced equipment. It was the main purpose of Galanz Group Ltd Co. of

Guangdong purchased a series of production lines in Japan and Germany.  
([www.Galanz.com](http://www.Galanz.com))

In addition, the Chinese foreign affiliate is also a continuing quest for technology and market information to improve the operation. Foreign operations provide good opportunities for management training. As Chinese affiliates operate in an environment where business is conducted with international standard, Chinese management personnel are able to receive first-hand training and invaluable experience.

### **3.3 Main Investors: Companies Categories**

The emerging of China's multinational corporations since 1980s owes to as much as to the country-level reformation and development as to the company-level initiative. Many Chinese companies, driven by respective incentives, have engaged into overseas operations. Some of those precursors, pending on different strength, advantages and competences, have successful developed into powerful rivals throughout the global market. According to respective industry and operation scope, four groups of Chinese companies are simultaneously tackling the global market with a high propensity to internationalise. (See Appendix 1)

#### **3.3.1 National trading companies**

National trading companies, mainly state-owned, are among the first group that the government mobilized as a major outward investment vehicle since 1979 and that has since transnationalized. These original national trading corporations were among the very first to internationalise. They are of comparatively large sized in terms of their annual turnover. They also possess undeniable advantages (in comparison with other Chinese

companies) in engaging the international market. They are clearly among a very small number of Chinese companies that had expertise in importing and exporting, and knowledge of the international market with existing contacts and a client base. Their monopolist position in respective lines of trade, though geared to fulfil government foreign trading plans, put them in an advantageous position to exploit the opportunities offered by China's changing development strategy, which is increasingly oriented towards export-oriented overseas investment. A typical example of them is Sinochem, one of the largest China's largest multinational traders, which reinventing and reengineering through the economic reform into a multinational trading conglomerate with diversified operations on the global scene. In 2001, Sinochem's foreign assets have reached \$2.788 billions and foreign sales \$9.148 billions (Zhang, 2003).

### **3.3.2 Large-scale manufacturing enterprises**

The second group of companies consists of large-scale manufacturing enterprises either state-owned or collectively and privately owned. Some famous of them include Shougang of steel industry and the China Ship Building Industrial Corporation. Outside state-ownership sectors, China's emerging home appliances manufacturing giants, the Haier Group, the Chunlan Group have made significant overseas acquisitions and set up a number of manufacturing bases to capture the overseas market. Those companies have originally won over other domestic competitors in their previous growth. They have already established a solid capital base, captured mature technology in respective industries and sufficient competence of international business through corporations with foreign partners in Chinese market. (Zhang, 2003) The prowess of Chinese manufacturing rivals is not limited to supplying mass-produced goods. China's strong

capability of providing auxiliary items underscores, the scope of domestic plants covers from raw materials, processing equipment, parts and electronic components needed in the industry. Chinese manufacturing is backed up with abundant production resource, which further sharpens their competitive edge. Overseas operations of those companies are mainly driven by profit or strategic motive and attempting to entry the foreign market with the competence in mature technology and economic scale. In most of the cases, the global success of those companies is believed to be of regional interests of local citizens by the government. Therefore, official fosters are given to those companies in form of providing priority to list on China's stock exchange and easy access to bank loans and licenses.

### **3.3.3 High-tech elite**

The third group is the newcomers to transnationalization. Opposite to belief of many people that high-tech business are immune to competition from China, a group of Chinese companies in high-tech industries have quietly developed to an level of global rival. The government fosters the majority of them as the industries involved are of strategic importance to infrastructure establishment or country/territory security, say, telecommunication and aviation. The main industries include computer manufacturing, telecom biotechnology and aviation. In the telecom sector, Huawei, and ZTE are representatives of telecom equipment maker. The international operation of both companies are expending from selling the products to telecom operators aboard, to setting up strategic alliances with local partners, particularly in the emerging markets and to a lessen extent in Western markets. Huawei has a \$100 million joint venture with Siemens in telecom and also a joint venture with 3Com in networking equipment.



([www.Huawei.com](http://www.Huawei.com)) Sometimes central supporting are in the form of technology brought up by government-owned research institutions to enter emerging sectors, such as biotechnology. A solid country-level base of scientific research enables several Chinese companies to take the advantageous position to enter the global. Some Chinese companies have also used state-of-the-art technologies created in government laboratories to develop products for the world market. (Zeng and Williamson, 2004)

#### **3.3.4 Small and Media-size enterprises (SME)**

The last one is a large group of small and medium-sized specialized private companies that operate in low technology content and labour intensive. In China, large amount of such companies, the majority of which are small to medium-sized entrepreneurial companies, make up a competitive network or cluster of related business fields in China, located in one geographical area, particularly in eastern coastal of China. In Taizhou and Wenzhou, Zhejiang Province, where private enterprises are flourish, private companies carried all foreign investment projects registered in 2002. (Tseng, 1996) The close business relationship among those companies enables them to operate as a cohesive, interdependent entity. Those Chinese companies are highly flexible, low-cost producers who characterized as little bureaucratic systems and little corporate overhead. Though these companies are often ignored because the operation pattern doesn't conform to the conventional concept of a globally competitive organization. But their power shouldn't be underestimated. They have thrived in markets that require quick responses to changes in demand. The competitiveness of those Chinese overseas operators is best reflected in industries where changes in style affect demand. This group of companies have taken the markets for watches, socks, shoes, toys, pens and Christmas decorations

by storm, capturing market shares of as much as 50% in some of these industries. (Zeng and Williamson, 2004) Those companies have expanded international operation through establishing sales centres or distributing networks in target countries. However, with its original limitation on capital, knowledge gap have turned out to be critical constraints for those companies further growth.

### **3.4 Opportunities and Problems**

#### **3.4.1 Opportunities for internationalisation of Chinese companies**

As mentioned before, with the rapid growth of the economy, Chinese companies, especially in those industries that China enjoys conventional advantages, have accumulated adequate ownership advantages, in relate to companies in many developing countries. Such states may have specific endowments, such as cheap land, raw material and broad primary market. While large multinationals from developed countries are often restrained to invest in those countries because of poor economic performance or inadequate infrastructure; Chinese companies enjoy advantages brought by similarities between China and developing countries in terms of consumer structures and business environment. Most importantly, Chinese companies can use production bases and the preferential trading conditions enjoyed by host countries to access third country markets, which are developed countries.

In 2002, China has officially entered the WTO, which has exposed domestic market even further to global competition. On the other hand, however, the membership has brought Chinese companies favourable conditions in outward internationalisation: Chinese companies can get access to more markets in the world than before. As Trade—

Related Investment Measures , TRIMs prescribe both national treatments and transparency applied to the member countries, Chinese foreign affiliates are opened to will enjoy the same access to policy and information as local companies from the host countries.

A recent initiative by Chinese government is to build 'world-class' multinational conglomerates by grouping large manufacturing companies and relevant trading corporations. Such Chinese enterprises will enjoy more autonomy in international business operations than any conventional state-owned enterprises. Primarily modelled after Japanese *Sogo shosha*'s and Korean *Chaebol*, the initiative aims to improve the competitiveness of Chinese multinationals. While large enterprises with superior performance and long history of international business involvement will be considered core members of those 'conglomerates'; it is also an effective channel for small and medium-sized companies to involve into overseas operation. Such access can be gained either through vertical integration –as suppliers, subcontractors for the large conglomerates; or through horizontal integration –several small companies connected with each other along the operation chain and linked up with networks to realize their full potential of international operation.

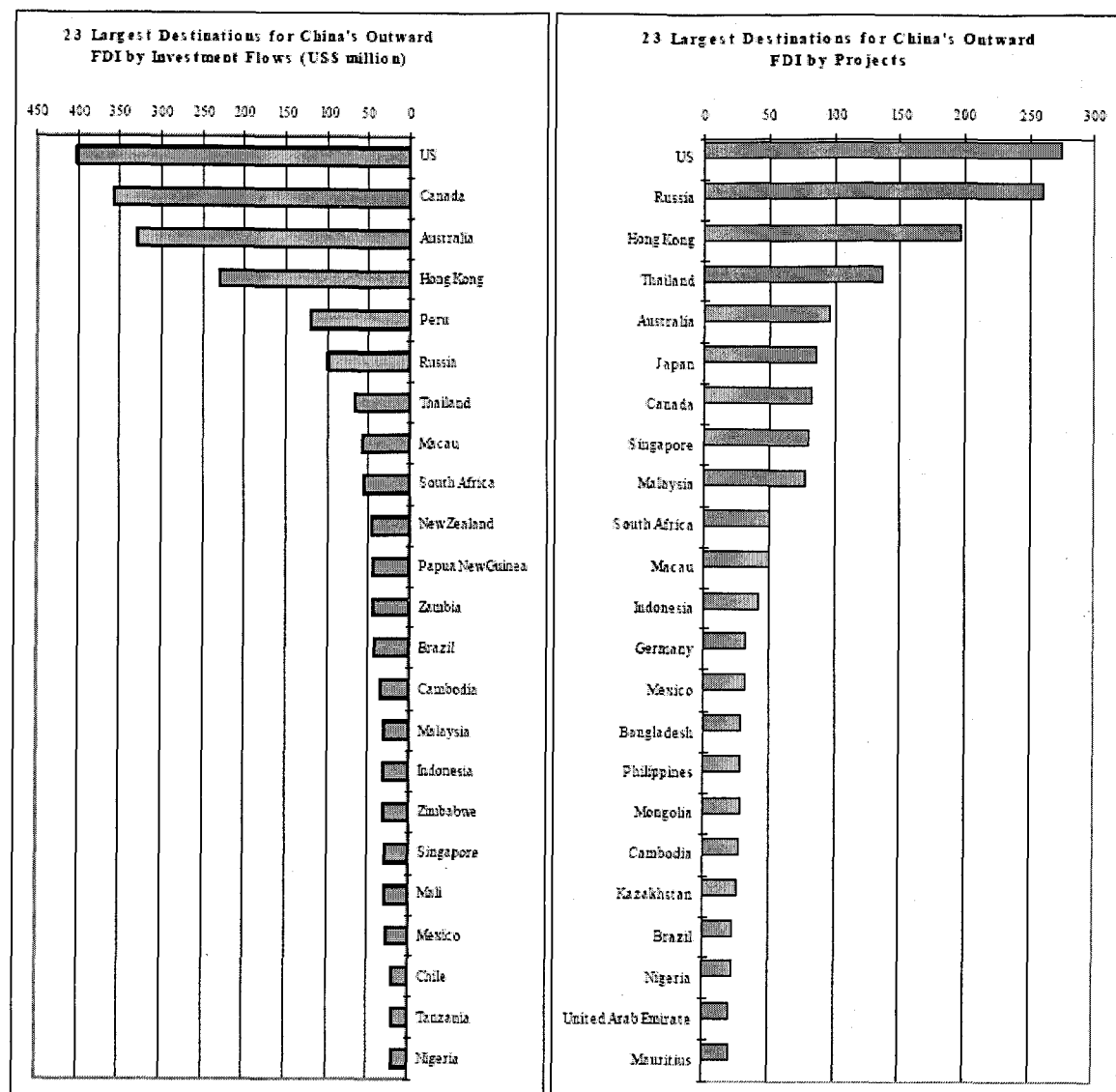
In today's business world, overseas Chinese has become a remarkable economic power over the world. Over 30 million ethnic Chinese has spread over 130 countries and economies. (China International Business, Sep 22 2002) They are now running business ranked from the traditional industries, like retailing and catering to trading, banking/insurance, construction, real estate and manufacture, tourism, etc. Furthermore, some companies owned by overseas Chinese have grown into large interrelated

conglomerates. For example, the Bangkok Banking Group in Thailand. For Chinese foreign affiliates, such a group and their economic power provide a potential market, agent services for international business and resources of managerial personnel for transnational operation.

### 3.4.2 Existing Problems

First, current regional distributions of investment by Chinese companies are heavily biased. Over half Chinese foreign affiliates are located in developed countries with Chinese companies competing between themselves in these countries. Although initially Chinese outward FDI was concentrated in developing countries; in recent years, excluding Hong Kong and Macau, it is estimated that over 70% of Chinese foreign affiliates were located in industrial countries. Investment projects in developing countries are limited both in number and scale, (Zhang and Van Den Bulcke, 1996) which may very likely cost Chinese companies opportunities of pre-empting other competitors in emerging market. (Figure 4)

**Figure 4: Largest destinations of China's outward FDI (1978~1998)**



Data source: MOFTEC: Almanac, 1993/94~1998/99

Secondly, although Chinese multinationals are growing fast, they are still small in scale compared to the big multinationals of the world, and low in labour productivity. The average assets and average revenue of the top Chinese 500 in fiscal 2002 were a scant 6.5 percent and 5.3 percent, respectively, of those of the global 500. On a per employee basis, revenue, profits and assets at the Chinese companies were only 13 percent, 29.6 percent and 15.9 percent of the corresponding figures for world's top 500 firms. (Data source: Kwan, 2002)

Thirdly, due to the lack of a system of incentives to encourage technological innovation, Chinese firms invest relatively little in this field. Although a great number of the top 500 companies in the world pump the equivalent of more than 10 percent of their business profits into research and development, the corresponding figure for the Chinese 500 is only 3.8 percent. (Data source: Kwan, 2002) As a result, technological innovations at Chinese firms are very limited due to lack of core technology, therefore making it difficult for them to further develop products or increase the value added to their products.

Last but not the least, as a result of long-time isolation from the world economy, China lacks the human resources that possess the appropriate skills to conduct business in the global level. These skills are included sufficient knowledge about the foreign market, international legal frameworks, international taxation, international management, cross cultural management and the like. As Kenneth and Geoffrey Lieberthal describe it, "The Chinese middle managers are hierarchically minded and display little initiative. They can carry out specific tasks, but fail to grasp the complex process required to manage a large-scale business" (Economist, March 18 2004). Therefore, the appropriate training and selection of human resource capital will enable the Chinese to compete more competitively in the world market. If possible, there should be recruitment for Chinese with overseas education that has been exposed to the market and business environment of the target market.

In a dynamics of opportunities, challenges and fierce competition, the venture of Chinese companies abroad has been mostly, on an experimental base. So far there has been limited study on enterprise-based business activities that can facilitate /prepare

domestic companies to international growth. However, some Chinese companies, though, have begun their venture overseas on an empirical basis and made remarkable success. One prominent example is the Haier Group, who has invested overseas aggressively and won considerable share of global market share. Strategic implications derived from experience of Haier's international expansion are believed to shade light on international developing of domestic manufacturing companies who are seeking their route of growth in a global market.

## 4 COMPANY ANALYSIS

### 4.1 Chinese Manufacturing Industry

As mentioned earlier, Chinese manufacturing has grown with an extraordinary speed and scope; as a result, productivity in many segments has been in excess of domestic market demand the domestic market. As mentioned before, manufacturing is the field where Chinese companies have developed traditional advantages. Especially in such fields as consume durables; domestic companies are often suffering with lean profit margin because of the saturation of domestic market. (Table 4) As a result, domestic manufacturing companies are urgent to look for a higher margin and broader market worldwide, which makes international managerial and strategic moves an imperative field of study.

**Table 4: The production capacity of household electrical appliance (1995)**

Product (thousand sets)	Production capacity	Utilisation of production capacity (%)	Additional capacity under construction at the end of the year
Washing machines	21830	43.4	2280
Vacuum cleaners	12840	43.2	200
Electric fans	142530	65.1	2550
Refrigerators	18210	50.5	2170
Air conditioners	20350	33.5	3800
Colour TV sets	44680	46.1	2600
Smoke Absorbers	8920	40.2	170
Video recorders	5170	41.7	1900
Camcorders	350	12.3	10
Microwave ovens	2590	38.6	

*Data: China Business Daily 5 May 1997*



Also demonstrated earlier, it is predicted that overseas investment will be the next strategic movement of domestic economy. Similar to the experience of other late-industrialized countries in East Asia, such as Japan, the growth of manufacturing has worked as a most important impetus of China's economic development and restructuring. (Ozawa, 1996) According to China's current economic structure and comparative advantages, a current trend is the shifting of global manufacturing centre to China. Chinese enterprises have grasped successfully the opportunity of the ongoing large-scale transfer of production bases and took advantage to foster and develop their own manufacturing industries. In fact, some of them have already created brands of their own products that have quietly grabbed market share from older, bigger, and financially stronger rivals in Asia, Europe, and the United States. ([www.Haier.com](http://www.Haier.com), [www.Galanz.com](http://www.Galanz.com), [www.Wanxiang.com](http://www.Wanxiang.com)) It is revealed by MOFTEC's (Minister of Foreign Trade and Economic Corporation) latest survey on the sectoral distribution of FDI from China up to June 2001 (MOFTEC Almanac, 2000-2001), manufacturing outward FDI has accounted for 50 per cent of the total in the non-trade category. Hence, Chinese manufacturing companies are a group of great potential to grow into powerful rivals in the global market. Therefore, the study of enterprise-based management and strategic pattern will focus on manufacturing companies, as to be pertinent to this aiming group.

On the other hand, in many cases, internationalisation of non-state-owned companies is rooted more from ownership advantages and rational business pattern developed by specific companies, other than from uneconomic factors, say, political priority or easier access to resource from government. With China's further

decentralization and economic liberalization, it is predicated that rational management patterns and strategic moves will be most crucial factors for succeed. Therefore, exploration of companies of such kind is considered more instructive and meaningful to the domestic would-be multinationals than others.

## **4.2 The Haier Group**

Haier's predecessor was the Qingdao Refrigerator Plant, which was officially renamed as the Haier Group in December 1992. When CEO Zhang Ruimin took the reins of the collective-owned company in 1984, the plant made a loss of RMB1.47 million (equal to US\$525,000). However, in two decades, with a series of strategic initiative, the company climbed from the verge of bankruptcy to establish itself as a world-renowned brand and China's ambassador to appliance stores all over the world. The Haier Group is now the China's largest home appliance maker manufactures and sells refrigerators, air conditioners, microwaves, televisions, vacuums, mobile phones, computers, and more. What's more, Haier's global expansion seems to be a remarkable success as well. It now has factories and offices in more than 100 countries, a \$15m American headquarters in mid-town Manhattan. The company hires 30,000 employee all over the world and its sales of 2003 was RMB80 billion – equal to US\$9.7 billion – in 2003, have grown by 70% a year on average over the past two decades. ([www.Haier.com](http://www.Haier.com))

### **4.2.1 The growth of Haier**

#### Stage One: Branding (1984~1991)

When appointed as the director of the plant in 1984, Zhang Ruimin was the fourth one in that year. The company had no advantageous products and its administration was

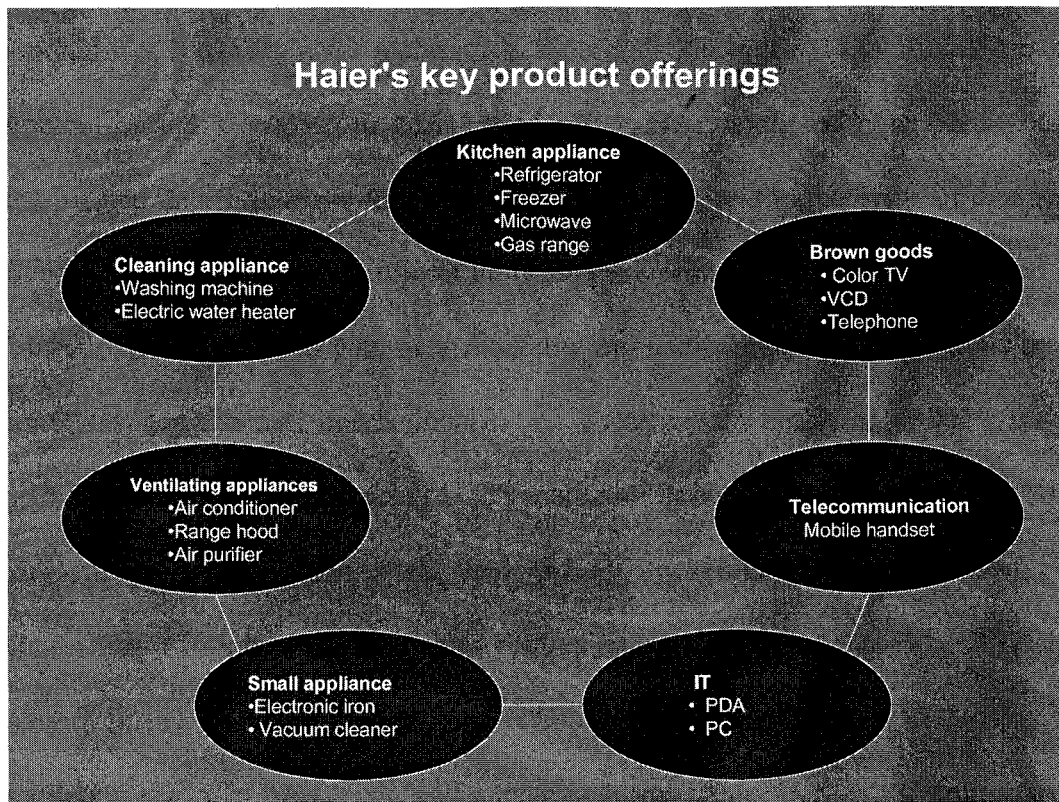
chaos. Losing confidence of the organization, employees even did not arrive late to work and often left early for home. Meanwhile, driven by the growing market demand, a great number of firms entered refrigerator manufacturing but none of them turned out to build a successful brand. Both to make the company survive and establish competitiveness, Haier undertook initiative to build a prominent brand name. The complete quality control was a key component of the initiative. To achieve the objective, Zhang Ruimin endeavoured to improve the enterprise efficiency, discipline and quality control. To improve production quality, Zhang Ruimin ruled that if 20% of salaries would be deducted from salaries of all the employees involved if defective products were produced. To deliver a shock, Zhang ordered his workers to smash 76 faulty fridges from the stockroom, laying into the first himself with a sledgehammer--now preserved for its symbolism in Haier's museum. As a result, both the productivity and quality were brought to tremendous improvement. The Haier brand won the state prize for quality management

On the other hand, Haier has developed a market orientation as its core value, which was especially reflected by production improvement and innovation. In 1989, for instance, noticing the different sales performance of a same model of refrigerator in Beijing and Shanghai, Haier discovered that Shanghai resident then had crowded living conditions, which had little space for large refrigerators. Hence, Haier designed a new model of small refrigerator only for Shanghai market and the sales subsequently surged. Since then, Haier had successful penetrated into market in Southeast China and enhanced the brand reputation. It won the first prize in "the most favourite light industry products refrigerators" 5 years in a row.

## Stage Two: Diversification and Domestic Expansion (1992~1998)

Based on its prominent reputation of refrigerator production, Haier began its domestic expansion with production diversification. Following a timeline of focusing on one new product within a year or two, Haier expanded production into air conditioner, freezer and washing machine etc. Merge and acquisition were its main methods to obtain producing expertise of new products. Addressed as “catch dormant fish” Haier took over 14 home-appliance manufacturing enterprises that were stuck in trouble or wound up because of mismanagement. All those “dormant fish” were either equipped with superior hardware facilities (workshop, equipment, product line, etc) or came with advanced technology. Whereafter, Haier sent its own management teams to those enterprises to implement Haier’s own management norm instead of large amount of capital input. It successfully transplanted effective administration and operation patterns to those companies and turned their business around. Consequently, the premium Haier brand was leveraged to varieties of new productions and achieved diversification. In less than 7 years, Haier expanded its product portfolio from 1 product to over 9,000 products in 42 categories. (Figure 5) The company expanded from a single refrigerator manufacturer to a leading enterprise with advanced technology and managerial know-how in electronic appliance industry.

**Figure 5: Haier's key product offerings**



Meanwhile, Haier broadly adopted International standardization to its quality control and operation management. Early in 1991, Haier refrigerator had been certified by both ISO9001 and ISO 14001. Until the mid-1990s, Haier had been the first Chinese home-appliance company whose entire product portfolio had been certified by ISO9001, EU45001, and many other certificates of various developed countries such as Germany, Canada and Australia. The adoption of advanced standard and technical improvement enhanced product quality and reliability, facilitating Haier's exporting and further internationalisation.

Stage Three: Internalisation of Haier (1998~)

Basing on its leading position in domestic market, as well as its well-known brand, Haier has won a large amount of exports to a variety of countries and regions

worldwide. In 1999, the export of Haier Group was: Refrigerator: 568,000 units; air conditioner: 200,000 units; washing machine: 190,000 units. (Data: Haier Annual report) Through exporting to different countries, Haier explored potential markets and located its destinations for further investment. Haier's initial stage of overseas investments included some projects in developing economies (such as Southeast of Asian countries) to build volume and acquire international experience. Yet its most important step towards internationalisation began with a series of projects set in USA in 1999. Primarily cracking to US market with high quality refrigerators with competitive prices, Haier established a high recognition of its brand name. Thereafter, it followed up with sales centres and distribution network, and finally manufacturing facilities. Haier has established a design center in Boston, a marketing centre in New York, and a manufacturing centre in South Carolina, with a total investment of US\$30 million, the largest FDI from China in the USA. Starting from US, Haier has now developed a global distribution network with 62 distributors and around 38,000 sales outlets across the world. It also has production facilities in Indonesia, Philippines, Malaysia, East Europe, US. Haier Group has now become the world's sixth largest home appliance maker, selling products to over 160 countries. (Fonda, 2002)

#### **4.2.2 Internationalisation Strategy of Haier**

##### Strategic goal: Three "1/3"

After the mid-1990s, with the entry of foreign competitors and the saturation of domestic market, competition in home appliance industry has increasingly intensified. Most of domestic rivals have reached a similar mature level in terms of technology and

productivity. Price wars broke out in various home appliance product markets. Under such a situation, Haier initiated a strategic objective of three “1/3” to ensure its further growth in international market. The strategic objective of Haier is to produce and sell one third of its output in China; produce one third of its total output in China but export it to overseas market; produce and sell the rest one third of its total output in foreign countries. Maintaining 33% of market share ensures Haier a leading position in domestic market, which reinforces superior competitiveness in the industry. On the other hand, Haier believed there is limited potential for further expansion in domestic market beyond this number. Instead, seek for outwards international growth has been the effective strategy to enhance competitiveness and development in long term.

#### Pathway of Internationalisation

Haier’s pathway of international expansion has been entering and tackling strategic tragic market, then spreading into the rest of the world. US, as the most mature market with high customer sophistication and fierce competition was set as the destination to begin.

First by exporting quality products, ‘Haier’ brand has built a high level of awareness / image in US. Basing on a good reputation of brand, Haier then followed up with sales centres, distribution centres and R&D centres in US. Setting an entire operation facility in US, the company successfully turned ‘Haier’ from a brand of imported “made in China” to a local image. With solid foothold in US, Haier then expands on a strategically advantageous position into other easier markets, most of which are developing countries. Such a pathway has turned out to be very effective. Since for most of customers in developing countries, they would seldom question a brand name

that had already established popularity in developed countries, and much more importantly, the price of this reputable brand would be very competitive. Following the same strategy, Haier first aimed the Germany, the most rigorous market in EU when it expanded into European market.

After entering US and European market, it has expanded operations in other countries through the spin-off of technology, reputation and company / product image. In the ground-breaking ceremony of an investment project in Pakistan and a Haier Plant in Bangladesh in 2001, all local officials linked Haier's presence there to its performance in US market in their speeches; in June 2001, Haier acquired an Italian company. The company would produce Haier refrigerators based on the designs provided by Haier's French and Dutch design centres, and the products would be sold with the entirely European market.

Haier's R&D investments in developed countries were mostly joint ventures with partners having advanced technology, such Sanyo in Japan. ([www.Haier.com](http://www.Haier.com)) While the main purpose of joint venture is to possess core technologies for independent product development, manufacturing facilities are usually greenfield investment to ensure the operation control. Meanwhile, several developing countries with strategic location were chosen for mainly manufacturing plants, such as Mexico and Brazil, which facilitate sales channels in both local markets and those of developed countries close by. Finally, with advanced technology and management know-how possessed through overseas operation to win over domestic competitors and consolidate its leading position in China.



## Brand Image

Chinese products are usually suffered the disadvantage of low-price and low-quality image in the international market, especially in those of developed countries. This is a disadvantage for Chinese companies to build brand image and pursue higher profit margin in global competition. Instead of a conventional solution of 'Price war' strategy – lowering the price to attract low-end market demand, Haier aimed to win a 'Value war' – adding more values to its product to ensure customers' satisfaction and hence market share. The value war strategy consists of producing "individualized" products for different customer groups; improving technical contents in products; and building extensive and exclusive service network to ensure the customers satisfaction. This strategy was well chosen in US and European countries, as customers there are highly segmented and are more cautious to products differentiation than price-sensitive. Additionally, offering excellent after-sale service helps to establish reputation for the brand name as well.

## Product Innovation

To break into a new market, Haier has focused on its main product, refrigerator. Once this product becomes successful, other products will be followed benefiting from the established brand name. Haier choose to debut on the global market with refrigerators, the products with most competitiveness, and then bring up other products in the portfolio, including washing machine, microwave and air conditioner. Setting foot stand in niche products, Haier took over market share from competitors with more resources available or technological advantage basing its core competitiveness on product differentiation. The compact refrigerator is Haier's most significant thrust in US

market. Though profound market studying, Haier found that most users of these compact refrigerators are college students. Because they usually have very small apartments and also use computers, Haier introduced a new compact refrigerator with two wooden flaps on the sides that can be folded out to make a computer table. The user can put his/her computer on the refrigerator. The flaps can be folded back down when extra space in the apartment is needed. While large manufacturers are not paying attention to such details, customers liked those features very much. By understanding and meeting customers' specific needs, Haier has successfully penetrated into US market and become a leading brand. Total sales of compact refrigerators in the United States last year reached 1,500,000 units. Haier sold 670,000, nearly half of the market.

Apart from meeting customers' need through products innovation; another key factor of Haier's success is the speed, which is to win the hearts of consumers by satisfying their needs in the quickest manner possible. In the United States, Haier also has leading position in wine storage cabinets. Usually, those large appliance manufacturers are not as flexible, as their response to the market is slower. A large international manufacturer would spend 18 months developing a new wine storage cabinet, but for Haier it took only 5 months. Because it can identify and meet consumer needs quickly, it has won more than 50 percent of the total US market; Haier made 55,000 of the 100,000 units sold last year. (Wu, 2003)

### R&D Commitment

Technological innovation is a key to maintaining a firm's competitiveness. However, in most Chinese enterprises, there has been a lack of technological competence

or resources. This was also the case with Haier. Haier has been fully aware of this weakness, and has taken a series of measures to address it:

1. Increasing investment in R&D. In the period 1997–2000, Haier's annual R&D investment is shown in Table 2, and it ranked number one in the industry.
2. Establishing research and design centres both domestically and internationally. To date 15 have been set up, with six of them in developed countries: USA, Canada, Japan, France, and The Netherlands. The main responsibility of these foreign centres is to help the head office develop home appliances that meet the needs and wants of local consumers.
3. Forming international technological alliances with major multinationals to possess core technologies for independent product development, these companies included those such as Mitsubishi, ESS, Lucent, Metz, and Philips. Alliances and joint ventures have taken place in many sectors such as refrigerator, washing machine, and digital colour television. (Liu and Li, 2003)

### Localization

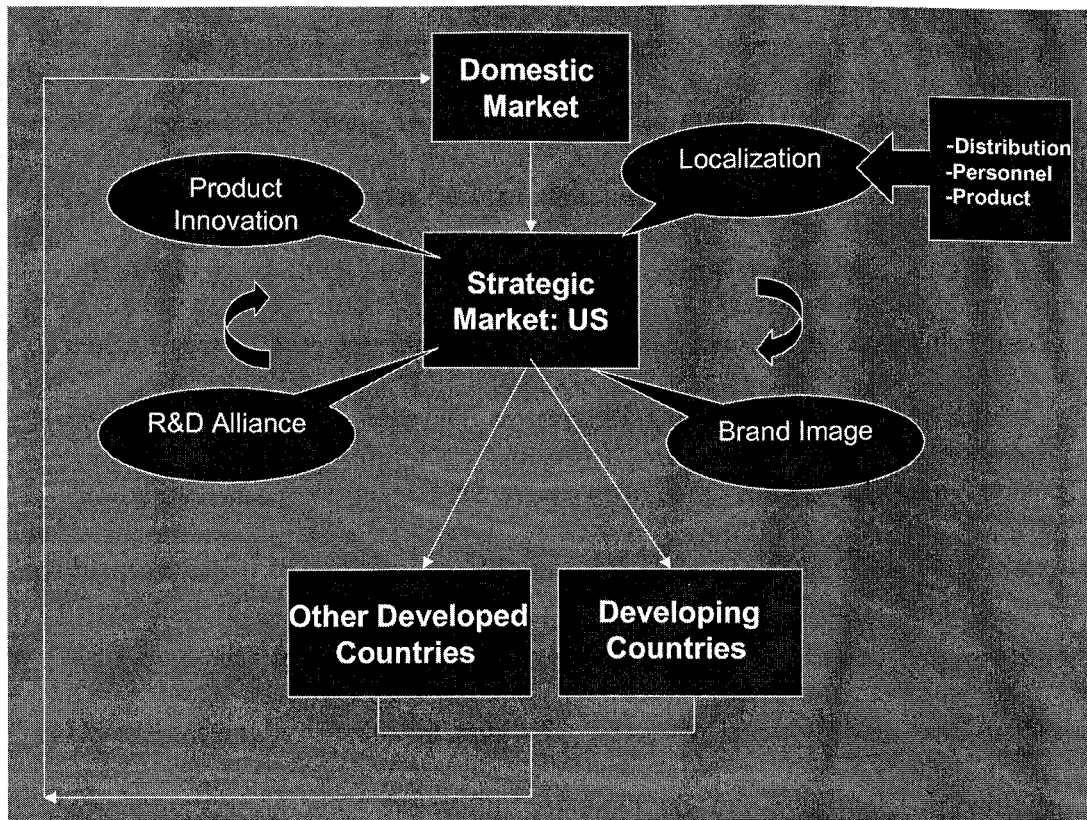
Unlike a traditional Chinese approach to marketing, where Chinese companies set up their own marketing companies in foreign countries they enter, Haier uses local distributors. It found out through market research that, in developed countries, there are numerous mature distributors for each product, with sophisticated experience and rich channels. These distributors are familiar with local marketing practices and environment,

and have no barriers in language and cultural features. Moreover, local distributors are utilized effectively as a channel to obtain market information and customers' feedback.

Additionally, localization of production and human recourse are two essentials for Haier to adapt to US market. Even before R&D was set in US, Haier sent its designing people to US to talk directly with the sales people in the chain stores or even focus group of local customers to find out their specific needs. The products sold in US are both designed and manufactured locally. The products from factory in South Carolina have features that cannot be found elsewhere. For example, two most popular features of Haier refrigerators are Dispense-A-Can feature enables to hold beer kegs in a variety of sizes., which conveniently stores and dispenses up to 6 cans; Flip-Shelf Storage, which allows tall containers and bottles to be stored while conserving space.

To create culture integration, Haier hired mostly native personnel in local operations rather than sent managerial team from headquarter. All employees from its general manager and assistant managers to office staff were Americans. Only the chief finical officer has been appointed from its head office. However, Haier cultivates its own organizational culture in subsidiaries through influencing local management personnel. Michael Jamul, President and CEO of Haier, US, who keeps intensive connection with headquarter and highly identifies with Hair's culture. He has become an efficient channel in transferring information and culture.

**Figure 6: Internationalisation of Haier**



### 4.2.3 Strategic Implications

Haier has been one of few precursors of Chinese manufacturing who have successfully expanded globally. Its strategy for internationalisation has been on the whole successful. From a domestic to a multinational corporate, a set of strategy implication can be revealed from its experience. Those implications are expected to shed light on the strategic plan of Chinese companies pursue a way to the global market.

- Despite some external factors that have drove Haier to go international, the entrepreneurship or leadership brought by Zhang, Ruimin has stood out as the dominant essential for Haier's transition from "rag to rich". Through personal interview with its management personnel, it is easy to discern that Zhang's

influence on Haier's business decision has been determinant. Due to the managerial hierarchy of the company, a highly centralized organizational structure enabled Zhang to launch a series of strategic initiatives with little restriction. Such an organizational structure and individual authority work efficiently in putting the leader's entrepreneurial vision and management competence to practice, and expedite business results. Although there exist considerable external risks and uncertainties, it is suggested that a relative centralized structure may work more efficiently for the company with a business leader of strong competence.

- As a company from a developing country, Haier's aggressive entrance into US market might seem to be ambitious, however, is not without caution. The company started with exporting, followed up by minority joint venture, majority joint venture, and eventually wholly owned subsidiaries. This evolutionary entry path balances well the experience and capabilities it develops, and risks and hazards it has to face. Haier primarily developed advanced quality control and brand recognition that facilitated market exploration and entry mode. Companies are suggested to leverage their ownership advantages with entry mode of international market. Since Chinese companies usually have dominant advantage in production cost, original-equipment-manufacturing is a effective method to explore foreign market. For companies who have accumulated sufficient assets, merge and acquisition are often utilized to get access to local market share and custom base; companies who have established broad distribution network in domestic

market can consider entering potential market by exchanging distribution network with foreign counterparts.

- Due to China's current level of economic development and industrialization, companies' global expansion follows different routes of location choosing: from developed country markets to developing country markets, or on the contrary, from developing country markets to developed ones. The decision should be made basing on the companies' competitiveness, risk-tolerance level and strategy plan.

The internationalisation of Haier in terms of its subsequent strategies followed the former path. This strategy enhances the company's competitiveness by adapting itself to a market with fierce competition, advanced technology norm. It benefits the company's further expansion into other market through the spin-off of brand image and technology. However, it entails high cost of time and capital, and advanced technical competence for new enters to crack into such markets as such markets are usually featured with highly competition and customer sophistication. General speaking, it is more practical for large-scale companies who have reached a mature stage and are ready to explore the global competition, or companies with dominant ownership advantages, such as brand name, technology innovation or advanced managerial structure.

For companies who are now in a growing stage or lack of international experience, to start with less-developed countries will be easy to entry and less risky. Because those markets are less competitive since strong, dominant competitors pay less attention there. Chinese companies usually have

comparative advantages in terms of capital, managerial skill and technology compared with local companies. On the other hand, Chinese companies can gain international experience at lower cost as the investment scales in such markets are relatively smaller and the business environments are quite similar to domestic market. However, such markets are usually characterized as large number of primary consumers and price-sensitive consumer group. Therefore, profit margin is often limited. Another disadvantage of this strategy is a relatively low-end image when companies choose to start with less-developed market.

- While innovation is regarded as the core competitiveness for modern enterprises, a current challenge for most of Chinese companies to grow into is limited resources and few technical advantages. However, it is still possible for Chinese companies to win their share in global competition. Instead of challenging big opponents head-on, a wise strategy is to scout for segments that the market leaders have vacated or aren't interested in because of low profit margin or little volume. Niche market or niche products are the strategic targets for Chinese companies to penetrate into the market and for most of the time, to win the global competition. That is exactly a key factor for Haier's success. Instead of grounding breeding innovation or state-of-the-art technology, Haier uses its mature technology in adapting products to meet specific needs of customers, which allow them to surpass their rivals who are more worried about disruptive technologies and breakthrough innovations.



## 5 CONCLUSION

Over the past 25 year, a growing number of Chinese businesses have taken the entire globe as their markets and operating theatre and are becoming more aggressive and assertive in the global economy. The paper has done macro and micro level study to provide an understanding of China's global businesses against its economic development.

By applying Dunning's IDP model, China's foreign investment is explained on a theoretical base and is predicted to be subject to further growth along with the country's continuing development. The review of the emergence and evolution of Chinese foreign investment reveals a similar prospect with more empirical factors, including, accumulated national assets and company-specified advantages, as well as strong political incentive to impetus domestic economy. Also as a result of company-level initiative, various Chinese companies, driven by respective incentives, have engaged into overseas operations based on different ownership advantages. During the process, both opportunities and problems exist in regard of competitive environment, investment allocation, and management competence. Haier is a successful example of Chinese manufacturing companies winning the global game in such a dynamic with fierce competition. Chinese companies are suggested to develop internationalisation strategy according to their respective comparative advantages with a norm of flexibility, focus and market-orientation.

# APPENDIX 1

## Summary Table

Main Investors of China's Outward Foreign Investment

Category	Ownership	Features	Competitive Advantages	Sample Company
National Trading Companies	state-owned	large-scale, small in number	expertise in im/exporting, knowledge of international market, client base, monopoly position in industry concerned	Sinochem,
Large Manufacturing Companies	mostly state or collectively owned, some private-owned	solid capital base, mature technology in respective industries and sufficient competence of international	abundant production resource, strategic moves, often with official support	Shougang, the China Ship Building Industrial, the Haier Group, the Chunlan Group
High-tech Elite	various ownership	government fostered, strategic importance to infrastructure establishment or country/territory security	A solid country-level base of scientific research, state-of-the-art technology developed by national institutions	Huawei, ZTE
SMEs	mostly private-owned	large in number, small in scale, low technology content and labor intensive	highly flexible, low-cost producers, little bureaucratic systems and little corporate overhead	Enterprise-clusters of Wenzhou and Taizhou

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