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Chinese companies in the world

Abstract

Over the next few years, we are going to see a major global expansion of Chinese companies in all sectors and in all countries. Obviously, this is an opportunity for companies whose future is not so clear-cut, be it because of their size, their technological weaknesses or their owners' failing business interests (for reasons of age, family matters, diversification, etc.). However, it should be an opportunity for Chinese companies to expand their operations in Europe or in America. In many cases, such acquisitions (some of which have already been completed) will protect jobs and create many more. We should see the internationalization of Chinese companies as a great opportunity, and we should prepare ourselves for it and make sure we have the right strategies in place be it as partners, allies, suppliers or customers.

Keywords: Chinese companies; Internationalization; Strategic

There is little question that Chinese companies will extend their operations beyond their own borders in their efforts to go global but, as yet, surprisingly few have done so if we consider the volume of China's economy and the technological and financial capacity that many Chinese companies obviously boast.

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Various cases can be cited to illustrate their undoubted capacity to operate abroad. In the tough, competitive environment of the automotive sector we find the case of Geely, the Chinese car manufacturer, founded by billionaire businessman Li Shufu, which acquired Volvo cars in 2010. Prior to this, Volvo had been acquired by Ford, in their attempt to enter the high-end market along with Jaguar, and Land Rover. Ford paid around 6.5 billion dollars for Volvo. But, a few years later, when the effects of the 2008 economic crisis began to make themselves felt, Ford started to accumulate debts that threatened to take it to the point of bankruptcy, and looked around to sell off its high-end brands.

Ford managed to sell off Jaguar Land Rover relatively quickly to the Indian multinational, Tata Motors. But it looked as if it would be harder to offload Volvo given Volvo's need to liquidate assets. Current owner Li Shufu had his offer of 1.5 billion dollars accepted and he kept the Volvo management team in place, including its Board of Directors, and encouraged the company to grow internationally. Since being acquired by Geely, Volvo has recovered its image of excellence in the market, fueled a more profitable rate of growth, expanded its production capacity with a new plant in China and another in the United States, and is currently leading the field in the development of self-driving, electric and hybrid cars .

Huawei is another Chinese company that has gone global, in this case, in the field of telecommunications, manufacturing both smartphones and the infrastructure that facilitates their efficient deployment. Huawei has enjoyed success in the European market, but in the United States it has faced considerable obstacles with the US government concerned that, because of the services it provides, it could be a channel providing unauthorized access to confidential information.

A third example is provided by Mindray. Founded in Shenzhen, in the south of China by leading entrepreneur Xu Han, this company is dedicated to the manufacture of medical diagnostic equipment. The company has also developed its operations internationally, although it has run into problems in the United States. However, Xu Han was successful in launching Mindray on the New York Stock Exchange and getting the firm listed on the NASDAQ, making it the first Chinese company to achieve this business landmark and, naturally, facilitating its operations throughout America.

In the same way that many Spanish companies strengthened their international operations by extending their businesses throughout Latin America, many Chinese companies are doing the same in Africa. Technical regulations in Africa remain fairly limited and this obviously facilitates their doing business in such areas as South Africa and sub-Saharan Africa (Nigeria, Ghana, Ivory Coast, etc.). Today, Chinese private and state companies alike are working on infrastructure projects on the continent (primarily roads, railways, and ports). Moreover, the Chinese government has sealed many agreements with African governments to facilitate the further expansion of their business concerns.

For the Chinese government, international growth is an obvious objective. President Xi Jinping has done everything in his power to stay on good terms with all international leaders. He has turned a deaf ear to the threats made by President Donald Trump against China's exports to the US and has forged ahead with his "New Silk Road" project, which includes trade agreements with many countries.

The New Silk Road began as a project to link China and Europe by rail and was then extended to include a further rail link between Eastern China and Turkey. Later, the project was expanded

to include a sea connection linking China and the countries of Mediterranean Europe and North Africa via the Suez Canal. Yet, Xi Jinping has gone on record to state that the New Silk Road should be seen as China's connection with Western China, Eastern Europe, the rest of Europe, Africa and Latin America. In his support for the internationalization of Chinese companies, the President has signed agreements with many countries and has created loan funds that can finance the investments of Chinese companies in many areas and countries of the world.

Parallel concerns for the Chinese Government, and of equal importance, are its attempts to reduce poverty and to improve health care and education throughout the country. Western China is home to hundreds of millions of people living below the poverty line and here President Xi Jinping has pledged a significant annual reduction in the number of poor. To achieve this means keeping growth rates high by boosting consumption. GDP growth in China currently stands around 6% with a large part of this being supported by consumption while a few years ago it was based almost solely on exports and real estate.

We live in the digital age, and people the world over, including China, are interconnected. The fact that every year many millions are able to escape poverty, that those who continue to live below the poverty line can see a way out, that education and access to it for China's children and young people are undergoing constant improvements, that it is possible for more people to access good healthcare, means the population is prepared to give their support to the government. In this interconnected world, any fall in the satisfaction of the people would undoubtedly lead to protests that would be difficult to avert.

The international expansion of American companies happened apace in the 1960s and 70s. But the process was not understood. The unions protested. The government asked Harvard Business

School to study the problem. In 1973 as a PhD student, I had the opportunity to participate in this study. We analyzed lots of cases of US companies that had invested internationally, examining in detail the impact it was having on employment. The outcome was very clear, a company investing in another country obviously created jobs there, but there were a whole set of areas – the manufacturing of components that were sent to subsidiaries abroad, the addressing of financial questions that was conducted at head office, and matters related to many other services (logistics, marketing, human resources) – in which, as a result, many jobs were also created in the United States. This process can be summed up in the saying: “foreign direct investment creates jobs at home”. We observed the very same processes in the 1980s and 90s as European companies internationalized operations. The expansion of Spanish companies throughout Latin America created many jobs in Spain.

In addition, we should bear in mind that if the US companies who expanded, for example, into Europe, had not done so, they would have found themselves considerably weakened. Global companies like Colgate, McDonald’s, Heinz, Goodyear, whose brands are well-known today throughout the world, are not without their competitors. But had they not fought for their share of the global markets they would be smaller and would be facing much larger competitors. Thanks to their process of globalization they have managed to strengthen their position, maintained their competitiveness for many years and satisfied their long-term shareholders.

However, the phenomenon was such that the internationalization of US companies was concentrated above all in the decade from 1965 to 1975; that of Japanese companies from 1975 to 1985; and that of European companies from 1985 to 1995. This is not without its logic. When a company acquires another in a foreign country or opens a large branch there, its competitors find out and do not want to be left behind.

This whole process will be repeated with Chinese companies. Over the next few years we are going to see a major global expansion of Chinese companies in all sectors and in all countries. Obviously, this is an opportunity for companies whose future is not so clear-cut, be it because of their size, their technological weaknesses or their owners' failing business interests (for reasons of age, family matters, diversification, etc.). However, it should be an opportunity for Chinese companies to expand their operations in Europe or in America. In many cases, such acquisitions (some of which have already been completed) will protect jobs and create many more. We should see the internationalization of Chinese companies as a great opportunity, and we should prepare ourselves for it and make sure we have the right strategies in place be it as partners, allies, suppliers or customers.

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