Podcast

Going global, prospects and challenges for Chinese companies on the world stage

**Matt English:** Hello. My name is Matt English and I'm the leader for IBM's Institute for Business Value in Asia-Pacific, also known as the IBV. It's my pleasure today to be speaking with Alan Beebe who is the head of the IBV for China. Alan is based in Beijing, China.

Today I'm going to be speaking with Alan about a paper produced by the IBV China called "Going global, prospects and challenges for Chinese companies on the world stage." This paper has been produced in collaboration with the Fudan University in Shanghai.

So Alan, with China's entry into the WTO in 2001, China as we all know has enjoyed rapid economic growth. There has been booming global trade, increase for indirect investments in China and so on.

But I think we're now seeing a movement in the other direction and we're seeing an increase in Chinese investments abroad. Why is that and what are the key motivating factors driving Chinese enterprises to look at these other markets?

**Alan Beebe:** There are actually a number of reasons but based on our research we believe there are really three key drivers that are driving China's expansion into global markets. The first reason really has to do with government incentives.

Historically the Chinese government has imposed fairly strict financial controls that regulate capital outflows which among other things require Chinese companies that plan to invest abroad any amount more than U.S. $10 million to receive special government approvals. But now we have clear signs from the government that they are encouraging selected Chinese companies to begin expanding abroad and they will in turn lift many of those historical controls.
Secondly, Chinese enterprises are trying to strengthen their control over and their access to natural resources that are necessary to continue fueling China’s rapid economic growth.

Acquiring overseas assets, for example oil and gas, is high on the agenda for the government and therefore state-owned companies such as Petrol China, Sinopec, and CNOOC are rapidly expanding overseas in order to acquire foreign assets that can help China to continue fueling this economic growth.

Finally, ironically, while the WTO has opened up the China market for foreign companies and therefore resulting in increased domestic competition, it’s also foreseen Chinese companies to expand overseas, to build up their own capabilities, compete more effectively and profitably at home in the China market. So these in sum are really they key reasons that we see that Chinese companies are being motivated to expand overseas.

Matt English: So Alan, these are very exciting developments. Do you think that China will be another Japan or another Korea?

Alan Beebe: Well, actually yes and no. Yes in the sense that most Chinese companies, especially in manufacturing industries such as automotive or electronics, are really following a similar path of development that Japanese and Korean companies took over the last few decades; starting out as low cost manufacturers and gradually building up their technology and management capabilities in order to capture additional value across their industry value chains. But at the same time China does have some distinct differences between Japan and Korea. Most Chinese companies are operating today in a very much less protected marketplace than their peers in Japan and Korea would have during their early stages of economic development.

And as a result many Chinese companies are really being forced to expand abroad now in order to maintain their home market competitiveness, which as I mentioned earlier, has been very much liberalized and there is extreme foreign and domestic competition that they need to contend with.
Matt English: So Alan, perhaps we could just spend a few minutes just drilling a little further into the comprehensive report that the IBV China has produced. So in that report you've identified some 60 companies in 12 industries that are well positioned to compete globally in the next ten years. Can you perhaps highlight for us some of the key industries where you believe China has real global potential?

Alan Beebe: Sure. In fact, there were a total of 12 industries that met our selection criteria. And those industries included consumer electronics, computer products and components, telecommunications equipment, automotive manufacturers, steel, logistics, petrol chemical, and telecommunications services. These are the key industries that we believe have the strongest global potential for Chinese companies in the coming decade.

In addition we identified approximately 60 companies across those industries that we felt had strong globalization potential over the next decade. Let me give you a few examples of some of the companies that we've identified just to give you a flavor for their globalization aspirations and some of their current activities.

First is a company called Huawei, which is China's largest telecommunications equipment manufacturer, which had 2005 sales of over U.S. $ 8.2 billion and nearly 70 percent of that, was in fact from international sales. They are aggressively expanding in Africa, India, and other parts of Asia, and at the same time they're gradually penetrating into developed markets in Europe and even in the United States.

Secondly, China Mobile, which is the country's largest mobile telecommunications operator that has annual sales over U.S. $30 billion, is now also considering expanding into foreign markets. They are leveraging their low cost high volume business model that they developed very successfully in China to expand into other emerging markets. And in fact, just in May of 2006 they made a $5.3 billion bid for a Luxembourg based operator named Millicom that has a whole range of telecommunications assets in 16 emerging markets across Africa, Asia, and Latin America.
Finally, in the home appliance industry, a company called Galanz, which may not be well known to some of our listeners but in fact is one of the largest microwave oven manufacturers in the world. They are primarily an OEM manufacturer so they are successfully developing a brand in China and are considering strategies to move beyond OEM manufacturing.

Galanz's sales reached approximately U.S. $2 billion in 2005 and they now have close to 50 percent of the global market share for microwave ovens. And in fact, due to China's large domestic market Chinese home appliance manufacturers such as Galanz are now the largest manufacturers in the world, in 28 out of 32 home appliance categories.

**Matt English:** So what are some of the key challenges faced by these companies, Alan, when they're entering other markets? And how are some of these companies addressing these challenges today?

**Alan Beebe:** There are many challenges that these companies are facing, but the key ones that were identified as challenges by the 40 companies that we interviewed for this study were human resources and branding.

Human resources were overwhelmingly cited by our interviewees as their number one challenge. China lacks enough global managers with the practical experience, the global mindset, and the language skills and cultural skills that are needed to succeed globally.

And while there is no quick fix for this shortage of global management talent, Chinese companies are pursuing various strategies in order to try and rectify this weakness. The main strategy is to pursue mergers and acquisitions where they could quickly acquire a critical mass of global talent that would in addition to providing them with the human resources that they need to manage a global business, provide the most immediate footprint on a global scale.

The second challenge that our interviewees identified was the lack of a well known brand outside of China. And while this is a problem we think in some sense the issue might be a bit overstated.
Chinese companies we think can still be successful without a global brand provided that they can partner on equal footing with globally branded players especially for consumer products. And we are seeing some examples of that whereby the Chinese company maintains their strength in manufacturing and product development and partners with foreign companies that have strong global brands and are closer to consumers.

**Matt English:** The final question Alan, if a Chinese enterprise has ambitions of being a global player and you were talking to them today what advice would you give them?

**Alan Beebe:** Well, I think there are two things that they need to do well. First is that they need to have a clear globalization strategy where they think through very carefully how are they going to differentiate themselves against global competition.

Secondly, they need to consider what sort of business models they would use in order to pursue global expansion, whether it's mergers and acquisitions, strategic alliances, or organic growth. And then finally, they need to be very selective and prioritize which foreign markets that they choose to enter into, at what time and in which locations.

In addition to having a clear globalization strategy it is very important that Chinese companies focus on successful executions. And key areas that they need to be particularly aware of include developing a global management team, developing a global branding strategy, and putting in place the right operational capabilities whether it's around processes, global product development, and their own global operating model to ensure success. So this in sum would be the key recommendations that we would offer to Chinese companies aspiring to go global.

**Matt English:** So today we've been talking with Alan Beebe, the head of IBM's Institute for Business Value in China. Thank you very much Alan for joining us today and for giving us some insightful comments into the report that has been recently produced on this subject.

**Alan Beebe:** Thank you. It's been my pleasure.

**Matt English:** If you'd like further information on today's material we'd invite you to visit our web site at ibm.com/iibv. Thank you and good day.