The Rise Of Chinese Multinationals

Known as the factory of world, China’s export sector make it the second biggest economy globally. This economic miracle lifted millions out of poverty and gave way to the creation of the world’s largest consumer market. Two decades of continuous trade surpluses helped built USD3.7 trillion in foreign exchange reserve and made it a sought-after investor.

No longer content as just an export reliant economy, Chinese companies are now hungry to transform themselves into global conglomerates through mergers and acquisitions and investment opportunities.

The Success Of "Please Come In, Then Go Out" Policy
When China reopened its doors to the world, the first phase of economic reform saw the government inviting foreign companies and investment into China.

• As of 2012, 18% of all global FDIs (Foreign Direct Investment) are invested in China and represent USD 253 billion (source: OECD's "FDI in Figures"
• China has posted an average GDP of 10% over the last 30 years, overtaking Japan as the world’s second largest economy in 2011
• The Forbes 2013 Fortune Global 500 List included 89 Chinese companies, up from 34 in 2008, making China second only to the US.

Implementation Of The Go Global Policy
The success of attracting foreign investment helped carve out China’s plan going into the next stage of economic development – building its own transnational corporations and brands through its “go-global” policy.

The Chinese Government first introduced a “go global” policy in 1999 during its unveiling of the ODI (Outward Direct Investment) vehicle in the 10th Five-Year Plan (2001-2006). Chinese companies took this directive and acted steadfastly on it.

The 2008 global financial crisis presented Chinese companies with a widespread buying opportunity when Western companies became cash strapped. The ‘Go Global’ policy under the new leadership of President Xi Jinping was reinforced as his cabinet moved to liberalise financial markets, secure funding to assist Chinese companies and reform policies that to nurture these opportunities.

These efforts are reaping spectacular results as on almost a daily basis now, we see Chinese companies making headlines on some kind of an acquisition or investment. They see acquisitions and investments of this nature as the opportunity to speed-up the process in helping them gain imminence into the global business arena.

• Chinese companies made a record 298 international acquisitions in 2009 (source: The Economist Intelligence Unit - EIU)
• China accounted for 11.6% of global GDP and 6.7% of global ODIs in 2012 – those numbers were 5% and 1.3% respectively in 2005 (source: EIU)
• According to the 2013 UNCTAD report, China is presently the third largest ODI country (after the US and Japan) and has invested USD 85 billion abroad, mainly state-owned enterprises in natural resources, energy and infrastructure
• China – African trade volumes have increased 20-fold to reach USD 200 billion annually. These investments have changed the face of Africa, with new townships and infrastructures emerging through government and corporate loans. There are currently more than 2,000 Chinese companies and over a million Chinese nationals residing across the continent.

The EIU ‘Chinese Going Global Investment Index’ benchmarks countries that are perceived by Chinese companies as attractive investment targets. The US came up at the top of the list despite being considered as the toughest market to enter. Its characteristics of innovation nimbleness, owning valuable brands and intellectual properties and a strong domestic market are deemed as attractive qualities for the Chinese.

Singapore and Hong Kong rank as No. 2 and 3 respectively as these ‘Chinese’ city-states provide Chinese companies the access to regional and global markets. It is worth noting that overseas Chinese were the first FDIs that entered China in the 1980s and likewise play a significant role with ODIs as well.

The Race To Innovation
Capitalising on knowledge gained, and relationships built, through FDIs as OEM producers, Chinese companies are now keen to enhance their value by climbing the ladder to innovation and crafting their own technological armor.

The Batelle Memorial Institute concludes that “China R & D spending is likely to reach USD 284 billion this year, up 22% from 2012. That compares with just 4% growth forecast in the US to USD 465 billion during the same period.”

• Geely, at the time a relatively small Chinese auto manufacturer, purchased Volvo from Ford in 2010. The transaction gave the Chinese access to the technology know-hows of the automobile industry, relative strong brand equity and an international distribution network
• Haier, one of China’s largest manufacturers of consumer electronics and household appliances, re-invests 3 to 5% of its yearly revenues into Research & Development. Today the company has ten R&D centres in China, Japan, Germany and the US
• The Chinese internet company, Tencent, currently has 300 million users on its ‘Wechat’ messaging service platform. Wechat has been identified as a possible vehicle with which to crack into the US market, and Tencent has

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already established a presence in Silicon Valley to pursue this potential
• Fuzhou Rockship Electronics and Allwinner, who achieved success in the low-end smart phone and tablet devices market in China, are looking for ways to enter the mobile processor chip and other specialised technology sectors, where US companies continue to dominate. The China Government is setting up a USD 5 billion fund to assist local Chinese companies to create a local microchip industry.

The Chinese International Assignee

The rapid expansion of Chinese companies created a new wave of Chinese nationals moving globally to take on international assignments for their companies.
• One Chinese company confirmed that it is sending more than 10,000 Chinese employees to work in their overseas operations
• Hong Kong, who introduced an admission scheme for mainland talents and professionals in 2003, has admitted 57,126 Chinese as of 2012, many of which are intra-company transfers from China to their Hong Kong subsidiaries
• A report issued by the Provincial Government of Sichuan reported that 19,419 Chinese left the country to work abroad in 2012, an increase of 17.63% from 2011
• A project manager working for a Chinese ICT company in Africa noted that the company has literally built a living township that includes housing, shops selling Chinese groceries, as well as bringing in cooks and teachers to help support their thousands of employees working there.

Having been a popular career choice amongst college graduates since the 1980s, the Financial Service sector has benefitted from Chinese educated in the West. Attracted by the opportunity to build international work experience and higher salaries, college graduates are hired to train ‘at home’ then are transferred to Hong Kong, Singapore or Shanghai, where their language, cultural and relationship-building advantages can be fully deployed.

An HR professional who works for a US-based investment bank cited how her organisation is adopting various long-term strategies to access different international talent pools. It has invested in an IT development centre in Shanghai to help develop proprietary trading systems and software. The centre hires top software developers from top Chinese universities across the country as trainees, puts them through a systematic rotation programme to familiarise them with all aspects of the front-to-back office system, then transfers them out of China to work on trading floors in Hong Kong, Singapore, London and New York.

The Challenges

In 30 years, Chinese companies have had to face many challenges shifting from state-owned enterprises to profit driven business entities that are able to compete internationally. This growth created a need for the organisations to review corporate culture and policies, hiring and keeping of talent at all levels and mapping out long-term corporate growth strategies.

At present, many Chinese companies are still working towards the development of a global employee management policy that could support global expansion and achieve the long-term goals for them. The EIU’s recent study “The Climate for Chinese M&A Abroad” surveyed 110 Chinese companies. 82% and 63% respectively identified the first two issues (listed below) as their key challenges:
• Mobility policies: While western multinationals have structured mobility policies in place, Chinese multinationals have yet to develop programmes that would best suit their requirements. One relocation management expert comments: ‘We have seen the increase in outbound assignments from Chinese companies and many of these companies do not have any policies in terms of candidate selection on international assignments. The success rate of these assignments are hit-and-miss, as they grapple with language difficulty, unfamiliarity with destination countries, not having adequate support from head office as packages are given to them, are built on inaccurate data, and the lack of preparation and training’
• Clash in corporate cultures: As with all cross-border endeavours there is inevitably a deep-seated cultural difference between how things are run in the West compared to China. While the West celebrates individualism and the pursuit to independence, Chinese perpetuates harmonious collectivism where questioning a manager’s instruction is highly frowned upon. The major hurdle in the Lenovo-IBM acquisition was bridging the corporate cultural gap

Western International Assignment

• Viewed as an opportunity for career advancement
• Family relocates with Assignee
• Relocation Package that covers all basic living expenses and may provide additional benefits (i.e. private school education, club memberships, home leave)
• May have cultural awareness to enjoy the benefits of international living and travel.

Chinese International Assignment

• Families left at home
• Fluency in a second language (English) integral to transitioning into new city
• Unaware that ‘things are done differently’ than they are back home and lack experience to breach the cultural gap with local community
• The perception therefore created is that the Chinese like to keep to themselves with locals typecasting them as unfriendly and even hostile (often aggravated by negative media coverage labelling Chinese companies as spies and a threat to national security).

Overcoming Challenges

The Chinese multinational are refining their strategies and learning about international corporate cultures and practices. Having learned from early failed investments and painful integration issues, which often resulted from making reckless acquisitions, they have become progressively sophisticated in pursuing deals that focus on a common vision and are complementary to their existing business.
Training and cultivating the international talent pool has been identified as an important way to succeed overseas. When Air China invested into Cathay Pacific, the company put in place an exchange programme for mid-level managers (Source: EIU) with the objective of providing Air China staff a platform from which to understand a global airline’s standard operating procedures.

Hiring Western executives with a proven track record is another strategy. Xiaomi, the mobile company that outsells Apple products in China, announced recently that Hugo Barra, who was responsible for developing Google’s Android platform, has joined them as Head of Global Business. Their first non-Chinese senior executive, they are banking on his knowledge and extensive network to strategically position them as a global player.

Given the relatively short timeframe during which this economic growth has occurred, it is only a matter of time before the Chinese multinational overcome these challenges and put themselves in a position to compete on a level playing field. Perhaps it will be even less of a wait before a Chinese company is listed on the Forbes’ World’s Most Innovative Companies roster.

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About Asia Pacific Properties
Asia Pacific Properties (APP) is a premier real-estate company representing corporations in tenant representation, commercial and industrial real estate acquisitions and leases. Pioneer of relocation and mobility programmes in China and Asia. Its mobility division has assisted thousands of families from over 60 of the top Fortune 200 multinationals over the years. Headquartered in Hong Kong with key offices across China, APP provides services throughout China. Notable in the industry for delivering customised integrated programmes that emphasises comprehensive relocation and real estate programmes; APP provides a full spectrum of relocation services that includes home search, education assistance, visa and immigration support, cross-cultural business training, tenancy and expense management.

As one of the first company relocation companies to be granted a business license by the Chinese government in 1995, APP has managed thousands of relocations into and out of China, and has seen the relocation industry flourish from its days of hosting just families of foreign diplomats to now being home to thousands of professionals globally.

The 2015 Corporate Relocation Conference & Exhibition
is taking place on
Monday 2nd February 2015
from 10am-5pm
and will be held at
Hotel Russell, Russell Square, Bloomsbury, London, WC1B 5BE

There will be seven free seminars and over 35 exhibitors with products and services that support International HR professionals and their assignees

This event is FREE to attend

For further information or to reserve your place, please email: helen@internationalhradviser.com or call Helen Elliott on +44 (0) 208 661 0186