A COMPARATIVE ANALYSIS OF INTERNATIONALIZATION STRATEGIES OF CHINESE MNC'S IN DEVELOPING AND DEVELOPED ECONOMIES

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ABSTRACT: *Chinese MNC'S (Multi-national Corporation) are playing an important role in the outward FDI of china and its development. The study analyzed the internationalization strategies of Chinese MNC'S in developed and developing economies, their entry modes, growth and development. The study reviewed previous literature and focused on comparing the various internationalization strategies. The study highlighted Chinese MNC'S learning process, market expansion, and better usage of internal production. The study explained internationalization strategies and development of two Chinese MNC'S ZTE and Haier. In developed economies, Chinese MNC'S are trying to gain technological development, brand assets, to gain competitive advantage, seeking new markets and learning from international business environment, while, in developing economies they are trying for their market expansion, seeking resources and increasing profits.*

Keywords: Internationalization, Strategies, Chinese MNC'S, ZTE, Haier

INTRODUCTION:

Chinese MNC'S started internationalization by investing abroad in the search for market access, assets acquisitions, natural resources and technological development. Through internationalization strategies Chinese MNC'S are selling their goods and services in foreign market and seeking technological development. Chinese MNC'S are using internationalization strategies to increase market size, return on investment, investing in new products and processes, economies of scale, scope and learning and to get competitive advantage due to location, where they have low-cost labor and critical resources [1].

Internationalization is the process of transferring an MNC'S knowledge from one to another country [2]. According to another definition, internationalization is the crossing of national boundary in the process of growth [3]. According to this definition, China is currently an active internationalizing economy among the developing countries. According to an estimate, Mainland Chinese firms had established more than 7870 branch companies in over 160 countries or regions [4]

Increasing inward FDI has been one of the reasons of outward FDI because a massive
foreign currency reserves are enabling Chinese firms to invest aboard [5]. According to an estimate, most outward FDI of China is directed to developing economies due to geographical reasons, low cost, cheaper resources and opportunities of new markets [5]. While, in developed economies, outward FDI of Chinese MNC'S is directed to gain new competencies instead of exploiting existing assets and keep in focus late movers advantages [6].

It is important to understand the role of Chinese government as it is playing a significant role in internationalization of Chinese MNC'S. Active government involvement in term of ownership and regulation supported MNC'S for increasing profitability and its protection [6]. Outward FDI is the part of Chinese government development policy, since 1980, as it is required from aboard subsidiaries of Chinese companies to achieve one of the following goals, i.e. transferring advanced technology, accessing raw material, earning foreign exchange or expanding exports [7]. Thus it is important to understand the internationalization process of Chinese MNC's.

The study therefore, attempts to understand the mechanism behind internationalization process of two Chinese MNC'S i.e. ZTE and Haier.

Chinese MNC'S Strategies of Entry

Chinese MNC'S adopted its internationalization process through different strategies. Literature described three internationalization routes. First the Contract Manufacturer/Joint venture route: Some MNC'S of Mainland (China) have adopted the route of joint venture and contract manufacturing to enter the foreign market. These MNC's are continuously upgrading their competencies and are moving up. For example, TCL is second largest electronic company in China, has established a joint venture with Alcatel and Toshiba in their home countries (France & Japan) to produce handsets and other electronic equipments. Second route is through mergers and acquisitions (M&A). Acquisition facilitates access to raw material and natural sources. It provides the opportunity to access new technology, acquire core competences and has the advantage of acquiring international brands. Like in 2004/05, SAIC (Shanghai Automotive Industrial Corporation) negotiated an M & A with UK's automaker MG Rover to control MG Rover's brand, design, and technology. Third is the route of Greenfield investment, an international expansion for managerial control and global integration. For example, in 1999 Haier made Greenfield investment in USA [6].

An export was initially the only means of Chinese MNC'S to foreign market in the beginning of 1980, when China adopted open door policy. Over time China is now the third largest exporter in the world after USA and Germany [8]. Through export permits, Chinese MNC'S are enjoying economy of scale for several markets

Original Equipments Manufacturers (OEM) are achieving economies of scale and manufacturing excellence to take advantage of the services of Chinese MNC'S. For example, Galanz is a leading Chinese manufacturer of kitchen products has adopted OEM strategy to produce products (microwave ovens) for different international companies. Similarly, Strategic alliance is also the internationalization strategy of Chinese MNC'S. This strategic alliance is in form of joint venture and short term contractual agreements. For example, ZTE has formed a strategic alliance in 2003 with Microsoft.

Motivations to Go Global

Business development is the core purpose to go aboard. MNC's are in continuous struggle to get resources and capabilities to strengthen their business as well as competitive advantage. To gain access to superior technology, management knowledge , brands and to secure long-term supplies of natural resources (such as crude oil, natural gas, iron and other minerals) to meet long term domestic industrial demands and national security are main objectives of Chinese MNC'S. For example, Sinopec and Petro China have invested in oil, gas and mining activities in other developing countries, including Indonesia, Kazakhstan, Sudan and Yemen.

Besides, Chinese MNC'S are seeking opportunities of profitable and saturated markets in developed and developing economies. Another reason for Chinese MNC's internationalization is to diversify the investment risk [9]. For example, Sinochem is a Chinese MNC's has diversified its business in chemical, petroleum etc, to reduce its investment risk. Moreover, Chinese MNC's are going aboard for establishing production units to overcome the ratio of taxes and trade barriers. For example, JAC Motors, a Chinese MNC has launched a production unit in Brazil. Some MNC's are going aboard to transfer matured technology to maximize its profitability in developing economies. Similarly, some firms are going aboard to avoid trade quotas to export in developed economies. For example, some Chinese textile companies have launched their production units in Cambodia to take advantage of quota-free access to export to USA and European Union [10].

Seeking Technological Development

Chinese MNC'S are investing aboard focusing on technology acquisition and R&D. Chinese MNC'S have started to expand overseas, especially since the mid-1990s [11]. Chinese globalization owes much to the ‘‘going out’’ strategy enforced by the Chinese government since 1999, to go global for both technology upgrading and brand building [12]. The driving force of Chinese MNC'S towards developed country is to seek technological development and innovation, like ZTE has established a R&D center in Europe to gain G-3 mobile communication technology.

Asset and Resource Seeking

Chinese MNC'S are going internationally in the search of natural resources and other assets to meet the long term requirements of their businesses. Chinese MNC's are investing aboard to gain competitive competences and asset-seeking [13]. Two waves of MNC's from the developing world have already been identified. Conventional theories explaining the reasons for the first wave of MNCs from developing countries focus on resource-and market-seeking, as well as asset exploitation in other developing countries [14]. Natural resource seeking is a key motive for Chinese MNC'S to secure energy and raw material supply for its continued industrialization. This has pushed Chinese FDI in Canada, Middle East and increasingly Africa.

Seeking Brand Name

Chinese MNC'S are aggressively entering in foreign markets not only developing new brands but also acquiring existing brands. To establish a brand name and access to new markets are the two main motives of Chinese MNC'S. Chinese MNC'S are in struggle to form strategic alliances, merger and acquisition with well known brands in the world. Like TLC (Television and DVD manufacturer) has established merger with Thomson (France) to get advantage of world leading brand. Brand acquisition and selling of branded products give greater advantage to Chinese MNS'S because this provides access to mature distributers, well established marketing channels, credibility and brand image among customers.

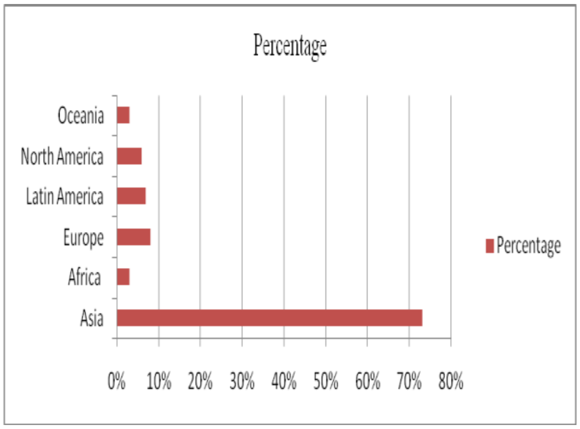
Outward FDI in Developed and Developing Economies

One of the fundamental motives of Chinese MNC'S to invest is the shortage of natural sources to support the country's economic expansion. Other motivations include access to advanced technology, acquisition of internationally established and popular brands, and avoidance of trade barriers. Driven by its growing economic power, China is increasingly seeking overseas investment opportunities in the developed and developing economies. However, it is notable that China is still in its early stage as an international investor, making up only a very small proportion of the world's outward FDI.

China's aboard production units and outward FDI have received little attention in literature. China is one of the large outward FDI of all the developing nations and increasingly integrated into the global economy [15]. The average annual outward FDI flows from China have grown from USD 0.4 billion in 1980s to USD 2.3 billion in 1990s, reaching over USD 41 billion by the end of 2004 and USD 87.8 billion in 2011 [16, 18]. Overall, China's FDI outflows are highly concentrated in a few countries, namely, the United States, Canada and Australia plus Hong Kong, Peru, Thailand, Mexico, Zambia, Russia, Cambodia, South Africa and Brazil.

To achieve a sustainable competitive advantage, Chinese MNC'S are trying to go beyond imitation and over dependence on foreign MNCs to promote innovation. Moreover, along with the intense competition among domestic and foreign multinationals in Chinese market, Chinese companies have started to extend their technological learning strategies abroad in the form of outward FDI in developed industrial economies, instead of the traditional learning channel of inward FDI [17]. The distribution of outward FDI among developed and developing economies in 2010 is as follow:

The above table indicates that a huge amount of outward FDI is going towards developing economies. Among



developed economies sufficient amount is going toward Europe in priority and then Australia and North America in second. While, among developing economies major FDI is going towards Hong Kong and Asia as a whole. Similarly, in 2012, the major portion of outward direct investment is tending towards Asia. Like Xu and Xia (2012)[18] noted that 73% of outward direct investment of Chinese MNC's is going towards Asia.

Figure.1: Distribution of ODI Flows in 2012 by Region (by Xu & Xia, 2012)

Table 1. Outward FDI distribution in 2010 in Developed and Developing Economies

Developed Economies		**Developing Economies**	
Europe	15.7 US$ billion	Africa	13.0 US$ billion
European Union	12.5 US$ billion	Asia	228.1 US$ billion
Germany	1.5 US$ billion	Hong Kong (China)	199.1 US$ billion
Netherlands	0.5 US$ billion	Singapore	6.1 US$ billion
United Kingdom	1.4 US$ billion	Oceania	8.6 US$ billion
North America	7.8 US$ billion	Latin America and Caribbean	43.9 US$ billion
Canada	2.6 US$ billion	British Virgin Islands	23.2 US$ billion
United States	4.9 US$ billion	Cayman Islands	17.3 US$ billion
Australia	7.9 US$ billion		
Japan	1.1 US$ billion		
Total	**55.9** US$ billion	**Total**	**539.3** US$ billion

Source: (Davies, 2012)

Chinese MNC'S outward FDI playing an important role in the developed economies, as FDI tends to stay in a host country for a long period of time. In US economy, Chinese MNC'S are playing a significant role in creating jobs and sustaining living standard. Due to Chinese FDI, some countries are enjoying an increase in their export volume, import benefits, low prices of consumer goods and improvement in infrastructure sector. At the same time, Chinese MNC'S have gain some advantages from investment in developed economies. These investments besides other economic benefits, can improve learning of those Chinese MNC's. The developed legal system in the developed countries can also be learned and adopted in the organization, thus improving organizational efficiency. Besides, requirements about safety of products in those countries ensure adoption of safe production technology by Chinese MNC's. Moreover, Chinese MNC's can learn better business practices from their competitors too.

Cases of Chinese MNC'S

Case –I (ZTE)

ZTE **(**Zhongxing Telecommunications Equipment Corporation) is one of the largest state owned telecommunication equipments provider company in China. ZTE is applying different strategies for developed and developing countries. For developed countries its focus lies in R& D, seeking technological development, Innovations by establishing R& D centers, joint ventures, agreements with other telecom operators for improvement and developing its brand. ZTE is in struggle to enter developed economies with high capital and latest technology, as competition is high and capital requirements are more for entering in developed countries. For example, ZTE has entered USA market with latest technology, including Windows Phone, 4G LTE brands and low price handsets than IPhone. ZTE has established its R & D centers in developed countries to gain improvement in technology and human resources, especially in those countries having strong telecommunication background. For example, in 1998, ZTE has opened an R & D institute in USA to gain advantage of local talent [20]. Similarly, ZTE has launched an R & D center in Sweden in the beginning of 21st century. Sweden is the leader in telecommunication technology, so the presence in Sweden is due to obtaining latest technology and development in human resources. ZTE has encouraged their engineers and designers to improve their technical capabilities with foreign collaboration and motivating the culture of technical learning for organizational development [21]. ZTE has 16 global, wholly-owned R&D centers across North America, Europe and Asia [19].

ZTE has launched its business with 3G technology in Europe in 2005 and has signed cooperative agreements with European telecommunication companies for improvement in internal efficiency. For example, ZTE has signed cooperative agreements with France Telecom, Cabletel, and Telenor for improvement in internal efficiency [23].

ZTE emphasizes on partnership and strategic alliances to expend its market and learning from global partners. For example, ZTE has signed a partnership agreement in USA with Gameloft and Tencent for market expansion and learning purposes.

At the same time, ZTE is in continous struggle for developing its brand. For example, ZTE has launched a product "Boost Warp" in USA for developing brand and now ZTE has become the third largest mobile broadband provider in USA. ZTE also signed a partnership with Houston Rockets (American Basketball team) for developing its brand. Similarly, in UK, ZTE focuses on sponsoring local grassroots activities for developing its brand.

ZTE is seeking valuable human resources in global market for its technical improvement mostly in developed countries. For example, ZTE is hiring Talent Acquisition personnel in USA. At the same time, to be a best service provider in foreign markets, ZTE has adopted its business according to local market requirements and promoted local operators. For example, In UK, ZTE provides technical support to local operators including IFNL (broadband services provider). With the support of ZTE, IFNL network facilitates broadband access in non urban areas and has gain market growth [24]. Likewise, In Germany, ZTE and DT (German Telecom) have jointly developed a network structure for improvement in network security system to maintain leading position in the German market [24].

While in developing economies, ZTE tries to expend its market. In developing economies capital requirements are low and due to lack of competition the chances of success are more. Therefore, ZTE has entered in South Asia and Africa in 1998 and in Russia, Brazil and India in 2002, for its market expansion [20].

Profit maximization is the priority in developing economies. To maximize its profit, ZTE has signed agreements with competitors to offer low price bid for mutual interest. For example, in 2005, ZTE has signed an agreement with Portugal Telecom in Africa, to jointly enter in new markets and bid for projects [22].

To understand the channels of distribution and nature of market in developing countries, ZTE has started partnership in foreign market. For example, ZTE has started partnership with TATA Company in Indian market to understand distribution channels.

For developing its brand in developing economies, ZTE has launched new cell phones. For example, Flagship Smartphone is launched in Asia. ZTE has launched its business in Africa to expand its network and take advantage of cheap human resources.

ZTE has signed a cooperative agreement with Telenor to replace its network infrastructure in Pakistan. ZTE will maintain and run its network, while in coming years ZTE will adopt 3G technologies for Telenor in Pakistan [25].

According to ZTE annual report 2012, ZTE is in profit both in developed and developing economies. The major portion of its revenue is generated in domestic market. The following table compares the revenue of 2011 and 2012.

According to the above table, ZTE operating revenue in 2011 was RMB. 86254.5 in total. 45.8% operating revenue was generated in domestic market, while 18.1% from Asia, 12.4% from Africa and the remaining 23.7% from America, Europe and Oceania in 2011.

In 2012, the total operating revenue was RMB.84219.4. The revenue from domestic market was 47%, while 19 % operating revenue from Asia, 9.3% from Africa and 24.7% operating revenue was noted from America, Europe and Oceania.

An increase in revenue was noted in 2012in all region of the world except Africa, which caused the decrease in operating revenue in 2012 as compared to 2011. The revenue decrease in Africa in 2012 may be due large expenses on business development and socio economic development in African countries as compared to 2011.

Case – 2 (Haier Electronics)

Haier is one of the leading Chinese brands of household appliances around the globe. Haier started its internationalization in 1990 by investing abroad in the quest for market access and assets acquisitions [26]. Haier strategies are different then ZTE. Haier first entered in developed economies and created a famous brand with the strategy "difficult first and easy later" (i.e. to first enter in developed economies, that required skill competencies and huge capital investment and then entered developing economies. In developed countries ZTE gains skills competencies that helpful and make it easy to execute business in effective ways in less developed countries). After establishing its brand, Haier launched its business in developing economies.

In developed economies, Haier acquired production technology for learning of the particular industry. Now Haier focuses on R&D and product development [27]. For innovation and R & D purposes, Haier has open development centers in technological advanced countries like USA, Germany and Japan to keep itself updated in global market [26].

Originally, Haier entered in USA as an OEM exporter and is the first Chinese company to launch a production unit in USA [27, 26]. Nowadays, Haier has three production parks in USA, Jordan and in Pakistan [28]. ZTE has 30 production plants in foreign markets [27].

Haier showed its presence as OEM exporter in USA and Europe, and with the passage of time, Haier launched its subsidiaries and production units [27].

Table.2 Region wise revenue in 2011 and 2012

	2012		2011	
Region	**Revenue (RMB)**	**% of operating revenue (RMB)**	**Revenue (RMB)**	**% of operating revenue (RMB)**
The PRC	39,556.1	47.0%	39,496.6	45.8%
Asia (excluding the PRC)	16,062.7	19.0%	15,633.4	18.1%
Africa	7,820.6	9.3%	10,677.5	12.4%
Europe, the Americas and Oceania	20,780.0	24.7%	20,447.0	23.7%
Total	**84,219.4**	**100.0%**	**86,254.5**	**100.0%**

Source: ZTE annual report, 2012

Haier was an attractive OEM exporter to US market due to low price products. Initially, it was not allowed for Haier to enter US market with its own brands. However, Haier established a joint venture with Michael Jemal in 1994 and introduced Haier refrigerator for American customers [27]. In 1999, with heavy Greenfield investment in US, Haier launched its production units in Camden, South Carolina, a design center in Boston and a market center in New York [29]. Now Haier has become a popular brand of USA. Similarly, Haier entered as OEM exporter in Europe, initially in UK, Germany and later in France and Italy. Haier strengthened further its position in Europe in 1997 by establishing a joint venture with Philips in Netherland and launched a production unit [26, 27]. At the same time, Haier launched its sales unit in Germany [26].

Like in USA, Haier also acquired businesses in Europe to gain technological development and increasing production capacity. For example, Haier has acquired Meneghetti an Italian refrigerator company, to expand its production capacity [27].

Developing brand is one of the important motives of Haier in foreign markets. Haier launched its business with the three step strategy “going out, going in and going up” in for developing its brand. For example, Haier acquired Fisher & Paykel Appliances Holding Ltd (Home & Kitchen Appliances Manufacturer company), for developing its brand in New Zealand and Australia.

One of the interesting aspects of Haier is that it started business with no parent technology. It gained great success form its partners and formed alliances with the company of its special interest of advanced technology.

For example, Haier has formed technological alliances with global players i.e. Toshiba and Microsoft to improve its capabilities [26].

Like other Chinese firms, Haier did not follow low price strategy in different markets. Haier believed in products differentiation and identifying niche market.

To differentiate itself from competitors, Haier added some features to its products. For example, cleaning vegetables in washing machine and a fold out table with refrigerator are the good examples of product differentiation [27].

In France and Italy, Haier target was entrance into niche market. Haier launched its new brand of air conditioner in Italian and French markets [27].

Haier major portion of investment going towards developed countries which are technologically strong and more industrialized. Unlike MNCs from other emerging economies, which typically invest in neighboring countries that feature levels of development similar to or lower than their own [30], Chinese MNCs tend to invest more in higher income or industrial countries because of their superior investment environment, high technology, and advanced management methods. Due to reasons, Haier invested $40 million in USA [31].

In developing economies, Haier is engaged in export to Indonesia under OEM contracts and established its first joint venture with a local firm in Indonesia in 1996 to produce refrigerators, washing machines, microwave ovens, air conditioners and hot-bathing equipments [27]. At the same time, Haier has established an industrial park in Jordan to take advantage of “Mutual Tariff Exemption Agreement” among Arabian countries. Products are produced in Jordan and sold in surrounding Arabian countries.

Haier has launched a joint venture in Nigeria with a wide range production of home appliances and ranked as No.1 in Nigeria due to excellent internationalization capabilities. Similarly, Haier has launched a joint venture with Ruba group in Pakistan to extend its production and market.

In 2011, Haier acquired Sanyo Electric to extend its market in Indonesia, Philippine and Vietnam.

Haier has continued its growth and has become in the world leading MNC’S. According to Boton Consulting Group, On January 10, 2013, “Haier Group is ranked eighth in the Top 50 Most Innovative Global Enterprises and ranked first for Consumer Products and Retail”. The following table shows the comparative growth in first half in 2011 and 2012.

Table 3. Comparison of First Half (Six Month) Revenue and Cost of 2011 and 2012

	2012	**2011**
Revenue	RMB26,303,993,000,	RMB24,274,880,000
Selling and Distribution Costs	RMB. 19.2%	RMB. 19.2%
Administrative Expenses	RMB. 5.0%	RMB. 5.3%

Source: Haier Financial Statement for the Six Month, 30 June, 2012

According to a report, this increase is due to growth in business segment of washing machine and water heater. The percentage growth is noted 7.1 % in washing machine and 10.5 % in water heater in 2012 as compared to 2011. At the same time, it is noted that the growth in gross profit margin is due products innovation, improvement in production system and price decrease in raw material. Selling and distribution cost remained same and noted a decrease in administrative cost. The decrease in administrative cost may be due to improvement in production system.

Suggestions to be a Global player

The study noted some strategic issues that may affect the globalization process of MNC'S. The differentiation capabilities may effectively enhance the brand in international market. To overcome the effects of foreignness and culture for influencing customers mind social marketing may be effective in foreign market.

Conclusion

The study thoroughly analyzed the internationalization process of Chinese MNC'S in developed and developing economies. The study reviewed previous literature on comparing internationalization of Chinese MNC'S, learning process, entry mod, motivation behind internationalization, market expansion and technological development. Similarly, the study compared the outward flow of FDI in developed and developing economies. The study found that major portion of Chinese FDI tends toward Asia as compared to Europe and America. The study discussed the cases of two Chinese MNC'S (ZTE and Haier), to understand its internationalization strategies in developed and developing economies. In developed economies Chinese MNC'S are in struggle to gain technological development, brand assets, to gain competitive advantage, seeking new markets and learning from international business environment, while, in developing economies they are trying for their market expansion, seeking resources and increasing profits.

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