China spreads its wings – Chinese companies go global
Introduction

Lenovo, Haier, TCL, Huawei, China National Offshore Oil Corporation (CNOOC), Nanjing Automotive, China National Petroleum Corporation (CNPC) and, now, China Mobile. Not long ago, these names would have elicited blank looks from most global business executives outside China. Now, however, these companies are part of a trend that is sending shockwaves through the business world. China has 20 companies in the Fortune Global 500 list, up from 11 in 2002 (see Figure 1). Having more than tripled in 2005, the value of overseas acquisitions completed by Chinese companies has almost doubled again in 2006.1 Chinese companies are looking to make a global impact and achieve high performance.
The recent flurry of high-profile deals involving Chinese companies has been greeted with surprise by the rest of the world. Yet many observers argue that this corporate activity is simply the latest stage of China’s re-integration into the global economy. The process began more than 20 years ago when the country threw open its doors to foreign businesses, and has accelerated quickly since China joined the World Trade Organization in 2001. Between 2002 and 2005, China’s outward Foreign Direct Investment (FDI) has been increasing at an annual average growth rate of 65.6 percent. In 2005, FDI outflows totalled US$12.3 billion, an increase of 123 percent on 2004. The largest recipients were Latin America (52 percent) and Asia (36 percent) (see Figure 3).

Now that every multinational has acknowledged the necessity of having a strategy for China, it should come as no surprise that Chinese companies are busy crafting their own strategies for dealing with the outside world. Instead of focusing on the perceived threat of Chinese entrants into their home markets, it is more productive for western companies to understand what is driving this phenomenon and capitalize on the opportunities that arise.

**Figure 1: Number of companies in BRIC economies listed in Fortune Global 500 (2002–2006)**

Compared with other rapidly emerging economies, China is already way ahead in creating large, successful companies.
Why Go Global? Why Now?

So far, China’s remarkable economic growth (an average of 9.6 percent per annum between 1979 and 2005) has come mostly from its trade and export dominance. A combination of low wages, specialized regional networks and product exporters has enabled China to become the global economy’s low-cost supplier. Chinese companies have captured majority shares in a number of global product markets. But China has now recognized that to achieve sustainable growth, it needs to develop its relationship with the global economy beyond a simple export-driven model. Accenture has identified four important factors that have been driving Chinese companies to look beyond their national borders:

1. The macroeconomic imperative
Recent years have seen a conspicuous shift away from a purely export-led strategy toward a model also incorporating outward FDI, with a heavy focus on mergers and acquisitions (M&A). This strategy is deliberate and based on sound macroeconomic reasoning. A purely export-driven economy is constrained by the natural limits of trade growth. By moving operations beyond domestic borders, Chinese companies can benefit from business behind the trade and tariff barriers of other economies. In this respect, Chinese executives can learn much from the Japanese and Korean experience in the 1980s and 1990s.

The globalization of operations also allows Chinese companies to capture a larger portion of the value chain and, consequently, increased profit margins. As China’s own domestic markets continue to grow, Chinese companies operating abroad can play an important role in shaping products and services to fit the needs and tastes of the Chinese economy. They also can bring new knowledge and capabilities back into China.

2. Building political influence
China’s global political and economic aspirations are an important factor driving expansion abroad. In addition to building economic relations with more countries, China’s outward investment has a dual purpose of building China’s political capital and influence around the world. China’s chosen route to economic expansion has therefore been closely aligned with its strategy to strengthen its global political presence. In particular, for some time, business and political leaders have worked in tandem to build strong relationships with developing countries (see figure 2). Companies like Huawei and ZTE have used their experience in building China’s own markets to develop new ones in other emerging economies, before tackling developed economies. Their better understanding of emerging markets provides a stronger guarantee of success in their initial overseas expansion plans, improving chances of a smoother entry into more developed western markets later on. Meanwhile, China has been building alliances with other developing economies in political forums and multinational negotiations.

Importantly, Chinese companies often face fewer political constraints compared with their western counterparts when it comes to investment destinations. China has been one of the few countries investing in what are widely seen in the west as less reliable economies such as Sudan, Iran and Zimbabwe.
Africa

- Deals worth a total of US$1.9 billion were signed between 12 Chinese firms and various African governments and companies at the Forum of China-Africa Cooperation in November 2006. Chinese President Hu Jintao also pledged to offer US$5 billion in loans and credit, and double aid to Africa by 2009.5
- By September 2006, there were more than 800 Chinese enterprises in Africa, with a total investment of US$11 billion.4
- China sources a third of its oil from Africa and currently has oil interests in Angola, Sudan, Chad, Nigeria, and Gabon.
- Construction, telecoms, timber and fisheries also are common sectors for cooperation.

Latin America

- China has signed more than 400 trade agreements and projects with Latin American countries4 and plans to invest US$100 billion over the next 10 years.8
- While concentrating on natural resources, China also has been investing in manufacturing, telecoms, infrastructure, textiles, food production and joint satellite projects.
- China’s major investments have been in Brazil, Mexico, Chile, Argentina, Peru and Venezuela.

Central Asia

- China has trade missions in every Central Asian country and forms part of the Shanghai Cooperation Organisation (SCO), with Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan.
- China has invested in energy projects throughout the region, with large investments in Kazakhstan.
- Central Asia has been seen as an increasingly important counterbalance to China’s dependence on Middle Eastern energy sources.

Middle East

- China’s trade with the Gulf Cooperation Council, which consists of Saudi Arabia, Kuwait, the United Arab Emirates, Oman, Bahrain and Qatar, increased from US$20 billion in 2004 to US$33.8 billion in 2005.10
- The Middle East accounts for 58 percent of China’s oil imports with Saudi Arabia, Iran and Oman the top three suppliers.
- Sinopec is currently involved in around 120 projects in the Middle East.11

Noteworthy Deals

- Nigeria – China signed a US$8.3 billion agreement with the Nigerian government in September 2006 to build a 1315 km railway from the capital Lagos to the country’s largest commercial city Kano in the north.12
- Angola – Sinopec was awarded a 40 percent stake in Angola’s offshore oil Block 18 in May 2006 by the state-run oil company Sonangol, an investment amounting to more than US$1.4 billion.13 With over a third of its total oil exports going to China, Angola replaced Saudi Arabia as China’s largest supplier of oil in 2006.14

- Venezuela – China agreed in August 2006 to invest around US$5 billion by 2012 in energy projects ranging from oil refinery to shipping tankers in an effort to increase Venezuela’s oil output.15
- Chile – China Minmetals and Nacional del Cobre de Chile (Codelco) signed a joint-venture agreement totalling US$2 billion in February 2006 to mine copper resources in Chile and supply China with copper for 15 years. Half of China’s total copper imports currently come from Chile. A free-trade agreement (FTA) between the two countries came into effect in October 2006.14

- Kazakhstan – KazMunaiGaz and CNPC have agreed to construct a trunk gas pipeline linking Kazakhstan to China in 2009.7 This follows the successful opening of a US$800 million crude oil pipeline in July 2006 – the first between the two countries.16
- Uzbekistan – CNPC signed two cooperative deals with Uzbekistan in 2006 – the first to explore oil and gas at five onshore blocks, and the other a production-sharing agreement with Uzbekistan’s Uzbekneftegaz, Russia’s Lukoil, Malaysia’s Petronas and South Korea’s National Oil Corporation to explore and develop prospective natural gas deposits in the Aral Sea.19

- Iran – CNOC has reportedly signed a US$16 billion deal in December 2006 to develop Iran’s giant North Pars gas field and build plants to liquify the natural gas. The project is predicted to take eight years to complete and CNOC would receive 50 percent of the gas produced.20
- Saudi Arabia – Saudi King Abdullah visited China for the first time in January 2006 signing key energy agreements to expand cooperation in oil, natural gas and minerals, as well as economic, trade and taxation areas.21

Figure 2: Focus on developing countries and energy
3. Competitive flexibility

China’s domestic market is becoming ever more crowded and competitive as companies battle fiercely for their slice of the most populous consumer market in the world. Domestic enterprises that once enjoyed dominance in their own backyard now find themselves under increasing pressure from foreign companies, with margins being squeezed and profits trimmed. As foreign multinationals enter China and benefit from the low-cost sourcing, local knowledge and booming consumer markets, the natural competitive advantages of Chinese companies in their home and foreign markets will diminish. In response, there is an urgent call for Chinese companies to master new skills that traditionally reside with non-Chinese multinationals: in areas like marketing and branding, higher value-added goods and services, advanced technological innovation and management.

In the face of increasing foreign competition, China’s strategy is to build its presence overseas. Going global enables Chinese companies to gain access to technology and bring their operations in line with international standards. In particular, global operating models allow Chinese companies the flexibility to place business units wherever they afford the greatest comparative advantage. Nanjing Automotive’s purchase of MG Rover in mid-2005 is an example in which the company decided to move the bulk of its production to China while keeping R&D facilities in the United Kingdom.

Nanjing Automotive also gained the use of the MG brand – access to brands has been a crucial factor in many recent deals involving Chinese companies. Because of the complexity of the Chinese market, there are many regional Chinese brands, but few national ones able to compete in international markets. Building a brand from scratch is a challenging task and China is only beginning to develop the skills required to do so. Some observers suggest that China may need another 5 to 10 years to nurture globally-recognized brand names. With the rapid pace of globalization, Chinese companies are finding they do not have the time cushions once enjoyed by their Japanese and Korean counterparts as they pursued a more gradual organic development 10 to 20 years ago. As a result, brand-buying is seen by many as a logical short cut.

By associating themselves with a top brand name or product, Chinese companies can quickly raise their international profile as well as gaining instant access to new markets. Lenovo’s purchase of IBM’s personal computer operations in December 2004 is the most often cited example of this strategy. With this US$1.75 billion deal Lenovo, a company hardly known outside China, suddenly became the world’s third-largest PC manufacturer after Dell and HP, gaining significant international coverage.

4. A strategy to fuel growth

Another significant driver of China’s globalization strategy is the desire to secure the energy and resources needed to sustain economic growth. More than half of the economy’s overseas investment has been in the resources sector as Chinese companies have taken stakes in oil-production facilities in Algeria and Canada, natural-gas reserves in Iran and Saudi Arabia, and mining projects in Australia, Brazil, Papua New Guinea and Zambia, to name a few. With the help of state diplomacy and loans in regions like Latin America, energy companies such as Sinopec and CNPC have been able to secure large energy-exploration and development projects as well as joint projects with local energy companies.

A coordinated effort

The Chinese government also has played an important role in setting the trajectory for the country’s journey toward globalization. Recognizing the over-dependence on export-led development, the Chinese government initiated a “go-out” policy in 2002; a plan to create between 30 and 50 “national champions” from the most promising or strategic state-owned enterprises in China by 2010. Labelled as “state-owned but not government-run”, China’s national champions enjoy a range of benefits from the government including information-sharing networks, domestic tax breaks, cheap land and low-interest funding from state-owned banks. With foreign currency reserves already reaching the US$1 trillion mark, state-supported Chinese companies can draw on a pool of ready capital for strategic acquisitions. China Development Bank – the country’s main development financing institution, has been actively stepping up support for companies investing and expanding abroad, financing the likes of Chery, Datang and ZTE. In December 2004, for example, it issued a low-cost US$10 billion loan to Huawei to promote its international operations and in July 2006, it signed an agreement with telecoms equipment supplier China Putian to provide US$2.6 billion to support its R&D, product upgrading and international business expansion projects.

The “go-out” policy reinforces the government’s efforts to support the rapid development of technological skills and know-how, as well as building new markets and global brands that will underpin further economic growth at home. The quest has begun to create Chinese companies on a par with global giants such as Coca-Cola, Microsoft and Wal-Mart.
1. Latin America US$6.47bn (52.6%)
   Top Destinations – Brazil, Ecuador, Panama
   Recent Deals – China’s fifth-largest steel mill, Shougang, will be partnering with Brazilian iron-ore producer Companhia Vale do Rio Doce (CVRD) to create a shipping fleet to transport ore to its new Caofeidian plant in Bohai Bay in 2007.

2. Asia US$4.37bn (35.6%)
   Top Destinations – Hong Kong, Korea, Malaysia
   Recent Deals – In November 2006, Chinese aluminium company Chalco signed a deal with Vietnam National Coal & Mineral Industries Group (Vinacomin) to develop a US$1.6 billion alumina project in the Central Highlands of Vietnam.

In January 2007, Industrial and Commercial Bank of China (ICBC) made its first overseas acquisition purchasing a 90 percent stake in Indonesia’s Halim Bank for an undisclosed amount with the option to buy the remaining 10 percent from shareholders in three years time.

3. Africa US$0.39bn (3.3%)
   Top Destinations – Sudan, Algeria, Nigeria
   Recent Deals – In January 2006, CNOOC purchased a 45 percent stake in an oil block in the Niger Delta from Nigeria’s South Atlantic Petroleum company for US$2.3 billion.

4. Europe US$0.51bn (4.2%)
   Top Destinations – Russia, Germany
   Recent Deals – In October 2006, China National Blue Star, a subsidiary of ChemChina Group, became the largest Chinese investor in Europe after its acquisition of French specialty chemicals firm Rhodia Group. This follows its US$480 million acquisition of French company Addiseo, the second largest animal-feed supplement producer in the world, in January 2006.

In December 2006, a privately-owned auto parts maker Huaxiang Group, closed a deal with Lawrence Automotive Interiors, a British manufacturer of wood veneer panels, to acquire its assets for US$6.69 million.

5. North America US$0.32bn (2.6%)
   Top Destinations – US, Canada
   Recent Deals – In December 2006, Chinese state investment arm, Citic Group, secured a US$0.9 billion deal to buy Canadian firm Nations Energy’s oil assets in Kazakhstan.

6. Oceania US$0.2bn (1.7%)
   Top Destinations – Australia
   Recent Deals – September 2006, Chalco was chosen as the preferred developer for a US$2.2 billion project to build a bauxite mine and refinery in Queensland, outbidding ten other companies from around the world.

Challenges for China

There is a great misconception that Chinese companies are going to change the global business landscape overnight. China’s total overseas acquisition activity of US$5 billion in 2005 is a mere fraction of the US$716 billion global total of mergers and acquisitions (M&A) in 2005. The World Bank reported that one-third of Chinese enterprises had lost money on their foreign investments and that 65 percent of their joint-ventures had failed. China’s course may be set, but the journey to high performance will be long.

Figure 4: Springs and hurdles to globalization

<table>
<thead>
<tr>
<th>Chinese companies face particular problems in going global...</th>
<th>...but have many factors working in their favor</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operational</strong></td>
<td></td>
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<tr>
<td>• Chinese companies going global have to get to grips with very different management styles, cultures, priorities and mindsets.</td>
<td>• With a higher labor-to-capital mix, Chinese companies are more flexible in adapting processes than their Western counterparts.</td>
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<tr>
<td>• They also have to conform to international standards, systems and processes. Their corporate governance framework in particular remains underdeveloped.</td>
<td>• Chinese companies have the advantages of local knowledge and cultural overlap in Asia’s fast-growing markets that are the main target of today’s multinationals.</td>
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<tr>
<td>• Chinese companies have so far struggled to establish international brands. No Chinese company features in the BusinessWeek-Interbrand 100 Top Global Brands.</td>
<td>• Chinese firms still enjoy a significant cost advantage over Western multinationals that tend to set up only selected operations in China.</td>
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<tr>
<td><strong>Human Capital</strong></td>
<td></td>
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<td>• Chinese companies often lack managerial expertise and experience. China will need 75,000 executives with international experience in the next five years. Reports suggest that currently there are 5,000.</td>
<td>• There is a strategic push to nurture new talent in science and technology in China. It is estimated that China graduated 600,000 engineers in 2006.</td>
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<tr>
<td>• Chinese companies still face obstacles in the war for talent. Non-Chinese multinationals still enjoy advantages in terms of pay and prestige.</td>
<td>• The diaspora of Chinese talent – Western-educated, and familiar with Chinese culture and values – provides a valuable resource for Chinese companies going global.</td>
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<tr>
<td><strong>Economic and Political</strong></td>
<td></td>
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<tr>
<td>• The public outcry surrounding Chinese purchases abroad, particularly in the United States and European Union, has highlighted protectionist obstacles to China’s globalization.</td>
<td>• The prospect of further currency revaluations will reduce the cost of overseas acquisitions for Chinese companies.</td>
</tr>
<tr>
<td>• State influence on corporate planning may lead to the pursuit of goals beyond profit maximization.</td>
<td>• China’s “national champions” receive cheap land and finance, tax breaks and preferential access to listing their shares.</td>
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<tr>
<td>• Large state firms in protected industries are likely to be less efficient due to the lack of competitive pressures.</td>
<td>• By operating in previously protected markets, large state-owned enterprises have accumulated cash hoards that they can use to buy assets abroad.</td>
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</tbody>
</table>
Hurdles to globalization

M&A is a popular but difficult option
Only a small proportion of M&A deals succeed in creating value and there is little reason to believe that Chinese companies will do any better. In a recent survey conducted by Accenture and the Economist Intelligence Unit (EIU) on M&A, less than a third of the Chinese executives surveyed felt that they had a thorough understanding of what is required to integrate acquisitions in foreign markets. There may be reason to think that the prospects for Chinese companies are less favourable than most, given some of the unique challenges they face when expanding beyond their borders.

Cultural issues can be a hurdle...
In addition to the issues that face any company looking to expand inorganically (such as post-integration planning, adapting to new business environments and balancing short- and long-term value creation), Chinese companies face the hurdles of getting to grips with very different management styles, culture, priorities and mindsets to other companies. Of the Chinese joint-venture failures analyzed in a recent World Bank report, more than 85 percent of CEOs attributed their difficulties to differences in managerial styles and corporate culture.3

...as can a lack of experience and familiarity
Chinese companies may well be hampered by a lack of adequate management skills, knowledge and experience in dealing with newly enlarged transnational companies and managing global brands. They may have to align their firms with unfamiliar international standards, regulations and systems, as well as familiarizing themselves with western styles of corporate governance, all of which will take time and patience. In the Accenture-EIU M&A survey, half of the Chinese respondents highlighted legal and regulatory compliance as one of the top challenges for cross-border acquisitions. Companies that do not take the time to understand the markets they enter face experiencing costly mistakes later on. The recent stumble of the three year old TCL-Thomson Electronic (TTE) joint venture is one such example. TCL’s ambitious management underestimated the significant challenges involved in turning Thomson’s ailing US and European businesses around, especially when the RCA name was considered a depreciating brand by consumers in the United States. A misjudgement of market trends therefore left them with a technology mismatch as TCL-Thomson focused on traditional cathode ray TVs despite consumers demanding flat-screen TVs. In 2006 TTE lost US$203 million in Europe alone and in October 2006, it was announced that most of its European operations would be downsized, sold, closed or returned to Thomson.

Gaining acceptance in new consumer markets will take time
Should they wish to use their own brands, Chinese companies will also have to win over skeptical consumers, in much the same way as western firms have had to spend large amounts of time first understanding and then selling to the Chinese. Given the way in which China’s emergence has run into political barriers in several markets, most notably the United States, this might be a challenging task. When Lenovo purchased IBM’s PC business, it also acquired the right to use the IBM logo on product lines like the ThinkPad series, for up to five years. Following a dual-branding strategy, the company is gradually diluting the influence of the IBM brand, adding the Lenovo logo to the lower right-hand corners of ThinkPad screens. It is working to reinforce its own brand recognition overseas by signing a marketing and partnership deal with the National Basketball Association (NBA) as well as becoming a corporate sponsor of the 2008 Olympics in Beijing.

“China’s top 500 are greatly inferior to their world’s counterparts in terms of scale, productivity, profit-making capacity, managing capacity and competitiveness”
Chen Jinhua, Chairman of Chinese Federation of Enterprises
### Figure 5: China’s early movers

<table>
<thead>
<tr>
<th>Company</th>
<th>Revenues</th>
<th>Recent overseas activities</th>
<th>Example foreign competitors</th>
<th>Example domestic competitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Huawei Technologies – telecoms equipment manufacturer</td>
<td>US$5.98 billion (2005)</td>
<td>• December 2006 – Huawei continued to make inroads in the European market signing an optical contract with Telecom Italia SpA – the first Chinese vendor to be awarded a contract in Italy. It already serves telecom companies in Holland, France, Germany, UK and Spain. • December 2005 – Huawei was named one of the leading vendors in the British Telecom (BT) 21 CN network.</td>
<td>• Cisco Systems (United States) • Nortel Networks (United States) • Siemens (Germany) • Nokia (Finland)</td>
<td>• ZTE Corp • Datang Mobile</td>
</tr>
<tr>
<td>TCL – manufacturer of electronics and electrical appliances</td>
<td>US$3.02 billion (2006 interim results)</td>
<td>• October 2006 – reporting losses of US$203 million in 2006, TCL announced that it was ending its European joint venture with Thomson.</td>
<td>• Sony (Japan) • Philips (United Kingdom) • Samsung (South Korea)</td>
<td>• Hisense • Ningbo Bird</td>
</tr>
<tr>
<td>Lenovo – China’s biggest PC product and service company</td>
<td>US$13.3 billion (year to March 2006)</td>
<td>• October 2006 – Lenovo signed a multiyear global marketing partnership with the National Basketball Association (NBA) which will involve integrating Lenovo products at NBA venues as well as exploring how to create tools to help the coaching process.</td>
<td>• Dell (United States) • HP (United States)</td>
<td>• Great Wall Technology</td>
</tr>
<tr>
<td>Haier – white goods manufacturer</td>
<td>US$2.11 billion (2005)</td>
<td>• October 2006 – Haier reached an agreement with Japanese company Sanyo to establish a joint venture that will take over Sanyo’s refrigerator business. Sanyo’s refrigerator plant in Thailand will be transferred to Haier.</td>
<td>• Whirlpool (United States) • Electrolux (Sweden) • Sony (Japan)</td>
<td>• TCL</td>
</tr>
<tr>
<td>Sinopec – the principal refining company in China. It also produces about a quarter of the country’s domestic crude oil</td>
<td>US$102.3 billion (2005)</td>
<td>• September 2006 – Sinopec, along with India’s Oil and Natural Gas Corporation (ONGC), made a joint acquisition of Columbian oil firm Omimex De Columbia for a total of US$850 million. • June 2006 – Sinopec teamed up with Russian state oil company Rosneft to buy TNK-BP’s Udmurtneft assets.</td>
<td>• ConocoPhilips (United States) • ChevronTexaco (United States) • Exxon Mobil (United States) • Royal Dutch Shell (Netherlands) • BP (United Kingdom)</td>
<td>• Petrochina</td>
</tr>
</tbody>
</table>
Implications

China’s entry into global markets is often seen as a threat in political and business circles. The political pressure that persuaded CNOOC to drop its bid for Unocal is a case in point. The fear of China taking assets, jobs, business and in this case, access to resources, can sometimes provoke an emotional response. A more pragmatic approach would allow all sides to explore opportunities for mutual economic benefit.

China’s emergence is not a zero-sum game

Acquisition can create new shareholder value for foreigners...

From a shareholder’s perspective, the new breed of Chinese companies that are actively seeking acquisition targets can only be good news. It is often underperforming companies that are being targeted, and the injection of Chinese money brings much needed funds for restructuring and higher levels of performance. In November 2002, a group led by China Netcom bought Asia Global Crossing (AGC), a company that was thrown into a liquidity crisis when its majority-owner and US parent Global Crossing Limited declared bankruptcy in January 2002. The Netcom-led group provided US$150 million in new loans and US$120 million in equity to AGC.33 The deal represented the first purchase of a major telecommunications entity outside China by a Chinese company and Netcom now stands as the second-largest provider of fixed-line phone services in China with wider operations across the Asia Pacific region.

...and breathe life into depressed regions

There are many different forms of Chinese participation in overseas economies, many of which are collaborative. Chinese investment can play a positive role in a host country’s economy if it is properly understood and received. Greenfield investments, for example, have seen Chinese companies moving into rundown factories and sites vacated by western companies (many of whom are often relocating their manufacturing businesses to China), bringing with them new business and opportunities to those in the region. Chinese television maker Hisense, for example, decided to establish a factory in the Hungarian town of Sarvar that had only a couple of months earlier been vacated by Microsoft, which was moving its production lines to China in 2004.34 Sichuan Changhong, a Chinese electronics manufacturer, hopes to complete the construction of its US$30 million factory in the Czech town of Nymburk by the summer of 2007. Once in full production, it will manufacture 1 million flat-screen televisions a year.35

Small businesses can make a large impact

The most significant impact of China going global will arguably come from Chinese small and medium-sized enterprises (SMEs) that have already been quietly, yet steadily, expanding beyond China’s borders, looking for growth and business opportunities. By 2006, more than 10,000 Chinese enterprises had invested in 170 countries and regions around the world.36 Wanxiang Group, a privately held auto parts manufacturer from Hangzhou for example, started acquiring businesses in the United States in 1999 and by January 2006 had stakes in six manufacturing companies employing a total of 1,000 people. As a result, Chinese SME investment has already been greatly welcomed in the Midwest region of the United States – governors from Iowa, Wisconsin, Missouri and Minnesota have been visiting China over the past two years to promote investment opportunities in their states.
Founded in 1985 and based in Shenzhen, ZTE Corporation is China’s largest listed telecoms manufacturer and wireless-solutions provider. In 2005, ZTE recorded sales of US$2.76 billion with profits standing at US$57.69 million for the first nine months of 2006.

In addition to strengthening its position in the Chinese telecoms market, ZTE is making significant strides overseas. The company is part of the Chinese State Council’s “China Torch Program”, a government-sponsored strategic initiative designed to develop China’s high-technology industries with an emphasis on global expansion. The group now serves more than 500 companies in over 100 countries, making it one of China’s biggest telecoms equipment exporters: overseas contracts totalled US$2 billion in 2005, up from US$1.6 billion the year before.

In December 2004, ZTE conducted a public offering on the Hong Kong Stock Exchange raising US$455 million. Satisfying the requirements of international capital markets has demanded greater transparency and provided a stronger financial platform for ZTE to implement its global strategy. ZTE has already achieved impressive international growth targets with overseas sales jumping from 21 percent of total revenues in 2004 to 50 percent in 2005. Despite dropping to 45 percent in the first half of 2006, it is predicted to have risen again to 60 percent by the end of 2006.

ZTE’s globalization strategy is to initially target other emerging economies. In August 2006, the company secured a contract to supply optical network equipment to Algeria’s largest mobile operator ATM Mobilis. ZTE also serves telecoms providers in Brazil, India, Indonesia, Pakistan, Russia and Egypt to name a few. ZTE’s success in developing countries owes much to its understanding of China’s own emerging markets. This has allowed it to outperform bigger and more experienced competitors.

ZTE’s long-term strategy is to expand into the more mature markets of Western Europe and the United States. To gain a foothold in these markets, ZTE has formed strategic partnerships with electronics giants such as Texas Instruments, Motorola and Alcatel. It recently won a contract to develop 3G handsets with BT’s mobile TV and DAB digital radio services in September 2006.

ZTE places a large emphasis on product innovation and development. More than a third of the company’s employees are involved in R&D where the company spends around 10 percent of its annual sales income. In 2006, that figure rose to 12 percent. ZTE has also set up 14 research and development centres worldwide to better serve its overseas markets.

ZTE is embracing international standardization by joining structures such as the “3rd Generation Partnership 2” and the International Telecommunications Union (ITU). ZTE has even pioneered its own standards that have already been adopted around the world.

Global success is unlikely to come overnight, but with its set of distinctive capabilities and competitive advantages, ZTE’s global expansion will put pressure on some of the industry’s established players and has the potential to influence the structure of the industries in which it operates.

To achieve high performance, Chinese companies need to identify where their competitive advantages will lie in a global marketplace and build the necessary skills to capitalize on these opportunities.

Whether everyone welcomes it or not, China’s outward integration into the world economy is going to continue and accelerate. Those who ignore China’s emergence stand to lose a great deal. Those who embrace it will ensure that China going global will bring benefits not only to the Chinese, but to the entire global economy.
According to the investment bank CLSA, China manufactures 80 percent of the world’s clocks and watches, 50 percent of its cameras, 30 percent of the world’s microwaves, 20 percent of its washing machines and 20 percent of its refrigerators.
This paper forms part of a series of publications examining the business implications of China’s emergence as a major market and global economic player. Current publications in the series include:

- China: moving up the value chain
- Taming the dragon – mastering China’s growth dynamics
- China and the European Union – business issues and opportunities
- China and India – partners in competition
- China – a pragmatic view of managing risk

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This study was produced by the Accenture Policy and Corporate Affairs group. The Policy & Corporate Affairs group is Accenture’s macroeconomic and geopolitical think tank, analyzing key trends and their implications for business leaders and policymakers. The group uses a combination of primary and secondary research, strategic analysis, scenario planning, and ongoing dialogue and debate with senior executives, clients and other outside experts.

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