

經營學碩士 學位論文

A Comparative Study of Foreign MNCs' Investment

Strategy in China and the Chinese MNCs'

對中國投資多國籍企業과 對外投資中國企業의
經營戰略比較研究

指導教授 崔 宗 洙

2007 年 8 月

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國文抄錄

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WTO(세계무역기구)의 과도기 보호조치가 종결됨에 따라서 중국은 더욱 명확하게 세계문호가 개방되었다고 하겠다. 아울러 최근 수많은 다국적기업이 중국에서 거둔 성공은 더 많은 기업들로 하여금 투자를 유인하고 있다. 많은 다국적기업이 중국시장에 진출함으로써, 다수의 주도적 중국기업들은 심각한 부담을 안게 되었다. 중요한 점은 중국이 세계시장에 자국을 개방함과 동시에 중국기업이 세계시장에 진출할 수 있는 길도 더욱 활짝 열렸다는 사실이다. 이렇듯 중국기업에게 기회와 도전이 함께 다가온 상황에서 중국기업은 탁월한 국제화전략을 채택해야만 경쟁력을 확보할 수 있을 것이다. 따라서 어떻게 하면 성공적인 국제화 전략을 실시할 수 있는가 하는 것은 현재 중국기업이 연구해야 할 중요한 과제이다.

많은 세계적인 다국적 기업들이 중국에 투자했고, 그 중에 전 세계에서 인정할 만한 성공을 거둔 다국적 기업도 있다. 그 가운데 여러 기업들은 100년이 넘는 발전사도 가지고 있기에 그들의 국제화 전략과 경험은 중국기업에게 좋은 참고자료가 될 것이다. 그들의 성공한 경험이 중국기업들에게 절실히 필요한 것이다. 이런 상황하에 ‘배우지 아니하면 잃는다’는 격언은 많은 중국기업들의 구호가 되었다. 이 때문에 외국의 다국적 기업들이 성공을 거둔 국제화 경험을 찾아서 배우는 것은 중국기업에 있어서 아주 중요한 의미가 있다.

본 논문은 다국적 기업들의 국제화 경영의 특징과 외국 다국적

기업이 중국에서 실시한 국제화 경영의 전형적인 사례를 논술하여 분석하였다. 동시에 중국기업이 국제화 전략을 실시하는 중에 있는 문제점을 지적하고 이러한 문제에 맞춰서 중국기업의 국제화 경영활동에 대한 건의를 제기하였다. 이로써 중국기업의 국제화 경쟁력학보를 기대할 수 있을 것이다.

ABSTRACT

A Comparative Study of Foreign MNCs' Investment Strategy in China and Chinese MNCs'

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With the protective transition of WTO comes to the end, Chinese market will surely open to the world more drastically. At the same time, many foreign multinational companies has got great success in Chinese market in the past few years, this attracts more and more foreign companies coming into Chinese market or trying to come into. Foreign MNCs brings great impacts and pressures to Chinese local enterprises. But we should realize that while China opening its gate drastically to the whole world, the world market will also opens to Chinese enterprises by a greater extent. When Chinese enterprises are facing the greater challenge, they are also facing the great opportunities. Foreign investment is the only choice to survive and compete with such strong competitors. Walk out of the nation wide, carry out foreign investments, becomes the necessarily trend of the Chinese enterprises' development. So how to carry out the investment and what kind of procedure should Chinese enterprises follow is important for Chinese enterprises.

Most of the MNCs which invest in China are very salted and experienced in foreign investment, and their investment strategies are worth learning for Chinese enterprises. Many of them are centuries-old, learning their successful foreign investment experience is important for Chinese enterprises' development. Under such situation, "or to learn, or to disappear" has become the watchword of the Chinese enterprises. So find out the successful experiences of foreign MNCs and learn from that means a lot for Chinese enterprises.

This thesis through the illustrate and analysis of situations of MNCs investment activities and foreign MNCs investment cases in China, then compares foreign MNCs investment strategies with Chinese MNCs', finally find out the existing problems in Chinese MNCs' foreign investment strategies and give some suggestions according to these problems. I wish this will be helpful for Chinese enterprises' foreign investment in the future.

CHAPTER I INTRODUCTION

1 THE INTERNATIONAL AND DOMESTIC SITUATIONS OF THE CHINESE ENTERPRISES

When we step into the 21 century, the international industrial division is presenting a tendency of accelerated adjustment. The developed countries shift more and more processing industries to the developing countries, in order to take full advantage of the low-cost labor and the abundant resources of these countries. And the developed countries use their advantages in technology and marketing, engage in technology research, product design, constituting the technical standard and establishing the marketing network worldwide. For instance, a clothing company in the U.S.A., its producing process is like this: the headquarters designs the pattern and other details of the clothing, then it send the data to the Chinese factory from the internet. After the Chinese factory produced the clothing at the request, the clothing will be transferred to the U.S.A. and sales through the distributing network of the clothing company.

Generally speaking, this kind of international operation of developed countries is carried out in the form of MultiNational Corporation(MNC). Nowadays MultiNational Corporation has become the principal of collocating the resources in the era of economy globalization. At present, the total trade amount between an inside the MNCs is about 2/3 of the world trade total amount. The MNCs are in the monopoly position of controlling

the core technique and the distributing networks, as a result, they have gained rich and generous profit worldwide. International operation is becoming the necessity for an enterprise's survival and development

Since China being a member of WTO, it has been five years. With the protective transition comes to the end, Chinese market will surely open to the world more drastically. At the same time, many foreign multinational companies has got great success in Chinese market in the past few years, and more and more foreign companies are coming into Chinese market or trying to come into, which will surely bring great impact to Chinese local enterprises because most of them have the advanced core technique and very powerful distributing networks worldwide, besides this, most of them are much stronger and more mature than Chinese enterprises. While the Chinese opening its gate drastically to the whole world, the world market will also opens to the Chinese enterprise by a greater extent. When the Chinese enterprises are facing the greater challenge, they are also facing the great opportunities. What should the Chinese enterprises do when they face such powerful rivals and how to survive and compete with those foreign multinational companies in Chinese local market after the protective transition, or even in the worldwide market in the future, becomes a very important subject to all Chinese enterprises. Internationalization is the only choice when facing such stronger competitors. Walk out of the nation wide, carry out the internationalized management, becomes the necessarily trend of the Chinese enterprises' development. But how to carry out the

international operation and what kind of procedure should Chinese enterprises follow is to be decided. The only way to solve this problem is to learn from the successful MNCs, only if we learnt the successful experience and put it into practice, then the Chinese enterprises can operate internationalization as soon as possible and finally compete with these competitors in the world market.

2 FROM WHOM THE CHINESE ENTERPRISES SHOULD LEARN BEFORE INVESTING ABROAD

Since the past 20 years more and more MNCs have come to invest in China, especially after China entered WTO, most of the world famous MNCs crowded into Chinese market. By the end of 2006, MNCs from over 200 countries and regions has set up over 570,000 companies in China. Many of them are very salted and experienced in foreign investment, and their investment strategies are worth learning for Chinese enterprises.

The world-famous MNCs such like Motorola, HP, etc. represents world top level companies' status roundly and factually. They are the best companies in their own domains; they are in the dominant position in the global business activities. Their investment managements are the most representative, there are both experiences of success and lessons of failure in them. They are the admitted successful companies worldwide, many of them are centuries-old, learning their successful foreign investment experience is important for Chinese enterprises'

development. Under such situation, “or to learn, or to disappear” has become the watchword of the Chinese enterprises. As a result, find out how the foreign MNCs operate their global business successfully means a lot to all the Chinese enterprises. Our Chinese companies should research these companies’ international operate activities carefully, learn from the successful cases and analyze the unsuccessful cases before they start international operation themselves. Only if the Chinese companies learn as much as possible, then we can carry out the international operation successfully as soon as we can. Otherwise we may achieve our goal by going a detouring way.

3 THE PURPOSE OF THIS THESIS

This thesis takes the a few world-famous MNCs as the examples, through the roundly analysis of the MNCs investment management and the contrast with the Chinese companies, point out the problems we Chinese companies have in their foreign investment managements and list out the suggestions for their international operate activities. Through my research on this subject, the Chinese enterprises will get some knowledge about the successful experience and the business mode of the world-famous MNCs, which will give some guidance for their future management and expansion strategy. Besides this, I also wish my research will make more and more Chinese enterprises realize that it is time to absorb the experience of the most

successful companies and put it into practice, after that, they should create some business mode which fit themselves, in order to make themselves become more competitive as soon as possible after the protective transition, first to survive in the competition with the rivals in the local markets, then challenge them worldwide in the near future. Finally lead more and more Chinese enterprises become the famous world-class enterprises.

CHAPTER II THE THEORETICAL BACKGROUND AND GENERAL CHARACTERISTICS OF MNCs' FOREIGN INVESTMENT

1 THEORETICAL BACKGROUND

There are several theories that attempt to explain why companies engage in foreign investment, they are as follows:

Table 2-1 The theories on foreign investment

Investment Theories	Representative
The Theory of Monopolistic Advantage	Stephen Hymer Charles Kindleberger
The Theory of Product Life Cycle	Raymond Vernon
The Theory of Internalization	Peter J. Buckley Mark C. Casson
The Eclectic Theory of International Production	John Harry Dunning
The Theory of comparative advantage	K. Kojima

1.1 Theory of Monopolistic Advantage¹

The core of this theory is “Market imperfection” and

¹ Stephen Hymer, *International Operations of National Firms: A Study of Direct Foreign Investment*, Cambridge Massachusetts, MIT Press, 1960

“Monopoly Advantage”, Hymer thought that Market imperfection is mainly about four aspects: 1) Commodity market is imperfect, namely commodity’s diversity, brand, special market skills and price alliance, etc. 2) Factor market is imperfect, it means the different difficulty degrees to obtain capital and the different technology levels; 3) Market imperfection that caused by economy of scale, namely enterprises obtain increasing returns to scale as a result of increasing output on large scale; 4) Market imperfection caused by government interference, namely policies like custom, tax, interest rate and exchange rate, etc. Hymer thought that the market imperfection is the foundation of an enterprises’ foreign investment, under the situation of perfect competitive market, enterprises do not have the power to control the market, they manufacture the same products, there will not exist foreign investment because this will not bring special profits to the enterprises. But under the situation of market imperfection, it is possible for an enterprise to obtain monopoly advantage and the enterprise will use this monopoly advantage by mean of foreign investment.

On such bases, Hymer thought that when an enterprise is in an imperfect competitive market, the motive to invest abroad is to make full use of its monopoly advantage, and such advantage can counteract many disadvantages of transnational management and make that company in a monopoly position also in the host country.

1.2 The Theory of Product Life Cycle²

In this theory, Raymond divided product life cycle into three stages, they are: new product stage, grown up stage and standardized stage. He used these three stages to illustrate that in different stages of product life cycle, different countries are in different positions of one country's foreign trade, for example, in the new product stage, the new product can gain the monopoly position as a result of its high-tech, and the manufacturer can get a high profit in the domestic market, at this time, overseas demand can be satisfied by export, so the manufacturer don't need to invest abroad; in the grown stage, the product's technique is mastered by many manufacturers in domestic market and overseas market, and for the sake of protecting the infant industries, the host countries will set up import barriers to limit the import of the product, at this time the manufacturer start to set up subsidiaries to produce and sale locally, in order to reduce cost, breakthrough trade barriers and occupy the local market; and in the standardized stage, the creative country has lost the monopoly position, so it transfer its technique to overseas countries with low costing comparative advantages, and then sell to home country again, at last, when this technique is not profitable to the creative country, it will sell this technique by means of franchising. Besides, this theory combined product locational selection and product's overseas production to make

² Raymond Vernon, "International Investment and International Trade in the Product Cycle", Quarterly Journal of Economics, May, 1966

systemic analysis. And He also divide countries into three types according to his theory: developed countries, other developed countries and underdeveloped countries. He point out the motive of one company's international trade and other investments is the product life cycle, and accompany with new techniques' appearance, this company will pay more attention to R&D in order to keep in the lead position of technology.

1.3 The theory of internalization³

According to internalization theory, enterprises try to form internal market though foreign investment, they will organize international production and coordinate international division of labor worldwide to avoid effects caused by external market imperfection. At the same time, since protection of intellectual property has become more difficult, internal transactions within the enterprise can protection intellectual property effectively. Internalization also can make enterprises adjust their capital, products and product factors within the enterprise according to the changing situation in order to keep the maximized profit.

Internalization theory also analyzes four factors that affect the internalization of intermediate products, they are: First, industry factor, including the characteristics of intermediate products, external market structure and features of the industry, etc. Second, locational factor, it means the culture differences, investment environments and the features of physical geography.

³ Peter J. Buckley&Mark C. Casson, *The Future of the Multinational Enterprises*, 1976

Third, country factor, it means the related countries' political system, law framework and financial situations, etc. Fourth, enterprise factor, it means enterprise's advantage and disadvantage of competition, organization structure, management level, corporate culture, produce and sale technique, etc.

1.4 The Eclectic Theory of International Production⁴

The core of theory is: one enterprise's foreign investment is a consequence of ownership specific advantage, internalization advantage and location specific advantage's interaction.

First, ownership specific advantage is the unique advantage owned by one enterprise. It includes: 1) property advantage of capital nature, it means the advantage on tangible assets and intangible assets 2) marketable property advantage, it means the advantage obtained by the enterprise when it operate transnational managements, allocate resources worldwide and evade all kinds of risks.

Dunning though one enterprise must have these advantages when it invest in foreign countries, but one enterprise which has owned these advantages may not invest abroad.

Second, internalization advantage, it means one ability of enterprises who have owned ownership advantages, which can keep the advantages within the enterprises in order to avoid the effects on profits caused by market imperfection. Compare to non-equity transaction, internal transaction can save more

⁴ John Harry Dunning, *Trade Location of Economic Activities and the MNE: A Search for an Eclectic Approach*, Holms&Meier, 1977

transaction cost, especially for the intellectual products.

Third, location specific advantage, it is the favorable degree of one foreign market environment for an enterprise's produce and management compare with environment of this enterprise's home country. Namely the advantages owned by host countries in the investment environment factor.

Dunning thought when an enterprise has owned ownership specific advantage and monopolistic advantage, at this time, when it also has location advantage in one host country, foreign investment becomes the best choice for this enterprise.

1.5 The theory of comparative advantage⁵

K. Kojima believes that different countries' economic conditions are different, so the theories based on the materials of foreign investment of American MNCs can not explain the foreign investment behaviors of Japanese MNCs. He thinks that American MNCs with monopoly advantages shift their manufacturing bases abroad by setting up many subsidiaries abroad, this reduces their parent companies' export, and has bad effects on home country's economy, such behavior goes against the principle of comparative advantage, so such behavior is "trade substitute foreign investment". But Japanese MNCs' foreign investments concentrate on the traditional industries which are losing their comparative advantages, this kind of investment is "trade creative foreign investment".

⁵ K. Kojima, *International Trade*, 1987

The core of this theory is foreign investment should start from industries are or are going to be in the inferior positions. The smaller technology gap is between enterprises and host countries, the better, because this is good for establishment of local comparative industries. So the countries can get mutual benefits from these foreign investment activities and the following trades.

1.6 Chinese literatures

Chinese scholars also made some researches on the subject of MNCs' foreign investment based on western theories, Tong Lu (2001), Zhile Wang (2005), Xun Mei, Yi Ke & Qingyan Yang (2001), Xinxin Li (2002), Haidong Zhang (2003), etc. all have done many researches on this subject, they all made in-depth studies focus on MNCs' foreign investment strategies and gave many views about that.

2 GENERAL CHARACTERISTICS ABOUT MNCs' FOREIGN INVESTMENT

2.1 Main Contents of MNCs' foreign investment

Recent years, most world-famous MNCs are based in developed countries, expanding rapidly worldwide, they are having increasingly effect on world economy. According to statistics, the number of multinational corporations increased from 35 thousand headquarters and 150 thousand branches all

over the world in 1990 to 65 thousand headquarters and 850 thousand branches all over the world in 2006. Multinational corporations' revenues increased from 2.4 trillion dollars in 1982 to 19 trillion dollars in 2006.

By the end of 2006, MNCs from over 200 countries and regions has set up over 570,000 companies in China. They invested over 665 billion dollars totally. Among all the investments in 2006, 92% are coming from MNCs if developed countries and regions. So their investment modes are very important for us to discuss here.

When a multinational corporation wants to enter a foreign country, the means can be chosen by it are mainly: First, by exporting or importing commodities, namely, by means of international trade. Second, by transferring the intangible assets, for instance, technique, trade mark, business methods and business experiences, etc., namely, by means of investment. Here, in this thesis, we mainly talk about the means of investment. According to the academic paper of Huanghuan⁶ and academic paper of Li Xinxin⁷, the main contents are like below:

2.1.1 Transnational Capital

Compare to establishing new factories, branches and subsidiaries by sole investment, set up a joint venture company with local companies or purchase shares of local companies

⁶ Huan Huang, "MNCs' expansion in China", *China Economist*, 2003

⁷ Xinxin Li, "Formation and development of MNCs of developed countries", *Review of Economic Research*, 2002

appears more convenient and flexible. Please look at the situation of China:

Ford Motor of United States built up a subsidiary company in China on October 25th, 1995. At the same time, it owns 30% shares of JMC Motors Corporation.⁸

General Motors of United States cooperated with Shanghai Automotive and built up Shanghai General Motors in 1997. Shanghai General Motors produces cars of General Motors. General Motors and Shanghai Automotive each take 50% shares of it.

Volkswagen cooperated with two Chinese companies and built up Shanghai Volkswagen in 1985 and FAW-Volkswagen in 1991 to produce Volkswagen's cars. By the end of 2006 Volkswagen has built up another three joint venture enterprises to produce Volkswagen's spare parts for car.

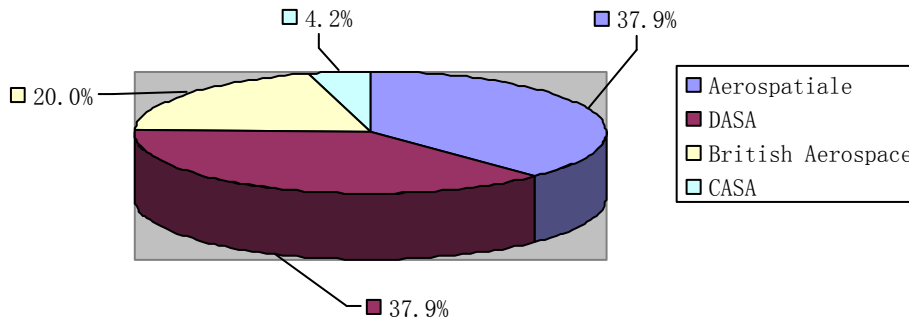
Hyundai Motor of Korea built up a joint venture company named Beijing Hyundai Motors Corporation in 2002 to produce Hyundai Motor's cars in China.

There are also other cases that companies of different countries invest together from the first beginning. Royal Dutch Shell is a company established by the common investment of United Kingdom and Netherlands. European company Airbus's orders are 1,111 airplanes in 2005, it had 52% market share. It had kept for 5 years ahead of its rivals. When it was set up in 1970, it is a joint venture company invested by four European countries, the investors are Aerospatiale of France, DASA of

⁸ A Chinese automotive company which was built up in 1968

Germany, British Aerospace of United Kingdom and CASA of Spain.

Figure 2-1 Proportion of shares of Airbus when it is established in 1970



Source: Annual financial report of Airbus, 1970

We can image two extreme situations: The first extreme situation is that one company's capital is owned by only company, it produces, sales and invests to other countries, this kind of transnational corporation named "Asset transnational corporation", another extreme situation is that one company's capital is owned by many companies, but produces, sales and invests to only one country, this kind of transnational corporation named "Capital transnational corporation". Here we have two angles to look on the transnational corporation, but in practice, many transnational corporations combine these two extreme situations together, namely, they own asset of many companies and have business in many countries, and themselves are invested by many companies, by now, we can have a clear understanding about multinational corporations.

2.1.2 Transnational Investment

It has been mentioned above that the situation of transnational capital, cooperating with local capitals is different from establishing branches and subsidiaries, it is a more flexible method to enter another country.

In the same way, M&A is also a more flexible way than newly building to invest in a new market, and here I give several examples:

American Ford Motor purchased 24.5% shares of Mazda in 1979, from that day, Mazda has acted as a tutor of Ford Motor, it taught Ford Motor how to manufacture light cars, how to manage production lines, etc., beside these, it offered technical support to Ford Motor. Because of the deficit of Mazda in the year of 1993 and 1994 and under the request of its main creditors and banking group, Ford Motor finally took over Mazda overall at the beginning of 1994.

One of the world largest beer brewing company, American AB Group purchased Mexican and Brazilian main breweries, it controlled Couvage of UK by means of purchasing, it purchased 5% shares of Tsingtao Brewery by 16.4 million dollars in 1993, by now it has owned 27% shares of Tsingtao Brewery Group. It purchased 80% shares of Wuhan Brewery of China by 140 million dollars in 1994. Again in 2004, it purchased 29.6% shares of Harbinbeer Group by nearly 700 million dollars and made itself become the largest share holder of Harbin Brewery Group.

Not only general commodity manufacturers and enterprises

start to invest in foreign countries, infrastructure industries such like energy resources, traffic and telecommunication enterprises don't wanted to be left behind also, foreign investment made them stretch the limitations of native territory.

For example, BT of United Kingdom purchased MCI Telecom Corporation's 20% shares by 4.3 billion dollars, besides this, BT also runs joint venture companies with telecom companies of Norway, Denmark, Finland, Sweden and Germany, etc., it owns half of the capital of Banco Santander⁹ in Spain, it also owns an enterprise which is a joint venture enterprise with a German bank.

To sum up the above arguments, MNCs' process of internationalization management has obvious regularity, it can be divided into three procedures. First stage is product export stage. At this time, the company is mainly focus on domestic market, accompany with the increase of product export, the company will start to set up sale organizations abroad in order to reduce trade cost, boost up competitive ability. Second stage is transnational management stage. Accompany with the expansion of export, the company starts to invest directly abroad, set up subsidiaries abroad, in order to occupy local market. Third stage is Globalization stage. At this time, the company's subsidiaries form integrated network worldwide, it can organize production worldwide, actualize the optimum allocation of resources. MNCs' developing process followed above procedures roughly.

⁹ A Spanish bank which has 126,000 employees, 630,000 customers, 1,0000 branches and 6 million shareholders

Plenty of examples show that internationalization management played an irreplaceable role in MNCs' growing up. The development of enterprises require internationalization management, and internationalization management gives fresh impetus to enterprises' rapid increase, internationalization management has become an important means of Global 500 companies' development. To some extent, Global 500 companies' developing process is their internationalization management's developing process. So at the end of this part, we must realize that if an enterprise wants to keep lasting development, it must put internationalization management into practice. We Chinese enterprises must be aware of that point.

2.1.3 Transnational Sale

Multinational corporations take the whole world's markets as their target market, usually over half of their business is carrying out abroad, for example:

American company Boeing, 70% of its productions are sold abroad (1/7 of them are sold to China), another American company, Citigroup's 44% total profits are obtained from developing countries.

The biggest companies of developing countries and regions such like Hutchison Whampoa, Cemex, their oversea business are all over 40% of their total business.

American Coca-Cola's product is the craze all over the world, its product sales in 135 countries and regions, the joint venture

factories scattered all over the world use ingredients supplied by the headquarter to can the drinks, so this can avouch for the quality.

Japan has about 30 damage insurance companies and about 24 Life Insurance Agencies, compare to 5800 insurance companies of United States, this number is very small but Japanese insurance companies' scale is larger. The Tokio marine & Nichido fire insurance company's revenue is the 4th of the insurance companies all over the world, it has about 500 branches in its own country, it also has subsidiaries and offices in over 105 countries and regions, as a result, even if their customers suffer from accidents abroad, their claims can be dealt with rapidly.

2.1.4 Transnational Management

It includes: 1) Human resource 2) Cooperate culture 3) Information technique.

2.1.4.1 Transnational Human Resource

Multinational corporations not only produce, sale, invest abroad, even in the constitution of their employees they also represent internationalism.

First is Mixed Ranks of Cadres

Royal Philips Electronics is a company whose headquarter is set in Netherlands, in the ranking of FORTUNE Global 500 companies of 2006 its rank is 145. This group thinks if all

administrators are all from one country, it will make the enterprise lack of adventurous spirit and passion, only if they absorb talented people in the world into the company, they can think more broadly. In the company's management committee, president, vice-president and executive committee members are 14 in total, 5 of them are Netherlander, others are American, Englishman, French, Swiss and Swedish, they were astounding administrators of many big companies before they join in Royal Philips Electronics.

Second is Developing Native People's Effect

The reason why Coca-Cola could dominate the world is that it insists adopting the way of "franchise" all the time. Franchise is a way of "native people owns the franchised outlet, native manages the franchised outlet", as long as the franchisees pay the franchise fee to the franchisor, they can be franchised to manage Coca-Cola's drinks. The head office of Coca-Cola is responsible for the provision of unified advertising campaign, the franchisees raise money for development all by themselves and do the management all by themselves. This "big company pool with small companies" method of operation has motivated the businessmen in the world to a great extent, they all operate "Cola" enthusiastically, as a result, "Coca-Cola" spread all over the world rapidly.

Ford Motor is the 4th biggest automotive manufacturing company of the world, it started its first automotive factory in China in 1995, it also bought 30% shares of JMC Motor Corporation. From the year 2003 to 2006, it invested over 100

million dollars in China. This company started to train some Chinese engineers for its Chinese factories from 1980, until now, some of them are still working on very important positions of automotive manufacturing industry.

Third is Treating Foreigners in the Company Kindly

Intel's Santa Clara headquarter is like a mini United Nations, it has dozens of subsidiaries all over the world. But in 1982, this company suffered a large-scale brain drain, and Chinese people took a large proportion. The preliminary investigation showed that there are different opinions about this situation: Some people said that because the company culture and tradition permitted clash and opposition, this kind of culture are very different from Chinese culture, so Chinese employees were hard to get used to this kind of culture. Other people said that is because Chinese employees were restricted by the English communication ability, as a result, they worked hard but couldn't get the proper reorganization.

The leaders of Intel paid great attention to this problem, they hold a seminar to analyze the difference between Intel's culture and Chinese culture. After discussion, employees removed the doubts and depressed mood suddenly saw the light. Intel's leader decided to hold a party especially for Chinese lunar new year of 1984, on that night, everyone had a good time. Afterwards, this kind of "cultural integration" activities extended among Japanese employees and Israeli employees. So the brain drain hasn't happen again since 1982.

Fourth is Learning Foreign Languages

To understand the world well, the first thing is to master the universal language. CEO of Fujitsu thinks the wide use of internet means if someone is good at English, his company can easily gather foreign information and negotiate with business partners through internet. So this Japanese largest computer manufacturing company decided that their 30,000 employees including president must attend TOEFL test, and the English language proficiency of every employee would be the standard for promotion in the future.

2.1.4.2 Cooperate Culture

If one company wants to be successful in its foreign investment managements, it will need amazing corporate culture to guide its management. Because a good corporate culture can integrate every different cultures within the company to the same culture.

2.1.4.3 Information Technique

High-tech revolution creates a society of information, it makes production, circulation, sale and market tend to internationalization, for multinational companies, traditional centrally-controlled vertical management system are not suitable any more. As a result, a new type of network management system appears, it works by using modern tools of communication.

2.1.5 Locational Selection

It includes: 1) Place selection 2) Industry selection. According to Dunning's theory, MNCs not only have to consider the entry modes to invest in a new market, they also have to consider about the places and the industries they tend to engage in.

2.2 Main trends of MNCs' foreign investment in recent years

2.2.1 Globalization¹⁰

In the new international situation, multinational corporations adopt strategies of global integration. Global integration strategy is not only means a company which owns international business, international market, international manpower, international information and international structure, the more important thing is to actualize the resources allocation integration, market integration, industry development integration, labor market integration, etc. worldwide. Global integration strategy's essence is organizing labor, material and financial resources worldwide, realizing optimal allocation of production and management factors, finally reinforcing competitive advantage.

When multinational corporations operate global integration strategy, there are usually several performances:

First, actualize optimal allocation of resources worldwide,

¹⁰ Youping Wang&Yun Liu, "MNCs investment strategy and effects since 90s of 20th century", *Journal of Jimei University (Philosophy and Social Science)*, 2001

“produce the most competitive products”¹¹. Multinational corporations consider every possible angle of worldwide scope, making the best of the difference of resources endowment between countries and regions, realizing optimal allocation of resources worldwide, produce the most competitive products.

Second, increase the proportion of investment in developing countries. Multinational corporations think well of developing countries’ opportunities embodied in great potential for economic growth and their flourishing consumption demands, these corporations are all make more investments and optimizing the investment structure, besides this, they invest more in new and high-tech industries, for instance, IBM, Siemens, General Motors, etc. all invest more in China and ASEAN¹² countries.

Third, culture disparateness and administrators multinationalized. Big multinational companies are trying to become the companies which “own many kinds of cultures”¹³. Konosuke Matsushita—CEO of Matsushita Group told department managers: “ To become a real global company, we must use administrators from different countries, variegate the management rank.” Royal Dutch Shell’s administrators in London come from about 38 countries.

2.2.2 Massive Mergers

Since 80s of 20th century, especially from 90s to now, one

¹¹ *FORTUNE FORUM*, Chinese cities Publishing House, November, 2006

¹² Association of Southeast Asian Nations

¹³ The same as [1]

important adjustment of multinational corporations' global expansion strategy is, changing forms from establishing new enterprises to mergers and acquisitions, and make mergers a main form of international direct investments¹⁴. In 80s of 20th century, Japanese big enterprises' mergers action are the most active, the number of mergers action increased from 40 companies every year at the beginning of 80s to 450 companies every year at the end of 80s. During the whole 90s of 20th century, United States, European Union and Japan's transnational mergers and acquisitions happened increasingly frequent, especially in United States. In large-scale merger activities, automobile industry, telecommunication industry, pharmaceutical industry, transportation business, financial industry, tourism industry, foodstuff industry and high-tech industry, etc are all involved in, big merger cases happened everywhere. From the year of 2000 till now, merger has become a popular way for enterprise's expansion, many Chinese enterprises adopted this way to become international companies, for instance, Lenove Group¹⁵ merged IBM's personal computer business by 1.25 billion dollars in 2005, Shanghai Automotive¹⁶ purchased Ssangyongmotor's 48.9% shares and became the biggest share holder of Ssangyongmotor¹⁷ in 2004.

These kinds of merger have substantial differences with those happened before. First, the party who operates the merger is to

¹⁴ Xinxin Li, "Formation and development of MNCs of developed countries", *Review of Economic Research*, 2002

¹⁵ A Chinese electronic company which is built up in 1986

¹⁶ A Chinese automotive company which is built up in 2004

¹⁷ A Korean automotive company which is built up in 1954

achieve the goal that extending the scale of the enterprise, reducing the management cost, increasing its products' share of the market rapidly and increasing the profits. The target company's goal is to find shield and buckler to avoid being eliminated by the market. Second, these kinds of merger are not "the great fish eat up the small" any more, merger between large enterprises happens more, this further promotes the centralization of capital. So, this form of change from establishing new enterprises to mergers and acquisitions is one important feature of the Global 500 companies.

2.2.3 Massive Shifts

Economic development increase the demand of modern service industry, specially increase the demand for service of trade, finance, real estate, counseling, insurance, education, culture, tourism, telecommucation and health care, etc. industries, it requires these industries supply all-round and various service. The demand of the market promote the rapid development of the modern service industry¹⁸, and shift the investment of multinational corporations from industry and mining to service speedily.

On the other side, developing countries and middle and eastern European countries need to make good use of the service of banking, insurance, telecommunication, accounting and law, etc. urgently in the process of altering to market economy.

¹⁸ Youping Wang&Yun Liu, "MNCs investment strategy and effects since 90s of 20th century", *Journal of Jimei University (Philosophy and Social Science)*, 2001

The service industry trade's proportion in modern foreign trade has been increased greatly. This lead international investment shift to service industry, at the end of 20th century, over 55% direct investment of developed countries is for service industry. This is also a main feature of the Global 500 companies' internationalization management.

2.2.4 Strategic Alliance

To avoid both sink together in antagonistic competition, since middle 80s of 20th century, more and more multinational corporations have established strategic alliances among them, formed a pattern of both competition and cooperation. International strategic alliance means two or more than two multinational corporations establish a relative lasting corporative relationship in order to achieve their common goals and their respective strategic goals¹⁹. It has three features. First, parties in the strategic alliance are equal, they share profits and risks by means of using joint capital, purchasing each other's shares equally and supplying each party's own superiority of technology. Second, strategic alliance only confines at certain specific fields and express the strategic goal clear. Third, the parties in the strategic alliance keep the relationship of both competition and cooperation, namely, they cooperate in specific fields, but in other fields they compete with each other.

At present, 90% global large multinational corporations are in

¹⁹ XinXin Li, "Formation and development of MNCs of developed countries", *Review of Economic Research*, 2002

strategic alliance. Something worthy of notice is that this kind of international alliance not only develops rapidly, but also spread to middle and small enterprises. We can say, this competition and cooperation form of strategic alliance will be the only choice for an enterprise's internationalization management.

2.2.5 Pursuing High-tech

Since information technology revolution broke out in 80s of 20th century, high-tech field has become the main battlefield of the multinational corporations' investment. In order to be leading in the development of high-tech, obtain the extra profit of high-tech products, the MNCs reinforce the research and development strategy of high-tech. According to some experts' accurate accounting, every day shortened of high-tech products development will increase 0.2% business profits, if 10 days are shortened, 3.5% business profits will be increased.

The high-tech domains managed by the MNCs are mainly focus at aerospace, computer, electronic, biology and medicine domain²⁰, they are trying their best to be leading in high-tech's industrialization, commercialization and internationalization. But the development of high-tech needs a lot of talent people in science and technology. Now talent people in science and technology has become invaluable resources, and are struggled by multinational corporations in order to make sure these companies develop from traditional industries to high-tech

²⁰ Xinxin Li, "Formation and development of MNCs of developed countries", *Review of Economic Research*, 2002

industries.

2.2.6 Localization

Localization is another important feature of MNCs' internationalization management²¹. It is to say, MNCs reinforce the technique cooperation with local companies where they invest to, make good use of local intellectual resources and the low cost labor, develop the new products consistently with the local customs. This narrow down the economic and cultural difference between the original country and host country, then make the company act more like a local company, and more acceptable for local people. In the process of localization, they will manage to detour all kinds of barriers, occupy the host country's market, use local talent people, and establish a local image to obtain policy support by local government, then reduce the proportion of raw material and spare parts exported from original countries, increase the proportion of localization, so both the original country and host country can benefit from it.

Whatever, the MNCs act like "management globalization, image localization, decision-making flexibilization", and this brought them great benefit.

2.2.7 Network²²

High-tech revolution creates a society of information, it

²¹ Chengbin Zhang, "A study on MNCs' localization management", *Enterprise management*, 2006

²² Youping Wang&Yun Liu, "MNCs investment strategy and effects since 90s of 20th century", *Journal of Jimei University (Philosophy and Social Science)*, 2001

makes production, circulation, sale and market tend to internationalization, for multinational companies, traditional centrally-controlled vertical management system are not suitable any more. As a result, a new type of network management system appears, it works by using modern tools of communication. Nowadays, most of the multinational use this new type of network management system to make management more efficient.

2.2.8 Maximize the Profit Worldwide

The ground Rules of enterprise's management is seeking to maximize the profit. It has dominated all enterprises' management and development for a long time. Accompany with the expansion of multinational corporations worldwide, how to face the new features and new situations of internationalization management, and then maximize the profit, has become the all-important subject. After many years' practice, profit maximizing principle is changing from pursuing single enterprise's max profit to pursuing max profit worldwide. The main methods adopted by Global 500 companies to maximize the profit are: transferring profit between parent company and subsidiaries, avoiding international tax in order to minimize the tax, establishing the management evaluation and stimulation system.

CHAPTER III THE FOREIGN MNCs' INVESTMENT IN CHINA: SITUATIONS AND CASE STUDIES

1 CURRENT SITUATIONS OF FOREIGN MNCs IN CHINA

MNCs will never ignore such a tremendous potential market of China. One way is exporting productions to China, but doing this may cause the production's total cost too high as a result of the too high cost of transportation. So, MNCs strived to be the first to invest in China, consequently, many direct investments from foreign MNCs came rolling in to China recent years. As a matter of fact, some of the multinational corporations came into China even much earlier before 1949, they also established factories in China, but the large scale entry happened in 1980, especially after 1990²³.

American enterprises came. DaimlerChrysler cooperated with BAIC²⁴ and built up a joint venture company---BJC in 1983, this two companies reorganized BJC in 2003 and a new company was born, named Beijing Benz- DaimlerChrysler Automotive co., LTD. Coca-cola came back to China in 1979, by 2004, it had invested 1.2 billion dollars and had 29 bottling companies and 32 factories. 3M built up subsidiary in Shanghai all by itself...

Japanese enterprises came. By the end of 20th century, in

²³ This is according to the statements in Dapeng Li, "Current situations of MNCs' FDI in China", *Economic Tribune*, February, 2003

²⁴ A Chinese automotive group which was built in 50s of 20th century

Japanese top 20 industry companies, only 2 of them still not invested in China. Hitachi had built up 12 enterprises in China, the most important thing is that it set up a department to develop programs in China, this department is independent from its Asian programs department. Such change in its management structure indicated Hitachi paid great attention to its business in China. At the same time, Matsushita Electric Industrial has established 28 enterprises and invested 900 million dollars, its investment to China was the first place in all Japanese enterprises.

Korean enterprises came. Samsung Electronics' first subsidiary was established in Huizhou in 1992. By the end of 2005, Samsung Electronics owned 14 production companies, 8 sales organizations, 6 research centers and countless offices in China. Its revenue was 17.6 billion dollars in 2005. Early in the 90s of 20th century, Hyundai Motor established joint venture companies with Chinese enterprises, this made Hyundai's cars enter into Chinese Market. In 2000, Hyundai Motor's Chinese headquarter was established in Shanghai. Nowadays, Hyundai's cars are very popular in China, they are famous for their vogue, good quality and low price.

Germany enterprises didn't want to be left behind. Many famous companies has come to invest in China. By the end of 20th century, Siemens had owned 30 joint venture companies, its total revenues was nearly 10 billion dollars. Then we look at BMW's situation, BMW Brilliance Automotive Ltd. is a joint venture established between BMW Group and Brilliance China Automotive Holdings Ltd. The company engages in the

production, sales and after-sales service of premium automotive products of the BMW brand. BMW Brilliance was registered in May 2003 with its manufacturing facilities located in Shenyang, the capital of Liaoning Province of China. In 2005, BMW Brilliance had delivered 15,300 units to customers of the BMW 3 Series and 5 Series. The first BMW Brilliance Open Day was successfully held at BBA Plant Shenyang on July 23rd 2006. More than 9,000 associates and their families participated in the event.

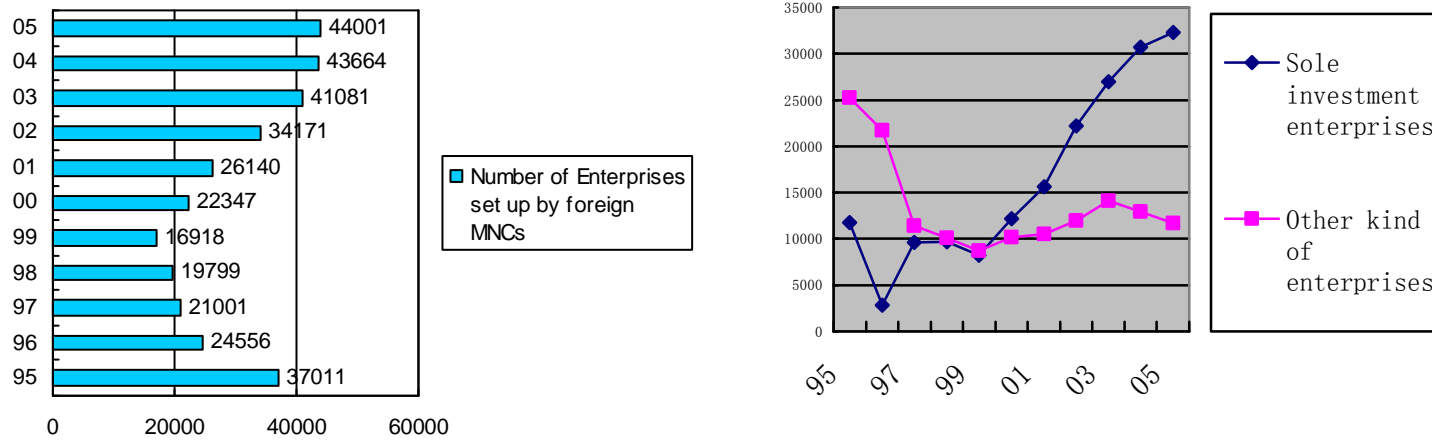
Besides the above countries, many countries and regions' companies has invested in China. Many of them has got great success in China. Some of them even have moved their headquarters or R&D centers to China.

Table 3-1 MNCs' investment in China

Item\Year	95	96	97	98	99	00	01	02	03	04	05
Total Enterprises	37011	24556	21001	19799	16918	22347	26140	34171	41081	43664	44001
Joint Venture Enterprises	20455	12628	9001	8107	7050	8378	8893	10380	12521	11570	10480
Cooperative Operation Enterprises	4787	2849	2373	2003	1656	1757	1589	1595	1547	1343	1166
Foreign Investment Enterprises	11761	9062	9602	9673	8201	12196	15643	22173	26943	30708	32308
Foreign Investment Share Enterprises	8	17	6	9	3	8	11	19	37	43	47
Cooperative Development			19	7	5	8	3	4	8		
Others					3		1		25		

Source: Yearbook of China 95-05

Figure 3-1 Foreign MNCs' investment in China



Source: Yearbook of China 95-05

Table 3-2 A few MNC's investment scale in China (by 2005) (\$ million)

Country	Company	Investment
Korea	Samsung	5000
United States	Nestle	980
United States	Motorola	3600
United States	GE	2300
United States	P&G	1000
Finland	Nokia	2100
Germany	Siemens	1900
Japan	Sony	1000
United States	Wal-mart	2200
Japan	Toshiba	990
Netherlands	Philip	4000
Japan	Panasonic	137
Germany	Bosch	780
Germany	Volkswagen	3000
United States	HP	1300

Source: Each company's annual financial report of 2005

2 THE REASONS WHY MNCs INVEST IN CHINA

2.1 The General Reasons

One of the general reasons why the MNCs come to invest in China is, we China have the most attractive market in the world²⁵. Since the adoption of the policy of reform and opening-up by China at the end of the 1970s, people's living level increased year by year. Markets of both daily necessities and durable goods expanded rapidly, especially markets of various capital goods expanded rapidly too. Since 1992, Chinese economy has kept a growth rate at nearly 10% every year, this is something never dreamed of by other countries. Chinese economy not only became the new increasing point of the world economy, but also showed the huge market capacity and inspiring economic development future for the first time. In the eyes of foreign investors, Chinese market are no longer a potential future market any more, it is an actual huge market at hand. This is obviously a prime reason why these big companies come to invest in China.

What is the most attractive thing of China to these supper multinational companies? It's the low cost labor, that's for sure, but it is still not the necessary reason why they come to invest in China. At the beginning of 90s of 20th century, multinational corporations invested more and more in China, I am afraid that was mainly because many of the developed countries' economy

²⁵ Xun Mei, Yi Ke, Qingyan Yang: "Analysis of MNCs' investment strategies in China", MNCs research team of government of Anhui province, China, 2001

appeared to have some problems at that time. Meanwhile, eastern Asian economy growth rate was over 7%, Chinese economy was the hot spot of eastern Asian, as a result, in order to get rid of domestic economic predicament, companies of developed countries invested more and more in China.

At present, economists all over the world have come to an understanding that only the dispersed investment can make the excellent return. It means investing in a diversified portfolio can offers lower risk. For example, Royal Dutch Shell is one of the most money-making companies in the world for years, its secret of acquiring wealth is that it spread its investment among many different regions, it has established subsidiaries in over 120 countries all over the world.

Foreign investors, especially multinational corporations have noticed the good future of Chinese market, the vast market of China offers great opportunities to them. So, more and more multinational corporations have entered Chinese market since 90s of 20th century.

2.2 The Actual Reasons²⁶

First, the great market demand and the good investment environment. Recent years, Chinese economic growth has been kept at over 8%, it is rare in the world. The rapid growth of economic leads to the expansion of investment and demand,

²⁶ According to the statements in Xun Mei, Yi Ke, Qingyan Yang: "Analysis of MNCs' investment strategies in China", MNCs research team of government of Anhui province, China, 2001

besides, the ongoing readjustment of industrial structures and industrial upgrade attract the multinational corporations a lot.

Second, is the effect of following. Most of the multinational corporations which invest in China have gained great profits, this on the one hand stimulates these corporations to invest more in Chinese market, and on the other hand, they are the successful examples to those corporations which are going to invest in China. The competitors in the world consider entering Chinese market and obtaining profits from here as a very important goal, as a result, we can see the intense competitions between Coca-Cola and Pepsi-Cola, McDonald's and KFC, Motorola and Nokia, Samsung and LG in Chinese market.

Third, the effect of East Asian financial crisis. Many of the East Asian countries suffered from economic depression for a long time after the financial crisis. China got rid of the adverse effect soon after the crisis, and became one of the high points of the world economy growth. So many multinational corporations transferred some projects which can make profits here from other East Asian countries to Chinese market.

3 FOREIGN MNCS' CASE ANALYSIS

3.1 Take China as Home—Motorola's Localization Strategy

Motorola, a widely known name in China. Motorola's range of business including wireless communications, semiconductor, automobile electronics, broad bandwidth network and cell phones, etc. Motorola is at the head of its profession. Its revenues in 2006

is 36,843 million dollars while its profit is 4,578 million dollars.

Motorola entered Tianjin economic and technical development zone in June, 1992, after that, it extended all over China with incredible speed. Up to now Motorola has built up 9 enterprises, 16 R&D centers and 25 subsidiaries in China, 90,000 employees in total. By the end of 2006, Motorola has invested 36,000 million dollars in China, it is one of the biggest foreign enterprises which invest in China. Chinese market is the third biggest market in the world.

Table 3-3 Motorola's enterprises in China

Name of the enterprise	Time of establishment	Place of establishment	Product or Service
Motorola (China) Electronics Ltd.	1992	Tianjin	Communication products and spare parts
Motorola (China) investment Ltd.	1995	Beijing	Investment service
LESHAN-PHOENIX Semiconductor Company Ltd.	1995	Leshan	Semiconductor
Shanghai Motorola Telecom Products Co., Ltd.	1995	Shanghai	High speed FLEX pagers and paging system
Hangzhou Motorola Cellular Subscriber co., Ltd.	1996	Hangzhou	digital cellular subscriber products
Hangzhou Motorola Cellular Systems CO.,Ltd.	1996	Hangzhou	CDMA infrastructure equipment
Shanghai Motorola Automobile Electronic Co., Ltd.	1996	Shanghai	Automobile electronic controlling equipment
Beijing Huamin smart-card manufacture Co., Ltd.	1997	Beijing	Smart-card
Beijing Huamin smart-card system manufacture Co., Ltd.	1997	Beijing	Smart-card system

Source: Motorola company's websites <http://www.motorola.com.cn/>

The most important reason of Motorola's successful investment in China is that it has carried out localization strategy

according to Chinese situation²⁷, which is real fit for Chinese market. Its localization strategy is like follows:

First is technique localization.

One feature of Motorola's investment in China is it introduces its first-class technique to China while investing in China. When it produces its world leading products in China, it at the same time transfers many of its advanced technologies to China.

Motorola not only transfers these advanced technologies to China, it also uses its ability to design and manufacture new types of communication equipments for Chinese users. These new types of communication products even achieve the advanced world levels.

Besides transferring technology to China, Motorola pays much attention to cooperating with Chinese companies in development of new technology, to actualize technique developing localization. This can combine the two countries' research powers and have mutual complementarities, on one hand this makes China get in touch with the advanced technologies in the world, then can produces the first-class products of the world in China and promote Chinese communication technology's development, on the other hand, this can make sure Motorola's products which are developed and manufactured in China are fit for Chinese Customers.

Second is brand localization.

One reason that Motorola is known by most Chinese people is its brand localization strategy. Its brand localization in China can

²⁷ Yajun Pang, "A Study on Motorola's Localization Strategy in China", Ph.D. paper, 2002

be divided into four stages:

From 1988 to 1993, is the ground stage, during this period, Motorola made advertisements on all kinds of medias, kept in with government of China and try to understand the demand of the market.

From 1993 to 1994, Motorola subdivided products and markets, it developed different kinds of products according different demands of different consumers.

From 1995 to 1997, Motorola divided Chinese cities into two species—fast developing cities and slowly developing cities. Its supply different products to these two kind of cities.

From 1998 to now, administrators of Motorola considered different products would give consumers different impressions about Motorola, but this company should have a unitive brand imagery, so they made unitive advertising activities for different kinds of its products in order to make its brand imagery clear.

After the four stages, Motorola's products spread all over China, more and more Chinese people accept Motorola and its products.

Third is purchase localization.

Since Motorola entered into China, it has paid much attention to spare parts localization. Its main method is developing local suppliers to manufacture spare parts for Motorola's products.

Motorola considers suppliers as its lifeline. On one side, it requires its suppliers to supply spare parts of the stipulated quality, on the other side, it provide funds directly to its suppliers or help its suppliers to get funds to upgrade their manufacturing

technique and build up quality controlling system.

Purchase localization increase the extent of Motorola's products' localization. According to statistics, Motorola's products localization rate is over 70% today in China. This reduces its costs and increases its production efficiency a lot.

Fourth is talents development localization.

A quality workforce is the soul of one enterprise, the key of success. Motorola is also aware of this point, it put the employees' training and the utilization of employee's creation ability in the first place of talents localization. Motorola has set up training base and training center in China, this can supply high quality managers for Motorola Chinese companies. At present, over 72% percent of its managers of Chinese companies are Chinese people, and this proportion will increase in the future as the training project continues.

Fifth is being a good social citizen.

After Motorola entered China, it insists" Being a good social citizen", "Take China as home", "Being a Chinese company". Motorola always want to create a win-win situation for both itself and China.

Motorola saw that Chinese state-owned enterprises were facing difficulties in their management, and also contained business opportunities. It engaged in cooperation activities with Chinese enterprises. Motorola and Chinese government built up an enterprise modernization center together in 1997, this center's purpose is helping with Chinese state-owned enterprises' production efficiency and quality management.

Since 1994, Motorola has engaged in supporting “Project Hope”, it made a comprehensive subsidization plan for children unable to go to school in China. Up to now, Motorola has donated 12 million yuan to “Project Hope” and has helped build 24 “Hope” primary schools, as a result, many children could continue their studies. By doing such things, Motorola has won a very good reputation in China. More and more people are willing to buy its products.

Analysis of Motorola’s strategy:

Localization is an important part of Multinational corporations’ development strategy, especially recent years the international economy competition is getting very competitive, localization is more important than ever before. Generally speaking, multinational corporations chasing localization, it is obvious that there are at least two advantages: One advantage is this can reduce production cost. If the company invests to develop technique in the host country, it can use the cheap equipments and human resources locally; if the company purchase raw materials locally, it can save expenses on transportation and custom. The other advantage is that localization can cross the culture obstruction. We should see, multinational corporations are not only meeting the language problem in the host country, they also have problems in culture understanding. Hiring the local employees, specially the senior managers will help multinational corporations solving the problems they meet in the host country, such like problems on law, exterior relationship and internal management, etc.

We can say, all multinational corporations which invest to China are all carrying out the localization strategy, in this localization competition, Motorola is unquestionable the biggest winner. All credit goes to Motorola's thinking highly of localization. Motorola shows its great attention to localization in China in their publicity release for many times. It was not hard to see that Motorola has thrown all of its energies in the localization in China, and this finally leads its successful management in Chinese market.

3.2 Low Price Everyday—Wal-Mart's Promotion Strategy

The summer of Shenzhen in 1996 is really hot, but a news made this city even hotter, that is Wal-Mart had settled down in Shenzhen. People all crowded to Wal-Mart's store to see how the store of world-famous retail king looks like.

Comparing to Sears—a shop of a century's standing, Wal-Mart is just like a young man because it only has 30 years' history. But in these short 30 years, Wal-Mart worked very hard on its business, expanded from rural areas to urban areas, from North American to worldwide, and finally became the biggest retail store of the world. By the end of 1996, Wal-Mart's revenues worldwide was over 100 billion dollars, it's 3 times as Sears', at the same time, Wal-Mart is the 11th in the ranking of the FOURTUNE Global 500 companies. And by the end of 2006, Wal-Mart achieved the 2nd place in the ranking of the FOURTUNE Global 500 companies.

Wal-Mart's successful internationalization management in China can be analyzed from the following aspects²⁸:

First is subdividing the market.

Like other big retailers, Wal-Mart had made a careful investigation of Chinese market's situation for many years before expanded to China. It performed careful analysis on factors like population, income, regional environment, culture and government macroscopic policy, etc. They estimated that in the future few years, Chinese market would be the fastest growing market in the world. So they decided that Wal-Mart's investment in China should be with an eye on its future, as a result, they would rather give up 3 years' profits in China in order to open up a big market in China.

Accompany with Chinese economic development, Chinese people are gradually divided into two levels, some people can afford expensive goods while the other can not. Wal-Mart noticed that situation and supply different goods to those two different levels of people, both rich people and poor people can find the most proper goods in Wal-Mart's shops.

Second is its particular purchase pattern.

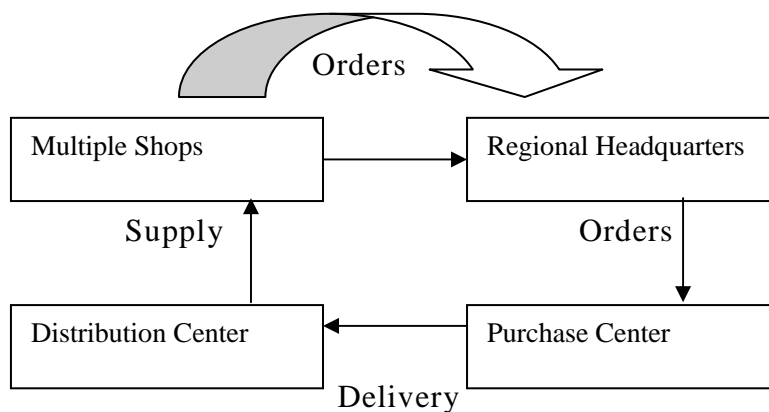
In order to reduce the intermediate links of circulation, Wal-Mart adopted a particular purchase pattern. Other retailers generally let all multiple shops purchase commodities from suppliers separately, but Wal-Mart adopts a pattern of "Unified order, Unified distribution", it means that all its multiple shops'

²⁸ Mainly refers to Fangmeng Tian, *Wal-Mart's Retailing Methods*, China Commercial Press, 2004

order are collected to its headquarter, and its headquarter makes the total order to the suppliers. Because the total order is much bigger than the separate orders, so Wal-Mart can get the goods at a much lower price. After that, the headquarter will distribute the goods to the multiple shops.

In China, Wal-Mart set up several regional headquarters and one purchase center, all multiple shops give their orders to their regional headquarters, the regional headquarters give the orders to the purchase center finally, the purchase center will purchase all the commodities from the suppliers and then distribute them to every single multiple shop. Because there are many distribution centers under purchase center, so the commodities ordered can be transported to every single multiple shop within one day as soon as they arrive at the distribution centers.

Figure 3-2 Wal-Mart's purchase pattern



Source: Foreign Investments in China, May, 2001

Third is the low price service.

Supplying the low price service to customers is another feature of Wal-Mart, speak of the low price service, people sometimes will only think of the price of the goods is very low, but this is not enough in Wal-Mart. Wal-Mart insists that lowest price is the important content of the low price service, but at the same time, its service to the customers can not be reduced. Supplying the overflow service to customers is the distillation of Wal-Mart's low price service. If a customer spend less money but get more service here in Wal-Mart, so we can say he gets the overflow service here.

These are all showed in its Shenzhen multiple shop when it opened as Wal-Mart's first multiple shop in China, it had the cheapest goods and the hottest service, and whenever a customer appears in no more than ten steps from an employee of Wal-Mart, this employee will say hello on his own and ask the customer if he need any help. Besides this, Shenzhen shop also had the biggest parking lot among all the retail shops.

Analysis of Wal-Mart's strategy:

Wal-Mart's success in China profits from its idea of "transferring profits to customers". It insists the lower price, it gains no more than 30% profits in selling goods to customers in China, which is much lower than 45% profits of other retailers. And meanwhile Wal-Mart uses the high performance management methods to reduce the cost, such like the particular purchase pattern, it increases its profit mainly by this way rather than raise the selling price of its goods.

Compare to the other retailers in China, Wal-Mart considers

most for the customers' convenience, it insists supplying people oriented service. It emphasizes to put the customer in the first place, to respect customer, to understand customer, not only supply general service to customer, but also supply unexpected excellent service to customer. Things like waiting in long queue or frisk forcibly will never gonna happen in Wal-Mart's multiple shops.

3.3 Man-Oriented Management—The HP Way in China

The HP way is the most important management strategy and management method of Hewlett-Packard, its contents can be summed up to two points: First is its excellent management strategy, second is the man-oriented management method. Both of these two points make HP become a world famous corporation, but the second point—the lasting man-oriented management method, which famous for respect and trust to its employees, makes HP become the most admired company of the world. As a result, man-oriented management method is more and more greeted by people with rapturous applause and gradually become the core of “the HP way”. This man-oriented management method also helped a lot in HP's internationalization management activity in China, and supplied many useful experiences for Chinese enterprises' human resource management and corporate culture²⁹.

²⁹ This part mainly refers to Lixin Wu, “Conflicts and Integration of HP and Chinese culture”, *Foreign Investment in China*, Vol.7, 2003 and Xiaoming Zheng, “HP's Corporate Culture”, *Northern Economy*, Vol.6, 2000

The man-oriented management method are mainly showed in following aspects:

First is respect and trust.

The most highlight expression of the respect and trust to employees is its flexible working time. HP let the employees control their own working time, it means one employee can choose to go to work earlier and leave his office earlier as soon as he finishes his work. The leader of HP consider the flexible working time shows HP's respect to its employee private life.

Open laboratory store warehouse express the trust to employees. The laboratory store warehouse is the place to put spare parts. In HP, the warehouse of laboratory store will never be locked, the engineers can get the spare parts as will, even take the spare parts to home. HP insists that it doesn't matter at work or at home, once engineers manipulate these spare parts they can learn something from doing this.

Promoting people within the company also shows the respect and trust to employees. Most of the time, the managers of HP are promoted from the ranks within HP rather than hiring from other places.

Second is sharing joys and sorrows with employees.

HP has a manpower policy, it is: We offer you a permanent job, if you make a good showing, we will hire you forever. One of the guarantees to perform the permanent job promise is conducting staff training continually, rise the employees' abilities to adapt to their environments and make contributions to the company.

In HP's Chinese company, the staff training is implemented well as in HP's headquarter in United States. By the end of 2006, HP Chinese company has developed over 3000 internet curriculums for its employees, every employee can choose whatever fit for himself and make self-improvement at any time.

Besides these, HP has its own cafeteria, all employees eat their meals here, managers and general clerks eat together, they can spent less than 10 yuan to have a big meal, this make you feel like eating in an university dinning hall. HP's Chinese company supplies coffee and deep-fry doughnuts two times a day, sometimes it will also have a beer time in the afternoon. All these make the atmosphere within the company sociable and less pressure.

Third is returning to the society.

HP's Chinese company often organizes its employee volunteers to donate blood. It become the first foreign companies which encourage its employees to donate blood.

HP is also wild about participating in public welfare work, it has supported Beijing bidding for the 2008 Olympic Games and many sports event in China since it came to China.

HP supports Chinese education and technology development a lot. By the end of 2000, it has donate computer equipments which worth over 3 million dollars to Chinese universities.

Fourth is confidence and optimism.

HP's employees all insist that their company's success dues to the man-oriented management method. Every time the company revises its goal, it will print it out and give it to employees, and

every time it will repeat one sentence like “This company’s success is the consequence of everyone’s efforts”. As a result, HP can always bind its employees together, whichever organization of HP in China you go, and you can feel how satisfied the employees to themselves and to the company they work for.

Analysis of HP’s strategy:

People working in Chinese IT industry all agree to one thing, IBM supplies products and systems for Chinese informationization, Intel makes the homemade PC become the main aspect in the market, but HP give the Chinese IT industry many useful management experiences, this make the Chinese IT enterprises grow up. If we say HP brought up Silicon Valley in the United States, we say HP plays the same important role in China. Many Chinese companies learned a lot of HP’s management experience when they acted as an agent of HP.

What makes HP succeed in expanding to China? It’s the man-oriented corporate culture called the HP way. It is the perfect union of the excellent management and the man-oriented management method. We can tell easily from the HP way, HP’s corporate culture emphasizes the human factor, it makes its bylaw and management methods according human-based consideration, this is the key point of is success. This kind of corporate culture has an abundant connotation, it brings great benefits to one company: it reinforce the employee’s identity and loyalty to the enterprise; it also reinforce the cohesion of the enterprise; it can improve the company’s performance while wining a good reputation for the enterprise; it can make the

enterprise have a lasting persistent behavior mode, etc. All such benefits are urgent needed by Chinese enterprises, many Chinese enterprises are doing well in the first few years and then shut down, one of the most important reason is that they don't have their own corporate culture. As a result, Chinese enterprises definitely need to learn from the most successful corporate culture maker—HP.

3.4 Do Everything Perfectly—P&G's Brand Strategy in China

In Chinese cities, you can hardly find a person which has never used Procter & Gamble's products. According to statistics, in Chinese household and personal care chemical market, P&G's products account for nearly 60% of proportion.

1988, P&G produced the product "Head&shoulders" in China for the first time, and Chinese consumers had the first experience in using P&G's shampoo. P&G's imposingly TV advertisement told all the consumers for the first time that having scurf will affect one people's appearance, but after using "Head&shoulders", scurf will be removed. This imposingly advertisement made a good beginning for P&G's brand strategy because other shampoos in the market do not have this function at that time. By the end of 2006, P&G has established 11 joint venture companies and lots of subsidiaries and factories in China, all of its products are popular for their imposingly quality and P&G's good brand reputation.

Table 3-4 P&G's main products in Chinese Market

English Name	Chinese Name	Use
Rejoice	Piaorou	Shampoo
Pantene	Panting	Shampoo
Head&shoulders	Haifeisi	Shampoo
Tide	Taizi	Washing Powder
Sassoon	Shaxuan	Shampoo
Safeguard	Shushuang	Soap
Zest	Jishuang	Soap
Olay	Yulanyou	Skin Care
Crest	Jiajieshi	Toothpaste
Gillette	Jilie	Razor

Source: P&G's website, <http://www.pg.com.cn/>

All of P&G's products have good reputations in Chinese market, and Chinese consumers also have high loyalty to P&G's brand, how in creation did P&G manage to do it? This profits from its brand strategy in China, speak of P&G's brand strategy³⁰, we mainly focus on following aspects:

First is the principle of "The customer is king".

P&G's leaders insist that their success mainly result from P&G's customer survey. When they doing the new product survey,

³⁰ Mainly refers to Chaohui Zeng, "P&G's Brand Strategy in China", *China Machinery & Electronic Industry*, Vol.6 & 7, 2005

they have two basic goals: First, if there already has this kind of products in this market, the investigators will try to find out what else does consumers expect from this kind of products; Second, if there is no such products in this market, they will investigate the consumers preference and demand on such products.

P&G had built up a team of investigation in China; their steps are all over the country. Investigators went to consumers' homes, watch their living habit, according to statistics of P&G's Chinese headquarter; they have contacted thousands of consumers by using this way. Beside this, P&G also holds consumer conference frequently; makes shop survey, etc. to get data of consumers' preference. After that, they will analyze the data and decide whether to develop a new product. If consumer survey analysis shows Chinese consumers don't really like one kind of product, even this product is very popular in other market, P&G will not consider producing that product in China. From here, we can see the P&G's principle of "The customer is king".

Second is product improvement.

Every time P&G try to produce an existing product in China, they will not only make sure that Chinese consumer likes the product, but also make some improvements according to Chinese people's body character. For example, improved "Sassoon" shampoo has moisture factor in it, in order to show Chinese people's soft and natural hair; improved "Crest" toothpaste has traditional and herbal drugs ingredient in it, just to conformable Chinese consumers' taste.

P&G also improves every existing product in the market

every year, they will according other company's same kinds of products and consumers' feedback to improve their products. P&G always try to make its products become the most perfect ones in the market. All these improvements make consumers trust P&G's products more and more, and these also accumulate good reputations for P&G's brand in China.

Third is advertisement.

After the products are developed, a massive agitprop is necessary. The new products need to be known and accepted by the consumers, so advertisement is obviously a very important part of P&G's brand strategy. P&G thinks that advertisement should go first, "P&G's growing is a process of growing together with advertising company". P&G has made many advertisements on newspaper, magazine, TV and radio, but in consideration of company mainly producing household and personal care chemical products, P&G put most of its advertisements on TV, which is the most popular form of Medias.

P&G's advertisement stresses effective commodity information transmission; it wants to let consumers know more about its products in limited time rather than only entertainment or art. P&G evolve a style of it's own during so many years' agitprop activities. After it came to China, it made some adjustment according to Chinese culture, it is to say, P&G combined Chinese culture and its own style together and made advertisements most fit for Chinese consumers. For example, P&G never use pop stars in its advertisements in United States, but in China it use pop stars a lot in its advertisements. The

reason is that in the United States P&G's product is of the moderate price, but in China P&G pitches its products of top grade household and personal care chemical products. As a result, its consumers are mainly concentrated within people between 16 and 40 years old, people of this age will be more affected by pop stars than younger or older ones, so P&G use pop stars in its advertisement in China to make a pointed agitprop.

Analysis of P&G's strategy:

Since China opened its gate to the world, Coca-cola, McDonalds, P&G, etc. all crowded into Chinese market, for the first time, Chinese people knew what is brand and felt the power of the brand.

Brand is a label of an enterprise or a product; there are two kinds of brand, one is enterprise brand, the other one is product brand. One enterprise emphasizing enterprise brand or product brand depends upon its market or its product character. Enterprise brand can unify all the products to one theme, in such enterprises; enterprise brand is product brand, for example, Coca-cola, McDonalds, etc. Enterprise brand's feature is entirety and continuity. In contrast, product brand's feature is multiplicity and creativity. Product brand serves a diverse market, when a company is facing a wide-ranging and distinct subdivided market, the superiority of product brand becomes obvious. P&G's service area is an area of household and personal care chemical products, because this area is a wide-ranging area, it needs to develop different kinds of products in order to meet the diverse demands. As a result, P&G emphasizes its product brand more than its

enterprise brand.

World famous multinational corporations all set a high value on brand, all of them have famous brands, and in contrast, Chinese enterprises' brand consciousness is very weak. By far, Chinese enterprises' brand value is much lower than world famous multinational corporations' brand value.

When Chinese enterprises operate their brand strategy, they must learn from world famous enterprises like P&G. As a shop of a century's standing, P&G refuses to stay in a rut, it choose to tap the potential markets, develop new products continually to satisfy consumers' higher level of demands. Dandruff is annoying, but we used to neglect this problem rather than solve it, but P&G found this problem and developed a product to solve it. And next, P&G is always trying its best to research the markets, and then they will take out cogent plans for the development of new products in the future. All these makes P&G's brand go deep into consumers' minds. Besides, P&G pays much attention to advertisements, this makes its brand image clearer and deeper day by day in every consumer's heart.

CHAPTER IV THE CHINESE ENTERPRISES' SITUATION AND PROBLEMS IN THEIR INVESTMENT ACTIVITIES

1 CURRENT SITUATIONS OF CHINESE COMPANIES' FOREIGN INVESTMENT ACTIVITIES

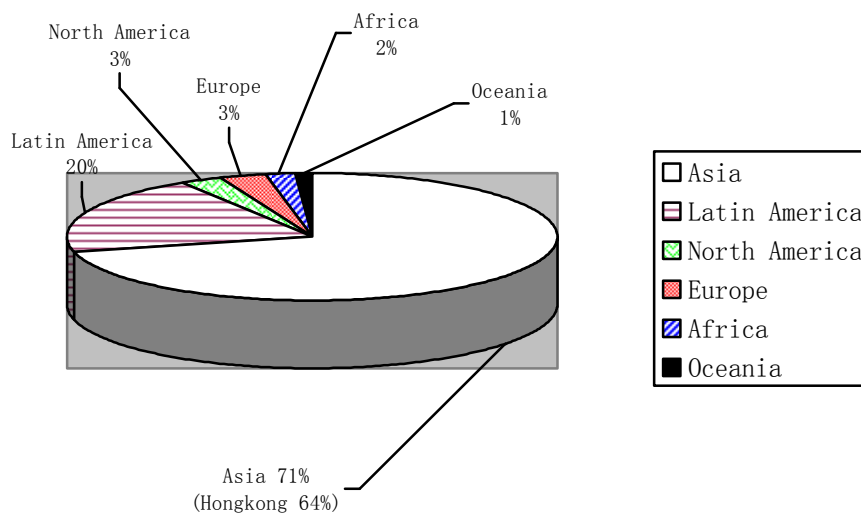
1.1 Current Situation Introduction

Recent years, Chinese enterprises' internationalization management is getting faster, and the amount of internationalization business has kept increasing year by year. More and more Chinese enterprises are trying to operate internationalization management in order to survive in a changing and competitive global economy. According to statistics published by the Chinese Department of Commerce, by the end of 2005, Chinese enterprises had established over 10,000 enterprises overseas, and their total scale was over 50 billion dollars. During the period from 2001 to 2005, there were over 30,000 Chinese enterprises engaged in internationalization activities, 23 Chinese companies are in the ranking of FORTUNE Global 500 companies.

An "Asia-centered, developing Africa, trying to extend to Europe, America, Latin American and South Pacific" diversified market pattern has formed. By the end of 2005, Chinese enterprises' internationalization activities had pervaded over 200

countries and regions. Asian market is still the biggest market of Chinese enterprises' internationalization activities. But Chinese enterprises are making great effort in expanding to other countries and regions in the world, more and more Chinese enterprises have appeared in North American, Oceania and African countries.

Figure 4-1 Chinese enterprises' internationalization activities distribution in 2005



Source: Year book of China, 2005

Table 4-1 Chinese enterprises' foreign investment

Year	Accumulated number of overseas enterprises	Increasing rate of enterprises	Accumulated investment amount (\$ billions)	Increasing rate of investment
2000	6269	3%	7.6	4%
2001	6608	5%	8.42	10.7%
2002	6960	5%	29.2	246%
2003	7470	7%	33.2	13%
2004	8299	11%	37	11%
2005	9364	12.8%	51.72	39.7%
2006	10517	12.3%	63.64	23%

Source: Year book of China, 2000-2005 and National Bureau of Statistics of China, <http://www.stats.gov.cn>

The advantage industries of the internationalization activities are still concentrating in the labor intensive industries. But recent years, more and more energy enterprises, high-tech enterprises and commercial service enterprises' internationalization activities are taking greater proportions of Chinese enterprises' total internationalization activities.

Transnational mergers and acquisitions have become an important mode of Chinese enterprises' internationalization managements. In 2005, 54.7% of Chinese enterprises' internationalization activities were operated by the way of transnational mergers and acquisitions.

Investors of internationalization management become more and more diverse. More and more private enterprises engaged in internationalization activities, in 2005, 30% of Chinese enterprises' internationalization activities were operated by

private enterprises while 35% of that was operated by pure state-owned enterprises.

Although Chinese enterprises' internationalization activities witnessed initial development, but, as compared with developed countries and rising industrial countries, there still exists obvious disparity. This is manifested in several things: First, investment scale is mainly of medium scale and small scale. The level of Chinese enterprises' internationalization investment scale is much lower than the developed countries, and even lower than the average level of developing countries. Second, the main mode of entering an overseas market is joint venture, and the management field mainly concentrates in foreign trade field of product exportations. Third, Chinese enterprises' ability to resist risks is very weak. Fourth, Chinese enterprises' level of internationalization management overseas is very low. Because of lacking of experience of internationalization management, many of Chinese enterprises' overseas enterprises can not make full use of local capital, technique and market, and many of them also have poor investment returns.

1.2 Process of Chinese enterprises' foreign investment practices

After China opened its gate to the world, Chinese enterprises are going through a new period that economic restructuring continually deepens and foreign economies open much wider to outside world. At this time, Chinese enterprises not only have to experience the process of marketization and internationalization,

but also have to face more and more competitions from multinational corporations in the world. Under such situation, Chinese enterprises choose to operate internationalization management, because only by this way, Chinese enterprises can survive in the competition with multinational corporations worldwide and then develop bigger and bigger. According to Chinese enterprises' internationalization practice these years, we can divide these practice activities into four stages³¹.

1.2.1 Importation and Absorption of Foreign Technology Stage

During the period from 1981 to 1993, Chinese enterprises mainly imported foreign technologies to improve the production capacity and the production efficiency. During this period, Chinese enterprises' technology import contracts worth 36.3 billion dollars in total. But one phenomenon we should pay attention to, it is that most of these technology import contracts were to import complete plants from abroad instead of importing technologies, it took 80.4% of all contract values. This rose Chinese enterprises' production capacity and production efficiency in phases but did not form a continual competitive advantage for Chinese enterprises. As a result, Chinese enterprises did not do enough work on absorption of foreign technologies, they relied heavily on foreign suppliers of complete plants.

³¹ According to statements of Haidong Zhang, *International business management*, Shanghai financial university publishing company, 2003

1.2.2 Product Export Stage

After the first stage, some of the Chinese enterprises absorbed the technologies imported, some of them even made secondary innovation to these imported technologies, this increased their technique levels and production capacities a lot. For example, Haier Group³², Chunlan Group³³, etc. produced “cheap but good” products in this stage, these products was competitive in the international markets at that time, so these enterprises exported such products to oversea countries as their internationalization activities.

Chinese enterprises’ exportation of products is also a process of progressive and continuous completion and improvement. It is a process of starting from exporting indirectly by overseas agents, then exports directly by establishing subsidiaries abroad, and then operates global marketing strategies. When Chinese enterprises entered into the international market, they adopted different strategies, this were concretely reflected in the choices of export modes and how much attention they paid to their brands. For example, Haier Group and Galanz Group chose different ways to export products. Haier Group adopted a strategy that export directly, use its own brand and marketing localization. Galanz Group decided to export indirectly by the way of OEM, it has never built up its own distribution net abroad, it entered

³² Haier Group is a household electric appliance company of China, which was founded in 1984

³³ It is a diversified, high-tech, internationalized large modern company with an integration of manufacturing, R & D, investment and trade

international market by manufacturing products for world famous enterprises under their brands.

In this stage, Chinese enterprises' production efficiency and quality became more and more competitive in the world, and Chinese enterprises' distribution channels developed as much as they could. It is a very important stage for Chinese enterprises' internationalization managements.

1.2.3 Establishing Strategic Alliance Stage

The benefit of establishing strategic alliance is to have competitive advantages of integration of value chain. It is to say two or more enterprises build up alliance in order to share each other's resources and have complementary advantages, it includes alliance on R&D, supply links, production links and marketing links. As a result, developing corporate relationship between enterprises and establishing strategic alliance is an important part for Chinese enterprises' internationalization management.

By far, Chinese enterprises have established comprehensive strategic alliances with multinational corporations, including cooperation on technique, supply, production and marketing. For instance, Haier Group has built up technique strategic alliances with 12 famous household electric appliance companies, including Motorola, Erricson, Phillips, Mitsubishi Heavy Industries Limited Corporation, etc. Besides, some of the household electric companies have built up marketing strategic

alliances with multinational corporations, TCL Group signed a distribution agreement with Panasonic and Phillips, Hisense signed a distribution agreement with Sanyo of Japan.

1.2.4 “Go Abroad” Stage

In this stage, some enterprises have already had advanced technology and efficient production lines, so they establish production bases in overseas countries, set up R&D centers abroad, or merger overseas companies abroad to actualize internationalization management. In these enterprises, there are many huge enterprises like Lenovo Group and Haier Group, and there are also many medium and small companies. For example, Lenovo Group purchased IBM’s personal computer sector by 1.25 billion dollars in 2005, after that, Lenovo Group set up another operation center in the United States. Shanghai Automotive purchased Korea Ssangyong Automotive’s 48.92% shares by half billion dollars and became the biggest shareholder of Ssangyong Automotive, this merger made Shanghai Automotive enter the international market. Haier Group established many factories in the United States in order to make its products and its brand accepted by American people, as a matter of fact, Haier’s brand popularity and its revenues in the United States market has increased so much since it set up production bases in the United States.

2 THE REASONS OF CHINESE ENTERPRISES' FOREIGN INVESTMENT

2.1 The Restriction of the Domestic Resources Available for Supply³⁴

Because one country's resources have the property of scarcity to some extent. When an enterprise wants to extend the scale of production, it may be overpaid in obtaining more resources in the domestic market, as a result, the overpriced extra resources make the marginal cost of the production too high to extend the scale, besides this, sometimes it may even has no way to obtain the plentiful resources needed.

But if the enterprise enter into the world market, it can obtain the resources needed at a reasonable price, then to extend the scale of production, achieve the goal of economics of scale. For instance, over 90% of the ironstones needed by the Baosteel Group³⁵ is supplied by Australia and other several countries, so we can say that the Baosteel Group's economics of scale depend upon the world market a lot.

2.2 The Restriction of the Demand of Productions in Domestic Market³⁶

During a period of time, one country's domestic demand to

³⁴ Junhao Wang, "Internationalization and the strategy of Chinese market structure", *Chinese Public management*, September 17, 2003

³⁵ The biggest steel company of China

³⁶ The same as 30

any commodities is limited, if the enterprises extend the scale of production blindly, sometimes it may cause the supply exceed the demand of the commodities badly, this will make the enterprises have no choice but to shrink the scale of production.

But in the capacious world market, the demand of the commodities will be increased by leaps and bounds, consequently, it finally break through the restriction of the demand of productions in domestic market and then leads the enterprises to achieve the economics of scale and get the max profit.

2.3 The Restriction of the Technique Level of the Country³⁷

The extension of the throughput always takes the upgrade of technique level as the impetus, when an enterprise wants to extend its scale of production, it will always adopt a more efficient new technique. But one country can't keeps ahead in all kinds of technique, there are industries whose technique level are drop behind other countries', if enterprises in these industries want to extend their scale of production, they will be restricted by the technique level of the country. Such situation happens more often to that countries whose technique levels are falling behind as a whole.

If an enterprise enter into the world market, it can introduce technique of high efficiency into its own country, then to advance the throughput, and finally may benefit from the economics of scale.

³⁷ Junhao Wang, "Internationalization and the strategy of Chinese market structure", *Chinese Public management*, September 17, 2003

2.4 Foreign Investment is Helpful to Industrial Structure Adjustment³⁸ of China

In nowadays world, many developed countries have entered into a era of information economies, and the information industry has become the leading industry that promote the economy development. At the same time, our country's industrial structure is still falling behind, this become an obstacle of our country's development, so we need to adjust the industrial structure imminently. We must upgrade the traditional industry, develop the rising industry and the high tech industry, promote the informatization of the national economy. This kind of adjustment can be carried out and finished favorably through the enterprises' internationalization, because internationalization can make good use of the otherness and complementarity exist in each country's economic developing level and industrial structure.

2.5 Foreign Investment is Helpful to Maintain and Extend the Export Market³⁹

Since the 90s of the 20th century, trade protectionism rebounds in many countries all over the world, they use all kinds of non-tariffs barriers to restrict the import from foreign countries, this makes our country's export meets challenge and difficulty. For instance, recent years, our export commodities are

³⁸ Haidong Zhang, *International business management*, Shanghai financial university publishing company, 2003, P340

³⁹ Haidong Zhang, *International business management*, Shanghai financial university publishing company, 2003, P341

being accused for dumping a lot in many foreign countries. If our enterprises can walk out of the country, make good use of the capital, technique, resources and labor in the foreign market, to produce locally, sale locally, it is to say to combine the international trade and the international investment, become multinational enterprises. Only after we have done this, we can steer clear of any kinds of barriers, deal with any changes in the world market leisurely and successfully.

3 CHINESE MNCS' CASE ANALYSIS

Many Chinese enterprises have started to try to invest abroad, some of them have made certain progress and accumulated some experiences on foreign investment. TCL, Haier Group, etc. are in the first group of companies which invest abroad, their foreign investment strategies do supplies some experience for other Chinese enterprises to follow and many Chinese enterprises have already followed their step, even though, many problems are still exist in TCL, Haier Group's foreign investment strategies. Let's analyze several cases to see what kind of problems exists in Chinese enterprises' foreign investment.

3.1 TCL Group's Foreign Investment strategy⁴⁰

TCL Group is a corporation whose domain is consumer electronic products, this group is built up in 1981, and from 1999,

⁴⁰ Mainly refers to Zhiyi He, "The Choice of Chinese enterprise's Foreign Investment", *World Economy Study*, Vol. 6, 2002

it started to explore its own way to invest abroad. By far, it has owned nearly 20 manufacturing bases in Mexico, Poland, Vietnam and Thailand, etc. It seems like this corporation's foreign investment is not bad.

TCL Group prefers to cooperate with other famous craft brother to enter into a new market or a new industry, it would make strategic alliance, joint venture companies or use M&A in its foreign investment activities, this made TCL Group can enter into a new market or a new industry as soon as possible, and also can get a good reward quickly, but in such business TCL usually don't control the core technique and it also don't use its own brand to manufacture products, for example, in 2003, TCL and Intel made a strategic alliance together and TCL got a lot of technique support from Intel, by this way, TCL manufactured its IT products for the first time in that year. In TCL's IT products, there is not so much technique that belongs to TCL, the core technique is control by Intel. Also in 2004, TCL bought 66% shares of Thomson and then built up a new corporation called TCL-THOMSON Electronic Corporation (TTE), although TCL got the management rights of TTE, but the key technique was still controlled by Thomson, and TTE was still manufacturing the products with Thomson's brand, the only thing TCL got is entering into European market by this merger activity. In the same year, TCL and Toshiba made a joint venture company together, in this activity, TCL got technique support from Toshiba for the products of refrigerator and washing machine while Toshiba could use the distributing channels of TCL in

China.

By the above strategies TCL entered into many markets and got a lot of technique support from the famous craft brothers, on the surface, TCL's international business is carrying out favorably, but in fact, there exists a lot of problems in its foreign investment strategy, because TCL doesn't control the core technique and it just produce the OEM products for the most time. By the end of 2006, the deficit of TTE reached 159 million Euros. Finally in 2007, TCL stopped most of its business of TCL-Thomson in Europe, only kept OEM business and business with several big clients, and recombine 90% employees of TTE, this symbolizes its failure in European market. In TCL Group's foreign investment strategy, there are several problems we should pay attention:

First, it has no clear plan before invest abroad. In TCL's strategy in Europe, it didn't make a clear strategy plan before it cooperated with Thomson. Because the purpose to cooperate with Thomson is to get the technique support for TCL's CRT TV products, but in less than one year after their corporation, Plasma Display Panel TV sets took place of CRT TV products, and TCL didn't get the technique support on Plasma Display Panel TV sets. This led to their failure in selling their products.

Second, sometimes it rushes ahead impetuously. In TCL's European business, it rushed ahead so impetuously. When TCL merged Thomson, it also take over all Thomson's debts, besides, it also paid a lot of money for Thomson's capital assets and all expenses for merger. Such huge expend exceeded the bearing

ability of TCL, and made TCL keep in difficulty in the next few years.

Third, it didn't get the core technique in its foreign investment. In TCL's foreign investment activities, it didn't get the core techniques. Its foreign partners just give TCL the right to use their technique, and TCL would never have the chance to control the core technique. This made TCL always in the subordinate position in its foreign investments.

Fourth, it didn't pay enough attention to the cross culture management. When TCL merged Thomson, it also took over Thomson's 8000 employees in Europe. But TCL didn't pay too much attention to the European companies' corporate culture management, the leaders of TCL just use their management method in China to manage the European employees. Chinese culture differs from European culture a lot, so such managing method caused dissatisfaction of European employees. This also makes its human resource management in Europe look like extremely disorderly.

3.2 Haier Group's Foreign Investment Strategy⁴¹

Haier Group is one of the most famous white goods home appliance manufacturers in China. Its attempt to invest abroad was started from 1997. By far, it has established 240 subsidiaries and 50,000 employees all over the world. Its brand is also very popular in developed countries such like United States and

⁴¹ Mainly refers to Hanhua Zhang, "Haier Group's Internationalization Strategy", *Enterprise Reform and Management*, Vol.7, 2003

European countries. Haier Group's investment strategy is just like Motorola's localization strategy, Haier Group pays much attention to localization. At the beginning of its foreign investment, Haier Group decided to establish factories in developed countries such like United States and Germany, and then produce locally, sale locally, promote its brand locally. In 2007, Haier's low technology refrigerator took over 50% market shares in American market, and now Haier's brand has been accepted by more and more overseas consumers. Although Haier's foreign investment is developing favorably, there are still some deficiencies need to pay attention to when comparing with world famous MNCs such like Motorola.

First, is manufacture localization. Haier Group invested 30 million dollars to establish one manufacture base in USA, this made Haier become the first Chinese company who can produce in USA. This can save the transaction cost to some extent. But comparing with Motorola, this scale is much smaller, because Motorola has invested 3500 million dollars to establish 26 manufacture bases in China. Haier Group's small scale investment will cause its product cost in USA rises, like transport cost, etc. and this will also limit the supply region in USA. Such small scale investment will definitely limit Haier's manufacture scale and marketing space.

Second, is technique innovation ability. Compare to world famous MNCs, Haier's innovation ability is insufficient, by far, Haier only has one design center in USA, and Haier has no original creation products and few important upgrade products,

although its refrigerator products are in the 3rd place worldwide, it still has no techniques that can affect the refrigerator industry. Contrarily, Motorola has set up 22 R&D centers in China, there are over 5000 researchers working for Motorola in China, it has developed many techniques even before people realize they will have demand on such techniques in the near future, now Motorola is leading the Chinese market by its advanced techniques. In the aspect of R&D input, Haier Group invested 800 million dollars in R&D and apply for 918 patents in 2006, in the same year, P&G invested 1500 million dollars in R&D and apply for 20,000 patents, Motorola invested 4000 million dollars in R&D.

Third, is brand construction. Haier insists to use its own brand in the foreign investment activities from the very beginning, this is a very good strategy for its future development in the world. But although Haier's productions with "Made in USA" can be accepted by American consumers easier than before, and can help Haier get rid of the image of "foreign brand", Haier is still far away from the main brand in the American market. This is because its brand image is still not very powerful, in its products, most of them are produced by medium technology or standard technology, people buy its products just because its price is lower and quality is not bad. But a manufacturer with main brand should make people remember its advanced technique.

Fourth, is transnational human resource management. On one hand, although Haier Group is hiring local people to manage its

overseas subsidiaries, but it didn't set up training center in overseas countries, their employees are trained in its training centers in China, they are trained in Chinese culture environment. After training, when they are sent to overseas subsidiaries, they will need a very long time to get used to local culture. But companies like Motorola and HP set up training centers in China, so this make their employees working in China can get used to Chinese culture as soon as possible. On the other hand, the level of reward of Haier's employees is lower than other big foreign MNCs, this lead to a serious loss of talented people, for example, many talented American managers are not willing to work for Haier in the USA. This will affect its overseas management in the long run. Zhang Ruimin—the CEO of Haier Group also mentioned about this problem for many times.

3.3 Lenovo Group's Foreign Investment Strategy⁴²

Lenove Group is an IT company which was built in 1981, when it was established, its name was Legend Group. By the mid 90s, it has become the first place in Chinese IT industry. In 2003, it changed its name to “Lenovo” and started to prepare for its foreign investment. At that time, international market shares of Lenovo Group's products is only of 2.2%, although its domestic market shares has been kept over 50% for nearly 8 years. In the December of 2004, Lenovo used 1.75 billion dollars merged IBM's PC department. This merger activity made Lenovo became

⁴² Mainly refers to Wenjing Wang, “Analysis of Lenovo Group's International Strategy”, MBA paper of China Foreign Economic and Trade University, 2005

the 3rd biggest PC equipments suppliers in the world, its international market shares was 7.8%. After that, Lenovo's headquarter moved to the USA, and it had operation centers in Beijing, Paris and Raleigh. New Lenovo became a real internationalized company because it took over IBM's PC business worldwide, including IBM's global R&D, purchase, manufacturing factories, distributing channels, service centers and patents that related to PC business. Beside these, Lenovo Group can use IBM's brand in 5 years and can use IBM's "Thinkpad" on Lenovo's products forever. By this way, Lenovo Group crowded into the group of the first class PC suppliers. It uses both the Lenovo brand and IBM brand in expanding in the international market, the two brands are equally important in new Lenovo, and 10 months later, new Lenovo Group began to gain profits from its department which belonged to IBM before. All these makes this case look like a very successful case for Chinese MNCs foreign investment strategy, but there are still exist some aspects that may cause problems in the future, let's see the following aspects:

First, Lenovo Group lacks of international management experience, before the merger, its international business only took 2.2% of the international market shares, and this are actualized mainly by export. It started its foreign investment by merging PC department of IBM, which was making a deficit of 500 million dollars, such "small fish eat big fish" merger would surely bring great challenges to new Lenovo Group's international management.

Second, the disparity between the two companies' culture is huge. IBM pays a lot of attention to every single employees' thoughts, it usually gives the employees decision making power when they doing their works. Contrary, Lenovo is famous for emphasizing execution power for many years in China, it pays a lot of attention to employees' obedience to the higher level. If some conflicts happen between these two different corporate cultures, some employees will leave, including some talented employees. In less than 6 months after Lenovo' merger, nearly 10% of employees of IBM's PC department left Lenovo and went to its rivals' companies, such like HP and Dell, among these people, there are a lot of key technicians.

Third, Lenovo's products' brand cognitive is very low worldwide for now. In 2006, Lenovo's PC business increased 17% in China, decreased 4% in America, decreased 1% in Asia-Pacific, and by the end of 2006, 40% of its PC business are contributed by its Chinese subsidiary. From this fact we can see, although it has been 2 years since Lenovo merged IBM's PC department, Lenovo's overseas PC business is still not stable, products with brand of "Lenovo" is of very low brand cognitive in overseas market. There are many consumers don't know the brand "Lenovo", or some of the consumers know the brand "Lenovo" but they don't trust this brand, they think IBM's "Thinkpad" is better. Although cement native business is important, gradually shrinking of Lenovo's overseas business may also cause a failure of its foreign investment activity.

Lenovo has done something trying to increase its brand

cognitive, it invest 65,000,000 dollars to become the top sponsor of the Olympic Games of 2008, it will supply PC equipments and communication services during the Olympic Games in 2008, this will surely increase its brand cognitive if it do well. But there are only 1 year left for Lenovo to prepare all techniques needed in Olympic Games, if it make any mistake at that time, it tends to have the reverse effect.

Fourth, the transnational human resource is also a problem for new Lenovo Group. On one side, when Lenovo merged IBM's PC department, it had to keep all the 10,000 employees of IBM and keep their salary not change in 3 years. This is a problem, because IBM's employees' salary is over 7 times than Lenovo's employees. This not only increases new Lenovo's cost, but also cause Lenovo's employees' dissatisfaction because such huge disparity on rewards exist within the Lenovo Group between old employees and new employees. On the other hand, before the merger, most of Lenovo's business is carried out in Chinese market, so Lenovo's managers are all trained in China, after the merger, no managers of Lenovo can manage its overseas business in a long time, new Lenovo Group had no choice but to use managers of IBM to manage its overseas business. Because the ratio of Lenovo's domestic business and international business is 4:6, as a result, 60% of Lenovo's business is controlled by IBM's managers. As we mentioned before, these two companies culture and business philosophy differ from each other a lot, once the management strategy drifted apart in the future, the coordination difficulties will surely increase. Beside this, by far IBM still

controlled 11.5% of Lenovo's shares, this may also be a obstacle of Lenovo's execution power in the future's management.

CHAPTER V PROBLEMS AND SUGGESTIONS TO CHINESE ENTERPRISES

1 COMPARISON BETWEEN FOREIGN MNCS' STRATEGY AND CHINESE MNCS'

In the forgoing parts, I have stated the activities of MNCs in their foreign investment strategies, and I also introduced the situations of foreign MNCs' investment activities in China and Chinese enterprises' foreign investment activities detailedly. In order to help understanding, I analyze 4 cases of foreign MNCs' investment cases in China and 3 cases of Chinese enterprises' foreign investment. Those will surely give readers a better knowledge on how does MNCs combine various activities and carry out their foreign investment strategies, and what's the effects and results of their investment strategies. Now I'm going to make a comparison between foreign MNCs and Chinese MNCs and try to find out the existing problems in Chinese enterprises' foreign investment strategies.

Table 5-1 Comparison between foreign MNCs and Chinese MNCs⁴³

Strategy Factors	Foreign MNCs	Chinese MNCs
Strategy Plan	Consider their strategies globally, to achieve their goals of Globalization	Consider their strategies based on domestic situation, take foreign investment strategies as supplement of domestic market strategies and often with no clear strategy plans
Scale of investment	In 2005, MNCs' average investment in single project of developed countries is 6 million dollars	In 2005, Chinese MNCs' average investment in single project is only 4.48 million, even lower than the average level of developing countries' 4.5 million
Form of investment	Tend to adopt sole investment, including set up exclusive subsidiaries or merger Chinese enterprises	Joint ventures or buying other foreign companies' shares
Brand	In China, foreign MNCs all have private brands, many of them have owned world-famous brand, they pay much attention to their brand strategy, they use all kinds of methods to raise their brand reputation as soon as they enter into China	Less than 5% of Chinese MNCs have their private brands, many managers in these MNCs care more about the temporary profits rather than a long-term brand construction strategy

⁴³ This table is made referring to analysis in Lu Tong's academic paper "A empirical study on Chinese enterprises' internationalization", Chinese Academy of Social Science, 2001 and Ping Deng's paper "Investing for strategic resources and its rationale: The case of outward FDI from Chinese companies", Business Horizons, 2007

Human Resource	<p>1 Pay much to develop their employees' initiative and creativeness, integrate every different cultures within the company to the same culture</p> <p>2 Give high salary to specialized talented people, this attracts many Chinese talented people</p> <p>3 Employees' localization and globalization</p>	<p>1 Only use rules and regulations according Chinese culture to manage employees from various countries</p> <p>2 Talented people's rewards is much lower than foreign MNCs', and even not so much more than the general employees within the company, this cause a huge loss of talented people</p> <p>3 Even in their foreign subsidiaries, most of them tend to use Chinese people</p>
Technology	<p>In China, Foreign MNCs pursue high-tech widely and controlled core technologies, both in sole investment enterprises and joint venture enterprises, 76% of them use the same or comparable technologies as their parent companies</p>	<p>In Chinese MNCs' foreign investment strategies, they mainly adopt standard technologies. Although 28.6% of the products in their overseas enterprises are high-tech products, 90% of that is processing products</p>
R&D	<p>Foreign MNCs like to set up R&D centers in China, this made their new products closer to Chinese consumers. In 2005, over 88% of 400 R&D centers set up by MNCs belong to foreign MNCs</p>	<p>Only a few MNCs like Lenovo, Haier Group, etc. built up R&D centers abroad, other Chinese local R&D centers is much fewer than foreign MNCs' in amount.</p>

2 THE PROBLEMS OF CHINESE COMPANIES' FOREIGN INVESTMENT ACTIVITIES

Although more and more Chinese enterprises start to operate their foreign investment managements and some of them have had good achievements, we still think Chinese enterprises' internationalization managements is in the primary stage. Because the scale of Chinese enterprises' internationalization activities is still very small comparing to world famous multinational corporations, for example, according to statistics, by the end of 2002, individual scale of Chinese enterprises' overseas enterprises is 1.4 million dollars in average, this is much lower than 6 million dollars of developed countries' enterprises, and even lower than 2.6 million dollars of developed countries' enterprises, some of the small Chinese enterprises' overseas branches sometimes are only several thousand dollars each. Beside this, in the process of Chinese enterprises' internationalization managements there still exists kinds of problems, the problems are as follows:

2.1 The Scale of Chinese Enterprises and Their Foreign Investment Activities is Much Smaller

The most obvious disparity between Chinese enterprises and foreign MNCs is scale. The scale of Chinese enterprises and their internationalization activities is much smaller than that of the developed countries, the overall strength of internationalization

activities is weak by comparison. According to the ranking of FOURTUNE Chinese 500 companies, in the ranking of 2006, Chinese top 500 companies' total assets only equal 7.1% of FORTUNE Global 500 companies, their total profits only equal 6.6% of Global 500 companies. And according to UNCTAD's statistics, the scale of Chinese enterprises' internationalization activities hasn't reach the average level of developing countries, even the scale of single project overseas invested by Chinese enterprises reached 4.48 million dollars on average in 2004, this number was still a little lower than 4.5 million dollars of developing countries' enterprises on average, and much lower than 6 million dollars of developed countries' enterprises. We can see from here, the scale of Chinese enterprises' internationalization activities is still far from the developed countries' enterprises. Because Chinese enterprises' scale is smaller, this leads to a low profitability of Chinese enterprises' overseas enterprises.

2.2 Lack of Technology Superiority and Innovative Ability

Compare to multinational corporations of developed countries, Chinese enterprises still don't have technology superiority in their internationalization activities. In 2005, there were 17,000 international standards in the world, only 0.3% of them were made by Chinese MNCs. Many internationalized Chinese enterprises still use low price and low cost labor to attain competitive advantage in the world market. In 2005, Chinese

MNCs average input on R&D was less than 1% of their revenues, but this number of average level of MNCs was over 5%, in developed countries, this number was 6%--8%. Many Chinese companies rely heavily on foreign countries' core technology, the core components of these enterprises' products need to be imported from foreign producers or manufactured by foreign technologies, and their competitive advantages mainly concentrate on manufacturing links. Until now, many enterprises still don't realize the importance of technology and innovation; they just invest little in R&D as before.

2.3 Stragglng Management Sense

If one company wants to be successful in its internationalization managements, it will need amazing corporate culture to guide its management. Because a good corporate culture can integrate every different cultures within the company to one same culture. This can make employees of different countries struggle to achieve the same goal. About 35%-45% of MNCs' foreign investment activities failed, 30% of these failures is due to aspects like capital, technique, etc. while 70% of them are due to lacking of efficient transnational culture management. But many Chinese enterprises neglect the importance of corporate culture when they operate the internationalization management. Some of the leaders of these enterprises think corporate culture is the same thing as rules and regulations of enterprises, they insist if their employees obey the rules and

regulations and finish their jobs in time, and it is the best result. But as a matter of fact, they ignore developing their employees' initiative and creativeness, which is very important for an enterprise's internationalization management activities. Besides this, some managers of Chinese enterprises even use Chinese culture to manage overseas business, such method sometimes will incur dissatisfaction of the overseas employees and may lead to personnel loss.

2.4 Stragglng Brand Construction

If Chinese enterprises want to do well in the process of internationalization, they need to create world famous brands. World famous brand can help them enter a new market and accepted by local consumers as soon as possible. But at present, some Chinese enterprises care only for immediate benefits and neglect the long-term interest. Some of them slacken the quality control when enlarge the production scale in the internationalization activities, this make consumers feel bad on products with this brand, and then by other products; some of the enterprises waive their own brands when they build up strategic alliances with other companies. All above behaviors are because of lacking brand construction consciousness, as a result, even more and more Chinese enterprises are engaging in internationalization managements, but only a few brands can be remembered by consumers in the international market. If this situation continues, Chinese enterprises' internationalization

managements will not develop better and better.

Figure 5-1 Products with private brands are taking less than 10% in export products of China



Source: Department of Commerce of China, <http://www.gov.cn/ztl/jjjs.htm>

2.5 Lack of Talented People Specialized in Internationalization Management

Enterprises' internationalization managements need qualified

and talented people specialized in international politics, law, economic, management, finance and marketing. Chinese enterprises' successful cases in operating internationalization management are not many, one of the important reasons is we don't have many high qualified people specialized in internationalization managements. The question of qualified personnel has become one of the main barriers to Chinese enterprises' internationalization managements. Because Chinese enterprises are affected by traditional economic structure of China, talented people's treatment and training can't compare with foreign multinational corporations, thus, leading to a huge loss of talented people. For instance, salary of IBM's employees is 7 times higher than Lenovo's employees', in 2005, the average level of MNCs' training expense was of 2%-5% of their revenues, but Chinese MNCs' was less than 1%, in China, American company—Beckmancoulter spent 7,000 dollars on every single employee for the training every year, this is over 50 times higher than Chinese companies' average level, this number of IBM was 3,000 dollars, and this number of Microsoft was 10,000 dollars. Because of lacking of high qualified people, Chinese enterprises will face a lot of risks in their internationalization management activities.

2.6 Lack of Experience of International Direct Investment and Transnational Management

This is mainly manifested in the following facts: First is

wrong foreign investment locations were chosen. For example, textile industry is our country's traditional industry, Chinese enterprises have comparative advantages in the world market. When Chinese textile enterprises operate internationalization activities, they should choose regions where the level of development of textile industry is lower than our country's level, and have a better condition for textile companies' development, so our enterprises' comparative advantages can be brought into full play. But at present, Chinese textile enterprises invest much in India, where textile industry is highly developed as China, this wastes Chinese textile enterprises' fund and resource, reduces the benefits of internationalization managements. Second is poor ability of localization. By far, most of the internationalized Chinese enterprises prefer to use Chinese employees, in some enterprises, 80% employees are Chinese people. This actually affected enterprises' localization management. Third is the poor ability of exploitation of overseas market. For a long time, most of Chinese enterprises don't have the right to engage in foreign trade as a result of traditional economic system, they have to operate their foreign business indirectly through trade companies. This separates Chinese manufacturers with international market, Chinese companies can not contact with the target markets directly, so they can not know the market demand in time and have little knowledge about international market, as a result, their ability to exploit the international market is very poor.

3 SUGGESTIONS TO CHINESE ENTERPRISES

3.1 Chinese enterprises need to make correct strategies before internationalization

Before entering into the international market, Chinese enterprises should work out the most appropriate internationalization strategies to guide their internationalization activities. They should consider their comparative advantages adequately on selecting the products for internationalization; and when they select the regions for internationalization, they should pay much attention to the effect of local culture backgrounds, laws and rules and geographical positions; when they choose the modes to enter international market they should consider the redistribution of benefits, and then choose carefully among exclusive investment, joint venture and franchise, etc. so as to gain higher added value.

3.2 Chinese enterprises' foreign investment should develop periodic progressively

The periodic progressive development means Chinese enterprises internationalization activities should start from the prime stage of internationalization management—exportation of goods, and then develop towards other senior stages of internationalization management. When an enterprise is going to engaged in internationalization management, it should consider

its own situation carefully and then operate its internationalization activities step by step, obey the developing mode of “Local market—Regional market—Foreign market—Global market”. Enterprises must make reliable judgments about their situations, they can upgrade to the next stage only when every condition is appropriate, whoever advance hastily will retire quickly.

3.3 Pay more attention to technology innovation

In nowadays international market, many products have a label of “made in China”, China is also called “World processing factory” by many people. In the course of “processing”, Chinese enterprises only gain a very limited profit, but at the same time, we consume a huge amount of nonrenewable resources. All this is because Chinese enterprises rely heavily on foreign companies’ core technology, this make Chinese enterprises’ internationalization activities become accessories of world famous multinational corporations’ internationalization activities. So Chinese enterprises must pay more attentions to their technology innovations. In my opinion, there are mainly two ways:

First, Chinese enterprises have imported many advanced technologies from foreign countries, but most them just put the imported technologies into the manufacturing links directly without research and absorption. This goes against the original idea of importing foreign technologies. From now on, Chinese

enterprises should invest more in researches on imported technologies, they should absorb the imported technologies completely. Further more, they should try to make secondary innovations based on the imported technologies. This will enforce Chinese enterprises' technology strength, and make Chinese enterprises' products more competitive in international market among products of the same kind.

Second, our Chinese enterprises' technology innovation resources are very limited, basic conditions of technology innovation are very weak, this situation can not be improved in short time. If only rely on self-renovation, the efficiency and level of innovation will not achieve the most desirable result in a short term. So Chinese enterprises should find different ways to cooperate with foreign multinational corporations in operating technology innovation projects. This can make full use of resources in international market, and this also make enterprises benefit from complementary advantages. Technology innovation corporation between enterprises also can make the technology innovations consistent with the demand in the international market, this saves the resources of enterprises most.

3.4 Pay attention to transnational culture management

I have explained the importance of corporate culture management for an internationalized enterprise in the above chapters, here I will give several suggestions for Chinese enterprises transnational culture management.

First, before investing in overseas country, Chinese enterprise should make a good research on culture of the invested country, to know the people's customs and preferences. A good culture research is a good base of transnational culture management.

Second, establishing a modern human resource system, when doing the jobs of human resource, Chinese enterprises should consider culture factors fully. An internationalized Chinese enterprise should train a lot of cross-cultural managers intentionally. At the same time, an internationalized Chinese enterprise should adopt an open employee selecting system, try to depend on local people in its overseas branches, develop local employees' talent in company's business.

Third, operating transnational corporate culture innovation, it means that Chinese enterprises should promote understanding, adaptation and hybrid of cultures between parent companies and overseas subsidiaries, in order to construct a totally new type of corporate culture, and finally make the new corporate culture the base of culture management within the internationalized enterprises.

3.5 Put the brand strategy in an important position

If a Chinese enterprise wants to have a continual development, it must create a famous brand of its own. And it must aware that a world famous brand can not be built up in one night, it needs the enterprise to make great efforts in the course of internationalization management for a long time. The enterprise

must pay attention to the following sides:

First, its goods must satisfy the consumers' demands. One enterprise's products can become well-known products is firstly because they can satisfy consumers' demands well. So we Chinese enterprises must make detailed investigations and researches about consumers' preferences and customs in the target markets, including the consumers' actual demands and potential demands. This is the basic work for the famous brand strategy.

Second is chasing the flawless quality. Chinese enterprises should specially pay attention to this part. A consumer would pay a much higher price for a famous product is because that product has a much better quality than other products with a not famous brand. Many Chinese enterprises just imitate the famous products and make their products look good, but their qualities are not as good as appeared, this will lose the consumers' trust in the international market. Chinese enterprises must chase the perfect quality, the highest-level quality, and keep doing this forever, only by doing this can make their brands admitted by the world.

Third, Chinese enterprises must consider how to make their products have unique characteristics. Because a product with a famous brand is always different and elaborately designed, only an unusual and conspicuous product can touch the consumers deeply. Only emphasizing the product's diversity can build up a different product image and brand image with the rival's product, and can make the consumers recognize, compare and accept easily. Therefore, Chinese enterprises must manufacture products

with unique characteristics, and use the unique features to attract consumers, to occupy the international market, to compete with the rivals, to build up famous brands in the international market.

CHAPTER VI CONCLUSION

Internationalization management of enterprises has become an inevitable trend in nowadays global economic development, and affect the global economy deeply. Since the reform and opening up of the last 20 years and more, the vigorous development of Chinese economics and the huge market has attracted many world famous multinational corporations come to invest in China. At the same time, more and more Chinese enterprises have operated their internationalization management activities in the overseas countries. Only when an enterprise that seizes the right moment and with the sight of globalization, makes the right choice of internationalization management strategy that fits for itself, can keep it staying on top of the increasingly keen competition.

Although MNCs' foreign investment activities has a lot of common contents and features, different MNCs use different combination of investment activities make their investment strategy different from each other's. Through the analysis of this paper, we can easily find out the investment strategies of the foreign MNCs in China, these special and efficient strategies make their business in China develop favorably, especially after comparing with Chinese MNCs' investment strategies, we can get some problems of Chinese enterprises' foreign investment, such like the scale is small, lacking of technology superiority and innovative ability, straggling management sense, straggling

brand construction, lacking of talented people, lacking of experience of international direct investment and transnational management, etc. These problems may lead to failures in Chinese enterprises' foreign investment, so they should be paid more attention to. Aiming at these problems, this thesis also gives several suggestions for Chinese enterprises' investment activities.

However, Chinese enterprises are not developing evenly, enterprises differ from each other in many respects, such like regions, industries, etc. and every enterprise's history, feature and advantage are also different from others', for this reason there isn't an unitive strategy for Chinese enterprises' internationalization management activities. Therefore, Chinese enterprises should learn from the world famous multinational corporations according to their individual traits, and then make internationalization management strategies that in accord with facts. This will guide Chinese enterprises' internationalization management activities correctly.

If China wants to become a real world economic power, we must develop more and more super multinational enterprises which can compete with IBM, GE, TOYOTA, etc. We hope to see more and more Chinese enterprises like Haier Group will take their places in the world market, and more Chinese famous brands accepted by the world. Chinese enterprises' successful internationalization managements will surely bring us a booming Chinese economy and will open a new chapter in the development of Chinese 5,000 years long history.

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