



EXPECT CHINA'S PRIVATE SECTOR ENTREPRENEURS TO TAKE THE LEAD

GLOBAL ECONOMIC SLOWDOWN OR NO GLOBAL ECONOMIC SLOWDOWN,
CHINA'S ENTREPRENEURS ARE ON THE MOVE

By Professor Winter Nie – June 2012

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“Hard landing, soft landing, civil unrest, dominant economic superpower – the forecasts flow freely regarding China. The fact that good data is hard to come by regarding China does not seem to inhibit many outside observers,” observed Dr. Peter Treadway, an economist based in Hong Kong. But one trend is clear: Chinese firms are at the beginning stage of going global and the pace is not slowing down due to the current world economic situation. If anything, the economic crisis might provide the needed opportunity for a shopping spree.

During 2004-2008, China's direct investment in Europe was less than one billion USD annually. This number increased by 200% in 2009-2010 to 3 billion dollars. A recent report issued by CICC (China International Capital Corporation, Limited) indicated that China's direct investment in Europe reached USD10 Billion during 2011, an increase of 200% year over year. It predicted that, during 2010 to 2020, China's total direct investment abroad will amount to 1 to 2 trillion USD, of which about a quarter will be in the form of M&A and strategic investment to destinations in Europe.

In the Shadow of the Dragon demystifies the process of Chinese firms going global. Much of the book's focus is on China's private sector entrepreneurs. We feel that these are the companies to watch in the near future, and the ones that western executives most need to pay attention to, especially when it comes to developing a global strategy. These private sector Chinese companies are managing to set new benchmarks for speed, nimbleness and competitiveness. They are increasingly challenging the traditional multinational giants, not only in China's domestic market, but also in other markets around the globe. China's Huawei, for instance, is currently competing directly with Ericsson for leadership in the worldwide mobile telecommunications market and especially in next generation 4G technology. Seventy percent of their revenue (more than US\$32.4 Billion in 2011—<http://baike.baidu.com/view/14877.htm>) comes from the overseas market (their products and services are deployed in 140 countries). Huawei's revenue came close to Ericsson's which amounted to \$32.9 billion in 2011 (Ericsson's gross revenues were 226.9 billion Swedish Kronor. The exchange rate on January 2, 2012 was 1 SEK=US\$0.144889. <http://www.ericsson.com/news/1579912>). The question is how they did it in such a short span of time. The focus on R&D, particularly relentless focus on innovations that matter to customers and meet customer needs, is a critical factor for its competitiveness. Among Huawei's 140,000 employees, 46% are engaged in R&D. The culture of hard work and a sense of urgency underscored its corporate success.

Other companies profiled in *In the Shadow of the Dragon*, Lenovo, Haier, Ping An, Han's Laser, and CHINT have each demonstrated an extraordinary adaptability to rapidly changing market situations, extreme sensitivity to the real needs of customers, and unusual approaches to innovation, especially when it comes to low cost R&D and manufacturing. In a sense they exemplify China's centuries-old aptitude for business and the readiness of its entrepreneurs to do what it takes to achieve their goals. The outstanding qualities that each of these business leaders shares in common are resourcefulness and raw ambition.

An example is Liu Chuanzhi, one of the founders of Legend, the company that eventually grew into Lenovo. At the age of 40, Liu and colleagues set up a small electronics business with little capital. Liu, who had studied physics as applied to electromagnetic data storage, found himself riding a bicycle around Beijing searching for business deals to keep his garage-sized operation afloat. In the process, he sold electric watches, roller skates and sportswear to make ends meet. However, within a decade, his company would put up \$1.7 billion to buy IBM's laptop business.

What made these men powerful, and consequently makes China powerful, is not only their extraordinary drive, business acumen, but also their readiness to change course at a moment's notice. While low cost labor provided an early advantage, the intense competition in China's internal domestic market forced each of these companies to move up the value chain quickly. China's products today are not only priced lower than much of the competition, they are meeting customer needs of certain segments. From the perspective of fitness for use, their quality is as good as MNCs.

While other developing economies, notably Thailand, Indonesia and Vietnam, are even better placed than China to offer low cost labor, China has an advantage in being able to outsource much of its own production to thousands of smaller specialized producers already based in China. Its interlocking support networks of suppliers clustered around manufacturing hubs constitute a formidable competitive advantage that is difficult for other emerging economies to compete with.

China's greatest advantage may be its readiness to look at the world in a completely new way. This freshness of outlook is combined with a willingness to take risks and to spend what it takes to get major projects off the ground. Chinese entrepreneurs have a refreshing appetite for taking on the impossible. An example is Guan Tongxian. At the age of 59, Guan created the Zhenhua Port Machinery Company (ZPMC) and began manufacturing the gigantic cranes that unload container ships coming into Shanghai Port. After reaching market saturation in China, Guan turned to the ports that were receiving Chinese goods. Realizing that he would dramatically increase his operating costs if he assembled the enormous cranes in foreign ports, he decided to assemble the cranes in China and ship them ready-made to foreign ports. When skeptics told him that it was impossible and that the high center of gravity of the enormous cranes would capsize his ships, Guan forged ahead and designed ships that could do the job. Today, a photograph on the wall at the company's headquarters shows one of Guan's ships carrying six fully assembled cranes. This readiness to take on the impossible once characterized the best western corporations, and it is now one of the major advantages of Chinese enterprises.

In the Shadow of the Dragon explores not only the achievements of these pioneering efforts at modernizing China's economy but also reveals how they did it. In the globalization process, Chinese companies have much to learn. They are still in the stage of paying the tuition. Nevertheless, it is our contention that China's growing private sector is challenging the new global economic order in ways that no modern executives can afford to ignore. The experience of China's entrepreneurs provides lessons for the future that each of us can learn and profit from.

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