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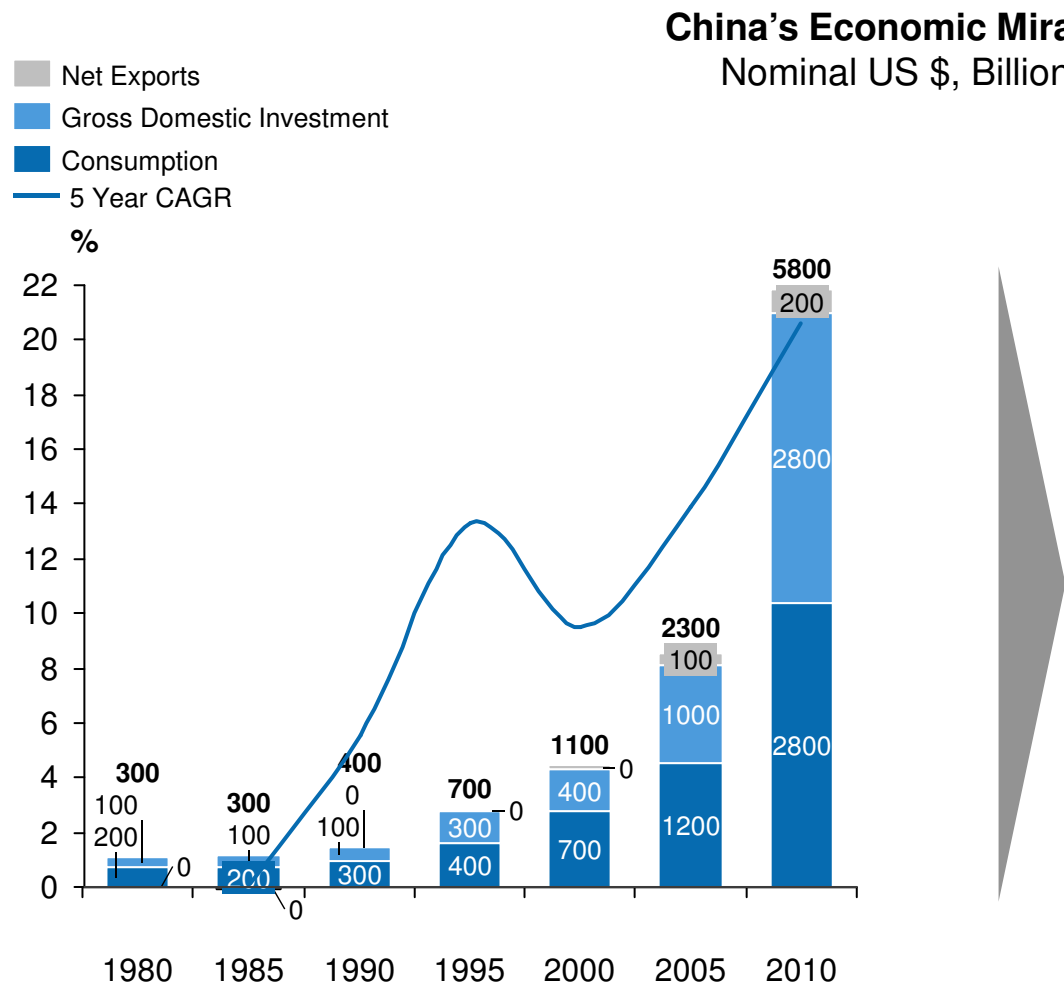
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# Internationalization Trends of Chinese Firms

Presentation on the occasion of the visit of H.E. Alexander Stubb,  
Minister for European Affairs and Foreign Trade of Finland

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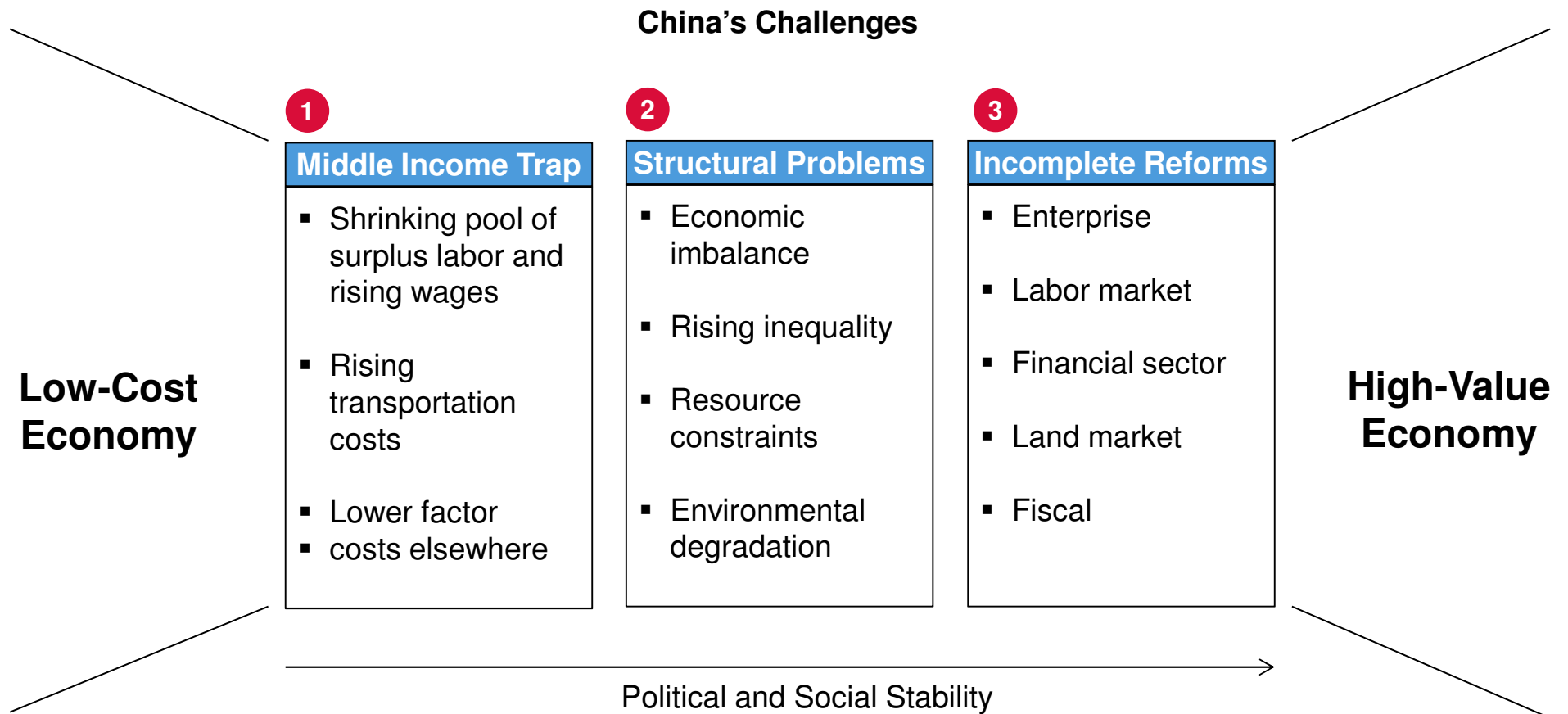
# China's recent economic development is unprecedented



- From irrelevant to must-win market in thirty years
- Deng's strategy:
  - Access to China's vast supply of surplus labor and potential demand from 1.5B consumers
  - in exchange for*
  - FDI and transfer of Western technology and other know-how
- Growth has not been uniform

Source: Global Insight, Booz & Company analysis

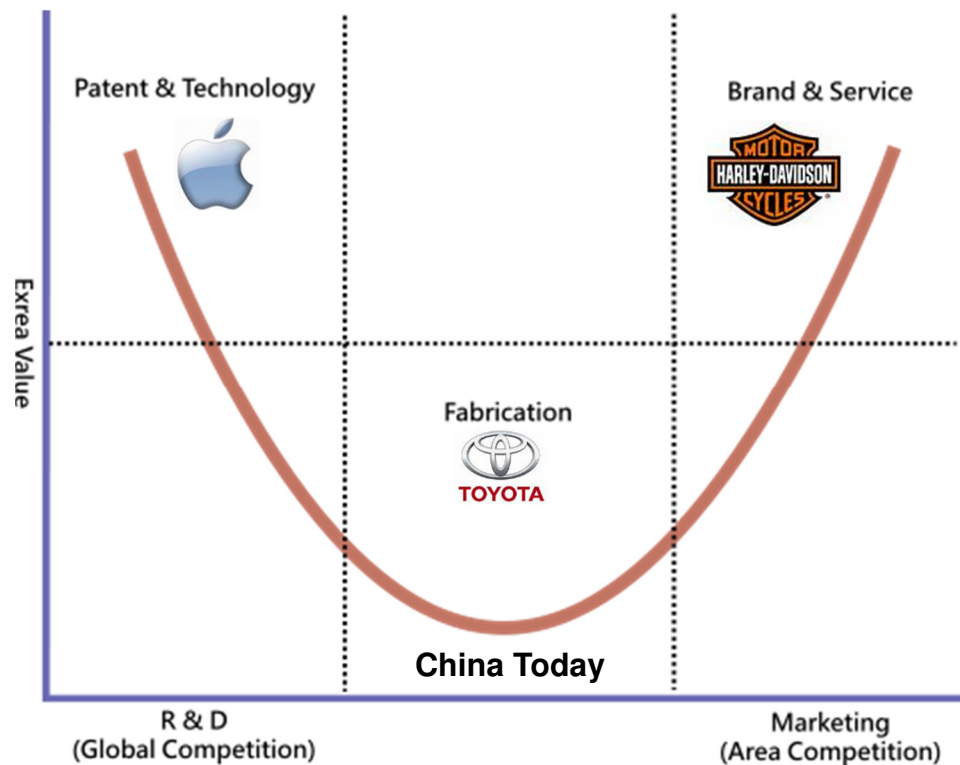
# However, China also faces significant challenges as it makes the difficult transition from a low-cost to a high-value economy



Source: Booz & Company analysis

# Upgrading Chinese firms' capabilities will be crucial for avoiding the "middle-income trap" and becoming a high-value economy

Stan Shi's "Smiling" Curve

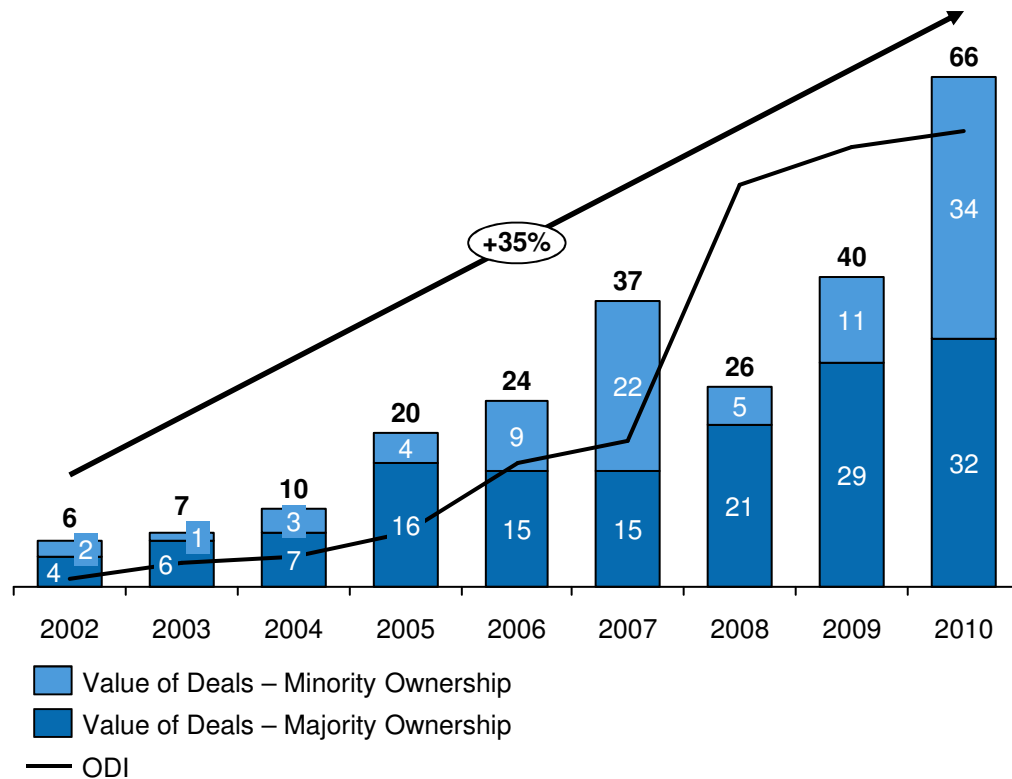


- Chinese firms currently still compete primarily in labor-intensive, low added value manufacturing
  - *Textiles, garments, toys, etc.*
- To become a high-value economy, Chinese firms must move up the value chain
  - *Innovation (e.g., Apple)*
  - *Brand (e.g., Harley-Davidson)*
  - *Operations (e.g., Toyota)*

Source: Literature research, Wikipedia, Booz & Company analysis

# ODI and outbound M&A are becoming especially important, as domestic upgrading efforts have not been consistently successful

China ODI and Outbound M&A  
2002-10, in \$Bn



- Domestic upgrading efforts not consistently successful (e.g., JVs)
  - High-speed rail (+)
  - Automotive assembly (-)
- Increase in outbound FDI to improve competitiveness at home
  - Sany > Putzmeister (technology)
  - SAIC > MG (brand)

Source: Global Insight, Booz & Company analysis

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# Contrary to the conventional wisdom, Chinese MNCs are not internationalizing solely from a position of weakness

## Conventional Wisdom

- China's large MNCs have few knowledge-based firm-specific advantages (FSAs)
  - Technology
  - Brands
- Instead, they are building scale economies based on China's country-specific advantages
  - Cheap labor
  - Natural resources
- Therefore, China's MNCs will likely become knowledge seekers as they go abroad

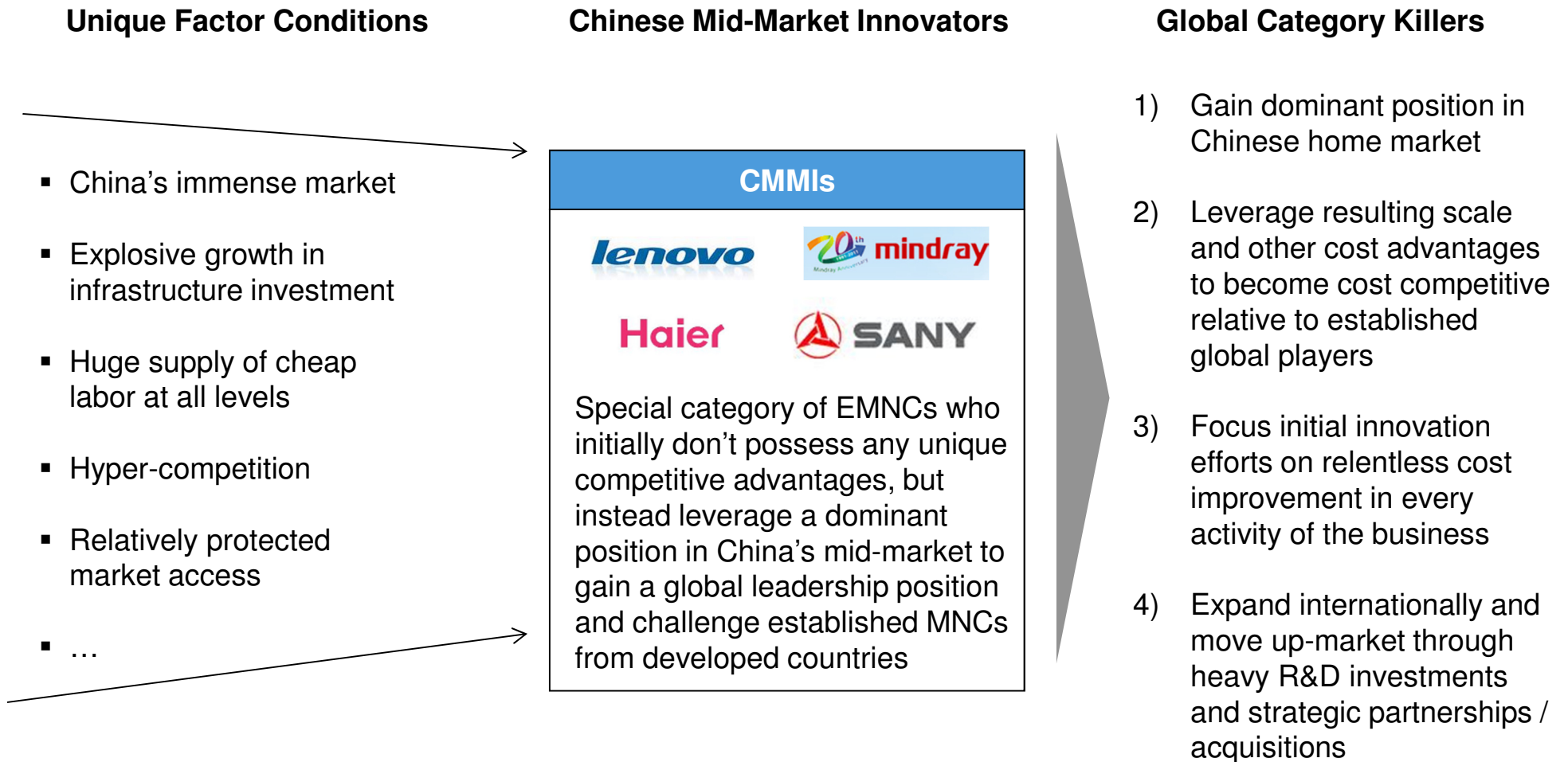


## Potential Strengths of Chinese MNCs

- Other Home Country Advantages
  - Market size
  - Difficult to access mid-market
  - Pro-business government
- Underrated Capabilities (FSAs)
  - Low-cost manufacturing and design
  - Experience in lesser regulated environments
  - Decision-making speed
- Latecomer Advantages
  - Imitation and fast followership
  - Potential leapfrog opportunities

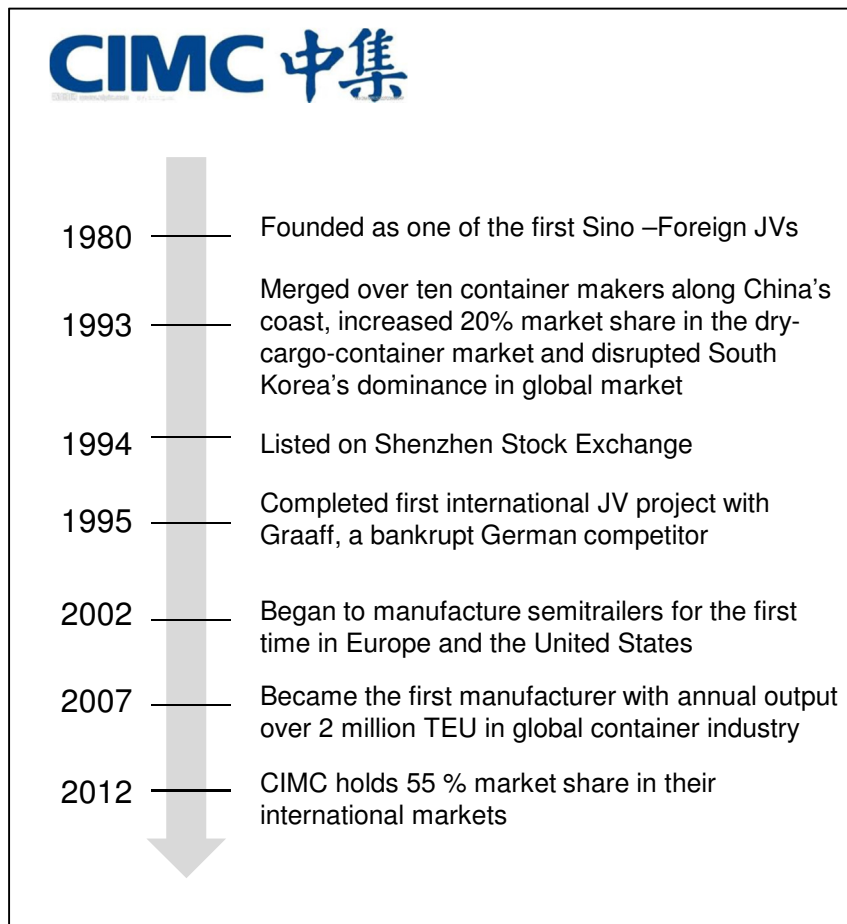
Source: Rugman / Li (2007), Mathews (2002), Booz & Company analysis

# As a result, Chinese firms' road to world-class will often be quite different from those of the traditional MNCs of the past

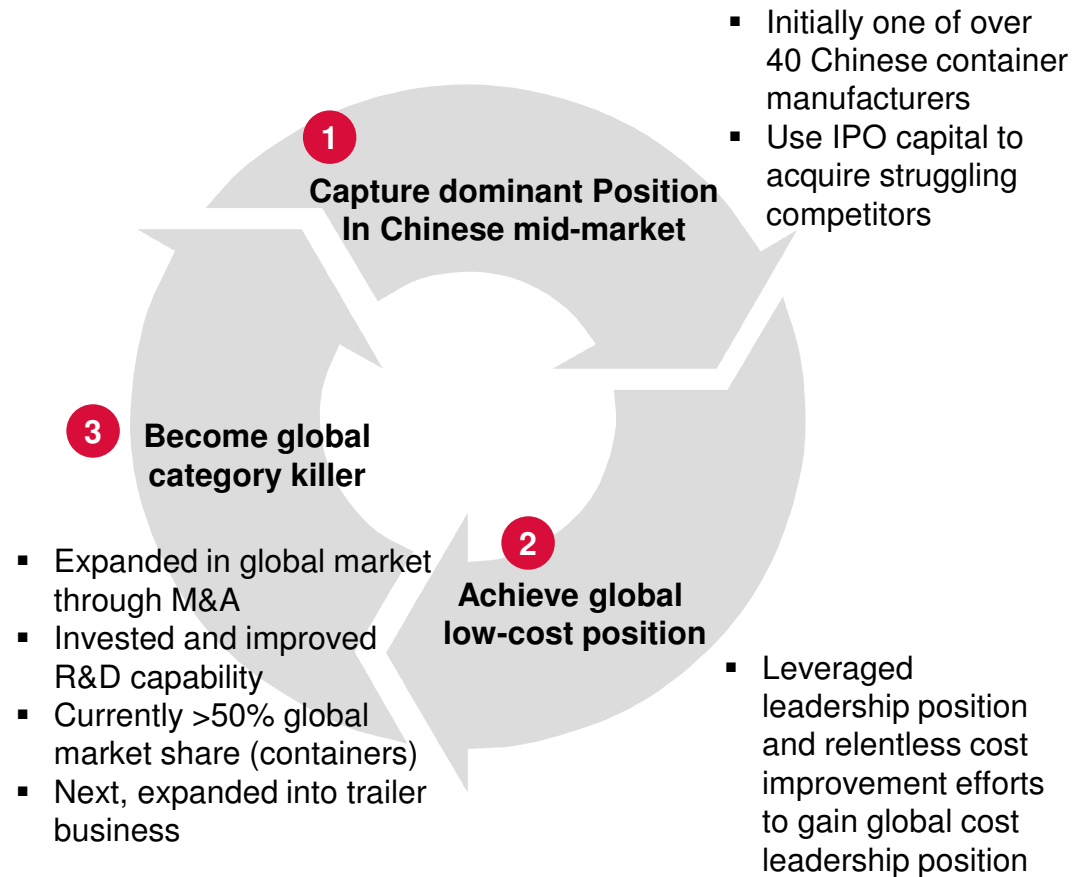


Source: Literature research, Booz & Company analysis

# CIMC is a proto-typical example of a Chinese Mid-Market Innovator who has already become a global category killer



## CIMC's Growth Story



Source: Literature research, Booz & Company analysis



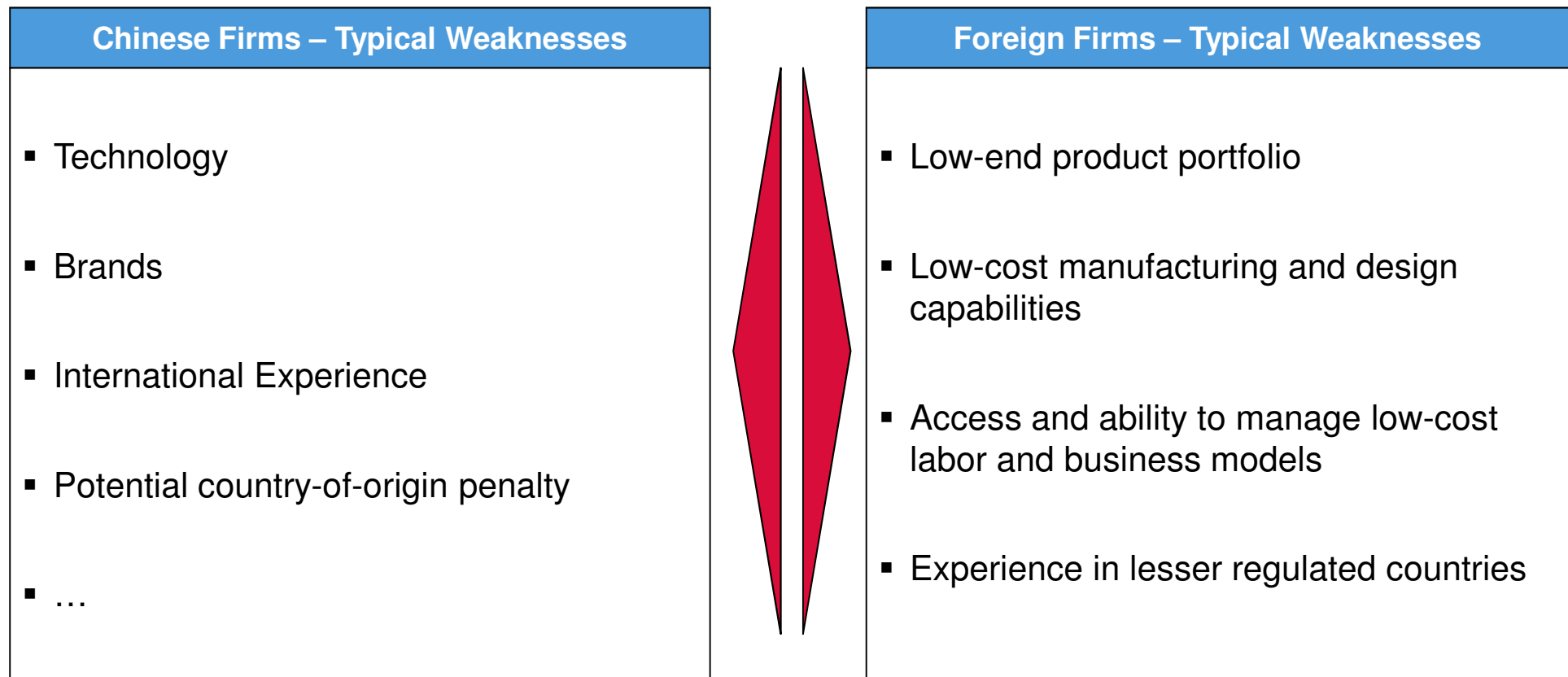
# Nevertheless, the failure rate of Chinese firms' international expansion efforts has actually been exceptionally high



Source: Literature search, Booz & Company analysis

# This presents potential win-win opportunities for collaboration between foreign (Finnish) and Chinese firms

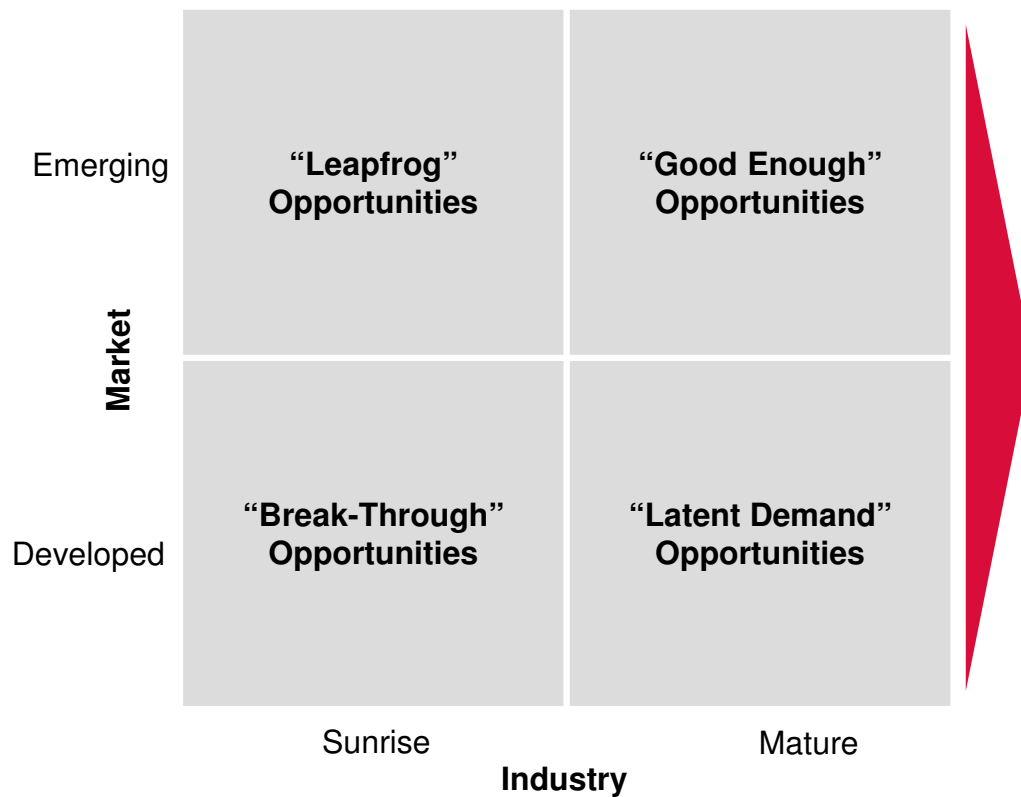
## Potential Opportunities for Foreign-China Cooperation



Source: Booz & Company analysis

**It is important to recognize that the nature of such opportunities will differ significantly based on market and industry maturity**

**Market Opportunity Matrix**



▪ **“Leapfrog” Opportunities**



▪ **Break-Through Opportunities**



▪ **“Good Enough” Opportunities**



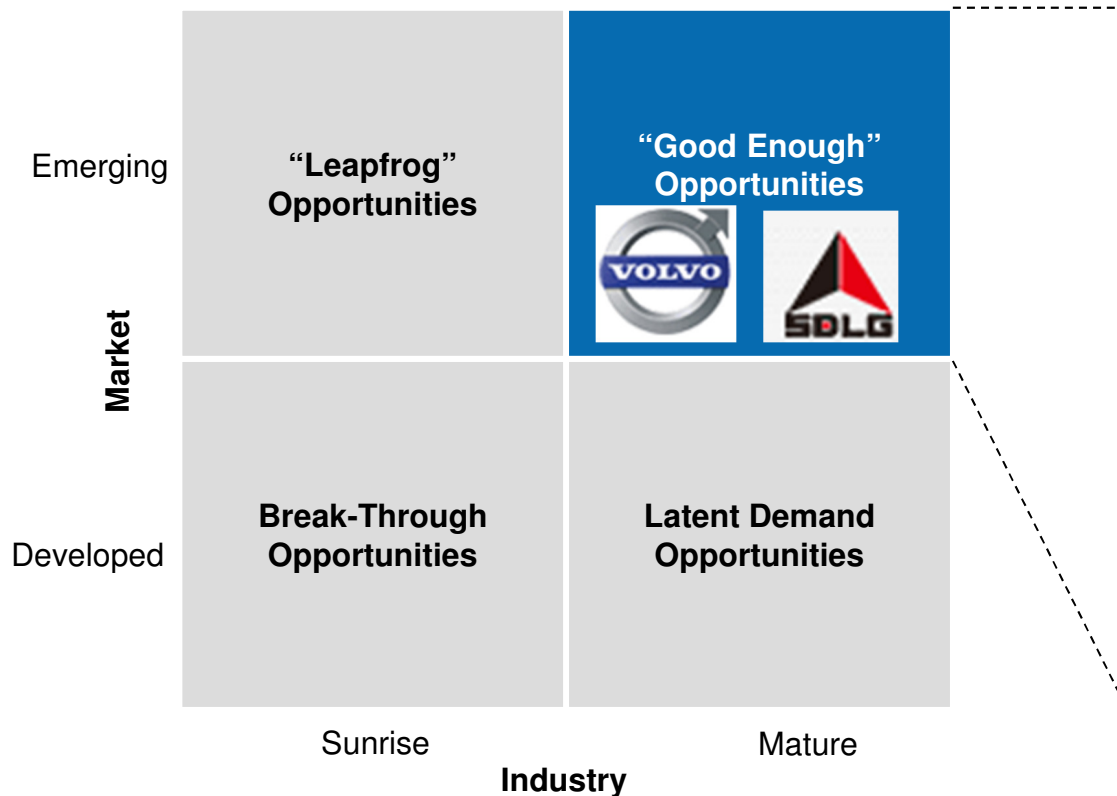
▪ **Latent Demand Opportunities**



Source: Booz & Company analysis

# AB Volvo / SDLG's upcoming introduction of a BRIC wheel loader is an example of such Sino-foreign partnership opportunities

Market Opportunity Matrix



### AB Volvo / SDLG Partnership







- AB Volvo acquired SDLG in 2007
- SDLG offers:
  - Entry level products
  - Low-cost manufacturing know-how
  - Wheel loader know-how
- Volvo brings:
  - Technology to develop SDLG products and components for BRIC markets
  - World class manufacturing standard to improve product quality and durability
  - Premium brand name
  - International management experience

Source: Volvo CE Capital Market Day Presentation, Literature search, Booz & Company analysis

# Booz & Company and Tekes are currently conducting a study to further explore these dynamics

## Partial List of Key Questions

- What are the primary motives of Chinese companies' internationalization?
- Which of the capabilities do Chinese companies lack most today to be competitive internationally?
- Which are the key success and failures factors for Chinese companies in international markets so far?
- In which countries could Chinese companies most use help from a local partner? How do MNC's see that?
- In what areas do foreign companies see opportunities for cooperation with Chinese companies? In what areas do they see threats from Chinese companies? How does that differ by developed vs. developing markets?

**Objective: Provide a better understanding of exactly how Finnish and Chinese companies can establish win-win opportunities for collaboration outside their respective home countries**



Source: Literature research, Booz & Company analysis

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## Contact Information

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