



Chinese Firms in Global Markets - Round 1 -

- Basics of Foreign Investment
- Foreign Investment Strategies
- The State Grid Corporation of China

Benedikt Lasar

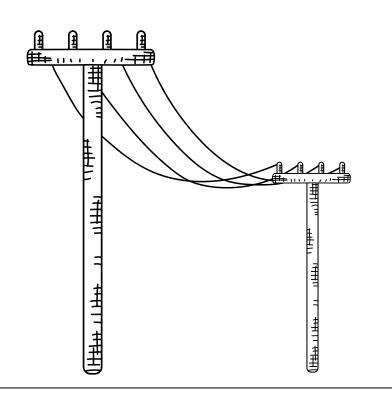
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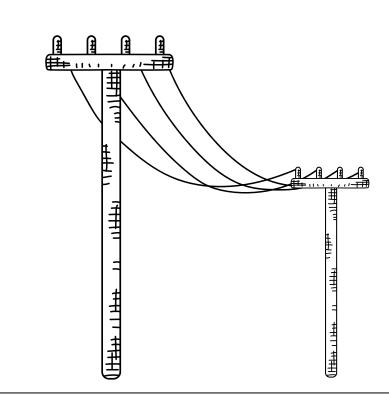






Agenda





1 Foreign Investment Basics

2 China's International Energy Policy

3 Push and Pull

4 Eclectic Paradigm
Theory

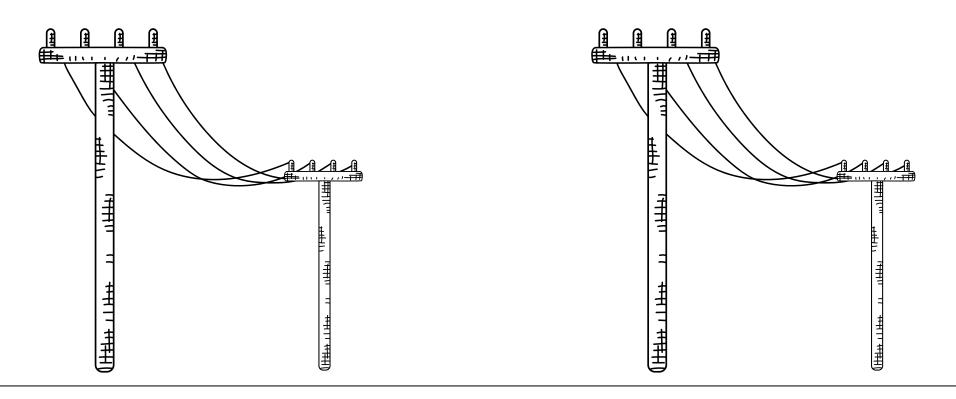
5 International Investment Strategy

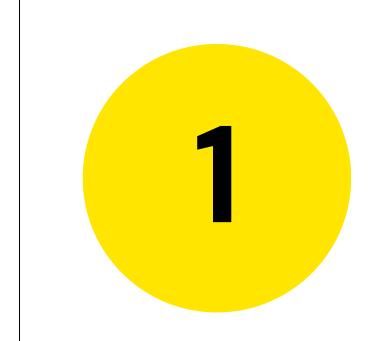
6 SGCC:
Global Case Studies





Agenda





Foreign Investment Basics





OECD Definition of FDI

"Foreign direct investment (FDI) is a category of cross-border investment in which an investor resident in one economy establishes a lasting interest in and a significant degree of influence over an enterprise resident in another economy."







Significant Degree of Influence

Ten percent of voting rights is considered a 'controlling stake'







What does FDI Involve?

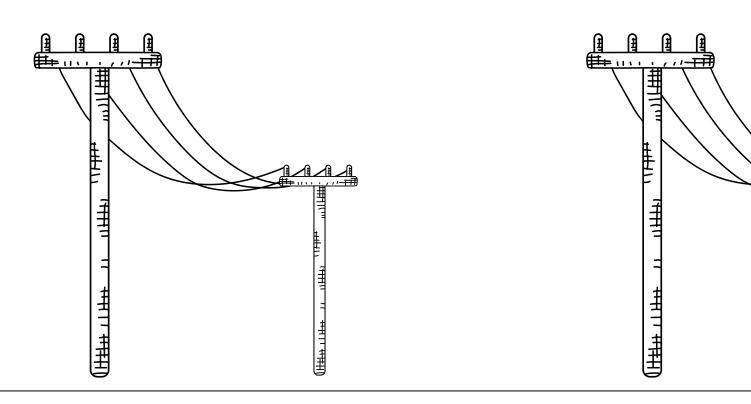
- Cross-border investment
- Long-term interest
- Transfer of technology,
 labour, and money







Agenda





China's International Energy Policy





Discussion

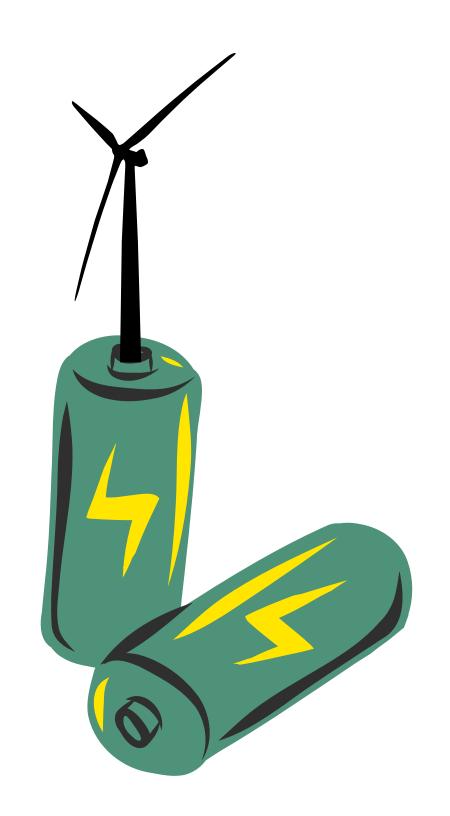
Get together in small groups and quickly discuss the 'Higher Power' paper







The Importance of Grids in Energy Transition



Renewables pose challenges to grid operation

Intermittency in generation makes controlling frequency more difficult

Grid operators in charge of coordinating actors along the grid ensure a stable provision of electricity

In a more electrified world, grid operators become more and more influential in politics and the economy





The State Grid Corporation of China





- Founded in 2002
- Own 89% of China's grid (all except the South)
- Carry the most renewable energy of any grid company in the world
- Fortune 500: Third largest company in the world by revenue





The State Grid Corporation of China







SGCC's Internationalization Strategy

Aggressive overseas expansion in UHV AC and DC technology since 2008

UHV: Anything above 1000kV for AC and 800kV for DC

China is a world leader due to domestic needs

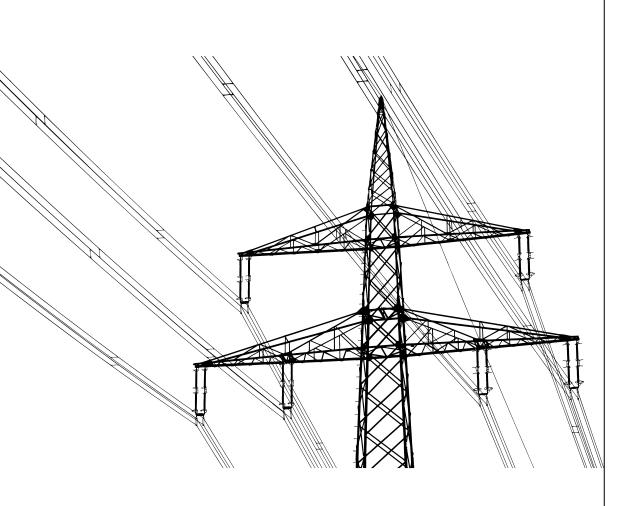
Three-pronged strategy: SGCC constructs and operates grids in foreign countries, owns other utility providers (equity investor) and sets standards

Problem for many countries: SGCC's link to the CCP





International Grid Industry Characteristics

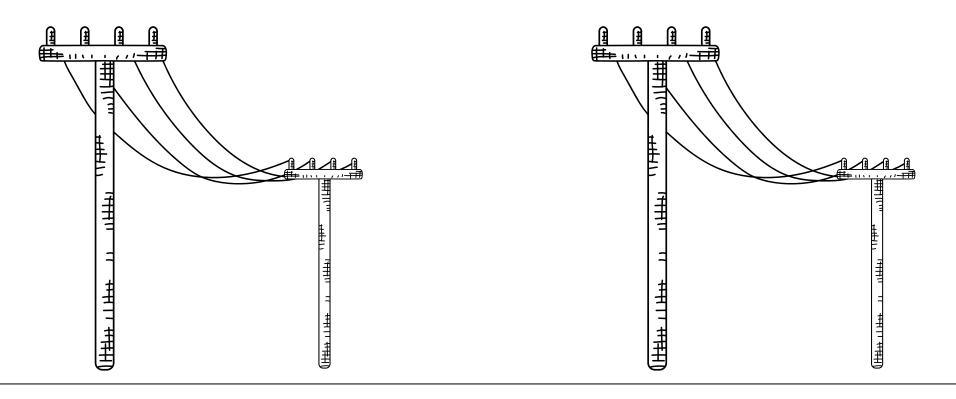


- Public services tend to be dominated by SOEs
- Traditionally, little foreign involvement due to national security concerns
- Generation opened up to privatization first (especially in OECD countries)
- Transmission and Distribution (T&D) only after
 2000





Theories



3 Push and Pull

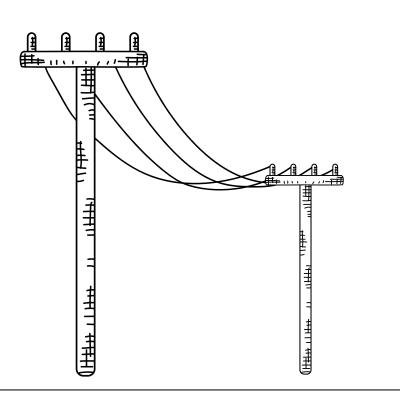
4 Eclectic Paradigm
Theory

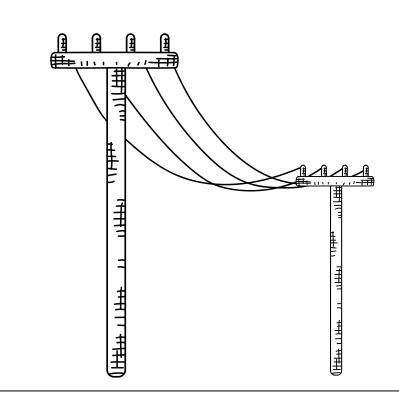
International
Investment Startegy

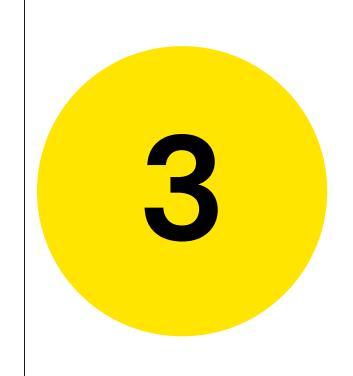




Theories





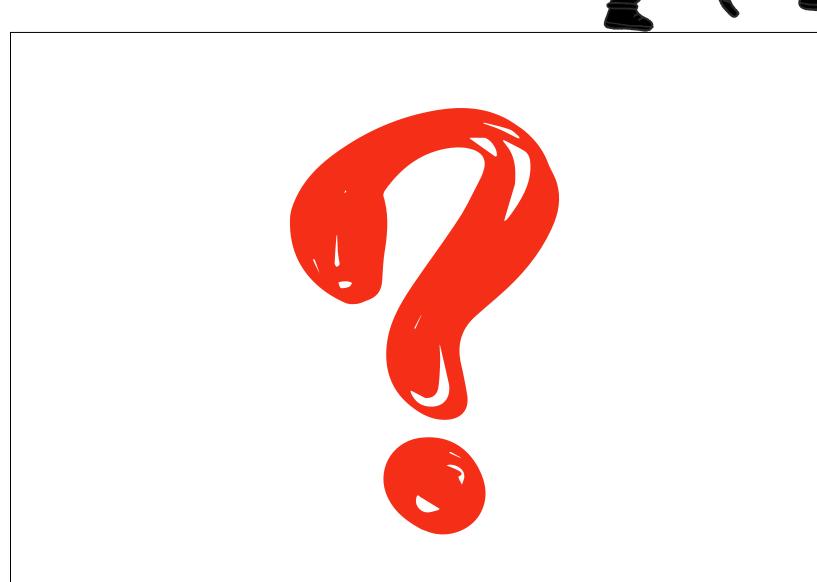


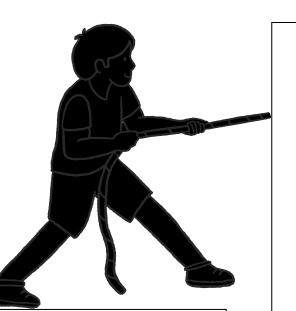
Push and Pull



Push

negative phenomena that push









positive phenomena that pull

Pull





Push

negative phenomena that push

- Political
- Economic
- Socio-Cultural
- Technological
- Environmental
- Legal

- Market
- Resources
- Efficiency
- Strategic Assets



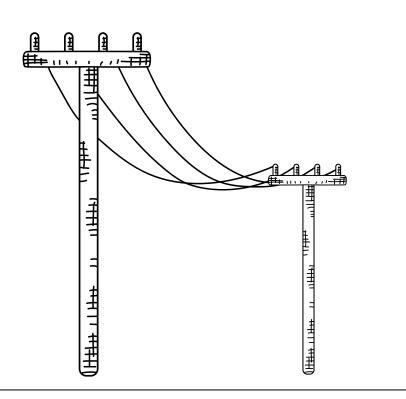
positive phenomena that pull

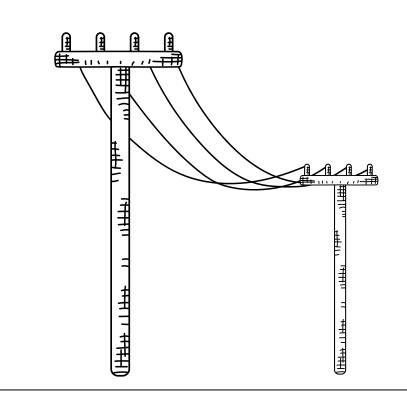


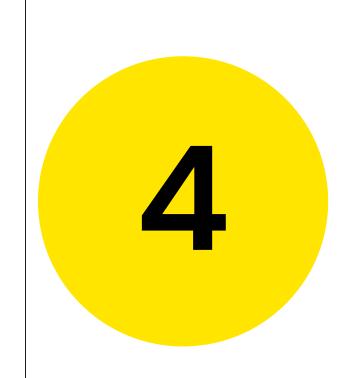




Theories

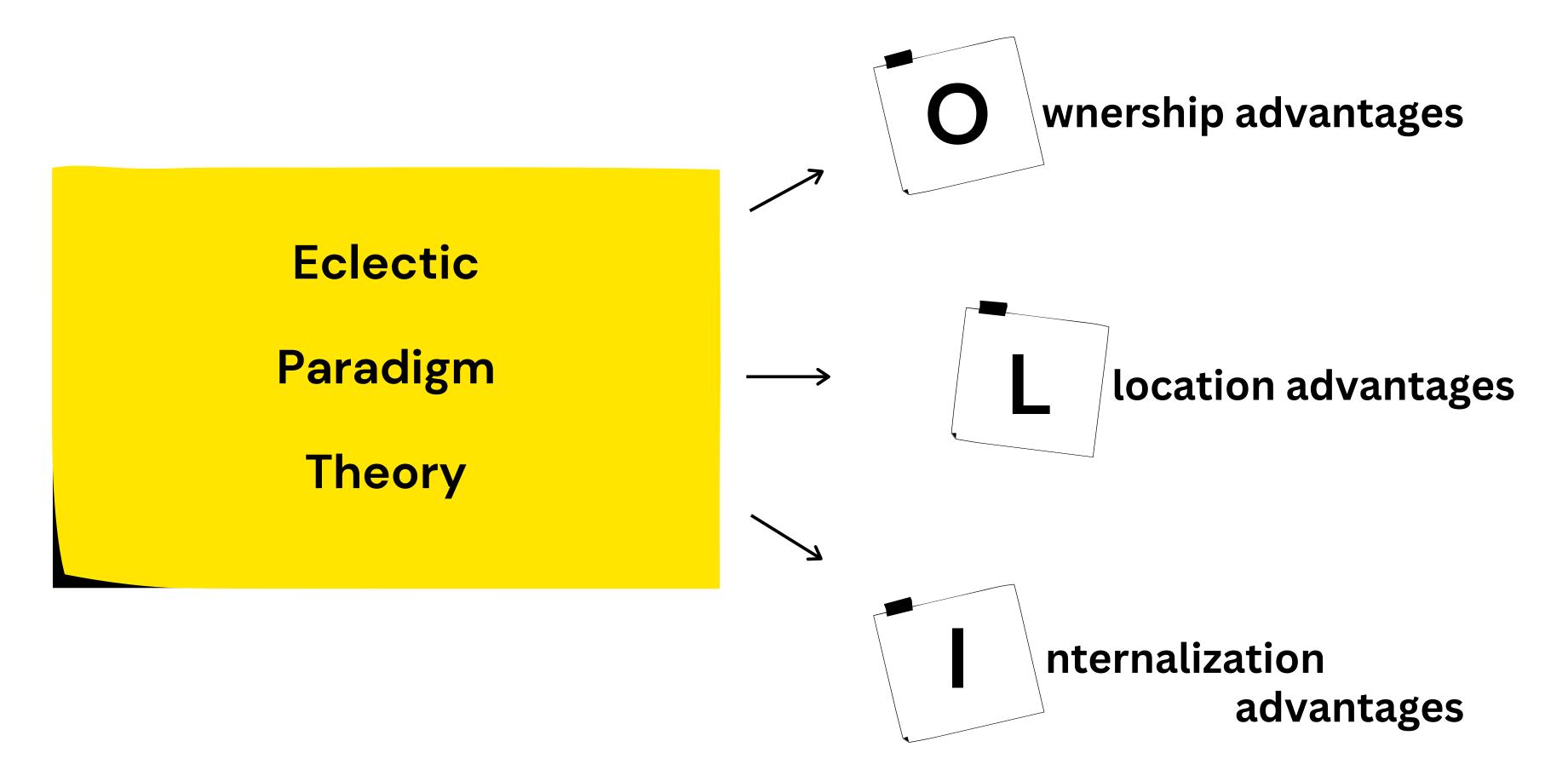






Eclectic Paradigm Theory









Eclectic

Paradigm

Theory



- Tangible and intangible assets that competitors cannot replicate or acquire in the short run
- Creates monopolistic rents
- Endogenous: technological, managerial, organizational (intellectual property, brand reputation, skills, expertise)
- Exogenous: privileged access to input factors

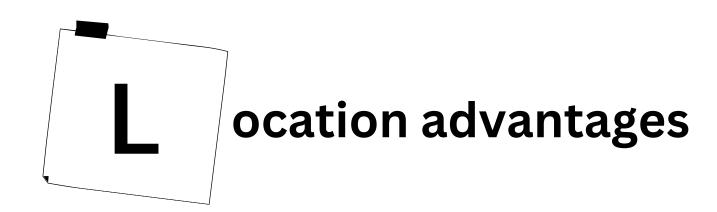




Eclectic

Paradigm

Theory



- Immobile factor endowment
- Back-up to ownership advantages
- Hard advantages: immobile and not renewable (e.g. minerals, oil)
- Soft advantages: influenced by institution (e.g. labour, environmental laws)
- Host country factors (PESTEL)





Host Country Factors: PESTEL

Political

Technological

Economic

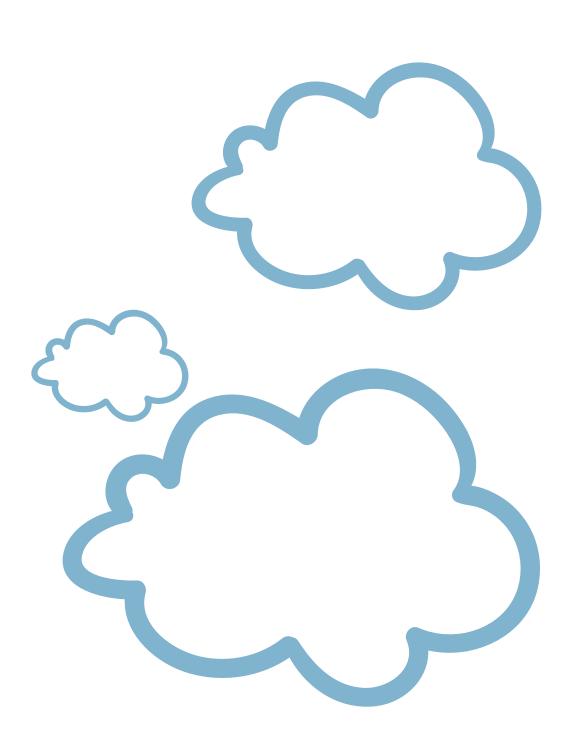
Enviomental

Sociocultual

• Legal

More details later this semester and at:

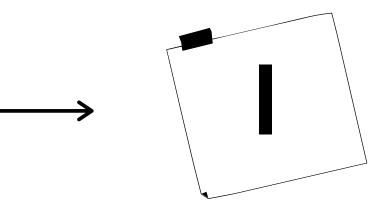
https://opentext.wsu.edu/mktg360/chapter/6-2-how-markets-are-segmented/







Eclectic Paradigm Theory



nternalization advantages

Greenfield Investment

- Joint venture or wholly foreign-owned enterprise
- Advantage: Better control
- Disadvantage: Structurs, costs

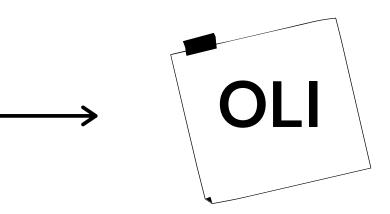
Brownfield Investment

- Mergers and Acquisitions
- Advantages: Direct access to markets, technologies, skills...
- Disadvantages: Company risk (loyalty), transaction risk (property disputes), integration risk (corporate culture)









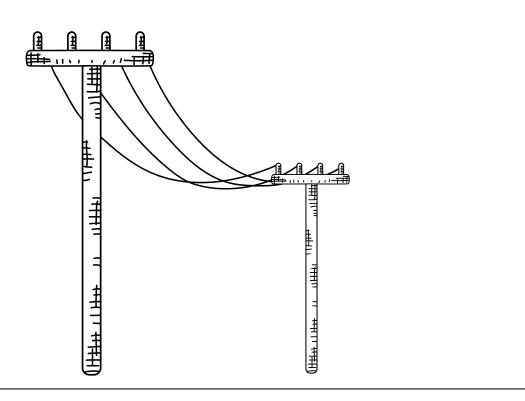
advantages determine the form of market entry

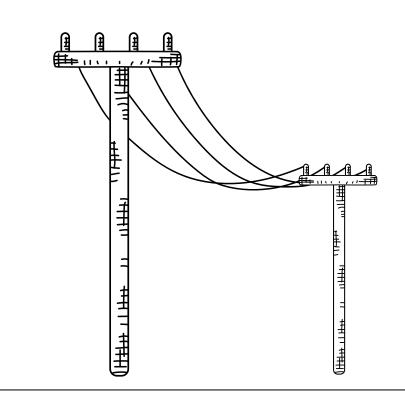
	Ownership	Internalization	Location
Licensing	I own the brand		
Export	I own the brand	I keep production facilities at home	
FDI	I own the brand	I keep production facilities at home	I produce in other countries





Theories







International Investment Startegy







Market Seeking

Efficiency Seeking

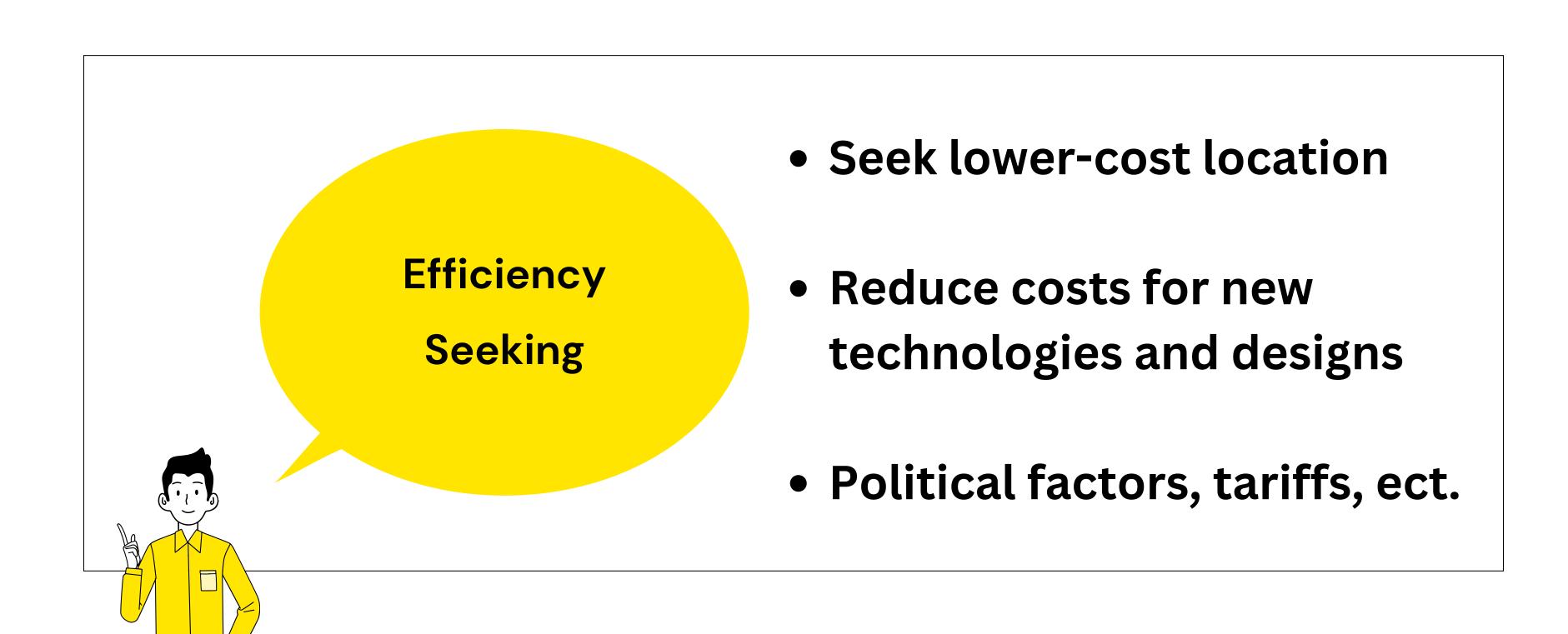
Resource Seeking





- Driven by market size and growth
- Offensive strategy: develop and explore new markets (new customers)
- Defensive strategy: strengthen existing markets (follow trade)









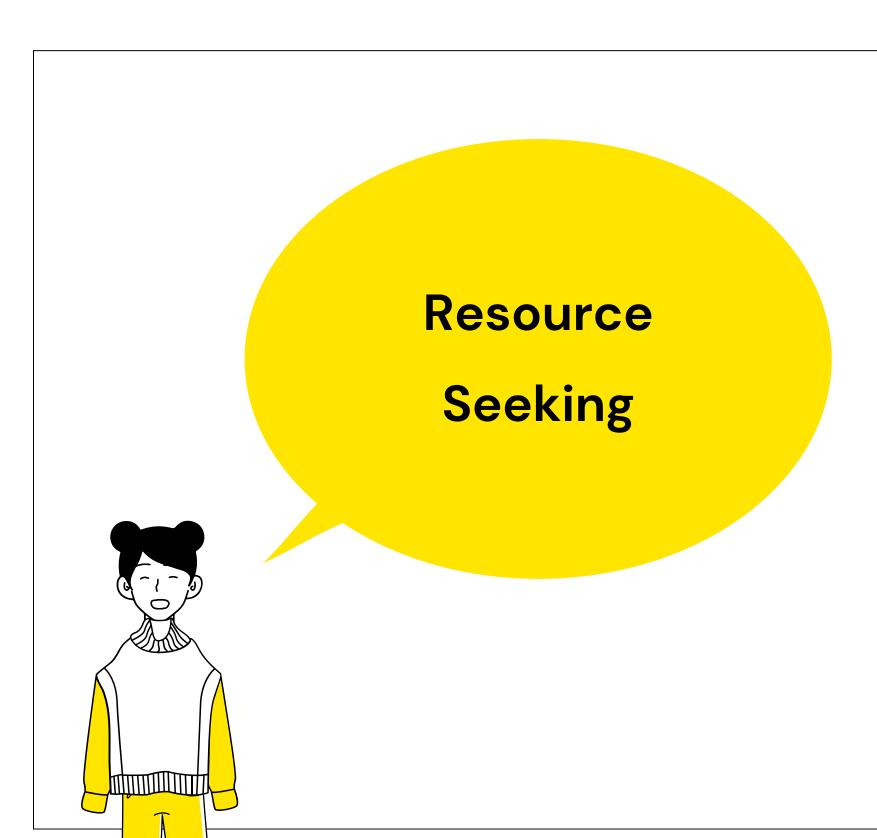


 Natural resource seeking: commercial goals or to secure raw material supplies for the national economy

• Strategic asset seeking: acquire brands, grant access to local distribution networks







• Technology-seeking:

tap into existing knowledge and experience

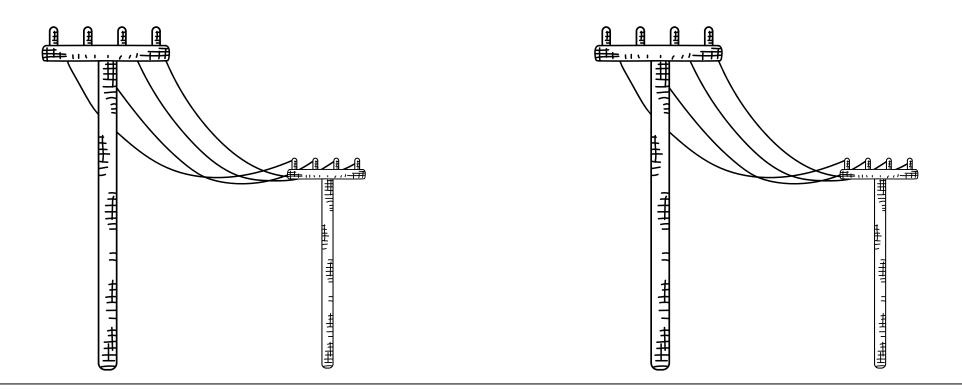
be involved in the development of new technologies and standards

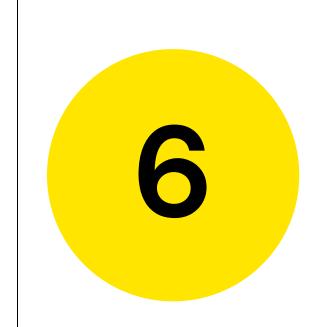
spill-over and demonstration effects











SGCC:

Global Case Studies





Benefits of International Expansion



- Institutional: Setting the rules of the game
- **Economic**: Reducing costs through learning curve effects, as well as higher rates of return internationally than in China's controlled environment
- Politically: Strengthen domestic bargaining positions towards other grid operators and the Chinese government





Case 1: SGCC in the Philippines



The Philippines suffered from power shortages towards the end of the 1990s (blackouts)

The World Bank advises the Philippines to privatize their inefficient electricity industry

The National Power Corporation (monopolist Filippino grid operator) faces financial problems and gets privatized by the government

SGCC agrees to joint venture with two Filippino companies (40 SGCC and 30 percent respectively)





Agreement with the Philippines



Close to 4 billion US\$ bid accepted in 2007

25-year license for SGCC to maintain, expand, and operate the Filippino national transmission networks

The government still owns all assets (land, lines, ect.)

Both governments regard the take-over as a success

SGCC's CEO welcomed with highest honors

Creation of the SGCC International Development Co.





Operations Begin



2009 is difficult due to tropical storms and damages

Mindanao grid collapses: SGCC rebuilds infrastructure

Chinese companies hired to rebuild projects

Grid operations improve considerably

2010 brings more storms and the whole country loses power: SGCC reboots the system in six minutes

Philippines are happy with the SGCC





Things Start Turning Sour



2010 brings new Filippino president

Eight Hong Kong residents killed in Manila hostage crisis

Frictions start to emerge

2011 sees territorial disputes in the South China Sea

Chinese consumers boycott Filippino bananas

President uncomfortable with China operating the national grid, demands technology/operations handover





SGCC in the Midst of a Political Conflict



The Philippines refused visas to SGCC employees in 2012

SGCC stops investments/operations in the Philippines

Continues with few employees until 2015 which are announced to be 'surplus to requirements'

SGCC continues to hold a 40 percent stake and has four employees on the bord of national grid operators

SGCC still receives dividends but has no more control over operations





Discussion

Summarize <u>key areas of conflict</u> and discuss <u>push</u> and <u>pull</u> factors that influenced the SGCC to invest in the Philippine's grid infrastructure







Push

negative phenomena that push

- Political
- Economic
- Socio-Cultural
- Technological
- Environmental
- Legal

- Market
- Resources
- Efficiency
- Strategic Assets



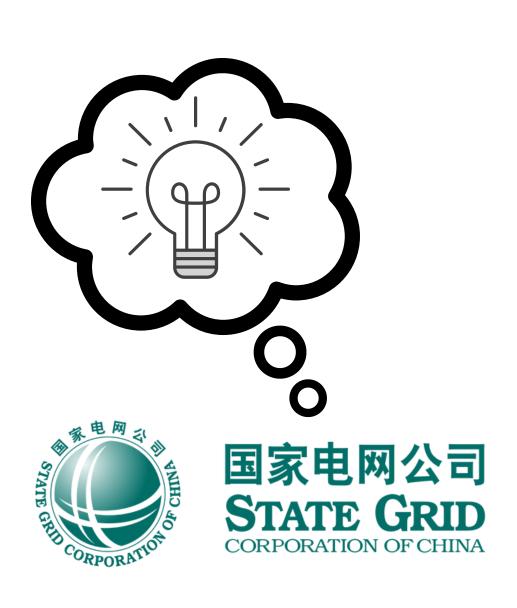
positive phenomena that pull







Valuable Lessons for the SGCC



Next overseas investment should be somewhere more stable

The Philippine experience valuable in creating global brand image and expanding technological prowess

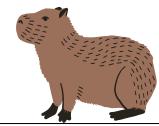
Benefits other Chinese equipment manufacturers too

Close contact with the Ministry of Foreign Affairs for advice on where to invest





Case 2: SGCC in Brazil



China became Brazil's largest trading partner in 2009

15 percent of Brazillian exports go to China, more than 90 percent are resources

Chinese investments still limited by 2010 (mining)

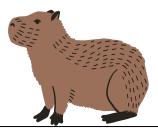
SGCC sets up in-house legal team to provide information and legal advice on investment







Brazil's Grid Around 2010



Operated mainly by Spanish companies. These companies are hit hard by the global financial crisis and want to sell assets

2007: Brazil is awarded the rights to host the FIFA World Cup in 2014

2009: Rio de Janeiro is awarded the rights to host the 2016 Summer Olympics

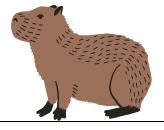
Brazil needs new, more efficient, and reliable electricity infrastructure fast!







Favorable Conditions for



SGCC

With no joint-venture requirements, SGCC can own the grid outright

In 2010, SGCC acquired 100 percent of seven regional grids for 989 million US\$

30-year license to operate regional grids that deliver power to Rio, São Paulo, and other Southern cities

Brazilian National Bank funds takeover

SGCC becomes fifth largest grid operator in Brazil



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CBE | Chair of China Business and Economics

SGCC Starts Operations



New subsidiary: State Grid Brazil Holding

The seven regional grids get integrated

Difference to the Philippines: SGCC 'indiginizes' its operations. Half of the management team and most of the 300 employees are Brazilian

Wins bid for the longest transmission line worth 1.1 billion US\$ in 2012

Brazil is the perfect laboratory for UHV equipment







Discussion

Using the <u>international investment</u>

<u>strategy framework</u>, find reasons

why the SGCC decided to invest in

Brazil's power grid









- Driven by market size and growth
- Offensive strategy: develop and explore new markets (new customers)
- Defensive strategy: strengthen existing markets (follow trade)



- Seek lower-cost location
- Reduce costs for new technologies and designes
- Political factors, tariffs, ect.



- Natural resource seeking: commercial goals or to secure raw material supplies for the national economy
- Strategic asset seeking: aquire brands, grant access to local distribution networks

 Technology-seeking: tap into existing knowledge and experience

be involved in the development of new technologies and standards

spill-over and demonstration effects





Homework

Please read up on Huawei's internationalization strategy.

There will actually be a quiz next week







