

Chinese Firms in Global Markets - Round 2 -

- Reform and Opening Up
- The Internationalization of Huawei

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HUAWEI

Exam Information

The exam (and re-examination) is
supposed to be in writing

Bonus Presentation

If you are interested in any special company, write an email to reserve it for you or your team

Quiz Time!

Enter the socrative room via the
QR code please!



Agenda

Phase 1

1979 - 1985



Phase 2

1986 - 1991



Phase 3

1992 - 1998



Phase 4

1999 - 2001

Phase 5

2002 - 2007

Phase 6

2008 - today

Agenda

Phase 1

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2008 - today

Question

- How would you describe the economic situation of the first 30 years of the PRC?
- What fundamentally changed the country's economic situation?

Phase 1 1979-1985

- Pre-1978: Autarky and isolation
- 3rd Plenary Session of the 11th Central Committee in 1978: Reform and Opening Up (改革开放)
- Attract foreign investment, learn and build up own firms
- OFDI becomes a national policy objective for the first time
- State still in control: strict regulations on who gets to invest abroad
- Interministerial squabbling over who gets to invest

Question

- After reading the text on the internationalization of Huawei, you should know what type of country is usually targeted first by newly internationalizing firms
- In 1979, the Beijing Friendship Business Service becomes the first Chinese company to establish an affiliate abroad
- Where do you think the first Chinese firm set up camp?

Question

Exactly ! (?)



Phase 1 1979-1985

- 1984: State Council passes regulation allowing the establishment of non-trade joint ventures overseas
- 1985: Chinese OFDI increases from 44 to 900 million USD
- More than 100 diverse affiliates in foreign countries
- NDRC and MOFCOM most important ministries
- Anything above 10 million USD must undergo evaluation
- Fear of capital flight
- China ends its strict price control regime in 1985

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Phase 1

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Phase 4

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Phase 5

2002 - 2007

Phase 6

2008 - today

Phase 2 1986 - 1991

- Initially, the government wants companies to ‘go global’ to maximize profits
- Import substitutions replaced by export-oriented growth
- China becomes workbench of the world
- Government still weary of (illegal) capital flight
- Prefer ‘in kind’ OFDI: equipment, know-how, raw materials
- Majority of OFDI projects involve services with low capital requirements

Phase 2 1986-1991

- 1988: MOFCOM regulates the approval process for trade-related OFDI
- Ownership issues not resolved
- Party in-fighting over usefulness of OFDI
- IFDI more important than OFDI
- Rapid inflation and student protests: retrenchment policy
- Slowdown in OFDI between 1989 and 1992
(100 projects vs. 650 projects between 1985 and 1989)

Phase 2 Huawei

- 1987: Huawei founded by former PLA major Ren Zhenfei
- Products: switchboards, later motherboards for landlines
- Main market in rural areas to avoid urban competition
- Competitors include Sony Ericsson, eight other foreign and 400 domestic telecommunication providers
- Early focus on R&D and managerial innovation
- Goal for phases two and three: become a successful domestic player, no OFDI yet

Phase 2 Huawei



**First Huawei Office,
Shenzhen 1987**

Agenda

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Phase 3

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Phase 4

1999 - 2001

Phase 5

2002 - 2007

Phase 6

2008 - today

Phase 3 1992-1998

- Deng Xiaoping's Tour to the South triggers liberalization
- MOFCOM cautious: administrative boundaries remain
- Interministerial bickering leads to confusion
- 1994: 'earn to use' and 'earn to buy' change in foreign exchange policy
- OFDI becomes part of China's national development plans
- 59 percent of OFDI to industrialized nations, mainly US and Canada (relatives)

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Phase 1

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Phase 3

1992 - 1998



Phase 4

1999 - 2001

Phase 5

2002 - 2007

Phase 6

2008 - today

Phase 4 1999 - 2001

- 1999: 'Go Global' - China wants its companies to compete on the global stage
- Period of transition in preparation for WTO entry in 2001
- Standardization in the rules of administering FDI
- Incentives for some, hurdles for others
- New markets in Africa, Latin America, and the Asia Pacific replace investments in North America
- Building national champions (SOEs, firms close to the CCP)

Phase 4 Huawei

- Partners with IBM and PwC set Huawei up as a business that follows international best practices
- 2000: Huawei 'goes global'
- Same strategy as at home: look for ignored markets
- Focus on R&D and 3G technology
- Bursting of the dot-com bubble in 2000 allows companies to catch up

Agenda

Phase 1

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Phase 4

1999 - 2001

Phase 5

2002 - 2007

Phase 6

2008 - today

Phase 5 2002 - 2007

- WTO rules come into effect: competition and opportunities
- Ministry squabbling continues between NDRC, MOFCOM, and SAFE: complicates OFDI approval process
- Conflict between national and local level politics
- 2002: 'Go Global' implementes
- Local governments get more of a say
- Simplification of process (less feasibility studies, risk analysis) and standardization of the application process

Phase 5 2002 - 2007

- The private sector is encouraged to invest
- Outbound Catalogue lists preferred countries/industries
- Only seven regions need national-level approval, among them the US, Iraq, and Japan
- OFDI above 30 million USD for resource-seeking investment and 10 million USD for non-resource investments need national approval (NDRC, State Council)
- OFDI in developing countries increases

Phase 5 Huawei

- Intense internationalization after WTO entry
- Revenue from abroad grows fast (2000: 10%, 2006: 65%)
- Support from the China Development Bank for sales outside of China
- 2005: First Chinese telecommunications provider to sign framework agreement with international networks
- First joint venture in the US with Symantec

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2008 - today

Phase 6 2008 - today

- Initial decrease in OFDI due to the financial crisis
- Rebound after BRI announcement in 2013
- Influx of Chinese investment worries Western nations
- Fears over national security, technology standards, and IPR infringements grow
- MIC 2025: strategic industries, both at home and abroad
- OFDI catches up with IFDI for the first time
- Chinese influence abroad grows

Question

How does polarization over China manifest itself today, and what do you see as the main issue involving Chinese OFDI in your countries?

Please discuss in groups!



Phase 6 Huawei

- Tensions between China and the West are reflected in the treatment of Huawei
- 2008: Builds R&D center in Sydney, Ottawa, and Oslo
- 2010: Huawei enters the Fortune 500
- Today: Represented in 170 countries, 111th most valuable company, one of the largest supplier of telecommunication equipment and manufacturer of smartphones

Phase 6 Huawei

BUT

- Ongoing controversies over spying and fraud
- AU headquarters in Addis Ababa
- Meng Wanzhou arrested in Canada over fraud
- Should Huawei be included in next-generation network?
- Doubts over how close Huawei really is to the CCP

Question

**How did the Android ban
affect Huawei?**

Please discuss in groups!



Homework

Please read the text for next week, we will do another quiz!

