

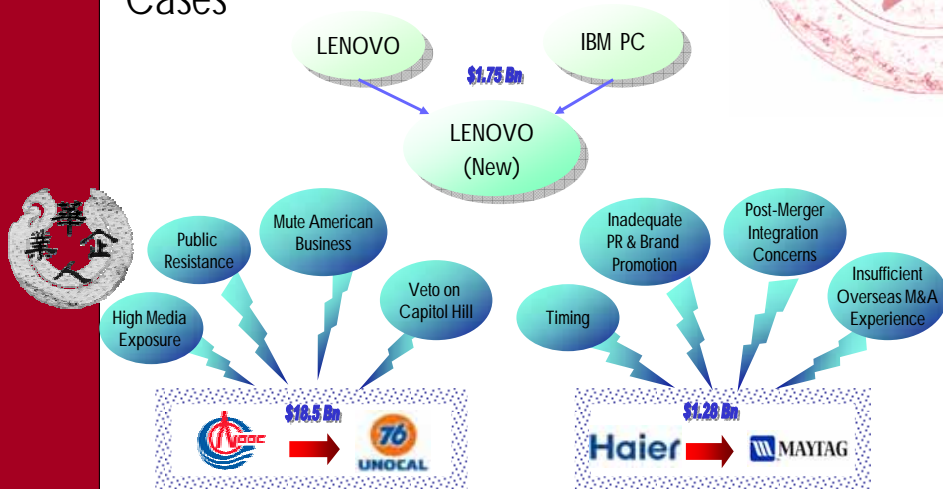
Overseas Expansion of Chinese Business: *Lessons and Challenges*

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Making Sense of Three Recent Expansion Cases

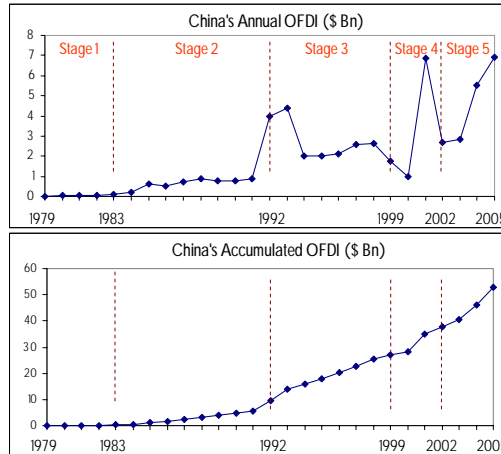


China's (re-)emergence: from manufacturing and exporting to overseas expansion

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China's Outward Foreign Direct Investment (OFDI)

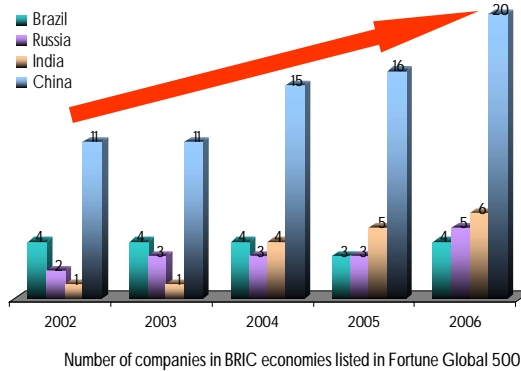


China's OFDI has increased sharply over the last 25 years, with 31% compound annual growth rate (CAGR).

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China's Global Business Profile

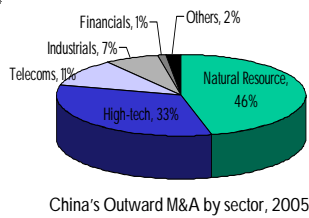
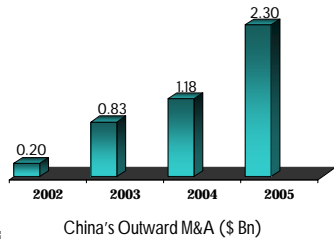


There has been an increasing presence of Chinese enterprises in the global elite club.

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China's Outward M&A



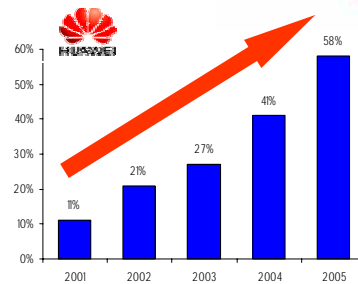
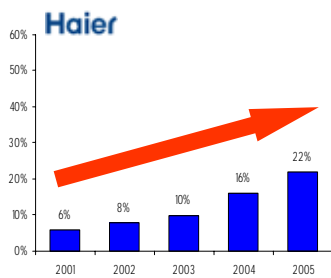
Chinese Acquirer	Target Company	Country	Price (\$ Mn)	Industry
Completed Deal				
LENOVO	IBM PC	USA	1,750	PC
TCL	THOMSON	France	559	Home Appliances
China Minmetals	NORANDA	Canada	5,000	Mining
CNPC	EnCana	Canada	1,400	Oil
NAG	MG ROVER	Britain	8.7	Auto
CNOOC	Nigerian Oil	Nigeria	2,700	Oil
Failed Deal				
CNOOC	UNOCAL	USA	18,500	Oil
HAIER	MAYTAG	USA	1,280	Home Appliances
China Mobile	MILLICOM	Luxembourg	5,300	Telecom

Recent history has been marked by some high-profile successes--and failures.

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Enterprise Overseas Expansion: A Snapshot of Two Cases



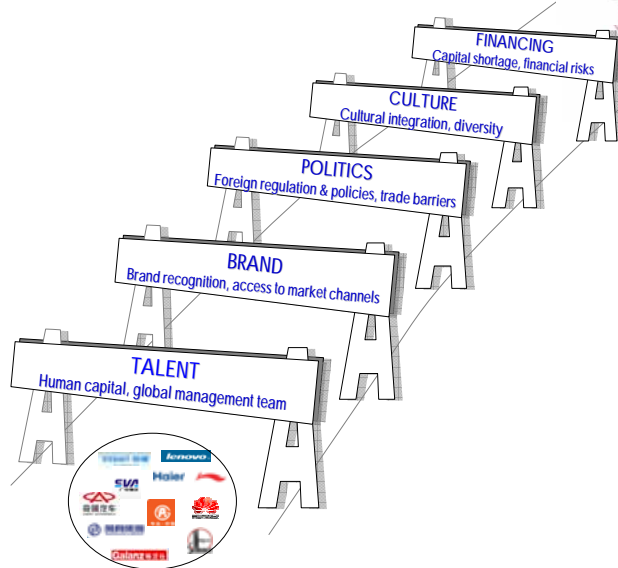
% of International Revenues

Leading Chinese enterprises have dramatically increased the international composition of their corporate portfolios.

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Hurdles for Overseas Expansion

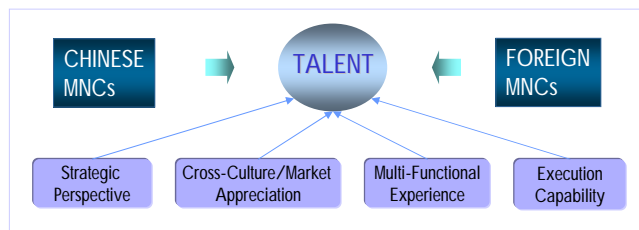
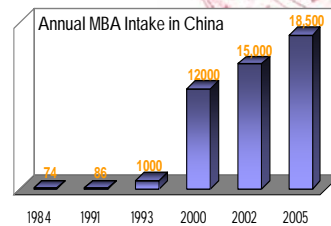


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Overseas Expansion Hurdles: Talent

"China will require 75,000 top-level executives with global experience by 2010, about 70,000 more than it has now. Without them, the future is uncertain." (McKinsey & Co.)

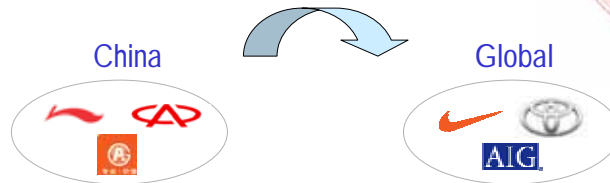


How effectively can Chinese enterprises deal with talent shortage and escalating competition for talent as they expand aggressively overseas?

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Overseas Expansion Hurdles: Brand



- The top 100 global brands: US (51), Japan (8), Korea (3), China (0).
- Building a brand takes time and considerable investment with no immediate tangible returns.
- Building a global brand requires a different mindset from what it has traditionally taken for a Chinese enterprise to be successful.

How easily and quickly can Chinese enterprises overcome the global branding hurdle?

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Overseas Expansion Hurdles: Politics

"Undue Fears of China Inc?": As we see more Chinese companies seeking mergers, the political factor will get bigger." (Global Envision, 10/21/05)

"Wake Up to the Chinese Threat:": It's time for the sleeping giant (US) to wake up and respond to the very threatening rise of communist China" (The Hill, 06/28/06)

- Do not underestimate potential socio-political resistance to overseas expansion, which is a natural part of the battle between incumbents and newcomers.
- Perceived invading/retaliating, or winning/losing, will create more obstacles on the political front.
- Chinese enterprises need to proactively manage political and regulatory concerns.

The double-edged sword of the Chinese government: How involved should it be, and what role should it play, in overseas business activities?

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Overseas Expansion Hurdles: Culture

Tradition



Modernization



China: 5,000 going on 25

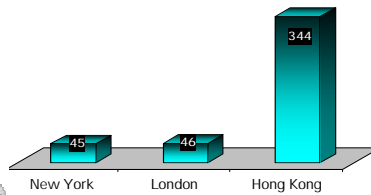
- China's "re-emergence" and the West's "unreadiness" create a gulf.
- The dual challenge for Chinese enterprises is to develop a forward-looking global business model while connecting to Chinese history.
- Clearing cross-cultural hurdles and bridging cross-border social practices should be high on corporate agendas.

How can Chinese executives blend "people based" and "system based" management styles in globalization?

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Overseas Expansion Hurdles: Financing



Number of Chinese Firms Listed Overseas

"As more and more Chinese companies are going abroad to compete, the difficulties in financing their overseas operations prevent them from growing bigger and stronger."
(China's State Administration of Foreign Exchange)

Top Overseas Chinese IPO	Capital Raised (\$ Mn)	Exchange
<i>Year 2006</i>		
Bank of China	11,200	HK
<i>Year 2005</i>		
China Construction Bank	9,227	HK
China Shenhua Energy	3,276	HK
Bank of Communications	2,165	HK
China COSCO Holdings	1,227	HK
<i>Year 2004</i>		
Ping An Insurance	1,839	HK
SMIC	1,803	NYSE
Air China	1,238	HK

How can Chinese enterprises secure financing to fulfill their global ambition? How can they balance the interests of diverse stakeholders in China and overseas?

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Concluding Thoughts

- Management know-how, managerial talents, and brand are imperative for Chinese global business expansion.
- Cross-border M&A is a new ball game for Chinese enterprises, and it often takes time to determine the true winner (or loser).
- Setbacks are part of the process of overseas expansion, and one should learn from the process.
- Chinese enterprises need to look from the "local" viewpoint and appreciate the domestic socio-political concerns.
- The right timing, prudent speed, and alignment of business savvy and socio-political sensitivity are particularly vital for securing overseas business deals.

Thank you

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