

# Chinese Technology Companies' "Going Global": Issues and Suggestions

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**Abstract.** Technology companies' "going global" is the inevitable requirement of economic globalization, but also to improve competitiveness, a strategic choice to open the international market. This article analyzes the current situation and characteristics of the development of technology companies, then puts forward some operable suggestions helping the companies going global.

## 1. Introduction

The "Going Global" strategy is an important strategy rolled out by China against the backdrop of an increasingly integrated global economy. It is a strategic move necessitated by China's accession to the WTO and a major action to integrate China into the trends of global economic development, which allows China to better develop and utilize domestic and overseas resources and markets. It also represents a significant trend of China's drive to achieve sustainable economic and social development and integrate domestic and overseas resources and markets [1]. With the acceleration of the global economic integration and China's development, an increasing number of Chinese companies have been going global to expand their reach and presence in domestic and overseas markets. According to the Report to the 18th CPC National Congress, Chinese companies should expand overseas presence at a faster pace, enhance their operation in an international environment, and develop a number of world-class multinational corporations. Technology companies' "going global" marks the implementation of the "Go Global" strategy at a more advanced level and represents the most vigorous and promising part of the internationalization of Chinese businesses [2].

## 2. Significance Of Technology Companies' "Going Global"

### 2.1 "Going Global" Is an Objective Requirement of Economic Globalization.

With the formation of a global socialized mass production network, the traditional landscape of international division of labor based on natural resources and products has been broken as all economies become part of an integrated world economy. The trends of economic globalization and regional integration require companies to go global. This is a trend both irreversible and inevitable, and Chinese companies' "going global" allows no delay. Therefore, the "Going Global" strategy is China's answer to economic globalization and holds far-reaching implications for China's sustainable economic development and Chinese companies' development.

### 2.2 "Going Global" Is a Need of China's Sustainable Economic and Social Development.

China's rapid economic development has been accompanied by the increasing undersupply of domestic resources. Importing resources and factors of production from overseas that are lacking in China is an important means to power China's sustainable growth. Promoting Chinese companies to implement the "Going Global" strategy by investing in overseas resource development projects and creating new sources of raw materials is strategically significant for China's economic development.

The growth model driven by labor-intensive foreign trade in the early stage of China's economic take-off, such as trading toys for aircraft, apparel for equipment, resources for technology, and market access for investments, has brought about a lot of problems and must be replaced by a more sustainable way of growth supported by high-quality products and powerful enterprises. In other

words, the key is to accelerate the development of innovation-driven enterprises, especially technology companies. The “going global” of technology companies can provide greater development potential for China’s emerging industries and technology industry by way of structural transformation and infrastructure optimization and upgrade, and also allows them to steer clear of all forms of trade protectionism such as trade barriers and anti-dumping measures in foreign countries.

### **2.3 “Going Global” Is an Important Way to Improve Chinese Technology Companies’ Competitiveness.**

As the internationalization of the technology economy picks up speed, it is crucial for technology companies to expand in international markets. In the present-day world, technology innovation and development relies to a significant extent on cross-border exchanges and collaboration. For a developing country like China to catch up with and surpass developed countries in the technology industry, it is necessary for its technology companies to break into the international forefront, establish their presence in the fields and regions where technology innovation thrives, integrate and utilize the latest global technology achievements, and compete with the leading and strongest competitors on the same stage while learning and growing in the process, before eventually securing a position commensurate with China’s status as a large country in the global division of labor[3].

## **3. Current situation and issues facing Chinese technology companies going global.**

The “going global” of technology companies refers to the conducting of business activities in overseas regions, such as making outward direct investments (ODIs), establishing branches, factories, R&D centers and technology parks, making technology investments, contracting projects, and entering into foreign labor arrangements. With the tremendous development of China’s technology industry in recent years, Chinese technology companies have gained considerable traction in going global, which have roughly followed the roadmap of “marketing activities — production activities — R&D activities”[4].

### **3.1 Characteristics of the Going Global of Technology Companies**

1. An increasing number of technology companies are going global. China made US\$3.345 billion worth net ODIs in the category of scientific research and technical service in 2015, 12 times that in 2006, and US\$ 6.82 billion in the category of information transmission, computer service and software, 142 times that in 2006, both higher than the growth of China’s overall ODIs during the period. In terms of China’s existing ODIs, as of 2015, the category of scientific research and technical service accounted for 1.3% with US\$14.43 billion, the category of information transmission, computer service and software for 1.9% with US\$ 20.93 billion, and the manufacturing industry for 7.2% with US\$78.53 billion, with a significant part of the manufacturing ODIs being from technology companies in such industries as ICT equipment, computer and other electronics, special equipment, pharmaceuticals and general equipment.

Table 1. Outward Direct Investments of Technology Companies 2006-2015 (Unit: Million US\$)

Year	Total Investments	Scientific Research and Technical Service		Information Transmission, Computer Service and Software	
		Net Investments	Percentage (%)	Net Investments	Percentage (%)
2006	17,633.97	281.61	1.60	48.02	0.27
2011	74,654.04	706.58	0.95	776.46	1.04
2012	87,803.53	1,478.50	1.68	1,240.14	1.41
2013	107,843.71	1,792.21	1.66	1,400.88	1.30
2014	123,119.86	1,668.79	1.36	3,169.65	2.57
2015	145,667.15	3,345.40	2.30	6,820.37	4.68

2. Technology companies’ ODIs cover wide fields. Chinese technology companies’ ODIs have spanned extensive fields including software, computer and communication, consumer electronics, life science, biotechnology, space technology, photoelectric technology, materials technology, major equipment design and manufacturing, and modern agriculture. In 2007, China Mobile acquired Pakistan’s Paktel in a milestone deal which paved the way for Chinese telecom operators to expand in

overseas markets. According to statistics, ICT companies account for 53% of Chinese technology companies going global (with software companies accounting for 31%), and companies specializing in technology-powered transformation of traditional industries account for 23%, with the rest being dedicated to other technologies such as new energy and energy efficiency, biotechnology and biopharmaceuticals, resource and environment, and new materials.

3. Technology companies go global in diversified ways. The methods by which Chinese technology companies go global include establishing branches, investing in new factories, setting up R&D centers and technology parks, making technology investments, acquiring foreign companies, contracting overseas projects, and entering into foreign labor arrangements, among others.

Haier, for example, has adopted such internationalization methods as establishing local factories and sales outlets and promoting its brand locally, and Lenovo and TCL have favored the method of directly acquiring international brands and their advanced technologies and mature distribution channels.

Huawei Technologies is a typical representative of Chinese companies going global. In the process of business internationalization, Huawei has expanded from the Chinese Hong Kong to developing markets to developed markets and firmly established itself as a multinational corporation with global marketing, service and R&D networks. In 2014, Huawei posted nearly RMB 290 billion in global revenues, with overseas markets contributing approximately 70%.

4. Technology companies going global have increasing strengths in terms of core technology and proprietorship. Most Chinese technology companies going global have proprietary intellectual property rights and core technologies. The recent years have seen a number of Chinese technology companies possessing advanced technologies and proprietary intellectual properties steadily step up their overseas investments while exploring new approaches and models of going global in the process, such as Haier, Huawei, ZTE, Lenovo, Potevio, Geely, Cherry, BAIC and Baidu. As they push ahead with their going global agenda, these companies have established more overseas branches, expanded the reach of their products and services, and strongly promoted not only the export of technology products and services but also the trade of intermediary products. In the case of Haier, its going global strategy has involved establishing factories overseas and, more importantly, developing technology and operation talent locally. Thanks to this strategy, Haier has established itself into a solid multinational technology corporation and brand with its products well received not only in developing markets but also in developed markets such as America and Europe and with its sales leading the global home appliance industry.

5. China's investment promotion policy steadily improves. To encourage more technology companies to go global, the Ministry of Commerce and the Ministry of Science and Technology have released relevant incentive measures. In 2006, the two ministries jointly issued the Several Opinions on Promoting Going Global of Technology Companies. In February 2009, the Ministry of Science and Technology released measures to guide technology companies in going global and encourage them to carry out collaborative research and establish overseas R&D centers. These policies have promoted the investment activities and business development of Chinese technology companies in overseas markets.

### **3.2 Achievements of Technology Companies Going Global**

Since its reform and opening up, China has made giant strides in science and technology with many high-level innovation achievements and a steadily increasing innovation capability in many fields, including ones where it has been in a world-leading position, and is strongly positioned to turn its wide-ranging technology achievements into products and business opportunities. Currently, China should give full scope to its advantages and create conditions to expand the reach of its technology to overseas regions by encouraging Chinese technology companies to expand worldwide. Through years of development, China has had a good number of internationally competitive technology companies. Technology companies have what it takes to go global, i.e. competitive products, high-caliber talent, and demand in global markets for their products. Technology companies not only have the conditions but should take the lead to go global in line with China's "Go Global" strategy as a new powerful force of Chinese enterprises going global. The going global of technology companies

is also a strategic driver of the development of China's technology industry as they collaborate and compete internationally.

As their innovation capability and competitiveness steadily increases, Chinese technology companies have sped up their business internationalization. More and more companies have formulated their internationalization strategy and set their eyes on opportunities in overseas markets, especially those in such technology fields as telecommunication, computer, software, life science, biotechnology, and resource and environmental technology. Chinese companies going global and conducting R&D and investment activities in overseas regions have significantly promoted the export of Chinese products. Meanwhile, China has attached increasing importance to the development of Chinese technology parks in overseas regions as an important part of the internationalization of China's technology incubators. The going global of Chinese technology companies has created remarkable economic and social benefits in terms of increasing export, developing Chinese multinationals, developing overseas zones for economic and trade cooperation, and facilitating cooperation on development of energy and other resources in overseas regions.

### **3.3 Issues Faced by Technology Companies Going Global**

Given the short time of implementation of the initiative, Chinese technology companies still face various challenges and issues in their move going global, although they have achieved remarkable results.

1. Objectively, Chinese technology companies face sundry restrictions in developed countries because those countries are politically biased against China and take various means to curtain China's technology development, including by imposing restrictions on technology export to China, raising intellectual property disputes and M&A transactions by subjecting them to national security review, and maliciously acquiring prime Chinese technology assets. As a new player in technological and economic globalization, China still faces daunting challenges in adapting to the existing game and remains in a passive position in the global science and technology system, lacking the power to change and make rules.

2. Subjectively, Chinese technology companies do not have sufficient experience and support in going global. The relevant parties concerned, including companies, government, intermediaries and industry associations, do not have well-defined roles, with various coordination mechanisms such as market orientation, enterprises playing the leading role, government providing the environment, and intermediaries constructing platforms, being far from taking shape, with important breakthroughs yet to be achieved, the regulatory framework to be refined, and the goals of going global to be soundly defined. And the lack of relevant intermediary and industry association platforms is also an important factor hindering Chinese technology companies' "going global" ambition.

3. Both the type and the number of Chinese technology companies that have successfully gone global are not well balanced with most of those companies being large monopolistic state-owned enterprises and only a small number of small and medium-sized enterprises. And there is a serious lack of high-level technologists, especially world-class scientists, international multidisciplinary talent and world-class R&D teams, with the result that China's huge advantages in terms of human resources have not been done full justice. Even as Chinese technology goes global, a lot of local innovation capability is used by foreign companies, and on the other hand, China has much less attraction to international science and technology resources, leaving something or much to be desired in all forms of "going global", be it strategic, developmental, collaborative or assistance-oriented. China has a high — up to 50% — reliance on foreign technology, much higher than technologically advanced countries. This, together with other unfavorable factors such as relatively backward R&D facilities, infrastructure and conditions and the lack of a comprehensive scientific research system, has made China's bid to absorb international science and technology resources beset with difficulties. Furthermore, the destinations of Chinese technology companies' going global have been largely confined to developed countries and regions such as Europe, America and Japan. In fact, cooperating with developing countries in fields where they lead the world can be more fruitful because the required investment is lower and it is easier to obtain key technologies.



## 4. Suggestions

Overall, the going global of Chinese technology companies remains in the early stage and will enter a crucial stage during the 13th Five-Year Plan period for acceleration and a leap forward. It is necessary for the government and the enterprises to step up efforts and strengthen coordination by taking concrete and feasible measures to increase the international competitiveness of Chinese technology companies and foster Chinese technology multinational corporations.

### **4.1 The Government Should Provide Policy Support and Establish A Service System to Guide and Help Technology Companies in Going Global**

The government should analyze the situation in a holistic approach in cognizance of the pressure and opportunities brought by economic globalization and, with the going global of technology companies as the spearhead and in service of China's strong need of growth model transformation and structural adjustments, take active measures to achieve effective allocation and integration of resources globally.

First, the government should put in place a comprehensive legal framework regarding the going global of technology companies, including policies, laws and regulations on overseas investments and overseas R&D centers, to further improve the environment for technology companies' business internationalization and, by making effective use of foreign assistance channels, provide help to Chinese companies going global and reduce their risks.

Secondly, the government should strengthen support through fiscal and taxation incentives by improving the existing foreign exchange and investment regulations and introducing tax incentives and effective financing mechanisms that support technology companies' going global.

Thirdly, the government should establish a comprehensive service platform which releases relevant business, technology, legal, cultural, industry and market information about main overseas regions and provides advice, consulting and training to companies — including technology companies — going global.

The support for technology companies going global is a systematic endeavor which requires coordination of different government authorities such as commerce, science and technology, finance, taxation and customs and, therefore, should be led by the State Council with the participation of all relevant authorities to provide the best support to the technology companies. Meanwhile, there should be a regulatory system governing the going global of companies, which incorporates various mechanisms including the legal representative responsibility system and supervision by the government and the public, to avoid relevant losses.

### **4.2 Technology Companies Should Have Clear Development Plans and Strengthen Their Competitiveness as They Expand in Global Markets and Compete Internationally**

Companies including technology companies in the field of science and technology should play the principal role in expanding their business globally in line with the "Going Global" strategy. Technology companies should have a clear understanding of the opportunities and challenges of economic globalization and technology internationalization and formulate their going global strategy according to their own conditions.

1. Formulate development plan and going global strategy. The global markets change constantly and present many risks as well as opportunities. As overseas regions vary in their demand for products, companies going global should, based on a comprehensive analysis of international and domestic environments and their business situation and drawing upon the experience and practices of multinational corporations, formulate their medium- and long-term development plans and business internationalization strategies with clearly defined development goals and positioning, and choose appropriate "going global" formats, such as greenfield investment, M&A, collaborative research, establishing overseas R&D center, and forming strategic alliances.

2. Strengthen independent innovation capability and core competitiveness. Innovation is the lifeblood of technology companies which, therefore, should strengthen their innovation capability to be competitive internationally. When their innovation capability is not strong enough, they should foster strengths and circumvent weaknesses by focusing on industries and products where they have

comparative advantages. Meanwhile, they can take various measures such as independent innovation, collaborative research and formation of strategic alliances to strengthen innovation and create proprietary core technologies for the enhancement of their core competitiveness.

3. Accelerate the establishment of a modern corporate system suitable for conducting business globally. Measures in this respect include a) refining and standardizing the enterprises' governance structure and organization by establishing a modern corporate system; b) guiding the enterprises to absorb advanced international management experience and improve their business management; c) strengthening enterprises' understanding and knowledge of global markets and carrying out all forms of international exchange and cooperation; d) establishing an international factor market and providing efficient and strong support; and e) encouraging the establishment of overseas R&D centers and international strategic industry alliances.

4. Introduce and develop high-end internationally-minded talent. Efforts that can be made in this respect include a) developing a large force of entrepreneurs, managers and specialists that are innovative and competent and meet the requirements of economic globalization, encouraging and guiding overseas Chinese talent to offer their service in China, and recruiting other overseas high-end talent in line with the strategy of strengthening the country through human resource development; and b) pushing ahead with market-driven allocation of human resources, and taking effective measures to involve talent in the "going global" drive and achieve the optimum situation of bringing everyone's talent into full play and advancing business through full engagement of talent.

## **5. Summary**

It is the important time for Chinese technology companies' going global. All parts should work together and put forward the internationalization of Chinese technology companies. That is a win-win result and will benefit for both China and the world.

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