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## **On the strategy positioning of Chinese later developing multi-national corporations in the context of globalization**

**1. The rising of MNCs.** After the Cold War the irreversible Economic Globalization has been sweeping the world and the traditional economic behavior centered on the sovereignty has no more dominant power. The effects of non-national organizations have been greatly enlarging as well. According to the 2004 data provided by the UN Trading and Developing Committee, there are totally 5, 8000 multi-national corporations (MNCs) whose subsidiary companies amount to 320,000 in the world, and each corporation is a holding, on the average, of 6.5 foreign subsidiary companies. Based on the statistics, it is self-evident that MNCs have contributed 45%–55% of the world gross output, 54%–65% of the international trades, 60%–70% of the international Hi-Tech trades, 80%–90% of the product research and development and 90% of the FDI (Foreign Direct Investment).

Since 1970s, multi-national corporations have affected the international politics gradually. Therefore, in order to protect fundamental investments and operating environment, multi-national corporations have to maintain relative steadiness of both their parent companies and their host companies. Hence, multi-national corporations are the main contributors and keepers of the nation's relationships. On the other hand, the nation's attitude is crucial to the operation of multi-national corporations and the correct evaluation and judgment toward the nation's relationships by MNCs will directly affect MNCs' smooth operations

The paper, based on the relations between MNCs and the nation as well as the analysis of features of Chinese MNCs of the new formation (that is, China's later-developing MNCs), provides some productive and applicable suggestions on managing strategies for China's later-developing MNCs.

**2. The Concept of MNCs and China's New Later-developing MNCs.** The MNCs are also named Transnational Corporations, International Corporation, and Global Corporations. At present, the concept of multi-national corporations is defined in the following different ways [1]:

(1) **Structural Criterion.** The classifications between multi-operation and interior operation in China by «regional distributing», «facilities for productive services» and «possession», etc. are ranged into MNCs.

(2) **Performance Criterion.** The criteria for multi-national corporations regulated by «Research Items for MNCs» in Harvard University (US) are as follows: the annual retailing amount of American multi-national corporations should add up to 100,000,000 dollars; the annual retailing amount of European and Japanese MNCs outside America should be over 400,000,000 dollars with share-holding of their subsidiary being over 25%.

(3) **Behavioral Feature Criterion.** Only by taking a global strategy can an enterprise be considered an MNC, which can also be recognized as an enterprise going global and implementing a globally centered strategy.

In spite of the fact that the concept of an MNC was put forward just dozens of years ago, the history of its development reaches over one hundred years and its appearance stemmed from the establishment of Eastern Indian Company in the early 17th century. Generally, three periods of MNCs's development are described like that:

(1) The period of original creation in the middle and late 19th century. The first MNC is known as the Shengjia Sartorius Company founded in 1865. The first wave of MNCs' development was shaped before the First World War.

(2) The period of slow development of multi-national corporations between two World Wars. The development of multi-national corporations went into low gear at this historical period, which was attributed to the dragging of temporary international economy and politics.

(3) The period of rapid increase of MNCs. After the Second World War, the economic power of MNCs was rapidly pumped and the amount of them was also quickly increased. The unprecedented progressing period of MNCs was coming. According to the statistics provided by the UN Multi-national Corporations Center, the parent companies in multi-national corporations of developed countries amounted to 7276 in 1968, 9481 in 1973, 10727 in 1987. And since 1960, their number has gradually increased from 27,300 in 1969 to 9, 8000 in 1980.

In the early days of 1970s, there were just 211 industrial and mining MNCs whose sales amount to over 1 billion dollars. Until the end of 1970s, this kind of corporations had been added up to 422. With the developing of multi-national corporations, their possessing of market in industry and service were gradually centralized. At the same time, the appearance and development of developing countries' multi-national corporations also attracted many eyes in the field of international investment. Since 1980s, owing to the enormously increased investment among developed countries and gradually growing serious competitions, MNCs have acted as a common phenomenon in nowadays international economic development with more and more effects, being the crucial non-country's actor in the international relationship which are able to control definite territories and population and whose economic power can surpass many sovereign nations despite that they don't possess any settled territories and population. Some Western scholars even consider MNCs extremely powerful Economic Kingdoms.

**2.2. The Characteristics of MNCs.** LinYe states: «The basic regulation for the definition of Chinese MNCs is the socialist enterprises, which can self-consciously fit themselves into the international economy and market by making use of internal and external capitals to set more than two subsidiary companies in foreign countries for multi-national production and operation, at the same time, they are public-owned companies where the sales of foreign subsidiary companies should account for over 25% in the headquarter.» [2] Meanwhile, Michael E Porter considers Chinese MNCs to be holdings with the subsidiary companies outside of the Chinese territory controlled and generally managed by internal parent companies – a kind of Chinese juristic persons with an independent corporate entity engaged into various productions and services [3].

Chinese multi-national corporations should contain the following fundamental economic features:

(1) Chinese MNCs should stride out of China to engage in the economic operating activities of industry and service.

(2) Chinese MNCs include parent and subsidiary companies that can independently operate and assume sole responsibility for their profits or losses.

(3) The operating form of Chinese MNCs is a joint-stock company by capital inputs and corporative company with the other forms of capital inputs.

(4) The character of Chinese MNCs' property can be collective, private and internal and external joint venture cooperative company.

(5) Chinese MNCs nowadays mainly include Small and Mediate MNCs that should transit to large-scale MNCs and MNCs Group.

(6) The parent company of Chinese MNCs should enforce the general management and decision-making toward foreign subsidiary companies, plan the operating strategy of the whole company to make a subsidiary company obey and carry out all the strategic intentions and policies of the headquarter.

**2.3. The Characteristics of Later-developing MNCs.** Owing to the birth of MNC's policies in which the Product Life Cycle Theory, Internationalization Theory and Eclectic

Theory of International Production are present, later-developing MNCs are in the period of formation. Therefore, the research objective for Western scholars is early-developing MNCs. And because later-developing MNCs and early-developing MNCs have the similarities, extended and revised early MNCs' policies can be adapted to later-developing MNCs' policies. At last, basing on the gradual development of later-developing MNCs and the gradual deepening of their policy research, the policy of later-developing MNCs is appearing.

**2.3.1. Product Life Cycle Theory and Analysis of the Development Strategy by Later-developing MNCs Based on That Theory.** Professor Raymond Vernon put the Product Life Cycle Theory forward in 1966. He analyzed the reasons for external direct investment from the angles of monopolies' products and techniques. He thought that the proceeding rule of product life cycle determined enterprises to invest externally in order to win foreign markets. He divided the product life cycle into new product, mature and standardized stages.

Product Life Cycle Theory clarifies the reasons and process of externally direct investment by early-developing multi-national corporations.

Ascribing to different developing levels of developing countries, among which there are countries with stronger power and higher level, means that the creativity is more vigorous and the products can win monopolized superiority compared with other developing countries' products. That also means the company has stepped into the first stage of Vernon's Theory. Following the maturing of products and their gradually becoming standard, comparatively powerful enterprises in developing countries will also seek the countries to invest with lower costs and greater markets. As a result, later-developing MNCs appeared. Owing to the production of the same kind of goods in developed countries after the products of early-developing MNCs stepping into standardized stage, this kind of production will be reduced greatly or stopped. Therefore, it can provide more developing spaces and reduce the competitors.

**2.3.2. Internationalization Theory and the Analysis of the Developing Strategy by Later-developing MNCs Based on That Theory.** This theory was stated by scholars Peter J. Buckley and Mark C. Casson of the University of Reading (UK) in 1976, which systemically demonstrates that the Internationalization in MNCs from the angle of the company's appearing process, which is also can be called Market Internationalization Theory.

Its assuming precondition contains:

- 1) first, the unchangeable operating goals to pursue the largest profits by companies under incomplete competing market;
- 2) second, impelling companies to set up internal market among companies so that it can substitute the external market when the semifinished product market is incomplete;
- 3) third, the posing of MNCs until the internalization behaviors inside the companies surpass the boundaries[4].

The theory is based on the following assumptions:

- 1) First, the unchangeable operating goals to pursue the largest profits by companies under incomplete competing market;
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When developing countries want to transfer the advanced products to foreign countries after imitating and innovating, the knowledge capital includes techniques that can realize the internal transferring among later-developing MNCs and their subsidiary companies in order to cut the cost, which becomes an acceptable and efficient choice when their marginal profit is over or equal to its marginal cost. The profit of market stems from the economic profit which has extinguished the in-completing of external market, including uniform regulations of all

obligations, constitution of efficient differential prices, maintenance of the technical superiority all over the world, avoiding the economical profit by governmental interference, etc. Those are applicable for both early-developing MNCs and later-developing MNCs. Meanwhile there is no doubt that the company should pay costs of materials and communication, country's risk costs, management cost, etc. to attain some profits.

**2.3.3. Eclectic Theory of International Production (the analysis of the development strategy by later-developing MNCs is based on that theory).** Its core theory emphasizes the effects on possession superiority, internationalization superiority and regional superiority when MNCs are engaged in the international production and the integration of those three superiorities leads up to externally direct investment. That is known as the OLI Paradigm.

These three superiorities play a crucially important role for an enterprise's multi-national operation. However, it does not mean that only owing to all the superiorities, the company can do its multi-national operations. Since the three superiorities can be mutually displaced it is possible that the developing countries can take dominance displaced investment even though it does not have simultaneously all the three superiorities [5]. Assuming that there are displacements among the superiority I, possession superiority O and regional superiority L, when  $I > O, O < L$  and  $I > L$ , the superiority can make up for the disadvantages of O and L, consequently the country's and regional investment for seeking the optimum of executing the internationalization is possible. For the same reason, mutual displacements among O, L and I lead up to the external investment for seeking regional superiority and possession superiority. As a result, the distortion of Eclectic Theory of International Production developed into the appearing bases of later-developing MNC.

### **3. The workable theories for China's MNCs'**

**3.1. Interdependent Theory.** From 1960s to 1970s, the characteristics of power and international mutual model by the growing up of MNCs and the deepening of mutual dependence among countries changed. And it greatly impacted the Realism International Relationship Theory traditionally centered on the power and national countries. At that time, International Politics and Economy (IPE) is created under that theoretical and realistic impacts.

In late 20th century, the developing of MNCs greatly changed human society's production and exchanging models, the resources and allocation structure of treasures, the structure and proceeding process of power. It even directly influenced daily lives and consuming styles of all people all over the world.

1960s and 1970s witnessed a great transformation in the world political and economical patterns – in the fields of politics, economics, global poverty, development, disarmament, environment, population, etc. Simultaneously, the development of information communication and transport greatly accelerate multi-national transactions of goods, capitals, labors and information, advanced the fast development of MNCs; at the same time, taking MNCs as an example, multi-national governmental relations greatly enlarged and deepened the mutual dependence among different countries.

Professor Robert Gilpin of Princeton University (US) retransferred the concept of «Political Economics «into the field of international relationship in his article *International Relationship Political Economics* in 1975 [6]. Later he reminded [7] that «modern world's International Relationship Dynamics is the result of mutual effects on politics and economics to the great extents in his another article, and the relation between economy and politics mainly represents the relation between treasure and power, Liberalism, Marxism and Mercantile System supply the basic category to explain international political and economical exchanging activities» [7]. To the great extent, these opinions established the subject basis for International Politics and Economics. To our surprise, they all can be found in one article specially studying the issue of MNCs, so this coincidence one more time shows a certain

logical relation between the establishment of MNCs and the development of International Politics and Economics for all people.

Famous American scholars Robert O. Keohane and Joseph S. Nye, Jr. stated: «We are living in mutually dependent times» [8]. This saying shows that people have commonly realized that the characteristics of world politics are changing in Power and Mutual Dependence. Mutual independence is becoming the basic word combination to describe the features of contemporary international relations and it also the theoretical stanchion to set International Political Economics.

As the MDT comprehensively states the political and economical relations among different countries, it will be significant to the operating strategy for MNCs on the basis of the theory. Robert O. Keohane and Joseph S. Nye, Jr. also pointed that we must pay more attention to the sensitivity and frangibility when we recognize the function of power in mutual dependence [8]. In brief, sensitivity reflects the speed and depth for some country to face with external changes, while frangibility reflects the ability and difficulty for some country to revise policies. From the other angle, sensitivity reflects the cost that should be paid to maintain mutual dependence, while frangibility emphasizes the cost to be paid to destroy this relation. In real polity, mutual dependence among countries simultaneously contains sensitivity and frangibility. Hence, they are mutual reflections with different sides.

Accompanied by the depth of mutual dependence among different countries, international politics has developed into a «Spider Web» Model. Country's behavioral freedom constrained by some seemingly little-scale companies' daily activities; traditional country's power opinion has been out of date. But brand-new international relations are springing by mutual dependence and cooperation between different countries is indispensable.

Modern world productions, trades and commerce being all international, a certain country's bankruptcy can result in another country's bankruptcy, so products and capitals in the two companies must cooperate with each other: their war will destroy the economy of the whole world in this new-style international environment with compound and mutual dependent features. In the modern world, more and more countries are changing into trading ones as a result of the development of world economy and mutual dependence, «If one country's economical development policies relies on the world market's enlargement, this kind of country will be difficult to push territory invasion and expanding.»[9]

### **3.2 The strategy positioning of China's MNCs in the context of globalization.**

**3.2.1. Actuality and current problems of Chinese MNCs.** When in 2000 China affirmed to execute the «stepping out of the country» strategy, many domestic companies went abroad to seek developing chances. Until now there are different kinds of 30,000 MNCs. Some skeleton companies like China Petroleum and Chemical Corporation, Hiar, TCL, Changhong, Konkia centralized to multi-nationally operated and attained great achievements. Besides state-owned companies, civilian-run enterprises gradually become one of the main parts of multi-national investment, for instance, Huawei, Lifan, Yuanda, New Hope, Wanxiang and Zhengtai, etc. penetrated into the international market with the point of executing overseas processing business. Until June 2003 our country had set up 7178 overseas noncommercial enterprises in over 160 countries and regions. And the total amount of contractive investment is 15 billion dollars, in which 10 billion dollars was invested by our country. However, the unbalance still exists between our overseas investments and foreign MNCs' investments into our country. Up to July 2003 we had proved the foreign-funded enterprises amounted to 446000, the contracted value added up to 88.72 billion dollars and the actual applying is 48.13 billion dollars, while our overseas investments just accounted to nearly 20 billion dollars.

During this period the obvious fundamental features of our MNCs are as followed: (1) The scale of enterprise's multi-national operation is not large. (2) Excepting rare large-scale state-owned enterprises having multi-functional operating forms, most of their overseas

subsidiary companies just have one form and little functions. Meanwhile, the state-owned enterprise takes the leasing place, especially large-scale state-owned Group and State-controlling Company. (3) In the industries related to overseas companies, the major one is trade; Production & Processing project and material development being only second. (4) The overseas investments mainly aim at circumjacent countries and regions; there are not enough of them in Africa and Latin America. (5) The operative risk is large owing to its exclusive investment and independent establishing.

**3.2.2 The strategic positioning of China's MNCs.** At present, the strategic positioning of China's MNCs are:

(1) To actively develop medium and small multi-national corporations basing on civilian-run enterprises.

After our entry into WTO, civilian-run enterprises got rid of the unfair «discrimination» and won the opportunity to involve in the fair international competition under the background of new mutually dependent country relationship. Recent years, lots of civilian-run enterprises sprang up swiftly, which inspired the investing upsurge by MNCs. Some MNCs realized that a combination with civilian-run enterprises (CREs) is a new investing method. Moreover, we already have some CREs stepped out and attained successful experience. This kind of MNCs, originated from market mechanism and powered by market, will expose more vigorous vitality and developing prospect. Certainly, the multi-national operation by present CREs is still in a low stage, most of them still choose to direct investment. But with the consolidation of enterprise capital accumulation and the richness of multi-national operating experience, the operating way of CREs will gradually deepen.

(2) To improve the «Three Degree» and to cultivate the world brand.

In order to enforce product's international competition, our MNCs must make great efforts to improve their popularity to cultivate world brand. Their popularity should be cultivated by subdivision brands and confirm its core value; to set up good enterprise reputation and representation, to dredge different media channels so that it can win great reputation and honor, which can have its brand deeply marked.

(3) To make full use of national mutual-dependent relation to set multi-national strategic alliance.

Our large-scale enterprise, especially some engaged into the overseas investment, should be accustomed to the trend of multi-national strategic alliance and establish the strategic cooperative relationship with other countries' enterprises especially their MNCs. At first, we should recognize the importance of the strategic alliance for international operation. A multi-national strategic alliance enforces the designing and innovating ability for products and techniques, while reducing the relevant costs. And it can widen a market for corporative enterprises, optimize the combination of productive elements and improve the comprehensive competing ability. Secondly, an enterprise should keep superiority and power by itself. Its own superiority is the springboard for strategic alliance. As a multi-national strategic alliance emphasizes the equality and complementary among its members, only the company keeping its own superiority can win the right to be engaged into the strategic alliance. And if it hasn't the core competence, it will be annexed by its opposite corporative members. So the corporation with foreign MNCs is indispensable for our domestic companies with certain power. On one hand, it can achieve all functions in multi-national strategic alliance; on the other hand, it can study the operating mechanism of multi-national strategic alliance and gradually promote its ability for international competition. At last, it should implement the Knowledge Links in multi-national strategic alliance that can inspire leagues to participate in mutual learning, developing and creating new knowledge; especially it can generate the core ability and create a new core ability via creating cross knowledge by their combination of professional ability. Knowledge Links is a comparatively high stage in the alliance

development, their function is stronger and their scope is more comprehensive than the Product Links.

(4) To implement Knowledge Links and to cultivate China's MNCs.

There are two sides in Economical Globalization, one is the serious competence confronted with companies, the other provides wider space for companies because it can step out to make use of two materials and two markets by multi-operation. The development of Haier's «From Haier's internationalization to international Haier» creates a distinctive multi-operation with its own characters, which proves the brightest prospect of our MNCs. However, when China's MNCs execute Knowledge Management in their cultivations and developments, they should pay attention to the following points: firstly, they should set Knowledge Management opinion and emphasize Knowledge Management practice; secondly, they should dare to use global knowledge; thirdly, they should execute advanced mechanism of Knowledge Management; then they can enforce international competence and pursue great-leap-forward development by the latter superiority.

**4. Conclusions.** The rising of MNCs all over the world in the era of Economical Globalization is inevitable and significant. And there is no doubt that later-developing MNCs are a newly existing form of MNCs in China. Owing to the integration of international politics and economy, the mutually dependent relations between countries and countries, countries and MNCs, MNCs and MNCs are becoming more complex and mutually penetrating, which have deeply reflected new features in international political and economic relations in the context of globalization. Therefore, the strategy positioning for China's later developing MNCs should be worked out basing not only on their own characteristics, but also taking into account the complicated situations under globalization. Only through this way can Chinese later-developing MNCs achieve the success in the fiercely competitive international market..

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