

Making China your second home

It is poised to become the world's largest market, but China has a double-edged relationship with multinational corporations. *Saurabh Sharma* and *Mickey Chak* outline how to turn opportunity into success.

Know very clearly what you want from China

We meet so many expats in China who keep grumbling about one thing or the other here. Yet, in the past many years, not many of them have left China. Why? We think they like it here but they are still not sure if they should like it here; they hate it here but they are not sure if they should hate it here. This is perhaps because they have not clearly, or have very narrowly, articulated what they really want from China. Only a clear answer to this question can help them better engage with China.

The situation of many of the MNCs in China is not very different. They are lost somewhere between their fundamental distrust and dislike for China and their acute desire to make the best of this market opportunity. For MNCs to be able to chart a long-term growth path in China this attitude has to change. As a first step in this direction, MNCs need to know very clearly what they want from China.

The key imperatives and recommendations that we have proposed in this section are a sum total of the learnings from our conversations with various industry leaders, academics and policy experts, and our past two decades of experience in working with various multinational corporations that have operated in China with varying degrees of success.

As outlined in the previous sections, the China of tomorrow will offer a much larger market for most of the consumer and industrial products than any other country in modern history. Add to this the fact that China has a distinct goal to become a preeminent global economy and is busy building China 1.2 – a new kind of modern society (see table above right).

	From	To
1.	Bring Money To China	Build Capabilities In China
2.	Manufacturing Hub	Leader In Innovation & Services
3.	Export Oriented Economy	Export & Domestic Market
4.	"To Be Rich Is Glorious"	Build Social Harmony
5.	Follow The World Order	Partner In Shaping The World Order
6.	Bring Big Brands & Companies To China	Take Chinese Brands Global

Key implications of China's Vision 2020

In this wider context, China of the future would like MNCs to play a more constructive role in developing China while partnering with it to gain a global reach. In this process, China would like MNCs to treat her as their second home rather than just a market.

MNCs thus need to think hard about how to address this expectation. This question is also linked with the kind of industry that the MNC is in. The imperatives for MNCs operating in non-strategic consumer industries are different from those who are operating in technology-intensive strategic industries.

Keeping these factors in view, we have proposed two paradigms for MNC engagement in China.

1. China as a market A transactional view of the China opportunity

Most MNCs have traditionally adopted this approach in China. This paradigm offers a canvas for collaborative partnership between



China and MNCs, but is limited to the creation of domestic market and some exports. It relies heavily on public relations and public affairs strategies to bring out the message of the MNC's commitment to the China market. It includes adapting the MNC messaging and the annual/five-year business targets to fit the long-term and short-term Government announcements and plans. This approach is the classic MNC comfort zone because it hinges on local responsiveness – something that most of the MNCs have learnt while working across various markets in the world.

While the paradigm is ideally suited for MNCs that are operational in non-strategic sectors of China, many of which lie in the consumer products and services domain, it is not enough for MNCs who are engaged in strategic sectors.

Also, in the wider context of rapid change witnessed by China in the past 30 years, this approach worked well for MNCs thus far. But as China's needs are changing, so are its aspirations and resulting expectations from MNCs. Thus the approach needs to be updated and adapted to keep it in step with the China of tomorrow as visualized in Vision 2020.

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Implications of Vision 2020 and the role of MNCs in 'China as a Market' paradigm

In spite of the attractiveness and relative ease of deploying China as a market paradigm, this approach is not a cure all.

Limitations of China as a market paradigm

As we saw in the sections above, the past 30 years of revolutionary development in China have given it global stature and influence; it is no longer just an emerging market or a developing economy. China is simultaneously the world's largest economy and an emerging market. It has widespread influence in countries spread across almost all the continents of the globe. In keeping

with the size, scale, influence and future potential of Chinese economy, the China of today is poised to be the home country of many Chinese MNCs that would have a stake in global markets for various consumer and industrial products.

China as a market paradigm misses this global potential of China. It treats China as a subset of its global operations instead of another hub that can give greater reach to the MNC in other emerging markets.

MNCs need a new mental model

MNCs entering and operating in China need a new perspective to frame the China of tomorrow. This new China requires a new mental map for MNCs to be able to comprehend its full scope and scale and find their own gainful position in it. To be able to think this way, MNCs perhaps need a new way of looking at China – first as a country, then as a society and then as a market.

To be able to look at China this way MNCs need to understand the principle behind “in China, for China” beyond just using it as a public relations and public affairs watchword. It is widely believed that the most powerful of bureaucratic and xenophobic hurdles and attitudes can be overcome if MNCs have China's interests at heart.

To be successful, MNCs need to take a hard look at how they can serve China's long-term interests – only this can help them build a long-term working partnership with the country. What specifically will MNCs need to do to be able to think this way? What changes are needed in the way MNCs view their business and their origins today? The second paradigm and the accompanying set of recommendations look at these questions in greater detail.

2. China as a second home A transformational view of the China opportunity

This new paradigm is especially relevant for MNCs engaged in China's strategic industries like energy, information technology, financial services, electronics, aviation and aerospace. China is already giving, and will continue to give many reasons for MNCs to view her as more than just a market and instead as a second home. This paradigm allows MNCs two benefits:

1. Strategic localization – in China for China.
2. Greater global reach in other emerging markets through low cost solutions developed in and with China.

Together these two lead to MNC's Strategic 'Insideration' in China. This approach is very



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Implications of Vision 2020 & role of MNCs in 'China as a Second Home' paradigm

different from the China as a Market paradigm that we discussed earlier. China as a second home offers a wide canvas for the collaborative partnership between China and MNCs across all the aspects of Vision 2020.

A different view of joint ventures in China

Many opportunities for JVs and collaborative innovation offered by the Chinese Government are signals that they want MNCs to check out of their hotels and build a home here. It is up to the MNCs whether they get the message and interpret it as an opportunity to integrate with China and make it their second home, or look at it as a protectionist ploy aimed at helping Chinese companies to take away MNC technologies and sell resulting products at a much lower price in other developing markets, driving the Western MNCs out of business.

Fast-learning MNCs

Some companies are already taking China's signals positively. Siemens China is a case in point. The company proudly states that it wants to make China her second home. The size and growth potential of the China market, the rare opportunity to apply pioneering technologies, and the great government relationship that the company has enjoyed in the country, gives it the confidence that their China venture is more than just an international office. It is their home in the eastern hemisphere that gives them greater reach into the rest of the world. In 2008 the company completed the construction of its 29-storey headquarters in Beijing, built at the cost of RMB 1 billion and owned by Siemens. (There is one more similar-sized structure coming up in Shanghai.) Today, Siemens has over 90 operating companies and more than

60 regional offices in China that collectively employ more than 41,000 employees – 99% of whom are Mainland Chinese.

GE Inc. of the USA is another company bullish on China. After an initial lack of understanding of the Government stance on Indigenous Innovation, GE is now going full throttle on China. "Indigenous innovation concerned us as a policy," Geoffrey Immelt, CEO of GE Inc., said, referring to remarks he made earlier in 2010 concerning the Chinese Government's effort to promote homegrown technologies that many foreign businesses say discriminates against them. However, he said he now believes that China is committed to a level playing field.

The company has recently announced multiple strategic partnerships in China – a 50-50 joint venture with Wuhan NARI Co. Ltd (owned by China's State Grid Corporation) to produce and sell energy-grid monitoring and diagnostic products. The company is also jointly acquiring, with State Grid's Shanghai Electric Power Co., a controlling stake in Shanghai Tianling Switchgear Co, a power-distribution equipment maker. GE has also signed an agreement to form an equally owned joint venture with Chengdu Locomotive & Rolling Stock Works, which is owned by China South Locomotive & Rolling Stock Corporation, to develop new propulsion systems. Finally, the company also entered into a 50-50 joint venture with the Beijing National Railway Research & Design Institute of Signal & Communication to supply railway-signaling systems for the local and international markets. GE's success, because of its openness to JVs, is not a new phenomenon.

Many MNCs have long collaborated with state-owned enterprises to create stronger business positions than they could have achieved on their own. Cummins is an equal partner both in production and R&D with Dong Feng Motor as its largest customer in China. This has allowed the company to develop products faster in China than it would have otherwise managed to and also helped strike more relationships and partnerships with other customers such as mass-transit operators in China.

All this has helped Cummins' non-China operations to export four times the value of products to China because it exports from China too. ■

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Is the Red Carpet Fading? China's Evolution and Engagement With the World – Imperatives for MNCs in China

