
Chinese Overseas Investment: Cases in the Automobile and Telecommunications Sectors

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Summary

In the past three years, major companies in China's automobile and telecommunications equipment sector have moved to establish investments or manufacturing facilities abroad. This essay considers some of the key points of the national "Going Out" policy. It then examines several companies that have made move outside of the country, and evaluates the motivations for their actions. It also assesses issues in the future course of capital movement for the corporations in these key sectors. (JEL classification numbers: F21, F59, P16, P33)

Key words: China, automobile, telecommunications, overseas investment

Introduction

From the beginning of the current decade, the Chinese government began to urge domestic companies to move outside of the country's borders, and join other multi-national firms in competition for global markets. The government unofficially named the movement the "Going Out" policy.

The origins of the policy (*zouquchu* in Chinese) are not clear, but the Russian scholar Portiakov (2004) asserted it was first put forward in the year 2000.¹ In early 2003, the Chinese Ministry of Foreign Affairs web site (2003) published a statement on its web site discussing the foundations of the policy.² It pointed out that, with foreign exchange reserves (at the time) of nearly \$300 billion, it was natural for Chinese companies to move their production abroad. The foreign ministry also asserted that, once a country's per capita income reached \$2000, it should begin moving production overseas. Even though China's per capita income at the time was only \$800, many wealthy coastal cities had already exceeded this number, so it was time for overseas investment flows.

At the time, the Chinese government saw most of the overseas investment moving to developing parts of the world, namely the Southeast Asian nations of ASEAN, southern Asia, and central Asia. Moreover, most product sectors were in relatively less technologically advanced areas. These included farm machinery, household appliances, light industries, textiles, agriculture, and construction. The main sources of these investments came, as might be expected, from companies based in the wealthier coastal areas such as Shanghai, Guangdong, Zhejiang, Jiangsu, and Shandong.

The government posited two ways for Chinese companies to expand abroad. One would be to first become established in developed nations' markets, then move to developing countries. An

¹ In the popular press, Time magazine was one of the first publications to note this movement; see *Time* (2005). However, it was also earlier mentioned in the text of a *People's Daily* commentary on December 11, 2001, just as China was joining the World Trade Organization.

² The following discussion draws on this article as the standpoint of the Chinese government on its "Going Out" strategies.

example cited here was the Shandong-based Haier company, which made refrigerators, air conditioners, and other “white” products, and targeted the United States for low-end product market share.

Another pattern would be for companies to first move into developing nations’ markets. In a reference to the former leader Mao Zedong’s policies, this strategy was called “the village surrounds the cities.” After expansion in developing nations’ markets, the company would move to wealthier nations. Here, the examples were the Chinese computer maker Lenovo (which bought IBM’s personal computer division) and electronics producer TCL (which markets televisions in Europe and North America under the RCA brand). As this essay will show, some companies in the automobile and telecommunications sectors targeted both developing and developed nations at the same time.

Finally, the government pointed out some problems for implementing the “Going Out” policy. Only about one third of companies investing overseas, as of 2003, were profitable; another third broke even, and the rest were losing money. The underperforming companies were unprepared to move overseas, according to the government, and lacked market information in the target areas.

Another key problem was the lack of Chinese domestic companies’ management skills. Many of the companies were only established in the 1990s, so they lacked the ability to successfully develop overseas projects. Essentially, the companies had moved overseas before they had consolidated their management abilities within the home market.

Still, as the cases below indicate, as of mid-2006 the Chinese government seemed to still actively encourage both state-owned and private Chinese companies to look overseas. In March, 2006, the head of China’s State-owned Assets Supervision and Administration Commission of the State Council (SASAC), Li Rongrong, reportedly stated that his organization would not impose undue restrictions on companies seeking to make overseas acquisitions (Yang, 2006).

This paper considers many of these general trends, and will focus on developments in two key sectors, those of automobiles and, to a lesser extent, telecommunications equipment. It assesses the motivations behind the corporate moves abroad, and the potential risks and rewards as the companies move beyond China’s borders. It also considers the strengths and weaknesses of the companies, and their prospects for success in the coming years.

The Case of the Automobile Sector

China had little automobile industry of its own until after the 1949 communist revolution. Over the nearly three decades of rule under Mao, the nation built major truck production facilities in the northeast city of Changchun, and the inland province of Hubei. Shanghai was the site of most passenger car production, though this was limited to only a few hundred vehicles or less in most years.³

In the early post-Mao reform years of the late 1970s and early 1980s, Chinese leaders first turned to imported vehicles to satisfy the need for passenger cars. The growth of tourism and arrival of foreign investors and their industries required more cars than the domestic companies could produce. In 1985, China spent \$3 billion to import some 350,000 vehicles, a figure including 105,775 passenger cars (ZQGN, 1991).

To prevent a continuing drain on the country’s foreign currency reserves, Chinese officials

³ For detail on the history of China’s car industry, see my book, Harwit (1995).

turned to several foreign companies to create joint venture vehicle manufacturing facilities. One major joint venture project that began production in the early 1980s was Shanghai Volkswagen, a joint venture chiefly between German's VW and the Shanghai Automotive Industrial Corporation (SAIC). In the 1990s, the American company, General Motors, joined the Germans in Shanghai. GM also chose SAIC as a partner. The development of SAIC in recent years, and its efforts to expand beyond China's borders, constitutes this essay's first case focus, and is discussed in detail below.

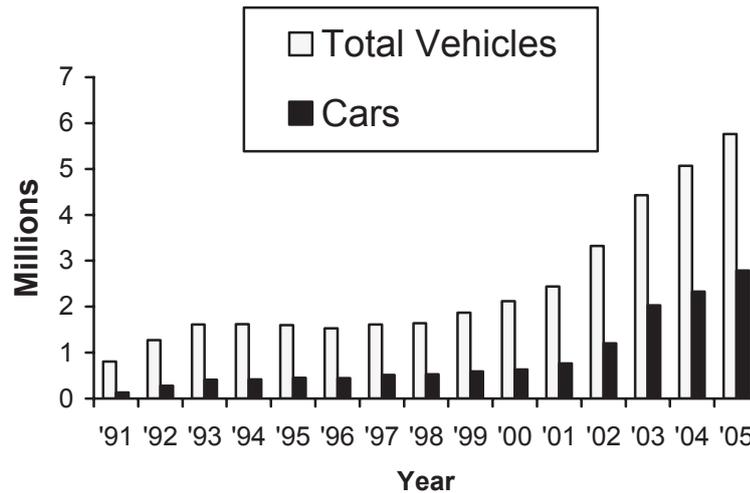


Figure 1. Vehicle Sales in China, 1991-2005

Sources: For 1991-2000: CAIY, various years; for 2000-2002 and 2004-2005: XENS, various reports; for 2003: CD (2004b)

Joint venture automobile companies came to dominate passenger car production in the 1980s and 1990s. Figure 1 indicates the rapid growth of Chinese domestic vehicle sales. But as Table 1 shows, the joint venture companies held essentially all of the country's passenger car production and sales until the year 2000.

Table 1. Production of Passenger Cars at Chery and Geely, 2000-2005, and as a Percentage of National Production

Manufacturer	2000	2001	2002	2003	2004**	2005**
Chery	2,767	30,070	50,398	101,141	86,600	189,200
Geely*	0/	0/	3,898/	28,741/	N.A./	N.A./
(cars/total cars and other vehicles)	14,594	24,865	43,457	81,284	97,500	151,400
Total Chinese car production	607,455	703,525	1,092,762	2,037,865	2,326,500	2,787,000
Chery and Geely total car production as percent of total national car production	0.5%	4.3%	5.0%	6.4%	ca. 6%***	ca. 10%***

* Note: Figures for Geely car production alone are not available for 2004 and 2005; for these years, only total car and bus/truck production is available.

** Note: For 2004 and 2005, numbers represent total sales, rather than production.

***Note: Figures includes estimate of Geely car production as a high figure of roughly 60 percent of total vehicle sales.

Sources: For 2000-2003:AIC (2004); for 2004 Chery and Geely production: XNA (2005b); for 2004 national production: XNA (2005a); for 2005: XNA (2006).

As the table indicates, by the early part of the current decade, domestically-owned Chinese car companies also emerged. One such private corporation, Geely, primarily began by making busses and trucks, but in 2002 moved to make passenger cars as well. Another company, owned by the Wuhu, Anhui municipal government, was the other major Chinese domestic car producer without a joint venture partner.

Beginning in the early 2000s, SAIC, Geely, and Chery all made moves to either acquire overseas assets or move production abroad. The following sections assess the companies' strategies, and consider the future course of their overseas expansion plans.

Focus on SAIC

As a kind of little brother to its German and American joint venture partners, the Shanghai Automotive Industrial Corporation for many years saw little growth or innovation in its own product mix. The company's future reached a dramatic turning point on October 15, 2005, when it announced it would spend 10 billion yuan (\$1.2 billion) to develop its own brands over the following five years. The lynchpin of the plan was its 2004 acquisition of a controlling stake in South Korea's Ssangyong Motors, and the purchase the same year of intellectual property rights to car models from the British MG Rover Group. (SCMP, 2005b, and Asia Pulse, 2005b).

For SAIC, a key reason to turn to overseas technology and acquisition was apparent frustration living in the shadow of foreign production partners. SAIC formed its first car producing joint venture with Germany's VW in 1984, and, after a slow start, the company's sales starting taking off in the early 1990s. By the end of the last decade, Shanghai Volkswagen dominated much of the domestic Chinese market, taking in some years nearly half of the market. SAIC followed this success with another joint venture, this time with America's GM, that started producing vehicles in 1999.

SAIC's stake in these successful ventures meant accumulation of cash. In 2000 alone, it made a profit of nearly 3.8 billion yuan (\$460 million) (XENS, 2000), though price wars cut SAIC's profits to only 467 million yuan (\$56 million) in the first half of 2005 (XENS 2005). The company had money but not prestige, and decided to go it alone. According to one Chinese official familiar with the company, SAIC felt it was unable to innovate within the joint venture framework, and it needed its own independent projects to show what it could accomplish (Interview, 7/2005).

SAIC began its overseas purchases in late 2002, when it paid \$59.7 million for a 10 percent stake in GM Daewoo Automotive (CD, 2004c). In October of 2004, SAIC spent nearly \$500 million to buy a controlling 48.9 percent of South Korea's fourth largest car producer, Ssangyong (BW, 2004, and SCMP, 2005b). SAIC was not so interested in running the Korean company, though – one SAIC official noted that “SAIC promised to keep the [Korean] management when it took over Ssangyong”(Interview, 8/2005a). SAIC also spent 67 million British pounds (\$120 million) to acquire the intellectual property rights and technology platform for the Rover 25 and 75 model cars.

Chinese analysts were at first puzzled by the SAIC moves. Auto expert Jia Xingguang told Agence France-Presse in late 2004 that the Rover purchase was “just not rational.” “What's the point of this kind of expansion? It won't bring (SAIC) its own design skills and technology, its own brands or the capital they need for further expansion”(AFP, 2004). Jia speculated that SAIC was merely positioning itself for a planned stock market listing.

SAIC's true goals were revealed in July, 2005, when it announced it would invest 3.68 billion

yuan (\$445 million) in a venture that would produce cars using technology from Ssangyong and Rover. SAIC founded a new company, Shanghai Luwei, in the city of Yizheng, Jiangsu province. Ironically, the site had originally been reserved for joint venture production with Volkswagen, but was never utilized with the German partner. Now, it would use the new facility to compete against its foreign partners, and announced the new plant would have capacity of 120,000 vehicles and 170,000 engines. The first cars would roll off the assembly line in 2007, and would be sold both at home and abroad (SCMP, 2005a).

The October announcement by SAIC indicated it would also use the new facility to develop its own brands. Its ambitious target was to reach production of 600,000 vehicles by 2010, with \$1.5 billion in exports. The goal was also to have 200,000 of the cars using SAIC's own developed brand car (SCMP, 2005b). "Ssangyong is playing its part in this project," a SAIC official confirmed (Interview, 8/2005a).

Just as SAIC made its announcement, its partner VW said it would cut back on its own output. According to the *South China Morning Post*, the German company said: "We have stopped the expansion of new car capacity. ... Even with [production capacity of] 900,000, we produce more than we can sell." And VW's profit target for 2005 in China was just to break even (SCMP, 2005b).

SAIC had skillfully used foreign technology acquisition to assert its independence from its erstwhile foreign allies. However, it was not the only indigenous Chinese company to look overseas to expand its production capabilities.

Focus on Chery and Geely

The Chery Automobile Company, founded in 1997 in Wuhu, Anhui, and controlled by the municipal government, had a few years' head start on SAIC in developing its own brand of vehicles. Its first cars appeared in 1999, and by 2004 the company had annual production of more than 80,000 vehicles. Its best selling model, the QQ, gained quick popularity, even as General Motors has claimed the vehicle is a copy of the Chevrolet Spark.

Chery made headlines in early 2005, as it announced plans to export as many as 250,000 cars a year to the United States by 2007. By the middle of 2005, these plans seemed to be coming unraveled, as the US partner, Visionary Vehicles, saw internal dissension and disorganization (IHT, 2005). But Chery continued with plans for other forms of expansion abroad.

Already in 2003, Chery signed an agreement with Iran's SKT to become the first Chinese manufacturer to produce its vehicles abroad. Iran had been a customer of Chery cars since 2001, so the deal to produce them in the Middle Eastern country seemed natural (FTI, 2003). As of late 2005, however, the 30,000-capacity vehicle plant had only received some 2000 to 3000 vehicles and knocked-down kits at its northeastern Iranian home. And according to Chery officials, the Chinese company had no investment stake in the Iranian venture (Interview, 8/2005b).

In late 2004, Chery announced it would assemble cars in Malaysia in a joint venture with the Alado Corporation. Malaysia seemed a natural choice, as it has the largest passenger car market in Southeast Asia, with 300,000 annual vehicle sales (NYT, 2004). But the controversy over the QQ model's resemblance to GM's vehicle stopped a scheduled shipment of 10,000 Chery cars to the country in mid-2005 (Comtex, 2005). At the same time, Chery was also considering setting up an assembly plant in Russia (Asia Pulse, 2005a).

Chery's main domestic Chinese rival, the privately owned Geely Holding Group, had its own plans for overseas investment. In May, 2005, Geely signed an agreement to make cars in Malaysia, with partner IGC. Like Chery in its Malaysian project, Geely put no capital investment in the venture, but did pledge technology for the 30,000 capacity vehicle plant. Geely planned to send Chinese managers and train workers at the new facility (Interview, 8/2005c).

Sales for both Chery and Geely in Malaysia gave the companies an important foothold in Southeast Asia. As tariff and trade barriers were to fall among the nations of the Asia Free Trade Area, the Chinese companies would be able to tap other markets, perhaps in Thailand, Singapore, or Indonesia, and use their Malaysian production as a convenient production center.

In a set back for Geely, however, in early 2006, the Malaysian government ruled that 80 percent of Geely's vehicles made there should be exported, and only 20 percent sold domestically. Geely had apparently expected to sell as much as 70 percent of the factory's output in Malaysia (NSTP, 2006). Still, as of this writing, the venture was proceeding.

Incentives for Chery and Geely to Move Outside of China

What was driving these domestic Chinese companies to move abroad? First, the domestic market was becoming crowded. According to China's National Development and Reform Commission, total annual vehicle making capacity in 2007 would reach 15 million units, though forecast demand was only about 7 million vehicles (CD, 2004a). As for passenger cars, the research firm KPMG forecast capacity of 5.6 million in 2010, and sales of only 4.2 million vehicles that year (KPMG, 2003). Though passenger car sales remain strong in 2005, it is likely all major producers will face pressure to find markets abroad. Car price wars in the China market make the move even more imperative.

In the case of SAIC, of course, the move to spend money abroad would help the company to liberate itself from dependence on VW and GM technology. SAIC could use the new technology to sell vehicles in the same markets where their acquisitions, Rover and Ssangyong, had succeeded in the past.

Nationalism was likely another driving force behind the move beyond China's borders. Chinese companies longed to be seen as global players, and the domestic makers could only move out of the shadow of the foreign joint venture brands that dominated the domestic market when they could take market share outside of the country. Success in developing countries such as Southeast Asia and the Middle East would likely be a prelude to eventual sales in Europe and North America.

Problems and Forecast for Overseas Auto Expansion

China will likely find pitfalls in its road to foreign overseas automotive expansion. Competition from other global players will be fierce – it is unlikely companies such as Toyota, Nissan, Hyundai, GM, and others will quietly cede market share to Chinese companies. Geely, as noted, faced protectionist pressures in its Malaysian venture. Though Chery and Geely have proven they can make inexpensive cars for the domestic market, it is unclear whether quality shortcomings in their vehicles will impede sales, even for cars at bargain-basement prices. SAIC will have to prove it can successfully incorporate Rover and Ssangyong technologies into its own branded models.

As Table 1 indicates, moreover, both Chery and Geely have a relatively small share of the domestic Chinese market. Though their production numbers are growing, it is hard to see how they

can expect to compete with foreign companies abroad when they have relatively little market share even within their home nation.

In mid-2006, still another Chinese car company announced an overseas expansion project: the Nanjing Automobile Group Corporation said it would partner with two American firms to build a new facility to build MG-brand cars in Oklahoma. The cost of the facility and related expenses could range up to \$2 billion, and production would begin in 2008. Critics of the plan pointed out that the MG model had little previous success in Europe or the US, and it was unclear whether the Chinese would see any greater advantage (WSJ, 2006, and CD, 2006b).

Still, overall, Chinese car companies seemed to have a drive to succeed. Both SAIC and Chery had municipal government backers, so may have had the financial backing to last in the long haul. Though the companies were off to a slow start as of 2006, it seemed a safe bet that Chinese cars would be part of global competition in the next decade. The world would soon come to put Chinese brand names besides those of their more well-known competitors.

The Case of the Telecommunications Sector

As was the case with the automobile sector, there was little telecommunications equipment manufacture in pre-revolutionary China. With assistance from the Soviet Union, China did develop several factories to make basic equipment. Telephones, until 1949 limited to wealthy Chinese and foreign residents, slowly began to penetrate Chinese society.

Under Mao's egalitarian policies, the spread of the network was not limited to the wealthier urban areas. While the number of city dwellers with phones tripled from 1949 to nearly 800,000 in 1965, rural users saw phone penetration grow more than 10-fold over the same period, to about a half million subscribers (ZTN, 1981). However, as with many other areas of China's manufacturing, production stagnated during the "Cultural Revolution" years of 1966-1976.

Again, following the pattern of the automobile sector, China saw a period of importing telecommunications equipment in the early 1980s. But, as with cars, the bill for these imports soon grew, and China turned again to joint ventures to solve this problem.

Early joint ventures included the Belgian (later French) company Alcatel in Shanghai, and Germany's Siemens, located in Beijing. Both joint venture companies, Alcatel's Shanghai Bell and Siemens's BISC, made switching systems, devices in the network meant to channel phone calls successfully to their destinations. By the mid-1990s, the joint ventures held about 50 percent of the switching equipment market. Most of the rest of the equipment was imported, and purely Chinese companies had less than 10 percent of the market.

Unlike the automobile sector, however, Chinese domestic companies began to compete with the joint ventures for market share. One of the most successful companies, Huawei Technologies, came not only to take domestic market share, but even to compete with the major international companies on a global scale. The company's development is described in detail in the next section.

The case study is followed by discussion of another branch of telecommunications, operations companies. To date, only the companies that run China's fixed-line and mobile operations have had relatively few overseas acquisitions, but recent moves could indicate they will also be joining the trend to purchase overseas assets and companies.

Focus on Huawei

Like Geely, Huawei was a private Chinese company, and was run by a charismatic leader Mr. Ren Zhengfei. Ren and others founded the company in 1987, and built it into one of China's largest companies in any industrial sector.

As in the automobile sector, foreign companies and joint venture enterprises dominated the telecommunications equipment sector in China until the beginning of the new millennium, when domestic companies such as Huawei and government-owned rival ZTE Corporation took ever-greater market shares. For Huawei, good corporate leadership was an important ingredient in the company's success. Ren and his company cohorts invested the company's capital wisely, spending as much as 100 million yuan (about \$20 million) on research and development. Huawei also established a research and development center in the US to get feedback on its products as well as technology updates (XNA, 1994).

Huawei further expanded its sales by targeting mainly rural Chinese telecommunications facilities and their customers, ones who could not afford imported or joint venture products. By 1996, Huawei had 20 percent of the Chinese switch market, second only to Shanghai Bell's share (WSJ, 1997). Huawei also looked overseas, initially for sales opportunities, and was one of the few large private Chinese companies to establish an international presence. One of the company's first joint ventures was in Russia, where the company joined in 1997 with the Beto corporation to produce switching equipment (XNA, 1997).

By 2004, Huawei, ZTE, and other domestic telecommunications companies had become major players both within and outside the PRC. Huawei was the big winner, with sales that year of \$5.58 billion, and overseas sales at \$2.28 billion (AFX, 2005a). It also had a 76 percent share of telecommunications equipment for the whole of China's domestic market (Asia Pulse, 2004).

Like the auto companies, however, Huawei wanted to expand its global presence by cooperating with major foreign developed-nation companies, with the apparent goal of acquiring overseas assets. In January, 2005, Huawei reached a cooperative agreement with the British telecommunications equipment maker Marconi – each company would market the other's products to their own customers. Huawei thereby got a foothold in the developed European markets (CD, 2005).

A major further move came later in 2005, when Huawei bid to take over the troubled British firm. In August, Huawei proposed to acquire Marconi for as much as 560 million British pounds (\$1 billion) (AP, 2005). By the end of October, however, Huawei had lost its bid for the company, as Swedish manufacturer Ericsson had come in with a higher offer. By this time, western concerns over strategic defense and communications technologies going to Huawei in the deal seemed to have become an issue in the sale of Marconi (AFX, 2005b, and Red Herring, 2005).

Even in developing nations, the security issue affected Huawei's potential for expansion. By late 2005, the company had 900 engineers working for it in the Indian city of Bangalore, and had announced plans to invest \$100 million in its operations there. However, the Indian government was reportedly trying to keep Huawei away from its core telecommunications infrastructure for national security reasons (Tennant, 2005).

Despite Huawei's loss in acquiring a developed nation's manufacturer, it is clear the company was intent on using overseas investment and cooperative agreements to bolster its position in the global economy. Even as its latest bid failed, its rapidly growing global market share indicated the

company could soon return to the strategy of international acquisitions in its expansion drive.

Telecommunications Operating Companies and Overseas Ventures

China's telephone and data network companies were slower than the equipment companies to acquire overseas assets. As they grew within China over the past decade, however, they came to see overseas expansion as either desirable or necessary to expand their operations.

Among the major fixed-line and mobile phone companies, China Netcom, which operated phone systems in northern China, was the first to make a major international purchase. In 2003, its subsidiary, China Netcom (Hong Kong) bought bankrupt American company Asia Global Crossing for \$120 million, along with undisclosed liabilities. In the transaction, Netcom teamed with the Japanese company Softbank Corporation and US-based Newbridge Capital (SCMP, 2003). A new company, Asia Netcom, took over the company's assets, which featured an undersea fiber optics cable network.

By 2006, however, Asia Netcom had yet to become profitable, and the parent Chinese company needed funds to develop a planned next generation mobile phone network within the PRC. In early June, Netcom and Netcom (Hong Kong) announced they would sell a combined stake in Asia Netcom for \$402 million to two international investment fund groups (CD, 2006a, and FT, 2006a).⁴ The event was significant, in that it indicated overseas acquisitions were not necessarily in the best interests of the Chinese corporation. Even if Netcom made a profit on the investment, it seems the venture did not have the pay off the company expected.

Finally, in an echo of the Huawei case noted above, the PRC's largest mobile phone company, China Mobile Communications, failed in two bids to buy overseas assets. In 2005, it tried to buy 26 percent of Pakistan's top phone company, PTCL, for \$1.4 billion, but lost out to a rival company from the United Arab Emirates that paid the same amount (AP, 2006). In mid-2006, China Mobile's \$5.3 billion bid to acquire Luxembourg-based Millicom International Cellular, which operated in Asia, Africa, and Latin America, also fell through. Millicom stated it believed China Mobile lacked the resources to complete the purchase (FTI, 2006, and FT, 2006b).

Still, China Mobile's leadership noted that it still was interested in making overseas acquisitions. The company's chairman, Wang Jianzhou, asserted in August, 2006, that "Our 'Go Global' policy has not changed. We are still searching for opportunities abroad to grow our earnings"(FT, 2006b).

Conclusion

The focused studies in this essay find their places in the 2003 Chinese foreign ministry assessment of the "Going Out" process. The companies are generally based in coastal areas: Huawei is in Shenzhen, SAIC in Shanghai, Geely in Zhejiang, and Chery near the major city of Nanjing. China Netcom and China Mobile serve nation-wide areas, but their most lucrative operations are in urban settings. Unlike many of the early companies that ventured overseas, however, these companies produce products that use advanced technology. Except for the communications operating companies, they also compete directly with foreign companies that make the cutting-edge products within their competitive sector.

⁴ The two buyers were Ashmore Emerging Markets Liquid Investment Portfolio and Spinnaker Global Opportunity Fund Limited.

The companies also followed different developmental paths in their route to overseas investment. SAIC first worked with joint ventures, though it acquired relatively little technology, and purchased its know-how abroad. As the government assessment pointed out, the SAIC, as a state-owned enterprise, may have difficulty developing managerial expertise to properly manage integration of the technology and attaining overseas competitiveness. The SAIC will likely strive to find market share in China first, but then could move directly to sell its products in developed nations. Likewise, the state-owned telecommunications operating companies relied on shielded domestic markets, and could face difficulties managing overseas networks.

By contrast, the two private companies in this essay, Geely and Huawei, likely had more streamlined management. Huawei also used its own research and development investment, combined with some overseas research projects, to also become internationally competitive. Huawei also first targeted China, then other developing countries, before moving to sell products in advanced nations. Geely, however, had only a small market share in China, but seemed eager to move into neighboring developing nations, and also, in the near future, to tap markets in the developed world.

Chery's management structure had a shorter history of state involvement, and therefore may be more nimble in developing its domestic and overseas markets. Like Geely, it seemed somewhat overly optimistic, as it moved from a small market share within China to establishing overseas production facilities. It may do better to move first to tap developing nations markets, rather than move quickly into the American market. Problems with quality and a resulting fall in sales could severely damage the company's global, and perhaps even domestic Chinese, reputation.

In a larger sense, foreign nervousness over the "Going Out" policy's ultimate goal may lead to unfavorable political reactions. For example, with large, technologically or strategically sensitive foreign investment projects such as those by Huawei, or by oil companies CNOOC (which failed to buy the American company Unocal) or computer maker Lenovo, China may face continued suspicion and passive resistance by both developed and developing nations and corporations. The battle cry that the Chinese government was using its vast resources to conquer foreign markets seemed to find resonance in the global community. However, in less controversial sectors, such as automobiles, there seemed to be fewer concerns, and the SAIC acquisitions of Rover and Ssangyong were completed with relatively little resistance. Local officials in the United States welcomed Nanjing Auto's proposed factory in Oklahoma.

The real test of the "Going Out" policy may come over the next few years, as the corporations that have ventured beyond China's borders see the results of their efforts. If they prove to have given the Chinese corporations new technologies that have been effectively utilized to gain domestic and foreign market shares, the movement of capital may continue. But some of the investments may come to be seen as hasty projects designed to project global financial power just for the sake of nationalistic economic pride, and return poor economic results, as was apparently the result of Netcom's Asia Global Crossing acquisition. In this case, the Chinese companies may have to re-think the ways they spend money abroad, and how they can best improve their financial position both within and outside of China's borders.

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