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**The Internationalization of Chinese Enterprises Compared With  
Japanese Enterprises**

The Haier Group VS Matsushita Electronic Industry

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## **Abstract**

China's WTO entry brings both opportunities and challenges. Chinese companies are facing increasing competitive in both domestic market and overseas market. How to survive in the domestic market and how to carry out international operations of Chinese firms are the urgent questions to most Chinese firms. Competing with global giants, Haier Group is considered a successful case in China. The aim of this thesis is to analyze the internationalization of Chinese firms through study Haier case. The paper focuses on using a case study methodology to compare Haier's development to Matsushita Electronic Industry, a Japanese enterprise within the framework of internationalization theory and FDI theory. The paper attempts to answer to question: one is whether Haier is successful and the other is whether Haier model can be followed by other Chinese firms.

**Key word:** FDI, Internationalization, Haier Group, Matsushita Electronic Industry

## Contents

1. Introduction .....	4
2. Background.....	6
2.1 Review of Japanese direct investment .....	6
2.2 Review of Chinese investment .....	9
3 Theories of FDI and internationalization of firms .....	11
3.1 Theories of FDI .....	11
3.1.1 The contribution of Stephen Hymer .....	12
3.1.2 John Dunning’s “Eclectic Paradigm of International Production ” .....	13
3.1.3 Kiyoshi Kojima’s “Japanese Model” .....	14
3.2 Theories of internationalization of firms .....	15
3.2.1 U-M (Uppsala Internationalization Model) .....	16
3.2.2 Chinese scholars’ analysis .....	17
4. The history of Haier Group and Matsushita Group .....	19
4.1 The development of Haier Group .....	19
4.2 The development of Matsushita Electronic Group (MEI) .....	21
5. Haier Group VS Matsushita Electronic Group .....	24
5.1 Comparison and Contrast .....	24
5.2 In relation to Kojima’s model.....	27
6. The debates about Haier’s internationalization .....	30
7. Conclusion .....	33
References .....	37

## 1. Introduction

Multinational enterprises (MNEs) play an important role in the process of economic restructuring of the world economy (Dunning, 1987). As the main player in the process of economic globalization, MNEs support economic development and increase the international economic activities. The degree of internationalization of firms and the quantity of MNEs have measured the national economic power. The question -- how firms expand and carry out internationalization of their operations -- is of interest to both academic and many enterprises themselves. Chinese scholars have tried to find a “Chinese model” through studying the past internationalization of Japanese firms. Because compared with Japan in the 1960s, China is in a similar position now. First, the pressure of trade and capital liberalization is from both external and internal markets. Second, Chinese industrial structure is readjusting from the labor intensive industry to the capital intensive industry.

Since the 1980s, Japanese outflow of foreign direct investment (FDI) has exceeded the FDI inflow and this gap has been rapidly enlarged. In contrast, China is a major FDI receiver. Since the beginning of Chinese economic reform in 1978, China has achieved remarkable economic growth, averaging around 9.3 percent annually according to official data (Xian xin, 2005: 2). Most Chinese scholars accepted that international trade and the inflow of FDI have contributed significantly to China’s economic growth. Driven by both external and internal forces, the contribution of FDI has been an important component of China’s GDP.<sup>1</sup> Undauntedly, China has become one of the world’s largest recipients of FDI. China’s overseas trade and FDI are linked closely. The data shows that foreign-funded enterprises accounted for over 50% of exports 60% of imports. Thereinto, industrial foreign-funded enterprises accounted for over 30% China’s industrial output (Xian xin, 2005: 3).

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<sup>1</sup> The contribution of FDI to growth may have been large and that without inward FDI China’s growth rate may have been around 3.4 percentage points lower in the last few years. (Xian Xin, 2005)

Depending on foreign technology, Chinese enterprises are still unimportant players in international market. However, China's WTO entry objectively shortens the time to wait Chinese enterprises to grow up. Like other industries, Chinese household electrical appliances industry cannot escape from intense competitions. How to survive in domestic market is the prime question for all Chinese enterprises. Competing with global giants, Haier Group is considered a successful case in China. Haier's successes attribute to its strategy mainly concentrating on constant efforts towards internationalization (Yuping Du, 2003: 1).

The most discussions of internationalization of Chinese firms could be divided into two groups. One group is to suggest that Chinese firms should follow the Japanese model, and the other group prefer the American model. Haier Group is considered a typical follower of Japanese model. Compared with other big Chinese enterprises, like Lenovo, TCL, Haier's global strategy has attracted more and more debates. The question that whether other Chinese companies can follow Haier model is emerging.

The aim of this paper is to apply case study approach to evaluate the development of Haier Group. The paper attempts to answer two questions: (1) Is Haier's global strategy successful? (2) Whether is Haier Group a model that can be followed by other Chinese companies? For understanding the difference and similarities between Japanese firms and Chinese companies in the process of internationalization, the paper will choose Haier Group and Matsushita as the representatives of Chinese companies and Japanese companies respectively.

The paper is organized as follows. Section two provides background on both Japanese and Chinese overseas direct investment. Section three presents the framework of FDI theories and internationalization theories. Section four and section five are to discuss the similarities and differences between Haier Group and Matsushita Group. Section six analyzes the international operation of Haier Group. Section seven is the conclusion part of this paper.

## **Methods and Selection**

The paper is to use case study, basing on the secondary data. Literatures and data were collected from July to October, 2005. The literatures are mainly from books, academic articles and newspapers. Data are gathered from websites of official statistics and yearbooks.

The reason why I choose secondary data rather than primary data is as following. First, as a student, the possibility to access to primary data of Haier Group is quite small. Because it is impossible to interview senior managers, even if I have opportunity to interview some staffs of Haier, it is questionable to get valuable data for my study. Many Chinese scholars have studied Haier case, and their researches have included valuable data and information. Therefore, I mainly depend on those secondary data. Second, for Matsushita Group, the language is the obstacle.

Data used in this paper are all from official website. According to the question about the validity of Data from China government, I mainly use the data from UNCTAD and assuming the data from Chinese official website is acceptable.

## **2. Background**

### **2.1 Review of Japanese direct investment**

Dunning has pointed out that inside the industrialized countries, three main groups can be distinguished: the countries in which outward FDI dominates; the countries in which a net inflow of FDI is registered; and the countries which have a broadly balanced FDI position (Dunning, 1978). As the typical country of first group, Japan's performance is extraordinary. From the a situation of near zero after War to the country held around 17% of the world's stock of FDI in the late 1980s, Japan was considered a "miracle".

Japan's direct investment can be divided into three main stages. The first period is the 1950s and the 1960s. The flow of postwar Japanese FDI was encouraged in 1951 but little burgeon was began until the end of the 1960s. In the 1950s and 1960s,

with the revival of the Japanese economic, Japan's direct investment tried to re-enter the foreign markets. However, because of the balance of payments deficit and foreign exchange reserve deficiency, although since 1951 Japanese firms restarted overseas investment, under tightly foreign exchange controls<sup>2</sup>, the scale of Japanese direct investment was limited. The average annual investment was around \$40 million from 1951 to 1962. In 1966, the total investment reached \$227 million (Argy and Stein, 1997: 225).

Between the 1970s and 1980s, Japanese firms met many problems, such oil crisis, inflation, trade protection, government intervene and rapid economic growth, all of which could restrict the development of companies, but which could also become the potential dynamics of internationalization of Japanese firms. First, the increasing wage cost declined the profit. Basically speaking, "welfare state" usually leads to increasing salary more or less. Additionally, under the pressure of inflation, the concept of wage index could push up salary. For Japan, the most important reason to affect salary is productivity. The productivity of Japanese firms improved quickly. For example, the productivity of manufacturing was 9.2% from 1955 to 1960, 13.4% from 1961 to 1970, and 8.9% from 1970 to 1974. From 1961 to 1974, the average annual increase of productivity of firms was 11.1% in Japan, compared with 6.4% in France, 6% in Western Germany, 3.2% in Britain and 3.1% in US. Therefore, rapid increase of productivity caused to increasing wage cost, which decreased the profit and the investment on equipments. Firms, consequently, began to lose the interests in domestic investment, and increase the interests of overseas investments. Second, the protectionism that boosted in many countries became the new dynamic of Japanese direct investment. Japan visualized itself as a trade dependent nation. Thus, trade protection undoubtedly became a deathblow to profits of Japanese firms. Japanese firms had to change their strategy in order to maintain their profit and market share. Occupying foreign market through exporting was replaced by through producing in foreign countries. Consequently, the 1970s became the second stage of Japan's

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<sup>2</sup> The Foreign Exchange Control Law of 1949 was designed to regulate the use of foreign exchange reserves. Terutomo Ozawa, 1987: 158

outward investment.

With becoming the second biggest economic country, Japan's first investment boom came. The total investment flows began to gather energy, rising from \$227 million in 1966 to a peak of \$3494 million by 1973. With the advent of the 1973 oil crisis, the investment boom ended (Victor Argy, Leslie Stein, 1997: 225). The total investment in 1974 was \$2395 million, which was a decline by 31.2% from 1973. In 1978 and 1979, with the yen appreciation, the total investment rose again. Like the first increase, it lasted only 2 years and then declined reaching \$4693 million in 1980. In this investment boom period, the adjustment of Japan's policy was the important factor. Japan's policy toward overseas investment was developed originally to protect its foreign exchange reserves and to avoid balance of payments difficulties. Under the Foreign exchange reserves and Foreign Trade Control Law of 1949, Japanese enterprises required permission to invest abroad. This situation lasted until 1969 September 30<sup>th</sup>. In October 1969 this law was relaxed to allow automatic approval on overseas investment up to \$200,000, except in certain specific industries, such as banking and securities. In September 1970 the ceiling for automatic approval was increased to \$1 million, and in July this line rose again. The liberalization of policy gave more space for Japan's overseas investment.

1980s was the golden time of Japan's investment. The scale of investment reached unprecedented expansion. In 1981, the total amount of outward investment jumped to \$4900 million. The amount of investment reached \$10.1 billion in 1984, firstly exceeding \$10 billion. Since 1986, when the total investment reached \$22.3 billion, the net increase of investment was over \$10 billion annually. In 1989, the investment reached \$67.54 billion. In "The Japanese economy", Argy and Stein analyzed this period: "a number of elements contributed to the high investment rate recorded in the 1980s. Starting from a fairly modest surplus of \$4.3 billion in 1981 (compared with a deficit of \$8.2 billion the year before) the current account rose constantly until 1987 to reach \$87 billion. Such a trend reflected a high degree of saving relative to internal investment which partly resulted from a decline in the country's GDP growth rate and the consequent fall in local investment opportunities.

The way of banks, financial security companies and institutional investors such as life insurance firms to invest abroad. In the latter half of the 1980s, their ability to do so was greatly augmented by the yen appreciating from 238 in 1985 to 168 in 1986, 144 in 1987 and 128 in 1988. That is, between 1985 and 1987, the yen appreciated by 46 per cent. The yen appreciation not only extended the means to invest but considering that it adversely affected exports, it also provided an FDI incentive” (Argy and Stein, 1997: 226).

Affected by the bursting of the “bubble” at the end of the 1980s, Japan’s foreign investment growth was negative in the early of 1990s. The total investment in 1990, 1991 and 1992 was \$56911 million, \$41584 million and 34138 million respectively. In 1993, Japan’s outward investment rose a little to \$36025 million. In 1994, the total investment increased to \$41041 million, which was only 59.4% of total investment in 1989. Thus, the 1990s was the downturn of Japan’s outward investment.

## 2.2 Review of Chinese investment

Chinese foreign direct investment started after 1978, when China government adopted “open policy”. Since then, FDI inflows into China have increased rapidly over the last two decades. In its early stages, FDI was restricted to China’s Four Special Economic Zones. In 1984, the implementation of a new Foreign Investment Law accelerated Chinese inward FDI growth. From annual FDI inflow was less than US\$ 2 billion in 1985 to US\$ 61 billion in 2004, China has become the world largest FDI recipient, not only in the region but also among all developing countries worldwide (WIR 2005), even surpassing the US to become the No.1 destination for FDI in 2003, attracting US\$ 53.5 billion while the US drew in US\$ 40 billion (Asia Pacific Bulletin 2004). However, unlike its huge profile in as a recipient of FDI, China is still in its infancy as an international investor (Asia Pacific Bulletin 2004).

China’s outward FDI mainly experienced four stages:

Between 1979 and 1984, China’s outward FDI emerged. In November 1979, the Beijing Friendship Commercial Service Company established a joint venture in

Tokyo with a Japanese firm, which signified the start of China's overseas direct investment. Specialized foreign trade companies with import and export licenses and economic and technological corporation affiliated to local governments are two characters in this period (Dexin Yang, 2003: 17). Because the understanding about market economy and the method to carry out economic reform were debated and argued quite often, in the early reform period Chinese companies lacked policy supports and instruction of FDI theories. Thus, in this period, a few Chinese companies invested abroad, and the total investment was only \$200 million in these 6 years (Xiaohua Qi, 2004: 61).

From 1985 to 1991, this period could be called "early boom" (Qi 2000, and Yang, 2003). With state council's authorization, the Foreign Trade Department enacted the regulation of establishing overseas nontrade institutions, and loosened restriction to Chinese overseas investments. Soon after, a group of large scale enterprises, like CITIC Group, Shougang Group (the Capital Steel and Iron Corporation), began to invest abroad. In 1987, the State Council officially authorized SINOCEM Corporation (China National Chemical Import and Export Corporation) to make experiment of overseas administration (Qi, 2000 and Yang, 2003). According to the balance of payments of SAFE<sup>3</sup>, annual FDI outflow jumped from US\$134 million in 1984 to US\$629 million in 1985 and to US\$913 million in 1991.

China's overseas investments gained particular momentum after 1992 (P. Deng, 2004: 8). Yang concluded that "the annual FDI outflow jumped to US\$4,000 million in 1992 from US\$913 million in the previous year and further to US\$4,400 million in 1993. According to the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), by the end of 1998, the number of foreign affiliates approved by the Chinese government was over 5,600, covering almost all countries in the world (China Daily, 5/12/1999). Average annual FDI outflows increased substantially from US\$150 million in 1980-1985 to US\$711 million in 1986-1990. This figure increased further to more than US\$2.66 billion during the next five-year interval (1991-1995),

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<sup>3</sup> SAFE: State Administration of Foreign Exchange (of China) URL: [http://www.safe.gov.cn/0430/main\\_0430.jsp](http://www.safe.gov.cn/0430/main_0430.jsp)

nearly quadrupling the FDI outflow of the 1986-1990 period. Annual FDI outflows kept at a level about US\$2 billion in the following six years (1996-2001) (SAFE, 1999; UNCTAD, 1994-2002)". (Dexin Yang, 2003: 20)

The outward Chinese FDI flows declined from \$6,885 million in 2001 to \$1,805 million in 2004, and it was negative in 2003 (WIR 2005). Therefore, unlike the inflow of FDI, Chinese outward investment is still limited.

### **3 Theories of FDI and internationalization of firms**

The theory of MNE activity stands at the intersection between a macro-economic theory of international trade and a micro-economic theory of the firm (Dunning, 1992: 76).

#### **3.1 Theories of FDI**

Dunning, in his book "multinational enterprises and the global economy", concluded that any theories about the extent and pattern of MNE activities concentrates on two questions. One is "why do firms own foreign production facilities? Or why do firms locate their activities in one country rather than another". The other is "what specific attributes demarcate MNEs from uninational enterprises". There are two extremes: one view internationalization of firms as an inevitable result of the capitalist system and a means of gaining more monopoly power, and the other thought the main factor that determines the foreign investment decision process of firms. Between two extremes, Dunning identify three main theoretical streams of thought. First, economists took macro-economic perspective to MNE activity and linked MNEs with "why countries engage in FDI", such as Kojima. Second, scholars more focused on individual firms. They viewed MNEs as an "organizational hierarch", which internalized the market for cross-border intermediate products. The third group of analysts, such as Stephen Hymer, attempted to answer the question "why firms of

one nationality are better able to penetrate foreign markets than indigenous firms located in those markets and why they wish to control value-added activities outside their national boundaries” (Dunning, 1992: 67).

### 3.1.1 The contribution of Stephen Hymer

In 1960, Hymer firstly introduced the concept of “market imperfection” in his analysis of overseas investment. Hymer mainly sought to identify FDI as the means by which firms were able to control the use of property rights transferred to their foreign subsidiaries. He point out that the motivation of firms to control enterprises in foreign countries is not only the prudent use of assets (which is called Type A by Hymer), but also for removing competition between that foreign enterprise and enterprises in other countries, like international operations (which is called Type 2 by Hymer) (Hymer, 1960: 25). He addressed that *“A firm with advantages over other firms in the production of a particular product may find it profitable to undertake the production of this product in a foreign country as well. The firm could also rent or sell its skill rather than undertake itself the foreign production. Which method it chooses depends largely on the degree of imperfection in the market for the skill.”* (Hymer, 1960: 26). Therefore, Hymer emphasized the role of imperfect market and imperfect competition. Because of the imperfection of the markets, enterprises can attain monopoly advantages in domestic market and then use their unique advantages to invest abroad in order to control foreign market and get profit. Hymer’s theory did explain that MNEs might help to improve international resource allocation by circumventing market failure. However, Hymer’s theory failed to explain why those enterprises which own monopoly advantages choose direct investment, rather than export or licensing. Furthermore, the theory cannot successfully explain rapid growth of Japanese direct investment in the 1980s. Additionally, this theory although analysis the direct investment among western countries or developed countries, it hardly explain the investment from developing countries, which lack firm

specific-advantages of technology.

### 3.1.2 John Dunning's "Eclectic Paradigm of International Production "

In 1976, the eclectic paradigm of international production was first put forward by John Dunning at a presentation to Nobel symposium in Stockholm on The international Allocation of Economic Activity. The international Allocation of Economic Activity. Dunning stated that the extent, form and pattern of international production were determined by three advantages perceived by enterprises — OLI: Ownership-specific advantages, location-specific advantages, and internalization advantages.

(1) Ownership-specific advantages: the capability and willingness of one country's enterprises to supply goods in either a foreign or a domestic market, depends on whether they access to certain goods, which are not available at such favorable terms to another country's enterprises. Thus, to compete with others, firms must possess certain advantages to the nature and /or nationality of their ownership.

(2) location-specific advantage: the assets could include not only tangible assets, but also intangible assets, like technology, managerial skill. Dunning thinks that those assets might be related to particular location in their origin and use, but accessible to all firms. Such assets might take the form of a legally protected property right or a commercial monopoly, and might enhance resource availability, financial strength and managerial competence.

(3) Internalization advantages: because of market deficiencies, enterprises can diversify their value-adding activities and realign the ownership and organization of these activities in order to maximize the net benefits. Dunning called such perceived advantage of hierarchical control as internalization advantages.

Dunning pointed out that those three stands could be considered separately, sometimes, although they interact with each other (Dunning, 1992: 80).

### 3.1.3 Kiyoshi Kojima's "Japanese Model"

Both Hymer's attribution and Dunning's 'eclectic paradigm of international production' attempted to identify and explain the variables that determine the foreign activities of particular firms or groups of firms from micro-perspective. Kiyoshi Kojima's macro-economic theory of FDI is a significant extension of the theory to explain activities of MNEs.

According on many FDI theories, Kojima analyzed the features of American multinationals and Japanese multinationals respectively, and then pointed out two models: a Japanese direct investment model and an American direct investment model. He claims that the Japanese model is "trade-oriented" (Kojima, 1978: 15). The direct investment in developing countries can contribute technology and management skill etc., which developing countries lack. Meanwhile, through direct investment, Japan will transfer its comparative disadvantages to those countries in which they can gain comparative advantages or expected to gain it. Thus, the aim of Japanese FDI is to complement Japanese comparative advantage position. In contrast to Japan, the American model is considered as "anti trade-oriented". Kojima claimed that US transfer those industries that have been in the top of its comparative advantages. The typical American FDI model was explained by Raymond Vernon and Stephen Hymer. Basing on the product cycle, new product is invented and manufactured on a large scale in leading industrial countries. Exports of those products grow in foreign countries in which a "technological gap" exists. With the imitating the new technology in foreign countries, FDI replace exports as the main way in order to making a secure foreign market for multinationals. Because of the access to cheaper and skilled labor force, multinationals can gain higher profit. This American model is called "oligopolistic direct foreign investment" by Kojima (Kojima, 1978: 87-89).

In conclusion, mainstream theories of FDI claim that the possession of some kind of proprietary advantages, either monopoly advantages or comparative advantages, is a key factor in explaining firm's FDI. Hymer's theory and Dunning's theory are

mainly based on the investigation of MNEs of developed countries, thus I think Kojima's model is more suitable to analyze development of Chinese firms.

### 3.2 Theories of internationalization of firms

Besides taking macro-perspective to explain the motives of MNE activities, scholars also take a micro-perspective to consider foreign direct investment as part of the entrepreneurial and organizational strategy of firms.

MNE activity might be identified four types: resource seekers, market seekers, efficiency seekers and strategic asset or capability seekers (Dunning, 1992: 56). The first group is enterprises that are prompted to invest abroad to acquire particular and specific resources at a lower real cost than could be obtained in their home country. The motivation for the FDI is to make the investing enterprise more profitable and competitive in the markets it serves or intends to serve than it would otherwise be. Resource seekers include three types, the enterprises that seek physical resources, such as minerals, raw materials and agricultural products, in order to minimize cost and keep security of supply source; the enterprises that seek plentiful supplies of cheap and well motivated unskilled or semi-skilled labors; and the enterprises that seek to acquire technological capability, management or marketing expertise and organizational skill (Dunning, 1992: 57-58).

The second group is market seekers, which invest in a particular country or region to supply goods or services to markets in these or in adjacent countries. Most of these enterprises have served previously by exports before investing. The motivation of those enterprises might be tariff or other cost-raising barriers imposed by host countries or the size of the markets now (Dunning, 1992: 58-59).

The third group is efficiency seekers. Those enterprises seek to rationalize the structure of established resource based or market-seeking investment in such a way that the investing company can gain from the common governance of geographically dispersed activities. Those MNEs are to take advantage of different factor endowments, culture, institutional arrangements, economic systems and policies and

market structures by concentrating production in a limited number of locations to supply multiple markets (Dunning, 1992: 59-60).

The fourth group is the strategic asset seekers. Those companies engage FDI by acquiring the assets of foreign corporations to promote their long-term strategic objectives, or enhance the ability in international competitions (Dunning, 1992: 60-61).

### 3.2.1 U-M (Uppsala Internationalization Model)

Basing on empirical observations of four Swedish firms, Nordic international business scholars produced “Gradual Internationalization” theory in the middle of 1970s, which later became known as “Uppsala Internationalization Model” (U-M). Scholars stated that the internationalization of firms is a process, in which firms gradually increase their international involvement. Their research showed that Swedish firms often develop their international operations in small steps rather than by making large foreign production investments at single points in time. Typically firms start exporting to a country via an agent, later establish a sales subsidiary, and eventually, in some cases, begin production in the host country (Johanson and Vahlne, 1977: 3).

The conclusions of the investigation that Johanson & Wiedersheim-Paul finished in 1975 revealed the process of their international operations. I prefer to quote some conclusions here: *“The establishment chain—no regular export, independent representative (agent), sales subsidiary, and production—seems to be a correct*

*description of the order of the development operations of the firms in individual countries.*

*This is illustrated in table 1. of sixty-three sales subsidiaries fifty-six were preceded by*

*agents; this pattern holds for all the firms. With regard to the production establishments there is a difference between Sandvik and Atlas Copco on one hand, where twenty-two out of twenty-seven establishments were preceded by subsidiaries, and Facit and Bolvo on the other, where five out of seven occurred without the firm having any sales subsidiary in the country. However, in no case has a firm started production in a country without having sold in the country via an agency or a sales subsidiary before.” (Johanson and Vahlne, 1977).*

They furthermore thought that international operation of firm was a sequential and incremental process. The firm is involved in foreign market and internationalization from shallow to deep. They used “market knowledge” to explain this process. There are two kinds of knowledge: objective knowledge that can be educated in school, and experiential knowledge, which can only be acquired through experience. Market knowledge is gained primarily through experience from current business activities in the market. It generates business opportunities and is consequently a driving force in the internationalization process. Experiential knowledge is also assumed to be a major force reducing market uncertainty. Thus, in a specific country, the firm is expected to make stronger resource commitments incrementally as it gains experience from current activities in the market. Such market experience is rather country-specific and then can push the firm to expand further ((Johanson and Vahlne, 1977: 26-28).).

Additionally, “Psychic Distance” was used to analysis where firms choose early or late. “Psychic Distance” included many factors, like language, culture, politics system, education and economic level. In the studies, they found Swedish enterprises usually invested in Finland, Denmark and Norway. They concluded that the firm would firstly choose the market in which it is familiar with in language and culture background etc.

### 3.2.2 Chinese scholars’ analysis

According to the empirical researches of eight big Chinese companies, Chinese

scholar Tong Lu claimed that the process of Chinese international operations mainly included two steps: inward internationalization and outward internationalization (T. Lu, 1999: 94). The former was carried out by introducing foreign technologies, establishing joint ventures and technological cooperation. The latter mainly concentrated on exporting, and partly setting up manufactories in foreign countries. Through calculating the multinational index of Chinese companies, Lu found that the average Internationalization Index<sup>4</sup> of Chinese companies was only 0.89 (T. Lu, 2001: 100). Therefore, the degree of internationalization of firms is still low in China. Furthermore, she pointed out that the internationalization of Chinese firms was at the initial stage, and the main content was to carry out inward internationalization. The low Internationalization Index proved that the outward internationalization was limited. Moreover, the internationalization of Chinese firms is the outcome of “open policy”. The progress of internationalization in China showed two characters: gradual development and inward internationalization. Her survey indicated that those companies that did well in international market usually have had successful inward internationalization, like Haier Group. Otherwise, lack of enough inward internationalization has restricted the overseas expansion of some Chinese firms. Therefore, for Chinese firms, Lu believed that inward internationalization is the necessary pre-request for outward FDI (T. Lu, 1999: 100-107).

Chinese scholars<sup>5</sup> think that the motives of overseas investment of Chinese firms might be divided into 3 groups. (1) To enlarge exporting markets: most firms depended on foreign agency to export before. With the increasing quantities of goods, firms began to establish their own sales subsidiaries in foreign countries in order to enlarge exporting markets. (2) To seek opportunities: for small or middle scale firms, their overseas investment is more close to an attempt. For big firms, especially

<sup>4</sup> Internationalization Index (INI) = (Foreign Assets / Total Assets + Foreign Sales / Total Sales + Foreign Employments / Total Employments)  $\div$  3  $\times$  100%  
Internationalization Index is to measure the degree of firms involved in overseas markets, basing on the 5-point scale, ranging from zero to five.

SCALE	5	4	3	2	1
INI	100%-80%	79%-60%	59%-40%	39%-20%	19%-1%

<sup>5</sup> Fenhua Ji, 2004

manufacture companies, besides getting more market share in foreign countries, the main reason is to access to advanced technology, such as directly establishing R&D center in developed countries, and to catch the market trend. (3) To exploit resources: supported by government, some firms established overseas bases for certain resources in order to avoid trade barrier. According on the analysis of motives of Chinese firms, scholars think that the most important motive of Chinese overseas investment is to occupy overseas market.

Chinese scholars have few diverges to analyze the motivations of Chinese outward FDI and internationalization of Chinese firms. In their analysis, pressure from external and internal markets and the need of economic growth are the critical factors to push internationalization of Chinese firms and overseas investment. How to expand in overseas market has been the focus of debates. As the successful case, the development of Haier Group has caught attentions. Scholars attempted to find “Chinese model” through analyzing Haier case and comparing Haier to other large scale Chinese firms. Consequently, two questions have emerged. Is Haier’s overseas investment successful? Can other Chinese firms follow Haier Model?

## **4. The history of Haier Group and Matsushita Group**

Haier Group and Matsushita Group are the examples of China and Japan, respectively. The developments of two companies have similarities and differences. This section is to review the histories of both enterprises.

### **4.1 The development of Haier Group**

Basing on introducing German technology from Liebherr Company<sup>6</sup>, QingDao General Refrigerator Factory, the former name of Haier Group, was established in 1984, only producing household refrigerators. Over the past 20 years, the company

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<sup>6</sup> Liebherr-Haushaltsgerate, a leading German white-goods manufacturer

has witnessed significant prosperity and is now a transnational organization widely recognized in the world community<sup>7</sup>. Haier currently manufactures a wide range of household electrical appliances, 15,100 varieties of items in 96 product lines, and exports products to more than 100 countries. In 2004, Haier's global sales hit \$122 billion. Haier has established 10 manufacture complexes, 30 overseas production factories, 8 design centers and 58,800 sales agents worldwide so far.

Haier's development experienced three stages: a branding stage, a diversification stage and an internationalization stage.

The branding stage (1984-1991): Smashing of defective refrigerators was the beginning of the branding stage. In 1985, 76 defective “*Rui Xue*” refrigerators were refused by costumes. CEO Zhang Ruimin ordered workers to destroy them in public, using sledgehammers, in order to awaken the quality awareness of employees. Then, Branding Strategy proposed by Zhang Ruimin was further strengthened. Quality is and will remain the essence of business sustainable, whether in the past, present or future<sup>8</sup>. Focusing on refrigerators, Haier explored and gathered experience in corporate management to lay a solid foundation for its later expansion. A localizable mode of management was established.

The diversification stage (1992-1998): to diversify from one product to a variety of products was the aim in this period. Through capital operation in a way of “activating shock fish”<sup>9</sup>, Haier Group was expanded and strengthen at the minimum cost and in the shortest time. From 1984 to 1998, Haier acquired 18 companies running at a loss and activated the assets with a total amount of RMB 1.55 billion by restructure, recapitalization, recovery of idle assets, including Qingdao Red Star Appliances Stock Co., Ltd., Wuhan Xi Dao Industrial Stock Co., Ltd., Laiyang General Household Appliances Plant and Hefei Yellow Mount Television Plant, etc. with a total loss of RMB 550 million. Till 1998, Haier had dozens of products, ranging from white goods to brown goods, comparing with Haier in 1984, only producing refrigerators.

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<sup>7</sup> The official website of Haier Group: <http://www.haier.com/index.asp>

<sup>8</sup> URL: <http://www.haier.com/abouthaier/DevelopmentStrategy/strategy.asp>

<sup>9</sup> “Activating shock fish” means that using intangible assets activates tangible asset.

During this period, Haier also attempted overseas investments. In December 1996, Haier set up PT. Haier Sapporo Indonesia, which was the first step in Haier's FDI overseas. In June, 1997, Haier LKG Electrical Appliances Ltd was established in Philippines. In August 1997, Haier Industrial (Asia) Ltd was established in Malaysia, and in October, Haier built a Yugoslavian Haier Air Conditioner Plant (Yuping Dong, 2003, Tong Lu, 1999). At the same time, Haier built design departments in Tokyo, L.A., Silicon Valley, Amsterdam and Montreal successively for catching up market information (Tong Lu, 1999: 75).

The internationalization stage (1999- ): Haier believed that "to become a national brand is not enough. If a business is successful only in the domestic market, the superiority won't last long". The essence of Haier's global strategy is to expand business into markets in developed countries first, and then developing countries.

On April 30<sup>th</sup>, 1999, Haier began to build its industry park, the biggest FDI overseas of Haier Group, in Camden, South Carolina, USA. On June 19<sup>th</sup>, 2001, Haier merged with an Italian refrigerator plant soon after Haier established a refrigerator plant in the United States. On January 8<sup>th</sup>, 2002, Haier and Sanyo established a joint venture in order to enter the Japanese market. Under the guideline "Hard first, then easier", Haier set up its plants in developing countries after gaining achievements in developed countries. In April, 2001, Pakistan Haier Industry Park was established.

Besides building its overseas plants, Haier also bent to its quality. For gaining wide recognition of quality in the overseas appliance market, Haier totally got eighteen certifications<sup>10</sup> in different countries.

#### 4.2 The development of Matsushita Electronic Group (MEI)

The Matsushita group of companies is a most comprehensive worldwide electric and electronic product manufacturer whose products range from electronic

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<sup>10</sup> In Germany: VDE, GS, EMC, TUV; In the US: UL, ETL, DOE; In Canada: CSA, EEV; In America: NRTL/C; In Australia: SAA; In Japan: S-MARK; In EU: CE; In Saudi Arabia: SASO; In Russia: GOST; International CB; In South Africa: SABS; In Philippines: PBS; South Korean Certification (Tong Lu, 1999: 79)

components to consumer electronic products, home appliances, factory automation equipment, information and communications equipment, and housing-related products.<sup>11</sup>

In 1918, Konosuke Matsushita (KM), the founder of company, established Matsushita Electric Devices Manufacturing Works, producing an innovative attachment plug and a two-way socket, both of which were designed by him. These new products proved immensely popular, earning the company a reputation for high quality at low prices. MEI began to print its English product instructions in 1931, and in April 1932, KM established the first Export Trading Department to carry out research and market development for achieving the company's international sales potential.

MEI began to internationalize in the early 1905s. The year 1951 was a significant year for MEI. KM told others, “We had to take a plunge into the international world of business, and exploit the best traits of the Japanese in expanding our enterprise on a worldwide basis. Realizing that humility was the better part of valor, I decided that what I need to do first was go abroad and acquaint myself with what were then the world’s most advanced management philosophies and practices” (Kotter, 1997: 167). In that year, his first visit to the United States opened his mind. As the consequence of that trip, Matsushita Electric began to take its place in the international economic community. In order to catch up and then compete with the West, KM realized that MEI needed a better knowledge of electronics, and a more specialized approach to product development. After considering a number of joint-venture partners, Matsushita Electric finally chose Dutch electronics company, Philips. In 1952, after very intense negotiations, Matsushita Electric made a technical and capital cooperation agreement with Philips, setting up Matsushita Electronics Corporation as a joint venture. This was the result of KM's efforts to find an overseas business partner. The joint venture with Philips was an enormous success for MIE. It helped MIE gain access to advanced technology. It exposed the firm to a major European competitor (Kotter, 1997: 171).

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<sup>11</sup> URL: <http://www.panasonic.co.jp/global/about/corporate/index.html>

In the early of 1960s, MEI began to provide technical assistance to other countries and construct its plants abroad with the aim of expanding its operations on a global scale. In 1961, MEI established the National Thai Company for battery production and provided the necessary technology. National Thai was the MEI's first overseas plant to be built since the end of the war<sup>12</sup>. In 1962, National Panasonic G.m.b.H. was established in West Germany<sup>13</sup>. This first European sales company was used as a base to enter the European market. Since then, many sales companies have been established throughout the world. In 1972, Matsushita Electric Singapore was established, and officially began to work in October 1973<sup>14</sup>. In March 1974, the contract signed by Motorola Inc and MEI was to purchase Motorola's TV operations in Northern America. With this contract, MEI started its television business in the US<sup>15</sup>.

Using imported technology was helpful to catch up to world stands. But long-term dependence on others had many weaknesses. After the Second World War, Japan became more wary on technological borrowing. Japanese firms imported technologies and commercialized them through adaptive research (Ozawa, 1987: 160). In 1953, MEI built a Central Research Laboratory in a suburb of Osaka (Kotter, 1997: 172). In September 1976, the first R&D center, Microelectronics Technology Corporation, was established in USA<sup>16</sup>.

In November 1990, Matsushita Group merged MCA Inc<sup>17</sup>. After merging MCA, Matsushita Group gained innovation in the field of electronic entertainment. This merger was the first overseas merger in MEI's history.

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<sup>12</sup> URL: <http://panasonic.co.jp/company/history/en/opr1961.html>

<sup>13</sup> URL: <http://panasonic.co.jp/company/history/en/opr1962.html>

<sup>14</sup> URL: <http://panasonic.co.jp/company/history/en/opr1972.html>

<sup>15</sup> URL: <http://panasonic.co.jp/company/history/en/opr1974.html>

<sup>16</sup> URL: <http://panasonic.co.jp/company/history/en/opr1976.html>

<sup>17</sup> MCA was a multi-billion dollar diversified international entertainment conglomerate engaged in the production and distribution of theatrical, television and home video products, operation of two amusement parks in Hollywood, California and Orlando, Florida. URL: <http://panasonic.co.jp/company/history/en/opr1990.html>

## 5. Haier Group VS Matsushita Electronic Group

### 5.1 Comparison and Contrast

According to the Uppsala Internationalization Model, developments of both Haier Group and Matsushita Group show similarly gradual process.

First, both Haier and Matsushita choose developing countries as the location of the first overseas investment. Matsushita made its first overseas investment in Thailand. National Thai Company was established for battery production and provided the necessary technology in 1961. “That venture was the first of dozens around the world that would come to be called ‘mini-Matsushitas--jack-of-all-trades factories’ that churn out relatively small lots of irons, rice cookers, heaters, washers, radios, televisions, vacuum cleaners, and the like for a particular country” (Schlender, B.R, 1994). In the following two decades, MEI expanded into the U.S., Europe, the Middle East, Latin America and Africa. Like MEI, the Haier Group set up the first joint venture in Indonesia<sup>18</sup> in 1996. Initial overseas investment in Indonesia was a trial step for Haier’s global strategy. Building a plant in Philippines prepared well trained managers for Haier’s biggest investment in the US (Yuping Du, 2003: 261). In 1962, MEI set up its first sales office in West Germany. Since then, MEI’s presence has increased throughout Europe. Establishing the American plant was the milestone in Haier’s history. It was the initial overseas investment in developed country and the first implementation under the strategy “hard first, then easier”.

Second, methods of overseas investments adopted by both MEI and Haier Group altered gradually from establishing plants directly to merging companies. After establishing the first plant in Thailand, MEI established worldwide plants successively. In 1973, Matsushita began small-scale merger. The merger of MCA was a milestone in the MEI’s history, because it means the scale of merger was growing bigger. Since 1984, Haier has merged eighteen Chinese companies. In June, 2005,

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<sup>18</sup> Indonesia was more developed than China in 1996. Compared to Haier’s overseas FDI later, like in the US, Indonesia is the middle-developed country.

Haier Group pondered a \$1 billion-plus bid for Maytag Corp., but decided against it finally. Although Haier Group has not merged any companies as big as MCA or Maytag so far, Maytag case could signal that Haier has begun to reconsider its global strategy including big-scale merger.

Basing on different culture background and international environment, MEI and Haier Group show two main differences: R&D institution and the nationality of CEO in overseas markets.

First, Unlike Sony, Matsushita was never a bold technological innovator. MEI took improved existing products so that they were less expensive and could be priced for mass consumption (Kotter, 1997: 176). Reviewed the history and culture, the Osaka-based corporation was poorly positioned after the war to establish a basic research laboratory (Kotter, 1997: 168). Impressed by advanced technology in the US and Europe, KM believed that the firm needed to move quickly to upgrade its technological capabilities. The joint venture with Philips was a milestone in MEI's history. For independence on technologies, in 1953 MEI set up its first R&D lab in Osaka. Following the firm's past, the Lab did not create whole new products, but instead improved offerings already on the market and developed equipment for automated production. In 1976, MEI established its first R&D Company in the US<sup>19</sup>. Till 1997, MEI has built fourteen R&D institutes; the number of researchers reached more than 300 (Kang & Ke, 2005). The increasing full-fledged of MEI technology both helped the firm grow in Japan and made the company's products more attractive in other countries.

Unlike MEI, the Haier Group is a bold innovator since it was established. From 1989 to 2004, the number of accumulated patents of Haier Group has reached 5469 (Economic Information Daily, 2005). The Haier Group built the first R&D institute in 1996, closely following its first overseas FDI (Kang & Ke, 2005). In 1998, Haier established the Central Research Institute in Qingdao. Its mission is to provide advanced technology for Haier's products. Besides the Central Research Institute, by

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<sup>19</sup> URL: <http://panasonic.co.jp/company/history/en/opr1976.html>

now, Haier has gradually set up general R&D centers in Sydney, Milan, Seoul, Osaka, Dubai, L.A. Frankfurt, Cape Town and Pakistan. Furthermore, in order to avoid the restriction of National Standards, Haier believes that to join in the establishment of National Standards is the wise method. Haier has participated to establish four National Stands and two International Standards so far (Economic Information Daily, 2005)<sup>20</sup>.

Second, MEI has never named any non-Japanese as CEO of local companies. In contrast to Matsushita, Haier named an American as the CEO of American company since 1999. Haier hired Americans to manage the plant instead of sending Chinese managers. Haier believes that the fundamental for Haier America to become a localized company is to use local talents resource. Americans managers can help local employees to understand and accept Haier’s philosophy in business practice.

As a well-known multinational in the world, the MEI’s degree of internationalization is obviously much higher than Haier Group. According to MEI’s annual report 2005, the total sales in 2005 are 8,713,630 million yen. The domestic sales are 4,580,555 million yen, and overseas total sales are 4,133,081 million yen. The overseas total sales are 47.4% of total sales. Reviewed its fiscal history, the numbers told it all: In 1989 overseas sales accounted for 42% of total sales; ended in March 1994, fully 49% of Matsushita's \$64.3 billion in sales came from overseas, with foreign factories supplying two-thirds of the goods sold abroad (Schlender, B.R., 1994). Since 2002, although the domestic sales have been going up, MEI’s overseas sales have bee surpass half of total sales.

Table: Matsushita’s Sales by Region 2000 - 2005

Sales by Region	2000	2001	2002	2003	2004	2005
Domestic sales	3,698,181	4,033,785	3,313,912	3,453,836	3,477,492	4,580,555
Overseas total	3,601,206	3,647,776	3,759,925	3,947,878	4,002,252	4,133,081
Total	7,681516	7,229,387	7,073,837	7,401,714	7,479,744	8,713,636

Data source: MEI’s annual report, 2005 *P 44* & 2001 *P 30*

<sup>20</sup> URL: <http://202.84.17.25/www/Article/200511410208-1.shtml>

However, successful international operation creates a dilemma for MEI. Many overseas plants have begun to compete with the Company's factories back in Japan. Although it might be great for Japanese customers and for the country's trade surplus, imported lots of products from overseas plants, MEI felt pressure on its domestic markets (Schlender, B.R., 1994).

In contrast to MEI, the Haier Group insists that Haier did not pay attention to revenue, but also brand reputation in the practice of product exportation. Haier's sales strategy includes three "one-third": of the products, one third manufactured and distributed in China, one third manufactured in China and distributed overseas and one third manufactured and distributed in foreign countries. According to Haier's announcement in 2004, the global total revenue was RMB101.6 billion, about \$12.2 billion. The total overseas revenue was only \$1 billion, just 8.3% of total revenue. Apparently, Haier mainly depends on domestic market.

## 5.2 In relation to Kojima's model

Kojima insisted that Japanese direct investment was different from American companies, and Japan does not need American-type multinational corporation activities. He declares that Japan's direct overseas investments mainly aim at "offshore sourcing", such as natural resources, raw materials and lower labor cost. In short, Japanese interest were not as strong as American's in the ownership and control of the upstream activities of production abroad. Therefore, Kojima thought that Japanese multinational corporation activities should transfer labour-intensive industries to developing countries and invest in developing countries with medium-sized plants (Kojima, 1978: 235). According to his analysis, under the pressure of increasing labor cost, MEI's international operation in Southeast Asian and Middle East was inclined to transfer certain disadvantages and close to a resource seeker.

The overseas FDI of the Haier Group can be divided into three groups: in

developed countries, among developing countries and in less-developed countries. In the investment in less-developed countries, Haier's activities also present the character of a resource seeker. For China, the low labor cost is the primary reason to attract inward FDI. Although China has not lost the comparative advantage of low labor cost, Chinese enterprises are losing it, because foreign companies can get the same benefits through directly investment and joint ventures in China. If Chinese enterprises pursue to hold this comparative advantage, they have to go out and find new places with lower labor cost. Haier's investment in less-developed countries is to transfer disadvantages and to gain new comparative advantages in lower labor cost.

MEI's overseas FDI could also split into two aspects: the investment among advanced countries and the investment in developing countries. Kojima used to analyze Japanese multinational corporation activities from the perspective of transfer of technology. He pointed out that Japanese technology export to advanced countries, like the US and Europe, consisted largely of patented, high-level technology. In contrast, to developing countries, Japanese enterprises transferred "mature techniques, not latest", such as "assembly techniques" (Kojima, 1978: 136-137). Reviewed the MEI's history, building "mini-Matsushita" around the world was a good way to give older production system from Japan a second life. Through establishing R&D center in the US, MEI accessed to advanced technology more conveniently.

There are limited literatures to convince that Haier transferred technology to less-developed countries. Since 1996, Haier has started manufactures in Philippines, Indonesia and Malaysia. In contrast to Matsushita, those plants in Southeast Asian were not called "mini-Haier", like "mini-Matsushita" and they were not to transfer any second-hand technology. Through establishing 10 information centers and 6 design institutes outside China, Haier hopes to produce competitive products in local markets. Haier's strategy is to follow its customers' requirements timely and to meet competition bravely in order to build a strong market position and to exchange threat to finally strength. For gathering and reposing consumer's needs as quickly as they can, Haier has built extensive distribution and service network. For instance, in domestic market, the repair department of Haier got response that customers in certain

rural provinces used their washing machines to clean their vegetables as well as their clothes. The repairmen fed this information to product managers and designed engineers who widened the drain pipes and changed the filter so vegetable peels wouldn't clog the machine. These minor improvements allowed Haier machines to wash cabbage as well as shirts, and consequently, helped Haier win the huge rural market (Donald N. Sull, 2004)<sup>21</sup>. . Haier has also extended its rapid-cycle innovation to the overseas market. In the United States, for example, product designers visited the rooms of university students to observe how the undergraduates used their refrigerators. They learned that the students used the small refrigerators as desks and shelves to conserve space in their cramped dorm rooms. Haier responded by developing a new refrigerator with a foldout table, which enabled the coolers to double as desks — a hit with students

Moreover, Kojima claimed that for becoming Multinational Corporation successfully, Japanese companies must become large enough and have networks of bases for production and sales for themselves (Kojima, 1978: 235). Reviewed both MEI's and Haier's history, they all followed this recommendation. MEI established sales bases and assembly factories outside Japan in the 1960s and 1970s. The Haier Group spent thirteen years to make the company larger and stronger. In the diversification stage, through acquiring eighteen companies, Haier expanded from white goods to brown goods.

Kojima thought that most direct investments between advanced countries were the result of various trade barriers and the investment between advanced countries<sup>22</sup> could be recommended only when the investments reduce the transaction cost of importing the goods of countries (Kojima, 1978: 172). According to Haier's announcement, the reason of investment in the US was to reduce the increasing export transaction costs and avoid trade barriers. Haier's CEO Zhang Ruimin's explained that the total value of China's refrigerator exports to the US was \$47.18 million and \$60.81 million in 1998 and 1999, respectively, of which Haier products was \$17

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<sup>21</sup> <http://hbswk.hbs.edu/item.jhtml?id=3866&t=operations&noseek=one>

<sup>22</sup> In Kojima's analysis, advanced countries are the US and Europe.

million and \$31 million. Statistics show that the minimum production volume for a refrigerator plant to gain profits was 280,000 units. Haier's current refrigerator export was much higher than this figure. From the official statistics, the market share of Haier compact refrigerators below 180L in the US is over 30% and was expected to get to 50% in 2002. However, it was difficult to ship large volume Haier products to the US due to the long distance. Thus, producing Haier products in the US can solve this problem. Furthermore, trade barriers, such as container freight<sup>23</sup>, technical barrier, would not be easily solved. Therefore, direct investment in the US can avoid trade barriers and reduce the cost for entering the American market.

## **6. The debates about Haier's internationalization**

In April, 1999, Haier established a plant in South Carolina, which was considered the Chinese largest investment in the US. In July that year, CNEMAG (China Entrepreneur) published an article "to remind Zhang Ruimin". This article mentioned many disadvantages of investing in the US. The author, Yaping Li, stated that competed with General Electric and Whirlpool, the Haier Group did not have any comparative advantages in the American market. He pointed out that the advantages of American companies were advanced technologies, and the disadvantages were higher labor costs and the limited market. In contrast, China's advantages were lower labor costs and the huge domestic market. Based on such an analysis, Haier's investment in the US, undoubtedly, was unwise. Additionally, Li also pointed out that for Chinese electronic companies, the main block was not from the American market but themselves, such as after service and accessory support. This famous article triggered intensive debates concentrating on Haier's international operation.

Most critical arguments about Haier mainly debate whether Haier's overseas plants have been successful. Haier's strategy in the foreign market is different from

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<sup>23</sup> The USA administration once raised the container freight by about 50% for the goods shipped from Asia.  
URL: [http://www.haier.com/abouthaier/HaierWorldwide/Introduction\\_usa.asp](http://www.haier.com/abouthaier/HaierWorldwide/Introduction_usa.asp)

the one in the domestic market. In the domestic market, Haier's products are high tech and high priced, in contrast, in the international market, Haier mainly focus on bottom market layers. For example, in the American market, Haier's product mainly does not focus the mainstream market. Statistics show that Haier has gained 50% market share in the United States for compact refrigerators<sup>24</sup>, which are refrigerator with a foldable desktop by the side or compact refrigerator with a computer desktop. The other successful product is wine cooler, popular in students. Thus, Haier's advantages are in small refrigerators; however, to produce big refrigerators is the mainstream in the American market. Haier's CEO Mr. Zhang Ruimin replied that Haier's global strategy includes three steps: to go out, to go into and to go up. To go out means that Haier goes abroad and starts to compete with foreign giants in the international market. To go into means that Haier is in the mainstream of distribution and of products. To go up means that Haier is going to be the well-know brand in the local market (The Economic Observer, June, 2005<sup>25</sup>).

Reviewed Haier's expansion, it has just finished one and half step so far. Haier do go out through overseas FDI and exporting products, but it still has distance to go into the local market. Haier products only concentrate on bottom market layers in the American markets, like compact refrigerators and wine coolers, rather than the mainstream market. A similar condition happed in Japan, too. To become a well-know brand in local market is much more difficult. Mr. Zhang Ruimin once asked a German lady, a wife of one dealer of Haier in Germany, whether she knew Haier or not. Her answer impressed Mr. Zhang deeply. She said "Yes, I know Haier, but I only buy German refrigerator, because that is not only a refrigerator, but also an artwork". Thus, for Haier, there is long way to become the local well-known brand.

To measure whether a firm is successful or not, the profit of a firm cannot be ignored. Facing the question of profit, Haier clearly declared that it was 'exporting to build a brand, not to earn foreign currency', 'We are not selling goods, but goodwill', and 'Whenever Haier is mentioned, the entire world will know about it'. According to

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<sup>24</sup> URL: <http://www.haier.com/abouthaier/view.asp?newsid=3444>

<sup>25</sup> URL: <http://www.eobserver.com.cn/ReadNews.asp?NewsID=13686>

Haier's declarations, building plants abroad is just a method to make Haier multinational. Haier does care how much those foreign plants earn. Some Chinese scholars question whether Haier uses its domestic profits feed its overseas market. Indeed, whether those overseas manufactories earn profits is still secret.

Chinese computer maker Lenovo bought the personal computer business of IBM in 2004; Chinese electronics manufacturer Haier was a serious contender to buy appliances-maker Maytag in June, 2005, and CNOOC (China National Offshore Oil Corp.) attempted to bid for Unocal in July, 2005. Facing these events, people began to think about whether the time of M&A (Merger & Acquisition) is coming.

A few multinationals expanded themselves only through establishing manufactories by themselves, such as MEI merged with MCA in 1973. The American market is the most important part for Haier Group. Standing in American market means that Haier is one of strongest competitors in electronic world. Basing on such meaning, Haier will roar other markets more easily. That is Haier's strategy: "to get the difficult market first, then easier one".

Generally speaking, the American market is mature, in which, most distribution tubes have been partitioned. It is hard to build its own distribution net for Haier. Even if Haier succeed, it definitely will take a lot of time and money. Thus, cooperating with an American company may be wise. Haier thought that through using Maytag's net, Haier would access to the market from bottom to top.

Additionally, becoming one of FORTUNE Global 500 is the dream and goal not only for Mr. Zhang Ruimin and Haier Group, but also for China. For achieving this goal in 2006, Haier has struggled 10 years. Haier hoped that to merge Maytag would become the ticket of being one of 500 top enterprises (Yue Zhang, 2005).

Chinese companies lack capability to merge with big foreign enterprises, because most Chinese firms rely on lower labor cost and the huge domestic market (Lei Li, 2005). The Haier Group is not exceptional. For instance, Haier's overseas sales were only 8% of total in 2004. Moreover, Haier's market share in American is still low. As the successful case of diversifying products in China, Haier only expanded from

refrigerator to washing machine in the American market. To support its overseas FDI, Haier must ensure its domestic profit. In 2005, Haier's total profit ranked the second in domestic market. But its profit margin was only 1.78%, ranked the 78th<sup>26</sup>. If Haier cannot hold the profit in the domestic market, it will be hard to say whether Haier can support its overseas expansion.

To sum up, since 1998, Haier has spent seven years to carry out its global strategy. The whole development of Haier includes three stages: branding stage, diversification stage and internationalization stage. The former two stages were prologues of its final global expansion. Although Haier has got some market shares in the overseas market, its overseas FDI is still in infancy. Haier's expansion in the overseas market looks like an attempt to repeat its three stages. Haier needs to build its brand first, then to diversify its products, and then to carry out localization strategy. Haier used 15 years to finish this process in China. How long will Haier redo this process in the overseas market? If Haier's overseas FDI is not profitable, relying on domestic profits, it is hard to say how long Haier can continue its strategy.

## **7. Conclusion**

When the domestic market became more competitive and consequently less profitable and foreign giants began flooding into Chinese market, it is understandable and sensible for Chinese enterprises to start thinking globally (Yuping Du, 2003). The international operation of the Haier Group is considered a good case to research. Through studying Haier case, two questions could be answered. One is whether Haier's international operation is successful. The other is whether the Haier Model can be followed by other Chinese firms.

Generally speaking, Haier is successful, although it has deficiencies in both the domestic and overseas markets. Haier launched its international operations by both exporting and outward investment very creatively; that is, "to get the difficult market

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<sup>26</sup> URL: <http://www.runsky.com/homepage/n/it/n/userobject1ai569056.html>

first, then easier one” principle. In 1992, Haier first entered into the developed economies by directly exporting to Europe, Japan and US markets, in order to build a desirable industrial image for its high quality products. The use of this creative strategy enabled Haier to compete globally. Following the achievement in developed countries, Haier exported products to other markets of developing and less-developed countries after 1992.

Haier’s global international operations not only helped the company expand in the overseas market, but also helped the company avoid price wars in the domestic market. The Haier Group used its integrated international competitive assets to reform the Chinese household electrical appliance industry fundamentally by leading it to a high standard and employing an innovative path towards internationalization (Yuping Du, 2003).

Haier’s success mainly depends on its technological innovation. Technological innovation is still the bottleneck of most Chinese companies. MEI was never the bold technological innovator, but Haier is. Forty years ago, it was possible to learn from developed countries and then improve their technologies. As later-comers, Chinese companies have limited time to catch up those multinationals through copying foreign technologies, especially, under the condition that multinationals have entered the Chinese market. People often attribute the success of Chinese firms like the Haier Group to low labor costs. With China’s WTO entry, foreign companies can get the same benefits through direct investment or joint ventures in China. Consequently, China’ companies are losing such advantages and benefits. The Haier story illustrates that the benefit of low labor cost is just the prerequisite that gets Chinese firms into the international competition and the innovation is the key to win the market. In domestic market, Haier enjoys a good reputation for good quality and five-star service, rapidly launching high-quality new products tailored to the needs of local consumers. In the overseas market, its survival strategy is to respond customers’ requirements timely and flexibly. The essence of Haier’s internationalization strategy is to build comparative advantages through innovation.

To evaluate whether Haier is successful or not, scholars could take it from many different perspectives. To answer the question whether Haier is a model that can be followed by other Chinese companies, the scholars could be divided into two groups: the one is to support Japanese Model, the other is to support American model.

Compared with other big Chinese enterprises, like lenova, TCL, which are considered “American model”, Haier is thought to follow the Japanese model. From the macro-perspective, “Japanese investment was largely private; the Japanese companies had their own cash. In China, you have the government with its deep pockets, no one knows for sure how deep, which makes it very different.” said Peter Morici, a business professor at the University of Maryland. “Although China's spending spree has some parallels with Japan's investments in this country in the 1980s, but there are some big differences, too”. Thus, it’s a little hard to say that Haier is a typical “Japanese model”.

I am inclined to escape both the “Japanese model” and the “American model” when evaluating so-called Chinese model. I do not think most Chinese firm can follow the Haier model. First, viewed from a macro-perspective, Haier is supported by Chinese government. For most Chinese firms, however, it is difficult to get budget support from government. From a micro-perspective, Haier has spent huge attention to setting its “Haier brand” in the world “not to earn foreign currency” indeed. Haier never give up its own brand not only in exporting, but also in direct investment. Acer used to adopt the same policy in European markets. Acer spent 10 years to build its brand without any profits. For most Chinese companies, it is almost impossible to last 10 years, especially without any profits. Their market share in domestic market is facing big challenges, and they have limited extra profits to support their deficient in overseas markets. Second, Haier set up its global strategy in the 1980s. Haier has taken 15 yeas to prepare it final global expansion. Most Chinese firms have recently realized the concept of “internationalization”. On the one hand, Chinese firms have to face rising competition among Chinese firms. On the other hand, they attempt to survive under the pressure of MNEs in domestic markets. Thus they have limited time to think about their multinational strategies. Third, we cannot deny the contributions

of main leaders. As MEI had a founder, Konosuke Matsushita, Haier has Mr. Zhang Ruimin. Mr. Matsushita established stable foundation for the further development of Matsushita Group. Mr. Zhang Ruimin's contribution to Haier Group is decisive. Because of him, Haier has become the largest appliance maker in China. His every decision affected Haier's future deeply. Chinese scholars even think that Mr. Zhang is the cerebra of the Haier Group. The leader usually decided the philosophy of company and the typical corporate culture, which cannot be copied. In short, it is hard to say that China has so-called "Chinese Model" now. Haier is a good case to study. Chinese firms might learn from its experience, but it can hardly to be followed.

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