# THE DRAGON AWAKES: THE RISE OF CHINESE MNCS

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## ABSTRACT

This paper provides the findings of a research study into the growing phenomenon of Chinese multi-national corporations (MNCs) and their foreign market entry strategies. It investigates the top 10 Chinese MNCs using the Forbes magazine listing of the top 2000 global corporations, and provides additional information on their market entry strategies using other sources. Readers should note that this paper is in contrast to research on the separate phenomena of foreign Multi-National Corporations (MNCs) who have entered China.

Research findings show that the main strategy for Chinese MNCs is Wholly Owned Acquisitions followed by both Minority and Majority Equity Joint Ventures. There are also industry differences as to the market entry strategy used. The drivers for overseas expansion are primarily Chinese foreign policy and the accession to the WTO. The competitive advantages enjoyed by Chinese corporations are low labour costs, the largest domestic market in the world and low compliance costs.

The paper concludes with some salutary warnings for Western business and economics, including the multiple impacts that can be expected within a five year time-frame with the global impact of a booming Chinese economy, the over-valued currency, the ease of access of the Chinese MNCs to capital, and the prospects of the Chinese replicating the activities of the Japanese during the 1980s, namely in buying up foreign assets on a large scale.


Key words: China, MNC, foreign market, entry-strategies, competitive advantages, international

## INTRODUCTION

China's merchants have a long history of foreign trade. Probably the best known example is the Silk Road of ancient times on which were carried goods and ideas from China to the shores of the Mediterranean Sea and from there throughout the Roman Empire (Wood 2003). Subsequent centuries saw a continuation of this activity especially in those items that China is best known for: silks, spices, ceramics and tea.

The foundation of present-day China occurred with the creation of the People's Republic of China (PRC) in 1949.

The period since that time is marked by Mao Zedong's Great Leap Forward which commenced in 1958 following the break with the Soviet Union and saw both mass participation in industrialization and the collectivization of agriculture into communes.

In 1966, the Great Proletarian Cultural Revolution occurred and ended with the death of Mao in 1976 and the arrest of the Gang of Four in 1978.

China's economy has changed from the centrally-planned economy of Communist doctrine at the time of the foundation of the PRC in 1949 to the market reforms of the 1980's - including the 'Open Door Policy' from 1978.

Chinese foreign activity flourished from 1979 onwards, such that by the end of 2002, Chinese capital had helped to establish 6,960 enterprises overseas (Zhou 2004).

In the period 1978 -1996, China approved over 250,000 foreign projects in China amounting to US$ 467 billion of Foreign Direct Investment (Luo and Park 2001). This foreign investment has continued since 1996 with the opening of manufacturing facilities by such corporations as Motorola and Volkswagen. In 2003, China took in US$54 billion in Foreign Direct Investment (Chandler 2004).

China's subsequent entry into the World Trade Organization (WTO) on the 11th December 2001 (Cass et al. 2003) is the latest stage to mark a period of rapid transition (Lieberthal and Lieberthal 2003) for the world's sixth largest economy.

A recent report (Chandler 2004) states that "China has become a trading colossus, with total imports and exports last year of $851 billion." The top export markets are: (1) US; (2) Hong Kong; (3) Japan; (4) South Korea; (5) Germany; (6) Taiwan; (7) Singapore; (8) Malaysia; (9) Russia and (10) Netherlands.

Whereas some foreign corporations have seen China as the world's largest potential market and have established operations there (Luo 2000; Rudzki and Chen 2003; Sun 1996), the prospect of Chinese corporations moving beyond their national boundaries is one which has hitherto been largely ignored with the notable exception of some authors, namely: (Deng 2004; Yeung and Olds 1999; Zeng and Williamson 2003; Zhang 2003b).

The identification of four types of hybrid Chinese companies (Zeng and Williamson 2003) is useful in understanding the current status of Chinese exporters. The four types are: (1) China's national champions; (2) the dedicated exporters; (3) the competitive networks, and (4) the technology upstarts.

"China's national champions are using their advantages as domestic leaders to build global brands. The dedicated exporters are entering foreign markets on the strength of their economies of scale. The competitive networks have taken on world markets by bringing together small, specialized companies that operate in close proximity [clusters?]. And the technology upstarts are using innovations developed by China's government-owned research institutes to enter emerging sectors such as biotechnology." (Zeng and Williamson 2003)

In a recent article on China's economy (Economist 2005), the following claim is made: "That China intends to create world-class companies is indisputable. Appalled by the speed of western development and, rightly, attributing much of that to the success of western corporations, the central government decided some years ago that 30-50 of its best state firms should be built into "national champions" or "globally competitive" multinationals by 2010. At home these companies would enjoy tax breaks, cheap land and virtually free funding via the state-owned banks. Abroad, the government would help them to secure contracts or exploration rights. This has prompted fears that the Chinese, like the Japanese in the 1980s, are about to out-compete and to buy up the rest of world. And undoubtedly a small group of Chinese companies has become bigger, more efficient and internationally acquisitive in the past several years."

Support for this view can be seen in the industrial policies undertaken by China from the late 1970's onwards which saw the use of various means to grow a group of national firms capable of competing with the world's leading corporations (Nolan 2001).

This paper takes as its sample China's top ten corporations as listed in the 2004 version of the 'Forbes 2000' listing and shows how they are moving into foreign markets, together with the warnings this should signal to their competitors.

Although China has 25 companies on the Forbes list it is important to note that there are also 24 in Hong Kong listed separately. China's position can also be usefully compared to other countries in the region particularly Taiwan with 35, South Korea with 49 and Japan with 316 (which is second only to the US with 716). In fact the closest comparator to China (population of 1256 million) is Sweden with 26 corporations listed (population of just under 9 million), which shows something of the latent potential within the Chinese economy given its population and level of activity.

China's economy is growing so rapidly that the government has raised interest rates in October 2004 for the first time in nearly a decade in an attempt to slow inflation.

## METHODOLOGY

The objective of the research was to gain an initial understanding of the emerging phenomena of Chinese MNCs and to ask 'Who are the Chinese MNCs and how are they entering foreign markets?'

This preliminary piece of research was undertaken in 2004 using desk-based research methods and drawing on a variety of sources including the academic and industry literature, company web-sites, government statistics and media coverage.

Identification of the top 10 Chinese MNCs was primarily derived from the (Forbes 2004) listing of the world's 2000 leading companies and cross-checked against other sources including the Economist, the Financial Times and Asia Monitor.

The market entry strategy model used for analysis of the cases was that of (Pan and Tse 2000), together with the options available (Hollensen 2001) and the associated risks of each strategy (Deresky 2000).

### Limitations of the research

A limited piece of research of this kind would greatly benefit from a more wide-scale approach which could examine all the Chinese corporations and their strategic intent although this might be considered to be commercially sensitive information. However, this present research could usefully be extended to include the additional 15 Chinese MNCs which appeared on the Forbes list in 2004 (and any others which may appear in subsequent years), namely: Citic Pacific (773rd); Huaneng Power International (781st); Shanghai Pudong Bank (941st); China Minsheng Bank (1090th); PICC Property & Gas (1111th); Aluminum of China (1241st); Hua Xia Bank (1277th); Legend Group (1548th); Beijing Datang Power (1583rd); Shenzhen Development (1627th); Yanzhou Coal Mining (1682nd); Shanghai Automotive (1735th); Jiangsu Expressway (1778th); Guangdong Electric (1842nd); and China Southern Air (1973rd).

### Future research

The impact of Chinese MNCs on the global economy is an area of research that will no doubt develop in future years (in much the same way as studies of MNC entry into China have done).

Alongside this is the interesting question of how Chinese management has changed through engaging in foreign operations and whether this has changed management practices in Mainland China.

The experience of Hong Kong is a useful comparator is seeing how a Chinese entrepreneurial culture flourished under British rule. The case of how business is conducted in Taiwan and by the Chinese diaspora in places such as the United States is also a rich field of research (Haley and Haley 1998) particularly in how it can inform business practices both within China (Shen 2004) and in Chinese MNCs operating overseas (Chang 1985; Wu and Lee 2001; Zhang 2003a).

Finally, an extension of the work previously (Green 2003; Walter and Howie 2003) done on the Chinese Stock Market (Shanghai and Shenzen Stock Exchanges) and the 1300-plus companies listed there would be a useful insight into future activity within Chinese companies who are aiming to internationalize their business operations.

## CHINESE MNCs

Information about each of the Chinese corporations identified is given below. The order and statistical information provided is based primarily on their (Forbes 2004) ranking and is supplemented by information from other sources including company web-sites and press reports. (Note: the Forbes ranking uses a formula to include sales, profits, assets and market value in order to determine the ranking such that it is not based on sales alone.)

Table 1: Top 10 Chinese Multinational Corporations

| Company | Forbes ranking | Sales (US$m) | Profits (US$m) | Assets (US$m) | Market value (US$m) |
|---|---|---|---|---|---|
| PetroChina | 55 | 29,526 | 5,667 | 58,364 | 90,495 |
| China Petroleum & Chemical (Sinopec) | 81 | 39,161 | 1,942 | 45,318 | 50,089 |
| China Telecom | 202 | 9,120 | 2,037 | 24,853 | 29,918 |
| Sun Hung Kai Properties | 429 | 2,942 | 844 | 20,657 | 24,020 |
| CLP Holdings | 592 | 3,351 | 908 | 7,794 | 11,992 |
| China Life Insurance | 597 | 8,589 | -272 | 37,903 | 19,458 |
| Boashan Iron & Steel | 613 | 4,070 | 516 | 7,428 | 10,340 |
| Cathay Pacific | 641 | 4,242 | 511 | 9,183 | 6,528 |
| Swire Pacific | 705 | 1,951 | 693 | 12,457 | 9,941 |
| China Merchants Bank | 748 | 1,441 | 223 | 44,006 | 8,108 |
| Total | | 104,393 | 13,069 | 267,963 | 260,889 |

(Source: Forbes, 2004)

**PetroChina**

Ranked 55th in the Forbes list, PetroChina is China's highest-rated MNC (based on Forbes ranking). It is a state-owned oil and gas operator with sales of US$29,526m based on assets of US$58,364m and a market valuation of US$90,495m and is ranked 8th in the global oil sector. Although its sales are less than those of China Petroleum & Chemical (below) it has both the highest profits and the highest asset valuation of the top 10 Chinese corporations, hence its first position in the Forbes ranking. For the six months ending June 2004, its revenues rose 21%.

PetroChina's states that it has "30 international exploration or production projects including operations in Azerbaijan, Canada, Indonesia, Myanmar, Oman, Peru, Sudan, Thailand, Turkmenistan and Venezuela" (PetroChina 2005).

In April 2000, PetroChina made its Initial Public Offering (IPO) on the New York and Hong Kong Stock Exchanges. This was followed by a US$262m stake in six Indonesian oil blocks. It has also formed a joint marketing venture to develop a 500 retail petrol station outlet network with BP in Guangdong.

PetroChina continues to use joint ventures as its preferred method of foreign market entry strategy due to considerations of capital flow and market risk.

It should be noted that the top Chinese oil and gas companies are "aggressively buying overseas and building pipelines across central Asia to satisfy China's fuel demands" (Economist 2005).

**China Petroleum & Chemical (Sinopec)**

Ranked 81st in the Forbes list, state-owned China Petroleum & Chemical is China's second largest Chinese MNC. It is ranked as China's second largest oil and gas operator (based on Forbes ranking) with sales of US$39,161m based on assets of US$45,318m and a market valuation of US$50,089m. Sinopec has the highest sales of the top Chinese corporations listed and is the largest wholesale and retail producer and distributor of petrochemicals in China. Ranked 9th in its global industry sector, it has more than 80 subsidiaries which are either wholly-owned or majority-controlled, in exploration and production, refining, chemicals, marketing, research and international trade.

On 18th and 19th October 2000, Sinopec floated shares on the Hong Kong, New York and London Stock Exchanges. This was followed on 16th July 2001 by an offering of shares on the Shanghai Stock Exchange.

Sinopec is also actively pursuing a strategy of overseas expansion in order to maintain a stable supply. In 2002 it acquired oilfields in Algeria for US$390m (Sinopec 2005).

**China Telecom**

Ranked 202nd in the Forbes list, state-owned China Telecom has sales of US$9,120m based on assets of US$24,853m and a market valuation of US$29,918m. China Telecom is roughly half the size and value of AT&T Wireless. Ranked 12th in its global telecommunications sector and is the major provider of telecommunication services within China engaging in both domestic and international networks. On the 14th and 15th November 2002, China Telecom listed on the New York and Hong Kong Stock Exchanges for the first time (China Telecom 2005).

China Telecom's main non-Mainland activities are China Telecom (Hong Kong) Limited which was established in 1997 and China Telecom USA which was established in July 2002 and is a wholly-owned subsidiary. On 17th June 2004, China Telecom announced that it was entering a long-term strategic partnership with France Telecom across a broad range of business areas. This was followed on the 8th September 2004 by the creation of a London office in order to establish a European-wide operation.

**Sun Hung Kai Properties (SHKP)**

Sun Hung Kai Properties is a privately-owned diversified financials company based in Hong Kong. Its major business activities include "hotels, construction, property management, financial services and insurance. The Group also has investments in information technology, telecommunications, transportation, infrastructure and logistics. Projects include toll roads, franchised bus operations, transport infrastructure management, port business and airport-related projects." (Sun Hung Kai Properties 2005).

Ranked 429th in the Forbes list, Sun Hung Kai Properties has sales of US$2,942m based on assets of US$20,657m and a market valuation of US$24,020m. Ranked 22nd within its global property investment industry, SHKP listed on the Hong Kong Stock Market as far back as 1972.

Although it announced reduced profits in 2003 its investment strategy is in the major Mainland cities such as Beijing, Shanghai, Guangzhou and Shenzhen. It also has plans to enter the European and North American property markets through joint ventures and wholly-owned acquisitions (Sun Hung Kai Properties 2005).

In addition the company announced on 7th March 1997 that: "New-Alliance Asset Management (Asia) Limited is a joint venture between the U.S. asset management company, Alliance Capital Management L.P. and the Hong Kong property developer, Sun Hung Kai Properties Limited. The company is the Hong Kong representative of Alliance Capital's Luxembourg-registered family of investment funds and 23 funds have been authorized by Securities and Futures Commission (SFC) for local distribution in Hong Kong." (Sun Hung Kai Properties 2005)

**CLP Holdings**

Ranked 592nd in the Forbes list, Hong Kong-based and investor-owned utility company CLP Holdings has sales of US$3,351m based on assets of US$7,794m and a market valuation of US$11,992m. Ranked 48th within its global utilities industry, CLP engages in electric power generation and was established in 1901 as the China & Power Company (CLP 2005). CLP listed on the Hong Kong Stock Exchange in January 1998.

CLP's strategy is to maintain its core Hong Kong market share and build operations in both Mainland China and further into the Asia-Pacific region through subsidiaries which operate power stations usually through joint venture arrangements such as in Taiwan, Australia, India and Thailand (CLP 2005).

**China Life Insurance**

Ranked 587th in the Forbes list, state-owned China Life Insurance has sales of US$3,351m based on assets of US$37,903m and a market valuation of US$19,458m. It is the only one of the top Ten Chinese Corporations which has showed a loss over the period (US$272m). Ranked 40th in the global insurance industry, China Life Insurance is the largest insurer in China and controls about half of the domestic insurance market. In 1984 it established its Hong Kong subsidiary and it listed on the New York and Hong Kong Stock Exchanges on the 17th and 18th December 2003. It is seeking foreign investors in order to acquire foreign expertise and management skills.(China Life Insurance 2005).

On the 16th December 2003, China Life made its IPO on the New York Stock Exchange and this was over-subscribed several times over. Afterwards, damaging reports emerged from the China State Audit Office about its predecessor and/or parent company which has led to a collapse in the share price.

**Boashan Iron & Steel (Baosteel)**

Ranked 613th in the Forbes list, state-owned Boashan Iron & Steel has sales of US$4,070m based on assets of US$7,428m and a market valuation of US$10,340m. It is aiming to double its capacity over the next five years and this will make it the world's third largest steel producer from its present 21st position in the global mining industry.

Baosteel has twenty-two wholly-owned subsidiaries including nine overseas, and a further fourteen holding companies including two overseas. Baosteel global network including twenty overseas and domestic companies, based on joint ventures and strategic alliances (Baoshan 2005) including the acquisition of a 46% interest (US$ 30m) in a Joint Venture with Rio Tinto in the Eastern Range mine in Western Australia (Ye and Tam 2003).

**Cathay Pacific Airlines**

Ranked 641st in the Forbes list, Hong Kong-based Cathay Pacific has sales of US$4,242m based on assets of US$9,183m and a market valuation of US$6,528m. Ranked 20th within the global airline industry, Cathay has come a long way from its foundation in 1946 as Hong Kong's national airline. Given the parlous state of much of the world's airlines, it can be assumed that profitable Cathay is in a very strong position to grow its market share especially in the North America, European and North Asia routes which have seen the largest growth (Cathay Pacific 2005). Cathay's closest international comparison is with Qantas (in 669th position) who have sales of US$7,765m and a market valuation of US$4,919. Cathay continues to use joint ventures (with Vietnam Airlines and Lufthansa Cargo) and strategic alliances (especially through the One World network which includes Aer Lingus, American Airlines, British Airways, Finnair, Iberia, LanChile and Qantas). Code share agreements have also been made with other airlines such as Japan Airlines and Malaysian Airlines.

**Swire Pacific**

Ranked 705th in the Forbes list, Hong Kong-based and privately-owned diversified financials company Swire Pacific has sales of US$1,951m based on assets of US$12,457m and a market valuation of US$9,941m. Swire is ranked 48th in the global diversified financials industry. Its portfolio is divided into five parts: property, aviation, beverages, marine and trading & industrial (Swire Pacific 2005). Within the property portfolio, Swire has had major investments in Florida since the 1970s. In the beverages sector it has the sole production, sale and distribution rights for Coca-Cola in the Hong Kong and Taiwan regions, as well as 10 US states (with two production facilities in Salt Lake City Utah and Fruitland Idaho) and seven Mainland China provinces. Within the marine portfolio, Swire Pacific Offshore Holdings Limited is involved in supporting the global offshore gas and oil industry and has regional offices in Azerbaijan, Australia, Brunei, Cameroon, Malaysia, New Zealand, Scotland and the United Arab Emirates. Within Trading & Industrial, it has established a joint venture called Crown Beverage Cans Hanoi Limited in the north of Vietnam with Crown Cork & Seal of the US and both Vietnam National Foodstuffs Import & Export Corporation and the Union Foodstuffs Company.

**China Merchants Bank (CMB)**

Ranked 748th in the Forbes list, CMB has sales of US$1,441m based on assets of US$44,406m and a market valuation of US$8,108m. Ranked 115th in the global banking industry. Founded on the 4th August 1984, CMB was the first privately-owned bank in China. In 1992 it opened in Hong Kong and opened a representative office in New York in 2003. This was the first representative office of a Chinese bank to be given authorization by the US since 1996. It is focusing its future foreign strategy around e-business.

## PATTERNS AND TRENDS

The above data together with additional information is given below as part of the analysis of the various foreign market entry modes undertaken within this research:

Table2: Market entry modes of the Top 1- Chinese MNCs

| | WOA | Minority EJV | Majority EJV | Direct export | Strategic alliance | 50% EJV | Licensing | R&D contracts |
|---|---|---|---|---|---|---|---|---|
| PetroChina | Yes | | Yes | Yes | | | | |
| Sinopec | Yes | Yes | Yes | Yes | | | | |
| China Tel. | Yes | | | Yes | Yes | | Yes | Yes |
| SHKP | Yes | Yes | Yes | | | | | |
| CLP | Yes | Yes | Yes | | | Yes | | |
| China Life | Yes | | | | | | | |
| BaoSteel | Yes | Yes | | Yes | | | | |
| CPA | | Yes | | | Yes | | | |
| Swire | Yes | Yes | Yes | | | | | |
| CMB | Yes | | | | | | | |
| Total | 9 | 6 | 5 | 4 | 2 | 1 | 1 | 1 |

(Source: Rudzki & He research findings)

What the above ten cases show is that Chinese MNCs are pursuing very active growth in foreign markets with the preferred entry modes being wholly-owned acquisitions (WOA) (9) and both minority (6) and majority (5) equity joint ventures. Direct exports (4), strategic alliances (2), 50% equity joint ventures (EJV) (1), Licensing (1) and Research & Development contracts (1) are the other modes undertaken.

Chinese MNCs are learning quickly from observing their competitors and building alliances with them. Hong Kong is being used as the main conduit for developing business between Mainland China and the world, based on its multiple strengths in international finance and business acumen.

## DRIVERS OF EXPANSION

The drivers for each of the Chinese corporations vary but for the State-Owned Enterprises (SOEs) it is without exception Chinese foreign policy (Lampton 2001; Swaine and Tellis 2000) with its recognition of the conditions imposed by WTO entry such as the need to implement anti-monopoly legislation which will expose the hitherto protected Chinese MNCs to unrestricted foreign competition (Cass et al. 2003). The need for Chinese MNCs to adopt their strategies in this new environment has also been recognized (Quan 2001).

The dominant position of Chinese MNCs within the domestic market and the desire of the Chinese government to build on this natural advantage is therefore a powerful incentive for change, as is the impact of a new generation of Western-trained graduates returning to China and seeking career opportunities to manage the complex management issues that arise from multi-national operations.

The increasing large-scale presence of foreign MNCs within the Chinese domestic market also raises questions about the ability of Chinese companies to survive even within their home market unless they are capable of transforming themselves into major players in a competitive global market which makes no allowances for weakness.

## COMPETITIVE ADVANTAGES OF CHINESE MNCs

That China has the world's largest domestic market gives it an advantage not enjoyed by its foreign competitors. The relatively low labour costs compared to Western competitors coupled with a rapidly developing modern infrastructure provides a natural advantage, as does the ease of access to capital.

However, problems exist such as state subsidies and low compliance costs - and the resistance to this by foreign governments as in the case of the prospective New Zealand-China Free Trade Agreement and the Australia-Chinese Free Trade Agreement. A recent article (Economist 2005) has usefully pointed out the many and several ongoing problems faced by Chinese corporates including: the conflict between nurturing strong domestic companies and the decision to allow foreign companies access to the Chinese market such as in the information technology sector; foreign ownership of technology; regulatory inconsistency which encourages short-term responses and excessive diversification in place of long-term R&D; the unwillingness to develop networks both within the supply chain (such as with suppliers) and outside of it with customers and international trade bodies who set industry standards; the problems of political patronage and how this distorts the process of making strategic business decisions; the lack of investment in innovation (as this is done by foreign competitors); and the lack of focus on products, for example, Haier has "15,100 specifications across 96 categories, including a washing machine that also cleans sweet potatoes" (Economist 2005).

## FUTURE SCENARIOS

China is currently beset by a host of problems which will accompany it into the future and will affect not only itself but other countries as well. Various authors (Chandler 2004; Chang 2001; Spence 2004; Terrill 2003; Wu and Yeo 2002) have undertaken careful analysis of the current situation and predicted future outcomes from the collapse of China's political and economic structures through to the rise of China to world dominance overtaking Japan and the U.S. as the world's leading economy.

A simple PESTLE analysis (covering as it does the areas of politics, economics, society, technology, the law and the environment) goes some way to understanding what is going on:

Politically, China remains under the control of the Communist Party which in turn labours under the legacy of the structure of an imperial state (Terrill 2003). Economic reform has only served to reinforce this and entry into the WTO has added increased legitimacy to the political system.

The death of Zhao Ziyang on 17th January 2005 signaled the end of an era. The former leader of the Communist Party, he was deposed after his opposition to the use of violence against the Tiananmen Square pro-democracy demonstrators in 1989. Kept under house arrest until his death, he denounced capitalism and continued to advocate that democracy and freedom were possible under the leadership of the Communist Party. That the West did so little to protect this flowering of democracy by its actions at the time and subsequently, has sent a powerful message to China's leaders and its people about what is possible.

Young Chinese students studying overseas readily admit to having no interest in politics, preferring to devote their energies to getting ahead in life through business or other activities. Their support for the Communist Party will remain as long as conditions do not deteriorate. If independence is given to enterprises, universities and other public bodies, in order to encourage initiative, then limited progress can be expected. How far this extends into a pluralist society is to be seen. China continues to affirm claims over Taiwan. The announcement by Jiang Zemin on 1st July 2001 to allow private entrepreneurs to join the Communist Party will also have widespread implications for what has been described as the new class of 'Red Capitalists' (Dickson and Kirby 2003).

Economically, China is concentrating on building both its infrastructure and its economic base. China is booming with large foreign reserves, an annual growth rate in 2004 of 9% and low inflation of 3.9%. Any shift to the high inflation that rapid growth brings could well see the start of a period of hyper-inflation which did so much damage to the former-Communist regimes of Eastern Europe as they embarked upon economic change. China's banking system is in need of reform as is the way valuations of assets - and other accountancy protocols - are undertaken. However, access to credit for State-Owned Enterprises (SOEs) is still easy, as is the raising of capital on the bullish stock market.

Socially, China as the world's largest nation and with a 'one-child' policy faces the Malthusian nightmare scenario of an increasing population and decreasing resources. Pressure on all resources is increasing and the rise of a civil society is not encouraged. The normal routes of expressing dissent in a western society are restricted, creating a tension that may lead to widespread unrest as conditions deteriorate with widespread job losses, increased urban and rural poverty and crime (such as is happening with drugs, gambling and prostitution), and all the other ills that can be expected in a transitional economy. The use of the armed forces and secret police will also bring a confrontation that may paradoxically echo the 1917 October Revolution in Russia. There is also the question of the non-Chinese such as the Tibetans, Uighur and others (Terrill 2003). Tibet remains perhaps China's largest foreign policy disaster with widespread sympathy for the plight of the Tibetan people and popular support for the cause of the exiled Dalai Llama. Allowing Tibet to return to independence would do much to bring about global acceptance of China's willingness to become part of the global family, and prove the lie to claims that China is engaging in expansionist policies including Taiwan and other parts of SE Asia which are similar to those of 1930's Nazi Germany with its claims of *Lebensraum* (living-space for the nation). China's support for previous conflicts in Korea and Vietnam are also cited as evidence in support for this view.

Technologically, China has embraced what the world has to offer from mobile telephones to computers. That China is capable of manufacturing such goods for companies such as Motorola is evidence of the high quality which is now being found (Rudzki and Chen 2003). Indeed, it was Microsoft's insistence that the Chinese do something about the illegal copying of software that impeded China's accession to full membership of the WTO. The counterfeiting of all products is a large-scale industry in China with the best copies of goods virtually identical to the original. The problem of technology transfer – including military technology – is a widespread one, and the US in particular has been grappling largely unsuccessfully with the issues involved.

Legal reforms in all sectors continue especially as regards those laws affecting Foreign Direct Investment. The political appointment of the judiciary remains in place. The corruption found in both the public and private sector coupled with the activities of organized crime does nothing to instill confidence in the rule of law. China's human rights record will also be the subject of widespread publicity as the Beijing Olympic Games draw closer with the expected widespread arrest of dissidents already occurring.

Environmentally, China has enormous problems with widespread pollution of air, water and soil. The effects of such toxicity on human health are already revealing themselves in increased illnesses and rises in demand for healthcare. The SARS outbreak exposed China's inadequate medical processes in controlling epidemics and did nothing to instill confidence in China's ability to communicate honestly with the rest of the world. In terms of its built environment, many of the historical buildings and city-scapes which serve as an expression of its cultural heritage have disappeared. Although the most famous World Heritage Sites such as the Great Wall or the terracotta armies of Xian are preserved, it is those which do not enjoy such status that continue to be demolished to make way for the new.

The rush by Western corporations to transfer production to low-cost economies is not without its consequences. Labour market mobility allows staff to move between employers and to transfer their intellectual capital developed for example, with a foreign MNC operating in China to Chinese corporations seeking to operate in the global market.

The problems faced by both Chinese and foreign corporations within China, are a good starting point to understand what problems Chinese corporations may be limited by when they seek to enter foreign markets. The problems are described (Flannery 2004) as being to do with supply chain ("limited road network and choked rail lines" p.84), competition and red tape which beset companies within China. The (Economist 2005) reports the pressures of rapid growth on the infrastructure, unemployment in some regions and labour shortages in others, pollution, problems with health care and an inadequately funded state pension system.

Other problems face the Chinese economy from the corruption to the over-valued Yuan (which is currently pegged to the US dollar) which is good for China while it is building up its imports of the fixed assets necessary to build its infrastructure but which harms exports. A devaluation of the currency would see the collapse of many state banks and be unpopular with the increasing number of Chinese tourists and students who need a strong currency when they go overseas. However, a positive outcome for the Chinese following revaluation would be the increase in exports as the prices of these would be even lower than at present. It has now been observed (Chandler 2004) that China "has surpassed Japan as the country that has the largest trade surplus with the U.S. and trails only Japan as the largest holder of U.S. Treasury bills."

Nevertheless, many of the advantages foreign corporations claim for entering the Chinese market also become strengths when used by Chinese corporations entering foreign markets. The size of the Chinese domestic market provides Chinese corporations with a strong domestic income base from which to launch their foreign operations. Coupled with low labour costs compared to Western companies, this double advantage places the Chinese in an especially strong position. Other factors also need to be taken into consideration: for example, the Chinese have a long-tradition of foreign trade and when this is coupled with the well-established Chinese diaspora across the world, this provides a source of staff for its overseas operations a well as a ready market for many of its products.

## CONCLUSION

Globalisation is bringing new and more complex trading patterns with it. Economic theories of free trade and national competitive advantage are being put into practice and even as this is happening are being supplanted by new ideas of "the decreasing sustainability of competitive advantage" through hypercompetition (Daveni and Thomas 2004).

China is no different in its capacity to take market share than any other nation, indeed it has learnt from the experience of other South-East Asian economies such as Japan, Taiwan, South Korea and Hong Kong (prior to its reunification with Mainland China) as to how rapid national economic development can be achieved over a relatively short time-span. Indeed, Hong Kong is now seen as the bridge between Mainland China and the rest of the world, possessing as its does, world-class skills especially in the financial sector.

The rise of Chinese domination in the productive sector could well be matched with similar dominance in the service sectors through the use of its international competitive advantages of low labour costs, which have already driven many Western competitors to bankruptcy in such sectors as ship-building, textiles, toys and ceramics.

The threat of Chinese domination is inherent within the economic system of capitalism, where leadership is achieved primarily through long-term profitability rather than any short-term innovation or process breakthrough. Indeed, it is the increasing speed of change which is one of the defining features of the last three centuries such that there is rapid diffusion of new technologies and competitive advantage goes to those who are swiftest and can both identify and meet market demands first.

However, there is an alternative view (Economist 2005) which says that "…Chinese firms may not develop like Japanese or Korean ones did. China may be building a distinct model of capitalism with distinct firms. While American firms broadly excel at breakthrough innovations, and Japanese ones at process and incremental innovations, Chinese capitalism may simply be best at making things a lot cheaper." That this has undoubtedly proved to be the case in several industries should provide a salutary warning as to the potential of the Chinese economy to destroy foreign competition by achieving low-cost high-value products.

The image of the waking dragon is one that resonates with potency, for the dragon seeks to satisfy its hunger by consuming all that is readily available to it. The rest of the world would do well to take notice of the dragon at its door.

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