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China rising: Its private firms set sights on rest of world

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Amid the torrent of clothes, electronics and toys surging out of China comes a little-noticed export: international companies.

For centuries, individual Chinese have sought their fortunes abroad, creating Chinatowns around their restaurants and shops. Now, Chinese firms are going global, pushed by a government turned capitalist, pulled by untapped markets and armed with bundles of money from a thriving economy back home.

Auto plants are popping up in Latin America. A sprawling commodity bazaar promises a provincial Swedish city new life. A car parts distributor is snapping up ailing companies in the U.S. Rust Belt, a TV factory hums in South Africa and a high-tech firm is landing contracts to revamp the Persian Gulf's telecommunication networks.

Just as the earlier arrival of Japanese companies changed U.S. manufacturing, over time Chinese companies could affect how their Western rivals approach innovation, competition and business itself.

"We not only consider ourselves pioneers," says Sean Chen, who at 26 is overseeing the construction of a $100 million (euro65 million) electrical parts plant and industrial park in the American South. "We also consider ourselves explorers."

Chen and his fiancee, Joy Chen both took American first names moved from Shanghai to Atlanta to set up shop for General Protecht Group Inc., a company controlled by his father. While the goal is profits, Sean Chen and his father view the venture almost as a social experiment its aim, he said through an interpreter, is to marry the best Chinese and American work practices.

"I want to have the efficiency and execution normally shown by the American employees and the brotherhood that a Chinese company normally shows," Sean Chen says. "There are capitalists and there are socialists and I want to see whether they can get along."

The Chinese corporate presence is still small overseas, but it's growing fast:

Chinese companies invested more than $30 billion (euro20 billion) in foreign firms from 1996 to 2005, nearly one-third in 2004-05 alone, according to an analysis by Usha Haley, a professor of international business at the University of New Haven. Computer maker Lenovo Group helped launch the frenzy in December 2004 by announcing it would acquire IBM Corp.'s personal computer unit for $1.75 billion (euro1.14 billion).

In the United States and Canada, Chinese firms now have about 3,500 investment projects, compared to 1,500 five years ago, according to an estimate by Maryville University professor Ping Deng. Large state-owned companies jumped ahead; medium and small private firms are catching up.

Total investment in the U.S. is between $4 billion (euro3 billion) and $7 billion (euro5 billion), Ping estimates. In Europe, Chinese acquisitions last year alone totaled $563.3 million (euro366.3 million), according to research company Dealogic.

Last year, 29 Chinese firms debuted on U.S. stock exchanges, just two shy of the total for the previous three years combined, according to the Bank of New York Mellon Corp.

The number of U.S. visas issued to Chinese executives and managers who transfer to U.S. posts within their companies nearly doubled to 2,043 between fiscal years 2004 and 2007. The current fiscal year is on pace to top that, U.S. State Department statistics show.

Chinese businesses are not just establishing offices and factories overseas. They also are developing and selling products under their own brands, rather than simply supplying Western firms in search of cheap manufacturing.

The competition may make it harder for American and European firms to milk early profits from cutting-edge products before reducing prices and releasing them to the mass market. Vulnerable sectors include high-definition TVs, portable DVD players, medical technology, and perhaps even cars, according to Peter Williamson, a professor of international management at the University of Cambridge with extensive China experience.

At the Detroit Auto Show in January, one mid-sized SUV from China with goodies including a leather interior was priced at just $14,000 (euro9,100) less than half what many comparable cars cost. Models could be available by early next year in nine states.

Chinese firms can use their low-cost manufacturing advantage to pile on additional features. And they can do that by copying taste-making Western firms, circumventing the expense of product development. If the quality is high enough, the strategy can be devastating.

"It will pull to pieces the profit models of their competitors," Williamson says. "It's a classic case of attacking your competitor where you know they're reluctant to respond, because it's very costly."

The dynamic recalls how Japanese auto makers forced their U.S. competitors to make options such as power windows and air conditioning standard.

Unlike the Japanese, whose 1980s arrival in the U.S. was at first greeted as a threat, Chinese businesses are being courted by states including Michigan, California, Illinois and Georgia.

Not that all arms are open.

Congressional scrutiny has dogged several investments, including the billions of dollars that government-owned funds are investing in top Wall Street institutions. National security concerns have scuttled several deals, including the attempted 2005 purchase of oil giant Unocal Corp. and a $2.2 billion (euro1.4 billion) bid to buy the tech company 3Com in February.

In the Swedish coastal city of Kalmar, labor union and media criticism has been the backdrop for delayed Chinese plans to open a hotel and wholesale warehouse for Chinese-made commodities. Project manager Angie Qian tromps around, trying to get things done at the speed she was used to in Shanghai.

"China is developing very quickly and so people work very fast and don't plan very far ahead," says Qian, herself a study in constant motion. "In Sweden everything takes a much longer time."

The $160 million (euro104 million) project, going up on the site of a shuttered chocolate factory, could help revive a city abandoned by car maker Volvo and train maker Bombardier Transportation.

It wouldn't be the first project of its kind. Dubai boasts an enormous Dragon Mart shopping mall and residential complex; Chinese centers with other backers have opened in Eastern Europe, Italy, England and Russia.

But the Kalmar project faces problems.

Fanerdun Group, the company bankrolling the project, has reportedly not received Chinese government approval to transfer funding from China to Sweden. The company has said it will pay wages of Chinese workers into Chinese bank accounts instead of Swedish accounts.

The national construction workers' union and local media have criticized Fanerdun for not paying some of the Chinese workers who helped prepare the site at all. The issue has delayed construction.

Elsewhere, miscalculations have led to early, and sometimes spectacular, failures. There was the Splendid China theme park in Florida that no one really visited. A group of investors never recovered from the fiasco of trying to evict poor tenants from the downtown Los Angeles hotel they planned to refurbish.

Chinese companies that wither often see the first branch as a trophy, and neglect the long-term strategy that can lead to greater profits, according to business professor Ping. He based his survey on 400 Chinese companies doing business in the U.S. and Europe.

Drastic differences in business culture also can hobble a venture. Western managers can demand more authority than Chinese bosses are accustomed to, and official directives can alienate workers.

For all their energy and drive, many Chinese managers and executives lack formal training. That is changing.

At UCLA's Anderson School of Management, for example, Chinese applications more than doubled from 87 in 2005 to 180 in 2007. The 2007 class had 14 Chinese students, the most in the school's history.

Wife and husband Stella Li and Steven Zhu quit high-profile careers in China to study in Los Angeles. Li is slated to graduate this spring Zhu got his MBA last year and landed at Google doing data-driven sales analysis. Both see an opportunity to gain a sophistication in finance and strategy they couldn't get working back home.

"We definitely want to take all the experience and the things we learned in the U.S. back to China," Li said. "But short term, we would like to get more exposure in business here."

Chinese firms are still learning the kinds of data-driven market analysis, branding and other business practices that are commonplace in the West.

"What's scary to think of is when they marry cost consciousness with U.S.-style just-in-time inventory management," says Charles Freeman, a China specialist at the Washington-based Center for Strategic and International Studies, who recalls talking to a cell phone maker that was storing 100 million headsets behind its factory.

Few Chinese companies have been in the U.S. longer than the American subsidiary of the auto parts giant Wanxiang Group, which incorporated in 1993. The founder of the home company is one of China's richest men. His son-in-law, Pin Ni, led the Chicago-area subsidiary from cheap parts supplier up the value chain by buying or working with companies that were distressed owing to competition from China.

Wanxiang America Inc. has been welcomed for saving manufacturing jobs. Illinois has proclaimed a Wanxiang Day and Michigan offered the company subsidies.

Pin talks exactly like what he is an executive who's part of a multinational. It's all about core competence and optimizing strength and horizontal integration. He casts himself as a matchmaker who spots what disparate firms do best to create as efficient a manufacturing process as possible.

"Even today you want to say, is there enough Chinese companies in the United States?" Pin asks. "I would say no."

Contributing to this report were Associated Press Writers Louise Nordstrom in Kalmar, Sweden, and Michael Astor in Manaus, Brazil.

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