The Conversation

Busting the China Inc. Myth

10:11 AM Monday June 13, 2011

by Mike W. Peng and Zhixing Xiao | **Comments (4)**

The headlines differ from day to day, but the underlying message is always the same: China Inc. wants to take over the world. Just last week, for instance, the *Wall Street Journal* published a Page One story that must have set alarm bells ringing on both side of the Atlantic. Chinese companies have embarked on a shopping spree in Europe, wrote the newspaper, pointing out that unlike the U.S., Europe doesn't have a mechanism for subjecting takeovers to a national security test — yet.

Particularly scary to most Westerners are China's state-owned enterprises (SOEs, for short) which are among the world's largest companies in several industries and account for approximately 90% of China's overseas investment. The common perception is that the SOEs represent the interests of China Inc. — the close alliance between the Chinese government and Chinese companies — whose motivations are not merely commercial but also political.

Email
Tweet This
Post to Facebook
Share on LinkedIn
Print

RECEN
In Dig
Pile J
Busti
Why
Balar
Impro

Consequently, the SOEs' recent globalization drive has triggered off several controversies and resulted in a political backlash in several countries. Governments across the world believe that they are justified in resisting the SOEs' takeover bids and in using policy measures to fend them off. Because of this hostility, CNOOC had to drop its bid for Unocal in 2005 and Chinalco couldn't invest in Australia's Rio Tinto in 2009, for instance.

Should Western companies and government really be scared of the SOEs? Our research doesn't seem to suggest so. To be sure, some SOEs have become formidable competitors, nurtured by their large home markets and having developed the capabilities to compete with Western multinational companies. However, these Chinese companies only want to gain market share locally and globally — just like every other multinational company in the world.

Moreover, the concept of China Inc. is a myth. It's based on a misconceived and outdated notion of the Chinese state, which assumes that the SOEs are mere "soldiers" carrying out Beijing's diktats. For years, scholars have argued that this monolithic depiction of the Chinese state is far removed from reality. Few SOEs are arms of the state; most are just companies in which the government owns equity stakes and they represent a plurality of interests, of which the state's is but one component.

There's tremendous competition among the SOEs at home, between them and private sector companies, and between SOEs and foreign companies. Indeed, the SOEs' overseas drive is actually a spillover of the intense competition in the Chinese market.

Maintaining control over the SOEs is a constant headache for Beijing, going by our experience while working with the State Assets Supervision and Administration Commission. Its officials complain that due to decentralization, decisions are now in the hands of the SOEs' managers, who don't always follow Beijing's wishes.

Most outsiders also overestimate the SOEs' organizational capabilities. These companies are local or regional; they're not even national. Their ability to be global players is also limited. Most don't have a cadre of English-speaking, internationally savvy managers; they rely on executives they recruit abroad. Alternatively, they send Chinese workers overseas, supervised by Chinese managers — as the world recently saw in Libya, from where hundreds of Chinese workers had to be evacuated when the civil war began. That's a sign of weakness, not strength.

Above all, the argument that Chinese SOEs deserve to be treated differently has been undermined by the actions of most Western governments since 2008. American and European companies, ranging from General Motors to Royal Bank of Scotland, have become state-owned in all but name because of government bailouts. No government can argue that Chinese companies are not welcome to enter its markets, but Western companies should continue to be permitted to enter China.

To be sure, governments and companies must be cautious while dealing with this relatively unknown breed of organization. However, it makes sense to view the SOEs not as fire-breathing dragons, but as just another breed of racehorses unleashed by the forces of globalization.

Mike W. Peng is the Provost's Distinguished Professor of Global Strategy at the University of Texas at Dallas and Zhixing Xiao is an associate professor at the China Europe International Business School in Shanghai.

More on: China, Global business, Mergers & Acquisitions

Join the Discussion | More by This Author | Email/Share

PREVIOUS
Why American Management Rules the World

NEXT
In Digital Media, the Commercial Potential of the Pile

TRACKBACKS

TrackBack URL for this entry:
http://blogs.hbr.org/cgi-bin/mt/mt-tb.cgi/9522

No trackbacks have been made to this entry.

COMMENTS

Like and 4 others liked this.

Showing 4 comments

Sort by Popular now Subscribe by email Subscribe by RSS

Robert C Gladstone 1 day ago

Maybe SOE's are benign, but is it not fair to ask if it was a non-Chinese company making a similar bid on a Chinese company what would the Chinese government do? A little reciprocity would go along way in calming fears.