
Preface by AHK

This WHU study is of particular merit because it incorporates many practical business examples in a research-based framework. The findings result from interviews with 50 experienced managers of German companies in China.

From my own experiences and from the surveys completed by the Delegation of German Industry and Commerce in Shanghai, I can confirm the findings and conclusions of this study. It correctly points out that a growing number of foreign invested manufacturing companies in China are beginning to export from China, a strategy the authors call global integration. Yet most of these companies did not start exporting while still in their infancy and even today the most important motive for German investments in industrial subsidiaries and joint ventures in China is still to serve the Chinese market and to take advantage of the opportunities offered by the rapidly expanding Chinese economy.

There may be two major reasons for such a shift in strategy: Either the market potential in China is lower (or the competition higher) than originally expected, or the parent company realized that the cost/quality ratio of production in China now compares favorably with other manufacturing locations in the world. In mentioning a smaller than expected market potential as a reason for taking up export activities, I do not necessarily mean to imply market saturation. In most of the segments, Chinese markets are either expanding or shifting to new products. Growing local and foreign competition in China does, in effect, accelerate this process. Manufacturers, of course, must adapt to such a changing environment.

A rather large number of German suppliers have set up shop in China – especially in the automotive industry, but also, for instance, in the electrical and electronics industries, in the mechanical engineering industry and even in the chemical industry. They primarily serve OEMs in China. However, globalization also means buying on world markets and under the condition of worldwide competition. Consequently, suppliers, even those who were invited into (or pressured into entering) China by an OEM with foreign investment in China, will be increasingly faced with international competition even in the local market. Furthermore, in regards to globalization, we should not forget to mention that China has become a very important purchasing market for foreign countries not only for consumer goods, but also for components and parts to be integrated into capital goods and equipment manufactured, for instance, in Germany. This, in turn, is yet another driver of the global integration of foreign invested enterprises in China.

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Preface by WHU

Today, the interest of the Western corporate world focuses on the rise of the Chinese economy. China continues to evolve from a third world country into one of the strongest economic powers in the world. The entire country is going through fundamental changes, whereas, at the same time, companies are adjusting their business practices in China. These fundamental changes were the topic of the 50 interviews we conducted with heads of German affiliates in China. Among those were not only large corporations such as BASF, Siemens and Volkswagen, but also successful medium-sized companies and start-ups.

This in-depth study aims to offer support to decision makers in China and the West to make the right strategic and operative decisions for a successful business in China. It studies international expansion strategies using a sound research-based framework and analyses the relevance, the development, and key determinants of those expansion strategies in China using quantitative empirical evidence. In combination with the practical knowledge and deep industry insights of senior managers, this book should prove useful for managers viewing China from abroad, for those analyzing and evaluating market entry, and for those considering the expansion of existing Chinese facilities. With its second focus on operational success factors, this survey may also serve as a handy tool for those practitioners that have to implement a strategy in the Chinese market. The book is also targeted towards managers who do not plan market entry into China, but who would like to keep current about the developments in China and its impact on the home market.

Our studies in China are part of a comprehensive research project during which we analyzed the changing international expansion strategies by German companies, the drivers behind this development and the success factors for the implementation of each strategy. We focused on the automotive, engineering, electrics/electronics, chemistry and pharmaceutical industries. During the first wave, we studied approximately 150 affiliates in China, Eastern Europe, Brazil and the USA. During the second wave, India, Japan, ASEAN and Russia are following. In this book we solely look at our findings in China.¹

¹ This is the first book of a comprehensive research project. Similar publications on other countries will follow, both in English and in German. A list of our current publications can be found on our homepage at <http://www.whu.edu/intman/ies>. In case of questions or feedback, you may contact dirk.panhans@whu.edu or call +49-261-6509-321.

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