

Handbook for Transnational
Corporation
Management

Zhang Xiaoyu

Translated by Zhang Xinyuan Zhang Xizhi

Edited by Yin Nan



中央编译出版社
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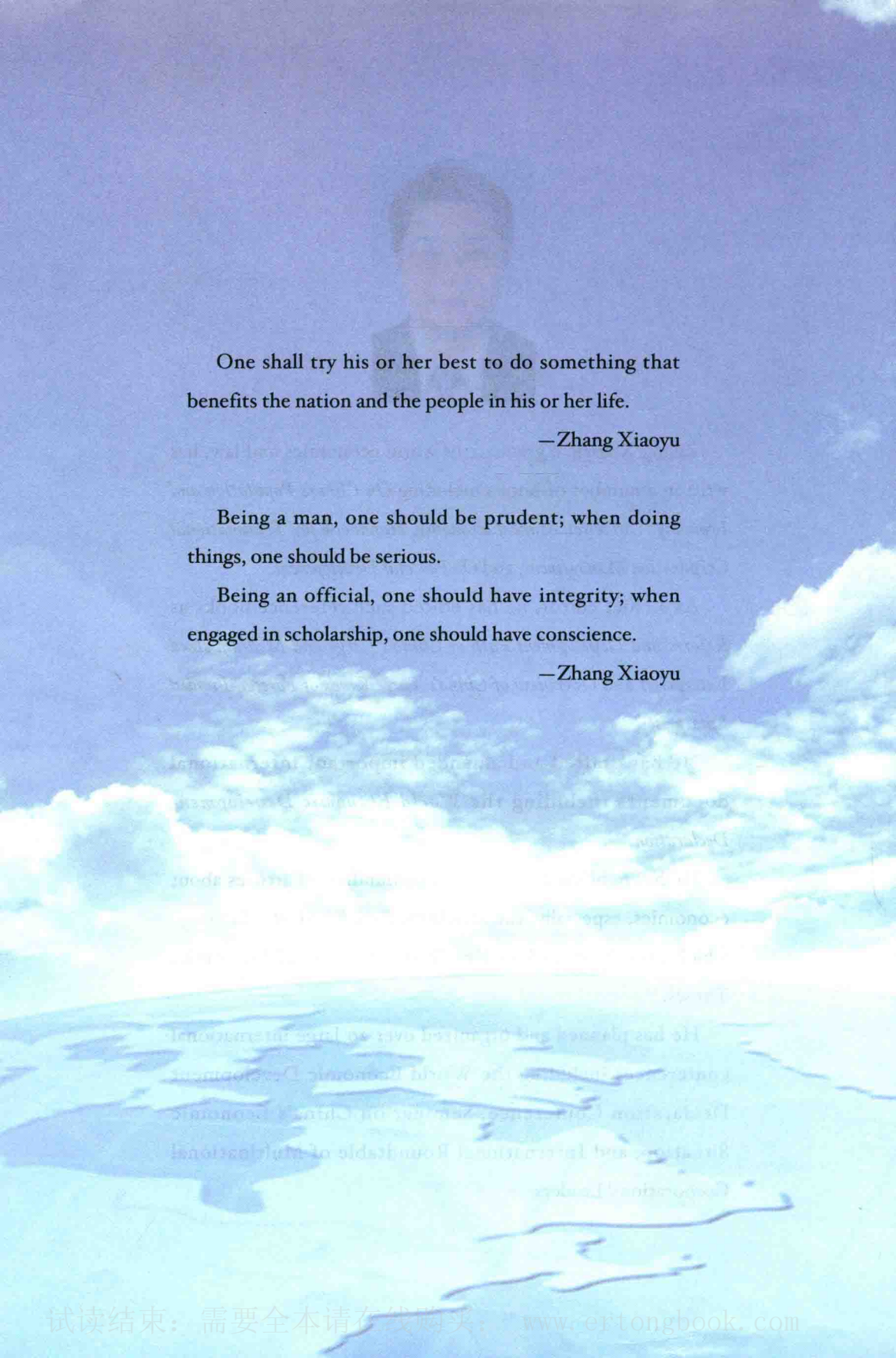
Zhang Xiaoyu, a graduate of world economics and law, has written a number of books including *On China's Population and Economy*, *Guide for Market Economy*, *Handbook for Transnational Corporation Management*, and *On Peaceful Development*.

As a chief editor, he has edited such reference books as *Reform and Development Path of China's Large and Medium-sized Enterprises* and *Overview of China's Three Kinds of Foreign-Funded Enterprises*.

He has drafted and amended important international documents including the *World Economic Development Declaration*.

He has published more than two hundred of articles about economics, especially, the article *On Socialist Market Economy*, which won the Award for Excellent International Economics Theses.

He has planned and organized over 20 large international conferences including the World Economic Development Declaration Conference, Seminar on China's Economic Situation, and International Roundtable of Multinational Corporations' Leaders.



One shall try his or her best to do something that
benefits the nation and the people in his or her life.

—Zhang Xiaoyu

Being a man, one should be prudent; when doing
things, one should be serious.

Being an official, one should have integrity; when
engaged in scholarship, one should have conscience.

—Zhang Xiaoyu

This book is dedicated to my respectable leaders and friends, as well as scholars and entrepreneurs who are committed to understanding, researching and mastering recipes for the management of transnational corporations.

Editor's Words

As we publish this book's Chinese version for the second edition, we publish its English version at the same time, for it is the only book for analyzing origins and developing track of transnational corporations and its internal management structure as well all over the world.

Those who operate transnational corporations possess the wealth in future.

The comprehensive strength of a country is embodied in the number of transnational corporations and its quality.

China has undergone a thirty-year of reform and opening up as well as entry of WTO. It has achieved its international flow of capital and information. And China has also formed a favorable environment for the development of transnational corporations whose resources are internationally located. In the process of globalization, the whole world is showing concerns on Chinese transnational corporations, so as Chinese people who are looking forward the rising of them.

At present, readers including economists and entrepreneurs are eager for multinational company related books. After reading and editing the book *Handbook for Transnational Corporation Management* written by young economist

Zhang Xiaoyu, I see the promising future of Chinese transnational corporations. Zhang Xiaoyu is the Executive Vice President of China International Council for the Promotion of Multinational Corporations, also the first drafter and the final author of World Economic Development Declaration, as well as the Executive Director of World Economic Development Declaration Conference. During the process of editing this book, I was deeply attracted by systematic and detailed analyses of transnational corporations from their origins, status quo and inner managerial structure, which made me realize that there are many talents engaging in transnational corporations in China and we will see transnational corporations rising like bamboo shoots after a spring rain.

We won't be strange to Zhang Xiaoyu, an author with many works to his credit. He is also an outstanding designer who has devised the World Economic Development Declaration Conference, which has supported and been highly valued by Hu Jintao, Wu Bangguo, Wen Jiabao and other state leaders as well as former UN Secretary General Annan. *The World Economic Development Declaration* was released in the conference, and has been distributed to 191 member states as file of 58th UN General Assembly by the United Nations. *People's Daily*, *Economic Daily* consecutively published Ten Views on World Economic Development Declaration, which evoked strong resonance internationally.

Zhang Xiaoyu was born in a poor peasant family in the era of economic difficulty. He once worked in rural, enterprises, the media, the Party and government and non-governmental organizations. Zhang has achieved leading role in cadre level equivalent to mayor in 1990s. He has established the faith as old saying goes, "As heaven maintains vigor through movements and a gentleman should constantly strive for self-perfection". He also builds his solid knowledge structure and foundation based on the saying, "Read ten thousand books, travel ten thousand miles". He is a postgraduate engaging in world economy as well as law, following Chinese famous economist Wang Jue and prestigious jurist Huang Ziyi. Especially in recent years, he is not only concerned for world economy and Chinese economic development, but also writes plenty of books and articles with his own unique ideas based on his systematic and deep researches on institution, mechanism, strategy, management and operational philosophy of transnational

corporations. This book could be divided into 13 chapters amounted to 400 thousand words, stating and analyzing origins and development of transnational corporations as well as their historic reasons and profoundly revealing the secrets of inner structure and operational management in transnational corporations. There is no doubt that this will have far reaching impact on development of Chinese transnational corporations and have practical guiding significance. As the book is reprinted, I found that there are no multinational books that could be so professional like this book. And I believe the reprinting of it will provide powerful assist for entrepreneurs aspiring to develop transnational corporations, economists and decision-makers in the government. It will also be an excellent choice as a textbook for relative departments to train directors of transnational corporations.

Transnational corporations have undergone 100 years. United Nations has promulgated Multinational Company Constitution in 1950s as code of conduct for transnational corporations worldwide. During the 30 years of deepening reform, China has experienced a process developing from perceptual knowledge to rational knowledge. At the moment, there are more than 70 thousand transnational corporations possessing 91% of world intellectual property, 71% of world economic aggregate. And multinational trading volume as well as bilateral trading volume occupy 73% of the world economy. Some transnational corporations are incredibly wealthy and even wealthier than a nation. It is an indisputable fact among academics that the future economy belongs to transnational corporations. For now, the majority of the Top 500, even the Top 2000 companies have entered China and they are massively changing the investment environment of China and increasing Chinese economic development. They have helped optimize industrial structure and improve our people's living standards as well as our people's perception towards the world economic development. They have also driven forwards the implementation of the reform and opening up policy. However, at the same time, the trend also brings austere challenges for our enterprises and many companies from different industries and sectors will be forced to reshuffle their structure.

So far, China has 110 companies ranking in the World Top 500. However, the majority of them are companies from monopolized industries, which are totally not comparable to transnational corporations from developed nations,

no matter in terms of institutions, mechanism or inner management structure. Chinese transnational corporations are still in the process developing, which is incommensurate with China, a country that develops very fast in economy. As economic globalization continues, China badly demands a batch of transnational corporations of high quality to engage and compete international arena. Hence, learning transnational corporations becomes an urgent need that will have substantial influence on future strategy of our economy directly. This book will certainly offer special assistance for economists and entrepreneurs to analyze company structure, learn development track, and master managerial knowledge of transnational corporations, for government and relative departments to stipulate economic development policies and strategies, and for training entrepreneurs to develop their transnational corporations.

October 2016, in Beijing

Preface

Xiaoyu and I are friends for 15 years in spite of the age difference. I make acquaintance with fewer friends than others, and he is one of them. He engages in researches of transnational corporations for years. The book *Secrets of Transnational Corporations* he written was reprinted and renamed as *Handbook for Transnational Corporation Management*. Although I'm clouded with cancer, I would like to write this preface for him and offer you some food for thoughts.

I Transnational Corporations and World Economy

Transnational corporations are bellwethers of world economy and creators that driving economic globalization forward. The economic globalization offers favorable opportunities for economic development of different countries all over the world. It promotes economy to develop continuously in a long-term by free capital flow, international spreading of information as well as international allocation of resources, which is especially beneficial for developing countries to

introduce overseas capital, techniques, talents and advanced equipment, to learn modern managerial experience and to expand international markets.

Economic globalization cannot develop without transnational corporations. We all know that transnational corporations are now playing a leading role in world economic development. At present, the output of them accounts over 70% of world gross output. The intra-trade inside transnational corporations and trading between different transnational corporations occupy more than 70% of the world trade. And the direct invest from transnational corporations has taken over 90% of the world international investment. All the figures above show that transnational corporations are carriers of economic globalization.

Some transnational corporations are as wealthy as a nation. Its annual income of more than hundred billion US dollars is almost equivalent to national income of a moderately developed country. Transnational corporations have investment, manufacturing, selling, R&D and other activities to be operated in an international environment, which is favorable to technical transfer, freedom of international trade, optimization of resource allocation and further facilitate the form of integration of international market. The development of transnational corporations boosts the development of world economy and market-oriented system, also deepens economic dependency among different countries. And the competition mechanism enhances the tendency of world economy centralization. Many transnational corporations adopt multilateral expansion strategy, which has urged governments to carry out two-way encouragement policy and also impelled evolution and formation of regional as well as multilateral policy system.

Economic globalization increases the dependency between nations and regions, which is megatrend in today's world. However, there are also risks in it, such as economic bubbles that easily come into being, acceleration of financial risks, etc. In addition, the "rules of the game" of international economy is formulated mainly by developed countries who have advantages in both economy and technology, which also makes developed countries operate in disadvantageous status. Therefore, we must establish new order aimed upholding justice and fairness and narrow economic gap between developed countries and developing countries. Transnational corporations play critical part in establishing new order for world

economy and upholding healthy development for world economy. And they should also become driving forces for technological progress, contribute to effective utilization of resources, promote fair competition, increase education and drive forward sustainable development.

II Transnational Corporations and Chinese Economy

China, as the biggest developing country, is always an investment hot spot for transnational corporations for more than 10 years. There are more than 400 Top 500 companies come to China to settle down and establish more than 400 different kinds of R&D centers. It is the country that attracts most foreign capital among developed countries in consecutive years. In 2014, China foreign direct investment has achieved over 119.7 billion US dollars. In recent years, there are more and more transnational corporations come to China to invest in technology-intensive industries. The world's main manufacturers of computer, mobile phone, electronic products, telecommunication equipment, pharmaceutical factory, petrochemical and power generation equipment have expanded their production to China. Foreign companies invest a lot in technology-intensive industries in China and enlarge foreign subsidiaries in China to export new and high-tech products.

(I) Position of investment continuing to upgrade

Many transnational corporations have upgraded their investment companies in China to headquarters in Asia-Pacific region and established their regional R&D center and regional management and operational center in China. As fast development of business expansion as well as investment scale, transnational corporations' expectation of economic effects and social effects in China operation have exceeded much.

(II) Shift emphasis from establishment to merger and acquisition

Transnational corporations could save foreign investment cost and revitalize themselves to be profitable by merger and acquisition. China unequivocal

implementation of commitment for WTO entry and its new wave of economic growth provide foreign companies a lot of buyout opportunities. Meanwhile, Chinese government has paid more attention to create more favorable environment for merger and acquisition, and transnational corporations have increased their buyout investment in China.

(III) Turn from unsystematic distribution to systematic layout

Transnational corporations pay more and more attention to integral construction of industrial chain besides doing original projects well in China. On the one hand, it builds in vertical way expanding businesses to upstream and downstream of manufacturing industry. On the other hand, it constructs in transverse way. It becomes a hotspot that stretching their businesses to service, finance, distribution, telecommunication service, Internet and Internet of Things that are relative with manufacturing industry.

III The Future of Transnational Corporations in China

At present, investment environment for foreign companies has been improved substantially. Chinese government is active in constructing a better law system for foreign investment and improving investment environment for investors to create an open, fair and transparent operation environment as well as break local protectionism and industrial monopoly. It will enhance enforcement of intellectual property, protect legal rights of foreign companies from being infringed and drive forward opening areas in service trading as well as formulate and improve laws of opening up to outside world as soon as possible.

China has stipulated relative policies allowing foreign investors invest in China by merger and acquisition, BOT, trust and allowing eligible foreign entrepreneurs to be listed in stock market. The Chinese government also encourages transnational corporations to engage in restructuring and disposal of state-owned enterprises and allow foreign investors to be transferred listed companies' shares by direct investment.

In order to encourage transnational corporations to establish regional

headquarters and R&D centers in China, Chinese relative department is studying supporting policies on establishment of financial companies by foreign companies, foreign exchange management, tax and right of import and export, and strive to maintain stability, continuity and predictability of the policy.

At the same time, transnational corporations investing in China should also attach great importance to introducing international advanced technology, enhancing localization of R&D, and continuously improving added value and technology standards of products. Those companies should also engage actively in restructuring of Chinese state-owned companies and achieve win-win based on reciprocity and mutual benefits by equity merger and asset acquisition. They should grasp the opportunities of the development campaign of the western regions, Northeast Area Revitalization Plan, Yangtze River Economic Belt, Collaborative Development of Beijing, Tianjin and Hebei Province and the Belt and Road (B&R) Initiative, and actively do strategic investment in western China, especially technological projects in western China like infrastructure construction, exploitation of mineral resources, development of tourism resources, protection of ecological environment and processing of farm and pasture products, etc.

IV Forge Chinese Transnational Corporations

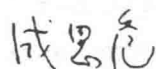
Multinational investment is referred as “package of innovation investment”. We could form a manufacturing capacity of large scale with relatively low cost in some industries by introducing foreign advanced technology and equipment, which will help us to forge our own research capability of core technology. Continuous accumulation of technology makes enterprises have necessary ability of technology selection and technology combination, and the formation of supporting industry clusters as well as upgrading of levels make breakthroughs of core technology be embodied in mature and competitive final goods as well as product groups in a faster speed.

Many enterprises in China are companies invested by World Top 500. Their utilization proportion of parent companies’ most advanced technology once occupied only 14% in mid-1990s, and it achieved 43% in 2001. In 2010, the data

was approaching 90%. All these objective conditions are advantageous for China to cultivate indigenous transnational corporations.

After years of efforts, China now has a batch of large-scale, sophisticated, and market available enterprise groups. According to the statistics, the operating income of Top 500 enterprises of China in 2013 has reached 50,000 billion Yuan, and some growth evaluation indexes have reached or even exceeded the indexes of World Top 500. Pattern of enterprise growth has also shifted gradually from extensive and external-oriented development pattern to intensive and connotative development style and achieved great performance in international operation. But there is still big gap between ours and world-class transnational corporations in core competitiveness, enterprise system, enterprise management and operational effectiveness. The cultivation of Chinese transnational corporations should adhere to a four-step developing strategy of rationalization-intensification-clustering-internationalization, based on which, it should grasp the new wave of opportunities in international division of labor and industrial structure adjustment and vigorously attract international capital, technology and talents as well to form industry belts and clusters with scale effect and forge Chinese transnational corporations during the process.

The cooperation between enterprises with similar level could achieve win-win in a more effective way. The formation and development of Chinese transnational corporations will certainly facilitate cooperation and communication between China and different countries all over the world. Together, we can drive forward the formation of new world economic order with fairness and rationality and contribute actively to long-term equilibrium and steady development of world economy.



Famous Economist

Vice Chairman of the Standing Committee of
the 9th and 10th National People's Congress of PRC

March 2015, in Beijing

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