

Executives from the world's largest companies and international organizations share their insights into a changing China.

GROWING WITH CHINA

**MNC EXECUTIVES TALK
ABOUT CHINA**

Compiled by Zhu Ling

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PREFACE

It is often said that each and every foreign enterprise in China has made a contribution in one way or another to the success of the country's economic reforms in the past 30 years.

They have, indeed, all played a key role in driving the rapid pace of industrialization, which has brought unprecedented prosperity in its wake. Vastly improved living standards have created a strong demand for goods and services, which, in turn, has brought unmatched opportunities for many multinational companies to make sound profits, part of which has undoubtedly been reinvested in research and development for better products and services.

This has produced many star performers in their respective industries and international organizations. Each of these companies has a fascinating tale to tell, and some of them were generous enough to share their experience with readers of *China Daily*. The adventures of these corporate pioneers in China, as told by their CEOs, were documented in a series that ran in *Business Weekly*, published by and distributed with *China Daily* every Monday.

The list includes companies in different industries and service sectors. Some came to manufacture, either on their own or in joint ventures with domestic enterprises. Others came to sell their products,

and, in some cases, helped create markets that did not exist before. Moreover, there were those who came to render special services, and, in the process, helped promote the standard of such services in China.

Since the beginning of economic reforms, China has welcomed investors and traders from other economies, regions and countries on the principle of mutual benefit.

The rapid industrialization of the Pearl River Delta (PRD) Region in Guangdong Province, initially driven mainly by the capital from Hong Kong manufacturers and exporters, is a case in point. It created the platform that eventually made PRD a world-famous industrial powerhouse, and, in the process, generated sufficient wealth to facilitate Hong Kong's smooth transformation into a high-value-added financial and service center.

The modern automobile industry in China can be said to have been built on the investment and expertise of foreign carmakers in joint ventures with their respective domestic partners. Most major car makers from the US, Europe and Japan have benefited from the explosive growth of the domestic market.

Their Chinese partners, meanwhile, have gained financial resources

and secured the technological know-how to develop own-brand models for the domestic market. Some domestic carmakers are now aggressively exploring opportunities of exporting to the United States and Europe.

Foreign companies have also played a key role in the development of China's services sector. Nearly all major international hotel chains own and/or operate properties in various cities on the mainland. Four major international accounting firms have contributed directly and indirectly to the rise of the standard of corporate governance, enabling many mainland enterprises to tap the resources of the world's major capital markets.

Some mainland cities, including Shanghai, Guangzhou and Shenzhen, are playing host to the world's foremost logistics companies. The world's major banks, with their head offices in Shanghai, are rapidly expanding their lending, deposit and trade financing businesses not only in the coastal regions but also in the industrial heartlands in the central and western parts of the country.

The distribution and retail sector has also benefited from the foreign hypermarket chains that have helped fundamentally change the shopping habits of millions of Chinese consumers in cities.

As an active participant in the epic economic reform that China has shepherded, every one of these multinational companies has a fascinating story to tell.

Among the companies featured in the series are Airbus, Siemens, BASF and Mercedes-Benz from Europe, GE and HP from the US, Toshiba and Fujifilm from Japan, and Nokia from Finland.

For a more general view of the foreign business communities in China, we have interviewed the heads of AmCham-China and South Korea Chamber of Commerce.

These articles in *Business Weekly* series are compiled in this book as a fitting commemoration of the 30th anniversary of economic reform and opening-up, which has brought the world to China and aligned its corporate and consumption trends with that in the rest of the world.

We are sure they will be as useful and entertaining for you to read as they were exciting and satisfying for us to produce.

Zhu Ling
Editor-in-chief of China Daily
October 26, 2008

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3M

AHEAD OF THE CURVE

After 15 years at the helm of 3M's operation in China, Kenneth Yu's favorite pastime after work is walking along the Shanghai Bund and looking at the old Shanghai Mansion.

Twenty-four years ago, in a small office on the 14th floor of the Shanghai Mansion, 3M's China Corporation was officially established. Yu clearly recalls those days when it was just a small group with seven employees, and only involved in trading.

"It was only six years after China started its reform and opening-up experiment in 1978," managing director of 3M China tells *China Business Weekly* in a recent interview in his Shanghai office.

"That was in our early phase. Many people were uncertain whether it would be successful. So we were just trying and waiting for business opportunities."

Yu adds that the lack of a professional local leader stalled the company's market exploration work in China at that time.

But the small 3M China still holds special significance for both the company and Shanghai municipality.

It was the first wholly foreign-funded enterprise registered in Shanghai. Since then, the city has grown into a major economic hub famous for the large number of China headquarters of foreign companies. And 3M China has grown into the third largest overseas subsidiary of the US-based diversified technology company with 5,000 employees.

Over the past 24 years, the company has invested over US\$600 million in China, establishing 12 branches, eight manufacturing bases, 22 regional offices, three technical centers and one R&D center in different regions of China. It has also developed from the single trading business to seven large manufacturing teams covering the chemical industry, electronics industry, telecommunications, medical treatment, traffic and consumer markets.

3M's Shanghai office

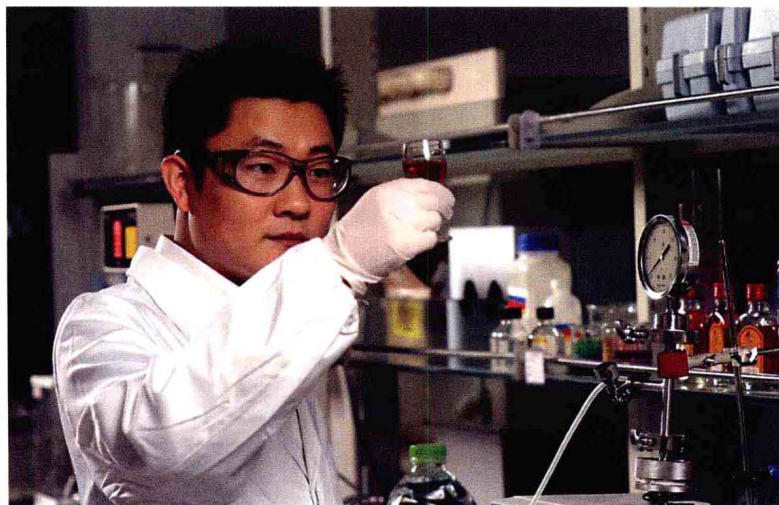


“We had far more success than we had expected. 3M China is expected to be the biggest overseas subsidiary outside the US in the coming years. Over the past decade, the company has grown at an annual rate of over 20 to 30 percent on average,” Yu says.

Yu emphasizes that the turning point came in 1993. At that time, 3M bet much on Yu, appointing him as the head of 3M China in the hope that his experience in the local market could boost its China sales.

The first thing Yu did was to travel to China’s main cities to explore the different market demands.

“What inspired me most was the difficulty of telecommunications,” Yu says. “Without open telecommunications it was impossible to achieve the goal of economic reform and opening-up.”

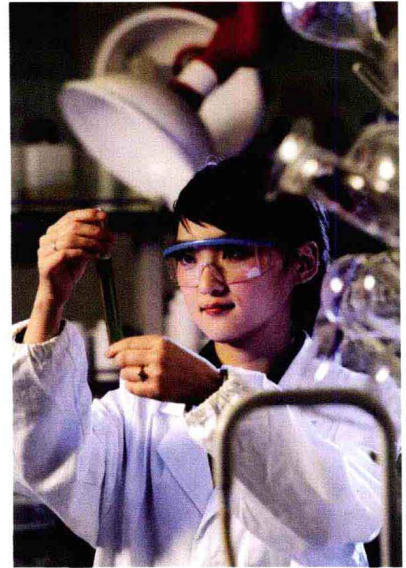


3M engineer works in a lab.

In addition, he learned that the cost of installing a phone was more than 4,000 *yuan* at that time (when the average salary for urban workers was around 300 to 400 *yuan*).

So Yu made one of the brightest decisions — investing in China’s telecommunications industry in late 1993.

“Advanced technology could help boost the output of the telecommunication facilities, which could reduce installation costs and make phones affordable for residents’ homes,” Yu explains.



3M engineer works in a lab.

The action, which came ahead of all the domestic manufacturers in the telecommunications industry, generated great success for 3M China, and also accelerated the speed of China’s new era. And under Yu’s leadership, after five years 3M China had more than US\$100 million in sales revenue in 1998.

Next Yu thought that highway construction might be the country’s next major development goal, so 3M invested in manufacturing traffic and road signs.

The auto, electronics, and household appliance industries were next. Step by step, 3M has been expanding its business supplying more than 60,000 products to China as well as developing advanced technologies.

“3M China has been growing together with the Chinese

economy. By operating in China for over 24 years, I have witnessed its fast development, especially since the 1990s,” Yu says.

However, 3M’s success lies more in the ability to forecast various market trends, Yu points out. “A key value of 3M is meeting our customers’ needs. And we have to exceed their expectations.” 3M China has also realized that its business success would be better by concentrating on serving the Chinese market, he says.

The 1990s also brought more competitors to China, Yu says, so 3M braved the challenge in 1994 by establishing its first technical service center in Beijing to teach customers how to use 3M’s various products and use their inputs for further research and product development.

“We are working here, exploring the domestic business opportunities and providing products to meet the local market demands,” Yu adds.

In 2007, the company invested US\$40 million to establish a research and development (R&D) center in Caohejing New Technology Park in Shanghai. It’s 3M’s fourth largest R&D center and all the researchers in the Shanghai R&D center are Chinese.

“It manifests the fact that China has become 3M’s most significant market and the company hopes to keep pace with the country’s booming economy and support the country’s development goals,” says an engineer in the R&D center.