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Chinese firms need a change of fortune to become truly international

Countless statistics demonstrate the economic rise of China, and the dragon economy's growing share of the Fortune 500 is among the most informative.

In 2005, there were 16 Chinese companies in the index, but by this year the figure had jumped to 61, and predictions have been made that by 2014 it could top 100.

Yet, Andre Loesekrug-Pietri of A Capital, a private equity firm that co-invests with Chinese companies into Europe, says the Chinese Fortune 500 companies are primarily still "large domestic" entities that have yet to face the challenges of turning themselves into truly international operations.

Key to this transition is outbound foreign direct investment (FDI), and some Chinese firms have been blazing an occasionally controversial trail by buying big-name western companies.

Among the highest-profile deals was the purchase from Ford last year of the Swedish car company Volvo by the Chinese car maker Geely.

While Volvo's fortunes have since taken a turn for the better, at the time the deal could be seen as tying in with a trend Mr Loesekrug-Pietri identified of the Chinese investing in "companies that are not doing very well". Instead, he says the focus should really be on buying companies that are in good health.

The Chinese government is keen to encourage outbound FDI as it can help local firms secure the technology that is essential if they are to move up the value chain. It is a view also held in the boardrooms of China.

"A lot of Chinese companies realised they're producing 100 per cent of the iPad, but only producing 4 to 5 per cent of the value," Mr Loesekrug-Pietri says.

"How to get more of this? This is something that today very few Chinese companies have achieved. They can develop it or they can buy it."

Thus the Chinese firms aiming to make purchases in western entities are not necessarily looking to enter foreign markets, although that can be the case, but are instead often trying to make themselves more competitive at home. This is particularly the case, for example, with Chinese

solar power companies that have made investments overseas.

Yet approaches from Chinese firms are not always welcome, as has been seen in several cases. Whether justified or not, the perception is that Chinese companies can be predatory and may be mostly concerned with getting their hands on technology and cutting jobs.

"Chinese companies have to fight this predatory image, which is in the mindset," says Mr Loesekrug-Pietri, adding that the fact they are often so little known outside their home country is a key problem.

Outsourcing has long been the cause of panic and protectionism, but the truth of its impact is covered in myths.

"They do very little work on getting themselves known. Who are they? This is the long march that companies have to do. It is a challenge as a lot of Chinese companies don't do this."

Achieving a successful acquisition is of course about much more than having money to throw around. Among the biggest hurdles are being able to manage a successful merger, something many large Chinese entities have little experience in.

Beyond this there is the longer term issue of making the transition from running a domestic company to being in charge of an international firm that may be much larger than the Chinese entity. The management challenges are huge even before considering that cultural differences can cause additional complications.

"You see how confident some Chinese chairmen are in China, and how little confidence they have outside China. They feel very insecure," Mr Loesekrug-Pietri says.

It is partly because of these potential difficulties that some observers felt the Chinese car maker Beijing Auto was lucky that its attempts in 2009 to take over the German company Opel came to nothing. Some suggested Beijing Auto lacked the necessary expertise to run a global enterprise.