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September 20, 2015 1:00 pm JST

Jean-Marc F. Blanchard

# Localization is a choice, not a maxim for Chinese multinationals

It is conventional wisdom that multinational corporations can best succeed in overseas markets by localizing operations as much as possible.

The economic logic seems incontrovertible. With localization, multinationals can take advantage of local expertise, gain market knowledge, jump trade and regulatory barriers, reduce shipping times and costs, and improve communications with local customers and partners.

Localization is not just an economic issue, however. It is a political matter, too, given that multinationals that remain



Chinese technology giant Huawei is acting as a good corporate citizen, with initiatives around the world that foster educational, economic and environmental progress.

"politically distant" may break cultural taboos of which they are not aware, damage their public image or spur opposition from workers, special interests or political elites that can sometimes turn violent.

China's leaders are well aware of the imperative of "political localization." As early as the late 2000s, agencies such as the China Banking Regulatory Commission, the State-Owned Assets Supervision and Administration Commission, and the China Forestry Administration had each issued guidelines related to social issues, environmental standards and corporate social responsibility in overseas investment.

## **Good citizens**

Such policies have been insufficient to prevent conflicts in host countries, conflicts that sometimes have led to large investment losses. Chinese companies in Myanmar, Peru and African countries such as Zambia have faced challenges over environmental, labor and other practices at dams, mines and hydroelectric power projects, which have led to hundreds of millions of dollars in losses.

These events have only intensified calls for Chinese companies to do more to localize politically. Yu Zhengsheng, chairman of the National Committee of the Chinese People's Consultative Conference, a top-level political advisory body,

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recently urged companies going abroad to "bring benefits to local people and pursue win-win cooperation."

For proponents, political localization means, at a minimum, that Chinese multinationals need to better acquaint themselves with local laws, regulations and customs, and to shed the notion that what is acceptable in China is acceptable elsewhere.

Chinese companies have been encouraged to spread economic benefits by hiring more local workers and managers, sourcing more goods locally, transferring technology and technical knowledge, and forging significant partnerships with local companies.

More broadly, it is expected they will act as good corporate citizens, implementing meaningful corporate social responsibility programs that will foster economic development, enhance educational systems and protect the environment.

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There is no shortage of Chinese initiatives. For instance, China Railway and Bridge Corp. has purchased \$235 million in local goods and services in Kenya and helped develop an indigenous cement production capability. In Botswana, Ghana, and South Africa, the information and technology company Huawei has sponsored student awards, virtual libraries and schools. Hisense, a leading appliance maker with large operations in South Africa, has donated goods to local animal conservation initiatives.

Political localization, though, is not as obvious choice as it may seem. There are a number of ways in which such programs can backfire.

Localizing workers and managers can, for example, be politically counterproductive if it causes a Chinese company to deliver poor quality goods and services. This is so because Chinese goods and infrastructure projects already have a poor reputation among segments of the population in various countries. While this reputation is not always deserved, the reality is that Chinese companies need to guard against offering inferior goods and services to avoid the political consequences of local countries feeling they are just dumping grounds.

Doing business abroad sometimes involves dealing with unstable administrations or despotic rulers. Yet "getting into bed" with an unpopular government could result in a political backlash against a Chinese company if the host country later undergoes a regime change or change in government.

Chinese National Petroleum, a state-owned company, found that its close dealings with the Sudanese government, which was accused of genocide, had implications for its public reputation and global financing activities.

Localizing government relations may also be risky if local companies or government representatives demand the payment of bribes or that companies engage in other illegal activities; Chinese companies may not run into trouble at home over bribes paid abroad, but it could expose them to legal action or hurt their public image in third countries.

### Weighing the downside

There are cases where a host country's social norms, such as a culture of discrimination against women, may undermine the international image of Chinese companies doing business in the country.

If localized production is seen to be environmentally unfriendly, this could

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Ultimately, political localization should not be viewed as a religion, but as a strategic business choice. There are a number of imperatives to be kept in mind.

First, Chinese companies need to think about what they hope to gain by localizing politically and closely examine the potential downsides.

Second, Chinese businesses need to spend time defining what the "local" part of localization will really mean. Host countries are often not homogenous entities; there are many various components, from regions to social groups to power brokers. Chinese multinationals need to determine which components they should target and why. In an era of modern telecommunications and globalization, "local" can often extend to actors in third countries, nongovernmental organizations and international institutions.

Third, Chinese companies need to think rigorously about the methods that they will use to localize politically including their likely effectiveness and possible legal and ethical repercussions.

By doing so, Chinese multinationals will be much more likely to ensure "winwin" situations with their investments abroad.



Jean-Marc F. Blanchard is executive director of the S.H. Wong Center for the Study of Multinational Corporations in California and a distinguished professor at the School of Advanced International and Area Studies at East China Normal University in Shanghai.

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