

China needs delicate handling

Peter Marsh

Peter Marsh looks at three approaches to joint ventures in a country still seen by western manufacturers as a beacon of hope in a sickly global economy

Bernd Blumenberg is amused by the number of times in a working day he receives an armystyle salute from the 400 security guards at the chemical complex he manages in China. There are probably five times as many guards as are really needed - but sacking some of them might cause local controversy, particularly with the state-owned company that is Mr Blumenberg's joint venture partner.

As a result, Mr Blumenberg now enjoys a playful relationship with the security officers. "I always salute back," says the 61-year-old German, who is president of a large joint venture in Nanjing between Germany's BASF, the world's biggest chemicals group, and Sinopec, a Chinese petrochemicals business.

The tale illustrates some of the thought processes that influence managers of joint ventures between foreign businesses and Chinese groups. Most of the world's biggest industrial groups have been attracted to a country that, even as growth slows, they regard as a beacon of hope. But in many sectors, Beijing insists that foreign companies work with a state-owned business, partly to ensure technology and management ideas are transferred to Chinese companies, but also to protect the latter from the fiercest competition.

So some deftness in deciding when to make compromises is often vital to managing overseas companies' operations in China, as well as using experiences with the joint venture to build strength in a country that presents many difficulties for foreign entrants.

Created in 1996, but with production starting only three years ago, the BASF/Sinopec venture is one of the biggest such undertakings in China. It has received investments of \$2.9bn, and employs 1,400 people. Output of chemicals from the Nanjing works last year came to about \$2.1bn, virtually all of this being sold in China.

Though Mr Blumenberg, who has managed the joint venture since 1997, resisted a cull on the guards, he stood firm against a move by Sinopec to open offices for Communist party bureaucrats in the Nanjing plant. Their idea was to strengthen the party's links with workers and feed them political messages. "I said: 'No, we're not having this,'" says Mr Blumenberg. "We thought it would not fit in with the normal way BASF seeks to operate."

Displays of independent thinking seem not to have harmed his standing with Sinopec, one of whose representatives, a Communist party official, is chairman of the joint undertaking. The Chinese company also provides half the managers on the venture's 26-strong management board. Mr Blumenberg praises their capabilities: "They send [to the board] some excellent people, some of whom will be future leaders."

His overall guidance to everyone on the board is always to "put the requirements of the joint venture first". He says once individuals on the board start thinking first about the needs of their own company, then decision making can go awry. Other ventures rely on personnel with more local roots, an approach that has obvious appeal for managing relations with the Chinese authorities. Caterpillar, the world's biggest maker of construction machines, has sales of \$2bn in China. To manage its operations, it has looked to Chen Qihua, one of the US company's top managers in China and a Chinese citizen. Mr Chen is unusual in having had spells in running the US company's two biggest Chinese manufacturing operations, both of which were originally joint ventures with state companies, and which between them employ nearly half the company's 6,500 staff in the country.

The former welding engineer is therefore a highly visible symbol of Caterpillar's willingness to promote its Chinese managers to top positions. Mr Chen, aged 47, started his career in 1982 as a factory employee with the state-owned Xuzhou Construction Machinery Group. In 1994,

when Mr Chen's company formed a joint venture to make excavators in Xuzhou with Caterpillar, Mr Chen moved to the joint venture in a management job, becoming a Caterpillar employee.

From last year, Mr Chen has been the general manager at the Xuzhou facility, where Caterpillar's stake has risen to 85 per cent from 60 per cent. He also had a stint running Caterpillar's partnership with Shandong SEM machinery, another state company.

Mr Chen says that being Chinese can be a "big help" in sorting out problems on the shop floor. "I can talk to the workers and get at the heart of what's going on."

He says Caterpillar has played its part in increasing the overall technical competence of China's large construction equipment industry. "A lot of the state-owned companies [in this business] have learnt how to be more competitive and have learnt to be a lot better than they were in marketing, rather than simply concentrate on production."

ArcelorMittal, the world's biggest steel company, has taken a hybrid approach to Chinese joint ventures. Its head, Indian entrepreneur Lakshmi Mittal, has had to adopt a patient attitude to China because of the authorities' desire to restrict foreign investment in the industry, allowing breathing space for Chinese steel companies to build their strength.

In 2005, Mr Mittal reached an agreement with Hunan Valin, a Chinese steel company, which allowed his company to take a shareholding limited to 33 per cent. Last year he bought a minority stake in China Oriental, another steel company.

Meanwhile, Mr Mittal is working with Li Xiaowei, Hunan Valin's chairman, to build the company's technological capabilities. This means initiatives such as seconding top managers and engineers from ArcelorMittal to help transfer know-how, for instance on the processes required to make sophisticated automotive steel.

Mr Mittal's hope appears to be that, by demonstrating to the Chinese political establishment that he can advance the cause of the country's steel industry, Beijing might sanction a bigger role for ArcelorMittal in China.

The various experiences of Mr Mittal, Mr Blumenbach and Caterpillar in China illustrate three approaches to the task of running a joint venture in the country. For companies that can overcome its complexities, the arrangement is evidently a key that unlocks a vast market opportunity.

Fonte: Financial Times, London, October 28 2008, Primeiro Caderno, p. 14.