

# The strategy of multinational enterprises in the light of the rise of China<sup>☆</sup>

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## Abstract

This paper examines the strategy of multinational enterprises in the global economy with particular emphasis on their strategies in and about China. It outlines the rise of globally distributed manufacturing, services and marketing under the control of a focal firm (“the global factory”) and applies this analytical framework to strategies in China. The paper outlines the constraints on future growth in China and the interacting effects of these constraints with the strategies of foreign firms. © 2007 Elsevier Ltd. All rights reserved.

*Keywords:* Multinational enterprises; Foreign direct investment; China; Global strategies

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## 1. Introduction

This paper examines the development of strategies of multinational firms against the background of the globalisation of markets. It is argued that markets are integrated globally at differential speeds and that this provides opportunities for multinational firms who are also key drivers in the processes of globalisation. Location and ownership strategies are analysed in detail together with policies concerning the crucial role of knowledge creation and management. The concept of “the global factory” is introduced as an integrated network (often controlled by a focal firm) that combines core functions, distributed manufacturing and service operations and marketing networks. The paper then examines the rise of China as a world economic power. The challenges facing China are

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delineated with particular attention to the challenges facing multinational firms in China. Constraints on Chinese growth are examined—it may seem strange to investigate such constraints when China is growing at an historically unprecedented rate but severe restrictions are appearing on its future growth potential. This then leads on to the crucial needs of the Chinese economy and to the role that multinational firms can play in the future. The final section examines strategy in the current Chinese context.

**2. The conflict of markets with national policies in the global economy**

As Sideri (1997, p. 38) says “Globalisation is essentially a process driven by economic forces. Its immediate causes are: the spatial reorganisation of production, international trade and the integration of financial markets”. It is not therefore uniform across economic space—“the segmentation of the manufacturing process into multiple partial operations which combined with the development of cheap transportation and communication networks, has brought the increasing division of production into separate stages carried out in different locations”. The strategies of multinational firms are therefore crucial to the causes and consequences of globalisation.

We can examine globalisation as a conflict between markets and management (policies). Fig. 1 identifies three levels of markets—financial markets, markets in goods and services and labour markets. Each of these is moving at a different speed towards global integration. Financial markets are already very closely integrated internationally, so that no individual ‘national capital markets’ can have a sustainable independent existence. However, attempts at national regulation do persist (Laulajainen, 2000) and the role of localities in the financial markets still provides differentiation (Berg & Guisinger, 2001; Tickell, 2000). Despite this, it is legitimate for analytical purposes to hypothesise a single integrated global capital market. Regional economic integration (REI) is becoming increasingly effective in integration goods and services markets at the regional level.

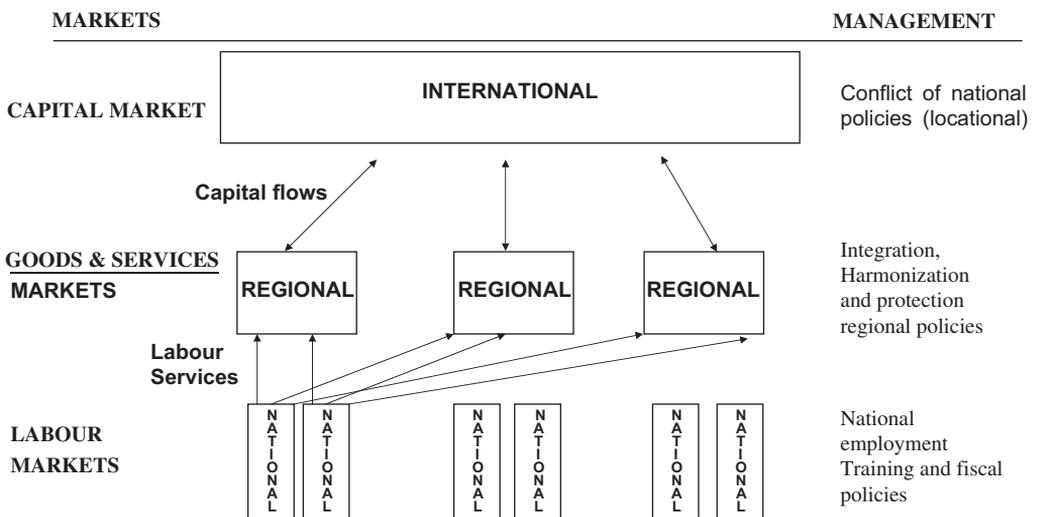


Fig. 1. The differential speed of globalisation.

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