



Technium.

47/2023

2023
A new decade for social changes

Technium
Social Sciences

Powered by

PLUS
COMMUNICATION



Huawei's Internationalization Strategy

Yang Minxue, Chuanchen Bi

College of Graduate Study in Management

chuabi@kku.ac.th

Abstract. In the current strategic phase of Chinese enterprises "going global," they have received significant policy support, particularly in the high-end information technology industry, which is experiencing unprecedented growth. Huawei, as a leading company in the domestic communication market, has strategically positioned itself in the low-end market, steadily expanding its presence. It has also focused on technology absorption and has engaged in multiple collaborations with foreign companies while executing its internationalization strategy. As a result, Huawei has established a significant presence in international markets. This article delves into the internationalization strategy of Huawei, focusing on its operating environment and internal conditions. It also proposes policy recommendations and directions for further development.

Keywords. Huawei Company; Internationalization Strategy; Telecommunications Industry

Introduction

Shenzhen Huawei Technologies Co., Ltd. (hereafter referred to as Huawei) was founded in 1998 with its headquarters in Shenzhen. It is a high-tech private enterprise specializing in the research, development, manufacturing, and sales of communication equipment. Huawei is also a major equipment supplier in China's communication market and has steadily entered the global telecommunications market, ranking among the top 50 companies globally. In the 21st century, Huawei has ample opportunities and room for growth. The national "go global" strategy and innovation-oriented national strategy have provided an excellent platform for Huawei's steady increase in market share. Additionally, the supply-side structural reform aimed at adjusting the economic structure has created a series of advantages for Huawei. Labor, capital, and institutional innovations have injected fresh vitality into Huawei, allowing its technological innovation to flourish. The supply-side reform has liberated resources and provided Huawei with a solid foundation for internationalization. Currently, Huawei's strengths lie in its independence from relying solely on national resources. It conducts cutting-edge technological research independently, freeing itself from external constraints. However, its weakness is evident in the loss of the entire US communication market, which presents a significant obstacle to Huawei's internationalization. Nevertheless, the opportunities lie in the fact that US trade and technology restrictions have forced Huawei to look towards other countries, such as Africa, which offers significant potential and market share. The challenge lies in overcoming technical and marketing hurdles. If successful, Huawei can climb

to a higher level in its internationalization process. After 1998, with the introduction of a competitive mechanism in China's telecommunications market, many multinational corporations such as Motorola and Ericsson rapidly dominated the market. The domestic market, a large cake, was shared among these multinational enterprises, leading to slow development for domestic companies. Surviving solely on the domestic market was becoming increasingly difficult for Huawei. According to CCID data, the average annual growth rate of fixed asset investment in telecommunications operators plummeted from 25% from 1996 to 2000 to a mere 2% in 2002, and growth has remained sluggish since. So, why did Huawei choose the path of internationalization? Firstly, the rise of the Internet significantly reduced communication costs, making cross-border cooperation more efficient and conducive to the acceleration of cross-border trade, investment, and technology transfer. Secondly, the global spread of homogeneous lifestyles provided fertile cultural ground for globalization. Thirdly, the development of network technology disrupted many traditional thoughts and business models, significantly shortening product development time and product lifecycle. Now, what are the ways to go international? Taking Huawei as an example, it has established more than 20 regional branches and over 100 subsidiaries globally. Simultaneously, it has set up 12 research and development centers in the United States, India, Sweden, Russia, and other countries. Each research and development center focuses on different aspects, leveraging global resources. This ensures that when a product is launched, its technology is synchronized globally. Huawei has also established 28 regional training centers overseas and heavily promotes employee localization. So, what is the significance of Huawei's internationalization path? Is the internationalization path a double-edged sword for other enterprises? Is the quality and level of the national "go global" strategy truly sufficient to provide strong support for a company's internationalization? These are questions worth exploring.

Huawei's Current Business Situation

Huawei's primary focus is on the telecommunications industry, and it is a high-tech private enterprise engaged in the development, research, manufacturing, and sales of communication equipment. In 2016, Huawei ranked 129th on the Fortune Global 500 list, and in 2017, it climbed to the 83rd position. By 2018, Huawei reached the 72nd position on the list. This demonstrates that Huawei has achieved significant victories in its battles against major international telecommunications companies. Additionally, in the third quarter of 2018, Huawei's market share globally ranked third, holding a 12% share of the smartphone market. This is a remarkable achievement that other domestic communication companies have found challenging to match. Regarding its financial status, Huawei is experiencing overall growth. In 2016, the profit margin was 9.10%, and in 2017, it increased to 9.30%. The sales revenue in 2017 showed a growth of 15.7% compared to the previous year, with a net profit growth of 28.1%. In terms of research and development (R&D), Huawei continued to increase its R&D investment in 2017, reaching 89.7 billion RMB (approximately 13.8 billion USD). Out of this, 76.4 billion RMB (equivalent to 11.66 billion USD) was allocated to the development of smartphones and Kirin chips. In 2018, Huawei plans to further increase its R&D investment, aiming for a range of 15 to 20 billion USD. By comparison, in Apple's 2017 fiscal year, the R&D expenditure was 11.5 billion USD (including all smart devices). In the 2018 fiscal year, Apple's R&D expenses increased to 14.2 billion USD, nearly 23% growth compared to the previous year. Huawei's focus on extensive in-house R&D puts it in direct competition with Apple. Huawei has long been China's leading private enterprise in terms of R&D investment. In 2017 alone, Huawei's R&D expenditure reached 89.7 billion RMB, accounting for 14.9% of

Huawei's global annual revenue. This substantial R&D investment places Huawei as the third-highest globally in R&D expenditure, following Amazon and Google's parent company, Alphabet. Huawei has stated that it plans to increase its annual R&D expenditure by 20% to 40% over the next decade. On the international front, Huawei's business and products have a significant impact on various continents in areas such as transportation, energy, finance, and play a crucial role in the rapidly evolving "Internet Plus" era. In terms of global operations, Huawei is steadily increasing its market share and has established a significant presence in international markets.

Huawei's Internationalization Strategy

Common international market entry modes include trade-based, contract-based, and investment-based approaches. Each approach involves different levels of resource investment, risks, and control over overseas markets. The fundamental paths of internationalization can be categorized into progressive, leapfrog, and combined approaches. Progressive Approach: This involves gradually entering the international market in sequential steps. The typical progression includes domestic operations, indirect exports, direct exports, contract-based entry into international markets, technology licensing, establishing overseas subsidiaries or branches, and eventually making direct investments. This approach is characterized by starting with easier steps and gradually advancing, following a step-by-step progression. Leapfrog Approach: In this approach, a company bypasses one or more stages and directly enters international markets through investment. This may not strictly follow geographical proximity rules. Leapfrogging involves directly investing in foreign markets without intermediate steps. It can be a more aggressive and faster approach to internationalization. Combined Approach: The combined approach combines elements of both progressive and leapfrog strategies. Companies might use a combination of methods and modes to enter and expand in international markets, depending on their specific circumstances and goals. Huawei's internationalization strategy appears to involve elements of the progressive approach, as it has gradually expanded its global presence over the years. Huawei initially focused on domestic operations and indirect exports before establishing a significant international presence. However, due to its rapid growth and technological prowess, Huawei has also adopted elements of the leapfrog approach, bypassing some intermediate stages and making substantial direct investments in foreign markets. This combination of strategies has allowed Huawei to achieve a strong global position in the telecommunications industry.

Huawei's Internationalization Path In the early stages of Huawei's internationalization, the company initially focused on geographically adjacent countries and regions, gradually expanding into areas such as Hong Kong, Russia, Latin America, and Africa. It sought regions with similar levels of economic development and market demand. Due to both internal and external constraints, Huawei embarked on a leapfrog development path during its initial internationalization efforts. However, given the unique nature of Huawei's products, which include not only technology but also related technical issues, it's essential not to generalize its early internationalization strategy. Instead, it can be characterized as an approach that closely resembles a combined strategy. In the mid-term, Huawei transitioned from primarily adopting a progressive approach to a leapfrog approach. It entered markets in regions like Hong Kong through contract-based arrangements while simultaneously establishing research and development institutions and wholly-owned subsidiaries in countries like the United States and India. During this phase, Huawei began entering international markets through collaboration and building technology networks. It flexibly tailored its products to meet local development

needs, which allowed the company to gain a competitive advantage in international markets with higher quality and more competitive prices. In the later stages of internationalization, Huawei's strength further solidified. As the company continued to progress, it leveraged the vast potential value offered by the internet. Huawei actively sought development and supply indicators from major telecommunications giants and joined various telecommunications alliances. It's evident that Huawei's success today is closely linked to its strategic approach, which combines alliance-based internationalization and independent internationalization.

SWOT Analysis of Huawei's Internationalization

Strengths:

Advantage in the Telecommunications Manufacturing Industry: Huawei's technological leadership and cost-effectiveness give it a significant advantage in international development. It possesses a high level of innovation overseas. Data shows that Huawei's market share is steadily increasing, making it the second-largest telecom equipment operator by share.

Low Comprehensive Costs: Huawei efficiently leverages its advantages in local labor to reduce costs across research and development, product manufacturing, management, engineering installation, network optimization, and after-sales services.

Strong Innovation Capability: Huawei holds a considerable number of patents in its portfolio, including proprietary intellectual property and patents developed through independent research or absorption and adaptation of existing technologies. This innovation-driven approach enables Huawei to offer competitive pricing while maintaining high product quality. Huawei has filed over 50,000 patent applications, supported by initiatives such as Huawei University and substantial funding investments. Additionally, Huawei actively collaborates with international standardization organizations and participates in national standards development, enhancing its adaptability to international standards and competition.

Successful Marketing and After-Sales Service: Huawei recognizes the significance of marketing and after-sales services, particularly in markets like Europe and the United States that emphasize product quality and services. Huawei has established over 100 world-class subsidiaries globally, covering service, marketing, and after-sales support, providing fast and high-quality services. Huawei's solutions serve one-third of the world's population and over 40 leading global operators. Its ability to meet increasing customer demands is a key factor in securing substantial contracts.

Diverse Product Portfolio: Huawei offers a wide range of products, including signaling networks, intelligent networks, access networks, routers, Ethernet switches, DWDM, CDMA, and more. Many of these products belong to the next generation of pioneering solutions, catering to a variety of customer needs and opening up significant growth opportunities.

These strengths have contributed to Huawei's success in the international market and its ability to compete effectively on a global scale.

Weaknesses:

Lack of International Management Talent: Huawei's impressive internationalization process is hindered by a shortage of international management talent. The company lacks professionals with international perspectives, such as cross-cultural managers, financial experts, legal experts familiar with global laws, experts in international intellectual

property, and individuals with outstanding knowledge and experience in the telecommunications sector.

Room for Improvement in Internal Management: While Huawei has some advantages in internal control compared to domestic enterprises, it falls short in comparison to mature international corporations. There is a need for improved management mechanisms at the senior level to ensure alignment between technology decisions, management decisions, and market decisions. Additionally, Huawei faces vulnerabilities in its supply chain that require resolution.

Opportunities:

Global Market Revival: The recent increase in demand in the global telecommunications market signals the dawn of the next telecommunications industry boom. This trend presents a highly favorable environment for China's telecommunications sector. Government policies and substantial market impetus will create significant opportunities and profit potential for the entire industry.

Potential Markets in Developing Countries: While Huawei has experienced significant growth domestically, it sees vast market potential in developing countries, particularly in Asia, Africa, and Latin America. These regions offer advantages such as inexpensive labor, abundant resources, and markets that remain largely untapped. These opportunities are less visible to companies primarily focused on Western markets. To secure a solid foundation for the future, Huawei must leverage these opportunities effectively.

Cutting-Edge Technologies of the 21st Century: Technologies such as big data, cloud computing, artificial intelligence, 5G, and the Internet of Things (IoT) are key drivers of wealth and innovation in the 21st century. Each of these technologies presents numerous areas for exploration and growth. To stay competitive and forward-looking, Huawei must continue to invest in and leverage these technologies.

Lowering of National Barriers and Economic Globalization: Huawei can significantly expand its product reach into foreign markets, creating substantial profit potential. Economic globalization enables companies to establish unprecedented cooperative relationships worldwide. Resource sharing, joint ventures, collaborations, and strategic alliances can help companies overcome barriers to international market entry and enhance their competitive advantages.

Threats:

Political Factors: Huawei's investments in less developed third-world countries, while promising in terms of growth potential, come with political, legal, reputational, and security risks due to the often-unstable nature of these regions. Furthermore, China's risk protection system for overseas investments is underdeveloped and lacks comprehensive coverage. In a multipolar world, the U.S. and Europe are attempting to control and reshape international markets, adding pressure on Huawei.

Economic Factors: Intense industry competition, slowing growth in the domestic telecommunications market, and a disruptive domestic market characterized by cutthroat price wars and commoditization pose challenges for revenue and profit growth in traditional markets. Additionally, international markets face hard trade barriers and trade discrimination, as well as soft barriers such as varying technical standards. All these challenges occur against the backdrop of a sluggish global economy.

Cultural Factors: As Huawei expands into foreign markets, it must address the issue of cultural localization. The company needs to consider local cultures, respect them, adapt to them, and leverage them to explore new market environments. This is essential for Huawei, as

well as any company entering a new market, to establish a strong presence and build trust with local consumers.

Strategy plan for Huawei Internationalization

Culture strategy: In order for Huawei to establish itself in the international market, it must first build a strong sense of cohesion within the company, preventing it from self-destruction. Furthermore, Huawei should focus on shaping its corporate culture. The culture of a company reflects its longevity. Therefore, Huawei should continually improve and enhance the "wolf spirit" shared by its employees, as this spirit represents the best embodiment of the company's cohesion.

Technology strategy: Due to trade barriers from Europe and the United States, Huawei has been lacking in cutting-edge technology. The trade tensions between the U.S. and China in the first half of 2018 highlighted this deficiency. Technology is wealth, and wealth comes from technology. Therefore, Huawei should intensify its efforts in technological research and development to reach world-class standards.

Marketing Strategy: Facing varying policies in different countries, Huawei should first adapt and integrate, and then innovate. A suitable strategy might involve localized marketing. This means adapting to local customs and cultures to meet the needs of local consumers.

Management strategy: For sustained progress, Huawei should focus on international operational management, overseas branch management, financial management, human resources management, brand management, and product quality control. These aspects are all part of Huawei's balanced internationalization strategy.

Talent strategy: Huawei has faced challenges in recruiting top talent. If necessary, the company should establish partnerships with domestic universities to ensure the recruitment of specialized and versatile talent that meets Huawei's and the market's needs.

Suggestions for other related companies

Choose Appropriate Internationalization Strategies: Just like Huawei, other companies should choose the right internationalization strategies based on their own circumstances and target markets. After gaining an understanding of the basic entry modes in target markets, they should continue to invest and optimize their operations according to international company standards to reduce the operational costs of market expansion. They should also be flexible in adjusting their strategies and avoid rigid and stereotypical approaches.

Flexibly Enter Foreign Markets with Gradual Penetration: Borrowing from Huawei's experience, companies can select appropriate breakthrough points in foreign markets and gradually penetrate these markets to reduce market entry risks. Huawei has successfully avoided the highly competitive markets of developed countries by offering cost-effective solutions in less developed regions.

Enhance Independent Innovation Capability: Low pricing is not the sole factor for success. Quality of products, sales, and after-sales services are of paramount importance, especially in international markets, including Europe and the United States. Telecom operators place a strong emphasis on product quality and service, and their procurement cost requirements are crucial. Companies should focus on delivering high-quality products, advanced technology, competitive prices, excellent service, and rapid responsiveness to customer needs to gain a competitive edge in the international market.

References:

- [1] Ma Qianqian. Analysis of Huawei's Internationalization Strategy. *Northern Economy and Trade*, 2015(11).
- [2] Liu Hongyan. Analysis of Huawei Company's Internationalization Path and Model. *Reform and Strategy*, 2014(7).
- [3] Xie Wenxin, Yan Yongyi. Analysis of Huawei Company's Internationalization Strategy. *International Economic and Trade Exploration*, 2010(9).
- [4] Hao Hantao. *Research on Huawei Company's Internationalization Strategy*. Lanzhou University of Finance and Economics, 2016.
- [5] Tian Ye. Analysis of Huawei's Internationalization Strategy and Its Implications. *Journal of Jilin College of Business*, 2012(4).
- [6] An Xiaopeng, Qiao Biao. Process Analysis of the Internationalization Stages of China's Communication Manufacturing Enterprises: A Case Study of Huawei Company. *Value Engineering*, 2008(8).
- [7] Lü Yanxia. Selection of Incremental Development Models for Cross-border Operations of Private Enterprises: A Case Study of Huawei. *Value Engineering*, 2012, 31(35).