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THE INTERNATIONALIZATION OF CHINESE MULTINATIONALS IN THE MIDDLE EAST AND AFRICA: THE CASE OF HAIER

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ABSTRACT:

This article investigates the internationalization strategy of the Chinese firm Haier in Africa and the Middle East and addresses strategic implications in Haier's successful entry strategies in these difficult regions. It also draws some useful lessons for the industry incumbents willing to enter these markets. A case study approach of Haier in Africa and the Middle East with an emphasize on the Algerian market is used to shed more light on the striking internationalization patterns of the firm's entry strategy in these developing regions of the globe. The results of this study suggest that, despite the hardship associated with doing business in Africa and the Middle East, Haier unlike its incumbent peers from developed nations and given its international entrepreneurship mindset, political and market acquaintances with these developing nations, seems to follow (1) an accelerated and early internationalization, (2) a dual-entry mode − entry simultaneously in developed and developing countries − and (3) an increased commitment and localization toward these markets.

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KEYWORDS: Internationalization, Haier, China, Africa, The Middle East, Algeria, Emerging Markets MNEs

INTRODUCTION

The last decade witnessed overwhelming growth of the Chinese Multinational Enterprises (MNEs) worldwide, with Haier at the forefront of these firms, in the home appliance industry. In a period of no more than two decades, under the impulsion of its emblematic CEO, Ruimin Zang, the firm from Qingdao transformed its nearly bankrupted firm in 1984 to China's number-one home appliance maker in 2001. In addition, it has constantly maintained its leadership since then. Globally, Haier ranked 3rd among home appliance manufacturers in terms of sales volume, with $23 billion revenue in 2011, trailing only Whirlpool and Electrolux (Euromonitor International, 2010) .

China's adherence to the WTO in the late 1990s led to the accelerated internationalization of Chinese MNEs and a growing number of outbound investment projects. Under the 'Go Global' government-led initiative instigated in 1999, the central government aimed to further enhance Chinese firms' international competitiveness by reducing or eliminating foreign-exchange-related, fiscal, and administrative obstacles to international investment activities (Sauvant, 2005). In the following years, a sharp and steady surge in the Chinese outward foreign investments (OFDI) occurred. From a modest US$ 28 billion recorded in 2000, the Chinese OFDI stock worldwide reached US$ 317 billion in 2010, and more than 13,000 domestic companies established 16,000 foreign affiliates, spreading throughout 178 countries (The Chinese Ministry of Commerce, 2010).

Within the context of this globalization rush among the Chinese MNEs, in 1997 Haier developed a formal internationalization strategy, at which point CEO Ruimin Zhang announced the "three one-thirds" goal, which asserted that, out of all Haier products, one-third is made and sold domestically, another one-third is made domestically but sold overseas, and the last one-third is both made and sold overseas (Yi & Ye, 2003: page 187). The company has since relentlessly set up subsidiaries, joint ventures, or sales arms virtually in every part of the globe, even in the most difficult and remote regions. By 2011, the firm had a presence in 160 countries, with 29 manufacturing bases and 16 industrial parks in the U.S., Europe, Asia, The Middle East and Africa (See Table 1).

Unlike its established incumbents in the industry in Africa and the Middle East, Haier has been over the last 20 years harnessing the potentially vast and untapped markets of these countries, establishing sales networks and manufacturing facilities in more than 30 countries within these regions. In effect, over the last decade, Africa and the Middle East's economic growth has quickened, benefiting from growing raw material revenues and market liberalization policies, opening up new business opportunities in a market of 1.4 billion people. The two regions were the fastest growing in the world in terms of GDP (+5.1% in Africa and +4.5% in the Middle East), trailing only the emerging Asian countries (+8.6%) during the period of 2000-2010 (McKinsey Global Institute, 2012). In Africa, for instance, the population will increase from 965 million to 1,996 billion by 2050, and the real GDP rose 5.1 percent from 2000 to 2010. The continent's households spent a combined $860 million in 2008, more than those in India or Russia. This figure is projected to rise to $1.4 trillion over the next decade if the real GDP continues to grow at its current pace (Mckinsey and company, 2010). The Middle East as well, with a population of 380 million, has demonstrated steady economic performances between 2000 and 2010 as the real GDP rose 4.5 percent on average. This growth was especially strong among oil and gas exporter countries, where surging export volumes and prices enabled them to accumulate the area's current account surpluses of about US$440 billion in 2012 (IMF, 2013).

However, these economic growth and opportunities come with a great deal of uncertainty and a harsh business environment for MNEs. This environment is typically characterized by mercurial economic policies, instable political systems, risk of popular revolutions, foreign companies' ownership regulation (the 51/49 rule), red tape, corruption, limited intellectual property protection, lack of various infrastructures, and failure to enforce contracts. Facing such extreme business conditions, foreign multinationals are less likely to make investments because assets face greater transactional hazards, and returns are less predictable and certain (Williamson, 1996). Thus, the international business literature suggests that, in more externally uncertain and volatile environments, firms tend to lower their ownership structures and reduce their commitment in host countries with greater risks (e.g. Anderson & Gatignon, 1986; Hennart, 1988; Hill et al., 1990).

However and despite the hardship associated with doing business in such environments, in recent years Haier has stood as a fast-moving pioneer investor in Africa and the Middle East. The company's activities in the region can be traced back to 1993, when it started appliance exports across the region. By 2005, the firm had opened its first industrial park in Jordan and started plants in Algeria, Iran, Nigeria and Tunisia (see Table 2).

This article investigates Haier's internationalization strategy in Africa and the Middle East and addresses strategic implications from Haier's experience with its successful entry strategies in the region. It also draws some useful lessons for industry incumbents willing to enter these markets. From a more general prospective, it documents the strategies used by the Chinese MNEs in the extreme business environments of Africa and the Middle East and to which extent they diverge/converge with those models applied by advanced economies' MNEs. Relying upon a series of interviews with the former CEO (2002 to 2010) of Haier Sodinco Algeria and other executives of the firm in China in charge of the two regions, a case study of Haier in Africa and the Middle East with a special emphasis on the Algerian market is also used to shed light on the striking internationalization patterns of the firm's entry strategies in these developing regions. To date, many case studies have been published documenting Haier's internationalization strategies in different parts of the globe, but none specifically focus on the African and Middle Eastern markets; we therefore try to bridge this gap through the present research. The paper proceeds as follows. In the first section, we introduce the framework of the Chinese MNEs expansion in Africa and the Middle East. In the second section, we present the internationalization strategies of Haier worldwide in general, and then in section three, we discuss the company's methods applied in the African and Middle Eastern regions in particular. We present in section four the case of Haier in the Algerian market, and finally in section five, we discuss the results and draw conclusions.

Table 1: Haier Global Operations in 2011

Regions/Type of Operations	Trading Company	Industrial Park	Manufacturing Facility	R&D Center	Sales Network
Americas	3	1	2	1	12260
Europe	4	-	-	2	15100
East Europe	1	-	2	-	2390
Mediterranean	1	1	3	-	2660
Africa	-	-	4	-	2520
West Asia	-	-	2	-	2380
South Asia	1	1	6	-	3560
Southeast Asia	5	1	3	-	2670
East Asia	3	-	1	2	1650
China	42	12	5	3	13000
Australia	1	-	-	-	610

This table shows Haier's global network of operations (Trading companies, R&D centers, Manufacturing facilities, Industrial parks and sales networks) across the globe and by region. Source: Haier corporate data

FRAMEWORK OF THE CHINESE EXPANSION IN AFRICA AND THE MIDDLE EAST

China's frenetic economic growth has brought about an insatiable thirst for natural resources over the past two decades and pushed the Chinese central government to increasingly orient its OFDI policy toward resource-rich countries to fuel its economic and demographic expansions. In 1998, a white paper from the Chinese Ministry of defense was issued, proclaiming energy security as a critical part of China's overall security. The country's global economic, foreign, and security policies became closely interconnected (Hill, 2004: page 56). Although it was historically low until the 2000s, the Chinese economic engagement in Africa and the Middle East is completely reshaping these regions' geopolitical landscape, given its impressive scope and scale, especially in Africa, which foreign investors had passed over and marginalized for decades (Tull, 2006: page 459). In 2009, China overtook the U.S. as Africa's first trade partner, and trade volumes reached US$ 126 billion in 2010 (Christopher & Hanson, 2012). China was also the Middle East's top trade partner, with a trade value of US$ 190 billion in 2010 (Chinadaily, 2011). In terms of FDI, Chinese OFDI stocks in Africa grew by 1349% to US$ 13 billion in the period of 2004-2010 and by 509% to US$ 3,5 billion in the Middle East during the same period (The Chinese Ministry of Commerce, 2010). China's growing economic commitment toward Africa and the Middle East in recent years has been positively welcomed by these area's leaders, as it offers an alternative to the involvement of former colonial powers and western countries perceived as imperialistic or neocolonialist. Unlike its western counterparts, the Chinese economic cooperation and aid do not hinge on any specific political or economic conditionalities such as human rights, democracy, or market liberalization (Tull, 2006; Yetiv & Luo, 2007). China's non-interference principle in the internal affairs of a state and its ability to maintain political relationships with "pariah" states helped to grow its interests and sphere of influence in countries such as Sudan or Iran. Throughout Africa and the Middle East, Chinese MNEs are gaining a strong foothold in not only the oil industry but also in a wide range of other sectors. In Algeria, a Chinese consortium was granted the construction of the longest highway in the continent; in Nigeria, HUAWEI technologies won a $750 million contract with the operator Globacom to upgrade its network infrastructure; and in Iraq, the government awarded five separate contracts to Chinese oil companies (Chen, 2011). These examples illustrate the clear progression of Chinese corporations into these regions and the outperformance of their western competitors. We analyze in the following discussion the origin of the Chinese corporations' competitive advantages in these two regions (based on Alden & Davies, 2006).

Political acquaintance advantage: Since most Chinese MNEs investing abroad are state owned or closely tied with China's central government, they usually enjoy strong inter-governmental political support when investing in fellow communist or ideologically similar states (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007). Their willingness to work with any state regardless of its governance practices helped to consolidate their position in some African and Middle Eastern countries such as Sudan, Angola, or Iran. In order to establish itself in the long term, Beijing has been providing financial assistance (through aid or debt cancellation), infrastructure building, or technological transfer cooperation programs to these countries in order to secure their sympathy and trust. Although not profitable in the short term, these initiatives enable China to gain political influence and privileged access to the local market and natural resources extraction rights (Pan, 2006; Evans & Downs, 2006).

Comparative economic advantage: Within several African and Middle Eastern cities, attentive observers will notice Chinese goods on every street corner. With cheap textiles and clothing, consumer electronics, and even automotive goods and services, Chinese brands are claiming an increasing share in these regions' consumers' shopping carts. Low-cost goods of variable quality as well as higher-end products such as refrigerators, TVs, or smartphones are gaining growing popularity amongst consumers, as they appeal to the modest revenues of the middle-class citizens of these countries. Companies such as Huawei, TCL, and Cherry are becoming major household names, with extensive distribution networks and comfortable market shares throughout the area. Additional aspects of the Chinese firms' dominance include low-cost bidding strategy in public projects centered on lower skilled labor, lower managerial costs, and strong governmental support that helps them win public contracts.

Non risk aversion and first-mover advantage: In addition to the aforementioned distinguishing characteristics, Chinese corporations appear to be less risk averse than western ones in difficult environments. This attitude toward hazardous countries might be effectively explained by the home country capital market imperfections and institutional factors such as an active support from the Chinese governments (through soft loans, for instance), or strong political ties with countries in these regions (See Buckley et al., 2007 and Buckley, Tan, & Xin, 2008). This is especially true in countries torn by war or under closed political systems such as Sierra Leon, Angola, Sudan, or Iran. This low risk aversion attitude helps Chinese investors to see beyond the risks to establish profitable businesses earlier than their industrialized economies' competitors. First-mover advantage usually grants pioneering and risk-taking investors various competitive edges over late entrants such as higher market shares, possibilities to preempt key assets, establishment of entry barriers, or better relationships with local governments.

Market acquaintance advantage: Chinese MNEs' knowledge of operating in difficult environments characterized by centralized economies, weak institutional framework, or deficient market structures may well have equipped them with ownership advantages that enable them to compete efficiently in settings similar to their domestic market (See Buckley et al., 2007, Buckley et al., 2008; Cross et al., 2007; Erdener & Shapiro, 2005). The fact that, until very recently, the Chinese domestic market was very similar to these emerging and least-developed markets has helped the Chinese firms to gain a competitive edge vis-à-vis developed countries' companies. This market acquaintance and familiarity are said to be important competitive advantages, as they reduce the liability of foreignness and thus the transaction costs incurred with operating in unfamiliar settings.

METHODOLOGY OF THE CASE

This study employs a case study approach in order to generate fine-grained findings that would be difficult to retrieve with larger quantitative studies. The case study is "a research strategy which focuses on understanding the dynamics present within single settings" (Eisenhardt 1989: page 534). We selected the company Haier because it is the largest and most successful Chinese consumer electronics company internationally, while the electronics industry offers a good setting in which to study the issue of MNEs' internationalization, as it is one of the most globalized industries (Li, 2007). Haier was selected also because it is the most localized international home appliance firm in Africa and the Middle East. Data for this case study was gathered from face-to-face, phone, and mail interviews with Haier Sodinco Algeria's CEO and executives (between September 2010 and August 2012) as well as with a Haier executive in charge of the Middle East and African departments of the company in China. Interviews consisted mostly of open questions regarding the firm's internationalization strategy in the two regions. To complement the primary data, we used supplementary data, including published case studies, books, company brochures, corporate reports and website content, and various media articles. In the following sections, we present cases involving Haier's internationalization patterns first worldwide, second in the Middle East and Africa, and then in Algeria for a more in-depth analysis.

HAIER'S GLOBAL EXPANSION

The ultimate goal of Ruimin Zhang, Haier's CEO, has always been to expand globally and become a major industry player like GE, Panasonic, Samsung, and Sony. Therefore, his aspiration to internationalize and become one of the Global 500 has played an important role in Haier's rapid internationalization (Comprehensive published studies on Haier include Bonaglia, Goldstein, & Mathews, 2007; Liu & Li, 2002; Muroi, 2005; Child & Rodrigues, 2005; Palepu, Khanna, & Vargas, 2005; Palepu, Khanna, & Andrews, 2012 and Yi & Ye, 2003). In 1984, shortly after Zhang was appointed as the plant director, Haier introduced technologies from the German company Liebherr to produce refrigerators in China through a technology licensing agreement. Haier then started an original equipment manufacturer (OEM) partnership with Liebherr as a way of entering the German market in 1991 (Liu & Li, 2002). Later, Haier imported freezer and air-conditioner production lines from Darby of Demark and Sanyo of Japan. Joint ventures with Japan's Mitsubishi and Italy's Merloni provided Haier with new design and technological capabilities. The early 1990s also marked the beginning of Haier's overseas activities in the United Kingdom, France, and Italy through OEM agreements with local manufacturers to enter rapidly these advanced markets (Palepu, Khanna, & Andrews, 2012).

After Haier had built a strong brand in China and became a quality capable manufacturer, Zhang felt that Haier was ready to embark on a global venture expansion to build its own brand in the global scene. As he put it, "*The objective of most Chinese enterprises is to export products and earn foreign currency. This is their only purpose. Our purpose in exporting is to establish a brand reputation overseas. We have created an important brand in China, and we are taking that brand to other markets*."(Zhang Ruimin quoted in Wu, 2003). In its quest for globalization, the firm intended to follow a "three in one" strategy. Haier found it crucial to extend and develop its competencies by localizing its networks for design, production, distribution, and sales in the host countries. According to Zhang's approach to localization, wherever there is a market for Haier, there must be a strong presence locally and, in fine, a manufacturing facility. This approach has enabled the company to bypass various trade barriers and encounter the possibility to bid for government purchases in the United States and the European Union, for instance.

Haier initially focused on Southeast Asia in the first phase of internationalization, with investments in Indonesia, the Philippines (1996), and Malaysia (1998). This was followed by a few more FDI projects in emerging countries before the company launched its operations in the U.S. in 1999. It established a design center in Boston, a marketing center in New York, and a manufacturing center in South Carolina, with a total investment of US$30 million (Liu & Li, 2002). Haier became the first Chinese company to operate a U.S. manufacturing facility, and a plant worth US$100 million was announced in 2006 for further expansion of the current one. The firm achieved the number-one market share in compact refrigerators in 2001 and in 2005 became the number-two seller of air conditioners in the U.S. market. In its effort to build a strong brand in the U.S., Haier signed a marketing partnership with the NBA league in 2006 and became a major sponsor of the league.

Haier also invested €80 million in Europe between 2001 and 2004. In 2001 it purchased for $8 million the Meneghetti refrigerator plant, one of the largest manufacturers of built-in appliances to match kitchen cabinetry. By 2004, the company's European headquarters coordinated logistics through four distribution centers in Italy, Netherland, Spain, and the U.K. to serve 17 European markets. In 2004, sales in Europe accounted for 17% of the Haier Group's total revenue (Bonaglia, Goldstein, & Mathews, 2007; Palepu, Khanna, & Andrews, 2012). In Japan, Sanyo Electronics (a Panasonic subsidiary with 23% of Japan's white-goods market) launched a joint venture with Haier in 2007 to develop and sell refrigerators in the Japanese market. Shortly after, in 2011, Haier acquired Sanyo's washing machine and consumer-use refrigerator businesses in Japan, and washing machine, consumer-use refrigerator, and other consumer electric appliance business in Indonesia, Malaysia, the Philippines, and Vietnam (Haier's corporate website).

From the initial stage of Haier's globalization in 1995, when the company's overseas sales amounted to just over 3% of its sales prior to 1999, revenue grew steadily throughout the decade and accounted in 2010 for over 27% of Haier's total sales, worth $5.4 billion in value (Palepu, Khanna, & Andrews, 2012).

<u>Haier in Africa and the Middle East</u>

Haier's operations in Africa and the Middle East trace back to 1993, when the firm started refrigerator exports across the region. With growing demand for home appliances in the region and the apparition of the wealthy middle class, the firm established Haier Middle East in 1999 in Dubai, The United Arab Emirates, to promote Haier's products in the country and the neighboring Gulf region. In Saudi Arabia, the firm established in 1998 a distribution agreement with local group Al Jabr Electronics, a diversified trading company, to aggressively promote its products through an extensive network of dealers and special stores. In 2001, Haier introduced new color TVs at an exhibition held in Saudi Arabia featuring 21 models especially designed for Middle Eastern consumers. Haier appliances and after-sale service reached even the most remote villages in the desert (Yi & Ye, 2003).

In December 2001, the Haier Middle East trading company was established in Jordan (HMT) as a joint venture with South Electronics Company (SEC) and Syrian and Lebanese partners. The division worked to expand Haier's market share and raise the brand's reputation in Middle Eastern countries including Jordan, Lebanon, Syria, Palestine, Egypt, Iraq, and Kuwait. Haier also invested in Jordan to build an industrial park, the first in the Middle Eastern and African regions. The park construction project started in June 2002 and was ready for operation in December 2004, with strong political support from the local authorities, including King Abdullah II, who in a five-minute telecom-satellite conversation assured CEO Zhang that his government will work to provide Haier with a "good and steady environment for Haier's development in Jordan." With a total annual production capacity of 150,000 refrigerators and air conditioners, 150,000 washing machines, and 150,000 televisions, this project required a $10 million investment (of which Haier's contribution amounted to $2 million). Benefiting from mutual tariff exemption agreements signed between Jordan and the surrounding Arab countries, appliances produced in the Jordan industrial park have entered surrounding countries such as Syria, Lebanon, Egypt, and Palestine at competitive prices (Haier Middle East and Africa corporate data).

By the early 2000s, the company had established with local partners in Africa 3 manufacturing joint ventures in Algeria, Nigeria, and Tunisia to produce washing machines, refrigerators, and air conditioners. In Nigeria, the most populated African country and largest market for Haier in the African region in term of sales, Haier Group and the UK PZ Cussons Group signed a joint venture agreement in May 2001 to build up a factory for the assembly and sales of refrigerators, freezers, and air conditioners marketed under the brand Haier-Thermocool. Within 5 years of its operations' beginning in the country, the company achieved a number-one ranking for refrigerators and freezers. It now has 5 distribution centers and a total of 23 service outlets across the country (Rubicon Strategy Group, 2012). Haier's sales in Nigeria reached $150 million in 2009 and $200 million in 2010.

In Tunisia, Haier and the Group Hachicha, a large and diversified Tunisian group, signed an exclusivity representation contract in 1997 for Haier brand production and distribution in North African countries. The contract granted the Tunisian group the exclusive rights to Haier's white goods production and commercialization in Algeria, Tunisia, Morocco, and Libya for a 20-year-term contract. In 2000, Haier and the Tunisian group set up Hachicha Haier Worldwide (HHW), a joint venture factory in the capital city Tunis, to produce 30,000 air conditioners, 25,000 refrigerators, and 50,000 washing machines each year. The factory project was launched in November 2001 and put into operation in October 2002. HHW presently produces a wide range of home appliances for the Tunisian market, operates the subsidiary Haier Sodinco in Algeria and exports appliances to Libya and Morocco. HHW achieved in the Tunisian market an annual sales volume of more than US$ 21 million in 2010, with an increase of 42% over that of 2009.

Presently, according to the company's data, Haier operates with local partners an industrial park in Jordan; 3 manufacturing plants in Algeria, Tunisia, and Nigeria; and two trading companies in the Middle East and Africa, and the company's products have been sold in more than 30 countries within these regions (See Table 2 for Haier's major steps in the region). In order to meet the specific local needs in these regions, Haier launched several products tailored to the specific conditions; for example, it created a refrigerator that can operate through 100 hours of power failure and an air conditioner designed for desert and tropical conditions. Based on information feedback from its Middle Eastern branch in 2001, Haier developed an air conditioner combining strong heat-resistance capability with unique exterior materials to increase its anti-erosion abilities. When the sample was on the market, the whole orders for 2002 were fully taken by customers from Middle East and African countries (Liu & Li, 2002).

Table 2: Haier's Major Steps in Africa and the Middle East 1997-2012

1997	20 years exclusivity contract signed with Tunisia Hachicha Group to distribute Haier's products in Tunisia, Algeria, Libya, and Morocco.
1999	Haier Middle East was established in The United Arab Emirates*; Haier Sodinco Algeria was incorporated as a subsidiary of the Tunisian Group Hachicha to serve the Algerian market.
2000	Haier Sodinco Algeria Factory started operations in Algeria; Haier and the Tunisian group set up Hachicha Haier Worldwide (HHW), a joint venture factory in Tunisia.
2001	Haier Middle East trading company was established in Jordan (HMT) as a joint venture with South Electronics Company (SEC) and Syrian and Lebanese partners; Haier Group and the UK PZ Cussons Group signed a joint venture agreement to build up a factory in Nigeria; Tunisian plant construction plant started in November.
2002	Industrial park construction project started in Jordan; Tunisian factory put into operation in October.
2005	Jordan Industrial park officially opened.
2010	Sales in Nigeria reached $200 million: $21 million in Tunisia and $17 million in Algeria.
2012	Exclusivity contract signed with IBS to distribute Haier's appliances in Egypt.

*This table shows Haier's most significant milestones in the Middle East and Africa between 1997 and 2012 including market entries, manufacturing facilities opening, importa*nt partnerships with local firms and some sales figures. Source: Prepared by authors based on official corporate data, unless indicated otherwise. *: Yi & Ye (2003).

In 2005, to promote its brand further on the African continent, in collaboration with the International Department of the Communist Party of China, Haier invited a delegation of 17 members of ruling parties in Africa to visit the Haier Qingdao facilities. The delegation included politicians from Cameroon, Djibouti, Guinea, Equatorial Guinea, Madagascar, Niger, Rwanda, Seychelles, and Togo (China Xinhua News

Agency, 2005). After the visit, impressed by Haier's technologies, they promised to become volunteer spokespersons for Haier activities in Africa. In 2010, Haier was awarded as among the "Top 10 Chinese Enterprises that Moved Africa", rewarding its contributions to the China-Africa friendship and cooperation.

Haier in Algeria

In October 1999, Haier Sodinco Algeria was established as a Haier Tunisia (HHW) wholly owned subsidiary. After the Tunisian Group Hachicha obtained Haier brand exclusivity for the North African region, HHW identified Algeria as the first market to enter in the region. In association with U.K.-based General Mediterranean Holding Group, Haier Sodinco Algeria Ltd. was established near Algiers, the capital city. After more than a decade of political and economic troubles during the 1990s, Algeria had resumed economic growth in the 2000s under the impulsion of economic deregulation policies and a significant surge in oil and gas revenues. In the period of 2000-2009, public investments programs worth $250 billion were carried out to build 1.5 million houses and infrastructures and modernize the economy. The country, home to the 4th African economy in terms of GDP, counted 37 million people in 2012.

Following the initial establishment of the firm in 1999, Haier Sodinco's manufacturing plant started its operations in June 2000, specializing in air conditioner (central and split-system air conditioners) and washing machine assembly. In this phase, the company began to produce appliances utilizing relatively mature technologies under the "completely knock down" (CKD) assembling system and benefited from a reduced 5% tariff on appliances imports, in a move from the Algerian government to encourage the installation of manufacturing facilities in the country.

In the early 2000s, air conditioners were still considered luxury products among Algerian consumers, and they were priced at around US$1500 at the cheapest, and very few local and foreign firms invested in manufacturing facilities at that time. Haier Sodinco chose to focus its effort toward the corporate and domestic air conditioning market, a highly profitable and untapped market, in a country where temperatures easily reach 40 degrees Celsius in the summer. According to Mr. Hicham Doubabi, Haier Sodinco CEO between April 2002 and May 2010 and current member of the board, "*When we first launched our air conditioners in the market, we didn't expect such a commercial success; we were overflowed by orders from both companies and distributors. The Algerian consumer was demanding of good quality appliances, reasonable prices and a good after-sale service, Haier was able to satisfy these needs, and that's the reason why our air conditioners are so appreciated by the consumers*."

Haier Sondinco's sales reached US$ 17 million in 2010, with a yearly 25% growth since 2005. In 2008, air conditioner, refrigerator, and washing machine sales represented 76%, 12%, and 12% of sales, respectively. Air conditioners' contribution to the gross margin of the firm accounted for 88% of the total gross margin during the same year. The firm claimed a 14% market share in the white good industry in 2010 and a leadership position in the central air conditioning system in the corporate and office building segment (Haier Sodinco Algeria Internal documents). As the competition intensified over the years, Haier Sodinco started to offer more technologically advanced and higher-end appliances such as eco-friendly air conditioners and refrigerators or antibacterial washing machines.

In the absence of structured and specialized distribution networks, Haier Sodinco had to build its own network within Algeria and relied as well on the existing, more informal distributors and regional wholesalers. By 2009, the company had 30 regional distributors, 107 licensed dealers, and 7 regional after-sale service centers located throughout the country. "*At first, we had to heavily rely on informal distribution network in the absence of specialized chain stores such as Best Buy or Darty. It was a problem for us, since such wholesalers like the ones in the Hamiz appliances market near Algiers usually operate under their own rules of the game and are reluctant to use invoices or any official contractual documents. But after we* *started to gradually build our own network and gained a good brand reputation in the market, it was much easier for us to properly work in the country*" said Mr. Doubabi.

Haier Sodinco staff is almost fully composed of locals (170 employees). Teams of engineers and executives from China often visit the plant for technical trainings, production line installation, and technological transfers. In April 2002, Haier Sodinco appointed Mr. Hicham Doubabi, a former high executive and director of several banks both in the public and private sectors, as its chief executive officer. He retired for his function in 2010 and is currently member of the company's board.

DISCUSSION AND FEATURE OF THE CASE

The case study of Haier in Algeria in particular and Africa and the Middle East in general provide us with valuable information on the striking pattern the firm exhibited when entering these difficult regions of the world. The entry sequence and process the firm followed fit, to a certain level, its internationalization strategies in other regions of the world but diverged in other regards. We discuss in the following section the most notable features of the case.

First-mover advantage: In the late 1990s and the beginning of the 2000s, Haier made strategic entries in numerous African and Middle Eastern countries including Algeria (See Table 2) before its established industry competitors did. The firm started rapidly building its production and distribution network, brand reputation, and positive relationships with these countries' local authorities. At that time, foreign investors were very reluctant to set up manufacturing facilities locally and rather preferred the export mode of entry to reduce various risks incurred with doing business in difficult business environments. Haier in contrast chose to enter these markets early, and rapidly increased its commitment in the two regions.

Numerous empirical studies have demonstrated strong evidence of the existence of positive effects of being the first mover (e.g., Kerin, Varadarajan, & Peterson, 1992; Mascarenhas, 1992; Robinson, Kalyanaram, & Urban, 1994) and supported the hypothesis that early movers can capture various kinds of competitive advantages, such as higher market shares over time, technological leadership, preemption of key assets (such as distribution channels or joint venture partners), and establishment of entry barriers for follower firms; in other words, early movers are in the best position to determine the rules of the game.

In developing market contexts, early-mover advantages might be amplified by the low competitive pressure at the early stage of market liberalization, an important pent-up demand for foreign brands and the absence of various infrastructures. Potential foreign entrants tend to adopt a wait-and-see strategy because of the tremendous uncertainties in the market, which enable early entrants to establish brand loyalty and shape consumers' perceptions more easily than late entrants (Carpenter & Nakamoto, 1994). Additionally, local governments in these regions often treat early foreign investors more favorably. Where such differential treatment is critical for success, foreign firms may have better incentives to move sooner rather than later (Isobe, Makino, & Montgomery, 2000). In Jordan, for instance, King Abullah 2 welcomed Haier industrial park with open arms and made sure that the firm would enjoy strong support from the Jordanian government following a discussion with CEO Ruimin Zhang. In Algeria, the government often excludes foreign appliances manufacturers from public purchases in favor to those who have established manufacturing facilities in the country. Finally, the choice of the right local partner is critical in developing economies, where often large and diversified groups with already established distribution networks, sufficient financial resources, and market knowledge and inroads into the local political system are particularly scarce assets. In such economies, early-mover companies like Haier can preempt such assets and built upon them in order to secure a long-lasting competitive advantage, and thus raise entry barriers for follower firms.

Entry motives and modes: Unlike in advanced economies, where Haier usually holds majority shares, we saw that, in the Middle East and Africa, Haier often holds minority shares or even chooses to license its brand or technology with its local partners without direct or formal shareholding. The market-seeking motives might well explain this expansion pattern in these regions. Whereas in developed markets such as the U.S., European countries, or Japan, where Haier enters to learn and build up new capabilities (technological, managerial, and marketing capabilities) via its subsidiaries with high ownership structures or Greenfield investments, Haier in less sophisticated, and developed markets choose to transfer more simple, mature, and undifferentiated technologies that suit well the local conditions in terms of products' need and price levels (see Table 3). This entry mode is very typical of latecomer companies, especially Chinese firms in less codified and structured environments. Rather than opting for full internationalization, these latecomer firms tend to chose external modes of entry such as technology licensing or non-equity alliances (Li, 2003; Mathews, 2006). These entry modes enable Chinese firms to access the local market quickly, reduce entry costs, reduce various risks, and gain valuable complementary assets from their local partners (e.g., market knowledge, access to distribution channels or political networks).

Table 3: Haier's Entry Mode in the Middle East and Africa Compared to Advanced Economies

The Middle East And Africa	Mode of Entry	Advanced Economies	Mode of Entry
Algeria	Non-equity mode of entry in association with the Tunisian Group Hachicha	France	Wholly Owned Subsidiary
Jordan	Joint venture with local group SEC electronics (minority share holding)	Germany	Wholly Owned Subsidiary
Nigeria	Joint Venture with PZ Cussons group (minority share holding)	Italy	Wholly Owned Subsidiary
Saudi Arabia	Non-equity mode of entry with local group Al Jabr Electronics	Japan	Wholly Owned Subsidiary
Tunisia	Joint venture with Hachicha Group (Minority share holding)	USA	Wholly Owned Subsidiary

This table shows Haier's ownership structures in a selected sample of countries in the Middle East and Africa compared to those in industrialized economies. Source: Prepared by Authors.

Increased Localization and adaptation to the local conditions: As noted earlier, Haier adapted several product lines to match the specific market conditions of Africa and the Middle East under the request of its local distributors and consumers. The refrigerator that can run through 100 hours of power failure, a high-capacity washing machine, and the air conditioner for desert and tropical conditions are good examples of this adaptation strategy. Haier Sodinco Algeria also reported numerous collaborations with the head office's R&D team in China to adapt different generations of its popular MRV1, 2, 3, and 4 central air conditioning systems.

Zhang firmly believes that, by focusing on its customers' differentiated needs and satisfying them through tailored products, Haier will gain a competitive edge over its competitors. Zhang mentions the following:
*"…. large companies are established and slow moving, and we see an opportunity to compete against them in their home markets by being more customer focused than they are. To win over those consumers, we have two approaches: speed and differentiation—speed, of course, to satisfy the consumers' needs as quickly as possible, differentiation to introduce brand-new products or products with features to meet different needs."(*Zhang Ruimin quoted in Wu, 2003).

The firm's commitment to more than 30 countries of the region − often disregarded by other more established multinationals − through sales and manufacturing networks suggest that the firm considers Africa and the Middle East as important market areas. As the CEO of Haier Sodinco Algeria noted, "*Establishing an industrial plant in Algeria, whereas all our competitors were massively importing their products was a proof of our long-term commitment to the Algerian market. Despite the difficult environment and the heavy administrative procedures incurred with investing in the country, we felt that it was very important to produce as much as we could in the country and in the region in order to ensure our competitiveness.*" This localization strategy fits well within Haier's internationalization framework, which involves three steps: first, raise Haier's brand awareness; second, localize design, production, and sales; and third, leverage the local resources of capital and human potentialities. CEO Zhang has often been quoted stressing the importance of localizing Haier's value chain as close to the market as possible by saying, "Globalization equals localization."

Market acquaintance: Despite extreme business conditions, Haier has reached a high level of performance in the region compared with its industry counterparts from developed countries. This might stem from the fact that, when Chinese enterprises operate in developing or least developed markets such as the African and Middle Eastern markets, they see market opportunities and a means of doing business that are similar to the conditions found in their home markets, rather than threats. The Chinese firms' experience dealing with difficult environments characterized by centralized economies, weak institutional framework, or deficient market structures may have equipped them with ownership advantages that enable them to compete efficiently in settings similar to their own domestic market, whereas in contrast, companies from industrialized nations might find it more difficult (e.g., Buckley et al. 2007, Buckley et al., 2008, Cross et al., 2007; Erdener & Shapiro, 2005). In this context, Boisot and Child (1996) argued that Chinese firms have a cultural preference for operating in less-codified regimes typified by fiefs and clans networks rather than by formal and codified rules. From another perspective, MNEs in developing countries possess mature technologies that are particularly suited for other developing nations (Kumar, 1982; Kumar & Kim, 1984; Wells, 1977). Firms in developing countries may also have a better ability than industrialized countries to customize particular technologies, products, and processes by simplifying them or downscaling production, for instance, in order to make them more suitable for the contexts of developing countries (Shenkar & Luo, 2004).

This was the case for Haier in Africa and the Middle East, where the firm transferred and adapted its mature technologies in most of the countries in which it set up manufacturing facilities through, for example, transferring CKD production systems.

Political acquaintance: Haier's intense operations in the region can also be partly explained by the political acquaintance factor. As argued by Buckley et al. (2007), the Chinese FDI stocks in states with higher risk profiles may have been promoted by political affiliations and connections between China and its fellow developing or ideologically similar countries. The bargaining position of the Chinese government and firms may have been strengthened vis-à-vis governments in these host countries that attract limited FDI inflows from industrialized nations, thus reducing significantly the hazards to which the Chinese FDIs are exposed. In the African and the Middle Eastern contexts, given the market failures and institutional voids in these regions, affiliation with political actors or powerful business groups might not only protect MNEs against opportunism from powerful actors and institutions, but also provide them with preferential treatment and access to highly valuable political resources (Mellahi et al., 2011).

As discussed earlier in this paper, Haier built upon political acquaintances with local politicians to ensure its activities in the two regions. Examples include the 2005 invitation by Haier in collaboration with the International Department of the Communist Party of China to a delegation of 17 members of ruling parties in Africa to visit the Haier facilities in China, the support the Chinese firm received from Jordanian King Abdullah 2, and the meeting between Cote d'ivoire's minister of ICT with the Haier representative over operations in the Middle East and Africa − Zhang Qingfu.

CONCLUSION

This article has sought to enhance understanding of the internationalization of Chinese companies in developing nations by presenting the experience of Haier's successful entry strategy in Africa and the Middle East. The results of the case study suggest that, despite its so-called policy of "hard markets first and easier second," the company entered almost simultaneously developing and developed nations. In 1999, when Haier established a manufacturing plant in the U.S. market, it entered several African and Middle Eastern markets as well, including Algeria, The United Arab Emirates, Jordan, and Tunisia, by establishing sales arms or manufacturing plants. The firm formed Haier Middle East in 1999 even before Haier Europe was established in 2000. By localizing its operations in the two regions, the firm adapted its product to meet the very specific needs of these markets, such as a refrigerator that can withstand power failures and air conditioners that can function in desert and tropical conditions. We also saw that, despite the minority shares in the joint ventures or alternative entry mode through licensing partnership, Haier is a fast, early, and proactive investor in these difficult regions of the world. Pioneering in an emerging region carries many advantages, such as the possibility for early mover companies to preempt distribution channels or joint venture partners. The latter advantage can be especially determinant in an emerging market, where local partners with critical financial and knowledge capabilities are scarce. Therefore, by preempting such key strategic assets, the company not only builds a competitive advantage over its competitors but also raises entry barriers for potential foreign new entrants.

The market acquaintance factor was also critical to Haier's success in these regions. The familiarity and the relative ease the firm exhibited in dealing with difficult environments characterized by centralized economies, institutional voids, or deficient market structures stem from the fact that the firms had to deal with these difficulties in its very home market and therefore gained a unique ownership advantage in operating similar environments. The firm's political acquaintances and networking capabilities also helped it access valuable political resources and gain strong support from these regions' local authorities. In times during which foreign investors were reluctant to invest in the manufacturing sectors of these countries, Haier was one of the few exceptions and was consequently welcomed with opened arms by the local authorities of Africa and the Middle East.

Thus, managers from both developing and developed countries' multinational companies should consider in their entry mode, timing and level of commitment decisions in Africa and the Middle East in terms of not only the risks and limitations but also the opportunities in these developing parts of the world. Their success will lie in their ability to treat the local environment as an opportunity rather than a threat and to turn first-mover disadvantages into advantages. Zhang's international entrepreneurship orientation played a determinant role in Haier's pursuit of global expansion, as he views the world as one market and deeply believes that, wherever there is a market for Haier, the firm should have a local presence in these markets, regardless of their development stage. Companies seeking to enter the African and Middle Eastern markets should also look closely at the features of Haier's entry strategies, as it is the most localized international home appliances company in these two regions with presences in more than 30 countries, including an industrial park in Jordan; 3 manufacturing plants in Algeria, Tunisia, and Nigeria; and two trading companies in the Middle East and Africa.

Although this study enabled us to access detailed information about Haier's strategy in the two regions, we also acknowledge the fact that it carries some limitations as well due to the method it employed. The case study's approach, though rich in terms of findings provided about a single firm (Haier), produces implications that would be hard to generalize and apply to other Chinese corporations operating in Africa and the Middle East. Therefore, we call for more case studies on Chinese firms operating in these regions as well as for larger quantitative and cross-industry investigation on the subject.

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