

# Samsung's contribution to China through FDI

An excerpt from the book *Developing China: The Remarkable Impact of Foreign Direct Investment* by Michael J. Enright



China's economic reforms have created the world's most dynamic economy. A major part of China's economic development has involved foreign companies. This document contains an excerpt from a larger project initiated by the Hinrich Foundation and undertaken by Enright, Scott and Associates on the impact of foreign investment and foreign enterprises as a whole on China's economy. The results of the larger project were published in a book by Michael J. Enright, *Developing China: The Remarkable Impact of Foreign Direct Investment* (Routledge 2017). Using the tools of economic impact analysis, the author concludes that foreign direct investment (FDI) has contributed 33% to China's GDP and 27% to its employment in recent years. The book offers a balanced and rigorous view of the full impact of FDI – using China as an example to illuminate the mutually beneficial partnership between investing companies and host economies – and more importantly, serves as an effective toolkit for policymakers and corporations to approach FDI globally. It is available in English and Chinese. Visit [www.hinrichfoundation.com/trade-research/fdi-in-china](http://www.hinrichfoundation.com/trade-research/fdi-in-china) for more information about the book.

## This case study includes the following key findings:

- Samsung has been one of the largest foreign investors in China. It has invested extensively in production facilities, research and development, and marketing and sales in China.
- Samsung has also invested extensively to build capabilities in its own Chinese workforce and has localized the vast majority of key management and research positions in China. In 2014, China was responsible for 25 percent of Samsung Electronics total workforce --a total of 60,000 individuals-- with the average employee numbers having grown 14 percent per annum since 2010.
- Samsung has contributed to the development of China's electronic manufacturing base by engaging not just in electronics assembly in China, but also in advanced componentry, extensive research and development in China, and bringing much of its most advanced technology to China.

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## About the author

Michael J. Enright, a leading expert on competitiveness, regional economic development, and international business strategy became the Sun Hung Kai Professor of Business at the University of Hong Kong in 1996 after six years as a professor at the Harvard Business School. He is also a director of Enright, Scott & Associates consultancy and a founder of The Competitiveness Institute. Professor Enright has consulted to companies, governments, and multilateral organizations in more than 30 countries on six continents on international business strategy, competitiveness, regional clustering, technology policy, and economic development; has appeared in 40 countries as a featured speaker; and has authored numerous books and monographs on international competitiveness and China's development. Enright, Scott & Associates is an Asia-based economics and strategy consultancy that works extensively with governments, leading corporations, and multilateral organizations on strategy and economic development issues.



## our focus

## Introduction

Samsung has been one of the largest foreign investors in China. It has built a China structure that rivals that found in its home country of Korea. Samsung has invested extensively in production facilities, research and development, and marketing and sales in China. It has supported China in telecommunication standards development and indirectly supported the emergence of Chinese electronics companies by championing open standards internationally. Samsung has attracted numerous foreign suppliers to set up in China, and has fostered the development of Chinese suppliers as well. As costs and competition have heated up in China, however, Samsung has diversified its production activities. In particular, it is investing in Vietnam operations that will rival its China operations in size. This is perhaps a cautionary tale that major multinationals can find other places if China becomes too expensive, or not as hospitable to foreign companies as other countries.

Samsung Electronics, the flagship subsidiary of the Samsung Group, is a world leader in consumer electronics, IT and mobile communications, and device solutions. Samsung Electronics was one of the first of the major Korean companies to enter China in the early 1990s. Its initial China strategy was to use low-cost labour to produce low-to-medium priced products mostly for export. In the second half of the 1990s, Samsung as a company shifted to higher value-added and more technologically advanced products, and began to use China as a launching ground for this new strategy. By the early 2000's, Samsung recognized that China was central to its future, and began to rebuild its global strategy around Korea and China (Choi, 2003). In 2014, Samsung Electronics had revenues of 206 trillion Korean Won (USD 201 billion), with China accounting for 33 billion Korean Won (USD 32 billion), or 16 percent of worldwide sales (Samsung, 2015a). China was the location of two of Samsung's 15 Regional Headquarters, 13 out of its 38 Global Production bases, two out of its 54 Global Sales Bases, seven out of its 36 R&D Centers, and one out of its six Global Design Centers (Samsung, 2015d). Samsung's subsidiaries were all over China with seven in Jiangsu, six in Tianjin, three in Shanghai, three in Beijing, two in Shaanxi, one in Shandong, and one in Hainan.

## Committing to China

Samsung committed to development in China early on. One sign of this commitment is the sheer value of Samsung's China investments. In 1994, Samsung established an integrated production complex in Tianjin with an investment of nearly USD 1 billion, bringing together several Samsung units into one complex for electronics and electronic parts. Following on from the Tianjin complex, Samsung developed another integrated production complex in Suzhou for home appliances (Lee, 2006). In 2014, Samsung Electronics completed a USD 3 billion liquid crystal display facility in Suzhou. At the time, it was the largest ever single foreign investment in China by a Korean company. It also announced a joint effort with Xi'an Hi-Tech Group to build a production base for electronic car batteries, to be the biggest in China, with a combined investment of USD 600 million and projected revenues in excess of USD 1 billion by 2020.

In 2015, Samsung Electronics opened the USD 2.3 billion first phase of a NAND flash memory chip fabrication complex in Xi'an. With a total planned investment across multiple phases of USD 7 billion, this would be the single largest investment by Samsung in China, and Samsung claimed it would be the single largest foreign direct investment in China to date (Samsung, 2012a). The complex, Samsung's first semiconductor production complex in China, is expected to generate annual sales of USD 5 billion. With the official opening of the project, Samsung had created a global semiconductor production system with three major production bases, one each in South Korea (systems and storage semiconductors), China (storage semiconductors), and the United States (systems semiconductors).

The Samsung Group opened its first China headquarters in 1995 (Samsung, 2015c). This headquarters supervised 21 manufacturing companies, including Samsung Electronics, Samsung SDI, and Samsung Corning. The Group created a second China headquarters in the early 2000s to control the recruitment and deployment of personnel as well as sales channels in China. It has also been responsible for establishing Samsung's long-term vision for the China market, conducting market surveys covering all business fields, and drawing up marketing strategies. The goal was to consolidate strategic planning to maximize the group's synergies. The China head was promoted from President to Vice Chairman of Samsung globally (Choi, 2003). By 2011, 23 of the Samsung Group's 30 companies had invested in China and Samsung was estimated to have become the largest foreign investor in China, with 155 subsidiaries and a total investment of USD 12.7 billion (Chen et al., 2015).

Ho-moon Kang, Vice Chairman and head of Samsung China in 2011 stated that 'Our goal is creating a whole new Samsung for China. In China, where opportunities and risks co-exist, the key to success is "strategic imagination" that helps you look beyond what is happening right now around us and envisage what will happen' (Samsung, 2011). Analysts described this approach to the Samsung China Headquarters as creating an independent and localized 'Second Samsung' in China that would enjoy the respect of the Chinese society (Lee, 2006). In essence, Samsung had done what virtually no other foreign company had done, elevated the China operations and headquarters to a status virtually on par with the global corporate headquarters.

## **Building supply chains in China**

Unlike many other electronics companies, Samsung did not outsource most of the products sold under its name, nor did it simply carry out low-value added assembly in China. Instead, it committed to building an entire electronics ecosystem in China, including key components, major subassemblies and finished products. This approach contributes more to a local economy than just doing electronics assembly as the key components often involve higher levels of technology, higher value added, and more potential for technological spillovers than simple assembly. In particular, Samsung not only manufactures mobile phones, communications equipment, computers, home electronics, and appliances in China, it also manufactures LCDs, LEDs, screens and monitors, semiconductors, opto-electronic components, and other key components in China. In most cases, Samsung has brought its global best technology and practices, rather than older generations as many other foreign companies have.

In some cases these investments have created their own dynamic. Samsung's USD 7 billion memory chip complex in Xi'an's High-tech Industrial Development Zone was expected to create 2,000 jobs directly and to generate another 11,000 jobs indirectly among local 'affiliates' (Lu and Ma, 2015). The facility was expected to attract more than 100 more parts and components producers to create a semiconductor manufacturing cluster with a production value of more than USD 16 billion per year. On a smaller scale, the opening of Samsung Electronics' liquid crystal display production line in Suzhou in 2013 quickly fostered a local concentration of producers involved in every step of the LCD industrial chain, from raw materials, parts and components, to production and logistics (Want China Times, 2015).

Samsung Electronics initially located in parts of China with existing electronic and electrical manufacturing capabilities such as Tianjin, Suzhou, and Guangdong, where they could take advantage of existing supplier networks. Even so, they had to import a number of components from Korea, as the local offerings were not of sufficient quality. Samsung worked extensively to develop local suppliers in China. It began to run several programs through which potential suppliers are offered opportunities to become Samsung partners (Samsung, 2014a). According to Samsung, 'As partners, we will work together towards a win-win scenario of co-prosperity and the ultimate goal of any business: to be the world's best.' In order to achieve this goal, Samsung operates a policy of 'Mutual Growth' whereby it offers support in the form of training, technology, and funding to its first tier suppliers along with strengthening communication between them and Samsung. This program is being expanded to their second and third tier suppliers as well (Samsung, 2012b).

Samsung has also helped its Chinese suppliers develop their supply chain management systems. Samsung's LCD headquarters established a Supply Chain Management (SCM) system to ensure the quality of component parts suppliers and raw material suppliers encompassing its Enterprise Resource Planning (ERP), Manufacturing Execution System (MES), Transportation Management System (TMS), and Warehouse Management System (WMS). Samsung also introduced a new SCM system (SLJ-Network) connecting first and second tier suppliers to reduce inventory levels and improve supply chain network efficiency (Park and Hong, 2011).

Samsung also helped develop other members of the 'Samsung China ecosystem' by providing free training workshops to software developers. Samsung runs workshops in major Chinese cities disseminating information about Samsung's platforms to developers, bringing together hundreds of developers including existing Samsung partners, start-up companies, individual developers, and university students (Samsung, 2013). Samsung has also run global Smart App Challenges for the GALAXY Note. In 2012 entries from 70 countries were received with 80 apps chosen as the final winners. The country with the largest number of winners was China followed by South Korea and Poland (Samsung, 2013b; Samsung, 2012c).

## Building distribution relationships in China

Samsung Electronics also developed strong links to distributors in China. It has worked with national electronics retailers, offering high margins and cutting off retailers that hurt the brand image by cutting prices (Moon, 2002). While national retailers provided good access to the developed markets along the China eastern seaboard, Samsung's access to inland cities was held back initially by the limitations of the networks of existing national retailers. To gain better access, Samsung Electronics established its own stores to specifically introduce its products to these cities. By having its own stores, Samsung was able to get more direct feedback from customers, allowing it to become more attuned to the differences that exist not just between Chinese and Western consumers, but also between different regions in China (Kwong and Song, 2012). By 2015, Samsung had three times the number of retail stores as Apple, and has been more aggressive in courting consumers and creating partnerships with phone operators, former company executives, analysts and industry sources say (Lee and Kim, 2013).

## Setting up global research in China

Samsung is one of the world's largest spenders on research and development. Its global network of research and development spans Korea, North America, Europe, and Asia. Samsung moved significant R&D into China shortly after China's entry into the WTO (Fujitsu, 2010). When other companies were concerned about the impact of IP theft, Samsung made a decision to move to China, understanding that in order to both develop new products for the world as a whole it also had to develop products specifically for China. In the 2000s, Samsung aimed to shift from a 'Made in China' model to a 'Created in China' model. According to Ho-moon Kang, Vice Chairman of Samsung Electronics and head of Samsung China in 2011, 'Through the 'Created in China' idea, we will create products and business models designed to serve the Chinese market first, and eventually export them to the rest of the world' (Samsung, 2011).

As of 2015, three of Samsung Electronics' global R&D centres were in China, and China was the home of seven Samsung Electronics' R&D centres in total. The roughly 7,000 R&D staff in China as of 2015 accounted for around 11 percent of the company's global R&D staff (Samsung, 2011). The company expected China spending on R&D to reach USD 300 million annually by 2015, up from USD 180 million in 2010 (Samsung, 2011). Samsung Electronics developed its TD-SCDMA hand phones at its Beijing Technology Center together with the Chinese hand phone maker Datang Mobile (Kwong and Song, 2012). Its chip making division worked with China Mobile to develop China's 7D-SCDMA standard for 3G hand phones. At its new manufacturing complex in Xi'an, Samsung is including a research centre that will consolidate expertise from other locations in China and cooperate with local education institutions on state-of-the-art NAND flash memory chip technology.

## Developing human resources in China

Samsung Electronics employed a total 319,000 employees globally in 2014 (Jung, 2015). China was responsible for 25 percent of Samsung Electronics total workforce, 60,000 individuals, with the average employee numbers having grown 14 percent per annum since 2010 (Samsung, 2014c). Samsung chose new sites based in significant part on the availability of workers and researchers. Samsung said that it chose Xi'an for its semiconductor complex because



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of the city's excellent investment environment, its fast-developing electronics industry, a deep pool of researchers, and a well-trained labour force from more than 100 research institutes and universities. By May 2014, Samsung had hired approximately 1,300 local university graduates for its Xi'an project (Lu and Ma, 2014).

Samsung China has had a strong focus on developing and promoting Chinese talent not just on the factory floor but in management as well. By 2006, at one of Samsung's subsidiaries, Samsung SDI, about 95 percent of upper management was Chinese (Li, 2006). In 2010, the then CEO of Samsung China spearheaded a localization drive for higher level managers to make the company 'more like a Chinese company than a Korean' one. In 2010, 20 percent of the department heads at Samsung's China operations were Chinese, but by 2012, the figure was 70 percent (Kwong and Song, 2012). Wang Tong, a Chinese national, who rose to executive vice president of Samsung (China) Investment Co. Ltd, said, 'The highest level of localization is shown in the talent and decision-making structure, Chinese are in charge of the business in China, including the R&D, production and sale for real localization and faster development' (Lunwenwang, 2014).

In terms of the workforce, each Samsung China worksite operates a labour council to promote workers' benefits and rights. Labour councils have worked to facilitate a culture in which management and employees discuss matters regarding working conditions and work environment. By 2013, Samsung China's 16 labour councils had 165 employee representatives elected through direct and anonymous voting (Samsung, 2015a). Samsung China operates various employee counselling centres including a Life Coaching Center, which offers counselling services for employees with difficulties in marriage, child-rearing, office life, and other areas. The centres also provide specialized psychological services including personality tests and stress management education. The counselling staff at the Life Coaching Center consists of licensed professionals who have received systematic education and intensive training. All counselling information remains classified so that employees can comfortably use the counselling centres (Samsung, 2015a).

Since 2014, Samsung Electronics has participated in the 'Women in Factories in China' project, which was launched by Business for Social Responsibility (BSR), a specialized CSR organization. The program provides tailored education opportunities for newly-hired female employees and for female managers. For new hires, the program is designed to provide work and life skills training as a part of orientation. For female managers, the program provides technical and leadership training. Samsung also works with BSR to develop customized life skills training for female employees, focusing on stress and health management (Samsung, 2015d).

Samsung has come under criticism for allegations of child employment at some of its suppliers. In response, Samsung Electronics announced a Child Labour Prohibition Policy in June 2014 developed in collaboration with the Center for Child Rights and Corporate Social Responsibility (CCR CSR) based in China. The policy called for a zero tolerance policy on underage labour and claimed to hold the company and its supplier companies to the highest labour standards (CCR CSR, 2014).

## Supporting Chinese standards and open systems

China's leadership has been concerned that foreign standards would dominate mobile telecommunications and that this would disadvantage Chinese consumers and Chinese firms, and create national security issues. As a result, China has pushed to develop its own standards. Samsung has demonstrated consistent commitment to helping the development of Chinese telecommunication standards, developing the technology needed to realize those standards, and promoting them to a wider audience beyond China. This enabled Samsung to bring compatible products to the China market sooner than their international competitors, while providing Chinese consumers with improved performance and choice.

Samsung was one of the first foreign-owned companies to release a phone compatible with China's home-grown 3G network standard (TD-SCDMA), releasing a compatible phone in 2007, just a year after the standard was activated (Wei, 2009; Middleton, 2007). Apple by comparison did not support TD-SCDMA until the iPhone 5 was released in 2013. The 3G TD-SCDMA standard gained little international reach, but China took the lead in developing the 4G TD-LTE standard, which has been supported by global firms in dual use TD/FD LTE devices (Jakobs, 2015). Samsung was an early member of the TD-LTE consortium along with Chinese companies like China Mobile and Huawei. When China Mobile switched on its TD-LTE 4G network in December 2013, and Apple had no phone capable of handling the standard, Samsung was ready with its S4 (Millward, 2013). The TD-LTE standard has become popular in Asia, particularly India and China, and China Mobile expected to hit 80 million TD-LTE subscribers by the end of 2014 (Wu, 2014).

Samsung's support of open systems has facilitated, though perhaps inadvertently, the rise of Chinese smartphone producers. The first smart phones introduced by companies like Apple, Nokia, Blackberry, and Motorola used closed proprietary technology. Samsung, on the other hand, developed products for the open source Android platform developed by Google, legitimizing the Android operating system in the process. Samsung's success in smartphones attracted the interest of Chinese electronics and phone manufacturers. The Android operating system championed by Samsung enabled companies like Xiaomi, Huawei, ZTE, and numerous other Chinese companies to focus their R&D on hardware and China-specific applications, without the need to develop and gain acceptance for an operating system of their own. Without Samsung's support for the Android system, Chinese smartphone makers would not be nearly as prominent as they have become (author's interviews).

## Bringing green standards to China

Energy efficiency and a cleaner environment have become high priorities within China in recent years. Samsung China has contributed to these priorities in several ways. The company has brought the global Green Management program it founded in 1992 to China. Through the operation of G-EHS (Global Environment, Health & Safety System), Samsung integrates management of environment-related information such as reduction of greenhouse gas emissions, response to regulations on product environment, and performance management in environmental and safety hazard prevention (Samsung, 2015d).



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Samsung's Green Management System in China encompasses Greening of Management (Strategy, Procedures, and Systems), Greening of Factories (Energy Saving, Green House Gas Reduction and Pollution Reduction), Greening of Products (R&D), and Greening of Communities. For example, Samsung China operates an eco-partner certification process whereby raw material suppliers, parts suppliers, and Samsung Electronics materials and processes undergo environmental certification. Since 2005, Samsung China has setup collection bins and put up guidelines in over 400 repair service centres to collect obsolete cell phones and accessories. Samsung commissions qualified companies to undertake non-hazardous treatment of the waste and to take advantage of recycling resources (Chen et al., 2015).

Samsung Electronics has repeatedly been praised for its environmental performance in China. It received the 'Top Green Company Award' from the Daonong Center for Enterprise in 2014 and 2012; the 'Energy Saving Contribution Award' from the China Energy Saving Association in 2013, 2012, 2011, and 2010; the 'Green Medal Award' in recognition of its use of advanced technology in green products from the *China Business News* in 2012; the 'Sustainable Development Award' in recognition of its excellent eco-friendly products from *The Economic Observer* in 2012; the 'Energy Efficiency Star Award' for high efficiency products from the China Ministry of Industry and Information Technology in 2012; and was selected as the greenest company among the top 100 foreign companies in China in the 'Green company assessment', by the China Europe International Business School (CEIBS) in 2011 (Samsung, 2015b).

## **Corporate social responsibility in China**

Samsung also has an advanced global corporate social responsibility program that it has brought to China. In China Samsung was ranked first among foreign companies and 13<sup>th</sup> among all companies (foreign and domestic) for corporate social responsibility initiatives in China in 2014 (Samsung, 2014b).

Samsung hopes to develop more technical talents to meet the industrial needs in China, making contributions to vocational education in China while enhancing the social recognition of blue-collar workers. In 2002, Samsung set up a university scholarship program and as of 2013 it had partnered with 26 key Chinese universities and offered more than 5,000 scholarships (Invest Guangzhou, 2013). The company launched its 'Tech Institute' program with the Ministry of Human Resources and Social Security in 2014 to provide technical education to vocational school students in China. The program has run major training bases in Tianjin, Suzhou, Chengdu, Shenyang, and Xi'an involving over 300 trainees with vocational education. Samsung planned to establish five more training bases by the end of 2015 (Sun, 2014).

Samsung Electronics' corporate social responsibility efforts in China include the Samsung Dream Class to bring summer school classes to children in remote rural areas. Other Samsung CSR projects in China include summer camp for children with autism; a foundation to assist cataract patients; anti-pollution campaigns by its staff; and disaster relief (Yang, 2013). Samsung donates RMB10 million annually to the China Foundation for Disabled Persons. In 2012, the company organized a total of 834 public welfare events that involved as many as 43,000

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people. Samsung adheres to its business philosophy of 'shared management'. It donated a total of RMB 60 million to earthquake-hit areas in Ya'an in 2013; RMB 30 million for the emergency response to the 2008 Sichuan earthquake, and RMB 10 million for relief efforts for Qinghai's Yushu earthquake relief efforts in 2010. Samsung Electronics supports a variety of healthcare programs with its advanced medical equipment technology, products, and services. It operates a mobile medical centre for areas that lack convenient medical facilities and provides medical training for local medical associations (Samsung, 2015a).

### **Making an overall contribution to China**

Samsung Electronics' overall contribution to China has been multi-faceted. It has made massive investments that make it one of the largest foreign direct investors in the country. It provides employment directly for 60,000 people in China, and many more through its supply chain. It has contributed to the development of China's electronic manufacturing base by engaging not just in electronics assembly in China, but also in advanced componentry, extensive research and development in China, and bringing much of its most advanced technology to China. By championing the Android operating system, it inadvertently helped pave the way for many Chinese companies to enter the smartphone business. It has contributed greatly to the development and utilization of advanced capabilities in the electronics industry in China.

Samsung has also invested extensively to build capabilities in its own Chinese workforce and has localized the vast majority of key management and research positions in China. Samsung has engaged in extensive activities to promote China's energy efficiency and environmental goals. Through its CSR programs it has participated in helping promote education, disaster relief, and programs for the disabled within China. In the process it has focused on becoming a part of Chinese society, rather than a firm just interested in profiting from the China market.

Samsung's contribution to China has been noted on many occasions over the years. In 2005, Samsung was ranked as 'the best foreign investor in China' and in 2006, Samsung was selected as the 'best contributor' among foreign enterprises in China (Zhang and Pearce, 2012, p.77). In 2006 and 2007, Samsung was awarded a Public Welfare Prize for its outstanding contribution to Chinese society (Lee, 2013). In 2013 and again in 2014, Samsung was ranked first among foreign companies for corporate social responsibility, as awarded by the Chinese Academy of Social Sciences (Samsung, 2014b). In 2015, Samsung China was among ten companies named 'The most respected enterprises in China', by *The Economic Observer*, a business publication. This was the 10<sup>th</sup> year that Samsung was on the list (China News, 2015).

China's senior leaders have also expressed their gratitude to Samsung. The importance of the partnership between Samsung and China was underscored by a meeting in 2013 between the Chinese Vice Premier Liu Yandong and Vice Chairman of Samsung Group Lee Yae-yong, in which the Vice Premier lauded Samsung's contributions to economic cooperation between China and the Republic of Korea (ROK) (Xinhua, 2013). During a Korea-China business forum

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held by the Korean Chamber of Commerce in 2014, China's President Xi Jinping was given a personal tour of an exhibition of Samsung's products by Samsung Electronics' Vice Chairman Jay Y. Lee, in addition to holding private talks (Seo et al., 2014; Lee, 2014). The degree of involvement at the highest levels clearly underscores the mutual importance of the relationship between China and Samsung.

## Moving beyond China

Samsung has made major investments and major commitments in China. However, there are signs that Samsung is moving beyond China, due to cost increases, and incentives to invest. In particular, Samsung Electronics has made major investments in Vietnam. The company opened its first facility in Vietnam in 2010. By 2015, Samsung had invested USD 2.5 billion in factories in Bac Ninh Province, USD 5 billion in an assembly plant in Thai Nguyen Province, and USD 1.4 billion in another facility in Ho Chi Minh City. Estimates of the total investment in Vietnam by the end of 2015 were USD 14.2 billion, making Samsung Vietnam's largest foreign investor by a substantial margin. Vietnamese officials claimed that Vietnam had become Samsung Electronics' largest overseas production location. Roughly one-third of Samsung's smart phones were reportedly being made in Vietnam (Vietnam News, 2015). The company's exports from Vietnam reached USD 26.3 billion in 2014, equal to 17.5 percent of Vietnam's total exports, and its Vietnam factories employed over 110,000 (Bich, 2015), or roughly one-third of Samsung Electronics' global employment, and well above its China employment. In June 2015, the company announced it was targeting sales growth of 40 percent from its Vietnam facilities in 2015 (The Chosunilbo, 2015).

Samsung was not just assembling electronics in Vietnam; it was placing complete production systems and research support into the country. Samsung opened a research and software centre in Vietnam in 2012 and by 2015, the centre was supplying around 10 percent of the software used in Samsung phones. Only five of the centre's 1,500 employees were foreign and Samsung planned to expand employment to 2,600 by 2018 (Vietnam News, 2015). It was also tooling up its Vietnamese factories for more precision manufacturing, reportedly shipping 20,000 machines to Vietnam to match the milling performed on Apple iPhones (Vincent, 2015). Several Samsung subsidiaries had set up facilities to supply the Vietnam plants. Samsung also had pushed other suppliers to set up in the country and was actively developing local suppliers and working with government to improve Vietnam's electronics sector (Nhan Dan, 2015). By 2015, approximately 90 partner and supplier companies, mostly from Korea, had followed Samsung to Vietnam (Kang, 2015).

The main reason for investments in Vietnam, as opposed to China, was labour costs roughly one-third of what was available in China after several rounds of government-imposed wage increases in China. Samsung was also offered tax exemptions for the first four years of operation of its Vietnam facilities, a five percent tax rate for the next twelve years, and a ten percent tax rate for the next 34. Samsung was also offered exemptions on import tariffs and VAT, as well as help with land development, training, and customs. A young population, worker availability, and prospective membership in the Transpacific Partnership (TPP) were also reasons to prefer Vietnam to China for new investment (Kang, 2015).

Samsung's impact on Vietnam has been profound. Just two years after Samsung opened its first facility in the country, Vietnam exported more than it imported for the first time in 20 years. Samsung was also investing aggressively in developing the Vietnamese workforce, making arrangements with local universities, providing study materials, sponsoring libraries, and digitizing content to make it available on Samsung smartphones (Tibken, 2015). In 2015, Samsung was exploring investing in the insurance and energy sectors, and was seeking out promising local entrepreneurial companies to fund (Goh, 2015). Samsung had led the way for other Korean companies, some of which opened facilities in Vietnam to supply Samsung, and others that benefitted from Samsung paving the way in terms of negotiations with government, infrastructure, and business systems. By 2015, Korean firms had invested a total of USD 39.2 billion, making Korea the leading foreign investor in Vietnam. Samsung reportedly did not want to be known as Vietnam's largest exporter or foreign investor, but as 'Vietnam's national enterprise' (Ngoc, 2015).

Samsung's investments in Vietnam represent something of a cautionary tale for China. Samsung had become one of the largest foreign investors in China. As costs increased in China, local governments pushed up wages, Chinese competitors emerged, and the Chinese Government began to favour Chinese technology companies over foreign companies more overtly, Samsung wound up investing about as much in Vietnam in six years as it had in China in twenty. While in the short run, most of the jobs and production that were located in Vietnam, instead perhaps of China, involved relatively simple assembly, Samsung was moving to put higher value-added production and jobs into Vietnam as rapidly as possible, and it was pulling other companies into Vietnam to do the same. While Vietnam will never come close to China's scale as a manufacturer or as a market (its population of 91 million is less than one-tenth that of China), the Samsung example shows that there are other alternatives for foreign companies and China cannot assume that it will automatically continue to attract some forms of investment.

## Conclusion

Corporate case studies provide a range of insights into the roles played by foreign companies in China. Samsung went from producing in China for export to producing in China for China as well as the rest of the world. Samsung recognized China's importance, not just as a production location, but as the location for a wide range of corporate activities, including research and development and senior management. In the process, the company almost created a 'second Samsung' in China and places some of its most senior managers in the country. However, the Samsung case also shows that major multinationals have other countries in which they can invest. As China becomes more expensive, the market tougher, and perhaps not as hospitable to foreign firms as it might be, foreign firms can look to other countries for their investment. In addition, there are companies large enough to make investments in new countries and pull in suppliers, partners, and others sufficient to make the investments successful. What is more, major multinationals can undertake the same sorts of investment, supplier development, workforce development, technology development, educational, CSR, and related activities in other countries, and thereby making them more competitive, as they have in China.

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### For more information



**Michael Enright, Director**, Enright, Scott & Associates Limited  
[michaelenright@enrightscott.com](mailto:michaelenright@enrightscott.com) / +852 3101 8650  
[www.enrightscott.com](http://www.enrightscott.com)

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hinrich foundation

**Stephen Olson, Research Fellow**, Hinrich Foundation  
[stephen.olson@hinrichfoundation.com](mailto:stephen.olson@hinrichfoundation.com) / +852 9889 5510  
[www.hinrichfoundation.com](http://www.hinrichfoundation.com)

## About the research



This paper is an excerpt from a larger project initiated by the Hinrich Foundation and undertaken by Enright, Scott & Associates on the impact of foreign investment and foreign enterprises as a whole on China's economy.

The results of the larger project were published in Michael J. Enright, *Developing China: The Remarkable Impact of Foreign Direct Investment* (Routledge 2017).

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