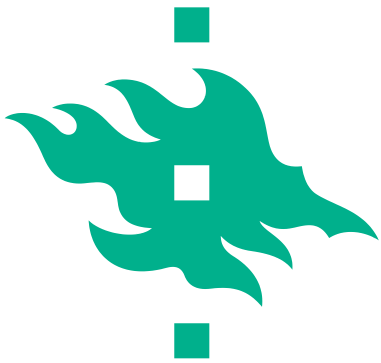




Forest industry foreign investments: case study of three companies in China

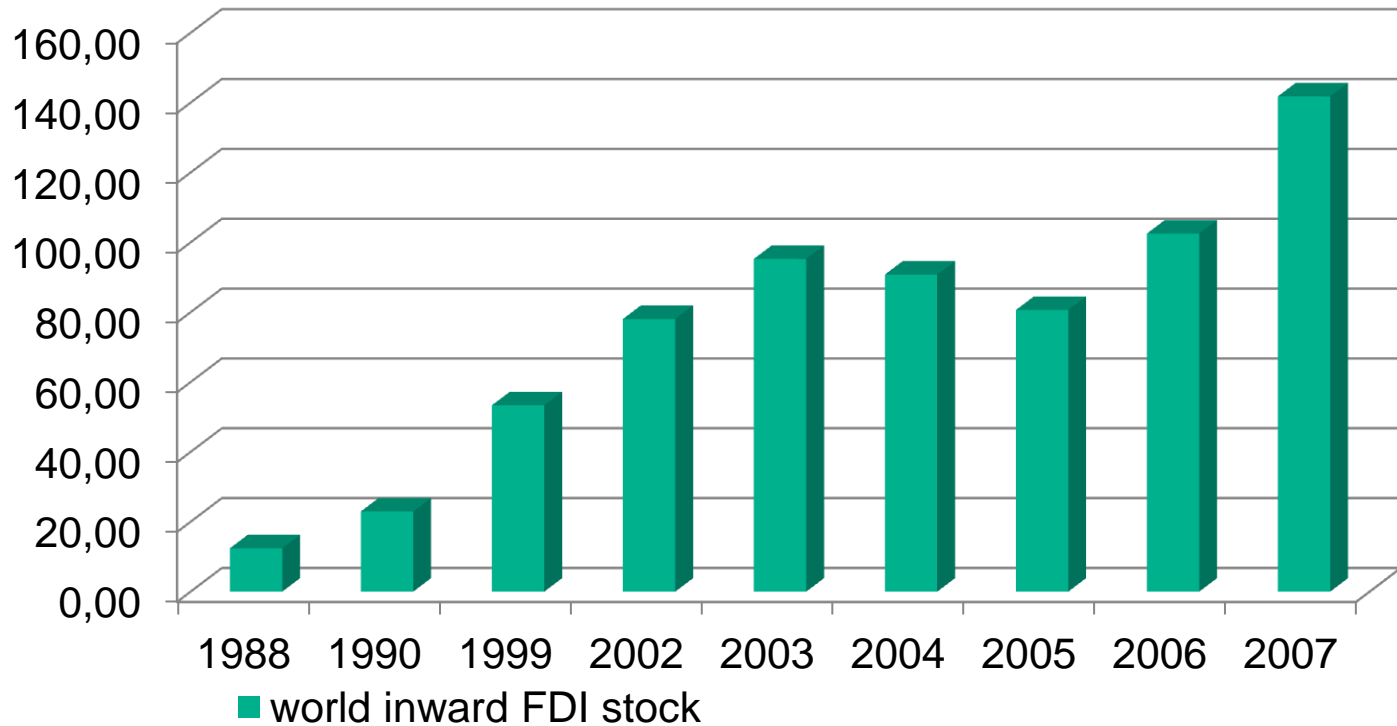
SSFE 2012, Hyytiälä

Yijing Zhang (UH)

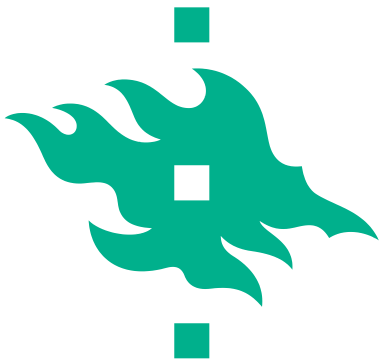


World inward FDI growth in the wood and wood products sector

Billions of dollars

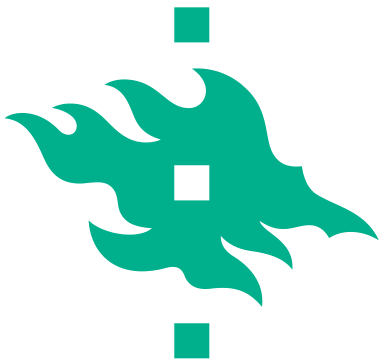


Source: WIR 2001, 2004, 2005, 2006, 2007, 2008, 2009



China as an investment destination

- The global second large economies (7 trillion US dollars GDP, 2011)
- GDP average growth rate of 9.9% for the latest three decades
- The largest recipient of FDI in the developing world (UNCTAD, 2011)
- China has abundant resources, beautiful environment and amiable climate
- Infrastructures have been improved significantly in transportation, communication, and the supply of water, electricity and natural gas
- Relevant laws, regulations and policy were revised according to the requirements of market economy and the promises to join in WTO
- China is trying to establish an open, fair, standardized and transparent investment environment



Forest industry investment environment in China (1)

- The gross output value of forest industry in China maintained at an increase rate of 19.92% in this decade. (Forestry statistics of China, 2010)
- Paper and pulp industry has the highest growth rate of 41.06%. (Forestry statistics of China, 2010)
- Shandong, Zhejiang, Guangdong, Jiangsu are the biggest provinces which accounts for about 64% of paper production capacity. (Almanac of Chinese Paper Industry, 2010)

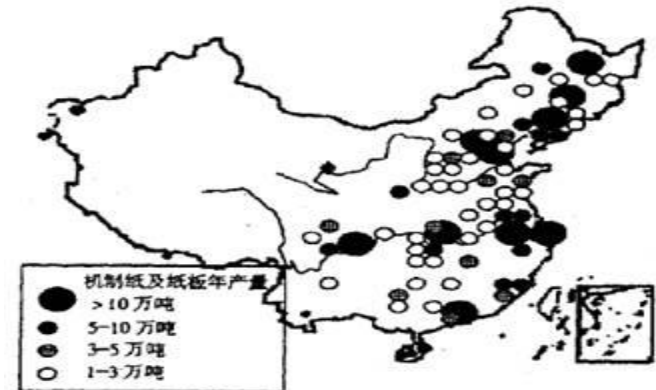
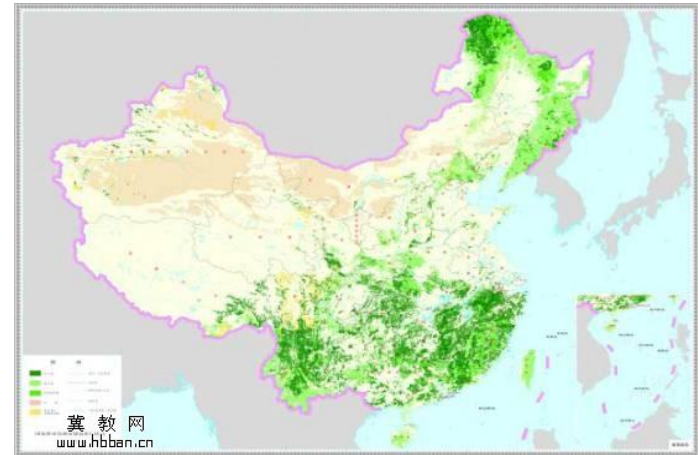
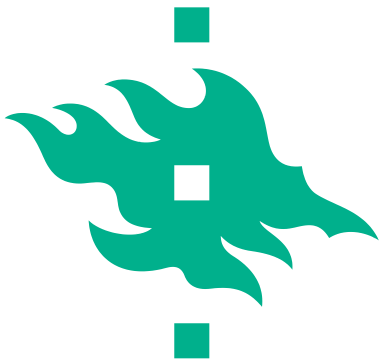
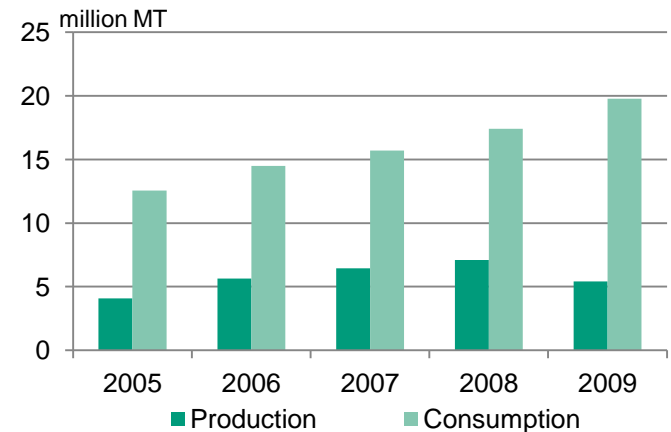
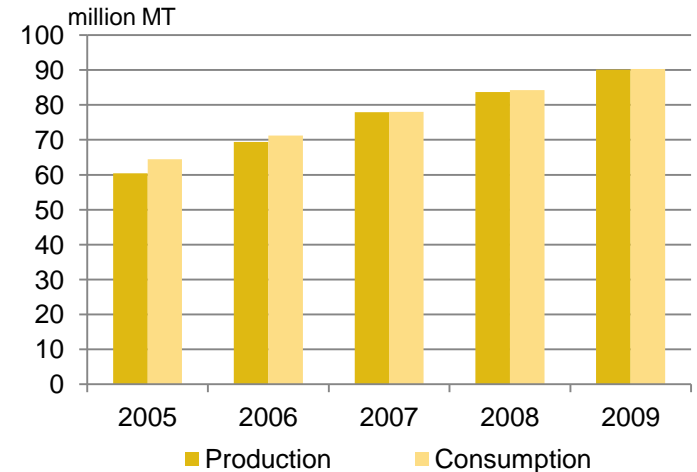


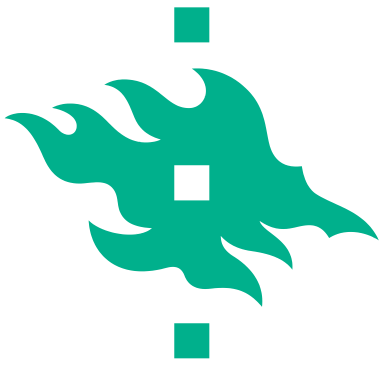
图 8



Forest industry investment environment in China (2)

- Strong market seeking motive: The paper and paperboard production and consumption growth rate maintains at 10% / year
- The average consumption in China (67 MT / 1000 capita) still lags behind European countries (126 MT/1000 capita) and the US (226 MT/1000 capita) (FAO 2011)
- Huge gaps between wood pulp production and consumption
- Chinese pulp consumption is 17 MT/1000 capita, far behind the Europe (65 MT/1000 capita) and the US (144 MT/1000 capita) (FAO 2011)



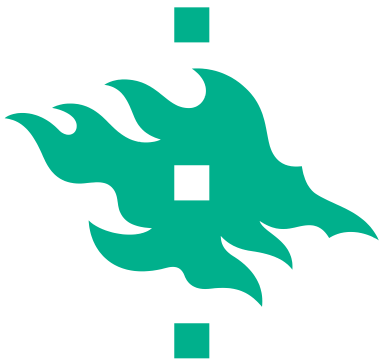


The forest industry FDI and its prospects in China



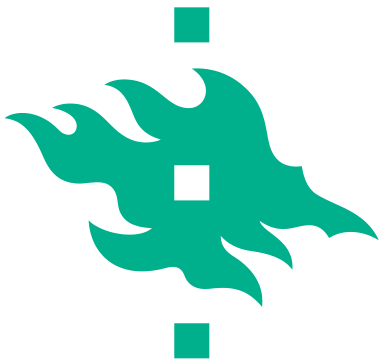
- From 2004 to 2008, FDI in the forest industry in China has **doubled** from 357 million USD to 834 million USD
- FDI projects have maintained around 550 cases annually (Forestry statistics of China, 2004; 2008)
- Government continues to push for the country's industrial upgrading and relocation
- China launched the country's 12th Five-Year Plan (2011-2015) for the Paper Industry
- Plans to eliminate at least 10 million tones of outdated papermaking capacity by encouraging corporate mergers and acquisitions
- Encouraging the production of energy-saving and emissions-reducing paper





The aim of study

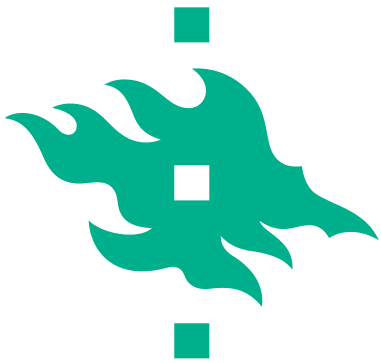
- The aim of this study is to explore the current status of the three forest industry MNCs in China referring to financial, operational, and managerial perspectives.
- **Research questions:**
- How are the forest industry MNCs developing their current operations and performance in China?
- Are there differences in their investment strategies?
- Does the country of origin of the firm affect its investment strategy in China? If so, how has it been reflected?
- What issues have been eminent around firm's environmental and social activities in China?



Theoretical background

- Key internationalization theories (referring to the review paper Zhang et al. 2012)
- MNCs may choose very different paths to realize internationalization
- Based on our review, internationalization research from corporate managerial view point is rare in China, and non-existent in case of forest industry

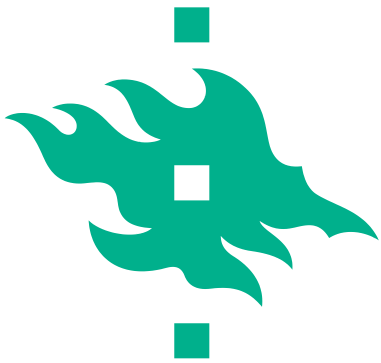
Internalization and transaction cost theories	Resource-based theories
Industrial organization theories	Managerial incentives theories



Methods and data

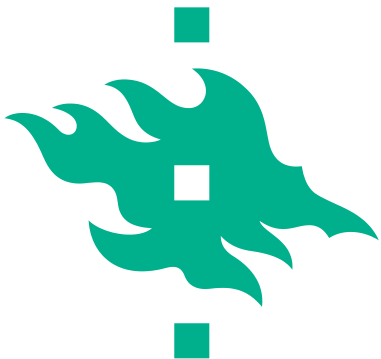
- Method: Comparative qualitative case study
- Case companies: UPM, APP, IP
- Data sources: mainly documentary information at this stage





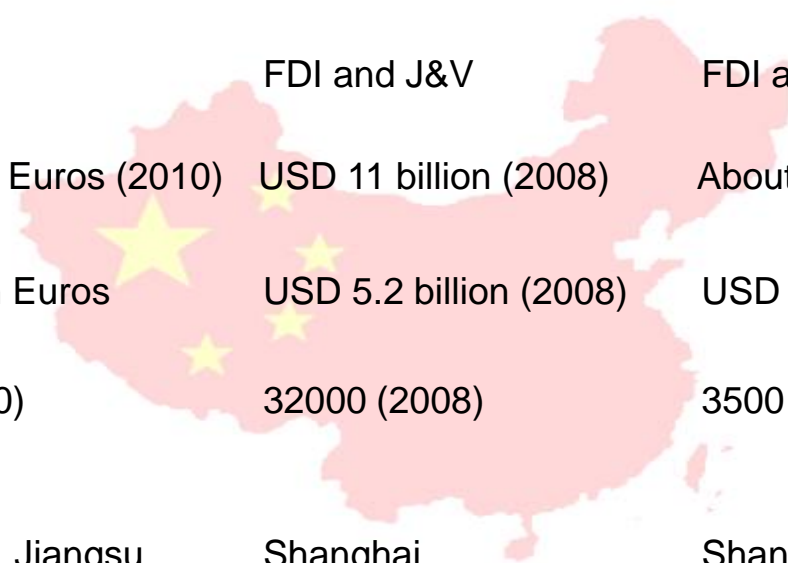
Background information about case companies

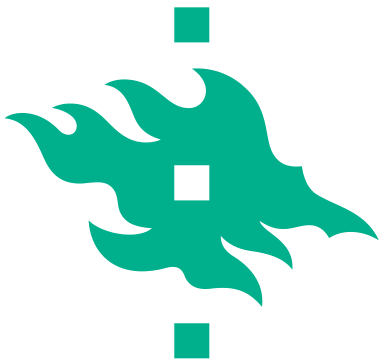
	UPM	APP	IP
Headquarter	Helsinki	Singapore	Memphis
Founded year	1995	1972	1898
Business areas	Energy & pulp Paper Engineered materials	Paper Pulp Packaging	Printing papers Industrial packaging Consumer packaging
Global sales	8924 million Euros (2010)		26034 million dollars (2011)
Return on Equity	8.2% (2010)		18.2% (2010)
Global employees	21869 (2010)		61,500 (2011)
Number of operating countries	15 (2010)	3	More than 20



Operational information of case companies in China (1)

	UPM	APP	IP
Initial year in China	1998	1992	1994
Forms of investment	FDI	FDI and J&V	FDI and J&V
Assets in China	802 million Euros (2010)	USD 11 billion (2008)	About USD 2 billion
Sales in China	479 million Euros (2010)	USD 5.2 billion (2008)	USD 706 million (2010)
Number of employees in China	1367 (2010)	32000 (2008)	3500 (2010)
Headquarter in China	Changshu, Jiangsu	Shanghai	Shanghai





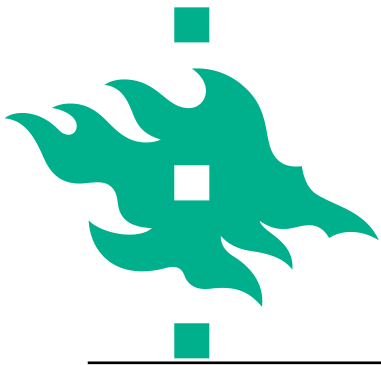
Operational information of case companies in China (2)

	UPM	APP	IP
Number of facilities in China	3 production plants 1 R&D centre 6 sales offices	18 pulp and paper enterprises Over 20 plantation farms	19 container plant 1 Asia Customer Solution Centre 1 IP-Sun J&V
Product certifications	ISO9001 ISO14001 OHSAS18001 CoC of FSC CoC of PEFC	ISO9000 ISO9001 ISO9002 ISO14001 OHSAS18001 CoC of PEFC Certifications of PEFC	ISO9001 ISO9002 ISO14000 ISO14001 ISO18000 CoC of FSC
Plantations in China	No	More than 300,000 hectares of plantations (2008)	No
Source of raw materials	Import from Indonesia, South America, Finland and Canada.	Yunnan province, Hainan province, Cambodia	



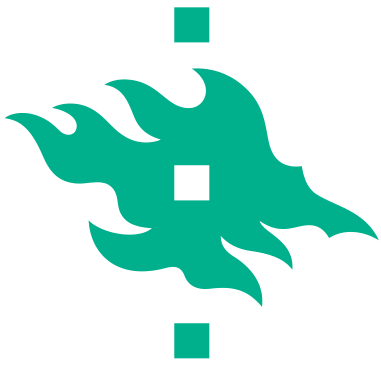
Environmental and social activities of case companies in China

	UPM	APP	IP
Environmental management	<ul style="list-style-type: none"> • 36 million USD in advanced facilities • Minimized the waste water and air emissions • Decreased the water & electricity consumption 	<ul style="list-style-type: none"> • Plantation-Pulp-Paper Integration • RMB 5.5 billion in environment protection • Raw materials: fast growing & fertile plantations 	<ul style="list-style-type: none"> • Managing the natural resources • Reducing the environmental footprint • Building strategic partnerships
Social responsibilities	<ul style="list-style-type: none"> • Sichuan earthquake reconstruction (2009) • Wuhan Climate Change trip (2009) • Yunnan Lijiang water protection task (2008) • Village drinking water project in Shanxi (2008) • Community plantation in Henan (2007) • UPM University Scholarship Program 	<ul style="list-style-type: none"> • Set scholarship in Universities • Participated in disaster relief, social donation, construction of Olympic venues • Total donation of around RMB 600 million 	<ul style="list-style-type: none"> • Tree Planting project to fight desertification in Inner Mongolia • Cooperate with SFA for the sustainable forestry practice and management • IP Asia Scholarship



Stakeholder opinions concern the case companies

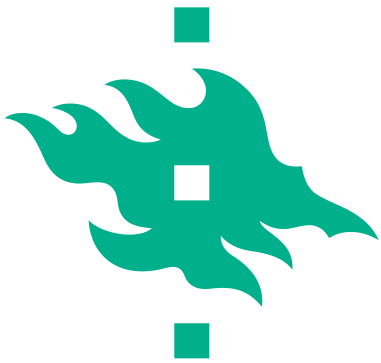
	UPM	APP	IP
Support	<ul style="list-style-type: none">• The honor of Top Employer to UPM (2012)• Green peace supports UPM's development strategy in China (2008)• State Environmentally Friendly Enterprise (2005)• Environmentally Friendly Enterprises of Jiangsu Province (2004)• Top 100 Environmental Projects of China (2003)	<ul style="list-style-type: none">• China Excellent Corporate Citizen (2011)• Environmentally Friendly Enterprises in paper industry (2010)• Low Carbon Enterprise in China (2009)• Yunnan Daily: APP plantation project brings job opportunity and economic benefits to local communities	<ul style="list-style-type: none">• World's Most Ethical Companies for sixth straight year (2012)• World's Most Admired Companies for ninth straight year (2011)
Against		<ul style="list-style-type: none">• Greenpeace: APP destroyed 13% of natural forest in Hainan (2011)• Greenpeace: APP cut down virgin forests in Yunnan (2004)• Zhejiang Hotel Association boycotts APP products (2004)	



What are we going to analyze in later stages?

1. The differences of expansion paths and investment strategies?
2. The impact of home country geographic context on the investment strategy?
3. Local level cooperation with communities and emerging stakeholder relationships?
4. Main opportunities and challenges for the sustainability of operations in China?

Based on the analysis 1 to 4, we want to enhance understanding on the key issues and factors around corporate sustainability of foreign forest industry companies in China



Thanks for your attention!

