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Huawei's Growth Strategies and Challenges in Russia

Tatyana Tsukanova

1 Introduction

China has undergone significant changes in its economic and industrial structure since the late 1970s. First experiments brought very positive shifts and provided the basis for rapid growth and competitive advantage. The new context opened the market for private companies. Their development and export were encouraged by tailored government support and policies. However, to enter international high-technology markets that were dominated by the US, Japan, and European countries was not an easy task. Although China had a significant gap in the information and communication technology (ICT) sector (Chen et al. 2011), Huawei helped fill this gap.

Despite some recent challenges, interest in the internationalization of Chinese companies is not declining (e.g., Alon et al. 2018; Panibratov

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2017). Prior research has provided insights into the drivers, entry modes, location choices, performance, and other factors related to the internationalization of Chinese companies (e.g., Angulo-Ruiz et al. 2019; Cooke 2012). However, detailed research on leading emerging market multinational enterprises (EMNEs) such as Huawei Technologies remains very limited, and little is known about the development and evolution of their internationalization endeavors in specific overseas markets. Nevertheless, it is important to study this process in a dynamic and systematic way by looking at the links between their steps and the surrounding context (Fan 2010).

Huawei is a remarkable company. It was founded in 1987 and started its operations as an importer of switches from Hong Kong (Guo et al. 2019). Initially, the company focused on basic technologies but soon started to invest in R&D to offer better solutions and lower prices to their customers. Currently, it is a leading global provider of ICT infrastructure and smart devices. The company specializes in communications equipment, providing customized network solutions for telecom carriers in fixed, mobile, and data communication networks. Huawei had a 22% increase in revenue in 2019 (Huawei Press Release 2019a), despite all of the controversies surrounding this company.

Today Huawei operates in more than 170 countries with nearly 188,000 employees all over the globe and connects almost 40% of the world population (Huawei Annual Report 2018). Its greatest increase has been is Europe, the Middle East, and Africa (ibid.). In Russia, Huawei has made a long journey, from 1997—when its first foreign office in Russia opened—to 2019. It has moved from an unknown company in Russia to a market leader, and from zero revenue to 132.3 billion rubles in 2018, a 114% increase compared to 2017 (SPARK database). There are studies that focus on cooperation between China and Russia. However, there are no in-depth examinations that detail how the leading Chinese telecom company, Huawei, developed its operations in the Russian market, what strategies it adopted to support its growth and what challenges it faced.

Such a study is warranted because Chinese firms often encounter the problem of the liability of foreignness (Zaheer 1995). The study of Huawei's international expansion in Russia offers new opportunities to

better understand the internationalization of Chinese companies and extend our current knowledge in the field of international business. Therefore, the following research questions guide this study:

- What key strategies did Huawei adopt during its internationalization in the Russian market?
- What challenges has Huawei encountered?
- How has Huawei leveraged its advantages in the Russian market?

In answering these questions, this chapter aims to contribute to the ongoing discussion in the international business research on the strategies of EMNEs in other emerging markets and provide some additional insights for researchers and practitioners.

2 A Brief History of Huawei in Russia

Huawei has achieved remarkable growth in global markets by implementing its own version of the internationalization process. As a latecomer, it has successfully followed the "Go global" incentive pushed by the Chinese government. Russia became a profitable market for Huawei, and Huawei is now a core and very competitive player there (see Table 3.1). The company currently serves more than 50 out of 100 of the largest Russian companies in multiple sectors as well as government agencies and SMEs (small and medium-sized enterprises). Thus, close to 1000 Russian organizations use its technologies and solutions (Huawei Press Release 2018a).

Huawei's international expansion started in 1996–1997, when the company entered the market of the Commonwealth of Independent States (CIS) and established a joint venture in Russia (the key milestones are presented in Table 3.2). About ten years later, Huawei entered Russia. By that time, it had already changed its strategic focus from being a small sales agent to an ambitious market player. The development of Huawei in the Russian market went through three sequential stages: *Launch*, *Early Growth*, and *Recent Growth*. This study will explore these three stages

Table 3.1 Huawei in numbers

Name	Huawei Technologies Co. LTD/ООО "Техкомпания Хуавей" (rus)
Location	Moscow
Web	www.huawei.ru
Registration date	15 September 2000
Head company	Huawei Technologies Coöpertief U.A., Netherlands
Key activities	Wholesales of telecommunication equipment
Size	Large, 501–1000 people (as for 31 December 2017)
Sales	$ 2 124 027 016 (31 December 2018)
Subsidiaries	10: Ufa, Krasnodar, Nizhny Novgorod, Novosibirsk, Vladivostok, Rostov-on-Don, Samara, Ekaterinburg, Kazan, Saint-Petersburg
Target market	B2B (largest Russian companies in multiple sectors, government agencies, SMEs) and B2C
Globally	170 countries, +188,000 employees, highest growth in EMEA region

Source: SPARK database

Table 3.2 Huawei's major milestones in Russia

Data	Event
1997	Registers the joint venture "BETO—Huawei" in Ufa, with Beto-Konzern, Russian producer of telecommunication equipment
2000	Receives the first orders; opens a technical support center in Ufa; and registers a LLC in Moscow
2001	Opens a training center at the Moscow Technical University of Communication and Informatics
2002	Opens an R&D center in Moscow to develop 3G mobile telecommunication equipment
2003–2004	Begins active cooperation with local telecom operators, wins the contract to supply equipment for Beeline, signs a contract with MegaFon to build GSM900/1800 mobile networks, and wins the contract with MTS to build networks in six regions
2005	Has 500+ employees, opens office in Ekaterinburg
2007	Delivers 3G in Russia; together with TransTeleCom builds the first large-scale NGN network in Russia covering seven time zones and providing access to long-distance and international voice communications
2009	Rostelecom uses Huawei's solution to build a new fiber-optic communication line between Petrozavodsk and Murmansk

(*continued*)

Table 3.2 (continued)

Data	Event
2010	Enters the corporate market by developing ties with system integrators and investing in developing affiliate networks; opens a technical support center in Novosibirsk
2011	Enters B2B market in Russia with the sales of smartphones under its own brand
2012	Together with Yota Networks launches the first commercial LTE network in Moscow; starts the educational program "Seeds for Future" and opens its first training laboratory at the St. Petersburg State University of Telecommunications
2013	Opens the first network academies of Huawei at the Moscow State Technical University of Radio Engineering, Electronics and Automation and at the St. Petersburg State University of Telecommunication; launches its new brand of mobile devices "Honor" and opens an official online store in Russia
2014	Signs strategic agreements with Russian Railways, Sberbank, and VTB; and cooperates with MegaFon on the development and implementation of 5G in Russia
2015	Starts the ICT competition Huawei Honor Cup for students; enters into cooperation agreements with the Russian Customs Academy (training), and the Ministry of Education and Science of the Russian Federation (scientific, technical, education and innovative projects)
2016	Together with Rostelecom, finishes the construction of Kamchatka-Sakhalin submarine network that provided access to broadband Internet and digital TV in HD quality for the residents of the Kamchatka Region and the Magadan Region; starts cooperation with the Moscow State University, receives the award of "Leader of competitive procurement" and starts cooperation with GLONASS
2017	Works with Vimpelcom on launching 5G, develops other high-tech solutions, and celebrates 20 years in Russia
2018	Organizes a regional tour across 12 Russian cities to introduce key trends in the industry and plans for the future; opens the OpenLab in Moscow; and cooperates with the Republic of Tatarstan, one of the most innovative regions, organizes multiple conferences for partners
2019	Presents some advances in cloud solutions and information security solutions, cooperates with Tele2, MTC, and Beeline to develop and implement 5G; invests in developing local partners and education; launches joint initiatives on modern ICT including cooperation with MegaFon on Cloud VR, and cloud gaming; and cooperates with universities and organizations on AI

Sources: Based on Huawei's annual reports, analytical reports, SPARK database, official press releases, and official websites

using Huawei's press releases, annual reports, websites, official datasets, cases studies, analytical reports, published interviews, and other forms of public communication.

2.1 Launch

Huawei started its internationalization by exploring similar emerging countries with a less-developed telecom industry. Its initial internationalization strategy was to target markets with a weak telecommunication infrastructure but with great potential for further development. Thus, Russia became the first country where Huawei opened a foreign office. The significant improvement in relations between China and Russia after the fall of the Soviet Union facilitated this step. In addition, it was also a strategic decision because after entering Russia, it was easier to penetrate other markets of the CIS.

At first glance, the initial entry point was rather unexpected. Huawei began its operations in Ufa (EY 2015), the capital city of the Republic of Bashkortostan, located 1165 km from Moscow, with a population over one million people. Still, it is noteworthy, as it was the first representation of Huawei outside China.

Overall, the late 1990s was a difficult period for Russia, marked by a prolonged transitional period and macroeconomic disturbances. According to the UNCTAD (1998), Russia's GDP dropped by more than 40% between 1989 and 1996. The situation was exacerbated by instability in economic, institutional, and political processes, resulting in the crisis of 1998 when the Russian Central Bank devaluated the ruble. Undoubtedly, the crisis had a severe impact on businesses. Capital poured out of the country and many foreign companies left (Frantzscher 2014). Just a year before, Huawei had set up a joint venture, Beto-Huawei, with the Russian telecom equipment manufacturer Beto Konzern (Huawei in Russia 2017). This partnership provided it access to the Russian market, which would have been difficult to penetrate otherwise. However, the joint venture struggled to attract customers until three years later. In 2000, Huawei received its first orders and from that point on, the

business started to grow (Wu and Zhao 2007). Since its economic recovery, the Russian market has become one of the most promising sources of Huawei's foreign sales. In 2001, Huawei opened the Training Center at the Moscow Technical University of Communication and Informatics, and one year later the company founded its R&D center in Moscow (Huawei in Russia 2017).

2.2 Early Growth

During this stage, Huawei became more visible, started to move quickly in the market and demonstrated a significant increase in its presence. In 2004, it began active cooperation with local telecom operators to build GSM (The Global System for Mobile Communications) networks (Huawei in Russia 2017). Huawei won a contract to supply equipment for Beeline-Samara, and signed contracts with MegaFon and MTC, the largest mobile operators in the country (EY 2015). In 2007, together with TransTeleCom, Huawei built the first large-scale NGN (next generation network) in Russia, covering seven time zones and providing access to long-distance and international voice communications (Huawei in Russia 2017). Rostelecom used Huawei's solutions to build a new fiber-optic communication line between Petrozavodsk and Murmansk (Gorlan and Shatilin 2009). In 2010, Huawei entered the corporate market, and a year later entered the Russian B2C market with the sale of smartphones under its own brand (Huawei in Russia 2017). Two years later, it offered a new brand of mobile devices called "Honor" and opened its official online store (ibid.). In 2012, Huawei cooperated with YOTA and deployed their first commercial LTE (Long-Term Evolution) network in Moscow that had outstanding performance (Huawei Press Release 2012).

In parallel, Huawei invested in knowledge development. It launched the educational program "Huawei Seeds for the Future," which allows students from various countries to learn about Chinese culture and take a training course at Huawei's headquarters in Shenzhen (Huawei—Seeds for Future 2017). The goal is to increase the professional skills and

motivation for self-education for future specialists in the ICT industry. During this stage, Huawei opened a training laboratory at the St. Petersburg State University of Telecommunications and donated its latest equipment and control systems to the University (Huawei in Russia 2017). Huawei also started the first network academies at the Moscow State Technical University of Radio Engineering, Electronics and Automation, and at the St. Petersburg State University of Telecommunication (Huawei Press Release 2013). The program is aimed at enhancing the theoretical understanding of the field and providing practical training for senior students, graduate students, and teachers in the ICT field.

2.3 Recent Growth

During this stage, Huawei achieved significant success. The international climate was largely unfavorable for Russia due to confrontation with the US and Western countries (Afontsev 2015), but these antagonisms played into the hands of Huawei. The attitude of most MNEs regarding Russia has changed from seeing it as a rapidly growing BRIC country with major prospects to a slow-growing market with significant problems (Barbieri et al. 2013). Accordingly, many foreign companies have sharply reduced their investments in Russia—except Huawei that follows the motto: "Never waste the opportunity offered by a good crisis."

In 2014, Huawei and RZD (Russian Railways) signed an agreement on scientific and technical cooperation to develop and modernize wireless networks for professional technological communication (Huawei Press Release 2014a). Sberbank and Huawei entered into a cooperative agreement where Sberbank acted as Huawei's financial partner to promote Huawei's products in Russia and the CIS (Huawei Press Release 2014b). Huawei also signed an agreement of strategic cooperation with VTB Bank aimed at developing cooperation in modern telecom solutions (Huawei Press Release 2014c). Furthermore, Huawei and MegaFon agreed to cooperate to develop and implement 5G in Russia (Huawei Press Release 2014d). In cooperation with MTC, Beeline and Tele2,

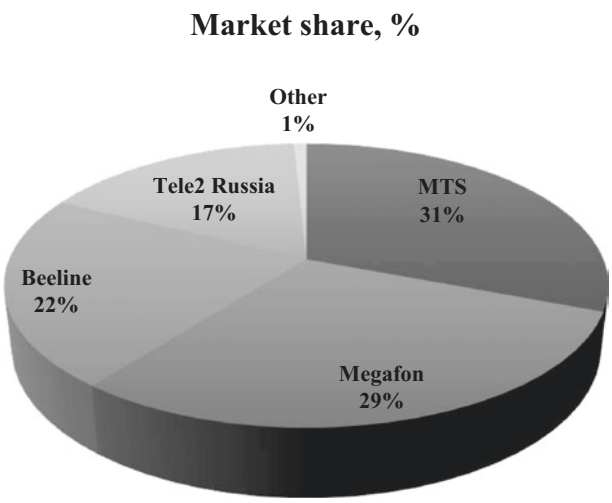

Fig. 3.1 Key players in Russian Wireless Telecom Services. (Source: MarketLine 2019a)

Huawei has also begun developing and implementing 5G. Thus, it has cooperative agreements with all of the leading telecom operators in Russia (Fig. 3.1).

In the meantime, Huawei has launched multiple projects with leading Russian universities, institutions, and research centers. In 2015, Huawei organized the ICT competition Huawei Honor Cup in which more than 1500 students from 70 universities in 21 Russian cities took part (Huawei Press Release 2015a). Huawei's educational program "Seeds for the Future" received the support of the State Duma Committee on Security and Anti-Corruption (Huawei in Russia 2017). Huawei entered into a cooperative agreement with the Russian Customs Academy to train highly qualified specialists (ibid.). The company has also signed a cooperative agreement with the Ministry of Education and Science of the Russian Federation to perform joint work on scientific, technical, education, and innovative projects (Huawei Press Release 2015b). In addition, Huawei has recently launched joint research and educational programs with Moscow State University (Huawei Press Release 2016a), and begun developing joint initiatives based on modern ICT with Skolkovo (Huawei

Press Release 2018b) and the Russian Presidential Academy of National Economy and Public Administration (Huawei Press Release 2019b). Huawei has R&D projects with the Russian Academy of Sciences (Huawei Press Release 2019c) and multiple research centers, and collaborates with various universities and research centers (Huawei's Scientific Collaboration in Russia 2017).

In 2016, Huawei and Rostelecom finished the construction of the Kamchatka-Sakhalin submarine network and provided access to broadband Internet and digital TV in HD for the residents of Kamchatka and the Magadan Region (Huawei Press Release 2016b). In 2018, the company organized a regional tour across 12 Russian cities—the Huawei Conference—to introduce the key trends in the global telecom industry, highlighting its achievements and plans for the future (Huawei Press Release 2018c). It has been cooperating with GLONASS (Global Navigation Satellite System) on the joint development and promotion of navigation and information services in the Russian market, and with Vimpelcom on developing technologies for the Internet of Things, machine interoperability (M2M), virtual radio, and solutions for public security. Additional ventures include its cooperation with the Republic of Tatarstan on multiple regional projects, with MegaFon on Cloud VR and cloud gaming, and with various universities and industry organizations on artificial intelligence (Huawei Press Releases 2016–2019). Huawei has also established its OpenLab in Moscow—a demo-center and laboratory to promote the collaboration of the company's engineers and its partners and customers in developing, customizing, and testing new technological solutions (Huawei Press Release 2018d).

Huawei has invested substantially in educational programs for its clients, partners, and students. Its partnerships are largely focused on developing ecosystems and regional activities through an annual conference with the slogan "enjoy growth, win together" to promote a symbiotic approach to mutually beneficial cooperation (e.g., Huawei Events 2020). The company has developed new technologies with a focus on digital transformation. Two R&D centers are located in Moscow and St. Petersburg, and more than 10% of Huawei's income goes to R&D. Huawei

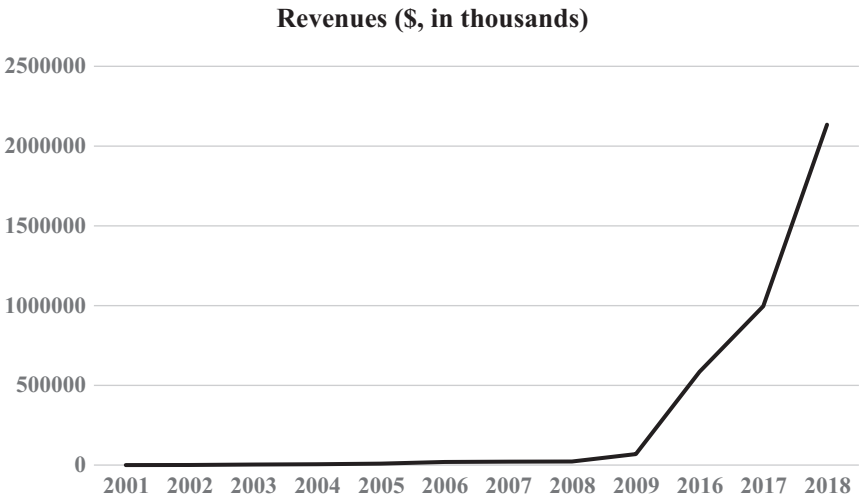

Fig. 3.2 Huawei's revenues during 2001–2009 and 2016–2018. (Source: SPARK database)

has also established new forms of cooperation and programs for long-term research. As Huawei's revenues in Russia depicted in Fig. 3.2 illustrate, the company regards Russia as one of its high-priority markets for partnerships at all levels.

Huawei's corporate business in Russia increased by 76% in 2017–2018 (Huawei Press Release 2018d). Among its prominent corporate clients are the leaders of the Russian banking and energy sectors, including 15 federal ministries and 40 regional offices with more than 700 SMEs. The total number of organizations using Huawei's technologies and solutions is close to 1000 (ibid.).

3 Internationalization and the Window of Opportunity

Huawei's internationalization strategy in Russia can be broken down into three key elements—*Motivation, Method*, and *Mindset*.

3.1 Motivation

This element refers the primary motivation to go abroad. The literature provides multiple explanations of the determinants of internationalization and foreign direct investments (FDI): market-seeking, resource-seeking, asset-seeking, and efficiency-seeking (Dunning 1993; Dunning and Narula 2004). Huawei's expansion in Russia was motivated mainly by *market-seeking*. In the late 1990s, due to intense competition in its home market, Huawei considered internationalization as a growth strategy and an opportunity to expand its operations outside China. Therefore, it looked for markets with a weak telecommunication infrastructure (Wu and Zhao 2007). It chose Russia because it saw it as a market with a relatively undeveloped telecommunication industry and great potential, where (1) it could use its existing products and solutions, (2) the entry barriers were relatively low compared to advanced economies, and (3) customers were more price sensitive. In addition, the size of the Russian market was attractive, a factor that is still a major draw for Chinese investors in Russia (EY 2015).

The domestic institutional conditions were also favorable for this strategic decision. Huawei was located in Shenzhen, the first special economic zone in China, and benefited from tax incentives, grants for R&D, and access to loans (Barbieri et al. 2013). China wanted to create a conducive environment for nurturing local companies and encouraging them to invest abroad (Lim and Teo 2018). Prior research has shown that supportive government policies can provide new opportunities for latecomers (Guennif and Ramani 2012). In the mid-1990s, the Chinese government focused on nurturing local manufacturers; in particular, it started to encourage the development of local manufacturers in telecom. Since Huawei was already a successful producer of locally made switches, it received special attention including public support and financial assistance (Guo et al. 2019). Moreover, the government supported the global vision of local companies, and its "Going global" policy has motivated many private firms to enter foreign markets despite all of the challenges.

3.2 Method

Method refers to the entire process of internationalization. Before entering other countries, Huawei had already developed a leading position in China. From the very beginning, Huawei did not start from "the core." Instead of immersing itself in the "red ocean" of fierce competition with big companies in large cities without appropriate skills, Huawei learned how to swim in the "blue ocean" of the rural market where the competition was insignificant. The backward rural market benefited from Huawei's cheap solutions. It competed successfully against major players there who were not focused on this market. Building on this success, Huawei expanded into the urban market with its cost-effective products and services that have become competitive with Western ones.

By "encircling cities from rural areas" (Zhen and Gibbs 2018: 366), Ren Zhengfei, the founder of Huawei, started investing in foreign markets by implementing the same approach. Huawei entered emerging markets first and then Western markets. Furthermore, in emerging markets, including Russia, Huawei *moved from the periphery to the core*. Hardly any Western company has considered entering the Russian market through the "back door." Moscow and St. Petersburg were always the main destinations for MNEs, but not for Huawei. While most incumbents in ICT regarded Russian regions as peripheral and secondary, non-essential markets that were too costly to serve, Huawei saw them as an opportunity and started serving these markets using the strategy it had developed in China. There, it seized the window of opportunity provided by the lack of service in China's rural market and positioned itself at the lower end of the domestic market. Thus, it avoided direct competition with established foreign companies. It then replicated this strategy later during its international expansion, demonstrating that the "sideward-crawl crab strategy" (Nakai and Tanaka 2010) is a good way for a latecomer to penetrate the market.

Joint ventures, greenfield investments, and mergers and acquisitions (M&A) are considered the most common entry modes in emerging economies (Meyer et al. 2009). Huawei was no exception. It began its international expansion with a *joint venture* in Russia. Utilizing strategic

partnerships helps Chinese firms address their "competitive disadvantage" (Child and Rodrigues 2005) and mitigate the risks associated with the liability of foreignness (Zaheer 1995). These liabilities stem from the lack of international experience; the lack of knowledge about the local culture, language, and institutions; and the lack of market presence, reputation, and brand name recognition. By 2005, this joint venture had become the largest Chinese investment enterprise in Russia and achieved a 50% market share (Guo et al. 2019). At the same time, Huawei's history in Russia shows that it did not consider the mode of entry an isolated event. It also paid attention to other attractive opportunities. The pace of change is very rapid in emerging economies, and organic growth by opening its own subsidiaries was the next step in Huawei's expansion.

3.3 Mindset

Mindset refers to the role of the underlying principles, core values, and philosophy of a company, because they inform the fundamentals of its development and international expansion. When a company enters other markets, it can follow a resource-seeking strategy to obtain access to natural resources, materials, or other factors under more favorable conditions such as lower costs of labor (Dunning 1993). However, Huawei was "born" in this market and expanded abroad by pursuing other goals. It was interested in finding a proper balance between price and quality. Low prices have always been its significant advantage (Low 2007). For example, when Huawei was founded, the price for imported switches was over $450 per line, while Huawei sold them for less than $10 (Guo et al. 2019). This *cost advantage* and better speed of service enabled Huawei to enter markets where foreign players had been dominant for a long time. However, an initial low-price advantage is not sustainable without quality. Low prices must be combined with high-quality technology, which requires dedicated R&D efforts (Slywotzky et al. 2006). Thus, the company focused on "the cost-innovation strategy" (Zeng and Williamson 2007) by combining its advantage in producing low-cost equipment with investments in innovations to upgrade the technology.

EMNEs usually develop technological capabilities by imitating or improving existing technologies. However, to achieve a sustainable advantage, they need to transition from a follower to a global leader (Cantwell 2017). To increase the quality of its products Huawei used two tactics: develop multiple collaborative R&D projects with local universities and institutions, and recruit highly skilled engineers. It managed to produce inexpensive but durable products, offer improvements and adaptations, and provide product manuals and training for customers (Guo et al. 2019).

Before entering the Russian market, Huawei had acquired significant technological capabilities. However, given the flood of cheap Chinese imports on the market, the negative perception of inferior products from China was difficult to overcome. Huawei offered much lower prices than its competitors—up to 30% below the market average—and added impressive post-sale services (Barbieri et al. 2013). *The value-for-money* segment in emerging economies is expanding. Firms that can run a business in uncertain economic and political times have an advantage (Ramamurti and Williamson 2019). Huawei acquired these capabilities in China and developed them significantly in Russia. In addition, Huawei utilizes a *customer-centric approach* (Deng et al. 2018) and a glocalization strategy by "thinking global, acting local" (Ille and Chailan 2011) and paying close attention to host country markets and cultural differences (Fey et al. 2016). For example, Huawei has mitigated the level of liability of foreignness by hiring skilled native employees and adopting local practices (Oetzel and Doh 2009). This "local immersion" (Deng et al. 2018) has reached 70–80% in countries outside China (Cui and Liu 2019).

A "customer-first attitude" (De Cremer and Tao 2015) is the basis of Huawei's culture and has helped the company achieve a high degree of success globally. Huawei was able to provide better service and differentiate itself from competitors because it significantly reduced the average response time to complaints (Zedtwitz 2008). Thus, Huawei has managed to overcome the latecomer disadvantage by developing better customer relationships at all levels and by offering superior service in addition to innovative, quality products at lower prices.

Table 3.3 summarizes the key facts, circumstances, challenges, and strategic actions of Huawei in Russia based on the analysis provided.

Table 3.3 Evolution of Huawei's strategies in Russia

Timeline	Context	Key problems	Strategic actions
1997–2003 Launch	**Russia:** Crisis; Weak telecommunication infrastructure; Price sensitive; Major growth potential; Good relationships with China. **China:** Government support with the focus on nurturing local firms; "Go global" policy; Intense domestic competition.	Very strong LOF; Lack of distribution network, brand name and strong technologies; Perception of Chinese products as of inferior quality.	Use value-for-money product; offer affordable technologies (cheap + durable); Develop partnerships to overcome competitive disadvantages; Interact with local knowledge centers; Undertake R&D early; Hire locals and highly skilled engineers; Learn local "rules of the game."
2003–2013 Early growth	**Russia:** Recovery and growth; Institutional voids. **China:** "Go global" policy; Access to financing; Support of "National Champions."	Strong LOF; Underdeveloped distribution networks; Minimal brand awareness; Negative perception of "Made in China" products.	Focus on low-cost innovation capabilities; Offer lower price, high quality, and better services; Form strategic partnerships with major players; Invest in R&D, education, training and collaboration with knowledge centers; Enter B2C market; Adapt to local "rules of the game."

(*continued*)

Table 3.3 (continued)

Timeline	Context	Key problems	Strategic actions
2014–present Recent growth	**Russia:** Slow growth; Geopolitical confrontation with the Western countries; Import substitution policy. **China:** Increase in investments in Russia; "Made for China" focus.	Moderate LOF; Negative perception of Chinese products in the B2C market.	Focus on better customer value proposition with lower price, higher quality, innovations, and dedicated support for customers; Focus on R&D; Invest in long-term projects; Glocalization; Build partnerships with major players and institutional actors; Develop B2C market; Invest in training and education.

Source: Developed by the author

The table demonstrates the crucial role of the context in home and host countries, as they provide the institutional context where each firm is embedded and has to act (Tsukanova 2019). It also reveals the internal strategic disadvantages that Huawei has had to address.

4 Growing Under Adversity: Key Principles

Being a latecomer, Huawei hardly could be sure about its future success. Leadership is not only about being a frontrunner in technology but also about being a leader in the market share in the industry (Mowery and Nelson 1999). As Fig. 3.3 illustrates, by 2019, Huawei had managed to achieve significant revenues from international operations and was no longer a "no-name" company.

Huawei actively developed its B2C sector. The Russian smartphone market in 2018 reached a record high of $7.56 billion and more than 30

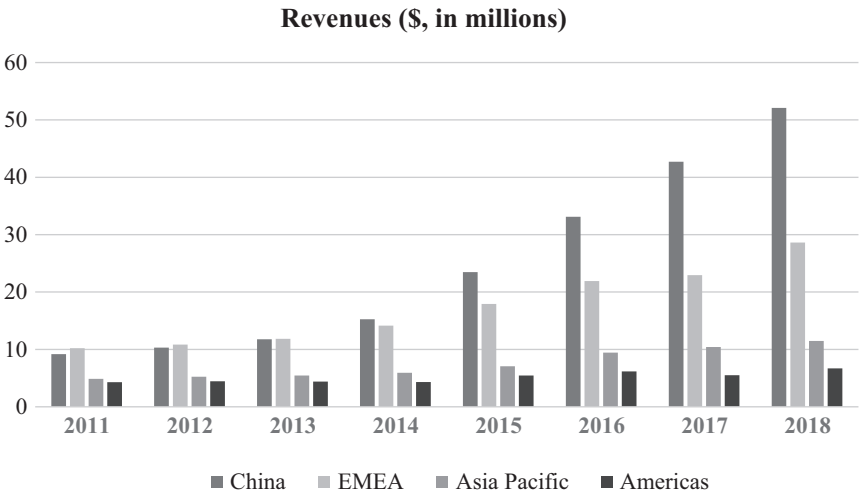

Fig. 3.3 Comparative revenue streams across the regions. (Source*:* Huawei Investment and Holding Co. Ltd. 2011–2018 Annual Reports)

million devices were sold (Frolova 2019). According to analysts, the share of Huawei in the number of devices sold increased from 11% to 20%, making it one of the top four largest smartphone brands in Russia (Posypkin et al. 2018). Despite being from the "Bricoland" (Bell 2009), Huawei is now a recognized brand ranked number 74 by Interbrand (2019). In 2019, it was included in the list of the world's most valuable brands by *Forbes,* placing it at number 97, with a brand value of $8 billion (Forbes 2019). In contrast, in 2000, not a single brand from emerging economies was among the world's top 75, and lack of awareness about Chinese brands was mentioned as a challenge for Chinese MNEs (Chen 2015). However, by 2019, the Global Fortune 500 list included 121 Chinese companies, with Huawei in 61st place—moving up from number 397 in 2010 (Fortune 2019).

Nevertheless, the global economy is changing. It has become more complicated and more challenging with multiple disruptive forces. Political, economic, technological, and legal disruptions provide advantages for some players and hurt others. It takes a great deal of effort to build a successful global story. Huawei has managed to seize

opportunities in Russia and succeed during crisis periods, but *several challenges* for its future growth should be highlighted.

The first issue is perceptions about the ***quality*** of Huawei's products in the B2B market in Russia. Unfortunately, the stereotype about "Made in China" is alive, especially in regions where customers still see Chinese products as of poor quality due to their origin and price. Given its reputation as a low-cost manufacturer, Huawei's products are regarded as being of low quality. However, this challenge has waned significantly in recent years (Bukhvalov and Alekseeva 2015). Huawei has invested in brand development and cooperated with popular local companies. Its recent achievements in the B2C sector, including the significant increase in its global brand awareness, confirm a very positive change. In its early years, Huawei engaged in reverse engineering and copied the products of market leaders, but now it has developed its original products that are "Designed in China." While the low-price strategy helped Huawei conquer the global market, the company has stuck to its low-price approach, but it takes more time to explain to customers that quality products can be affordable.

The second challenge is also related to ***trust*** at the global level. Because of Huawei's historical connection to the Chinese government, the company is often considered as untrustworthy and as a player in Chinese political games. Significant *security concerns* and the risk of espionage (e.g., Doffman 2019) have prompted many countries to block Huawei's access to important infrastructure projects. However, the attitude toward Huawei in Russia is not the same as in Western countries. When Russia faced a major geopolitical confrontation with the West due to the Crimea crisis and the subsequent sanctions placed on Russia (Thompson 2014), China emerged as Russia's only strategic ally in the region. Since 2012, President Vladimir Putin has engaged in more than 20 meetings with Chinese President Xi Jinping, and they have signed a number of economic deals (MarketLine 2019b). In 2018, according to the customs administration of China, trade between Russia and China grew by more than 25% and reached $107 billion (Prokhorovich 2019). Huawei has gained a significant advantage as a result.

As an ancient proverb says: "The enemy of my enemy is my friend." The current geopolitical situation and international confrontation have

led to a closer alliance between China and Russia in order to counter the Western international system and the US. While each side has its own hidden interests, at the moment both players see the benefits of this cooperation. The example with the Android operating system (OS) illustrates this point. Although Alphabet Inc. limited the options of the Android OS available for the new Huawei smartphone, there is still a "backdoor" (Keane 2020). Furthermore, Huawei does not have the same problems in China, its biggest market, because the Chinese government has essentially banned almost all Google services (Savov 2019). Accordingly, in response to the sanctions, Huawei is developing its own alternative "Harmony OS" (Bloomberg News 2019). Moreover, Huawei has another alternative OS—the Russian Aurora—and they have already launched a pilot project (Reuters 2019).

The third challenge is related to the ***import substitution*** policy in Russia and its protectionist measures (Zagashvili 2016). Many companies interpret this policy as a ban on purchasing equipment from Europe and the US, but not equipment from Asia. Thus, Chinese companies, including Huawei, feel rather confident in the Russian market. In fact, sanctions have contributed to the growth of Huawei, as they limited competition from the West and increased prices. Instead of buying products in the EU or the US, most companies switched to imported goods from other countries (which can be the same goods but imported into Russia through other countries such as Poland, Belarus, and Ukraine) (Quinn 2019). Thus, the current Russian policy regarding import substitution provides more favorable conditions for Huawei, and the size of this opportunity is very attractive.

Overall, the insights from the analysis reveal that most of Huawei's strategies in Russia were based on its ability to turn adversity into opportunity by utilizing several interconnected strategies: demonstrating *strategic patience*, developing *ambidexterity* and forming *partnerships*. The ability to leverage these strategies has helped Huawei successfully overcome all market challenges.

A business climate of adversity can bring new opportunities for building and developing a competitive advantage (Chakravorti 2010). Many of these opportunities may not be so obvious and require implementing strategies with the future in mind. Being in an industry where the role of

innovations is crucial forces CEOs to pay close attention to changes in the industry and market, and tendencies in consumer preferences. Long-term thinking helps firms mitigate risks and sustain their success over the years. As the history of Huawei in Russia shows, the company has a great deal of *strategic patience*. It went global and accepted losses in the short-term in order to achieve long-term gains.

In the late 1990s when the Chinese market was full of foreign products from Ericsson, Motorola, and Nokia, Huawei decided to undertake risky investments in R&D to develop next-generation solutions, which became a crucial decision for its success later. In fact, adversity and uncertainty were not obstacles for Huawei's development and expansion. Ren Zhengfei once said: "There are a lot of different opportunities in the world due to imbalanced economic development. I am very enthusiastic about exploiting those markets, especially in developing countries" (Luo et al. 2011: 69). The results of his investments reveal the benefits of this approach and Huawei replicated it in Russia. When Huawei entered Russia, it competed with Cisco in the B2B market, but today Huawei is the market leader. As one of its top managers noted: "Our main competitor—is only us. We know the market, we monitor everything that is going on, and always see the potential for development" (cited in Karasev 2018). According to the TELMI alliance (ibid.), the share of Russian manufacturers in the domestic telecom equipment market is only 6–8%. More than 80% of the market is controlled by Chinese companies, such as Huawei and ZTE, and about 10% by Western companies, such as Cisco and Nokia.

After consolidating its position in the B2B sector, Huawei entered the B2C market in Russia (Huawei in Russia 2017) but it did not happen suddenly. The company had already acquired significant experience in producing affordable smartphones that were sold under the brands of operators in their own retail chains. Russia has been a very profitable market for Huawei's international expansion with the same annual growth as in China—about 10–20% (Karasev 2018). Western sanctions on Russia have actually opened up new opportunities for Huawei. Since 2014, Russia has become a top priority area for Chinese investment (EY 2015).

Ambidexterity is the next principle that contributes to the successful international expansion of Huawei in Russia. Ambidexterity implies the ability to utilize two different and sometimes opposing strategies simultaneously: exploitation and exploration versus efficiency, flexibility, stability, and adaptation (Luo and Rui 2009). Be ambidextrous is a good practice for any firm, but EMNEs usually have a greater impetus to implement this approach. Huawei was founded in China where relationships are valued, and institutions are weak. From its domestic operations Huawei gained experience in dealing with external uncertainties and cultivating network ties that could provide access to resources or markets (Meyer 2004). By entering a new foreign market, Huawei integrated exploitation and exploration in its strategy and found a balance between short-term survival and long-term growth. To realize its goals, it received short-term profits from the home market and government support, and achieved long-term growth by carefully implementing internationalization and market development. The company learned to deal with the difficult institutional environment in China and invested in learning about the Russian institutional context. By now, Huawei has 23 years of experience doing business in Russia, giving it a valuable competitive advantage over others.

In their early stages, EMNEs as latecomers usually develop technological capabilities by imitating or improving existing technologies. However, to achieve a sustainable advantage, they need to transition from a follower to a global leader (Cantwell 2017). Ramamurti and Williamson (2019) state that EMNEs face three types of "capability holes": (1) technology and innovation capabilities, (2) brand and marketing capabilities, and (3) capabilities to build and manage international operations. While exploiting its position in China through access to cheaper resources and other firm-specific assets, Huawei invested in R&D, human and social capital, and large-scale infrastructure projects, understanding the importance of innovations and "network effects" in the ICT sector (Katz and Shapiro 1994). Huawei learned how to be ambidextrous to become a global leader.

Finally, the third factor is *partnerships*. Social capital facilitates cooperation, which has important implications for growth and competitive

advantage (Hoskisson et al. 2004). Prior research confirmed that social capital is especially helpful in emerging economies (Manolova et al. 2019). During a company's internationalization drive, social capital can provide access to resources (Adler and Kwon 2002) and help build cooperative partnerships (Kostova and Roth 2003).

According to Mathews (2006), EMNEs can thrive overseas by *linking* with partners, *leveraging* their resources, and *learning* from them (the LLL theory). In many emerging economies, partnerships can be the best way to avoid the traps stemming from industry specifics or institutional voids (Khanna and Palepu 2000; Tsukanova and Zhang 2019). These ties are useful for reducing the liability of foreignness. When entering foreign markets, many Chinese companies rely on M&As as a way to acquire the expertise and resources needed to compensate for their weaknesses (Zhong et al. 2013).

The joint venture that Huawei organized with Beto Konzern in Russia can be described as a shortcut for acquiring market share and gaining access to distribution networks and other resources. By investing in relationships and initiating many joint projects that at first glance might be regarded as philanthropic (e.g., providing free equipment for the labs at the universities), Huawei has managed to build its reputation as a reliable, high-quality manufacturer, and important stakeholder. Thus, Huawei's formula for achieving a leadership position in the Russian market and any other international market is to (1) invest in R&D, (2) collaborate with the knowledge centers (universities, institutions), and (3) cooperate with partners. Huawei also cultivates *partnerships* by integrating these three elements. For examples, it organizes joint R&D projects with other companies, launches educational and research projects with partners at the universities, and develops and sustains existing partnerships. Thus, partnerships in internationalization help Huawei respond to competition, expand and strengthen its technical potential, monitor market and industry trends, recruit skilled employees, and acquire new knowledge and other resources. Guided by these three principles—strategic patience, ambidexterity, and partnerships—Huawei has managed to strengthen its position in the Russian market and increase the likelihood of its future growth.

5 Conclusion

To summarize, Huawei's case in Russia sheds light on how latecomers expand into other emerging markets. This chapter analyzed the strategies that helped Huawei catch up in the ICT industry. The insights it revealed should prove useful for other EMNEs. In terms of key strategies, Huawei chose a slower, more conservative entry into internationalization by building joint ventures and strategic alliances, and developing joint projects with various stakeholders. The company was also able to leverage the overall deteriorating economic situation in Russia. At the same time, Huawei demonstrated that it is possible to anticipate challenges and seize promising opportunities by using strategic patience, focusing on long-term goals and funding them with short-term gains, and building partnerships. This strategy is likely to be effective in the future.

This chapter adds to our understanding about the internationalization strategies of Huawei in Russia and contributes to the international business research by combining theoretical perspectives and empirical evidence. It has policy implications for other emerging economies that are looking for ways to raise their international presence, because they can learn from the practices adopted by the Chinese government. For practitioners, the study implies that it is important to align the internationalization strategy with the resources available to a company, leverage these advantages, and adapt to local realities to gain legitimacy.

The limitations of this study are related to the sources of information, which were limited to the available secondary data. In addition, this study can be considered a case study and may not be representative of all Chinese MNEs or EMNEs across other sectors and markets. However, it opens up interesting avenues for further investigation that could include the consideration of other companies and firsthand data to deepen our knowledge on the subject. This research is only one step in investigating the internationalization of Huawei in Russia, and offers a rather broad overview of the key issues related to its growth strategies and challenges. Future studies may focus in more detail on more narrow aspects of Huawei's international expansion. Examples include the role of the

experience of the top management, strategies to overcome the negative image of the company, the role of government policies and the institutional environment, the leveraging of social capital, and comparative studies across countries. Such investigations could add value to the international business field, as there are many interesting routes through which companies from emerging economies can go global.

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