

# ***The Impact of International Financial Market Volatility on the Strategic Decisions of Chinese Enterprises: The Case of Huawei Corporation***

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**Abstract:** At present, the global economy is in a slow recovery phase, and there are many unstable factors in the international financial market, such as persistent geopolitical conflicts, volatility in the global stock market, high inflation and foreign exchange market, and the challenge of global debt sustainability, and the market volatility has intensified, which has had many negative impacts on the survival and development of enterprises. This thesis focuses on how the development of international financial markets affects the strategic decisions of Chinese enterprises. This paper employs the case study method. It focuses on the specific case of Huawei, a renowned enterprise. The analysis explores how Huawei has successfully navigated the fluctuations of the international financial market during its development. The aim is to enhance the resilience of China's enterprises against the fluctuations of the international financial market. Huawei not only focuses on short-term response measures to cope with challenges but also pays more attention to long-term development planning, continues to increase R&D investment and insists on independent innovation, which is also the key to Huawei's continued growth in the turbulent international financial market.

**Keywords:** International Financial Market, Strategic decision-making, Exchange rate fluctuation, Market constraint.

## **1. Introduction**

With the increase in international trade and capital flows and the rapid development of financial globalisation, the links between the financial markets of various regions and countries have become increasingly close, gradually forming a network of complex relationships and closely aligned interests. This means that the occurrence of systemic financial risks in one region may lead to global financial market turbulence. At the same time, a large number of studies have shown that financial liberalisation can significantly exacerbate the instability of financial markets. It raises the cost and difficulty of financing for China's enterprises, affects their export and overseas investment decisions, exacerbates exchange rate risks and asset price volatility, and raises the uncertainty of enterprises in the global supply chain. At the same time, the unstable general environment has weakened consumer confidence and market demand, and the combined effect of these factors can damage the profitability and market competitiveness of enterprises. The impact of international financial market volatility on

Chinese firms' strategic decisions is therefore an important area of research, providing insights into how firms navigate the uncertain financial environment. The aim of this paper is to explore the impact of international financial market volatility on Chinese firms' strategic decisions using Huawei Technologies Co. as a case study. The study aims to assess the impact of typical types of financial market volatility on Huawei's strategic choices and to analyse the company's coping strategies. The methodology used is a qualitative case study approach, which allows for an in-depth study of Huawei's strategic responses to financial market volatility. Huawei is chosen for this study because of its prominence in the international market and its notable strategic decision-making practices. In the face of trade restrictions and market access barriers in certain countries and regions, Huawei's strategic decisions exemplify how to find balance and room for development in the global political and economic environment. Adjustments in the face of international market volatility and geopolitical risks, as well as Huawei's risk management strategies in the face of international financial market volatility, including currency hedging and diversified financing channels, provide valuable experience for other enterprises to learn from. Thus the example of Huawei Technologies Co Ltd reflects the ability and strategy of Chinese enterprises to cope with the complex international financial environment in the context of globalisation, which is instructive for many Chinese enterprises seeking internationalisation.

## **2. Case Analysis**

### **2.1. Case Background and Data Overview**

As a leading Chinese high-tech enterprise, Huawei's internationalisation journey began in 1996, and it has gradually expanded into the global market through localisation strategies, technological innovation and brand building. In the international financial market, Huawei actively participates in foreign exchange transactions, international financing and overseas investment, obtains financial support through bond issuance and loans, and expands its business scope and technology level through acquisitions, joint ventures and the establishment of R&D centres. However, the restrictions imposed by the United States on Chinese enterprises have had an impact on Huawei's activities in the international financial market [1].

The data source of this paper includes Huawei's annual reports, financial statements, official press releases, and industry analysis reports. The time frame of the study, 2014 to 2024, covers several important international financial market volatility cycles.

### **2.2. The Impact of Exchange Rate Fluctuations on Huawei's Strategic Decisions---Example: The Impact of RMB Exchange Rate Adjustment on Huawei's Strategic Decisions in 2015**

#### **2.2.1. Background and Impact of the Incident**

In August 2015, the People's Bank of China announced the adjustment of the median price quotation mechanism of the exchange rate of the RMB against the US dollar, and the exchange reform triggered the depreciation of the RMB, with a range of 4.7% and significant fluctuations. According to Huawei's annual report in 2015, the depreciation of the RMB led to a decrease in the conversion of revenue settled in foreign currencies into RMB, affecting the company's revenue, and an increase in corporate foreign exchange losses, which led to a significant increase in Huawei's net finance costs. As shown in Table 1, net financial expenses were \$3.715 billion in 2015, an increase of \$2.26 billion from 2014 due to the significant depreciation of currencies in Africa and emerging markets, and an increase of \$2.227 billion in foreign exchange losses year-on-year [2].

Table 1: Net Finance Expenses

CNY Million	2015	2014	YoY
Net foreign exchange loss	4,362	2,135	104.3%
Other net finance gains	(647)	(680)	(4.9%)
Total net finance expenses	3,715	1,455	155.3%

Table 1 also illustrates that net finance expenses in 2015 were RMB 3.71 billion, an increase of 155.3% year-on-year due to a significant increase in foreign exchange losses as a result of the depreciation of the RMB. Although the company's net profit was RMB 36.91 billion in 2015 as the data shown in Table 2, the overall performance maintained growth, but due to the significant increase in net finance expenses, the growth rate of net profit slowed down to 32.5 in 2014-2015 compared to the growth rate of net profit of 32.7% in 2013-2014.

Table 2: Cash flows from operating activities

CNY Million	2015	2014	2013
Net profit	36,910	27,866	21,003
YoY	32.5%	32.7%	

### 2.2.2. Huawei's Strategic Decisions

A. Practices a variety of sound financial management. Huawei implements measures including centralised cash management, maintaining reasonable funding levels, and actively cooperating with financial institutions to obtain sufficient credit lines to meet the company's overall funding liquidity needs. It also continues to optimise its cash flow planning, budgeting and forecasting systems to better assess its short-, medium- and long-term liquidity needs. The 2015 financial report showed that Huawei's cash and short-term investments continued to grow, up 18.1% year-on-year to 125.208 billion yuan, amidst a significant increase in net financial expenses due to exchange rate fluctuations. Adequate capital reserves and stable cash flow from operating activities reduced Huawei's liquidity risk and borrowing risk, ensuring the company's financial stability. Huawei effectively managed its cash flow and built up sufficient capital reserves to cope with exchange rate fluctuations.

B. Improvement of foreign exchange risk management policies. Huawei has formulated more comprehensive foreign exchange risk management policies, processes and guidelines, one of which is the natural hedging strategy, whereby the Group matches foreign currency receivables and payables as far as possible by adjusting the business structure to minimise exchange rate risks. This practice helps to reduce financial losses due to currency fluctuations. The second is financial hedging measures. For foreign currency positions that cannot be fully offset by hedging, the Group will use a combination of short-term and long-term foreign exchange loans to hedge them. This shows that the company has a certain coping mechanism in the face of exchange rate fluctuations.

C. Openness and Co-operation. As of the end of 2015, Huawei had more than 8,000 channel partners and 350 solution partners globally, and the global partner base continues to expand steadily. Huawei continues to implement its 'integration' strategy, and is working with Deutsche Telekom, Telefonica, and Telefonica in the areas of cloud computing and big data. Huawei is further building an open, collaborative, and successful partner ecosystem with customers such as Deutsche Telekom, Telefónica, SAP, Intel, and Accenture. Meanwhile, Huawei's global brand awareness rose from 65 per cent in 2014 to 76 per cent, and its Net Promoter Score (NPS) rose globally to 47. Huawei became the only Chinese company to be listed in the Interbrand Top 100 Global Brands and the BrandZ Top 100 Global Brands, ranking 88th and 70th, respectively. Huawei's active promotion of digital transformation and overseas market expansion has greatly reduced the company's dependence on a

single market and business in order to enhance its ability to withstand external risks such as exchange rate fluctuations.

### **2.2.3. Case Conclusion**

In 2015, Huawei's operating cash flow was RMB 49.315 billion, an increase of 18.1% year-on-year. This indicates that Huawei's operating activities generated stable cash flow and were able to withstand the impact of exchange rate fluctuations. From this point of view, the depreciation of the RMB had a certain impact on Huawei's financial position, but the company effectively reduced the risk through a series of proactive coping strategies and maintained the sustained growth of its business.

## **2.3. The Impact of Market Access Restrictions on Huawei's Strategic Decisions---Example: Export Controls on the U.S. Entity List from 2019 to the Present Year**

### **2.3.1. Background and Impact of Events**

In 2019 the US Department of Commerce Bureau of Industry and Security (BIS) placed Huawei on the Entity List, restricting its access to US technologies and products. Progressively cutting off access to Huawei's wafer fabrication tools, Huawei's P50 series of mobile phones were forced to switch to 4G in 2021 and sales plummeted. Huawei's share of the global smartphone market dropped from a high of 18.4% in the second quarter of 2020 to 8.9% by the fourth quarter and was 3.6% in November 2023. 2023 March 2023 US Department of Commerce's Bureau of Industry and Security (BIS) imposes new export control measures on Huawei. Restrictions on the export of advanced semiconductor equipment to Huawei, including chip manufacturing equipment, semiconductor design software and high-end chips. Additional Huawei entities were also added to the Entity List, further restricting business dealings with these entities [3]. According to Huawei's annual report, 'Supplies of relevant items to the Group and sales of certain products of the Group are adversely affected.' Huawei's market competition in 5G and other key technology areas has intensified [4]. Huawei's market competition in 5G and other key technology areas has intensified, and access to international markets for its 5G-related equipment and technology may be restricted due to export controls. Other high-tech products and services, particularly technologies related to network infrastructure, cloud computing and artificial intelligence, may also face market access difficulties. While Huawei's consumer business remains somewhat stable, export restrictions may include its smartphones and other smart devices.

### **2.3.2. Huawei's Strategic Decision**

A. Emphasis on research and innovation. According to Huawei's 2023 annual report, as shown in Table 3, Huawei's R&D investment in 2023 reached RMB 164.7 billion, accounting for 23.4 per cent of the annual revenue, and the cumulative R&D expenses invested in the past ten years exceeded RMB 1,110 billion. Huawei's large investment in R&D funds indicates that it is continuing to vigorously improve its innovative independent R&D capabilities. Huawei Managing Director Wang Tao said that Huawei has always maintained strong investment in R&D to build the competitiveness of its products and solutions through technological innovation. 2021 ~ 2023, the three-year R&D investment accounted for more than 20 per cent of Huawei's revenue. In 2023, Huawei's total R&D investment ranked in the world's top five.

Table 3: R&D expenditure as a percentage of total revenue

(CNY million)	2023
Revenue	704,174
Research and development expenses	(164,721)
R&D % of Total Revenue	23.392%

The launch of Huawei's Hongmeng operating system, the result of its independent research and development, demonstrates Huawei's innovation and development potential in the software sector, which will help to reduce its dependence on external technology and potentially break the hegemony of Europe and the United States in the technology sector. In the summer of 2023, Huawei will launch the Mate 60 Pro, a high-end smartphone with 'quasi 5G' capabilities, which uses an advanced chip produced by SMIC and has been well received by the consumer market. This shows that Huawei is gradually breaking through the constraints on Chinese technology through independent R&D and sanctions such as US export control measures. Analysts from the consulting firm Eurasia Group have stated in an interview that should a strategy force Huawei into a difficult position, the company is likely to overcome these limitations by means of innovation. Side by side, this illustrates the importance of innovation for companies to continue to grow in volatile financial markets and in the face of sanctions such as unfavourable market access policies.

B. Market Diversification. Despite facing US export controls, Huawei has actively pursued market opportunities in other countries and regions, and in particular has achieved good results in the Asian, European, Latin American and African markets. Huawei's products and services have served more than 3 billion people worldwide, further illustrating its reach and depth of business in international markets (See Figure 1). Based on the different needs of each region, Huawei provides customised ICT solutions to suit the specific challenges and opportunities of different markets.

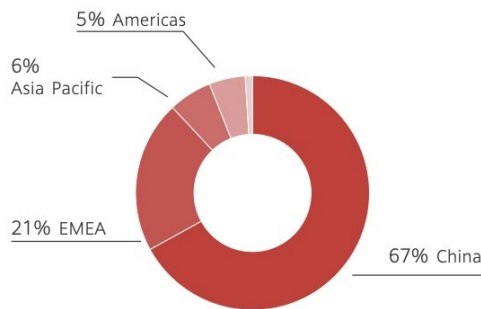


Figure 1: Regional Market Share Pie Chart

Huawei's annual report 2023 states that Huawei's ICT solutions have covered more than 170 countries, demonstrating its ability to continue to advance in the international market [4]. Huawei's executive director, Wang Tao, noted that the company's growth is not solely due to its own efforts. The number of partners in Huawei's enterprise business has now exceeded 40,000, marking a year-on-year increase of more than 15%. It is the support and trust from this extensive network of partners that has laid a solid foundation for the continuous development of Huawei's enterprise business. In the face of external challenges, Huawei has successfully maintained its competitive position in the global market through extensive market coverage, diversified cooperation strategies, and continuous technological innovation. These efforts not only largely weakened the impact of export controls on Huawei, but also laid the foundation for the company's sustainable future development [5].

C. The emphasis is on adhering to regulations and maintaining openness. Huawei has consistently pledged to follow all relevant national and regional legal requirements, affirming its dedication to

offering security assurance grounded in standards and verification. The company also vows to make every effort to support the principles of international trade. Through continuous investment, Huawei has established a compliance management system that applies to all operations and employees globally and covers all legal obligations, including but not limited to trade compliance, financial compliance, Anti-Compliance Bribery, Compliance, Intellectual Property and Trade Secret Protection and Cyber. By reviewing and adjusting its internal processes and communicating with suppliers and partners. Huawei continually improves its compliance and transparency to reduce its dependence on US technology and ensure that its business is as unaffected as possible [6].

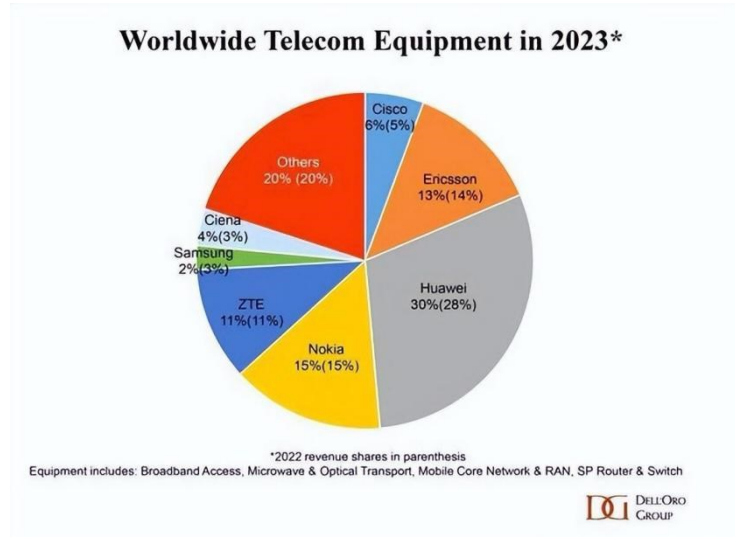


Figure 2: Worldwide Telecom Equipment in 2023

### 2.3.3. Case Conclusion

As shown in Figure 2, Huawei maintains its leading position in the global telecoms equipment market in 2023, with a market share of up to 30%, despite multiple rounds of sanctions from the US. This shows that Huawei's competitiveness and influence in the field of telecom equipment are still strong, and it can also be seen that the U.S. suppression of Huawei, although fierce, does not affect the recognition of Huawei in Asia, Africa, Latin America and some European countries. In the face of U.S. sanctions, Huawei has adopted a series of coping strategies. For example, although the U.S. government has embarked on a new round of supply cut-off policies against Huawei in early 2023, affecting Huawei's products below the 5G level, Huawei has established a risk warning and response mechanism and broadened global cooperation channels at the enterprise level to mitigate the impact of sanctions [5]. Faced with tough challenges, Huawei effectively responded to US export controls and maintained its leadership position in the global telecommunications market in 2023 by strengthening its independent R&D capabilities, expanding global cooperation, and flexibly adjusting its business strategy [6].

### 3. Conclusion

Huawei's effective formulation of strategies to successfully cope with various risks in a volatile financial market reflects a globalised international perspective and strategic vision. Among other things, the company has made a series of important adjustments in risk management, supply chain restructuring, independent research and development, and market diversification, which provides successful experience and reference for Chinese enterprises to sustainably develop their operations

in the complex financial environment. From the two cases of Huawei's response to the RMB exchange rate adjustment in 2015 and its response to the US tightening of export controls in 2023, Huawei has demonstrated great flexibility and adaptability in the face of volatility in the international financial market, and has been able to quickly adjust its strategy to cope with external changes. In both cases, Huawei emphasised the importance of risk management and compliance, which became the core of its response strategy. At the same time, Huawei responded to these challenges not only by focusing on short-term contingency measures, but also by focusing on long-term development and planning, and by continuing to invest heavily in R&D and insisting on independent innovation, which has been the key to Huawei's continued growth in the volatile international financial markets. This thesis uses the method of case study to analyse Huawei's response to the volatility of the international financial market through two case studies. The risk situation in all financial markets is not discussed, and the effectiveness of the company's strategies is judged only by the changes and descriptions of the company's financial position, without adopting the method of empirical analysis for verification. Future research can build a model from the collected data to analyse and compare the effectiveness of each strategy in coping with the volatility of the international financial market.

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