

Huawei in Venezuela: a review of 2006–2019

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Abstract

Purpose – The aim of this article is to describe Huawei’s internationalization process in Venezuela and show how socio-political and economic conditions helped to expedite the company’s development in this Latin American nation between 2006 and 2019. Through this internationalization process, Huawei participated in a large technological transition in Venezuelan telecommunications.

Design/methodology/approach – This research uses an integrative approach, developing a quasi-case study from a review of the academic literature, contemporary news stories and institutional and practitioner documents.

Findings – The review indicates that Huawei was engaged in business with the Venezuelan phone company before its renationalization. Secondly, Huawei’s internationalization was a beneficiary of the increased relations between the Venezuelan and Chinese governments, mainly through “oil for loans/goods” agreements. Lastly, this internationalization process includes wholly owned subsidiaries, direct export, greenfield and government joint ventures.

Practical implications – This research provides an understanding to other firms and strategists about the benefits of strong bilateral economic relationships between home and host countries.

Originality/value – This paper is among the first academic articles that describe the internationalization process of Huawei in Venezuela. Considering the host country’s changing political and economic conditions during the last 20 years, such research may provide a perspective for considering other Chinese business expansions in Venezuela and Latin America.

Keywords Huawei, Venezuela, Internationalization, Telecom, Renationalization

Paper type Case study

1. Introduction and literature review

The internationalization of Chinese enterprises into Latin America (LATAM) has left deep footprints in the region. These tracks can be measured by a large amount of Chinese investment in the region and the advanced internationalization levels achieved by its enterprises. Chinese foreign direct investment (FDI) in LATAM increased significantly in the second decade of the 2000s compared to the previous decade. This is particularly evident in Argentina, Brazil, Colombia, Peru, Ecuador and Venezuela (Chen & Pérez Ludeña, 2014); in some cases, investment doubled from one year to another (Peters, 2019).

Although most of this FDI has gone to extraction industries and natural resources (Pérez Ludeña, 2012), other sectors have also been impacted, including the telecom sector (Salidjanova, 2011). Huawei and other Chinese telecom organizations such as ZTE, China Unicom and TP-Link have all increased their operations in the Latin America (LATAM) region (Avendano, Melguizo, & Miner, 2017). For instance, China Unicom has used its

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relationship with the Spanish telecom Telefonica as a springboard to increase its presence in the LATAM region (Casanova & Rodríguez-Montemayor, 2014), and ZTE entered the LATAM market through Brazil in 1998 (Rehman, Nawaz, Ahmedand, & Hyder, 2014). In the case of TP-Link, their internationalization in the Americas started in 2008 with opening an office in the USA, then developing a partnership with Telmex from Mexico and becoming a service provider in Peru (Regalado & Zapata, 2017). The expansion of these Chinese telecom organizations, along with those in the mining and energy sectors, reflects a strong presence and high level of Chinese investment in the LATAM region.

In order to better understand the China-LATAM relationship, this paper examines the expansion of Chinese telecom multinational Huawei into Venezuela between 2006 and 2019. This particular example of Chinese internationalization in a LATAM country provides an insightful lens for understanding Sino-Latin American business relations because, in some ways, it has proceeded as predicted by internationalization models, but in other ways, it has unfolded in unexpected ways due to the unique context in Venezuela. As a host country for Huawei, Venezuela has presented the Chinese company with a particular set of conditions: a local telecom partner that has been nationalized, privatized and renationalized, a government that has shifted strongly toward left-socialist politics and away from the U.S. as its primary trading partner; many local opportunities to deploy technology and products to satisfy demand and the ability to connect financially with the country's vast oil reserves and well-developed petroleum industry. This combination of conditions created a context that is unique to the story of Huawei and Venezuela; however, issues such as nationalization, leftist politics, large underserved markets and enticing resource reserves can be found across the region, making this a relevant case to study.

Internationalization can be defined most generally as “the process through which a firm moves from operating solely in its domestic marketplace to international markets” (Javalgi, Griffith, & White, 2003, p. 186). A more detailed definition comes from Welch & Luostarinen (1988), who specified that internationalization includes both outward and inward activities because “both sides of the process, i.e., both inward and outward, have become more closely linked in the dynamics of international trade” (p. 36). For this research, we use Vissak's (2015) concept of internationalization, which not only incorporates “any inward, outward and/or linked cooperative modes—for instance, exporting, importing, investing, licensing or cooperating in other ways” but also acknowledges that these activities may ebb and flow over time via “de-internationalization” and re-internationalization” (p. 2). It is important to consider the ebb and flow of internationalization in the case of Chinese investment in Venezuela, as decreasing oil prices and productions (and, more recently, the global pandemic) have impacted what had previously been a consistently growing relationship.

One of the oldest and best-known models of the internationalization process is the Uppsala model (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975), which holds that internationalization is a process through which an organization gradually increases its commitment to international operations via a series of incremental decisions and activities. The model lays out four stages that range from having no export activities to engaging in actual production in a foreign market. The choice of expansion locations is typically based on market potential and on “psychic distance” factors such as “language, culture, political systems, level of education, level of industrial development, etc.” that make it more or less difficult for the firm to acquire and use information about the market (Johanson & Wiedersheim-Paul, 1975, p. 308). This model has been criticized and updated over the years (e.g. Andersen, 1993; Vahlne & Johanson, 2017), but the focus remains on internationalization as a process of incremental learning and commitments. This paper will outline how Huawei's engagement in Venezuela began with incremental commitments but expanded rapidly during the administration of Hugo Chavez due to political alignment and the use of Venezuelan oil to secure Chinese financing.

The paper is organized into eight sections. [Section 2](#) describes the methodology used in the paper. [Section 3](#) offers a general overview of Huawei before its engagement in the Venezuelan market, and [Section 4](#) describes the Venezuela telecommunications sector prior to the renationalization of the CANTV (Compañía Anónima Nacional de Teléfonos de Venezuela) phone company in 2007. [Section 5](#) discusses the China-Venezuela joint fund and the political and economic context of Huawei's growth in Venezuela. [Section 6](#) uses news media documentation to build a detailed timeline of Huawei's operations and actions in Venezuela. [Section 7](#) considers what aspects of Huawei's internationalization process were conventional and unconventional in relation to other organizations and markets, and [Section 8](#) provides discussion and conclusions in relation to the case.

2. Methodology

This paper addresses the following research questions: What was Huawei's internationalization process in Venezuela, and what can be learned from this example of Chinese expansion in LATAM? The paper is based on a search of secondary data (academic articles, company data and news articles), and it is presented as a quasi-case study. A case study allows the investigation of a current phenomenon and its context, particularly when the context is not defined or limited ([Yin, 2018](#)). The method used here is based on the concept of a case study as a "contextualized explanation" from [Welch, Piekkari, Plakoyiannaki & Paavilainen-Mäntymäki \(2011\)](#), who argue that "the value of this approach lies in its different view of how to generate theories about the social world: the rejection of the regularity model of causation, skepticism towards the possibility of meaningful law-like generalizations, and a defense of context as being an essential component of, rather than a hindrance to, explanation" (p. 755). Rather than attempting to generalize theory about internationalization processes from this case, we instead wish to explore the particular context of Huawei's internationalization in Venezuela and point out the complex social and economic circumstances that influenced the process. Some of these circumstances will be germane to the growth of other Chinese companies in other South American countries and some will not; the value of the case is that it provides a detailed picture of the process, and it explains by "factoring in the combination of conditions found in the case rather than seeking to measure the net effect of an isolated variable" ([Welch, Piekkari, Plakoyiannaki & Paavilainen-Mäntymäki, 2011](#), p. 749).

Due to the limited information produced by the Venezuelan government concerning Chinese companies operating there and the inconsistent availability of data generated by Huawei about its Venezuelan operations, we supplemented these data sources with academic sources (to understand the company's and host country's conditions) and a systematic review of contemporary news articles (to understand the internationalization timeline). Using this approach, we were able to identify "strategic decisions and market transactions" ([Surdu, Mellahi & Glaister, 2019](#), p. 400) that signaled the company's level of involvement in the host country. Although each type of source required some interpretation to analyze the data or documents, the case at the end provides an aggregation of concepts ([Stake, 1995](#)). This triangulating helped us to validate our findings ([Patton, 2014](#); [Yazan, 2015](#)) and is consistent with a call to increase the use of data triangulation in international business research.

3. Huawei before 2006

Ren Zhengfei founded Huawei Technologies Company, Limited (Huawei) in 1987 with 21,000 Yuan (US\$ 4,400 at the time) of his own money ("[The Long March of the Invisible Mr. Ren,](#)" [2011](#), p. 80). By 2006, Huawei's annual revenue was US\$ 8.504 bn; net income was \$512m; cash flow from operations was \$748m; operating profit margin was 7%; and net return on assets was 20% ([Huawei, 2007](#)). This impressive growth included developing design and manufacturing capabilities, gathering resources, establishing dominance in the Chinese market, expanding internationally and challenging major competitors.

Initially, Huawei sold private branch exchange (PBX) switches made by a Hong Kong company, but Huawei was soon designing communication systems for customers and building parts. Early customers were hotels and small companies that needed low-cost solutions modified to their specific needs. Huawei focused on rural communities, a market that was not appealing to the Western companies active in China's large urban areas. "Rats were chewing through the wires, and the electricity didn't always work," remembers Ken Hu, a senior executive who was one of a team of engineers who traveled to every one of China's 2,800 counties to market Huawei's products. "We had to devise systems that would deal with that. It was a challenge" (Pomfret, 2010, p. 2).

The rural market was large, and it included telecom networks and organizations that needed an internal communications system. Huawei developed long-term relationships by providing low-cost products localized to the needs of its customers. This included not only hardware modifications but also software modifications necessary to satisfy China's many regional language and cultural differences. The company grew and gathered strength, eventually developing capabilities and resources to compete in the urban markets (Micheli & Carrillo, 2016).

The company's first R&D (research and development) center, established in 1990, served as the business agent for Western firms attempting to enter the Chinese market. This enabled the development of both contacts and skills that would be useful in the future. The R&D activities addressed the needs of a wide variety of customers, helping the company to become flexible and agile. Huawei also started producing basic components for Western companies, and by 2001, it was the largest Chinese company in the telecom equipment industry (Fan, 2006, p. 362). In 2002, Huawei invested 18.8% of revenue in R&D, "higher than any other domestic firm or any MNC in China in the telecom-equipment industry" (Fan, 2006, p. 363).

Huawei was also developing the capabilities to compete internationally. In 1996, as a pilot project, it sold products to a customer in Hong Kong and Hutchinson Telecommunications. In 1997, Huawei established partnerships with several Western corporate consulting firms to improve its organizational structure. This started a process that has led to a very fluid, project-oriented organization (Williamson, Wu & Yin, 2019). Initially, Huawei's globalization activities were very similar to what they had done in China: find customers that needed the product but were not particularly attractive to large competitors and go for the easy targets to build strength and capability without directly taking on stronger competitors.

A joint venture with Beto Corporation led to the assembly of switches in Russia (Ahrens, 2013). The initial agreement was reached in 1997 and emphasized both lower costs and post-sales service; however, the first sales were not made until 2000, illustrating that Huawei has the patience to wait for results. Sales followed in Brazil, Thailand and South Africa. The main advantage Huawei had was the price, which was 30% lower than the competition. In 1998, the company entered LATAM by setting up operations in Brazil (Micheli & Carrillo, 2016). The company expanded in LATAM by entering the Venezuelan market in 1999 ("Huawei-Network-South-America," 2004) and establishing a presence in Mexico during 2001 (Micheli & Carrillo, 2016).

By 2001, Huawei had sales in Germany, the Netherlands and France, and it had established a presence in the United States. Again, it took time for sales to develop; the first US sale was not until three years later. In 2002, Huawei launched Futurewei, the company's wholly owned US subsidiary, underscoring the company's commitment to international business and long-term investment in the North American market (Low, 2007, p. 138). In 2003, Huawei developed a US\$ 160m joint venture with US-based 3Com to manufacture and market low-end routers. The deal allowed 3Com to sell Huawei's computer data routing equipment under 3Com's name outside China and Japan. Inside China and Japan, Huawei products were sold under the joint venture name, Huawei-3Com (Low, 2007).

Continuing its international expansion, in 2005, the company signed contracts in the U.K. with British Telecom and Vodafone, becoming a leader in 3G technology; Huawei also entered Japan in the same year. Another important contract that year was for US\$ 25m with British Telecom (Micheli & Carrillo, 2016). All in all, over 58% of US\$ 8.2 bn in contract sales that year came from its international markets (Huawei, 2007), demonstrating Huawei's strength and its ability to continue expanding its presence internationally.

The initial pattern of entry used by Huawei was to introduce Chinese technicians who offered to adapt Huawei telecommunication technology to the needs of each client, focusing on high-quality solutions at competitive prices (Micheli & Carrillo, 2016). The goal was to develop relationships with local clients, and the company's foray into international markets was initially limited to developing countries in South-East Asia, Central Asia and LATAM.

4. Venezuela telecommunications before CANTV renationalization

Telecommunications development in LATAM has been different for each country. Nevertheless, as Razo and Rojas-Mejia (2007) indicated, there have been three clear stages: one prior to the Second World War, mainly through private and foreign companies; a second from 1950 to the 1980s characterized by nationalization and state monopolies; and a third stage that started in the 1990s that is characterized by privatization processes, political reforms and changes in the business model. Exemplifying this third stage, countries including Argentina, Mexico, Brazil, Chile, Venezuela, Puerto Rico and Peru engaged in multiple forms of privatization (Vergara, n.d.) during this time.

Looking specifically at Venezuela, the development of the telecommunications industry started in 1883 when the government authorized private companies to install basic phone service in La Guairá port and other surrounding areas ("Las telecomunicaciones en Venezuela: los primeros pasos," 2005). At about the same time, Intercontinental Telephone Company of New Jersey (ITCNJ) started operation in Venezuela, becoming the first international operator to manage phone services there. In 1890, the British telephone and electrical appliance company (who took over the operations of ITCNJ), along with other private local and foreign concessions, operated Venezuela's phone service. At this early stage, this sector followed the Razo and Rojas-Mejia (2007) model mentioned previously (i.e., ownership by private and foreign firms).

Among the private firms, it is essential to mention CANTV, a company created in 1930 with local private capital that, after multiple acquisitions (including the telephone and electrical appliance company concession) became one of the largest private telecom operators in Venezuela. Although there were multiple private concessions in Venezuela, by 1946, the government decided to become a telephone system operator in the country and started a process of buying back concessions (Umérez De Pereira, 1990). Later, in the 1950s, the Venezuelan government pursued the acquisition of CANTV's shares, also getting the ownership of all remaining private concessions in the country. By 1973, CANTV was the only telephone operator in the country—a government-owned monopoly. Thus, Venezuela is an example of the telecommunications nationalization that was common in LATAM during this period.

The early years after the nationalization were highly focused on the expansion of the network. In addition, issues such as the interconnection of the previously independent telephone concessions were addressed. It is important to mention that during this period Venezuela experienced a significant expansion of its oil industry; consequently, a substantial increase in revenue was available to invest in the country's infrastructure. The consolidation of companies under CANTV also necessitated the integration of a variety of technologies. From its nationalization, CANTV was highly dependent on foreign technology, relying on equipment from Germany, Sweden, the UK, Belgium and the US (Mora, Millan & Leon, 2007).

As indicated by CANTV union leaders Mora, Millan and Leon ([Mora et al., 2007](#)), when the industry was under government control, CANTV struggled with issues such as technology obsolescence, rate freezes and highly politically driven activities (depending on who was in power). Thus, the privatization wave Venezuela faced was not only motivated by macroeconomic interests but also by the desire to improve service and upgrade communications capabilities. With the arrival of Carlos A. Perez to the Venezuelan presidency in 1988, many political, social and economic reforms were begun. Among these was government decentralization. Although the process mainly focused on moving functions from the central government to regional and local authorities, it also included walking away from the previous models where the government was the primary public service (utilities) provider ([Ochoa, 2001](#)).

Thus, by the end of 1991, CANTV was partially privatized. A consortium named Venworld Telecom, formed by GTE Telephone Operations (51%), Telefonica de España—currently known as Telefonica (16%), Electricidad de Caracas—a former subsidiary of AES Corporation (16%), CIMA—an investment branch of Banco Mercantil Venezuela (12%) and AT&T (5%) paid to the Venezuelan government US\$ 1.85bn billion and assumed US\$ 600m in foreign debt for the control of 40% of the company's shares ([Pisciotta, 2014](#)). The remaining shares were distributed between the Venezuelan government (49%) and trust funds for employees and retirees (11%). Although the percentage in government and employee hands was superior to those owned by the investors, from the early stages of the privatization, the decision making was handled by the private investment consortium. The government would only intervene in cases such as rate increases and changes to collective bargaining agreements.

As [Pisciotta \(2014\)](#) mentioned, tangible service quality achievements were made after the privatization, including improvements in the speed of dial tone, cost of call completion (cost of alternative interaction between users who cannot communicate directly with each other), speed of operator response, speed of repairs, waiting time for new lines and user satisfaction. It is important to note that most of the CANTV network was heavily reliant on copper wires; nevertheless, some early attempts in mobile communications began around the same time as the privatization, 1988-91. It is clear that many of these improvements were the result of substantial investment in infrastructure ([Artigas, Useche & Quipo, 2003](#)). For instance, [Jatar \(1993\)](#) indicates that before the privatization, the yearly investment for CANTV was around US\$ 50m, while after the privatization, it was about US\$ 650m. Considering that many new CANTV shareholders were US companies, it was assumed that equipment investment would follow strategies and technologies adopted by their headquarters in the US; thus, engaging with Huawei as a vendor was somewhat unexpected.

While the Venezuelan phone company's privatization was positive from the standpoint of service improvement and investment, this was not the case from the perspective of consumer service rates and labor relations. For example, before the privatization, the union had a considerable impact on the hiring process. As [Jonakin \(2009\)](#) points out, employees lost job stability clauses after privatization, and the company workforce was reduced by 15% in the three years after the acquisition process. Such a situation left a big opportunity for Hugo Chavez's government (which ruled from 1999-2013), and in 2007, the CANTV renationalization was announced. Many CANTV employees and union members saw this as an opportunity to go back to the previous model, so they supported the renationalization.

5. The China-Venezuela joint fund

Huawei operations in Venezuela have directly and indirectly reaped benefits from the strong economic ties developed between the Chinese and Venezuelan governments for more than two decades. For China, the relationship has resulted in the internationalization of Huawei

and many other Chinese companies in Venezuela, while the South American country has had the opportunity to leverage its natural resources to get much needed infrastructure.

Official relations between China and Venezuela began back in 1974 (Ríos, 2013). Traditionally this relationship was managed with the typical presidents' visits, bilateral trade and financing agreements (Provaggi, 2013; Sun, 2012). It was not until Hugo Chavez took office as Venezuela's president in 1999 that China began to be perceived as a potential business partner that could help Venezuela to gain autonomy from its leading trade partner, the U.S. (Kaplan & Penfold, 2019). Discord between Chavez and the US capitalist model has been documented in multiple outlets; however, the U.S. remained the main oil importer from Venezuela for many years during the Chavez administration.

Starting in 2007, Venezuela and China created a series of bilateral development funds, including the China-Venezuela Joint Fund (CVJF), known in Spanish as the "Fondo Chino" (Kaplan & Penfold, 2019). This intergovernmental fund served as a source of funding to Venezuela for technology, infrastructure, satellites, technical assistance, mining, energy and development (Romero, 2016 and Yin-Hang & Acuña, 2019). The Chinese Development Bank (CDB) and Venezuela's National Development Fund (FONDEN) have, in large part, financially supported these funds. In some cases, these loans supported the purchase of goods and services from Chinese firms for the programs mentioned above in Venezuela (Giacalone & Ruiz, 2013; Sun, 2012 and Weston, Campbell & Koleski, 2011). The repayment of the Chinese contributions to the fund comes in the form of crude oil dispatches from Venezuela ("oil for loans") (Wang & Li, 2016). It is estimated that more than US\$ 60bn has been handled through these funds (Romero, 2016).

The full disclosure of inflows and outflows for these funds is not publicly available; nevertheless, funding from the CDB to Huawei and other Chinese firms to reduce debt cost and provide financial support to their ultimate customer is documented (Provaggi, 2013). It is also recognized that Chinese companies like Cherry, Yutong, Huawei and ZTE have all engaged in financing activities through Venezuelan funds and have received privileged access to the Venezuelan market (Ellis, 2017). Another explicit strategic action that involved Huawei engaging with the Venezuelan government was the development of a joint venture to produce a low-cost cell phone named "Orinoquia" to be sold by the CANTV cell phone provider Movilnet (Hernandez, 2011). Similarly, Ríos (2013) documents that some of the cooperation between China and Venezuela included telecommunication, optic fiber and satellites. Furthermore, because CANTV is a nationalized phone company, it is expected that some of its Chinese vendors (e.g. Huawei and ZTE) would benefit from this cooperation. Similar strategies concerning Chinese telecom companies are recognized in the literature, such as Huawei and ZTE providing services in Africa through bilateral development funds (Weston *et al.*, 2011).

Based on the evidence above, it appears that Huawei's operations in Venezuela were boosted directly and indirectly by the strong international relations development between the Chinese and Venezuelan governments during the Chavez administration. The huge stream of Chinese and Venezuelan financial resources available to execute projects in Venezuela provided an excellent opportunity for Chinese firms. This friendly and fortunate scenario, along with the company's existing knowledge and capabilities, created an unparalleled potential for Huawei to develop business in this country.

6. Media coverage of Huawei operations in Venezuela

Thus far, this article has used mostly academic sources, company reports and white papers to outline Huawei's background, CANTV's evolution and the financial agreements between the Chinese and Venezuelan governments. To create a complete picture of Huawei's operations in Venezuela, it is helpful to examine news articles written concurrently with the events. As used

by [Surdu, Mellahi & Glaister \(2019, p. 400\)](#), and citing [Li, Eden, Hitt & Ireland \(2008\)](#), reviewing “strategic decisions and market transactions” can help to understand a company’s international strategy. Therefore, a systematic review of news articles and their content was performed to identify specific events related to Huawei’s internationalization in Venezuela.

Searches on the Lexis-Nexis Uni database were conducted in September, October and November 2019 using the keywords “Venezuela” AND “Huawei.” A total of 1,111 news articles were identified and reviewed, including non-English (Spanish, Portuguese, French and German) articles. The date range was left open on the starting side but ended in November 2019. Each article was individually reviewed to eliminate duplicates and then screened for content. 39 articles were found to have content clearly related to Huawei operations in Venezuela.

Summarizing these into a chronological narrative illuminates some important elements in Huawei’s Venezuelan operations. The first Huawei appearance in the media analyzed is in December 2004, when the company signed a US\$ 250m contract with the Venezuelan government telecommunication agency CONATEL ([Huawei-Network-South-America, 2004](#)). This article acknowledges that Huawei entered the Venezuelan market in 1999 and suggests that the 2004 contract relates improves the fiber optics infrastructure in the country. Another 2005 article indicates that besides CANTV, Huawei was launching projects with CONATEL, PDVSA (Venezuelan Oil Company) and private mobile operator TELCEL (currently known as Movistar-Telefonica) ([Huawei Technologies to upgrade CANTV’s national optical fiber backbone, 2005](#)).

Huawei’s operations continued to increase as it updated many central networks, migrated to next-generation systems, and increased line capacity for CANTV ([Venezuela: Huawei sets up NGN for Cantv, 2005](#)). It appears that until this point the Chinese telecommunication company was only focusing on landlines, but by mid-2006, the company won a network contract with CANTV’s mobile subsidiary Movilnet to construct a CDMA2000 network ([Huawei Gets New Order, 2006](#)). This made Huawei the leading supplier for CDMA equipment in Venezuela ([Huawei wins a Venezuelan order, 2006](#)). CANTV also had a contract with Huawei for more than US\$ 50m , so far the most significant contract from the American continent for the Chinese company ([Al-Bawaba Reporters Body, 2006](#)). While these contracts were executed with private company CANTV, Huawei also started manufacturing operations in a joint venture with CVG Telecom, a subsidiary of Venezuelan state-owned aluminum conglomerate CVG ([Venezuela CVG Telecom, Huawei start building cellular handsets plant at Cua, 2006](#)). The article points out that this joint venture was negotiated back in 2005 when President Chavez visited China. Another 2006 article ([China Development Bank backs push to invest overseas, 2006](#)) explained how Huawei received funds from the China Development Bank (CDB) to extend its operation overseas, mentioning Venezuela and its president and specifying how the CDB was planning multiple financial instruments to support Venezuelan infrastructure projects including telecommunications in the country.

In 2007, most news articles covering Huawei in Venezuela were about the company’s relationship with CANTV and how the South American country was moving away from U.S. vendors ([Venezuela : Chinese muscle and minds to advance Venezuelan telecoms, 2007](#)). Examples of this are articles related to the mobile phone handset manufacturing site built in Venezuela that was supposed to start operations in 2008 ([Huawei, govt handset production project behind schedule, 2007](#); [Huawei, Telecom Venezuela to produce 2 mln GSM handsets annually, 2007](#); [Huawei To Commence Handset Production In Venezuela, 2007](#)). In addition, toward the end of 2007, a potential agreement between ALBA member countries (Cuba, Venezuela, Bolivia and Nicaragua) and Chinese telecom companies (including Huawei) was documented in the news ([Left-wing govts advance on a plan for joint telecoms firm, 2007](#)).

In 2009, issues with the production of handsets, mainly due to delays in the site construction, were covered in the news ([Celular ZTE que mostró Presidente Chávez no se](#)

fabricará en Venezuela ; Chávez mostró un celular que no fabricará la planta de Falcón, 2009). The government also indicated that Huawei and the Chinese National Oil Company (CNPC) were engaged in the substitution of US oil rigs for others with Chinese technology (Rojas, 2009); this article reflects how Huawei was also involved in other Venezuelan projects beyond telecommunications. A bit later, it was revealed that the cell phone model that would be produced by Huawei's joint venture would be named "Orinoquia" (Venezuela: Huawei to dedicate cellular handsets plant at Orinoquia Classification, 2010) and that another Chinese telecommunication company, ZTE, would also be manufacturing cellphones independently in Venezuela (Elogia Chávez relaciones de China con Venezuela, 2010).

Huawei's operations in Venezuela continued to grow in 2012, pushing into new channels. The company opened its first retail store in Caracas, (Huawei inaugura su primera tienda comercial fuera de China, 2012), and despite delays at the "Orinoquia" manufacturing site (which was finally inaugurated in 2010), Huawei developed a plan to use its manufacturing capabilities to export to Mercosur countries (Argentina, Brazil, Paraguay, Uruguay and Venezuela) (Orinoquia to export devices to Mercosur with Huawei support, 2012).

A growing product portfolio to be manufactured on the Venezuelan site was negotiated between Huawei and the government in 2013. News articles covered a microprocessor production agreement that was signed (Venezuela logra acuerdo con Huawei para producción local de chips electrónicos, 2013) and a training academy that opened to teach Huawei's networking technology to local talent (El Gobierno Bolivariano establece convenio con Huawei, 2013). Other articles documented the fact that China was now Venezuela's second largest trade partner, behind the U.S. (Busch, 2014), and that Huawei was linked to Venezuela's "oil for goods" payment scheme through the CDB (Sender, 2014). The "oil for goods" mechanism allowed Huawei to sell technology to Venezuela, which delivered oil to China, which then paid Huawei through the China-Venezuela Joint Fund.

In 2015, new rounds of negotiations between the Venezuelan and Chinese governments were carried out, and the Venezuelan government announced that they reached an agreement for more than US\$ 20bn, which included increasing operations of Huawei and ZTE in Venezuela (Hinds, 2015). During this time, while 4G technology was already in wide use around the world, Venezuela was just beginning to provide this technology to users (Venezuela da tímidos pasos hacia 4G con dos años de retraso, 2015). Other news included an increase in handset production from the Venezuela site (Chinese technology spurs Venezuela's economic development, 2015) – changes in the company's leadership in Venezuela (Huawei Venezuela designa a Wu Di como nuevo presidente, 2015) and professional exchanges between local employees and their headquarters (Huawei to train Venezuelan professionals on technology transfers, 2015). It is quite interesting that 2016 was a silent year about Huawei's operations in Venezuela, but the following year, 22 new agreements were reached by the Chinese and Venezuelan governments for US\$ 2.7bn. These deals included more projects with Huawei and ZTE (Venezuela : China-Venezuela relationship bears more fruit, 2017). The next year, 2018, was another year without identifiable news from Venezuela related to Huawei.

In contrast to 2018, 2019 was a banner year for the company in terms of news coverage, starting with the Venezuelan government's formal announcement that it was part of China's One Belt One Road (OBOB) initiative (*The New Dawn* 2019, in reference to Hart-Landsberg, 2018). A large part of the news coverage focused on a possible contract for the acquisition of an urban security system (cameras and urban mobility) by the Venezuelan government. Both Huawei (Mozur, Kessel & Chan, 2019) and ZTE (Chin-A-Fo, 2019 and 'Safe like China': In Argentina , ZTE finds eager buyer for surveillance tech, 2019) secured parts of this business opportunity. However, Venezuelan debt with Huawei (calculated at between US\$ 400-500m) limited the possibility for this operation (Debt keeping mature with Huawei will not allow you to spy on Venezuelans, 2019). At the same time, Venezuela supported Huawei in multiple

ways: President Nicolas Maduro offered to invest in Huawei to retaliate against the U.S. for announcing restrictions on Huawei operations in the U.S., ([Venezuelan president Maduro announces investment in Huawei, 2019](#)), and the government announced that it would ask Huawei to install 5G technology in Venezuela ([Venezuela: Maduro anuncia instalación de 5G con apoyo chino, 2019](#)).

To summarize, these articles show that relationships with Chinese companies like Huawei and others (e.g. ZTE) are valuable for the Venezuelan government and that the Chinese government also benefits from its Venezuelan relationships, which are currently worth more than US\$ 60bn (“[Access to Venezuela’s oil fields fuels Putin’s support for Maduro,](#)” 2019). Specifically, they show that Huawei was dealing with both the Venezuelan government and the private CANTV (before it was renationalized). Second, the use of Huawei as a vendor for CANTV was boosted after the renationalization. Third, Huawei was involved in both the landline (fiber) and mobile business areas. And, fourth, the manufacturing site construction and development, along with the training facility, signaled Huawei’s deep level of involvement in the host country.

Venezuela, as a host country, provided average conditions before CANTV was renationalized, but these conditions became exceptional after renationalization. Additionally, it appears that Huawei followed the internationalization framework that [Alon, Anderson, Munim & Ho \(2018\)](#) suggest is followed by Chinese enterprises: foreign direct investment (largely via bilateral funds and “oil for loans” policies in this case); a mixed entry strategy (joint ventures with the Venezuelan government, plus direct exports and wholly owned subsidiaries) and a location with vast natural resources (oil) that can provide a financial safety net to back up infrastructure development.

7. Huawei in Venezuela as an example of LATAM internationalization strategies

Huawei’s entry into Venezuela exhibited both conventional and unconventional aspects of internationalization. Conventional aspects (following the Uppsala model) included a progression from the initial export of products made in their local market to opening production facilities that manufactured products for local consumption and regional export. Adapting to the telecommunications needs of numerous rural Chinese communities had provided Huawei with skills and resources for international expansion. As a service provider, successful initial contracts led to more contracts, and Huawei developed a reputation for providing excellent maintenance services. “Relentless rapid response to customers has been key for the growth of Huawei’s overseas businesses” ([Deng, Zou & Mao, 2018](#), p. 181). In addition, Huawei became a supplier for foreign telecom companies. For example, after Huawei successfully manufactured components for Nortel, Nortel turned over engineering aspects to Huawei ([Smith, 2012](#), p. 2). Huawei also developed and designed mobile phones for other manufacturers. In 2011, they decided to produce their own brand of mobile phones ([Haveman & Vochtelloo, 2016](#), p. 76).

[Deng et al. \(2018](#), p. 189) identified three “unconventional” strategies used by Huawei for its global expansion, including “local immersion, dynamic location choices, and heavy investment in research and development,” and it is instructive to see how these were exhibited in Venezuela. Local immersion involves understanding not just the customer but the society in which the customer lives. In Venezuela, this included understanding the social requirements for winning contracts with local carrier networks. It also included hiring a significant number of local employees. For example, by 2012, Huawei had more than 1,400 employees in Venezuela, and approximately, 1000 of them were locally hired ([Ellis, 2014](#)). An additional example of local immersion is the network academy that was set up, which trained local talent and provided professional exchanges between local employees.

The second strategy, “dynamic location choice,” involves a pattern of movement from “periphery to core” (Deng *et al.*, 2018, p. 184). This avoids competition with stronger rivals until the company can build significant operational capabilities, skills in internationalization and financial resources. The initial moves of Huawei into Venezuela illustrate this logic. With the nationalization of CANTV, many of the contracts with Huawei called for connecting rural areas with the fiber-optic network (Ellis, 2014, p. 108). Fulfilling this kind of contract can be challenging because countries that are more peripheral can be less desirable places for employees to work and live, but Huawei was willing to take this on. These areas can also be difficult to serve profitably, especially in the short term, but Huawei showed willingness to build relationships over time rather than being driven by immediate profits; in fact, its “home market profits subsidized overseas markets from 1997 to 2008” (Deng *et al.*, 2018, p. 186).

Huawei’s third strategy involves maintaining a strong focus on customer-driven research and development (Deng *et al.*, 2018), and the company is an example in this area. In 2018, Huawei ranked fifth in the world in R&D spending, with an intensity ratio of R&D spending to revenue of 14.7%. The four companies with higher spending ratios were Samsung, Alphabet, Volkswagen and Microsoft (EU-China Joint Innovation Center, 2018, p. 1). More than 80,000 employees (45% of the total workforce) are involved in R&D activities (Huawei, 2019, p. 44). This strategy has been very important in establishing technological leadership in the rapidly changing information and communications technology (ICT) industry. There is no indication in the literature that Huawei established R&D facilities in Venezuela, so it is very likely that its research facilities in Brazil, Mexico and Szechwan addressed issues for Venezuelan customers.

8. Discussion and conclusions

Although the Venezuelan context during the analyzed period is unique, there are important similarities with other LATAM countries. Socialist political movements, nationalized/renationalized utilities, large underserved markets and untapped natural resources make this an enticing region for expansion in the eyes of the Chinese government and Chinese companies. We believe that the timeline laid out in this paper shows that while Huawei initially followed an internationalization strategy consistent with the Uppsala model—relying on cost advantages and knowledge acquired through incremental commitments—a critical (and unexpected) boost was provided by the development of the China-Venezuelan Joint Fund and the “oil for loans” policies created during the Chavez administration. It is important to note that Huawei’s early efforts in the country, especially its work with the then-privatized telecom industry, positioned it to benefit when Hugo Chavez came to power and developed these programs.

While some of the lessons learned from Huawei’s internationalization in Venezuela are particular to the context and conditions, they are, nevertheless, not misaligned with traditional internationalization assumptions. Among these lessons, we can suggest that (1) companies with internationalization aims must have the resource capabilities to fulfill product and service demand in the new markets (in this case, Huawei benefitted from having the flexibility and capacity to serve varied Venezuelan needs in telecom and even in other areas such as oil production when the opportunity arose); (2) organizations that intend to internationalize in countries with socio-political contexts like Venezuela most definitely should try to assimilate to the local social requirements (Huawei did this by hiring many local employees); (3) pursuing opportunities in less attractive areas of the business (in this case, rural telecommunications) can be a useful way to deflect frontal confrontation with other competitors, providing a new entrant some time to gain strength; (4) the use of functional organizational areas or divisions (e.g. R&D) with geographical or cultural proximity may provide an agile approach to serve local markets and (5) when organizations internationalize

into countries with government enterprises and/or nationalized organizations (hence, a large, ready-made market with lower risk of non-payment), having additional business units (or the possibility to create new ones) can be positive. These new units can provide business solutions as markets needs arise, increasing revenues.

We think most of these lessons follow the assumptions related to the use of resources for internationalization processes indicated by [Sapienza, Autio, George & Zahra \(2006\)](#) and address some of the causes of difficulties in internationalization indicated by [Cuervo-Cazurra, Maloney & Manrakhan \(2007\)](#). In a broader sense, we have argued that this case demonstrates how a company may be positively impacted by improvements in diplomatic and trade relationships between home and host country governments.

It would be unfair not to recognize that Huawei, along with other Chinese companies, has significantly improved the infrastructure in Venezuela. However, a big concern that surfaced during the research for this paper is that neither the Venezuelan government nor Huawei has made any financial records about purchases and contracts available to the public. This is a significant limitation for this study, and it has implications for Huawei as well. Although the company is not obligated to disclose such information, stakeholders may view increased transparency positively, especially because some Venezuelan administrations have been considered among the most corrupt in the world ([Warf & Stewart, 2016](#)).

While this case study provides an important data point for understanding Chinese business expansion in LATAM, there are many opportunities for further research to help complete the picture. For example, it would be helpful to compare the case of Huawei with other Chinese companies that entered the Venezuelan market, at approximately the same time, to see how business relationships, size, strategy and other characteristics differed or aligned. To what degree were other companies able to take advantage of the changing political and economic conditions in the country? One interesting company to compare would be ZTE, the government-owned Chinese telecom company, whose entry raises questions concerning China's geopolitical strategy and Huawei's future (as a private company) in Venezuela.

Predicting Huawei's future in Venezuela is quite challenging. As previously mentioned, the company's footprint in Venezuela in 2019 included a training center, a manufacturing site joint venture with a government-owned company, a wholly owned subsidiary and thousands of direct and indirect jobs. In addition, Venezuela's continuing commitment to socialism suggests an ongoing interest in engaging more with China rather than the US. These circumstances signal a long-term commitment between Huawei and Venezuela; however, falling oil prices and production levels over the past few years have created an economic panorama in Venezuela that is not favorable to any multinational company and many have left the country. This is consistent with [Vissak's \(2015\)](#) conceptualization that internationalization is not always a straightforward story of increasing engagement; de-internationalization and re-internationalization sometimes occur. In fact, we are aware that Huawei's operations in Venezuela have shrunk since 2019 and are currently focused on warranty service and administrative activities such as collections. On the other hand, Huawei's global strength (2018 revenue of US\$ 105bn and a worldwide headcount of nearly 188,000 employees ([Huawei, 2019](#))), its past success in Venezuela and its relationships with both the Venezuelan and Chinese governments indicate that the story of Huawei in Venezuela is still unfolding.

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Further reading

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