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The Globalization of Chinese Enterprises

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Abstract

How and why Chinese firms globalize has captured the attention of scholars in recent years. China's globalization is nothing less than remarkable. The 21st Century will feature a developing country as the leader of the global economy. By most estimates, China's PPP GDP is expected to surpass America's by 2020. With China's emergence to the world's stage, the world's economic and political institutions are likely to change. China's foray into Latin America, for example, has changed the traditional role that America has played in its "back yard." While the Chinese government was given much credit for China's globalization, Chinese private- and family-owned businesses have also propelled China outwards. Our research stream and annual conference "China *goes* Global" at Harvard has attempted to frame the questions associated with China's globalization. This special issue is another important step in this direction.

KEYWORDS Theory Building, Chinese firms, emerging markets, globalization, internationalization

Introduction

Globalization, the deepening integration of the world economies as a result of cross-border trade, investment, and production, has become a central organizing principle in the post-Cold War world. In China, the impact of globalization has been spectacular: over 10 percent annual GDP growth over the past 10 years, billions of dollars of foreign direct investment, and a worldwide reputation as a global manufacturer. In the aftermath of the 2008-9 world financial crisis, China is poised to become the banker of the world and to move from manufacturer to innovator. China's economic changes and political transformation as a result of globalization have been extensively examined and debated (see, e.g., Alon, Fetscherin, Lattemann, Chang, & McIntyre 2009a).

However, comparatively less attention has been paid to the globalization of Chinese enterprises. Yet, due to China's unique political economy, the study of firm internationalization yields new and often unexplored areas of research, such as the fact the most Chinese foreign direct investments are undertaken by state-controlled enterprises (Alon et al. 2009a, Fetscherin, Voss & Gugler 2010). This Chinese model of capitalism has been variously labeled "undemocratic capitalism" (Zweig 1999) or "market capitalism with Chinese characteristics" (Huang 2008). Additionally, China's recent international behavior has become more cooperative with other states and more supportive of multilateralism.

One platform for ongoing research and debates on globalization and China is the *China Goes Global* © initiative, initially supported by the Alexander von Humboldt Foundation and a consortium of participating universities. This initiative was established in 2007 by the editors, from Harvard University, Jacobs University, Rollins College, and Georgia Institute of Technology, who have sponsored annual conferences on this issue. To date, more than 350 scientific papers have been presented and discussed, and numerous books and special issues of journals have appeared from the collective knowledge (e.g., Alon et al. 2009a, 2009b; Lattemann, Fetscherin, Alon, Li, & Schneider 2009). This special issue of *Thunderbird International Business Review* represents a collection of the best conference papers presented at the *China Goes Global* conference in 2010.

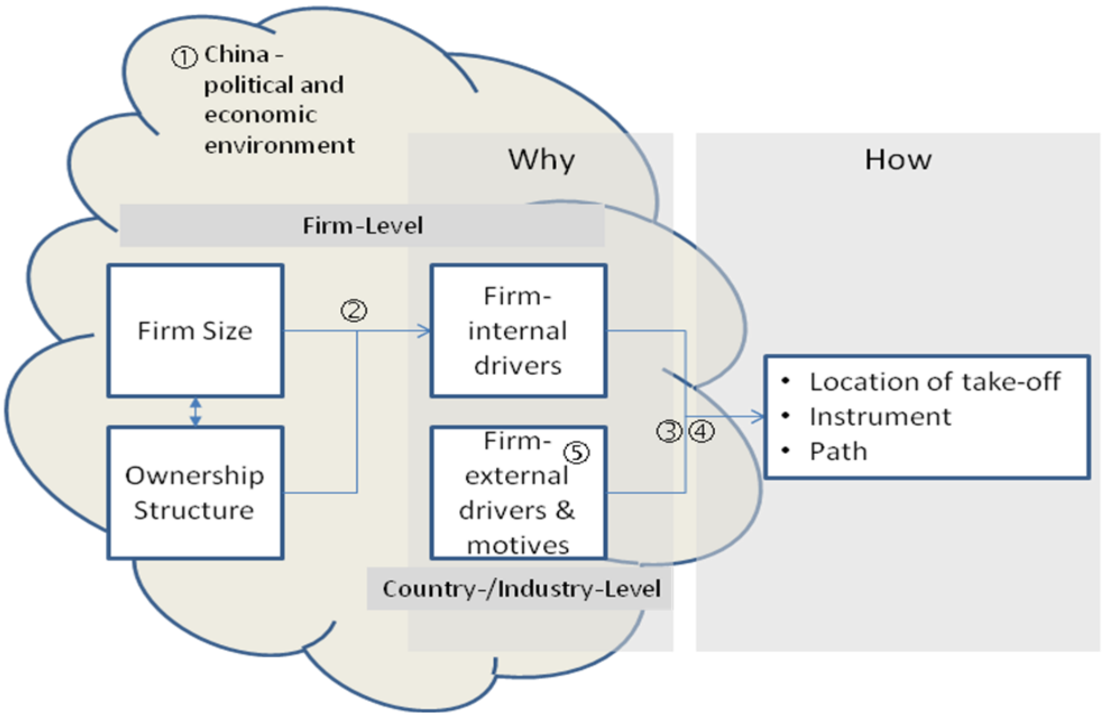
Although much has been written on the internationalization of large state-owned enterprises (L-SOE) (e.g., Alon & McIntyre 2008, Buckley 2004), here we focus on the internationalization of other types of firms: large privately owned enterprises (L-POE), family owned or privately owned small and medium sized enterprises (SM-POE), and state-owned small- and medium-sized enterprises (SM-SOE). We examine the drivers behind, motives for, and processes of internationalization in these firms. The articles in this special issue can be classified by differentiating their primary objects of investigation, the Chinese enterprise, by their size and ownership structures.

Table 1 *Classification of Company Types*

Ownership structure / Company size	State-owned/ state-controlled	Private
Large	A L-SOE	B L-POE
Small and medium	C SM-SOE	D SM-POE

Lutao Ning and Dylan Sutherland compare large Chinese SOEs with publicly listed Chinese multinational enterprises (MNEs) which are based in tax havens, such as the Virgin Islands.(squares A and B). Hans Jansson and Sten Söderman focus on Chinese large and small and medium sized privately owned enterprises (squares B and D). Xiao Zhang, Xufei Ma, and Yue Wang examine the drivers behind and motives for the internationalization of state- and privately owned SMEs (squares C and D). The first article, by Robert DeVillar, presents an introduction to the *China Goes Global©* research and outlines China's foreign economic policy. The last article by Tao Gao, Andrew Rohm, Fareena Sultan, and Suping Huang provides directions for further research, namely, investigation into the role of Chinese consumers in the global economy.

Figure 1 *Research Design for the Internationalization of Chinese Companies*



The special issue is organized based on the framework depicted in Figure 1, which shows how the articles fit into the research design of Chinese firms' internationalization.① The introductory article by DeVillar explores, describes, and discusses the larger environment for research on Chinese firm internationalization, i.e., China's foreign economic policy.② Ning and Sutherland take a resource-based perspective and analyze the *strategic asset-, resource-, market-, and efficiency-seeking motives* of SOEs and large privately owned enterprises as well as the influence of internal and external variables, such as special ownership advantages and network capabilities, on their internationalization processes. ③ Jansson and Söderman identify internal and external home-country and host-country drivers as well as barriers to the internationalization of both large and small privately owned Chinese enterprises. ④ Zhang, Ma, and Wang examine the internal and external drivers and motives for the internationalization of Chinese state- and privately owned SMEs. ⑤ Gao, Rohm, Sultan, and Huang focus on *domestic demand* for technological goods, consumption patterns, and the maturity of markets as important drivers behind the internationalization of firms in emerging markets (EM).

FIVE ARTICLES ON THE GLOBALIZATION OF CHINESE FIRMS

(1) Robert DeVillar, in "The Discourse, Practice, and Expansion of Chinese Scientific Socialism: Geopolitical Implications for Latin America and the United States," describes and discusses China's foreign economic policy and activism in regional and multilateral arenas, i.e., within the geographic triangle of China, Latin America, and the United States. China's resource endowments combined with its rapid and highly globalizing growth patterns have shaped its trade profile. Examining how economic globalization has transformed Chinese national policy preferences, DeVillar analyzes the recent manifestations of China's forays into Latin America and how Chinese strategy mirrors U.S. strategy. He also identifies possible influences on the politics, economy, culture, and society, as well as on the peace, security, and judicial affairs, of the host countries.

The author shows that the policy of the five principles of peaceful co-existence, formalized in the post-World War II period by Premier Zhou Enlai, still undergird Chinese policy: (1) mutual respect for each other's territorial integrity and sovereignty, (2) mutual non-aggression, (3) non-interference in each other's internal affairs, (4) equality and mutual benefits, and (5) peaceful co-existence. These principles are diametrically opposed to the hegemonic-power politics often associated with China's domestic politics. DeVillar sees economic and political phenomena as a blend of socialism and capitalism in order to achieve overall prosperity and the sharing of opportunities, market investments, development, and power. Within China there exist conflicting and changing trends of thought, including Nativism, Realism, Major Powers, Asia First, Global South, Selective Multilateralism, and

Globalism. The future implications of this Chinese scientific socialism both within China and beyond its borders, however, remain unclear.

A major result is that firms are acting within a highly uncertain, fluid, and changing environment. This is comparable to companies in hyper-competitive markets (D'Aveni & Gunther 1995) that must address unstable business environments characterized by blurred industrial boundaries and fierce competition. If China's regime does not mean to deal with a new political and economic paradigm, as supported by DeVillar's analysis, and if this does not imply a fundamentally new business environment, internationalization activities of Chinese firms should be explainable by existing theories. Consequently, the following articles incorporate existing theories in their analyses to explain Chinese internationalization motives, drivers, and processes.

(2) Ning and Sutherland, in "Internationalization of China's Private Sector MNEs: An Analysis of the Motivations for Foreign Affiliate Formation," argue that the bulk of research on OFDI from China focuses on activities by SOEs. In contrast, this article examines the motives for internationalization and Outward Foreign Direct Investment (OFDI) of China's large private enterprises and contrasts them with those of the SOEs. Taking a resource-based perspective, they analyze strategic asset-, resource-, market-, and efficiency-seeking motives as well as the influence of internal and external variables, i.e., special ownership advantages and network capabilities. The authors point out that privately owned and publicly listed MNEs in China often organize their OFDI via intermediary offshore holdings; therefore, the official MOFCOM data do not accurately reflect their OFDI activities. On the basis of company quarterly and annual reports, this article analyzes 104 Chinese publicly listed companies on international stock exchanges with 227 subsidiaries outside of China. The authors postulate that the internationalization strategies of private Chinese MNEs differ from

OFDI of SOEs in the emerging markets. Many scholars (e.g., Child & Rodrigues 2005; Deng 2010; Buckley et al. 2007) have noted that OFDI from China is driven by strategic asset-seeking. But Chinese private MNEs are often unable to leverage the market imperfections caused by state intervention because they lack strong linkages to domestic institutions. Typically, they are not incumbents in their home country and do not have an opportunity to gain from specific home-country drivers, such as state subsidies for outward FDI. Further, they have comparatively less favorable access to capital via the state banking system to acquire natural resources or strategic assets. Ning and Sutherland show that the search for strategic assets and natural resources is only a single, and certainly not the decisive, factor in the internationalization of Chinese MNEs. Furthermore, they find that the search for markets is by far a more important driver for Chinese MNEs (85 percent of the companies in their sample are involved in market-seeking activities).

According to transaction cost theory, the search for efficiency is another motivation for internationalization, but it is likely to be limited to emerging-market MNEs in general, and Chinese MNEs in particular (Buckley et al. 2007). However, to date there has been little research on this topic. The authors here show that there is (already) a growing trend for Chinese MNEs to turn to low-cost countries, such as Cambodia or Vietnam, to lower their production costs and to take advantage of their better infrastructures.

The internal advantages of companies, such as alliance capabilities (Kupke & Lattemann 2008), learning capabilities (Luo & Tung 2007), and access to networks and partner organizations (Coviello 2006; Coviello & Munro 1995, 1997) may support OFDI. Relations with other MNEs and experience in forming alliances may offset the disadvantages of private MNEs. Finding noteworthy examples of the importance of network capabilities, the authors argue that due to the large inward FDI to China over the past several decades, close relationships have been formed that can now be used to establish foreign subsidiaries.

Furthermore, Ning and Sutherland show that - compared to companies in developed markets - emerging-market MNEs lack ownership advantages. Accordingly, the ownership advantage is not a driver for Chinese MNEs to seek opportunities in unstable foreign countries. These insights are early indications that existing approaches, such as the Eclectic Paradigm (Dunning 1980), are applicable to explain the internationalization of Chinese MNEs. A comparison between private MNEs and SOEs reveals that research on the internationalization of Chinese companies requires a contingency approach to highlight the differences between internal and external variables on the various types of firms.

(3) Jansson and Söderman, in "Initial Internationalization of Chinese Privately-Owned Enterprises: The Take-Off Process," explore the starting phase of the internationalization process of market-seeking behavior by smaller Chinese privately owned enterprises (SM-POE). The authors focus on the importance of the development of the local emerging market for the internationalization of POEs. By investigating six case studies of Chinese firms in the Yangzi River region, the article analyzes the risk that POEs will become stuck in the internationalization growth process (from exports to FDI). The network approach is particularly appropriate when studying the internationalization process of Chinese POEs because relationships are likely to be at the core of the internationalization process in relation-based societies, such as China (Li & Filer 2007). Chinese firms' strong orientation toward relations is widely discussed in the context of the "*guanxi*" phenomenon. The authors concentrate primarily on the transformation of an indigenous firm into an international firm (a "horizontal take-off," or a HTO). However, they also look at the reverse process, whereby firms begin first in foreign markets and then later move into the domestic market (i.e., a vertical take-off, or VTO). They show that VTOs are followed by the later establishment of an industry; in the emerging markets this often involves the establishment of high-tech industries in the domestic market. To analyze the HTOs, the authors look at influential internal and external home-country and host-country drivers and barriers. The authors derive a specific "take-off" framework, which encompass four stages: (1) a focus on the domestic market, (2) the pre-export stage, (3) indirect exports, and (4) experimental exports.

Jansson and Söderman find that the conditions for HTOs by Chinese SMEs are different in the emerging countries from the conditions are in the developed Western markets. But in China these conditions changed with the shift from a centrally planned economy toward a more market-oriented economy. The authors test the validity of the Uppsala Model (Johanson & Vahlne 2009) in the case of Chinese SMEs. Initially, Chinese firms begin their take-off process with indirect exports. For the next step, before exporting directly they establish resilient networks for reasons of organizational learning and to reduce their risk of failure. Networks are established with business partners in the Chinese Diaspora who share a common culture. Further internationalization of Chinese family-owned SMEs occurs through direct exports, with the aim of achieving efficiency gains. The authors identify growing demand in the home-country as a major country-specific driver for the internationalization of Chinese domestic firms. An important firm-specific driver is the firms' knowledge about international markets and their ability to learn about foreign markets. The authors determine that the current lack of such capabilities among Chinese family-owned SMEs represents an obstacle to their internationalization.

(4) Zhang, Ma, and Wang, in "*Entrepreneurial Orientation, Social Capital, and the Internationalization of SMEs: Evidence from China,"* examine the drivers and motives for the internationalization of small- and medium-sized Chinese enterprises (SME) from two perspectives: the firm-internal entrepreneurial perspective and the environmental-external perspective of networks. The authors analyze 274 manufacturing firms in Beijing, Shanghai, and Guangdong and additionally provide the results of three in-depth case studies. They hypothesize that innovativeness, pro-activeness, and willing to take risks (which comprises the construct of an "entrepreneurial spirit"), and networks/social capital are positively related to the internationalization of Chinese SMEs. Social capital gained from networks facilitates the acquisition of knowledge (particularly tacit knowledge) and determines the speed and scope of internationalization. On the basis of their analyses, the authors find that firm size has a significant and positive impact on the number of foreign countries with overseas operations and on the cultural diversity of the foreign markets (as a construct to measure the degree of internationalization). Furthermore, business ties also have a significant and positive impact on the multi-nationality and cultural diversity of the foreign markets. Political ties or the type of firm (SM-SOE or SM-POE) do not have a significant impact on any indicators of the degree of internationalization. The reason for this is unclear. Some studies have found that SOEs reap huge advantages from their political ties. But it appears that the Chinese government focuses on large SOEs rather than small- and medium- sized SOEs, and likely does not support the globalization of state-owned SMEs.

Employing multiple-regression models and the results of their case studies the authors show that being pro-active and amenable to risk-taking, together with the social embeddedness of the business ties, are the main drivers for internationalization. In their sample, innovation does not relate positively to internationalization. This is not surprising because thus far innovation has not been a major mechanism by which Chinese SMEs engage in internationalization.

They also find that business ties may help SMEs expand overseas through network relationships, but only on the condition that the firms are capable of discovering market opportunities. The firms' existing social capital does not determine opportunities for internationalization. Rather, it is the firms' ability to utilize their existing social capital that matters, and in the context of SMEs it is the personal attributes of the entrepreneurs that explain the differences in firm internationalization efforts. The authors argue that the Chinese setting is not unique and therefore their findings should also be applicable to other emerging markets. However, because specific institutional conditions are likely to differ among the emerging economies, identical variables may have different impacts on SME internationalization.

(5) Gao, Rohm, Sultan, and Huang, in **"**Factors Influencing Consumer Attitudes toward Mobile Marketing: A Two-Country Study of the Youth Market," focus on a relatively unexplored research topic, namely, the similarities and differences between the trends in young adult consumer behavior in the East (i.e., China) and in the West (i.e., the United States). This is an important and critical issue in the study of internationalization. Jansson and Söderman identify domestic demand and the maturity of markets as the key drivers behind the internationalization of Chinese firms. Further, Oviatt and Mc Dougalll (1994) state that domestic demand for technological goods in particular, and consumption patterns and behavior in general, are central country-specific drivers for new international ventures. The authors here analyze the attitude of young American and Chinese consumers toward mobile marketing. Youth consumers are widely recognized as being mobile-savvy and were early adopters of the new technologies, such as mobile phones and mobile services. The major finding is that even if young Chinese consumers have a higher risk-avoidance level than their counterparts in the U.S., consumer patterns are becoming more alike as Chinese consumer demand increases.

DISCUSSION AND CONCLUSION

Two major questions emerge from the collected results of research on *China Goes Global* © and from the papers presented in this special issue: First, do current theories sufficiently explain the internationalization of firms in emerging markets, and second, why and how do Chinese firms globalize?

Question 1: Do current theories explain the internationalization of firms in emerging markets?

Are existing theories, primarily constructed the developed market economies, relevant to and capable of explaining the internationalization of firms in emerging markets (Gassmann & Keupp 2007; Luo & Tung 2007)? Alon, Child, Li, and McIntyre (2011) describe three contrasting views. Some scholars (e.g., Alon et al. 2009a) suggest that existing theories satisfactorily explain the globalization of Chinese enterprises. Others, like Barney and Zhang (2009) and Li and Nair (2009), argue that new theories based on the Chinese experience need to be developed. Tsui (2004) and Li and Peng (2008) suggest that new China-specific theories need to be "indigenized," that is, integrating context-free and context-embedded (China-specific) elements.

The body of work presented at past *China Goes Global* © conferences and in the articles in this special issue clearly indicate that the application of institutional-based, resource-based, and market-based views, process models and network theory, among others, are now at the center of mainstream research to explain the phenomenon of internationalization. And, to a great extent, these views are capable of explaining the internationalization processes of Chinese companies. We can further conclude that no theory holds a dominant position in explaining the internationalization of firms in emerging markets. Hence, a multi-level, multidisciplinary, and contingency approach will have the greatest explanatory potential in future research on international business and on the process of internationalization of Chinese firms. Borrowing from leadership theory, Reid (1983) introduced the contingency approach to research on international business. He found that foreign expansion and the choice of an export mode are significantly situation-dependent. Hence, the answers to the "why" and "how" questions will vary, depending on the situation.

Question 2a: Why are there Internal and External Motives for Internationalization?

Internal needs, and internal and external motives and drivers address the *"why" question* of internationalization. In the early 1980s, Rugman and Doh (1981) combined firm-level and country-level factors to analyze the different conditions for internationalization in various developed and emerging countries. They suggested that firms rely on firm-specific resource-based advantages (technology-based, knowledge-based or managerially derived, and network-based) or on country-specific (institutional-based) advantages. Following Rugman and Doh (1981) in separating firm-specific and country-specific features, and adding as well industry-specific features, it is possible to derive a 2x2 matrix (host/home country vs. internal/external drivers) (Table 2):

Table 2 Why? *-- Internal and External Drivers and Motivations for Internationalization*

Source of Drivers / Country/ Industry	External Country-/Industry-specific	Internal Firm-specific
Home	A	B
Host	C	D

Many theories identify the needs and drivers (and motives) for expanding abroad. In the course of the *China Goes Global* © project, and in this special issue in particular, a number of external and internal drivers are derived on the basis of existing theories. The major positive home country-specific drivers (quadrant A) include government support (the institutional-based view), the existence of cooperative local partners (network theory), and increased home market demand (for new international ventures). Major negative home-country/industry drivers include over-capacity, low profitability, and intense competition in the home market (the product life-cycle theory), and the lack of local funding. Quadrant C includes host-country-specific positive pull drivers, cooperative foreign partners (network theory), and the growing demand in the host countries (market-based view).

Internal drivers (and motives) (quadrants B and D) can be derived from transaction cost economics, the market-based view, and the resource-based view and its successors and the knowledge-based and capabilities-based views. Motives for expanding into foreign markets include: to seek efficiency, strategic assets, resources, or markets. Firm-level internal drivers are the constructs of ownership advantages (Dunning 1980), the ability to discover and explore markets (Teece 2007), the ability to gain knowledge (Grant 1996), learning and alliancing capabilities (Teece, Pisano, & Shuen 1997; Eisenhardt & Martin 2000; Zollo & Winter 2002; Kupke & Lattemann 2008), access to networks (Putnam 2000; Coviello 2006; Chetty & Blankenburg Holm 2000), and an entrepreneurial drive (Coviello 2006).

Question 2b: How? - From Indirect Exports to Foreign Direct Investment

To answer the "how" question, the following approaches can be taken: the Uppsala Model (also called the stage model or the process theory of internationalization (Johanson & Vahlne 2009), the "international new ventures" approach (Oviatt & Mc Dougall 1994, 1997), or path-dependency theory (Teece et al. 1997). By applying these three theories, the following sub-questions can be examined:

1. Where is the location of the take-off: the domestic market or the foreign market (the international venture approach)?
2. Does the internationalization process follow a continuous or discontinuous path (e.g., linear evolution, leapfrogging, or jump backs)?

3. What is the scope of internationalization and what are the instruments that firms use for internationalization: indirect, direct exports, FDI (joint ventures, strategic alliances, M&As, or green-/brownfield investments)?

The "take-off location" and "expansion path" can be presented in another 2x2 matrix where the different strategies for international expansion are classified (Table 3).

Table 3 Take-Off/Expansion Path-Matrix

	From domestic to foreign market	From foreign to domestic market
Path-dependent		
Not path-dependent		

The findings of the *China Goes Global* © research initiative and the examples presented in this special issue enable us to derive a framework for future research on the internationalization of Chinese companies in particular and that of emerging markets in general. The underlying principles of this framework are based on the ideas of the contingency approach and consist of the three steps represented by the three matrices:

1. Identification of the object of the research (i.e., classification of the company type).
2. Identification of country-/industry- and firm-specific drivers (and motives) for internationalization and linking them to the company type.
3. Finally, identification of the take-off-process and the reasons for them on the basis of the drivers and motives.

The guest editors hope that this special issue of the *Thunderbird International Business Review* will encourage future thinking and open further avenues of research on the issues of the drivers, motives, factors, and take-offs of Chinese firms and their implications for both China and the rest of the world.

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