Internationalization of Chinese Firms: In the Process of Economy Transition

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Abstract

The continuous growth of China's economy in the past decades has drawn the world's attention. In the meanwhile, Chinese firms, also supported by the government policy, are seeking international markets by going abroad. However, due to the special characteristic of China economy, e.g., transiting from planned to market economy, Chinese firms have experienced a different path (to most of western countries) in their internationalization. In this thesis, we investigate how Chinese firms, as latecomers from an emerging market, to integrate into the global market during the transitional period, explore the entry modes that Chinese firms have applied to, and look into the fundamental reasons for the phenomena.

In this thesis, we discuss two different paths of internationalization for Chinese firms. The first one is the internationalization of staying at home market, which was the initial stage of internationalization. The other is going the global, which has taken place after many years' experience accumulation through the internalization at home market. We have investigated the entry modes: the firms' staying at home market is mainly through contract mode and investment mode, e.g., by contracting productions with foreign partners, by acquiring the advanced technologies, and by attracting inflow foreign direct investments; the firms' going global is mainly through export and investment, such as product export, merging & acquisition, and Greenfield investment.

In this thesis, we further investigate the reasons of the special internationalization paths using the qualitative data. We discuss it from macro-, meso-, and micro-perspective, and make the following conclusions: 1) the transition and governance of a planned economy to a market economy is the foundation of Chinese firms' internationalization; 2) institutional and governmental policy is another other important factors that affects the firms' internationalization; 3) As the latecomers, applying the catch up stratigies drives Chinese firms' internalization at both domestic and global markets.

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Chapter 1

Introduction

This chapter aims to present the main issues in relation to the problem statements, explain the terminologies used in the thesis, introduce the context setting of China's transitional economy. In the end, we formulate the problem and research design.

1.1 The issues of internationalization

Due to the fact of rapid globalization and the increasingly interconnected world, many firms attempt to expand businesses beyond the national borders. International expansion provides new and potentially profitable markets, which help increasing the firms' competitiveness with access to new products ideas, manufacturing innovations and latest technology. Johanson & Vahlne (1992) defined internationalization as a process in which the firms gradually increase their international involvement. They claimed that internationalization is the product of a series of incremental decisions. Andersen (1997) defined internationalization as the process of adapting exchange transaction modality to international markets. Many definitions describe internationalization from different dimensions, the internationalization as a complex process which involves lots of business activity. It can be summarized as following three concepts. *First*, it is a process including many incremental decisions and strategies. *Second*, it involves various outward and inward products, service or resource transferring across national boundaries. *Third*, it is influenced by a series of factors that come from the firms and environments.

Welch & Luostarinen (1988) stated that internationalization has been widely used to describe the outward movement of the international operations of a firm. The theories on the internationalization of firms are largely based on Western multinational corporations. Starting from Vernons product life cycle theory (1966, 1971), through the Uppsala international expansion stage model (Johanson and Weidersheim, 1975; Johanson and Vahlne,1977), and the more recent works of Dunning on his eclectic paradigm theory (Dunning, 1993, 1995) and Investment Development Path (Dunning, 1981, 1986), which all predominantly concerned multinational firms from industrialized developed countries. Most of the studies have been conducted to firms operating in well established developed countries. Furthermore, Hollensen (2010) made deeply discussion about five subsequent decision stages on firms' internationalization, which emphasizes the decision process of global marketing plan with two perspective activities that before and after business going abroad.

Thus, all the previous theories mainly focus on firms going abroad when they internationalized. The pattern of internationalization in developing countries and newly industrializing economies is different to the western theories. The assumption of all western studies are based on firms initiate their internationalization process with export and proceed production activities abroad, which is downstream aspects of internationalization (Kuada, 2006).

Sørensen (2014) discussed most theories are developed in a western context, and thus may be different to when we look at companies in an emerging context. After all, western companies started internationalizing when the economy was not yet global. Now, when Chinese companies start, the economy is already global. Furthermore, many Chinese companies obtained international experience through outsourcing contracts i.e. they learned about the global operations by staying in China and receiving the global companies on Chinese soil.

To summarize the above discussion, we found the major theories and main issues about firms' internationalization are based on Western context and market-oriented circumstances. However, researchers also raises the arguments that some companies from emerging market in developing countries initiated internationalization at home market without going abroad such as Chinese companies. Thus causes different entry patterns to internationalization process comparing to western patterns. So, we will take further research about Chinese firms' international process in the context of emerging market of developing countries. We first define the terminology for context setting.

1.2 Terminology

In the following sections, we define the terms of international late comers and starters, entry modes the contexts for a deeper understanding of the research relevance.

1.2.1 Emerging market

Emerging market is defined as that a nation's economy is progressing advanced as shown by some liquidity in local debt and equity markets. Besides, the nation have benefited in the last decades mainly from globalization. Countries are opening large economies to global capital, technology, and talent over the past two decades, which has fundamentally changed their economic and business environments. As the result, the GDP growth rates of these countries have dramatically exceeded those of more developed economies. Furthermore, in the national perspective, it is lifting millions of people out of poverty and creating new middle classes as well as vast emerging markets for consumer products and services. In the international perspective, it is increasingly accumulating large and low cost educated pools, which gives these markets tremendous competitive advantages in production, manufacturing and information technology companies worldwide. So, international companies are coming to exploit labors and resources in these markets with unique ways. This markets are recognized as emerging markets.

1.2.2 Late comers from international markets perspective

In general, the concept of latecomers is referred to firms from emerging market of developing countries (Kang & Liu, 2007). Many researchers find that multinational firms from emerging market generally suffer from their comparative disadvantages such as underdeveloped manufacturing technology, outdated management know-how and limited knowledge of overseas markets. However, with the development of internationalization, and the penetration of international competition in different markets, the latecomers from emerging market are catching up by entering in foreign markets. (Gulati & Zaheer, 2000) states latecomer firms have to start exploitation resources in foreign markets. (Matthews, 2002) defines the latecomer firm with four distinctive characteristics: *First,* it is the late entrant to an industry by historical necessity. *Second,* it is initially resource-poor such as lacking technology and market access. *Third,* it is focused on catching-up as its primary goal. *Fourth,* it has some initial competitive advantages, such as low costs which it can utilize to leverage a position in the industry of choice. In this research, we will analyze Chinese firms from the emerging market intend to seek connections with the main technological and business stream at home market. Thus, multinational firms are attracted to the emerging market involving Chinese firms to global market.

1.2.3 Market entry modes

Root (1994) wrote that foreign market entry mode is a kind of institutional arrangement, such as the way that enterprises transfer products, technology, human resources, management expertise, and other resources to other countries. In general, there are three patterns of entry modes summarized as following: *Export modes* is the most common mode for firms initiate their internationalization.

Three types of export ways with direct, indirect and cooperative modes. Normally, the products are manufactured in domestic and transferred either directly or indirectly to the host markets. *Intermediate entry modes*, When firms do not transfer products to foreign markets or third country, but transfer knowledge and skills by contracting with partners in order to create foreign sales. Intermediate entry modes include licensing, franchising, management contracts, turnkey contracts, strategic alliance or joint ventures and technical know-how or co-production arrangements.*Hierarchical modes* The firm completely owns and controls the foreign entry mode. Hierarchical modes include domestic-based sales representatives, foreign sales, branch or sales and production subsidiary, region centers or transnational organization, acquisition and Greenfield investment.

Luostarinen (1989) combined the different operation modes in homogeneous groups on the basis of the functional and investment character of the modes. Following are the four combined categories of foreign operation modes.

First, Non-direct investment marketing operations (NIMOS)

1. Indirect export operations for goods
2. Direct export operations for goods
3. Service export operations
4. Know-how export operations
5. Partial project export operations

Non-direct investment production operations (NIPOS)

1. Licensing operations
2. Franchising operations
3. Contract manufacturing operations
4. Turnkey operations
5. Co-production operations

Direct investment marketing operations (DIMOS)

1. Sales promotion subsidiaries
2. Warehousing units
3. Service units
4. Sales subsidiaries

Direct investment production operations (DIPOS)

1. Assembling subsidiaries
2. Manufacturing subsidiaries

Firms have numerous options to choose for foreign operation. There are research works about the classifications of the entry modes, but the general consensus can be classified as three groups (Welch et al, 2007), i.e., *export modes, contractual modes* and *investment modes.* These three broad groups are depicted in Figure 1.1.

Figure 1.1: The major foreign operation modes

Exporting	Contractual modes	Investment modes
• Indirect • Direct: agent/distributor • Own sales office/subsidiary	• Franchising • Licensing • Management contracts • Subcontracting • Project operations • Alliances	• Minority share (alliance) JVs • 50/50 JVs • Majority share JVs • 100% owned

Source:Adapted from (Welch et al, 2007), Foreign Operation Methods.

The entry mode choice was studied as a problem with distinctive features, extent, form and pattern of international production, and it was discussed as a critical issue in international marketing by many economists and marketing experts (Zhao & Decker, 2004).

1.3 Context setting

In this section, we make the context setting for that China's economy is transferred from an state-owned to a market-oriented economy. So, the internationalization process might differ to the developed economy. The definition of transition economy is that the economy format changes from a centrally planned economy to a free market economy (Feige & Edgar, 1994). Transition economy intends to achieve economic liberalization, where the market power determines prices rather than a central planning organization decides the market. The distinct character of the transition economy is that the state institutions made efforts to privatize state-owned business and push the capital moves to private enterprises. The economy transition of China can be divided as three stages as following: The first stage is from 1978 to 1993, the state strengthen budgets, and introduced the competition mechanism. The second stage is from 1994 to 2000, the state reconstructed the financial and tax system, and started to establish a market-oriented system. The third stage is from 2001 onward, the state improved market efficiency, and started to optimize the industrial structure(Qian, 1998). China, former Soviet Union and Communist European countries, and many third world countries have experienced the transition from planned economics to market economics by different transition models. With the background of transitional economy, the study of China's internationalization starting with the milestone processes.

1.3.1 Enterprises reform in transitional economy

China launched a major economic reform and liberalization programme in 1980's, which transferred the planned economy to a market economy. Since then, the transition of state owned enterprises (SOEs) has been considered the key to the success of China's economic growth. In 1990's, Chinese government reformed its SOEs through incorporation, and the concept of modern enterprises was introduced accordingly (Lin, 2004). During this process, the transition of state ownership and control was adopted, and company managers were granted control rights. We summarize the enterprises reform as following four stages: *The first stage before 1983:* State-owned enterprises dominated Chines economy. The state controlled almost every aspect of the economy from manufacturing to distribution and consumption. There was no western-style corporate governance at all. *The second stage from 1984 to 1993* it was marked as the beginning of the separation of governmental and and entrepreneurial function. The goal of committee was to transfer state-owned firms into economic entities which firms could make their own decisions and be held responsible for their own profits or losses, in which to create a more effective incentive scheme among Chinese enterprises. *The third stage from 1994 to 2005:* It was the beginning of experimentation of modern enterprise structure. It was not only the first comprehensive law of modern companies, but also the first major business law that protest legislation based on their ownership structures. *The fourth stage from 2006 onward:* It involved legislation to balance the power between state shareholders and individual shareholders in Chinese company. It was the period of continuing growth of corporate governance in China (Yong, 2008).

We conclude this section with that the second and third stages are the transitional stages. The government intended to change firms from a governmental function to an entrepreneurial function, and formulated company laws to support this reform. The Companies were still the state-owned, but they have the right to control part of their business activities. With the publish of business laws and legislation, Chinese companies started cooperation with foreign companies.

1.3.2 Enterprises internationalization in transitional economy

KPMG Global China Practice (2014) reported that Chinese firms internationalization process can be divided as three stages: *First stage:late 1970s to mid-1980s* The initial stage of the 20th century.

In this period, a number of state-owned enterprises opened overseas branches and representatives in order to expand the economic and trade activities for national reform requirements. At this point, Chinas economic development is not close to the world, and the domestic market economic order is not built, so the foreign investment is at the beginning of the process. *Second stage:1991 to 2003* The transition period. Since 1990s, China moves its planned economy to a market economy by the policy of the price and state-owned enterprises sector reform. At this point, the main foreign investment is transferred from state-owned enterprises to large industrial and commercial business gradually. The main purpose of the oversea investment is the establishment of investment channels for overseas purchases and sales network, and focus on the use of foreign technology, resources and strengths to complement the domestic shortage. *The third stage:2004 onwards* The rapid development period. In July, 2004, China State Council promulgated the "Decision on Reform of Investment System" policy. This policy identifies the need to change the government's administrative functions, establish the dominant position of investment companies, and ultimately to establish a market-led investment, corporate decision-making autonomy, independent bank loan approval, various forms of financing, intermediary service standards, and effective macro-control new investment system. Following a series of regulations and measures relating to foreign investment have been introduced, it provides a formal platform for Chinese enterprises "going out".

To conclude it, we can define Chinese firms' internationalization as substantive and stable business activities in overseas markets with following phases: First, possession or control of overseas distribution channels or brand; Second, attract foreign investments, and primarily establish oversea network through investment, acquisition or control of overseas production facilities; Third, possession of important overseas R&D institutions, and overseas stock market listing for companies whose headquarters are in China or controlled by Chinese.

We find that *the second and third internationalization stages* are the continue developing stages. The second transition period started in 1990s to the early 2000s. It mentioned that the purpose of the oversea investment is to establish purchasing and sales network as well as the use of foreign technologies, resources. Thus, we could understand it is the official stage of Chinese firms' internationalization. Aziz & Duenwald(2001) stated that since China launched economic reforms in 1978, China's dominant development policies have gradually from self-reliance to open door policy. Thus, a large amount of foreign investments have been located to China's large state-owned enterprises with different inflow models such as inward outsourcing contracting with foreign companies, inflow FDIs and technologies acquisitions, etc, which all the recourse and investors coming to China home market. After the first stages development, Chinese firms have accumulated possible international experience, knowledge and oversea networks, so they intend to go global according to the market and economic demand, as well as the supports from Chinese government.

Therefore, our research will focus on two stages of China's internationalization: primary stage of internationalization by staying at domestic market, and internationalization by going global at international market.

1.4 Relevance

Many researches studied China's transition economy as a popular topic in latest decades. Child & David (2001) studied China's transition and its implications for international business,etc. Those researches mainly focused on the effects of transition economy brings to China's businesses and enterprises. Lin (2004) studied the lessons of Chinas Transition from a planned economy to a market economy. Sebora & Li (2006) studied the effects of economic transition on Chinese entrepreneurship.

Besides, the research about China's economics growth and internationalization have drawn world attention as an outstanding representative of transitional economies. So, there are lots of research about internationalization process of Chinese firms, but mostly based on the modern enterprise contexts, in which Chinese firms have already well internationalized to global economics.

Furthermore, Western researchers found that the early stage international theories are based on Western multinational context. So, the theories are not applicable for Chinese firms' internationalization process. Kuada & Sørensen (2000) wrote a book about internationalization of Companies from Developing Countries. They explored how government policies shape a country's strategies for global competitiveness. Child & Rodrigues (2005) conducted "The Internationalization of Chinese Firms: A Case for Theoretical Extension?" in which he intended to extend internationalization theories by case studies. Kuada (2006) conducted internationalization of firms in developing Countries which he clarified the focus of most of these studies on the downstream aspects of internationalization, but the present paper challenges this perspective, arguing that internationalization of firms may be initiated through either or both upstream and downstream activities. Chinese researcher xielin, Liu who conducted many inside researches that illustrated the difference of Chinese firms internationalization such as Liu (2005) conducted China's Development Model: An Alternative Strategy for Technological Catch-Up. Liu (2007) Path-following or Leapfrogging in Catching-up: the Case of Chinese Telecommunication Equipment Industry. Sørensen (2014) discussed the global-local dynamics that made it possible for China over a short span of years to emerge as a competitive or perhaps threat to dominant and powerful Western companies.

To summarize the relative work of China's internationalization, and connect it to our previous context setting, we conclude that mostly, all the present research concentrate on the mid-2000s onwards where Chinese firms are already well involved in global economics, and they are seeking internationalization by going abroad. They came up with the results that Western theories can not explain Chinese firms internationalization as China experienced transitional economy. So, the researchers intend to expend the theories.

However, there are less research about Chinese firms in the early internationalization stage, for example, from the early 1990s to middle 2000s. This period is the very primary stage where China state-owned economy is transited to market economy. In this period, Chinese firms experienced their internationalization at home market by attracting inflow outsourcing and FDI, or acquiring high technologies from technology providers.

Normally, recent researchers paid considerable attention to China as a host country for internationally expanding through national boarder in latest decade, but not so much attention on the previous stages of internationalization at home market under the transitional economy circumstance. Researchers ignored this stage because it is not the traditional sense of Western theories basis internationalization. While, In this stage, the international activities are mainly taken place in domestic market which involved many institutional interference.

Child & David (2001) wrote China is the most singular of the transition economies. The key characteristics of China's emergent institutions leads to propositions on their relevance for international business practice. China is also unusual because its transition continues to be planned by the state, and governmental institutions preserves and actively involves in business affairs. So, the form of transition economies makes significant effects on China's international business practices.

1.5 Problem formulation

The aim of this project is to investigate Chinese firms' internationalization patterns from a planned economy to a market-oriented economy. More specifically, we want to research how Chinese firms internationalized initially at home market during the early period of China's economy transition. Then, How Chinese firms continue internationalization by going abroad at foreign market in later period. It is therefore we will investigate three patterns that Chinese firms initially linked to international companies in home market by outsourcing contract with foreign companies, by making inflow foreign direct investment and inflow technologies acquiring. Then, we will investigate Chinese firms going global by the outflow foreign direct investment through merger and acquisition, Greenfield investment, etc. Furthermore, we will investigate the reasons that why Chinese firms can achieve internationalization experience at home market primarily, then going global. We try to find the regulations that can provide further internationalization and business development. So, this arises the following problem statement:

How Chinese firms internationalize in the global market? What entry modes Chinese firms choose to internationalize by staying home and by going global market during the economic transition from a planned-economy to a market-oriented economy? and why this pattern work for Chinese firms?

In order to answer the research question, following are the three objectives of the research:

- The theoretical perspectives of transitional economy, the theories of internationalization patterns and models.
- The empirical perspectives of the internationalization that Chinese firms choose for internationalize at home and foreign market.
- The analysis of reasons why the internationalization modules work for Chinese firms.

1.6 Research motivation

Many countries from Eastern Europe, Central Asia, and South-Eastern European started their economies transition after 1990. But, it is only China who is considered as the most successful country with the a great achievement of the economy growth. The world got to know China after its economics comprehensively involves in global economy, and Chinese firms participated in the international competition in the last decade. The scope of my research will focus on studying the internationalization experience of Chinese firms during the transitional period. Following is the motivation of this research:

- When people talk about internationalization, they implies that the business activities cross national boundaries in the process of cooperation with foreign companies. So, there are rarely people paying attention to the early stage of home market international activities. We conduct the research that shows China has another patterns which is quite different to the mainstream concepts of internationalization process, and how this patterns make effective impacts to firms in further internationalization.

- When people research China's success of internationalization, they mainly focus on the huge population and large potential of consuming market. Thus definitely contributes to China's economic growths. However, we want to find evidences that the internationalization at home market is another important contribution. It took long time for Chinese firms developed from the governmental entities to modern enterprises. We want to find the evidence that the transition period is the foundation of their later achievements.
- Although China achieved significant economics success, China's economic development is unbalance according to different regions. China is still a developing country, and continuing in depth economy reforms. We want to find the most possible reasons of Chinese firms gaining international experience in the transitional period, and if this reasons could apply in Chinese rural areas. Besides, we want to find out whether the foundation could work for China's modern development such as product quality improvement, effectiveness of production, innovation development, or advanced management which gained from Western enterprises.
- We want to find out the reasons of China initiated its internationalization at home market, and could this reasons be applicable for other developing countries in transitional economy.

1.7 Thesis structure

The thesis is structured as follows:

- **Chapter 1:** Introduction of the main issues and problem formulation.
- **Chapter 2:** Scientific approach and research methods
- **Chapter 3:** Theoretical foundation
    1. Theories of economic transition
    2. Theories of downstream and upstream internationalization
    3. Theories of FDI
- **Chapter 4 & 5:** Empirical evidence presentation:
    1. Empirical research of internationalization at home market
    2. Empirical research of internationalization of going abroad

- **Chapter 6:** Case study of Haier Group (private company) and CNPC Group (state-owned company)
- **Chapter 7:** Analysis of internationalization foundation
  1. Macro-perspective of transitional economy influence
  2. Meso-perspective of government and institutional influence
  3. Micro-perspective of global latecomer
- **Chapter 8:** conclusion and reflection

Chapter 2

Research Approach and Methodology

In this chapter, we will discuss the choice of methodological framework. The basis of philosophy of science will be discussed in order to reflect on nature of the studied phenomenon defining the structure, and choose methods to find the answers. Then, we discuss the operative methods for this project.

2.1 Choice of methodological framework

With the focus of business research on social science perspectives, many methodological typologies have been created, such as Arbnor & Bjerke's classification of six paradigms and three research approaches (Arbnor & Bjerke, 1997). Burrell & Morgan (1979) introduced their typology of paradigms for analysis of social and organizational theory. Biedenbach & Muller (2011) wrote two of those frameworks are the most cited examples of the research paradigms with their sociological paradigms.

Burrell & Morgan (1979) identified the contrast between the nature of social science and the nature of society. Besides, four paradigms with functionalist, interpretive, radical humanist and radical structuralism are identified. Biedenbach & Muller (2011) stated the paradigms show four mutually exclusive ways of researching an organization, and the different perspectives along the contradictions of the objectivity. Therefore, the essential assumptions about the nature of society are divided into two perceptions as regulation and radical change. Burrell & Morgan (1979) compare the assumptions about the nature of social science with objectivsm and subjectivism in terms of their four paradigms of ontology, epistemology, human nature and methodology.

Arbnor & Bjerke (1997) made classification provides six paradigms which are as following:

Paradigm 1: Reality as concrete and comfortable to law from a structure independent of the observer.

Paradigm 2: Reality as a concrete determining process.

Paradigm 3: Reality as mutually dependent fields of information.

Paradigm 4: Reality as a world of symbolic discourse.

Paradigm 5: Reality as a social construction.

Paradigm 6: Reality as a manifestation of human intentionally Arbnor and Bjerke. Collen (2012) stated that the classification has traditionally focuses on the methodology of research, which depends on two factors, the research question and the researcher's view of reality. Arbnor and Bjerke developed their assumptions based on philosophy of ethical and aesthetic aspects, and they suggest the knowledge is the root from people's education. Lowder (2012) wrote the analytical approach from Arbnor and Bjerke's classification has been criticized as "it reduces knowledge to only those things that can be codified and measured" and has been referred to as "dataism" which often experiences inconsistent results. Also, Arbnor and Bjerke hold the belief of paradigm: it is a philosophical and theoretical framework of presumptive and guiding principles which are governing knowledge and the creation of knowledge, but which can not be empirically or logically tested" Arbnor & Bjerke (2009).

Jokinen (2014) stated the research paradigm has an influence on the whole research process, including the choice of the research problem and the research methods, the implementation of the research and, finally, the kind of contribution that can be achieved through the research . Therefore, Based on the previous discussion, we will not use Arbnor and Bjerkes six paradigms as the discussion of the project , but we will use their framework for methodological framework. However, Burrell and Morgan's assumptions is the roots in philosophy and social studies, and the knowledge is achieved from observation and participation. Then, we will use Burrell & Morgans perception of paradigms as discussion of the project typology.

2.2 Theory of science and methodology

The choice of an appropriate methodology is crucial for conducting a good and trustworthy analysis in business. It helps to create high quality in knowledge, make our research reach deeper, clear to the methodological root of knowledge. The research design can reflect our assessment of the nature of knowledge we are planning to generate using this specific approach. Using this approach in connection with the applied theories attempt to answer and solve the problems cleared out in the problem formulation. The discussion in this part will be mainly based on the book "Methodology for Creating Business Knowledge" written by Arbnor and Bjerke in 1997. Arbnor and Bjerke's typology. The process of creating knowledge as proposed by Arbnor and Bjerke is illustrated below in the following.

2.2.1 Ultimate presumptions

Arbnor & Bjerke (1997) stated that every human being carries around certain ultimate presumptions in unconscious or conscious way, which is about what his or her environment in this world, and about his or her role in this society of the world. These presumptions control the process of knowledge acquirement, and will have a bearing both on how they understand problems and how they understand existing and available sets of techniques, as well as how they understand the knowledge in general. Based on the root of this assumption, they invented the framework of theory on science and methodology as Figure 2.1.

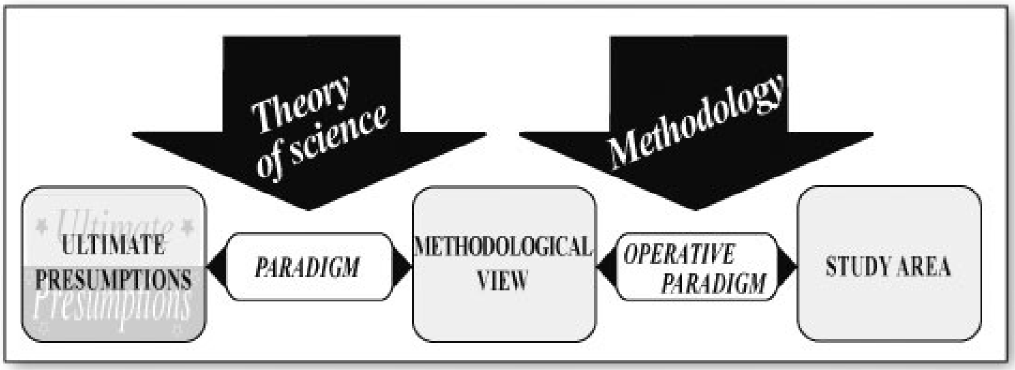


Figure 2.1: Theory of science and methodology (Arbnor & Bjerke, 1997)

Figure 2.1 shows that the paradigm bridges the ultimate presumptions and methodological approaches. The concept of reality includes philosophical ideas about how reality is constructed. The figure also depicts constituent parts of every research in order to solve studied problem effectively. As discussed in previous sections, we will not use Arbnor & Bjerke's classification of six paradigms for this project. Instead, we will use Burrell & Morgan's classifications of four dimensions seek to answer the question.

2.2.2 Paradigms

The scientific meaning of paradigm has been firstly defined by (Kuhn, 1962) in his seminal book as: A paradigm is a set of linked assumptions about the world which is shared by a community of scientists investigating that world. Additionally, this set of assumptions provides a conceptual and philosophical framework for the organized study of the world, and referred as world of view". Furthermore, Kuhn presented a theory of the structure of research in different scientific fields, which are characterized by a set of general understandings of what has been studied, what kind of questions are useful for the research, what approach researchers should use in order to answer their research questions, and how the results should be understood. Those of the characteristics create the paradigm. Guba & Lincoln (1994) also defined a paradigm as particular combination of our basic beliefs or world views as ontology, with their associated epistemology. The Paradigm represents the most essential view of its supporters. It is not possible to proof them right, but to give arguments for their utility. Burrell & Morgan (1979) defined the four paradigms as following:

Ontology: Ontology is a set of assumptions which concerns the very essence of the phenomena under investigation. It is the highest level of abstraction in terms of theory of science. The most important concern of ontology is whether the "reality" to be investigated as external to the individual, and whether 'reality' is investigated as an objective nature.

Epistemology: Epistemology is concerned with the grounds of knowledge. It also has a sharp distinction between the subjective and the objective. It arises the questions about whether the researchers could identify and communicate the nature of knowledge, whether the researchers have the capabilities to transmit knowledge in tangible form, and whether the knowledge itself is subjective, based on experience and insight of essentially personal nature.

Human Nature: This is the concern of the relation between human beings as researchers and their connections to the environment. As the same in previous levels, the subjectivism and objectivism play an important role of Human Nature level. The reason of this is because, on one hand, human beings have the voluntarist view as people are completely autonomous and free-willed. On the other hand, people's actions are completely determined by their situation or environment in which they are living in.

Methodology: Methodology level is the most practically oriented. Based on previous discussion, each of the previous level has a direct consequence on methodological nature. It is about the scientific way in which researchers attempts to investigate and obtain knowledge about the world.

Olkkonen (1993) stated that research methods consist of a number of techniques used to collect and analyse research data, but the most important element while selecting the research method is that the method is compatible with the research paradigm. Different disciplines have created their own research paradigms. Typically, natural sciences are based on the positivist research paradigm, while the hermeneutic research paradigm is used within human sciences.

Burrell & Morgan (1979) described the basic assumptions about the nature of social sciences through five debates. It shows that one choice of approach to ontology causes a certain choice of epistemology which causes certain choice of human nature and so on, as illustrated in Figure 2.2.

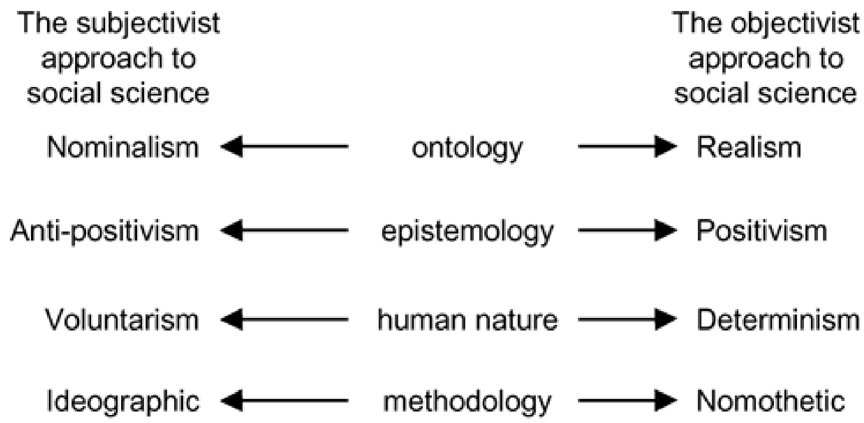


Figure 2.2: Nature of social sciences through five debates (Burrell & Morgan, 1979)

2.2.3 Methodological view and choice

The choice of an appropriate methodological approach is crucial for the research. A methodological approach impacts the results of every study. It is an approach for creating knowledge based on a set of ultimate presumptions by using methods within a field of activity or subject area. The approach is in connection with the applied theories attempt to answer and solve the problems. (Arbnor & Bjerke, 1997) developed three main methodological approaches as the analytical approach, systems approach, and the actors approach. Following is the discussion about the choice of one methodological approach for this research.

Analytical approach The analytic approach is the oldest way of doing the study. The root assumption of this approach is that the world is objective and independent of its observers. First, the approach has summative character, which means if researchers could measure all parts of the phenomenon, then the total value represents the whole phenomenon. Once each of the part has achieved the biggest value, the maximize value of the whole may be achieved. The second assumption of the approach is the “cause” and ”effect” relation, which means the more causes are found, the better and more complete view can be constrained. Analytic approach implies that knowledge is created through the explanation of its parts, and it is universal and quantitative. Therefore, the scientific belief of the analytics approach is to interpret objective reality as much as possible in order to form a causal relations with deterministic and stochastic facts.

Arbnor & Bjerke (1997) stated the analytics approach is frequently used in the natural science rather than social science of business research. The analytics approach assumes the reality is objective, and human beings in a completely objective way. The approach can be simply defined by mathematical models and anticipated by mathematics calculation. However, researchers can not be 100% objective of doing research. Especially, in business research areas, simply calculation can not explain the complexity phenomena in a economic aspects. Therefore, the analytical approach is not applicable for this project.

Systems approach

The systems approach is developed based on the presumptions that the world is objective or objectively accessible. The approach assumes that reality is a system constituted by components and relationships, which are among the reality. The approach implies that all components are "often mutually dependents on each other" (Arbnor & Bjerke, 1997). This approach is different to the analytics approach , which the whole is not the sum of its parts as internal relations exist in the system. The sum of parts provides information as the interaction between the individual components and their environment, which could cause synergy effect. The systems approach concerns the knowledge as unique and qualitative as it is generated the unique system model and its type of cohesion, which can be understood from ontology dimension to synergy creation. Furthermore, the knowledge is created as the whole, which represents the characteristics of parts.It can be understood as epistemology to cohesion dimension. Concerning with our research problem, we will formulate a qualitative research through the research of parts, and find the outlines of the business phenomenons. Therefore, the systems approach is applicable for our research.

Actors approach This approach differs from previous two approaches. The actors approach assumes that the reality is a social construction made by the actors in interaction in their environment, creating reality. The knowledge in the actors approach is generated under social constructions and logical argumentation relations. The knowledge of this approach is according to individuals, the whole is understood through "actors". It is to some aspect useful for social research because society itself is composed of human activities, but it also has incompatibility in applying oneself at a actor to the research. Therefore, the actors approach is not applicable for this project.

2.3 Operative paradigm

For the perspective of operative paradigm in this project, we operate the paradigm by following the science view of Burrell and Morgan, which are ontology and epistemology. We view the world as consisting social order mostly, then we seek to study patterns of ordered events or behaviors. Furthermore we believe that the best way to study the project is using objective approach that is independent to researchers, such as by using literature review, and secondary data collection, which are adopting a paradigm of functionalism. Based on the view of point, we design our research process as following sections.

2.3.1 Research process

According to social science research (2012), the purpose of scientific research projects can be grouped as exploratory, descriptive, and explanatory. The **exploratory research** is often conducted in new areas of inquiry, where the goals of the research focus on a particular phenomenon, problem or behavior, and to explore some initial ideas about the phenomenon, or test the feasibility of the phenomenon. In exploitative process, we exam the published literature to understand current knowledge of the research area, explore and select the research gaps in order to formulate research questions,and identify proper theories for the investigation. We will use the three types of methods during the process as designed in Figure 2.3.

Descriptive research is based on scientific methods with careful observations and detailed documentation of the area. The research must be precisely observed, so the result should be more reliable than casual observations as it always involves some statistic records. The descriptive process is the operative research process. This process includes different research methods to investigate the research problems. In our project, We search secondary data from various sources, such as Scholarly Journals, Trade Journals, Review Articles, Reference Books and Official Statistics or Reports to gather relative information and data source. We use the qualitative research methods to identify and discuss relative data concerning to our problems. After primary discussion, we apply case study to prove our previous investigation. The case data will be collected from internal or external documents. All of the qualitative data are gathered for the purpose of further analysis.

Explanatory research seeks explanations of observed phenomena, problems, or behaviors. It attempts to identify causal factors and outcomes of the target phenomenon. It involves understanding the reasons behind the phenomena. Although some amount of academic research are exploratory or descriptive research, mostly the academic and doctoral research belongs to the explanation category. Normally, the descriptive research examines the phenomenon regarding what, where, and when, while explanatory research examines why and how the phenomenon occurred. Since our research intend to answer the questions of what motives and entry modes emerging market latecomers to choose on internationalization, as well find the reasons behind the phenomenon. In explanatory

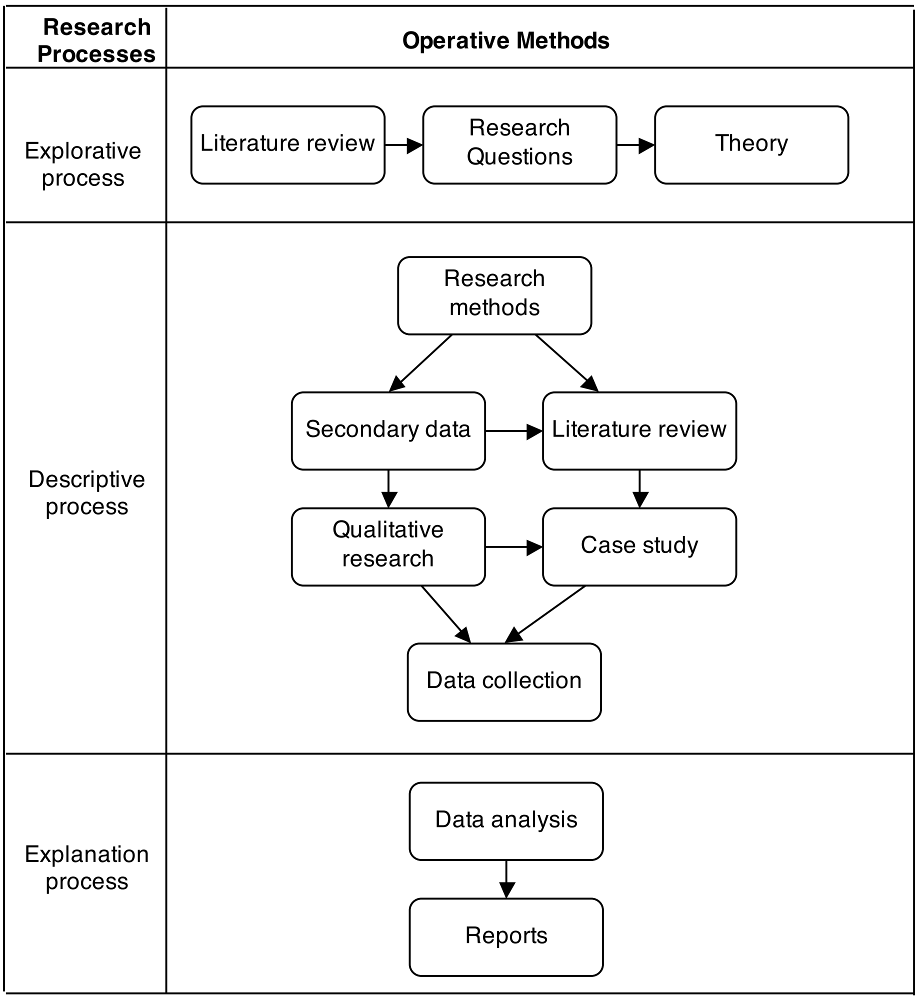


Figure 2.3: Research Processes and Methods Design

process, we will analyze previous key research findings, and intend to find the reasons behind the phenomenons. We collect qualitative data, so, the data analysis is also in qualitative method with coding or content analysis. The analysis must have sufficient detail to support our arguments so as to allow other researchers testing the findings. Then, we will make the final the report of the research.

2.3.2 Data collection

Since this research concerns the understandings of economic behavior from the objective frame of reference, this research is qualitative methods preferred, and all collected data are secondary data. It is also the phenomenological approach, in which the economic phenomenon is uncontrolled, but can be naturalistic and observational measured. We intend to collect empirical statistics to describe the hidden rules, and use two case studies to explain in depth about the phenomenon. Two types of data with empirical statistics and case studies will be presented in later of this research.

2.3.3 Statistics

The statistics with figures and tables in the research present a detailed understanding of economic and industry trends, the effects of the enterprises activities to economic phenomenons. We use reliable empirical statistics to confirm the assumption of the economic phenomenon. The statistics are all collected from secondary data, the sources can be published by UNCTAD and its database, data from Ministry of Commerce of the People's Republic of China, report from National Bureau of Statistics Yearbook, or National Bureau of National Accounts Division etc.

2.3.4 Case study

Case study can provide an overall picture of the research objectives. The case study can be selected from individuals, groups of individuals, organizations or different samples. The generalization of case study is closely linked to the quality of the case selection, or the relevance to the research topic. When doing a case study, researchers have to design the purpose of the case study, and in what angles of the case to study for. In our case study, we choose one private company, Haier group, and one state-owned company, China National petroleum corporation (CNPC) to research how they internationalize to global markets. Since we want to find the process and entry modes about the case companies, we do not necessarily need detail statistics or inside information to do our study. We gather secondary data from research articles and company's website. We confirm the information through various sources, such as published academic papers, reports from the third institutions, etc. Through the confirmation of different sources, we assume the information from case study is reliable.

2.3.5 Validity

Validity is one of the key concept relevant to a discussion of research methodology. Cook & Campbell (1979) stated there are four types of validity that can be discussed in relation to the research. So, when discussing the validity of a research, we must firstly specify which type of validity to be discussed. Each type of validity has many threats.

Statistical validity concerns in some certain research areas related to the reliability of the statistics, as well as the relevance of the statistics to our research topic. If a research has good statistical validity, we should be relatively certain that the result to these research is positive. In our research, the empirical statistics are very important as it shows the trends of Chinese enterprises international integration in global market in some certain perspectives. It also illustrates the effects that firms internationalization to China's economy, as well the connection to the global economics. The statistics can evidently confirm the facts, so we could find the confidential results by following this facts. We investigated official sources, such as the data published by UNCTAD and its database, data from Ministry of Commerce of the People's Republic of China, report from National Bureau of Statistics Yearbook, or National Bureau of National Accounts Division etc. Since China is a dynamic country, we intended to find the most recent statistics and data to improve the reliability of the empirical part. So, we assume our statistics about tables and figures in this research are validity based on this concept.

Internal and external validity concerns whether one phenomenon causes the other phenomenon. If a study is lacking internal validity, one can not make cause and effect statements based on the research, so the study would be descriptive but not causal (Cook & Campbell, 1979). While external validity addresses whether the research results could be generalize to other times, places, and situations. The best research designs are those can assure high levels of internal and external validity. In order to achieve high validity design, we have to assure that the empirical research and case study that a small sample could be generalized to large population. So, the empirical data and case study should be careful and representativity chosen for support the entire research.

Construct validity concerns whether our constructs are clear for research, or we really measure the construct that we want to study. Thus, good construct validity means that we will be relatively sure that Construct A is related to Construct B and that this is possibly a causal relationship. In related to our research, for example, we investigate that how Chinese firms could internationalize by staying at home, and what causes the phenomenon. I conducted the research about the most common entry modes that foreign enterprises go to China market and link to Chinese enterprises. There might have other choice of entry modes, but the data and statistics support that a few modes are the essential for the enterprises. Then, the reason for this modes could track back to macro, micro or industry, that is, the transitional economy has been designed in the research tasks. Furthermore, the modes of Chinese firms internationalize themselves by going abroad have many modes, but concern the scale of the enterprises, and the industry distributions of the enterprises, we find statistic evidence that state-owned enterprises are the large portions of going abroad enterprises, therefore, we emphasize the modes that state-owned multinational companies choose for their internationalization, then, research the reasons.

2.4 Sub-conclusion

In this chapter, we discussed the choice of scientific methodologies, and chose Arbnor & Bjerkes methodology framework, and Burrell & Morgans perception of paradigms as the thesis's typology. Furthermore, we used explanatory, descriptive and explanatory methods for as our further research methods, which involves empirical research and case study.

Chapter 3

Theoretical Foundation of Internationalization in Transitional Economy

In this chapter, we will investigate three groups of theories. The theory and model of economic transition. The theory patterns of downstream and upstream internationalization route, and the theory of FDI.

3.1 Theoretical aspects of the economic transition

The transition from the centrally planned economy to the market economy is a comprehensive system of the economic reforms, but there are not valid theories and models of it. Aligica (2006) describes the raise of the new institutionalism is one of the most significant reactions of the economic reform experience. Since the economy reforms have huge impacts in all economic and business sectors, many researchers conducted researches in regarding to clarify, explain or solve problems related to the transition processes.

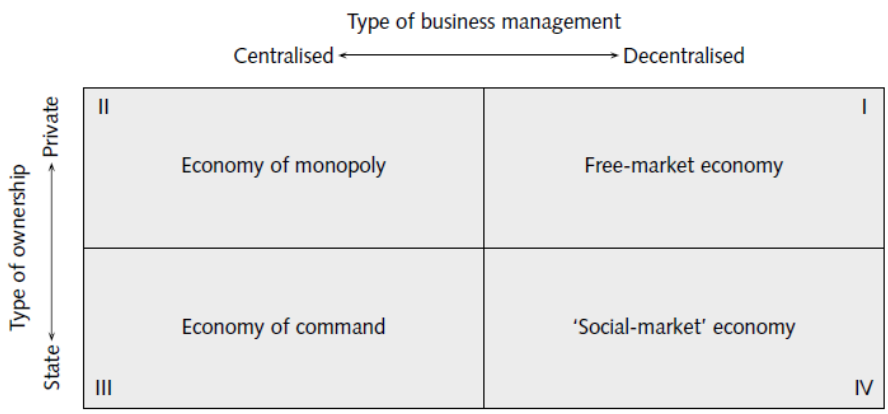
World Bank (2004) evaluated their assistance in 26 countries around Europe and Central Asia. They stated the transition countries have undertaken massive reforms of their economic systems, transforming institutions, processes, attitudes, and fundamental concepts of individual and organisational behaviour. Therefore, the complexity processes challenge the creation of theoretical development of transition economy. Ahrens (2008) conducted a research about the transition limits and opportunities towards a Social Market Economy. He mentioned that there is no general theory of transition economy, but there are many market-oriented institutional frameworks to discuss market-economy and market-governance during the transitional period.

We investigate three models that could contribute to the understanding of transition economy. Eucken (1990/1952) who drafted a model of Principles of the Market-Economic Order. Ahrens (2006) drafted a stylized model of governance by realms and players. Based on many researchers work in this area, as 15 years personal research domain of transition economy, Scarlat (2007) developed a model that allows for a clear definitions, and possible transition strategies analysis. We make further discussion about these three relative models as following.

3.1.1 Model of economy transition

Marangos (2005) identified and developed five alternative models of transition by using a political economy approach, and based on different political structures. He stated that China's economy transition is categorized in Non-Pluralistic Market Socialist model. This model discussed the alternative institutional development processes such as what institutions are considered to be more efficient. However, this model does not discuss how the macro transition economy link to micro business environment. Scarlat (2007) wrote that any economic system can be characterized by two major features with ownership (state or private) and management (Centralized or decentralized). Figure 3.1 shows the model of economy transition as bellowing:

Figure 3.1: The Transition Model



Source: Adapted from Scarlat (2007) Theoretical Aspects of the Economic Transition

This model presents all the important types of economic systems. The association of private ownership & decentralized management is typically represented by the democratic countries, while the association of state ownership & centralised management is typically represented by the communist or socialist countries (Scarlat, 2007). Scarlat (2007) stated that the free-market economic system is superior to the centrally planned economy. The motivation of moving ownership from state-owned to private-owned is to achieve flexible management systems and processes. We make a detailed discussion about this four squares of model as following.

Free-market economy: It is determined by the decentralized management and private ownership. The economy is governed by the principles of the demand-supply balance and fair completion. It requires fast transfer of market information. Therefore, it requires extensive and intensive use of information technology as a management tool. *Economy of monopoly:* It is determined by centralized management and private ownership. The private ownership has motivation to develop the economics efficiently, but the centralized leadership react the market is slow, which is caused by the formative and inefficient management styles. *Economy of command:* It is determined by the centralized management and state ownership. The economy is totally commanded by the state, and business management is imposed from outside the system with a basic managerial function of acceptance the decision making from the state. During the business activities, the communication takes very long time as it is through a bureaucratic chain and governmental institutions. The ownership is lack of motivation to accelerate the business activities, which makes the system is stable and less immobility. *Social-market economy:* It is determined by the centralized management and state ownership. The state makes limited decisions for companies, and intends to give individual and legal rights for companies. Companies become more active in the market, but the main power of business activities is still under the control of the state.

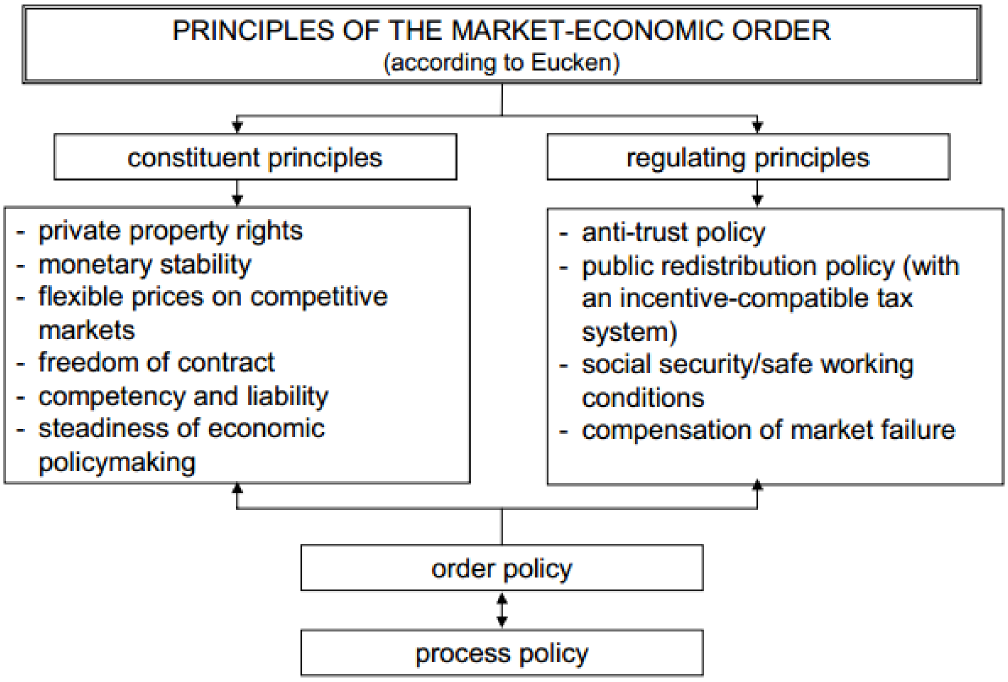
According to this model, we know that the economy transition means the form of economy moves from one square to another one or two squares. There are direct transition such as the transition from command economy to free-market economy, or indirect transition such as the transition from command economy to social-market economy, then to free-market economy.

3.1.2 Model of market-economic order

As many researchers mentioned that in order to protect the market economy promising, a nation has to avoid the concentration of economic power. Thus, both the economic order and policies should be subject to the influence of powerful interest groups or business groups. Eucken (1990/1952) make an ideal market-economic order with constituent and regulating principles to balance it. Figure 3.2 shows the order as bellow. It implies that a market economy has an order which ensures the performance that economic autonomy and coordinates through the system (Ahrens, 2008).

This figure shows the Market-Economic Order is determined by two principles. The constituent principles are formed by the market, while regulating principles are supported by the governmental institutions to make a series policies as basis supports. However, in reality, the market order can not

Figure 3.2: Model of Market-Economic Order



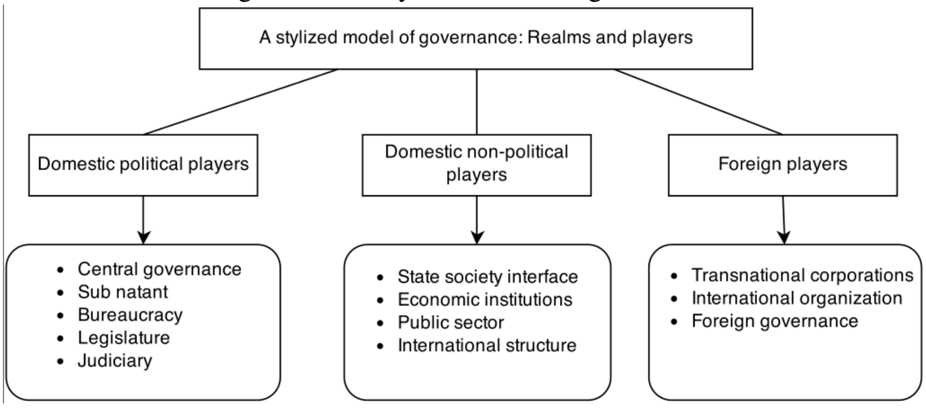
Source: Eucken (1990/1952) Economic Policy

be so balance as perfect order. It is always full of economics and market problems and challenges, for example, the monetary or the economic policy-making can not always be steadiness. On the other hand, the process policy can not always update and confirm the regulations as the same speed as market reaction. Therefore, the above figure shows the most efficient and balance way of the market-economy with perfect order and process policy.

3.1.3 Stylized model of governance

The countless formal and informal institutional mechanisms determine the actual governance structures that guide policy formation and implementation. Since the number of relevant mechanisms is extremely large, and institutional mechanisms are different in regarding to country varieties. Thus requires conceptual approaches and cross-country studies, which is rely on relatively broad dimensions to assess the efficiency of a country's governance structure in a comparative way. In order to systematically find basic governance dimensions, the complexity of actual governance structures can be presented by identifying distinct characteristics reflecting the quality of a countrys institutions (Ahrens, 2008). Ahrens (2006) drafted a stylized model of governance with realms and players. Figure 3.3 shows the model of governance in the process of business transition as bellow. It shows the governance formation-group in three main players in economic transformation period. They are domestic non-political players, domestic political players and foreign players. The three players have their own functions, and interact with each others in the transitional economy period.

Figure 3.3: A stylized model of governance



Source: Ahrens (2006) Governance in the process of economic transformation

3.1.4 The relation between the models and China's transition economy

From the above discussion, we conclude that China's economic transition model is from a command economy to a social-market economy in the first period. *First,* China started its economy transition in the economic basis of Marxism and Maoism. Thus, the ownership of the economy is the state, and business management is centralized. While, the political structure is non-pluralism, and the format of the society is market socialism with Chinese characteristics. The transition speed is gradual processing. *Second,* due to the fact that China's reform effort was experimental based on improving performance rather than establishing a Western-style market. Therefore, the institutions of market economic order has been changed gradual, uneven and unfinished. *Third,* China's economy governance and transition has its special characteristics, particularly compared to other advanced transition economies, implies two puzzling observations. China did not apply theoretically-derived policy recommendations, but Chinese authorities followed a gradual, pragmatic approach to reform, decentralize, and eventually transform the economy. Besides, Chinese transition has been taking place without political democratization, but China adapted a gradual and far-reaching change of institutions. These changes entailed and strengthen substantial alternations of the country's governance structure.

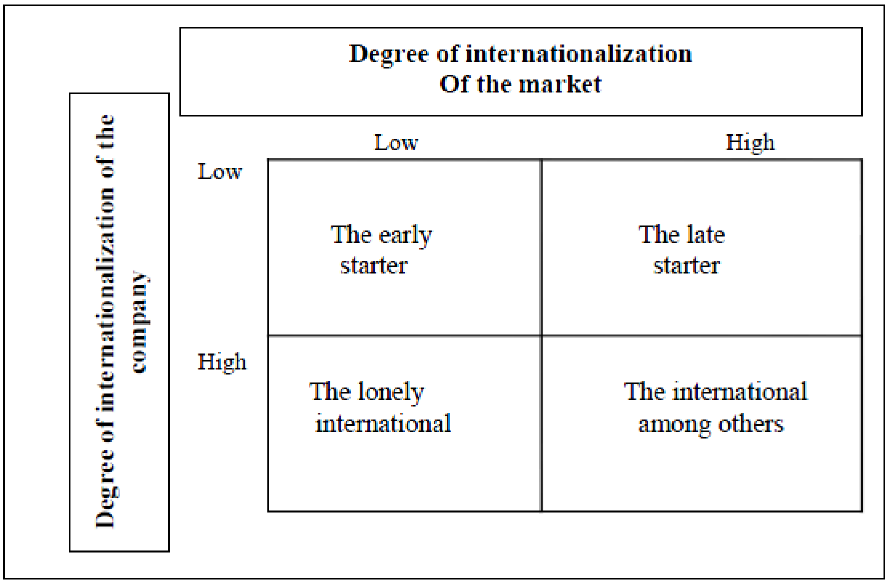
Based on the historic economy background, China's internationalization started later than Western countries. Following are the theoretical perspectives of international models. We first discuss firms' international degree.

3.2 The degree of firms' internationalization

Johanson& Mattson(1988) distinguish between four different situations characterized by the degree of international firm and market(production network). The first one is *the early starter.* In this situation, firms have no important international relationships in the domestic and foreign markets,so they gradual involve in the market. The second one is *the lonely international.* Firms already have experience of relationships with others in foreign countries, but its competitors and customers are less internationalized. It may establish new relationships or to deepen the existing ones. The third one is *the late starter* Comparing to the early starter, the late starter often finds it difficult to discover free partners and to establish new positions in a tightly structured market. In general, it is very difficult for late starters become large at home to find a niche in highly internationalized nets. One possibility is to get established in a foreign production net through acquisition or joint venture. The fourth one is *the international among others.* In this situation, firms have the chance of using positions in one network to bridge over to other networks and partners with regard to both extension and penetration. The success of such moves depends on the coordination of the international activities along the value chain. Fig 3.4 shows the a four field matrix of company's international degree as following:

From the above presentation, we conclude that China is the late starter in internationalization market. Due to the distinct characteristics of the transition economy, When China started its internationalization, the world economy is already global. Therefore, contrary to the dominant perspective in the extant literature, the later starters do not process unidirectional in their internationalization process (Sørensen & Kuada, 1998). Chinese firms, as a later starter to international market, they created themselves or explore opportunities to which they can adopt one or more approaches simultaneously to enhance their competitive position in both domestic and foreign markets. In this way, the concepts of upstream and downstream internationalization have been introduced for the various approaches of internationalization.

Figure 3.4: A four field matrix of the company's internationalization degree



Source: Sørensen, 1998; Danciu, 2001; Hollensen, 2004;

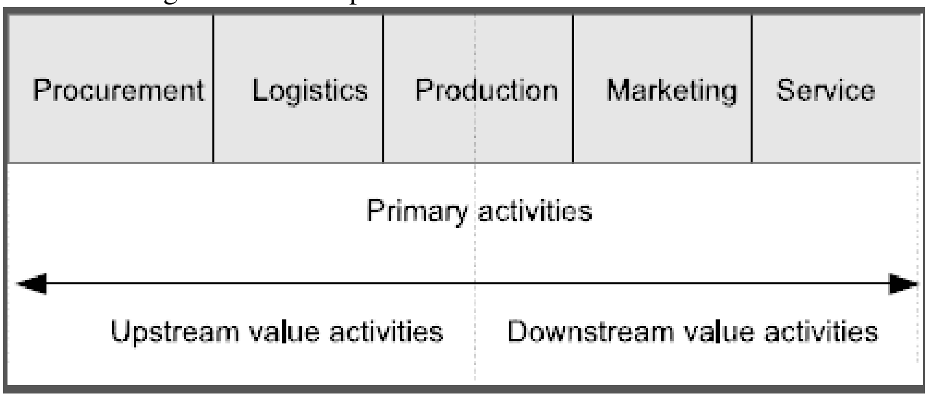
3.3 Internationalization through downstream and upstream activities

The downstream and upstream terminology is introduced by (Porter, 1986) based on the concept of value chain. He defined the five primary functions of firm into upstream and downstream activities. The upstream activities contains the process of *procurement, logistics, and production.* The *marketing and services* activities are categorized into downstream activities. Hollensen (2010) stated the value chain provides a systematic means of displaying and categorizing activities, which can be used as a framework for identifying international competitive advantages. Researchers discussed that internationalization through upstream activities is the best approach to discuss internationalization activities, while the internationalization thought downstream activities represents the conventional approach to study the internationalization (Sørensen & Kuada, 1998),(Albaum, 1994). Fig 3.5 shows the upstream and downstream value chain. ,

3.3.1 Downstream internationalization routes

The *downstream* internationalization activities is defined as that companies are seeking international cooperation in the areas of marketing and services from a value chain perspective. The downstream internationalization route includes *pro-active internationalization (searching for customers abroad), reactive (foreign companies includes) internationalization (passive responder to foreign buyers) and contract production, etc.* (Sørensen & Kuada, 1998). We discuss each of this model as following:

Figure 3.5: The Upstream and Downstream Value Chain



Source: Adapted from Hollensen,2010.

Figure 3.6: Downstream pro-active route

<table>
<tr><th colspan="3">Pro-active Downstream Route to Internationalization</th></tr>
<tr><td colspan="2">Commitment of focal company</td><td>Commitments of foreign partners</td></tr>
<tr><td rowspan="3">Inputs</td><td>Finance</td><td rowspan="3">Export(focus)</td></tr>
<tr><td>Organization & Management</td></tr>
<tr><td>Technology</td></tr>
</table>

Source: Adapted from Sørsen and Kuanda, 1998.

Downstream pro-active internationalization route

This approach can be explained by the Internationalization stages theory (Johansson & Vahlne, 1977). Normally, the product is developed based on the company's internal resources, and then export to foreign market. On the domestic market, the company investigates the possibilities for exporting. The initiator is the exporter who actively search for customers abroad, mostly they choose the most near-by market as export location. Therefore, the focus of activity is on marketing export. Figure 3.6 shows this approach as bellow.

Downstream reactive internationalization route

The concept of reactive response means the company did not initiate international activities for export, but reacts positively to the unexpected requests from the global buyers. The behavior of the company can understood as passively involved in the domestic and international fair for exporting purpose. It may be caused by the industry networking or promoting agencies. Figure 3.7 shows this approach as bellow.

Figure 3.7: Downstream pro-active route

Re-active downstream route to internationalization		
Commitment of focal company		Commitments of foreign partner
Inputs	Finance	Marketing(focus)
	Organization & Management	
	Technology	

Source: Adapted from (Sørensen and Kuanda, 1998): Different Perspectives of How Companies Internationalize.

This figure shows the marketing is the main focus for exporters. It is always risky and costly to perform in a foreign market without enough experience. Under the limitation of foreign market experience, the exporters are in the condition to react foreign buyers from foreign markets.

Downstream contract production internationalization route

The approach of contract production is derived from international production net, which include the theories of outsourcing, lean production and sub-supplier systems (Sørensen & Kuada, 1998), (Lamming, 1993), (Gattorna & Walters, 1996). The major contribution of contract production approach is to offer global companies sourcing static efficiency. For example, foreign companies intend to maintain low production, labour or other operational costs, they might find partners from developing countries to take a part of their production work. On the other hand, they offers production technologies and skilled workers to instruct their partners. The essential of this approach is technological upgrading of partners production capabilities.The successful contract production is based on a stable infrastructure and efficient labour work. Figure 3.8 shows the foreign companies focus on technology, marketing as well in somehow.

Figure 3.8: Downstream contract production route

Production Contracts downstream route to internationalization			
Commitment of focal company		Commitments of foreign partners	
Inputs	Finance	Technology (focus)	Marketing
	Organization & Management		

Source: Adapted from (Sørensen and Kuanda, 1998): Different Perspectives of How Companies Internationalize.

According to value chain activities, it might raise the argument that the contract production belongs to upstream route of internationalization as the main concern is the production activities. However, the producer is just involved in a part of production process instead of the concrete products to sell or export to foreign. Thus, is categorized in downstream activities.

3.3.2 Upstream Internationalization Routes

The *upstream* internationalization activities means firms acquire international experience through import activities as inputs, and the activities are related to production. The activities involves a long-term contracts with a company in a foreign country, a licence to produce a product patented by a foreign company, or an international strategic alliance involving the technical upgrading of production and management, etc. The upstream internationalization route includes *non-equity international strategic alliance, joint equity ventures with foreign company, foreign acquisition, etc.*

Upstream of international strategic alliance

International strategic alliances is defined as long-term cooperation with sharing resources, responsibilities and risks in two or more companies from international markets, especially those companies are from developed market economics. The theories of strategic alliances to internationalization is related to the scope and speed of technology development combined with economics globalization (Sørensen & Kuada, 1998). The related theoretical background is complex. Michalet (1991) conducted the research of "the emergence of contractual economy" at global level, which is changing the economics condition of major governance structure of market and hierarchies. Based on that research, Dunning (1995) stated the death of hierarchical capitalism, and introduced the new concept of an era of "alliance capitalism". Then, the relational theories and network theories are considered as the actual formation and working strategic alliances (Johanson & Mattson, 1988). Since then, the international strategic alliances have been developed under the new, liberalized trading and investment regimes in developing countries. Figure 3.9 shows the focus of international strategic alliances as bellow.

This figure shows by following the route of international strategic alliances to internationalization, foreign partners might provide resource inputs, assistance of organization and management, and technology supports, ect. Sørensen & Kuanda (1998) stated the table also shows the scope of an international strategic alliance may be wide as it covers many upstream activities, but it can be more narrow down by covering perhaps only production know-how.

Figure 3.9: Upstream route of international strategic alliance

Strategic Alliances upstream route to internationalization		
Commitment of focal company	Commitments of foreign partners	
Finance	Inputs	Marketing
	Organization & Management	
	Technology	

Source: Adapted from (Sørensen and Kuanda, 1998): Different Perspectives of How Companies Internationalize.

Upstream route of international joint ventures

There are two forms of joint venture, one is equity joint ventures, and the other non-equity joint ventures. Equity joint ventures are legally and economically separate organizational entities created by two or more parent organizations that collectively invest financial as well as other resources to pursue certain objectives (Anderson, 1990). Comparing to the contractual relationships such as licensing or franchising which do not involve shared equity or joint capital investment, international joint ventures represent a longer term collaborative strategy. International joint ventures involve firms from different countries cooperating across national and cultural boundaries. The majority of international joint ventures involve only two parent firms, one is from a foreign country, and the other is from the local country, and some ventures may consist of multiple participants. The theoretical background for international joint ventures is related in the theories of risk sharing and commitment, as well as theories of resource dependency. Normally, international joint ventures have to get support by a country's trading and investment policies, such as the country encourages foreign companies establishing wholly owned subsidiaries in the country. Figure 3.10 shows the routes of upstream international joint venture as bellow:

Figure 3.10: Upstream route of international joint venture

Joint Ventures upstream route to internationalization			
Commitment of focal company		Commitments of foreign partners	
Inputs	Technology	Finance	Marketing
		organization & Management	

Source:Adapted from (Sørensen and Kuanda, 1998): Different Perspectives of How Companies Internationalize.

The above figure shows the main contribution of international joint venture is providing financial supports, or other resources such as organization and management supports. This model could be used mainly as investment seeking.

Upstream route of foreign acquisition

Normally, the theoretical base for this route can be referred to the globalization of production and foreign direct investment (Sørensen & Kuada, 1998). The foreign acquisition takes over all company functions by acquisition of the company. Normally, there are many factors could determine if foreign partner acquires the 100% of focal company or not depend on the two entities negotiations. Figure 3.11 shows a 100% acquisition as bellow.

Figure 3.11: Upstream route of foreign acquisition

Foreign Acquisition upstream route to internationalization		
Commitment of focal company	Commitments of foreign partners	
	Inputs	Marketing
	Finance	
	organization & Management	
	Technology	

Source:Adapted from (Sørensen and Kuanda, 1998): Different Perspectives of How Companies Internationalize.

Based on the above discussion, we conclude that upstream and downstream internationalization approaches have different routes that firms could choose for the internationalization process. In different route models, focal and foreign companies both have different commitment to the organizational functions.

Kuada (2006) stated that firms could choose four types of this approaches for internationalization route as: Upstream activities only, Downstream activities only, Sequential upstream-downstream, Concurrent upstream-downstream.

3.4 Theory of FDI

Companies can enter a foreign market through either exporting or FDI. Exporting is relatively low-risk with simply enter a foreign market but the firm can not control the foreign production and operations. Foreign direct investment(FDI) occurs when firms directly invest in production or other facilities, and effectively control the investments in a foreign country.

Traditional theory suggests four primary motivations for FDI. Market-seeking investments refer to the attractions of markets access. Efficiency-seeking investments aim at taking advantage of cost-efficient production conditions. Resource seeking investments aim at exploiting endowments of natural resources. Strategic-asset seeking investments are oriented towards man-made assets, as embodied in a highly-qualified and specialized workforce, brand names, or shares in particular markets such as cross-border M&As, whereby a foreign firm takes over the entire or part of a domestic company that is in possession of such assets (Dunning, 1977),(Dunning, 1993). Besides, the determinants of FDI are also related to the characteristics and stratigies of the investing firms. FDI can be viewed as the expression of a trade-off within the investing firms that firms choose between modes of entry, such as direct entry or acquisition of exiting domestic firms(Mattoo et al, 2001).

3.4.1 Theoretical discussion

The traditional classical macroeconomic theory of FDI hypothesizes that, due to domestic competition, the rate of profit has a tendency to drop in industrialized countries, which created the tendency for firms to engage in FDI in underdeveloped countries (Pitelis & Sugden, 2000). While the neo-classical approach stated that, due to the shortage of and relatively high expense of labour in affluent countries, they tend to transfer production facilities to poorer, labour-intensive countries (caves, 1999). The two cases state that firms strive to increase overall profits through transferring capital flows from capital-intensive countries to capital-poor countries.

Hymer (1960) defensed this approach. He claimed that the rate of hypothesis was not consistent with several observed characteristics of international investment. He introduced a microeconomics theory of the firm that focusing on international production rather than trade. Dunning & Rugman (1985) followed Hymer, and pointed out the key requirements for an individual firm invests in a given industry is the firms become a MNE with trade-able ownership advantages and the removal of competition.

Afterwards, the micro-level theory of MNE takes the dominant of FDI theory. Hymer identified four discrepancies as bellow (cohen et al, 1979): *First,* The older theory suggested the capital flow was one direction from developed to underdeveloped countries, whereas in reality, in the post-war years, FDI was two-way between developed countries. *Second,* The older theory suggested a country was supposed to either engage in outward FDI or receive inward FDI only. However, in reality, MNEs moved in both directions across national boundaries in industrialized countries, which means countries simultaneously received inward and engaged in outward FDI. *Third,* The older theory suggested the amount of outward FDI was determined by various industries. However, in reality, all industries would be equally able and motivated to invest abroad if the capital availability was the driver of FDI.

FDI form: is the manner that a firm choose to entry a foreign market through foreign direct investment. FDI form includes:*international franchising, international branches, international contractual alliances, international equity joint ventures, international wholly foreign owned subsidiaries*. The 2004 World Investment Report, UNCTAD (2004) defined FDI as "an investment involving a long-term relationship and reflecting a lasting interest and control by foreign direct investor or parent enterprise. There are two specific investment approaches include: Cross-border mergers and acquisitions (M&As). Firms may enter host economies through greenfield investments or M&As. *A greenfield investment* occurs when a firm independently or jointly with another firm builds brand-new facilities from scratch in a host country. In addition to building new facilities, most parent companies also create new long-term jobs in the foreign country by hiring new employees. The Key of greenfield investment is to enter in industries with technological skills and production technology. A general term used to refer to the consolidation of companies. A merger is a combination of two companies to form a new company, while an acquisition occurs when a firm buys out a portion or the entire ownership of a target firm in a host country. The choice of entry form is influenced by industry-specific factors.

3.4.2 The development of foreign investment path

The basic hypothesis of investment development path is that: When the economics of a country develops, the domestic and foreign companies changes. Thus will have an impact on inward and outward FDI flows. On the other hand, the inward and outward FDI affect the economic development and structure as well. So, the country's economy and investment flows interact with each others. There are five stages development of foreign investment (Dunning, 1995), (Dunning, 1988), (Dunning, 1995),(Dunning, 1998).

The first stage is associated with pre-industrialization. Countries in this stage will not attract any foreign investment. There might have a few companies eventually exploiting existing natural resources, but with little or no integration in the national economy. This reason might be that the country has very small domestic markets, inadequate infrastructure, a poorly educated labour force and undeveloped commercial and legal frameworks are some of the factors that explain this low attractiveness. Governments try to improve basic infrastructure and to upgrade human capital, as well intend to change the structure of domestic markets and industries, such as import protection and export promotion .

The second stage: The national policies will create some location specific advantages. So, the inward FDI starts to rise. It is normally attracted by en emergent domestic market in consumer goods, but also in transport, communications and infrastructure construction. The government will impose the tariffs with the development of formal business environment. In stage 1, the export oriented FDI will exist in natural resources-based industries. When the basis infrastructure improves, the labour-intensive activities upstream in the value-chain can also be expected. Labour-intensive manufacturing and tourism are other sectors likely to attract foreign investment at this stage. While, Outward direct investment at this stage will be low, reflecting the scarce ownership advantages of domestic firms.

The third stage: In this stage, the domestic firms develops its operations causing the increasing of production costs and higher labor costs. Thus, the rate of inward FDI will decrease, and the outward FDI will increase. At the same time, the stronger ownership advantages of local firms make them more able to cope with an increasingly domestic demand prompted by the rising incomes and with foreign competition. On the other hand, the larger market also means more opportunities for economies of scale, favoring the development of domestic firms ownership advantages. Market seeking outward FDI to both less and more developed countries is also expected, as it is strategic assets-seeking investment.

The fourth stage: Firms become net outward investors with the fact that outward FDI is growing faster than inward FDI. It means the domestic firms process the ownership advantages to compete in and domestic or foreign market. They grew in size and they diversified both geographically and in terms of industries. The reasons to engage in outward FDI will also diversify. In labor-intensive industries, domestic firms will continue to engage in efficiency-seeking FDI from less developed countries with lower wages. Outward investment to overcome trade barriers will be found in countries in any stage of development.

The fifth stage: This stage is combined with economic and technological influence. Cross-border trade and investment are essentially conducted inside the MNEs. International investment flows will be more dependent on domestic and foreign MNEs strategies. These MNEs will increase their commitment to rationalizing their international production networks with investment in other developed stages country. It should be noticed that it is implicit in the description of this stage that no single country has an advantage over the other developed economies. MNEs, alone and independently of the domestic or host countrys location advantages, are the dominant force in shaping international production and trade.

3.5 Sub-conclusion

In this chapter, we discuss three groups of theories. The first group of theory is transition economy. We presented A model of the transition, a model of market economic order and a stylized model of governance. Then, we discussed the downstream and upstream internationalization routes according to the value chain model. Furthermore, we made a detailed discussion of six international routes categorized by the downstream and upstream activities. Also, we discussed the theory of FDI and its entry modes as well as the forms. We will apply the theory of transition economy for result analysis, and the downstream and upstream framework to China's internationalization process in next chapter. We will apply FDI theory for the internationalization of going global, and discuss how it works in China's cases.

Chapter 4

Empirical Study: Internationalization at Home Market

China achieved impressive economic growths over the past three decades, which shows China experienced distinctive development vary from other countries. Researchers have conducted many analyses about the speed of China's progression from a low-income and populous country to a global economic force, in which the primary stage's internationalization play an important role of its economic growth. In this chapter, we will discuss China's internationalization modes by staying at home market through downstream and upstream routes in the primary stage. We presented empirical statistics to show the effects of China's enterprises integrated into global economics.

4.1 Downstream route of contract production

As we discussed in previous chapter, selling concrete products to the other market is considered as upstream internationalization activities according to value chain. Selling production capability, or a part of products to foreign markets is considered as downstream internationalization route. Furthermore, contract production includes products outsourcing.

4.1.1 Contract production through inflow outsourcing

China market is considered as an emerging market with the largest economic potential, the market is the late comer to the global market. Chinese companies are the late starters of their internationalization process. (Johanson & Mattson, 1988) wrote that compared to the early starter, the late starter often finds it is difficult to establish new positions in a tightly structured net, but the best distributors are already linked to competitors. At the early stage of Chinese firms' internationalization, they were difficult to link themselves to international companies due to the limited resources conditions. Sørensen (2014) wrote Chinese companies get involved in the global market not in a traditional sense. They started their and accumulated international experience at home market with oversea outsourcing partners. Chinese companies applied different ways to internationalize, which are not the same as normal ways of companies going abroad. So, we will discuss how Chinese firms experienced primary internationalization by contracting with outsourcing partners.

4.1.2 Definition of international outsourcing

There are some representative definitions of outsourcing as following: Outsourcing is the enterprise arrange a part of important but non-core business to outside senior contractors. Then, The enterprise could use internal knowledge and resources as competitive advantages focusing on their core business, in order to provide customers with the greatest value and satisfaction (Gulati & Zaheer, 2000). Outsourcing is not just the purchase of raw materials and intermediate products, it also a comprehensive business activities including companies looking for another enterprises and establish partnerships with them. Then, the company could get specific needs or services from their partnerships (Global Entrepreneur, 2012). (David & Michael, 1995) defined it is the business activities that contractors use external resources to build products or value-added services. (Hummels & David, 2001) defined one country import products from another country as intermediate investments. Then, the country export the final products after reproduction.

From the above definitions, we understand that outsourcing involves at least two countries participated in the production process, and the final products have to be exported to the other country. (Peter, 2002) mentioned that outsourcing has comprehensive arrangements. In the outsourcing process, the enterprise define their requirements, and instruct the operational process to the contractor. The contractor has large control of the production process, but they have to follow the instruction and the contract. In the early stage of Chinese firms' internationalization, companies(most state-owned companies) made contracts with standard requirements and instructions, which Chinese firms could acquire international experience by staying at home through contracting outsourcing partners. Besides, at the early stage of internationalization, Chinese companies have limited capabilities of standardization, they rely more on international outsourcing, as well focused on the exploration of new market opportunities.

4.1.3 Empirical evidence of product outsourcing

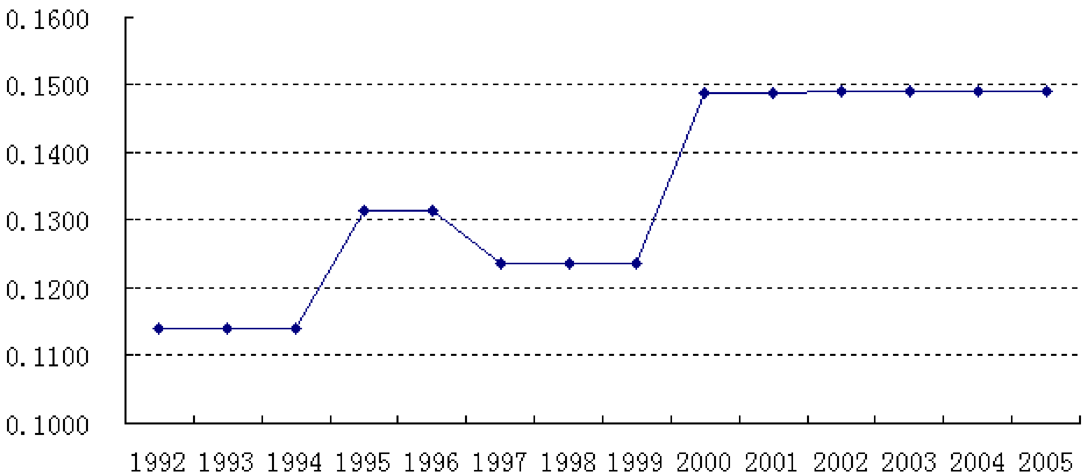
According to(National Bureau of National Accounts Division, 1987), China started outsourcing in 1990's, and there are increasing trends of outsourcing industries. For example, from 1992 to 1995, China accepted products outsourcing from 33 industries, which increased to 40 in 1997, and 122 in 2002. (Cheng, 2007) calculated the change trends about China contracting with international outsourcing in 17 main industries from 1992 to 2005 as table 4.1, and made a figure as 4.1 to show the change trends.

Table 4.1: The changing trend of inward international outsourcing (1992–2005)

	1992-1994	1995-1996	1997-1999	2000-2001	2002-2005
Agriculture industry	0.0202	0.0242	0.0198	0.0228	0.026
Mineral industry	0.0457	0.0501	0.0457	0.0409	0.047
Food manufacture	0.0255	0.0249	0.0201	0.0222	0.0261
Textile, sewing & leather	0.0702	0.072	0.0632	0.0659	0.0786
Other manufacturing	0.0584	0.0586	0.0476	0.0582	0.0581
Electricity, heat & water	0.0472	0.0514	0.0608	0.0641	0.0675
Coke, gas & oil	0.0662	0.0641	0.0858	0.1292	0.122
Chemistry	0.0622	0.076	0.068	0.0688	0.0843
Construction industry	0.0452	0.0479	0.0506	0.0598	0.0666
Metal manufacture	0.0559	0.0627	0.0648	0.0723	0.0737
Machinery & equipment manufacture	0.0863	0.1033	0.0891	0.107	0.1327
Construction	0.0471	0.0526	0.0462	0.0568	0.0744
Post industry	0.0447	0.0477	0.0489	0.0471	0.0613
Commercial catering	0.0338	0.0414	0.0377	0.0349	0.0401
Utilities & residential services	0.0314	0.0356	0.0471	0.0419	0.0512
Finance & insurance	0.0356	0.0362	0.0308	0.0149	0.0313
Other Services	0.0425	0.0501	0.0443	0.0404	0.0466

Source: National Bureau of National Accounts Division, Input-Output Tables of China (1987-2007)

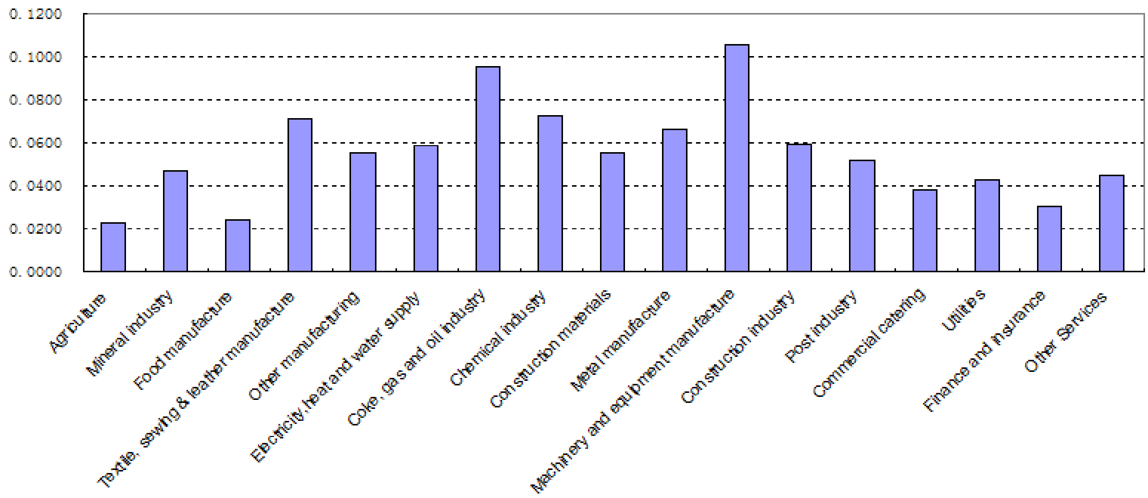
Figure 4.1: The changing trend of inward international outsourcing (1992–2005)



Source: National Bureau of National Accounts Division, Input-Output Tables of China (1987-2007)

This two figures show the increasing trends of China inward outsourcing in 17 main industries. From 1978 to 2005, the total amount of imports and exports grew by 69 times with the average annual growth rate of 20%, which is far exceeding the growth rate of GDP over the same period. One of the important contribution to this is China's outsourcing business that contributed to the total volumes of exportation (Yearbook, 2005). China inward outsourcing increased from 11.40% to 14.91% between 1992 and 2005 (Cheng, 2007). However, comparing to the other countries on inward outsourcing, China's inward outsourcing is still in a primary level. Due to the repaid development of information technology and extensively use of Internet after 1990s, firms decreased communication and coordination costs, and increases the efficiency of co-operations, so China began to undertake more international outsourcing businesses. We adapted this two figures with the following chart 4.2

Figure 4.2: The average level of the outsoursing of each industry (1992–2005)



Source: Adapted from previous two figures

The figure shows that machinery and equipment manufacture industry is the greatest level of international outsourcing, and this industry has been widely involved in the international outsourcing, which means the Western entrepreneurs have transferred the machinery production chain into China. Followings are gas and oil processing and chemical industry, while the textile and leather manufacture industry are considered as competitive industries,but they are only ranked fourth in international outsourcing.

We can conclude that the foreign enterprises are interested in capital-intensive and resource-intensive industries rather than labour-intensive industry. In 1990s, those industries are entirely state-owned industries. So, the state-owned industries began internationalization by linking with foreign outsourcing, which is the very primary internationalization patterns in China. Furthermore, the large state-owned industries presented large scaled capacity of utilization of inward outsources. The effects are discussed in the following section.

4.1.4 Effects to China's internationalization

In the composition of the global outsourcing market, production outsourcing is the earliest and most widely applicable way. It contains more than 50% of the total outsourcing shares, which is also the way of Chinese firms choose for outsourcing on the internationalization (Cheng, 2007). China participated the global outsourcing with low level manufacturing at the primary stage, and gained very little processing costs, but they have initiated internationalization process, and been involved in global market of labor divisions. Chinese firms' increased their internationalization through outsourcing with the following aspects:

- Chinese firms make formal cooperation with large multinational companies through outsourcing from them, which they gain international knowledge and experience including large global sourcing network, global production systems as well as operational centers activities. Gradually, they learn and imitate from their partners about international marketing, managerial and technological know-how.

- Many Chinese firms actively seek the rights of material purchasing in order to obtain value-added working process by developing upstream and downstream industry chains. It also promote the industry by saving the raw material costs.

- During the outsourcing process, Chinese firms develop their capabilities from simply factory work to studio design, from the production based on partners design drawings to produce their own design, which contain various services upgrading process. In this way, they could increase capitals and profit margins. Although they can not obtain brand marketing profits or sale profits, they extend value chain points in China.

- Inspired by the international companies with high standard quality, Chinese firms gradually increase investment in research and development, and increase innovation activities, which incentive their innovation activities, strengthen their core business, and formed companies differentiated products and services.

We conclude this section that China began to contract with inward outsourcing providers in 1990s, and the trends continue increasing. Mostly, the companies are state-owned enterprises which focus on capital and resource intensive industries. Chinese enterprises gained primary international experiences and knowledge through inward outsourcing at home market.

The contract production is categorized in downstream internationalization route, in which the foreign partners provide technology supports for China domestic companies. This route is illustrated as the successful way for Chinese companies internationalizing at home market.

4.2 Upstream route of technology acquiring

Value chain is a framework for identifying international competitive advantages. It describes the full range of activities required to bring a product or service from conception through the different phases of production, delivery to final consumers, and final disposal after use. It contains centralizing of upstream activities and the decentralizing of downstream activities. The centralizing upstream functions contains the activities of R & D and production, the decentralizing downstream activities contains the activities of marketing and sales& service. Normally, the upstream activities are taken place in home countries, but the downstream activities are taken place in foreign markets and countries. In order to raise or sustain firms competitive position in target markets, firms make strategic decision of upstream internationalization, which firms source parts or all of their technology, knowledge and human resources from foreign sources (Kuada & Sørensen, 1999). Chinese companies have this complex orientation, because they internationalize through acquiring technologies from foreign countries, which is totally upstream activity (Sørensen, 2014). So, upstream acquisition is another way of Chinese firms experiencing internationalization at home market. Chinese firms acquired new technology by importing at the first stage, and acquiring in the second stage.

4.2.1 Early stage internationalization of technology importing

China importing foreign technologies can be tracked back to 1950s from Soviet Union. Then, it changed to Japan in 1960s, and imported from USA and Europe in 1970s onwards(Liu, 2005). It was until 1980s, the major technology users were still state-owned enterprises who did not have the incentives to master the manufacturing technology innovation. However, the information technology fundamentally changed the state-owned manufacturing ways, which rises new business models, products and services.

The state-owned manufactures have to adapt themselves to the new technologies in order to meet the production requirements. At that period, China still had low capability of technological basis, so the development of national technology in regarding to each industry was relied on importation from foreign countries. On the other hand, the world multinational companies started to develop new technologies. (Liu, 2005) wrote that the emerged new technologies have been developed by multinational corporations' R & D labs located in developing countries. So, the technologies could be transferred to local enterprises such as Chinese enterprises immediately.

In 1990s, China's technology basis were far behind the world average level. Technology import is a traditional source for Chinese enterprises acquiring high technology. Table 4.2 shows the expenditure of internal R & D and technology importation and assimilation:

Table 4.2: The expenditure of technology acquiring (RMB:100 million)

Year	R&D	Technology import	Technology assimilation
1991	58.6	90.2	4.1
1993	95.2	159.2	6.2
1995	141.7	360.9	13.1
1998	197.1	214.8	14.6
1999	249.9	207.5	18.1
2000	353.6	245.4	18.2
2001	442.3	285.9	19.6
2002	560.2	372.5	25.7

Source: China Statistical Yearbook of Science and Technology(1991-2003)

The above table shows the expenditure of importing technologies continue increasing as 10 times from 1991 to 2002. At the primary stage of technology acquiring, the expenditure focused on R&D, importing technology as well as technology assimilation.

It was until 1999, IT revolution, technology globalization and business internationalization increased the possibilities of enterprises accessing to the needed technologies in their domestic context. (Pisano & GARY, 1990) discussed that in the period of technology revolution, it is not the single choice for enterprises to "make or buy", enterprises in developing countries also can take advantage of international technology outsourcing. (Cesaroni, 2004) wrote that when a technology market emerges, transaction costs will decline and technology outsourcing can become an important strategy.

Chinese enterprises are mostly dynamic and young in the industry. They do not have technology strategies. So, the primary approach is to buy or outsource high technologies from technology markets. Besides, due to China's economy reform and open policy, enterprises can obtain technology from multiple sources. Thus, the way of technology outsourcing and acquiring from global markets became a major approach of Chinese firms acquiring technologies.

4.2.2 Technology markets and providers

Technology market means the market have technology providers who can sell their technologies to enterprises. The providers can be university and research institutes, R&D labs from local and foreign firms, industrial firm, trading organization, individuals. The local firm contractors with universities and research institutes is also included into technology markets. The technology sellers can be universities, research institutes, local firms and foreign firms. In 2002, the contribution of local universities and research institutes in technology selling is about one third of the total selling. Large and mid-sized enterprises spent two third of their research and design expenditures on technology import. However, the technology markets become a new important way of sourcing technology in early 2000s. In 2002, about 73% of technology selling went to enterprises, with local firms accounting for 88% of total business buying (Liu, 2005). Table 4.3 shows the different technology providers and the amount of capitals that Chinese firms acquiring from 1999 to 2002.

Table 4.3: The share of technology provider contains in technology market (RMB:million)

	1999		2000		2001		2002	
	amount	%	amount	%	amount	%	amount	%
Research institutes	16.4	31.3	16.6	25.6	18.2	23.2	18.7	21.2
Universities	6.2	11.9	11.1	17.0	8.6	11.0	7.3	8.2
Industrial firms	10.9	20.9	14.3	21.9	28.6	36.5	35.9	40.6
Trading organization	9.9	19.0	10.4	15.9	10.8	13.8	13.9	15.7
individual	1.2	2.2	2.0	3.1	1.3	1.7	0.7	0.8
Others	7.7	14.8	10.7	16.5	10.8	13.8	12.0	13.5
Total	52.3	100	65.1	100	78.3	100	88.4	100

Source: China Statistical Yearbook of Science and Technology(1999-2002)

The above table shows that the technology sellers can be universities, research institutes, local firms and foreign firms. In 2002, the contribution of local universities and research institutes in technology selling share is about one third of the total shares. In 2002, about 73% of technology selling went to enterprises, with local firms accounting for 88% of total business buying. Clearly, buying technologies from other firms, especially foreign firms, and contracting out the research with universities is the key way of Chinese firms sourcing technology. Table 4.4 shows that there are many possible ways acquiring high technologies, and the expenditure is showing from 1999 to 2002.

Table 4.4: The expenditure of technology importation (RMB: Million)

Expenditure	1999	2000	2001	2002
R&D	24,993	35,359	44,234	56,017
Technology importation	20,755	24,542	28,587	37,250
Government funds	4,967	4,321	4,106	5,371
Government fund/industrial R&D (%)	19.9	12.2	9.3	9.6
Buy from technology market	33,108	45,735	57,363	64,200
Research in university	5,373	5,545	7,246	8,958
Research in research institutes	3,455	3,792	2,546	3,627
Research in university and research institutes/Buy from technology market (%)	26.6	20.4	17.1	19.6

Source: China Statistical Yearbook of Science and Technology(1999-2002)

This table shows Chinese large and medium sized enterprises have many ways to acquire high technologies, but the most high expenditure is buying technologies and R & D from the technology markets. We also know that government have funds to support the enterprises' technology development.

4.2.3 Effects to China's internationalization

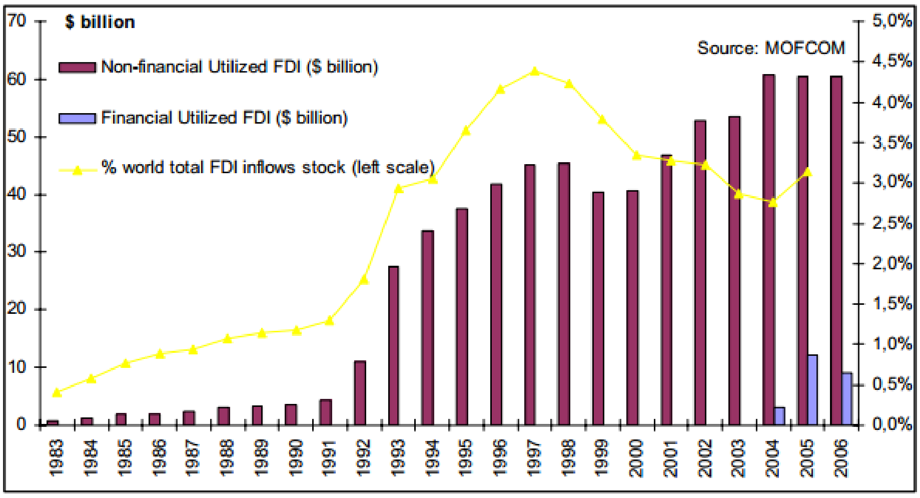
The pattern of upstream value chain, technologies acquiring provide positive effects on firms internationalization. Due to the limited technological capabilities, Chinese enterprises can gain technological knowledge and focus on market differentiation by contracting different technology providers. High technology acquiring is the best way of maintaining international brand and keep in pace with the world's latest technologies, so they can respond to and incorporate with international technological development in a very short time. Through acquiring and importing high technologies, Chinese firms can avoid their own shortages such as limited technological capabilities and lack of branding are common bottlenecks. International technology alliances and mergers with other multinationals relevant business become their good optional strategy, and follow the leading technology leaders from different countries, which make the high technology companies' internationalization process possibly fast.

To conclude this section, Chinese state-owned enterprises spent vast amount of expenditure on high technologies acquiring. The technology market and research institutions provide substantial support of latest technology development. This way linked Chinese firms to international companies and research institutions, which is also an efficient way of Chinese firms internationalization.

4.3 Inflow FDI

Inflow foreign direct investment (IFDI) is one of the most important contribution mode to China's economy reform and internationalization. Over the past decades, China becomes the top FDI recipient among developing countries, and ranges the second after USA in the world. China began to accept FDI since 1980s, and the annual inflows have been over 40 billion dollars since 1996, which averagely contributes 4.9% to GDP from 1991 to 2002 (UNCTAD, 2005). However, comparing to the huge inward foreign direct investment, China outward foreign direct investment is very small. Following in figure 4.3 and figure 4.4 show both inward and outward foreign direct investment of China.

Figure 4.3: China inward FDI (1983-2006)



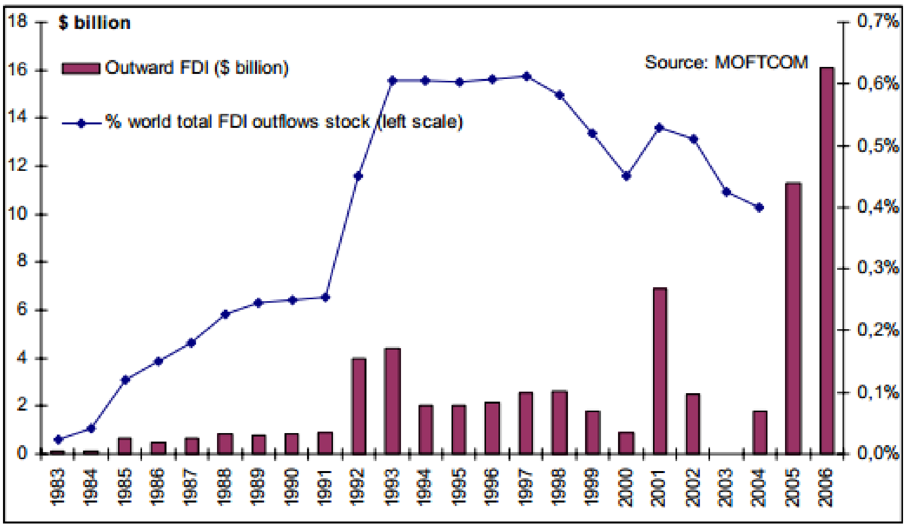
Source:Statistic from Ministry of Commerce People's Republic of China

We summarize that China FDI inflow is far more than outward FDI, which is an important way that Chinese firms mostly attracted foreign investments at home market rather than go abroad to invest foreign businesses. In the initiate stage of China's internationalization, the inflow FDI was far huge than the outflow FDI, and it continues contributing to Chinese firms' internationalization in further development.

4.3.1 Empirical evidence of inward FDI

The inward foreign direct investment is the main pattern for Chinese firms accessing to global capital, which is opposed to portfolio capital or bank loans. From 1979 to 2000, China totally spent more than $500 billion foreign capital, in which two third of the capital is inflow foreign direct investment(Fung et al., 2004). This huge amount of capital made a fundamental capital support

Figure 4.4: China outward FDI (1983-2006)



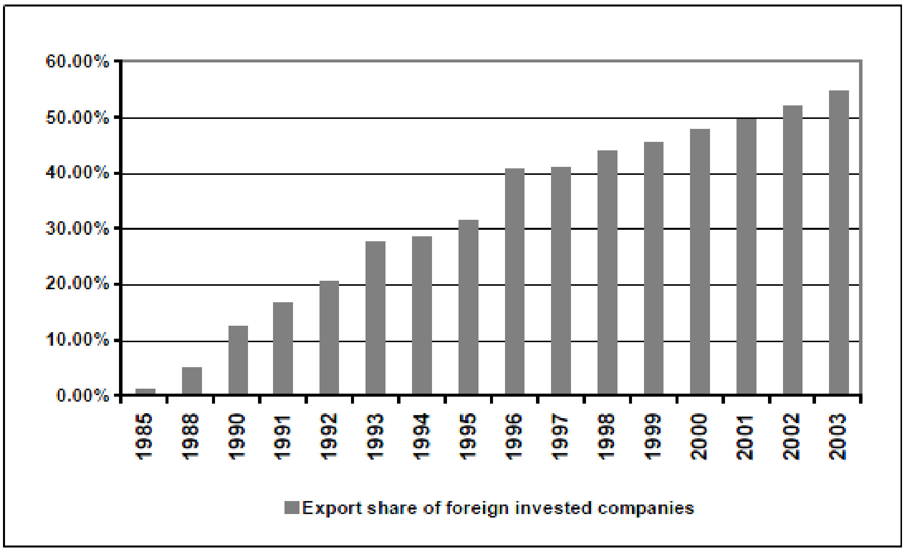
Source:Statistic from Ministry of Commerce People's Republic of China

for China's growth, and linked Chinese firms to global companies. The large proportion of the FDI inflows went to manufacturing industry. China's FDI inflow mostly concentrated in the eastern coastal regions such as Guangdong and Fujian province. In the early 1980s, contractual joint venture(JVs) and joint development projects are the main form of FDI. After mid-1980s, equity joint venture(EJVs) became the dominant mode of foreign investment. From 1987 to 1996, more than half of incoming FDI was in the form of EJVs(Sandra, 2009). The long term partnerships would facilitate the sharing of information and technology. During the corporation,foreign managers focused primarily on earning profit or establishing market share while Chinese managers were often more concerned with maintaining employment, building a larger firm, and accessing foreign technology (Naughton, 2005). From the transition from a planned economy to a market economy, the share of FDI with wholly owned subsidiaries of foreign companies increased.

In 2005, foreign-invested enterprises (FIEs) play a large role in China's economy growth, which accounted for 27% of value-added production, 4.1% of national tax revenue, more than 58% of foreign trade, and 88% of high-technology exports (Sandra, 2009). So, it is nearly all business export activities are involved foreign direct investment. Besides, more than 190 countries and regions have invested in China, which contain 450 of the world's fortune 500 companies. By the end of 2005, FIES employed more than 24 million workers in China (Sandra, 2009). Figure 4.5 shows the foreign-owned-firms contributed to export share between 1985 to 2003.

The figure shows the export statistic from foreign-owned firms is increasing, which implies firms involvement of internationalization is increasing as well. Thus, inward FDI provide opportunities

Figure 4.5: Export share generated by foreign-owned-firms (1985-2003)



Source:Statistic from Ministry of Commerce People's Republic of China(1985-2003)

of firms participating in global markets.

1992 is the first year that China received substantial FDI inflows. The same year, FDI flows to South Korea and Chinese Taipei is dropped by 31% and 51% respectively (UNCTAD, 2005). Thereby, it contributes a considerable effect in Chinas economy growth. It should also be noted that the upswing FDI inflows to China coincides with a general increasing FDI flows to developing countries. Average annual flows directed towards developing countries between 1990 and 1993 were double those of 1987 and 1989 (UNCTAD, 2005).

4.3.2 Effects of inward FDI to China's internationalization

In the process of China's economy reform and opening up to foreign direct investment, FDI inflow has contributed to China's capital, employment, exports, market development and other development. Until 2007, China was still the country attracting the most FDI inflow in developing countries.

Inward FDI played a significant role in transforming Chinese economy. The distinctive future is that FDI brings substantial capital which contribute to China's economy growth. The vast amount of capital create job opportunities. The economic survey of China (2005) wrote that foreign firms employed around 20 million workers which contains 3% of China's total employment at the end of 1990s. FDI inflow played a primary role of China's foreign trade expansion. Furthermore, it became an important factor to decide China's involvement on products internationalization. With vast amount of capital is poured into Chinese industries, it can re-build the industrial structures, and shape the export structure of the labor intensive products, and strengthen the competitive position in international markets. Moreover, compare to domestic firms, inward FDI provided advanced knowledge of equipment and technology, which assistant Chinese firms improving labor allocation and technical efficiency. Especially, in electronics and telecommunication industry, the inward FDI provided fundamental support of infrastructure and equipment, which make the invention with a possible fast speed.

4.3.3 Sub-Conclusion

In this chapter, we investigated how Chinese firms to initiate internationalization by staying at home market. We found that in general, Chinese firms did not take exporting mode at the beginning of the internationalization stage, but involved in contractual and investment modes for internationalization. From the value chain perspectives, Chinese firms' internationalization involved both downstream (contract production) and upstream (technology importing). The inflow FDI is also an important approach for Chinese enterprises to attract foreign capital. During the initial period, the inflow FDI was surpassed the outflow FDI. We will further introduce the effects of outflow FDI in the next chapter.

Chapter 5

Empirical Study: Internationalization of Going Abroad

After many years internationalization experience with the continue growing of economics, Chinese firms intend to go out for new ventures for the following reasons. First, China joined the World Trade Organization (WTO) in 2001, and got the permission to invest in global markets, as well gradually increased the volumes and expended the regions; second, Chinese authorities published the going global policy (zou chu qu) in order to support outbound investments in a broad spectrum of industries at the end of 1999. Third, the domestic market conditions, such as the increasing of operational costs, high degree of competition, and the lack of international talents, cause the pressures of Chinese firms in domestic market. On the other hand, the Chinese government supports enterprises operating abroad as it could contribute to the sustainability of China's economy development, improve the country's economy structure, and participate in global economy actively. China oversea enterprises concentrate on three areas as foreign trade, foreign corporation of economy and technology, and direct investment. In order to achieve internationalization, Chinese enterprises export and invest in foreign markets. The export and investment modes are the primary ways for Chinese firms internationalization. We will discuss the two modes respectively in this chapter.

5.1 Mode of product export

China is one of the biggest country of products export and import in the world. In 2013, the total value of foreign trade reached $4.16 trillion, which contains 10.3% of the world trade share(Ministry Report, 2014).

China's foreign trade contributes significantly to its economy development. China has two modes to export its products with non-direct export and direct export. The non-direct export through licensing, franchising and contract manufacturing operation to reduce risks and operation costs, but the disadvantage is that enterprises only gained little knowledge about foreign markets and products. China's enterprises export to foreign markets through non-direct modes at the beginning of its business. Once the enterprises accumulated possible capital and experience, they move to direct export modes by setting their sales subsidiaries, warehousing units and service units, etc.

In the combination of exporting enterprises, state-owned enterprises, foreign joint enterprises and non-state owned enterprise contains 11.3%, 47.3%, 41.5% respectively. This shows the main contribution of products exports are foreign joint enterprises and non-state owned enterprise, state-owned enterprises contain a small portion of the total share. We divided the export products into two main categories with manufacturing industry and machinery industry. The manufacturing industry is labor intensive industry, such as textile, clothes, toys, furniture, shoes, plastic products etc, which contains 43.7% of total export share. The machinery & equipment industry contains 57.3% of the share with household appliances, machine facility and airplane facilities. The most important export countries for China are European, America, East European, Hongkong and Japan (Ministry Report, 2014).

5.2 Mode of foreign investment

China State Council promulgated the "Decision on Reform of Investment System" policy in 2004 (KPMG, 2013). This policy published a series of regulations and measures relating to foreign investment, it provides a formal platform for Chinese enterprises going out. Therefore, in recent years, China implemented in-depth "going global" strategy. It is rapidly expanding the scale of foreign investment and cooperation, as well as the expansion of industry fields. It was until at the end of 2011, China outward investment covering are operating in 177 countries with 18,000 Chinese enterprises (chen & zhang et al, 2012). China outward FDI is the major way of foreign investment, and it makes mutually benefits between China and the world, promote local economic growth and employment opportunities. In this chapter, we will investigate China internationalization by going global with outward FDIs.

We discussed in previous chapter that FDI includes greenfield investment, mergers & acquisitions (M&A) and joint-venture. *A greenfield investment* occurs when a firm independently or jointly with another firm builds brand-new facilities from scratch in a host country. In addition to building new facilities, most parent companies also create new long-term jobs in the foreign country by hiring new employees. The Key of greenfield investment is to enter in industries with technological skills and production technology.

A general term used to refer to the consolidation of companies. *A merger* is a combination of two companies to form a new company, while *an acquisition* occurs when a firm buys out a portion or the entire ownership of a target firm in a host country. The choice of entry form is influenced by industry-specific factors. M&A transactions have a transfer in ownership of an economic interest in an ongoing business concerns. Following we will present the empirical data for this two forms of FDIs.

5.3 Trends of FDI

Chinese outward FDI began to growth at the beginning of the 2000s, and it accelerated in 2004. Then, the outward FDI rose more than forty-fold from $1 billions to $5.5 billions from 2000 to 2004, and it reaches to $68.81 billions by 2010(chen & zhang et al, 2012). Figure 5.1 shows the increasing tendency.

In 2012, China foreign direct investment (outward direct investment, ODI) flows and stocks reach to $77.2 billions and $443.2 billions. In term of the regional distribution of ODI scale, there are three regions contribute to China's main ODI. The proportions are listed as North America with 45%, Europe with 17%, and Pacific Ocean with 15%. From the ODI project distributions, China ODI projects mainly in Asia with 57%, North America 17% and Europe with 12% (Li & Wang et al, 2013).

According to a survey in 2012, the established branches includes 69.6% independent new established projects(greenfield investment), 20.3% of the new joint venture projects, and mergers & acquisitions accounted for only 10.1%. This survey shows the foreign direct investment is still new main outward investments (Zhang & Dong et al, 2012).

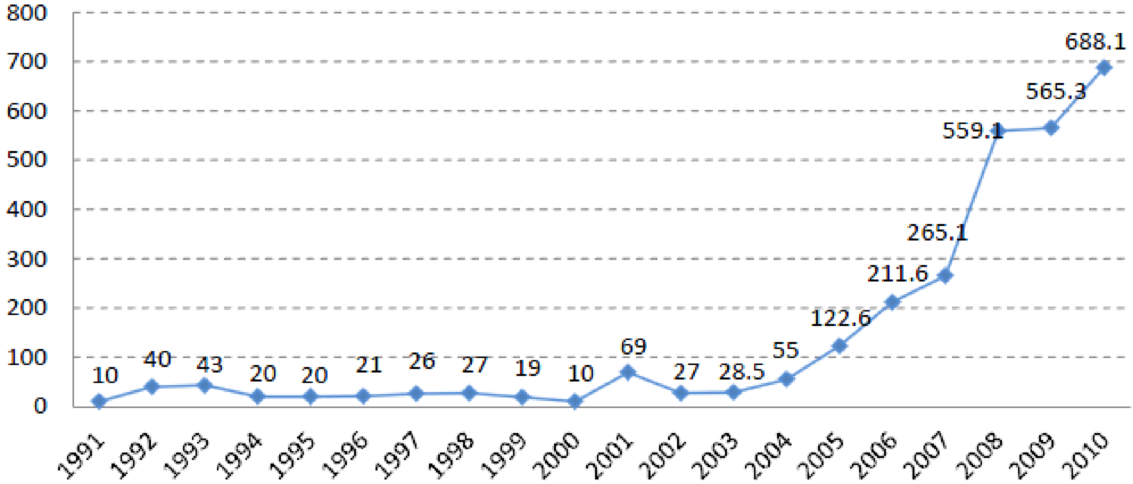
5.3.1 The changing investment regions

China investment regions have been changed in recent years. For example, the decline of investments in Asia and Africa areas, and the growth of investment in Europe and North American areas. Following is the presentation of the decline and growth tendency in those areas.

The decline of investments in Asia

Due to the geographic advantage, Asia is a major investment region for Chinese firms. Many Chinese firms tend to establish foreign investment offices in Hongkong as a primary stage of their internationalization. However, evidence both from the investment flows and the number of merger and

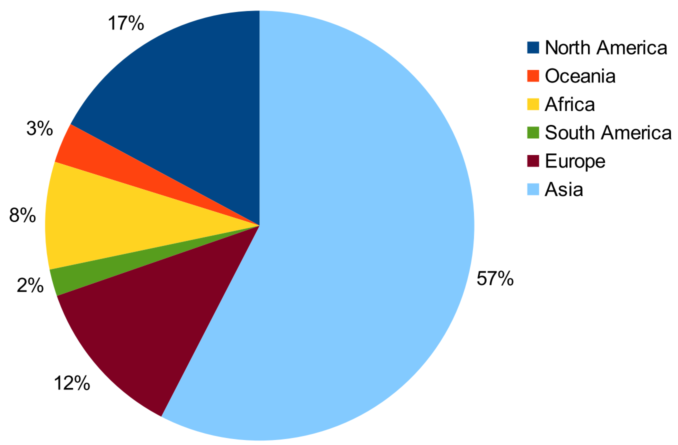
Figure 5.1: The tendency of outwards FDI (1991-2012)
$ billion



Source: Adapted from (chen & zhang, 2012): Report of development of China's outward investment and economic cooperation.

acquisition projects shows the Asian investment share has a significant decline (KPMG, 2013). The proportion of foreign direct investment is dropped down from 77.9% to 60.9% in 2008 and 2011, and the number of Merge and Acquisition projects was declined from 64.2% to 34.2% in 2006 and 2012. Specifically, the number of projects are reduced more than the amount of investment flows, which indicates the average size of Asian mergers and acquisitions is increasing. Figure 5.2 shows Share of projects distribution by regions.

Figure 5.2: Share of FDI projects distribution by regions

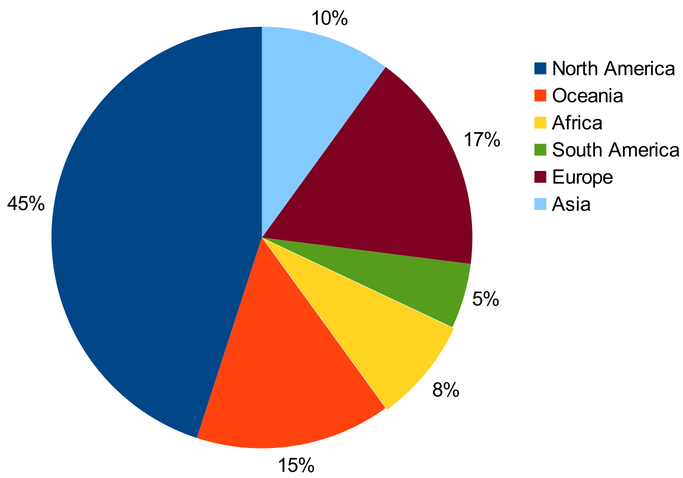


Source: Adapted from (Li & Wang et al, 2013): International Investment Studies(IIS).

The growth of investments in Europe and North American

The investment flows shows the proportion of European share have significant growth since 2008. Besides, the ratio of the projects shows the mergers and acquisitions have increased in North America and Oceania since 2006. According to Ministry of Commerce of the Peoples Republic of China, the compound annual growth rate reached 111.2% in Europe and 89.6% in North America from 2008 to 2011 (KPMG, 2013). To compare the initial stage of internationalization, Chinas overseas investment structure has been preliminary upgrading and optimized. Chinese firms intend to get more attention of research and development capabilities, brand and sales network, and other intangible assets. Therefore, they are more likely to engage in foreign investment activities in developed regions such as Europe and North America. In addition, the financial crisis relatively low the prices of overseas assets, and the mature industrialization and a stable political environment attract Chinese enterprises investment in recent years. Figure 5.3 shows share of regional distribution by countries.

Figure 5.3: share of FDI regional distribution by countries



Source: Adapted from (Li & Wang et al, 2013): International Investment Studies(IIS).

The decline of investment in Africa

To compare with 2008, the proportion of the total investment in Africa is significantly reduced in 2011. When the political situation appears regional turmoil, corporate investment projects suffered huge losses due to force majeure. Chinese firms mainly invest in the energy and mineral resource industries, and tend to invest resources in the political and business environment more stable regions such as Latin America, Oceania and North American. Chinese enterprise focus on investments in industries such as iron ore, copper, oil asset which have substantial upgrade, and has formed a certain competitiveness in Africa.

5.3.2 The changing investment industries

Investment industry is expanded from focusing resources to other industries. Following sections are the introductions of this changes.

The investment is changed from resources to construction industry

China's oversea investment in industries is imbalance. From 2005 to 2011, the percentage of the total amount on resources acquisitions remains at 50-70%.The resources contains 62.5% of total amount of investment in 2012. In recent years, the investment on manufacturing industry (including construction industry) rises significantly. Besides, compared with the developed countries, the proportion of foreign investment in the service industry is still low.

The investment industry increases as wide coverage

Chinese firms mergers and acquisitions involved only four areas in 1995. It increased to 20 areas till 2004, and reached 28 areas from 2005 to 2012. The investment industry of Aerospace, utilities, entertainment, health care, food and accommodation industries has been rapid development in recent years. It also reflects the China investment shifts from their own resources to external resources for achieving the industrial structure adjustment and upgrading.

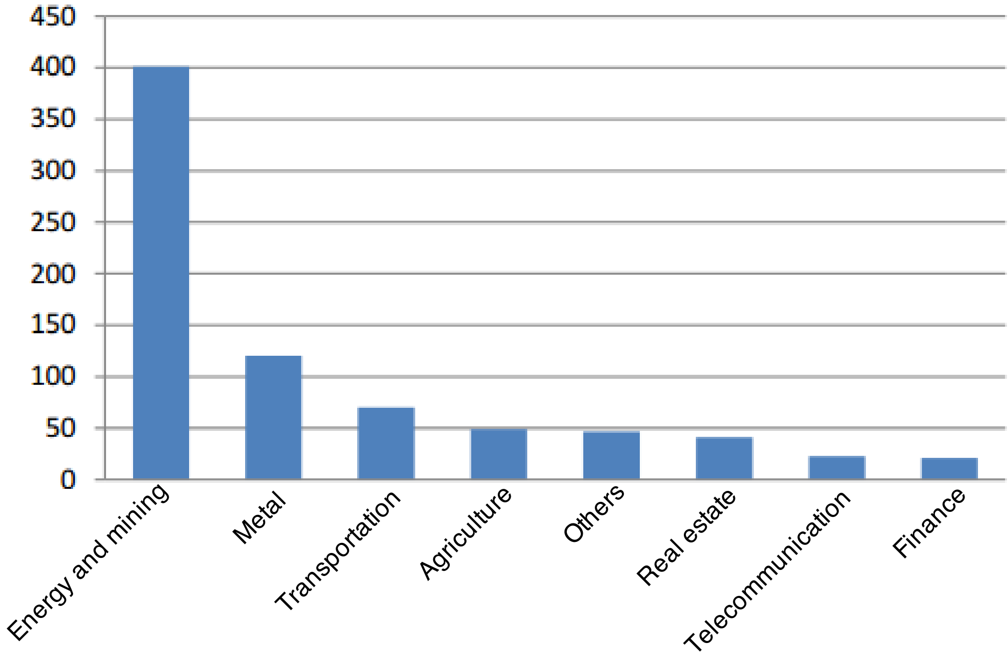
Small and medium-sized enterprises participate in the oversea investments

The total investment increases by $9.6 billion to $63.7 billion in the years of 2005 to 2012. It represents the compound annual growth rate with 30%. In the meantime, the number of projects is increased by 36 to 280. This makes the average amount of each project is decreased from $267 million down to $228 million in 2012. Due to the number of firms involved in investment gradually increase, especially with small and medium sized enterprises, it makes the project size smaller than the previous. In addition, the investment of assets related to a wide range of industries by SMEs.

5.3.3 The leading investment industries

According to statistics (Yearbook, 2012), State-owned enterprises are still the main contribution of foreign investments. Although China has more than 8.4 million private enterprises, accounting for 87.4% of total number of Chinese enterprises, and the contribution of private enterprises to GDP ratio is over 60%, private enterprises contribute to a small portion of oversea investments . Statistics from (ZERO2IPO Group, 2012), private enterprises completed 118 projects of overseas merge and acquisitions, and the total transaction amount $10.569 billion with average value per project of $127 million from 2009 to 2012. That private enterprises will be increasing in next 5 to 10 years. Furthermore, according to the industry development, the leading investment industries are identified as figure 5.4 shows as below.

Figure 5.4: Value of China outward FDIs by industries
$100 millions



Source: Adapted from (Li & Wang et al, 2013): International Investment Studies(IIS).

The above figure shows the energy and mining industry is the leading investment industry of China's outward FDIs. We will further investigate this industry.

5.4 China outward FDI through M&As, Greenfield investment

China outward foreign direct investment through three main modes with acquiring and merging an existing company, entering into a joint-venture, or developing an organization via Greenfield development. The entry modes choice is dependent on various factors such as the characteristics of the industry, and the host country environments and risks. we will discuss this three entry modes in the following sections.

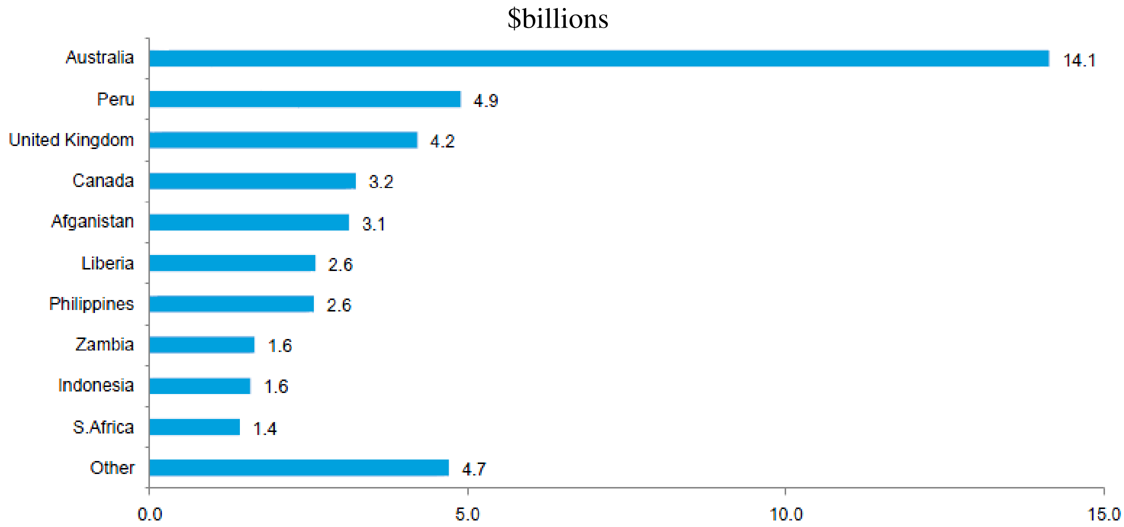
5.4.1 FDI through M&As

China oversea M&As is one of the main modes of FDIs. From 2004 to 2011, the highest proportion of M&As was 55% of total amount of FDIs, the lowest proportion was also 25% of total amount of FDIs (KPMG, 2013). Since a few acquisitions were involving huge amounts of capital, which resulting in a larger proportion of volatility. The amount of M&As shows the scale of M&As grows rapidly from $3 billion to $27.2 billion between 2004 to 2011 (KPMG, 2013). A survey released in September, 2012, which states that M&As is the primary choice of foreign direct investment (Global Entrepreneur, 2012). This shows that Chinese companies are willing to invest in upstream industry chain development with M&As mode for going out, and it will continue to be a mainstream modes.

M&As in mining industry

Australia is the target country that China invested the most in both volume and value with 48 deals and $14.1bn in value over 2005 to 2012. The largest deal is$659 millions that Australias Talison Lithium Ltd is acquired by Chinas Chengdu Tianqi Industry Group Co Ltd. Peru is the second country that China acquired $4.9billions with five FDI investments from 2005 to 2012 (Deloitte, 2013). Figure 5.5 Target countries of China outward Mining FDI and M&As by value.

Figure 5.5: China outward Mining M&As and Greenfield investment target countries by value (2005-2012)



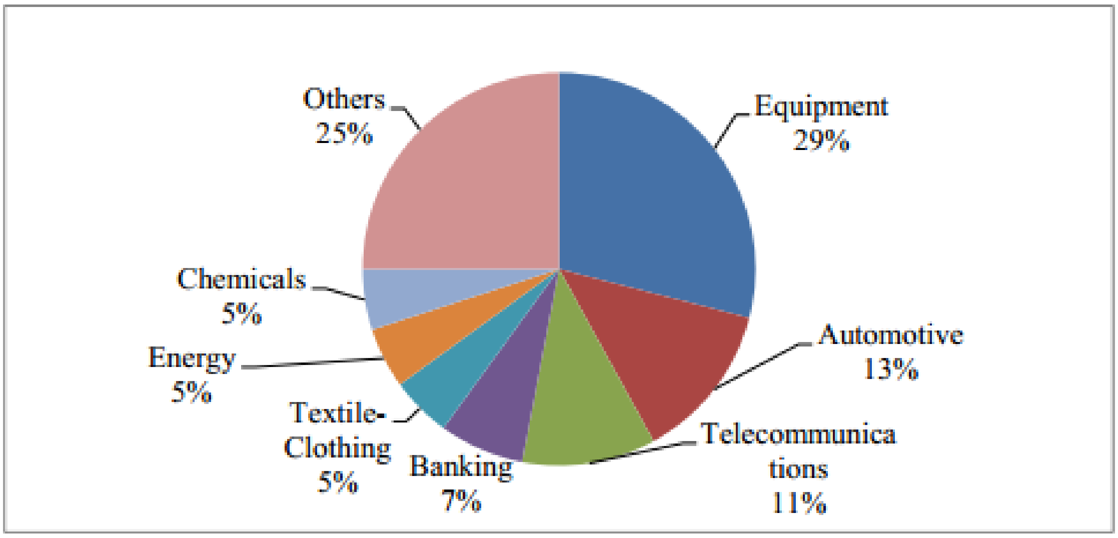
Source: Adapted from Deloitte, 2013, China Mining M&A and Greenfield FDI investment spotlight.

The majority of deals in Peru is buying the mining rights to untapped mine fields, or in the development of the infrastructure needed to lay the foundation for mining projects. China is expected to continue expanding of investments into Peru . Besides, Chinese investors are particularly interested in Peru's rich copper deposits (Deloitte, 2013).

5.4.2 FDI through M&As and Greenfield investment in Europe market

China has a number of leading IT & Telecommunications enterprises that are capable of competing in the European market on the strength of their products.But, the most highest investment in EU is equipment and machinery industries, then automotive and telecommunication industry. Figure 5.1 shows the distributions of industries. According to a survey (KPMG EU Chamber, 2013), the main reason for investing in EU is to gain market share in Europe and to provide goods and services within the EU market, as well gaining R&D resources from EU market.

Table 5.1: Shares of Chinese foreign direct investment in Europe, 2012
$billions



Source: Adapted from Hanemann & Rosen, 2012, China Invests in Europe

Financial capital is the greatest foreign investment asset. The vast state wealth is reflected in the enormous size of China's foreign exchange reserves. China's relative abundance of financial over human capital, acquisitions are the preferred entry modes rather than greenfield investments. Table 5.2 shows the value of acquisitions and Greenfield investment as bellow.

The above figure shows the value of China's M&As surpasses the value of Greenfield investment in European markets, and the total investment value is increasing. Each of this investment mode can bring different achievement and expand the company, but there are some differences between the

Table 5.2: Comparative value of M&As and Greenfield investment in EU (2004-2011) $billions

Year	Acquisitions US$ milllions	Greenfield Investment (US$ millions)
2004	606	306
2005	254	301
2006	625	170
2007	1042	337
2008	443	353
2009	1,970	820
2010	2074	1539
2011	8594	1217

Source: Adapted from Hanemann & Rosen, 2012, China Invests in Europe.

two entry modes. The basic difference is the implementation difference. M&As is an investment model by expanding the internal organization through external market trading, while Greenfield investment attaches importance to make good use of the enterprises' capacity by improving internal organization and resources through purchasing land, machinery and means of production from the market. Entry speed to foreign market for M&As is slower than the speed of Greenfield investment. The entry costs is lower by M&As, but the requirement of capacity is higher. The Greenfield investment can increase the employment rate, while M&As can might keep the employment rate as the same, and the influence of host country on M&As is higher than on Greenfield mode.

5.4.3 Sub-conclusion

This chapter investigated two modes of product export and foreign investment for China's enterprises going abroad. We used the empirical statistics to find out how China's enterprises to operate in foreign markets. The product export contributes a significant share of foreign trade, while FDI is the import investment mode for China's multinational enterprises to expand business in foreign markets. We made in-depth research about two different modules of FDI, M&As and Greenfield investment, and find out the investment industries and regions. We will discuss the reasons behind the facts in the following chapters.

Chapter 6

Case Studies

In this chapter, we will investigate two case companies' internationalization process. One is the most successful private company, Haier Group (Shen, 2009), another is state-owned company, China National Petroleum Corporation (CNPC) (Xu, 2012).

6.1 Internationalization of Haier Group

Haier is founded in 1984 from a small factory, developed to a international electronics group with more than 70 thousand employees in worldwide. Haier is one of the most successful Chinese company internationalizing in global markets. We investigate Haier to find out the international modes and strategies of the company applied. In Haier Group's development, the company implemented brand strategy, diversify strategy, international strategy and globalization strategy. We will study each of the strategy as following stages:

The first stage: Domestic brand building strategy (1984-1990)

At the beginning of Haier's establishment, the company intended to build world-class refrigerator by seeking the most advanced technologies. During this stages, Haier accumulated the advanced production and management experience, formed a strong technology team. The company linked the development process to world's high standard of production line, technology demand, quality control, environment and services areas. Thus, make a foundation of Haier's further development to global markets.

The Second stage: Products export (1990-1998)

In 1990, Haier started to export the products to German and America market, which was the initial stage of Haier expended to oversea markets. Haier exported to oversea market mainly through sales-subsidiary and distribution agencies, which helped Haier to establish its international logistic centers in Europe and North America. The products exporting and international sales guided Haier diversifying its products. Haier extended its products from household appliances to ice cuber, air-condition machine, and washing machine, etc. Haier exported its products to the other European countries, America, Japan, east-southern Asian, Latin American, Australian and other 87 countries at the end of 1990s.

The Third stage: Foreign investments (1998-2005)

Haier started its foreign investment since 1996 when Philippine-Haier CDLKG electronic group is established. The production technology also has been exported to Indonesia, Malaysia, Philippine, Serbia and Spain,etc. Besides, Haier invested and built its factories in those countries. In April, 1999, Haier built his first factory in South Carolina, America. In the same years, Haier established its research and design center, sales center and production center in America, which is categorized as Greenfield investment. In March, 2000, the first refrigerator has been produced in South Carolina, America. Until then, Haier has built 6 oversea factories, and all of those factories have been operated. In 2001, Haier merged and acquired one Italian refrigerator company, which was the first case of Haier's M&As. In the development of this stage, Haier was not a simple Chinese electronic company, but also an international companies which adapted all Western standard into production, quality control, finance and sales network management into the company. Product export is considered as the primary stage of Haier's internationalization. Then, the foreign investment accelerated the process, and turned Haier as a completely international company.

The Fourth stage: Global brand by localization (2005 onward)

Haier aims to build a global brand, and set up its global brand strategy by continuing innovation since 2005. Global brand strategy is different to its international strategy. Haier's internationalization was based on China's parent company, and started by export, then expanded its business in other countries by foreign investments. The global brand strategy is based on local markets, and form a strong brand in every foreign market of every country. Haier is still on its ways of brand globalization.

To summarize this case, Haier's internationalization started with product export, but before the first step, Haier built a strong and qualified brand in home market. So, the 90% of its export products are its own brand. Based on the acquiring of world class standard for products and quality guidance, Haier successfully built its sale-channels in American and European markets, which provided solid foundation of foreign investment. Then, Haier built its R&D, production and sale center in foreign countries to achieve completely internationalization in worldwide level. After that, Haier moves to globalization through strong local brand. Haier applied different entry modes to foreign markets during differ development stages or in the same stage. Haier's entry modes involved in products export, FDI with Greenfield and M&As.

6.2 Internationalization of China National Petroleum Corporation(CNPC)

China National Petroleum Corporation(CNPC), a Chinese state-owned oil and gas corporation, is founded in 1988. It is the largest integrated energy company in China. In 1980s, the domestic consumption of oil increased rapidly due to the economy reform, which China has to import large volume of oil to support domestic consumption and economic development. Therefore, CNPC has to internationalize the company to global market in order to achieve sustainable development. The process of CNPC's internationalization can be identified as three stages as following:

The first stage:

Accessing to international market through contractual mode (1988-1997)

This is the very primary stage of CNPC's internationalization. In this stage, China was not highly depend on oil import. CNPC aimed to acquire the international regulations from global oil market, accumulate international experience and international talent. The primary international corporation are mainly through contract of licensing and service project. The process have following international projects:

CNPC got oil exploration licenses from Thailand (March of 1993); acquired a part of share from a Canadian oil company (July of 1993); licensing with Peru(October of 1993 and July of 1995); licensing with Sudan (September, 1995; and March, 1997); two projects licensing with Venezuela(July, 1997); acquiring 60.3% of share, license of mining and operating with Kazakhstan (October, 1997).

The second stage:

The stable growth stage through contract and investment modes (1997-2005)

In 1997, oil price dropped down to the lowest level due to the Asian financial crises. In 1999, Chain State Council adjusted oil price that stays the same as international market price. In this stage, CNPC stepped-up its international process in world markets, and internationalize through contractual mode, such as licensing, management contracts, project operations, strategic alliances. CNPC also invested in oversea market through Greenfield investment, Joint venture, or acquisitions. CNPC traded in New York Stock Exchange, and Hong Kong Stock Exchange (2000), which means CNPC successful invested in foreign financing markets. The internationalization process have following items:

Cooperative contract:

CNPC signed three cooperative contract with Sudan energy and mining department(August, 2003);

cooperative contract with Ecuador national oil company (2003);

cooperative contract with Egypt oil department (January, 2004);

cooperative contract with Russian oil company (February, 2004);

cooperative contract with Algeria national oil company (February,2004);

cooperative contract with Kazakhstan national oil and gas company (May, 2004);

cooperative contract with Oman oil company (June, 2005);

cooperative contract with Australia Baraka oil company (July, 2005);

signed contract of 17-4 block exploration with Libyan national oil company (December, 2005);

Greenfield investment

CNPC established its first oil field base in Sudan, and it is the largest oversea production base of CNPN (July, 1999).

Acquisition

CNPC acquired British SOCO three Mongolia oil blocks (April, 2005);

CNPC completed the acquisition of Kazakhstan PetroKazakhstan oil company (October, 2005);

Strategic alliances

Made strategic alliances with Malaysian oil company, Nigerian Express oil company, Sudanpet oil company and Hi-tech group, together signed cooperative contract with Sudan government about the development of 15 blocks (August, 2005);

Joint venture made Joint ventures with Kazakhstan national oil company for China-Kazakhstan oil tunnel projects (December, 2005)

The third stage:

The scalable development stage mainly through cooperative Greenfield investment projects (2005 onward)

In the late 2005, due to China's economy growth, the oil consumption was increased significantly. A half of China's oil consumption was dependent on import. So, CNPN has to achieve scalable development in global markets in order to provide strong supports for China's domestic consumption. In this stage, CNPN has international experience on oil field development, and accumulated capital to invest in global markets. So, CNPN made frequent acquiring and contractual cooperation, as well as Greenfield investment. CNPC signed two cooperative projects with Russian, one project with Uzbekistan in 2006. CNPC signed four cooperative Greenfield investment project with Sudan, Algeria, Turkmenistan and Kazakhstan respectively in 2007. Then, in 2008, four projects are signed. In 2009, five cooperative Greenfield projects are signed. In 2010, two cooperative projects and two Greenfield projects are signed. In 2011, seven cooperative Greenfield projects are signed.

CNPC has established its solid position in Global oil market after two decade development. We summarize CNPC'S internationalization strategy as the following characteristics:

First: The CNPC applied various operation modes, such as contractual mode with licensing, strategic alliances and project operations, etc. The investment mode, such as Greenfield investment, acquisition, shares Joint venture, etc. Besides, CNPC adjusted its cooperative strategy when the oil market is fluctuated. For example, when the contractual companies intended to control the resources through the service contract for the maximum profits, CNPC extended the cooperative mode, such as provide capital for production, technology or labor workers to deal with the difficulty.

Second, CNPC got government supports for their network building or help their contract making. CNPC is a state-owned company, so, they benefits the relationship between China and other contractual countries. Especially, the company took advantages when China's president visited host countries, they made the contractual deals promptly. Besides, the huge amount of financial supports is another strong support.

Third: Since oil industry is a high barrier industry, CNPC applied many operational modes to cooperate with foreign companies, such as contractual mode and investment modes. The industry requires huge capital and technology talent to participate in the project. So, CNPC flexibly applies Greenfield investment mode, such as cooperative investment with host countries.

To conclude it, state-owned company has advantages on government supports, talent, capitals, so, the investment industry and scale are considerably high barrier industry, but also with highly risks during the internationalization process.

6.3 Sub-conclusion

In this chapter, we investigated two cases' internationalization, Haier Group and China National Petroleum Corporation. Both of those two companies are gradually involved in global markets, but each of them have their own strategical methods. Haier Group firstly built its strong brand, then entered into developed countries through products export mode. Furthermore, Haier Group invested in global market through M&A, Greenfield investments and other entry modes. Finally, Haier intend to build a strong global brand by localizing it every market. China National Petroleum Corporation (CNPC) entered into global markets through various entry modes, such as contractual mode, investment mode, Greenfield investment, acquisition, strategical alliances, etc. The support of government capital and resource is one elements for CNPC's internationalization.

Chapter 7

The Analysis of firms' Internationalization Foundation

In this chapter, we will analyze in depth about the foundations of Chinese firms internationalization by staying at home market in the primary stages, then going abroad. First, we summarize and conclude the empirical study and case study. Then, We will connect the fact to Chinese economics transition as macro-level to start the discussion, followed by a meso-level discussion of the role of government. Finally, we will analyze the micro-level of latecomer in the process.

7.1 Analysis of previous empirical and case study

In previous chapters, We did the empirical studies about Chinese firms' internationalization by staying at home market and going abroad. We investigated various entry modes that Chinese firms involve in the global market, and the empirical evidence to support the international trends. Besides, the case study provides the concrete examples of Chinese private and state-owned enterprises' internationalization. We will discuss those parts in chapter.

7.1.1 Internationalization at home market

Chinese firms started its internationalization by staying at home market in the very early stage, which is contradictory to the mainstream Western theories. We investigated that product outsourcing was an efficient ways of Chinese enterprises contracting with foreign companies. The empirical evidence shows the contract products started in 1990s, and it involved in many industries with an increasing trends. We found that from 1980s, China started to transfer its planned-economy to a market-oriented economy. The primary stage of economy transition was in 1990s. In this period, most Chinese firms were state-owned firms, and they were lack of technology and skillful labors. So, staying at home market was a good way to attract foreign partners. We found that technology import was taken place in the second period of economy transition. The evidence shows the emergence of technology markets and providers continue contributing to domestics technology development. We also find that Chinese government formed many institutional agencies, such as universities, research institutions, and capitals for the support of technology import. Besides, we also investigate the inflow FDI to China market with increasing trends started from 1990s. And the investment mainly went to eastern coastal regions where China established its economic special zones. The inflow FDI plays a large role in China's economy growth for it increasing China's export shares with huge amount of capital in many industries. There might have other entry modes that Chinese firms applied for the primary internationalization, such as export, or contractual mode with foreign franchising, alliances, but companies involved in those modes by going global. In the primary stage of economic transition period, the majority of state-owned enterprises are not able to apply those entry modes for the political or ownership reasons. Therefore, staying at home by contracting with foreign partners are the most practical methods for Chinese enterprises internationalization.

7.1.2 Internationalization at abroad

In 2001, China joint WTO, and moved to a new stage of global investment. Meanwhile, Chinese government published policies and regulations to encourage enterprises going abroad. Besides, Chinese firms accumulated more international experience and capital which could help them to go abroad. From 2000s, Chinese economy became more open to global market with the economic transition gradually moving forward. Chinese government also provided capital or resources supports for the policy. So, under this circumstance, Chinese enterprises went global using different entry modes. First, product export is a common way for foreign trade. Chinese enterprises experienced non-direct export mode at the beginning of its internationalization, then direct export modes after gaining knowledge from the global markets. The export products are mainly from manufacturing and machinery industry. The manufacturing industry has the labor-intensive characteristics, which is the large portion of China's foreign trade. The export mode is the low risks entry mode, but has high demand of nature resources.

The other mode is outflow foreign direct investment(OFDI). OFDI is the very important mode for Chinese firms internationalization, which involved large amount of capital, and covered wide ranges of industries, as well as the entire global markets. At the beginning of the investment period, OFDI mainly focused on Asian countries, but the investment regions has been changed to Europe and North America regions. With the continue growth of China's economy, and the continue globalization of world economy, China enterprises invested heavily in worldwide, but mostly the companies are state-owned enterprises, and the private enterprises just contain a small portion of the entire OFDI. Furthermore, Greenfield investment and M&As are the main ways of Chinese firms investing in foreign markets as the main investment industries are energy and mining, metal an transportation etc. Since state-owned enterprises have the capital and resources to expand in those industries. There might have other entry modes for Chinese firms going abroad, such as contractual mode with franchising, licensing, alliances, but the most distinctive modes are OFDI, and product export. We will find the foundation of this mode in later part.

7.1.3 Case study analysis

One case is about one of the most successful private enterprise, Haier Group, and the other case is totally state-owned enterprise, China National Petroleum Corporation (CNPC). Haier Group started its internationalization with product export, then contractual mode with foreign partners, followed the investment mode, finally, consolidate their products by building a strong local brand. Haier planned its global strategy at the very beginning of its establishment. The product quality is the essential part for Haier success of going global. Based on the confidence of products quality, Haier exported not only the near market, but also the world markets regardless the distance to home country. Haier gradually entry to global market with the development of its international experience. China National Petroleum Corporation (CNPC) started its internationalization by contractual mode with foreign oil companies. Then, it moved to investment mode. The internationalization of state-owned enterprises are supported by government policy, financial and foreign affairs, but it also affected by the foreign partners as they considered the business having Chinese governmental activities. We will investigate the foundation from macro, micro or industry perspectives as following.

7.2 Analysis from macro-economic perspective

Before the world economy goes to global, most of the enterprises can operate and grow in domestic markets, so the overseas expansion is just one special way of enterprises' development, but it is not necessarily needed. However, with the development of global economy and technology, especially the invention of the internet, the situation has been changed. First, global economy shortens the barriers of production activities, and internet technology decreases the costs of foreign trade. Thus, the costs for enterprises operating in the domestic market and foreign market have no so much difference. Second, one import element of the global economy is the market globally expend in worldwide. So, enterprises have to deploy resources in global markets in order to survive and compete in the market. Under the situation of economy global, internationalization becomes a common ways of enterprises' development. So, enterprises have to deal with how to gain competitive strategy in the process.

China's evolution process and economic structure lead China's state-owned enterprises play a pioneer role in the internationalization process. From the macro-level perspective, Chinese enterprises' internationalization is not only the individual activity of enterprises, but also the important part of national strategy. In this way, state-owned enterprises have advantages to implement the "go global" policy, as well as the first step of enterprises' internationalization. However, China's economy is transferred from a planned economy to a market economy. The enterprises took a gradual approach for internationalization. We will start our analysis with the transitional economy.

7.2.1 The transition and governance from planned-economy to market-economy

China started its economic transition in 1978 When the government did not have a well-designed blueprint. So, the characters of the transition are piecemeal, partial, incremental, and often experimental. The transition involved combination challenges such as the change from bureaucratic to administrative business culture, the underdeveloped legal and financial infrastructure, and the lack of management expertise and skills, etc. China seeks to softly land a market-driven economic structure of its previously central-planned economic system. This represents a major improvement of political, legal and administrative environment to meet the needs for new economic structure. The economic structure is an initial factor to influence entrepreneurial strategy, structure and process of any organization. When China lunched its economic transition, nearly all the enterprises were state-owned. So, this is the large tasks to undertake the ownership and economic structure transferring. However, China is considered as the most successful transformer and the fastest growing economy over last three decades. Comparing with other advanced transition economies, China's success implies two fundamental characteristics. *First,* Chinese authorities followed a gradual and a pragmatic approach to reform, decentralization, and eventually achieve industrial restructuring, and establish a large-scale privatization of state-owned enterprises. *Second,* the Chinese transition has taken place without political democratization. That means the western standards democratization process was absent in China's transition policy. So, the government does not have to cope with an economic and political transformation at the same time. We will discover two periods of economic transition, which involved entrepreneur and industry reforms, as well as the participation of foreign enterprises.

First period: primary gradual transition (1978 to 1993)

This period aimed to political authority reforms, and implement policy and institutional reforms. In order to achieve this goal, the central government managed to limit its power by decentralizing it to different transitional institutions. The government also increased the openness via other economic organizations. In that context, policymakers' capability at the national and the sub-national levels is the essentially incentive to implement the policy. Due to the absence of law and private property rights, central government arranged various transitional institutions that assisted policy innovation and experimentation, which is a major trait of the transitional period (Qian, 1998). One important step in this period is the gradual reform of the agricultural sector, and a partial liberalization of certain goods markets. Thus helped to increase and flourish private sectors, and gradually open up the state economy.

The prerequisite of attracting foreign enterprises to China market

In the first period, Chinese state-owned enterprises did not involve so much in the foreign trade flows, but China had established special economic zones at that moment, which began to attract foreign enterprises operating in China market. The first four special economic zones were created in 1980 in southeastern coastal China. In this area, local governments have been allowed to offer tax benefits, incentives to attract foreign investors, and the local government can develop their own infrastructure without the approval of the central government. Therefore, the very early Chinese private business enterprises occurred in this area. The local government made most of their own investment, production, and marketing decision by themselves. The foreign ownership started to set up in this area. China government opened a door of reform through the special economic zones. The special economic zones are the pioneers of China's economic transition period.

We investigate in the previous chapter, China made vast amount of outsourcing business covering from wide ranges of industries with foreign partners by contract entry mode. As we discussed in chapter 4, the main foreign partners are from Japan, Korea, Hongkong and other Asian countries. Those countries have transferred part of their production line into China, probably began with the economic special zones, and spread to the mainland of China. While China gained production experience from the foreign partners. The mainstream internationalization theories address that firms develop international links because they have relative advantages to seek oversea assets. However, the later comers address a relative disadvantage as they did not start from the positions of strength, but rather from the resource-merge position, or technology and business partners as initial competitive advantages, such as low labor costs and rich resource basis.

At the first period, China is not able to export goods or services to oversea market independently as the product quality and standard is rather in a low level, but the competitive disadvantages attracted foreign partners came to China market. China experienced internationalization at home market was the most applicable mode to learn from foreign partners. The development of special economic zones also implied an infusion of new capital, technology, and skills into parts of the China's economy, but also prevented Chinese enterprises from the international competition at the very beginning. In the meanwhile, the central government limited its power through decentralization such as Chinese-style of market-preserving system, which provided regional and local governments with relatively hard budget constraints, but also with incentives and means to conduct their own economic policies. The main contribution of China's economy is state-owned enterprises, while the private enterprises make an insignificant contribution to China's economy. This is also the reason that state-owned enterprises with large-scaled production and capital capability that could attract foreign partners to the domestic market.

Second period: the transition of institutional development (1993 onward)

In the second period of the transition, the political process has become more institutionalized. The accession to WTO confirmed the commitment of Chines government to international rule of law as an additional limited factor to government's power. In this way, China was moving closer to a rule-based economy. Therefore, the economic institutions have been more consistently enforced during the second period. Particularly, the institutions assisted the privatization of SOEs, and assisted the restructuring of the financial sector. Thus, enhance authorities' credibility and reliability from the perspective of economic participators, which increase the business opportunities with foreign investors, partners and international organizations.

From the theoretical chapter, we discussed that formal and informal institutional mechanisms determine the actual governance structures that guide policy formation and implementation. *The domestic non-political players* contains state society interface, economic institutions, public sector and international structure. *The foreign players* include transitional corporations, international organization and foreign governance. We investigate in chapter4 that China imported technology through international strategic alliances with contract mode. Chinese enterprises' internationalization is significantly impacted by the institutional factors as they are supported by governmental agencies. In this way, Chinese enterprise contracted with those technology institutions, research institutions or technology providers, etc. Chinese enterprises gained and updated their technological experience from those providers in the technology market.

Child (2005) stated that the international business theory needs to take account of potential relevance of domestic institutional factors in developing and transitional countries. China is characterized by a heavy institutional and political involvement in the international business development. In so far, government and its agencies and institutions contributed significantly to the development of regulation and legislation. Thus, the improvement make fundamental supports to attract inward FDIs.

7.3 Analysis from meso-perspective: institutional and the role of government

Due to the distinct characteristics of China's economy and enterprise culture, Chinese firms' internationalization process are significantly impacted by institutional laws and regulations. The government sponsorship and funding support are also a key factor for enterprises entry into global markets. For example, many Chinese multinational companies have benefited significantly from government support at the very critical stages in their development. Therefore, Chinese government and its sub-agencies play an important role of enterprises' development in regard to the legislation and regulation policy. The economy of China is transferred from an entire state-planned economy to a market-based economy, in which the political, legal and administrative institutions play an important role in the process of economics transition. Developing and transition economies are typically characterized by an active governmental involvement in business, both through ownership and through regulation.

7.3.1 The development of foreign business laws and regulations

The first stage, from 1979 to 1985, China only have a few state-owned foreign trade companies, and the regulations are established by Ministry of Foreign Trade. So, in this stage, only a few state-owned companies set their branches in foreign market, and there rarely has foreign business going to China, except a few corporation with state-owned companies.

The second stage, from 1988 to 1998, the State Council and Ministry of Foreign Trade released seven regulations and laws, which was mainly focus on the export and import regulations and rules. In this stage, China experienced its internationalization at home market, where foreign companies came to China, and made contractual partners with Chinese enterprises which mostly from special economic zones and large state-owned companies, or small part of private enterprises.

The third stage, From 1999 to 2001, the Ministry of Foreign Trade released import and export qualification regulations. In 2001, China entered WTO, the Chinese governments promised unlocking the foreign trade power from 2004. In this period, there are more foreign companies entering in China's market. China joining WTO accelerated companies' internationalization process, and it means China's economy is integrated into global economy (Tian & Deng, 2007).

7.3.2 Government support for state-owned enterprises

The structure of China's economy determines that state-owned enterprises is a pioneer role of Chinese firms' internationalization. China government support state-owned enterprises is a common phenomenon, Which remains a political economy despite the development of a market system. The internationalization of state-owned enterprises are pushed by government. Especially, the "go global" policy made is important for state-owned enterprises' internationalization. State-owned enterprise have the capability of acquiring resources from the state. To compare with non-stated enterprises, state-owned enterprises have obtained better technology, capital, talents, which is better than non-stated enterprises. This is the reason that state-owned enterprises contains more than 60% of total oversea Chinese enterprises. The case of CNPC is a large state-owned enterprises. CNPC keeps its strategy as the same as Chinese government. The government support CNPC from finance, policy and foreign affairs. The disadvantage is that state-owned enterprises' internationalization is considered as governmental activities, which brings a lot of barriers for the cooperation with foreign partners.

7.4 Analysis from micro-perspective: international latecomer

Chinese firms are latecomers in international market, but they have applied stratigies to catch up western advanced technology and management styles. Thus, China latecomers take competitive disadvantages for integrating in global market.

7.4.1 Latecomer perspective

From the latecomer perspective, China is developed from a large agriculture basis country to an early industrialized country in recent three decades. Concerning to the industrialization, China is a very late-starter in global economy, so Chinese firms are the latecomers in international market. When

Chinese firms stated their internationalization, the world economy is already global. Therefore, that is to say, the latecomers are involved automatically into high degree of international market, but low degree of the company's internationalization. Following sections we will analyze the reasons how Chinese firms as latecomers integrated into global market by enhancing their capabilities and technological competences with the process of learning from the early starters. We assume that latecomer firms have a small range of strategic options in seeking to become players in world industries by clarifying their competitive disadvantages.

Catch up stratigies

In empirical parts, we identified Chinese enterprises' internationalization by staying at home market to contract with foreign partners. The latecomers of Chinese firms are lack of skillful labors and advanced technologies for their development. Thus, the disadvantages are the barriers for Chinese enterprises going abroad at the initial stage of internationalization. However, those disadvantages attract foreign companies to contract Chinese firms for production outsourcing, exporting or IFDI, etc. In this way, China's low-cost labors contributed to the corporation. Besides, the more frequent corporation between Chinese and foreign enterprises, the more they bring significant improvement of the latecomers' product quality, labor skills, operational and managerial styles, as well as the improvement of technological level.

Furthermore, Chinese firms' technology importing speed-up latecomers internationalization process. The high-technology industries are the most knowledge-intensive, and it is difficult to penetrate in this industry. So, comparing to this fact, cost advantages are minimal. Therefore, the linkage between latecomers with technologically advanced rivals is the important issues. The Chinese government made efforts to establish state agencies, technology institutions, or research centers to link enterprises with advanced technology. On the other hand, the government provided capital supports for enterprises import from western partners in order to catch up the advanced technologies. Thus, latecomers are able to exploit their late arrival to link into advanced technologies, rather than to replicate the entire previous technological development trajectory. In the same way, China latecomers can access in the advanced management styles through IFDI, or M&A, licensing to the most modern managerial styles.

To connect latecomer perspective to our case of Haier Group, it is the most representative latecomer to catch up world class product standard. Haier did not appear to entering the nearest countries for products exporting. Instead, Haier invested primarily in large developed country markets.

The confidence of Haier's internationalization path is that they are pursuing long-term globally-oriented strategies by catching up the advanced technologies and modern western management styles. At the beginning of Haier's establishment, product quality was the essential tasks of the company. Haier's strategic plan focused on acquiring world class technologies and accumulated western management styles. That shows Chinese latecomers can turn their disadvantages into advantages by catching up the latest technologies during their internationalization process.

7.5 Sub-conclusion

In this chapter, we first made a brief analysis of empirical and case study. Then, we discussed the foundation of China's internationalization from three perspectives. Macro-perspective of economy transition analysis, and meso-perspective of government and institutional influence, as well the micro-perspective of latecomer perspectives. We concluded that China's internationalization has its political and economic foundation. Thus, present a general reasons about China can experience internationalization at home market initially, then go global.

Chapter 8

Conclusion

In this thesis, we have answered the following research questions: " *How Chinese firms internationalize in global market? What entry modes that Chinese firms choose to internationalize by staying home market during the economics transition from a planned-economy to a market-oriented economy, and what entry modes they choose by going global? and why the patterns work for Chinese firms?"*. We conclude this thesis as follows.

Based on the literature review, and the work of many western researchers, we used the explanatory method to investigate the paths of Chinese firms' internationalization: staying at home market at the initial phase, then going abroad with the government's support (with the "go global " policy for Chinese enterprises). We identified that China's economic transition is the fundamental reason for Chinese firms' internationalization at home market.

We, then, studied the three groups of theoretical frameworks: transitional economic models and theories, internationalization models of upstream and downstream routes, and FDI theory. The theoretical frameworks are the foundation for studying the phenomenon of Chinese firms' internationalization. According to the theoretical investigation, we have identified three primary modes for Chinese firms' internationalization of staying at home market, i.e., contracting production through downstream internationalization route, technology importing through upstream internationalization route, and inflow FDI. We then used the empirical evidence to explain the process and the effects. We used the same descriptive method to investigate the approaches of Chinese firms' internationalization of going abroad, i.e., by applying export mode, and by foreign investment mode. The foreign investment consists of M&A and Greenfield investments.

Furthermore, we conducted two case studies. One is a private company, Haier Group, and the other is a state-owned enterprise, CNPC Group. Haier Group is the latecomer of playing at the global market. It integrated into the global market by acquiring strategy, e.g., catching up the world-level technologies. While, CNPC uses the government capital and policy supports in its internationalization, e.g., mainly by foreign investment, such as M&AS, and Greenfield investment.

In the end, we discussed the reasons why Chinese firms took a distinctive internationalization path from macro-, meso- and micro-perspective. We concluded that each of the internationalization approaches is related to economic transition process, and Chinese government has played an important role for driving the firms' internationalization, e.g., by making the relevant regulations and the laws. Chinese firms' internationalization started from the state-owned enterprises, who are the lead of transferring the planned-economy to the market-oriented economy. The support of government policy to the state-owned enterprises is one of the main reasons for Chinese firms' going abroad. In this thesis, we also investigate how Chinese firms, as latecomers, to use the world-class technologies during the integration with the global market.

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