UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW

The internationalization process of Chinese MNCs

A study of the motive for Chinese firms to enter developed countries

Bachelor Thesis
Rebecka Andersson, 870424-4824
Jennie Wang, 881109-5002

Tutor:
Professor Claes Göran Alvstam

Business administration/
International Business
VT2011

Abstract

Problem	Gradually more MNCs from emerging markets are entering developed countries. However, most research has been carried out in the field of MNCs from developed countries entering emerging markets. Consequently, theories on the internationalization of emerging market MNCs have originated in the classical internationalization theories of MNCs from developed countries. As emerging market MNCs arise from national, cultural and institutional contexts that are different from those of Western MNCs, different business strategies have been implemented by emerging market MNCs. Therefore, there is a gap in theory which will be the area of study for this thesis.
Aim	To increase knowledge about the internationalization process of emerging market MNCs when establishing in developed markets. The focus of this thesis is on Chinese MNCs' internationalization process.
Research design	This is both a quantitative and a qualitative study to increase awareness about the characteristics of Chinese outward FDI highlighted by a case study of the Chinese company, the Haier Group.
Findings	The classical theories of the internationalization process of firms can to some extent be applied to Chinese MNCs. However, these firms are more likely to conform to the LLL theory. Chinese MNCs enter developed markets in their quest for technology and strategic assets.
Research limitations	Focusing on Chinese MNCs, this thesis deals with the internationalization strategies of emerging market MNCs entering developed markets. As emerging markets are heterogeneous, this study should not be used to draw general conclusions about emerging markets as a group.
Keywords	Emerging market, Internationalization process, Chinese firms, Multinational companies.

Acknowledgements

We would like to thank our tutor Professor Claes Göran Alvstam for guiding us throughout the entire research process. His valuable knowledge in this subject was of great help to us.

We would also like to thank Sören Pettersson at Invest Sweden for taking time to answer our questions. The interview provided us with much insight into the internationalization process of Chinese companies.

Gothenburg, June 7th 2011.

Rebecka Andersson

Jennie Wang

Table of contents

Table of figures and tables

1. Introduction

The introduction chapter aims at giving the reader a brief introduction to the chosen subject for our study. It also discusses the problem area, which will lead to the aim of the thesis and the research questions outlined for our study.

1.1 Background

In recent years, emerging markets have attracted a great deal of attention due to their immense economic growth. Emerging markets are characterized by having a large growing population, a strong GDP growth and a rapidly integrating information and communications technology. An increased income level, improved purchasing power and higher standard of living in these markets have attracted many foreign investors. While emerging markets have many characteristics in common, it is also important to bear in mind the enormous varieties existing among this group of markets, regarding for example cultural and institutional differences.

UNCTADstat (2011a) defines *foreign direct investments* (FDI) as long term investments by an investing resident or firm in one country in a firm or affiliate in another country. Investments are both the initial transaction as well as all following transactions between the two entities. Traditionally, patterns in FDI flows have mainly passed from developed countries to emerging markets but are changing as emerging markets are gaining importance in the global marketplace and increasing their share of the world's outward FDI flows. Emerging markets such as Brazil, Russia, India and China (BRIC) have received a large amount of inward FDI in the past few years and are increasingly becoming sources of outward FDI. As companies in emerging markets are internationalizing and becoming multinational companies (MNCs), this phenomenon adds another dimension to the theoretical framework.

1.1.1 Historical flows of FDI

After World War II most FDI flows went between developed countries, i.e. north-north FDI, for example between the USA and Europe. Therefore, research was mostly concentrated on the many multinational companies in developed countries. Another area receiving much attention is the down-market FDI flows from developed to developing countries, referred to as north-south FDI. The rise in FDI flows from developed countries to developing countries is to a large extent due to reforms which opened up China and other transition economies for foreign direct investments in the 1990s. In the late 1970s and early 1980s, the first larger waves of outward FDI took place among developing countries. Two thirds of the world's outward FDI from developing countries went between developing countries, i.e. south-south FDI. However, the amount of these FDI flows was still insignificant compared to the world's total FDI flows (Ramamurti, 2009).

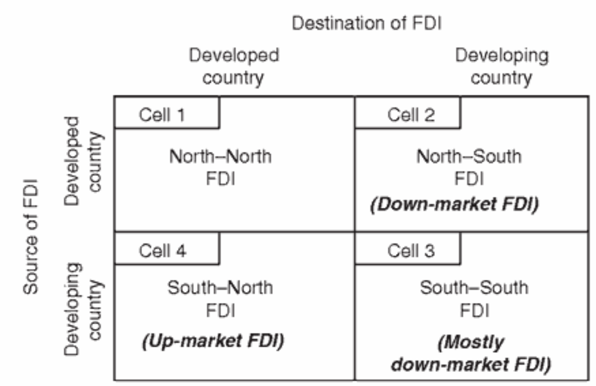

Figure 1.1: Source and destination of FDI
(Ramamurti, 2009, p. 6).

The least studied area of the FDI flows are the up-market FDI flows from a developing country to a developed country, namely the south-north FDI. In the last few years, FDI flows in this direction have represented one tenth of global FDI flows. Examples of FDI flows in this direction is the Chinese company Lenovo's acquisition of American IBM's personal computer business, the Indian company Mittal Steel's merger with the French company Arcelor (Ramamurti, 2009) and, recently, Chinese Geely's acquisition of the Swedish company Volvo (Geely, 2010). It is also this direction of outward FDI flows this thesis studies to find a pattern in multinational firms' internationalization process.

1.1.2 A changing environment

Early research outlined certain features in the internationalization of multinational companies from developed countries. However, the rise of emerging market multinational companies has drastically changed this approach. These markets have national contexts which differ in political, institutional and economical regards. This creates a different perspective among companies, which results in varieties in policies and attitudes concerning the enterprise. Some of these multinational companies originate in markets which have been protected by the state from international competition.

Among traditional theories of the internationalization of firms are Johanson & Vahlne's (1977) internationalization process model and Dunning's (2001) eclectic paradigm. The internationalization process suggests that companies internationalize and turn into multinational companies gradually. According to the eclectic paradigm (OLI), companies need to have owner-specific, localization-specific and internalization-specific advantages before internationalizing. However, these theories are challenged by latecomer firms from emerging markets. Latecomer firms are by nature deemed to enter the market late, which puts them at a disadvantage compared to MNCs from developed markets. Instead, latecomer firms have developed other strategies in order to compete with traditional MNCs, such as skipping technological steps to catch up and acquiring strategic assets faster.

Furthermore, Knight & Cavusgil (1996) emphasize the impact of globalization has enabled the birth of born globals, companies that internationalize as soon as they have been established. Globalization has entailed advances in technology which facilitate the manufacturing of complex products. Furthermore, the communications technology accelerates the accessibility of information across borders. As the world internationalizes, companies can take part of knowledge, technology, and financial markets to support projects. Globalization has therefore facilitated international commerce through partnership and beneficial exchanges through alliances with foreign partners.

1.2 Problem area

Most research has been carried out in the field of MNCs developed countries entering developing countries. Consequently, theories on the internationalization of emerging market MNCs have originated in the classical internationalization theories of MNCs from developed countries. Due to the shift from traditional outward FDI flows from mature markets towards an increased outward flow from emerging markets, there is a gap in theory concerning the internationalization of firms from emerging markets. As emerging market MNCs arise from national, cultural and institutional contexts that are different from developed country MNCs, different business strategies have been implemented by emerging market MNCs. More MNCs from emerging markets are gradually entering developed countries. This recent phenomenon is believed to continue and to become even more frequent in the future. Therefore, awareness about the different strategies will be of importance for companies. A better understanding of the internationalization strategies undertaken by emerging market MNCs serves to prepare companies for a future in the global market place.

1.3 Aim

The aim of this thesis is to increase knowledge about the internationalization process of emerging market MNCs when establishing in developed countries. The thesis focuses primarily on the internationalization process of Chinese companies. In order to achieve our aim, we have formulated two sub-questions which we attempt to answer. The questions serve to examine how the internationalization strategies of MNCs from emerging markets differ from those of developed country MNCs and for what reasons. To better comprehend the internationalization process of Chinese MNCs the second question will explain why Chinese MNCs enter developed markets.

1.3.1 Research questions

- How does the internationalization process of Chinese MNCs differ from that of MNCs from developed countries?
- What are the motivations for Chinese MNCs to enter developed countries?

1.4 Delimitation

This thesis treats the internationalization strategies of emerging market MNCs entering mature markets. As our area of focus, we have chosen the Chinese market due to its characteristics of an emerging market. However, as emerging markets are heterogeneous we acknowledge that our study cannot be used to draw general conclusions about emerging markets as a group of countries.

The choice to examine the Chinese market is based upon the country's dominance among the top 100 emerging market MNCs and China being the largest outward FDI investor from emerging markets. Furthermore, the future prospects of the Chinese economy are believed to be optimistic with the result of more Chinese MNCs arising and establishing in developed countries. To further deepen our analysis on the internationalization process of Chinese companies, enlightening examples have been derived from a case study of the Chinese MNC Haier. The focus on Haier's foreign activities will be on its European operations in order to increase the awareness of internationalization strategies of emerging market MNCs to companies in our proximity. Due to the time restriction we have chosen to focus only on the Chinese market. It is also for this reason we have decided only to focus on one company. This deepened analysis will ensure a profound knowledge about the internationalization strategies of emerging market MNCs.

1.5 Outline of the thesis

This thesis is divided into six chapters the contents of which are as follows:

Chapter 1 – The introducing chapter gives a background to the subject of this thesis. Further, the problem area is discussed, which results in the aim of the thesis and an outline of the research questions. The chapter also treats the delimitation made for the thesis.

Chapter 2 – The second chapter presents the theoretical framework including classical theories as well as new theories to the studied area for our thesis. The chapter ends with a closer look at the internationalization process of Chinese MNCs.

Chapter 3 – The third chapter describes the approach of our study and how data has been collected. A critical view of the methodology chosen is provided.

Chapter 4 – The fourth chapter consists of the studies conducted. Here, statistics as well as a case study and an interview are presented in order to describe the phenomenon studied.

Chapter 5 – The fifth chapter presents an analysis of the theories discussed in chapter two linked to the study conducted in chapter four.

Chapter 6 – The sixth chapter consists of a conclusion of the essential findings in our thesis and suggestions for further research.

1.6 Abbreviations

FDI	Foreign Direct Investment
GDP	Gross Domestic Product
JV	Joint Venture
LLL	Linkage Leverage Learning
MNC	Multinational Corporation
OEM	Original Equipment Manufacturing
OFDI	Outward Foreign Direct Investment
OLI	Ownership, Location, Internalization
SOE	State-Owned Enterprise

2. Theoretical Framework

The theoretical framework treats the classical theories in International Business regarding the internationalization process of companies. It also serves to add another dimension to existing theories by challengers from emerging markets, following a different pattern in their internationalization. The chapter ends with a closer look at the internationalization process of Chinese companies.

Many theories have been developed to explain the aspects of the internationalization process of companies. Research in the field has mostly been concentrated on companies from developed countries in order to describe the growth of these companies into becoming multinational companies. However, the last decades have experienced a rise in emerging market multinational companies, which internationalize through other patterns than are suggested in traditional research. Below is a short introduction to key concepts to facilitate the understanding of entry strategies and strategic goals in the internationalization process of firms. Furthermore, an account of classical theories based on the model to internationalize of companies from developed countries is developed, followed by the differing patterns in internationalizing of emerging market companies. Lastly, the chapter treats the internationalization process of firms from the largest outward FDI investor from emerging markets, China.

2.1 Introducing key concepts

2.1.1 Entry modes

Before entering the theoretical framework of the internationalization process of firms, it is important to understand the various entry strategies of firms. The choice of entry mode is crucial to a firm when entering a new foreign market since it will affect the survival of the firm in that market. This section treats the various entry modes of interest for our thesis.

Non-equity modes

Exporting permits the company to enjoy economies of scale as production for several markets is concentrated to one or a few areas. It also provides the firm with experience and knowledge of foreign markets which is valuable for further international development. By exporting, companies need not invest major capital in order to access a foreign market. Among the drawbacks are possible tariff barriers, not being able to locate the production where labor costs are low, and high transport costs, especially for bulk products (Hill, 2010).

By *licensing*, a licensor allows the rights of intellectual property to a licensee for a certain period of time for a royalty fee. This mode permits a company to access a new market with relatively low costs, as the licensee stands for the operation costs. Among the disadvantages are the inability to control the technological know-how and the loss of opportunity to coordinate earned profits in one area with the losses of others. There is also concern about possible economies of scale and quality control (Hill, 2010).

Equity modes

A *joint venture* (JV) is a company owned by two or more independent firms with subsidiaries beside the common venture. Creating a joint venture with a local firm has long been a common way to enter a new market. Having equal shares of the joint venture is the most common type of joint venture, although other constellations exist. With a joint venture, a company gains access to local knowledge, technology, and shares costs and risks. A disadvantage is that the company will not be able to realize location economies and cannot implement global coordination controls (Hill, 2010).

When a firm owns 100% of the shares of an entity, it is called a *wholly owned subsidiary* and this is possible in two ways: making a *greenfield investment* or making an *acquisition* of an existing firm. The advantages of a wholly owned subsidiary are the ability to control the business and technology, as well as being able to include it in global coordination of the entire group. Realizing economies of scale and experience learning is also possible, but at the cost of high capital investments at high risks (Hill, 2010).

The great advantage of entering a market through a *greenfield investment* is that the company can establish and form its own subsidiary, both in terms of standards and norms as well as through the company's corporate culture, and to educate its employees according to its specific needs. The possibility to form the company according to own preferences and needs might yield long term benefits for the firm. Nevertheless, the longer start-up time for a greenfield investment might invite competitors to enter the market through acquisition of an existing firm and thus obtain advantages in market position (Hill, 2010).

A *merger* or *acquisition* (M&A) strategy allows the company to establish its operation faster than through a greenfield investment. The acquired firm may also have valuable strategic assets such as brand loyalty, customer relationships, trademarks, patents, distribution systems, production system and managers' knowledge of the local culture and business environment.

This strategy is also perceived to be less risky than a greenfield investment, since the company has the possibility to gain knowledge of the earlier activities of the acquired firm. However, companies often pay too much for the acquired firm because the competition to acquire the local firms leads to escalating prices. Another disadvantage of acquisitions is that culture clashes may occur among employees (Hill, 2010).

Strategic alliances

A *strategic alliance* is collaboration between two firms, often competitors, agreeing to cooperate. The collaboration can take any form, from joint ventures to short term contractual agreements. There is a recent trend of increase in this type of cooperation between competitors. A strategic alliance facilitates the market entry to a foreign market and firms can share the costs and risks of developing new products or processes. Moreover, the strategic alliance can bring different skills and assets of both parties together, which would otherwise be inaccessible. Finally, the alliance can also serve to establish technology standards for the entire industry, profiting the companies involved. Among the disadvantages is the situation of giving competitors access to new technology and markets at a relatively low cost. Companies engaging in strategic alliances will therefore be careful not to "give away more than it receives" (Hill, 2010, p.490) despite the advantages (Hill, 2010).

2.1.2 Strategic goals in internationalizing

Companies internationalize in order to reach a specific strategic goal. A company therefore needs to enter a market in which it will achieve its strategy. There are thus several motives for a company to internationalize. One motive is to exploit natural resources, thus the *resource-seeking* company, which establishes overseas to gain access to raw materials to use in its production. Some markets are saturated and a company therefore needs to enter new markets, thus to carry out a *market-seeking* investment. A *technology-seeking* investment is realized to get access to technology and know-how which the company does not possess. The increased technological knowledge will increase a company's competitive advantages (Deng, 2004). A company may also engage in a *strategic asset-seeking* investment to get access to resources and capabilities which will strengthen the company with a competitive advantage. Such strategic assets are, for example, reputation, R&D capability, brand name and buyer-supplier relationships (Deng, 2009). Another reason for internationalizing is to diversify a company's risks through a *diversification-seeking* investment (Deng, 2004). A company therefore may choose to enter other business fields to hedge risks (Yeung & Liu, 2008).

2.2 Classical theories

Most of the research on the internationalization process of firms focuses on firms from developed countries. These companies have mainly entered developing countries, relocating their production in order to gain cost advantages. This section deals with the classical theories, which will serve as a base for the following section dealing with the internationalization of firms from developing countries.

2.2.1 The internationalization process model

Within research of International Business, the internationalization of a company has been stated as a process where a company is increasingly participating in the international context. A renowned model of the internationalization of a company is the *Uppsala internationalization process model,* which describes the stages of a company's development into international involvement through knowledge development and increasing commitment to a foreign market. The model was elaborated from research on Scandinavian manufacturing companies internationalizing in the 1970s, which showed how Swedish companies often internationalize gradually, rather than through large initial foreign investments (Johanson & Vahlne, 1977).

Through the research, it was found that companies with no prior international presence often start internationalizing through exporting. These foreign activities later developed into sales through agents in the foreign market. As sales grew, the companies would establish sales subsidiaries and later start their own production in the foreign market. This internationalization pattern of a gradually stronger commitment to a foreign market is referred to as *the establishment chain* (Johanson & Wiedersheim-Paul, 1975). Moreover, companies were found to start their internationalization by establishing in host markets similar to the domestic market, hence in markets with short *psychic distance*. The term is explained as the difficulties of understanding a foreign environment, with regard to factors such as differences in language, education, culture, business practices, political systems and level of industrial development (Johanson & Wiedersheim-Paul, 1975; Vahlne & Wiedersheim-Paul, 1973). Due to the uncertainty psychic distance creates between markets, a company may facilitate its internationalization by first entering a country with short psychic distance, and then expanding further and reaching into countries with larger psychic distance (Hörnell, Vahlne & Wiedersheim-Paul, 1973). The uncertainties regarding foreign markets in psychic distance are closely linked to the phenomenon of *liability of foreignness.* It is defined as the costs a company has in a foreign market which are not experienced by a local company, resulting in foreign companies having a lower profitability than local companies. Costs associated with liability of foreignness stem from four sources: costs arising from travel and transportation over distances and across time zones, firm-specific costs due to lack of knowledge about the foreign market, costs due to the host country environment and costs related to the home country environment (Zaheer, 1995).

Based on *the establishment chain*, the *internationalization process model* was created and is seen as composed of two internationalization variables; the change and state aspects. The change aspects show how companies change as they learn from their current activities and operations in foreign markets, but also as they make commitment decisions to increase their position in the foreign market. Commitment is defined as the size of the investment made and its inability to be used in other regards or markets. Concerning the state aspects, a firm's experience of a foreign market will increase knowledge about the market. This accumulated knowledge will in turn affect decisions about the resources committed to foreign markets and the company's future activities. The internationalization process model is thus an ongoing dynamic model where state and change aspects affect each other (Johanson & Vahlne, 1977; Johanson & Vahlne, 2009).

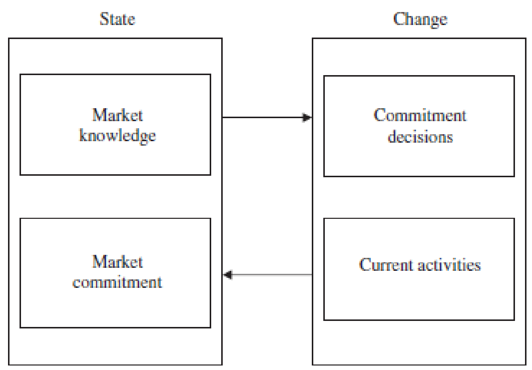

Figure 2.1: The Basic Mechanism of Internationalization – State and Change Aspects, (Johanson & Vahlne, 1977, p. 26)

However, as the economic and regulatory environment as well as company behavior has recently experienced dramatically changes, the internationalization process model has been revised to as to emphasize business networks, referred to as the *business network internationalization process model*. This model describes the company as embedded in a business network, where partnership between companies is important for the internationalization of companies. A company's opportunities and difficulties in the global market are more of a network and relationship specificity rather than country specificity as the earlier model suggested. The model still consists of the state and change variables, although the four factors have been developed. The new model describes how the *recognition of opportunities* is important for market knowledge, and how market commitment has been revised to *network position*, as the internationalization process is realized within a network. Additionally, *learning, creating and trust building* have been added to clarify the outcome of current activities in a market. Finally, the commitment decisions have been revised to imply the *commitment to a partnership* (Johanson & Vahlne, 2009).

Following Johanson & Vahlne's (1977) theory of the internationalization of firms, Cavusgil (1980) has further developed the theory of the internationalization process. He consents to the idea that the internationalization process is a gradual process and extends the theory to describe various stages of export and market commitment. Cavusgil (1980) suggests how internationalization is characterized by a low degree of rational decision-making since it is difficult to calculate the economic benefits of exporting. The internationalization process is outlined in five stages which categorize the activities according to the level of commitment of each stage (Cavusgil, 1980).

The first stage is the *domestic marketing stage* where a firm is not engaged in any export or foreign activities. In the next stage, the *pre-export stage*, both external and internal stimuli serve to initiate a firm in the first steps toward exporting. External stimuli mostly include orders or demand from other countries which trigger management's choice to export. Change agents, like trade associations and other intermediaries, are also a major factor influencing the decision. Only external stimuli are not a sufficient decision basis to motivate exports; internal stimuli also affect the decision. Differential advantages regarding the product and a saturated market, the personal characteristics of decision-makers, and top management's attitude towards international expansion are important variables. In this stage, the management team has little knowledge and no experience of costs of overseas activities. In the third stage, *experimental involvement stage*, the company exports to one or two foreign markets. Export, however, accounts for a low share of the total production output; the share constitutes around 10% of total production (Cavusgil, 1980). As Johanson & Vahlne (1977) have stated, the psychic distance proves to be important as firms tend to start exporting to markets psychologically close to the home market. Primarily, the firm utilizes the form of *indirect exporting* via sales agents (Cavusgil, 1980), which connects a selling firm with potential buyers abroad (Peng, 2011). The *active involvement stage* includes exporting to new foreign markets and *direct exporting* (Cavusgil, 1980). With direct exporting, a company is able to reach the customers in a foreign market without any intermediaries (Peng, 2011). As the name of this active stage implies, a firm seeks to increase its knowledge about foreign markets and actively chooses which markets to export to. The fifth and final stage of the internationalization process is called *committed involvement*. A firm is now in the position of allocating limited resources between the home market and the host market. What is crucial in this stage is the planning and executing of the marketing mix. Commitment to the market becomes a long term objective. A firm might try to overcome different barriers to enter the market. With time, the firm can gradually become more committed to the foreign market and invest in various forms, like licensing and establishing foreign sales branches and production facilities (Cavusgil, 1980).

2.2.2 The eclectic paradigm

To further explain the patterns and scope of international production, Dunning (2001) developed another model called *the eclectic paradigm*. It describes a company's international activity from three aspects; its *ownership*, *localization* and *internalization* advantages, resulting in the abbreviation and alternative name of the eclectic paradigm, namely the OLI paradigm (Dunning, 2001).

Dunning (2001) found that if a company possesses a competitive advantage over a company from another country, it has an *ownership* (O) advantage over that company. Competitive advantages are here defined as a company's possession of or access to income-generating assets, such as technology, capital and knowledge, or the knowledge and ability to coordinate these assets with foreign assets to their benefit relative to competitors, with for example managerial, organizational and human skills. If a company believes that these ownership advantages need to be kept within the company rather than be sold in the open market, the company can internalize its assets to prevent them from leaking to its competitors, thus giving the company *internalization* (I) advantages (Dunning, 2001; Dunning & Lundan, 2008). Buckley and Casson (1976) argue that there are four groups of factors which determine a company's choice to internalize activities. These are *industry-specific*, *region-specific*, *nation-specific*, and *firm-specific* factors. It is claimed that imperfections in the external market enhance the benefits of internalizing business activities. Furthermore, internalization costs can offset the benefits of in-house production. If a market were perfect, there would be no need for producing in-house. In addition to cost structures, a need for a competent management team to organize the internal market for internalization is essential for internalization to be efficient (Buckley and Casson, 1976). Keeping knowledge and assets within the company gives the company advantages such as the protection of property rights, control of the market and an improved competitive or strategic advantage. Regarding the last component constituting the OLI paradigm, a company believing that production in a foreign market would be more profitable experiences *localization* (L) advantages, and will therefore establish production in the more favourable foreign site. Localization advantages are, for example, available infrastructure, taxes, government policy, material and labour costs and existing natural resources (Dunning, 2001; Dunning & Lundan, 2008).

The investment development path

Later, the eclectic paradigm was extended to include the theory of the *investment development path* (IDP), which explains how a country's outward and inward direct investment position changes as the country develops in economic terms (Dunning and Narula, 1996). As a country undergoes an economic development its OLI advantages change, and it is possible to identify both the reasons underlying the changes as well as the effects of the changes on the country's development (Dunning, 2001). The investment development path shows countries' development in five stages, based on the countries' ability to be outward and/or inward direct investors (Dunning & Narula, 1996).

In the first stage of the investment development path, a country is in a period of pre-industrialization and a country's outward as well as inward direct investments are almost nonexistent (Dunning, 2001). A country's localization advantages are mainly its natural resources but are nevertheless considered to be insufficient to attract inward FDI. However, industries receiving inward FDI in this stage are mainly labor-intensive manufacturing sectors, producing relatively simple consumer products (Dunning & Lundan, 2008). Also a country's companies have few ownership advantages, which is a result of the country suffering from a limited domestic market with low demand levels, insufficient economic systems or government policies, poor infrastructure and an undereducated workforce (Dunning & Narula, 1996).

The second stage is characterized by rising inward FDI while outward FDI is still at a low level. The domestic market has grown, in size or in purchasing power, which allows foreign companies to establish local production (Dunning & Narula, 1996). Depending on companies' strategy and national government policies, a country's (L) advantages will increase as the country increases its efforts to create an improved legal system, infrastructure and skilled human resources (Dunning, 2001). Moreover, emphasis is laid on institutions to support public health, education and transports. In this stage, the small outward investments made are directed towards other developing countries through market and resource-seeking investments (Dunning & Lundan, 2008).

During the third stage, a country experiences a decline in growth of inward FDI but a rise in the growth of outward FDI, resulting in positive net outward investments. The outward investments are directed towards countries in a lower stage in their IDP (Dunning & Narula, 1996). The country is moving towards economic maturity as income levels rise and living standards improve, consumers start demanding higher quality and differentiated goods. Investments are mostly made through greenfield investments but also through mergers and acquisition, and are based on efficiency seeking and strategic asset augmenting, by, for example, seeking foreign technology and brand names. Companies' owner-specific advantages become less based on domestic natural resources and more on managerial and organizational competences within the firm (Dunning & Lundan, 2008).

Countries in stage four experience outward FDI which grows faster than inward FDI. Domestic companies now have the advantage of being able to compete and penetrate foreign markets. The cost of capital is lower than the cost of labor resulting in capital intensive production techniques, and the localization advantages of the country are therefore based on created assets. Companies also increasingly internalize to protect their owner-specific advantages by reaching other markets through FDI rather than through exports (Dunning & Narula, 1996). Countries in this stage are referred to as post-industrial economies as they are leaders in R&D spending on new products and production methods and a large share of the output of companies consists of services. Investments are also increasingly efficiency seeking and asset augmenting through M&As and strategic alliances (Dunning & Lundan, 2008).

Countries in the fifth stage are much like advanced countries in the fourth stage; countries have a net foreign investment position at about zero, location-specific advantages are still derived from created assets and investments abroad are still made in the form of efficiency seeking and strategic asset-seeking. Countries belonging to stage five are, for example, the US, Japan and Sweden (Dunning & Lundan, 2008). Inward FDI to countries in stage five is made by countries at a lower level of the IDP seeking new markets and knowledge (Dunning

& Narula, 1996), but also by countries from stage four or five through efficiency seeking (Dunning & Lundan, 2008). As companies continue to internationalize, national boundaries become less significant and the world becomes increasingly interconnected. Globalization leads to increased strategic asset-seeking investments and countries in the fifth stage will become more similar as they will strive to improve their (O) advantages through M&As or strategic alliances (Dunning & Narula, 1996).

2.2.3 The influence of timing of market entry

Another aspect of the internationalization of firms is the order of entry in a new market. Pioneers, or early entrants, are able to gain higher market shares and other important competitive advantages such as quality, service and differentiated products, compared to those of later entrants. In order to be able to compete with pioneers, late entrants might have to enter a market by offering the same products at a lower price without having the cost advantages to do so. It is also said that late entrants will struggle with low market shares, resulting in lower profits for followers than for pioneers (Miller, Gartner, & Wilson, 1989).

Related to the suggestions of Miller *et al.* (1989) of entry order as a competitive advantage is the idea of early resource holders having a competitive advantage. The classical theory of the resource-based view of firms suggests how firms possessing resources have advantages through these, which enables the companies to internationalize (Wernerfelt, 1984). According to Wernerfelt (1984), firms are semi-permanent holders of resources and might lose these resources over the course of time. For firms, resources can be seen as either a strength or weakness and be both tangible and intangible. An early resource holder can be said to have protection against other players trying to acquire the same resource, thus proposing there is a hindrance to access resources. This hindrance has similarities to the entry barriers of an industry. By possessing resources which other firms do not hold, the company has an advantage. Attractive resources are often rare and difficult for other firms to access. For firms to succeed, they should seek to find resources confined to these characteristics and at the same time complementing resources already possessed. Consequently, a firm owning a resource characterized with resource position barriers is often able to use this favorable position to advance further and to strengthen the barriers. By doing so, the firm limits the threat of competition. To access non-tradable resources and to trade large quantities of resources, firms can engage in mergers and acquisitions (Wernerfelt, 1984).

Further developing the propositions of timing of firms' market entry is the rise of the *born global* firms. The rise of these firms has been possible thanks to globalization, which changed the world and international business. The born globals are characterized by their early operations in international markets from the start of their foundation. They are often a small and technology-oriented company, which starts exporting one or several products within two years of its establishment. The company exports value-added products as it often has advanced technology at its disposal to develop a unique product idea. Specific for born global companies are their mangers who, already from the establishment if the firm, believe the world to be a single, borderless marketplace (Knight & Cavusgil, 1996). The founder of a born global company is often an entrepreneur who has many international experiences, which changes the perception of geographical distance and gives rise to the company becoming a born global (Madsen & Servais, 1997).

2.2.4 Overview of classical theories

Determined by history, the classical theory of the internationalization of firms has primary focused on MNCs from developed economies. Johanson & Vahlne (1977) suggest a gradual process towards internationalization where firms start out by exploring culturally close markets. They also state a theory of *state and change* aspects of the internationalization of firms. Cavusgil (1980) develops the internationalization process of firms to explain how firms internationalize through different forms of exporting, each with a varying degree of market commitment. Furthermore, Dunning's (2001) eclectic paradigm serves to describe how a firm is able to internationalize if having achieved three prerequisites. The investment development path is another theory which suggests the pattern of the internationalization of firms follows the economic development of countries (Dunning & Narula, 1996; Dunning, 2001; Dunning & Lundan, 2008). Wernerfelt's (1984) resource-based view illustrates how important possessing resources have been for traditional MNCs. Finally, the theory of timing determining of the survival of a firm is described with Miller *et al.'s* (1989) suggestion of entry order as a competitive advantage and the relatively recent phenomenon of born globals (Knight & Cavusgil, 1996).

The next section deals with how these classical theories are challenged by the occurrence of emerging market MNCs.

2.3 The need for extending existing theories to emerging market MNCs

In the following section we will explore the area concerning the internationalization of emerging market MNC which is believed to differ. An overview of the outward FDI of emerging markets will be provided, Mathews' (2002) suggestions of latecomer firms and the LLL theory are included, as well as a section explaining particularly the situation for Chinese MNCs.

2.3.1 Outward FDI of emerging markets

Dunning, Kim & Park (2008) suggest that there are both differences and similarities in the forms of outward foreign direct investment (OFDI) concerning industry and geographical dispersion for MNCs from emerging markets and developed economies. Factors influencing the OFDI can be either exogenous (notably economic globalization) as well as endogenous (legislation) (Dunning, Kim & Park, 2008).

The investment development path can be used to describe how a country's FDI follows the development of the incomes of the population. The increase of a country's per capita incomes attracts inward FDI, and the country is successively moving towards engaging in outward FDI itself. This has been the case for the majority of developed countries. Moreover, research suggests that the ratio of outward-inward FDI is also affected by country-specific factors such as institutional context, economic structure, grade of liberalization in international trade and capital flows, and government's FDI policy. Emerging markets are widely different in this respect. Generally, one can divide the reasons to why firms engage in FDI into the following categories: asset exploiting FDI, meaning the use of existing ownership advantages; and asset augmenting FDI, which is acquisition of vital ownership-specific advantages. There are several other motives as well, but these two conform to an extensive share of firms (Dunning *et al.*, 2008).

Waves of OFDI from emerging markets

Among emerging market MNCs, Asian MNCs can be said to have a more geographically diversified OFDI, while MNCs from Latin America and Central and Eastern Europe choose markets at a shorter psychic distance. One can categorize the OFDI of emerging market MNCs to different waves depending on the recipients of FDI. In the first wave, during the 1970s, OFDI mainly saw regional recipients. In the second wave of the 1980s, OFDI went to developed countries. In the third wave, 1990-2000s, OFDI took a pattern of mainly regional flows, possibly because of economic turbulence. Nevertheless, there are incentives for outlining a fourth wave of OFDI which concerns the wish of accessing new technologies, brand names and organizational competences, namely asset augmenting investments, where developed markets are the main destinations (Dunning *et al.*, 2008).

Since the 1980s, the *economic globalization* is said to have begun with the removal of cross-border barriers regarding goods, capital, labor, capital and services. This has led to a rapid globalization process. Furthermore, the shift in China's economic politics in the late 1970s, from a planned economic system towards more market-oriented system, has contributed to the addition of possible consumers to the world market. India with its economic reforms in the 1990s, has also contributed to this phenomenon. Gradually, earlier policies of protectionism and import substitution in developing countries are diminishing in favor of trade liberalization. Before the 1980s, referred to as the pre-globalization period the majority of FDI originated in developed economies. Outward FDI from emerging markets had a limited share of the total FDI flows. Common motives were market-seeking or efficiency seeking FDI, even more prominent for intra-Triad cases. The post-globalization era has seen an expansion in emerging market MNCs and growth of FDI from developing countries. Primarily, the motives of these firms have been market- and resource-seeking but since 2000, a trend for asset augmenting FDI has been noticed, in particular for Asian firms (Dunning *et al.*, 2008).

Exogenous and endogenous factors

The most striking exogenous factor is globalization. Globalization has affected countries in many ways, for example, liberalization of government policies regarding international capital flows, technological development concerning transportation, communications, and information. Endogenous factors, on the other hand, could be institutions, country-specific factors like geography and size, natural and created assets, GDP statistics, OLI advantage of firms, FDI legislation in home government, intra-regional FDI (Dunning *et al.*, 2008).

Differences in FDI

A major difference between the FDI of emerging markets and that of developed markets is the governmental influence over investment decisions. Along with the shift from import-substituting strategy to export-oriented policies, firms from emerging markets are more affected by the support of their own governments and institutions (Dunning *et al.*, 2008).

Furthermore, differences also lie in the fact that the motives for engaging in FDI are different between firms from developed economies on the one hand and emerging economies on the other. The most significant difference has to do with the owner-specific advantages that firms possess. It is not meant that companies from emerging markets are lacking the O; but it is less determinative for the FDI of these firms. To compensate, MNCs of emerging markets have many country-specific advantages which can play a major role in their international expansion (Dunning *et al.*, 2008).

Another major significance is the rate today at which firm internationalize. Globalization has enabled a much more rapid international expansion than was possible 30 years ago. Companies from emerging economies are today expanding globally before they have become large in their own markets (Dunning *et al.*, 2008).

The recent trend of acquiring strategic assets can be derived from the integration of single markets into regional or global markets, which has increased competitiveness. Thus, incentives for acquiring strategic assets are strengthening and changing the earlier patterns of FDI (Dunning *et al.*, 2008).

Emerging economies, such as China and India, do not apply to the investment development path in their foreign investment patterns with regard to their relatively early actions of outward investments. Also, the entry strategies are different. MNCs of emerging markets choose network-related and collaborative forms compared to the MNCs of developed countries. Furthermore, emerging market MNCs tend to be regional or geocentric from the beginning of their international expansion. The home institutions have also played a vital role, providing capital and giving rise to a number of aspects which emerging market MNCs have used to their benefit (Dunning *et al.*, 2008). However, Dunning *et al.* (2008) believe that the FDI of emerging economies might, in the long run, not vary so much from the investment development path regarding localization choices.

2.3.2 The latecomer firm

There are several examples of countries, by definition called latecomer nations, which have been successful in creating internationally competitive firms. When discussing firms' entry order, Mathews (2002) argues it is important to distinguish between late entrants (defined by Miller *et al.*, 1989) and latecomers. He has defined a firm as a latecomer firm if the following conditions are met: the company's industry entry is late by history and not by choice, initial resources are lacking, and strategic intent is to catch-up with competitors from developed countries. Another major difference is also the amount of resources possessed by each category of firms; the latecomer usually has fewer resources than the late entrant firm, which consequently will affect the behavior of the latecomer (Mathews, 2002).

East Asia is a region producing many latecomer firms, with Japan as a prominent example of providing competitive firms. With supportive state agencies, companies from these countries are able to grow to competitive, strong challengers. These companies are able to avoid organizational inertia, something that might affect companies from countries without this kind of state support. Latecomer firms also skip the incremental acquisition of technology, by starting out to enter a market with the most advanced technology available. Moreover, these firms engage in close collaborations with other firms, enhancing their survival (Mathews, 2002).

2.3.3 Mathews' LLL theory

The resource-based view (Wernerfelt, 1984) suggests that companies not only compete with products, but also with the underlying resources possessed by each firm. Mathews (2002) extends the resource-based view in order to explain the success of latecomer firms, since these firms are perceived to possess fewer resources from start. For this purpose, the LLL theory has been introduced. The resource-based view claims that firms have a competitive advantage when their resources are: valuable and rare, non-imitable and non-transferable. Latecomer firms are therefore likely to be attracted to resources with the following characteristics: rare, easy imitable and effortlessly transferable (Mathews, 2002).

In a globalized world, emerging market companies are presented with opportunities of engaging in the global production chains of MNCs of developed countries. By being linked in these global value chains as suppliers, emerging market companies can further secure more than just a constant stream of revenues. Global production chains, many times in the strategic goal of an incumbent to lower production costs, generate various opportunities for companies from emerging markets to be drawn into worldwide networks of production. In the case of high technology industries, four options on the part of the incumbent result in the creation of this kind of network: outsourcing/original equipment manufacturing (OEM) contracting, local sourcing, second sourcing and technology licensing. *Linking* with mature market MNCs, a latecomer firm from emerging markets can *leverage* knowledge and technology, and market access. The two factors discussed above are not enough for the success of a latecomer firm. Repeated application of linkage and leverage will ultimately result in a *learning* process which the latecomer firm can employ for further growth (Mathews, 2002).

2.3.4 The springboard perspective of emerging market MNCs

Luo and Tung (2007) propose the springboard perspective for explaining the FDI and internationalization of the multinationals of emerging markets. The springboard perspective explains how internationalization acts as a catalyst for a company's expansion (Luo & Tung, 2007).

The seven springboard steps

The authors refer to the systematic use of international expansion as a springboard for acquiring valuable resources and assets in order to stay competitive, both domestically and internationally, and to decrease the vulnerability of institutional constraints in the home market. It is also suggested that the expansion, and the springboard steps, is part of a bigger plan to promote a long term position internationally. Consequently, international expansion can be seen as a springboard for the success of many emerging market MNCs. There are seven steps of springboard steps, described further hereafter (Luo & Tung, 2007).

Lou & Tung (2007) suggest that emerging market MNCs use international expansion as a springboard:

- *to compensate for competitive disadvantages;*

Emerging market MNCs search for advanced technology and know-how to compensate for their competitive disadvantages. Contrary to mature market MNCs, emerging market MNCs internationalize in order to gain these owner-specific advantages. Developed country MNCs internationalize to exploit their owner-specific advantages.

- *to overcome their latecomer disadvantage;*

In order to offset their latecomer disadvantages, MNCs of emerging markets engage in M&As and strategic asset-seeking activities to fill the voids of consumer base, brand recognition and technology advances. The internationalization of emerging market MNCs is triggered by *pull-factors* (contrary to newly industrialized economies, which were pushed to internationalization) to secure critical resources, acquire advanced technology, managerial expertise, access to consumers.

- *to counter-attack global competitors' strong market;*

While the home market is the most important market for many emerging market MNCs, it is also a market where strong, global competitors are based.

- *to bypass stringent trade barriers;*

Quota restrictions, anti-dumping penalties and special tariff penalties are common trade barriers which motivate firms from all countries to internationalize in order to access a foreign market. Outward investment by emerging market MNCs is then made in a country that is preferably treated by the target country.

- *to alleviate domestic institutional constraints;*

Poor IPR and law enforcement, non-transparent judicial and litigation systems, insufficient factor markets and inefficient market intermediaries and political instability motivate companies to move operations to another, stabile country.

- *to secure preferential treatment offered by emerging market governments;*

Reverse investment via investment in tax-haven countries to reinvest in home market. The reinvestment is then treated as inward foreign direct investment and can imply different kinds of privileges.

- *to exploit their competitive advantages in other emerging or developing markets;*

Emerging market MNCs are often big national champions, starting their international expansion through OEM. By gaining knowledge through these international linkages, emerging market MNCs are in a good position to produce at low costs.

2.3.5 Overview of theories on the internationalization process of emerging market MNCs

Luo & Tung (2007) outline seven steps of the springboard perspective to describe how and why firms internationalize in order to grow. While these firms tend to have limited ownership-specific advantages, country-specific advantages have been internalized to be used outside their country of origin. It is important to remember that MNCs from developed countries are also affected by globalization, technological progress and learning experiences (Dunning *et al.*, 2008). Mathews (2002) proposes the LLL theory where latecomer firms are engaged in global production networks in which they can leverage knowledge and technology through their partners in a learning process. Consequently, their motive and patterns of FDI are also changing. Dunning, *et al.* (2008) also suggest that the success of MNCs from emerging countries lies in the ability to link firm-specific and country-specific institutional distance, such as environmental and social responsibility. FDI from emerging markets with regard to localization choice might eventually in the future resemble MNCs of developed countries (Dunning *et al.*, 2008).

2.4 Internationalization of Chinese companies

As stated earlier, the internationalization process of emerging market MNCs differs from that of MNCs from developed countries. However, the notion of emerging markets is very wide and the concerned differ in a number of aspects such as institutional influence, reasons for internationalizing and ownership structure, among others. These are features of great importance when studying the internationalization process of Chinese firms, which is the focus of this section.

2.4.1 Characteristics of Chinese outward FDI

Being the *world factory*, China has received huge inward FDI flows since the mid 1990s from firms wishing to establish in a location of low-cost labor and production. China's large inward FDI has been one of the reasons for its more recently growing outward FDI. These large inflows of capital have resulted in a massive foreign currency reserve enabling Chinese firms to invest abroad (Yeung & Liu, 2008). China also has a high level of economic growth, a current account surplus and a high level of domestic savings, as a financial base for investing overseas (Deng, 2004).

Most outward FDI from China is directed towards developing countries with geographical or institutional proximity to access lower factor costs, resources and new markets (Yeung & Liu, 2008).

Furthermore, research has shown how Chinese firms tend to prefer entering countries with a base of ethnic-Chinese social networks. Nevertheless, this trend has not been as strong for Chinese firms internationalizing in recent years (Child & Rodrigues, 2005). In 2006, China was the largest outward FDI flow investor among developing countries. However, this thesis focuses on Chinese outward FDI towards developed countries, which is primarily to access advanced technology, manufacturing capabilities, global brands and management expertise (Yeung & Liu, 2008). As Chinese companies enter developed foreign markets to catch up and gain new competencies rather than exploiting existing assets, they apply to the theory of latecomer firms (Child & Rodrigues, 2005).

China differs from other newly industrialized economies of East Asia and Japan, as the OFDI of these countries has been driven by *push* factors; meaning that these economies have experienced labor shortages, operating costs, and small, saturated markets. In contrast, Chinese OFDI originates in *pull* factors, as China has the desire to increase supplies of natural resources, circumvent trade barriers, enter new markets, and acquire advanced technology and strategic assets (Deng, 2004).

Classical theory on the internationalization of companies focuses solely on the company rather than on its position in and influence on society. Therefore, the internationalization process of firms is seen from an economic perspective rather than from a social and political point of view. Developing countries often experience active government involvement in business in terms of ownership and regulation. This is to a large extent the case for China, as the internationalization of Chinese firms is closely linked to the Chinese government. Many Chinese companies benefit from the government's involvement in key businesses as they receive financial support and protection to become national champions (Child & Rodrigues, 2005). Outward FDI from Chinese companies is to a large extent part of the Chinese government's development strategy; since the 1980s the government has required its subsidiaries abroad to achieve one of the following goals: transferring advanced technology, accessing raw material, earning foreign exchange or expanding exports (Deng, 2004).

2.4.2 Chinese outward FDI policy development

Outward FDI from China has evolved over the years, experiencing both restrictive and supportive policies from the Chinese government. During the period 1979 to 1985, the Chinese government started to integrate China into the world economy. However, the internationalization of Chinese firms was restricted to only include state-owned enterprises (SOEs) (Buckley, Clegg, Cross, Xin, Voss & Zheng, 2007), approved on a case-by-case basis by the State Council (Woo & Zhang, 2006). During the next period, until 1991, China experienced a liberalization of restraining policies and regulations, allowing also non-state firms to expand abroad through a foreign affiliate. This was allowed on condition that the companies had a joint venture partner, sufficient capital, and technical and operational know-how (Buckley *et al*., 2007). The approval process became a more standardized procedure than the earlier case-by-case approach (Woo & Zhang, 2006).

From 1992 to 1998, the internationalization of Chinese enterprises was part of the national economic development policy and investments were made under the supervision of authorities at a sub-national level. However, the Asian crisis in 1997 led to a decline in OFDI growth, although China's total OFDI increased. There was also concern about capital flight and loss of control of state assets. This led to Chinese outward FDI again being regularized at the turn of the century. Conversely, some industries were encouraged through financial support, foreign exchange assistance and export tax rebates, among other things, to continue internationalizing. The privileged industries were textiles, machinery and electrical equipment, but also activities promoting the exports of raw materials, parts and machinery were supported. This was part of the *Go Global policy*, outlined in China's 10^{th} five-year plan in 2001, with the result of continued growth of OFDI (Buckley *et al.*, 2007).

In 2001, China entered the World Trade Organization (WTO). Since then, domestic competition has become fierce, forcing companies to seek an international market. Chinese firms still experienced contradictory policies as the Chinese government, in the 11^{th} five-year plan from 2006, continued to encourage companies to internationalize while restricting active support of OFDI to limit the loss of control of state assets. The approval of internationalization of Chinese companies was also still under the control of authorities at a decentralized level (Buckley *et al.*, 2007). The Chinese OFDI policy has, however, undergone recent changes within five areas: creating incentives for outward investment, providing guidance on investment opportunities, streamlining administrative processes to decentralize authority to a local level, facilitating capital controls and reducing investment risks (Woo & Zhang, 2006).

	Chinese outward FDI development
1979-1985	Stage 1: Cautious internationalization
1986-1991	Stage 2: Government encouragement
1992-1998	Stage 3: Expansion and regulation
1999-2001	Stage 4: Implementation of the "Go Global" policy
2001-2007	Stage 5: Post-WTO period

Figure 2.2: Chinese outward FDI development (Buckley *et al.*, 2007)

In March 2011, the Chinese government's 12th five-year plan was released. The main objective of this 12th five-year plan is to stimulate consumption by maintaining a sustainable growth. There are incentives for reducing China's export dependence by lowering import tariffs in order to try balance the trade surplus. Furthermore, the government plans to raise the limit for tax-free income as a means to further promote household consumption (The Telegraph, 2011). Industries receiving preferential status are within energy-saving sectors, environmental protection, new information technology, biotechnology, new energy, new energy vehicles, high-end equipment manufacturing and new materials. To promote these industries, incentives are given to domestic companies, but they are also most likely to include foreign firms which will attract more foreign direct investment to China (Reuters, 2011).

2.4.3 Motives for Chinese firms to internationalize

Companies internationalize to access strategically important tools, which will give the companies an advantage in the market. A company may have several motives to internationalize, where common motives are based on resource-seeking, market-seeking, technology-seeking, diversification-seeking and strategic asset-seeking investments (Deng, 2004).

Resource-seeking investments are made by Chinese firms as natural resources are needed to secure the country's supply of raw materials. Although China has many natural resources, the amount counted per capita is very low as the demand for sectors such as petroleum, iron ore, aluminum, copper, timber and fish is growing. These large-scale Chinese natural resource-seeking investments are usually made through acquisitions, as this method enables the firm to rapidly take over an existing company, access the new market and get in contact with local business networks, involving distribution and suppliers (Deng, 2004).

A company may also choose to realize a *market-seeking* investment, as the Chinese market has grown saturated. However, in a number of industries such as textiles, clothing, footwear, bicycles, electrical appliances, there is room to produce more, which make Chinese firms enter other markets to sell their products. Chinese firms have, however, been subject to a number of anti-dumping cases as well as several trade barriers, restricting the possibility for these firms to sell their products in other markets. These restrictions make it necessary for Chinese firms to establish foreign subsidiaries to be able to sell in that region. To circumvent these trade barriers, Chinese firms have set up subsidiaries in foreign markets, such as Mexico and Mauritius, to use these countries' quota rights to sell their products (Deng, 2004). The resource and market-seeking investments are the most common motives to internationalize among Chinese MNCs, and are often directed towards developing countries (Yeung & Liu, 2008).

Chinese MNCs also engage in *technology-seeking* FDI, as is the case for many MNCs from emerging markets. The companies therefore invest in developed countries to access advanced technology and know-how needed to gain a competitive advantage. Chinese firms tend to acquire foreign firms regarding technology-seeking investments (Deng, 2004).

Another motive to enter a foreign market is through a *diversification-seeking* investment, through which large Chinese companies seek to diversify into other business fields to hedge risks (Yeung & Liu, 2008). These investments are often supported by the Chinese government, as it is in the government's interest to see the rise of large Chinese diversified MNCs. An example of this is Sinochem, which became a diversified MNC in the trading industry with business in a variety of industries, such as petroleum fertilizers, chemicals, financing, investment, consultancy and tourism (Deng, 2004).

Chinese companies may also enter a developed foreign market to access strategically important assets. These *strategic asset-seeking* investments will help the company to pursue its long term strategic goals and gain a competitive advantage (Deng, 2009). In particular, Chinese firms are looking to establishing a globally recognized brand. Chinese firms also invest in their competitors' domestic markets to be able to move forward with their global production and marketing strategies (Deng, 2004). Chinese companies try to catch up rapidly and fill the gap to MNCs in developed countries by engaging in strategic asset-seeking investments to gain superior resources and skills. These investments are often made through M&As and may help Chinese firms gaining prestige in the foreign market (Deng, 2009).

2.4.4 Chinese firms' entry modes to internationalize

Chinese firms are perceived as using three different ways to internationalize. The first internationalization strategy of partnership through OEM or a JV is referred to as *inward* internationalization and implies there is a continuing, operational and organizational relationship with the partnering foreign firm. The partnership results in the exchange of knowledge which will help the Chinese firm in the preparation of an eventual *outward* internationalization through exporting and investments abroad, referred to as the two latter internationalization strategies of acquisition and organic expansion (Child & Rodrigues, 2005).

Original equipment manufacturing or joint venture

Many mainland Chinese companies choose to form a joint venture with foreign companies, start a partnership through OEM or to license a foreign firm's technology. This first step to internationalize through the cooperation with a foreign firm will increase the Chinese firm's knowledge of international practices and thus increase the firm's future international competitiveness by reducing the liability of foreignness. The company also benefits from this strategy since a partnership involves little financial risk. The Chinese government supports joint ventures between Chinese and foreign firms for the possibility of transferring knowledge and technology, resulting in the Chinese firm developing a competitive advantage. Often the sharing of technology has been a requirement from the Chinese authorities for foreign companies to establish in China. Partnership through OEM is a tradeoff between Chinese companies' cost advantages and the foreign firm's brand advantage. Through the OEM strategy, a Chinese firm has the advantage of economies of scale and the advantage of maintaining its identity. Thus, the OEM strategy has shown to be especially important for Chinese firms when developing a sufficient reputation to launch its own international brand. In a technology transfer JV, however, the Chinese firm's identity tends to disappear in favor of the dominant foreign firm (Child & Rodrigues, 2005).

Acquisition

The strategy of acquiring foreign firms has grown in importance and usage among Chinese firms. The motives for entering other markets through acquisitions are, besides gaining market strength, rapidly acquiring international brand advantage and gaining access to technology and development skills. This strategy is also used to preempt competitors from entering a market. Yet, there are several challenges connected to the strategy of acquisition, such as the risk of over-paying. The consent of the Chinese government is often required for an acquisition, and even though many Chinese companies have the financial resources to acquire foreign firms, the Chinese government is often involved financially (Child & Rodrigues, 2005).

Organic international expansion

The second outward internationalization mode is the organic international expansion strategy, which involves greenfield investments in subsidiaries and facilities in a foreign market. Although the organic international expansion strategy is slower and more costly than that of acquisitions, it aims at gaining differentiation advantages in the foreign market, such as adjusting to local preferences or gaining local brand recognition. It also facilitates global integration and gives the company total managerial control over the entities overseas, enabling the company to train local employees according to the company's own practices within the subsidiary. Entering a foreign market through organic expansion enables a company to exploit its existing assets as well as seek assets to improve its position in the marketplace. Engaging in a greenfield investment in a mature and competitive market also strengthens the credibility of the brand (Child & Rodrigues, 2005).

2.4.5 State-owned versus private Chinese companies

While Chinese companies differ largely from other emerging market MNCs, there are also differences among Chinese companies. Prior research has mainly focused on large, state-owned, high-profile Chinese MNCs since most companies in China were state-owned. Recently the Chinese market has seen an increasingly differing ownership structure with the emergence of state-owned, collectively owned, private and foreign invested companies. The institutional influence in business is strong in China where large state-owned enterprises (SOE) often are national champions and controlled by the government. Increasingly, private firms, operating in a free-market environment without government support, are entering the market and becoming more important for the Chinese economy than the earlier dominating SOEs. Due to ownership structure, state-owned and private Chinese companies differ in several aspects, of which two will be treated in detail: internationalization motives and entry modes (Lin, 2010).

Internationalization motive

The internationalization of SOEs is often a decision made by the Chinese government. Furthermore, the motive for SOEs to internationalize is not always economically rational and is thus more likely to be made for other reasons, compared to private MNCs. This can be seen as the government possibly paying a price well above market value when acquiring a firm to enter a foreign market. Overpaying is possible as the government has the financial resources to support the overseas expansion. However, this is not the case for private Chinese firms as they need to generate profits since they do not have the support of the government to rely on. Therefore, private firms are perceived as more profitable than SOEs in the short term. However, given the SOEs will receive financial support from the Chinese government, it is uncertain which of the private firms or SOEs have the best survival rate in the long term. Through international expansion, private Chinese MNCs also believe they can escape the keen domestic competition, as international markets are perceived to be less fierce than their domestic market (Lin, 2010).

Entry strategies

It is not possible to explain the entry strategies of Chinese SOEs through classical internationalization theories according to the Uppsala model, as a company's level of integration and commitment to internationalize in a market would be dependent on the company's market knowledge. This is due to the fact that most Chinese SOEs, despite having no international experience, still prefer full scale internationalization often through acquisitions supported by the government. On the other hand, private Chinese MNCs with limited resources search for networks and partnerships in order to succeed and are more given to following the classical approach with gradual internationalization involving fewer risks. As a consequence, SOEs are more deeply integrated into foreign markets and are more likely to leapfrog, i.e. skip the gradual integration stages in the internationalization processes. This is in contrast to private Chinese MNCs, which take a more careful and incremental approach when internationalizing (Lin, 2010).

2.4.6 Overview of the internationalization of Chinese companies

As stated above, Chinese OFDI has experienced restrictions as well as liberalizations. In the early days, the Chinese government only allowed state-owned enterprises to internationalize but this later also came to include private firms. The internationalization of Chinese firms has always been regulated by the Chinese government, which has been highly influential in Chinese OFDI policy both at state as well as local level. Yeung & Liu (2008) suggest that Chinese companies access resources and new markets mostly through entering developing countries. However, increasingly more Chinese MNCs engage in technology and strategic asset-seeking FDI into developed markets to gain a competitive advantage. Chinese MNCs also go overseas to pursue diversification-seeking FDI. Child & Rodrigues (2005) suggest that Chinese firms internationalize through OEM or joint ventures, acquisitions and organic expansions. Lin (2010) also initiates the discussion of differences in the internationalization process between state-owned and private Chinese MNCs regarding internationalization motives and entry strategies. There are differences between the two types of companies, depending on their relation to the state, which also will determine the success of the companies when internationalizing.

3. Methodology

This chapter presents the research approach for our study. The procedure of primary data collection is covered in this section to assess the empirical work of the research. Moreover, the research quality is discussed.

3.1 Research approach

Research can be classified as either explorative, descriptive or tests of hypotheses. The choice of any one of these is dependent on the knowledge base of the area. An *explorative* study is conducted when there are major knowledge gaps within the problem area. The main purpose of an explorative study is to achieve broad comprehension of the subject as a ground for future research. When a problem area has been explored and gained much knowledge, a study of *descriptive* nature is to be preferred. This type of study utilizes established models and theories to explain a phenomenon. Research is focused on a narrow area of interest and is more descriptive and more detailed. A common purpose is also to analyze the correlation between different variables. *Tests of hypotheses* are widely used when the problem area has been further developed. This method seeks to assess how variables affect the outcome of a certain situation (Patel and Davidson, 2003).

Much research has been conducted within international business and has evolved over the years as globalization has contributed to the international activities of firms. Earlier research has focused on multinational companies from developed markets entering developing markets, which has led to the creation of numerous theories and models in the area. Recently, emerging market multinational firms have increased their presence in the global economy, resulting in research successively being extended to also include the internationalization of multinational companies from emerging markets. Despite the field of the internationalization behavior of emerging market multinational firms being relatively young, research has been conducted to describe this new phenomenon. Therefore, it is our belief that research in this area is well explored. Hence, this study is of a descriptive nature as we have used existing theories to illustrate this phenomenon.

3.1.1 Deductive research

Throughout our thesis we have used a deductive method. The deductive method is based on acknowledged theories in the subject, to which the results from the study are applied in order to examine whether there is a convergence between the two. In contrast, the inductive method proposes the empirical results as a starting point to find a general pattern to be able to formulate a theory (Jacobsen, 2002). However, the area of study for our thesis has a well-researched base where the aim of our thesis is to research on the extension of existing theories by studying the recent patterns of emerging market MNCs.

3.2 Qualitative and quantitative study

The method chosen to collect empirical research is based on the context of the research. Both qualitative and quantitative research can be used in the same study the two methods do not mutually exclude each other, but should instead be seen as complementary tools in the study where both methods have advantages and disadvantages. A qualitative study is often based on interviews and observations as well as articles, and is used to find a description of a phenomenon. In contrast, a quantitative study is often made through extensive questionnaires and is based upon numerical data (Jacobsen, 2002).

An advantage of a qualitative study is that through its openness, the data received will be very individual to the interviewee who has his/her personal interpretation of a situation. However, the qualitative study is demanding in terms of resources, resulting in an intense study with a few respondents with profound interviews. A small number of interviewees make it difficult to draw a general conclusion from a qualitative study. Moreover, a quantitative study standardizes information which becomes easy to process. This result in the possibility of conducting more interviews, which means that generalization about the results can be made. It is also easier to keep your distance to the interviewees, which is preferred in more impersonal and general relations. However, the great disadvantage of this method is that the study might become shallow due to the large number of respondents where it is often not possible to ask more detailed questions (Jacobsen, 2002).

We have chosen to conduct the study through a qualitative and a quantitative approach to reach a comprehensive result to get a broad as well as a detailed perspective of reality. By using several methods in our study we have found more perspectives on this relatively new phenomenon which needs to be further studied. Hence, to use both approaches as a base of study was important for us since quantitative statistics clearly show how the trends of Chinese inward and outward FDI have developed throughout the years. Furthermore, a qualitative study of a Chinese company, Haier, and an interview with an investor with much knowledge in the business has shown us the detailed context and rationale behind the statistics.

3.3 Data collection

The data in our thesis has been collected from primary as well as secondary sources. Primary data is collected directly from the source and for the aim of the specific study. On the contrary, secondary data has been gathered by others, where the aim of the study does not necessarily converge with that of the researcher (Jacobsen, 2002). The collection of data for the fourth chapter containing the *empirical study* will be explained in detail in the following sections.

3.3.1 Statistics

The statistics in our thesis are important as they give the reader a clear view of the trend in China's FDI flows over time. We have used published figures as we were not able ourselves to conduct a large enough study to obtain a valid result. Furthermore, the statistics used are from reliable sources used by many researchers within the field. We have been aiming for accessing the most recent data as possible. When collecting the relevant data we have also considered the financial crisis in 2008, which has altered global FDI flows and international business. Therefore, data showing FDI flows in 2008 and 2009 should be taken into account.

The statistics are secondary quantitative data, published by UNCTAD and UNCTADstat's statistical database and from the Ministry of Commerce of the People's Republic of China's *2008* and *2009 Statistical Bulletin of China's Outward Foreign Direct Investment*. However, when using statistics from different sources, it is important to take into account the definition of each source of the object studied. UNCTAD defines FDI as the non-financial flows between entities, while the Ministry of Commerce of the People's Republic of China includes both financial and non-financial flows in its definition of FDI. Therefore, the figures and tables derived from the Ministry of Commerce show a significant large share of FDI to Hong Kong and tax havens. It is important to acknowledge the presence of these financial FDI flows when comparing data.

The statistics from these two organizations enable the reader to see the trend in China's inward and outward FDI flows. We used all available data from 1980-2009 to get the full picture of the trend over several years. The following two figures including China's outward FDI in 2003-2009 and the geographical distribution of Chinese OFDI in 2009 are important for our thesis as they show the recent development of outward FDI flows and to which locations the flows are directed. We chose to end the figures in the year 2009 since this was the last year with available data from the Ministry of Commerce.

Figure 4.4 shows the Chinese OFDI flows to developed countries in Europe, which is of special interest to our thesis. Also here, the statistics originate in the Ministry of Commerce. The developed countries have been selected according to the definition of the countries as *advanced economies* by the International Monetary Fund. The countries are Austria, Belgium, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Norway, Slovakia, Spain, Sweden, Switzerland and the United Kingdom. It is worth noticing that there is no data available for Iceland, Portugal and Slovenia resulting in these countries not being part of this graph. Furthermore, in particular during the years 2003-2006, data is missing for several years and countries, resulting in the lower amount of OFDI for these years. Hence, the result of this figure should be viewed to increase understanding of the trend of Chinese OFDI to developed countries in Europe, rather than focusing solely on specific countries.

Furthermore, we have developed a table of the 10 largest Chinese OFDI by sector in the years 2007-2008. The most recent available data for us was retrieved from the *2008 Statistical Bulletin of China's Outward Foreign Direct Investment*. Corresponding data was not available in the *2009 Statistical Bulletin of China's Outward Foreign Direct Investment.*

3.3.2 Case study

To gain knowledge about change and processes, a case study is often used since case studies provide an overall picture of the studied object. A researcher can choose to conduct one or several case studies on individuals, groups of individuals, organizations or different situations. The generalization of a case study is closely linked to the way the case has been chosen. Randomly selected case studies and carefully selected case studies will have different degrees of generalization of results. When doing a case study, the researcher attempts to collect data which covers as many areas as possible concerning the studied case. Data often concern various types of information. This is done to create an overall perspective of the case (Patel & Davidson, 2003).

Through secondary data such as research articles and the company's webpage, we have found empirical evidence about the internationalization process, strategies and key success factors of the Chinese company Haier. We have also used information collected through secondary data from published academic studies to carry out the case study on Haier. Due to time restrictions, we have chosen to only do a case study on one company. We are aware of this affecting the results and the restrictions on generalization of the internationalization of emerging market MNCs. However, we have instead been able to do a qualitative study on the company to thoroughly understand each part of its internationalization process. By using different sources in our study, we have been able to draw conclusions on the internationalization of Haier based on information provided by several sources. Hence, it is our belief that the information collected is reliable.

The Haier Group is a company in the consumer electronics sector, with products ranging from refrigerators to electronic wine cellars and TV/videos. The company is known for its remarkable and rapid internationalization process, as it started to internationalize early and has leveraged on its partners to acquire technology. Also, Haier has struggled with being a latecomer firm but has eventually proved to be able to overcome some of the obstacles. Therefore, we reasoned Haier to be an interesting example of an emerging market MNC to see whether the company conforms to classical theories or theories adapted to emerging market MNCs.

3.3.3 Interviews

Our primary sources reflect the two individual, semi-structured interviews conducted with two representatives working within the field of international business and foreign direct investments. We conducted qualitative interviews where the interviewees were asked about the internationalization process of Chinese companies, their entry modes, localization strategies and possible difficulties of entering Sweden. Our initial aim was to study Chinese MNCs entering Sweden. Due to limitations in data the collection we changed from a Swedish perspective to a European perspective after consulting with our tutor. Before the interview, an interview guide was sent out to the respondents containing an overview of the areas of discussion.

The interviews were conducted with an investment advisor working at Invest Sweden and a person working at a Chinese organization with the purpose of promoting Chinese-Swedish commerce relations and who prefers to be anonymous. Invest Sweden is a state-funded agency with the aim to mainly promote Swedish companies in the world, but also to promote Sweden as a good location for foreign companies to invest in. The choice to interview these two people was based on the idea to collect opinions from people working with the same questions but from two different angles.

We chose to interview an investment advisor at Invest Sweden as this agency has much knowledge within the area of interest for our thesis. The interview was conducted with Sören Pettersson, senior investment advisor, who is in charge of Sweden's relations with China. It took place at Invest Sweden's headquarters at the World Trade Center in Stockholm. See Appendix 3 for the interview guide.

We also conducted an interview with a person working at an organization with the aim of promoting Chinese-Swedish commerce relations. However, we were forced to reject this interview since the result was not detailed enough to give us a clear view of the phenomenon studied. Due to cultural and language barriers, the result of the interview could not be validated. Hence, the relevance of the interview was difficult to measure.

3.4 Research quality

For our study, it has been important to continuously validate the data collection in order to attain a reliable result. In our data collection, we have searched for relevant statistics with trustworthiness, used several sources for our case study to be able to find reliable information concerning the company. We estimate our interview with Invest Sweden, as an agency publicly funded, to be a trustworthy source although it is in the interest of the agency to promote Sweden. However, we have rejected our other interview since we found it to be insufficient. Although we acknowledge the fact that some of the statistical data obtained originate in a totalitarian state, we have found that many researchers in this field have used these sources, and thus they can be considered credible.

4. Empirical study

In this chapter, we study examples of the increase of emerging market MNCs in the economy. We focus on the FDI flows from China into developed economies. Furthermore, a case study of the Chinese home appliance firm Haier will be conducted as well as the results of the interview will be presented.

4.1 Chinese investments in Europe

Industry experts predict a wave of Chinese investments in Europe for accessing new markets and controlling global supply chains, mainly in engineering and technology. Between November 2009 and March 2010, $64.3 billion were transferred to Europe from China in various forms of investments, such as acquisitions, trade deals and loans. Areas of interest in this investment wave have been manufacturing and engineering. The decision to invest in Europe rather than the USA springs from the perception of Europe being less protectionist towards Chinese investments. Many Chinese firms aim to acquire European know-how and technology to be transferred and utilized in Chinese production facilities at home. This was the case of, for example, China's Bluestar acquiring the Norwegian Elkem. The second motive is the possibility of quickly access a broad customer base, which would otherwise have been inaccessible to Chinese companies due to aversion to buy from a less recognized Chinese manufacturer (Financial Times, 2011a). Also, it is not uncommon that Chinese companies acquire foreign companies in various crises like insolvency (Financial Times, 2011b).

4.2 China's outward FDI

In the following section covering statistics of Chinese OFDI, data from two different sources have been used. These two sources have different definitions of FDI where UNCTADstat removes the financial outflows from its OFDI data, while the Ministry of Commerce of People's Republic of China includes these financial flows.

Statistics from UNCTADstat (2011b) show a trend for increased Chinese FDI flows, both for outward and inward investments. Figure 4.1 shows the development of Chinese FDI flows from 1980 to 2009. Inward FDI started growing during the 1990s due to deregulations and liberalizations of markets. This made China attractive for foreign investors and companies from developed economies seeking to lower their production costs. However, in 1997, the

Asian crisis affected the international business environment, leading to a temporary decrease in inward FDI to China. China, having become the world factory, has always had a strong growth since it opened up to foreign investments. Outward Chinese FDI has had a remarkable growth since the beginning of the 21st century. Throughout the years, the Chinese government has had control over the internationalization of its domestic companies. Gradually, the government has taken upon a more international approach in its OFDI policy. The Go Global policy in 2001 became the catalyst for increased Chinese outward investments.

In 2008, a financial crisis hit the world economy which resulted in a decrease in both Chinese inward and outward FDI. This resulted in inward FDI to China in 2009 amounting to US$ 95,000 million, and outward FDI reached a total of US$ 48,000 million (UNCTADstat, 2011b). The steep decrease of OFDI in 2008-2009, see figure 4.1, may not be the result of a decreased number of Chinese OFDI but a decrease in the value of OFDI flows. Hence, the lower value might be a result from Chinese companies acquiring companies from developed countries at a lower price due to the crisis.

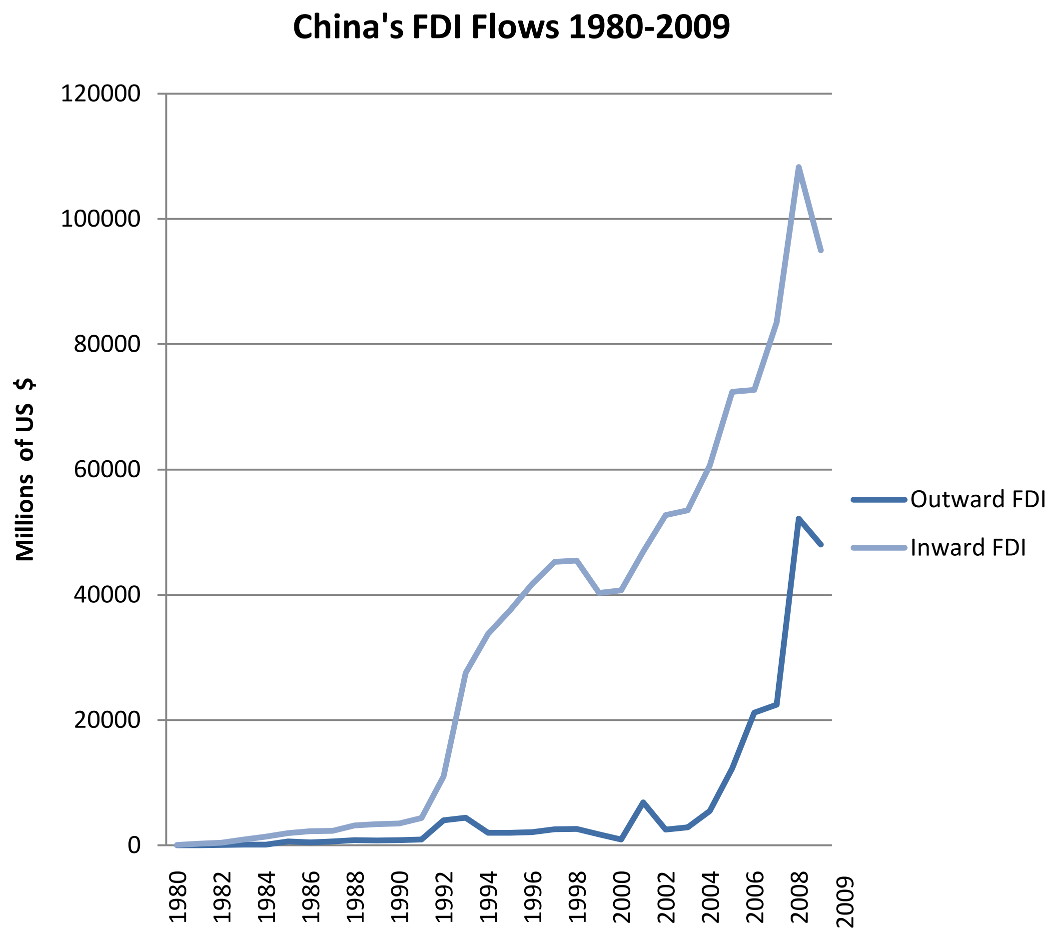

Figure 4.1 Source: UNCTADstat (2011b)

UNCTAD (2011) predicts that emerging markets and other developing countries will play a major part in the recovery from the crisis. Figure 4.2 shows that the share of developing and transition economies of the world's total OFDI is increasing.

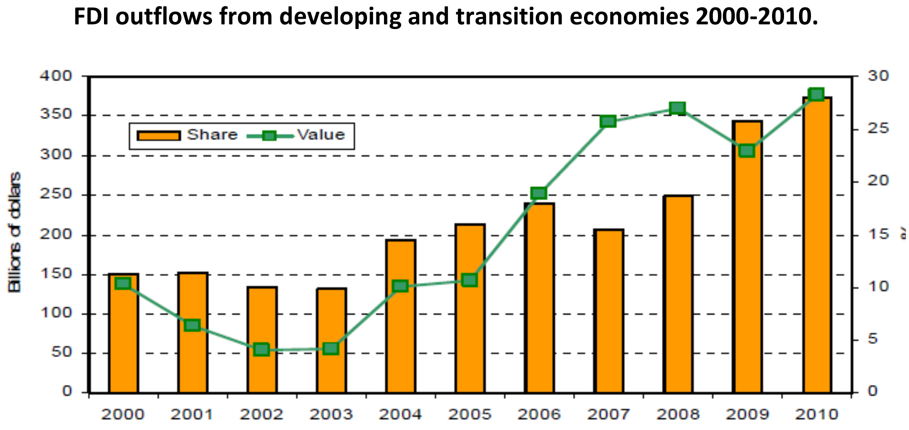

Figure 4.2 Source: UNCTAD (2011)

Figure 4.3 shows the geographical dispersion of Chinese OFDI by continent. When analyzing the flows of OFDI, it is important to bear in mind the fact that the financial crisis in 2008 signifies great changes in the global economy. Recently, Chinese OFDI has experienced a rapid growth, where the majority of Chinese OFDI is concentrated to Asian countries. Also, the investments to Latin America have increased until 2006, experiencing a decrease for a couple of years. Europe, North America and Oceania as destinations for Chinese OFDI have received relatively few investments. However, since the crisis of 2008, Asia's share of Chinese OFDI has decreased while OFDI to Latin America has witnessed an increase. See also Figure 4.4 for the geographical distribution per continent by shares of Chinese OFDI in 2009.

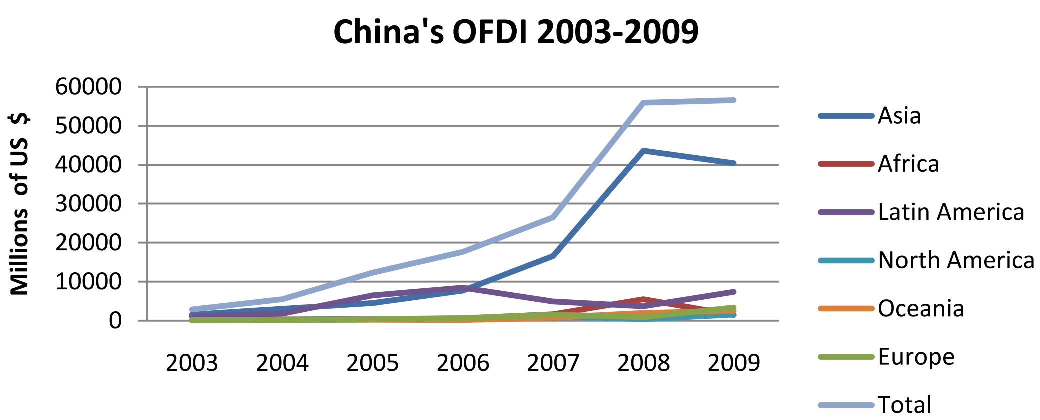

Figure 4.3 Source: Ministry of Commerce P.R. China (2010)

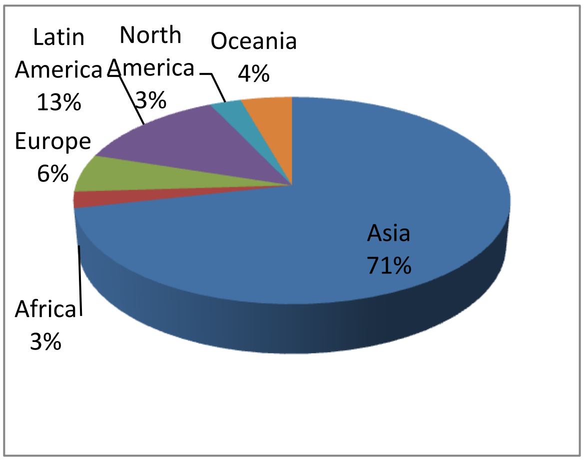

Figure 4.4 Source: Ministry of Commerce P.R. China (2010)

The top ten recipients of Chinese OFDI involve a variety of countries, see table 4.1. Most of Chinese OFDI 2007-2009 has been directed towards Hong Kong and tax havens such as Cayman Island and British Virgin Islands. Hong Kong mainly serves as an intermediary from where flows are redirected to other destinations. Including financial flows to tax havens and FDI to Hong Kong, as in this table, significantly changes the view of the final recipients of Chinese OFDI. During 2007-2008, a greater number of developing countries among the top ten recipients received Chinese OFDI than in 2009. Neglecting tax havens, recurrent throughout the three years is OFDI directed to Australia and Singapore. Like USA and Canada, these two countries have a large customer base and business network in the large ethnic Chinese population. Investments in Pakistan and Kazakhstan can be justified by their geographical proximity to China. Overall the top ten recipients of Chinese OFDI attracts Chinese investments due to financial motives, market-seeking due to geographic proximity to China as well as being a host market with ethnic Chinese.

Table 4.1 Top 10 recipients of Chinese OFDI 2007-2009, millions of US $

2007		2008		2009	
Hong Kong	13732,35	Hong Kong	38640,30	Hong Kong	35600,57
Cayman Island	2601,59	South Africa	4807,86	Cayman Island	5366,30
British Virgin Islands	1876,14	British Virgin Islands	2104,33	Australia	2436,43
Canada	1032,57	Australia	1892,15	Luxembourg	2270,49
Pakistan	910,63	Singapore	1550,95	British Virgin Islands	1612,05
United Kingdom	566,54	Cayman Island	1524,01	Singapore	1414,25
Australia	531,59	Macau	643,38	United States	908,74
Russia	477,61	Kazakhstan	496,43	Canada	613,13
South Africa	454,41	USA	462,03	Macau	456,34
Singapore	397,73	Russia	395,23	Myanmar	376,70

Source: Ministry of Commerce P.R. China (2010)

Statistics from the Ministry of Commerce of the People's Republic of China (2010) show a trend for increased OFDI to developed countries in Europe, see figure 4.5. The financial crisis of 2008 might have served as a catalyst for the boom in Chinese OFDI to Europe where several countries have struggled with companies experiencing insolvency. However, statistics are incomplete for several years and countries, primarily for the years 2003-2006, which could have affected the results.

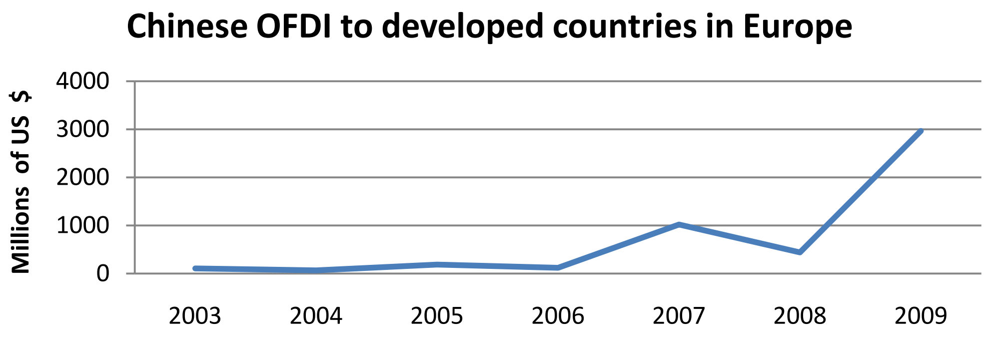

Figure 4.5 Source: Ministry of Commerce P.R. China (2010)

Table 4.2 shows the distribution of Chinese OFDI in 2007-2008 by industry. China's OFDI was mainly directed to services where finance, wholesale and retailing, and leasing and business services constitute a major part. In 2008, market-seeking and natural resource-seeking investments increased as finance experienced a strong rise and mining increased its OFDI value, whereas manufacturing decreased.

Table 4.2 Top 10 industries of Chinese OFDI 2007-2008

2007	Millions of US $
Primary	
Mining	4062,77
Manufacturing	
Manufacturing	2126,50
Services	
Wholesale and retailing	6604,18
Leasing and business services	5607,34
Transport warehouse and postal services	4065,48
Finance	1667,80
Real estate	908,52
Construction	329,43
Science research, service and geo-survey	303,90
IT	303,84

2008	Millions of US $
Primary	
Mining	5823,51
Manufacturing	
Manufacturing	1766,03
Services	
Leasing and business services	21717,23
Finance	14048,00
Wholesale and retailing	6514,13
Transport warehouse and postal services	2655,74
Power and other utilities	1313,49
Construction	732,99
Real estate	339,01
IT	298,75

Source: Ministry of Commerce P.R. China (2009)

4.3 Haier

A case study of the Chinese consumer electronics Haier is conducted in this section. Choosing Haier as case for studying how a MNC from an emerging market, namely China, has internationalized is based upon its remarkable and rapid internationalization while trying to build a global brand. Within 10 years from its initial step towards internationalization, Haier had production in 22 countries (Bonaglia, Goldstein, Mathews, 2006). Earlier, it used a strategy of acquiring production technology and know-how of products beyond its core product, the refrigerators, but now devotes extensive funds on R&D and product development (Duysters, Jacob, Lemmens and Jintian, 2009).

Haier was originally established in 1984 as Qingdao Refrigerator Factory, a municipally owned refrigerator manufacturer, which struggled with insolvency in its early years. Two decades later, Haier was the national leader in household appliances in China and number four in the world (Agtmael, 2007). In addition, it has broadened its product range to include white goods like refrigerators and freezers, TVs, microwave ovens, air conditioners and wine cellars, among others (Child & Rodrigues, 2005).

4.3.1 History of Haier

Qingdao Refrigerators' foundation took place at a time when consumer spending in China was increasing as well as the living standards. However, Qingdao Refrigerators had trouble with its operations, was near bankruptcy and struggled with reputations of bad quality. The new CEO, Zhang Ruimin quickly transformed the company and stressed for quality. The second year under Zhang's leadership, the company made a profit (Agtmael, 2007). In 1992, Haier Limited Group was formed after the restructuring of Qingdao Refrigerator Factory (Haier, 2008). The same year, Haier received the ISO9001 quality certification and became a qualified international supplier. In the beginning, Haier had a single product focus with refrigerator manufacturing as core competence and sole activity. By acquisitions of other domestic white goods manufacturers, like Qingdao Air Conditioner Factory and Qingdao Freezer Factory in 1991, Haier acquired knowledge in producing air conditioners and freezers. The same year as its foundation, Haier acquired technology from the German Liebherr by a licensing agreement. The German refrigerator manufacturer was famous for its high-quality, four-star refrigerators. Except the licensing of Liebherr's technology, Haier also sent engineers and managers to Germany to learn from the R&D department of Liebherr. This alliance allowed Haier to offer the first modern refrigerator in China (Duysters *et al.*, 2009).

Haier has been supported by the Chinese government in different stages of its development (Child & Rodrigues, 2005). The situation of Haier acquiring the domestic Red Star in 1995 *free of charge* is such an example (Duysters *et al.*, 2009).

4.3.2 Internationalization strategy

Haier started its internationalization in the mid-1990s by investing abroad in the quest for market access and assets acquisitions (Bonaglia *et al.*, 2006). In 1992, following the ISO9001 certification, Haier engaged in exporting its products to Indonesia under OEM contracts. In East Asia, Haier products consequently became famous for their quality and design and the company grew to become an attractive partner for joint ventures. The first international joint venture was established with a local firm in Indonesia in 1996 to produce refrigerators, washing machines, microwave ovens and air conditioners and hot-bathing equipments (Duysters *et al.*, 2009). The following years, Haier would mainly enter other developing countries (Liu & Li, 2002). However, Haier's main focus has been on entering developed regions (Child & Rodrigues, 2005). Originally, Haier was present in the USA as an OEM exporter (Duysters *et al.*, 2009) but would be the first Chinese company to start a manufacturing plant in USA (Bonaglia *et al.*, 2006). Nowadays, Haier has two production parks in the USA and Pakistan (Child & Rodrigues, 2005) and 30 production plants in foreign markets (Duysters *et al.*, 2009).

Developing markets

Haier started its internationalization process by entering neighboring countries and other developing countries, first under OEM contracts. The first overseas joint venture was established in Indonesia. Production plants for refrigerators and air conditioners have been established in Indonesia, the Philippines and Malaysia. In the early 2000s, Haier had established joint ventures with local partners in the Philippines, Dubai, Iran, Algeria, Jordan, Pakistan and Bangladesh (Duysters *et al.*, 2009).

Developed markets

Initially, the mode of entry into developed markets was the same as for the other Asian countries. Starting as an OEM exporter to both USA and Europe at the beginning of the 1990s, Haier's presence gradually increased to also include subsidiaries and manufacturing facilities (Duysters *et al.*, 2009).

The USA

In the beginning when Haier served as an OEM exporter to the USA, it was an attractive exporter primarily due to its low prices. Haier was not allowed to have its brand or logo on the actual products. The joint venture with Michael Jemal in 1994 introduced Haier refrigerators to American customers (Duysters *et al.*, 2009). Five years later in 1999, Haier made heavily greenfield investments in USA and placed a manufacturing plant in Camden, South Carolina, a design center in Boston and a market center in New York (Liu & Li, 2002). This was part of a strategy where Haier wanted to move to high-end products in the USA. Initially, Haier products were sold only at Wal-Mart, but nowadays they are sold by different US retailers (Agtmael, 2007). In 2005, Haier made a bid for the US company Maytag together with two US equity firms, but Maytag would be acquired by American Whirlpool. Haier thought it could gain soft assets if the acquisition was successful, gaining expertise, intellectual capital and an American brand to complement the more limited brand name of Haier (Agtmael, 2007). Today, Haier has a marketing partnership with NBA and is also sponsoring soccer teams in Europe. It is believed that sports sponsorships will raise brand awareness but also create image transfer from its partners (Bonaglia *et al.*, 2006).

Europe

In the beginning, OEM export to Europe was directed towards Germany and the UK to later include France and Italy. The company's presence in Europe was strengthened in 1997 when Haier set up a production plant in Yugoslavia through a joint venture and formed a joint venture with the Netherlands' Philips (Bonaglia *et al.*, 2006; Duysters *et al.*, 2009). It was also the same year as Haier started to sell products under the Haier name in Germany (Bonaglia *et al.*, 2006). A European headquarter was established in the Italian city of Varese, Italy's white goods cluster (Bonaglia *et al.*, 2006). At this point, in the year of 2000, Haier products were sold in 13 European countries and so there was a need for coordination of sales and marketing in Europe (Duysters *et al.*, 2009). EUR 80 million was invested in Europe between 2001 and 2004 (Bonaglia *et al.*, 2006). The first acquisition made in Europe was of the Italian company, Meneghetti Equipment's refrigerator plant in 2001. Like the rationale behind Haier's acquisitions in the home country, this acquisition was motivated by the possibility to extend its product assortment and expand production capacity (Duysters *et al.*, 2009).

Success factors

An interesting aspect of Haier is that it started as a company in no possession of *ownership advantages* regarding technology, brand and capital. In the early years, the company struggled with debts, quality problems and the R&D department was not well-developed. However, Haier had a strong management team and a powerful CEO, who were able to transform the company (Li, 2007). For a *latecomer firm*, advantages are perceived to be acquired externally. Haier has leveraged with great success from its *strategic partners* and formed *alliances* with companies of special interest to secure leverage of advanced technology. It has, for example, entered alliances with experts in wireless technology as well as other appliance makers to create home appliances with wireless communications capability (Bonaglia *et al.*, 2006). The early acquisitions of air conditioner and freezer factories and its licensing agreement of Liebherr technology, are further examples of how Haier has acquired knowledge externally.

Accordingly, *R&D* and *innovation* has become vital for Haier. It has local foreign development centers in three countries, Japan, Germany and USA, to be close to the market. This strategy facilitates product differentiation in various countries (Bonaglia *et al.*, 2006). Rather than choosing the low cost strategy, Haier has outlined a differentiation strategy, identifying *niche markets*. The decision to introduce Haier air conditioners in France and Italy, before introducing other Haier products is a good example. When Haier first entered these two countries, the market for air conditioners was in its early stage and brand image was less important. Furthermore, Haier has added several features to a washing machine following the demands of rural China of cleaning vegetables in washing machines. Identifying the need for space-saving furniture in US student dormitories, Haier started producing a refrigerator with a fold-out table. Haier has also developed a wine cellar for the American market (Duysters *et al.*, 2009).

Haier internationalized early and has experienced a *rapid internationalization.* It also had a philosophy of entering difficult markets first. When introducing its European export strategy, Haier chose to export to Germany first. Germany is believed to be one of the most difficult markets on the continent, and after establishing a successful routine in difficult markets, Haier would then export to easier market. The establishment in the USA represents another example. Following the success in USA and Europe, it facilitated Haier's entry into other developing markets. Haier utilizes local distributors for its products, which possesses knowledge about the local market conditions, marketing practices to hinder language and culture clashes (Liu & Li, 2002). From OEM manufacturing, Haier quickly internationalized to new markets by establishing subsidiaries, both acquisitions and greenfield investments and its international strategy concerns all parts of the world (Bonaglia *et al.*, 2006).

4.4 Interview

The interview was conducted with Sören Petterson, Senior Investment Advisor at Invest Sweden in Stockholm. The interview covered Chinese investments in Sweden, with focus on Chinese firms' entry modes and motive to internationalize. It also treated the difficulties for a Chinese firm to do business in Sweden and the Chinese government's influence on the internationalization of Chinese companies. Invest Sweden is a Swedish governmental agency working to promote Sweden in the global marketplace as well as a host country for foreign direct investments. Its services are free of charge and it serves as advisor and link between Swedish and foreign firms.

4.4.1 Differences in business environment

A recurrent theme throughout our interview is how Sören Pettersson describes the large differences in business environment between China and Sweden. When doing business in China, as a totalitarian state, it is important to have the support of the politicians. Also personal relations to politicians can often facilitate various business processes. This approach originates in the Chinese state being more influential and having larger control over business than does the Swedish state. The Chinese government also supports and finances its companies while the EU has laws prohibiting this kind of unfair competition in the market. Most of the Chinese firms entering Sweden have private owners. However, it is not uncommon that these firms still have some form of connection to the Chinese government. This is often the case with large Chinese companies, which are usually state-owned.

4.4.2 Motives for investing in Sweden

Chinese companies already have the products and access to a large market. Thus these companies internationalize to search for R&D to develop their products. An increasing number of Chinese companies are therefore attracted to technological clusters. Sweden is a country possessing advanced technology and, for example, the Swedish West coast is attractive for its success in the automotive industry with for example Volvo and Saab. Sören Pettersson points out that he sees a trend in how Chinese firms establish in this area to access know-how while production remains in China due to costs advantages. To further lower production costs, China is increasingly relocating its production to the rural parts of China but also to countries with lower factor costs like Vietnam. Regarding the localization attractiveness of Sweden compared to other countries in Europe, it is not the most important country in Europe to invest in. It is instead crucial for Chinese firms to enter the European Union for its large population, large market and enormous amount of know-how.

According to Sören Pettersson, Chinese people have a large amount of capital to invest abroad and they are eager to go global to develop their business plan, find new distribution channels for their products and find new R&D partners. He also stresses how a company needs to internationalize in order to grow large in the long term. This is due to the company's ability to gain new business systems and business methods which will enable the company to improve and to grow.

4.4.3 The entry modes of Chinese firms

Concerning the trend of an increasing number of M&As, Sören Pettersson believes this number will increase in the future and how M&As will become more frequent. In Sweden, however, many inward FDI investments from China are made through strategic alliances. According to Sören Pettersson, M&As often start through a strategic alliance or partnership between two companies. An established strategic alliance between a Swedish and a Chinese company enables the Swedish company to get access to the Chinese market while the Chinese company receives know-how. Starting a partnership through an alliance allows firms to screen and evaluate each other, cooperate in development and product development before a possible merger or acquisition. However, there is also a trend towards greenfield ventures as Chinese companies establish in Sweden with their own business plan, own product, etc.

4.4.4 The future

Among the emerging markets investing in Sweden, China and India are the countries which will dominate the investments in the future. China and India are two countries that possess capital, and to some extent know-how. These two countries also need to invest more in order to grow. Chinese companies have capital which they use to invest for the future, for example, in infrastructure where China is among the leaders in high-speed trains. Regarding other emerging markets, Brazil and Russia differ. Russia is a country with more internal problems than is visible. China is developing continuously and has a development driven by the economy and capital.

5. Analysis

This chapter discusses the theories outlined in relation to our empirical study. We analyze the trends in Chinese OFDI and discuss the internationalization process of the Haier Group, both with regard to the interview conducted.

This thesis has studied the internationalization process of two types of companies; the traditional MNCs from developed countries emerging from the 1960s, and the new MNCs from emerging markets starting to internationalize around the 1980s. The theories of the internationalization process of firms are undergoing a trial as emerging market MNCs are increasing their activities in the global economy.

5.1 Chinese outward FDI

Emerging markets are heterogeneous, influenced by different cultures and institutions. These endogenous factors contribute to the development of the countries. Therefore, the group of emerging markets constitutes of countries in different stages of their economic development according to the investment development path. While many Asian newly industrialized economies were pushed to internationalize, China's internationalization was mainly driven by pull factors as it possesses localization advantages. A common feature among Asian emerging markets is their strong state-led economic development. China, having had a stronger governmental influence than many other emerging markets, is today the largest outward investor among developing countries.

Statistics from the Ministry of Commerce show that Chinese OFDI stays mainly within the Asian region. In 2009, 71% of Chinese OFDI flows went to Asia. Among the top recipients of Chinese OFDI, tax-haven countries like Macau, Cayman Island and British Virgin Islands are major recipients. However, Hong Kong remains the vastly superior recipient of Chinese OFDI. Therefore, we believe the reason for Asia constituting a large share of Chinese OFDI is mainly because of the flows to Hong Kong. The flows to Hong Kong and tax havens are mainly motivated by financial and strategic motives rather than for developing business activities in these countries. This is in accordance with the sixth springboard step, proposing MNCs to engage in reverse investments back to the home country to benefit from privileges as inward FDI. The theory of Johanson & Vahlne (1977) and Cavusgil (1980) suggesting the internationalization process of firms to be gradual by first entering markets with small psychic distance, is difficult to apply to tax havens and, to some extent, Hong Kong. Thus, there are limitations when studying the internationalization process of Chinese firms using these statistics as Hong Kong and tax havens may not be the final recipients of Chinese OFDI. Neglecting Hong Kong and financial OFDI to tax havens in table 4.1, Chinese OFDI 2007-2009, was destined to approximately an equal share of developing and developed countries. The developed countries are markets with large groups of ethnic Chinese, like Singapore, Australia and the United States, which would make the theory of psychic distance applicable for these cases. Furthermore, among the developing countries are the geographically close countries, Pakistan and Kazakhstan, but also South Africa.

Dunning *et al*. (2008) argue that globalization, as an exogenous factor itself, might have been the primary factor in changing the FDI patterns. Globalization, leading to deregulations and liberalizations in the late 1980s in many developed countries, triggered China to gradually open its border to the world. Statistical data show how both China's outward and inward FDI flows have varied with endogenous factors such as China's foreign politics. Also, different economic crises have affected the statistics. The Asian crisis of 1997 and the financial crisis of 2008 have hit China's inward FDI flows, resulting in a decrease. The crises of 1997, 2008 and the burst of IT bubble in 2000 have had impacts on the OFDI flows from China, which can also be seen in figure 4.1. Following the crisis of 2008, UNCTAD predicts that emerging markets will significantly increase their shares of world OFDI. Chinese companies have previously acquired foreign companies undergoing various crises. Such a situation permits Chinese companies to acquire a firm at a lower price while accessing technology and know-how. However, for Chinese SOEs, financing is seldom a problem as the government strategically supports firms in selected industries to become global MNCs. Therefore, the share of private Chinese firms entering developed markets in times of crises might be larger than during times of prosperity. This could also be a contributing factor in the sharp increase of Chinese OFDI in 2008.

Continuing the discussion of the Chinese government's influence on business, there is great variety between Chinese SOEs and Chinese private companies. Chinese SOEs can rely on government support and often, their internationalization motives are a result from strategic governmental planning instead of economic rationality. Chinese private firms are perceived to be more profitable in the short run and are accustomed to a fierce business environment. However, Chinese private firms can profit from government support if their industry is outlined in the five-year plan. Haier started its business as a municipally owned company and has received support to grow in the domestic market in order to become a national champion but is today classified as a private firm. Sören Pettersson states that private firms may receive governmental support, although it is difficult to know to what extent. Consequently, Haier might still profit from government support in various forms. Haier's internationalization strategy of entering difficult markets first was to facilitate its establishment in developing markets. This was motivated by the wish to improve its brand image but may not have been an economically rational decision, which imply a stronger governmental influence than visible. While the Chinese business environment allows the support to create national champions, Western markets have competition laws to encourage free competition. This makes it challenging to classify Haier as either a SOE or a private firm according to Western business norms.

5.2 Internationalization motives

The situation today is that China's inward FDI flows are significantly larger than its outward FDI flows, which has been the case ever since the opening up of China in the early 1990s. Applying the investment development path to China, we find difficulties in classifying China in any stage of the model. In terms of the relation between inward and outward FDI, China would be considered as belonging to stage two as the country has a great localization advantage in its low production costs, making it an attractive country for inward investments. In terms of IPR and the strong government influence, for example, China can be regarded as having localization disadvantages. Although China's localization advantages are improving, its outward FDI is not solely directed towards developing countries, nor do the investments search for resources only. However, China could also be placed in stage three regarding characteristics such as rising income levels and living standards, consumers demanding differentiated quality products, companies engaging both in M&As and greenfield investments to acquire technology and brand names, also China invests in developing countries at a lower stage of the IDP. Regarding the IDP, Haier is not a typical example of a firm operating in the Chinese business environment. It rather conforms to an environment belonging to stage three and four of the IDP as the company is engaging in greenfield investments and strategic alliances in both developing and developed countries to gain strategic assets and to access new markets.

Yeung & Liu (2008) suggest that China should engage in primarily market-seeking and resource-seeking investments which are directed mostly towards developing countries. Deng (2004) proposes that Chinese firms enter developed countries mostly through technology-seeking and strategic asset-seeking investments. Table 4.2 shows that the majority of OFDI flows during 2007-2008 was directed towards the services sector, which implies a small share of Chinese OFDI was directed towards the primary sector, hence resources-seeking investments. On the other hand, statistics only describe the value of FDI and not the real number of investments made. As China invests in developing markets to acquire resources, we believe the costs of doing so to be low compared to investing in developed markets to access assets.

We conclude that the motives behind Chinese OFDI in the services sector are mainly to seek new markets in developing countries and to seek strategic assets in developed countries. According to our statistics, we are not able to see a long term trend of whether Chinese OFDI is mainly directed towards either developing countries or developed countries, which is in parity with our conclusion of table 4.1. However, the consumer electronics company Haier, mainly engages in market-seeking investments abroad. These investments are made in both developed and developing countries, which distinguish Haier from the typical Chinese firm which enters developed countries in the search for technology.

The large amount of OFDI investments in wholesale and retailing to Hong Kong is partly explained by China investing in subsidiaries in Hong Kong, see table 4.2. Hence, Chinese export can take a detour before reaching its end destination in developed markets to circumvent quota restrictions and tariffs often imposed on Chinese goods as China has become the world factory. This kind of internationalization aiming to circumvent trade barriers is in line with the fourth springboard step.

5.3 Internationalization process

Haier is a good example of an emerging market MNC in regards of its internationalization rate. The company has experienced a rapid internationalization from the beginning of its foundation and can therefore be classified as a type of born global firm. Although Haier has entered foreign mature markets quickly since its foundation, being a latecomer has forced the company to enter these markets later than its competitors from developed countries it can to some extent, be considered as a late entrant in these markets. To overcome its latecomer and late entrant disadvantages in developed markets, Haier has undertaken various internationalization strategies.

Initially, Haier's international expansion started in neighboring countries in East Asia. Beginning with OEM exporting, it later formed its first international joint venture with a local firm in Indonesia. Thus Haier could be considered to initially follow the gradual internationalization process. Since Haier's main focus has been on entering developed countries, it has in recent years developed a strategy to expand in difficult markets of developed countries, before entering easier markets of developing countries. This strategy facilitates Haier's market entry in emerging markets, being a recognized brand in developed markets. Luo and Tung (2007) suggest in their seventh springboard step, that emerging market MNCs internationalize to exploit advantages in other emerging markets, which is in line with Haier's strategy.

According to Wernerfelt (1984), firms can engage in mergers and acquisitions in order to gain rare and valuable resources. Large Chinese companies commonly enter a market through greenfield investments and M&As. A recent trend in international business is an increase in the number of M&As as entry mode on a new market. Sören Pettersson acknowledges this trend, but also states that many Chinese companies enter new markets through strategic alliances or partnerships, where both parties are favored by the cooperation. In this way, companies are decreasing their risks as the cooperation is made before an eventual acquisition. Later, Haier changed its strategy to enter markets through greenfield investments although a few M&As have been conducted throughout history. However, Haier has not had the same success through M&As as with greenfield investments, for example, the fruitless bid on the American company Maytag. Consequently, Haier has not been one of the typical large Chinese MNCs conquering the world through acquisitions.

Mathews (2002) has developed Wernerfelt's (1984) resource-based view and applied it to latecomer firms, which from the start are short on resources. Thus, to overcome these liabilities latecomer firms can form the strategy of linkage, leverage and learning. Originally, Haier entered many developed markets by exporting under OEM agreements. With time, it has leveraged knowledge and technology via, for example, joint ventures and licensing agreements and learned how to compete in the global marketplace. The acquisition of an Italian refrigerator plant allowed Haier to expand both its product assortment and production capacity. The business network model of Johanson & Vahlne (2009) suggests the importance of partnerships for the internationalization of firms. This recent theory has evolved in a time of strong economic globalization where companies are increasingly interconnected. It is also in parity with the LLL theory, where linkage between companies is of great importance for the success of internationalization of emerging market MNCs. Thus, Haier is a good case for highlighting the urgency of these two theories.

Opposed to Dunning's (2001) suggestion that firms have to possess all of the advantages composed in the eclectic paradigm in order to internationalize, is Mathews' (2002) argument that latecomer firms are able to acquire the lacking resources. Haier's production technology has been acquired from the German company, Liebherr, through a licensing agreement in Haier's early years in order to gain knowledge on advanced quality products. This is in accordance with what Sören Pettersson states, namely that Chinese MNCs enter developed countries to access technology and R&D as they already have the products and a large market. It is also in parity with the first springboard step which suggests that emerging market MNCs internationalize to gain owner-specific advantages. Figure 4.5 shows a peak in OFDI to developed countries in Europe from 2008. A possible reason for this is Chinese firms acquiring firms in insolvency to profit from the situation and gain strategic assets, technology and access to a new market. By acquiring technology, latecomer firms can skip technological development steps, as suggested by Mathews (2002). In this way, these companies do not have to gradually develop technology, but are able to access advanced technology immediately. Latecomer firms are thus allowed to allocate funds for R&D to develop niche markets, which is what Haier has done with its wine cellars assortment.

To reduce the liability of foreignness, Chinese companies often establish in a new market by the entry modes of JV or OEM. Haier has entered foreign markets through OEM and with the strategy to sell selected products applicable to the specific market. As a way to overcome its liability of foreignness and latecomer disadvantages, Haier has chosen to enter undeveloped product segments in order to build up its brand image in the country and gain recognition before entering other more competitive segments. This was the case for Haier when entering France and Italy. This is in accordance with the second springboard step, which explains that emerging market companies internationalize to gain brand recognition and to access a large customer base, among other ways to overcome their latecomer disadvantages.

Luo & Tung's (2007) fifth springboard step, suggesting that emerging market MNCs expand internationally to alleviate domestic institutional constraints, cannot be applicable to our empirical study. For Haier, which has received governmental support, the expansion of business activities to other countries has not been motivated by hedging institutional risks. Similarly, Haier is not regarded as a typical Chinese MNC due to its characteristics of engaging in consumer-driven investments. Hence, Haier primarily invests abroad in order to access a large customer base. By locating R&D centers and production close to its foreign customers, Haier gains knowledge about market preferences. These market-seeking investments are the primarily motive for Haier to internationalize. However, as in accordance with many other Chinese companies, Haier also invests in developed countries for technology-seeking and strategic asset-seeking. Although consumer electronics do not require very advanced technology it is important for Haier to have good quality to be able to compete in developed markets.

The seven springboard steps to internationalization explain different types of motive to enter the international marketplace. Chinese companies conform to all of the seven springboard steps which have been discussed earlier in this section. As Sören Pettersson states, Chinese companies need to go abroad in order to grow large in the long term. The domestic market with its huge population is not sufficient as competition has increased due to international competitors entering the market. The third springboard step suggests that emerging market MNCs engage in international expansion to counter-attack competition in the domestic market. By entering developed markets, Chinese companies can access new business systems and business methods, strengthening their competitive edge. Also, by taking part of the competitive international business environment, Chinese firms are able to increase their market knowledge and experience, as in line with Johanson & Vahlne’s theory of business networks. With financial support from the Chinese government, these firms will also be able to increase their market commitment. As many Chinese companies have started their internationalization through OEM contracts, they ought to have established an international business network which could facilitate their future international expansion.

6. Conclusion

This chapter presents the findings from our study regarding the internationalization process of Chinese firms and the motives to why Chinese firms enter developed countries.

This thesis has attempted to define the differences in the internationalization process of Chinese MNCs to that of MNCs from developed countries. Earlier, firms from developed countries have entered developing countries in order to gain cost advantages. However, in recent years MNCs from emerging markets have entered developed countries. Therefore, this thesis has also attempted to define the motives for Chinese firms to enter developed countries.

Our thesis has found that Chinese MNCs often have had a rapid internationalization which has been possible thanks to globalization. Globalization has led to the integration of national markets, which has made business networks increasingly important for companies to survive. Globalization has forced many governments in emerging markets to open up borders. This has enabled MNCs from emerging markets to internationalize. Common for emerging markets is the strong impact of the government on the internationalization of firms. This is also the case for Chinese firms, where financial support from the governmental has been crucial for the success of firms.

The early research of the OLI framework, suggesting owner-specific advantages are crucial for firms to succeed in a foreign market, is not applicable to Chinese firms. Instead, it is more important for these firms to link up with and leverage knowledge from partners to learn how to compete in a market. Therefore, the LLL framework is more applicable to Chinese firms. Moreover, while MNCs from developed countries base their business decisions on economic rationality to lower costs through internalizing, Chinese firms do not always operate according to economic rationality to the same extent as do MNCs from developed countries. Therefore, the internalization advantages may not be applicable to a number of Chinese firms as these firms can rely on financial support from the Chinese government.

However, the localization advantages are still applicable to Chinese firms as it can explain why these firms enter other markets. Our study shows that Chinese firms enter developing countries to access natural resources and new markets. The motive for entering developed countries is to acquire strategic assets and technology. Reasons to enter certain developed countries are to access markets with a large customer base of ethnic Chinese, and to easier build up a business network among the population of ethnic Chinese abroad. These motives can also be explained by Chinese firms choosing markets with small psychic distance, with regards to a foreign market having a large population of ethnic Chinese.

To access strategic assets and technology, investments to developed markets are often made through acquisitions. This is possible as Chinese companies have access to much capital and a supportive government. The increase of Chinese OFDI to developed countries in Europe during the crisis of 2008 supports the view that Chinese companies acquire companies in insolvency in developed countries.

Our case study of Haier shows that its internationalization has been gradual, by starting with export to countries with small geographic distance. Although Haier entered developing countries first, its focus has mainly been on entering developed countries. Haier conforms to the LLL theory as it has linked with successful businesses through different networks, partnerships and alliances, which have enabled it to leverage knowledge and technology in a continuous learning process. Haier's rapid internationalization is a characteristic found among many emerging market MNCs. Haier conforms to four of the seven springboard steps outlined to explain the international expansion of emerging market MNCs. In contrast, the three remaining steps cannot be clearly defined in Haier's internationalization. Moreover, our study shows that Haier cannot be classified as a typical Chinese MNC as it possesses a number of characteristics which are rather found among MNCs from developed countries. These characteristics are outlined in the section that follows.

First, Haier has mainly engaged in market-seeking investments, both in developing and developed countries. The reason for entering developed countries is primarily due to gaining market shares rather than acquiring technology. This is due to its characteristics of being a consumer electronics company, where the products do not require advanced technology. Second, Haier has not internationalized through M&As, but mainly through greenfield investments. Third, Haier can be classified as originating in a business environment of stage three and four of the IDP, due to its operations in both developing and developed countries to gain strategic assets and to access new markets through greenfield investments and strategic alliances.

Further research should be carried out to examine the internationalization process of Chinese firms. As this study only includes one case company, it is of interest to study a larger number of companies in the same industry to be able to generalize the results found. It is also of importance to study whether the motive for Chinese MNCs to enter developed countries will change as China undergoes economic and social developments. As the number of Chinese firms entering developed countries is believed to increase in the future, it is important to further study this phenomenon in order to better prepare companies in developed countries for the future.

7. References

7.1 Articles

Bonaglia, Federico; Goldstein, Andrea & Mathews, John (2006). Accelerated Internationalisation by Emerging Multinationals: the Case of White Goods Sector. Unpublished Paper, *Munich Personal RePEc Archive*

Buckley, Peter J; Clegg, Jeremy, L; Cross, Adam, R; Xin, Liu; Voss, Hinrich & Zheng, Ping (2007). The Determinants of Chinese Outward Foreign Direct Investment. *Journal of International Business Studies*, Vol. 38, pp. 499–518

Cavusgil, Tamer S. (1980) On the Internationalization of Firms. *European Research*, Vol. 8, No. 6, November, pp.273-281

Child, John & Rodrigues, Suzana B. (2005). The Internationalization of Chinese Firms: A Case for Theoretical Extension? *Management and Organization Review*, Vol. 1, No. 3, pp. 381-410

Deng, Ping (2004). Outward Investment by Chinese MNCs: Motivations and Implications. *Business Horizons*, Vol. 47, No. 3, pp. 8-16

Deng, Ping (2009). Why do Chinese Firms Tend to Acquire Strategic Assets in International Expansion? *Journal of World Business*, Vol. 44, pp. 74-84

Dunning, John H. (2001). The Eclectic (OLI) Paradigm of International Production: Past, Present and Future. *International Journal of the Economics of Business*, Vol. 8, No. 2, pp. 173-190

Dunning, John H; Kim, Changsu & Park, Donghyun (2008). Old wine in new bottles: a comparison of emerging market TNCs today and developed country TNCs thirty years ago. *SLPTMD Working Paper Series*, No. 011, University of Oxford, Department of International Development

Duysters, Geert; Jacob, Jojo; Lemmens, Charmianne & Jintian, Yu (2009). Internationalization and Technological catching up of Emerging Multinationals: a Comparative Case Study of China's Haier Group. *Industrial and Corporate Change*, Vol 18, No 2, pp. 325–349

Financial Times (2011a). Focus On Deals High Up Value Chain, April 26

Financial Times (2011b). Family Values Galvanise Toolmaker, April 26

Johanson, Jan & Vahlne, Jan-Erik (1977). The Internationalization Process of the Firm: A Model of Knowledge Development and Increasing Foreign Market Commitments. *Journal of International Business Studies,* Vol. 8, No. 1, pp. 23-32

Johanson, Jan & Wiedersheim-Paul, Finn (1975). The Internationalization of the Firm: Four Swedish Cases. *Journal of Management Studies*, Vol. 12, No. 3, pp. 305–322

Johanson, Jan & Vahlne, Jan-Erik (2009). The Uppsala Internationalization Process Model Revisited: From Liability of Foreignness to Liability of Outsidership. *Journal of International Business Studies*, Vol. 40, pp. 1411-1431

Lin, Xiaohua (2010). State versus Private MNCs from China: Initial Conceptualizations. *International Marketing Review*, Vol. 27, No. 3, pp. 366-380

Liu, Hong & Li, Kequan (2002). Strategic Implications of Emerging Chinese Multinationals: The Haier Case Study. *European Management Journal*, Vol. 20, No. 6 pp. 699-706

Luo, Yadong & Tung, Rosalie L. (2007). International Expansion of Emerging Market Enterprises: A springboard perspective. *Journal of International Business Studies*, Vol. 38, pp. 481-498

Madsen, Tage Koed & Servais, Per (1997). The Internationalization of Born Globals: an Evolutionary Process? *International Business Review*, Vol. 6, No. 6, pp. 561-583

Mathews, John A. (2002). Competitive Advantage of the Latecomer Firm: a Resource-based Account of Industrial Catch-up Strategies. *Asia Pacific Journal of Management*, Vol. 19, pp.467-488

Miller, Alex; Gartner, William B. & Wilson, Robert (1989). Entry Order, Market Share, and Competitive Advantage: a Study of Their Relationships in New Corporate Ventures. *Journal of Business Venturing*, Vol. 4, No. 3, pp. 197-209

Reuters (2011) Why the World Should Heed China's Five-year Plan, March 7

The Telegraph (2011) China's Five-year Plan: Key Points, March 5

Wernerfelt, Birger (1984). A Resource-based View of the Firm. *Strategic Management Journal*, Vol. 5, No. 2, pp.171-180

Woo, Yuen Pau & Zhang, Kenny (2006). *China Goes Global: The Implications of Chinese Outward Direct Investment for Canada*. Unpublished Mimeo

Yeung, Henry Wai-Chung & Liu, Weidong (2008). Globalizing China: The Rise of Mainland Chinese Firms in the Global Economy. *Eurasian Geography and Economics*, Vol. 49, No. 1, pp. 57-86

Zaheer, Srilata (1995). Overcoming the Liability of Foreignness. *Academy of Journal Management*, Vol. 38, No. 2, pp. 341-363

7.2 Books

Agtmael, Antoine W. van. (2007). *The Emerging Markets Century: How a New Breed of World-class Companies is Taking Over the World*. London: Simon & Schuster

Buckley, Peter J. & Casson, Mark (1976). *The future of the multinational enterprise*. New York: MacMillan Press Ltd

Dunning, John H. & Lundan, Sarianna M. (2008). *Multinational Enterprises and the Global Economy*. 2. ed. Cheltenham: Edward Elgar Publishing Limited

Dunning, John H. & Narula, Rajneesh (red.) (1996). *Foreign Direct Investment and Governments: Catalysts for Economic Restructuring*. London: Routhledge

Hill, Charles W. L. (2010). *International Business: Competing in the Global Marketplace*. 8.ed. New York: McGraw-Hill Higher Education

Hörnell, Erik, Vahlne, Jan-Erik & Wiedersheim-Paul, Finn (1973). Ekonomiskt Avstånd och Etablering. *Export och Utlandsetableringar (Export and Foreign Establishments).* / Hörnell, Erik, Vahlne, Jan-Erik & Wiedersheim-Paul, Finn (ed.). Stockholm: Almqvist & Wiksell, pp.160-223

Jacobsen, Dag Ingvar (2002). *Vad, Hur och Varför: Om Metodval i Företagsekonomi och Andra Samhällsvetenskapliga Ämnen*. Lund: Studentlitteratur

Knight, Gary A. & Cavusgil, Tamer S. (1996). The Born Global Firm: A Challenge to the Traditional Internationalization Theory. *Advances in International Marketing*, /Cavusgil, S. Tamer (red.) Greenwich, Connecticut: JAI Press, Vol. 8, pp. 11-26

Patel, Runa & Davidson, Bo (1991). *Forskningsmetodikens Grunder: att Planera, Genomföra och Rapportera en Undersökning*. Lund: Studentlitteratur

Peng, Mike W. (2011). *Global Business*. 2nd ed. Mason, OH: Cengage South Western

Ramamurti, Ravi (2009). Why Study Emerging-Market Multinationals? *Emerging Multinationals in Emerging Markets*. / Ramamurti, Ravi & Singh, Jitendra V. (red.). Cambridge: Cambridge University Press, pp. 3-22

Vahlne, Jan-Erik & Wiedersheim-Paul, Finn (1973). Ekonomiskt Avstånd: Modell och Empirisk Undersökning (Economic Distance: Model and Empirical Investigation). *Export och Utlandsetableringar (Export and Foreign Establishments)*. / Hörnell, Erik, Vahlne, Jan-Erik & Wiedersheim-Paul, Finn (ed.). Stockholm: Almqvist och Wiksell, pp. 81–159

7.3 Websites

Geely (2010). *Press Releases - Geely Holding Group Completes Acquisition of Volvo Car Corporation; Stefan Jacoby Named President and Chief Executive of Volvo Cars; New Board Unveiled,* http://www.geely.com/news/global/mediacentre/pressreleases/31907.html, accessed 2011-05-05

Haier (2008). *About Haier – Milestones* http://www.haier.net/abouthaier/Milestones/index.asp, accessed 2011-05-09

UNCTADstat (2011a). *Foreign Direct Investment Definition* http://unctadstat.unctad.org/TableViewer/summary.aspx, accessed 2011-05-04

UNCTADstat (2011b).*UNCTADstat – Table view – Inward and Outward Foreign Direct Investment flows, annual, 1970-2009*, http://unctadstat.unctad.org/TableViewer/tableView.aspx, accessed 2011-05-04

7.4 Other publications

Ministry of Commerce People's Republic of China (2009). *2008 Statistical Bulletin of China's Outward Foreign Direct Investment,* Beijing, China: Ministry of Commerce

Ministry of Commerce People's Republic of China (2010). *2009 Statistical Bulletin of China's Outward Foreign Direct Investment,* Beijing, China: Ministry of Commerce

UNCTAD (2011). Global and Regional Trends of FDI outflows in 2010, *Global Investment Trends Monitor*, No. 6, April 27 2011

7.5 Interview

Invest Sweden, Sören Pettersson, Senior investment advisor, 2011-04-27, 11.00

Appendices

1. Chinese OFDI to Europe by country

	2003	2004	2005	2006	2007	2008	2009
Austria	0,40	na	Na	0,04	0,08	na	na
Belgium	0,30	0,05	Na	0,13	4,91	na	23,62
Cyprus	Na	Na	Na	Na	0,30	na	na
Czech republic	Na	0,46	Na	9,10	4,97	12,79	15,60
Denmark	73,88	-7,78	10,79	-58,91	0,27	1,33	2,64
Finland	Na	Na	Na	Na	0,01	2,66	1,11
France	0,45	10,31	6,09	5,60	9,62	31,05	45,19
Germany	25,06	27,50	128,74	76,72	238,66	183,41	179,21
Greece	Na	0,20	Na	Na	0,03	0,12	Na
Iceland							
Ireland	0,14	Na	Na	25,29	0,20	42,33	-0,95
Italy	0,29	3,10	7,46	7,63	8,10	5,00	46,05
Luxembourg	Na	Na	Na	Na	4,19	42,13	2270,49
Malta	Na	0,37	Na	0,10	-0,10	0,47	0,22
Netherlands	4,47	1,91	3,84	5,31	106,75	91,97	101,45
Norway	Na	Na	Na	0,14	3,60	0,09	3,60
Portugal							
Slovakia	Na	Na	Na	Na	Na	na	0,26
Slovenia							
Spain	na	1,70	1,47	7,30	6,09	1,16	59,86
Sweden	0,17	2,64	1,00	5,30	68,06	10,66	8,10
Switzerland	na	0,58	0,59	1,01	1,21	0,01	20,99
United Kingdom	2,11	29,39	24,78	35,12	566,54	16,71	192,17
TOTAL	107,27	70,43	184,76	119,88	1023,49	441,89	2969,61

Source: Ministry of Commerce of the People’s Republic of China, *2009 Statistical Bulletin of China’s Outward Foreign Direct Investment.*

2. Chinese OFDI 2003-2009, by region

	2003	2004	2005	2006	2007	2008	2009
Asia	1505,03	3013,99	4484,17	7663,25	16593,15	43547,50	40407,59
Africa	74,81	317,43	391,63	519,86	1574,31	5490,55	1438,87
Europe	145,03	157,21	395,49	597,71	1540,43	875,79	3352,72
Latin America	1038,15	1762,72	6466,16	8468,74	4902,41	3677,25	7327,90
North America	57,75	126,49	320,84	258,05	1125,71	364,21	1521,93
Oceania	33,88	120,15	202,83	126,36	770,08	1951,87	2479,98
TOTAL	2854,65	5497,99	12261,12	17633,97	26506,09	55907,17	56528,99

Source: Ministry of Commerce of the People's Republic of China, *2009 Statistical Bulletin of China's Outward Foreign Direct Investment.*

3. Interview guide

1. Invest Swedens verksamhet
    a) Vad är din roll inom Invest Sweden som investeringsrådgivare?
    b) Kan du beskriva hur ni arbetar för att hjälpa kinesiska företag att investera i Sverige?
    c) Går alla utländska investeringar genom Invest Sweden?

2. Varför är Sverige attraktivt för utländska bolag?
    a) Hur är situationen för tillväxtekonomier, och speciellt kinesiska företag?
    b) Vilka faktorer påverkar beslutsfattandet?
    c) Vilka typer/inom vilken bransch av utländska företag är det som investerar i Sverige?
    d) Storleken på företag som investerar i Sverige?
    e) Vilka motiv har kinesiska företag för att etablera sig i Sverige?

3. Vilket är det vanligaste sättet för tillväxtekonomier samt kinesiska bolag att etablera sig i Sverige?

4. För företag från utvecklade ekonomier finns en trend mot alltfler förvärv, hur är fallet för utländska bolag som investerar i Sverige?

5. Vilka svårigheter möter kinesiska företag under processen att etablera sin verksamhet på den svenska marknaden?

6. Hur upplever Ni den kinesiska statens influens vid kinesiska företags etablering i Sverige?
    a) Support, finansiellt stöd?
    b) Ser Ni skillnad i vad statliga eller privata företag får för stöd av staten?
    c) Är det flest statliga eller privata företag som etableras i Sverige?

7. Hur är Sveriges position i EU ur investeringssynpunkt för kinesiska företag samt företag från andra tillväxtekonomier?
    a) Är Sverige attraktivt som bas för kinesiska företags europeiska verksamhet?
    b) Inom vilka industrier skulle detta vara av betydelse?

8. Tankar kring framtidens investeringar från tillväxtekonomier till Sverige.
    a) Prognos: Bland dagens tillväxtekonomier, vilka kommer att dominera investeringarna i Sverige om 10-15 år?
    b) Kinas roll i världsekonomin
    c) Hur kommer investeringsförhållandet mellan Kina och Sverige att utvecklas?