

INTERNATIONALIZATION PATHS OF CHINESE FIRMS: EVIDENCES FROM AN EMERGING ECONOMY

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Abstract. In this paper, an empirical study is conducted to explore the paths of internationalization for Chinese manufacturing firms. Correspondence analysis was employed to examine the relationship between the internationalization paths and the firms' form of ownership. It reveals that the internationalization paths of Chinese firms appear to be in a form of terrace structure, more firms adopting the rudimentary levels than the more matured courses of internalization. The findings indicate that Chinese firms are characterized by the relatively low levels of internationalization. Also the preferred destinations of going internationalization were identified for firms adopting outward foreign direct investments.

Keywords: internationalization; internationalization paths; outward foreign direct investment; emerging economy; China.

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1. Introduction

As one of the most important strategies for firms looking for opportunities to achieve growth, internationalization has been extensively implemented by firms in advanced economies (Grundey 2007; Sapienza *et al.* 2006). The term “Internationalization” has been widely used to describe the outward movement of the international operations of a firm (Welch and Luostarinen 1988), which involves the process of adapting the firm's operations to cope with the strategy, structure and resources of international environments (Calof and Beamish 1995). Firms with higher level of internationalization will usually have higher penetration into overseas markets and/or in-depth cooperation with overseas companies (Zeng *et al.* 2009a).

With the rapid development of some emerging economies, many firms in these countries have begun to explore the foreign markets and go internationalization (Athreya and

Kapur 2009; Bianchi and Ostale 2006; Mockaitis *et al.* 2006; Zeng *et al.* 2009a). The importance of key emerging economies (such as Brazil, China, South Africa, and India) as sources of outward foreign direct investments (FDI) among developing countries has increased over the past few years (Kumar 2008). In fact, the internationalization strategies of a firm are influenced by the economic environment including economic growth, competition, and labor prices (Amoako-Gyampah 2003). Comparing to their counterparts from advanced economies, firms in emerging economies have no advantages on their technological and size superiority (Zeng *et al.* 2008). Existing research on internationalization for firms from emerging economies suggests that the characteristics of these firms, their internationalization motives and ownership advantages are fundamentally different to those from developed countries (Buckley *et al.* 2007; Li 2007; Luo and Tung 2007). Undoubtedly the paths for internationalization are important for them to be successful in the business arena (Gemser *et al.* 2004; Mockaitis *et al.* 2006, 2007; Zhou *et al.* 2007).

With the increasing competition among local and foreign companies over the last decade, Chinese manufacturing firms have to explore foreign markets (Li 2007). A survey indicates that Chinese firms have become more active in foreign business activities (sales or assets), which grow very rapidly with an average annual growth rate of 21.3% (Fortanier and van Tulder 2009). Additionally, many scholars, business experts, and governmental agencies in China have enthusiastically encouraged the Chinese manufacturing firms to go internationalization, which however forms a major challenge for them (Zeng *et al.* 2008). As young firms venture into foreign markets, they have to face uncertainty and risks which entails a process of learning and adaptation (Lu and Beamish 2001, 2004; Tan 2001; Zhou *et al.* 2007).

Although some literature has recorded extensive studies on internationalization of firms in developed countries, there is paucity, to our knowledge, of studies focused on the choice of paths in internationalization efforts of firms in developing countries. In this paper, an empirical study is conducted to explore the paths that the Chinese firms have adopted in internationalization, and their preferred destinations of outward FDI. The objective of this study is to provide a better understanding on how to go internationalization for firms in the emerging economies.

2. Literature Review

Firms in emerging economies will face various challenges when they internationalize in search of new markets. Cuervo-Cazurra *et al.* (2007) distinguished difficulties that were specific to a firm from those that are common to a set of firms. They argued that only a few of the resulting types of difficulties of internationalization were exclusive to the cross-border expansion, and proposed solutions that addressed the root cause of each type.

By examining relationships among market orientation, knowledge acquisition, and market commitment, and the direct and indirect effects of these variables on the performance of small and medium-sized enterprises in foreign markets, Armario *et al.* (2008) found that a direct positive relationship existed between market orientation and the

strategy of internationalization, and that the effect of market orientation on performance in foreign markets was moderated by knowledge acquisition and market commitment. Camison and Villar (2009) examined the direct and indirect effects of ability to internationalize on propensity for cooperative internationalization. They found that capabilities were a positive predictor of propensity for cooperative internationalization, though this relationship was mediated by the adoption of a differentiating competitive strategy. In contrast, the propensity for international growth through alliances decreases as the firm's degree of involvement abroad increases.

The recent corporate evolution of China and India has been characterized by increased internationalization of firms in the form of significant OFDI flows and overseas mergers and acquisitions. Athreye and Kapur (2009) outlined the quantitative and qualitative patterns of internationalization activity of Chinese and Indian firms, identified factors that motivated these firms to invest overseas, and described the internationalization strategies they had adopted.

Using data from Taiwan, Chiao *et al.* (2008) examined, at the subsidiary level, the relationships between subsidiary size, internationalization, production diversification, and performance. They revealed that larger subsidiaries tended to engage in internationalization and product diversification activities to a greater degree, and, as a result, exhibiting superior performance; and subsidiaries that pursued outward internationalization and that reinvested in related businesses enjoyed enhanced performance.

Chittoor and Ray (2007) explored the internationalization paths of internationalizing firms in the Indian pharmaceutical industry. They revealed significant variation in their internationalization strategies. Chittoor and Ray (2007) proposed a conceptual model of internationalization for firms in emerging economies through a combination of exploitation and exploration strategies along the dimensions of products and markets. Firms that are able to supplement the conventional exploitation strategies with exploration through new products and new markets, by taking advantage of increasingly liberalized economies, could emerge as third-world multinationals with capabilities that could potentially challenge even multi-national corporations (MNCs) from the developed world.

Fortanier and van Tulder (2009) explored internationalization trajectories-patterns over time in the level, pace, variability, and temporal concentration of international expansion. They found that although internationalization trajectories of large and leading Chinese and Indian firms were indeed different, there were also considerable similarities between established developed country firms and new firms from emerging markets, not in the least, because they often interacted within the same sector.

By means of multiple case study research for Austrian and Hungarian companies, Reiner *et al.* (2008) found that process and product innovations, in addition to cost considerations, were becoming increasingly important dimensions in explaining the reasons for internationalization projects. The reasons for internationalization and solutions (relocated products and processes, entry mode and location) are closely interrelated.

Recent critiques of internationalization process models question the wisdom of delaying internationalization. Internationalizing late allows firms to assemble resources and

gain experience but also allows inertia to develop. Sapienza *et al.* (2006) resolved this tension by positing that internationalization had differing effects on firms' survival and growth.

These effects are moderated by organizational age, managerial experience, and resource fungibility. Their framework provides insights into the evolution of capabilities across borders and may be tested and built on by organization researchers.

Integrating institution-, industry-, and resource-based views of internationalization, Yang *et al.* (2009) demonstrated that industrial characteristics, firms' resources, and institutional factors could significantly explain the differences and similarities of international expansion of Chinese and Japanese multinational enterprises (MNEs).

They illustrated the similarities and differences between Chinese and Japanese MNEs with two case studies: foreign direct investment (FDI) of Haier and Matsushita. Yang *et al.* (2009) suggested that how firms internationalized, in addition to being influenced by industry- and resource-based considerations, was inherently shaped by the domestic and international institutional frameworks governing these endeavors.

3. Research Methodology

3.1. Correspondence analysis

Correspondence analysis (CA) is one of the multivariate statistical analysis methods developed on the basis of *R*-type and *Q*-type Factor Analysis (Harcar and Spillan 2006; Shen *et al.* 2006). Correspondence analysis can eliminate complicated mathematical calculations and sub-processes, visually classifying samples on the factor loading map, and also marking out major classifying parameters (major factors) and basis, hence providing a direct, simple, and convenient multivariate statistical tool (Whipple 1994). The steps in applying CA are described in detail below.

Step 1: It assumes that the variable "X" denotes the *n* samples and each sample has an original data matrix with *k* indicators.

$$X = \begin{pmatrix} x_{11} & \cdots & x_{1k} \\ \vdots & \ddots & \vdots \\ x_{n1} & \cdots & x_{nk} \end{pmatrix}. \quad (1)$$

Then, each element will be divided by the sum of all elements $T = \sum_{i=1}^n \sum_{j=1}^k x_{ik}$, and obtain the following matrix:

$$P = (p_{ij}) = \frac{1}{T}(x_{ij}). \quad (2)$$

Step 2: The matrix is transformed and a new matrix is obtained as shown in equation (3):

$$Z = (z_{ij}), \quad z_{ij} = \frac{p_{ij} - p_{i\bullet}p_{\bullet j}}{\sqrt{p_{i\bullet}p_{\bullet j}}}, \quad p_{i\bullet} = \sum_{j=1}^k p_{ij}, \quad p_{\bullet j} = \sum_{i=1}^n p_{ij}. \quad (3)$$

Step 3: Component matrix of the *R*-factor is calculated. At first, the eigenvalue of $A = Z'Z$ is calculated, and $\lambda_1 \geq \lambda_2 \geq \dots \geq \lambda_r, 0 \leq r \leq \min(n, k)$.

Next, the corresponding eigenvectors $\mu_1, \mu_2, \dots, \mu_r$ are normalized and the former *m* eigenvalue and eigenvectors are extracted. Thus, the component matrix is obtained as shown in equation (4):

$$F = (\sqrt{\lambda_1}\mu_1, \dots, \sqrt{\lambda_m}\mu_m). \quad (4)$$

Step 4: Component matrix of the *Q*-factor is calculated. At first, the eigenvectors of $B = ZZ'$ are calculated. Next, the eigenvectors $v_i = Z\mu_i$ are normalized and the former *m* eigenvalue and eigenvectors are extracted. Then, the component matrix is obtained as shown in equation (5):

$$G = (\sqrt{\lambda_1}v_1, \dots, \sqrt{\lambda_m}v_m). \quad (5)$$

Step 5: Indicator plots and sample plots are depicted in plane axis of factors, of which the matrix *F* is the coordinates of indicators plots and matrix *G* is the coordinates of sample plots (Whipple 1994).

3.2. Data collection and the sample

The data were gathered via a cross-sectional survey using a questionnaire to a sample of manufacturing enterprises in China. In this investigation, 1,500 copies of questionnaires were distributed to the target subjects by either mailed or delivered personally.

A total of 569 valid questionnaires were collected from manufacturing enterprises in 16 cities of the metropolitan region of Yangtze Delta in China.

In terms of ownership, the surveyed firms were categorized including 68 Wholly Foreign-Owned Enterprises (WFOEs), 95 Joint Ventures (JVs), 130 State-Owned Enterprises (SOEs), 261 Private Enterprises (PEs) and 15 Collectively-Run Enterprises (CREs). Out of all the respondent firms, 157 firms employed over 2,001 people, 203 firms between 301 and 2,000, 172 firms between 300 and 51, and 37 firms below 50. The study involves wider distribution of industries so that it can more fully reflect the characteristics of manufacturing enterprises at the Yangtze Delta region (Zeng *et al.* 2009a).

4. Results and Analysis

4.1. Selection of internationalization paths

With respect to internationalization paths for manufacturing firms, Chittoor and Ray (2007) categorized them into: target markets, product profile, top management factors, trends in R&D spending, manufacturing competence, and overseas mergers and acquisitions.

In this paper, internationalization paths are defined into five aspects, including “Export to a destination country (Exports)”, “Grafting with foreign firms (Grafting)”, “Technology transfer to foreign firms or technical cooperation (Technology transfer or technical cooperation)”, “Outward foreign direct investment (Outward FDI)” and others.

Of all the respondent firms, 465 firms claimed that they adopted currently at least one path while the remaining 104 said none. In the survey, one respondent firm may have single or multiple internationalization paths. However, firms that adopted parallel paths in internationalization were limited. Of all the 465 firms in internationalization, 52 (11%) have two paths; 7 firms (2%) have three paths, while only one adopts four paths. Figure 1 shows the results of internationalization paths for the Chinese firms.

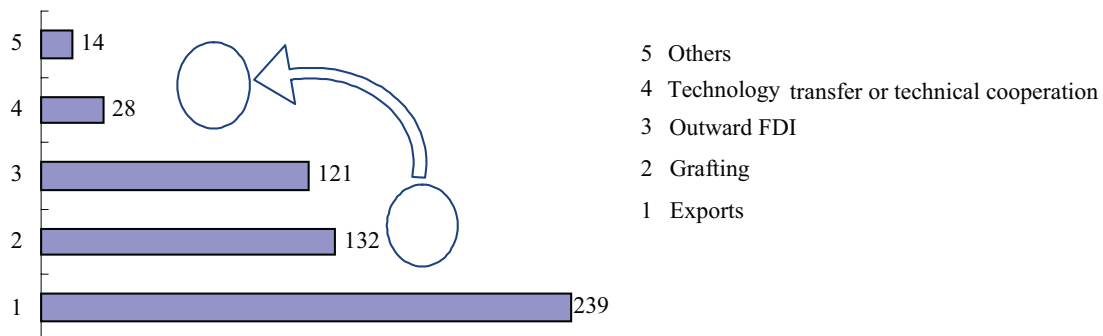


Fig. 1. Terrace structure of firm's internationalization paths

From Figure 1, it shows a terrace structure in term of frequency in adopting different internationalization paths for the Chinese manufacturing firms. It reveals that traditional product exports dominate the Chinese firms' internationalization efforts. However, “Technology transfer or technical cooperation” accounts for quite a small proportion.

With respect to the relationship between firms' internationalization paths and their ownership as well as their capital scale, Table 1 shows the frequencies of selection of internationalization paths for Chinese firms. The results of correspondence analysis between different ownerships and internationalization paths are shown in Table 2 and Figure 2. The results of corresponding analysis between different asserts scale and internationalization paths are shown in Table 3 and Figure 3.

Table 1. Frequency of Chinese firms that select the various internationalization paths

Internationalization paths	Firm Ownership					Total Assets (RMB)					Total
	WFOEs	JVs	SOEs	PEs	CREs	<10M	10M-50M	50M-400M	>400M		
W1 ^a	22(31.88) ^b	36(38.71)	45(36.29)	132(56.65)	4(26.67)	18(40.00)	43(48.31)	80(46.78)	98(42.79)	239(44.76)	
W2	14(20.29)	30(32.26)	36(29.03)	48(20.60)	4(26.67)	10(22.22)	25(28.09)	44(25.73)	53(23.14)	132(24.72)	
W3	0(0.00)	4(4.30)	13(10.48)	9(3.86)	2(13.33)	5(11.11)	2(2.25)	6(3.51)	15(6.55)	28(5.24)	
W4	28(40.58)	21(22.58)	26(20.97)	41(17.60)	5(33.33)	11(24.44)	17(19.10)	36(21.05)	57(24.89)	121(22.66)	
W5	5(7.25)	2(2.15)	4(3.23)	3(1.29)	0(0.00)	1(2.22)	2(2.25)	5(2.92)	6(2.62)	14(2.62)	
Total	69(100)	93(100)	124(100)	233(100)	15(100)	45(100)	89(100)	171(100)	229(100)	534(100)	

^a W1: Exports; W2: Grafting ; W3: Technology transfer or technical cooperation; W4: Outward FDI; W5: Others.

^b Figures in parentheses indicate proportion.

Table 2. Correspondence of different ownerships and internationalized paths

Dimension	Characteristic Value	Proportion of Characteristic Value		Factors	Dimensional Score		Characteristic Value	Weight of Dimension on Characteristic Value		
		Single	Accumulative		1	2		1	2	Total
1	0.104	0.697	0.697	Firm Ownership						
2	0.037	0.251	0.947	WFOEs	-1.017	-0.683	0.064	0.787	0.213	1.000
3	0.006	0.039	0.987	JVs	-0.175	-0.489	0.011	0.148	0.689	0.837
4	0.002	0.013	1.000	SOEs	-0.246	-0.467	0.014	0.294	0.637	0.931
				PEs	0.563	-0.222	0.049	0.914	0.085	0.999
				CREs	-0.587	0.781	0.010	0.246	0.262	0.508
				Internationalization Paths						
				W1	0.487	-0.165	0.042	0.932	0.064	0.996
				W2	-0.123	0.454	0.013	0.089	0.732	0.821
				W3	-0.343	1.947	0.023	0.045	0.867	0.912
				W4	-0.858	-0.334	0.052	0.897	0.082	0.979
				W5	-1.265	-0.403	0.020	0.837	0.051	0.888
				Extraction Test Value: 60.294						
				P = 0						

Table 3. Correspondence of different asserts scale and internationalization paths

Dimension	Characteristic Value		Proportion of Characteristic Value		Factors	Dimensional Score		Characteristic Value	Weight of Dimension on Characteristic Value		
	Single	Accumulative	1	2		1	2		1	2	Total
1	0.015	0.674	0.674	0.674	Internationalization Path						
2	0.006	0.297	0.297	0.971	W1	-0.222	-0.070	0.003	0.926	0.061	0.987
3	0.001	0.029	0.029	1.000	W2	-0.005	-0.141	0.000	0.002	0.973	0.975
					W3	1.569	-1.013	0.010	0.783	0.217	1.000
					W4	0.382	0.478	0.007	0.489	0.510	0.999
					W5	-0.118	0.101	0.001	0.084	0.041	0.125
Extraction Test Value: 28.726											
P = 0.026											
					Total Assets (RMB)						
					<10M	0.814	-0.547	0.010	0.769	0.230	0.999
					10M-50M	-0.482	-0.255	0.006	0.816	0.152	0.967
					50M-400M	-0.147	-0.075	0.001	0.622	0.106	0.728
					>400M	0.140	0.307	0.004	0.236	0.754	0.990

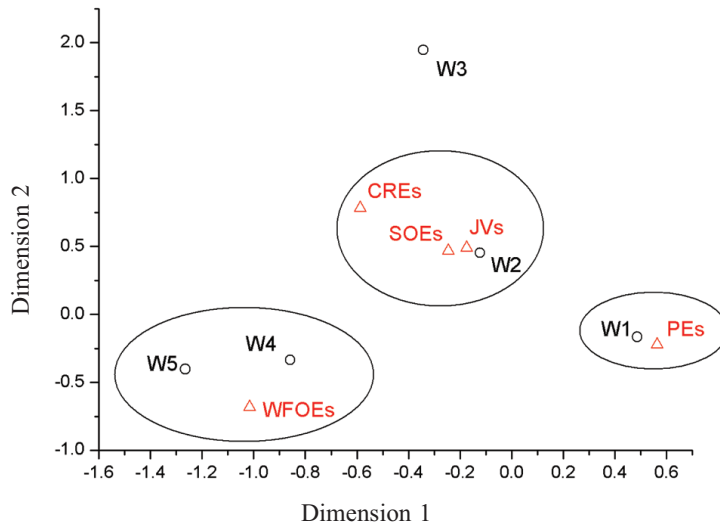


Fig. 2. Positioning maps between firms’ ownership and internationalized paths

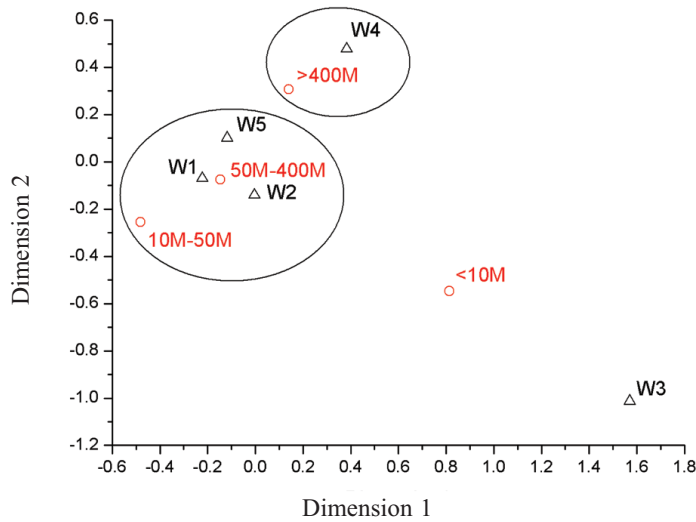


Fig. 3. Positioning maps between firms’ scale and internationalized paths

4.2. Analysis and Discussion

4.2.1. Exports and grafting

Exports, as the first step in internationalization, are the simplest path for firms. Of all the respondent firms in this survey, half of them solely adopt exports as their internationalization path, revealing that Chinese firms are characterized by the relatively low levels of internationalization (Zeng *et al.* 2008), which was supported by Fortanier and

van Tulder (2009). For those who have multiple paths for internationalization, most of them have taken the path of product exports. This means that product exports are the basic path of internationalization. Many firms develop other paths only after they have adopted product exports. When the export amount reaches a certain level and the firms have a specific overseas targeting market (Chittoor and Ray 2007), they will usually deepen their internationalization by some other courses, such as establishing overseas agencies or plants. Grafting with foreign firms has been regarded as one of traditional ways in internationalization. In the survey, 132 firms have made grafting with foreign firms to carry out internationalization. That shows that domestic cooperation with some foreign firms is an important way of internationalization for Chinese firms.

The fact that Chinese firms prefer the traditional internationalization paths could attribute to the following reasons: (1) Most of the respondent firms have limited resources (including human and information) to carry out the course of internationalization. In spite of the need for more intensive internationalization, limited resources result in the low level of internationalization for most Chinese firms (Yang *et al.* 2009); (2) The strange international market environment challenges the Chinese firms due to poor internationalization experience, especially for high level of internationalization, such as merger and acquisition. Hence it is easy for many Chinese firms to choose only the traditional path, which may minimize their risk (Zeng *et al.* 2009a).

4.2.2. To implement outward FDI

To implement outward FDI is an important step for firms to internationalize (Dumludag, 2009). Nowadays, some firms have started to implement outward FDI. Most of them are either WFOEs or with a total asset larger than 400 million RMB. WFOEs are familiar with the international market so they are more likely to implement outward FDI. PEs and SMEs are least likely to implement outward FDI as they are facing difficulties such as lack of capital, policy discrimination, information barriers, etc (Arranz and De Roye 2009; Christophe and Lee 2005; Freeman *et al.* 2006).

Investment Scale of outward FDI

Table 4 lists investment scale of outward FDI for the surveyed firms.

Table 4. Investment scale of outward FDI for the past three years

Accumulative foreign investment in 3 years (USD)	Firm ownership					Total Assets (RMB)				Total
	WFOEs	JVs	SOEs	PEs	CREs	<10M	10M-50M	50M-400M	>400M	
>\$10M	11	6	8	3	0	0	1	4	23	28
\$5M-\$10M	1	4	1	4	1	0	0	6	5	11
\$1M-\$5M	8	4	3	17	1	4	9	11	9	33
<\$1M	8	7	14	17	3	7	7	15	20	49
Total	28	21	26	41	5	11	17	36	57	121

Note: 1USD= 6.827 RMB

From Table 4, it shows that only 28 firms have made outward FDI worth more than 10 million USD in the past three years, accounting for 23.14% of all the firms who have ever made outward FDI; 82 firms have made more than 5 million worth investment, accounting for 67.86%. The average multinational investment amount is 6 million USD for developed countries and 4.5 million USD for developing countries, which shows that Chinese firms are still quite low in foreign investment scale (Buckley *et al.* 2007).

Selection of Investment Destination

The destinations of outward FDI for Chinese firms are shown in Table 5.

Table 5. Selection of destination for outward FDI

Desti- nation	Firm Ownership					Total Assets (RMB)				Total
	WFOEs	JVs	SOEs	PEs	CREs	<10M	10M-50M	50M-400M	>400M	
O1	10(17.24)	6(31.58)	11(27.50)	4(8.51)	1(20.00)	5(33.33)	2(11.11)	5(13.51)	20(20.20)	32(18.93)
O2	12(20.69)	8(42.11)	11(27.50)	10(21.28)	0(0.00)	4(26.67)	0(0.00)	10(27.03)	27(27.27)	41(24.26)
O3	5(8.62)	0(0.00)	2(5.00)	3(6.38)	0(0.00)	2(13.33)	0(0.00)	0(0.00)	8(8.08)	10(5.92)
O4	9(15.52)	1(5.26)	6(15.00)	16(34.04)	1(20.00)	2(13.33)	9(50.00)	9(24.32)	13(13.13)	33(19.53)
O5	8(13.79)	2(10.53)	1(2.50)	4(8.51)	1(20.00)	0(0.00)	1(5.56)	6(16.22)	9(9.09)	16(9.47)
O6	7(12.07)	1(5.26)	4(10.00)	4(8.51)	2(40.00)	2(13.33)	3(16.67)	2(5.41)	11(11.11)	18(10.65)
O7	7(12.07)	0(0.00)	4(10.00)	3(6.38)	0(0.00)	0(0.00)	2(11.11)	2(5.41)	10(10.10)	14(8.28)
O8	0(0.00)	1(5.26)	1(2.50)	3(6.38)	0(0.00)	0(0.00)	1(5.56)	3(8.11)	1(1.01)	5(2.96)
Total	58(100)	19(100)	40(100)	47(100)	5(100)	15(100)	18(100)	37(100)	99(100)	169(100)

^aFigures in parentheses indicate proportion.

Note: O1: Hong Kong, Macao and Taiwan; O2: Europe and America or Japan; O3: Australia;

O4: South East Asia; O5: Mid or East Europe or Russia; O6: Middle East or centre Asia;

O7: Africa or South America; O8: Others

From Table 5, it indicates that Europe (and America or Japan), South East Asia, and Hong Kong, Macao and Taiwan are ranked top three most preferred destinations of outward FDI for Chinese firms.

In practice, Hong Kong, Macao and Taiwan, having similar culture, custom and environments, etc. should have been the most favorable destination for the Chinese firms. However, Europe (and America or Japan), which is remote in mental and physical distance to Chinese firms, has been the most popular destination of those firms. Contrary to the mental distance explanation, Chinese firms’ preference for the European (and American or Japanese) market may be a result of mental adoration.

Table 5 indicates that WFOEs have a wide variety of investment destination markets, attributing to their abundant capital and managerial expertise in the international market. Though Europe and America or Japan, South East Asia and Hong Kong, Macao and Taiwan are their main destinations of outward FDI, they are not limited to these areas. In other words, they are less affected by the mental adoration when making investment decisions, as WFOEs are actually coming from developed countries such as Europe

and America or Japan. The decision makers are familiar with the developed countries' markets and have already established their firms' reputation (Brock and Urbonavicius, 2008; Pazienza and Vecchione, 2009).

In contrast to WFOEs, JVs and SOEs are more affected by the mental adoration when they are making decisions for outward FDI. Despite the fierce competition and high risk of failure in developed countries' markets, these firms hope to quickly raise the popularity of the products of the firms and raise their reputation (Duysters *et al.* 2009; Westhead *et al.* 2001).

For PEs, as they are limited in capital, so they are more likely to adopt a low risk and stable developmental internationalization paths. Most of them focus on the South East Asia areas. Results on the destination of outward FDI and enterprise ownership are shown in Figure 4.

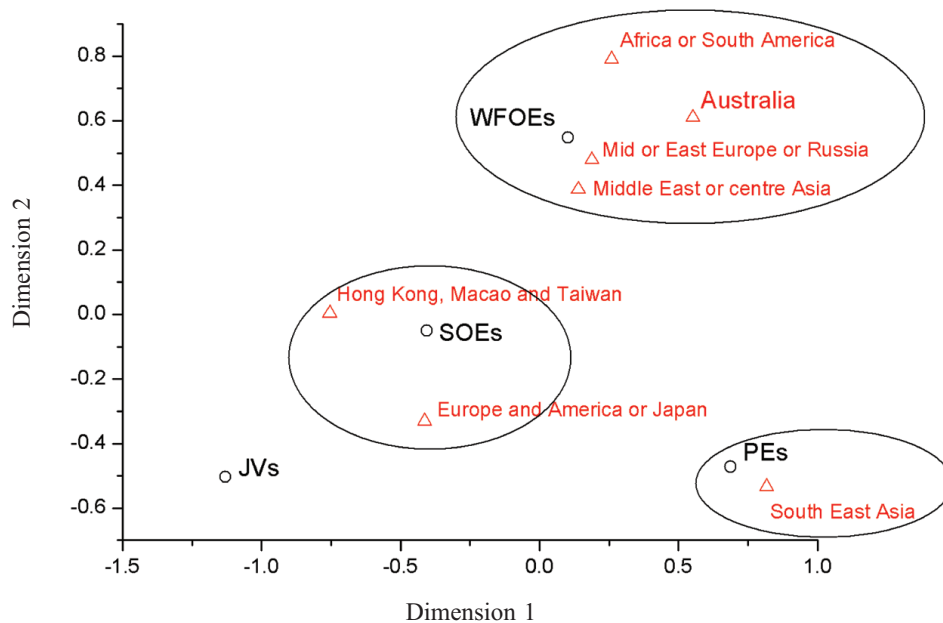


Fig. 4. Positioning maps between destination and enterprise ownership

With respect to the relationship between destination and total asset scale, most firms which have a total asset larger than 50 million RMB are significantly affected by this mental adoration. Many of them take the risk to invest in developed markets when their anti-risk capabilities are enhanced with the increase in their total asset (Tvaronaviciene *et al.* 2008). For firms with a total asset over 400 million RMB, their investment locations are most diversified and with few limitations. With the strong anti-risk capability and already established reputation, their choices of foreign direct investments are mostly profit-driven instead of governed by mental adoration. For the remaining firms with a total asset between 10 million to 50 million RMB, they mostly focus on the South-East Asia areas. Results between destination and enterprise scale are shown in Figure 5.

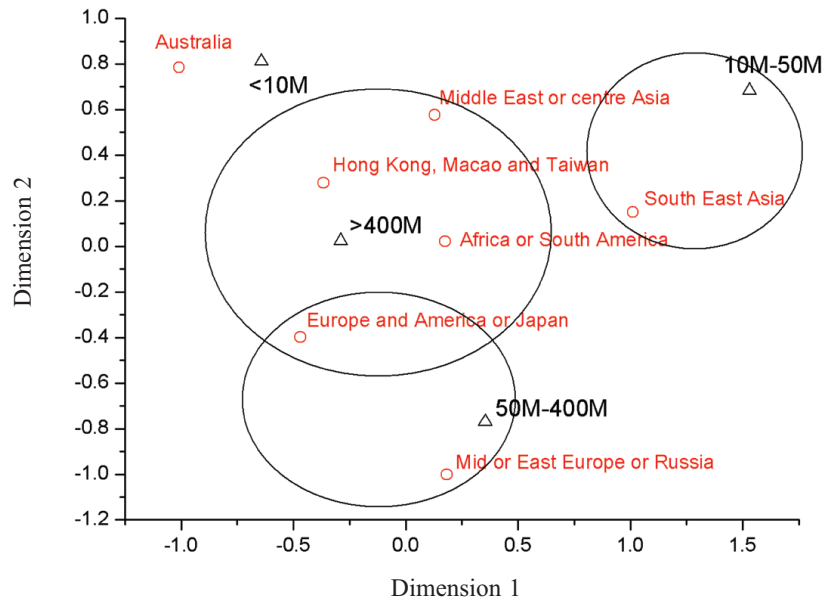


Fig. 5. Positioning maps between destination and enterprise scale (Total assets in RMB)

Investment Sectors

Table 6 shows the sectors of outward FDI for Chinese firms. From Table 6, it reveals that the majority of surveyed firms will produce exactly the same products when their outward FDIs are also in the manufacturing industry. Some of them may produce not exact but of similar type products. Meanwhile, a few will invest in non-manufacturing industries.

Table 6. Sector of outward FDI

Investment Sectors	Firm Ownership					Total Assets (RMB)				
	WFOEs	JVs	SOEs	PEs	CREs	<10M	10M-50M	50M-400M	>400M	Total
The same products	17	9	10	23	3	5	6	25	26	62
Different products	5	4	2	6	2	2	4	3	10	19
Different manufacturing	0	0	2	0	0	0	0	1	1	2
Non- manufacturing	4	1	9	5	0	2	4	3	10	19
Others	0	1	1	1	0	0	0	0	3	3
Total	26	15	24	35	5	9	14	32	50	105

Outward FDI for producing exactly the same products with the parent company will have more chance to succeed and enjoy higher profits, so most firms chose that. Some of them may have to change a little bit of their parent company’s products in order to conform to local regulations or demands, which results in the not exact but of similar type products. Investing in non-manufacturing industries is mostly for the purpose of merger and acquisition in the future, by which they can get the technology, information and market channels. But if the purpose of direct investment is to gain a higher reputa-

tion in the market of the home country, these kinds of non-manufacturing investment are of high risk, non-direct profitable and more likely to be for the mental adoration. Results between sectors of outward FDI and enterprise ownership are shown in Figure 6.

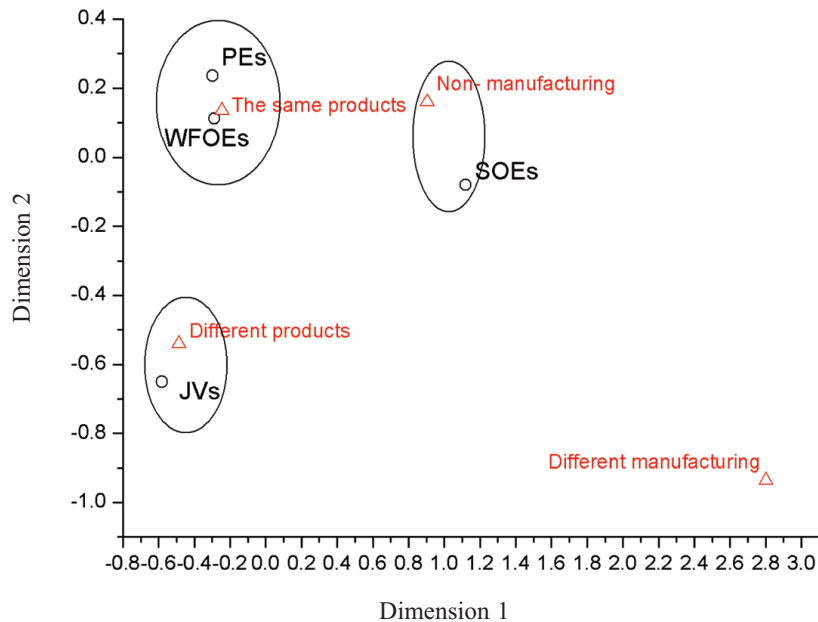


Fig. 6. Positioning maps between investment sector and enterprise ownership

PEs and WFOEs mainly invest in the same products as their parent companies. Some of SOEs invest in non-manufacturing industries. This is attributed to the fact that SOEs are mostly affected by mental adoration. They are willing to make these high risk investments to promote a quicker market spread as they are strong in risk-taking capabilities. Some manufacturing companies, such as Nanjing Auto, are beginning to make acquisitions for technology and brands (Hagiwara 2006; Kumar 2008).

4.2.3. Technology transfer or technical cooperation

The low proportion of technology transfer to foreign firms may result from the fact that most Chinese manufacturing firms generally face more uncertainties and barriers to technology innovation, which hindered them from promoting innovative capability and developing new technologies (Zeng *et al.*, 2009b, 2010). Under such circumstances, the Chinese firms, in general, do not have capability to implement technology transfer to foreign firms (Zeng *et al.*, 2008).

5. Conclusion

In recent years, Chinese manufacturing firms have to explore foreign markets and to go internationalization. As young firms venture into foreign markets, they have to face

uncertainty and risks which entails a process of learning and adaptation. The paths for internationalization are important for them to be successful in the process. In this paper, an empirical study is conducted to explore the paths for the Chinese firms in internationalization. The structure of adopting different internationalization paths was examined for the Chinese manufacturing firms. Traditional product exports dominate the Chinese firms' internationalization efforts, which reveal that the Chinese firms would be characterized by relatively low levels of internationalization. Chinese firms prefer the traditional internationalization paths, which could attribute to the fact that: (1) Most of the respondent firms have limited resources (including human and information) to carry out the course of internationalization. (2) The uncertain international market environment challenges the Chinese firms due to poor internationalization experience, especially for high level of internationalization, such as merger and acquisition.

Meanwhile, outward FDI was explored by some Chinese firms. With respect to locations of outward FDI, it is found that Europe (and America or Japan), South East Asia, and Hong Kong, Macao and Taiwan are ranked top three most preferred destinations. Hong Kong, Macao and Taiwan, having similar culture, custom and environments, etc. should have been the most favorable destinations for the Chinese firms. In practice, Europe (and America or Japan), which is remote in mental and physical distance to Chinese firms, has been the most popular destination of those firms. Contrary to the mental distance explanation, Chinese firms' preference for the European (and American or Japanese) market may be a result of mental adoration.

Comparatively, technology transfer to foreign firms, at higher internationalization level, is least adopted by Chinese firms, which highlights that they are still weak in technology innovation for promoting innovative capability and developing new technologies.

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KINIJOS ĮMONIŲ INTERNACIONALIZAVIMO BŪDAI: TAM TIKRI AUGANČIOS EKONOMIKOS BRUOŽAI

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Santrauka

Straipsnyje pateiktas empirinis tyrimas, atliktas siekiant išsiaiškinti internacionalizavimo būdus Kinijos gamybos įmonėse. Norint iširti ryšį tarp internacionalizavimo būdų ir įmonės nuosavybės formos, buvo pritaikyta atitikties analizė. Ji parodė, kad internacionalizavimo būdai Kinijos įmonėse yra pylimo formos, t. y. dauguma įmonių diegia pradinio, be ne brandesnio lygmens internacionalizavimo būdą. Atskleista, kad Kinijos įmonėse internacionalizavimo lygis yra gana žemas. Nustatytas pageidautinas internacionalizavimo tikslas – išorinių tiesioginių užsienio investicijų naudojimas.

Reikšminiai žodžiai: internacionalizavimo, internacionalizavimo būdai, išorinės tiesioginės užsienio investicijos, auganti ekonomika, Kinija.

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