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The Changing World of Chinese Labour

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Palgrave, MacMillan, Basingstoke and New York, 2009, xxi + 307 pp.

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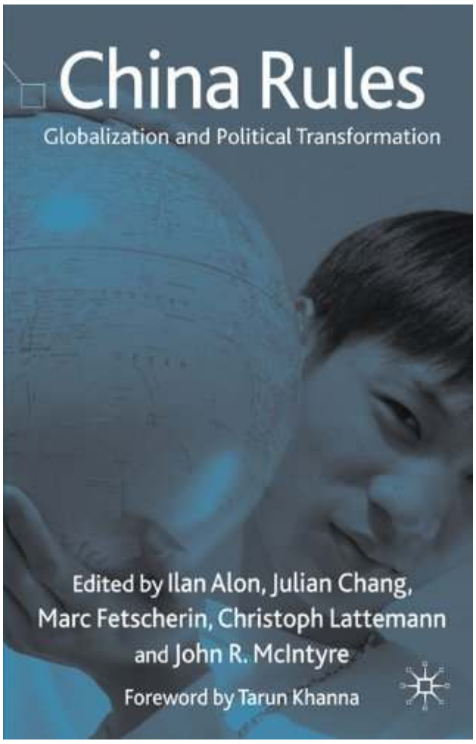

1 Globalisation has ushered in a new phenomenon on which experts have been focusing: the internationalisation of firms from emerging countries such as China. Still limited in number and invested capital, they are penetrating multiple markets, north and south, seeking production factors (raw materials, technologies, human capital) and markets. The accumulation of financial resources and technical as well as managerial knowhow due to industrial cooperation and expansion favours *greenfield* investments and acquisitions of sometimes prestigious assets (such as the Chinese automaker Geely's purchase of Volvo).

2 Big media perceives a threat there. Western companies try to protect their technologies, while governments impose

rules limiting the entry of such capital into their countries. Among 100 of the most dynamic enterprises from emerging countries listed in the *2009 BCG New Global Challengers*, at least 43 are Chinese, involved in sectors ranging from information technologies to financial services. They are directly or indirectly state-controlled, and some are associated with intergovernmental contracts, notably in Africa, which further eases their entry into such markets.

3 Contributors to this book explain the internationalisation of Chinese firms firstly through the internal institutional context in which it comes about. This process seems to confirm the paradigm of John H. Dunning's "*investment development path*," which traces a link between a nation's development and direct investment abroad. The other explanation is the technological and managerial expansion brought about by the influx into China of foreign direct investment (FDI) over the past three decades.

4 The book's first part has contributions analysing the factors that help companies build competitive advantage and go on to capture world markets. The other two parts focus on the link between foreign trade and direct investment, as well as case studies of industries in which success abroad testifies to the effectiveness of the strategies adopted.

5 The first chapter (by Francis Schortgen) starts off with a dual observation on the absence of a theoretical framework or reference to understand the dynamic of Chinese firms' expansion in the context of reforms on the one hand, and on the other the ideological misperception on the part of Western observers who perceive a threat from the rise of Chinese firms. Internationalisation of enterprises can be understood in a triple context of profound reforms in the Chinese economy, the internationalisation strategy ("going out" or "*zou chu qu*") sought and encouraged by the state and adopted by the companies, and lastly, the importance of institutional changes or interactions they led to by opening a larger space for the actors. Firms that internationalised benefited from direct aid, profited from opportunities, and knew how to use their autonomy by relying on experience gathered over the years in the context of competition opened up by economic reforms.

6 Another contribution (by Gloria L. Ge and Daniel Z. Ding) highlights two important aspects: the evolution of Chinese firms' internationalisation, and the institutional factors that facilitated it (Hinrich Voss, Peter J. Buckley, and Adam R. Cross also touch on this point. See infra.). The growth of China's direct investment abroad is very recent, and really took off in terms of volume as well as in the number of acquisitions following China's admission to the World Trade Organisation in 2001. This acceleration phase was preceded by the accumulation of competences in the framework of successive reforms in rules governing Chinese investments abroad. Government policies have noticeably changed in recent years, creating a suitable environment rather than fixing strict rules to guide firms seeking to internationalise. The authors' second point concerns the modalities of acquisition of competences by Chinese firms, a necessary prerequisite for internationalisation. Dunning's OLI paradigm (*Organisation, Localisation, Internalisation*) must be read with John A. Matthews' LLL (*Linkage, Leverage, Learning)* to grasp this process. In the context of internationalisation characterised by the globalisation and disintegration of the international value chain, learning and accumulating competences becomes easier. Chinese firms have succeeded in achieving internationalisation even while lacking the resources of Western multinationals.

7 Peter J. Williamson and Eden Yin complement the analysis of institutional factors favouring these firms' internationalisation by stating that the process can only be understood by considering two critical points. The first is the quality of interaction between what the market wants and the different vectors of capacity of firms engaged in competition. The second is related to the level of friction facing each group of enterprises (Chinese, Western) to narrow the gap and create vectors of capacity that will facilitate their future success. The authors integrate two theoretical dimensions: market positioning (Michael Porter) and resource-based view (Birger Wenerfelt) to explain how firms built competitive advantage. Internationalising firms mobilise three types of capacities:

- Cost innovations by using Chinese firms' cost advantages (i.e., capacity to produce by lowering production costs) while maintaining quality;
- Combining capacities especially by supplying products redefined to integrate technology and offered at low prices;
- Dynamic capacities in terms of adjustment needed to face uncertainties by relying on a high level of flexibility and a rapid learning curve.

8 In the second part, contributions illustrate the impact of the institutional reforms of the previous decades on Chinese firms' internationalisation and their links to the evolution of external exchanges. One contribution (by Voss, Buckley, and Cross) draws a parallel between phases of institutional reform and of internationalisation, noting three periods further divided into sub-periods corresponding to the adoption of various regulatory measures. Each institutional advance constitutes a moment in the development of companies' internationalisation strategies, cautious at first but more assured later.

9 Two contributions (by William Xiaojun Wei and Louise Curran) trace a link between foreign direct investment and external trade by analysing the impact of investment from abroad, especially Europe, on China's specialisation. Investments (by 400 multinationals out of the 500 largest present in China, through more than 500,000 joint enterprises) are observed and their impact on the specialisation of China's exchanges analysed. Foreign invested firms in China account for more than 50 percent of the country's exports and imports. The study does not indicate the technology content of these exchanges, which highlight a large gap between exports by foreign invested firms and domestic ones. Meanwhile, the opening up of markets, especially in Europe, to Chinese firms and these firms' offensive strategies to procure resources and find markets have led to trade frictions between China and its main partners over products with low value added (shoes and textiles) in "protected" markets (Africa). As for Chinese firms' state-supported presence in Africa, that is explained by the need to gain access to natural resources.

10 The book's last part, devoted to case studies of industries, illustrates very well the mix of government policies and encouragement, support and incentives taking different forms. The book's editors point out (p. 296): "The curious Chinese case of outward investment is an amalgamation of ideological traditions, historic entrepreneurial inclinations, and cultural habits with new technologies and international standards."

11 The studies grouped in the book hold interest as they present the conception, framework, and nature of government incentives vis-à-vis globalisation aimed at supporting Chinese firms' internationalisation. They also show the factors pushing the firms into this process. Of course, the efficiency of this strategy is still open to question.

Can the state not be content with creating a framework in which the firms can operate, some successfully and others with difficulty in the global marketplace? Can these firms sustain their international operations? This is a research theme unlikely to be exhausted anytime soon.

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