Working Paper Series

#2008-055

EUROPEANISATION STRATEGY OF CHINESE COMPANIES: ITS PERILS AND PROMISES

Sergey Filippov and Tina Saebi

United Nations University - Maastricht Economic and social Research and training centre on Innovation and Technology
Keizer Karelplein 19, 6211 TC Maastricht, The Netherlands
Tel: (31) (43) 388 4400, Fax: (31) (43) 388 4499, e-mail: info@merit.unu.edu, URL: http://www.merit.unu.edu

EUROPEANISATION STRATEGY OF CHINESE COMPANIES: ITS PERILS AND PROMISES

Sergey Filippov and Tina Saebi

UNU-MERIT
(United Nations University & Maastricht University)

Keizer Karelplein 19, 6211 TC Maastricht, The Netherlands,
Tel: +31 43 3884400. E-mails: filippov@merit.unu.edu and saebi@merit.unu.edu

Abstract:
The magnitude of outward FDI from China over the recent years has been impressive. It is widely acknowledged that China's government plays an active role in encouraging its companies to go global and become multinational as they realise the value of outward FDI. The paper traces the development of China's outward direct investment policies and discusses the various motives of Chinese companies' internationalisation. More specifically, in this paper we look at the European continent as the emerging destination for Chinese outward direct investment and analyse the implication this trend has for European companies and governments.

Key words: China, multinational companies, emerging economies, outward investment, public policy

JEL classification: F23, O52, E61

UNU-MERIT Working Papers
ISSN 1871-9872

Maastricht Economic and social Research and training centre on Innovation and Technology, UNU-MERIT

UNU-MERIT Working Papers intend to disseminate preliminary results of research carried out at the Centre to stimulate discussion on the issues raised.

"I see no greater strategic challenge for Europe than to understand the dramatic rise of China and to forge ties with it."

Peter Mandelson, EU Commissioner for External Trade, 2005

1. Introduction

Internationalisation of Chinese companies, unthinkable even a decade ago, has hit the headlines of leading newspapers. The names such as Lenovo, Haier, and CNPC became recognisable brands, and the world is witnessing the shift from "Made in China" to "Made by China". China's rapid economic rise and its global ambitions have given ground to call the 21st century as the Chinese Century. The Chinese economy has become a scholarly pursuit, with numerous publications and studies on this topic.

While China itself is a lucrative growing market, the competitive forces drive domestic companies to pursue an active policy of expansion abroad and to seek to strengthen their market position on a global stage (Child and Rodrigues, 2005; Boisot, 2004). The prospect that China is becoming a major source of foreign direct investment (FDI) is being received with a mixture of enthusiasm and anxiety by many recipient countries. While the inflow of long-term equity investment is wholeheartedly received by many economies, some, especially developed countries raise concerns about the motivations and quality of the Chinese capital.

In particular, the potential infringements of intellectual property rights, loss of control over natural resources in the event of global scarcity; questionable management techniques and governance practices; and the unsavoury human rights reputation of the Chinese government and, by extension, of its stable of state-owned enterprises. While some of these mentioned concerns are not without merit, it would be unwise for recipient countries, including Europe, to reject Chinese investment on basis of generalisations about the motivations and practices of the Chinese government.

Since China will very likely continue to be the major exporter of capital for the foreseeable future, its important role for the European economies cannot be ignored but rather must be evaluated in the context of the Chinese institutional environment that has shaped its internationalisation strategy. It is with this in-depth knowledge that European policy makers and business practitioners alike can be prepared to strike a balance between the promises and perils of Chinese outward investors and eventually to reap the benefits of competing against the largest world-wide economy. It is for these reasons

that this explorative paper seeks to provide an overview of the patterns and motives of Chinese outward investments and the government policies that have facilitated the Chinese internationalisation process, with an explicit focus on Europe, i.e. *Europeanisation* of Chinese firms. In this attempt, we address some white spots in the literature regarding this research area.

The paper is structured as follows. Section 2 elaborates on the internationalisation motives and drivers of Chinese firms. Section 3 provides a detailed overview of China's state policy on the outward direct investment. It is followed by Section 4 which focuses on Europe as a destination for Chinese investment; particularly, it illustrates increasing involvement of Chinese companies into the European business and economic arena. Section 5 concludes.

2. Rise of the Dragon

Today, China has become the world's fifth largest outward direct foreign investor with a total of 75 billion US dollars in outward stock by the end of 2006 (MOFCOM, 2007). Noteworthy, the country has increased its annual FDI outflow significantly over the last two decades: the average annual outward FDI flows grew from 450 million US dollars in the 1980s to 2.3 billion US dollars in the 1990s (UNCTAD, 2004: 57). Only a short time period in the recent years already records a large increase in the value of outward FDI stocks, as Figure 1 illustrates.

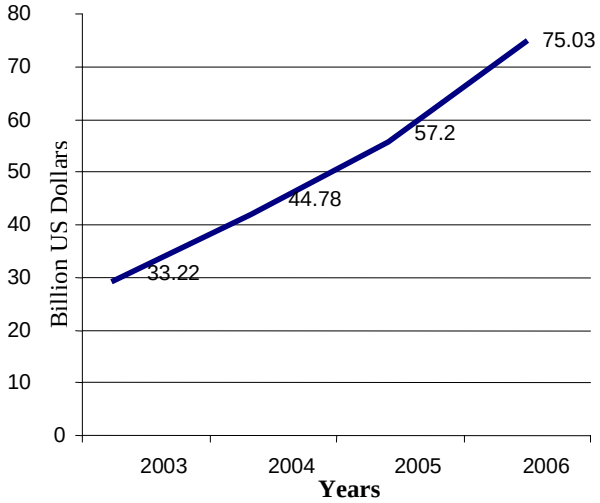

Figure 1 China's outward FDI stock in the 2003- 2006

Source: authors' calculation based MOFCOM (2007)

The distribution of Chinese outward FDI to different regions is depicted in Figure 2, highlighting a sharp increase in the FDI outward flow towards Asia and Latin America, while Africa, North America and Europe have experienced an incremental increase in Chinese FDI flow. The following sections will provide an overview of the main drivers and motives of Chinese internationalisation activity that have led to the impressive surge in Chinese outward FDI activity and analyses the rationale for Chinese internationalisation in the context of traditional and recent internationalisation theory.

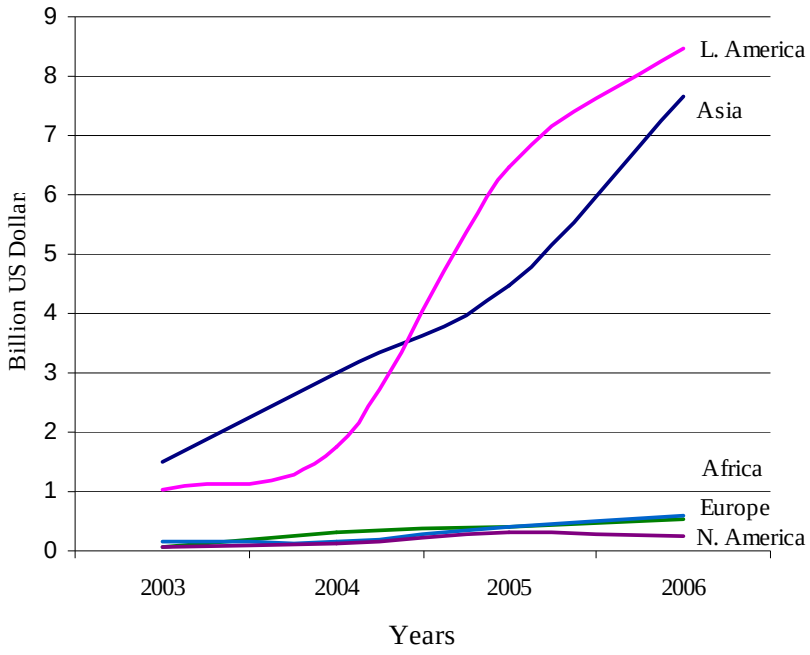

Figure 2 China's outward FDI flow by regions, period of 2003-2006

Source: authors' calculation based MOFCOM (2007)

2.1. Theoretical Rationale and Drivers for Chinese outward FDI

The last two decades have experienced a surge in the emergence of multinational companies from developing economies (Heenan and Keegan, 1979; Kumar and McLeod, 1981; Kumar, 1982; Lall, 1983; Wells, 1983), resulting in significant academic interest later in the 1990s and especially in the 2000s, corresponding to the increasing importance of these companies in the global economy (Sauvant, 2005; OECD, 2006; UNCTAD, 2006; Goldstein, 2007; Benito and Narula, 2007; BCG, 2008). Especially, the phenomenon of Chinese internationalization has increasingly drawn the

attention of scholars (Ye, 1992; Tseng, 1994; Wu and Chen, 2001; Wong and Chan, 2003; Child and Rodrigues, 2005). Traditionally, the rationale for Chinese internationalisation has been searched within the classical OLI paradigm developed by Dunning (1977, 1988), where the wish to exploit existing ownership advantages, *asset exploitation*, is regarded as one of the three key drivers for internationalisation. In the case of China, asset exploitation would involve costs advantages due to the low wages and production improvements achieved in recent years. This competitive advantage is asserted to allow the company to secure sufficient returns in order to cover the risks and costs that overseas operation entail (Buckley and Ghauri, 1999; Caves, 1971)[1]. While the cost advantage of Chinese companies is a relatively important competitive factor for simple and lower income markets, it is not sufficient to compete in higher value-adding markets. Hence, the initial competitive advantage of low labour costs becomes less crucial as the firm moves into more sophisticated international markets. In order to explain why Chinese companies still pursue the international expansion in more sophistication markets, one has to deviate from the classical theoretical framework. Instead, recent theoretical developments in the field of emerging country multinationals emphasise the relative *disadvantage* of companies from emerging economies which drives them to internationalise. Hence, contrary to the notion of competitive *advantage*, companies will move abroad to avoid a number of competitive disadvantages incurred by operating exclusively in the domestic market. In the case of China, a number of disadvantageous domestic conditions can push Chinese firms to internationalise. For example, Child and Rodrigues (2005: 388) list the following ones:

- regional protectionism limiting opportunities available otherwise in a large domestic market to exploit economies of scale;
- restricted access to capital preventing investment in plants of optimal scale;
- underdeveloped intellectual property rights (IPR) regime limiting access to sophisticated technologies;
- lack of skilled human resources;
- weak local infrastructure entailing rising transportation costs.

[1] Further key drivers of internationalisation include the location specific advantages, such as the attractiveness of overseas location over domestic market, as well as the internationalisation advantage of companies, where the investment and production overseas is more profitable than exporting goods produced domestically.

Hence, the concept of relative *disadvantage* regards international investment as a means of addressing competitive disadvantages in the home markets. This paper adopts the view that *additionally* to the initial ownership advantage of Chinese firms, the presence of domestic pressures and constrains explains the ongoing internationalisation process of Chinese companies. Consequently, we present both the "pull" and "push" factors that drive Chinese internationalisation as well as the main facilitating factor, the Chinese government that has supported the Chinese overseas experience.

Table 1 Rationale of Chinese outward investment

Drivers (pull and push)	Facilitators
- Dangers of operating in an increasingly competitive and complex domestic market, and decreasing profit margins. - Potential to complement cost advantages of domestic production with differentiation advantages overseas. - Necessity to access and secure advanced technology and expertise. - Acquisition of internationally recognised brands. - Access to entrepreneurial and managerial skills and know-how.	- Strong governmental support for internationalisation: o financial incentives o non-financial support o institutional support o information provision o access to state-supported scientific and technological research

Source: based on Child and Rodrigues, 2005

2.3. Pattern and Motives of Chinese outward investment

The internationalisation of Chinese companies has evolved through a number of stages with different levels of engagement (Child and Rodrigues, 2006; Warner et al, 2004; Tseng, 1994; Cai, 1999). After China had adopted its open door policy in 1970s, the first generation of Chinese multinationals, large state-owned enterprises operating in monopolised industries emerged. These state-owned Chinese companies were important players in natural resources, driven to secure control of such resources abroad (UNCTAD 2006). Well-known examples include as CITIC Group, a diversified financial and industrial conglomerate founded in 1979, COSCO, China State Construction Engineering Corporation and Sinochem. For these first-generation Chinese

multinationals, Hong Kong most often presented the first and last overseas stop along their path of internationalisation.

After the early 1990s, the second generation of major Chinese companies emerged in competitive manufacturing industries, related to electronics, information and communication. Here, major players as Haier and TCL dominate the markets for consumer electronics, while Huawei Technologies is competing against multinationals originating from industrialized economies in the global telecom equipment market. Contrary to the first generation of State-owned Chinese multinationals, the second generation is characterised by "diverse ownership structures, including private ownership, local government ownership and foreign participation" (UNCTAD 2006:130). Accordingly, the Chinese internationalisation path has evolved from the basic levels of exporting to subcontracting production for outsourced foreign companies. Eventually, Chinese companies have reached the more advanced level of internationalisation, involving the physical and organisational expansion of Chinese firms into overseas locations funded by outward FDI and entailing the commitment to manage and organise operations located outside mainland China.

The motives of Chinese overseas expansion can be categorised according to the traditional classification of resource-, efficiency-, market- and asset-seeking FDI (Dunning, 1993). Especially towards developing countries, China is driven by both resource and efficiency seeking factors, e.g. China has investments in the oil industry in 14 countries, including Indonesia, Kazakhstan, Myanmar, the Sudan and Yemen (UNCTAD, 2004: 57). Further, to support exports, Chinese firms establish local distribution networks (especially in industries with excess production capacity such as machinery and electronic appliances) and relocate mature industries to lower wage sites (e.g. bicycle production in Ghana). Increasingly, Chinese companies are targeting advanced developed economies such as Germany, Japan, Sweden and the United States to build international brands, access advanced technologies and to establish R&D centres. Concluding, we follow Child and Rodgrigues (2005: 397) observation that today's leading Chinese companies internationalise with a "more focussed and longer-term strategic view and appear to be developing the capacity to organise overseas operations systematically" Consequently we assert that Chinese companies increasingly internationalise with a view to becoming a global player in international markets.

3. China's "Go Global" Strategy

3.1. Government policy for private investment

In the recent decades, financial liberalisation and economic openness have led to changes in the corporate governance, and a larger role of multinational companies in the global economy. FDI, the main vehicle of their operation, has gained importance. Nowadays, practically all countries in the world vie and compete for FDI. In some countries attraction of FDI has even topped policy agenda, as the governments seek to attract technology and create jobs and production capacities. Hymer (1960/1976) introduced a concept of "liability of foreigness" meaning that entrant firms face disadvantage vis-à-vis domestic firms due to foreign exchange risks and unfamiliarity with the business conditions of the foreign market. It serves as justification for investment incentives provided to foreign companies entering a host economy (Morisset and Pirnia, 2002). Moreover, the global business does not possess all necessary information about all potential locations on the globe; therefore, active promotion by the government is necessary. Overall, investment promotion has become a widely researched topic (e.g. Loewendahl, 2001; Enderwick, 2005; Zanatta et al, 2006).

Foreign investment is a two-way street, the government can support outward investment by its domestic firms too. Broadly speaking, a government can play a role in the process of internationalisation of domestic firms through two channels. Firstly, it can foster technological development within the national economy, which would strengthen the home basis of companies, or secondly, it may stimulate companies with subsidies or tax rebates for moving overseas, so that the companies can leverage key assets otherwise not available in the home environment (UNCTAD, 2006). A state can also conduct "economic diplomacy" to promote the interests of their companies overseas. As this policy would lead to some sort of capital flight, it is unsurprising that only few countries conduct it.

Currently, it seems that the Chinese government has been focusing on the second channel. It has been encouraging firms to invest abroad by relaxing approval procedures and offering them financial support and corporate income tax incentives. However, it

was a long road that China had to travel on its way to becoming one of the main outward investors among developing countries.

3.2. History of China's policy for outward investment

The Chinese government has been active in preparing its top companies to go overseas and expand. The first roots of China's current policy for outward investment may be found back in 1979 when the government started encouraging outward FDI as part of the broader "open door policy". In fact, before 1979, outward investment was very limited, and mostly concentrated in trade-supporting activities, e.g. sales subsidiaries (Zhan, 1995). This policy had several goals, mainly securing supply of raw materials and strengthening economic ties with its neighbours (Zhan, 1995).

Screening of every outward investment project was executed by the Ministry of Foreign Affairs and Economic Cooperation (MOFTEC). The first MOFTEC-approved subsidiaries were established in 1979. By the end of 1983, 76 non-trading subsidiaries operating in 23 countries had been established, with the total investment valued at $900 million (Wall, 1997). Only specific state-owned enterprises under strict state guidance were allowed to invest abroad; and every outward FDI project had to be screened (and approved) by this authority. In 1985, MOFTEC issued a directive which somewhat relaxed this extremely strenuous and centralised approach. Another directive was issued in 1989. Both directive established clear "rules of the game" and procedures.

The directives also defined objectives for outward FDI: access to advanced technology and channelling it back home, access to raw materials, increased earning of foreign exchange and expansion of exports of goods and services, i.e. strengthening economic ties with its neighbours. As for the policy instruments, a wide array of measures were employed, such as tax incentives, subsidies and privileged access to the domestic market for the goods manufactured by overseas subsidiaries of Chinese companies (Wall, 1997).

From the early 1990s, the Chinese government switched from merely allowing to actively encouraging outward direct investment. October 1993 was an important landmark as the policy of outward investment was endorsed by the 14th National Congress of the Chinese Communist Party. While there was a clear trend of gradual

liberalisation of outward FDI regime in the 1980s and early 1990s, some obstacles emerged. First of all, the government feared of losing the control over the companies going abroad and secondly, many overseas subsidiaries of Chinese companies performed quite poorly. The government tightened its grip over the internationalising companies and strengthened post-approval procedures.

Overall, the experience of the 1980s and 1990s tells us that the Chinese government has been always trying to find a balance between the perils and promises of internationalisation of the Chinese companies. On one side, internationalisation would enable access to raw materials, markets, equipment and know-how. Yet, it could jeopardise the state control over the companies, lead to poor financial performance due to weak management in subsidiaries and their inefficient monitoring, and ultimately cause excessive capital outflow.

In June 2000, Shi Guangsheng, China's minister for foreign trade and economic cooperation speaking at the "21st Century Forum" stated that the government would encourage national companies to go global turning into multinational companies. It was a radical shift as the policy has extended from active targeting of FDI inflows to promotion of FDI outflows too (Asian Economic News, 2000).

Formally, China's current strategy "Go Global" was initiated in 2002. The timing is unsurprising: in 2001 China joined the World Trade Organisation (WTO) and support of the overseas expansion of Chinese companies became a priority for the government. The strategy aims to encourage its enterprises to invest overseas. The plan is to create between 30 and 50 national champions (to be in the Fortune 500 list, Annex 1) from the most promising state-owned enterprises by 2010, which are labelled as "state-owned but not government run".

The policy was further enhanced and bureaucratic process simplified. In October 2004, MOFCOM, the successor of MOFTEC, announced that the right to examine and approve applications relating to outward investments would be transferred to the local departments of commerce. The number of documents necessary for the application was considerably reduced. And in 2005, China's Ministry of Commerce introduced a reporting mechanism, requiring companies to report overseas mergers and acquisition

intentions. On 1 July 2006, foreign exchange purchase constraint for outbound investment was abandoned thus making overseas investment even easier.

3.3. Motives, instruments and agents of China's outward investment policy

Scholars have identified several key reasons for outward investment policy (e.g. Fischer, 2002). They can explain why the policy was initiated in the specific circumstances of Chinese economy.

Firstly, there is the macroeconomic situation and foreign trade. China has accumulated huge amounts of foreign reserves that are putting the upward pressure in the foreign exchange rate of Chinese renminbi. In the case of floating exchange rate that would be solved in a free market way – appreciation of the Chinese currency. But since the exchange rate is fixed, the government seeks the ease the pressure in the national economy by investing and acquiring assets overseas. As for foreign trade, China has faced many anti-dumping complaints and hence outward investment rather than import has become a viable solution.

Secondly, it is a business motive. Many Chinese companies grew big on the national market, and yet they haven't been exposed to the tough international competition. Not many companies can grow organically anymore as the pace of change is increasing. Therefore, the government seeks to equip the domestic firms and their management with international experience in order to be able to win in the competition (Nolan, 2001). It is worth emphasizing that the competition is played out not only on the global markets but also in China itself. As more and more multinationals enter China, domestic firms that once enjoyed dominance, now find themselves under increasing pressure from (more advanced) foreigners. This situation is completely different from the East Asian tigers – Hong Kong (China), South Korea, Singapore and Taiwan Province of China whose companies established dominance in their home markets before going abroad. Overall, by going global Chinese domestic companies would gain access to technology, know-how and skills, and to build their structure and operations in line with the international standards. It is expected that access to these factors will underpin further economic growth at home.

The third motive is the politics or state diplomacy. China seeks to build its political capital and influence around the world. By supporting national companies, it seeks to use its "soft power" in contrast to U.S. military might – "hard power". For example, while the U.S. asserts global control over natural resources (fossil fuels in particular) through its military presence worldwide, China aims to reach economic and political agreements with suppliers of natural resources – "reserve building" strategy. The miraculous growth of China's outward investment and the significant role played by the Chinese government in this process indicate that political motivations are at least as important as the economic reasons (Cai, 1999). On the state level, China forms alliances with other developing countries in political forums and multilateral negotiations; it enhances access of Chinese companies to these markets. Moreover, Chinese companies may enter markets which are "no go" area for their Western counterparts, e.g. Sudan, Myanmar and Iran. Likewise, Russian multinational companies invest in Cuba, Libya and Syria.

Last but not least, there is an issue of prestige. China seeks to project its image as a new leader in the 21st century. Similarly to the organisation of the Olympics Games, Chinese government considers it as a matter of national pride to see Chinese firms in the top list of global companies, such as Fortune 500 and Forbes 2000.

Overall, the state policy of support to firm internationalisation reflects the Confucian paternalistic approach of the Chinese leadership. It is the government that initiated the reforms in 1979 and hence it is the task of the government to prepare domestic firms for competition with Western companies in the global economy.

The Chinese government has designed a set of policy instruments to be used within this policy area. They include, inter alia, information-sharing networks on overseas market development, access to foreign currency (low-interest funding from state-owned banks), direct and direct subsidies, and domestic tax breaks. For example, a state owned Export-Import Bank of China offers special loans to domestic firms for international expansion. The China Development Bank is also active in this area. In 2005 it issued a low-cost 10 billion US dollars loan to Huawei Technologies Co. Ltd for company's international expansion.

Another policy instrument is a database on foreign countries' investment environments that has been set up by MOFTEC, and it helps companies facilitate the investment decision-making process. The database includes information about the legislation of the country in question (investment law, taxation policies), investment opportunities, etc.

Aside from MOFTEC, another state agency is involved in the management of Chinese multinationals, it is the Chinese-government entity, the State-Owned Assets Supervision and Administration Commission (SASAC). It is nurturing "national champions" companies and encourages them to go global. SASAC controls 155 Chinese companies, which have combined 2006 revenues of 1.06 trillion US dollars and combined 2006 assets of 1.56 trillion US dollars. It was established in 2003 to take over state-owned enterprises whose ownership was distributed among different ministries. SASAC reports directly to the State Council of the People's Republic of China (BCG, 2008).

4. China and Europe: New Battlefields

4.1. Global expansion of Chinese companies

What are the implications of the rise of Chinese companies (and China's government policy) for the European companies? Undoubtedly, it entails tougher and increasingly multifaceted competition between Chinese and European companies. More importantly, the battlefields of competition have shifted from the local Chinese market and neighbouring Asia Pacific region to developing countries of Africa and Latin America. Not to say, that Europe itself will be the arena of fierce competition.

The following analysis will provide more in depth insight into the Chinese internationalisation strategy.

Firstly, the companies compete on the global markets by the means of foreign trade. For example, Huawei Technologies is competing with Germany's Siemens and Finland's Nokia on the global market of telecom equipment; and Haier is a competitor of Sweden's Electrolux on the global market of white goods.

Secondly, European companies are starting facing competition from Chinese companies in the markets of developing economies, where the West has traditionally held the

dominance. As it has been noted above, Chinese companies are very active primarily on the markets of developing countries.

Thirdly, a worrisome development for the European companies is that Chinese firms enter Europe and compete with them on their home ground. Although Europe is not the main destination of the Chinese investment, the trend is taking shape.

4.2. Europeanisation of Chinese companies

Broadly speaking, *Europeanisation* refers to a process whereby a subject adopts a number of European features (Olsen, 2002). More often than not the term is used in the social sciences in relation to European political integration and evolving cultural identity of European citizens (Hansen and Wilson, 2000; Borzel and Risse, 2003).

In the context of our research, in relation to Chinese companies, we operationalise this broad concept as *sustained efforts to enter competitive European markets, to strengthen their presence in Europe with the goal of getting access to superior technologies, know-how and competence.*

Europeanisation is more than simple initiatives of separate business entities, but rather a well-developed strategy orchestrated by the Chinese government. While indeed the Chinese companies wish to strengthen the presence by expanding the production and capturing new markets, nevertheless the main goal is seen in strategic positioning and using Europe as a springboard for global operations. In order to do so, they use European-specific skills, methodologies, technologies and knowledge and align with the European code of conduct to sustain competitive pressure.

In an attempt to pursue Europeanisation, many Chinese companies opt for entering Europe by acquiring assets or establishing greenfield projects in Western European countries. Examples are many. Nanjing Automotive acquired U.K. car manufacturer Rover. In 2006, China Telecom established its European subsidiary in London. In July 2005, the Nanjing Automobile Group purchased the remaining assets of British MG Rover Group; and motorbike manufacturer Qianjiang Motor acquired the operations of Italian Benelli Company. In 2004 Chinese company Shenyang Machine Tool Group acquired Schiess, a 140-year-old producer of heavy-duty lathes and boring machines,

based in Aschersleben (Eastern part of Germany). The company was at the verge of bankruptcy and some parts of the production process were already being transferred to China. After acquisition, the core business of Schiess – production of heavy-duty machines will stay in Europe. As for Shenyang, acquisition will enable it to gain access to Schiess' unique expertise (Business Week, 2005).

The strategy of acquiring finally-troublesome engineering companies and relocating production process to lower-cost locations is evident in the case of TCL too. This Chinese manufacturer of electronics and electric appliances started his "European invasion" from the acquisition of acquisition of Germany's Schneider Electronics AG in October 2002. Yet, the company didn't manage to retain all its operations in Germany and manufacturing part was relocated to Hungary later. November 2003, it acquired France-based Thompson Electronics' television operations. In July 2004, TCL and Thomson Electronics formed TCL Thompson Electronics (TTE), the world's largest television manufacturer with assets of more than 500 million US dollars and an annual capacity of 20 million colour television sets. In August 2004 it acquired 55 percent of Alcatel's mobile handset operations for 55 million US dollars, though the joint venture was later dissolved.

As the examples illustrate, the perceived advantages of Western Europe for Chinese companies are access to technology, know how and expertise. Yet, the cost of manufacturing in Western Europe is extremely high, especially for Chinese companies. Moreover, the barriers to market entry are too high; the only viable solution seems to be acquisition of a domestic company. Even then, a newly acquired company has to sustain a competitive advantage. Not to mention, the quality standards that have to be maintained, especially for the European consumers who place a high premium on the quality of products. Finally, the strong labour regulations (and trade unions) in Europe will add to the overall challenge.

Yet, it is the Western European consumer that holds the strongest purchasing power on the Continent. Hence, the Chinese companies face a tough challenge – the market is to be found in the West, but the chances for Chinese companies to enter and survive in highly competitive Western European market are quite low.

With the latest EU enlargement in 2004 and 2007, Chinese companies found a new strategic opportunity. They enter Single European market through former communist states of Central and Eastern Europe, now the new EU member states and the commercial gateway to Europe's half-a-billion market. This strategy allows Chinese investors to jump over EU tariff barriers[2] and to reap the benefits of the Single market, yet at a significantly lower cost comparing to the West European countries. In other words, this is the second type of *Europeanisation* pursued by the Chinese companies.

As Figure 3 highlights, while the stocks of Chinese outward investment in the West ("old EU member states") have tripled over the period of 2003-2006, the stocks in the East ("new EU member states") over the same period have increased by the factor of six!

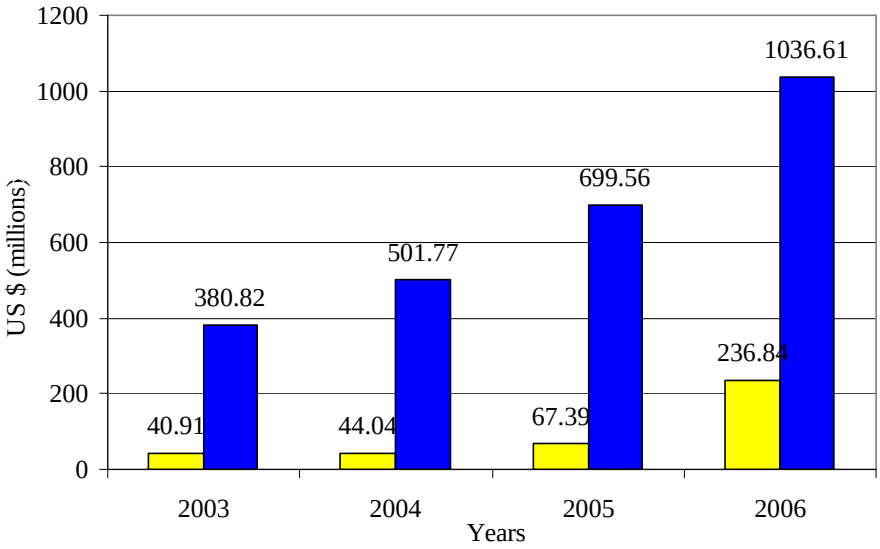

Figure 3 Stocks of outward FDI of BRICS economies (mln USD)

Note: New EU member states (EU12) are depicted in yellow bars; old EU member states (EU15) are depicted in blue bars. *Source:* MOFCOM (2007)

[2] Tariff jumping can be perhaps the only possible strategy taking into account numerous trade wars between China and the European Union. In many instances, the EU has accused China of dumping, and introduced progressive duties on a variety of goods. For example, throughout the 1990s, EU accused China of exporting TV sets at unjustifiably low prices; it introduced duties of 40% on most TV sets produced in China. These duties were lifted only in 2002, but even then EU imposed quotas on the amount of imports and introduced minimum required prices. Needless to say, that the duty is not applicable if more than 50% of a product is made within the EU borders (by a Chinese subsidiary).

4.2. New EU member states: a backdoor to Europe

EU enlargement in 2004 and 2007 has been a subject of wide debates and thorough research. In relation to international business, an issue of delocalisation is quite often raised. In search of the efficiency and cost-saving motives, multinational companies relocate their manufacturing activities from Western Europe to Eastern Europe. At the same time, as the living standards in the East improve and the wages increase, this competitive advantage is being eroded. Manufacturing is shifted further to the East (to the other side of EU border) or to South East Asia, China in particular. According to the European Restructuring Monitor (ERM, 2008), over 85% of all delocalised jobs from the EU15 over the period of 2002-2008 have been relocated to either new EU member states or Asia, with broadly equal proportions going to each region. This process has been known for long, and in fact it has largely overshadowed investment flows in the opposite direction, when the Chinese investors choose Eastern Europe as a point of entry to the Single European market.

Whilst Taiwanese companies have been active in Eastern Europe since the opening of these economies in 1989, mainland Chinese companies have been reluctant and hesitating and they began investing in Eastern Europe only in the recent years. Accession of Eastern European economies to the European Union has undoubtedly contributed to this process.

As Figure 4 shows, four main investment destinations for Chinese companies are identified in Eastern Europe. Czech Republic, Hungary and Poland are the largest economies among the new EU member states that joined the bloc in 2004. The rise of the Chinese outward FDI stock in these countries is striking in 2005, with a one-year lag after 2004. Moreover, Romania that acceded to the Union in 2007 started recording FDI inflows from beginning of the 2000s. In the following analysis we look on Hungary, Czech Republic and Poland.

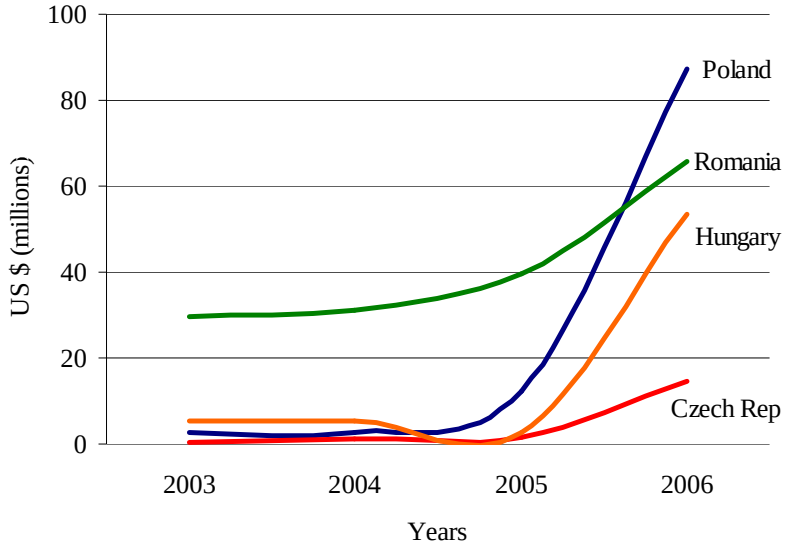

Figure 4 Stocks of outward FDI in selected new EU member states (mln USD)

Source: MOFCOM (2007)

Hungary is being increasingly viewed as a manufacturing hub for Chinese companies targeting the Single European market. Currently, some 3000 Chinese-founded companies are operating in Hungary, and the value of their investment is 200 million US dollars (excluding the Bank of China investment) (Hungary in China, 2008). Hungary is a base for the following Chinese manufacturing multinationals: Changshu Standard Parts Factory (Hungarian Aogai Fastener Co., Ltd, fasteners manufacturing), Hisense Hungary Kft. (electronics manufacturing – LCD, PDP, CRT TV), Lenovo Technologies Hungary (PC manufacturing), Skyworth Multimedia Hungary Kft. (entertainment electronics and IT products), TCL Overseas Holding Electronics Ltd. (LCD manufacturing), Shinco Electronics (DVD manufacturing), XOCECO – Prima Hungary Kft. (electric household appliances), ZTE Hungary (telecommunications equipment and network solutions).

The case of Hisense Company Ltd of Qingdao, Shandong Province is illustrative. In August 2003, management of the Chinese television maker visited Czech Republic, Hungary and Poland, looking for a site for company's manufacturing activities. All three countries offered relatively similar conditions. Finally, the company opted for a Hungarian town of Sarvar. The municipality was keen to find a new investor to counterbalance withdrawal of another multinational – Microsoft Corporation, which

moved its production of X-Box game consoles to China. The decision was made in 2004. Perhaps, a key factor for the investment was the presence of an industrial park operated by Flextronics, a Singaporean OEM. Hisense had already had partnership with Flextronics as it produces Hisense phones at its Chinese plant in Shenzhen (and Flextronics had already produced TV sets for the Chinese TV maker TCL in Hungary). Now Hisense has production bases in South Africa, Hungary, France, Pakistan, Algeria and Iran. The TV sets produced in Sarvar are earmarked for the EU market (International Market News, 2004; Washington Post, 2004).

As for the Czech Republic, its performance in terms of China's inward investment is impressive too. Changhong Electronics is one of the biggest TV makers in China, with an annual turnover over 2 billion US dollars and stable overseas sales with a share of over 30% in the total revenue. In 2005 it announced its decision to invest totally 100 million US dollars to set up a TV production base in the Czech town of Nymburk, east of Prague. Within the first stage, Changhong planned to build five flat-panel TV production lines. The parent company established a wholly-owned subsidiary (Changhong Europe Electric s.r.o.) with a registered capital of 9.5 million US dollars. As planned the subsidiary will focus not only on manufacturing, but on marketing consumer electronics and more importantly, on R&D. The annual output is to exceed one million units sold across Europe, thus making the Czech production base the largest overseas plant of Changhong. Investment in the Czech subsidiary symbolises an important starting point of the corporate internationalisation strategy, promotion of the Changhong brand and creating a firm foundation for its products in the single European market (Xinhua, 2005; Changhong, 2006).

Recently, another Chinese company chose Czech Republic as a launching pad in its international expansion strategy. In May 2008 State-owned Shanghai Maling Food Co Ltd opened its first 25 million US dollars European plant in a Czech village of Hrobcice. It plans to bring its Chinese-style fare – luncheon meat, canned pork, ham and ready-to-eat meals – to Europe. The problem the company faced was high product standards in EU and import restrictions on agricultural goods, hence seriously hampering imports from China. The company considered several locations in Europe, but investment incentives (a five-year-long tax break) offered by the Czech government and lower labour and construction costs convinced the Chinese investor. The new

canning factory is in fact company's second manufacturing investment in the Czech Republic (Business News, 2008; Deutsche Welle, 2008).

Poland recorded the largest stock of Chinese inward investment among new EU member states. The latest example is quite illustrative. In 2008, Chinese computer manufacturing giant Lenovo, a new owner of IBM production unit announced its decision to build a factory and an order processing centre in Poland's Legnica Special Economic Zone. Poland's subsidiary is the first European desktop computers factory whose annual production is expected to reach 1.7 million computers. Lenovo will invest 4.1 billion euro and will employ around 1300 people both production workers and highly-qualified specialists. Lenovo and Volkswagen are two flagship investment projects in Legnica special economic zone (PAIiIZ, 2008).

To sum up, while Chinese investors eye Western Europe as a repository of technology and know-how and hence the dominant business strategy is mainly acquisition of existing (engineering) companies, Eastern Europe represents a slightly different case. It is a destination for efficiency-seeking foreign direct investment, with the purposing of establishing manufacturing base and exporting to the West duty free within the boundaries of the Single European market.

The European regulations require that more than half of the value of parts and labour used in the production must come from within Europe. The rest may come from China, so that Chinese companies may capitalise on their low-cost base. Manufacturing costs even in the new EU member states are much higher than in China and yet, the fact that goods produced within the EU borders may be sold duty-free across the Single market justifies manufacturing inside the EU over import of these goods from a home base in China. This strategy – moving a key part of supply chains closer to customers – enables to decrease transportation costs and avoid tariffs.

Dunning (1993) developed a widely acknowledged classification of four main motives for investment: resource-seeking, market-seeking, efficiency-seeking, and strategic asset seeking FDI. In our analysis (Table 2) we aim to relate the investment strategies of Chinese companies entering Europe with this theoretical framework. We look separately at Western and Eastern Europe.

Table 2 Motives of Chinese companies' *Europeanisation*

Dunning's FDI types	1st type of Europeanisation (Western Europe)	2nd type of Europeanisation (Eastern Europe)
Resource-seeking (seeking access to natural resources)	Europe does not appear on the Chinese investment map as a destination for resource-seeking investment.	
Market-seeking ("horizontal FDI", seeking new markets)	Western European market with its affluent consumer is a magnet for Chinese market-seeking FDI.	Eastern European growing market may be lucrative for Chinese companies, especially in the lower-priced goods sector.
Efficiency-seeking ("vertical FDI", seeking to restructure existing production through rationalisation and placing some parts of the value chain overseas)	Strictly speaking, for efficiency-seeking FDI, Western Europe is unattractive due to the high costs of manufacturing.	Manufacturing (assembly) of parts of the product as a way of tariff jumping.
Asset-seeking (seeking strategically created assets)	Acquisition of companies with strong expertise and utilisation of this expertise in the production process in the acquired company or elsewhere in the corporate network.	Asset-seeking FDI from China in Eastern Europe is a limited phenomenon.

Source: authors' elaborations

Despite seemingly clear-cut division of FDI types, it should be noted that FDI (either greenfield or acquisition) is most often driven by a combination of motives rather than by a single one only. For example, a Chinese company aspiring to build a competitive presence in Europe has the possibility to acquire a manufacturing firm in Western Europe with the purpose to access superior European technologies and know-how (asset-seeking) while relocating the manufacturing process to Eastern Europe (efficiency-seeking) and still serving the common European market (market-seeking).

4.3. European response to Europeanisation of Chinese companies

The EU as a whole and each member state is concerned about the right balance between investment promotion and restriction on the political grounds. The question is whether Europe wants Chinese investment and hence exposing itself to potentially politically-driven decisions of Chinese multinationals. The key perils and promises of the Chinese outward direct investment are presented in Table 3.

Table 3 Perils and promises of Chinese investments in Europe

Perils	Promises
Chinese companies under the strong political influence of the Chinese government; Europe potentially exposes itself to the political leverage from Beijing.	As a rule, Chinese investors acquire businesses in financial hardship, those who would go bankrupt and lead to job cuts and decrease of the tax base (e.g. Schiess AG, Schneider Electronics AG, Welz Industrieprodukte). Chinese may revitalise them.
By acquiring assets in Europe, Chinese companies may get access to latest technologies and know-how. In the situation, when most Chinese companies are not familiar with the European IPR regime, European companies stand to loose their core technologies to the Chinese competitors.	Favourable investment treatment of Chinese companies in Europe would enhance opportunities of European companies in the Chinese market (reciprocal investment treatment)

Source: authors' elaborations

Chinese companies receive support from the Chinese government, and yet as any other investor they may also apply for investment incentives in a host country. Virtually all EU member states offer these fiscal and financial incentives in different forms and shapes. Moreover, most EU nations provide information on potential investment projects. In some countries Chinese companies are explicitly targeted, attracted, and invited to invest. For example, Germany's Cologne region launched "China Initiative"

in a bid to attract additional investment from China. A similar initiated has been launched in Düsseldorf ("Düsseldorf China Center"). As a result, Chinese companies may benefit from two sides. As for their European counterparts, they may rely only on investment incentives of the host country (e.g. China).

Table 4 Chinese and European companies and government support to direct investment

Support from	European company	Chinese company
Home country	As a rule, no support for outward investment	China's "Go Global" policy (financial and non-financial support)
Host country	Information provision Investment incentives granted by Chinese government	Information provision Investment incentives (within the "state aid" regulations)

Source: authors' elaborations

Europe becomes a battlefield of not European and Chinese companies as such, but that of public policies. Chinese government is pursuing the policy of "state capitalism" and "picking the winners" industrial policy, reminiscent of old industrial policies of the industrialisation period of the second half of the 20th century, especially in Latin America.

Yet, on the European continent, negative connotation is attached to the seemingly outdated policies of "picking winners" and support to "national champions". The title of one the recent publications of the European Commission perfectly expresses a departure from this approach: "A policy for industrial champions: From picking winners to fostering excellence and the growth of firms" (EC, 2006). Instead, the focus of public policy has been on the promotion of entrepreneurship and support to small and medium-sized enterprises (SME) by the horizontal policy measures. Moreover, direct support of national government would create an advantage for a company over its competitions. Therefore, in order to ensure fair competition across the Union, Article 87 of the EC Treaty generally prohibits state aid. Yet, state aid is allowed in some exceptional cases,

such general measures open to all enterprises, such as R&D grants. Overall, the European policy-making has been developing in the direction of innovation policy, encompassing science and technology policy (Borrás, 2003; Lundvall and Borrás, 2005).

Logically, the question is whether European SME will be in a good shape to withstand the competitive pressure from huge Chinese conglomerates that are fully supported by the Chinese government. Can Europe's horizontal innovation policy compete against China's paternalistic industrial policy?

While Europe is still at the crossroads, the U.S. government has found a solution. While it preaches the liberal economy and free trade, in the U.S. major cross border M&A deals are reviewed and cleared by the Committee on Foreign Investment (CFIUS) for "national security reasons". As a result, the Chinese petrochemical company CNOOC withdrew its bid for Unocal in 2005. Europe is less restrictive in this respect. Should Europe follow the U.S. example and become more restrictive?

5. Conclusions

China's outward investment activity has undergone a considerable change lately, in terms not only of the magnitude but also the geographical focus and sectoral composition of flows. The paper has shown that Chinese companies consider internationalisation as a strong attempt to adjust and succeed in the global capitalist market. Yet, internationalisation of Chinese companies is not purely a business process but rather a part of well-coordinated strategy orchestrated by the Chinese government. Creation of "national champions" is a key motivation for the Chinese government to encourage outward investments, within the framework of its economic transformation.

Internationalisation of Chinese companies can be considered as a policy instrument applied in the pursuit of China's integration in the global economy and leveraging its political interests.

Europe is emerging as a promising destination for Chinese outward investments. Europe should develop a comprehensive strategy towards outward investments from China. Whilst the Chinese strategy is unique *per se*, this example of state-led

internationalisation of domestic firms has already drawn interest from the part of other emerging economies, particularly Russia. Russian President Dmitry Medvedev made a speech in January 2008 (while still in the capacity of Deputy Prime Minister) to influential Russian big businesses. He appealed to Russian companies to "copy China" by expanding overseas and going on a global buying spree of foreign assets. *"This is a very important task. The majority of powerful countries are engaged in this. Many of them are very active, like China. And we should be active, too"* (Financial Times, 2008). Mr. Medvedev emphasised that expanding Russian presence overseas would be beneficial for the Russian economy and it would cut Russia's dependence on foreign technology. A global expansion drive would *"allow us to retool Russian enterprises with technology, boost their production culture and grant them the opportunity to diversify investments and win new markets"* (FT, 2008).

In this paper we have developed the concept of *Europeanisation* of Chinese companies. There are still white spots where further research is needed. Despite the fact that the topic of China in general has been extensively researched, however, the issue of outward investment by Chinese companies deserves particular attention. We have identified two main research avenues which need to be further developed.

Firstly, research on subsidiaries. Aggregated data on the amount of outward of foreign direct investment is a very rough proxy for activities of multinationals. There is a need to "zoom in" to activities of Chinese multinationals in Europe. Hence, a logical step further is a study of subsidiaries of Chinese companies. Recent research on foreign subsidiaries (starting from the seminal paper of Birkinshaw and Hood, 1998) has equipped scholars with the tools for such analysis. More specifically, the following questions arise: what kind of functions these subsidiaries possess, what level of competence they have, what is the level of their autonomy, what is the path of their development and learning over time. Ultimately, the question is raised how the host country policy can shape technological development of subsidiaries and their evolution (Costa and Filippov, 2008; Filippov, 2008).

Secondly, foreign direct investment (acquisitions or greenfield) represents a classic way of internationalisation. At the same time, dynamism and turbulence of global business environment have forced companies to adopt different strategy to internationalisation.

One of them is by forming a strategic non-equity alliance with foreign partners. Strategic alliances are becoming a widely used tool of cooperation between European and Chinese companies (Duysters et al, 2007).

The research on the topic is not a pure academic exercise, but rather it highlights the political and business implication of the current trend of China's internationalisation activities for Europe. The penetration of Chinese conglomerates into the European continent is politically and financially supported by the state, giving them the competitive edge over more market-oriented Western companies, as the former may not be subject to the same fiscal discipline vis-à-vis their capital providers. While the arrival of Chinese companies may pose a threat to the domestic European companies, the role of Chinese outward investment for the European economy cannot be ignored. It is with this knowledge and understanding of the Chinese internationalizations strategy, that European policy makers are equipped to formulate careful responses to the arising challenges and to successfully reap the benefits of the Chinese presence.

References

- BCG / Boston Consulting Group (2008). *The 2008 BCG 100 New Global Challengers. How top companies from rapidly developing economies are changing the world.* Boston: BCG.
- Benito, G. and Narula, R. (eds.) (2007). *Multinationals on the Periphery*. London: Macmillan.
- Birkinshaw, J. and Hood, N. (1998). Multinational Subsidiary Development: Capability Evolution and Charter Change in Foreign-Owned Subsidiary Companies, *Academy of Management Review* 23(4): 773-795.
- Boisot, M. (2004). *Notes on the internationalisation of Chinese firms.* Unpublished paper, Open University of Catalonia, Barcelona, Spain.
- Borrás, S. (2003). *The Innovation Policy of the EU.* Cheltenham: Edward Elgar.
- Borzel, T and Risse, T. (2003). Conceptualising the Domestic Impact of Europe. In: Featherstone, K. and Radaelli, C. (eds.) *The Politics of Europeanisation.* Oxford: Oxford University Press. P.57-80.
- Buckley, P.J. and Ghauri, P.N. (Eds) (1999). *The Internationalisation of the Firm.* London: Thomson Business Press.
- Cai, (1999), Outward Foreign Direct Investment: A Novel Dimension of China's into the Regional and Global Economy. *The China Quarterly* 160: 856-880.
- Caves, R.E. (1971). The international corporation: The industrial economics of foreign investment. *Economica* 38(1): 1-7.
- Child, J. and Rodrigues, S. (2005). The Internationalisation of Chinese Firms: A Case for Theoretical Extension? *Management and Organization Review* 1(3): 381-410.
- Costa, I. and Filippov, S. (2008). Foreign-Owned Subsidiaries: A Neglected Nexus between Foreign Direct Investment, Industrial and Innovation Policies. *Science and Public Policy* 35(6): 379-390.
- Dunning, J.H. (1977). Trade, Location of Economic Activity and the MNE: A Search for an Eclectic Approach, in: Ohlin, B., Hesselborn, P.O., Wijkman, P.M. (Eds.), *The International Allocation of Economic Activity.* London and Basingstoke: McMillan. P.395-418.
- Dunning, J.H. (1988). The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions. *Journal of International Business Studies* 19(1): 1-31.
- Dunning, J.H. (1990). Explaining Outward Investment of Developing Countries, In: Kumar, K. and McLeod, M (eds.) *Multinationals from Developing Countries.* Lexington, MA: Lexington Books.
- Dunning, J.H. (1993). *Multinational Enterprises and the Global Economy*. Wokingham: Addison-Wesley.
- Dunning, J.H., van Hoesel, R. and Narula, R. (1998). Third World Multinationals Revisited: New Developments and Theoretical Implications, In:

Dunning, J.H. (ed.) *Globalisation, Trade and Foreign Direct Investment.* New York: Pergamon Press.

- Duysters, G., Saebi, T. and Dong, Q. (2007). Strategic Partnering with Chinese Companies: Hidden Motives and Treasures. *Journal of Chain and Network Science* 7(2): 109-119.
- Duysters, G., Yu, J., de Man, A.-P., and van Rijsewijk, T. (2006). Catch-up Strategies of Asian Firms: A Micro-Level Perspective. *Serbian Journal of Management* 1(1): 49-65.
- EC / European Commission (2006). A Policy for Industrial Champions: From picking winners to fostering excellence and the growth of firms. *Industrial Policy and Economic Reforms Papers No. 2.* Brussels: European Commission. Enterprise and Industry Directorate-General.
- Enderwick, P. (2005). Attracting "Desirable" FDI: Theory and Evidence. *Transnational Corporations* 14(2): 93-120.
- Filippov, S. (2008). Nurturing the Seeds of Investment, *FDI Magazine* June-July: 84-85.
- Fischer, D. (2002). "Zou chu qu – Ein neuer Schwerpunkt in der chinesischen Aussenwirtschaftspolitik", in *GVC informiert* 7(1): 10-13.
- Goldstein, A. (2007). *Multinational Companies from Emerging Economies: Composition, Conceptualization and Direction in the Global Economy*. Basingstoke: Palgrave.
- Harmsen, R. and Wilson, Th. (eds) (2000). *Europeanization: Institution, Identities and Citizenship.* Atlanta: Rodopi.
- Heenan, D. and Keegan, W. (1979). The Rise of Third World Multinationals. *Harvard Business Review* 57(1): 101-109.
- Hymer, S.H. (1960, published in 1976). *The International Operations of National Firms: A Study of Direct Foreign Investment.* Cambridge, MA: MIT Press.
- Kumar, K. (1982). Third World Multinationals: A Growing Force in International Relations. *International Studies Quarterly* 26 (3): 397-424.
- Kumar, K. and McLeod, M. (eds.) (1981). *Multinationals from Developing Countries***.** Lexington Books.
- Lall, S. (ed.) (1983). *The New Multinationals: The Spread of Third World Enterprises.* New York: John and Wiley Sons.
- Loewendahl, H. (2001). A framework for FDI promotion. *Transnational Corporations* 10(1): 1-42.
- Lundvall, B.-A. and Borrás, S. (2005). Science, technology and Innovation Policy, In: Fagerberg, J., Mowery, D. and Nelson, R. (eds.). *The Oxford Handbook of Innovation.* Oxford: Oxford University Press. P.599-631.
- MOFCOM (2007). 2006 Statistical Bulletin of China's Outward Foreign Direct Investment, available at: preview.hzs2.mofcom.gov.cn/accessory/200710/1192783779118.pdf. Accessed on 01.09.2008

- Morisset, J. and Pirnia, N. (2002). The Impact of Tax Policy and Incentives on FDI. In: Bora, B. (ed.) *Foreign Direct Investment. Research Issues.* London and New York: Routledge. P.273-291.
- Nolan, P. (2001). *China and the Global Economy.* Basingstoke: Palgrave.
- OECD (2006). *Emerging Multinationals: Who Are They? What Do They Do? What is at Stake?* Paris: OECD.
- Olsen, J. (2002). *The Many Faces of Europeanization*. ARENA Working Papers. WP 01/02. University of Oslo.
- Sauvant, K. (2005). New Sources of FDI: The BRICs – Outward FDI from Brazil, Russia, India and China. *The Journal of World Investment & Trade* 6(5): 639-709.
- Tseng, Ch. S. (1994). The Process of Internationalisation of PRC Multinationals, In: Schuttle and Hellmut (eds.). *The Global Competitiveness of Asian Firms*. London: Macmillan Press.
- UNCTAD (2004). *World Investment Report 2004: The Shift towards Services.* New York and Geneva: United Nations.
- UNCTAD (2006). *World Investment Report 2006: FDI from Developing and Transition Economies: Implications for Development.* New York and Geneva: United Nations.
- Wall, D. (1997). Outflows of Capital from China. OECD Development Centre. Working Paper 123. Paris: OECD.
- Wells, L. (1983). *Third World Multinationals: The Rise of Foreign Investment from Developing Countries.* Cambridge, MA: MIT Press.
- Wong, J. and Chan, S. (2003). "China's outward direct investment: Expanding worldwide," *China: An International Journal* 1(2): 278-301
- Wu, F. and Chen, C.H. (2001). An assessment of outward foreign direct investment from China's transitional economy. *Europe-Asia Studies* 53(8): 1235-1254.
- Ye, G. (1992). Chinese Transnational Corporations. *Transnational Corporations* 1(2): 125-133.
- Zanatta, M., Costa, I. & Filippov, S. (2006). *Foreign Direct Investment: Key Issues for Promotion Agencies*, United Nations University Policy Brief, No. 10-2006
- Zhan, J. (1995). Transnationalisation and outward investment: The case of Chinese firms. *Transnational Corporations* 4(3): 67-100.
- Warner, M., Ng, S.H., and Xu, X. (2004). Late development experience and the evolution of transnational firms in the People's Republic of China. *Asia Pacific Business Review* 10(3/4): 324-345.

Press Releases and Newsletters

- Asian Economic News. 19.06.2000. “Chinese firms to 'go global,' trade minister says”, http://findarticles.com/p/articles/mi_m0WDP/is_2000_June_19/ai_62835651
- Business News. 26.05.2008. “Chinese firm heads to Czech village to conquer Europe”, http://www.monstersandcritics.com/news/business/news/article_1407640.php/Chinese_firm_heads_to_Czech_village_to_conquer_Europe__News_Feature
- Business Week. 21.02.2005. “The Chinese are coming… to Germany. http://www.businessweek.com/magazine/content/05_08/b3921070_mz054.htm
- Changhong Press Release. 05.04.2006. “Changhong to Build Flat-Panel TV Production Base in Czech Republic”, www.changhong.com/changhong_en/about_en/12221_13986.htm
- Deutsche Well. 01.06.2008. “Chinese firms see Eastern Europe as EU market springboard”, www.dw-world.de/dw/article/0,2144,3370161,00.html
- Financial Times (2008). Copy China says Medvedev. February 1, 2008. http://www.ft.com/cms/s/0/c60771fa-d067-11dc-9309-0000779fd2ac,dwp_uuid=7ee6a12e-7d74-11dc-9f47-0000779fd2ac.html?nclick_check=1
- International Market News. 24.06.2004. “Hungarian unit of Flextronics in another China deal”, http://info.hktdc.com/imn/04062404/consumerele032.htm
- PAIiIZ (2008). Lenovo to produce computers in Legnica. PAIiIZ Newsletter 28th August 2008, Number 86, http://www.paiz.gov.pl/
- Washington Post. 13.12.2004. “Chinese TV Maker Sharpens Focus on Europe”, http://www.washingtonpost.com/wp-dyn/articles/A59962-2004Dec12.html
- Xinhua News Agency. 28.12.2005. “Changhong to Invest in Czech Republic”, http://french.china.org.cn/english/BAT/153433.htm

Databases

- European Restructuring Monitor http://www.eurofound.europa.eu/emcc/erm/index.htm
- Hungary in China. www.hungaryinchina.hu
- MOFCOM. http://english.mofcom.gov.cn

Annex 1

BRIC companies in the Fortune 500 list

	2007		2006		2005	
	Number	Revenues ($ bn)	Number	Revenues ($ bn)	Number	Revenues ($ bn)
Brazil	5	168.6	4	115.4	3	67.7
Russia	4	176.0	5	157.7	3	86.5
India	6	147.5	6	120.4	5	86.8
China	**24**	**838.5**	**20**	**617.4**	**16**	**464.5**
Mexico	5	172.6	5	146.8	2	78.2
USA	162	7 338.4	170	6 816.9	176	6 221.8

Source: authors' calculation based on Fortune 500 list
Note: Fortune 500 includes Hong Kong-based companies in the list of Chinese firms

About the authors

Sergey Filippov is a PhD researcher at UNU-MERIT. He obtained his Master's degree in Management of the European Metropolitan Region from the Erasmus University Rotterdam, and later he successfully completed a postgraduate Executive Master's programme in International and European Relations & Management at the University of Amsterdam. His academic interests are diverse, while the main focus lies on corporate change and innovation strategies, technology management, and European and national innovation and investment policies. Sergey has been invited and participated in numerous European and international conferences, workshops and training programmes. He is a member of the European International Business Academy.

Tina Saebi is a PhD researcher at UNU-MERIT. Prior to joining the institute, she obtained her Master's degree in International Business from the University of Maastricht. With her diverse background in international business and economics, she has been involved in several consulting and training programmes on the subject of strategic alliance management. She holds a strong affiliation to the Wuhan University of Technology in China, where she conducted fieldwork, initialising a China-wide survey on business strategies of Chinese companies. It involved several expert interviews with leading Chinese companies in the field of strategic alliances. Her further research interests are innovation and strategic management, catching up strategies of emerging multinationals and strategic alliances.

The UNU-MERIT WORKING Paper Series

2008-01 *Science, Technology and Development: Emerging concepts and visions* by Luc Soete

2008-02 *Reframing technical change: Livestock Fodder Scarcity Revisited as Innovation Capacity Scarcity. Part 1. A Review of Historical and Recent Experiences* by Andy Hall, Rasheed Sulaiman V., Mona Dhamankar, Peter Bezkorowajnyj & Leela Prasad

2008-03 *Reframing technical change: Livestock Fodder Scarcity Revisited as Innovation Capacity Scarcity. Part 2. A Framework for Analysis* by Andy Hall, Rasheed Sulaiman, V. and Peter Bezkorowajnyj

2008-04 *Reframing technical change: Livestock Fodder Scarcity Revisited as Innovation Capacity Scarcity.Part 3. Tools for Diagnosis and Institutional Change in Innovation Systems* by Andy Hall, Rasheed Sulaiman and Peter Bezkorowajnyj

2008-05 *Is Inter-Firm Labor Mobility a Channel of Knowledge Spillovers? Evidence from a Linked Employer-Employee Panel* by Mika Maliranta, Pierre Mohnen & Petri Rouvinen

2008-06 *Financial Constraints and Other Obstacles:Are they a Threat to Innovation Activity?* By P. Mohnen, F.C. Palm, S. Schim van der Loeff and A. Tiwari

2008-07 *Knowledge-based productivity in 'low-tech' industries: evidence from firms in developing countries* by Micheline Goedhuys, Norbert Janz and Pierre Mohnen

2008-08 *The Voyage of the Beagle in Innovation Systems Land.Explorations on Sectors, Innovation, Heterogeneity and Selection* by Martin Srholec & Bart Verspagen

2008-09 *Crafting Firm Competencies to Improve Innovative Performance* by Boris Lokshin, Anita van Gils & Eva Bauer

2008-10 *The Economics and Psychology of Personality Traits* by Lex Borghans, Angela Lee Duckworth, James J. Heckman & Bas ter Weel

2008-11 *Embedding Research in Society: Development Assistance Options for Supporting Agricultural Innovation in a Global Knowledge Economy* by Andy Hall

2008-12 *Playing in Invisible Markets: Innovations in the Market for Toilets to Harness the Economic Power of the Poor* by Shyama V. Ramani

2008-13 *Explaining Success and Failure in Development* by Adam Szirmai

2008-14 *Running The Marathon* by William Cowan, Robin Cowan and Patrick Llerena

2008-15 *Productivity effects of innovation, stress and social relations* by Rifka Weehuizen, Bulat Sanditov and Robin Cowan

2008-16 *Entrepreneurship and Innovation Strategies in ICT SMEs in Enlarged Europe (EU25)* by Kaushalesh Lal and Theo Dunnewijk

2008-17 *Knowledge Transfers between Canadian Business Enterprises and Universities: Does Distance Matter?* By Julio M. Rosa & Pierre Mohnen

2008-18 *Multinationals are Multicultural Units: Some Indications from a Cross-Cultural Study* by Nantawan Noi Kwanjai & J. Friso den Hertog

2008-19 *The Innovativeness of Foreign Firms in China* by Branka Urem, Ludovico Alcorta and Tongliang An

2008-20 *Beyond the emission market: Kyoto and the international expansion of waste management firms* by Ionara Costa, Asel Doranova and Geert-Jan Eenhoorn

2008-21 *The 'making of' national giants: technology and governments shaping the international expansion of oil companies from Brazil and China* by Flavia Carvalho and Andrea Goldstein

2008-22 *If the Alliance Fits . . . : Innovation and Network Dynamics* by Robin Cowan & Nicolas Jonard

2008-23 *Facing the Trial of Internationalizing Clinical Trials to Developing Countries: With Some Evidence from Mexico* by Fernando Santiago-Rodriguez

2008-24 *Serving low-income markets: Rethinking Multinational Corporations' Strategies* by Shuan SadreGhazi and Geert Duysters

2008-25 *A percolation model of eco-innovation diffusion: the relationship between diffusion, learning economies and subsidies* by Simona Cantono and Gerald Silverberg

2008-26 *New Europe's Promise for Life Sciences* by Sergey Filippov and Kálmán Kalotay

2008-27 *A closer look at the relationship between life expectancy and economic growth* by Théophile T. Azomahou, Raouf Boucekkine, Bity Diene

2008-28 *Regional Capital Inputs in Chinese Industry and Manufacturing, 1978-2003* by Lili Wang & Adam Szirmai

2008-29 *Worker remittances and government behaviour in the receiving countries* by Thomas Ziesemer

2008-30 *Strategic motivations for Sino-Western alliances: a comparative analysis of Chinese and Western alliance formation drivers* by Tina Saebi & Qinqin Dong

2008-31 *Changing Configuration of Alternative Energy Systems* by Radhika Bhuyan and Lynn Mytelka

2008-32 *Promoting clean technologies: The energy market structure crucially matters* by Théophile T. Azomahou, Raouf Boucekkine, Phu Nguyen-Van

2008-33 *Local Knowledge Spillovers, Innovation and Economic Performance in Developing Countries: A discussion of alternative specifications* by Effie Kesidou and Adam Szirmai

2008-34 *Wage effects of R&D tax incentives: Evidence from the Netherlands* by Boris Lokshin and Pierre Mohnen

2008-35 *Cross-border Investment and Economic Integration: The Case of Guangdong Province and Hong Kong SAR* by Naubahar Shari and Can Huang

2008-36 *Radical versus non-radical inventions* by Wilfred Schoenmakers, Geert Duysters & Wim Vanhaverbeke

2008-37 *Localized Innovation, Localized Diffusion and the Environment: An Analysis of CO_2 Emission Reductions by Passenger Cars, 2000-2007* by Bart Los and Bart Verspagen

2008-38 *The economic impact of AIDS in sub-Saharan Africa* by Théophile T. Azomahou, Raouf Boucekkine, Bity Diene

2008-39 *Further results on bias in dynamic unbalanced panel data models with an application to firm R&D investment* by Boris Lokshin

2008-40 *A multilevel analysis of innovation in developing countries* by Martin Srholec

2008-41 *Experimentation with strategy and the evolution of dynamic capability in the Indian Pharmaceutical Sector* by Suma Athreye, Dinar Kale & Shyama V. Ramani

2008-42 *The Impact of Social Capital on Crime: Evidence from the Netherlands* by I.Semih Akcomak and Bas ter Weel

2008-43 *Portrait of an Odd-Eyed Cat: Cultural Crossing as a Trademark for a Dutch-Thai Strategic Alliance* by Nantawan Noi Kwanjai & J Friso den Hertog

2008-44 *The challenge of measuring innovation in emerging economies' firms: a proposal of a new set of indicators on innovation* by Luciana Manhães Marins

2008-45 *Intra-firm Technology Transfer and R&D in Foreign Affiliates: Substitutes or Complements? Evidence from Japanese Multinational Firms* by Rene Belderbos, Banri Ito, Ryuhei Wakasugi

2008-46 *To Be or Not to Be at the BOP: A One-North-Many-Souths Model with Subsistence and Luxury Goods* by Adriaan van Zon and Tobias Schmidt

2008-47 *Habit Formation, Information Exchange and the Social Geography of Demand* by Zakaria Babutsidze and Robin Cowan

2008-48 *Agenda Disputes and Strategic Venue Preferences: The Doha Crisis and Europe's Flight to Regionalism* by Francisco P. Toro

2008-49 *The determinants of the outward foreign direct investment of China and India: Whither the home country?* by Paz Estrella Tolentino

2008-50 *Comparing Chinese and the Indian Software MNCs: Domestic and Export Market Strategies and their Interplay* by Jorge Niosi and F. Ted Tschang

2008-51 *Internationalising to create Firm Specific Advantages: Leapfrogging strategies of U.S. Pharmaceutical firms in the 1930s and 1940s & Indian Pharmaceutical firms in the 1990s and 2000s* by Suma Athreye and Andrew Godley

2008-52 *Internationalization and Technological Catching Up of Emerging Multinationals: A Case Study of China's Haier Group* by Geert Duysters, Jojo Jacob and Charmianne Lemmens

2008-53 *India's Outward Foreign Direct Investments in Steel Industry in a Chinese Comparative Perspective* by Nagesh Kumar and Alka Chadha

2008-54 *Internationalization Trajectories – a cross country comparison: Are Large Chinese and Indian Companies different?* By Fabienne Fortanier and Rob van Tulder

2008-55 *Europeanisation strategy of Chinese companies: It's perils and promises* by Sergey Filippov and Tina Saebi