Why do Chinese EMNEs establish affiliates in Belgium?

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**Abstract**

In this paper we study the strategic capability exploiting and augmenting roles of Chinese Multinationals’ (CMNEs) affiliates in Belgium. Studies of CMNEs’ internationalization strategies tend to focus on large Western markets or resource-rich developing markets, rather than small, open economies. Most studies hereby use on a statistical, correlational approach rather than explore the lens of executives’ own causal explanations. In this paper we examine the strategic roles of CMNEs’ affiliates in Belgium through the lens of executives from a representative variety of Chinese affiliates. Small size notwithstanding, Belgium is one of the largest receivers of foreign FDI in the world. Chinese FDI in Belgium, however, only really started a few years ago, as part of a new wave of CMNE internationalization. This makes Belgium a highly interesting test case of the latest wave of Chinese internationalization. We find considerable differences between state-owned, joint-ownership and private CMNE’s affiliate strategies: (1) Joint-ownerhip CMNEs (JOEs) try to exploit their “cost innovation” advantages in Belgium, an innovation follower market. (2) Private CMNEs try to augment their “cost innovation” advantages in overpriced European niches. (3) Chinese state-owned enterprises (SOEs) try to augment their international management and trade advantages by exploiting their political and financial advantages with Belgian partners. (4) Private CMNEs invest most in the localization of affiliate capabilities, SOEs do the least. Finally, the financial crisis has strengthened the comparative advantages that enable the above Chinese affiliate strategies, attracting more FDI to Belgium.

Key words: CMNE, Affiliates, Strategic intent, Ownership

JEL classification: F23, M16, L16.

**1 Introduction**

The internationalization of Chinese multinationals (CMNEs) has occurred in different waves, spurred on by changing governmental priorities since the 1990s (De Beule et al., 2010; Verbeke, 2013; Yang et al., 2009). The first wave saw state-owned enterprises (SOEs) expanded into resource-rich developing countries to gain primary access to key raw materials. The Chinese accession to the World Trade Organization in 2001 brought the “spectre” of a global competitive level-playing field. In response the Chinese government recommended SOEs, private local companies and original equipment manufacturers to “swarm out” and gain a competitive position abroad. Acquisitions were a prime means to this goal, with the value of Chinese M&A shooting up twentyfold to $18 billion by 2006. Confronted with both worldwide unease about the China takeover threat and a growing M&A failure record, a third wave of Chinese internationalization started just before the financial crisis. In its bid to move from imitator to innovator, follower to leader, the Chinese government is advising a more targeted, selective approach to internationalization (Peng, 2012; Williamson and Raman, 2011). A variety of CMNEs, private (POEs), jointly government and private owned (JOEs) and state-owned enterprises (SOEs) are now walking a more sophisticated and diverse capability-exploiting and augmenting growth path. Little research has been done on this new CMNE growth path, which potentially involves greater subsidiary autonomy and targeted niche investments in small, open market economies and their highly internationalized firms.

This paper takes on this explorative research challenge by seeking to understand why CMNEs establish affiliates in Belgium - offices or subsidiaries). Belgium is often considered the most globalized of all small, open economies in the world (Konjunkturforschungsstelle, 2013) and is in the top 3 for inward foreign direct investment (FDI), averaging 87 billion dollars from 2009 to 2011, just lower than the US and China in the same period (World Bank, 2012). Remarkably, up to the financial crisis, Chinese OFDI in Belgium was not on a par with other FDI inflows (De Beule et al. 2010). In the last few years, however, Belgium has welcomed an increasing number of Chinese FDI efforts, most notably in terms of the establishment of CMNEs' affiliates. This makes Belgium a highly interesting test case for our research agenda.

In what follows, we first review the literature on the drivers of internationalization of CMNEs. Particularly, we pay attention to questions of strategic intent, institutional context taking into account strategic role of affiliates and institutional factors. Then, we draw on in-depth comparative case research of 11 Chinese affiliates in Belgium to answer the research question. Finally, we elaborate our findings and discuss them. Based on our discussion, we provide five propositions.

# 2 EMNE affiliates

## 2.1 Institutional factors

The international business literature on CMNEs rarely distinguish between the growing variety of CMNE institutional ownership structures. In this paper we explicitly distinguish between POEs, SOEs and JOEs. Ownership structure influences the Chinese executives' lens on home country and host country institutional advantages and disadvantages (Deng, 2009; Rugman & Verbeke, 1992). In what follows, we investigate possible home and host country institutional advantages/ disadvantages through the lens of three types of firm-ownership (i.e SOEs, JOEs and POEs). Clearly, most attention in the literature has gone to SOEs, calling for much greater attention to JOEs and POEs specificities.

SOEs often have more advantages than others in the home market. For instance, they have easier access to bank loans and other financial resources at below-market rates (Warner et al., 2004). They dominate in the market. Meanwhile, they have to face the higher level of influence of the government. On the contrary, POEs often confront the resource endowment disadvantages against SOEs but stronger capability of organizing advantages (Liang et al. 2012). Of course, specific home region institutional context is noticeable because of the diverse regional context in emerging countries like the imbalance of regions including institutional voids (Khanna & Palepu, 2010), which would lead to diverse drivers for CMNEs. As for JOEs, for example, they have a middle level of government intervention in operational decision-making. But they also enjoy the favorable institutional context due to local government’s support. With the changing regulations, JOEs will expectedly gain more attraction from all levels of governments since they possess some features of both SOEs and POEs such as the state equity and operational flexibility.

In the host market, however, those advantages of CMNEs in the home market disappear such as government support, dominant market position, broad channels and networks. Of course, they enjoy the unique role as the bridge between the host and Chinese markets. They could also transfer financial advantages in the home market into the host market. As a result, SOEs and JOEs relatively have the advantage of adequate transferable financial support while POEs enjoy the superiority of flexibility. Zhang and Van Den Bulcke (2007) studied six Chinese companies established in Belgium. They found Belgian institutional context had significant impact on CMNEs’ location selection. Other relevant research also give us insights. Latham and Wu (2014) believe the rapid rise of the Chinese immigrant population in EU, which provides a potential host-country advantage for Chinese EMNEs. Factually, interesting new research has found that firms prefer to establish affiliates where home country immigrants are numerous (Schuler et al, 2002; Hernandez, 2014).

## 2.2 Strategic intent of headquarters

When we review traditional theory, three main points have been highlighted in existent theory: market seeking, resource and strategic asset seeking and efficiency seeking (Dunning, 2000). In addition, other potential purposes for a strategic overseas investment have also been discussed. For example,

* Make life difficult for a competitor in a particular market;
* Overcome limited growth prospects at home;
* Spread the risks of acquisitions across different markets;
* Escape restrictive regulation in the home market in terms of environmental restrictions and strict labor laws.

Moreover, Dunning (2000) further classifies two kinds of firm activities during its internationalization: asset-augmenting and asset-exploiting activities. The aim of asset-augmenting is to extend the current stock of resources and capabilities to increase future profits. By contrast, Asset-exploiting is to produce more profits with the existing stock of resources.

Nevertheless, additional drivers are possible such as cost innovation. Cost innovation (Zeng & Williamson, 2007; Williamson & Zeng, 2009; Williamson, 2010) is another way to describe how the Chinese competitors developed their business model in order to become worldwide leaders. Cost innovation includes three steps: high technology at a low cost, variety at a low cost and specialty products at a low cost. It would mean that CMNEs could compete with traditional MNEs by leveraging their cost advantages such as low-cost R&D into the mass market, process flexibility through a combination of manual and automated processes etc. For example, China’s Haier, which has captured 60% of the U.S. market for electric wine refrigerators in less than a decade – have succeeded by tapping into that demand and turning niches into volume markets (Williamson and Zeng, 2009).

Regarding the question of why CMNEs establish affiliates in particular host countries, SOEs are attracted to countries with large sources of natural resources and then conduct acquisitions to upgrade their capabilities (Ramasamy et al., 2012), which is actually consistent with the second way of CMNEs (Yang et al., 2009). With respect to more variety of ownership and more outward FDI, would it mean a new wave for CMNEs to enter a small and open, yet resource-poor country like Belgium? Milelli et al. (2010) argue that market access is the main attraction factor for Chinese firms coming to Europe as well as Indian ones. Cross and Voss (2007) conclude that before 2000 CMNEs enter the UK in order to seek new markets while striving to access the existing pools of knowledge to augment competitive advantages after 2000. This would mean that CMNEs are moving from market-seeking to a strategic asset-seeking strategy. Duanmu (2012) use data collected from 194 locations in 32 countries for a decade, they investigated locational determinants of CMNEs. They found that State-Owned MNEs, compared to their peers without state equity, are less concerned about political risk of the host country, but more responsive to favorable exchange rate between the Chinese RMB and the host currency. Strategic goal of Chinese MNEs affects their location choice in a way that manufacturing oriented investment, compared to trading affiliates, is more attracted to countries with large market size and more deterred by high cost structure of the host country.

Some other scholars gave more concrete information concerning the intent of CMNEs. For example, Deng (2009) states that the intent of CMNEs is to improve their competitive advantages by acquiring strategic assets. Peng (2012) argues that the motivation is to reduce their disadvantages that result from the lack of crucial resources. Yamakawa (2008) conclude that some Chinese EMNEs are under institutional pressure. Zhao et al. (2010) prove that outward direct investment from China contributes to the productivity growth.

Briefly, despite rapid growth of outward FDI, most Chinese firms are still at an early stage of internationalization with heavy reliance on exporting (Morck et al. 2008). FDI is mainly driven by resource and strategic asset seeking investments.

## 2.3 Strategic role of the subsidiary

Rugman and Verbeke (2001) further introduce a notion of subsidiary - specific advantages in multinational enterprises. Is the subsidiary to implement its policy or strategy as an executive agency or to upgrade the capability of both sides? Moreover, is it a kind of autonomy or procedural justice for its strategic role? This depends on the firm. Scholars have conducted much research on this.

Since the interpretation of procedural justice in international business (IB) by Kim and Mauborgne (1991), the role and the strategy of the subsidiary, the connection between the head office and the affiliate and the subsidiary-specific advantage have been studied by many scholars (Rugman and Verbeke 2001; Lin and Hsieh 2010; Verbeke et al. 2013). This kind of research predominantly focuses is on traditional MNEs. Chen et al.(2011) concluded that the procedural justice perceptions arise when interpersonal level of Guanxi increase while group level of Guanxi decrease the perception.

When dealing with the role of the subsidiary, Wang and Suh (2009) argue that headquarter's heterogeneous strategies toward overseas subsidiary development define the corresponding roles of subsidiaries. Consistent with this, different researchers give various typology (Birkinshaw, 1997; Birkinshaw et al. 1998; Jarillo and Martinez, 1990; Taggart, 1997; Giuliani et al., 2013). Generally, we can divide the role of the subsidiary into two: implementation/upgrading and autonomy/ procedural justice. Scholars often combine them together in the study. Lin et al. (2010) interpret the role of affiliates and corresponding procedural justice of 62 foreign firms in Taiwan. Verbeke et al. (2013) provide an example of why procedural justice matters in multinational enterprise ICT transfers. From the existing study, we make sure that the role of affiliates is one of the core issues in studying EMNEs.

# 3 CMNE affiliates in Belgium

## 3.1 The context of Belgium

As a small, but globalized country, Belgium has its own international competitiveness. According to the generalized double diamond, on the one hand, small open economies possess sociological and political advantages in achieving less information asymmetries, transaction costs and greater social cohesion. On the other hand, disadvantages relating to economies of scale and less diversification potentially reduce the inbound FDI (Moon et al. 1995).

Belgium has been rediscovered by Chinese policy-makers since the beginning of the financial crisis. It is "the little, big man of Europe" that punches above its weight in terms of inward FDI as a gateway to not only Europe, but also Africa. As one of the most globalized small economies in the world, Belgium provides a highly interesting test case of the latest wave of CMNE internationalization. Before the financial crisis, Chinese OFDI in Belgium was below par. Nevertheless, Belgium already had acquired a certain visibility for Chinese policy-makers as an attractive host country. Van Den Bulcke and Zhang (2005) investigated the location factors in Belgium compared to neighboring countries. They found that the labor market and industrial relations were the most important attraction factors. Besides, infrastructure, availability of sites, the quality of life, commuter, and transport facilities are all positive factors for Belgium. By contrast, the level of personal and corporate taxation, incentives, and regulation and business environment are disadvantages. Bisciari & Piette (2007) concludes the main motive for FDI in Belgium generally appears to be to serve the European market, or at least its most highly developed core, which includes Belgium. They argue that Belgium has higher hourly labor costs, but offers high productivity and various advantages as regards environmental and operational criteria, especially the high quality of its transport, logistics and telecommunications infrastructures. Another of Belgium’s comparative advantages is its central location at the heart of the most highly developed regions in the EU. All this makes the Belgian market a highly interesting test case of a new wave of CMNE internationalization.

## 3.2 Inward FDI of Belgium from China

According to the statistical data from EUROSTAT (2013) and Chinese Ministry of Commerce (MOFCOM, 2011) during 2004-2011, Belgium has witnessed rapid growth of inward FDI from China. As Figure 1 and Figure 2 showing, the amount of inflows per capita in Belgium exceeded that of EU-27 from 2008 to end of 2010. By contrast, inflows per capita of FDI in EU-27 are fluctuating clearly although its FDI stock from China is rising continuously. In particular, Figure 1 shows the comparative rise in Belgium from 2008 to the end of 2010, which was rightly the period of European debt crisis. Since 2011, the inflows of Chinese FDI in EU-27 have strongly rebounded. On the contrary, with respect the smaller cardinal number, FDI stock per capita in Belgium is still a bit less than EU-27.

*Source of Data: EUROSTAT, MOFCOM*

**Figure 1 FDI Inflows per capita of Belgium and EU-27 from China**

*Source of Data: EUROSTAT, MOFCOM*

**Figure 2: FDI stock of China in Belgium and EU-27 (per capita)**

## 3.3 Affiliates of CMNEs in Belgium

As for the affiliates of CMNEs in Belgium, the number hit 73 on 28 May, 2014 according to the data from MOFCOM and China Council for Promotion of International Trade (CCPIT), which includes those who have been approved by Chinese government but haven’t been set up in Belgium yet (Figure 3). We can see that more and more CMNEs are entering Belgium, a very different situation compared with that ten years ago.

*Source of Data: MOFCOM,CCPIT*

**Figure 3: Number of CMNEs’ affiliates in Belgium**

Among various industries (Table 1, Figure 4), 19 affiliates are classified as manufactures, accounting for 26 percent of the total amount. Trade affiliates take the second rank with 11 affiliates or 15% of the total amount. Transportation, textiles, telecommunications and agriculture contribute 4 affiliates respectively. So far, 63 percent of affiliates are from these six industries.

**Table 1:Industrial Distribution of Chinese Affiliates in Belgium**

|  |  |  |
| --- | --- | --- |
| Industry | Number | % total |
| Bank | 2 | 2.74% |
| Telecom | 4 | 5.48% |
| Transportation | 4 | 5.48% |
| Airlines | 2 | 2.74% |
| Agriculture | 4 | 5.48% |
| Energy | 3 | 4.11% |
| Chemicals | 2 | 2.74% |
| Trading | 11 | 15.07% |
| Fashion | 1 | 1.37% |
| Manufacture | 19 | 26.03% |
| Decoration | 3 | 4.11% |
| Foods | 2 | 2.74% |
| Hotel | 3 | 4.11% |
| Houseware | 1 | 1.37% |
| Investment | 1 | 1.37% |
| Medical equipment | 2 | 2.74% |
| Pharmaceutical | 2 | 2.74% |
| Metal recycling | 1 | 1.37% |
| Service | 1 | 1.37% |
| Tourism | 1 | 1.37% |
| Textile | 4 | 5.48% |
| Total | 73 | 100.00% |

**Figure 4: Number of CMNEs’ affiliates of various industries in Belgium**

# 4 Data collection and analysis

Interview is the method for the data collection. We have two sources of data: MOFCOM and CCPIT. According to MOFCOM, 60 affiliates have been approved to invest Belgium. Adding to those registered only at the Belgian office of CCPIT (excluding those overlap), there are 73 affiliates that are or will invest in Belgium. Since our target is those that have factual investment in Belgium, we collect data from the sample of interviewees from the subsidiaries or branches registered at Belgian office of CCPIT, which is responsible for keeping in contact with Chinese investment in Belgium. There are 36 agencies in total that were registered at the office until 31 December 2013. Among these agencies, there are actually 21 firms excluding those who have already moved to other countries and those who are non-enterprise units such as host offices of local governments. We conducted 16 interviews with executives from 11 Chinese affiliates in Belgium. With 21 Chinese affiliates currently established in Belgium, this amounts to more than half of the total sample of candidates.

When performing data collection, we focus on two kinds of sources. First, we conducted interviews with top management from target affiliates. Since interviewing is a central method of the study, we paid much attention to the form and process to make it “outstanding” (Hermanowicz, 2002). We organized semi-structured interviews to explore their experience, perception and opinion on the role of the subsidiary. Each interview lasted 60-90 minutes focusing on 4 topics (e.g. company profile, strategy, challenges, measures and effects) and around 20 specific questions. For instance, why do you set up the subsidiary/branch in Belgium instead of other countries? How do you think the role of this subsidiary/branch with respect to the headquarters? Etc. According to the need, someone could be interviewed more times under the condition of lack adequate information based on our project. Since our interviews are in Chinese, we then fully transcribed each interview from Chinese to English. Moreover, we searched corporation documents, archives, analytical reports, field notes and observation, websites of professional agencies such as Eurostat, NBB, World Bank etc. To make the material more convincing, before the quotation, we firstly always think over its reliability and accuracy through horizontal comparison with other resources as well as vertical comparison with ones from various periods.

We conducted a cross-case comparative analysis through distinguishing between SOEs, JOEs and private CMNE affiliates (Table 2).

**Table 2 Overview of the sample of cases**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Affiliates** | **Ownership** | **Subsidiary (S)**  **or Office (O)** | **Establishment** | **Total Asset 2013**  **(million Euro)** | **Sector** | **Interviewees** |
| ICBC (Europe) S.A. Brussels Branch | SOE | O | 2011 | 200 | Bank | Senior customer manager,  Project manager |
| BOC (Luxembourg) S.A., Brussels Branch | SOE | O | 2010 | 110 | Bank | Branch manager |
| Siat Group (Sinochem) | SOE | S | 2012 | 180 | Chemicals | Director of M&A,  Financial manager |
| Hainan Airlines Brussels office | JOE | O | 2006 | 0,9 | Airlines | Financial manager |
| ZTE Belgium NV | JOE | S | 2010 | 13 | Telecom | Financial manager,  Client |
| Sany Belgium Holding | Private | S | 2008 | 10 | Heavy machinery | International marketing manager |
| Huawei Technologies Netherlands B.V Belgium Branch | Private | O | 2005 | 50 | Telecom | Procurement manager,  Project manager |
| Westlake Europe BVBA | Private | S | 2013 | 12 | Auto parts | General manager |
| Xing-shi Enterprise Europe BVBA | Private | S | 2010 | 0,5 | Aquatic Products | CEO/Founder |
| Illochroma Haoneng Europe NV | Private | S | 2011 | 20 | Packing | CEO/shareholder,  General manager,  Finance director |
| Winsun Belgium BVBA | Private | S | 2010 | 0,1 | Photovoltaic | CEO/director |

Source of Data: each company’s websites, documents and interviews.

As we have mentioned in a previous part of research method, we select 11 affiliates of CMNEs as our sample. With respect to the access to interviewees, we select samples from CCPIT and then make contact with each firm by email, telephone and eventually obtain an appointment for a face to face conversation.

Regarding the process of analysis, we engaged in coding with NVIVO. One person interviewed and did the first coding analysis. The co-author validated it. According to our evaluation, second coding round was conducted and yielded findings and propositions.

Table 2 shows the overview of informants and the affiliates. Among them, there are three SOEs, two JOEs, and six private enterprises. It is necessary to emphasize that ICBC (Europe) S.A. Brussels Branch, BOC (Luxembourg) S.A. Brussels Branch, Huawei Technologies Netherlands B.V Belgium Branch and Hainan Airlines Brussels office are not subsidiaries but were included in our sample since these four firms are representatives in each industry. We can use the theory of subsidiaries on affiliates. If we excluded them, our study would perhaps lose key information. Moreover, the industry distribution of the sample would be too thin. Except them, others in our sample are all registered as subsidiaries. All of them were established in last ten years.

# 5 Findings

To make sense of their ownership and results, we distinguished different types of CMNE affiliates in Table 3 with the summary of interviews and memos.

**Table 3 Types of CMNE affiliates and the summary of interviews and memos.**

|  |  |  |  |
| --- | --- | --- | --- |
| **Ownership** | **CMNE** | **Number** | **Summary of interview/memos** |
| SOE | ICBC, BOC and Sinochem | 3 | * Originated from the restructure of state ministry * High degree of or perception of state responsibility * High commitment in Belgium with high investment * Market layout in Belgium as one of the parts of global strategy * Highlight Brussels’s role of European capital * Transfer the dominant position in China into Belgium and augment their advantages in Belgium * Making money isn’t the most important goal in Belgium * Financial crisis is an opportunity rather than risk |
| JOE | Hainan Airlines and ZTE | 2 | * Complicated ownership structure * Ambiguous conception of the existence of state equity * Focus on niche market in Belgium * Exploitation of cost innovation * Moderate level of localization and autonomy as well as procedural justice |
| Private | Sany, Huawei, Westlake, Xin-shi, Haoneng and Winsun | 6 | * Originated from small size of workshop * Relatively cautious investment in Belgium * Highlight the central location of Belgium * High level of localization and autonomy * Prefer wholly controlled subsidiary * Face stronger clients or intermediary agencies * Diverse impacts of financial crisis * Learn while competing with dominant competitors in EU * More clear strategy seeing Belgium as the bridge access to EU |

## 5.1 SOEs

First, Sinochem entered Belgium due to Siat Group, one of its competitors in Africa. It purchased a 35% stake of Siat Holding Company in 2012 and has started their strategic cooperation in Africa since then. Informants of BOC and ICBC appreciated the strategic layout in Belgium. Of course, the feature of banking decides the significance of network for them to a certain degree. Each of these two banks set up a subsidiary in Luxembourg and then entered Belgium at nearly the same time. ICBC was expected to be the first Chinese bank in Belgium but was preceded by BOC two months earlier. Every interviewee of BOC and ICBC emphasized the importance of the title of *“first*”.

Second, ICBC, BOC and Sinochem are not so concerned about present performance. *“Profit is important, but we prefer network establishment*.” These firms have a lower extent of cost innovation. However, they tend to exploit their adequate financial resources transferred from domestic market, political lobbying, large domestic market share to operate in the Belgium market or for further access to other markets like Africa. For instance, BOC tends to exploit its longer experience of internationalization than ICBC to obtain competitive advantages (Figure 5). Compared to other firms, SOEs obviously have much more assets in Belgium, which means a higher Belgian market commitment. Here, we have to remember that Sinochem just owns a 35% stake of Siat Group and is the second biggest shareholder. Except three managers appointed from China, others are all original staff of Siat Group. However, through our interviews on two Chinese managers, we found that they have a bit of modest attitude to localization. As a result, we classify Sinochem as a slight less extent of localization than the middle level. Another SOE, ICBC has the lowest level of localization than others due to little local recruitment.

Finally, in our interviews, informants of BOC and ICBC especially emphasize Belgium is a member of the G20, which would offer them potential influence. They told us that BOC and ICBC entered Belgium for strategic distribution of their network. They repeatedly emphasized the unique role of bridge both for CMNEs and Belgian firms who are willing to enter the Chinese market. Similarly, Sinochem cooperated with the Siat Group to reduce competition and has continuously expanded its business segments both in Belgium and Africa.

## 5.2 JOEs

Hainan Airlines operates a direct line between Brussels and Beijing. It focused on Chinese passengers. We can deduce that it prefers the location of Brussels as a transportation hub. However, Hainan Airlines factually has been in loss or at breakeven point since its establishment in Belgium, which forced it have to close another direct line between Brussels and Shanghai. Even though, it is less sensitive to the performance than private peers. Similar to SOEs, Hainan airlines has a lower extent of cost innovation. It also tends to exploit their adequate financial resources transferred from domestic market, large domestic market share to operate in the Belgium market or for further access to other markets like Africa. From a business point of view, Hainan Airlines focuses on Chinese passengers. Adequate Chinese travelers and a rising number of Chinese agencies cushion Hainan Airlines’ operation in Belgium. It also set up 3 hotels in Brussels to enrich its business.

Managers ZTE believe that the Belgian market is *“conservative*”, which offers potential business opportunity for them. Another motivation is that they have set up affiliates in Netherlands and endogenous business expansion motivation requires them entering new country. Belgium is thus a good choice because of *“wealthy and sophisticated peopl*e”. In addition, ZTE is preparing for further transformation of European market such as the end of expensive international roaming fees and *“quality at lower costs”*

ZTE, Hainan Airlines have a higher degree of localization than both ICBC and Winsun, but indeed less than other five private affiliates such as Xin-shi, Sany, Haoneng, Huawei and Westlake.

**Figure 5: Diverse policy selection for CMNEs’ affiliates in Belgium**

## 5.3 Private CMNEs

For Westlake and Winsun, geographical advantage of Belgium is priority. *“Belgium lies among France, Germany and UK where almost all our strategic customers come from.” “We firstly look for a central point among France Germany and Netherlands. Belgium rightly locates on the point.”* Besides, the CEO of Winsun and Xin-shi both prefer the convenient and fast VISA application and open policy of Belgium.

As for Haoneng, it has a long history of cooperation or competition with Illochroma, a Belgium located firm and was acquired by Haoneng. It is the wholly controlled subsidiary of Haoneng now. As a result, establishment of Haoneng in Belgium is due to the existing business connection with a partner or competitor. It is a natural process instead of location leverage. Of course, three informants of Haoneng all admit they can learn from other competitors in EU through the gate of Belgium.

Managers of Winsun, Xin-shi, Westlake, Haoneng, Sany especially highlighted the asset augment preference. They invest much on equipment, technology, brand or employees’ education. They also are sensitive to cost control as well as Huawei and ZTE. These seven firms out of our eleven samples conduct a high level of cost innovation. Fox example, Haoneng provides different types of labels for Chinese and European clients to increase the potential customers without obvious rise of the total cost. Westlake deploys better workers and special equipment for European clients through inner resource reconstruction.

Interestingly, a pair of firms: ZTE and Huawei, have similar policy orientation in spite of the definite difference between them such as. Huawei focuses on R&D, advanced technological mastery and market resource more than ZTE as an industry “*leader*”.

As for the strategic role of affiliates in Belgium, we have to check the extent of autonomy and localization of them in Belgian market. Figure 6 denotes the distribution of them on the map. Regarding the extent of autonomy, Xin-shi, Huawei, Sany, Westlake and Haoneng lead on the list. Their affiliates in Belgium all have high levels of autonomy with ample warranty. Huawei’s *“Small country strateg*y” fully stimulates the affiliate’s motivation to explore business in Belgium.

Winsun seems to be an outlier in the map. It was just built in Belgium in 2012. Managers in Belgium can decide important project investment. However, its investment failure in Italy and Greece gave the Chinese headquarters a huge loss and didn’t employ local staff either. So, we give it a little high degree of autonomy but lower a level of localization.

Haoneng acquired Illochroma to access the high end market and Westlake set up the subsidiary in Belgium to provide better service for its strategic clients. These cases show how they tap into their location advantage in Belgium, which explains why these CMNEs set up affiliates in Belgium.

**Figure 6: Extent of autonomy and localization of CMNEs’s affiliates in Belgium**

Based on our analysis, we can clearly see that the strategic intent of the establishment of CMNEs’ affiliates shows several common points in spite of their differences. First, all of them highlight the importance of the European market and search potential clients here, especially high-end clients. This would mean that market-seeking is one of the most crucial determinants for CMNEs, no matter what type of ownership they have. Second, ZTE, Sany and Huawei all tend to hire more Chinese immigration locally. Our interviewees of Huawei, ZTE and Sany were all recruited in Belgium. They all studied or worked in EU before they joined the present employers. Other firms also have Chinese immigration more or less. In view of the number of employees of each affiliate, local recruitment of Chinese immigration looks conspicuous in Belgium. Finally, all of these CMNEs are from Chinese coastal and developed regions, where there is usually more convenient logistics and open policies for enterprises.

# 6 Discussions and conclusions

What we find in term of the sample of CMNEs’ affiliates in Belgium gives us more insights when we generalize it. Of course, we don’t deny the potential variance resulted from the size of sample. After all, these 11 firms are just a part of the total. However, as we have previously discussed, we utilize diverse sources of information and manage to minimize any unfavorable effects as well as comparison (Ragin and Rubinson, 2009). Moreover, we interview affiliates as much as possible in terms of time constraint. In fact, the number of CMNEs’ affiliates in Belgium is not so large yet and most of them are in an early stage after their establishment, which is one of the key reasons why there are only 21 Belgian affiliates registered at CCPIT.

Firstly, Figure 5 describes that ownership is correlated to the policy selection for CMNEs. For example, Westlake uses different levels of equipment and workers for different levels of products, which improves its product list and potential client sources without obvious cost growth. ZTE sells last-but-one generation innovations in Belgium without incurring new costs. The conservative nature of the Belgian market provides ZTE the opportunity to service without investing in the latest know-how. It also exploits the favorable location of Belgium to efficiently share resources like technicians, solutions and production capacity in the European market, which improves its competitive advantages in specific project bidding. As a result, Chinese private enterprises and JOEs exploit cost innovation in Belgium. We suggest that:

*Proposition 1: Chinese JOEs try to exploit their “cost innovation” advantages in Belgium, an innovation follower market.*

Secondly, Huawei, Haoneng and other private CMNEs tend to augment their “cost innovation” advantages in Belgium. For instance, Huawei believes that the end of expensive international roaming fees will usher in new European competition in terms of “quality at lower cost”. Haoneng took over Illochroma and transferred some of its lower cost mode into Europe, which would augment both Haoneng and Illochroma’s cost advantage against their competitors. They would not only supply for high-end clients, but also for common customers. Then, we propose that:

*Proposition 2: Private CMNEs try to augment their “cost innovation” advantages in overpriced niches*

Thirdly, Sinochem, BOC and ICBC tend to balance between asset exploitation and asset augmenting. ICBC and BOC both highlight the bridge role of them when Chinese firms go out and Belgium peers go to China. Interviewees from Sinochem repeated the attractiveness of the Chinese market behind them and their involvement in other markets like Africa for potential cooperators in the host market. Obviously, these three firms are exploiting their unique position and status to augment their business opportunities in Belgian market. Of course, we shouldn’t ignore their adequate financial resources, which are significant for international exploration. Just as the interviewees said “Profit is important but not the most important indicator for us”. It is indeed viable because of the distinctive role of government on each firm. Even for Winsun, a private company, it is also influenced by local government more or less. Just like the CEO said: “*If the firm develops to certain size, it shouldn’t merely belongs to you.*”

*Proposition 3: Chinese SOEs try to augment their international management & trade advantages by exploiting their political & financial advantages with Belgian partners.*

Fourthly, except Winsun, other private CMNEs have a transparent tendency to localize. One of the examples is that most of their employees are recruited locally. Moreover, the extent of autonomy of their affiliates is higher than SOEs. By contrast, SOEs are restricted more and have larger hierarchies. They also have less of a tendency to localize. If we go ahead further, in view of ***five*** elements of procedural justice(Kim and Mauborgne, 1991; Rugman and Verbeke, 2001), affiliates of SOE and JOE are under control of headquarters, they have less independence in decision-making and are subject to headquarters’ policy, which usually take into account the overall situation of firms rather than affiliates themselves. Of course, all informants said that “the headquarters is knowledgeable on affiliates”. This doesn’t influence the conclusion that SOE and JOE have a less procedural justice than private ones.

*Proposition 4: Private CMNEs invest most in the localization of subsidiary capabilities, SOEs do the least; Similarly, SOEs have the least level of procedural justice than private peers.*

Finally, a very common point of interviewees is that they all surprisingly tend to see the financial crisis as an opportunity. For example, Sany utilized the dilemma of Putzmeister and acquired it. Haoneng took over Illochroma. Sinochem purchased a 35% stake of Siat Group etc. It is clear that they prefer to believe financial crisis as a good chance to enter European market or even defeat competitors rather than a threat, which is consistent with the tendency of Chinese OFDI. For example, global FDI fell by around 20% in 2008, while OFDI from China nearly doubled (Davies, 2009).

*Proposition 5: The financial crisis has strengthened the comparative advantages of CMNEs’ affiliates, attracting more FDI in Belgium as well as Europe.*

Although we suggest five propositions, there are still other interesting topics need to investigate. Other possible reasons still make sense. For example, if CMNEs establish one subsidiary in Belgium, it would become easier to build another affiliate in other European countries because it would simplify the domestic approval procedure. In addition, the relationship between the history of specific CMNE, geographic distribution of CMNEs in home market and their internationalization choice overseas still keep unclear. That would be another research direction in the future.

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1. + Supported by the State Scholarship Fund of CSC No. 201307650004, China. [↑](#footnote-ref-1)
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