



COMMENTARY

# What is “Chinese” about Chinese multinationals?

Ravi Ramamurti<sup>1</sup> and  
Jenny Hillemann<sup>2,3</sup>

<sup>1</sup>Center for Emerging Markets, D’Amore-McKim School of Business, Northeastern University, Hayden Hall 309, 360 Huntington Avenue, Boston, MA 02115, USA; <sup>2</sup>Vrije Universiteit Brussel, Brussels, Belgium; <sup>3</sup>Henley Business School, University of Reading, Reading, UK

**Correspondence:**

R Ramamurti, Center for Emerging Markets, D’Amore-McKim School of Business, Northeastern University, Hayden Hall 309, 360 Huntington Avenue, Boston, MA 02115, USA.

Tel: (617) 373-4760;

Fax: +1 (617) 373 8628;

e-mail: r.ramamurti@northeastern.edu

**Abstract**

Buckley et al.’s (*J Int Bus Studi* 38(4):499–518, 2007) pioneering work concluded that the determinants of outward foreign direct investment (OFDI) from China were similar to those observed in developed countries – but with a few modifications. In this commentary, we suggest continuing their effort to understand what is distinctive about Chinese multinational enterprises (CMNEs). We look for underlying explanations that are analytically useful and potentially generalizable, unlike a firm’s nationality, which is a catch-all variable with no analytical value. Based on prior research and Ramamurti (*Glob Strategy J* 2(1):41–47, 2012a), we argue that the following variables help explain distinctive aspects of CMNE internationalization: (1) their “stage of evolution as a multinational enterprise,” with most CMNEs being infant MNEs rather than mature MNEs; (2) the “global context for internationalization,” which has helped CMNEs internationalize faster than it was possible in earlier decades; (3) “government-created advantages,” which complemented China’s natural endowments and for the most part improved CMNEs’ international competitiveness; and (4) “leapfrogging advantage,” which allowed late-mover Chinese firms to gain a competitive advantage in smokestack industries and some sunrise industries. These variables may also explain the behavior of MNEs from other emerging economies and are therefore candidates for inclusion in general models of the internationalization process.

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## INTRODUCTION

In a sign that emerging markets have arrived, the 2017 JIBS Decade Award has been given to an article on China (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007). The second most-cited article in the same JIBS volume was also on the internationalization of emerging-market firms, and was also greatly influenced by Chinese experience (Luo & Tung, 2007). In 2015, the award went to an article about Central and Eastern Europe (Meyer & Peng, 2005). It would seem that international business (IB) scholarship on China and emerging markets has come of age.

In this article we start by reviewing the contribution made by Buckley et al. (2007) to our understanding of Chinese OFDI and the research that followed in its wake. One question asked by many

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authors, including Buckley et al. (2007), is what is distinctive about Chinese multinational enterprises (MNEs), compared to MNEs that came before. Several studies have shed light on this question, but it is important to take the next step and ask *why* Chinese MNEs (CMNEs) behave in the distinctive ways that they do. It is not enough to suggest, implicitly or explicitly, that their distinctiveness, if any, is caused by their Chineseness, because that would not be saying very much. Nationality is a catch-all variable that stands for so many things that it stands for nothing in particular. In other words, one should presume that the answer to the question posed in the title of this article is “nothing” and look instead for analytically useful and potentially generalizable explanations based on specific aspects of China’s circumstances. China may be unique, but aspects of CMNE behavior may be explainable with concepts that have universal relevance. The goal of theory building is precisely to identify such concepts.

Building on Buckley et al. (2007) and the burgeoning literature on CMNEs and, more broadly, emerging-market MNEs (EMNEs), we advance four concepts that help explain *why* Chinese firms may have internationalized in distinctive ways. The first two concepts build on Ramamurti (2009, 2012a), and the other two emerge from a review of the literature on CMNEs. The four concepts are: (1) “stage of evolution as an MNE,” with most CMNEs being infant MNEs rather than mature MNEs; (2) the “global context for internationalization,” which has helped CMNEs internationalize faster than it was possible in earlier decades; (3) “government-created advantages (GCAs),” which have complemented China’s natural endowments and significantly improved CMNEs’ international competitiveness; and (4) “leapfrogging advantage,” which has allowed late-mover Chinese firms to gain a competitive advantage in smokestack industries and some sunrise industries. After elaborating on the four concepts, we conclude by discussing how generalizable these concepts may be to other emerging economies.

### BUCKLEY ET AL. AND FOLLOW-UP STUDIES

Beyond the focus on China, three factors explain the considerable impact of Buckley et al. (2007) on IB scholarship. First, it was one of the earliest studies to focus on outward foreign direct investment (OFDI) from China, at a time when those

flows were only a sixth of inward foreign direct investment (FDI) flows (\$12.3 billion versus \$72.4 billion).<sup>1</sup> To be sure, companies like Haier had begun internationalizing in the 1990s and Lenovo’s splashy acquisition of IBM’s PC business occurred in 2005. Nevertheless, Buckley et al. (2007) were prescient to have attacked the topic that they did when they did.

Second, case studies and anecdotes of internationalization by Chinese firms were widespread but large-sample statistical tests were rare, partly for lack of data. Buckley et al. (2007) drew on a unique database of international investments from the State Administration for Foreign Exchange, which included project-level data on which Chinese firms invested in which countries, year by year, from 1984 to 2001. This allowed them to test hypotheses quantitatively.

Finally, Buckley et al. (2007) took Western theories about OFDI and tested them in the Chinese context. They could not test internalization theory *per se*, inasmuch as their dependent variable was country-level FDI flows rather than firm-level flows. Instead, they used a version of the “gravity model,” with only one FDI source country (China) and about 50 destination countries. To classic gravity models used by economists (e.g., Loungani, Mody, & Razin, 2002), Buckley et al. (2007) added variables suggested by the IB literature, such as a host country’s cultural proximity to China (dummy variable equal to 1 when the percentage of ethnic Chinese in the population was greater than 1%) or the potential for strategic asset-seeking FDI (measured by annual patent registrations in host countries). Their random effects models performed well with adjusted  $R^2$ s of 0.60 or more.

Buckley et al. (2007) identified three China-specific factors that may have affected the OFDI of CMNEs, namely, capital market imperfections, firm-specific advantages (FSAs) of Chinese MNEs, and institutional factors influencing Chinese OFDI. As the study had only one FDI source country, it could not really test if these home-country characteristics mattered. There were also limitations to how some of the variables were operationalized, e.g., the share of overseas Chinese in a given host country was interpreted as a proxy for FSAs, but this was clearly a country-specific advantage (CSA) as it was available to all Chinese firms. But the discussion of China-specific characteristics helped the authors interpret some of their surprising results and influenced subsequent research on the topic.

The most surprising finding of Buckley et al. (2007) was that Chinese firms seem to prefer host countries with high political risk over those with low political risk.<sup>2</sup> The authors explained this result by noting that their sample consisted only of state-owned enterprises (SOEs) – because at the time private firms were not allowed to invest abroad – and they speculated that SOEs were either not profit maximizers, or faced soft-budget constraints, or felt they could manage political risks better than private firms using their special access to the Chinese government. The dominance of SOEs in OFDI is one of China’s distinctive characteristics. Only in 2003, were private firms allowed to invest abroad, and even in 2015, SOEs accounted for 70% of Chinese OFDI into Europe (Hanemann & Huotari, 2016). In other words, a lot of what we know about CMNEs is actually about *state-owned* CMNEs, not privately owned CMNEs.

Based on their results, Buckley et al. argued for “a special theory nested within the general theory” of OFDI (Buckley et al., 2007: 500). Their overall conclusion was that extant IB theory, with a few modifications, did a fine job of explaining Chinese OFDI and there was no need for brand new theories – a point the authors reiterate in their retrospective essay. They suspected that a nested theory might also have explanatory power in other emerging economies with activist governments like China’s.

Buckley et al.’s (2007) findings were confirmed by Kolstad and Wiig (2012), which replicated their work using more recent data and found that Chinese OFDI was attracted to large host markets when these were part of the OECD, and to host countries with abundant natural resources and poor institutions when they were not.<sup>3</sup> Buckley et al.’s (2007) suspicions about how state ownership may have affected CMNEs’ international behavior were confirmed in studies that followed, including those in a special issue of *JIBS* on state-owned multinationals (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014). Ramasamy, Yeung, and Laforet (2012) concluded that the general theory of FDI explained internationalization by privately owned enterprises but not by SOEs, which required additional qualifications.<sup>4</sup> Similarly, Cui and Jiang (2012) found that the impact of home and host institutions on CMNEs’ preference for joint ventures was stronger as state ownership increased. Recently, Xie (2017) confirmed the negative effect of state ownership on the choice of high-equity modes of entry. Finally, even though Buckley et al. (2007) looked for but did not find

evidence of strategic asset-seeking internationalization during 1984 to 2001, more recent evidence suggests that this was a strong motivation for OFDI into developed countries (Luo, Xue, & Han, 2010; Rui & Yip, 2008; Chen & Young, 2010). Meyer, Ding, Li, and Zhang (2014) show that Chinese firms, and SOEs in particular, faced legitimacy challenges in making acquisitions in developed countries, where policymakers feared acquisitions by CMNEs could lead to the wholesale transfer of technology and jobs to China.

### MULTINATIONALS WITH CHINESE CHARACTERISTICS?

Buckley et al. (2007) and the broader literature suggests that the internationalization of CMNEs has been distinctive in at least five ways:

CMNEs seem more willing than one would expect to invest in risky host countries. As already discussed, Buckley et al. (2007) and several other studies suggest that is probably the result of SOEs monopolizing or dominating Chinese OFDI<sup>5</sup>; CMNEs lack FSAs and venture abroad to gain new FSAs rather than to exploit pre-existing FSAs,<sup>6</sup> making strategic asset-seeking an important reason for internationalization (Luo & Tung, 2007; Mathews, 2002, 2006; Madhok & Keyhani, 2012).

The next three features follow from the fact that CMNEs seem to have internationalized in ways that are inconsistent with the Uppsala school’s stages model (Johanson & Vahlne, 1977), as summarized in Table 1. To be specific:

CMNEs seem to have internationalized rapidly rather than gradually (Cui, Meyer, & Hu, 2014; Deng, 2009; Peng, 2012)<sup>7</sup>;

CMNEs seem to have entered psychically distant markets, such as developed countries, sooner than one would have expected (Quer, Claver, & Rienda, 2012; Ramamurti, 2004, 2012a)<sup>8</sup>; and

CMNEs seem to have used high-commitment modes of entry, such as M&As, earlier than one would have expected (Peng, 2012; Deng, 2007, 2009).<sup>9</sup>

Madhok and Keyhani (2012: 26–27), echoing Mathews (2002), touch on many of the above features in describing the stereotypical EMNE, but they could just as well have said it about CMNEs:

**Table 1** Internationalization process, CMNEs versus DMNEs

Internationalization process	Speed of internationalization	Sequence of internationalization	Modes of entry
Stages model (Uppsala school)	Gradual	Psychically close countries first, then psychically distant countries	Low commitment modes first; then, based on experience, high-commitment modes
Chinese MNEs (and EMNEs generally)	Rapid	Psychically distant countries entered sooner than expected	High-commitment modes (e.g., M&A) used earlier than expected
Examples of relevant studies of CMNEs and EMNEs	Cui, Meyer, and Hu (2014), Deng (2009), Mathews (2002), Madhok and Keyhani (2012), Guillén and García-Canal (2009)	Peng (2012), Quer, Claver, and Rienda (2012), Buckley, Cross, Tan, Xin, and Voss (2008), Ramamurti (2004)	Deng (2009), Madhok and Keyhani (2012), Peng (2012), Rui and Yip (2008), Wang and Boateng (2007)

EMNEs appear to be charting a different path in terms of their speed, scope, and means of internationalization, as reflected both in terms of destination countries as well as the means of internationalizing. They have not only internationalized rapidly, but have surprised observers by their bold methods in the early stages of their outward internationalization...entering aggressively into advanced economies and ... showing a marked interest in acquisitions as part of their internationalization strategy into these countries.<sup>10</sup>

Based on such evidence many studies have noted that CMNEs internationalize in unique ways compared to developed-country MNEs (DMNEs) (Cuervo-Cazurra & Ramamurti, 2014; Cui & Jiang, 2010; Deng & Yang, 2015; Kang & Jiang, 2012; Lyles, Li, & Yan, 2014; Quer et al., 2012). While this may be descriptively accurate it would be a mistake to conclude that these distinctive features are somehow “caused” by the Chineseness of CMNEs.

First, noting that a Chinese firm behaves distinctively does not by itself explain why. The distinctiveness could be the result of being from a large economy, a fast-growth economy, a low-wage economy, an Asian country, a middle-income country, a country with one-party rule, a country with weak institutions, a certain climate, culture, government, legal system, and history – or just about any other property of the country. *A firm’s nationality stands for so many things that it stands for nothing.*

Second, a major reason for applying IB theories in different contexts is to discover their boundary conditions or implicit assumptions, which requires going beyond symptomatic differences in behavior to underlying causes. So, the real purpose of asking what is “Chinese” about CMNEs is to force the search for underlying causes of the distinctive behavior rather than assuming it is somehow caused by nationality. In that spirit, after reviewing

the literature, we propose four analytical variables that are helpful in explaining CMNE internationalization (see Table 2). Each is discussed in some detail below.

1. *Stage of evolution as an MNE*: As noted earlier, one distinctive feature of Chinese MNEs is their lack of FSAs, such as proprietary technology or global brands (Peng, 2012; Wang, Luo, Lu, Sun, & Maksimov, 2014; Madhok & Keyhani, 2012), based on which some leap to the conclusion that they lack any FSAs – as though the only FSAs that matter are the ones possessed by DMNEs. Rugman takes this logic a step further, arguing that the international competitiveness of CMNEs must therefore rest on China’s CSAs, such as cheap labor, cheap capital, or access to natural resources (Rugman, 2009; Rugman & Li, 2007). As CSAs are available to all firms in a country, including DMNEs that set up operations in China, it has been argued that CMNEs do not possess sustainable competitive advantages. Subsequent work has come to show that CMNEs (and EMNEs more generally) possess FSAs that we may not have seen before in DMNEs but are valuable in their own ways and contribute to domestic as well as international competitiveness (Ramamurti & Singh, 2009; Verbeke & Kano, 2015).

Ramamurti (2009) offered a different line of reasoning, arguing that CMNEs may have weaker or fewer FSAs because they are early-stage or “infant” MNEs, unlike “mature” DMNEs (see Table 3 for a three-stage model of MNE evolution). Infant MNEs, regardless of nationality, are likely to be more dependent on home-country CSAs, because they have not had time to tap into the CSAs of multiple foreign locations. Their FSAs are also more likely to be location-bound, because they have not had time to accumulate non-location-

**Table 2** Four variables that shape internationalization of CMNEs and EMNEs

Variable	Definition	Implications for internationalization
Stage of evolution as an MNE	How far a firm has evolved from being a domestic firm with international operations (infant MNE), to one with a growing array of FSAs, significant overseas presence and production (adolescent MNEs), to one with global presence and many non-location-bound FSAs (mature MNE)	<ul style="list-style-type: none"> <li>• Affects MNE’s dependence on home market and home CSAs, and the extent of FSAs, including how location-bound they are.</li> <li>• Affects geographic footprint, extent of strategic asset-seeking internationalization, and extent of exports versus overseas production (see Table 3 for more details)</li> </ul>
Global context for internationalization	Costs and risks of internationalization, based on ease of access to international trade, capital, FDI, talent and knowledge flows, and degree of de-verticalization of industries	<ul style="list-style-type: none"> <li>• Affects speed of internationalization, extent of OFDI into developed countries, and use of M&amp;As</li> </ul>
Government-created advantages (GCAs)	<p><i>Direct</i> channel includes using financial and non-financial SOEs to achieve economic goals;  <i>Indirect</i> channel includes:</p> <ul style="list-style-type: none"> <li>• Accelerating macroeconomic growth to create economic heft in global economy</li> <li>• Creating an internationally competitive platform for production of goods/services</li> <li>• Industrial targeting to create national champions in key industries</li> </ul>	<ul style="list-style-type: none"> <li>• Affects goals of internationalization, risk attitude, and prospect for government-to-government deals (using SOEs)</li> <li>• Affects local firms’ bargaining power vis-à-vis foreign firms and governments</li> <li>• Affects motivation for “going out to bring in”</li> <li>• Gives national champions preferential access to markets, capital, foreign acquisitions, etc.</li> </ul>
Leapfrogging advantage	<p>Turning lateness of entry into a competitive advantage through:</p> <ul style="list-style-type: none"> <li>• Labor-cost arbitrage strategies</li> <li>• Leapfrogging to newest technology and scale in smokestack industries</li> <li>• Leapfrogging to newest platforms in sunrise industries</li> </ul>	<ul style="list-style-type: none"> <li>• Local firms start as OEMs and then internationalize</li> <li>• Local firms become global consolidators of smokestack industries, including through M&amp;As</li> <li>• In some cases, local firms become global first-movers in sunrise industries</li> </ul>

Note: CMNE = Chinese MNEs; EMNEs = emerging-market MNEs; FSA = firm-specific advantage; CSA = country-specific advantage; OEM = original equipment maker.

bound FSAs, e.g., global brands, because these are usually accumulated as a firm expands into many countries. Infant MNEs are also likely to export more from the home country than to engage in foreign production, have a more limited geographic footprint, and lag behind on technology, compared to DMNEs. However, CMNEs that have weak FSAs as infant MNEs may accumulate more FSAs over time to become similar to mature DMNEs. Similar criticisms were made in an earlier time about Korean manufacturing MNEs (see Kim, Hoskisson, & Lee, 2015), but as we now know some Korean firms have evolved into very successful mature MNEs.

Gammeltoft, Pradhan, and Goldstein (2010) have compared the “transnational index” (TNI) for the 50 largest EMNEs versus the 100 largest DMNEs in various years. As shown in Table 4, the TNI increases over time for both types of MNEs but is substantially lower for EMNEs compared to DMNEs, which is consistent with the view that EMNEs are earlier-stage multinationals than

DMNEs. If the analysis were expanded to the 1,000 largest MNEs in both sets of countries the TNI gap would probably be even greater. The average TNI for the 19 CMNEs on the list in 2015 was 39% (versus 49.1% for all EMNEs), showing that they are at an even earlier stage of evolution as multinationals than other leading EMNEs, despite having made many large overseas acquisitions.<sup>11</sup>

In the OLI model, the home country is one of many locations that an MNE taps into to compete globally. For mature MNEs such as American or European MNEs this may be a reasonable view, but for infant MNEs the home country often stands head and shoulders above other countries, especially when the country is large like China.

To be sure, by 2017, some CMNEs had evolved into adolescent MNEs or even mature MNEs (see Casanova & Miroux, 2016). In 2015, five CMNEs had transnational indices over 50%: CNOOC, COSCO Shipping, China Minmetals Corporation, China National Chemicals Corporation, and Lenovo. Huawei was not on the list, probably because it



**Table 3** Stages of evolution as an MNE

	Stage 1 Infant MNE	Stage 2 Adolescent MNE	Stage 3 Mature MNE
Dependence on home market and home-country CSAs	High	High to medium, and falling	Medium to low, and falling
Strength of FSAs	Weak	Moderate	High
Brand	Strong at home, unknown abroad	Strong at home, up-and-coming abroad	Strong global brand
Tapping into other countries' CSAs	Minimal	Increasing	Extensive
Location boundedness of FSAs	Key FSAs like distribution, brand, government relations are location-bound	New FSAs acquired through internationalization and capability building may be less location-bound	Many FSAs are not location-bound
Ratio of exports to foreign production	Exports exceed overseas production	Exports and overseas production are both important	Overseas production exceeds exports
Geographic footprint	Few countries, many in home region	Several countries with emphasis on home region	Dozens of countries, across many regions

Source: Adapted from Ramamurti (2009: 420).

is privately owned by employees. Yet even as CMNEs mature, the home market will continue to be very important for many of them, because China is a giant economy, just as the US market is still more important for many American MNEs than any single foreign market.<sup>12</sup> In other words, stage of evolution as an MNE and size of the home market are two key variables to keep in mind when analyzing CMNEs.

2. *Global context for internationalization (GCI):* Another distinctive trait attributed to CMNEs and EMNEs generally is that they have internationalized rapidly. Rather than being a characteristic of Chinese or “Dragon” multinationals, this is more accurately understood as the result of a favorable global context for internationalization (Ramamurti, 2009, 2012a).<sup>13</sup> Williamson and Zeng explain that internationalization became easier for all firms in the 1990s, because barriers to internationalization were replaced by gateways to internationalization, such as “the rise of outsourcing; the modularization of global value chains; the codification of knowledge; the gradual concentration and globalization of retailing; the more fluid international market for talent and professional services; and the increasing open market for corporate control in many countries” (Williamson & Zeng, 2009: 81). As a result, the costs and risks of internationalization have fallen for all firms,

making it easier for firms to internationalize, including young firms in developed countries (e.g., born-global firms). The more rapid pace of internationalization by Chinese and other emerging-market firms is a reflection of this reality rather than a product of their nationality. Over short periods of time the global context for internationalization may not change much but over longer periods of time it can change significantly. Brexit and the Trump victory in the US remind us that the globalization pendulum can indeed swing in both directions – from closed to more open, or from open to more closed.

GCI does not feature explicitly either in the OLI framework or the stages model, but it does feature in Vernon’s argument for how trade and investment would play out over a product’s life cycle (Vernon, 1966). When Vernon revisited this model several years later, he recognized that because the global context had changed in the interim his original argument would have to be modified (Vernon, 1979a). Period effects of this sort need to be incorporated into IB models of internationalization. Doing so would also remind us to be careful when comparing the internationalization process of firms in different time periods, e.g., comparing how DMNEs internationalized many decades ago versus how CMNEs or EMNEs are doing it today.

**Table 4** Transnational Index for EMNEs and DMNEs, various years

	1995	2000	2005	2009	2015
TNI of world’s 100 largest non-financial MNEs	45	49	55	58	66.1
TNI of developing region’s 50 largest non-financial MNEs <sup>a</sup>	32	35	36	40	49.1 <sup>b</sup>

The Transnational Index is the average of the share of foreign sales, foreign assets, and foreign employment in total sales, assets, and employment, respectively, for each company. The numbers shown above are the average value of TNI for each type of firm in that year. Firms are ranked by foreign assets.

Source: Gammeltoft et al. (2010), with 2015 data added by authors from *World Investment Report 2017* (UNCTAD, 2017a).

<sup>a</sup> Includes MNEs from the Asian Tigers (Hong Kong, Singapore, South Korea, and Taiwan), which embraced globalization at least two decades before other emerging economies. Without these countries the TNI for “developing countries” may be lower.

<sup>b</sup> This is based on the TNI for the top-50 MNEs from developing countries (UNCTAD’s 2015 table lists data for the top-100 firm versus top-50 firms for earlier years). The TNI for the 19 Chinese MNEs that were part of the top-50 firms in 2015 was 39%, indicating they are at an even earlier stage of internationalization.

3. *Government-created advantages (GCAs)*: One of the distinctive aspects of CMNEs is the impact of government policies on their internationalization strategies. As Peng (2012) notes, the home government does not feature prominently in studies of DMNEs but it ought to in studies of CMNEs – and EMNEs more generally. He argues that government is an important part of the institutional environment in emerging markets and is one of the reasons why an institutional view of strategy is useful. While agreeing with Peng (2012), we feel government is too important in emerging economies to be lumped into the “institution” category. In poor countries, governments often take on a leading role in economic development (Gerschenkron, 1962). The government is not just another institution – it is a key institution that shapes many other institutions in the country and creates national assets and a business climate that affect the international competitiveness of firms. This is especially true in China, where the government is very much in the driver’s seat.

The Chinese government has affected the internationalization strategies of firms directly and indirectly. The direct route has involved state participation in many industries through non-financial and financial SOEs. As discussed earlier, the distinctive behavior of CMNEs is to a considerable extent due to their state ownership, which in turn is a facet of China’s GCAs. In few other countries is OFDI so dominated by SOEs as it was in China until 2003, when only SOEs were allowed to invest abroad. Even in 2016, 18% of the world’s largest state-owned MNEs were from China, and all three CMNEs among the top-5 firms on *Fortune’s* 2017 Global 500 list were state-owned.<sup>14</sup> The government facilitated the internationalization of SOEs, for instance, by lending them money through state-owned banks or by negotiating

government-to-government deals in other emerging economies, e.g., to access natural resources (Li, Newenham-Kahindi, Shapiro, & Chen, 2013).<sup>15</sup>

The Chinese government’s indirect contribution has taken several key forms. At a macro level, it has involved leveraging China’s natural endowments of land, population, location, and resources, with complementary public investments to accelerate growth, thereby increasing China’s bargaining power with foreign firms and nations. Also at the macro level, the government has invested massively in physical, human, and institutional assets to enhance China’s attractiveness as a location for production of goods and services. Finally, at a microeconomic level, the government has used industrial targeting to nurture and globalize national champions in key industries.

As part of the macroeconomic effort, the Chinese government invested heavily in upgrading physical infrastructure for energy, transportation, and communications, and created hundreds of special economic zones and industrial parks in which Chinese firms and foreign MNEs set up factories, offices, and labs. It has supported R&D by Chinese companies, invested in upgrading its educational and research infrastructure, and encouraged thousands of Chinese educated abroad to return to the country. This will continue in the 13th Five-Year Plan (2016–2020), with \$2 trillion in fresh public investments.<sup>16</sup> It has also negotiated key international agreements, such as entry into the WTO, bilateral investment treaties, and government-to-government deals that facilitated OFDI by Chinese firms in Asia, Africa, and Latin America (Mofcom, 2017a). Without these entrepreneurial and supportive moves, Chinese firms would not have internationalized to the extent that they did.

The country’s macroeconomic strategy for transitioning into a market economy made China one



of the world’s largest and fastest growing economies, with massive exports, trade surpluses, foreign exchange reserves, and geopolitical influence. Economic and political heft improved China’s bargaining power with DMNEs and upped the growth prospects of local firms. In turn, this resulted in internationalization patterns by CMNEs that were distinctive, e.g., the tendency of Chinese firms to “go out to bring in,” i.e., to seek strategic assets abroad, especially in developed countries, mainly to improve their competitiveness in the large home market, and using that as a stepping stone for international competitiveness.<sup>17</sup> Williamson and Yin (2013) call this the “double handspring” strategy for building global competitiveness.

The strategy of promoting national champions has turned many Chinese firms, state-owned and privately owned, into global contenders in their respective industries. The government helped these firms to extract technology or other contributions from foreign multinationals, while offering them preferential access to capital and to the Chinese market. An example is automaker Geely, which purchased Volvo and then obtained a subsidized 20-billion euro loan from China Development Bank to revamp both companies’ products and platforms. In return, Chinese firms have exhibited a strong tendency to pursue strategies and investments preferred by the government. As Luo et al. (2010) have argued, “home governments are largely partners” of EMNEs and have heavily influenced the strategies of CMNEs.

In 2017, the Chinese government began tightening OFDI, which resulted in several billion-dollar M&A deals getting scuttled at the last minute.<sup>18</sup> In other ways, too, the Chinese government’s heavy hand has sometimes hurt CMNEs in foreign markets, e.g., when host-country regulators balked at Chinese SOEs acquiring prominent Western companies or their technologies and patents (Cuervo-Cazurra et al., 2014). In other words, government involvement was sometimes a disadvantage for CMNEs looking to internationalize into developed countries. In contrast, President Xi’s \$1 trillion Belt-and-Road Initiative is likely to result in very substantial China-funded investments in Asia, Africa, and Eurasia that would expand Chinese project exports and FDI, mainly by SOEs with expertise in building roads, ports, bridges, railways, and power plants.<sup>19</sup> The point is that the Chinese government has been in the driver’s seat when it comes to the internationalization of Chinese firms, mostly facilitating their internationalization but

also hindering it at times. This tendency will likely get stronger during President Xi’s second five-year term, as he has shown a preference for expanding state control over the Chinese economy, including privately owned firms, such as Alibaba or Tencent.

4. *Leapfrogging advantage*: A fourth characteristic of CMNEs is that they turned lateness into an advantage by leapfrogging over first-mover rivals from developed countries. For well-known historical reasons, emerging markets have been late-industrializers (Amsden, 2001). But being a late-mover had a silver lining. Mathews (2006), for instance, believes it instilled a sense of urgency among latecomer “dragon multinationals” to catch up with Western rivals. But, in addition, lateness allowed Chinese firms to leapfrog over Western rivals in smokestack industries as well as some sunrise industries. And in both cases GCAs reinforced the advantages of lateness (Luo & Tung, 2007).

In mature or declining industries, where growth had petered out or even turned negative in developed countries, late-movers from China and other emerging economies leapfrogged to the latest technologies and plant sizes to gain an edge over incumbents in rich countries stuck with old technology, sub-scale plants, and legacy labor contracts. Examples include CMNEs in manufacturing industries such as steel, aluminum, chemicals, paper, auto parts, white goods, rail equipment, power plant equipment, and personal computers (Steinfeld, 1998; Nolan, 2001; Nolan & Zhang, 2002). Chinese firms in these industries were adding capacity and workers, while their developed-country counterparts were shutting capacity and laying off workers. With the scale and momentum provided by China’s market and its advantages as a low-cost location for manufacturing, a late-mover CMNE could probably outcompete first-movers from rich countries in China and in third countries. With each passing year, more industries seemed susceptible to this kind of “global consolidator strategy” (Ramamurti & Singh, 2009; Ramamurti, 2012b). Initially, this strategy worked for CMNEs such as Lenovo, Haier, or Wanxiang (auto parts), but in recent years has extended to auto assemblers, such as Geely, Great Wall, and Shanghai Automotive Industries Corporation (SAIC), construction equipment makers like Sany, and telecom equipment makers like Huawei and ZTE. The surprising internationalization moves of CMNEs, such as OFDI directed to psychically distant developed countries or high-commitment M&As follow from



the fact that in mature industries, replete with excess capacity, acquisition of existing players makes more sense than adding new capacity. The broader point is that the internationalization choices of CMNEs are shaped by the industries in which China turned out to be internationally competitive.

The leapfrogging strategy also worked for CMNEs in sunrise industries, e.g., those using the cell phone or the smartphone as a platform for electronic banking, e-commerce, or digital gaming. In these cases, lateness helped in different ways. First, because China was late to industrialize, it had not overinvested in legacy technologies, such as old-fashioned telephone exchanges or brick-and-mortar banks. Furthermore, its consumers were not habituated to the old platforms and took more readily to the digital platform than Western consumers. Second, China’s regulatory environment was friendlier to leapfrogging, whereas in developed countries innovation was hampered by complex regulations created to manage traditional banking or commerce. Finally, these late-mover advantages were again reinforced by GCAs, such as a policy environment that supported leapfrogging, provided state funding (e.g., for electric vehicles or renewable energy), or favored Chinese players over foreign players, e.g., in online search, e-commerce, and gaming.

Another government-created advantage was the size and rate of growth of the economy, which provided the scale necessary to justify large, risky investments. With over 1 billion people hooked to their cell phones, China was ripe for innovation in digital businesses. Examples of up-and-coming CMNEs in sunrise industries included Alibaba, Alipay, Tencent, WeChat Pay, Goldwind (wind energy), Trina Solar, BYD (electric cars), and Baidu (online search). In 2015, e-commerce’s share of total retail sales was almost 60% higher in China than in the US (15.9% versus 10.5%), and the gap was likely to widen by 2019.<sup>20</sup> Chinese Fintech company, Ant Financial, was 16 times larger than PayPal and had 520 million payment customers at home and 112 million through affiliates abroad. In 2017, it owned stakes in Fintech companies in India, Indonesia, the Philippines, Singapore, South Korea, and Thailand, and was on the verge of introducing its system in millions of American retail outlets (*Economist*, 2017). Other digital enterprises, such as Baidu, Alibaba, and Tencent are also helping to diffuse Chinese innovations in these industries to

the rest of the world (Govindarajan & Ramamurti, 2011), *inter alia*, through investments in US startups (Statista, 2017a). A similar leapfrogging advantage was playing out in renewable energy (wind, solar) and electric cars (where the government has set ambitious goals for electric car production by automakers in China).

### GENERALIZING BEYOND CHINA

The four variables discussed above are likely to apply in varying degrees to MNEs from all emerging markets, i.e., they offer themselves as candidates for inclusion in a general model of internationalization by emerging-market firms:

1. The global context of internationalization is a concept relevant to firms in all countries, developing and developed. If a country’s access to trade, FDI, capital, talent, and knowledge improve, its firms will find internationalization to be less costly and risky. These factors are subject to the powerful force of globalization and hence apply to firms around the world (Barkema, Baum, & Mannix, 2002).
2. A firm’s stage of evolution as a multinational affects the extent of its dependence on the home market, home-country CSAs, as well as the strength of its FSAs and how location-bound they are. Over time, as their FSAs and capability sets expand, their dependence on the home market will decrease, more of their FSAs will not be location-bound, and they will evolve into mature MNEs. In comparing MNEs within a country, across countries, or across time, differences in this variable among the firms being compared must not be overlooked.
3. Government-created advantage (GCA) is probably the most important new variable suggested by the research on CMNEs. GCA is relevant in most emerging economies, because governments usually play a strategic role in developing economies. The direct and indirect channels through which GCAs work are available to all governments, even if other countries are not as big as China or not as competent at using these policy levers.<sup>21</sup> The prominent role of SOEs among CMNEs is just one facet of China’s GCAs.
4. Much of what we know about CMNEs is colored by the preponderance of state-owned firms in their midst. In many countries, SOEs have been slow to internationalize (Vernon, 1979b), but Chinese SOEs have been quite active



- internationally. We need more research on how internationalization differs between privately owned and state-owned Chinese firms, and how it differs between Chinese SOEs and SOEs from other countries.
5. Government is not just another “institution,” because its influence is exceptionally high and it often shapes other formal institutions in the country. It is also government that creates the complementary assets that turn a country’s natural endowments into CSAs. In other words, CSAs result from the interaction and coevolution of natural endowments and GCAs.
  6. A country’s natural endowments (land, resources, population, location, climate, etc.) along with GCAs and the global context determine the industries in which an emerging economy is likely to be internationally competitive. It is in those industries that the country will spawn MNEs, and, in turn, their internationalization strategies will be shaped by the nature of those industries, for instance, whether they are sunset or sunrise industries (Ramamurti, 2012b).
  7. Turning late entry into an advantage, including by leapfrogging, is also a relevant option for all emerging economies. If as a result of being a late-industrializer a country has low wages, its firms may internationalize using labor-cost arbitrage. If lateness allows them to leapfrog to state-of-the-art production methods and plant sizes in established industries, they may get a leg-up in smokestack industries. And if lateness allows an entire industry to leapfrog to the newest technology, as in wireless telephony, then, like China, emerging economies can aspire to be at the forefront of sunrise industries that build on that new technology.

A common thread through the four variables is time. The global context for internationalization changes in important ways over time; stage of evolution as an MNE is a dynamic variable at the firm level; government-created advantage is the cumulative result of government investments over time; and leapfrogging is tied to lateness, which is also a time-based concept. All four concepts help understand another time-based concept, namely, the internationalization process.

There is now broad agreement that to explain the internationalization of emerging-market firms, IB scholars must be open to augmenting received theory with new variables or interpretations. Buckley et al. put it well when they concluded “that

Chinese ODI is indeed distinctive in certain respects that have implications for theory ... but ... familiar explanations of FDI are relevant too” (Buckley et al., 2007: 500). Verbeke and Kano make the same point by arguing that EMNEs can be explained within the internalization model – but with some modifications, “contingent upon the infusion of a business history perspective” (Verbeke and Kano, 2015: 439).<sup>22</sup>

In other words, IB models must do more to incorporate the time dimension if they are to explain dynamic processes such as internationalization. We must build on the stages model, which provided a terrific start 40 years ago but has not received much help since. Now is an excellent time to refresh and revamp it, because so many firms are internationalizing before our eyes in slow motion (Ramamurti, 2012a).

Dunning’s seminal work on the question of why multinational firms exist integrated the theory of the firm and transaction cost economics with ideas from strategy and economic geography (Dunning, 1988). In a different context, the Five Forces model did something similar for industry analysis and strategy (Porter, 1980). However, unlike the Five Forces model, which was based on studies of many industries, Dunning’s OLI framework grew out of research on a limited number of home countries, i.e., the US and Western Europe (especially the UK). The stages model also grew out of a very specific context – Scandinavian manufacturing firms expanding into other developed countries in the 1970s – although Johanson and Vahlne (1977) squeezed enduring lessons from those cases. Both the OLI and stages model would benefit from a makeover that could accommodate MNEs from a more diverse set of countries, including emerging economies.<sup>23</sup>

### **CONCLUSION: SO, WHAT IS “CHINESE” ABOUT CMNES?**

We have argued that each of the four variables discussed above is relevant to all emerging markets and not just to CMNEs. That said, if we had to put our finger on what is distinctive about Chinese MNEs, it would not be how rapidly they internationalized, which countries they entered, or what modes they used, but the deeper, underlying reasons why they did any of these things. And among those reasons, the one thing that stands out to us is the competence with which the Chinese government used the policy levers at its disposal to

improve China’s CSAs. Government-created advantages, and their interaction with China’s natural endowments, has given China enormous heft in the global economy. And of these two variables, China’s GCAs were clearly more important than its natural endowments, which, after all, predate the country’s economic take-off after 1978.

As a result, China today is not just another emerging economy, it is *the* most important emerging economy. With a GDP of \$11 trillion, it is the second largest economy in the world. It is bigger than the next three largest emerging economies combined (Brazil, India, and Russia); the same is true of its exports and imports. In 2016, its OFDI of \$183 billion was one-third higher than its inward FDI and seven times Russia’s and 36 times India’s. It has become the #1 trading partner for most countries in Asia, the Pacific Rim, Africa, and even distant countries such as Brazil, Germany, and Chile. It has 109 firms on the *Fortune* 2017 Global 500 list, far more than Brazil (7), India (7), Korea (15), Singapore (3), or Taiwan (6).

Government-created advantage is the secret sauce that explains the rapid expansion of CMNEs. Without China’s GCAs, the country’s growth and economic heft would have been much less. And without a large and booming internal market, the Chinese government’s industrial targeting policies or CMNEs’ leapfrogging advantages would not have been as potent, nor would CMNEs have seen value in the strategy of “going out to bring in.”

As a corollary, we would add that China’s economic heft implies that research on CMNEs is important not just to test and extend IB theories, but also as a way to stay on top of major business trends in that country – even if those trends are not occurring anywhere else. We need more thick descriptions and grounded research of CMNEs, along the lines of Luo et al. (2010), Steinfeld (1998), Williamson and Yin (2013), or Yip and McKern (2016). An example of a China-specific phenomenon of importance is the Belt-and-Road Initiative. No other country – developed or emerging – has undertaken project exports on such a scale, and none comes close to having the resources to fund such a scheme singlehandedly, backed by giant state-owned banks and new multilateral institutions, such as the New Development Bank or the Asian Infrastructure Investment Bank.<sup>24</sup>

In other words, special cases require special approaches, and China is a special case. Today there is even greater need for research on CMNEs

than when Buckley et al. (2007) launched their important project more than a decade ago.

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### NOTES

<sup>1</sup>In 2005, according to UNCTAD (2008: 255).

<sup>2</sup>There has been some confusion about Buckley et al.’s (2007) findings on the relationship between political risk and Chinese OFDI, because some scholars refer to the results in the original paper (Table 6), which had some typesetting errors, and others to the corrected results table published in JIBS in 2009 (Vol. 40, no. 2). The errata in 2009 noted: “Owing to a production error, some values in Table 6 of this article were incorrect. Specifically, a number of negative values for the variables LPATENT, LPOLI, LIMP, LDIS and LINFDI were presented without the necessary minus signs.” Thus Buckley et al.’s (2007) conclusion about the positive relationship between Chinese OFDI and host country political risk was consistent with the correct set of results.

<sup>3</sup>Kolstad and Wiig (2012) criticized Buckley et al. (2007) and Cheung and Qian (2008) for using FDI data on government approved investments, because until the late 1990s only about one-fifth of OFDI was publicly approved (Cai, 1999). They also argue that institutions and natural resources should be looked at together rather than in isolation. Both flaws were remedied in their work.

<sup>4</sup>According to Ramasamy et al., “the motivation for OFDI is not very different from the objective of attracting more FDI inflows.... The difference however, is that with OFDI, Chinese firms can afford to choose who, where and the type of partnership to fulfill their needs. On the other hand, the motivations and locations of private Chinese firms [is to] internationalize by utilizing the core competencies they have acquired at home – low cost production, networks in



China, guanxi with Chinese SOEs, etc.” (Ramasamy et al., 2012: 25).

<sup>5</sup>Duanmu states that “state-owned MNEs, compared to their peers without controlling state equity, are less concerned about political risk of the host country” (Duanmu, 2012: 64). Meyer et al. (2014: 1005) argue that state-owned MNEs adapt their strategies in foreign countries to gain legitimacy. Ramasamy et al. put it starkly: “State-controlled firms are attracted to countries with large sources of natural resources and risky political environments. Private firms are more market seekers” (Ramasamy et al., 2012: 17).

<sup>6</sup>EMNEs’ lack of FSAs comes up frequently in the literature, e.g., Deng (2009), Madhok and Keyhani (2012). Luo and Tung point out that “(A)ssets sought by EM MNEs may include technology, know-how, R&D facilities, human capital, brands, consumer bases, distribution channels, managerial expertise, and natural resources [and] ... are necessary ... for compensating [for] firm-level competitive disadvantages” (Luo and Tung, 2007: 487).

<sup>7</sup>For example, Cui et al. assert that the strategic asset-seeking motivation is “due to the fast-paced internationalization of emerging economy (EE) multinational enterprises (MNEs)” (Cui et al., 2014: 488). Also Deng (2009: 78) discusses the pace of internationalization of Chinese MNEs as the outcome of initial inward FDI. Similarly, Peng describes “emerging multinationals as fast, strong ‘horses’ unleashed by the forces of globalization in the twenty-first century” (2012: 105), while Rui and Yip describe the “great pace to acquire well-known firms worldwide as a new form of transnational investment” (2008: 213).

<sup>8</sup>Quer et al. note that “(H)ost country political risk is not associated with the location of Chinese OFDI and cultural distance does not have a strong negative influence on such decision” (Quer et al., 2012: 1100). Similarly, Ramamurti (2004) notes that in the 2000s EMNEs seemed to be investing more in developed countries than other developing countries. Summing up the literature at the time, Ramamurti says that “EMNEs have targeted countries in the ‘wrong’ sequence, that is, they have expanded into psychically or economically distant countries before entering more proximate and similar countries” (Ramamurti, 2012a: 44).

<sup>9</sup>Peng believes the preference for high-commitment modes is due to “the urgency for fast market entry, especially in the areas of natural resources” (Peng, 2012: 100) and describes “the rapid adoption of (often high-profile) acquisitions as a primary mode of entry” (Peng, 2012: 98) as one of three relatively unique aspects of Chinese MNEs. In his qualitative study on

Chinese acquisitions, Deng states that “Chinese firms are generally conducting cross-border M&A with the primary motive of obtaining and controlling strategic assets, and that is quite unique among all emerging economies” (Deng, 2009: 75).

<sup>10</sup>Madhok and Keyhani (2012) cite the following sources in support of this characterization: Sirkin, Hemerling, and Bhattacharya (2008); Athreye and Kapur (2009); Nayyar (2008); and UNCTAD (2006).

<sup>11</sup>One should note that firms based in the “Asian Tigers,” which began globalizing many years earlier than other EMNEs, are included by UNCTAD in the “developing countries” group.

<sup>12</sup>In 2016, with revenues of RMB 521.6 billion, Huawei was one of the world’s largest telecommunication equipment makers, with a global share of almost 20%. Still, its domestic sales represented 45% of its total sales (Statista, 2017b). In 2016–2017, domestic sales made up 27.4% of Lenovo’s sales (Lenovo, 2017). After years of operation, American MNEs like GE or Apple still derive 40% of their sales from North America (Apple, 2017).

<sup>13</sup>OFDI from developing countries rose from less than 2% in 1976 and 15% in 1996 to 26% of global FDI flows in 2016. China’s OFDI soared to \$183 billion, or almost 13% of the global total (UNCTAD, 2017b).

<sup>14</sup>The top three Chinese SOEs on that list were the State Grid Corporation, Sinopec, and China National Petroleum Corporation (Fortune, 2017). Data on the world’s largest state-owned MNEs are from UNCTAD (2017a: 32–33).

<sup>15</sup>The authors note that the Chinese government “represents the collective interests of Chinese natural resource firms to negotiate with the host country government. In exchange ... the Chinese government offers a package with loans that support multiple-purpose development projects in various sectors, with a focus on infrastructure. Chinese firms act as a group to fulfill the Chinese government’s commitments to the host country government” (Li et al., 2013: 300).

<sup>16</sup>This will be spent on infrastructure projects, education, industrial parks, a national strategic industry development fund, creation of trans-regional innovation networks, and so on (Central Committee of the Communist Party of China, 2016).

<sup>17</sup>Deng explains the rationale behind “going out to bring in” as follows: “BOE urgently needs those strategic assets as competition in the home market becomes increasingly fierce” (Deng, 2009: 80). BOE Technology Group Co. was the third largest Chinese electronics MNE, after Haier and Lenovo.

<sup>18</sup>Scuttled deals include Shandong Tyan Home Co.’s plan to buy an Australian mine and Dalian Wanda





Group’s \$1 billion acquisition of Dick Clark Productions Inc. in the US (Bloomberg, 2017).

<sup>19</sup>The Chinese ministry of commerce (Mofcom) confirmed this strategy in a recent statement (Mofcom, 2017b).

<sup>20</sup>US share of e-commerce in total retail sales in 2015 from <https://www.digitalcommerce360.com/2016/02/17/us-e-commerce-grows-146-2015/>. Same statistic for China obtained from <https://www.statista.com/statistics/379087/e-commerce-share-of-retail-sales-in-china/>.

<sup>21</sup>The role of governments in the internationalization of local firms has been acknowledged in previous studies on developing countries, e.g., Aggarwal and Agmon (1990) and Zutshi and Gibbons (1998) on the government–business relations in the Singaporean, Indian, and South Korean context.

<sup>22</sup>Verbeke and Kano highlight that “distinguishing between firms based solely on their home country’s current level of economic development is conceptually flawed. Both emerging- and developed-economy MNEs evolved as the products of their home

economies, influenced by distinct national histories, cultures, and political environments as well as by external shocks” (Verbeke and Kano, 2015: 440).

<sup>23</sup>If Porter’s synthesis had been based initially on just a handful of industries, it may have started as a Three Forces model, and as it was applied to more industries, new forces, such as “threat from new entrants” or “competition from substitutes” may have been added to it. OLI and other mainstream IB models have to evolve in a similar fashion as they are applied to a more diverse set of countries, including emerging economies.

<sup>24</sup>The New Development Bank is co-owned by the five BRICS nations, and the AIIB is a multilateral bank under de facto Chinese control with headquarters in Beijing. In addition, China is dominated by four state-owned commercial banks, accounting for a 60% market share of the Chinese market (Liang, Xu, & Jiraporn, 2013), and seven of the world’s ten largest state-owned banks are Chinese (UNCTAD, 2017a).

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### ABOUT THE AUTHORS

**Ravi Ramamurti** (DBA, Harvard Business School) is a University Distinguished Professor of International Business & Strategy, and the Director of the Center for Emerging Markets at Northeastern University. He is a Fellow of the AIB. He studies the innovation and internationalization strategies of emerging-market firms. He has published eight books on these topics, including *Reverse innovation in health care* (HBR Press, 2018).

**Jenny Hillemann** (PhD, Vrije Universiteit Brussel) is a Postdoctoral Fellow at Vrije Universiteit Brussel, Belgium. She is a Visiting Fellow in International Business and Strategy (2016–2019) at Henley Business School, University of Reading, UK. Her research includes the managerial analysis of multinational enterprise strategy and the broader governance challenges facing international firms.

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