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A Late Comer's Internationalization Strategy for Chinese Firms: A Theoretical Study

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The purpose of the paper is to discuss the internationalization strategy of Chinese firms from a latecomer's perspective. First, this paper reviews five existing conceptual frameworks of foreign market entry mode for the internationalization of firms from developed countries. Then, this paper integrates the different factors considering in existing frameworks to a comprehensive framework. With this modified framework and Chinese firms' unique characteristics, some propositions are presented about the path and features of Chinese firms' internationalization based on the comprehensive framework discussed from a latecomer's perspective. This paper also discusses that the future studies on Chinese firms' internationalization strategy should attempt to increase the congruence between the theoretical and operational level, to clarify concepts and variables of the frameworks and the relationships among those variables.

Keywords: internationalization, strategy, Chinese firms

Introduction

In international business, how to choose the internationalization strategy is an important topic not only to practitioners but also to academics. Internationalization is defined as "the crossing of national boundaries in the process of growth" in 1999. There are several reasons for this great interest. First, the global economic needs firms to face the competition from all over the world, so to be internationalized is an important way to be global. Second, the choice of the correct entry mode for a particular foreign market is one of the most critical decisions for firms in internationalization.

When emerging economies, such as China, India, Brazil, and Russia, play a more important role in the international business arena, it is important to combine the experience from emerging economies with existing

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conceptual frameworks which are mainly based on experience from developed economies by theoretical extensions.

China has absorbed huge amounts of inward foreign direct investment (FDI). In 2008, China absorbed 92.395 billion USD FDI (National Bureau of Statistics of China, 2008). China is currently the most active internationalizing economy among the developing countries. The total volume of imports and exports reached 2,561.6 billion US dollars in 2008, of this total, the value of exports was 1,428.5 billion US dollars and that of imports was 1,133.1 billion US dollars (National Bureau of Statistics of China, 2008). The year-end foreign exchange reserves of China reached 1.95 trillion US dollars in 2008 up by 27.3 percent over 2007 (National Bureau of Statistics of China, 2008). With abundant foreign exchange reserve and the policy support from Chinese government, Chinese firms are more aggressive to expand internationally. Funded by huge foreign exchange reserves, Chinese firm have three main enter modes: joint venture, mergers and acquisitions (M&A), and whole owned subsidiary to internationalize their business. The expansion of outward FDI which has grown rapidly to the point where China has become an important outward direct foreign investor with a total of US$22 billion by the end of 2007 (United Nations Conference on Trade and Development, 2008). This raises China's outward FDI stock to USD 96 billion (United Nations Conference on Trade and Development, 2008). Chinese firms have finished 166 M&A transaction with total of 26 billion in 2007 but 102 M&A transaction with total of USD32 billion in the first six months in 2008 (Deloitte China Research and Insight Center, 2008). The data released on the outflow of FDI by destination in 2003-2006 has showed 151 host economies in the FDI flows destination and 172 host economies in the FDI stock destination (China Ministry of Commerce, 2007). This number shows that Chinese firms have played a much more active role in the outward FDI activities abroad.

Though Chinese firms play a more and more important role in outward FDI, there has been relatively little attention paid to this phenomena except Deng (2004a) and Warner, Ng, and Xu (2004). It is assumed that the internationalization of Chinese firms can be explained by using the existing mainstream frameworks or theories. But these theories are derived from the experience of multinational corporations from developed countries. Even some theories used to explain developing country multinationals are not suitable for Chinese firms because China's emerging system of capitalism has its own unique institutional and cultural characteristics (Child & Tse, 2001). So the previous studies about the internationalization of firms from either developed countries or developed countries raise the possibility—the extension of existing theories or frameworks to consider the internationalization of Chinese firms.

To solve the above mentioned problem, this paper examines the internationalization strategy of Chinese firms from a latecomer's perspective. It not only discusses the theoretical factors that will influence the internationalization strategy, but also proposes the path and the mode that Chinese firms should consider in their internationalization process. This paper compares the factors that affect the international expansion of Chinese firms with those emphasized in existing theory or framework by integrating several theories as a comprehensive framework.

The purpose of the paper is to discuss the internationalization strategy of Chinese firms from a latecomer's perspective. This paper has four parts as follows. First, relevant background is provided by briefly summarizing mainstream and alternative explanations for the internationalization of firms from developed countries and proposing a comprehensive model. Second, the unique characteristics of Chinese firms are examined. Then, some propositions are presented about the path and mode of Chinese firms' internationalization based on the theories discussed from a latecomer's perspective. The following section discusses the problems associated with implementation and the future research direction. The concluding remarks mainly concern about the academic contribution and managerial implication for the practitioners.

Theory Background

There are several existing conceptual frameworks which identify different factors that will influence the internationalization decision. These frameworks that can be used to explain a firm's foreign market entry mode have been developed and empirically tested. So it is important for firms to use different framework to help them to choose internationalization strategy.

The internationalization process has two dimensions—international market selection and choice of entry mode. In this paper, the author will discuss the following conceptual frameworks: Uppsala model, the transaction cost approach, the bargaining power theory, the eclectic framework, and the organizational capability framework.

Conceptual Frameworks

Uppsala model. Uppsala model is the earliest model regarding the way in which the firm begins to internationalize its operations. Johanson & Wiedersheim-Paul (1975) argued that the firm follows the following stages in the development: no regular export, export via independent representatives or agents, sales subsidiaries, and production/manufacturing plants.

Kwon and Hu (1995) found empirical support for this evolutionary path, but this framework was not supported in other studies (Turnbull, 1987).

Transaction cost theory. Since 1980s, transaction cost theory has become commonly applied in the internationalization study (Anderson & Gatignon, 1986). This theory has been used to predict entry mode for manufacturing firms as well as for service firms (Erramilli & Rao, 1993). According to transaction cost theory, specific assets, the frequency of economic exchange and uncertainty surrounding the exchange of resources between buyer and seller are the important attributes in the international business transaction (Williamson, 1979).

Most of the studies on foreign market entry modes have made some modification of the transaction cost theory (Erramilli & Rao, 1993). The modified TCA predicts a positive relationship between asset specificity and propensity for high-control entry modes. While it is strongly believed that the transaction costs should be included in consideration of entry modes, they unfortunately cannot be easy to calculate (Gatignon & Anderson, 1988).

Bargaining power theory. Bargaining power theory argued how the firms choosing the entry mode depends on the relative bargaining power of the firm and the foreign government (Franko, 1971). This theory assumes that both parties are looking to negotiate an outcome that is in their long-run best interests. It suggests that much of the firm's bargaining power stems from ownership advantages that it possesses, such as the ability to employ people and contribute to the local economy. According to the bargaining power theory, the actual mode of entry a firm eventually settles for will depend on the relative bargaining power between the firm and the host government. As the firm's stake increases, its bargaining power decreases and it may be forced to settle for a lower control mode of entry than it desires. Gomes-Casseres (1990) used the bargaining power framework to explain why the access to foreign markets is controlled by political actors at home and abroad.

Eclectic framework. Dunning (1980) suggested that firms will consider ownership advantages, location advantages, and internalization advantages in their internationalization operation. Ownership advantages are firm-specific assets and skills. Assets are reflected by the firm's size and multinational experience, and skills by the firm's ability to develop differentiated products (Dunning, 1988). Location advantages include similarity in culture, of market infrastructures and the availability of lower production costs (Dunning, 1988). The internalization advantages are concerned with the costs of choosing a hierarchical mode of operation over an external mode (Dunning 1980, 1988). Woodcock, Beamish, and Makino (1994) added contingency characteristics of resource requirements and organizational control factors into consideration. This eclectic framework integrates three approaches for studying the choice of entry mode: international trade theory, resource-based theory, and transaction cost theory.

Organizational capability framework. Madhok (1997) introduced the organizational capability perspective to explain internationalization process. Aulakh and Kotabe (1997) further developed this theory based on the Madhok's notion of bounded rationality. The organizational capability perspective is rooted in the resource-based theory (Penrose, 1959).

Madhok (1997) perceived the firm as a bundle of relatively static and transferable resources, which are then transformed into capabilities through dynamic and interactive firm-specific processes. A large number of empirical studies have used firms' resources to explain differences between exporters and non-exporters (Cavusgil & Naor, 1987). Empirical studies using physical and financial resources have predicted type of growth strategy of the firm (Chatterjee & Wernerfelt, 1991).

Comprehensive Internationalization Framework

Several different theories try to explain the reason how firms choose the path and mode to internationalization. Though different theories or frameworks are competing with each other in explaining certain aspect of internationalization process, all of the theories are supported in one way or the other in the academic research. The reason is that the support for one theory does not necessarily falsify other theories. Sometimes, it is necessary to integrate one or more theories to better explain the relationship between different factors and the internationalization process than only use one theory in empirical research.

In the above mention theories, this paper concludes that there are six factors that had high potential in explaining the decision to internationalization for the first time.

Country specific factors. Country specific factors refer to the level of political stability, local market opportunity, economic development and performance and cultural unity, and low legal barriers, physiographic barriers and cultural distance. Goodnow and Hansz (1972) discussed how favorable a country environment could have an important effect on entering foreign market. Contractor (1990) defined that environment includes the country's indigenous technical capabilities, the level of economic development, and government intervention and regulation. In particular, uncertainty over the continuation of current economic and political conditions and government policies will influence market entry.

Firm specific factors. Firm specific factors refer to firm market position, R&D capability, competitive advantage, cost, product, ownership structure and financial situation. There are a number of studies also referring to the impact of firm specific factors on the internationalization decision. Cavusgil and Naor (1987) argued that the managements in the firms would consider the firm specific factors when they made export decision. Reid (1983) presented the importance of firm characteristics in the internationalization process.

Cultural specific factors. Johanson and Vahlne (1977) argued the psychic distance—the cultural disparities between the home country and the host country—as crucial in explaining the internationalization process of the firm. They defined psychic distance as "factors preventing or disturbing firms learning about and understanding a foreign environment". Johanson snd Vahlne (1977) proposed that firms are more likely to enter new markets which are psychically close. They believed that firms should gain experience in these countries before they expand the operations abroad into more psychically distant markets.

Market-based factors. The market based factors refer to market size, potential and growth related to the foreign market. Market potential is the most important explanatory factor of market entry in Swedish companies internationalization decision (Vahlne & Nordstrom, 1993). Yoshida (1987) discovered that market size had been a primary factor in influencing market entry in the USA by Japanese firms.

Global competition. Firms' investment export strategies also are affected by the competitors in the foreign market. Goodnow and Hansz (1972) suggested that the degree of competition from local manufacturers in the market should have an impact on market entry in addition to the external factors within the legal, political, economic, and cultural environments. Davis, Desai, and Francis (2000) found that when one company in the same industry went abroad, others felt compelled to follow this action in order to maintain their relative size and rate of growth.

Firm's bargaining power. The bargaining power of the firm and the foreign government should be considered in market entry decisions. Firm can use its bargaining power such as ownership or technology advantage to negotiate the host government that relies on its control over marketing access. When a firm believes that it has a significant strategic stake in a foreign market or can realize global synergies in its operations, its stake in the negotiations increases. As the firm's stake increases, its bargaining power decreases and it may be forced to settle for a lower control mode of entry than it desires.

To encompass all these six factors that could influence path and mode of internationalization process and thereby to increase the explanatory power, a comprehensive framework is presented in Figure 1 to integrate these six theories in order to study the internationalization process.

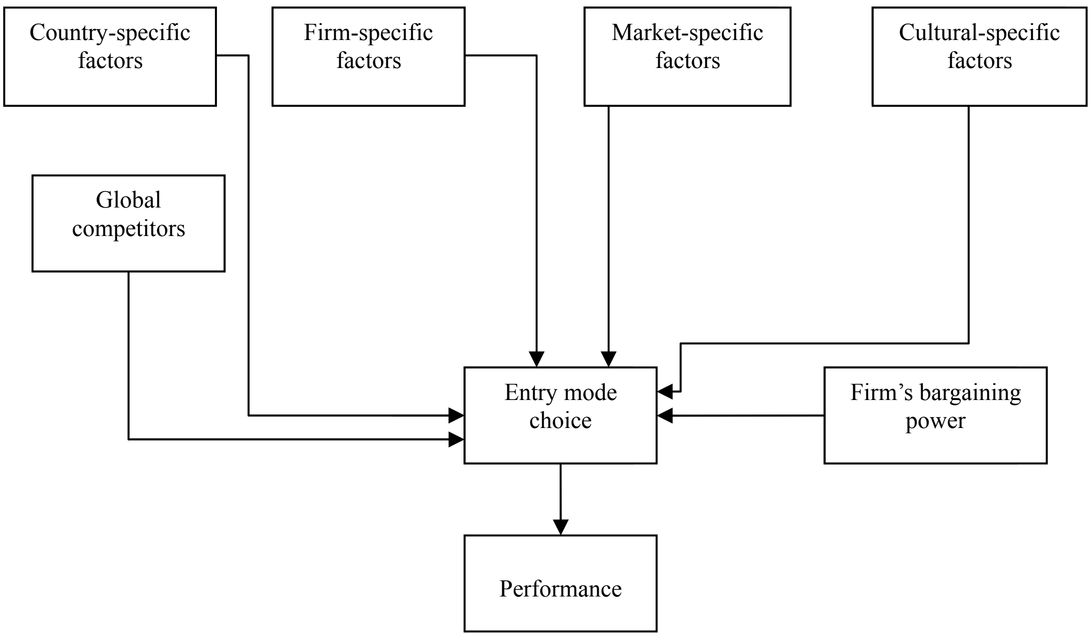

Figure 1. The comprehensive framework for firm's international market entry

Different Internationalization Entry Modes

Expansion into foreign markets can be achieved via the following four modes: exporting, licensing & franchising, joint venture, and FDI with two different forms—M&A and whole owned subsidiary.

There are three factors related to the choice of foreign market entry mode: control, resource commitment, and dissemination risk. Control is crucial as it ensures achievement of the ultimate purpose of the organization. Also, control is the most significant factor that determines risks and returns, the amount of relational friction between buyers and sellers, and ultimately, the performance of the investment abroad. Control over foreign market entry mode allows firms to supply timely and good quality goods and services to international clients.

High control entry modes demand more resource commitment abroad, and the foreign-going firm is exposed to a higher degree of uncertainty. Low control modes require a more limited resource commitment, thus reducing the uncertainty exposure of the foreign-going firm. The high control entry mode offers the highest mode of control, whereas low control entry modes, such as cooperative agreements, offer the lowest. High control entry modes may be preferred in order to build up personal relationships, conduct on-site research, and adapt to the needs of the foreign buyers and markets. High control entry modes are also preferred when brand name value is high. Firms opt for low control entry modes and low resource commitment when they are exposed to risk, or when the demand conditions are uncertain

Exporting. Exporting is the marketing and direct sale of domestically-produced goods in another country. Exporting is a traditional and well-established method of reaching foreign markets. Since exporting does not require that the goods are produced in the target country, no investment in foreign production facilities is required.

Licensing & Franchising. Licensing essentially permits a company in the target country to use the property of the licensor such as trademarks, patents, and production techniques. The licensee pays a fee in exchange for the rights to use the intangible property and possibly for technical assistance. Patent rights, trademark rights, and the right to use a service process are granted to the licensee under a royalty agreement. Licensing requires little investment but potential returns from manufacturing and marketing activities may be lost. Franchising, like licensing, provides a relatively low cost entry mode. The drawback is finding a franchise model which either is universally applicable or can be locally adapted without losing the value of the standardized service delivery process and appropriate franchisees to operate it.

Joint venture. There are five common objectives in a joint venture: market entry, risk/reward sharing, technology sharing and joint product development, and conforming to government regulations. Other benefits include political connections and distribution channel access that may depend on relationships.

The key issues to consider in a joint venture are ownership, control, length of agreement, pricing, technology transfer, local firm capabilities and resources, and government intentions. Potential problems include: conflict over asymmetric new investments, mistrust over proprietary knowledge, performance ambiguity, and lack of parent firm support, cultural clashes and when to terminate the relationship. Taking a foreign based partner is an intermediate step between franchising and direct investment. For some markets, this is the only viable entry mode due to local restrictions. The advantages address many of the unique problems associated with production and delivery of services.

FDI. FDI is the direct ownership of facilities in the target country. It involves the transfer of resources including capital, technology, and personnel. FDI may be made through the M&A of an existing entity or the establishment of a new whole owned subsidiary.

Direct ownership provides a high degree of control in the operations and the ability to better know the consumers and competitive environment. However, it requires a high level of resources and a high degree of commitment. This is typically the most risky and irreversible type of service market entry.

Proposition Development

After the paper discusses the comprehensive framework for internationalization process and different entry modes, it will recommend an internationalization strategy for Chinese firms with the consideration of the Chinese firms' latecomer's advantages and disadvantages. First, it will introduce the current development of the firms from emerging economies to enter other emerging economies and developed economies. Then, it will discuss the Chinese firm's latecomer's advantages and disadvantages. Based on analysis of latecomer's advantages and disadvantages, it will present some propositions on the path and mode about Chinese firms' internationalization strategy.

Latecomer's Advantage and Disadvantages of Chinese Firms

After 20 years reform and development, Chinese firms have made, in a short time, remarkable progress in expanding its trade and economic influence in the world. They are global in scope, but more apparent in Latin America, Africa, East Asia, and the Middle East than in developed economies such as US, EU, or Japan.

The concept of latecomer has been applied to emerging economies of East Asia such as Taiwan, South Korea, Hong Kong, and Singapore. Emerging economies refer to low-income, rapid growth countries using economic liberalization (Hoskisson, Eden, Lau, & Wright, 2000). These economies include two groups: developing countries in Asia, Latin America, Africa, and Middle Ease; and transition economies in former Soviet Union and China. These economies have achieved significant economic advances since 1990s. Japan was once viewed as a classic case of the latecomer (Dore, 1990). Given China's spectacular growth in the last two decades, China can be treated as another example of latecomer. Using the existing internationalization framework with a theoretical extension to the late comer experience, this will help to enrich the understanding of the multinational firms which originate from not only the developed economies but also the emerging economies which are late developing and just want to catch up.

Though China is a latecomer in international business, its influence in world trade is not limited to its domination in the export consumer goods. Rather, it extends to active FDI area. It does not resemble any firms from previous former and current developed economies' mode of international expansion. Chinese government uses policy to support Chinese firms' internationalization. Whether or not Chinese-based firms can competitively dominate new markets, their low profile approach and their broad economic engagement are certain to give them an edge over other competitors. Indeed, their low-profile and soft approach coupled with low price and reasonable quality enable them to penetrate into the international market. This is totally different from firms in many developed economies from Europe, America, and Japan while they found no competitive advantage or no interest in competing with traditional industries and basic consumer goods.

It is nature of latecomer to have the tendency to catch up with the forerunning economies or the developed economies. The latecomer will draw reference to and benchmark against the forerunning in order to learn from and emulate the forerunners' success. It is agreed that the learning, development and adaptation of updated and specialized technological knowledge and competencies would help the latecomer to catch up. There is evidence from the lessons of the East Asian economic miracles (Storper, Thomadakis, & Tsipouri, 1998). But Chinese firms have their unique characteristics which are different from the other East Asian economies. It is important for Chinese firms—the latecomer, to find the best internationalization strategy that is the most suitable to catch up the forerunners from developed economies by considering their latecomer's advantages and avoiding the latercomer's disadvantages.

Latecomer's advantages. Child and Rodrigues (2005) discussed some advantages from Chinese firms such as governance support, institutional development, market condition, and new technology opportunity. Cho, Kim, and Rhee (1998) discussed the Japanese and Korean semi-conductor companies to use latecomer's strategies for overcoming latecomer's disadvantages and utilizing latecomer's advantages. They mentioned focusing, thin margin or loss bearing, and volume building from the essence of strategies for overcoming disadvantages and add timing, time compression, human-embedded technology transfer, benchmarking, technological leapfrogging and resource leveraging for utilizing latecomer advantages. In the following, the paper will discuss these advantages and how Chinese firms can use these advantages.

Government support. Chinese government encourages the internationalization of Chinese companies by developing a facilitating policy to support this internationalization process. Many Chinese companies have started to pursue their international initiatives by the help from flexible and practical government policy. The process of internationalization by Chinese firms appears to be significantly impacted by government policy. Warner et al. (2004) showed that the State's sponsorship and funding support are key factors that make acquisitions initiated by the Chinese firm as an important mode of internationalization. Many Chinese firms such as Haier, Huawei, and Lenovo all gained the significant financial and policy support from government at different stages in their internationalization process (Child & Rodrigues, 2005). This is different from the role and the experience of governments in Western countries which is played in the process of firms to seek international expansion. It is important to analyze the involvement of the state in the industrial policies in emerging economies such as China, India, South Korea, and Brazil.

With the continued process of economic and political reform in China, the government will play a less important role but it will still be actively involved in the regulation of business. Chinese governmental will still be the sponsor and fund-provider for firm's internationalization in the predictable future.

Similar market condition. It has been argued that China market is characterized as uneven development, local protectionism, inadequate distribution system, unfair competition, demand for not high quality product, etc.. These market conditions are similar in many other emerging economies. In earlier phases of internationalization from the Chinese firms, there are evidences showing that Chinese firms prefer to go to countries with similar market conditions (Deng, 2004).

Chinese firms are familiar with their domestic market condition. It is easy for Chinese firms to adapt their operation in similar market condition in other emerging economies, because they have experienced in China domestic market. Chinese firms may find it difficult to operate in developed economies, because they do not have knowledge and experience in the different market in developed economies.

Similar institutional development. Many other emerging economies like China are also characterized by a heavy institutional involvement in their business (Dunning & Narula, 1996). The case of China strongly suggests that internationalization frameworks or theories need to consider the potential influence of similar domestic institutional factors in emerging economies. The legislation and regulation of host country for inflow FDI and outflow FDI are very different from emerging economies in developed economies. The similarities between China and other emerging economies in institutional contexts may facilitate firms from emerging economies to enter into other emerging economies.

New technology opportunities. New technology can offer a valuable window of opportunity for latecomer to catch up. When the new technologies are invented and mastered by the latercomer, it will make incumbents' competencies obsolete or destroy. Late entrants equipped with new technological competence will have the opportunity to set new industry standards and defeat early mover (Richardson, 1996). Latecomer can also take advantages of free-rider in the evolution of the market and technology. By entering later, a firm may save the huge costs of educating consumers in early stage of the new product. Latecomers can significantly reduce R&D cost from the spillover of new technologies. They also can imitate or learn from the mistakes made by early movers, for example, electricity car gives Chinese firm BYD a very promising opportunity to be one of the important players in the future car market and 3G telecommunication will provide another opportunity for Chinese firm to participate in formulating new standard for next generation of telecommunication.

Latecomer's disadvantages of Chinese firms. Chinese firms' initiative in internationalization has also been subject to a number of constraints that it has to overcome. Most of these are generic in nature, that is, they are applicable to all Chinese enterprises intending to go international. The paper will discuss the disadvantages of latecomer from six factors based on the proposed comprehensive framework.

Limited firm resources. The capabilities of acquiring international experience determine Chinese firms' speed of international expansion. These are reflected in the capabilities for local operations, promotion, distribution, after sale service, and cultural management and adaptation. These resources are extremely scarce within China, and thus difficult to acquire. Some of these capabilities may be acquired in a short period of time by utilizing foreign resources and learning from partners and international distributors. But human resources are not easy to acquire in a short time and have the negative influence on the internationalization process of Chinese firms.

R&D capability. Technological innovation is a key to maintain a firm's competitiveness. In most Chinese firms, there has been a lack of technological competence. Chinese firms still remain highly dependent on foreign key components and technology. Chinese firms need to pay attention to this weakness and take measurements to address it such as increasing investment in R&D or establishing R&D centers both domestically and internationally. It is a quick way to obtain R&D capabilities by establishing a joint venture with foreign partner or M&A foreign high-technology firms. Chinese firms should set up research and development centers in lead countries such as the Japan, USA, and Germany. The establishment of such centers is strategically intended to develop, acquire, and transfer technology. The R&D in developed countries will help the head office develop new product or technology that meets the needs and wants of consumers.

International brand awareness and image. Compared to Western multinationals, Chinese firms are disadvantaged in international brand awareness and image, particularly in developed countries. Consumers of developed countries are familiar with international famous brand, but few of them have heard of Chinese brand and their products. China, as a developing country, is associated with the impression of low price and low quality product. Therefore, it is difficult to change the perception of consumers in Western countries in a short period of time. Chinese firms must go overseas and develop their design, manufacturing, and marketing networks internationally, particularly in the developed countries, to build up Chinese firms' international reputation of brand. Chinese firms should focus on the marketing of one product. Once this product becomes successful, other products will be followed benefiting from the established brand name.

A lack of experience in international business. Many Chinese firms have begun to enter international market at their very beginning stage. Without any prior international experience, it often has to make progress on a trial and error basis and has paid high cost to learn how to operate internationally. It is urgent for Chinese firms to learn the internationalization experience from developed countries and find people with expertise and experience to lead their internationally expansion. With more failures or more lessons learned in their internationalization process, Chinese firms still have a long way to go before they are succeed in the future.

Culture problem. It has been aware that it is necessary to integrate its own corporate culture with local practices and develop a corporate culture that is completely acceptable to local employees and customers. There is a big difference between the eastern and western culture (Hofstede, 2001). How Chinese firms can overcome the liabilities of foreignness caused by cultural distance will be a paramount challenge for internationalization of Chinese firms. It is argued that Chinese firms are easier to expand into some emerging economies with similar culture than developed countries with a total different culture.

Internationalization strategy of Chinese firms. More and more Chinese firms are expanding their business into not only developed economies but also other emerging economies (Deng, 2004). But Chinese firms' strategy for internationalization is still at a very beginning stage (Ping, 2007). There have been a number of key components and successful perspectives in their strategy: This strategy is similar to Chairman Mao's strategy in Chinese revolution which is to occupy vast rural areas before gaining the control of cities. This strategy is to enter and occupy the market in developing countries before entering and occupying the market in developed countries. First, Chinese firms can set up whole owned subsidiaries to enter the developing countries with similar domestic situation to gain the hold in international market. After they have a strong hold in developing countries, they can gain the resource and profit from vast market in developing countries. Then, they can enter developed countries to gain R&D capability, brand name, and distribution system by joint venture or M&A. This will help them to share a fair market share in developed countries. The experience from developed countries will help Chinese firms have a better development in domestic market and developing countries.

General entry strategy. Firms coming from emerging economies are generally at a disadvantage position in internationalization compare to firms coming from developed economies. To improve their competitiveness, firms from emerging economies are more likely to enter developed economies to acquire new resources and capabilities based on the experience from other eastern Asian countries such as Japan, South Korea (Hoskisson et al., 2000). This internationalization process will help emerging economy businesses to improve their development potential and long term performance, if these firms can succeed in the developed economies (Cho et al., 1998). But these benefits only can be achieved when the firms from the emerging economies succeed in the developed economies, there are lots of examples showing that Chinese firms have failed in their internationalization to the developed economies (Diego, Enrique, & Laura, 2007).

It is argued that firms from emerging economies may easily adapt to their operation in emerging economies because emerging economies have the similar market condition and institutional development as in the home country. On the other hand, firms from emerging economies may find it difficult to operate in developed economies because of the total different market and institutional condition. In developed economies, the difference of market, political, legal and institutional development will be the big challenges. Firms from emerging economies may be difficult to meet the strict corporate governance requirements for transparency, ownership, and board functioning in developed economies, not to mention the competition. So firms succeeding in emerging economies will not likely to succeed in developed economies. Hu (1995) argued that firms coming from emerging economies may have competitive disadvantages in entering developed economies but may have competitive advantages in entering other emerging economies whose country environments are with underdeveloped institutions and other economic resources.

When considering the latecomer's advantages and disadvantages of Chinese firms, they should choose to first enter emerging markets which have similar institutional and market situation to Chinese domestic market. Lee and Beamish (1995) suggested that Korean firms face a lower knowledge gap in emerging economies, because these economies present economic and institutional contexts similar to their home country context. Pananond and Zeithaml (1998) showed that a Thailand multi-national business group—Charoen Pokphand Group (CP Group) successfully exploits its resources and capabilities in other emerging economies. This example indicated that firms from emerging economies may have competitive advantages over global competitors to enter other emerging economies. Using the comprehensive framework of internationalization to analyze the different factors which will affect the internationalization process of Chinese firms, the following proposition can be found:

Proposition 1A: Chinese firms are more likely to choose to enter the developing countries than developed countries.

Because Chinese firms have comparative advantages to enter emerging economies than to enter developed economies, they are more likely to survive in emerging economies. This will help to predict that Chinese firms' entry into emerging economies will be easier to succeed and outperformance their counterparts which enter the developed economies. So the following proposition can be found:

Proposition 1B: Chinese firms, that entry market in developing countries, will be more likely to succeed than developed countries.

Chinese government plays a very important role in influencing the internationalization of Chinese firms. Government not only uses industry policy but also provides fund to influence Chinese firms to enter certain strategic industry such as raw material and energy. The presence of state is particularly significant for Chinese firms in their internationalization process. There are evidences that government steered the growth of the national economy and direction of industry policy in many late development countries (Dore, 1990). The significance for internationalization of the relationship between government and business entrepreneurs is particularly pronounced in China. So the following proposition can be found:

Proposition 1C: Chinese firms are more likely to choose to enter the countries with strategic assets that will gain the policy support from Chinese government.

Chinese firms' initial stage of internationalization also focused on developing countries (Southeast Asia, Africa, and South America) to build volume and acquire international experience. It can be the first important step towards internationalization. This was followed by a few more investment projects in developing countries before it moved to the one developed country such as Japan or Korea afterward. Once Chinese firms have a strong foothold in difficult markets such as Japan or Korea and created the reputation of its brands, they can then expand from a strategically advantageous position into other developed economies. The final step is that Chinese firms will enter other developed countries in Europe and America after Chinese firms develop a market position and gained market share with accumulated marketing experience and brand reputation in Japan or Korea.

Based on the comprehensive framework and the discussion of characteristics of Chinese firms, Chinese firms' international expansion in terms of the sequence strategy concerning the different routes and enter modes has followed several steps as shown in Figure 2.

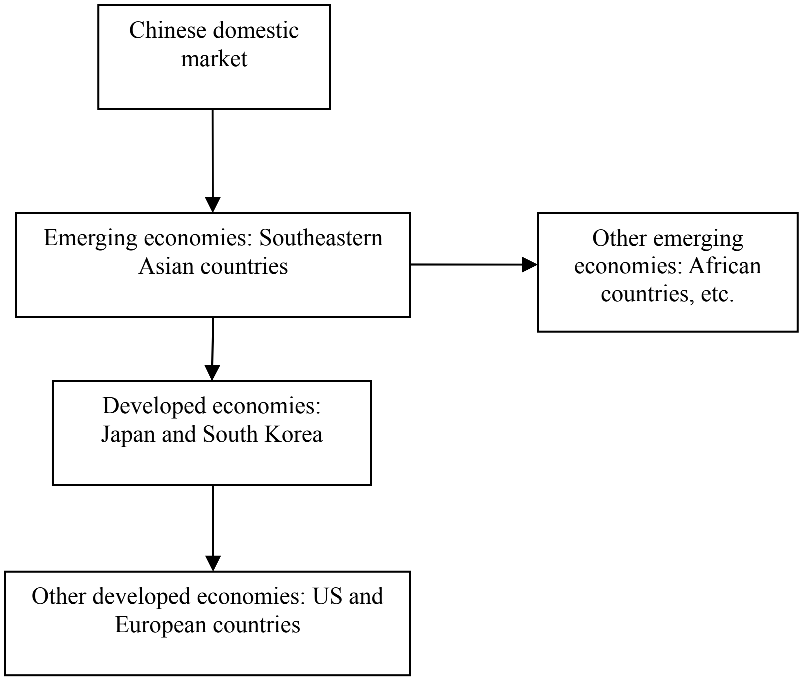

Figure 2. Chinese firms' international expansion path.

Internationalization strategy on entering developing countries. When Chinese firms choose to enter the emerging economies, they will be likely to choose the countries with less psychical distance (Dore, 1990; Hofstede, 2001). Southeastern Asian countries are similar in the culture and close in geography. Also there exists strong oversea Chinese network which will provide support for the operation of Chinese firms. So the following proposition can be found:

Proposition 2A: Chinese firms are more likely to enter Southeastern Asian countries than African countries or South American countries.

Chinese firms will prefer to choose to set up whole owned subsidiary instead of joint venture to gain the strong control of local operation. Because of the similarities of market, culture, political, legal conditions, it is not high risk for Chinese firm to do business in emerging economies, so Chinese firms will commit more resource to make sure they can succeed in a short time. So the following proposition can be found:

Proposition 2B: Chinese firms are more likely to choose whole owned subsidiary than joint venture when Chinese firms enter market in developing countries.

Once Chinese firms choose to establish whole owned subsidiary to enter the emerging economies, they will be more likely to outperformance their counterparts which use joint venture, because these firms will have a strong control and large resource commitment. So the following proposition can be found:

Proposition 2C: Chinese firms which choose whole owned subsidiary will outperformance those which choose joint venture when entering market in emerging economies.

Internationalization strategy to enter developed countries. When Chinese firms choose to enter the developed economies, they face high risk of failure possibility, because they will compete with the well established multinational companies in developed economies. So Chinese firms will be likely to choose the export instead of FDI to reduce the risk and seek the cooperation with the companies in developed economies. So the following proposition can be found:

Proposition 3A: Chinese manufacturing firms are more likely to adopt an export market entry mode than FDI to entry market in developed economies.

One very important reason why Chinese firms choose to enter the developed economies is to gain R&D capability. Chinese firms will be likely to set up joint venture with small high-tech companies in developed countries. On one hand, Chinese firms can provide fund and market access to help small high-tech companies in developed economies to enter China domestic market; on the other hand, Chinese firms can improve their R&D capability. So the following proposition can be found:

Proposition 3B: Chinese firms are more likely to choose joint venture than whole owned subsidiary when trying to acquire R&D capability to enter developed economies.

The other disadvantage is Chinese firms' lack of brand image and distribution channel in developed economies. The fast lane to achieve marketing, productivity and technological competitive advantage is to acquire other company assets overseas. Chinese firms will be likely to merge or acquire the local companies with brand name or distribution channel to sell their product in local market as another enter mode in developed countries. Chinese firms can buy the famous brand name or whole distribution system to promote their operation in developed economies. So the following proposition can be found:

Proposition 3C: Chinese firms are more likely to choose M&A than joint venture when trying to gain brand name or distribution system to enter developed countries.

When Chinese firms choose to enter the developed economies, they will choose the different tactic as they enter the emerging economies. They will seek to cooperate with the small player in local market and avoid the competition with the market leader. Chinese firms will face a very tough competition in developed economies, because they are in a disadvantage position compared to their local counterpart companies. In order to survive in the developed economies, they should work with local companies to gain a fair share of market. So the following proposition can be found:

Proposition 3D: Chinese firms should ally with second-tiered players and avoid head-on competition with local market leaders when trying to enter market in developed economies.

Discussions

The comprehensive framework in this paper is the integration of several different internationalization theories or framework. This framework includes six different factors such as country specific factors, firm specific factors, cultural specific factors, market-based factors, and global competition firm's bargaining power. The authors use this framework to help the formulating of the internationalization strategy of Chinese companies. A successful internationalization strategy can have a positive impact on firm's performance.

The main purpose of this paper is to propose the path and mode for the internationalization strategy of Chinese firms. The paper discusses not only which market to enter but also how to choose the enter mode to grow firms once entry has happened.

The paper extended the theory with the latecomer's perspective from Chinese firms. By discussing the role of government, institutions development, market condition, and the Chinese firms' capabilities, it presented some propositions about the catch-up internationalization strategy for Chinese firms. The internationalizing process of Chinese firms is interesting not only for its potential to extend current theories or frameworks, but also for its policy implications to other emerging economies.

There are several concerns needed to address when doing research on the internationalization of Chinese firms. One is the lack of theory or framework to explain the motivation and implementation of the internationalization process of firms from emerging markets, particularly Chinese firms. There are several theories all based on the experience from the developed economies. So how to make theories extend to consider unique characteristics of Chinese firms in their internationalization is an urgent topic.

The second concern is how to understand the different factors which interact to influence the internationalization process of Chinese firms. As a latecomer, Chinese firms have both latecomer's advantages and disadvantages. Taking government support as an example, the strong and stable support from government to most state-owned companies to expand internationally is the most unique and different characteristic when compared with firms in other emerging economies.

The third concern is problems regarding the access to reliable archival data and the conduct of questionnaire surveys in emerging economies as compared to developed economies. The problems of empirical methods used in emerging economies are well-known (Hoskisson et al., 2000; Peng, 2000). The cross-sectional data will change by the dynamic nature of emerging economies. How to overcome these problems to conduct reliable and archival based longitudinal research is a big challenge. A good solution will be to use archival in conjunction with other data sources(Child & Tse, 2001).

Conclusions

There is relatively little research on the internationalization of emerging economy firms either into other emerging economies or into developed economies. As emerging economies develop and firms within them develop their expertise, firms from these economies will increasingly take an active role outside the home market. Taking China as an example, there is a growing need for researches to focus on the internationalization of Chinese firms.

While the number of researches on strategy in the internationalization strategy about firms from emerging economies have grown, the coverage of countries such as China is still absent (Hoskisson et al., 2000). Given the importance attached to China economy, more researches on the internationalization process of Chinese firms are necessary and will be welcomed.

Further research might usefully examine how Chinese firms from different industrial sectors have different internationalization strategy. There should be distinction between manufacturing and service sectors in terms of their influence on crucial stage of internationalization strategy such as foreign market entry (K. Brouthers & L. E. Brouthers, 2003).

In summary, internationalization strategy research in emerging economies particular about Chinese firms will push the strategic thinking to the new frontier with a focus on emerging economies. This is an opportunity to challenge conventional wisdom in academic thinking and real business practices. To consider advantages and disadvantages from the latecomer's perspective, it will not only be useful for testing existing theories but also for developing new theories. This endeavor will greatly enrich and improve the understanding of internationalization process of firms from both emerging economies and developed economies.

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