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China's External Insertion in the Light of International Trade Theories

Higor de Freitas
University of Campinas, Campinas, Brazil

China's commercial and productive insertion is one of the events that has attracted the most attention in the international economy since the beginning of the 21st century, whether due to its growing participation in international trade flows or the mergers and acquisitions that its companies have carried out around the world. One of the differences in Chinese insertion is concentrated in the number of public companies that operate abroad, with a lack of theories that are capable of responding in depth to their determinants. In this sense, this article aims to analyze China's external insertion in the light of international trade theories, identifying to what extent the eclectic paradigm, the Uppsala school, and the Linkage-Leverage-Learning (LLL) model can contribute to the understanding of firms operating abroad. The study concludes that factors linked to the aforementioned theories are important for understanding company dynamics, but are not capable of providing a holistic understanding of Chinese internationalization.

Keywords: Chinese economy, external insert, international trade theories

Introduction

From the second half of the 20th century onwards, multinational companies from developed countries began to expand their productive capacity in an unprecedented way in the history of capitalism, arousing the interest of several scholars who sought to understand the impulses of firms operating abroad (Dunning, 1957; Vernon, 1966; Johanson & Vahlne, 1977). The literature on productive internationalization is robust and deals with several aspects that encourage firms to seek foreign markets, with the first theories emerging after the end of the Second World War, a moment in which foreign direct investment (FDI) flows were carried out by multinational companies (MNCs) has emerged around the world. On the other hand, the literature that deals with the internationalization of MNCs in developing countries is practically non-existent, lacking theories and general studies on the topic.

One of the main theoretical limitations consists of the excessive emphasis placed on the internationalization of companies via FDI, overshadowing other ways of reaching the foreign market. Developing countries are characterized by a low volume of capital, so that by emphasizing FDI to the detriment of commercialization and licensing, theories end up excluding MNEs originating from undeveloped economies. A second difficulty with current theories arises from the lack of debate between the distinction between private and public companies that internationalize. For countries such as China and India, there is a significant number of public companies that

Higor de Freitas, Ph.D. student, Institute of Economics, University of Campinas, Campinas, Brazil.
Correspondence concerning this article should be addressed to Higor de Freitas, University of Campinas, Pitágoras street, 353-University City, Campinas-São Paulo, Brazil.

have become increasingly internationalized, so that their objectives and ways of entering the foreign market do not seem to be motivated by the same mechanisms as private MNEs originating in developed countries.

In view of the above, the article aims to review the main theories of productive internationalization, as well as identify whether the rapid expansion process of Chinese companies can be explained by conventional internationalization mechanisms. In total, three theories were selected: (i) eclectic paradigm, (ii) productive internationalization of Uppsala, and (iii) model Linkage-Leverage-Learning (LLL). The first theory proposes to provide a holistic structure on firms' decision to produce abroad, which can be influenced by three key factors: ownership, location, and advantages of internalizing. The Uppsala model is based on the theory of psychic distance by maintaining that differences linked to culture, political system, language, and commercial practices result in a process of gradual internationalization between two countries. The LLL theory is dedicated to understanding how latecomers from Asia-Pacific enter the global business system and manage to successfully establish themselves in the market in the face of strong competition from multinationals from developed countries, being the only widely known theory that leads taking into account MNEs from developing countries.

In conjunction with the aforementioned theories, the article discusses the reforms and global insertion promoted by China before the turn of the century so that its companies operate abroad. So, despite the importance of each theory, they are not capable of providing a complete understanding of China's MNCs. This is because the country has undergone numerous modern reforms: (i) organization and development strategy (1978-1984), (ii) privatizations and greater autonomy for private initiatives (1984-1993), (iii) formation of national champions and continuity of privatizations (1993-2005), and (iv) reduction in privatizations from 2005 onwards (Hempill & White III, 2013). Furthermore, it highlighted how the macroeconomic and microeconomic environment were favorable to Chinese internationalization.

To fulfill the elucidated objectives, the article is divided into three sections, in addition to this introduction. The second section presents and discusses the aforementioned internationalization theories. The third section analyzes the reforms carried out by China that allowed the formation of national champions and their external insertion. Finally, final considerations are presented.

Theories of International Trade

Eclectic Paradigm of International Production

The Eclectic Paradigm of International Production, or as it is popularly known OLI (Ownership, Location, Internalize), aims to offer a holistic framework capable of identifying and evaluating the importance of factors that influence both the initial act of foreign production by companies and the growth of that production (Dunning, 1988, p. 1). The theory was first presented at the Stockholm Nobel Symposium in 1977 by renowned economist John Dunning, through the article "Trade, Location of Economic Activity and the MNE", present in the 12th chapter of the book *The International Allocation of Economic Activity*. The event brought together important international trade researchers, highlighting the presence of economists Bela Balassa, Bertil Olhin, Harry Johnson, Lawrence Klein, Robert Solow, and Wassily Leontief.

Although the paradigm was only presented in 1977, two primary structures of the model were already ready at least two decades ago with the publication of Dunning (1957). His research showed that the US manufacturing industry, on average, was at least two to five times more productive than that of the United Kingdom. Second

Stal and Campanário (2011), the study began to investigate whether productive differences between countries were due to endogenous factors or resource allocation efficiency.

If the productive differences were related to the distribution of resources, American headquarters could transfer their skills to subsidiaries and these would leverage their productive capacity in relation to British firms. This was the first strategy identified by Dunning (1957), called "Property Specific". Conversely, if the headquarters decided to transfer its skills to the subsidiary and the subsidiary did not leverage its production capacity in relation to British companies, regional factors where the firms were located would predominate over transferable skills. This characteristic was called "Location Specific Component".

The thesis concludes that the subsidiaries in the United States were not as productive as the headquarters, but more efficient than the British companies. This discovery led the author to dedicate at least 20 years of his research to understand how factors other than property and location could explain American leadership. A new component that complemented the firms' strategies was presented to the academic community in 1977, called "Advantages of internalizing", establishing the tripod of the OLI model.

As highlighted, the first type of advantage for firms involves the ownership factor. The explanation of Dunning (1977) this component can be divided into three parts: (i) barriers to competition, (ii) comparative costs, and (iii) market structure in which the MNE is inserted. For the first, the article published by Heflebower (1957), which considered new hypotheses about the level of competition, was fundamental to Dunning's analysis, while the size of companies, degree of competition and better use of resources contribute to the explanation of ownership advantages. In summary, the size of firms tends to generate economies of scale (large companies), the shape of the cost curve can inhibit a typical firm from accessing certain types of raw materials, and management skills, properties of intangible assets and patents guarantee the firm greater technical efficiency. All the factors mentioned have the same impact on the market: reducing the degree of competition and intensifying the advantages of the challenging company.

The gains that a branch can have in relation to a local company where it is setting up also represent an important ownership advantage. The process occurs when the challenger takes advantage of the learning by doing from the headquarters, such as more advantageous inputs and access to new markets, so that the costs of subsidiaries become lower when compared to those of local companies. It is important to highlight that in conventional microeconomic theory, minimizing costs is equivalent to maximizing profits, so companies that are not minimizing their costs are expelled from the market in the long term.

The last type of advantage linked to ownership can be considered an extension of the other two presented, this being exclusive to the multinational. As a company that splits its production operates in different countries, any market conditions benefit it in relation to local companies. This is because, according Stal and Campanário (2011), the advantage of the ownership factor for MNE is linked to privileged access to some asset that offsets the costs related to the installation and maintenance of a factory abroad.

Regarding the location factor, Dunning (1977) argues that companies can only benefit if they are located in a specific region or country. To clarify, the author mentions the cutting-edge science and education in the United States under the country's technological leadership. This means that location in the eclectic paradigm involves resources that firms can only use where they are located, taking inevitable or non-transferable costs as given.

Over the years, several studies and interpretations, including by Dunning himself, have gained space in the literature on the advantages of location, with quality of infrastructure, product flow, subsidy policies, and

transportation costs frequently mentioned (Dunning, 1988; Mina, 2007; Assunção, Forte, & Teixeira, 2011). Some alternative interpretations that highlight the social aspects involving corruption, terrorism, and crimes in general argue that these surpass even the economic costs and benefits of MNEs (Sharmiladevi, 2017).

The last strategy present in the eclectic paradigm arises from the gains of internalizing[1] its production, going back to the work of Coase (1937) on transaction costs. From the Coasian perspective, positive transaction costs represent a profit opportunity for entrepreneurs to reduce these transaction costs, i.e., creating gains from trade through institutional innovation (Candela & Geloso, 2019, p. 331). The justification for Dunning (1977) for inclusion of the new component is due to the fact that the author recognizes that in his thesis he neglected one of the main factors of MNCs, in addition to not considering what the author called the "Economic Order". The theoretical basis of the gains from internalizing the productive structure was initially influenced by Coase (1937) and, later, by a group of renowned authors on the subject (Arrow, 1969; 1975; Williamson, 1971; 1975; Alchian & Demsetz, 1972; Mcmanus, 1972; Baumann, 1973; Gray, 1973; Buckley & Casson 1976; Magee, 1976).

> The thesis is that the international competitiveness of a country's products is attributable not only to the possession of superior resources of its enterprises but also to the desire and ability of these enterprises to internalise the advantages resulting from this possession; *and* that servicing a foreign market through foreign production confers unique benefits of this kind. Where, for example, enterprises choose to replace, or not to use, the mechanism of the market, but instead, allocate resources by their own control procedures, not only do they gain, but, depending on the reason for internalisation, others (notably their customers and suppliers prior to *vertical* integration, and their competitors prior to *horizontal* integration), may lose. Internalisation is thus a powerful motive for takeovers or mergers, and a valuable tool in the strategy of oligopolists. (Dunning, 1977, p. 402)

Dunning (1977) argued that the incentives for firms to internalize their production structure are related to the advantages of possible imperfections in the external allocation mechanisms and distributive orientation of public policy. For the first, imperfect markets can have structural and cognitive characteristics. By structural imperfections, we mean markets with barriers to competition and high transaction costs. Cognitive imperfections arise from imperfect information, in which the buyer or seller does not have access to all the information about the product or service being sold.

The advantages of the distributive orientation of public policies are also divided into two parts: (i) attraction incentives, and (ii) consent to licenses and patents. The first refers to the different types of policies that national governments adopt to attract MNE companies, causing distortions in the allocation of resources. The second involves the consent of licenses and patents for the exploration of resources, being one of the main factors that encourage firms to internationalize their production structure.

In summary, the main characteristics of the firms presented in the eclectic paradigm theory can be summarized in Table 1, so that the decision to internationalize their production structure is full of factors.

The different mechanisms listed in Table 1 were implemented gradually over the years by Dunning (1980; 1981; 1988; 1993), responding to the numerous criticisms that the model suffered from its peers. The authors, Ferreira et al. (2013), based on an empirical study, argue that there is no evidence that companies make decisions as in the paradigm. Furthermore, the model structure is not completely independent, so location advantages affect ownership advantages, and vice versa.

[1] Together with the advantages of ownership and location, internalization generates incentives for firms to internationalize their production. It is only with the combination of the three factors present in the OLI that companies expand their production capacity abroad.

Table 1

Main Gains From Internationalization in the OLI Theory

Property (O)	Location (L)	Internalize (I)
Access to markets, products and factors	Transport, communication, and infrastructure costs	Internationalization of positive externalities
Fusions and acquisitions	Price of inputs	Property right
Product differentiation	Linguistic and cultural differences	Reduction of transaction costs
Specific allocations	Financial resources	Reduction of foreign exchange costs
Risk diversification	Market potential	Commercial agreements
Use of matrix resources	Import quotas and tariffs	Absence of customs fees
Economy of scale and scope	Quality of inputs	Reducing uncertainty
International experience	Country tax incentives	Strategic gains
Greater efficiency, coordination and leverage	Spatial distance of markets and inputs	Correction of market imperfections

Source: Prepared by the author based on information collected in Dunning (1996).

In a study that favors the "New division of labor" approach, Kojima (1978; 1982) harshly criticizes the approach to international business. The author argues that by following a line that is based on both the advantages of ownership and location, paradigm theory has become systemic. In short, Kojima (1982) lists four fundamental criticisms: (i) The recommendation to carry out FDI by MNEs as long as they have any type of advantage present in the OLI is elucidated in a vague way, (ii) hasty conclusion that the internationalization of firms is equivalent to monopolization of the market, neglecting the type of company and sector, (iii) the benefits of internationalization are restricted only to large companies that maximize their profit on a global scale, being detrimental to the economy of the receiving country, and (iv) the theory of internationalization is developed to increase the interest of private companies and not to deal with the macroeconomic effects of FDI.

The answer to the main criticisms of the model was presented clearly from Dunning (2001), in which the author sought to analyze the possible advances that the model has undergone since its official publication in 1957. One of the main criticisms involves the numerous variables in the OLI components, so that the impact of each explanatory variable has been negligible. For this type of criticism, Dunning argues that his model was based on economic theory, consulting renowned economists from the Coasian, Williamsonian. and Penrosian sectors. Second, the paradigm was not intended to explain all types of international production, but rather to provide the basis for explaining foreign value-added activities (Dunning, 2001, p. 177).

Other criticisms regarding the paradigm arise from the static approach and the lack of firm strategies over the years. This criticism was responded to with the publication of the book *The Globalization of Business* by Dunning (1993), in which the author recognized that this limitation arises from the theory of MNE internationalization itself. Still according Dunning (2001), the internationalization process is defined based on continuous interactions over time, influencing the trajectory of the OLI at a later time. In mathematical terms, the configuration of factors (WAS) at the present moment is a function (f) lags behind the configuration by one period (WAS_{t-1}) and past strategies (S_{t-n}) of the MNE and any variation of strategic change in the previous period (ΔS_{t-1}).

$$WAS_t = f(WAS_{t-1}S_{t-n}\Delta S_{t-1} \rightarrow_t) \quad (1)$$

Holding everything else constant, the OLI configuration for the subsequent year would be:

$$WAS_{t+1} = f(WAS_t S_{t-n} \Delta S_t \rightarrow_{t+1}) \quad (2)$$

Regarding criticisms of the macroeconomic effects of FDI on recipient and host countries, Dunning (1988; 1993) describes two possible benefits that recipient countries could experience. The first arises from the organizational mechanism of MNEs, in which products that are considered expensive or unavailable internally start to be acquired based on their presence. Secondly, the author argues that existing resources are allocated efficiently by MNEs as they have a greater level of experience in the market when compared to local companies. The only caveat in relation to FDI involves the adoption of caution by receiving countries, since the high operational power that foreign firms tend to have can concentrate the market.

With the aim of adapting the theory of the eclectic paradigm to the new changes caused by alliance capitalism or networks—which portrays the organization of production and transactions involving both cooperation and competition between the main agents (Dunning, 1995, p. 466), the OLI model underwent three reformulations that needed to be revised: (i) insufficient concepts of competitive or specific advantage (O); (ii) greater importance for territorial insertion, spatial integration, and the role of national and regional authorities in the location advantage (L); (iii) contemplate and expand the reduction in transaction costs for companies to internationalize (I). Table 2 describes the main changes present in the ownership factor, incorporating the advantages of vertical, horizontal, and networks.

Table 2

Reformulations of the Property Factor (O) in Alliance Capitalism

Advantages related to hierarchy	Advantages related to networks
Property rights or intangible assets	Vertical alliances
Innovative products, production management, organizational and management systems marketing, innovative capacity, non-codifiable knowledge: human capital experience bank, marketing, finances, skills, etc. B. Advantages of common governance (i) Those that subsidiaries of established companies can enjoy: product diversity; learning experience (economies of scope); specialization; exclusive and privileged access to inputs, labor, natural resources, finances, information; ability to obtain inputs due to monopsonistic influence; access to matrix resources at marginal cost. (ii) Factors linked to multinationality: privileged access or knowledge of international markets; ability to take advantage of geographic differences in factor endowment, skills and diversity or reduce risks in monetary, political and cultural areas; ability to learn from social differences in organizational and managerial processes and systems.	(i) Retroactive access to R&D facilities, design engineering and supplier training. Regular contributions on problem solving and product innovations. (ii) Direct access to industrial customers, new markets, production techniques, marketing and distribution channels. Advising clients on design and product performance. B. Horizontal alliances Access to complementary technologies and innovative capacity; access to additional resources to capture the benefits of technology fusion; encapsulation of learning and development. C. Networks (i) Reduction in transaction and coordination costs resulting from better dissemination and information; knowledge about processes and product and market developments; inputs for innovative developments and exploration of new markets. (ii) More spatial agglomeration economies; access to clusters of specialized intermediate inputs and connections via knowledge.

Source: Adapted from Dunning (1995).

The new changes to the location factor now place more emphasis on: geographic areas for territorial insertion, favorable conditions in which competitive alliances between firms can arise and be strengthened, role of government authorities at regional and national levels, territorial influence and spatial integration. Table 3 systematizes the main transformations in the location factor.

Table 3

Reformulations of the Location Factor (L) in Alliance Capitalism

Advantages related to hierarchy	Advantages related to networks
(i) Spatial distribution of endowments and markets for natural and created resources. (ii) Price of inputs, quality and productivity, for example, work, energy, materials, components, semi-finished products. (iii) International transport and communication costs. (iv) Artificial barriers to trade in goods, for example, import controls. (v) Social and infrastructure provisions (commercial, legal, educational, transport, and communication). (vi) Linguistic, cultural, commercial, political differences, etc. (vii) Economies of centralization and commercialization of R&D.	(i) Portfolio of complementary assets organized within a framework of alliances and networks produces a stimulating and productive industrial environment. (ii) Extent and type of commercial districts, industrial or scientific parks. (iii) Networks can also help reduce information asymmetries and the likelihood of opportunism in imperfect markets. They can also create local institutional thickness, smart regions and social insertion.

Source: Adapted from Dunning (1995).

The assumption that companies internalize intermediary markets to reduce transaction costs and coordinate markets also needed to be modified in the paradigm theory. Table 4 highlights how the factor encompasses firms' external alliances, rather than relationships formed by hierarchies.

Table 4

Reformulations of the Internalization Factor (I) in Alliance Capitalism

Advantages related to hierarchy	Advantages related to networks
(i) Avoid moral hazard costs, information asymmetry and adverse selection, to protect the reputation of the internationalized company. (ii) Avoid costs of broken contracts and resulting litigation. (iii) Protection of the quality of intermediate or final products (when the market does not allow price discrimination). (iv) Capture savings from interdependent activities. (v) Compensation for the absence of futures markets.	(i) The increasing structural integration of the world economy is requiring companies to go beyond their immediate boundaries to capture the complex realities of trade and knowledge exchange about innovation, particularly where intangible assets are tacit and need to quickly adapt to competitive improvement strategies and structural change. (ii) Alliances or advantages related to networks are those that provide a strategy rather than a way out of market failures.

Source: Adapted from Dunning (1995).

Despite the limitations of the OLI model presented, its theoretical basis continues to be extremely important in explaining the decision of firms to internationalize their production structure over time. In its simple and didactic form, the paradigm managed to question an entire generation of researchers who sought to understand the reasons that influence MNEs to produce abroad. The next theories presented arise as a response to the limitations of the eclectic paradigm, which, according to its critics, did not clearly answer how the numerous variables in the model explain the behavior of MNCs.

Uppsala Gradual Internationalization Theory

The Uppsala internationalization theory, also known as the gradational theory or Uppsala school[2], was developed based on empirical observation of four Swedish companies that sought to conquer new markets abroad. The original model was developed by Johanson and Vahlne (1977), observing that the companies in the study opted for a gradual process of internationalization, which is a characteristic that is not exclusive to Swedish MNEs.

[2] The name refers to Uppsala University, also known as Uppsala, located in the city of Uppsala, Sweden. The school gained great relevance in international business studies during the 1970s, among its main works the following stand out (Hörnell & Vahlne; Wiedersheim-Paul, 1973; Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977).

The model is made up of successive behavioral steps by decision makers, gradually increasing involvement with the foreign market, which, in turn, influences the pattern of internationalization (Johnson & Vahlne, 1977). The hypothesis developed by the authors is based on the concept of psychic distance: Differences in languages, culture, habits, education, and management create obstacles to the accelerated internationalization of firms. The decision to produce in a foreign country is presented broadly and can be explained by the following aspects: (i) knowledge market, (ii) resource decisions, (iii) market commitment, and (iv) business activities.

Figure 1 demonstrates the basic internationalization mechanism based on the division between state and aspects of change. The first involves knowledge acquired through experiences carried out by firms and market commitment: quantity and degree of resources committed. Change aspects are related to business activities and decisions about resources: conditioning factors and how decisions are made.

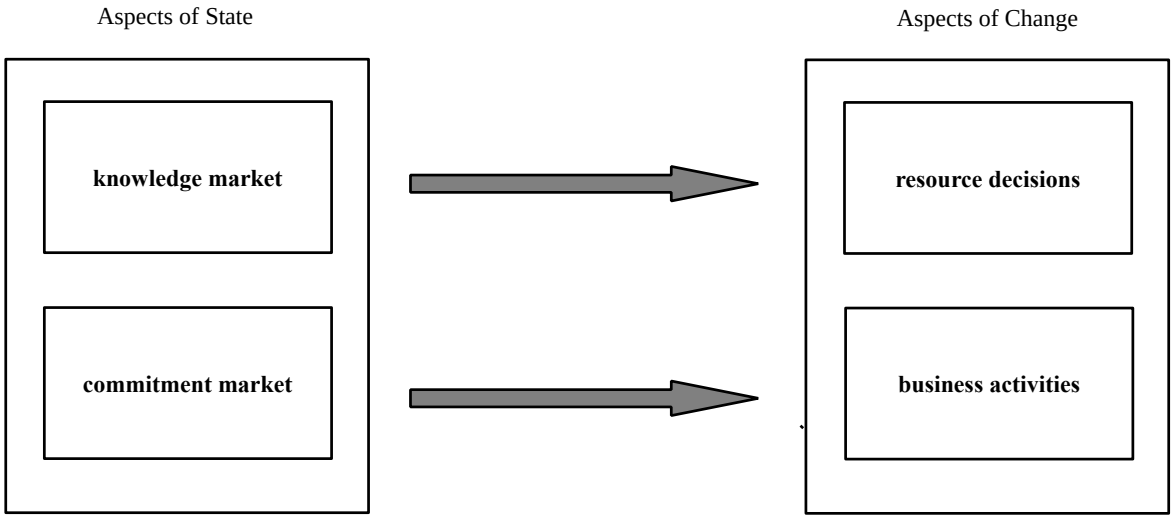

Figure 1. State mechanisms and aspects of change.
Source: Prepared by the author from Johanson and Vahlne (1977).

The knowledge market contributes to the explanation of the gradual internationalization of firms, by enabling an in-depth understanding of the market environment and performance of activities. Because there is a set of explanations that address how knowledge can modify the structure of companies, the authors focused on the interpretation of Penrose (1959) about experiential knowledge[3]. This type of knowledge cannot be transferred between agents in the economy. This implies that the company needs to build routines and experiences for network development in the early stages of a specific new international business expansion (Blomstermo, Eriksson, Lindstrand, & Sharma, 2004, p. 356). The authors Johanson and Vahlne (1977) believe that experiential knowledge becomes increasingly important as the activities carried out by firms become less structured and well defined.

In relation to market commitments, this can be divided into two factors: (i) amount of resources committed and (ii) degree of commitment. For the first, it is possible to identify it by the difficulty of finding an alternative use of resources and carrying out the transfer, so that concentration in a certain niche can be considered a

[3] Experiential knowledge for Johanson and Vahlne (1977) is essential for firms to internationalize, and can be acquired through hiring actors who have experience in the international market.

commitment to the market via quantity. In a different way, the degree of commitment refers to the interconnection of resources. This is because the more resources are integrated with other parts of the company, the greater their degree of commitment tends to be. The authors Johanson and Vahlne (1977) argue that the more differentiated the product, the greater the commitment to the market, given that investments in marketing, for example, represent an increasingly important commitment for firms as they involve sunk costs.

The analysis of resource decisions can also be divided into two parts: (i) which factors are conditioning factors for firms' decision-making and (ii) how decisions are executed. Among the factors that condition decision-making to increase the production scale, maximum risk is considered (r_i^*) and the existing market risk situation (r_i), so that decisions are made when $r_i^* > r_i$. In this way, the firm incrementally expands its production to the point where the rates are equal. Decisions are made according to market opportunities and perception of problems, being considered dependent on knowledge via experience. Just like the problems of sending resources abroad, opportunities are also usually identified by the core of the company that operates in the foreign market. It is worth noting that uncertainty about the market and explicit incremental risk increase the discrepancy between the two rates.

Finally, the companies' business activities are the main source of experience, which can be acquired by hiring labor with specific knowledge or through the qualification of its staff. In this sense, the Uppsala model has been used in the most diverse empirical works that seek to analyze the internationalization process of firms, with a vast literature that validates its assumptions.

In a study carried out with 165 Danish companies that produce abroad, the authors T. Pedersen and B. Petersen (1998) confirm that the firm's pace of commitment is determined by its internal accumulation of knowledge of the external market. Using an organizational learning structure, the authors Barkema, Bell, and Pennings (1996) analyzed 13 Dutch companies, concluding that cultural barriers characterize an organization's learning. Furthermore, the results show that FDI inflow is influenced by the cultural distance between countries, requiring the company to engage in "two-tier acculturation", i.e., joint ventures and acquisitions.

Several authors seek to empirically identify the gradual learning of firms (Sullivan & Bauerschmidt, 1990; Millington & Bayliss, 1990; Erramilli & Rao, 1990); however, there is still little literature that analyzes the assumptions theoretically. The main source focuses on Forsgren (2002), which proposes analyzing the type of knowledge used in the gradual theory, that is, experiential knowledge, arguing that by focusing on a single type of knowledge the model becomes restricted and makes it difficult to predict the internationalization process.

Model Linkage-Leverage-Learning (LLL)

First introduced by Mathews (2006), the model Linkage-Leverage-Learning (LLL) aims to answer how latecomers or challengers from Asia-Pacific, as mentioned by the author, manage to successfully establish themselves in the global business system in the face of strong competition from MNEs in the 21st century. The conclusion of the study suggests that dragon multinationals (as the author calls the companies in the study) adopt a different perspective on the resources accessed through internationalization and that this requires a reassessment of the criteria normally used in resource-based strategy accounts (Mathews, 2006, p. 5).

> The key to LLL is that it provides a strategic framework that is focused on accelerated internationalization—creating a light, flexible lattice structure (another L) rather than a solid resource-heavy structure as in the traditional OLI model—in a way that draws on the interlinked character of the global economy. (Mathews, 2017, p. 771)

The LLL model offers support for understanding the internationalization of challenging companies, with the search for strategic assets being the main factor highlighted by the study. According to Mathews (2006), the international expansion of companies is driven by three factors: (i) connection, (ii) learning, and (iii) leverage. For the first, international expansion is linked to the resources that firms can obtain abroad, which is the most effective way to capture resources and establish alliances with MNEs. Second Si, Liefner, and Wang (2013), the difference between the internationalization of dragon multinationals in relation to companies from other regions is that the former does not have a specific ownership advantage in technological and managerial resources, so they seek the foreign market through partnerships with already established MNEs in search of new factors.

In a study on internationalization and catching up technology of emerging multinationals, Duysters, Jacob, Lemmens, and Yu (2009) compare the Chinese company Haier and the Indian Tata. For the Chinese company, its first access to the West was through investment joint ventures, forming alliances in the former Yugoslavia with a local company. Haier's success, according to the authors, is due to monitoring the manufacture of products that meet local interests, for example, the manufacture of a vegetable washing machine in China and the development of devices that consume little energy in Indonesia, due to energy difficulties that the country faces. In a similar way, the Indian company Tata also preferred to use joint ventures to internationalize its activities. This type of investment has the advantage that partner companies are generally leaders in their sectors, so the buyer inherits their strategic assets (Duysters et al., 2009).

The second factor that drives the accelerated internationalization of dragon companies focuses on learning, occurring through links and leverage with multinationals established in a given market or sector. The model predicts that internationalization through learning generates greater productivity and knowledge-led profit gains (Lu, Ma, Taksa, & Wang, 2017). The study by Mathews (2006) was based on the concept of learning defined by Lall (2003), in which the author suggested that the knowledge of multinationals in Japan, South Korea, and Taiwan were autonomous[4], that is, the practices and skills acquired were collected externally from Western multinationals, which were seen as commercial competitors rather than partners. In this regard, P. K. Ray, S. Ray, and Kumar (2017) argue that the first step towards rapid internationalization involves prior investment in techniques and skills that result in autonomous learning.

The discoveries made by Thite (2016) to explain the performance of three latecomer firms (LFs) in China suggest that learning fluctuates as a spiral progression, with cycles arising from variations in organizational learning. In short, learning is efficient in the initial phase, ineffective at a later point and becomes effective again. The explanation for this pattern can be found in the works of Gersick (1991) and Barnett and Burgelman (1996), which suggest that learning does not occur in a linear way towards balance. Also according to Li (2007), the spiral pattern can be divided between internal factors—ownership disadvantage, entry mode, and complacency, or external factors, such as global opportunities, state policy, and market competition. The findings are consistent with both the structure of the internally focused OLI model and the externally focused LLL model.

For the last factor driving LFs, the model considers how dragon companies maintain their links with partners so that resources can be leveraged. The concern focuses on the accessibility of finding and exploiting a given resource, whether through imitation, transfer, or substitution. At this point, the LLL theory diverges from the resource-based view (RBV), which considers infinite combinations of techniques and, consequently, has multiple

[4] Unlike experiential knowledge, which is obtained only with the support of agents who know the international market, the autonomous knowledge developed by the listed countries did not have the support of large MNCs. This type of knowledge is generated from the "trial and error" of firms.

strategies. According to himself Mathews (2002), the notion of leverage in their model is related to a vision of a transnational network economy or global connections of firms, diverging strictly from the OLI aspect which assumes that multinationals have superior ownership advantages when internationalizing.

Unlike the OLI and Uppsala models, the LLL theory provides greater explanations about the internationalization of companies originating in developing countries and how they integrate other emerging markets. In a case study carried out with Chinese companies that expanded to Latin America (LA), the authors Ovens from Fornes & Butt-Philip (2014) interviewed two SOEs, two private companies, two public companies (without visible state participation, listed in Hong Kong) and a Chamber of Commerce (ChC). Table 5 shows the details of the Chinese companies in the sample, with the requirement to be selected to have invested in LA before 2008 and have revenues of at least 5% of the region's total sales (around 5% of LA's weight in the economy worldwide) (Fornes & Butt-Philip, 2014, p. 498).

Table 5

Characteristics of Companies in the Sample

Company	Industry	SOE/Private	% of sales in AL	First investment in AL	Number of countries in LA	Origin of the subsidiary	Entry mode
CEO I	Logistics	WOULD	5	2005	n/a	China	JV
CEO II	Services	Private	6	2002	3	China	JV
CEO III	Cosmetics	Private	20	2005	8	Brazil	JV
CEO IV	Automotive	WOULD	5	2008	3	Argentina	JV
CEO V	Medicine	HK Listing	9	2002	6	China/AL Resident	JV
CEO VI	Communication	HK Listing	8	2002	14	China	JV

Source: Adapted from Fornes and Butt-Philip (2014).

The survey data reveal that all listed companies chose to enter the market through joint ventures, a form of investment that allows the company to explore the market and distribute risks. Regarding the incentives to invest in LA, the CEOs highlighted the potential of the Latin market, access to customers, adaptation of products to the local market, diversification of income sources, and infrastructure development.

The answers provided show that companies are following a path close to that theorized by Mathews (2006) in the LLL model, in particular rapid internationalization, looking abroad for growth opportunities driven by a local partner (instead of an impulse to explore domestic assets) and creating a network of interconnected companies (Fornes & Butt-Philip, 2014, p. 501).

Specialized literature has increasingly used the LLL model structure to construct specific case studies, finding increasing empirical evidence in the internationalization of dragon firms (Thite, Wilkinson, Budhwar, & Mathews, 2016; Kennel, Yin, & Akoorie, 2019; Srivastaval & Tapas, 2019). Segundo Srivastava and Tapas (2019) framework the LLL model offers a powerful, but not complete, theoretical perspective to explain the accelerated internationalization of MNEs from developing countries. It is in this sense that the next section seeks to emphasize characteristics and aspects of China, for which the theories presented previously still prove insufficient.

Chinese State-Owned Companies: Reforms and Global Insertion

One of the main characteristics of the Chinese economy focuses on the number and importance of its companies nationals, whether to internationalize their capital or to contribute to the country's development through the execution of investments foreseen in the Five-Year Plans. The state in China "plans, regulates,

stabilizes, invests, undertakes, provides and monitors" (Nogueira, 2021, p. 7). Furthermore, it manages to provide competition between private and public companies.

> No other major economy in the world exercises capital controls as intensely as China. No other major country besides China is home to so many state-owned enterprises. No other economy maintains a mostly state-owned financial system, with enormous centrality for its three development banks. No other large country attaches so much importance to five-year plans and various other sectoral development plans. No other economy in the world has grown as much in the last 40 years as China. (Nogueira, 2021, p. 7)

The data from *China Statistical Yearbook*, compiled by *National Bureau of Statistics* (NBS) in China, reveal that the number of domestic companies grew by around 135.44% between 2011/2012 and 2017. The main driver is due to the number of private companies that grew by around 157.22%, surpassing the rate of growth of domestic companies. Through Table 6, it is possible to identify that over the years' state, collective and cooperative companies have given more space to private companies.

Table 6

Number of Domestic and Foreign Companies in China

Company type	2011-2012	2014	2015	2016	2017
(a) Domestic	7,572,143	10,385,200	12,355,798	14,378,293	17,830,471
State	157,983	130,216	133,631	132,373	133,223
Collectives	185,467	147,251	144,856	141,442	155,641
Cooperatives	73,928	69,767	68,593	67,654	62,350
Joint	13,492	21,402	21,006	20,094	16,550
Limited	1,003,744	1,848,091	2,219,754	2,532,423	2,368,950
Open	133,826	145,986	158,864	174,881	151,259
Private	5,586,294	7,266,188	8,656,494	10,500,697	14,368,860
Others	417,409	756,299	952,600	808,729	573,638
(b) Hong Kong, Macau, Taiwan	109,308	112,076	115,168	117,764	130,214
(c) Foreigners	127,476	119,878	122,288	122,391	136,997
Total (a + b + c)	7,808,927	10,617,154	12,593,254	14,618,448	18,097,682

Source: Own elaboration based on data from the *National Bureau of Statistics* (2011; 2012; 2014; 2015; 2016; 2017).

Chinese state-owned companies have undergone several reforms over the years until they have become important "national champions". Second Hempill and White III (2013), the success of these companies is the result of the country's modern industrial policy, and can be divided into phases: (i) organization and development strategy (1978-1984), (ii) privatizations and greater autonomy for private initiative (1984-1993), (iii) formation of national champions and continuity of privatizations (1993-2005), and (iv) reduction of privatizations from 2005 onwards. The authors argue that the first stage began at the end of 1978 with Deng Xiaoping, when Chinese industry began its organization and development strategy, having its most evident and striking moment in 1989, when the state institutionally assumed the importance of industry in the country's growth (Masiero & Coelho, 2014, p. 144). This is also an important historical moment in China, becoming known as the period Boluan Fanzheng[5] (Bring Order Out of Chaos) by officially opening space for "Reform and Opening".

[5] The translation of the word means "eliminate chaos and return to normal", with the aim of correcting the mistakes of the past and uniting the Chinese people. For more information, see Barmé (1993).

> Conceived and implemented by Deng Xiaoping, Reform and Opening is a movement that aims to promote reform projects of the largest scale and repercussion in the history of humanity. The main objectives are to implement Chinese-type socialism; raise the population's standard of living and consumption; opening the economy to the outside world; modernization of China; and elimination of poverty and illiteracy. Thus transforming the country into an economic giant, developed and a world power. Its duration begins in 1978 and continues until 2050, slowly and gradually. (Silva, 2008, p. 71)

The period of organization for development (1978-1984) was orchestrated around the Chinese industrial sector, which until then was insignificant and predominantly concentrated in agricultural activities. The main reforms of the period involved the decollectivization of the agricultural sector, introduction of a system dual track for exchange rate and prices, and special economic zones (SEZs). The first, the objective was to reallocate agricultural labor in industrial sectors so that it could take the lead in the country's growth and development. Now the system dual track was introduced in 1981 as a way of providing incentives for firms operating in foreign markets. According to the performance of these national companies and corporations in foreign trade, measured by their profits, they were granted a differentiated exchange rate, formed by the official rate plus an "equalization price" (Kanamori & Zhao, 2006, p. 2, at Carvalho, 2013, p. 30).

In relation to SEZs, their main objective was to break the state's monopoly on trade and provide incentives to exporters (Lin & Wang, 2008). To this end, four SEZs were created in the cities of Shenzhen, Zhuhai, Xiamen, and Fujian, so that in 1984 these cities recorded average annual GDP growth rates above 10% nationally: Shenzhen grew at an average annual rate of 58 %, followed by Zhuhai (32%), Xiamen (13%), and Shantou (9%) (Zald ívar & Molina, 2018, p. 24).

Between the years 1984-1993, Deng Xiaoping initiated the second round of reforms that intensified the state's loss of control over private enterprise (Brandt & Rawski, 2008). Furthermore, the management system of state-owned companies was also reformed, granting business autonomy between 1984-1986, establishing a system of contractual responsibility between 1987-1992, and creating a corporatization process from 1993 that continues to the present day (Lin & Wang, 2008). According to Hempill and Withe III (2013), the Chinese government carried out privatizations of state-owned companies and developed a quality standard that electronic products should follow.

The privatization process continued to occur from the third phase onwards (1993-2005); however, large strategic companies were left out of the privatization process and putting an end to large state monopolies. Another important feature that occurred in the late 1990s was the policy of "national champions and independent core technologies", which eventually gave rise to "pillar" or "strategic" industries that remained "under the absolute control of the state or maintained under strong influence" (Poon, 2009, at Hempill & White III, 2013, p. 196). Among the strategic sectors, the government selected specific areas of industry to keep under its control, giving order of preference based on the defense and security sectors, job creation, technologies, and competitive advantages. Table 7 highlights the main branches of industry that were maintained by the Chinese Communist Party (CCP).

The last phase of reforms listed by Hempill and White III (2013) is due to the post-2005 period, with a weakening of the SOEs (state-owned enterprises) privatization process, despite the data in Table 6 demonstrating a reduction of 21.32% between the average from 2011/2012 to 2014. Other changes result from increased subsidies for creating brands and greater opportunities for national champions to expand their market niche. As these are continuous reforms, which occur frequently, Puty (2018) complements the timeline, arguing that from

2015 onwards, reforms have focused on three points: combating idle capacity, new classification of state-owned companies in State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and intensification of FDI. This movement aims to create around fifty industrial action groups focused on greater impact on the economy as a whole, including as an internationalization strategy (Puty, 2018, p. 45). The timeline of reforms mentioned by the author is illustrated by Figure 2.

Table 7

Pillars of Industries by Chinese Governmental Criteria

Defense and national security	Job creation	Technology and skills acquisition	Competitive advantage
Aerospace	Automobiles and parts	Biotechnology	Logistics, Transport, and Storage
Semiconductor Design and Manufacturing	Semiconductor Design and Manufacturing	Semiconductor Design and Manufacturing	Banks and Insurance
Hardware Computer	Iron and Steel Manufacturing	Hardware Computer	Strategic Brand Value
Iron and Steel Manufacturing	Machines and Mechanical Equipment	Information Technology	Machines and Mechanical Equipment
Petroleum and Petrochemicals	Information Technology	Software Computer	Wholesale and Retail
Software Computer	-	Telecommunications and Telecommunications Equipment	Utilities and Power Equipment

Source: Own elaboration based on information collected by Haley (2009, p. 9).

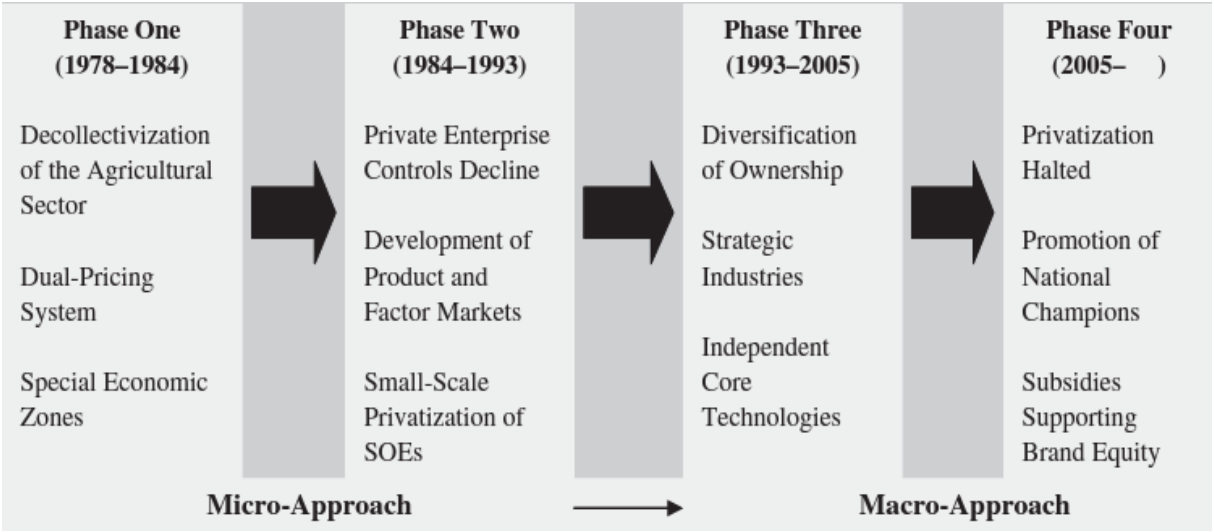

Figure 2. Reform phases of Chinese state opening companies.
Source: Prepared by Puty (2018) through Hempill and White III (2013).

Following the aforementioned reforms and the creation of great national champions, China set out to seek foreign markets through its strategy Going Global[6]. Although the strategy marks the beginning of China becoming global, mainly through FDI activities, it is worth noting that the Asian country has already followed an increasing trajectory of exports of goods and services since 1980, representing 5.9% of Chinese GDP (UNCTAD, 2021). Since then, participation has followed an increasing trajectory over the years, reaching its highest peak in 2006 at 36%. On the other hand, China's foreign investments are recent, although they have been

[6] For more information about the strategy, see Freitas (2023).

growing in recent years, having a low share in the country's GDP. One of the differences in FDI from the Asian giant is its enormous flow to developing countries. Figure 3 illustrates the priorities of countries that choose to enter emerging and developed markets, so that each decision involves different challenges.

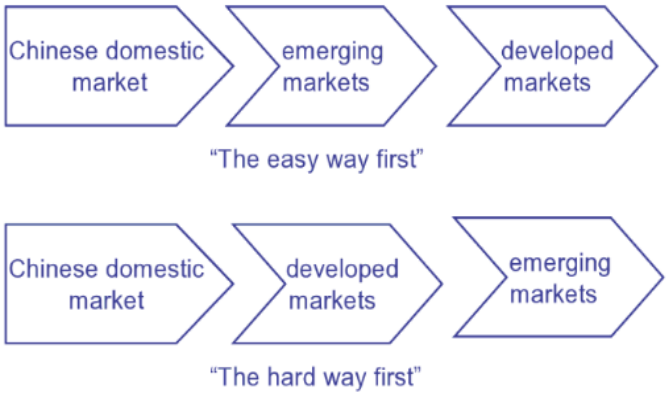

Figure 3. Investment priorities: Emerging markets versus developed.
Source: Adapted from Jin (2008).

Regardless of whether firms choose to start their activities abroad through emerging markets ("easier" way) or developed markets ("more difficult"), the first step is always to invest in the domestic market. Then, companies deal between emerging or developed markets. If they choose the first, they can enjoy a series of advantages, especially small and medium-sized companies (SMEs): They acquire experience and resources; face low competition; can handle the scale; use intensive labor; form strategic alliances and skilled labor in global trade (Jin, 2008). According to the author, this is an important strategy for exploring foreign markets and was adopted in the initial stage of China's internationalization when expanding throughout Southeast Asia, such as Vietnam and the Philippines. This fact demonstrates the presence of evidence of the Uppsala theory in this process, since China and the countries mentioned have a smaller psychic distance.

If the firm begins its internationalization in developed countries, the risks of success when competing with large companies in heavily regulated markets decrease significantly. There have been few cases of Chinese companies that have internationalized by operating in large markets, with the exception of Haier, a Chinese company that operates in the area of household appliances and electronics, having its first international experiences in 1999 in the USA and in Italy in the 2000s. Unlike emerging markets, Haier faced heavily saturated and technology-intensive markets, which required building a strong brand, ability to innovate, high financial resources, and quickness to understand the "rules of the Western game" (Jin, 2008). Furthermore, we cannot forget the geopolitical factors involving China and the USA and other European countries that have begun to restrict their markets for Chinese companies. Even in the face of difficulties, Haier has been a success story, so that the company's progress in developed markets could not be explained in any theory of international trade.

> Classical theories of productive internationalization are not able to fully explain this process in China. In this country, internationalization is strongly controlled by the State and only through recent political and institutional changes can it be better understood. From 2002 onwards, with the institution of the "Go Global" policy, the Chinese State began to offer a series of incentives to internationalized companies, in addition to facilitating the administrative process for making investments. Observing the general characteristics of Chinese investments abroad also allows us to argue that the motivations for internationalization go beyond those of a purely commercial nature, including the issue of balance of payments sustainability and even geopolitical objectives. (Acioly, Alves, & Lion, 2009, p. 2)

One of the main difficulties in predicting the movement of Chinese companies is that the theories presented in Section 2 focus on reasons for internationalization based on efficiency; therefore, they do not fully capture the dynamics of the internationalization of state-owned companies (Cahen, 2015, p. 645). Furthermore, the theories discussed have an economistic bias by focusing on the economic benefits of internationalizing, disregarding social, political, and geopolitical aspects. This is, to a large extent, the case in China, since the internationalization of Chinese companies is closely linked to the Chinese government. In this sense, although the theories presented provide important indications about the internationalization decision of firms, they cannot be relied on completely, making it necessary to deal with Chinese institutional and geopolitical aspects.

Final Considerations

The theories presented throughout the article, with the exception of the LLL model, arise from the Second World War, where the internationalization of companies from developed countries gained great proportions. Its mechanisms and conditions to explain external insertion do not include public companies and countries that lag behind the globalization process, with such analyzes being restricted to the LLL theory when examining Asia-Pacific companies in depth.

Regardless of the model to be considered, Chinese internationalization involves characteristics so particular that any theoretical interpretation of which they were presented would be unable to understand its insertion as a whole. This does not mean that the theories should be disregarded; quite the contrary, their contributions are highly valuable for understanding both the movement of capital stimulated by economic factors and social and psychological aspects.

The big difference in China's internationalization focuses on the fundamental role that the state plays in this process, so that theories are not able to provide explanations about geopolitical factors and strategies aimed at the country's development. Throughout Section 3, we analyzed how Chinese development was orchestrated, relocating activities from agriculture to industry, creating special economic zones and introducing a system dual track for exchange rate and prices. Based on the emphasis on industrial activities and the gains from having a system dual track on the exchange rate, during the1990s the Chinese government promoted the policy of national champions and independent core technologies. The result of this policy strengthened the industry and created mechanisms for its companies to operate abroad, subsequently contributing to the strategy Going Global.

As there are motivations to internationalize that go beyond commercial and productive factors, it is preferable that Chinese insertion is not analyzed solely through international trade theories. Such analysis becomes more robust when considering the reforms of state-owned companies, Five-Year Plans, and political and institutional changes that the country has frequently carried out in recent years.

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