Chinese Firms Internationalization and Go-Global Strategies—Based on Zhejiang Firms Case Studies

JUNJIE ZHANG
Business School, Jiaxing University, Jiaxing, China
E-mail: junjiezhanguk@163.com
Tel: 86-573-83642515.

XIAJING DAI
Business School, Jiaxing University, Jiaxing, China

Abstract

The paper explores private firms’ internationalization development path and latest tendency in Zhejiang province by centering on firms’ internationalization motives, modes, foreign entry location choice, existed problems and problems solution or measures perspectives. The paper also selects several Zhejiang firms which have successfully implemented internationalization strategies as representative case studies. On the basis of thorough exploration and discussion, the paper argues Zhejiang firms’ internationalization follows western traditional FDI theories on one hand, on the other hand, they also demonstrate a new model featured with accelerated international development by flexibly taking advantage of globalization’s new tendency, and it is worthwhile to note that new model cannot be fully explained by traditional theories. Meanwhile, Zhejiang firms’ international development road is filled with challenges; the paper also recommends some problems solution and measures at the end.

Key words: Private firms in Zhejiang, Internationalization and Go-global.

The Research Background and Significance

Since 1992, China has transformed its opening policy from relying on “Bring in” strategy gradually to attaching equal importance to both “Bring in” and “Go-global” strategies, the aim is to better utilize two categories of resources and markets home and abroad, promote economic structure adjustment and more appropriate resources allocation, thus, Chinese firms’ FDI motives and stamina will be strengthened and national economy’s long-term development can be guaranteed. Zhejiang province’ FDI began in 1982, during the past 30 years, a bundle of Zhejiang firms have successfully implemented internationalization strategies. Currently, world economy has entered into epoch of post financial crisis, this certain background has enlightened a deep adjustment of Chinese economy, nurtured a new environment for territory expansion of Chinese firms including private firms. (Zhao, 2010), in CPC Zhejiang committee’s suggestions on formulating the 12th five year programming for Zhejiang province, a more proactive overseas expansion and go-global strategy has been put forwarded to continuously enhance economic development’s competency. Zhejiang province is just in the rapid period of GDP growth from 6000$ per capita to 10,000$ per capita, the private business is flourish with strong manufacturing capabilities, go-global strategy’s implementation is facing unprecedented opportunities. (Han, 2010).

According to Zhejiang commerce department’s statistics, overseas investment from firms in Zhejiang province had boosted very quickly in “the eleventh five year” period, firms take cross-border M&A and industrial investment as the key point, the overseas investment projects had reached to 2236 units with total sum of $5.7 billion, the number of firms undertake overseas investment had ranked No.1 in China. OFDI from Zhejiang province maintained rapid growth momentum especially in three years after financial crisis erupted, the amount of OFDI in Zhejiang province boosted from $0.86 billion in 2008 to 2.7 billion in
2010, annual growth rate has kept over 70%, and it was over five times the total amount of overseas investment during “the tenth five year” period.

Zhejiang private firms are beginning to take shape after China’s 30 years reforming and opening, some have become large enterprises with international recognizable brand names, they are coming to the forefront in the FDI and have shown unlimited vitality and bright prospect. The fact indicate that in the go-global process, state-owned enterprise’s FDI success ratio is low, and private firms’ success ratio is much higher than state-owned enterprises. The practice has provided us with profound enlightenment: private firms own clear corporate governance and flexible management mechanism, which will enable them to become the dark horse among “go-global” Chinese enterprises, while international resources and market environment will offer favorable conditions for their constantly growing and expanding.

In theoretical perspective, Chinese private firms’ internationalization has their own distinct features and path selection. The research on internationalization of private firms with Chinese characteristics will enrich theories on firm’s internationalization, add complements to theories especially on firms’ internationalization from developing countries perspectives, it will be also beneficial to solve problems and confusions in China’s private firms’ internationalization practice.

Internationalization and Go-Global Motives of Zhejiang Private Firms

Western scholars in international business field, especially represented by John dunning, categorized firms’ internationalization motives into following factors (Dunning, 1980).

Natural resource-oriented internationalization

In western countries MNEs’ FDI history, seeking overseas resources (including natural resources and human resources) occupy an important place, but in the different period of different countries, factors affecting enterprise resource-oriented investment and decision-making are also different. Factors which greatly affect resource-oriented investment are nothing more than host countries’ factor endowments, economic development level and location advantages.

Market-oriented internationalization

Market-oriented foreign investment is important motives of firms’ internationalization. Market-oriented international investment can be categorized into four types: international trade circumventing type investment, market stabilizing and expanding type investment, opening up new market type investment and following latest trend type investment.

Efficiency-oriented internationalization

When firms undertake internationalization development, in order to realize production optimization purpose, firm will make great efforts to reduce their production costs, enhance production efficiency, the motives behind can be described as: reduce production and transportation costs; transfer home countries’ redundancy production capabilities to overseas.

Strategic asset-oriented internationalization

After 1990s, firm’s internationalization stepped from resource-seeking type into advanced globalization strategy stage. The world-wide fifth enterprise M&A tide, among them, most of big scale cross-border M&A activities just belong to that strategic assets-oriented investment. Although firms’ internationalization motives in developing countries have lots of similarities with motives of developed country firms’ internationalization, some differences still exist. Zhao and Gu believed that one biggest reason why Chinese private firms go global is to seek overseas markets especially international
distribution markets. With the help of internationalization, Chinese firms hope to upgrade their “made in China” mode to “made in China + distributed by Chinese firms” mode, and by that way, Chinese firms can remarkably raise their positions in international production value chains on the basis of overall market expansion, thus, larger value-added market share can be acquired. (Zhao, Gu, 2006)

**Cases Studies about Natural Resource-Oriented Internationalization from Zhejiang**

In the late “eleventh five year planning period”, firms in Zhejiang province had gradually been deprived of so called three inexpensive factors (inexpensive labor, inexpensive land and inexpensive environment & resources) advantages which were once the vigorous boosters for economic growth in the past. Firms today have been confronted by increasingly higher labor cost, unusual stressful raw material and energy supplies with soared prices, therefore, undertaking foreign investment in countries where are endowed with much lower labor cost, more inexpensive and abundant resources, and larger low-end market demands which are still not met to realize synergy is considered as a wise decision. Transferring those high energy consuming, high resource consuming production to countries and areas endowed with rich resources and energies, utilize global resources to reach the best combination of productive factors has become notable objective.

Huayou Cobalt Company which bases its headquarter in Tongxiang, Jiaxing began to exploit mineral resources in Africa in 2006, its business scope ranges from cobalt, nickel and copper’s exploration, smelting, transportation and new materials’ deep processing. As a resource-seeking enterprise, Huayou Cobalt aggressively undertakes internationalization strategy, its mineral exploitation in Africa not only effectively warrants steady supply of downstream raw materials, lays firm foundation for enterprise’s long-term development on one hand, but also helps the firm be ranked as No.1 cobalt producer quickly in China on the other hand. Zhejiang Xinzhou, Taizhou Huatian, Hangzhou Tianhe furniture, Ningbo Huazhou mines company, Wenzhou Guangshou, etc invest in forest cutting and processing, mines exploration industries in Russia, Australia, Gabon, DPRK, Argentina, etc. Zhejiang province is born with scarce resources, by investing in foreign countries, problems of resources scarcity could be solved to great extent and resources origins’ diversification is also realized, which is very beneficial to Zhejiang province’s economic development and adjustment.

**Case Studies about Market-Oriented Internationalization from Zhejiang**

The second motive of Zhejiang private firms’ internationalization is seeking market, especially those profitable markets in developed markets such as American markets and European markets, in those markets, distribution channels were mainly acquired by Zhejiang private firms through M&A activities from those long-established western companies.

In January, 2008, American garment industry giant-Kellwood company which was seriously plagued by American sub-mortgage crisis decided to sell its two men’s wear subsidiaries named New Horse and SMART to Chinese garment company Younger by greatly reducing their sales prices, the bargain price was reduced from $300 million to $120 million. What Chinese Younger company values most is American New Horse owning complete distribution channels and logistic network including dozens of American department stores. By that M&A activity, Chinese Younger company touched the needs of American top end men’s wear and leisure shirts in reality, acquired developed countries’ end markets and distribution channels, thus, the company’s position has been upgraded from world famous brands OEM contractor to a company owning efficient production facilities and complete distribution channels in world’s most profitable markets.

Zhejiang Kasen Group headquarters in Haining, Jiaxing is one of leading upholstered furniture and leather products manufacturers in China. Before 2008, Kasen was an OEM contractor for two Australian reputable furniture brands: Sleeping city and Everyday living. Hampered by 2008 global financial crisis, those two companies were broken in their capital chains, and then Kasen group decided to acquire those two firms’
retail outlets in Australia. The profit of being an OEM contractor is just about 1.1% while the profit of being a company which owns the whole retail outlets is more than 15%, thanks to that acquisition, Kasen’s retail chain stores in Australia increased from 49 to 155, and its market coverage climbed to be ranked No.3 in Australia. Through that strategic assets exploration, Kasen group successfully upgrades its business mode from “made in China” to “made in China + distributed by Chinese firms”, which advances the company’s position in international value chain of furniture industry.

Case Studies about Efficiency Oriented Internationalization from Zhejiang

Zhejiang private firms also follow traditional western FDI theories by investing in some developing countries to take full advantage of their own ownership advantages plus specific location advantages, thus their production efficiencies could be greatly enhanced.

Anli textile company which headquarters in Haining, Jiaxing invested in Vietnam to establish wholly owned subsidiary-Anli Textile (Vietnam) plant, the company has not only successfully expanded its market share in Asia Southeastern countries but also stabilized its market share in developed countries due to its effective avoidance of trade barriers through moving its domestic low-to-medium assembly line to Vietnam while keeping more advanced assembly line domestically, by that way the costs of its products are reduced greatly on one hand, and the company could also understand and meet customers’ demand in Southeast Asian countries better due to its closer distance with customers on the other hand. Besides, relying on Vietnam plant’s textile production to export to developed countries is an applicable way to circumvent trade barriers imposed such as high trade tariffs, quotas and even anti-dumping investigation since trade barriers are much lower for products exporting from Vietnam to developed countries.

Case Studies about Strategic Assets-Oriented Internationalization from Zhejiang

Traditional FDI theories argue that absolute ownership advantages are the prerequisite of expanding overseas market, while strategic asset-seeking theory or asset exploration theory believe that firms can acquire complementary strategic asset to enhance their international competitiveness by reversed FDI mode (means FDI flow from developing countries to developed countries) if they do not own absolute ownership advantages yet. (Wang Fengbing, Yang Yang, 2010) Recent international business theories originated from firms in emerging economies’ practices have paid more attention to emerging multinational enterprises’ competitive disadvantages which push firms to internationalize, that is: contrary to traditional ownership advantages, firms’ motives to internationalize are to avoid competitive disadvantages due to solely running in domestic market on one hand (also called “push factors”), on the other hand, firms are attracted by overseas valuable strategic assets (called “pull factors”). In Zhejiang firms’ case studies, there are also some examples supports those strategic assets exploration theories. Facing R&D internationalization trend, Chinese firm, especially those private firms with poor R&D capabilities choose to acquire overseas advanced R&D capabilities through merger and acquisition.

In 2010, Geely Corporation headquartered in Taizhou, Zhejiang acquired Volvo Group with $1,800 million, as a Chinese domestic company, Geely’s acquisition of Volvo was originated from its change of company’s strategy and ideology. Due to capital and technology’s constraint, Geely company initially positioned at low-end market, as company develops, its slogan has changed from “make cars everybody can afford” to “safe, environmental friendly and low energy consuming cars”. From “push” perspective, Geely hope to advance its technology and management expertise in automobile manufacturing through Volvo’s acquisition, thus its upgrading strategy can be strengthened. From “pull” perspective, due to 2008 global financial crisis, the acquiring price for Volvo has been greatly reduced, which provide Geely with fantastic opportunity.

Zhejiang Yaweiling technology, Ltd headquarters in Haiyan, Jiaxing, the company is a highly efficient light emitting diode (LED) manufacturer, its main products include blue and green LED epitaxial wafers and chips for the LCD back lighting application of laptop, TV display, as well as general lighting.
Jiaxing Yaweilong also founded American Inveenlux Corporation for cutting-edge technology and closer customers distance through acquisition. Jiaxing Aidier silk company acquired patent technology and assembly line, consolidated its competitive advantages in European market through acquisition of Italian Saierrini silk producing company.

**Modes of Zhejiang Private Firms’ Internationalization and Go-Global**

**Stage Model of Enterprise’s Internationalization**

Oviatt and McDougall stated in their milestone paper Toward a theory of international new ventures, “MNEs are believed by many people to evolve only after a period of domestic maturation and home market saturation (Caves 1982; Porter 1990). Empirical researchers have in the past found that large, mature MNEs and small exporters go through distinct stages in the development of their international business. They begin perhaps with an unsolicited foreign order, proceed sometimes through exporting and the development of an international division, and occasionally advance to the establishment of a fully integrated, global enterprise (Aharoni 1966; Bilkey & Tesar 1977; Czinkota & Johnston 1981; Stopford & Wells 1972).

This staged development of firm internationalization is described as an incremental, risk-averse and reluctant adjustment to changes in a firm or its environment (Johnson & Vahlne 1977, 1990). The process preserves routines that bind organizational coalitions, and recognizes the difficulty of gaining knowledge about foreign markets. Differences in language and culture and, in the past, the slow speed of communication and transportation channels between countries have inhibited the gathering of information about foreign markets and have increased the perceived risks of foreign operation.” (Oviatt, 1994)

Stage model theory stemmed from middle 20th century, Johnson and Vahlne, J.E. utilized enterprise behavior theory research method to analyze firms’ internationalization activities, the theory argues that firms tend to expand international market slowly and step by step due to its lack of overseas market knowledge, its high uncertainty and risks avoidance factors constraints. The stage mode theory deems that firms’ internationalization process follows several stages: pure domestic operation-export through intermediary-direct export-set up overseas sales branch-set up overseas subsidiary. Stage model theory considers that sufficient domestic operation is the prerequisite of overseas expansion, firms tend to invest in psychologically distance closed market firstly, its international market commitment is undertaken gradually, just like the waves in the water, only through this way, overseas market knowledge can be gained gradually, uncertainty and risks can be reduced, the stage model is also called Uppsala model or U-M mode. (Johnson, J&Vahlne, J.E., 1977, 1990)

**Case Studies Support Stage Model in Zhejiang**

Among Zhejiang private firms’ internationalization and go-global practices, some cases have proven the validity of that theory. Lu & Li (2003) undertook a questionnaire survey on 112 manufacturing type private firms which have implemented internationalization in Zhejiang province, the research’s conclusion indicate that China’s small to medium manufacturing enterprises still follow stage mode in their internationalization.

Jushi Group which headquarters in Tongxiang, Jiaxing mainly produces E-glass and C-glass fiberglass products, the company began its internationalization process in end 90s of last century, and it developed from initial small amount of exports to exports by foreign agents to set up its own sales branch in foreign countries gradually. Currently, Jushi Group has established overseas sales branches like Jushi France, Jushi India, Jushi Italy, Jushi Japan, Jushi Korea, Jushi Singapore, Jushi South Africa, Jushi Spain. Lately, Jushi Group just acquired American Gibson fiber-glass company and set up Jushi American Co., Ltd. Jushi Group has planned to set up more manufacturing plants in foreign countries to close the distance with its customers and provide them with better customized services.
However, the stage mode theory has been challenged in following aspects: 1. the stage mode is more applicable to SMEs, but less applicable to big enterprises. 2. The core incremental feature of stage mode is also challenged. McKiernan (1992) put forward that firms leaped from OEM contractors directly to acquisition, therefore, that “frog-leap” development mode has seriously challenged stage mode. 3. Stage mode also varied according to different internationalization motives. The practice indicate that when firm undertake internationalization for wider market, the stage mode can be regarded valid, but when the firm expand overseas market for its internationalization strategy’s implementation or seeking strategic resources, the “frog-leap” development mode is more favored.

Accelerated Mode of Internationalization

In the beginning of 90s, 20th century, world economic integration and world trade began to assume new features which are facilitated by following factors: (1) accelerated speed of overseas information flow has reduced cross-border market’s psychological distance, thus propelled further cross-border markets’ integration; (2) reduced cost and improved efficiency of international traveling and communication have greatly strengthened firms’ integrated cross-border operating capabilities; (3) international management experiences’ availability in larger scope has enabled firms to acquire internationalization knowledge through recruitment and initial resource endowment; (4) the firms tend to be increasingly skilled in non-traditional corporate governance model, which help them effectively exploit their own unique and valuable resources by flexibly transferring and leveraging overseas external resources. In 1994, Oviatt and McDougall put forward a concept of New International Venture in their landmark thesis “Theories toward New International Venture” (Oviatt, et al., 1994).

The theory argues that as deepening of world economic integration, social and technological advancement, firms do not have to follow stage mode to expand overseas, firms can obtain distinct competitive advantages by utilizing multi-countries resources and sell products to multi-countries just after the company was founded or in short time after its foundation. They defined International new venture as a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries. The distinguishing feature of these start-ups is that their origins are international, as demonstrated by observable and significant commitments of resources (e.g., material, people, financing, time) in more than one nation. In other words, some “accelerated and frog-jump features” have occurred in firms’ internationalization. (Oviatt, 1994)

Mathew (2006) introduced a brand new LLL (linkage, leverage, learning) model based on Dunning’s OLI paradigm, which could better explain why firms in developing countries managed to accelerate internationalization without ownership advantages, internalization advantages and location advantages. “First, it is by linkage and leverage, that internationalization is accelerated. It is the reaching out to sources of knowledge in the markets into which the firm is expanding that actually facilitates the accelerated expansion itself. It allows the learning process to be greatly speeded up. Thus linkage and leverage facilitates accelerated international expansion. Secondly, these strategies of linkage are perfectly adapted to the interconnected character of the global economy itself. Whereas earlier patterns of expansion sought to make all trans-border connections through the firm’s own internal procedures, Many of the most successful latecomers from the Asia Pacific have begun their international career as a contractor to an incumbent MNE and then been drawn by this MNE to supply its regional operations across regional borders. This is a quite different pattern of international expansion and one which helps to account for the speed of the arrival of the latecomers. Thus linkage and leverage is well adapted to the interlinked character of the global economy. Third, the LLL framework of outward-oriented, resource-seeking internationalization via linkage and leverage, is an approach to internationalization that is eminently suited to the needs of latecomers and newcomers which initially lack resources in foreign countries.” (Mathew, 2006) The model has laid theoretical groundwork for developing countries firms’ accelerated internationalization. The theory means in principle that any firm which lacks resources in foreign countries can take advantage of the new features of the global economy, particularly its global interconnected character, to become an international player as well.
The theory also reckoned any firm in developing countries including small-to-medium enterprises which lack strategic resources to expand overseas have the possibilities of expanding overseas market in an accelerated way through integration of linking, leveraging and learning effectiveness.

Case Studies Support Accelerated Model in Zhejiang

There are lots of cases among Zhejiang private firms follow that accelerated internationalization mode, Wenzhou’s lighter and glasses industry targeted at overseas market initially in target market selection, firms engaged in those two industries just skipped the traditional internationalization process: local market-district market-national market, they entered into neighboring overseas market in their early stage, then entered into global market. In business running aspect, they skipped pure domestic running stage, export through intermediary, then stepped into direct export stage, and finally establish their own overseas sales branch (Lin, 2003)

Zhejiang’s medium to large private enterprise represented by Wanxiang Corporation’s internationalization mode has lots of similarities with Taiwan enterprises’ frog leap internationalization mode, which skipped from OEM contractors to acquirer of overseas firms. Since 1984, Wanxiang corporation has begun to subcontract OEM business for American scheler company which are famous for cardan joints’ manufacturing and sales, from that year on, Wanxiang corporate embarked on journey of internationalization, and since 1994, Wanxiang corporation has acquired and equity participated about 26 local firms in North American market, especially, in 2001, Wanxiang corporation acquired NASDAQ listed UAI company which was one of American seven car components suppliers. In June, 2005, Wanxiang Corporation acquired steering linkage company PS, Which propelled Wanxiang Corporation to become first class components supplier for American three giant automobile companies: Ford, GM and Chrysler. In 2007, Wanxiang corporation’s acquisition of American AI corporation symbolize that Wanxiang corporation has entered into core layer of global automobile components value chain, and in that year, Wanxiang corporation’s sales revenue hit a record of $2,000 million. What is noteworthy is that year 2008’s global financial crisis has provided some condition for Zhejiang private firms’ accelerated internationalization to some extent.

International scholars think high of Chinese firms’ inward internationalization featured with setting up OEM contract, joint venture and corporation with western firms are successfully transforming into outward internationalization. Child believed that Chinese private firms need to accumulate experience advantages and learn to prepare for its future overseas market expansion through domestic market’s OEM projects or alliance with foreign enterprises. After Chinese firms have accumulated substantial international business experience, then they can expand overseas market through export, when Chinese managers are confident enough about their own experience, they can take alternative internationalization strategic approaches like FDI (Child, 2005). Young found that many Chinese firms can not effectively implement internationalization strategy initially, the domestic market inward internationalization such as joint venture forms provide Chinese firms with internationalization experiences, relying on those experiences, Chinese firms’ outward internationalization become more successful. Luo reckoned that Chinese firms benefit a lot from cooperation with foreign enterprises in domestic market, those foreign enterprises have transferred great amount of technological knowledge, organization skills and financial assets. Experience advantages ascribed from alliances with foreign enterprises enabled Chinese firms to effectively reduce their liabilities of foreignness in overseas market and related transaction costs of internationalization. (Luo, 2007)

Location Choice of Zhejiang Private Firms’ Internationalization and Go-Global

In foreign market entry location choice, different kinds and levels of Zhejiang private firms should have different position and choice rather than one location choice suits all types of private firms. The overall principle should be as following: for those market-seeking firms, their foreign entry location should choose to expand into growing market with similar merchandise preference and cultural tradition such as China’s neighboring countries and Asia South eastern countries on the basis of consolidating their traditional
markets; for those resources-seeking firms, they'd better choose to enter into countries with abundant resources, such as African countries and Latin-American countries. For firms opt for strategic assets and capabilities, they should invest into developed countries to obtain cutting-edge technology, by running in competitive markets of developed countries, their marketing expertise and management capabilities can be greatly improved.

Zhejiang Yuemei Group which was founded in July, 1992 was a small private enterprise engaged in textile and garment processing in Zhuji, Shaoxing city. Since 2000, Yuemei group has embarked on its go-global strategy, the company’s internationalization process went through setting up overseas sales branch, establishing cross-border producing plant and developing first African textile zone covering areas of 600 acres in Nigeria. The company finished its “triple jump” just in 8 years and has formed an integrated overseas business running system of production and distribution. The company’s annual revenue has reached $1,600 million, the company has been ranked as one of Shaoxing top 50 private companies. Currently, Yuemei Group owns 12 subsidiaries, 6 overseas sales companies, 2 overseas manufacturing plants and 1 overseas textile industrial zone, the amount of total assets has reached more than $2,000 million. Yuemei Group’s products are mainly exported to West Africa, South Africa, Middle-east, Russia, etc. Yuemei Group has successfully strengthened its capabilities through “go-global” strategy, which has raised great attention of leader from ministry of commerce, provincial department of commerce, and municipal bureau of commerce, the company’s development mode is called “Yuemei mode”. Yuemei group’s internationalization follows western traditional FDI theories, the company takes its full advantages of relative advanced technology in textile comparing with less developed countries, at the same time, the company also leverages Nigeria’s specific location advantages featured with rich but inexpensive work force and raw materials with low prices. Ownership advantages plus location advantages propel Yuemei Group to transfer its production to Nigeria to maximize the companies’ comparative advantages. What’s more, business costs have been greatly reduced through exporting from Nigeria to developed countries, which is also an effective way to avoid various trade barriers imposing by developed countries on Chinese firms, this is mode is regarded as “killing two birds with one stone”.

Along with China’s deepening cooperation with ASEAN, Vietnam’s Long river industrial park as the first Chinese invested industrial park has attracted a great number of Zhejiang private firms’ investment. Since 2008, SUPOR Group has set up manufacturing plant in that industrial park, depending on Vietnam’s manufacturing plant, SUPOR has not only expanded its products portfolio, technology and brand advantage into Vietnam, but the company’s products structure, quality and overseas R&D have been adjusted and improved in order to meet local customers’ needs better. Thus, Vietnam plant has become an important platform for SUPOR to expand into other counties in ASEAN. Till now, SUPOR’s kitchen products’ prices are 30% higher than Vietnam’s local brands, but much lower than brands in western countries.

Cases about Zhejiang private firms’ investment into developing countries do not mean that developing countries are the only destinations of FDI for Chinese firms, from long-term perspective, China should exemplify its learning type FDI into developed countries to enhance Chinese firms’ global market influential power, competitiveness and controlling capabilities. More specifically, some targeted cross-border M&A activity will not only help Zhejiang private firms to command core technology in short time in order to effectively enhance its technological strength but also secure entry channels into markets of developed countries.

In August 2010, Zhejiang Geely Group acquired Volvo Group 100% equity and intellectual property with $1,800 million, which has become the largest cross-border M&A in Chinese automobile industry. The positive side of M&A for Geeley group is that the company will benefit a lot in automobile R&D, manufacturing technology, quality and management by leveraging Volvo’s world-class capabilities, at the same time, the M&A also provides Geeley with developed countries’ markets.

In 2010, New Jack company located in Taizhou, the same city with Geeley Group acquired German’s largest sewing machine companies Bullme and Topcut with RMB45 million, the M&A fortifies the exchange and communication between Chinese and German technicians, quickens the R&D process of top-
end automatic sewing machines, the M&A also help New Jack Group to enhance its technology in top-end automatic sewing machines to great extent.

In March, 2009, Meibang textile company located in Zhuji city, Zhejiang province acquired two American seamless underwear companies in New York and Los angels. After the acquisition, Meibang textile company which was founded just 6 years ago quickly vaulted to a leading company with global largest output in seamless underwear industry. In March, 2010, Zhejiang innovation automobile air conditioner company, Ltd which locates in Lishui, Zhejiang province acquired Dallas’ long-established automobile component company Furry Kit and its three subsidiaries, which has further strengthened the company’s core competitiveness in market segment of automobile air conditioner, the acquisition has also provided the company with market distribution channels in USA.

Problems Existed In Zhejiang Private Firms’ Internationalization and Go-Global

Although lots of favorable achievements have been achieved in Zhejiang firms’ internationalization and going global strategy’s implementation, we must be soberly aware that there is still a long way to go for Zhejiang firms becoming truly multinational enterprise. Zhejiang firms still have lots of weakness and problems which urgently needed to be strengthened and solved in that intensively competitive internationalization process.

Analyzing objectively, Zhejiang firms are currently weak in innovation by their own capabilities, firms’ decision making and management skills are still poor, while lacking of competent international managers are believed as the biggest impediment to their internationalization. Besides, relevant administration policies are not very appropriate for Zhejiang firms’ further expansion in overseas market, little knowledge about host countries’ legal system and business environment also causes potential threats to Zhejiang firms, some Zhejiang firms’ success in overseas market also entail some hostile attack from local competitors in host countries, and what should not be ignored is that Zhjiang firms are plagued by host countries’ political and legal corruption problems too (Yuan Hui, 2010).

Problems Related With External Institution

Complex bureaucratic procedures on cross-border investment projects approval cause company to lose the best investment opportunity

According to current foreign exchange management regulation, cross-border investment project proposal, the feasibility study report, contract and procedure need to be examined and approved by many hierarchies of authorities, which cause companies to lose precious overseas investment opportunities in constantly changing and intensively competitive international markets. Thus, multi-authorities examination and slow approval procedure problems must be solved. In Oct, 2002, Zhejiang acted as pioneer in implementing cross-border investment foreign exchange five management reforms. In that reform, Zhejiang province was granted with $200 million foreign exchange approval authority by provincial government itself rather than central government. Companies are allowed to purchase foreign exchange to invest overseas, although foreign exchange bureau’s bottleneck has been breakthrough, more than $1 million overseas investment project have to be approved by central departments presented by provincial development and reform commission and department of commerce, the approval procedure is still difficult and time-consuming, thus, “illegal” overseas investment and flight of capital problems commonly existed. Related laws and regulations lagged behind

China’s legislation on overseas investment seriously lagged behind comparing with prosperous FDI and various laws and regulations on attracting foreign investment, until now, a complete overseas investment law for Chinese companies is still absent. Regulations on cross-border investment finance, taxes, loans, foreign exchange and statistics are incomplete. Besides, much more attention has been paid on cross-border investment’s examination and approval rather than project’s supervision. State-owned enterprises’ foreign
investments are much more favored than private business by authorities. Those inappropriate institution and regulation lead to blind spot in cross-border investment management, lots of private business invest in overseas by themselves in order to avoid institution constraint, those private companies’ foreign investment has lots of legal risks due to no institution protection, once political risk erupts in host countries, then foreign investments have high possibility of dwindling into nothing.

Lack of financial supporting mechanisms

In China, private business is individual running product while financial organization is the products of state-owned running product, thus, both have big problems in matching with each other. At present, Chinese private business rely on their own capital accumulation or borrowing from other people, they can not integrate with national fund raising system. In western countries, companies’ internationalization or foundation are effectively supported by venture capital which is absent in China, thus, Zhejiang private companies’ internationalization will not go far away if they can not get financial support from national banks.

Problems Related With Companies’ Internal Resources and Capabilities

Some private business’ ownership management modes are unfavorable for overseas investment. Ownership arrangement is the core of modern corporate system, market economy’s practice indicate that “principle-agent” mechanism is most appropriate for international competition. Due to specialty of transformation economy, inappropriate ownership arrangement mode widely existed in Zhejiang private business, lots of private business employ family business ownership arrangement, although that family business ownership arrangement once played positive role in company’s newly establishment period, as private business’ development and changes of external environment, especially firms begin to invest overseas, family business management mechanism’s constraint effects and negative influence on private firms’ development have become very obvious, thus, that ownership arrangement greatly influence firms’ overseas investment.

Industry level is low, technological innovation capabilities are weak

Most of Zhejiang private business engage in labor intensive industry featured with simple technology, small investment and easy to entry, they began their business in producing single small products by imitating established companies’ technology, thus, their business belong to extensive operation, they prefer extensively increase featured with quantity expansion to improvement of production technology. When private firms go-global to conduct FDI, they have to face competition from technology-intensive MNCs from developed countries, thus, most of Chinese private business have no choice but are locked in bottom level of international vertical work specialization, thus, they are weak player in international competition.

Lack of international recognizable brand, product competitiveness is weak

Brand is the “passport” of securing international market shares, international competition centers with quality, including high quality, high level, high added value, high technology. Zhejiang private business lacks competitiveness in those perspectives, most of them only choose to become OEM contractors of international recognizable brands, they only get cheap processing profits from that OEM contracts while large percent of profits belong to western MNCs.

Industrial association’s roles have not been fully played

Industrial association is an not-for-profit NGO based on voluntary establishment and joining by companies, in western developed countries, industrial association have played crucial role in strengthening industrial self-regulation, standardizing and coordinating member companies’ international business activities. However, time for industrial association’s foundation is very late in China, and those NGOs have strong government features with apathetic sense of service, they have lagged far behind with foreign investment needs of private firms. Driving by short-term profits and partial benefits, private firms tend to act very independently, even suppress prices hostilely each other by not considering costs, that hostile competition only cause destruction to each side.
Problems solution and methods

Solution to current problems and difficulties in current Zhejiang private firms’ internationalization process must be explored from both governmental macro policies perspective and individual enterprise micro action perspectives, can better results be achieved only two perspectives’ are combined and integrated.

Problems Solution from External Institution Perspective

Relevant administration departments should serve Zhejiang private firms’ internationalization from wide range of their administrative services, the government should intensify their works on pre-direction and relevant projects introduction to any Zhejiang private firm which exert willingness to expand overseas market, a broad range of information and knowledge about overseas market should be provided without delay.

Current examination and approval system must be revised and adjusted, the examination and approval standardization should be relaxed, approval procedure should be simplified, examination system should be gradually transited into approval system and finally transited into filing system. Government need to strengthen its general planning and policy direction on FDI strategy. The principle part of foreign investment is enterprise rather than government, but government could provide support and service for enterprises, general overseas investment planning, development objective and key points, preferred industries should be announced periodically. Foreign exchange control must be gradually loosed, according to experiences of Japan, South Korea, UK and Australia, a country’s large scale FDI always follow the lifting of foreign exchange. China is very abundant in foreign reserve at present, it is feasible to encourage Chinese enterprises to invest overseas through relieving its control on foreign exchange, and Foreign exchange remitted back margin system is recommended to get rid of gradually, increase overseas company foreign exchange retention and finally lift foreign exchange control system.

At the same time, administration departments should also provide Zhejiang private firms with risk avoidance mechanisms such as political, legal risks’ avoidance, continuously promote the risk prevention capabilities of Zhejiang firms. National international market risk early warning mechanism must be established, provide firms with early warning service about political, foreign exchange rate, strike, laws, terrorism, war risks before they actually occurred, after those risk occurred, government should elaborate its national influence, offer political, economic, legal and moral support and help for Chinese firms which are trapped in tremendous international market risks.

Administration departments must make breakthrough in enterprise’s fund raising service system, fund raising difficulties have become a long-standing problem for Zhejiang firms’ internationalization, the relevant administration departments need to try multi-approaches to innovate its financial services and overcome those difficulties through flexible means. Firstly, bank system’s support for private firms’ overseas investment must be augmented; commercial banks need to be encouraged to increase loans on private firms’ overseas investment; national import & export banks’ service field on private firms’ overseas investment should be broadened, interest rates control should be further relaxed and small to medium private commercial banks must be developed. Secondly, government must strive to develop and cultivate stock, bill, bond and equipment fund raising leasing market. In western developed countries, those stocks, bills, bonds and equipment fund raising leasing market are all crucial external channels for small to medium enterprises’ fund raising. Thirdly, Chinese firms’ overseas investment need to be secured by insurance service. Firm face much bigger risks when they run business abroad than just operating domestically. Drawing lessons from other countries, provincial overseas investment insurance organization could be established to in charge of all kinds of insurance about political and economic risks.

Companies and banks are not very clearly aware of overseas investment risks, some countries have bigger political risks, some countries have bigger economic and financial risks while others have bigger foreign exchange and liabilities risks, a wise decision should be based on abundant data and research analysis.
which sometimes go beyond companies own capabilities. Thus, Chinese embassies in host countries need to act as overseas investment counselor and play the role of “international market information provider”, “cross-border business running server”, they ought to provide firms with host countries’ political, economic, legal, social-cultural, natural environment, infrastructure information through multi-levels and channels. At the same time, professional evaluation and counseling agencies should be established to support private firms’ overseas investment.

More attention should be paid on directing Zhejiang private firms to enter existing China’s overseas economic and trade parks, through that way, Zhejiang firms internationalization’s cluster and group advantages can be further unleashed.

It is worthwhile to note that Zhejiang province is famous for home of emigrants, currently, there are about 1.5 million Zhejiang people reside in world’s 129 countries and districts, those emigrants’ information resources, business networks resources and financial resources should be taken full advantage of, it is known that people in different countries have different preference on products, large disparity exists in different countries’ social cultural environment, so, it is significant for Chinese firms to proactively delve into host countries’ local communities and culture, implement localization strategy.

Problems Solution From Internal Company’s Perspective

Meanwhile, individual enterprise should also act forcefully from micro perspective, try to enhance its own competency to overcome and solve kinds of difficulties and problems in internationalization process. First of all, enterprises should learn to think about and make decisions and actions strategically about its internationalization from global resources linkage and leverage perspectives. The company could proactively identify and explore any possible business opportunity brought by globalization and interconnected character of world economy, learn to link with and leverage any available high-quality resources overseas and domestic through flexible networking, brand-new core competency could be cultivated through the integration of Zhejiang firms own capabilities with external resources gained from networking, global niche market could be quickly occupied through tailored innovative products and customized services, then Zhejiang firms’ brand building and value chain upgrading could be realized from that beginning point. What’s more, education and training also play very crucial roles in Zhejiang firms going global strategies, as mentioned above, lacking of competent international managers has constrained Zhejiang firms’ further internationalization for long time, thus, employees’ education and training issues must be seriously taken into consideration, education and training programs could be undertaken by on job or off-job forms, only by that way, can more competent international managers be cultivated. Yadong Luo and Huaichuan Rui (2009) put forward a concept called Ambidexterity which is a multidimensional term comprising co-evolution, co-competency, co-opetition, and co-orientation, they think firms in developing countries like China have stronger motives and abilities to build and leverage such ambidexterity to offset their late-mover disadvantages. They behave co-evolutionarily to deal with the external environment they face at home and abroad, leverage their co-competence (transactional and relational) to compete against their global rivals, develop co-opetitive (simultaneous cooperation and competition) ties with their business stakeholders, and maintain co-orientations (leveraging competitive advantages to bolster short-term survival and compensating competitive disadvantages for long-term growth. (Yadong Luo, 2009)

Conclusion

“Changing the development pattern, realize the industrial upgrading” is considered to be the biggest theme in post financial crisis era and the “twelfth five year planning period” in China. While implementing going global strategy, promoting Chinese firms’ OFDI intensity steadily have become a key strategic means to speed up Zhejiang province’s restructuring and upgrading, and realize the economy’s steady growth.

By drawing on some representative case studies of Zhejiang province private firms which have successfully internationalize, the paper argues that motives of some Zhejiang private firms’ internationalization could be
explained by traditional FDI theories, especially to those natural resources-seeking firms, market-seeking firms and efficiency-seeking firms. However, some Zhejiang private firms’ internationalization motives cannot be explained by traditional FDI theories, because their FDI tend to flow from developing countries to developed countries, which is not the similar scenario that traditional FDI theories stemmed from, and those motives are particularly more obvious in large Zhejiang private firms and high technology companies which put seeking valuable strategic assets as their first priority.

It is believed that different types of Zhejiang private firms need to have different positioning and choices on FDI locations, every mode have its own advantages and disadvantages so that none can be universally applicable to all different types of Zhejiang private firms. To market-seeking and efficiency-seeking firms in Zhejiang, their FDI location could choose Southeast Asian countries or countries with relative complete infrastructures in Africa, to natural resources seeking firms in Zhejiang, their FDI location could choose developing countries in Africa and Latin America where natural resources are born plentiful, to strategic assets seeking firms in Zhejiang, their FDI location should choose countries in West Europe, North America and Japan where valuable strategic assets are available.

Lots of delightful achievements have reached in Zhejiang firms’ internationalization process, but there is still long way to go for Zhejiang firms to become truly multinational enterprise, Zhejiang firm’s internationalization are still confronted with numerous challenges and problems. Better solution to those problems and difficulties should be probed from both government macro policies and individual enterprises’ micro actions, only through those two approaches’ combination and integration, can synergies be achieved. Referring to above mentioned representative Zhejiang firms which have successfully undertaken internationalization, further activities of Zhejiang firms’ internationalization should mainly involve: forcefully promote the utilization and exploitation of overseas resources, establish more manufacturing plants and economic & trade parks in foreign countries, vigorously propel the construction of overseas marketing distribution channels, acquire advanced technology, brand, knowledge and other strategic assets in foreign countries through merger and acquisition or strategic alliances forms, besides, international project subcontracting like turnkey project forms should also be attempted.

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