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The Growth of Chinese Multinationals: A Micro–Macro, FSA–CSA Framework

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Introduction

The fast growth, extensive presence and sometimes contentious positioning of Chinese and other emerging market multinational enterprises (EM-MNEs) provide the most challenging current frontier in our, ever-evolving, understanding of international business (IB) and its role in the global economy. Here, we will see that these ‘new’ MNEs have the potential to breach the, apparently relatively settled, frontiers of IB at both the practical and theoretical levels. The now quite familiar challenge to established modes of *theorising* in IB is that these new MNEs are emerging at a much earlier stage in the competitive formulation of their home country and, clearly related to this, long before such firms would have logically been expected to have achieved the levels of international competitiveness required by such traditional analysis. The pertinent question here is ‘how’ these firms are able to become MNEs under these conditions. From this background, the challenge of these new MNEs to the accepted modes of *practice* in IB can directly reflect these idiosyncratic (or unprecedented) origins. They often enter the global market environment on the basis of rather different sources of competitive advantage and do so in order to pursue somewhat differently focused strategic objectives. This, we will elaborate, in effect poses the question as to ‘why’ these firms internationalize when and how they do and the precise sources of their impetus to do so.

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To address these issues and understand the origins of EM-MNEs, our central thesis will be that it is necessary to see the early internationalization of these firms as being responsive to, and conditioned by, tensions and imperatives that emerge within the development of their home countries, with China being the exemplifying case. In essence, we will argue that there is a macro-level element (the capacities and imbalances of *home-country* development) that determines the micro-level emergence of such EM-MNEs that was absent from the systemic and institutional context for the earlier generations of 'Western' MNEs. In the next section, we begin this process by drawing out precise ways in which the current emergence of EM-MNEs contrasts with expectations derived from the earlier MNEs and appears to challenge the IB theorising that was built from them. Comprehending this mismatch not only allows us to clarify the agenda to be addressed by our EM-MNE framework but, ultimately, also shows how this can still be most effectively constructed from essential tenets learnt from the history of IB. In fact, central to this will be two more recent analytical topics that appeared within mainstream IB thinking to address changes in the context within which traditional MNEs found themselves operating. Firstly, the growing importance of broadly defined 'institutions' in conditioning the behavioural environment faced by these enterprises. Secondly, the need to develop 'relational' expertise as MNEs moved into a wider range of organisational contexts, accepting the importance of contractual agreements and alliances.

From 'Traditional' Western to 'New' Emerging Economy MNEs

In this section we initially introduce aspects of the pioneering analyses of IB which served to provide us with crucial perceptions of the origins and nature of the traditional MNEs. These provide analytical templates from which we can discern the ways in which the new EM-MNEs challenge established perceptions and then build the foundations from which we seek to derive our refocused framework. We can now see the essence of the current fully evolved version of the traditional MNE as a firm that seeks to leverage the differences between locations into an overall global competitive strategy (Pearce 2006). This aims to cover the two overarching objectives of any strategically mature enterprise. Firstly, to secure optimal performance (profit, growth and market share) benefits from its in-place mature sources of competitiveness, that is, exploitation. Secondly, to seek to access appropriate means of reinforcing and

refocusing these sources of core competitiveness, that is, exploration for augmentation. The early attempts to model the MNE as an established entity focused predominantly on its approach to the first of these objectives, with the analysis primarily concerned with the static and optimising aim of the efficient use of its established capabilities and resources. Here, these mature and fully understood sources of firm-level competitiveness were seen as being applied in diverse locations in order to benefit from either their inputs to production (efficiency seeking—ES) or market potentials (market seeking—MS). Here, we will follow the development of this framework forward as it came to encompass more dynamic and evolutionary perspectives, and the embracing of a wider range of strategic objectives within the MNEs' internationalization and, increasingly, their responses to institutional contingencies. The emergence of these issues and contexts in the traditional MNEs, we argue, will help us to elucidate the idiosyncrasies, but ultimately the coherence, of the new MNEs.

It has proved conventional in building frameworks to analyze MNEs, whether traditional Western or new emerging economy, to begin with the sources of firm-level ability to achieve effective international expansion. This has been designated as ownership advantage (OA) in the eclectic framework (Dunning 1977, 1988; Dunning and Lundan 2008a) or as firm-specific advantages in the firm-specific advantage/country-specific advantage (FSA/CSA) matrix (Rugman 1981; Rugman and Verbeke 2009; Rugman et al. 2011). Two important lines of argument underpinned this in the early theorising. The first is that these OA/FSA will have been generated entirely in the MNE's home-country operations. Of course, the *initial* extension of a firm's operations into foreign operations can logically *only* have derived from home-country activities. Indeed, this insight had preceded substantive attempts at analysis of the MNE per se, being central to the first stage (product development/innovation) of Vernon's (1966) product life-cycle model. Thus Vernon, then in pursuit of rather different analytical objectives, provided a persuasive and detailed explanation of how a firm that initially had no international ambitions or perspectives could, through a process of innovation that entirely reflected its 'domestic' needs and potentials, create those sources of distinctive competitiveness that could lead it, somewhat serendipitously, into the international expansions that could presage its accession into the fully evolved and strategically diverse 'traditional' MNE.

Secondly, the fact that key competitive characteristics of these proto-MNEs would reflect home-country conditions (influential market needs and practices, technological capacities, social factors that would determine managerial and employment practices and other distinctive influences of the insti-

tutional environment) means that their transposition into foreign operations could prove problematic. Thus many such conditions, to which the firm's OA/FSA had developed responsively, would differ in those foreign economies where other competitive factors would be suggesting the relocation of value-adding activities. There would be an innate 'liability of foreignness' (Hymer 1960/1976; Zaheer 1995) that would place the MNE at a disadvantage when seeking to compete with securely embedded local enterprises. The home-country-derived sources of unique firm-level competitiveness would need to not only differentiate their offering from other firms, but do so to a degree that could overcome those cost-advantages that entrenched domestic firms would derive merely from their operative familiarity with those environmental and institutional characteristics that would challenge the new foreign entrants.

The scenario implied by these foundation texts of IB theorising, therefore, presumed that national firms would have only been able to formulate these decisively strong sources of international competitiveness over quite long periods of time during which their own evolution would have been embedded in the gradualist processes of their own country's industrialisation and technological deepening. The expectation was then that MNEs could only emerge from a limited group of high-income and technologically advanced economies with fully evolved industrial sectors where business normally operated at arms-length from any significant degree of routine government intervention.¹ Linked to this was the further expectation that, due to the qualitative characteristics of the products involved and the input needs of their manufacture, the first foreign markets entered by the exploratory MNEs would be those of very similar advanced economies. The market-seeking objectives underlying this were clearly articulated in the second (mature product) stage of Vernon's product life-cycle model (1966). A little later, the Uppsala model of MNE expansion (Johanson and Vahlne 1977, 1990) also placed emphasis on such firms pursuing their pioneering overseas entry into economies that possessed similar economic and institutional conditions.² The ways in which the pioneering internationalization of the new MNEs from high-growth emerg-

¹ This is not to claim, of course, that developed industrialised economies *never* had policies towards outward foreign direct investment (OFDI). But, as argued in detail by Buckley et al. (2010), these were predominantly articulated as macro-level capital controls and often based on neo-classical frameworks that denied the micro-level understandings of MNEs generated in IB theorising.

² Recently, Meyer (2014) has refocused an 'internationalisation process' model towards the specific context of EM-MNEs. Thus the emphasis is placed much more decisively on *institutional*, rather than mainly *economic*, similarities in determining plausible locations for early international expansions. This encompasses experience in operating in (and from) institutionally uncertain and volatile environments. This coalesces with our conceptualisation of *relationship* firm-specific advantages as distinctive attributes of potential EM-MNEs, enabling them to operate flexibly and responsibly within opaque and incoherent institutions of planning and regulation.

ing economies defies these long-established nostrums of IB thinking will be developed systematically here.

Before that we need to take account of important aspects of how the traditional MNEs themselves evolved as they widened their international scopes and objectives and sought to systematically leverage different host-location potentials into broadly based globalised strategic perspectives. In particular, this came to embody not just the ‘exploitation’ (through MS and/or ES) of the home-country-derived foundation sources of competitiveness, but also their ‘augmentation’ in decentralised exploratory activities through KS (Pearce 2012; Zhang and Pearce 2012) or strategic asset seeking (Dunning 1993; Dunning and Lundan 2008a).³ In the main, however, this remained a predominantly gradualist and path-dependent process, where the MNEs expected to generate their revised and revitalised capacities by adding new diversifying capabilities to the knowledge platforms that had underpinned and defined their distinctive established competitiveness. This nevertheless does represent a vital step in the strategic evolution of MNEs and of their organisational structure. Having originally generated their defining OA/FSA at home, and then based their initial international expansion on them, the traditional MNEs gradually break free of exclusive dependence on this one source for competitiveness and begin to address their competitive renewal by leveraging the knowledge and creative heterogeneity of many locations (Papanastassiou and Pearce 2009). This means that, as these traditional MNEs extended their international scope and drew the influence of these dispersed and diverse attributes into their decision making, they became less influenced by the growth patterns, policies and institutions of their home countries. It also meant that eventually the activities of these mature industrial economy MNEs could no longer be interpreted primarily in terms of foreign direct investment (FDI) *by* one country *into* another country.

Thus, once they were substantially globally networked, not only did the *home* country take a less hegemonic status in the traditional MNEs, but also no particular *host* economy would be likely to take on decisive positions of distinctive strategic influence within the drivers of these firms’ expansion. Our emphasis on the roles of resource seeking (RS) and knowledge seeking (KS) as drivers in the initial international expansion of Chinese business represents one of the defining differences of these new firms. These, we will argue, do represent specific acts of FDI which place the activating MNE, both directly

³ These have been manifest in the expansion of decentralised and internationalized RandD programmes in MNEs and its interrelations with globalised approaches to innovation (Papanastassiou and Pearce 2009, Chap. 8).

and indirectly, at the core of important aspects of home-country developmental concerns. Both RS and KS can be seen as often being, indeed, FDI by one country into another reflecting both vulnerabilities in the investing-country's development and very specific strengths of the host country. The choice of host country not only works for the interests of the expanding firm but becomes available to it precisely because it reflects developmental needs of the home country which, therefore, offers specifically tailored support.

To summarize from our understanding of the *emergence* of the early generations of the now well-established traditional MNEs, we make the following points. Firstly, their initial internationalization was based on OA/FSA that had evolved in a rather iterative way within the development of their home country, taking forms needed to be competitive there. Secondly, the decision to commit to international expansion was based on the firm's own perception of opportunities in foreign locations that could be best exploited by the activation of their in-place OA/FSA. These perspectives provide the bases for the comparisons and challenges that need to be addressed in seeking to explain the origins of MNEs from high-growth emerging economies such as China; our analytical focus here. The initial assertion is that such internationalization has been occurring before such firms had plausibly had the opportunity to generate OA/FSA that could facilitate entry into international competitiveness in the traditional fashion, and before their domestic market positioning was provoking reasons for them to need to consider doing so.

As exemplified by China, the high rates of growth that have distinguished the most influential emerging market economies have mainly derived from exceptional exporting performance. This derived from the activation of previously latent sources of comparative advantage (notably low-wage and, therefore, potentially cost-competitive, labour) as the bases of international competitiveness. However, at this very early stage of development, the firms that proved most able to leverage these sources of country-level advantages towards success in international markets tended to be foreign MNEs, or local-enterprise subcontractors to foreign firms that provided the technologies and market access to do so. This also has prominence in early thinking on traditional MNEs, representing the ES behaviour predicted by Vernon for the standardized product stage of the product life-cycle model and also the trade-creating FDI designated by Kojima (1978) as exemplifying the early phase of Japanese MNE expansion. There was nothing in that scenario that immediately required, or provided an impetus for, the generation of MNEs *from* these early growth economies.

The build-up, and prompt internationalization, of certain types of firms within China, we will argue, sought very precisely to overcome emerg-

ing short-term vulnerabilities in the established mode of development and then, in the medium term, to secure the means of moving towards a more knowledge-driven model of competitive upgrading and industrialisation. This places the central emphasis of our framework on the origins of Chinese MNEs in playing roles that are in many ways integral to the wider development of the home economy, so that their emergence and objectives will often be mandated and supported by its institutions. The ways these new MNEs enter the global economy and the reasons for their so doing contrast very decisively with the bases of extant thinking on mature traditional MNEs. But, for all their challenging idiosyncrasies, these firms cannot defy the established norms and practices of the institutionally formulated global economy they enter and the constituent national economies that attract them. This means that, precisely because the new MNEs will need to compete and operate alongside traditional MNEs in environments defined over decades by these mature global firms, they have to be explained through the broad perspectives of the extant modes of analysis.

It has also been argued that, because it is unrealistic to believe that many new EM-MNEs have already generated OA/FSA at a level that would allow them to compete on equal terms with traditional MNEs in the established global markets that are their natural territory, the concept is of limited applicability to comprehension of Chinese and other EM-MNEs. We will reject that view here but argue that the competitive competences that are unique to particular EM-MNEs need to be analytically repositioned and understood from within this very different context; in terms of both their origins and operationalisation. Relating to this, we will also adopt and systematically develop another well-established assertion; that these EM-MNEs are able to expand internationally, despite the vulnerability of their FSA, because they can access various types of support from their home country. In effect the sources of competitiveness these firms can activate so as to be able to undertake particular acts of FDI become a composite of their own FSA and supportive elements of home-country-specific advantages. But then the question as to how *particular* firms are able to access these forms of support, from beyond their own already internalised assets and capacities, becomes another element of our framework.

To begin rather conventionally we will first adopt *asset* firm-specific advantages (FSA-A) which represent those knowledge- and skill-based attributes that are central to the distinctive competitiveness of a firm and thereby provide the core of its ability to expand internationally and successfully carry out specific value-adding activities overseas. In the familiar modelling of the traditional MNE it has been assumed that their FSA-A were fully evolved

and sufficiently strong so as to not only secure the bases for successful foreign operations but also help to define what the strategic purpose of these operations will be. We have already acknowledged that one defining issue relating to the emerging new MNEs is that their FSA-A will not yet have achieved that status. Yet we believe that they remain a central facet of understanding these firms. Certainly their FSA-A will rarely secure, on their own, immediate *direct* entry into international opportunities. But they are likely to be crucial elements of the *indirect* route to overseas expansion, through the support of home-country resources and development programmes. The ability of, for example, a Chinese firm to project itself as possessing the strongest FSA-A amongst plausible candidates to pursue overseas options that are favoured by the government's own perceived objectives can be vital.

This indirect route to the leveraging of FSA-A as a basis for EM-MNE internationalization derives from the firm's ability to project them into and through the complex institutional bureaucracies of the home-country government. This becomes such an important and contextually distinctive part of the process that we distinguish it as a necessary and separate attribute of EM-MNEs in the form of *relationship* firm-specific advantages (FSA-R). Thus FSA-R represents the firm's ability to build and maintain relationships with those institutions and agencies that may define opportunities and provide resources that can underpin its own internationalization. Though the ability of FSA-R to spin the strength of potentially relevant current FSA-A is clearly vital, the way it projects the firm's overall status and potentials within the power structures of home-country institutions can also have a wider and prolonged relevance. The relevance of FSA-R underlines again that the early emergence of these EM-MNEs is very much integral to the international expansion programmes of their *home* country in a way that would not have been as significant for the traditional Western MNEs, where any such links would have dissolved with these firms' growing range of overseas associations and interdependencies. This latter point does, of course, accept that building relationships within an extensive nexus of networks is an important facet of the international competitive coherence of long-established MNEs. We would see this as, however, a traditional managerial FSA-A, relating to the *tactical* positioning of the firm internal to the routinely evolving contexts of its *industry*. FSA-R aims to secure the firm's status in the *strategic* internationalization of its home *country*. It is to the details of how that home-country development strategy conditions the potentials for the early appearance of EM-MNEs that our framework needs to turn next.

The first element of this is to distinguish *developmental* country-specific advantages (CSA-D) as factors that are integral to the home country's devel-

opment and which, in some way, can then underpin the *ability* of certain firms to expand internationally and/or provide a *motivation* for them to do so. These different implications for the origination of EM-MNEs derive from both positive and negative aspects of CSA-D. On the positive side, high growth rates generate high levels of savings and foreign exchange which can potentially be accessed by the firms to enable them to undertake particular acts of FDI.⁴ On the negative side of CSA-D, we can discern imbalances and vulnerabilities in the sustainability of the successful development processes, the alleviation of which may provide the reason for these acts of FDI. Our later analytical focus on RS and KS, as very distinctive micro-level emphases in the growing internationalization of Chinese business, can exemplify how the overseas operations of such new MNEs can feed back to the alleviation of constraints within the macro-level progress of home economies.

Though the success of many of the high-growth emerging economies has been associated with the introduction of market forces domestically and with an opening to international competition this has normally proceeded within a continuation of *development* programmes that are carefully articulated to pursue the upgrading and reinforcement of competitiveness. The policy bases of this can then reflect both sides of CSA-D and be implemented through a network of institutions whose aims can condition the prospects for potential EM-MNEs. The positive manifestations of success, such as foreign exchange and capital, can be treated as ‘policy resources’ and *allocated* to purposes that support the reinforcing and refocusing of development processes. Precisely targeted acts of FDI can be central to this and, at the same time, provide a logical impetus to the international expansion of domestic enterprises.

The analytical core of the framework is that the internationalization of many influential EM-MNEs reflects an embedded positioning in the development of their home countries. Their capacity to secure this status reflects their assertion, partially around advocacy of their existing FSA-A, of an ability to fulfil roles defined around precise needs of their domestic economies’ development (reflecting negative CSA-D; CSA-D/–) *if* they are provided with necessary supports (positive CSA-D; CSA-D/+). The international expansion of these firms can derive from their perceived ability to operationalize international projects that will meet specific developmental needs of the home economy. Realization of this possibility is very much dependent on a negotiating con-

⁴Aharoni (2014) has drawn attention to similar lines of argument in very early thinking on MNEs. Thus he notes how Aliber (1970, 1971) suggested that a competitive advantage available to an MNE ‘was its access to hard currencies and lower financial costs ... [so that] one reason why some countries may spawn more MNEs than others is that their firms have access to hard currencies and can use that advantage to acquire other firms in other countries’ (Aharoni 2014, p. 24).

text that is likely to involve a range of home-country institutions. From this we derive the importance of *institutional* country-specific advantages (CSA-I), these being the set of institutions that firms seeking to expand internationally will need to negotiate with in order to secure access to the forms of support they need to supplement their FSA-A. It is the very distinctive role of FSA-R to understand and work within these institutional networks and bridge the gaps between the firm's aims and country's developmental needs.

Levels of Developmental Resources and MNE Motivations

As a prelude to a more detailed application of our FSA–CSA framework to the case of China and its emergent MNEs it is useful to adopt a complementary analytical approach which distinguishes three ‘levels’ of developmental resources and relates them to the varied strategic motivations that can be pursued by MNEs. In its original derivation (Pearce and Zhang 2010; Zhang and Pearce 2012), this approach was initially applied to the case of MNEs’ operations *in* China, but here we can adapt it usefully to show how the needs of China’s developmental dynamism has focused the expansion of its emergent MNEs around, in particular, RS and KS.

Here, level-1 resources are natural or primary resources in the form of extracted energy and minerals or forestry. A central feature of these resources is that they are either totally non-renewable or can only be renewed over long and uncertain periods of time. Therefore processes of development based around such level-1 resources will be structurally limited and extremely vulnerable in terms of sustainability. Level-1-based development would need to be systematically broadened and diversified, perhaps by localizing further stages in the value chain (processing or refining). Or, alternatively, revenue and foreign exchange generated by early exploitation of these resources could be reinvested in a more generalised progression into manufacturing.

In terms of inward investment level-1 resources have been accessed through the RS strategic motivation.⁵ The central role of RS in China’s *outward* FDI then derives from a different positioning of level-1 resources; as significant complementary inputs into export-oriented manufacturing processes primarily driven by large supplies of cost-competitive labour. As a possibly general-

⁵ Strictly speaking we should here refer to *primary* resource seeking (to parallel level-1 resources), rather than the broader, but simpler resource seeking. Thus our RS excludes, by comparison with Dunning and Lundan (2008a, p. 68), ‘cheap and well-motivated unskilled or semi-skilled labour’. This latter becomes a key element of our level-2 resources.

isable rule, it could be suggested that where early stage growth is decisively based around a dominant resource (such as labour) the planning processes may somewhat neglect the significance of relevant secondary resources (such as energy or minerals) until constraining shortages begin to emerge. Thus RS by Chinese MNEs may emerge (ultimately within planning processes) as a means of providing inputs to support the prolongation of the established bases of home-country development.

We can then see the more sustainable forms of national development as being based around level-2 resources, in the form of inputs into mature and successful production processes, which can be upgraded *within* the development process itself. Thus, most prominently, an in-place labour force can be retrained to higher skill levels, whilst new entrants may from the start achieve higher productivity levels that reflect continuing improvements in education standards. Similarly energy supplies, as a level-2 resource,⁶ can be improved both in terms of price and reliability. The capacity of many aspects of infrastructure, including transport systems, ports and airports and IT and other communication networks, can be enhanced in ways that support deepening of industrial competitiveness. But the second defining feature of level-2 resources is then that though they are able to play higher-value-added roles they do not, in and of themselves, possess the capacities to create the new technologies they could work with and to thereby define the nature of their upgraded supply responsibilities. For persistent growth the upgrading of level-2 resources is necessary but not sufficient. The limitations of an early growth economy to generate such new opportunities for its own firms to apply level-2 resources more effectively have opened up possibilities for foreign MNEs to access them competitively. This would initially be through MS and ES strategies (Pearce and Zhang 2010). Bearing in mind China's presumed strength in level-2 resources, there had, until quite recently, been analytical scepticism about the scope for MS or ES in its outward FDI. But recent studies of the determinants of Chinese FDI have found positive relationships for variables likely to reflect a MS motivation. A prevalent interpretation of this, however, has been that it represents marketing and distribution activities that mainly aim to enhance the market for Chinese exports. Thus, its driver remains, if indirectly, the *home* country's level-2 resources. Similarly, often anecdotal or case-study evidence (e.g. Shen 2013) does suggest the emergence of ES production in low-cost locations *outside* China. This tends to be in low-technology mass-market consumer goods sectors so that it may be interpreted

⁶We refer here to 'energy' in terms of a national generation and distribution system, which can be improved and upgraded through time; rather than non-renewable fossil-fuel primary sources.

as relocation, by Chinese enterprises in such industries, of supply of goods based around the lower-level level-2 resources that are losing competitiveness and being superseded in China's exporting.

The distinguishing feature of level-3 resources is 'the capacity to contribute to the *local* derivation of new knowledge-driven developmental potentials ... [that will] have no association with current supply of standardised goods and services ... [but are] the resources that help define *new* directions and opportunities for development' (Pearce and Zhang 2010, p. 490). Level-3 resources thus encompass 'individuals, teams, firms, knowledge-support infrastructures and technology policies' whose 'technology, skills, inventiveness and imagination ... will contribute interactively and interdependently to the interjection of creative dynamism into an economy' (Pearce and Zhang 2010, p. 490). The increasingly systematic attempts of host-country governments to provide an institutional context for the creation and operationalization of level-3 resources have been formalised in an extensive literature on national systems of innovation (NSI) (Freeman 1987; Dosi et al. 1988; Edquist 1997; 2005; Nelson 1993; Lundvall 1992, 2007). Since the aim of an NSI is to build new bases for national competitiveness, the most successful will be those that generate the most powerfully distinctive new technology scopes and provide ideas for new goods derived from market research. This has meant that traditional MNEs increasingly found themselves in a global context of technological heterogeneity and market heterogeneity (Papanastassiou and Pearce 2009), as potential inputs to their own innovative programmes. KS, activated through decentralised international networks of R&D labs and innovation-targeting subsidiaries, became the dominant mechanism for these MNEs' own competitive renewal. An effective NSI can attract significant KS commitments in inward FDI.

A growing literature (Liu and White 2001; Lu and Lazonick 2001; Gu and Lundvall 2006; Lazonick 2004; Hu and Mathews 2008; Li 2009; Yang et al. 2012; Franco and Leoncini 2013) now documents the emergence of a very significant NSI in China and the generation of increasing quantities of level-3 resources. In terms of underwriting the evolutionary sustainability of development this can target the need to use the increasingly scarce level-1 resources (a potential developmental bottleneck) as sparingly as possible and to provide new roles for level-2 resources that make logical use of their potentials for upgrading and enhanced productivity. The apparent appearance of KS activities very early in the life of, at least some, Chinese MNEs can then reflect two interrelated factors. Firstly, that the Chinese NSI is emerging earlier in the economy's growth than traditional expectations would have anticipated and, therefore, its augmentation through access to more fully evolved NSI else-

where may be logical. Secondly, in line with our perception of technological and market heterogeneity, it would be expected that firms from any economy targeting a logical range of creative (level-3) resources would need to implement selective KS operations in other economies. In a sense that would be less true for KS operations in fully globalised traditional MNEs from countries with mature NSI, we will argue that the KS of new Chinese MNEs represents an element of internationalization of the Chinese NSI itself.

Firm-Specific and Country-Specific Factors in the Growth of Chinese Multinationals

Central to the challenging context of Chinese MNEs are the twin features of the *international* economy that they will enter and the *national* economy that conditions their initial formulation as firms. Our characterisation of the ‘traditional’ MNEs indicated that they were fully evolved firms from institutionally settled domestic economies that eventually pioneered speculative entry into a then much less open or integrated global economy. Our interpretation places the new Chinese MNEs in somewhat the opposite position; as firms that are themselves still in the process of defining and understanding their competitive nature that nevertheless find reasons to venture into a highly competitive and open international economy in which the mature traditional MNEs now have long-established roots. The challenge and aim of our framework is to address in tandem the *micro*-level issues of the formulation and very early internationalization of Chinese MNEs as *firms* and the *macro*-level context we find for them as significantly embedded players in Chinese *developmental* needs and progress.

Asset Firm-Specific Advantages (FSA-A)

We define FSA-A as the ‘unique attributes of a firm that relate directly to its capacity to undertake specific value-adding activities in a competitive manner and which can be activated effectively when that firm wishes to expand internationally so as to benefit from a clearly perceived opportunity’. Central to these are intangible competitive competences such as ‘technology and information, managerial, marketing and entrepreneurial skills [and] organisational systems’ (Dunning and Lundan 2008a, p. 96) that have been positioned in recent forms of the eclectic framework as asset-specific OA. We retain the importance of FSA-A as the central micro-level influence on Chinese MNEs

because of its ability to assert these firms' status in two contexts. Firstly, the conventional and traditional firm- and industry-level scenario in which its FSA-A would provide the defining ability of the firm to enter competitively into an available overseas project or newly perceived opportunity. Here, the FSA-A needs to be exercised relative to the comparable competences of other possible international aspirants to the same opportunity. Secondly, the domestic institutional context from which the putative Chinese MNE will seek to access various types of desired home-country support. Since we expect this governmental institutional support to be initially related to the perceived desirability of the external project itself, rather than to any a priori commitment to a specific firm, it becomes logical that the suitability of the FSA-A that the aspirant MNE can advocate (relative to those of other Chinese enterprises) remains a key attribute.⁷

It is the first of these two contexts that has so far had most traction in thinking about FSA-A in Chinese MNEs. This stems from the suggestion that at such an early stage of their home country's industrialisation they will be less than fully realized and that this will logically compromise their capacity to compete with comparable attributes of long-established and internationally attuned 'traditional' rivals. Here it is useful to elaborate the specifics of this assertion in the two CSA-D drivers we focus on: the RS/infrastructure provision case and that of KS. An influential aspect of these cases is the very different status of the host countries that provide these opportunities and the potential positioning of the Chinese MNE investment. The presence of 'exploitable' RS potentials, as level-1 resources, often implies an early stage of host-country development, so that the frequent complementary offer of infrastructure creation or improvement (a level-2 developmental resource) also becomes part of a Chinese package. China offers these resources (CSA-D as well as FSA-A) from a more developed status, but also as a means of sustaining its growth. For KS investments, seeking host-country level-3 resources, the investment is made from a lower level of industrial development; it is to 'augment' the current FSA-A that the investment is pursued.

The most contentious and pervasive context for China's RS has become that of 'South-South' investments (notably into Africa). This is likely to impose important institutional and diplomatic influences on decision making since it becomes integral to both countries' developmental needs. It also provides significant nuances to the interpretation of FSA-A of potential Chinese par-

⁷Where EM-MNEs have genuine FSA-A likely to contribute positively to host-country development they may face less resistance than where there is a clear perception of their dependence on home-country CSA-D support mediated by home-country CSA-I.

ticipants.⁸ One aspect of this is the presumption that much of this resource development/exploitation will be carried out by foreign enterprises at the pioneering stages. This means that the primary competitors faced by Chinese enterprises to initiate such projects will be from developed industrial economies. Here, the Chinese FSA-A may indeed fall short of the ‘state-of-the-art’ competences of competitively mature developed country rivals, but may perhaps be more appropriate to realization of the developing country project’s potentials.

One aspect of this may relate to the ability to create and secure the initial provision of infrastructure capacity and services which are often leveraged as part of a RS package. Expertise with regard to this will have been recently learned at home by potential Chinese infrastructure MNEs and take forms more suitable to the similarly early stages of creating these foundations of sustainable growth and development in resource rich countries. Another possibility here is that Chinese RS and infrastructure-creation firms will have emerged within the institutions of China’s own early stage development and will have developed an expertise (our FSA-R) in negotiating and positioning their own status within such a complex, uncertain and evolving context. As, to some degree, a managerial facet of FSA-A this type of expertise may provide these Chinese MNEs with a superior ability, compared to developed economy rivals from more institutionally neutral backgrounds, to secure their position in the developing country projects. Even where not perceived as against possible local rivals external entrants to these often institutionally complex and perhaps volatile environments will still face strong ‘liabilities of foreignness’. These may be less alienating to Chinese firms, from a similar home-country background, which will also have a distinct FSA (whether categorised here as ‘A’ or ‘R’) in dealing with them (Cuervo-Cazurra and Genc 2008).

The now quite familiar paradox of FSA-A in the case of KS by Chinese MNEs is that it is motivated by their perceived weakness and yet dependent on them to secure entry into possible external learning opportunities. Both of the contexts in which we suggest that FSA-A need to be exercised by Chinese MNEs in securing international expansion can be distinguished in the case of investments motivated by KS factors. Firstly, in terms of the direct firm-level context, the firm’s current knowledge-based FSA will determine which external opportunities it feels it needs to pursue. These will logically be ones that

⁸ Some of the lines of argument developed here in relation to ‘South–South’ RS investments may be transferable to the emerging stages of Chinese MS and ES in Africa and other developing countries. For instance goods and services created to be competitive in the Chinese market (including the ability to produce them cheaply) through the early stages of its development may transfer logically and effectively into competitiveness in other emerging markets.

can add coherent new dimensions to the extant competences so as to enhance technological competitiveness in an evolutionary manner. The current FSA-A will provide the basis for understanding and evaluating such learning prospects, and for their subsequent assimilation and operationalization as sensible directions for competitive upgrading. But, in the logic of mainstream IB theorising, these current FSA-A, because of their accepted limitations, cannot by themselves secure access to the desired new knowledge potentials. They need the home-country support of the second context to allow for this. Here, it should be the firm's appreciation of its current FSA-A and the ability to articulate the precise limitations that they aim to overcome through the KS-investment opportunity which they seek to spin to an informed, institutional selection process that may provide the needed support. The aim would be to project to the decision makers that these FSA-A could provide the basis for their ability to secure new knowledge-based capacities that both enhance the firm's own competitiveness and do so in ways that can feed back into the provision of new scopes in the Chinese NSI and, therefore, add to its capacity to widen the range of level-3 resources driving its progress.⁹

Relationship Firm-Specific Advantages (FSA-R)

We consider FSA-R to be 'a firm's managerial abilities to establish, nurture and draw benefits from external relationships, through which they seek to secure preferred access to what are, at least initially, generally available sources of support'. Similarly, Dunning (2002) defines firm-specific relational assets as 'the stock of a firm's willingness and capability to access, shape and engage in economically beneficial relationships; and to sustain and upgrade these relationships'.¹⁰ Regarding possible 'special ownership advantages of Chinese MNEs' Buckley et al. (2007, p. 502) indicate 'the ability to engage in beneficial relations with firms and other actors to provide access to resources

⁹This positions these early KS investments of Chinese MNEs in two analytical contexts. Firstly, in line with now-established understanding of KS in the mature 'traditional' MNEs, it may generate new firm-level attributes that can be applied anywhere in an expanding and diversifying MNE's global operations (multidirectional technology transfers), that is, non-location-bound subsidiary-specific advantages (Rugman and Verbeke 2001). But in the EM-MNE case it may more resemble the, now mainly superseded, concept of 'reverse technology transfer' in which a prioritised flow of new technology and similarly competitive attributes goes from an overseas facility specifically back to the parent and home-country operations.

¹⁰In later work Dunning subsumed his insights on relationship building and relationship assets into the new concept of institutional ownership advantage (OA_i) (Dunning and Lundan 2008b; Lundan 2010).

controlled by others’.¹¹ Similarly, Buckley et al. (2011, p. 135) suggest that ‘economic systems which are built upon “relation-based” governance systems may reward personal linkages between business and governments’. In our framework FSA-R are applied by putative Chinese MNEs to access supporting aspects of CSA-D through an ability to operate within the appropriate institutional environments (CSA-I).¹² Thus Peng et al. (2005, p. 623) defined institutional relatedness ‘as the degree of informal embeddedness or interconnectedness with dominant institutions [which] confers resources and increases the legitimacy of an organisation’ and builds ties with ‘a dense network ... of dominant institutions’.

Firms that have emerged in countries such as China, will have done so during periods of not only high levels of *economic* growth and change, but also when significant elements of the *institutional* environment (emerging CSA-I) will have been subject to formulation and reformulation. Thus they will have learnt, as a central element of FSA-R, to understand, tolerate and derive flexibility as a response to, such institutional volatility and endemic change. In terms of our wider analytical context, we can then argue that such an ability to work within institutional change through *time* in the home-country environment can also become a significant attribute in adjusting to environmental and institutional differences across *space*. Firm-level expertise derived from processes of continual adjustment to institutional change within China can also be leveraged within the comparable process of entry into somewhat different overseas contexts. In this way FSA-R may provide Chinese MNEs with capacities that are useful in dealing with the liability of foreignness and which might not be available in comparable forms to MNEs that come from relatively stable and consistently formulated backgrounds.¹³

A justly pervasive distinction often included in analysis of China’s MNEs (Wang et al. 2012a, b; Cui and Jiang 2012; Duanmu 2012; Alon 2010; Luo and Tung 2007; Lu et al. 2014; Meyer et al. 2014) is that between state-owned and private enterprises (SOE and PE). The logical expectation here

¹¹ Rugman (2010, p. 84) suggests ‘MNEs from emerging markets [need] to develop FSA-A in business-government relations’.

¹² In an analysis of the determinants of Chinese outward FDI Wang et al. (2012a, p. 672) argue that firm-level resources (our FSA-A) only trigger foreign expansion ‘when firms are strongly supported by government’, so that an emerging economy MNE’s ‘ability to employ its resources and internationalize depends on its effectiveness in managing government ties’ (our FSA-R).

¹³ Of course the extent to which FSA-R learnt in a home-country context can transfer to building relationships with host countries’ agencies and policy makers is uncertain. In fact, differences in the types of FSA-R that are most viable for effective positioning in terms of home- and host-country institutions will be a significant influence in determining the extent and implications of the cultural and institutional *distance* often modelled into analysis of determinants of FDI.

would then be that by their very institutional nature SOEs would be more embedded in relevant CSA-I and have more direct access to the resources and motivation defined by CSA-D. This does not mean that FSA-R are likely to become less relevant as firm-level competitive attributes in SOEs seeking to internationalize. Even where projects might be initially institutionally defined to play a specific role defined within China's developmental needs (notably in RS cases), with SOE participation preferred, firm-level determinants should still have important influences. Firstly, where several SOE are plausible candidates to implement such a project their relative FSA-R will play their normal role. Secondly, however a SOE achieves selection for a particular CSA-D project, it will then seek to individualize its development in ways that will allow it to apply its FSA-A capacities in the strongest way possible. Asserting this in the planning/bargaining process with, in effect, commissioning government agencies will again be facilitated through its FSA-R. Finally, there will be many sectors (particularly those with strategic emphasis on KS) where both SOE and PE are aspirant MNEs and would take responsibility for asserting the presence of worthy FDI opportunities and seek support for them through their FSA-R. It may then become an important normative or efficiency issue as to whether SOEs can assert stronger FSA-R in such cases. This could reflect an innate preference of governmental institutions for SOEs per se or that these enterprises would often have stronger, or at least more relevant, FSA-R simply as a result of the experience of being embedded in such institutional contexts.¹⁴

In terms of *normative* concerns issues emerge with regard to how the relationship between their FSA-A and FSA-R affect efficiency in the realization of the true economic potentials of a project/investment these EM-MNEs enter into. This is, of course, especially important to a host country, either in terms of securing the developmental potential of its resource base, for a RS investment, or in terms of achieving the most valuable realization of creative potentials in its knowledge base and NSI in the case of KS. Here a potential *complementary* relationship would prevail if very strong FSA-R operated to make sure that a project was implemented by the Chinese MNE with the optimal FSA-A, so as to secure its fullest available potentials. The negative *substitution* effect would then occur if exceptionally effective FSA-R led to a

¹⁴ Emphasis has also been placed on the level (state; province; city and county) at which the governmental affiliation of a possible MNE is activated (Wang et al. 2012a; Child and Rodrigues 2005; Sun et al. 2010). This is likely to affect institutional openness to persuasion through FSA-R. Thus Wang et al. (2012a, p. 660) argue that whereas at the city or county level *local* performance is likely to pre-occupy bureaucratic decision makers, at the state or provincial level they may be 'more concerned with globalisation, openness and integration of the country into the World economy [the Go-Global policy]' and thus more amenable to firms' FSA-R.

project being implemented around far from ideal (or best available) FSA-A, causing suboptimal realization of its possibilities.¹⁵

Developmental Country-Specific Advantages (CSA-D)

A central aim of our framework is to formalise aspects of the ways that the micro-level internationalization of important elements of Chinese business are embedded within the macro-level dynamics of China's development. Thus we define CSA-D as 'forces that are endogenous to a country's developmental processes that generate resources and/or motivations that can drive and support the international expansion of its firms'. This then encompasses both positive and negative forces or imbalances that emerge within development and which impinge on internationalization through FDI. Here, the CSA-D/+ are manifestations of successful growth in the form of surpluses in capital (savings) and foreign exchange. As will be more systematically discussed in the next section these positive CSA-D can be *allocated* by the policy institutions of Chinese development to help facilitate specific acts of FDI by emergent Chinese MNEs where these are seen to be a potentially significant contribution to the wider needs of sustainability and deepening of China's growth.

This acknowledges the presence of CSA-D/–, in the form of emerging constraints within the successful growth processes that appear to both compromise the persistence of its current bases and limit the immediate emergence of potentials for its medium-term upgrading and refocusing. Comprehension of these negative CSA-D has helped define particular motivations for Chinese business overseas expansion to both secure the prolongation of the current developmental structures (RS) and also to explore the potentials for subsequent movement beyond them into higher-value-added knowledge-based forms (KS).

In our characterisation, we see the core of China's growth as based on the exploitation of level-2 resources in the form of an efficient and cost-competitive supply of productive labour. The sustainability of this has quantitative roots in terms of the supply of workers that has been drawn into the export sector, with an increasingly important qualitative element reflected in the upgrading of its productive potentials (higher skill levels) so as to encompass the still highly competitive supply of higher-value-added goods. But, we have indicated, this may be placing increased pressure on the much-less-elastic domestic supply of level-1 inputs such as energy and minerals. The

¹⁵The alternative negative substitution effect is, of course, one where the ideal FSA-A are not applied because the firm's weak FSA-R are beaten by those of another enterprise with less appropriate FSA-A.

growing emphasis on the *external* sourcing of such resources (RS) can then be seen as integral to the policies that seek to prolong the competitive viability of the core industrial strategy.¹⁶

Following on this background in the policies and practicalities of China's development most of the studies of the determinants of its FDI included proxies for RS amongst its variables (Buckley et al. 2007; Duanmu and Guney 2009; Duanmu 2012; Cheung and Qian 2009; Voss 2011; Kolstad and Wiig 2012; Alon 2010; Wang et al. 2012a; Cross et al. 2007). The more wide-ranging studies, in terms of time-period and country coverage, are ambiguous with regard to the pervasiveness of RS in Chinese FDI. But focus on particular subsamples can allow for two, very broad-brush, generalisations. First, RS tends to become more relevant in more recent periods in line with the view (Buckley et al. 2007, p. 511) 'that the securement of natural resources has become an imperative in more recent years, in line with Chinese domestic growth'. Secondly, the most systematic commitments towards RS have become most focused on developing (or non-OECD) countries. Several studies (Asiedu 2006; Biggeri and Sanfilippo 2009; Cheung and Qian 2009) have tended to place Africa in an increasingly significant position as a location of Chinese RS FDI. Overall, this tends to confirm both the increasing relevance of RS as a manifestation of CSA-D/– and its likely positioning as a factor in China's wider relationships with particular host locations.¹⁷

We have suggested that an important element within the dynamics of China's current competitive development lies in the upgrading of labour-force productiveness through the ability of increased skill levels to perform higher-value-added functions. But this potential of level-2 resources cannot, of itself, provide the higher productivity potentials. This requires the scope-enhancing inputs of creative level-3 resources and the implementation of knowledge-seeking (KS) strategies. It is then, of course, desirable that such innovative opportunities should emerge predominantly in the domestic economy, ultimately within the scopes of local firms. But it is also now widely accepted in IB analysis that the sources of creative knowledge sought by major firms (the

¹⁶From her wide-ranging review of China's resource policy Moyo (2012, p. 14) indicates that in the context of emerging global resource shortages 'China seems to be the only country that is preparing for this eventuality in a sustainable and deliberately constructive way' through an entry into international resource markets that involves 'a comprehensive three pronged approach: via financial transfers (be it aid or commercial loans), through trade and by means of investment' (Moyo 2012, pp. 75–76).

¹⁷Biggeri and Sanfilippo (2009) also found a significant positive relationship between African countries' level of production of crude oil and a measure of its bilateral cooperation (the Aid relationship) with China. Thus it is suggested (Biggeri and Sanfilippo 2009, p. 45) that 'Chinese economic cooperation ... is driven by the opportunity to establish deeper relations with oil producing countries'.

traditional MNEs here) cannot be constrained to one location, so that decentralised learning processes now define KS strategies in MNEs.¹⁸

In terms of firm-level analysis, it is FSA-A that then become central to the understanding of the KS strategic positioning. Here again, we can emphasize important differences between traditional MNEs and the role of KS in Chinese and other EM-MNEs. The current mainstream comprehension of KS in traditional MNEs sees this as an essentially evolutionary process, aiming to add new sources of competitiveness in a logical and coherent manner to a mature and fully understood body of successful FSA-A. In this path-dependent progression, the existing FSA-A play two roles. Firstly, they define the basis of the sorts of knowledge that are sought. This would normally be expected to add significant new dimensions to current competitiveness without provoking too much by way of destabilising changes in core perspectives. Secondly, the ability to assess the capacity of potential new knowledge sources to serve this coherently evolutionary role is likely to reside with those scientists and technologists in the firm with the most complete understanding of the strengths and limitations of the present FSA-A.

Against this established perspective, we can discern the enigma of KS as it appears to be emerging in Chinese MNEs. Here, it is usually argued that KS takes place, not to add incrementally to fully formulated and successful FSA-A, but to acquire externally knowledge-based inputs that can feed into those ongoing exploratory processes that are attempting to achieve the sorts of unique and distinctive FSA-A that would ultimately define genuine international competitiveness for the Chinese MNEs. Its current aims are gap-filling rather than logically evolutionary. However, this challenges a key precept of IB theorising. Chinese MNEs' KS investments are being made in reflection of clear acceptance of the need to overcome understood limitations in their knowledge-based FSA-A. But, theory tells us, acts of FDI can only be achieved from a basis in very strong and fully defined FSA-A. Once again, it is necessary to see these incremental micro-level acts of KS FDI as positioned within the wider macro-level needs and strengths of Chinese development.

¹⁸A number of studies of leading MNEs' operations in China have illustrated extensive knowledge spillovers into the wider economy, through joint ventures, subcontracting relationships, University R&D partnerships and so on. This can also be interpreted as a contribution of IB to the Chinese NSI and its generation of level-3 resource capacities. It can be argued, however, that this is qualitatively different from outward KS by Chinese MNEs. The driving imperative of the foreign MNEs in China is usually to transfer and/or evolve their own knowledge base towards innovation that is driven by and for the local market. Its core is the established capacities of the MNEs as evolved towards the distinctive local needs. It certainly adds to knowledge-driven enhancement of competitiveness in China, including elements that also add dimensions to international competitiveness. But it does not impart the types of uniquely local distinctiveness sought by the NSI. The KS of Chinese MNEs may still be contributing to this in a more individual manner.

KS investments targeted by Chinese firms may be articulated (through FSA-R skills) as beneficial to the wider progress of China's NSI and competitiveness and as, therefore, worthy of Governmental support.

Another facet of this can be discerned from the analysis; the extra uncertainty and riskiness of KS by EM-MNEs. We noted that because traditional MNEs were aiming to build in an informed and logically evolutionary fashion on mature FSA-A, their KS decisions would be strongly guided by those FSA-A that have a high-level of realistic potential. Because the comparable KS decisions of Chinese MNEs are much more fundamentally exploratory, targeting the filling of not fully understood gaps in their knowledge competences, there is a much greater risk of poor decisions that ultimately yield little of relevance. If it is still accepted at the level of developmental policy that KS is a desirable imperative that can most plausibly be best pursued within the strategic motivations of emerging Chinese MNEs, then support from within CSA-I can again be logical. Firm-level KS can therefore be seen as an agent in a certain degree of internationalization of the Chinese NSI in targeting the generation, accessing and assimilation of level-3 resources towards the renewal of the core dimensions of development.

Institutional Country-Specific Advantages (CSA-I)

To complete the framework, we define CSA-I as 'those facets of a country's institutional environment that determine and guide the motivations for an MNE to address particular overseas investment projects and/or provide it with the scope to leverage discriminatory access to resources that help facilitate such acts of internationalization'. As an articulation aimed to mesh with our earlier discussion, this definition incorporates institutions that control access to the CSA-D/+ that can support specific investment opportunities relevant to Chinese MNEs but also include those that address those CSA-D/- that emerge in wider development and thereby favour the pursuit of specific motivations (e.g. RS and KS).¹⁹

¹⁹Luo et al. (2010, p. 68) also endorse the need to examine 'the regulatory pillar of the home country's institutional environment [and its attention to] policies enacted by home-country governments' as central to the twin objectives of nurturing the growth of their MNEs alongside promotion of specific motivations for FDI. Thus 'the Chinese government specifically promotes OFDI for the interest of national economic development' (2010, p. 60) through support of individual firms. In our terms the institutional/policy environment (CSA-I) is placed clearly in the context of CSA-D. Later (2010, p. 78) Luo et al. argue that to operate positively in this environment, EM-MNEs 'need to familiarise with government policies, constantly communicate with government agencies, join government-sponsored initiatives, and actively influence new policies and measures'. They need to possess and exercise FSA-R. Empirically, Lu

In terms of wider economic analysis, this potentially amenable institutional context for EM-MNE expansion in the early phases of OFDI differs notably from that we discerned for the early days of the traditional Western MNEs. This has been precisely articulated in terms of the presence of exploitable market imperfections. Thus Buckley et al. (2011, p. 136) suggest that ‘close relationships and collusion between the government and domestic businesses can lead to structural and endemic market imperfections which are exploitable by companies that enjoy good relationships with the administration’. Voss (2011, p. 91) observes that the OFDI of China ‘has been characterised by market imperfections that arise from the need of firms to be well aligned with government officials and the status and economic rank of the companies’. From this (Voss 2011, p. 96) indicates that ‘relational access to governmental bodies that can grant necessary approvals remain an important asset to companies’. Discerning these opportunities and evaluating the relevant imperfections are the essence of our FSA-R.

It is not feasible or necessary here to trace the precise evolution of the relevant components of CSA-I during the various phases of China’s increasing involvement with the international implications of its ongoing development. Several studies have reviewed this in admirable and perceptive detail (Luo et al. 2010; Buckley et al. 2007; Cross et al. 2007; Voss 2011). What our framework does require us to do is provide illustrations of how the increasingly detailed policy institutions relevant to Chinese OFDI support micro-level acts of internationalization by these MNEs within a context conditioned by particular macro-level imperatives of home-country development. The analytical conundrum this addresses is that such EM-MNEs are unlikely to expand internationally purely through the exercise of mature OA/FSA-A so that their ability to do so must derive from the ability to access external and conditional sources of home-country support.

The application of this perspective with regard to access to capital encompasses two analytical contentions. Firstly, that an ability to leverage imperfections in domestic capital markets is an exploitable advantage for potential MNEs (Buckley et al. 2007, 2011). Secondly, that this ability to secure capital in such an institutional (as distinct from free-market) context may reflect their willingness and capacity to work within the needs of wider Chinese policies rather than an immediate pursuit of conventional profit-oriented objectives. In broad terms, the EXIM Bank and other state-owned Commercial Banks have been able to provide low lending rates, flexible terms and a fast approval

et al. (2014) showed that ‘home-country supportive’ policy was a consistently significant determinant of new Chinese investments in samples of both developed and developing host countries for 2002/2009.

process to support Chinese OFDI (Sauvant and Chen 2014, p. 152). This context has included several more precise initiatives. In October 2004, the EXIM Bank and National Development and Reform Commission (NDRC) established a Special Fund of Lending for Investment Overseas aiming to provide credit for OFDI in priority projects. An agreement of February 2006 between the China Development and EXIM Banks extended special financial services (e.g. discounted lending rates) to projects likely to support Chinese development and its emerging MNEs. A fund jointly set up and managed by the Ministry of Commerce (MOFCOM) and the Ministry of Finance also enables the Chinese government to directly subsidise particular OFDI projects, including those in natural resources and 'building foreign R&D centres and machinery and equipment manufacturing facilities, investments in Chinese-built economic and trade zones overseas' (Sauvant and Chen 2014, p. 152).

Naturally foreign exchange plays a major role in the CSA-I narrative since it represents a positive manifestation of one phase in China's development but also becomes a resource available to Chinese MNEs when they are co-opted to play roles in alleviating constraints in the perpetuation of that development or to find ways of re-orientating it. In fact the evolution of institutional policy towards foreign exchange tended to reflect a changing balance between these two forces, with an early emphasis on the accumulation of reserves turning towards an understanding of how they could be activated within developmental priorities. The crucial policy transition here has been characterised (Luo et al. 2010; Voss 2011) as a move from 'earn to use' to 'buy to use' in access to foreign exchange for firms aspiring to FDI, which was embodied in policy reformulations of September 1995.

The principle of 'earn to use' was laid out in the 'first phase' of China's FDI policy (from 1979 to 1985 within the 'Open Door' policies) emphasizing the need for 'retention' and 'accumulation'. Here, firms earning foreign exchange (probably through exporting or trade in this mainly pre-FDI era), had to transfer this to the State Administration for Foreign Exchange (SAFE), with no automatic access to its further use. Nevertheless, 'earn to use' did specify that only firms that had earned and transferred foreign exchange in this way could apply for access in support of intended overseas investment projects. This limiting of scope for FDI to firms with some antecedent international experience constrained this to projects approved by SAFE. The scope for successful, but so far exclusively domestically oriented, firms to develop and secure support for a logical international expansion seemed to be institutionally precluded. However, the later articulation of the 'buy to use' approach loosened this position so that 'foreign exchange entitlements could be bought from SAFE to finance OFDI projects regardless of whether or not the applicant had

previously generated foreign exchange through trade' (Voss 2011, p. 75). This opened up foreign exchange as a CSA-D, since any firm that could expand its competitive capacities and potentials towards plausible international operations now had feasible access to the currency needed to do so.

Though firm-level discretion over FDI decisions has only emerged relatively recently, and remains incomplete, the core parameters of the aims to be pursued within the CSA-D/CSA-I approval nexus were clearly defined very early. Thus, 1985 documentation relating to the approval process defined four categories of desirable FDI projects. Firstly, those aimed at securing international access to natural resources. Secondly, those capable of acquiring technology and transferring it back to China. Thirdly, investments related to increasing the export potentials of Chinese enterprises. And lastly, operations that possessed the potential to increase managerial skills through learning processes in overseas activities. These criteria set in place priorities that have remained central to Chinese OFDI policy and underpin our contention that this encourages the micro-level international expansion of Chinese business in ways that feed back into the macro-level progress of home-country development. Very directly, the first objective represents RS and the second KS, as we have discussed them here. The fourth also represents learning processes that have the capacity to enhance FSA-A, but also to feed back into the human capital competence of the home economy. All of these are predominantly home-base enhancing imperatives, with clearly perceived aims in inculcating necessary resources and capacities into the persistence of China's development. The third may be more home-base exploiting, adopting the MS aim of building the overseas market for whatever the current advantages of the home economy can supply.

Though reforms to the arrangements used by institutions such as SAFE, MOFCOM and NDRC have increased the freedom for Chinese enterprises to seek finance and foreign exchange for self-driven projects, the institutionally based consciousness of the need to position China's OFDI and MNEs into the wider perspectives of internationalization and growth remain decisive. A key manifestation of this was the July 2004 issuing of the 'Outbound Catalogue' by the Ministry of Foreign Affairs and MOFCOM. This specified the Government's favoured industrial sectors and host countries and defined the potential treatments, including access to funding, foreign exchange availability, customs and tax incentives, which could become available to firms whose intended investments conformed to the lists (Voss 2011). This has been regularly and systematically updated and seems to be positioned to define CSA-D and CSA-I contexts conditioning the international expansion of core elements of Chinese business.

Our emphasis here is on how home-country institutions influence the emergence of Chinese MNEs. However, this has occurred within the wider context of China's growing involvement with the global economy and its institutions. There has been, to date, no evidence of strong or systematic support for OFDI from particular external institutional arrangements. Thus, studies of the effects of Bilateral Investment Treaties and Double Taxation Treaties on China's OFDI have produced mainly weak, and sometimes counterintuitive, results (Voss 2011; Lu et al. 2014). An exception is the study of Biggeri and Sanfilippo (2009) which found a measure of bilateral cooperation between China and African countries to be a significant determinant of Chinese FDI stocks. Thus, they argue (Biggeri and Sanfilippo 2009, p. 44) that 'economic cooperation projects provide significant opportunities for China to move into foreign countries by creating a synergy between [MNEs] and Central Government'.

Conclusions

The crucial subtext of the analysis offered here is that the early internationalization of Chinese and other EM-MNEs not only represents a significant step in their competitive formulation as *firms* but is also integral to the sustainability and deepening of the development of their home *country*. This, we argued, is very different from the comparable stage for earlier traditional MNEs. There, the theorising suggested, the firms expanded internationally when they considered their competitive abilities had reached levels that would allow them to do so. They did this in ways that were likely to be reflective of the achieved level of development of their home country, but not in any way systemically related to its needs. It is a sense of EM-MNEs' FDI as exploring new competitive potentials, rather than as vehicles for further exploitation of established ones, that has distinguished them as challenges to both the accepted practice and theory of IB. Our theoretical agenda has thus needed to address familiar (micro-level) 'how' and 'why' questions regarding the internationalization processes of the EM-MNEs, but to draw in a much more decisive and strategic commitment of home-country (macro-level) support and motivation in doing so.

Our agenda has focused on an explanation of the *emergence* of EM-MNEs as a contemporary frontier in our understanding of the ever-changing world of IB. To conclude we can suggest that the next analytical frontier involving these firms will be to understand their *evolution* as MNEs. Will they wean themselves off the practical support and strategic positioning mandated by

home-country institutions and become increasingly configured around the globalized competitive priorities of conventional ‘traditional’ MNEs? This would require them to evolve their nascent home-country-derived sources of competitiveness (FSA-A) to the level of stand-alone world-class competences and to build them into the core of globalized multi-country strategic postures. Can they, indeed will they, be permitted to generate the capacities and behavioural motivations to compete in conventional ways with established MNEs in major global industries? The potential to do this would reside in the acceptance of learning processes²⁰ as central to the initial expectations underpinning the early steps of EM-MNEs, as, indeed, suggested in Chinese policy prescriptions.

Despite the inevitable liabilities of ‘foreignness’ and ‘newness’, we can find two potential sources of ‘latecomer advantage’ that might facilitate these learning processes. Firstly, the new levels of exposure to established competitive norms upon internationalization would provoke an immediate comprehension of the precise limitations of their current FSA-A and point towards the, probably newly available, KS possibilities to alleviate them. Secondly, the practices of managing global competitive strategies are likely to be very different from those that operated in the EM-MNEs’ home-country formulation and in the process of internationalization itself. But, again, these can be assimilated by observation of the established norms of global rivals. Indeed, the ability to access and learn these could be facilitated through effective FSA-R expertise. These potential elements of ongoing research agenda suggest that whilst modelling the early emergence of EM-MNEs remains a major part of our analytical frontiers, this needs to now follow those firms’ life into the wider contexts of global competition.

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²⁰The ‘leverage’, ‘linking’ and ‘learning’ framework (Mathews 2006a, b, 2002) has provided useful insights along these lines.

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