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THE RISE OF CHINESE TRANSNATIONAL CORPORATIONS

One of the crucial changes in the contemporary world economy is a shift within a group of leading enterprises, i.e. transnational corporations (TNCs), which is headed by firms from developed countries. The shift consists in increasing competitiveness and market shares of TNCs from large emerging economies, including Brazil, Russia, India and China (called BRIC). The group of BRIC transnationals includes Chinese TNCs which strain to enhance their international position with rapidly growing exports and investments on the global markets. Foreign expansion by Chinese TNCs has become a true challenge for established "global players" even from the Triad (developed) countries.

Favorable conditions for growth and internationalization of Chinese enterprises were established in the global environment and, first of all, in the national economy. Since 1978 market-oriented reforms, external liberalization and technological modernization of China have contributed to laying ground for a quick growth and capital expansion based on the outflow of foreign direct investments (FDI) by domestic enterprises, observed in the present decade. The rising power of Chinese TNCs is a unique phenomenon and it is interesting to examine particular features of their internationalization process.

In order to portray a path of Chinese enterprises to the group of leading transnationals in the world, a FDI-based model of TNCs' growth – stemming from the OLI paradigm – has been chosen as the most appropriate one. The model includes also motives, other forms of foreign expansion, i.e. exports and cooperation, and some strategies which are used by enterprises to build up their international competitiveness and position on the global market. The emphasis

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is put on identifying crucial conditions as well as both common and unique features of the FDI-based path pursued by Chinese enterprises as emerging TNCs in the world economy.

TRANSFORMATION OF THE CHINESE ECONOMY AND ENTERPRISES

Preconditions for the successful growth and the foreign expansion of Chinese TNCs were rooted in both the world economy and the national economy. Crucial changes in the world economy spanned three processes of globalization, regionalization and growth of knowledge-based economy. Favorable conditions were created for all companies which were strong and competitive enough to expand on the liberalizing global and regional markets, capable to create business knowledge, new technologies and innovations, and smart enough to make use of changing economic institutions both at home and abroad[1]. However, to take advantage of favorable conditions in the external environment, at first Chinese enterprises had to grow and learn to compete on the market as a basis for national economic activity. Chinese enterprises have been able to transform, grow and adjust to the global market as the result of a gradual, market-oriented transition which has been implemented in the national economy for over 30 years. Therefore, much significance should be attributed to favorable internal conditions created by the governmental economic policies that have initiated and stimulated the process of transition from plan to market, the gradual opening of the economy and the technological modernization of domestic enterprises and infrastructure.

Before initiating economic reforms in 1978, China's economy was based on central planning and command system, price controls, foreign trade monopoly and industrializing state-owned sector. Economic trends (low rate of growth, increasing poverty) and political events (death of Mao Zedong and clashes within the Communist Party of China) led to a crucial decision to implement pro-market reforms in the economy.

A long-term process of transition from plan to market in China was executed in three main stages, and the fourth one may have emerged recently under a crisis in the world economy. The stages differ in main policy directions, instruments, and economic effects. There was no general strategy of transition but the process advanced in a gradual and pragmatic way, with a focus on changes moving from the macroeconomic to microeconomic levels.

The first stage of market transition in China spanned the period 1978–1983. Although it was initiated in the agriculture, soon the industry and industrial enterprises became main targets of the reforms. Market orientation, production restructuring, some ownership changes and modest foreign expansion were

[1] Favorable external and internal conditions formed in the age of globalization, regionalization and growth of knowledge-based economy were discussed in the research study by A. Zorska, [2009a, pp. 15–18].

initiated and executed gradually, with limited experiments in few provinces of the country and using some experiences from other Asian countries.

The main mechanism of transition at the beginning of the process consisted in implementing a "double track" (*shuangguizhi*) in the economy, meaning a co-existence of five-year plans and market activity in most sectors of the economy [Naughton, 2008, p. 107]. The mechanism consisted in double prices for most of products, i.e. lower prices for production and products included in plans and higher ones for products sold on the market. State-owned enterprises (SOEs) were obliged to fulfill plan targets but surplus production could be sold on the market, at higher prices. Newly established private firms (domestic and foreign-capital ones) could assume a market-oriented approach entirely.

The second stage of reforms in the Chinese transition process spanned years 1984–1993. It was initiated with an important decision to maintain the value of planned distribution of raw materials at a constant level and reducing the value over next years. Enterprises were forced to buy more and more raw materials beyond the plan, to decide on production structure and to sell products on the market. Changes in enterprises' ownership structures advanced with a "bottom-up" method, i.e. by participation of employees, managers and party leaders (instead of a mass privatization). In the 1980s, the "double-track" economic mechanism stimulated effectively the transition from plan to market and accelerated economic growth in China.

The transition process was much supported by a gradual opening the Chinese economy to the exchange of goods and capital with the external world. Export processing zones became an important instrument for attracting foreign direct investments and new technology, developing modern export sector and enhancing its international competitiveness [Enright, 2008, p. 33][2]. Moreover it resulted in increased competition of local and foreign firms on the domestic market, and, consequently, on foreign markets. To facilitate adjustment of enterprises to the market, institutional changes were carried out, following withdrawal from fixed plans, encouraging deregulation and decentralization of economic authority, offering more latitude for provincial policies.

The third stage of reforms spread over 1994−2007 and it was initiated with the government's declaration on establishing "a socialist market economy" in China. A new set of economic instruments was implemented for microeconomic transformation with a focus on SOEs. It aimed at speeding up their commercialization, restructuring, reorganization, privatization, setting up corporate governance, raising innovativeness, etc. At the same time governmental policies were oriented at macroeconomic stabilization, reforms in the banking sector and foreign exchange system, development of R+D and technology policy, improving institutional framework and expanding economic relations with other countries, especially through WTO membership. These efforts, together with

[2] With more and more liberal policies for foreign direct investors in China, Western TNCs expanded international production and exports in established joint ventures, cooperative networks and foreign subsidiaries.

firms' own struggles to increase competitiveness, triggered exports of Chinese goods. Outflow of foreign direct investments has increased, supporting expansion of Chinese firms on many foreign markets. Thus it can be stated that the foreign expansion (through exports and investments) is a matter of the last 10–15 years, making Chinese firms rather young entrants on the foreign markets.

At the third stage of transforming the Chinese economy – with advancing market transition and external liberalization – technology policy came to prominence. Alongside with developing public science and higher education, the Chinese government used many fiscal and financial measures, R+D programs, modern infrastructure (e.g. in technology parks) and many other instruments for encouraging enterprises to increase technological capabilities and develop technologically advanced products and branches of industries and services [Hu, Jefferson, 2008, pp. 286, 335]. The government declared that by 2020 China would become an innovation-oriented country and by 2050 it would emerge as "a leading in the world technology power" [Xie, Li-Hua, 2009, p. 8]. As growth of the knowledge-based economy became a priority in China, it is highly probable that technological advantages of Chinese firms will become more competitive in the next years.

Under evolving institutional conditions, Chinese enterprises transformed or grew into a diversified corporate set. At first, the leading group was made of state-owned or state-controlled companies. SOEs were commercialized and restructured under the 1993 Company Act, and in many cases were subsequently floated at stock exchanges. Beside state-owned or state-controlled companies there are three other major groups of enterprises, including township and village enterprises – TVEs (i.e. collective enterprises), private and individual firms as well as other enterprises (joint ventures, ownership companies, etc.) [Bolesta, 2006, p. 95].

The structure of the corporations' set changed considerably at the third stage of reforms, with a growing prominence of private firms (both domestic and foreign-capital owned) which reached ca 68% of industrial output in 2004, while state-owned companies accounted for 28% and collective firms for ca 4% [Naughton, 2007, p. 303, tab. 13.2]. Individual groups of enterprises differed much in size, with most large companies belonging to the state sector and many small and medium enterprises (often as family firms) – to the private domestic sector. Growth strategy of private firms was named "build-borrow-buy" what meant building position on the domestic market first (often based on transferred technology), then borrowing resources (capital) and buying other firms (to own their brands, patents, distribution networks, etc). Acquisition of foreign firms was often linked to foreign expansion of Chinese enterprises in the current decade. Growth of foreign-capital companies – as joint ventures and subsidiaries of foreign TNCs – was dependent on government's policies of opening and promoting the domestic market.

Growth of the domestic market and external liberalization are regarded as two crucial factors stimulating international competitiveness of enterprises in

China (and other transforming economies). Firstly, under increasing competition on the domestic market, local enterprises had to strain much to quickly upgrade their competitive advantages, to grow and diversify their business, and to accumulate resources. Secondly, using domestic resources and capabilities – if competitive internationally – local enterprises could engage in subcontracting and other forms of cooperation with foreign subsidiaries of TNCs. It led to indirect contacts – very important ones – with international business and competition on the global market. Thirdly, local enterprises could enhance their competitiveness taking advantage of some failures of the emerging market or natural barriers (language, culture) as a basis for developing specific, own competitive advantages [Khanna, Palepu, 2006, pp. 60−69]. Under the national, emerging market failures, local enterprises could become necessary partners of joint ventures with foreign TNCs in a host country, while gaining access to their knowledge, usually at the world's level. Learning from partners possessing very high technological and managerial capabilities made it possible for Chinese enterprises to shorten time for catching up in international business. At the same time governmental policies promoting exports and outward FDI were carried out more and more actively, based on improving institutional framework, economic policy measures and their application [Luo, Xue, Han, 2010, p. 70].

EXPORT EXPANSION OF CHINESE ENTERPRISES

Trade expansion of Chinese enterprises has evolved under changing government policies of macroeconomic and microeconomic characters, with the latter being addressed to both national- and foreign-capital companies. Exports still make a dominant form of servicing foreign markets for all internationalized firms, while other entry modes become more and more important, although they must be adjusted (in sequencing and timing) to current conditions, processes and performance of the world economy. Among the conditions, institutional basis for foreign trade has come to prominence.

Under the centrally-planned economy exports of Chinese enterprises were relatively small and conducted mostly on non-market basis, i.e. inter-state agreements with the CMEA countries, mainly the USSR. At the first stage of transition from plan to market China initiated a gradual withdrawal from the CMEA agreements and Chinese enterprises started a gradual market-led export expansion. At the second stage of transition more and more exports were delivered to foreign markets, particularly in Asia. Institutional base of Chinese foreign trade was insufficient, so Hong Kong was used as "a gate" for both Chinese exports and imports. At the third stage of reforms, with exports growing at higher rates, access of Chinese enterprises to foreign markets was facilitated by the state's bilateral trade agreements with some Asian countries. Membership or improving economic relations with regional integration groupings were achieved in the cases of APEC, ASEAN+3, SARC. To facilitate exports by

Chinese enterprises, several important inter-state agreements were signed between China and countries of Latin America and Africa in the 1990s. International economic relations were further facilitated by cooperation agreements between China and India and South Korea.

In order to improve access to foreign markets, in the 1990s China implemented a gradual, unilateral reduction of tariff and non-tariff barriers for imported goods. An average protection of the Chinese market was reduced considerably (from 42,9% to 16,6% in 1992−2001), and further reduction followed China's accession to WTO (to ca 10% on average in 2005) [Fromlet, 2006, p. 136]. Increasing imports were facilitated to fuel the expanding Chinese economy – and the export sector in particular – as well as to mitigate rising foreign fears of high dynamics of exports placed by Chinese firms on most sales markets of the world.

After 15 years of negotiations, China's membership in WTO – in force from 1.01.2002 – has created a wider and stable institutional base for growth of Chinese foreign trade, global expansion of national firms and China's increasing position in the world economy. China has fulfilled timely all WTO's obligations which concerned opening the economy for flows of goods, services and capital [Branstetter, Lardy, 2008, pp. 649–660][3]. More liberal access to the WTO-member-country markets has boosted Chinese exports since 2002 − see Chart 1 − and facilitated export sales by Chinese firms under the present economic crisis.

The average growth rate of exports from China reached 12,8% in 1980–1990 and increased to 14,5% in 1990–2000. Following the WTO accession, Chinese exports dynamics boosted to 26,7% in 2000–2005 and in 2006–2007 remained at similar levels [UN−UNCTAD, *Handbook…*, 2008, pp. 28–29]. In 2008 the growth rate of Chinese exports dropped to 17,3% [International Monetary Fund, 2009, p. 144]. Under the global economic crisis, in 2009 (by preliminary data) the value of Chinese exports fell down by ca 17,0% but even bigger reductions were recorded by other largest exporters[4]. Chinese exports dynamics is usually higher than its imports growth rates, resulting in a surplus of foreign trade and a large accumulation of foreign exchange reserves.

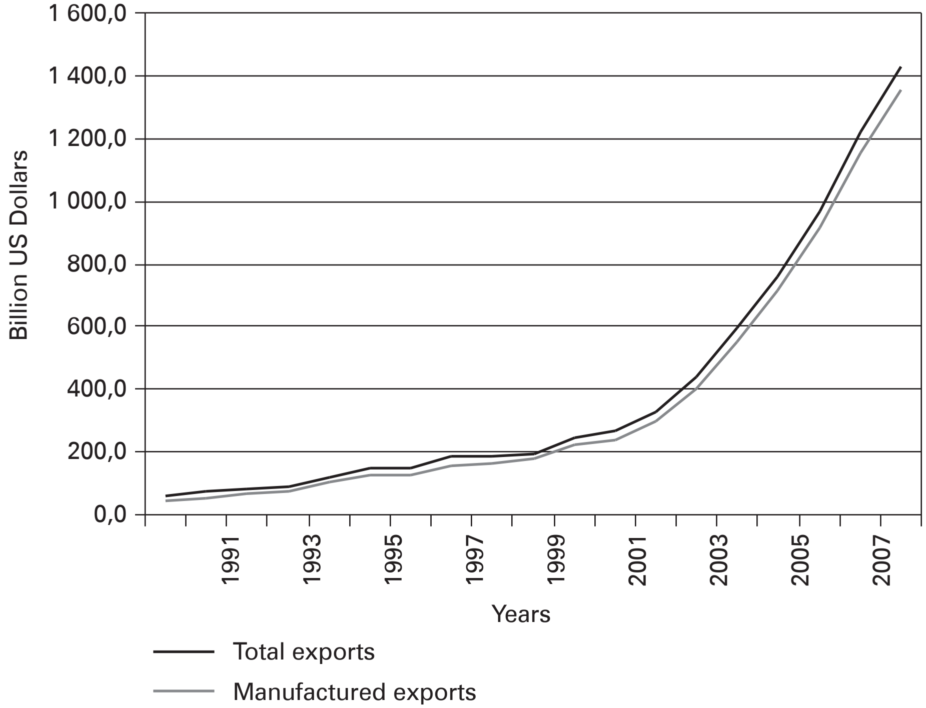
The value of Chinese total merchandise exports increased from 18,1 billion US dollars in 1980 to 62,1 billion in 1990 to 249,2 billion in 2000. In 2007 the value reached 1.217,8 billion USD and it increased to 1.429 billion US dollars in 2008 [*China Statistical Yearbook*, 2009, p. 726], accounting for over 8% of the world's merchandise exports. The value of commercial services exported by China in 2008 amounted to 146,4 billion USD what gave 5th rank and accounted for 2,7% of the world's exports of services [WTO, 2009, p. 12]. The Chinese

[3] China's obligations were fulfilled but some internal regulations or restrictions have remained, including state monopoly for imports of strategic raw materials and fuels or limited foreign access in banking sector.

[4] A significant increase in Chinese exports was recorded once again in the last quarter of 2009, so prospects for 2010 are better than results of the previous year ["The Economist", 2010, p. 65].

export value was estimated at 1.200 billion USD in 2009 but its share in the global exports might have increased to 10%.

Chart 1. China's exports value: total and manufactured goods in 1990–2008



Source: Own compilation based on data by *China Statistical Yearbook* [2009, section 17−5, p. 726].

However, it must be kept in mind that not only domestic enterprises (Chinese-capital ones) are responsible for creating the export value but also export-oriented, foreign-capital companies located in China. Their contribution to total exports and imports reached ca 65% in 2008 what indicates a key role of imported intermediate goods for exports [own calculations based on data by *China Statistical Yearbook*, 2009, p. 744, tab. 17−13].

Results of China's exports in the crisis years 2008–2009 pushed the country to the first rank – taking over Germany's leadership – in the world's "export powers" in 2009. However, due to a weak foreign demand, some sales had to be re-oriented towards the domestic market. Owing to the government's support policies and own competitiveness, Chinese exporters are in much better situation than many others suffering from the present crisis.

Under the transition process, geographical pattern of exports by Chinese firms has been reoriented radically (following the above-mentioned institutional changes in external relations). The long-term reorientation has consisted in shifting trade from the centrally-planned countries of the CMEA to the market-economy, developed countries[5]. The share of developed countries reached 36,1% in 1990 and increased to 81,8% in 2002. However, a downward trend started in 2005 and the share of developed countries in Chinese exports dropped to 71,0% in 2008 [UN-UNCTAD, *Handbook*…, 2008, p. 53]. The two largest destinations countries for Chinese exports are the United States and Japan. In 2008 exports to the USA amounted to 252 billion USD and to Japan 116 billion USD. The same year all European countries received Chinese exports worth 343 billion dollars.

The share of Third World and emerging countries increased to almost 28,7% in 2008. While the share of developing Asian countries accounted for 9,1% of all Chinese exports, significance of other continents for Chinese exporters increased to 4,9% in case of Latin America and to 3,0% for Africa [*ibid.*]. The boosting trade expansion was connected with increasing outflows of Chinese FDI to both continents [Broadman, 2008, p. 98]. Other export destinations were emerging European countries (7,4%), and Middle East (4,3% of Chinese exports in 2008).

Product structure of Chinese exports is focused on manufacturing, which reached 97% of all merchandise exports from China in 2008. Structural changes in a composition of manufactured exports consisted in a downward trend of shares of raw-material- and labor-intensive products, mainly textiles and clothing. Also other products of low costs and value-added lost their shares in manufactured exports to the advantage of technologically advanced, differentiated and more specialized products which become a core activity of many Chinese enterprises. Exports of cars, ships and aircrafts also increased value and market scope. In general, exports of high-tech (and skill) and medium-tech products reached 68% of manufactured exports in 2005 [Amiti, Freund, 2007, pp. 39, 41]. China's specialization in high-tech and skilled-labor products has raised clearly. As a result of this process, at present machinery and equipment have the leading share of 45,2% of all manufactured exports. First of all it concerns electronic equipment (computers, accessories) and communication equipment of diversified use (home, offices, industrial plants). In 2008 China was the largest exporter of office and telecom equipment with 382,2 billion USD worth of exports, while another 146,6 billion of USD of the equipment was exported from Hong Kong [WTO, 2009, p. 12]. It should be added that at the same time China was the largest single importer of office and telecom equipment and the imports reached 108,9 billion USD in 2008 [*ibid.*, p. 76].

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[5] For over 20 years, a high potential of developed countries as a target of Chinese exports has depended upon restructuring processes in their economies and enterprises towards high-tech industries, while leaving other branches and markets open to foreign suppliers. The processes include outsourcing and offshoring many goods (e.g. intermediates) and services (e.g. supporting business) by Western TNCs to low-cost countries, including China. Part of the relocated production is exported from China and distributed in many countries by Western TNCs' networks. See: S. Yusuf, K. Nabeshima, D.H. Perkins [2007, p. 61].

Among non-equity forms of foreign engagement of Chinese enterprises, the most important were subcontracting and acquisition of technological licenses [Child, Rodriguez, 2005, pp. 289–290]. As subcontractors, Chinese firms often cooperated on a OEM (original equipment manufacturing) basis and received technical assistance, and leased equipment from foreign partners. They also took advantage of foreign brands and distribution networks what finally helped catching up with the global industry leaders. Growth of foreign trade and cooperation was often linked to foreign investment expansion and therefore exports of capital, final and intermediate goods followed Chinese FDI in foreign countries.

FDI EXPANSION BY CHINESE ENTERPRISES

FDI expansion by domestic enterprises is undertaken in order to increase revenues and profits on their resources and capabilities by means of employing them for growth and successful competition on foreign markets. The analysis of FDI outflow includes not only its value and structure but also identification of foreign investors' motives and competitive assets, internalization advantages, characteristics of international production, etc.

The FDI outflow from China was initiated at the third stage of economic transition (i.e. in the 1990s) when the government appointed a group of state-owned enterprises which were "mature" enough for the investment expansion and capable to pursue international management successfully. The group included 120 enterprises from various industries of extraction and manufacturing, e.g. electronics, engineering, pharmaceuticals, aerospace equipment. The enterprises were converted into commercial companies (with state-controlled equity stakes), and later on they were launched at domestic or foreign stock exchanges, and grew through acquisitions of well-performing foreign firms [Alon, 2008, pp. 2, 6]. Soon outward-oriented Chinese firms comprehended global market opportunities and started to exploit low-cost advantages for a massive manufacturing and then to develop new advantages in high-tech manufacturing [Luo, Tung, 2007, p. 495]. For both – but for various reasons – outward direct investments were a very useful method of boosting foreign activity.

Since 2002, selected government institutions and policies have been directed to actively promote FDI outflow from China, appreciating its role in further development of economic reforms and growth of position in the global economy. The promotion is a government action aimed to help Chinese enterprises – as newcomers on the global market – to compensate for their competitive disadvantages (e.g. in international business experience) as well as organizational and managerial deficiencies against the established Triad's rivals.

Policies encouraging FDI outflow by Chinese firms are formulated, approved and coordinated at the highest institutional level by the State Council, in full cooperation with leading economic and financial central governmental bodies.

The current policies embrace a varied set of promoting and monitoring measures. The key significance is attributed to the former ones which include the following policies and measures [Luo, Xue, Han, 2010, pp. 75–76 and Fig. 3]:

- Financial and taxation policies: tax relief, credit/loan support, foreign exchange policy (with exchange rate fixed under the market value of Chinese RMB against US dollar[6]),
- Risk-safeguard mechanism: insurance subsidies, mutual protection agreements,
- Information service network: obstacle reports, information bank,
- Direction guidance for outward direct investors: countries and industries guidance catalogues, preferential treatment for complaints.

Some new measures have been introduced to compensate Chinese exporters and investors for a slump of demand due to the economic crisis of 2008 and 2009.

Chinese foreign investors are driven by different motivations which include first of all seeking resources, sales markets and foreign strategic assets. In the case of resource-seeking, the investors aim to secure access to basic resources (raw materials, fuels), with a focus on the Third World countries. However, when Chinese firms seek advanced resources (knowledge, high technology and skills), they usually head to developed countries. Seeking access to foreign sales markets leads to building up a fixed base for exports by opening up own sales branches or offices and distribution networks. For servicing large foreign markets, new production facilities are built, especially in regionally integrating markets. Motives related to foreign strategic assets lead to acquisition of foreign firms which are well-known for excellent research centers, production and distribution facilities, global brands, management techniques, etc., mostly in developed countries [Rui, Yip, 2008, p. 213]. It should be noted that efficiency-seeking motives are less important in case of Chinese investors because national low-wage level and structure of production costs secures their price-based competitiveness on the global markets.

At first, the value and growth of Chinese overseas direct investment were not impressive. Till 2003 the average yearly value amounted to ca 2 billion USD[7]. Since 2004 the FDI outflow from China has expanded at high rates and its value increased from 5,5 billion USD to 17,6 billion USD in 2004–2006 to 55,9 billion USD in 2008, as evidenced by data in Table 1. It should be added that China is

[6] The People's Bank of China has declared recently a forthcoming withdrawal from its policy of the fixed exchange rate of the Renminbi against the US dollar. The decision will impact both exports of goods and capital from China as well as trade and balance of payments of many countries.

[7] From a small, close Hong Kong foreign investors exported as much as 20 billion US dollars in the 1990s and over 63 billion US dollars in 2000 [UN-UNCTAD, *World*…, 2001, p. 298, tab. B.2]. Hong Kong has become an important financial center of capital inflows and outflows for China and therefore the Chinese FDI values may be underestimated.

a net importer of FDI, and a negative balance of the FDI flows amounts to 50–60 billion USD yearly.

Table 1. FDI outflow from China in 2003–2008
Millions US dollars

Value	2003	2004	2005	2006	2007	2008
TOTAL	2 854	5 498	12 261	17 634	26 506	55 907
BY REGIONS						
Asia	n/a	3 000	4 375	7 663	16 593	43 597
Africa	n/a	317	392	520	1 574	5 490
Europe	n/a	171	505	598	1 540	876
Latin America	n/a	1 763	6 466	8 469	4 902	3 677
North America	n/a	126	321	258	1 125	364
Australia & Oceania	n/a	120	203	126	770	1 952
BY SECTORS						
Agriculture	n/a	288	105	185	271	172
Mining	1 379	1 800	1 675	8 539	4 062	5 823
Manufacturing	602	755	2 280	906	2 126	1 766
Transport, storage	n/a	829	577	1 376	4 065	2 656
Trade, wholesale & retail	357	800	2 260	1 114	6 604	6 514
Financial interme-diation	n/a	n/a	n/a	3 530	1 668	14 048
Leasing & business services	279	749	4 942	4 521	5 607	21 717

Notes: n/a – not available

Source: Own compilation based on data by *China Statistical Yearbook* [2005–2009, section 17-5]. Both China's and UN-UNCTAD's data on FDI outflow are calculated on a net basis (i.e. capital transactions' credits less debits between direct investors and their foreign subsidiaries).

If the growth of exports and FDI outflow in the present decade are compared, it can be concluded that a surge of export expansion started in 2002 and was followed by much increased outward FDI expansion in 2004 and 2008 (with growth rates of 92,6% and 109,2% respectively). The time lag between export surge of goods and capital from China is very short (by Western standards). It indicates a strong acceleration of FDI outflow (stimulated by government policy and driven by global market opportunities) to enter foreign markets and support growth and trade expansion of Chinese firms.

The data for the FDI outflow in Table 1 confirm the opinion that Chinese firms have been expanding their equity presence abroad for 6 – 10 years and they are newcomers to "the TNCs' world society". In the recent years Chinese direct investors have accelerated their growth thanks to the availability of financial means and more opportunities for acquisitions in many countries. At the end of 2007, nearly 7.000 Chinese enterprises were engaged in FDI outflow to 173 countries. They established over 10.000 subsidiaries, of which 86% were in non-financial sectors. The Chinese subsidiaries generated foreign sales revenues of 333 billion USD [Luo, Xue, Han, 2010, p. 70]. Their growth in foreign countries is continued despite the economic crisis of 2008–2009.

Geographical pattern of the Chinese FDI outflow in 1990–2001 was marked with a significance of the Asian region ranging from 39,1% to 41,5% [Rugman, Li, 2007, p. 340, tab. 6]. The Asian region (developed and developing countries included) attracted most of the investment outflow from China and its share increased from 54,5% to 78,0% of the FDI outflow over 2004–2008 [calculated from data in Table 1]. In the upsurge of FDI outflow after 2004, considerable increase of the Third World's share was recorded due to the Chinese investments in Africa and Latin America, accounting for 9,8% and 6,6% respectively in 2008 [*ibid.*]. The investments were motivated mainly with seeking access to exploitation of raw materials, gas and oil.

Industry pattern of the net FDI outflow from China revealed that its basic domains in 2004 were mining (32,7%), transport and storage (15,7%), trade (14,5%), and leasing and business services (13,6%). Over the period 2004–2008 the share of manufacturing decreased from 13,7% to 3,2%. For Chinese investors, home based manufacturing remains cost-effective against host-country locations in most cases, hence a downward trend in share of manufacturing has emerged[8]. In 2008 the shares of leasing business and services (38,8%) and financial intermediation (25,0%) jointly exceeded 63% of the FDI outflow from China [calculated from data in Table 1]. The industry pattern of entry modes differed in individual industries. The investments in mining used to take the form of green-field investments while FDI placed in manufacturing often involved acquisition of foreign companies – owners of valuable patents and brands (mostly in the Triad countries) [*ibid.*, p. 116].

The surge of FDI outflow from China in the recent years reveals some changes in conditions determining the expansion. The conditions are usually analyzed using OLI paradigm[9], what implies discussing competitive advantages of Chinese

[8] However, for 2005 UN-UNCTAD data on the Chinese FDI outflow showed much higher values and shares of mining and manufacturing which altogether could exceed 60% in 2005 [UN-UNCTAD, *World…*, 2006, p. 115].

[9] The OLI (O – ownership, L – location, I – internalization) paradigm was developed by J.H. Dunning [1986].

enterprises as well as locational (foreign) and internalization advantages useful for them.

The growth of Chinese firms' competitive advantages was a result of their transformation towards market-led entities. At the second stage of reforms some enterprises developed commercial activities, building up their resources and capabilities, at first tangible (material) assets (i.e. factories) and then – intangible (immaterial) assets, like patents, brands, data bases etc. Growth and accumulation of the intangibles were strongly supported by transfers from foreign companies, usually in joint ventures with local firms. The abilities of Chinese people to learn quickly, to absorb and increase knowledge, and to adapt Western technological and economic methods constitute one of the key success factors of growth and international competitiveness of Chinese enterprises [Li-Hua, Peng, 2007, p. 152].

At the third stage of economic reforms, the Chinese government activated technological policy, aiming at a significant increase of R+D activity and implementing new technologies in the economy, due to both public and private expenditures. Integration of knowledge and new technologies from national and foreign (*via* TNCs) sources laid ground for upgrading quality-based competitive advantages, in addition to low-price-based ones, traditionally enjoyed by Chinese enterprises. They gradually passed from imitations and acquisitions to creating new knowledge and innovations, in high-tech products and industries particularly [Xie, White, 2006, pp. 234, 240]. Nevertheless, most of small exporters and foreign investors from low-tech industries still stick to traditional advantages, like offering low prices, focus on low-income customers and ethnical groups, exploiting known niches, etc. Firms investing in mining and infrastructure abroad usually derive their competitive advantages from possession of large capital (often of the state origin) and technology at a medium level [UN-UNCTAD, 2006, *World…*, pp. 148–152].

The competitive advantages of Chinese firms investing abroad have sustained first and foremost in technologically advanced branches of industry and services. As revealed in a research, the group of leading Chinese firms has possessed competitive advantages based on innovativeness and high quality of products, sophisticated marketing strategies and brands. The advantages have been upgraded by own efforts through investments, improvements and learning in whole organizations and involvement in corporate social responsibility (e.g. in ecology) [Cooke, 2008, pp. 40–41]. To some extent it is a result of smart adoption of methods used by Western firms. But, at the same time, it results from quick, flexible and creative actions of their own (i.e. Chinese firms), while sticking to some traditional methods (e.g. paternalism in management of human resources). It follows that Chinese enterprises have worked out "a bundle" of diverse advantages, including both price- and quality-based ones, with the latter on a rise. At present, Chinese firms and the government have abundant capital to be used for investments in R+D, higher education, infrastructure and production capabilities. Thus, the future technology-based competitiveness of Chinese enterprises will grow stronger and drive their foreign expansion [Gunther, 2009, p. 69].

Advantages of foreign locations attractive for Chinese investors determine geographical structure of FDI outflow from the home country. FDI located in developing countries usually take advantage of mineral resources (e.g. oil), build up infrastructure or presence on large sales markets. To some extent, FDI outflow aimed at employing cheaper labor for relocated production takes place in low-wage countries, e.g. Vietnam [Alon, 2008, p. 9]. The FDI expansion in developed countries aims to tap their advanced resources and capabilities as well as penetrating large sales markets of regional integration groupings (the UE, NAFTA) [Rugman, Li, 2007, p. 337]. Under the present crisis more Chinese FDI flows to the USA and the UE in form of equity transactions with firms suffering financial distress.

Internalization advantages of Chinese foreign direct investors do consist mainly not in reduction of transaction costs but in gaining more effectiveness and strategic benefits from cross-border organization and configuration of own corporate networks. In case of effectiveness, the internalization advantages are derived from better protection and/or development of new technology and brands, higher quality of products, international arbitrage or some business practices (e.g. transfer prices). In the long run even more can be gained from improving strategic positions of Chinese firms on the global market. Their foreign subsidiaries or joint ventures fulfill important tasks not only in production and sales functions of globalizing value chains but also in research, development and design functions. Another important task of corporate units is searching for new knowledge, technologies, innovations and talented staff all over the world [UN-UNCTAD, *World…*, 2006, pp. 162−165]. Such "inputs" can constitute true internalization advantages which can be achieved from corporate networks built with own foreign subsidiaries. The position of Chinese firms in business (mixed) networks – including also independent entities (firms, R+D centers) – has changed. At first Chinese firms used to be participants (e. g. subcontractors) in business networks of Western TNCs. At higher levels of international business led by Chinese firms, company's own networks serve better for accumulation and protection of advanced valuable knowledge and competitive advantages.

The problem of entry mode in the contexts of FDI form and strategic behavior of investing firms boils down to making a decision on choosing between a joint venture and wholly-owned subsidiary. Investigation of decisions taken by Chinese foreign direct investors showed that joint venture as the entry mode is chosen for penetrating high-growth foreign sales markets. For a successful entering and taking first- or quick-mover advantages, cooperation with a local partner is essential as far as his guidance in the host economy is much needed. Wholly-owned subsidiary as the entry mode is very useful when Chinese firms encounter an intensive competition in foreign industry (sector), seek complementary assets in foreign location or pursue a global orientation towards seeking and acquiring strategic assets. In such cases, an integrated cross-border structure, strategic flexibility and control over key assets are the main reasons for a full equity stake in a foreign subsidiary [Cui, Jiang, 2009, p. 442]. In general, foreign wholly-owned subsidiaries are more often used in the expansion of Chinese firms abroad, while joint ventures were the first and foremost the mode of entering the Chinese market by foreign TNCs. Finally, it resulted in developing competitiveness of Chinese partners and initiating their own foreign expansion before long.

GROWTH AND PRESENT POSITION OF CHINESE TRANSNATIONALS

The rise of Chinese transnationals is often analyzed in a wider context of growth and foreign expansion of TNCs from the BRIC countries. Their expansion is regarded as one of consequences of the globalization process driven first and foremost by activities of the Triad's TNCs. However, their growing global business, cross-border value creation and networks as well as local linkages in host countries have contributed much to the internationalization process of the BRIC enterprises. Many researchers agree that under some external (and internal) factors, accelerated internationalization of the enterprises and their quick "maturation" as TNCs make significant features of rising TNCs from the BRIC countries [Bonaglia, Goldstein, 2007, p. 370].

Another issue related to the foreign expansion of Chinese and other BRIC's corporations consists in some unique features which appear in the context of OLI paradigm conditions [*ibid.,* p. 371]. The emerging transnationals did not possess strong competitive advantages – beside low-price-based ones – on initial entry of foreign markets. On the contrary, it was the entry on foreign markets that opened "windows of opportunity" for capturing and developing quality-based competitive advantages. For Chinese firms, locational advantages of foreign countries were limited to markets of goods and assets (for acquisitions) and natural resources but not to establish cost-effective factories abroad (as the domestic ones are more effective). Initially, internalization advantages did not consist in establishing own corporate networks but rather in participating in corporate networks of other TNCs, mostly from the Triad. As participants (e.g. in joint ventures), Chinese firms could take advantages of access to new technology and global brands, and effective methods of international management and organization used in TNCs' cross-border activity. Therefore, starting as "newcomers" in global business, TNCs form China used less time and investments to develop knowledge and other assets necessary for international competitiveness as far as they could learn and take the advantages from much more experienced Triad's TNCs [Mattews, 2006, pp. 5–27].

The growth of Chinese TNCs started over a hundred years after the emergence of Western transnationals, of which many were established in the last decades of 19^{th} century or at the beginning of the 20^{th} century [Zorska, 2007, pp. 74–91]. At the end of the 1990s, with a support of the government, Chinese enterprises started to invest abroad and form their corporate structures. In 1998 only 379 Chinese firms could be called parent corporations of foreign subsidiaries, i.e. TNCs. In the small city-state Hong Kong there were 819 parent companies [UN-UNCTAD, *World*…, 2001, p. 241, tab. A.I.2]. The numbers accounted for 3,0% and 6,5% respectively, of 12,6 thousand parent companies in all developing countries, mostly in Latin America (led by Brazil) and Asia (by the Republic of Korea).

According to the data published by the UNCTAD, in 2007 there were 3.429 parent companies (TNCs) seated in China and 1.167 corporate parents in Hong Kong [UN-UNCTAD, *World*…, 2009, p. 223, tab. A.I.8]. The added numbers make as much as 4.596 TNCs of the Chinese origin and it allows to regard them the largest group (with 21,5% stake) of transnationals from developing countries. Chinese TNCs have established 286.232 foreign subsidiaries and if Hong Kong's subsidiaries (9.712) are included, the total number amounts to 259.924 foreign subsidiaries of the Chinese origin[10]. The number accounts for the 69,6% share of all subsidiaries set up by TNCs from developing countries. Due to the abundant FDI outflow from China in 2008, the number of new Chinese transnationals and their foreign subsidiaries must have increased and also the existing TNCs must have expanded as foreign investors. The present decade is a crucial time for the rise of Chinese transnationals and their expansion on the global market.

On the UNCTAD list of non-financial TNCs ranked by foreign assets in 2007, the Hong Kong-based company Hutchison Whampoa was classified at the 22 position. Leading a diversified activity, Hutchison Whampoa accumulated foreign assets worth 83,4 billion USD, reached foreign sales of 33,3 billion US dollars, and employed 190 thousand people abroad. Its transnationalization index of 82,7 % makes Hutchison the tenth most internationalized company on the UNCTAD list [*ibid.*, p. 225, tab. A.I.9].

In the group of non-financial TNCs from developing countries, Hutchison Whampoa achieved the first rank (much ahead of the second one – CEMEX from Mexico). TNCs form China (11 companies) and Hong Kong (27) made altogether the largest group (38) of the Third World transnationals in 2007 (*ibid.*, p. 231, tab. A.I.11]. Beside Hutchison, a group of Chinese owners of the largest foreign assets includes: CITIC Group (25,5 billion USD, diversified business portfolio), China Ocean Shipping Co. (20,2 billion USD, transport and storage), China State Construction Engineering Corporation (11,1 billion USD, construction and real estate), China National Petroleum Corporation (6,8 billion USD, oil and petroleum), Sinochem (4,8 billion USD, oil and petroleum), Lenovo Group (4,0 billion USD, electrical and electronic equipment), China Communications Construction (2,1 billion USD, construction and real estate), China National Offshore Oil (1,7 billion USD, oil and petroleum).

[10] As a matter of fact, the Republic of Korea had 7.460 TNCs, i.e. more than China and Hong Kong together. However, the Republic of Korea is included in statistics in the group of developing countries, while at the same time it is a member-country of the OECD organization of developed countries.

Characteristics of 150 Chinese TNCs were researched in detail in 2005. Their structure by employment revealed that 14% of the researched TNCs employed over 10.000 people, ca 50% companies employed 500–1000 people, 25% enterprises had 100–500 employees, and the remaining 11% of firms employed below 100 workers. Industry structure showed that 56% of the researched enterprises led activity in manufacturing, 33% companies in services and 11% in mining and other primary activities. The main industries represented included: machinery and equipment, electrical and electronic goods, garments and textiles, construction and trade. As for ownership structure, private firms predominated with a share of 49%, state-owned or state-controlled companies accounted for 34% of the group, 6% fell into category of collectives and cooperatives, and the remaining percentage includes "other firms". State-owned or controlled TNCs were large firms, mostly from two sectors: mining and construction (mainly infrastructure).

The *Fortune*'s 2009 edition of the annual *Global 500* ranking of the world largest companies by revenues included 37 Chinese companies which accounted for 7% of the total revenues in 2008. The expansion of Chinese firms is quite significant, as only 6 of them were ranked in 1998, accounting for 1% of total revenues [*Global 500*, 2009, p. 68]. However it should be noted that not all companies in the ranking are transnationals, as some of them receive revenues mainly from the large domestic markets, like the USA or China. Almost all Chinese foreign direct investors are present on the *Global 500* list, except for Lenovo Group which left the list due to considerable decrease of revenues in 2008. In a group of 37 Chinese companies ranked on the list, there were 20 enterprises leading business in mining and electricity sectors, 9 banks and insurance agencies, 5 service firms, and 3 operating in manufacturing. Among *Global 500* firms ranked by the highest profits growth there were 6 Chinese companies, including China United Telecommunications, ranked third (with 283% profit growth in 2008) [*ibid.*].

A research conducted by the Boston Consulting Group (BCG) in 2006 found Chinese TNCs to be the largest group of "new global challengers", i.e. globalizing companies from Russia and developing countries. Among the listed 100 companies, BCG indicated 44 transnationals of Chinese origin, including 42 TNCs incorporated in China and 2 in Hong Kong [Boston Consulting Group, 2006, p. 7]. Few names of companies which are prominent "challengers" and large exporters in some global sectors can be provided: BYD Company (batteries, 23% of sales on the global market of batteries for mobile equipment), China Marine Containers Group (50% of the containers market), Galanz Group Company (microwave ovens, 45% of the EU market), Hisense (flat monitors, one of the leading global vendors), BOE Technology Group Company (electronic household appliances, one of the leading vendors), TCL Corporation (as above), China Aviation Company (aircrafts), Haier Group ("white goods", one of the leading vendors), Huawei Technologies Company (information and telecommunication equipment and parts, one of the global technological leaders and vendors), ZTE Corporation (as above). The success on the global market (in the middle of the present decade, in the above examples) made Chinese firms not only “challengers” but rather true competitors for other firms. Much speaks in favor of their increasing competitiveness in the recent and coming years.

Discussing the research results, the BCG study indicated the following important facts and features:

- Chinese companies compare very favorably to other companies on the list, as their share accounts for 44%, while China’s share in global GDP accounts for 29% (for 2005). It reflects the enhanced international competitiveness of Chinese companies and their strong expansion on the global markets.
- Equity structure of the listed Chinese “challengers” is much specific because over 2/3 of their number are state-owned or state-controlled, while only 3 companies are private.
- Although most of Chinese “challengers” are involved in manufacturing, many different branches are represented.
- Globalizing Chinese companies apply various competitive strategies, including e.g. development of products and brands from local to global, globalization of innovation activity, leadership in a niche of the global market. The strategies evolve from offering low products prices to the focus on higher quality and product innovativeness.

Taking into consideration a relatively good performance of Chinese transnationals under the present crisis, one can expect more their efforts to raise competitiveness, increase foreign expansion and grow from “global challengers” to true “global players”.

In terms of geography, foreign expansion of Chinese TNCs has evolved from regional to global scope. Like transnationals from other developing countries, initially Chinese companies engaged in FDI expansion and building corporate networks in their own region, i.e. Asia. By the mid 2000s, the FDI outflow by Chinese enterprises reached other five continents, with investments in both developing and developed countries. In the first case, the FDI flows have followed trade expansion of China in the Third World, mostly in Africa and Latin America. In the second – the FDI outflow from China was used for acquisitions of brands and innovative companies in developed countries in Europe and North America. Thus, the global scope of activities by Chinese transnationals has increased in the present decade and probably the world’s economic crisis cannot change this trend.

Foreign expansion of Chinese TNCs implies not only external effects but also internal ones. The latter concern impacts on economic reforms in China and contribution to their advancement. Moreover, owing to the globalization of Chinese transnationals, linkages of the national and global economies are much enhanced, what results in stronger China's participation in the globalization process, despite its recent turbulence[11].

SUMMARY AND CONCLUSIONS

Foreign expansion of Chinese enterprises has become a phenomenon of worldwide prominence. Since the early 1990s, exports of Chinese firms have expanded at accelerating growth rates and ten years later FDI outflow of the Chinese origin has started to grow significantly. The dynamic foreign expansion, the evolution of its industry and geographical patterns, and upgrading international competitiveness have contributed to a success of Chinese enterprises on the global markets. The success would not be possible without transformation of the Chinese economy resulting from governmental policies promoting development of the domestic market, external liberalization and technological modernization, which have been pursued for over 30 years.

Reforming the economy, the Chinese government took advantage of globalization and global expansion of foreign TNCs, which were allowed to enter gradually the domestic market on specific conditions. Inflows of foreign goods, capital and technology as well as increasing cooperative linkages of local and foreign firms supported the emerging market and competition, and consequently led to improving international competitiveness of Chinese enterprises and their products. Initially it was based on exploiting low-price advantage, and advantages based on quality, innovativeness and smart strategies were gradually strengthened in the recent years. Increasing international competitiveness and shares of the global markets laid ground for a fast expansion of exports and outward foreign investments and finally to the transition of Chinese enterprises into TNCs. Presently, Chinese enterprises – including the transnationals – have engaged into passing from imitation and acquisitions to creation of own knowledge and innovations. Despite the global economic crisis, such changes are strongly supported by the Chinese government which strains – by means of various programs and instruments – to promote growth of the national knowledge-based economy.

Growth and foreign expansion of Chinese enterprises – leading to the rise of TNCs – are characterized by the following features:

- Strong impact of government-led policies and the resulting processes (marketization, liberalization, modernization) on growth and foreign expansion of Chinese enterprises.
- Stage-by-stage changes – at the pace of government's reforms – in growth and internationalization of Chinese enterprises, with relatively short time spans as well as accelerated and large changes on particular stages.

[11] Discussing the above-mentioned problems exceeds the limits of this paper. China's path to and participation in the globalization process can be studied in other publications, e.g. by Polish authors, see: K. Starzyk [2009], A. Zorska [2009b].

- Government's strategic approach to using different forms of foreign expansion by Western TNCs engaged in China, in a sequence from joint ventures, subcontracting and trade to inward FDI. It has resulted in giving more time and creating more opportunities to build up economic potential and competitiveness of domestic firms.
- Accelerated internationalization of relatively young (10–15 years old) Chinese enterprises as entities on the emerging domestic market, and not much later – on foreign markets, including highly competitive Western markets.
- Relatively large share of state-owned or state-controlled enterprises in groups of the biggest enterprises (floated on stock exchanges), strong involvement of "state" TNCs in outflow of FDI to gain access to raw materials abroad.
- High capability of Chinese enterprises to accumulate factors of production, improve their quality and technological advancement, high flexibility, high ability to learn (while keeping cultural identity) as well as to develop new and unique capabilities.
- Smart taking advantage of experience gathered by foreign TNCs in global expansion and cross-border management for penetration of foreign sales markets, acquisition and integration of strategic assets and globalization of R+D activity.
- Fast catching up with the world's leading (mostly Triad's) TNCs, as reflected by rising global market shares and taking more and more prominent positions in global business rankings.
- Unique ways of advancing foreign expansion which consisted in quick "maturation" and sequencing expansion forms, shaping all conditions of OLI paradigm in own way and setting up proprietary cross-border corporate networks (instead of cooperative networks), and using smart competitive strategies.

Finally, it can be concluded that Chinese TNCs have become more and more prominent global players pursuing global expansion on their own modes and terms. Therefore, investigating their activity is regarded a true challenge not only for researchers but first of all for their competitors on the global market.

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POWSTANIE CHIŃSKICH KORPORACJI TRANSNARODOWYCH

STRESZCZENIE

Celem artykułu jest zbadanie procesu ekspansji zagranicznej przedsiębiorstw chińskich prowadzącego do powstania korporacji transnarodowych (KTN). Badanie tego procesu polega na analizie empirycznej zmieniających się w Chinach uwarunkowań ekonomicznych, które dokonywały się od 1978 roku pod wpływem prowadzonych przez rząd trzech wielkich reform: urynkowienia gospodarki, jej liberalizacji zewnętrznej oraz modernizacji technologicznej. Przejście od planu do rynku spowodowało rozwój zorientowanych rynkowo przedsiębiorstw (publicznych i prywatnych), konkurencyjnych na rynkach krajowym i zagranicznych. Rozpoczynając od rozwoju eksportu, niektóre przedsiębiorstwa krajowe przeszły do lokowania zagranicznych inwestycji bezpośrednich w celu lepszej penetracji rynków w innych krajach. Obecnie różne formy ekspansji zagranicznej są stosowane i służą sukcesom przedsiębiorstw chińskich na globalnym rynku. Do analizy ekspansji zagranicznej firm chińskich – jej motywów, warunków, form – wykorzystano paradygmat OLI.

Wyniki badań wskazują na istotny wpływ polityki państwa na ekspansję zagraniczną przedsiębiorstw chińskich i ich zmieniającą się konkurencyjność, prowadzącej do powstania KTN – liczących się już nowych „globalnych graczy" w gospodarce światowej. Przewagi konkurencyjne korporacji chińskich ewoluują ku rosnącemu wykorzystaniu technologii oraz innowacji, jak również inwestycji – pomimo obecnego spowolnienia gospodarczego na świecie. Konkludując, powstanie chińskich KTN oraz ich drogę do sukcesów na rynku globalnym cechowała pewna specyfika ekspansji zagranicznej, odróżniająca je od innych grup korporacji z krajów rozwiniętych i rozwijających się.

Słowa kluczowe: chińskie przedsiębiorstwa, ekspansja zagraniczna, korporacje transnarodowe.

ABSTRACT

The article aims at investigating the process of increasing foreign expansion of Chinese enterprises leading to a rise of transnational corporations (TNCs). The study consists in empirical analysis of changing economic conditions in China under government-led three reforms including marketization, external liberalization, and technological modernization, which were initiated in 1978. The transition from plan to market in China has resulted in the growth of market-oriented enterprises (public and private), which have become competitive on the domestic and foreign markets. Starting with exports, some national enterprises have moved to foreign direct investments to enhance their penetration of foreign markets. At present, various modes of foreign expansion underlay success of Chinese enterprises on the global markets. The analysis of their foreign expansion – motives, conditions, forms – was carried out using the OLI paradigm.

The research finds a crucial influence of the government policies on foreign expansion of Chinese enterprises and their evolving international competitiveness, leading to the rise of TNCs – new "global players" in the world economy. Their competitive advantages evolve towards increased application of technology and innovations as well as investments, despite the global slowdown. It can be concluded that the rise of Chinese TNCs and their path to success on the global market have been achieved with some specific features of foreign expansion distinguishing them from other groups of TNCs from developed and other developing countries.

Key words: Chinese enterprises, foreign expansion, transnational corporations.