

The Internationalisation of Chinese Multinational Enterprises under the Belt-and-Road Initiative

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Abstract

This article explores how the Belt-and-Road Initiative has affected the internationalisation of Chinese multinational enterprises with a case study of China Railway Rolling Stock Corporation. It is found that the Belt-and-Road Initiative can be considered as part of China's integration with global production networks, which enhances the ownership, location and internalization advantages of Chinese multinational enterprises. In particular, the Belt-and-Road Initiative has had positive impact on the improvement of innovation capability and firm performance of Chinese multinational enterprises through promoting R&D internationalisation and strengthening the specialisation of production.

KEYWORDS

internationalisation, eclectic paradigm, Belt-and-Road Initiative, Chinese multinational enterprises, global production networks

JEL CLASSIFICATION

F21; F23; M16

1 | INTRODUCTION

Belt-and-Road Initiative (BRI) was initially proposed during Chinese President Jinping Xi's government visit to Kazakhstan in September 2013 (Liu & Dunford, 2016). Some argue that the Initiative is a regional comprehensive economic partnership (Ye, 2014), while others consider it as a complementary part of Chinese 'peripheral diplomacy' (Zeng, 2017, p.1164). However, the Chinese government claimed in 2014 that the aim of BRI was to unite South and Southeast Asia, Central and Western Asia, and part of Europe to a common trade system (Li, 2018). In 2015 Chinese President Xi declares that any country be welcome to join the BRI.

The majority of existing literature have discussed the potential political, economic and cultural effects of BRI on the bilateral cooperation between China-Pakistan, China-India and China-Afghanistan (Ramachandran, 2015; Clarke, 2016; Kynge, 2016; Summers, 2016). However, there is still limited research on the internationalisation process of Chinese multinational enterprises (CMNEs) under BRI.

This article explores how BRI has affected the internationalisation process of CMNEs with a case study of China Railway Rolling Stock Corporation (CRRC). It is argued that BRI can be considered as part of China's integration with global production networks (GPN), which enhances the ownership, location and internalization advantages of CMNEs. In particular, BRI has had positive impact on the improvement of innovation capabilities and firm performance of CMNEs through promoting R&D internationalisation and strengthening specialisation of production.

The article is organised as follows. Next section is literature review, followed by research methods in Section 3. The results and discussion are in Section 4. The final section is the conclusion.

2 / LITERATURE REVIEW

In order to understand BRI's effect on the internationalisation of CMNEs, it first reviews the

literature on the main motivations of MNEs to internationalise and then the impacts of internationalisation on the innovation performance of MNEs, which leads to the conceptual framework of this study.

One of the main reasons for MNEs to internationalise is to seek the location advantages including workforce, marketplace, natural endowments and favourable policies of a host country (Cui, Meyer & Hu, 2014; Hitt *et al.*, 2006). There are three main factors that are usually taken into account including benefits, costs and risks. The investments in many host countries at different economic development stages can help firms make more steady profits than simply focusing on the domestic market (Rugman, 1976; Hisey & Caves, 1985). Nevertheless, MNEs need to deal with risky international business circumstances and marketplace by intentionally changing portfolios across their overseas subsidiaries by making divestments or further investment (Barkema, Bell & Pennings, 1996; Benito & Welch, 1997).

Internationalisation can provide the elasticity of controlling international value chains throughout MNEs' subsidiaries (Luehrman, 1998). For example, MNEs with aggressive internationalisation can move their production processes outside their home countries, as a reaction to alterations in surrounded prospects and threats (Tang & Tikoo, 1999; Chung *et al.*, 2010).

A number of scholars have found out the positive correlation between internationalisation and MNE's performance (Dess *et al.*, 1995; Hennart *et al.*, 1998; Luo, 2002). For example, Fang *et al.* (2013) emphasized the political, economic or ethnic affinities in the marketplace between the MNE's country of origin and its subsidiaries in host countries. They argued that the political, economic contexts and individualistic Western culture differ from those in the Chinese marketplace. The agreements and closer *guanxi* with local governments can accelerate and improve the market access for MNEs in China (Brown, 2013).

In the literature on international strategy, some scholars argued that internationalisation could improve the innovation capability of MNEs (Hitt, Hoskisson & Kim, 1997; Hitt, Li & Xu, 2016). The MNEs' geographical and ethnic variety within external marketplaces altogether can enhance their scientific knowledge that eventually had optimistic results on their corporate performance (Zahra, Ireland & Hitt, 2000). The preliminary innovation competences of MNEs were essentially part of internationalisation that eventually benefited MNEs' impending innovation, like a large range of patents and high-tech gains (Sambharya & Lee, 2014). The headquarters of an MNE can have more benefits of technological innovation from internationalisation than its subsidiaries in the host countries (Tsao and Lien, 2013).

However, other scholars have observed a negative correlation between an MNE's internationalisation and firm performance (Gomes & Ramaswamy, 1999; Geringer, Tallman, & Olsen, 2000; Capar & Kotabe, 2003). Hitt, Hoskisson, and Kim (1997) concluded that product diversification led to this negative correlation. It was further demonstrated by the fact that interconnected commodity diversification could accelerate the negative correlation between internationalisation and an MNE's corporate performance, yet irrelevant product diversification debilitated this correlation (Chang & Wang, 2007). In addition, a U-shaped relationship was found between an MNE's internationalisation of manufacturing processes and its corporate performance (Lampel & Giachetti, 2013). Nevertheless, some scholars showed an S-shaped relationship between internationalisation and corporate performance (Contractor, Kundu & Hsu, 2003; Lu & Beamish, 2004).

To explore BRI's impacts on internationalisation of CMNEs, this study synthesises Dunning (1998)'s eclectic paradigm with Coe et al. (2008)'s GPN framework (Figure 1). Dunning (1998) indicates that there are three advantages MNEs possess for internationalisation including ownership, location and internalization advantages. BRI is a state-driven policy by

the central government of China to promote global trade and investment, encourage the CMNEs to internationalize their business across vast geographical territory in the world. The relevance of BRI's geopolitical context with CMNEs altogether conform to the ownership advantages (tangible assets, patents, corporation efficiencies), internalization advantages (decrease in transactional costs, managements of operations and benefits of trade liberalization) and location advantages (external low labour and resources costs, and host countries' incentives for attracting FDI).

GPN means 'the nexus of interconnected functions, operations and transactions through which a specific product or service is produced, distributed and consumed (Coe *et al.*, 2008, p. 274)'. CMNEs can take advantage of location advantages in the geography of BRI, where it reflects economic efficiency versus constrictions such as distance and marketplace division. BRI's contract endorsements can potentially bring about long-term benefits for the CMNEs when they make OFDI for participating in the regional and global production activities. The internalization advantages of CMNEs can be realized by developing the regional networks of innovation, production and distribution with the countries who have joined the BRI. These regional production and innovation networks can potentially help the CMNEs to reduce the costs of transaction, logistics and new product development along the Belt-and-Road route, facilitating the product distribution and services delivery across the Belt-and-Road countries.

Insert Figure 1 here

3 | METHODOLOGY

Case study approach is used in the research. As BRI is launched by the central government of China, the state-owned enterprises have been the active players in the scheme. The chosen CMNE is CRRC because it is one of the key participants of the Chinese government's drive on BRI. CRRC is one of the world's largest suppliers of rail transit equipment with the most complete product lines and leading technologies. Its main businesses include the R&D, design, manufacturing, repair, sale, lease and technical services for rolling stock, urban rail transit vehicles, engineering machinery, all types of electrical equipment, electronic equipment and parts, electric products and environmental protection equipment, as well as consulting services, industrial investment and management, asset management, and international trade. CRRC has 46 wholly-owned and majority-owned subsidiaries around the world with over 180,000 employees (CRRC, 2021). It has achieved a prominent place in the international railway equipment market with its high innovation capabilities in the past decade.

Both the primary interview data and secondary data were used to gain a comprehensive and critical analysis of BRI's effect on CRRC's internationalisation and innovation capability. The primary data were collected by undertaking 15 semi-structured interviews with the senior managers of CRRC, who were in charge of or got highly involved in the internationalisation activities from eight provinces of China in June 2017, April 2018 and August 2019. The semi-structured interviews gave the interviewees more freedom to express their viewpoints as the specific enquiries were asked in an "ongoing interview process" (Bryman, 2008, p.439). Each interview lasted about 60 minutes. The interview questions were mainly about how BRI had affected international strategy of CRRC and the linkage between BRI and its participation in the production and innovation activities in the countries under BRI. We also asked how the

internationalisation of CRRC had affected its innovation capability and performance.

The secondary data in the research covered the CRRC's corporate website, academic journal articles, books, industrial and media reports on CRRC's internationalisation and innovation strategies published in *Financial Times*, *Nikkei Asian Review*, *China Daily*, *CaiXing Global* and so on from 2011 to 2021.

We systematically read and re-read the transcripts before we began with an in-depth analysis of each interview through the lens of our research questions and theoretical framework. The messages and narratives were selected that are related to the main themes of this study such as ownership advantages, location advantages, internalization advantages, production networks, overseas R&D and innovation networks, innovation capabilities and firm performance. The iterative process also let us identify logical dependencies between different categories and led to our research findings with the use of secondary data together.

4 | FINDINGS AND DISCUSSION

The potential impacts of BRI on the internationalisation of CMNEs are as follows based on the interview and secondary data. First, the BRI has accelerated the pace of the internationalisation of CMNEs through linking them to the GPN. It has also had a positive impact on the improvement of CMNE's innovation capability through encouraging them to establish R&D centres along the Belt-and-Road countries. Regarding the BRI's strategic nature, one of senior managers in the interview remarked that the BRI could be considered as part of GPN by the time it fully functioned.

“it (the initiative) will strongly increase the country' long-term development. I think One Belt One Road is not only the production networks but also an economic community. It is a great opportunity for many countries in the near future.”

It is clear that the senior manager of CRRC perceives the BRI as an example of China's integration with the GPN when elaborating and identifying the political benefits from the Initiative as an economic community for all of the member states. Wijeratne (2018) indicates that the BRI's political nature is multi-layered, where the Initiative helps solve the over-capacity problems in some manufacturing industries of China and promote international trade and investment among the member states. It will also improve the Chinese government's international recognition in the increasingly complex international business environment.

The GPN nature of BRI can be explained as follows. First, the CRRC's ownership advantages make it possible for the CMNE to pursue its international strategy. The competitive advantage of CRRC lies in making high-speed trains at lower costs than its competitors such as Siemens, the leading German high-speed train manufacturer. Nevertheless, even with the restrictions of geographic distance with the Belt-and-Road countries, the internationalisation of CRRC with its ownership advantages can increase its revenue thanks to the economies of scale in R&D and manufacturing activities.

"Yes it can increase because CRRC has already benefitted from the Belt and Road Initiative partnerships. It is highly competitive in that it is already exporting its advanced technologies", mentioned by one of the international managers in the interview. In order to gain more competitive advantages, CRRC has also undertaken related diversification strategy in the course of internationalisation.

In addition, CRRC has enjoyed some location advantages under the BRI. As another senior manager commented that *"CRRC has had so many beneficial partnerships under the Belt and Road Initiative that they are important for the CMNE to complete the external projects along the Belt-and-Road countries successfully."*

"an economic community formed by the BRI is ...an opportunity network. ... What is an

opportunity network? I think maybe ... or when you have an opportunity to export and provide your product line more quickly at lower costs, especially in the countries that are in need of our technologies.”

The network here is linked with internalization advantages of CRRC through forming transnational partnerships with other foreign companies under the BRI, where the external demand for the high-speed trains can help the CRRC to save the distribution and logistics costs when they make OFDI in the Belt-and-Road countries.

The interviewees indicated that the internationalisation of CRRC under the BRI has contributed to the improvement of firm performance.

“Yes, I agree. CRRC has created one of the global dominant technology platforms of train transportation equipment and industrial production bases. Its fast electric multiple units, strong engines, train cars, metropolitan locomotive engines and various train-based commodities, which have completely reached global superior standard, are able to adjust to diverse and compound geographic locations and meet various marketplaces’ requirements”

Since the merger between China Northern Rail Corporation Limited and China Southern Rail Corporation Limited in 2014, the dual-listed CRRC at Shanghai Stock Exchange and the Stock Exchange of Hong Kong has enhanced its ownership advantages of patents and advanced technology to compete against its international rivals. It is confirmed by one of our interviewees as follows.

“Yes ...Its (CRRC’s) supply has been traded to more than 100 states all over the world and contribute to global business transformation.”

Global Business transformation is one of the incentives for CRRC’s internationalisation. For example, CRRC established a manufacturing plant in Malaysia for train wagons in 2015, which has currently over 80% of Malaysian employees. Thus, under the BRI, CRRC is “moving forward with internationalisation in line with the localization policy, with ... overseas

employees and overseas assets expanding 10-fold...” (Tabeta, 2018). Thereby, the internationalisation has also created location advantages for the CRRC.

“The international trade of train-based goods has additionally been altered to export capital, commodities and technologies...”

The integration of CRRC’s technological advancements with lower labour costs and abundant natural resources in the host countries under the BRI can potentially improve the CRRC’s international competitive advantage.

“ CRRC’s fast electric multiple units have been recognized as a considerable business card in the BRI region to demonstrate the mainland China’s continuing success in the global market.”

CRRC’s advanced technologies in producing high-speed trains have currently proved to be a useful political business card in train-related international business development for China under the BRI. For example, CRRC’s “international” recognition was seen in securing a contract of supplying three high-speed trains to the Czech Republic in 2016, two electric locomotives to Serbia in 2018 (Feng, 2018) and exporting the electric locomotives to Turkey, Kenya, Ethiopia, South Africa and other member states since 2009 (CRRC, 2021).

Regarding the positive impacts of BRI on the CRRC’s innovation and absorption of advanced technology, one of the senior managers stated that the Initiative contributed to the improvement of CRRC’s innovation capability.

“By exporting products to different countries and areas, it will help CRRC to enhance its R&D capability. Under the Belt and Road Initiative, CRRC will establish several R&D centres in different countries, which will help CRRC to be more innovative in the international expansion.”

The BRI encourages the CMNEs to establish their R&D centres abroad. For example, CRRC had already set up 13 R&D centres abroad, most of which were located within the Belt and Road geography by the end of 2017 (Railway PRO Communication Platform, 2018). It is

planning to establish more R&D centres abroad to enhance its innovative capability because each overseas R&D centre can help develop its localised solutions. This is illustrated by one of the international manager in the interview.

“...able to adjust to diverse compound geographic locations and fit into various marketplaces’ requirements”,

It is not an empty statement because these overseas R&D centres contributed to an annual increase of CRRC’s international patents by 70% from 2012 to 2017, which enhanced its international competitive advantage (Railway PRO Communication Platform, 2018). The BRI can help fill in the vacuum of slowing domestic demand until the next train demand boom within the domestic Chinese market until 2025 when some of domestic trains will need upgrading and replacement. Therefore, the BRI plays an important role in accelerating the CRRC’s internationalisation pace to improve its international reputation and competitive advantage by enhancing its R&D and innovation capabilities.

Since the political nature of BRI has created a relatively favourable business environment for the internationalisation of CMNEs, some CMNEs have witnessed good opportunities to join the GPN by participating in some infrastructure development projects in some developing or the least developed countries along the Belt-and-Road route.

As some CMNEs have already possessed special know-how, advanced technologies or patents in their products or services such as CRRC’s standardisation of high-speed trains across the mainland China, the business network under the BRI and the ownership advantages of CMNEs have contributed to their internationalisation.

“...CRRC will ... endeavour to become an innovation leader by when ‘China Manufacturing 2025’ initiative will have been entirely in practice around the country”.

CRRC has become one of the leading CMNEs that have taken advantage of the BRI’s international business development opportunities. However, China, as an emerging economy,

has already been on the global stage making efforts to promote the globalization (Collis, 2014). Nevertheless, one may contend that the BRI redefines or reinforces globalisation physically through its maritime and overland routes, and virtually through its strategy or membership. Held and McGrew (2007, p.16) define globalization as “a process of increasing transactional interdependence across borders of nation states”. Collis (2014) identifies globalisation as a process, which is not only based on economic perspective, but also is grounded on a multi-level process that integrates different ideological, institutional, economic and cultural aspects. Therefore, the BRI’s reinforcement of globalisation is to accelerate this process not only for the domestic politics, but also for the well-being of international community. One of the senior international managers made the following comment:

“The CRRC will utterly implement the diversified, cooperative internationalisation strategies or the globalisation approach under the Belt and Road Initiative.”

Some scholars argue that there is a definitive intertwinement between the BRI and a new mode of globalization including sharing, openness, inclusiveness and mutual benefit. Cai et al. (2018) support the Initiative’s reinforcement of globalisation on the global stage, but contend that it is a crucial tactical tool for enhancing world governance and invigorating global economy.

Since China is one of the largest emerging economies in the world, this study supports the argument that emerging market multinational enterprises can enter the world market as competent rivals to advanced economy multinational corporations (Williamson et al., 2013; Cuervo-Cazurra & Ramamurti, 2014). Because of domestic standardisation, the CRRC has developed its competitive advantage of producing high-speed trains at relatively lower costs while increasing the number of its patents from its R&D centres home and abroad. It contradicts the previous studies arguing that EMNEs have to endure the high-tech competitive weaknesses (Cuervo-Cazurra & Rui, 2017). It also disapproves that the latecomer CRRC can be

disadvantaged at its commercial innovation because China has been known for weak institutional enforcement and protection of intellectual property rights (Peng, Wang & Jiang, 2008).

5 | CONCLUSION

This article has synthesised Dunning (1998)'s eclectic paradigm with Coe et al. (2008)'s GPN framework to study the internationalisation process of CMNEs under the BRI with an in-depth case study of CRRC. The BRI indicates China's efforts to reinforce the globalisation through promoting international trade and international investment with overland and maritime routes. It is found that the BRI can be considered as part of China's integration into GPN, which enhances the ownership, location and internalization advantages of CMNEs. The integrated economic community under the BRI helps to create international partnerships for the CMNEs. In particular, the BRI has had positive impact on the improvement of innovation capabilities and firm performance of CMNEs through promoting R&D internationalisation and strengthening the specialisation of production.

The research has the following limitations. First, the BRI is not the only factor that influences the internationalisation of CMNEs. It is also important to explore other home support policies and institutions that can accelerate the internationalisation of CMNEs. Second, this study is only based on one single in-depth case study of one typical large state-owned manufacturing MNE in China. The research findings would be more interesting and convincing if more comparative case studies were carried out to study how CMNEs had internationalized under the BRI.

Future studies are strongly recommended to examine how the BRI influences the international strategy of different types of CMNEs. For example, it is still intriguing to discover how the BRI affects the internationalisation of private firms or small and medium-sized

enterprises in China. In addition, the OFDI from China has declined since the outbreak of Covid-19 pandemic. It has affected the internationalisation of CMNEs considerably. For example, there is some suspicion about the Central and Eastern European countries' attitudes towards the bilateral cooperation under BRI. It is meaningful to explore how the BRI affects the international strategy of CMNEs that are making or have made OFDI in the Central and Eastern European countries during and post Covid-19 pandemic. Moreover, it is important to learn how BRI will drive digital connectivity, green infrastructure and industry development along the belt-and-road routes in the coming decades.

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