

Internationalization within networks: exploring the relationship between inward and outward FDI in China's auto components industry

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Abstract: We explore how the outward FDI strategies of Chinese auto component MNCs are shaped by sub-contracting supply relationships established with developed market MNCs. We argue the strong presence of foreign MNC business networks developed through prior inward FDI constitutes an important home country effect influencing the outward FDI strategies of emerging market MNCs. Using the updated internationalization process model, we show how commitment to business networks is a critical mechanism driving the internationalization trajectories of Chinese auto component MNCs. This includes geographic location choices to psychically distant developed markets, strategic asset seeking orientation, pace of internationalisation and entry mode decisions.

Keywords: Inward-outward FDI linkages; business networks; internationalization process model; auto components; China

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Introduction

Home markets influence multinational corporation (MNC) strategies and behaviours. In particular, emerging markets are different in certain regards compared to developed markets, and therefore emerging market MNCs (EMNCs) differ from their advanced market counterparts (AMNC) (Cuervo-Cazurra, 2012; Hennart, 2012; Narula, 2012; Ramamurti, 2012). There is, however, on-going discussion over *which* home country effects shape EMNC outward investment strategies and *how* they may do so (Cuervo-Cazurra, 2012; Gammeltoft et al. 2010).

Here, we explore how prior *inward* FDI by AMNCs influences and shapes the *outward* FDI of EMNCs. Some emerging markets, like China, have received substantial volumes of inward FDI. The scale of inward FDI received during the emergence of Chinese EMNCs dwarfs that received by the home countries of the largest AMNCs during their emergence. In 2012, for example, emerging markets absorbed (for the first time ever) more inward FDI than developed markets, reaching 52 per cent of global FDI flows (UNCTAD, 2013: ix). At the same time, they provided one third of global FDI outflows, continuing an upward trend reflecting strong EMNC growth (UNCTAD, 2013: ix). EMNCs have also emerged during a period of unique trade and investment liberalisation, falling costs of transportation and dramatically improved information and telecommunication technologies. Most importantly,

they have emerged during a period of increased outsourcing via global production networks (Buckley & Ghauri, 2004; Nolan, 2012). The world's largest AMNCs have restructured their manufacturing supply chains, where networked production and coordination of global value chains (GVCs) have become the norm (Dicken, 2010; Nolan 2002; OECD, 2012; Sturgeon et al., 2008; UNCTAD, 2013; Womack et al. 1990).

In this paper we consider how inward FDI, as a home market feature, may influence EMNC outward FDI. We explore the interrelationships between AMNCs and EMNCs in the context of AMNC-EMNC business networks in the Chinese auto components industry. Our primary research question is: do business networks established with inward investing AMNCs shape EMNC outward investment strategies and, if so, how? In particular, we explore how inward-outward linkages and growing network commitment influence four important aspects of EMNC outward FDI strategies: outward FDI location choices, asset seeking orientation, pace of internationalization and entry mode.

To do so we use five in-depth cases from China's automotive components industry and analyse our findings in light of the recently updated internationalization process model (hereafter IPM) (Johanson & Vahlne, 2009; Meyer & Thaijongrak, 2013). This perspective emphasizes learning undertaken in business networks and draws our attention to the role of AMNC inward investment as a home country effect of relevance for further understanding EMNCs. Our findings demonstrate how the pattern of outward FDI from EMNCs in China's auto components industry has been strongly shaped by prior inward investment. We discuss how the IPM helps further our understanding of EMNC FDI strategy, including some features considered idiosyncratic and puzzling in light of mainstream theory. We argue Chinese auto component EMNCs have rapidly ramped up their investments to developed markets, often

involving technological upgrading and strategic asset seeking, as part of a process of evolving commitment to AMNC business networks.

The paper is structured as follows. We first consider the different home country effects in the literature on Chinese MNCs, including inward-outward FDI and AMNC-EMNC linkages. We show how aspects of the IPM, with its network perspective, may be of relevance in exploring such linkages. We then explain our method, which involves multiple-case-studies of Chinese automotive component suppliers. This is followed by our results and discussion.

Home Country Effects and Chinese MNCs

Some perceive the outward FDI behaviour of EMNCs, including Chinese MNCs, to lack adequate explanation by mainstream international business theoretical models, such as the eclectic paradigm. This is because EMNCs internationalize very rapidly, often to psychically distant markets to acquire the strategic assets they themselves lack (Luo & Tung, 2007; Mathews, 2006). They internationalize, moreover, without necessarily possessing strong ownership advantages (Ramamurti, 2012). These and other idiosyncratic investment behaviours are increasingly being explained with recourse to the impact of the particular and distinctive home country effects that can be found in emerging markets (Cuervo-Cazurra, 2012). The current literature on Chinese EMNCs, for example, extensively discusses the impact of the state as a unique and forceful domestic institution shaping Chinese FDI (Luo et al. 2010). To this end, early research explored how imperfect capital markets, allocated via the state-owned banking system, influenced Chinese MNCs (Buckley et al., 2007). Analysis of the role of domestic Chinese institutions has subsequently received increased attention, delving into such things as the roles of: sub-national level governmental institutions (i.e. the role of provincial governments) (Li, Cui, & Lu, 2014; Wang et al., 2012); the role of

isomorphic behaviours (i.e. investing in line with state policies) (Cui & Jiang, 2012); and how state ownership may reduce host country expropriation risk (Duanmu, 2014).

Other scholars have focused on a variety of local market imperfections as important shapers of EMNC FDI. Specifically, Hennart argues that domestic Chinese “locational advantages” may only be accessible to local Chinese firms because of their preferential access to what have been referred to as “complementary local resources” (i.e. distribution channels, access to government contracts etc.) (Hennart, 2012). This gives rise to rents only appropriable by Chinese businesses, which subsequently encourages them to acquire strategic assets like brands or technologies from abroad. These assets can then be exploited in their domestic markets, which AMNCs find difficult or impossible to access (Hennart, 2012). Another home country influence is the prevalence of business groups. For example, Yiu (2011) argues that business group formation may provide a micro-institutional environment favourable for successful internationalization. Member firms may, for example, benefit from internal markets facilitating development of ownership advantages, as well as benefitting disproportionately from learning opportunities afforded to them by co-operation with foreign partners (Yiu, 2011). They may also be supported in various ways through state led institutional support (Sutherland, 2009; Yiu, 2011). Contractor has further hypothesized Chinese MNCs may have developed within the context of limited resources and weak and poorly enforced legal institutions and regulatory environments, which teaches them “how to be pliable, shrewd and persistent in overcoming obstacles” (Contractor, 2013: 316).

AMNC and EMNC inward-outward FDI linkages

The influential role of AMNC inward investment and formation of GVCs in China, as well as the on-going co-operation and relationship building between AMNCs and EMNCs, has been

somewhat overlooked as a home country effect (Sutherland & Ning, 2011). This is surprising, as a number of early influential papers on EMNCs have noted in passing the relevance of inward investment to EMNC internationalization strategies (Luo & Tung, 2007; Mathews, 2006). Mathews (2006), for example, in developing the link, leverage and learn (LLL) framework, noted the vital role of prior AMNC-EMNC relationships in East Asia: “Many of the most successful latecomers from the Asia Pacific have begun their international career as a contractor to an incumbent MNC and then been drawn by this MNC to supply its regional operations across regional borders” (Mathews, 2006: 22). In spite of drawing attention to inward FDI, however, comparatively little subsequent work has pursued this research agenda. A recent review of literature on Chinese MNCs has noted that inward-outward FDI interactions have to date been more or less “ignored”, even though they are considered “one of the most distinctive differences between Chinese MNCs and other emerging market MNCs” (Deng 2011: 13). Moreover, evidence shows that such linkages and business networks are important in the Chinese context (Carney, 2005; Ge & Wang, 2013; Ning & Sutherland, 2012). This also raises the question of whether lesser-used theoretical perspectives, like the IPM, with its emphasis on networks, are better suited for explaining EMNC internationalization (Meyer & Thaijongrak, 2013).

The updated IPM emphasizes the vital role played by business networks (including international and domestic networks) in driving FDI (Johanson & Vahlne, 2009; 2013), but its specific relevance to EMNCs has not been emphasized. The basic underlying dynamics remain unchanged in the updated IPM. While dealing with uncertainty remains at its core, uncertainty stems from network “outsidership” in the updated IPM, rather than market uncertainty. Whereas the original model saw learning and commitment developing between a firm and a new market, now it is within networks. To reduce uncertainty and increase learning, therefore, firms must learn to “create or strengthen relationships in order to exploit

opportunities” (Johanson & Vahlne, 2009: 1423). Hence networks provide the potential for learning, trust building and, in turn, increased levels of network commitment, all considered as preconditions for internationalization (Johanson & Vahlne, 2009).

In the IPM knowledge and opportunity lead to commitment decisions, which in turn may change the quality of the relationship, leading to further trust, so enhancing the network position of the firm. This can then lead to new knowledge opportunities (Figure 1). Indeed, initially knowledge opportunities come from “insidership” in networks. According to Johanson and Vahlne (2009) exclusion from a relevant network, more so than “psychic distance”, has become “the root of uncertainty” for businesses today (Johanson & Vahlne, 2009: 1412). Business network “insidership”, in short, is considered crucial for internationalization to take place.

FIGURE 1 ABOUT HERE

What are the implications of the change of focus towards networks for understanding EMNC behaviour, such as location choice, strategic asset seeking orientation, speed of internationalization and entry mode decisions? As networks are essentially considered to be “borderless” once embedded in a network in one country, that relationship may be replicated elsewhere. As such, making strong distinctions between international and domestic expansion becomes less meaningful in the IPM, owing to the ability of business network relationships to bridge psychic distances and reduce the liabilities of foreignness when entering new markets (Johanson & Vahlne, 2009). The traditional IPM view of overcoming hurdles and difficulties (i.e. increased psychic distances and liabilities of foreignness) involved in international

expansion is replaced by one that considers the challenges of strengthening the firm's position in the network. The IPM therefore argues that existing business relationships facilitate the discovery and exploitation of opportunities. This may also have a large impact on "the particular geographical market a firm will decide to enter and on which mode to use" (Johanson & Vahlne, 2009: 1423). The IPM predicts it may be possible for EMNCs to make investments in psychically distant developed countries if they have built up adequate domestic network relationships with a AMNC from that country, so ensuring network "insidership".

Rapid internationalization is also a possibility if an EMNC has strong network ties in its domestic market that can be leveraged internationally and it wishes to further commit to that network. This position on speed contrasts markedly with most interpretations of the original IPM, which predicted gradual internationalization based on growing levels of learning and commitment to a specific market. Finally, the IPM can also be extended to consider strategic asset seeking FDI and, relatedly, entry mode considerations. EMNCs, for example, may also look to enhance their network position, as in the case of "product" upgrading or "functional" upgrading in the economic geography literature (Kaplinsky & Morris 2000: 38; also Gereffi & Fernandez-Stark 2011; Humphrey & Schmitz 2001), as they look to build further commitment to a specific network (and develop new opportunities). This may involve producing more sophisticated products requiring new technologies or capabilities that can be acquired internationally. For EMNCs, expanding complementary product ranges, technologies and capabilities that a AMNC partner requires may be an important mechanism of deepening network relationships and commitments. In terms of entry mode, the EMNC literature generally dwells upon acquisitions as an important entry mode for strategic asset seeking related FDI and rapid catch-up. In the IPM, however, the question of which foreign establishment mode to use is considered a decision of lesser importance, as different modes

can bring similar results when considered in terms of their impact on network trust and commitment building. EMNCs, for example, may look to navigate the liabilities of network “outsidership” using both greenfield and acquisition investments. Both may be equally valid means of developing business network “insidership”, depending upon the context.

In this paper we address the questions of location choice, FDI motivation (i.e. strategic asset seeking orientation vs. market seeking orientation), speed of internationalization and establishment modes used (i.e. acquisition versus greenfield FDI) by Chinese auto-component EMNCs. These four aspects of EMNC outward FDI are among the most hotly debated topics in the EMNC literature. We do so from the business network perspective of the updated IPM. We thus conceptualize and look to explain the four aspects as forms of evolving network commitment decisions made during the internationalization process (Figure 2).

FIGURE 2 ABOUT HERE

Research Methods

Deng (2011) reviews 121 articles on the internationalisation of Chinese MNCs and notes “a dearth of studies on the processes of Chinese internationalisation” and that the field, in general, would benefit from more “longitudinal and qualitative work” (Deng, 2011: 16). Cases are useful in exploring such evolutionary processes. Here we address this gap using the Chinese auto industry, with a particular focus on domestic component supply firms to explore the role of business networks and how inward FDI may shape their outward FDI.

Industry context

The auto industry gave rise to the concepts of Fordism and lean production and is an influential trend setting industry (Womack et al. 1995). Insights gleaned from it may be relevant to other industries, particularly manufacturing ones involving complex supply chains entailing numerous discrete inputs. Over the past two decades, the global automotive industry has undergone considerable global consolidation, developing oligopolistic features (Nolan, 2012). A few global players fiercely compete, leaving little room for new entrants (Datamonitor, 2011; Sutherland, 2003).

The consolidation not only pertains to the assemblers but, as importantly, tier-1 and tier-2 component suppliers, as pressure for economies of scale and lean production have been passed on down the value chain (Nolan, 2001). The global tier-1 supplier base, for example, has rapidly consolidated and consists of a relatively small number of very large, highly competitive, globally active players. Assembly MNCs have intensified their business network relationships and have established long-term strategic partnerships with component makers to lower development costs of new platforms and vehicles. Such relationships include top tier suppliers, but also competing assemblers in the form of alliances and shared platform development (Womack et al., 1990). As a result, it has become increasingly difficult to shuffle the supplier base and to break up business relationships, which can create challenges for new players like EMNCs looking to enter such networks. The global auto industry epitomises modern networked GVCs as orchestrated by MNCs (Dicken, 2010). It may therefore provide insights into how EMNCs can enter production networks, create learning opportunities and undergo internationalization processes based on their position and involvement in GVCs.

GVC governance structures differ somewhat from industry to industry. In the automotive industry, exports of wholly assembled vehicles are rather limited owing to political considerations, which means production happens in regional production centres, whereas development and the organization remains more central than in other industries (Van Biesebroek & Sturgeon, 2010). Furthermore, product development is of a highly “integral nature, leading to thick ‘relational’ linkages between lead firms and first-tier suppliers” (Van Biesebroek & Sturgeon, 2010: 209). Suppliers are forced to be able to supply globally, while having their R&D centres close to that of the assembler: “Increasingly, lead firms demand that their largest suppliers have a global presence and system design capabilities as a precondition to being considered as a source for a complex part or subsystem” (Van Biesebroek & Sturgeon, 2010: 209). As such, new entrants to the networks may see themselves challenged to quickly internationalize, to meet the demands of their global customers. The automotive industry is thus an interesting industry to consider network relationships and their impact on the outward FDI of EMNCs.

Sample selection

We limited our case selection of EMNCs to China, which has become the world’s second largest recipient of FDI after the United States and has attracted FDI from the developed world for well over two decades. Large AMNCs have deeply penetrated Chinese markets by establishing subsidiaries (UNCTAD, 2011: 4). Strong assembler-supplier relationships are present in the Chinese auto industry, with Chinese firms embedded in the GVCs of leading assembly AMNCs (Nolan, 2001).

As we wish to understand the idiosyncratic nature of EMNC location choice (i.e. involving rapid internationalization and large psychic distances) we focus specifically on component

groups that had invested at least once into a developed market. Using China's Automotive Industry Yearbook we identified 48 large-scale component suppliers. Of these, five had undertaken significant internationalization into developed markets (see Table 1). Our goal was to develop a rounded understanding of the business networks shaping EMNC emergence in the auto components industry, so our interviews also incorporated representatives of 8 major assembly OEMs (original equipment manufacturers) from China and two assembly firms from Germany. The final sample of companies was heterogeneous in terms of level of internationalization, ownership structure, product type and positioning in the automotive component value chain. It includes some of China's most successful privately owned business groups (Fuyao and Wanxiang), as well as smaller and less known cases (Lawrence, Yanfeng and YAPP). The cases are based on primary data from interviews with the component suppliers. Secondary data from annual reports, company web pages, magazine and newspaper articles, published interviews by company officials and books on the Chinese automotive industry was also collected, to support our primary data collection (Eisenhardt & Graebner 2007; Gibbert et al., 2008; Yin, 2003). This afforded us opportunities for further insights into how business networks shaped location choices, entry mode and speed of internationalization, as well as more generally the motives and forces shaping outward FDI.

TABLES 1 AND 2 ABOUT HERE

Between July and December 2012 a total of 30 semi-structured interviews were conducted in China, of which 14 were personal interviews and 16 by telephone (Table 2). An additional 13 personal interviews were conducted between May 2013 and May 2014, primarily in Germany with the customers of the Chinese firms, BOSCH, BMW and VW. Interview partners were

chosen from different functional areas, hierarchical levels and from different geographical locations of the companies (Eisenhardt, 2007). Interviews were also conducted with a range of industry experts, including senior managers of other global assemblers, international operating consultants and academics (Gibbert et al., 2008). Overall, 19 interviews were conducted with employees of the companies in China, four interviews with their subsidiaries in the developed countries, 13 interviews with the foreign lead firms in the value chain (i.e. the customer of the firms) and seven interviews with industrial experts. Whenever possible, the interviews were conducted in English. However, 18 interviews were conducted in German and three in Mandarin (the latter with the support of a translator). All interviewees were given personal anonymity, and all interviews were recorded, transcribed and analysed, using an open coding system for grounded theory (Kvale & Brinkmann, 2009: 202; Saunders, et al., 2007: 499).

Network commitment and outward FDI of China's automotive component industry

The Chinese EMNC component suppliers we interviewed generally had significant engagements with large global assemblers or other AMNC component makers in China prior to investing overseas. Many of the Chinese EMNC outward FDI projects, moreover, were oriented towards strengthening and further committing to, and benefitting from, these pre-existing relationships. They thus invested in foreign locations close to the AMNCs with which they had developed strong domestic network positions (summarized in Table 3). In most cases, the Chinese components firms also targeted FDI at what could be considered psychically distant developed countries at comparatively early stages of their own internationalization. With the exception of YAPP, moreover, they also acquired complementary technologies and products in these foreign markets, which also enabled them to further strengthen commitment to their network positions (Table 4). In addition, they often

did so fairly rapidly, as their commitment to the business network expanded in terms of scale, international geographic coverage and complexity of products offered (Figures 1-5).

TABLE 3 AND 4 ABOUT HERE

Fuyao Automotive Group Fuyao has risen to become one of only a handful of major international auto glass suppliers that dominate the global market. As of 2015, Fuyao has developed to become China's largest automotive supplier and the world's second largest automotive glass producer. Less than a decade ago, Fuyao was only a local supplier in China. Since then, it has dramatically transformed itself from its former position as a loss-making state owned plant that supplied glass for water meters. It has witnessed rapid expansion in the US and Europe through which it has become deeply embedded in the value chains of most major international OEMs. In 2015, Fuyao supplied the world's largest auto groups (i.e. VW, General Motors (hereafter GM), Toyota, Hyundai) on an international basis and has become a main supplier for numerous well recognized brands (i.e. Mercedes-Benz (Daimler), Audi, Bentley, Ford, Honda, Nissan, PSA, and Volvo) (Sevastopulo, 2014).

Fuyao's vice president of global sales related to us how Fuyao's rise had been significantly shaped by its relationship with VW and how the relationship was "extremely important" to Fuyao [interviewee, Fuyao Glass case]. The network commitment building commenced in China. A lengthy gestation period, involving building successively higher levels of commitment, preceded the foreign investment. Prior to undertaking its first FDI project in 2007, Fuyao successively established production plants in close geographic proximity to all of VW's major operation sites in China (Figure 3): Changchun (2000), home to VW's major

joint venture with First Automotive Works (FAW) (in operation since 1991 and VW's second largest production plant in China, employing 15,991 people), Chongqing (2001), the third largest automotive centre in China, to supply VW in Chengdu (VW's third largest production plants), and Shanghai (2002), the location of VW's second joint venture, with the Shanghai Auto Industry Corporation (SAIC).

Through the domestic investments, Fuyao assiduously developed its relationship with VW. In 2007, Fuyao started supplying to the VW Group internationally for the first time (Figure 3). Because of its long-standing relationship domestically, Fuyao was "requested" by Audi, a subsidiary of VW, to supply windows for the Audi A6 on a trial basis for their main production location in Ingolstadt, Germany. This first FDI project with Audi can be directly traced to Fuyao's involvement in the VW value chain in China: "The contact to Audi was established via FAW-VW [a VW joint venture in China], ultimately via Audi Changchun, and their global purchasing department approached us" [interviewee, Fuyao Glass case].

During the trial project, Fuyao acquired a local German firm, FūMo Tec GmbH for US\$1.5 million in 2007. While only a comparatively small FDI project, it proved an important first international commitment to VW. The acquisition provided Fuyao with two key assets for the future learning development within the business network: First, the services of the CEO of FūMo Tec, who used his long working relationship with VW in tandem with Fuyao's pre-existing knowledge of supplying to VW to help Fuyao work with Audi in Europe. His help greatly accelerated Fuyao's learning of how to do business in Europe, eventually meeting the required technological and quality standards [interviewee, Fuyao Glass case]. Second, Fuyao obtained essential complementary technologies required to supply the European market. As a manager explained: "the automotive glass companies in Europe had more value-added activities than those provided by Fuyao in China" [interviewee, Fuyao Glass case]. Fuyao

used the acquisition to upgrade its product offering by adding the chemical application for the glue between the glass and the chassis, which in China had previously been carried out by the OEM.

The pilot project was highly successful and Fuyao's engagement with VW expanded: "After the A6 project followed a project for the VW Passat, and then more others" [interviewee, Fuyao Glass case]. Eventually, Fuyao became the main supplier of automotive glass for the whole VW group, which included the brands such as Audi, Bentley, Bugatti, Lamborghini, Seat, Skoda, VW and VW Commercial Vehicles.

Larger commitments to VW's international business network followed. In September 2013, a \$US 375 million investment led to the opening of a production plant in Kaluga, Russia (Figure 3). Again, this was directly linked to VW: "[they] invited us to open this production plant in Russia because of our good relationship with VW here in China" [interviewee, Fuyao Glass case]. With a capacity of 1 million units, the new production plant will serve VW's newly established Kaluga manufacturing plant, but also the European market, as Fuyao planned to increase its volume to 3 million units per annum.

FIGURE 3 ABOUT HERE

The relationship Fuyao established with VW in China was considered "path breaking" for Fuyao because it was to lead to further and closer interactions with Audi, VW and even other foreign OEMs outside of China [interviewee, Fuyao Glass case]. Successfully supplying to Audi in Germany solidified Fuyao's reputation for quality, which, according to one interviewee "hugely improved our brand perception" [interviewee, Fuyao Glass case]. This

led to further supply chain involvement with other OEMs in different locations: “without the Audi project, we would not have been considered an option for other OEMs in Europe” [interviewee, Fuyao Glass case]. This was partly because Audi had a reputation for having the very highest quality standards, and partly because the particular windscreen for the Audi A6 was considered to be the most complex and difficult to produce at that time [interviewee, Fuyao Glass case]. Successfully supplying this windscreen to German quality standards opened doors beyond the VW network: “After Audi came VW, after VW came Volvo, then Jaguar and Landrover, Bentley [which belongs to the VW Group], GM, BMW, Daimler and Fiat. Step by step they approached us” [interviewee, Fuyao Glass case].

Subsequent commitments to other OEMs’ business networks followed. In 2011 Fuyao made a number of smaller US investments in GM’s network, and in 2013 bought a large former GM site in Dayton, Ohio. This \$200 million investment was at that time the largest Chinese investment in Ohio. In 2014, Fuyao acquired a US based glass production plant from PPG, a business partner it had been working with in China for 13 years and from which it had licensed technology and has had a strong collaborative relationship. The acquired assets were in close geographic proximity to major US automotive manufacturers that Fuyao previously supplied in China. Through the investments, Fuyao further committed to its existing business networks and strengthened its international relationship ties with its major customers.

Yanfeng Yanfeng originally started off as a joint venture between HASCO and the large US-based supplier Visteon. HASCO itself is a subsidiary of SAIC, China’s largest state-owned automotive producer, with joint ventures with VW since 1984 and GM since 1998. These pre-existing network ties proved to be instrumental in Yanfeng’s later internationalization.

As a subsidiary of HASCO, Yanfeng had strong relationships with assembly groups since its inception: "At the moment we make 60% of our revenues from SAIC [including their two joint ventures with VW and GM] and 40% from external OEMs, but we provide parts and services to all OEMs in China" [interviewee, Yanfeng case]. Most of the senior management of Yanfeng and its parent company HASCO previously worked in the assembly joint ventures. This included the chairman Hu Maoyuan (previously a managing director of Shanghai GM) and the vice president Xun Yizhong (former deputy manager of the cylinder shop and assistant to the plant manager of Shanghai VW). Yanfeng's foreign investment projects have been linked closely with its relationships to foreign OEMs. This was partly because senior management recognized an internationalization strategy related to domestic assemblers was likely to fail:

"We don't see a good future with Chinese OEMs, because we don't think they are strong enough to compete with global OEMs like Japanese in Asian market and VW or GM in overseas markets. Their system is not ready yet and their product is not ready yet... The components business cannot survive only depending on certain Chinese OEMs abroad, we have to also supply to overseas OEMs" [interviewee, Yanfeng case]

Yanfeng's first large investment abroad was into the US to further commit to its network ties with GM. Yanfeng acquired operations from its joint venture partner Visteon, which supplied GM in the US (Table 4). Hence, Yanfeng utilized its business networks at two different levels. First, it exploited the vertical networks with GM, which it previously established in China. Second, it drew from its horizontal network ties with its international joint venture partner Visteon: "We are expanding into the global markets using the joint ventures. ... We are expanding into the U.S., into Germany, into developing and developed markets" [interviewee, Yanfeng case]. The horizontal relationships also provided learning opportunities to increase its international competence: "Through the joint ventures, Chinese

managers get international experience, because they have to travel overseas to the joint venture partner” [interviewee, Yanfeng case].

The opportunity for FDI arose when Yanfeng’s joint venture partner Visteon had to file for bankruptcy in the US in May 2009. HASCO (Yanfeng’s parent firm) was able to inject capital into Yanfeng-Visteon. Through the capital injection, Yanfeng-Visteon was able to build much needed production facilities in Harrison Township, Ohio, close to GM (operational in 2011), and in Kalol, India (also 2011), again within the network of GM (Figure 4). These new production sites were Yanfeng’s first international operation sites, and were branded ‘Yanfeng’ rather than ‘Yanfeng-Visteon’. This was partly because Visteon was “not strong enough” and had a tarnished reputation [interviewee, HASCO case], but mostly to expand the presence of its own brand internationally, in order to strengthen its own network position within GM’s global value chain.

In August 2013, four years after the initial investment, Visteon agreed to sell its remaining shares in the joint venture to HASCO for US \$1.2 billion. At that time, Yanfeng-Visteon had already established three locations outside of China, two in the US and one in India (Figure 4). These now became wholly owned subsidiaries of HASCO under the Yanfeng brand. Through its investments, HASCO committed to the business network of GM and has become a global supplier of interior trimming and seating to GM, eliminating the relationship with its former joint venture partner Visteon. It has fully established its position in GM’s business network, with the necessary scale and global presence to fulfil this role without further horizontal network partners.

FIGURE 4 ABOUT HERE

YAPP (Another HASCO joint-venture) YAPP, invested abroad to become one of the world's leading producers of plastic fuel tanks. Like Yanfeng, YAPP extended the relationships it had previously established to foreign customers in China (GM, VW and Ford). Through a number of FDI projects, YAPP established greenfield production plants in Australia (March 2010), India (May 2010 and September 2012), Russia (July 2011) and the Czech Republic (Sept 2012) (Figure 5). In each case, the investment was made to establish production sites in close proximity to the production plants of a particular customer, so as to enhance its position within these business networks (Table 3).

As the management stressed, the strong relationships it had established in China were vital in winning these overseas projects. Moreover, localizing its production in close proximity to its customers internationally was particularly important to further strengthen its network ties [Interviewee, YAPP case]. An important factor driving the international co-location to its customers is the 'simultaneous engineering' process of the global OEMs. Co-operating in R&D has become central to modern day automotive competition that use global platform strategies. Through early involvement in the R&D process of its customer, YAPP insured a deeper integration in the business network and further built strong inter-firm relational ties. The early integration in the R&D process of the customer opened further learning opportunities within the network and enabled YAPP to become an early adopter of changes in technology and vehicle designs owing to its position as an insider. Through the acquired knowledge as an insider of the business network, YAPP could thereby continuously upgrade its products and positioned itself at the cutting-edge of plastic fuel tank provision. YAPP had actively sought to become more actively involved in the R&D process of its customers: "We want to engage in the global platforms from an early stage on. But we have just started to do

so” [Interviewee, YAPP case]. In order to effectively learn from its network and to strengthen its position within the network, YAPP hired key engineers that were former employees of its customers: “We have to hire retired experts, maybe engineers from those OEMs because they have a very smooth communication with the system engineers in the technical centre in the global OEM.” [Interviewee, YAPP case].

FIGURE 5 ABOUT HERE

Lawrence China (Huaxiang Group) Lawrence China, a subsidiary of Huaxiang Group, illustrates both rapid internationalization and network driven strategic asset seeking (Table 4). The Ningbo based company has risen to supply the entire VW group as a provider of a complete range of interior trim solutions, especially in injection moulded thermoplastics. It has elevated its position within the network of VW by expanding its modularized trim products via a number of cross-border acquisitions to cater for the luxury model market. During the interviews, the CEO of Lawrence emphasized the close relationship to VW. Even though Lawrence was only a tier-2 supplier to the assemblers, it had a very close relationship with VW for simultaneous product development, organizational matters such as supply chain management and expansion plans to foreign markets. The relationship with VW was established in China. After first supplying to the local assemblers SAIC and FAW, the opportunity arose to supply their joint ventures with VW in China. This included assignments to supply luxury brand models like the Audi Q5 and A6 (produced in the FAW-VW joint venture). So as to supply the entire VW group as a provider of various types of interior trim solutions Huaxiang was requested by VW to produce a range of additional luxury model trim

products. This required Huaxiang to upgrade its product portfolio via cross-border acquisitions, a significant commitment to the VW business network.

To do so, Huaxiang rapidly engaged in a number of FDI projects to expand its product range: "The way we do things: we buy companies... That is an easier and much faster way of doing it [than developing new technologies/products and related capabilities]" [interviewee, Huaxiang case]. First, it acquired Lawrence UK in 2007, a firm focused on luxury high-grade wooden interior trim and dashboards that Huaxiang did not have the capability to produce (Table 4). Huaxiang renamed the company to 'Lawrence China', and relocated its operations to China. It then subsequently acquired several other European and US based firms so as to merge its complementary product ranges and technologies, so allowing it to produce the more sophisticated trim modules required by VW both in China and elsewhere. Through these acquisitions Huaxiang not only acquired strategic assets but also expanded its market reach. After the acquisition of Veneer Manufacturing Center (UK) in 2010, Northern Automotive System (UK) and Northern Engraving Corp (US) in 2011 the company successfully expanded its business to Europe and North America (Figure 7). Expanding to developed markets was necessary for the luxury components producer, as "the main markets are the US, Europe and China. Our product is limited to the luxury segment and the luxury cars are all produced in Europe and the US" [interviewee, Huaxiang case].

FIGURE 6 ABOUT HERE

Wanxiang Group The group is recognized as one of China's most successful privately owned groups. It has been aggressive in acquiring foreign businesses, with a view to supplying more

sophisticated component systems, moving from indirect to more direct supply relationships. Wanxiang's international network building started in the 1980s when it was among the first of China's component exporters [interviewee, Wanxiang case]. This experience was vital for the company and has been described as a key "turning point" by founder Lu Guanqiu, because it "began the process of exploration and experience" in international markets (Gao, 2006). This initial indirect access to the US market allowed them to learn about international quality standards. When AMNCs subsequently invested in China, Wanxiang was excellently placed to quickly enter their networks. Executives from GM, Ford and VW approached Wanxiang shortly after entering China and these relationships flourished (Gao, 2006).

Wanxiang's internationalization trajectory has been shaped by its position as a large component supplier in China. In 2015, the group consisted of over 30 companies in 8 countries. The US, however, is its most important market. One motive for FDI was to serve OEMs and other first tier suppliers it previously supplied in China, such as Delphi and Visteon (Table 3). An equally important motivation was the attempt to move up within the business network by supplying more sophisticated products to its customers [interviewee, Wanxiang case].

Wanxiang had in the past been treated as a lower tier supplier. Visteon's director of Asia-Pacific purchasing, for example, commented in 2015: "We are clearly treating them as a supplier of components for auto parts. Visteon doesn't treat Wanxiang as a competitor" (Wonacott, 2015). Through its acquisition of foreign technologies, Wanxiang planned to upgrade its product portfolio and services for its customers. Several US subsidiaries were acquired to access additional complementary technologies to continuously commit to its business network through strategic asset seeking. This included the acquisition of A123 for \$US 250 million and Fisker for \$US 149 million, in order to equip itself and its business

network with key technologies for the next generation of hybrid and electric vehicles (Table 4).

FIGURE 7 ABOUT HERE

Discussion

Business networks and FDI location choices

A puzzle in the international business literature concerns why EMNCs target psychically distant developed markets when popular models like the eclectic paradigm predict EMNCs, lacking ownership advantages, should not (Cuervo-Cazurra, 2012; Luo & Tung, 2007; Mathews, 2006; Ramamurti, 2012). Consistent with an IPM perspective, our findings suggest prior development of business networks with internationally operating AMNCs strongly shaped location choices by Chinese auto component EMNCs. According to this view, once embedded in a network in one country, firms may replicate that relationship elsewhere. Networks, the IPM argues, are in essence “borderless” and can thereby help mitigate the liability of foreignness in an otherwise psychically distant new market (Johanson & Vahlne, 2009). Indeed, location choices by many of our sample firms were driven by the desire to build upon and strengthen existing network commitments.

Our cases illustrate how Chinese auto-component suppliers, during a period of significant inward FDI, initially created strong domestic network relationships with AMNCs. Often the Chinese suppliers were located in close geographical proximity to their AMNC customers in China (Table 3). They thus appear to have been successful in developing what the IPM refers to as “relational capabilities” or “networking advantages” (Johanson & Vahlne, 2013: 192). The IPM notes that “mutual trust and commitment are based not on formal agreements but on a common history of at least minimally satisfactory, if not successful, joint business

experiences” (Johanson & Vahlne 2009: 1425). In general our case companies developed their joint business relationships which built trust, facilitated learning and led to increased commitments, all of which are considered as preconditions for internationalization in the IPM (Johanson & Vahlne, 2009) (Figures 2, 8).

A rapid expansion into mature markets, moreover, appeared to be necessary for suppliers in the auto components industry, where “being global” has become a prerequisite for deep and strong linkages with the OEMs (Womack et al. 1990). Furthermore, as the leading customers in China all came from either the US or Europe, where they have considerable production capacities, these were often the location choices of their network induced FDI. Chinese component firms could use their network “insidership”, initially developed domestically, to expand internationally to distant and highly competitive locations. Thus, the IPM provides a good explanation for why these auto component EMNCs often targeted psychically distant developed markets.

Developing further levels of commitment and supplying premium AMNCs in their home regions, moreover, significantly increased their technological capabilities, and subsequently their brand and quality perception, both domestically and internationally. In some cases, these international investments also allowed them to access additional external networks beyond their immediate value chain (Gereffi & Fernandez-Stark 2011; Humphrey & Schmitz 2001; Kaplinsky & Morris 2000).

FIGURE 8 ABOUT HERE

Network induced strategic asset seeking

The strategic asset seeking orientation of EMNCs has received considerable attention in the IB literature (Luo & Tung, 2007; Matthews, 2006) because of its wide ranging implications for theory (Meyer, 2015). Can the IPM perspective shed further light on the asset seeking debate?

All of our Chinese EMNC cases invested in developed markets primarily to exploit and solidify their position within the supply chain of a AMNC (Table 4). Fuyao acquired an important complementary technology which enabled it to readily assemble automotive glass together with rubber. This allowed the glass to be directly mounted on vehicles during assembly. Through this acquisition, Fuyao reduced both the complexity of the vehicle assembly in the production plant as well as the supply chain complexity for the lead assembly firm. Similarly, Yanfeng acquired two of Visteon's business in the US to secure technologies related to interior trimming and seating to become a direct supplier to GM. Network strengthening strategic asset seeking motivations were also identified in Wanxiang, and Huaxiang.

Strategic asset seeking acquisitions were often strongly encouraged by OEMs which demanded ever more sophisticated products, innovation and enhanced R&D capabilities from their supplier base. Indeed, many suppliers were under constant pressure from OEMs to upgrade their products by acquiring additional cutting-edge technologies like Huaxiang's additional interior trimming products. They also received growing responsibilities in the form of sub-assembly activities via the addition of complementary product groups, often through acquisitions of suppliers with complementary products or technologies, so allowing them to produce modularized component systems (like Fuyao). Growing network commitments enabled suppliers to progressively increase their competencies, which in turn led to new intra-network learning opportunities. The requirements of the OEMs for potential suppliers are a

considerable driving force behind strategic asset seeking (Dicken, 2010). Our interviews with both OEMs and EMNC component makers indicated that this process was often strongly steered by the lead assembly or tier-1 supplier firms, which played active roles in connecting independent supply firms so as to encourage mergers or acquisitions. From an IPM perspective, many of the strategic asset related acquisitions could therefore be thought of as a form of network induced strategic asset seeking, enabling further network commitments and intra-network “catch-up” learning opportunities.

Mathews (2006) stresses in his link, leverage and learn model (LLL) that asset seeking is a major motive for EMNCs, who are able to develop relationships and learn from AMNCs. Hennart (2012), however, argues the LLL model is implausible at a conceptual level, as it does not explain *why* AMNCs should willingly allow such learning (and catching-up) to take place. Using an IPM perspective allows us to provide a potential answer to this paradox. Proponents of the IPM suggest insidership within networks creates important potential issues regarding the validity of assumptions inherent in a transaction cost based view of the nature of the firm. This view assumes that “the firm controls and coordinates resources that it owns” (Johanson & Vahlne, 2013: 190). However, in the IPM, “under certain, not unusual, circumstances firms cannot fully control the use of their own resources and that in some situations they can exercise some control over resources of other firms” (Johanson & Vahlne, 2013: 190). In the auto industry quasi-Toyotist production systems have become the norm, in which firm boundaries are not always clear. If an assembler exercises a degree of influence or control over its suppliers it may in some cases look to promote certain firms in its supply chain, in the knowledge that it will remain the controlling “system integrator” and an important beneficiary of their growth and development (Nolan, 2002).

The case of Fuyao illustrates this point. It has had a remarkable rise to become one of a handful of global MNCs in the highly concentrated global auto glass market. Fuyao's rise and its development of "insidership" within the VW international business network is no doubt in part because it sells high quality products at low prices, gained via economies of scale (supported by a large domestic market) and the adoption of foreign technologies. It is undoubtedly good at what it does. VW, on its part, was active in helping nurture Fuyao to succeed in Europe. As an interviewee noted: "Audi had a great interest in making business with us in Europe. At that time, the automotive glass price was very high in Europe. Fuyao undercut the price by more than 70% in the early years. ... That was of course the reason why Audi invited us to Europe, to bring a new entrant to the stagnant market" [interviewee, Fuyao case]. The reason why VW wanted a new entrant was that the high auto glass prices in Europe were related to oligopolistic market conditions. Asahi, Pilkington, Saint-Gobain and Soliver exercised considerable market power in the European auto glass market. Prior to Fuyao's market entry in Europe, these four firms controlled around 90% of the new and used car glass market in the European Economic Area. Moreover, in a widely publicized case, they were found to have engaged in anti-competitive practices. They were charged by the European Commission with the largest ever EU fine for operating a cartel, of around \$1.7 billion (European Commission, 2008).

In this light, VW's decision to nurture and support Fuyao, facilitating its rapid catch-up and also subsequent access and entrance to the European market, including its huge production base in Russia, may make more sense. Under conditions of asymmetric power and control, blurred firm boundaries (and in this case imperfect markets), it may be logical for a AMNC assembler, like VW, to support the catch-up of EMNC suppliers like Fuyao, as both VW and Fuyao have benefited from the relationship. The IPM thus offers an alternative network based

explanation for one of the questions raised regarding why AMNCS might willingly facilitate successful EMNC strategic asset seeking.

Accelerated internationalization through network “insidership”

The revised IPM argues that given adequate time for learning and relationship building prior to the first international investments, there is no reason why international expansion cannot be undertaken quickly (Johanson & Vahlne, 2009). This, as noted, stands in contrast to predictions of the original IPM (Johanson & Vahlne, 1977). In the context of pre-built domestic network commitments, the number and scale of foreign projects may not appear nearly as substantial. Hence, if we consider foreign market entry as merely an extension of the existing domestic network, it may help explain the apparent speed and scale with which such FDI projects were undertaken. YAPP, for example, undertook five greenfield investments between 2010 and 2012, all within the same network. Similarly, between 2007 and 2013 Fuyao Glass also undertook four FDI projects of significant value and Yanfeng and Huaxiang undertook six and five projects respectively within a similar period (Figure 9).

From a network perspective, pre-existing network ties appear to act as a catalyst for rapid internationalization. They facilitate rapid expansion into foreign markets. Firms that are invited or aspire to participate in the business networks of global OEMs, moreover, must in general rapidly expand, so as to become present in all of the major production regions of their network partners, as well as supplying component modules of prerequisite sophistication. Many of the cases in our study experienced considerable pressure to build a global footprint in order to meet the demands of their global customers and, in this sense, accelerated internationalization was fostered by the network.

FIGURE 9 ABOUT HERE

Entry mode considerations from a network perspective

The EMNC literature dwells upon acquisitions as an important entry mode for strategic asset seeking related FDI and rapid catch-up. EMNCs, especially from China, use aggressive and high risk M&As as a strategy to quickly internationalize (Williamson & Raman, 2013). In the IPM, however, the question of which foreign establishment mode to use is considered as a decision of lesser importance, because different investment entry modes can bring similar results. What is of paramount importance is the impact on trust, commitment and the network relationship position as EMNCs look to navigate the liabilities of network “outsidership”. Both, greenfield investments like Fuyao’s investment to Russia, or YAPP’s investments to Australia, India or Russia as well as acquisitions like Wanxiang’s acquisition of Zeller or Yanfeng’s takeover of Visteon may help develop trust and commitment, in turn leading to further opportunities from “insidership” in the business network. Our findings, moreover, suggested that both greenfield and acquisition entry modes were important avenues for developing network commitment. The extant EMNC literature, therefore, tends to place excessive emphasis on M&A as the dominant entry mode used by EMNCs when undertaking FDI.

Inward FDI: An important home country effect shaping EMNC outward FDI?

China had received huge volumes of inward FDI before its EMNCs engaged in significant outward investment. Much of this inward FDI originated from large and successful AMNCs (Nolan, 2012; UNCTAD, 2013). Chinese businesses, therefore, have faced intense, direct competition via the presence of AMNCs within their domestic markets during their own emergence. AMNCs during their developmental eras faced no such pressures. This, therefore, is an important difference between Chinese EMNCs and their AMNC counterparts. At times this has led to competition between AMNC and EMNCs. It also, however, has led to the flourishing of co-operative arrangements. This is particularly the case in industries like automotive production, which is typified by business to business sub-contracting relationships and “networked production”, undergoing global consolidation, increased outsourcing and internationalization, with a comparatively small number of large AMNCs orchestrating complex transnational supply chains (Nolan et al., 2002). Chinese EMNCs in the auto components sector have been able to expand internationally through business relationships initially nurtured with AMNCs in their domestic market. Establishing close relationships with assemblers and a global footprint has become vital for any supplier that wants to be part of the first tier of the global automotive industry.

Our cases illustrate that the flourishing of domestic and subsequently transnational business networks between AMNCs and Chinese auto component EMNCs has certainly shaped the latter’s internationalization strategies, including their location choices, pace of internationalization and strategic asset seeking orientations. If domestic idiosyncratic emerging market contexts are what cause EMNCs to be in some cases different in their internationalization strategies and processes, or to be poorly explained by current theory (Cuervo-Cazurra, 2012; Luo & Tung, 2007; Matthews, 2006), we contend one of the more important home country effects to be taken into consideration is prior inward FDI by AMNCs.

Business network perspectives like the IPM have been less commonly applied to the understanding the internationalization of EMNCs (Meyer & Thaijongrak, 2013). As a result, approaches which explore the dynamic processes of experiential learning and such things as trust and commitment building are mainly noticeable by their absence. Alternative frameworks like those found in the IPM and GVC literatures, which explicitly recognize the relevance of inward FDI and AMNC-EMNC business networks, may provide useful alternative perspectives from which to understand EMNC internationalization processes (Johanson & Vahlne, 2009). As Meyer and Thaijongrak (2013: 1140) put it, approaches like the IPM provide us with “a different view of reality”. In this case, the IPM draws our attention to an important, yet widely overlooked, home market effect, namely AMNC business networks in emerging markets.

Further research

It has been noted that “the key to EMNCs to extend theory is to focus on their uniqueness—the country of origin—and study how this affects their global strategy” (Cuervo-Cazurra, 2012; 163). In terms of theory development, following this line of thinking, we suggest further development and application of approaches like the IPM to EMNCs, as well as better integration of the GVC literature found in economic geography and development studies (Buckley & Ghauri, 2004; Nolan, 2002, 2012).

Of course, we have only looked at a limited number of cases and in a rather specific area, auto components supply. It would be interesting and useful to investigate the role of AMNC business networks and their influence on EMNC internationalization processes in a variety of other contexts, including different countries and industries, to see if the lessons we draw here may be more generalizable. Our cases also suggest EMNCs may be able to develop what the

IPM broadly refers to as a “networking” ownership advantage. This is “an ability to coordinate in a network fashion” (Johanson & Vahlne, 2013: 192). The IPM assumes gaining “insidership” is itself “a critical dimension of several dynamic capabilities and hence constitutes an advantage” (Johanson & Vahlne, 2013: 194). Thus the ability to commit to a network, develop trust and build relationships can also potentially be considered a firm specific advantage. Further research might consider how such networking advantages are actually developed.

Policy implications

From a policy perspective, current literature on Chinese MNCs extensively discusses the impact of the state as a forceful domestic institution shaping Chinese outward FDI (Buckley et al. 2007; Cuervo-Cazurra, 2012; Cui & Jiang, 2012; Hennart, 2012; Wang et al, 2012). Using a network perspective, however, direct state support becomes less of a factor in explaining Chinese outward FDI. Instead, the role of state policies that foster inward FDI and the ways in which these policies may maximise the benefits from inward FDI become more important. An important though often overlooked aspect of industrial policy that has encouraged network building between Chinese EMNCs and AMNCs, for example, are policies created to foster manufacturing supply chain development. Within the auto-components industry there were active and enforced policies to rapidly achieve high levels of domestic content, as well as policies (though often unsuccessful) to try and foster domestic supply chain consolidation (Sutherland, 2003). The former, domestic content rules, forced AMNCs to take an interest in upgrading the local supplier base and spurred domestic investment in the knowledge of a captive market. Fuyao, Wanxiang and others, for example, benefitted considerably from domestic content rules, as assembly groups initially had to buy

large shares of their components from domestic Chinese firms. Such policies considerably facilitated development of international business network “insidership” for Chinese auto component businesses. This led to their subsequent internationalization. The IPM discusses the question of how the process of relationship building might start, noting that given the model’s process view the question is somewhat arbitrary (Johanson & Vahlne, 2009). From a policy perspective, however, this is an important question. Chinese policy-makers appear to have been quite successful in fostering these types of international business networks. More should be done to explain what has made these interventions work and how other emerging economies can learn from them.

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Table 1 Summary details of Chinese EMNC auto component case firms.

| Name | Main products | Case Summary |
|--|--|---|
| <p>Fuyao Group Family business led by Cao Dewang, Tier 1.</p> | <p>Auto glass</p> | <p>Fuyao assiduously developed strong relationships with VW and other major OEM groups in China by investing in modern plants close to main production bases (i.e. of VW). Fuyao then responded to calls of OEMs for further international supply. This led to subsequent geographic expansion in close proximity to AMNC OEMs. Its rise to tier 1 status was partly shaped by anti-competitive behaviours of the incumbent glass suppliers in Europe (Saint-Gobain, Asahi, Pilkington and Soliver).</p> |
| <p>Yanfeng (HASCO Group) State owned. Tier 1.</p> | <p>Interior, exterior, car seating, electronics and safety components</p> | <p>As a subsidiary of HASCO Yanfeng has strong vertical relationships with US OEM groups (GM/Ford) through its origins as a component arm of SAIC (which has a large joint venture with GM in Shanghai). Yanfeng also started off as a major joint venture with Visteon (a major US component group spun-off from Ford) in China. Later it utilized its horizontal relationships to expand into the US market, where it localized production to directly compete with Visteon. Subsequently it bought out Visteon from its joint venture and recently rebranded itself to ‘Yanfeng’, simultaneously expanding FDI in the US, now supplying GM and Ford directly.</p> |
| <p>YAPP (HASCO Group) State owned. Tier 1.</p> | <p>Plastic fuel tanks</p> | <p>YAPP, like Yanfeng, had strong network ties to GM and VW through its parent company HASCO, which emerged as a spin-off from SAIC. From its inception HASCO therefore had close linkages with foreign OEM groups, including GM and VW. These were to later shape the international expansion strategy significantly, including the localization of production in both developing and developed countries. YAPP has become a leading supplier of plastic fuel tanks, with operations in countries such as Czech Republic and Australia (Table 4).</p> |
| <p>Lawrence (Huaxiang Group) Privately owned. Tier 2.</p> | <p>Interior and exterior decorative trims, especially in injection moulded thermoplastics</p> | <p>Huaxiang has acted a sub-contractor to a number of foreign components and OEM groups. It was significantly directed and encouraged by key OEMs to acquire certain foreign companies to expand its capabilities. Acquisition of Lawrence (UK, 2007), for example, significantly expanded its luxury product portfolio of interior trims. Shortly after Ningbo Lawrence was created to relocate some of the UK production back in China. With the further acquisition of VMC, NAS (both in the UK) and NEC (US, 2011), the company successfully expanded its business to Europe and North America. According to interviewees, acquisitions were strongly shaped by their customers (i.e. assembly groups).</p> |
| <p>Wanxiang Group Private owned. Tier 2, though actively moving up value chain.</p> | <p>Universal joints, bearings, CV joints, drive shafts, batteries, shock absorbers, leaf/coil springs, brake discs</p> | <p>A family business that developed exploiting sub-contracting relationships with Zeller, a US auto-component supplier, as early as 1984. It learnt about supply chain quality and the need for advanced foreign technologies and product focus, so as to achieve economies of scale. This led, initially, to a specialisation on universal joints. It became one of three main producers in China after an industry shake-out. It then went on to supply Ford, GM and VW. Its foreign presence is strongest in the US, where it originally developed strong network positions via its early entrance and relationships with Zeller. Currently aggressively expanding into advanced battery technology and electric vehicles via acquisitions of Fisker/A123.</p> |

Table 2 Overview of interviews with case study firms, including OEMs.

| Company | # of interviews (English / German / Chinese) | Hierarchical level | Functional areas |
|----------------------------------|---|--|---|
| <i>Case Studies</i> | | | |
| Fuyao | 2 (1/1/0) | Vice GM & CEO Europe | Global Sales & Europe Business |
| Yanfeng | 2 (2/0/0) | Executive Manager | Business Development & Global Sales and Marketing |
| YAPP | 1 (1/0/0) | Executive Manager | Business Development |
| Huaxiang /Lawrence | 2 (2/0/0) | CEO, Dep. Manager | International Trade and Sales |
| Wanxiang | 1 (1/0/0) | Sales Manager | Europe |
| <i>Additional Supply Firms</i> | | | |
| ASIMCO | 3 (3/0/0) | CFO, member of the board | Corporate Development, Global Sales & Marketing |
| GSP | 1 (0/1/0) | CEO Europe | European Business |
| Hebei Lingyun | 1 (1/0/0) | Sales Manager | Sales China |
| <i>Chinese OEMs</i> | | | |
| Brilliance | 1 (0/1/0) | CEO Europe | Europe Business |
| Dongfeng | 1 (1/0/0) | Dep. Manager | International Business |
| FAW | 1 (0/0/1) | Dep. Manager | Import & Export |
| FOTON | 1 (0/0/1) | Vice GM | Business Development |
| Geely | 1 (0/0/1) | Executive Assistant | |
| King-Long | 1 (1/0/0) | VP | Marketing & Sales |
| SAIC | 2 (1/0/1) | Dep. Manager & VP | International Trade and Sales & M&A task force |
| Yutong | 2 (2/0/0) | VP & Dep. Manager | International Business & Global Sales |
| <i>Global OEMs and Suppliers</i> | | | |
| BMW | 4 (0/4/0) | Commodity Group Managers | Purchasing Department |
| Volkswagen | 4 (0/4/0) | Commodity Group Managers | Purchasing Department |
| BOSCH | 5 (2/3/0) | Member of the board | China operations |
| <i>Additional interviews</i> | | | |
| Industry experts | 7 (3/4/0) | CEO, Partner, Senior Consultant, Professor | |

Table 3 examples of inward-outward FDI networks, geographical proximity and location choices of Chinese component makers/OEMs.

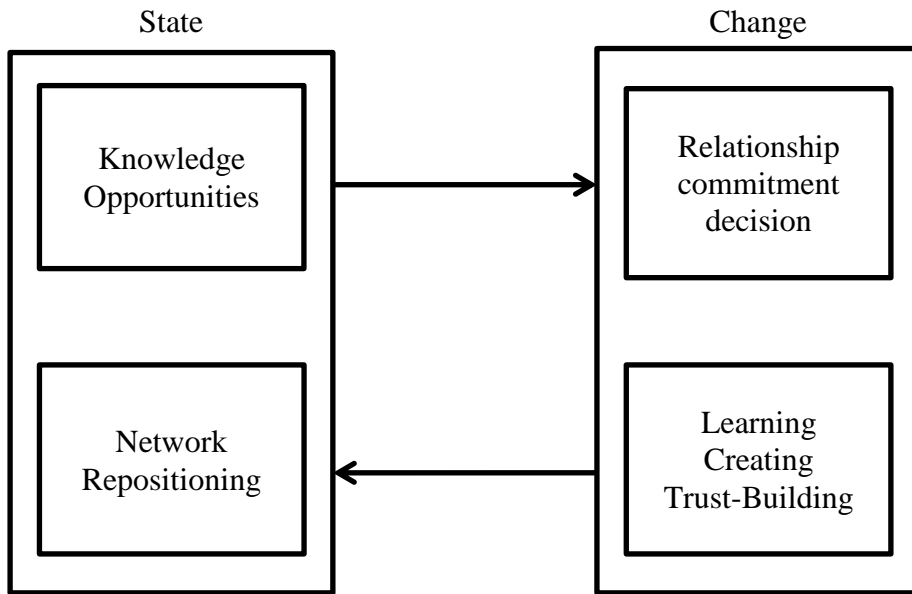
| Domestic (Chinese) location choice | | | Foreign location choice | | |
|--|-------------------------|---|---|-----------------------------|---|
| Domestic locations | Domestic target network | Chinese component maker geographically proximate to target network? | Foreign FDI locations | Foreign target network | Chinese component maker geographically proximate to target network? |
| Fuyao | | | | | |
| Changchun, Shanghai, Chengdu, (Chongqing) | VW | Yes | Germany (Heidelberg), Russia (Kaluga) | VW | Yes |
| Chongqing | Ford | Yes | US (Dayton, Ohio; Mt. Zion, Illinois) | Ford | Yes |
| Shanghai, Chengdu, (Chongqing) | GM | Yes | US (Dayton, Ohio; Mt. Zion, Illinois) | GM | Yes |
| Yanfeng Automotive Trim Systems Co., Ltd. | | | | | |
| Shanghai, Wuhan | GM | Yes | US (Michigan) US (Missouri) India (Kalol) | GM and Chrysler GM GM | Yes |
| Yapp | | | | | |
| Shanghai, Yangzhou, Changchun, Chengdu, Foshan, Ningbo, Changsha | VW | Yes | Russia (Kaluga) Czech Rep (Mlada Boleslav) | VW VW (Skoda) | Yes Yes |
| Shanghai, Yantai, Changsha, Wuhan | GM | Yes | Australia (Edinburgh) | GM | Yes |
| Chongqing | Ford | Yes | India (Chengalpattu and Kanchipuram) | Ford | Yes |
| Huaxiang / Lawrence | | | | | |
| Ningbo | VW | Yes | Germany (Bruchsal; Neuendettelsau) | VW | Yes |
| Ningbo | GM | 230 km | US (Sparta, WI) | GM | Yes |
| Ningbo | Jaguar, Land Rover | No | UK (Nottingham; Coventry) | Jaguar, Land Rover | Yes |
| Wanxiang | | | | | |
| Throughout China | GM Liuzhou | Yes | US (Wilmington) Australia (Edinburgh) | GM GM | Yes Yes |
| Throughout China | Ford | Yes | US | Ford | Yes |

Notes: geographically proximate refers to plant in same city, unless otherwise stated.

Table 4 Inward-outward FDI networks, asset seeking and accelerated internationalization.

| FDI mode | Motive | FDI in same network | Investment motivated by lead firm | Year | Location | Investment mode, value, general information |
|--|--------|---------------------|-----------------------------------|------|----------------------------------|--|
| Fuyao | | | | | | |
| M&A | AS,MS | Yes | Yes | 2007 | Heidelberg | M&A of FūMoTec for 1.5m \$ |
| GF | MS | Yes | Yes | 2013 | Kaluga, Russia | Greenfield production plant, 300m \$ |
| M&A | MS | Yes | Yes | 2013 | Dayton, Ohio, USA | M&A production site, 200m \$ |
| M&A | MS | Yes | Yes | 2014 | Mt. Zion, Illinois, USA | Acquisition of PPG Industries |
| Yanfeng Automotive Trim Systems Co., Ltd. | | | | | | |
| GF | MS | Yes | Yes | 2010 | Warren, Michigan, USA | ... |
| M&A | MS | Yes | Yes | 2011 | Harrison Township, Michigan, USA | Purchased production facility |
| GF | MS | Yes | Yes | 2011 | Kalol, India | ... |
| GF | AS | Yes | Yes | 2013 | Harrison Township, Michigan, USA | Remaining shares for 1.2b \$ |
| M&A | MS | Yes | Yes | 2014 | Riverside, Missouri, USA | ... |
| Yapp | | | | | | |
| GF | MS | Yes | Yes | 2010 | Edinburgh, Australia | Production plant |
| GF | MS | Yes | Yes | 2010 | Chengalpattu, India | Production plant |
| GF | MS | Yes | Yes | 2011 | Russia Kaluga | Production plant |
| GF | MS | Yes | Yes | 2012 | Mlada Boleslav, Czech Rep | Production plant, for 10 m US\$ |
| GF | MS | Yes | Yes | 2012 | Kanchipuram, India | Production plant |
| Huaxiang / Lawrence | | | | | | |
| M&A | AS | No | No | 2007 | UK | M&A of Lawrence, for 5 m US\$ |
| M&A | AS | Yes | Yes | 2010 | UK | M&A of Veneer Manufacturing Center (carved out from Jaguar Land Rover), for 22.7m \$ |
| M&A | AS | Yes | Yes | 2012 | USA & UK | M&A Northern Engraving Corp, USA (incl. Northern Automotive System, UK), for 90m \$ |
| M&A | AS | Yes | ?? | 2012 | Germany | M&A of Sellner Holding GmbH, Germany, for 23 m US\$ |
| M&A | AS | Yes | Yes | 2013 | Germany | M&A of HIB Trim Part Solutions Group, Germany, for 39 m US\$ |
| Wanxiang | | | | | | |
| M&A | AS, MS | No | No | 1997 | UK | 60% stake in AS Company |
| M&A | AS | Yes | No | 2000 | USA | Zeller Corporation |
| M&A | AS, MS | No | No | 2000 | USA | 35% stake in LT Company |
| M&A | AS, MS | No | No | 2001 | USA | 21% stake Universal Automotive Industries |
| M&A | AS, MS | No | No | 2003 | USA | 34% stake in Rockford Powertrain |
| M&A | AS, MS | No | No | 2005 | USA | 60% stake in PS Corporation |
| M&A | AS | No | No | 2006 | USA | Neopco |
| M&A | AS | Yes | No | 2007 | USA | Dana Corp., through Neapco |
| M&A | AS | No | No | 2008 | USA | 30% stake in ACH Corporation |
| M&A | AS | No | No | 2013 | USA | A123, hi-tech battery systems, 250m \$ |
| M&A | AS | Yes | No | 2014 | USA | Fisker, electric vehicles/batteries, 149m \$ |

Figure 1 The revamped Internationalization Process Model



Source: Johanson & Vahlne (2009).

Figure 2 The role of networks in the Internationalization Process Model

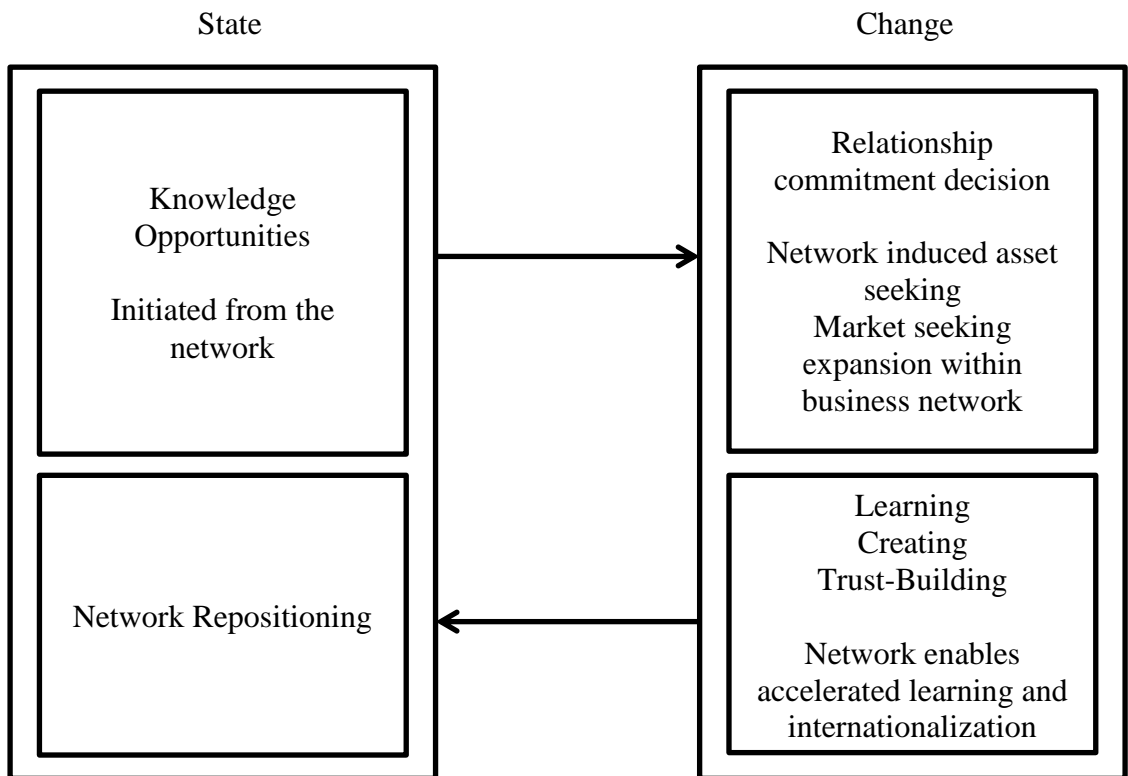


Figure 3 Trust and commitment building in Fuyao

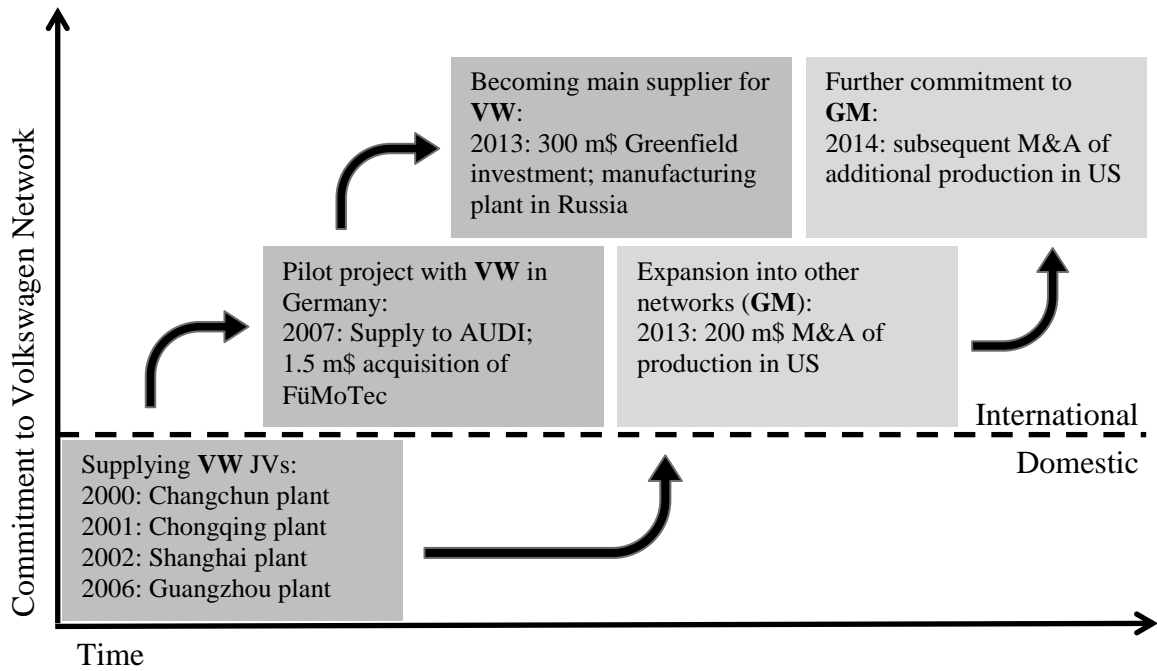


Figure 4 Trust and commitment building in Yanfeng

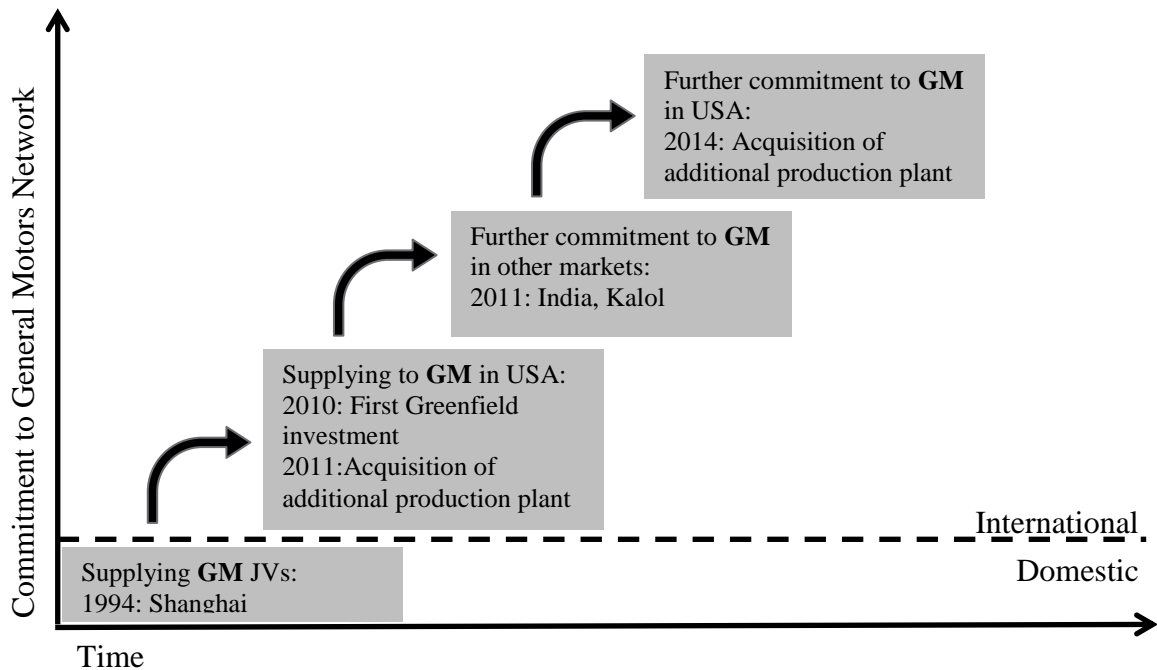


Figure 5 Trust and commitment building in YAPP

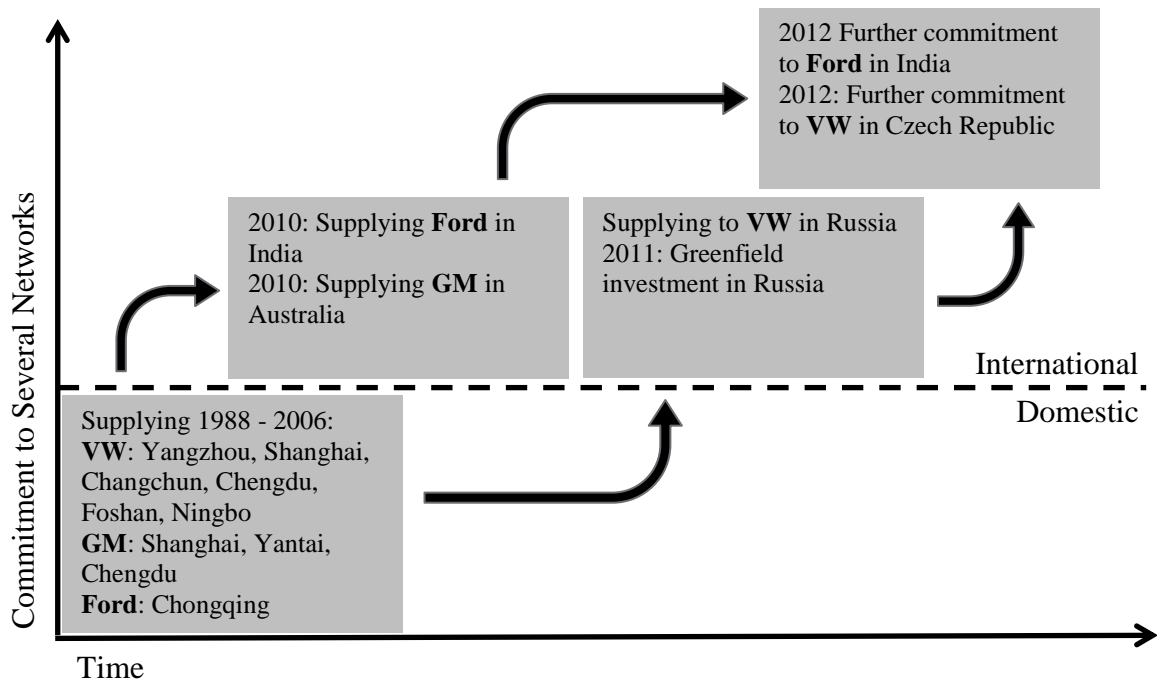


Figure 6 Trust and commitment building in Huaxiang / Lawrence China

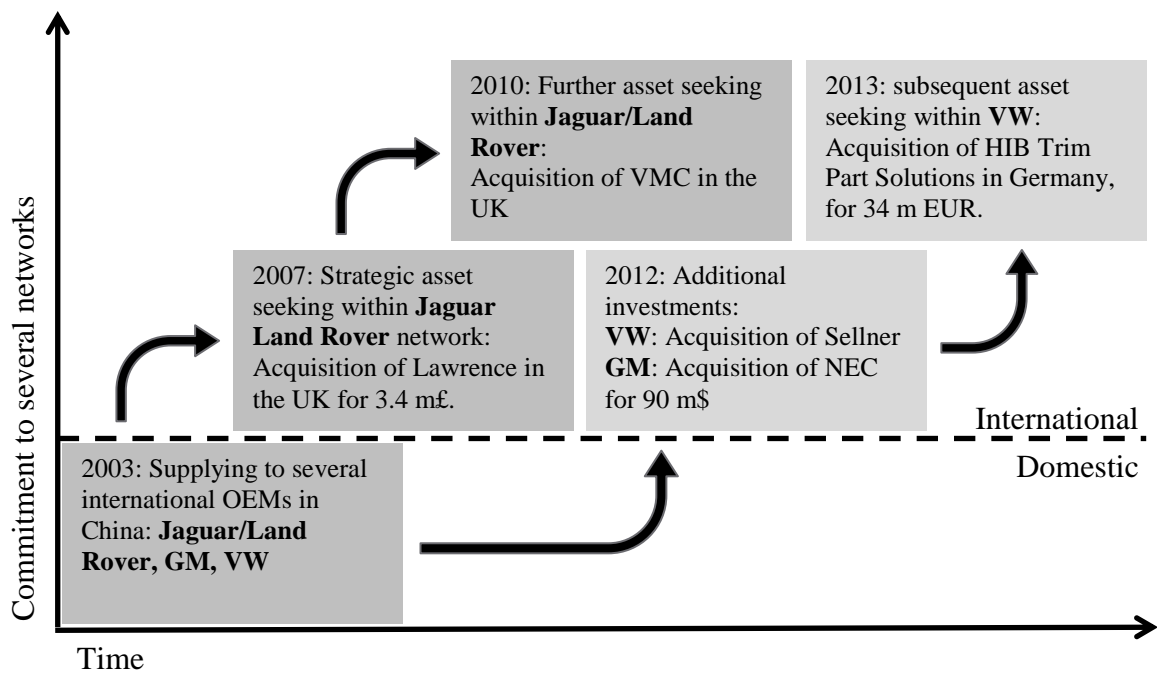


Figure 7 Trust and commitment building in Wanxiang

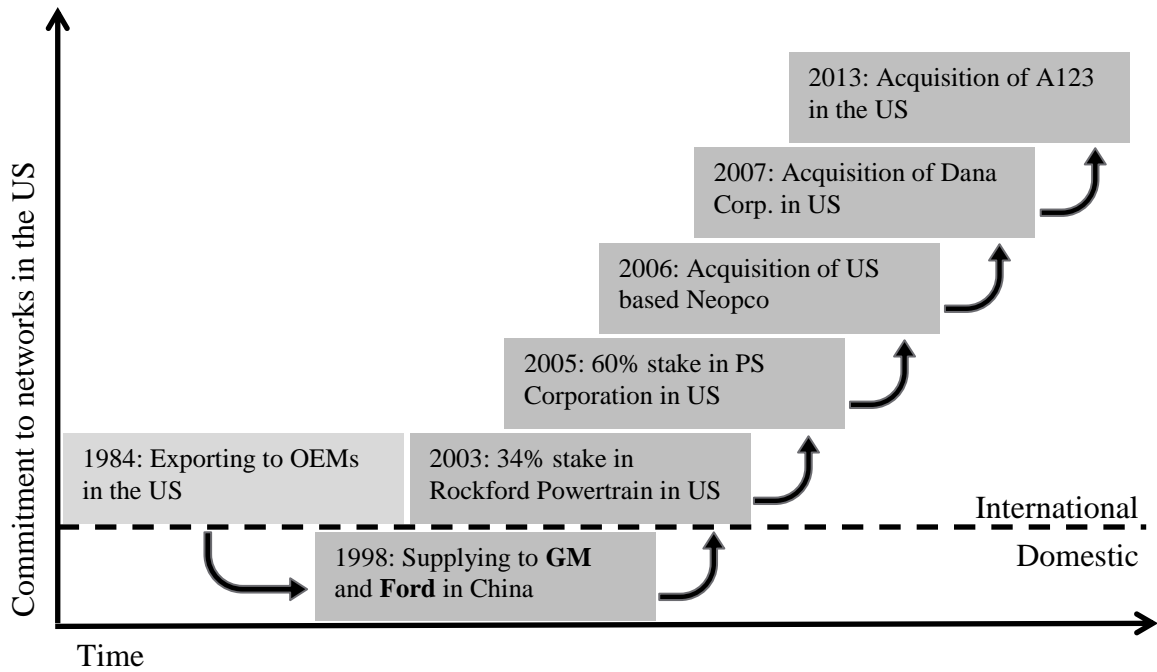


Figure 8 The trajectory of commitment building within supplier networks

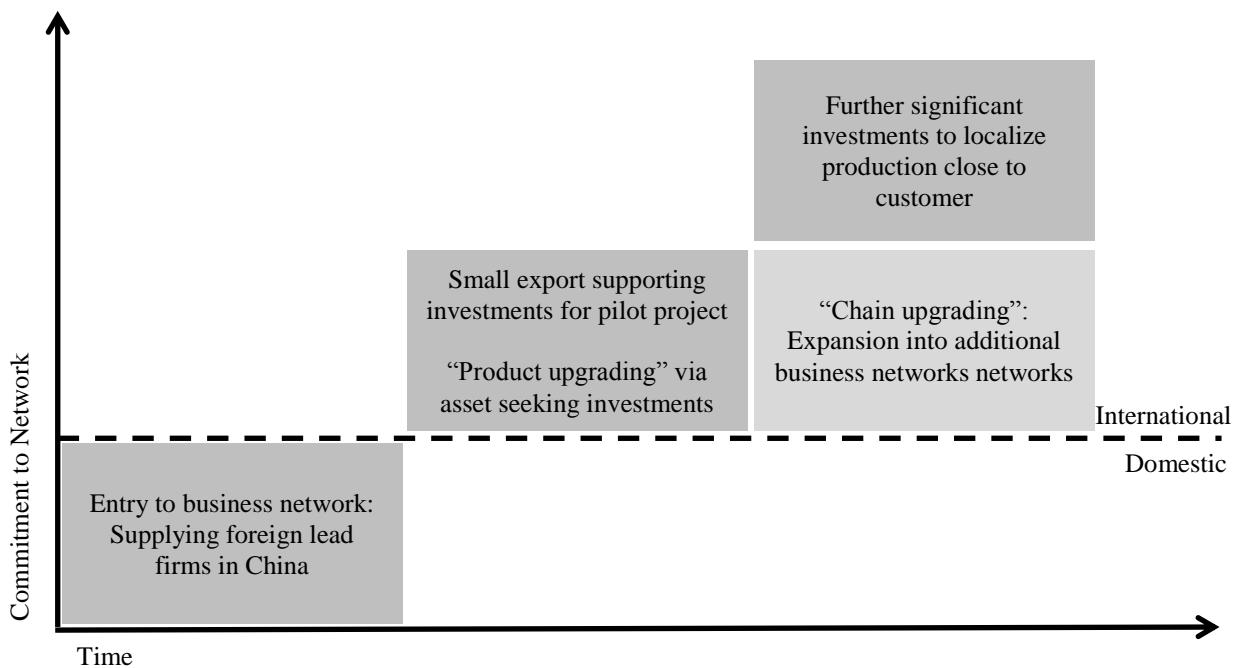


Figure 9 Pace of internationalization

