ISSN: 2688-9323

Research on International Strategy for Chinese Enterprises Entering Emerging Markets Against the Background of "The Belt and Road"

Rui Zhang

University of Massachusetts Boston, New York University, USA

Abstract

The "Belt and Road" policy promotes the sustainable development of enterprises and provides opportunities for Chinese enterprises to "go global". This paper analyzes the international strategies of Chinese enterprises entering emerging markets in the context of the Belt and Road Initiative, taking into account the relevant theories on enterprise internationalization strategies.

Keywords

Belt and Road; International Strategy; Emerging Markets; Chinese Enterprises.

1. Introduction

At present, globalization and anti-globalization are in parallel. In recent years, the erstwhile leaders of globalization, led by developed countries such as the United States, Europe and Japan, have turned to trade protectionism to varying degrees. In particular, since the Trump administration took office, the US has openly declared the "America First" strategy, renounced the "free trade" policy and adopted "anti-dumping" and other trade restrictions against important trading partners and representative emerging market countries such as China and Mexico. By contrast, on the current issues of globalization and anti-globalization, it can be considered that China and other emerging market countries continue to play a leading role in globalization, among which the "Belt and Road" Initiative proposed by China has a significant influence on the economic development of emerging market countries.

2. The Belt and Road and Emerging Economy Countries

2.1. The Significance of the Belt and Road Initiative

The Belt and Road (B&R) is the abbreviation for the Silk Road Economic Belt and the 21st Century Maritime Silk Road. According to the explanation in *Vision and Actions on Jointly Building the Silk Road Economic Belt and* the *21st Century Maritime Silk Road* jointly released by the National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of China on March 28, 2015, The Belt and Road has The following significance: developing economic cooperative partnerships with countries along the Belt and Road by relying on bilateral and multilateral mechanisms between China and relevant countries and effective regional cooperation platforms, so as to jointly build a community of shared interests, destiny and responsibility featuring political mutual trust, economic integration and cultural inclusiveness.

Starting from the west, the "Belt" mainly refers to the geographical pattern through the west to West Asia and Europe to expand China's opening up to the outside world. Since 1999, the Chinese government's strategy of encouraging enterprises to "go global" has undergone major adjustments under the new historical conditions. Starting from the east, the "Road" mainly refers to the part referred to in *Vision and Actions on Jointly Building the Silk Road Economic Belt*

ISSN: 2688-9323

and the 21st Century Maritime Silk Road, including the East China Sea, the South China Sea, Southeast Asia, the Indian Ocean, the Middle East and Africa leading to the sea through the eastern region. Its purpose is to further improve the level and radiation of China's opening-up through the construction of contiguous "free trade areas", which reflects China's vision of further integrating into the global economic system and participating in regional economic cooperation. In terms of geographical span, the Belt and Road has the characteristics of land and sea crossing, continent-crossing and trans-regional, covering mostly developing countries, namely "emerging economies".

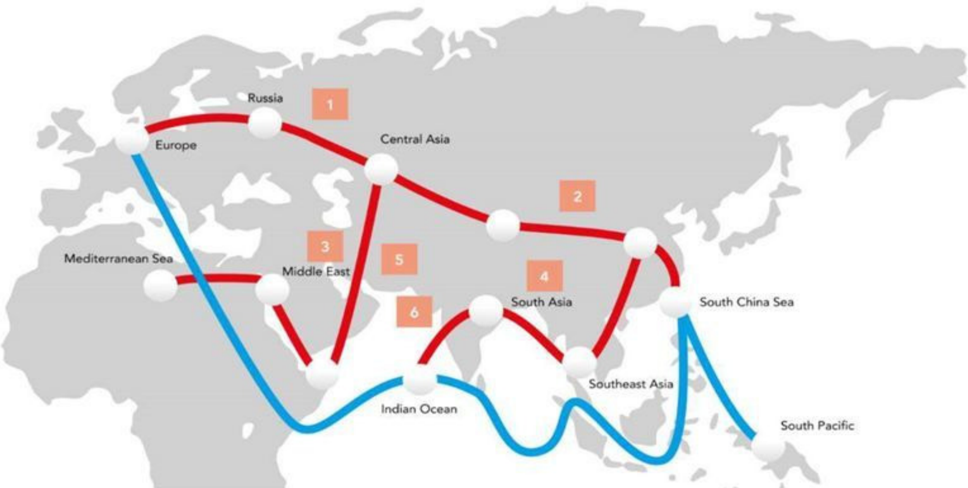

Figure 1. Schematic of the Belt and Road

2.2. The Impact of Belt and Road on Chinese Enterprises

(1) In terms of policies, the state supports enterprises' transnational operations by formulating relevant policies and enhancing the favorable position of Chinese enterprises in internationalization by participating in international exchange mechanisms and signing agreements. For example, our government and relevant countries signed 205 cooperation documents to build "one belt and one road", strengthen the advantageous industries, and actively develop the industrial pattern of domestic and foreign mutual circulation, this series of policies have played an invaluable role in guiding enterprises' own development, optimization, integration into the international market, and promoting smooth trade.

(2) In terms of facilities, the country is vigorously promoting the interconnection of infrastructure in countries along the "Belt and Road", which provides an increasingly perfect transportation foundation for trade and investment, and promotes industrial cooperation, humanities exchanges and people-to-people exchanges. For example, China is building the Yavan High Speed Railway in Indonesia; Guiyang Dulaying International Land and Sea Logistics Port was opened; and the China-European train has accelerated the opening of China's western and inland regions. This series of policies provide Chinese companies with safer and faster transportation in international trade and increase their international competitiveness.

(3) In terms of trade, the country promotes the scope and depth of trade development through various means. For example, holding China Cross-border E-commerce Fair; Xiamen Port opens the route connecting "the belt and road initiative"; Some Chinese e-commerce companies have customized digital transformation schemes for some enterprises in Vietnam to help local enterprises develop; Set up pilot free trade zones in many places; China has built a "green channel" for the export of textile industry by building a sustainable supply chain. These measures have provided more platforms for business exchanges between Chinese enterprises

ISSN: 2688-9323

and host enterprises, improved the degree of trade facilitation and professionalism, and reduced trade barriers.

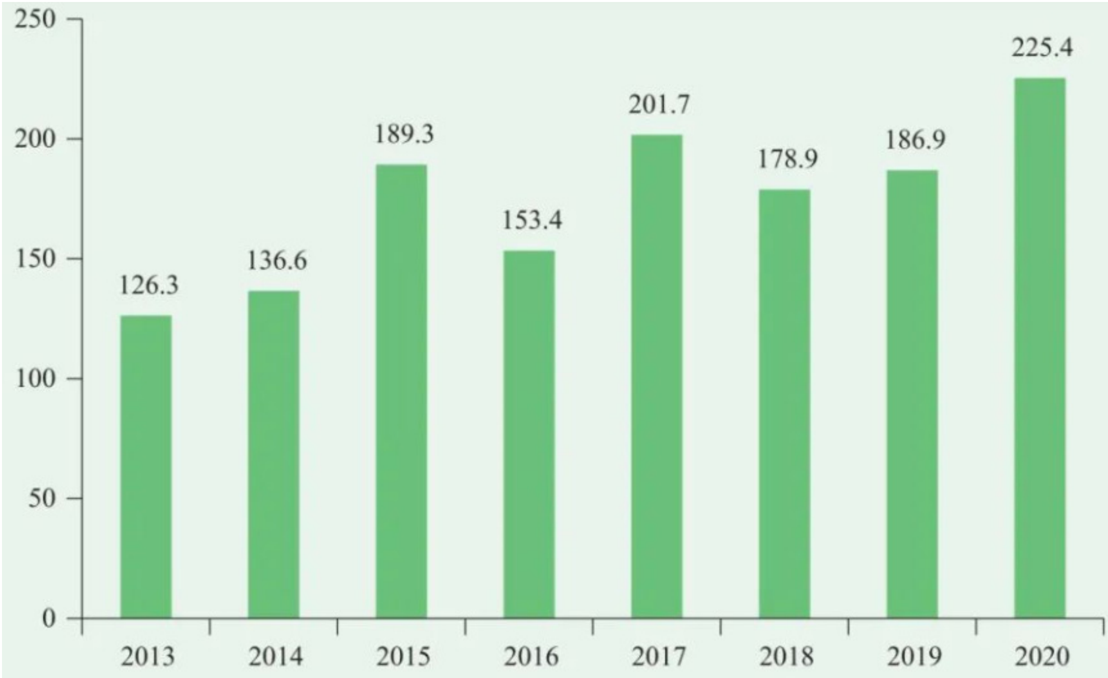

Figure 2. China's investment in countries along the the belt and road initiative in 2013-2020

3. International Strategies of Chinese Companies Entering the Emerging Markets of Belt and Road Countries

3.1. Types of Internationalization Strategies

Michael Porter, a famous American strategic management scientist, believes that the business-level internationalization strategies of enterprises are: cost leadership strategy, differentiation strategy, focus strategy and low-cost differentiation strategy. Cost leadership strategy refers to the strategy that a company makes every effort to keep its production costs below the level of its industry and obtain higher-than-average profits through efficient and streamlined human resource management, production cost control, technological innovation optimization, and simplification of promotion processes and costs without reducing its products and services. Differentiation strategy refers to a strategy that is different from competitors by investing certain costs in product innovation, technology, distribution network and customers, which is conducive to the formation of certain competitive advantages and can form certain barriers to entry for other competitors. Focus strategy refers to the enterprise after the analysis of the internal and external situation, select a narrower market with certain development prospects and profit value, rather than facing the whole industry all market, intensive cost leadership strategy or differentiation strategy. Low-cost differentiation strategy refers to the development and provision of distinctive products and services while trying to control operating and production costs, which requires strong overall management and coordination capabilities and a certain level of investment in innovative technologies and market development.

3.2. Analysis of Internationalization Entry Mode

According to the different characteristics of operation and entry modes, Root classifies them into three main categories, which are trade entry mode, contract entry mode and investment entry mode, as shown in Table 1.

ISSN: 2688-9323

Table 1. Classification of internationalization entry modes

Entry Mode	Specific way
Trade entry mode	Indirect exports, direct exports, direct agents/distributors, branches/affiliates
Contract entry mode	Franchising, licensing, technology agreements, service contracts, management contracts, construction/whole contracting contracts, contract manufacturing, co-production agreements
Investment entry mode	Strategic alliances, new construction, acquisitions

(1) Trade entry mode. Trade entry mode refers to a multinational business model in which companies sell their products to international markets through the mode of trade. This mode has lower cost and risk, and is more convenient and simple in terms of management personnel, products and application of funds. However, accordingly, export enterprises are vulnerable to the impact of export barriers, difficult to obtain timely market information and difficult to control the changes in market conditions. When the enterprise is in a small scale, capital and lack of experience in overseas markets, this mode can be used to enter the international market. Trade-based entry mode is divided into indirect entry mode and direct entry mode. Indirect entry mode refers to a mode in which enterprises sell their products to foreign markets through international import and export traders in the form of general export trade, processing trade, and label production trade. Direct entry mode refers to the way enterprises set up sales agencies in overseas markets. These sales organizations include exclusive distributors or agents, and enterprises directly set up overseas offices and sales companies and other forms. The enterprises' information, investment cost and control of overseas markets are, from high to low, overseas sales companies, overseas offices, exclusive overseas agents, exclusive overseas distributors and importers/exporters.

(2) Contract entry mode. The contractual entry mode refers to the cooperation between domestic enterprises and their customers in overseas target markets through the signing of non-investment type contracts to transfer their own intangible assets, copyrights, labor exports or engineering contracts. In the case that an enterprise has certain intangible assets but lacks capital, contractual entry mode is a very suitable mode to enter the international market. Different contractual entry modes require different resources from the partner. Generally speaking, the contractual entry mode is suitable for companies in high-tech manufacturing and service industries that use intangible assets to expand overseas. For companies without patent advantages, the contractual entry mode is not suitable.

(3) Investment entry mode. The investment entry mode refers to the mode of entering the international market through direct investment in overseas and setting up productive subsidiaries. The investment entry mode includes strategic alliance, new construction and acquisition.

Strategic alliance is a model in which a company partners with other companies to operate in one or more other countries. The two companies each have certain resources that can mitigate the capital and time costs of their respective investments and generate greater competitiveness. But strategic alliances involve more operational and management cooperation issues, and mutual trust and competence are very important. A new wholly-owned subsidiary is a company

ISSN: 2688-9323

that establishes a subsidiary in another country in the form of a wholly foreign-owned business. New wholly-owned subsidiaries require a lot of capital, high risk, long lead time and less flexibility, but when the company has strong financial strength, high level of management and rich experience in investing in overseas markets, the risk of new wholly-owned subsidiaries will be relatively lower. For enterprises that have certain barriers to entry in terms of technology, a new wholly-owned subsidiary is a more appropriate choice to ensure that it has full control over the enterprise's It ensures complete control over the production process. A new wholly-owned subsidiary can also avoid trade barriers in the country of the target market and, in some target markets, can receive all the benefits of the country in which it is located. Acquisition is a mode of international entry in which a company from one country enters the international market by buying part of the stock of a company from another country or by purchasing the company. Acquisition is one of the faster modes of international entry. The disadvantages of an acquisition are, on the one hand, the high cost for the company to make this investment, which usually requires debt financing, on the other hand, the differences and contradictions between the laws and systems of the country where the target company is located and the home country, as well as the potential complications in the negotiation information gathered for the signing of the contract, and on the other hand, the difficulty of integrating the acquired company into the company.

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